

# The Monthly Pension Review: October 2024

S&P 500, Nasdaq, and Dow all down for the month

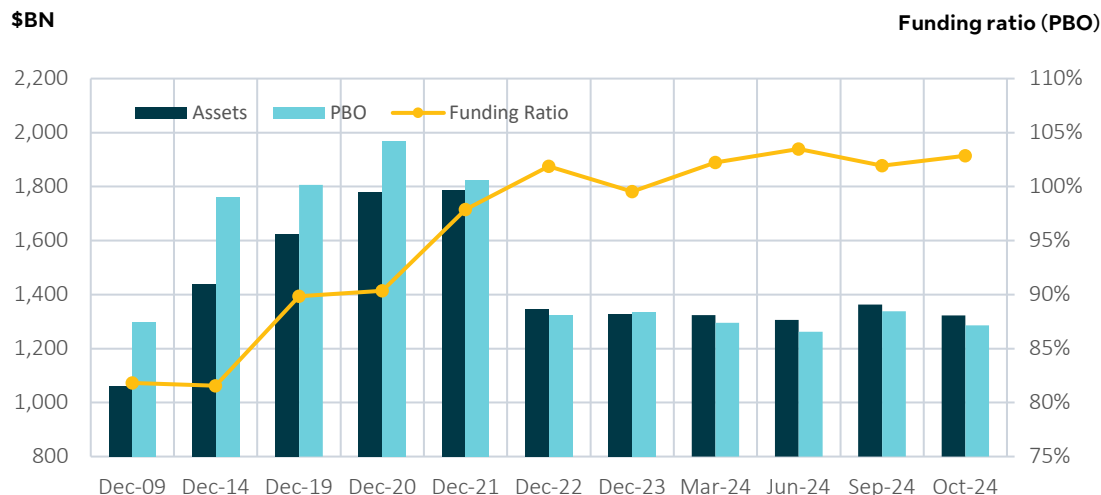


## October Market Summary

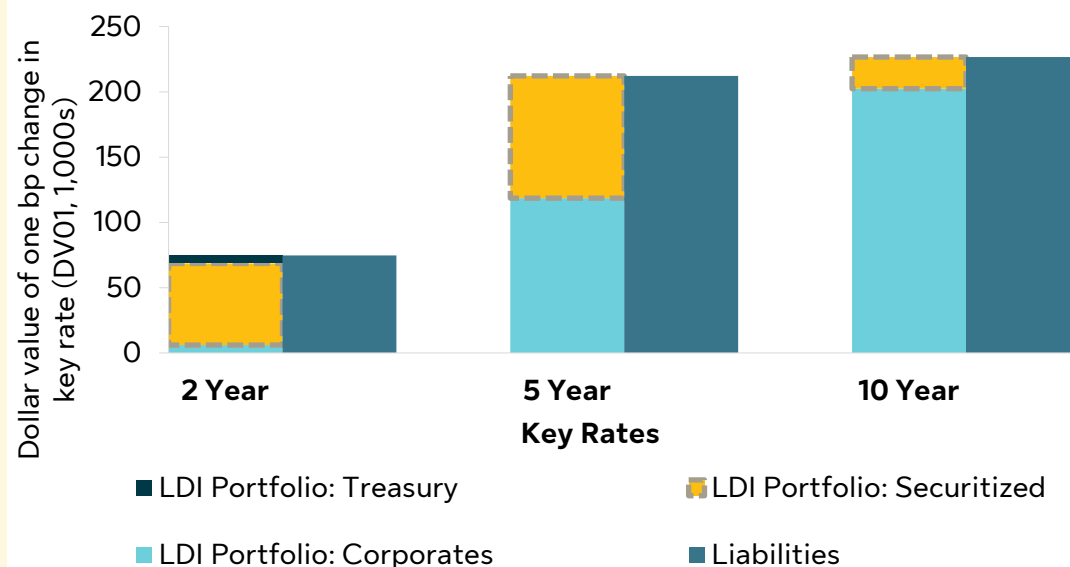
- **Funded status increased 1% in October** – Assets returned -2.4% and liabilities returned -3.9%.<sup>1</sup>
- **The S&P 500 Index fell 1.0% in October** – The index hit an all-time high and then fell as disappointing earnings results from Big Tech were released at the end of the month.
- **The Long Credit Index yield rose 38 basis points (bps) in October**– Treasury yields continue to rise following rate cuts in September.

Market Watch	Dec-22	Dec-23	Sep-24	Oct-24
Funded Status <sup>(1)</sup>	101.9%	99.5%	101.9%	<b>102.9%</b>
FTSE Discount Rate	4.95%	4.76%	4.79%	<b>5.16%</b>
Long Credit Yield	<b>5.59%</b>	5.22%	5.19%	5.57%
US 30Y TSY Yield	3.96%	4.03%	4.12%	<b>4.48%</b>
S&P 500	3,840	4,770	<b>5,762</b>	5,705

## Milliman Pension Funding Index (October 2024)<sup>1</sup>



## Shorter-duration securitized assets can be used to hedge liabilities, especially for front-end cash flows<sup>(2)</sup>



## Securitized fixed income can offer a wide range of benefits that may be attractive for pension plan portfolios:

- From a liability hedging perspective, commercial mortgage-backed securities (CMBSs) and collateralized mortgage obligations (CMOs) can serve as diversified sources of credit exposure correlated to typical liability discount rates. Investors can choose between types of fixed- and floating-rate securitized fixed income appropriate to their desired duration profile. Tranching within securitized fixed income assets allows investors to customize their credit risk exposure.
- Cash-flow generation potential can be high within securitized fixed income. Securitized assets can offer excess spread as the interest rate received on the underlying assets will typically exceed what is offered on the securities issued. Notably, asset-backed securities, CMBSs and CLOs typically have a yield advantage when compared to the equivalent duration corporate bonds.
- The asset class has a favorable downside risk profile due to overcollateralization that is typically involved in securitized transactions. Furthermore, securitized assets are held in special purpose vehicles, separate from the balance sheet of the asset originator, protecting the investor in the event of a bankruptcy of the latter.

These potential benefits of securitized assets can be an appealing complement to traditional fixed income assets within liability-driven investment portfolios.

<sup>1</sup> Data from reference Bloomberg indices. Funded status is in reference to Pension Funding Index of the top 100 US corporate pension plans sourced from Milliman, except for most recent month which is estimated based the return for representative pension plan asset allocation and prior month's liabilities adjusted for duration and change in discount rate. FTSE Discount Rate source: FTSE. Long credit, US 30Y TSY yield, S&P 500 Index value source: Bloomberg.

<sup>2</sup> The illustrative portfolio presented herein is not actual, does not reflect the portfolio of any client's account nor is it a prediction, projection or guarantee of future performance. Hypothetical portfolio is presented solely for informational purposes and discussion. The illustrative portfolio presented herein is not actual, does not reflect the portfolio of any client's account nor is it a prediction, projection or guarantee of future performance and is for illustrative purposes only.

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Market chart indices:

- AAA Non-Agency CMBS and A Corporate source: Index data from Bloomberg.

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