

How Low Can They Go

Immediate and deferred purchase rates continued declining in June. The immediate annuity purchase rate dropped 22 basis points from 1.84% to 1.62% and the deferred purchase rate fell 26 basis points from 2.19% to 1.93%. The highest immediate rate was 2.35%, down 19 basis points and the highest deferred rate was 2.15%, down 21 basis points.

At the end of June, treasury yields were virtually unchanged from the end of May. The 10 Year treasury yield increased from 0.65% to 0.66%, an increase of 1 basis point, while the 30 Year treasury yield was flat at 1.41%. The Two Year treasury yield was also unchanged at 0.16%. Corporate 10 Year spreads continued tightening in June as Moody's Seasoned BBB spreads narrowed by 15 basis points and Moody's Seasoned Aaa spreads narrowed by 10 basis points.

US and Foreign equity markets rose significantly in June. The S&P 500 was up 1.3% while aggregate foreign markets rose 3.7% during another volatile month. Year-to-date at the end of June, the S&P 500 was down 4.2% while foreign markets fell roughly 11.7%. During July, stocks continued to rebound with the S&P 500 up roughly 4.7% and foreign markets up around 5.5% as volatility remains high. The virus is the lead story as cases increase and the death toll mounts, leading some states to pause re-openings. New unemployment claims are up after declining. State and local governments mull various strategies for schools as a massive multi-trillion dollar stimulus bill is hotly debated. A vaccine by the end of the year seems more and more possible. President Trump is trailing former Vice President Biden in a number of key swing states, and Republicans fear the Senate may be up for grabs.

Why Are Purchase Rates Dropping?

Annuity purchase rates from insurers are generated by looking at the investments available to them in the market. For most insurers this is going to consist largely of corporate bonds, the yields of which function as a spread to treasuries plus a corporate spread. Additional spreads can arise from a lack of liquidity for some bonds. Insurers will back out charges for defaults, expenses and profit, but



all these charges tend to be fixed over long periods of time. Early in the COVID-19 Pandemic, treasury yields came tumbling down but corporate spreads widened, offsetting much (if not all) of the treasury decline. More recently, annuity purchase costs have risen because spreads have been narrowing as treasuries have continued to decline. To learn more about what drives annuity prices, give QAS a call.

Rates

Treasury rates and spreads have declined further since the end of June. The 10 Year yield is down to 0.58%, while the 30 Year yield is 1.24%. The Two Year treasury is 12 basis points. The Moody's 10 Year Seasoned Baa Spreads have tightened another 36 basis points since the end of June while the Seasoned Aaa Spreads narrowed by another 25 basis points. The big question is how much lower can annuity purchase rates go? Stay healthy.

PRT Trax Index +/-	
12 mo Hi-Lo %	+/- 8.2%
YTD % Δ	+ 5.7%
3 mos % Δ	- 2.8%
1 mo % Δ	+ 2.0%

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Date	Immediate	+/-	High	+/-	Deferred	+/-	High	+/-
July 2020	1.62%	-0.22%	2.35%	-0.19%	1.93%	0.26%	2.15%	-0.21%