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## Variability of Market Index Returns and Insurer Portfolios

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temporarily riled the market. After the election of President Donald Trump, the expectations of faster growth, higher inflation and corporate tax reform, along with an interest rate hike by the Federal Reserve (and signal for three more increases in 2017), led many investors to flee the bond market in favor of a better performing equity market. So far in 2017, the financial markets have generally benefitted from not only favorable returns in the equity market, but also an increased demand for bonds, as investors grapple with the uncertainties arising from the political squabbling in Washington, DC, and fear that President Trump's promised tax cuts, looser regulation and infrastructure spending may not be quickly implemented, and would lead to slower economic growth than previously anticipated.

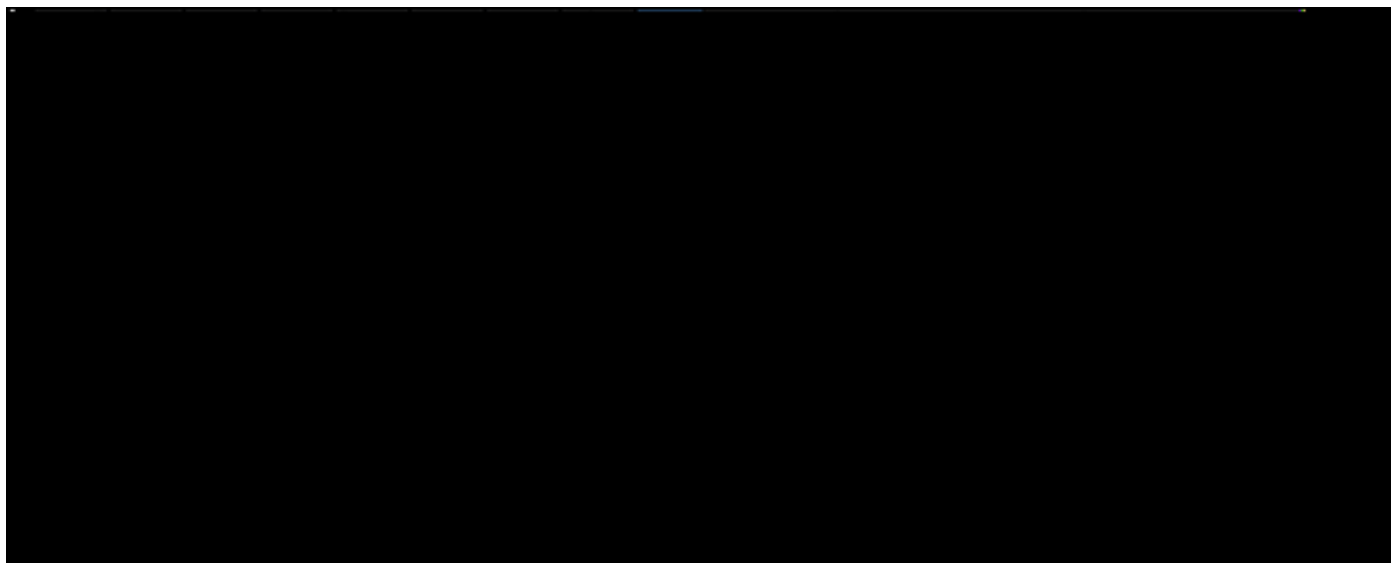
returned 7.5% in 2014 and -0.7% in 2015; it recovered in 2016 with a return of 6.1% and has returned 3.8% YTD ending June 30, 2017.

Bloomberg Barclays U.S. Corporate High Yield Bond Index (Barclays Corporate HY Index), which includes high-yield fixed-rate corporate bonds (or securities with ratings of Ba1/BB+/BB+ or below by Moody's, Fitch and S&P, respectively), recorded a total return of 109.3% over the 10-year period ending June 30, 2017. Returns were volatile for this index over the past three years, ranging from 2.5% in 2014 to -4.5% in 2015, and then to 17.1% in 2016.

Investment grade corporate bonds benefitted mostly from the rise in demand for "safe-haven" bonds in early 2015 amid growing turbulence in European markets precipitated by the ongoing Greek economic crisis. That, however, reversed later in the year as demand subsided after markets calmed (after Greece's bailout deal) and investors weighed the increasing possibility of an interest rate hike by the Federal Reserve, driving bond prices down. Barclays Corporate Index was down by -0.7% for that year.

In spite of notable market volatility in 2016—which was reactionary in part to both global and domestic monetary policies, Brexit and the U.S. presidential election—investment grade corporate debt (as measured by Barclays Corporate Index) returned 6.1%. Corporate high-yield bonds (Barclays Corporate HY Index) posted a return of 17.1%, with the rebound in oil prices and strong returns in the energy, metals and mining subsectors helping boost the overall index returns.

Chart 2: Bloomberg Barclays U.S. Corporate and U.S. Corporate High Yield Indices: 10-Year Total Return, % (June 2007 – June 2017)



Source: Bloomberg

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Municipal bonds made up the second-largest bond investment category for U.S. insurers at year-end 2016, or close to 14% of their total bond holdings. Municipal bonds have returned close to 57% for the 10-year period ending June, 30, 2017, as measured by the Bloomberg Barclays U.S. Municipal Index (Barclays Municipal Index). This index covers the U.S. dollar-denominated long-term tax-exempt bond market and includes state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds. So far this year, as of June 30, the index has returned 3.6%. In each of the past three years (2014–2016), the Barclays Municipal Index (see Chart 3) returned 9%, 3% and 0.2%, respectively.

Chart 3: Bloomberg Barclays Municipal Bond Index: 10-Year Total Return, % (June 2007 - June 2017)



Source: Bloomberg.

Municipal bonds outperformed other major bond categories in 2015,nip

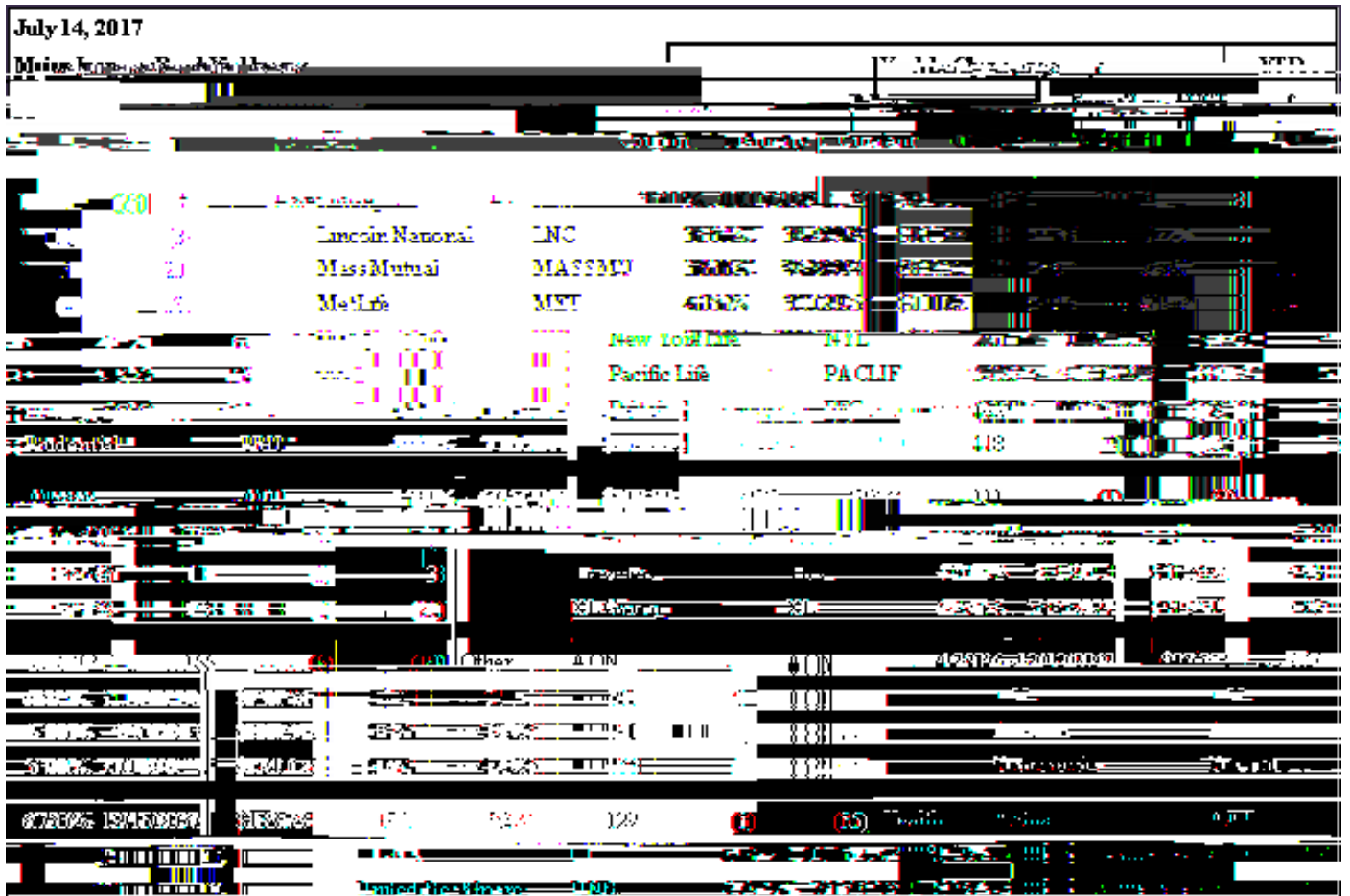
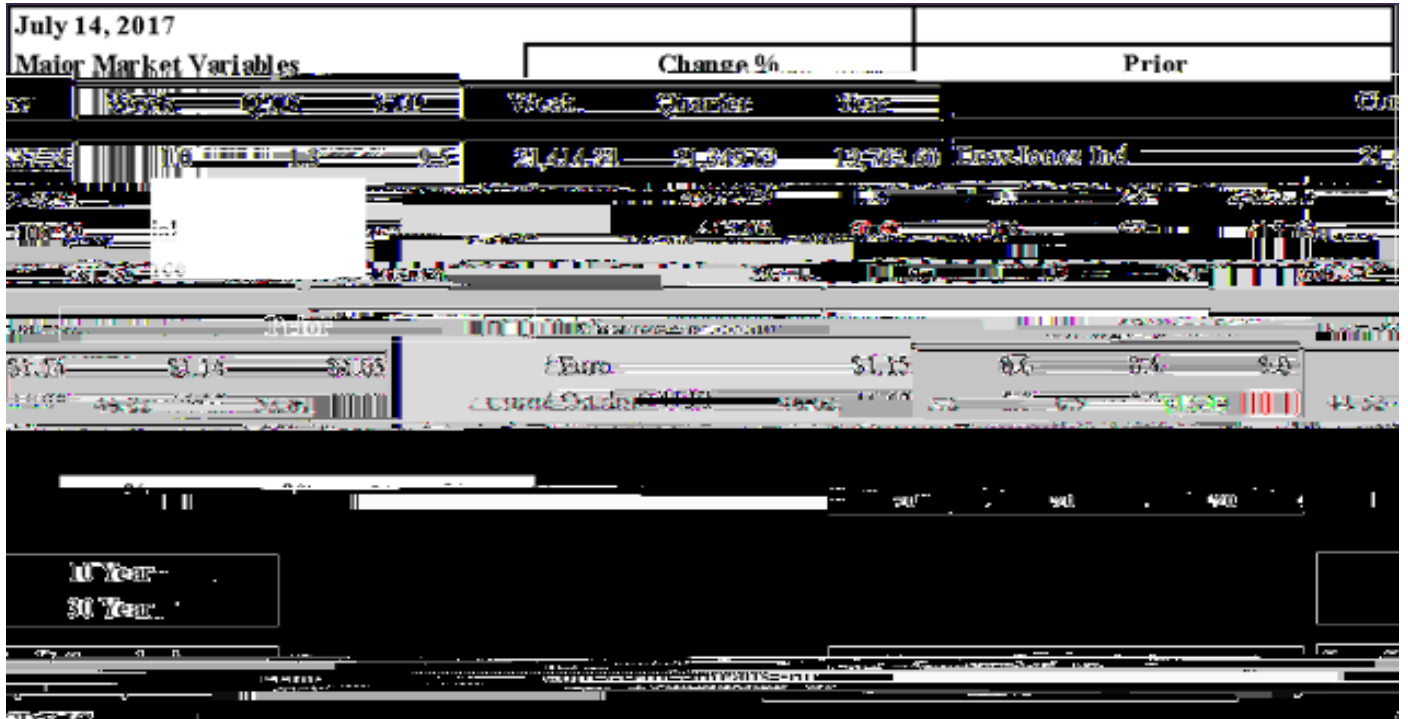




The Cambridge Real Estate Index, which is based on data from 911 real



Major Insurer Share Prices		Close	Change %			Prior		
			Week	QTD	YTD	Week	Quarter	Year
Life	Aflac	\$77.87	(0.1)	0.2	11.9	\$77.98	\$77.68	\$69.60
	Ameriprise	134.74	2.6	5.9	21.5	131.31	127.29	110.94
	Genworth	3.57	(2.2)	(5.3)	(6.3)	3.65	3.77	3.81
	Lincoln	71.34	1.6	5.6	7.7	70.20	67.58	66.27
	MetLife	100.00	0.0	0.0	0.0	100.00	100.00	100.00
	Prudential	65.10	2.3	3.2	12.0	63.10	61.00	55.00
	Procter & Gamble	111.40	0.0	3.0	1.0	111.40	108.00	100.00
	United	47.65	0.6	2.2	1.0	47.65	46.00	45.00
	Wells Fargo	48.00	0.0	0.0	0.0	48.00	48.00	48.00
	Allstate						89.00	80.00
	Bank of America						33.40	30.00
	Bank of New York						24.00	22.00
	Bank of the West						18.00	16.00
	Bank of Montreal						15.00	14.00
	Bank of Toronto						12.00	11.00
	Bank of the South						10.00	9.00
	Bank of the Midwest						8.00	7.00
	Bank of the West						6.00	5.00
	Bank of the South						4.00	3.00
	Bank of the Midwest						2.00	1.00
	Bank of the West						1.00	0.00
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Questions and comments are always welcome

