

Optimizing Your Bond Strategies in a Changing Rate Environment

During the early stages of past Federal Reserve rate-hiking cycles, investors may have been rewarded for staying in cash, but once that cycle is over, fixed income returns have meaningfully outperformed.

Historically, Fixed Income Outperforms Cash for Years after the Cutting Cycle Begins

WHAT THE CHART SHOWS

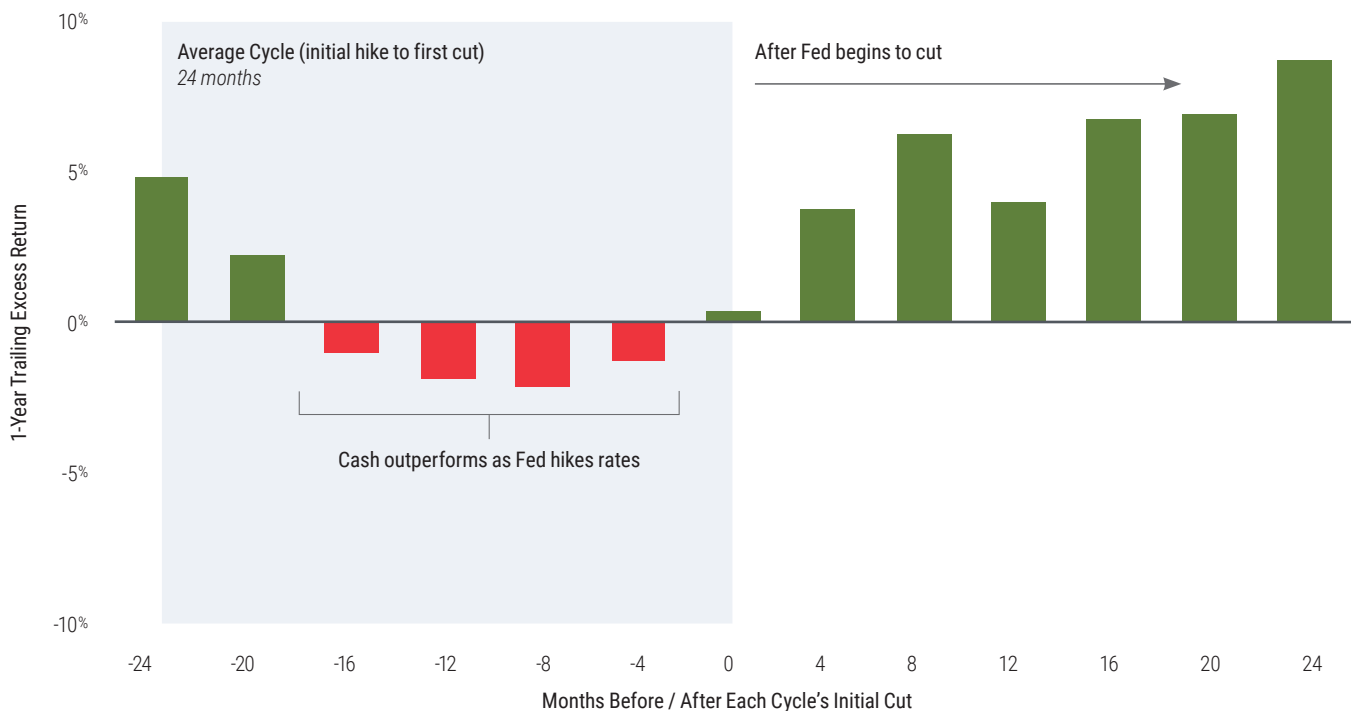
Trailing 12-month return on the BBG US Aggregate index compared to cash in months before and after the end of hiking cycles since 1980. Green (red) bars show outperformance (underperformance) versus cash.

WHAT IT MEANS FOR INVESTORS

At this point in interest rate cycles, bonds have tended to outperform cash. Fed rate cuts have historically supported fixed income performance while also eroding cash returns.

Fixed income performance across interest rate cycles

12-month trailing return: BBG US Aggregate* vs. T-bills¹



As of 30 September 2025. SOURCE: Bloomberg, Morningstar, PIMCO.

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

All returns and yield data are based on monthly data. Cash: Citi3-month T-bill Index.

Hiking cycles are defined as periods where the Federal Reserve embarks on a sustained path of increasing the target Fed Funds rate and/or target range. We define the end of a hiking cycle as the month where the Fed reaches its peak policy rate for that cycle (i.e., it either pauses rate hikes or cuts). Hiking cycles include (start to peak), 1980 (Jul '80 to May '81), 1983 (Feb '83 to Aug '84), 1988 (Feb '88 to Mar '89), 1994 (Jan '94 to Feb '95), 1999 (May '99 to May '00), 2004 (May '04 to Jun '06) and 2015 (Nov '15 to Dec '18). Returns across hiking cycles are averaged together to create summarized period.

Double-Digit Fixed Income Returns Have Followed Past Fed Cuts

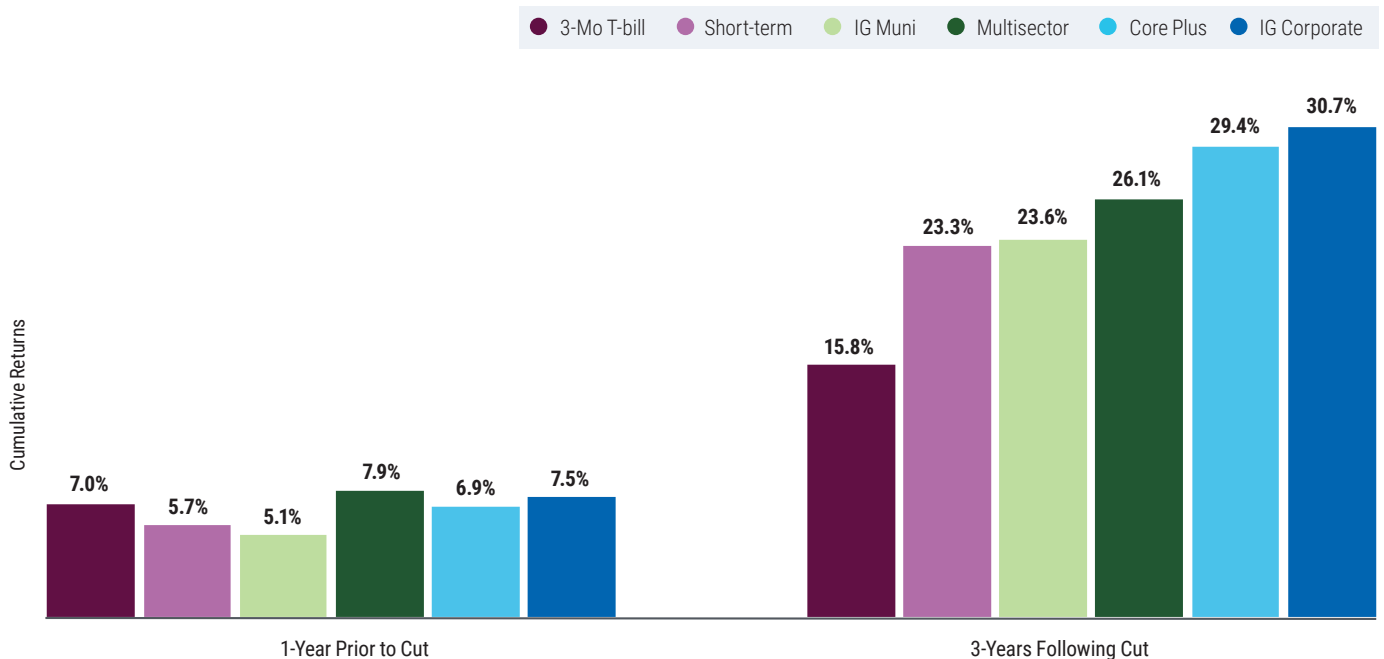
WHAT THE CHART SHOWS

The chart shows the average returns of cash and a variety of bonds in the year prior to and three years following the Fed's initial cut.

WHAT IT MEANS FOR INVESTORS

Although cash returns have been comparable to those of bonds in the year leading up to the Fed's initial rate cut, investors should consider reallocating from cash to bonds, which have historically outperformed cash by a meaningful margin following such cuts.

Fixed income performance across cutting cycles



As of 30 September 2025. SOURCE: PIMCO, Morningstar, Bloomberg. Past performance is not a guarantee nor a reliable indicator of future performance.

T-Bills: FTSE 3-Month Treasury Bill Index; Short-Term: Morningstar Short-Term Bond Category; Muni Long: Morningstar Municipal Long Category; Core Plus: Morningstar Intermediate Core-Plus Category; Multisector: Morningstar Multisector Bond Category; Corporate: Morningstar Corporate Bond Category Hiking cycles are defined as periods where the Federal Reserve embarks on a sustained path of increasing the target Fed Funds rate and/or target range. We define the end of a hiking cycle as the month where the Fed reaches its peak policy rate for that cycle (i.e., it either pauses rate hikes or cuts). Hiking cycles include (start to peak), 1980 (Jul '80 to May '81), 1983 (Feb '83 to Aug '84), 1988 (Feb '88 to Mar '89), 1994 (Jan '94 to Feb '95), 1999 (May '99 to May '00), 2004 (May '04 to Jun '06) and 2015 (Nov '15 to Dec '18).

Morningstar Categories: Intermediate-term core-plus bond portfolios invest primarily in investment-grade U.S. fixed-income issues including government, corporate, and securitized debt, but generally have greater flexibility than core offerings to hold non-core sectors such as corporate high yield, bank loan, emerging-markets debt, and non-U.S. currency exposures. Their durations (a measure of interest-rate sensitivity) typically range between 75% and 125% of the three-year average of the effective duration of the Morningstar Core Bond Index. Short-term bond portfolios invest primarily in corporate and other investment-grade U.S. fixed-income issues and typically have durations of 1.0 to 3.5 years. These portfolios are attractive to fairly conservative investors, because they are less sensitive to interest rates than portfolios with longer durations. Morningstar calculates monthly breakpoints using the effective duration of the Morningstar Core Bond Index in determining duration assignment. Short-term is defined as 25% to 75% of the three-year average effective duration of the MCB. Multisector bond portfolios seek income by diversifying their assets among several fixed-income sectors, usually U.S. government obligations, U.S. corporate bonds, foreign bonds, and high-yield U.S. debt securities. These portfolios typically hold 35% to 65% of bond assets in securities that are not rated or are rated by a major agency such as Standard & Poor's or Moody's at the level of BB (considered speculative for taxable bonds) and below. Corporate Bond portfolios concentrate on bonds issued by corporations. These tend to have more credit risk than government or agency-backed bonds. These portfolios hold more than 65% of their assets in corporate bonds, hold less than 40% of their assets in foreign bonds, less than 35% in high yield bonds, and have an effective duration of more than 75% of the Morningstar Core Bond Index.

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. Income from **municipal bonds** is exempt from federal income tax and may be subject to state and local taxes and at times the alternative minimum tax; a strategy concentrating in a single or limited number of states is subject to greater risk of adverse economic conditions and regulatory changes. **Equities** may decline in value due to both real and perceived general market, economic and industry conditions.

It is not possible to invest directly in an unmanaged index or Morningstar category. The categories shown are for illustrative purposes only, and reflects those U.S. funds and share classes with a specific investment approach as categorized by Morningstar. The categories may or may not include PIMCO investment products.

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