

Pension Insights Newsletter

First Quarter 2026

Corporate Pension Perspectives

Funding Levels

Average corporate pension funded status declined by 2.0% during the first quarter of 2026. Discount rates increased materially over the period, driven by market reactions to the conflict in the Middle East and associated oil driven inflation concerns, which led to a reduction in plan liabilities. However, this benefit was more than offset by declines across return-seeking asset classes. As a result, many corporate pension plans experienced an overall deterioration in funded status.

Actuarial & Regulatory Updates

- **FASB to address guidance allowing certain market-based cash balance (MBCB) plans to set discount rate equal to the interest crediting rate**
 - If adopted, would reduce volatility of accounting expense for MBCB plans
 - Guidance only applicable to MBCB plans that meet the following conditions:
 - Pension benefit is communicated to participants as a current account balance
 - Interest credits based on the return on plan assets, return on a subset of the plan assets that approximates the value of the associated cash balance liabilities, or the return on a regulated investment company
 - Participants have a lump sum option
- **Sixth Circuit reverses dismissal of pension plan actuarial assumptions case**
 - Retirees allege that the use of outdated mortality assumptions materially reduced their joint and survivor benefit in violation of ERISA's actuarial equivalence requirement
 - Two prior district courts dismissed the claims due to ERISA not requiring particular assumptions to be used in the calculation of joint and survivor benefits
 - Appeals court reversed prior judgements, ruling that employees plausibly stated claims for violation of Section 1055 of ERISA
 - Section 1055(d) of ERISA states that the qualified joint and survivor annuity must be the "actuarial equivalent" of the single life annuity

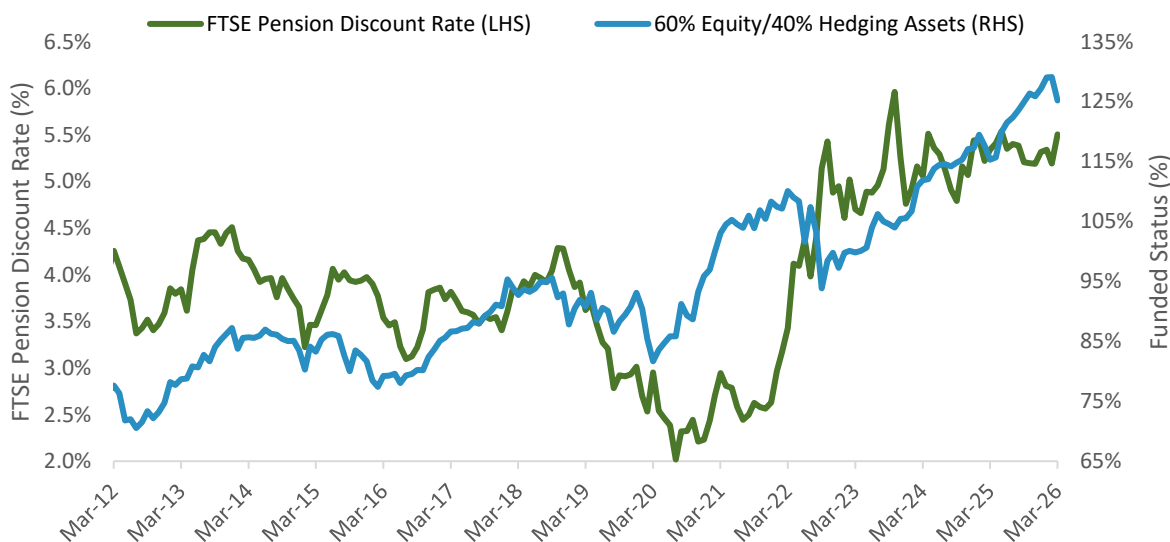
Funding Perspective

125.2%
funded status of proxy
60/40 plan

-2.0%
change in funded status
for the quarter

5.5%
average discount rate (up
0.19% in Q1)

Funded Status and Discount Rates



Market Commentary

- The Middle East conflict was the defining macro event of the quarter, which caused a sharp spike in oil prices and reignited inflation fears that had appeared largely contained. Energy prices surged to multi-year highs, materially repricing all market sectors.
- U.S. equity markets gave back a portion of their strong 2025 gains, with the Russell 3000 finishing down 4%.
- Conversely, non-U.S. equity markets extended their leadership rotation, and continued to outpace U.S. equities. The ACWI ex-U.S. was down a modest 0.7%, as international markets proved more insulated from the dual headwinds of tariff uncertainty and geopolitical risk.
- The Fed signaled that it was prepared to hold rates steady for the foreseeable future, which suggested that rate cuts in 2026 were no longer a base-case expectation, but instead dependent on how inflation and employment evolve. As the Fed's tone turned more hawkish, bonds that had rallied earlier in the year gave back their gains.
- In March treasury yields rose sharply across the curve with a noticeable acceleration in the short end as surging energy prices dashed hopes for near-term rate cuts.
- The yield curve bear-flattened, led by a sharper rise at the front end, as 2-year yields climbed 40 bps to 3.8% while the 10-year increased 33 bps to 4.3%.
- Credit spreads entered the year at historically tight and softened modestly as the risk backdrop deteriorated. At ~80–90 basis points, investment-grade spreads remain well inside historical stressed levels, leaving little cushion if the conflict escalates further or growth slows more than expected.
- While negative headlines dominate sentiment, it's worth noting that corporate fundamentals remain resilient, providing a meaningful buffer for markets if Middle East tensions are resolved swiftly.

Interest Rates

Discount rates increased during the quarter, resulting in lower liability values.

	3/31/2026	12/31/2025	Change
Discount Rates			
FTSE Pension Discount*	5.50%	5.32%	0.19%
BBG Long Corporate	5.87%	5.64%	0.23%
BBG Long Treasury	4.91%	4.79%	0.12%
BBG Long Gov/Credit	5.35%	5.19%	0.16%
BBG Aggregate Bond Index	4.57%	4.32%	0.25%

Spreads

Spreads remained near all-time tight for most bond sectors.

	3/31/2026	12/31/2025	Change
Spreads			
BBG Long Corporate	1.06%	0.95%	0.11%
BBG Long Gov/Credit	0.51%	0.45%	0.06%
BBG Aggregate Bond Index	0.30%	0.27%	0.03%

Returns

Global equities and fixed income sectors alike declined during the quarter.

	3/31/2026	1-Year	3-Year
Equity Returns			
Russell 3000 (US Stocks)	-4.0%	18.1%	17.9%
ACWI ex-U.S. (Non-US Stocks)	-0.7%	24.9%	14.5%
Bond Returns			
BBG Long Corporate	-1.2%	3.7%	3.1%
BBG Long Treasury	-0.4%	0.5%	-1.5%
BBG Long Gov/Credit	-0.8%	2.0%	0.8%
BBG Aggregate Bond Index	-0.1%	4.4%	3.6%
Liability Returns			
Proxy Liability*	-0.6%	3.7%	2.3%

Index performance shown does not reflect the deduction of advisory fees, transaction charges and other expenses, which if charged would reduce performance. All indices are unmanaged. Investing directly in an index is not possible. **Past performance is no guarantee of future results.** Source: Fidelity Institutional Asset Management, Bloomberg, FTSE, as of 3/31/2026. * Discount rate and proxy liability return based on FTSE Pension Liability Short Index (approximately 11-year duration). 3-Year return is annualized.



Real-World Considerations

The Federal Reserve

Over the past six months, the market has shifted Fed rate expectations from several cuts in 2026, to one late year cut, and now to a possible rate increase. Driving this change in expectations is a combination of ongoing market assessments (sticky inflation and labor weakness) and transitory factors stemming from the Iran war and a commodity crunch, which are harder to assess and potentially short term, but have the potential to produce tangible consequences. Bottom line: risks are now two sided, with a wide dispersion of potential outcomes—dramatically different from the macro environment six months ago.

After two years of near zero goods inflation, tariff hikes triggered a rise in U.S. goods prices over the second half of 2025. Despite a slowdown in rents, inflation remained sticky in non housing services, keeping the Fed's preferred inflation gauge above its 2% target. At this point, both the market and the Fed expected two more rate cuts during 2026 due to expectations for softer labor markets and short-lived inflation.

As widely expected, the Fed left policy rates on hold in January of this year, maintaining the target range at 3.5–3.75%. The FOMC upgraded its description of growth and labor markets and maintained that inflation remains “somewhat elevated.” Notably, the reference to “downside risks to employment” was removed. At this point, the market did not expect any Fed cuts before July.

Enter the huge spike in oil prices in 2026 as a result of the Iran War and we see the market aggressively repricing the path of Fed policy to a level where rate hikes are now a potential outcome, beyond just the timing of rate cuts. The heightened focus is on near term inflation, which was already flatlining before the Middle East outbreak and is now receiving a boost from higher core goods inflation and a services component running above trend. Outside of commodity pressures, U.S. growth is holding up, and AI related capex is adding to inflationary pressure.

Since the start of the Iran conflict, the market has moved from pricing in 62.5 bps of Fed cuts in 2026 to 15 bps of hikes as of the end of March. The Fed's typical playbook is to look through energy shocks and treat them as transitory. However, the March Fed meeting and subsequent Fed commentary suggest the Fed is in a holding pattern as it seeks to learn more about the energy shock stemming from the Iran war, with attention to growth and labor as well as inflation, since the ultimate impact will depend on how long prices remain elevated. Fed speakers have acknowledged upside risks to underlying inflation and downside risks to the labor market.

As a result, the likely outcome is delayed Fed cuts rather than a Fed hike. However, the fact that this is even part of the conversation—compared with three months ago—highlights the wide range of potential outcomes and the dynamic nature of the macro risk factors impacting the U.S.

Additional Information

Learn more about [Fidelity's Pension Solutions](#)

For Administration and Actuarial information
[Fidelity's Defined Benefit Solutions website](#)

Authors

Dan Tremblay, CFA
Head of Pension Solutions

Kent Buschle
Director, Investment Product

Ian Roberts, FSA, EA, CERA
Senior Consultant, Actuary

Jeremy Clear, FSA, EA, FCA, MAAA
Strategic Retirement Consultant



DEFINITIONS AND IMPORTANT INFORMATION

S&P 500 Index is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent US equity performance. **The FTSE Pension Liability Index** represents the single discount rate that would produce the same present value as calculated by discounting a standardized set of liabilities for a frozen pension plan using the FTSE Pension Discount Curve. **Bloomberg (BBG) US Long Treasury Index** is a market value-weighted index of investment-grade fixed-rate public obligations of the US Treasury with maturities of ten years or more. **Bloomberg (BBG) US Long Government/Credit Bond Index** is a market value-weighted index designed to measure the performance of fixed-rate, dollar-denominated, investment-grade debt securities with maturities of 10 years or more. **Russell 3000 Index** is a market capitalization-weighted index designed to measure the performance of the 3,000 largest companies in the US equity market.

MSCI ACWI (All Country World Index) ex USA Index is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors of large and mid cap stocks in developed and emerging markets, excluding the United States. Index returns are adjusted for tax withholding rates applicable to U.S. based mutual funds organized as Massachusetts business trusts (NR). **Bloomberg (BBG) US Aggregate Bond Index** is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, mortgage-back securities (agency fixed-rate pass-throughs), asset-backed securities and collateralized mortgage-backed securities (agency and non-agency). **Bloomberg (BBG) US Corporate Bond Index** is an unmanaged market value-weighted index of investment-grade corporate fixed-rate debt issues with maturities of one year or more.

The Market Based Cash Balanced offering may include products and services from the following Fidelity Entities: Fidelity Workplace Consulting, a division of Fidelity Workplace Investing which provides retirement, health & welfare, data consulting, custom pension administration, communication & change management and international consulting services to mid and large employers/strategic consulting services to plan sponsors along with Defined Benefit Administrative/Recordkeeping Services, and Actuarial services. Participant services provided by Fidelity Brokerage Services LLC, Member NYSE/SIPC. Investment Management products and services, including LDI Solutions, provided by FIAM LLC or Fidelity Institutional Asset Management Trust Company (FIAMTC).

Information provided in, and presentation of, this document are for informational and educational purposes only and are not a recommendation to take any particular action, or any action at all, nor an offer or solicitation to buy or sell any securities or services presented. It is not investment advice. Fidelity does not provide legal or tax advice.

Before making any investment decisions, you should consult with your own professional advisers and take into account all of the particular facts and circumstances of your individual situation. Fidelity and its representatives may have a conflict of interest in the products or services mentioned in these materials because they have a financial interest in them, and receive compensation, directly or indirectly, in connection with the management, distribution, and/or servicing of these products or services, including Fidelity funds, certain third-party funds and products, and certain investment services.

This document does not make an offer or solicitation to buy or sell any securities or services and is not investment advice. FIAM does not provide legal, or tax advice and we encourage you to consult your own lawyer, accountant or other advisor before making an investment. To the extent any investment information in this material constitutes a recommendation, it is not meant to be impartial investment advice or advice in a fiduciary capacity, is not intended to be used as a primary basis for your investment decisions, is based on facts and circumstances at the point in time it is made and will not be updated if facts or circumstances change unless you contact Fidelity and ask for a new recommendation. Fidelity and its representatives have a financial interest in any investment alternatives or transactions described in this material. Fidelity receives compensation from Fidelity funds and products, certain third-party funds and products, and certain investment services. The compensation that is received, either directly or indirectly, by Fidelity may vary based on such funds, products and services, which can create a conflict of interest for Fidelity and its representatives.

Views expressed are as of the date indicated, based on the information available at that time, and may change based on market and other conditions. Unless otherwise noted, the opinions provided are those of the author and not necessarily those of FIAM. FIAM does not assume any duty to update any of the information

Information presented herein is for discussion and illustrative purposes only and is not a recommendation nor an offer or solicitation to buy or sell any securities. Past performance is no guarantee of future results. Certain data and other information in this report was supplied by outside sources and is believed to be reliable as of the date presented. However, FIAM has not and cannot verify the accuracy of such information, and such information is subject to change without notice.

These materials contain statements that are "forward-looking statements," which are based on certain assumptions of future events. FIAM does not assume any duty to update any forward-looking statement. Actual events may differ from those assumed. There can be no assurance that forward-looking statements, including any projected returns, will materialize or that actual market conditions and/or performance results will not be materially different or worse than those presented.

Certain data and other information in this presentation have been supplied by outside sources and are believed to be reliable and current. Data and information from third-party databases, such as eVestment Alliance, Callan, and Morningstar are self-reported by firms that generally pay a subscription fee to use such databases, and the database sponsors do not guarantee or audit the accuracy, timeliness, or completeness of the data and information provided, including any rankings. Rankings or similar data reflect information at the time rankings were retrieved from a third-party database, and such rankings may vary significantly as additional data from managers is reported. Rankings may include a variety of product structures, including some in which certain clients may not be eligible to invest. FIAM cannot verify the accuracy of information from outside sources, and potential investors should be aware that such information is subject to change without notice.

Investment performance of the FIAM asset allocation strategies depends on the performance of the underlying investment options and on the proportion of the assets invested in each underlying investment option. The performance of the underlying investment options depends, in turn, on their investments. The performance of these investments will vary day to day in response to many factors. The asset allocation strategies are subject to the volatility of the financial markets, including that of the underlying investment options' asset class. Principal invested is not guaranteed at any time.

Index or benchmark performance presented in this newsletter do not reflect the deduction of advisory fees, transaction charges and other expenses, which would reduce performance. Investing directly in an index is not possible.

FIAM does not provide legal, or tax advice and we encourage you to consult your own lawyer, accountant or other advisor before making any investment decision.

All trademarks or service marks presented herein belong to FMR LLC or an affiliate, except for third-party trademarks and service marks, which belong to their respective owners.

Fidelity Brokerage Services LLC, Member NYSE, SIPC, 900 Salem Street, Smithfield, RI 02917

Fidelity Distributors Company LLC, 500 Salem Street, Smithfield, RI 02917

© 2026 FMR LLC. All rights reserved

987706.35.0

1.9903913.131

0426

