

(Don't) Blame it on the rain! Insurance stocks outperform into Hurricane season

In May, the market-weighted performance of our select of P&C stocks – the Inside P&C Select – was up 1.8%, outpacing the S&P 500 at 0.5% but underperforming banks at +5.5% and life insurers at +4.9%.

With the market already bearing much of the benefit of the anticipated economic recovery earlier this year, May stocks performance were relatively muted. This movement followed April's CPI data release with stocks rebounding only days later.

The speed of the economic recovery continues to be of focus, but the month of May yielded limited surprises, leaving stock performance incrementally higher and investors awaiting 6/4 job report.

April's disappointing job report left investors on edge that the economic growth trajectory may be slower than anticipated and another month of missed targets could add to the pessimism.

As our colleague Adam McNestrie [discussed](#), the increase in consumer pricing growth from 2.6% in March to 4.2% in April took the market by surprise and increased fears of inflation, with further increases threatening the current bull market and undercutting the recovery.

Inflation expectations have crept up over the past few months but May saw no substantive movement.

The mid and long-term Treasury yields have also held steady since March.

Without as much macro news driving the volatility, May's stock performance saw a greater sector specific focus, with investors forgoing the "Sell in May" guidance across the segments, with the exception of reinsurers.

There was little impact on stock performance from the forecasted above-average hurricane season.

Our analysis found that although insurance stocks tend to modestly underperform the S&P 500 during hurricane season (-0.5% vs. +1.2% the rest of the year), the correlation is not based on forecasted activity levels and relative stock performance can differ significantly from year to year.

Reinsurers were down 3.8% for the month of May given the disappointing 6/1 pricing commentary. Renaissance Re was down 8.7% in May, followed by Everest Re, down 6.1% and Axis down 3.9%.

With abundant reinsurance capital in place, pricing commentary around 6/1 included moderate increases but did not reach reinsurers' desired levels. This followed a "dampening" of price hikes at 4/1 renewals and a trailing 5-year period that was the most loss-heavy on record.

Large commercial insurers showed incremental growth, up 2.2% monthly, outperforming the Inside P&C Index and continuing to benefit from the positive pricing commentary, stabilizing economy, and anticipated infrastructure spending. Best performing in the within commercials was AIG, up 9.1% in May and 43% YTD.

On the other hand, as anticipated, The Hartford and Chubb were both slightly down for the month, after seeing the stock benefit from the acquisition offer last [month](#).

As mentioned in our recent [report](#), we aren't sure how long the "hardening" rate commentary will last, given carriers focus on top line growth and the levels of rising industry surplus.

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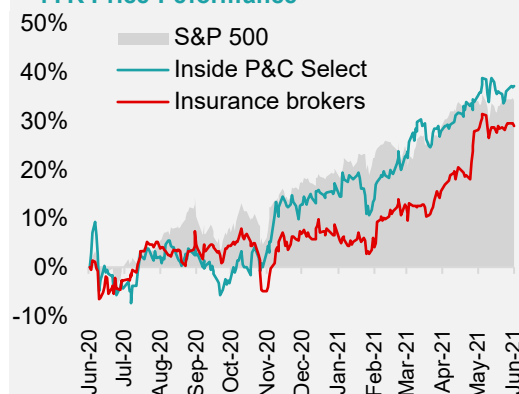
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Composite	YTD px chg.	P/B
Large comm.	21.7%	1.1x
Regional	30.6%	1.7x
Specialty	23.3%	1.8x
Personal	8.8%	2.2x
Bermuda	4.8%	1.2x
Florida	8.1%	1.0x
Brokers	18.7%	-
IPC Select	17.1%	1.4x
S&P 500 Fin.	29.5%	-
S&P 500	11.6%	-

1YR Price Performance



Source: SNL, Inside P&C

Personal Lines carriers also outperformed in May (up 1.7% vs. S&P 500 up 0.5%), with Allstate leading at 7.7%. However, we don't anticipate much further increases as the Covid- induced benefits on loss cost trends are running out and valuations for the group largely recovered earlier this quarter.

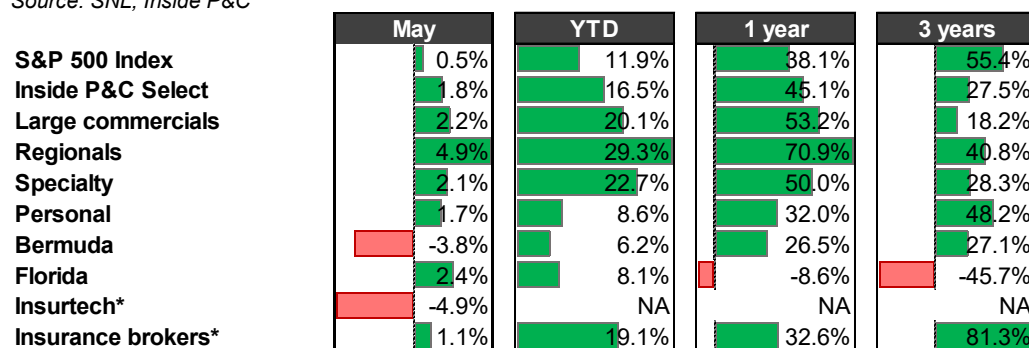
InsurTech names underperformed, driven by Root down 15% for the month, while Lemonade rebounded after seeing price declines mid-month following release of first quarter earnings. Root's year-to-date selloff (down 41.9%) continued and coincides with the broad risk-off sentiment we've seen in ultra-growth startup stocks and SPACs.

Lastly, insurance brokers were largely in line with most other P&C peer groups at 1.1% in May. Like we discussed in the [Q1 brokers wrap](#), the year may present strong tailwinds for intermediaries. Their P&C brokerage operations continue to benefit from high rates and a rebound in exposure units. In addition, discretionary consulting revenues should also expand in the coming quarters on the back of higher discretionary business spending and an increase in covered lives.

Elsewhere, the Aon-Willis arb spread remained in the 4%-5% range as the parties seem close to finalizing the merger following the announcements of asset divestitures to [AJ Gallagher](#), [Aquiline](#) and [Alight](#).

Inside P&C Select performance by peer groups

Source: SNL, Inside P&C



*not part of Inside P&C Select

Hurricane season sell-off is an urban legend

The urban legend "Sell in May and go away and come on back on St. Leger's Day" was historically founded on less trading activity in the summer months leading to a underperformance in May to October. As the dates closely aligns with hurricane season (June 1st to Nov. 30th), the slogan was translated to reinsurance stocks given the risk of outsized hurricane losses, particularly for coastal exposed carriers and reinsurers with high exposure to catastrophe lines.

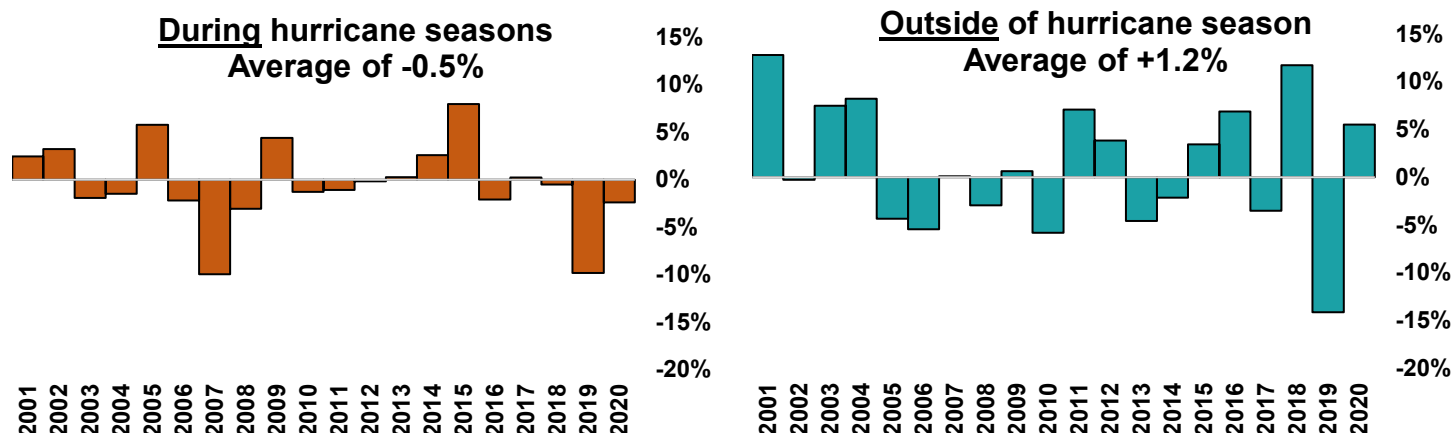
Our analysis found a very weak correlation. Since 2001, the Inside P&C Select index underperformed the S&P 500 by 0.5% during the hurricane season and outperformed by 1.2% the remainder of the year.

The market's focus tends to be longer term in reacting to hurricane events and short-term impacts of the hurricanes are limited. 2005 and 2017 were some of the highest loss years for the industry with Hurricanes Wilma and Katrina in 2005 and Hurricanes Harvey, Irma, and Maria in 2017, but Inside P&C Select index still outperformed the S&P 500.

This year's NOAA forecast calls for 13 to 20 named storms, 6 to 10 of which could become hurricanes, and 3 to 5 becoming major hurricanes. Although above historical average, the forecast is lower than last year, which saw 30 named storm, 13 hurricanes, and 6 major hurricanes and is unlikely related to current price performance.

Inside P&C Select performance relative to S&P 500

Source: FactSet, Inside P&C



Macro factors impacting insurance stocks

Economic drivers have served as the most significant determinates for the direction and volatility of stocks this year, as macro stories dominated the headlines.

In data released mid-May, CPI data was up 4.2% YoY, marking the largest increase since a 4.9% increase in 2008. The increase was driven by used cars and trucks, up 10% YoY.

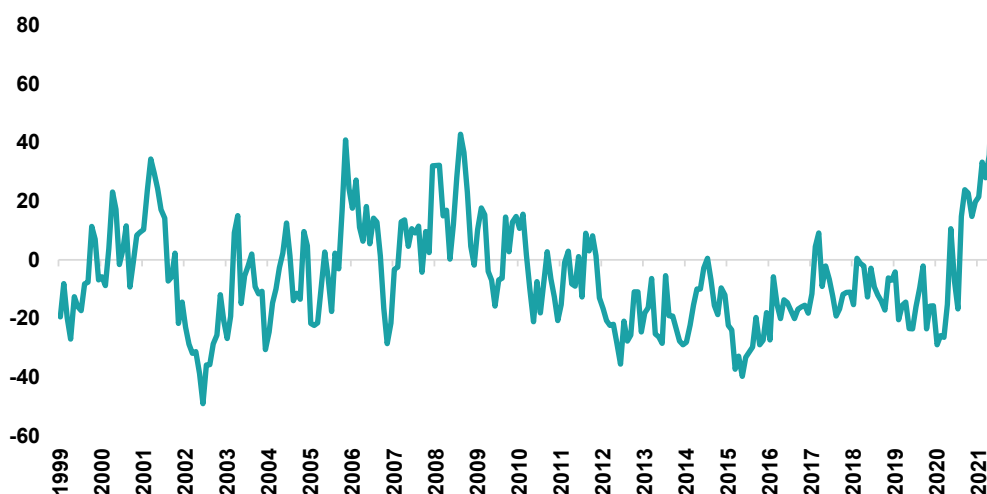
The news led to short term market volatility, with high growth sectors seeing steeper declines than insurance, and continued concern for inflation.

SURPRISE INDEX CONTINUES TO RISE

The Citi Economic Surprise Index, which tracks how economic data is coming in relative to forecasts reached a two decade high in May.

Citi Economic Surprise Index

Source: FactSet



INFLATION EXPECTATIONS HIGH BUT STEADY FOR THE MONTH

The 5-year breakeven inflation rate – one of the conventional gauges of inflation expectations – remained in line this month, hovering around 2.6%. This is the highest level since 2008.

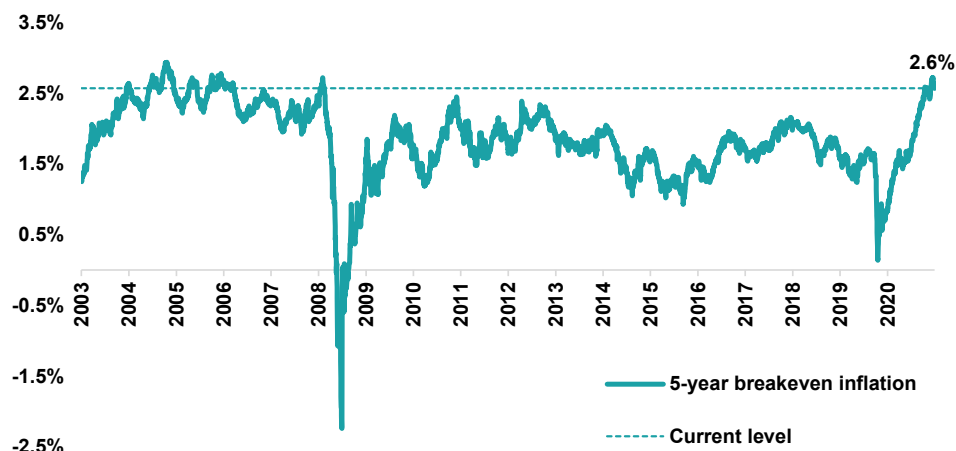
Questions remain on whether this reflects a short-term trend driven by the stimulus and delayed consumption as the economy readjusts or the beginning of the new

normal. A rise in inflation could be significant for insurers facing a higher than anticipated rebound in loss cost trends.

The key here is to think about the interplay of insurance CPI and long-term CPI. Historically, insurance inflation leads reported inflation by 150-200 basis points. So, adding this to the 2.6% above gives us closer to the 4-5% loss cost inflation.

5-year breakeven inflation rate

Source: FRED



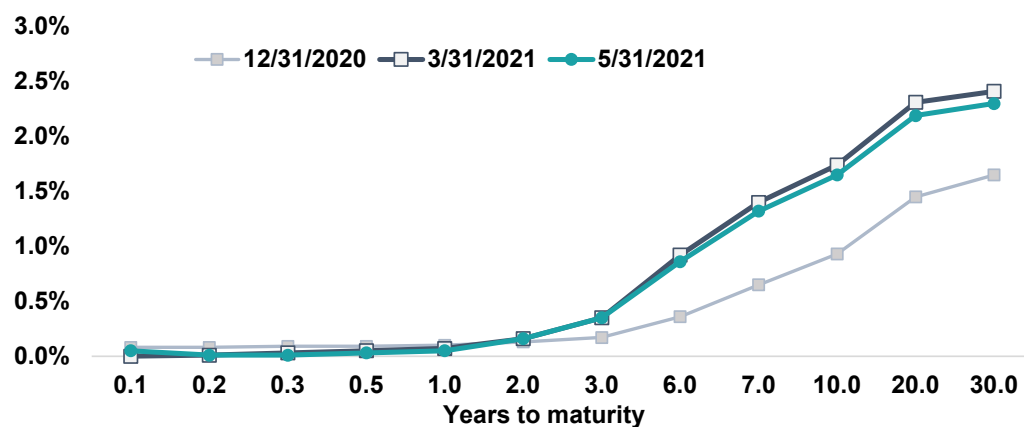
YIELD RATES REMAIN UNCHANGED

The mid and long-term Treasury yields held steady in May, after seeing significant steepening earlier this year.

Expanding treasury yields are generally a positive for the P&C sector, with life – exposed P&C stocks seeing a greater benefit. The life-exposed P&C stocks are more sensitive to earnings from higher interest rate earnings but could face challenges surrounding the asset- liability duration matching.

5-year breakeven inflation rate

Source: S&P Global, Inside P&C

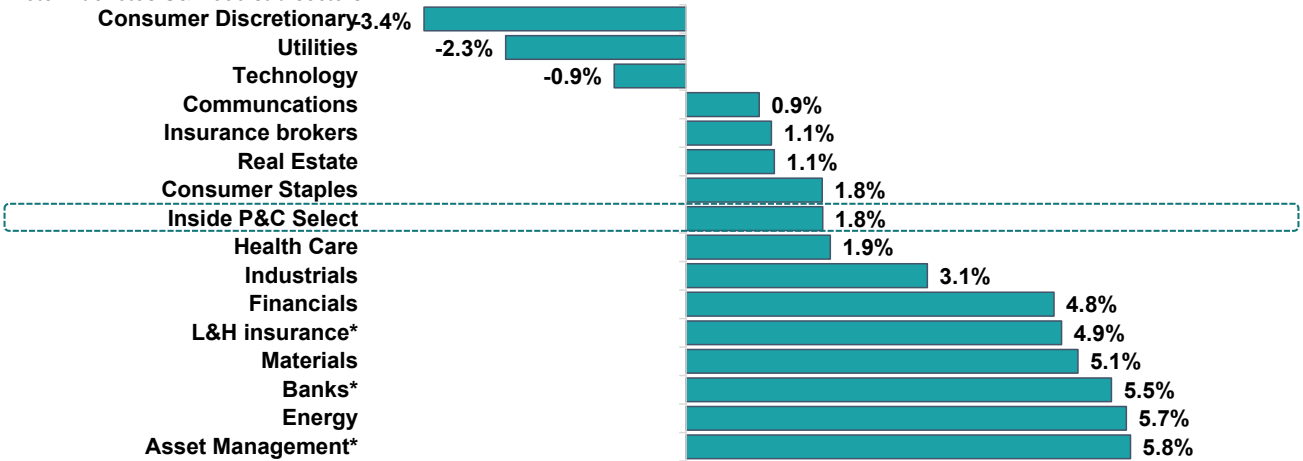


The next few pages include stock charts with the performance for individual companies, S&P 500 sectors and P&C sub-sectors in May.

Inside P&C Select vs S&P 500 sectors' performance in May

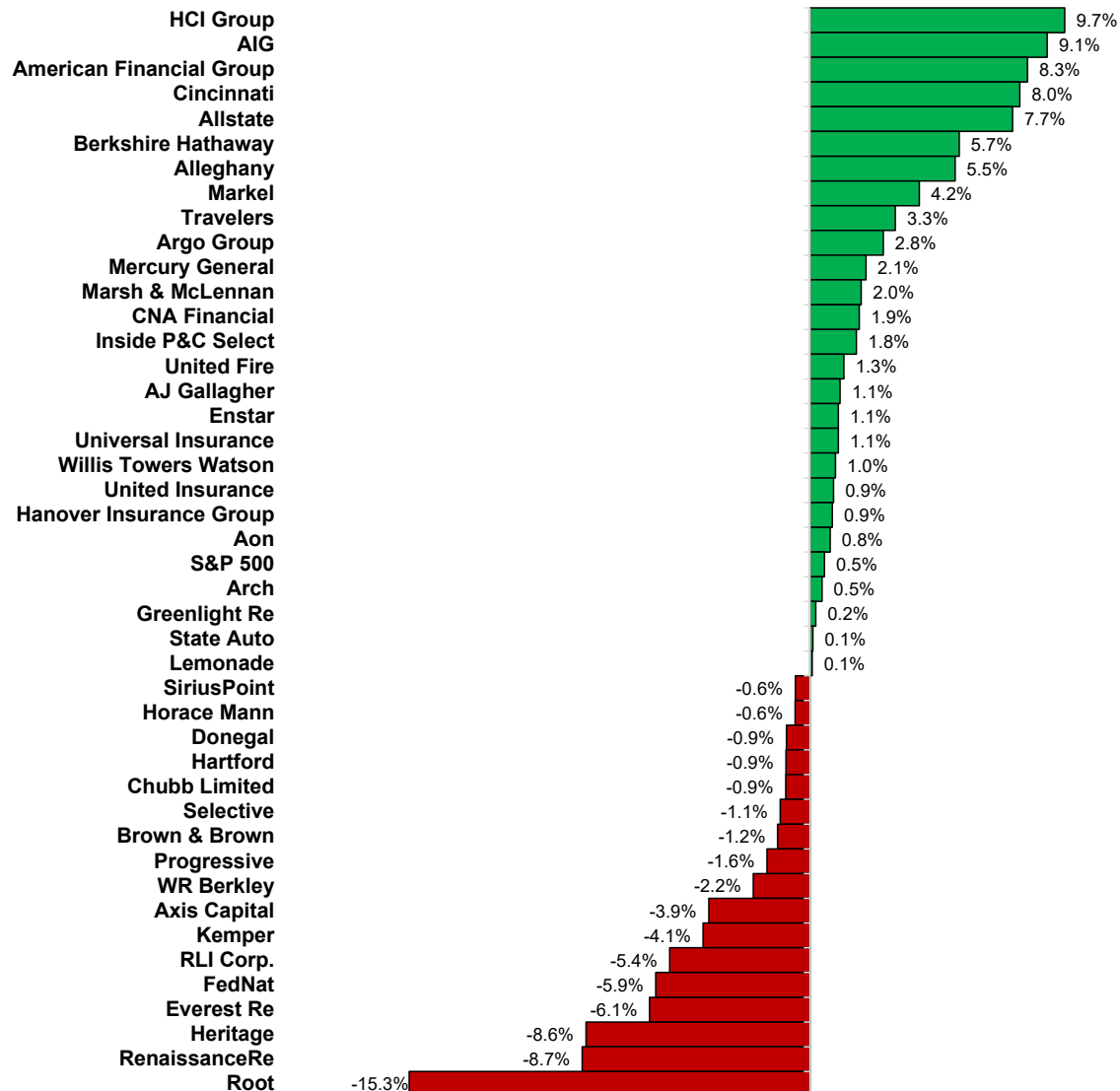
Source: FactSet, Inside P&C

Note: * denotes S&P 500 sub-sectors



May stock performance by individual carriers

Source: SNL, Inside P&C



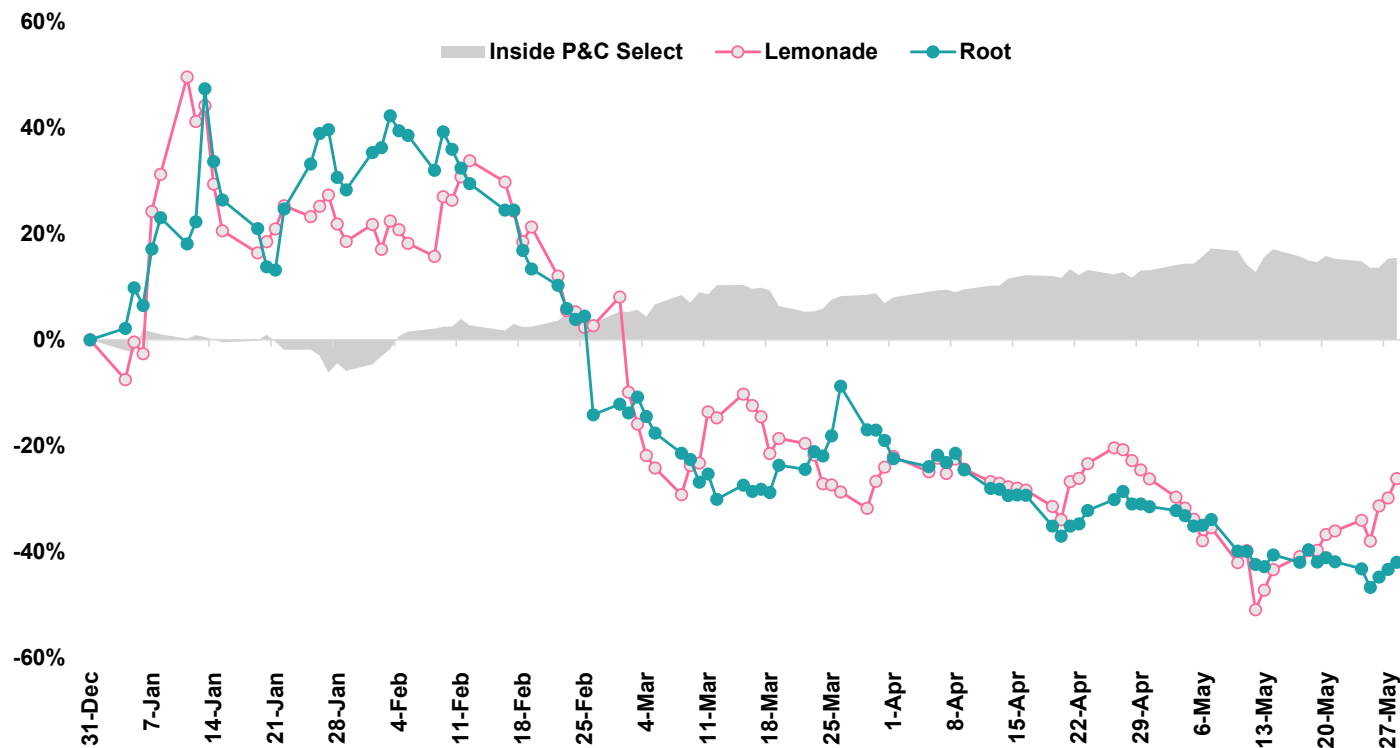
Appendix: Peer group stock performance charts

InsurTech

InsurTechs underperformed the Inside P&C Select Index. InsurTechs are not included in the Inside P&C Select Index. Root saw the largest declines, down 15.3% in May and down 41.9% YTD. Lemonade, although down 26.1% YTD, was flat for May and down only 2.9% for the quarter.

YTD performance. InsurTechs vs Inside P&C Select

Source: SNL, Inside P&C

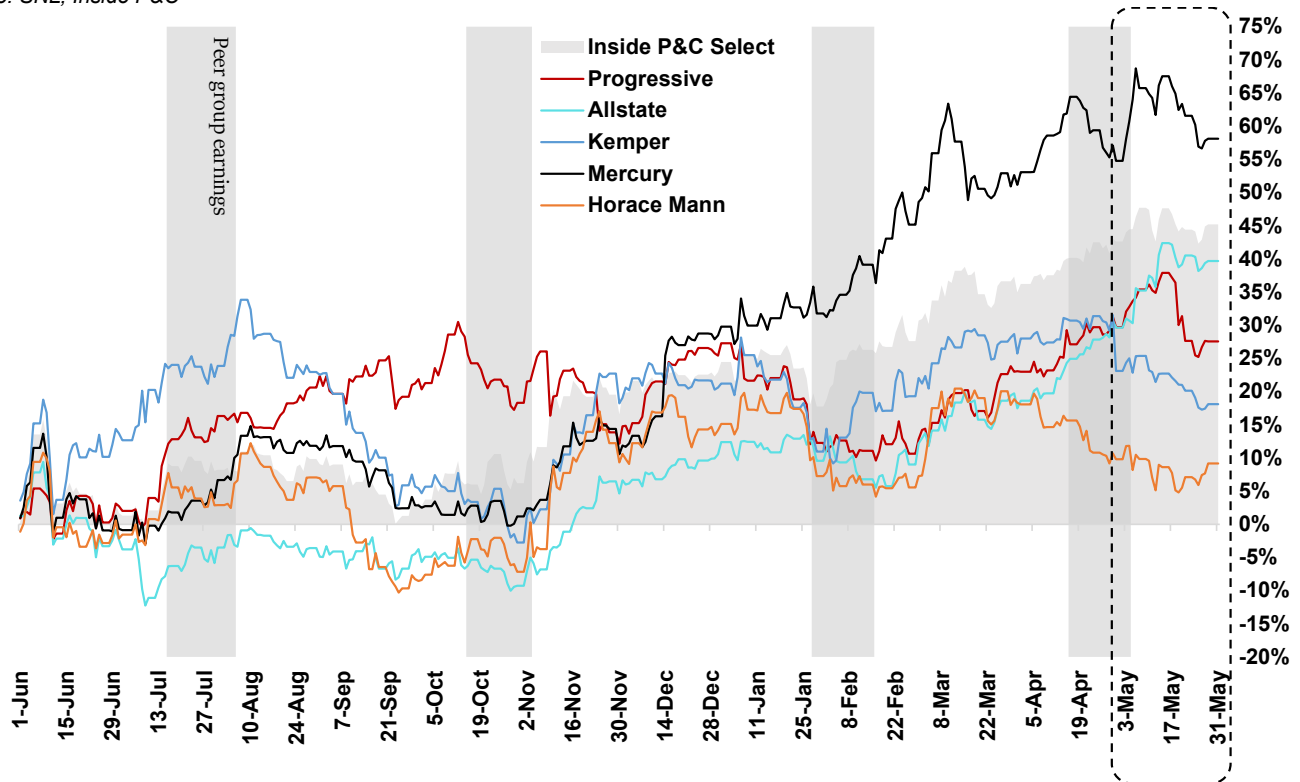


Personal lines

Personal lines were up 1.7% in May and 8.6% YTD. Allstate outperformed its peers, up 7.7% in May and 24.3% YTD. We've seen a couple of analysts lower their buy recommendation in early June given the gains.

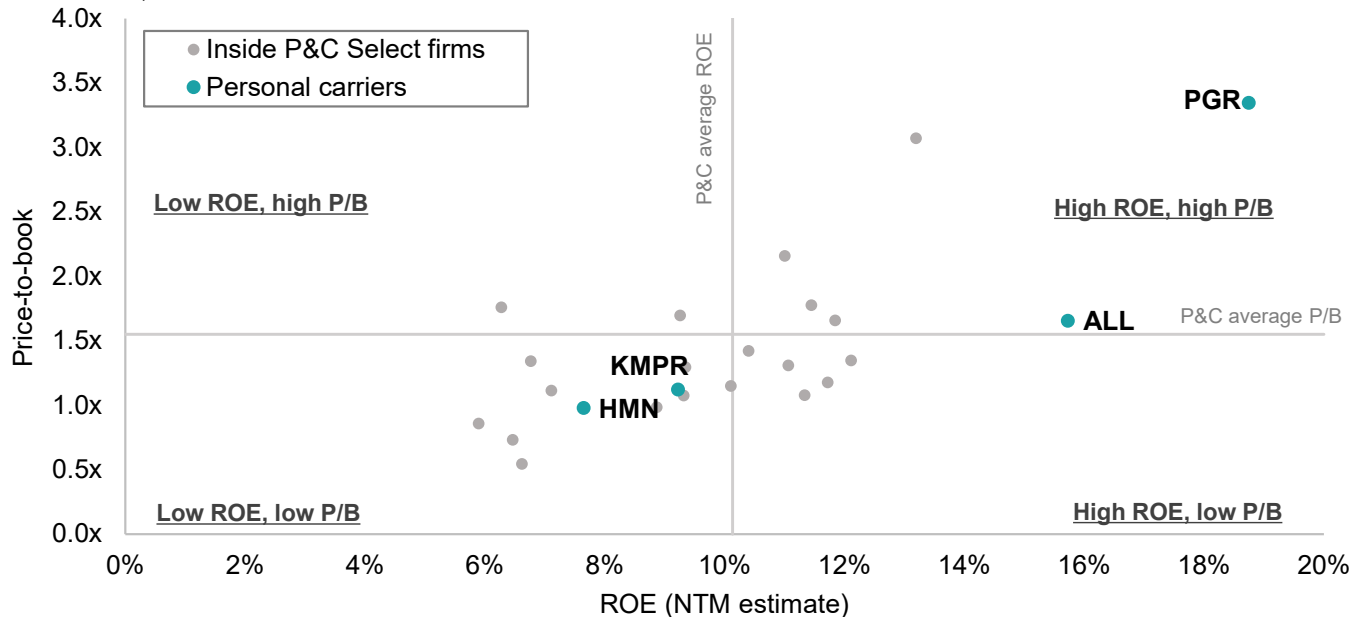
YTD stock performance for personal carriers (May performance highlighted)

Source: SNL, Inside P&C



PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

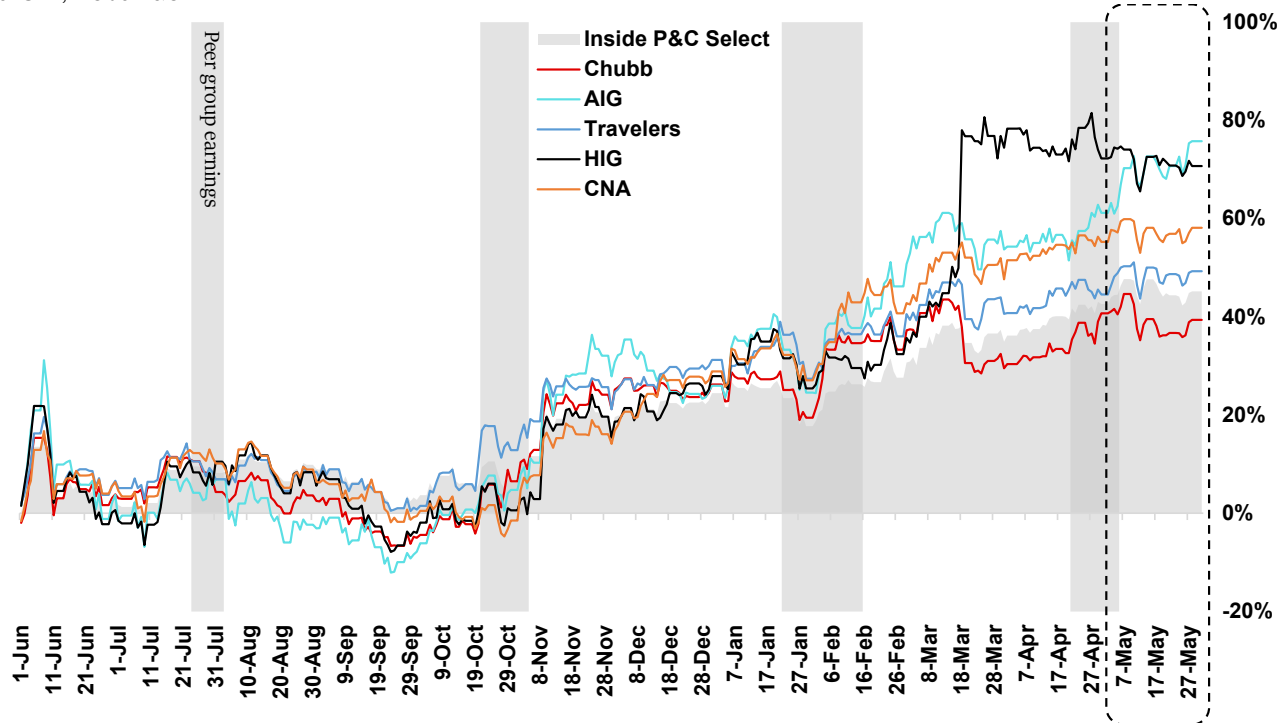


Large commercials

Large commercial carriers were up 2.2% in May and 20.1% YTD. AIG saw the largest movement in May, up 9.1%, continuing its year to date gains (up 39.6% YTD).

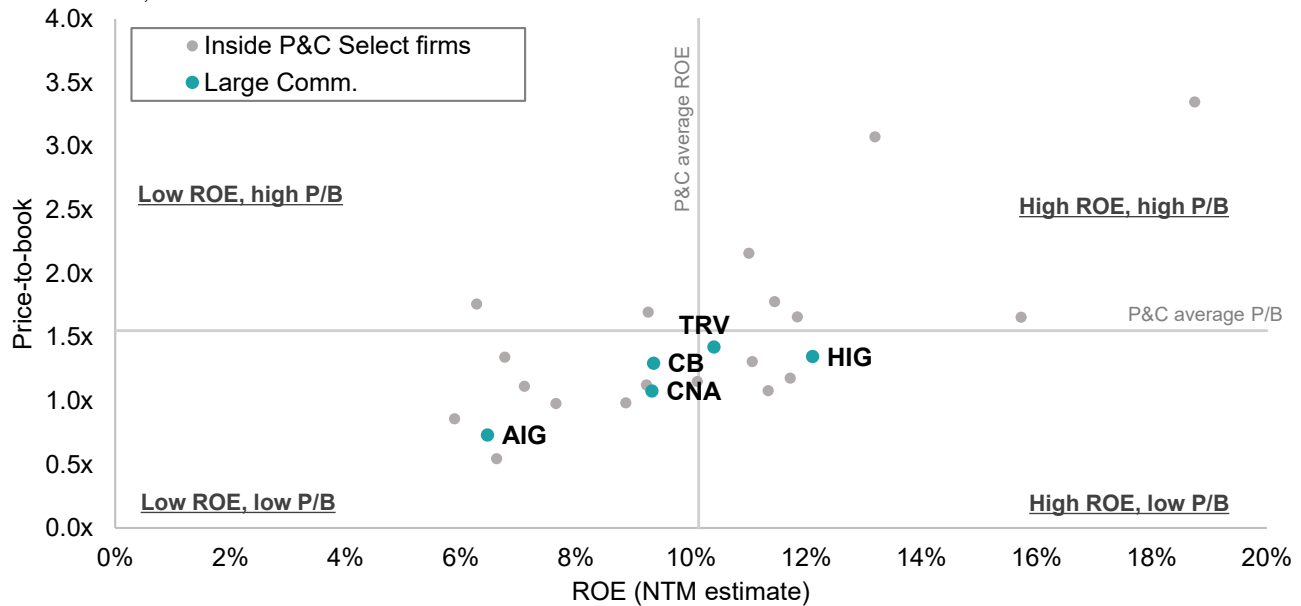
YTD stock performance for large commercial carriers (May performance highlighted)

Source: SNL, Inside P&C



PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

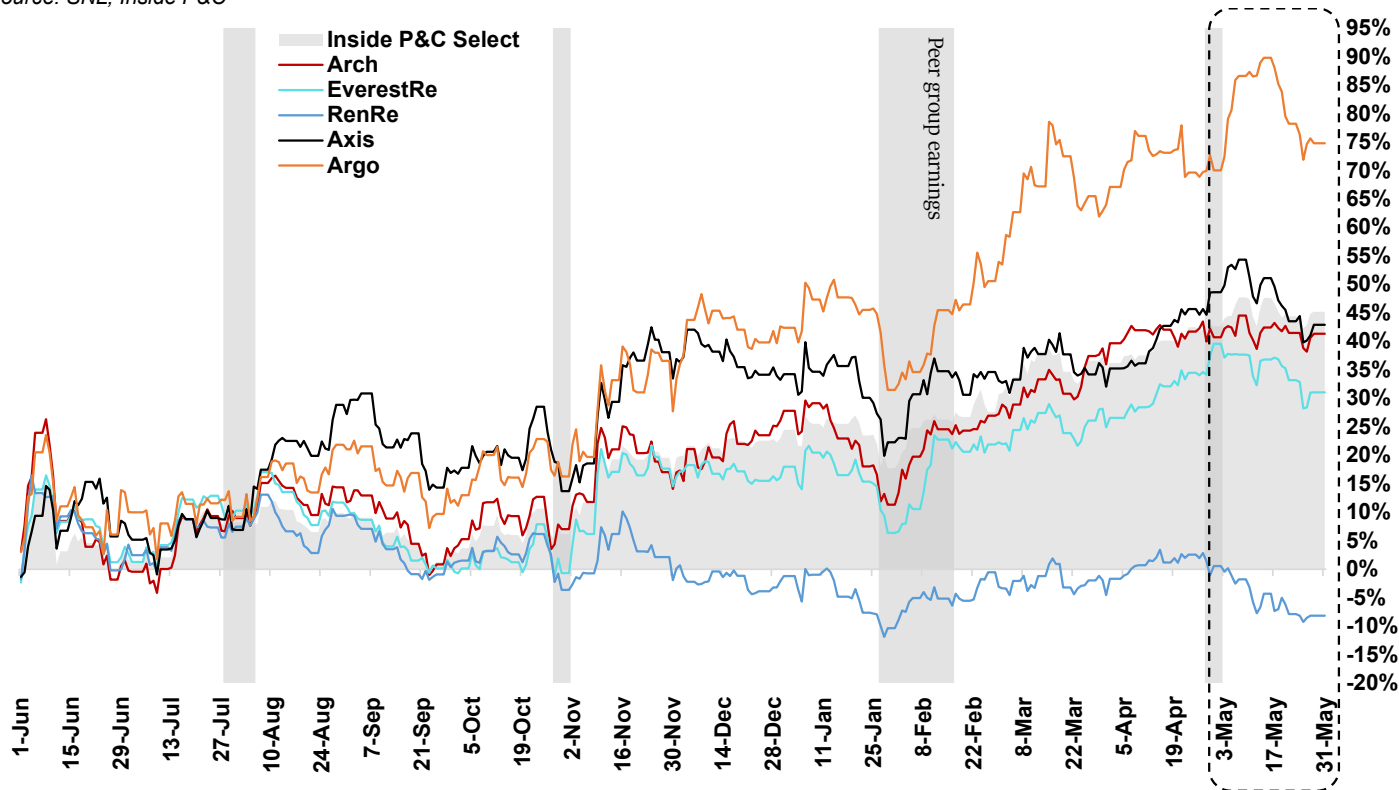


Bermuda

Bermuda carriers were down 3.8% in May but up 6.2% YTD. Arch was the only reinsurer to see gains in May (up 0.5%).

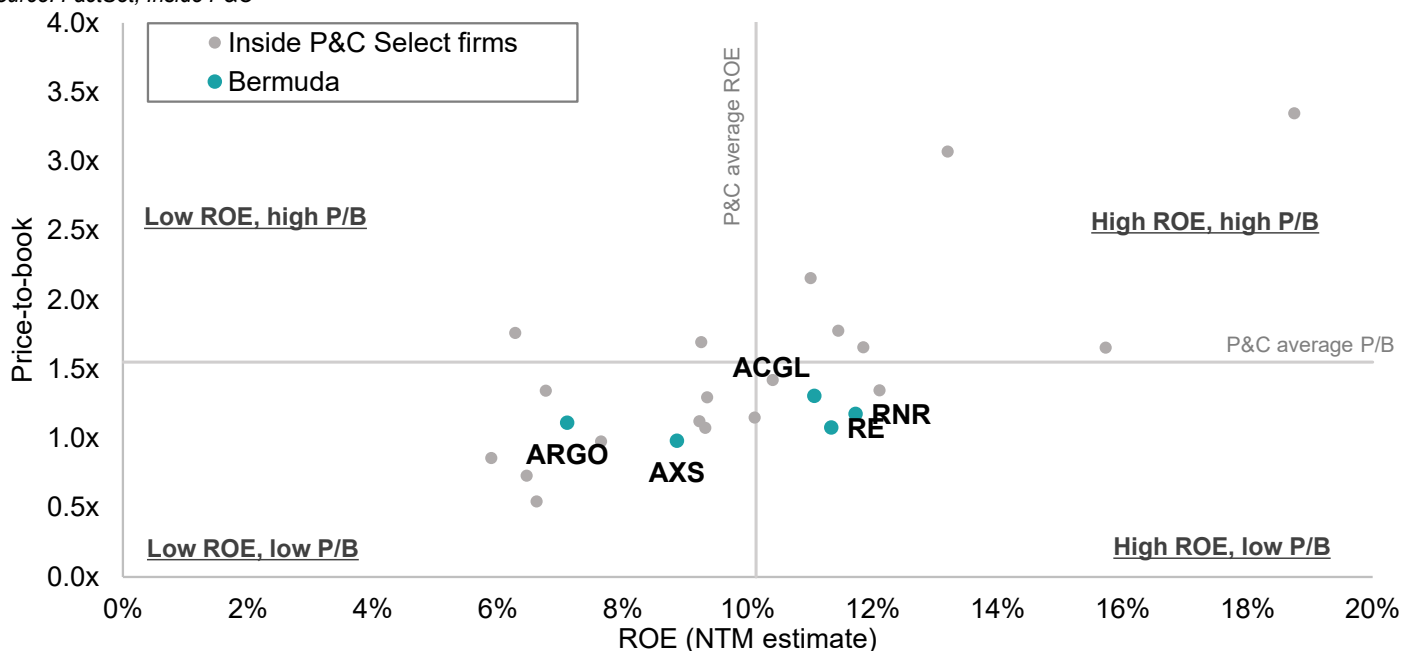
YTD stock performance for Bermuda carriers (May performance highlighted)

Source: SNL, Inside P&C



PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

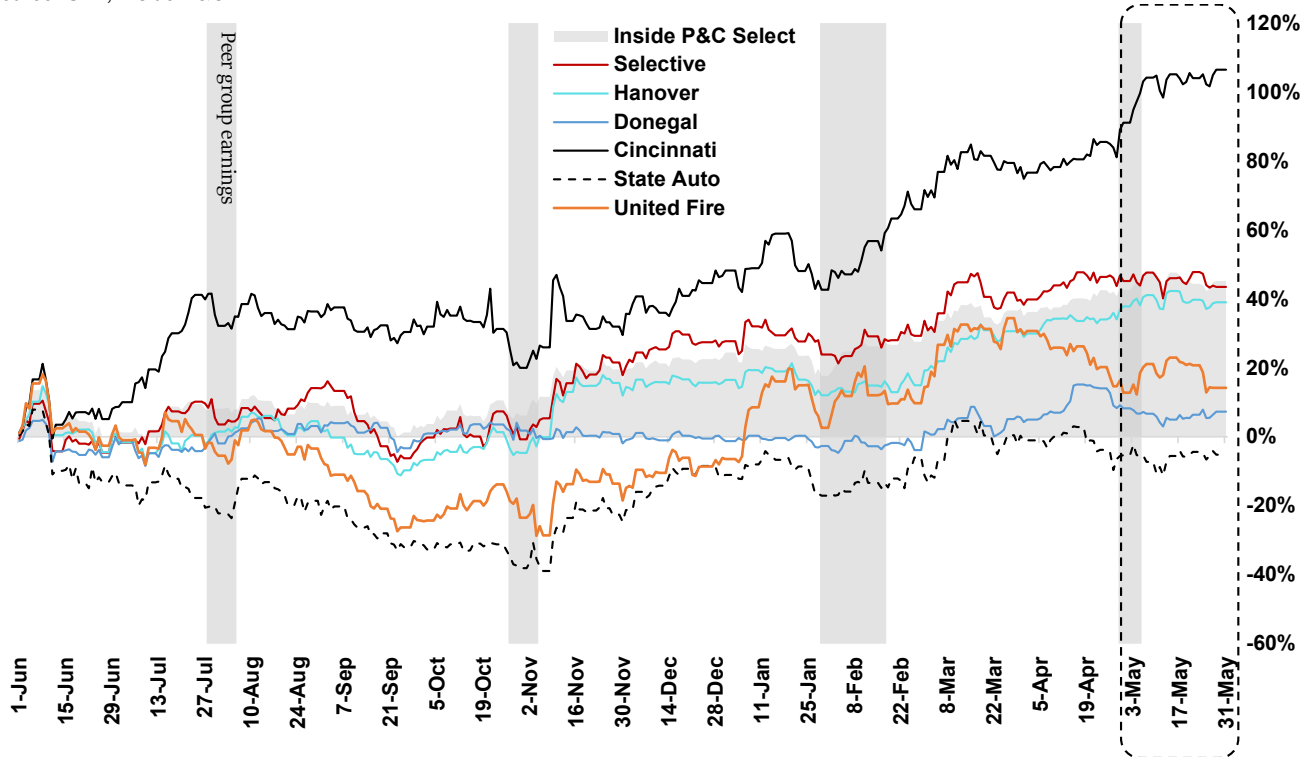


Regionals

Regional carriers were up 4.9% in May and 29.3% YTD. Cincinnati Financial Corporation saw the largest gains, up 8% in May and 39.3% YTD.

YTD stock performance for regional carriers (May performance highlighted)

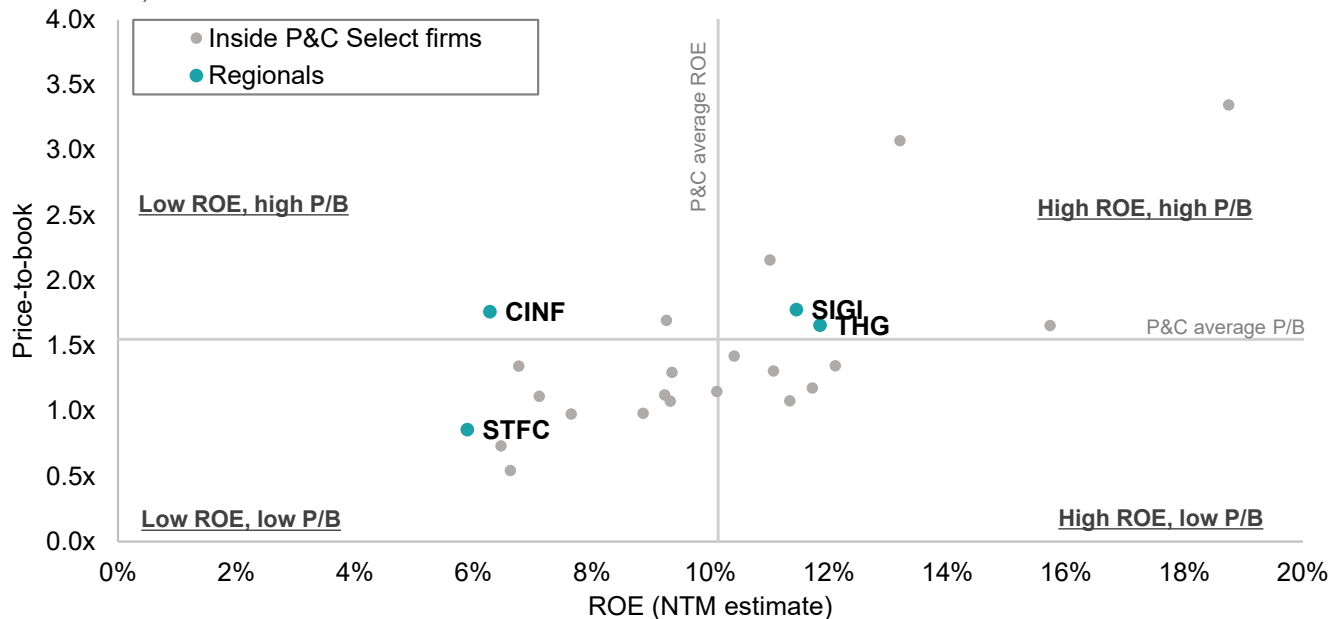
Source: SNL, Inside P&C



PB over ROE (NTM consensus) versus industry

Note: Small number of estimates (lower than three) may have been used to calculate ROE (NTM estimate)

Source: FactSet, Inside P&C

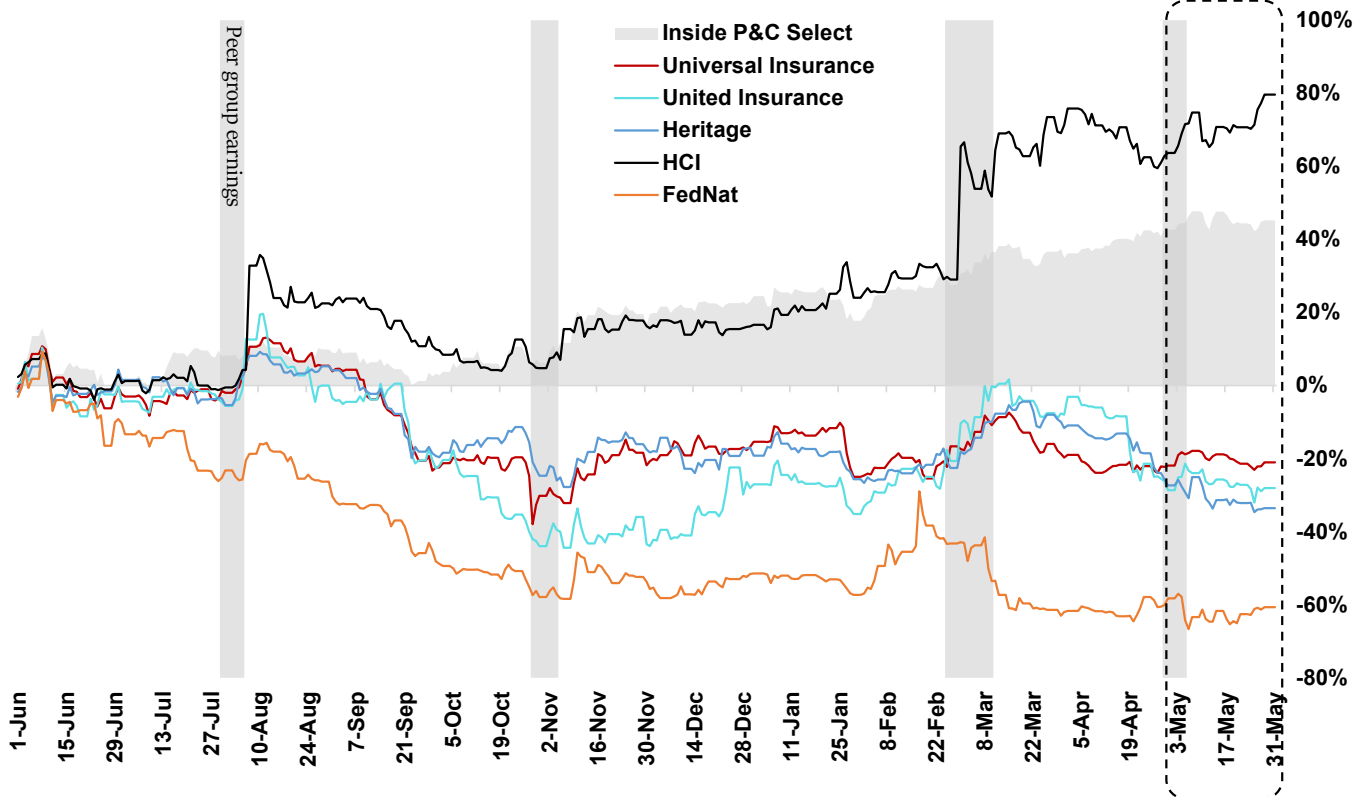


Florida

Florida carriers were up 2.4% in May and 8.1% YTD. Performance between the carriers was mixed, with HCI group up 9.7% in May (54% YTD), while Heritage Insurance Holdings was down 8.6% in May and down 17.8% YTD.

YTD stock performance for Florida carriers (May performance highlighted)

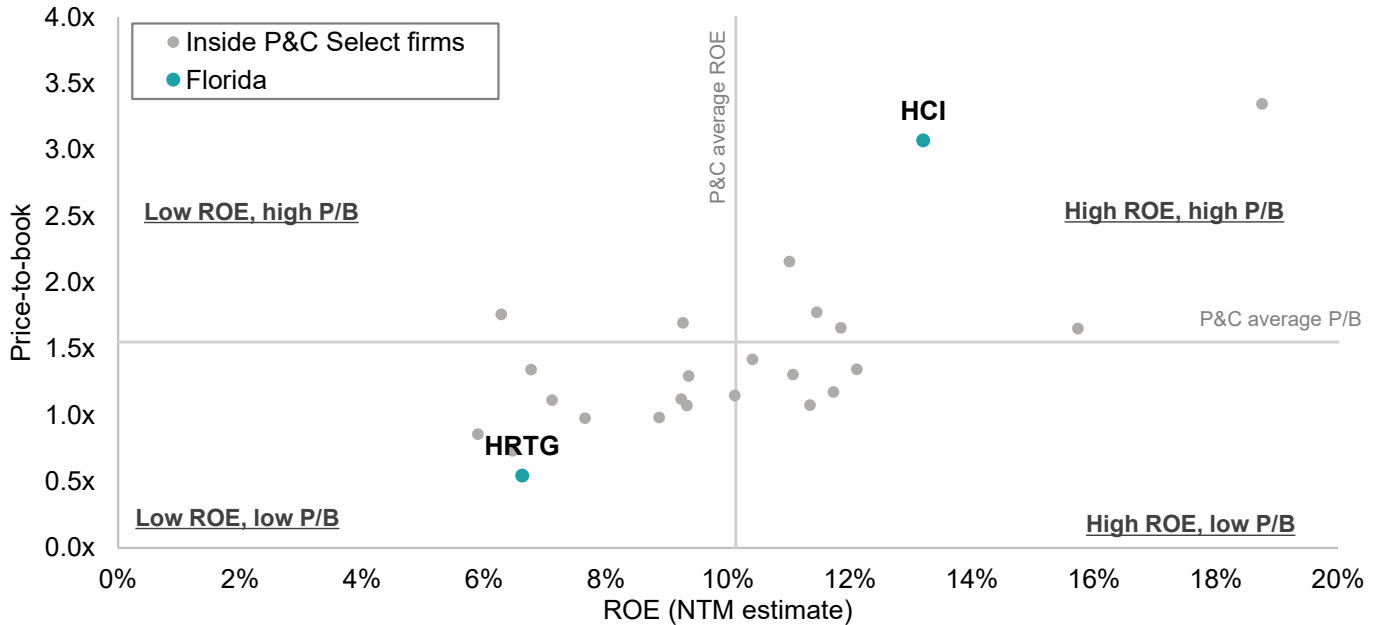
Source: SNL, Inside P&C



PB over ROE (NTM consensus) versus industry

Note: Small number of estimates (lower than three) may have been used to calculate ROE (NTM estimate)

Source: FactSet, Inside P&C

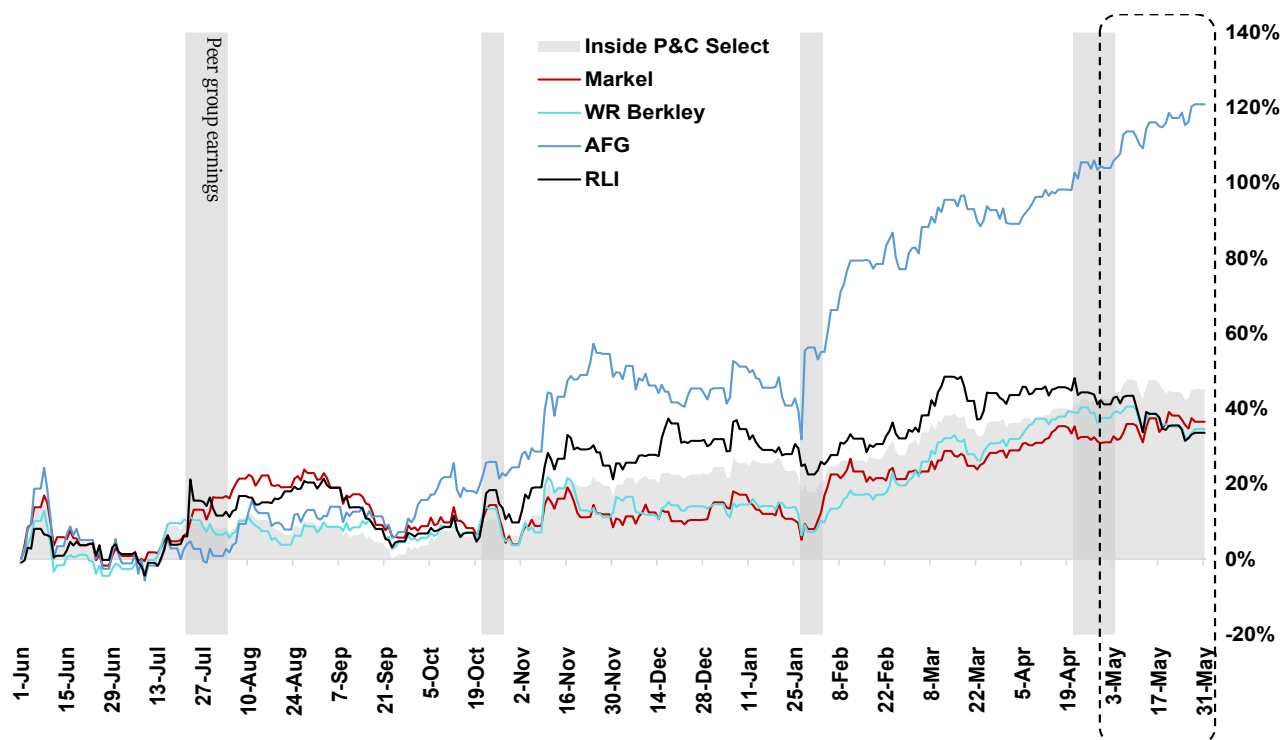


Specialty

Specialty carriers were up 2.1% in May and 22.1% YTD, generally in line with Inside P&C Select Index (up 1.8% in May and 16.5% YTD). American Financial Group (AFG) outperformed, up 8.3% in May and 51.9% YTD.

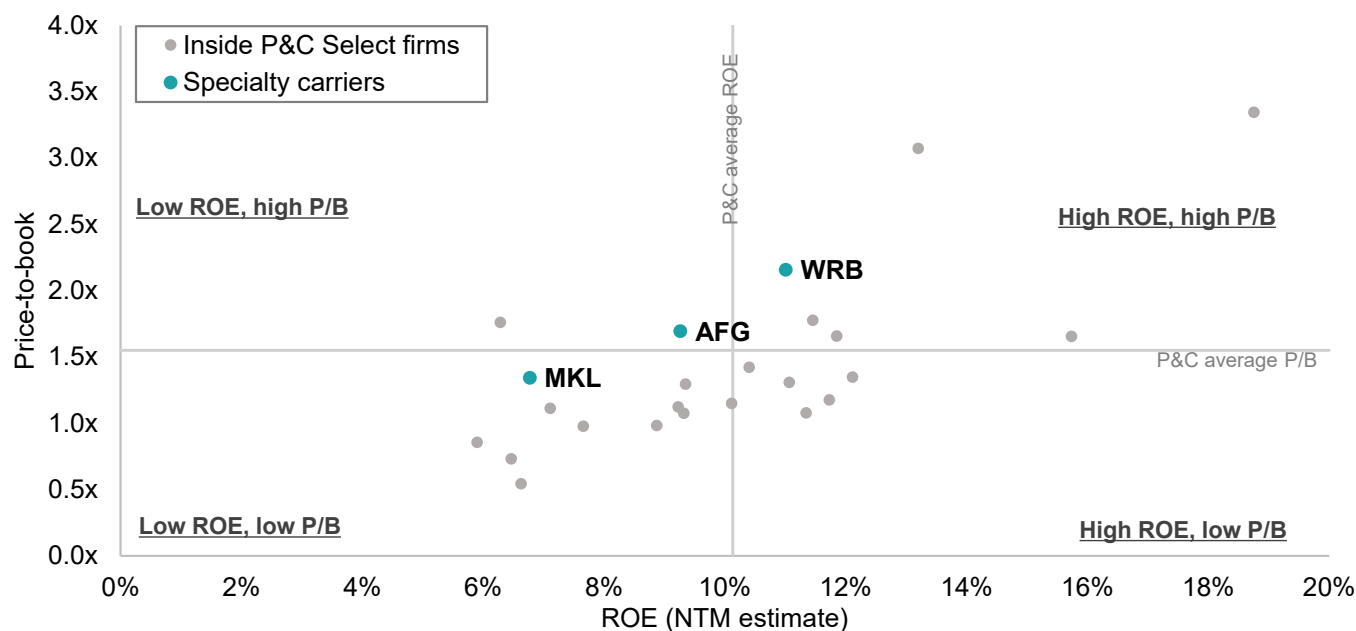
YTD stock performance for specialty carriers (May performance highlighted)

Source: SNL, Inside P&C



PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

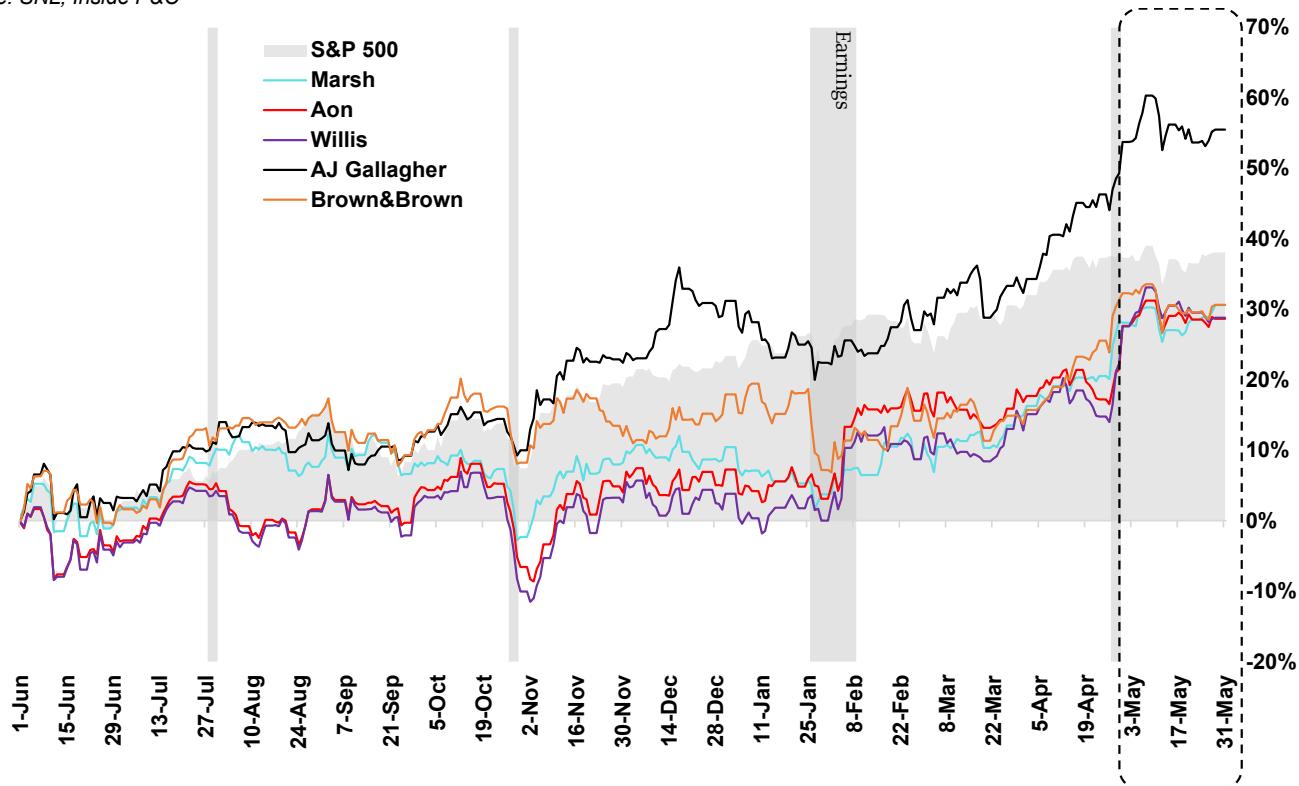


Insurance brokers

Insurance brokers were up 1.1% in May and 19.1% YTD, generally in line with Inside P&C Select Index (up 1.8% in May and 16.5% YTD).

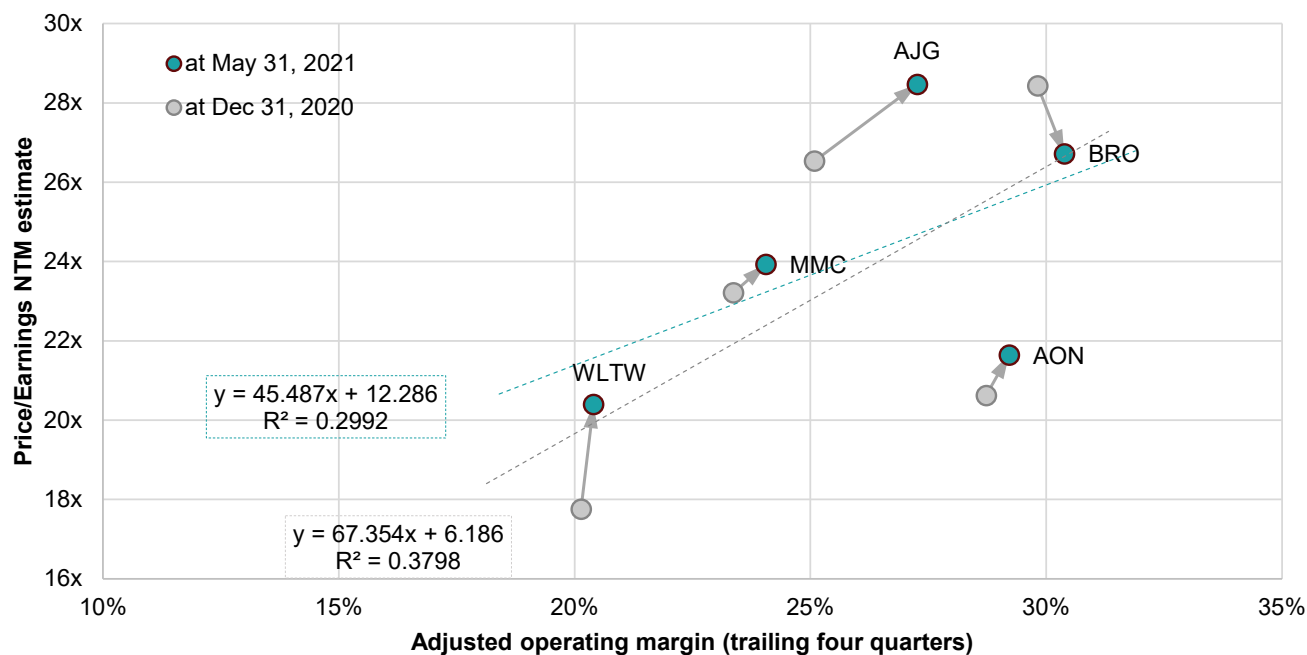
YTD stock performance for insurance brokers (May performance highlighted)

Source: SNL, Inside P&C



Forward P/E versus adj. operating margins for insurance brokers

Source: FactSet, Company reports, Inside P&C



This research report was written by Insider Publishing's Research team which includes Amit Kumar, Dan Lukpanov, and Ella Soltz.

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