

Citizens Market Update

March 1, 2021

Economic and Financial Markets

- The unemployment rate fell by 0.4 percentage point to 6.3% in January, and the number of unemployed persons decreased to 10.1 million but this reflects an increase of 4.4 million since February 2020 when the unemployment rate was 3.5%
- In addition, during the same time the U6 unemployment rate has increased from 6.9% to 11.1%, which translates in an additional 6-7 million people looking for full-time employment
- Lastly, during the same period, the labor force participation rate also edged down to 61.4% from 63.4% translating to 4.3 million people, all of this adds up to approximately 20 million people looking for full-time jobs or close to total persons claiming UI benefits at 18.3 million at the end of January 2021.
- 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 to mitigate the impacts on businesses and individuals. We expect the currently proposed stimulus bill to finally end in the range of \$1.5 to \$1.7 trillion or approximately 8% of our 2020 GDP
- The U.S. Federal Reserve Fed Funds target rate is still at 0.00%-0.25% and we don't expect that to change until the end of 2022. 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
- Real GDP decreased 3.5% in 2020 (from the 2019 annual level to the 2020 annual level), compared with an increase of 2.2% in 2019. Real GDP is projected to be 4.5% higher by the end of 2021 or close to \$22 trillion or marginally above where we were at the end of 2019 making the 2020 and at least the first half of 2021 as lost time from an economic growth perspective

Equity Market

- The equity market took a significant downturn as a result of COVID in the spring but has recovered significantly after multiple stimulus packages and now with the successful rollout of COVID vaccinations. The S&P500 and DJIA were higher for 2020 by 14% and 5.5%, respectively and so far have continued its increase in 2021 by 2.5% and 1.9%, respectively. However, the markets don't reflect small businesses which are still suffering from the Covid closures but are expected to recover in the 2nd half of 2021

Interest Rates

- Fixed income markets have seen interest rates recover significantly in 2021 as the economy is expected to be back by middle of this year as vaccine roll out continues in a targeted way. However, we expect interest rates to remain range bound from here till the end of 2021 with 5-year Treasury in the range of 0.60%-0.80% and 10-year Treasury in the range of 1.30%-1.70%
- Corporate credit markets are back to pre-Covid levels with investment grade spreads at 90 bps due to a resolution of U.S. elections and encouraging COVID-19 vaccine developments but absolute rate are still low and are expected to remain low
- Currently, the 1-10 year yield curve is between 28% and 94% below its 5-year averages and 33% and 89% lower than its 10-year averages but the yield curve has steepened again

U.S. Treasury Rates						
	1-Year	2-Year	5-Year	7-Year	10-Year	2-10 Yr Spread
Current (2/26)	0.08	0.14	0.75	1.15	1.43	1.29
1-Yr Prior	0.97	0.86	0.89	1.03	1.13	0.27
2-Yrs Prior	2.55	2.55	2.56	2.67	2.76	0.21
5-Yrs Prior	0.67	0.88	1.38	1.69	1.88	1.00
5-Yr Average	1.30	1.40	1.67	1.85	2.00	0.60
10-Yr Average	0.75	0.92	1.48	1.82	2.13	1.21
Current as % Above / Below 5-Yr Average	-94%	-90%	-55%	-38%	-28%	116%
Current as % Above / Below 10-Yr Average	-89%	-85%	-49%	-37%	-33%	7%

Fixed Income Market

- As compared to 2019, 2020 corporate issuance was 60% higher with \$2.3 trillion of issuance while 2020 municipal issuance was higher by 13% with \$484 billion of issuance. Issuers took advantage of historically low interest rates to build up liquidity to meet the potential cash flow needs. We expect \$1.6 trillion of corporate issuance with some pick up in M & A activity to make up for the lost organic growth.

Risk Transfer Market

- Reinsurance pricing conditions softened from 2015 through 2017, but so far, the insurance industry has incurred approximately \$19 billion of losses from Hurricanes Irma and Michael and is projected to ultimately incur approximately \$22 billion in losses. Globally there were over \$275 billion of insured losses from 2017 and 2019
- In 2020, natural catastrophes caused \$76 billion of global insured losses, up 40% from 2019, mostly from secondary peril events such as severe convective storms and wildfires in the US - this makes it the fifth-costliest year for the industry since 1970. 2020 was also a very active hurricane season with record number of named storms, but with only moderate insured losses of \$20 billion
- Global reinsurance industry is impacted by negative market forces largely driven by the COVID-19 pandemic, litigation and 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 with a record \$16.4 billion issued in 2020 with \$45 billion currently outstanding
- Even with recent losses, overall global reinsurance capital has been relatively unchanged from 2019 at \$625 billion as multiple reinsurers were able to raise approximately \$23 billion in new capital during the first three quarters of 2020