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Life insurers' values slide amid concerns over investment income

By Calvin Trice

Life insurance shares continued their retreat on the markets as economic uncertainty and a longer horizon of low interest yields dimmed earnings prospects.

The SNL Insurance Index contracted for the week, falling 0.57% to 710.22. The S&P 500 declined 1.14% to 1,977.22.

Insurance M&A adviser Grace Vandecruze thinks the darkened outlook that followed the U.K.'s vote to exit the European Union could pressure interest rates downward and force U.S. life insurance companies to reformulate their portfolio mix for investment income.

"The industry could have to do a drastic recalibration of their investment models as companies continue to search for yield and navigate this uncharted rate territory," Vandecruze, founder of Grace Global Capital, said in an interview.

Those waters could lead to hazardous straits of zero and even subzero interest rates with further quantitative easing, Vandecruze said. Several nations have seen interest rates dip below zero, and the world has become more economically uncertain, she added.

"The path to economic recovery has become more and more difficult to foresee, and coupled with geopolitical risk, the Fed may have to continue easing," she said.

MetLife Inc. declined 3.09% for the week to close at \$38.27. Prudential Financial Inc. dropped 2.76% to \$69.04, and Lincoln National Corp. fell 3.25% to \$37.49. Genworth Financial Inc. closed at \$2.43, down 5.81%.

Insurance companies with exposure to Puerto Rico's debt crisis saw their share prices decline during the week following federal enactment of a bill restructuring the island government's financial obligations. Shares of MBIA Inc., Assured Guaranty Ltd. and Ambac Financial Group Inc. had suffered while Puerto Rico wrestled with its \$70 billion debt.

The Puerto Rico Oversight, Management and Economic Stability Act, or PROMESA, did not prevent a default on about \$1 billion in general obligation bonds, however. Units of Assured Guaranty began making debt service payments on some of the defaulted bonds. Obligors to which Assured Guaranty had exposure had \$403 million of gross principal and interest due at the July 1 default date.

Meanwhile, Ambac is facing a lawsuit investors filed claiming that the company failed to disclose the risk of Puerto Rico's government bonds. Ambac lost 1.95% for the week, closing at \$16.08. Assured Guaranty declined 3.15% to \$24.91, and MBIA fell 1.29% to finish at \$6.91 for the week.

Allstate Corp. also edged downward for the week. Sandler O'Neill analyst Paul Newsome nevertheless believes the company's shares are among the surest investments among large-cap insurance companies. Peers such as American International Group Inc., Chubb Ltd., Travelers Cos. Inc. and XL Group Plc are dealing with various issues, including merger integration, capital market exposures or management transitions, Newsome wrote in a July 1 note.

"We think some of these companies will resolve their issues and emerge as core investments, but for the moment, Allstate is the relatively 'safe play' where there is also 'earnings power,'" Newsome wrote. He maintained his "buy" rating on Allstate while increasing his price target \$1 to \$77.

Allstate dropped 0.89% to \$68.94. Travelers ticked down 1.13% to \$117.51, and XL Group closed at \$32.62, a decline of 1.48% for the week.

National Interstate Corp. finished higher after American Financial Group Inc. stepped up its offer price for the company to \$32 per share in cash from \$30.75. National Interstate had spurned the earlier offer because it did not think it was in the best interests of minority shareholders.

National Interstate rose 1.09% to \$30.47 on the week, while American Financial shed 1.80% to close at \$72.04.

Aetna Inc. and Humana Inc. saw their share prices drop, as federal regulators expressed doubts about the companies' planned combination. Aetna declined 3.73% for the week to \$115.47. Humana lost 6.47% and closed the week at \$162.74.

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