

# Market Briefing

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**Subject:** Market Recap for Year-End 2025 and Potential Impact on U.S. Insurance Company Investments

## Introduction

Markets experienced a higher level of volatility in 2025, which has been the norm since 2020. Overall trends continued but were punctuated by brief spikes in reaction to specific events. Inflation data rose slightly in the second half of the year but did not increase to the level that some were concerned it may do. Short-term interest rates declined as the Fed lowered its target for the Fed Funds rate, but longer-term rates stayed relatively unchanged. Equity markets ended the year with an increase in the S&P 500 index, despite a significant decline in the spring. Credit spreads continued to tighten, notwithstanding a significant spike in the spring.

There were some headlines noted that reflect the conditions of certain markets, potential issues for U.S. insurer investments and possible considerations for 2026.

- “Private Equity Has More Housecleaning to Do in 2026”. (Wall Street Journal; 12/28/25)
- “Private Equity Exit Count Grew in Q3 as Transaction Sizes Shrank”. (S&P Capital IQ; 10/17/25)
- “Private Equity Investors Want Their Money Back – but it is tied up in ‘zombie funds’”. (CNBC; 8/8/25)
- “Once Wall Street’s Highflyer, Private Equity Loses Its Luster”. (New York Times; 12/23/25)
- “The ‘Zombie Buildings’ at the Heart of the Office Meltdown”. (Wall Street Journal; 4/27/25)
- “The Landmark U.S. Office Buildings That Are on Life Support”. (Wall Street Journal; 10/6/25)
- “Dallas is Booming – Except for its Downtown”. (Wall Street Journal; 12/28/25)
- “US Corporate Bankruptcies tick up in October; annual filings near 15-year High”. (S&P Capital IQ; 11/13/25)
- “Bankruptcies soar as companies grapple with inflation, tariffs”. (Washington Post; 12/28/25)

This Market Briefing reviews some of the key market metrics and discusses the likely impacts on U.S. insurance company investments and investment strategies. Additionally, this briefing may help U.S. insurance regulators prepare for and review market impacts to U.S. insurance company financial statements for 2025 as they become available in the next few months. [The data for U.S. insurance company investments was all based on Financial Statement Data submitted to the NAIC and acquired via S&P Capital IQ, which is a unit of S&P Global. Market data was acquired via the Federal Reserve Bank of St. Louis.]

## U.S. Insurer Invested Assets

	Insurance Industry		Life Industry		P&C Industry		Health Industry	
	2023Y	2024Y	2023Y	2024Y	2023Y	2024Y	2023Y	2024Y
	as a percent of Unaffiliated Long Term Invested Assets							
Total Bonds	74.93	75.63	78.10	77.59	66.22	69.77	84.70	85.01
Corporate (plus Loans)	43.03	43.17	50.32	49.72	26.83	28.34	34.71	35.53
Governments	12.95	12.34	8.69	8.14	21.93	21.37	21.79	20.98
Structured	18.44	19.59	18.61	19.22	16.95	19.51	27.38	27.56
Mortgages and Real Estate	11.72	12.10	16.46	16.95	1.91	1.84	0.40	0.50
Equities	9.15	7.96	1.29	1.20	27.58	23.94	10.45	10.18
Schedule BA	4.20	4.32	4.15	4.26	4.28	4.45	4.45	4.30
	as a percent of Surplus							
Equities			11.42	10.91	40.69	33.52	8.13	7.57
Schedule BA			36.75	38.70	6.32	6.23	3.47	3.20

Consideration of capital markets and how volatility in 2025 may have impacted insurers should begin with a quick reminder of U.S. insurance company investments. Insurance industry investment portfolios consist primarily of fixed income investments, with about 75% of unaffiliated long-term assets in bonds and approximately 12% in mortgage loans. Investments in equities are also significant, though the exposure as a percent of assets is not that material for Life companies. Equity exposure decreased slightly in 2024, as a percentage of unaffiliated long-term invested assets and as a percentage of surplus, despite an increase in the S&P 500 index. Less transparent in terms of their equity market risk, are those investments reported on Schedule BA. These tend to lean heavily to equity-type risk but also include some fixed income-like instruments. Data tracked by S&P Global indicated that distributions from private equity funds, which peaked in 2021, continued to be significantly lower since that year.

	Insurance Industry		Life Industry		P&C Industry		Health Industry	
	2023Y	2024Y	2023Y	2024Y	2023Y	2024Y	2023Y	2024Y
Bond Portfolio Maturity Score	12.29	12.13	14.03	14.02	8.30	8.02	8.01	8.23
1 or less	11.01%	12.55%	8.00%	8.60%	17.88%	21.76%	18.69%	16.22%
1 to 5	31.53%	30.99%	27.53%	27.47%	40.53%	38.01%	42.59%	43.04%
5 to 10	24.84%	24.04%	23.96%	22.97%	27.04%	26.21%	25.79%	27.53%
10 to 20	16.66%	16.74%	19.78%	20.24%	9.71%	9.31%	7.59%	7.99%
greater than 20	15.96%	15.68%	20.73%	20.72%	4.84%	4.72%	5.33%	5.22%
Greater than 10 year	32.63%	32.41%	40.52%	40.96%	14.54%	14.03%	12.93%	13.21%

A key consideration for bond portfolios is the duration, and therefore interest rate risk, of the holdings. Duration is not reported on the investment schedules, but expected maturity dates are. While different variables impact the actual duration of individual holdings, maturity can be a reasonable indicator of exposure to longer duration assets. The average maturity score for Life insurers had been increasing in recent years and was almost 14.5 years as of year-end 2022. This declined slightly in 2023 and was relatively unchanged in 2024. Property & Casualty (“P&C”) insurers and Health insurers maintain considerably shorter portfolios. The measure for P&C decreased slightly in 2024, while it increased modestly for Health insurers.

	Insurance Industry		Life Industry		P&C Industry		Health Industry	
	2023Y	2024Y	2023Y	2024Y	2023Y	2024Y	2023Y	2024Y
Bond Portfolio Credit Score	1.42	1.42	1.48	1.48	1.28	1.27	1.32	1.32
NAIC 1	64.87%	65.53%	59.09%	59.17%	78.62%	79.79%	75.81%	75.33%
NAIC 2	30.33%	29.82%	35.89%	36.02%	17.21%	16.01%	19.16%	19.59%
NAIC 3	2.83%	2.79%	3.14%	3.00%	1.97%	2.20%	3.00%	3.22%
NAIC 4	1.45%	1.34%	1.36%	1.27%	1.64%	1.46%	1.80%	1.60%
NAIC 5	0.46%	0.44%	0.47%	0.45%	0.48%	0.45%	0.17%	0.19%
NAIC 6	0.06%	0.09%	0.06%	0.09%	0.08%	0.09%	0.06%	0.06%
Below Investment Grade	4.80%	4.65%	5.03%	4.81%	4.17%	4.20%	5.03%	5.08%

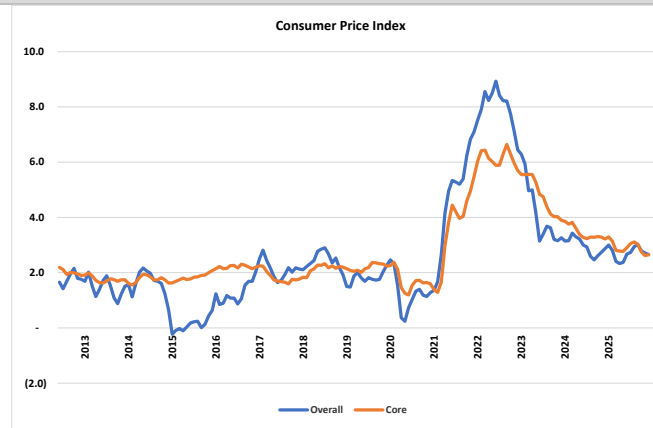
Based on the distribution of bond holdings across the broad categories of NAIC Designations, credit quality in the bond portfolios has remained relatively stable. Holdings of below investment grade bonds declined in 2022, 2023 and 2024. Warranting additional consideration would be those with a BBB-minus rating since those would be most at risk of downgrade to below investment grade in an economic downturn. For P&C and Health insurers, below investment grade bonds are held at the lower of cost or market. Life insurers can carry them at amortized cost as long as the bonds are not in default. In addition to changes in interest rates, another significant factor impacting the fair market value of bonds is the spread over risk free rates. The market based credit spread that can be expected varies depending on expectations of default.

	Insurance Industry		Life Industry		P&C Industry		Health Industry	
	2023Y	2024Y	2023Y	2024Y	2023Y	2024Y	2023Y	2024Y
Derivatives (\$000s)								
Carrying Value	23,895,312	36,141,690	23,572,269	35,774,930	300,457	363,504	22,586	3,256
Fair Value	18,966,654	25,758,513	18,827,484	25,407,369	125,775	353,092	13,395	(1,948)
Private Placements as a % of Bonds			48.43	50.08	30.34	31.29	26.26	23.89
Foreign Bonds as a % of Total			16.55	17.25	7.96	7.71	7.56	6.43
Securities Lending and Repo	95,045,353	105,227,035	82,753,320	90,721,780	9,501,216	11,298,522	2,790,818	3,206,733
Assets Pledged as Collateral	408,708,498	459,224,174	361,244,712	410,974,101	40,507,279	41,857,030	6,956,507	6,393,043

Life insurance companies are significant participants in the derivatives markets. Activity tends to be concentrated in two areas. One is in interest rate hedging strategies. The second is in equity hedges against crediting rates for different annuity products. Both carrying value and fair value of derivatives declined in 2022 but recovered in 2023 and 2024. Notwithstanding the improvement, the reported fair value is still less than carrying value. The significant increase in interest rates in 2022 impacted both of those hedging strategies. Increased volatility may impact the

effectiveness of hedging strategies. Historically only a small percent of the industry’s hedge strategies are reported as Hedge Effective for Statutory Accounting purposes, and are carried at fair value if not deemed Hedge Effective under Statutory Accounting guidelines. Notwithstanding, since these are hedging strategies, there should have been an offsetting change in the hedged instrument.

### Inflation

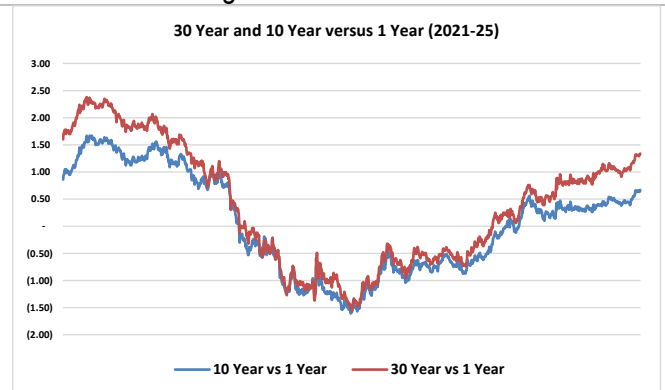
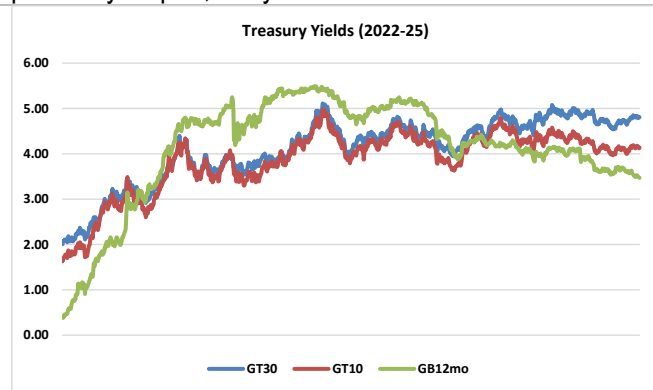


Inflation, as indicated by the year-over-year percentage changes in the Consumer Price Index (“CPI”), continued to be a focus in 2025. The CPI began increasing at the end of 2021, reaching levels in 2022 that had not been seen since the 1980s. The two most commonly tracked metrics are the Overall CPI and the Core CPI. The Core CPI excludes food and energy as those two contributors to CPI can be very volatile from month-to-month. The Overall CPI peaked in June of 2022 at 9.1%. The Core CPI peaked a few months later, in September, at 6.6%. The Fed began taking aggressive action in early 2022, raising the target range for Fed Funds repeatedly.

The upward pressure on borrowing rates led to moderation in both of the inflation metrics. By April 2024, inflation had declined to 2.3% for the Overall CPI and 2.8% for the Core CPI. This continued to exceed the Fed’s stated target of 2.0% inflation. (<https://www.federalreserve.gov/economy-at-a-glance-inflation-pce>). However, with the significant decline in inflation and some signs of economic weakness, especially with a softening in some employment statistics, the Fed began to lower its Fed Funds target. Since the end of 2024, the Fed lowered its target six times for a total of 125 basis points. Inflation did experience an uptick in the second half of 2025, ending the year with an annualized 2.7% for the Overall CPI and 2.6% for the Core CPI.

### Interest Rates

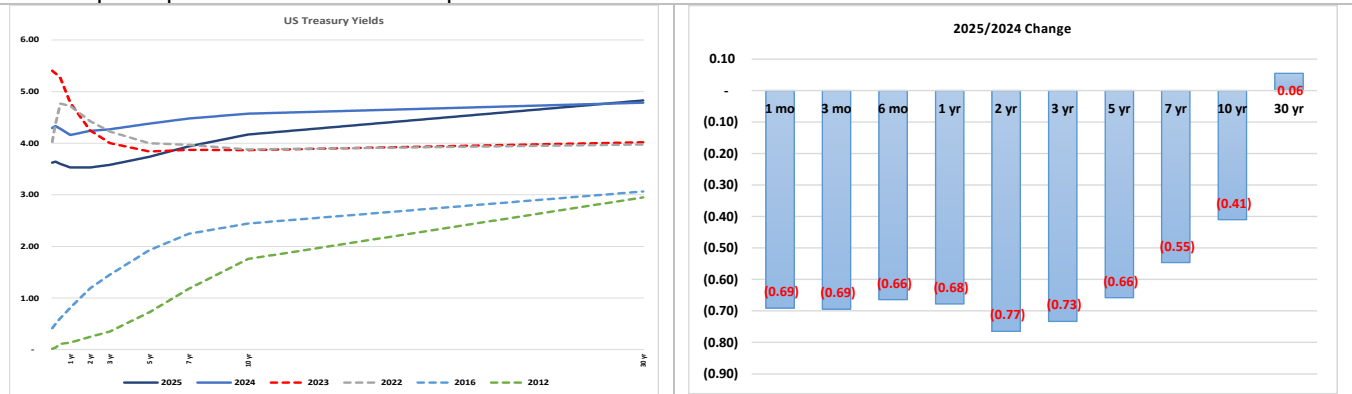
With the Fed lowering the Fed Funds target, short-term interest rates have been declining since 2024. The 1-year Treasury yield declined by 63 basis points in 2024 and another 68 basis points in 2025. Longer term Treasury yields did not follow. The 10-year Treasury yield increased 71 basis points in 2024, before declining 41 basis points in 2025. The 30-year Treasury yield increased 77 basis points in 2024 and another 6 basis points in 2025. As a result, the Treasury yield curve, which had been inverted (with longer term yields lower than shorter term yields) for more than 18 months, once again reflected a positive slope. By the end of 2025, the 10-year Treasury yielded 68 basis points more than the 1-year and the 30-year Treasury yielded 129 basis points more than the 1-year. While now positively sloped, the yield curve is still somewhat flatter than historical averages.



Interest rates as represented by the Treasury yield curve continue to be high in comparison with where they were from 2008 until 2020. Significant portions of insurance companies’ fixed income investments, especially for Life insurers, were made prior to 2020. With the increases in long-term interest rates in 2022 and again in 2024, the fair market value of those investments was negatively impacted. A comparison of the overall fair market value of Bond

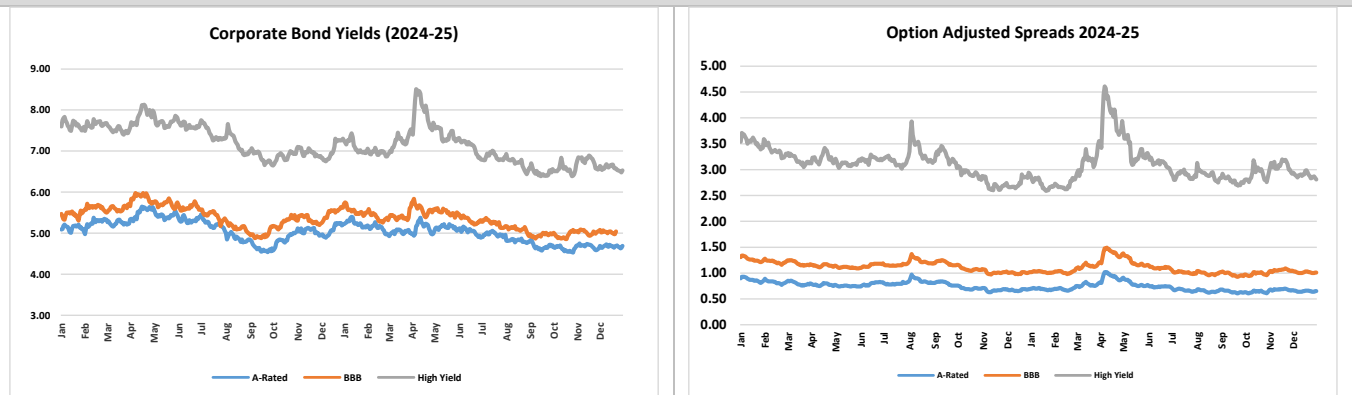
portfolios in comparison with carrying value likely will show that fair market values remain materially lower than carrying value although some improvements have been observed with the interest rate changes. What the actual impact is will vary from insurer to insurer and depend on the specific profile of the Bond portfolio. For longer dated holdings this may be by a substantial amount. This may significantly impact liquidity planning at many insurance companies. Most bond investments are carried at amortized cost on the assumption that they can be held until maturity. If that turns out not to be the case and the assets need to be sold, the sale could be at a significant realized loss which would then also impact capital and surplus. This is a different scenario than what was likely the case a few years ago.

Certain specific asset classes may also have been impacted in other ways. Residential Mortgage-Backed Securities (“RMBS”) are susceptible to significant changes in cash flows based on prepayments of the underlying mortgage loans. As interest rates rise, prepayments may decline resulting in substantially less cash inflows in comparison with what investors are expecting. This would also impact the fair market value of RMBS as they become longer dated holdings that are valued off the longer end of the yield curve. RMBS holdings in the U.S. insurance industry had declined significantly after 2008, in large part due to a substantial decrease in new issue volume. In the last few years, there has been a noticeable increase in RMBS holdings. Regulators should consider discussing any material increase in exposure with individual insurance companies to ensure that monitoring and management of the unique aspects of RMBS are adequate.



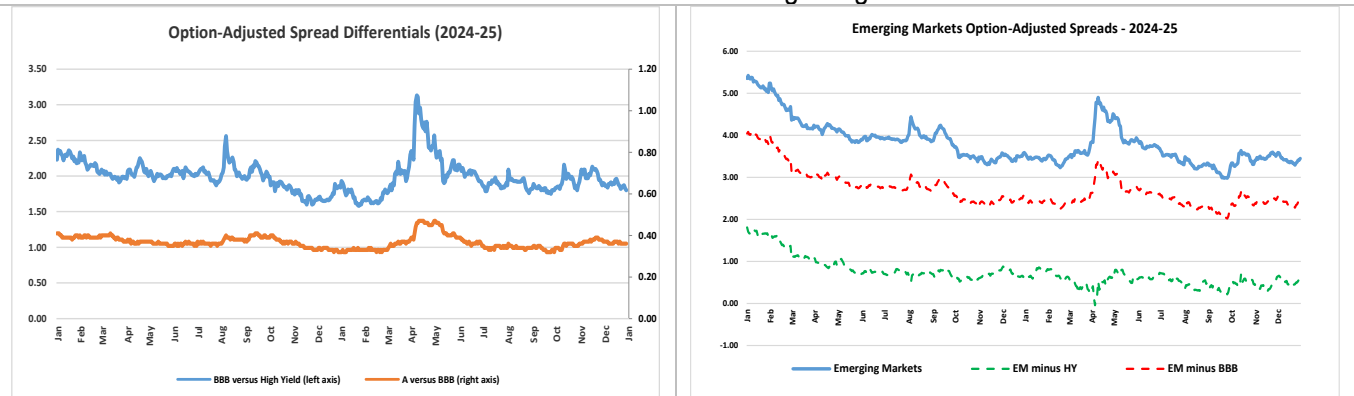
The changes in the shape of yield curve have the potential for creating significant anomalies in the fair market value of different instruments. One area for special focus is interest rate related derivatives used in hedging. Different interest rate hedging strategies may be impacted in different ways as the value of longer dated swaps will differ from shorter dated ones, and derivatives that use shorter duration risk to offset longer duration risk may be affected in unusual ways. There were significant changes in the fair market value of different interest rate hedging instruments in 2022 and 2023, resulting in both realized and unrealized capital losses. The decline in short-term interest rates may have alleviated some of the valuation issues, but that depends on the specific hedging strategies. This may also impact determinations of hedge effectiveness both for economic and Statutory accounting purposes.

### Investment Yields



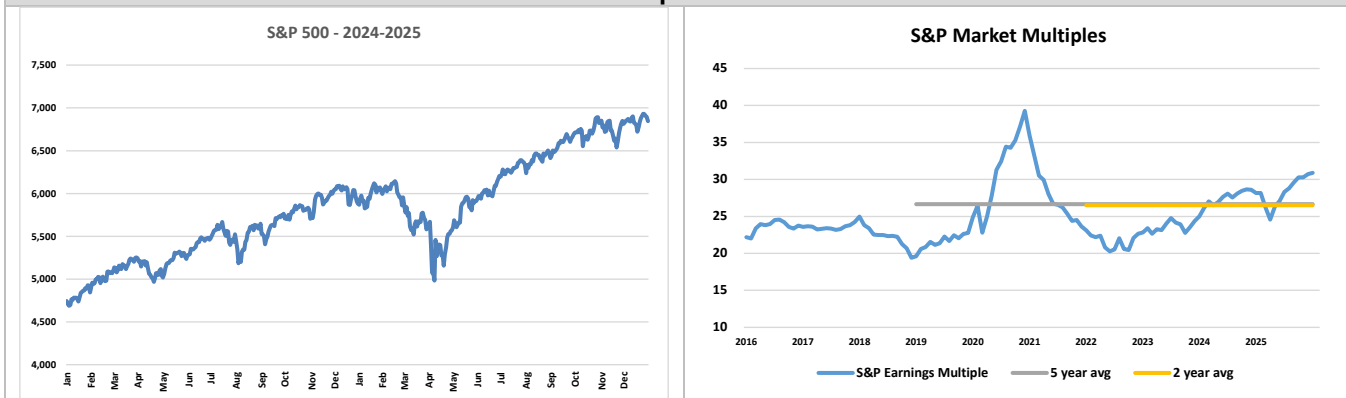
In 2025, Corporate Bond yields declined significantly both because of the decline in 10-year Treasury yields and a narrowing in credit spreads. This was the case across all credit qualities. By the end of 2025, yields on A-rated and BBB-rated Corporate Bonds were at 4.69% and 5.04%, respectively. Credit spreads declined slightly, by 4 and 1 basis points, respectively. The yield on below investment grade bonds declined by 77 basis points, including a narrowing of credit spreads of 11 basis points. This was despite a significant spike in high yield spreads of more than 150 basis points from the beginning of March to the end of April. While there has been significant volatility in credit spreads over the last two years, overall credit spreads have narrowed by 23 basis points for single-A credits, 28 basis points for BBB credits and 53 basis points for high yield bonds. This seems somewhat counterintuitive given growing concerns about a weakening global economy and increased market volatility. One possible reason is that investors are continuing to look to lock in yields on Corporate Bonds with the expectation that longer term Treasury yields will decline. Whatever the reason, the result is that the differential between BBB-rated credits and below investment grade bonds decreased by 10 basis points in 2024 and another 15 basis points in 2025. The current differential between BBB-rated bonds and below investment grade bonds is 280 basis points, compared with an average differential of 522 basis points since the end of 2016. This raises the question if investors are getting paid enough currently for taking the additional risk of investing in below investment grade bonds and may explain, at least in part, why insurance industry exposure to below investment grade risk has been declining.

An additional comparison worth considering is the Emerging Markets Debt index. This consists of the debt instruments at the weaker end of investment grade and just below investment grade credit qualities. Option-Adjusted spreads also spiked in 2022 and in the spring of 2025, which is also reflected in the differential to U.S. Corporate Bond indices. These metrics have trended back to levels at the beginning of 2022 or better.



2025 saw increased uncertainty in the marketplace. Concerns about a possible return to higher inflation has been met by a relatively small increase. There has been a significant increase in credit concerns and some of the data on increased corporate bankruptcy filings is potentially very problematic. There are increased concerns about economic growth and employment data has not been strong, but there do not appear to be significant concerns of a possible recession.

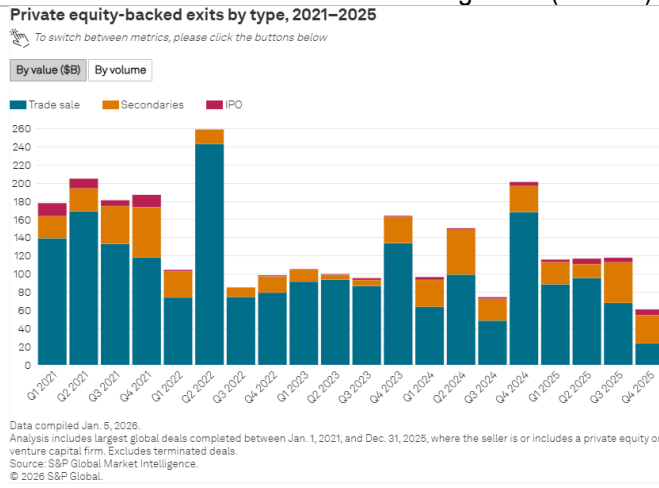
### Equities



While equity holdings are less significant as an asset class for U.S. insurance companies, fair market values are more volatile. Carrying values are also at fair market value, which therefore has a more immediate impact on an insurer’s capital and surplus.

In 2022, the S&P 500 declined 19.4% and at one point was down 25%, due to the increase in interest rates. 2023 and 2024 saw generally strong equity markets with the S&P 500 up 24.2% and 23.3%, respectively. However, 2025 was a tumultuous year. Even though the S&P 500 ended 2025 up by 16.4%, at one point in the spring, the index was down almost 20%. The performance of equity markets can be typically tied to different measures including price-earnings multiples. In the graph on the right above, the market multiple for the S&P 500 has been trending upwards since 2022, notwithstanding a significant dip in 2025. Ending the year slightly above 30 times earnings, this is significantly above the two and five year average, and since 2016 exceeded only by the measure in 2020. If the economy weakens and corporate earnings do not grow or investors decide to reduce their risk assets, there could be a correction in valuations.

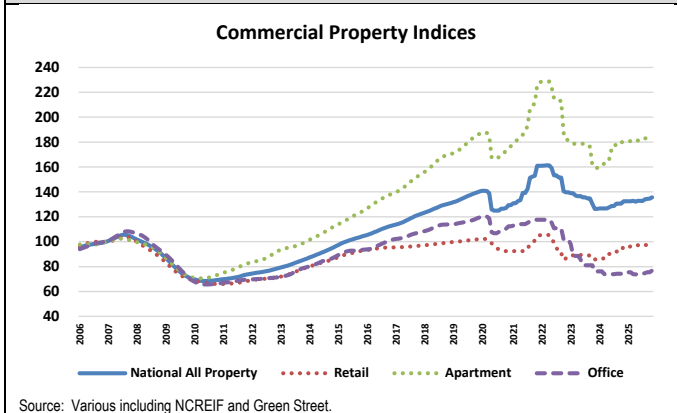
Related to the overall equity market are valuations of private equity and private equity funds. The data on private equity fund exits, representing the sale of private equity positions held in the funds, continued to be concerning in 2025. S&P Global recently published data that it had acquired from Prequin. Since 2021, when exits were up significantly from 2020 to clear out the backlog that existed, sales of the underlying positions have missed expectations. In 2025, while the number of sales transactions were up 5.4%, the dollar volume of those sales was down more than 20% from 2024. The data for the fourth quarter of 2025 was lower than the first three quarters of 2025 as trade sales dropped significantly. Trade sales are those that are transactions into other vehicles, such as other funds or Collateralized Fund Obligations (“CFOs”).



Distributions to a fund’s limited partners can only occur when the fund managers can sell assets. As a result, some fund managers experienced difficulties in 2024 and 2025 raising new funds. The inability to exit private equity holdings may also begin to raise questions about valuations of the underlying assets in the funds.

Regulators should give focused consideration to how these current dynamics may be impacting insurers. If there is a revaluation of the net asset value of funds, how would this impact the insurer’s capital and surplus. If distributions continue to be delayed or are materially lower than forecast, how will this impact liquidity planning?

## Commercial Real Estate Values



Source: Various including NCREIF and Green Street.

As U.S. insurance company investments in real estate related assets have increased over time, albeit mostly in the form of mortgage loans, commercial real estate valuations have become a more material consideration. 2022 and 2023 saw significant declines in index values. While 2025 saw evidence of stabilization in most markets. However, there has not been a material recovery. National All Property measures improved 5% in 2024 and 2% in 2025, compared to declines of 13.2% in 2022 and 9.5% in 2023. Compared to the 2022 peak, the National All Property Index is still down 16%.

The weakest performing sector since 2020 is still Office, which was up 2% in 2025 after declines of 13.3% in 2022, 25.2% in 2023, and 1.1% in 2024. The drag continues to be Central Business District properties. Based on trends in media reporting, there does seem to be some signs of stabilization punctuated by the occasional dire announcement of a greatly discounted sale. The Office sector is down 35% from the 2022 peak. In comparison, Apartments are down 19% and Retail is down 7% from the 2022 peaks.

Many of the insurance industry's commercial mortgage loans required little or no amortizations prior to the maturity date. If the valuations do not materially recover, those borrowers will likely not be able to refinance the substantial balloon payments. If that is the case, the borrowers will default, or the insurers will need to restructure the loans or refinance themselves.

### Closing Thoughts and a Few More Questions to Consider

The announcement of widespread import duties, or tariffs, on April 2, 2025, sent equity markets spiraling downward, decreasing almost 20% before stabilizing and recovering. Credit spreads also spiked based on this news, especially for the below investment grade market, before settling down and ending the year lower than where they began. Those market reactions are an indication of how tenuous the market's grip is in the current environment. Market volatility has become the norm over the last five years, since 2020. The higher level of uncertainty makes analysis of investments more challenging and asset allocation decisions more important. How can insurers find ways to take advantage of this volatility and still somewhat higher interest rates while still controlling investment risk?

There are also market issues yet to be resolved. The jump in interest rates in 2022 has reversed on the shorter end of the yield curve, but long-term interest rates remain relatively high. Significant portions of bond portfolios, especially for Life insurers, still have fair market values that are significantly below carrying value. How is this being managed and what impact does it have on liquidity planning?

While the national index numbers show that commercial real estate values have stabilized, there are only very limited signs of any significant recovery. The asset class remains very idiosyncratic. Properties that are older or otherwise less desirable continue to struggle and lose tenants, resulting in lower debt service coverage for mortgage loans. Commercial mortgage portfolios are laden with loans that had little or no amortizations and are continuing to face significant refinancing risk.

One area of increasing concern are investments in various private funds, especially private equity funds. While it is for most insurers a relatively small percentage of assets, these exposures may still be significant percentages of Capital and Surplus. Private equity funds fall into the categories of illiquid investments that generally lack transparency and are considered hard-to-value. There are substantial restrictions on sale of limited partnership interests, leaving investors dependent on distributions when the fund managers can sell the non-public equity positions. Valuations typically rely on the fund manager's internal assessments. As the private equity fund industry

continues to struggle with monetizing its positions, expectations of cash distributions are getting more and more delayed. This dynamic will eventually, and perhaps inevitably, raise questions about valuations, unless there is a turnaround. Also, how does this impact expectations of cash flows that may have been built into an insurer's Asset Adequacy Analysis and Cash Flow Testing?

A continuing theme and an important question for regulators to ask insurers is whether their risk monitoring and management have kept pace. This includes the level of investment expertise with insurer Boards of Directors who provide ultimate oversight. Market volatility appears to be here to stay for the near term. Also very important is how that market volatility impacts liquidity planning. Many insurance companies stretched for yield during the low rate environment by shifting to less liquid assets, investments that were more complicated and bonds that were longer in duration. Does the insurer have a robust liquidity policy and is the liquidity stress testing adequate? Lower fair market values and extension of cash inflows from investments won't have a material negative impact on the insurer if it can continue to hold the investment. Key to this question is also the potential for volatility in cash flow demands from the liability side of the equation.

*This document is intended to provide a general overview of the 2025 market conditions and thoughts on implications to the insurance industry. It is not intended to provide investment advice, nor is it intended to suggest specific risks or actions for any given insurance company. Actual impacts on investments and individual insurers will depend on a range of facts and circumstances and any such analysis is beyond the scope of this briefing.*