Insight INVESTMENT

APRIL 2024

US INSURANCE WATCH

A review of Q1 2024 and investment outlook

Welcome to our inaugural insurance quarterly.

In this publication we will share some of our key insurance investment themes and views, based on our work with clients and other industry stakeholders over the last quarter. We also outline our key fixed income insights and economic views. If you have any feedback, please do not hesitate to get in touch.

- **Rate cuts are coming, but there's no rush:** The Fed continued to stand firm in its forecast for three rate cuts by year end, despite significantly increasing its 2024 growth forecast. Although the March inflation data is likely to push back the timing of the first cut, we believe it is a temporary setback and that inflation will ultimately provide the flexibility for the Fed to ease after the summer.
- **Three Insurance themes we're watching:** We provide some thoughts on some insurance investment themes we are monitoring: fixed income yields, tax-exempt allocations and regulation.
- **Credit:** If, as we expect, economic growth starts to accelerate and the Fed starts to cut, this should be a supportive environment for risk assets, and high yield credit is an asset class that can benefit. In a scenario where defaults are close to their historical average level, we believe should provide income well in excess of BBB corporates.
- **Investment outlook:** Some investors are waiting for spreads to widen before they move more assets into credit markets, but we believe this is the wrong focus. The absolute level of yields is still at pre-financial crisis levels, and waiting could mean missing an opportunity to lock in these yields for the longer-term.
- **Key risks:** Although there is scope for central banks to ease policy in the short term, we believe central banks will be operating in higher ranges going forward, with the era of low rates at an end. It is unclear if this has been fully priced into asset prices more broadly. The war in Europe continues to be a concern, and there is a risk that events escalate with unexpected consequences. Broader geopolitical tensions are elevated, and tensions between the US and China risk an increasingly polarized world.
- **Global macro research:** The global hiking cycle has had less of an impact on global housing markets than many would have expected. To the extent strength in the global housing market continues, it bodes well for consumer strength and the economy's resilience against the global rate hiking cycle. However, there is a risk that it causes central banks to delay or slow down their rate-cutting plans over the next few years, particularly in markets where housing strength has been particularly pronounced like the US.

The Fed should start to ease later in the year, but when?

Despite fluctuations in market sentiment the Federal Open Market Committee (FOMC) continued to indicate via their median dot plot forecast that they expect interest rates to be cut three times by the end of the year. However, inflation data released for March is likely to push back the start of the easing cycle until after the summer, with more time needed to ensure that inflation remains on a downward trend.

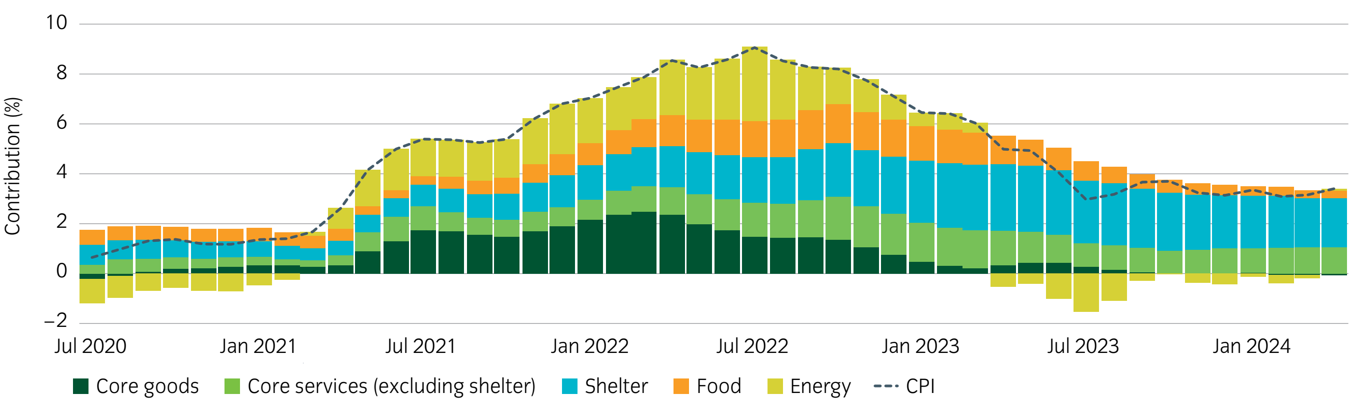
The resilience of economic data has already caused some members of the FOMC to believe a cautious approach is warranted, and markets have shifted to expect only two cuts in the second half of 2024. We broadly agree with this view.

A critical step on the path to easing will be tapering the pace of quantitative tightening (QT). At the March FOMC meeting the committee indicated that it believes it "…will be appropriate to slow the pace of run-off fairly soon". Currently the Fed's policy is to allow up to $60bn of Treasuries and $35bn of mortgage-backed securities to roll off its balance sheet per month, and we expect these figures will fall over the coming months, with QT potentially halting altogether around the summer.

Inflation data should eventually give the Fed flexibility

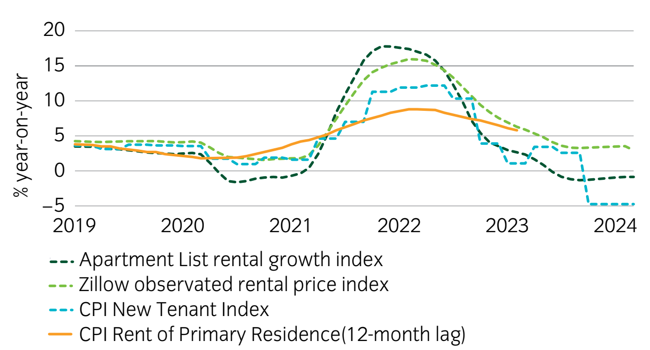
Although the March inflation data was a setback, we currently believe it is a temporary one and that the wider trend remains for inflation to decelerate. As can be seen in Figure 1, energy prices moved back into positive territory year-on-year. However, the main driver of inflation overall continues to be the "core services" categories (which includes shelter and "supercore" services such as transportation), which accounts for 97% of the rise in CPI on a year-on-year basis. Encouragingly shelter, which is a major component, is gradually slowing.

Figure 1: "Core services" sectors are dominating year-on-year inflation but energy has turned positive again[1]



Shelter tends to be the "stickiest" component of the CPI as rental prices move slowly, partly because they typically get locked in for a year. Further, shelter CPI is based on surveys the Bureau of Labor Statistics only refreshes every six months. Finally shelter CPI tracks all tenants, rather than just new tenants, and so tends to be less volatile than private rental indices maintained by agents like Zillow or Apartment List. The good news is shelter CPI is relatively predictable over the medium term. Studies and historical pricing show that, due to its methodology, shelter CPI tends to directionally lag private rental indices by up to a year. At present, although other core service categories remain strong, it appears shelter CPI should continue moderating in the coming months (Figure 2). The Fed's preferred inflation measure, PCE is already running significantly closer to the Fed's 2% target than CPI, largely a result of a shelter weighting that is around half that in CPI. This leads us to believe that inflation data will moderate sufficiently in the months ahead to provide the Fed with the flexibility to cut rates, even if the economy continues to show resilience.

Figure 2: Leading indicators indicate shelter inflation will continue falling[2]



[1] Bureau of Labor Statistics, Macrobond, Bloomberg, Insight, April 2024
[2] Bureau of Labor Statistics, Zillow, Apartment List, March 2024.

THREE INSURANCE INVESTMENT THEMES WE'RE WATCHING

1. THE RETURN OF YIELD IN LIQUID FIXED INCOME

During the zero interest rate policy "ZIRP" era, investors had little realistic choice than to trade illiquidity for yield. This is no longer the case. All-in yields are compelling across core fixed income markets (Figure 3).

Private credit will continue to play a role in insurance portfolios, but some investors are increasingly asking stringent questions about transparency in the market, particularly relating to how loans are marked. We are generally seeing clients taking their "foot off the gas" when it comes to adding private deals.

As a result, clients are pivoting back to core fixed income and taking the opportunity to extend duration ahead of the upcoming rate cutting cycle. Based on historical rate cutting cycles, fixed income may still have room to gain once the Fed starts cutting rates (Figure 4).

We are also seeing clients consider allocations to esoteric structured credit given the potential for higher risk-adjusted yields versus corporates and other ABS sectors, potential capital preservation characteristics, historical resilience through market cycles and diversification benefits.

Our Head of Insurance Portfolio Management, Kerry O'Brien and our Senior Portfolio Manager Richard Talmadge, were hosted by Stewart Foley of Insurance AUM.com to discuss this in Episode 204 of the Insurance AUM podcast.

Figure 3: Illiquid fixed income is no longer the only game in town[3]

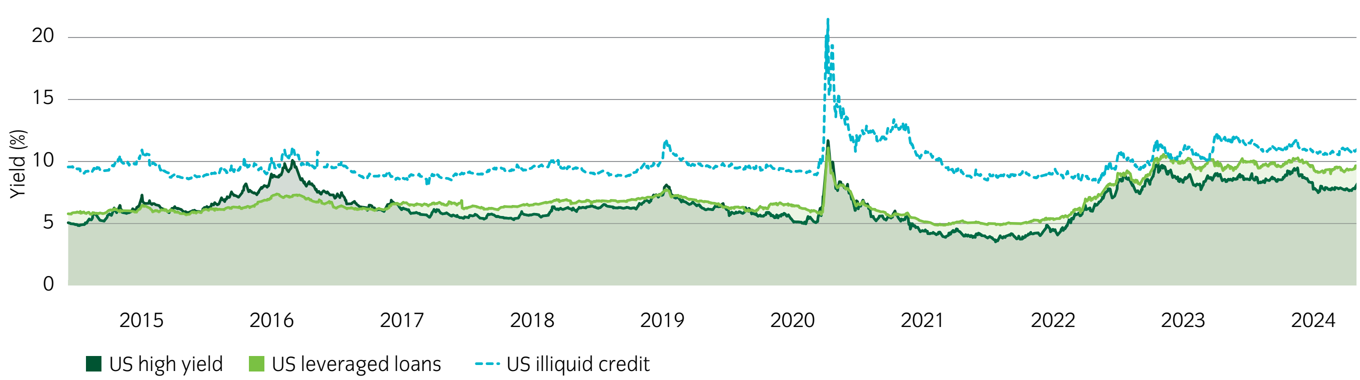
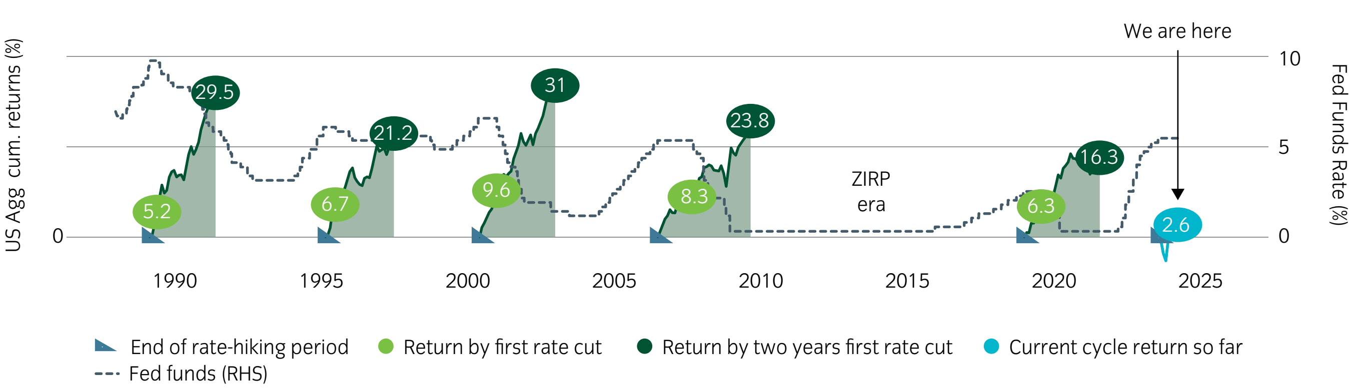


Figure 4: Is it time for insurers to add duration?[4]



[3] Bloomberg, Credit Suisse, MarketVector, Insight, April 2024.
[4] Bloomberg Aggregate Bond Index, Insight calculations, April 2024. Please see index descriptions at the back of the document.

2. PROFITABILITY CHALLENGES HAVE ALLOWED FOR AN INCREASING ACTIVE APPROACH TO REDUCING TAX-EXEMPT BONDS

P&C insurance companies have generally taken a passive approach to reducing their tax-exempt bonds since the 2017 Tax Cuts and Jobs Act. Additionally, a perfect storm of profitability challenges, stemming from rising inflation, rising reinsurance costs and rising climate-related events (Figure 5) have also made tax-exempt bonds less attractive. However, many insurers have avoided actively selling down their exposures due to concerns about crystallizing losses on the sales.

We have been working with clients to help them switch from tax-exempt municipal bonds into other instruments, chiefly taxable municipals and mortgage-backed securities. In many cases, they have been able to recoup the losses on the bonds sold through their portfolio's yield pick-up faster than expected at around six to twelve months. See more in our full paper.

3. REGULATION REMAINS A HOT-TOPIC

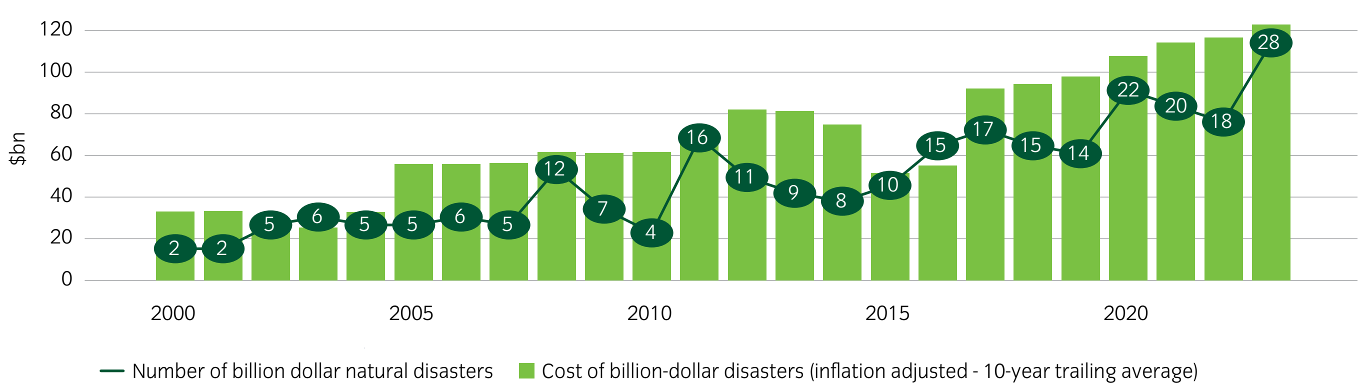
The NAIC Spring meeting took place in March with the guiding principle of "equal capital for equal risk" leading discussions as the complexity of insurers' balance sheet holdings continue to increase. There was more focus and discussion on modernizing the Securities Valuation Office (SVO), by enhancing its modelling capabilities and its framework for predicting cash flow for insurers' structured securities holdings. The NAIC's new principles-based bond definitions, to be implemented Jan 2025, would require more granular statutory reporting of investment classifications while affiliated investments will need to be reported separately in new categories in Schedule D.

The involvement of private equity (PE) in the insurance industry also continues to be a focus for the NAIC and the IMF since PE-influenced insurers have substantially larger illiquid exposures (of which private and structured credit is a key component). Greater exposure to structured and private credit worsens liquidity mismatches between assets and liabilities, which could make liquidating portfolios more challenging. This would be a particular concern amid any need to fund policy surrenders in the case that interest rates continue to rise rapidly.

Several non-PE backed insurers have told us they are looking to source external investment managers for areas such as private credit or esoteric structured credit where they lack in-house capability. Their objective is to secure better access to opportunities that their PE-backed counterparts are closer to, so they can be better placed to compete on price.

We expect some pivotal decisions from the NAIC over the course of 2024 and 2025.

Figure 5: Profitability challenges mean insurers have been revisiting their tax-efficient investments[5]



[5] NOAA, Macrobond, December 2023

ECONOMICS AND MARKETS

KEY MARKET MOVEMENTS: Q1 2024

Treasury yields rose over the quarter as markets repriced to reflect a more realistic path for interest rates. By quarter end, market pricing was broadly in line with the Feds own forecasts that interest rates would be cut by 0.75% in 2024.

An upward shift in the yield curve led to negative returns at an aggregate level for both Treasuries and corporate credit.Tighter credit spreads and higher income helped corporates to outperform Treasuries, especially at the longer end of the curve.

Lower rated credits outperformed in longer maturities, with BBB rated credit spreads outperforming AAA rated credit spreads.

High yield credit outperformed over the quarter on a total return basis as it's shorter duration limited exposure to the upward shift in yields.

Equity markets recorded very strong gains over the quarter, with the S&P 500 Index gaining over 10%. Markets continued to be dominated by the 'magnificent-7' (Alphabet, Apple, Amazon, Meta, Microsoft, Nvidia and Tesla), but breadth showed some signs of improvement towards quarter end.

The US dollar, as measured by the dollar index, rose strongly over the quarter, and rose to multi-decade highs vs the Japanese yen.

Table 1: Q1 2024 fixed income/equity index returns (%) and volatility index levels[6]

Index	Q1 2024 total return	Q1 2024 excess return
Bloomberg Treasury Index	-0.96	-
Bloomberg Intermediate Treasury Index	-0.36	-
Bloomberg Long Treasury Index	-3.26	-
Bloomberg Corporate Index	-0.40	0.89
Bloomberg Intermediate Corporate Index	0.26	0.70
Bloomberg Long Corporate Index	-1.69	1.25
BofA Merrill Lynch High Yield (H0A0)	1.51	-
S&P 500 Index	10.56	-
MSCI Emerging Markets Equity Index	2.37	-
Dollar Index	3.11	-
VIX[7]	13	-
MOVE[7]	86	-

[6] Source: Bloomberg. Data as of March 31, 2024. **Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.**
[7] VIX and MOVE are actual value at month end.

ECONOMICS

The consensus for US growth in 2024 improved in Q1, rising by 0.9% over the quarter to 2.2% as data releases continued to show the US outperforming other major economies. This pushed up the consensus forecast for developed market growth by 0.4%, despite a small decline in the forecast growth for the eurozone and Japan.

A stronger growth outlook saw forecasters anticipate stickier inflation in the US, but expectations for global inflation in both 2024 and 2025 declined.

Table 2: Consensus GDP and CPI expectations[8]

Real GDP	Consensus*			Change over Q1	
	2023	2024F	2025F	2024F	2025F
United States	2.5	2.2	1.7	0.9	0.0
Euro area	0.5	0.5	1.3	-0.1	-0.1
Japan	1.9	0.7	1.1	-0.1	0.1
China	5.2	4.6	4.3	0.1	0.0
Developed markets	1.7	1.5	1.7	0.4	0.0
Emerging markets	4.0	4.1	4.2	0.1	0.0
Global	**3.0**	**2.8**	**3.0**	**0.2**	**0.0**

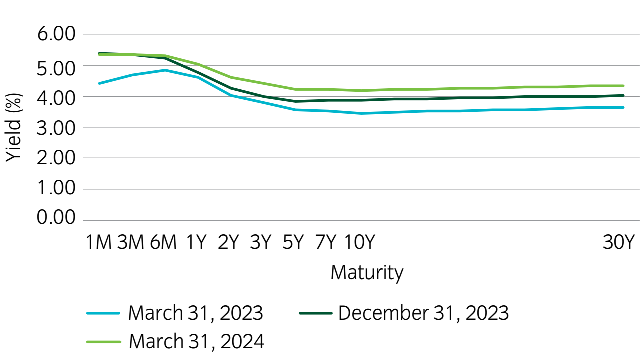
CPI	Consensus*			Change over Q1	
	2023	2024F	2025F	2024F	2025F
United States	4.1	2.9	2.4	0.3	0.1
Euro area	5.4	2.4	2.1	-0.1	0.0
Japan	5.3	2.3	1.7	0.0	0.0
China	0.2	0.8	1.7	-0.6	-0.1
Developed markets	4.7	3.9	2.9	0.1	0.1
Emerging markets	5.8	7.5	4.2	0.6	0.1
Global	**4.5**	**4.0**	**3.4**	**-0.3**	**-0.1**

TREASURY MARKETS

The yield curve shifted upward

Despite revising their growth and inflation forecasts upwards, the Federal Open Market Committee updated their 'dot-plot' forecasts of future monetary policy to indicate a median projection of three 25bp rate cuts in 2024. There was an upward shift in the forecasts of some members, however, indicating that if anything the Committee is becoming less certain that they will be able to deliver all three of these cuts. Market pricing moved to reflect a more gradual easing cycle and the yield curve shifted upwards. Two-year yields ended the quarter at 4.62%, 37bp higher. At the longer end of the curve, 30-year yields ended the quarter at 4.34%, 31bp higher.

Figure 6: Treasury yield curve change[9]



Borrowing continues to run at elevated levels

At its February 2024 presentation, the US Treasury Borrowing Advisory Committee estimated that tax receipts for Q1 of the 2024 financial year totaled $1,108 billion (+8% versus the same period in 2023). Total outlays were $1,618 billion (+12% versus the same period in 2023). Bills continued to dominate issuance.

The median forecast of Primary Dealers was for net privately held marketable borrowing of $2.467 trillion in FY2024, and $1.975 trillion in FY2025.

It was noted that dealers generally suggested that risks for higher deficits were asymmetric to the upside.

Table 3: US Treasury net marketable borrowing[10]

Market ($bn)	2022 FY	2023 FY	2024 Q1	Yr/Yr change
Bills issuance	-70	1,616	415	2,051
Floating rate issuance	47	-50	-4	-60
2-5yr Treasury issuance	334	-243	-78	-546
5-10yr Treasury issuance	791	269	107	-199
Over 10yr Treasury issuance	527	373	108	-84
5-10yr TIPS	22	15	57	-9
Over 10yr TIPS	20	20	0	0
Buybacks	0	0	0	0
Total	**1,670**	**1,998**	**605**	**1,154**

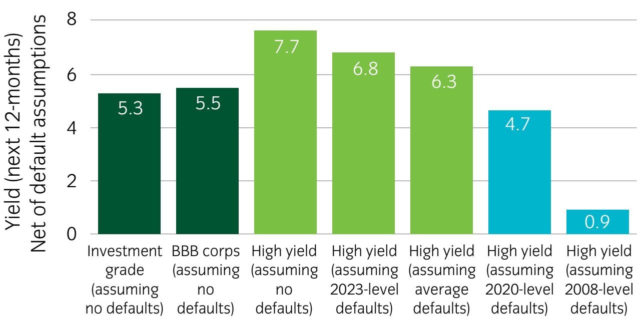
[8] Source: Insight and Bloomberg. Data as of March 31, 2024. F=Forecast. * Bloomberg consensus forecast.
[9] Source: Bloomberg as of March 31, 2024. **Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.**
[10] Source: Insight and US Treasury. Data as of February 29, 2024. Yr/Yr change is Feb 29, 2024 versus Feb 28, 2023.

A soft landing should support risk assets

If the US economy avoids recession and the Fed starts to ease in a soft-landing scenario, then this should be a supportive environment for risk assets, with high yield credit likely a key beneficiary of that. Although spreads have tightened, absolute yields remain high relative to recent history, even when adjusted for defaults.

By our calculations, the historical default rate for high yield has been 2.5% pa on average since 2005, and the historical recovery rate 46%[11]. If we project average default losses into the next 12 months, it implies that the yield on high yield bonds (currently 7.7% pa) would fall to ~6.3% net of defaults. This is still a fair bit higher than the yields on BBB and investment grade credit indices (Figure 7).

Figure 7: Credit spreads offer ample compensation for default risks in our view[12]



Defaults would potentially need to fall to levels previously only seen in deep recessions, such as 2020 or 2008, for the net realized yield to slip below investment grade levels over the next 12 months. However, we see a shallow recession as unlikely (and a deep one as highly unlikely). We project the economy will deliver a "soft landing", given factors such as a healthy consumer, relatively low household and corporate leverage and robust nominal GDP growth.

All-in yields appear compelling

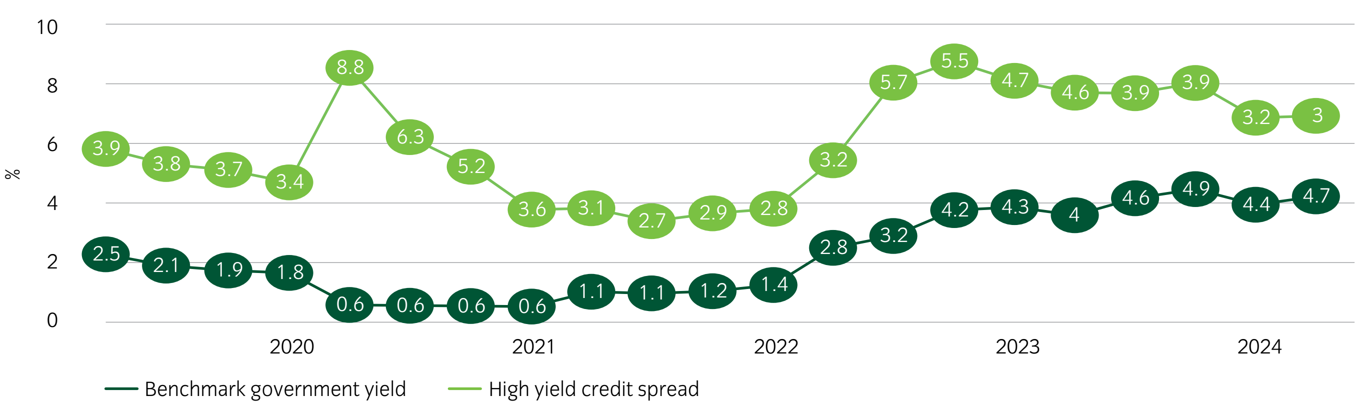
All-in yields in high yield are still close to their post-pandemic highs, even if spreads are historically tight.

When the Federal Reserve instituted a "zero interest rate policy" (ZIRP), credit spreads often accounted for 80% to 90% of all-in-yields. In today's higher interest rate world, spreads account for ~40% of yields.

This is a healthier balance in our view, as spreads and yields tend to move counter to each other, providing a mutual stability buffer. When spreads widen, government bond yields tend to fall (as central banks often act to ease financial conditions to reduce economic stress). When interest rates rise, spreads have often tightened historically, as rising rates often reflect economic strength.

Those waiting for spreads to widen may find that, even it occurs, falling government yields may blunt the impact on all-in yields.

Figure 8: All-in yields remain compelling in our view[13]



[11] Bloomberg US Corporate High Yield Index, Insight calculations, March 2024
[12] Bloomberg US Corporate Investment Grade Index, Bloomberg US Corporate BBB Index, Bloomberg Corporate High Yield Index, Insight calculations, March 2024. **Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations. Please see index descriptions at the back of the document.**
[13] Bloomberg US Corporate High Yield Index, Insight, March 2024. **Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.**

Corporate profits expected to grow at higher-than-average rate in 2024

Data from Factset[14] showed analysts expect Q1 earnings for the S&P 500 Index to grow by 3.6% year-on-year, with revenues expected to grow by 3.5%. Earnings grew by an estimated 5.8% in 2023 and are expected to grow by 11% in 2024. The ten-year average growth rate is 8.4%. At the end of March 2024, 264 companies had issued guidance for their current fiscal year, and of those 53% had guided earnings expectations downwards.

Credit market performance

Credit spreads tightened in Q1, with aggregate US corporate spreads ending the quarter 9bp tighter than where they began. The intermediate section of the credit curve marginally outperformed on a spread basis, with spreads tightening by 9bp versus a 8bp tightening in spreads at longer maturities. BBB credit outperformed other rating categories on a spread basis at the longer end of the curve

Table 4: Average spread (bp) of corporate bonds[15]

Bloomberg Index	Mar 31, 2023	Dec 31, 2023	Mar 31, 2024	Change QTD	Weight (%)
Corporate	138	99	90	-9	100%
Intermediate	127	90	81	-9	65.7%
Long	160	116	108	-8	34.3%
– Long AAA	76	51	45	-5	
– Long AA	102	70	64	-6	
– Long A	127	92	86	-6	
– Long BBB	193	145	135	-10	

Issuance breakdown

Investment grade issuance rose significantly in Q1, running well above the levels seen in Q1 2023 as corporates took advantage of strong demand to return to markets. In high yield, gross issuance in the first quarter reached $83bn, not far from the level reached in the whole of 2022.

Table 5: Gross new US bond issuance in $bn[16]

Market	2022 total	2023 total	Q1 2024 total	Yr/Yr change (%)
US investment grade	1,404	1,451	658	14.3%
US high yield	102	176	83	125.4%

In high yield, $9bn of issuance was upgraded to investment grade (rising stars) over the quarter and $4bn of issuance was downgraded from investment grade to high yield. $38bn was called or dropped below 12mths and there were $3bn of defaults.

Table 6: High yield issuance breakdown in $bn[17]

Market	2023	Q1 2024
Downgraded to high yield	24	4
Called or falling below 12mths	121	38
Upgraded to investment grade	114	9
Defaults	9	3

[14] https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_032824.pdf
[15] Source: Insight and Bloomberg. Data as of March 31, 2024. **Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.**
[16] Source: Barclays research. Data as of March 31, 2024.
[17] Source: Barclays research. Data as of March 31, 2024.

MARKET OUTLOOK

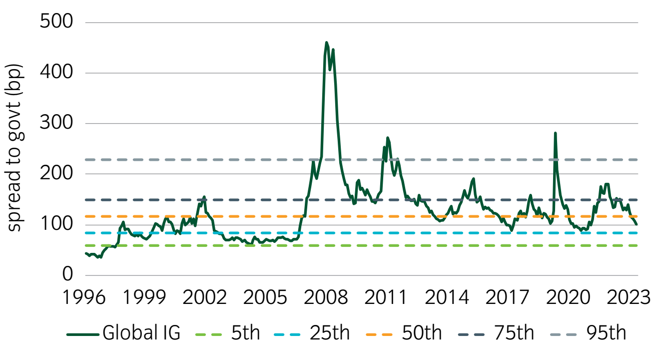
VALUE IS IN THE EYE OF THE BEHOLDER

When we consider the environment for global credit, we are faced with below-trend, yet potentially accelerating growth, above-target, but declining inflation and very tight, but soon to be easing, monetary policy. That represents a shift from a challenging for risk assets to one that is far more constructive.

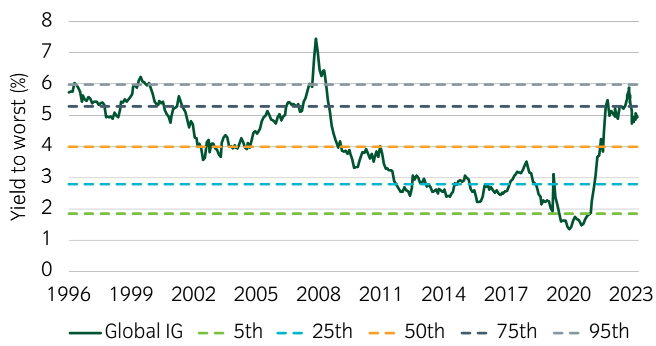
As we can see in Figure 9, spreads are no longer cheap, and have returned to long-run average levels, but value is very much in the eye of the beholder as the absolute level of yields shows a very different picture. Yields have risen dramatically over recent years, and the amount of risk that investors need to take to generate target returns has fallen substantially.

Figure 9: Spreads have tightened but absolute yields remain high relative to recent history[18]

Global investment grade spreads (bp)[19]

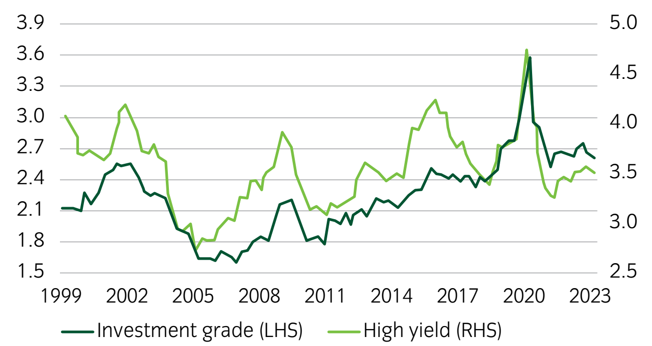


Global investment grade yields (%)[20]



To explain why spreads have tightended, we need to look at both fundamental and technical factors. On the fundamental side, corporate balance sheets are in good shape. As we illustrate in Figure 10, the leverage ratios for both investment grade and high yield issuers are at healthy levels, and a similar story can be seen across a range of credit metrics. Technically, demand for credit has been strong, driven by the level of yields and perceptions that rates have peaked. Domestic demand is being bouyed by overseas investors, with Treasury International Capital (TIC) data showing foreign investors buying $22.8bn of corporate bonds in December 2023, and a further $9.8bn in January[21].

Figure 10: Leverage ratios for US non-financial corporations[22]



[18] Source: Insight and Bloomberg as of March 31, 2024. **Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.**

[19] Based on Bloomberg Global Aggregate Corporate Index (G0BC).

[20] Based on Global IG s represented by the ICE BAML Global Credit Index (LGCPTRUU).

[21] Source: https://home.treasury.gov/data/treasury-international-capital-tic-system

[22] Source: FactSet, Goldman Sachs Global Investment Research as at 5 January 2024. Leverage ratio = total debt / earnings before interest, taxes, depreciation and amortization (EBITDA).

Investment grade credit: With the FOMC raising its 2024 growth forecasts from 1.4% to 2.1%, but maintaining its expectation that policy can be eased, the risk of a US recession appears to be receding. A soft-landing scenario should be a supportive environment for corporate profits and, although spreads have tightened to reflect a more benign outlook, the absolute level of yields has drifted higher since the start of the year. This creates a more attractive entry point from an income or liability matching viewpoint, but the prospects for further spread tightening would appear limited in our view. Dispersion amongst issuers remains elevated however, providing opportunities for careful credit selection in more active strategies. We will also be carefully monitoring new issuance, as a more stable backdrop for yields should see issuance volumes continue to pick up through the year. With new issues commonly offering spreads in excess of market levels, we believe this could provide opportunities to add value even in an environment where spreads are tight relative to history. Cross market opportunities also remain, and we believe there is greater value in European markets.

High yield credit: A combination of resilient growth, better than expected earnings, elevated yields, and rapidly improving capital market access underpinned the asset class in the first quarter, helping drive spreads tighter. This led to a significant increase in refinancing activity as issuers looked to take advantage of the increased demand to extend their capital structures, prefinancing 2025 and even 2026 maturities. This is providing opportunities to lock in issues with higher coupons. Defaults continue to run below long-term average levels and we believe there is little reason for this to change in 2024. Where defaults are occurring, they are normally well flagged and concentrated in CCC-rated credits, meaning that sensible security selection provides ample opportunity to avoid those names. We believe the attractive absolute level of yields should keep demand elevated, which combined with a benign default environment should underpin spreads over the rest of the year, allowing the asset class to generate attractive income driven returns.

Structured credit: Resilient growth, still tight labor markets and an expectation of lower interest rates ahead provided a strong backdrop for structured credit markets into the start of the year, and there seems little reason to believe that will change in the months ahead. Issuers took advantage of robust levels of demand to return to markets in size, and issuance in the first two months of the year was around 50% higher than the same period in 2023. Despite the surge in issuance many issues have been oversubscribed, particularly mezzanine tranches. Spreads have tightened from their highs but the premium available in structured credit remains elevated relative to history and this is underpinning high income driven returns from the asset class. We continue to favor issues with seniority in the capital structure and robust transaction structures that divert cashflow in the event of underperformance, and strong underwriting and servicing policies, all of which should act to insulate investors if the economy weakens.

Municipal bonds: The shift in rhetoric at the Fed, from projecting rate hikes to rate cuts, is broadly supportive for fixed income markets and municipal bond markets have benefited from this, with inflows starting to return. At least in the short-term this is likely to be met by an increase in issuance, with some issuers preferring to issue early in an election year. Most state and local governments are in a strong position given successful efforts at building up reserve funds in recent years. In addition, local governments could benefit if there is further strength in the residential property market. We continue to have a bias towards revenue bonds issued to fund essential services over state and local general obligation issues which rely on more cyclical sources of tax revenue. We also see opportunities in sectors that continue to recover from the impact of the pandemic such as issues financing airports and toll roads. Idiosyncratic buying opportunities across all sectors as well as quality ranges mean there continues to be ample opportunity to add value via stock selection. Given the rates outlook we have become more comfortable taking longer-duration purchases, as we believe maturities beyond 10-years should offer a favorable income and return profile in a falling rate environment.

Increased volatility as markets accept the end of the era of low rates

We believe that the neutral rate of interest, the level of real interest rates at which central bank policy is neither stimulating or restricting growth, has shifted upwards. If correct, this means central banks will likely be operating in higher policy ranges in the years ahead. Although bond markets have moved to reflect a more realistic path for interest rates in the short-term, it is unclear if broader asset markets have fully priced in the end of the era of low rates.

Conflict in Europe could escalate with unexpected consequences

Tensions between Russia and the West have reached levels not seen since the Cold War and with Ukrainian forces failing to make progress there is a risk that the conflict escalates in its final period. This could stem from the exhaustion facing both sides and a desperate attempt to change the status quo, or as a result of threats to seize Russian central bank assets, which could provoke an unexpected reaction. Although the conflict appears in a stalemate, the risks are perhaps more elevated than ever.

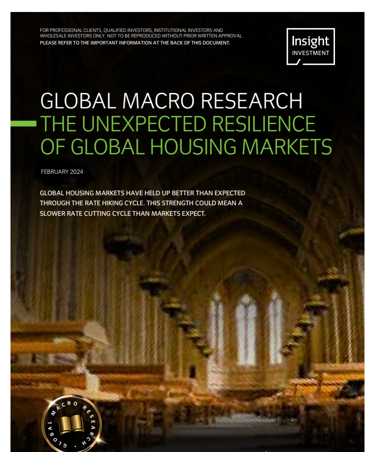
Worldwide geopolitical risks are elevated

Although the China/US standoff remains a key source of global tension, and Taiwan remains a potential flashpoint, other areas of concern are growing. The risk of a regional conflict in the Middle East is meaningful, and attacks on commercial shipping routes in the Red Sea demonstrate the potential for supply chain disruptions that could result. In Latin America, military exercises by Venezuela on its border with Guyana has resulted in the deployment of a British warship to the region.

GLOBAL MACRO RESEARCH
THE UNEXPECTED RESILIENCE OF GLOBAL HOUSING MARKETS

- The global hiking cycle has had less of an impact on global housing markets than many would have expected.
- However, some economies have held up better than others, particularly those with a higher share of fixed-rate and longer-term mortgages.
- Nonetheless, housing affordability remains challenged in a number of markets, so there may be a risk of some markets not coming out of the rate cycle entirely unscathed.
- To the extent strength in the global housing market continues, it bodes well for consumer strength and the economy's resilience against the global rate hiking cycle.
- However, there is a risk that it causes central banks to delay or slow down their rate-cutting plans over the next few years, particularly in markets where housing strength has been particularly pronounced like the US.

FURTHER READING



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Paper can be found at: https://www.insightinvestment.com/united-states/perspectives/global-macro-research-hub/GMR-hub/the-unexpected-resilience-of-global-housing-markets/

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The ICE BofA US Corporate Index measures market performance of USD-denominated investment grade corporate debt publicly issued in the U.S. domestic market.

The ICE BofA 15-Year+ US Corporate Index measures market performance of USD-denominated investment grade corporate debt publicly issued in the US domestic market with a remaining term to maturity above 15-years.

The Bloomberg Industrial Aaa Corporate Index measures market performance of USD-denominated investment grade corporate debt publicly issued in the U.S. domestic market with a Aaa rating from Moody's.

The Bloomberg Industrial Aa Corporate Index measures market performance of USD-denominated investment grade industrial corporate debt publicly issued in the U.S. domestic market with a Aa rating from Moody's.

The Bloomberg Industrial A Corporate Index measures market performance of USD-denominated investment grade industrial corporate debt publicly issued in the U.S. domestic market with a A rating from Moody's.

The Bloomberg Industrial Baa Corporate Index measures market performance of USD-denominated investment grade industrial corporate debt publicly issued in the U.S. domestic market with a Baa rating from Moody's

The Bloomberg US Corporate Investment Grade Index measures market performance of USD-denominated investment grade industrial corporate debt publicly issued in the US domestic market.

The Bloomberg US Long Corporate Bond Index measures market performance of USD-denominated investment grade corporate debt publicly issued in the US domestic market with a remaining term to maturity above 10-years.

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The ICE BofA AA US Corporate Index measures market performance of USD-denominated investment grade corporate debt publicly issued in the US domestic market with AA ratings.

The ICE BofA A US Corporate Index measures market performance of USD-denominated investment grade corporate debt publicly issued in the US domestic market with A ratings.

The ICE BofA BBB US Corporate Index measures market performance of USD-denominated investment grade corporate debt publicly issued in the US domestic market with BBB ratings.

The ICE BofA BB US High Yield Index measures market performance of USD-denominated high yield corporate debt publicly issued in the US domestic market with BB ratings.

The ICE BofA B US High Yield Index measures market performance of USD-denominated high yield corporate debt publicly issued in the US domestic market with B ratings.

The Bloomberg US Corporate High Yield Index measures market performance of USD-denominated high yield corporate debt publicly issued in the US domestic market.

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