

Inflation fears and infrastructure plan delays drag insurers lower in June

In June, the market-weighted performance of our select of P&C stocks – the Inside P&C Select – was down 4.8%, underperforming the S&P 500 at 2.2% but outperforming banks at -5.5% and life insurers at -6.4%.

Stock performance for the month was driven by the fiscal agenda and the economic recovery following the recent Fed meeting.

The mid-June Fed meeting presented a change of tone, suggesting a rate increase could be higher (0.6% vs. 0.1%) and sooner (2023 vs. 2024) than anticipated, acknowledging that inflation may be higher and last for longer than projected as well.

The S&P 500 was down following the meeting. The yield curve also flattened following the meeting but has incrementally reversed since.

Large commercial insurers saw the largest declines in June, down 7.0% monthly, but up 11.8% YTD (vs. S&P 500 up 14.4% YTD). AIG was one of the worst performers, down 9.9%, partially due to [news](#) of LGIM divesting due to climate concerns.

In addition, the delay in approval for Biden’s infrastructure plan also could weigh on commercial insurers who could see increased premiums from construction-related risks (builders’ risk, commercial and contractor GL, commercial auto, inland marine, surety, and workers’ comp).

Personal lines carriers were also down 2.2% in June, but up 6.1% YTD. The benefits to loss cost trends seen during the pandemic have largely expired as driving picks up. Valuations in the group have also largely reverted this quarter.

Allstate was down 4.5% for the month, but up 18.7% YTD, as investors see less opportunity for further gains.

Reinsurers were down 3.5% for the month of June, but up 2.4% YTD, with the lackluster 6/1 renewals not pointing to much upside for the sector. Note, June 1 also marked the beginning of hurricane season, lasting till November 30. Separately, we noted Everest Re’s stock has been largely muted following its investor day, despite raising [targets](#).

InsurTechs were the exception for June, rising 20.3%. Lemonade, Root, and Metromile saw large increases in June, up 20.9%, 18.6%, and 8%, respectively. Florida insurer, HCI Group, saw its stock rise another 23.7% in June, driven largely by TypTap. As we previously [noted](#), the volatile stock moves and untested fundamentals have also left these companies as the most shorted stocks.

Lastly, despite the drawbacks faced in June, insurance brokers were generally in line with other P&C peer groups, down 3.5%. Aon and Willis saw large declines, down 5.8% and 12%, respectively, following the DOJ lawsuit and associated expectations of deal [delays](#).

Inside P&C Research

Amit Kumar

Director of Research

E: amit.kumar@insidepandc.com

T: (212) 224 3496

Ella Soltz

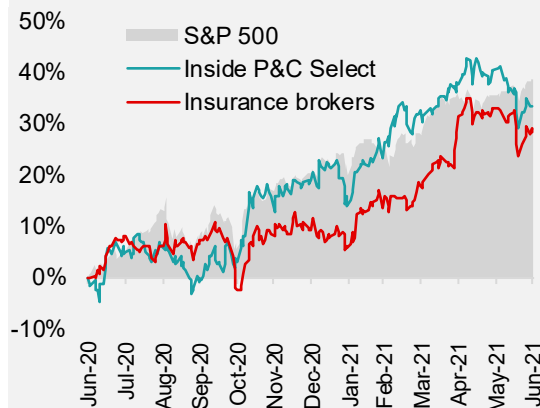
Research Analyst

E: ella.soltz@insidepandc.com

T: (786) 579 2463

Composite	YTD px chg.	P/B
Large comm.	11.7%	1.0x
Regional	26.1%	1.6x
Specialty	17.6%	1.7x
Personal	6.1%	2.1x
Bermuda	2.5%	1.1x
Florida	17.5%	1.1x
Brokers	14.9%	-
IPC Select	10.8%	1.3x
S&P 500 Fin.	23.9%	-
S&P 500	14.4%	-

1YR Price Performance



Source: SNL, Inside P&C

Inside P&C Select performance by peer groups

Source: SNL, Inside P&C

	June	YTD	1 year	3 years
S&P 500 Index	2.2%	14.4%	38.6%	58.1%
Inside P&C Select	-4.8%	10.9%	33.7%	24.0%
Large commercials	-7.0%	11.8%	36.8%	12.5%
Regionals	-2.5%	26.0%	59.6%	41.1%
Specialty	-4.1%	17.7%	40.7%	26.0%
Personal	-2.2%	6.1%	26.3%	49.8%
Bermuda	-3.5%	2.4%	17.4%	22.1%
Florida	9.3%	17.8%	-0.8%	-39.3%
Insurtech*	20.3%	NA	NA	NA
Insurance brokers*	-3.5%	14.9%	28.1%	74.7%

*not part of Inside P&C Select

Macro factors impacting insurance stocks

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

In data released mid-June, CPI was up 5% YoY, reaching levels not seen since 2008. Similar to the prior month, the increase was driven by used cars and trucks.

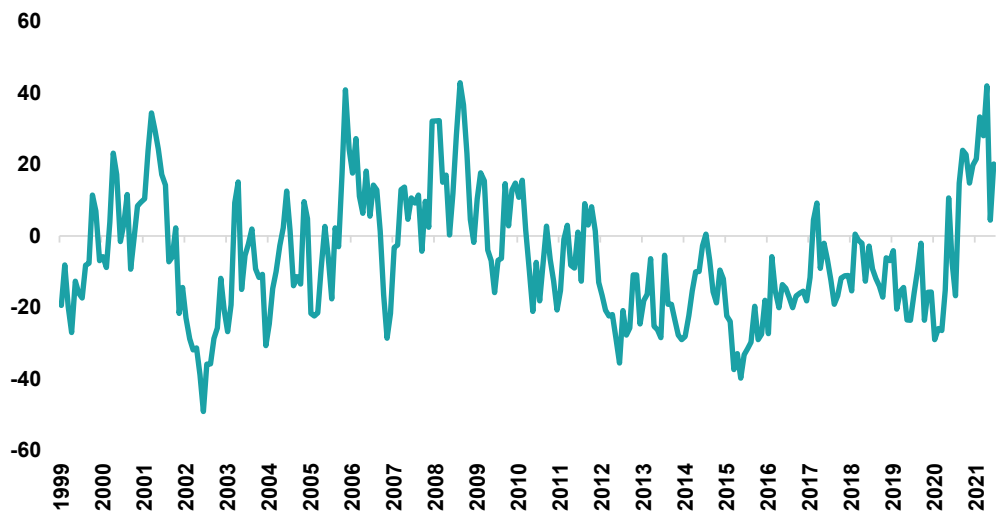
Although the increase was higher than anticipated, the index has been on the rise since January so market response was limited.

SURPRISE INDEX REFLECTS BALANCING ACT

The Citi Economic Surprise Index, which tracks how economic data is coming in relative to forecasts reverted from Covid highs.

Citi Economic Surprise Index

Source: FactSet



INFLATION EXPECTATIONS SHOW SLIGHT DECLINE

The five-year breakeven inflation rate – one of the conventional gauges of inflation expectations – declined slightly this month, hovering around 2.5%, after reaching the highest level since 2008 in May.

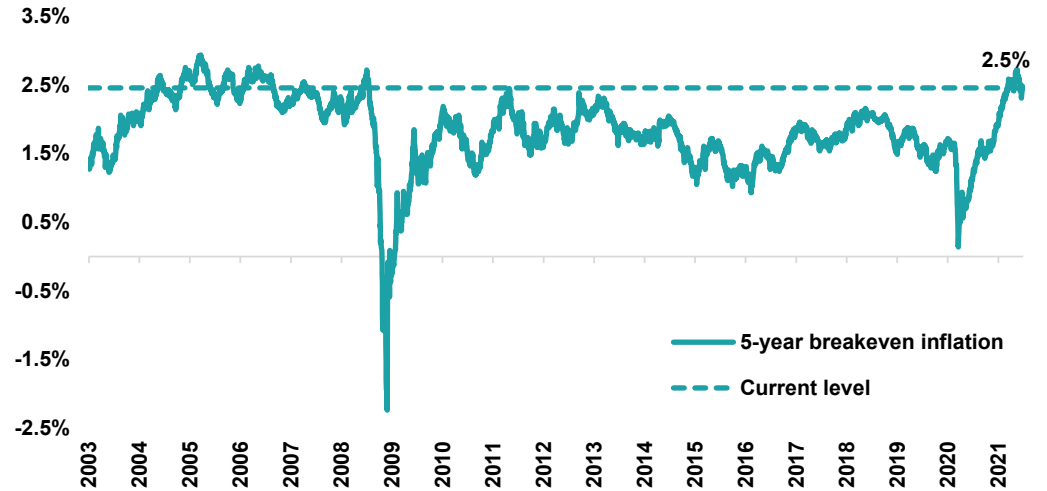
Questions remain on whether this reflects a short-term trend driven by the stimulus and delayed consumption as the economy readjusts, or the beginning of a new normal.

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 2.5% above gives us closer to 4-5% loss cost inflation.

Five-year break-even inflation rate

Source: FRED



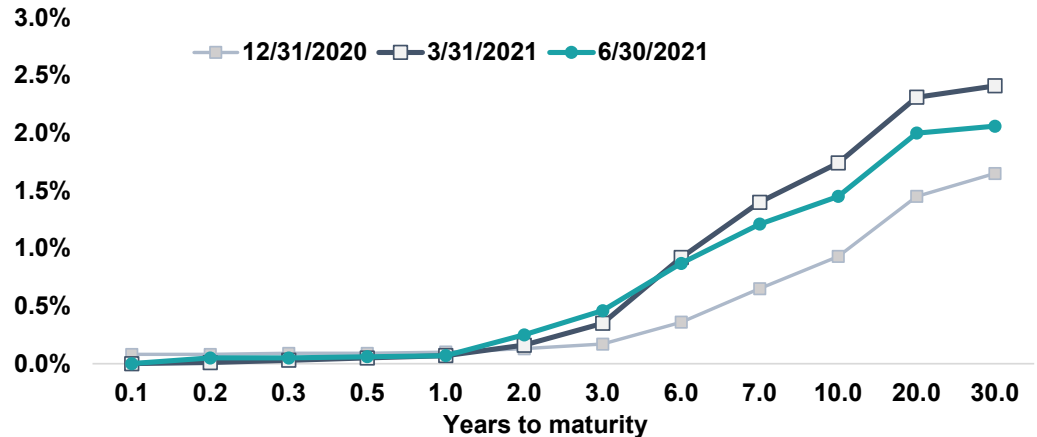
YIELD RATES RETREATS

The mid and long-term Treasury yields incrementally flattened in June. After seeing significant steepening earlier this year, the yield curve flattened after the Fed’s forecasts in mid-June moved up the time frame for the next rate hike.

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 asset-liability duration matching.

Treasury Yields

Source: S&P Global, Inside P&C

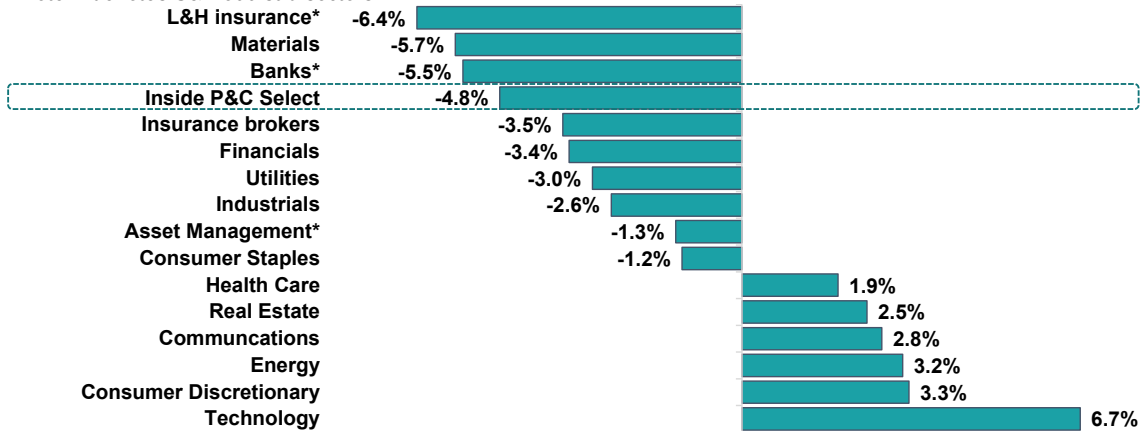


The next few pages include stock charts with the performance for individual companies, S&P 500 sectors and P&C sub-sectors in June.

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

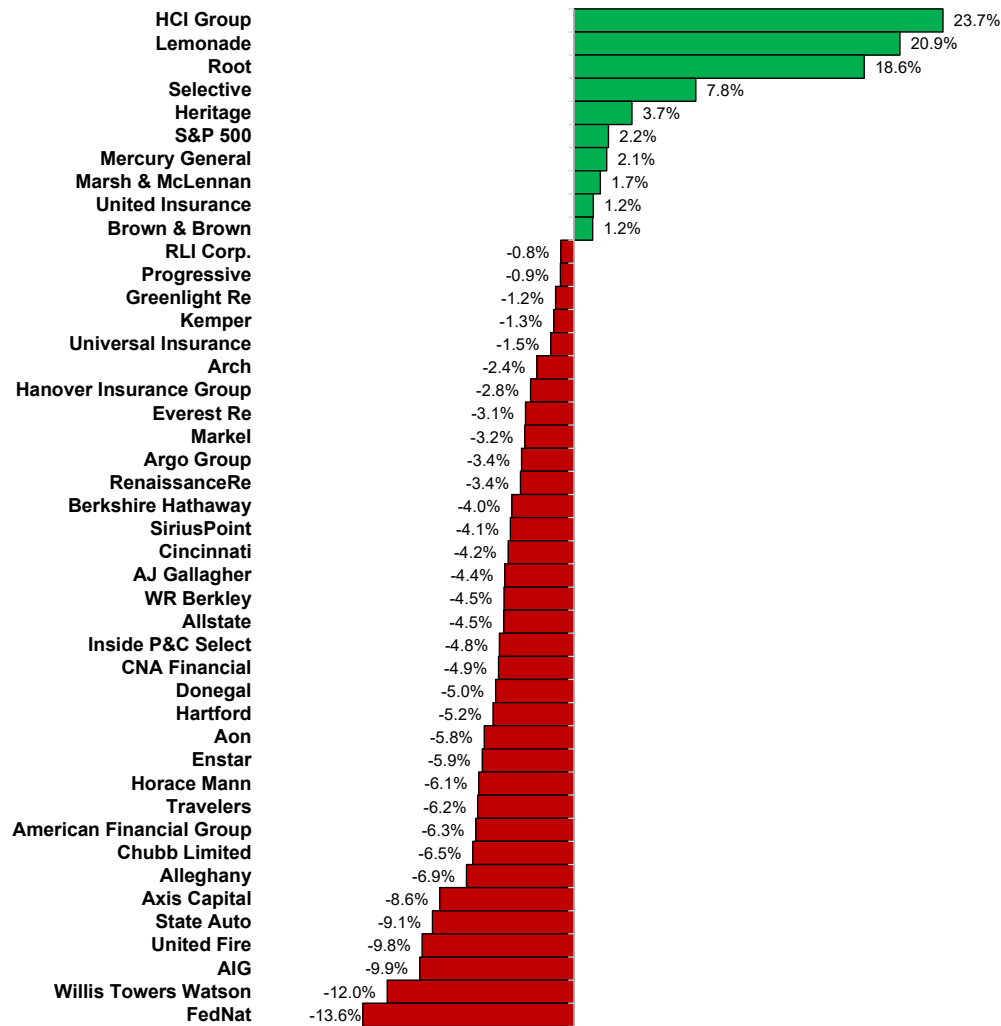
Source: FactSet, Inside P&C

Note: * denotes S&P 500 sub-sectors



June stock performance by individual carriers

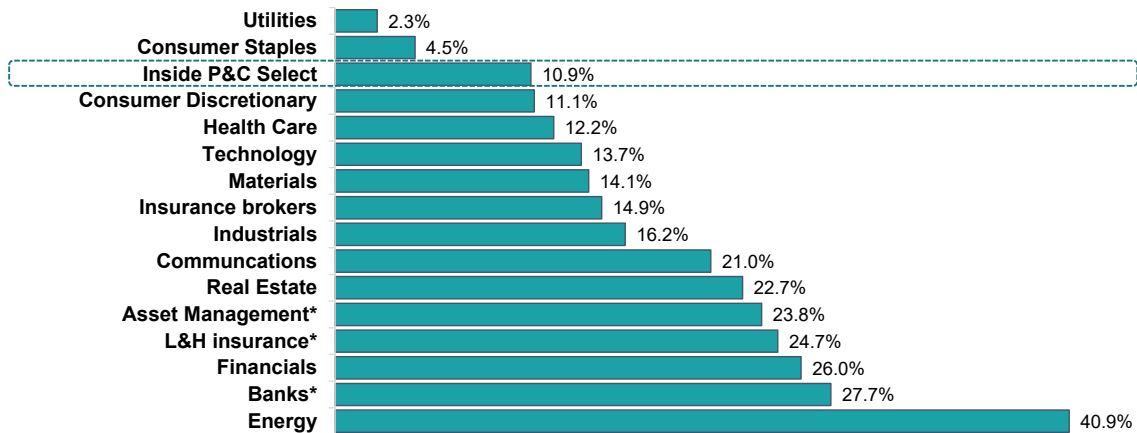
Source: SNL, Inside P&C



Note: Inside P&C Select includes: Chubb, AIG, Travelers, The Hartford, CNA, Progressive, Allstate, Kemper, Mercury, Horace Mann, Selective, Hanover, Donegal, Cincinnati, United Fire, State Auto, Markel, American Financial Group, W.R. Berkley, RLI, Argo, Arch Capital, Everest Re, Renaissance Re, Axis, Universal, United Insurance, HCI Group, FedNat, Alleghany, Greenlight Re, and Watford Re.

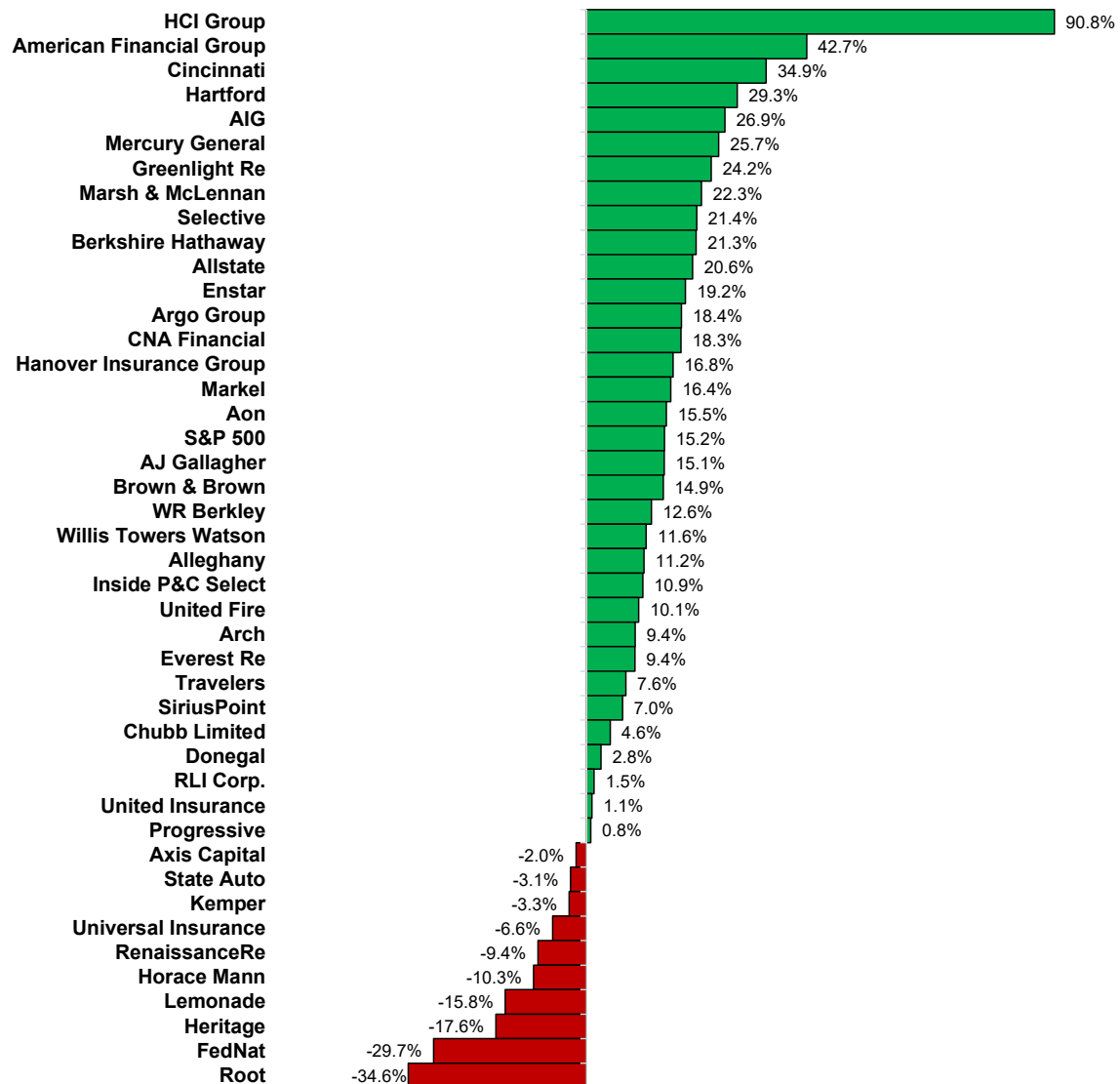
Inside P&C Select vs S&P 500 sectors' performance YTD

Source: FactSet, Inside P&C



YTD stock performance by individual carriers

Source: SNL, Inside P&C



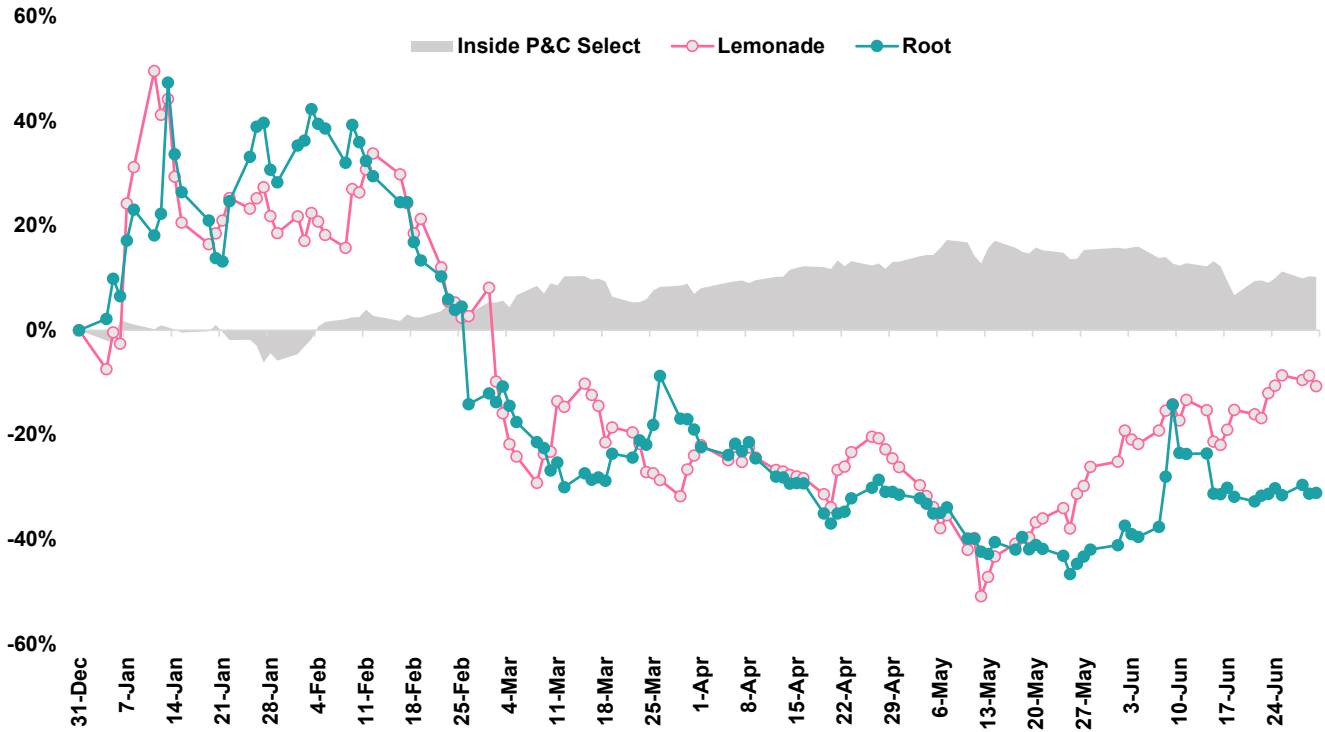
Appendix: Peer group stock performance charts

InsurTech

InsurTechs outperformed the Inside P&C Select Index in June, but underperformed YTD. InsurTechs are not included in the Inside P&C Select Index. Lemonade was up 20.9% in June but down 10.7% YTD. Root was up 18.6% in June but down 31.1% YTD.

YTD performance. InsurTechs vs Inside P&C Select

Source: SNL, Inside P&C

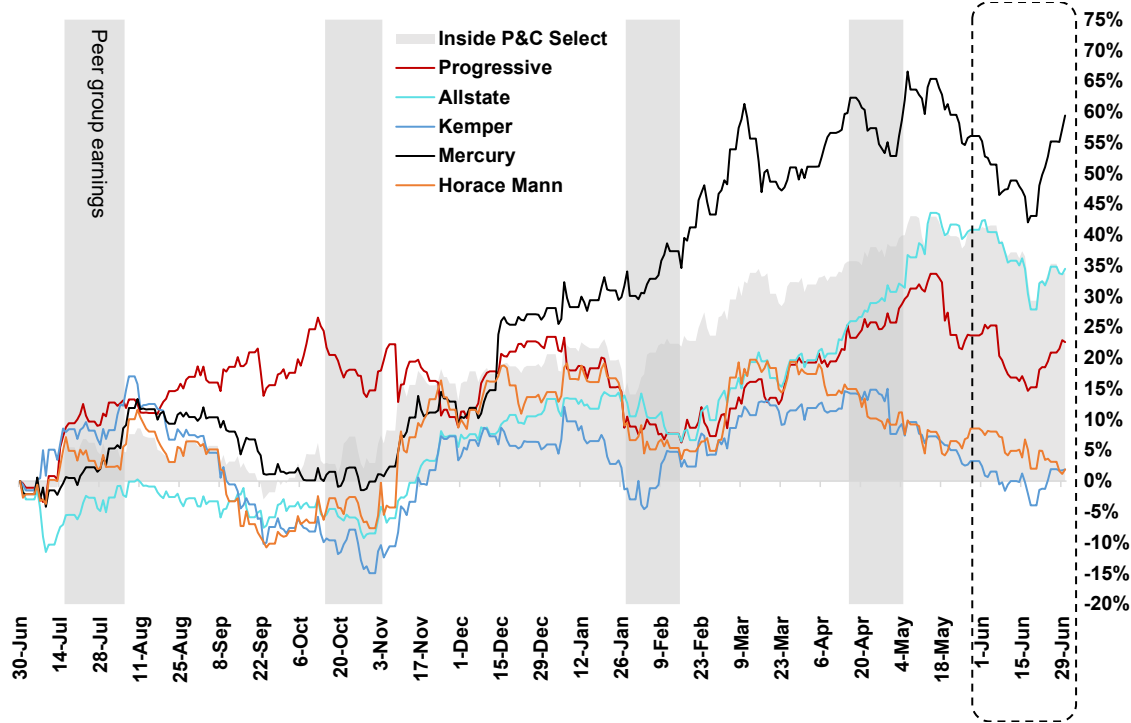


Personal lines

Personal lines were down 2.2% in June, but up 6.1% YTD, largely in line with Inside P&C Select Index (down 4.8% in June and up 10.9% YTD). Mercury General and Allstate have seen the best performance YTD, up 24.4% and 18.7%, respectively.

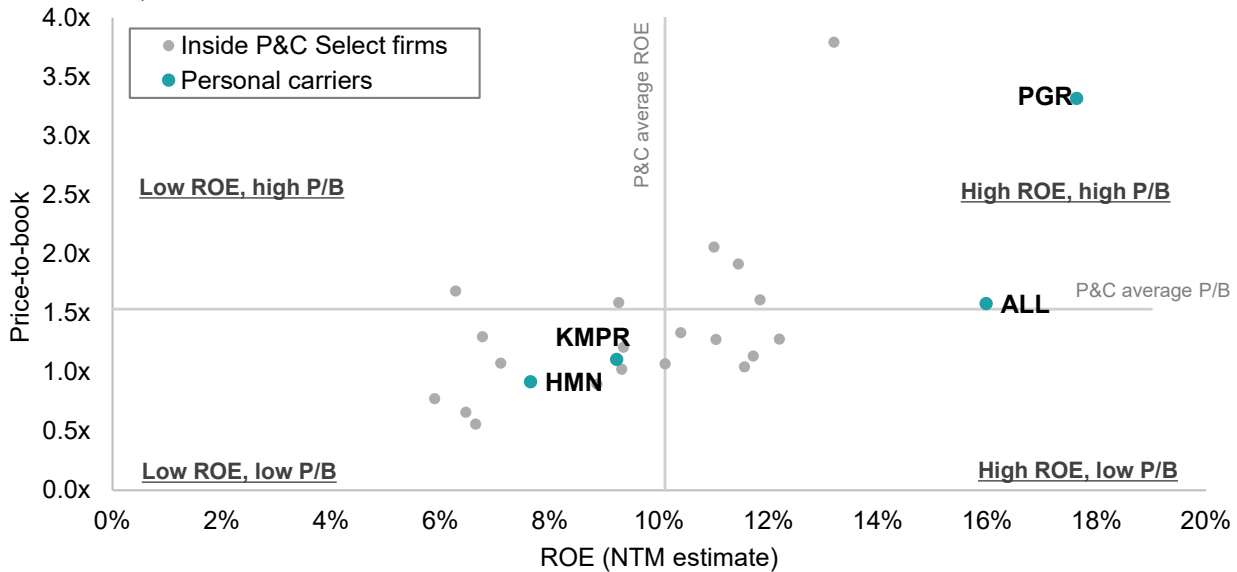
LTM stock performance for personal carriers (June performance highlighted)

Source: SNL, Inside P&C



PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

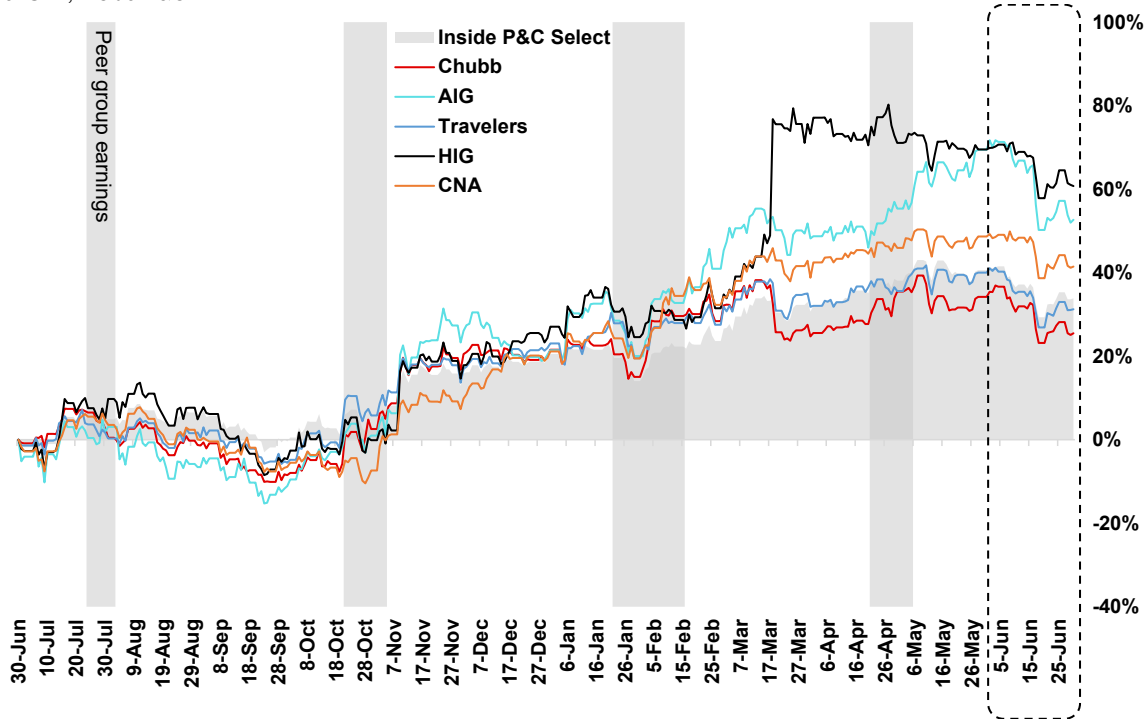


Large commercials

Large commercial carriers were down 7.0% in June, but up 11.8% YTD, largely in line with Inside P&C Select Index (down 4.8% in June and up 10.9% YTD). After seeing a 9.1% jump in May, AIG was down 9.9% in June.

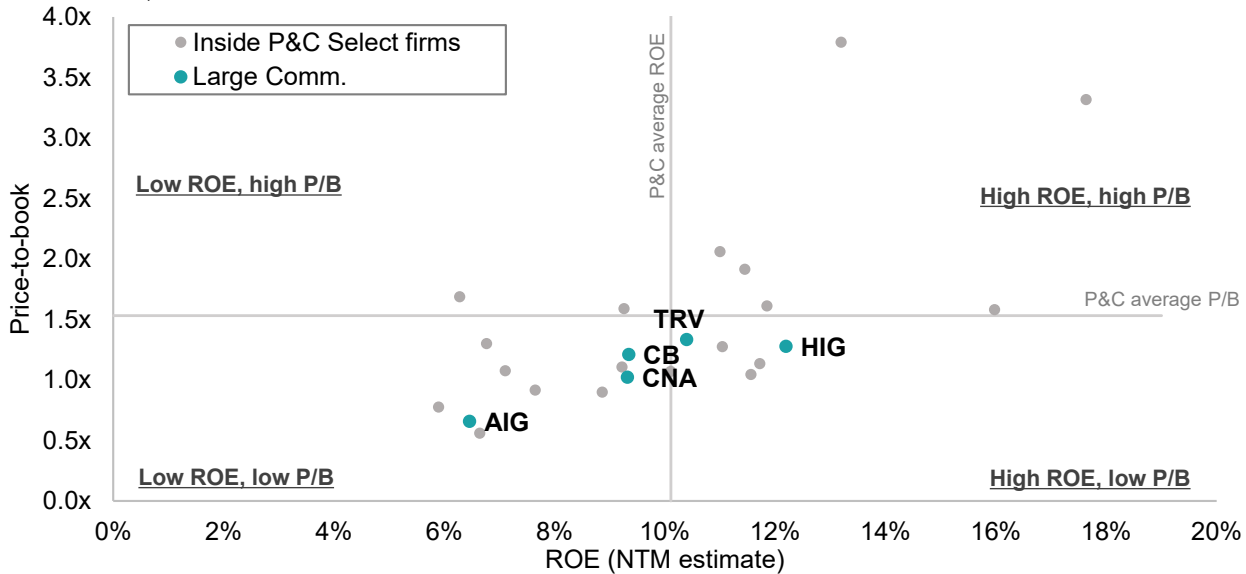
LTM stock performance for large commercial carriers (June performance highlighted)

Source: SNL, Inside P&C



PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

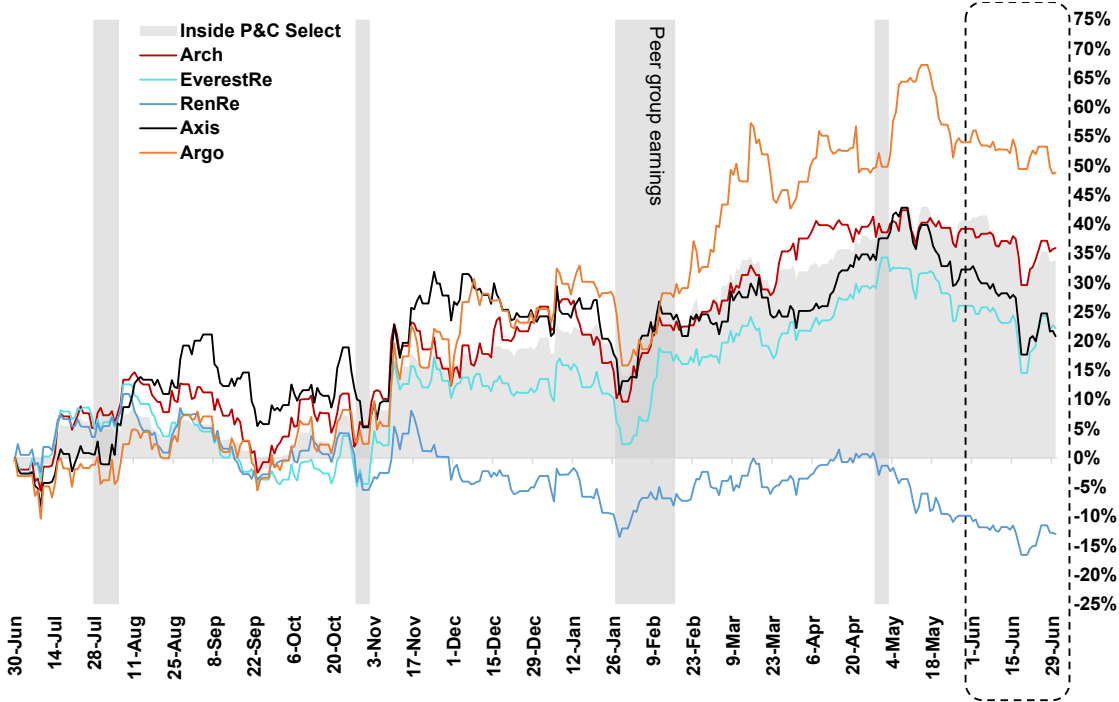


Bermuda

Bermuda carriers were down 3.5% in June but up 2.4% YTD. Arch and Everest Re are up YTD, 8.0% and 7.6%, respectively, while RenaissanceRe and Axis are down YTD, 10.3% and 2.7%, respectively.

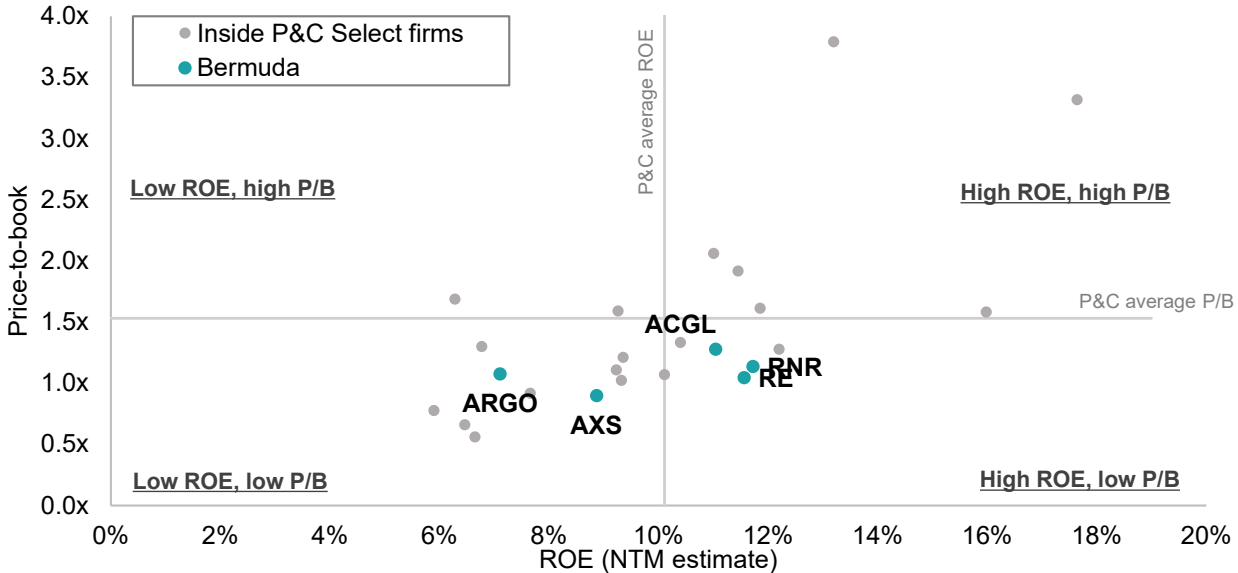
LTM stock performance for Bermuda carriers (June performance highlighted)

Source: SNL, Inside P&C



PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

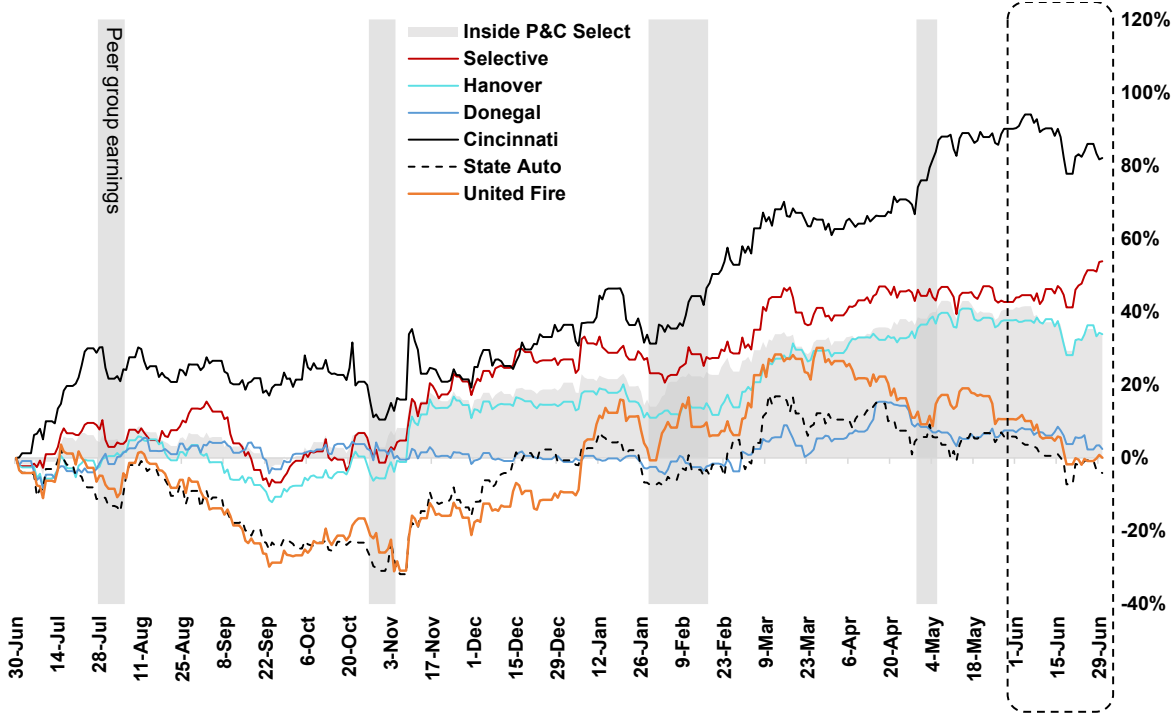


Regionals

Regional carriers were down 2.6% in June, but up 26% YTD, outperforming Inside P&C Select Index (down 4.8% in June and up 10.9% YTD). Selective Insurance saw the best performance in June, up 7.8%.

LTM stock performance for regional carriers (June performance highlighted)

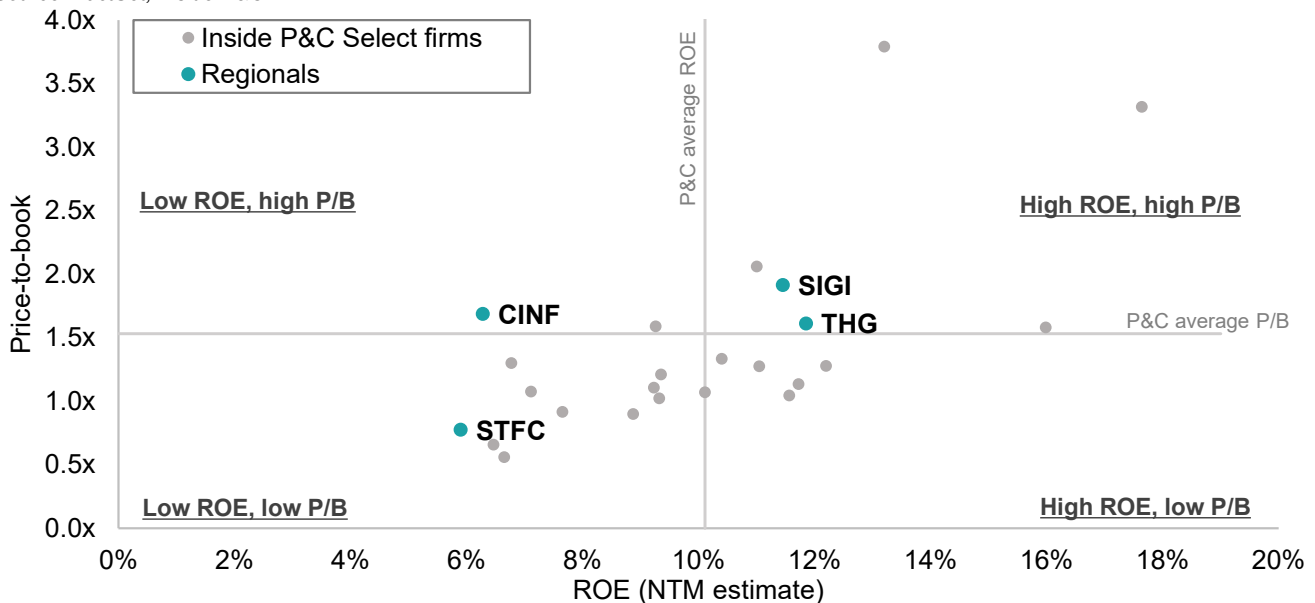
Source: SNL, Inside P&C



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

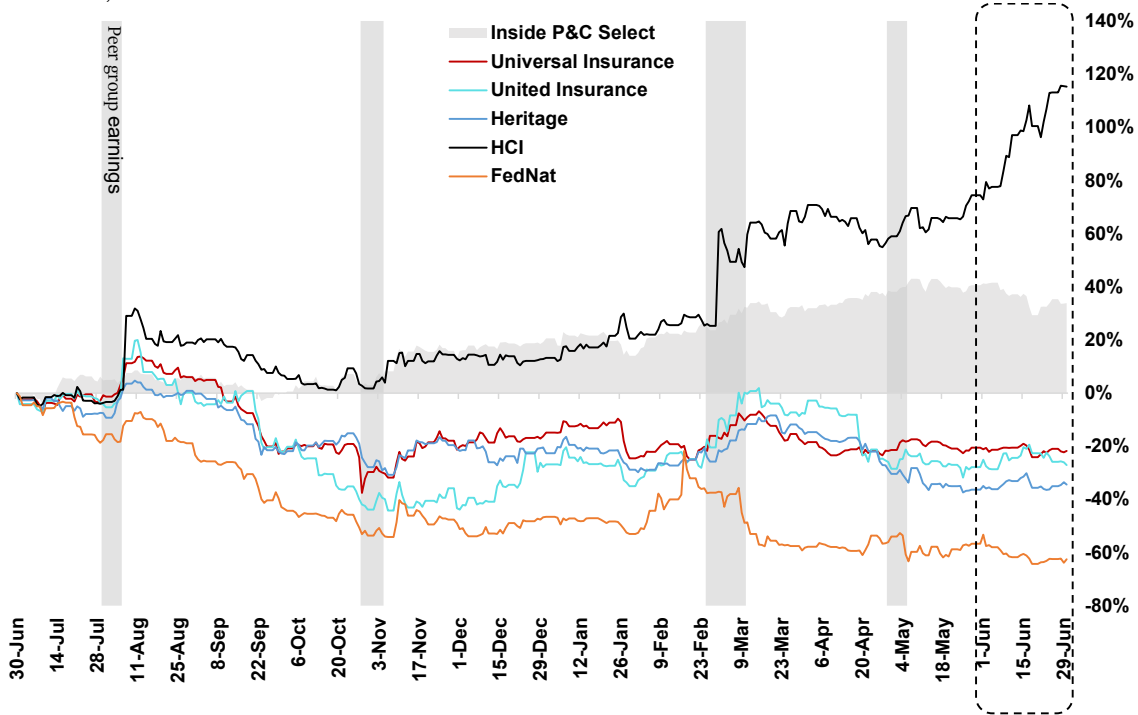


Florida

Florida carriers were up 9.3% in June and 17.8% YTD, led by HCI Group, up 23.7% in June and 90.6% YTD.

LTM stock performance for Florida carriers (June performance highlighted)

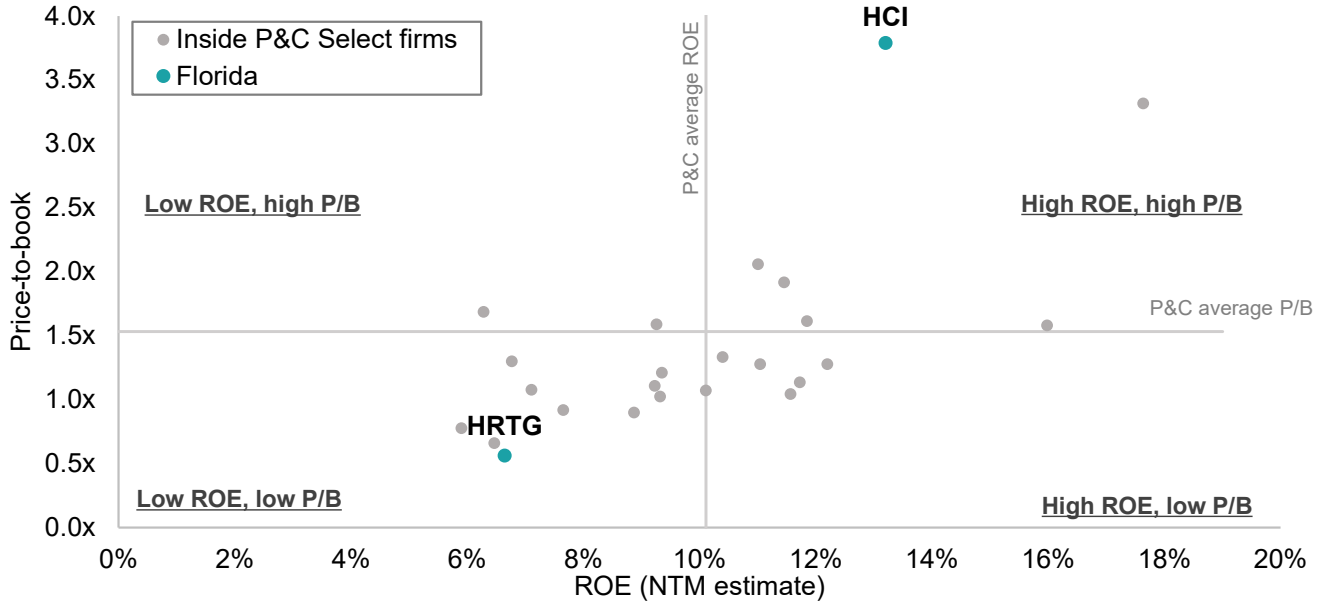
Source: SNL, Inside P&C



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

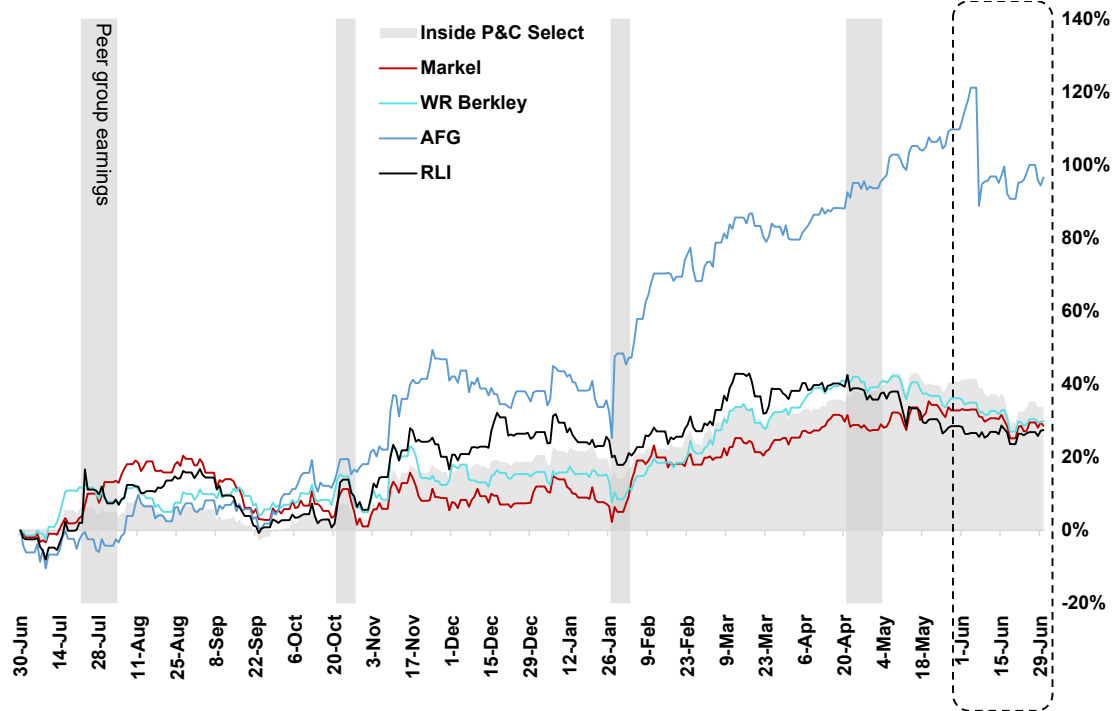


Specialty

Specialty carriers were down 4.1% in June, but up 17.7% YTD, generally in line with Inside P&C Select Index (down 4.8% in June and up 10.9% YTD). American Financial Group is the best performer YTD, up 42.3%.

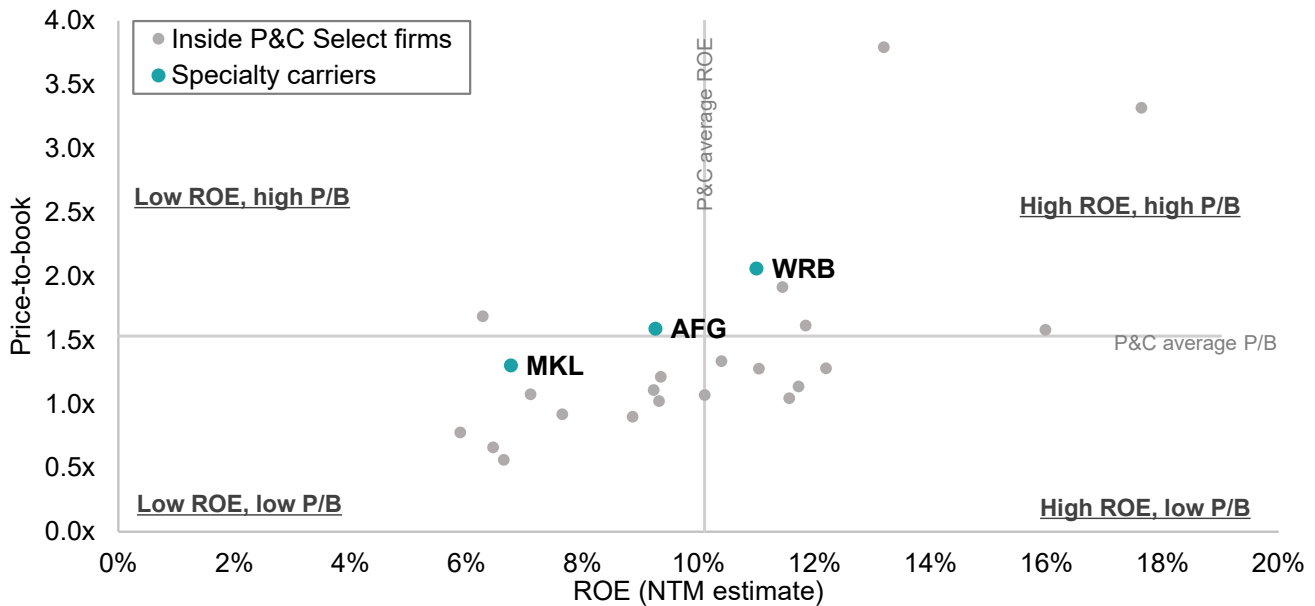
LTM stock performance for specialty carriers (June performance highlighted)

Source: SNL, Inside P&C



PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

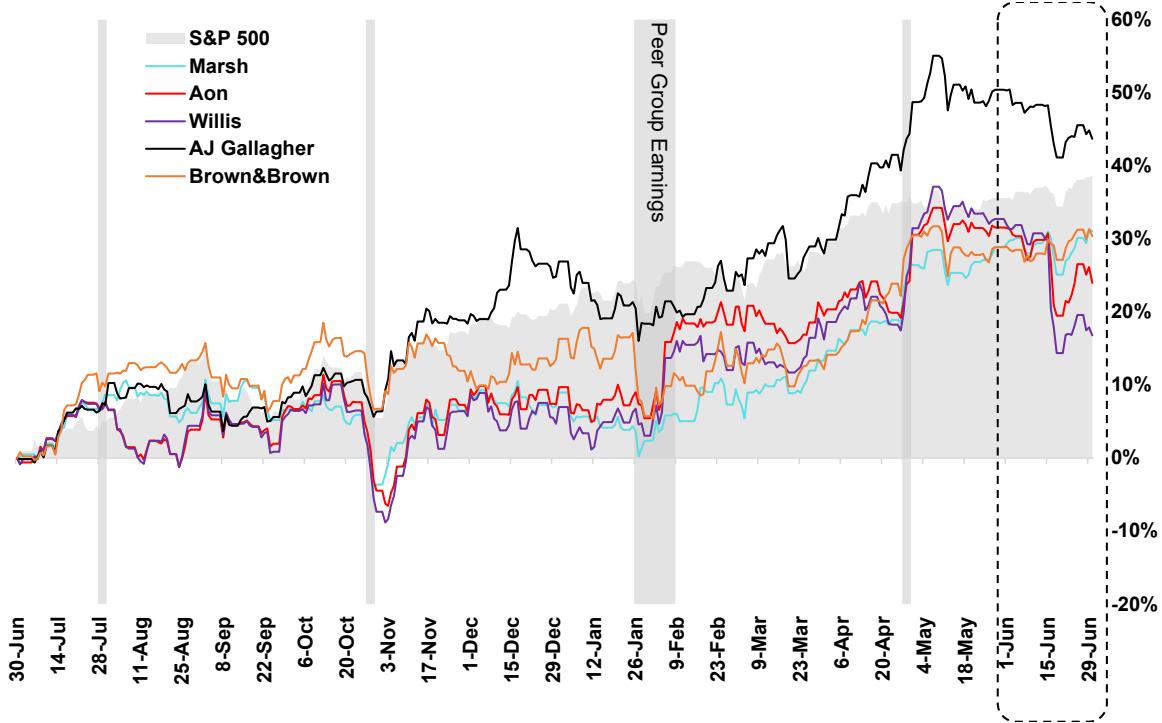


Insurance brokers

Insurance brokers were down 3.5% in June, but up 14.9% YTD, generally in line with Inside P&C Select Index (down 4.8% in June and up 10.9% YTD).

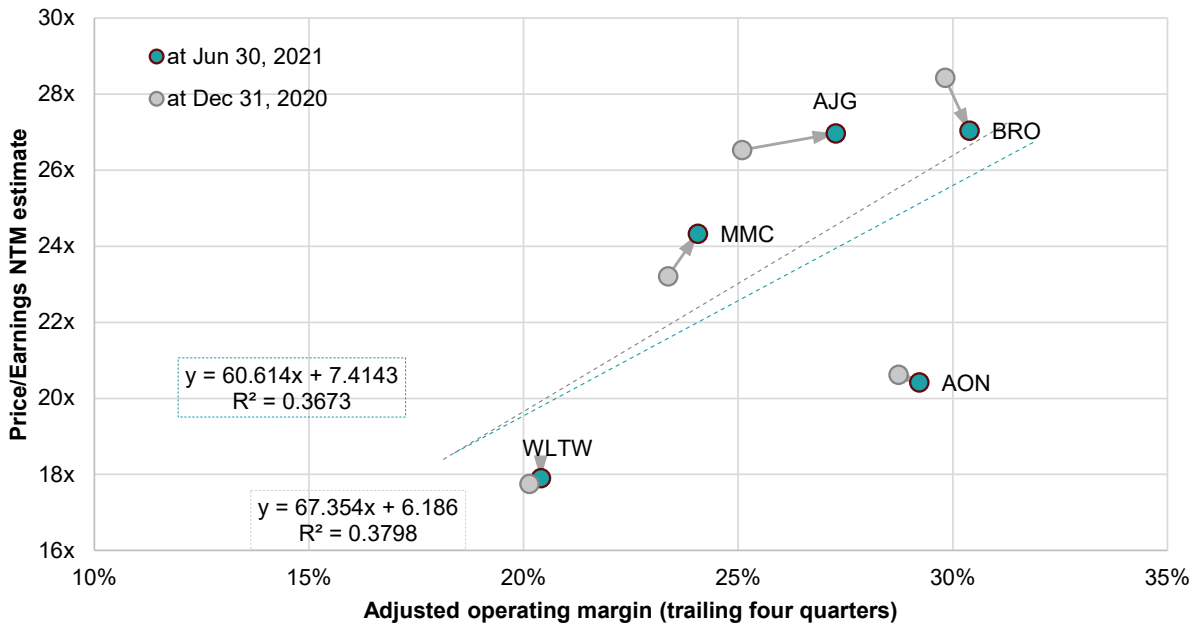
LTM stock performance for insurance brokers (June performance highlighted)

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 and Ella Soltz.

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