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 Update: November 2012 to March 2013

The Capital Markets Bureau last reviewed trends within specific financial markets in November 2012. At that time, we focused our analysis on the six months leading up to Superstorm Sandy, as well as a few days afterward, in order to assess the storm's impact, if any, on the financial markets. Since then, economic conditions seem to be trending in a positive direction, give or take a few disruptions along the way. A U.S. stock market index reached a milestone, U. S. Treasuries achieved gains, European stocks rose to a high, corporate bonds — particularly investment grade — have performed well, certain structured finance markets are showing improvement and positive trends, and a popular crude oil index made advances.

Below are graphs obtained from Bloomberg showing changing levels within selected capital markets indices for the four months since November 2012. The graphs include price indices for equity markets, government bonds, corporate bonds, asset-backed and mortgage-backed securities, the euro, and a crude oil index. In general, the U.S. economy has been growing — albeit at a slow pace — due in part to the Federal Reserve's monetary policy stimulus programs, along with other economic influences, such as an unexpected lower national unemployment rate. Nevertheless, occasionally there have been events that caused the markets to have a temporary reactionary dip.

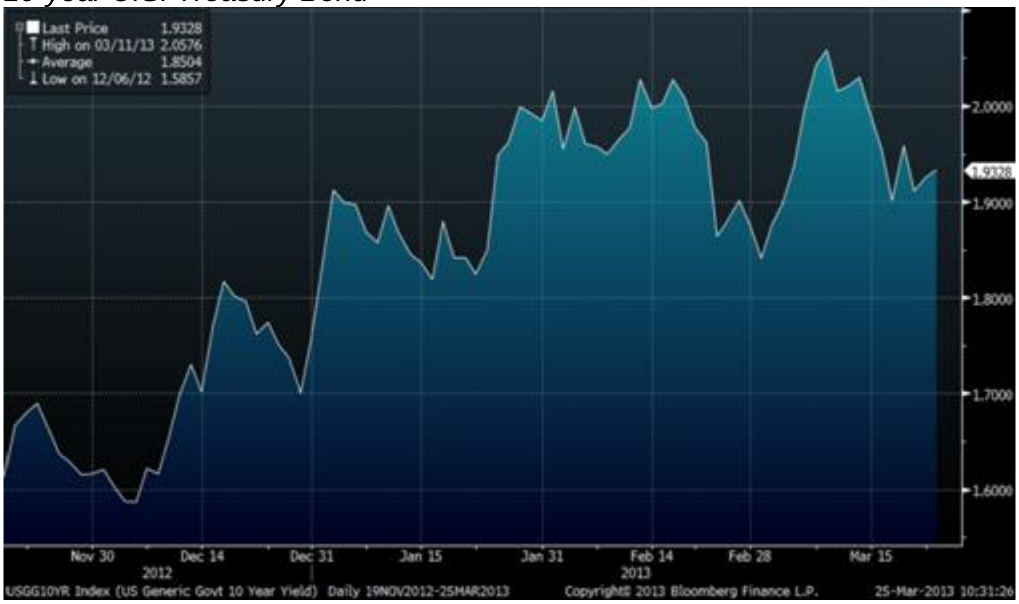
Government Bonds

U.S. 10-Year Treasury

Since November 2012, the yield on the 10-year U.S. Treasury bond increased to a high of 2.05% on March 11, 2013, from a low of 1.58% in December 2012, despite some dips along the way. Increasing yields signal that investors are more confident in the status of the economy and are willing to move away from the "safety" provided by government bonds and into more risky investments. However, as of March 15, the yield on 10-year U.S. Treasuries decreased below 2% again, due likely to a dip in consumer confidence over the strength of economic recovery in the United States. The Federal Reserve (Fed) also announced plans to buy as much as $5.75 billion in U.S. Treasuries to foster growth. On March 22, the Fed was scheduled to buy approximately $3.75 billion in U.S. Treasuries. As of March 25, the yield on the 10-year U.S. Treasury remained below 2%, due mostly to financial distress in Cyprus (a proposal by Eurozone finance ministers to tax Cyprus' bank deposits as part of a bailout package was subsequently rejected by Cyprus' parliament). The finance ministers have since reached an agreement as Cyprus — the Eurozone's third-smallest economy — agreed to shrink its banking system. Cyprus needs to raise €5.8 billion ($7.5 billion) in order to trigger bailout funds from the European Central Bank, as it has become the fifth Eurozone nation to request financial assistance since Greece's debt restructuring. As of March 25, Cyprus received €10 billion ($13 billion) from the ECB.

Investors have sought safety in U.S. Treasuries as renewed fears regarding the Eurozone debt crisis have resurfaced. Investors also anticipate the Fed will continue their government bond-buying program, which is intended to stimulate the economy by lowering borrowing costs. As of year-end 2011, the U.S. insurance industry had $310.9 billion invested in U.S. government bonds and government-sponsored entities.

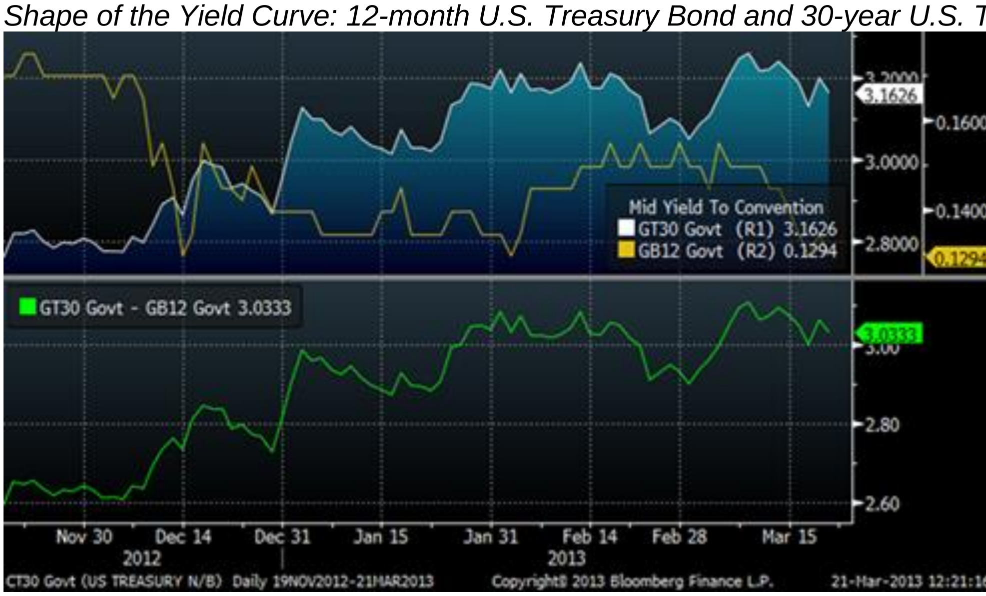
10-year U.S. Treasury Bond



12-month U.S. Treasury vs. the 30-year U.S. Treasury

The shape of the yield curve provides an indication of the market's expectations for interest rates, as well as economic activity, in the future. The current yield curve is positively sloping, meaning that yields increase as the time to maturity increases. On March 19, 2013, the generic 12-month U.S. Treasury bond was yielding 0.13%, and the generic 30-year U.S. Treasury bond was yielding 3.16%. The spread, or the differential, between these two yields represents the slope of the yield curve. The steepness of the yield curve increased to 303 basis points (bps) over the past four months, starting out at a low of 260 bps in mid-November. Note that the yield curve had been even flatter earlier in the year; in July 2012, it was 228 bps. Because of the long-term nature of their liabilities, life companies in particular benefit from a steep yield curve.

Shape of the Yield Curve: 12-month U.S. Treasury Bond and 30-year U.S. Treasury



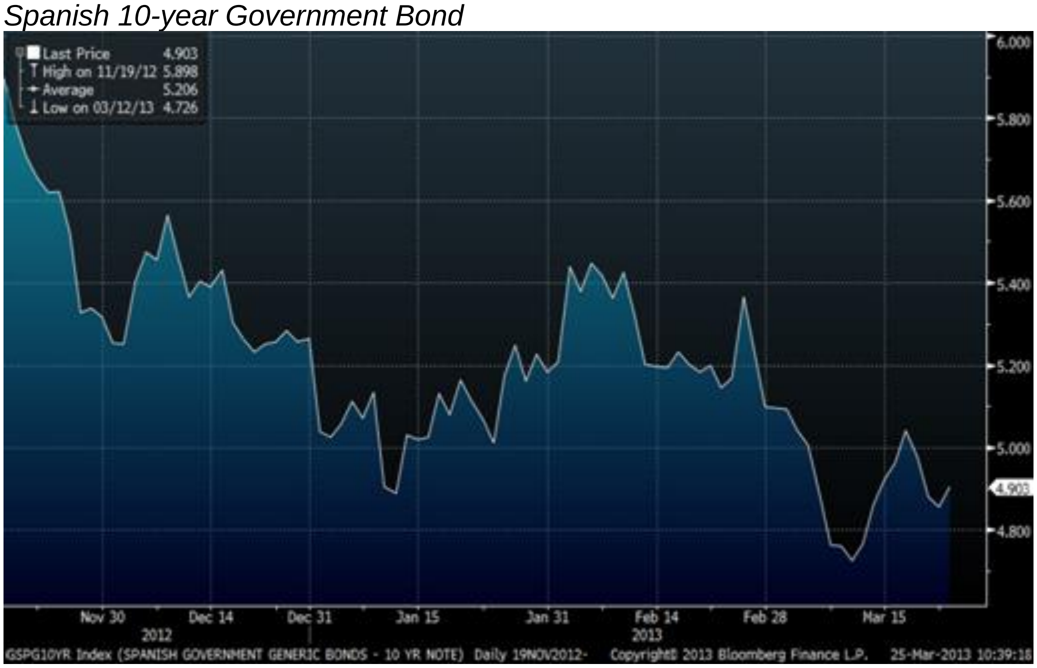
Spanish 10-year Government Bond

A recent Spanish government bond auction played a role in helping the European stock markets achieve their highest levels in years (as discussed further below relative to the Stoxx Euro 600).

The yield on the 10-year Spanish government bond had been on a declining trend since reaching a high of almost 6% mid-November 2012. Spain is the Eurozone's fourth-largest economy, and it has recently gained investor confidence due in part to market turmoil occurring in Italy. Then, just as its yield decreased to its lowest level since November 2010, Spain announced an unscheduled auction. On March 14, Spain sold €803 million ($1.04 billion) in bonds maturing in 2029 at a yield of 5.224%, representing a decrease from 5.787% as of Feb. 7, 2013.

As of March 14, the yield on Spain's 10-year government bond was 4.9%. On March 16, Eurozone finance ministers proposed to levy a tax on Cyprus' banks as part of the country's financial bailout package, although the recommendation has since been rejected by the country's parliament. While this announcement also negatively impacted other market indices, the yield on the Spanish 10-year government bond subsequently increased slightly to 5.0% as of March 19 and was 4.9% as of March 25. As of year-end 2011, the U.S. insurance industry invested in only $561 million of Spanish sovereign bonds.

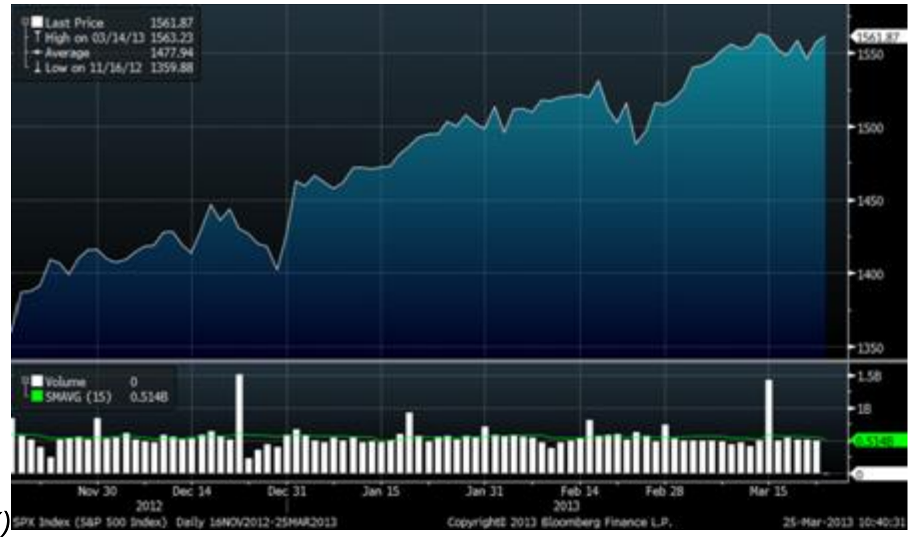
Spanish 10-year Government Bond



Equity Markets

Since early November 2012, the Standard & Poor's 500 Index (S&P 500) has been on a relatively steady incline and, on March 14, was just two points away from its record closing level of 1,565.15 set in October 2007. This was due to favorable corporate earnings reports that had exceeded estimates, as well as from monetary stimulus by the Fed in the form of bond-buying programs and an unexpected drop in jobless claims (the national unemployment rate was 7.7% as of February 2013). The current low interest-rate environment has also caused investors to seek higher returns in the equity markets.

As a result of renewed fears regarding the Eurozone debt crisis, the S&P 500 dropped to 1,545.8 as of March 21 and was 1,561.87 as of March 25. According to the *Wall Street Journal*, "Financial shares led declines across nine of the S&P 500's sectors" following weeks of steady gains. Most market participants agree, however, that the equity markets have been relatively consistent and stable over the past few years, despite occasional disturbances. As one chief investment strategist explained "..investors continue to have a constructive view on the growth in the U.S…" The S&P 500 has more than doubled, from reaching bottom in 2009 to increasing 8.9% so far in 2013.



U.S. S&P 500 Index (SPX)

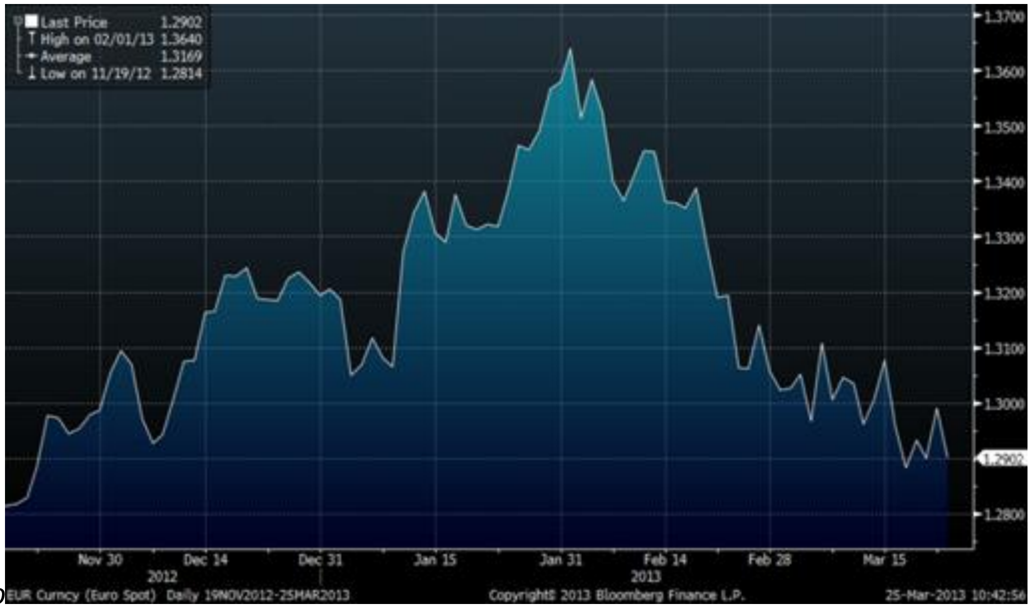
From November 2012 through mid-March 2013, the Stoxx Euro 600 (Price) Index experienced a relatively steady increase from a low of 268.58 on Nov. 19, 2012, to 298.52 at the close of trading on March 14 — the highest level since June 2008. Many European stocks reached a four-and-one-half year high as the Eurozone's finance ministers met in Brussels, Belgium, for a summit and the jobless rate in the U.S experienced an unexpected drop to the lowest level seen since December 2008. The rise in the Stoxx Euro 600 was also attributable to continued stimulus measures by central banks around the globe. Note that Eurozone developments continue to be a source of anxiety within the region, as a recession and unemployment in southern Europe have generally become a bigger concern than the debt crisis. However, the Stoxx Euro 600 reversed its increasing trend, decreasing slightly to 295.55 as of March 19 as a result of the since-rejected Cyprus banks' tax levy announcement. It was 295.53 as of March 25.

STOXX Euro 600 Price Index (SXXP)

Currencies – Euro

Despite a few short, sharp decreases, the euro increased from a low of $1.28 vs. the U.S. dollar in mid-November 2012 to a high of $1.36 as of Feb. 1, 2013. Since then, the 17-nation currency declined somewhat steeply into the end of February and has remained relatively steady since, hovering in the $1.30 to $1.31 range.

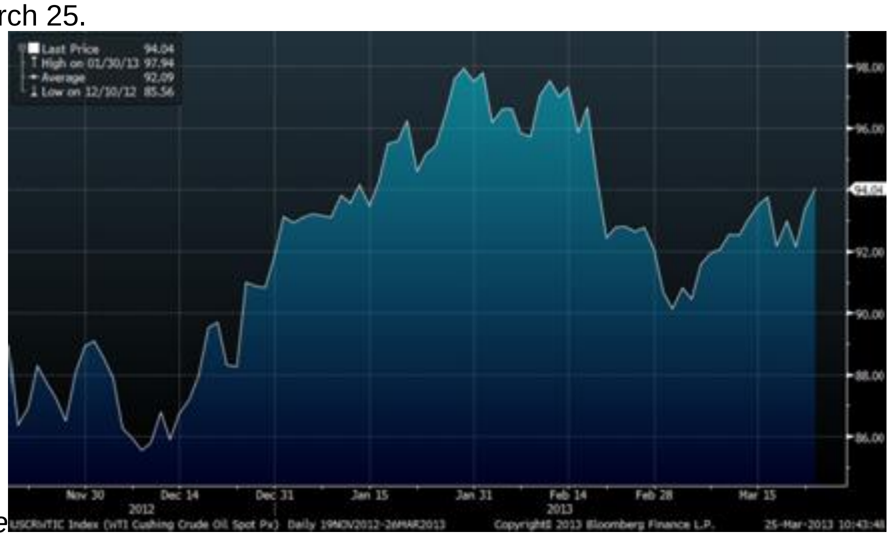
However, as of March 18 the euro decreased to $1.29 vs. the U.S. dollar — the weakest level since mid-November and the largest slide in 14 months for the shared currency. This was primarily due to the situation in Cyprus. Then, on March 22, it bounced back up slightly to $1.30 on news that Cyprus was close to reaching a deal to avoid financial collapse. With news that Cyprus agreed to shrink its banking system in order to receive bailout funds, the euro was $1.29 as of March 25.



Euro

Commodities – Oil

According to the West Texas Intermediate (WTI) Crude Oil Index, the price of oil had been relatively stable around the time of Superstorm Sandy in early November 2012. Since then, the WTI reached a low of $85.56 a barrel as of Dec. 10, 2012, but has since been on a relatively steady incline, reaching a high of $97.94 as of Jan. 30, 2013. This was due to signs of improving economic recovery in the United States (evidenced by a decrease in the national unemployment rate), as well as decreases in oil inventories. Most recently, the oil price was $94.04 a barrel as of March 25.



WTI Crude Oil Spot Price

Corporate Bonds

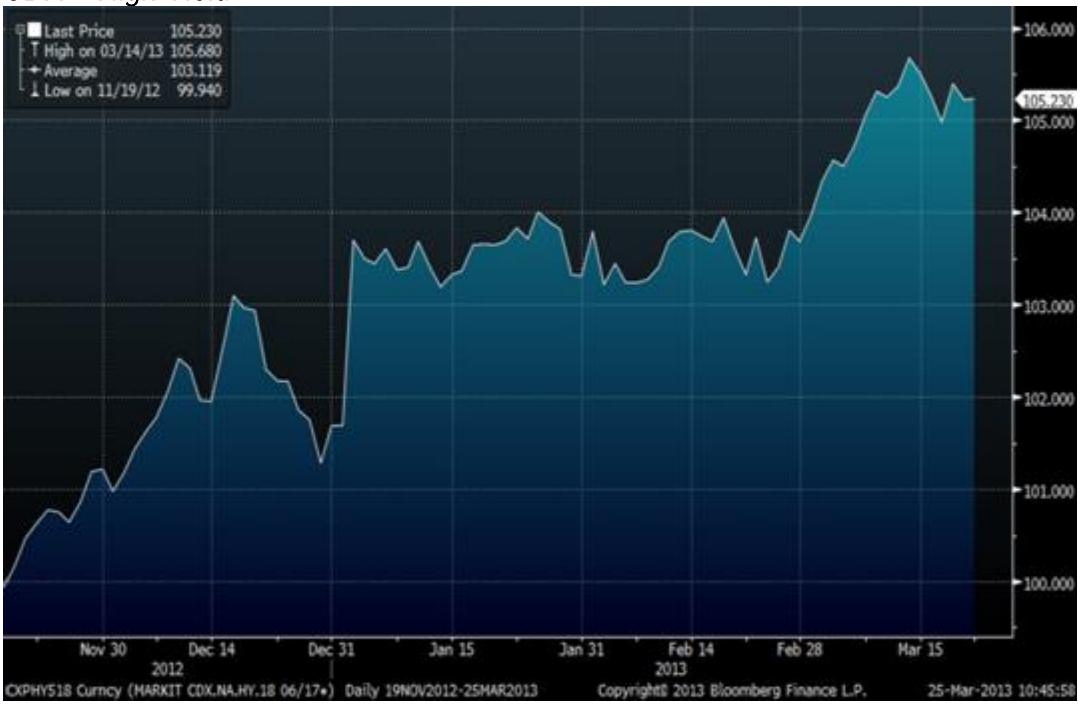
The Markit CDX North America Investment Grade Index (CDX IG) consists of 125 investment-grade entities domiciled in North America. Since its high of 92.5 bps as of Nov. 12, 2012, the spread on the CDX IG index has been trending downward, reaching a low of 66.2 bps as of

March 14, 2012. This is indicative of the continued low interest-rate environment in the United States, whereby investors have been searching for higher-yielding alternatives rather than investing in U.S. Treasuries. Consequently, strong investor demand for investment-grade corporate bonds has led to tighter spreads. As of year-end 2011, the U.S. insurance industry invested $1.8 trillion in corporate bonds, the majority of which were investment grade.

CDX – Investment Grade

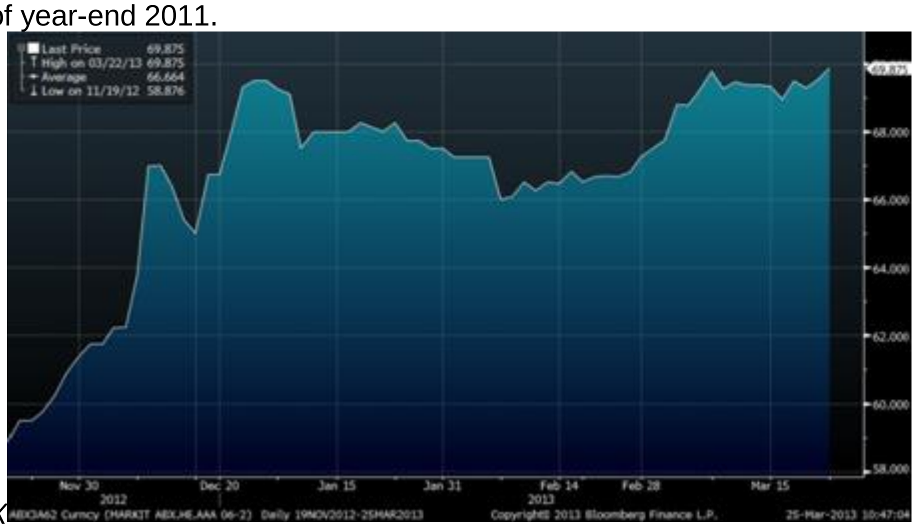
The Markit CDX North America High Yield Index (CDX HY) is composed of 100 non-investment grade corporate entities domiciled in North America. Unlike the CDX IG index, which trades on spread, the CDX HY index trades on price. Price moves inversely to yield and spread. The CDX HY index has also been benefitting from investor demand for higher-yielding assets, as its price, for the most part, has been on an upward trend. On March 14, 2013, the index reached a high of 105.68% of notional. Signs of improvements related to U.S. economic recovery, including favorable corporate earnings reports, have positively influenced movement of the CDX HY index.

CDX – High Yield



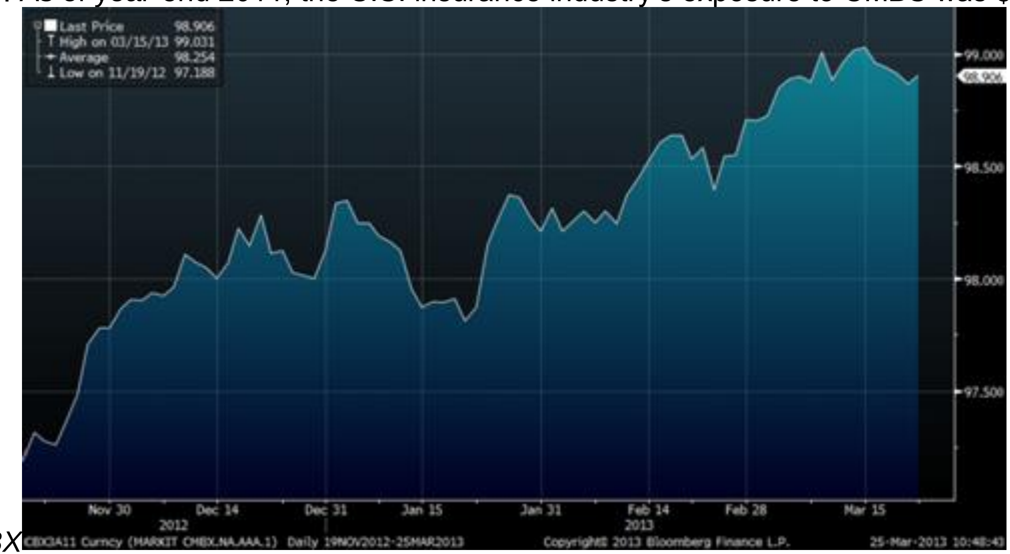
Structured Securities

The Markit ABX index is comprised of reference obligations in 20 non-agency residential mortgage-backed securities (RMBS) issuers. As the graph below indicates, RMBS prices spiked in December 2012 as an estimated 200,000 homeowners regained positive equity in their properties in the fourth quarter. The increase in prices may also be attributed to the seasonality of the mortgage loans that comprise the RMBS pools within the ABX index. Since the beginning of the year, the ABX index has generally leveled off. The U.S. housing market is recovering from having been the center of the recent financial crisis, with borrowing costs near record lows and improved employment helping to fuel demand for existing property listings. Permits for future construction have also climbed to the highest level in almost five years, which is a positive indicator for economic growth. The U.S. insurance industry had $132 billion invested in RMBS as of year-end 2011.



ABX

The Markit CMBX index is composed of 25 reference obligations that are tranches of commercial mortgage-backed securities (CMBS). New issuance for 2013 CMBS has been relatively strong and is expected to total more than $50 billion (according to Standard &Poor’s). CMBS market recovery is dependent on broad economic trends, but has not been as severely impacted by the U.S. housing crisis, given the commercial nature of its underlying loans. CMBS prices have been increasing since November 2012, reaching a high of $99.03 in mid-March 2013. As of year-end 2011, the U.S. insurance industry’s exposure to CMBS was $174.6 billion.



CMBX

Summary

Over the past few months, the U.S. financial markets have been favorably influenced by domestic economic improvement, including a recent unexpected drop in jobless claims in February 2013. Nevertheless, the markets continue to be affected — usually temporarily — by any news that arises from the Eurozone regarding the ongoing debt crisis. The NAIC Capital Markets Bureau will continue to monitor market volatility and publish additional research on this topic as deemed appropriate.

March 22, 2013								
Major Insurer Share Prices			**Change %**			**Prior**		
		Close	**Week**	**QTD**	**YTD**	**Week**	**Quarter**	**Year**
Life	Aflac	$51.85	1.5	(2.0)	(2.0)	$51.08	$52.89	$52.89
	Ameriprise	73.65	(0.9)	17.9	17.9	74.33	62.45	62.45
	Genworth	10.14	(3.3)	35.4	35.4	10.49	7.49	7.49
	Lincoln	32.67	(2.3)	26.8	26.8	33.44	25.77	25.77
	MetLife	38.40	(4.5)	17.2	17.2	40.20	32.76	32.76
	Principal	33.53	(1.6)	18.1	18.1	34.09	28.38	28.38
	Protective	34.85	(0.8)	22.4	22.4	35.14	28.47	28.47
	Prudential	58.75	(2.7)	10.7	10.7	60.41	53.09	53.09
	UNUM	27.49	(0.9)	32.6	32.6	27.73	20.73	20.73
PC	ACE	$88.32	0.1	11.1	11.1	$88.26	$79.50	$79.50
	Axis Capital	41.52	1.3	20.5	20.5	40.99	34.46	34.46
	Allstate	48.22	0.5	20.4	20.4	47.98	40.05	40.05
	Arch Capital	51.81	0.3	18.2	18.2	51.67	43.82	43.82
	Cincinnati	46.36	(1.3)	19.0	19.0	46.98	38.95	38.95
	Chubb	86.41	1.0	15.2	15.2	85.52	75.01	75.01
	Everest Re	130.64	1.3	19.1	19.1	128.90	109.67	109.67
	Progressive	24.87	(1.0)	18.4	18.4	25.13	21.01	21.01
	Travelers	83.69	1.7	17.0	17.0	82.28	71.53	71.53
	WR Berkley	43.48	1.0	15.7	15.7	43.03	37.59	37.59
	XL	30.25	(0.5)	21.3	21.3	30.40	24.94	24.94
Other	AON	$60.27	0.6	8.8	8.8	$59.90	$55.41	$55.41
	AIG	37.79	(3.0)	7.1	7.1	38.97	35.28	35.28
	Assurant	44.02	(0.0)	27.7	27.7	44.04	34.48	34.48
	Fidelity National	23.91	(1.4)	1.4	1.4	24.24	23.58	23.58
	Hartford	26.40	0.4	17.9	17.9	26.30	22.39	22.39
	Marsh	37.40	0.8	9.0	9.0	37.09	34.30	34.30
Health	Aetna	$49.91	(1.9)	8.1	8.1	$50.87	$46.17	$46.17
	Cigna	61.75	(1.4)	15.9	15.9	62.63	53.29	53.29
	Humana	67.10	(3.9)	(1.9)	(1.9)	69.79	68.43	68.43
	United	54.46	(0.5)	0.6	0.6	54.73	54.12	54.12
	WellPoint	64.03	(1.5)	5.4	5.4	64.98	60.73	60.73
Monoline	Assured	$20.93	1.8	48.2	48.2	$20.56	$14.12	$14.12
	MBIA	11.19	(6.5)	41.3	41.3	11.97	7.92	7.92
	MGIC	4.52	(7.9)	67.4	67.4	4.91	2.70	2.70
	Radian	10.28	2.4	67.2	67.2	10.04	6.15	6.15
	XL Capital	30.25	(0.5)	21.3	21.3	30.40	24.94	24.94

March 22, 2013								
Major Market Variables			**Change %**			**Prior**		
		Close	**Week**	**QTD**	**YTD**	**Week**	**Quarter**	**Year**
Dow Jones Ind		14,512.03	(0.0)	10.8	10.8	14,514.11	13,099.80	13,099.80
S&P 500		1,556.89	(0.2)	9.5	9.5	1,560.70	1,422.10	1,422.10
S&P Financial		245.13	(1.5)	10.8	10.8	248.77	221.17	221.17
S&P Insurance		226.13	(0.8)	13.3	13.3	227.85	199.67	199.67
US Dollar $			**Change %**			**Prior**		
	/ Euro	$1.30	(0.6)	(1.6)	(1.6)	$1.31	$1.32	$1.32
	/ Crude Oil bbl	93.88	0.4	2.5	2.5	93.52	91.62	91.62
	/ Gold oz	1,607.00	1.0	(4.0)	(4.0)	1,590.60	1,673.70	1,673.70
Treasury Ylds %		%	**Change bp**			%	%	%
	1 Year	0.13	(0.01)	(0.01)	(0.01)	0.14	0.14	0.14
	10 Year	1.93	(0.06)	0.17	0.17	1.99	1.76	1.76
	30 Year	3.15	(0.06)	0.20	0.20	3.21	2.95	2.95
Corp Credit Spreads -bp			**Change %**			**Prior**		
	CDX.IG	42.71	2.6	(25.1)	(25.1)	41.63	57.04	57.04

March 22, 2013										
Major Insurer Bond Yields				Weekly Change					YTD
				Price			Spread		Spread
	Company	Coupon	Maturity	Current	Change	Yield	B.P.	Change	Change
Life	Aflac	8.500%	5/15/2019	$135.44	($0.12)	2.28%	114	6	(14)
	Ameriprise	5.300%	3/15/2020	$118.76	$0.37	2.36%	101	(4)	(17)
	Genworth	6.515%	5/15/2018	$114.03	($0.39)	3.51%	262	8	(128)
	Lincoln National	8.750%	7/15/2019	$135.50	$0.66	2.57%	142	(4)	(42)
	MassMutual	8.875%	6/15/2039	$153.85	$2.29	5.12%	210	(8)	(39)
	MetLife	4.750%	2/15/2021	$114.51	$0.25	2.69%	116	2	8
	New York Life	6.750%	11/15/2039	$134.26	$1.40	4.52%	153	(0)	(10)
	Northwestern Mutual	6.063%	3/15/2040	$123.81	$0.73	4.53%	150	2	5
	Pacific Life	9.250%	6/15/2039	$144.48	$0.42	5.90%	291	3	(40)
	Principal	6.050%	10/15/2036	$124.15	$1.08	4.39%	157	(0)	(25)
	Prudential	4.500%	11/15/2020	$112.05	$0.57	2.74%	124	(3)	(17)
	TIAA	6.850%	12/15/2039	$132.61	$1.19	4.69%	169	1	(1)
P&C	ACE INA	5.900%	6/15/2019	$124.05	($0.01)	1.79%	64	6	(13)
	Allstate	7.450%	5/15/2019	$131.33	$0.49	2.00%	87	(3)	(23)
	American Financial	9.875%	6/15/2019	$135.45	$0.89	3.48%	230	(11)	(82)
	Berkshire Hathaway	5.400%	5/15/2018	$119.42	($0.02)	1.46%	56	2	(6)
	Travelers	3.900%	11/15/2020	$112.15	$0.42	2.16%	69	0	5
	XL Group	6.250%	5/15/2027	$119.44	$0.14	4.39%	215	5	(27)
Other	AON	5.000%	9/15/2020	$114.42	$0.41	2.85%	138	(1)	6
	AIG	5.850%	1/15/2018	$117.21	$0.06	2.07%	126	1	6
	Fidelity National	7.875%	7/15/2020	$129.01	$0.51	-0.98%	(190)	(6)	(58)
	Hartford	5.500%	3/15/2020	$117.00	$0.20	2.81%	145	4	(28)
	Marsh	9.250%	4/15/2019	$134.73	($0.01)	2.94%	175	6	(21)
	Nationwide	9.375%	8/15/2039	$146.60	$1.35	5.88%	287	(2)	(35)
Health	Aetna	3.950%	9/15/2020	$108.88	$0.28	2.63%	118	2	(2)
	CIGNA	5.125%	6/15/2020	$115.03	$0.63	2.81%	142	(4)	(2)
	United Healthcare	3.875%	10/15/2020	$109.53	$0.46	2.48%	100	(2)	4
	Wellpoint	4.350%	8/15/2020	$110.55	$0.35	2.76%	132	1	(5)

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