PIMCO – 2025 investment outlook: Global multi-sector fixed income – CIBC Diversified Fixed Income Fund

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[Featuring Prerna Gupta, Senior Vice President and Fixed Income Strategist, PIMCO]

[A headshot of Prerna Gupta]

[An image of a modern office building]

>> Prerna Gupta: Our 2025 outlook for fixed income is quite favourable. With S&P PE ratios in the 92nd percentile, we think equity valuations are somewhat stretched, and while our base case is a soft landing, the tail risks are elevated both on a recessionary and inflationary side, making fixed income a very important allocation in a client's portfolio.

We think fixed income is an attractive investment, again, because not only does it serve as an important diversifier and a downside protector, but also a potential for a strong forward-looking return profile, given the elevated yield environment. Furthermore, active management, we believe, is critical to capitalize on the opportunities that fixed income offers, given some of the uncertainty in the current environment. Unlike equities, where less than half the managers can often outperform passive peers, in fixed income, approximately two thirds of managers outperform passive peers.

From a macro perspective, we also largely expect inflation to continue to move towards central bank targets, both in the US and in most developed markets over the course of next year. We're largely expecting approximately 75 to 100 basis points of rate cuts over the next 12 months. And in this environment, we think fixed income will benefit from a strong starting yield profile and have upside potential from capital appreciation due to rate cuts or spread tightening in certain high quality sectors.

We are positioning the CIBC Diversified Income Strategy towards quality and liquidity, given what we view as somewhat stretched valuations and more credit sensitive areas. We are emphasizing more high quality sectors. One example of this is agency mortgage-backed securities. These are securities that have explicit or implicit guarantees from the US government, thus carrying little to no credit risk. They also are exceptionally liquid, the second most liquid asset class after US Treasury. And they're trading at valuations that we really haven't seen since the global financial crisis.

In addition, we like opportunities in senior securitized credit. In this sector, we are investing in pools of loans and the underlying in those pools of loans are residential loans as in the case of non agency mortgages or asset backed opportunities in many of our ABS positions. What we're emphasizing here is senior positions within these securitizations where we have subordination, either equity or mezzanine debt subordination below us. And our investment in the more senior parts of these securitizations can have a more resilient cash flow profile.

Furthermore, we remain selective around emerging markets and are looking to capitalize on some of the real yield curve differentials that exist between EM and DM countries. Within corporate credit, we have a more modest overall exposure given the tighter spreads we've been seeing, but we prefer investment grade over high yield at these valuations. Of course, in any fixed income portfolio, duration is very critical. We remain tactical around our overall duration positioning and have just north of four years of duration in the strategy at the moment. We are being mindful and incorporating a global opportunity set in our duration positioning, as well as remaining dynamic around yield curve positioning. Going forward, we are very excited about the CIBC Diversified Income Strategy, given its ability to be flexible, the diversification that it employed with its global opportunity set, and its ability to remain nimble in a changing market environment.

[Inspiring music]

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