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Insurance Investors: Time to Get Choosy

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Insurance stocks have had a nice run, maybe too nice. As a group, the sector is up about 15% since the end of May, as measured by the S&P Select Insurance Industry index, far exceeding the S&P 500's 2.4% gain over the same period. But valuations are stretched, margins look peaky, and the sector's best days may already be behind it. Investors now need to be selective.

As many in Bermuda know, property and casualty insurance and reinsurance run on a cycle as old as the industry itself: a boom bust rhythm of excess capacity giving way to tight underwriting conditions, and back again. After major catastrophe losses or a prolonged stretch of soft pricing, capital flees the industry, capacity tightens, and insurers regain the pricing power to push through steep premium hikes, sending margins and returns sharply higher. Naturally, those fat profits are their own undoing: they draw in new capital, competition intensifies, pricing softens, and underwriting discipline can slip, eventually squeezing returns all over again.

Reinsurance amplifies the whole cycle, where catastrophe losses, reserve development, and swings in available capacity can send profitability lurching in either direction. These favorable cycles can run for years, but the fattest margins never last. New capital always shows up to compete them away.

It's worth remembering how different the setup looked just two years ago. Writing in the Royal Gazette in February 2024 ("Reinsurers generally favoured by market conditions"), I noted that "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." That call held up well, the sector's subsequent run vindicated it. But the very thing that made the case compelling then, cheap valuations paired with tight capacity, has largely played out. The valuation cushion is gone, and with it, much of the margin of safety.

That reckoning may already be underway. Despite last year's brutal claims bill of wildfires plus two major hurricanes, the reinsurance market kept softening anyway. January 2026 renewals saw the steepest risk-adjusted drop in property-catastrophe pricing in over a decade, and rates kept sliding into the midyear renewals. Bermuda-based Everest Group and RenaissanceRe reported rate declines of 13% and "mid-teens," respectively, across their global books, a sign the pricing cycle has turned, catastrophes or not.

Primary P&C insurers face their own version of this squeeze. Many top carriers have enjoyed annual rate hikes north of 10% in recent years, a terrific tailwind, but one with a built-in expiration date. Those juicy returns have lured new entrants into the market, adding capacity just as pricing power starts to fade. The result is a flood of capital chasing a finite pool of business, which tends to end one way: fierce competition that pressures pricing, profitability, and volume all at once.

Auto insurance shows how quickly this can unwind. Pandemic-era supply chain chaos sent used-car prices soaring just as accident rates climbed, giving insurers cover to push premiums well above trend. But the math has flipped: used-car prices have fallen nearly 20% since 2022, even as motor insurance premiums remain almost 60% higher. Something has to give, and it's already giving, with auto rates down more than 4% since the start of the year.

Wall Street seems to sense the shift, too. Sell ratings are rare currency among equity analysts, which is what makes Swiss Re's scorecard so telling: the world's largest reinsurer carries just four buy ratings against ten sells, per Morningstar. That's not the profile of a sector still riding its sweet spot.

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If insurance looks like a cycle nearing its peak, other corners of financials look like one just getting started. Asset management and investment banking stand out as the more compelling bet right now, riding a powerful, broad-based upcycle rather than fading off one. Goldman Sachs alone advised on more than $1 trillion of announced M&A in the first half of 2026, a 71% jump year-over-year, while its investment banking revenue climbed 55% in the second quarter. Morgan Stanley wasn't far behind, posting 27% net revenue growth. On the asset management side, BlackRock's AUM hit a record $15.3 trillion, fueled by $868 billion in trailing-twelve-month net inflows and 10% organic fee growth. The common threads are smart strategic execution, a supportive macro backdrop, and record AI-driven capital spending rippling out across the economy.

Insurance stocks have rewarded patient investors handsomely on the way up, but the smart money now is asking whether it's time to bank some gains and look toward other stocks in the financial sector.

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