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Why yield matters – higher yields anchor return potential in a range of scenarios

Investors sitting in cash may want to consider fixed income

WHAT THE CHART SHOWS

Estimated 12-month total returns for various segments of the bond market under different yield environments, from a 3% decline to a 3% increase.

The red boxes show scenarios for negative returns, white boxes show flat returns and green boxes highlight positive returns.

WHAT IT MEANS FOR INVESTORS

A diversified bond portfolio (multi-sector column) can show resilience across the range of possible rate outcomes.

Similarly, investments in a broad market portfolio (i.e. US Agg) or investment grade municipals, offer comparable returns and higher return potential. If forecasts of falling rates are correct, these sectors could offer compelling return potential.

Scenario analysis by fixed income asset[1] Estimated 12-month total returns based on parallel yield shifts

Yield Change	T-bills	Ultrashort	Short-Term	Multisector	Core Plus	IG Muni	Long Treasury
-3.0%	3%	5%	11%	16%	22%	22%	64%
-2.0%	4%	5%	9%	13%	16%	15%	40%
-1.0%	5%	5%	7%	10%	10%	9%	20%
-0.5%	5%	6%	6%	8%	8%	6%	12%
Unchanged	5%	6%	5%	7%	5%	3%	4%
0.5%	6%	6%	4%	5%	3%	1%	-2%
1.0%	6%	6%	3%	4%	1%	-2%	-9%
2.0%	7%	7%	1%	1%	-3%	-7%	-20%
3.0%	8%	7%	-1%	-1%	-6%	-11%	-29%

SOURCE: Bloomberg, PIMCO as of 30 June 2024. **For illustrative purposes only. Figure is not indicative of the past or future results of any PIMCO product or strategy. There is no assurance that the stated results will be achieved.**

Treasury tenors correspond to an illustrative treasury bond with the stated maturity which matches the yield on the current treasury curve. **US Agg:** Bloomberg US Aggregate Index, **IG Muni:** Bloomberg Municipal Index, **Multisector:** Morningstar Multisector Bond Category Scenario analysis reviews the potential outcomes of scenarios where the yields on different bond maturities (or tenors) move in a parallel fashion (all moving the same amount) as specified in the table. Total returns are estimated by re-pricing key rate duration replicating portfolios of par-coupon bonds. Each investment is mapped to its key rate duration (estimated exposure to various maturities), which informs its level of interest rate sensitivity and reinvestment assumptions. All scenarios hold OAS constant. This approach helps estimate how changes in yields could potentially impact fixed income returns. No representation is being made that these scenarios are likely to occur or that any asset class or portfolio is likely to achieve profits, losses, or results similar to those shown. The scenario does not represent all possible outcomes and the analysis does not take into account all aspects of risk.

PUTTING IT ALL TOGETHER:

- Yields would likely need to raise upwards of 3% before losses are seen in Multisector Fixed Income
- There is apparent reinvestment risk at the front end of the curve. 3-Month Bills are the only security on the chart that experiences worse 12-month performance as rates shift lower
- Equity-Like returns are possible across a variety of exposures if yields fall by only 50 bps

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

A word about risk: All investments contain risk and may lose value. 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. **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. **Asset allocation** is the process of distributing investments among various classes of investments (e.g., stocks and bonds). It does not guarantee future results, ensure a profit or protect against loss.

Hypothetical illustrations have many inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve results similar to those shown. In fact there are frequently sharp differences between hypothetical results and actual results subsequently achieved by any particular trading program.

One of the limitations of hypothetical results is that they are generally prepared with the benefit of hindsight. In additional, hypothetical scenarios do not involve financial risk, and no hypothetical illustration can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or to adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation if any specific trading program which cannot be fully accounted for in the preparation of a hypothetical illustration and all of which can adversely affect actual results.

Statements concerning **financial market trends or portfolio strategies** are based on current market conditions, which will fluctuate. Different types of investments involve varying degrees of risk. 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. No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those shown.

Forecasts, estimates and certain information contained herein are based upon proprietary research and should not be interpreted as investment advice, as an offer or solicitation, nor as the purchase or sale of any financial instrument. Forecasts and estimates have certain inherent limitations, and unlike an actual performance record, do not reflect actual trading, liquidity constraints, fees, and/or other costs. In addition, references to future results should not be construed as an estimate or promise of results that a client portfolio may achieve.

Stress testing involves asset or portfolio modeling techniques that attempt to simulate possible performance outcomes using historical data and/or hypothetical performance modeling events. These methodologies can include among other things, use of historical data modeling, various factor or market change assumptions, different valuation models and subjective judgments. **Return assumptions** are for illustrative purposes only and are not a prediction or a projection of return. Return assumption is an estimate of what investments may earn on average over the long term. Actual returns may be higher or lower than those shown and may vary substantially over shorter time periods.

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. **Bloomberg Municipal Bond Index** consists of a broad selection of investment-grade general obligation and revenue bonds of maturities ranging from one year to 30 years. It is an unmanaged index representative of the tax-exempt bond market. The index is made up of all investment grade municipal bonds issued after 12/31/90 having a remaining maturity of at least one year. It is not possible to invest directly in an unmanaged index.

Morningstar Category Index: To create a model for active managers in each Morningstar Category Index PIMCO utilizes a multivariate regression of daily returns on active managers within each Morningstar Category Index versus its category benchmark over the last 10-years ending 30 June 2023 (updated annually) to create a risk model out of key risk factors which are statistically significant. Each risk model is a combination of the benchmark index and the active risk modeled measured described above. Yield for each category is provided by Morningstar as of the month-end stated. For the Multisector Bond and Non-traditional Bond Categories, we use the full category index given the limited passive funds in these categories and lack of appropriate category benchmark.

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