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

Capital Markets Update: Fall 2017

Since the Capital Markets Bureau's last ***Capital Markets Update*** was published in early August, most financial markets have remained relatively stable, with U.S. stocks regularly reaching new highs and government bond yields on the rise. The key drivers of the markets in recent months continue to be familiar and interconnected: improving but slow global economic growth and political risk worldwide. In that context, this ***Capital Markets Special Report*** provides an update on the recent performance and current state of the investment markets that are most relevant for the U.S. insurance industry. These factors could have significant implications for asset prices, with year-end valuations and investment yields for the remainder of 2017 and into 2018.

Table 1 and Table 2 show total returns (price change plus dividend or coupon income) for representative fixed-income and equity benchmark indices through mid-November. Year to date (YTD), U.S. dollar-based fixed-income total returns have been positive. The U.S. inflation rate reached 2% for the 12 months ended October 2017 (down slightly from 2.2% in September), and credit spreads continued to remain stable, given a benign credit environment. Global bond yields are still low by historical standards, and some are still negative, but less so than a year ago. YTD equity returns have been strong in the U.S. and abroad; any declines have been short-lived.

As markets have generally been strong and volatility low, investors appear to be focused on relatively strong economic data worldwide, including higher U.S. corporate earnings and a steadily expanding U.S. economy. There has been the occasional pull-back in stocks (and, in turn, an increase in government bond investments as safe havens) when there has been uncertainty regarding the potential impacts of proposed tax changes in the U.S., as well as renegotiation of the North American Free Trade Agreement (and possible withdrawal of the U.S. from this agreement), however transitory.

Table 1: Selected Bond Index USD Total Returns (%), through Nov. 16, 2017

Index	2015	2016	2017 YTD
BAML US (IG) Corp & Gov Index	0.30	2.92	3.61
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

Source: Bloomberg LP.

Table 2: Selected Equity Index USD Total Returns (%), through Nov. 16, 2017

[illegible]	[illegible]	[illegible]	[illegible]
S&P 500 (US)	1.37	11.95	15.39
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
15.93	Nikkei 225 (Japan)	[illegible]	2.38
28.85	MSCI Emerging Markets	(14.61)	11.55

Source: Bloomberg LP.

Global Growth Expectations

Global

securities as the quantitative easing program is no longer needed given confidence in the momentum of U.S. economic recovery.

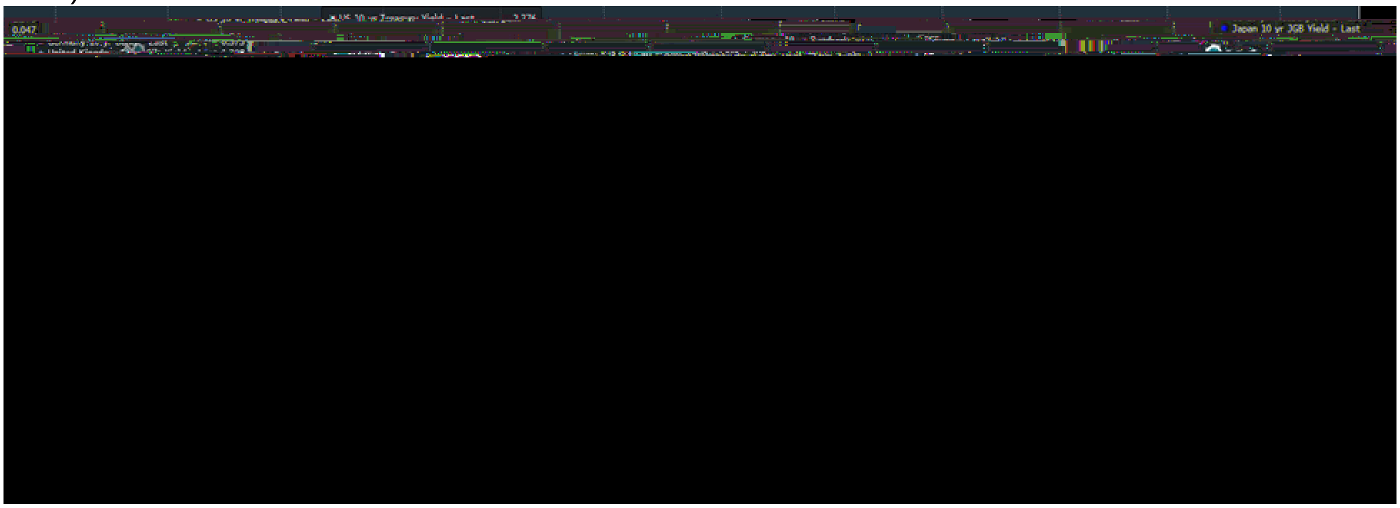
Table 3: Global Economic Growth Expectations

World Economic Outlook Projections	[illegible]	[illegible]	[illegible]	[illegible]	Change from 7/2017 Projections (% change)	[illegible]
U.S.	2.6	1.5	2.2	2.3	0.1	0.2
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Source: International Monetary Fund ***World Economic Outlook***, updated October 2017.

Also as shown in Table 3, the Eurozone economy expanded 1.8% in 2016, which is in line with its average annual growth rate since 1995. Growth in the euro area is expected to continue, according to European Central Bank (ECB) research dated September 2017. Unlike the IMF and OECD, the ECB projects a 2.2% real GDP growth rate for the euro area, which would be a post-crisis peak. The euro area economy is stronger than it has been since the financial crisis, and it experienced stronger than expected growth in the first half of 2017. According to OECD r] euroisſ beginning of the year. YTD as of Nov. 16, the Bank of America Merrill Lynch Global Government Bond Index has returned 0.99% in U.S. dollar terms.

Chart 1: 10-Year Government Yields, Major Advanced Economies (12 Months Ending Nov. 16, 2017)



Source: Bloomberg L.P.

Chart 2 shows the yield di erential, or spread, between 30-year and one-year government bonds. Yield curves began to steepen late in 2016, reflecting worries that central bank bond-buying programs would wind down, increased fiscal spending would lead to more long-term debt supply, and global inflation would pick up. Thus far in 2017, however, the major government yield curves have

Insurance Industry Impact

The majority of