PIMCO

Prolonging the Expansion

Following a bumpy 2019 for global growth, we see economic momentum recovering in 2020. While the global health crisis adds uncertainty to the economic outlook, we believe the economic and market risks will be temporary. With the cycle extended and recession risks reduced, we favor equities over hard duration and generic corporate credit, and have started the year with a constructive view toward risk. Active management remains important and, as always, we will monitor potential risks and disruptions that could loom large in an environment where expected returns are capped by valuations.

Here is how we are positioning asset allocation portfolios in light of our outlook for the global economy and markets.

OVERALL RISK

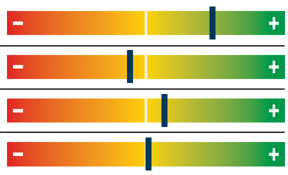
On the back of global monetary easing and a reduction in geopolitical tensions, we believe that the time to the next global recession has extended and, thus, favor a modest risk-on posture in multi-asset portfolios. However, we recognize that elevated asset prices may draw down due to an unforeseen shock. For this reason, we are selective regarding various sector and regional exposures, while also emphasizing relative value opportunities within asset classes.

POSITIONING

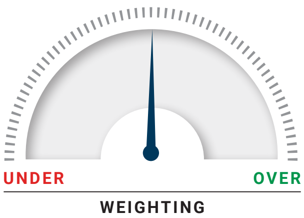
OPPORTUNITIES

EQUITIES

U.S.
Europe
Japan
Emerging markets

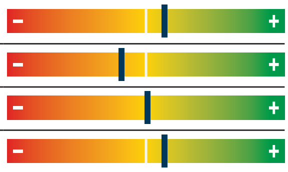


Though global equity valuations appear rich in absolute terms, they are less so when normalized for cost of capital. Macroeconomic stability and a rebound in earnings growth support our constructive view on equities. As we consider divergent growth trajectories regionally and across sectors, we are selective. We favor the U.S. and Japan in the developed world and believe there are attractive entry points in high quality, cyclically exposed sectors.



RATES

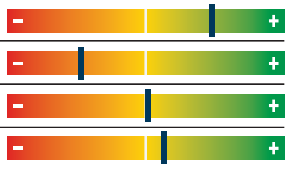
U.S.
Europe
Japan
Emerging markets



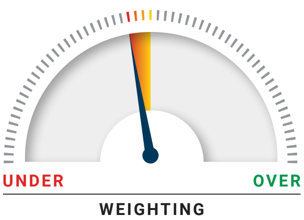
Globally, markets are priced for low neutral rates and low term premium. Both factors make the asset class less attractive, though we believe it continues to serve as an important portfolio hedge against risk-off events. Despite the valuation headwind, the probability of major central banks hiking rates appears low as muted inflation lingers. We favor U.S. duration given its defensive characteristics as well as the absolute yield advantage versus other developed markets.

CREDIT

Securitized
Investment grade
High yield
Emerging markets

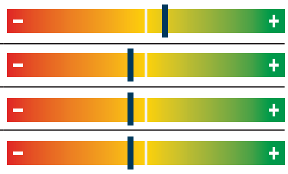


We are modestly overweight credit overall given our selective, yet risk-on portfolio posture. We emphasize caution on generic nonfinancial corporate credit risk, but we also see value in select areas given the bifurcation in credit markets. We continue to favor agency and non-agency mortgage-backed securities (MBS), which we believe offer an attractive valuation, a reasonable carry, and an attractive liquidity profile relative to other spread assets.



REAL ASSETS

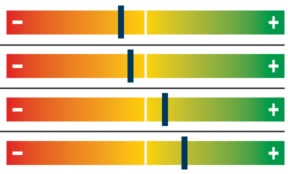
Inflation-linked bonds
Commodities
MLPs
Gold



We expect inflation to remain subdued in 2020 and for that reason are underweight real assets broadly. However, consistent with our selective approach, inflation risk does appear underpriced in some asset classes. For this reason, as we view real assets as a portfolio diversifier and an effective tail risk hedge against rising inflation, we expect to maintain a modest allocation to attractively valued opportunities, such as U.S. Treasury Inflation-Protected Securities (TIPS).

CURRENCIES

U.S. dollar
Euro
Yen
Emerging markets



We have a nuanced view on currencies, and expect alpha opportunities to emerge outside of the majors. We are close to neutral on the U.S. dollar versus other majors, but do prefer modest long positions in the Japanese yen, which offers "safe-haven" properties and which our valuation models find cheap. With the trade-weighted U.S. dollar at multi-decade highs, valuations and carry support higher-yielding EM currencies, such as the Brazilian real and Mexican peso.

A "**safe haven**" **currency** is a currency perceived to be low risk due to the stability of the issuing government and the strength of the underlying economy. All investments contain risk and may lose value.

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

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. **Sovereign securities** are generally backed by the issuing government. Obligations of U.S. government agencies and authorities are supported by varying degrees, but are generally not backed by the full faith of the U.S. government. Portfolios that invest in such securities are not guaranteed and will fluctuate in value. **Inflation-linked bonds (ILBs)** issued by a government are fixed income securities whose principal value is periodically adjusted according to the rate of inflation; ILBs decline in value when real interest rates rise. **Treasury Inflation-Protected Securities (TIPS)** are ILBs issued by the U.S. government. **Equities** may decline in value due to both real and perceived general market, economic and industry conditions. **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. 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. **Currency rates** may fluctuate significantly over short periods of time and may reduce the returns of a portfolio. **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 manger in connection with managing the strategy.

There is no guarantee that these investment strategies will work under all market conditions or are suitable for all investors and each investor should evaluate their ability to invest long-term, especially during periods of downturn in the market. Investors should consult their investment professional prior to making an investment decision.

Alpha is a measure of performance on a risk-adjusted basis calculated by comparing the volatility (price risk) of a portfolio vs. its risk-adjusted performance to a benchmark index; the excess return relative to the benchmark is alpha.

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