

The Monthly Pension Review: November 2022

Lower rates increased liabilities and reduced funded status despite strong investment performance



November Market Summary

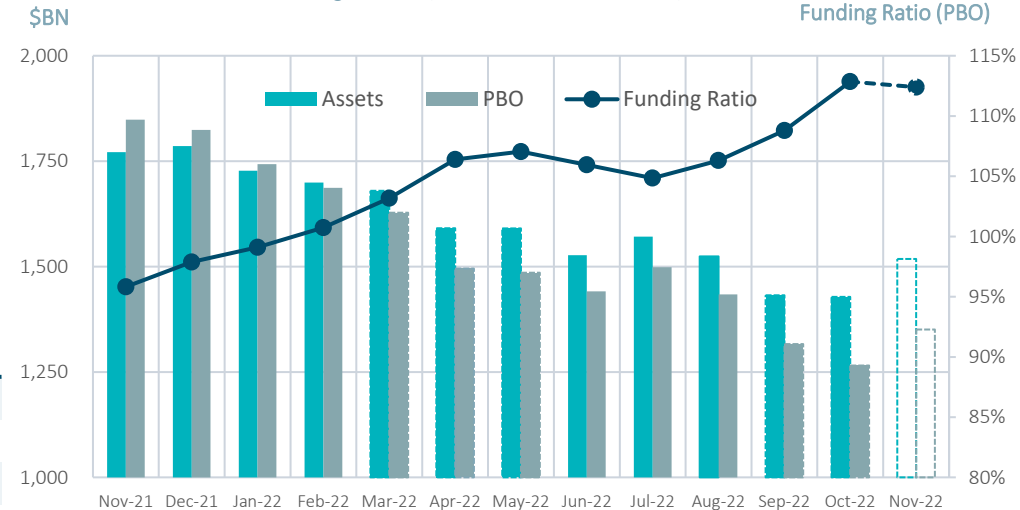
- Despite strong performance across risk assets in November, lower interest rates increased liabilities and reduced funded status by 0.4% – Assets returned 6.3% while liabilities grew by 6.7%.⁽¹⁾
- Equity markets posted their second straight month of gains – A lower than expected CPI print was the catalyst behind a 5.4% rally in the S&P 500 in November. Year to date, the index is now down 14.4%.
- After breaching 6% for the first time in over a decade, the Long Credit Index yield fell 65 bps to 5.46% in November – Credit spreads rallied 25 bps in sympathy with broader risk assets while the underlying Treasury basis decreased by 40 bps.

Market Watch ⁽²⁾	Dec-20	Dec-21	Oct-22	Nov-22
Funded Status	90.3%	97.9%	112.8%	112.4%
FTSE Discount Rate	2.23%	2.63%	5.43%	4.83%
Long Credit Yield	2.78%	3.10%	6.12%	5.46%
US 30Y TSY Yield	1.64%	1.90%	4.16%	3.74%
S&P 500	3,756	4,766	3,872	4,080

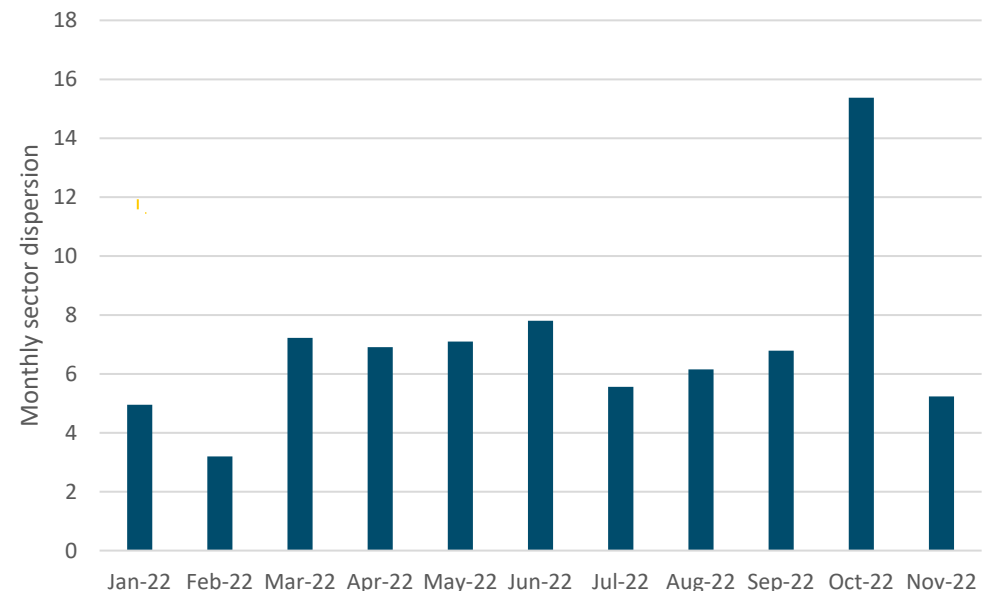
SPOTLIGHT: IT'S A BOND PICKERS MARKET

- For most of the year, volatility across corporate credit markets has been primarily driven by macro factors such as inflation and interest rates.
 - As a result, most corporate credit sectors traded in lock step with one another for the first three quarters of the year.
- Recently however, there has been more sector dispersion across the market, a sign that credit fundamentals are starting to drive valuations as opposed to broader economic factors.
 - We saw this manifest in October where the change in sector spreads (focusing on BBBs to control for credit quality) ranged from –28ps (finance companies) to +37 bps (other industrials), equating to 65bps of dispersion between the widest and tightest sector. For context, the biggest monthly dispersion this year prior to this was only 33 bps.
 - In the most recent November credit rally, we saw correlation across sectors increase as the risk on appetite permeated throughout the markets following the better-than-expected CPI print.
 - However, if we see spreads back up off of their recent tightens, we will be keeping a close eye on the possibility for the sector dispersion dynamic to return.
- From a portfolio management perspective, this type of market puts an emphasis on security selection over top-down macro positioning, particularly if credit spreads widen again.
 - As an example, we have seen issuers in the banking sector generally trading wide to what their fundamentals suggest however this has primarily been a function of outsized issuance across the sector.
 - As bottom-up managers, we are focused on finding issuers with strong balance sheets that have the potential to outperform peers once the pace of issuance slows.

Milliman Pension Funding Index (November Estimate)



Dispersion of monthly changes in sector credit spreads



(1) Funded Status for the current month is estimated and subject to change as final numbers are released. Data from reference Bloomberg Indices. Funded status is in reference to the top 100 US corporate pension plans sourced from Milliman.
 (2) Funded Status source: Milliman. FTSE Discount Rate source: FTSE. Long Credit Yield source: Bloomberg. US 30Y TSY Yield source: Bloomberg. S&P 500 source: Bloomberg. Long Corporate Index source: Bloomberg

Nothing in this paper should (i) be construed to cause any of the operations under SLC Management to be an investment advice fiduciary under the U.S. Employee Retirement Income Security Act of 1974, as amended, the U.S. Internal Revenue Code of 1986, as amended, or similar law, (ii) be considered individualized investment advice to plan assets based on the particular needs of a plan or (iii) serve as a primary basis for investment decisions with respect to plan assets.

This document may present materials or statements which reflect expectations or forecasts of future events. Such forward-looking statements are speculative in nature and may be subject to risks, uncertainties and assumptions and actual results which could differ significantly from the statements. As such, do not place undue reliance upon such forward-looking statements. All opinions and commentary are subject to change without notice and are provided in good faith without legal responsibility.

Certain information contained herein has been obtained from published and non-published sources prepared by other parties, which in certain cases has not been updated through the date hereof. While such information is believed to be reliable for the purpose used herein, SLC does not assume any responsibility for the accuracy or completeness of such information and such information has not been independently verified by SLC.

Market Chart Indices:

- Long Corporate Spreads sources: Bloomberg Long Corporate Index
- AA pension discount rate sources: FTSE Pension Discount Curve
- Average funded status source: Milliman
- Long end issuance source: Bloomberg
- Moody's Baa spread source: Moody's
- MOVE source: Bloomberg
- Monthly issuance source: SIFMA
- Top sector downgrade table source: Bank of American Global Research, Bloomberg
- Rolling 5-year monthly correlations and YTD index returns for S&P 500 and U.S. Aggregate source: Bloomberg

SLC Management is the brand name for the institutional asset management business of Sun Life Financial Inc. ("Sun Life") under which Sun Life Capital Management (U.S.) LLC in the United States, and Sun Life Capital Management (Canada) Inc. in Canada operate.

Sun Life Capital Management (Canada) Inc. is a Canadian registered portfolio manager, investment fund manager, exempt market dealer and, in Ontario, a commodity trading manager. Sun Life Capital Management (U.S.) LLC is registered with the U.S. Securities and Exchange Commission as an investment adviser and is also a Commodity Trading Advisor and Commodity Pool Operator registered with the Commodity Futures Trading Commission under the Commodity Exchange Act and Members of the National Futures Association. In the U.S., securities are offered by Sun Life Institutional Distributors (U.S.) LLC, an SEC registered broker-dealer and a member of the Financial Industry Regulatory Authority ("FINRA").

BentallGreenOak, InfraRedCapital Partners (InfraRed) are also part of SLC Management and Crescent Capital Group LP (Crescent) are also part of SLC Management.

Bentall Green Oak is a global real estate investment management advisor and a provider of real estate services. In the U.S., real estate mandates are offered by BentallGreenOak (U.S.) Limited Partnership, who is registered with the SEC as an investment adviser. In Canada, real estate mandates are offered by BentallGreenOak (Canada) Limited Partnership, BGO Capital (Canada) Inc. or Sun Life Capital Management (Canada) Inc. BGO Capital (Canada) Inc. is a Canadian registered portfolio manager and exempt market dealer and is registered as an investment fund manager in British Columbia, Ontario and Quebec.

InfraRed Capital Partners is an international investment manager focused on infrastructure. Operating worldwide, InfraRed manages equity capital in multiple private and listed funds, primarily for institutional investors across the globe. InfraRed Capital Partners Ltd. is authorized and regulated in the U.K. by the Financial Conduct Authority.

Sun Life Capital Management (Canada) Inc. is a Canadian registered portfolio manager, investment fund manager, exempt market dealer and, in Ontario, a commodity trading manager, and is the manager of the SLC Management Private Fixed Income Plus Fund, SLC Management Long Term Private Fixed Income Plus Fund, SLC Management Short Term Private Fixed Income Fund and the SLC Management Canadian Commercial Mortgage Fund.

Crescent Capital Group LP is a global alternative credit investment manager registered with the U.S. Securities and Exchange Commission as an investment adviser. Crescent is a leading investor in mezzanine debt, middle market direct lending in the U.S. and Europe, high-yield bonds and broadly syndicated loans.

Your purpose is our purpose

For institutional use only. Investing involves risk including the risk of loss of principal. The information provided does not constitute investment advice and should not be relied on as such. It should not be considered a solicitation to buy or sell a security. It does not take into account the investor's particular investment objectives, strategies, tax status or investment horizon. You should consult with your tax and financial advisor. All material has been obtained from sources believed to be reliable. There is no representation of warranty as to the accuracy of the information and SLC Management shall have no liability for decisions based on such information. The whole or any part of this work may not be reproduced, copied or transmitted or any of its concepts disclosed to third parties without SLC Management's express written consent.

© SLC Management 2022

To opt out from future communications, please [click here](#).

To change your communications preferences, please [click here](#).

(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.