The Monthly Pension Review: January 2024

Bonds and equities relatively quiet in January as investors assess Fed's next steps

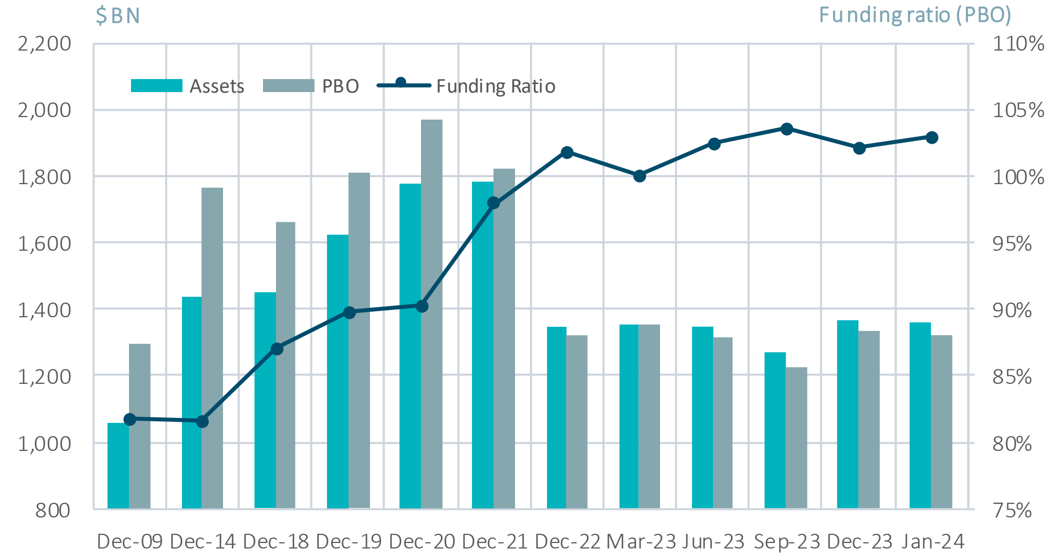
SLC Management

January Market Summary

- Funded status increased by 1.0% through January – Assets returned -0.3% while liabilities returned -1.1%.[1]
- Equities see slight gains in January – The S&P 500 Index returned 1.7% last month, as investors continue to anticipate rate cuts in 2024.
- The Long Credit Index yield increased 10 basis points (bps) in January – Long Treasury yields rose 14 bps and spreads tightened marginally.

Market Watch	Dec-21	Dec-22	Dec-23	Jan-24
Funded Status [1]	97.9%	101.9%	102.1%	102.9%
FTSE Discount Rate	2.63%	4.95%	4.76%	4.92%
Long Credit Yield [2]	3.10%	5.59%	5.22%	5.33%
US 30Y TSY Yield	1.90%	3.96%	4.03%	4.17%
S&P500	4,766	3,840	4,770	4,846

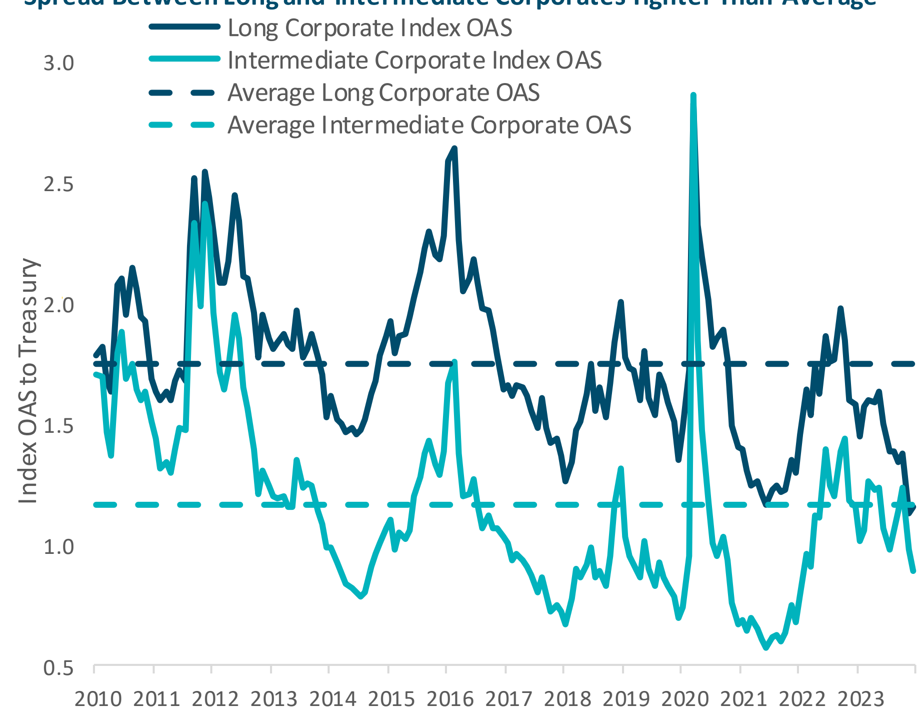
Milliman Pension Funding Index (January 2024)



OPPORTUNITIES IN THE INTERMEDIATE DURATION SPACE

- As pension plans de-risk and increase fixed income allocations, the duration of the bond portfolio typically shortens, as there is less equity exposure to offset. This dynamic allows plans to explore opportunities in the intermediate duration space, an area where many plans have historically been under-allocated.
- There are several market dynamics at play that further increase the attractiveness of intermediate bonds. **Specifically, the flat yield curve and a tight long-intermediate relationship within corporate spreads has provided relative value in intermediate fixed income.**
    - **Flat yield curve:** The U.S. yield curve is currently flat-to-inverted, with the 2s–10s spread closing January at a value of -23 bps (inverted), and the 5s–30s spread at 33 bps. These values are both in the bottom 10th percentile of their respective relationships since 1980. However, the market currently expects five rate cuts in 2024. If these occur, the curve could steepen, meaning the opportunity to capitalize on its flattening may be limited.
    - **Tight long-intermediate corporate spreads:** Corporate spreads have tightened considerably over the last three months, as demand for investment grade fixed rate paper remains high. The Long Corporate Index OAS closed January at +100 bps, its tightest level ever. Moreover, the spread between long and intermediate corporates is currently tight, closing January at a value of 18 bps, compared to the average since 2010 of 59 bps.
- A similar dynamic exists in the IG private credit space, as the spread of privates over publics is relatively flat across tenors. Plan sponsors can utilize intermediate IG private credit to gain exposure to this segment of the yield curve, while simultaneously picking up spread over comparable publics due to the illiquidity and complexity premiums.

Spread Between Long and Intermediate Corporates Tighter Than Average



Source: Bloomberg.

*Based on monthly performance of the S&P 500 Index. Data from Bloomberg.

(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.

(2) Funded Status source: Milliman. FTSE Discount Rate source: FTSE. Long Credit Yield source: Bloomberg. US 30Y TSY Yield source: Bloomberg. AAA Non-Agency CMBS and A Corporate source: Bloomberg.

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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.