Citizens Market Update

September 21, 2026

- Consumer prices increased by 0.4% in August and 3.4% for the last twelve months – the annualized increase in July was also 3.4%. The driving reason behind persistently high prices is the increases in gasoline prices – the index for gasoline rose 3.9% in August (27.4% over the last twelve months), accounting for a third of the monthly all items increase. The core CPI rose by 2.4% over the last twelve months.

- The labor force participation rate is marginally higher at 61.6%, but remains 0.5% below its January level. The labor force participation rate was 61.5% at the end of 2020, 62.0% at the end of 2021, 62.3% at the end of 2022, 62.5% at the end of 2023, 62.5% at the end of 2024, and 62.4% at the end of 2025. The recent decline in labor participation is part of a longer trend of decline since peaking at 67.3% in the early 2000's – this reflects an aging population, the retirement of the Baby Boom generation, and the impacts of recent immigration policies.

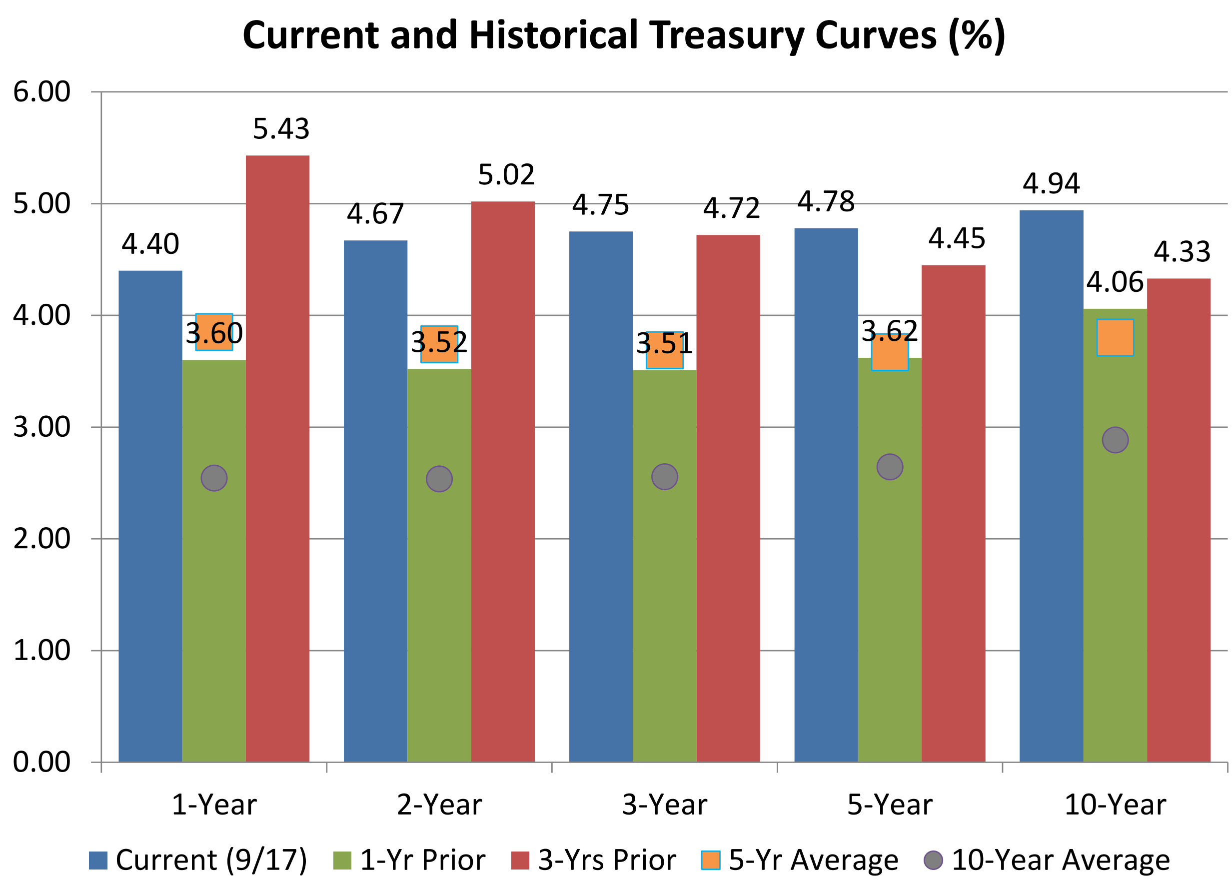
- Total nonfarm payroll employment rose by 162,000 in August and the current unemployment rate is 4.1%, which has remained range bound between 4.1%-4.5% since July 2025. There are currently 7.0 million people unemployed, and we expect unemployment rate to increase to 4.5% by 2027.

- Real GDP increased at an annual rate of 1.5% in the second quarter of 2026 after rising 2.0% in the first quarter. Real GDP increased by 2.1% in 2025 after increasing by 2.8% in 2024. We believe GDP will grow by 2.0% in 2026 after factoring in the effects of the conflict in Iran, 2025 reconciliation act, federal spending shifts, higher tariffs, and a constrained but relatively steady labor market.

- The Federal Reserve has a dual mandate to promote maximum employment and stable prices. The maximum employment mandate is flexible as the structure of the labor market evolves. The current stability in the labor market checks that box for the Fed and leaves inflation as the driving force behind the Federal Reserve's decision making.

- After cutting its benchmark rate for the first time in September, October, and December of last year by 25 basis points each time to the range of 3.50%-3.75%, the Federal Reserve increased the Fed Funds rate by 25 basis points at its meeting last week – the first rate hike since 2023. Absent a resolution to the current energy crisis, there is a strong chance that the Fed will raise rates again by the end of the year.

- Rates have increased dramatically recently because of the conflict in Iran and stubborn inflation. The yield curve is slightly upward, sloping with the spread between the 2-year and 10-year Treasury at approximately 0.27% as compared to negative 0.69% three years ago. The benchmark 10-year Treasury has increased by almost 100 basis points since the onset of the conflict in Iran at the beginning of March. We expect long-term rates to remain high primarily due to large fiscal deficit and debt to GDP ratio exceeds 120% at the end of 2025.



U.S. Treasury Rates						
	1-Year	2-Year	3-Year	5-Year	10-Year	2-10 Yr Spread
Current (9/17)	**4.40**	**4.67**	**4.75**	**4.78**	**4.94**	**0.27**
Beginning of 2026 (1/2)	3.47	3.47	3.55	3.74	4.19	0.72
1-Yr Prior	3.60	3.52	3.51	3.62	4.06	0.54
2-Yrs Prior	3.99	3.59	3.45	3.44	3.65	0.06
3-Yrs Prior	5.43	5.02	4.72	4.45	4.33	(0.69)
5-Yrs Prior	0.08	0.27	0.53	0.94	1.41	1.14
5-Yr Average	3.85	3.74	3.69	3.67	3.80	0.06
10-Yr Average	2.54	2.54	2.56	2.64	2.89	0.35
15-Yr Average	1.77	1.85	1.95	2.18	2.63	0.74
Current as % Above / Below 5-Yr Average	14%	25%	29%	30%	30%	345%
Current as % Above / Below 10-Yr Average	73%	84%	86%	81%	71%	-23%
Current as % Above / Below 15-Yr Average	148%	153%	144%	119%	88%	-63%

Reinsurance Market Talking Points

- Total industry insured losses from natural catastrophes exceeded $100 billion for the sixth consecutive year in 2025. Aside from California wildfires in the first quarter, the profile of individual catastrophe loss events were not great enough to impact reinsurance underwriting results – this partly due to higher attachment points and strategic portfolio rebalancing. Insured losses through the first half of 2026 are $47 billion, which is the lowest level since 2019. Losses from severe convective storms were also lower through the first half of 2026 as compared to prior years - $27 billion versus $40+ billion in the first half of 2023-2025.

- Reinsurers are also benefitting from increased interest rates, which has a positive effect on generating additional investment income. The average investment return for 31 global reinsurers as reported by Aon is 4.0% through the first half of the year, and this rate will increase by the end of the year reflecting the continued increase in rates.

- As a result, reinsurers are set to produce yet another year of strong results with returns exceeding cost of capital for the industry for the fourth consecutive year. The average return on equity for 31 global reinsurers as reported by Aon is 15.5% through the first half of the year as compared to 15.9% at the end of 2025, 14.5% at the end of 2024, and 17.6% at the end of 2023.

- The outlook for 2027 renewals remains positive, absent any unusually large events in the remainder of the year. Global reinsurance capital is at a new high of $800 billion with third party capital at $145 billion.