COMMENTARY

Pioneer Strategic Income Fund

Performance Analysis & Commentary | March 2018

Fund Ticker Symbols: **PSRAX** (Class A); **STRYX** (Class Y)

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First Quarter Review

- The Fund's Class A shares returned –1.08% at net asset value in the first quarter, and Class Y shares returned –1.00%, while the Fund's benchmark, the Bloomberg Barclays US Universal Index (the Bloomberg Barclays Index), returned –1.41%.
- While the Fund's absolute return was negative for the quarter, it did outperform the benchmark. Duration positioning and sector allocation results accounted for most of the Fund's benchmark-relative outperformance in the first quarter.
- The Fund's overall currency exposure detracted from relative performance, reflecting the underperformance of the portfolio's Swedish krone position.
- We continue to believe that economic growth may be strong in both the US and globally in 2018, buoyed by fiscal stimulus in the US and strong domestic demand in global markets.

Markets faced a volatile first quarter of 2018, driven first by higher interest rates and inflation fears, and later by concerns about a US/China trade war. The large US fiscal stimulus package in the form of tax cuts and higher spending outlays in the budget, greater-than-expected wage inflation, and a more hawkish Federal Open Market Committee (FOMC) also contributed to unsettled markets early in the first quarter.

As wage-inflation fears moderated and both the Federal Reserve (the Fed) and the European Central Bank (ECB) appeared more measured in their respective paths to monetary policy tightening, markets rallied in February, only to once again be caught up in trade-war fears in March.

President Donald Trump took a more aggressive approach to tariffs, first through a 25% tariff on steel and aluminum imports, which was subsequently undercut by exempting four of the five largest producers. More importantly, President Trump announced tariffs on $60 billion in Chinese imports as a first step towards his goal of cutting the United States' $300 billion trade deficit with China by $100 billion.

US Treasury rates rose through most of February but pulled back in March as inflation fears moderated and trade worries increased. The two-year Treasury yield rose from 1.89% at the beginning of the year to 2.26% at the end of February, then stabilized at that level (2.27%) by the end of the first quarter. The 10-year Treasury yield began the year at 2.41% and peaked at 2.95% in late February before ending the quarter at 2.74%.

Agency mortgage-backed securities (MBS) sustained negative excess returns during every month of the first quarter, as duration extended early in the three-month period due to higher interest rates and a "flight to quality" (Treasuries) in March. However, as the sell-off in corporate credit accelerated over the quarter, agency MBS wound up outperforming investment-grade corporates for the full three months. (Excess returns represent investment performance generated by a security or portfolio that exceed the "riskless" performance of a security generally perceived by the market to be risk-free, such as a certificate of deposit or a government-issued bond. Duration is measure of the sensitivity of the price, or the value of principal, of a fixed-income investment to a change in interest rates, expressed as a number of years.)

Other structured credit also fared better than corporates in the first quarter. Commercial MBS (CMBS) generated a –0.06% excess return, while non-agency MBS and ABS (asset-backed securities) returned 0.16% for the three-month period. Conversely, investment-grade corporates delivered a –0.79% excess return and an absolute return of –2.32%, one of the asset class's worst absolute quarterly returns since the financial crisis.

US investment-grade corporate spreads widened from 0.93% to 1.09% during the period, due to higher interest rates, lower demand from non-US investors – who balked at higher currency hedging costs – and high issuance. In addition, spreads on short-term corporates widened as corporations began repatriating non-US cash (selling short-term corporate investments), and due to lower demand in the face of high Treasury bill issuance. (Credit spreads are commonly defined as the differences in yield between Treasuries and other types of fixed-income securities with similar maturities.)

High-yield corporates, while negative, enjoyed relatively better performance than investment grade, benefiting from their higher yields and a low default outlook for the asset class. Over the first quarter, high-yield corporates returned –0.91% (–0.14% excess return) as spreads widened from 3.63% to 3.73%.

Floating-rate assets enjoyed strong performance this quarter in the wake of rising interest rates. Bank loans returned 1.53% for the three-month period, and event-linked bonds returned 1.76%.

US dollar (USD) emerging markets debt sold off this quarter due to higher rates, with sovereigns down by 2% and corporates down by 1.2%.

Finally, the USD fell in January and was relatively range-bound for the rest of the quarter. Overall, the USD fell by 2.9% over the three-month period. The Japanese yen and the euro rose by 5.9% and 2.5%, respectively, against the USD in the first quarter.

Sector Allocation and Security Selection

While the Fund's absolute return was negative for the quarter, it did outperform the benchmark. Duration positioning and sector allocation results accounted for most of the Fund's benchmark-relative outperformance in the first quarter.

The portfolio's short-duration position of –1.48 years relative to the Bloomberg Barclays Index benefited the Fund's performance this quarter as rates rose across the yield curve. The Fund's barbelled yield-curve position also made a positive contribution to benchmark-relative performance as the curve flattened modestly, reflecting the decline in longer-term yields in March.

With regard to sector allocation, the benefit of the Fund's overweights to a broad range of non-benchmark sectors offset the negative effect of a 30% underweight to nominal US Treasuries. A 7% portfolio allocation to bank loans and 4% exposure to insurance-linked securities accounted for much of the relative outperformance, with an 11% Fund position in collateralized mortgages (CMOs), a 1% allocation to municipals, and 3.7% exposure to Treasury Inflation-Protected Securities (TIPS) also aiding benchmark-relative returns.

Another positive contributor to the Fund's benchmark-relative results in the first quarter was the lower relative quality of the portfolio's holdings within ABS, industrials, and CMBS as compared with the Bloomberg Barclays Index. The portfolio's overweights to BBB-rated and high-yield issues were particularly beneficial to the Fund's relative returns in each of those sectors.

Security selection results within industrials, agency MBS, and ABS also contributed modestly to the Fund's benchmark-relative performance in the first quarter.

On the negative side, the Fund's overall currency exposure detracted from relative performance during the quarter, reflecting the underperformance of the portfolio's Swedish krone position. In addition, during March, when the Fund underperformed the Bloomberg Barclays Index, the Fund's short-duration positioning, which benefited benchmark-relative returns for the quarter as a whole, detracted from performance that month as average yields fell, reflecting lower long-term yields. The lower relative quality of the portfolio's holdings within industrials also had a small negative impact on benchmark-relative results during March, despite contributing positively to relative performance over the full quarter.

Current Outlook and Positioning

We continue to believe that economic growth may be strong in both the US and globally in 2018, buoyed by fiscal stimulus in the US and strong domestic demand in global markets, although financial conditions have tightened since the beginning of the year in the wake of rising interest rates.

We believe US gross domestic product (GDP) growth may increase to almost 3% over the year, benefiting from significant tax cuts, deregulation, and increased infrastructure spending. Solid employment conditions and income growth may continue to support consumption and the housing market, and higher corporate profits, benefiting from strong global growth, tax cuts, and the 100% expensing of fixed investment, may in turn support increased fixed investment.

Globally, we believe that the euro zone and Japan may also enjoy strong economic growth, driven by still-supportive monetary policy. While European purchasing manager indices have come off their peaks, they remain at high levels. However, political risk has risen in Europe, due to the triumph of populists in the recent Italian elections as well as union resistance to President Emmanuel Macron's implementation of labor reforms in France.

While China's economic growth may moderate in light of the government's goals to rein in credit growth from the shadow banking system and to improve the environment, we believe a modest decline in growth rates there will not disrupt overall Asia, or global GDP growth.

However, President Trump's more aggressive, protectionist trade policies could have a negative impact on growth and cause it to moderate. While it is reported that the US and China are negotiating over trade imbalances, President Trump has taken a much more vocal stance on trade than initially expected, and China has responded in kind. With China having the larger export exposure to the US, but also holding $1.3 trillion in US Treasuries, we believe China has more leverage. Nonetheless, should a full-blown trade war erupt, there will be no winners.

We continue to believe that inflation may surprise to the upside on a number of fronts in 2018 and that the FOMC may be behind the curve in raising rates. Nascent signs of wage-growth acceleration, service inflation, tighter labor markets in key industries such as homebuilding, and more restrictive immigration policies may contribute to higher price levels in the coming year. Producer price indices are already increasing, in fact, on the heels of higher prices for oil and metals. In addition, fiscal stimulus from the recent tax reform legislation as well as increased budgetary spending has the potential to further fuel inflation.

Finally, should China reduce its Treasury purchases, which could result in further USD depreciation, we would anticipate higher term premiums and inflation as a result.

The portfolio continues to be positioned for rising interest rates and a solid economy, with overweights to diverse credit sectors and an underweight to US Treasuries. We find most US government debt unattractive, while we believe credit sectors may benefit from stronger economic growth, lower taxes, and less regulation.

In addition, the portfolio continues to have a short-duration position relative to the Bloomberg Barclays Index. We believe the market may be behind the curve on rates, given solid GDP growth, little slack in the labor market, and core inflation that may reach 2% by year-end. The Fund holds long-duration TIPS, which we believe can help protect the portfolio should inflation surprise to the upside. While break-evens for 10-year and 30-year Treasuries now stand at 2%, those levels remain below long-term averages.

The Fund is underweight to agency MBS relative to the benchmark, but remains significantly overweight in residential MBS (RMBS) when one includes its 11% exposure to non-agency MBS. Fundamentals within the housing market remain positive, spurred by strong GDP growth and employment conditions, and still-reasonable mortgage rates. In addition, we believe that agency MBS offer investors reasonable value at current spreads. While certain investors are concerned about the increased net supply of approximately $400 billion forecast for 2018, we believe that the market has already priced in the forecast — a scenario we saw play out in 2017 when the Fed first announced plans to taper its balance sheet. The FOMC has been fully transparent in setting forth its tapering program, with respect to both its US Treasury and agency-MBS holdings. Moreover, the agency-MBS sector has already extended duration in response to higher rates, and so we do not foresee significant extension risk going forward. We believe high-quality, non-agency RMBS remain attractive, as they have pristine credit metrics and currently trade approximately 1.2 points behind agency MBS, which translates into a spread pickup of 0.20% to 0.25% versus agency MBS.

We believe certain structured securities, including ABS and CMBS, generally offer more attractive relative value than corporates, with less downside risk, and we have been finding attractive opportunities within non-benchmark ABS issues.

The portfolio now holds a modest underweight to investment-grade corporates relative to the Bloomberg Barclays Index. Over the past month, we added opportunistically to this exposure in an attempt to capitalize on spread-widening within shorter-term corporates. The Fund remains overweight to high-yield corporate issues, including bank loans.

Spreads in broad investment-grade corporates now stand nearly at fair value. However, those spreads reflect lower average quality and overall longer duration relative to historical levels. Tighter spreads and higher amounts of leverage are counterbalanced by strong fundamentals; however, we continue to believe that corporates face greater downside risk than agency MBS in a higher-volatility environment, which may result from a negative outcome on trade policy, unexpected changes in central-bank policies, or an unexpected slowdown in global economic growth.

Within corporates, the Fund continues to hold an overweight to financials relative to the benchmark, with solid exposure to European banks and reduced exposure to US banks, based on more attractive relative value in Europe and the positive outlook for GDP growth in the euro zone. More generally, we believe the banking and insurance sectors offer attractive relative value. While spreads are modestly lower than the broad corporate benchmarks, we believe financials offer lower event-risk of share repurchases, or of credit impairment due to merger-and-acquisition activity. Banks are currently focused on improving capital ratios to meet regulatory requirements, and we think they should also benefit from rising global yields and steepening yield curves.

The Fund remains overweight to the energy midstream sub-sector, a sector that has shown relatively less sensitivity to oil-price volatility. We expect continued spread-tightening in the space, which remains one of the wider-trading sub-sectors within investment grade. OPEC's (Organization of Petroleum Exporting Companies) extension of production cuts should help offset increased production from US shale producers, and the global demand outlook has improved.

The portfolio's allocations include certain emerging markets exposures, with a similar weighting to that held in the benchmark. We prefer to invest in emerging markets countries that are undertaking important structural reforms, such as India, Indonesia, and Argentina. Emerging markets in general have been benefiting from stronger global economic growth and increased domestic demand in those markets. Valuations in the emerging markets have, however, also become extended, although we believe fundamentals are generally solid.

We believe the USD may depreciate modestly going forward. Given the higher volatility associated with currencies as well as extended valuations in several areas, we have been cautious in adding to the Fund's non-USD developed and emerging markets currency exposures. Since the beginning of the year, we have increased portfolio exposure to the Swedish krone, based on strong GDP growth, the country's solid balance sheet, and an expectation for more-hawkish monetary policy. We have also added portfolio exposure to the Japanese yen, again based on strong GDP as well as a good outlook for exports. Finally, the Fund holds long exposures in select emerging markets currencies that offer attractive carry, from countries that feature strong GDP growth and disciplined fiscal policy.

Performance Review

Pioneer Strategic Income Fund's Class A shares returned –1.08% at net asset value in the first quarter, and Class Y shares returned –1.00%, while the Fund's benchmark, the Bloomberg Barclays US Universal Index, returned –1.41%.

Average Annual Total Return (Class A shares)

March 31, 2018	(at NAV)	(at POP)	Bloomberg Barclays US Universal Index
1 year	2.33%	–2.23%	1.52%
3 years	2.91%	1.33%	1.73%
5 years	2.86%	1.90%	2.19%
10 years	5.58%	5.10%	4.01%

Average Annual Total Return (Class Y shares)

March 31, 2018	(at NAV)	Bloomberg Barclays US Universal Index
1 year	2.67%	1.52%
3 years	3.24%	1.73%
5 years	3.18%	2.19%
10 years	5.92%	4.01%

Expense Ratios (As of prospectus dated February 1, 2018)

Class A shares: Gross, 1.06%

Class Y shares: Gross, 0.74%

Call 1-800-225-6292 or visit amundipioneer.com for the most recent month-end performance results. Current performance may be lower or higher than the performance data quoted.

The performance data quoted represents past performance, which is no guarantee of future results. Investment return and principal value will fluctuate, and shares, when redeemed, may be worth more or less than their original cost.

The NAV results represent the percent change in net asset value per share. Returns would have been lower had sales charges been reflected. The POP performance data reflects deduction of the maximum 4.50% sales charge at the beginning of the period. All results are historical and assume the reinvestment of dividends and capital gains. Other share classes are available for which performance and expenses will differ.

Class Y shares are not subject to sales charges and are available for limited groups of eligible investors, including institutional investors.

Performance results reflect any applicable expense waivers in effect during the periods shown. Without such waivers fund performance would be lower. Waivers may not be in effect for all funds. Certain fee waivers are contractual through a specified period. Otherwise, fee waivers can be rescinded at any time. See the prospectus for more information.

A Word about Risk:

Investments in high-yield or lower-rated securities are subject to greater-than-average price volatility, illiquidity and possibility of default.

When interest rates rise, the prices of fixed-income securities in the Fund will generally fall. Conversely, when interest rates fall, the prices of fixed-income securities in the Fund will generally rise.

Investments in the Fund are subject to possible loss due to the financial failure of issuers of underlying securities and their inability to meet their debt obligations.

Prepayment risk is the chance that an issuer may exercise its right to prepay its security, if falling interest rates prompt the issuer to do so. Forced to reinvest the unanticipated proceeds at lower interest rates, the Fund would experience a decline in income and lose the opportunity for additional price appreciation.

The securities issued by US government-sponsored entities (e.g., FNMA, Freddie Mac) are neither guaranteed nor issued by the US government.

The portfolio may invest in mortgage-backed securities, which during times of fluctuating interest rates may increase or decrease more than other fixed-income securities. Mortgage-backed securities are also subject to prepayments.

Investing in foreign and/or emerging markets securities involves risks relating to interest rates, currency exchange rates, economic, and political conditions.

At times, the Fund's investments may represent industries or industry sectors that are interrelated or have common risks, making it more susceptible to any economic, political, or regulatory developments or other risks affecting those industries and sectors.

These risks may increase share price volatility.

The Bloomberg Barclays US Universal Index is unmanaged, and represents the union of the USAggregate Index, the US High Yield Corporate Index, the 144A Index, the Eurodollar Index, the Emerging Markets Index, the non-ERISA portion of the CMBS Index, and the CMBS High Yield Index. Municipal debt, private placements and non-dollar-denominated issues are excluded. Index returns are calculated monthly, assume reinvestment of dividends and, unlike mutual fund returns, do not reflect any fees or expenses associated with a mutual fund. It is not possible to invest directly in an index.

Individuals are encouraged to seek advice from their financial, legal, tax, and other appropriate advisers before making any investment or financial decisions or purchasing any financial, securities or investment-related product or service, including any product or service described in these materials. Amundi Pioneer does not provide investment advice or investment recommendations

Top 10 Holdings

		% of Portfolio as of March 31, 2018
1.	US Treasury Inflation Indexed Bonds, 0.75%, 2/15/45	2.06%
2.	US Treasury Inflation Indexed Bonds, 1.00%, 2/15/46	1.15%
3.	International Bank for Reconstruction & Development, 3.50%, 1/22/21	0.72%
4.	Wells Fargo & Co., 7.50%, 12/31/49 (Perpetual)	0.70%
5.	New Zealand Government Bond, 5.50%, 4/15/23	0.66%
6.	Bank of America, 7.25%, 12/31/49 (Perpetual)	0.52%
7.	International Finance Corp., 6.30%, 11/25/24	0.51%
8.	US Treasury Inflation Indexed Bonds, 0.875%, 2/15/47	0.42%
9.	FN 30-Year Pool, 3.50% (#BH7772), 8/1/47	0.42%
10.	Fannie Mae, 5.00%, 11/1/44	0.41%

The portfolio is actively managed, and current holdings may be different. The holdings listed should not be considered recommendations to buy or sell any security listed.

Before investing, consider the Fund's investment objectives, risks, charges and expenses. Contact your advisor or Amundi Pioneer Asset Management for a prospectus or summary prospectus containing this information. Read it carefully.

Individuals are encouraged to seek advice from their financial, legal, tax, and other appropriate advisers before making any investment or financial decisions or purchasing any financial, securities or investment-related product or service, including any product or service described in these materials. Amundi Pioneer does not provide investment advice or investment recommendations.