The NAIC Capital Markets Bureau monitors global capital markets developments and analyzes their potential impact on the investment portfolios of U.S. insurance companies. Previously published NAIC Capital Markets Special Reports are available via the

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September, and at its December meeting, it forecasted three rate cuts in 2024 as inflation has declined faster than expected. The benchmark federal funds rate is currently in a range between 5.25% and 5.5% τ the highest level since January 2001. While the rate hikes initially led to fears of a potential recession and volatility across all asset classes, including equities, U.S. Treasuries, and bonds, the U.S. economy has been resilient and market volatility subsided in late 2023

supporting investor optimism and market expectations that the Fed is at or near the peak of its monetary tightening cycle have driven the tightening trend.

Investment grade spreads began the year at 138 bps and trended lower through February. (Refer to Graph 3.) However, the failure of several U.S. regional banks and the related banking sector stress led to a spike in March. Spreads reached a high of 164 bps but recovered relatively quickly following indications that a widespread contagion would not materialize. They then continued to tighten

Source: Federal Reserve Bank of St. Louis, Board of Governors of the Federal Reserve System (U.S.).

Note that with the material recoveries in spreads in 2023, current investment grade and high-yield corporate credit spreads are nearing pre-pandemic levels.

Higher interest rates have led to an increase in borrowing costs. M record high. In addition, the Stoxx Europe 600 Index and Japanese Nikkei 225 Index have returned 11.2% and 26.2%, respectively, YTD through mid-December (refer to Graph 5). The NAIC Capital Markets Bureau performed ǀ· ϒƻУ΄ǘKfè ǀ·ƴЛ·fèăƛă ƻУ΄ ¦ ͦ{ͦ ƛУãdzǋŜǋăΩ dzУЛ·ŦŦƛfƛǀ·ǘŜŘ ǈdzōfƛŎfè ǘǋǀ·ŘŜŘ ŏƻϒϒƻУ΄ăǘƻŎƭ exposure at year-end 2022 (which totaled $485.7 billion book/adjusted carrying value), and YTD as of November 2023, it experienced a weighted average increase of 15.7%. U.S. insurers that have increased their exposure to equities in recent years (particularly property/casualty companies have experienced a 7% decline YTD according to the S&P 500 Index as of mid-December due partly to the drop in oil prices since 2021ꝕ ¢KŜ ¦ꝕ{ꝕ ƛƴădzǋŀƴŎŜ ƛƴŘdzăŭǋèąă ŜÈǇƵădzǋŜ ŭƵ ƵƛƭŀƴŘ ∃ŀă companies at year-end 2022 is estimated to be about $141 billion in bonds and $57 billion in common stock, and it represented ŀōƵdzŭ ꞓ[͡ ƵꝔ ŭKŜ ƛƴŘdzăŭǋèąă ŎŀăK ŀƴŘ ƛƴǾŜăŭŜŘ ŀăăŜŭăꝕ

Source: Federal Reserve Bank of St. Louis, Board of Governors of the Federal Reserve System (U.S.)