



November 1, 2018

Vol. XVIII, No. 11

PRT Purchase Rates Remain At Multi-Year Highs, Equities Are Down

Both immediate and deferred purchase rates were up in October. The immediate annuity purchase rate increased from 3.43% to 3.51%; the deferred purchase rate increased from 3.56% to 3.72%. Both rates are the highest since early 2014. The high rate for immediates is 3.83% down slightly from 3.85%; the highest deferred rate is 3.99%, up from 3.60%.

The treasury curve steepened in October. The 10 year treasury yield rose from 3.05% to 3.15% and the 30 year treasury yield rose from 3.20% to 3.39%. The two year treasury yield increased from 2.81% to 2.87%.

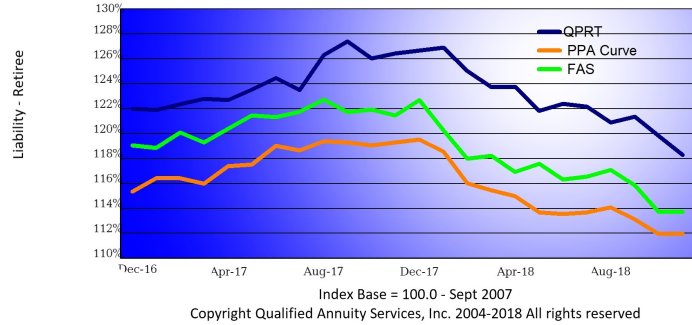
Equity markets dropped in October as the S&P 500 fell 7% and aggregate foreign markets lost 8.5%. The S&P 500 was up less than 1.5% year-to-date at the end of October while foreign markets lost over 13%. US markets are negative year-to-date in November while foreign markets fell further year-to-date. The usual factors of Middle East and European political uncertainty and China/US trade wars continue. Two weeks after US mid-terms political uncertainty seems reduced. However, renewed threats of government shutdowns and White House turnover reverberate. Renewed concern for global economic growth impacted oil prices as demand seems less than expected and US production scales higher.

Should I Wait for Higher Rates?

Rate news focuses on the Fed as it methodically raised the Fed Funds; the talk is how much and how quickly. Short term rate bias can change very quickly as the number of expected increases over the next year or so has fallen (see below). Fed action impacts short term rates up to two years and has less impact beyond 5 years. Annuity prices are driven by changes on the long end of the curve: the 10 year for retirees; the 10 and 30 on deferred lives. Rates are very hard to predict as many factors contribute: inflation, expected economic activity, supply and demand for treasuries. Current treasury rates are at the high end since 2008-09 but are low compared to rates in the early 2000's. Credit spreads impact annuity prices which are tight by historic norms. Credit spreads

QAS Pension Risk Transfer 1000 Index©

Dec 2016 to Nov 2018 - Relative Price PRT v. PPA Curve - FAS



have a second order impact on annuity prices relative to short term treasury rates. Is there a bias for rates to go up long term? Perhaps, but the vagaries of short to intermediate term rates prevail. Call a PRT advisor to get input on strategy and to see if the numbers work for you.

Rates

The November FOMC meeting saw the Fed keep the Fed Funds rate unchanged at a target rate of 2.00-2.25%. The CME Group's Fed Watch Tool indicates a 76% chance of a 25 basis point hike in December, down from 80% as of last month's newsletter. The Tool now projects a lower probability of multiple rate hikes next year versus last month. The chance of a target range over 3.00% (three or more rate hikes of 25 basis points) at the end of 2019 is now 10% versus 26% last month. Since the end of October, rates dropped with the 10 year treasury at 3.06%, the 30 year at 3.31% and the two year at 2.81%.

PRT Trax Index +/-	
12 mo Hi-Lo %	+/- 7.3%
YTD % Δ	- 6.8%
3 mos % Δ	- 2.1%
1 mo % Δ	- 1.3%

As the rules of risk change, QAS adds value for its clients.

Read more or subscribe here:

<https://www.qualifiedannuity.com/monthly-newsletters/>

Learn More About Custom PRT Modeling and Glide Path Capabilities.

Get Informed. Think Strategic. Act Tactical.

Ron McHugh, FSA MAAA CFA (508)733-8591 ■ Joe Cleary (201)447-3900

Date	Immediate	High	Deferred	High
November 1, 2018	3.51%	3.85%	3.72%	3.99%