

LDI Highlights

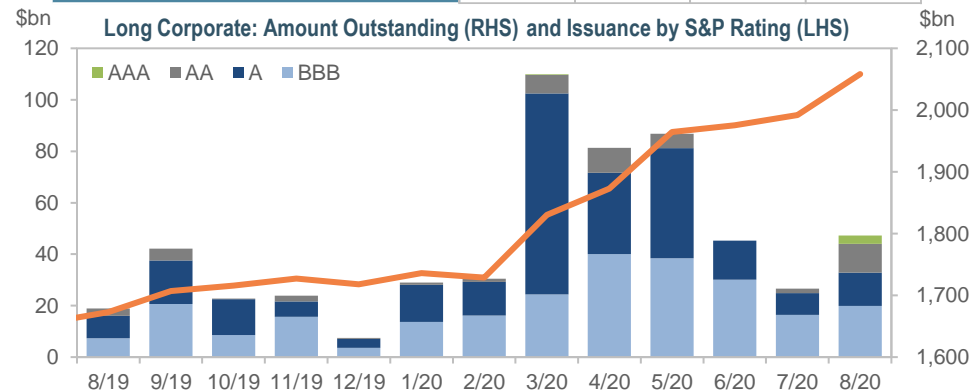
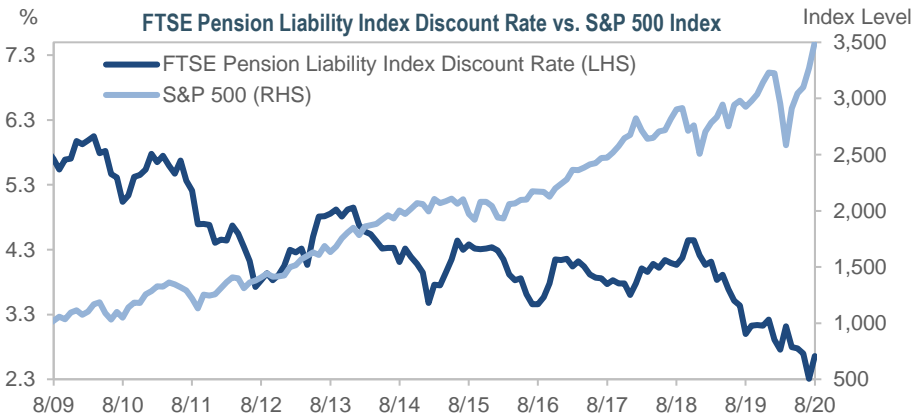
- Corporate pension funded status increased by 4.0% during the month to close at 85.1%, the second largest monthly increase in the past 2 decades.
 - Discount rates increased by over 30bps driven by higher Treasury rates, from 2.31% to 2.66%, causing pension liabilities to decline.
 - Risk asset performance was mixed, with long corporate bonds underperforming Treasuries but equities up roughly 7%.
- Issuers priced \$47 billion of long bonds in August; 40-year debt accounted for over \$10 billion, beating the previous monthly record of \$9 billion.
- Long corporate spreads were range bound, trading within a 10bps range since mid-July, and closed 2bps wider month-over-month to 184bps.
- The long corporate index duration shortened by 0.2 years to 15.3 years, but has extended by 0.8 and 1.8 years, respectively, since 2019 and 2018.

Rates Monitor	8/31/20	7/31/20	12/31/19
FTSE Pension Liability Discount Rate (%)	2.66	2.31	3.22
Bloom Barc Long Corporate Yield (%)	3.02	2.78	3.60
Bloom Barc Long Corporate A+ Yield (%)	2.64	2.37	3.25
Bloom Barc Long Corporate BBB Yield (%)	3.42	3.21	3.94
30 Year Swap Spread (bps)	-38	-43	-30

IR+M LDI Corner: Potential Election Impacts to Pensions

- Pension investment strategies could be impacted by the outcome of the November presidential and congressional elections. Corporate tax rates are one of many discussion points and may play a role in funding policy decisions:
 - Biden is proposing raising the corporate tax rate from 21 to 28 percent – the increased tax deduction coupled with [funding relief](#) may incentivize sponsors to delay making contributions until the 2021 tax year or later.
 - Trump seeks to lower the corporate tax rate from 21 to 20 percent; in response, sponsors may accelerate contributions to 2020 which may have the added benefit of PBGC premium savings.
- A Democratic controlled government may loosen ESG financial requirements in qualified retirement plans, a reversal from the [DOL proposed rule issued in June](#).
- Commitment to LDI should help pension plans withstand the likely heightened interest rate and market volatility surrounding the election; we believe solid security selection will be increasingly important for an effective LDI strategy in this higher risk environment.

Glidepath Monitor	8/31/20	7/31/20	12/31/19	12/31/15
Funded Status (%)	85.1	81.1	89.8	81.7
Long Corporate Spreads (bps)	184	182	136	227
Curve (Long Corp - Int. Corp) (bps)	88	80	66	88



Trailing 12 Month Long Corporate New Issuance (bn)				
AAA	AA	A	BBB	Total
\$3.5	\$45.1	\$256.7	\$247.4	\$552.6

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 8/31/20. 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.