Market Update – March 24, 2020

Good afternoon, Mr. Chairman and Governors

This market update has a different tone and message than the market updates I have given in front of this board before. As the time has stopped and that has reduced or in some case eliminated economic activity. We are experiencing a significant global recession and previously unseen volatility in the financial markets as a second derivative result of the COVID-19 global pandemic.

We expect unemployment to increase significantly over the next 2-3 months from current rate of 3.5% to close to 7% as the number of unemployment people are expected to increase by 5 million in the month of March. However, the unemployment rate could increase to 9% depending on the length of time of self-isolation and business interruption due to COVID-19. As you know, non-essential businesses across the country are being ordered to shut down and the impact on the airline, restaurant, hospitality, transportation, and construction industries could be dramatic.

Globally, central banks have moved to reduce interest rates, restart asset purchases and inject liquidity into economies. In the United States, federal stimulus packages from the Treasury and Congress have been passed in an attempt to shore up financial markets and mitigate the impacts on businesses and individuals. The U.S. Federal Reserve reduced its Fed Funds target from 1.50%-1.75% to 0.00%-0.25% in two cuts – the first cut on March 4th was 0.50% to a range of 1.00%-1.25% and the second cut on March 14th was 1.00% to a current range of 0.00%-0.25%. In addition, there is a third legislative action being crafted by Senate republicans in response to COVID-19 which is expected to be approved and today and will cost $1.8 trillion and provide economic stimulus in the form of business loans and cash checks to individuals and families based on certain income thresholds, and longer and larger unemployment benefit.

Stock markets were at record highs just a month ago, and have lost over 30% of its value since then as a result of the panic from the spread of COVID-19. We don't expect much to change in the short run as the impact on GDP is expected to be significant – or in the range of -4% to -6% on a quarterly basis at a low end or negative 16% to negative 24% on an annualized basis as GDP calculations are amplified by quarterly-to-annually calculations. Fixed income markets have seen interest rates crater to never before seen low levels with the 30-year Treasury rate closing at 0.99% on March 9th, currently at 1.43%. And, currently, the 10-year Treasury rate is 0.87% and went as low as 0.54% on March 9th.

U.S. Treasury Rates										
	Fed Funds	1-Year	2-Year	3-Year	5-Year	7-Year	10-Year	3Mo-5Yr Spread	6Mo-10Yr Spread	2-10 Yr Spread
Current	**0.20**	**0.15**	**0.37**	**0.41**	**0.52**	**0.82**	**0.92**	**0.47**	**0.87**	**0.55**
1-Yr Prior	2.40	2.45	2.31	2.24	2.24	2.34	2.44	(0.22)	(0.04)	0.13
2-Yrs Prior	1.51	2.04	2.28	2.41	2.61	2.74	2.82	0.87	0.90	0.54
3-Yrs Prior	0.79	1.00	1.27	1.54	1.96	2.24	2.43	1.19	1.52	1.16
4-Yrs Prior	0.36	0.63	0.87	1.05	1.38	1.70	1.92	1.07	1.46	1.05
5-Yrs Prior	0.11	0.27	0.58	0.92	1.42	1.74	1.95	1.38	1.83	1.37
5-Yr Average	1.15	1.34	1.51	1.64	1.88	2.10	2.25	0.75	1.01	0.74
10-Yr Average	0.64	0.76	0.97	1.18	1.62	2.00	2.35	1.02	1.67	1.38
Current as % Above / Below 5-Yr Average	-83%	-89%	-75%	-75%	-72%	-61%	-59%	-38%	-14%	-26%
Current as % Above / Below 10-Yr Average	-69%	-80%	-62%	-65%	-68%	-59%	-61%	-54%	-48%	-60%

The current 4th quarter GDP number is $21.7 trillion and that number will potential decrease by $1 trillion in the 2nd quarter of this year. It is too early to see or say anything beyond 2nd quarter but market projections forecast that the economy could recover in the third quarter back to an annualized rate of 6 to 8% growth rate and 8 to 10% in the fourth quarter with an overall annual growth rate of 1%. Eurozone growth is now forecast at -1% to -0.5%, down from 0.5%; and China is expected to grow 2.7% to 3.2% in 2020, down from 4.8%.

Projections are for the pandemic to peak in the next two months and taper off with a recovery beginning in 3-4 months. The impact of significant social measures will be particularly important in the timing of the recovery. We expect the economy to be back to closer to pre-pandemic levels by the fourth quarter of 2020 or the first quarter of 2021.

The investment portfolio remains strong and stable. The current 1-year total and income return for the portfolio even during the current volatile environment is over 5% and 2% respectively, the overall duration is 4.17 years. The portfolio annual income for 2019 was approximately $232 million.

Reinsurer capital increased by 7% through the first nine months of 2019 from $585 billion to $625 billion, which has offset the 3% decline in 2018. Alternative capital decreased $4 billion, falling from $97 billion to $93 billion largely driven by a reduction in collateralized reinsurance. Catastrophe loss activity in 2019 decreased significantly compared to 2017 and 2018 with an estimated total catastrophe loss of $62 billion, well below the recent 10-year average of $81 billion. Based on continued adverse loss development and market volatility, there are still significant uncertainties in both capacity and pricing for Florida market.