

# Stock Performance: Ukraine and inflation shape a tumultuous Q1

In the first quarter of 2022, the market-weighted performance of our selection of P&C stocks – the Inside P&C Select – was up 11.8%, beating out the S&P 500 at -4.9%. Personal lines led the quarter in stock performance on a sector basis, followed by large commercial insurers and then reinsurers, while InsurTechs fought to stay afloat.

For the first quarter of the year, stock returns were impacted by several significant outside factors, including persistent inflation, a global energy crisis, and the war in Ukraine, which have superseded some of last year's concerns, such as Covid. We are not considering the global pandemic over, as strict lockdowns have returned to major cities in China, including Shanghai, and the threat of another wave is not yet in the rearview mirror.

In February, Russia's invasion of Ukraine sent a shockwave throughout the global economy, pushing stocks down, although there was a limited stock price rally in March.

Gas prices shot up to the highest nominal level ever in the United States. The government banned oil and gas imports from Russia (temporarily) and announced the largest-ever release from the nation's strategic petroleum reserves.

Many European states are also considering reducing reliance on Russian natural gas supplies. Russia has recently demanded that gas be bought in Rubles, signaling that the petro-economy, a critical pillar underpinning global stocks, is experiencing significant and possibly permanent changes.

Gas price increases have only added more fuel to the inflation fire, which has seen CPI increase 7.4% YoY in February, the highest level in four decades. The Federal Reserve continues to walk a tightrope with reining in inflation and not stifling the economy.

Despite the global market unrest, insurance stocks have outperformed the general market over the past month and throughout the year's first quarter, partly due to the safe-haven play.

## Large commercial insurers were up 4.6% in March and 11% for Q1 2022.

The announced [acquisition of Alleghany by Berkshire Hathaway](#) came amid a continued expectation for rate momentum to sustain.

## Personal lines carriers were up 9% in March and 12.4% in Q1 2022.

Personal auto carriers have faced worsening loss cost trends, although we might be closer to the final innings of a [runway loss cost inflation environment](#).

## Reinsurers were up an anemic 3.6% this past month and 6.6% in Q1 2022.

As catastrophe losses compound, reinsurers have adopted different strategies to rebalance the risk/reward metrics, including rethinking their exposures, such as [Everest Re](#).

**InsurTechs were again the worst performers, up 4.8% in March but down -37.2% since the beginning of the year.** Our recent note on [consolidation trends](#) in InsurTech details how public firms have struggled with poorer than expected results with no letup in sight.

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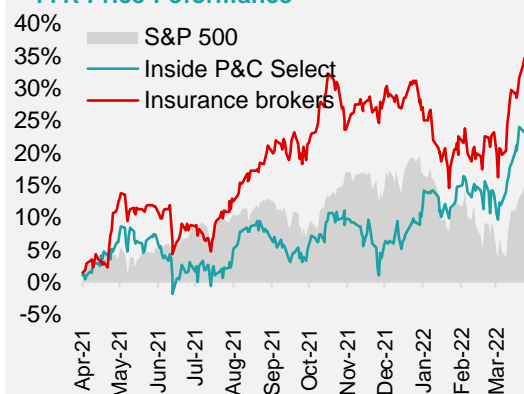
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Composite	YTD px chg.	P/B
Large comm.	12.5%	1.2x
Regional	19.0%	1.7x
Specialty	16.2%	2.1x
Personal	13.5%	2.4x
Bermuda	7.7%	1.3x
Florida	(15.8)%	1.0x
Brokers	3.0%	-
IPC Select	13.3%	1.5x
S&P 500 Fin.	(2.1)%	-
S&P 500	(4.6)%	-

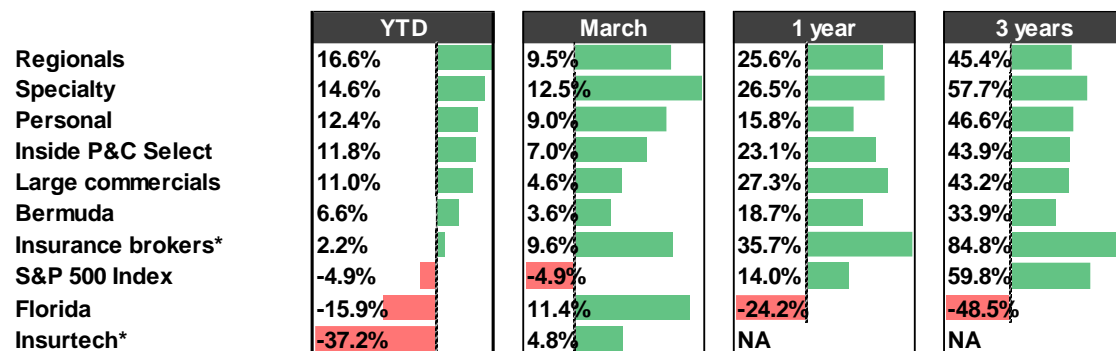
## 1YR Price Performance



Source: S&P Global, Inside P&C

## Inside P&C Select performance by peer groups

Source: SNL, Inside P&C



\*not part of Inside P&C Select

## Macro factors impacting insurance stocks

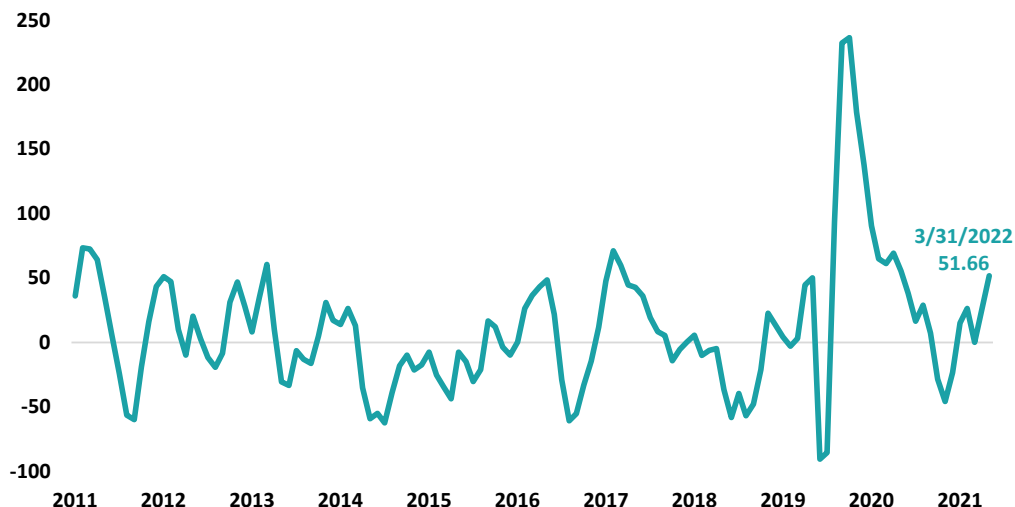
War in Ukraine and the prospect of still more inflation have served as the most significant determinants for the direction and volatility of stocks this quarter, with key metrics responding to global events.

### SURPRISE INDEX

The Citi Economic Surprise Index tracks how economic data is coming in relative to forecasts has reverted from Covid highs and is recently trending upwards.

#### Citi Economic Surprise Index (updated)

Source: FactSet



### INFLATION EXPECTATIONS CONTINUE TO RISE

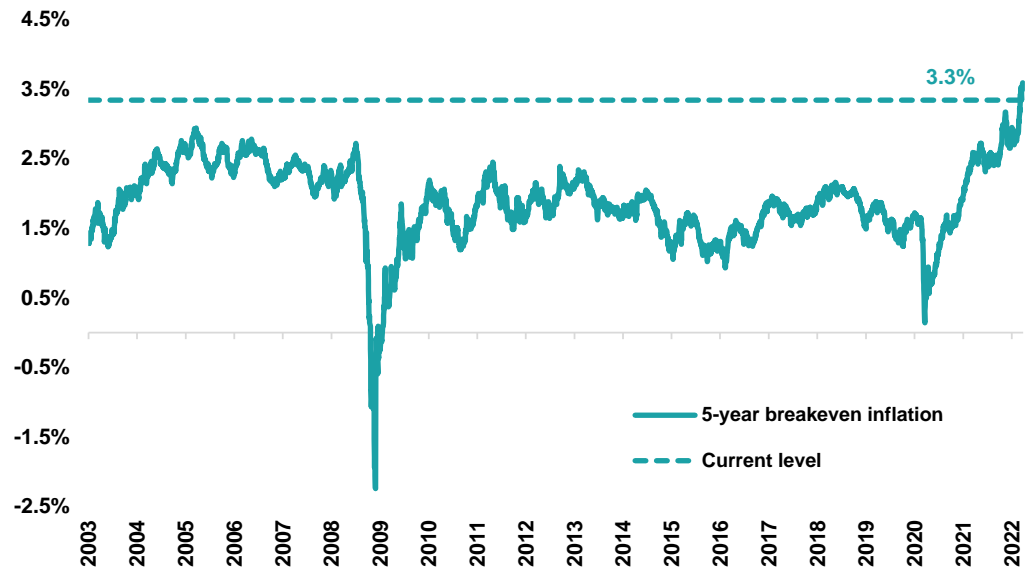
The first quarter of 2022 was marked by excessive inflation making headlines and spurring the Federal Reserve into action. The 5-year breakeven inflation rate rose to 3.34% in March, indicating that market participants expect average inflation over the next five years to remain elevated. This level of inflation expectation was unmatched in the previous twenty years.

The Consumer Price Index inflation rate rose to 7.9% in February, indicating that short-term inflation will remain high.

Insurance CPI and long-term CPI are closely intertwined; insurance inflation typically leads reported inflation by 150-200 basis points. Adding this to the 3.34% 5-year breakeven inflation rate above will net the insurance market around 6.5% loss cost inflation.

## 5-year breakeven inflation rate

Source: FRED

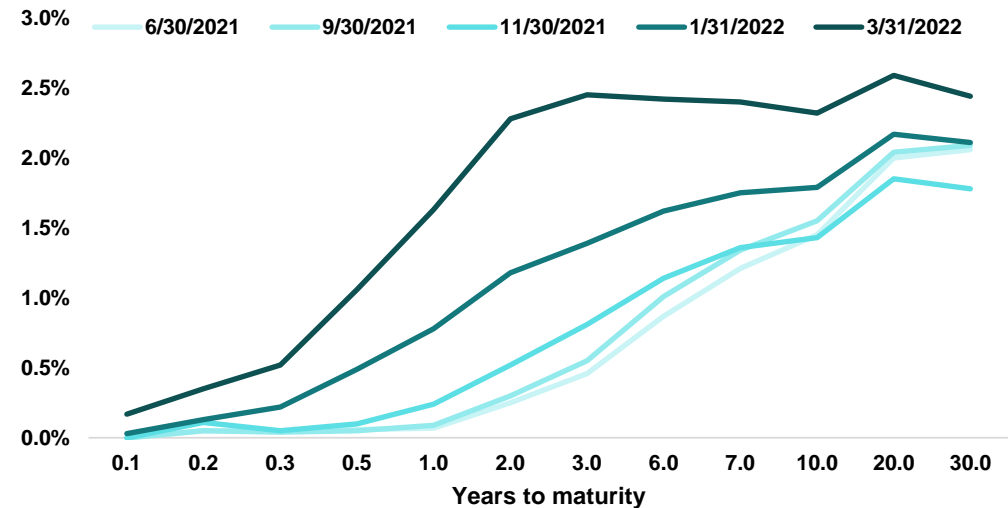


## YIELD CURVE FLATTENS – AND BRIEFLY INVERTS

In March, Treasury yields made the news after a brief inversion – a commonly accepted sign of a coming recession. The Federal Reserve announced a quarter-point interest rate increase during its March meeting, the first rate increase in more than three years, and also indicated that a further six rate increases were planned for 2022.

### Treasury Yields

Source: S&P Global, Inside P&C

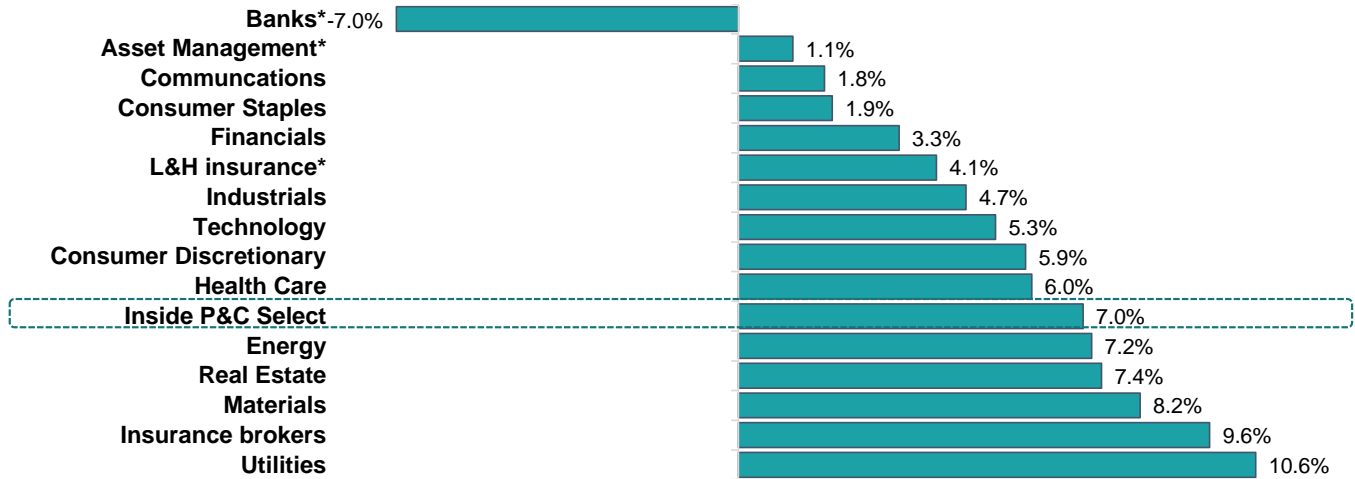


**The following pages include stock charts with the performance for individual companies, S&P 500 sectors, and P&C sub-sectors in March.**

## Inside P&C Select vs. S&P 500 sectors' performance in March

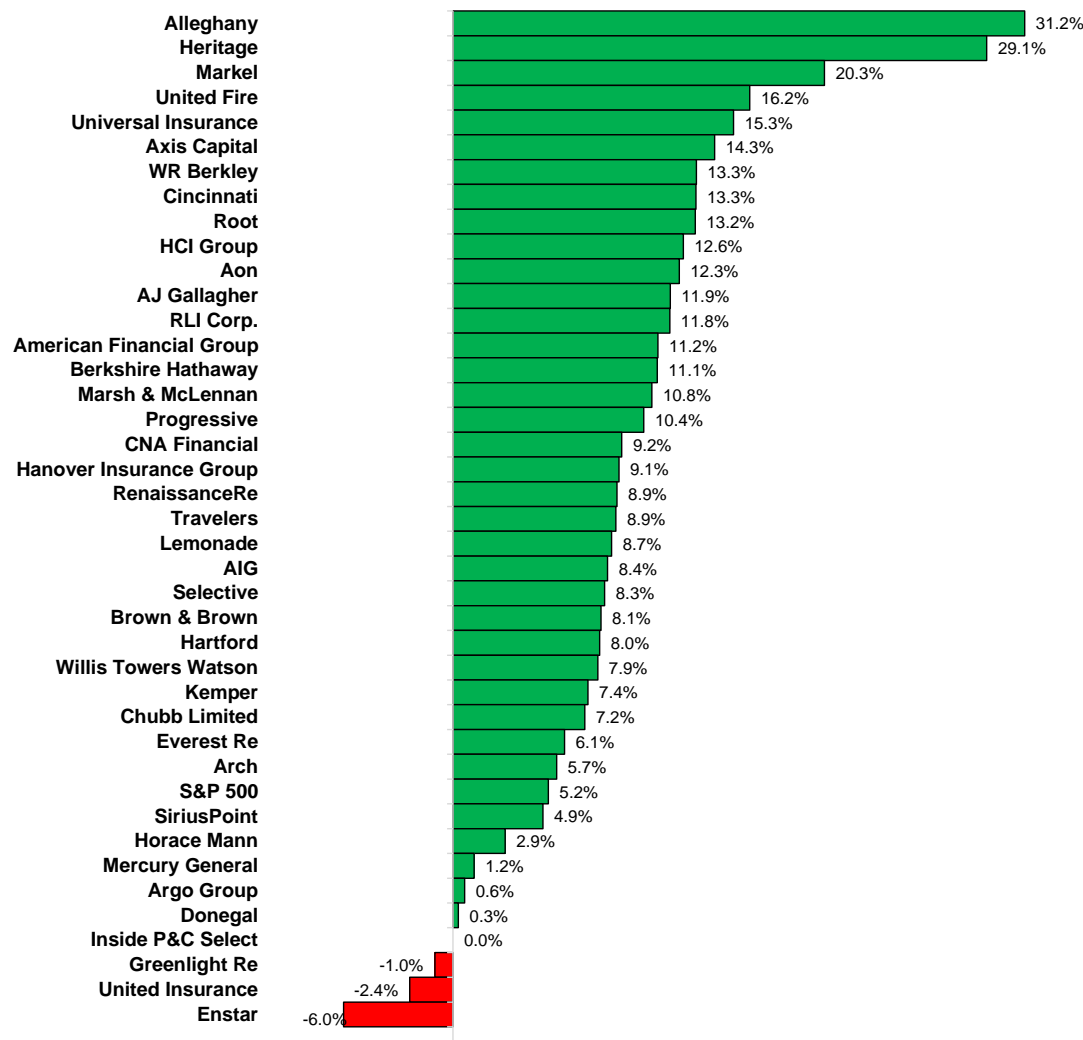
Source: FactSet, Inside P&C

Note: \* denotes S&P 500 sub-sectors



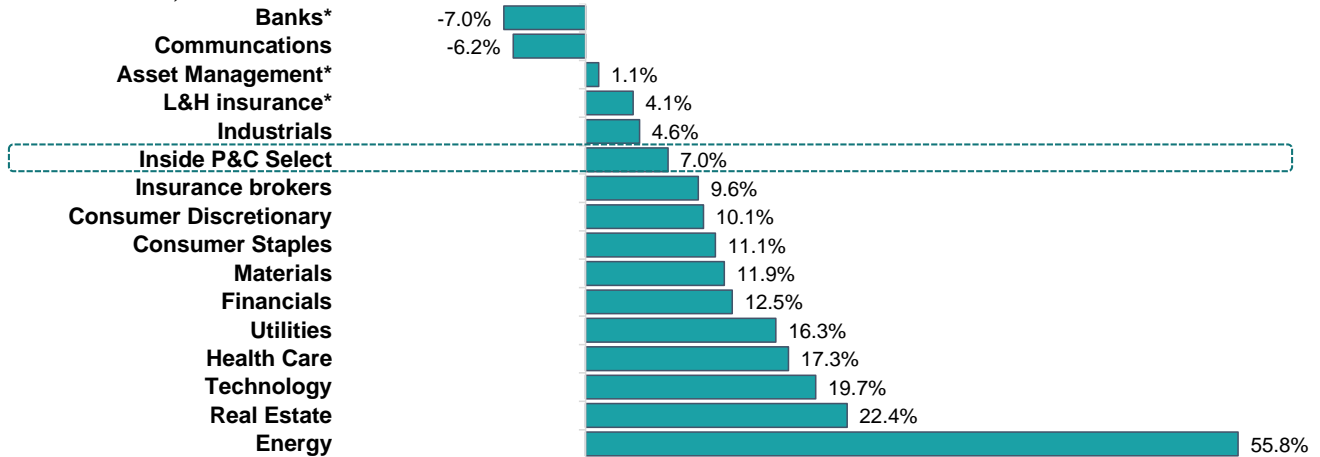
## March stock performance by individual carriers

Source: SNL, Inside P&C



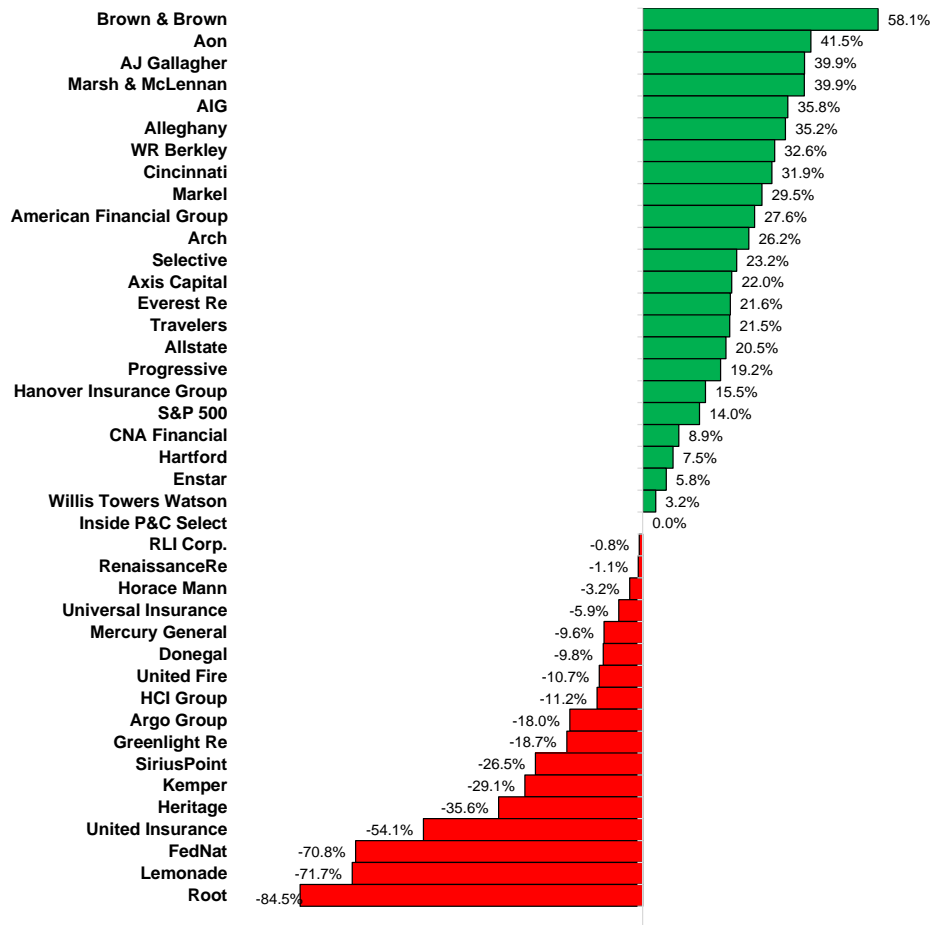
## 1 year Inside P&C Select vs. S&P 500 sectors' performance

Source: S&P Global, Inside P&C



## 1 year stock performance by individual carriers

Source: S&P Global, 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, Markel, American Financial Group, W.R. Berkley, RLI, Argo, Arch Capital, Everest Re, Renaissance Re, Axis, Universal, United Insurance, HCI Group, FedNat, Alleghany, and Greenlight Re.

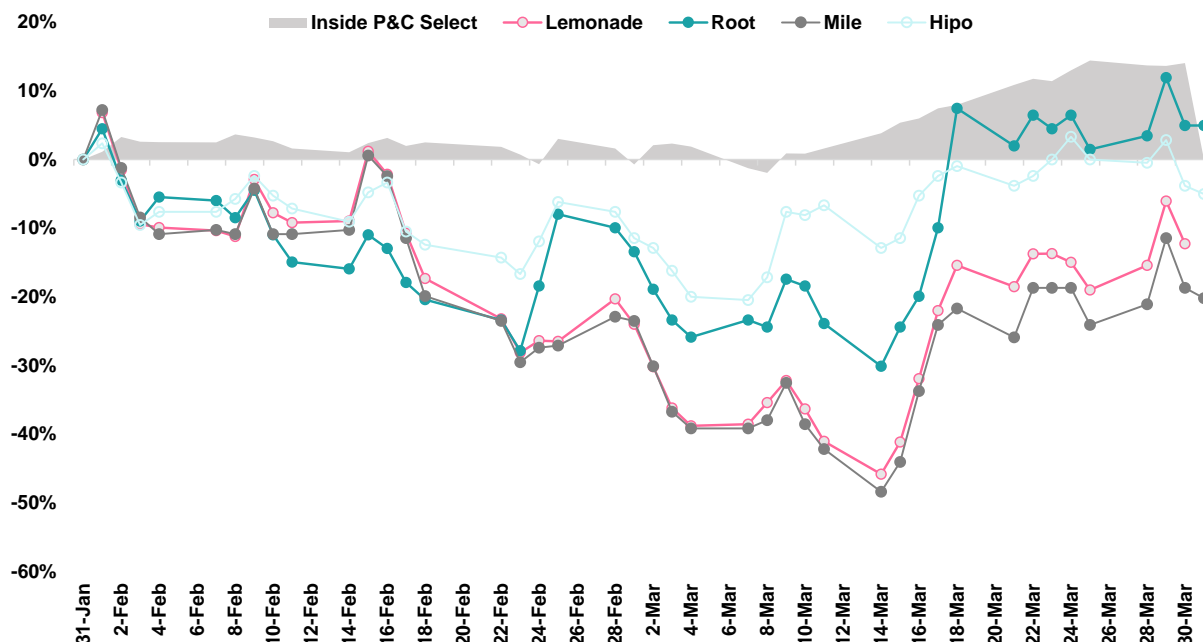
# Appendix: Peer group stock performance charts

## InsurTech

InsurTechs again underperformed the Inside P&C Select Index in Q1 2022. Lemonade was down 37.4% this quarter, although the stock had a 3.6% rebound in March. Metromile and Root were down 39.7% and 36.5% in Q1, respectively, with March rebounds of 3.1% and 8.8%.

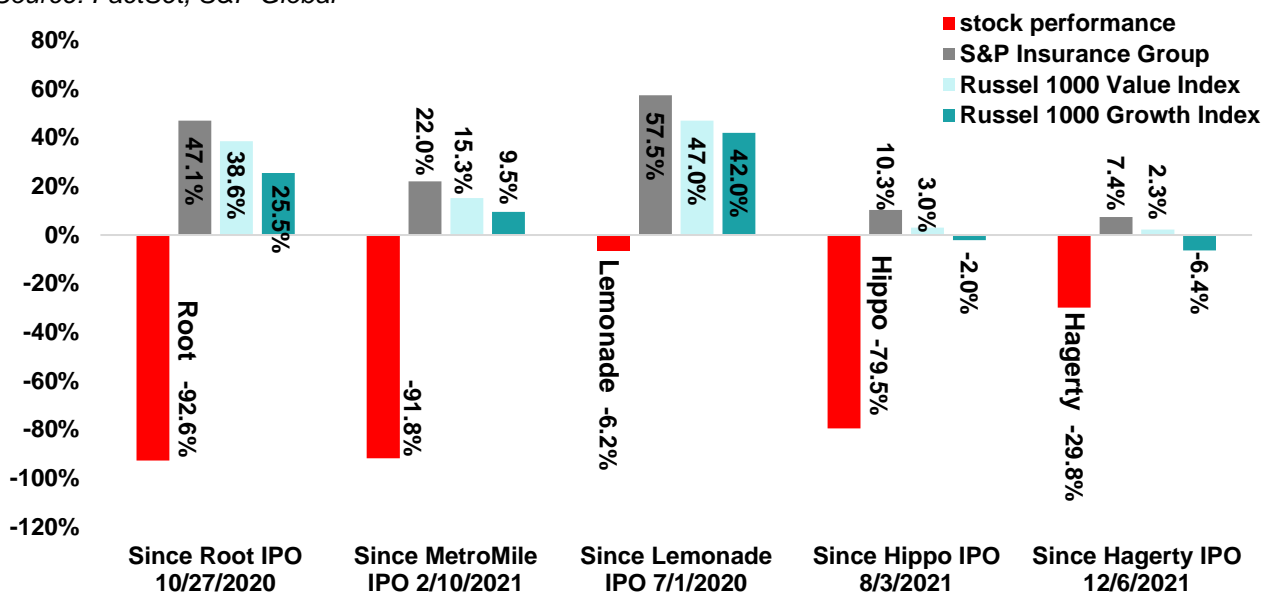
### Stock performance InsurTechs vs. Inside P&C Select for January – March

Source: SNL, Inside P&C



### InsurTech stock performance since IPO vs. S&P 500, Russel 1000

Source: FactSet, S&P Global

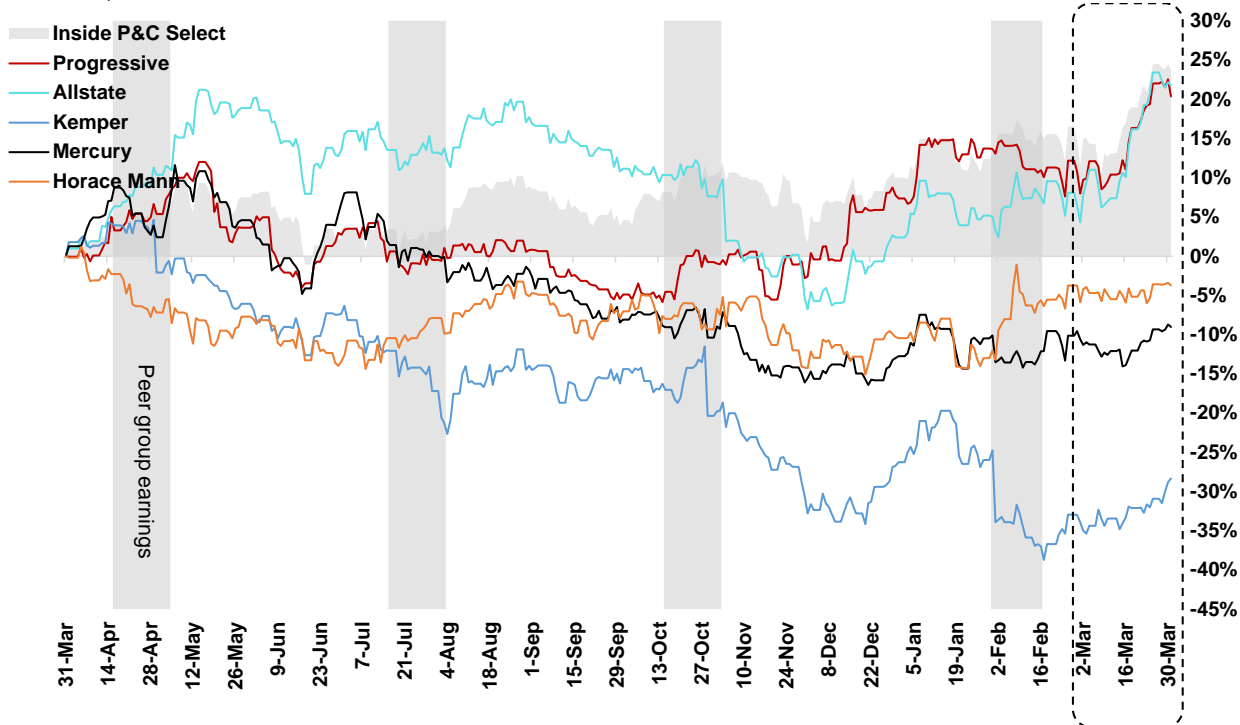


## Personal lines

Personal lines were up 9% in March and 12.4% in the first quarter of the year, outperforming the Inside P&C Select. Allstate is the best performer of this cohort, up 13.2% in March and 17.7% since the beginning of the year.

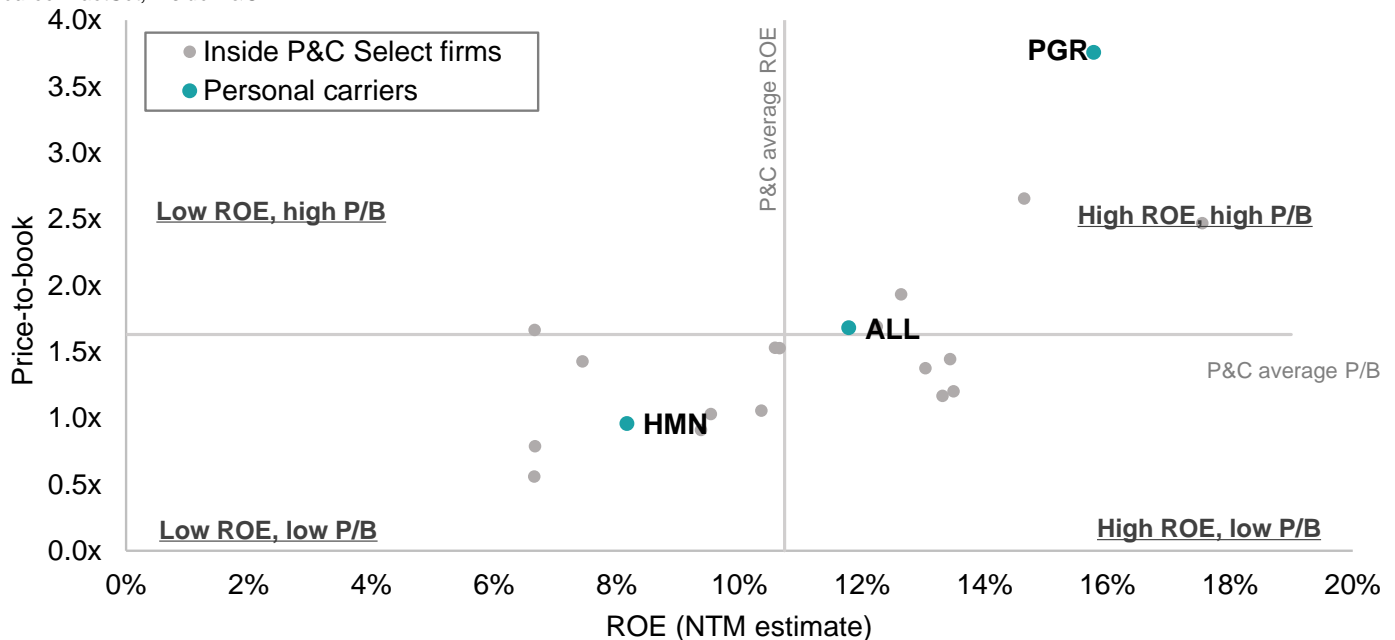
### LTM stock performance for personal carriers (March performance highlighted)

Source: SNL, Inside P&C



### PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C



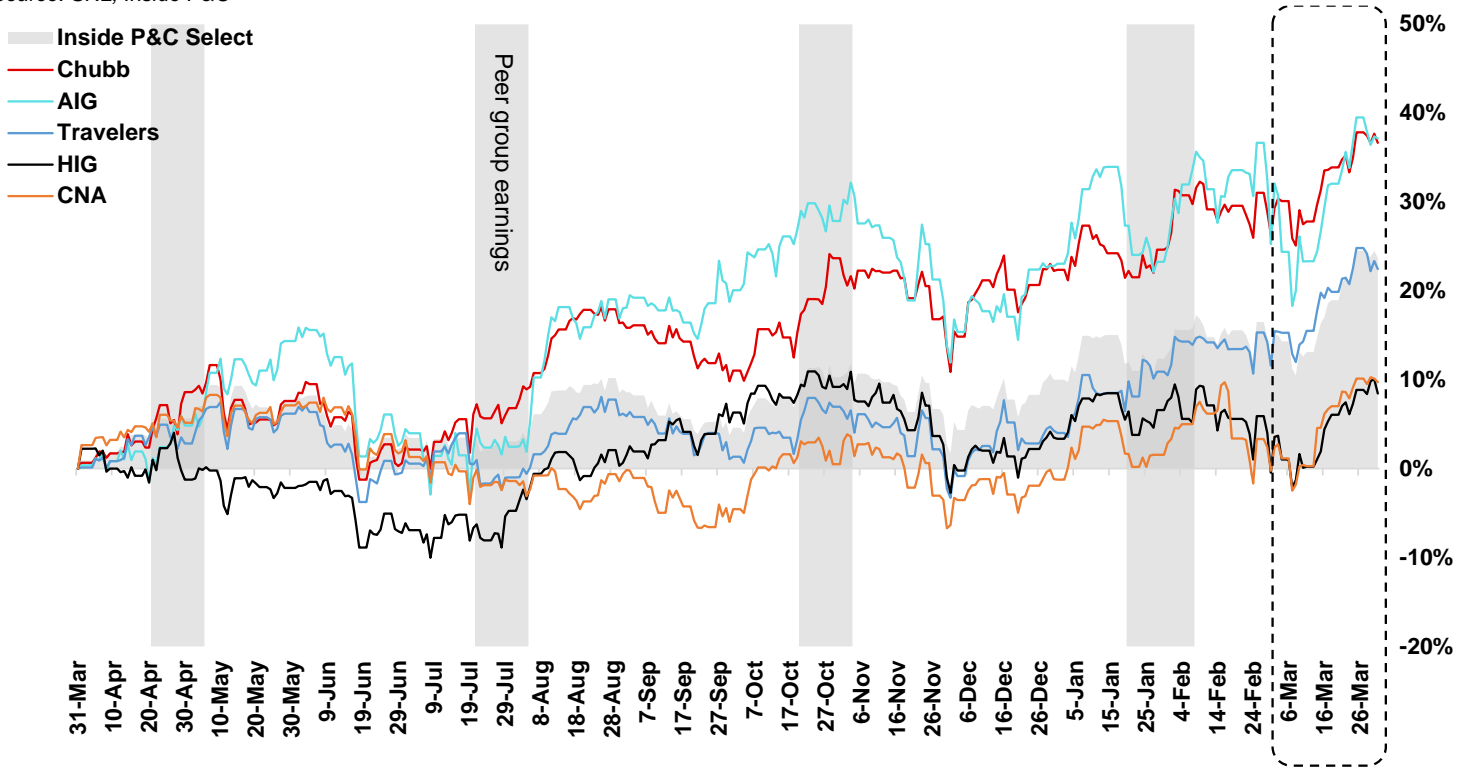


## Large commercials

Large commercial carriers were up 4.6% in March and 11% in Q1 2022, underperforming the Inside P&C Select (up 7% in March and 11.8% QTD).

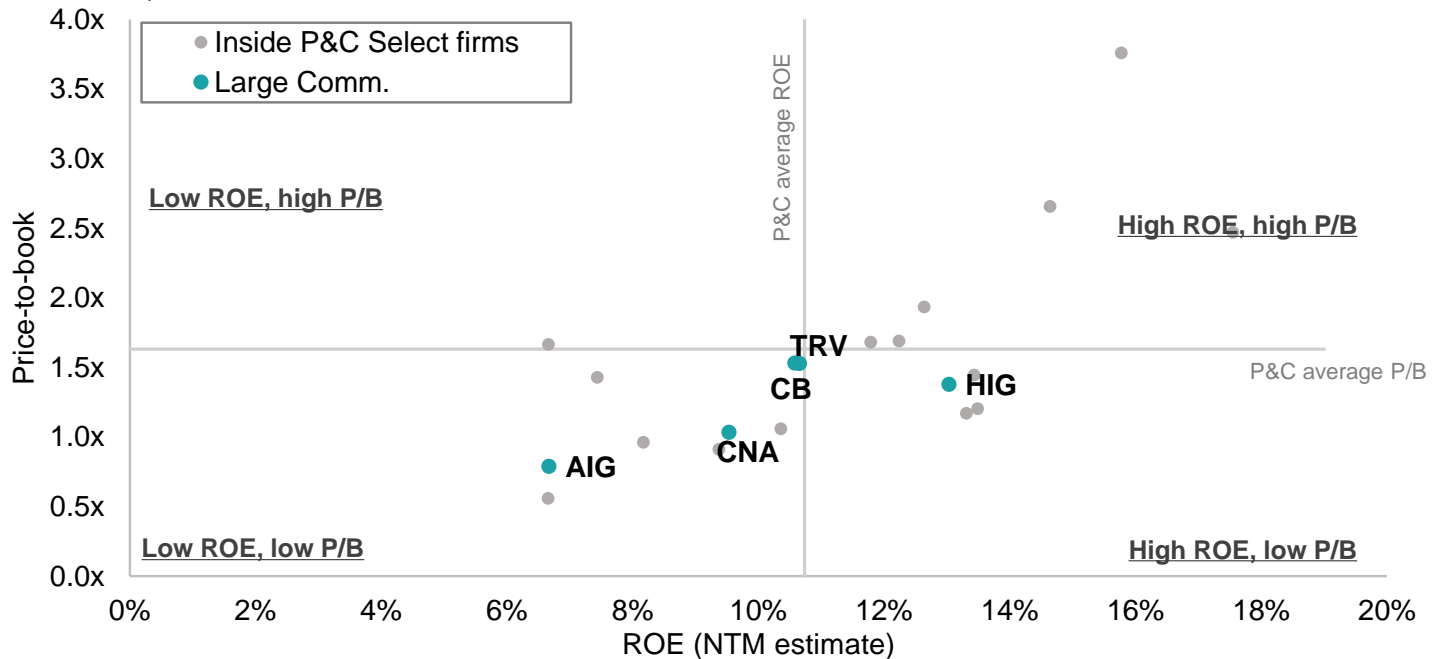
### LTM stock performance for large commercial carriers (March performance highlighted)

Source: SNL, Inside P&C



### PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

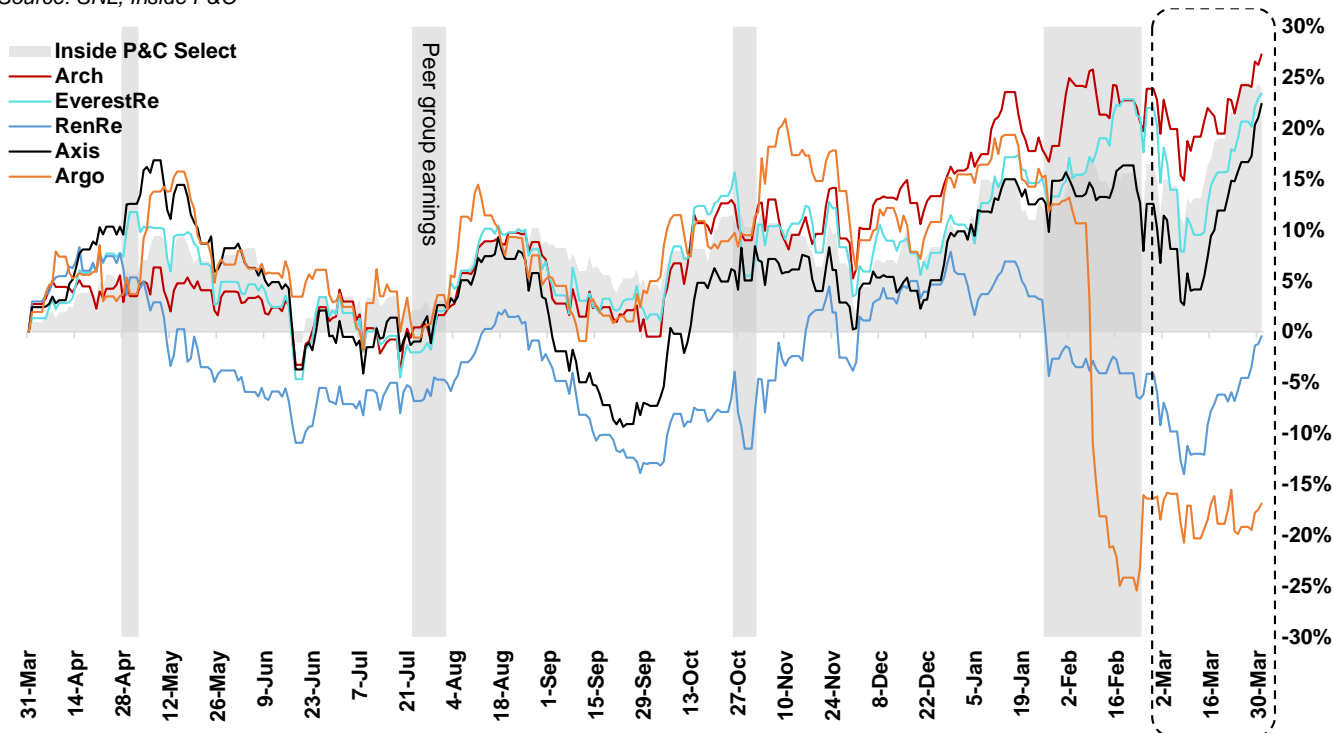


## Bermuda

Reinsurers were up 3.6% in March and 6.6% in the first quarter of 2022. Most reinsurers had better performance over the whole first quarter and underperformed during March, except for RenaissanceRe, which is up 5.1% in March but down -6.4% since the beginning of the year.

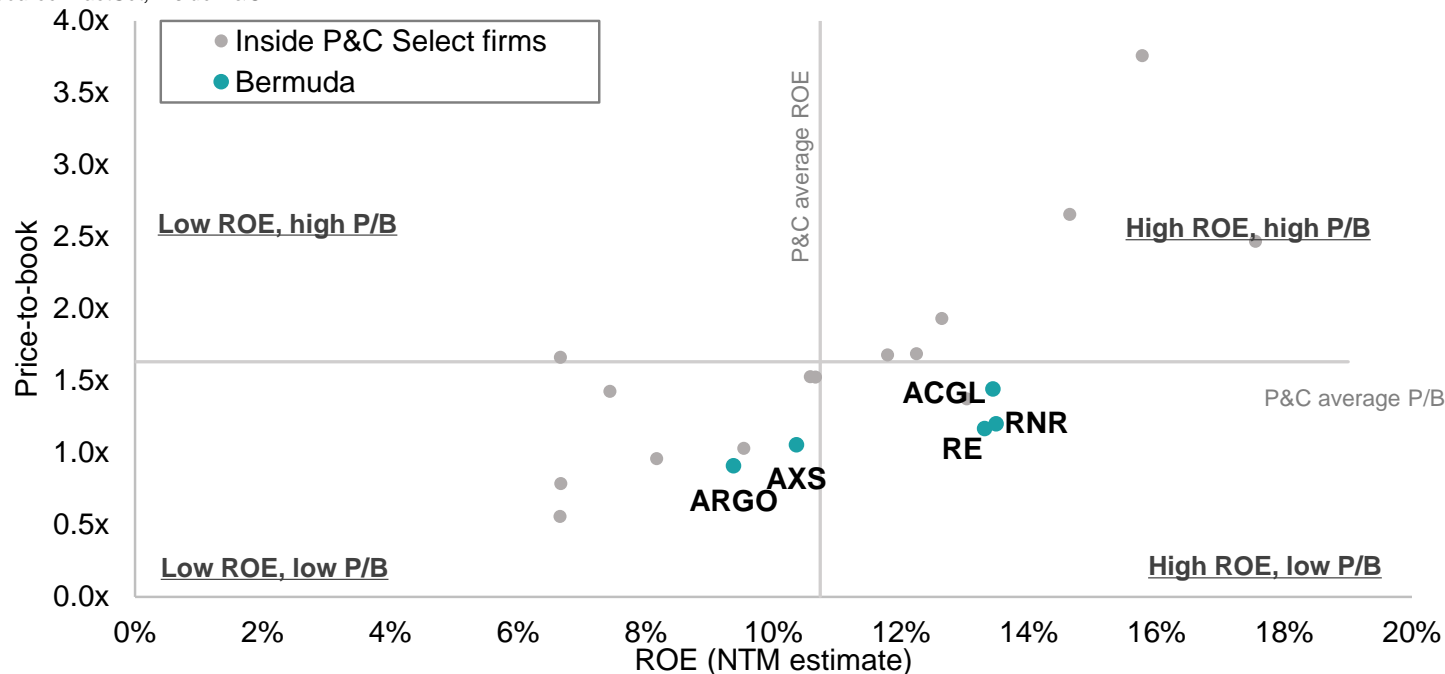
### LTM stock performance for Bermuda carriers (March performance highlighted)

Source: SNL, Inside P&C



### PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

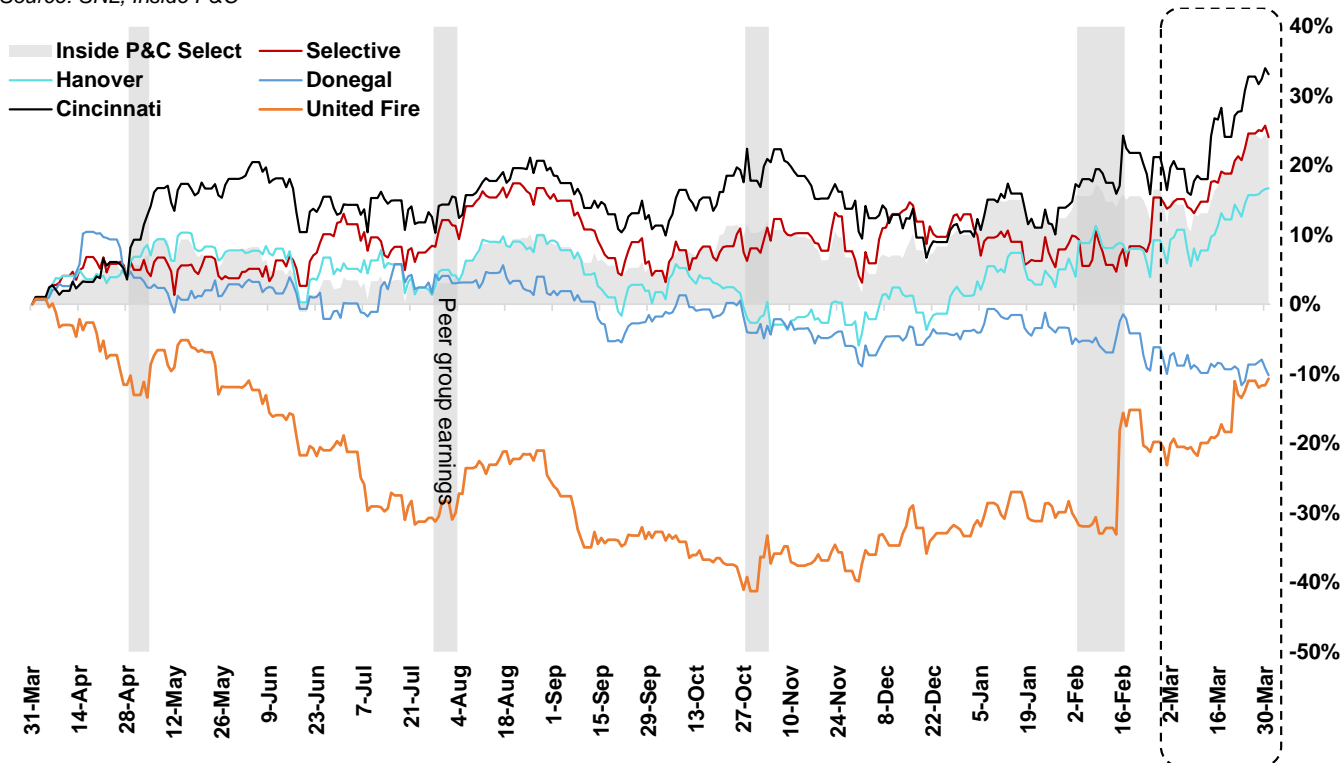


## Regionals

Regional carriers were up 9.6% in March and 16.6% in the first quarter of 2022. United Fire Group is the best performer of this cohort, up 12.5% in March and 34% since the beginning of the year.

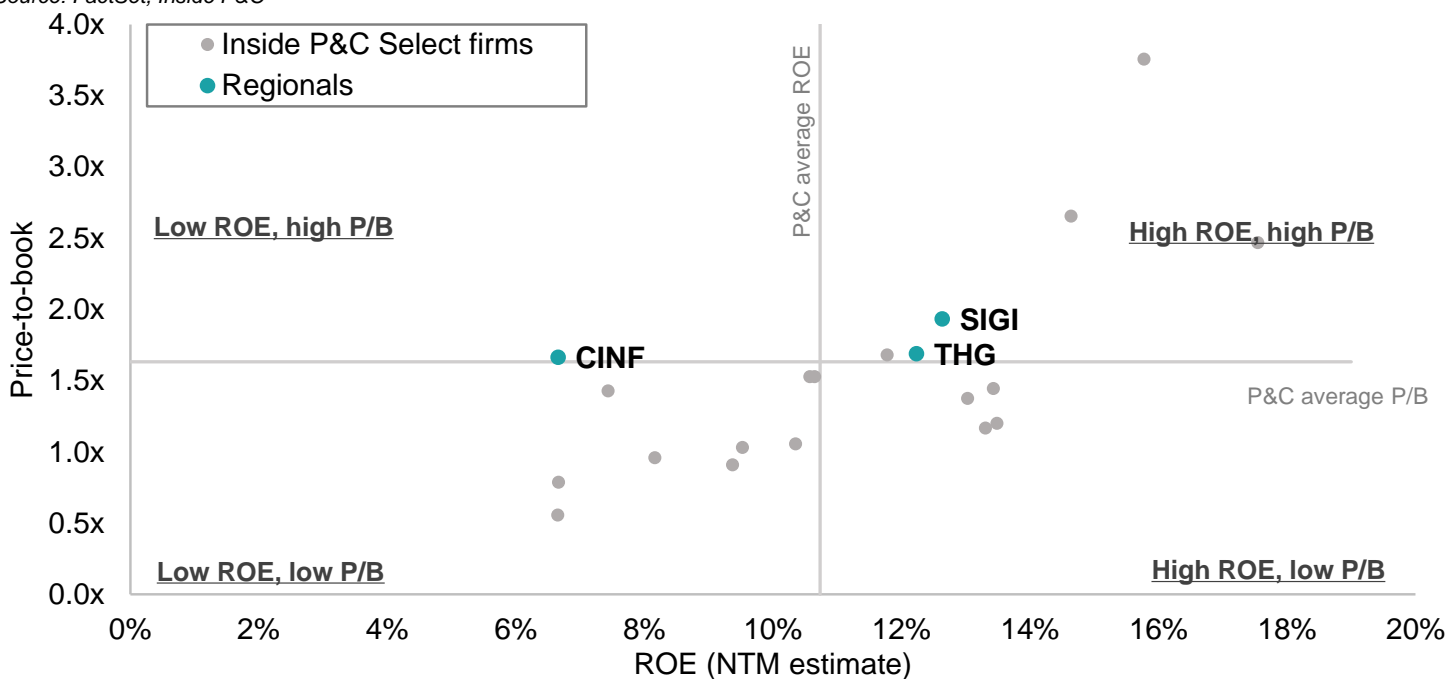
### LTM stock performance for regional carriers (March performance highlighted)

Source: SNL, Inside P&C



### PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

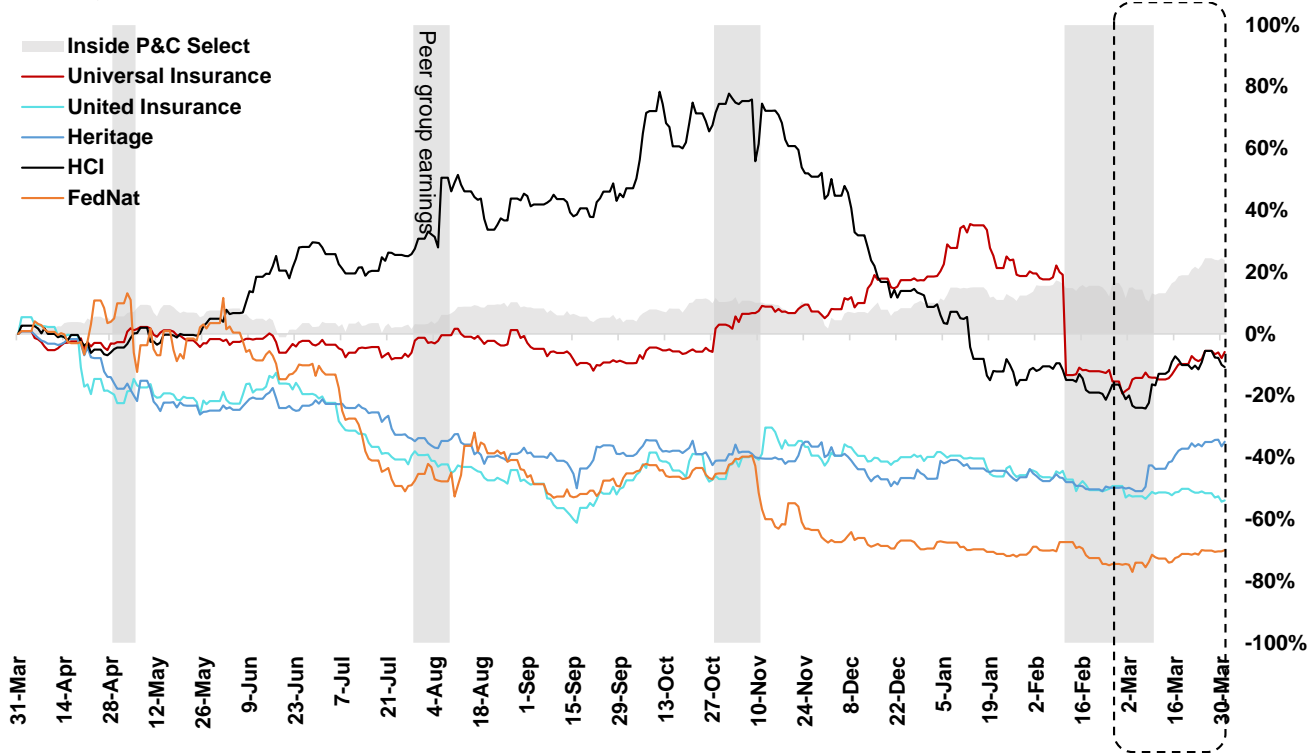


## Florida

Florida carriers were up 11.4% in March but down -15.9% in Q1 2022.

### LTM stock performance for Florida carriers (March performance highlighted)

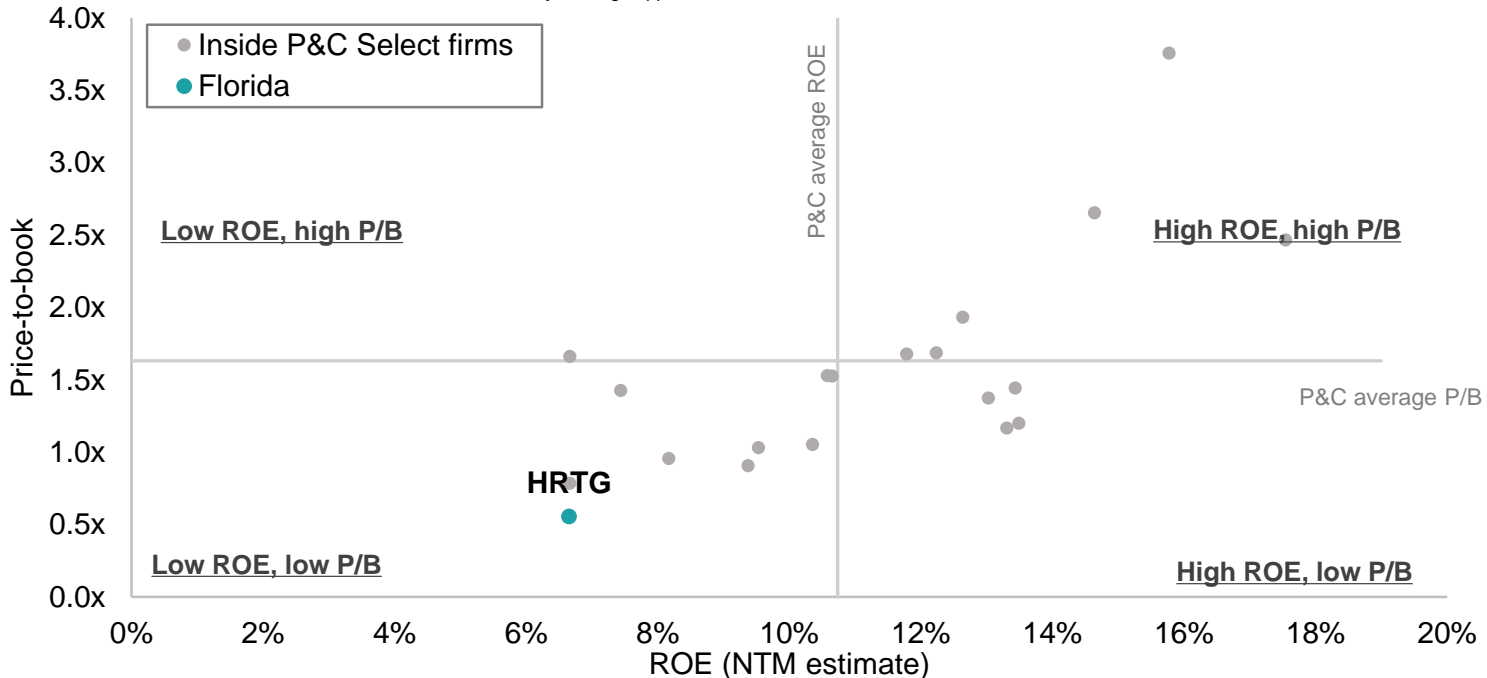
Source: SNL, Inside P&C



### PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

Note: Due to a lack of street estimates for other Florida carriers, only Heritage appears on the chart below

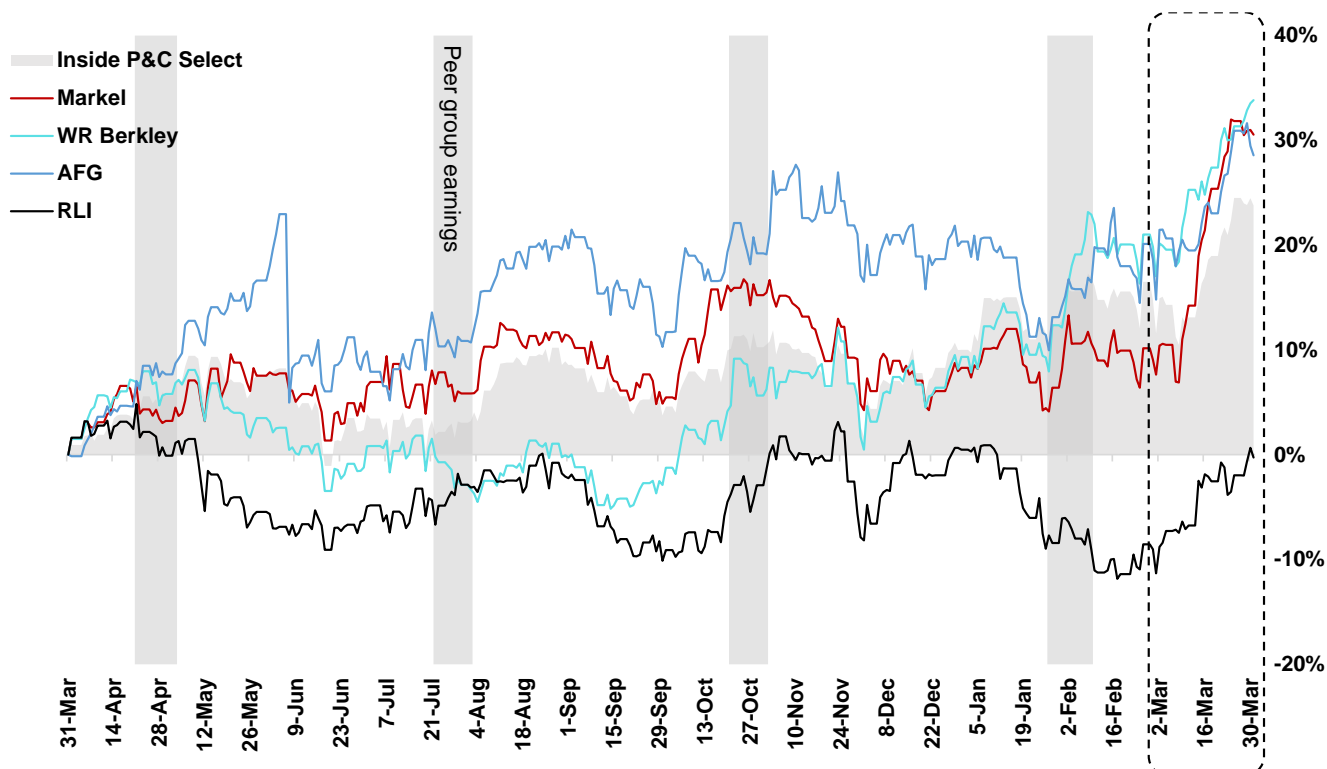


## Specialty

Specialty carriers were up 12.5% in March and 14.6% in Q1 2022, outperforming against the Inside P&C Select Index (up 7% in March and 11.8% in the first quarter). Market outperformed its peers in March, up 18.7%, while WR Berkley is the best performer for Q1 in total, up 21.2%.

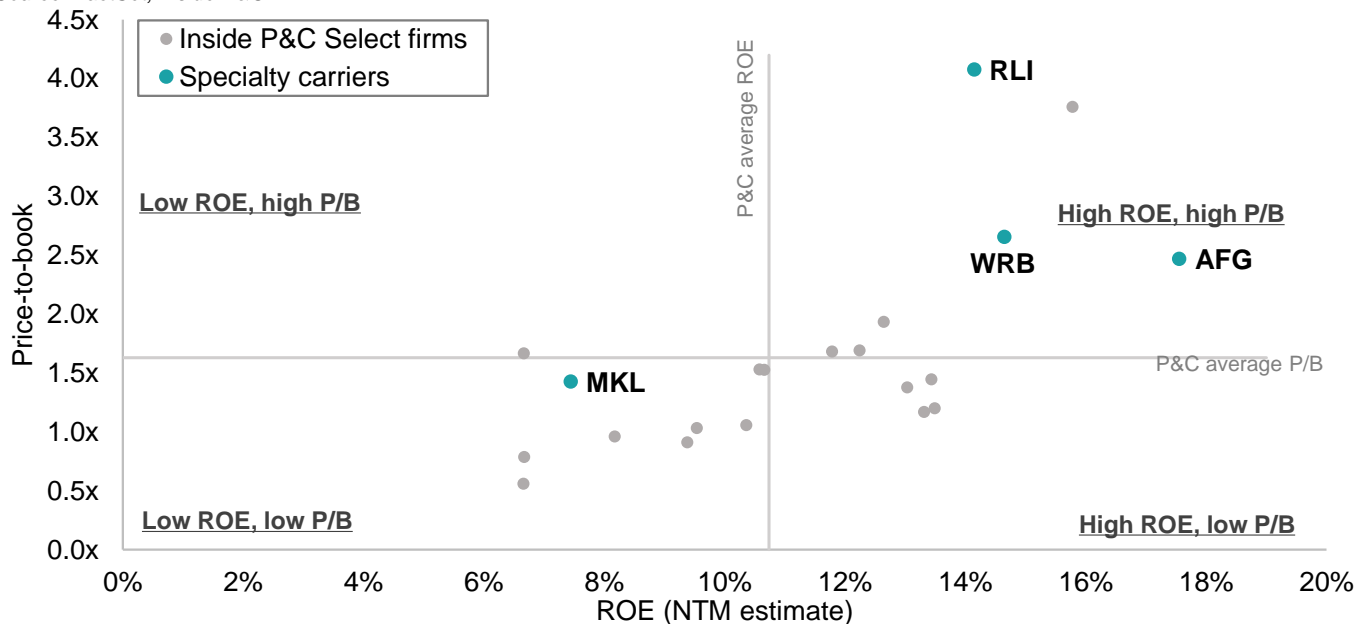
### LTM stock performance for specialty carriers (March performance highlighted)

Source: SNL, Inside P&C



### PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

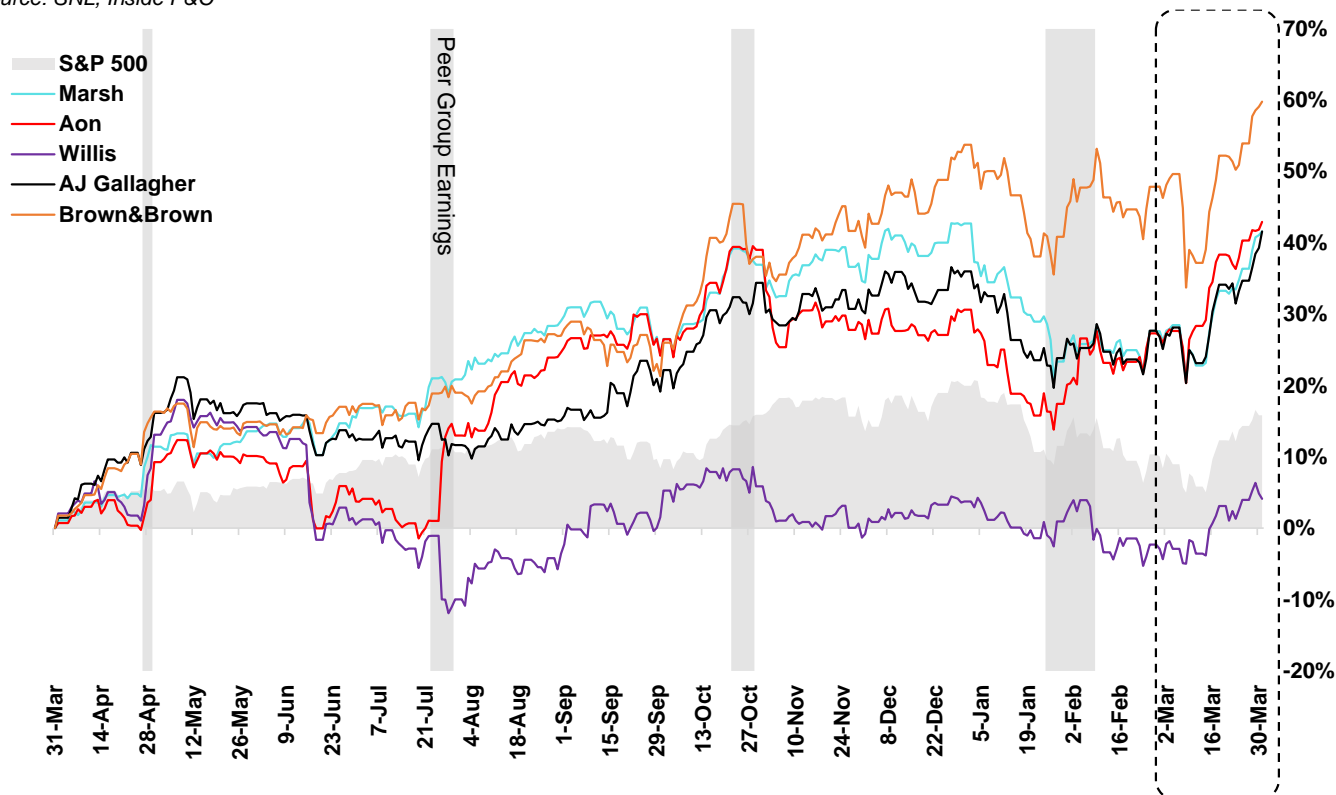


## Insurance brokers

Insurance brokers were up 9.6% in March and 2.2% in the first quarter, showing that the [optimism](#) that both Marsh McLennan and AJ Gallagher expressed for 2022 during their Q4 earnings calls was justified.

### LTM stock performance for insurance brokers (March performance highlighted)

Source: SNL, Inside P&C



This research report was written by Insider Publishing's Research team which includes Amit Kumar and Elliot Frumkin.

The content of this report includes opinions based on publicly disclosed financials and management commentary.

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