

Here comes the rain again: Insurance stocks shrug and move on

Sell in May and Go Away? What's the hurricane trade?

These questions are primarily on investors' and managements' minds as (re)insurance companies go through the hurricane season. There is an urban legend that hurricane-exposed stocks sell off consistently during the hurricane season and recover post-hurricane season depending on renewal pricing expectations.

In our June [note](#), we demonstrated that it is a myth to link the stock performance linearly to the hurricane season.

A similar thesis played out in August as well. In August, the market-weighted performance of our group of P&C stocks – the Inside P&C Select – was up 5.7%, in line with life insurers at 5.7% but outperforming banks at 5.2%, as well as the S&P 500 at 2.9%

Stock reaction to Hurricane Ida has been limited thus far. Stocks were up on Friday leading up to the hurricane over the weekend and dipped modestly on Monday. Stocks ended the day showing some signs of recovery as additional details were available on the size/scope of the loss.

Our analysis shows that, unlike the popular perception, there is typically minimal stock movement following news of a natural catastrophe. Our review of nearly a dozen past events shows that insurance and reinsurance stocks don't materially sell-off with the announcement of a catastrophe event.

When the stock price does decline, it typically reverts within a week of the event.

The hurricane news ended a generally positive month for the industry, which included the end of second-quarter earnings and stable economic discussions, despite the Delta variant.

The late-August Fed meeting offered encouraging guidance to the economy, predicting a gently tapering monetary stimulus plan and suggesting that rate hikes are still some way over the horizon.

Stocks jumped at the news, with the S&P 500 and Nasdaq index both up about 1%. Treasuries gained and the yield curve steepened following the meeting but have since partially reversed in anticipation of a disappointing August employment report.

Large commercial insurers were up 9.1% in August and 11.5% QTD, reflecting the strong Q2 earnings and are largely unmoved by Hurricane Ida.

Personal lines carriers underperformed, up 2.3% in August and down -0.1% QTD (vs. S&P 500 up 2.9% MTD and 5.2% QTD).

Reinsurers were up 4.1% but did see slight declines since Hurricane Ida made landfall. Looking back, we saw a similar stock reaction to Hurricane Laura as Hurricane Ida. The reinsurers were generally up slightly in the days ahead of landfall and declined for a few days following landfall.

InsurTechs were the worst performers, down 13.8% in August. The HSCM InsurTech index showed similar trends, down 5.3% for the month. Q2 results did

Inside P&C Research

Amit Kumar

Director of Research

E: amit.kumar@insidepandc.com

T: (212) 224 3496

Ella Soltz

Research Analyst

E: ella.soltz@insidepandc.com

T: (786) 579 2463

Elliot Frumkin

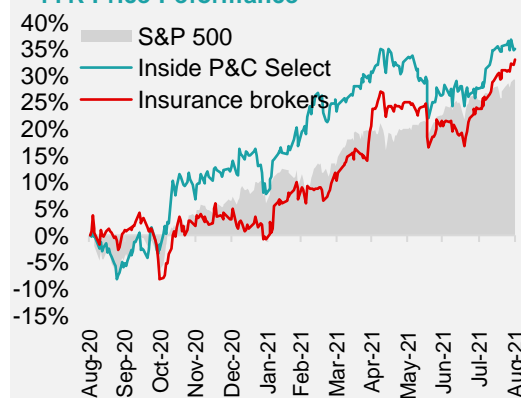
Research Associate

E: elliott.frumkin@insidepandc.com

T: (212) 224 3019

Composite	YTD px chg.	P/B
Large comm.	24.6%	1.1x
Regional	38.0%	1.7x
Specialty	24.6%	1.8x
Personal	6.0%	2.0x
Bermuda	7.8%	1.1x
Florida	14.9%	1.1x
Brokers	26.6%	-
IPC Select	18.5%	1.3x
S&P 500 Fin.	30.1%	-
S&P 500	20.4%	-

1YR Price Performance



Source: S&P Global, Inside P&C

not evidence the improvements personal lines InsurTechs, including [Lemonade](#), Metromile, [Root](#), and [Hippo](#), had hoped to show to investors and stakeholders.

Inside P&C Select performance by peer groups

Source: SNL, Inside P&C

	August	YTD	1 year	3 years
S&P 500 Index	2.9%	20.4%	29.2%	55.9%
S&P 500 Asset Management	7.9%	33.9%	57.2%	46.5%
S&P 500 Banks	5.2%	29.9%	62.8%	17.3%
S&P 500 Life & Health	5.7%	29.7%	56.6%	16.6%
S&P 500 Financials	5.0%	29.9%	53.4%	35.8%
S&P 500 P&C	5.4%	14.8%	32.5%	34.1%
Insurtech*	-13.8%	NA	NA	NA
Insurance brokers*	7.3%	26.6%	32.9%	85.1%
Inside P&C Select	5.7%	18.4%	35.1%	24.0%

*not part of Inside P&C Select

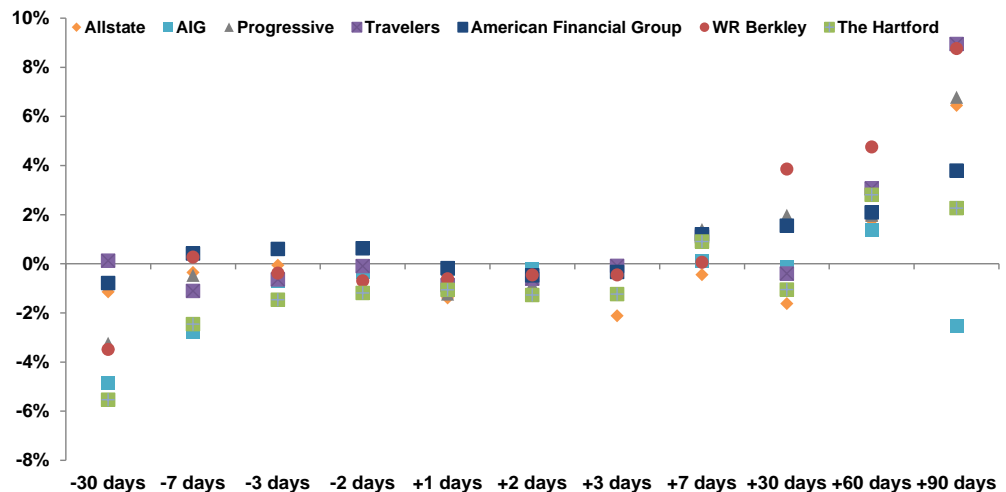
Investors undeterred by hurricane news

We looked at how selected insurers' and reinsurers' stock prices performed the days prior to and following news of a natural catastrophe.

Our analysis suggests that primary insurance carriers have seen slight declines the day following hurricane landfall, but stocks have historically reverted within a week. This analysis does not isolate the effects of the natural catastrophe, so other factors may be at play.

Median stock performance following natural catastrophe for selected insurers

Source: Factset, Inside P&C

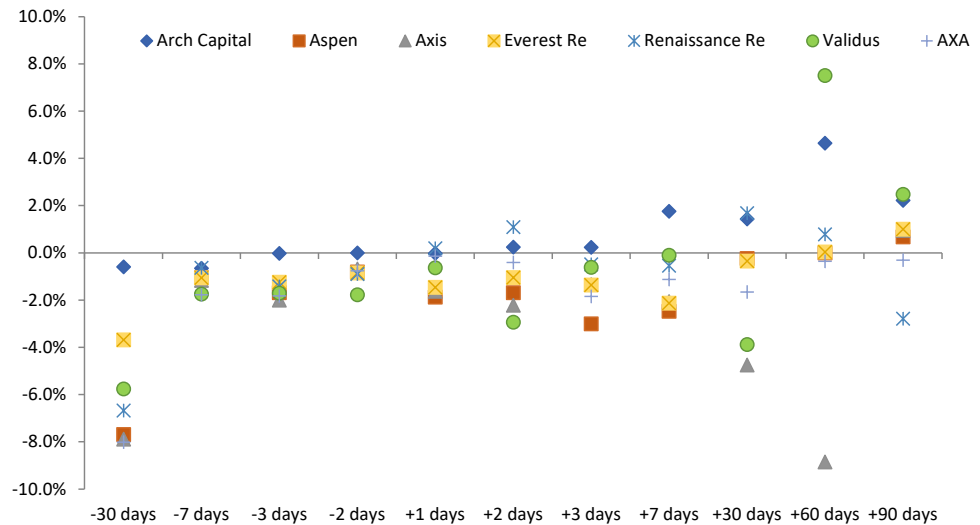


Reinsurers have historically seen more pronounced stock impacts from large catastrophes.

Hurricane Irma was a clear example of this trend, with reinsurance stocks down low single digits in the days prior to landfall and rebounding immediately at landfall (as the worst-case scenario failed to come to pass). In other catastrophes, stocks lingered a bit longer post-landfall, reverting within a week or two instead.

Median stock performance following natural catastrophe for selected reinsurers

Source: Factset, Inside P&C



Macro factors impacting insurance stocks

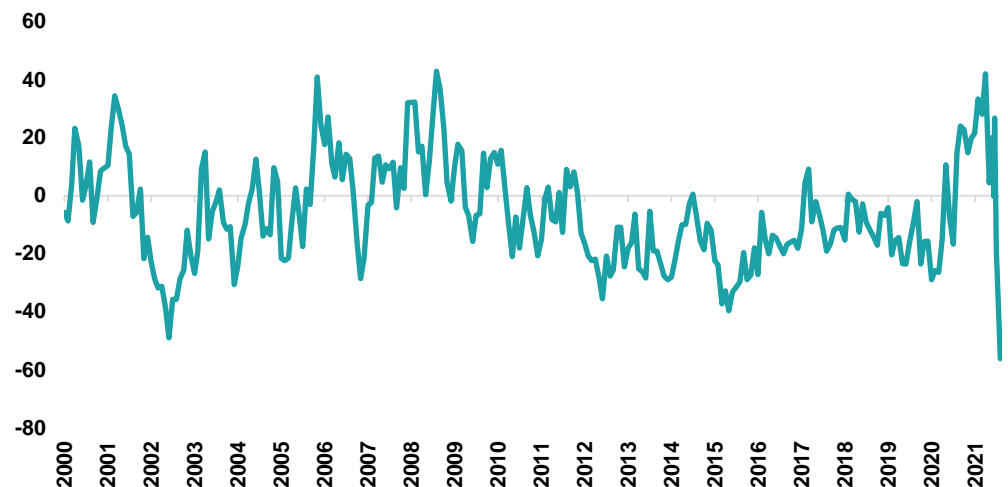
Economic drivers have served as the most significant determinates for the direction and volatility of stocks this year, as macro stories dominated the headlines.

SURPRISE INDEX REACHES RECORD LOWS

The Citi Economic Surprise Index, which tracks how economic data is coming in relative to forecasts, reverting from Covid highs.

Citi Economic Surprise Index

Source: FactSet



INFLATION EXPECTATIONS REMAIN STATIC

The 5-year breakeven inflation rate – one of the conventional gauges of inflation expectations – remained stable, rounding out the month at exactly the same 2.51% that it started with on August 2. The current rate of inflation is the highest it's been since the financial crisis of 2008.

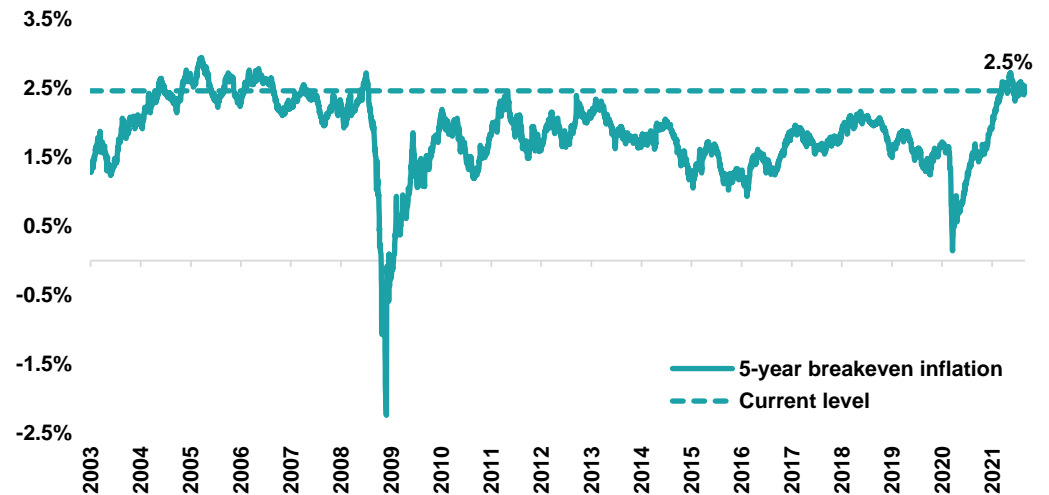
Hope that elevated inflation reflected short-term market conditions following stimulus and supply chain disruptions waned as the White House revised the Consumer Price

Index inflation rate to 4.8% for the year, more than double the previous forecast of 2.1%. This readjustment of CPI expectations indicates that inflation will be more intense and durable than initially anticipated.

Insurance CPI and long-term CPI are closely intertwined; insurance inflation typically leads reported inflation by 150-200 basis points. Adding this to the 2.5% 5-year breakeven inflation rate above will net us between 4-5% loss cost inflation.

5-year breakeven inflation rate

Source: FRED

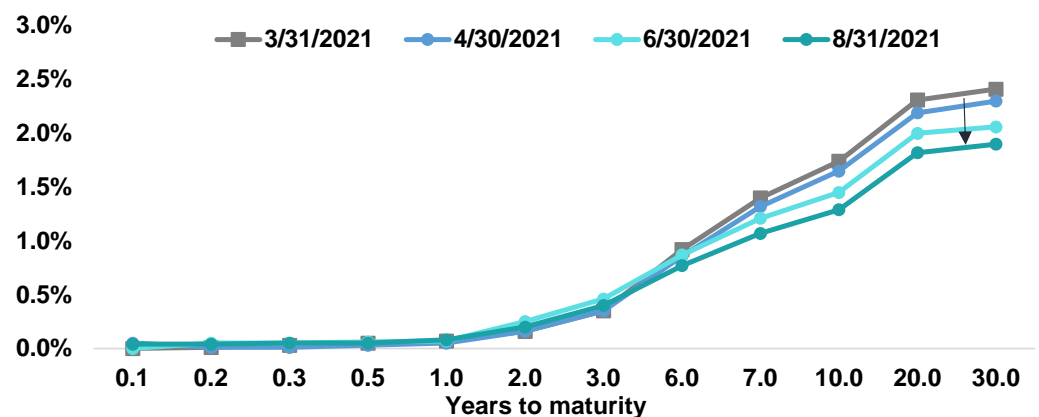


YIELD CURVE FLATTENS

The mid and long-term Treasury yields incrementally flattened in August. After seeing significant steepening earlier this year, the yield curve has flattened in June after the Fed's forecasts in mid-June moved up the time frame for the next rate hike. It further flattened after last week's Fed meeting, which broadcasted extended timelines for rate hikes and gently tapering monetary stimulus.

Treasury Yields

Source: S&P Global, Inside P&C

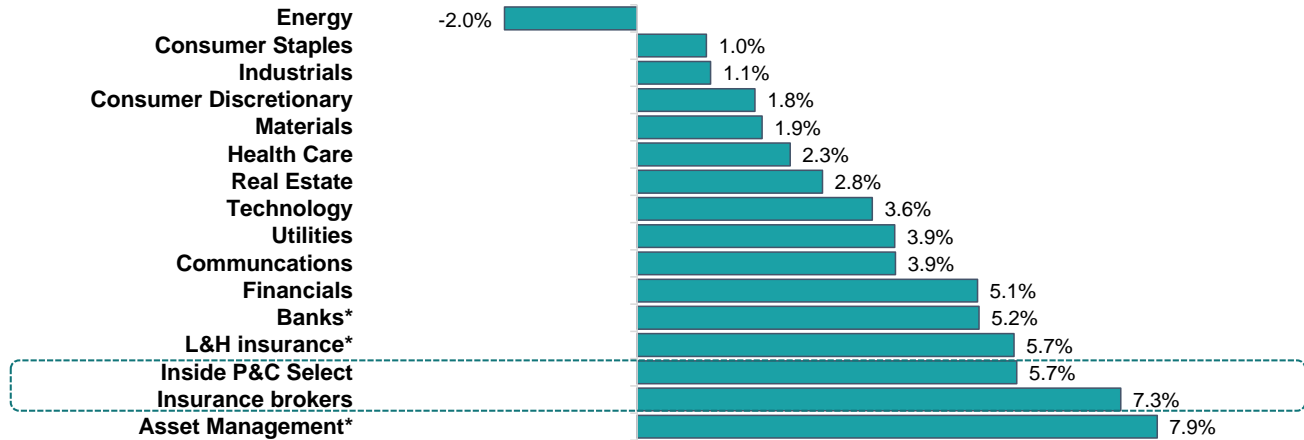


The next few pages include stock charts with the performance for individual companies, S&P 500 sectors, and P&C sub-sectors in August.

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

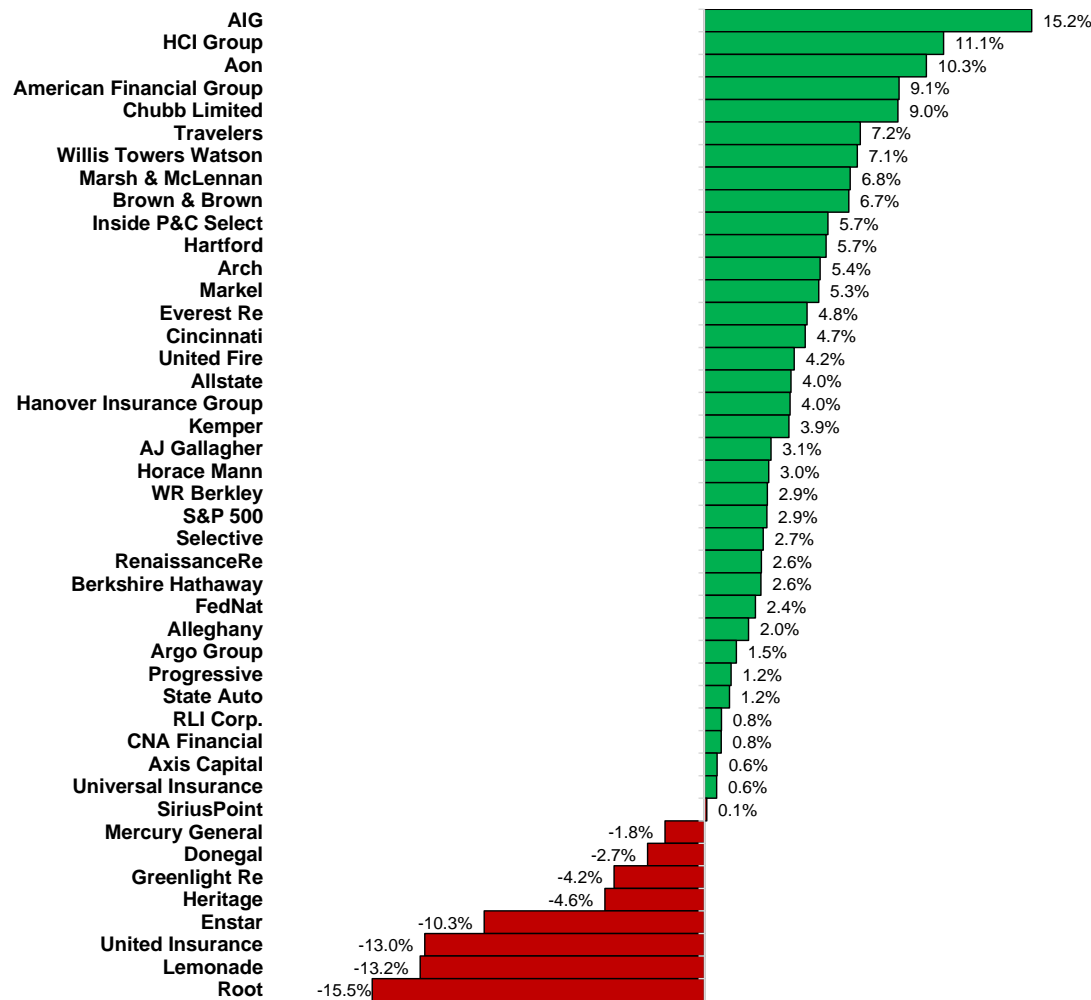
Source: FactSet, Inside P&C

Note: * denotes S&P 500 sub-sectors



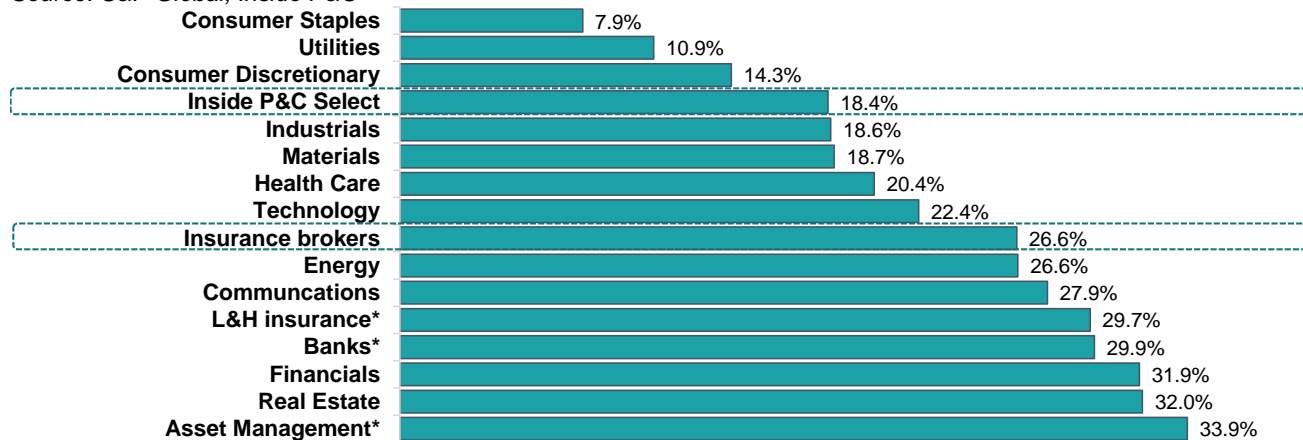
August stock performance by individual carriers

Source: SNL, Inside P&C



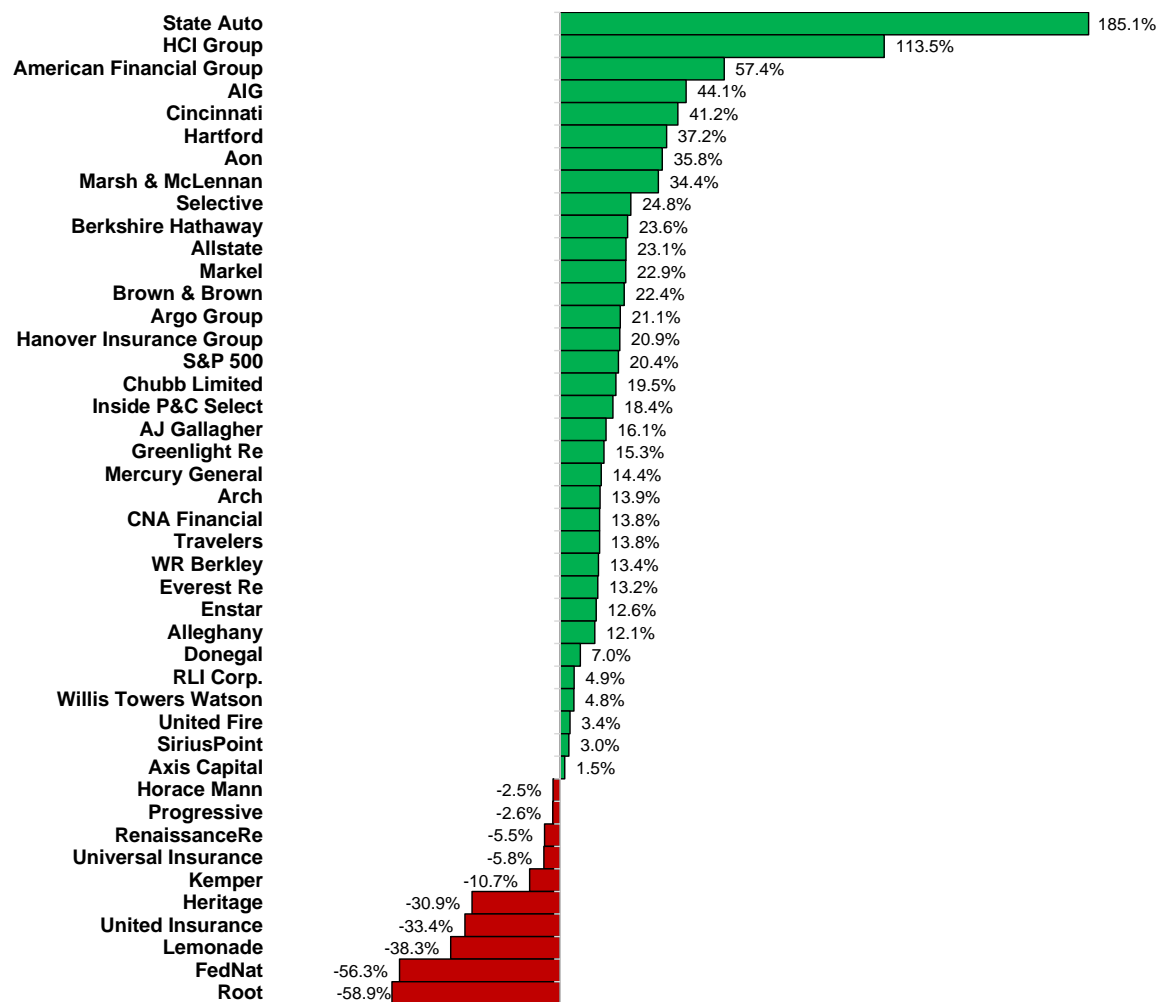
Inside P&C Select vs S&P 500 sectors' performance YTD

Source: S&P Global, Inside P&C



YTD stock performance by individual carriers

Source: S&P Global, Inside P&C



Note: Inside P&C Select includes: Chubb, AIG, Travelers, The Hartford, CNA, Progressive, Allstate, Kemper, Mercury, Horace Mann, Selective, Hanover, Donegal, Cincinnati, United Fire, State Auto, Markel, American Financial Group, W.R. Berkley, RLI, Argo, Arch Capital, Everest Re, Renaissance Re, Axis, Universal, United Insurance, HCI Group, FedNat, Alleghany, Greenlight Re, and Watford Re.

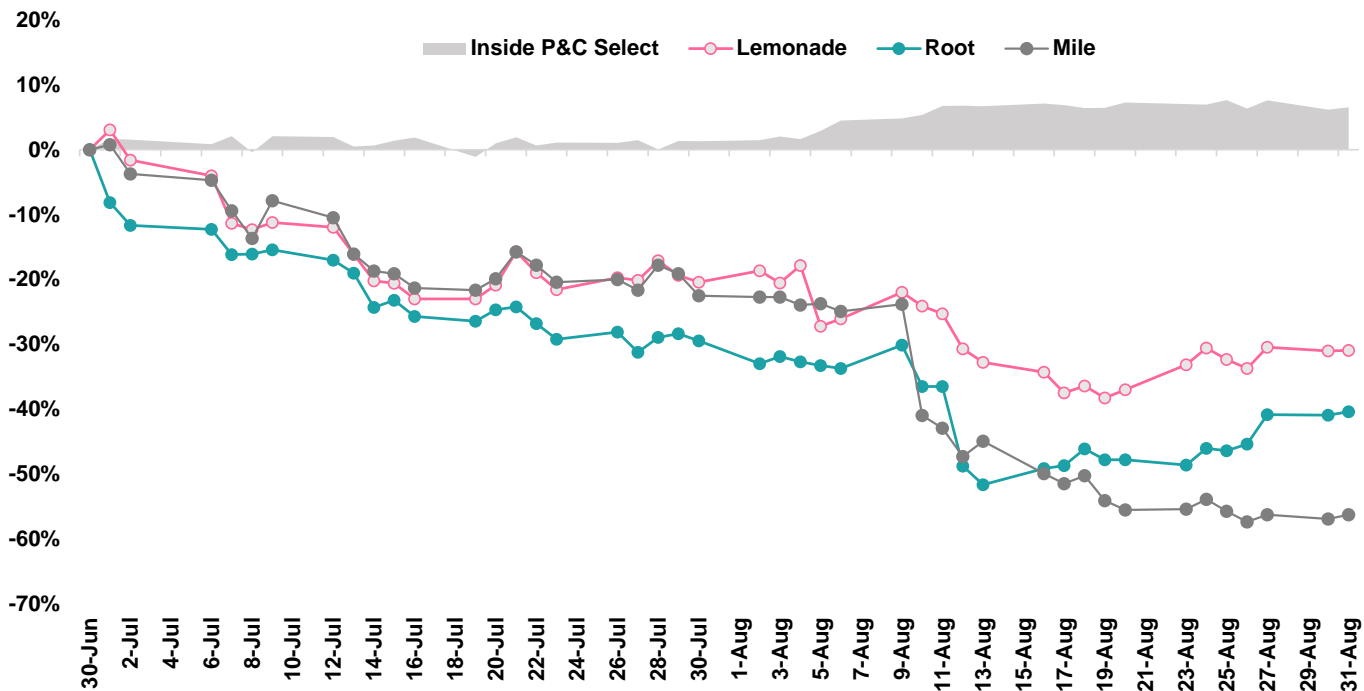
Appendix: Peer group stock performance charts

InsurTech

InsurTechs underperformed the Inside P&C Select Index in August. InsurTechs are not included in the Inside P&C Select Index. Metromile was down 43.6% in August and down 56.3% so far this year. Root and Lemonade are down 15.5% and 13.2% this past month, respectively.

Stock performance InsurTechs vs Inside P&C Select QTD

Source: SNL, Inside P&C

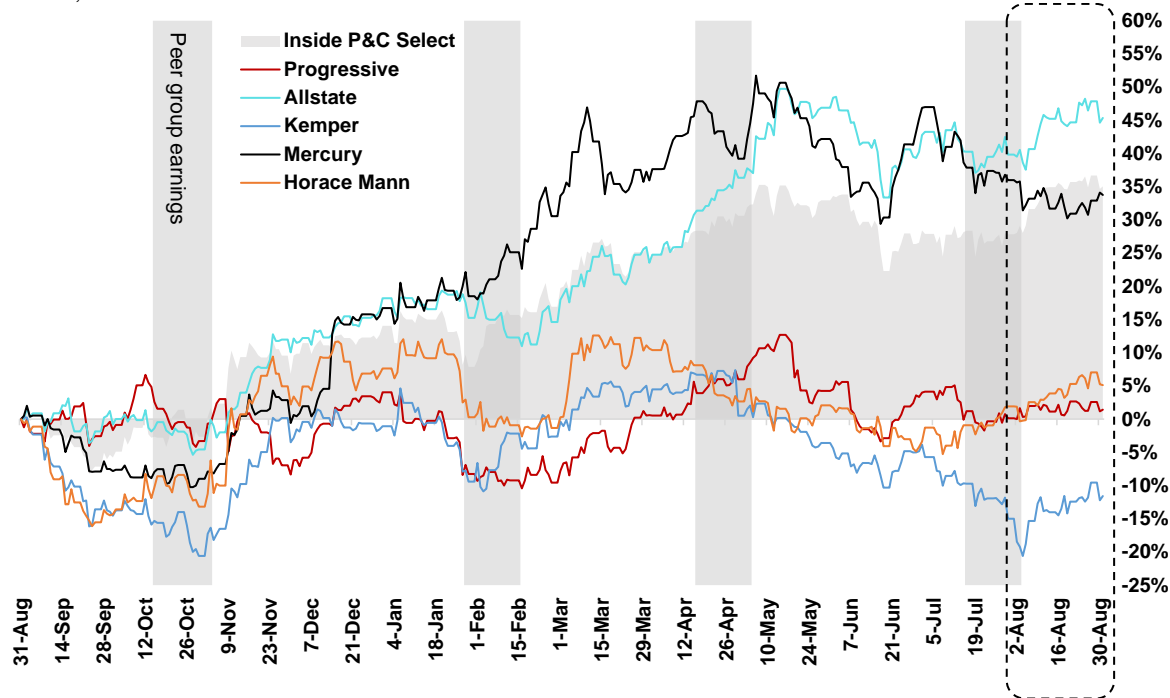


Personal lines

Personal lines were up 2.3% in August, but down -0.1% QTD, underperforming Inside P&C Select Index (up 5.7% in August and up 18.4% YTD). Allstate had a good month with 4% growth, with Kemper not far behind at 3.9%.

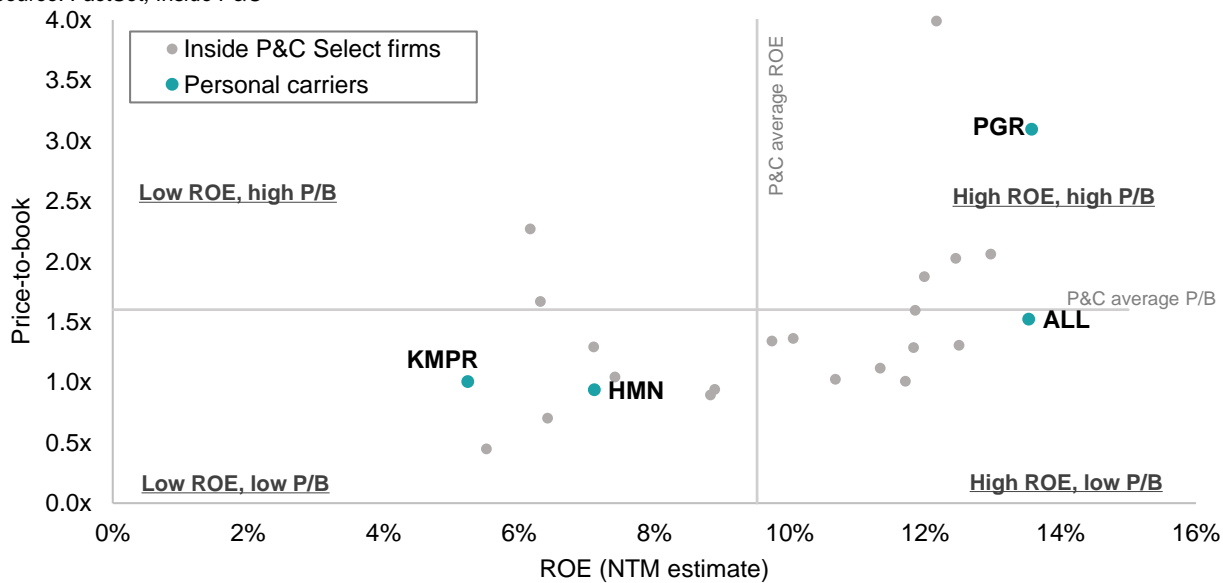
LTM stock performance for personal carriers (August performance highlighted)

Source: SNL, Inside P&C



PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

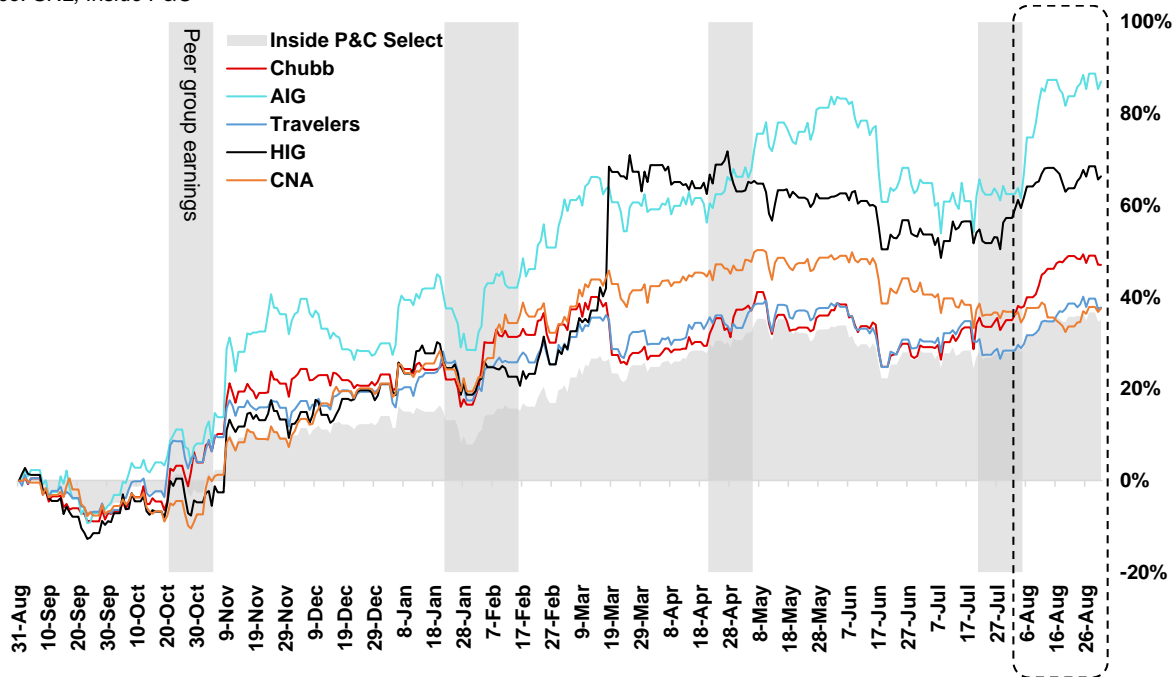


Large commercials

Large commercial carriers were up 9.1% in August and up a robust 24.6% YTD, outperforming the Inside P&C Select Index (up 5.7% this month and 18.4% this year). Standout among this sector is AIG, up 15.2% in August and 44.1% YTD.

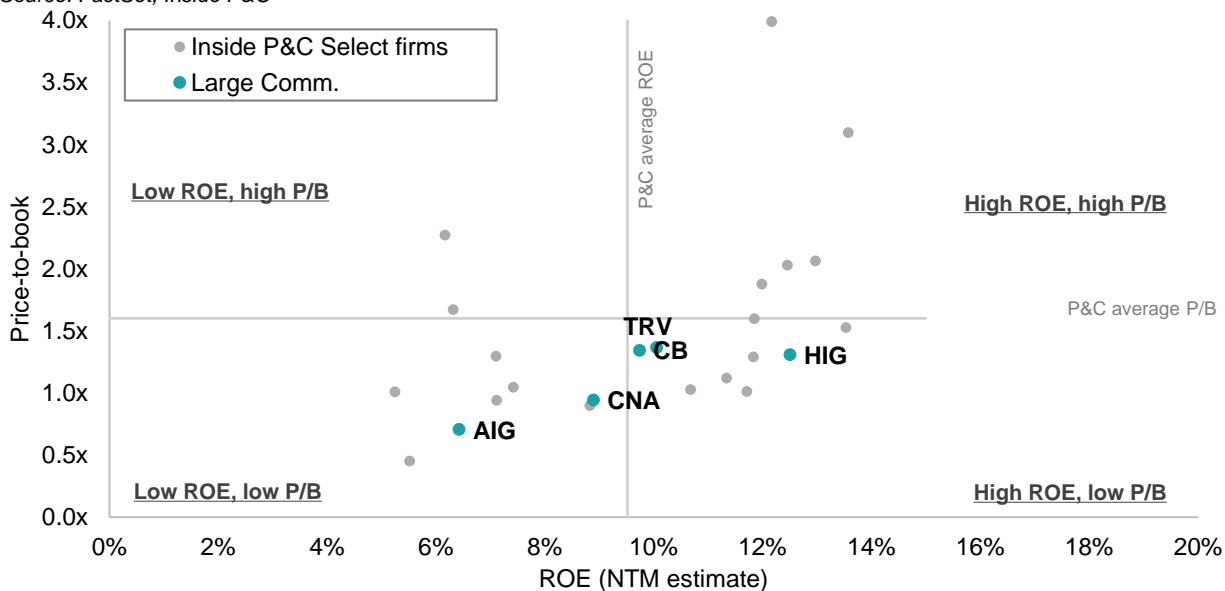
LTM stock performance for large commercial carriers (August performance highlighted)

Source: SNL, Inside P&C



PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

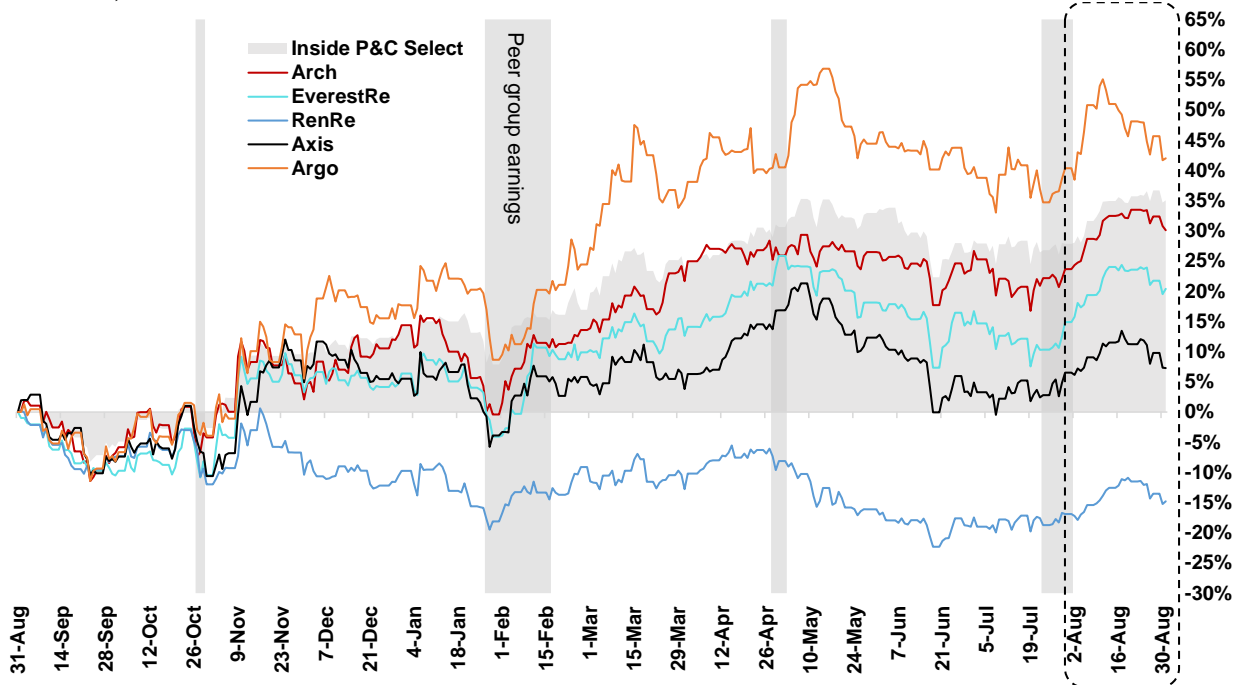


Bermuda

Bermuda carriers were up 4.1% in August and up 7.8% YTD. RenaissanceRe Holdings is the only carrier down year to date (-5.5% vs. S&P 500 +20.4%).

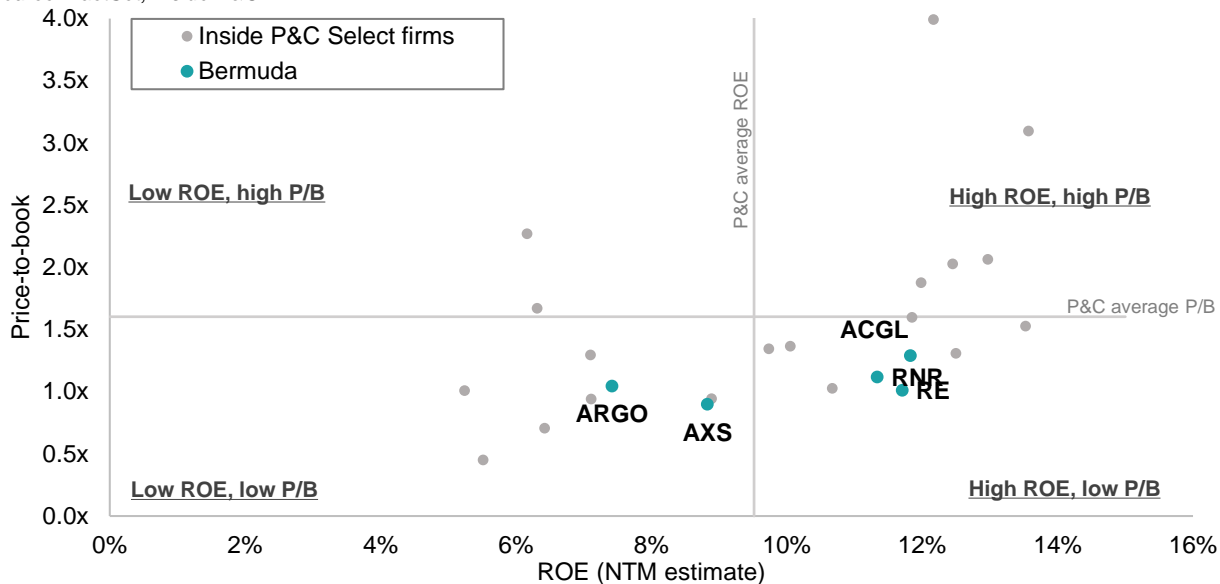
LTM stock performance for Bermuda carriers (August performance highlighted)

Source: SNL, Inside P&C



PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

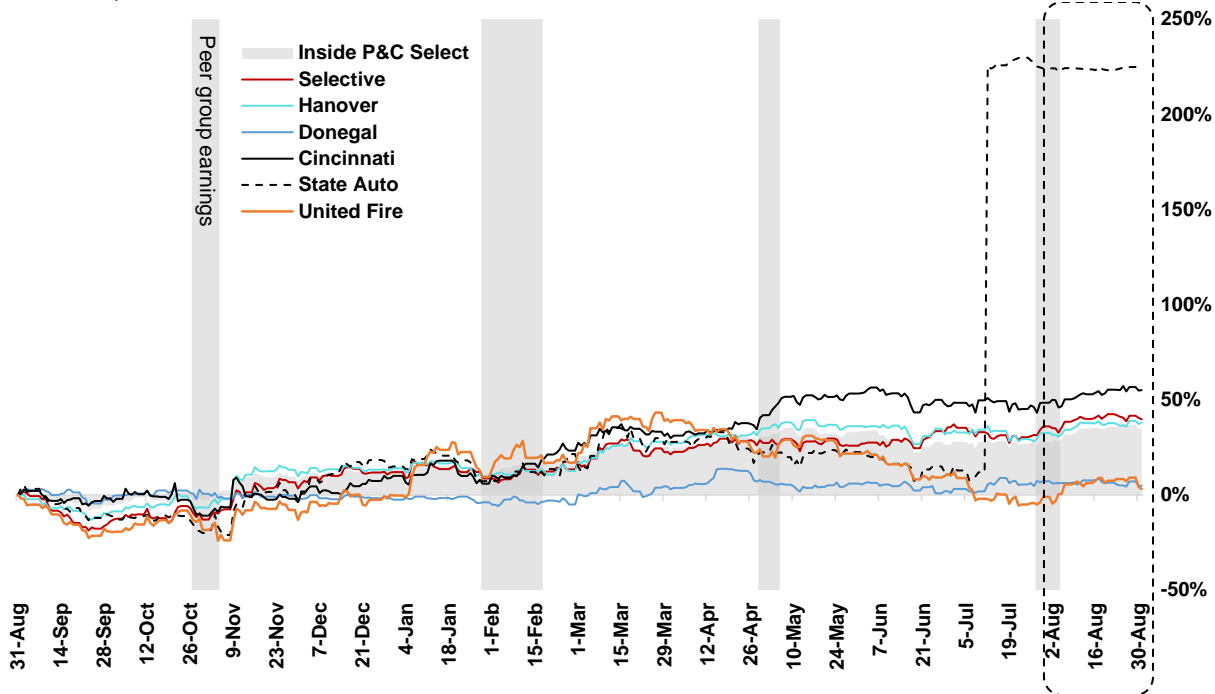


Regionals

Regional carriers were up 3.9% in August and up 38% YTD, generally in line with Inside P&C Select Index (up 5.7% in August and up 18.4% YTD). Cincinnati Financial Corporation saw the best performance in August, up 4.7%.

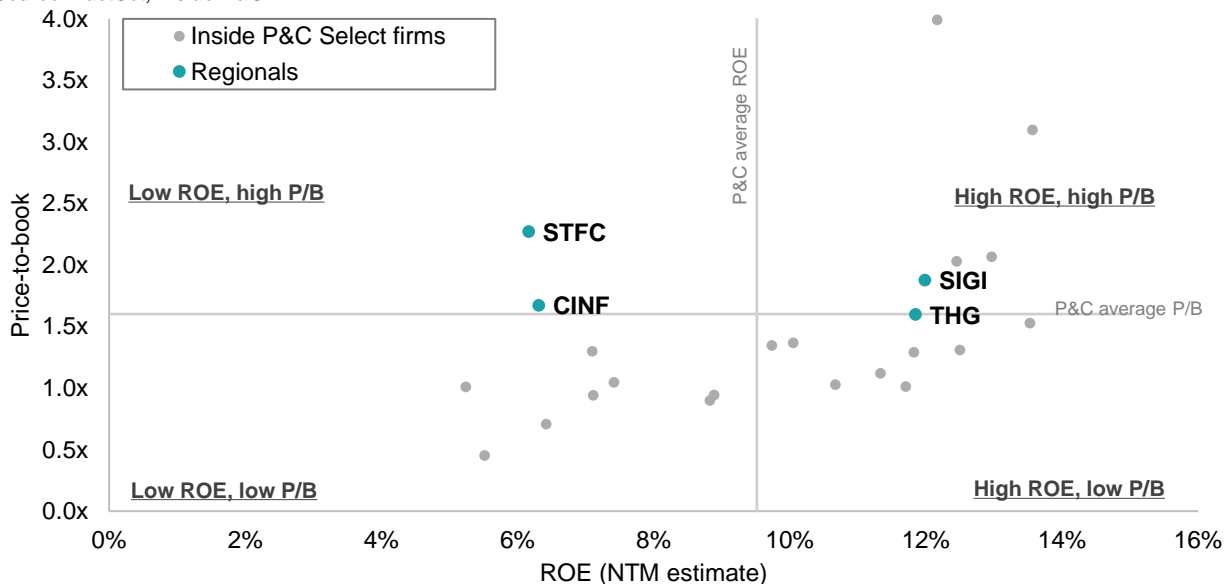
LTM stock performance for regional carriers (August performance highlighted)

Source: SNL, Inside P&C



PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

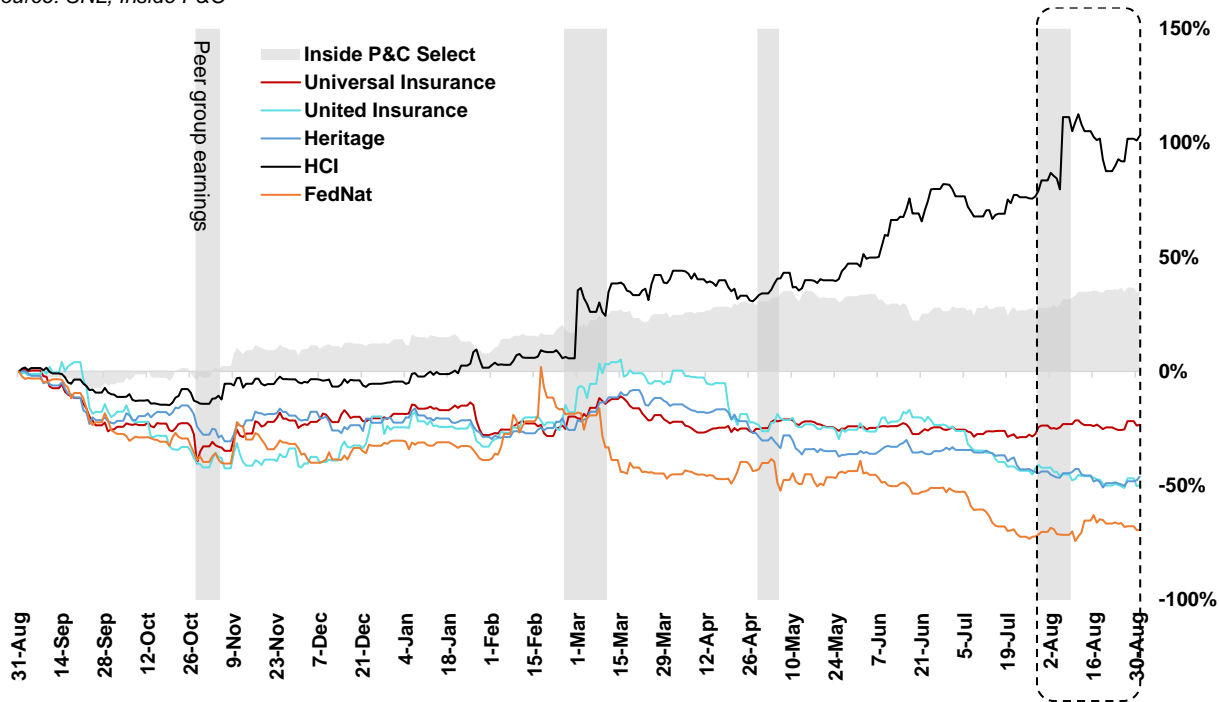


Florida

Florida carriers were up 3.7% in August and 14.9% YTD, led by HCI Group, up 11.1% in August and 113.5% YTD.

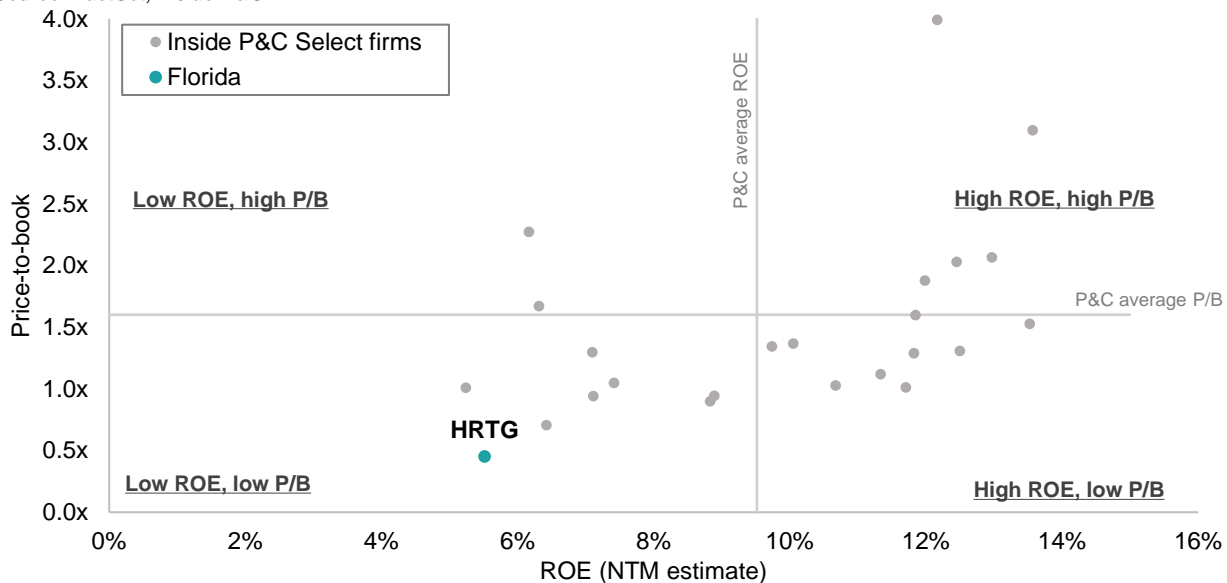
LTM stock performance for Florida carriers (August performance highlighted)

Source: SNL, Inside P&C



PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

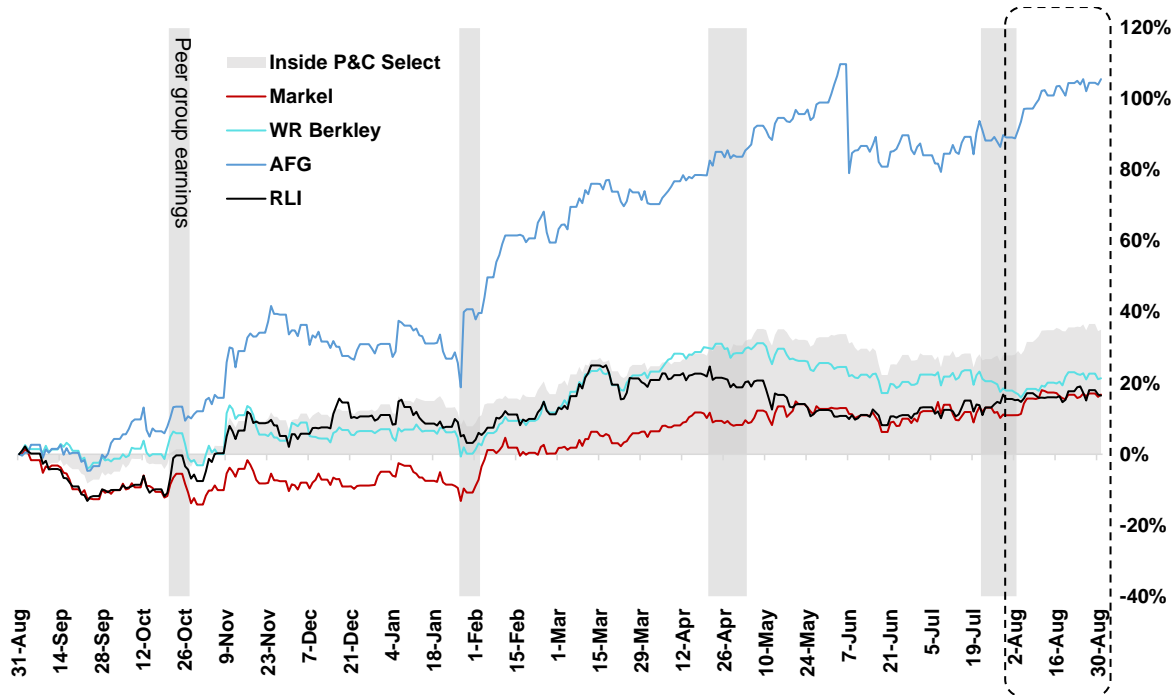


Specialty

Specialty carriers were up 5.0% in August and 24.6% YTD, generally in line with Inside P&C Select Index (up 5.7% in August and up 18.4% YTD). American Financial Group is the best performer YTD, up 57.4%.

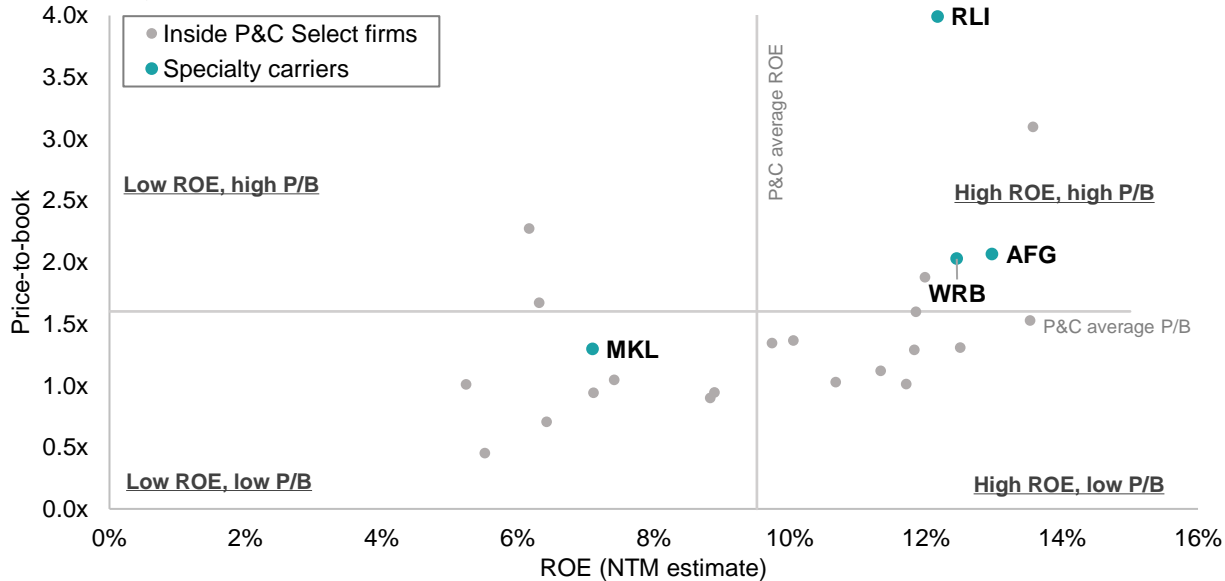
LTM stock performance for specialty carriers (August performance highlighted)

Source: SNL, Inside P&C



PB over ROE (NTM consensus) versus industry

Source: FactSet, Inside P&C

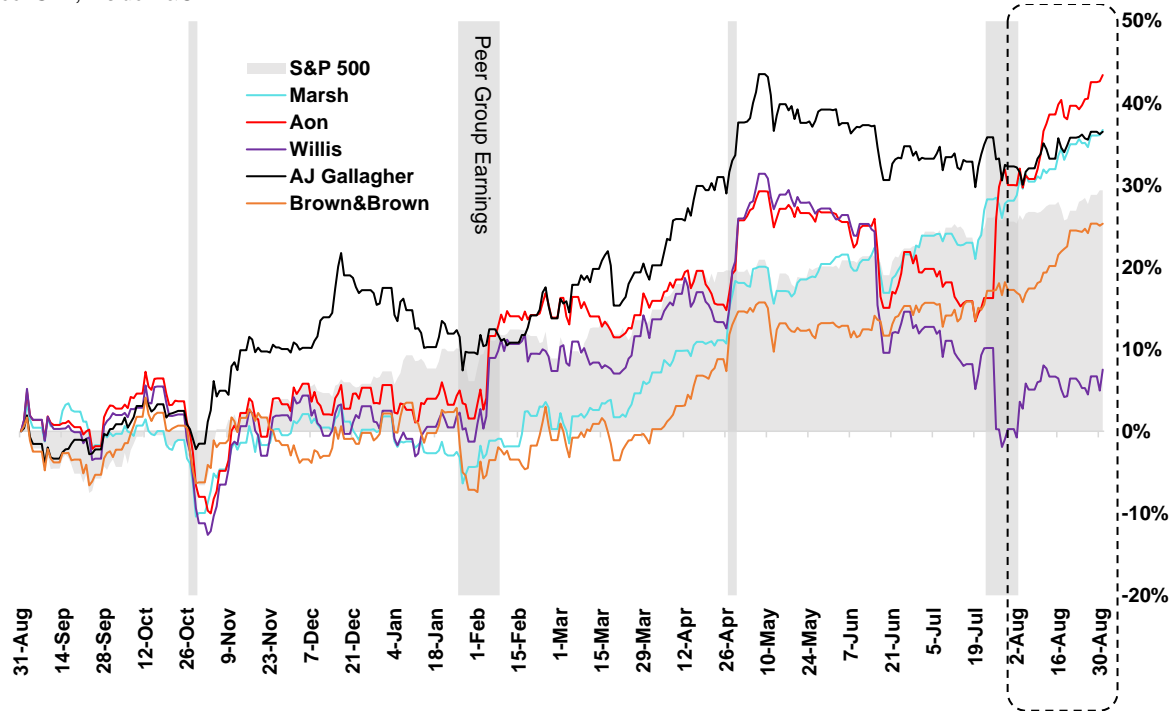


Insurance brokers

Insurance brokers were up 3.5% in August and 26.6% YTD, somewhat better than the Inside P&C Select Index (up 5.7% in August and up 18.4% YTD).

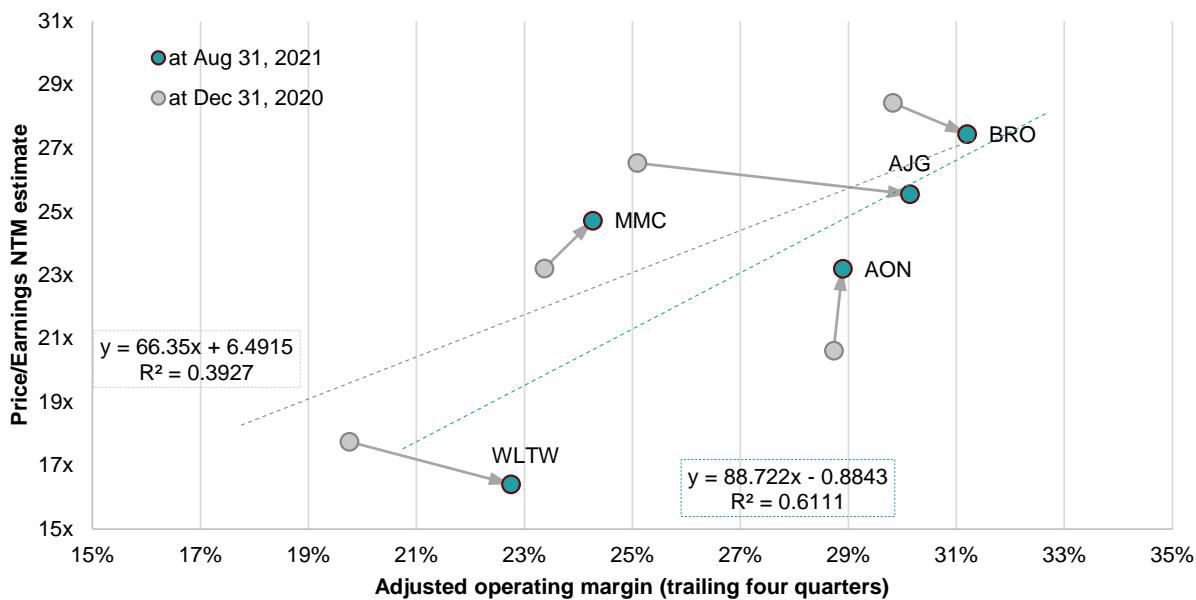
LTM stock performance for insurance brokers (August performance highlighted)

Source: SNL, Inside P&C



Forward P/E versus adj. operating margins for insurance brokers

Source: FactSet, Company reports, Inside P&C



This research report was written by Insider Publishing's Research team which includes Amit Kumar, Ella Soltz, and Elliot Frumkin.

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