PIMCO

Why Bonds and Tax Deferral Now?

Is now the time to move cash off the sidelines and into fixed income? We believe so. While cash has historically rewarded investors during the early stages of prior Federal Reserve (Fed) interest-rate hiking cycles, it has historically underperformed a diversified bond portfolio following peak policy rates – as may be the case today – and for long periods thereafter.

FIVE IDEAS TO HELP YOU CONSIDER PIVOTING FROM CASH TO BONDS:

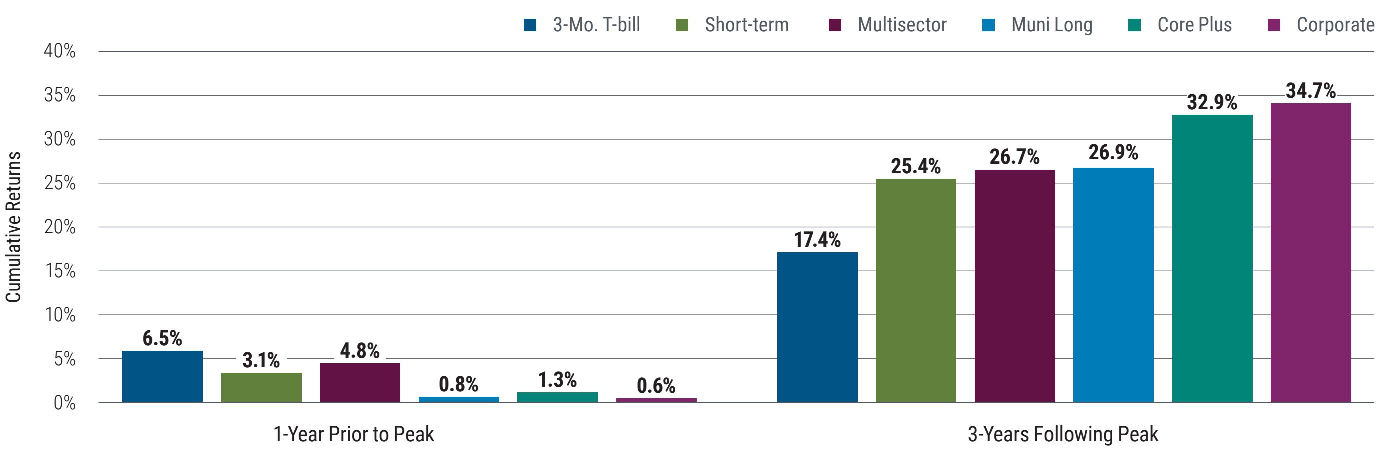
1. Consider bonds' potential outperformance versus cash around peak Fed policy rates
2. Use behavioral science to mitigate the impact of investor behavior on performance
3. Understand the anatomy of a hiking cycle
4. Take advantage of bonds' higher yields today and potentially attractive returns tomorrow
5. Implement tax deferral using annuities in an effort to maximize long-term returns

1 CONSIDER BONDS' POTENTIAL OUTPERFORMANCE VERSUS CASH AROUND PEAK FED POLICY RATES

The chart below shows cumulative returns 1-year before and 3-years after the end of past hiking cycles. Cash has outperformed initially in hiking cycles as rates rise; however, once they conclude outperformance across many fixed income sectors has historically been broad-based.

Fixed income performance across hiking cycles

Cumulative total returns of Morningstar Categories and T-bils



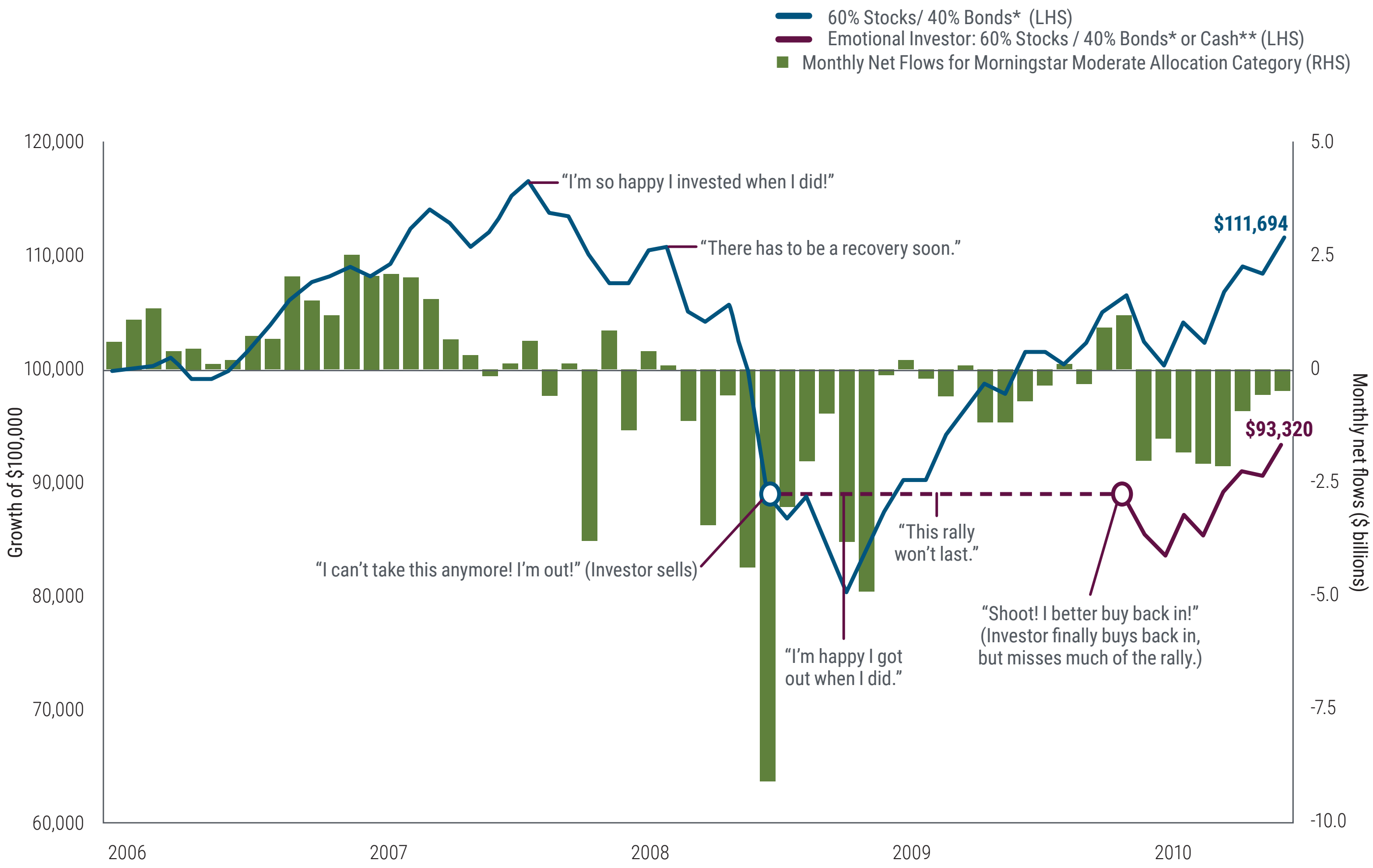
As of 31 March 2024. SOURCE: PIMCO, Morningstar, Bloomberg. **Past performance is not a guarantee nor a reliable indicator of future performance.** T-Bills: FTSE 3-Month Treasury Bill Index; Short-Term: Morningstar Short-Term Bond Category; Muni Long: Morningstar Municipal Long Category; Core Plus: Morningstar 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).

2 USE BEHAVIORAL SCIENCE TO MITIGATE THE IMPACT OF INVESTOR BEHAVIOR ON PERFORMANCE

Behavioral science can help advisors guide clients to make better investment decisions by understanding and mitigating human biases like recency bias. This bias, which is influenced by recent events, can lead investors to make poor choices based on short-term trends rather than historical data. For retirees, incorporating annuities into their financial plan can help counteract recency bias by providing a stable income, reducing the temptation to react to market fluctuations.

Investor's behavior and thoughts during a volatile market (2006–2010)



Sources: PIMCO

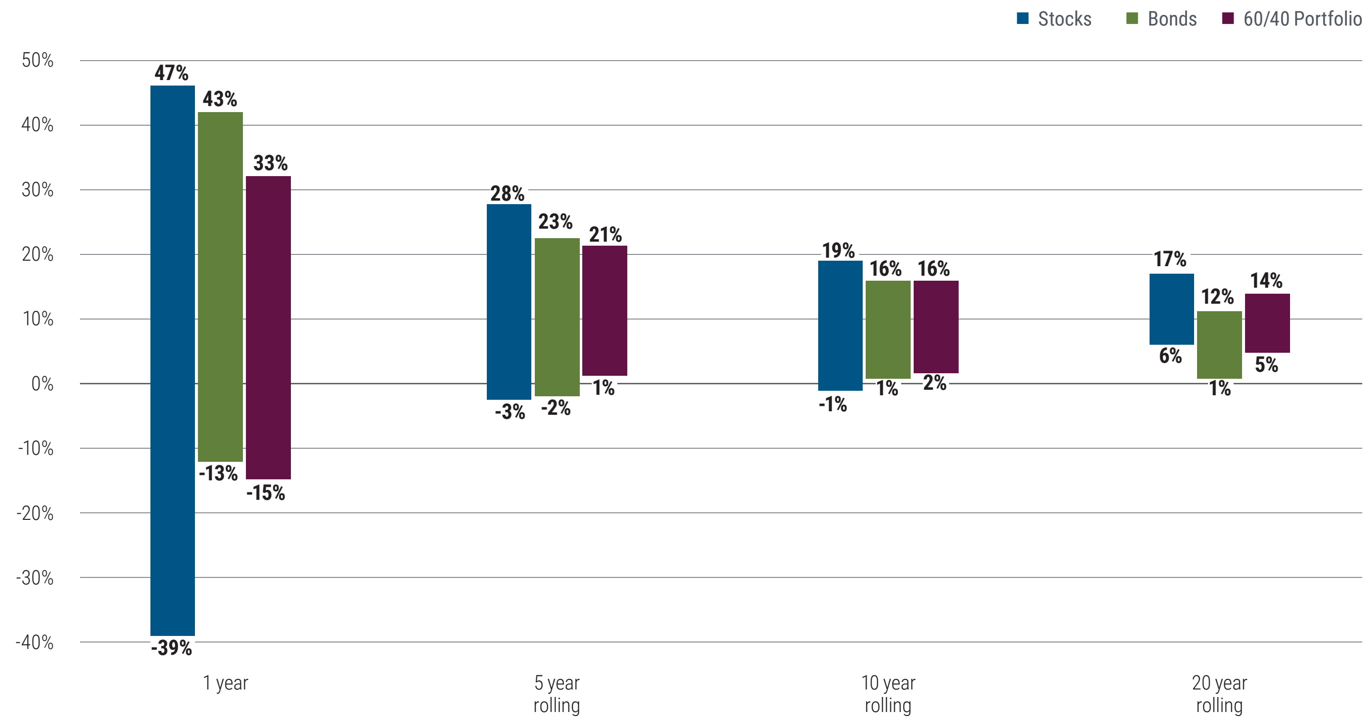
January 2006 to December 2010. Source: Morningstar, Bloomberg, PIMCO. Past performance is not a guarantee or a reliable indicator of future results. **For illustrative purposes only. Not indicative of the past or future performance of any PIMCO product.**

* Stocks are represented by S&P 500 Index. Bonds are represented by Bloomberg U.S. Aggregate Index. It is not possible to invest in an unmanaged index.

** These results are based on hypothetical modeling and are intended for illustrative purposes only. Emotional investor is assumed to move to cash on 10/31/2008 and back to 60% Stocks/40% Bonds on 4/30/2010.

By making the decision to stay invested over the long- term, investors are likely to have more stable and consistent outcomes.

Annual total returns, SPX Index:1950-2023 and Bloomberg Aggregate Index: 1976-2023



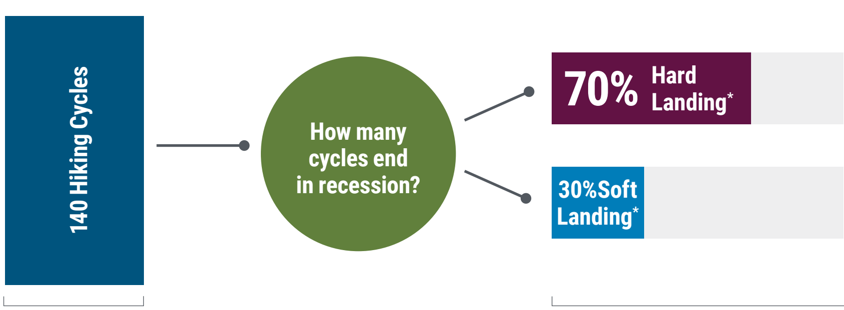
Source: Bloomberg, PIMCO

Returns shown are based on calendar year returns from 1950-2023 for stocks and 1976-2023 for bonds and 1976-2023 for 60/40. Stocks represent the S&P 500 (SPX Index) and Bonds represent the Bloomberg Aggregate Index.

Past performance is not a guarantee or a reliable indicator of future results. It is not possible to invest directly in an unmanaged index.

3 UNDERSTAND THE ANATOMY OF A HIKING CYCLE

Diversification is especially important during recessionary periods. As shown below, we estimate that core bonds have done relatively well in recessions, potentially cushioning the impact of the declines in high yield, equities, and commodities.



Post Peak Results[2] *3-years after peak*	**Hard***	**Soft***
Avg. Policy Rate Change	390 bps	140 bps
3yr. Estimated Equity Return	2.1%	11.0%
3yr. Estimated Bond Return	7.2%	6.7%
3yr. Estimated T-bill Return	2.0%	4.2%

Across 14 DM countries over +60-years[1]

Peaked inflation and rising unemployment signal we're approaching a period of rate cuts, mirroring historical central bank behavior.

As of 31 March 2024. SOURCE: Haver, PIMCO Calculations. **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.**

* Hard landing (recession) is defined as having at least 2 quarters of sequential economic contraction, which occurs at some point within 4-years of the start of a rate hiking cycle. Soft landings are everything else.

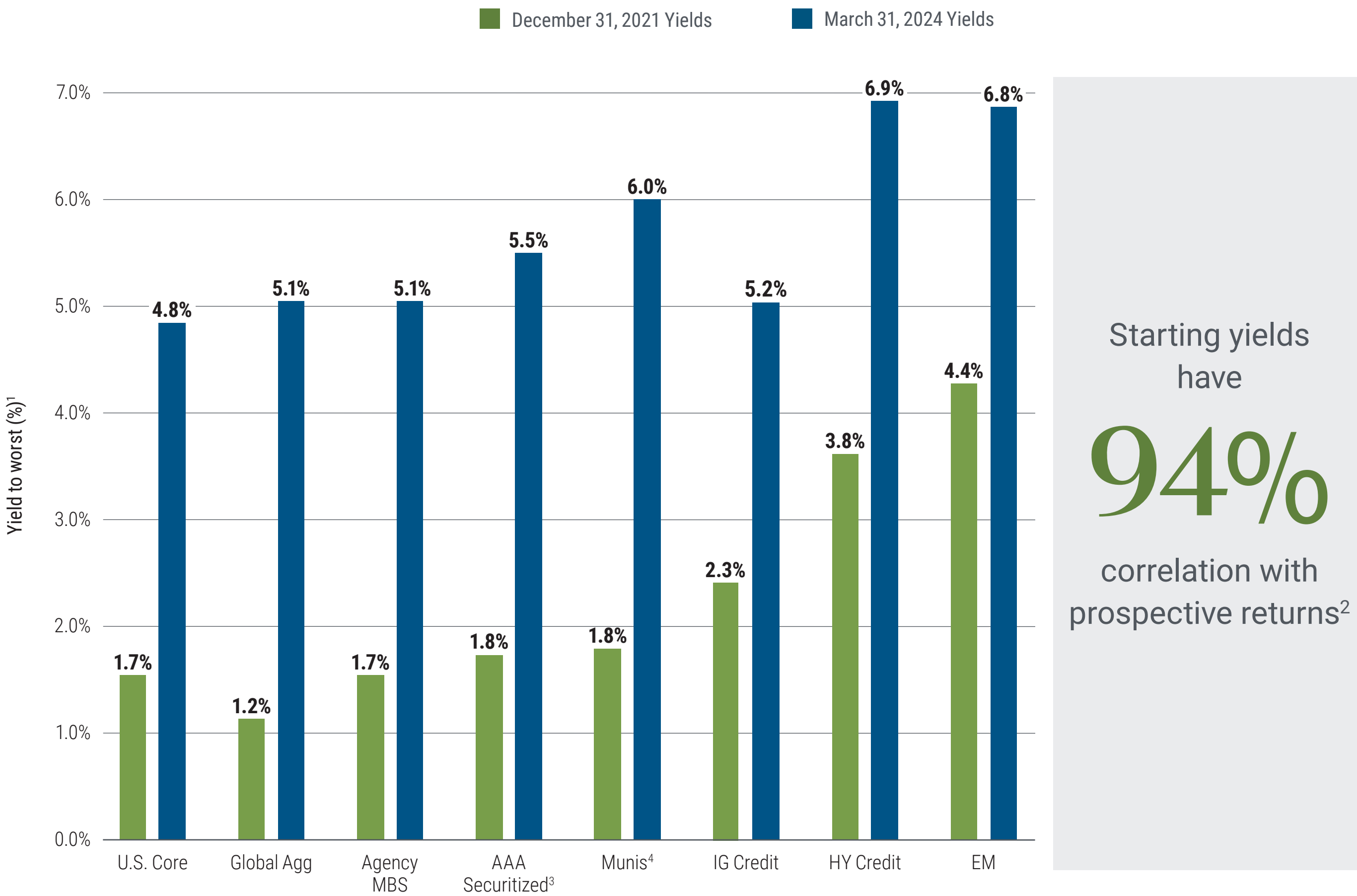
1 Countries used in the study for all DM landings since 1960 include: AU, BE, CA, FR, GE, IT, JP, NE, NZ, ES, SW, SE, UK, US. Before the EA was formed we use country specific policy rates. After the EA we use the ECB refi rate. Sample includes rate hiking cycles of at least 50bps cumulatively over 1-year, 14 developed market countries, from 1960 to today.

2 To produce estimated returns, we utilize the average shocks across the sample in Hard and Soft landings measured over the 3-years following the peak CB rate. Equity returns are the average (local) price return annualized over 3-years. Bond and T-bill annualized returns are estimated by taking the average cumulative 3-year yield shocks (Cash: -1.6% Soft Landing, -4.2% Hard Landing; 10-Yr: -1.2% Soft Landing, -1.4% Hard Landing) and applying those to a current T-bill and 10-year Treasury Bond. No representation is being made that these scenarios are likely to occur or that any 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. Total returns are estimated by re-pricing key rate duration replicating portfolios of par-coupon bonds. All scenarios hold OAS constant.

4 TAKE ADVANTAGE OF BONDS' HIGHER YIELDS TODAY …

Yields are now at a higher starting point, and starting yields have a 94% correlation with future returns.

Today's Yields are at a Much Higher Starting Point



As of March 31 2024. 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).

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.

2 Source: PIMCO; based on rolling 5-year returns of the BBG US Aggregate Index data from 1976-2022, calculated monthly.

3 AAA-Securitized YTW computed as average of AAA CLOs, CMBS, and ABS from JPMorgan, Ice BofAML, and Barclays, respectively.

4 Municipal yields are the taxable equivalent yield, adjusted by the highest marginal tax rate (40.8%). Unadjusted IG Muni index yield is 3.53% with a change of 248 bps compared to 12/31/2021 levels. 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.

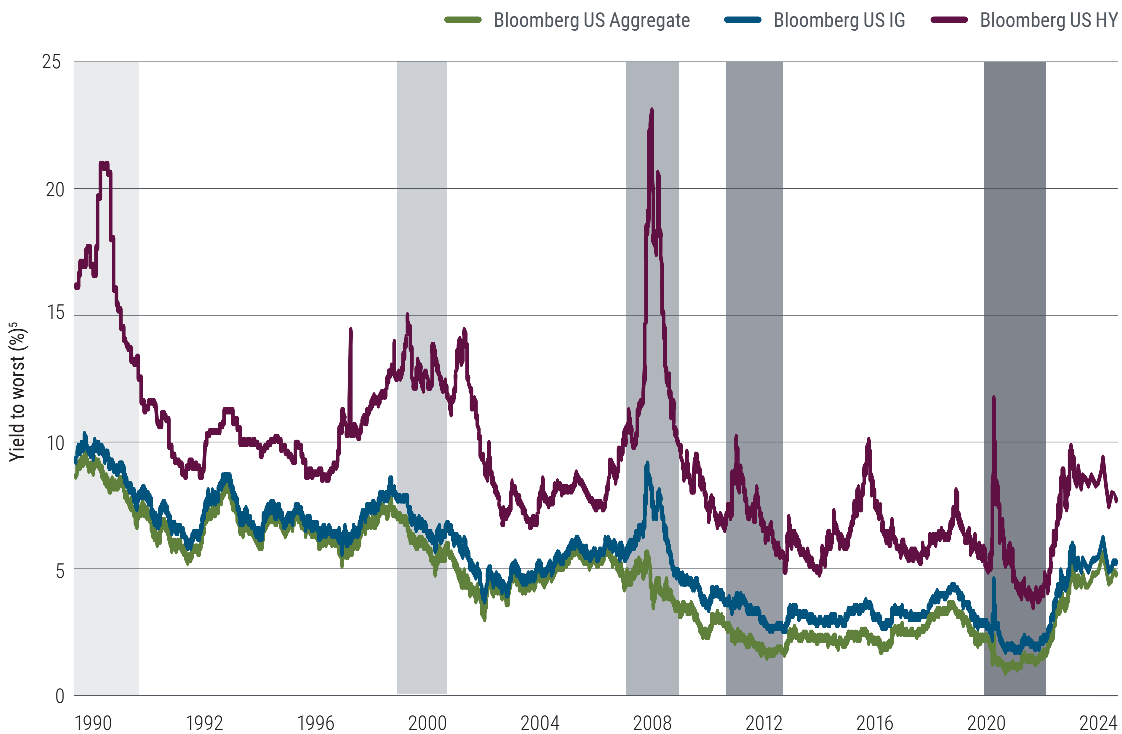
Past performance is not a guarantee or a reliable indicator of future results. Chart is provided for illustrative purposes and is not indicative of the past or future performance of any PIMCO product.

4 … AND POTENTIALLY 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 how patient investors may be rewarded by staying invested, as substantial gains have typically followed peak interest rates.

Patient Investors may be Rewarded

Strong performance tends to follow **peak yields**



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

As of March 31 2024 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.

5 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.

WHAT IS THE EFFECT ON FIXED INCOME HOLDINGS GIVEN POTENTIAL CHANGES IN INTEREST RATES?

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.

PUTTING IT ALL TOGETHER

- Yields would likely need to raise upwards of 2% 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
- High single-digit returns are possible across a variety of exposures if yields fall by only 50 bps

Estimated 12-month return by fixed income sector under different yield shocks

Scenario analysis by treasury maturity
Estimated 12-month total returns based on parallel yield shifts

	Treasury Maturity					Fixed Income Assets		
Yield Change	**3-Month**	**2-Year**	**5-Year**	**10-Year**	**30-Year**	**US Agg**	**IG Muni**	**Multisector**
-3.0%	3%	7%	16%	29%	74%	24%	22%	16%
-2.0%	4%	6%	12%	20%	45%	16%	15%	12%
-1.0%	5%	5%	8%	12%	22%	10%	9%	9%
-0.5%	5%	5%	6%	8%	12%	7%	6%	8%
Unchanged	5%	4%	4%	4%	4%	4%	3%	6%
0.5%	6%	4%	2%	1%	-4%	2%	0%	5%
1.0%	6%	3%	1%	-3%	-11%	0%	-2%	4%
2.0%	7%	2%	-3%	-9%	-22%	-5%	-6%	1%
3.0%	8%	1%	-6%	-15%	-32%	-9%	-10%	-2%

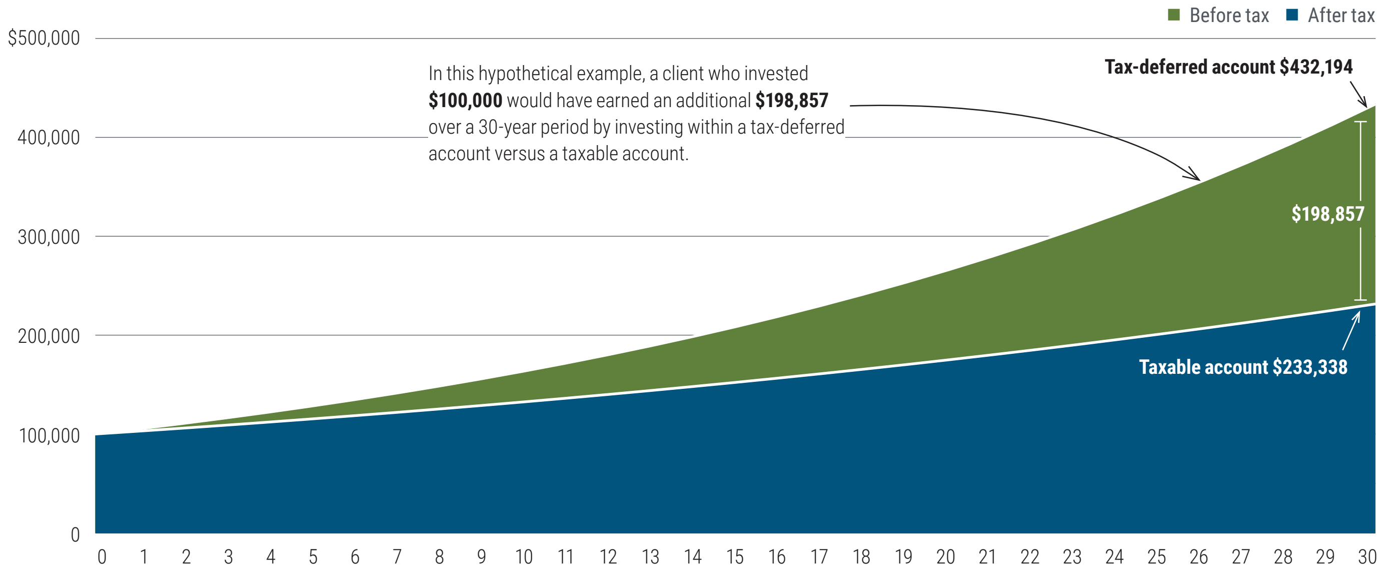
As of 31 March 2024. SOURCE: Bloomberg, PIMCO. **For illustrative purposes only. Figure is not indicative of the past or future results of any PIMCO product or strategy. There is no assurance that the stated results will be achieved.**

US Agg: Bloomberg US Aggregate Index, IG Muni: Bloomberg Municipal Index, Multisector: Morningstar Multisector Bond Category

1 Treasury maturities correspond to a hypothetical treasury bond with the stated maturity which matches the yield on the current treasury curve. In the analysis contained herein, PIMCO has outlined hypothetical event scenarios which, in theory, would impact the yield curves as illustrated in this analysis. No representation is being made that these scenarios are likely to occur or that any 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. Total returns are estimated by re-pricing key rate duration replicating portfolios of par-coupon bonds. All scenarios hold option-adjusted spread (OAS) constant.

5 IMPLEMENT TAX DEFERRAL USING ANNUITIES IN AN EFFORT TO MAXIMIZE LONG-TERM RETURNS

The chart below illustrates how investors may enhance returns without adding risk, by ensuring clients' fixed income is held in a tax-efficient vehicle like an annuity.



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. This illustration shows the hypothetical growth of $100,000 at a rate of 5% inside a tax-deferred account, such as a tax-deferred variable annuity or 401(k) account, for example, versus the same investment within a taxable investment account (such as a retail brokerage account) over the same period. 5% of the assets are distributed annually and immediately reinvested. Above currently taxable scenario, for years 1-8 (2018-2025) applied maximum marginal Federal Rate 37% plus 3.8% Medicare Tax and for years 9-30 applied maximum marginal Federal Rate of 39.6% plus 3.8% Medicare Tax. No current taxes are taken during accumulation period in above tax-deferred scenario. **The tax-deferred returns do not reflect the taxes investors will be liable for when they begin taking distributions.** After-tax returns are treated as ordinary income calculated using the highest individual federal marginal income tax rates as of March 2021 and do not reflect the impact of state and local taxes. The current maximum for marginal income and short-term capital gains tax rates are 40.8% and 43.4% respectively. **PIMCO does not provide legal or tax advice. Please consult your tax and/or legal counsel for specific tax or legal questions and concerns**. Chart is provided for illustrative purposes and is not indicative of the past or future performance of any PIMCO product.

Source: PIMCO

The content above is provided for educational purposes only and should not be viewed as an investment advice or as an offering of any product or strategy. Consult your financial professional for more information.

Past performance is not a guarantee or a reliable indicator of future results. It is not possible to invest directly in an unmanaged index.

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.

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 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.

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.

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

Expected return is an estimate of what investments may earn on average over the long term and is not a prediction or a projection of future results. Actual returns may be higher or lower than those shown and may vary substantially over shorter time periods. There is no guarantee that these returns can be realized.

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. **Derivatives** may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested. **Diversification** does not ensure against loss.

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.

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