The NAIC Capital Markets Bureau monitors developments in the capital markets globally and analyzes heir potential impact on the investment portfolios of U.S. insurance companies. Previously published NAIC Capital Markets Special Reports are available via the Capital Markets Bureau web page and the NAIC archives (for reports published prior to 2016).

U.S. Insurers' Common Stock Exposure Declines at Year-End 2022

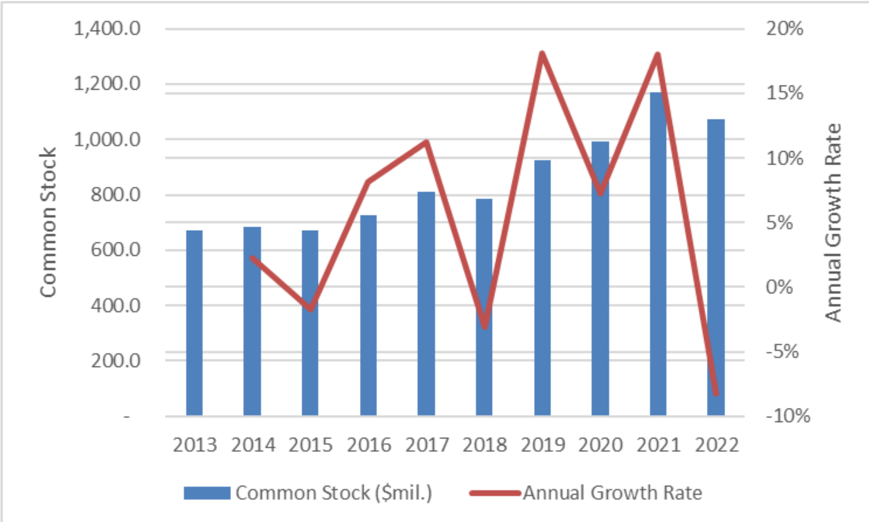
Analysts: Jennifer Johnson and Jean-Baptiste Carelus

Executive Summary

- U.S. insurers' total exposure to common stock decreased slightly to $1 trillion at year-end 2022 from about $1.2 trillion at year-end 2021.
- Due mainly to the decrease in market valuation, total common stock was about 12.5% of U.S. insurers' total cash and invested assets at year-end 2022, down from 14.6% at year-end 2021.
- Property/casualty (P/C) companies accounted for the largest exposure at 77% of the total, followed by life companies at 20%.
- Unaffiliated common stock totaled $505.8 billion in 2022, a 10% decrease from about $568 billion at year-end 2021; unaffiliated publicly traded common stock totaled $492 billion in 2022, down from $553 billion at year-end 2021.
- The NAIC Capital Markets Bureau's analysis of U.S. insurers' publicly traded common stock investments showed a market value increase by about 6% year to date (YTD) through October 2023, compared to a 9% increase for the Standard & Poor's 500 index (S&P 500) for the same time period.

The value of U.S. insurers' unaffiliated and affiliated common stock changes year over year (YOY) based in part on market valuations. Over the last few years leading up to 2021, U.S. insurers' exposure to common stock had been increasing mainly due to positive market valuations (refer to Chart 1), as evidenced by positive returns generated by several equity market indices. This was due to economic recovery that occurred once COVID-19 was no longer considered a pandemic, and businesses began to reopen. From 2021 to 2022, however, U.S. insurers' common stock valuation declined. In mid-2022, the U.S. inflation rate, as measured by the Consumer Price Index (CPI), reached a 40-year high, and geopolitical tensions resulting from the war between Russia and Ukraine, as well as tensions between the U.S. and China, resulted in volatile financial markets. Note, however, that over the 10 years that ended in 2022, U.S. insurers' common stock exposure overall increased by 60.5%.

Chart 1: U.S. Insurers' Historical Common Stock Exposure, 2013-2022 (BACV $ in Millions)



At year-end 2022, U.S. insurers' total common stock exposure totaled approximately $1.0 trillion in book/adjusted carrying value (BACV), down about 8% from almost $1.2 trillion at year-end 2021. Total common stock accounted for 12.5% of U.S. insurers' total cash and invested assets at year-end 2022, down from 14.6% at year-end 2021. Property/casualty (P/C) companies held the largest proportion, or 77% of the total (refer to Table 1), compared to 76% at year-end 2021. Life companies followed with 20% of total common stocks.

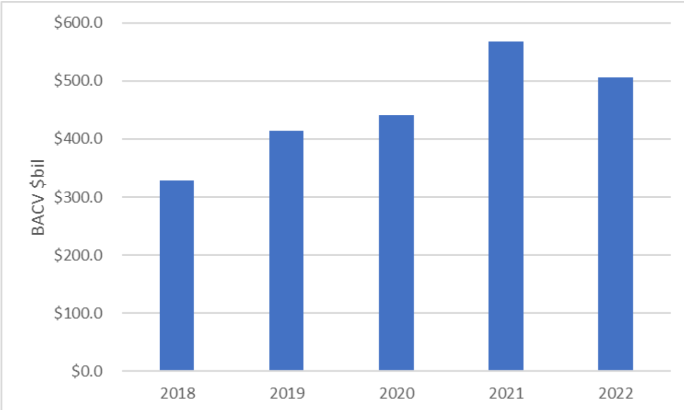
Table 1: U.S. Insurers' Common Stock Exposure by Industry Type, Year-End 2022 (BACV $ in Billions)

	Life	P/C	Title	Health	Total	Pct of Total
Unaffiliated	36.1	460.0	1.1	8.6	505.8	50%
Affiliated	165.6	328.1	1.5	20.4	515.7	50%
Total	**201.7**	**788.2**	**2.6**	**29.0**	**1,021.5**	100%
Pct of Total	20%	77%	0%	3%	100%	

Unaffiliated Common Stock Represents Half of Total Common Stock

The split between unaffiliated and affiliated stock within U.S. insurers' overall common stock exposure was relatively even with each at 50% of the total. In terms of BACV, unaffiliated common stock was $505.8 billion at year-end 2022, compared to $567.8 billion at year-end 2021. (Refer to Chart 2.) This represents an 11% YOY decrease, which was smaller than the S&P 500 decline of 18% for the full year of 2022. Note that a decrease in U.S. insurer exposure that is smaller than an equity market decrease would suggest that the insurers' equity performed better than the market and, in turn, net added to their exposure and vice versa. In addition, one insurer accounted for 37% of U.S. insurers' exposure to unaffiliated common stock at year-end 2022, and 13 insurers accounted for 75% of the total.

Chart 2: U.S. Insurers' Unaffiliated Common Stock, 2018–2022



Unaffiliated publicly traded common stock totaled $492.5 billion at year-end 2022, compared to $553 billion at year-end 2021. About 93% was held by property/casualty (P/C) companies, followed by 6% with life companies. In addition, 80% of unaffiliated publicly traded common stock was held by large P/C companies or those with more than $10 billion in assets under management compared to 83% in 2021. (Refer to Table 2.)

Table 2: Unaffiliated Publicly Traded Common Stock, Year-End 2022 (BACV $ in Millions)

Assets Under Management	Life	P/C	Title	Health	Total	% of Total
Less Than $250M	0.4	4.0	0.1	0.4	5.0	1%
Between $250M and $500M	0.4	4.7	-	0.8	5.9	1%
Between $500M and $1.0B	0.2	6.3	0.1	0.8	7.5	2%
Between $1.0B and $2.5B	0.7	17.4	0.9	2.6	21.6	4%
Between $2.5B and $5.0B	0.7	24.7	-	1.9	27.3	6%
Between $5.0B and $10.0B	1.2	7.0	-	1.5	9.7	2%
Greater Than $10B	23.6	391.9	-	0.1	415.6	84%
Total	**27.3**	**456.0**	**1.1**	**8.1**	**492.5**	**100%**
% of Total	6%	93%	0%	2%	100%	

Note: Numbers are rounded.

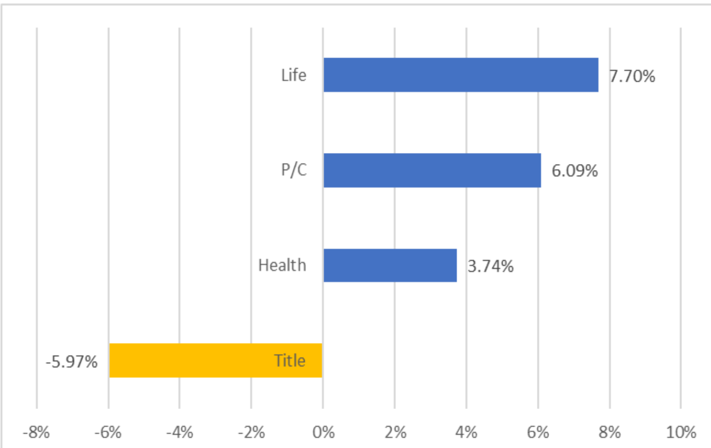
Market Value Analysis of U.S. Insurer Exposure to Unaffiliated Common Stock

The NAIC Capital Markets Bureau completes a monthly year-to-date (YTD) market value analysis of U.S. insurers' unaffiliated publicly traded common stock exposure utilizing third-party stock market data.[1] As of October 2023, the most recent market analysis included a BACV of $485.7 billion or 99% of the industry's $492.5 billion in publicly traded common stock at year-end 2022. The analysis showed that YTD through October 2023, the market value increased by 6.09%, compared to an increase of 9.23% for

[1] More detailed information regarding the market value analysis of U.S. insurers' common stock exposure may be found on StateNet for REGULATORS ONLY.

the Standard & Poor's 500 index (S&P 500) for the same time period. By insurer type, life companies' investments in publicly traded common stock experienced the largest increase in market value at 7.7%, followed by P/C companies at 6%. Title companies were the only insurer type to experience a decrease in market value at -5.97% through October 2023. However, their total exposure to unaffiliated publicly traded common stock was less than 1% of the industry's total common stock exposure. (Refer to Chart 3.)

Chart 3: Performance of U.S. Insurer Unaffiliated Publicly Traded Common Stocks by Insurer Type, YTD October 2023



Global Equity Market Trends

Global equity markets, as well as other financial markets, were volatile in 2022. The MSCI World Index, a benchmark for the global stock market, experienced a decline of 13% in 2022, but YTD through early November 2023, it rebounded and returned about 14%. In 2022, global markets were impacted by various economic events, including geopolitical turmoil and rising interest rates by central banks worldwide. As measured by the CPI, inflation in the U.S. reached a 40-year high of 8.5% in March 2022, which was later surpassed by a rate of 9.1% in June, due in part to a tight labor market—evidenced by a low 3.6% unemployment rate—along with supply chain disruptions and geopolitical factors. To combat high inflation, the Federal Reserve (Fed) raised the federal funds rate 25 basis points (bps) in March 2022 for the first time since 1981. The Fed raised rates 10 consecutive times through July 2023 for a total of 525 bps, setting the federal funds target rate between 5.25% and 5.5%. As of October 2023, the inflation rate was 3.3%.

In mid-2022, the S&P 500 entered bear market territory for the first time since 2020 partially due to fears that consistently high inflation would trigger aggressive rate increases by the Fed. For the full year of 2022, the S&P 500 declined by 18%. YTD through mid-November 2023, however, the S&P 500 returned 15%, and YOY, it returned almost 18%. (Refer to Chart 4.) Current economic resilience is attributed in part to strong consumer spending along with a low unemployment rate.

Chart 4: S&P 500—YOY Return (%) as of Nov. 13, 2023

Source: The Wall Street Journal

In 2022, the S&P 500 was not the only stock index with negative returns. The STOXX Europe 600 index (STOXX 600) experienced a full year decrease of almost 13% in 2022; YTD through mid-November, however, it returned 5.4%. For the full year of 2022, the Nikkei 225 decreased by 9.4%, but YTD through mid-November, it returned about 24.8%. In addition, measuring equity market volatility, the Chicago Board Options Exchange Volatility Index (VIX) was 21.7% at year-end 2022, and as of mid-November 2023, it was 14.1%. This suggests slightly above-average volatility is expected in the equity markets in the future but nothing extreme. A VIX higher than 30 suggests that uncertainty is being priced into the equity markets, and extreme swings may occur.

Industry/Sector Impact

Six out of the 11 sectors of the S&P 500 experienced a positive YOY percent change through mid-November 2023. (Refer to Table 3.) In particular, consumer services and information technology (IT) increased by more than 50% each. The communication services sector was established in 2018 and is a diverse category, including entertainment, social media, and wireless and streaming companies, among others. The significant YOY increase may be due in part to an increase in pricing for these services, while a similar YOY increase among the IT sector—which includes artificial intelligence (AI) and cloud computing—may be due in part to increased usage from the hybrid work environment. The five sectors within the S&P 500 that experienced a negative YOY percent change were real estate, consumer staples, health care, energy, and utilities. The negative performance of energy and utilities was due partly to a drop in oil and gas prices from 2021 to 2022, as well as from general economic recessionary fears. In addition, the real estate market has been negatively impacted by rising interest rates, and in particular, office properties have been hurt by the proliferation of employees working from home. Lastly, consumer staples have been negatively affected by overly large grocery price increases since 2021.

Table 3: S&P 500's 11 Sectors as of Nov. 13, 2023

Sector	1-year
S&P 500	+17.78%
Financials	+0.17%
Real Estate	-4.47%
Consumer Discretionary	+25.03%
Information Technology	+51.21%
Industrials	+7.26%
Materials	+1.75%
Consumer Staples	-2.71%
Health Care	-3.97%
Energy	-6.14%
Communication Services	+51.80%
Utilities	-8.31%

Source: Fidelity Investments.

The NAIC Capital Markets Bureau will continue to monitor trends within the common stock market and report as deemed appropriate.

Questions and comments are always welcome. Please contact the Capital Markets Bureau at [CapitalMarkets@naic.org.](mailto:CapitalMarkets@naic.org)