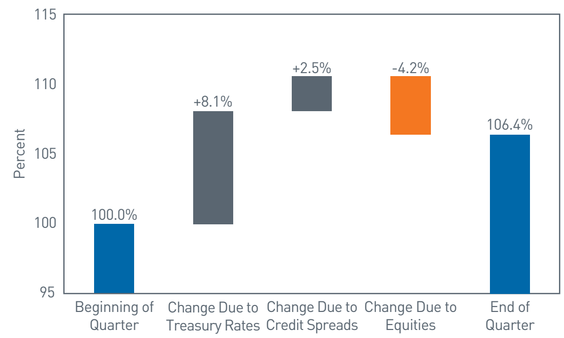
Pension Market Review

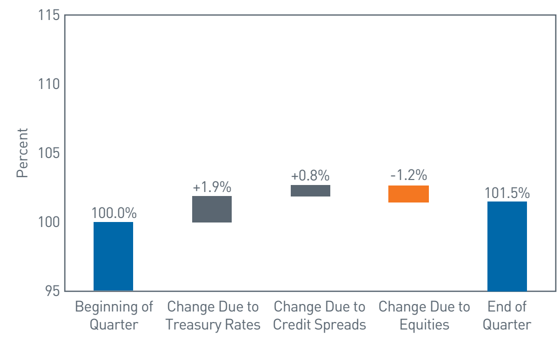
Funded levels of corporate defined benefit plans generally increased during the first quarter of 2022 as a result of higher Treasury rates and widening credit spreads; however, these gains were partially offset by negative equity returns. A typical return-driven plan had a 6.4% increase in its funded ratio, while a typical liability-driven plan observed a 1.5% increase. Liability-driven plans with higher allocations to longer-duration assets tend to see smaller funded ratio movements when market volatility increases.

Funded Ratio Change: Return-Driven Plan*



Source: PNC *Data as of 3/31/22*

Funded Ratio Change: Liability-Driven Plan*



Source: PNC *Data as of 3/31/22*

Assumptions

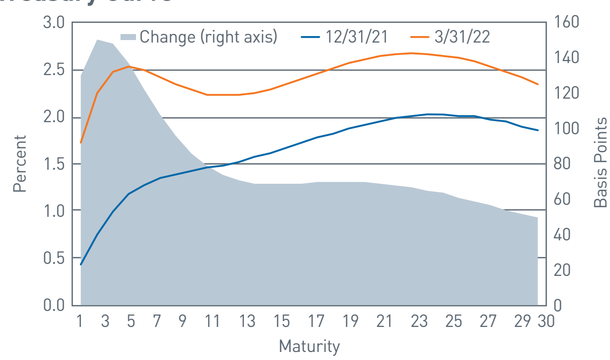
- The funded ratio changes displayed above are for generic plans with allocation and liability profiles specified below. Results are market driven and do not incorporate any plan-specific effects, such as benefit payments, expenses, benefit accruals or plan contributions. Funded ratio changes are sensitive to the beginning of the period funded ratio.
- A return-driven plan is a pension plan with an asset allocation commonly associated with an absolute return objective and has a high allocation to return-seeking assets (public equity in this case) and typically has high funded status volatility. Assumed asset allocation is 70% MSCI All Country World, 30% Bloomberg Aggregate.
- A liability-driven plan is one that is well along its path in a liability-centric approach to investing and has a large allocation to long-duration bonds to help reduce funded status volatility. Assumed asset allocation is 20% MSCI All Country World, 64% Bloomberg Long Credit, 16% Bloomberg Long Government.
- Liability profile is based on BAML Mature/Average US Pension Plan AAA-A Corp indices with average duration of 15 years.

Treasury Rates

Treasury rates increased all along the curve and had a positive impact on funded status.

During the quarter, the Treasury curve increased and flattened as markets are now expecting several rate hikes more than expected at the start of the quarter. Treasuries with maturities shorter than seven years showed increases ranging from 100-150 basis points (bps) while longer-term Treasury rates showed increases ranging from approximately 50-100 bps. In isolation, the increase in treasury yield decreased the liability and caused an increase in funded ratios for pension plans.

Treasury Curve



Source: BAML US Treasury Curve *Data as of 3/31/22*

*This example is for illustrative purposes only. The results in this example are based on the stated assumptions. Results have inherent limitations because they are not based on actual transactions, and hypothetical results may under or over compensate for the impact of certain economic and market factors, all of which can adversely affect results. Past performance is no guarantee of future results.

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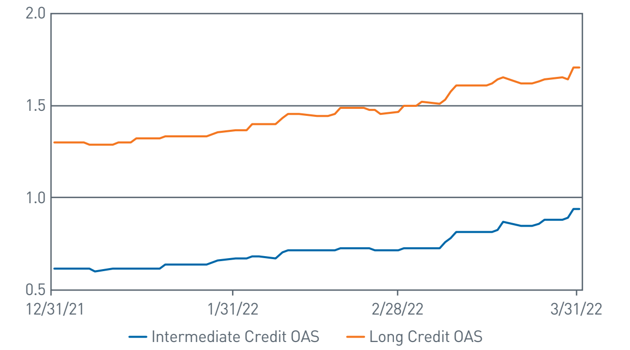
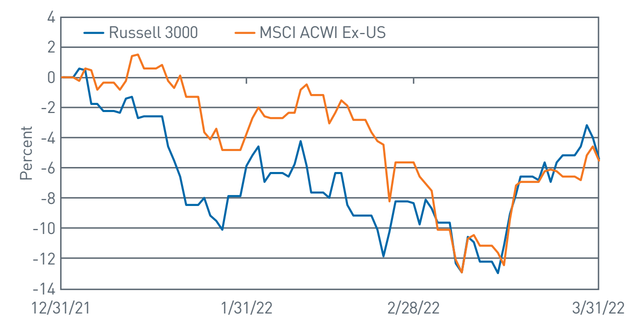
Credit Spreads



Source: Barclays Live *Data as of 3/31/22*

Equity Index Total Returns



Source: Russell, MSCI *Data as of 3/31/22*

Credit Spreads

Credit spreads had a positive impact on funded status.

Credit spreads had a positive impact on funded ratios during the quarter. Intermediate-duration credit spreads widened 21 bps while long-duration credit spreads widened 25 bps. On a net basis, considering increasing Treasury yields, the total corporate bond discount rate for pensions increased 80-90 bps and decreased plan liabilities.

Equities

Equity market performance had a negative impact on funded status.

Overall negative performance in global equity markets hurt funded statuses this quarter as a result of soaring inflation, partially due to the Russian invasion of Ukraine and the Federal Reserve pivoting to hawkish behavior. In the United States, small cap stocks trailed large caps with returns of -5.4%, while large cap returned -5.1%. International developed returned around -5.5% and emerging markets returned around -5.2%.

READY TO HELP

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