

PIMCO

# The Fixed Income Opportunity

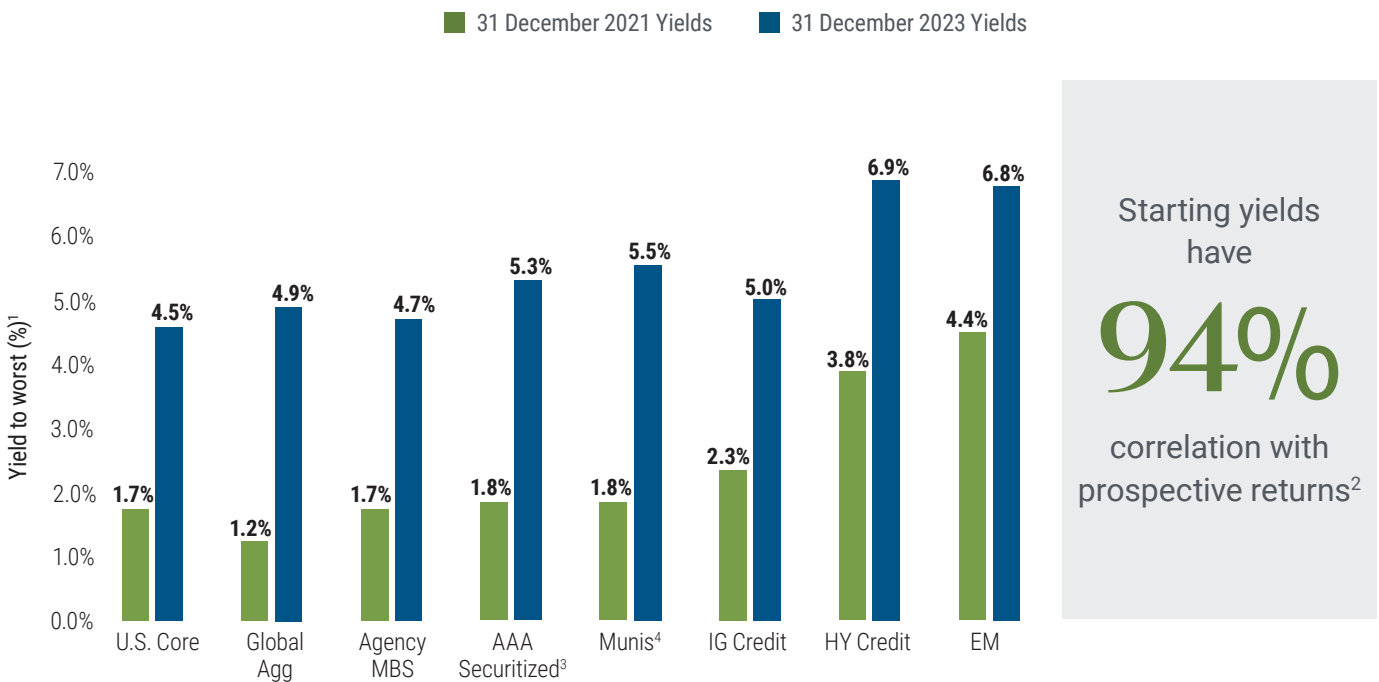
As of 31 December, 2023

# Higher Yields Today

Bond yields remained low for years, creating potential obstacles for investors looking for attractive yield and income. Today, investors have access to yields that are higher than they've been in years across a spectrum of fixed income sectors.

Importantly, higher starting yields have historically meant higher return potential for investors. In fact, starting yields historically have a 94% correlation with prospective returns. So, if you invest in a bond with a 4% yield today, over the long-term you may reasonably expect to earn approximately 4% average annual return on that bond.

## TODAY'S YIELDS ARE AT A MUCH HIGHER STARTING POINT



As of 31 December 2023. Source: Bloomberg, PIMCO.

Index proxies for asset classes displayed are as follows: Agency MBS: Bloomberg MBS Fixed Rate Index (incept: 1/30/76), Munis: Bloomberg Municipal Bond Index (incept: 1/30/80), U.S. Core: Bloomberg U.S. Aggregate (incept: 1/30/76), Global Agg: Bloomberg Global Aggregate USD Hedged (incept: 1/1/99), HY Credit: ICE BofA US HY BB-B Rated Index (incept: 12/31/96), EM: JPMorgan EMBI Global USD Hedged (incept: 12/31/93), IG Credit: Bloomberg US Credit Index (incept: 1/31/73).

- 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.
- Source: PIMCO; based on rolling 5-year returns of the BBG US Aggregate Index data from 1990-2022, calculated monthly.
- AAA-Securitized YTW computed as average of AAA CLOs, CMBS, and ABS from JPMorgan, Ice BofAML, and Barclays, respectively.
- Municipal yields are the taxable equivalent yield, adjusted by the highest marginal tax rate (40.8%). Unadjusted IG Muni index yield is 3.5% with a YTD change of 250 bps. Tax equivalent yield is intended for U.S. domiciled investors and is the return that a taxable bond would need to equal the yield on a comparable federal tax-exempt municipal bond.

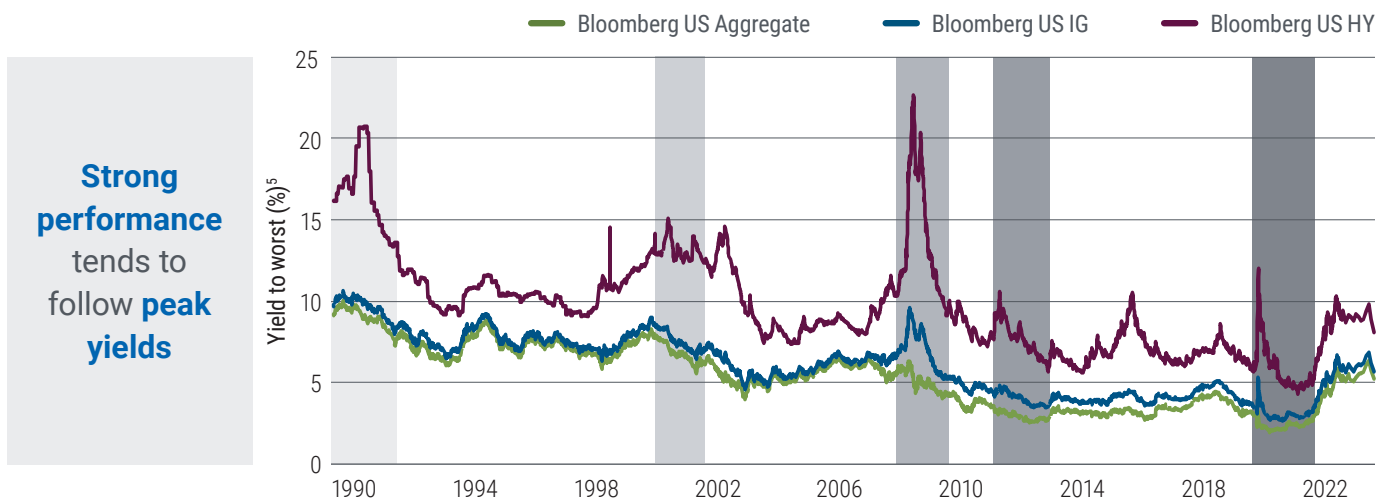
**Past performance is not a guarantee or a reliable indicator of future results.** Chart is provided for illustrative purposes and is not indicative of the past or future performance of any PIMCO product.

# Attractive Returns Tomorrow

Historically, bond yields have tended to peak toward the end of the business cycle – and when they do peak, attractive performance has typically followed.\*

The chart below shows what happened after bond yields peaked during the five most recent major market downturns. As you can see, both core and investment grade corporate bonds, as measured by their respective indexes, came roaring back a year after each peak, rewarding patient investors with attractive returns.

## PATIENT INVESTORS MAY BE REWARDED



Index/1-Year Forward Return (%)	1990's Bond Market Crash	Dot Com Bubble	Global Financial Crisis	2013 Taper Tantrum	COVID-19
<b>Bloomberg U.S. HY</b>	46.2	8.2	72.7	13.0	34.0
<b>Bloomberg U.S. IG</b>	15.4	15.7	31.1	9.5	16.4
<b>Bloomberg U.S. Aggregate</b>	15.2	14.5	13.8	6.3	4.3

As of 31 December 2023 Source: PIMCO, Bloomberg. **Past performance is not a guarantee or a reliable indicator of future results.**

\* Using BBG US Aggregate Index data 5 years forward

Max YTW dates are as follows **1990's Bond Market Crash:** US Agg/US IG: 26 April 1990; US HY: 29 January 1991; **Dot Com Bubble:** US Agg/US IG: 18 May 2000; US HY: 5 December 2000; **Global Financial Crisis:** US Agg/US IG: 31 October 2008; US HY: 12 December 2008; **Taper Tantrum:** US Agg/US IG: 5 September 2013; US HY: 25 June 2013; **COVID-19:** US Agg: 19 March 2020; US IG: 20 March 2020; US HY: 23 March 2020.

<sup>5</sup> 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.

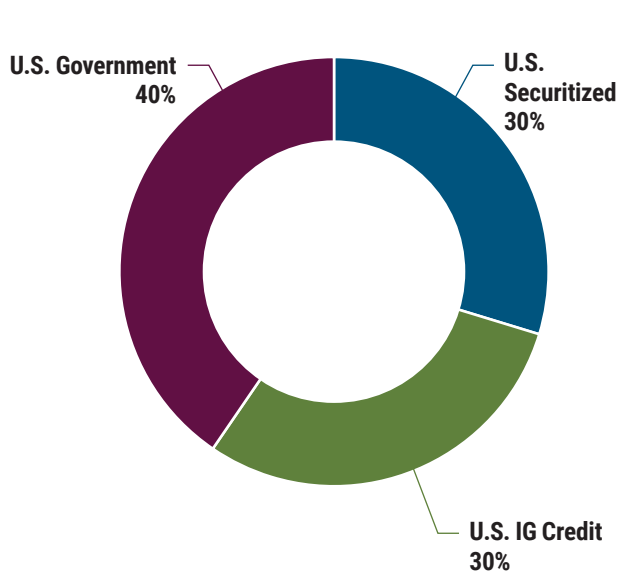
# Active Advantage: Broad Opportunity Set

The ability to access the broadest possible opportunity set gives active managers an edge in finding attractive securities across market environments.

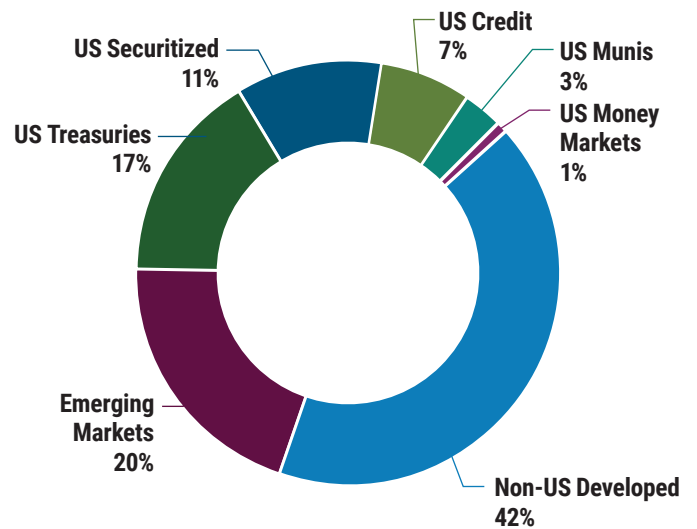
The charts below show the composition of the Bloomberg US Aggregate Bond Index (a broad-based bond index) versus the vast global bond market. As you can see, the index is predominately made up of three fixed income sectors, while the global bond market has a lot more to choose from.

## PASSIVE INDEXES MAY EXCLUDE SECTORS OF THE BOND MARKET THAT MAY OFFER ATTRACTIVE VALUE

Sector decomposition: BBG U.S. Aggregate



Sector decomposition: Global Fixed Income market\*



As of 30 June 2022 Source: Bloomberg, SIFMA 2022 Capital Markets Fact Book

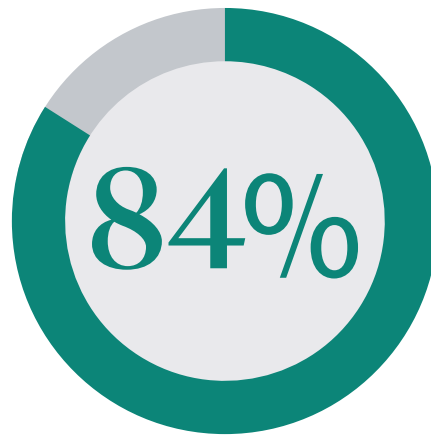
\*Non-U.S. Developed includes Japan, European Union, United Kingdom, Canada, Australia, and other developed markets. Emerging Markets include China, Hong Kong, Singapore, and other emerging markets. U.S. Securitized includes mortgage backed securities, agency backed securities, and other federal agency bonds.

# Active Advantage: Outperformance

Taking an active management approach that seeks to beat its benchmark, rather than a passive approach that just aims to track its benchmark, may offer the potential for attractive excess return.

You can see below that for 50+ years, we have worked relentlessly to help millions of investors pursue their objectives – regardless of shifting market conditions – and our track record helps illustrate the success of our active management approach.

## ACTIVE MANAGEMENT IN ACTION



**Percentage of PIMCO assets outperforming benchmarks over a 5-year period (after fees).<sup>15</sup>**

As of 31 December 2023; Source: PIMCO.

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<sup>15</sup> Based on PIMCO managed portfolios with at least a 5-years history. The after-fees performance of each portfolio was compared to the portfolio's primary benchmark. If the after-fees portfolio performance was greater than the benchmark performance for a given period, the assets in that portfolio were included in the outperforming data. Benchmark outperformance indicates the performance of a portfolio as compared to its benchmark. As such, it does not indicate that a portfolio's performance was positive during any given period. For example, if a portfolio declined 3% during a given period, and its benchmark declined 4%, the portfolio would have outperformed its benchmark, even though it lost value during the period. Certain absolute return oriented portfolios contained within the data may inflate the data either positively or negatively due to the low return/volatility characteristics of the primary benchmark. For example a portfolio measured against 3-month USD Libor would be more likely to out- or underperform its benchmark.

# The Pursuit of Better Outcomes

Discover how PIMCO's actively managed fixed income strategies can help you seek stronger outcomes.

Investors are typically looking to achieve a range of investment outcomes depending on their personal goals. PIMCO can help.

## MAP THE OUTCOMES BELOW TO YOUR CLIENTS' INVESTMENT GOALS



### Seek Attractive Income

Look to flexible bond strategies that provide attractive income potential while focusing on risk



### Mitigate Recession Risk

Target resiliency with core bond strategies that emphasize higher quality bonds across sectors and geographies



### Complement Your Core

Consider complementary strategies to boost the return and diversification potential of your core allocation



### Move Cash off the Sidelines

Seek additional return over cash, with a focus on mitigating volatility with modest additional risk



For information about our actively managed fixed income strategies – designed to help your clients navigate markets and reach their goals – please contact your PIMCO account manager

**IMPORTANT NOTICE:** Please note that this document 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.

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

**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. 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 their value may fluctuate in response to the market's perception of issuer creditworthiness; while generally supported by some form of government or private guarantee there is no assurance that private guarantors will meet their 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. **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. **Diversification** does not ensure against loss. **Investors should consult their investment professional prior to making an investment decision.**

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

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