Citizens Market Update

December 10, 2025

- Consumer prices increased by 0.3% in September, pushing annual inflation to 3.0%, the highest since January. Total nonfarm payroll employment edged up by 119,000 in September but has shown slight change since April. The current unemployment rate of 4.4% has also changed little since April. There are currently 7.6 million people unemployed, and we expect unemployment rate to increase to 4.6% by the end of the first quarter of 2026. The labor force participation rate has also remained relatively flat at approximately 62.4%.

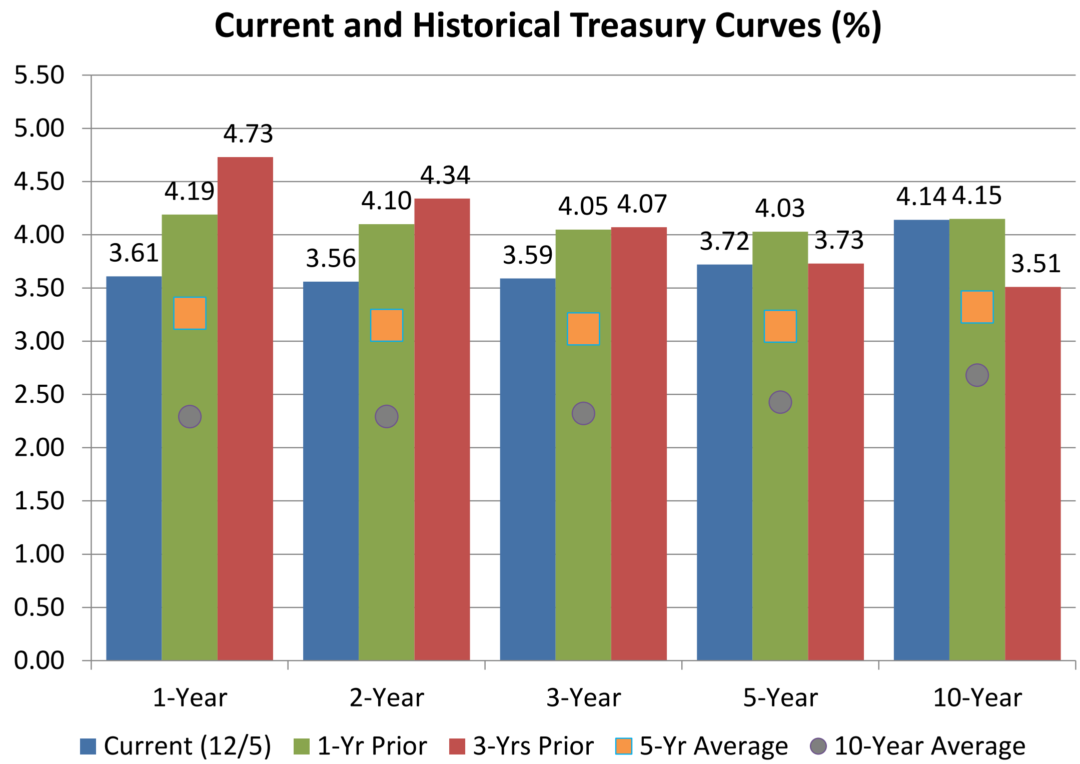
- The weakness in the labor market is a combination of lower supply of labor as well as weakening demand for workers. Both of these factors are keeping the labor force participation rate level near “full employment” but in a weakening economy.

- Real GDP increased at an annual rate of 3.8% in the second quarter of 2025 after decreasing by 0.6% in the first quarter, according to the third estimate released by the U.S. Bureau of Economic Analysis. We believe that the overall annual growth rate for 2025 will be 1.8% and will increase to 2.2% in 2026.

- In September 2025, the Fed cut its benchmark rate for the first time in 9 months and again in October by twenty-five basis points each time to the current range of 3.75%-4.00%. The market is fully expecting another rate cut at this week’s meeting in the amount of twenty-five basis points. We expect 25 bps rate cut later today, which will bring the Fed Funds rates to 3.5%-3.75%.

- The Fed Funds rate path in 2026 is less certain. The general market median reflects two additional cuts bringing the federal funds rate to 3.00-3.25% by year-end 2026, there is not a clear consensus on the timing of the cuts. Factors contributing to the uncertainty include the recent tax-cut and spending bill, tariff uncertainties, and concerns about the central bank's independence.

- 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 at approximately 0.58% as compared to negative 0.83% three years ago. We expect the 10-year Treasury to remain range bound around 4.25%+/- 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 (12/5)	**3.61**	**3.56**	**3.59**	**3.72**	**4.14**	**0.58**
Beginning of 2025 (1/2)	4.17	4.25	4.29	4.38	4.57	0.32
1-Yr Prior	4.19	4.10	4.05	4.03	4.15	0.05
2-Yrs Prior	5.10	4.64	4.40	4.23	4.28	(0.36)
3-Yrs Prior	4.73	4.34	4.07	3.73	3.51	(0.83)
5-Yrs Prior	0.10	0.11	0.18	0.37	0.90	0.79
5-Yr Average	3.26	3.15	3.12	3.14	3.32	0.17
10-Yr Average	2.29	2.29	2.32	2.43	2.68	0.39
15-Yr Average	1.59	1.67	1.79	2.06	2.57	0.78
Current as % Above / Below 5-Yr Average	11%	13%	15%	18%	25%	238%
Current as % Above / Below 10-Yr Average	57%	55%	55%	53%	54%	50%
Current as % Above / Below 15-Yr Average	127%	113%	101%	80%	61%	-26%

- 2025 has been a good year for reinsurers even with first half insured losses of $80 billion, which were primarily driven by California wildfire losses of approximately $38 billion –While this level of losses were 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.
- 2025 YTD is a record year of issuance for the cat bond market with approximately $20 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.
- Risk transfer markets are in excellent condition, and we expect pricing pressure to continue with rates decreasing by approximately 10%.