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

Variability of Market Index Returns and Insurer Portfolios

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

<u>Municipal Bonds</u>

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

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Major Insurer Share Prices			Change %			Prior		
		Close	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

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Major Market Variables

	Change %			Prior	
	Week	Quarter	Year		
Dow Jones Ind	21,414.34	21,349.63	18,516.55		
Euro	$1.15				
10 Year					
30 Year					

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Major Insurer Bond Holdings

Lincoln National	LNC	
MassMutual	MASSMU	
MetLife	MET	
New York Life	NYL	
Pacific Life	PACLIF	
Prudential	PRU	418
Other		
United Kingdom		

Questions and comments are always welcome