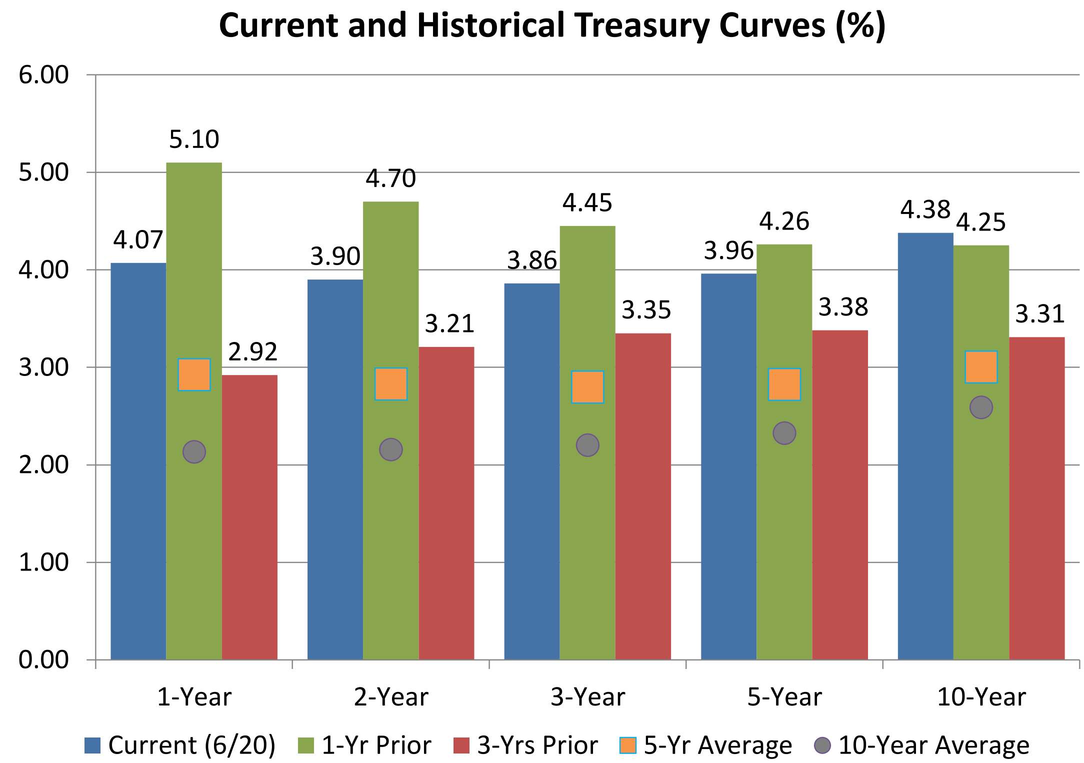
Citizens Market Update

June 25, 2025

- The job market remains relatively strong. The current unemployment rate of 4.2% has remained within a range of 4.0% to 4.2% since May 2024. There are currently 7.2 million people unemployed, and we expect unemployment rate to increase to 4.6% by the end of 2025. In May, the labor force participation rate declined from 62.6% to 62.4%. If the labor force participation had not declined, then the unemployment rate would have increased to 4.5%.
- The implementation of the Trump tariffs has set out shockwaves that have reverberated throughout global markets. The duration and magnitude of tariffs remain unknown, and this uncertainty is what is driving the volatility in the fixed income and equity markets as well as eroding consumer sentiment. The current conflict between Iran and Israel has also spooked the market as there is uncertainty regarding the potential ongoing role of the U.S. or if the conflict is prolonged or escalates
- Stagflation remains a concern for the marketplace and the Fed as prices remain above the Fed's target with PCE at 2.5% and core PCE at 2.8%. There is concern that the Trump tariffs would increase prices as well as the potential increase in oil prices from the current Middle East conflict
- The economy has been resilient, but growth is slowing with first quarter real GDP contracting by 0.3% and inflation remains "sticky," which could lead to stagflation. We do expect a slight bounce-back in growth in the second quarter as consumers increase spending to head off any potential increases in prices for products after the tariffs take hold
- While we believe the U.S. economy will slow this year with GDP growth of 1.0% to 1.4% after growing by 2.8% in 2024, 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 with the caveat that there is a lot of uncertainty regarding how tariffs will evolve
- In November and December of 2024, the Fed cuts its fund rates by 0.25% each to the current range of 4.25%-4.50%. The Fed has adopted a "wait and see" approach and has not had a clear message regarding when rate cuts will occur and how many there will be due to the ongoing tariff uncertainty, the potential for stagflation, and watching the employment situation for signs of weakening. The Fed is still forecasting two rate cuts for this year
- We think that the Fed will cut rates two times in the last quarter of the year and that inflation will increase in the second half of the year. However, we believe as the economy is slowing, the Fed should start cutting rates in July and not wait till the last quarter

- The yield curve is changing from inverted to slightly upward sloping because of the change in Fed policy with the spread between the 2-year and 10-year Treasury at approximately 0.48% as compared to negative 0.45% a year ago. We expect the spread to widen to approximately 0.75% with the 10-year Treasury rates to remain range bound around 4.25%+/- 25 bps while 2-year Treasury rates to come down to approximately 3.50% due to Fed rate decreases leading to further steepening of the yield curve



U.S. Treasury Rates						
	1-Year	2-Year	3-Year	5-Year	10-Year	2-10 Yr Spread
Current (6/20)	**4.07**	**3.90**	**3.86**	**3.96**	**4.38**	**0.48**
Beginning of 2025 (1/2)	4.17	4.25	4.29	4.38	4.57	0.32
1-Yr Prior	5.10	4.70	4.45	4.26	4.25	(0.45)
2-Yrs Prior	5.25	4.68	4.29	3.95	3.72	(0.96)
3-Yrs Prior	2.92	3.21	3.35	3.38	3.31	0.10
5-Yrs Prior	0.17	0.17	0.19	0.30	0.64	0.47
5-Yr Average	2.93	2.83	2.80	2.83	3.00	0.17
10-Yr Average	2.14	2.16	2.20	2.33	2.59	0.43
15-Yr Average	1.48	1.58	1.70	1.99	2.52	0.82

- Global economic losses from natural disasters were $368 billion in 2024, of which $145 billion were insured, and were primarily driven by losses from Hurricanes Helene and Milton
- Hurricane Helene had economic losses of approximately $75 billion, of which $18 billion were insured. However, economic losses neutralize with economic gains from rebuilding efforts
- 2024 losses from Hurricanes Helene and Milton and 2025 wildfire losses from Eaton and Palisades wildfires were not a capital event for reinsurers and they were able to cover through earnings
- 2025 First quarter insured losses were $53 billion and were primarily driven by California wildfire losses of approximately $38 billion – this is the second highest first quarter losses since 2011. While this level of losses are significant, they did not cause an issue with capacity and pricing in the risk transfer market
- The reinsurance industry continues to benefit from increased investment income from continued above-average interest rates and a reduction in unrealized losses as they continue to evaporate over time
- The rating agency view of the reinsurance industry remains stable due to robust capital levels, operating profits, underwriting discipline, and increasing reinsurance demand
- 2024 was a record year of issuance for the cat bond market with $17.7 billion of issuance and had $49.5 billion outstanding at the end of the year. So far in 2025 there has been $16.2 billion of issuance and $55.8 billion outstanding – record issuance was driven by lower rates and high investor demand due to record returns driven by high risk-free rates
- Legislation reforms in Florida have led to improved financial condition for Florida insurers, increased capital investment in the State with new entrants, a healthy private marketplace that has helped to depopulate Citizens to its lowest policy count since 2021, and moderating rate increases for policyholders