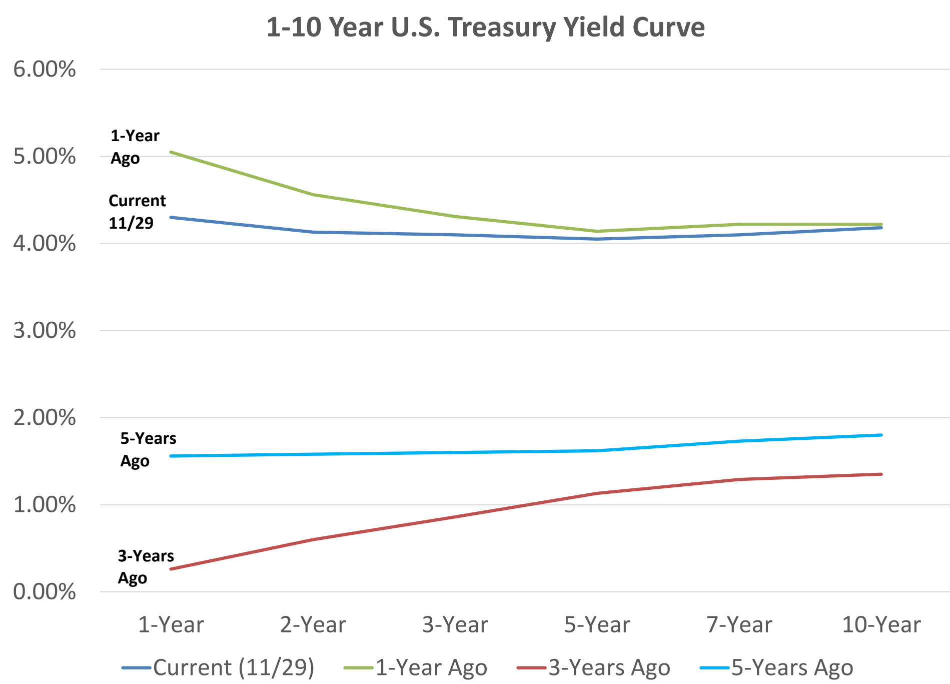
Citizens Market Update

December 3, 2024

- CPI rose 0.2% in October on a seasonally adjusted basis, the same increase for the past three months. Over the last 12 months, the all items CPI has increased by 2.6%. The all items less food and energy index rose 3.3% over the last 12 months.
    - The index for shelter rose 0.4% in October, accounting for over half of the monthly all items increase
    - The energy index was unchanged over the month, after declining 1.9% in September
- Total nonfarm payroll employment was essentially unchanged in October with an increase of 12,000 and the unemployment rate was unchanged at 4.1% with 7.0 million unemployed persons – these numbers are higher than a year earlier when the unemployment rate was 3.8% and the number of unemployed persons was 6.4 million. The labor force participation rate remains little changed at 62.6% and has held fairly constant over the past 12 months. The increase in employment in October was below the average job growth over the past months of 194,000
- At the onset of COVID-19 the Fed undertook two historic rate cuts at unscheduled emergency meetings (0.50% cut on March 3, 2020, and 1.00% cut on March 16, 2020) to a target range of 0.00%-0.25%. Unemployment skyrocketed to 14.7% as 20.5 million jobs were lost in April 2020 alone. The economy began to expand in May 2020 to end the shortest recession in history primarily due to unprecedented federal stimulus measures, which also had an effect on inflation and that led to the Fed increasing rates by 5.25% from March of 2022 to July 2023 before taking a long pause for 14 months until the Federal Reserve Meeting on September 18, 2024.
- In September, the Fed cut its benchmark rate for the first time since March 2020 with a 0.50% rate cut and again in November by 0.25% to the current range of 4.50%-4.75%. Recent Fed commentary has reinforced a more cautious, flexible approach to policy recalibration as the Fed aims to return its policy rate to more "normal" levels. While the Fed hasn't conveyed what "normal" is, the markets are assigning a 3.75-4.00% range. Expectations for a third consecutive cut at December's meeting are evenly split, with markets anticipating three rate cuts through 2025, down from five a month ago
- A combination of well anchored inflation expectations, moderating wage pressures, lower commodities prices, retailers, and restaurants increasing promotional activity and waning corporate pricing power are contributing to a stable lower inflation
- We expect GDP to increase 2.7% this year and 2.1% in 2025. While we believe the U.S. economy will marginally slowdown in 2025
- Two of the reasons for a "soft landing" is resiliency in the housing market and continued non-residential investment. The lack of supply of homes, especially in the existing homes market has increased real residential construction and new homes construction as well as sales are expected to continue to keep real residential investment in positive territory. The lower interest rates will also help the residential investment.

- The yield curve is changing from inverted to flat because of the change in Fed policy with the spread between the 2-year and 10-year Treasury at approximately 0.05% as compared to -0.38% at the beginning of 2024. The 2-10 year spread from January 2010-2020 averaged 1.44%. Since the beginning of the year, the 1-year and 2-year UST has decreased by approximately 0.22%-0.51% and the 10-year UST has increased approximately 0.30%. We expect the 10-year Treasury to remain relatively range bound around 4.25% +/- .25% due to large fiscal spending while 2-year Treasury rates to come down to approximately 3.50% due to Fed rate decreases leading to further steepening of the yield curve



U.S. Treasury Rates						
	1-Year	2-Year	3-Year	5-Year	10-Year	2-10 Yr Spread
Current (11/29)	**4.30**	**4.13**	**4.10**	**4.05**	**4.18**	**0.05**
Beginning of 2024 (1/2)	4.80	4.33	4.09	3.93	3.95	(0.38)
1-Yr Prior	5.16	4.73	4.48	4.31	4.37	(0.36)
2-Yrs Prior	4.74	4.38	4.13	3.82	3.68	(0.70)
3-Yrs Prior	0.24	0.52	0.81	1.14	1.43	0.91
5-Yrs Prior	1.56	1.61	1.63	1.66	1.83	0.22
5-Yr Average	2.56	2.47	2.44	2.47	2.64	0.18
10-Yr Average	1.92	1.97	2.03	2.18	2.46	0.49
15-Yr Average	1.34	1.46	1.60	1.93	2.49	0.88
Current as % Above / Below 5-Yr Average	68%	67%	68%	64%	58%	-71%
Current as % Above / Below 10-Yr Average	124%	110%	102%	86%	70%	-90%
Current as % Above / Below 15-Yr Average	220%	183%	156%	110%	68%	-94%

- The reinsurance markets are stable but are capacity constrained. Losses from Hurricane Milton are expected to be more of an earnings event for the reinsurance industry rather than a capital hit – we do expect rate increases for 2025 to be minimal or in the range of 0% -5% in 2025 primarily depending upon the cedent