

Wake me up when September ends – few Green Days here

In September, the market-weighted performance of our selection of P&C stocks – the Inside P&C Select – was down 4.3%, roughly in line with the S&P 500 at -4.6% and outperforming the S&P 500 P&C index at -5.4%.

The September Effect, the statistical anomaly that stock returns are historically weaker in September than any other month, is one of those odd market voodoo quirks that some analysts point to as evidence that trading is more art than science. And while the Effect has waned in recent years, and fewer Septembers have posted losses since 1990, sometimes events line up to give old ghost stories a little bit more truth.

Broader economic factors, including a stumbling recovery, stubborn supply chain slowdowns, and fears of economic contagion from Chinese real estate firm Evergrande have depressed stock market returns, lending more credence to the September Effect and pulling the market back from all-time highs. The persistence of the Delta Variant through the summer has led to market fears as we enter the colder months when flu and Covid are expected to interact and give us a twofer.

Chief among September's economic concerns was inflation; the Federal Reserve announced in its late September meeting that it's Covid-era emergency purchasing of Treasuries and mortgage bonds will continue for the time being.

Instability in federal fiscal policy centered around the debt ceiling as well as budget and spending packages moving through congress, as well as a possible government shutdown, was cited as a reason to postpone the planned tapering of bond purchases.

This was a reversal of policy from [late-August's meeting](#) which predicted tapering would begin sooner. The postponement all but guarantees that inflation – which has been a sore spot for months – will remain elevated.

Stocks fell on the news, with the S&P 500 and Nasdaq Index down -4.6% and -5.6%, respectively. The information technology sector fell the most after the Fed meeting, while the materials sector fell the most in the past month.

Large commercial insurers were down -2.3% in September but up 8.9% QTD, with recent economic stumbles unable to erase gains from the larger recovery.

Personal lines carriers continued to slide, down -5.6% in September and -5.7% QTD (vs. S&P 500 down -4.6% MTD and up 0.4% QTD). As we have [previously discussed](#), personal lines carriers' property segments were hit by Ida losses, while personal auto segments are negatively impacted by frequency and severity trends. Investors are hesitant to say that the worse is behind.

Reinsurers were down -7.4% this past month, bringing the QTD number down to -2.5%. The performance was also in large part due to Ida losses.

InsurTechs were again the worst performers, down a full -12.7% in September. The HSCM InsurTech index showed similar trends, down 3.2% for the month.

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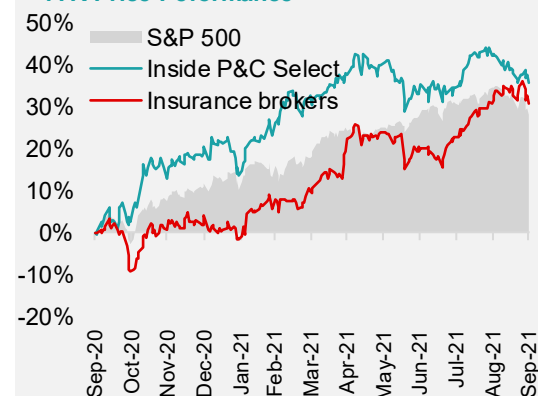
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Composite	YTD px chg.	P/B
Large comm.	21.1%	1.1x
Regional	27.8%	1.6x
Specialty	17.1%	1.7x
Personal	(0.2)%	1.9x
Bermuda	(0.5)%	1.0x
Florida	10.9%	1.1x
Brokers	25.8%	-
IPC Select	12.8%	1.3x
S&P 500 Fin.	29.5%	-
S&P 500	14.7%	-

1YR Price Performance



Source: S&P Global, Inside P&C

Inside P&C Select performance by peer groups

Source: SNL, Inside P&C

	September	YTD	1 year	3 years
S&P 500 Index	-4.8%	14.7%	28.1%	47.8%
S&P 500 Asset Management	-9.2%	21.6%	51.9%	36.7%
S&P 500 Banks	2.3%	32.9%	75.6%	25.4%
S&P 500 Life & Health	-3.0%	25.8%	58.4%	10.0%
S&P 500 Financials	-2.0%	27.4%	56.0%	36.3%
S&P 500 P&C	-5.6%	8.4%	29.2%	26.5%
Insurtech*	-13.2%	NA	NA	NA
Insurance brokers*	-0.6%	25.8%	30.9%	83.3%
Inside P&C Select	-4.8%	12.5%	35.4%	17.9%

*not part of Inside P&C Select

Macro factors impacting insurance stocks

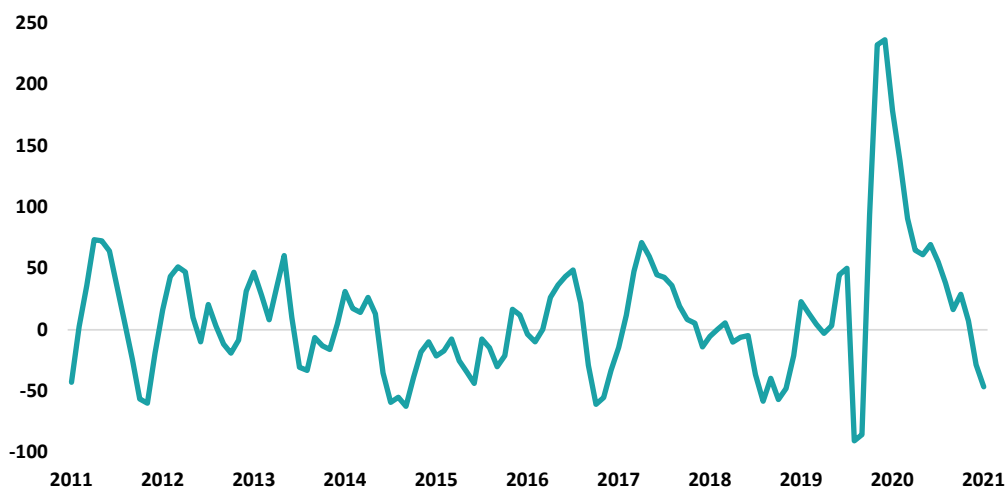
Economic drivers have served as the most significant determinants for the direction and volatility of stocks this year, as macro stories dominated the headlines.

SURPRISE INDEX DROPS

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

Citi Economic Surprise Index

Source: FactSet



INFLATION EXPECTATIONS STAY LEVEL

The 5-year breakeven inflation rate – one of the conventional gauges of inflation expectations – remained stable, rounding out the month at exactly the same 2.5% that it started with in the beginning of September, and even back to the beginning of August. The current rate of inflation is the highest it's been since the financial crisis of 2008. The stability of the 5-year rate at 2.5% is juxtaposed with the current high levels of inflation the economy is experiencing; this difference may be a function of uncertainty among experts as to how long heightened inflation will last long-term.

The Consumer Price Index inflation rate has held at 4.8% after being adjusted up from 2.1% last month, indicating that short-term inflation will remain high.

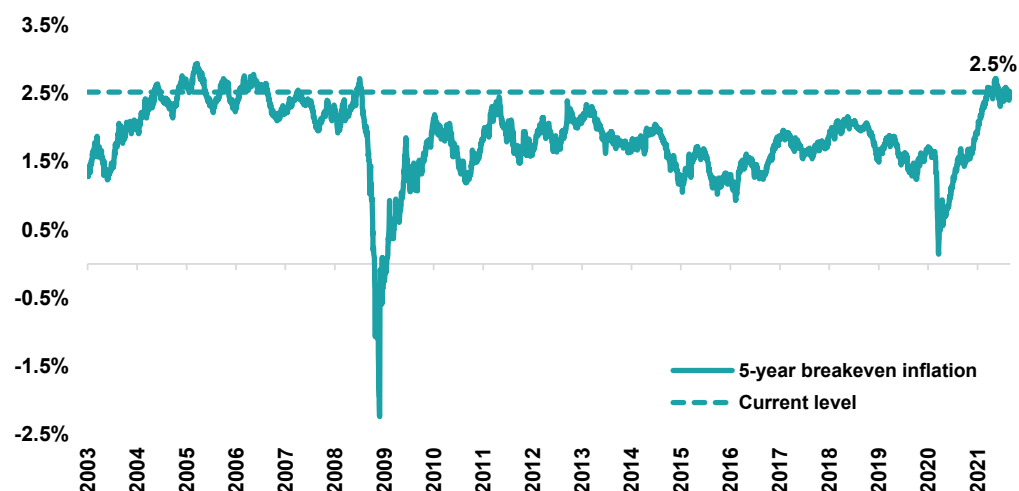
Fed-reported consumer inflation expectations show that inflation is expected to reach 5.2% in the short-term (next month) and 4% in the medium-term (next 6 months) by

the average consumer, highlighting the average citizen's lack of confidence in promises to rein in inflation at 2%.

Insurance CPI and long-term CPI are closely intertwined; insurance inflation typically leads reported inflation by 150-200 basis points. Adding this to the 2.5% 5-year breakeven inflation rate above will net the insurance market between 4-5% loss cost inflation.

5-year breakeven inflation rate

Source: FRED

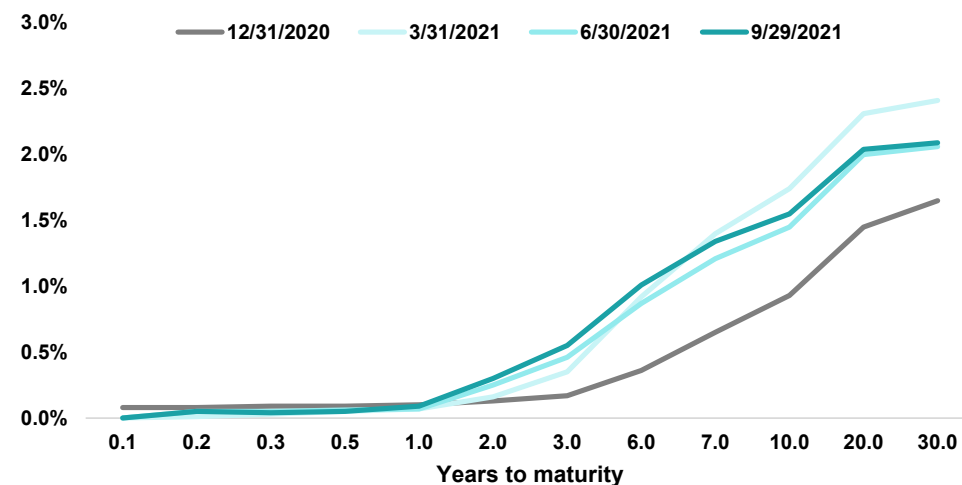


YIELD CURVE STAYS STABLE

Treasury yields remained stable in September, after a steepening in the first half of the year followed by a flattening from June onwards, after the Fed's forecasts in mid-June moved up the time frame for the next rate hike. It steepened slightly after last week's Fed meeting, which signaled reticence to taper Treasury and mortgage bond purchases, let alone rate hikes, which now may be pushed later than previously anticipated.

Treasury Yields

Source: S&P Global, Inside P&C

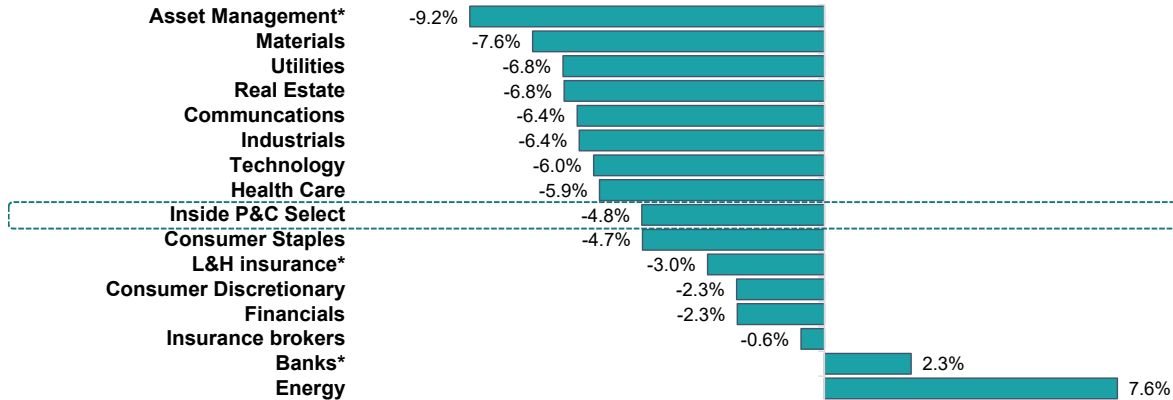


The next few pages include stock charts with the performance for individual companies, S&P 500 sectors, and P&C sub-sectors in September.

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

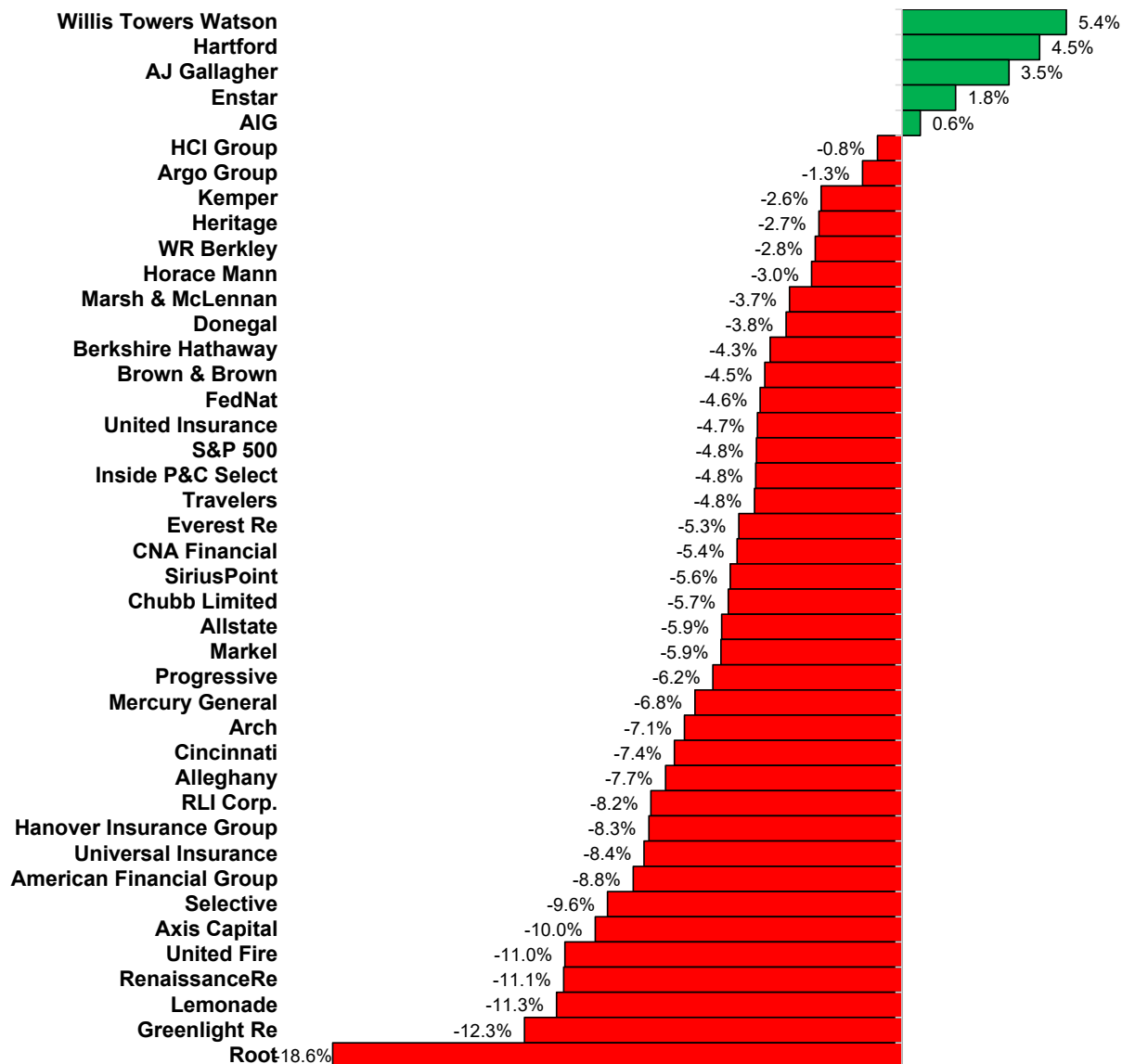
Source: FactSet, Inside P&C

Note: * denotes S&P 500 sub-sectors



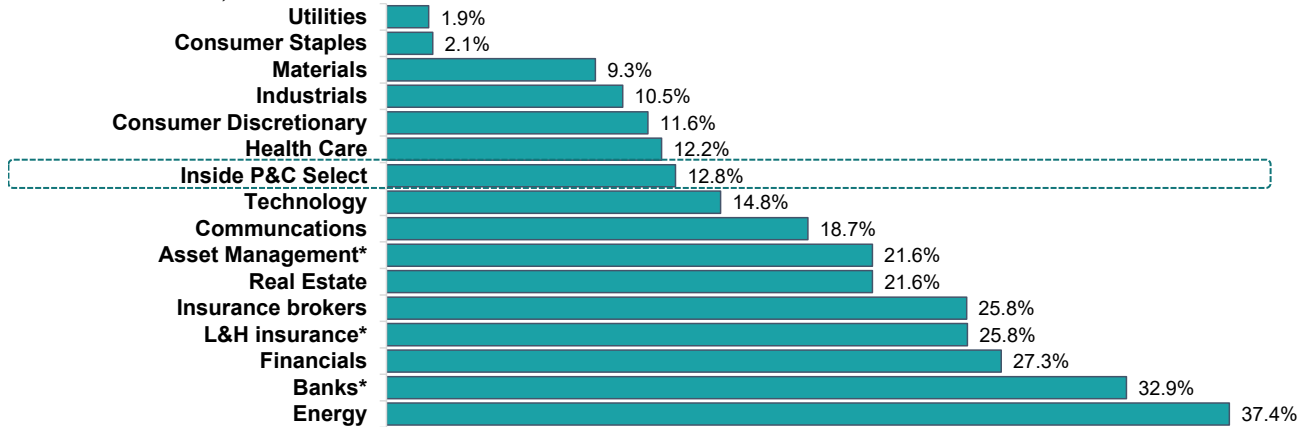
September stock performance by individual carriers

Source: SNL, Inside P&C



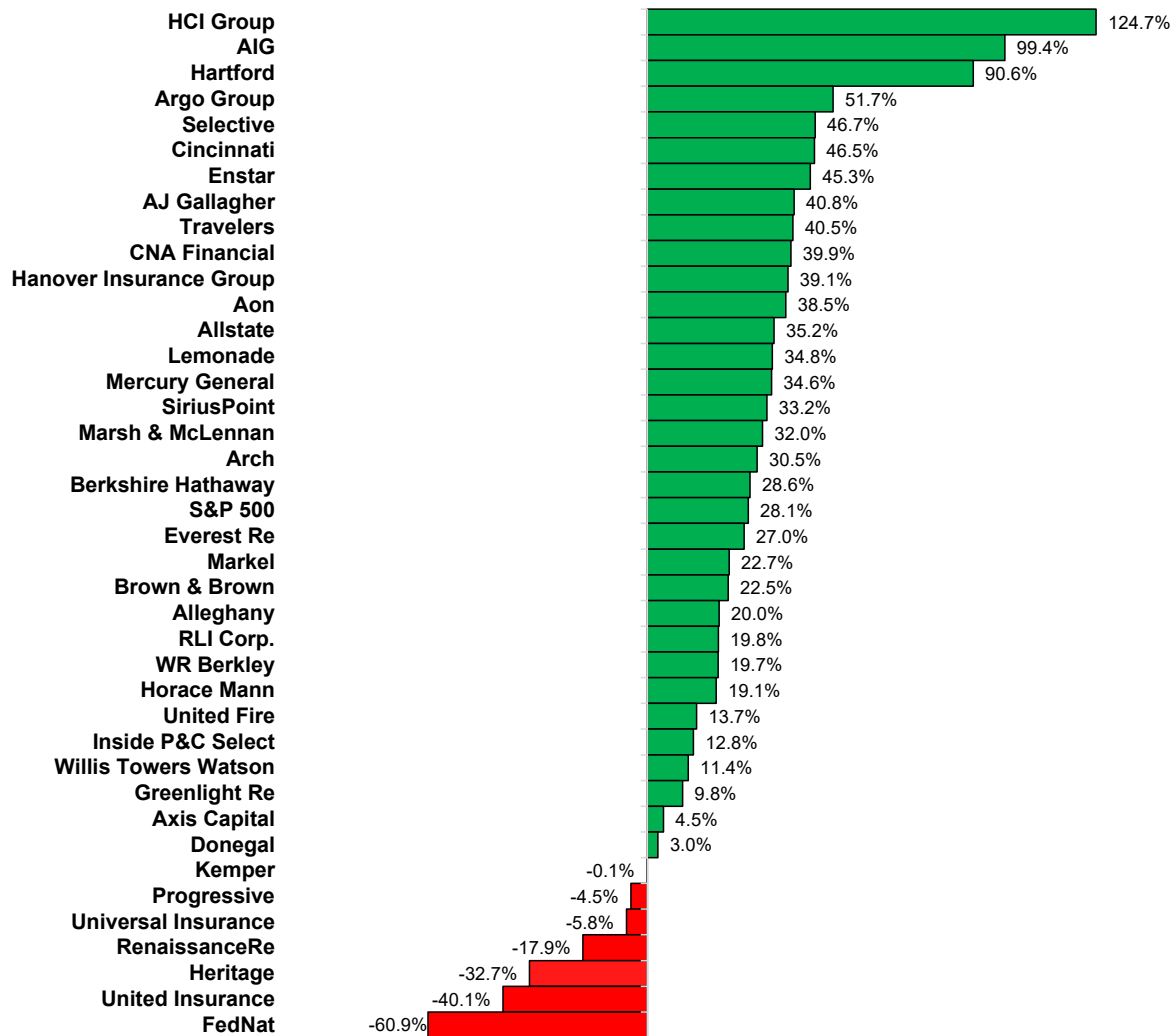
Inside P&C Select vs S&P 500 sectors' performance YTD

Source: S&P Global, Inside P&C



YTD 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, Greenlight Re, and Watford Re.

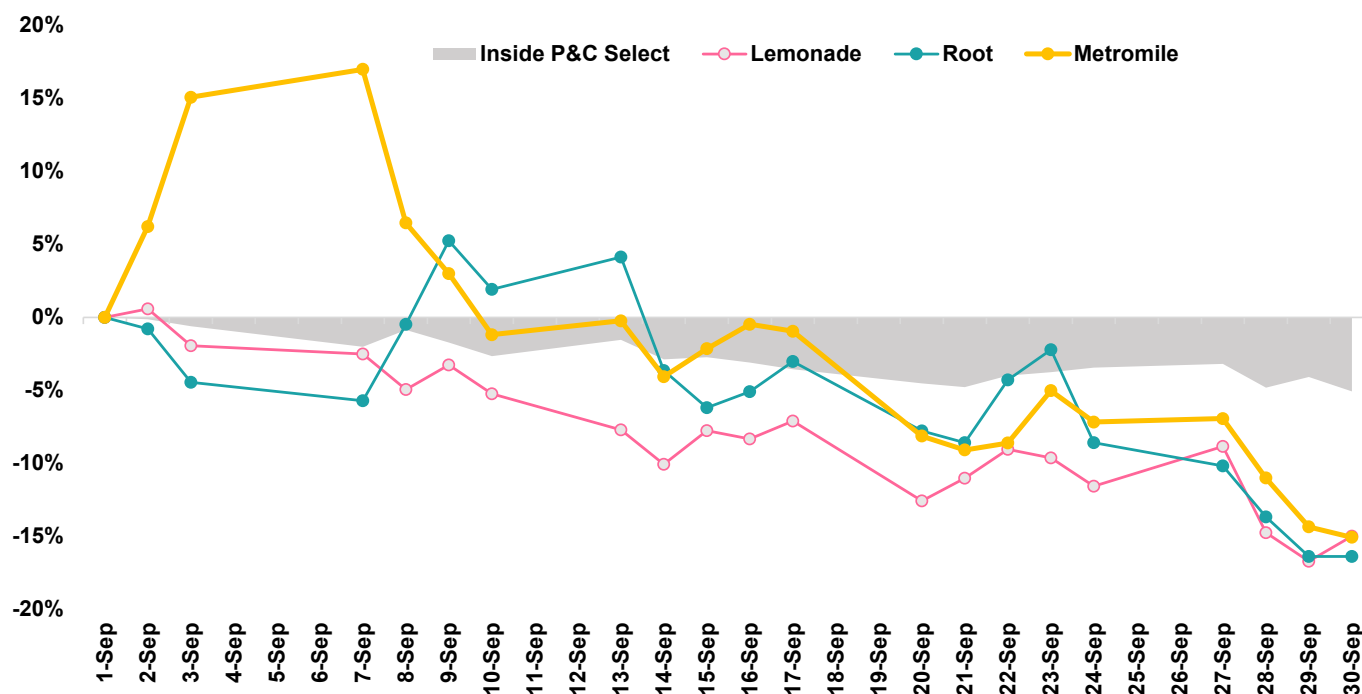
Appendix: Peer group stock performance charts

InsurTech

InsurTechs again underperformed the Inside P&C Select Index in September. InsurTechs, which are not included in the Select Index, declined in September but not as much as they had in the previous month. Root was down -18.6% for this month, with Lemonade and Metromile close behind, both down -11.3% in September. InsurTech's poor stock performance has made it the primary target of short sellers, as we [have discussed previously](#).

Stock performance InsurTechs vs Inside P&C Select for September

Source: SNL, Inside P&C

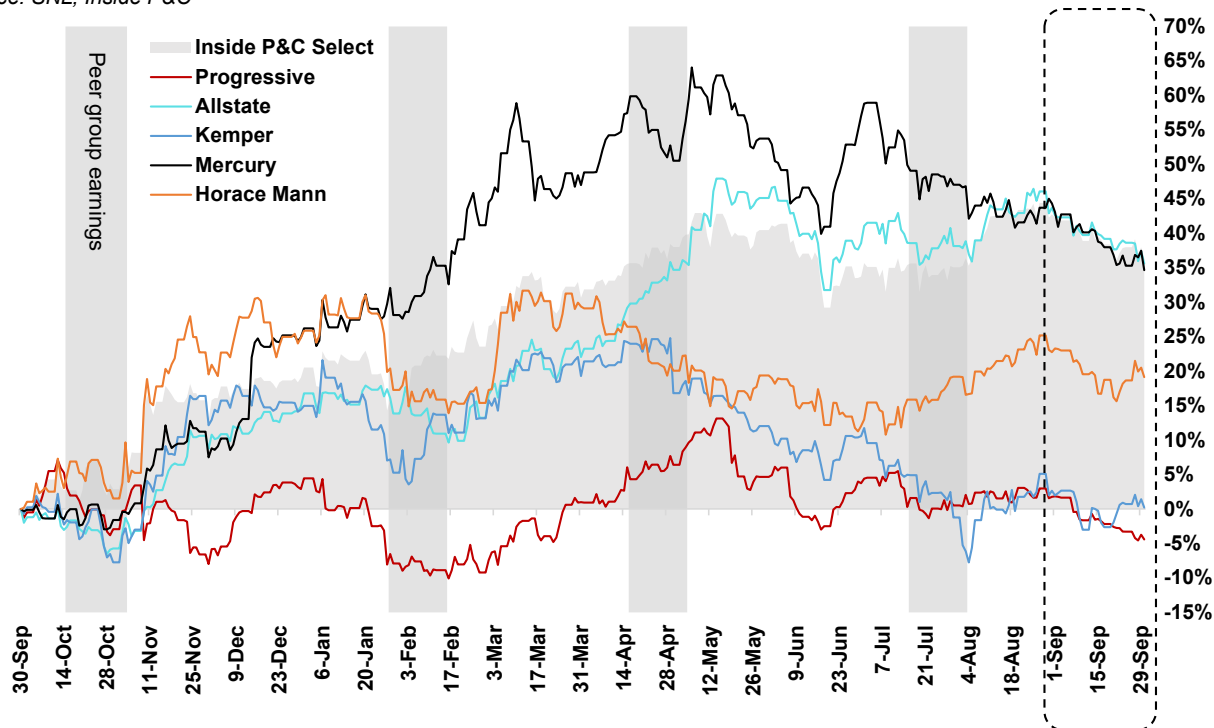


Personal lines

Personal lines were down -5.9% in September, and down -6% QTD, underperforming Inside P&C Select Index (down -4.8% in September and up 12.8% YTD). Kemper had the best of a bad month, down only -2.6% in September, although it is the worst performing personal lines carrier YTD down -13.1%.

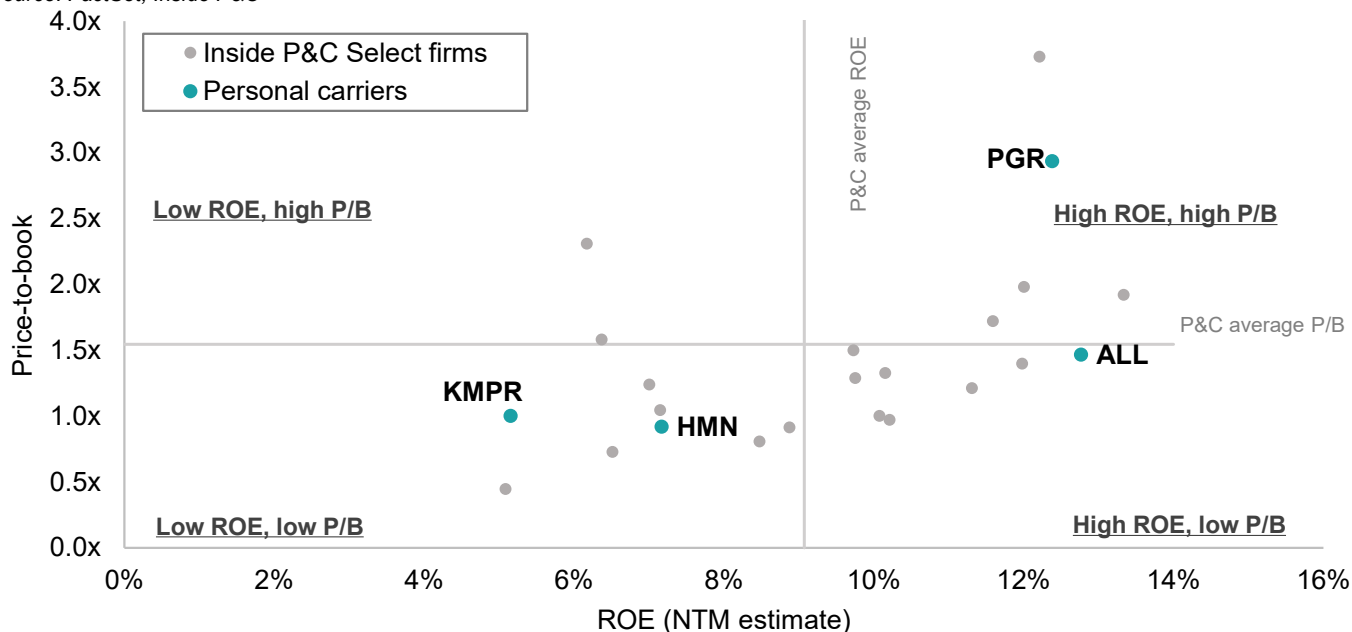
LTM stock performance for personal carriers (September performance highlighted)

Source: SNL, Inside P&C



PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

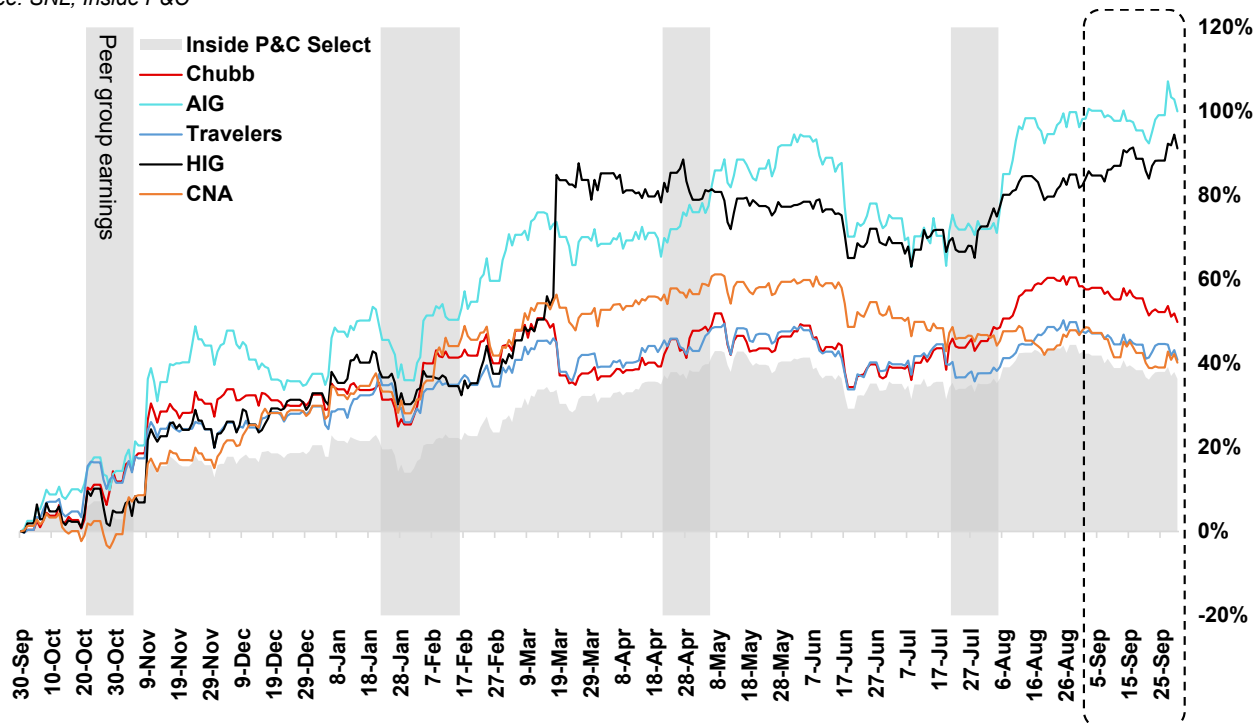


Large commercials

Large commercial carriers were down -2.9% in September but up a still-robust 21.1% YTD, staying ahead of the Inside P&C Select Index (down -4.8% in September and up 12.8% this year).

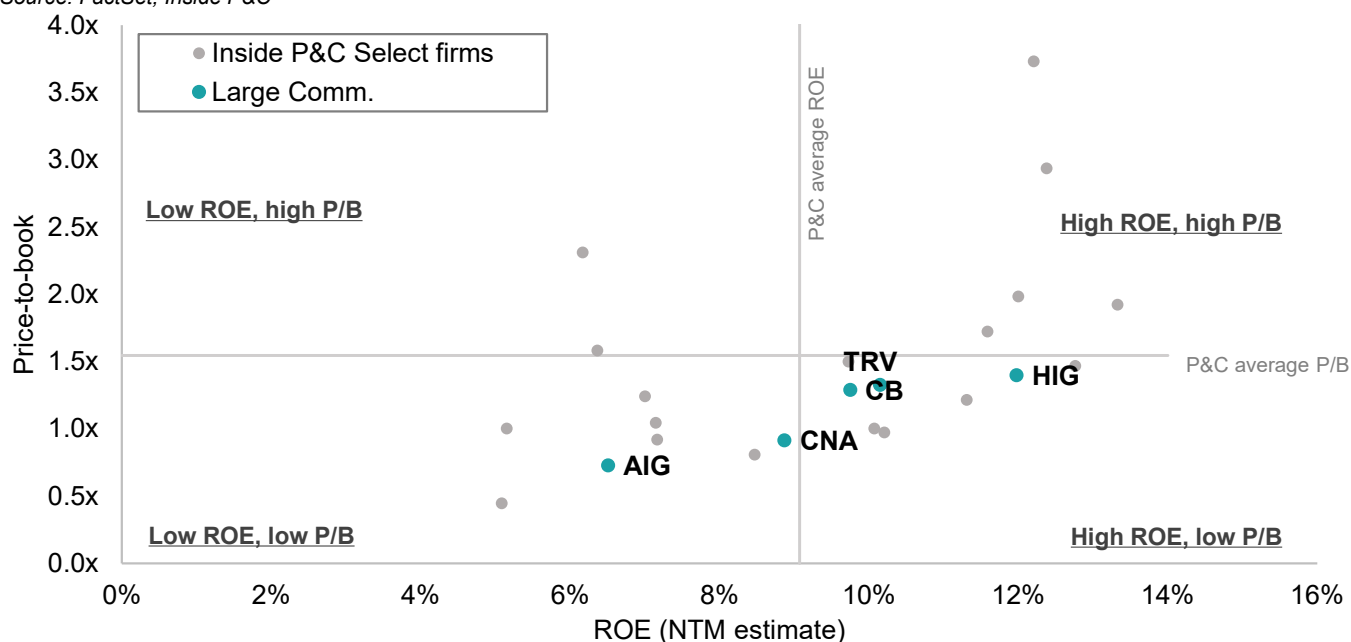
LTM stock performance for large commercial carriers (September performance highlighted)

Source: SNL, Inside P&C



PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

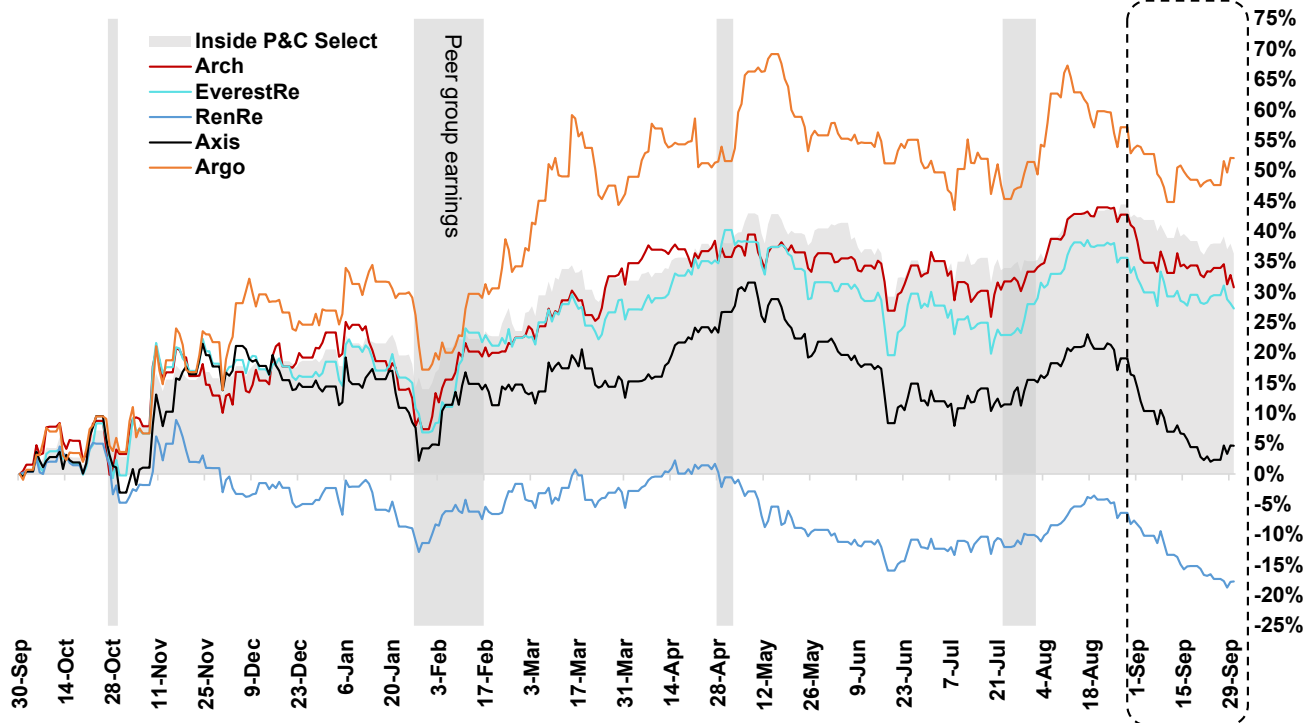


Bermuda

Reinsurers were down -7.7% in September which put them under water for the year, now down -0.5% YTD. RenaissanceRe Holdings, which is down -11.1% in September, is joined by Axis Capital Holdings as the two carriers down year to date (-15.9% and -8.6% respectively vs. S&P 500 +14.7%).

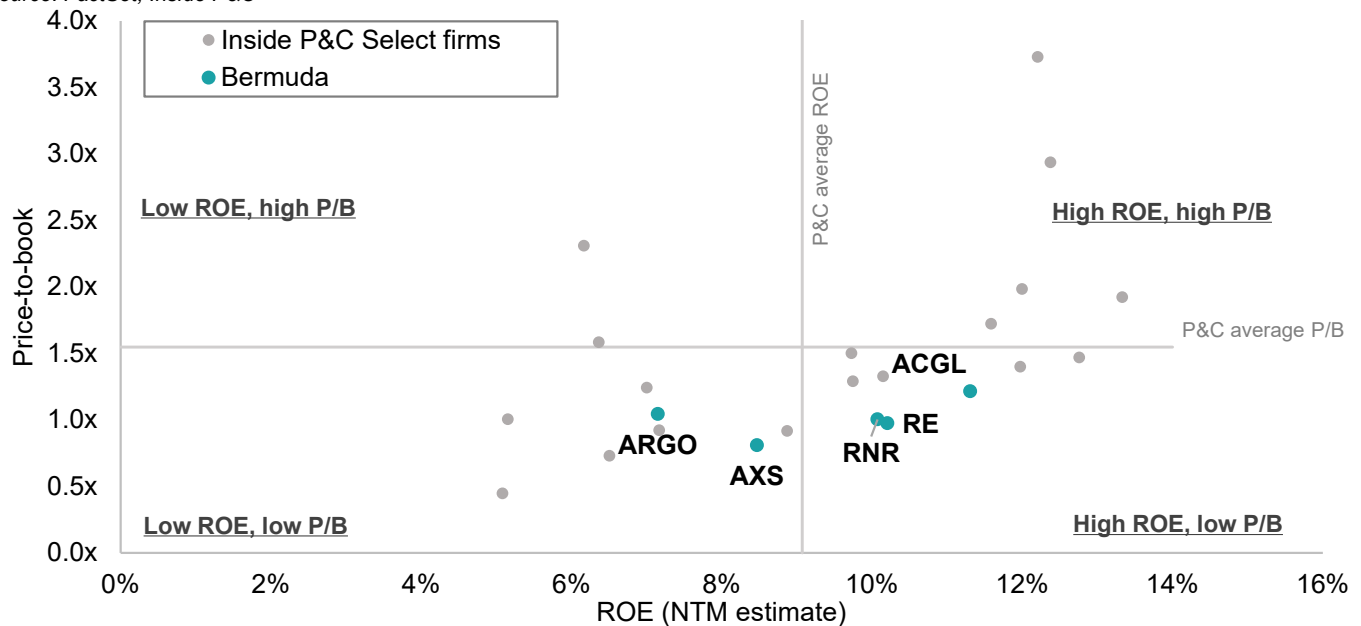
LTM stock performance for Bermuda carriers (September performance highlighted)

Source: SNL, Inside P&C



PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

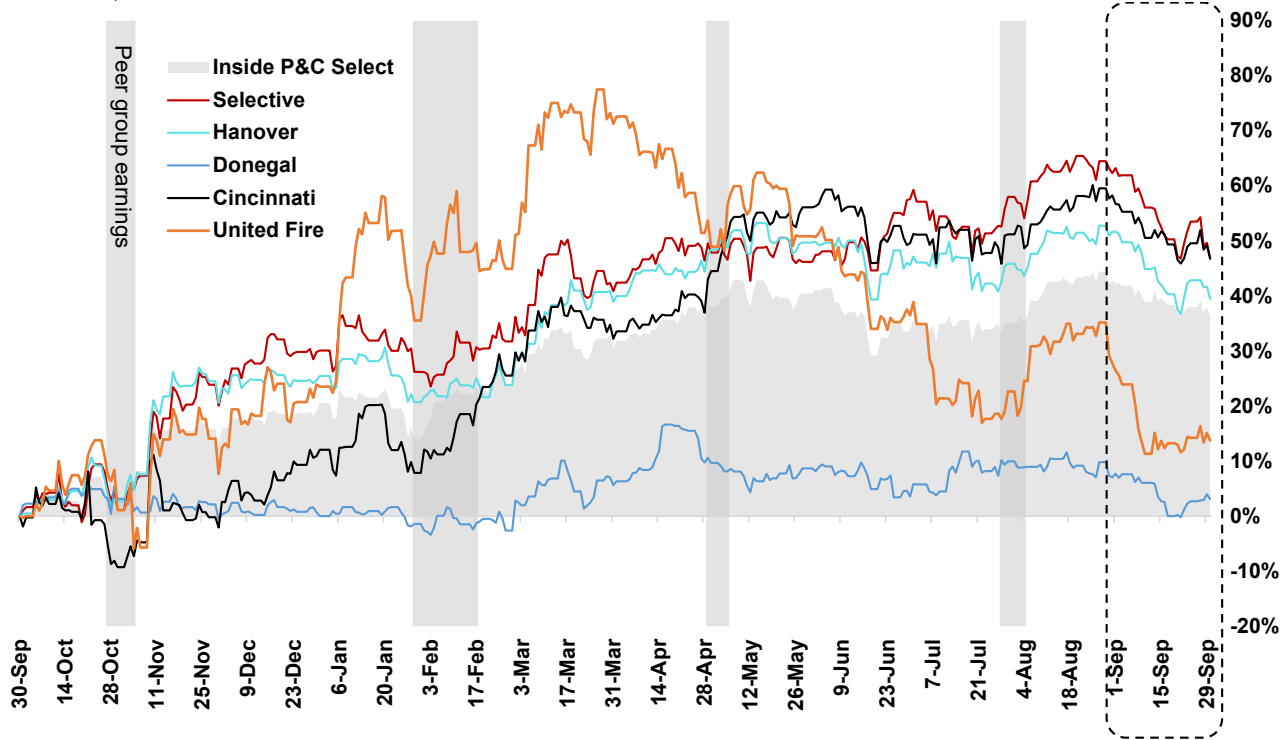


Regionals

Regional carriers were down -7.4% in September but up 27.8% YTD.

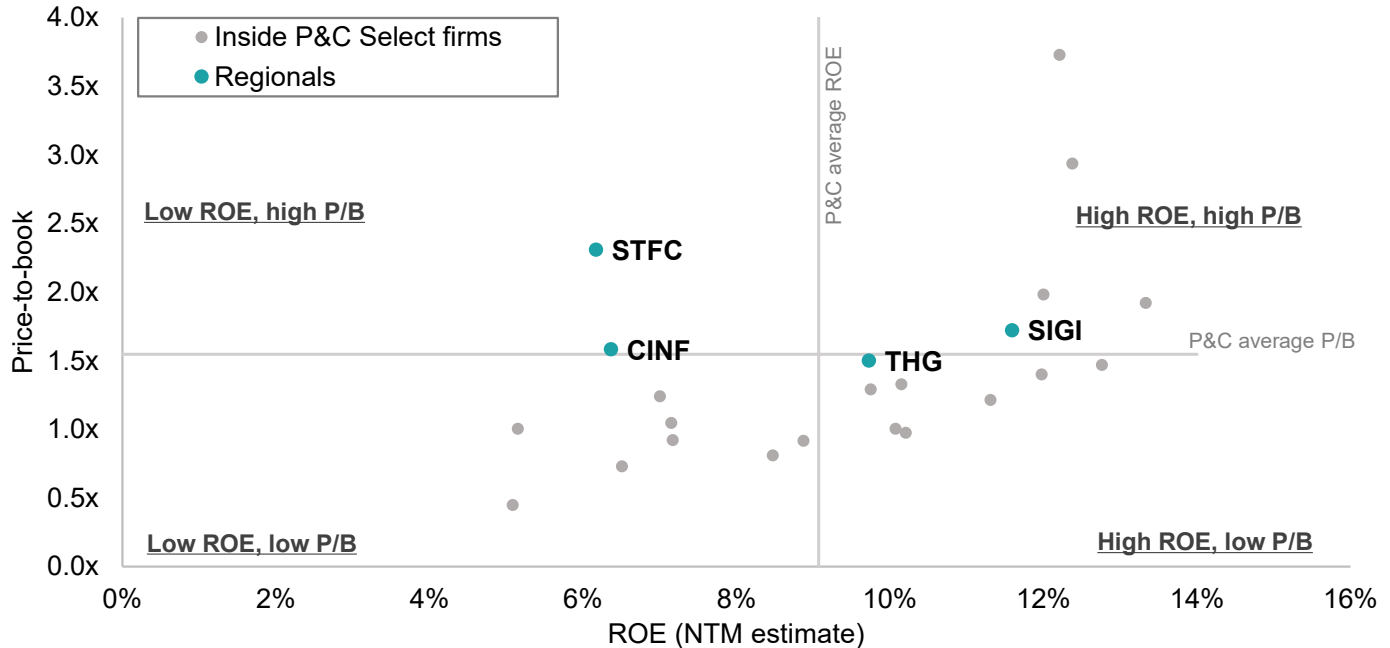
LTM stock performance for regional carriers (September performance highlighted)

Source: SNL, Inside P&C



PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

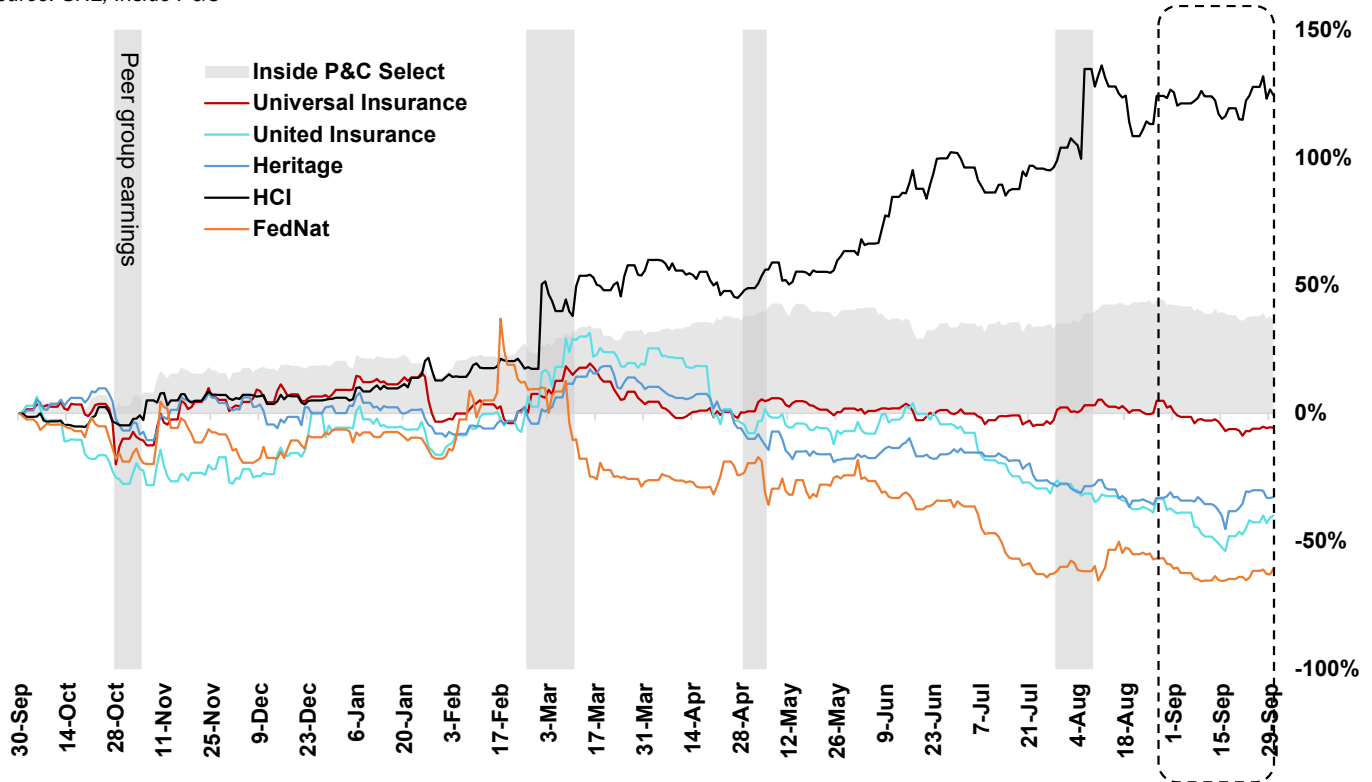


Florida

Florida carriers were down -2.8% in September but up 11.1% YTD, led by HCI which was down only -0.3% for the month but still up 112.9% YTD.

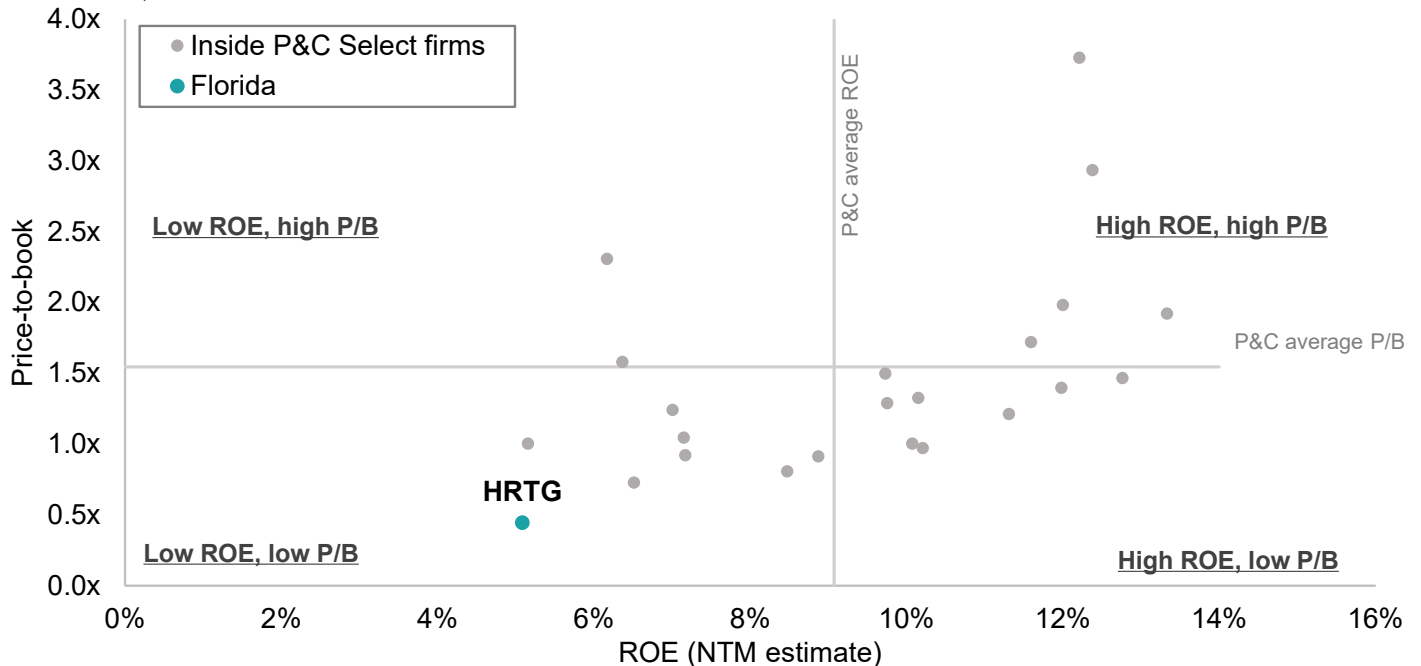
LTM stock performance for Florida carriers (September performance highlighted)

Source: SNL, Inside P&C



PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

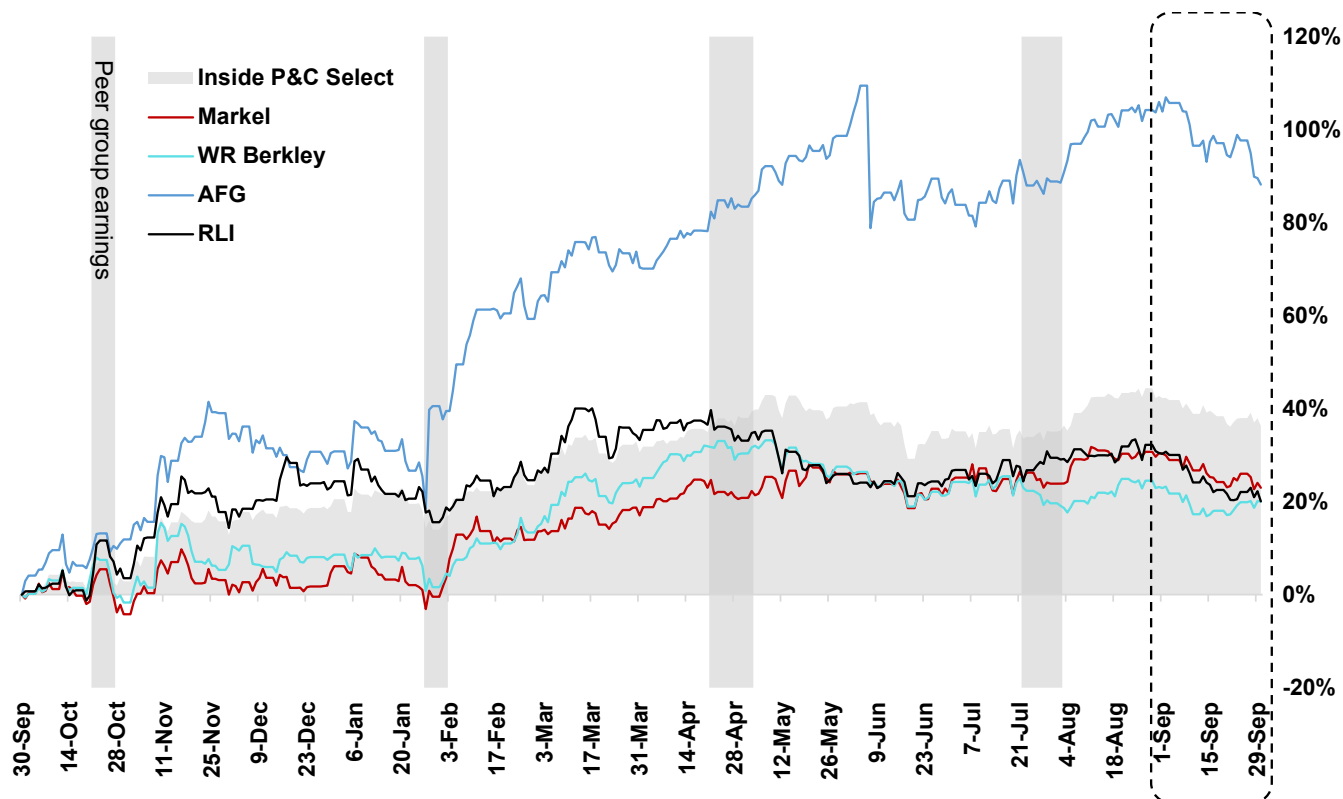


Specialty

Specialty carriers were down -5.5% in September but up 17.8% YTD, underperforming against Inside P&C Select Index (down only -4.8% in September and up 12.8% YTD). American Financial Group is still the best performer YTD, up 44%.

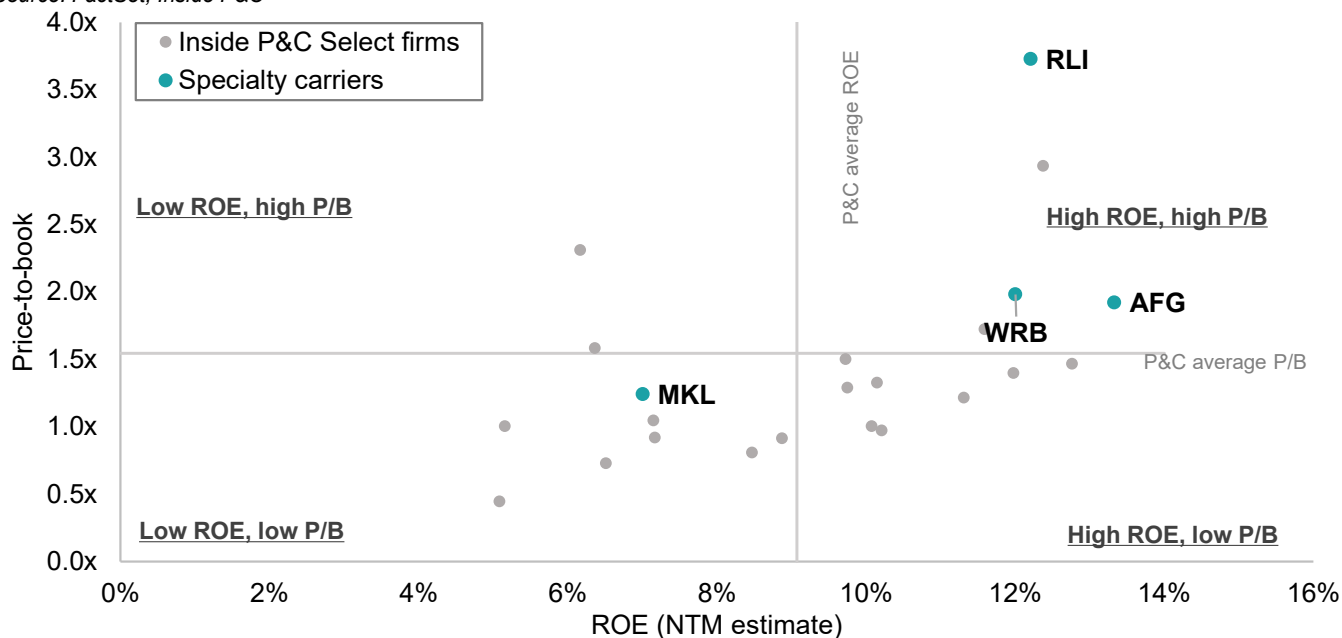
LTM stock performance for specialty carriers (September performance highlighted)

Source: SNL, Inside P&C



PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

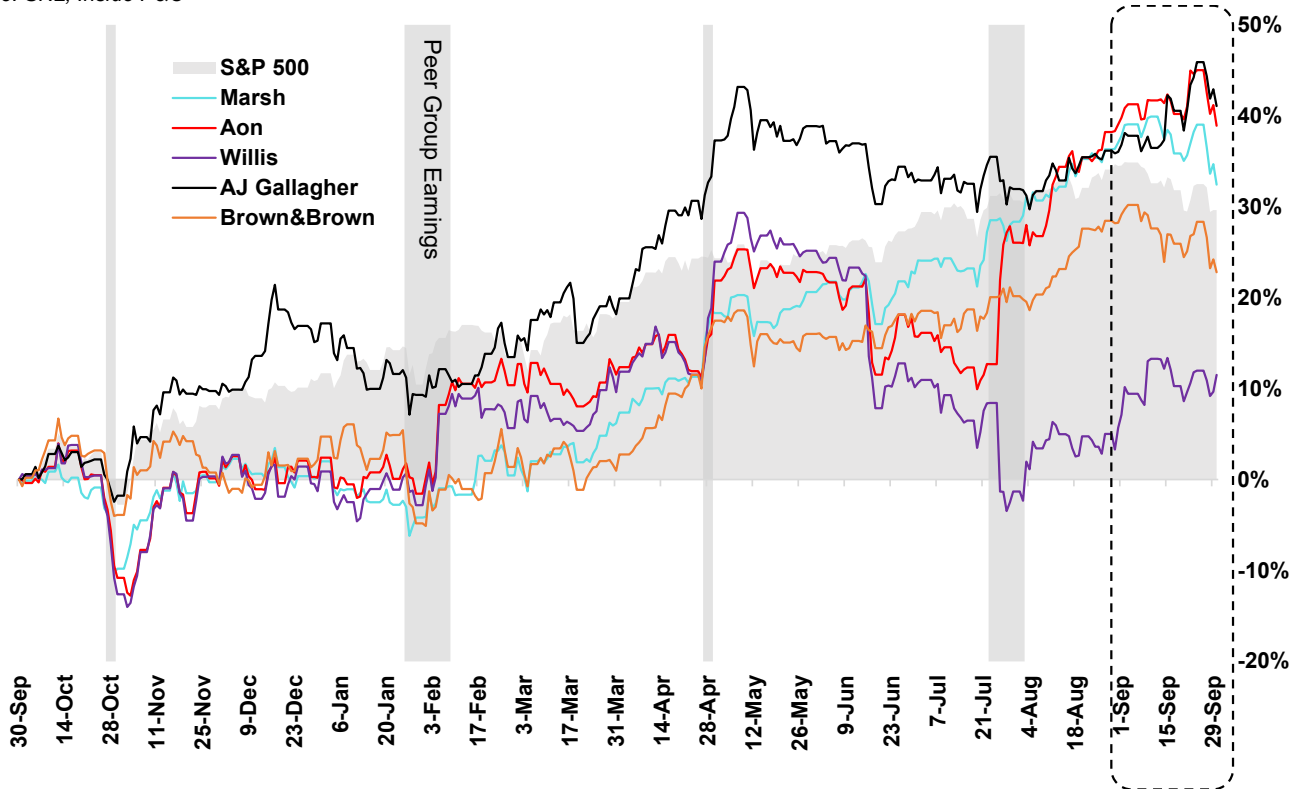


Insurance brokers

Insurance brokers did the best of the insurance sectors covered, down by only -0.6% in September and up 25.8% YTD, outperforming the Inside P&C Select Index (down only -4.8% in September and up 12.8% YTD).

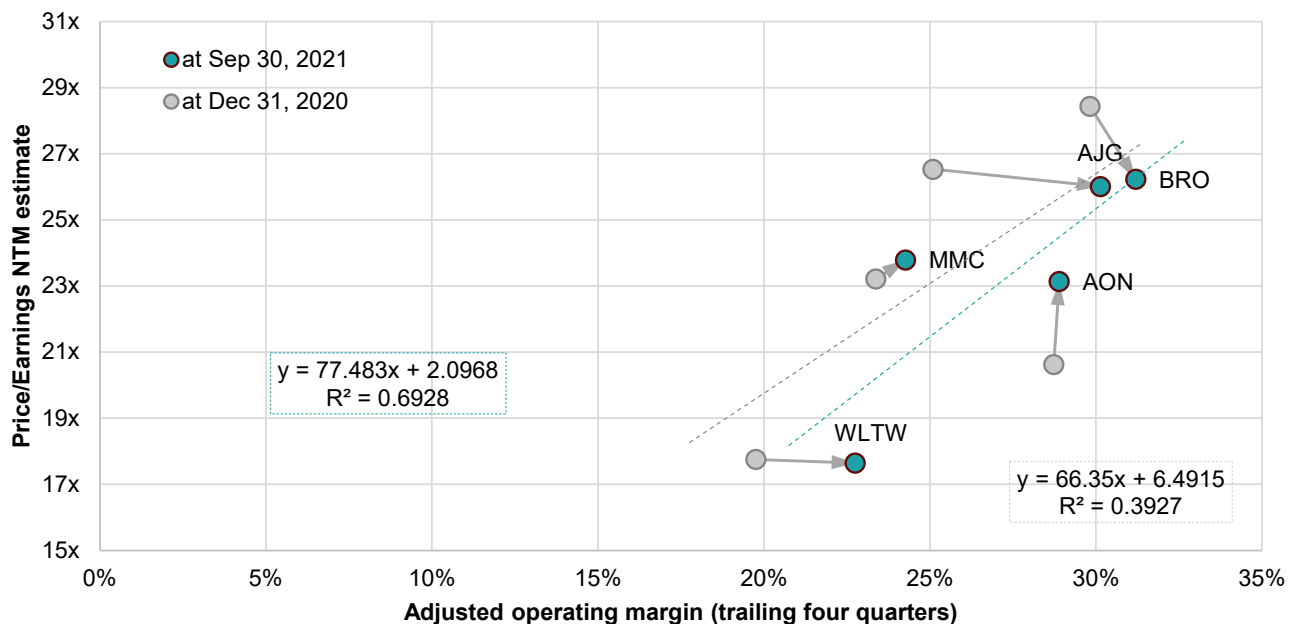
LTM stock performance for insurance brokers (September performance highlighted)

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, Ella Soltz, and Elliot Frumkin.

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