Monthly pension update

JUNE 2019

DID YOU KNOW?

For the first time since prior to the 2016 presidential election, our GFICC Investment Quarterly base case has shifted from above trend to sub trend growth for the global economy.

FUNDED STATUS FAST FACTS

88.5% FUNDED STATUS **ROSE 1.0%** THIS MONTH

+1.3% YTD FUNDED STATUS INCREASE

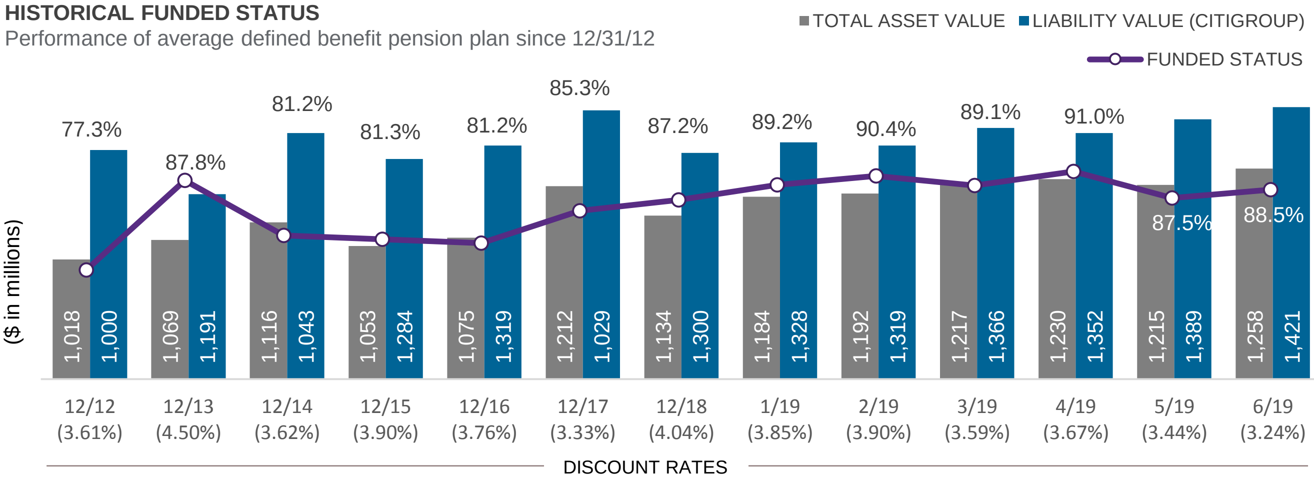
-81BPS DISCOUNT RATE YEAR TO DATE CHANGE

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

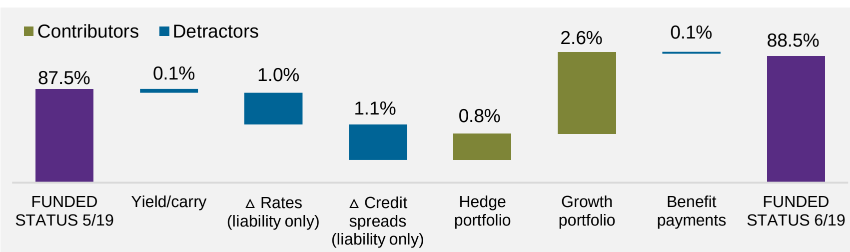
MONTHLY DETRACTORS OF FUNDED STATUS CHANGE: **INTEREST RATES AND CREDIT SPREADS**

HISTORICAL FUNDED STATUS

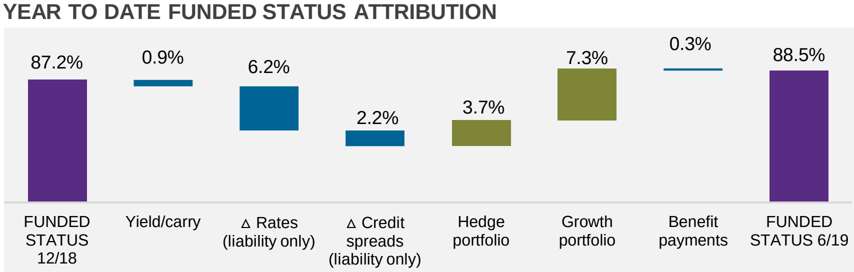
Performance of average defined benefit pension plan since 12/31/12



MONTHLY FUNDED STATUS ATTRIBUTION



YEAR TO DATE FUNDED STATUS ATTRIBUTION



Changes	Month	Year
Funded Status %	▲ 1.0%	▲ 1.3%
Discount Rate (bps)	▼ (20)	▼ (81)
Treasury Rates(bps)	▼ (9)	▼ (58)
Credit Spreads (bps)	▼ (11)	▼ (23)
Liabilities (mm)	▼ $32.4	▼ $121.4
Assets (mm)	▲ $43.7	▲ $124.7
Funded Status (mm)	▲ $11.3	▲ $3.3

Note: Arrow indicates effect on funded status.

Source: J.P. Morgan, FTSE Pension Discount Curve, Bloomberg. As of June 30, 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 pace of economic growth remains below trend, as uncertainty about U.S. trade policy and the trajectory of global growth are weighing on manufacturing activity. The global manufacturing PMI fell to its lowest level in over six years, and has now posted back to back readings below 50 for the first time since 2012. The services sector, on the other hand, continues to see widespread expansion, but the pace of this expansion has decelerated in recent months and business optimism remains downbeat. It seems that the pace of global growth has begun to stabilize after sliding over the past few months, but the risk is that weakness in manufacturing begins to more seriously infect the service sector and labor markets.

INFLATION

Inflation remains generally muted around the world, but has begun to pick up slightly in emerging markets due to strength in the U.S. dollar. It seems unlikely that U.S. inflation will accelerate in any significant way during the coming months, as labor market strength is not translating into faster wage growth, oil prices should remain range bound, and economic growth is below trend. That said, we do expect that inflation will gradually drift higher into the end of the year.

RATES

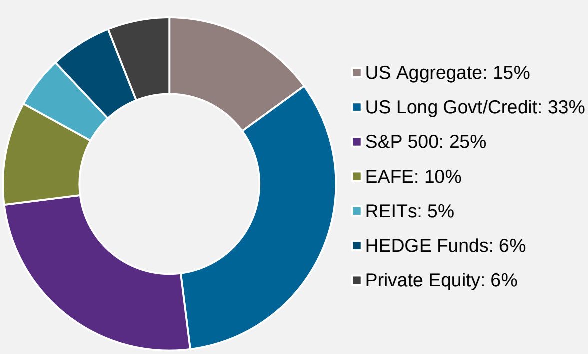
Futures markets have repriced in advance of the Federal Reserve's (Fed's) July meeting, as the better-than-expected June jobs report squashed hopes of a 50bp cut at the end of this month. That said, markets are still expecting 2-3 cuts before the end of this year, and policymakers will be hard pressed to deliver. There is room for balance sheet reduction to be pulled forward to the end of July in an effort to buy the Fed a bit more time to digest incoming data, but with markets expecting a rate cut sooner rather than later, there is risk that approach leads to market indigestion. In Europe, interest rates have hit new all-time lows due to dovish rhetoric from the European Central Bank (ECB), and a rate cut seems to be in the cards for later this year.

RETURNS

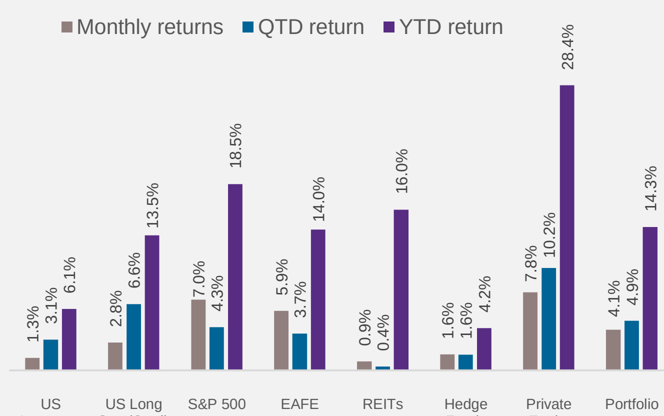
The U.S. equity market has hit another all-time high on the back of a softening in trade tensions and expectations for easier policy from the Federal Reserve. The market is looking for an environment characterized by moderate economic growth, a deal on trade, and easier monetary policy – unfortunately, it seems unlikely that all three of these will be delivered. While a deal on trade and easier monetary policy are still in the cards, economic data will need to remain lackluster for that to occur. As such, profit growth should guide investor decisions, and while we expect earnings growth to remain positive this year and next, the risks are tilted to the downside.

ASSET ALLOCATION & MARKET SNAPSHOT (As of 6/30/19)

PLAN ASSET ALLOCATION

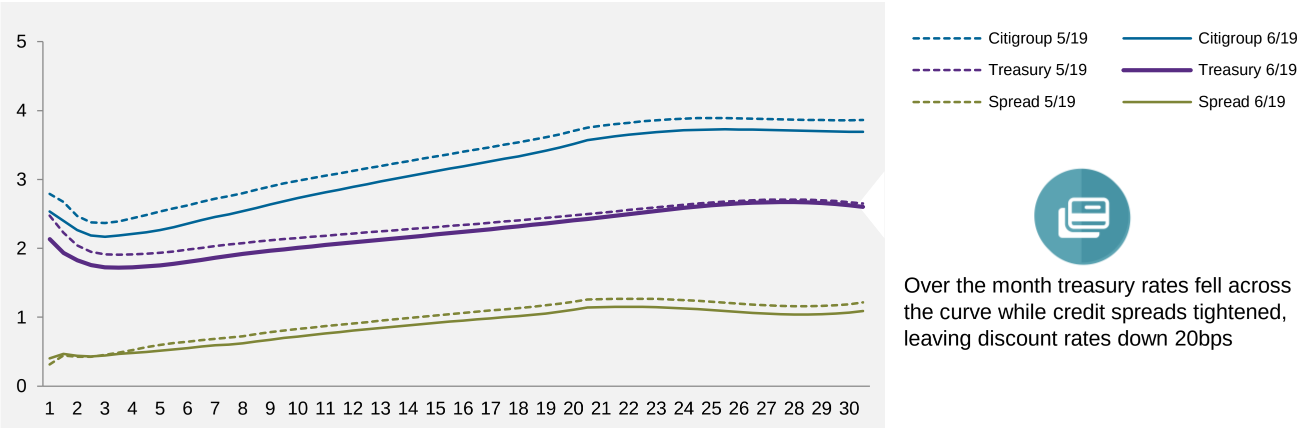


ASSET AND PORTFOLIO RETURNS



Source: J.P. Morgan, FTSE Pension Discount Curve, Bloomberg. As of June 30, 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

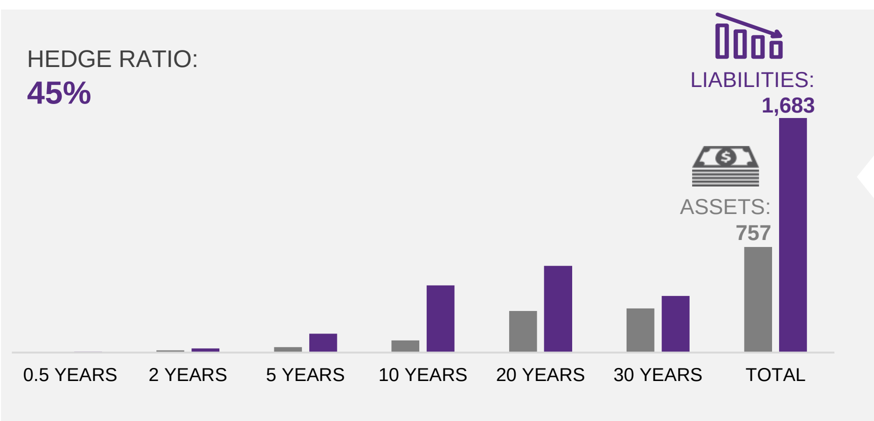


Over the month treasury rates fell across the curve while credit spreads tightened, leaving discount rates down 20bps

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	83.7%	86.4%	89.1%	91.7%	94.4%	97.1%	99.7%	102.4%	105.1%
+75bps	82.5%	85.0%	87.6%	90.2%	92.8%	95.4%	98.0%	100.5%	103.1%
+50bps	81.3%	83.8%	86.3%	88.8%	91.3%	93.8%	96.3%	98.8%	101.3%
+25bps	80.2%	82.6%	85.0%	87.4%	89.9%	92.3%	94.7%	97.2%	99.6%
-	79.1%	81.5%	83.8%	86.2%	88.5%	90.9%	93.3%	95.6%	98.0%
-25bps	78.1%	80.4%	82.7%	85.0%	87.3%	89.6%	91.9%	94.2%	96.4%
-50bps	77.2%	79.4%	81.7%	83.9%	86.1%	88.3%	90.6%	92.8%	95.0%
-75bps	76.3%	78.5%	80.7%	82.8%	85.0%	87.2%	89.3%	91.5%	93.6%
-100bps	75.5%	77.6%	79.7%	81.8%	83.9%	86.0%	88.1%	90.3%	92.4%

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 June 30, 2019. For illustrative purposes only. Past performance is not indicative of future results.

AUTHORS

MICHAEL BUCHENHOLZ, CFA, FSA
Head of U.S. Pension Strategy
michael.buchenholz@jpmorgan.com
212-648-2968

IGOR BALEVICH, CFA, FSA
Fixed Income Investment Specialist
igor.balevich@jpmorgan.com
212-648-2039

PRASHANT LAMBA, CFA
Head of Fixed Income Pension Solutions
prashant.lamba@jpmorgan.com
212-648-0414

DAVID LEBOVITZ
Global Market Strategist
david.m.lebovitz@jpmorgan.com
212-648-2938

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