1Q 2007

Market Outlook

PIMCO

Allianz
Global Investors

Global Growth to Slow; Europe, Asia to Decouple From U.S.

The most likely outcome for the global economy in 2007 is slower growth with modest disinflation. Growth in Europe and Asia will be less reliant on U.S. demand than in the recent past. Each of these major economic regions is likely to grow at an annual rate of about 2 percent. The slowdown in the U.S. will be triggered by weakness in the property market that will spill over into consumption. The predominant risk to PIMCO's forecast is that the downturn in the U.S. economy will be worse than we anticipate because of a more severe contraction in housing.

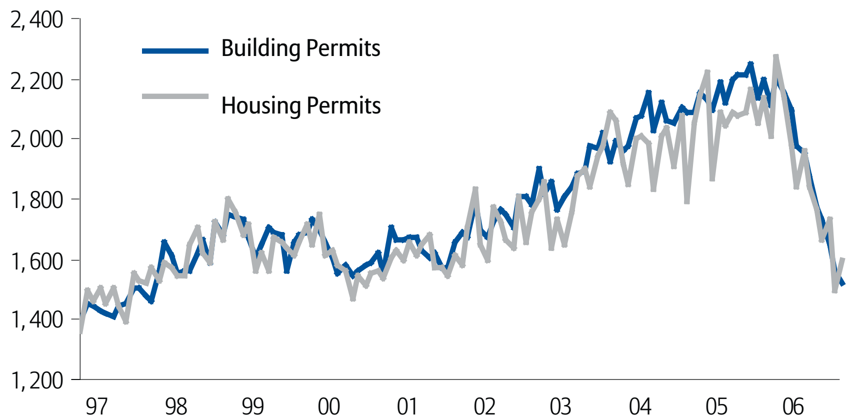
■ **Housing Recession to Hit Employment, Consumption**—While job destruction in the housing sector has been muted, changes in construction employment tend to lag more forward looking indicators such as housing starts and permits. Thus, job losses and pressure on consumer spending can be expected to kick in only after existing pipelines of housing starts have been completed. PIMCO believes that the magnitude and pace of these job losses will build throughout 2007, dampening consumption and resulting in slower economic growth overall.

■ **Fed Easing Cycle Will Likely Begin**—The decline in the U.S. housing and auto sectors will generate weakness on a broader level in 2007, causing the Federal Reserve to begin easing in the first half of the year. Once the Fed starts easing, it will be more difficult for the European Central Bank and the Bank of Japan to raise their own rates.

■ **European Growth Now Self-Sustaining**—Drivers of growth in Europe will be sturdy business confidence and robust capital spending, especially in Germany, where companies continue to make productivity-enhancing investments. The potential for increases in European consumption remain limited, however. Labor has little pricing power in Europe in the face of East European immigration and the threat of outsourcing. Germany's imposition of a Value Added Tax in early 2007 could further crimp consumption.

■ **China to Lead Asian Growth**—China's investment boom continues and will act as a growth multiplier throughout the region. This is especially true for Japan, a huge and growing exporter of capital goods to China. As long as

U.S. Building Permits, Housing Starts



SOURCE: U.S. Census Bureau / Haver Analytics
This chart is not indicative of the past or future performance of any Allianz Global Investors product.

China sustains its growth, the rest of the region will absorb the impact of a slower U.S. economy with little hardship.

■ **Emerging Markets Resilient as Global Growth Cools**—Emerging economies should feel the impact of decelerating U.S. growth but these effects will be far less severe than in the past. Improvement in their economic fundamentals, including more flexible exchange rates and abundant currency reserves, will likely cushion the slowdown.

■ **Inflation Contained Worldwide**—Inflation is likely to remain well contained globally and could even subside a bit. Slower growth, combined with competition from lower cost labor in developing economies, should help contain wage pressures. The decline in commodity prices that began in mid-2006 should also have a positive effect.

Focus on Select Strategies That Can Offer Highest Potential Reward Relative to Risk

In an environment where risk is masked by low volatility and risk premiums are near historical lows, PIMCO plans to focus on select strategies that offer the highest potential reward relative to the potential risks incurred. These strategies include:

■ **Duration**—We plan to target duration above the index in an effort to capture gains from falling rates as the U.S. economy weakens. In addition to the U.S., PIMCO likely will take exposure to European interest rates, which reflect more and faster central bank tightening than we believe is likely to occur once the Fed begins easing.

■ **Yield Curve**—PIMCO believes that global yield curves will steepen as slower growth unfolds and markets begin to anticipate future central bankeasing. We will emphasize short maturity positions in the U.S. and the U.K. in an effort to benefit from these trends.

■ **Credit**—Compression of risk premiums is especially apparent in corporate bonds as investors have crowded into this asset class in recent years in search of higher yields. PIMCO plans to retain its underweight to corporates as a slowing economy raises the risk that credit spreads will widen from historically low levels.

■ **Currency**—PIMCO expects the U.S. dollar to continue to weaken. Over a cyclical time frame, interest rate differentials that now favor the U.S. should narrow as the Fed begins easing. Over a longer time frame, a weaker dollar will be needed to help reverse the massive U.S. trade deficit. PIMCO plans to take positions in the yen, the euro, the Chinese renminbi and other emerging market currencies to take advantage of dollar weakness.

■ **Mortgage Overweight**—Mortgages remain attractive as a potential source of high quality yield for portfolios, especially when compared with corporate bonds and other riskier assets. There is modest potential for price gains in mortgages because of lower supply and demand from central banks looking to diversify their fixed income holdings. PIMCO will also seek gains from mortgage security selection.

Additional Strategies

PIMCO sees additional pockets of value beyond the major strategies noted above. While TIPS valuations are not especially compelling, we plan to maintain relatively small positions of longer maturity TIPS. These issues may benefit from demand from corporations looking to redress the asset/liability mismatch in their pension plans. Municipal bonds are also less attractive from a valuation standpoint now that their yields have moved closer to historical levels when compared to Treasury yields. Nevertheless, since the long end of the municipal yield curve is relatively steep, there is still some advantage in holding munis in an effort to enhance the income of the portfolio.

High yield and emerging market credits are relatively unattractive overall as their credit premiums have been driven to near-historic lows amid a flood of global liquidity. PIMCO plans to hold modest levels of these bonds when we can gain from security selection. Select shorter maturity high yield bonds are one example, as are holdings of Brazil, Russia and Mexico.

About PIMCO

PIMCO is one of the country's leading investment management firms. Founded in 1971, PIMCO has grown under the direction of its founder and Chief Investment Officer, Bill Gross. Today PIMCO manages more than $665 billion in assets for clients ranging from central banks to multinational corporations to individual investors. The firm attributes its success to a philosophy, process and track record that have transcended more than three decades of economic change.

Investors should consider the investment objectives, risks, charges and expenses of any mutual fund carefully before investing. This and other information is contained in the fund's prospectus, which may be obtained by contacting your financial advisor. Please read the prospectus carefully before you invest or send money.

Past performance is no guarantee of future results. This is not an offer or solicitation for the purchase or sale of any financial instrument. It is presented only to provide information on investment strategies and opportunities. The material contains the current opinions of the author, which are subject to change without notice. Statements concerning financial market trends are based on current market conditions, which will fluctuate. References to specific securities and issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities.

Each sector of the bond market entails risk. Shareholders of a municipal bond fund will, at times, incur a tax liability, as income from these funds may be subject to state and local taxes and, where applicable, the alternative minimum tax. The guarantee on Treasuries, TIPS and Government Bonds is to the timely repayment of principal and interest. Shares of mutual funds that invest in them are not guaranteed. Mortgage-backed securities are subject to prepayment risk. With Corporate bonds there is no assurance that issuers will meet their obligations. High-yield bonds typically have a lower credit rating than other bonds. Lower rated bonds generally involve a greater risk to principal than higher rated bonds. Investing in non-U.S. securities may entail risk as a result of foreign economic and political developments; this risk may be enhanced when investing in emerging markets. In an environment where interest rates may trend upward, rising rates will negatively impact most bond funds, and fixed income securities held by a fund are likely to decrease in value. Bond funds and individual bonds with a longer duration (a measure of the expected life of a security) tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations.

The target federal funds rate is the interest rate published by the Federal Open-Market Committee (FOMC) of the Federal Reserve Board as a target for overnight, inter-bank loans. The rate is a leading economic indicator of interest rate movements and Federal Reserve monetary policies. Duration is a measure of a portfolio's price sensitivity expressed in years. Allianz Global Investors Distributors LLC, 2187 Atlantic Street, Stamford, CT, 06902, www.allianzinvestors.com, 1-888-877-4626.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE