

# When Markets Diverge, Opportunities Emerge

The global economic and market outlook suggests diverging paths among regions and sectors. Last year, overall global growth looked stagnant, but trends this year suggest potential for a soft landing instead of a recession – mainly due to the continuing strength in the U.S. economy. But that resilience comes with risks: most notably, the potential for hotter inflation.

The diverging macroeconomic outlook creates compelling opportunities among asset classes.

## OVERALL RISK

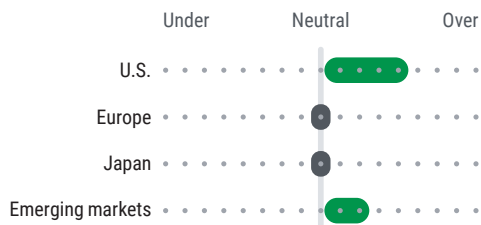


We are slightly overweight risk as we see early signs of a potential soft landing in the global economy. However, continued U.S. resilience presents the risk of sticky inflation. We expect regional divergence in monetary policy as the outlooks for inflation and growth differ by country. We favor higher quality exposures across asset classes and emphasize diversification in the current environment.

## POSITIONING

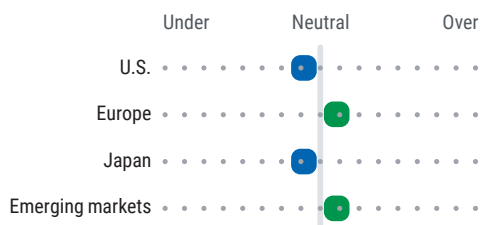
## OPPORTUNITIES

### EQUITIES



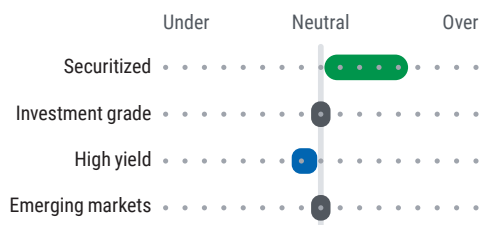
We are marginally constructive on equities, with a preference for higher quality and an overweight to the U.S. given signs of continued economic strength and expectations for EPS growth to broaden. We are neutral Europe given weaker earnings expectations and greater exposure to China. We are overweight select emerging markets, particularly in Asia, as we see potential upside supported by reasonable valuations and a recovery in semiconductor sales.

### RATES



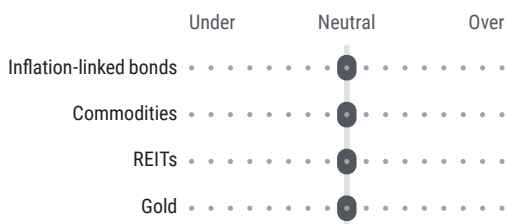
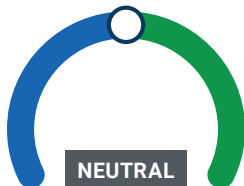
We are slightly overweight duration amid high starting yields and capital appreciation potential. We prefer developed ex-U.S. markets with lower inflation risks and greater downside growth risks, like Australia, Canada, and Europe. We are underweight the U.S. given continued economic resilience. We are underweight Japan as the BOJ begins hiking rates to combat rising inflation. In emerging markets, we are overweight local rates in countries with high real rates and room to cut.

### CREDIT



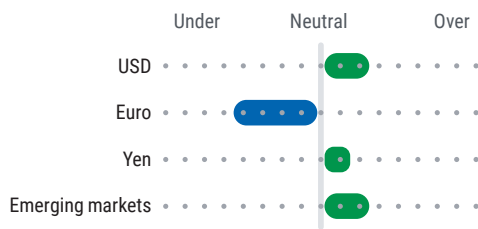
We are overweight credit, driven by a preference for securitized. We emphasize positions in senior non-agency MBS and tranches of select ABS, which we believe are supported by resilient fundamentals and attractive valuation profiles. In corporate credit, we are neutral investment grade as starting yields are strong, but spreads appear tight. We are underweight high yield amid rich spread levels and expectations for default rates to increase off recent lows.

### REAL ASSETS



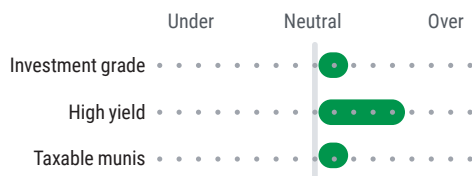
While we see upside risks to inflation in the U.S. in particular, we are neutral real assets. As we await further clarity on the near-term path of inflation, we are neutral on inflation-linked bonds and gold and prefer to gain exposure to inflation through equities. We are neutral commodities amid continued geopolitical threats from wars in Europe and the Middle East. We are also neutral REITs given high economic cyclicality and sensitivity to still-elevated interest rates.

CURRENCIES



We are overweight the U.S. Dollar amid economic resilience, relatively high carry and less demanding valuations versus recent history. We are underweight the Euro given the potential for weaker growth and more central bank easing. We are overweight the Japanese Yen as further BOJ tightening should improve carry, plus the Yen provides a risk-off hedge. In emerging markets, we are overweight select high-yielding currencies that typically offer compelling valuation and quality profiles.

MUNIS



We are overweight munis amid elevated starting yields and ongoing credit strength. Investment grade valuations trade fair to rich, however, absolute yields remain near the upper end of their 10-year range while offering spread versus taxable bonds. Relative value in lower quality is driven by a resilient credit backdrop and elevated spreads. Taxable munis can provide attractive corporate credit diversification for investors where PIMCO is active in security selection.

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. **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. Income from **municipal bonds** is exempt from federal income tax and may be subject to state and local taxes and at times the alternative minimum tax. 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. **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. **Commodities** contain heightened risk, including market, political, regulatory and natural conditions, and may not be appropriate for all investors. **REITs** are subject to risk, such as poor performance by the manager, adverse changes to tax laws or failure to qualify for tax-free pass-through of income. **Equities** may decline in value due to both real and perceived general market, economic and industry conditions.

The credit quality of a particular security or group of securities does not ensure the stability or safety of an overall portfolio. **Diversification** does not ensure against loss. 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. Investors should consult their investment professional prior to making an investment decision. Outlook and strategies are subject to change without notice.

Earnings Per Share (EPS); Bank of Japan (BOJ); Mortgage-backed securities (MBS); Asset-backed securities (ABS); Real Estate Investment Trust (REIT).

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