April 2024 – Market Outlook

PhlioSmith was up 9.3 percent in the first four months of 2024, outperforming the 7.8 percent gain of the S&P 500 Financials Sector and the S&P 500, with a 6.0 percent gain. Philo's performance reflected across the board gains in most sectors and holdings. The top five performers were in different sectors and accounted for half of the gain. Valuations across most insurance sectors are still below long-term averages.

The Portfolio

Specialty property casualty holdings, up 16.2 percent on average, had the greatest impact on overall performance. The holdings account for over 18 percent of the portfolio and all maintain a competitive advantage in the lines and/or markets they specialize in and are reaping the benefit of the continued strong upturn in pricing. Specialty holdings typically operate in the excess and surplus lines marketplace where rate increases have well outpaced price increases in standard lines. At the same time reinsurers have benefited by the flow through effect of primary rate increases, which is on top of reinsurance premium rate increases. Reinsurance holdings were the second largest contributor to performance.

Insurance broker holdings also performed well. Economic growth and premium rate increases provide a strong operating environment. Broker organic growth has also supported strong revenue gains. And tight expense management, even with significant investments in personnel and systems, allows profit margin improvement. Leading brokers continue to pressure smaller competitors that can't provide industry specialization and technical support. M&A activity is strong, although a few private equity-backed buyers have pulled back in the face of rising interest rates. Many banks that built up large insurance brokerage businesses are continuing to sell these operations to bolster capital.

Catastrophe losses in 2023 were above average and included earthquakes in Turkey and Syria, wildfires in Hawaii, and convective storms in both the US and Europe. Total cats were above the ten-year average, so January 1 renewals were at the highest rates seen in decades. However, in contrast to 2022 renewals, there was adequate capacity for most primary companies to buy the protection they sought. Third-party capital has begun to come back into the market, but not by enough to change the pricing dynamics. In property exposed insurance lines, losses in recent years along with the worldwide expectation of rising catastrophe losses resulting from global warming have created an environment of rising premium rates. The tightening of reinsurance terms and conditions a year ago had a material impact on primary company losses in 2023 as compared to prior years. Casualty lines pricing has also accelerated. Social inflation, most noticeably evidenced by rising jury awards, has made it clear additional rate as well as tougher underwriting standards are necessary going forward. The rise in investment income is becoming a material contributor to profits as interest rates rise. Carriers with long-duration reserves will be significant beneficiaries as higher new rates are earned into investment portfolios.

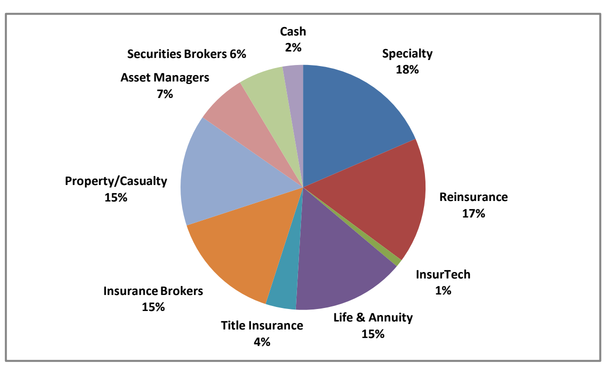
Outlook and Strategy

The long-term outlook for insurance and reinsurance is good. Economic growth is strong and inflation, though higher than it has been in decades, is abating. The labor market remains tight. Social and economic inflation pressure claims severity. In the current environment insurers are implementing rate increases by enough to offset these factors and are seeing widening profit margins. The increase in short-term interest rates is a positive as new investment rates of return are well above the yields of maturing bonds. Net investment income is rising across the board and becoming a material contributor to overall earnings and returns. Property casualty insurers and reinsurers remain focused on underwriting profits as the key to return on equity. Companies are maintaining capital positions that are more than adequate to support growth. Carriers continue to seek to increase rates across the board. The absolute and relative valuations of Philo's holdings are near the middle of their long-term ranges. Consequently, we are taking advantage of periods of volatility to make changes to the portfolio.

PhiloSmith's Key Statistics & Sector Breakdown

Based on a trailing 10-year period

Alpha	4.89%
Beta	0.79
Standard Deviation	4.62%
Sharpe Ratio	0.82
R-Squared	56.08%



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