

PIMCO

PIMCO Quarterly Pension Review

October 2026

IMPORTANT NOTICE
Please note that the following contains the opinions of the manager as of the date noted, and may not have been updated to reflect real time market developments. All opinions are subject to change without notice.

For institutional investor use only – not to be shown or distributed to the public

A company of Allianz

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.

Table of contents

4 Macroeconomic Backdrop

5 Pension Landscape

6 Investment Performance

8 Credit Markets Update

10 Special Topic

11 Recent Thought Leadership and Resources

Learn More About PIMCO's Latest Cyclical Outlook

Macroeconomic Backdrop: Structural Forces, Cyclical Implications

The global economy remained resilient in Q3 as investment tied to AI infrastructure, energy security, and economic re-industrialization continued to support growth. Markets adjusted to a higher-for-longer rate environment, with higher yields reflecting stronger growth prospects and reinforcing the importance of income as a driver of future returns. At the same time, fiscal constraints, geopolitical tensions, and evolving trade relationships continued to widen the range of potential economic outcomes, creating greater dispersion across countries, sectors, and asset classes.

Longer-term themes are driving cyclical trends

As geopolitical fragmentation continues, most major economies are absorbing higher energy prices and tariffs better than expected. In our baseline, we expect global growth to remain resilient over our six- to 12-month cyclical horizon while inflation moderates.

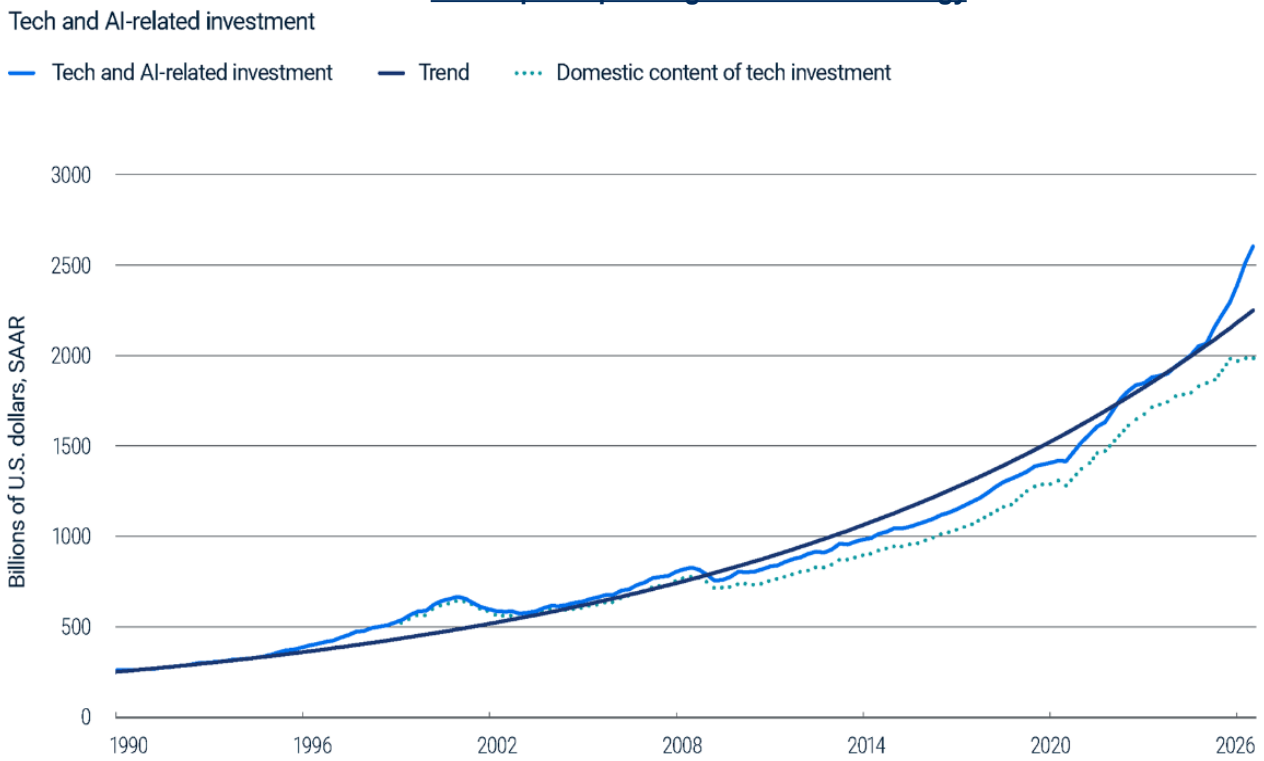
Three buffers may support ongoing resilience

A booming AI investment cycle, the ability of consumers and China to absorb higher costs, and an incremental approach by central banks may help support growth while containing inflation.

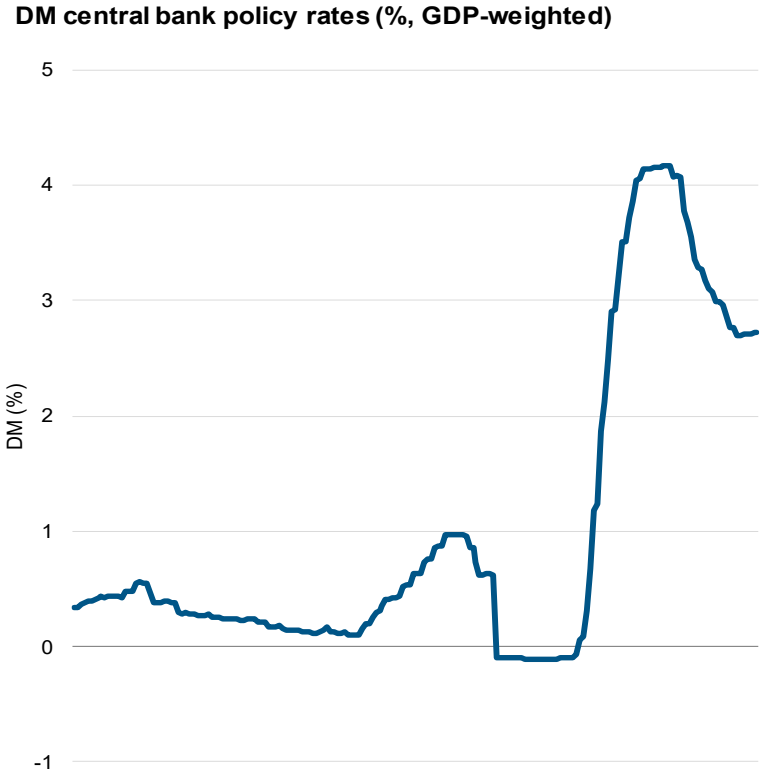
Range of potential outcomes if buffers falter

The drivers of today's resilience are increasingly interconnected and may be challenged if the AI boom fades, the energy shock worsens, or financial conditions deteriorate – particularly as asset valuations may not fully reflect these risks.

U.S. capital spending linked to technology



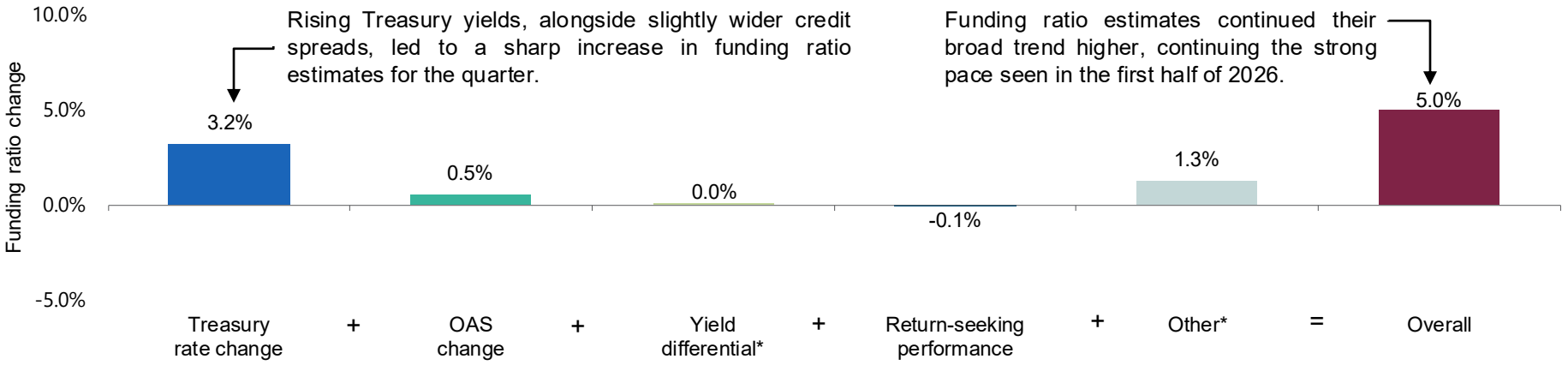
More room to cut across global developed markets



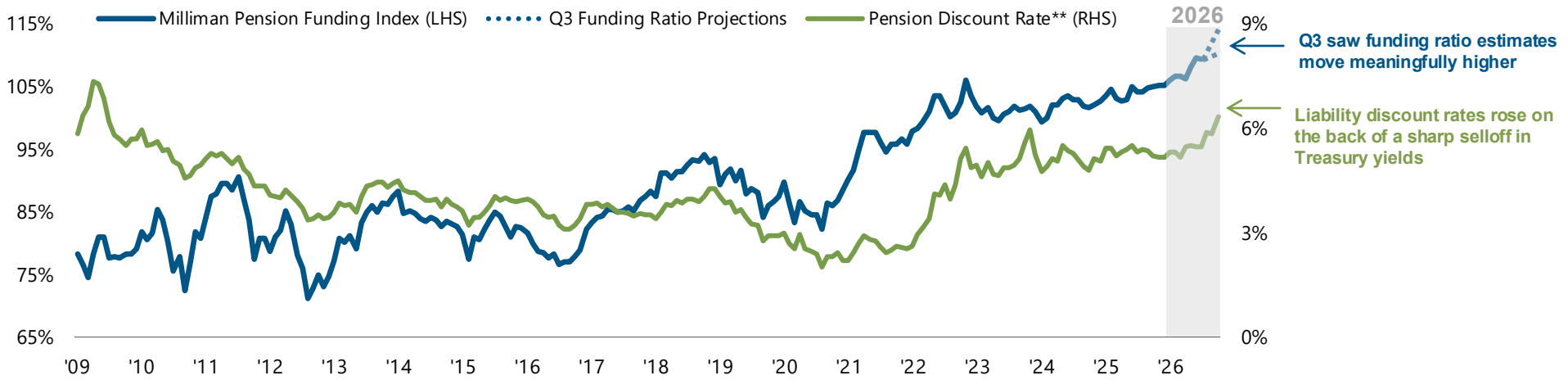
LHS: As of 30 September 2026. Source: PIMCO, U.S. Bureau of Economic Analysis National Income and Product Accounts data.
SAAR = seasonally adjusted annualized rate. RHS: As of June 2026. Source: Suttle Research, PIMCO, Developed Markets (DM). Refer to Appendix for additional forecast, index, and outlook information.

Funding ratios continue to rise in Q3 as discount rates rise sharply

Q3 '26 Funding Ratio Attribution (hypothetical pension plan with +5% increase in funded ratio)



Pension Funding Ratio and Discount Rate



As of 30 September 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

- Amid resilient AI-driven growth, elevated energy prices, and above-target inflation, developed market yields rose sharply as markets priced in further tightening. The Fed, ECB, and BoJ each hiked rates by 25bps, while the BoE held. In Japan, front-end yields rose amid expectations of further BoJ hikes.
- Credit spreads widened over the quarter amid elevated rate volatility and issuance, though the asset class remains supported by resilient fundamentals and balanced technicals.

Q3 2026					
	Total Return	YTM	OAS Level (bp)	OAS Change (bp)	YTD Total Return
BBG Barclays Aggregate	-3.5%	5.56%	31	5	-2.9%
Intermediate Credit	-2.3%	5.73%	65	7	-1.5%
Long Credit	-7.4%	6.59%	98	4	-6.4%
Long Corporate	-7.5%	6.59%	98	4	-6.5%
Long Govt/Credit	-7.7%	6.08%	44	0	-7.0%
Long Treasury	-8.0%	5.65%	-	-	-7.6%
20+ STRIPS	-13.7%	5.76%	-	-	-13.2%

Return-seeking assets

- Risk asset performance was mixed in Q3'26. DM equities gained in the third quarter of 2026, supported by resilient earnings and strength in energy and technology sectors, despite weaker market breadth and increasing valuation pressure from higher yields. EM equities declined modestly in the third quarter, as tighter global financial conditions and weakness in North Asian technology stocks offset gains in commodity-exporting countries and China.
- The EM asset class delivered negative performance over the quarter, driven by continued geopolitical uncertainty and market volatility.
- Global high yield bond spreads widened over the quarter, with higher quality segments of the high yield market outperforming.

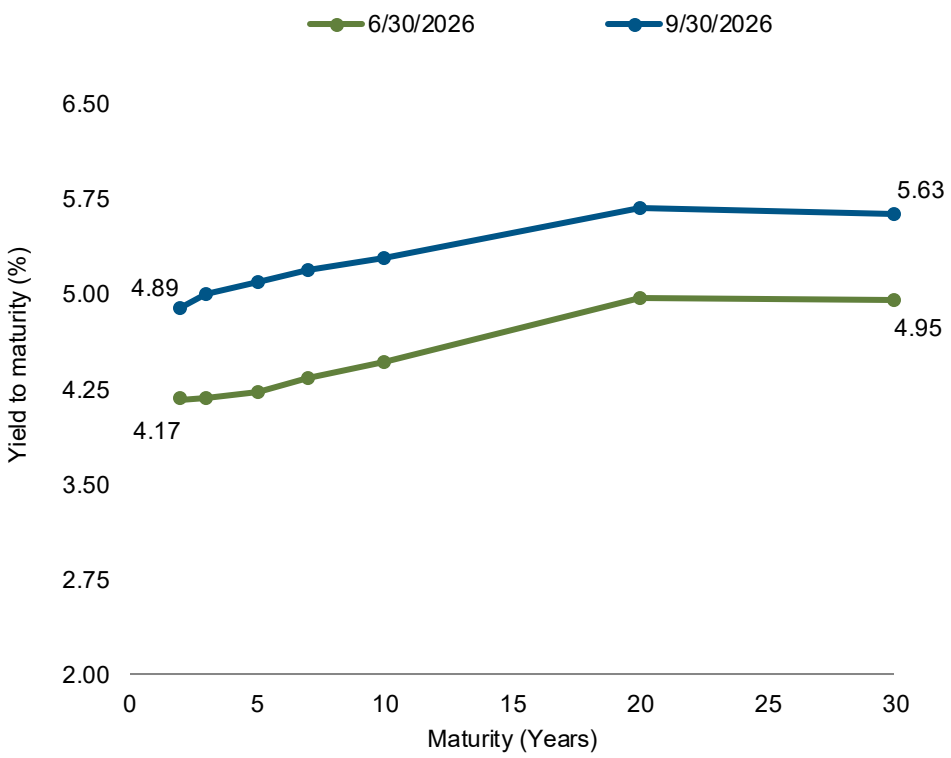
Q3 2026			
	Total Return	Index Level	YTD Total Return
S&P 500	2.3%	7,652	12.7%
Russell 2000	-7.2%	2,797	13.9%
MSCI World	2.0%	4,903	12.1%
MSCI ACWI	1.7%	1135	13.4%
MSCI EM	-0.4%	1,705	23.5%
EM External	-4.0%	-	-1.2%
EM Local	-0.9%	-	0.6%
High Yield	-1.8%	-	0.1%

As of 30 September 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.*

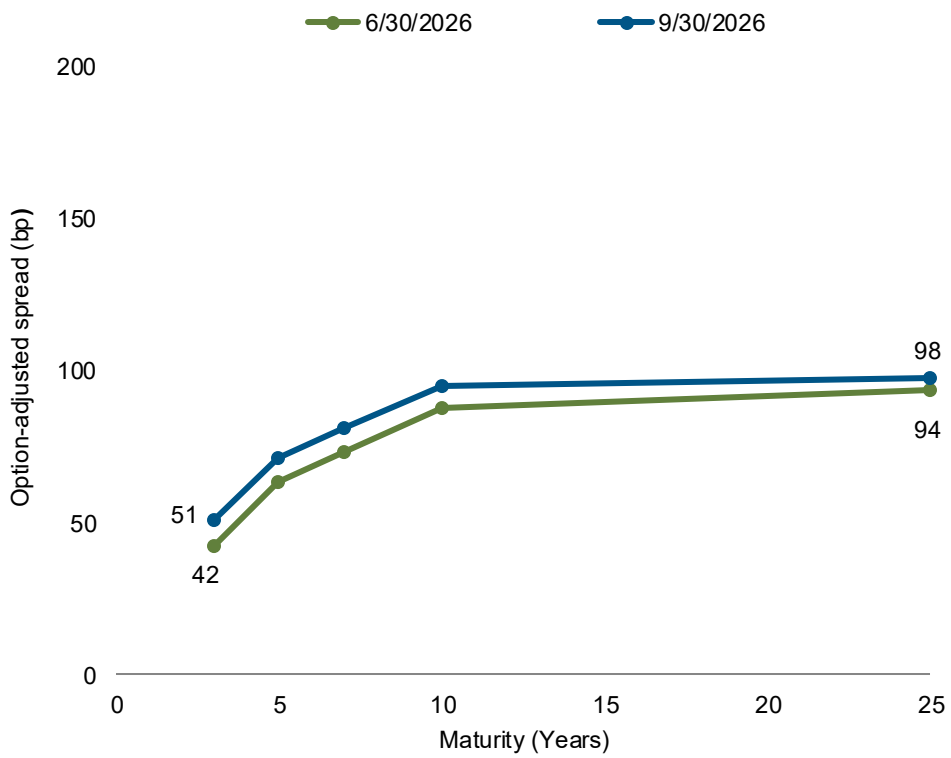
Yield curve and credit curve snapshot

U.S. Treasury Curve



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

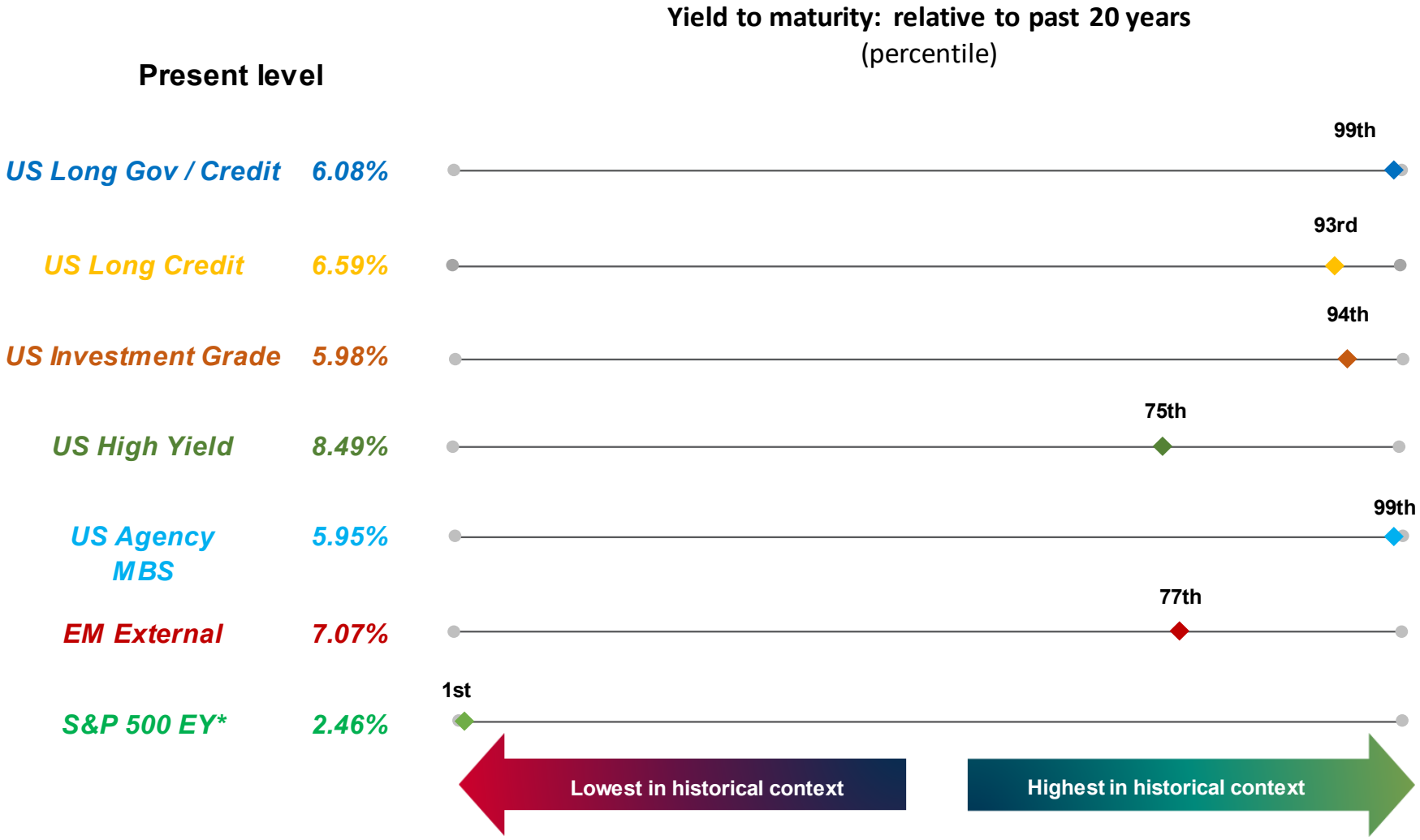
Bloomberg U.S. Corporate OAS



Credit spreads widened across the curve during the quarter.

As of 30 September 2026. Source: Barclays, Bloomberg. Yield to maturity is the total estimated annual return on a bond if youhold 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



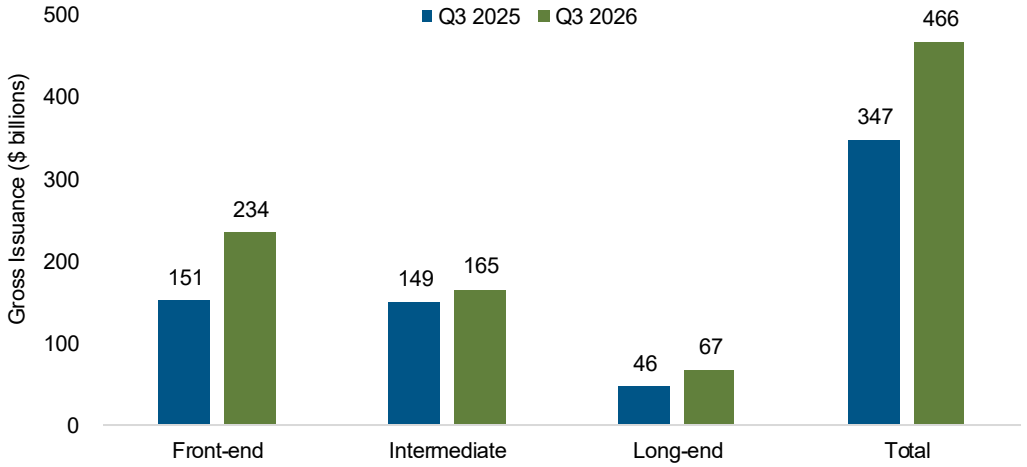
As of 30 September 2026. SOURCE: PIMCO, Bloomberg. **Past performance is not a guarantee or a reliable indicator of future results.** *Yield to maturity is the total estimated annual return on a bond if you hold it until it matures, assuming all interest payments are reinvested at that same rate.*
Yields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

Credit markets update

Investment Grade

- U.S. investment grade credit spreads widened by 6 bps, ending the quarter at 75 bps. The sector returned -3.83%, underperforming like-duration treasuries by 0.14%.
- Credit spreads widened over the quarter amid elevated rate volatility and issuance, though the asset class remains supported by resilient fundamentals and balanced technicals.
- Investment grade corporate gross issuance totaled $466 billion in Q3 2026, lower than gross issuance in Q2 2026.

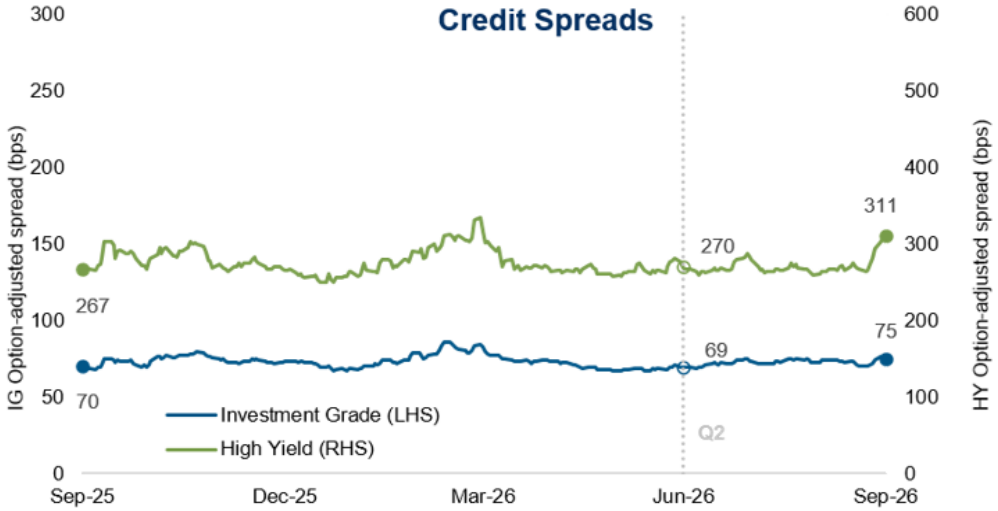
Investment Grade Corporate Issuance



High Yield

- U.S. high yield credit returned -1.8% amid rate volatility and elevated supply. High yield credit spreads widened by 41 bps during the third quarter of 2026, ending at 311 basis points.
- In Q3 2026, higher quality segments of the high yield market outperformed as the B-rated and BB-rated segments saw a total return of -1.1% and -1.7%, respectively, while the CCC-rated segment saw a total return of -3.6%.

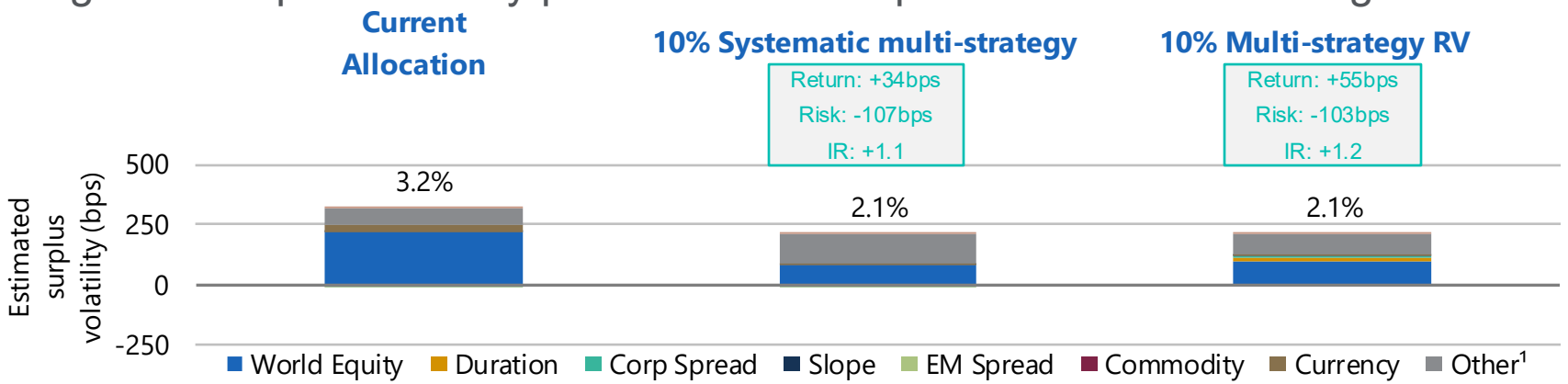
Credit Spreads



As of 30 September 2026. Source: Bloomberg. **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.

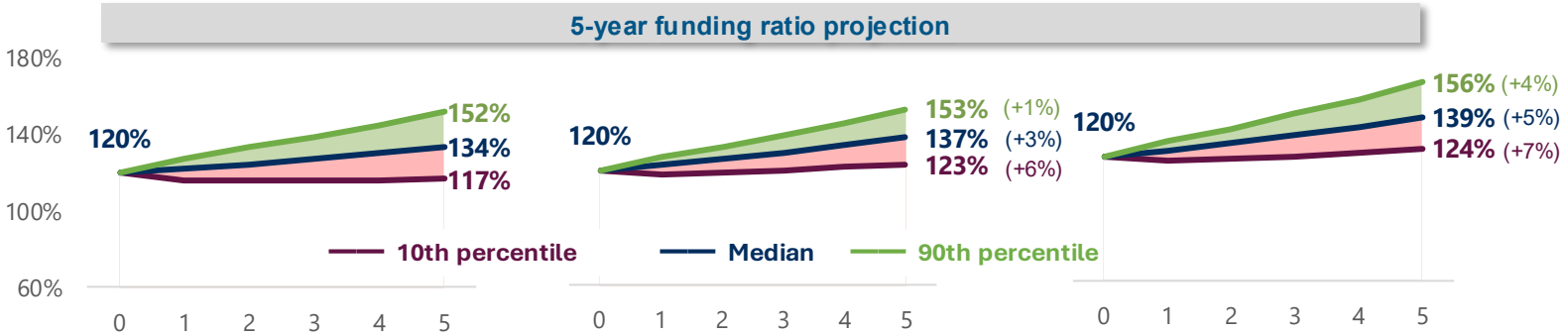
Hedge Funds' role in growing a pension surplus

Diversified hedge fund exposures may provide a more capital-efficient route to higher return potential



Portfolio Statistics			
Estimated Asset Return[2]	5.9%	6.3%	6.5%
Estimated Surplus Return[2]	1.1%	1.4%	1.6%
Estimated Asset Volatility[3]	7.1%	6.1%	5.9%
Estimated Surplus Volatility[3]	3.2%	2.1%	2.1%
Return / Surplus Vol	1.9	3.0	3.0

- 120% funded plan
- 80% FI / 20% RSA
- 10% HF allocation sourced from equities



As of 31 August 2026. SOURCE: PIMCO, Sample Client. **Hypothetical performance for illustrative purposes only. Hypothetical performance is not based on actual results, has certain inherent limitations and should not be relied upon as the sole basis for making an investment decision. Investors should carefully review the appendix for additional, important information about hypothetical performance.**

Current allocation: 10% S&P 500, 10% MSCI ACWI ex-US, 80% Fixed Income (mix of BBG Intermediate Credit, BBG Long Credit, BBG Intermediate Government, BBG Long Government to target 100% hedge)

1 Other factors include: Idiosyncratic (specific), Convexity and "Style" factors such as Industry

2 Unless otherwise specified, return estimates are an average annual return over a 10-year horizon. Please refer to the appendix for additional information on estimated returns. Estimated Cash Return = 3.2%. Systematic multi-strategy [10% Multi-Asset Absolute Return Model] return = 10.2%. Multi-strategy RV [Global Cross-Asset Opportunities Model] return = 12.2%.

3 See Appendix for additional information regarding volatility estimates.

Refer to Appendix for additional hypothetical example, investment strategy, portfolio analysis, return assumption, target return, and risk information.

Thought Leadership and Resources

Retirement

Income Fund Update (Webcast) | Dan Ivascyn, Esteban Burbano | October 2026

Enhancing Personalized Asset Allocation in the QDIA | PIMCO | August 2026

Taking Advantage of Active Fixed Income in Core Lineups and Target Date Funds | PIMCO | September 2026

Economy and Market Commentary

Cyclical Outlook: Growth Holds, Risks Widen | Tiffany Wilding, Andrew Balls | October 2026

Cyclical Outlook (webcast) | Marc Seidner, Tiffany Wilding | October 2026

The U.S. Housing Market Becomes a More Local Story | Daniel Hyman, Arnaud Benahmed | September 2026

Welcome Back, Balanced Portfolio | Lotfi Karoui, Michael Puempel | September 2026

How a K-Shaped Economy Affects Opportunities in Asset Backed Finance | Tiffany Wilding, Lotfi Karoui | September 2026

Chairman Warsh's Jackson Hole Speech Emphasizes Price Stability | Rich Clarida | August 2026

What's Pushing Long-Term Bond Yields Higher? | Marc Seidner, Pramol Dhawan | August 2026

The Key Inflation Signal for Investors | Rich Clarida | August 2026

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

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

Investment Insights

The Credit Market Lens: Green Shoots and Legacy Risks in Direct Lending | Lotfi Karoui | October 2026

The Credit Market Lens: Hyperscalers Are Repricing, Not Displacing (So Far) | Lotfi Karoui | September 2026

Understanding Portable Alpha: Seeking More From Core Equity Allocations | Jerome Schneider | September 2026

The Credit Market Lens: AI Capex and the Limits of Crowding Out | Lotfi Karoui | September 2026

Aviation Finance: A $4 Trillion Opportunity Takes Flight | Ben Ensminger-Law | September 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: Log in 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" of 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

.

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

PIMCO as a general matter provides services to qualified institutions, financial intermediaries and institutional investors. Individual investors should contact their own financial professional to determine the most appropriate investment options for their financial situation. This material contains the current opinions of the manager and such opinions are subject to change without notice. This material has been distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission. PIMCO is a trademark of Allianz Asset Management of America LLC in the United States and throughout the world.

Pacific Investment Management Company LLC, 650 Newport Center Drive, Newport Beach, CA 92660, 800-387-4626. ©2026, PIMCO.

These materials are being provided on the express basis that they and any related communications (whether written or oral) will not cause Pacific Investment Management Company LLC (or any affiliate) (collectively, "PIMCO") to become an investment advice fiduciary under ERISA or the Internal Revenue Code, as the recipients are fully aware that PIMCO (i) is not undertaking to provide impartial investment advice, make a recommendation regarding the acquisition, holding or disposal of an investment, act as an impartial adviser, or give advice in a fiduciary capacity, and (ii) has a financial interest in the offering and sale of one or more products and services, which may depend on a number of factors relating to PIMCO (and its affiliates') internal business objectives, and which has been disclosed to the recipient. These materials are also being provided on PIMCO's understanding that the recipients they are directed to are all financially sophisticated, capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies. If this is not the case, we ask that you inform us immediately. You should consult your own separate advisors before making any investment decisions.

These materials are also being provided on the express basis that they and any related communications will not cause PIMCO (or any affiliate) to become an investment advice fiduciary under ERISA or the Internal Revenue Code with respect to any recipient or any employee benefit plan or IRA because: (i) the recipients are all independent of PIMCO and its affiliates, and (ii) upon review of all relevant facts and circumstances, the recipients have concluded that they have no financial interest, ownership interest, or other relationship, agreement or understanding with PIMCO or any affiliate that would limit any fiduciary responsibility that any recipient may have with respect to any Plan on behalf of which this information may be utilized. If this is not the case, or if there is any relationship with any recipient of which you are aware that would call into question the recipient's ability to independently fulfill its responsibilities to any such Plan, we ask that you let us know immediately.

The information provided herein is intended to be used solely by the recipient in considering the products or services described herein and may not be used for any other reason, personal or otherwise.