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2023 Sector Snapshot: US Financials

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Executive Summary

- **We provide our Financial sector strategy for 2023, including key themes, picks and pans, and risks for the coming year.**
- **U.S. Banks Outperform.** We expect sector performance to once again be driven by the largest issuers given the top-heavy concentration in the big 6 banks, in turn driven by technical factors especially around supply. We think issuance drops off in 2023, while strong current spread value and our sense that investors are better positioned to absorb new issuance today compared to YE21 further underpins our bullish sector view.
- **We have a Market perform recommendation on the Insurance sector.** While aggregate sector spreads could benefit from the combination of rising interest rates and the sector's defensive qualities, we highly recommend a bottom-up approach; by way of example in the P&C sector we have a clear bias towards Commercial-focused names and in the Life Insurance sector we are cautious with regards to annuity-focused writers.

Relative Value

US IG and HY vs. Banks

	OAS			YTW			$ Price				YTD Returns	
	Current	YE 2021	Change	Current	YE 2021	Change	Current	YE 2021	Change	Duration	Excess	Total
US IG	142 bp	98 bp	44 bp	5.4%	2.4%	306 bp	$89.58	$109.14	-$19.57	6.9 yrs	-1.8%	-15.3%
US IG Banks	**149 bp**	**80 bp**	**69 bp**	**5.6%**	**2.0%**	**360 bp**	**$91.15**	**$106.34**	**-$15.19**	**4.7 yrs**	**-2.2%**	**-11.9%**
Difference	7 bp	-18 bp	25 bp	17 bp	-37 bp	54 bp	$1.57	-$2.80	$4.37	-2.2 yrs	-40 bp	332 bp
US HY	455 bp	310 bp	145 bp	8.6%	4.3%	430 bp	$87.02	$103.31	-$16.29	4.1 yrs	-2.6%	-10.5%
US HY Banks	**379 bp**	**178 bp**	**201 bp**	**8.0%**	**3.0%**	**500 bp**	**$88.87**	**$111.03**	**-$22.15**	**4.2 yrs**	**-7.3%**	**-16.0%**
Difference	-76 bp	-132 bp	56 bp	-63 bp	-132 bp	70 bp	$1.86	$7.72	-$5.86	0.2 yrs	-470 bp	-542 bp

Source: CreditSights, FactSet, ICE Data Indices, LLC

US IG and HY vs. Insurance

	OAS			YTW			$ Price				YTD Returns	
	Current	YE 2021	Change	Current	YE 2021	Change	Current	YE 2021	Change	Duration	Excess	Total
US IG	142 bp	98 bp	44 bp	5.4%	2.4%	306 bp	$89.58	$109.14	-$19.57	6.9 yrs	-1.8%	-15.3%
US IG Insurance	**165 bp**	**104 bp**	**61 bp**	**5.7%**	**2.5%**	**320 bp**	**$89.23**	**$111.38**	**-$22.14**	**7.1 yrs**	**-2.7%**	**-16.4%**
Difference	23 bp	6 bp	17 bp	24 bp	11 bp	14 bp	-$0.34	$2.24	-$2.58	0.2 yrs	-90 bp	-115 bp
US HY	455 bp	310 bp	145 bp	8.6%	4.3%	430 bp	$87.02	$103.31	-$16.29	4.1 yrs	-2.6%	-10.5%
US HY Insurance	**423 bp**	**346 bp**	**77 bp**	**8.4%**	**4.8%**	**360 bp**	**$88.85**	**$103.15**	**-$14.30**	**4.0 yrs**	**-0.2%**	**-8.1%**
Difference	-32 bp	36 bp	-68 bp	-23 bp	48 bp	-70 bp	$1.83	-$0.16	$1.99	-0.1 yrs	240 bp	246 bp

Source: CreditSights, FactSet, ICE Data Indices, LLC

Table of Contents

US Financials

Banks

Executive Summary

- U.S. Banks Outperform. We expect sector performance to once again be driven by the largest issuers given the top-heavy concentration in the big 6 banks, in turn driven by technical factors especially around supply. We think issuance drops off in 2023, while strong current spread value and our sense that investors are better positioned to absorb new issuance today compared to YE21 further underpins our bullish sector view.

- Pick: Bank of America. With the performance framework of supply and spread value, Bank of America offers a compelling balance of both as the company's largescale issuance in 2020-22 and sizable regulatory cushions should enable lighter supply, with additional value from the spread pickup over similarly-rated peers like Wells Fargo or JPMorgan.

- We expect supply to finally come down after what could be three straight years of record issuance. The volume of issuance in 2022 took the market by surprise, and was likely driven on a combination of some regulatory needs, business growth opportunities generated by market volatility, and some opportunism as the Fed embarked on a rapid hiking cycle. We think those supply drivers largely ebb in 2023.

Key Themes for 2023

- Asset Quality Normalization: banks have begun to see signs of long-awaited "normalization" in asset quality metrics from the historically strong levels in 2021 and into 2022. In 2023, we expect that the impacts of higher rates and a slower economy to lead metrics back towards historic averages; we see such normalization as entirely manageable given banks' financial positions and underwriting in recent years, but the pace of normalization will be a key watch item amid recessionary concerns.

- Capital Requirements and Regulations: banks enter 2023 with smaller capital cushions against requirements than a year ago, due to both increases in some elements of risk-based requirements (GSIB surcharges, 2022 SCBs) as well as previous share repurchases, and the impact of AOCI driven by rate moves. The reassessment of various capital requirements under the new Vice Chair of Supervision, including Basel III endgame implementation, could move binding constraints around though we are still waiting for the array of Fed proposals.

- Margins and Deposit Pricing: net interest margins are climbing with each rate hike, but as funding costs begin to catch up to asset-side impacts, further improvement in NIM is likely to become smaller with deposit betas accelerating in this hyper-compressed hiking cycle. The pace of deposit repricing will heavily influence margin expansion, though with a partial offset from mix shift if loan growth remains strong.

- Fee Income Pressure: fee-based revenues saw significant pressure in 2022, with distinct slowdowns in both investment banking and mortgage banking fees that may well linger in 2023. The latter is most likely to stay muted given the rate headwinds and precipitous drop in mortgage applications; if volatility subsides, we could see a modest resurgence on the investment banking side from rebounding issuance and M&A pipeline conversion.

- Regional Bank TLAC: the Fed released its request for comment on the potential for requiring large regional banks to carry a minimum level of loss absorbing capacity and long-term debt (TLAC and LTD requirements), which could significantly impact HoldCo issuance needs from several large regional banks, though with the scale and timing entirely uncertain at this stage. Expect some clarity in the near-term with the Fed's comment period expiring mid-December.

Top Risks for 2023

- Macroeconomic downturn leading to worse-than-expected normalization in asset quality. As noted above, banks are beginning to see the early stages of asset quality normalization and while the expectation is that the risks are quite manageable, a worse-than-expected economic slowdown and/or a failure to adequately slow inflation could lead to deterioration that takes losses higher than typical (low) pre-COVID levels, and require more rapid allowance builds, eating into profitability and/or capital.
- Counterparty and/or trading losses. The large banks' trading operations have passed the test of 2022's elevated volatility and downward-trending markets, in fact largely benefiting from increased activity in a number of products; there have been some modest write-downs on leveraged lending books, but the hung deal pipeline is starting to clear and impairments have been and continue to look manageable and well within the sphere of 'cost of doing business'. However, as markets grapple with the implications of further rate hikes, the potential for an event resulting in trading counterparty stress remains in the background, though we believe post-2008 regulations reduces the likelihood and magnitude of adverse impacts.
- Rate impact on funding costs and securities holdings. Banks are likely to face increasing pressure on funding costs, somewhat eroding the benefit of rate increases on the asset side of the balance sheet. While so far deposit costs are behaving in-line with management expectations, the accelerated pace of hiking as well as reductions to the Fed's balance sheet (QT) could impact the next stage of competition for deposits and lead to higher-than-expected re-pricing. And on the asset side, AFS securities books have been crushed on unrealized losses hitting book equity, and while the pull to par dynamic is real the degree of TBV erosion is still stark.

Picks, Pans & Recommendations

Investment Grade Picks

- **Bank of America**: driven by a combination of solid spread value amid the tightly clustered peer group and our view for a sizable YoY decline in supply.

US IG Banks Company Recommendations

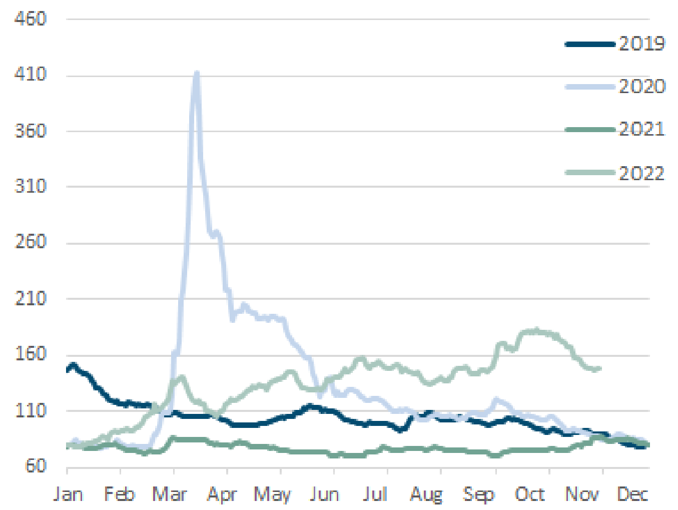
Outperform	Market Perform	Underperform
Ally Financial (ALLY)	Capital One (COF)	American Express (AXP)
Bank of America (BAC)	Goldman Sachs (GS)	BNY Mellon (BK)
Citigroup (C)	Huntington (HBAN)	Citizens Financial (CFG)
Discover Financial (DFS)	M&T Bank (MTB)	Comerica (CMA)
JPMorgan (JPM)	Morgan Stanley (MS)	Fifth Third (FITB)
Synchrony (SYF)	Regions (RF)	KeyCorp (KEY)
	US Bancorp (USB)	PNC (PNC)
	Wells Fargo (WFC)	State Street (STT)
		Truist (TFC)

Source: CreditSights

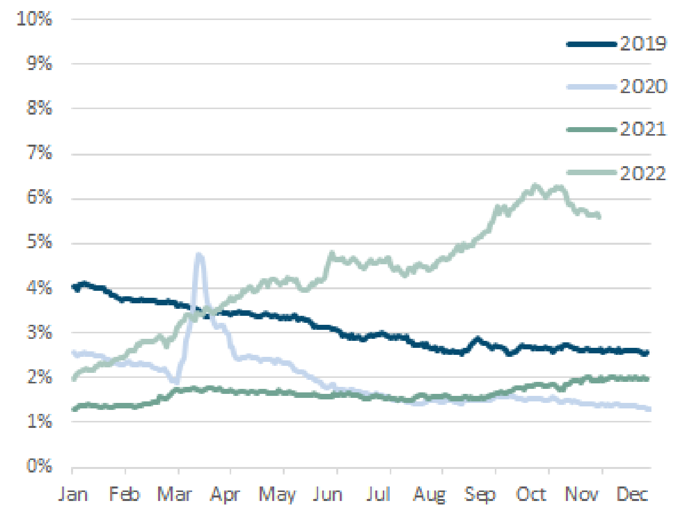
Relative Value

Investment Grade

US IG Banks Annual OAS History: 2019-2022



US IG Banks Annual YTW History: 2019-2022



Source: CreditSights, FactSet, ICE Data Indices, LLC

U.S. banks have been fairly consistent underperformers in 2022, driven overwhelmingly by the massive supply (and associated overhang) from the big 6 banks, especially coming on the heels of two consecutive years of record issuance in 2020 and 2021. The end result is a sector now trading wide to overall corporates, having traded firmly inside at the beginning of the year. Sector performance is intrinsically tied to those six large issuers, and we expect 2023 to once again be driven by technical factors primarily around supply (and market liquidity, secondarily). Our initial view is that supply should be meaningfully lower YoY in 2023, which combines with attractive spread value to underpin our Outperform view on the large banks—even if we're wrong on the lighter issuance catalyst, we think investors are much better positioned to absorb supply than at YE21 and with spreads already wide to IG, would expect less of a negative spread impact if issuance again surprises to the upside.

Fundamental Outlook

IG Banks Largest Issuer Fundamental Snapshot

Issuer	Total Outstanding ($B)[1]	CET1 Ratio Current	CET1 Ratio YE 2021	CET1 Ratio YTD Change	FY2023 CET1 Direction
Bank of America	$182.9	11.0%	10.6%	0.4%	Higher
JPMorgan	$167.1	12.5%	13.1%	(0.6%)	Higher
Morgan Stanley	$118.6	14.8%	16.1%	(1.2%)	Flat
Goldman Sachs	$112.4	14.3%	14.2%	0.1%	Higher
Citigroup	$108.1	11.8%	12.3%	(0.5%)	Higher
Wells Fargo	$105.1	10.3%	11.4%	(1.0%)	Flat
BNY Mellon	$25.3	10.0%	11.2%	(1.2%)	Flat
Capital One	$25.0	12.2%	13.1%	(0.8%)	Flat
US Bancorp	$24.8	9.7%	10.0%	(0.3%)	Lower
Truist	$22.5	9.1%	9.6%	(0.5%)	Flat

Source: CreditSights, FactSet, ICE Data Indices, LLC, Company Filings
[1]USD index-eligible only

Banks are in strong fundamental shape and we do not expect that to demonstrably change in 2023. Capitalization should generally trend flat, with some banks like the money centers facing higher requirements and thus be in capital build mode through 1H23, while most others are right around target levels after drawing down excess CET1 (built up during COVID) this year. Macroeconomic factors remain the dominant driver, e.g. worse-than-expected credit normalization and/or a worsening outlook would drive higher reserve levels under CECL, a one-off hit to earnings and capital generation. Liquidity is also strong and limits the risk of a codification of unrealized losses on the securities book, but higher rates (hit to AFS pricing) and ongoing QT are potential pressure points.

Primary Market Outlook

IG Banks 2023 Primary Market Expectations				
Issuer	Rating	Est. Amount ($B)	Use of Proceeds	Anticipated Timing
BAC	A2	$20	GCP	1Q/2Q/3Q/4Q
JPM	A3	22	GCP	1Q/2Q/3Q/4Q
MS	A2	15	GCP	1Q/2Q/3Q/4Q
GS	A3	14	GCP	1Q/2Q/3Q/4Q
WFC	A2	10	GCP	1Q/2Q/3Q/4Q
C	A3	9	GCP	1Q/2Q/3Q/4Q

Source: CreditSights, Bloomberg, L.P.

Issuance out of the big 6 U.S. banks has been the relative value story for the sector in 2022; after issuing record amounts in 2020 and again in 2021, broad-based expectations were for a YoY drop-off but instead we are on pace for yet another record year. Issuance drivers include some regulatory needs—though with the prospect for real relief if the Fed ever releases its proposal(s) for leverage exposure re-calibration—while we think the heightened volatility kicked off by the Russia invasion of Ukraine and global inflationary impulses presented banks with attractive business opportunities for balance sheet expansion. There is also always the opportunistic angle for a sector that has to be in the market in size, year in and year out, and some of the YTD22 volume may have a pre-funding component with the banks pulling forward supply ahead of even higher rates. For 2023, we are expecting that YoY supply decline to finally surface with banks largely in comfortable regulatory positions, the prospect for some regulatory relief, and slower balance sheet growth including fewer markets-based opportunities. Regional banks are a slight wildcard as there could be some issuance needs if regulators adopt a TLAC-style regime, though we also expect any such rules would have a multi-year phase-in that reduces the risk of a new issue supply shock.

Event Risk/M&A Landscape

M&A activity has slowed in terms of both deal announcements and approval timelines; for 2023, we would expect activity to remain light and more focused on smaller add-on deals, including outside the banking system. After a wave of industry consolidation involving regional and super-regional banks from 2019 through early 2022, whole-bank deal activity has slowed due to macroeconomic and capital markets conditions, as well as the regulatory environment. Deals have been taking significantly longer to gain approval since mid-2021, and regional banks also face potential new disincentives to grow above a certain size amid the 'TLAC for regionals' proposal. These factors along with macro uncertainty and lower levels of excess capital across the sector compared to 2020-21 will likely keep M&A activity in check in 2023.

ESG Considerations

In 2023, the Federal Reserve is conducting its first pilot climate stress test, following in the steps of other global regimes like the U.K. which has started running these tests on an aggregate level as regulators start the work on incorporating climate risks into the financial safety and soundness supervisory framework. The pilot exercise includes participation from the six largest U.S. banks (BAC, Citi, GS, JPM, MS, WFC), and is expected to launch in early 2023 and run through the end of the year. No individual bank results will be publicly released, but the Fed plans to release its scenario variables around the time of launch.

Insurance

Executive Summary

- We have a Market perform recommendation on the Insurance sector. While aggregate sector spreads could benefit from the combination of rising interest rates and the sector's defensive qualities, we highly recommend a bottom-up approach; where in the P&C sector we have a clear bias towards Commercial-focused names and in the Life Insurance sector we are cautious with regards to annuity-focused writers.

- Three of our top picks in the US Insurance sector include Unum, Assured Guaranty, and Liberty Mutual. For UNM, rising rates are a major positive with regards to LTC reserve adequacy and meanwhile its core portfolio of supplemental and voluntary benefits continues to perform well. With Assured Guaranty and Liberty Mutual, we like the incremental yield versus the peer group and believe each insurer is well positioned to withstand macroeconomic weakness.

- Pans in the Insurance sector include Allstate, Brighthouse, and Lincoln National. With Allstate, particularly acute inflationary pressures have contributed to underwriting losses, and we prefer to take our exposure in the sector to names with greater Commercial lines exposure. With Brighthouse and Lincoln National, these names are among the most exposed to financial market volatility and ratings risk for particularly elevated for LNC at the moment.

- Expect fairly limited new issuance from the Insurance sector in 2023. There are only limited refinancing opportunities in the sector and there aren’t notable M&A deals in the pipeline that require debt funding.

Key Themes for 2023

- In the Life insurance sector, moderation in COVID-19 mortality claims costs is highly positive, though of course the potential for new variants is always a wildcard risk factor. Furthermore, recent claims have skewed more towards older individuals who tend to carry lower face value policies as compared to younger and working age individuals. Meanwhile, we also note that non-COVID mortality has returned closer to baseline levels, as well.

- In the P&C insurance sector, commercial insurers are posting some of their strongest underwriting margins in recent memory (if not ever). On the other hand, inflationary cost pressure that have been particularly acute in the auto and by extension auto insurance sector are leading personal lines insurers to post unusually weak underwriting performance; expect to see them raise premium rates aggressively to compensate.

- For both Life and P&C insurers, higher interest rates are very positive over the medium-to-long term. Higher rates bolster re/investment yields, with P&C insurers’ typically carrying a shorter duration investment portfolio and therefore able to more quickly take advantage of higher rates as compared to their Life insurance counterparts, but Life insurers could benefit from reduced reserve adequacy risk with higher rates, as well.

- M&A risk is likely limited across both Life and P&C insurance sectors, rather than seeking transformational type deals we suspect the majority of M&A activity to be limited to fine-tuning product portfolios with some insurers looking to exit specific lines of business and other insurers looking to either enhance scope and scale within a product line or to fill-in the ‘white space’ that exists in their current product offerings.

Top Risks for 2023

- Financial market volatility has negative implications for insurer alternative investment income and could require additional reserve strengthening particularly for insurers with significant exposure to variable annuity lines.

- Inflation typically has limited implications for life insurers with liabilities generally denominated in nominal terms, but for the P&C insurance sector rapidly rising inflation can contribute to higher insurance claims for policies associated with auto, home, and commercial property damage.

- Macroeconomic weakness is unlikely to reach a severity level high enough to significantly pressure leading insurer credit profiles, but we do caution that higher unemployment is a negative for life and P&C insurer top-line growth, and there are mortgage insurers exposed to housing market conditions.

- For P&C insurers, the frequency and severity of hurricanes and other severe weather events is on the rise. We will be carefully monitoring insurer use of reinsurance strategies and whether insurers will continue to pull back from either certain risks or certain geographies.

- Implementation of long duration targeted improvement (LDTI) could have a negative impact on insurer GAAP book equity with the impact predominantly felt by life insurers (though the impact will be primarily isolated to AOCI). Positively, rising interest rates mitigate the impact of LDTI, and we also note that LDTI should have limited (if any) economic impact, and cash flows which are instead governed by statutory (regulatory) financials which will not be impacted.

Picks, Pans & Recommendations

Investment Grade Picks

- **Unum**: UNM is one of our top picks in the Life Insurance sector. Rising interest rates significantly mitigates risk associated with the company's legacy long-term care insurance portfolio, while its core business focused on supplemental and voluntary benefits continues to perform very well. Whereas in the past our favorable assessment was limited to short duration paper, we now like the value proposition across tenors.

- **Liberty Mutual**: LIBMUT is among the most diversified P&C insurers from both geographic and product-line perspectives, and even if its performance across these geographies and lines of business isn't necessarily best-in-class, we classify performance as 'good enough' and meanwhile the company benefits from a very strong regulatory capital position. We expect challenges in retail lines to persist into 2023, but strength in commercial lines should be a major offset.

- **Assured Guaranty**: AGO is one of our top picks in the P&C insurance sector, trading wide to the broader peer group despite its high ratings due to credit profile overhang associated with legacy Puerto Rico exposure and fairly limited coverage by analysts. We believe that the company is very well positioned to withstand macroeconomic weakness and meanwhile the Puerto Rico story crawls to a conclusion with a generally favorable outcome for AGO.

Investment Grade Pans

- **Allstate**: The inflationary cost environment that has been particularly acute in the auto insurance sector leaves Allstate as among the most exposed to an unfavorable operating backdrop. While we are confident that ALL will be able to return to target margin by YE23, we prefer to take our exposure to the P&C insurance sector primarily through names more operationally levered to the Commercial space.

- **Brighthouse**: Though we're cognizant of the incremental yield offered by Brighthouse, the insurer is one of the most exposed to equity market volatility and any excess capital generated from more favorable markets has largely been returned to shareholders, thus limiting favorable credit profile development ahead of macroeconomic weakness.

- **Lincoln National**: At the senior debt level, we do not like the relative value proposition given the combination of financial market volatility and uncertainty regarding LNC's reserve adequacy and ability to maintain market share contributed to ratings downgrades and/or revisions to negative outlooks. While LNC may be able to avoid further downgrades if operating results remain stable, we see better value with more limited downside risk elsewhere in the life insurance sector.

US IG Insurance Company Recommendations		
Outperform	**Market Perform**	**Underperform**
Aflac (AFL)	American International Group (AIG)	Allstate (ALL)
Aon (AON)	Chubb (CB)	Brighthouse (BHF)
Assured Guaranty (AGO)	Everest Re (RE)	Hartford (HIG)
CNA Financial (CNA)	Marsh and McLennan (MMC)	Lincoln National (LNC)
Corebridge (CRBG)	MetLife (MET)	Progressive (PGR)
Liberty Mutual (LIBMUT)	Radian (RDN)	Prudential (PRU)
Principal Financial Group (PFG)	Travelers (TRV)	
Unum (UNM)		

Source: CreditSights

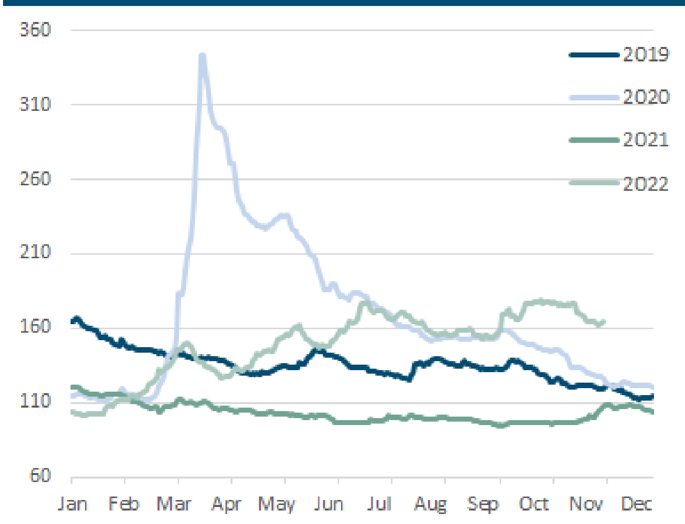
High Yield Pans

- **Enact**: While we are very pleased with recent operational performance, its strong regulatory position, and we remain bullish on ACT's ability to weather macroeconomic weakness in good order given, the operational risk factors across the mortgage insurance space are highly similar and all else equal higher-rated Radian and MGIC represent a safer plays. We are cautious about adding to positions in a housing market play ahead of potential macroeconomic weakness.

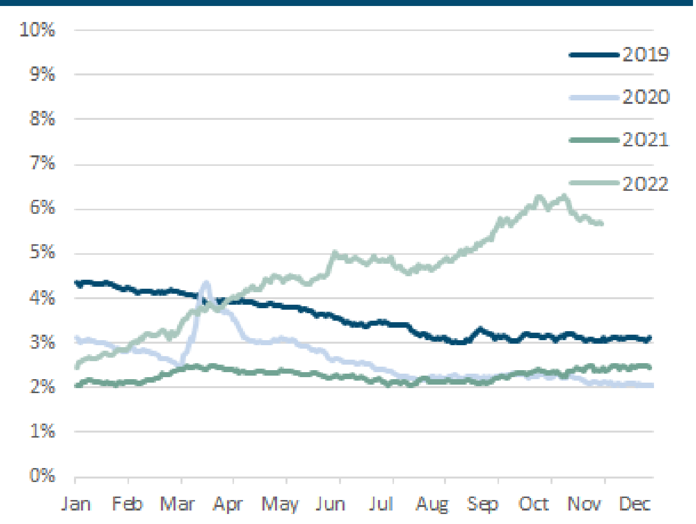
Relative Value

Investment Grade

US IG Insurance Annual OAS History: 2019-2022



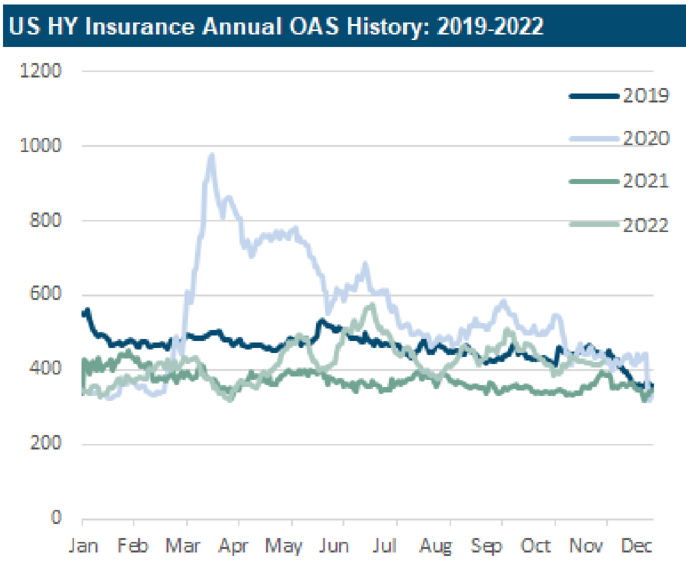
US IG Insurance Annual YTW History: 2019-2022

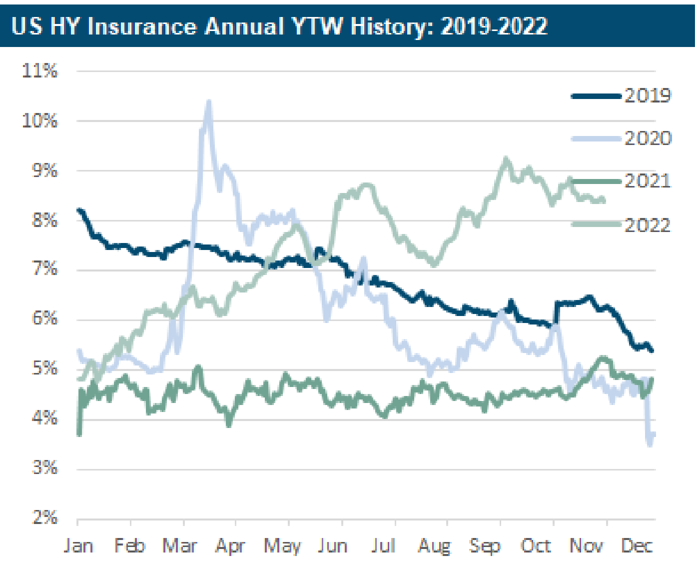


Source: CreditSights, FactSet, ICE Data Indices, LLC

As of the end of November, the insurance sector trades approximately 10-15 bp wide to the broader Financials index on 2-years longer duration, and approximately 20-25 bp wide to the broader IG index on similar duration. In our view, the Life and P&C insurance sectors have fairly strong defensive qualities; in the P&C insurance sector insurance is simply the cost of doing business, whereas in the Life insurance sector mortality claims payments tend to be uncorrelated with financial markets. Positively, rising interest rates is a tide that lifts all boats, we expect favorable re/investment yields and lower reserve adequacy risk to be tailwinds for 2023. Credit profiles and leverage metrics look relatively stable to us, and though we view the insurance sector as an appropriate sector for defensive-minded investors, we do caution that specific sub-sectors have very different operational risk factors – by way of example we have a clear preference for Commercial P&C insurers and Group life insurers as compared to Retail P&C insurers and annuity-levered life insurers.

High Yield





Source: CreditSights, FactSet, ICE Data Indices, LLC

Given how ratings sensitive the insurance sector is, the HY insurance space primarily consists of names that were once investment grade but for various reasons descended into HY territory (examples include Genworth and its long-term care portfolio, mortgage insurers like MGIC still feeling the fallout of financial crisis era downgrades, and financial guarantors like MBIA and AMBC where the combination of financial crisis era RMBS defaults and then Puerto Rico losses contributed to downgrades); the clear exception is insurance brokers where ratings are significantly less important. The mortgage insurance space represents among the largest sectors within HY insurance, and to the extent macroeconomic weakness translates to housing market weakness and increased mortgage delinquencies that could pressure spreads. Positively, mortgage insurers are entering potential macroeconomic weakness from a position of balance sheet strength, but we're not sure investors will be particularly keen on a sector that historically underperformed during periods of economic volatility and GDP declines.

Fundamental Outlook

Investment Grade

IG Insurance Largest Issuer Fundamental Snapshot

	Total	Debt to Capital (ex-AOCI)			
Issuer	Outstanding ($B)	Current	YE 2021	YTD Change	FY2023 Leverage Direction
MetLife	$17.2	25.4%	24.0%	1.4 pp	Flat
Chubb	$14.5	19.8%	21.8%	-2.0 pp	Flat
AIG	$14.4	27.4%	27.6%	-0.2 pp	Lower
Prudential	$14.1	27.0%	24.6%	2.4 pp	Flat
Marsh & McLennan	$10.8	45.6%	45.5%	0.2 pp	Flat
Aon	$10.2	73.4%	67.5%	5.9 pp	Flat
Liberty Mutual	$10.1	25.5%	25.1%	0.4 pp	Flat
Corebridge	$8.4	26.7%	n/a	n/a	Lower
Allstate	$7.5	27.8%	24.5%	3.3 pp	Higher
Travelers	$7.3	20.8%	21.6%	-0.8 pp	Flat

Source: CreditSights, FactSet, ICE Data Indices, LLC, Company Filings

High Yield

HY Insurance Largest Issuer Fundamental Snapshot					
	Total	Debt to Capital (ex-AOCI)			
Issuer	Outstanding ($B)	Current	YE 2021	YTD Change	FY2023 Leverage Direction
Alliant Holdings	$2.5	N/A	N/A	N/A	N/A
Acrisure	$2.5	N/A	N/A	N/A	N/A
HUB International	$2.2	N/A	N/A	N/A	N/A
Assured Partners Inc	$1.5	N/A	N/A	N/A	N/A
Radian	$1.4	27.6%	28.1%	-0.5 pp	Flat
Ohio National	$1.0	N/A	N/A	N/A	N/A
Enact Holdings	$0.8	14.0%	15.9%	-1.9 pp	Flat
MGIC Corp	$0.7	11.6%	19.5%	-7.9 pp	Flat

Source: CreditSights, FactSet, ICE Data Indices, LLC, Company Filings

Insurers are highly sensitive to their ratings, and we expect credit profiles to remain largely stable across both the Life and P&C insurance sectors. Most insurers are pleased with their current ratings band, and the sector tends to coalesce in the 20% - 30% debt to capital area. We don’t see any immediate catalysts that would push leverage higher (on an ex-AOCI) basis as we view M&A risk as fairly limited. Likewise, catalysts for deleveraging are similarly limited outside of specific insurers choosing to tactically repay debt ahead of maturity to the extent certain subordinated securities no longer have a place in the capital structure.

Primary Market Outlook

IG Insurance 2023 Primary Market Expectations				
Issuer	Rating	Est. Amount ($B)	Use of Proceeds	Anticipated Timing
LIBMUT	Baa2/BBB/NR	$1.1	Refinancing	2Q
ALL	A3/A-/BBB+	$0.8	Refinancing	1Q/2Q
MMC	Baa1/A-/A-	$0.6	Refinancing	1Q/3Q
JXN	BBB/Baa2/BBB	$0.6	Refinancing	4Q
EQH	Baa1/BBB+/NR	$0.5	Refinancing	2Q
CB	A3/A/A	$0.5	Refinancing	1Q
AON	Baa2/BBB+/A-	$0.4	Refinancing	1Q
AHL	Baa2/BBB/NR	$0.3	Refinancing	4Q
PFG	Baa1/A-/A-	$0.3	Refinancing	2Q
CNA	Baa2/A-/BBB+	$0.3	Refinancing	3Q

Source: CreditSights, Bloomberg, L.P.

Expect 2023 issuance in the sector to be fairly limited and predominantly associated with refinancing activity. A limited amount of senior and junior subordinated debt is coming due across the Life and P&C insurance sectors in 2023 and there is not notable M&A in the pipeline that will require debt funding. However, we could see some debt maturities in 2024 pre-funded in 2023 depending on how the interest rate environment develops. Meanwhile, we note that the table above excludes FABNs, where we expect to see continued issuance activity, but even here higher interest rates takes some of the steam away from what was a red-hot issuance market in 2021 and early 2022.

Expect issuance activity in the HY insurance space to be very limited in 2023. Mortgage insurers, for example, have largely gotten ahead of near-term debt maturities, while other names like GNW and run-off insurers do not seem to have any funding needs that can be addressed by debt. The majority of new issuance activity from the HY insurance space could come from insurance brokers.

Event Risk/M&A Landscape

We view event risk as fairly low in the Life and P&C insurance sectors. Broadly speaking, we expect M&A activity to be dominated by insurers looking to optimize product portfolio mix as opposed to seeking transformational type deals. In addition, M&A could continue to be focused on divestitures – a number of insurers have exited either the Life Insurance or P&C insurance spaces to focus on their core competencies (like Allstate divesting of Life Insurance, AIG separating from Life insurance, and MetLife exiting P&C insurance) – we expect this trend to continue. Meanwhile, private equity continues to focus on accumulating assets in the Life insurance sector, and that provides some insurers with an opportunity to exit lines of business no longer considered core.

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