PIMCO

SECULAR OUTLOOK 2020

Escalating Disruption

We believe investment success over the secular horizon will be defined by being prepared for disruption and actively pursuing opportunities that arise in periods of volatility. Read this guide for PIMCO's long-term outlook and implications for investors.

Macroeconomic Outlook:

FOUR DISRUPTORS – INTENSIFIED

Four macroeconomic disruptors are likely to become even more pronounced over the next 3 to 5 years.

China

China's rise as an economic power and its strategic plan to cut dependence on global markets will likely challenge geopolitical order.

Populism

Populism, protectionism, and nationalism are likely to be fortified by the pandemic recession and its impact on rising inequality.

Climate-related risks

Investors will have to factor in climate-related risks, catastrophic environmental events, and additional government responses in the form of regulation, carbon taxes and public investment, which will create winners and losers in the corporate sector.

Technology

Technology's role as a beneficial yet disruptive force has amplified. The additional economic prowess gained during the crisis will make established and new technology companies even stronger disruptors long term.

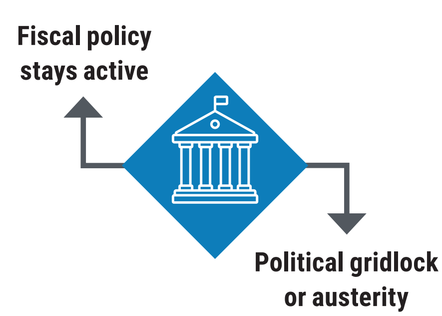
SWING FACTORS:

Virus

The shorter-term outlook will be shaped by how the health situation unfolds – with either renewed infection waves versus effective vaccines and treatments.

Fiscal Policy

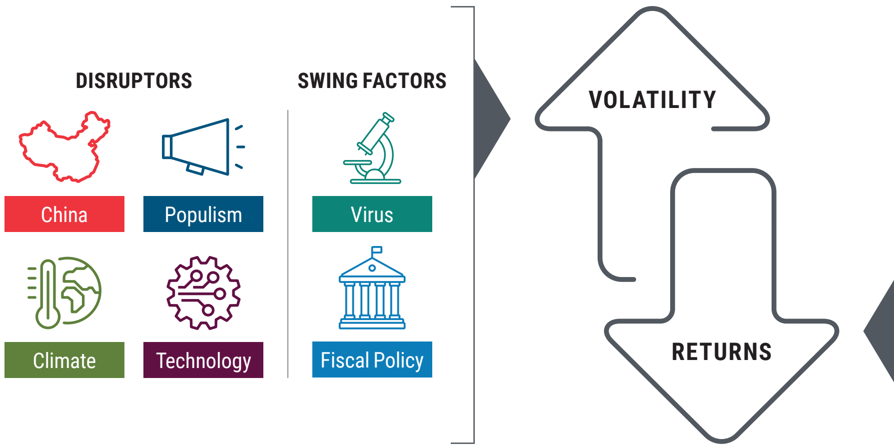
With monetary policy rates trapped near the effective lower bound, the degree to which fiscal policy stays active or retreats could produce upside or downside surprises.



Investment Implications:

EXPECT LOWER RETURNS AND HIGHER VOLATILITY

The pandemic has amplified disruption, creating a need for alpha generation and careful credit selection. With higher volatility likely ahead, we see active management as essential to finding opportunities while navigating credit risk in an environment with low yields, high starting valuations, and weak economic activity.



Market Dynamics

- Elevated equity valuations
- Lower yields for longer
- Policy rates unlikely to rise and could shift lower
- Uneven recovery with a fragile outlook
- “Bad news is bad news”

TARGET THE BEST RISK-ADJUSTED OPPORTUNITIES

Current and longer-term challenges call for a patient, flexible and global investment approach that pursues opportunities across global risk markets.

Global rates

With range-bound rates, duration offers diversification potential even with less room for rates to fall.

Real assets

Inflation hedging can make sense over time, especially given starting valuations.

Public credit

Cautious on generic credit beta and prefer active name and security selection.

Securitized assets

Offer seniority and a favorable profile in downside risk scenarios.

Emerging markets

Active selection is critical given disruption, but offers potential for higher returns given initial valuations.

Currencies

Anticipate idiosyncratic opportunities amid higher currency volatility as exchange rates will likely serve as relief valves.

Private markets

Committing longer-term capital bears heightened risks but may be rewarded with attractive return potential.

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