Market Briefing

From: Edward Toy – Director, Investment Specialist (edward.toy@riskreg.com)

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Subject: Mid-Year Recap and U.S. Insurance Industry Invested Assets as of Year-End 2024

Introduction

We have just passed the mid-year mark for 2025. Through 2024, inflation rates declined, interest rates declined, equity markets climbed, and credit spreads returned to pre-Pandemic levels reflecting lessening concerns about defaults and prospects for a recession. The first half of 2025 has seen a resurgence of market volatility and uncertainty. Concerns about a recession have reignited, although not considered a high probability. With the increase in interest rates in 2022, some U.S. insurers took the opportunity to realign their investment portfolios in 2023 and 2024. Additionally, investors struggled with an inverted yield curve that lasted from 2023 through most of 2024. While no longer inverted, the slope of the yield curve is only slightly positive.

Compared to year-end 2024, the 30-year Treasury is yielding 17 basis points higher, while the 10-year is down 16 basis points, and the 1-year is down 7 basis points. The Treasury yield curve is positively sloped by 87 basis points between the 30-year Treasury and the 1-year Treasury. From the end of February to the beginning of April 2025, the S&P 500 dropped dramatically due to uncertainty over economic and foreign trade policies, approaching a decline of 20%. Notwithstanding continued uncertainty, equity markets have since recovered. Credit spreads experienced a similar spike in that same time period and have since recovered. Oil prices, as represented by the benchmark West Texas Intermediate, are down 4.1%. The U.S. Dollar is down 11.5% against the Euro and down 5.3% against the Yen. Before going into greater detail on market activity, it is useful to remind ourselves of U.S. insurance company invested assets.

[The data for insurance company investments was all based on Financial Statement Data submitted to the NAIC and acquired via SNL, which is a unit of S&P Global. Market data was acquired via the Federal Reserve Bank of St. Louis.]

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U.S. Insurer Invested Assets

($000's)	Insurance Industry		Life Industry		P&C Industry		Health Industry	
	2023Y	2024Y	2023Y	2024Y	2023Y	2024Y	2023Y	2024Y
SHORT TERM INVESTMENTS								
ST Investments & Cash Equivalents	404,123,586	492,639,991	166,719,032	169,422,096	179,448,324	271,791,355	57,956,229	51,426,540
LONG TERM INVESTMENTS								
Corporate Bonds	2,767,425,844	2,889,506,276	2,187,827,265	2,263,157,789	499,531,468	543,545,296	80,067,111	82,803,191
Bank Loans	113,170,305	114,670,354	95,558,088	96,458,102	15,699,343	16,000,407	1,912,874	2,211,845
Government Bonds (incl Municipals)	866,944,939	858,585,689	394,297,557	386,422,814	421,188,807	421,950,684	51,458,575	50,212,191
Agency CMBS	73,341,526	78,494,459	41,844,625	40,640,825	29,324,584	35,469,359	2,172,317	2,384,275
Agency RMBS	264,901,845	302,843,696	119,105,629	124,040,170	115,914,497	147,220,613	29,881,719	31,582,913
Agency ABS	24,168,614	25,437,847	13,083,972	10,302,348	10,019,458	14,047,325	1,065,183	1,088,173
Non-Agency CMBS	205,276,421	205,160,942	150,929,989	151,456,789	44,798,551	44,320,426	9,547,880	9,383,726
Non-Agency RMBS	114,136,265	144,110,873	85,176,550	105,121,847	25,238,091	35,085,292	3,721,624	3,903,734
Non-Agency ABS	552,996,390	607,186,658	434,412,243	480,431,885	100,302,427	109,134,486	18,281,720	17,620,288
Hybrids	21,683,287	23,888,568	16,274,844	18,010,761	4,763,980	5,150,549	644,463	727,259
SVO Funds	12,065,185	13,090,837	5,837,875	5,854,230	4,929,835	5,718,935	1,297,475	1,517,672
Subtotal Unaffiliated Bonds	**5,016,110,620**	**5,262,976,199**	**3,544,348,639**	**3,681,897,562**	**1,271,711,041**	**1,377,643,370**	**200,050,940**	**203,435,267**
Preferred Stock	23,877,948	25,349,714	16,510,491	17,733,481	6,598,249	6,779,161	769,208	837,072
Common Stock	549,907,809	490,804,792	36,813,474	34,874,900	504,268,476	446,738,783	8,825,859	9,191,109
Funds reported as Common Stock	39,045,123	37,958,855	5,163,721	4,389,258	18,797,304	19,227,177	15,084,099	14,342,420
Subtotal Unaffiliated Equity	**612,830,881**	**554,113,361**	**58,487,686**	**56,997,639**	**529,664,029**	**472,745,121**	**24,679,167**	**24,370,601**
Commercial Mortgage Loans	637,492,499	655,790,456	608,729,562	627,487,422	28,013,876	27,449,834	749,061	853,201
Mezzanine Loans	11,893,213	14,042,326	11,092,281	13,374,854	800,932	652,471	-	15,000
Residential and Farm Mortgages	108,613,960	143,613,105	105,627,367	140,631,303	2,986,593	2,931,347	-	50,455
Problem Mortgages	4,597,862	6,831,714	4,289,008	6,159,960	308,854	671,696	-	58
Non-Insurer Occupied Real Estate	22,121,092	21,463,516	17,301,258	16,641,576	4,623,084	4,535,173	196,749	286,768
Subtotal Real Estate Related	**784,718,626**	**841,741,118**	**747,039,476**	**804,295,115**	**36,733,340**	**36,240,521**	**945,810**	**1,205,482**
Non-Conforming LT Assets	281,079,494	300,353,012	188,302,804	202,248,605	82,259,611	87,808,832	10,517,079	10,295,575
Affiliated Investments (incl Occupied RE)	893,957,227	1,010,120,491	405,791,483	461,764,323	447,864,400	507,491,259	40,301,344	40,864,910
Grand Total - Long Term Investments	**7,588,696,848**	**7,969,304,181**	**4,943,970,087**	**5,207,203,244**	**2,368,232,421**	**2,481,929,103**	**276,494,340**	**280,171,834**

Through 2023 and 2024, historic trends continued as long-term invested assets grew to almost $8.0 trillion. In 2024, total long-term invested assets grew $380.6 billion, an increase of 5.0%. Life insurer General Account assets increased by 5.3%, Property & Casualty ("P&C") by 4.8% and Health insurers by 1.3%.

	All Insurers - $Change (000s)	Life Insurers - $Change (000s)	P&C Insurers - $Change (000s)	Health Insurers - $Change (000s)	All Insurers - %Change	Life Insurers - %Change	P&C Insurers - %Change	Health Insurers - %Change
SHORT TERM INVESTMENTS								
ST Investments & Cash Equivalents	88,516,405	2,703,064	92,343,030	(6,529,689)	21.9%	1.6%	51.5%	-11.3%
LONG TERM INVESTMENTS								
Corporate Bonds	122,080,432	75,330,524	44,013,829	2,736,079	4.4%	3.4%	8.8%	3.4%
Bank Loans	1,500,049	900,013	301,064	298,971	1.3%	0.9%	1.9%	15.6%
Government Bonds (incl Municipals)	(8,359,250)	(7,874,742)	761,876	(1,246,384)	-1.0%	-2.0%	0.2%	-2.4%
Agency CMBS	5,152,934	(1,203,800)	6,144,775	211,959	7.0%	-2.9%	21.0%	9.8%
Agency RMBS	37,941,851	4,934,541	31,306,116	1,701,194	14.3%	4.1%	27.0%	5.7%
Agency ABS	1,269,233	(2,781,624)	4,027,867	22,990	5.3%	-21.3%	40.2%	2.2%
Non-Agency CMBS	(115,479)	526,800	(478,125)	(164,154)	-0.1%	0.3%	-1.1%	-1.7%
Non-Agency RMBS	29,974,608	19,945,297	9,847,201	182,110	26.3%	23.4%	39.0%	4.9%
Non-Agency ABS	54,190,268	46,019,641	8,832,059	(661,432)	9.8%	10.6%	8.8%	-3.6%
Hybrids	2,205,281	1,735,916	386,569	82,796	10.2%	10.7%	8.1%	12.8%
SVO Funds	1,025,652	16,355	789,100	220,197	8.5%	0.3%	16.0%	17.0%
Subtotal Unaffiliated Bonds	246,865,578	137,548,922	105,932,329	3,384,327	4.9%	3.9%	8.3%	1.7%
Preferred Stock	1,471,766	1,222,990	180,912	67,864	6.2%	7.4%	2.7%	8.8%
Common Stock	(59,103,018)	(1,938,574)	(57,529,693)	365,250	-10.7%	-5.3%	-11.4%	4.1%
Funds reported as Common Stock	(1,086,269)	(774,463)	429,873	(741,679)	-2.8%	-15.0%	2.3%	-4.9%
Subtotal Unaffiliated Equity	(58,717,521)	(1,490,046)	(56,918,908)	(308,566)	-9.6%	-2.5%	-10.7%	-1.3%
Commercial Mortgage Loans	18,297,957	18,757,860	(564,043)	104,140	2.9%	3.1%	-2.0%	13.9%
Mezzanine Loans	2,149,112	2,282,573	(148,461)	15,000	18.1%	20.6%	-18.5%	na
Residential and Farm Mortgages	34,999,145	35,003,936	(55,246)	50,455	32.2%	33.1%	-1.8%	na
Problem Mortgages	2,233,852	1,870,952	362,842	58	48.6%	43.6%	117.5%	na
Non-Insurer Occupied Real Estate	(657,575)	(659,682)	(87,911)	90,018	-3.0%	-3.8%	-1.9%	45.8%
Subtotal Real Estate Related	57,022,492	57,255,639	(492,818)	259,671	7.3%	7.7%	-1.3%	27.5%
Non-Conforming LT Assets	19,273,519	13,945,802	5,549,221	(221,504)	6.9%	7.4%	6.7%	-2.1%
Affiliated Investments (incl Occupied RE)	116,163,264	55,972,840	59,626,859	563,566	13.0%	13.8%	13.3%	1.4%
Grand Total - Long Term Investments	380,607,332	263,233,156	113,696,682	3,677,494	5.0%	5.3%	4.8%	1.3%

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	All Insurers - % of Total Long Term		Life Insurers - % of Total Long Term		P&C Insurers - % of Total Long Term		Health Insurers - % ot Total Bonds	
	2023Y	2024Y	2023Y	2024Y	2023Y	2024Y	2023Y	2024Y
SHORT TERM INVESTMENTS								
ST Investments & Cash Equivalents	5.3	6.2	3.4	3.3	7.6	11.0	21.0	18.4
LONG TERM INVESTMENTS	-	-	-	-	-	-	-	-
Corporate Bonds	36.5	36.3	44.3	43.5	21.1	21.9	29.0	29.6
Bank Loans	1.5	1.4	1.9	1.9	0.7	0.6	0.7	0.8
Government Bonds (incl Municipals)	11.4	10.8	8.0	7.4	17.8	17.0	18.6	17.9
Agency CMBS	1.0	1.0	0.8	0.8	1.2	1.4	0.8	0.9
Agency RMBS	3.5	3.8	2.4	2.4	4.9	5.9	10.8	11.3
Agency ABS	0.3	0.3	0.3	0.2	0.4	0.6	0.4	0.4
Non-Agency CMBS	2.7	2.6	3.1	2.9	1.9	1.8	3.5	3.3
Non-Agency RMBS	1.5	1.8	1.7	2.0	1.1	1.4	1.3	1.4
Non-Agency ABS	7.3	7.6	8.8	9.2	4.2	4.4	6.6	6.3
Hybrids	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.3
SVO Funds	0.2	0.2	0.1	0.1	0.2	0.2	0.5	0.5
Subtotal Unaffiliated Bonds	**66.1**	**66.0**	**71.7**	**70.7**	**53.7**	**55.5**	**72.4**	**72.6**
Preferred Stock	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Common Stock	7.2	6.2	0.7	0.7	21.3	18.0	3.2	3.3
Funds reported as Common Stock	0.5	0.5	0.1	0.1	0.8	0.8	5.5	5.1
Subtotal Unaffiliated Equity	**8.1**	**7.0**	**1.2**	**1.1**	**22.4**	**19.0**	**8.9**	**8.7**
Commercial Mortgage Loans	8.4	8.2	12.3	12.1	1.2	1.1	0.3	0.3
Mezzanine Loans	0.2	0.2	0.2	0.3	0.0	0.0	-	0.0
Residential and Farm Mortgages	1.4	1.8	2.1	2.7	0.1	0.1	-	0.0
Problem Mortgages	0.1	0.1	0.1	0.1	0.0	0.0	-	0.0
Non-Insurer Occupied Real Estate	0.3	0.3	0.3	0.3	0.2	0.2	0.1	0.1
Subtotal Real Estate Related	**10.3**	**10.6**	**15.1**	**15.4**	**1.6**	**1.5**	**0.3**	**0.4**
Non-Conforming LT Assets	3.7	3.8	3.8	3.9	3.5	3.5	3.8	3.7
Affiliated Investments (incl Occupied RE)	11.8	12.7	8.2	8.9	18.9	20.4	14.6	14.6
Grand Total - Long Term Investments	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Overall, there were some modest changes in the asset mix. Bonds continued to be the majority of long-term invested assets at 66.0% (70.7% for Life, 55.5% for P&C and 72.6% for Health). Within Bonds, Government Bonds declined. Government Bonds are generally considered a secondary source of liquidity so monitoring for future trend analysis will be important. Overall Structured Securities increased by $128.4 billion and accounted for 19.2% of unaffiliated long-term assets and 24.8% of Bonds. The largest increase was in Residential Mortgage-Backed Securities ("RMBS"), followed by Asset-Backed Securities ("ABS"). The increased exposure to RMBS, both Agency-Backed and Non-Agency, is noteworthy in comparison to what had been a declining trend over several years after 2010. The aggregate exposure had been trending downwards for many years, mostly due to declines in new issue volume. There has been more recently a noticeable uptick both in dollar amounts and in the percentage exposure. The potential concern, since most of the exposure is either Agency-Backed or in the highest rated classes, is not credit risk. The issue is whether insurers have the monitoring and management systems and controls in place for securities that can be structurally very complex and where cash inflows can be highly variable depending on what happens with interest rates. Market volatility can be significant and the shifts in prepayments can have an impact on liquidity planning at insurers.

Common Stock exposure declined (8.1% to 7.0%), driven primarily by a decline among P&C companies (22.4% to 19.0%) but also for Life insurers. This is noteworthy given that the broad market, as represented by the S&P 500, increased by 23.3% in 2024.

Real Estate related assets increased as a percentage driven primarily by an increase in directly held Residential Mortgage Loans among Life insurers. With the ongoing

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uncertainty, especially for Office properties, Commercial Mortgage Loan exposures grew slightly overall and declined among P&C insurers. The first question is if the reported Residential Mortgage Loans are on single family residences or are they in large multifamily apartment buildings where guidance would expect that they would be reported as Commercial Mortgage Loans and, for Life insurers, subject to the Commercial Mortgage ("CM") Rankings that drive Risk-Based Capital. If they are single family, these are typically large numbers of line items with relatively smaller balances. While it remains a de minimis percentage of assets, Problem Mortgages increased by $2.2 billion.

Non-Conforming Long-Term Assets (unaffiliated Investments Reported on Schedule BA) increased $19.3 billion. This included an increase of $8.5 billion in Collateral Loans. Investments that are reported as affiliated investments continued to increase, from 11.8% to 12.7%. In 2024, the increase of $56.0 billion in that line item for Life insurers included $28.7 billion in Bonds and $15.3 billion in Investments Reported on Schedule BA.

	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%
Bond Portfolio Credit Sore	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%

Bond maturities are not a direct measure of duration but generally are an indicator of possible interest rate risk. Since 2023, average Bond maturities have declined slightly. This is driven by decreases in Bonds held that had maturities of greater than ten years. With higher interest rates since 2022, there has been less pressure on insurers to maintain portfolio yields by going farther out on the yield curve. In many cases, higher interest rates did impact the fair market value of existing holdings and led many insurers to rebalance the Bond portfolios, selling lower coupon Bonds and reinvesting in higher coupon Bonds.

The credit quality of Bond portfolios for all three insurer types were relatively stable. Below investment grade holdings declined slightly for Life insurers and Health insurers, but this was offset by an increase for P&C insurers.

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	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							
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

The basic profile of U.S. insurance company investments does not change very much from year to year. However, given the previously noted changes in Common Stock and Mortgage Loans, it is worth noting those changes as a percent of total unaffiliated long-term invested assets. Equities (including Preferred Stock, Common Stock and Mutual Funds reported as Common Stock) declined overall from 9.15% to 7.96% as a percent of unaffiliated long-term assets. This was driven mostly by the percentage change for P&C insurers, from 27.58% to 23.94%. This decline was a continuation from 2021 when the percentage for P&C companies was 30.38%. Equities continue to be very significant as a percent of Surplus (33.52% for P&C, 10.91% for Life, and 7.57% for Health). Mortgage Loans increased as a percent of unaffiliated long-term invested assets and is most significant for Life companies, increasing from 15.14% in 2021 to 16.95% in 2024. Mortgage Loans may pay higher yields due to their complexity and illiquidity.

($000s)	Insurance Industry		Life Industry		P&C Industry		Health Industry	
Derivatives	2023Y	2024Y	2023Y	2024Y	2023Y	2024Y	2023Y	2024Y
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 of % 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

Market volatility in recent years has had a significant impact on both the carrying value and fair market value of derivatives positions. Derivatives activity is most significant with Life insurers. While most derivatives activity is for hedging purposes, only a small percentage is deemed to be Hedge Effective for Statutory Accounting purposes. This means that most derivatives exposures are held at fair market value. At the end of 2021, prior to the increases in interest rates in 2022, total insurance industry carrying value was $37.7 billion and fair value was $49.7 billion, with a positive differential of $11.9 billion. This dropped to $17.5 billion and $7.2 billion, with a negative differential of $10.3 billion at the end of 2022. As of year-end 2024, total carrying value was $36.1 billion, fair value was $25.8 billion and the differential was a negative $10.4 billion.

In recent years, there has been increased focus on two different asset types held by insurers, Collateral Loans and Residual tranches of Structured Securities. Collateral Loans are reported on Schedule BA. While these investments still reflect less than one percent of invested assets across the insurance industry, their lack of transparency and concerns about valuation of the underlying assets has led to significant regulatory concern. The NAIC's Statutory Accounting Principles Working Group ("SAPWG") noted for emphasis and clarity that to qualify as a Collateral Loan the underlying assets must be eligible to be admitted assets. Additionally, the fair market value of those assets must be at least equal to the value of the Collateral Loan and that this must be

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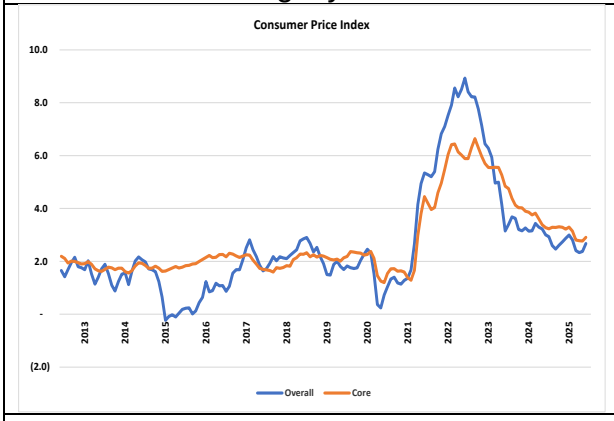
documented. Disclosures were also added to the investment schedules to indicate what the underlying assets were. In 2025, SAPWG has referred the issue to the NAIC's Capital Adequacy Task Force to consider whether the Risk-Based Capital Factor should be adjusted.

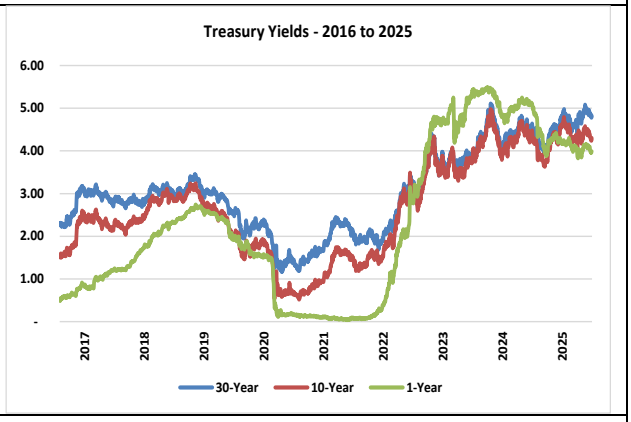
SAPWG has also added a new line item for Residual tranches of Structured Securities. These are often legally structured as debt securities but represent the equity risk in a Structured Securities transaction. These were reported for the first time in 2022 in Schedule BA and were previously reported in Schedule D as Bonds by most U.S. insurers. There are also some Residuals that are structured as Common Stock. Valuation guidance was changed in 2024 providing that any cash flows received are first used to reduce cost basis until that was reduced to zero, and then any remaining cash flows would be assigned to income. The Risk-Based Capital factor for Residuals was also increased to 45% for Life insurers.

	Insurance Industry		Life Industry		P&C Industry		Health Industry	
New Data Collection beginning 2022	2023Y	2024Y	2023Y	2024Y	2023Y	2024Y	2023Y	2024Y
Collateral Loans								
Affiliated	14,501,910	16,380,774	13,728,632	15,417,112	466,084	963,662	307,195	-
Unaffiliated	5,526,454	12,104,512	5,201,090	11,817,594	321,789	274,776	3,575	12,142
Residuals								
Affiliated	6,127,053	7,171,781	5,824,062	6,778,743	302,991	376,503	-	16,535
Unaffiliated	7,105,378	9,870,068	5,856,399	8,086,722	1,248,979	1,638,782	-	144,564

Markets (through June 30, 2025)

Compared with the ten-year period from roughly 2010 to 2019, market volatility has been higher since 2020. This was first driven by the economic turmoil of the COVID-19 Pandemic (in 2020), followed by the economic shifts with the Russian-Ukraine conflict, the spike in inflation (at the end of 2021), the dramatic increase in interest rates to manage inflation back down (in 2022), the banking turmoil with the failure of several large regional banks (in 2023), continued struggles in commercial real estate (especially in the Office sector), and uncertainty in international trade policy (in 2025), just to name a few bigger ticket items. Inflation, as measured by the Consumer Price Index ("CPI"), had been slowly moving back towards the Fed's target of 2% but in June 2025 increased slightly.





From mid-2022 to mid-2024, the Treasury yield curve was inverted, at one point by as much as 150 basis points. This was largely due to concerns about a possible recession. Those concerns waned by the end of 2024, but have resurfaced in 2025, albeit not to the same degree. As of June 30, the Treasury yield curve was modestly positive, although with a significant dip in the front end.

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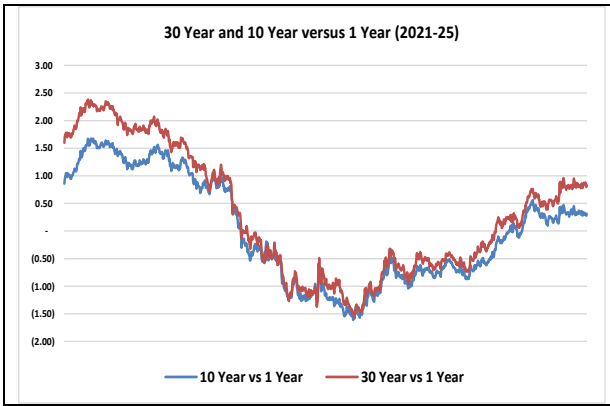
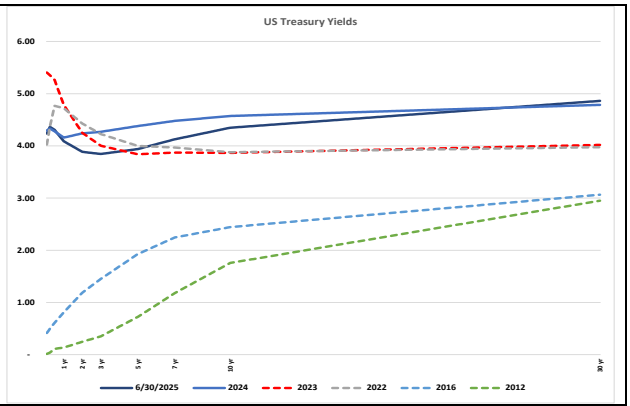
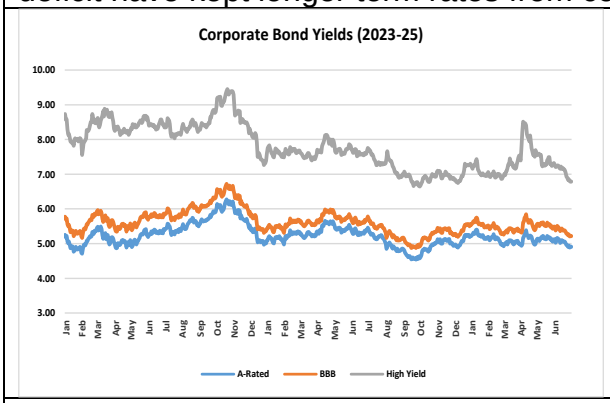
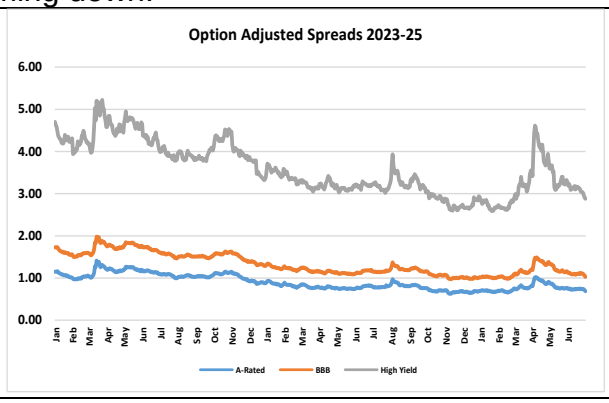




Since the end of 2024, Treasury yields are lower on the shorter end but remain about the same for the longer end. There has been considerable uncertainty as the market tries to interpret the impact of international trade policies. There are expectations that this will reignite inflation, but the question is to what degree. There are also renewed concerns of a recession, and the possibility of stagflation which the U.S. has not seen since the 1980's. The Fed has held back on any action as it also struggles with that uncertainty. While inflation data had declined by the end of 2024, the CPI was still above the Fed's 2% target and the prospect of inflation coming back came to fruition with the June data. The market still expects the Fed to lower its target for the Fed Funds rate by the end of the year. But concerns over a much larger Federal budget deficit have kept longer term rates from coming down.





U.S. insurance company fixed income investments consist primarily of different kinds of risk assets; therefore, Treasury yields are not entirely indicative of the potential market impact. The general trend of corporate bond yields has been downwards since the beginning of 2023. This has been driven by the downward drift of Treasury yields but also declining credit spreads. Default rates and the pace of rating agency downgrades have not been as bad as some feared. Notwithstanding that, there has also been a lot of volatility in credit spreads, including a substantial spike in April with the initial announcement of tariff policies. Overall credit spreads at the end of June were slightly higher than where they were at the beginning of the year.

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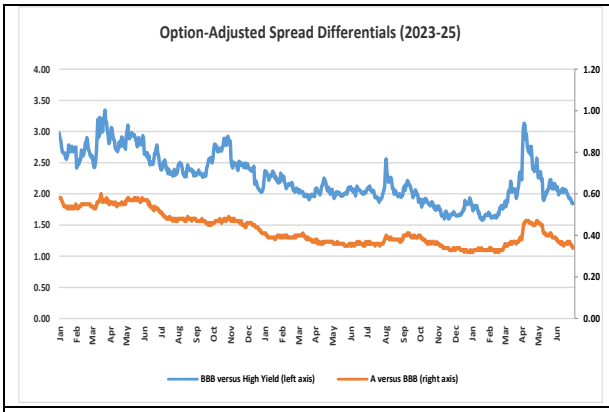
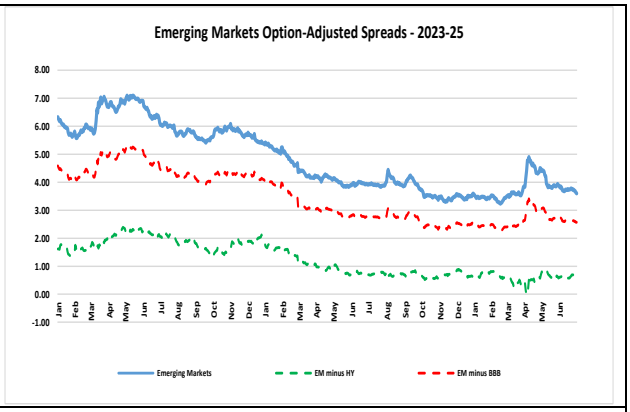
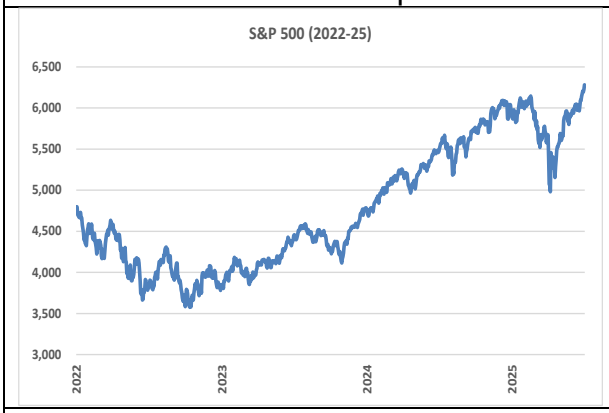
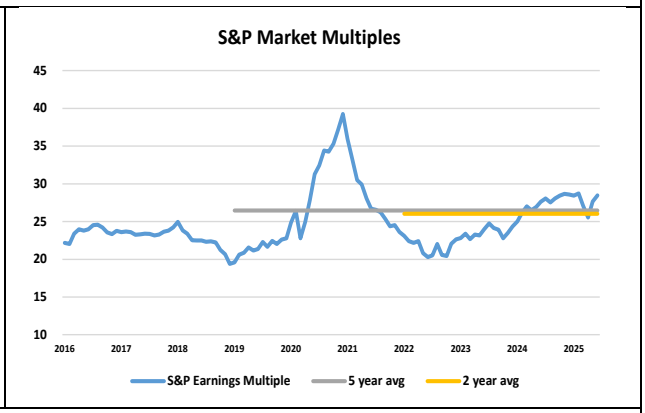




A key metric is the differential in spread for taking on additional risk. The differential between high yield and BBB-rated Corporate Bonds had narrowed significantly to about 160 basis points, spiked in April to over 300 basis points, and has since recovered to about 180 basis points. The differential between BBB-rated and A-rated Corporate Bonds saw similar volatility. The same is true for the differential between Emerging Markets debt and U.S. Corporate debt.





Equity markets saw a significant decline in 2022 as valuations struggled with higher interest rates and concerns about a possible recession. The S&P 500 index was down 19.4% in 2022. Recovery was generally strong in 2023 and 2024. However, in 2025, U.S. equities have struggled. At one point in the space of only a few weeks, the S&P dropped nearly 20%, which would have been termed a “bear market”, before recovering after the announcement of a pause in tariffs. Although the S&P 500 was up abut 7% by mid-year, U.S. markets have generally underperformed compared to international equities. Reflecting on equity valuations, the current market multiple is slightly above the five and two-year averages.

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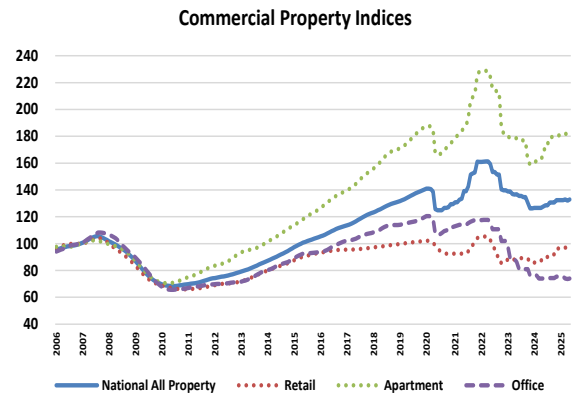
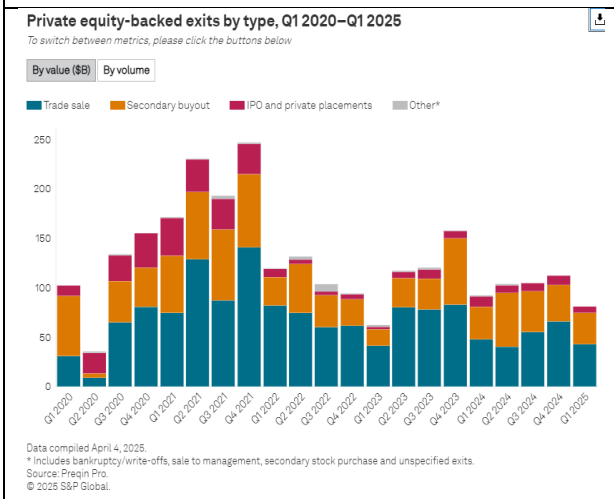


Valuations of Commercial Real Estate properties seemed to have found a bottom and are now showing some signs of recovery. But there continues to be uncertainty, especially with the Office sector. Transaction activity continues to be depressed. Concerns persist about what could happen as mortgage loans mature. Thus far, the "maturity wall" has not resulted in a significant increase in defaults as lenders have chosen to extend maturities under new terms.



One area of increased concern is in Private Equity Funds. Private Equity Fund managers continue to struggle with selling holdings in the funds. Without successful exits, there can be no distributions to fund investors. Exits in 2022 through 2024 were below expectations. Exits thus far in 2025 are even below that. This begins to raise questions about valuations. The market turmoil in 2025 is likely to delay exits even further as potential buyers are less likely to materialize. Secondary sales of holdings are extremely difficult since there are significant restrictions.

When secondary sales do occur, they are often at steep discounts to net asset value. Continued weakness in exits may also impact the Collateralized Fund Obligation ("CFO") market. This had been a way to monetize holdings. But the lack of distributions is raising concerns about ratings.

Closing Thoughts

The 2024 industry data largely reflected continued historical trends, with some notable exceptions. The increase in RMBS and the increase in directly held Residential Mortgage Loans do raise some questions, especially for individual insurers that may have reported substantial increases.

Although the numbers are still small for Collateral Loans and Residuals for the industry overall, these still represent areas of regulatory concern for different reasons and also may be significant for individual insurers.

Market volatility continues to be a concern and the uncertainty in the first half of 2025 is likely to continue. This may impact some sectors and industries more than others. A substantive question for insurance regulators is how this will affect those insurers that have larger exposures in those asset classes and types that are less transparent, more complex and illiquid.

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Are governance structures around these assets sufficient to the task? Is there an overreliance on affiliated and unaffiliated investment managers? Is there an appropriate focus over the different kinds of risk, not just credit but also market and liquidity? Are valuations appropriate? With the increase in RMBS, how will changing interest rates impact cash flows? If the economic and market uncertainty continues to weigh on Private Equity Fund holdings, how will that impact liquidity planning?

2025 has so far been a challenging year and this appears likely to continue in the second half.

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