

February 2020

Vol. XX, No. 2

Rates Drop Forty Basis Points in January, February Rates Hit New Lows

Purchase rates dropped in January. The immediate annuity purchase rate was down 35 basis points from 2.31% to 1.96%, while the deferred purchase rate was also down 35 basis points from 2.50% to 2.15%. The highest immediate rate 2.33%, down 22 basis points from December; the highest deferred rate was 2.36%, down 34 basis points.

In January, medium and long term treasury yields decreased dramatically. The 10 Year treasury yield decreased 41 basis points to 1.51% from 1.92% while the 30 Year treasury yield decreased 40 basis points to 1.99% from 2.39%. The Two Year treasury yield decreased 29 basis points from 1.62% to 1.33%. T-bill yields exceeded treasury bond yields up to five years inverting the curve.

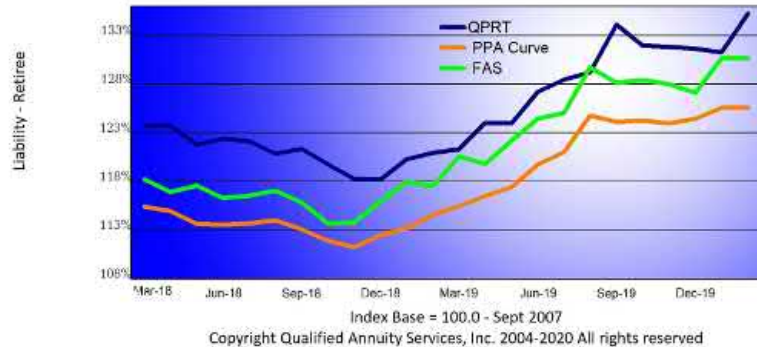
US equities were flat while Foreign equities were down 3.4% in January. The S&P 500 rose by 0.14% while aggregate foreign market indexes were down roughly 5.5% year-to-date. The S&P 500 hit new record highs but retraced to beginning of year levels. The coronavirus strain originating in central China has killed over 2,700 people and infected more than 80,000 as it has spread outside China and Asia. World-wide containment efforts have ramped up. However, knowledge of the virus appears to be limited at this point. Bernie Sanders, who identifies as a democratic socialist, is the democratic front runner.

How Will the Coronavirus Impact Insurers?

There are a few ways the coronavirus could impact insurers over and above the human tragedy caused by the outbreak. First, life insurance death benefit claims could increase. This should be manageable for most insurers with large life blocks. Insurers with the best ratings and most capital manage such risk by hedging with annuities. This assumes that the virus is not beyond events of the past century or so. Second, the drop in rates continues a decade long challenge facing the industry. Third, asset returns could be hit as global growth slows. We would not

QAS Pension Risk Transfer 1000 Index©

Mar 2018 to Feb 2020 - Relative Price PRT v. PPA Curve - FAS



expect the coronavirus to cause significant credit challenges for insurers in the PRT space. For more information, give QAS a call.

Rates

According to the CME Fed Watch Tool, there is an 81% chance of no change in the Fed Funds rate target, currently at 1.50% to 1.75%, at the next Fed Meeting in March, and roughly a 19% chance of a 25 basis point rate decrease. However, by the end of the year there is a 95% chance of an easing (at least a 25 basis point rate drop).

Since the end of January, rates continued to slide as safe havens of US treasuries and gold shine. The 10 Year yield is down 13 basis points to 1.38%, the 30 Year down 14 basis points to 1.84%, and the Two Year down 7 basis points to 1.26%. The 10 year and 30 year hit new lows.

PRT Trax Index +/-	
12 mo Hi-Lo %	+/- 11.8%
YTD %	+ 2.7%
3 mos %	+ 3.6%
1 mo %	+ 3.0%

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

Date	Immediate	High	Deferred	High
January 2020	1.92%	2.33%	2.15%	2.36%