Monthly pension update

MARCH 2019

DID YOU KNOW?

If the current expansion lasts through the end of 2Q, it will be the longest US economic expansion since 1900.

FUNDED STATUS FAST FACTS

89.1% FUNDED STATUS **FELL 1.3%** THIS MONTH

+1.8% YTD FUNDED STATUS INCREASE

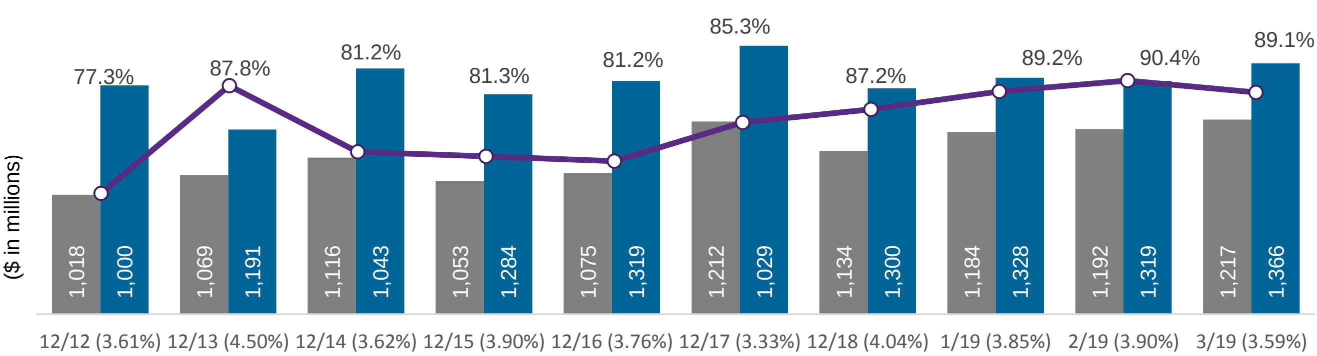
-45BPS DISCOUNT RATE YEAR TO DATE CHANGE

MONTHLY CONTRIBUTORS OF FUNDED STATUS CHANGE: **HEDGE PORTFOLIO AND GROWTH ASSETS**

MONTHLY DETRACTORS OF FUNDED STATUS CHANGE: **DISCOUNT RATES**

HISTORICAL FUNDED STATUS*

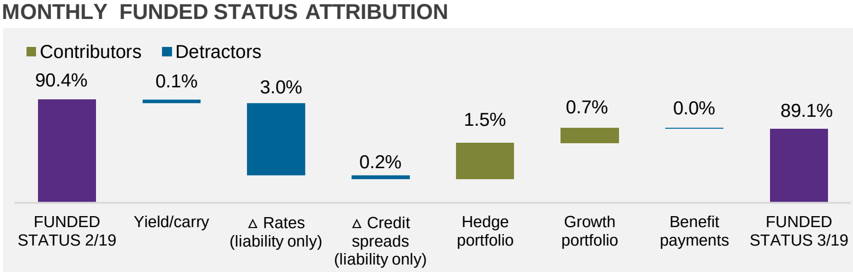
Performance of average defined benefit pension plan since 12/31/12



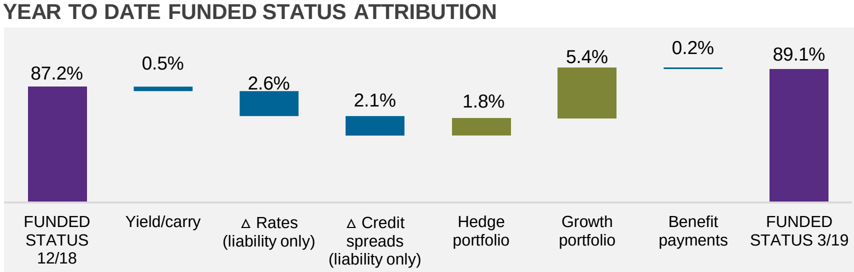
*12/18-3/19 historical funded status levels were recalibrated based on our Corporate Pension Peer Analysis 2018 report

DISCOUNT RATES

MONTHLY FUNDED STATUS ATTRIBUTION



YEAR TO DATE FUNDED STATUS ATTRIBUTION



Changes	Month	Year
Funded Status %	▼ 1.3%	▲ 1.8%
Discount Rate (bps)	▼ (30)	▼ (45)
Treasury Rates(bps)	▼ (29)	▼ (24)
Credit Spreads (bps)	▼ (2)	▼ (21)
Liabilities (mm)	▼ $46.9	▼ $66.4
Assets (mm)	▲ $24.7	▲ $83.0
Funded Status (mm)	▼ ($22.2)	▲ $16.6

Note: Arrow indicates effect on funded status.

Source: J.P. Morgan, FTSE Pension Discount Curve, Bloomberg. As of March 29, 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

The global economy started 2019 on better footing than many expected, with first quarter growth in the U.S. expected to be around 2% and international economies showing signs of life in the month of March. Rising inventories have been a key contributor to U.S. growth over the past few quarters, which could lead the pace of U.S. expansion to slow in 2Q; however, with data from the rest of the world looking better, it feels as if recession fears have been temporarily put to rest. Specifically, the PMI figures out of China for the month of March moved above the key 50 level, and industrial production data out of Europe has turned positive. There are plenty of risks that remain, but with the Federal Reserve on hold, the growth outlook is looking a bit brighter than a few months ago.

INFLATION

Inflation remains subdued, with the headline measure rising 1.9% year-over-year and core inflation rising 2.0% year-over-year in the month of March. The pop in headline inflation was primarily driven by higher energy prices, while the softening in the core measure was driven by a sharp decline in apparel prices (-2.2% y/y). While some have suggested that a change in methodology was responsible for the fall in apparel prices, research suggests that the influence of a methodology change on historical prices is minimal. In general, inflation trends remain relatively benign, providing the Federal Reserve (Fed) with cover to keep rates on hold this year.

RATES

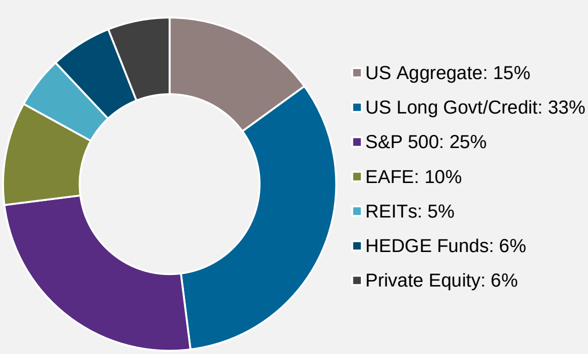
Given expectations for growth to remain moderate and inflation to remain soft, it is looking less and less likely that the Federal Reserve (Fed) will raise interest rates this year. This may lead the Fed to find themselves behind the ball next year, and subsequently forced to hike more aggressively than is expected in their current forecasts. At the end of the day, labor markets remain tight and wages have been trending higher for over a year; while this has not resulted in meaningful inflation thus far, wages impact inflation with a lag.

RETURNS

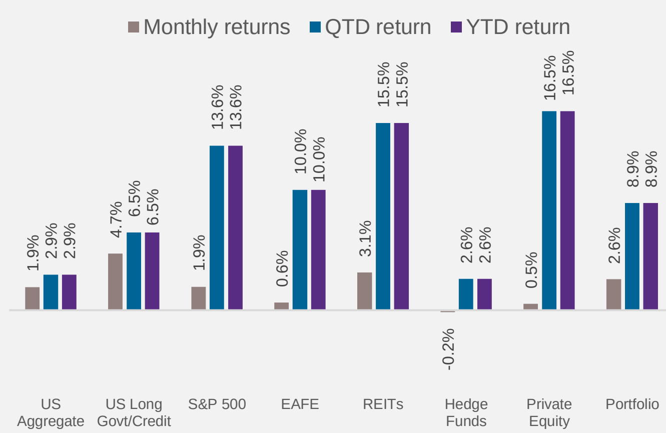
Equity market valuations have risen notably over the past few months, with the forward P/E ratio of the S&P 500 sitting at a level of 16.4x at the end of March. From a purely quantitative standpoint, this implies an average annual return of around 7% over the next five years, a bit higher than we expect in our Long Term Capital Market Assumptions (LTCMAs). While valuations could easily expand further this year on the back of a sidelined Fed, the most important driver of sustainable returns will be earnings. The 1Q19 earnings season got underway last week, and while a combination of actual results and analyst estimates suggests earnings growth will be flat this quarter, we expect final results to show year-over-year growth in the low single digits.

ASSET ALLOCATION & MARKET SNAPSHOT (As of 3/31/19)

PLAN ASSET ALLOCATION

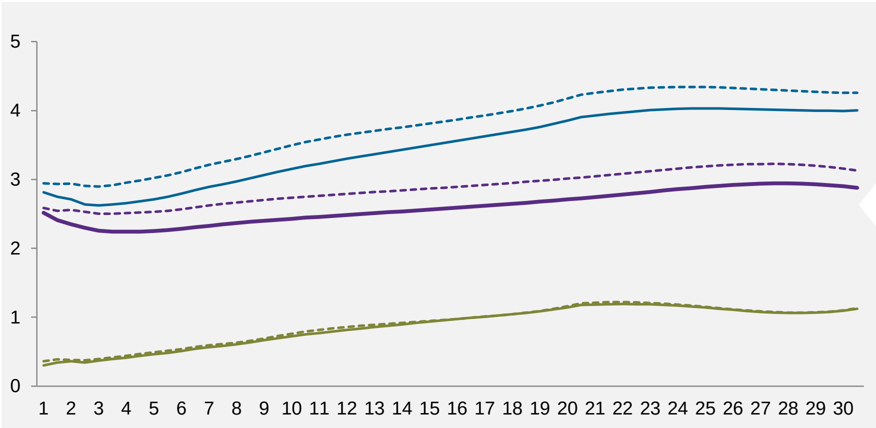


ASSET AND PORTFOLIO RETURNS



Source: J.P. Morgan, FTSE Pension Discount Curve, Bloomberg. As of March 29, 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

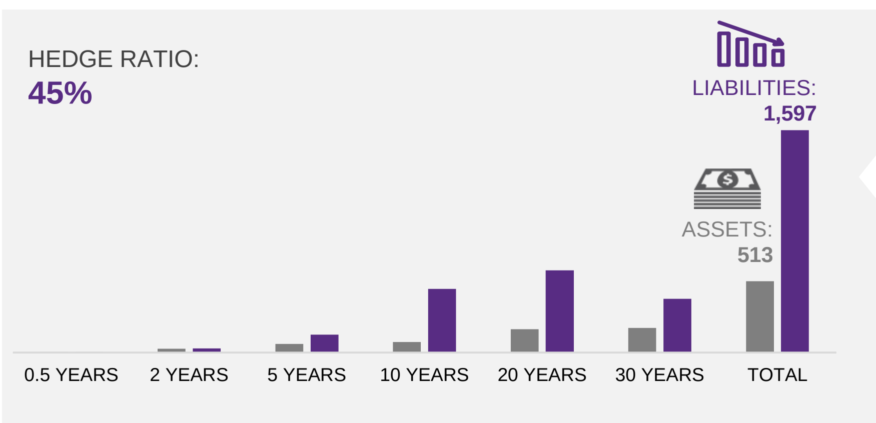


Over the month treasury rates fell across the curve while credit spreads were roughly unchanged, with discount rates falling 30bps

INTERESTED IN A DEEPER DIVE ON FIXED INCOME?

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 45%.

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	84.1%	86.8%	89.5%	92.2%	94.9%	97.6%	100.3%	103.0%	105.7%
+75bps	82.8%	85.5%	88.1%	90.7%	93.3%	95.9%	98.5%	101.1%	103.7%
+50bps	81.7%	84.2%	86.7%	89.3%	91.8%	94.3%	96.8%	99.4%	101.9%
+25bps	80.6%	83.0%	85.5%	87.9%	90.4%	92.8%	95.3%	97.7%	100.2%
-	79.5%	81.9%	84.3%	86.7%	89.1%	91.4%	93.8%	96.2%	98.6%
-25bps	78.6%	80.9%	83.2%	85.5%	87.8%	90.1%	92.4%	94.8%	97.1%
-50bps	77.6%	79.9%	82.1%	84.4%	86.6%	88.9%	91.1%	93.4%	95.6%
-75bps	76.8%	78.9%	81.1%	83.3%	85.5%	87.7%	89.9%	92.1%	94.3%
-100bps	75.9%	78.1%	80.2%	82.3%	84.5%	86.6%	88.7%	90.9%	93.0%

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 March 29, 2019. For illustrative purposes only. Past performance is not indicative of future results.

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