Navigate Evolving Rates

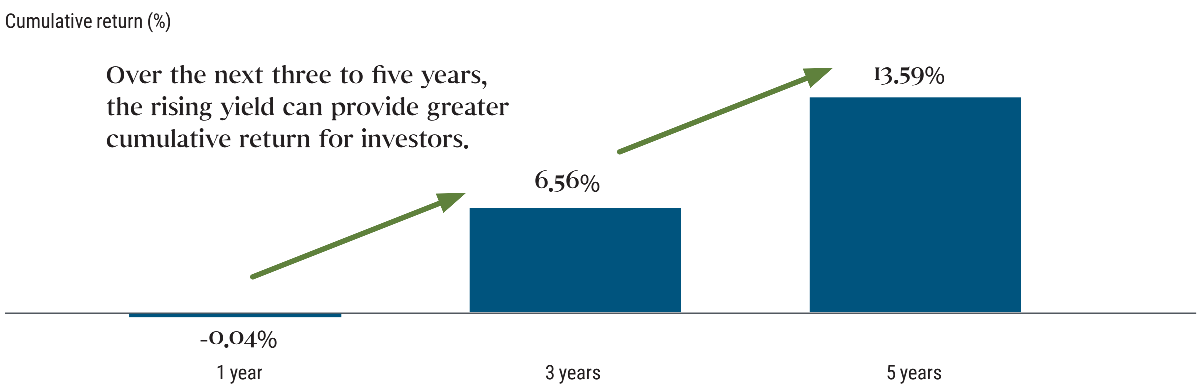
Rising interest rates can be unsettling for fixed income investors – and for good reason, when bond yields rise, prices fall, and vice versa. But the short-term pain of depressed bond prices can lead to long-term gains for investors.

That's because a bond's interest income is the primary driver of its returns. So having the ability to reinvest that income in a rising rate environment – with higher yields – can help build long-term growth.

RISING RATES BUILD POTENTIAL RETURN

When rates rise, new bonds pay a higher coupon, which may increase the yield investors receive. The chart below illustrates the long-term benefit of a 0.5% increase in rates from the Bloomberg US Aggregate Bond Index .

Importantly, an increase in yield also helps to offset the negative impact on its declining price – often quite quickly.



Hypothetical example for illustrative purposes only.

Source: PIMCO, as of 31 August 2022. The chart shows the estimated performance of the Bloomberg U.S. Aggregate Index assuming a parallel rate rise of 0.5%, and no further changes in rates thereafter. Credit spreads are assumed to remain constant. In the analysis contained herein, PIMCO has outlined hypothetical event scenarios which, in theory, would impact the index returns as illustrated in this analysis. No representation is being made that these scenarios are likely to occur or that any portfolio is likely to achieve profits, losses, or results similar to those shown. The scenarios do not represent all possible outcomes and the analysis does not take into account all aspects of risk. Total returns are estimated by re-pricing key rate duration replicating portfolios of par-coupon bonds.

POSITIONING FOR RISING RATES

Bond yields remained ultralow for years, creating obstacles for investors looking for attractive income . But now, investors can access yields that are higher than they've been in years across a spectrum of fixed income sectors.

While rising yields may benefit fixed income investors broadly, how you access them can make a big difference in performance. Active managers may leverage liquidity to find attractive opportunities as rates rise.

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