PHILOSMITH

Insurance Investors and Advisors Since 1962

October 2024 – Market Outlook

PhlioSmith was up 28.9 percent in the first ten months of 2024, outperforming the 25.2 percent gain of the S&P 500 Financials Sector and the S&P 500, with a 21.0 percent gain. Philo's performance was the result of substantial gains of several large holdings. Nearly half of the gain came from five holdings that accounted for 40 percent of the portfolio and were up 36 percent on average. Those five holdings included specialty property casualty, reinsurance, life insurance, and insurance brokerage companies representing a broad swath of sectors. Valuations across most insurance sectors are in line with long-term averages.

The Portfolio

Insurance broker holdings, up 36.4 percent on average, had the greatest impact on overall performance. Brokers continue to report strong revenue gains. GDP growth, rate increases, and organic growth all support growth. At the same time, despite brokers making substantial technology and personnel investments, profit margins continue to improve. Leading brokers have the benefit of market power derived from size and slightly better economics with major insurance carriers. At the same time the focus on industry specialization, technical and underwriting support, and service allow the leaders to gain market share by retaining existing clients and making new sales. M&A activity is strong, although a few private equity-backed buyers have been slow to return to the peak acquisition pace of the 2021/2022 years in the face of rising borrowing costs and slight increase in acquisition multiples.

Reinsurers, up 32.1 percent on average, performed extremely well. Reinsurers have increased the cost of the protection they provide primary companies while also reaping the benefit of the flow-through effect of primary rate increases. Reinsurers have also been able to materially increase returns and reduce volatility by tightening terms and conditions of the coverage they provide. Reinsurance holdings were the second largest contributor to performance.

2024 catastrophe losses are above long term averages, but in line with recent years. June 30 property reinsurance renewal pricing was up, albeit not by as much as in recent years. There was adequate capacity for most primary companies to buy sufficient protection, but retentions remain high. Third-party capital raises continue to be robust and is beginning to change the pricing dynamics. Industry observers projected a record number of hurricanes, but so far there have been fewer hurricanes than expected. At the same time the largest hurricanes were downgraded substantially. Hurricane Milton, once expected to be one of the costliest storms ever, likely caused \$20 - \$30B of insured losses, which is one third of originally expected losses. Year to date losses are now expected to keep 1/1 reinsurance pricing on an upward trend. The tightening of reinsurance terms and conditions has had a material impact on primary company losses as more of the cost of cat claims are being shifted to the primary companies. Casualty lines pricing is up, as social inflation has become most noticeable. The rise in investment income is becoming a material contributor to profits as interest rates remain elevated. Carriers with long-duration reserves will be significant beneficiaries as higher new rates are earned into investment portfolios.

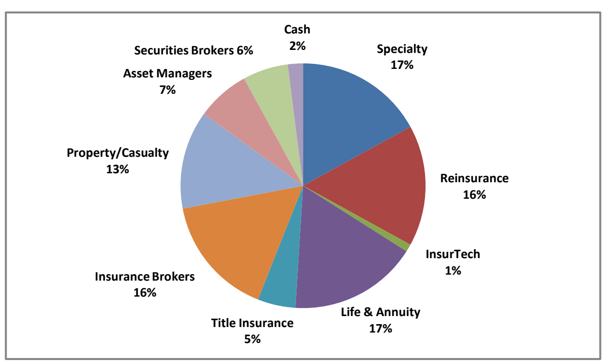
Outlook and Strategy

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 improving profit margins. The increase in short-term interest rates is a positive as new investment rates of return are still 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. The absolute and relative valuations of Philo's holdings are near the middle of their long-term ranges.

PhiloSmith's Key Statistics & Sector Breakdown

Based on a trailing 10-year period

Alpha	5.57%
Beta	0.78
Standard Deviation	4.62%
Sharpe Ratio	0.86
R-Squared	54.87%



SEC registered investment advisor

PHILOSMITH Six Landmark Square, Stamford CT 06901 203.348.7365