

LDI Highlights

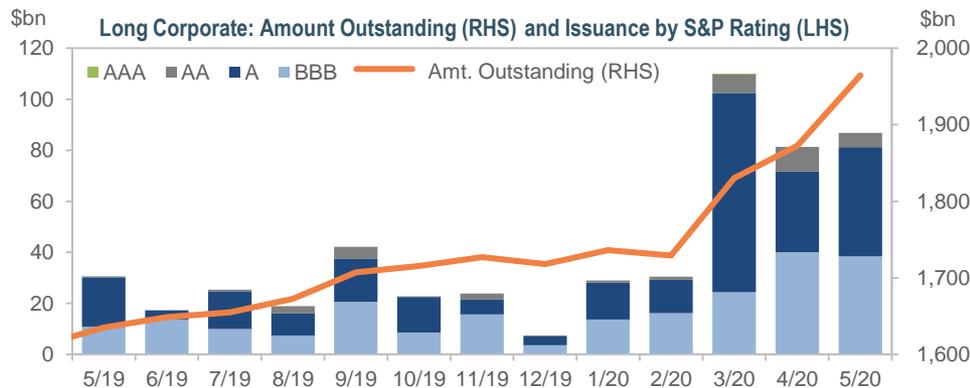
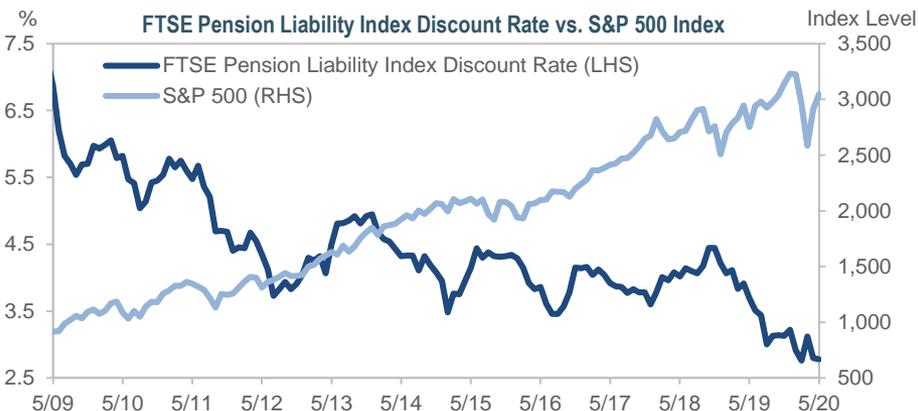
- Corporate pension funded status declined by 0.5% during May, closing the month at 84.0%.
 - The S&P 500 Index approached pre-COVID-19 levels, increasing by 4.8% in May, but could not offset the impact of lower yields.
 - Discount rates trended lower, falling 0.02% to 2.78%.
- Issuers continued to fortify balance sheets by tapping the primary market, and priced over \$86 billion; the year-to-date total of \$345 billion has already surpassed 2019's calendar year total of \$298 billion.
- Despite heavy supply, long corporates outperformed similar-duration Treasuries by 211bps, and spreads tightened by 15bps to 217bps.
- Credit curves further normalized, with the spread difference between long and intermediate corporates increasing by 21bp to 68bps..

Rates Monitor	5/31/20	4/30/20	12/31/19
FTSE Pension Liability Discount Rate (%)	2.78	2.80	3.22
Bloom Barc Long Corporate Yield (%)	3.31	3.39	3.60
Bloom Barc Long Corporate A+ Yield (%)	2.86	2.88	3.25
Bloom Barc Long Corporate BBB Yield (%)	3.79	3.96	3.94
30 Year Swap Spread (bps)	-47	-44	-30

IR+M LDI Corner: STRIPS Market Color from the Desk

- At IR+M, we consistently recommend STRIPS to improve interest rate hedge ratios, especially for early stage LDI clients.
- STRIPS can be an effective solution for plans wary of the additional complexities of derivatives. In March and April, collateral requirements were suddenly changed amidst the volatility which led to some adverse conditions.
- Since February, over \$25 billion of STRIPS were reconstituted and STRIPS ETFs have reported net outflows; Fed buying in the long-end, and plans taking off successful hedging trades led to rebalancing into equities and buying long corporates.
- In the twelve-months prior to February 2019, STRIPS supply had been growing at a positive rate – a signal of solid demand for duration.
- Plans focused on reducing funded status volatility by increasing their hedge ratios could consider blending STRIPS with long corporates – current long corporate spreads wider than 200bps remain an attractive entry point.

Glidepath Monitor	5/31/20	4/30/20	12/31/19	12/31/15
Funded Status (%)	84.0	84.5	89.8	81.7
Long Corporate Spreads (bps)	217	232	136	227
Curve (Long Corp - Int. Corp) (bps)	68	47	66	88



Trailing 12 Month Long Corporate New Issuance (bn)				
AAA	AA	A	BBB	Total
\$0.2	\$35.5	\$247.4	\$211.9	\$495.0

Sources: Milliman (Historical numbers revised as of 4/30/19), FTSE Russell (formerly Citigroup), Bloomberg Barclays, Bloomberg, and JPMorgan

All data in the above commentary is as of 5/31/20. 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. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.