Transamerica^{SM} | **Mesirow**

Stable value:
Steady wins the race

Benefits across interest rate environments

Table of Contents

Executive summary

Recent research and analysis conducted in partnership between Transamerica and Mesirow uncovered the value of stable value in several key areas. As an asset class, stable value exhibits numerous attractive characteristics:

- A return profile similar to short- to intermediate-term bonds

- A risk profile similar to cash equivalent assets

- The benefit of principal protection

- A superior risk-adjusted return profile, relative to fixed-income investments

These benefits, on average, are persistent across a full market cycle and an extended time horizon. Yet, the unique nature of stable value seems to invite unfair comparisons to cash equivalents or other fixed-income investments at different stages of the interest rate cycle.

Stable value vs. money market:

Greater protection, less volatility, higher return

Stable value offers investors the benefits of principal protection and a guaranteed rate over a pre-determined period of time. These crediting rates are generally backed by portfolios consisting of a diversified mix of predominately high-quality fixed-income investments, or an insurance company's contractual guarantee, and are designed to smooth the capital gains and losses of the underlying assets. Consequently, stable value reacts to markets slowly over time. Money market yields, on the other hand, can fluctuate daily.

Figure 1 shows stable value versus annual yield equivalents on money market funds. There are unique environments — such as when the yield curve becomes inverted as we experienced beginning in 2023 — when the yields on money market funds exceed stable value crediting rates. However, stable value produces higher returns than money market funds over time, and even during the vast majority of rising and declining interest rate periods of historical market cycles as we'll see later.

Figure 1: Stable value vs. money market yield comparison
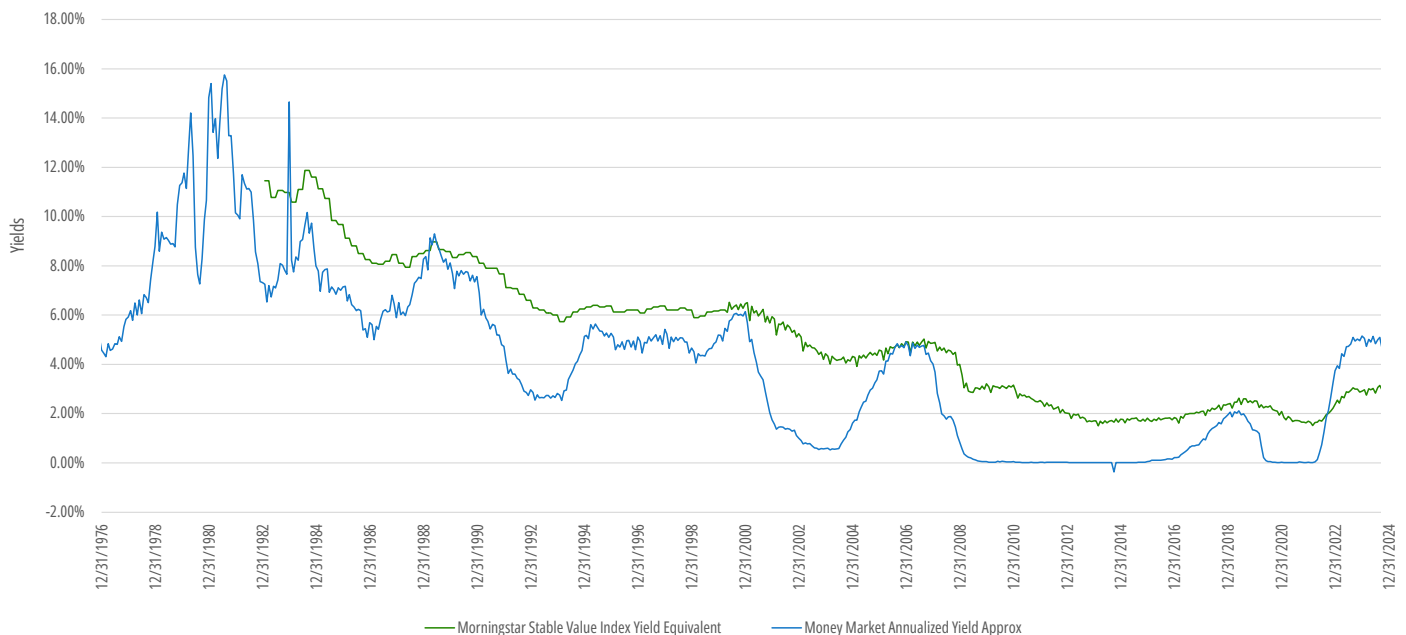
Source: MPI Stylus and Mesirow Calculations. Past performance is not a guarantee of future results. The stable value index shown in the chart was only available for the duration displayed.

While the recent yield curve inversion period of money market vs. stable value yields is unusual, it's not without precedent. In the long run, however, stable value produces a higher average risk-adjusted return than money market funds.

The latest period of yield-curve inversion from January 2023 through December 2024, stemming from the rapid and extended nature of the Federal Open Market Committee's (FOMC) interest rate increases, is unusual in historical terms. The only other similar historic period where short-term interest rates were higher than long-term rates occurred in the late 1970s and early 1980s, when an aggressive Federal Reserve sought to combat persistent high inflation. Therefore, while the recent period is unusual, it is not without precedent.

There's only a relatively small overlap for historical stable value return data and money market data because the stable value benchmark began in 1983. With the inverted yield curve from 1977 to 1981 – which is similar to the yield curves at the present time – we can infer that this historical period would have looked similar to the most recent data period in terms of relative money market and stable value yields and returns.
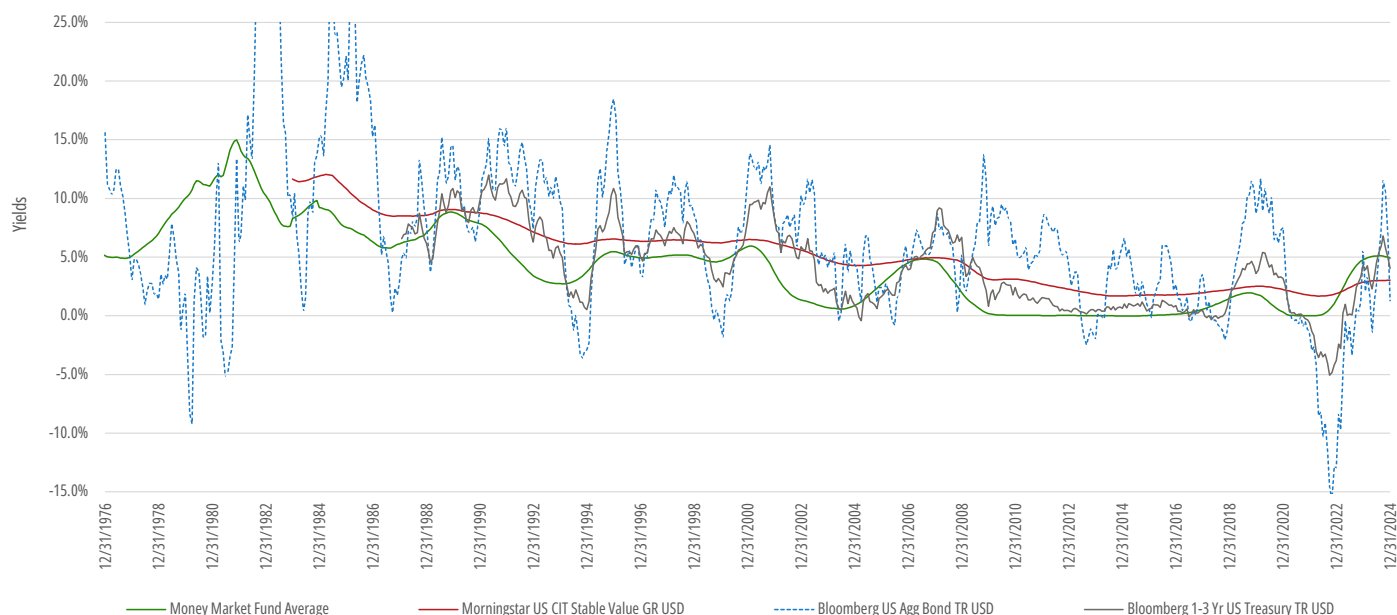
Stable value vs. bonds:

Similar return, loss protection, less interest-rate risk

Figure 2 shows the trailing 12-month return for various fixed-income assets, as well as money market funds and stable value. Recently, the trailing return of money market funds leads all others. And while the stable value yields are only slightly behind money market funds, it's notable that both have outperformed other fixed-income investments.

Historically, these periods are short-lived. When rate cuts happen and short-term interest rates fall, the situation inevitably reverses. In fact, money market funds are expressed in terms of 7-day yields because it is recognized that the yields change daily. Therefore, predicting their returns over the next year can be challenging, especially at times of monetary policy changes. The latest period which began in 2023, once again, is unusual in its magnitude and duration of high short-term rates.

Figure 2: Rolling 12-month asset return comparison

Money Market Fund Average   Morningstar US CIT Stable Value GR USD   Bloomberg US Agg Bond TR USD   Bloomberg 1-3 Yr US Treasury TR USD

Source: MPI Stylus and Mesirow Calculations. Past performance is not a guarantee of future results. Not all asset classes shown in the chart were available for the complete duration displayed.

When comparing the benchmarks in **Figure 2**, stable value produces 89% of the U.S. aggregate bond returns from 1987 to 2024, but with only 15% of the volatility.

In comparison to stable value, fixed-income investments with a similar maturity profile can fluctuate substantially with changes in interest rates, as the portfolio is marked-to-market on a daily basis. In a rising-rate environment, capital losses can significantly overwhelm the interest income earned on a traditional bond fund or index. This is shown in **Figure 2**, where the Barclays US Aggregate Bond Index and Bloomberg 1-3 Yr US Treasury Index exhibit substantially negative rolling 1-year returns in certain periods.

In this context, we refer to maturity rather than duration. Duration is a bond term meant to express both the concept of "average maturity" and price changes in relation to interest rate changes — interest rate sensitivity. This is a key distinction because stable value's smoother return profile endemic to the crediting rate process and principal protection results in a

different return profile than bonds in response to changes in interest rates. Observe the volatility of the bond benchmarks in **Figure 2** relative to stable value's returns. When rates are rising and bond portfolios experience capital losses that can overwhelm income returns and result in negative overall returns, stable value outperforms short- to intermediate-term bond investments that are most similar.

In the long run, stable value can produce similar returns to these alternative bond assets but with a positive return in every period. The result is a dramatically lower standard deviation, lower correlation with other portfolio assets, and a higher risk-adjusted return relative to bonds. This lower volatility is apparent, even over longer periods such as the rolling 5-year returns displayed in **Figure 3**.

Figure 3: Rolling 5-year asset return comparison
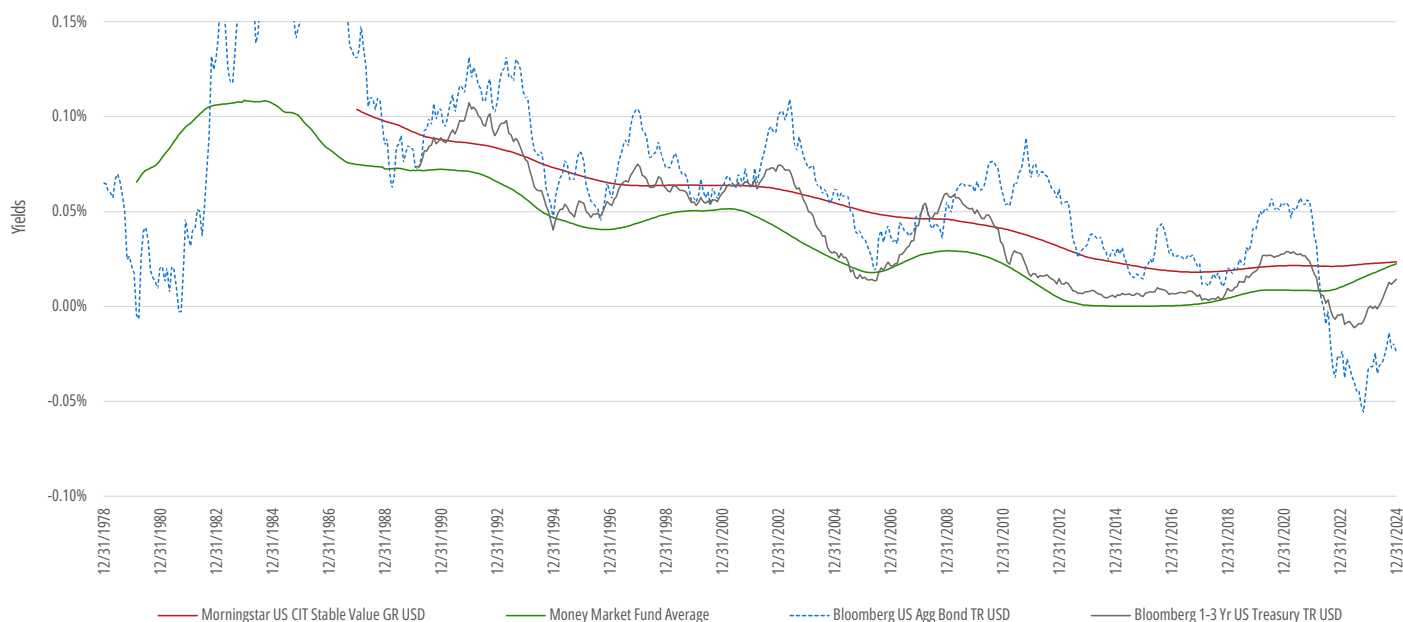
Source: MPI Stylus and Mesirow Calculations. Past performance is not a guarantee of future results. Not all asset classes shown in the chart were available for the complete duration displayed.

Over a time frame as long as five years, bond assets can produce very poor, and even negative, returns. This happened in the recent rising-rate environment from January 2023 through December 2024, and in the late-70s/early-80s time period. While not typical, it can and has happened. Even a short-term index composed of all U.S. Treasurys, such as the Bloomberg 1-3 Year Treasury Index, can lose money over five years. The representative stable value benchmark outperforms that index over most of the five-year rolling periods and provides a much more stable return profile. While the Bloomberg US Aggregate Bond Index typically produces a higher return over this time frame, it is also longer in maturity and the accompanying interest rate sensitivity causes it to underperform stable value by a substantial margin when it does underperform. The representative stable value index produced 89% of the Bloomberg US Aggregate Bond Index return from 1987 to 2024, generating this with only 15% of the volatility of returns.

These are important considerations because investors with short time horizons, such as those approaching or in retirement, will typically have a higher allocation to fixed-income assets relative to equities in order to mitigate the downside risk to their accumulated wealth assets. This can also be true for investors whose risk tolerance is low. Any of these investors may be better served with allocations to stable value, because of the downside risk protection and lower interest-rate sensitivity. Because of the market competitive return, coupled with a lower volatility profile relative to other fixed income assets, stable value exhibits a much higher return-to-risk ratio. This is illustrated in **Figure 4**.

Figure 4: Superior risk-adjusted returns for stable value (3/31/87 to 12/31/24)

Fixed Income Benchmarks	Average Annual Return	Standard Deviation	Return-to-risk Ratio
Morningstar US CIT Stable Value GR USD	**4.65%**	**0.64%**	**7.22**
IA SBBI US 30 Day T-bill TR USD	2.99%	0.71%	4.24
Money Market Fund Average	2.94%	0.72%	4.05
Bloomberg 1-3 Yr US Treasury TR USD	3.98%	1.77%	2.25
Bloomberg US Agg Bond TR USD	5.24%	4.26%	1.23

Source: MPI Stylus and Mesirow Calculations. Past performance is not a guarantee of future results. It is not possible to invest directly in an index. The performance shown does not reflect the deduction of all fees and expenses that a client or investor would have paid if invested in investable instruments based on the indices shown during the time period displayed.

Rate cycles: Inconsistent and unfair comparisons

When short- to long-term yields fall — which happens in anticipation of, and during, monetary policy rate cuts — stable value will produce lower returns than bond investments that benefit from capital gains. This is expected, but many market observers still will note the negative return comparison relative to bonds at this stage of the cycle.

Duration timing is notoriously difficult, and while the monetary authorities can pin the short end of the yield curve, the rest of the yield curve reacts in a volatile fashion to changes in policy and economic expectations. Therefore, comparing stable value mostly to one type of investment asset at one tail of the rate cycle (money market in rising rate) and then mostly with another investment option at the other tail (bonds in falling rate) creates a narrow and incomplete view of the product's benefits.

Dividing the data shown in **Figure 4** into sub-periods when the effective federal funds rates were consistently rising or falling gives a good summary of differential investment performance in a rising-rate versus a falling-rate environment. The data indicates that from March 1987 to December 2024, 109 months were declining-rate periods and 95 months were rising-rate periods. There were nine periods when rates were falling, with an average decline in the effective federal funds rate of 2.59%, while there were seven periods when rates were rising, with an average increase in the effective federal funds rate of 2.86%. These sub-period results are shown in **Figures 5 and 6**.

Figure 5: Declining rate periods (3/31/87 to 12/31/24)

Fixed Income Benchmarks	Average Annual Return	Standard Deviation	Return-to-risk Ratio
Morningstar US CIT Stable Value GR USD	**6.30%**	**0.53%**	**11.86**
IA SBBI US 30 Day T-bill TR USD	4.27%	0.65%	6.61
Money Market Fund Average	4.33%	0.66%	6.54
Bloomberg 1-3 Yr US Treasury TR USD	7.56%	1.97%	3.85
Bloomberg US Agg Bond TR USD	9.33%	4.53%	2.06

Source: MPI Stylus and Mesirow Calculations. Past performance is not a guarantee of future results. It is not possible to invest directly in an index. The performance shown does not reflect the deduction of all fees and expenses that a client or investor would have paid if invested in investable instruments based on the indices shown during the time period displayed.

Figure 6: Rising rate periods (3/31/87 to 12/31/24)

Fixed Income Benchmarks	Average Annual Return	Standard Deviation	Return-to-risk Ratio
Morningstar US CIT Stable Value GR USD	**5.05%**	**0.64%**	**7.93**
IA SBBI US 30 Day T-bill TR USD	3.93%	0.54%	7.28
Money Market Fund Average	3.89%	0.61%	6.38
Bloomberg 1-3 Yr US Treasury TR USD	2.56%	1.88%	1.36
Bloomberg US Agg Bond TR USD	1.28%	4.94%	0.26

Source: MPI Stylus and Mesirow Calculations. Past performance is not a guarantee of future results. It is not possible to invest directly in an index. The performance shown does not reflect the deduction of all fees and expenses that a client or investor would have paid if invested in investable instruments based on the indices shown during the time period displayed.

Conclusion

Stable value produces competitive long-term, less volatile returns relative to short and intermediate fixed-income investments. On average, across all rate cycles, stable value can compare favorably to other market-based fixed-income options on a risk-adjusted basis. Observe the difference in the average bond returns in the periods of falling and rising rates in **Figures 5 and 6**.

Not surprisingly, the return profile of stable value — as the name implies — looks remarkably consistent through different interest rate regimes. It provides valuable stability that can anchor an investor's portfolio, providing access to superior long-term returns.

Any reference to a specific index or security does not constitute a recommendation to buy, sell, hold or invest directly in such index or securities. It is not possible to invest directly in an index.

Investing involves risk including the risk of loss of capital. Past performance is not a guarantee of future results.

Benchmark descriptions:

Bloomberg US Aggregate Bond Index: The index is a composite of four major sub-indexes: US Government Index; US Credit Index; US Mortgage Back Securities Index and US Asset Backed Securities Index. The index holds investment grade bonds. The ratings are based on S&P, Moody and Fitch bond ratings. The index does not include High Yield Bonds, Municipal Bonds, Inflation Indexed Treasury Bonds or Foreign Currency Bonds.

Bloomberg 1-3 Year Treasury Bond Index: The Bloomberg U.S. 1-3 Year Treasury Bond Index measures the performance of the US government bond market and includes public obligations of the U.S. Treasury with a maturity between 1 and up to (but not including) 3 years.

30-Day US T Bill Index: This index data in the paper measures the monthly return from the FRED database of the St. Louis Federal Reserve Bank for a constant maturity treasury bill.

Money Market Fund Average: This benchmark data in the paper measures the category average for all taxable money market mutual funds in the Morningstar universe obtained through MPI Stylus and with Mesirow calculations.

Morningstar US CIT Stable Value Index: An equally-weighted, monthly rebalanced index measuring the performance of approximately 75% of the U.S. collective investment trust stable value fund pooled universe. The underlying stable value fund returns are gross of investment management fees but net of contract fees.

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