Citizens Market Update

April 9, 2024

- Inflation increased in February at 0.4% and over the last 12 months, the all items index increased 3.2% before seasonal adjustment – the increase was driven primarily by the increase for housing and gasoline (the gasoline index rose 2.3% for the month) as housing and gasoline account for over 60% of the monthly increase in February. The all items less food and energy index rose 3.8% over the last 12 months
- Total nonfarm payroll employment increased by 303,000 in March and the unemployment rate decreased to 3.8% with 6.4 million unemployed persons. A year ago, the unemployment rate was 3.5% and the number of unemployed persons totaled 5.8 million. The average monthly gain in employment has been 244,000 over the past twelve months. The labor force participation rate increased slightly to 62.7%
- The Fed left its benchmark rate unchanged at its March 2024 meeting after raising it 11 times since March 2022 to the current range of 5.25%-5.50%. The market is currently expecting three cuts in the second half of 2024, which would put the Fed Funds rate at approximately 4.50%-4.75% by the end of 2024, but economic data between now and the June meeting will drive the Fed to either stay put for longer or start cutting.
- One of the key data points that the Fed always looked at is the PCE inflation index, which has slowed to 0.3% in February versus 0.4% in January, or 2.5% on an annual basis. In addition, the Fed will be looking at "supercore" CPE, which excludes energy and housing costs. “Supercore” PCE has showed prices cooling as it rose by 0.2% in February, a much slower increase than the 0.7% posted in January, and 3.3% over the past twelve months, which is the lowest it has been since March 2021.
- The Fed has indicated it may slow the process of letting its balance sheet roll-off, which has seen approximately $1.5 trillion of bonds roll off to a current level of approximately $7.5 trillion. Since fall 2022, the Fed has been allowing up to $60 billion per month in Treasuries and $35 billion per month in mortgage bonds to expire and not be replaced.
- The Fed is projecting inflation to steadily cool, while the labor market remains historically strong, personal consumption remains high, and energy prices have recently increased. We expect GDP to increase 2.5% this year and 1.9% in 2025.
- While we believe the U.S. economy will relatively slow this year, we do not believe that the slowdown is going to be enough to bring economic growth to negative territory for two consecutive quarters, or a technical recession.
- Two of the reasons for a “soft landing” is resiliency in the housing market, continued non-residential investment and the government spending. The lack of supply of homes, especially in the existing homes market has increased real residential construction and new homes construction as well as sales is going to continue to keep real residential investment in positive territory. The impacts from Fed rate increases in most of the sectors were

neutralized by the effects of the CHIPS Act and Inflation Reduction Act, which increased the construction of manufacturing plants in the U.S and other government spending.

- Consumers, who make up about two-thirds of all economic activity, have slowed spending but continue to remain engaged in the economy with no signs of stopping anytime soon. The personal savings rate has plummeted to 3.6% as compared to 7.4% in 2019 and credit card debt has increased. The continuous consumer spending can be attributed to the strength in the labor market which has given consumers confidence to keep spending
- Based on the projection of maintaining current Fed rate levels through the first half of 2024, but with less rate cuts projected in the second half of 2024 than market expectations earlier in the year, rates have crept up. The yield curve remains inverted but getting flatter with the spread between the 3-month and 10-year Treasury at 1.06% and the spread between the 2-year and 10-year Treasury at 0.32%. Since the beginning of the year, the 1-year UST has decreased from 4.80% to 5.03%, the 2-year UST has decreased from 4.33% to 4.68%, the 5-year UST has increased from 3.93% to 4.34% and the 10-year UST has increased from 3.95% to 4.36%.
- The current unrealized losses in the portfolio has continued to decrease. These values are non-economic and non-cash as these negative values pull to par as the securities mature. Our portfolio duration is much shorter today than it was a year ago, so the evaporation pace has increased.
- Lastly, our income return is stable and historically high interest rates are economically beneficial as they lead to higher interest income. Currently, the book yield for the portfolio is 3.38% and $2.5 billion (approximately 25% of the portfolio) will mature over the remainder of the year – if these maturities and the new monies are re-invested with an average duration of 3-years the income for the portfolio is expected to increase to approximately 3.75% - 4% for the year, or approximately $450 million in total
- Thus far in 2024, global reinsurance markets, especially capital markets, have a positive outlook with an increase in capacity and demand with rates that projected to remain flat to -5% depending on the cedent