

P I M C O

4Q.2018

Putting Markets in Perspective

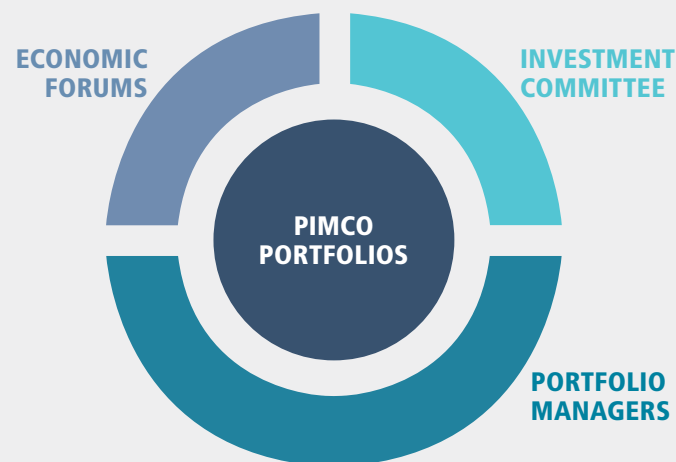
PIMCO's Forums: *Reading the Road*

PIMCO's economic forums help provide a framework for how we position our clients' portfolios. Our annual Secular Forum looks over a three-to-five-year horizon. Three times a year, we also hold Cyclical Forums to test and refine our macroeconomic thinking against current facts on the ground, reconciling likely events in the next six-to-twelve months with our longer-term forecast.

These cyclical "check-ins" are key to our process. If our Secular Outlook tells us which direction the freeway is headed, then our Cyclical Outlook reads more immediate conditions so we know which lane to drive in, how fast to go and what the drivers around us are doing.

Process

PIMCO's time-tested process combines our top-down global outlook with extensive bottom-up security analysis and risk management capabilities.



ECONOMIC FORUMS

Four times a year (at the annual Secular Forum and three Cyclical Forums), our investment professionals around the world gather to identify the trends that will drive the global economy and markets. This macroeconomic outlook informs all PIMCO portfolios.

INVESTMENT COMMITTEE

The Investment Committee (IC) meets two hours each day to distill our outlook and current events into specific investment themes and risk factor targets.

PORTFOLIO MANAGERS

Portfolio managers are responsible for day-to-day strategy execution, leveraging our scores of sector and regional specialists.

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While we do not expect a U.S. recession in the next year, excessive rate hikes or major policy mistakes remain key swing factors.



Our cyclical baseline sees this year's economic divergence – with U.S. growth accelerating, but the rest of the world slowing – giving way to a more synchronized deceleration of growth in 2019. In our forecasts, the big three – the U.S., the eurozone and China – should all see lower GDP growth next year.

While our baseline is for a global economy that is “growing, but slowing,” there is the potential for higher macro uncertainty and volatility. Core inflation in the U.S. is set to rise above the Federal Reserve's target at a time when the labor market is tight. Populism is a risk in the outlook from the U.S. to Italy to a number of systemically important emerging markets. This macro and market volatility comes at a time when, in many markets, volatility is low and valuations are

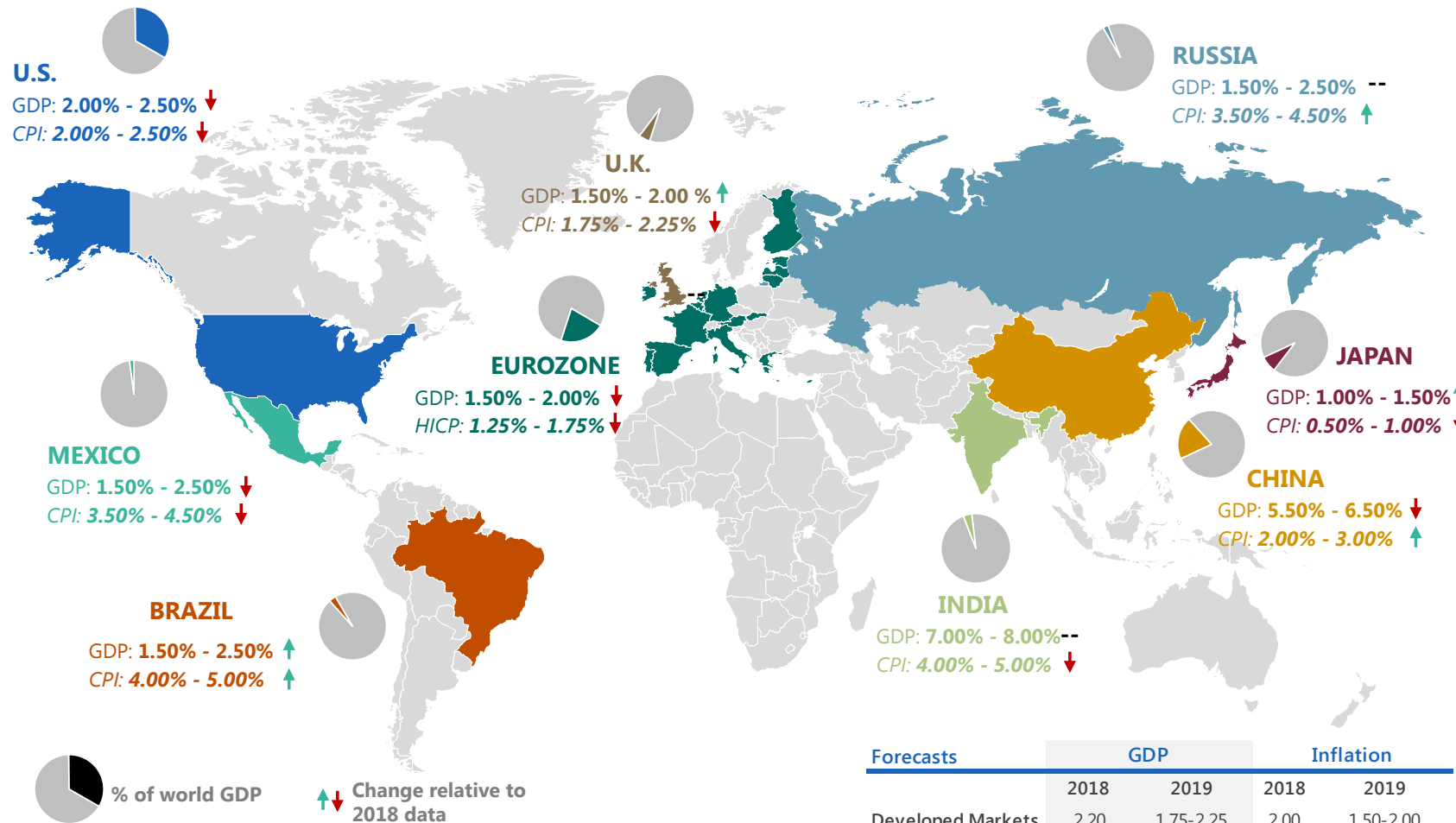
fair to stretched. While the growth cycle may continue, we see risks of more difficult market environments ahead. As such, we think it makes sense to take a cautious approach and maintain flexibility to respond to both positive and negative shocks.

Putting Markets in Perspective is designed to provide investors with some direction given today's complex marketplace. It presents, in a concise format, PIMCO's latest thinking on key themes driving economies and markets, practical applications for investors and specific solutions to consider.

For additional *Putting Markets in Perspective* resources, visit global.pimco.com/puttingmarketsinperspective.

Mapping our forecast

PIMCO's outlook for major economies for 2019



PIMCO forecast ranges, as of September 2018.
Real GDP and inflation projections reflect the midpoints of PIMCO's forecast ranges.

Forecasts	GDP		Inflation	
	2018	2019	2018	2019
Developed Markets	2.20	1.75-2.25	2.00	1.50-2.00
Emerging Markets	5.40	4.75-5.75	2.90	3.75-4.75
World	3.30	2.75-3.25	2.30	2.00-2.50

Charting sector returns

The year-to-year movements of a wide range of sectors, from best to worst, demonstrate the importance of maintaining a diversified portfolio.

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 YTD
Treasuries 13.74%	High Yield 46.06%	Commodities 16.83%	Municipals 10.70%	Emerging Markets 18.54%	U.S. Equities 32.39%	U.S. Equities 13.69%	Municipals 3.30%	High Yield 14.72%	Global Equities 22.40%	U.S. Equities 10.56%
Mortgages 8.52%	Global Equities 29.99%	U.S. Equities 15.06%	Treasuries 9.81%	U.S. Equities 16.00%	Global Equities 26.68%	Municipals 9.05%	Mortgages 1.51%	U.S. Equities 11.96%	U.S. Equities 21.83%	Global Equities 5.43%
Foreign Hedged 5.75%	Emerging Markets 28.18%	High Yield 14.26%	Emerging Markets 8.46%	Global Equities 15.83%	High Yield 6.31%	Foreign Hedged 8.79%	U.S. Equities 1.38%	Commodities 11.77%	Emerging Markets 9.32%	High Yield 1.86%
Global Bonds 5.58%	U.S. Equities 26.46%	Emerging Markets 12.04%	IG Corporate 8.35%	High Yield 14.58%	Foreign Hedged 1.18%	Global Bonds 7.59%	Foreign Hedged 1.36%	Emerging Markets 10.19%	High Yield 6.98%	Foreign Hedged 1.25%
U.S. Bonds 5.24%	Commodities 18.91%	Global Equities 11.76%	U.S. Bonds 7.84%	IG Corporate 9.37%	Global Bonds (0.14%)	IG Corporate 7.53%	Emerging Markets 1.23%	Global Equities 7.51%	IG Corporate 6.18%	Global Bonds 0.02%
Municipals (2.47%)	IG Corporate 16.04%	IG Corporate 8.47%	Mortgages 6.32%	Municipals 6.78%	Mortgages (1.45%)	Mortgages 6.15%	Global Bonds 1.02%	IG Corporate 5.63%	Municipals 5.45%	Municipals (0.40%)
IG Corporate (3.08%)	Municipals 12.91%	U.S. Bonds 6.54%	Global Bonds 5.40%	Foreign Hedged 6.46%	IG Corporate (2.01%)	U.S. Bonds 5.97%	Treasuries 0.84%	Foreign Hedged 4.90%	U.S. Bonds 3.54%	Mortgages (1.07%)
Emerging Markets (10.91%)	U.S. Bonds 5.93%	Treasuries 5.87%	High Yield 5.40%	Global Bonds 5.72%	U.S. Bonds (2.02%)	Emerging Markets 5.53%	U.S. Bonds 0.55%	Global Bonds 3.95%	Global Bonds 3.04%	U.S. Bonds (1.60%)
High Yield (23.31%)	Mortgages 5.75%	Mortgages 5.50%	Foreign Hedged 3.94%	U.S. Bonds 4.21%	Municipals (2.55%)	Treasuries 5.05%	IG Corporate (0.77%)	U.S. Bonds 2.65%	Mortgages 2.48%	Treasuries (1.67%)
Commodities (35.65%)	Global Bonds 5.09%	Global Bonds 4.61%	U.S. Equities 2.11%	Mortgages 2.60%	Treasuries (2.75%)	Global Equities 4.94%	Global Equities (0.87%)	Mortgages 1.67%	Foreign Hedged 2.48%	Commodities (2.03%)
U.S. Equities (37.00%)	Foreign Hedged 4.43%	Foreign Hedged 3.28%	Global Equities (5.54%)	Treasuries 1.99%	Emerging Markets (6.58%)	High Yield 3.49%	High Yield (2.79%)	Treasuries 1.04%	Treasuries 2.31%	IG Corporate (2.12%)
Global Equities (40.71%)	Treasuries (3.57%)	Municipals 2.38%	Commodities (13.32%)	Commodities (1.06%)	Commodities (9.52%)	Commodities (17.01%)	Commodities (24.66%)	Municipals 0.25%	Commodities 1.70%	Emerging Markets (3.46%)

Source: PIMCO, Bloomberg. Data as of 30 September 2018. Indexes: High Yield represented by ICE BofAML U.S. High Yield BB-B Rated, Constrained Index, Emerging Markets represented by JPMorgan Emerging Markets Bond Index (EMBI) Global, Mortgages represented by Bloomberg Barclays U.S. MBS Fixed Rate Index, Municipals represented by Bloomberg Barclays Municipal Bond Index, U.S. Bonds represented by Bloomberg Barclays U.S. Aggregate Index, Global Bonds represented by Bloomberg Barclays Global Aggregate (USD Hedged) Index, Foreign Hedged represented by Bloomberg Barclays Global Aggregate ex-USD (USD Hedged) Index, U.S. Equities represented by S&P 500 Index, Global Equities represented by MSCI World Index, Investment Grade Corporate represented by Bloomberg Barclays U.S. Credit Index, Commodities represented by Bloomberg Commodity Total Return Index, Treasuries represented by Bloomberg Barclays U.S. Treasury Index.

We expect the global expansion to continue in 2019, albeit at a slower pace.

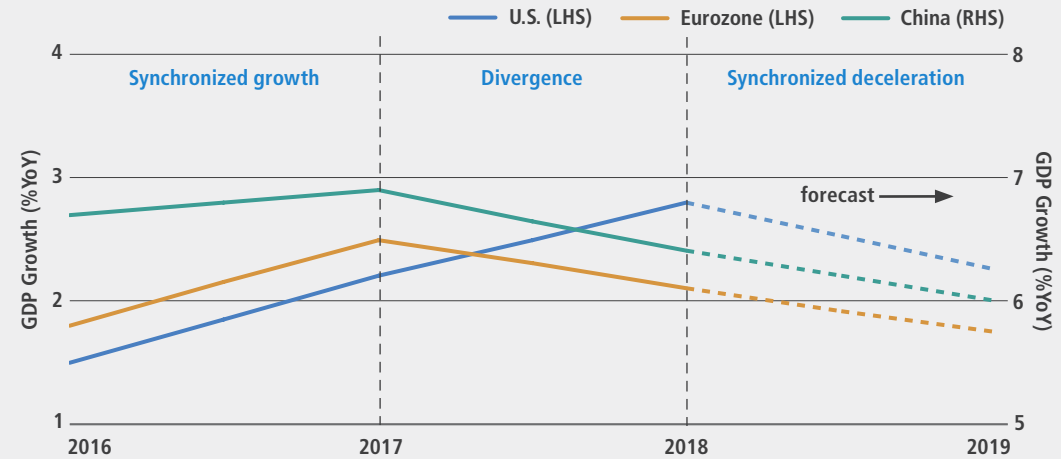
WHAT THESE CHARTS SHOW

PIMCO expects world GDP growth to moderate somewhat in 2019, but still remain above-trend at 2.75%–3.25%. With tighter global financial conditions, increased political and economic uncertainties, and fading U.S. fiscal stimulus, we think this year's economic divergence – with U.S. growth accelerating and other regions slowing – should give way to a more synchronized deceleration; the U.S., the eurozone and China should all see lower growth than this year (first chart). Investors should also be mindful of trade policy, which could be the main swing factor that affects near-term growth on either the upside or downside. Escalating trade tensions between the U.S. and China could lead to a sharp slowdown in global growth. Conversely, if trade relations improve significantly, global growth could be maintained at the current rate over the cyclical horizon. While no country is immune from the impacts of trade, some countries may be more vulnerable than others to deteriorating trade conditions, as the second chart shows.

WHAT IT MEANS FOR INVESTORS

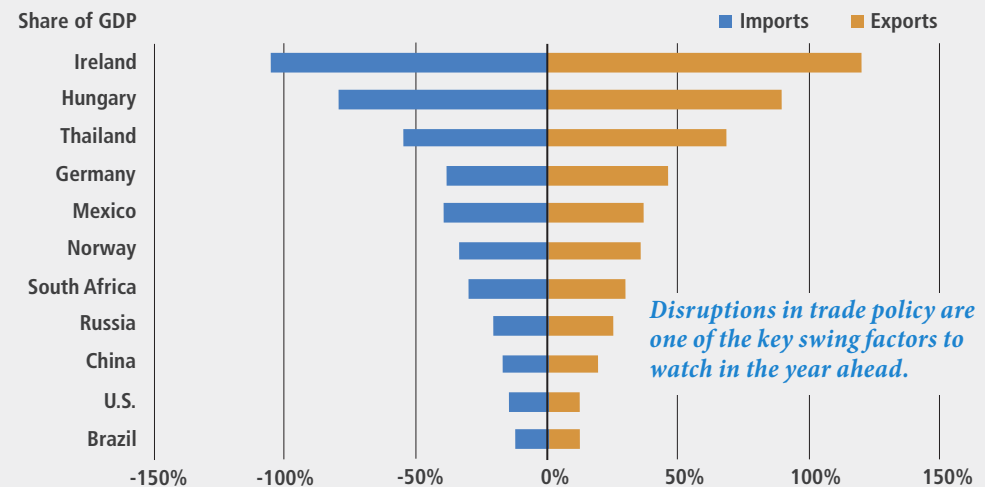
Investors should prepare for higher uncertainty ahead by diversifying their portfolios. If major policy mistakes can be avoided, a late-cycle environment could be maintained for some time. Therefore investors should consider positioning to take advantage of late-cycle dynamics and also to respond, should dislocations occur, by focusing on higher-quality assets and emphasizing liquidity.

Growing, but slowing



SOURCE: PIMCO, Bloomberg, as of 30 September 2018.

No country is immune to trade



Source: PIMCO, Haver Analytics, as of 30 September 2018 or most recent available.

Despite its advanced age, the expansion in the U.S. could continue for some time if major policy mistakes are avoided.

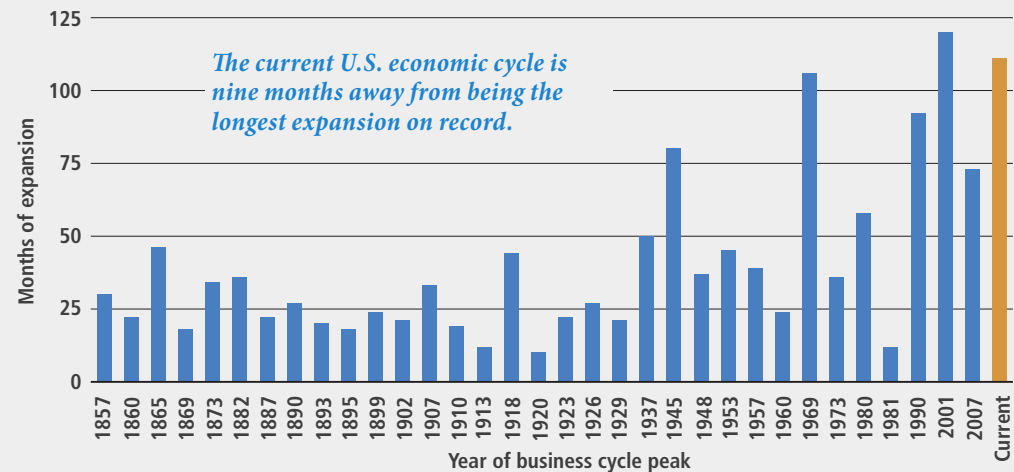
WHAT THESE CHARTS SHOW

Having begun in 2009, the U.S. expansion is close to becoming the longest expansion on record. While we expect real GDP growth to slow to 2.0%–2.5% in 2019, we expect to remain in this late-cycle state for some time. A recession over the next 12 months looks fairly unlikely, as we don't see signs of any of the traditional triggers: overinvestment, overconsumption or excessive wage growth. However, much of this will depend on the Fed's actions. One of the key factors to watch will be developments in the labor market. As the second chart shows, for the first time in history, there are more vacant jobs than unemployed workers available to fill them. In fact, many labor market measures suggest the labor market is well above pre-crisis levels, which could give rise to overheating and spur the Fed to push rates significantly above neutral. For now though, our base case suggests this will not happen; we expect the Fed will continue raising rates gradually and pause after reaching a roughly neutral 2.75%–3.0%. Barring a major policy misstep, the current expansion appears unlikely to end in the near term.

WHAT IT MEANS FOR INVESTORS

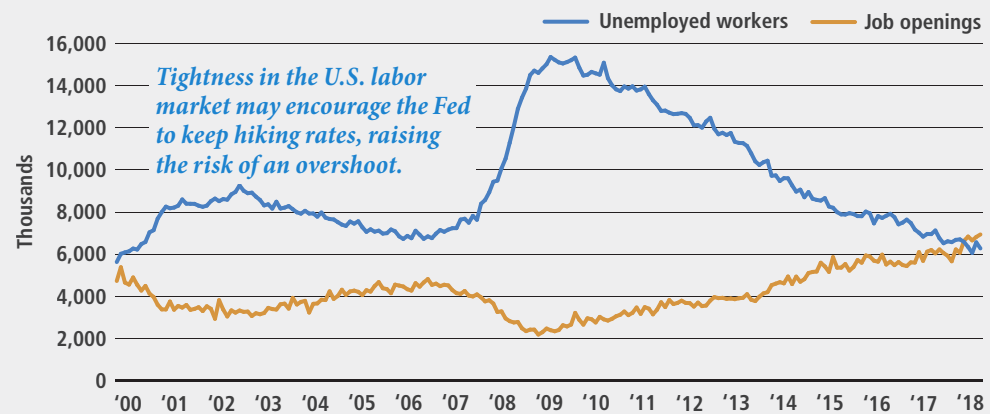
While the expansion is unlikely to run out of steam anytime soon, we expect higher levels of volatility – at a time when most valuations are fair to stretched. To take advantage of late-cycle dynamics, we like commodities, which have historically performed well toward the end of expansions, and are currently supported by robust economic activity and supply-side constraints. Other inflation-linked assets may similarly offer some insulation from market shocks.

Expansions don't die of old age



Source: PIMCO, National Bureau of Economic Research (NBER), as of 30 September 2018.

More job openings than people to fill them



Source: PIMCO, Haver Analytics, as of 31 July 2018 due to data lag.

Political risks and fears over trade war consequences have soured investor sentiment in Europe.

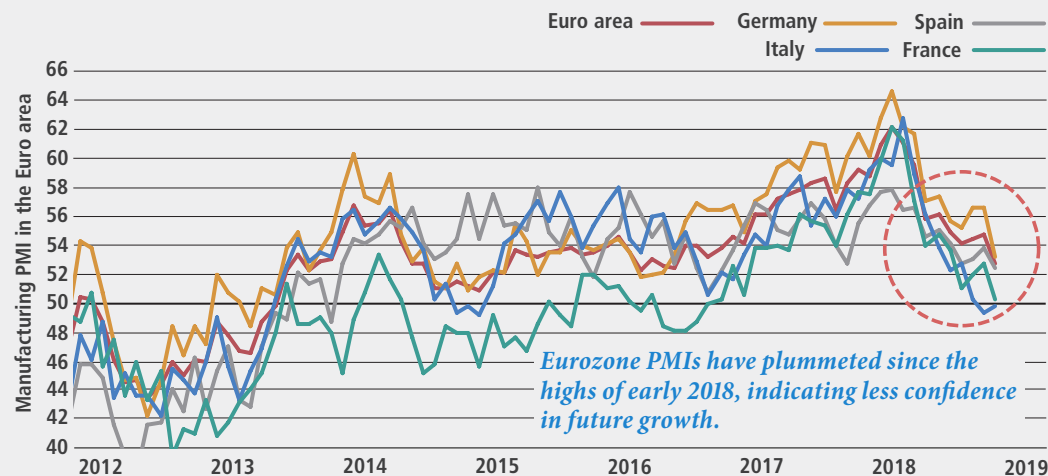
WHAT THESE CHARTS SHOW

At the start of 2018, it seemed possible that Europe could lead the global economy; however, as the first chart shows, confidence in eurozone growth has waned. With fears over a potential trade war and heightened political risks, recent purchasing manager indexes (PMIs) point to a growing pessimism within the region. Despite plummeting PMI levels this year, it is important to note that most country PMI levels remain above 50, in expansionary territory, with only Italy falling below this threshold. Political risk in Italy as well as fears over global trade relations have weighed on managers' confidence. In addition, we expect the European Central Bank (ECB) to end asset purchases at the end of 2018, which further clouds the outlook. While it is unlikely that interest rates will increase before the second half of 2019, monetary policy will be less accommodative, causing greater uncertainty in the near term.

WHAT IT MEANS FOR INVESTORS

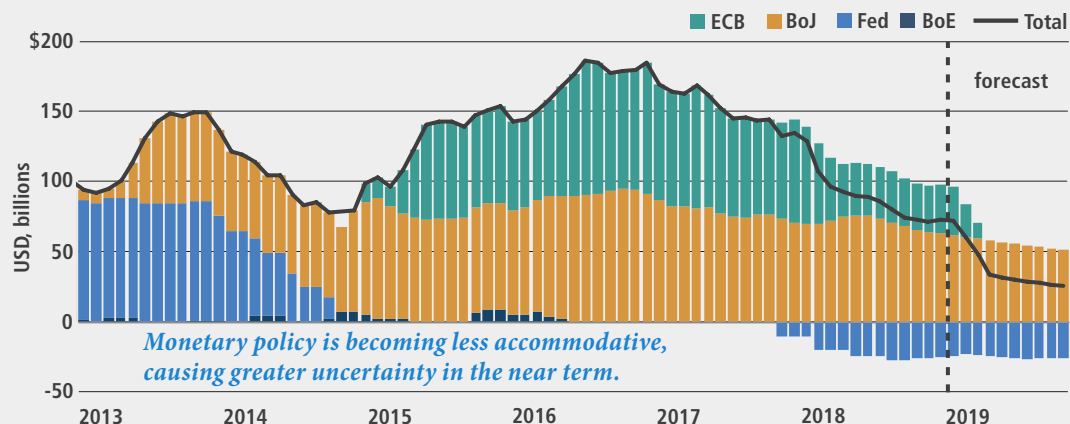
With a less certain outlook for the ECB, investors should exercise caution and limit exposure to sectors that rely heavily on central bank support. Investors should take a cautious view toward European peripherals and corporate credit risk, given tight valuations and risks of more populist governments.

Declining business sentiment weighs on growth in the eurozone



Source: PIMCO, Haver Analytics, as of 30 September 2018.

The era of balance sheet expansion is coming to an end



Source: PIMCO, as of 30 September 2018. For illustrative purposes only. Assumptions: PIMCO mortgage analytics calculations for Fed MBS paydowns assuming rates follow forwards. BOJ monthly purchases continue to very gradually decline (2% per month). The ECB stops asset purchases in December 2018. The BoE does not change the size of its balance sheet. Flows are shown as a 3m moving average in USD.

Despite strong fundamentals, emerging markets have faced a challenging external environment.

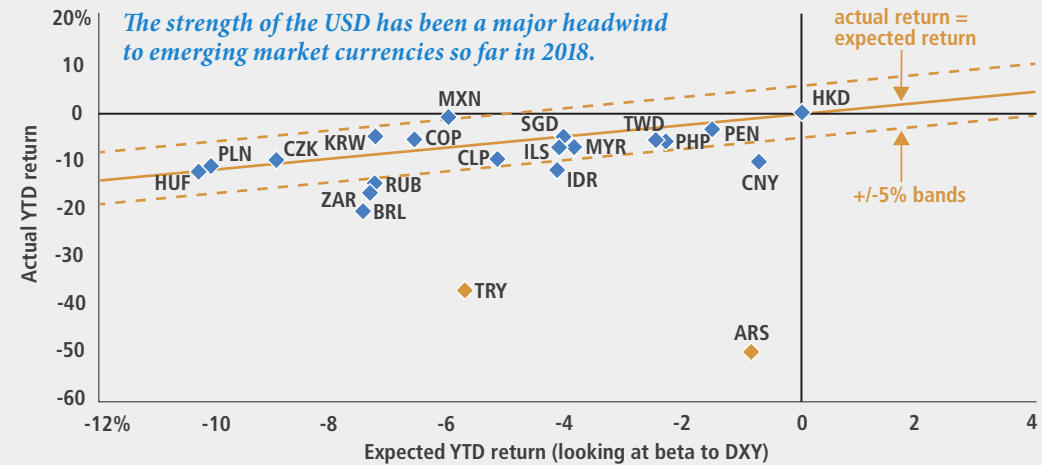
WHAT THESE CHARTS SHOW

External factors – the combination of ongoing trade tensions, the U.S. rate hiking cycle and weaker global trade growth – have weighed on emerging markets (EM) this year. As the first chart shows, EM countries remain condition takers, and are often susceptible to external factors, such as moves in the U.S. dollar (USD). Most EM currencies have moved broadly in line with what would be expected, given the appreciation of the U.S. dollar this year. However, outlier countries like Argentina and Turkey, which are more externally vulnerable due to their heavy reliance on dollar-denominated short-term financing, reacted more strongly to dollar strength. Based on an assessment of financing needs (second chart), countries such as Argentina and Turkey that have higher needs are more at risk than countries such as Russia or Chile, which require less external financing. Note that Brazil's gross financing need may be overstated relative to other countries because its gross financing need is composed of higher local need than external need. Aside from financing needs, the fundamentals of EM countries as measured by current accounts, debt levels and inflation dynamics are generally good.

WHAT IT MEANS FOR INVESTORS

Investors can find pockets of opportunity within EM, despite the uncertainties facing this set of countries. When assessing EM investments, it is important to take a country-by-country approach to get a full picture of risk in this highly differentiated market.

External factors can significantly influence emerging markets



Source: PIMCO, Bloomberg, as of 30 September 2018.

Not all countries are equally vulnerable to external factors



Source: PIMCO, Bloomberg Finance L.P.; and IMF staff estimates and projections. Note: For most countries, data on maturing debt refer to central government securities. For some countries, general government deficits are reported on an accrual basis. Assumes that short-term debt outstanding in 2018 and 2019 will be refinanced with new short-term debt that will mature in 2019 and 2020, respectively. Countries projected to have budget deficits in 2018 or 2019 are assumed to issue new debt based on the maturity structure of debt outstanding at the end of 2017. For country-specific details, please see "IMF Fiscal Monitor, April 2018."

Rates are likely to remain range-bound, while higher yields offer benefits.

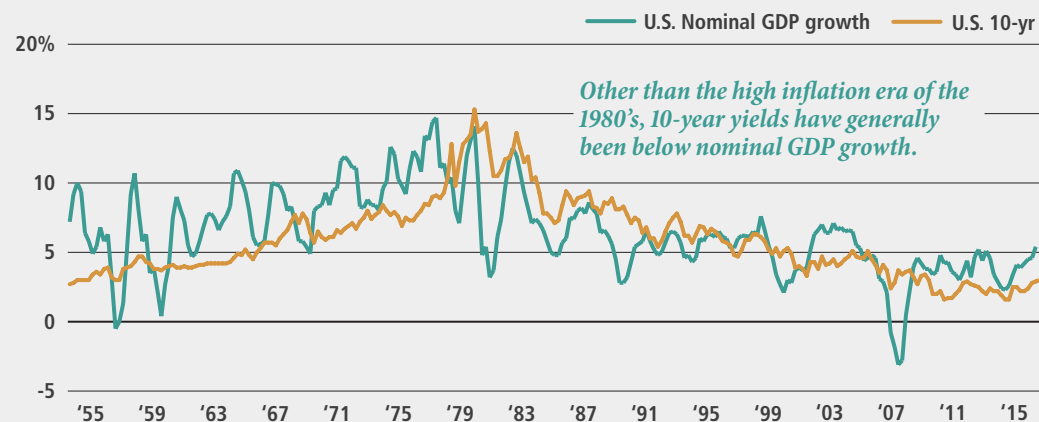
WHAT THESE CHARTS SHOW

With the Fed in tightening mode, investors have become increasingly concerned about how far rates will rise. As the first chart shows, other than the high inflation era of the 1980s, 10-year yields have historically traded just below nominal growth. Expectations for slowing growth in the U.S. should provide a relatively low ceiling for rates. In fact, with the U.S. 10-year already above 3% and nominal growth expected to remain in the 3.5% to 4.0% range, it's likely that most of the rise in yields has already occurred. Investors concerned about rising rates should also keep in mind that, while painful in the short-run, higher yields can actually benefit bond allocations over the long term. While bond prices typically fall when rates rise, the higher resulting yields present an opportunity for investors who can reinvest at those higher yields, thus generating higher returns than if rates had stayed the same or moved lower. In addition, with higher volatility, the diversifying benefits of core bonds are more important than ever. As the second chart shows, in the months when equities sold off the most, core bonds returned an average of 0.6%, while equities were down 7.7%, highlighting the value of bonds as portfolio diversifiers.

WHAT IT MEANS FOR INVESTORS

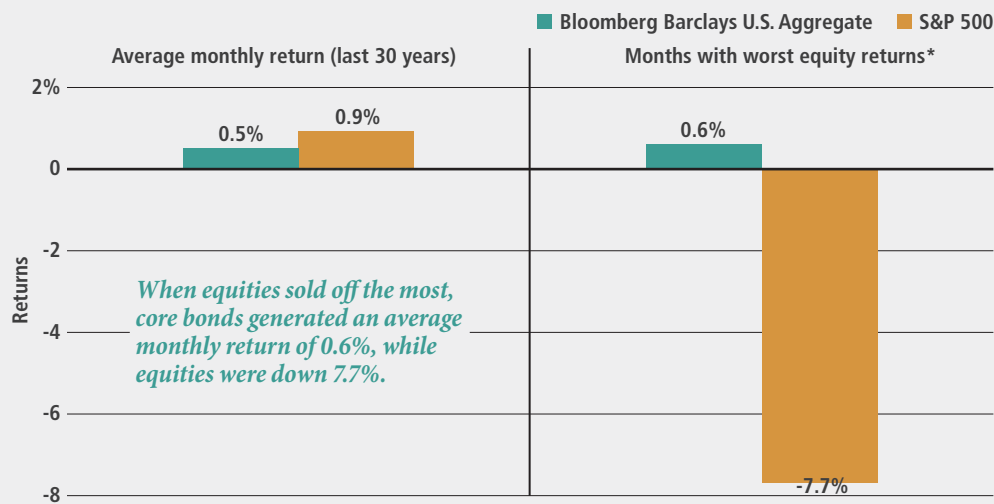
While investors may be concerned about interest rate risk, core bonds offer one of the most compelling ways to diversify equity exposure, which is likely to experience late-cycle headwinds. Historically, core bonds have been valuable diversifiers in equity market downturns, and in an environment of higher yields investors can actually be well compensated for diversifying their portfolio.

Rates should remain range-bound



Source: PIMCO, Bloomberg, as of 30 September 2018.

Core bonds provide diversification benefits in periods of market stress



Source: PIMCO, Bloomberg, as of 30 September 2018. *The worst equity returns are identified as the worst 25% of months with negative S&P 500 returns.

Excess returns from stock-picking may continue to be challenged in the years ahead, due to structural factors.

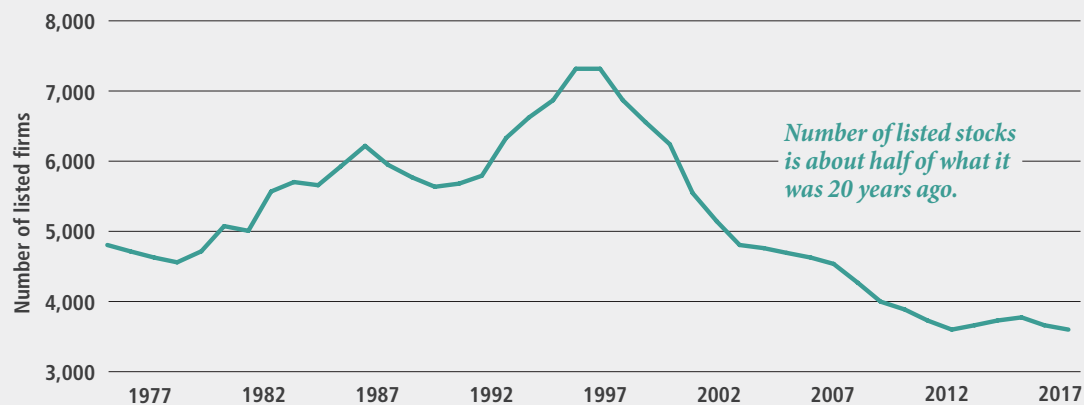
WHAT THESE CHARTS SHOW

Fewer stocks and more accessible information have created a structural headwind for traditional active equity managers. Twenty years ago there were approximately 7,300 listed stocks in the U.S. equity market, but increased mergers and acquisitions activity and fewer IPOs have helped cut that number in half to approximately 3,600 (first chart). In the large-cap space, this means industries are more concentrated, and companies are older, larger and more profitable. With advancing technology giving rise to the ever-increasing democratization of information, the days of an analyst having a research edge may have passed, along with the potential to generate attractive alpha consistently. Similarly, in the small-cap space, there were approximately 4,300 stocks beyond the Russell 2000 Index 20 years ago. Today, there are only about 600. This reduced opportunity set means there are fewer “undiscovered” companies, and it is more likely that a small-cap manager owns names in the benchmark, which by definition makes it more difficult to beat. The second chart shows the results of this structural challenge: 80%-90% of active U.S. equity managers have underperformed passive managers over five- and 10-year periods.

WHAT IT MEANS FOR INVESTORS

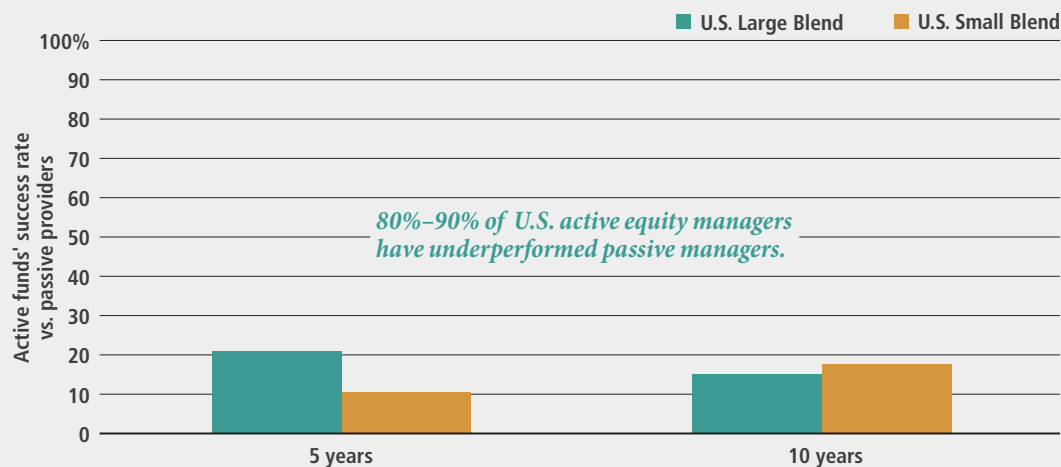
Investors should look beyond traditional stock-picking strategies for more reliable sources of excess returns, such as systematic or factor-based equity strategies. Innovative equity approaches that pair passive equity with active fixed income strategies in an effort to generate alpha may be particularly attractive in today’s environment.

Shrinking U.S. equity universe has reduced opportunities for stock pickers



Source: PIMCO, Credit Suisse, The Incredible Shrinking Universe of Stocks, 22 March 2017.

U.S. active equity managers have underperformed vs. passive equity index providers



Source: PIMCO, Morningstar’s U.S. open-end and exchange traded funds database, as of 30 June 2018.

A flattening yield curve provides compelling opportunities for flexible, short duration strategies.

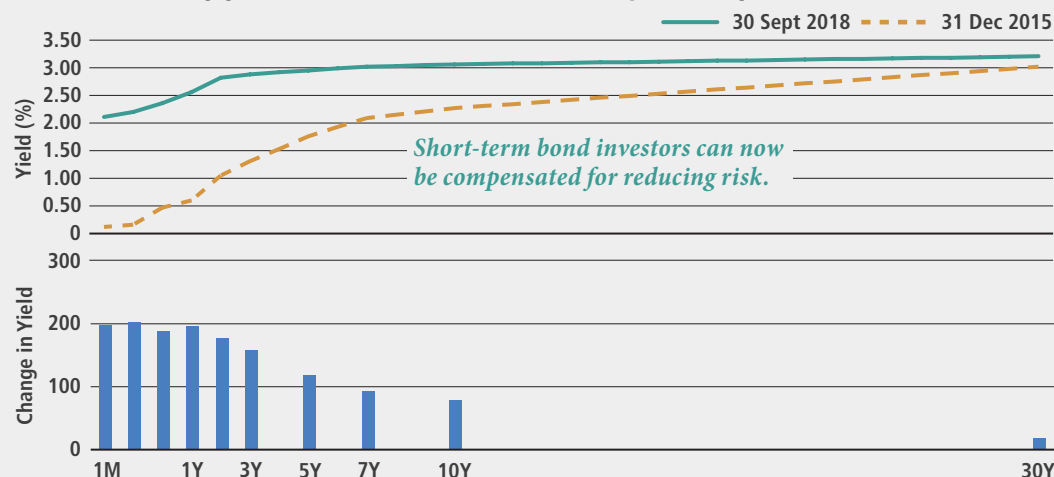
WHAT THESE CHARTS SHOW

The front end of the yield curve continues to provide compelling opportunities for investors. As the first chart shows, yields have gone up significantly, as the yield curve is the flattest it has been in the last 11 years. This means that investors are not being compensated for moving further out on the curve and can, instead, earn higher yields on the short end while reducing duration or interest rate risk. The second chart solidifies this point, by showing how attractive short-term bonds are now relative to longer-term bonds on a risk-adjusted basis. To take advantage of these higher yields at the front end of the curve, investors may consider diversified ultra-short-term or short-term strategies compared to traditional cash strategies. These more flexible strategies allow an investor to maintain liquidity, and offer better potential to keep pace with rate hikes for a modest increase in risk over traditional cash strategies.

WHAT IT MEANS FOR INVESTORS

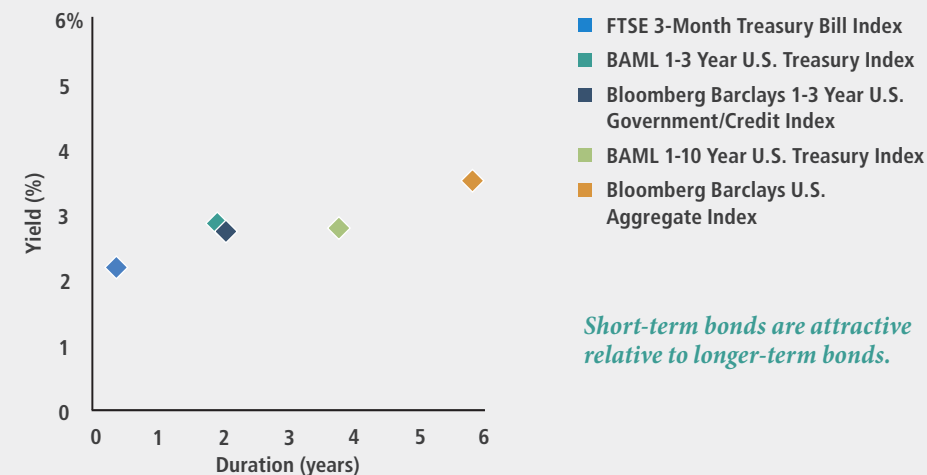
With attractive valuations, the front end of the yield curve represents an opportunity for investors now. By focusing on diversified, actively managed, ultra-short-term and/or short-term bond strategies, investors can earn higher yields with less interest rate risk without sacrificing liquidity or flexibility.

The U.S. Treasury yield curve has flattened over the past few years



Source: PIMCO, Bloomberg, as of 30 September 2018.

The ratio of yield to risk is better for short-term bonds



Source: PIMCO, Bloomberg, as of 30 September 2018.

Credit markets offer a variety of options for navigating an aging expansion.

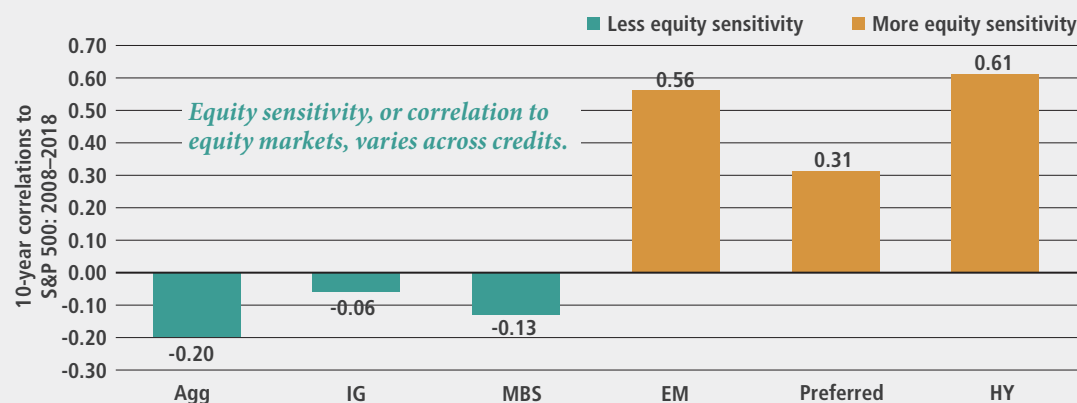
WHAT THESE CHARTS SHOW

Understanding the risk profiles of various credit sectors can help investors make the most of their credit allocations. As the first chart shows, equity sensitivity, or correlation to equity markets, varies across credit sectors. As such, investors looking to diversify their equity allocations may want to consider sectors with low equity correlations, such as investment grade corporates and agency mortgages. Those investors seeking lower volatility than equities with greater return potential than investment grade bonds may look to sectors with higher equity correlations, including high yield and preferreds. When building credit allocations, another important measure to evaluate is how much investors are being compensated for interest rate risk. The second chart measures the yield that investors are earning per unit of interest rate risk, measured by duration, in each credit sector.

WHAT IT MEANS FOR INVESTORS

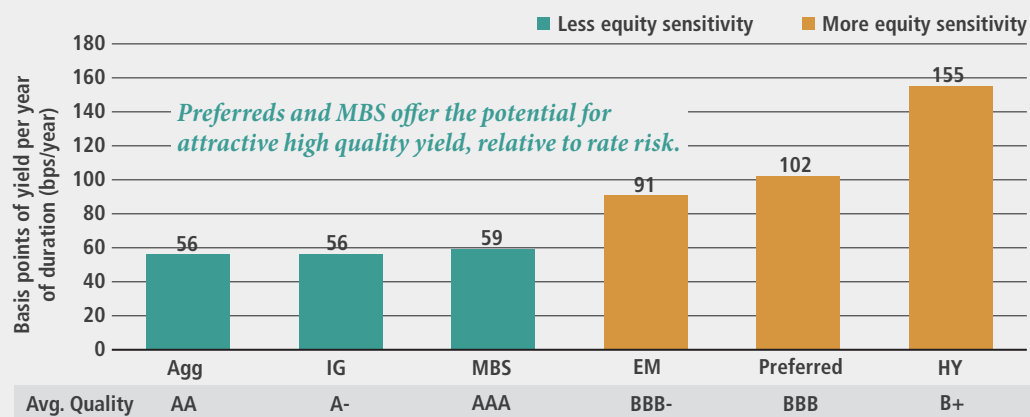
To make the most of credit allocations at this stage of the cycle, investors should consider the risk profiles of the different sectors and how they might affect their overall portfolios. Investors looking to de-risk their equity allocation, for example, while still earning attractive return potential might look to actively managed preferreds. Those who are looking to diversify their equity exposure may consider actively managed exposure to agency MBS.

Gauging correlation to equity markets across credit sectors



Source: PIMCO, Bloomberg, as of 30 September 2018. Agg represented by the Bloomberg Barclays U.S. Aggregate Index, MBS represented by the Bloomberg Barclays U.S. MBS Index, IG represented by the Bloomberg Barclays U.S. Corporate Index, Preferred/AT1 represented by the ICE BofAML U.S. Investment Grade Institutional Capital Securities Index, EM represented by the Bloomberg JPMorgan EMBI Global Index, HY represented by the Bloomberg Barclays U.S. Corporate High Yield Index.

Evaluating compensation for interest rate risk across credit sectors



Source: PIMCO, Bloomberg, as of 30 September 2018. Agg represented by the Bloomberg Barclays U.S. Aggregate Index, MBS represented by the Bloomberg Barclays U.S. MBS Index, IG represented by the Bloomberg Barclays U.S. Corporate Index, Preferred/AT1 represented by the ICE BofAML U.S. Investment Grade Institutional Capital Securities Index, EM represented by the Bloomberg JPMorgan EMBI Global Index, HY represented by the Bloomberg Barclays U.S. Corporate High Yield Index.

<i>Key topics</i>	<i>PIMCO's outlook</i>	<i>Implications</i>
Global economy	We expect the global expansion to continue in 2019, albeit at a slower pace.	Prepare for higher uncertainty ahead by diversifying portfolio risk.
U.S. economy	We expect real GDP growth to slow to 2.0%–2.5%, but the expansion should continue in the near-term.	To take advantage of late-cycle dynamics, we like commodities and inflation-linked assets.
European economy	Europe faces both near-term and long-term challenges due to political turmoil and softer economic data.	Take a cautious approach when investing in eurozone periphery sovereign debt, and focus on higher-quality assets.
EM economies	EM economies remain linked to DM economies, but have the ability to cushion against market shocks.	A selective approach to EM asset selection remains key to identifying the most compelling country opportunities.
Fixed income	In an environment of higher yields, investors are being rewarded to diversify.	The combination of improved return potential and diversification enhances the appeal of core bonds.
Equities	Excess returns from stock-picking may continue to be challenged in the years ahead, due to structural factors.	Look beyond traditional stock-picking strategies for more reliable sources of excess returns.
Short-term	The ratio of yield to risk has improved for short-term bonds.	Attractive yields at the front end of the yield curve present a compelling opportunity for investors.
Credit	The credit markets offer a variety of risk profiles for navigating an aging expansion.	Consider the risk profiles of the different sectors and how they might affect overall portfolios.

A word about risk

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 is 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 the current low interest rate environment increases this risk. Current 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. **Equities** may decline in value due to both real and perceived general market, economic and industry conditions. 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. **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. **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. **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. Certain **U.S. government securities** are backed by the full faith of the 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. Income from **municipal bonds** is exempt from federal tax, but may be subject to state and local taxes and at times the alternative minimum tax; a strategy concentrating in a single or limited number of states is subject to greater risk of adverse economic conditions and regulatory changes. **Management risk** is the risk that the investment techniques and risk analyses applied by PIMCO will not produce the desired results, and that certain policies or developments may affect the investment techniques available to PIMCO in connection with managing the strategy. **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.

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It is not possible to invest directly in an unmanaged index.

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