

The Monthly Pension Review: May 2022

Lower discount rates reduced funded status by 1.5%

May Market Summary

- Muted equity markets and a drop in discount rates reduced funded status by 1.5% - Assets returned -0.6% while liabilities increased by 0.7%⁽¹⁾
- U.S. equity markets were generally flat month over month – The S&P 500 Index sold off 5.6% by mid May before snapping back during the last 6 trading sessions, finishing the month roughly unchanged.
- The yield on the Bloomberg Barclays Long Credit Index declined 4 basis points (bps) – Long credit spreads tightened 10 bps while the underlying Treasury basis increased 6 bps.

Market Watch	Dec-2020	Dec-2021	Apr-2022	May-2022
Funded Status	90.3%	97.9%	106.7%	105.2%
FTSE Discount Rate ⁽²⁾	2.23%	2.63%	4.12%	4.09%
Long Credit Yield ⁽²⁾	2.78%	3.10%	4.78%	4.74%
US 30Y TSY Yield	1.64%	1.90%	3.00%	3.05%
S&P 500	3,756	4,766	4,132	4,132

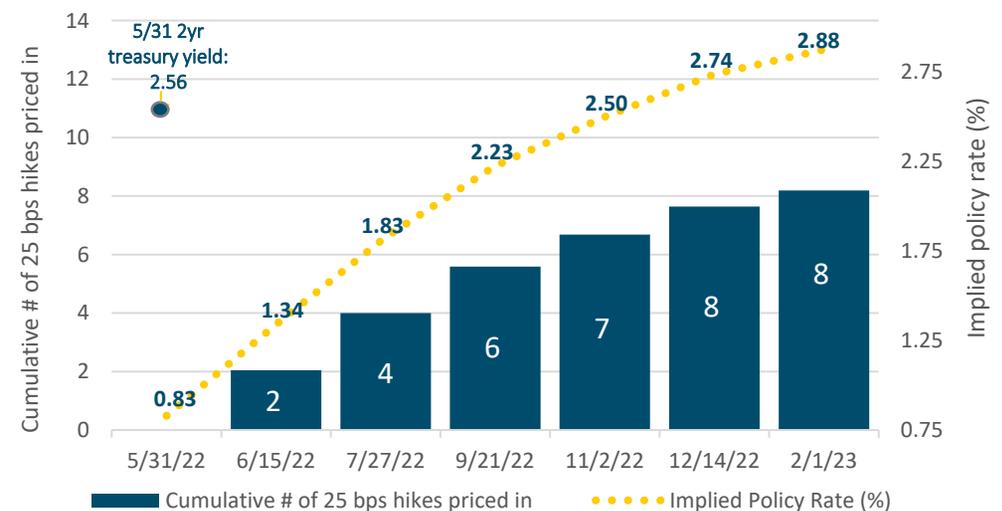
SPOTLIGHT: DE-RISK, DIVERSIFY, DEFINITELY DE-RISK

- The year-to-date run up in interest rates has been a catalyst for pension plans as lower liability values boosted funded status comfortably over 100% for the top 100 plans.
- With the market pricing in roughly eight rate hikes over the next eight months (see chart on the right), current valuations may already have baked in the majority of future rate increases.
- For most pension plan sponsors, we believe all eyes should be on de-risking the plan to lock in the recent funded status improvements at attractive interest rate levels.
- As sponsors consider rotating out of growth and in to hedging-oriented assets, now may be a good time to fine tune the fixed income portfolio as it becomes a greater portion of the overall portfolio.
- Adding alternative sources of credit such as investment grade private credit or securitized credit can provide diversification and excess yield to traditional corporate bonds while also maintaining the correlation to liability discount rates, making them strong complements to existing hedging portfolios.
- Additionally, for late stage plans looking to minimize funded status volatility, more customized cash flow focused portfolios can better align the duration, credit and curve risks relative to the plans liabilities.

Milliman Pension Funding Index (May Estimate)



Implied federal funds rate & number of 25 bps hikes priced in



Source: Bloomberg

(1) Funded Status for the current month is estimated and subject to change as final numbers are released. Data from reference Bloomberg Indices.
 (2) The Long Credit yield corresponds to the Bloomberg Long Credit Index. The Citi Discount Rate corresponds to the FTSE short pension liability index.
 (3) Reference data is from Bloomberg indices.