

# 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

**-81 BPS**

DISCOUNT RATE  
YEAR TO DATE  
CHANGE

MONTHLY CONTRIBUTORS OF  
FUNDED STATUS CHANGE:

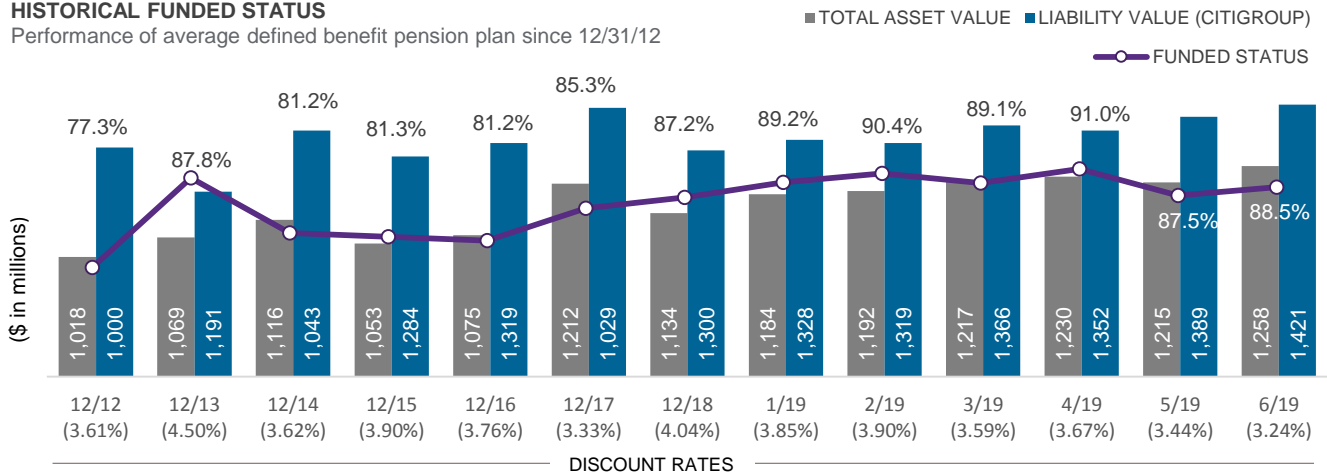
**HEDGE PORTFOLIO AND  
GROWTH ASSETS**

MONTHLY DETRACTORS OF  
FUNDED STATUS CHANGE:

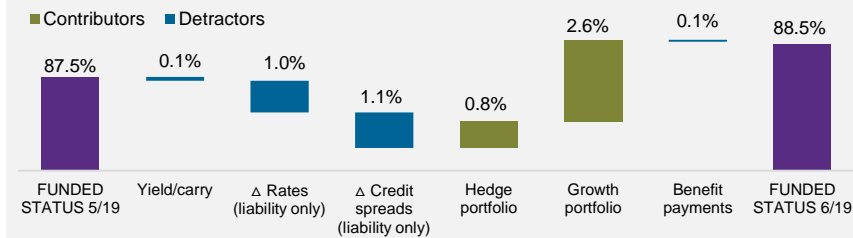
**INTEREST RATES AND  
CREDIT SPREADS**

## HISTORICAL FUNDED STATUS

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



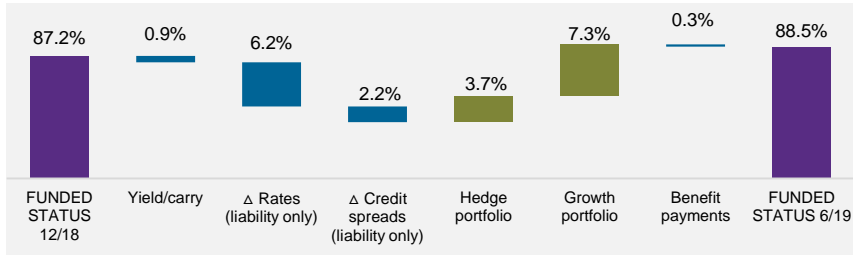
## MONTHLY FUNDED STATUS ATTRIBUTION



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.

## YEAR TO DATE FUNDED STATUS ATTRIBUTION



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.

## 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.

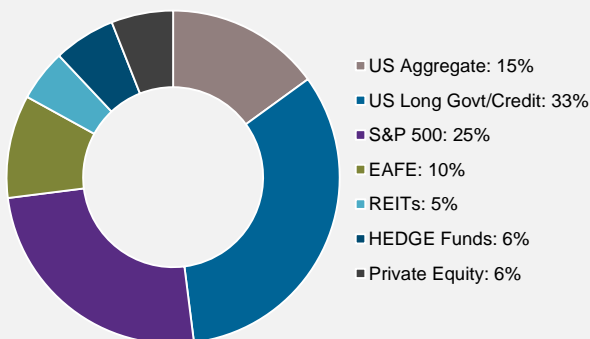
### RETURNS



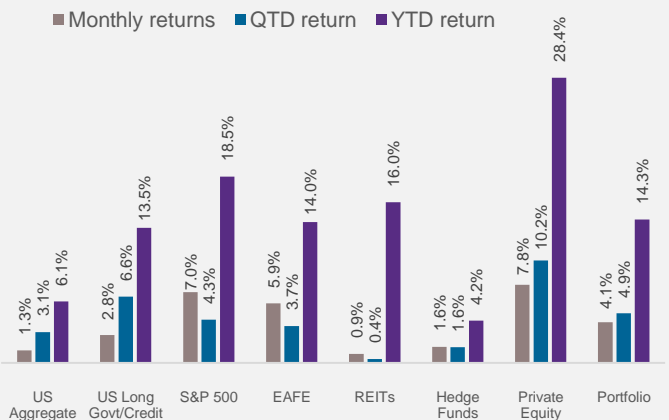
The U.S. equity market has hit another all-time high on the back of a softening in trade tensions and expectations for easier policy from the Federal Reserve. The market is looking for an environment characterized by moderate economic growth, a deal on trade, and easier monetary policy – unfortunately, 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

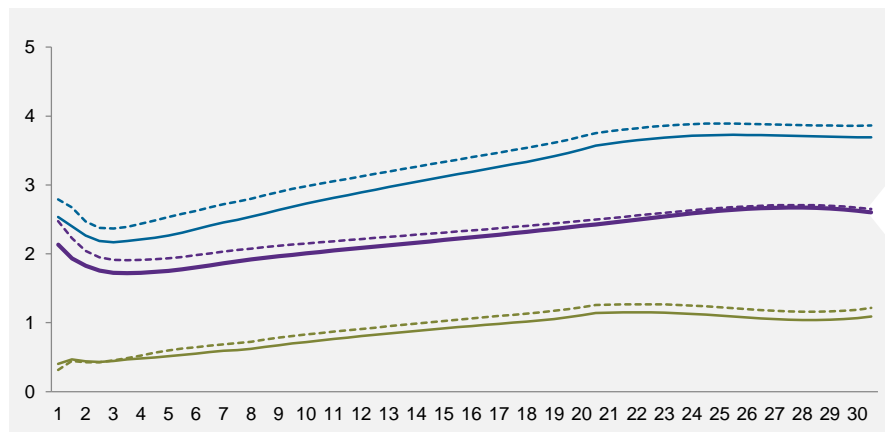


### ASSET AND PORTFOLIO RETURNS



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.jp.morganinstitutional.com>

## YIELD CURVE CHANGES



--- Citigroup 5/19    — Citigroup 6/19  
--- Treasury 5/19    — Treasury 6/19  
--- Spread 5/19    --- Spread 6/19



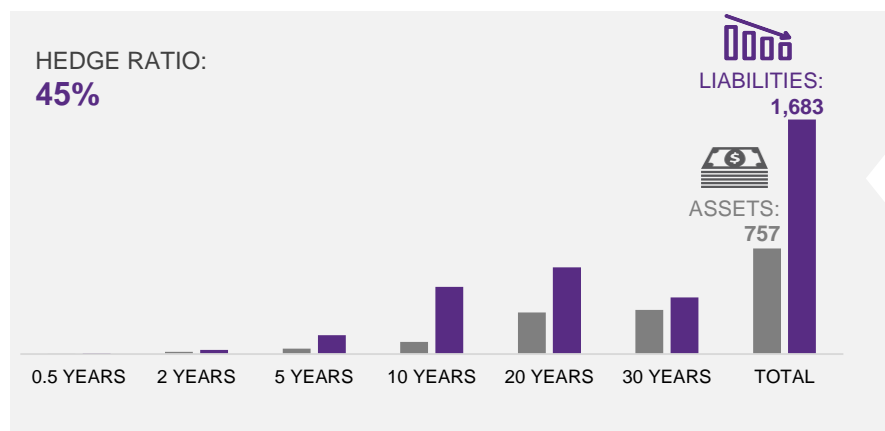
Over the month treasury rates fell across the curve while credit spreads tightened, leaving discount rates down 20bps



## 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 Growth Portfolio								
		-20%	-15%	-10%	-5%	-	+5%	+10%	+15%	+20%
Change in Interest Rates	+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.

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## READ MORE FROM OUR AUTHORS

**3Q19 Fixed Income Views** – Our fixed income team anticipates how trade disruption, an acceleration of economic slowdown and other key themes will impact the fixed income markets.

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

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Such defaults could result in losses to the strategy. In addition, the credit quality of securities held by the strategy may be lowered if an issuer's financial condition changes. Lower credit quality may lead to greater volatility in the price of a security and in shares of the strategy. Lower credit quality also may affect liquidity and make it difficult for the strategy to sell the security. The strategy may invest in securities that are rated in the lowest investment grade category. Such securities are considered to have speculative characteristics similar to high yield securities, and issuers of such securities are more vulnerable to changes in economic conditions than issuers of higher grade securities.

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