

Post-Thanksgiving turkey drop: Insurance stocks fall on macro, profit-taking

In November, the market-weighted performance of our selection of P&C stocks – the Inside P&C Select – was -6.8%, underperforming the S&P 500 which delivered -0.8%.

Thanksgiving, the annual battle between man and meal, is over. Our loosened belts are proof that the food won. But as families celebrated more in-person gatherings in America’s dining rooms, corporate board rooms had less reason to be thankful.

Several overarching economic factors have weighed on stock returns through November, including the ongoing supply chain slowdown, a global energy crisis, and the emergence of the new Omicron covid variant. The prospect of a new variant spreading globally through the colder winter months put the market on the back foot as stocks sold off at the end of the month. Moreover, parts of China and Europe are already facing new lockdowns as third and fourth waves roll through the regions.

Booster shots have thus far failed to assuage market fears, but once we better understand how effective existing vaccines are against the Omicron variant, the market may adjust future expectations.

The Federal Reserve acknowledged this reality when Jerome Powell told Congress that he would no longer describe inflation as “transitory.” Shortages in everything from heating fuel to construction lumber to replacement car parts, as well as loose Fed policy and government stimulus, have pushed November inflation to its highest level in 30 years. As a result, the Fed indicated that it would consider raising interest rates ahead of schedule to bolster price stability during its November meeting. The Fed’s flip-flop on inflation contradicts its [September postponement](#) of tapering and signals a return to its [August](#) policy timeline.

Insurance stocks were among the worst performers for the month, with other industries seeing more moderate stock moves, a result of both the macro-economic factors and third-quarter earnings reports, as well as some profit-taking.

Large commercial insurers were down 9.0% in November but are up 19.8% YTD (vs. S&P 500 down 0.8% MTD and up 21.6% YTD), despite reporting solid top-line growth and rates in excess of loss trends.

Personal lines carriers continued to slide, down 6.2% in November and 5.5% YTD. While personal auto carriers have faced worsening loss cost trends, [rate action](#) has picked up in recent months.

The Bermudians were down 1.1% this past month and up 5.4% YTD. As catastrophe losses compound, the Bermudians have adopted [different strategies](#) to manage cat heavy portfolios.

InsurTechs were again the worst performers, down a full 19% in November. The HSCM InsurTech index showed similar trends, down 14% for the month. In addition, Lemonade announced the acquisition of peer Metromile [last month](#), a move that did not inspire investor confidence in the firm’s direction. Since the announcement on November 8, Lemonade’s stock price fell 19.4%.

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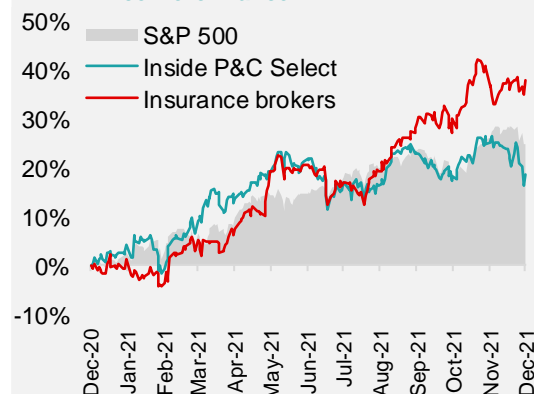
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Composite	YTD px chg.	P/B
Large comm.	21.9%	1.0x
Regional	29.3%	1.5x
Specialty	23.9%	1.7x
Personal	(3.6)%	1.8x
Bermuda	8.8%	1.1x
Florida	20.4%	1.2x
Brokers	36.4%	-
IPC Select	14.1%	1.3x
S&P 500 Fin.	28.5%	-
S&P 500	21.6%	-

1YR Price Performance



Source: S&P Global, Inside P&C

Inside P&C Select performance by peer groups

Source: SNL, Inside P&C

	November	YTD	1 year	3 years
S&P 500 Index	-0.8%	21.6%	26.1%	65.5%
Insurance brokers*	-4.0%	33.4%	37.6%	81.5%
S&P 500 Life & Health	-4.2%	24.4%	27.0%	15.9%
S&P 500 Financials	-5.8%	28.5%	36.3%	41.0%
S&P 500 Asset Management	-5.8%	29.0%	34.9%	55.9%
S&P 500 Banks	-6.3%	32.5%	43.6%	28.0%
Inside P&C Select	-6.8%	11.7%	19.3%	23.1%
S&P 500 P&C	-7.0%	7.3%	16.1%	28.9%
Insurtech*	-19.0%	NA	NA	NA

*not part of Inside P&C Select

Hurricane season concludes

The 2021 hurricane season concluded at the end of November. With 21 named storms, the season ranked as the third-busiest in history. The 2020 season was the busiest on record with 30 named storms. Over the past two years, 19 named storms have made landfall in the US.

The final hurricane tally of 2021 is roughly in line with [NOAA predictions](#) of an above-average season that is less active than last year. NOAA predicted that the 2021 season would see 13-20 named storms, with three to five major hurricanes.

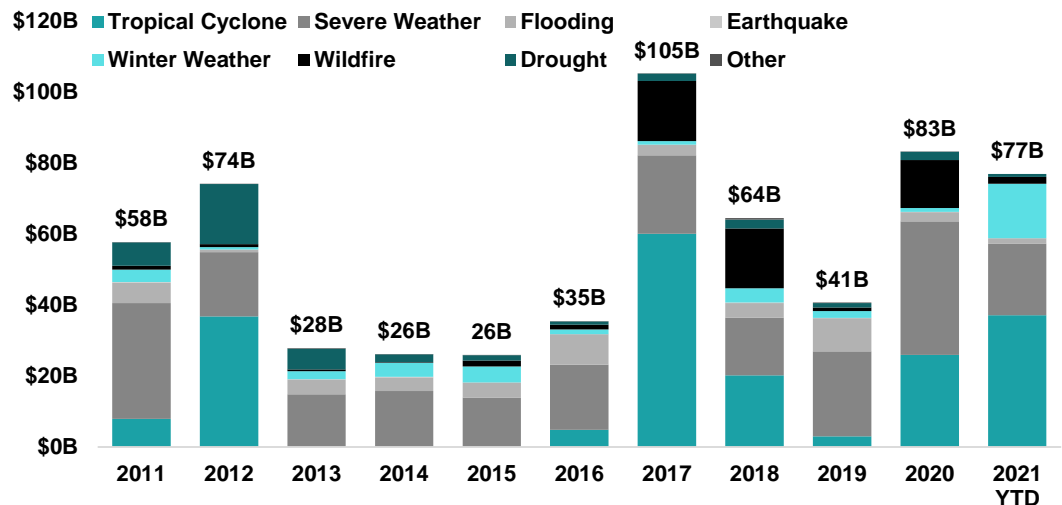
The largest of the four major hurricanes of 2021, Ida, retained its title as the year's most destructive storm. Sister title *Insurance Insider* [has reported](#) that Ida losses are likely to come in at \$30bn, or potentially below given slow loss emergence.

Aside from Ida's losses, many of the other storms this season were weaker and short-lived, partially due to the closing of the Atlantic Multidecadal Oscillation cycle, which started in 1995. The cycle measures ocean temperature variability as an indicator for hurricane activity. According to this measure, the Atlantic hurricane environment might weaken in the longer term, although it is too early to predict next season's activity levels.

In total, 2021 insured cat losses are tracking in line with 2020, with nearly \$77bn so far in insured losses compared to \$83bn last year.

US insured losses

Source: Aon



Macro factors impacting insurance stocks

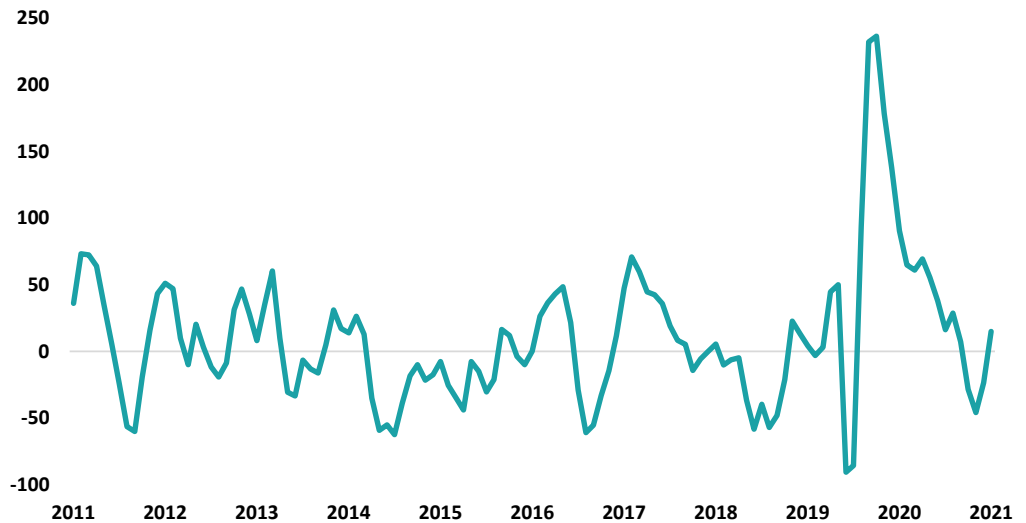
Economic drivers have served as the most significant determinants for the direction and volatility of stocks this year, as macro stories dominated the headlines.

SURPRISE INDEX

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

Citi Economic Surprise Index

Source: FactSet



INFLATION EXPECTATIONS RISE

The 5-year breakeven inflation rate – one of the conventional gauges of inflation expectations – jumped over the last month, rising above 3% but settling at 2.8% by the end of November. In the previous 20 years, the only other time that inflation expectations rose to comparable levels was March 2005, which reached 2.9%.

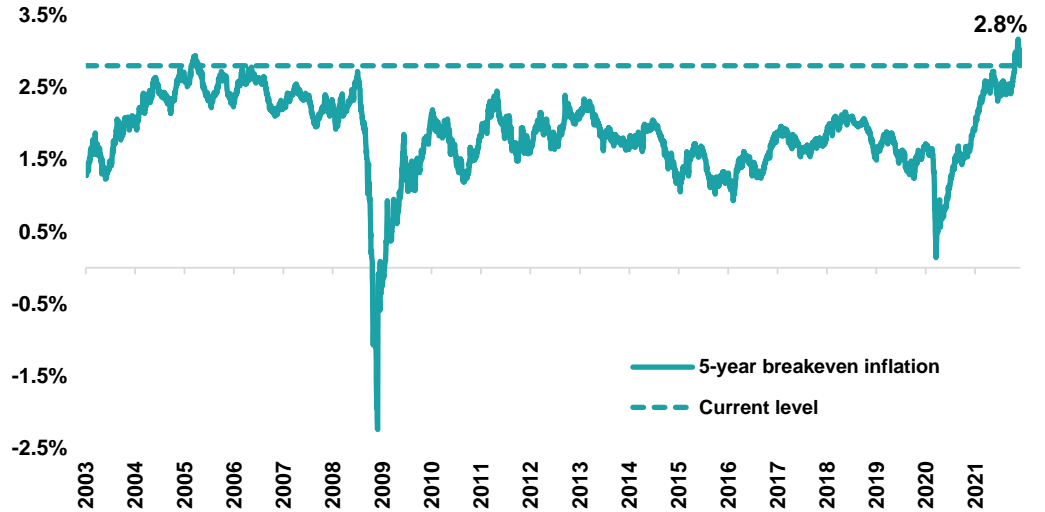
Before November, inflation expectations had remained steady at 2.5% since August. The current rate of inflation is now above the high-water mark of the financial crisis of 2008. The change in Fed attitude towards the transience of inflation has brought five-year expectations in line with the elevated inflation the economy is currently experiencing.

The Consumer Price Index inflation rate rose to 6.2% in October, 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 2.8% 5-year breakeven inflation rate above will net the insurance market around 5% loss cost inflation.

5-year breakeven inflation rate

Source: FRED

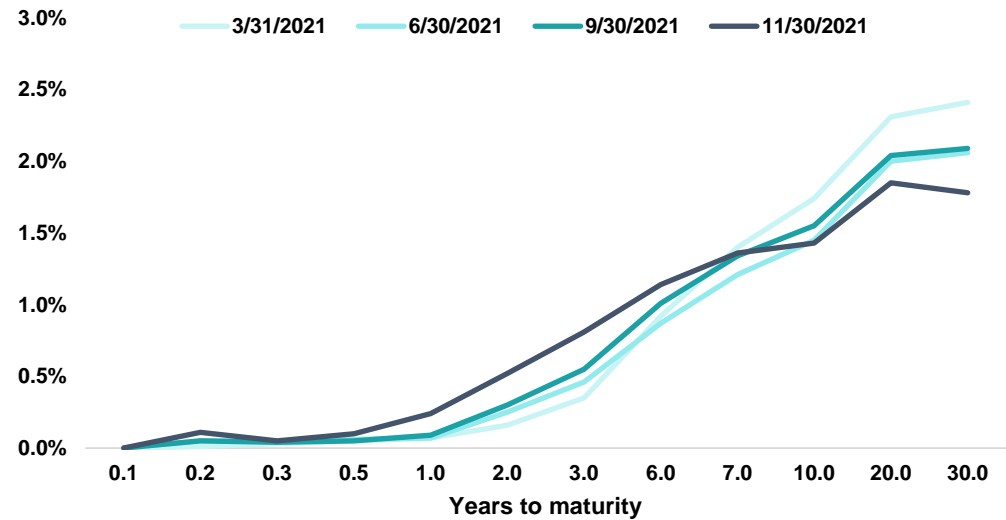


YIELD CURVE FLATTENS

After staying stable in September, Treasury yields moderated in November, following Federal Reserve Chair Jerome Powell's comments in Congress on November 29. After admitting that inflation may be less transitory than previously thought, the Federal Reserve announced that it would accelerate its planned tapering asset purchases during its November 3 meeting.

Treasury Yields

Source: S&P Global, Inside P&C

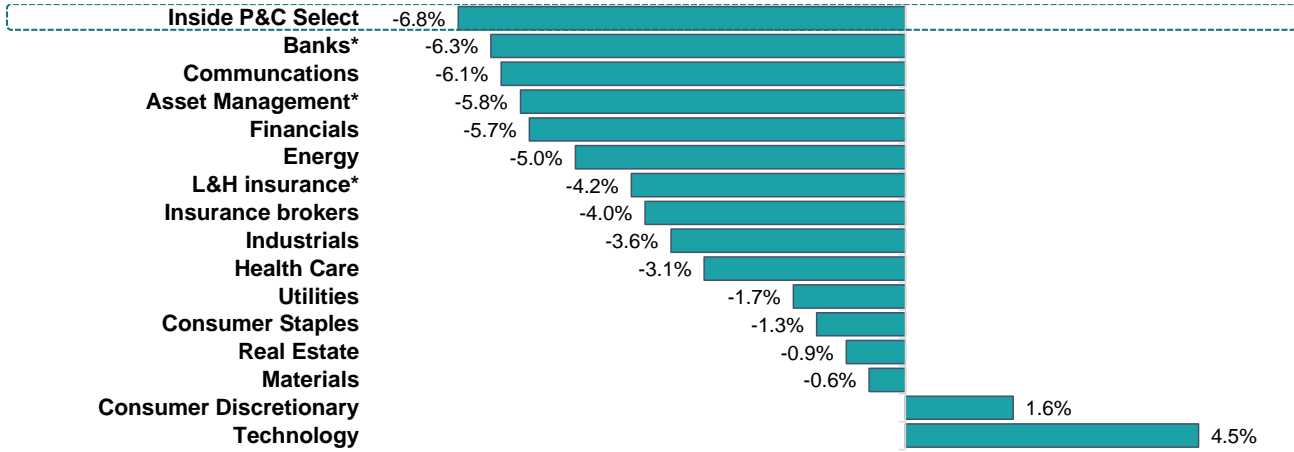


The following pages include stock charts with the performance for individual companies, S&P 500 sectors, and P&C sub-sectors in November.

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

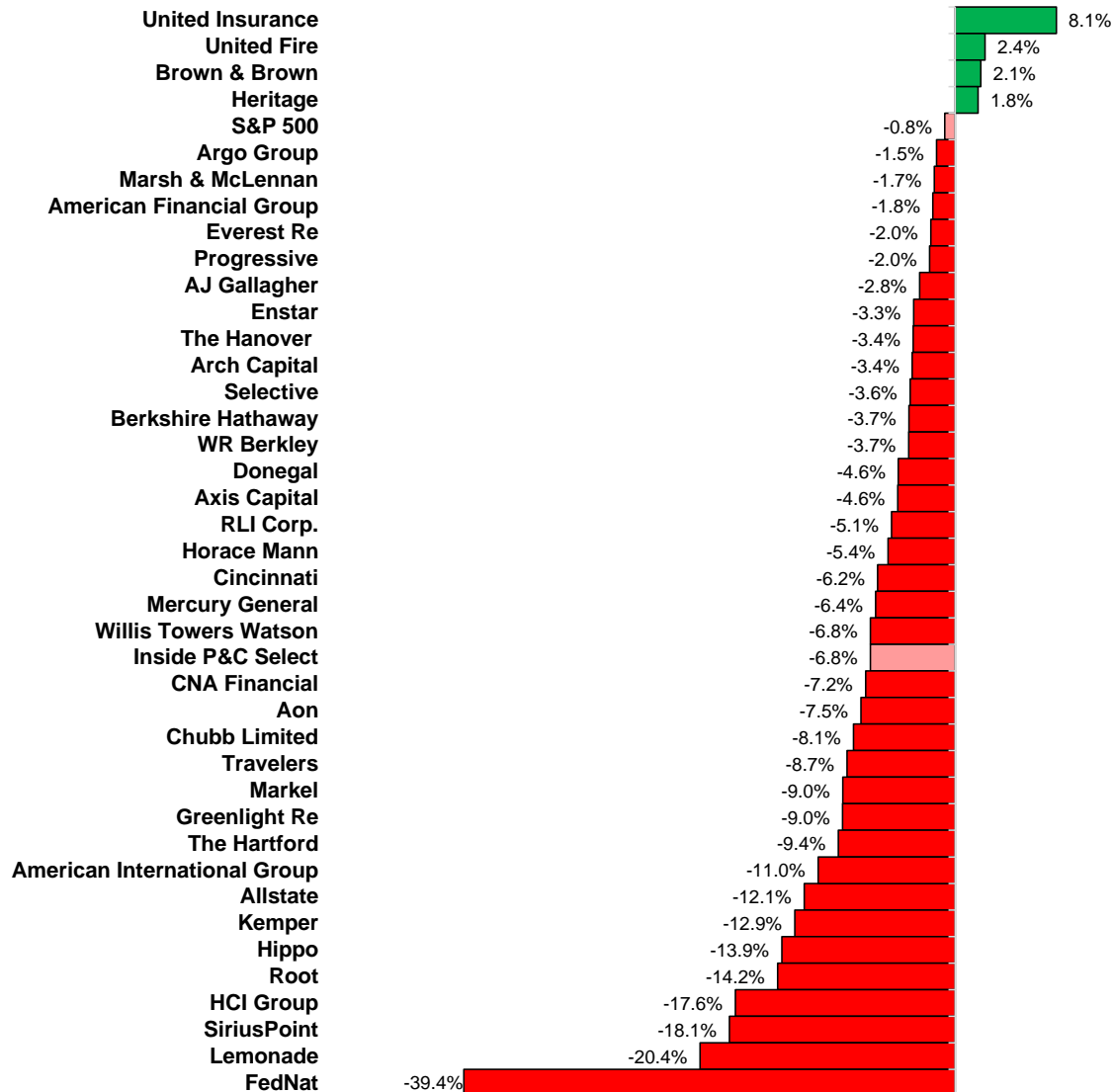
Source: FactSet, Inside P&C

Note: * denotes S&P 500 sub-sectors



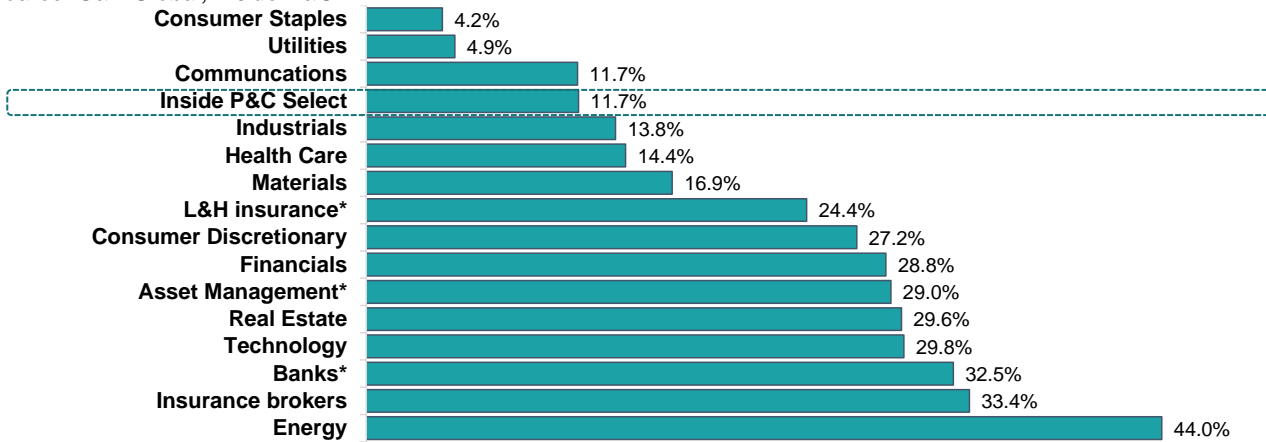
November stock performance by individual carriers

Source: SNL, Inside P&C



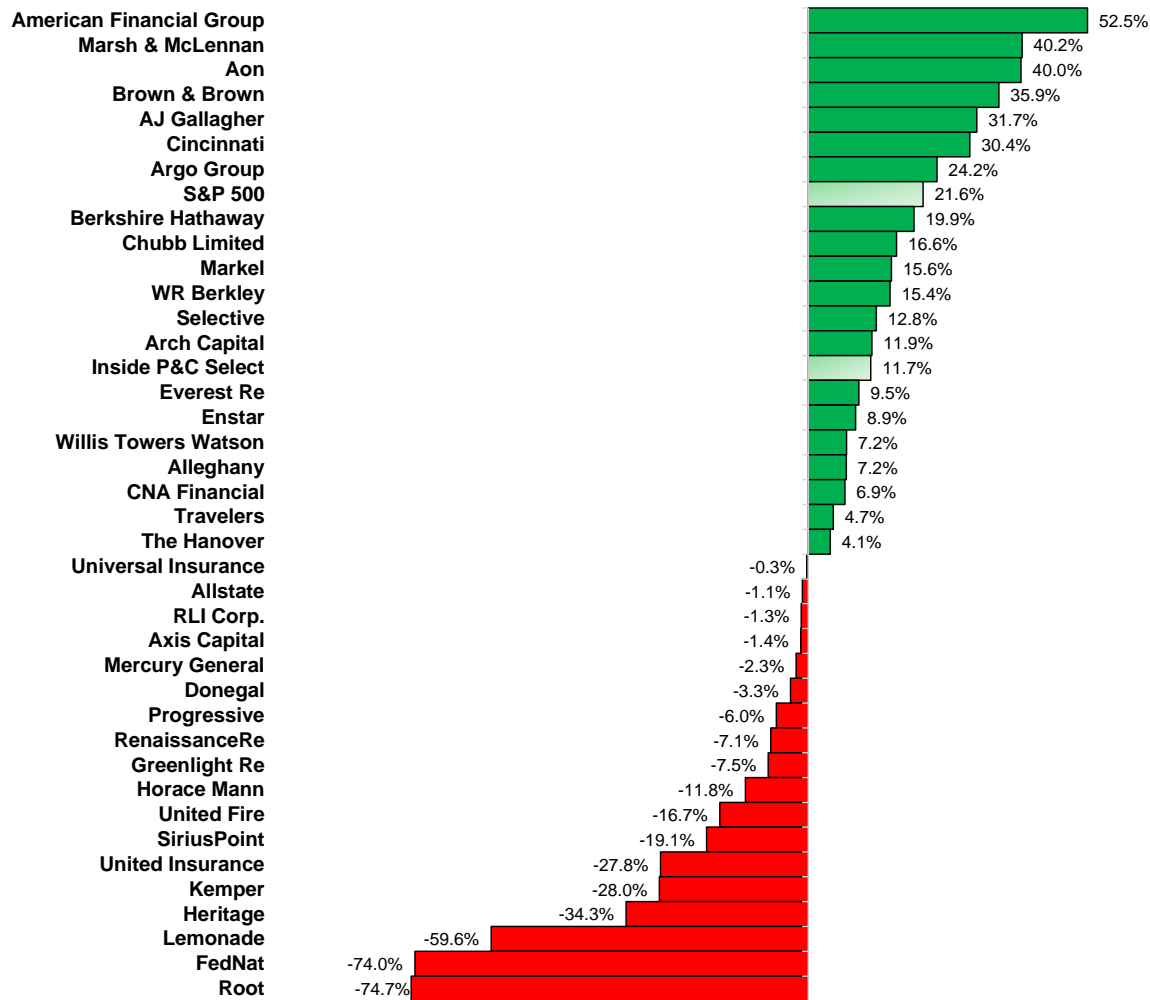
Inside P&C Select vs. S&P 500 sectors' performance YTD

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, and Greenlight Re.

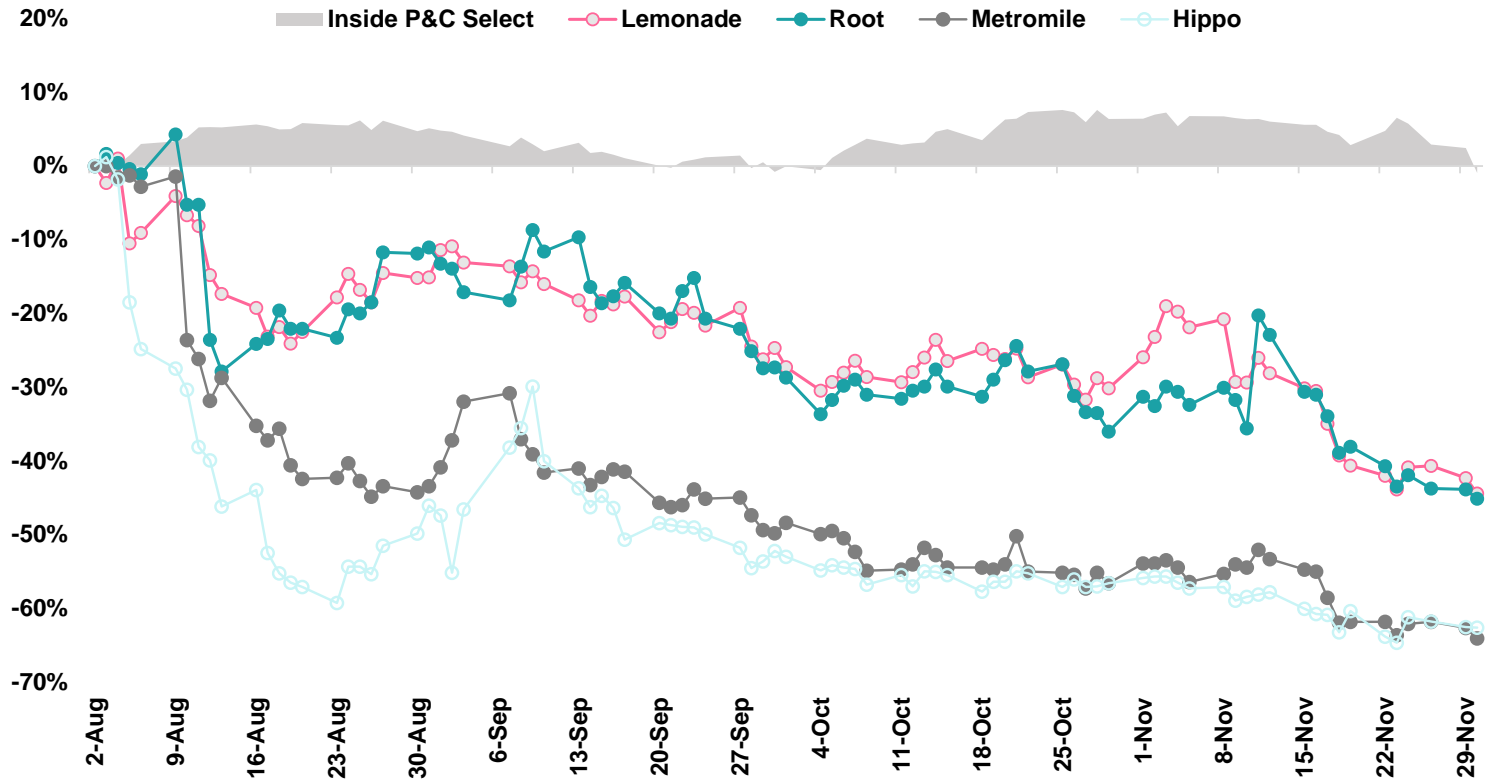
Appendix: Peer group stock performance charts

InsurTech

InsurTechs again underperformed the Inside P&C Select Index in November. Lemonade was down 25% this month, with Root and Hippo close behind, down 20% and 15% for November, respectively. However, Root's stock did see a rise [post-earnings](#), gains that have been largely lost since.

Stock performance InsurTechs vs. Inside P&C Select

Source: SNL, Inside P&C

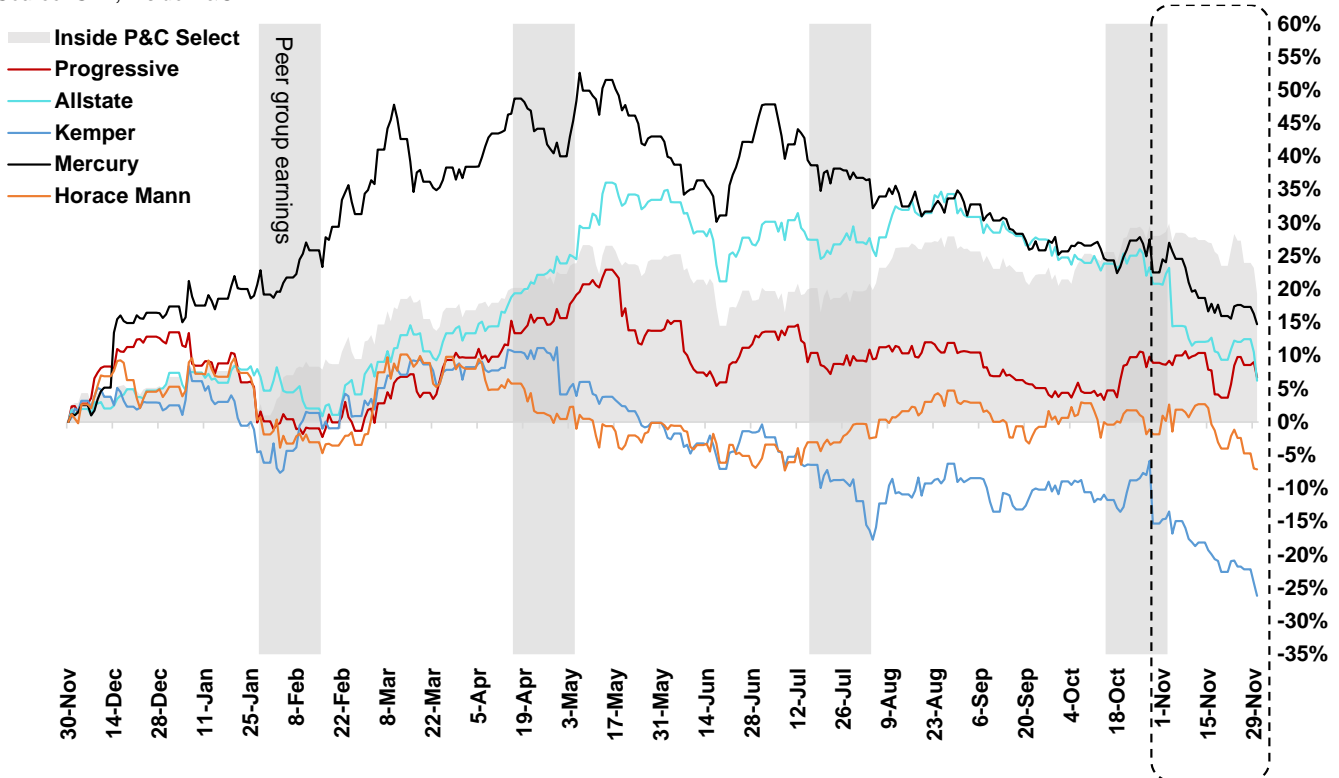


Personal lines

Personal lines were down 6.2% in November and 5% QTD, underperforming Inside P&C Select Index (down 6.8% in November and down 0.9% QTD). Progressive had the best of a bad month, down only -2.0% in November. Progressive has missed its 96% combined ratio target for several months but appears to be taking rapid [rate action](#).

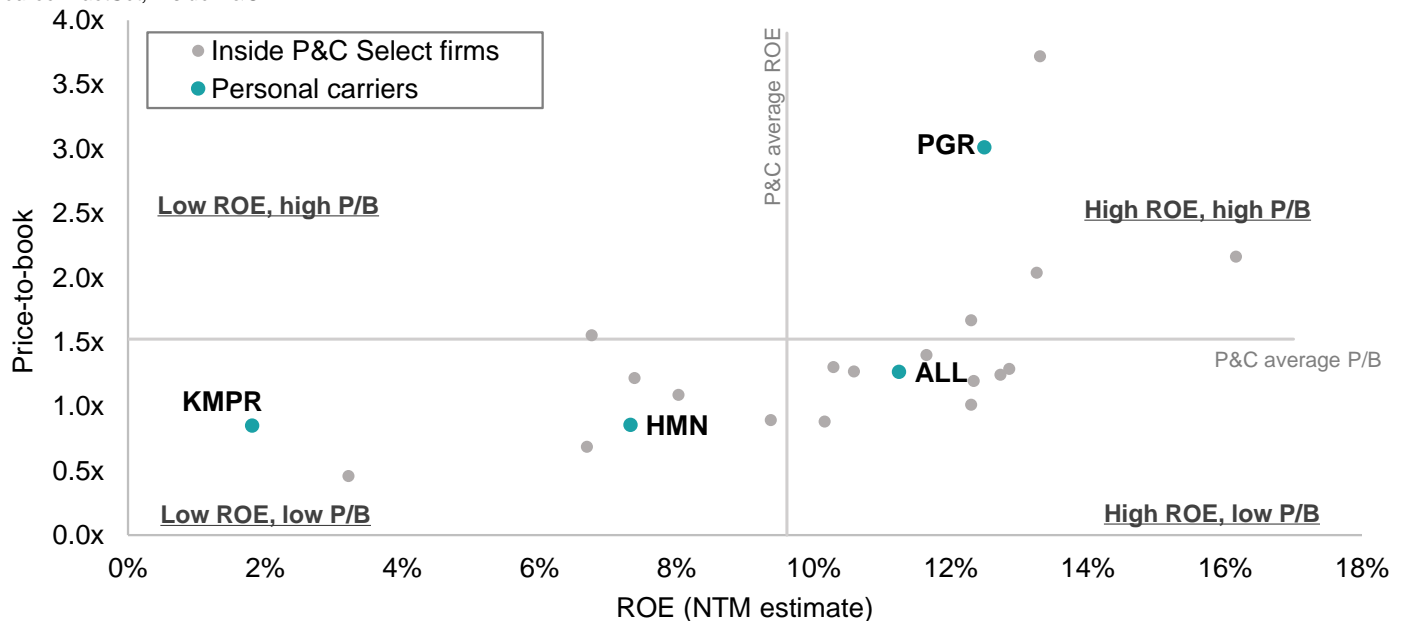
LTM stock performance for personal carriers (November performance highlighted)

Source: SNL, Inside P&C



PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

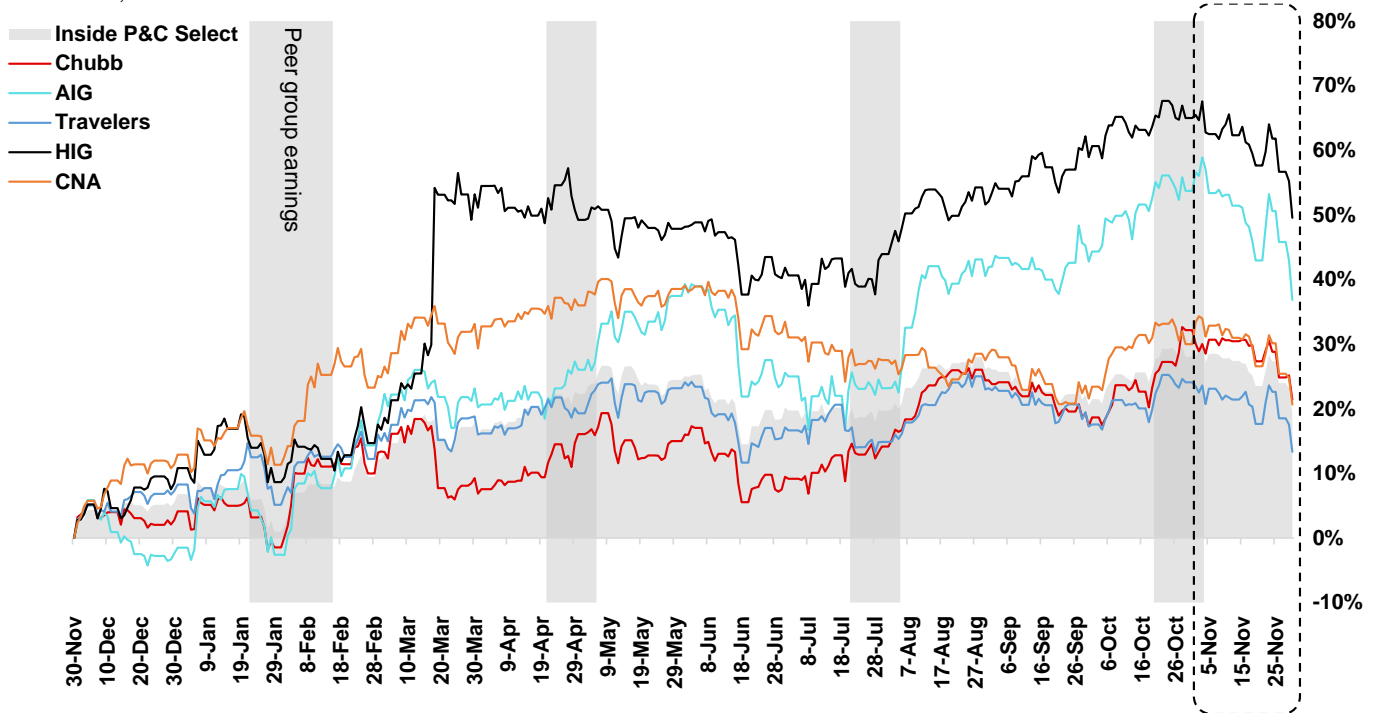


Large commercials

Large commercial carriers were down 9.0% in November but up a still-robust 19.8% YTD, staying ahead of the Inside P&C Select Index (down 6.8% in September and up 11.7% this year).

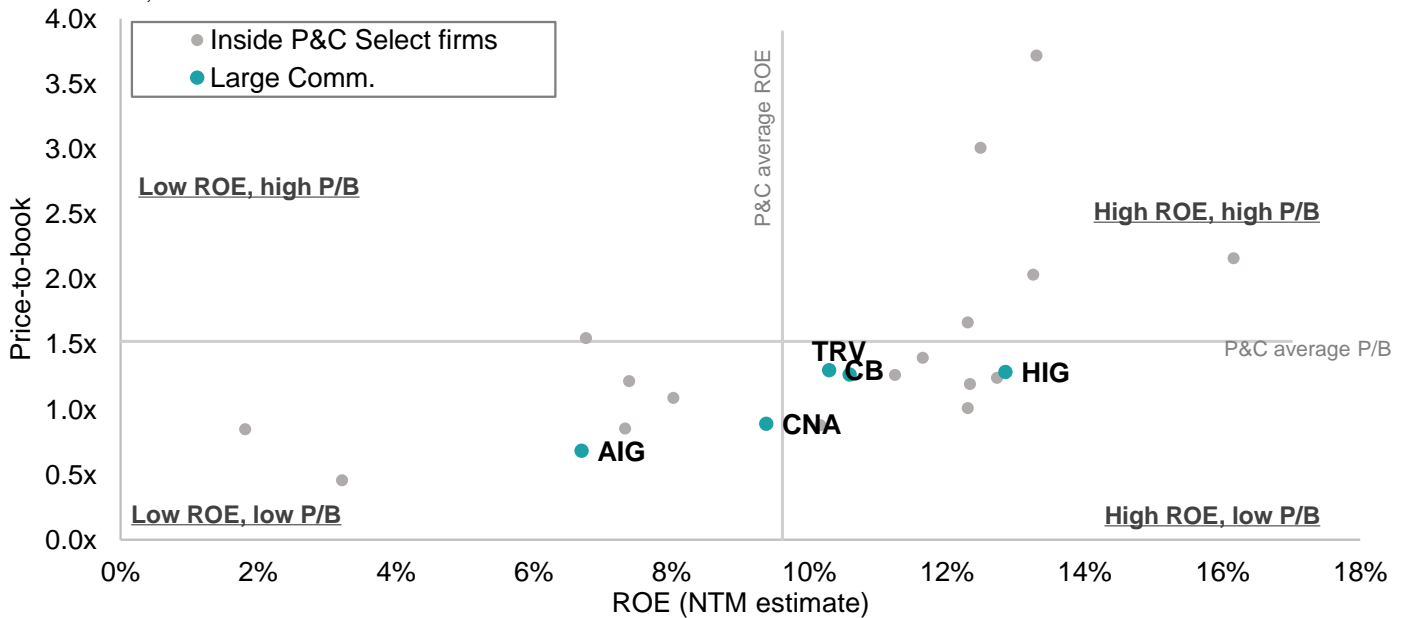
LTM stock performance for large commercial carriers (November performance highlighted)

Source: SNL, Inside P&C



PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

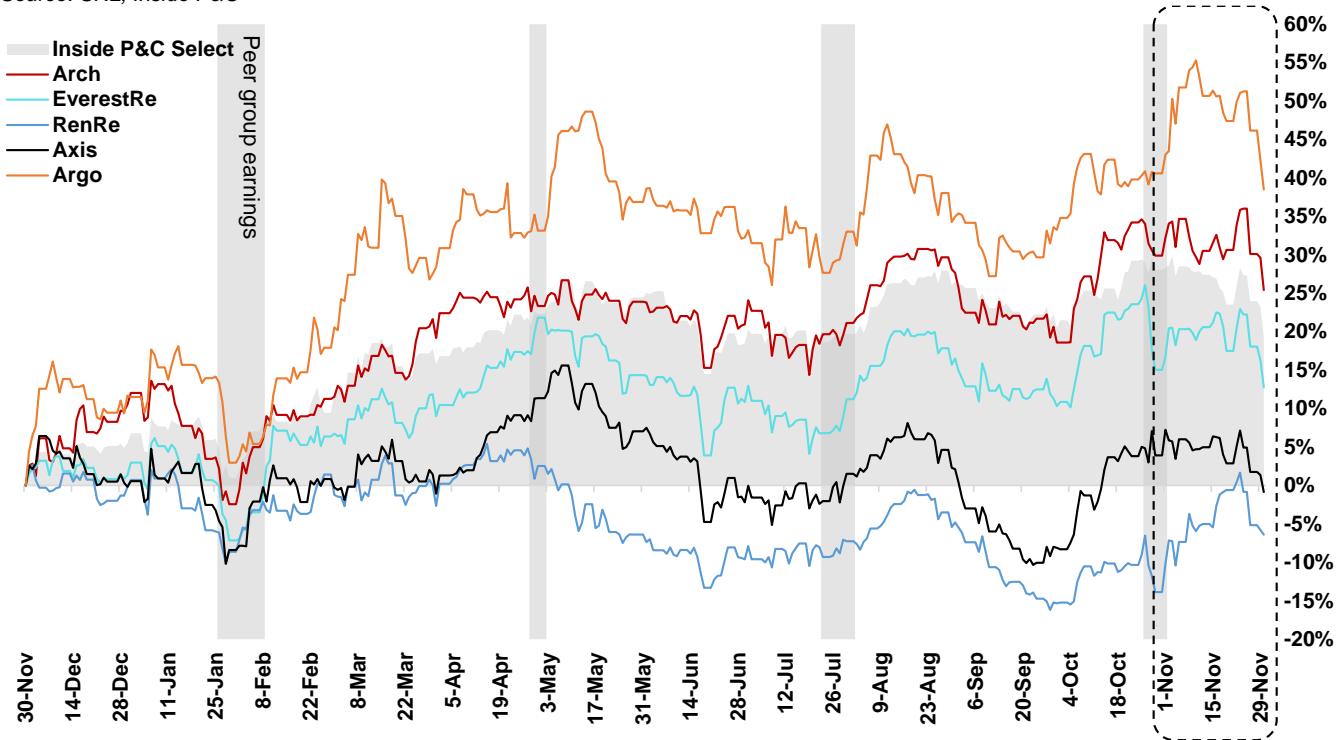


Bermuda

Reinsurers were down 1.1% in November. Although still down 7.1% YTD, RenaissanceRe Holdings was among the few insurers to see gains in November, up 8.7%.

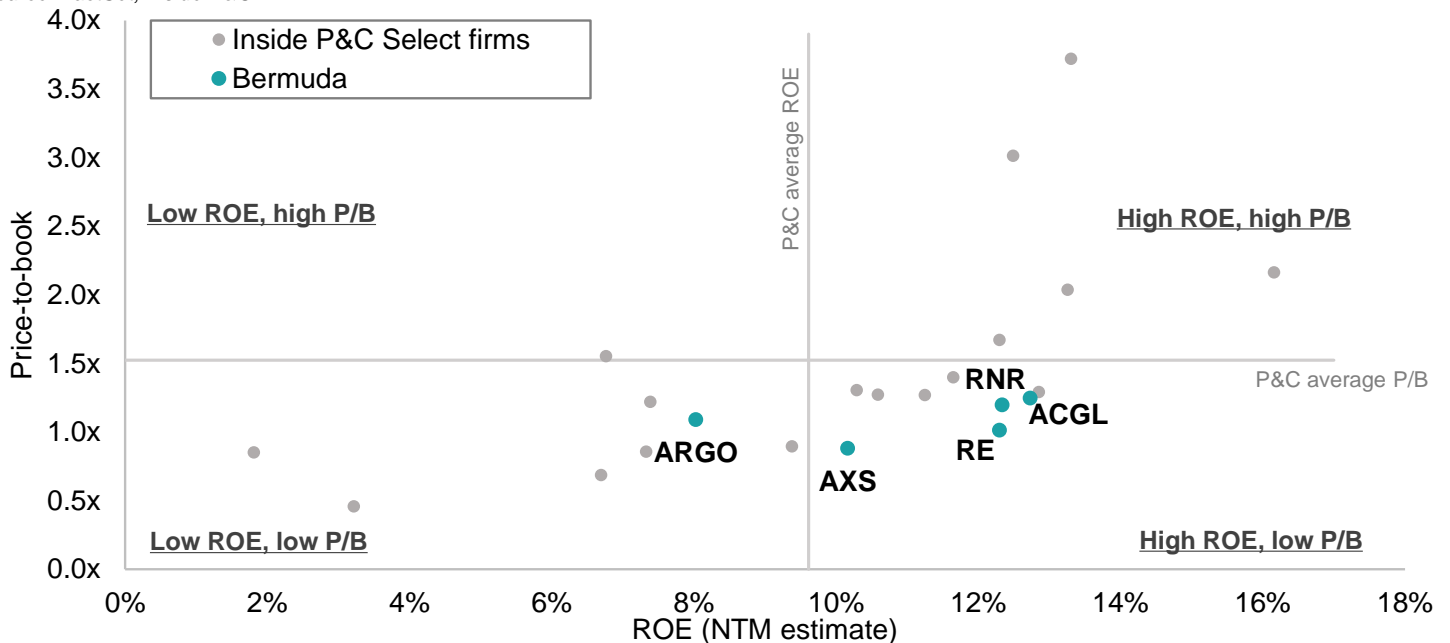
LTM stock performance for Bermuda carriers (November performance highlighted)

Source: SNL, Inside P&C



PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

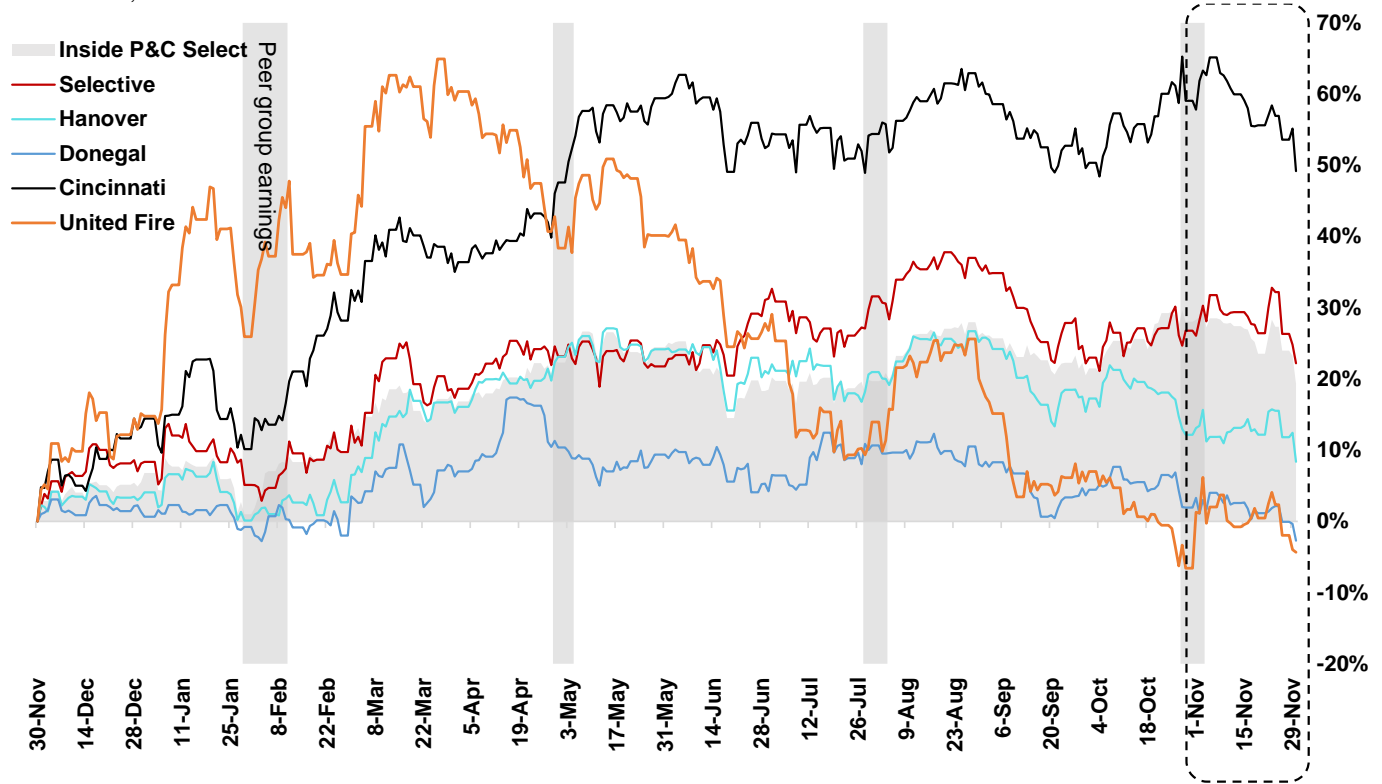


Regionals

Regional carriers were down 4.8% in November but up 26.2% YTD. Although down 6.2% in November, Cincinnati Financial has outperformed peers YTD, up 30.4%, vs. S&P 500 up 21.6% YTD.

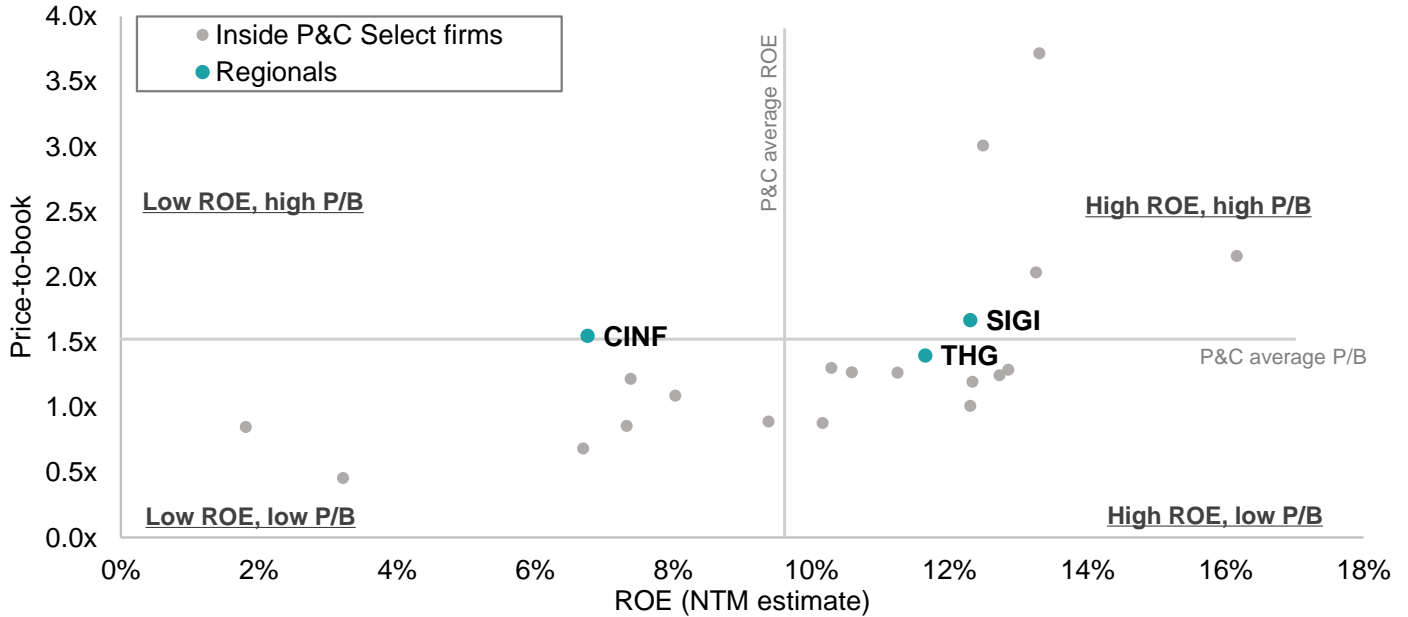
LTM stock performance for regional carriers (November performance highlighted)

Source: SNL, Inside P&C



PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

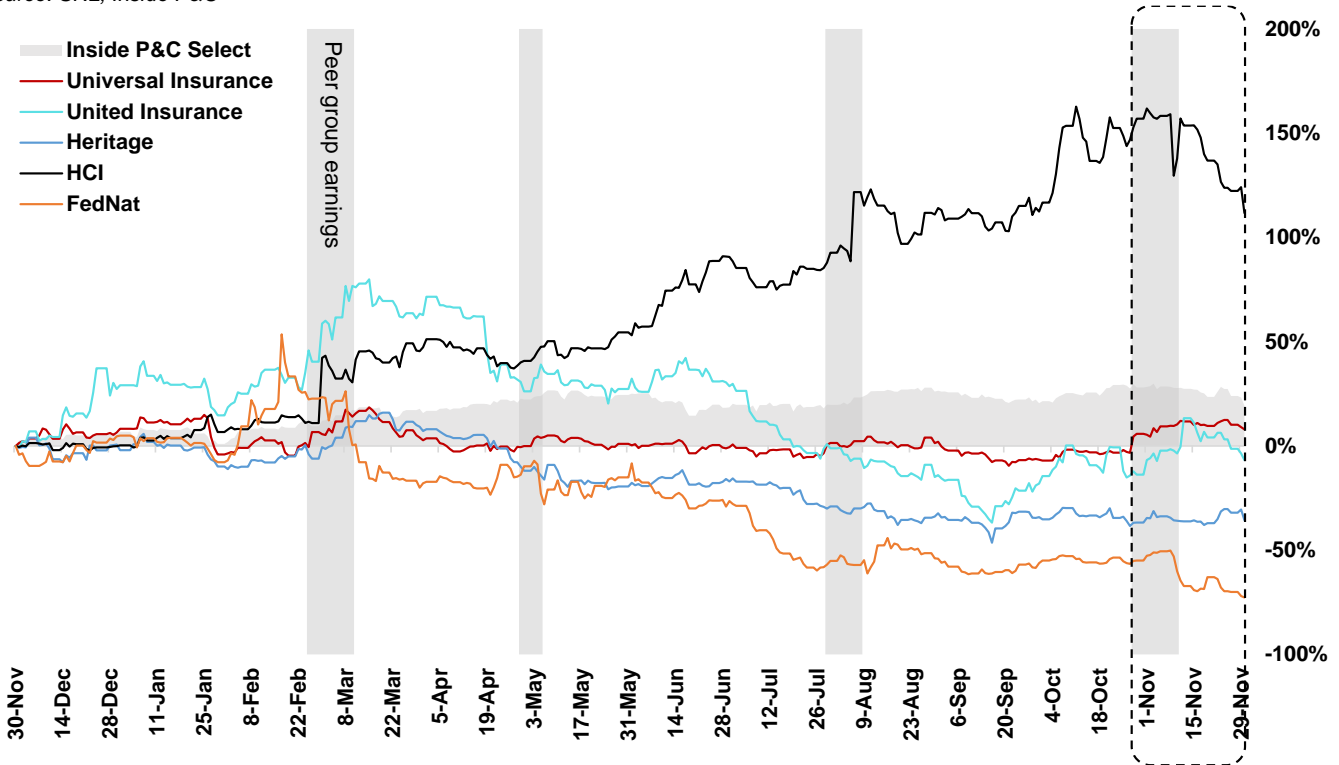


Florida

Florida carriers were down 10.2% in November but up 3.3% QTD. HCI price has nearly doubled this year but was down 17.6% in November.

LTM stock performance for Florida carriers (November performance highlighted)

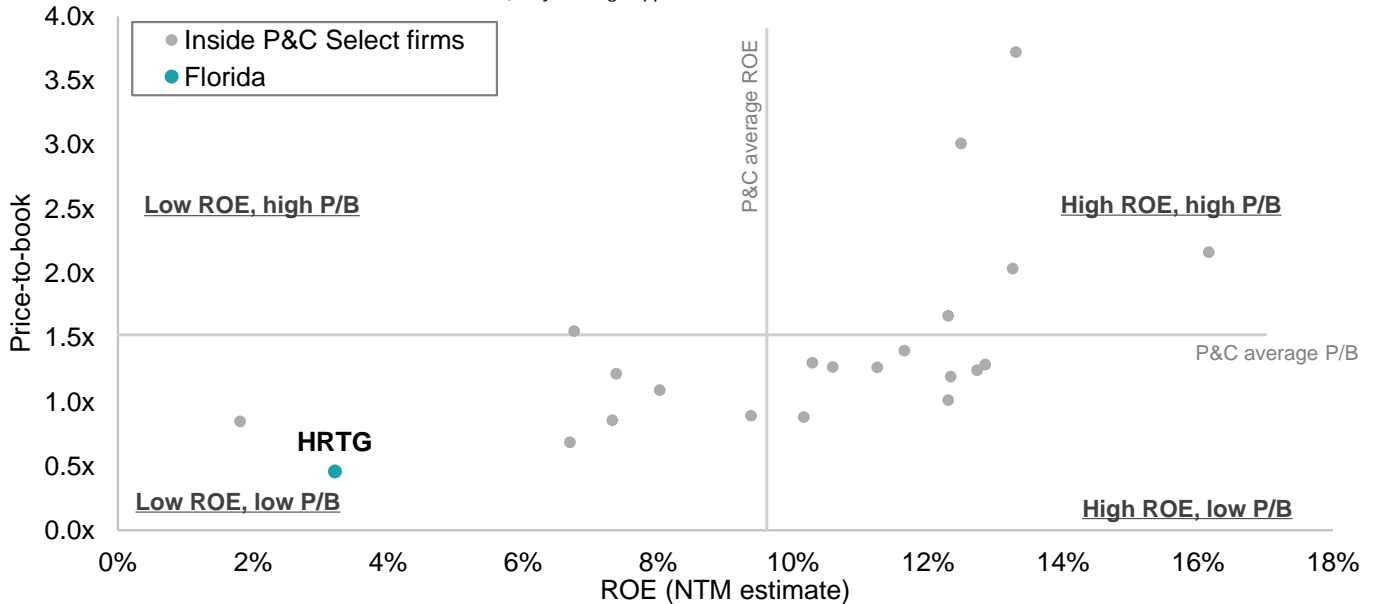
Source: SNL, Inside P&C



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

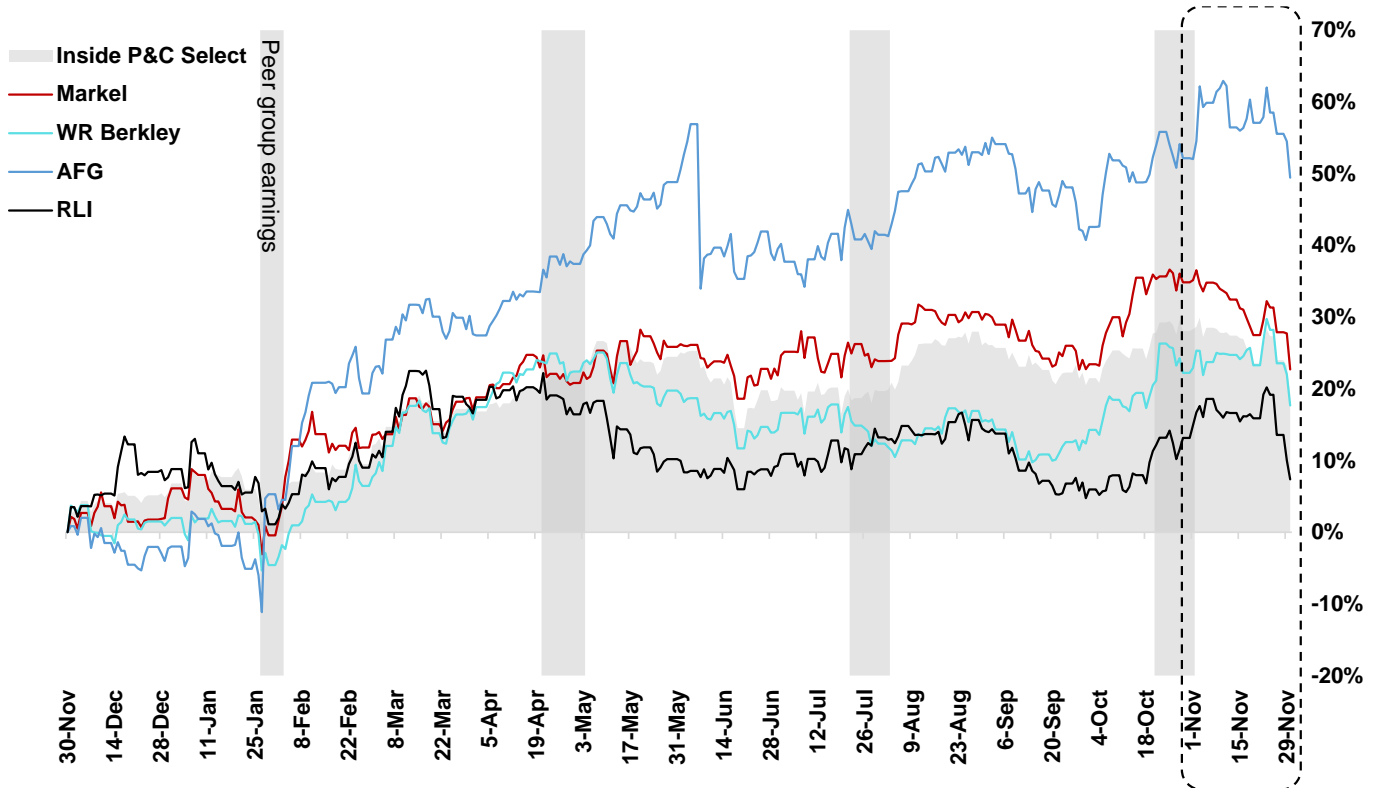


Specialty

Specialty carriers were down 5.4% in November but up 20.8% YTD, outperforming against Inside P&C Select Index (down only 6.8% in November and up 11.7% YTD). American Financial Group is still the best performer YTD, up 52.5%.

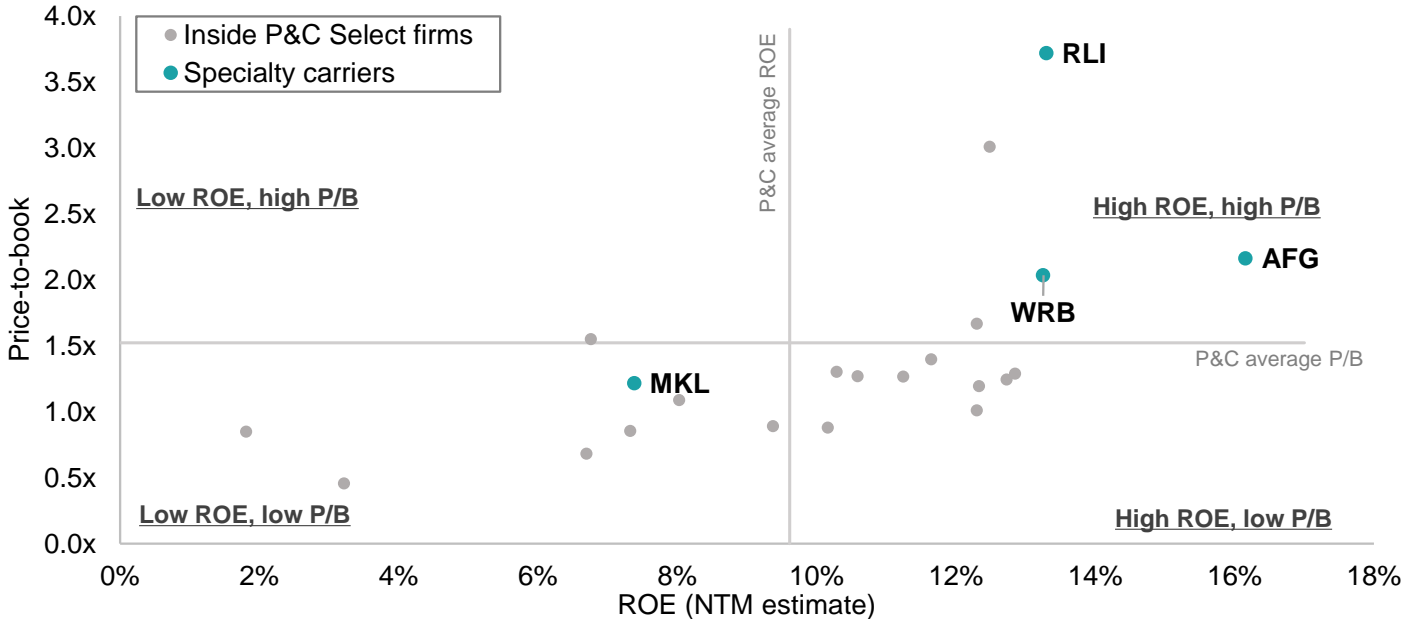
LTM stock performance for specialty carriers (November performance highlighted)

Source: SNL, Inside P&C



PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

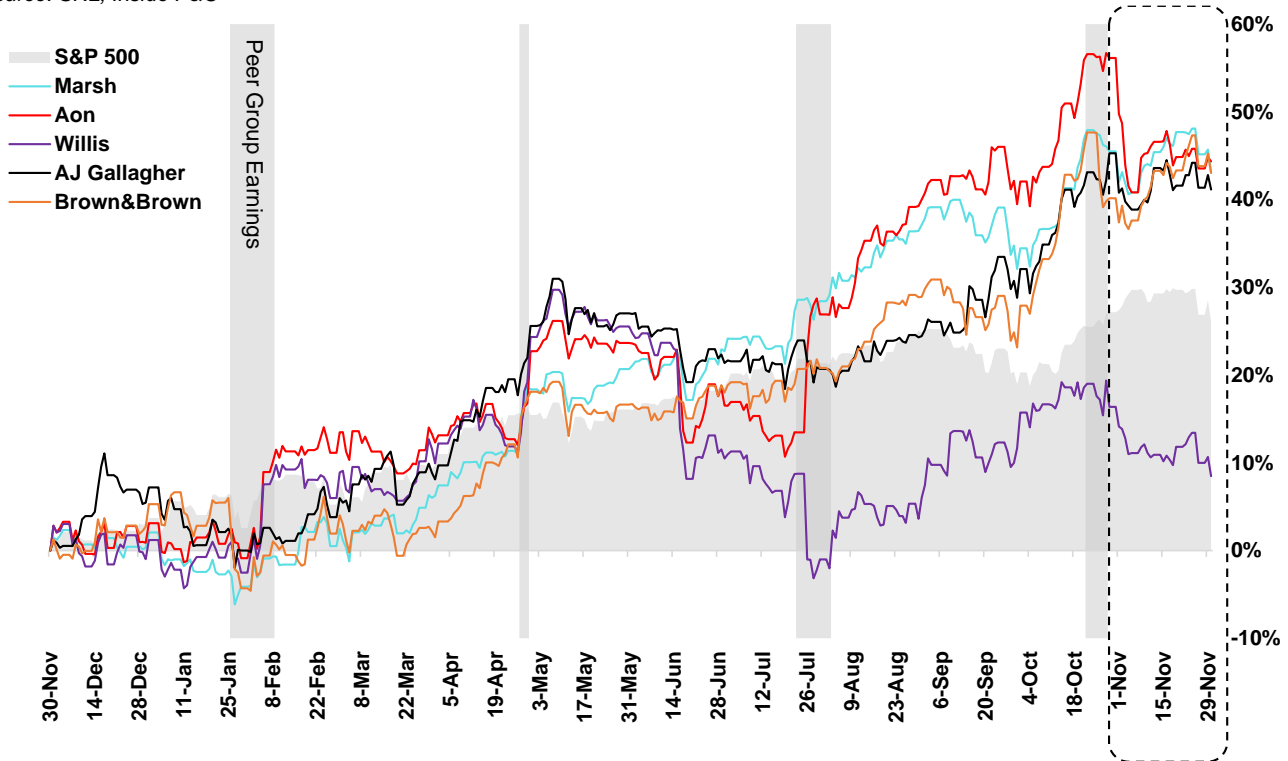


Insurance brokers

Insurance brokers were also down 4.8% in November but remain up 33.4% YTD, reflecting the [solid organic growth](#) and margin expansion brought on by the economic recovery and a robust commercial pricing environment.

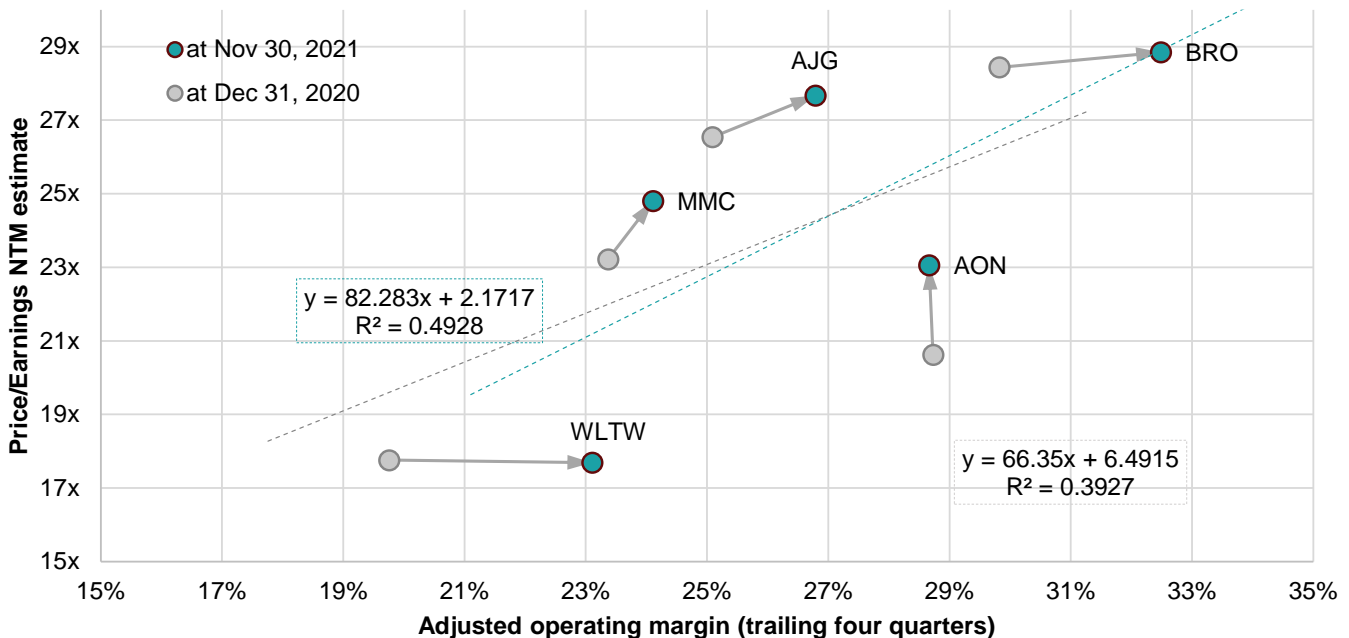
LTM stock performance for insurance brokers (November performance highlighted)

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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