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PIMCO APAC Investor Sentiment Survey Q4 2020: Asia-Pacific Findings

Behavioral science tells us that even in periods of relative calm, when it comes to making decisions, we're much less rational than we think. In periods of volatility it is even more important to keep our emotions in check, so we can make better decisions and achieve stronger investment outcomes.

To this end, this survey asks how volatility affects investors in Asia-Pacific markets: not just their portfolios, but their outlook, expectations and confidence in their own decision-making. It also asks which strategies investors think are most effective, and about the level of trust they place in different sources of information.

This is the second iteration of a regular survey of 2,500 investors with liquid assets of US$100,000 or more across five APAC markets to gauge sentiment and outlook in challenging times.

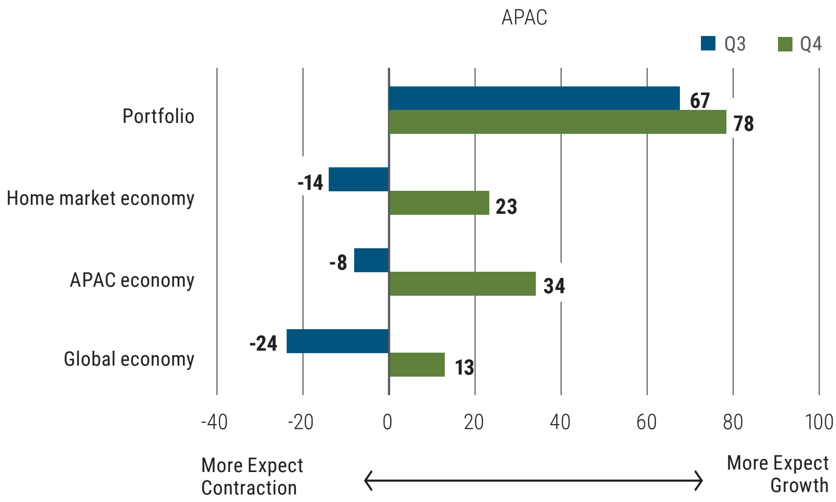
Key results of the latest survey for the APAC region include:

OPTIMISM SURGING AMONG ASIA-PACIFIC INVESTORS

Compared to the previous survey (Q3 2020), investors are much more optimistic about the macroeconomic picture over the next 12 months. Previously, the Investment Sentiment Indicator showed a marked disparity between investors' optimistic expectations for growth in their portfolios and their much gloomier outlook for local, regional and global economies, but this has now narrowed: macro outlooks that were previously net negative have turned sharply positive.

That said, investors still tend to be more optimistic about their own investments than the economy in general. Though there are good reasons to suspect 2021 will be better for most economies than 2020, the volatility of sentiment about the macroeconomic outlook may in some cases reflect biases that might lead investors to overreact to news in the media, such as the rolling out of vaccines or localized surges in virus cases.

APAC investor sentiment indicator
(% expecting growth minus % expecting contraction over next 12 months. Excludes "no change" responses)



The indicator is calculated by taking the percentage of those expecting growth and subtracting the percentage expecting contraction over the next 12 months. It excludes "no change" responses

Questions asked: What are your return expectations over the next 12 months (from today) for your investment portfolio?

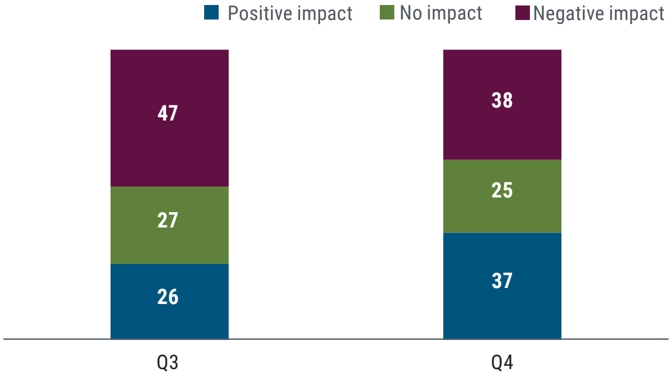
How do you expect your home economy/the APAC economy/the global economy to perform over the next 12 months?

INVESTORS VIEW PORTFOLIO IMPACT OF COVID-19 LESS NEGATIVELY

In the previous survey, many more investors expected the COVID-19 pandemic to have a negative impact on their portfolios over the next 12 months than thought otherwise. In the latest poll, however, almost as many say the pandemic will likely be positive (37%) for their holdings as say it will be negative (38%).

This could be because the pandemic recovery is beginning to present new investment opportunities, as economies start to regain momentum. When identifying these opportunities, investors should beware of potential biases which could lead them to over- or under-value some assets.

Expected impact of COVID-19 on portfolio over next 12 months (% respondents)



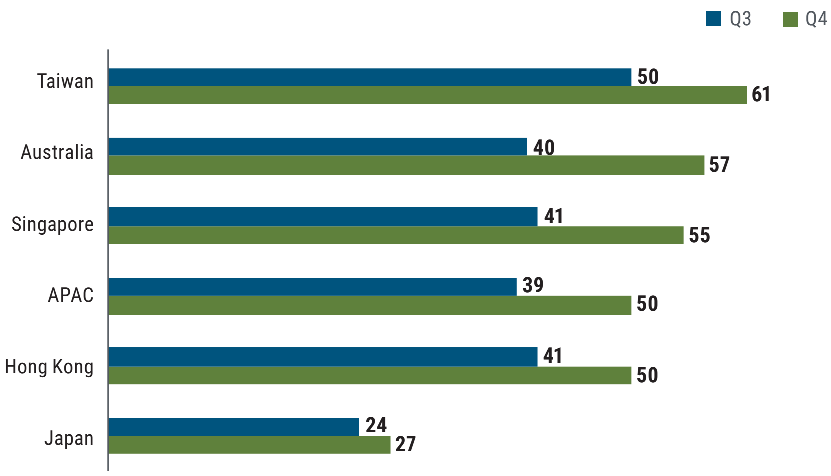
Question asked: Over the next 12 months, how much of an impact do you think the COVID-19 pandemic will continue to have on your portfolio?

MOST INVESTORS EXPECT TO BEAT THE AVERAGE, AND THE BENCHMARK

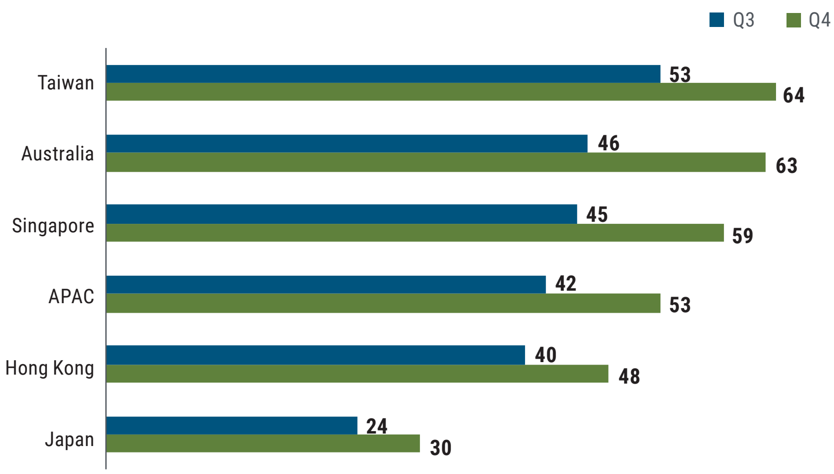
APAC investors have also become more confident of outperforming each other: 50% expect to outperform the benchmark index over the next 12 months, compared to 39% in the preceding quarter, while 53% expect to achieve better-than-average returns over the same period, up from 42% in Q3.

As it is very unlikely that all those who think they will achieve better-than-average returns will actually do so, investors should beware cognitive and emotional biases that can lead to unrealistic expectations. Simply being aware of these is one means of avoiding them, as explained in the article Nudging Yourself to Better Investment Decisions.

Confidence in ability to outperform benchmark index in the next 12 months (% respondents very/somewhat confident)



Confidence in ability to get better than average investment return over the next 12 months (% respondents very/somewhat confident)



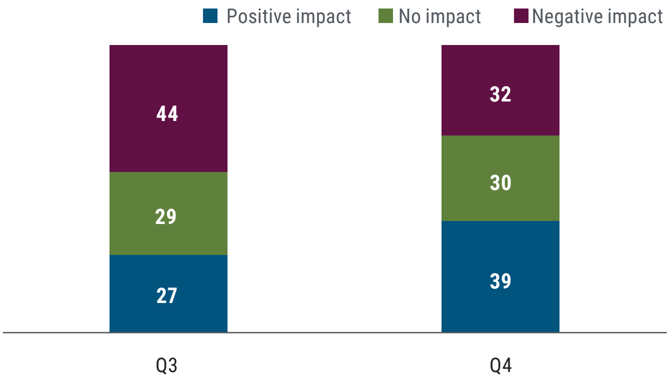
Question asked: How confident are you that you will be able to do the following over the next 12 months?

COVID-19 HAS BOOSTED APAC INVESTORS' SELF-BELIEF

In a reversal of the previous quarter, more respondents (39%) now say that the pandemic is likely to enhance their confidence in their investment decision-making than say it is likely to make them lose confidence (32%).

This may reflect the persistent disconnect between high asset valuations and macro data, but it may also be a sign of biases that can lead investors to overestimate their own abilities. For instance, as with the previous quarter, younger investors are still much more likely (55%) to always or often trust their own experience when investing than older ones (43%).

Expected impact of COVID-19 on confidence in investment decision making



Question asked: Over the next 12 months, how much of an impact do you think the COVID-19 pandemic will continue to have on confidence in your investment decision-making?

RISING INTEREST IN ACTIVE MANAGEMENT

The number of investors seeking to allocate more to active strategies saw a 5 percentage point gain from the previous quarter, with more than half of investors across the region (51%) intending to allocate more to active in the coming three months, against only a 2 point gain for those seeking to allocate more to passive.

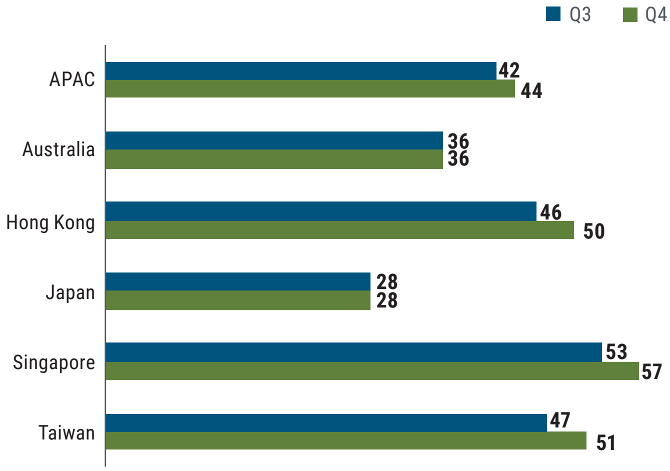
Strategy in the next three months (% respondents very likely/likely to allocate more towards stated strategy)

Question asked: In the next three months how likely is it that you will take the following actions? It excludes "no change" responses

DESPITE RISING CONFIDENCE, APAC INVESTORS NO MORE LIKELY TO ACT

Despite the transformation in respondents' views of the macro environment, and a stated intention among many to allocate more to active strategies, there is no sign of a corresponding rise in the propensity of investors to realign their portfolios. In Q4, 44% of respondents said they planned to significantly rebalance their portfolios in the next three months, up just two points from the previous quarter.

Likeliness to significantly rebalance/reallocate portfolio in coming three months (% respondents answering very/somewhat likely)



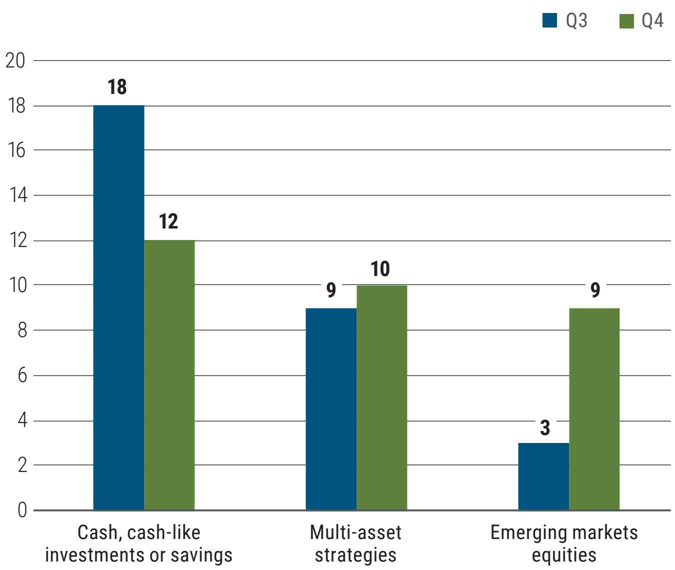
Question asked: In the next three months how likely is it that you will take the following actions?

CASH REMAINS MOST SOUGHT-AFTER ASSET

While net demand for cash and cash-like assets is down from the previous survey, it remains the most in-demand investment option. This suggests either ongoing risk-aversion among Asia-Pacific investors, despite their rising optimism, or a wish to retain greater liquid assets to allocate when opportunities present themselves.

According to the Asset Outlook Indicator, which takes the proportion of Asia-Pacific investors intending to seek greater exposure to assets in the coming three months and subtracts the proportion looking to reduce exposure, multi-asset strategies are the second-most popular asset, followed by emerging markets equities, which have taken over from dedicated ESG assets in third place.

APAC Asset Outlook Indicator: top three most in-demand assets (% expecting to buy minus % expecting to sell in next three months)



The indicator is calculated by taking the percentage of those expecting to buy and subtracting the percentage expecting to sell over the next 3 months. It excludes "no change" and "don't know" responses

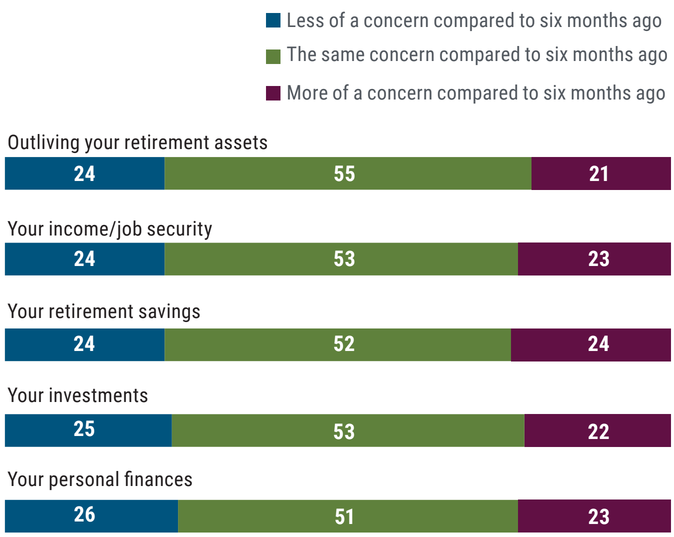
Question asked: Look forward to the next three months. How do you expect your exposure to the following assets to change?

ASIA-PACIFIC INVESTORS DON'T SEE WORRIES EASING YET

Despite Asia-Pacific investors' rising optimism about the macroeconomic environment, and growing confidence in their own investment acumen, a significant majority say they are just as concerned, or even more concerned about a variety of broader or longer-term financial issues than they were following the first wave of the pandemic in mid-2020. Only around one-quarter of respondents say they are less concerned than they were six months ago.

While there is no perfect answer to explaining the paradox between this pessimism and the optimism exhibited in other responses, investors should be wary of succumbing to various biases that might affect their decision-making, especially in times of volatility.

Level of concern compared to six months ago (% respondents, Q4)



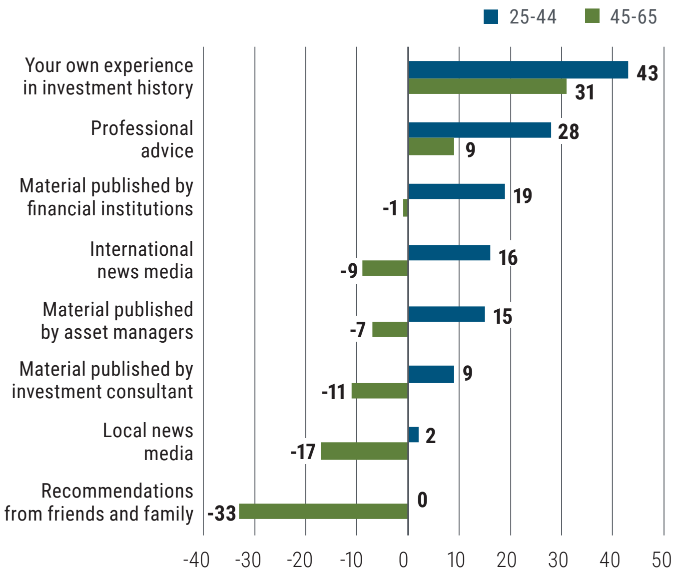
Question asked: How, if at all, have your concerns about the following shifted in the past 6 months?

GENERATIONAL DIVERGENCES IN SOURCES OF INFORMATION PERSIST

In terms of who they trust for investment advice, there are some notable demographic divergences between respondents. Older investors in APAC place notably less trust in the media than younger ones. They are also less receptive to materials published by investment professionals. Only "professional advice" and "own experience and investment history" have a net positive number of respondents from both age groups agreeing that they always or often trust these sources.

Compared to the previous quarter, there has been a slight (+5pt) increase in those who say they "always" or "often" trust professional investment advice, minus those who say they "seldom" or "never" do, perhaps suggesting that the turmoil of the past year has reinforced the value of professional insights.

Information Trust Indicator: Most and least trust information sources by age group (% "sometimes" or "often" trust minus % "seldom" or "never" trust)



Question asked: Which sources of information do you trust and use in your investment decision-making?

METHODOLOGY

This survey was conducted online within the Australia, Hong Kong, Singapore, Taiwan and Japan markets from November 27 through December 16, 2020, among 2,500 adults (500 in each market) aged 25 and older. All respondents had over US$100,000 in investable liquid assets and at least some experience with investing beyond their pension and superannuation accounts. Respondents had not participated in previous survey waves. This online survey is not based on a probability sample and therefore the theoretical sampling error cannot be calculated.

WHY BEHAVIORAL SCIENCE MATTERS

As our survey highlights, investors' expectations, actions and intentions may not always be consistent. Examples of this include a stated surge of optimism among APAC investors even amid rising concerns about their personal finances, and no growing inclination to reallocate portfolios despite a transformation of their views on the macroeconomic outlook (even though almost half still say that "timing the market" is their preferred investment strategy). Such discrepancies underline the importance of behavioral science and being aware of possible biases affecting decision-making.

At PIMCO, we are always striving to give our clients an edge and achieve the best possible outcomes. We have long believed that behavioral science can make us better investors and help our clients make better investment decisions. Classical economic theories assume that we make decisions in a rational manner. But, behavioral science tells us that when it comes to making decisions, we're much less rational than we think. Understanding these key concepts in behavioral science can help investors keep their emotions in check, make better decisions and achieve stronger investment outcomes.

CHARTS

Performance results for certain charts and graphs may be limited by date ranges specified on those charts and graphs; different time periods may produce different results. Charts are provided for illustrative purposes and are not indicative of the past or future performance of any PIMCO product.

FLUCTUATIONS

There can be no guarantee that the trends above will continue. Statements concerning financial market trends are based on current market conditions, which will fluctuate.

FORECASTS

Forecasts, estimates and certain information contained herein are based upon proprietary research and should not be interpreted as investment advice, as an offer or solicitation, nor as the purchase or sale of any financial instrument. Forecasts and estimates have certain inherent limitations, and unlike an actual performance record, do not reflect actual trading, liquidity constraints, fees, and/or other costs. In addition, references to future results should not be construed as an estimate or promise of results that a client portfolio may achieve.

INVESTMENT STRATEGIES

There is no guarantee that these investment strategies will work under all market conditions and each investor should evaluate their ability to invest for a long-term especially during periods of downturn in the market. No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those shown.

OUTLOOK

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 suitable for all investors and each investor should evaluate their ability to invest for the long term, especially during periods of downturn in the market. Outlook and strategies are subject to change without notice.

OPINIONS

The material contains statements of opinion and belief. Any views expressed herein are those of PIMCO as of the date indicated, are based on information available to PIMCO as of such date, and are subject to change, without notice, based on market and other conditions. No representation is made or assurance given that such views are correct. PIMCO has no duty or obligation to update the information contained herein.

RISK

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 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. **Commodities** contain heightened risk, including market, political, regulatory and natural conditions, and may not be suitable for all investors. **Currency rates** may fluctuate significantly over short periods of time and may reduce the returns of a portfolio. **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. **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. **Sovereign securities** are generally backed by the issuing government. Obligations of US government agencies and authorities are supported by varying degrees, but are generally not backed by the full faith of the US government. Portfolios that invest in such securities are not guaranteed and will fluctuate in value. **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. Income from **municipal bonds** may be subject to state and local taxes and at times the alternative minimum tax. Swaps are a type of derivative; swaps are increasingly subject to central clearing and exchange-trading. **Swaps** that are not centrally cleared and exchange-traded may be less liquid than exchange-traded instruments. **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 US government. Certain **US government securities** are backed by the full faith of the government. Obligations of US government agencies and authorities are supported by varying degrees but are generally not backed by the full faith of the US government. Portfolios that invest in such securities are not guaranteed and will fluctuate in value.

VOLATILITY (ESTIMATED)

We employed a block bootstrap methodology to calculate volatilities. We start by computing historical factor returns that underlie each asset class proxy from January 1997 through the present date. We then draw a set of 12 monthly returns within the dataset to come up with an annual return number. This process is repeated 25,000 times to have a return series with 25,000 annualized returns. The standard deviation of these annual returns is used to model the volatility for each factor. We then use the same return series for each factor to compute covariance between factors. Finally, volatility of each asset class proxy is calculated as the sum of variances and covariance of factors that underlie that particular proxy. For each asset class, index, or strategy proxy, we will look at either a point in time estimate or historical average of factor exposures in order to determine the total volatility. Please contact your PIMCO representative for more details on how specific proxy factor exposures are estimated.

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