In December 2018, long BBB-rated corporates underperformed long AA-rated corporates by approximately 1.4%; however, weakness from BBBs quickly reversed, as long BBBs outpaced long AAs by 1.4% this year through the first week of February.

For many plan sponsors, this short-term volatility will have been evident in both their hedging asset performance and funded status at year-end.

Liabilities are typically valued using AA-rated discount rates, whereas hedging assets may include BBB-rated bonds, reflecting broad IG indices.

For plans with longer time horizons, the inclusion of BBB-rated credit in long duration fixed income portfolios could be additive to long-term performance.

Long BBBs outpaced long AAs by almost 3% over the past ten calendar years.

However, BBBs may introduce short-term funded status volatility. Plans with shorter time horizons may wish to minimize funded status volatility by taking a higher-quality approach to long duration credit allocations.

Corporate pension funded status improved by 1.3% during January to close the month at 91.0%.

- A rebound in equity markets fueled the increase, as the S&P 500 Index returned over 7%, which nearly retraced the December plunge.
- Discount rates fell by 15bps to close the month at 4.07%, which partially offset equity-market strength.

Issuance picked back up during the month, with long-duration supply totaling $27.6 billion, of which over half came from BBB-rated issuers.

The rally in equity markets found its way over to corporate credit markets, as long corporate spreads tightened by 22bps to 178bps.

Spread curves steepened modestly, as the difference between long corporate and intermediate corporate spreads widened by 4bps.

<table>
<thead>
<tr>
<th>Rates Monitor</th>
<th>1/31/19</th>
<th>12/31/18</th>
<th>12/31/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTSE Pension Liability Discount Rate (%)</td>
<td>4.07</td>
<td>4.22</td>
<td>3.60</td>
</tr>
<tr>
<td>Bloom Barc Long Corporate Yield (%)</td>
<td>4.66</td>
<td>4.91</td>
<td>4.02</td>
</tr>
<tr>
<td>Bloom Barc Long Corporate A+ Yield (%)</td>
<td>4.19</td>
<td>4.40</td>
<td>3.69</td>
</tr>
<tr>
<td>Bloom Barc Long Corporate BBB Yield (%)</td>
<td>5.09</td>
<td>5.36</td>
<td>4.37</td>
</tr>
<tr>
<td>30 Year Swap Spread (bps)</td>
<td>-20</td>
<td>-17</td>
<td>-20</td>
</tr>
</tbody>
</table>

FTSE Pension Liability Index Discount Rate vs. S&P 500 Index

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