

# The Monthly Pension Review: July 2024



FAVORABLE ECONOMIC REPORTS DROVE INTEREST RATES SUBSTANTIALLY LOWER AS INVESTORS ANTICIPATE RATE CUTS

## July Market Summary

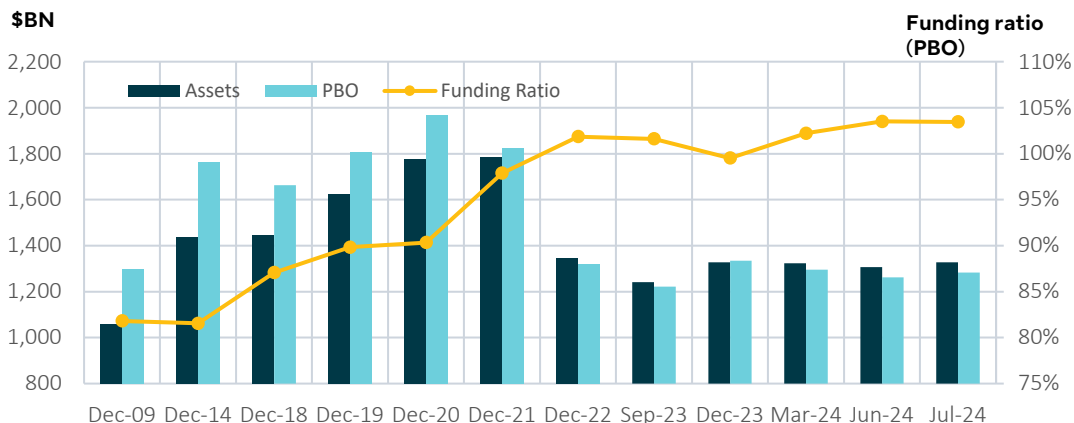
- **Funded status stayed roughly flat through July** – Assets returned 3.0% while liabilities returned 2.8%.<sup>(1)</sup>
- **Equity gains were modest in July as investors anticipate next monetary policy steps** – The S&P 500 Index rose 1.3% last month, while small-cap stocks, represented by the Russell 2000, performed well, returning over 10% in July.
- **The Long Credit Index yield fell 22 basis points (bps) last month** – Treasury yields fell substantially as the bond market began to anticipate more U.S. Federal Reserve rate cuts.

Market Watch	Dec-22	Dec-23	Jun-24	Jul-24
Funded Status <sup>(1)</sup>	101.9%	99.5%	<b>103.5%</b>	103.5%
FTSE Discount Rate	4.95%	4.76%	<b>5.29%</b>	5.12%
Long Credit Yield <sup>(2)</sup>	5.59%	5.22%	<b>5.71%</b>	5.49%
US 30Y TSY Yield	3.96%	4.03%	<b>4.56%</b>	4.30%
S&P 500	3,840	4,770	5,460	<b>5,522</b>

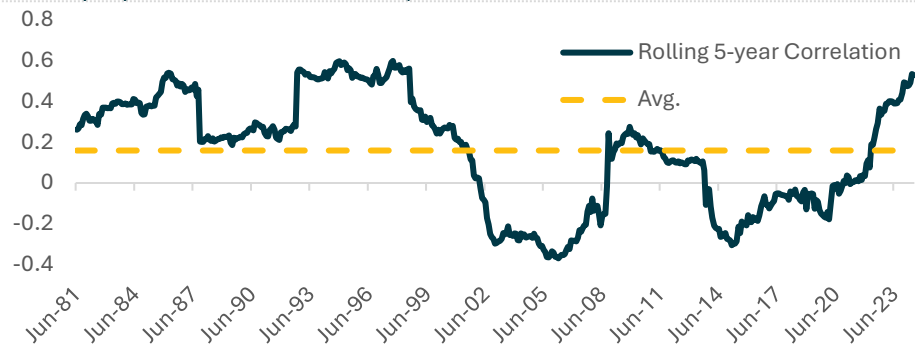
## POTENTIAL BENEFITS OF ALTERNATIVE INVESTMENTS

- In past years, defined benefit plans have typically held investment grade (IG) 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 other asset classes – can provide equity-like returns to multi-asset portfolios. Two of the main potential benefits these assets offer are income generation and diversification.
  - Alternatives often carry yields higher than IG 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 50% IG bonds and 50% U.S. equities, real estate exhibited a long-term correlation of -0.1, while private credit had a long-term correlation of 0.3.

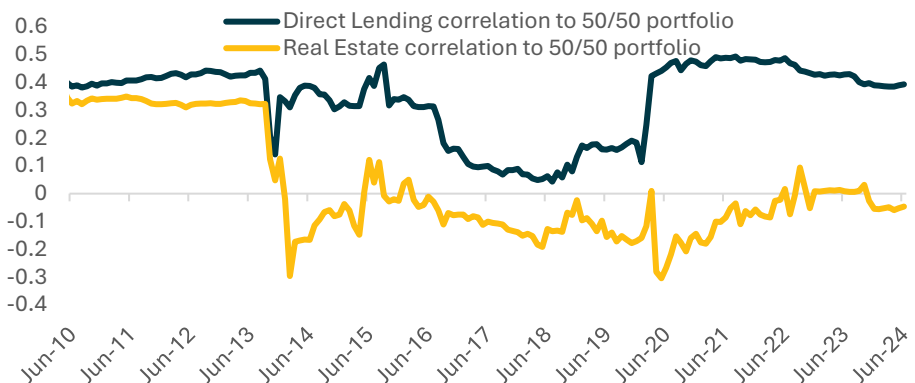
## Milliman Pension Funding Index (July 2024)<sup>1</sup>



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



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



<sup>1</sup> 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.

<sup>2</sup> 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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