NAIC National Association of Insurance Commissioners & The CENTER for INSURANCE POLICY and RESEARCH

Capital Markets Special Report

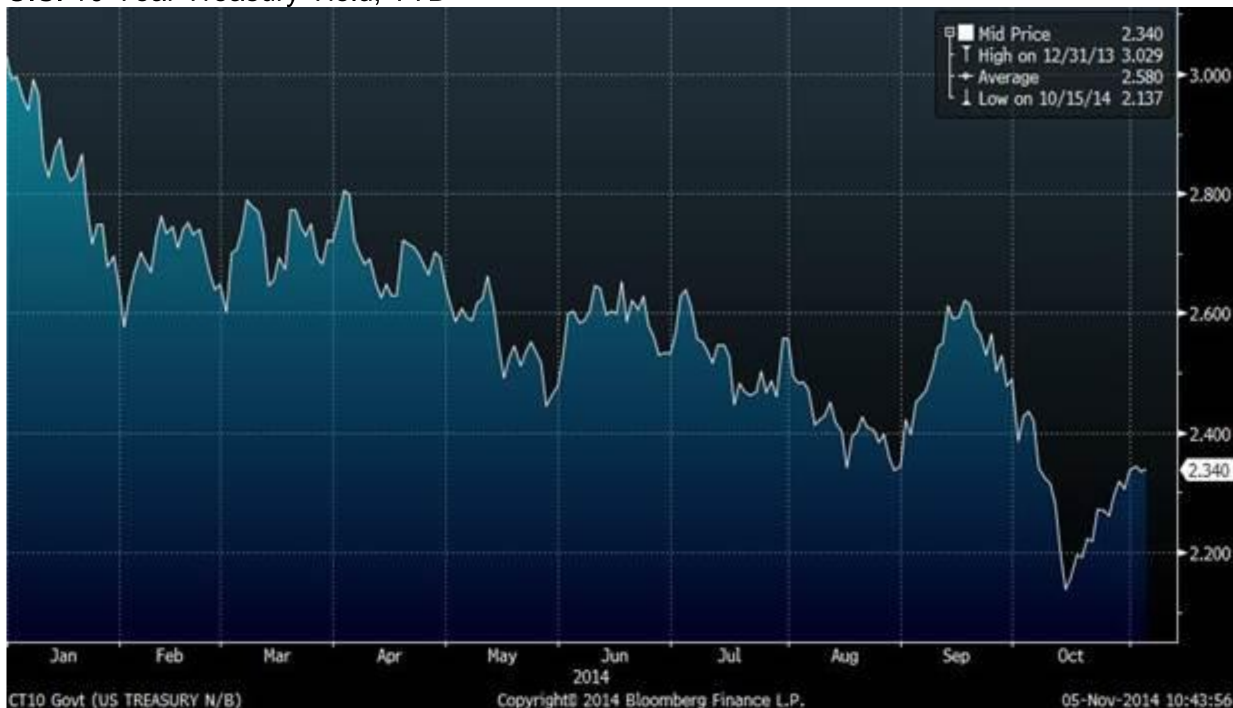
The **NAIC's Capital Markets Bureau** monitors developments in the capital markets globally and analyzes their potential impact on the investment portfolios of US insurance companies. A list of archived Capital Markets Bureau Special Reports is available via the **index**

Retrospective on Market Activity and Volatility in 2014

The NAIC Capital Markets Bureau periodically reviews the status of different market indices to comment on any noteworthy trends based on recent market events as they pertain to the U.S. insurance industry's investments. Since the beginning of 2014, markets worldwide have experienced episodes of heightened volatility as they have reacted to global economic developments, decisions by policymakers, and a handful of crises around the world. With market volatility potentially on the rise, a deeper dive into the key forces at play in the capital markets seems appropriate. In this report, we cover the **U.S. Treasury**, **corporate bond**, and **stock markets**; **the strengthening U.S. dollar**; and the current situation in **Russia**.

U.S. Treasury Market: All Eyes on the Fed

U.S. 10-Year Treasury Yield, YTD



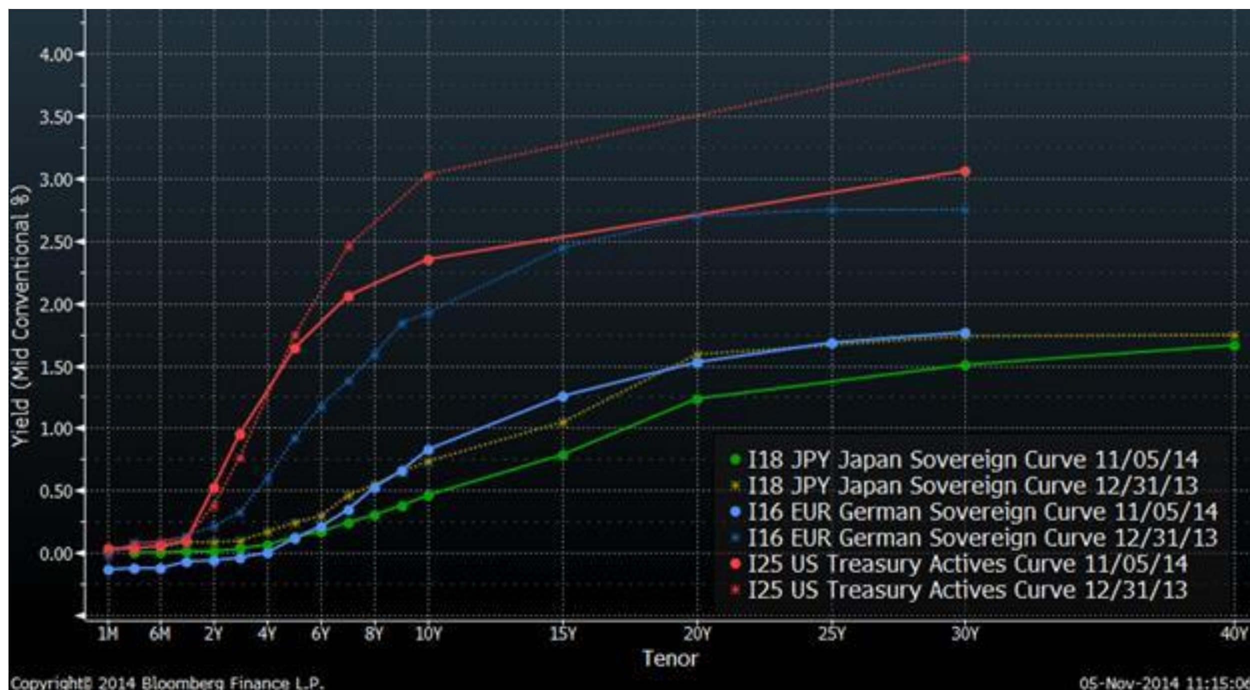
Despite a handful of relatively brief reversals, the yield on the U.S. 10-year Treasury has been in a relatively steady, gradual downtrend since the beginning of the year, reaching a low of 2.14% on Oct. 15. Treasury market volatility in September and October largely reflects uncertainty about the direction of monetary policy in the months ahead.

After an early decline in January to about 2.6%, the yield on the U.S. 10-year Treasury bond increased a relatively modest 20 basis points (bps) in February and March, reaching an interim high of 2.8% on April 2. This period of weakness in Treasury prices (yields and bond prices move inversely) came on the heels of the January policy statement from the Federal Open

Market Committee (FOMC), which announced a $10 billion reduction in U.S. Treasury and mortgage-backed securities purchases under the asset purchase program dubbed “QE3”. The January reduction followed the $10 billion cut in bond purchases announced at the December 2013 meeting, which began the Fed’s process of scaling back bond purchases from the $85 billion monthly run rate in 2013, owing to relatively steady, gradual improvement in U.S. economic activity and in the labor market. Subsequent $10 billion cuts in asset purchases were announced at each FOMC meeting this year, culminating in the announcement at the September meeting that the committee would end the asset purchase program at the October session. From April through August, the 10-year Treasury yield again trended lower, as the reduced support from Fed buying and fears of tighter monetary policy on the horizon were kept in check by low inflation expectations and some “flight to quality” driven by geopolitical concerns such as the conflict in Ukraine. Treasuries sold off in the two weeks leading up to the September Fed meeting, however, as a slew of robust economic data fueled speculation about the direction of U.S. monetary policy, but the Fed continued to maintain in its September statement that “a highly accommodative stance of monetary policy remains appropriate” and that it will “maintain the current target range for the federal funds rate for a considerable time” after asset purchases end. The “flight-to-quality” mentality continued to hold sway heading into October on global economic growth concerns, ongoing geopolitical tensions, and a correction in high-yield credit markets, although Treasuries did pull back modestly as the month came to a close.

U.S. Treasury securities are not all created equal, however, and it is important to note that the shape of the yield curve has fluctuated — and will continue to do so — as monetary policy expectations shift. Indeed, the U.S. Treasury curve has flattened year to date (as of Nov. 4), as yields on longer-dated Treasury securities (chiefly from seven years on) have come down by nearly 0.5 to 1.0 percentage points over the course of the year, while short-intermediate (two-to-three year note) yields have backed up modestly. Taken in terms of the often-watched 2-10 year Treasury yield spread, the curve has rather steadily flattened 82 bps, from 266 bps at the end of 2013 to just 184 bps on Nov. 3, near its tightest level year to date. At the longer end of the yield curve, the story remains one of strong demand for longer duration Treasuries, even with Fed buying on the wane. Between ongoing geopolitical risks, buying from foreign central banks and new capital requirements coming into effect for banks, demand for 10-year and 30-year Treasuries remains robust, putting downward pressure on yields for these bonds. When robust demand at the long end of the curve is combined with the effects of investors gradually pricing in a tightening Fed policy at the short end, the curve flattens.

U.S. German and Japanese Government Yield Curve Changes, YTD



Since the beginning of the year goverment yield curves in the U.S., Japan and Europe have all flattened at the long end, reflecting a lack of long-run inflation fears, modest economic growth, and government bond purchases. The 2-5 year section of the U.S. curve – where changes reflect shifting expectations for Fed policy – has begun to see yields rise, and can be expected to continue shifting.

Curve flattening has widespread ramifications for institutional investors; in particular those that rely on cheap leverage — the so-called “carry trade” in which an investor borrows money at a low interest rate in order to invest in an asset that is likely to provide a higher return. As an example of its simplest form, the interest rate carry trade, consider that banks make money by borrowing at cheap interest rates and lending at more expensive rates, financing long-term assets (loans) with short-term liabilities (deposits and other short-term obligations). This works in the bank's favor— as long as short-term interest rates remain lower than long-term rates. A slightly more complex version — the currency carry trade that is more frequently discussed in the media — involves the borrowing of a currency in a low interest rate country, converting it to a currency in a higher interest rate country and investing it in risk assets of that country. The classic example of this has been the oft-mentioned “yen carry trade” in which an investor borrows in yen at near-zero rates, converts the yen to dollars and buys much higher-yielding U.S. Treasuries, creating “positive carry” in the interest rate spread. Near-zero interest rate policies in the world’s three main economic regimes — and stable currency exchange rates — have allowed the carry trade to flourish, driving government bonds, stocks, and corporate credits to ever-richer valuations.

For the time being, even with monetary policy shifting to a tighter stance in the U.S., conditions still favor the carry trade, as both the European Central Bank (ECB) and the Bank of Japan (BoJ) continue to step up their stimulus efforts (keeping short-term rates near zero). However, when conditions become less favorable, investors begin to unwind these positions, and if a trade is “overcrowded” the resulting scramble can be disruptive and painful. Last April, in a CNBC.com editorial, Mohamed El-Erian, former CEO and co-CIO of PIMCO, warned: “When the love affair sours, it usually does so quite abruptly given how crowded carry trades tend to get. Investors' natural inclination at that stage is to try to quickly get ‘back on side.’ This can easily generalize market disruptions, thus impacting quite a large universe of holdings

(particularly, investment grade, high yield and emerging markets). Liquidity can, and does, evaporate quite quickly, making portfolio re-positioning a costly and tricky endeavor." In 2014, we have seen selloffs in high yield and emerging market credit, and in equities, that may have been exacerbated by unwinds of some of these leveraged positions.

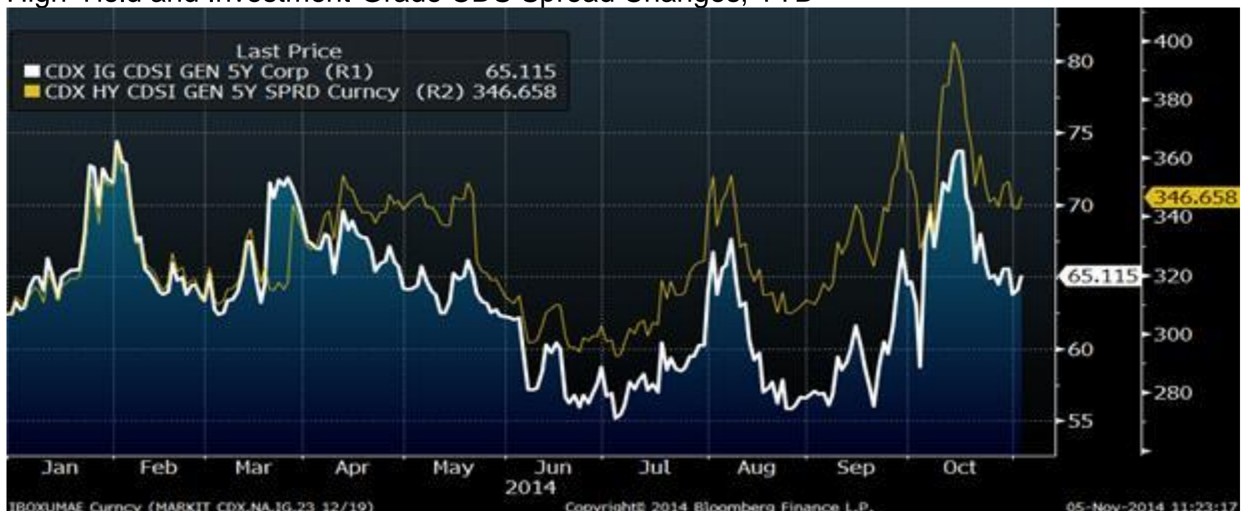
Insurance Industry Impact:

The majority of U.S. insurance industry investments in 2013 were in bonds, with a book-adjusted carrying value (BACV) at year-end 2013 of $3.74 trillion. At $234 billion, U.S. government debt accounted for only 6% of total bond investments, but movements in the Treasury yield curve affect the market value all fixed income instruments to some extent, as well as other asset classes.

Thus far in 2014, the movements in U.S. Treasury prices have been significant in some cases. As an example, during 2014, the price of the 2.75% Treasury note maturing November 2023 traded as low as 97.63 cents on the dollar at the start of the year, and as high as 105.65 on Oct. 15, for a positive swing in market value of 8.2%. That said, the 10-year Treasury is a longer-dated instrument that has greater exposure to interest rate changes than the typical insurance portfolio. Looking at another example, then, with shorter duration, the 1.5% Treasury note maturing December 2018 traded as low as 98.754 cents on the dollar (on Jan. 8), and as high as 101.230 cents on Oct. 15, a gain of 2.5%. Note that life insurers, in particular, are traditionally viewed as "buy and hold" investors that attempt to match the duration of assets and liabilities, thereby mitigating much of their net interest rate exposure. In addition, a large portion of insurers' bond portfolios are not marked to market, so market risk may only be a concern if an insurer needs to sell bonds before maturity, as losses may be realized if bond yields have increased.

U.S. Corporate Bonds: Credit Spreads Widen

High-Yield and Investment-Grade CDS Spread Changes, YTD



High-yield and investment-grade credit spreads have fluctuated, reaching their tightest levels around mid-year. Corporate spreads have been more volatile since then, with the most extreme widening occuring as the high-yield credit market began to sell off in September.

In general, investment-grade spreads have been quite stable year to date and high-yield credit spreads (above) have also been relatively stable in most sectors, with the notable exception of energy, where the fall in oil prices has had a negative impact on credit spreads in that sector. High-yield credit markets suffered from heightened volatility over the third quarter, as mutual fund investors withdrew from the sector amid concerns about elevated valuations and talk of a "credit bubble." The Markit CDX High-Yield Index (CDX HY Index) reached a 2014 high of 109.195% of par on July 4, which equates to a credit spread of 291 bps. (Bond prices and yields are inversely related, so as prices fall, yields or credit spreads increase. The credit spread quoted for the CDX HY Index — which is composed of a basket of credit default swaps on individual high-yield bonds — represents the premium in basis points of par that an investor pays for default protection on the underlying instruments.) Prices began a steady decrease mid-July, around the time the Malaysian Airlines jet was downed and unrest in Israel heightened. High-yield bond prices then declined to a then-low of 106.211% on Aug. 1 (the spread widened 63 bps to 354 bps). A modest high-yield credit rally in August saw the spread on the CDX HY index tighten to 307 bps (108.2% of par) by Aug. 26, but the market sold off sharply and was quite volatile in September and October. The CDX HY Index reached a peak spread of 398 bps (104.5% of par) on Oct. 14. Since then, market conditions have improved moderately, with high-yield spreads tightening about 55 bps through the end of October.

Investment-grade corporate credit was affected similarly during this period, though the magnitude of the shifts was far more subdued. The Markit CDX IG Index reached a spread of 55 bps, its tightest level of the year, on July 3, then backed up to 68 bps by Aug. 7, and rallied briefly again in late August, before widening modestly in September and October, peaking at 74 bps on Oct. 15.

Many causes have been cited for the sell-off in high-yield credit, including potential Fed rate hikes, emerging market headwinds, global growth concerns, and stock-market weakness. More specific to the high-yield market was the strengthening of the U.S. currency and attendant decrease in oil prices, which ignited investor concerns about the credit quality of high-yield energy companies, which had issued about $50 billion of debt just this year. Mining companies' debt was also affected by the dollar strength. The heavy volume of high-yield issuance — $249 billion through Sept. 30 compared to $257 billion for all of 2013, according to Thomson Reuters

data — also raised concern among investors that adequate due diligence may not have been done in some instances, and that valuations had become too rich — the so-called “credit bubble”. Outflows from mutual funds — which were most pronounced in late September — have also been cited as a driver of the weakness in corporate bond markets; $37 billion flowed out of taxable bond funds in the six weeks ended Oct. 22, according to Investment Company Institute data, about $24 billion of which was from high-yield funds, according to news reports. Finally, dealer selling of corporate bonds — a factor that has been cited repeatedly in the media and among investors and regulators as a cause for concern — contributed to the sell-off. According to a Sept. 24 *Wall Street Journal* article, “Bonds inventory at Wall Street banks has dropped to about $60 billion from about $250 billion since the 2008 credit crisis, according to the Federal Reserve Bank of New York, making them harder to trade, analysts and fund managers said.” At the same time, a report issued in September by Greenwich Associates noted that “institutional investors are taking tentative steps to utilize new sources of liquidity to execute corporate bond trades and are forming new trading relationships beyond the top dealers — many facilitated through electronic trading platforms. The average number of dealers used is up 35% since 2009. Nevertheless, the corporate bond market in the U.S. continues to be dominated by the top dealers. For secondary market trading in both investment-grade and high-yield bonds, the top 10 dealers by market share control over 90% of the market.”

Insurance Industry Impact:

As of year-end 2013, the U.S. insurance industry held $1.98 trillion in BACV of U.S. corporate bonds, which was 53% of total bond investments. Of those, only 5% were designated NAIC 3 or lower (below investment grade). Life insurers typically have significantly more exposure to corporates (60% of year-end 2013 bond investments) than P/C companies (33%). Similarly, life insurers have a slightly larger exposure to below investment grade credits — 6% of life insurer bond investments were designated NAIC 3-NAIC 6, versus only 4% for P/C. Note that below investment grade credits are a small proportion of insurer bond investments.

Stocks: A Bumpy Ride

S&P 500 Index (SPX) and EURO STOXX 600 (SXXP), YTD

Uncertainty over diverging monetary policies around the globe and ongoing geopolitical tensions prompted investors to unload equities in late September and early October.

Global stock markets closed July with a sharp selloff sparked by geopolitical conflicts in Ukraine and the Middle East, a debt default by Portugal's Bank Espirito Santo, and another, more unusual sovereign debt default in Argentina. These events all appeared to weigh on sentiment and may have induced some fear of a contagion effect. In the U.S., strong corporate earnings and a rebound of gross domestic product (GDP) to an annual rate of 4% for the second quarter

helped push the Standard & Poor's 500 Index (S&P 500) to new all-time highs, but geopolitical tensions and the aforementioned default concerns in Europe and Argentina sparked profit taking in late July and early August. Markets recovered from the sell-off to post solid gains in August as strong U.S. economic data helped to lift equities, while interest rates edged lower in the absence of any major changes in the tone of central bank officials' statements. .

Improved economic reports at the end of August, including an upward revision of second-quarter GDP to an annual rate of 4.2% boosted U.S. shares, as the S&P 500 continued to new all-time highs and closed above 2,000 for the first time on Aug. 26. Low interest rates and high levels of corporate cash continued to fuel merger and acquisition activity that also propelled U.S. stocks higher, but the equity market reversed itself in September (peaking at 2011.36 on the S&P 500 on Sept. 18), and finished the third quarter on a nervous note as the S&P 500 fell 39 points (1.9%) over eight sessions to 1972.29, down 1.4% for the month. Solid domestic economic data once again prompted speculation of a Federal Reserve monetary policy shift, while the ECB and the BoJ continued to face economic headwinds despite monetary easing.

U.S. economic data continued to improve in September, as second-quarter GDP was revised upwards from 4.2% to 4.6%, new home sales surged and manufacturing and consumer sentiment appeared strong, while August consumer price inflation remained dormant at 1.7% year-over-year. The stock market decline continued through mid-October, culminating in a market "freak out" on Oct. 15, where the S&P 500 fell as much as 3% intraday to a low of 1820.66, briefly turning negative for the year, while European equities closed 3.6% lower (EURO STOXX 600), marking their biggest one-day slide in almost four years. A fall in China's inflation rate to a five-year low and a decline in U.S. producer prices for the first time in over a year were among the data points rattling investors already concerned about global growth prospects, and the climate of fear was exacerbated by news that a second health care worker in Dallas had tested positive for the Ebola virus. In late October, stocks rallied, so much so that the S&P 500 closed at an all-time high of 2018.05 on Oct. 31, up 2.3% for the month and 9.2% year to date.

Within the market, significant divergences in performance began to emerge around mid-year, as growth stocks underperformed value and small stocks moved sharply lower, with the Russell 2000 Index (the leading small-cap equity benchmark) retreating into the red for the year. Russell Investments' index data show growth stocks and higher beta small-cap stocks outperformed in August, reversing the value-dominated performance in July, but small-cap stocks continued to substantially lag the broader market on a year-to-date basis. Small-cap stocks pulled back significantly in September, although growth stocks again outperformed value on a relative basis. In October, small-cap stocks came roaring back as investors snapped up perceived bargains, and value thus outperformed growth except in the large-cap space. Stock performance also diverged by sector, with energy the standout loser in the past three months, reflecting the drop in oil prices. Basic materials stocks also suffered, reflecting declining commodity prices and the strengthening U.S. dollar.

S&P 500 Index Median Return by Sector, YTD (left) and Past 3 Months (right)

Source: Bloomberg Finance L.P.

The U.S. stock market's gyrations this year have raised questions among investors about whether market volatility is on the rise. The Chicago Board Options Exchange (CBOE) Market Volatility Index (VIX) — a popular measure of the implied volatility of S&P 500 index option — measures investors' expectation of stock market volatility over the next 30-day period, and is the bellwether indicator of stock market volatility. The VIX has increased significantly from its mid-year low of about 10 points, peaking at 31.06 intraday on Oct. 15, and closed at 14.89 on Nov. 3, so it seems clear that U.S. stocks have become more volatile in recent weeks.

CBOE Market Volatility Index (VIX), YTD

Volatility spiked each time stocks sold off this year, as the charts above and below show. In a long-term context, however, the increase in the VIX appears rather modest; a chart of the VIX from 1990 to the present (below) shows that the index's 2014 peak was approximately six points

above the long-term average of about 20, while the current reading and average level for the year are around the long-term average. A modest increase in the index seems possible as government stimulus wanes around the world.

VIX vs SPX, 1990-2014

Numerous studies have shown that implied volatility systematically overstates subsequent realized volatility, however, and both dealers and many hedge funds are natural sellers of volatility as a result, in order to capitalize on investor fear. Traders have placed big bets against volatility in the past two years via VIX futures and leveraged exchange-traded products (ETPs), bets which paid off in 2012 and 2013 as the VIX plunged 41%. According to Bloomberg news, CBOE data on traders' commitments shows hedge funds and other speculators are now leaning the other way. This raises the possibility that although the VIX has retreated below 15, many market participants expect volatility to remain somewhat higher than its mid-year lows.

Insurance Industry Impact:

As of Dec. 31, 2013, the U.S. insurance industry held common stock investments totaling $667 billion (12% of total invested assets). However, P/C insurers' exposure to common stocks was $472 billion (28.2% of total invested assets), whereas life companies' exposure was only $152 billion (4.2%). If one assumes for the sake of simplicity that insurers' equity portfolios track the S&P 500 index, then over the course of 2014 to date, the respective market values of all insurance industry and P/C insurers' equity holdings would have fluctuated from highs of $729 billion and $516 billion on Sept. 19 to as low as $657 billion and $465 billion (intraday) on Oct. 15, before recovering to $731 billion and $517 billion as of Nov. 3.

The U.S. Dollar – Rapid Strengthening

USD – Yen and USD – Euro (inverted), YTD

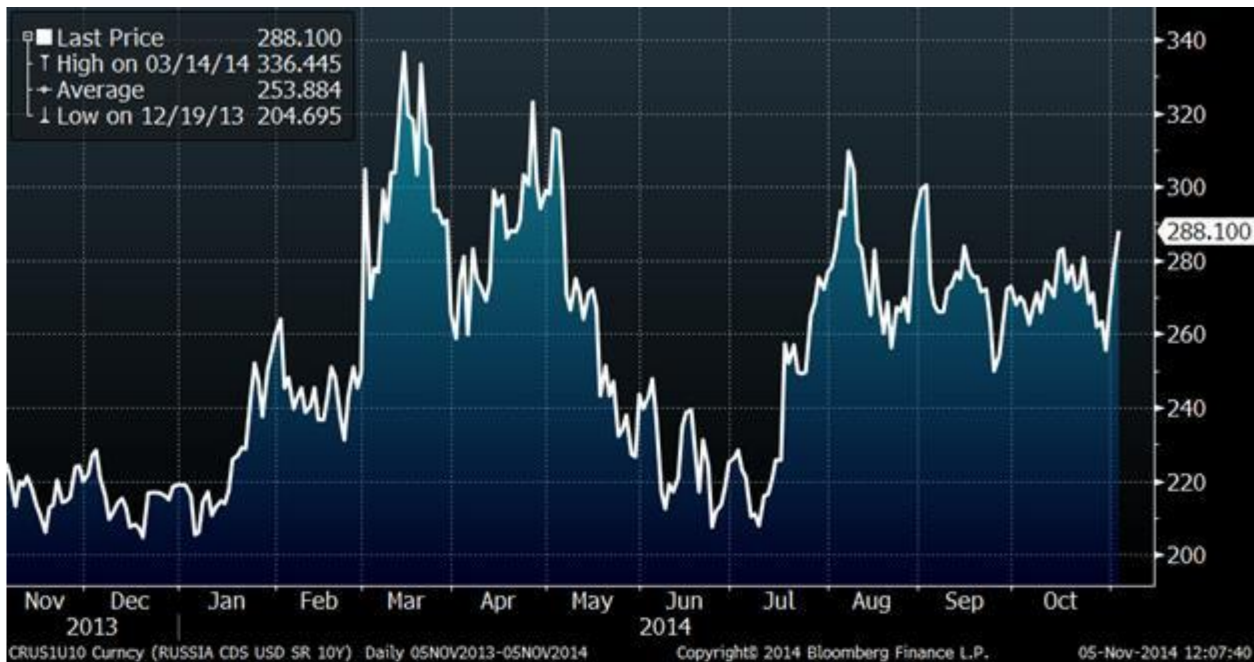
The dollar (that is, the exchange rate of the U.S. dollar to the euro and to the Japanese yen) exhibited modest volatility in the early part of the year, but began appreciating versus both currencies around mid-year. The euro reached a peak for 2014 of $1.39 on March 18, as investors disregarded the Eurozone's downward revision of its inflation rate, instead focusing on the Eurozone's improving economy, particularly Germany and France. Since then, Eurozone recovery has slowed somewhat, evidenced by sluggish growth in France and Germany. In addition, Portugal's largest bank required a bailout, Italy regressed into its third recession since 2008, and the effects of financial and trade sanctions against Russia began to be felt. The dollar's strengthening trend became more apparent in August and September, as the U.S. economic data grew more robust and the potential for tighter monetary policy by early 2015 became a topic of discussion, while the ECB and the BoJ appeared locked into a more accommodative policy stance. U.S. yields moved lower as inflation data was benign, and were helped by "flight to quality" capital inflows. Remarks at the annual Jackson Hole Economic Symposium — a forum for central bankers, policy experts and academics hosted each August by the Federal Reserve Bank of Kansas City in Jackson Hole, WY — confirmed that while the U.S. tone was shifting to a more neutral monetary stance, the ECB was still in an easing mode. Concern ahead of the Scottish referendum may have contributed to some of the dollar's ongoing rally in September, and despite some volatility in October, the dollar appears to be pushing higher again as November begins. As October drew to a close, the BoJ announced it would boost its massive bond-buying program due to weak economic growth, driving the dollar above 114 yen for the first time in seven years. The euro fell to a two-year low of $1.2441 against the dollar, meanwhile, on speculation that the ECB would take further stimulative action. The rising dollar is having profound effects on commodity prices, oil in particular, as well as other basic materials. U.S. West Texas Intermediate (WTI) crude is now well below $80 per barrel — down more than $25 from its mid-June peak — and Brent (North Sea) crude is below $85, as upbeat U.S. economic data is being countered with weak Eurozone economic performance and sluggish Chinese growth that are weighing on global demand and triggering more gains in the dollar, although OPEC signaled it may use production cuts to try to restrict further declines. Similarly, from mid-June through October, the S&P GSCI Index (formerly the Goldman Sachs Commodity Index, a broad measure comprising 24 commodities from all commodity sectors) fell about 18%.

WTI (CL1) and Brent (CO1) Crude, $/bbl YTD

S&P GSCI Index YTD

Russia and Ukraine Crisis

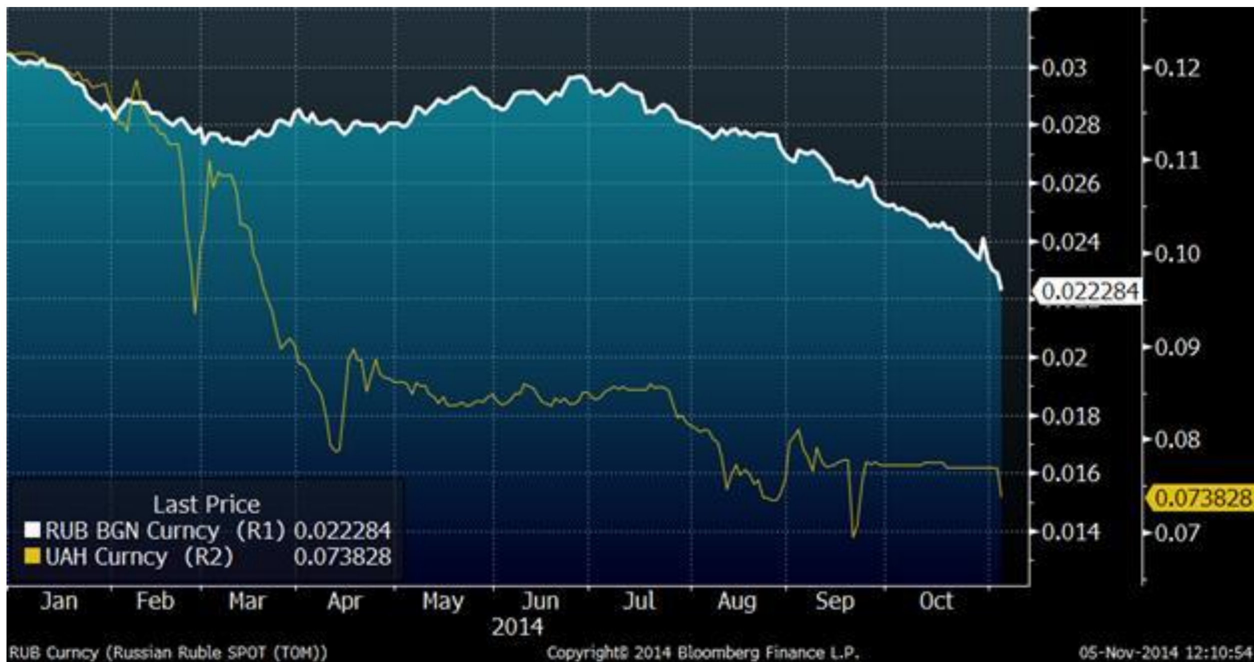
Russian Government CDS Spread YTD



Even prior to the current crisis, the Russian economy had been struggling, with GDP growing by 1.5% in 2013 compared to 4% in both 2010 and 2011, and 3.4% in 2012, according to the International Monetary Fund (IMF). The credit spread on the Russian 10-year government bond steadily increased in early 2014, reaching a high on March 14 as talks ensued of Crimea seceding from Ukraine to join Russia. Sanctions were imposed on Russia after it annexed Crimea in March; these were strengthened following accusations that Russia was supporting rebels in Eastern Ukraine. Moody's placed Russian government debt on its watchlist for a ratings downgrade in March, following the sanctions, and at the end of October, it downgraded the country's debt by one notch to Baa2. Standard & Poor's downgraded Russian sovereign debt in April to BBB-. Since then the ruble has fallen about 20%, as the sanctions — which have been ratcheted up several times — have had a profound impact on the Russian economy.

The U.S. and the European Union (EU) imposed new sanctions on Russia in September and October in order to further hobble its economy. Unlike previous sanctions that focused on specific businesses and individuals, the new set targets oil and gas supplies and technology, banking and finance; arms sales; and close associates of Russian President Vladimir Putin. The U.S. Treasury Department released a list of large Russian banks — including the Bank of Moscow, the Russian Agricultural Bank and VTB Bank — that are banned from transactions with Americans, including restrictions on bond sales. The new EU sanctions "establish an export ban for dual use goods for military end users, and curtail Russian access to sensitive technologies particularly in the field of the oil sector" and other activities by Russian-owned banks. Sanctions have reduced foreign investment and further slowed economic growth, spurring inflation and higher interest rates, according to Moody's, and the recent slide in oil prices — down 12.5% in the past month — is causing more pain, as more than half of the government's 2012 revenues came from oil and gas, according to the latest data from the U.S. Energy Information Administration. Currency pressures are getting worse: At the end of October, the Bank of Russia raised its key rate to 9.5% from 8%, the fourth such rate increase the bank has imposed in order to stem the currency slide.

Russian Ruble and Ukrainian Hryvnia – USD Rates YTD (Inverted)



The ruble (shown here versus the USD along with the Ukrainian hryvnia exchange rate) has weakened substantially since July. A series of interest-rate hikes by the Bank of Russia increases has failed to calm investors concerned about President Putin's stance on Ukraine.
Insurance Industry Impact:

Conclusion

In summary, over the past few months, the markets continue to react to ongoing geopolitical tensions, slow Eurozone and Japanese recoveries, and an improving U.S. economy and likely monetary policy shift. In particular, as the situation in Ukraine and Russia continues to remain unstable, indices worldwide will experience reactions based on investor sentiment. Economic data has shown that the U.S. economy has been improving (as measured by growth in GDP); it grew a revised 4.6% in the second quarter of 2014 — accelerating more than expected (3.1% Bloomberg consensus estimate). In addition, the national unemployment rate has fallen to 5.8% as of October 2014, down 1.4 percentage points over the course of the year.
The NAIC Capital Markets Bureau will continue to monitor market volatility and publish additional research as deemed appropriate.

November 7, 2014

Major Insurer Share Prices

Change %
Prior

Close
Week
QTD
YTD
Week
Quarter
Year

Life
Aflac

$58.89
(1.4)
0.7
(11.8)
$59.71
$58.47
$66.80

Ameriprise

129.05
2.3
4.4
12.2
126.16
123.58
115.05

Genworth

8.41
(39.8)
(36.6)
(45.8)
13.97
13.26
15.53

Lincoln

55.78
1.9
3.5
8.1
54.75
53.89
51.62

MetLife

54.61
0.7
1.3
1.3
54.24
53.91
53.92

Principal

52.82
0.8
(0.3)
7.1
52.40
53.00
49.31

Protective

69.71
0.0
0.3
37.6
69.68
69.49
50.66

Prudential

85.33
(3.6)
(4.2)
(7.5)
88.54
89.10
92.22

UNUM

33.60
0.5
(3.4)
(4.2)
33.44
34.77
35.08

PC
ACE

$110.81
1.5
5.7
7.0
$109.22
$104.84
$103.53

Axis Capital

49.46

2.8
4.5
4.0
48.10
47.33
47.57

Allstate

66.25
2.2
8.1
21.5
64.82
61.29
54.54

Arch Capital

57.48
2.0
5.0
(3.7)
56.33
54.72
59.69

Cincinnati

51.11
1.3
8.0
(2.4)
50.44
47.33
52.37

Chubb

101.14
1.8
11.2
4.7
99.32
90.97
96.63

Everest Re

172.34
1.0
7.7
10.6
170.61
160.09
155.87

Progressive

26.86
1.8

5.4
(1.5)
26.39
25.49
27.27

Travelers

102.37
1.4
9.2
13.1
100.93
93.77
90.54

WR Berkley

51.34
(0.4)
7.1
18.3
51.55
47.93
43.39

XL

34.36
1.4
3.4
7.9
33.87
33.24
31.84

Other
AON

$89.82
4.5
2.6
7.1
$85.97
$87.51
$83.89

AIG

54.03
0.9
(0.3)

5.8
53.54
54.17
51.05

Assurant

67.97
(0.3)
5.2
2.4
68.19
64.63
66.37

Fidelity National

29.15
(2.3)
4.6
(10.2)
29.83
27.86
32.45

Hartford

40.20
1.6
7.3
11.0
39.56
37.48
36.23

Marsh

55.80
2.7
6.3
15.4
54.34
52.48
48.36

Health
Aetna

$82.29
(0.2)
1.2
20.0

$82.50
$81.34
$68.59

Cigna

98.99
(0.6)
8.5
13.2
99.56
91.24
87.48

Humana

130.58
(5.8)
(1.0)
26.5
138.69
131.90
103.22

United

93.61
(1.3)
8.2
24.3
94.88
86.51
75.30

WellPoint

124.15
(1.9)
2.3
34.4
126.50
121.31
92.39

Monoline
Assured

$24.53
6.3
9.0
4.0
$23.07

$22.51
$23.59

MBIA

10.26
5.1
11.2
(14.1)
9.76
9.23
11.94

MGIC

8.88
(0.6)
12.4
5.2
8.94
7.90
8.44

Radian

16.48
(2.2)
14.7
16.7
16.85
14.37
14.12

XL Capital

34.36
1.4
3.4
7.9
33.87
33.24
31.84

Major Market Variables

Change %
Prior

Close
Week
QTD
YTD
Week
Quarter
Year

Dow Jones Ind

17,573.93
1.1
2.9
6.0
17,390.32
17,071.22
16,576.66

S&P 500

2,031.92
0.8
2.7
9.9
2,016.59
1,977.80
1,848.36

S&P Financial

324.95
1.2
3.9
10.3
321.20
312.83
294.71

S&P Insurance

298.81
0.3
2.5
3.4
297.86
291.43
289.10

US Dollar $

Change %
Prior

/ Euro

$1.25
(0.6)

(1.8)
(9.3)
$1.25
$1.27
$1.37

/ Crude Oil bbl

78.47
(2.8)
(16.9)
(20.3)
80.70
94.48
98.42

/ Gold oz

1,175.90
0.3
(3.2)
(2.2)
1,171.80
1,215.00
1,202.30

Treasury Ylds %

%
Change bp
%
%
%

1 Year
0.10
0.01
0.01
(0.01)
0.10
0.10
0.11

10 Year
2.30
(0.03)
(0.18)
(0.73)
2.33
2.48

3.03

30 Year
3.03
(0.03)
(0.14)
(0.94)
3.06
3.17
3.97

Corp Credit Spreads -bp

Change %
Prior

CDX.IG
16.50
39.8
(5.0)
24.3
11.80
17.37
13.27

November 7, 2014

Major Insurer Bond Yields

Weekly Change
YTD

Price
Spread over UST
Spread

Company

Coupon
Maturity
Current
Change
Yield

B.P.
Change
Change

Life
Aflac
8.500%
5/15/2019
$126.35
($0.17)
2.31%
85
3
(7)

Ameriprise
5.300%
3/15/2020
$114.02
$0.04
2.48%
73
(2)
(9)

Genworth
6.515%
5/15/2018
$101.45
($11.20)
6.05%
490
334
327

Lincoln National
8.750%
7/15/2019
$126.88
($0.35)
2.56%
104
9
(4)

MassMutual

8.875%
6/15/2039
$158.33
$0.93
4.80%
191
(1)
15

MetLife

4.750%
2/15/2021
$111.07
$0.06
2.80%
93
2
4

New York Life

6.750%
11/15/2039
$134.35
($0.82)
4.46%
159
8
31

Northwestern Mutual

6.063%
3/15/2040
$125.06
($0.10)
4.41%
151
2
26

Pacific Life

9.250%
6/15/2039
$156.76
($0.46)
5.15%
230
5
(4)

Principal

6.050%
10/15/2036
$122.87
$0.44

4.41%
162
1
25

Prudential

4.500%
11/15/2020
$109.61
$0.05
2.75%
92
4
15

TIAA

6.850%
12/15/2039
$132.46
($0.85)
4.65%
177
7
44

P&C
ACE INA

5.900%
6/15/2019
$115.38
($0.05)
2.34%
83
1
21

Allstate

7.450%
5/15/2019
$122.07
$0.13
2.27%
77
(2)
15

American Financial

9.875%
6/15/2019
$129.57
$0.09
2.94%
136
(5)
(51)

Berkshire Hathaway

5.400%
5/15/2018
$112.67
$0.17
1.66%
52
(6)
13

Travelers

3.900%
11/15/2020
$107.78
($0.08)
2.49%
65
4
4

XL Group

6.250%
5/15/2027
$119.13
$0.21
4.26%
175
3
(7)

Other
AON

5.000%
9/15/2020

$112.23
($0.10)
2.73%
93
5
4

AIG

5.850%
1/15/2018
$112.62
($0.12)
1.75%
71
(0)
(3)

Hartford

5.500%
3/15/2020
$113.44
($0.26)
2.79%
109
8
4

Nationwide

9.375%
8/15/2039
$155.24
($0.44)
5.33%
246
5
10

Health
Aetna
3.950%
9/15/2020
$107.20
$0.16
2.60%
82
0

(4)

CIGNA

5.125%
6/15/2020
$112.17
($0.07)
2.76%
98
2
1

United Healthcare

3.875%
10/15/2020
$107.15
($0.25)
2.57%
75
8
10

Wellpoint

4.350%
8/15/2020
$108.75
($0.14)
2.70%
93
4
(6)

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