

# Monthly pension update

MAY 2019



## DID YOU KNOW?

May 2019 was the largest 1-month decrease in 10 year Treasury yields since January 2015.

## FUNDED STATUS FAST FACTS

**87.5%**

FUNDED STATUS  
**FELL 3.5% THIS MONTH**

**+0.3% YTD**

FUNDED STATUS  
**INCREASE**

**-61 BPS**

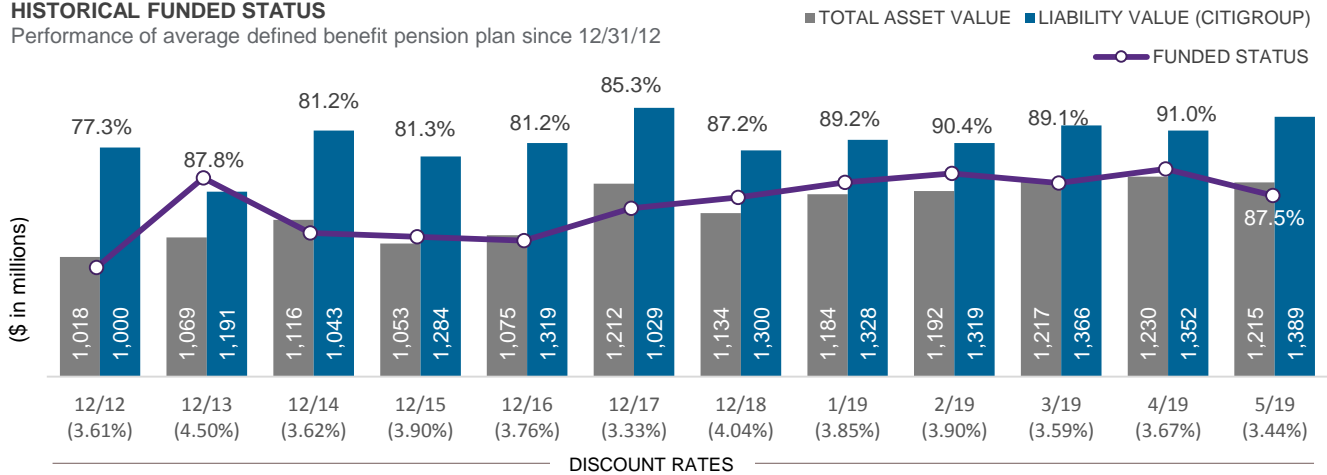
DISCOUNT RATE  
**YEAR TO DATE CHANGE**

MONTHLY CONTRIBUTORS OF FUNDED STATUS CHANGE:  
**CREDIT SPREADS AND HEDGE ASSETS**

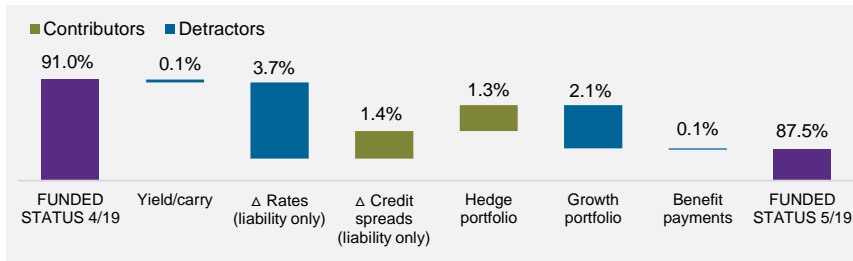
MONTHLY DETRACTORS OF FUNDED STATUS CHANGE:  
**INTEREST RATES AND GROWTH ASSETS**

## HISTORICAL FUNDED STATUS

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



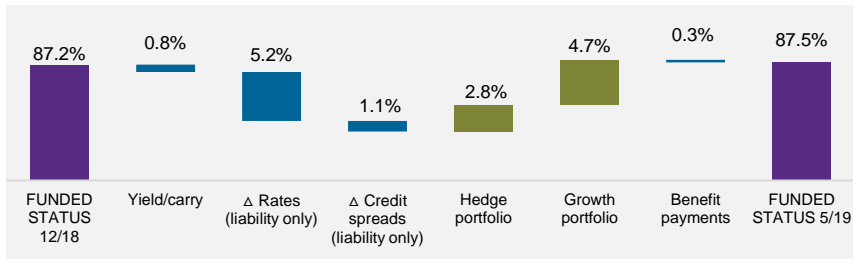
## MONTHLY FUNDED STATUS ATTRIBUTION



Changes	Month	Year
Funded Status %	▼ (3.5%)	▲ 0.3%
Discount Rate (bps)	▼ (23)	▼ (61)
Treasury Rates(bps)	▼ (36)	▼ (49)
Credit Spreads (bps)	▲ 13	▼ (12)
Liabilities (mm)	▼ \$36.6	▼ \$89.0
Assets (mm)	▼ (\$15.3)	▲ \$81.0
Funded Status (mm)	▼ (\$52.0)	▼ (\$8.0)

Note: Arrow indicates effect on funded status.

## YEAR TO DATE FUNDED STATUS ATTRIBUTION



Source: J.P. Morgan, FTSE Pension Discount Curve, Bloomberg. As of May 31, 2019. For illustrative purposes only. Past performance is not indicative of future results.

## 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 has softened in the second quarter, as the temporary factors that boosted growth in the first quarter unwind and trade tensions continue to weigh on business confidence and manufacturing. U.S. growth is currently tracking around 1.5% SAAR, as the boost from inventories and trade has run its course. The first quarter numbers out of Europe were better than expected, but it seems that this improvement will be fleeting given the economy's greater reliance on exports and manufacturing. Emerging markets, particularly EM Asia ex-China, had begun to show some signs of life earlier this year, but this part of the world remains extremely vulnerable to any escalation in trade tensions. The risks to growth remain tilted to the downside, and it will be important to watch the consumer and service sectors for any signs that the weakness currently contained to manufacturing and investment spending has begun to spread.

### INFLATION



The inflation backdrop remains muted, but rising energy prices pushed the headline figure higher in the U.S. last month. Core inflation, on the other hand, remains relatively stable around 2%. Euro area inflation picked up in April - also due to rising energy prices - but appears to have decelerated in May as energy and services prices came off the boil. Emerging markets continue to see inflation pick up as well, mostly due to currency depreciation and higher energy prices, but price growth in this part of the world will likely remain subdued relative to long-term averages. Global inflation remains muted, and will likely trough during the summer months.

### RATES



While we expect the Federal Reserve (Fed) to leave interest rates unchanged at its June meeting, downside risks to the economy and a disappointing May jobs report have increased the possibility that the Fed will cut rates later this year. Futures market pricing in two cuts before the end of 2019 feels a bit aggressive, but a further escalation in trade tensions or deterioration in the health of the consumer would likely lead the Fed to act. Things could quickly swing in the other direction if the U.S. and China come to a deal on trade, but it is this broad-based uncertainty that has pushed the 10-year U.S. Treasury yield to its lowest level since September 2017. While we believe that the risk of recession is contained at the current juncture, and therefore see upside risks to rates, Treasury yields will move lower if the economic data continues to deteriorate.

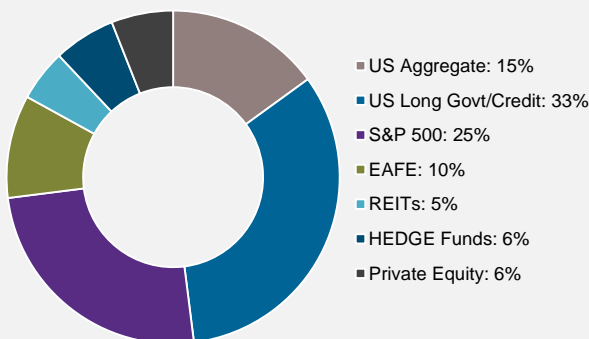
### RETURNS



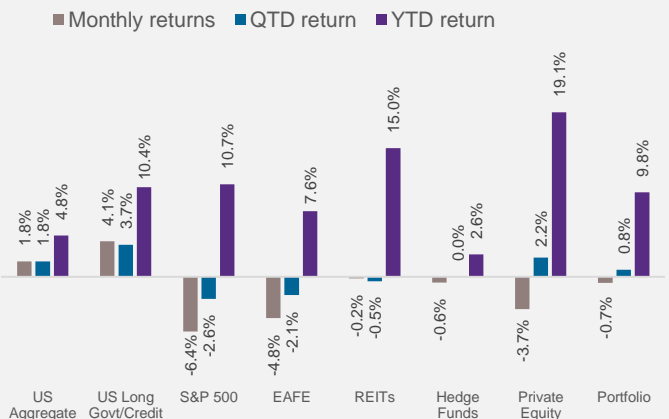
Markets have been choppy in recent weeks, giving back some of their year-to-date returns. To an extent, stocks will remain beholden to the broader trade narrative, but there are medium-term, fundamental issues that bear watching. The consensus estimate for 2019 earnings growth is right around 4%, but analysts expect S&P 500 earnings to grow approximately 11% next year. Our own models point to earnings growth of 5% in 2020, suggesting that estimates will need to come down over the course of the summer. With multiples capped due to uncertainty around growth and policy, earnings will remain the main driver of returns; as such, we expect continued volatility as expectations better align themselves with reality, and are monitoring any additional downside risk that could materialize if trade negotiations take a turn for the worse.

## ASSET ALLOCATION & MARKET SNAPSHOT (As of 5/31/19)

### PLAN ASSET ALLOCATION



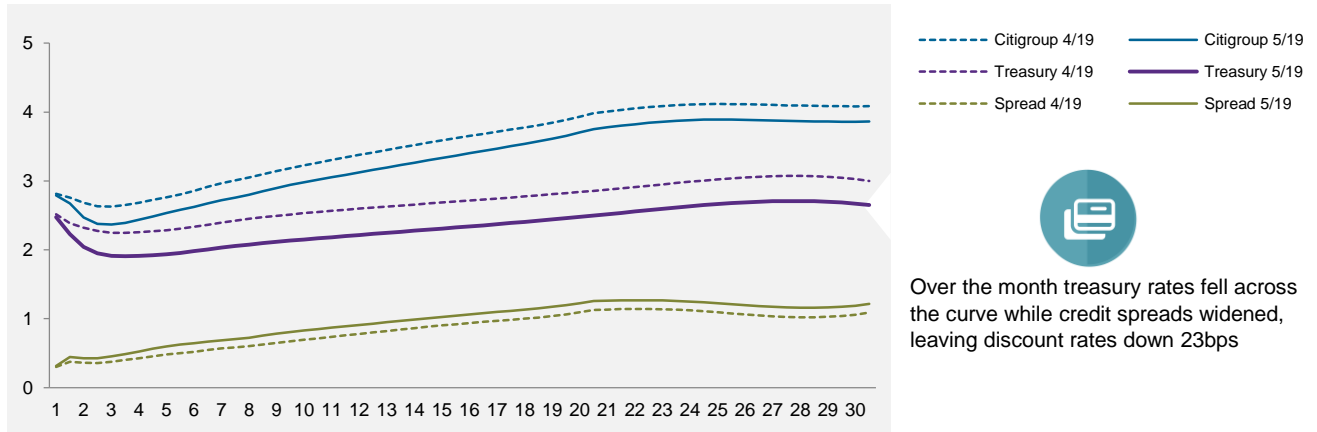
### ASSET AND PORTFOLIO RETURNS



Source: J.P. Morgan, FTSE Pension Discount Curve, Bloomberg. As of May 31, 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.jp.organiinstitutional.com>

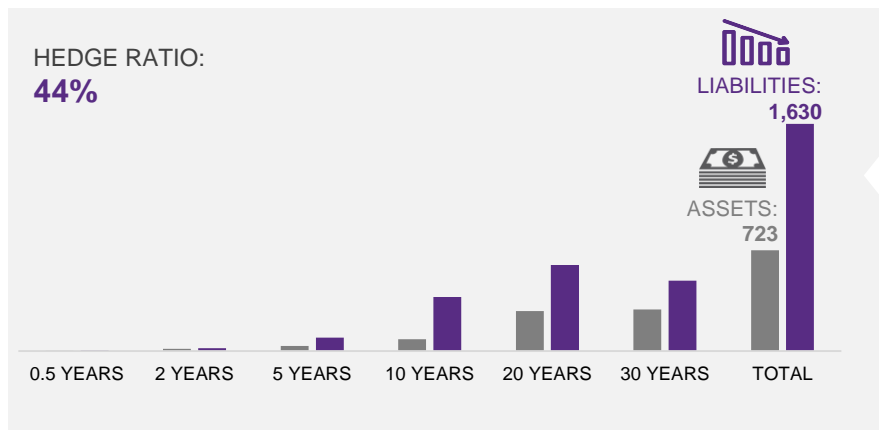
## YIELD CURVE CHANGES



### 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 44%.**

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 Growth Portfolio								
		-20%	-15%	-10%	-5%	-	+5%	+10%	+15%	+20%
Change in Interest Rates	+100bps	82.8%	85.4%	88.0%	90.6%	93.2%	95.8%	98.4%	101.0%	103.6%
	+75bps	81.6%	84.1%	86.6%	89.1%	91.6%	94.1%	96.7%	99.2%	101.7%
	+50bps	80.4%	82.8%	85.3%	87.7%	90.2%	92.6%	95.0%	97.5%	99.9%
	+25bps	79.3%	81.7%	84.0%	86.4%	88.8%	91.1%	93.5%	95.9%	98.2%
	-	78.3%	80.6%	82.9%	85.2%	87.5%	89.8%	92.0%	94.3%	96.6%
	-25bps	77.3%	79.6%	81.8%	84.0%	86.2%	88.5%	90.7%	92.9%	95.1%
	-50bps	76.4%	78.6%	80.7%	82.9%	85.1%	87.2%	89.4%	91.6%	93.7%
	-75bps	75.6%	77.7%	79.8%	81.9%	84.0%	86.1%	88.2%	90.3%	92.4%
	-100bps	74.7%	76.8%	78.8%	80.9%	82.9%	85.0%	87.0%	89.1%	91.1%

### 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 May 31, 2019. For illustrative purposes only. Past performance is not indicative of future results.

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**A framework for setting and achieving pension objectives** – Learn why identifying sponsor objectives is an essential first step in defining plan success measures and shaping a strategy for reaching those goals across the pension lifecycle.

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

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