

Is now the time to move cash off the sidelines?

During the early stages of past Federal Reserve rate-hiking cycles, investors may have been rewarded for staying in cash, but once rate cuts begin, bonds historically beat cash.

Charting historical fixed income returns prior to and during cutting cycles

WHAT THE CHART SHOWS

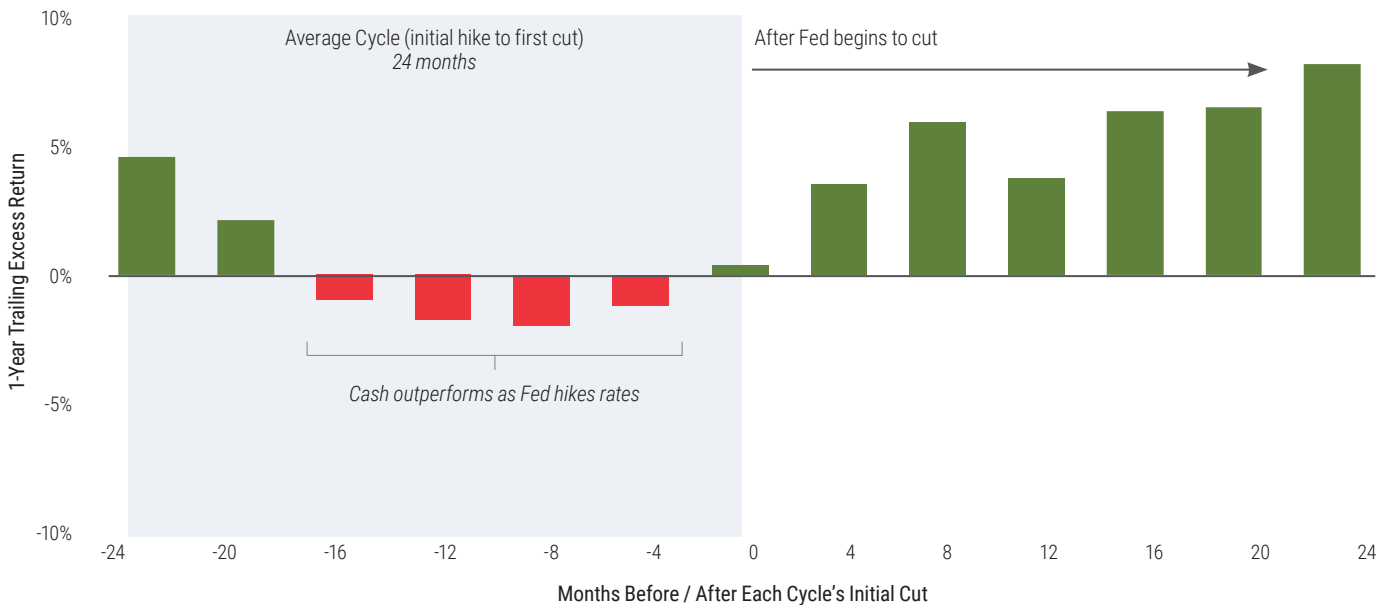
It shows how core bonds performed versus cash over the last seven rate-hiking cycles. Over a typical cycle, rates initially rise, and bonds underperform cash, as happened in 2022. But as the Fed begins to cut rates, fixed income portfolios start to outperform cash significantly.

WHAT IT MEANS FOR INVESTORS

Cash has historically underperformed core bonds as the Fed cuts the policy rate and for years afterward.

Difference in returns core bonds and cash

12-month trailing return of BBG US Aggregate Index vs. T-Bills¹



As of 31 August 2024. 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. **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.**

Cutting cycles are defined as periods where the Federal Reserve embarks on a sustained path of reducing the target Fed Funds rate and/or target range. We define the end of a cutting cycle as the month where the Fed begins reducing its peak policy rate for that cycle. 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. Returns across cutting cycles are averaged together to create summarized period.

Fixed income returns have been attractive following the first Fed rate cut

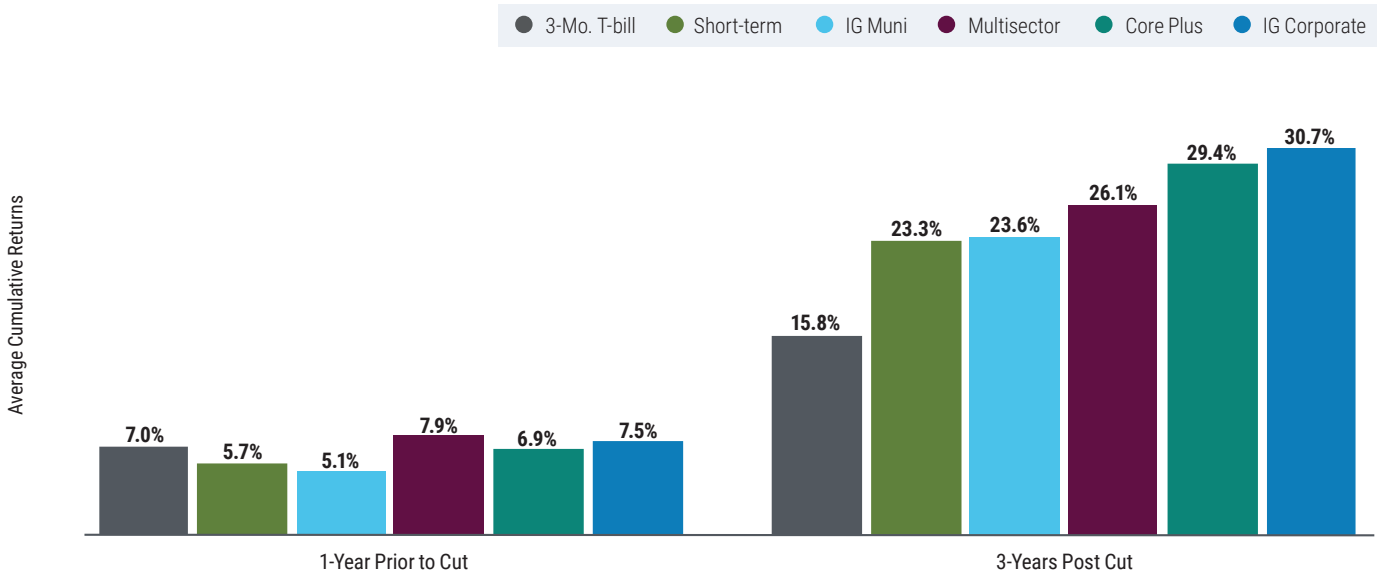
WHAT THE CHART SHOWS

It shows how cash and fixed income, on average, have similar returns in the 12-months leading up to the first rate cut. But a wide array of fixed income categories outperformed cash in the 36-months that followed.

WHAT IT MEANS FOR INVESTORS

Fixed income has delivered attractive returns across categories following the first Fed rate cut. Fed cutting cycles. Importantly, more interest-rate sensitive sectors like core plus have tended to see the attractive performance across cycles, on average.

Total returns across fixed income around initial Fed cuts



As of 31 August 2024. 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; IG Muni: Morningstar Municipal National Long Category; Core Plus: Morningstar Intermediate Core-Plus Category; Multisector: Morningstar Multisector Bond Category; Corporate: Morningstar Corporate Bond Category. Cutting cycles are defined as periods where the Federal Reserve embarks on a sustained path of reducing the target Fed Funds rate and/or target range. We define the end of a cutting cycle as the month where the Fed begins reducing its peak policy rate for that cycle. 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.

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.

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