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The NAIC Capital Markets Bureau monitors global capital markets developments and analyzes their potential impact on the investment portfolios of U.S. insurance companies. Previously published NAIC Capital Markets Special Reports are available via the Capital Markets Bureau web page and the NAIC archives (for reports published prior to 2016).

Year-End 2025 Capital Markets Update

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Executive Summary

- The global economy demonstrated continued resiliency for the first half of the year but later showed signs of a slowdown due in part to uncertainty around tariff impacts and labor market weakness.
- The International Monetary Fund (IMF) expects global growth to slow to 3.2% in 2025 from 3.3% in 2024, and the U.S. growth rate is expected to end 2025 at 2%, down from 2.8% in 2024.
- Fluctuating within the 4% range throughout the year, the U.S. 10-year Treasury yield was 4.2% as of mid-December 2025.
- The Treasury yield curve has remained in positive territory since reversing its almost two-year inversion in early September 2024, and it was 6 basis points as of mid-December, implying that investors are more optimistic about future economic prospects.
- While mortgage rates have declined, they are still relatively high, and along with high home prices, home purchase affordability is still a challenge.
- Credit spreads are near historical lows amid investor optimism supported by a resilient U.S. economy and declining interest rates.
- The bull market in equities continued into 2025 despite tariff-related obstacles, with the major U.S. stock indices posting double-digit returns.

Economic Resiliency Followed by Uncertainty

U.S. economic activity demonstrated continued resiliency for the most part through the first half of 2025, as consumers and businesses front-loaded consumption and investments, respectively, in anticipation of higher prices upon the imposition of new U.S. trade policies.[1] The impact of tariffs, however, was not as severe as announced, providing some, albeit temporary, economic respite. Implementation delays by the U.S. resulted in businesses postponing price increases until more clarity was provided. Eventually,

[1] IMF World Economic Outlook, October 2025.

however, emerging U.S. trade policies contributed to a reversal of net import and inventory patterns from earlier in the year. The global economy began to show signs of a moderate slowdown, according to the IMF's World Economic Outlook (WEO) dated October 2025, along with uncertainty about future economic stability. This resulted in market volatility and concerns about investor confidence.

According to the IMF WEO, global growth is expected to decrease to 3.2% in 2025 from 3.3% in 2024 and decrease further to 3.1% in 2026. (Refer to Table 1.) The decrease in growth is mostly due to shifts in U.S. trade policy and the subsequent adjustments of other countries' policies to a new dynamic. Reciprocating measures by U.S. trade partners were limited, as U.S. tariffs were at levels not seen in recent history. In addition, internationally, there have been cuts in development aid and new immigration restrictions. Also, according to the IMF WEO, stricter immigration policies in advanced economies, particularly in the U.S., have also negatively affected growth trends, resulting in a sharp decline in migration and, in turn, labor supply shocks.

Table 1: The IMF's Global and Regional Growth Forecasts (% Change)

Overview of the *World Economic Outlook* Projections

(Percent change, unless noted otherwise)

		Projections		Difference from July 2025 WEO *Update*[1]		Difference from April 2025 WEO[1]	
	2024	**2025**	**2026**	**2025**	**2026**	**2025**	**2026**
World Output	**3.3**	**3.2**	**3.1**	**0.2**	**0.0**	**0.4**	**0.1**
Advanced Economies	**1.8**	**1.6**	**1.6**	**0.1**	**0.0**	**0.2**	**0.1**
United States	2.8	2.0	2.1	0.1	0.1	0.2	0.4
Euro Area	0.9	1.2	1.1	0.2	–0.1	0.4	–0.1
Germany	–0.5	0.2	0.9	0.1	0.0	0.2	0.0
France	1.1	0.7	0.9	0.1	–0.1	0.1	–0.1
Italy	0.7	0.5	0.8	0.0	0.0	0.1	0.0
Spain	3.5	2.9	2.0	0.4	0.2	0.4	0.2
Japan	0.1	1.1	0.6	0.4	0.1	0.5	0.0
United Kingdom	1.1	1.3	1.3	0.1	–0.1	0.2	–0.1
Canada	1.6	1.2	1.5	–0.4	–0.4	–0.2	–0.1
Other Advanced Economies[2]	2.3	1.8	2.0	0.2	–0.1	0.0	0.0
Emerging Market and Developing Economies	**4.3**	**4.2**	**4.0**	**0.1**	**0.0**	**0.5**	**0.1**

Source: IMF staff estimates.

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during August 1, 2025–August 29, 2025. Economies are listed on the basis of economic size. The aggregated quarterly data are seasonally adjusted. WEO = *World Economic Outlook*.

[1] Difference based on rounded figures for the current, July 2025 WEO *Update*, and April 2025 WEO forecasts.

[2] Excludes the Group of Seven (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.

Source: IMF WEO, October 2025

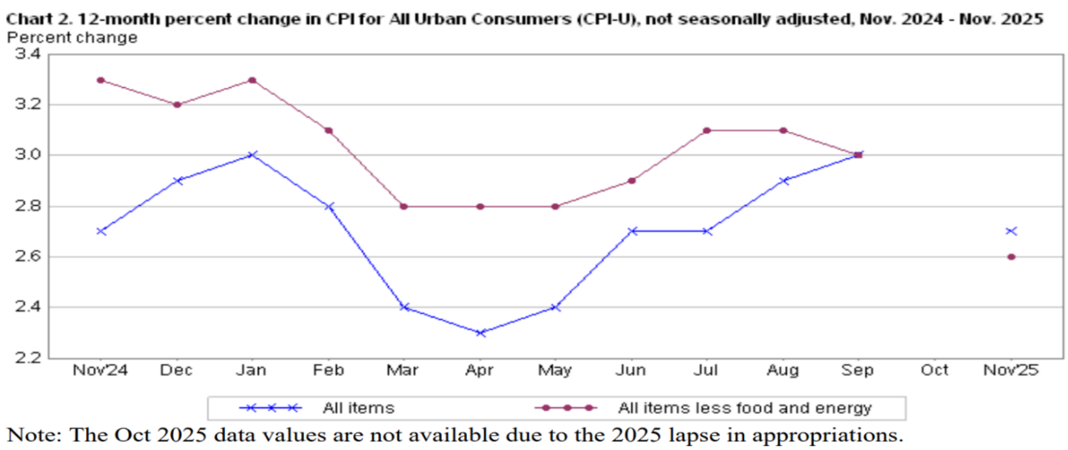
The U.S. gross domestic product (GDP) growth rate is expected to end 2025 at 2% and only increase to 2.1% in 2026, decreasing from 2.8% in 2024, according to the IMF WEO. Following a relatively strong first half, the impact of trade policy shifts began to emerge in the third quarter of 2025, leading to a decline in U.S. economic activity. Business investments decreased with a decline in spending on commercial and residential construction, among other factors, according to the IMF, including low consumer and investor confidence, as well as decreased consumer spending power. The labor market has also begun to show signs of weakness, as a smaller number of employment opportunities have been added to the job market.

For the euro area, GDP growth is expected to increase to 1.2% in 2025 and 1.1% in 2026, after finishing 2024 at 0.9%. While goods exported to the U.S. from major euro-area economies have decreased sharply, the IMF WEO stated that total euro-area exports remain strong due to trade inflows within Europe. In addition, growth in the euro area in the first quarter of 2025 was partly due to the front-loading of exports to the U.S. As in previous years, future growth and financial stability in all regions may be impacted by elevated economic and geopolitical uncertainty, as well as uncertainty regarding the long-term effects of trade policies.

Inflation, Unemployment, and Federal Reserve Decisions

According to the U.S. Bureau of Labor Statistics, the U.S. inflation rate was 2.7% for the 12 months ending November 2025, as measured by the Consumer Price Index (CPI), down from 3.0% in August and January 2025. (Refer to Graph 1.) While the inflation rate was significantly lower than its peak of 9.1% in June 2022, it was the same for the 12 months ending November 2024. Omitting the volatile food and energy sectors, core inflation was 2.6% in November 2025. The November inflation rate was lower than expected by economists. Some caution that it is underestimated due to gaps in data collection resulting from the federal government shutdown, which was the longest in U.S. history, lasting 35 days, from Oct. 1 through Nov. 12. Even though inflation has been trending higher, the increase has thus far been subdued, according to the IMF WEO. This could mean that meaningful price increases have not yet been passed through to consumers, due in part to delayed tariff implementations and advanced purchases of goods ahead of U.S. tariff announcements. An early November preliminary survey of consumer sentiment was historically weak and near record lows. According to the University of Michigan's preliminary November 2025 survey[2], consumer sentiment was low, in part, due to a significant decrease in personal income that was attributed to higher prices, a higher cost of living, and job losses from the federal government shutdown, among other factors.

Graph 1: 12-Month Percent Change in CPI, November 2024–November 2025



Source: Bureau of Labor Statistics

The Federal Reserve employs monetary policy, specifically interest rate cuts, as a tool to lower the inflation rate; however, it must also consider the impact of this strategy on a slowing job market. The U.S.

[2] Survey of Consumers, University of Michigan, Preliminary Results, Nov. 7, 2025.

unemployment rate has been on an upward trend since its 50-year low of 3.4% in April 2023. In November 2025, the unemployment rate was 4.6%, according to the Bureau of Labor Statistics, which was not only higher than the 4.1% rate at the same time the previous year but also the highest level in more than four years. Due to the government shutdown, no unemployment rate was recorded in October.

During its September 2025 meeting, the Fed lowered the benchmark federal funds rate by 25 basis points (bps) for the first time in nine months, with Fed officials saying that a weakening job market outweighed their concern about setbacks in the inflation rate, as it had been creeping further away from their 2% target. At the end of October, the Fed cut rates again by 25 bps to mitigate the economic impact of a recent slowdown in employment. In addition, officials decided to end the shrinking of its $6.6 trillion asset portfolio after three and a half years, which was intended to passively unwind pandemic stimulus. And finally, on Dec. 10, the Fed cut interest rates once more by 25 bps, resulting in the benchmark federal funds rate ranging between 3.5% and 3.75%, which is a three-year low. The move intends to protect the economy from a deeper-than-expected slowdown in hiring, as lowering the inflation rate has not progressed and has not been near the Fed's 2% target since 2021.

Whether or not the benchmark rate is lowered again next year depends in part on the Fed's level of uncertainty about the economic outlook, though at least one rate reduction is projected by most Fed officials. Thus far, the Fed has cut interest rates by 1.75 percentage points over the last 15 months.

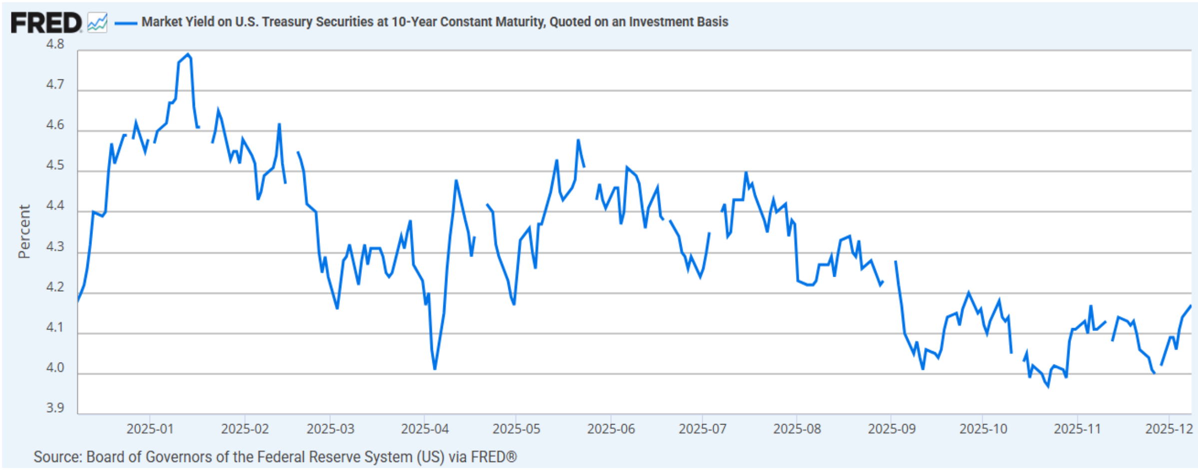
U.S. Treasury Yields Fluctuate, Yield Curve Remains in Positive Territory

In mid-January, the yield on the 10-year U.S. Treasury Note reached a 12-month high of about 4.8%, as the economy exhibited strong performance, and inflation began to cool. U.S. Treasuries are considered a safe haven by investors, and they are attractive (and their yields lower) during times of economic stress. As of mid-December 2025, the yield had declined to 4.2%, the same as it was in mid-December 2024. (Refer to Graph 2.) The high for the year was still lower than the 16-year high of 5% that occurred in October 2023 when the Fed was raising rates to combat high inflation.

Throughout the year, the 10-year U.S. Treasury yield fluctuated in part due to uncertainty about announced trade policies and the status of inflation and the job market. In mid-October, the 10-year U.S. Treasury reached a low of almost 4%, implying a pessimistic view about the economic outlook.

Decreasing interest rates result in floating-rate investments becoming less attractive; however, it will take time to impact insurers' investment strategies and portfolio returns. In the meantime, as rates have been on a declining trend for at least a year, there has been a noticeable shift by insurers into less traditional investments of comparable credit quality with higher yields. This, in part, may be demonstrated by insurers' increased exposure to private credit investments.

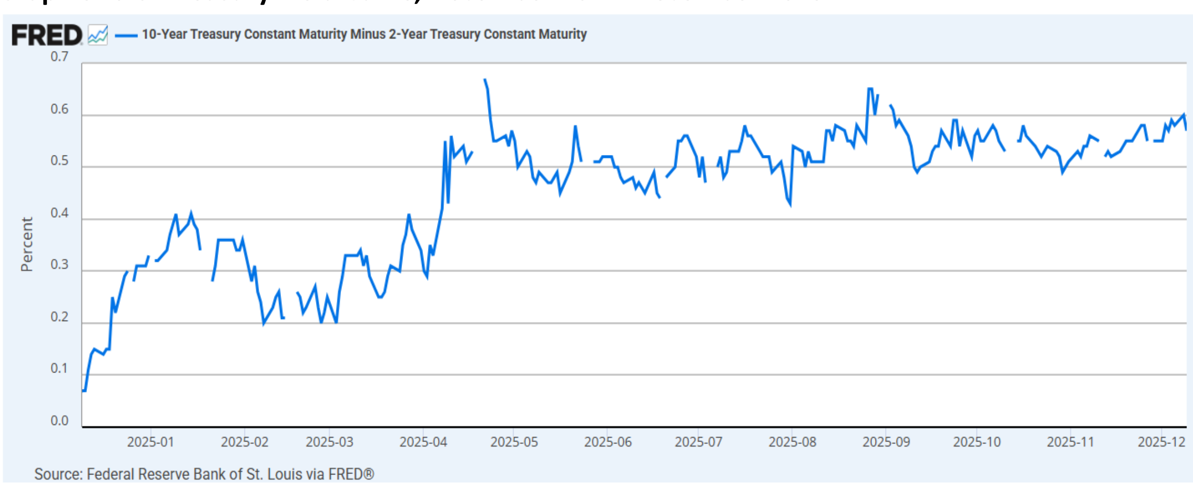
Graph 2: U.S. 10-Year Treasury Yields, December 2024–December 2025



Source: Federal Reserve Bank of St. Louis, Board of Governors of the Federal Reserve System (U.S.)

The shape of the Treasury yield curve generally provides insight into the market's expectations for interest rates and economic activity. In early September 2024, the spread between the two-year and 10-year U.S. Treasuries (i.e., the yield curve) finally emerged from a two-year period of being in negative territory. (Refer to Graph 3.) Meaning, when short-term rates are higher than long-term rates, it results in an inverted yield curve, or a negative spread. This typically implies the likelihood of an economic downturn and a pessimistic view about future economic activity. Whereas, when long-term rates are higher than short-term rates, or a "normal" yield curve where the spread is positive, it means that investors are becoming more optimistic about future economic prospects. As of mid-December 2025, the yield curve was 6 bps.

Graph 3: U.S. Treasury Yield Curve, December 2024–December 2025



Source: Federal Reserve Bank of St. Louis, Board of Governors of the Federal Reserve System (U.S.)

At year-end 2024, U.S. insurers held approximately $366 billion in U.S. government bonds, which include U.S. Treasuries, representing nearly 7% of their total bond holdings.[3] This was a small increase from approximately $346 billion at year-end 2023.

High Mortgage Rates and Inventory Increase Result in Low Transaction Volume

According to data from Freddie Mac, the 30-year fixed U.S. mortgage rate was about 6.2% as of mid-December 2025, which was lower than 6.6% a year prior. Throughout 2025, the rate has ranged between 6.17% (in October) and 7.04% (in January). The S&P CoreLogic Case-Shiller National Home Price Index, which tracks changes in the value of U.S. residential real estate through measuring U.S. residential real estate prices, reached an all-time high in June 2025. There has been relatively low transaction volume in home sales due in part to an increase in inventory over the last approximately two years, as well as affordability challenges stemming from high home prices and relatively high mortgage rates. According to the National Association of Realtors data, existing home sales increased 1.7% nationally for the 12 months ending in October 2025, compared to 3.1% for the 12 months ending in October 2024.

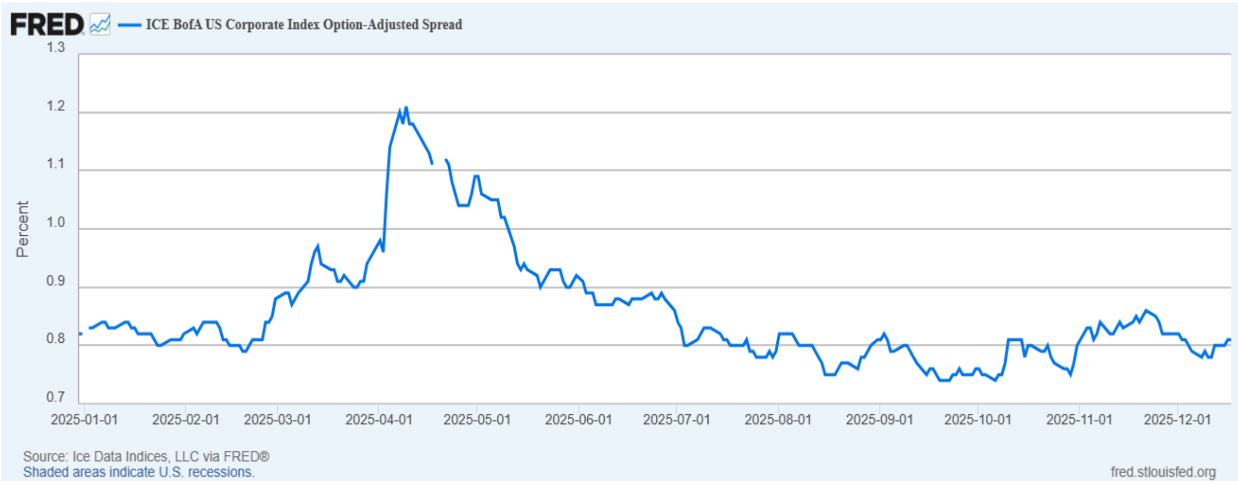
At year-end 2024, U.S. insurers held about $120 billion in residential mortgage loans, representing 15% of U.S. insurers' mortgage loan exposure and a 42% increase from the year prior. In addition, U.S. insurers held $306 billion in agency-backed residential mortgage-backed securities (RMBS) and $145 billion in private-label RMBS at year-end 2024, representing an aggregate of approximately 8% of U.S. insurers' total bond holdings.

Despite Some Volatility, Credit Spreads Near Historical Lows

Investment-grade spreads began the year at 82 bps, amid investor optimism fueled by a resilient U.S. economy and declining interest rates. However, in late February, spreads began to widen, signaling concerns over trade policy and its effect on economic growth and investor sentiment. Investment-grade spreads peaked at 121 bps in early April following the announcement of a broad package of tariffs by the U.S., but they recovered by mid-year as certain tariffs were scaled back, and trade tensions began to ease. Spreads continued to rally and in mid-September hit a low of 74 bps, a level not seen since 1998. Investment-grade spreads closed mid-December at approximately 81 bps—only 1 bp tighter than the beginning of the year and just above the multi-decade low. (Refer to Graph 4.)

[3] Year-end investment data referenced in this special report is sourced from U.S. insurers' annual statement filings submitted to the NAIC, unless otherwise noted.

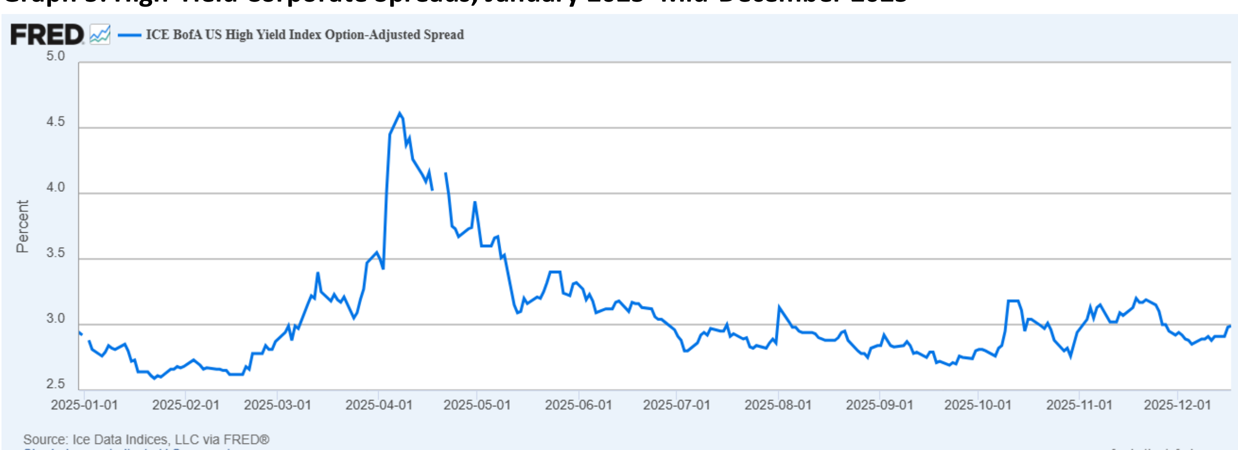
Graph 4: Investment-Grade Corporate Spreads, January 2025–Mid-December 2025



Source: Federal Reserve Bank of St. Louis, Board of Governors of the Federal Reserve System (U.S.)

High-yield spreads began the year at just under 300 bps, and they reached a low of 260 bps in mid-January. Spreads drifted higher in February amid fears of a global trade war, reaching a year-to-date (YTD) high of 461 bps in early April. As trade tensions cooled and economic recession concerns faded, high-yield spreads retraced their widening through September to near the previous low earlier in the year. In the fourth quarter, high-yield spreads widened once again, as investors shifted away from riskier assets following two headline bankruptcies. Nevertheless, high-yield spreads are ending the year near historical lows, closing in mid-December at approximately 299 bps, which was seven bps wider than the beginning of the year. (Refer to Graph 5.)

Graph 5: High-Yield Corporate Spreads, January 2025–Mid-December 2025



Source: Federal Reserve Bank of St. Louis, Board of Governors of the Federal Reserve System (U.S.)

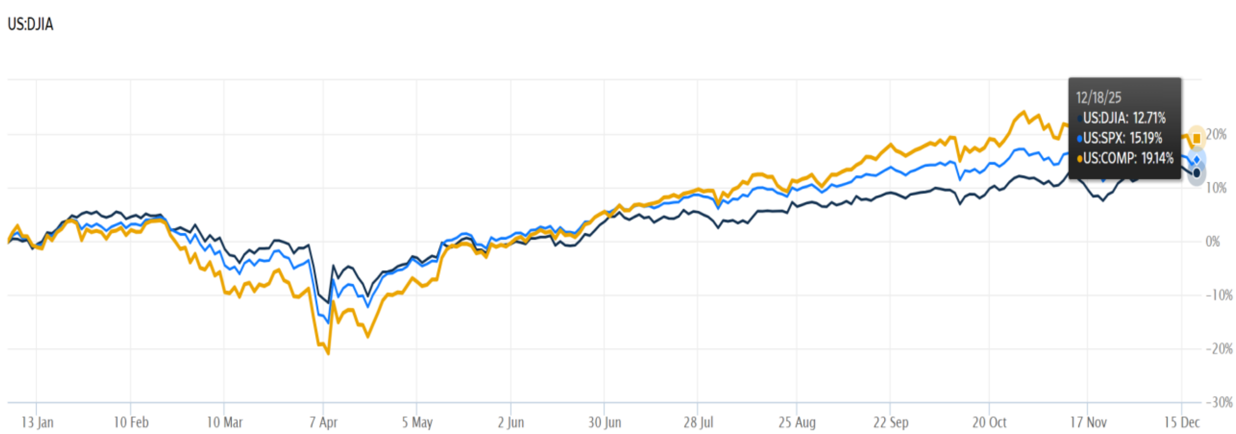
If the Fed continues to gradually lower interest rates, declining financing costs should help ease pressure on issuers with near-term maturities, improving their refinancing flexibility and reducing the risk of distress. Under its base case scenario, S&P Global Ratings (S&P) expects the U.S. trailing-12-month speculative-grade corporate default rate to fall to 4% by September 2026 from 4.4% in September 2025.[4] Resilient economic growth, robust demand for debt, and positive corporate earnings should support favorable credit conditions in 2026, according to S&P.

The U.S. insurance industry's exposure to corporate bonds totaled almost $3 trillion, or 33% of total cash and invested assets and 55% of total bond exposure, as of year-end 2024. The credit quality of U.S. insurance companies' bond investments continued to gradually improve, building on the recovery that began after the broad deterioration triggered by the COVID-19 pandemic in 2020. Investment-grade bonds, or those with reported NAIC 1 or NAIC 2 designations, accounted for 95.1% of total bonds in 2024, remaining broadly consistent with the 95% reported at year-end 2023. Conversely, high-yield bonds, or those with reported NAIC 3 designations and lower, represented 4.9% of total bond exposure in 2024 compared to 5% in 2023. U.S. insurers' high-yield bond exposure was below the 5.1% pre-pandemic level at year-end 2019, reaching its lowest point since 2007.

U.S. Equity Market Continues on a Bull Run Despite Headwinds

The U.S. equity market continued its solid performance in 2025, following strong double-digit returns over the past two years. Declining interest rates and robust corporate earnings supported valuations and bolstered investor confidence, driving the major U.S. equity indices to reach multiple new all-time highs throughout the year. Although markets experienced periods of volatility due to tariff-related headwinds and concerns about potential AI overinvestment, equity indices are on track to end the year near record levels. As of mid-December, the Dow Jones Industrial Average, the S&P 500, and the Nasdaq Composite have posted YTD gains of approximately 13%, 15%, and 19%, respectively. (Refer to Graph 6.) While these increases are more moderate compared to the strong returns recorded in 2024, they are nevertheless solid by historical standards.

Graph 6: U.S. Equity Market Indices Performance, YTD Mid-December 2025, % Price Change



Source: *The Wall Street Journal*

[4] S&P Global Ratings, *Default, Transition, and Recovery: U.S. Speculative-Grade Forecast Creeps Downward to 4% by September 2026*, Nov. 21, 2025

U.S. insurers' unaffiliated publicly traded common stock exposure at year-end 2024 totaled $478.3 billion in book/adjusted carrying value (BACV). The NAIC Capital Markets Bureau analyzes the performance of this common stock portfolio on a monthly basis. As of November 2025, it experienced a weighted average increase of 14.3% YTD, slightly underperforming the S&P 500's increase of 16.5%. U.S. insurers, particularly property/casualty (P/C) insurance companies, which have a higher relative equities exposure compared to other insurers, should generally benefit from the strong equity market performance of the past three years.

All but one of the 11 S&P 500 Index sectors experienced positive returns YTD as of mid-December. Real estate underperformed, recording a small 0.24% loss, amid continued challenges in the office sector. The communication services sector, the information technology (IT) sector, and the industrials sector posted the largest gains at approximately 33%, 27%, and 18%, respectively. The communication services sector includes entertainment, social media, and wireless and streaming companies, among others. Continued strength in advertising spending, combined with growth in content streaming services, has been a major contributor to the sector's performance. The IT sector has been fueled by investment and demand for artificial intelligence (AI) infrastructure, cloud computing, and semiconductors. The communication services and IT sectors include the Magnificent Seven stocks. Despite tariff headwinds, the industrials sector has also benefited from AI spending, which has boosted demand for related goods, materials, and power.

The Capital Markets Bureau will continue to monitor trends in the capital markets and report on any developments as deemed appropriate.

Questions and comments are always welcome. Please contact the NAIC Capital Markets Bureau at
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