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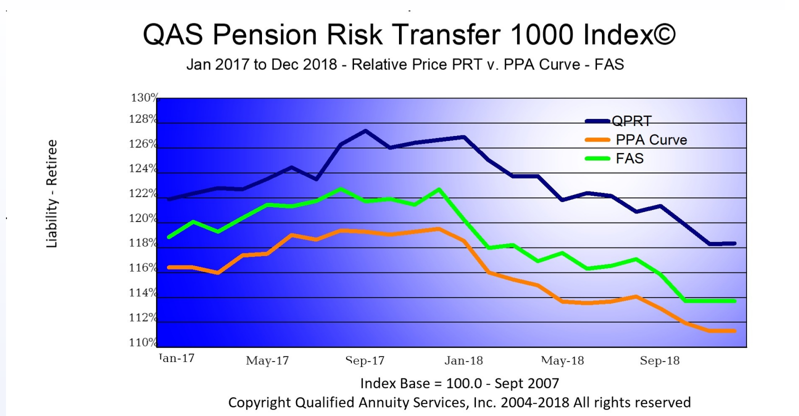
Rates Down, Equities Bring No Holiday Cheer

Both immediate and deferred purchase rates were down in November. The immediate annuity purchase rate decreased from 3.51% to 3.44%; the deferred purchase rate decreased only slightly from 3.72% to 3.71%. The highest rate for immediate annuities was 3.74% down from 3.85%, the highest deferred rate was 4.07%, up from 3.99%.



In November, the treasury curve dropped. The ten year treasury yield fell from 3.15% to 3.01% while the 30 year treasury yield decreased from 3.39% to 3.30%. The two year treasury yield fell from 2.87% to 2.80%. There were also some slight inversions in the two to five year yields in the past few weeks

In November the S&P 500 was up about 2% while aggregate foreign market indexes were up about 1.7%. Year-to-date the S&P 500 was up nearly 3.5% at November close while foreign markets were down over 12%. However, December turned ugly with US stocks down roughly 10% so far and foreign markets down 5%. The S&P 500 is down 7.5% year-to-date while aggregate foreign markets are down 17%. The Nasdaq hit bear market territory (down more than 20% from its August high), but other major US indexes are not yet there. Political uncertainty, trade war, government shutdowns, White House turnover and interest rates are dominating the stage. Oil prices continue to drop as slower global economic growth overshadows lower OPEC production.

Are lower rates and lower equity markets good for insurance companies?

Lower rates and lower equity markets are both bad for insurers. Most insurers hedge the bulk of their interest rate risk but some products have annual premiums for many years into the future. Practices vary on how insurers manage this risk as some companies deliberately mismatch asset and liability durations based on their tactical corporate views. Some insurers back fixed liabilities with equities thus exposing portfolios to losses when markets decline. Others sell fee based products where a market decline impacts revenue needed to cover up-front sales costs. Operating results are a function of product mix, investment and hedging strategies. To learn more, consult with our knowledgeable advisors who understand these embedded risks.

Rates

Against President Trump's wishes, the Fed increased the Fed Funds rate to a target rate of 2.25-2.5% at the December FOMC meeting. Although the Fed signaled fewer rate increases in the near term, the markets reacted poorly to the Fed's communication. According to the CME Group's Fed Watch Tool, there is roughly a 35% chance of a 25 basis point increase by the end of next year, and an 11% chance of 2 or more. The most likely outcome is no increase at all in 2019; this is remarkably different from just a few weeks ago. Stay tuned. Since the end of November, rates have continued to drop. The ten year treasury is at 2.79%, the 30 year at 3.02% and the two year at 2.67%.

PRT Trax Index +/-	
12 mo Hi-Lo %	+/- 7.3%
YTD % Δ	- 6.7%
3 mos % Δ	- 2.5%
1 mo % Δ	- 0.0%

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Date	Immediate	High	Deferred	High
December 1, 2018	3.44%	3.74%	3.71%	4.07%

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