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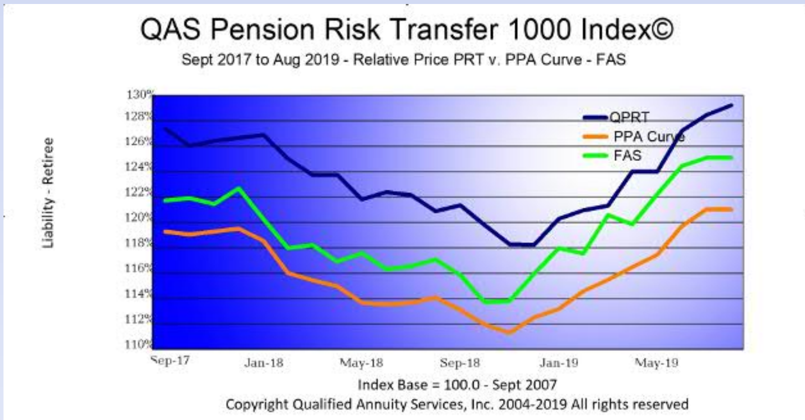
August 2019 Vol. XIX, No. 8

# Purchase Rates Down in July, Currently Expect Big Drop in August




Purchase rates were down in July. The immediate annuity purchase rate decreased from 2.55% to 2.44% for a decline of 11 basis points, the deferred purchase rate decreased from 2.84% to 2.73% also a decline of 11 basis points. The highest rate for immediate annuities was 2.72%, down from 2.95% in June, while the highest deferred rate was 2.95%, down from 3.15%.

In July, the treasury curve increased slightly. The 10 Year treasury yield increased from 2.00% to 2.02%, an increase of 2 basis points, while the 30 Year increased from 2.52% to 2.53%, a single basis point increase. The Two Year treasury yield increased from 1.75% to 1.89%, a 14 basis point increase.

US and Foreign Equity markets were mixed in July. The S&P 500 was up 1.5% while aggregate foreign market indexes were down 2%. Year-to-date at July month end the S&P 500 was up 19% while aggregate foreign markets were up 9.5%. In August, the S&P 500 dropped 2%, while foreign markets fell 3%. Recession fears made the front page as the 2 Year treasury yield exceeded the 10 Year yield, historically a harbinger of recession. China's response to US tariffs stoked market volatility; political turmoil in Hong Kong rose; concerns grew over a Global economic slowdown and an uncertain Brexit outcome.

### How Will My Prospective Insurer Perform During a Recession

How insurers perform during a recession can be gauged by how they performed during past times of economic turmoil. Insurers performed relatively well during the great recession. Some products caused angst: Variable Annuities, Universal Life with no lapse guarantees and Long Term Care. Leading sales are Equity Indexed Annuities and Index Universal Life. Long Term Care is now sold as a rider that limits risk as carriers exit traditional LTC. As for assets, insurers have more credit risk as BBB's are at all-time highs and asset backed exposure (including CLO's) has increased. Virtually all insurers have better risk monitoring as boards and regulators have demanded it and actuaries are required to sign off on risk assessments. But the corporate cool aid can act as blinders to blatantly obvious risks going under-reported or unmanaged. Take the blinders off: give QAS a call.

### Rates

The Fed made what Chairman Powell called a "Mid-Cycle Adjustment" at it's July meeting dropping the Fed Funds Target Range by 25 basis points to 2.00-2.25%. The CME Fed Watch Tool forecasts a 95% probability of a 25 basis point drop to the Fed Funds Target Range at the September meeting and a 5% probability of a 50 basis point drop.

Since the end of July, treasury rates have dropped significantly with the Two Year down 28 basis points at 1.61%, the 10 Year down 40 basis points to 1.62%, and 30 Year down 42 basis points to 2.11%. Annuity purchase rates are sure to follow pushing PRT costs higher.

| PRT Trax Index +/- | |
|---|---|
| 12 mo Hi-Lo % | +/- 9.3% |
| YTD % Δ | + 9.3% |
| 3 mos % Δ | + 4.2% |
| 1 mo % Δ | + 0.6% |

***As the rules of risk change, QAS adds value for its clients.*** Read more or subscribe here: https://www.qualifiedannuity.com/monthly-newsletters/

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***Get Informed. Think Strategic. Act Tactical.***

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| Date | Immediate | High | Deferred | High |
|---|---|---|---|---|
| August 2019 | 2.44% | 2.72% | 2.73% | 2.94% |