Newsletter
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Liquidity matters

Public and Taft-Hartley defined benefit plans

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Insights for public and Taft-Hartley defined benefit plans

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Welcome to the latest edition of *Insights for public and Taft-Hartley defined benefit plans.*

The uncertain market environment in early 2025 made it increasingly important for plans to consider how best to manage volatility. Now, with declining inflation, lower interest rates courtesy of the Federal Reserve, and a rebounding stock market, plans need to focus on another key risk: liquidity.

In recent years, public and Taft-Hartley plans have embraced the potential of private markets to boost diversification and open up new avenues for growth. But plans also need to navigate the challenges of long lock-up periods that constrain liquidity. For these plans, liquidity matters: Not only is ready cash necessary to meet private markets capital calls, but it also can provide plans with critical flexibility to take advantage of market dislocations and navigate emerging risks.

This quarter's newsletter for public and Taft-Hartley pension plans shines a spotlight on liquidity challenges and opportunities, with a range of content designed to deliver timely insights and actionable guidance.

- Dane Smith, head of Investment Strategy and Research, explains why sophisticated approaches to liquidity management are needed as plans look to capitalize on the growth and income potential of private assets.
- Susan Doyle, global head of Private Market Funds, discusses how a holistic approach to liquidity management can help drive thoughtful strategies for implementing private market allocations.
- Tyhesha Harrington, senior portfolio manager, and Keith Snell, portfolio specialist, explore the appeal of real assets, and discuss why a combination of public and private vehicles can help capture the benefits of these assets while also maintaining much-needed liquidity.

As always, this edition of *Insights for public and Taft-Hartley defined benefit plans* is designed to keep you informed and prepared to navigate the complexities of pension management. Read on to learn more about managing public and Taft-Hartley retirement solutions in today's unique market environment.

Our 2026 macro outlook for public and Taft-Hartley defined benefit plans

Dane Smith
Managing Director and Head of
Investment Strategy and Research

The US economy continued to grow during the second half of 2025, supported in part by strong AI-related capital spending. The pace of economic growth slowed, however.

The six-week government shutdown restrained growth, and although consumer spending remained solid in aggregate, it split along income lines: Higher-income households generally fared well, while lower-income households struggled.

The labor market softened, with unemployment rising from 4.1% in June to 4.4% in September.[1] Meanwhile, the interruption in government data caused by the shutdown made it difficult to gauge the extent to which the job market was weakening. The Federal Reserve attempted to support employment by twice lowering its target short-term interest rate by 25 basis points in September and December. A pickup in inflation complicated the Fed's decision-making, however. Inflation rose to 2.7% for the 12 months through December—up from an annual rate of 2.3% in April.[2]

Equity markets bounced back from the downturn they suffered in early spring, with the S&P 500 gaining 18% for the full year. The MSCI EAFE Index of international stocks rose 31% over the same period, as attractive valuations supported price appreciation and the US dollar weakened. In fixed income, the yield curve steepened. The yield on the 30-year Treasury bond ended December at 4.8%, higher than it had been one year earlier, while the two-year Treasury note yield fell from above 4% to near 3.5%.

These conditions were favorable for public and Taft-Hartley plans, which benefited from strong returns by growth assets as well as fixed income yields near cyclical highs. Funded ratios generally improved, with the Milliman Public Pension Funding Index rising to 86.3% by October.

We believe the macroeconomic outlook for 2026 is positive for pension plans, on balance. State Street Investment Management has increased our estimate for 2025 US GDP growth from 1.7% to near 2%, and we project GDP growth to increase to 2.4% in 2026.

Several tailwinds could support continued economic growth. The recently enacted tax and spending law known as the One Big Beautiful Bill Act provides fiscal stimulus, and we believe it may lead to tax refunds that help bolster consumer spending. (In fact, the US Treasury estimates the law will yield $100 billion in total tax refunds in 2026.[3]) We expect the Fed's recent rate cuts to make their way through the economy over the coming year, and we think the Fed is likely to cut interest rates two or three more times. Meanwhile, the AI-fueled boom in capital expenditures should continue to contribute to economic growth. We have some concerns about the labor market and consumer spending, but we believe in aggregate these developments should help the economy strengthen.

We do not expect inflation to accelerate, despite tariff-driven price pressures on certain goods. We think the Consumer Price Index may anchor in a range of 2.7%–3.0%, as declines in some areas, notably shelter costs, help offset tariffs' inflationary impacts.

This backdrop gives us a constructive outlook for risk assets. A generally positive macro environment may support corporate profits and help allay investors' concerns about inflation and growth, laying the groundwork for gains in the equity market.

That said, there are a number of risks to that outlook, starting with high equity valuations. Some investors argue that US stocks are experiencing an AI-driven bubble akin to the dot-com frenzy of the late 1990s. We don't believe that is the case.

Past investment bubbles have been characterized by poor business fundamentals, including debt-fueled spending on economically dubious investments. By contrast, fundamentals today look healthy. We don't see excess leverage in the system; much of the money being pledged for AI research and development is coming out of free cash flow (though some companies have begun issuing debt to fund AI investments); and the companies that are responsible for most of it have strong earnings. Although we acknowledge that valuations are high, elevated valuations have been the norm during periods around technological inflection points, and in those situations, high valuations have tended to persist for extended periods of time.

Uncertainty around the direction of monetary policy presents another key risk for pension plans. It is impossible to say with certainty whether or how much interest rates may decline. Significantly lower discount rates could increase plans' liabilities, exerting downward pressure on their funded ratios.

Geopolitics and government policy changes also have the potential to fuel volatility in the financial markets. In recent months, the Trump administration's shifting policy goals and approaches have contributed to an unpredictable market environment.

However, today's high level of geopolitical risks doesn't guarantee an uptick in volatility. We think many consequential policy areas for the markets have already been addressed. The passage of the OBBB Act provided clarity on taxation and stimulus, and the major tariff announcements of 2025 are largely behind us. That said, the Trump administration recently considered imposing tariffs on several European countries that oppose the administration's plans for Greenland.

Implications for public and multi-employer defined benefit plans

Pension plans have benefited from an exceptionally positive environment in recent years. Equities have exceeded expectations for much of the past half-decade, producing total returns of 96% during the five years through December 2025.[4] At the same time, relatively high interest rates have generally kept discount rates for public pension plans in the range of 6.5%–7.5%,[5] helping restrain liabilities.

Although we have a constructive macro outlook for growth assets in 2026, we think public and Taft-Hartley plans should prepare for the possibility that conditions may not remain quite as favorable as they have been recently. High valuations in both public and private equity could cause growth assets to produce more modest returns, even as normalizing monetary policy may reduce discount rates. In addition, we think we could face renewed interest rate volatility, given the United States government's growing indebtedness and the range of macro risks in the current environment.

Public and multiemployer plans looking to build on recent years' funding gains will need to continue seeking asset growth. At the same time, they will need strategies that can manage the variety of risks presented by today's macro environment. Plans may respond to this landscape by looking to capitalize further on private market investments that offer potential growth premiums, yield advantages, and low correlations to public assets. In addition, real assets and precious metals such as gold can deliver benefits such as diversification.

Greater use of private assets demands sophisticated approaches to liquidity management. Public and Taft-Hartley plans may want to explore tools and strategies to help ensure that they retain access to the liquidity they need while pursuing resilient growth.

For more information about State Street Investment Management's macro outlook, liquidity management for public and Taft-Hartley plans, or other defined benefit-related topics, please contact us.

A holistic approach to managing private market allocations

Susan Doyle
Global Head of Private Market Funds

Managing risk has been a primary focus for many public and Taft-Hartley plans in recent years. Volatile markets, rising inflation, and economic uneasiness have made it particularly important for these plans to consider strategies for navigating uncertainty.

As both public and private pension plans have increased their allocations to private asset classes over the last few years,[6] liquidity management is becoming an increasingly important factor in their risk assessments. Plans looking to capitalize on private assets' promise to unlock new levels of diversification and growth potential need to address these investments' distinct liquidity restrictions.

Many plans create risk budgets to inform their investment decisions. Similarly, plans can create liquidity budgets. A liquidity budget can support a holistic perspective on liquidity management—one facet of a broader total portfolio approach that integrates considerations about factors such as risk, exposures, time horizons, and other key dimensions across the portfolio.

Incorporating private assets

Institutional investors allocating to private asset classes often encounter challenges managing their current allocations toward their long-term targets. An institutional investor typically reviews their allocation strategy every one to three years. Once the decision is made to invest in private assets, their investment policy statement might look something like the example below.

Asset class group	Current target (%)	Long-term target (%)	Difference (%)
Liquid growth	70	60	-10
Private growth	-	10	+10
Real assets	10	10	-
Fixed income	20	20	-

Source: State Street Investment Management. For illustrative purposes only.

Adding 10% to a private growth allocation can take years to achieve. Throughout that time, the investor needs to manage diversification within the private asset allocations. The question then becomes how to measure portfolio performance relative to an investible benchmark. There are several ways to manage this:

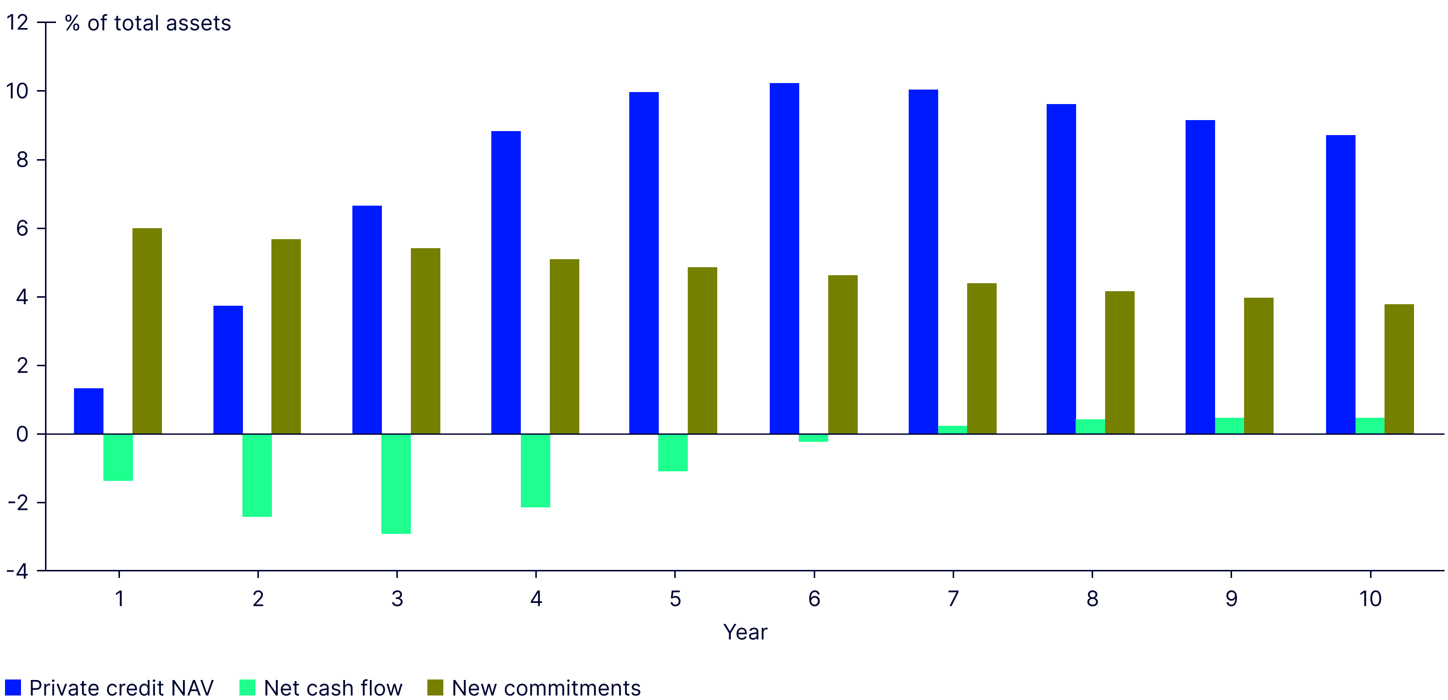
Interim benchmarks: Plans can start by carrying out a cash flow pacing analysis for the private assets. They can estimate the required commitments and corresponding net cash flows (expected capital called minus distributions) to build up an allocation of 10% of the total plan's assets. Because of the many assumptions that go into this type of model, plans likely would want to revisit the analysis annually. The chart below (Figure 1) illustrates what such an allocation to private credit might resemble over time.

The table below shows the investible benchmark a plan might adopt for the first year while the allocation to private assets is being built up.

Asset class group	Current target (%)	Year 1 target (%)	Long-term target (%)
Liquid growth	70	65	60
Private growth	-	5	10
Real assets	10	10	10
Fixed income	20	20	20
Total assets	**100**	**100**	**100**

Source: State Street Investment Management. For illustrative purposes only.

Figure 1: Cash flow pacing analysis for private credit allocation



Source: State Street Investment Management. For illustrative purposes only.

Asset class group	Current target (%)	Actual year 1 allocation (%)	Public scaled to 100%	Long-term target (%)
Liquid growth	70	65	68.4	60
Real assets	10	10	10.5	10
Fixed income	20	20	21.1	20
Total public assets	**100**	**95**	**100**	**90**
Private growth	—	5	—	10
Total private assets	**—**	**5**	**—**	**10**
Total assets	**100**	**100**	—	**100**

Source: State Street Investment Management. For illustrative purposes only.

Split management of public and private assets: Another approach would be to create a benchmark in which publicly traded assets are managed to a public-only benchmark, and the weight of private assets floats as the allocation is gradually built over time. As with an interim benchmark, plans may choose to revisit cash flow pacing annually to ensure it aligns with the buildup of its private market allocation.

Meeting private market commitments

After a plan decides to build a private asset allocation, it must determine how best to fund its investment commitments. Private equity tends to be the most common private market allocation among institutional investors. Funding private equity from public equity is a natural choice given the abundance of liquidity held by plans in public equity allocations. Likewise, a plan might fund allocations to private and opportunistic credit out of bank loans and high yield positions, with the mix varying depending on the investments' risk and return profile. Last, private real assets can be proxied with liquid real assets, as public and unlisted infrastructure have similar long-term returns and correlation of approximately 90%, although listed infrastructure has almost double the volatility of private infrastructure.

Investors should be aware of two other key considerations as they consider funding sources for private allocations:

- The denominator effect: Public assets tend to be more volatile than private assets, and private market valuations tend to change more slowly than public asset values. As a result, the percentage these assets make up of the overall portfolio can move around a lot in volatile markets, potentially leaving a plan overweighted to illiquid holdings.
- Currency hedging: The US is a vibrant market for private assets, but there are plenty of international opportunities as well. US-based investors may want to consider currency hedging any non-USD exposure. For non-US investors, currency hedging is a critical way to offset the high currency risk that accompanies private market investments.

The bottom line

Private asset allocations, whether to real assets, equity, or credit, provide investors with additional sources of potential return, increased diversification, and the lower volatility that results from their valuation approach. The illiquid nature of such assets, and the lag time between the commitment and drawdown of capital for these investments, makes managing the implementation of the allocation particularly important. Considerations include how to fund the capital calls, how to benchmark the allocation before it is fully implemented, how to manage volatility, and whether to hedge currency. Each client will have different governance and structural considerations to balance when determining how best to implement an illiquid allocation.

State Street Investment Management has helped many different types of clients, in different regions, successfully implement illiquid asset allocations that have added value and helped them achieve their objectives. Please contact us or visit ssga.com for additional information on how we can help with your portfolio's liquidity and exposure needs.

Liquidity solutions for real assets

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A combination of public and private vehicles can help plans manage liquidity while capitalizing on real assets' benefits.

Public and Taft-Hartley pension plans have steadily expanded their exposure to private market assets in recent years. In 2001, just 14% of public pensions' risk assets were allocated to alternative assets.[7] By 2024, that figure had risen to nearly 35%.[8]

One area of private markets is receiving particular attention: real assets such as real estate, infrastructure, and natural resources. Used within a broader portfolio, positions in real assets can serve as a source of diversification, potential return enhancement, and risk reduction; they also can provide a meaningful source of income.

However, holding real assets in private vehicles alone may restrict plans' overall liquidity, potentially increasing risks and limiting flexibility. Approaching real assets through a combination of public and private vehicles may help plans capitalize on real assets' potential benefits while maintaining the liquidity they need to manage risks and capture emerging opportunities.

A complementary approach

Real assets' ability to diversify away from the equity and fixed income markets is key to their appeal, and it can be especially valuable during times of heightened geopolitical and market risks. Certain real assets, notably infrastructure, also can provide attractive levels of income—a compelling prospect at a time when fixed income yields are declining amid Federal Reserve rate cuts and the S&P 500's dividend yield of 1.17% sits near a historic low.[9]

In addition, most types of real assets can provide an important hedge against inflation. After a sharp post-COVID spike, inflation has ticked down meaningfully in recent years. A range of potential developments could reverse that trend. For example, the Federal Reserve may reduce interest rates too quickly, or the global race for the critical materials and minerals needed to support the growth of AI may lead to supply shocks. Moreover, an increasingly uncertain global trade environment has accelerated the push toward deglobalization, which could drive costs and wages higher. The potential for more frequent spikes in inflation poses challenges for public and Taft-Hartley pension plans, especially open and active plans in which rising inflation may affect liabilities.

Figure 2: Attributes of publicly listed real assets

Completion & exposure management	Liquidity management	Minimize portfolio disruption	Low cost
• Maintain total portfolio strategic allocation • Closely align real asset exposures • Rebalance activity	• Manage capital calls/distributions • Access daily cash flow capabilities	• Reduce real asset liquidity demand on non-alternatives portion of total portfolio	• Cost-effectively manage real asset exposures

Source: State Street Investment Management.

The private market for real assets is diverse, mature, and growing. Private capital for real assets was estimated at $4.1 trillion in 2024; it is forecast to rise to $5.2 trillion by 2029.[10] However, an overreliance on illiquid private assets can limit plans' abilities to perform necessary functions, including paying participants' benefits, meeting capital calls, investing opportunistically, and paying expenses.

One strategy to address that challenge is to use a combination of publicly listed and private real assets. A public/private approach can enable plans to take advantage of the benefits of private market exposure while improving their liquidity position and maintaining their real assets target exposures. Public assets can provide important sources of daily liquidity that can be used to manage capital calls or distributions from private managers (see Figure 2), and they can serve as cost-effective tools plans can use to manage exposures and minimize portfolio disruptions.

Incorporating public real asset exposures

Plans can build complementary public real assets allocations transparently and cost-effectively using indexed strategies tailored to a plan's specific needs. As an example, State Street Investment Management's Real Asset Strategy combines exposure to a broad array of liquid real asset securities. This diversified, multi-asset strategy can be used as a core real asset holding or serve as a liquidity vehicle in conjunction with private real asset exposures.

Off-the-shelf products may be the right fit for plans looking for a low-cost, easy-to-implement solution. Other plans may seek out a custom solution that better aligns with their investment needs or policy benchmark. For example, they might customize the weights of publicly listed real assets to more closely align with the plan's private investments. Alternatively, a plan with a private allocation that is heavily exposed in one real asset segment may choose to reduce or eliminate similar exposures in its public allocation.

The mix of public and private real assets also can depend on the plan's objectives and whether it prioritizes generating growth, driving income, or managing volatility. For instance, a plan with a long time horizon may seek to increase its risk exposure by reducing or removing exposure to TIPS, whereas a plan with a shorter horizon might aim to reduce volatility by decreasing or eliminating exposure to commodities.

This type of custom approach can take many forms. In one case, State Street Investment Management worked with a pension plan to help it manage its real assets allocation. The plan's investment policy statement outlined dedicated real assets exposure with allocations to real estate, infrastructure, natural resources, and commodities. It had some existing private market real estate investments and wanted to include other real assets in its policy mix.

State Street Investment Management worked with the plan to create a custom portfolio. The plan used indexed assets to gain immediate, liquid exposure to public real assets in anticipation of building private market allocations over the next three years. The real assets allocation was rebalanced regularly to maintain appropriate exposures, providing liquidity for cash flows that funded private market investments and other portfolio needs. When the plan sponsor sought to change the real asset mix, its liquid exposures enabled it to adjust the composition quickly, efficiently, and cost-effectively.

For public and Taft-Hartley plans, private market real assets can serve as an important source of diversification, inflation hedging, and income. To capitalize, plans need strategies that can help them manage private assets' relative illiquidity. Thoughtful liquidity management strategies—including combining public and private real assets exposures—can help ensure that plans not only can handle unexpected risks, but also can take advantage of investment opportunities that arise in today's dynamic and volatile market environment.

Endnotes

1 US Bureau of Labor Statistics, as of December 8, 2025.

2 Federal Reserve Bank of St. Louis, as of February 13, 2026.

3 US Department of the Treasury, as of January 23, 2026.

4 Cumulative five-year return for the S&P 500 Index as of December 31, 2025.

5 NASRA, "Issue Brief: Public Pension Plan Investment Return Assumptions," June 2025.

6 Preqin, "Institutional Allocation Study 2025" data pack.

7 Juliane Begenau, Pauline Liang, and Emil Siriwardane, "The Rise of Alternatives," Harvard Business School, 2024.

8 FitchRatings, "US Public Pension Market Volatility Exposure Remains High," November 3, 2025.

9 S&P 500 Factsheet, as of January 30, 2026.

10 PitchBook, "2029 Private Market Horizons," May 1, 2025. Numbers include both real estate and other real assets.

About State Street Investment Management

At State Street Investment Management, we have been helping create better outcomes for institutions, financial intermediaries, and investors for nearly half a century. Starting with our early innovations in indexing and ETFs, our rigorous approach continues to be driven by market-tested expertise and a relentless commitment to those we serve. With over $5 trillion in assets managed*, clients in over 60 countries, and a global network of strategic partners, we use our scale to deliver a comprehensive and cost-effective suite of investment solutions that help investors get wherever they want to go.

* This figure is presented as of December 31, 2025, and includes ETF AUM of $1,950.80 billion USD of which approximately $173.02 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Investment Management are affiliated. Please note all AUM is unaudited.

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Investing in high yield fixed income securities, otherwise known as "junk bonds", is considered speculative and involves greater risk of loss of principal and interest than investing in investment grade fixed income securities. These Lower-quality debt securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer.

Foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations, all of which may be magnified in emerging markets.

Equity securities may fluctuate in value and can decline significantly in response to the activities of individual companies and general market and economic conditions.

Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates rise, bond prices usually fall); issuer default risk; issuer credit risk; liquidity risk; and inflation risk. These effects are usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

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