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**

Market Volatility – So Far 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 shown particularly short-terms shifts as they have reacted to the current, evolving crisis in Ukraine; decisions made by the Federal Reserve Board of Governors; and to U.S. domestic economic trends.

The crisis in Ukraine has triggered volatility in global financial markets, including stock losses in the U.S., Europe and Asia. U.S. Treasuries, however, rallied because of investors' flight-to-quality instinct. While the Russian economy has been struggling, it could benefit from the current turmoil in the form of higher prices for oil and gas, two of its main exports. Note that the situation between Ukraine, Crimea and Russia continues to evolve.

As of year-end 2012, the U.S. insurance industry held only $94.1 million in book/adjusted carrying value (BACV) of Ukrainian bonds, the majority of which were sovereign, or government, debt. Exposure to Russia was $1.1 billion, most of which was government debt but also included approximately $5 million in Russian equities.

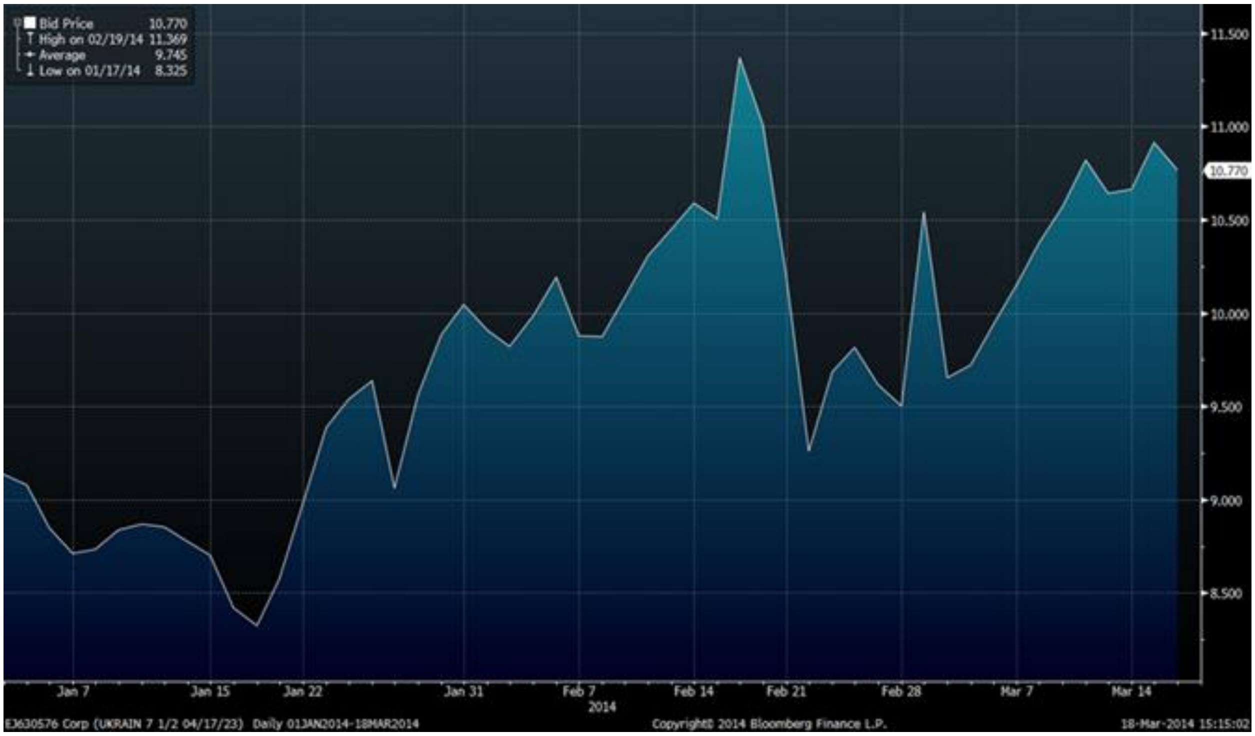
As indicated in the graphs below (extracted from Bloomberg), financial markets worldwide have reacted to events that occurred during the first two-and-a-half months of 2014.

U.S. 10-year Treasury

Since the beginning of 2014, the yield on the U.S. 10-year Treasury experienced a relatively steady decline, reaching a low on Feb. 3 despite the Federal Reserve's decision to curtail the $75 billion monthly U.S. Treasury and mortgage-backed securities bond-buying program by $10 billion. The decrease in Treasury yield (and, in turn, increase in price) evidences increased investor demand that usually occurs when there is a flight to "safety." The yield on the U.S. 10-year Treasury bond increased for about 30 days before it again decreased at the end of February due, in part, to negative reports regarding the U.S. housing market (slowdown in home price growth) and a decrease in consumer confidence levels.

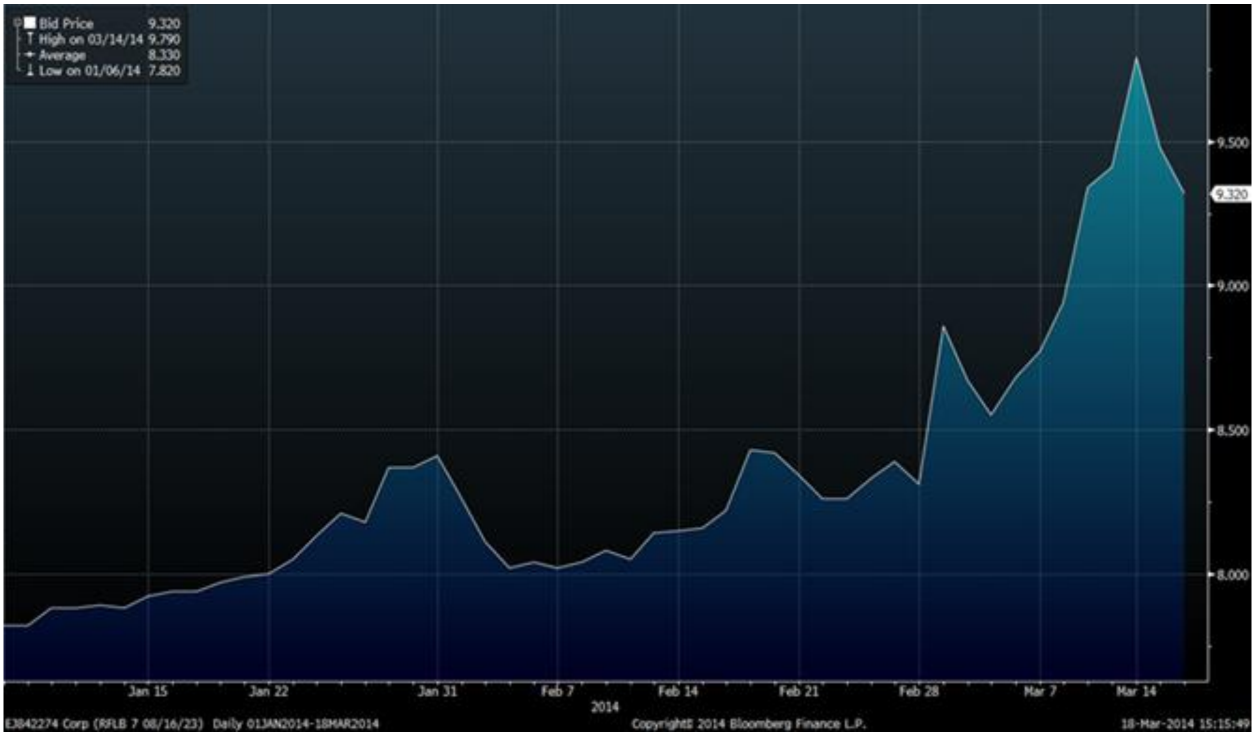
In addition, in a mid-March policy board meeting, the Federal Reserve subsequently decided to further reduce the monthly amount of U.S. Treasury and mortgage-backed securities it buys back by another $10 billion, meaning it will buy back $55 billion in bonds in March. Since the beginning of 2014, most economic data has generally shown signs of stability and growth in the U.S., which has resulted in Fed decisions to taper its programs.

Ukrainian 10-Year Government Bond



The yield on the 10-year Ukrainian U.S. dollar-denominated bond has been extremely volatile, ranging from a high of 11.4% in mid-February 2014 to a low of 8.3% in mid-January 2014, closing on March 18 at 10.8%. Ukraine has been negotiating with the International Monetary Fund (IMF) and has made progress toward a bailout agreement. Ukraine is seeking a $15 billion emergency loan from the IMF, while the IMF is requiring Ukraine to reduce its 2014 budget by 20%. In addition, the EU has offered $15 billion in loans and grants over the next several years contingent upon reforms by the Ukrainian government and its signing a deal with the IMF. The U.S. has also offered $1 billion in loan guarantees to the Ukraine government.

Russian 10-Year Government Bond



The yield on the Russian 10-year government bond has steadily increased since the beginning of 2014, reaching a high on March 14 as talks ensued of Crimea seceding from Ukraine to join Russia. Even prior to the current crisis, the Russian economy had been struggling, with gross domestic product (GDP) growing by 1.5% in 2013 compared to 4% in both 2010 and 2011, and 3.4% in 2012, according to the IMF.

U.S. Standard & Poor's 500 Index (S&P 500)

In terms of stock market volatility, the drop in the S&P 500 at the end of January 2014 was a reaction to the Fed's announcement that it would decrease its bond-buying program by $10 billion to $65 billion for February. Due to positive U.S. economic data, however, the S&P 500 once again was on the rise, reaching an all-time high on March 7 before dipping again mid-March as tensions increased with Russia and Ukraine regarding Crimea. Stocks began to rise once more as concerns regarding Russia intervening with Ukraine eased.

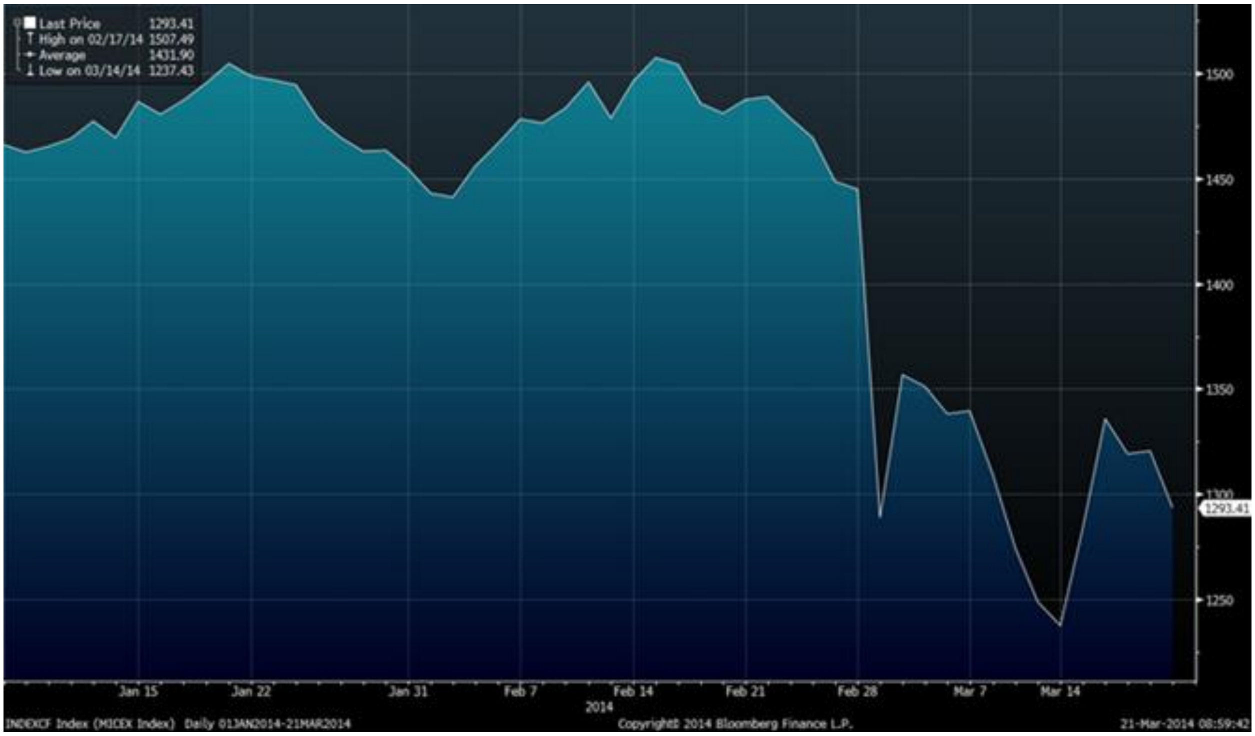
U.S. 10-Year Treasury Price vs. S&P 500

The graph above shows the pricing trend of the U.S. 10-Year Treasury compared to the S&P 500 from the beginning of 2014 through March 24. While both Treasury and equity prices improved over the three-month period, the S&P 500 demonstrated only a slight increase and greater volatility. Three noteworthy instances occurred at the end of January, and then again in early and late March, when prices moved in opposite directions. These occurrences could be attributed to changes in sentiment about the economy, as investors sought to interpret announcements by the Federal Reserve and were uncertain about the situation in Ukraine. The spike in Treasury prices and significant drop in the S&P 500 at the end of January coincides with the Federal Reserve announcement that it would further curtail its bond-buying program by $10 billion.

Stoxx Europe 600 Index (Stoxx 600)

Similar to the S&P 500, the European stock market had also been trending in a positive direction since the beginning of January 2014 — as evidenced by the Stoxx 600 — with the exception of a steep decline in early February, resulting in a low for the period on Feb. 4. This drop was likely related to the Fed's bond-buying program decision (as occurrences within the U.S. economy tend to have a global impact), and it was followed by another decrease in mid-March due to tensions related to what was a pending vote by Crimea to secede from Ukraine and become part of Russia. In addition, the Stoxx 600 was negatively impacted by reports of slowing economic growth in China, but it has since rebounded.

Russian Micex

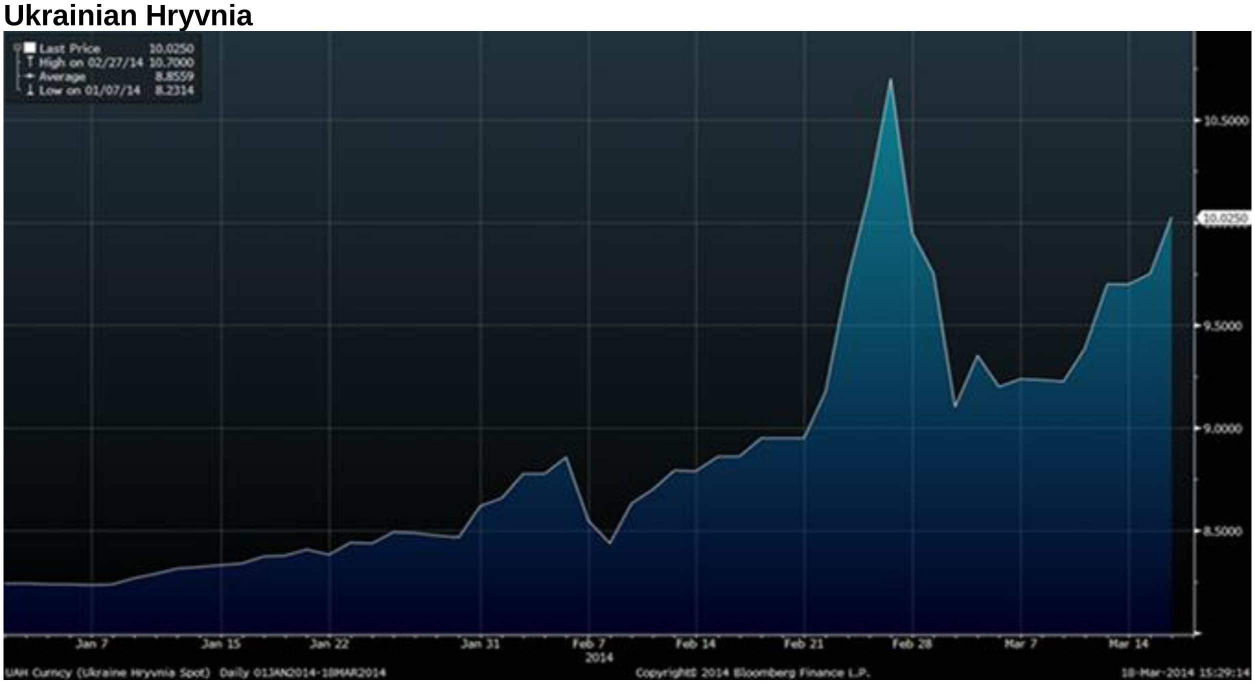


Launched in 1997, the Russian Micex Index (Micex) is ”a cap-weighted composite index calculated based on the 50 most liquid Russian stocks of the largest and dynamically developing Russian issues presented on the Moscow Exchange.” The Micex had been relatively stable for the first two months of the year, but decreased by 10% since the beginning of the year as of early March. The Russian Micex closed near a four-year low on March 14 due, in part, to what was a pending vote for Crimean secession. Since then, however, the Micex has been on the rise as investors believe that the sanctions imposed on Russia by the U.S. and EU will have a limited impact, and President Vladimir Putin has stated that he is not seeking to further split up Ukraine or other former Soviet regions. After a second round of sanctions was imposed by the U.S. on March 20, however, the Micex decreased once more, having declined by 10% in March so far (as of March 21).

Ruble

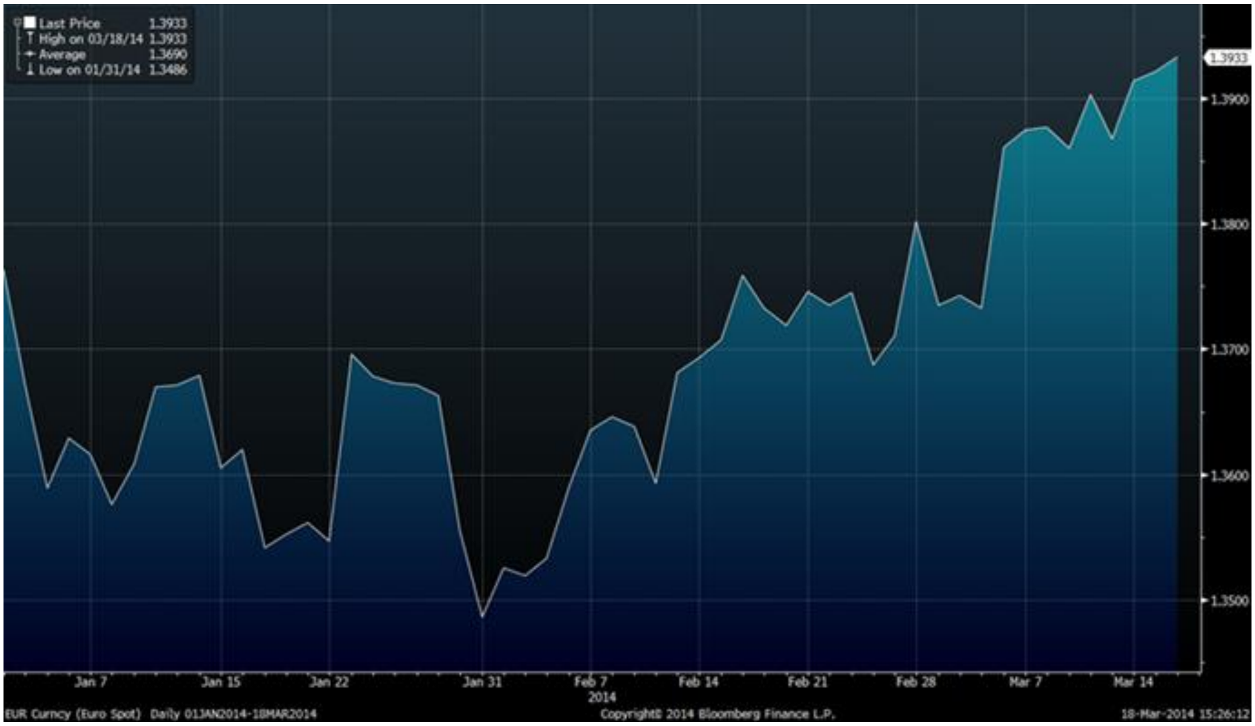
Recently, the Russian ruble has dropped to a record low against the dollar and the euro. For the first two months of the year, the ruble decreased by 10%. In addition to being negatively impacted by the current crisis in Ukraine, a weak economy has also hurt the ruble. As of the end of February 2014, Russian banks held about $30 billion in Ukrainian loans on their balance sheets, which have experienced losses as the Ukrainian currency (the hyrvina) has decreased in value.

Ukrainian Hryvnia



As of Feb. 3, the Ukrainian hryvnia dropped to a four-year low due to political turmoil and controversy between Russia and the EU, and its central bank's foreign currency reserves is depleting. The financial crisis in Ukraine has been ongoing for several years; it has received €3.3 billion in grants from the European Union since 1991.

Euro



The euro (that is, the exchange rate of the euro to the U.S. dollar) has been volatile since the beginning of the year but has demonstrated an increasing trend since the end of January 2014 despite issues with emerging markets earlier in 2014 and the crisis in Ukraine. The euro reached a high for 2014 so far on March 18 as investors disregarded the Eurozone's downward revision of its inflation rate. In general, the Eurozone's economy has been improving, evidenced by 0.3% growth in the region for the last three months of 2013. This is because of stronger-than-expected growth in the German and French economies, as well as due to a surging trade surplus in 2013 of €153.8 billion compared to €79.7 billion in 2012. Generally, the euro has ranged from 1.35 to 1.39 for the first three months of 2014.

WTI

According to the West Texas Intermediate (WTI) crude oil index, the price of oil had, for the most part, been on an increasing trend for the first two months of 2014, reaching a high of $104.92 per barrel on March 4. The WTI price had been increasing due, in part, to a stable and growing U.S. economy. The subsequent decrease in the beginning of March was due, in part, to a “test sale” from the U.S. Strategic Petroleum Reserve (the largest stockpile of government-owned emergency crude oil in the world), which might have been a response to the Ukraine crisis. More influential on the WTI price decrease, however, is the economic slowdown in China evidenced by data showing a decrease in exports, which could have an impact on oil demand growth. In general, selling pressure for oil has developed because of abundant supply.

In summary, for the first two-and-a-half months of 2014, various market indices have reacted to the ongoing tensions within Crimea, Ukraine and Russia, as well as to economic events within the U.S. As this situation is evolving, market indices worldwide will experience reactions based on investor sentiment. Economic data has shown that the U.S. economy has been growing (as measured by GDP); it grew 2.4% in the fourth quarter of 2013. In addition the national unemployment rate was 6.7% in February 2014, compared to 7.7% in February 2013.

The NAIC Capital markets Bureau will continue to monitor market volatility and publish additional research as deemed appropriate.

March 21, 2014								
Major Insurer Share Prices			Change %			Prior		
		Close	Week	QTD	YTD	Week	Quarter	Year
Life	Aflac	$62.98	(1.3)	(1.2)	19.1	$63.82	$63.72	$52.89
	Ameriprise	111.78	2.6	20.4	79.0	108.96	92.84	62.45
	Genworth	18.00	6.4	39.5	140.3	16.91	12.91	7.49
	Lincoln	52.00	3.2	20.7	101.8	50.41	43.08	25.77
	MetLife	53.42	3.1	12.1	63.1	51.83	47.66	32.76
	Principal	46.42	1.6	7.0	63.6	45.69	43.39	28.38
	Protective	52.88	0.3	20.8	85.7	52.70	43.76	28.47
	Prudential	86.93	3.6	10.9	63.7	83.92	78.39	53.09
	UNUM	35.65	1.6	16.0	72.0	35.08	30.72	20.73
PC	ACE	$99.26	0.5	7.0	24.9	$98.78	$92.78	$79.50
	Axis Capital	46.10	0.7	4.1	33.8	45.80	44.30	34.46
	Allstate	56.06	1.0	7.1	40.0	55.52	52.33	40.05
	Arch Capital	57.03	(1.5)	3.8	30.1	57.92	54.96	43.82
	Cincinnati	47.92	1.9	0.6	23.0	47.01	47.63	38.95
	Chubb	86.23	(0.8)	(2.9)	15.0	86.89	88.80	75.01
	Everest Re	150.85	(0.4)	2.1	37.5	151.46	147.73	109.67
	Progressive	24.22	2.1	(11.4)	15.3	23.73	27.33	21.01
	Travelers	83.61	0.1	(1.2)	16.9	83.54	84.66	71.53
	WR Berkley	41.05	0.1	(3.5)	9.2	41.00	42.54	37.59
	XL	30.55	0.8	(1.9)	22.5	30.30	31.14	24.94
Other	AON	$85.85	1.5	18.0	54.9	$84.57	$72.76	$55.41
	AIG	50.02	2.2	1.1	41.8	48.92	49.48	35.28
	Assurant	65.81	0.2	19.2	90.9	65.71	55.23	34.48
	Fidelity National	31.33	(1.2)	19.7	32.9	31.70	26.18	23.58
	Hartford	35.42	0.6	12.4	58.2	35.21	31.52	22.39
	Marsh	49.96	(0.0)	14.8	45.7	49.98	43.51	34.30
Health	Aetna	$75.71	3.7	14.0	64.0	$72.99	$66.40	$46.17
	Cigna	82.04	5.5	3.6	54.0	77.78	79.22	53.29
	Humana	117.00	4.9	21.2	71.0	111.54	96.52	68.43
	United	81.36	6.0	11.4	50.3	76.76	73.01	54.12
	WellPoint	99.77	4.9	14.4	64.3	95.15	87.24	60.73
Monoline	Assured	$25.81	1.3	32.1	82.8	$25.49	$19.54	$14.12
	MBIA	14.55	2.6	36.5	83.7	14.18	10.66	7.92
	MGIC	8.58	(1.5)	19.2	217.8	8.71	7.20	2.70
	Radian	15.33	(0.2)	9.7	149.3	15.36	13.98	6.15
	XL Capital	30.55	0.8	(1.9)	22.5	30.30	31.14	24.94

March 21, 2014							
Major Market Variables		**Change %**			**Prior**		
	Close	**Week**	**QTD**	**YTD**	**Week**	**Quarter**	**Year**
Dow Jones Ind	16,302.70	0.3	8.2	24.4	16,247.22	15,072.58	13,099.80
S&P 500	1,866.63	0.4	10.5	31.3	1,858.83	1,689.92	1,422.10
S&P Financial	302.29	2.0	11.9	36.7	296.36	270.26	221.17
S&P Insurance	281.13	1.5	6.4	40.8	277.00	264.30	199.67
US Dollar $		**Change %**			**Prior**		
/ Euro	$1.38	(0.9)	1.8	4.5	$1.39	$1.36	$1.32
/ Crude Oil bbl	99.51	1.5	(3.9)	8.6	98.08	103.60	91.62
/ Gold oz	1,334.60	(2.8)	1.9	(20.3)	1,372.90	1,309.80	1,673.70
Treasury Ylds %	**%**	**Change bp**			**%**	**%**	**%**
1 Year	0.13	0.01	0.03	(0.02)	0.12	0.10	0.14
10 Year	2.75	0.05	0.10	0.99	2.69	2.65	1.76
30 Year	3.61	(0.02)	(0.11)	0.66	3.63	3.72	2.95
Corp Credit Spreads -bp		**Change %**			**Prior**		
CDX.IG	15.88	(23.1)	(36.6)	(72.2)	20.66	25.04	57.04

March 21, 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	$128.83	($0.59)	2.49%	67	(7)	(61)
	Ameriprise	5.300%	3/15/2020	$114.07	($0.98)	2.73%	69	4	(49)
	Genworth	6.515%	5/15/2018	$115.46	($0.55)	2.57%	113	(2)	(277)
	Lincoln National	8.750%	7/15/2019	$128.56	($1.00)	2.86%	102	3	(82)
	MassMutual	8.875%	6/15/2039	$151.48	$0.95	5.19%	174	(4)	(75)
	MetLife	4.750%	2/15/2021	$111.31	($0.10)	2.92%	63	(10)	(46)
	New York Life	6.750%	11/15/2039	$129.21	$0.24	4.76%	128	(1)	(35)
	Northwestern Mutual	6.063%	3/15/2040	$119.52	$0.04	4.75%	125	1	(20)
	Pacific Life	9.250%	6/15/2039	$145.90	$0.39	5.77%	230	(3)	(101)
	Principal	6.050%	10/15/2036	$118.03	$0.20	4.74%	142	(1)	(40)
	Prudential	4.500%	11/15/2020	$108.46	($0.66)	3.08%	84	(2)	(57)
	TIAA	6.850%	12/15/2039	$129.78	$0.09	4.82%	134	1	(35)
P&C	ACE INA	5.900%	6/15/2019	$117.12	($0.64)	2.39%	56	(3)	(21)
	Allstate	7.450%	5/15/2019	$124.25	($0.93)	2.40%	59	1	(52)
	American Financial	9.875%	6/15/2019	$129.39	($0.56)	3.64%	180	(2)	(132)
	Berkshire Hathaway	5.400%	5/15/2018	$114.39	($0.69)	1.78%	37	0	(26)
	Travelers	3.900%	11/15/2020	$106.04	($0.77)	2.89%	66	2	1
	XL Group	6.250%	5/15/2027	$116.13	$1.91	4.60%	163	(19)	(78)
Other	AON	5.000%	9/15/2020	$111.30	($0.56)	3.07%	87	(4)	(45)
	AIG	5.850%	1/15/2018	$114.38	($0.04)	1.91%	64	(16)	(57)
	Hartford	5.500%	3/15/2020	$113.61	($0.63)	3.01%	94	(5)	(79)
	Marsh	9.250%	4/15/2019	$129.67	($0.84)	2.90%	110	(1)	(87)
	Nationwide	9.375%	8/15/2039	$147.07	$0.07	5.81%	233	(1)	(88)
Health	Aetna	3.950%	9/15/2020	$105.59	($0.55)	2.99%	81	(2)	(39)
	CIGNA	5.125%	6/15/2020	$111.31	($0.99)	3.11%	94	4	(50)
	United Healthcare	3.875%	10/15/2020	$105.82	($0.51)	2.89%	71	(3)	(25)
	Wellpoint	4.350%	8/15/2020	$106.60	($0.62)	3.20%	105	(1)	(33)

Questions and comments are always welcomed. Please contact the Capital Markets Bureau at **CapitalMarkets@naic.org**

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