PIMCO

# Ahead of the Curve

Bonds are offering investors attractive opportunities right now

**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.

Q2 2025

# Explore Today's Investment Landscape and Opportunities.

## Our View

We expect bonds to do well across a range of environments. Amid uncertainty, investors, especially those with meaningful cash allocations, should consider taking advantage of bonds' attractive valuations and defensive properties.

# Key Takeaways


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As of March 31 2025. Source: PIMCO. Refer to Appendix for additional outlook and risk information.

# Fixed Income Allocations May Offer Multiple Benefits to a Portfolio

## Income & Returns

Bonds can provide investors with a source of income in the form of coupon payments.

## Diversification

Bonds may help diversify a portfolio of riskier assets like stocks.


## Preservation

Barring default, the principal value of a bond is expected to be returned to the investor at maturity.

Source: PIMCO
As of 31 March 2025
Refer to Appendix for additional investment strategy and risk information.

# PIMCO's Macroeconomic Outlook

## Inflation Near Target, But Likely to Rebound

Though moderating, some components remain sticky & policy choices are likely to push inflation higher in the near term

## Slowing Growth with Potential for Recession

Modest growth coupled with exogenous shocks increase likelihood of recession over the cyclical horizon

## Fiscal & Monetary Policy

Fiscal support to recede; central banks to remain data dependent, monitoring growth and inflation impact following trade dispute

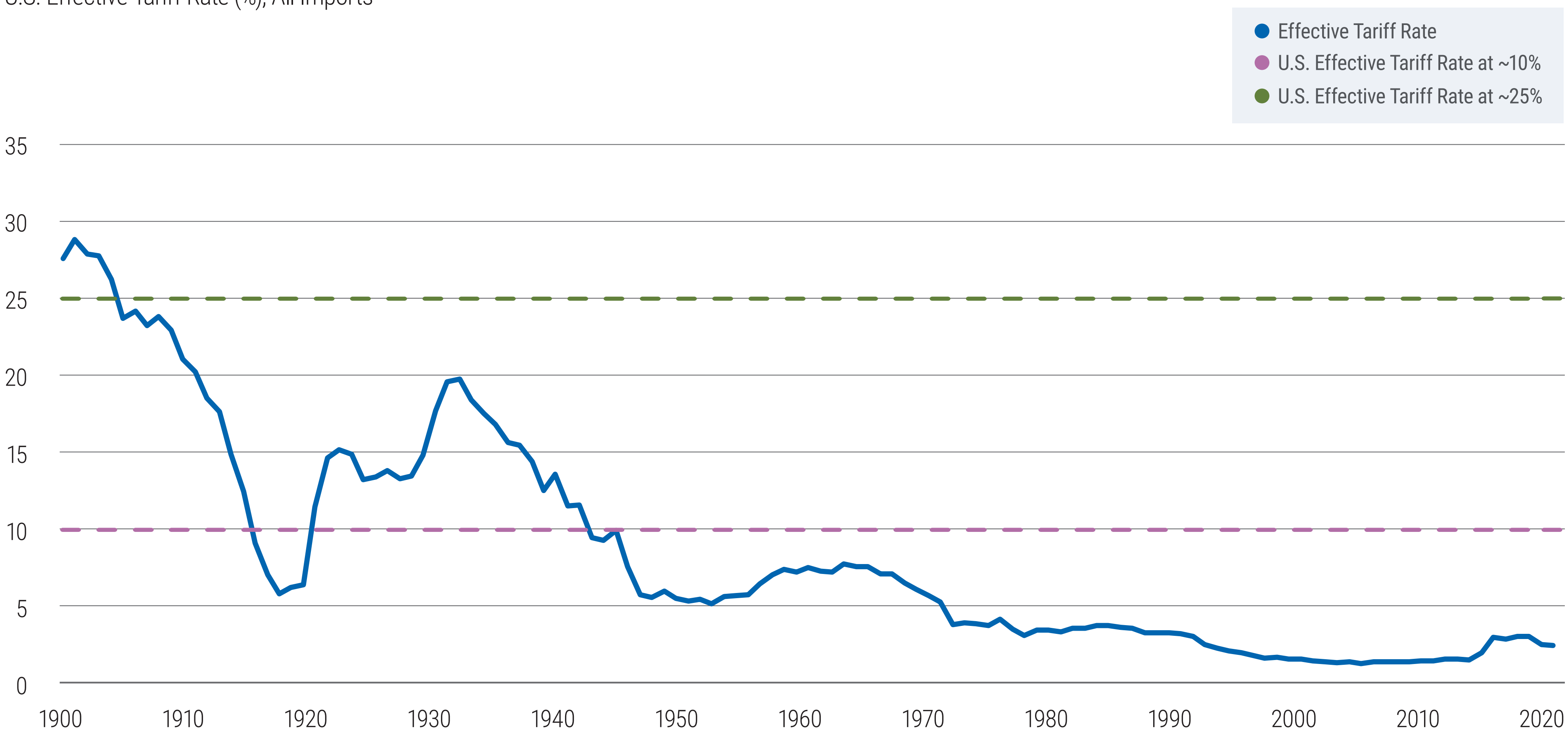
As of 31 March 2025. SOURCE: PIMCO. **For Illustrative purposes only.**
Refer to Appendix for additional investment strategy, outlook and risk information.

# Offering Historical Context to Tariff Policies Under Consideration

**WHAT IT MEANS FOR INVESTORS**

Tariffs, and the uncertainty around them, are likely to increase economic, geopolitical, and market volatility. With stretched equity valuations and potentially fleeting cash yields, we believe that high-quality bonds are well-positioned to deliver attractive returns across a wide range of possible outcomes.

U.S. Effective Tariff Rate (%), All Imports



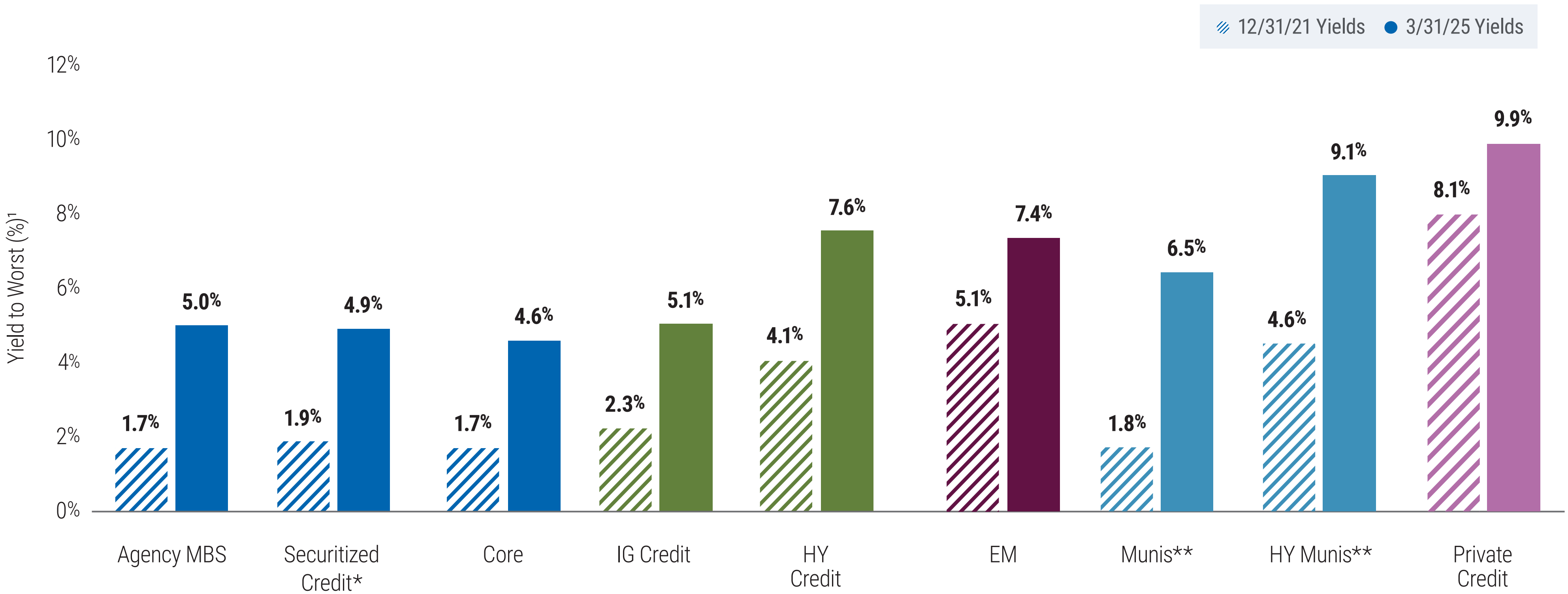

As of 31 March 2025. Symbolic tariff scenario assumes approximately no change in the effective tariff rate on aggregate levels. Source: US Census Bureau, PIMCO.

# Yields Across Most Fixed Income Sectors Are High vs. Recent History

**WHAT IT MEANS FOR INVESTORS**

Yields are still near decade highs across most fixed income sectors. The combination of high starting yields and the potential for rates to fall creates an attractive outlook for a wide variety of bonds.

Today, yields are at a much stronger starting point when compared to Q4 2021




As of 31 March 2025. SOURCE: Bloomberg, PIMCO.Index proxies for asset classes displayed are as follows: Agency MBS: Bloomberg MBS Fixed Rate Index, Munis: Bloomberg Municipal Bond Index, HY Munis: Bloomberg HY Muni Bond Index, Core: Bloomberg U.S. Aggregate Index, HY Credit: Bloomberg U.S. Corporate High Yield Index, EM: JPMorgan EMBI Global, IG Credit: Bloomberg US Credit Index; Private Credit: Market estimates for yield.

* Securitized Credit computed as average of CLOs, CMBS, and ABS from JPMorgan and Bloomberg.

** Municipal yields are the taxable equivalent yield, adjusted by the highest marginal tax rate (40.8%). Unadjusted IG Muni index yield is 3.7% with a change of 264bps compared to 12/31/2021 levels, the unadjusted HY Muni Index yield is 5.3% with a change of 254bps compared to 12/31/2021 levels.

1 The yield to worst is the yield resulting from the most adverse set of circumstances from the investor's point of view; the lowest of all possible yields.

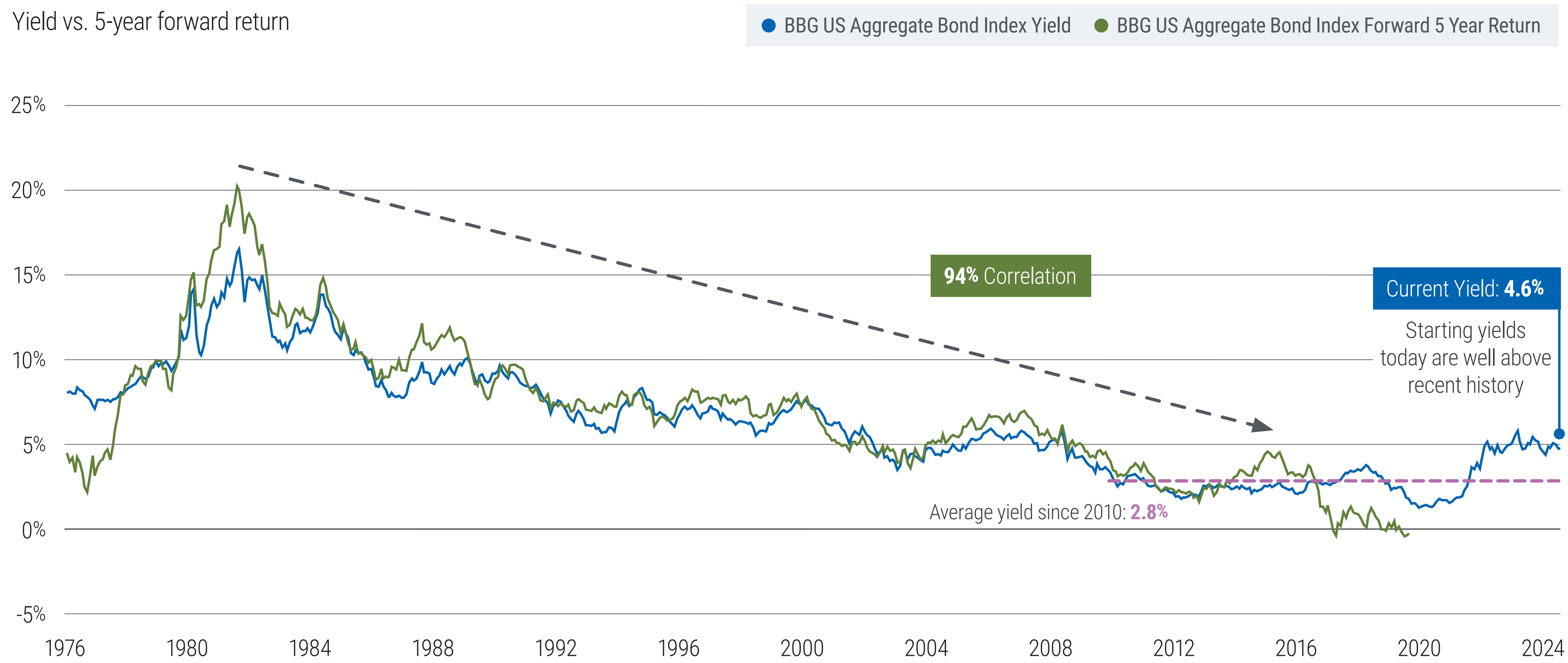
Refer to Appendix for additional index, outlook, and risk information.

# Higher Returns Have Historically Followed Higher Starting Yields

**WHAT IT MEANS FOR INVESTORS**

With starting yields nearly two times higher than the average yield since 2010, investors could stand to benefit from attractive return potential in fixed income investments going forward.

Yield vs. 5-year forward return



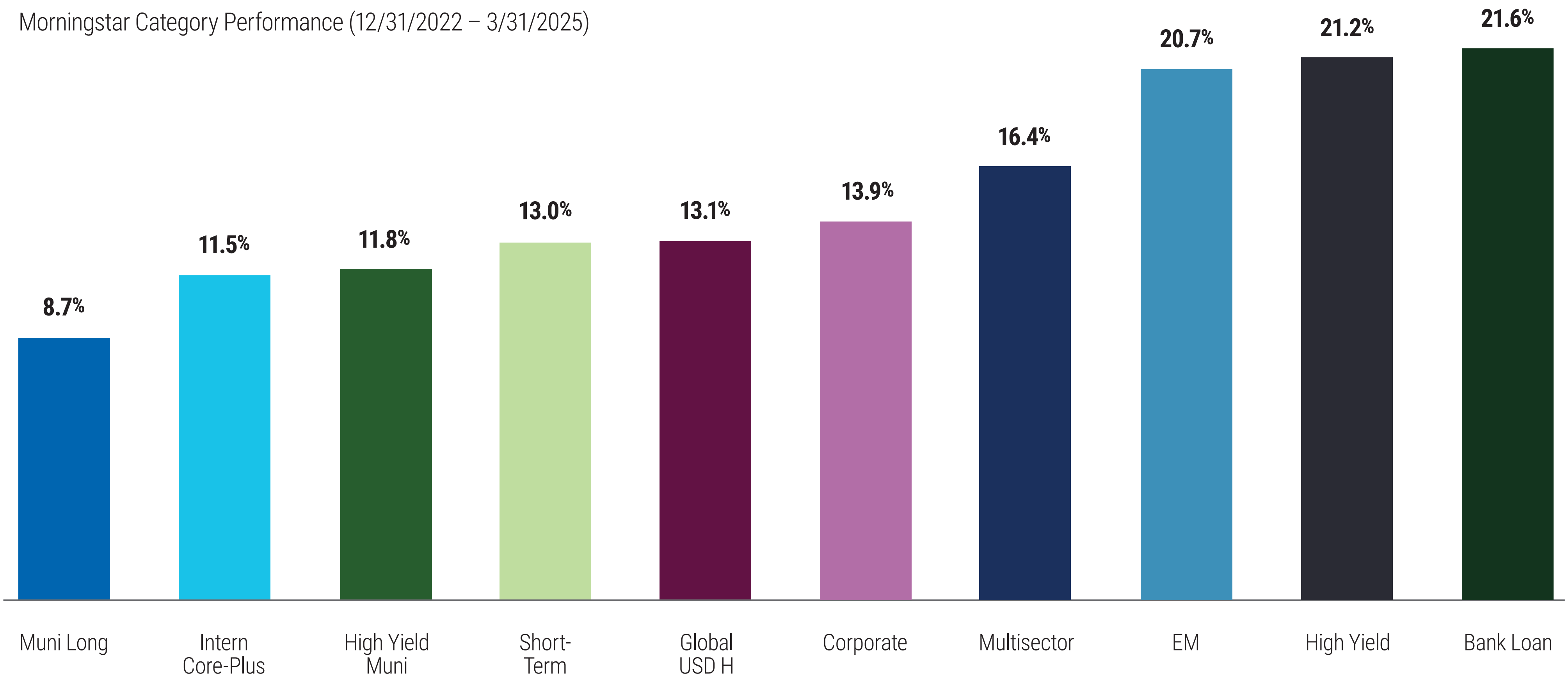

**Past performance is not a guarantee nor a reliable indicator of future performance.** Chart is provided for illustrative purposes and is not indicative of the past or future performance of any PIMCO product.
As of 31 March 2025. SOURCE: Bloomberg, PIMCO. Yield and return are for the Bloomberg U.S. Aggregate Bond Index. It is not possible to invest directly in an unmanaged index.
Refer to Appendix for additional correlation, index, investment strategy, outlook and risk information.

# Fixed Income Has Delivered Attractive Returns After Yields Reset Higher

**WHAT IT MEANS FOR INVESTORS**

Today's starting yields are similar to those offered at the beginning of this chart's period, indicating that investors could stand to benefit from attractive return potential across fixed income sectors. However, risk and returns across fixed income sectors can vary significantly so it is important to be diversified and active.

Morningstar Category Performance (12/31/2022 – 3/31/2025)



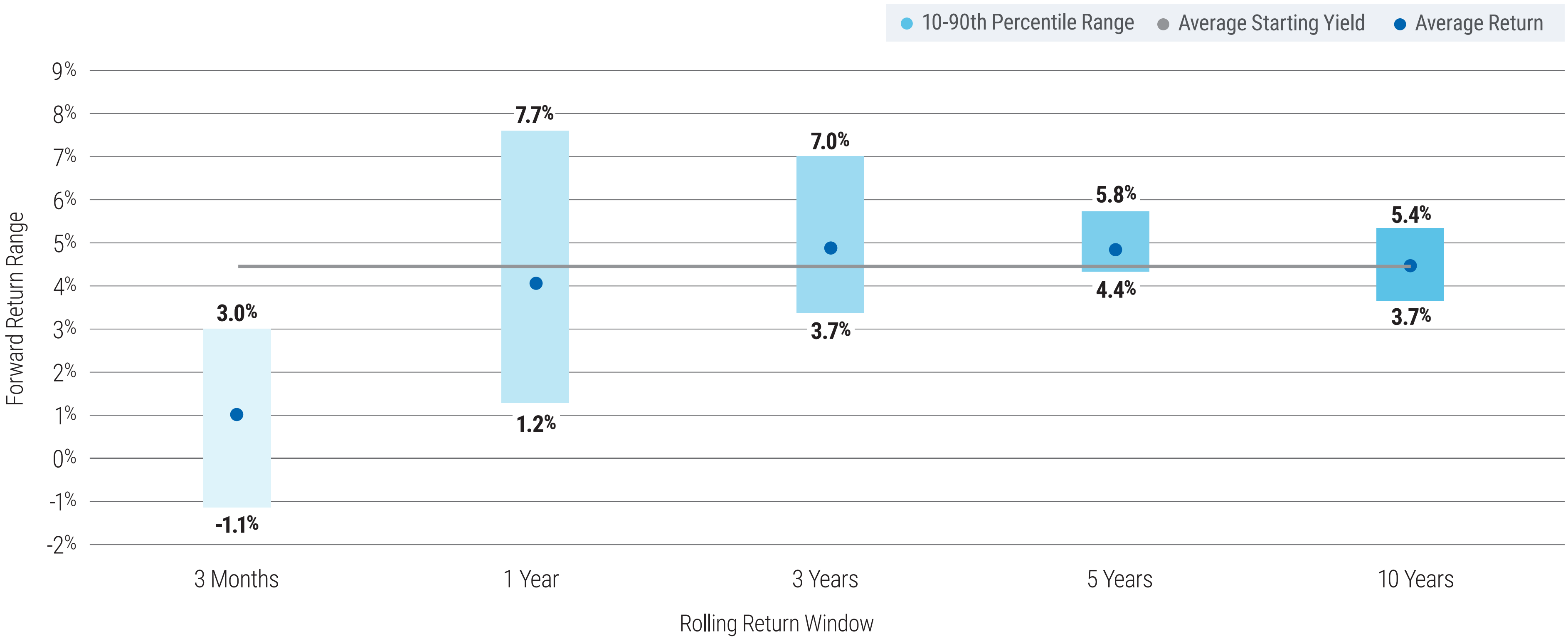

**Past performance is not a guarantee or a reliable indicator of future results.**
As of 31 March 2025. Source: Morningstar, PIMCO.
Cumulative performance is reflected
Refer to Appendix for additional forecast, index, Morningstar category, and risk information.

# Though Short-Term Returns Can Vary, Long-Term Returns Tend to Anchor on Starting Yields

**WHAT IT MEANS FOR INVESTORS**

Despite the potential for near-term volatility, data suggests that current yields more consistently reward patient, long-term fixed income investors with returns near their starting yields as their time horizon grows.

Bloomberg U.S. Aggregate Return Distribution when starting yields are between 4-5%




| Percentage of Rolling Periods with Positive Returns | | | | |
|---|---|---|---|---|
| 71% | 95% | 100% | 100% | 100% |

As of 31 March 2025; Source: Bloomberg, PIMCO.
**Past performance is not a guarantee nor a reliable indicator of future performance.**
Yield and return are shown for the Bloomberg U.S. Aggregate Bond Index since its inception.
Refer to Appendix for additional index and risk information.

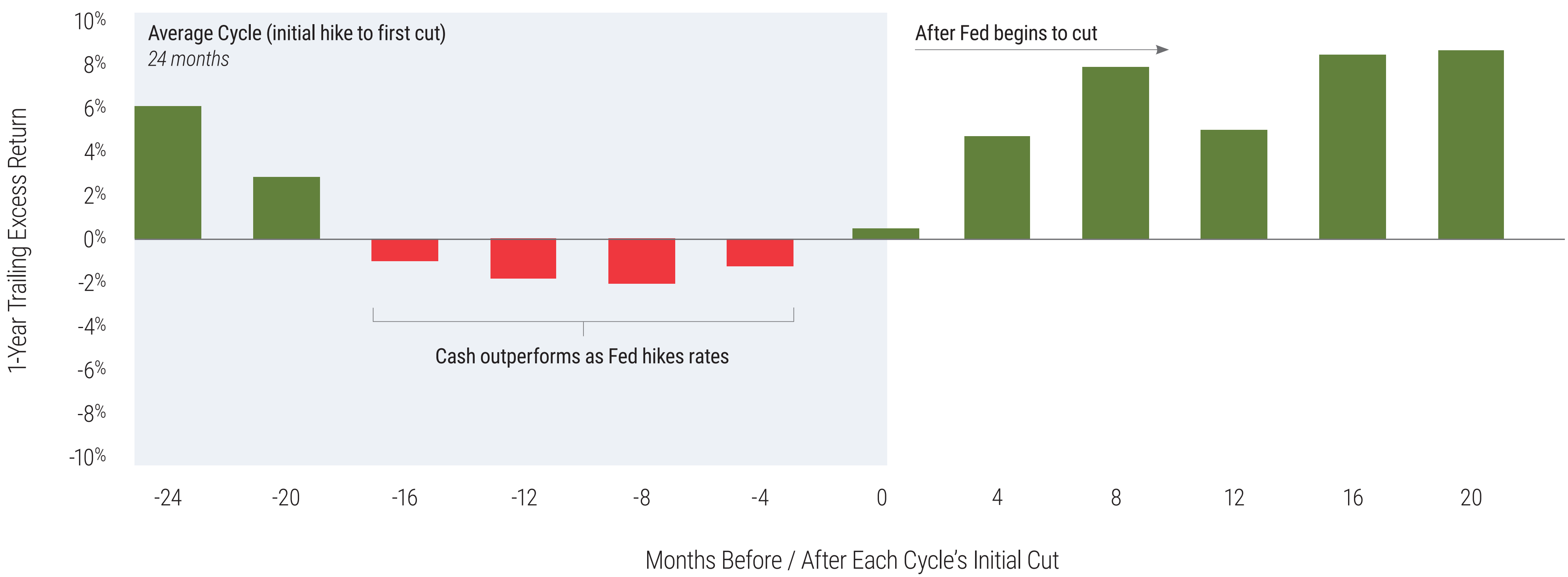
# Historically, Fixed Income Has Outperformed Cash Well After the Cutting Cycle Begins

**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-bills[1]*




As of 31 March 2025. SOURCE: Bloomberg, PIMCO. **Past performance is not a guarantee nor a reliable indicator of future performance.**

1 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). Cutting cycles start: 30 June 1981, 30 September 1984, 31 May 1989, 30 June 1995, 31 December 2000, 30 September 2007, and 31 July 2019.

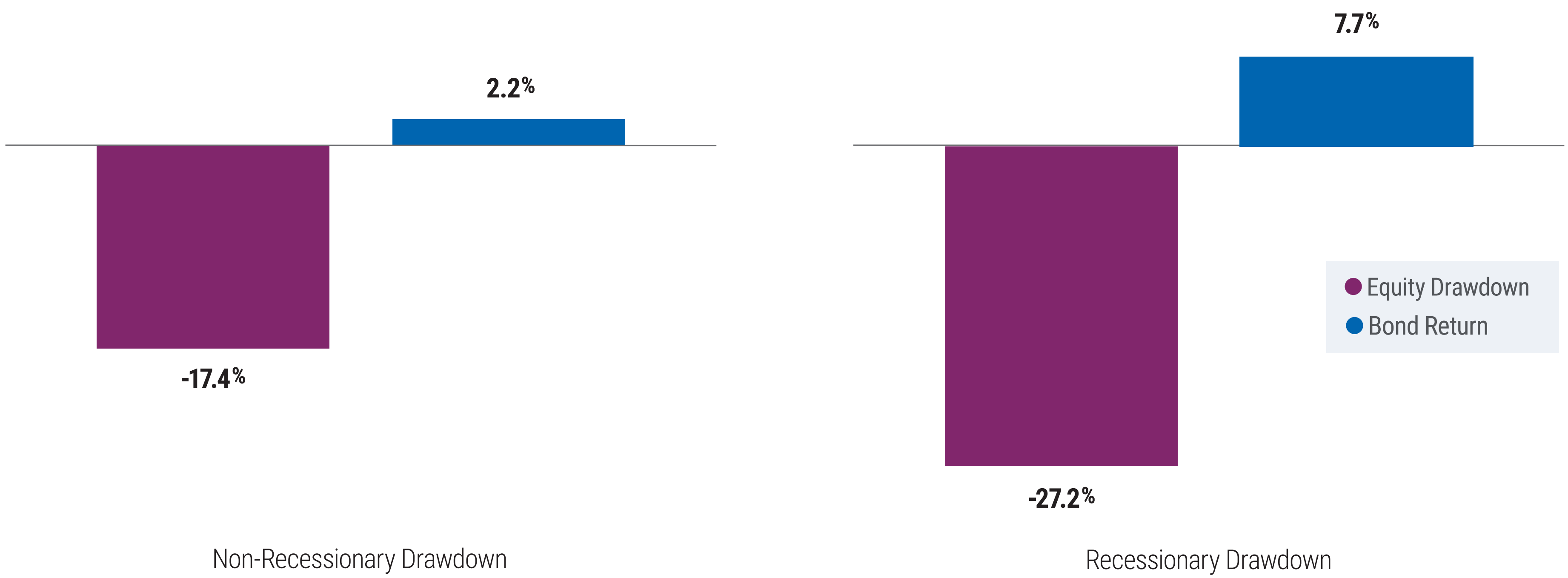
Refer to Appendix for additional forecast, index, outlook, and risk information.

# During Meaningful Equity Drawdowns, Bonds Delivered Positive Returns and Diversified to a Greater Degree During Recessions

**WHAT IT MEANS FOR INVESTORS**

Investors should consider bonds' defensive properties during periods of market stress irrespective of the growth environment.

Average Performance During Meaningful Equity Drawdowns



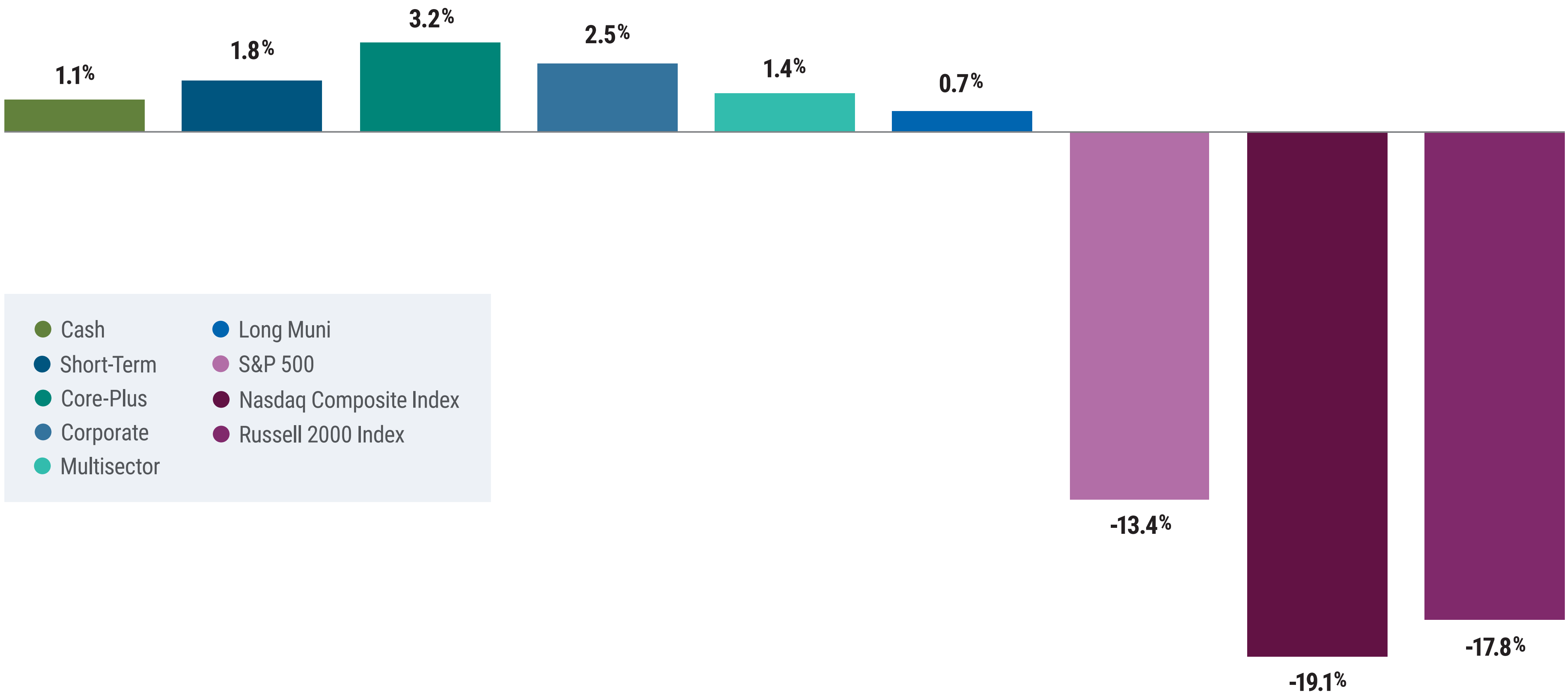

As of 31 March 2025. Source: PIMCO, Bloomberg, NBER. **Past performance is not a guarantee or reliable indicator of future results.**
Equities are represented by the S&P 500 Index and Treasuries are represented by the GFD 10 year Government Bond Total Return Index.
Drawdowns were classified as any drop larger than 12% relative to the previous peak. There were two drawdowns recorded during the 1973 recession. Monthly data was used as proxy for Treasury return and return was calculated based on the monthly peak to trough dates of drawdowns. We referred to the month end date immediately following the start of the market drawdown.
Refer to Appendix for additional index and risk information.

# Bonds Provided Diversification to Start 2025

**WHAT IT MEANS FOR INVESTORS**

In volatile equity markets, fixed income can bring stability and balance to a portfolio.

As U.S. equities have declined, bonds have delivered attractive returns




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

As of 4 April 2025. Source: Bloomberg, PIMCO.

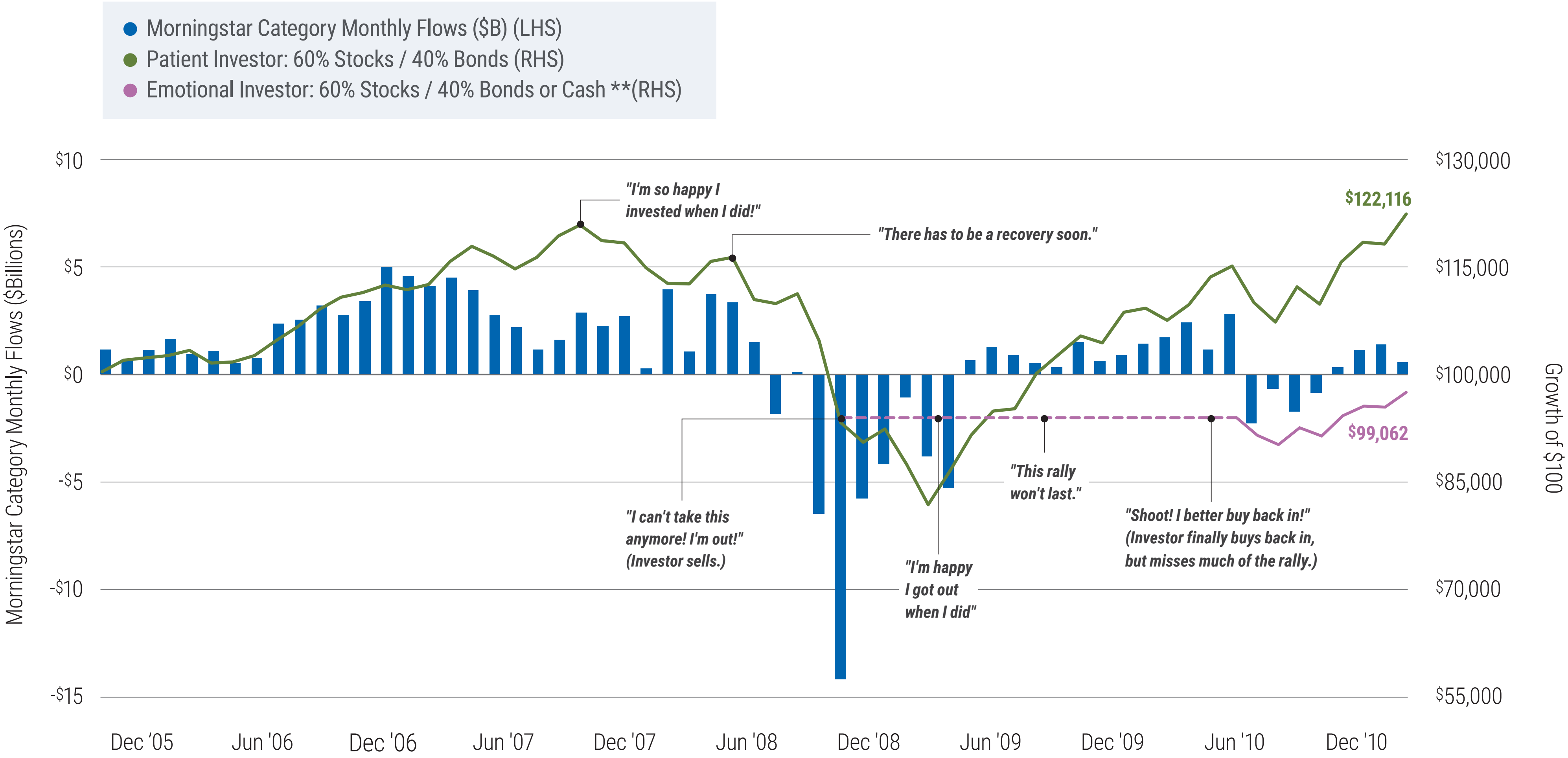
The S&P 500 Index peaked on 2/19/2025. The S&P 500 Index peak is defined as the highest closing value of the index which occurred on 19 February 2025. **Cash:** FTSE 3-Month Treasury Bill Index; **Short-Term:** Morningstar Short-Term Bond Category; **Long Muni:** Morningstar Municipal National Long Category. **Core Plus:** Morningstar Intermediate Core-Plus Category; **Multisector:** Morningstar Multisector Bond Category; **Corporate:** Morningstar Corporate Bond Category

Refer to Appendix for additional performance , hypothetical illustrations, index, Morningstar categories and risk information.

# Recent Returns Can Lead to Misbehavior, Partner With a Trusted Advisor

**WHAT IT MEANS FOR INVESTORS**

When markets are volatile and performance is weak, investors who remain invested may outperform those who sell out and try to time their re-entry.




January 2006 to December 2010. Source: Morningstar, Bloomberg, PIMCO

**For illustrative purposes only. Not indicative of the past or future performance of any PIMCO product.**

** Stocks are represented by S&P 500 Index. Bonds are represented by Bloomberg U.S. Aggregate Index. It is not possible to invest in an unmanaged index.

** These results are based on hypothetical modeling and are intended for illustrative purposes only. Emotional Investor is assumed to move to cash on 10/31/2008 and back to 60% Stocks /40% Bonds on 30 April 2010.

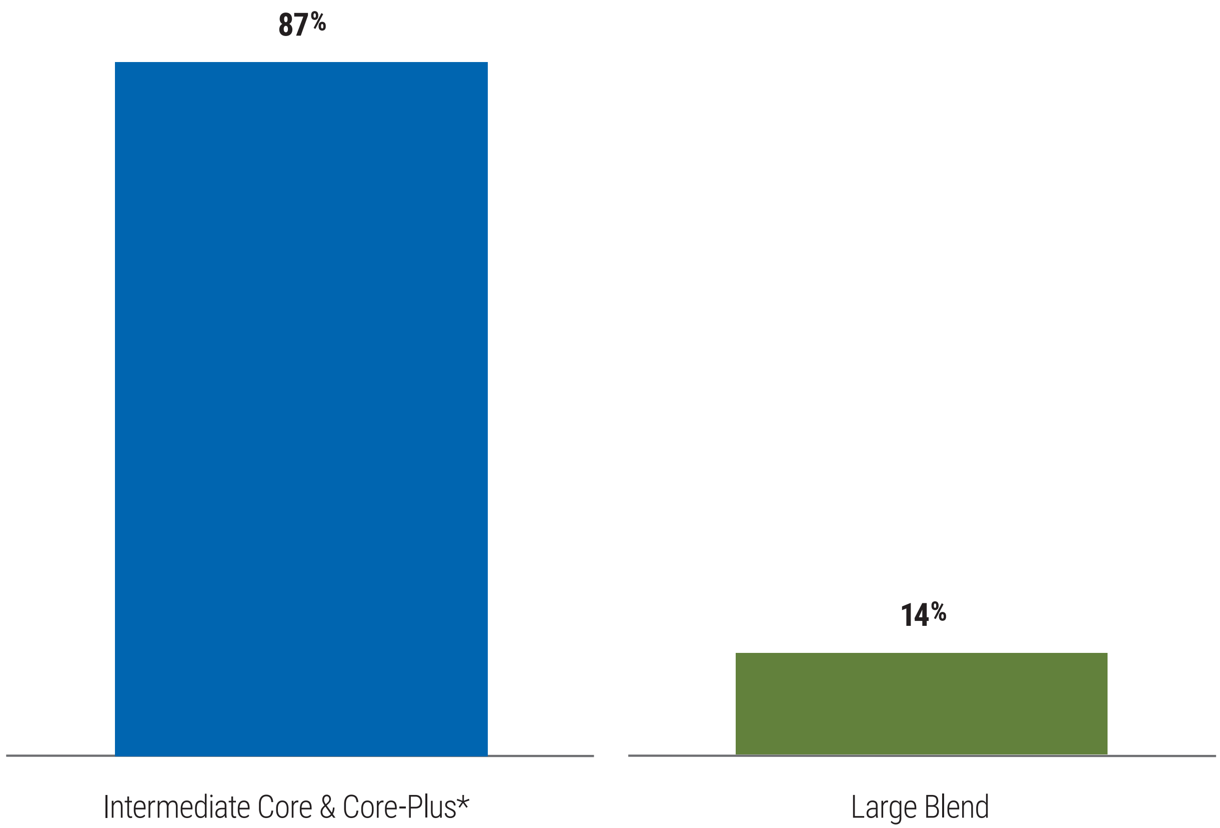
Refer to Appendix for additional hypothetical example, index, investment strategy and risk information.

# Bonds Are Different: The Active Advantage

**WHAT IT MEANS FOR INVESTORS**

While a passive approach may be sensible for equities, investors should consider active fixed income strategies, which have consistently delivered better outcomes than passive fixed income strategies.

Percentage of active funds within each category that outperform the median passive fund (10-year return)




**WHY ACTIVE BOND MANAGEMENT WORKS**

- Index replication is challenging in bond markets
- Bond index design may be suboptimal
- Many bond market participants do not seek to maximize profits

* Combines the Morningstar U.S. Fund Intermediate Core and Intermediate Core-Plus categories.

As of 31 March 2025. Source: Morningstar Direct and PIMCO. **Past performance is not a guarantee or a reliable indicator of future results**. Based on Morningstar U.S. ETF and U.S. Open-End Fund categories (institutional shares only). To avoid potential survivorship bias, we included funds and ETFs that were live at the beginning of each sample period but were liquidated or merged before the end of the period. Chart is provided for illustrative purposes and is not indicative of the past or future performance of any PIMCO product.

Refer to Appendix for additional investment strategy, Morningstar category and risk information.

# Bonds Are Different: The Active Advantage

Greater market complexity favors active management of bonds vs. Stocks

| Bond Market | Stock Market |
|---|---|
| **> 10,000**<br>Over 10,000 securities in the Bloomberg US Aggregate, a common bond index | **~500**<br>About 500 securities in the S&P 500, a common equity index |
| **20%**<br>Typical annual turnover for a bond index due to bonds maturing and new issuance | **1%**<br>Typical annual new issuance of equities in equity indexes |
| **Hundreds**<br>Number of potential outstanding bonds issued by a single company, with varying maturities and levels of seniority | **One**<br>Number of equity securities typically outstanding for most listed firms |
| **OTC**<br>Bonds trade over the counter (OTC). Parties negotiate prices, at less frequent intervals, with more limited pricing information | **Exchange**<br>Equities trade on markets with standardized terms on a continuous basis during the day, with pricing information broadly disseminated |
| **> 50%**[1]<br>Percent of bond market participants, such as central banks, who invest with goals other than profit-maximization | **~0%**<br>Few stock market investors seek goals other than profit-maximization |

Source: PIMCO, Bloomberg and S&P as of December 31 2024

1 Source: PIMCO, IMF, Federal Reserve Board, ECB, BOE, Yardeni, Eurostat, SIFMA, and NAIC as of December 2023, representing the latest data available.

Refer to Appendix for additional investment strategy and risk information.

# Definitions

**FED FUNDS RATE**

The interest rate the government charges banks to borrow money overnight. Raising and lowering this rate is a powerful tool the government uses to stimulate or dampen economic activity.

**CONSUMER PRICE INDEX (CPI)**

A weighted average price of a basket of goods and services, CPI is considered a measure of inflation.

**FIXED INCOME SECTORS**

The bond market is made up of numerous sectors, which are distinct parts of the market defined by their investment characteristics. These sectors include agency mortgage-backed securities (agency MBS), securitized credit, core, investment grade credit (IG credit), high yield credit (HY credit), emerging markets (EM), municipals (munis), high yield municipals (HY munis).

**10-YEAR U.S. TREASURY BONDS**

The 10-year Treasury is often used as a proxy for bond market in general.

**RATE HIKING CYCLE**

Periods where the Federal Reserve embarks on a sustained path of increasing the target fed funds rate. Hiking cycles include (start to peak): July ‘80 – May ‘81, Feb ‘88 – Aug ‘84, Feb ‘88 – March ‘89, Jan ‘94 – Feb ‘95, May ‘99 – May ‘00, May ‘04 – June ‘06 and Nov ‘15 – Dec ‘18.

**BLOOMBERG AGGREGATE BOND INDEX**

A broad-based fixed-income index used as a proxy for the bond market in general.

PADV_5562367