

# The Monthly Pension Review: February 2024

Funded status reaches highest level since 2007, driven by gains in equities and rises in rates

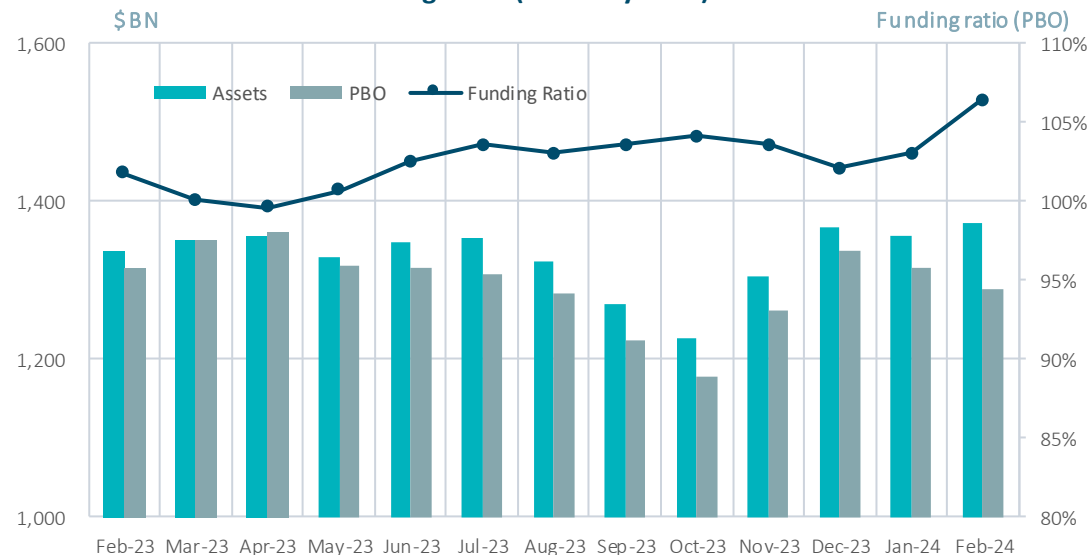


## February Market Summary

- Funded status increased by 3.3% through February – Assets returned 1.1% while liabilities returned -2.0%.<sup>(1)</sup>
- Equity performance strong in February – The S&P 500 Index returned 5.2% last month, as equity investors remain optimistic about the U.S. economy.
- The Long Credit Index yield increased 25 basis points (bps) in February – Long Treasury yields rose 21 bps and spreads widened marginally.

Market Watch	Dec-21	Dec-22	Jan-24	Feb-24
Funded Status <sup>(1)</sup>	97.9%	101.9%	103.1%	<b>106.4%</b>
FTSE Discount Rate	2.63%	4.95%	4.92%	<b>5.16%</b>
Long Credit Yield <sup>(2)</sup>	3.10%	<b>5.59%</b>	5.33%	5.57%
US 30Y TSY Yield	1.90%	3.96%	4.17%	<b>4.38%</b>
S&P500	4,766	3,840	4,846	<b>5,096</b>

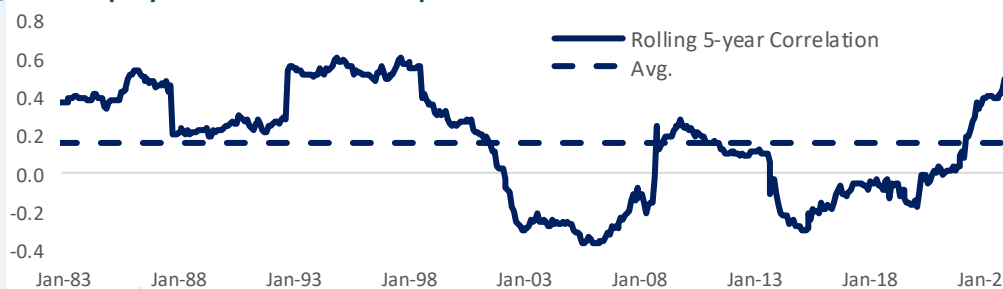
## Milliman Pension Funding Index (February 2024)<sup>(1)</sup>



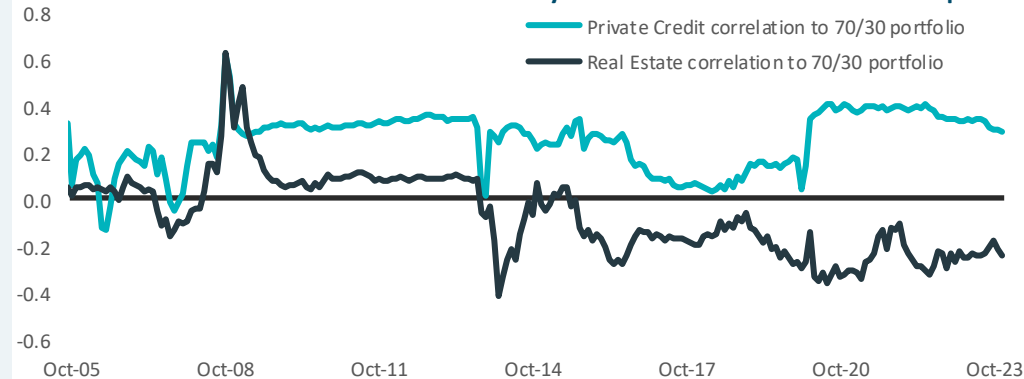
## POTENTIAL BENEFITS OF ALTERNATIVE INVESTMENTS

- In past years, DB plans have typically held investment grade fixed income as a liability-matching tool and public equities as a return-seeking tool.
- Historically, the correlation between bonds and equities has been negative, which has provided plans with some natural diversification. However, recently, **this correlation has turned positive.**
- As bond–equity correlations begin to shift positive, we believe plan sponsors may consider **expanding their options** within the return-seeking bucket to include alternative investments.
- Alternative assets – which **include real assets, private credit, and private equity**, among others – can provide equity-like returns to multi-asset portfolios. Two of the primary potential benefits these asset classes offer are income generation and diversification.
  - Alternatives often carry yields higher than investment grade bonds. The greater levels of investment income associated with higher yields can help provide stable total returns and can **generate additional income for pension payments.** As average funded status reaches its highest level since 2007<sup>(1)</sup> for plans considering de-risking, alternatives could reduce overall risk while improving yield.
  - Alternatives have historically exhibited **low correlation to traditional public asset classes.** As a result, when added to a portfolio consisting of bonds and equities, some alternatives can help reduce overall risk. For example, when compared to the historical monthly returns of portfolios consisting of 70% IG bonds and 30% U.S. equities, real estate exhibited a long-term correlation of -0.1, while private credit had a long-term correlation of 0.3.

## Bond–equity correlation has shifted positive for the first time in over a decade<sup>(2)</sup>



## Certain alternative asset classes have historically been less correlated to bonds & equities



(1) Data from reference Bloomberg Indices. Funded status is in reference to Pension Funding Index of the top 100 US corporate pension plans sourced from Milliman. Funded Status source: Milliman. FTSE Discount Rate source: FTSE. Long credit, US 30Y TSY yield, S&P 500 index value source: Bloomberg.

(2) Data source for correlation charts: Bloomberg, CDLI, NCREIF. Indexes: Bloomberg US Aggregate index (bonds), S&P 500 index (equities), Cliffwater Direct Lending index (private credit), NCREIF ODCE index (real estate). Correlations shown are rolling 5Y averages.

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Market chart indices:

- AAA Non-Agency CMBS and A Corporate source: Index data from Bloomberg.

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(1) Funded Status for the current month is estimated and subject to change as final numbers are released. Data from reference Bloomberg Indices.

(2) The Long Credit yield corresponds to the Bloomberg Long Credit Index.