

## Citizens Market Update

March 18, 2022

### Economic and Financial Markets

- Total nonfarm payroll employment rose by 678,000 in February and the unemployment rate declined to 3.8% with 6.3 million unemployed persons.
  - Job growth was widespread, led by gains in leisure and hospitality, professional and business services, health care, and construction. These unemployment measures are at the same level prior to the coronavirus (COVID-19) pandemic (3.5% and 5.7 million, respectively, in February 2020)
- The labor force participation rate, at 62.3% in February, little changed over the month. The employment-population ratio edged up to 59.9%. Nonetheless, both measures remain below their February 2020 levels (63.4% and 61.2%, respectively).
- In the U.S., multiple federal stimulus packages in the total amount of approximately \$5.8 trillion were passed to shore up the economic conditions, financial markets, and to mitigate the impacts on businesses and individuals from Covid 19. However, these stimuluses also added significantly to inflation, specially the March 2021, \$1.9 trillion American Rescue Plan.
- The U.S. Federal Reserve increased the Fed Funds target on March 16<sup>th</sup> for the first time since December 2018 by 0.25% to 0.25%-0.50% with the consensus of increasing rates six more times to the near pre-COVID levels by the end of the year, or 1.75%-2.00%. Additionally, the consensus projects the target rate of approximately 2.75% by the end of 2023, which we believe is very optimistic – considering the nature of monetary policy, which is backward looking.
- The December forecast for rate increases was three 0.25% increases in 2022. The pace of the increase in the Federal Reserve Fed Funds target has been accelerated due to higher than expected inflation or February CPI of 7.9%, which is highest since January 1982.
  - High inflation has been impacted by 2020 and 2021 fiscal stimuluses of approximately 25% of 2021 GDP and the use of these stimulus monies for goods instead of services due to COVID closures, supply chain issues from the increased demand, continuation of lockdown in China, and energy prices spiking due to the war in the Ukraine.
  - A lot of uncertainty remains on when and where inflation will end based on these unpredictable issues. The Fed is projecting that inflation will be 4.3% by the end of the year – our projections are similar – primarily due to end of fiscal stimuluses, easing of COVID lockdowns, nonetheless, war and its impact on energy prices adds uncertainty to projections.
- The 2021 GDP growth rate was 5.7% but the Fed decreased its projection for 2022 growth to 2.8% from the prior forecast of 4.0% to reflect the current volatility and the slowdown impact from projected interest rate increases.

## Equity Market

- The equity market has been lower and volatile in 2022. The markets are one of the leading indicator of the economy, but is having a difficult time right now figuring out the future of economic growth again because of multiple uncorrelated factors, such as, continuation of COVID-19, higher than expected inflation, the war in Ukraine, and continuing de-globalization of the global economy, and the direction of the Federal Reserve.

## Interest Rates

- U.S. treasury rates have increased significantly over the last 12 months as the markets have adjusted for Feds future rate increases. The 2-year Treasury rate is 1.95% or approximately 50% above its 5-year average of 1.31% and 110% above its 10-year average of 0.93%. The 10-year Treasury rate is marginally above its 10-year average rate of 2.03%. And the 2-10 year treasury spread has decreased from 1.50% to .24% over the last 12 months and this flatness in yield curve reflects slow projected economic growth or maybe even a recession.

U.S. Treasury Rates							
	1-Year	2-Year	5-Year	7-Year	10-Year	30-Year	2-10 Yr Spread
Current (3/16)	1.35	1.95	2.18	2.22	2.19	2.46	0.24
1-Yr Prior	0.07	0.13	0.80	1.27	1.63	2.42	1.50
2-Yrs Prior	0.21	0.54	0.79	1.08	1.18	1.77	0.64
5-Yrs Prior	0.99	1.27	1.95	2.22	2.40	3.04	1.13
5-Yr Average	1.21	1.31	1.59	1.77	1.92	2.40	0.61
10-Yr Average	0.76	0.93	1.46	1.77	2.03	2.70	1.10
Current as % Above / Below 5-Yr Average	12%	49%	37%	25%	14%	2%	-61%
Current as % Above / Below 10-Yr Average	78%	109%	49%	26%	8%	-9%	-78%

- Corporate investment grade spreads have widened from 100 to 120 basis points to price for uncertainties and projected slow economic growth.

## Fixed Income Market

- In 2021, corporate bond issuance was \$2.0 trillion, or 14% lower than the record-breaking \$2.3 trillion of issuance in 2020. Year-to-date 2022, corporate issuance is \$259 billion or approximately 25% lower than year-to-date 2021.
- In 2021, municipal issuance was \$476 billion, or 2% lower than the record-breaking \$485 billion of issuance in 2020. Year-to-date 2022, municipal issuance is only \$52 billion or approximately 20% lower than year-to-date 2021.
- Overall there is still investor demand in both the tax-exempt and taxable markets as evidenced by the 2022 year-to date issuance.

## **Risk Transfer Market**

- In 2017, Hurricanes Harvey, Irma, and Maria contributed to record global economic losses of \$532 billion, of which approximately 32%, or \$170 billion was insured.
- In 2021, losses were marginally above 10-year averages with approximately \$343 billion of global economic losses, of which 38%, or \$130 billion was insured.
  - Of note, losses due to COVID-19 are not included in these loss numbers as pandemics are not included.
- Global reinsurance capital increased through the first half of 2021 to \$660 billion but we do not expect this number to change significantly for the second half of 2021.
- Alternative capital continues to draw investors at approximately 15% of global reinsurance capital. Approximately \$10 billion of new capital was raised by the global reinsurance market in 2021.
- While the global markets are improving, the Florida market is continuing to experience a significant dislocation due to litigation, continued adverse loss development, and credit quality concerns.
- For 2022, the reinsurance markets will be constrained and we expect rate increase of around 10% -15% depending on the insurer, however, we expect our rate increase to be closer to 5%.