

## May Market Summary

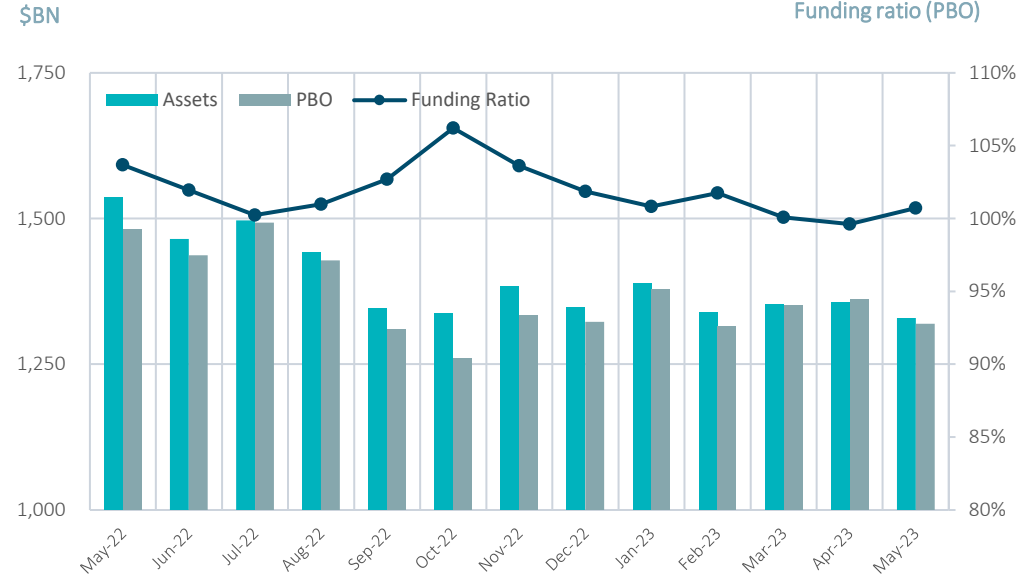
- Funded status increases by 1.1% through May – Assets returned -1.5% while liabilities returned -2.5%.<sup>(1)</sup>
- Equities post third consecutive positive month – The S&P 500 Index returned 0.4% in May despite market stress from the regional banking crisis in the early weeks of the month.
- The Long Credit Index yield increased by 25 basis points (bps) in May – The yield increase was primarily rate driven as long spreads widened just 4 bps through May.

Market Watch <sup>(2)</sup>	Dec-21	Dec-22	Apr-23	May-23
Funded Status	97.9%	101.9%	99.5%	100.7%
FTSE Discount Rate	2.63%	4.95%	4.66%	4.89%
Long Credit Yield	3.10%	5.59%	5.24%	5.49%
US 30Y TSY Yield	1.90%	3.96%	3.67%	3.86%
S&P 500	4,766	3,840	4,169	4,180

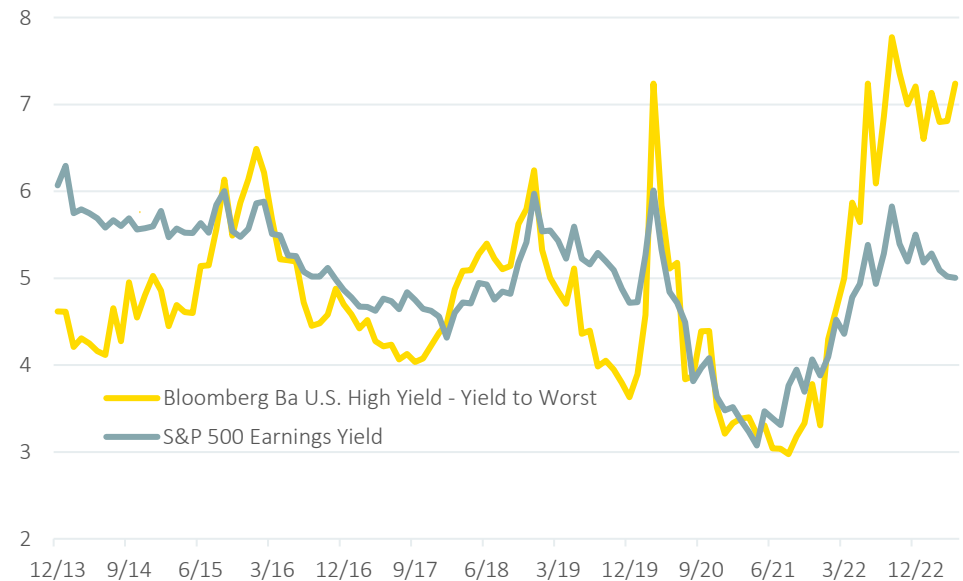
## SPOTLIGHT: OPPORTUNITIES IN HIGH YIELD

- Despite recent gains in funded status over the last few years, plan sponsors may still be hesitant to totally de-risk their plans. In order to maintain their funding levels, plans still need their assets to outperform liabilities as sponsors continue to make benefit payments.
- As plans de-risk, most maintain allocations to equities to help drive returns, while using their hedging portfolios of U.S. corporate bonds and Treasuries to primarily hedge liability interest rate and credit spread risk. However, in the current environment we believe that plan sponsors should also consider high yield and bank loans as a substitute for equities and other growth assets.
- Valuations within the U.S. high yield market have become very attractive – driven by the potential for further rate increases by the U.S. Federal Reserve coupled with market turbulence from the debt ceiling debate.
- As of 5/31, the Bloomberg Ba U.S. High Yield index yield was 7.2% while the average dollar price was 90.6% of par. Despite the elevated yield levels and low dollar price, the U.S. High Yield interest coverage ratio (used to determine how easily a company can pay interest on its debt) is at all-time highs, according to JP Morgan.
- Following the material reset in yields in 2022, the high stable income that high yield can provide relative to equities can prove even more beneficial for meeting the cash flow needs of pension plans, and may also serve as a degree of cushioning in downside market environments.

## Milliman Pension Funding Index (May 2023)



## High yield bonds currently offer attractive yields vs. U.S. equities



Source: 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. S&P 500 source: Bloomberg. Long Corporate Index source: Bloomberg.

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Market chart indices:

- Ba High Yield and S&P 500 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.