City of Meriden, CT

Meriden City Hall, 142 East Main Street, Meriden, CT 06450

Pension Fund Update February 9, 2016

Meriden Retirement Board

Tuesday – February 9, 2016

Overview

February markets have fallen sharply, snapping a listless recovery effort at the end of last month. January was tumultuous, to say the least, for stocks and bonds. Wicked volatility in equities left the Dow Jones Industrials and S&P-500 posting their worst start to any year, ever. But fixed income gained ground, despite the Fed. After the central bank's decision to raise interest rates for the first time in nine years, US treasury yields actually fell dramatically with the 10 year bond dropping below 2% by the end of January, and since, down to 1.75% – highlighting concerns about global growth and raising fears of recession. Selloffs on Friday and Monday undercut biotech and cloud firms by five to eight percent. Healthcare and consumer discretionary sectors already had fallen hard. Yesterday, the tech-heavy NASDAQ closed down 14.5% year-to-date. Oil, mired near $30 per barrel and forecast lower, seems predictive of daily stock movements, reflecting economic weakness, flat inflation, and disappointing earnings forecasts.

Searching for green shoots, some economists cheered last week's employment report that showed an increase of 151,000 jobs last month – below forecast, but paired with a drop in the unemployment rate to 4.9%. Average weekly wages rose modestly, but skeptics noted that two-thirds of the jobs created in January represented retail and restaurant workers making minimum wage. Janet Yellen testifies this week at Congress, and portfolio managers will be carefully monitoring the Fed Chair's guidance on further hikes in borrowing costs. Earnings announcements have been mixed although somewhat better than many had feared, with 70% of firms reporting for Q4 exceeding their reduced estimates. Overall, earnings are expected to fall 3.8% year-over-year, marking the first time in six years that the S&P will record three consecutive quarters of lower earnings.

Meriden Retirement Funds

Meriden pension fund performance is suffering with the markets, but maintaining modest premiums to the S&P index. At the close of last week, the City Employees retirement fund stood at $125.4 million and the combined Police/Fire fund at $96.1 million. For 2016, values are down 5.3%, compared to an 8% drop in the S&P and 12.8% for the NASDAQ. Exposure remains diversified and defensive, with 55% in equities, 25% in fixed income, and the remaining 20% allocated to private equity and other alternative strategies. Not yet reflected in the monthly calculations, the City's managed futures funds performed well with the volatile conditions in January, posting positive returns of 2.7% and 5.7% while the S&P fell another 5%. The non-correlation offered by specialty managers helps defend the retirement accounts during times of stress in the general markets. The OPEB Healthcare Trust, which carries less of an alternative cushion, has performed more in line with market averages thus far in 2016, down by 5% in January and another 2.8% this month.