



PIMCO

Saying goodbye to TINA

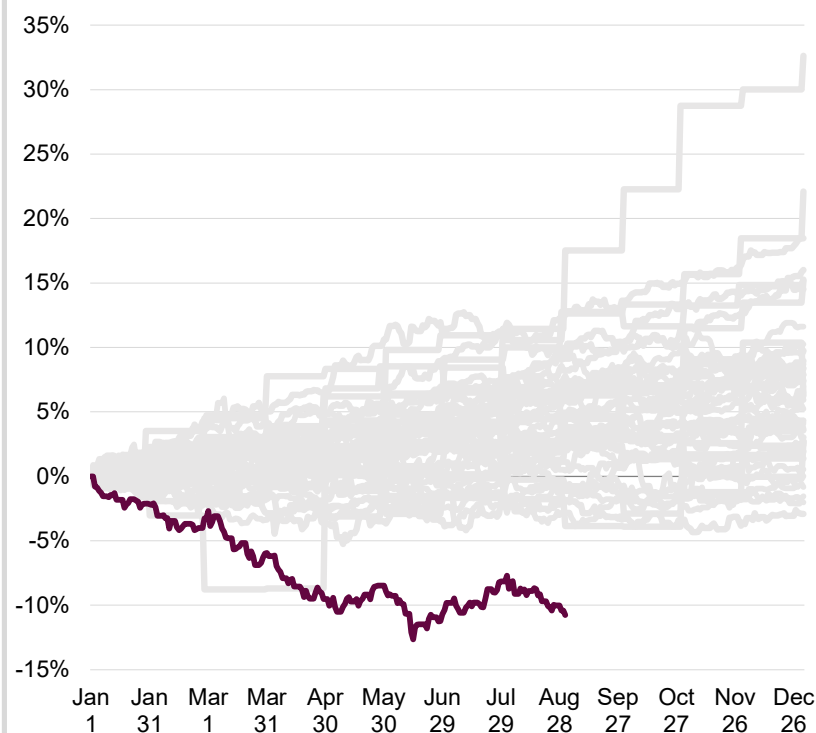
Adam Bowe

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A company of **Allianz** 

An unprecedented start to the year

**Annual performance for the benchmark
Bloomberg Aggregate Bond Index, 1977-
2022**



Source: Bloomberg index data, as of 31 August 2022

10-year Government Bond Yields



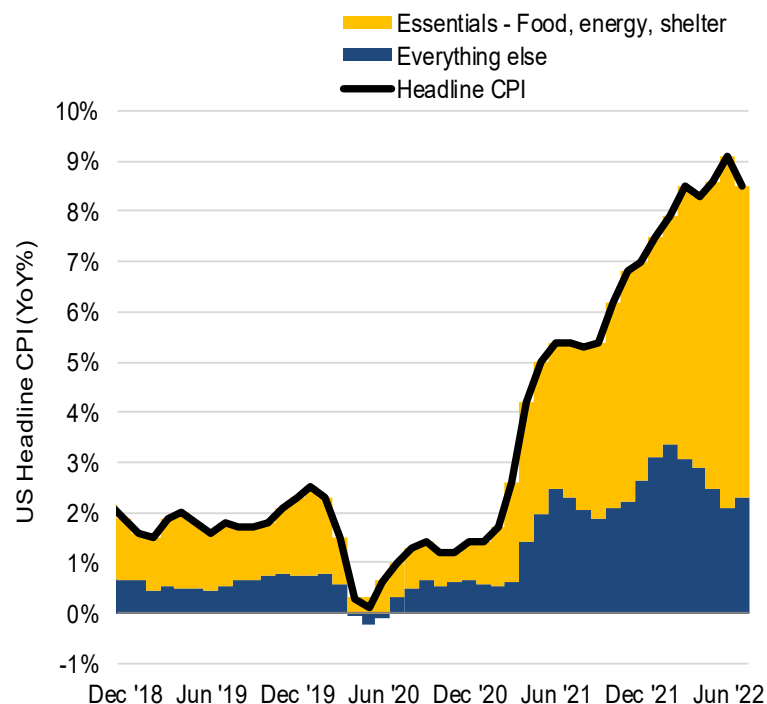
Source: Bloomberg index data, as of 31 August 2022

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

Refer to Appendix for additional performance and fee, investment strategy, portfolio analysis, portfolio structure, representative account, target return, and risk information.

Persistent inflation coupled with growth concerns fueled sharp drawdowns across both fixed income and equities

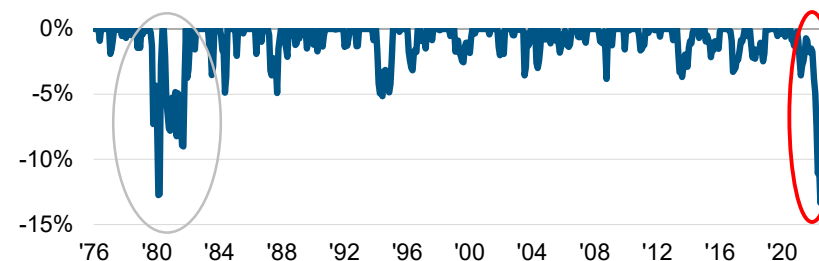
Persistent inflation



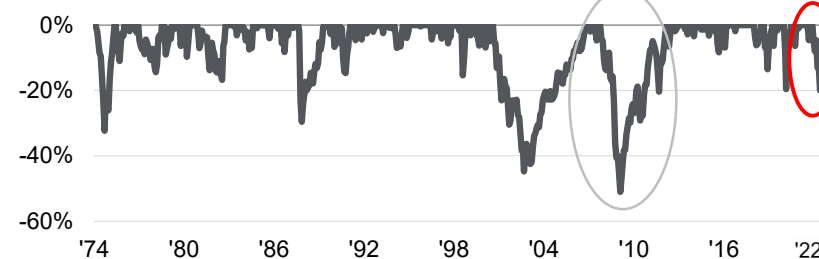
Headline CPI remained elevated over the second quarter driven by essential goods – primarily energy and shelter prices

Continued sell-off

Bloomberg US Aggregate Index – historical drawdowns



S&P 500 Index – historical drawdowns



Amid rising yields, the U.S. Agg posted its worst drawdown since the 80s and the S&P 500 officially entered a bear market

As of 31 July 2022

Source: PIMCO, Haver

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

Refer to Appendix for additional forecast, index, and risk information

Tighter Financial Conditions

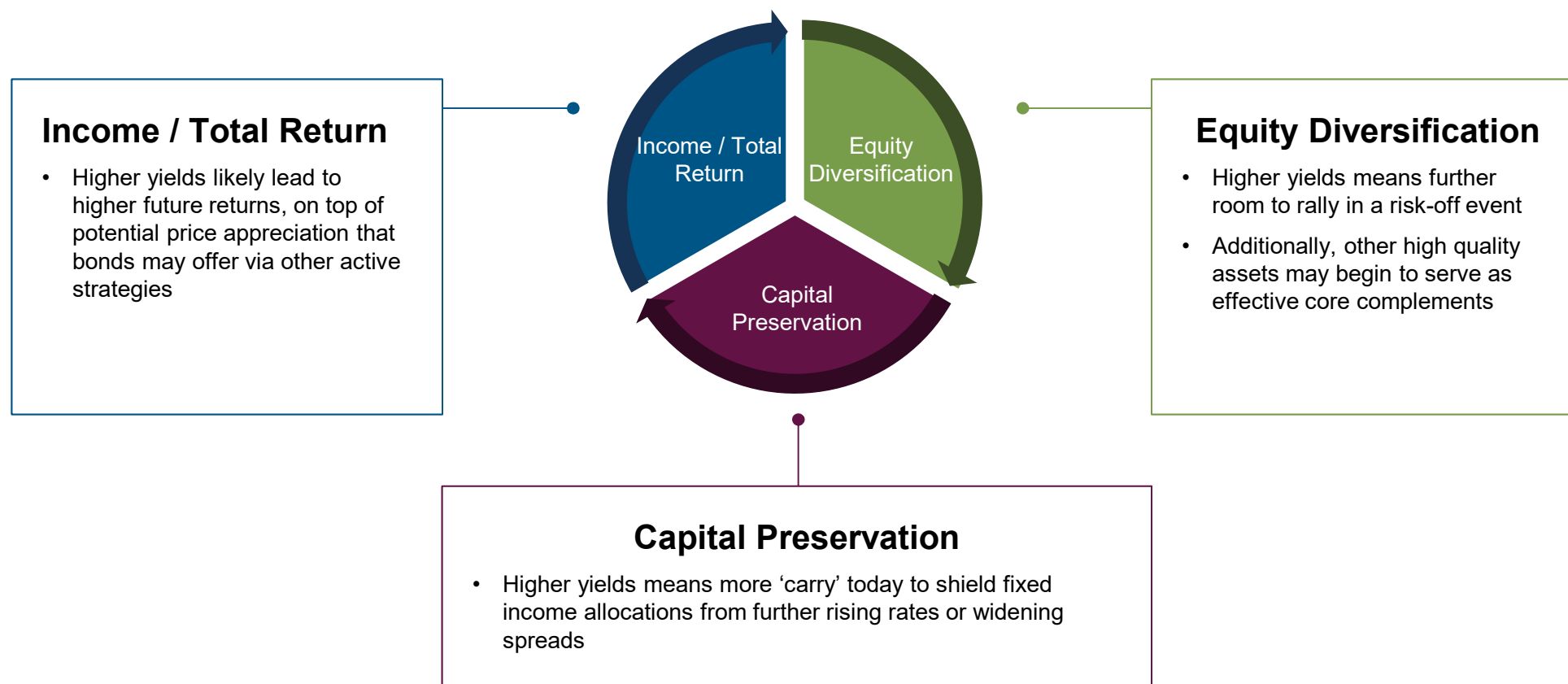


As of August 31, 2022. Source: Bloomberg, Haver.

PIMCO Financial Conditions Index (FCI) is a proprietary index that summarizes information about the future state of the economy contained in a wide range of financial variables. It includes variables such as the fed funds rate, bond yields, credit spreads, equity prices, oil prices and the broad trade-weighted USD, all of which will impact the economy. The weights of these variables are determined by simulations with the Federal Reserve's FRB/US model. An increase (decline) in the FCI implies a tightening (easing) of financial conditions. **Past performance is not a guarantee or a reliable indicator of future results.** Refer to Appendix for additional index, outlook and risk information.

The role of bonds in portfolios has not changed

The key tenets of fixed income after higher yields



Tools Aimed to Improve Fixed Income Portfolio Outcomes

Broaden Opportunity Set

Active Management

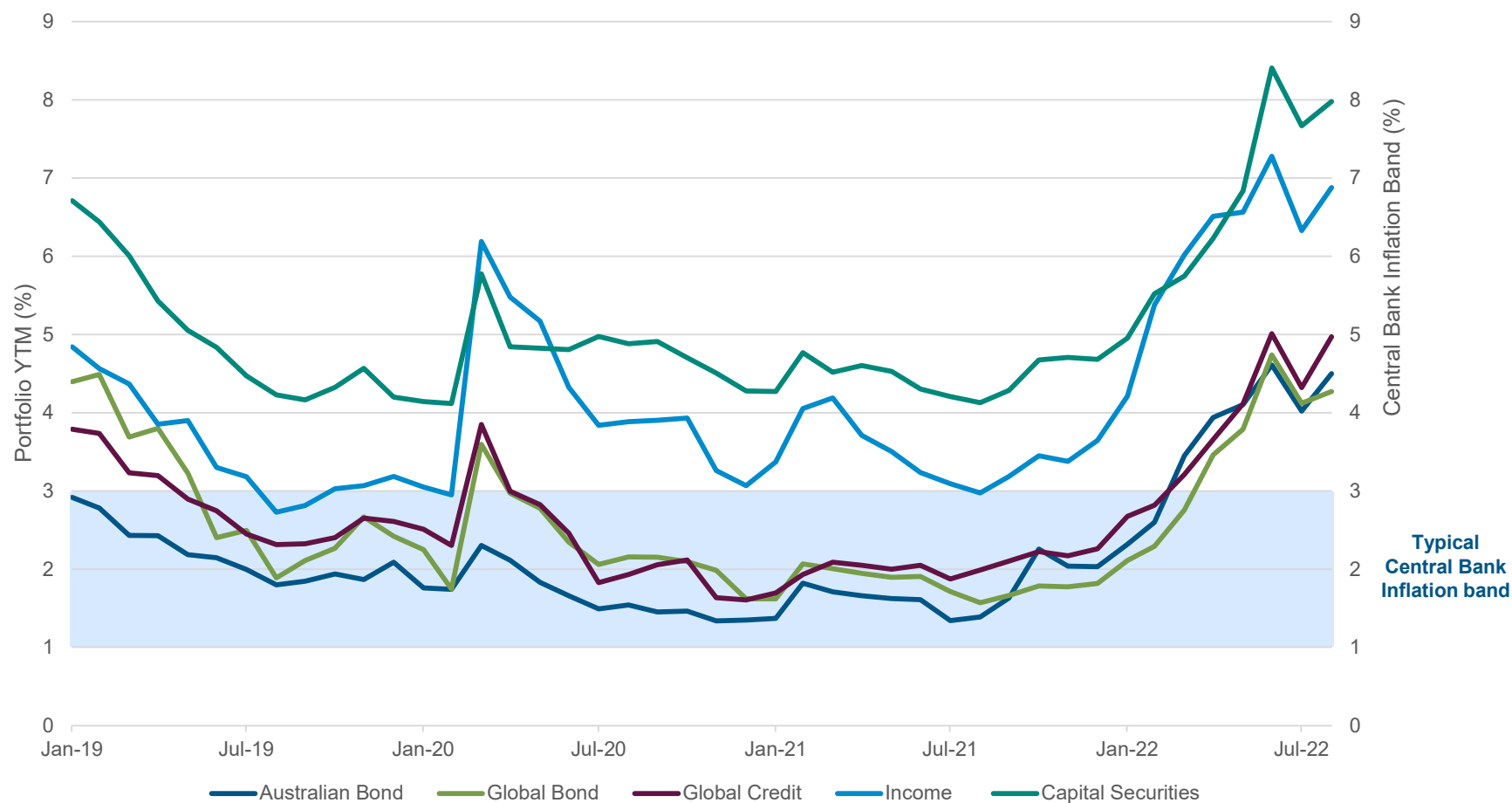
Forward-Looking Approach
(e.g. avoiding "timing traps")

As of 31 March 2022. SOURCE: PIMCO. For illustrative purposes only.
Refer to Appendix for additional investment strategy, outlook and risk information.



Income

High quality bonds now providing attractive real yields



As at 31 August 2022

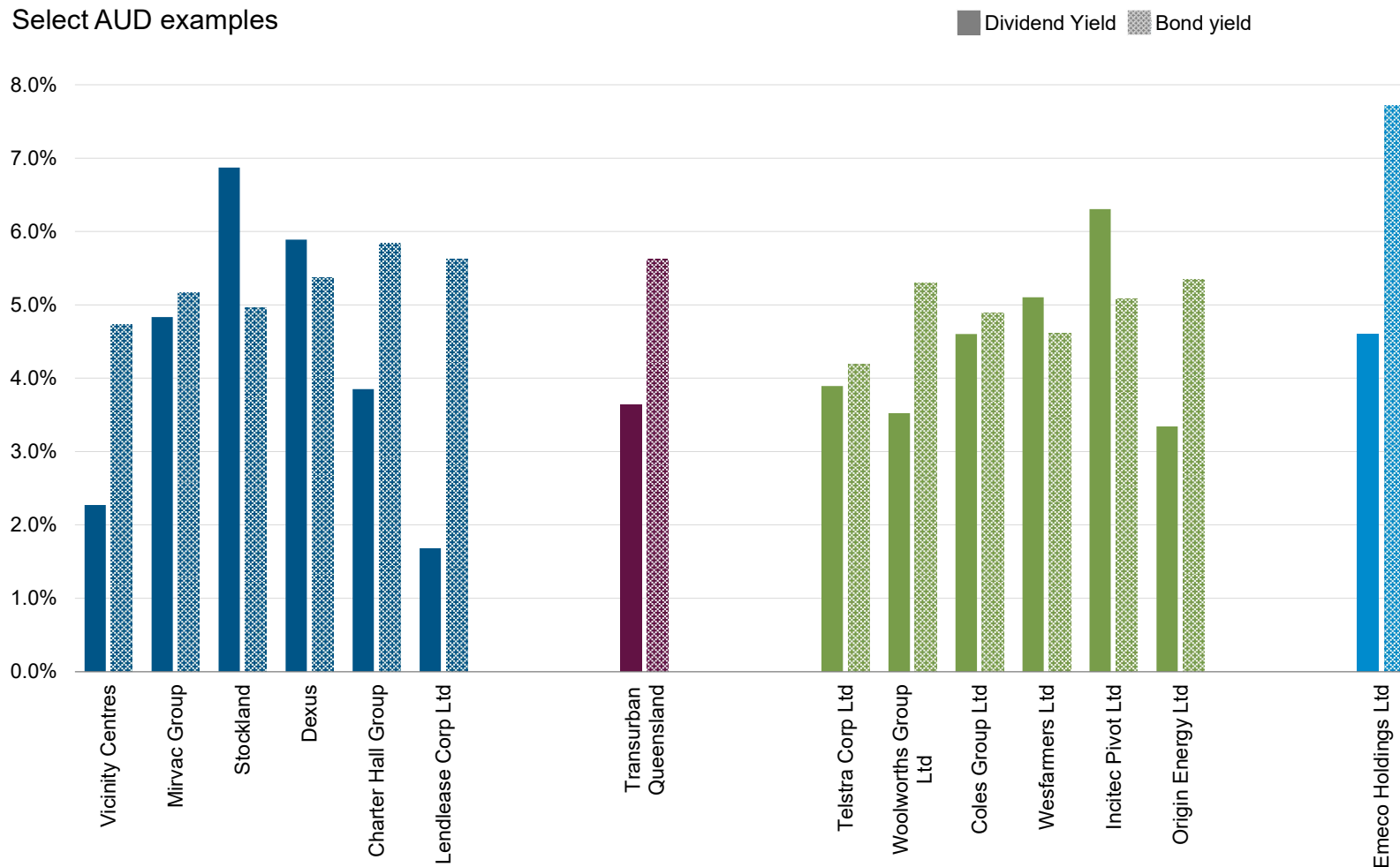
Source: PIMCO

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

Higher rates are beneficial to fixed income investors over the long-term

Select AUD bond yields look attractive vs dividend yields

Dividend vs Bond Yields
Select AUD examples



As of 5 August 2022. SOURCE: Bloomberg, PIMCO.

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

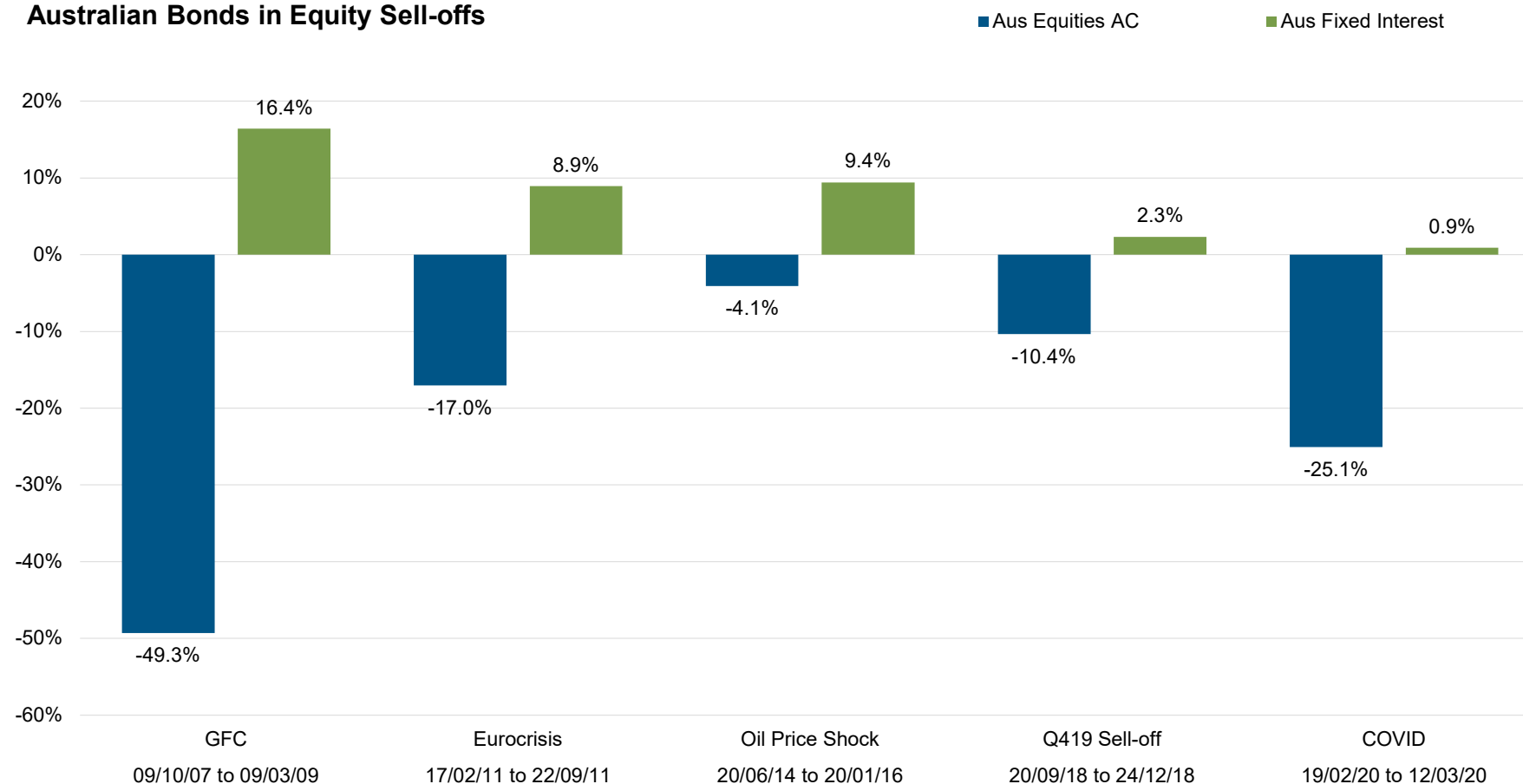


Diversification

Higher yields today means bonds have further room to rally

Bond diversification during equity sell-offs

Australian Bonds in Equity Sell-offs

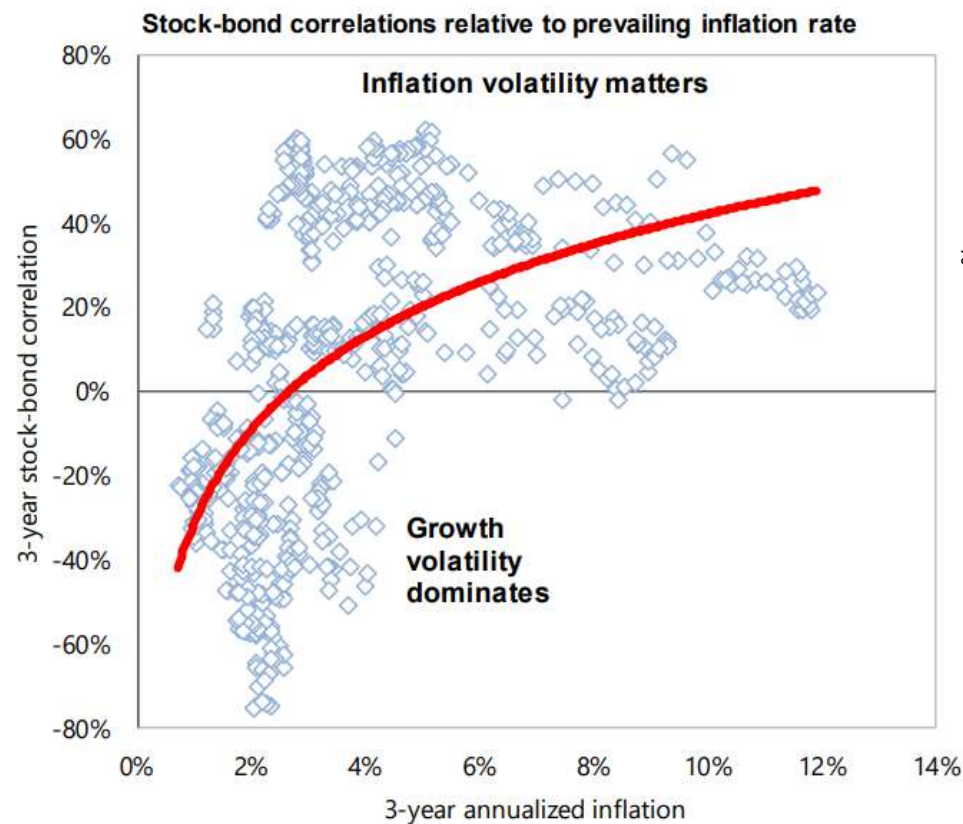


As of 31 December 2021

SOURCE: PIMCO, Morningstar

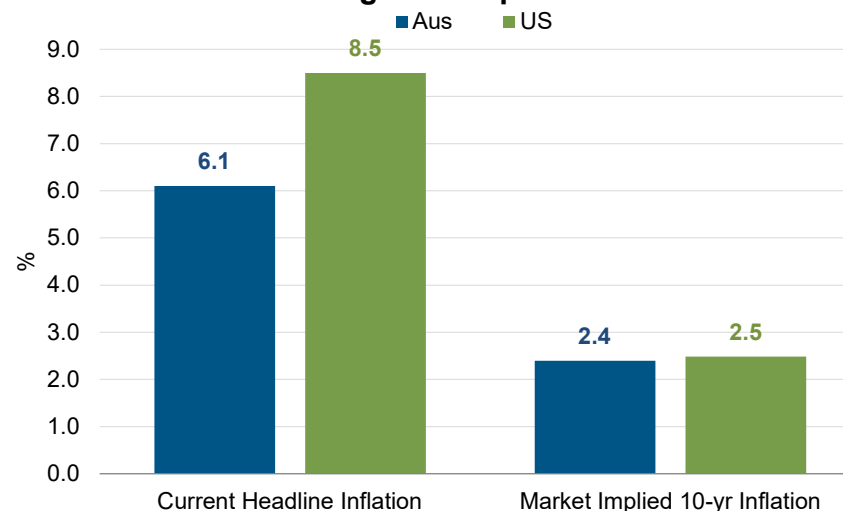
Charts are provided for illustrative purposes and are not indicative of the past or future performance of any PIMCO product. Refer to the Appendix for additional index, investment strategy and risk information

Anchored inflation expectations enhance bonds' diversification appeal

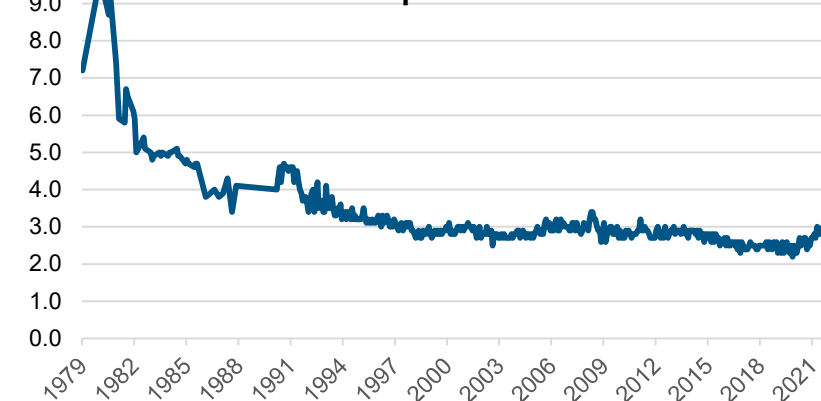


As of 30 June 2022. SOURCE: PIMCO, Haver, Federal Reserve Bank of New York, "Stocks, Bonds and Causality" (Baz, Sapra, Ramirez). Stocks represented by the S&P 500 Index, bonds represented by 10-year U.S. Treasuries, TIPS represented by simulated 10-year U.S. TIPS, inflation represented by the U.S. Consumer Price Index. Past performance is not a guarantee or a reliable indicator of future results. 1Stocks are proxied by E-mini S&P 500 Futures. Bonds are proxied by 10-year US Treasury Note Futures. Refer to Appendix for additional correlation, index and risk information.

Current inflation vs long-term expectations

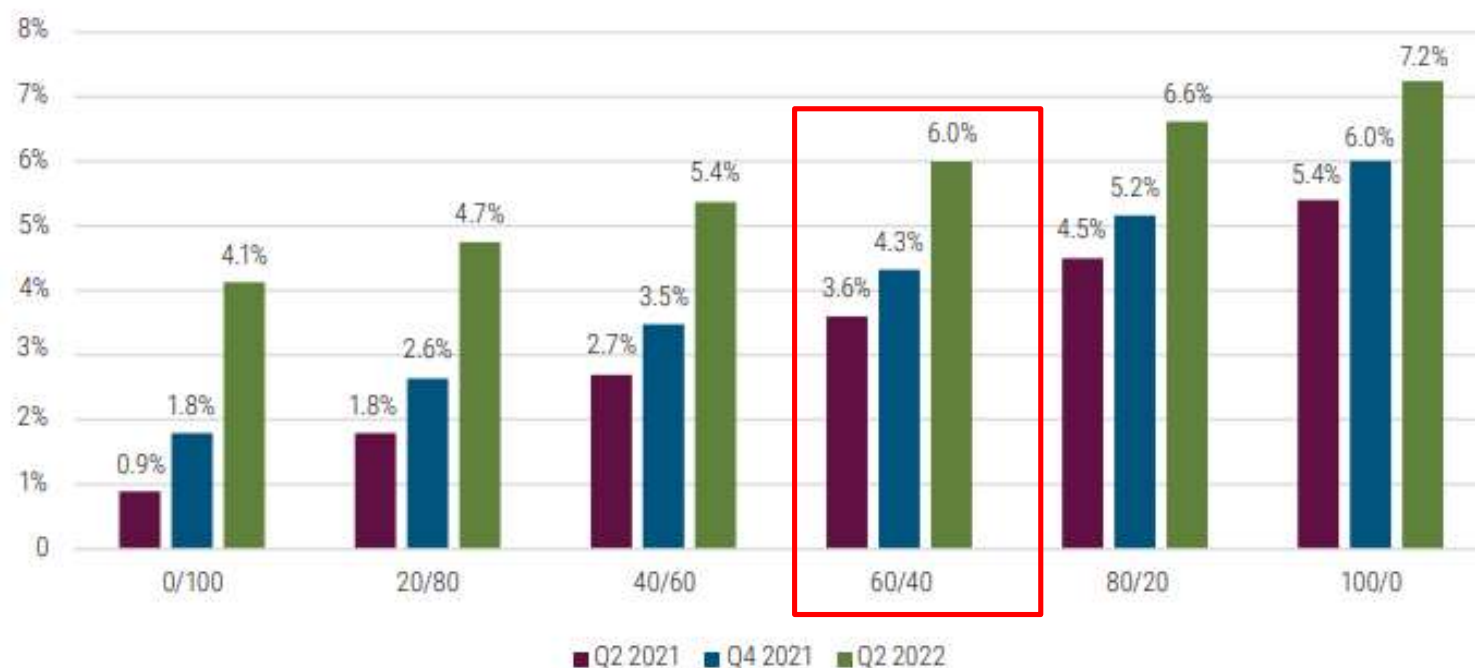


US households long term inflation expectations



60/40 portfolio

Forward looking expectations



Source: PIMCO as of 30 June 2022. **Hypothetical forecast for illustrative purposes only.**

Equity portion of the portfolio proxied by the S&P 500 Index; bonds proxied by the Bloomberg U.S. Aggregate Bond Index

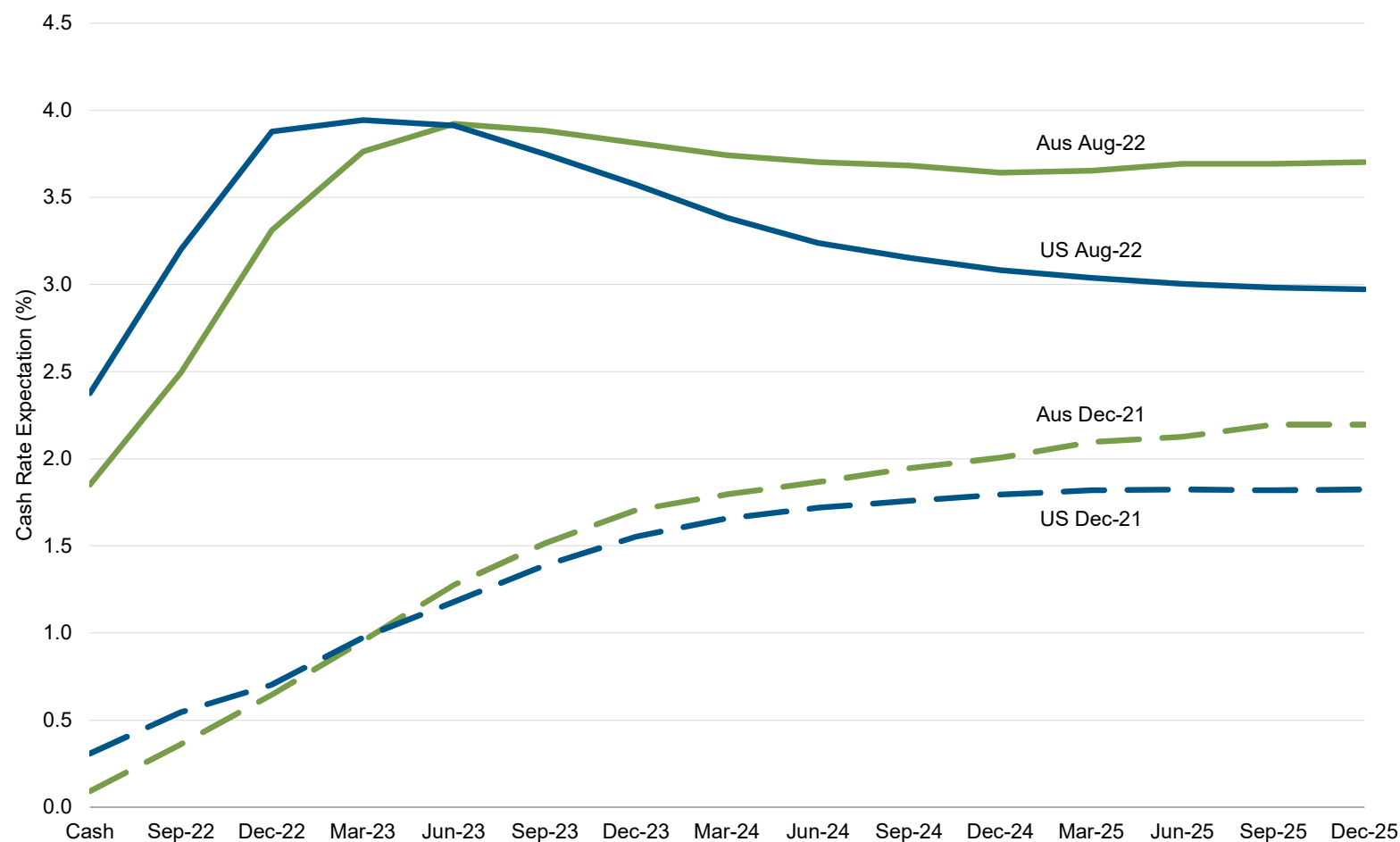


Capital Preservation

Expected central bank rate hikes reflected in bond prices today

Central bank policy: dramatic increase of cash rate expectations

Cash Rate Expectations

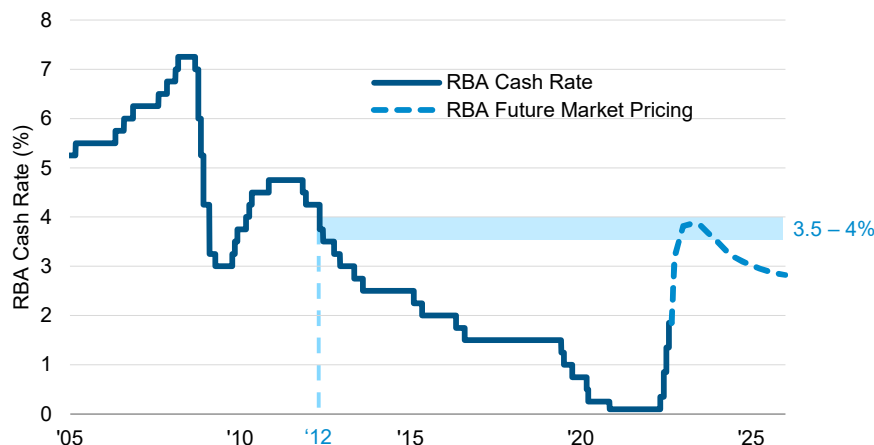


As of 31 August 2022. Source: Bloomberg. **For illustrative purpose only.**

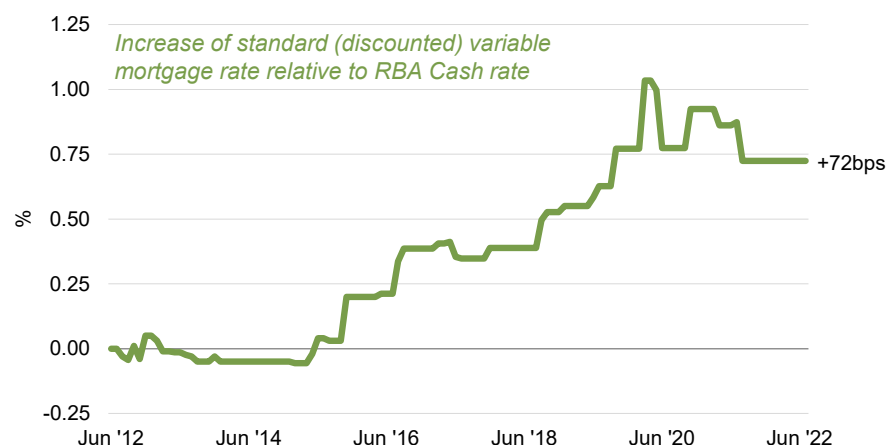
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How restrictive will a 3.5% cash rate be in Australia?

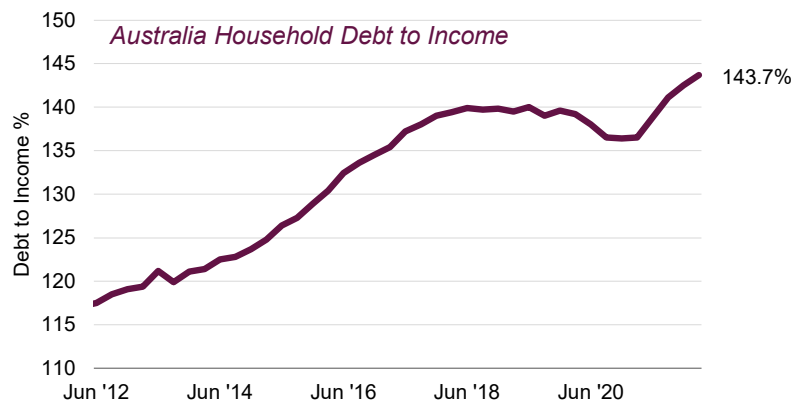
The market is pricing a 3.5 – 4% RBA cash rate in 2023, levels we haven't seen since 2012...



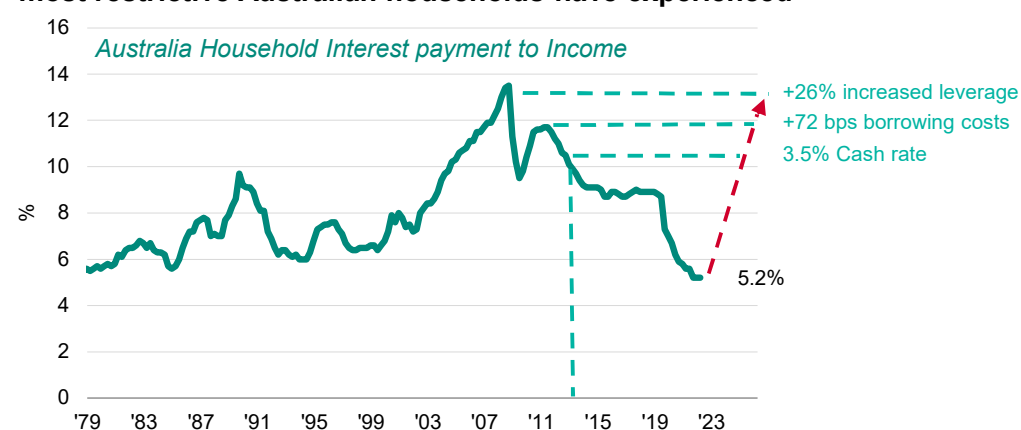
...but a 3.5% cash rate today is equivalent to a 4.22% cash rate in 2012 when factoring in higher end borrowing rates...



...and household leverage has also increased by 26% over that time



Which means a 3.5 – 4% cash rate in 2023 will be close to the most restrictive Australian households have experienced



As of 28 August 2022. Source: Bloomberg.

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

Refer to Appendix for additional index and risk information.

Saying goodbye to TINA

Key takeouts

- Bond markets have already significantly repriced to reflect further expected interest rate hikes
- Significant tightening in financial conditions will likely see growth slow materially next year, **but**...
- ... elevated inflation and government debt means that the 'central bank put' will no longer be reliable for risky assets
- **Focus on building resiliency back into portfolios** - liquidity and diversification will be more important as we prepare to invest in a more challenging economic environment
- **It's time to say goodbye to TINA** – There Is No Alternative – as high quality bonds are now better placed to play their traditional role in portfolios of providing:
 - *Attractive income*
 - *Diversification for broader portfolios*
 - *Capital preservation*

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