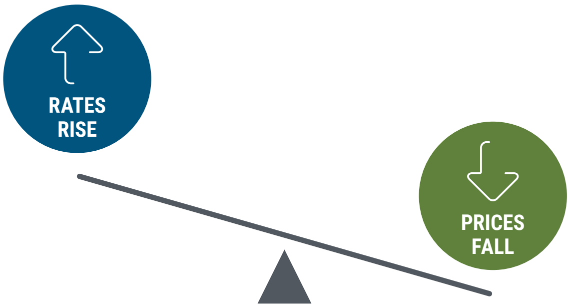
Interest Rates, Bond Prices and You

Understanding how interest rates affect bonds can help investors stay informed and confident through changing markets.

An inverse relationship

Bond prices generally move in the opposite direction to interest rates.



For illustrative purposes only.

Why does this happen?

When rates change, bond prices adjust so that the income they offer (also known as the bond's yield) stays in line with what new bonds are paying.

When rates rise	When rates fall
• New bonds offer higher yields • Older bonds become less attractive and prices may fall • Income payments continue	• New bonds offer lower yields • Older bonds become more attractive and prices may rise • Income payments continue

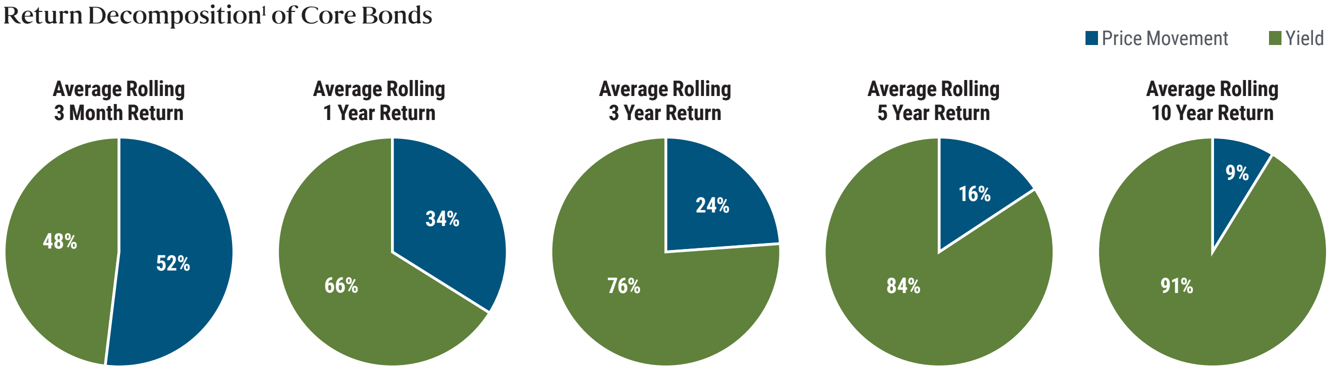
Total return matters

It is important to note that price changes matter most if you sell a bond before its end or maturity date. Over time, the income a bond pays can make up a significant portion of its return, especially when bonds are held through market cycles.

Total return = **Portfolio price change** + **Portfolio income (yield)**

- The total return of a bond portfolio consists of both price and income return (yield)
- Price returns tend to dominate over shorter periods
- Income returns tend to dominate over longer periods

Return Decomposition[1] of Core Bonds



Past performance is not a guarantee nor a reliable indicator of future performance.

As of 31 December 2025. Source: Bloomberg, PIMCO.

Core bonds are represented by the Bloomberg U.S. Aggregate Index and measured since the inception of the index, which is 31 January 1976.

1 Return decomposition percentages are calculated by dividing the income return and the absolute value of the price return, respectively, by the combined return from income and the absolute value of the price changes.

What this means for you

Short-term market moves can feel uncomfortable, but they don't necessarily change the long-term role of bonds in a portfolio.

- Bond prices can fluctuate in the short term
- Income compounds over time
- Higher yields can improve future return potential

Investor considerations:

- **Time horizon:** How long do you expect to hold the investment?
- **Income needs:** Are you looking for your investment to provide a regular income?
- **What matters most to you:** Do short-term price movements concern you, or are you focused on how your investment performs over the long term?

Thinking through these questions can help ensure your investment choices align with your long-term goals.