PIMCO

PIMCO Quarterly Pension Review

July 2026

IMPORTANT NOTICE
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What happened and **what it means for pension plans**

The Quarterly Pension Review provides a concise summary of recent market developments and their impact on pension plans. It is intended for both investment practitioners and those from other disciplines who are in plan governance roles. More than a market recap, we dissect data and share objective insights that will aid you in decision-making.

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Learn More About PIMCO's Latest Secular Outlook

Macroeconomic Backdrop: Rupture and Resilience

The global economy is no longer gliding along a familiar path of ongoing globalization and increasing integration. Developed market bond yields diverged over the quarter, with Europe outperforming the U.S. and Japan. Risk sentiment recovered as traffic through the Strait of Hormuz began to normalize, with equities posting gains. Meanwhile, the U.S. dollar ended the quarter up 1.2%. Against this backdrop, the MSCI World Index returned 13.8% over the quarter.

Rupture, not transition

The fragmentation of trade, security, and financial alliances is accelerating. The global economic trajectory has shifted from a narrow range of plausible outcomes to an uncertain and wide distribution of possible scenarios.

Resilience to be tested

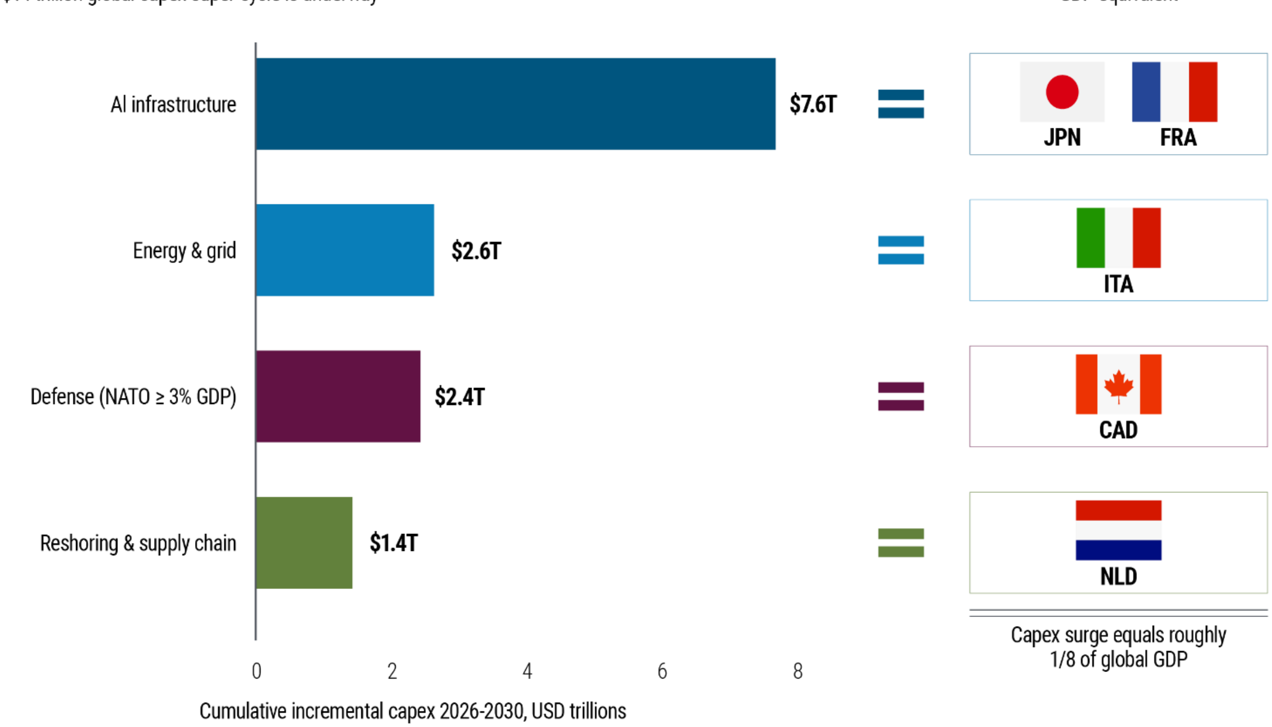
Politics, geopolitics, and economic security policy now shape growth and inflation directly, increasing dispersion across countries, sectors, and firms. These forces will likely test economic resilience, especially since fiscal space is limited.

Fat tails – in both directions

AI, defense, and energy investments could add $14 trillion to global spending over five years. While AI may be disinflationary, geopolitical and supply-chain risks create wide inflation outcomes, though we expect central banks to keep expectations anchored.

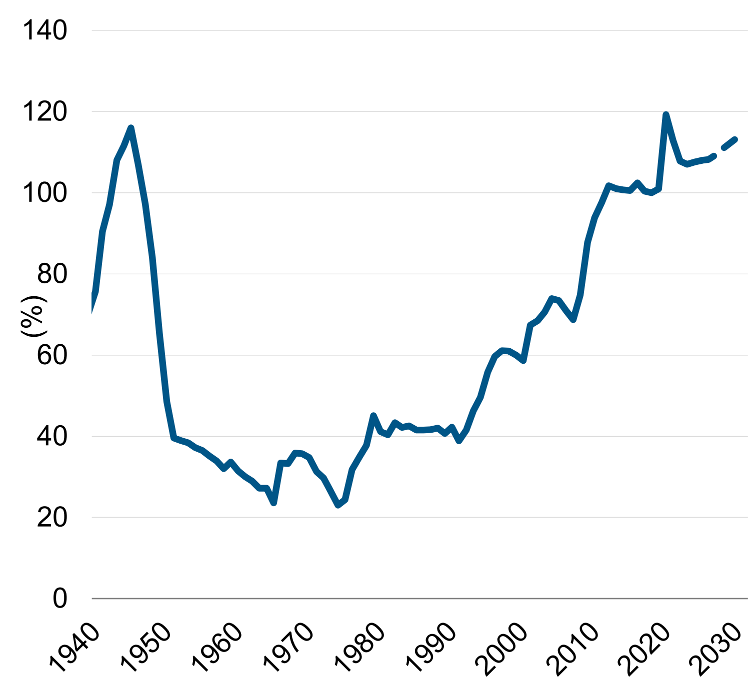
Forecasting a consequential global capital spending cycle over the next five years

$14 trillion global capex super-cycle is underway



Less room to spend across global developed markets

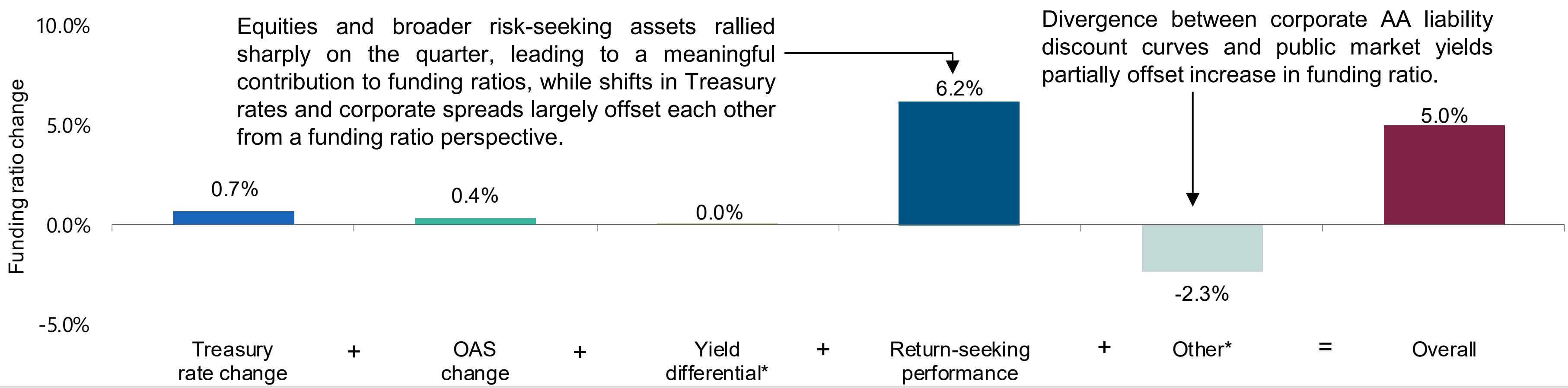
Gross public debt-to-GDP: Advanced economies



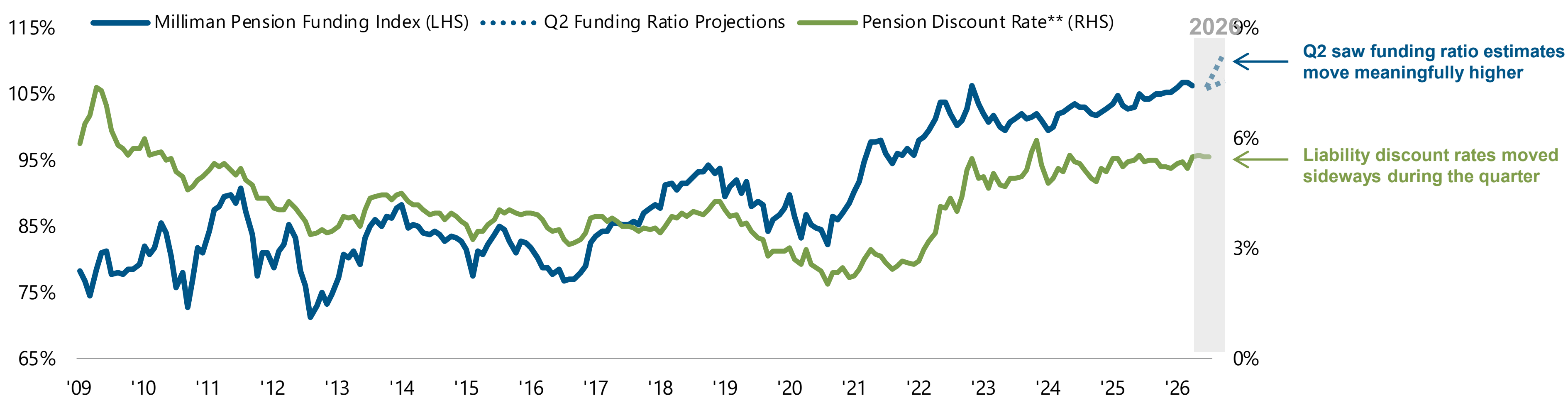
As of 30 June 2026. Source: PIMCO, IMF, Haver, Bloomberg, Suttle Research, PIMCO estimates. Refer to Appendix for additional forecast, index, and outlook information.

Funding ratios improved in Q2 as discount rates remained largely unchanged

Q2 '26 Funding Ratio Attribution (hypothetical pension plan with +5% increase in funded ratio)



Pension Funding Ratio and Discount Rate



As of 30 June 2026. Source: Bloomberg, Milliman, FTSE, PIMCO.

* Yield differential refers to the yield of the fixed income portfolio compared to pension liabilities. Other refers to the residual of PIMCO's internal attribution model for estimating the change in the hypothetical pension plan's funded status.

** Represented by the FTSE Pension Liability Index short discount rate

Refer to Appendix for additional credit quality, index, investment strategy outlook, and risk information.

Asset class returns through a pension lens

Liability-hedging assets

- Rates diverged across the globe, despite broadly rallying on news of a ceasefire in June. In the U.S., rates broadly ended higher amid more resilient economic data. In Japan, yields rose and the curve steepened amid continued fiscal uncertainty. Meanwhile, rates fell across the curve in the euro bloc and the U.K. given moderating energy prices.
- Credit spreads tightened over the quarter as the asset class was supported by strong corporate earnings, robust demand, and optimism around a ceasefire in the Middle East.

Q2 2026					
	Total Return	YTM	OAS Level (bp)	OAS Change (bp)	YTD Total Return
BBG Barclays Aggregate	0.7%	4.74%	26	-4	0.6%
Intermediate Credit	0.9%	4.85%	59	-15	0.7%
Long Credit	2.3%	5.81%	94	-12	1.1%
Long Corporate	2.3%	5.81%	94	-12	1.1%
Long Govt/Credit	1.5%	5.34%	44	-6	0.8%
Long Treasury	0.9%	4.93%	-	-	0.4%
20+ STRIPS	1.4%	5.10%	-	-	0.6%

Return-seeking assets

- Risk asset performance was positive in Q2’26. DM equities advanced in the second quarter of 2026, as enthusiasm around AI, resilient corporate earnings, and a June easing of geopolitical tensions supported a strong rebound in global equities, despite periods of volatility within the technology sector. EM equities advanced in the second quarter, supported by strong semiconductor demand, expanding AI-related investment, and improving growth expectations across several key markets.
- The EM asset class demonstrated resilience despite geopolitical uncertainty and market volatility.
- Global high yield bond spreads tightened over the quarter, with lower quality segments of the high yield market outperforming.

Q2 2026			
	Total Return	Index Level	YTD Total Return
S&P 500	15.2%	7,499	10.2%
Russell 2000	21.6%	3,024	22.7%
MSCI World	13.9%	4,826	10.0%
MSCI ACWI	15.1%	1120	11.5%
MSCI EM	24.1%	1,723	24.0%
EM External	4.0%	-	2.8%
EM Local	3.9%	-	1.5%
High Yield	2.5%	-	2.0%

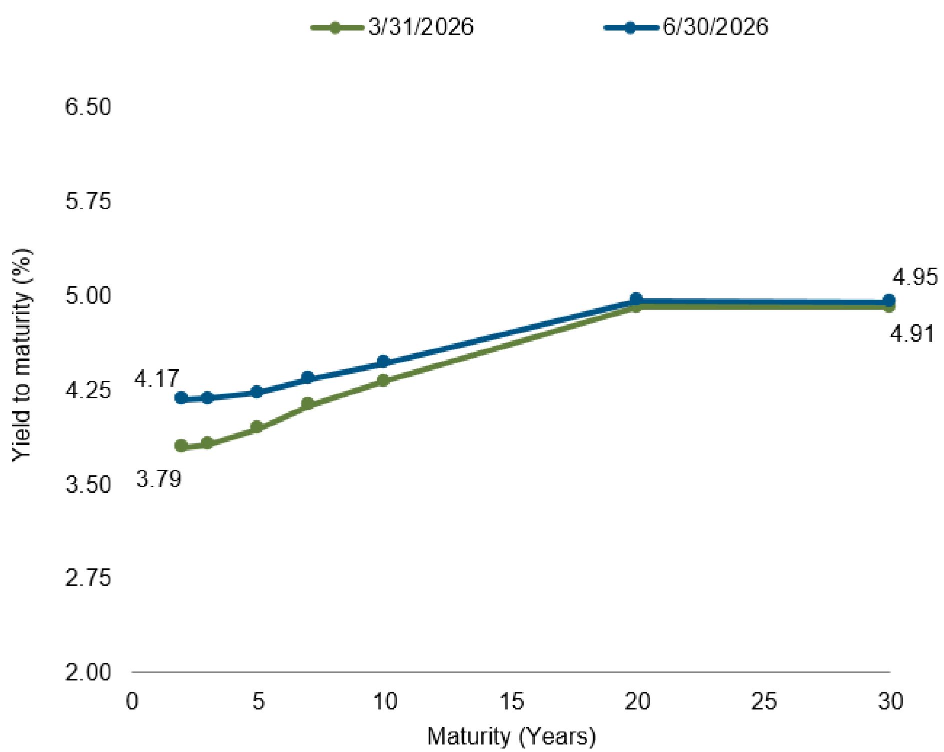
As of 30 June 2026. Source: Bloomberg, Barclays

Past performance is not a guarantee or a reliable indicator of future results. See the Appendix for the indices used as the proxy for each asset class.

Refer to Appendix for additional index, index proxies, OAS, outlook and risk information.

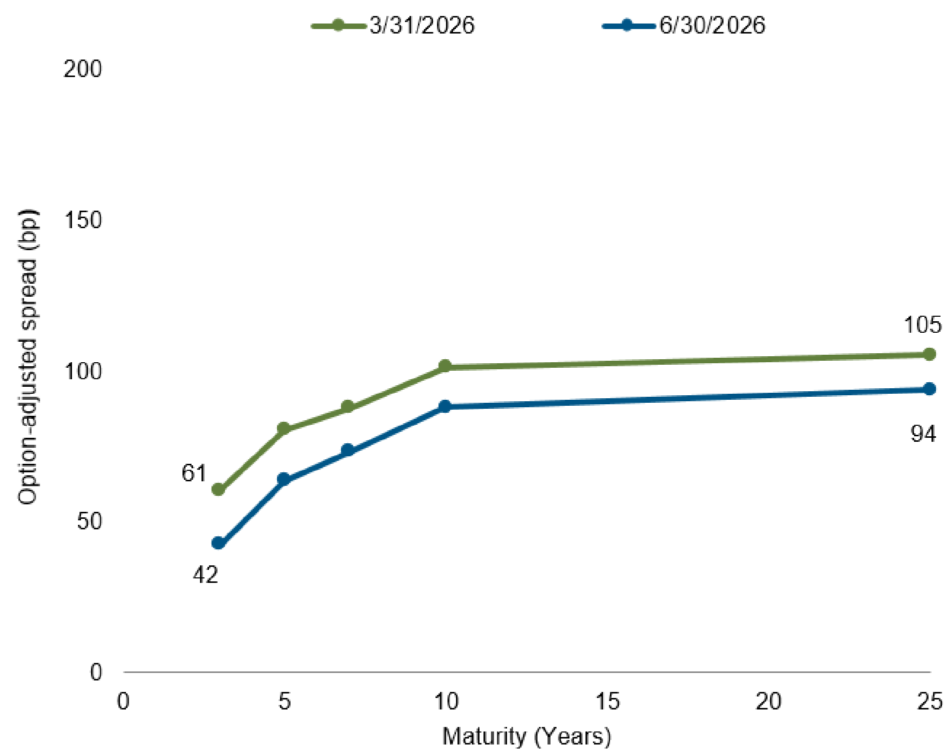
Yield curve and credit curve snapshot

U.S. Treasury Curve



The U.S. treasury yield curve flattened over the quarter.

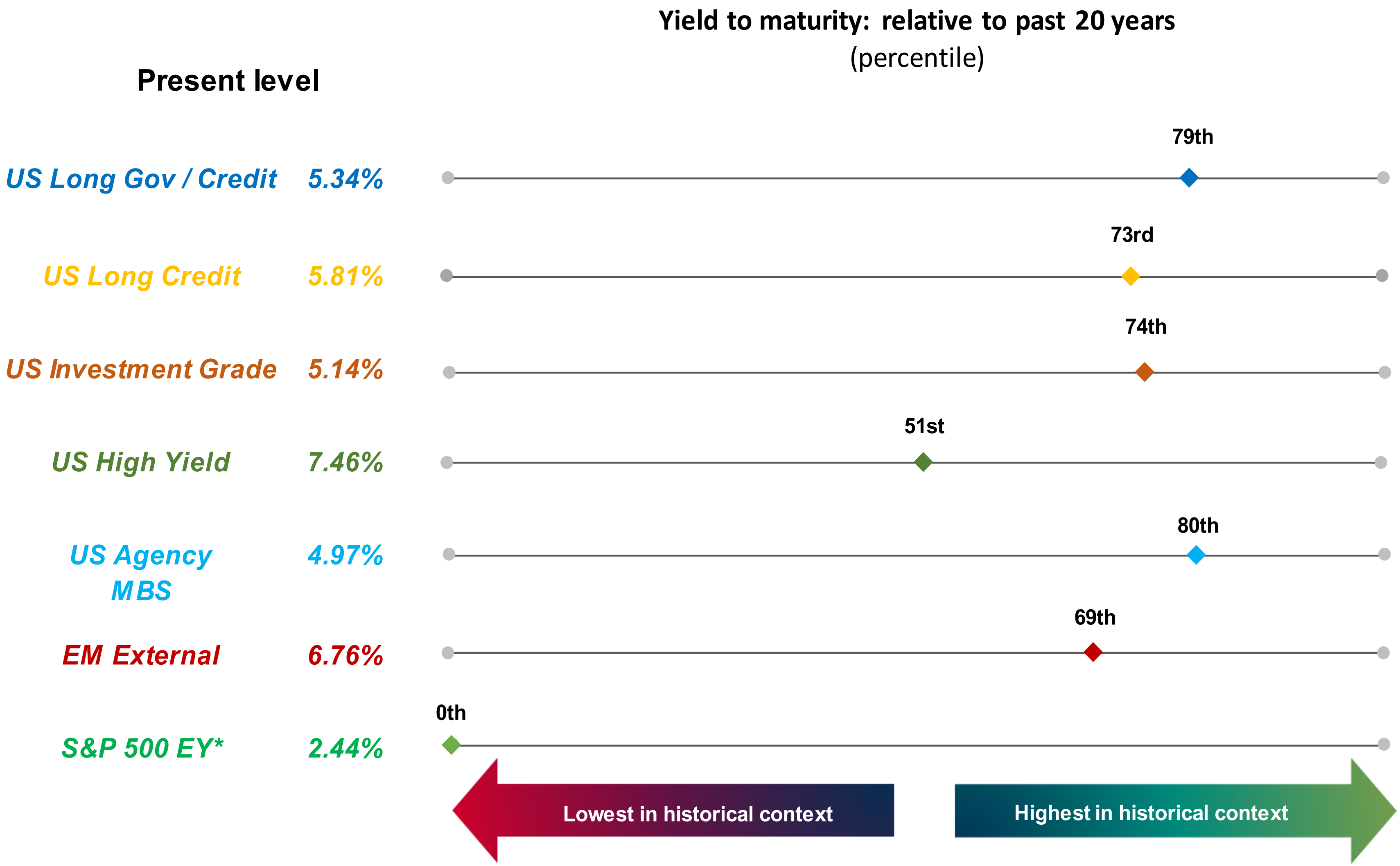
Bloomberg U.S. Corporate OAS



Credit spreads tightened across the curve during the quarter.

As of 30 June 2026. Source: Barclays, Bloomberg. Yield to maturity is the total estimated annual return on a bond if you hold it until it matures, assuming all interest payments are reinvested at that same rate.
Refer to Appendix for additional index, OAS, and risk information.

Credit markets update: putting yields in context



As of 30 June 2026. SOURCE: PIMCO, Bloomberg. Past performance is not a guarantee or a reliable indicator of future results Yield to maturity is the total estimated annual return on a bond if you hold it until it matures, assuming all interest payments are reinvested at that same rate.

Yields using data over last 20 years or relative to the period from index inception to as of date. US Long Gov/Credit= BBG U.S. Long Government / Credit Index, US Long Credit = BBG U.S. Long Credit Index, US IG = BBG U.S. Credit Aggregate Credit Index, US HY = BBG U.S. Corporate High Yield Index, Agency MBS=BBG U.S. Mortgage-Backed Securities Index, EM External = JPM EM Bond Index Global Yield.

*The S&P 500 EY is 10y Cyclically Adjusted Earnings Yield (1/CAPE).

Refer to appendix for additional index, investment strategy, OAS, and risk information.

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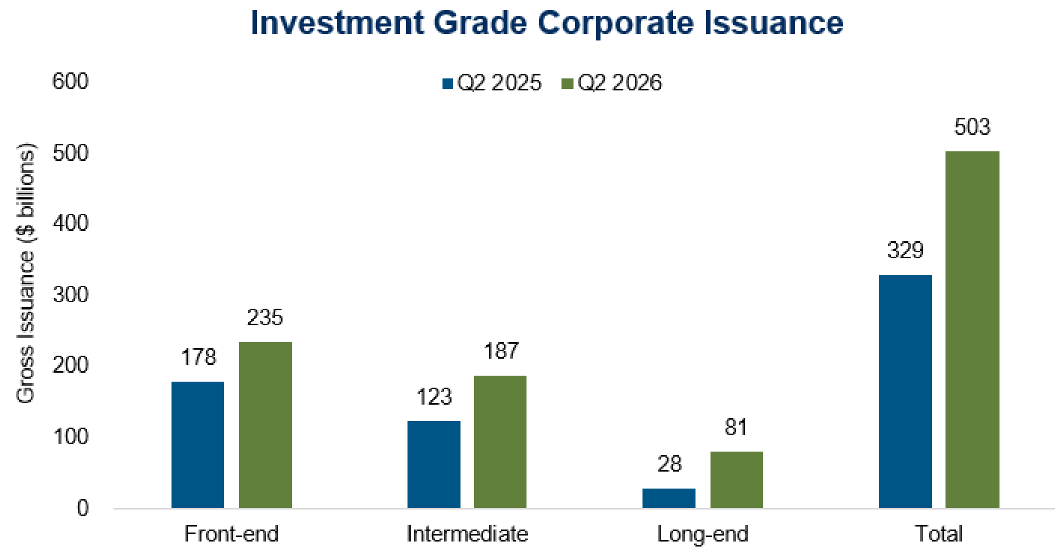
Credit markets update

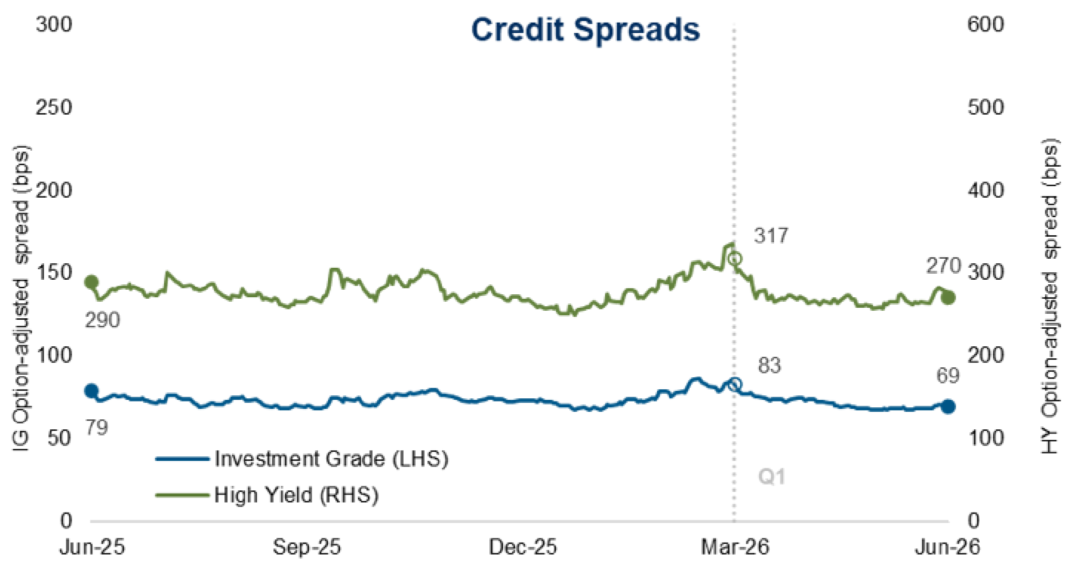
Investment Grade

- U.S. investment grade credit spreads tightened by 14 bps, ending the quarter at 69 bps. The sector returned 1.33%, outperforming like-duration treasuries by 1.11%.
- Credit spreads tightened over the quarter as the asset class was supported by strong corporate earnings, robust demand, and optimism around a ceasefire in the Middle East.
- Investment grade corporate gross issuance totaled $503 billion in Q2 2026, lower than gross issuance in Q1 2026.



High Yield

- U.S. high yield credit returned 2.5% amid optimism surrounding a ceasefire in the Middle East and balanced technical dynamics. High yield credit spreads tightened by 47 bps during the second quarter of 2026, ending at 270 basis points.
- In Q2 2026, lower quality segments of the high yield market outperformed as the CCC-rated and B-rated segments saw a total return of 4.0% and 3.2%, respectively, while the BB-rated segment saw a total return of 2.6%.

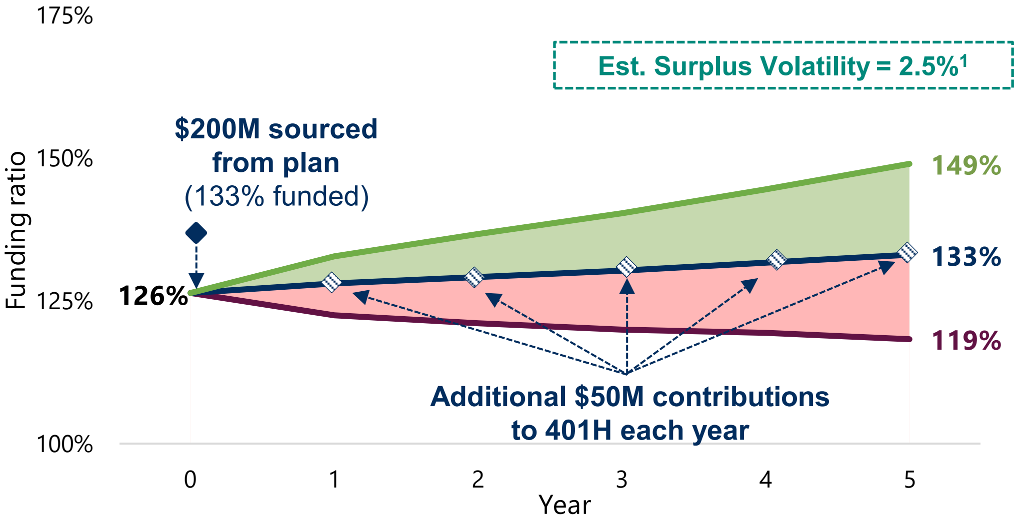


As of 30 June 2026. Source: Barclays Past performance is not a guarantee or a reliable indicator of future results
Front-end = 1-5 year, Intermediate = 6-12 year, Long-end = 13+ year
Investment Grade spreads represented by Bloomberg U.S. Investment Grade Credit Index. High yield spreads represented by Bloomberg U.S. Corporate High Yield Index.
Refer to the Appendix for additional credit quality, index, OAS, outlook and risk information.

Deploying pension surplus: two paths to seek to unlock value while preserving plan strength

Option 1: 401(h) Surplus Transfer

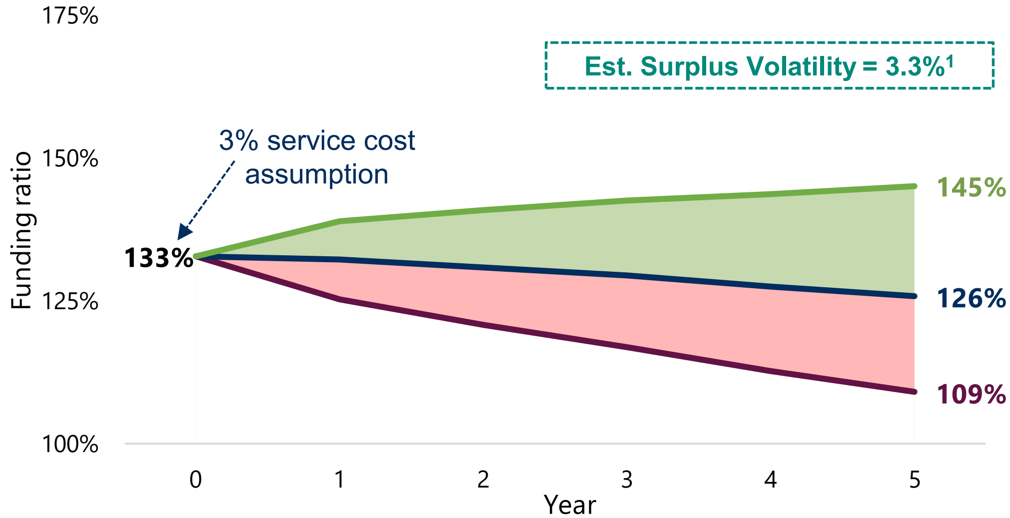
- **80% LDI / 20% return-seeking**
- **Liability duration:** 10yrs
- **Assets:** $4B (pre-transfer)
- **Liabilities:** $3B



- **Structured surplus deployment**: 200mm upfront 401(h) transfer while remaining >125% funded, with potential annual contributions ($50MM) as experience allows; pension remains closed/frozen.
- **Balance sheet efficient monetization**: converts excess pension assets into tax advantaged retiree medical funding, reducing future corporate cash outflows and improving enterprise benefit efficiency.
- **High confidence funding outcomes**: residual pension remains well funded across scenarios, with lower downside tail risk, clear governance, and limited impact on workforce strategy.

Option 2: Restart benefit accruals

- **70% LDI / 30% return-seeking**
- **Liability duration:** 14yrs
- **Assets:** $4B
- **Liabilities:** $3B



- **Reinvestment of surplus into benefit accruals**: an assumed 3%–5% service cost drives liability growth at discount rate + service cost, funded through returns and potential contributions.
- **Strategic workforce optionality:** uses surplus to enhance retirement benefits, supporting talent attraction and retention while reframing the pension as an ongoing benefit platform.
- **Greater optionality and attractive funded status results across scenarios**: slightly wider outcomes relative to Option 1, but manageable.

Surplus creates optionality – sponsors can prioritize certainty, flexibility, or a combination of both

As of 30 June 2026. SOURCE: PIMCO. **Hypothetical example for illustrative purposes only.** [1] See Appendix for additional information regarding volatility estimates. Funding ratio projections are based on percentiles from 5000 simulation results for each portfolio with an assumed starting point of 126% and 133% funded for Option 1 and Option 2, respectively, and annual benefit payments based on illustrative cash flow data.
Refer to Appendix for additional hypothetical example, investment strategy, and risk information.

Thought Leadership and Resources

Retirement

Income Strategy Update (Webcast) | Dan Ivascyn, Prerna Gupta | July 2026

In Search of Funded Status Stability | Aaron Smith, Rene Martel, Michael Chandra | June 2026

2026 PIMCO US Defined Contribution Consulting Study | PIMCO | June 2026

The Retirement Hack Hiding Inside Most DC Plans | Sean Klein, Rene Martel | May 2026

A New Pension Playbook: Managing and Investing in a Surplus World (Webcast) | Viju Nambiar | May 2026

Economy and Market Commentary

Fed Policymaker Comments Raise the Stakes for Inflation Data | Tiffany Wilding | July 2026

PIMCO's Secular Outlook - Rupture and Resilience (Webcast) | Dan Ivascyn, Rich Clarida, Kim Stafford | June 2026

Rupture and Resilience | Rich Clarida, Andrew Balls, Dan Ivascyn, Tiffany Wilding | June 2026

Global Bond Diversification: Higher Yields and New Opportunities for Alpha | Andrew Balls, Pramol Dhawan | June 2026

Investment Discipline Amid the AI Infrastructure Boom | Bryan Tsu, Vineet Agrawal | May 2026

AI Credit Expansion: Assessing the Micro and Macro Risks | Lofti Karoui, Michael Puempel, Amit Arora | May 2026

A New Fed Chair, a New Tone - But Familiar Anchors | Rich Clarida | May 2026

Washington Outlook: *For regular insights on U.S. policy via email, please sign up here to receive* Washington Watch *from Libby Cantrill, Head of Public Policy.*

Macro Signposts: *For weekly insights on the global macro landscape, sign up here to receive* Macro Signposts *from Tiffany Wilding, Economist.*

Investment Insights

Real Estate: From Repricing to Relevance | John Murray, Francois Trausch, Russell Gannaway, Kirill Zavodov | July 2026

The Credit Market Lens: A Higher Bar for Earnings Season | Lotfi Karoui | July 2026

Active Credit: Where Flexibility Meets Alpha | Mohit Mittal, Saurabh Sud | June 2026

Private Credit: Staying Flexible as Markets Shift | Kristofer Kraus, Russell Gannaway | May 2026

Precision Over Prediction in Today's Bond Market | Mohit Mittal | May 2026

AI & Data Centers: Sorting Signal from Noise (Webcast) Carrie Peterson-Brown, Kirill Zavodov, Nick Berardy, Will Dionisio | May 2026

A Systematic Lens on Global Equity Opportunities Within Multi-Asset Portfolios | Usman Ali, Emmanuel Sharef, Shelby Pope | April 2026

The Credit Market Lens: *For weekly insights on the global credit market, sign up here to receive The Credit Market Lens from Lotfi Karoui. You can also subscribe to the newsletter on LinkedIn.*

Resources and Tools

The PIMCO Pod - can be listened to on the following platforms - Spotify | Apple

PIMCO Pro: Digital Engagement Platform: Login today or register as a new user to utilize our dynamic, self-service features for your PIMCO investments.

View our Client Solutions & Analytics team's market dashboard.

PIMCO's OPTI Tool: Explaining the "Three T's" or Private Assets. Watch Now

Appendix

PERFORMANCE
Past performance is not a guarantee or a reliable indicator of future results.

CREDIT QUALITY
The credit quality of a particular security or group of securities does not ensure the stability or safety of an overall portfolio. The quality ratings of individual issues/issuers are provided to indicate the credit-worthiness of such issues/issuer and generally range from AAA, Aaa, or AAA (highest) to D, C, or D (lowest) for S&P, Moody's, and Fitch respectively.

INVESTMENT STRATEGY

There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all investors and each investor should evaluate their ability to invest long-term, especially during periods of downturn in the market.

INDEX
Bloomberg Long-Term Government/Credit Index is an unmanaged index of U.S. Government or Investment Grade Credit Securities having a maturity of 10 years or more. It is not possible to invest directly in an unmanaged index.

Bloomberg U.S. Long Credit Index includes both corporate and non-corporate sectors with maturities equal to or greater than 10 years. The corporate sectors are Industrial, Utility, and Finance, which include both U.S. and non-U.S. corporations. The non-corporate sectors are Sovereign, Supranational, Foreign Agency, and Foreign Local Government. It is not possible to invest directly in an unmanaged index.

The Bloomberg Long Corporate Index is a component of the Bloomberg U.S. Long Credit index. Bloomberg U.S. Long Credit Index is the credit component of the Bloomberg U.S. Government/Credit Index, a widely recognized index that features a blend of U.S. Treasury, government-sponsored (U.S. Agency and supranational), and corporate securities limited to a maturity of more than ten years.

Bloomberg Long-Term Treasury Index consists of U.S. Treasury issues with maturities of 10 or more years. It is not possible to invest directly in an unmanaged index.

FTSE STRIPS Index, 20+ Year Sub-Index represents a composition of outstanding Treasury Bond and Notes with a maturity of at least twenty years. The index is rebalanced each month in accordance with underlying Treasury figures and profiles provided as of the previous month- end. The included STRIPS are derived only from bonds in the FTSE U.S. Treasury Bond Index, which include coupon strips with less than one year remaining to maturity. It is not possible to invest directly in an unmanaged index.

INDEX cont'd

Bloomberg U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. It is not possible to invest directly in an unmanaged index.

S&P 500 Index is an unmanaged market index generally considered representative of the stock market as a whole. The Index focuses on the large-cap segment of the U.S. equities market. It is not possible to invest directly in an unmanaged index.

Russell 2000® Index is composed of 2,000 of the smallest companies in the Russell 3000 Index and is considered to be representative of the small cap market in general. It is not possible to invest directly in an unmanaged index.

The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of non-U.S. developed markets. The index covers approximately 85% of the free-float adjusted market capitalization in each country. The MSCI World reflects the views and practices of the international investment community by striking a balance between a country's economic development and the accessibility of its market while preserving index stability.

The MSCI All Country World Index is a free-float adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI All Country World Index consists of 46 country indexes comprising developed and emerging market indexes.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. It is not possible to invest directly in the index.

J.P. Morgan Emerging Markets Bond Index (EMBI) Global tracks total returns for United States Dollar denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, and Eurobonds. It is not possible to invest directly in an unmanaged index.

Appendix

INDEX cont'd

JPMorgan Government Bond Index-Emerging Markets Global Diversified Index (Unhedged) is a comprehensive global local emerging markets index, and consists of regularly traded, liquid fixed-rate, domestic currency government bonds to which international investors can gain exposure. It is not possible to invest directly in an unmanaged index.

The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

Bloomberg Long Term Government Index is an unmanaged index of U.S. Government Securities having a maturity of 10 years or more.

The Bloomberg US Intermediate Credit Index measures the performance of investment grade, US dollar-denominated, fixed-rate, taxable corporate and government-related debt with less than ten years to maturity. It is composed of a corporate and a noncorporate component that includes non-US agencies, sovereigns, supranationals and local authorities.

Bloomberg U.S. Credit Index is an unmanaged index comprised of publicly issued U.S. corporate and specified non-U.S. debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered. This index was formerly known as the Bloomberg Credit Investment Grade Index.

It is not possible to invest directly in an unmanaged index.

OAS
The option adjusted spread (OAS) measures the spread over a variety of possible interest rate paths. A security's OAS is the average earned over Treasury returns, taking multiple future interest rate scenarios into account.

OUTLOOK
Statements concerning financial market trends or portfolio strategies are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all investors and each investor should evaluate their ability to invest for the long term, especially during periods of downturn in the market. Outlook and strategies are subject to change without notice

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RISK
Investing in the **bond market** is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and low interest rate environments increase this risk. Reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed. Investing in **foreign denominated and/or domiciled securities** may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. **Mortgage and asset-backed securities** may be sensitive to changes in interest rates, subject to early repayment risk, and their value may fluctuate in response to the market's perception of issuer creditworthiness; while generally supported by some form of government or private guarantee there is no assurance that private guarantors will meet their obligations. **High-yield, lower-rated, securities** involve greater risk than higher-rated securities; portfolios that invest in them may be subject to greater levels of credit and liquidity risk than portfolios that do not. **Equities** may decline in value due to both real and perceived general market, economic, and industry conditions. **Derivatives** may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested.
For **Volatility,** we employed a block bootstrap methodology to calculate volatilities. We start by computing historical factor returns that underlie each asset class proxy from January 1997 through the present date. We then draw a set of 12 monthly returns within the dataset to come up with an annual return number. This process is repeated 25,000 times to have a return series with 25,000 annualized returns. The standard deviation of these annual returns is used to model the volatility for each factor. We then use the same return series for each factor to compute covariance between factors. Finally, volatility of each asset class proxy is calculated as the sum of variances and covariance of factors that underlie that particular proxy. For each asset class, index, or strategy proxy, we will look at either a point in time estimate or historical average of factor exposures in order to determine the total volatility. Please contact your PIMCO representative for more details on how specific proxy factor exposures are estimated.

Appendix

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