Monthly pension update

FEBRUARY 2019

DID YOU KNOW?

With growth assets rebounding, volatility priced in interest rate options markets is showing complacency (again), touching historical lows with potential to move lower on technicals.

FUNDED STATUS FAST FACTS

85.2%
FUNDED STATUS **ROSE 1.3%** THIS MONTH

+3.5% YTD
FUNDED STATUS INCREASE

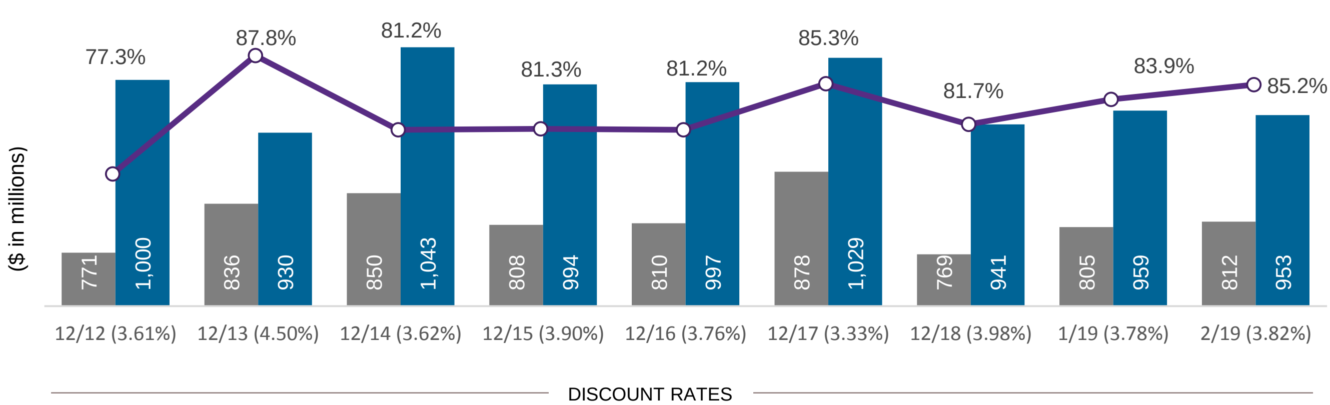
-16BPS
DISCOUNT RATE YEAR TO DATE CHANGE

MONTHLY CONTRIBUTORS OF FUNDED STATUS CHANGE:
DISCOUNT RATES AND GROWTH ASSETS

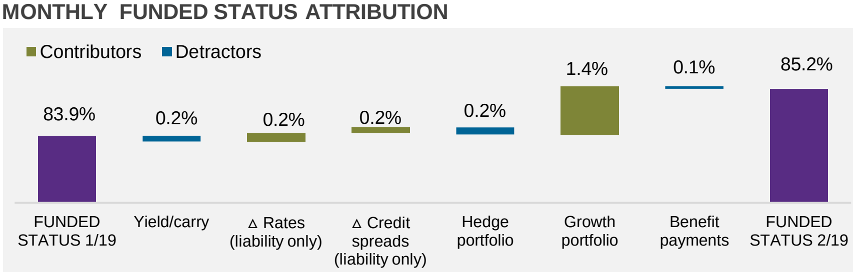
MONTHLY DETRACTORS OF FUNDED STATUS CHANGE:
HEDGE PORTFOLIO

HISTORICAL FUNDED STATUS

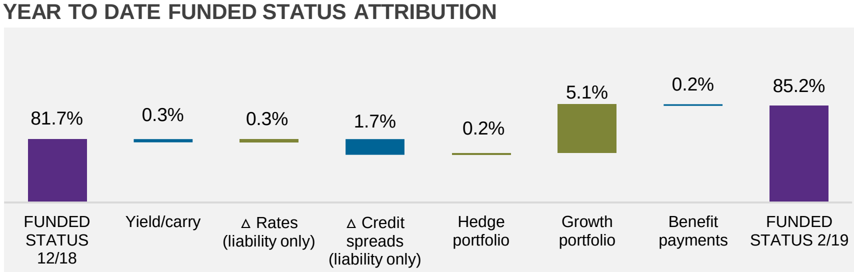
Performance of average defined benefit pension plan since 12/31/12



MONTHLY FUNDED STATUS ATTRIBUTION



YEAR TO DATE FUNDED STATUS ATTRIBUTION



Changes	Month	Year
Funded Status %	▲ 1.3%	▲ 3.5%
Discount Rate (bps)	▲ 4	▼ (16)
Treasury Rates(bps)	▲ 3	▲ 4
Credit Spreads (bps)	▲ 2	▼ (20)
Liabilities (mm)	▲ ($6.2)	▼ $12.2
Assets (mm)	▲ $7.3	▲ $43.3
Funded Status (mm)	▲ $13.5	▲ $31.2

Note: Arrow indicates effect on funded status.

Source: J.P. Morgan, FTSE Pension Discount Curve, Bloomberg. As of February 28, 2019. For illustrative purposes only. Past performance is not indicative of future results.

J.P.Morgan
Asset Management

MACROECONOMIC TRENDS IMPACTING PENSION PLANS

A breakdown of what you need to watch this month as you consider investment implications for your plan

GROWTH

Global growth has continued to soften during the first quarter, with the U.S. currently tracking around 1.5% SAAR and forecasts for Europe and Asia being revised lower. While it seems reasonable to expect that business investment will remain weak as long as geopolitical issues remain unresolved, the improvement in China's PMI and signs of stabilization in global output suggest that this remains a slowdown, rather than a stall. Looking forward, the combination of a further acceleration in wages against a backdrop of decelerating inflation should provide support for consumption. The risk, however, is that continued uncertainty weighs on confidence, preventing a rebound in consumer spending from occurring.

INFLATION

Inflation has continued to decelerate in recent months, with U.S. CPI falling from a level of 2.5% in October of last year to a level of 1.5% in January. Readings on the personal consumption deflation (PCE deflator) – the Fed's preferred measure of inflation – have been delayed by the government shutdown, but have likely followed the same trend. Recent strength in the U.S. dollar could weigh further on inflation in the coming months, and price growth around the world remains quite muted as well. While inflation should rebound later this year, we still look for global inflation to average around 2% for 2019 as a whole.

RATES

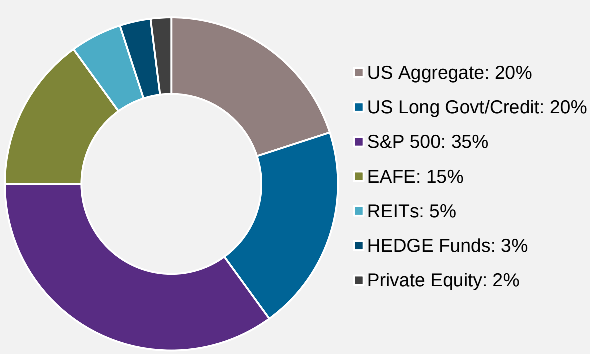
The consensus outlook for monetary policy and interest rates remains fairly benign. The Fed made a dovish pivot in January, and many now expect at most one rate hike this year. The European Central Bank (ECB) signaled that rates in the Eurozone would remain unchanged throughout the rest of 2019, and will be providing another round of cheap loans to banks in an effort to stimulate consumption and growth. Against this backdrop, it seems reasonable to expect EM central banks to remain on hold, particularly given inflation is not a problem. That said, if the economic environment improves, there is resolution on issues such as U.S./China trade, and financial markets remain well behaved, it seems unlikely that the Fed's dovish rhetoric will continue.

RETURNS

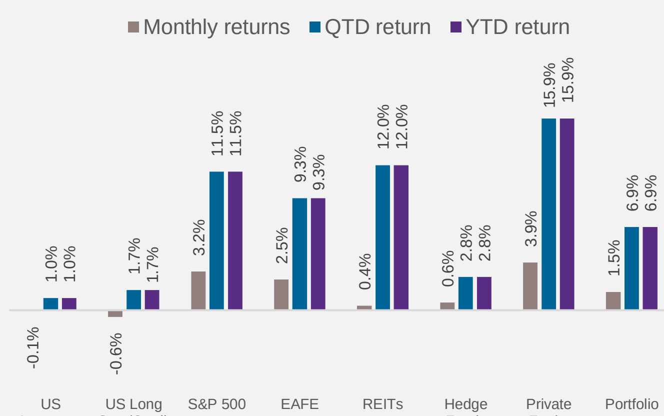
Markets have bounced back aggressively from their December sell-off during the past two months, but have paused to catch their breath in March. With valuations back to average levels, long-term return prospects remain muted, and the greatest opportunity seems to exist in emerging markets. Shorter-term, we see room for markets to grind higher, but believe any returns above and beyond what have already been generated this year will be dependent on earnings. We forecast U.S. earnings can grow 5-6% in 2019, but the risks are tilted to the downside, particularly given the elevated level of corporate profit margins.

ASSET ALLOCATION & MARKET SNAPSHOT (As of 2/28/19)

PLAN ASSET ALLOCATION

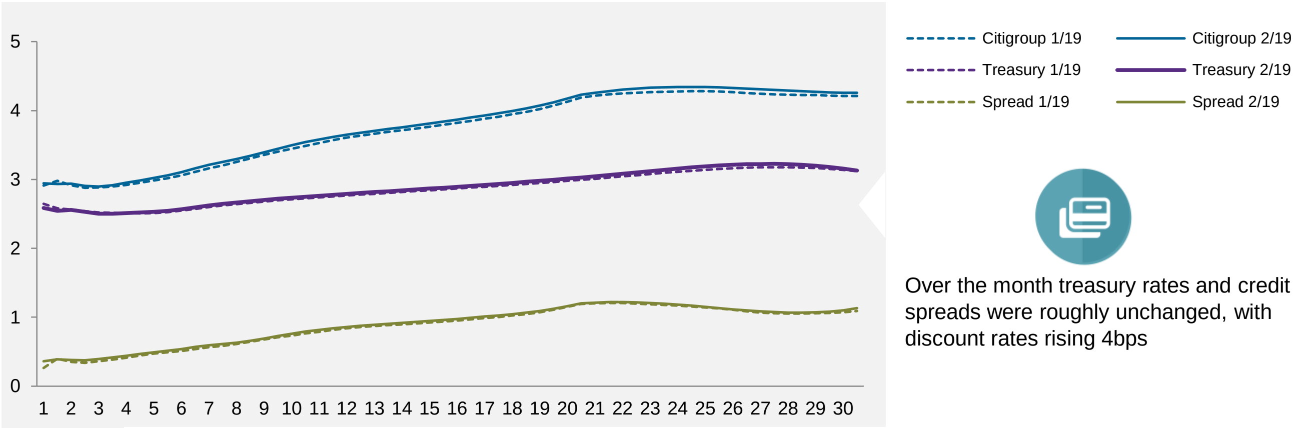


ASSET AND PORTFOLIO RETURNS



Source: J.P. Morgan, FTSE Pension Discount Curve, Bloomberg. As of February 28, 2019. For illustrative purposes only.
Past performance is not indicative of future results. For more information on our fixed income outlook, please visit our blog: http://blog.jpmorganinstitutional.com

YIELD CURVE CHANGES



Over the month treasury rates and credit spreads were roughly unchanged, with discount rates rising 4bps

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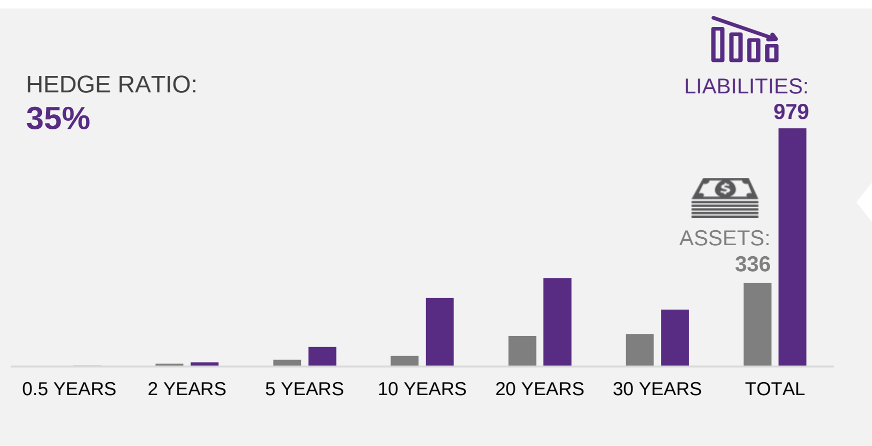
Click here for all the charts you need to understand what is happening in the fixed income markets.

PLAN RISK ANALYTICS



DURATION SENSITIVITY

The overall hedge ratio is defined as the ratio of asset dollar duration to liability dollar duration.

We estimate that this is approximately 35%.

We note that a higher hedge ratio, constructed with better key rate duration (KRD) matching along the curve would reduce funded status volatility. Matching the dollar duration of assets and liabilities across the curve structure would better insulate the plan against non-parallel yield curve movements.

Change in Interest Rates	*Change in Growth Portfolio*								
	-20%	-15%	-10%	-5%	-	+5%	+10%	+15%	+20%
+100bps	78.6%	81.6%	84.7%	87.8%	90.9%	94.0%	97.0%	100.1%	103.2%
+75bps	77.4%	80.4%	83.4%	86.3%	89.3%	92.3%	95.3%	98.3%	101.3%
+50bps	76.2%	79.1%	82.1%	85.0%	87.9%	90.8%	93.7%	96.6%	99.5%
+25bps	75.2%	78.0%	80.8%	83.7%	86.5%	89.4%	92.2%	95.0%	97.9%
-	74.1%	76.9%	79.7%	82.4%	85.2%	88.0%	90.7%	93.5%	96.3%
-25bps	73.2%	75.9%	78.6%	81.3%	84.0%	86.7%	89.4%	92.1%	94.8%
-50bps	72.3%	74.9%	77.5%	80.2%	82.8%	85.4%	88.0%	90.7%	93.3%
-75bps	71.4%	73.9%	76.5%	79.1%	81.7%	84.2%	86.8%	89.4%	91.9%
-100bps	70.5%	73.0%	75.6%	78.1%	80.6%	83.1%	85.6%	88.1%	90.6%

SCENARIO ANALYSIS

The heat map shows the change in funded status under different instantaneous interest rate and growth portfolio movements.

We note that reducing the allocation to equities and increasing the hedge ratio will likely narrow the change of possible outcomes and help limit downside funded status scenarios.

Source: J.P. Morgan, FTSE Pension Discount Curve, Bloomberg. As of February 28, 2019. For illustrative purposes only.
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Corporate Pension Allocation Changes – Asset allocation changes for pension plans that have fiscal year ends between June 30, 2018 and October 31, 2018.

Fixed Income Blog – Our fixed income team's perspective on global fixed income markets and the global economy.

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