The Monthly Pension Review: November 2023

Capital markets rally substantially in November as investors temper fears of economic slowdown

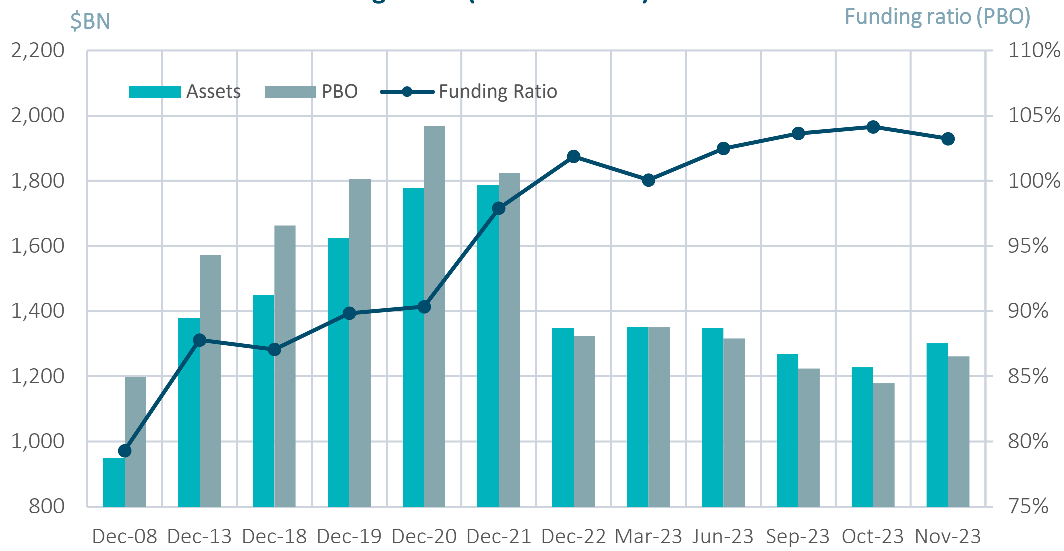
SLC Management

November Market Summary

- Funded status decreases by 0.9% through November – Assets returned 6.5% while liabilities returned 7.5%.[(1)]
- Equities see significant gains in November – The S&P 500 Index returned 8.9% last month, as investors began to anticipate a soft landing and Fed rate cuts in early 2024.
- The Long Credit Index yield fell by 77 basis points (bps) in November – Long Treasury yields fell 60 bps and spreads continued to tighten.

Market Watch	Dec-21	Dec-22	Oct-23	Nov-23
Funded Status [(1)]	97.9%	101.9%	104.1%	103.2%
FTSE Discount Rate	2.63%	4.95%	5.96%	5.26%
Long Credit Yield [(2)]	3.10%	5.59%	6.52%	5.74%
US 30Y TSY Yield	1.90%	3.96%	5.09%	4.49%
S&P500	4,766	3,840	4,194	4,568

Milliman Pension Funding Index (October 2023)



IMPLICATIONS OF HEIGHTENED BOND YIELD VOLATILITY

- So far in 2023, corporate DB pension plan average funded status closed every month above 100%. If this continues in December, this will be the first full year the average funded status has been above this level since 2000. Many plans have taken advantage of this funding surplus by de-risking the investment portfolio and locking in high interest rates, either by increasing fixed income allocations, Pension Risk Transfer, or other methods.
- However, macroeconomic uncertainty, high inflation, and aggressive central bank rate hikes across the global have contributed to heightened market volatility in 2023. The MOVE index, which measures implied Treasury market volatility, has averaged 119.3 over the past two years, compared to the monthly average value of 67.6 during the prior 10 years. Additionally, corporate credit spreads have seen significant fluctuations due to both fundamental and technical factors.
- Since the beginning of 2007, 8 of the 15 largest monthly moves in the Long Credit index yield have occurred within the last two years. For fixed income investors with a long-term time horizon, navigating this new volatility regime has been challenging, as yield levels have fluctuated significantly month-over-month. November's move downward is notable, as market sentiment has appeared to shift away from the "higher rates for longer" narrative that has been a focus of 2023. Many fixed income investors seem to believe that interest rates are near or past their cycle peaks.
- Given elevated market volatility, tight governance around de-risking is more important than ever. Plans can leverage tools including de-risking triggers, when asset allocation shifts are tied to specific funded status levels, or rate triggers, when portfolio repositioning is tied to market yield levels.

8 of the 15 largest monthly changes in the Long Credit index yield since the GFC have occurred within the last 2 years, indicating high levels of yield volatility

Month	M/M change in the Long Credit Index Yield to Worst
October-2008	1.2
December-2008	-1.2
September-2008	0.8
November-2023	-0.8
April-2022	0.8
September-2022	0.7
March-2020	0.7
November-2022	-0.7
November-2008	-0.6
April-2020	-0.5
September-2023	0.5
July-2009	-0.5
January-2023	-0.5
February-2023	0.5
January-2022	0.4

*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.