

Citizens Market Update

December 15, 2020

Economic and Financial Markets

- Total nonfarm payroll employment rose by 245,000 in November, and the unemployment rate edged down to 6.7%. These improvements in the labor market reflect the continued resumption of economic activity that had been curtailed due to the COVID-19 pandemic and efforts to contain it
 - The rate is down by 8.0% from its recent high in April but is 3.2% higher than it was in February. The number of unemployed persons, at 10.7 million, continued to trend down in November but is 4.9 million higher than in February
- The labor force participation rate edged down to 61.5% in November; this is 1.9% below its February level
- In the U.S., multiple federal stimulus packages in the total amount of approximately \$3 trillion have passed in an attempt to shore up the economic conditions and financial markets and to mitigate the impacts on businesses and individuals. Currently, there is a \$908 billion bipartisan package that is broken up into two bills: one that includes funding for jobless benefits, vaccine distribution and small business loans (\$748 billion) and another that offers aid to states and municipalities (\$160 billion)
- The U.S. Federal Reserve reduced its Fed Funds target from 1.50%-1.75% to 0.00%-0.25% in two March 2020 cuts – the first on March 3rd was 0.50% to a range of 1.00%-1.25% and the second on March 15th was 1.00% to a current range of 0.00%-0.25%
- In addition, the Fed is also in full Quantitative Easing mode and its current balance sheet is at \$7.2 trillion as compared to \$4.2 trillion on December 31, 2019
- Before the contraction due to COVID, U.S. GDP had grown nearly unimpeded since the Great Recession of 2007-2009. During the record expansion, the unemployment rate fell to a 50-year low of 3.5%, and the U.S. economy added jobs for 113 months in a row
- Real GDP dramatically decreased in the first half of the year as a result of COVID-19 at an annual rate of 5.0% in the first quarter and 31.7% in the second quarter. Real GDP increased at an annual rate of 33.1% in the third quarter of 2020, as efforts continued to reopen businesses and resume activities that were postponed or restricted due to COVID-19. Current dollar GDP increased by \$1.64 trillion in the third quarter to a level of \$21.16 trillion. Nonetheless, compared to the end of 2019, by the fourth quarter of 2020 real GDP is projected to be 4%-5% lower and 1.5%- 2% lower by the end of 2021 to close to \$21 trillion.

Equity Market

- The equity market took a significant downturn as a result of COVID in the spring but has recovered significantly based on the release of COVID vaccinations and the election results as both the S&P500 and DJIA are higher for the year at 14% and 5.5%, respectively. But, the markets don't reflect small businesses which are suffering the most from Covid crisis.

Interest Rates

- Fixed income markets have seen interest rates crater to historical low levels with the 30-year Treasury rate closing at 0.99% on March 9th and the 10-year Treasury rate went as low as 0.54% on March 9th – current 5 and 10 year treasury rates are 37 and 90 basis points respectively
- Corporate credit markets tightened in November due to a resolution of U.S. election event risk and encouraging COVID-19 vaccine developments. Spreads on the Bloomberg Barclays Global Aggregate

Corporate Index tightened 21bps to 107bps over treasuries, marking the lowest spread level year-to-date since February

- Currently, the 1-10 year yield curve is between 49% and 92% below its 5-year averages and 59% and 88% lower than its 10-year averages and the yield curve has steepened again

U.S. Treasury Rates								
	1-Year	2-Year	5-Year	7-Year	10-Year	3Mo-5Yr Spread	6Mo-10Yr Spread	2-10 Yr Spread
Current (12/11)	0.10	0.11	0.37	0.63	0.90	0.29	0.82	0.79
1-Yr Prior	1.54	1.61	1.66	1.76	1.82	0.09	0.26	0.21
2-Yrs Prior	2.68	2.73	2.73	2.81	2.89	0.31	0.33	0.16
5-Yrs Prior	0.67	0.97	1.67	2.00	2.19	1.48	1.72	1.22
5-Yr Average	1.32	1.43	1.71	1.89	2.03	0.57	0.80	0.60
10-Yr Average	0.75	0.93	1.52	1.87	2.18	0.92	1.51	1.25
Current as % Above / Below 5-Yr Average	-92%	-92%	-78%	-67%	-56%	-49%	3%	31%
Current as % Above / Below 10-Yr Average	-87%	-88%	-76%	-66%	-59%	-68%	-46%	-37%

Fixed Income Market

- As compared to year-to-date 2018 and 2019, year-to-date 2020 corporate issuance is 61% and 59% higher, respectively, with \$2.2 trillion of issuance while year-to-date 2020 municipal issuance is higher by 38% and 15%, respectively, with \$441 billion of issuance as issuers are taking advantage of historically low interest rates and building up liquidity to meet the potential cash flow needs.

Risk Transfer Market

- Reinsurance pricing conditions softened from 2015 through 2017, but the insurance industry has incurred approximately \$19 billion of losses from Hurricanes Irma and Michael and is projected to ultimately incur approximately \$21 billion in losses. Globally there were over \$275 billion of insured losses from 2017 and 2019
- Global reinsurance industry is impacted by negative market forces largely driven by the COVID-19 pandemic, social inflation, current and previous years' catastrophe events that are being offset by positive forces of hardening rates and a re-assessment of third-party capital investor appetite as well as alternative investment opportunities
- Despite the COVID-19 pandemic, the catastrophe bond segment of the insurance-linked securities industry rebounded during the second quarter of 2020 with over \$10 billion issued year-to-date with \$42 billion currently outstanding
- In the first half of 2020, global economic losses from natural catastrophes and man-made disasters totaled \$75 billion and global insured property losses from disasters were \$31 billion – these numbers exclude COVID-19
- There have already been approximately \$20-\$25 billion of pandemic-related claims on insurers' books, and industry estimates put the ultimate total at roughly \$40-\$50 billion
- Capital raising in the insurance sector has been opportunistic in the current low interest rate environment with approximately \$20 billion of new capital raised in the first three quarters of 2020