FIXED INCOME | June 25, 2025

Pension Investing — Time to Derisk?

Pension investment risk is driven in significant part by the proportions of plan assets allocated across stocks, bonds and alternatives. It is also impacted by the risk of the investment strategies within each of these asset classes.

There is a confluence of factors that suggest now may be an opportune time for pensions to derisk by increasing allocations to bonds and to construct low risk fixed-income portfolios by holding high-quality and liquid bonds. These factors include improved funded status, high interest rates, tight credit spreads and increasing liquidity needs.

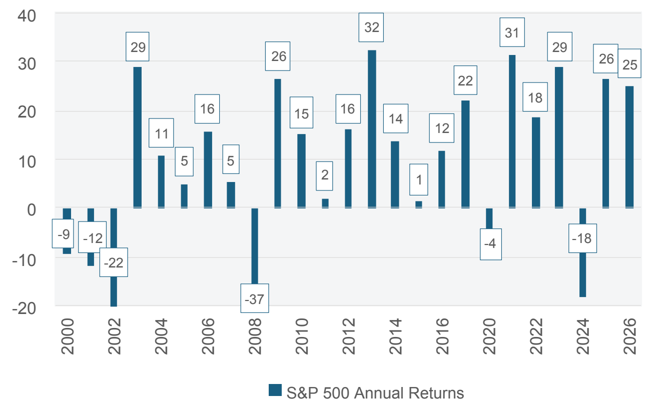
Funded Status Is Higher

U.S. pension plans have achieved improved funded status for a number of reasons.

First, equities have had several years of strong returns. Four of the last five and seven of the last 10 years have had double-digit equity returns as shown to the right.

Taft-Hartley plans are better funded as a result of the Special Financial Assistance (SFA) program. SFA has injected significant new capital into this important segment of U.S. pension plans. The program is expected to add over $90 billion to some of the most underfunded among these plans. The majority of this amount has already been paid out.

Figure 1 | S&P 500 Annual Returns %

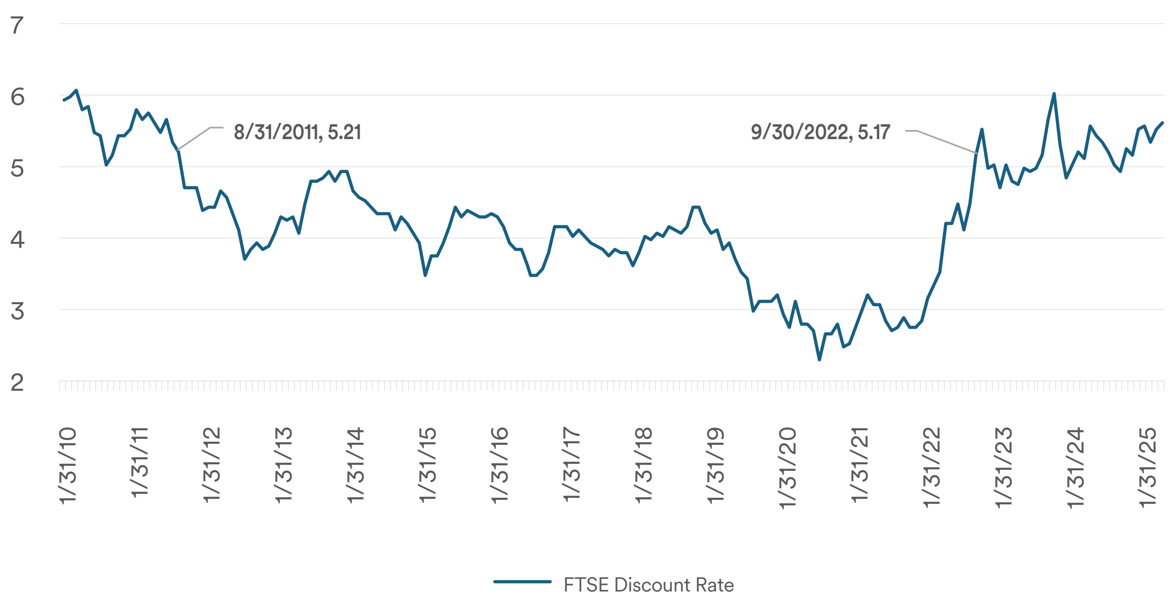


Source: Bloomberg, May 2025.

MetLife Investment Management

Corporate pensions have benefited from higher discount rates. Liabilities for these plans are measured using AA-rated corporate bond yields. These yields are higher as a consequence of higher interest rates and in spite of atypically tight credit spreads. Discount rates topped 5% in September of 2022 for the first time since August of 2011. They have remained close to or above 5% since then.

Figure 2 | FTSE Discount Rate %



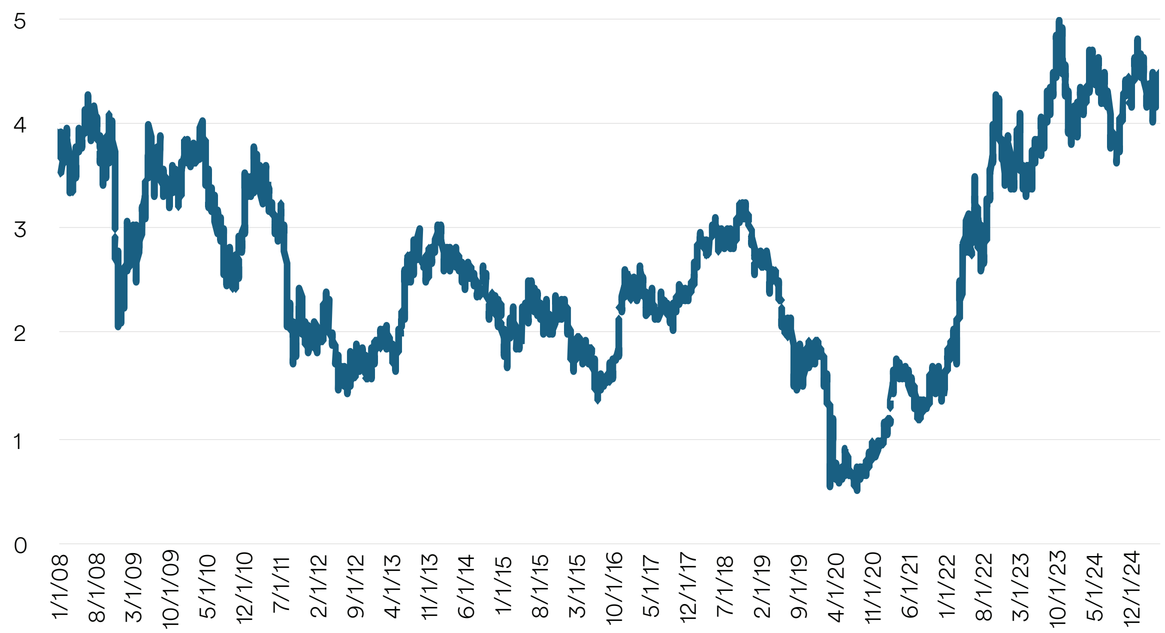
Source: SOA, FTSE, May 2025.

As funded status improves, pensions can afford to take less risk with their investments and still expect to keep pace with liability growth.

Rates Are Higher

Higher interest rates reduce the cost of bonds, making it cheaper to derisk. The Federal Reserve began raising interest rates in March 2022. By August of 2023, yields on 10-year U.S. Treasuries had risen to above 4%. This is the first time rates have been consistently that high since the financial crisis in 2008.

Figure 3 | UST10 Yield %

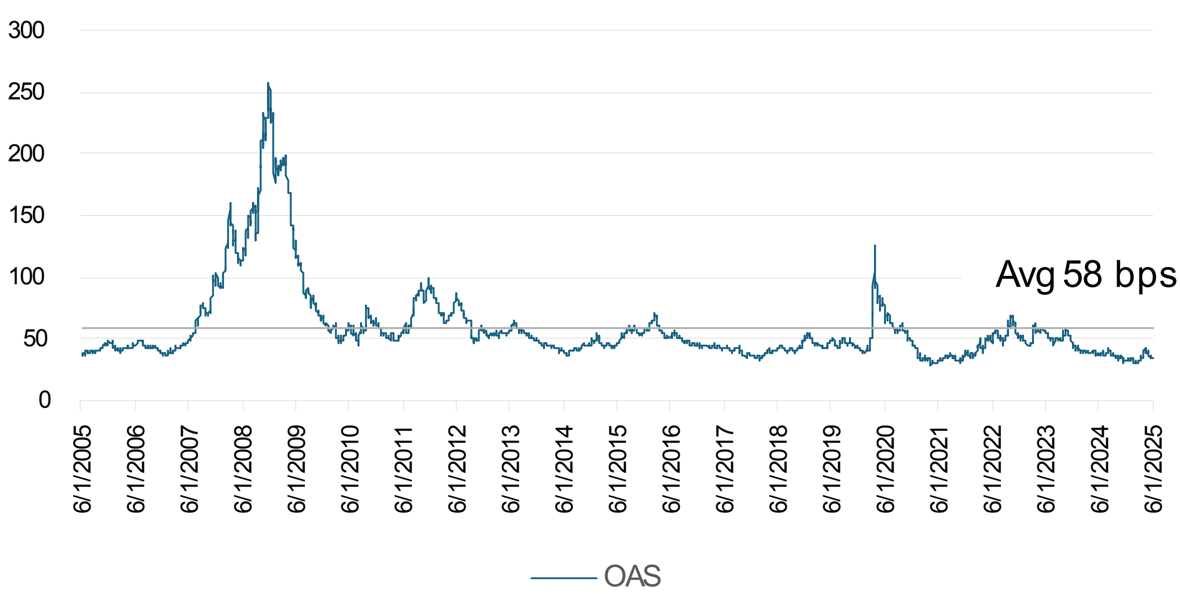


Source: Federal Reserve Board, May 2025.

Credit Spreads Are Tight

Credit spreads represent a yield premium in return for taking credit risk. Historically, spreads have been mean-reverting. When tight relative to their historic average, they tend to move wider and vice versa. Currently, spreads are tight relative to their average level. For example, the spread as of June 3, 2025, for the Bloomberg Aggregate Index was 34 basis points (bps), 24 bps tighter than the 20-year average of 58 bps.

Chart 4 | Bloomberg Aggregate — Credit Spreads



Source: Bloomberg, June 6, 2025.

Tight spreads represent relatively little compensation for taking credit risk. This supports derisking bond portfolios.

Liquidity Is Important

The U.S. population is aging, and most pensions are aging faster. Aging plan populations put an increasing benefit payment demand on plan assets. Publicly traded bonds help to meet these rising benefit burdens by providing regular cash flows through coupon payments and maturities. They also provide liquid sources of funds as needed for benefits, expenses or transactions like lump sum windows and pension risk transfers.

Investment Derisking May Be Opportune

These four factors: Improved funded status, high interest rates, tight credit spreads and increasing liquidity needs all indicate that now is a good time for plan sponsors to consider derisking by increasing their allocation to bonds and by increasing the credit quality and liquidity of their fixed-income holdings.

Author

Jeff Passmore, CFA
Lead LDI Strategist

Disclaimer

This material is intended solely for Institutional Investors, Qualified Investors and Professional Investors. This analysis is not intended for distribution This material is intended solely for Institutional Investors, Qualified Investors and Professional Investors. This analysis is not intended for distribution with Retail Investors.

This document has been prepared by MetLife Investment Management ("MIM")[1] solely for informational purposes and does not constitute a recommendation regarding any investments or the provision of any investment advice, or constitute or form part of any advertisement of, offer for sale or subscription of, solicitation or invitation of any offer or recommendation to purchase or subscribe for any securities or investment advisory services. The views expressed herein are solely those of MIM and do not necessarily reflect, nor are they necessarily consistent with, the views held by, or the forecasts utilized by, the entities within the MetLife enterprise that provide insurance products, annuities and employee benefit programs. The information and opinions presented or contained in this document are provided as of the date it was written. It should be understood that subsequent developments may materially affect the information contained in this document, which none of MIM, its affiliates, advisors or representatives are under an obligation to update, revise or affirm. It is not MIM's intention to provide, and you may not rely on this document as providing, a recommendation with respect to any particular investment strategy or investment. Affiliates of MIM may perform services for, solicit business from, hold long or short positions in, or otherwise be interested in the investments (including derivatives) of any company mentioned herein. This document may contain forward-looking statements, as well as predictions, projections and forecasts of the economy or economic trends of the markets, which are not necessarily indicative of the future. Any or all forward-looking statements, as well as those included in any other material discussed at the presentation, may turn out to be wrong.

All investments involve risks including the potential for loss of principle and past performance does not guarantee similar future results. Property is a specialist sector that may be less liquid and produce more volatile performance than an investment in other investment sectors. The value of capital and income will fluctuate as property values and rental income rise and fall. The valuation of property is generally a matter of the valuers' opinion rather than fact. The amount raised when a property is sold may be less than the valuation. Furthermore, certain investments in mortgages, real estate or non-publicly traded securities and private debt instruments have a limited number of potential purchasers and sellers. This factor may have the effect of limiting the availability of these investments for purchase and may also limit the ability to sell such investments at their fair market value in response to changes in the economy or the financial markets.

For investors in the U.S.: This document is communicated by MetLife Investment Management, LLC (MIM, LLC), a U.S. Securities Exchange Commission registered investment adviser. MIM, LLC is a subsidiary of MetLife, Inc. and part of MetLife Investment Management. Registration with the SEC does not imply a certain level of skill or that the SEC has endorsed the investment advisor.

For investors in the UK: This document is being distributed by MetLife Investment Management Limited ("MIML"), authorised and regulated by the UK Financial Conduct Authority (FCA reference number 623761), registered address One Angel Lane 8th Floor London EC4R 3AB United Kingdom. This document is approved by MIML as a financial promotion for distribution in the UK. This document is only intended for, and may only be distributed to, investors in the UK who qualify as a "professional client" as defined under the Markets in Financial Instruments Directive (2014/65/EU), as per the retained EU law version of the same in the UK.

For investors in the Middle East: This document is directed at and intended for institutional investors (as such term is defined in the various jurisdictions) only. The recipient of this document acknowledges that (1) no regulator or governmental authority in the Gulf Cooperation Council ("GCC") or the Middle East has reviewed or approved this document or the substance contained within it, (2) this document is not for general circulation in the GCC or the Middle East and is provided on a confidential basis to the addressee only, (3) MetLife Investment Management is not licensed or regulated by any regulatory or governmental authority in the Middle East or the GCC, and (4) this document does not constitute or form part of any investment advice or solicitation of investment products in the GCC or Middle East or in any jurisdiction in which the provision of investment advice or any solicitation would be unlawful under the securities laws of such jurisdiction (and this document is therefore not construed as such).

For investors in Japan: This document is being distributed by MetLife Investment Management Japan, Ltd. ("MIM JAPAN"), a registered Financial Instruments Business Operator ("FIBO") conducting Investment Advisory Business, Investment Management Business and Type II Financial Instruments Business under the registration entry "Director General of the Kanto Local Finance Bureau (Financial Instruments Business Operator) No. 2414" pursuant to the Financial Instruments and Exchange Act of Japan ("FIEA"), and a regular member of the Japan Investment Advisers Association and the Type II Financial Instruments Firms Association of Japan. In its capacity as a discretionary investment manager registered under the FIEA, MIM JAPAN provides investment management services and also sub-delegates a part of its investment management authority to other foreign investment management entities within MIM in accordance with the FIEA. This document is only being provided to investors who are general employees' pension fund based in Japan, business owners who implement defined benefit corporate pension, etc. and Qualified Institutional Investors domiciled in Japan. It is the responsibility of each prospective investor to satisfy themselves as to full compliance with the applicable laws and regulations of any relevant territory, including obtaining any requisite governmental or other consent and observing any other formality presented in such territory. As fees to be borne by investors vary depending upon circumstances such as products, services, investment period and market conditions, the total amount nor the calculation methods cannot be disclosed in advance. All investments involve risks including the potential for loss of principle and past performance does not guarantee similar future results. Investors should obtain and read the prospectus and/or document set forth in Article 37-3 of Financial Instruments and Exchange Act carefully before making the investments.

For Investors in Hong Kong S.A.R.: This document is being distributed by MetLife Investments Asia Limited ("MIAL"), licensed by the Securities and Futures Commission ("SFC") for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities in Hong Kong S.A.R. This document is intended for professional investors as defined in the Schedule 1 to the SFO and the Securities and Futures (Professional Investor) Rules only. Unless otherwise stated, none of the authors of this article, interviewees or referenced individuals are licensed by the SFC to carry on regulated activities in Hong Kong S.A.R. The information contained in this document is for information purposes only and it has not been reviewed by the Securities and Futures Commission.

For investors in Australia: This information is distributed by MIM LLC and is intended for "wholesale clients" as defined in section 761G of the Corporations Act 2001 (Cth) (the Act). MIM LLC exempt from the requirement to hold an Australian financial services license under the Act in respect of the financial services it provides to Australian clients. MIM LLC is regulated by the SEC under US law, which is different from Australian law.

For investors in the EEA: This document is being distributed by MetLife Investment Management Europe Limited ("MIMEL"), authorised and regulated by the Central Bank of Ireland (registered number: C451684), registered address 20 on Hatch, Lower Hatch Street, Dublin 2, Ireland. This document is approved by MIMEL as marketing communications for the purposes of the EU Directive 2014/65/EU on markets in financial instruments ("MiFID II"). Where MIMEL does not have an applicable cross-border licence, this document is only intended for, and may only be distributed on request to, investors in the EEA who qualify as a "professional client" as defined under MiFID II, as implemented in the relevant EEA jurisdiction. The investment strategies described herein are directly managed by delegate investment manager affiliates of MIMEL. Unless otherwise stated, none of the authors of this article, interviewees or referenced individuals are directly contracted with MIMEL or are regulated in Ireland. Unless otherwise stated, any industry awards referenced herein relate to the awards of affiliates of MIMEL and not to awards of MIMEL.

[1] As of March 31, 2025, subsidiaries of MetLife, Inc. that provide investment management services to MetLife's general account, separate accounts and/or unaffiliated/third party investors include Metropolitan Life Insurance Company, MetLife Investment Management, LLC, MetLife Investment Management Limited, MetLife Investments Limited, MetLife Investments Asia Limited, MetLife Latin America Asesorias e Inversiones Limitada, MetLife Investment Management Japan, Ltd., MIM I LLC, MetLife Investment Management Europe Limited and Affirmative Investment Management Partners Limited.

06-27 4577951-[MIM Europe, MIAL (HK), MIM Japan, MIML (UK), MIM, LLC (US)]

MetLife Investment Management