Citizens Market Update

September 17, 2021

Economic and Financial Markets

- The unemployment rate declined by 0.2% to 5.2% in August with 8.4 million unemployed persons, while nonfarm payroll employment rose by 235,000.

    - These unemployment measures are down considerably from their recent highs in April 2020 but remain well above their levels prior to the COVID-19 pandemic (3.5% and 5.7 million, respectively, in February 2020)

- The labor force participation rate was little changed at 61.7% in August; this is 1.6% below its February 2020 level and the U6 which reflects real unemployment rate is close to 8.8%
- Total persons claiming UI benefits (all programs) at the end of August were 2.7 million (not seasonally adjusted) – this collectively with low labor force participate rate and high U6 rate reflects that there is significant slack in labor market.
- In the U.S., multiple federal stimulus packages in the total amount of approximately $5.8 trillion have passed in an attempt to shore up the economic conditions and financial markets and to mitigate the impacts on businesses and individuals and that has pushed the economic growth.
- The U.S. Federal Reserve Fed Funds target 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 $8.4 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 approximately 6% higher by the end of 2021 or close to $22 trillion or marginally above where we were at the end of 2019.
- GDP growth projections have been revised downward modestly due to complications from the delta variant. We expect 2021 annual GDP growth to be around 5.2%, decreasing to 3.2% in 2022, before reverting back to around 2% in 2023. The robust growth in 2021 is primarily due to negative growth in 2020 and from all of the fiscal and monetary stimulus.

Equity Market

- The equity market is at record high primarily due to strong economic growth, economic stimulus, and historical low interest rates. The S&P 500 and DJIA were higher for 2020 by 14% and 5.5%, respectively and so far have continued its increase in 2021 by 19.0% and 13.6%, respectively. However, the markets don't reflect small businesses which are still suffering from the COVID closures and staffing shortages but are expected to recover in late 2021 / early 2022 as unemployment benefit has expired and we enter into a "new normal" phase.

Interest Rates

- Fixed income markets have seen interest rates recover significantly in 2021 as the economy is expected to be back by middle of end of this year as vaccine roll out continues in a targeted way. However, due to structural and demographic constrains, we expect interest rates to remain low and range bound from here until the end of 2022 with 5-year Treasury at 0.60%-1.00% and 10-year Treasury at 1.25%-1.65%
- Corporate credit markets are back to pre-COVID levels (93 basis points at the end of 2019) with the spread of the Bloomberg Barclays U.S Corporate Investment Grade Index at 87 bps due to expected significant economic growth as COVID-19 vaccines continues to roll out. Spreads on investment grade corporates widened to almost 200 basis points during the COVID crisis.

- Interest rates are low, the 1-30 year yield curve is between 25% and 94% below its 5-year averages and 32% and 91% lower than its 10-year averages, however, the yield curve has steepened again

U.S. Treasury Rates							
	1-Year	2-Year	5-Year	7-Year	10-Year	30-Year	2-10 Yr Spread
Current (9/15)	0.07	0.21	0.81	1.10	1.31	1.87	1.10
1-Yr Prior	0.13	0.14	0.27	0.46	0.68	1.43	0.54
2-Yrs Prior	1.87	1.77	1.68	1.76	1.80	2.25	0.03
5-Yrs Prior	0.61	0.79	1.20	1.48	1.66	2.43	0.87
5-Yr Average	1.24	1.34	1.62	1.82	1.97	2.48	0.64
10-Yr Average	0.74	0.91	1.44	1.76	2.05	2.74	1.15
Current as % Above / Below 5-Yr Average	-94%	-84%	-50%	-40%	-34%	-25%	72%
Current as % Above / Below 10-Yr Average	-91%	-77%	-44%	-38%	-36%	-32%	-4%

<u>Fixed Income Market</u>

- In 2020, corporate issuance was $2.3 trillion, which was significantly larger than 2019 issuance of $1.4 trillion. Through August 31, 2021, corporate bond issuance is at $1.3 trillion, or 23% lower than the $1.7 trillion issued over the same time period in 2020. We expect corporate issuance to be closer to $1.8 trillion in 2021
- For 2020, municipal long-term issuance was 15% higher compared to 2019 with $484 billion of issuance. For year-to-date 2021, municipal long-term negotiated issuance is $309 billion and is relatively flat compared to the $302 billion issued over the same time period in 2020.
- Overall there has been strong investor demand in both the tax-exempt and taxable markets as evidenced by the record issuance in 2020 and strong issuance so far in 2021

<u>Risk Transfer Market</u>

- Risk transfer pricing conditions softened from 2015 through 2017, but the insurance industry incurred approximately $275 billion of insured losses from 2017 and 2019. In 2020, there were $88 billion of insured losses globally, which were mostly driven by smaller events as no single event incurred more than $3 billion of insured losses.
- For the first half of 2021, insured losses are approximately $42 billion globally, which is above the 10-year average of $33 billion for first half of the year and is the second highest first half of the year after 2011 where $104 billion was incurred. Not included in the first half of the year are estimate of insured losses from Hurricane Ida, which is projected to be approximately $30-$45 billion with wind and storm surge losses contributing to the majority of the loss estimate and private market inland flooding losses contributing approximately $5-$10 billion of additional insured losses. These insured loss estimate would make Hurricane Ida the second most costly hurricane by insured losses behind Hurricane Katrina ($88 billion) and above Hurricane Sandy ($35 billion).
- While the global markets are marginally improving, the Florida market is still experiencing dislocation due to litigation and social inflation as well as continued adverse loss development

- There is increased capacity in the risk transfer markets in 2021 versus 2020, but the traditional reinsurance market is not experiencing as great of a rebound as the capital markets with capital market pricing lower in 2021 than in 2020 and traditional reinsurance pricing are either unchanged or experiencing minimal increases in the non-loss layers
- Despite the COVID-19 pandemic, the catastrophe bond segment of the insurance-linked securities industry is strong with a record $16.4 billion issued in 2020 and $14.5 billion issued thus far in 2021 with $52 billion currently outstanding