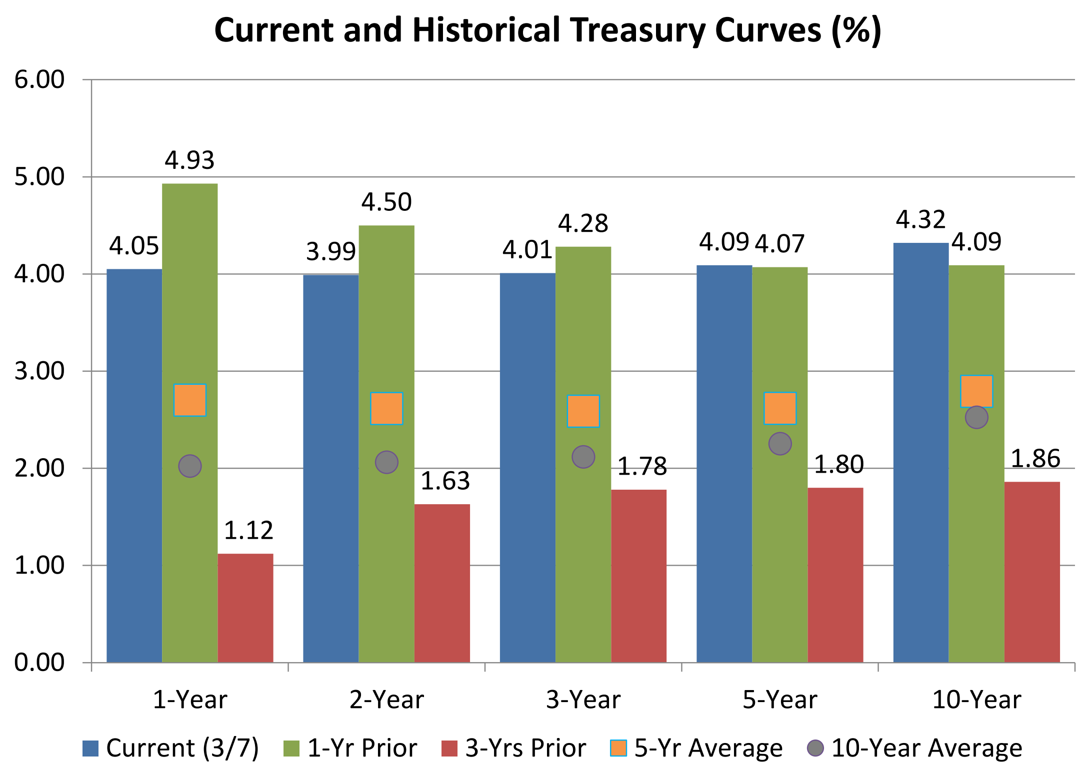
Citizens Market Update

March 12, 2025

- The job market remains strong. The current unemployment rate is 4.1% with 7.1 million people unemployed, and we expect it to slightly increase to 4.4% by the end of 2025. The labor force participation rate marginally decreased to approximately 62.4% from 62.6%. However, U6 unemployment rate increased from 7.5% to 8% reflecting a slow down in labor market.
- Prices remain above the Fed's target with PCE at 2.5% and core PCE at 2.6%. There is concern that the recent tariffs could increase prices and lead to slower economic growth. Consumer spending has slowed, consumer confidence has also decreased amid economic uncertainty.
- The economy has been resilient, but growth is slowing, and inflation remains "sticky", which could lead to stagflation. While we believe the U.S. economy will slow this year with GDP growth of 1.8% after growing by 2.8% in 2024, we do not believe that the slowdown is going to be enough to bring economic growth to negative territory for two consecutive quarters, or a technical recession.
- The current Fed Funds rate is 4.25%-4.50%. We expect Fed to further decrease rates 75-100 basis points in 2025 as economic conditions are slowing, before reaching to its terminal rate of approximately 3.50% in early 2026.
- 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 has not conveyed what "normal" is, the markets are assigning a 3.50-4.00% range.
- There is uncertainty regarding the economic impacts of already enacted and potential future policy changes of the new presidential administration, particularly as it relates to tariffs.
- We still believe in a "soft landing" due to 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 is going to continue to keep real residential investment in positive territory. Lower interest rates will also help residential investment as well as increase the supply of existing homes.
- The yield curve is changing from inverted to flat as a result of the change in Fed policy with the spread between the spread between the 2-year and 10-year Treasury at approximately 0.33% as compared to negative 0.41% a year ago. We expect the 10-year Treasury to remain relatively range bound around 4.00%-4.50% 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 or normalization of the yield curve.



U.S. Treasury Rates						
	1-Year	**2-Year**	**3-Year**	**5-Year**	**10-Year**	**2-10 Yr Spread**
Current (3/7)	**4.05**	**3.99**	**4.01**	**4.09**	**4.32**	**0.33**
Beginning of 2025 (1/2)	4.17	4.25	4.29	4.38	4.57	0.32
1-Yr Prior	4.93	4.50	4.28	4.07	4.09	(0.41)
2-Yrs Prior	5.25	5.05	4.71	4.34	3.98	(1.07)
3-Yrs Prior	1.12	1.63	1.78	1.80	1.86	0.23
5-Yrs Prior	0.38	0.49	0.58	0.70	0.94	0.45
5-Yr Average	2.70	2.62	2.59	2.62	2.79	0.18
10-Yr Average	2.02	2.06	2.12	2.25	2.53	0.46
15-Yr Average	1.41	1.52	1.65	1.96	2.51	0.85
Current as % Above / Below 5-Yr Average	50%	52%	55%	56%	55%	87%
Current as % Above / Below 10-Yr Average	100%	93%	89%	81%	71%	-29%
Current as % Above / Below 15-Yr Average	187%	163%	143%	109%	72%	-61%

- Global economic losses from natural disasters were $368 billion in 2024, of which $145 billion was insured, and were primarily driven by losses from Hurricanes Helene and Milton.
- Hurricane Helene had economic losses of approximately $75 billion, of which $18 billion were insured. The impacts of Helene were felt from Florida through Georgia, Western North Carolina, and Eastern Tennessee

- Losses in 2024 from Hurricanes Helene and Milton were not a capital event bot an earnings event for reinsurers.
- The January 2025 wildfires in Southern California is expected to result in approximately $30-$35 billion of insured losses and over $100 billion of economic losses.
- The reinsurance industry continues to benefit from increased investment income from continued above-average interest rates and a reduction in unrealized losses as they evaporate as a function of time.
- The rating agency view of the reinsurance industry remains stable due to robust capital levels, operating profits, underwriting discipline, and increasing reinsurance demand.
- 2024 was a record year of issuance for the cat bond market with $17.7 billion of issuance and had $49.5 billion outstanding at the end of the year – record issuance was driven by high investor demand due to record returns driven by high risk-free rates.
- Legislation reforms in Florida have led to significantly improved financial condition for Florida insurers, increased capital investment in the State with new entrants, a healthy private marketplace that has helped to depopulate Citizens to its lowest policy count since 2021, and moderating rate increases for policyholders.
- Pricing is expected to soften by approximately 10% in the traditional reinsurance market and 15% in the capital market due to the increase in capital in the marketplace and continued competitive returns for investors as compared to other asset classes.