



The NAIC's Capital Markets Bureau monitors developments in the capital markets globally and analyzes their potential impact on the investment portfolios of US insurance companies. A list of archived Capital Markets Bureau Special Reports is available via the [index](#)

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## Diverging Economies and Correlated Markets: The Impact of Economic Trends and Capital Flows on the Global Investment Landscape

### Introduction: Why Global Economic Trends and Capital Flows Matter to Insurers

This special report connects shifts in economic growth around the world, the responses of policymakers and investor behavior in the years since the financial crisis in order to establish a global context within which insurers and other investors will have to operate in the intermediate term or longer. Despite the fact that, in aggregate, the U.S. insurance industry has relatively little direct exposure to foreign





20% in the early 2000s to more th



hedge funds and private equity funds combined. From p

market liquidity—the ability to rapidly buy or sell sizable quantities of securities at low cost and with limited impact on prices—is considered vital to the efficient transfer of funds from savers to borrowers, which promotes economic growth. Corporate bond inventories at U.S. primary dealers totaled \$9.1 billion as of Feb. 1, 2016, down from \$10.1 billion as of Feb. 1, 2015.

continues to turn in the U.S., try to unwind too many bullish bets on bonds at one time, thereby fueling another round of volatility reminiscent of what has occurred in the markets from time to time since late 2014.

## Financial Market



subsequently sold off significantly through mid-February of this year. For example, from its May 20, 2015 high, the S&P 500 index fell 15.2% (it has since regained 14.5%, through Apr. 1, 2016), while the Euro STOXX 50 index fell 30% from its April 13, 2015, peak (it has since recovered 10.1%), and Japan's