LOM

Weekly Global Market Commentary

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What's Up and Down with Bermuda Insurers

by Bryan Dooley CFA, Chief Investment Officer

This year's Q4 earnings reporting season has been full of surprises, both positive and negative.

Notably, companies in the AI-related technology sector, such as ARM Holdings and Meta Platforms (formerly Facebook), witnessed remarkable post-earnings price surges of 48% and 20%, respectively. Meta's stock, in particular, recorded the most substantial single-session market value increment in the history of stock markets, adding a staggering $197 billion to its market capitalization immediately following its outstanding Q4 earnings announcement. However, amidst these triumphs, other companies like Snap Inc. and Paypal Holdings experienced significant declines in their share prices in the aftermath of their earnings reports.

Bermudian reinsurer Everest Re (EG) found itself among the companies facing adverse market reactions despite surpassing consensus bottom-line earnings expectations by an impressive 72%. The company encountered its most severe one-day decline since March 2020 falling as much as ten percent post earnings. This downturn was precipitated by a modest revenue shortfall and, more significantly, management's surprise decision to add $392 million to its loss reserves. With 43.4 million shares outstanding, this equates to about $9 per share, yet the stock plummeted by $29 following the announcement.

The decision to bolster reserves was prompted by the inflationary impact on the accident years spanning from 2016 to 2019 in long-tail lines—a challenge confronting the industry of late. Local competitor Axis Capital Holdings Ltd. similarly found itself compelled to make a comparable provision. This comes on the heels of a $400 million reserve addition in the reinsurance segment in 2021 for analogous issues. Despite this, the segment experienced $397 million in favorable development in Q4, following cumulative benefits of a mere $10 million in the preceding eleven quarters according to Bloomberg data.

On the revenue front, Everest's premium growth is poised to approach 20%, buoyed by the favorable pricing environment in both its insurance and reinsurance segments. Furthermore, fixed investment income from the investment portfolio is anticipated to continue its ascent, contributing to overall net income growth, given the prevailing higher interest rate environment and recent portfolio adjustments.

Presently trading at around $354 per share, Wells Fargo insurance industry analyst Elyse Greenspan revised her one-year price target on Everest Re downwards from $484 to $402, downgrading her recommendation to "equal weight" from "outperform." Greenspan cited lingering investor uncertainty regarding the extent of adverse development in casualty lines and the potential for business written in recent years to mirror the trajectory of older accident years. She marginally adjusted her 2024 earnings per share estimate to $62.00 from $63.20, while projecting $70.00 for 2025, resulting in a forward price-earnings ratio of only 5x compared to a ten-year median ratio of 10x.

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On the other hand, Keefe, Bruyette and Woods analyst Meyer Shields maintains an outperform rating on the stock and a $465 price target. “We’d be buyers on EG’s significant weakness which we attribute to the reasonable-sounding, but probably very inaccurate, concern that its general liability reserve additions to accident-years 2016 to 2019 augur additional reserve strengthening on more recent years, since recent accident-years face the same social inflation impacting the older years.”

Zooming out, market conditions have generally favored the reinsurance sector as a whole. Reinsurance, characterized by its cyclical nature, alternates between periods of ample capacity and reduced profitability, often followed by phases of constrained availability and increased earnings. The year 2023 witnessed a record-setting pace of natural catastrophe events, with over 20 separate billion-dollar disasters occurring in the U.S. alone. Despite the unfortunate circumstances, these events have had a positive influence on policy rates and terms, resulting in a sharp increase in earnings for the sector last year, with expectations of continuity.

From a macroeconomic standpoint, the U.S. economy appears relatively resilient despite the Federal Reserve’s assertive monetary tightening policies initiated since 2022, with a soft-landing scenario seeming probable for 2024. Consequently, insurance pricing is expected to remain robust over the next few years, particularly as stocks in this sector trade at some of the lowest valuations relative to both the broader financial group and the overall market.

Value-style investment managers are likely watching this sector closely, even as many investors continue to pursue higher-profile names at extraordinary levels.

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Stock Market Performance	2/10/2024	W-o-W	M-o-M	Y-o-Y
DJIA	38,672	0.0%	2.6%	14.2%
S&P 500	5,027	1.4%	5.1%	22.9%
MSCI World	3,281	1.0%	3.8%	17.9%
SP/TSX	21,010	-0.4%	0.1%	1.9%
BSX	2,132	-7.0%	-11.1%	-8.8%
FTSE100	14,589	-0.6%	-1.1%	-0.2%
DAX	16,927	0.0%	1.4%	10.6%
CAC	7,648	0.7%	3.0%	7.3%
Nikkei	36,897	2.0%	7.1%	33.3%
Hang Seng	15,747	1.4%	-2.2%	-25.7%
Shanghai	2,866	5.0%	-0.4%	-12.1%

Key Rates and Prices			
Currencies	**2/10/2024**	**Month Ago**	**Year Ago**
EUR	$1.08	$1.10	$1.07
GBP	£1.26	£1.27	£1.21
JPY	¥149.29	¥145.76	¥131.36
CAD	C$0.74	C$0.75	C$0.75
CHF	CHf1.14	CHf1.18	CHf1.08
AUD	A$0.65	A$0.67	A$0.69
Fixed Income			
3M LIBOR	5.57	5.59	4.87
3M Treasury Bill	5.38	5.38	4.76
2Yr Treasury Note	4.48	4.36	4.52
10Yr Treasury Note	4.18	4.03	3.74
Fed Funds Rate	5.50	5.50	4.75
Commodities			
Gold/oz.	2,024.26	2,024.41	1,865.57
Silver/oz.	22.61	22.90	22.00
Copper/lb.	3.71	3.80	4.02
Oil	76.84	71.37	79.72

Global Economic Calendar (Feb 12th - 16th)	
Monday	PPI YoY (JN)
Tuesday	ZEW Survey Expectations (GE); CPI MoM (US);
Wednesday	GDP SA QoQ (JN); CPI YoY (UK)
Thursday	Industrial Production MoM (JN); Initial Jobless Claims (US)
Friday	CPI YoY (FR)

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