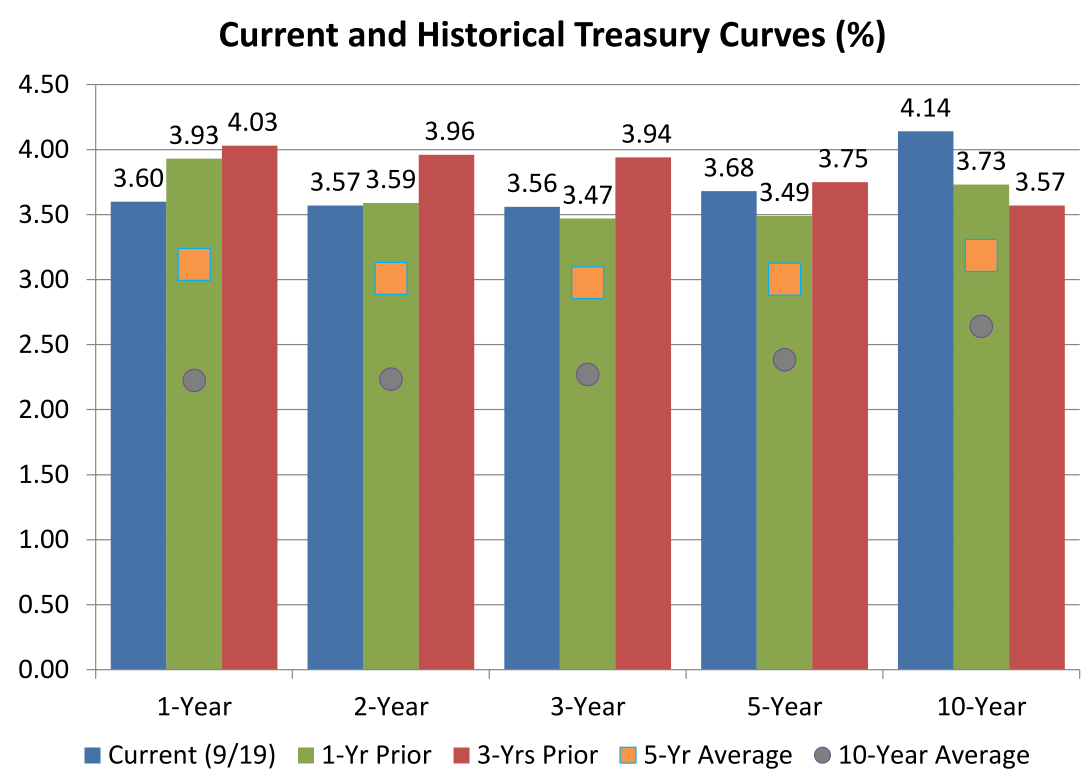
Citizens Market Update

September 24, 2025

- Consumer prices increased by 0.4% in August, pushing annual inflation to 2.9%, the highest since January. At the same time, initial unemployment claims surged to their highest level in four years, with about 263,000 people filing for benefits in the first week of September. Job growth averages have slowed to just 35,000 per month over the last quarter, down from 168,000 per month in 2024. The current unemployment rate of 4.3% has also changed little since April. There are currently 7.4 million people unemployed, and we expect unemployment rate to increase to 4.5% by the end of the first quarter 2026. The labor force participation rate has also remained relatively flat at approximately 62.3%
- The weakness in the labor market is a combination of lower supply of labor as well as weakening demand for workers. Both of these factors are keeping the labor force participation rate level near "full employment" but in a weakening economy
- In September 2025, the Fed cut its benchmark rate for the first time in 9 months to the current range of 4.00%-4.25%. The decision was almost unanimous (11 to 1 in favor), a rare and unexpected exhibition of consensus. The Fed had delayed cutting rates since December until the job market had shown enough cracks and the risk of weaking economy increased
- The Fed's dot plot shows how divided the Governors are on the path of interest rates over the next 12 months. Nine of the nineteen members indicated just one more reduction this year, while ten saw two, which would suggest more rate cuts at the FOMC's October and December meetings. In addition, only one member called for no cuts, while another member of the FOMC thought the central bank should cut rates by an additional 1.25% percentage point by the end of 2025
- Our view is that the Fed will cut rates two times in the last quarter of the year and that inflation will increase by the end of the year to around 3.2%
- The yield curve is changing from inverted to flat to slightly upward sloping as a result of the change in Fed policy with the spread between the 2-year and 10-year Treasury is at approximately 0.57% as compared to negative 0.77% two years ago. We expect the 10-year Treasury to remain relatively range bound around 4.00% +/- 25 bps while 2-year Treasury rates are 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 (9/19)	**3.60**	**3.57**	**3.56**	**3.68**	**4.14**	**0.57**
Beginning of 2025 (1/2)	4.17	4.25	4.29	4.38	4.57	0.32
1-Yr Prior	3.93	3.59	3.47	3.49	3.73	0.14
2-Yrs Prior	5.47	5.12	4.82	4.52	4.35	(0.77)
3-Yrs Prior	4.03	3.96	3.94	3.75	3.57	(0.39)
5-Yrs Prior	0.12	0.12	0.15	0.26	0.66	0.54
5-Yr Average	3.12	3.01	2.98	3.00	3.19	0.18
10-Yr Average	2.23	2.24	2.27	2.38	2.64	0.41
15-Yr Average	1.54	1.63	1.75	2.03	2.55	0.80
Current as % Above / Below 5-Yr Average	15%	19%	20%	22%	30%	223%
Current as % Above / Below 10-Yr Average	62%	60%	57%	54%	57%	41%
Current as % Above / Below 15-Yr Average	134%	119%	104%	81%	63%	-29%

- 2025 First half insured losses were $80 billion and were primarily driven by California wildfire losses of approximately $38 billion – this is the second highest first half losses since 2011. While this level of losses is 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
- 2025 YTD is a record year of issuance for the cat bond market with approximately $18 billion of issuance. This record issuance is driven by increased global exposure, lower rates, and high investor demand due to record returns driven by high risk-free rates