

LDI Highlights

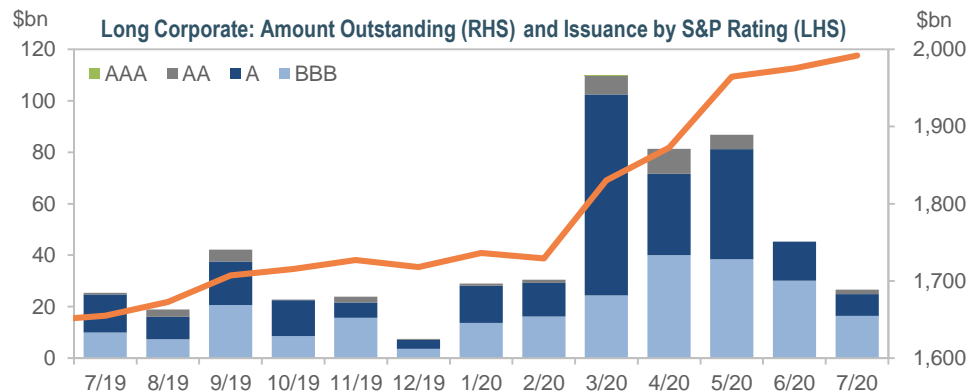
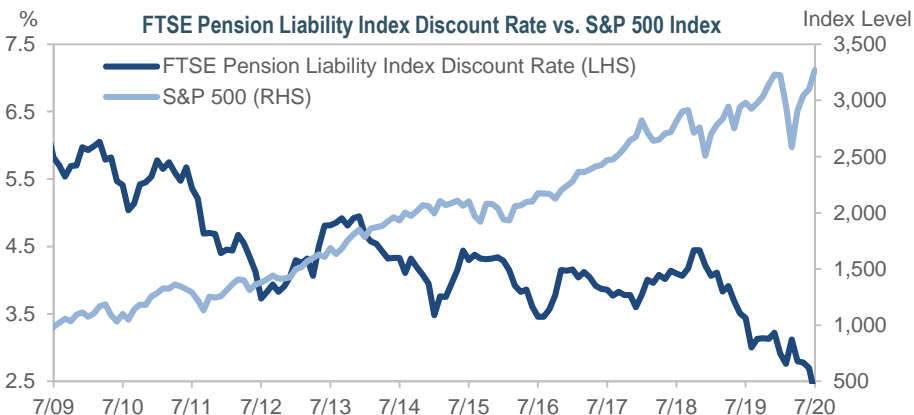
- Corporate pension funded status fell by 2.4% during July to close the month at 81.1%, the lowest level in almost four years.
 - Discount rates declined by nearly 40bps to 2.31%, and was the primary driver of the decrease in funded status.
 - Positive risk asset performance was not enough to offset the fall in rates, with the S&P 500 Index returning approximately 5.6%.
- Long-duration issuance totaled roughly \$27 billion; the year-to-date total of \$409 billion was well-above the average annual total of only \$211 billion.
- A healthy appetite for risk supported corporate credit markets, and long corporate spreads tightened by 20bps to close at 182bps.
 - Long corporate spreads were 177bps tighter than the March wides of 359bps, and just 2bps wider than the five-year average.

Rates Monitor	7/31/20	6/30/20	12/31/19
FTSE Pension Liability Discount Rate (%)	2.31	2.70	3.22
Bloom Barc Long Corporate Yield (%)	2.78	3.17	3.60
Bloom Barc Long Corporate A+ Yield (%)	2.37	2.75	3.25
Bloom Barc Long Corporate BBB Yield (%)	3.21	3.61	3.94
30 Year Swap Spread (bps)	-43	-50	-30

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- Interest rates continued to drop and reached new historic lows – the 10-year Treasury rate closed July at an all-time low of 53bps, down 139bps year-to-date.
 - This may prompt plan sponsors to consider taking advantage of cheap financing rates by issuing debt to fund up their pension plans.
 - New issuance has historically slowed in the summer months, but regardless, demand has been healthy with deals multiple times oversubscribed.
- Rating agencies recognize that borrowing to fund pensions is akin to exchanging a floating rate for a fixed rate debt, hence no penalization to credit ratings.
- Sponsors can provide protection against interest rate and market volatility by placing the proceeds in Liability Driven Investing (LDI) strategies.
- An added benefit of reducing pension deficits is lowering variable rate PBGC premiums (currently 4.5% of unfunded benefits compared to 3.21% YTM on long BBB bonds).

Glidepath Monitor	7/31/20	6/30/20	12/31/19	12/31/15
Funded Status (%)	81.1	83.5	89.8	81.7
Long Corporate Spreads (bps)	182	202	136	227
Curve (Long Corp - Int. Corp) (bps)	80	83	66	88



Trailing 12 Month Long Corporate New Issuance (bn)				
AAA	AA	A	BBB	Total
\$0.2	\$36.7	\$252.6	\$234.8	\$524.2

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 7/31/20. 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.