

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

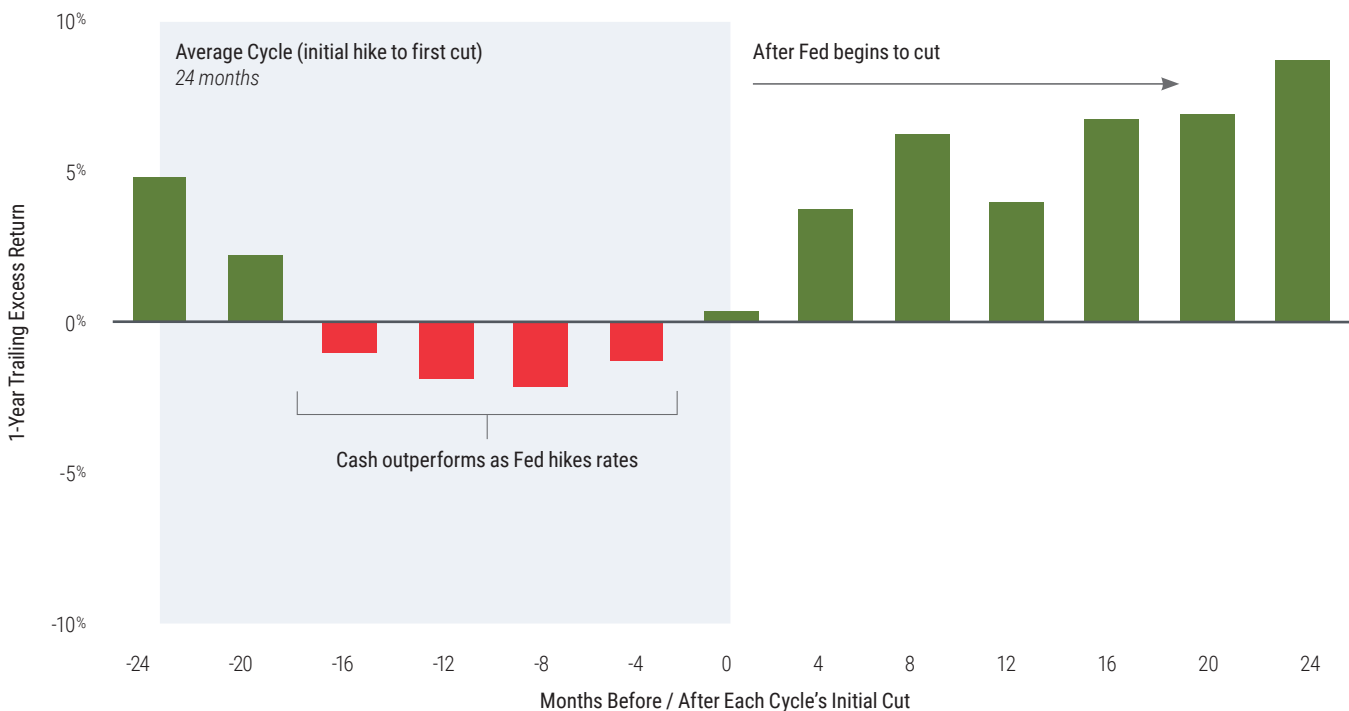
Trailing 12-month return on the BBG US Aggregate index compared to cash in months before and after the end of hiking cycles since 1980. Green (red) bars show outperformance (underperformance) versus cash.

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 31 December 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

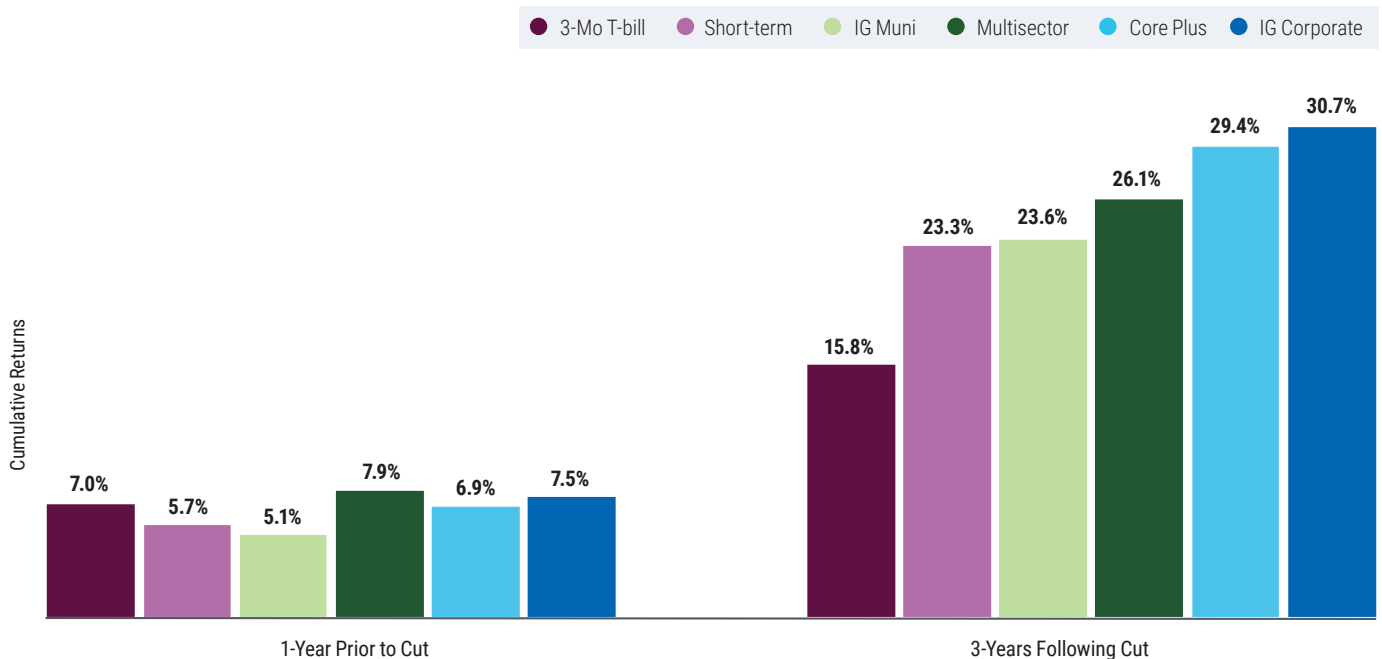
WHAT THE CHART SHOWS

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 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; 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).

