Monthly pension update

JULY 2019

DID YOU KNOW?

The Federal Reserve joined various other central banks across the globe embarking on an easing cycle, cutting interest rates for the first time in over a decade.

FUNDED STATUS FAST FACTS

88.1%
FUNDED STATUS **FELL 0.4%** THIS MONTH

+0.9% YTD
FUNDED STATUS INCREASE

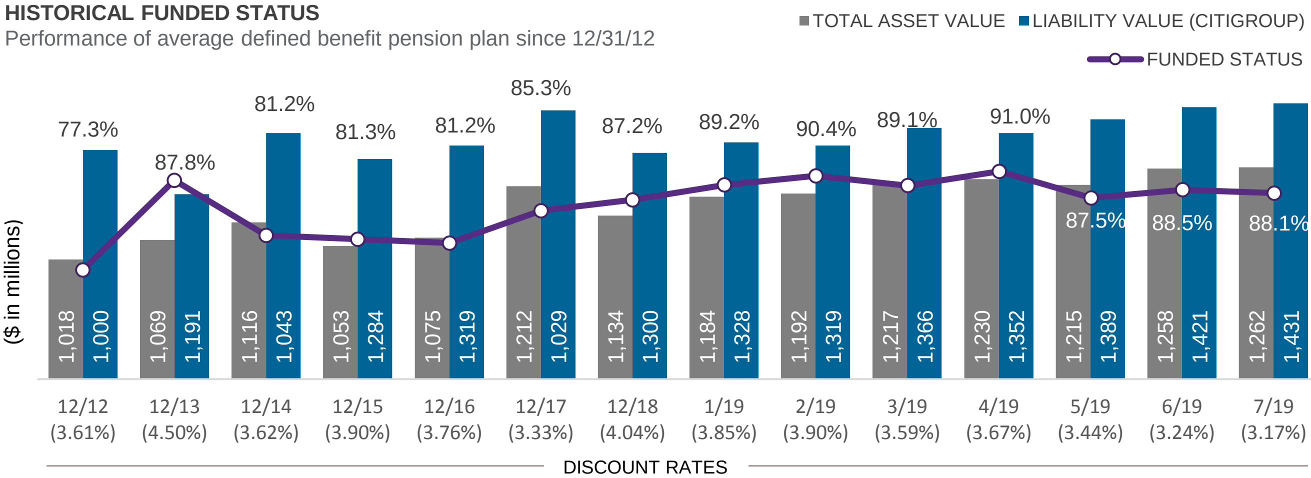
-88BPS
DISCOUNT RATE YEAR TO DATE CHANGE

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

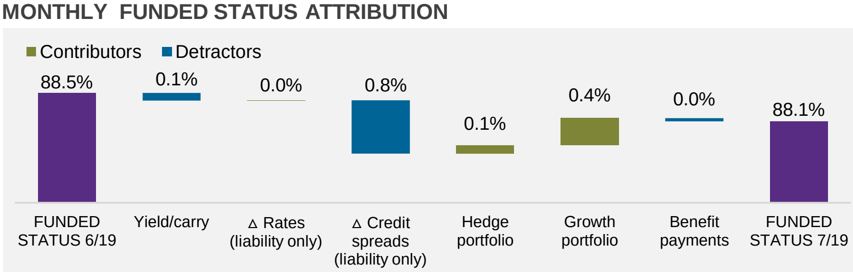
MONTHLY DETRACTORS OF FUNDED STATUS CHANGE:
CREDIT SPREADS

HISTORICAL FUNDED STATUS

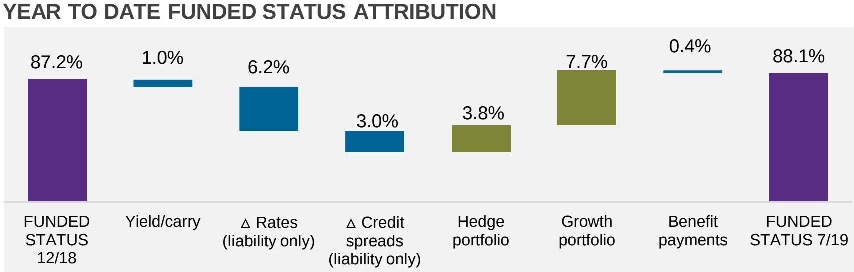
Performance of average defined benefit pension plan since 12/31/12



MONTHLY FUNDED STATUS ATTRIBUTION



YEAR TO DATE FUNDED STATUS ATTRIBUTION



Changes	Month	Year
Funded Status %	▼ (0.4%)	▲ 0.9%
Discount Rate (bps)	▼ (7)	▼ (88)
Treasury Rates(bps)	▶ *unch*	▼ (57)
Credit Spreads (bps)	▼ (7)	▼ (30)
Liabilities (mm)	▼ $10.2	▼ $131.6
Assets (mm)	▲ $3.3	▲ $128.0
Funded Status (mm)	▼ ($6.9)	▼ ($3.6)

Note: Arrow indicates effect on funded status.

Source: J.P. Morgan, FTSE Pension Discount Curve, Bloomberg. As of July 31, 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 remains under pressure, as a further escalation in U.S./China trade tensions continues to weigh on the manufacturing sector. As long as the trade issue is unresolved, uncertainty will drag on business confidence and therefore, investment spending and manufacturing. That said, the consumer looks solid, and with labor markets still healthy, this expansion seems set to bend rather than break. As such, the risk of recession appears contained, but risks to growth are increasingly tilted to the downside.

INFLATION

Globally, inflation remains muted – wage growth is in check, commodity prices are relatively range bound, and economic growth has slid below trend. We expect that inflation will gradually approach the Federal Reserve's (Fed) 2% target later this year, but do not expect a significant rebound in inflation. While a shift in Fed policy whereby they view the inflation target as symmetric (i.e. average inflation targeting) could lead to higher inflation down the road, at the current juncture, price growth looks set to remain low but positive.

RATES

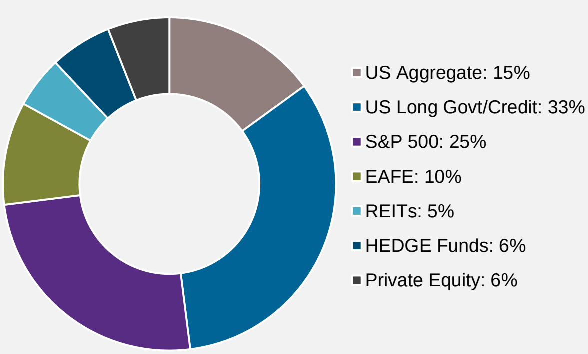
The Federal Reserve (Fed) cut interest rates by 25bps at its July meeting, reducing the Federal Funds rate to a range between 2% and 2.25%. The Fed also decided to end its balance sheet reduction program earlier than expected, and we expect at least one more rate cut before year end. The European Central Bank stayed the course at its most recent meeting, but a rate cut and restart of quantitative easing seems likely this fall. Against this backdrop, we expect that emerging market central banks will cut rates, loosening financial conditions in their local economies. Overall, the stance of global monetary policy looks set to continue easing into the end of the year.

RETURNS

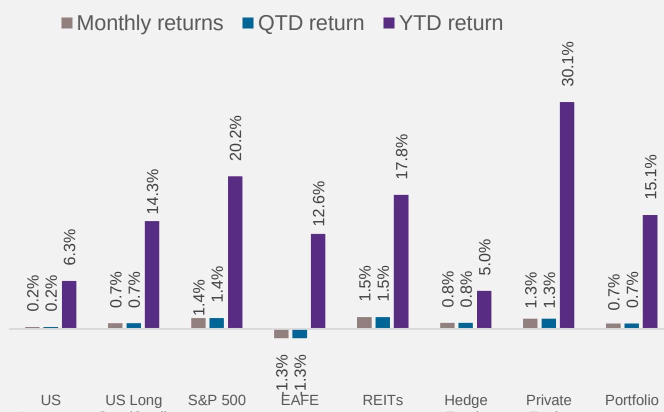
Forward equity market returns looks challenged, as it is unclear how much further multiples can expand against a backdrop of uncertainty and earnings growth that is under pressure. At the current juncture, it seems reasonable to expect earnings growth of around 4% in 2019; that said, consensus forecasts for 11% earnings growth next year feel a bit too high, particularly given the risk stemming from further escalation of trade tensions. We expect equities will deliver mid-single digit returns next year, with the majority of that return driven by earnings, rather than valuation.

ASSET ALLOCATION & MARKET SNAPSHOT (As of 7/31/19)

PLAN ASSET ALLOCATION

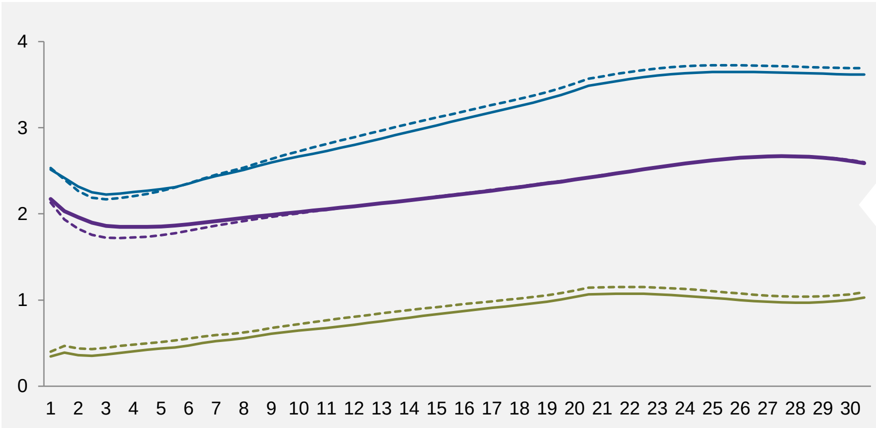


ASSET AND PORTFOLIO RETURNS



Source: J.P. Morgan, FTSE Pension Discount Curve, Bloomberg. As of July 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.jpmorganinstitutional.com

YIELD CURVE CHANGES

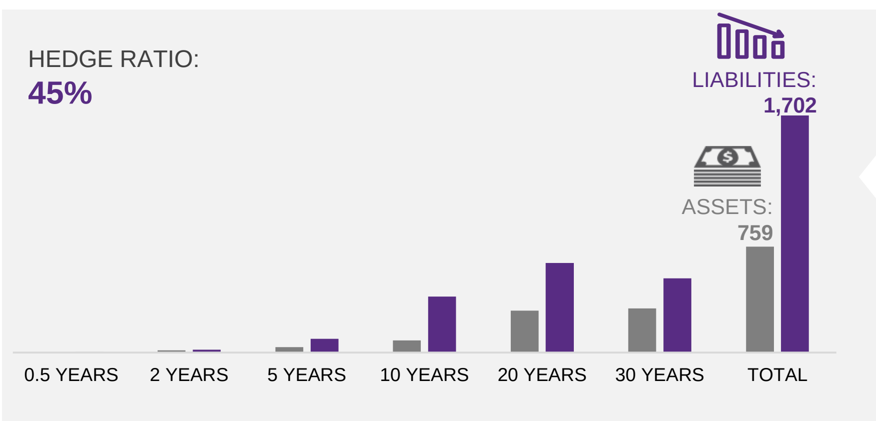


Over the month the front end of the treasury curve rose while the belly and long end were unchanged. Discount rate decrease of 7bps was largely driven by spread tightening.

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	83.4%	86.0%	88.7%	91.4%	94.0%	96.7%	99.3%	102.0%	104.7%
+75bps	82.1%	84.7%	87.2%	89.8%	92.4%	95.0%	97.6%	100.1%	102.7%
+50bps	80.9%	83.4%	85.9%	88.4%	90.9%	93.4%	95.9%	98.4%	100.9%
+25bps	79.8%	82.2%	84.6%	87.1%	89.5%	91.9%	94.3%	96.7%	99.2%
-	78.8%	81.1%	83.4%	85.8%	88.1%	90.5%	92.8%	95.2%	97.5%
-25bps	77.8%	80.0%	82.3%	84.6%	86.9%	89.2%	91.4%	93.7%	96.0%
-50bps	76.8%	79.1%	81.3%	83.5%	85.7%	87.9%	90.1%	92.3%	94.6%
-75bps	76.0%	78.1%	80.3%	82.4%	84.6%	86.7%	88.9%	91.0%	93.2%
-100bps	75.1%	77.2%	79.3%	81.4%	83.5%	85.6%	87.7%	89.8%	91.9%

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

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Credit Risk: There is a risk that issuers and counterparties will not make payments on securities, repurchase agreements or other investments held by the strategy.

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.

Interest Rate Risk: Bonds and other debt securities will increase or decrease in value based on changes in interest rates. If rates increase, the investment generally declines. On the other hand, if rates fall, the value of the investments generally increases. Your investment will decline in value if the value of the investment decreases. Securities with greater interest rate sensitivity and longer maturities tend to produce higher yields, but also are subject to greater fluctuations in value. Usually, the changes in the value of fixed income securities will not affect cash income generated, but may affect the value of your investment.

Derivatives may be riskier than other types of investments because they may be more sensitive to changes in economic and market conditions than other types of investments and could result in losses that significantly exceed an original investment. Many derivatives will give rise to a form of leverage. Derivatives are also subject to the risk that changes in the value of a derivative may not correlate perfectly with the underlying asset, rate or index. The use of derivatives for hedging or risk management purposes or to increase income or gain may not be successful, resulting in losses.

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