

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.

1Q 2026



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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# PIMCO's Macroeconomic Outlook



## Inflation Near Target Despite Trade Policy

Tariffs lead to a one-time increase in prices that has been in part offset by corporations the past year



## Fragmented Growth

Tech investment likely to continue to support growth in the near-term; tax cuts will offer short-term support, though tariffs will remain a headwind



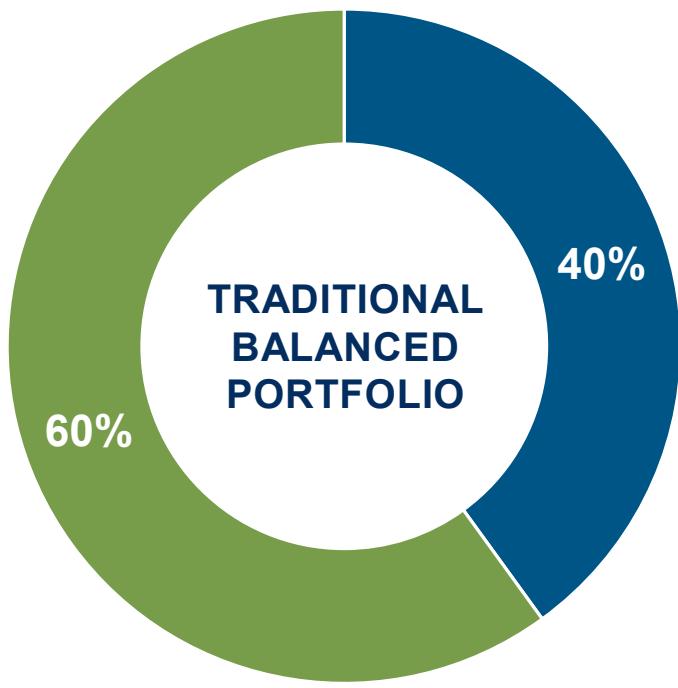
## Fiscal & Monetary Policy

Fed moves closer to neutral; limited scope for further fiscal support after Big Beautiful Bill passage

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



## Fixed Income Allocations May Offer Multiple Benefits to a Portfolio



### BENEFITS OF FIXED INCOME

#### 1 Income & Returns

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

#### 2 Diversification

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

#### 3 Preservation

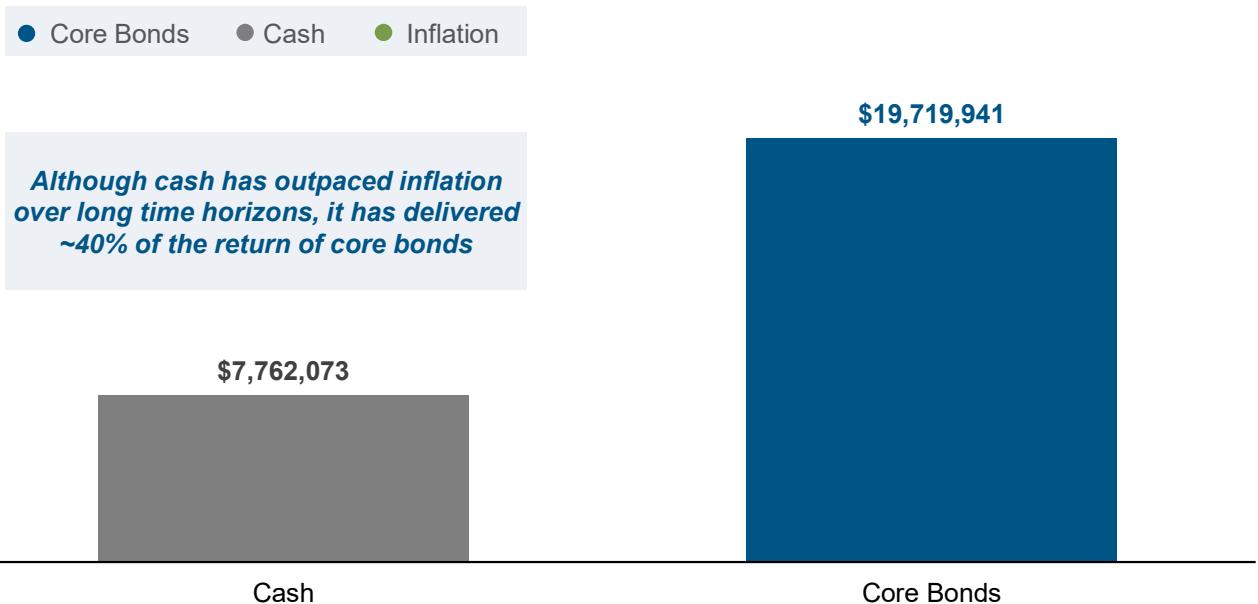
Barring default, the principal value of a bond is expected to be returned to the investor at maturity.

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



# Cash Trails Core Bonds Over the Long Haul

Growth of \$1,000,000 since 1977



Unlike cash, investing in the bond market is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. Bond investments may be worth more or less than the original cost when redeemed.

As of 31 December 2025. SOURCE: PIMCO. Past performance is not a guarantee nor a reliable indicator of future performance.

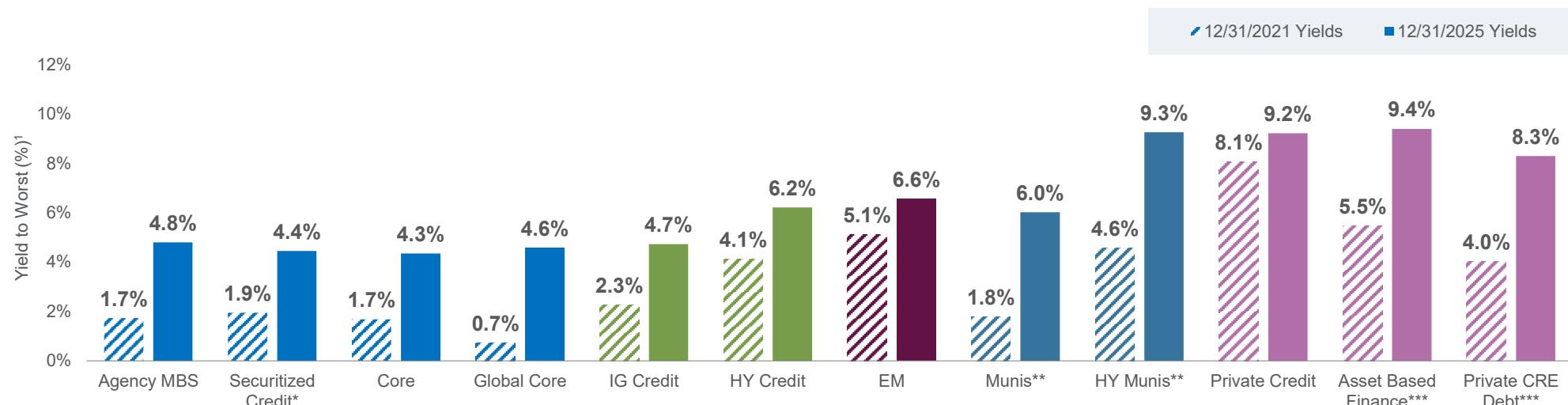
Assets are represented by the following indices: Cash (FTSE 3 Month Treasury Bill Index); Core Bonds (Bloomberg U.S. Aggregate Bond Index); Inflation (CPI SA Index). Performance is shown since the common inception date.

Refer to Appendix for additional index and risk information.



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

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



As of 31 December 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, Global Core: Bloomberg Global Aggregate ex-US Index (USD Hedged), 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; Asset Based Finance: Yield is based on the average unlevered loan yields as observed by PIMCO.

\* 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 3.6% with a change of 251bps compared to 12/31/2021 levels, the unadjusted HY Muni Index yield is 5.5% with a change of 277bps compared to 12/31/2021 levels.

\*\*\* Yields for Asset Based Finance and Private CRE Debt are as of 30 September 2025 and reflect the latest available data.

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.

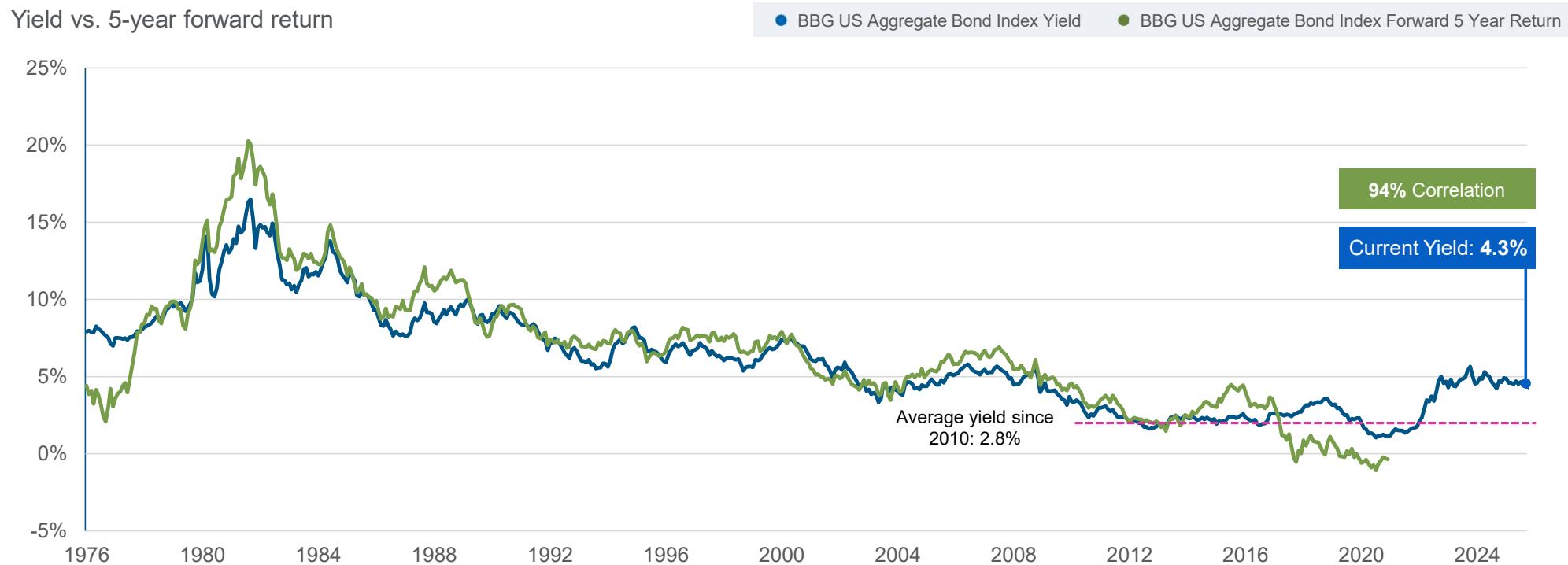
## WHAT IT MEANS FOR INVESTORS

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.

# Higher Returns Have Historically Followed Higher Starting Yields

## WHAT IT MEANS FOR INVESTORS

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



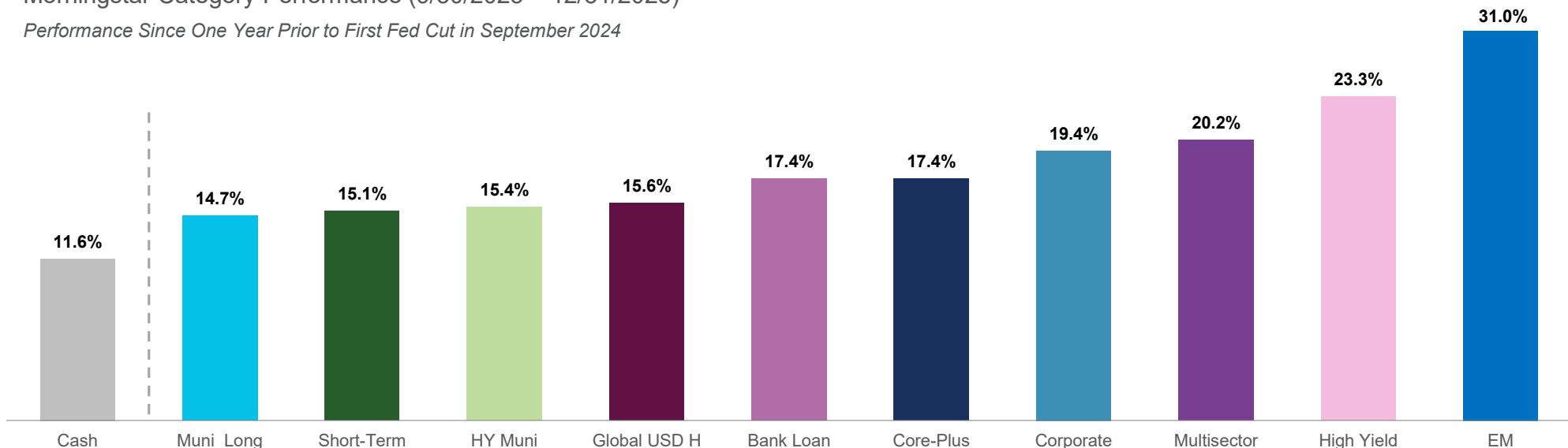
Past performance is not a guarantee nor a reliable indicator of future performance.

Chart is provided for illustrative purposes and is not indicative of the past or future performance of any PIMCO product. As of 31 December 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

Morningstar Category Performance (9/30/2023 – 12/31/2025)

Performance Since One Year Prior to First Fed Cut in September 2024



As of 31 December 2025. Source: Morningstar, PIMCO. Past performance is not a guarantee nor a reliable indicator of future performance.

Morningstar Categories represent the following US Morningstar Categories: Muni Long (Municipal National Long Category); Core-Plus (Intermediate Core-Plus); HY Muni (High Yield Municipal); Short-Term (Short-Term Bond); Global USD H (Global Bond-USD Hedged); Corporate (Corporate Bond); Multisector (Multisector Bond); EM (Emerging Markets Bond); High Yield (High Yield Bond); Bank Loan (Bank Loan). Cash is represented by the FTSE 3 Month Treasury Bill Index.

The exhibit above seeks to illustrate the performance across various fixed income Morningstar categories from one year prior to the first fed cut to today, which is defined as the period beginning 30 September 2023 through 31 December 2025.

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

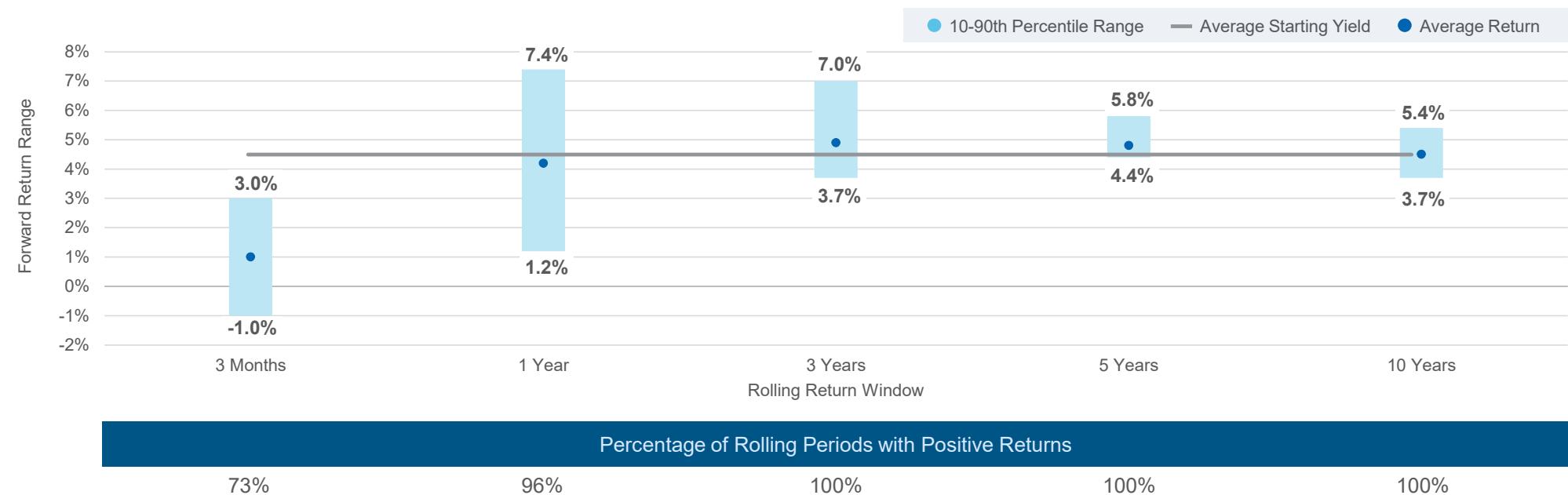
## WHAT IT MEANS FOR INVESTORS

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.



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

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



As of 31 December 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

## WHAT IT MEANS FOR INVESTORS

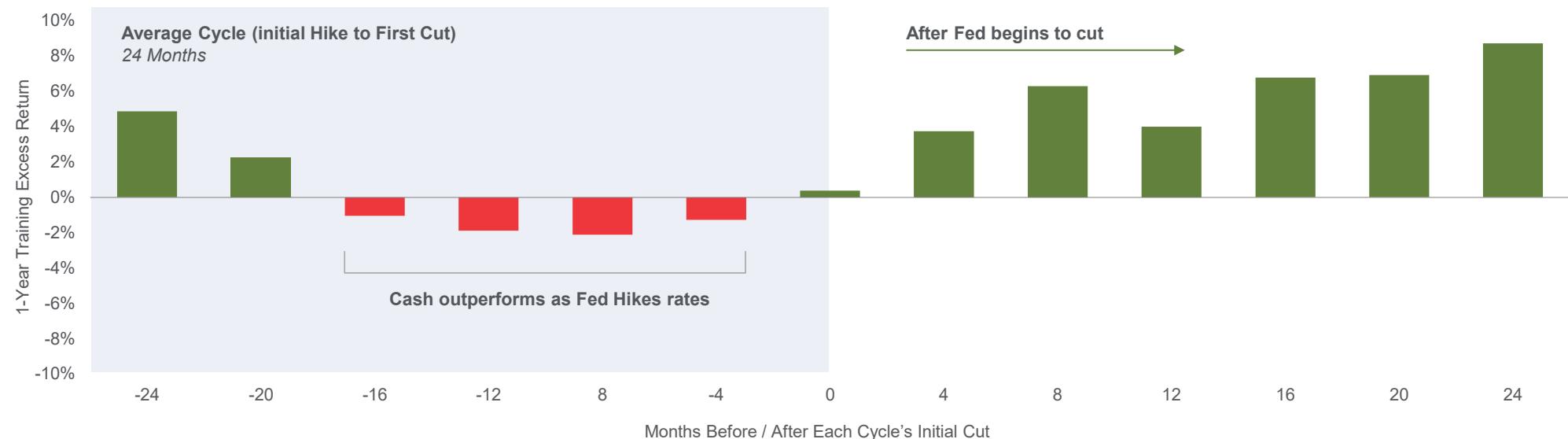
Despite the potential for near-term volatility, data suggests that current yields more consistently reward patient, long-term fixed income investors with returns near their starting yields as their time horizon grows



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

## Fixed income performance across interest rate cycles

12-month trailing return: BBG US Aggregate vs. T-bills<sup>1</sup>



As of 31 December 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.

## WHAT IT MEANS FOR INVESTORS

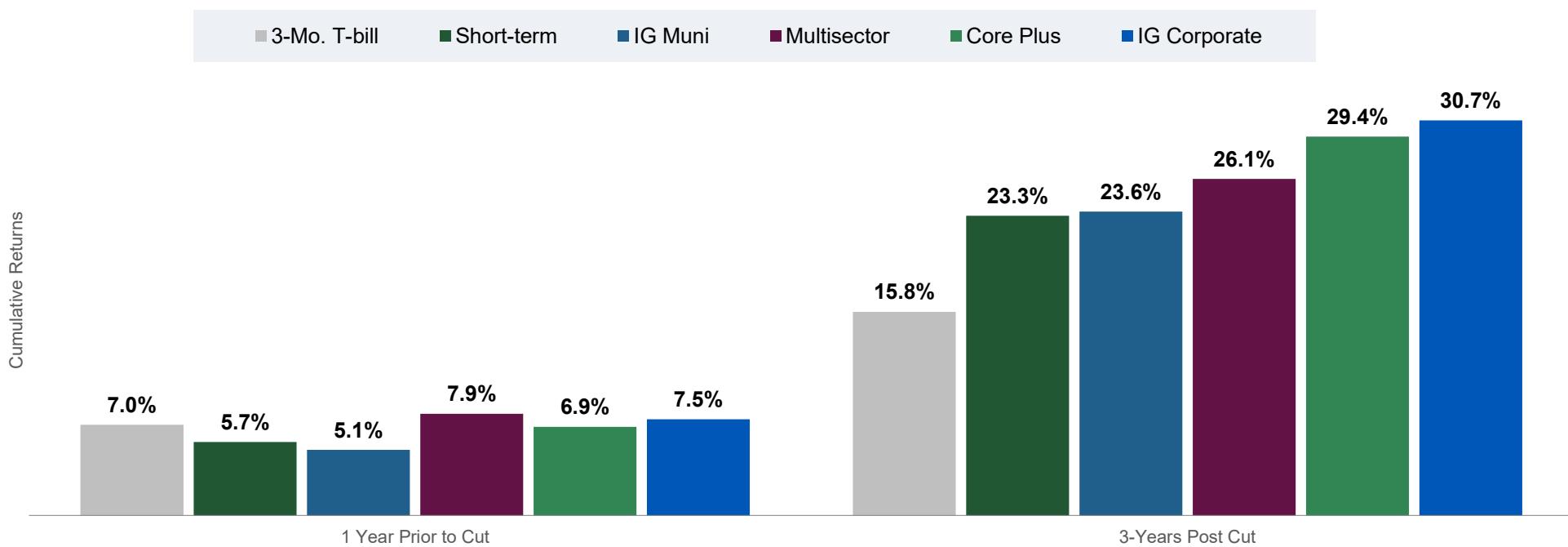
At this point in interest rate cycles, bonds have tended to outperform cash. Declining rates have historically supported fixed income performance while also eroding cash returns.



# Many Fixed Income Sectors Historically Outperform Following Fed Cuts

## WHAT IT MEANS FOR INVESTORS

Investors with elevated cash allocations should consider the return potential of other fixed income exposures going forward.

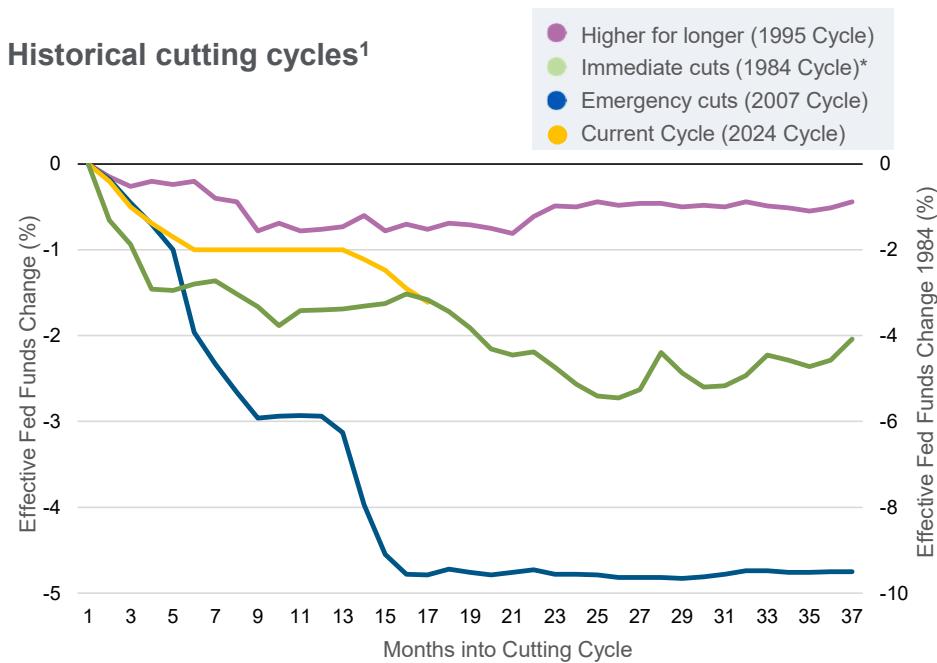


As of 31 December 2025. SOURCE: PIMCO, Morningstar, Bloomberg. **Past performance is not a guarantee nor a reliable indicator of future performance.** T-Bills: FTSE 3-Month Treasury Bill Index; Short-Term: Morningstar Short-Term Bond Category; IG Muni: Morningstar Municipal National Long Category; Core Plus: Morningstar Intermediate Core-Plus Category; Multisector: Morningstar Multisector Bond Category; Corporate: Morningstar Corporate Bond Category  
Cutting cycles 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 index, Morningstar category, outlook, and risk information.



# Bonds Historically Outperform Cash Even if Cash Rates Remain Higher for Longer, but to a Greater Degree if Rates Fall

## Historical cutting cycles<sup>1</sup>



As of 31 December 2025. SOURCE: Bloomberg, PIMCO. Past performance is not a guarantee or a reliable indicator of future results.<sup>1</sup> We select three historical case studies to illustrate three very different outcomes for the path of the Fed Funds rate after rates hit their peak level in each cycle.

Cutting cycles start: 30 September 1984, 30 June 1995, and 30 September 2007. The starting Fed Funds rate for each cycle was: 6.0% (June 1995); 11.3% (September 1984); 4.9% (September 2007); 5.3% (August 2024).

\*The 1984 cycle is shown on the secondary axis (LHS) to show proportionate yield moves given the significantly higher starting rates versus other cycles.

Cash: 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.

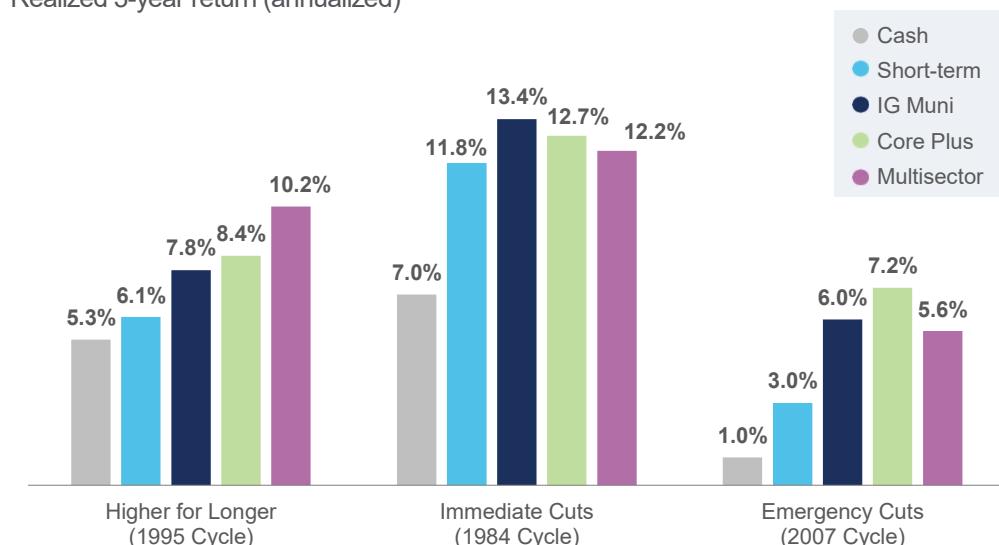
Refer to Appendix for additional index, Morningstar category, outlook, and risk information.

## WHAT IT MEANS FOR INVESTORS

While the pace of further Fed cuts may be uncertain, history shows that even if rates stay higher for longer, like in '95, higher starting yields and capital appreciation supported traditional fixed income over cash.

## Falling yields supported fixed income performance relative to cash<sup>1</sup>

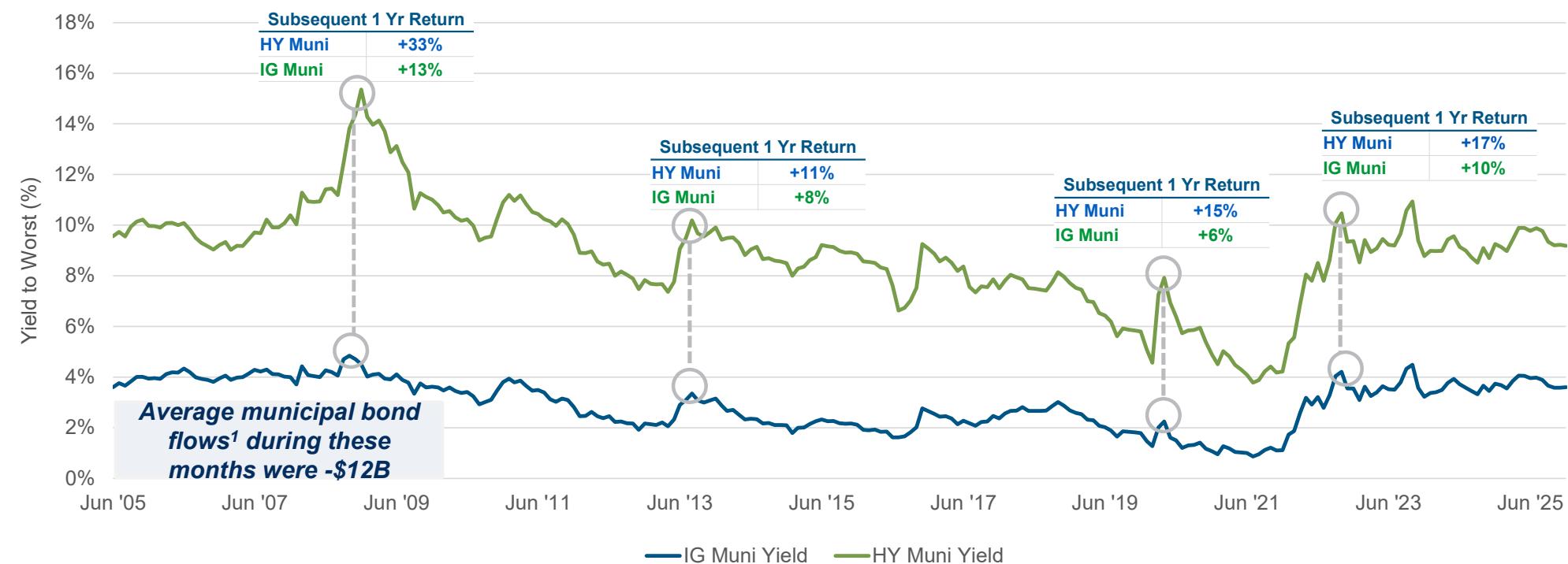
Realized 3-year return (annualized)



# Attractive Municipal Bond Yields Signal Opportunity

## WHAT IT MEANS FOR INVESTORS

While challenged performance has historically driven outflows from municipal bonds, elevated yields resulting from these episodes rewarded patient investors and delivered attractive returns going forward.



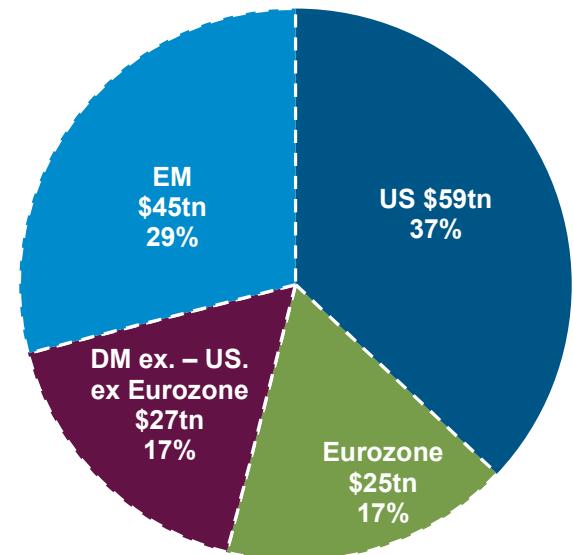
As of 31 December 2025. SOURCE: Bloomberg, PIMCO, Morningstar. Past performance is not a guarantee or a reliable indicator of future results. Performance periods longer than one year are annualized. Municipalities are represented by the Bloomberg Municipal Bond Index (IG Muni) and the Bloomberg High Yield Municipal Bond Index (HY Muni).

<sup>1</sup>Highlighted dates are 31 December 2008, 31 October 2013, 31 March 2020, and 31 October 2023 and are intended to illustrate returns following points in time when municipal bond yields reached local peaks. Morningstar categories used to represent municipal bond market flows are High Yield Muni, Muni National Short, Muni National Interim, and Muni National Long. Refer to Appendix for additional index and risk information.



# Going Global: Expanding into a Global Opportunity Set May Improve Diversification and Return Potential

Over 60% of the global bond market is outside the U.S  
Size (\$)



## WHAT IT MEANS FOR INVESTORS

Expanding from a domestic investment universe to a global one may enhance return potential by diversifying a portfolio's risk across a broader array of rate environments, growth dynamics, and credit profiles.

Annual Returns for Key Global Markets  
U.S. dollar basis\*  
(Ranked in order of performance)

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
10.89%	15.21%	5.25%	14.42%	8.92%	0.23%	-3.23%	12.70%	5.73%	19.26%
10.19%	9.32%	3.56%	13.47%	8.74%	-1.51%	-10.29%	10.45%	5.00%	13.45%
9.94%	3.58%	2.98%	9.40%	7.51%	-1.54%	-11.04%	9.14%	3.44%	7.30%
5.81%	3.54%	1.95%	9.02%	5.88%	-2.60%	-11.69%	7.37%	3.28%	5.52%
4.70%	2.92%	1.43%	8.98%	5.80%	-2.62%	-13.01%	6.36%	2.51%	4.07%
2.65%	2.82%	0.01%	8.72%	4.38%	-3.59%	-16.44%	6.25%	1.25%	3.76%
1.60%	2.68%	-4.61%	7.66%	2.69%	-4.62%	-16.45%	5.91%	-2.10%	2.75%
1.13%	1.86%	-6.21%	4.67%	0.22%	-8.75%	-21.86%	5.53%	-2.38%	-2.16%

As of 30 June 2025 (LHS) and 31 December 2025 (RHS). SOURCE: PIMCO, Haver, BIS. Past performance is not a guarantee or reliable indicator of future results.

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

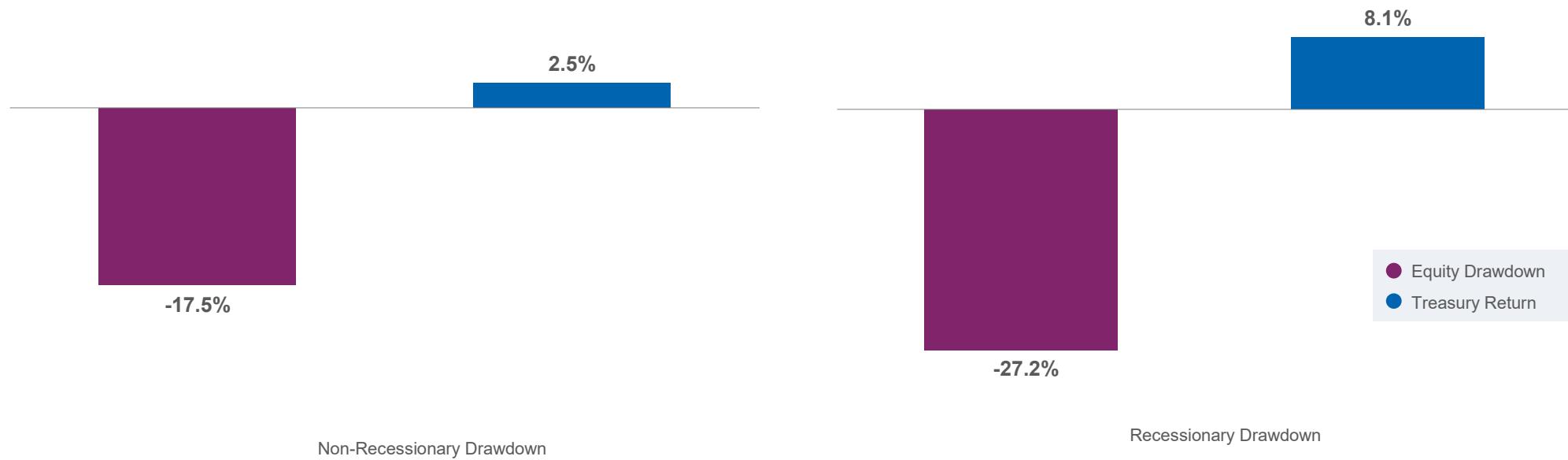
\*All indices on a U.S. dollar hedged basis, except for Local and External EM proxies.

United States represented by Bloomberg U.S. Aggregate Index, Eurozone represented by Bloomberg Pan-European Aggregate Index (USD-Hedged), Japan represented by Bloomberg Japanese Aggregate Index (USD-Hedged), Australia represented by Bloomberg Global Australian Aggregate Index (USD Hedged), Canada represented by Bloomberg Canadian Aggregate Index (USD-Hedged), Local EM represented by JPMorgan GBI-EM Global Diversified Index (Unhedged), External EM represented by JPMorgan EMBI Global Index, United Kingdom represented by Bloomberg Sterling Aggregate Index (USD-Hedged). Refer to Appendix for additional index, investment strategy and risk information.



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

## Average Performance During Meaningful Equity Drawdowns



As of 30 September 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. Treasuries are represented by the GFD 10 year Government Bond Total Return Index prior to 1990 and the S&P U.S. 10 Year Treasury Bond Index after 1990. 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 returns prior to 1990 and the 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. Trailing correlations are calculated between the treasury returns and equity returns for the three years trailing the peak.

Refer to Appendix for additional index and risk information.

## WHAT IT MEANS FOR INVESTORS

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

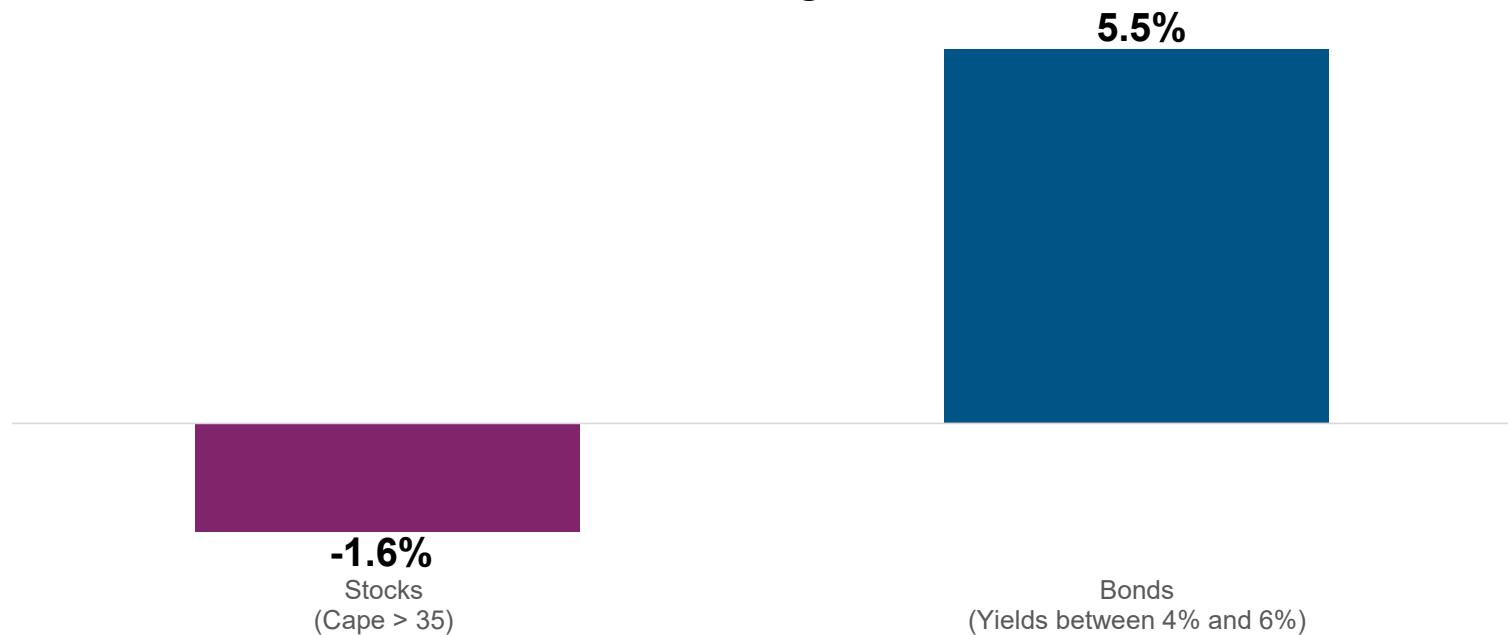


# From Current Valuations, Bonds Have Delivered Attractive Outcomes Relative to Stocks

## WHAT IT MEANS FOR INVESTORS

Bonds may offer investors more consistent, attractive outcomes than stocks going forward. From current valuations, median 5-year forward returns for bonds have been 5.5%, whereas the median 5-year forward return for stocks from current valuations has been negative

### Median 5Y Forward Returns from Starting Conditions

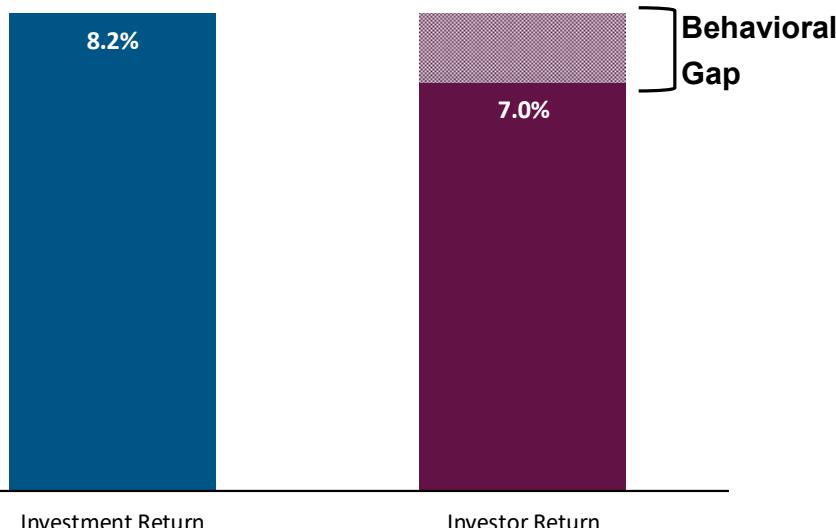


As of 31 December 2025. SOURCE: PIMCO, Bloomberg. **Past performance is not a guarantee or a reliable indicator of future results.** Chart uses data back to January 1973. Bonds refer to the Bloomberg U.S. Aggregate Index and stocks refer to the S&P 500 Index. CAPE refers to cyclically adjusted price-to-earnings ratio for the S&P 500. CAPE uses PIMCO calculations. There can be no guarantee that the trends mentioned above will continue. Statements concerning financial market trends are based on current market conditions, which will fluctuate. Refer to Appendix for additional index, outlook, and risk information



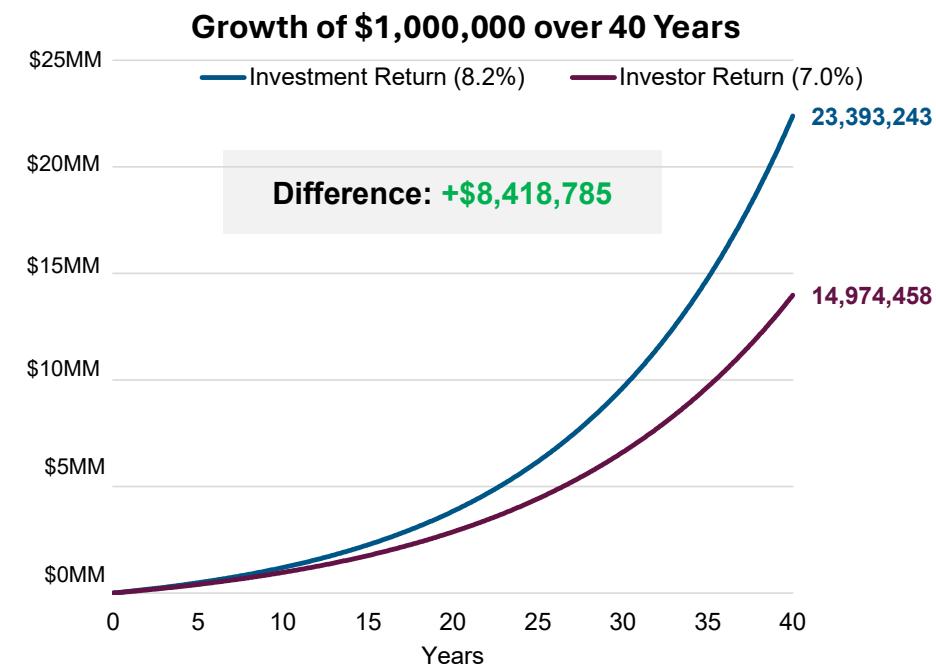
# The Cost of Misbehavior Can be Meaningful Over Time, Partner with a Trusted Advisor

Reported total returns vs. investor return  
(10-year period ended Dec. 31, 2024)



## WHAT IT MEANS FOR INVESTORS

Historically, investor misbehavior has led to lower returns, which becomes costly if this misbehavior persists. To reduce the potential for misbehavior, partner with a trusted advisor.



As of August 2025. Source: Morningstar Mind the Gap 2025 (August 13, 2025), PIMCO. For illustrative purposes only. Not indicative of the past or future performance of any PIMCO product. There is no assurance that the stated results will be achieved.

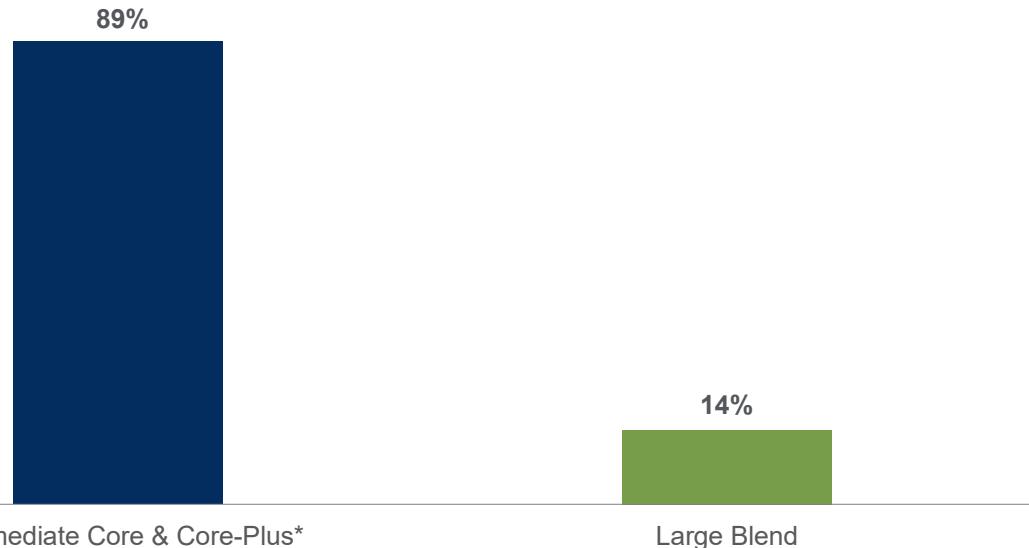
LHS Chart: The Morningstar study based on US Open-End Funds and ETFs (10 Years Ended Dec 31, 2024) and is designed to compare dollar-weighted internal rate-of-return calculations with time-weighted total returns to see how large the gap, or difference has been over time. In contrast to total returns, investor returns account for all cash flows into and out of the fund to measure how the average investor performed over time. RHS Chart: Hypothetical compounding example assumes contributions made on an annual basis and reinvested over 40 years using the Morningstar Mind the Gap 2025 study results shown on the LHS of this page.

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



# Bonds Are Different: The Active Advantage

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



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

As of 31 December 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.

## 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

## WHY ACTIVE BOND MANAGEMENT WORKS



Index replication is challenging in bond markets



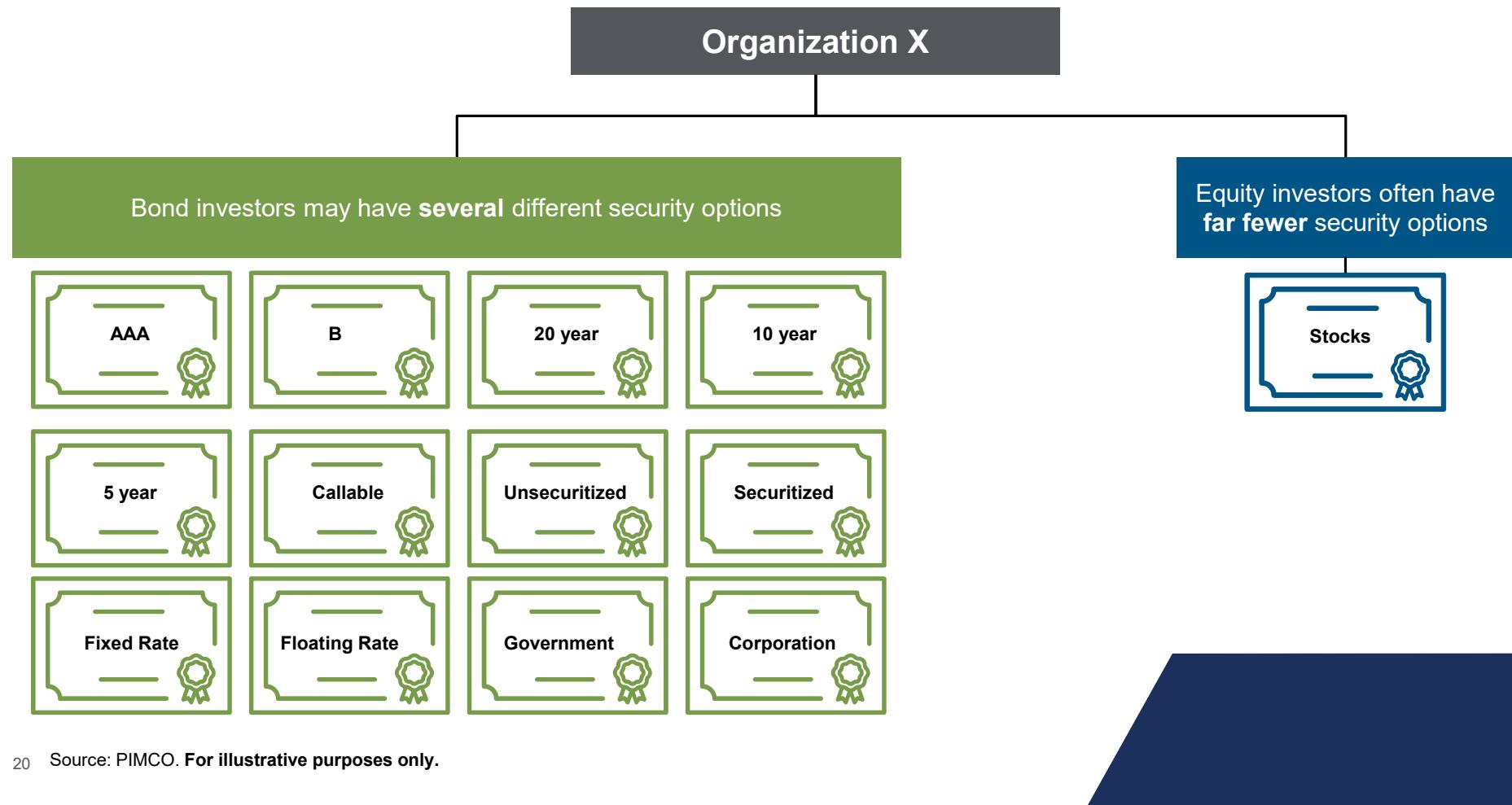
Bond index design may be suboptimal



Many bond market participants do not seek to maximize profits



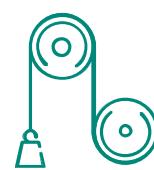
## Complexity in Fixed Income Markets Can Create Opportunities for outperformance



# Steps for Building Fixed Income Portfolios

## WHAT IT MEANS FOR INVESTORS

Investors should partner with their Financial Advisors on a thoughtful portfolio construction process.



### Step 1

Define the role of fixed income in a portfolio

### Step 2

Select opportunity set & guardrails

### Step 3

Use risk and return assumptions to inform positioning

### Step 4

Conduct risk factor & stress test analyses on proposed portfolios

### Step 5

Rebalance portfolio and evaluate managers regularly

## More to Explore From PIMCO



### Additional Insights

Visit [PIMCO.com](https://www.pimco.com) to learn more

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### Our Latest Views

Help your clients stay ahead with the Cyclical Outlook,  
Our 6-to-12-month view on the market and economy

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### Speak with our Experts

Reach out to your PIMCO representative to learn more about our  
research, views, and solutions

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

##### **CHART**

Performance results for certain charts and graphs may be limited by date ranges specified on those charts and graphs; different time periods may produce different results. Charts are provided for illustrative purposes and are not indicative of the past or future performance of any PIMCO product.

##### **CORRELATION**

**Correlation is a statistical measure of how two securities move in relation to each other.** The correlation of various indexes or securities against one another or against inflation is based upon data over a certain time period. These correlations may vary substantially in the future or over different time periods that can result in greater volatility.

##### **FORECAST**

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.

##### **HYPOTHETICAL EXAMPLE**

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 addition, 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 of 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.

##### **INDEX**

It is not possible to invest directly in an unmanaged index.

##### **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. 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.

##### **MORNINSTAR CATEGORIES**

###### **BANK LOAN**

Bank-loan portfolios primarily invest in floating-rate bank loans and floating-rate below investment-grade securities instead of bonds. In exchange for their credit risk, these loans offer high interest payments.

that typically float above a common short-term benchmarks such as Libor or SOFR.

###### **CORPORATE BOND**

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.

###### **EMERGING MARKET BOND**

Emerging-markets bond portfolios invest more than 65% of their assets in foreign bonds from developing countries. The largest portion of the emerging-markets bond market comes from Latin America, followed by Eastern Europe, Africa, the Middle East, and Asia make up the rest.

###### **HIGH YIELD BOND**

High-yield bond funds concentrate on lower-quality bonds, which are riskier than those of higher-quality companies. These portfolios generally offer higher yields than other types of portfolios, but they are also more vulnerable to economic and credit risk.

###### **INTERMEDIATE-TERM CORE BOND**

Intermediate-term core bond portfolios invest primarily in investment-grade U.S. fixed-income issues including government, corporate, and securitized debt, and hold less than 5% in below-investment-grade exposures.

###### **INTERMEDIATE-TERM CORE-PLUS BOND**

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.

###### **LARGE BLEND**

Large Blend portfolios are fairly representative of the overall U.S. stock market in size, growth rates, and price. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large cap. The blend style is assigned to portfolios

where neither growth nor value characteristics predominate. These portfolios tend to invest across the spectrum of U.S. industries, and owing to their broad exposure, the portfolios' returns are often similar to those of the S&P 500 Index.

###### **MULTISECTOR BOND**

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.

###### **MUNI NATIONAL LONG BOND**

Muni national long portfolios invest in bonds issued by various state and local governments to fund public projects. The income from these bonds is generally free from federal taxes. To lower risk, these portfolios spread their assets across many states and sectors. These portfolios have durations of more than 6.0 years (or average maturities of more than 12 years).

###### **SHORT-TERM BOND**

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 MCBI.

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###### **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 long-term, especially during periods of downturn in the market. Outlook and strategies are subject to change without notice.

###### **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. 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. 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 while generally supported by a government, government-agency or private guarantor, there is no assurance that the guarantor will meet its 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. **Diversification** does not ensure against loss. **Management risk** is the risk that the investment techniques and risk analyses applied by an investment manager will not produce the desired results, and that certain policies or developments may affect the investment techniques available to the manager in connection with managing the strategy.



## TAX

PIMCO does not provide legal or tax advice. Please consult your tax and/or legal counsel for specific tax or legal questions and concerns.

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## INDEX DESCRIPTIONS

**Bloomberg Global Aggregate ex-USD (USD Hedged) Index** provides a broad-based measure of the global investment-grade fixed income markets. The major components of this index are the Pan-European Aggregate and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds and Canadian Government securities.

**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 U.S. MBS Fixed-Rate Index** covers the mortgage-backed pass-through securities and hybrid ARM pools of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The MBS Index is formed by grouping individual fixed rate MBS pools into generic aggregates.

**Bloomberg Pan-European Aggregate Index (USD-Hedged)** is a broad-based flagship benchmark that measures fixed-rate, investment grade securities in the following European currencies: Swiss Franc, Czech Koruna, Danish Krone, Euro, British Pound, Hungarian Forint, Norwegian Krone, Polish Zloty, Romanian Leu, and Swedish Krona. The principal asset classes are treasuries, government related, corporate and securitized, which include Pfandbriefe, other covered bonds and asset-backed securities. Inclusion is based on currency denomination of a bond and not country of risk of the issuer.

**Bloomberg Japanese Aggregate Index (USD-Hedged)** contains fixed-rate investment-grade securities denominated in Japanese yen and registered as domestic bond. The index is composed primarily of local currency sovereign debt but also includes government-related, corporate, and securitized bonds.

**Bloomberg Global: Australia Aggregate Index (USD-Hedged)** The Bloomberg Australian Aggregate 300mn Index measures the investment grade, AUD-denominated, fixed-rate bonds with at least AUD300mn par amount outstanding. The index tracks bonds to their final maturity and includes treasuries, government related, corporate and securitized issues.

**Bloomberg Canadian Aggregate Index (USD-Hedged)** measures the investment grade, Canadian dollar-denominated, fixed rate, taxable bond market. The index includes treasuries, government-related, and corporate issuers.

**Bloomberg Sterling Aggregate Index (USD-Hedged)** measures the investment grade, sterling-denominated, fixed-rate bond market, including treasuries, government-related, corporate and securitized issues. Inclusion is based on the currency denomination of a bond, not country of risk of the issuer.

**J.P. Morgan 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.

**GFD Indices USA 10-Year Government Bond Total Return Index** tracks the performance of 10-year U.S. government bonds.

**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.

The **Bloomberg High Yield Municipal Bond Index** measures the non-investment grade and non-rated U.S. tax-exempt bond market. It is an unmanaged index made up of dollar-denominated, fixed-rate municipal securities that are rated Ba1/BB+/BB+ or below or non-rated and that meet specified maturity, liquidity, and quality requirements.

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.

**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.

**FTSE 3-Month Treasury Bill Index** is an unmanaged index representing monthly return equivalents of yield averages of the last 3 month Treasury Bill issues.

**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.

**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.

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