Pension Funds’ Billions Loom as Force to Cap Long-Term Yields
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By Liz Capo McCormick
(Bloomberg) -- The unmooring of long-term Treasury yields just keeps gaining momentum. Yet there’s a wall of corporate cash lurking on the sidelines, which could curb further bond losses.
Demand from pension funds “should help cap the path of long-end rates ultimately,” Shahid Ladha, head of Group-of-10 rates strategy for the Americas at BNP Paribas SA, told Bloomberg Television Monday. “In terms of their appetite and possible support to U.S. fixed income, we have seen an average of $10 billion a quarter or $40 billion a year.” However, demand this month has been below average -- so it has room to pickup, he added.
Ten-year U.S. rates climbed through 2.75% Monday for the first time since March 2019, following a wave of rising yields in Europe as traders intensified global bets on aggressive rate hikes from major central banks. While benchmark rates may climb even higher, likely breaking above the 3%, demand for Treasuries will probably resurface, Ladha said.
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For the top 100 U.S. public companies, their pension funds are now more than fully funded after rising share prices over the past year and higher discount rates in 2022 that lowered the value of their liabilities, according to Milliman Inc., a pension and risk-advisory firm.
Strategists at Citigroup Inc. estimated this month that each eight basis-point increase in 30-year Treasury yields improves the pension-fund ratio by one percentage point. A continued rise in that ratio should drive a rotation from equities to fixed income -- focused on longer-term tenors, they predicted.
Pension funds tend to favor these assets, which have longer duration, or sensitivity to interest-rate changes, to match the length of their liabilities.

Thirty-year Treasury yields traded Monday around 2.79%, up about 34 basis points since the end of March and 89 basis points relative to the end of last year.

The Federal Reserve's aggressive plans for policy normalizing, including signaling an additional hike at each policy meeting this year, the unwind of its balance sheet as well as fiscal contraction have sparked a "pretty rapid and ongoing repricing" of yields, Ladha said.
"We would not wish to stand in front of this," Ladha said. But probably over the coming months, "we should find a level, which may be closer to 3%" on the 10-year yield amid "strong support" from pension-fund demand, he noted.

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