

LDI Highlights

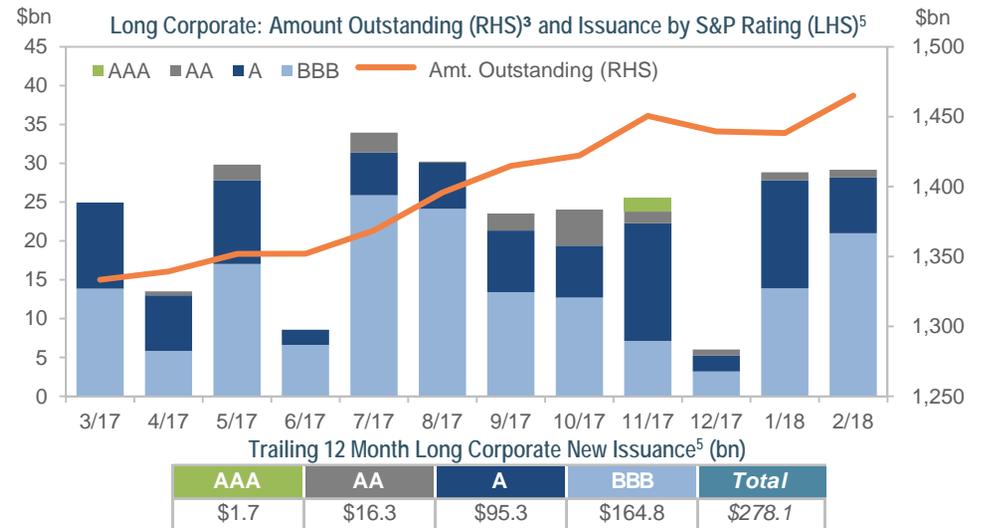
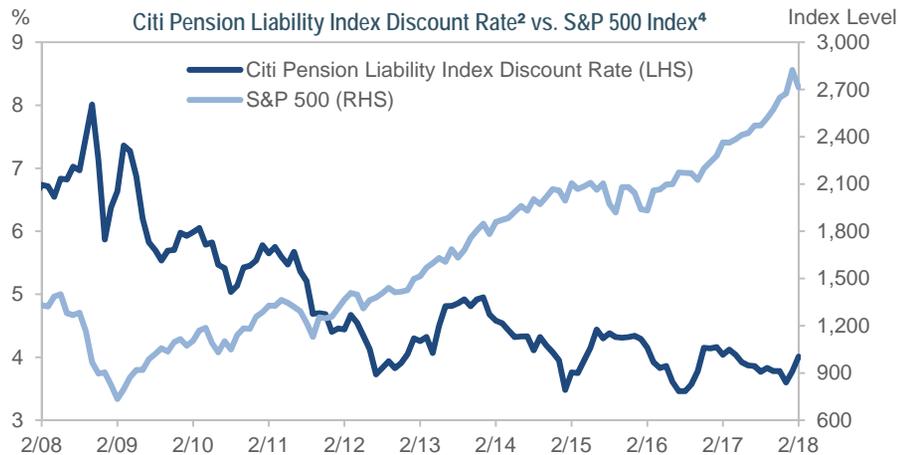
- Corporate pension funded status improved materially for the second straight month, rising 0.4% to 87.7%, the highest level since June 2011.¹
 - Discount rates rose sharply by 23bps in February, continuing their climb higher on the heels of Treasury rates.³
 - The S&P 500 Index ended the month down 3.9%, after falling by as much as 8.5% intra-month, as volatility returned to the market.⁴
- Despite wider spreads and increased equity market volatility, long corporate supply remained robust during February, as issuers priced \$29 billion.³
 - Long-end supply comprised 39% of total issuance during the month, 19% higher than the 5-year average.⁵
- The spread between long and intermediate corporates tightened to a four-year low, as long-dated bonds tightened at a greater pace.³

IR+M LDI Corner: The Supply/Demand Equation

- Throughout 2018, demand has remained elevated in the LDI space. As sponsors continue to lock in recent funded status gains, their increased demand for corporate bonds should continue. The question is whether corporate bond supply will step up to meet this demand.
- Prior to the \$40 billion CVS deal in March, investment-grade issuance was down 20% year-to-date. This was largely due to expected repatriation of overseas cash following tax-policy changes. For the 50 biggest cash "repatriators," issuance was down 75% (\$32bn).²
- Issuers with large overseas cash balances are often higher-quality. As a result, year-to-date supply has been lower-quality, with 60% of supply derived from BBBs. While this might be concerning for plan sponsors focused on hedging higher-quality corporate liabilities, one positive has been the bias toward longer-dated paper:²
 - 30-year supply is up 20% versus last year, and accounts for 16% of year-to-date issuance (11% in 2017).²
 - February was the heaviest month for long-issuance in over 5 years and one of the busiest for LDI. So far, the supply/demand equation seems to be balanced.²

Rates Monitor	2/28/18	1/31/18	12/31/17
Citigroup Pension Discount Rate ² (%)	4.01	3.78	3.60
Bloom Barc Long Corporate Yield ³ (%)	4.41	4.13	4.02
Bloom Barc Long Corporate A+ Yield ³ (%)	4.12	3.84	3.69
Bloom Barc Long BBB Corp Yield ³ (%)	4.72	4.44	4.37
30 Year Swap Spread ⁴ (bps)	-18	-12	-20

Glidepath Monitor	2/28/18	1/31/18	12/31/17	12/31/14
Funded Status ¹ (%)	87.7	87.3	84.1	81.5
Long Corporate Spreads ³ (bps)	134	126	137	186
Curve ³ (Long Corp - Int. Corp) (bps)	56	59	64	79



¹Milliman; ²Citigroup; ³Bloomberg Barclays; ⁴Bloomberg; ⁵JP Morgan

All data in the above commentary is as of 2/28/18. Yields are represented as of the aforementioned date and are subject to change. The views contained in this report are those of IR+M and are based on information obtained by IR+M from sources that are believed to be reliable. This report is for informational purposes only and is not intended to provide specific advice, recommendations for, or projected returns of any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research & Management.