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Risks on the rise as headwinds blow stronger: global economic and insurance market outlook 2024–25

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Executive summary

The world economy is set to slow in 2024, as cumulative monetary policy headwinds grow and growth impulses of 2023 fade.

We expect the world economy to slow in 2024 as headwinds from the cumulative monetary policy tightening intensify and the growth impulses of 2023 fade. The outbreak of war in the Middle East heightens the risks to the outlook. Major economies are diverging: the US continues to grow, while Europe is stagnating, if not already in recession in some countries, and China is grappling with structural domestic growth challenges. We forecast 2.2% global real GDP growth in 2024 before a rebound to 2.7% in 2025, supported by lower inflation and central bank interest rates. Still, in developed markets both inflation and interest rates will likely stay higher than previously anticipated in this decade, and risks are skewed to the upside. We expect global CPI inflation to moderate to 5.1% in 2024 and 3.4% in 2025, but price pressures will likely be volatile. A slower disinflation process increases the cost to economic output and the risk of a protracted stagnation. A sharp rise in long-term US sovereign bond yields this autumn signals a durable regime shift, and we have raised our yield forecasts. Structurally higher real interest rates may expose fragilities in public and private debt balances.

We see a dominant role for (geo)politics in driving the macroeconomic outlook.

We see (geo)politics playing a dominant role in driving the outlook. The war in Israel adds new, potentially non-linear, downside risks, with potential energy price shocks the key risk channel to the global economy. An adverse scenario in which the conflict expands to include major regional oil producers could add 2.4 percentage points (ppts) to our global inflation forecast. More assertive industrial policy has emerged, with long-term implications. Major government initiatives to galvanise sectors from semiconductors to clean energy may add structurally to inflation, fiscal deficits and interest rates if implemented. The insurance industry is a key partner to such projects and we see the potential for growth in commercial lines of business from liability to property, engineering, trade credit and surety as these initiatives take shape.

The growth slowdown and geopolitical uncertainty dampen the insurance outlook.

The economic growth slowdown and elevated geopolitical uncertainty dampen the outlook for the primary insurance industry. We forecast total global real premium growth at only 2.2% annually on average for the next two years, below the pre-pandemic trend (2018–2019: 2.8%) but higher than the average of the past five years (2018–2022: 1.6%). Profitability is recovering and underwriting gaps closing as investment returns increase with high interest rates, but we estimate the industry will not earn its cost of capital in 2024 or 2025 in major markets. Events such as the Middle East war may hurt insurers' capital positions through channels such as inflation and market volatility.

Non-life claims are in focus, while life insurance premiums and profitability are recovering.

Non-life insurance is confronting challenging claims dynamics, with rising frequency and severity of claims despite declines in economic inflation. The pace of claims growth in the liability line of business challenges the insurability of those risks. We estimate that natural catastrophe insured losses are on track to reach USD 100 billion in 2023, for a fourth consecutive year, and the sixth year since 2017 (inflation-adjusted). We anticipate further hard market conditions in 2024 at least. In the Property and Casualty (P&C) segment we estimate 3.4% real premium growth globally in 2023, stronger than our forecast for 2024–25 (2.6%). This reflects a significant repricing of risk, especially in claims-impacted lines. We expect health premiums to return to growth at 1.5% in 2024–25 (2023E: –0.6%). In life insurance, higher interest rates improve demand for savings-type products, continue to support bulk annuity transfers, and higher investment yields are expected to boost profitability in 2024 and 2025. We forecast 2.3% life premium growth on average for 2024–25 (2023E: 1.5%). Our forecast for life savings market growth over the next decade is significantly higher than in the past 20 years.

Alternative economic scenarios are a reminder of the possible balance sheet risks for insurers.

The Middle East conflict adds stagflationary risk, a reminder of the importance of monitoring alternative economic scenarios to our baseline. We track two negative "tail risk" scenarios: "1970s style stagflation" and a "severe global recession". Under stagflation, the combination of high inflation, high interest rates and weak growth would stress underwriting performance, with liquidity, capital and equity all heavily impacted. A severe global recession would raise solvency concerns through negative investment returns and falling premium growth. The probability of an upside scenario is lower than our two key downside scenarios combined, in our view.

Key takeaways

We forecast a global growth slowdown in 2024 after 2023 was more resilient than anticipated

Real GDP growth, inflation and interest rate forecasts for selected regions, 2022 to 2025F

		2022	2023E		2024F		2025F	
		Actual	SRI	Consensus	SRI	Consensus	SRI	Consensus
Real GDP growth, annual average, %	US	2.1	2.4	2.3	1.1	1.0	1.9	1.8
	Euro area	3.4	0.4	0.5	0.3	0.7	1.2	1.5
	Japan	1.1	2.0	1.9	1.0	1.0	0.9	1.0
	China	3.0	5.1	5.2	4.5	4.5	4.4	4.5
	Global	2.8	2.6	2.8	2.2	2.6	2.7	3.0
Inflation, all-items CPI, annual average, %	US	8.0	4.2	4.2	2.7	2.7	2.4	2.3
	Euro area	8.4	5.6	5.6	2.7	2.7	2.1	2.1
	Japan	2.5	3.2	3.1	2.7	1.9	1.7	1.4
	China	2.0	0.6	0.5	1.8	1.8	2.0	2.0
	Global	7.9	5.9	6.1	5.1	4.4	3.4	3.4
Yield, 10-year govt bond, year-end, %	US	3.9	4.7	4.5	4.2	3.8	4.2	3.6
	Euro area	2.6	2.7	2.6	2.4	2.3	2.6	2.3

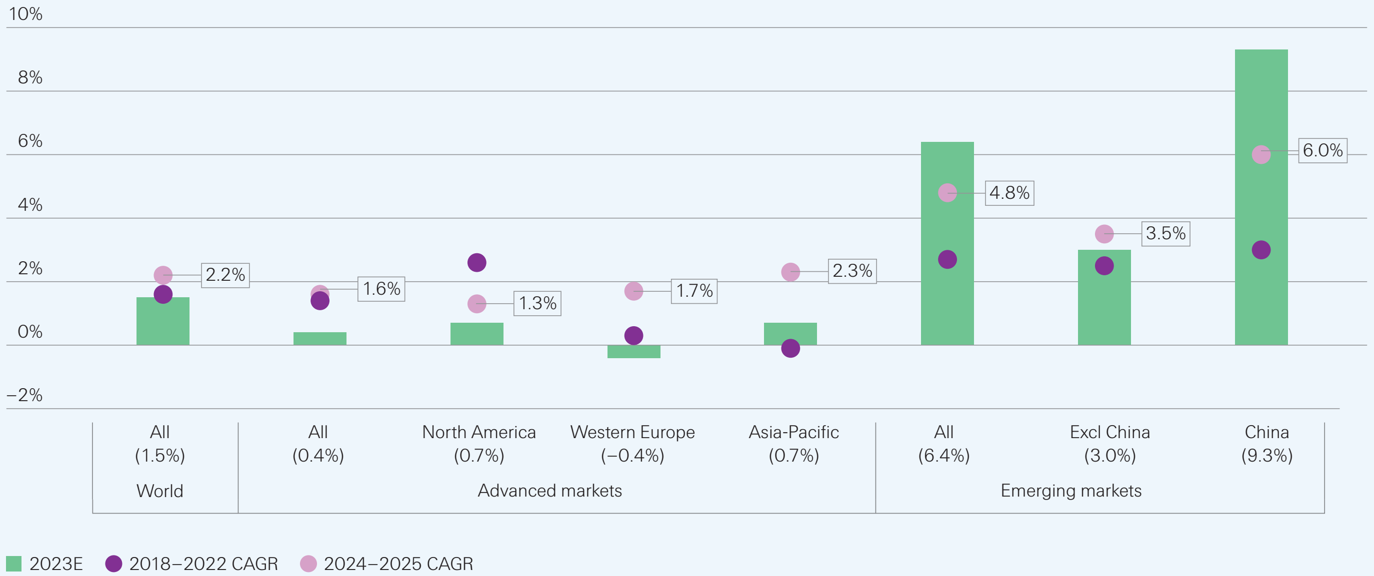
Note: E = estimates, F = forecasts. Euro area policy rate refers to the interest rate on the main refinancing operations; data as of 6 November 2023. * US policy rate consensus is taken as the mid-point of the range.
Source: Bloomberg, Swiss Re Institute

Leading indicators signal both recession and resilience potential in key economies in late 2023

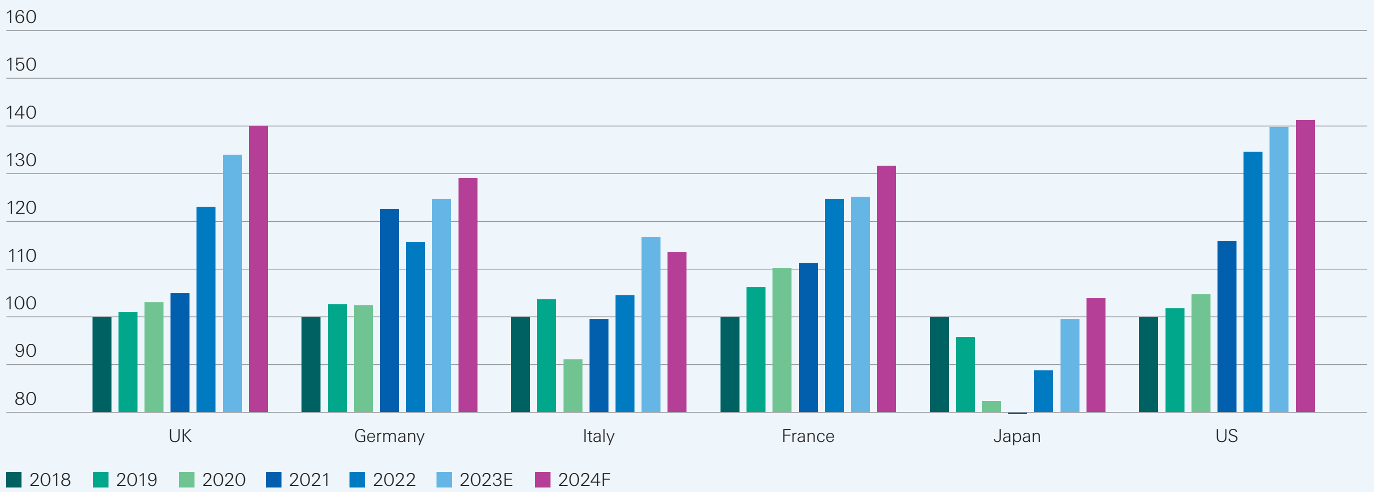
Traffic light performance of selected economic indicators

Category	Indicator	US			Euro area			China		
		January	June	October	January	June	October	January	June	October
Business sentiment	Manufacturing PMI (3m ma)	Red	Red	Red	Red	Red	Red	Red	Yellow	Yellow
	Services PMI (3m ma)	Green	Green	Green	Yellow	Green	Yellow	Red	Green	Green
Consumption	Retail sales (y-o-y%)	Green	Yellow	Green	Red	Red	Red	Red	Green	Green
Employment	Unemployment rate	Green	Green	Green	Green	Green	Green	Yellow	Green	Green
Inflation	Core CPI (3m annualised)	Red	Red	Yellow	Red	Red	Yellow	Green	Green	Green
Housing	House prices	Red	Red	Red	Red	Red	Red	Red	Red	Red
Financial markets	Financial conditions index	Yellow	Green	Red	Yellow	Yellow	Yellow	Yellow	Yellow	Red

The traffic light colours are chosen based on the performance of each indicator over the span of 2023. For PMI surveys (ISM surveys were used for the US), red (less than 49). yellow (between 49 and 51). and green (greater than 51). For retail sales, red (negative year-on-year growth), yellow (growth between 0 and 2%; and green (greater than 2% growth). For unemployment rates, the colors are ranked in level terms relative to their lowest value of the year (the highest unemployment rate of the year is marked in red). For core CPI inflation. red (inflation greater than 3%). yellow (inflation between 1.5–1.8% and 2.3%–2.9%) and green (1.8–2.2%). For home prices, colours are decided based on the year's growth rate (Germany was used as a proxy for the euro area). For financial conditions, colours are ranked relative to their tightest value of the year (FCI levels greater than 100 are considered tight).
Sources: S&P Global, ISM, US Census, Bureau of Labor Statistics, Case Shiller, Goldman Sachs, Eurostat, EUROPACE, NBS, Macrobond, Swiss Re Institute



Source: Swiss Re Institute



Note: E = estimates, F = forecasts. Claims indexed to 2018 = 100, reporting currency. Numbers for France, Japan and the UK refer to non-life claims. For Germany, Italy and the US they refer to P&C claims. Source: FFA, ANIA, GDV, ABI, NAIC, Swiss Re Institute

The long-term positives of high interest rates outweigh the negatives for life insurance

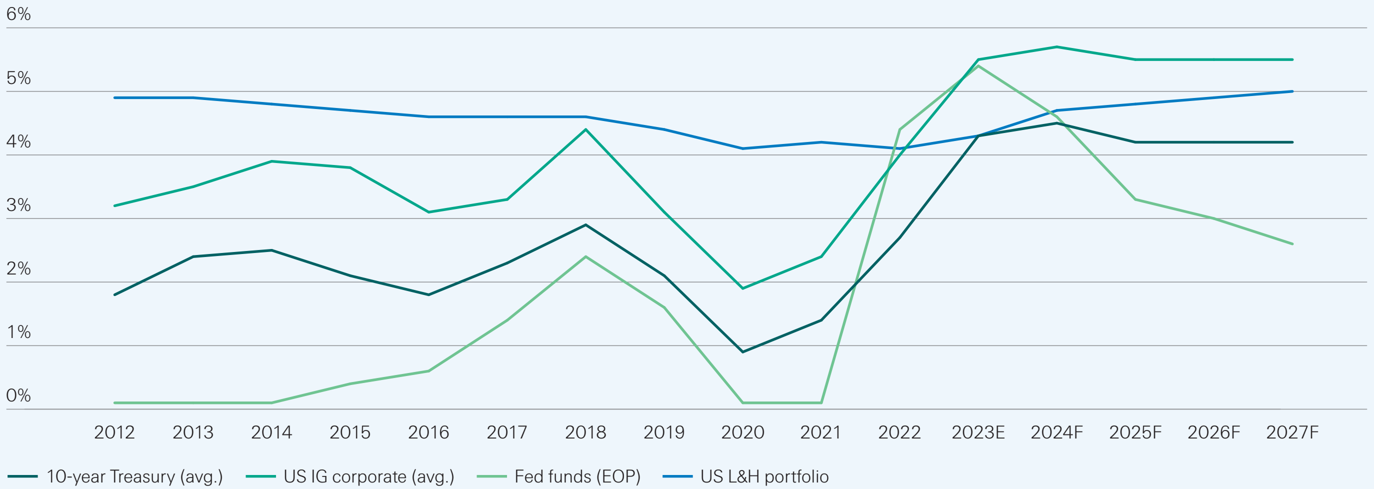
Impact of interest rates on life insurance demand, lapse risks and profitability

		Demand		Lapse risks		Profitability	
Protection products	Risk products	Demand rises as price for protection policies decreases marginally	↑→	No major impact on lapses: the impact on market prices is moderate and mortality risk charges rise with age compared to prior policy terms	→	Positive impact on profitability. Yield on existing portfolios typically lags market rates	↑→
Savings-type products	Decumulation (payout) annuities products	Demand rises driven by more attractive annuity rates	↑↑	Increases for fixed annuities, mitigated with surrender charges	↑→	Higher investment margin on new business. Yield on existing portfolios typically lags market rates. Reduction of reserves for guarantees	↑↑
	Accumulation (savings) products	Demand shifts to products with higher guarantees, away from variable (equity/index based) products	↑↓	Increases if new products offer better benefits and/or surrender charges are low	↑	Increases modestly as the insurer participates partially in the higher investment returns. Reduction of reserves for guarantees	↑

Note: protection products include term assurance, disability, health and critical illness insurance. Savings-type business includes payout annuities (a decumulation product), endowment and with-profits insurance, deferred fixed annuities, and universal and whole-life products. In lapse risks column, red arrow indicates a negative impact on profitability compared to actuarial assumptions.
Source: Swiss Re Institute

Higher interest rates improve the profitability of savings products via higher investment income

US Life & Health (L&H) portfolio yields and interest rate forecasts



Note: E = estimates, F = forecasts.
Source: Swiss Re Institute

Monitoring economic signposts can give early warning of an alternative scenario emerging

Signpost monitor for selected US economic indicators

Signposts for 1970s-style stagflation	Series to monitor	Latest	Percentile rank (%)	Trend	Assessment
Inflation reacceleration and de-anchoring of inflation expectations	Core CPI (m-o-m %, 3m ma annualised)	3.1	88%	↑	
	Average hourly earnings (y-o-y, %)	4.1	80%	↓	
	Conference Board inflation 1Y expectations (survey, %)	5.9	81%	↑	
	10y breakeven inflation (%)	2.5	77%	↑	
Continued labour market tightness and insufficient policy tightening	Vacancies-to-unemployed (ratio)	1.5	92%	↑	
	Nonfarm payrolls (y-o-y, %)	1.9	79%	↓	
	Deviation of inflation from target (24m ma, ppts)	4.5	97%	↑	
	Taylor rule – Policy rate (ppts)	2.2	68%	↓	
Renewed supply shocks (e.g. energy, commodity market stress)	Brent crude price (index)	724	73%	↓	
	Brent crude (magnitude of change, m-o-m %)	–7.8	15%	↓	
	Natural gas price (index)	6.5	2%	↑	
	Natural gas (magnitude of change, m-o-m %)	13.1	87%	↑	
Signposts for severe global recession	**Series to monitor**	**Latest**	**Percentile Rank (%)**	**Trend**	**Assessment**
Persistent inflation risking more aggressive policy tightening	Core CPI (m-o-m %, 3m ma annualised)	3.1	88%	↑	
	Share of PCE items with price growth above 5% (%)	65	63%	↑	
	PPI inflation (y-o-y, %)	2.2	57%	↑	
	Taylor rule – Policy rate (ppts)	2.2	68%	↓	
Signs of substantial demand slowdown	Consumer confidence (index)	103	56%	↓	
	initial jobless claims (y-o-y, %)	4.3	68%	↓	
	Retail sales (y-o-y, %)	3.8	42%	↑	
	Manufacturing PMI (index)	47	10%	↓	
	Services PMI (index)	51.8	17%	↓	
Disruption and deterioration of financial markets	Financial conditions index (Chicago Fed, index level)	−0.4	68%	↓	
	IG credit spreads (bps)	129	45%	↑	
	Equity returns (ytd, %)	9.2	74%	↓	
	30y mortgage rate (%)	7.8	97%	↑	
	Bankruptcies (index)	92.2	47%	↑	
Signposts for productivity revival	**Series to monitor**	**Latest**	**Percentile Rank (%)**	**Trend**	**Assessment**
Strong growth underpinned by higher productivity and investment	Leading indicator index (OECD, index)	99.4	35%	↑	
	Durable goods industry new orders (y-o-y %)	2.2	57%	↑	
	Capital expenditure intentions (y-o-y %)	−56.4	13%	↓	
	Labour productivity (y-o-y %)	2.2	69%	↑	
Benign financial markets and inflation	IG credit spreads (bps)	129	45%	↑	
	Equity returns (ytd, %)	9.2	74%	↓	
	Headline CPI (y-o-y %)	3.7	82%	↓	
	Energy CPI component (y-o-y %)	−0.5	34%	↑	
Optimism over the economic outlook	1Y ahead nominal GDP forecast dispersion (y-o-y %)	−9.4	30%	↓	
	Economic surprise index (Citi, index)	63.4	92%	↑	
	Economic policy uncertainty (6m ma filter, index)	128	61%	↓	
	CEO confidence (index)	46	29%	↓	
	Small business optimism (index)	90.8	15%	↓	
	Consumer confidence (index)	103	56%	↓	

far from scenario | to watch out for; moving towards scenario | close to or at scenario

Note: to assess the current status of the US economy relative to our three scenarios, we identify signposts and monitor both percentile and trend for a selection of key indicators for each signpost. This approach, both static and dynamic, enables us to pinpoint whether the US economy is moving towards or away from the scenario. Monthly data is used (except for CEO confidence, labour productivity and forecast dispersion, which are quarterly). Source: Macrobond, Swiss Re Institute

Macroeconomic environment and outlook

Despite a stronger than expected 2023, we see the world economy slowing next year as monetary policy headwinds strengthen and growth tailwinds fade. We forecast 2.2% global GDP growth in real terms in 2024, rising to 2.7% in 2025. Major economies are diverging: US growth continues, Europe is stagnating, if not already in recession in some countries, and China is grappling with domestic structural weaknesses. Renewed geopolitical fractures in the Middle East create potentially non-linear downside risks and add uncertainty to the outlook. Despite expecting inflation to ease further, we forecast it above central bank targets in 2024, with a risk of upside shocks stemming from, for example, geopolitics. Structural trends, including the green transition and more assertive industrial policies, reinforce our view that inflation is set to stay higher. We expect policy interest rates to be restrictive over 2024 and 2025, and a structurally higher natural rate of interest. The repricing in sovereign bond yields is a regime shift that affirms our forecast for higher long-term rates.

Slowdown ahead as interest rate headwinds strengthen

We expect global real GDP growth of 2.2% in 2024, rebounding to 2.7% in 2025.

After a resilient 2023 powered by strong US economic growth, we see the world economy slowing next year as the lagged impact of higher interest rates filters through and other tailwinds, like strong US consumer spending, fade. (Geo)politics adds further uncertainties, with pivotal elections next year from the US to Asia. We forecast global GDP growth at 2.2% in real terms in 2024, the weakest since the global financial crisis outside of the COVID-19 crisis, and down from 2.6% in 2023, before a rebound to 2.7% in 2025 (see Table 1). We expect inflation and interest rates to moderate in 2024 and 2025, but flag upside risks to both.

Four "Rs" characterise our macroeconomic outlook: recession risk, real rates, regional conflict, and revival of industrial policy.

We see four key trends driving the global economy over the coming two years: the threat of recession, the normalisation of real interest rates, geopolitics and regional conflicts, and the revival of industrial policies in developed markets. The duel of recession versus further economic resilience will persist in the near term and determine the path ahead for inflation, employment, and central bank policy rates for the cyclical outlook. The structural outlook will see higher inflation, public debt and even possibly potential growth, all which support a higher central bank natural rate of interest. Both cyclical and structural drivers also support a durable regime shift to higher sovereign bond yields. Geopolitics and regional conflict, most recently the new war in the Middle East, adds potential non-linear downside risks. The revival of industrial policy in developed markets, focused on modernising ageing industries and establishing new ones, may add structural growth tailwinds, but will likely also contribute to structurally higher inflation in the long term.

Table 1
Real GDP growth, inflation and interest rate forecasts in selected regions, 2022 to 2025F

		2022	2023E		2024F		2025F	
		Actual	SRI	Consensus	SRI	Consensus	SRI	Consensus
Real GDP growth, annual average, %	US	2.1	2.4	2.3	1.1	1.0	1.9	1.8
	UK	4.5	0.5	0.4	0.2	0.4	1.2	1.3
	Euro area	3.4	0.4	0.5	0.3	0.7	1.2	1.5
	Japan	1.1	2.0	1.9	1.0	1.0	0.9	1.0
	China	3.0	5.1	5.2	4.5	4.5	4.4	4.5
	Global	2.8	2.6	2.8	2.2	2.6	2.7	3.0
Inflation, all-items CPI, annual average, %	US	8.0	4.2	4.2	2.7	2.7	2.4	2.3
	UK	9.0	7.4	7.4	3.3	3.1	2.3	2.2
	Euro area	8.4	5.6	5.6	2.7	2.7	2.1	2.1
	Japan	2.5	3.2	3.1	2.7	1.9	1.7	1.4
	China	2.0	0.6	0.5	1.8	1.8	2.0	2.0
	Global	7.9	5.9	6.1	5.1	4.4	3.4	3.4
Policy rate, year end, %	US	4.4	5.4	5.6	4.6	4.3	3.3	3.3
	UK	3.5	5.3	5.3	4.5	4.6	3.0	3.5
	Euro area	2.5	4.5	4.5	3.8	3.8	2.5	3.2
	Japan	–0.1	–0.1	–0.1	0.1	0.0	0.1	0.2
Yield, 10-year govt bond, year end, %	US	3.9	4.7	4.5	4.2	3.8	4.2	3.6
	UK	3.7	4.4	4.1	4.0	3.6	4.2	3.8
	Euro area	2.6	2.7	2.6	2.4	2.3	2.6	2.3
	Japan	0.2	0.9	0.9	1.2	0.8	1.1	1.0

Note: E = estimates, F = forecasts. US policy rate consensus is taken as the mid-point of the range. Japan policy rate refers to the short term policy balance rate. Euro area policy rate refers to the interest rate on the main refinancing operations. 10-year euro area yield is proxied by the German government bond yield. Data and forecasts as of 6 November 2023.
Source: Bloomberg, Swiss Re Institute

2024–2025: in the shadow of recession risk

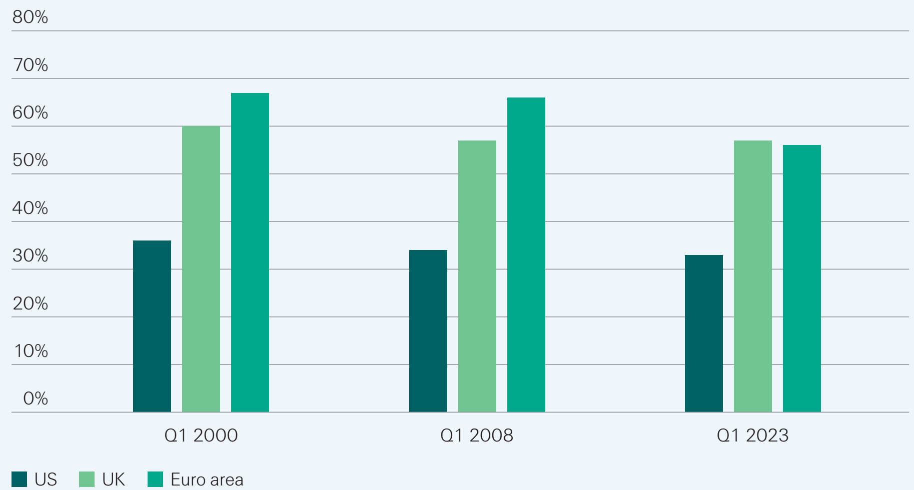
We expect fading tailwinds in the US to keep recession dynamics in play.

We see it a tall order for sequential global GDP growth rates to move higher from here next year given that the full impact of higher interest rates on the real economy is still to come. The current economic strength of the US reinforces the case for interest rates staying restrictive for longer, in turn heightening the risk of a hard landing in the medium term. We forecast US real GDP growth to slow in the coming two years to below what we see as its long-run trend of 1.9%, as the tailwinds that powered 2023 fade. US consumers' pandemic-era savings that have so far supported consumption are largely exhausted. For corporates, a higher cost of capital, labour input costs, and reduced pricing power will likely increasingly erode profit margins and raise distress risks, which could induce layoffs. The 2024 presidential election, a divided Congress, and mounting concerns over future budget deficits also point to a reduced fiscal impulse in the US in 2024 and 2025.

Some European economies are already either in or close to recession, notably Germany.

We see Europe's economic stagnation continuing over 2024–25 and growth materially underperforming the US. Germany is already on track for negative full-year growth this year. One key reason for this higher recession risk is the quicker pass-through of monetary policy given the dominance of banks in the corporate funding mix, in contrast to the capital markets-dominated US (see Figure 1). Bank lending tends to adjust faster to changes in the central bank policy interest rate. As a result, lower ECB policy rates than the Fed do not necessarily imply a proportionately lower growth impact. Mortgages are also of a shorter duration than the US, elevating refinancing risks for households. Finally, we would not underestimate the growth spillovers either to Europe from China's struggling economy. In the near term, however, improving real incomes amid accelerating nominal wages versus declining headline inflation could cushion private household consumption despite higher interest rates.

Figure 1
Percentage of total credit from the banking sector to the private non-financial sector



Note: total credit includes both corporates and households.
Source: BIS, Swiss Re Institute

China's post-COVID-19 recovery is being hampered by structural weaknesses.

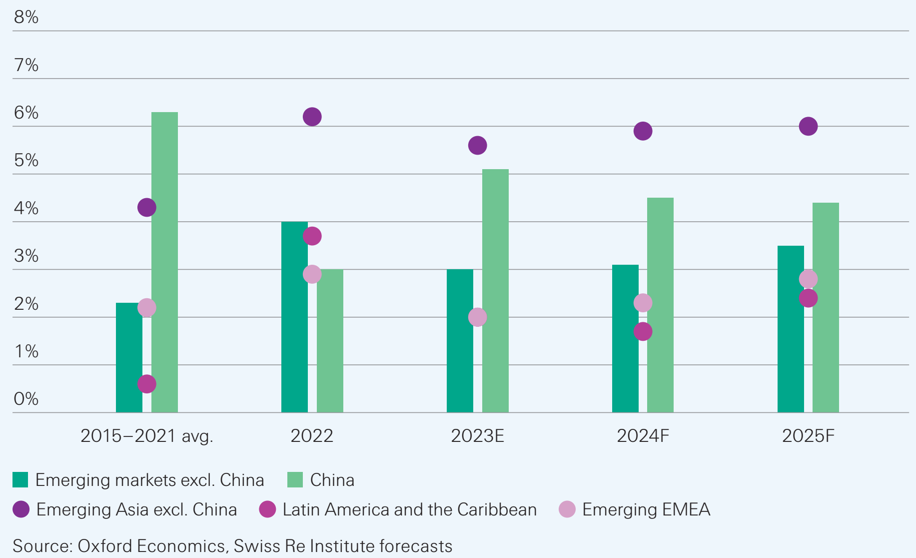
China's recovery is facing challenges from 1) slowing global demand ahead, 2) an ongoing domestic structural growth slowdown with the real estate sector (estimated to contribute as much as 25% to 30% of total GDP)[1] as the major drag, and 3) ongoing weak consumer confidence resulting in even higher precautionary savings rates. The end of the real estate boom, coupled with China's population peak in 2022, is contributing to persistent weakness in investment, consumer confidence, employment and income growth. We see a rising risk of a liquidity trap as consumers and investors hold cash and repay loans rather than spending or investing, even while the cost of borrowing is declining. This would further reduce the effectiveness of monetary policy easing measures. China's fiscal policy stance remains prudent due to concerns that over-stimulation would conflict with structural reforms and private sector deleveraging efforts. The high interest rate environment globally is also constraining the policy space for even more easing, offsetting the favourable domestic climate of muted inflation.

Emerging markets growth is set to be resilient this year, but more mixed for regions from 2024.

Emerging markets excluding China face a challenging environment in the next two years after strong growth this year. Emerging Asia and Latin America are expected to see above pre-pandemic average rates of real GDP growth in 2023 (see Figure 2). The outlook for 2024 is more mixed across regions. The war in the Middle East adds uncertainty, particularly to EMEA markets still recovering from the fallout from the Russia-Ukraine war. Momentum is expected to also weaken further in Latin America as one-off factors that supported growth in Brazil this year fade, and Mexico suffers headwinds from prolonged restrictive monetary conditions. Emerging Asian economies are expected to outperform thanks to resilient domestic demand and a cyclical rebound in their exports from a low base this year. That said, risks are skewed to the downside as demand from major markets weakens and import prices rise, in tandem with oil prices and the US dollar index.

[1] K. Rogoff, Y. Yang, "Has China's Housing Production Peaked?", China and the World Economy 21 (1): 1-31, 21 December 2021.

Figure 2
Historical and forecast real GDP growth in emerging markets



Source: Oxford Economics, Swiss Re Institute forecasts

2023, and the case for further near-term resilience

We anticipated the financial instability this year, but economic resilience pushed out the risk of recession.

The economic environment this year both aligned with and diverged from our expectations. Our flagging of financial stability risks proved prescient when several regional US banks and a Global Systemically Important Bank failed earlier this year, and China has experienced significant property market fragility. However, the widely expected recessions in major markets driven by monetary policy tightening – our baseline scenario – did not materialise. Monetary policy lags have lengthened, for example due to the shift to more fixed-rate and longer-dated mortgages in many economies, pushing out and blunting recession triggers. The most recent economic indicators signal elements of both resilience and recession risk in late 2023 (see Table 2). Economic signals have also been deceptive, exemplified by the sharp upward revision to the US Q1 2023 GDP growth reading, from 1.1% initially, to 2.2% (annualised) in the final reading. This volatility complicates assessments of the economic environment and challenges policymakers on their policy positioning.

Table 2
Sample "traffic light" dashboard

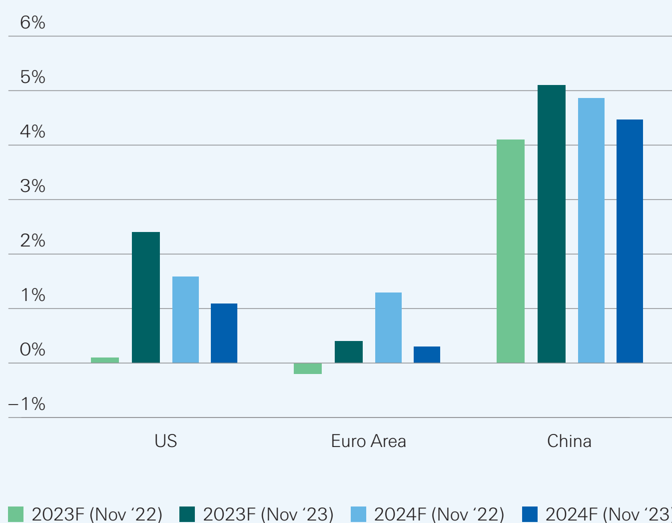
Category	Indicator	US			Euro area			China		
		January	June	October	January	June	October	January	June	October
Business Sentiment	Manufacturing PMI (3m ma)	red	red	red	red	red	red	red	yellow	yellow
	Services PMI (3m ma)	green	green	green	yellow	green	yellow	red	green	green
Consumption	Retail sales (y-o-y%)	green	yellow	green	red	red	red	red	green	green
Employment	Unemployment rate	green	green	green	green	green	green	yellow	green	green
Inflation	Core CPI (3m annualised)	red	red	yellow	red	red	yellow	green	green	green
Housing	Home prices	red	red	red	red	red	red	red	red	red
Financial Markets	Financial conditions index	yellow	green	red	yellow	yellow	yellow	yellow	yellow	red

The traffic light colours are chosen based on the performance of each indicator over the span of 2023. For PMI surveys (ISM surveys were used for the US), red (less than 49). yellow (between 49 and 51). and green (greater than 51). For retail sales, red (negative year-on-year growth), yellow (growth between 0 and 2%; and green (greater than 2% growth). For unemployment rates, the colors are ranked in level terms relative to their lowest value of the year (the highest unemployment rate of the year is marked in red). For core CPI inflation. red (inflation greater than 3%). yellow (inflation between 1.5–1.8% and 2.3%–2.9%) and green (1.8–2.2%). For home prices, colours are decided based on the year's growth rate (Germany used as a proxy for the euro area). For financial conditions, colours are ranked relative to their tightest value of the year (FCI levels greater than 100 are considered tight).
Sources: S&P Global, ISM, US Census, Bureau of Labor Statistics, Case Shiller, Goldman Sachs, Eurostat, EUROPACE, NBS, Macrobond, Swiss Re Institute

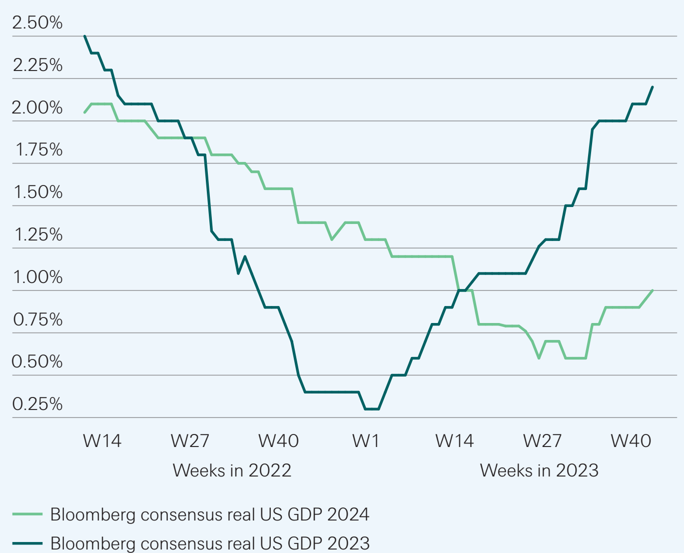
Last year's pessimistic growth outlook was premature, but slowdown is materialising.

For major advanced economies, growth forecasts were revised higher in 2023 (see Figure 3). Labour market strength has been the main driver of resilience, with unemployment rates near historically low levels in the US (3.9% as of October) and euro area (6.5% as of September), despite rising labour supply. This has been a buttress for consumer demand, especially in the US where consumer spending is expected to grow by 2.4% in real terms in 2023, better than the stagnation that was forecast in 2022. However, we don't see labour market resilience as a sign of economic re-acceleration. Instead, we see it as a reminder of the uneven lags of monetary policy, which are often longer in labour markets than in other parts of the economy. The euro area also exceeded our growth projections from a year ago after avoiding a severe energy crisis last winter. Our China forecasts follow the same general contour – while growth in 2023 proved stronger with estimated growth of 5.1% in 2023 due to the post-COVID reopening, we expect China's GDP growth to slow to an expected 4.5% in 2024, which is about 30% lower than the average growth in the period pre-COVID-19 (6.6%, 2016–2019) and lower than the average growth of the COVID-19 years (4.7%, 2020–2023).

Figure 3
GDP growth forecasts



Consensus forecasts for US GDP growth



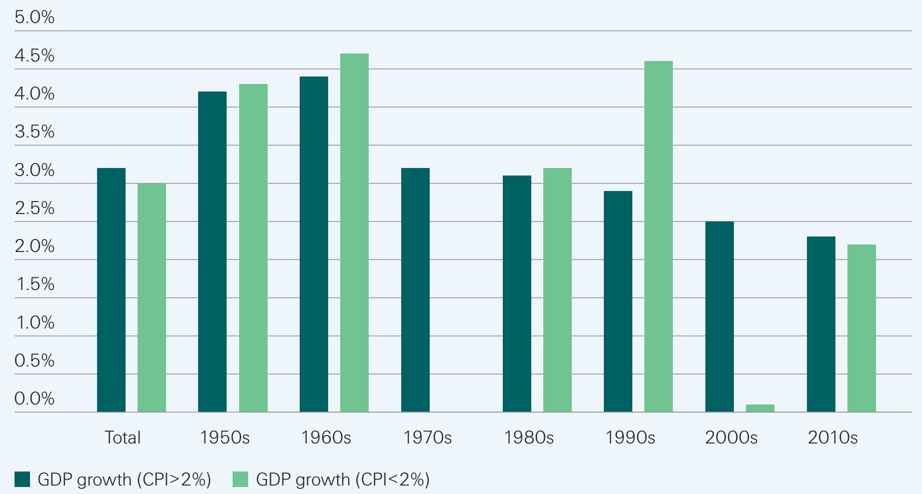
Source: Macrobond, Swiss Re Institute

Disinflation may not need a major GDP contraction, but the duration of high inflation is key.

Historically, US GDP growth has averaged 3.2% in periods when inflation overshoots 2%, and 3.0% in periods where inflation is below target or even negative (see Figure 4). This suggests that inflation overshoots can coexist with strong economic output, particularly if labour markets remain tight. However, the speed of disinflation is a crucial factor in minimising output loss. Temporary inflation episodes, where inflation expectations remain anchored, see "sacrifice ratios" – the percentage of output lost for every 1% decline in inflation – decreasing in the speed of disinflation.[2] In other words, disinflation is costlier the longer it persists. If inflation remains far above target in the coming years, we see higher risk of a more protracted and deeper economic stagnation. Conversely, if labour market conditions remain resilient, economic activity in the US may manage to soften without leading to an outright contraction in GDP growth.

[2] L. Ball, "What Determines Sacrifice Ratios?", *National Bureau of Economic Research*, 1993.

Figure 4
US GDP growth in years in which inflation was above or below the Fed's 2% target



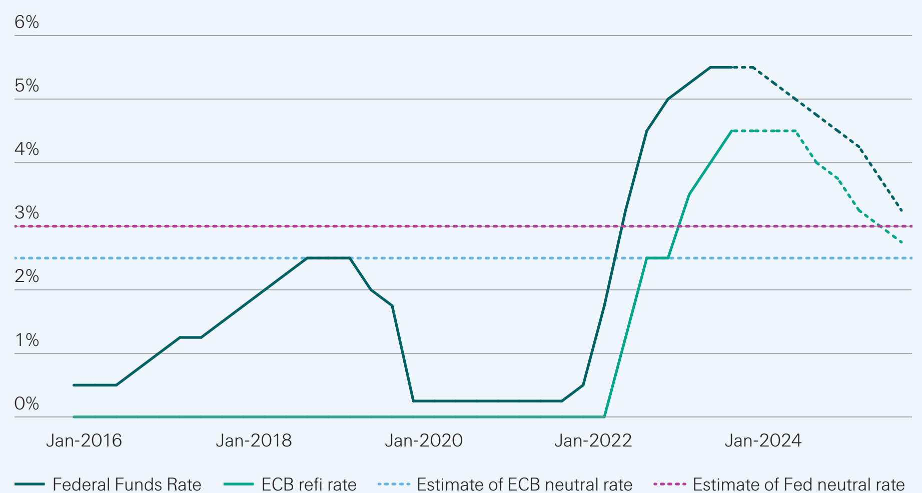
Source: Macrobond, Swiss Re Institute

Real interest rates: the higher new (old) normal

Central banks will likely avoid reducing policy rates until well into 2024.

The combination of above-target inflation and near-term economic resilience in some advanced economies implies that central bank policy interest rates will stay in restrictive territory over the next two years. Unless growth slows sharply, we expect only 75bps of rate cuts from each of the US Federal Reserve and European Central Bank from mid-next year at the earliest (see Figure 5). Futures markets are pricing a similar rate of easing in 2024. That said, if other external inflation shocks or further near-term resilience, particularly in the US economy, keep inflation pressures more persistent than expected, rate cuts could be delayed. This would lift sovereign bond yields further too (see *A regime change in sovereign bond markets*).

Figure 5
Central bank policy rate forecasts



Source: Macrobond historic data, Swiss Re Institute for forecasts

Projecting r* will be a key input in how policymakers approach the easing cycle

When advanced market central banks do begin to loosen, we expect their assessment of the true neutral rate (r*), the real rate of interest net of inflation where policy is neither restrictive nor accommodative, to be key to determining where policy rates settle. We anticipate structurally higher inflation and higher public debt to result in a higher neutral rate than the pre-pandemic decade.[3] Discussions regarding whether r* is now structurally higher post-pandemic or just temporarily elevated due to pandemic-era

[3] US Treasury yields: an inflation rather than bond market crisis, Swiss Re, 2023.

distortions[4] will likely intensify as inflation moderates but remains above target (see more under *A regime change in sovereign bond markets*). Current market pricing sees the neutral nominal policy rate, proxied through forwards using the 1-year yield in 10 years' time, at 3.8%, significantly higher than our estimate of 3.0%, and the Fed's of 2.5%. In our view, the FOMC will not reach its projected 2.5% nominal neutral policy rate until 2026 and the ECB until 2025 (we estimate the ECB refinancing rate at 2.5%).

Next year will likely see increasing central bank policy divergences between emerging markets and developed markets.

Divergence in monetary policy between advanced and emerging markets will likely also define 2024. Emerging markets were the "first-movers" in the tightening cycle and some, including China, Brazil and Poland, have already started to ease policy rates. The asynchronous nature of this policy response reflects emerging markets' distinctive cyclical dynamics from advanced markets. Still, emerging market central banks will likely want to avoid excessive rate cutting that could lead to currency weakness and rising imported inflation, particularly as higher policy rates in the US support the dollar.

Risks to the upside in the inflation outlook

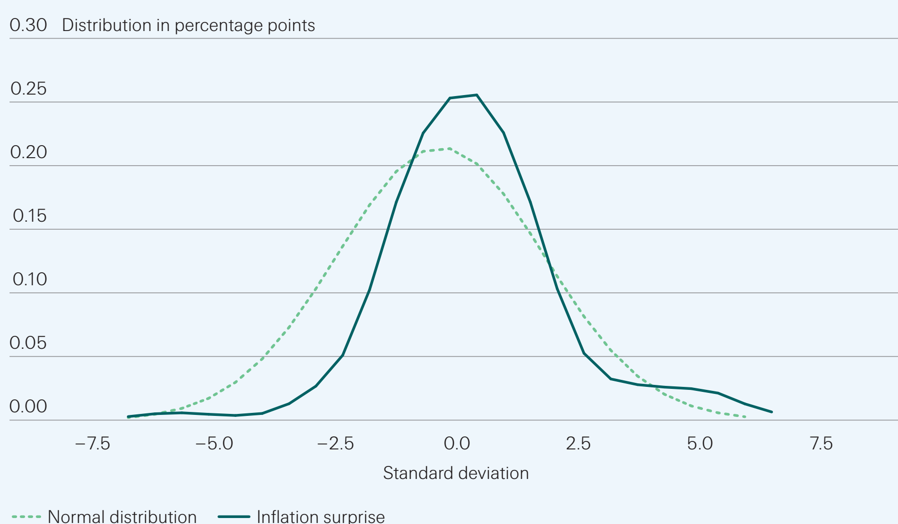
The "easy" part of disinflation is behind us, with near-term risks to headline inflation.

Sustained disinflation – particularly in core inflation – is the prerequisite to developed market interest rates moderating in the next two years in our baseline. With the "easy" stage of disinflation over in 2023, however, we expect a gradual and bumpy moderation in average annual CPI inflation rates from here in the US and Europe. Headline inflation faces upside risks from oil as Middle East tensions persist into 2024, while extreme weather patterns such as El Niño could raise food prices. Further US dollar appreciation could increase import price pressures beyond the US. We expect core inflation (excluding energy and food prices) to remain sticky in 2024, albeit at a slower incremental pace, as still-elevated wage growth filters through with a lag. Still, receding shelter prices in the US should be positive for core inflation next year.

Inflation surprises are even riskier when they occur in an already above-trend inflation climate.

Further inflation surprises present a greater risk of dislocating inflation expectations when they occur in an already above-trend inflation environment. Figure 6 illustrates the distribution of the CPI inflation surprise in the US going back to the 1980s. This is calculated with year-ahead inflation expectations from the University of Michigan consumer sentiment survey versus the actual realised CPI inflation rate a year later. This analysis yields a high standard deviation of 1.8, illustrating how relatively far from the mean inflation surprises have been and the broad uncertainty around inflation forecasting.

Figure 6
US inflation surge distribution: University of Michigan year-ahead inflation expectation minus actual realised inflation



Source: BLS, University of Michigan, Macrobond, Swiss Re Institute

[4] K. Baker et. Al, "The Post-Pandemic r*", *Libertystreeteconomies.newyorkfed.org*, 9 August 2023, *The Post-Pandemic r* – Liberty Street Economics (newyorkfed.org)*

We revise up our sovereign bond yield forecasts but expect softer growth and inflation to cap upside.

A regime change in sovereign bond markets

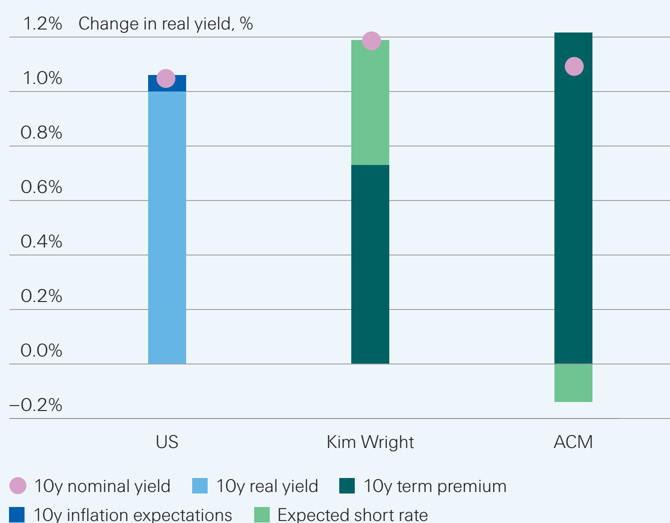
We believe a durable regime shift in bond markets has materialised and have revised up our yield forecasts for both the near and long term. We now expect a nominal yield of 4.2% on average on the US 10-year sovereign bond – 40bps higher than our previous expectation. This is well above the post-global financial crisis and pre-COVID-19 average of 2.5%. We have also revised higher our average long-run equilibrium assumption for 10-year German bond yields by 50bps to 3.0%. Our upward revisions reflect expected higher nominal natural central bank policy rates, while supply and demand imbalances driven by large budget deficits and higher inflation keep a floor beneath sovereign bond yields.

A perfect storm of factors is behind recent moves in long-term yields.

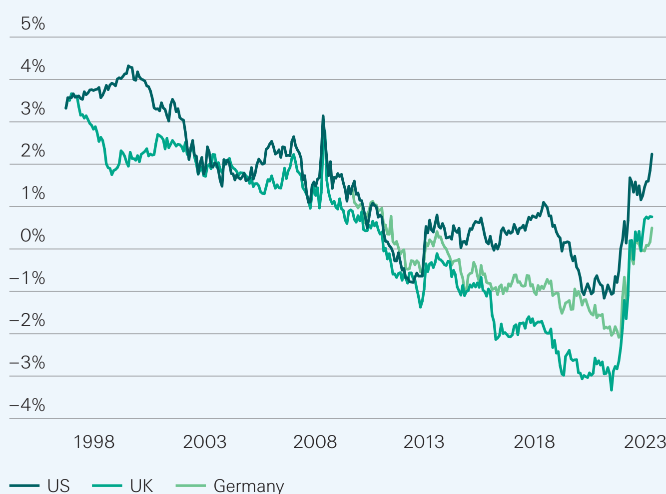
A perfect storm of bearish cyclical and structural developments contributed to the sharp rise in long-term US sovereign bond yields in the second half of this year. Still, our new bond yield forecasts assume a modest reversal of the current bond selloff extending through 2024 as both economic growth and inflation cool. Cyclically, the Bank of Japan relaxed its yield curve control policy in July and again in October, symbolising the removal of the final global low-yield anchor. In early August, the US Treasury announced a significantly higher-than-expected debt supply in the coming years, raising the urgency of fiscal consolidation. In September, updated economic projections from the Federal Reserve reflected both a soft landing and restrictive policy rates persisting until 2026. With inflation expectations rangebound, this confluence of headwinds has lifted real yields in advanced economies to multi-year highs (see Figure 7 left).

Figure 7

Breakdown of the three-month change in US 10-year Treasury yield



Real yields on 10-year government bonds, %



Source: Bloomberg, Macrobond, Federal Reserve Bank of New York, Swiss Re Institute

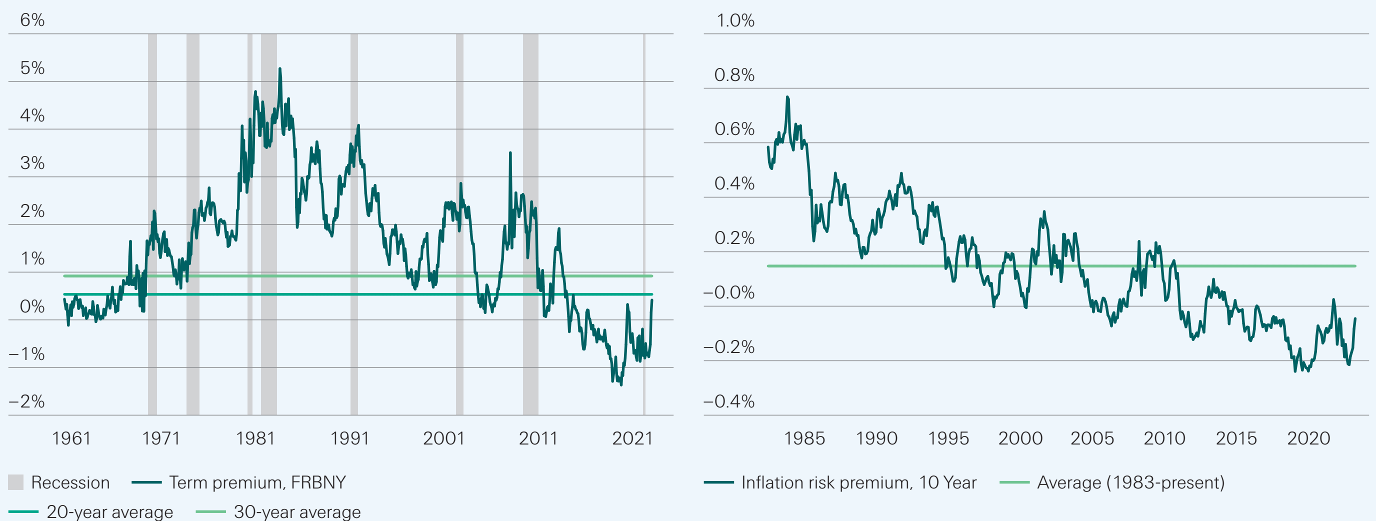
The re-establishment of a positive term premium has been a key driver of higher long-end yields.

Structurally, a primary driver of the increase in long-dated bond yields has been the re-establishment of a positive term premium, or the real compensation required by investors to hold long-versus short-dated bonds. The two most frequently cited term premium models, Adrian, Crump and Moench (ACM) and Kim-Wright (KW), have some key differences. While the ACM method uses monthly data from 1961, the KW model includes weekly data dating back to 1990 *and* survey expectations from the Blue-Chip survey of forecasters. We put more emphasis on the ACM model, but both estimations feature a sharp rise in the term premium in the second half of 2023 (see Figure 7, left). Specifically, the ACM US Treasury 10-year term premium, currently 0.5%, is closing in on its 20-year average for the first time since mid-2015 (see Figure 7, right). The increase has coincided with a sharp rise in both interest rate and inflation volatility[5] due to a challenging macro outlook that has seen growth repeatedly outperform expectations and policy rate expectations drift higher. The inflation risk premium embedded in bond yields – the additional compensation demanded by bond investors for bearing inflation risks – also remains depressed relative to its long-term average

[5] Interest rate and inflation volatility are proxied by, respectively, the 1-year, 10-year interest rate volatility and 5-year, 5-year CPI swaps, both from Bloomberg.

(Figure 8, right). This suggests there is scope for a further increase in the term premium if underlying inflation pressures remain pervasive in the medium term.

Figure 8
(left) US 10-year term premium and historical averages (right) 10-year Treasury inflation risk premium



Source: Federal Reserve Bank of New York, Macrobond, Swiss Re Institute

Source: FED, Macrobond, Swiss Re Institute

A higher real neutral interest rate will add upward pressure to bond yields.

In advanced economies, the neutral real rate is a key component in our outlook for bond yields. For example, our forecast for US potential growth, of 1.9%, is slightly higher than the US Congressional Budget Office's 1.7% long-run average.[6] This reflects our more optimistic outlook, as we see possible upside risks from an artificial intelligence (AI) revolution that may offset adverse demographic and productivity trends. Both AI and the greening of the economy also imply significant capital expenditure, and the real interest rate is heavily influenced by the relationship between savings and investment within an economy. This relationship was distorted in the pre-pandemic decade by interventions from central banks, in which bond market demand offset supply, which depressed real interest rates and the term premium. Today, the end of quantitative easing looks set to collide with both significant fiscal expenditure to fund a new green and digital economy and geopolitical "de-risking" which, over the long term, is likely to add upward pressure to neutral real interest rates (see *Government intervention and supply-side economics*).

Higher expected budget deficits, especially in the US, will likely add to supply-demand imbalances in the bond market.

This would exacerbate the impact of high sovereign bond supply on an already higher government interest burden, adding to fiscal risks. On current US government revenue and spending plans, the federal budget deficit would nearly double relative to GDP in the next 30 years.[7] The uncertainty about future budgets make it difficult to forecast deficit evolution, but we expect structurally higher interest rates to crowd out fiscal spending in other areas as the government is forced to borrow more to pay for existing spending obligations. In Europe, even if the EU waters down the reinstatement of fiscal rules next year, some countries may not escape the scrutiny of financial markets (and rating agencies), which could put upward pressure on their yields.

We expect significant changes in the Japanese bond market to unfold in 2024.

The rise of other low yield "anchors" like Japanese bonds could also lift global yields more broadly. In particular, we have revised higher our interest rate forecasts in Japan on the expectation that the Bank of Japan exits the negative interest rate program and yield curve control at some point in 2024. We expect Japanese bond yields will average over 1% next year, consistent with structurally higher inflation expectations in Japan, reduced risk of recession in the US, and higher-for-longer policy rates in the US. That said, we see muted incentive for repatriation of foreign assets back to JGBs given wide yield

[6] *The Budget and Economic Outlook: 2023 to 2033*, Congressional Budget Office, 2023.
[7] *The Long-Term Budget Outlook Under Alternative Scenarios for the Economy and the Budget*, Congressional Budget Office, 2023.

differentials and significant mark-to-market losses if bonds were sold at current values given the run-up in US yields.

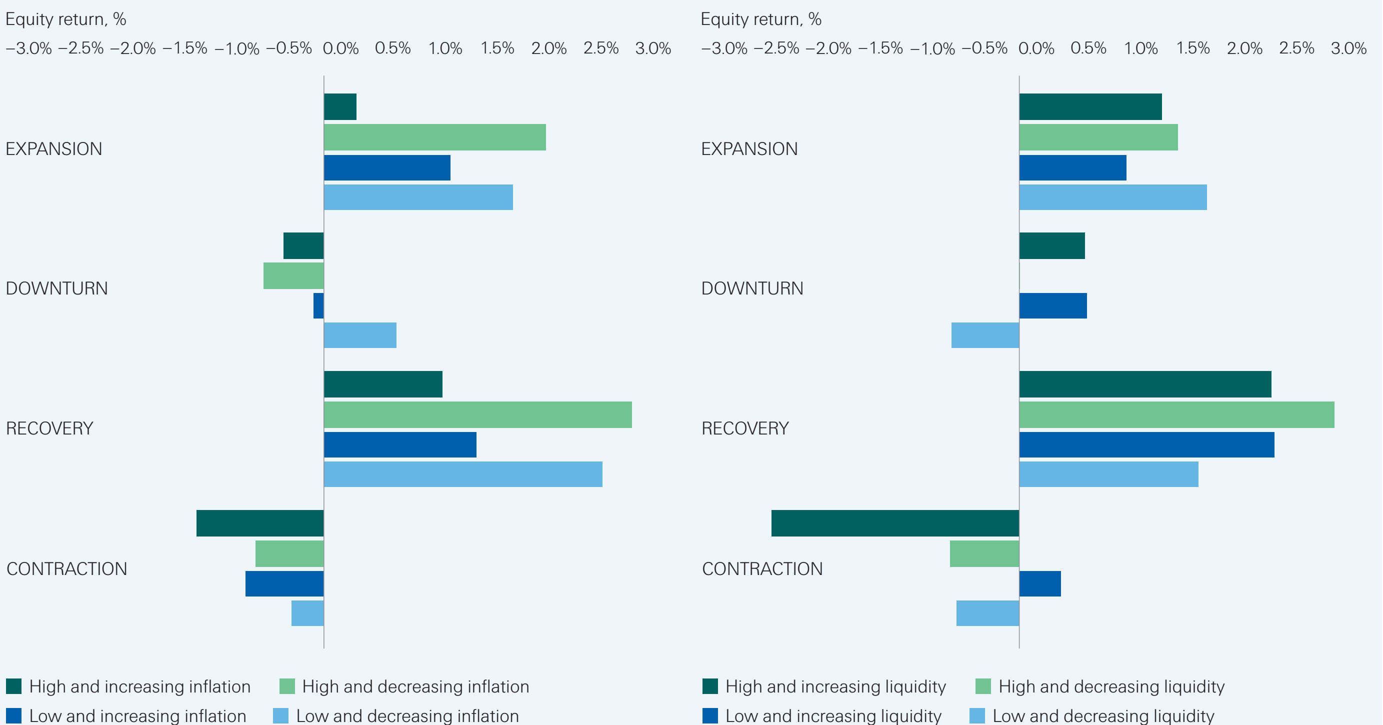
Equities are governed by growth rather than inflation dynamics.

Equity markets in different economic phases
Better-than-expected equity performance during this tightening cycle has fuelled debate around how stock markets perform under inflationary environments. Historically, changes in economic activity rather than in inflation have been more important drivers of US stock market performance (Figure 9). Using data since 1955, our analysis shows that in all cases, and irrespective of inflation dynamics, returns are positive when an economy is in expansion or recovery mode, and negative when the business cycle signals a downturn or a contraction.[8,9] Strong third quarter US GDP, personal spending and consumer confidence data, and a positive change in the OECD leading indicator, all point to an environment that we label as "recovery" in Figure 9 left. In the past, such periods have typically been characterised by positive returns in equity markets, especially when coupled with high but decreasing inflation.

Equities generally profit from central bank liquidity expansions, even when economic momentum is subdued.

However, the liquidity backdrop influences the behaviour of risk assets too (see Figure 9 right). Importantly, and in contrast to different inflation regimes, equities also perform decently during economic downturns with increasing liquidity. This helps explain the overall strong performance of stocks over the last decade of sluggish economic growth. That said, high levels and rising liquidity cannot prevent significant equity drawdowns during an economic contraction (or recession), as was the case in the 1980s, the dot. com bust and during the global financial crisis. When we overlay our analysis with our economic outlook, it suggests that the upside to stocks is capped in the shorter-term. Historically, such an environment has been associated with muted or negative returns.

Figure 9
Average monthly US equity returns by inflation regime and phase of economic cycle (left)
Average monthly US equity returns by central bank liquidity regime and phase of economic cycle (right)



Source: Macrobond, Swiss Re Institute

[8] We use the Hodrick-Prescott filter to determine whether inflation is high or low (ie, above target). Inflation dynamics are captured by the change in 3-month rolling averages. Economic activity is classified according to the level and monthly change of the OECD Leading Indicator, which signals changes in the business cycle, and co-moves with growth. In both cases, levels and momentum are observed to monitor changes in returns. We then repeat the same analysis exchanging inflation for central bank liquidity, using M2 growth since 1959 as a proxy.
[9] The results for the inflation and liquidity regime analysis are directionally robust, also for shorter time horizons.

Geopolitics and regional conflicts

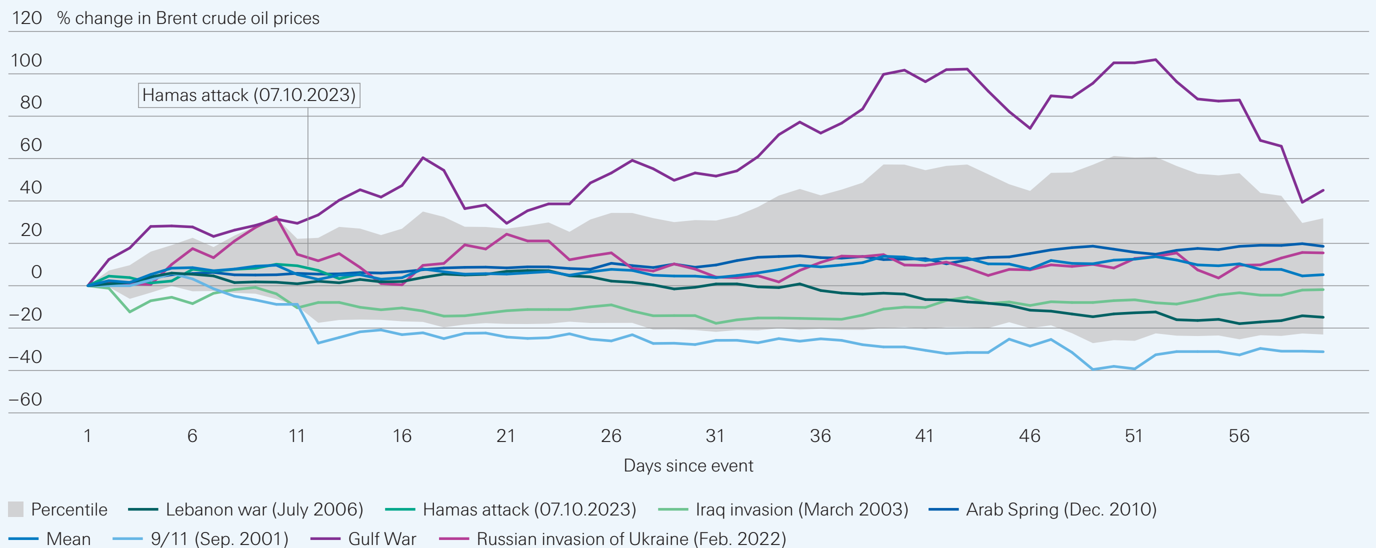
The war in the Middle East raises non-linear economic and political risks.

Geopolitical tensions are elevated, from heightened US-China strategic rivalry to the Russia-Ukraine war and now the Middle East conflict. The outbreak of war between Israel and Hamas in October 2023 has raised non-linear risks for the global economy. A wide spectrum of potential scenarios to the war in the Middle East are possible. The macroeconomic impact is expected to remain limited for the global economy if the conflict does not expand to significant oil producers, including Iran.

Oil markets are the key channel through which the Middle East conflict could affect the global macroeconomic outlook.

We see energy price inflation as the key channel through which this conflict could affect the global macroeconomic outlook. Volatility in oil prices since October reflects the geopolitical risk premium and uncertainty, but the countries involved and their immediate neighbours (Israel, Lebanon, Syria) produce negligible amounts of oil and so prices have so far not risen as sharply as in past conflicts (see Figure 10). A material oil supply shock would be required to cause a sustained move higher in global oil prices. Still, heightened volatility adds upside risk to inflation and we have raised our CPI inflation forecasts for the US and euro area for 2024 by 10–20bps.

Figure 10
Short-term impact of geopolitical events on Brent crude oil prices



Source: ICE, Macrobond, Swiss Re Institute

An adverse scenario of the conflict expanding to strategically important oil producers could add as much as 2.4ppts to projected inflation next year.

We see two adverse potential geopolitical scenarios for this conflict and respective oil price shocks (see Table 3). Using the Oxford Economics Global Economic Model, we estimate that a "proxy war" scenario (#2) that leads to a +10 USD/barrel parallel shift higher to original forecasted oil prices through to end next year could increase annual CPI inflation in the US and euro area by 30 to 40bps and lower these regions' real GDP growth by about 10bps next year. In a wider escalation of the conflict (#3), oil prices could surge to potentially USD 150 per barrel over 2024 with the direct involvement of Iran (4% of global crude production) or Saudi Arabia (14%), including Iran restricting trade through the Straits of Hormuz, through which 20–30% of global crude oil flows. At such oil price levels, US and euro area inflation rates could rise by as much as 2.4ppts above original forecasts, and shave off as much as 0.7ppts from projected global real GDP growth. Central banks could be forced to tighten further to avoid de-anchoring inflation expectations. This, along with such high oil prices could erode demand and raise recession risks.

Table 3
Oil shock assumptions of war in the Middle East under potential scenarios

		1. Confined war: Israel-Hamas	2. Proxy war: Israel – Hamas, Lebanon, Syria	3. Direct war: Israel – Hamas, Lebanon, Syria, Iran (less likely)
Description		Protracted, yet localised conflict. Economic fallout confined to Gaza/Israel. Oil prices see short-lived volatility	Two-fronts war with Hamas and Hezbollah. Greater geopolitical risk premium and volatility built into oil prices	Bigger oil players (e.g. Iran) enter into direct war; significant oil supply shocks lead to a sustained increased in more elevated oil prices
Oil shock assumptions		▪ + USD 5/bbl versus Oxford Economics baseline over 4Q2023 to YE2024	▪ + USD 10/bbl versus Oxford Economics baseline over 4Q2023 to YE2024	▪ + USD 60/bbl versus Oxford Economics baseline over 4Q2023 to YE2024
Impact of oil price shock on full-year CPI inflation rate	2023	▪ Insignificant impacts for 2023	▪ +5 to +10bps on euro area and US CPI	▪ +30 to +40bps on euro area and US CPI
	2024	▪ +20bps on euro area and US CPI	▪ +30 to +40bps on euro area and US CPI	▪ +170 to 240bps on euro area and US CPI
Impact of oil price shock on full-year real GDP growth rate	2023	▪ Insignificant impacts for 2023	▪ Insignificant impacts for 2023	▪ –5 to –10bps on euro area and US GDP
	2024	▪ –5 to –10bps off euro area and US GDP	▪ –10 to –15bps off euro area and US GDP	▪ –4 to –7bps off euro area and US GDP

Source: Oxford Economics, Swiss Re Institute

Adverse scenarios to the Middle East conflict could raise risks of a 1970s style stagflation scenario.

These latest geopolitical events add to stagflationary forces and bring parallels with events in the 1970s. Inflation expectations are more likely to become de-anchored if renewed energy shocks coincide with already above-trend inflation rates (see *Risks to the upside in the inflation outlook*). US tensions with key OPEC members Saudi Arabia and Russia will also likely remain strained in the near term, keeping supply levels uncertain at a time of geopolitical stress. Unlike preceding shocks from the pandemic and Russia-Ukraine war, a depleted Strategic Petroleum Reserve in the US would be unable to offset a significant energy shock until restocked. In our view, the key signposts to monitor will be risks of the conflict expanding to Iran, supply-side decisions from OPEC and the outcome of the 2024 US presidential election.

Geopolitical tensions generate uncertainty and risks for the insurance industry.

Geopolitical tension generates uncertainty and risks for the insurance industry (see *Insurance market outlook 2024–25*). The conflict may put short-term pressure on marine, aviation, travel and property insurance losses, depending on its duration and breadth. Even if the conflict remains localised, continued geopolitical risk may lead to tighter underwriting terms and conditions, particularly in lines such as cargo, hull, war, piracy, terrorism and construction. In some cases, war exclusions have already been widened.[10] From a medium to long-term perspective, higher inflation through adverse oil price shock scenarios and subsequent pass-throughs to other price categories adds upside risks to claims inflation in the non-life sector. More volatile financial markets could affect investment returns. Careful monitoring for potential escalation that could precipitate an alternative tail risk scenario, in particular a so-called 1970s-style stagflation scenario that would stress underwriting performance is key (see *Alternative economic and insurance scenarios*).

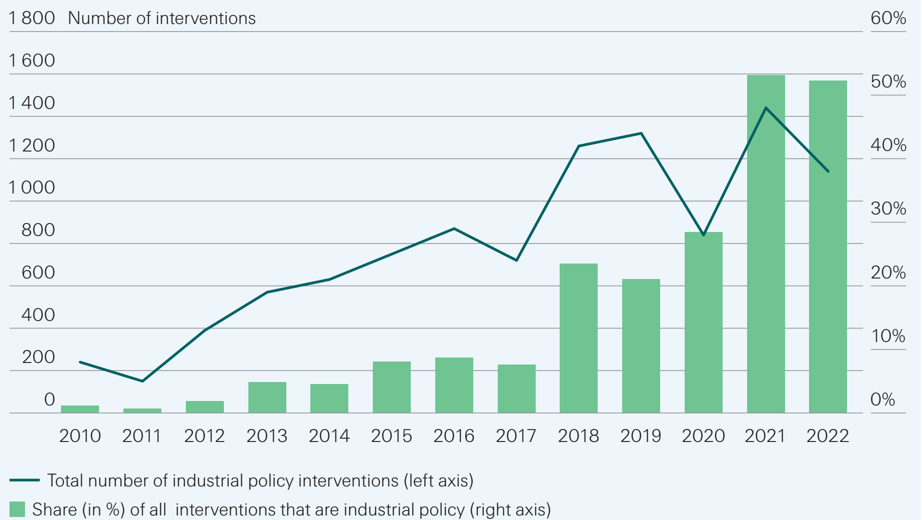
[10] See for example: *Exclusive: Aviation war insurers cancel some cover for Israel, Lebanon*, Reuters, 19 October 2023, https://www.reuters.com/business/aerospace-defense/aviation-war-insurers-cancel-some-cover-israel-lebanon-sources-2023-10-19/ and *'For insurance companies, Lebanon is already at war'*, L'Orient Today, 24 October 2023, https://today.lorientlejour.com/article/1354420/for-insurance-companies-lebanon-is-already-at-war.html

Government intervention and supply-side economics

Global manufacturing supply chains are undergoing structural change, encouraged further by a wave of industrial policy initiatives.

Geopolitical "de-risking" and the green transition away from fossil fuels are driving profound structural changes in global manufacturing supply chains, accelerated by COVID-19. Advanced market governments are increasingly committing to more assertive domestic industrial policies (see Figure 11).[11] These are typically designed to re-tool economies' tangible capital stock and manufacturing capacity fit for a multi-polar world and new green economy. Despite large headline numbers, the sums are relatively small as a percentage of GDP. They also face implementation risks, as not all of the announced investments may be delivered by governments constrained by rising debt-to-GDP ratios. Still, these investments may represent opportunities for the insurance industry after decades of underinvestment in infrastructure in the West.

Figure 11
Number of industrial policy interventions, global count



Source: R. Juhász, N. Lane and D. Rodrik, "The New Economics of Industrial Policy", NBER Working Paper 31538, 2023.[11]

Countries are rebuilding domestic manufacturing and reconfiguring cross-border supply chains.

The US and EU have launched major industrial policy initiatives in infrastructure, clean energy and green technologies (eg, electronic vehicles), and "strategically important industries" such as chip production and digitalisation (see Table 4). These include direct public investments, tax incentives, low-cost credits and regulatory changes. Globally, regional economic cooperation initiatives have also been launched to strengthen connectivity among allies. For example, Chip 4 Alliance, a US-led proposal to create a "democratic semiconductor supply chain" to counter China's growing importance in the industry is under discussion[13]. The India-Middle East-Europe Economic Corridor initiative announced in the G-20 Summit is another example.[14]

[11] *sigma* 5/2022: Maintaining resilience as a new world order takes shape*, Swiss Re Institute,* 9 September 2022.
[12] This paper used natural language processing to classify industrial policies at a "country-industry-year" level using a publicly available policy inventory (the Global Trade Alert database or GTA; Evenet 2009). The number of total interventions is counted without being weighted by the size or impact of the policies.
[13] The proposal is under discussion by authorities of Japan, South Korea, Taiwan and the US.
[14] The initiative includes the US, India, Saudi Arabia, the UAE, France, Germany, Italy and the EU.

Table 4
Major recent US and EU industrial policy initiatives

		Date passed	Budget	Budget timeline	Focus areas	Key government actions
The US	The Infrastructure Investment and Jobs Act	Nov 2021	USD 1.2tn	5 years	▪ Transportation ▪ Utilities ▪ Clean energy	Authorised about USD 550bn new funding on top of USD 650bn regular infrastructure funding reauthorisation, including: 1. USD 284bn in transportation (roads, rails, bridges, airports), includes USD 15bn for electric vehicle (EV) charging stations and clean energy public transport; 2. USD 240bn to upgrade the power grid, broadband internet and waterways, with funds for environmentally friendly smart-grid technology.
The US	The CHIPS and Science Act	Aug 2022	USD 280bn	5 years	▪ Semiconductors	1. USD 52.7bn in subsidies for US semiconductor manufacturing, R&D and workforce development. Funding comes with conditions that recipients do not build certain facilities in China and other countries of concern; 2. 25% tax credits for capital expenses for manufacturing of semiconductors and related equipment; 3. Doubling of the National Science Foundation's annual budget (USD 81bn over five years) to fund a technology, innovation, and partnerships directorate; 4. Authorises USD 10bn to build regional innovation and technology hubs, as well as additional funding for STEM education and training.
The US	The Inflation Reduction Act	Aug 2022	USD 500bn	10 years	▪ Clean energy ▪ Healthcare ▪ Tax reform	1. USD 369bn funding for clean energy, including USD 216bn tax credits to corporates for investments in clean energy, transport and manufacturing; and USD 43bn of consumer tax credits for clean energy consumption, including EVs; 2. USD 250bn subsidies structured as a low-interest loan programme by the US Department of Energy to upgrade energy infrastructure; 3. Initiatives beyond industrial policy, including healthcare and corporate tax adjustments.
The European Union	The Green Deal	Dec 2019	> EUR 1tn	> 7 years	▪ Green transition ▪ Digitalisation	1. Roughly EUR 100bn for the Just Transition Mechanism for 2021–2027 to alleviate the socio-economic impact of the green transition; 2. EU Climate Law, entered into force on July 2021, turns the "climate neutrality by 2050" goal into a legal obligation for the EU; 3. REPowerEU, launched in May 2022, mobilises EUR 210bn (EUR 20bn new funding added, the rest from the Next Generation EU funds) and seeks to reduce the EU's dependency on Russian gas and accelerate the transition to clean energy.
The European Union	The Next Generation EU	Dec 2020	EUR 807bn	6 years	▪ COVID recovery ▪ Green transition ▪ Digitalisation	1. The Recovery and Resilience Facility (entered into force in February 2021) is the centrepiece, with up to EUR 724bn loans and grants for member states' national recovery and resilience plans. These plans had to allocate at least 37% of their budget to green measures and 20% to digital measures, with labour force upskilling in the latter. 2. The package also includes funding for online training courses, digital skills, healthcare professionals, investments in healthcare research and more.
The European Union	The Green Deal Industrial Plan (extension of the Green Deal)	Mar 2023	EUR 275bn	> 7 years	▪ Green technology	1. A series of regulatory reforms (Net-Zero Industry Act, Critical Raw Materials Act) to boost manufacturing capabilities for "clean technologies" from a near 0% to 40% by 2030; 2. Better facilitation of existing EU funds for financing clean tech innovation, manufacturing and deployment, with a focus on REPowerEU, InvestEU and the Innovation Fund. A European Sovereignty Fund is also in planning, as a mid-term structural answer for the investment needs; 3. Labor force enhancement measures (e.g. Net-Zero Industry Academies) for up-skilling and re-skilling programmes in strategic industries; 4. Continue to develop the EU's network of free trade agreements and other forms of cooperation with partners.
The European Union	The EU Chips Act	Sep 2023	EUR 43bn	> 7 years	▪ Semiconductors	1. The Chips for Europe Initiative, EUR 3.3bn from the EU budget to facilitate industrialisation of R&D in semiconductor technologies; 2. Incentivise investments in manufacturing facilities and provide a framework for integrated production facilities and Open EU Foundries (eg, Intel has committed USD 90bn investment in Europe); 3. Measures to monitor the supply chain and intervene if necessary.

Source: The White House, US Senate, McKinsey & Company, the European Commission, Swiss Re Institute

Industrial development can enable new investment opportunities

Industrial policy can boost investment and potentially create positive public externalities.

Sectors targeted for industrial policy intervention typically benefit from significant new investment. For example, US private construction spending on computer/electronic manufacturing has surged by almost 15 times since the start of 2021 following improved incentives for such investments (see The CHIPS and Science Act, Table 4). These investments can also generate positive public externalities, such as decreasing carbon emissions, improving supply chain resilience or promoting national security, that are so large they may not have happened via private markets alone.[15] Some recent research offers a favourable view of industrial policies such as the Apollo space programme and the East Asian growth miracles.[16] This suggests that government intervention in the economy can correct market failures and improve overall welfare.

The insurance industry can contribute to and benefit from the economic transformation.

The wave of new investment, construction activity and adjusted regional or bilateral trade agreements has the potential to eventually generate higher demand for commercial insurance coverage (see Table 5). Property, engineering, and liability insurance in particular can serve to cover losses caused by accidents, natural disasters or professional negligence in the construction phase of infrastructure and industrial projects, and machinery and equipment breakdowns in the operational phases. Surety bonds can cover completion risk in jurisdictions, such as the US. Marine insurance may benefit from the reshaping of trade lines, while trade fragmentation is likely to raise the profile of counterparty risk and need for trade credit insurance. As long-term investors, insurance companies can also support infrastructure financing.

Table 5
Impact of key aspects of rising industrial policy on the premium outlook for major commercial insurance lines

Key drivers in industrial policy strategies	Implications for risk pool	Risk pools					
		Engineering	Property	Liability/PA*	Marine**	Trade credit	Others***
Infrastructure investment	Construction and maintenance-related risks, including business interruption, contingent business interruption, non-damage business interruption coverage	High impact	High impact	Medium impact	Medium impact	Low/no impact	Medium impact
Reconfiguration of supply chains	Supply-chain risks, protectionism, political risks, re/friend-shoring, parallel supply chains	Low/no impact	Low/no impact	Low/no impact	High impact	High impact	Medium impact
Economic development	Income elasticities for all lines	High impact	High impact	High impact	High impact	High impact	High impact

High impact | Medium impact | Low/no impact

*Liabiliy/PA includes single project professional indeminty, product liability and employer liability/personal accident, the latter can be purchased in lieu of employer's liability, and vice versa.
** Marine includes construction-related marine coverage, such as project cargo and cover for delayed start-up.
*** Others include surety insurance more relevant to public investment, and cyber insurance etc.
Source: Swiss Re Institute

[15] The IEA and OECD respectively estimate that USD 4 trillion and USD 6.9 trillion of annual global investment may be needed to meet the Paris Agreement's emissions reduction target.
[16] D. Gross and B. Sampat, "America, Jump-started: World War II R&D and the Takeoff of the US Innovation System", *NBER Working Paper w27375, 2022*; S. *Kantor and A. Whalley, "Moonshot: Public R&D and Growth", NBER Working Paper 31471, 2023*; N. Lane, "Manufacturing Revolutions: Industrial Policy and Industrialization in South Korea", *CSAE Working Paper*, 2022; E. Liu, "Industrial Policies in Production Networks". *Q. J. Econ.* 134(4) 2019, p1883–1948.

Challenges inherent in industrial policy announcements

Industrial policies can have implementation risks.

Industrial policy announcements still come with risks. Government budgets are typically constrained by debt levels and election cycles.[17] In the US, for example, it is likely that a divided Congress after the 2024 presidential election could repeal major parts of these spending plans.[18] Successful and sustainable implementation of industrial policy initiatives often relies on private corporate funding alongside governments that may not materialise. It is also a significant feat for the private sector to fundamentally globally reorganise functions such as R&D and operations, train new workers and build local technological expertise. Long term continuity in government incentives is therefore key to ensure successful implementation by the private sector.

Government intervention to "pick winners" or reallocate resources can create inefficiencies.

Even if implemented, investments can be misallocated if not well managed, with lower productivity gains than initially projected. Government intervention to "pick winners" or reallocate resources can create inefficiencies or trigger debate around protectionism. For example on the latter, the EU recently launched an investigation into China's electric vehicle subsidies, which could lead to the EU imposing countervailing tariffs on imported Chinese electric vehicles[19]. Industrial policies can even intensify competition among allies. For example, Korea, Japan and others have introduced subsidies for their tech and clean energy sectors, to attract new investment or dissuade companies from shifting to the US. There is a risk of a subsidy race with excessive spending and accrual of public debt. Research now estimates that the actual funding needed for these programmes is likely to be much larger than first estimated.

Inflation and growth can be at risk.

A retreat from free trade and shifting of production to higher cost locations may add to structural inflation. "Friendshoring" initiatives could strain trade ties and spur higher tariffs. The growth impact could also be significant, with WTO researchers estimating that a global decoupling into two separate West-East economic blocs would reduce global long-term real GDP by at least 5%. In comparison, the global financial crisis lowered OECD countries' real incomes by 3.5%.[20]

[17] M. Hourihan et. al., "The bold vision of the CHIPS and Science Act isn't getting the funding it needs", *Brookings*, 2023; J. Lee, "Lawmaker and head of NSF warn of delays to funding US tech research", *Reuters*, 6 May 2023. M. Jones, "Explained: The unexpected hurdles on the EU's multi-billion road to recovery", *Euronews*, 26 July 2023,

[18] T. Room, "Efforts to block Inflation Reduction Act programs ramp up", *The Washington Post*, 21 June 2023,

[19] *Commission launches investigation on subsidised electric cars from China,* The European Commission, 4 October 2023.

[20] "Strong and effective WTO a vital tool for building economic resilience — DG Okonjo-Iweala", *WTO, 8 June 2023.*

Insurance market outlook 2024–25

Heightened geopolitical and macroeconomic instability dampen the growth outlook but reinforce the insurance industry's essential role in risk transfer. We forecast total global real premium growth of 2.2% annually on average for the next two years, lower than the pre-pandemic trend (2018–2019: 2.8%), though higher than the average of the past five years (2018–2022: 1.6%). Profitability is recovering and underwriting gaps closing as investment yields increase in the higher interest rate environment, but we estimate the industry will not earn its cost of capital in 2024 or 2025 in most markets. In non-life insurance, claims development is the top concern as claims frequency and severity rises despite the recent decline in economic inflation. The pace of growth in liability claims challenges the insurability of those risks. We expect natural catastrophe insured losses to reach USD 100 billion in 2023, for a fourth consecutive year. These claims trends imply further hard market conditions for commercial and personal lines in 2024 at least. In life insurance, higher interest rates continue to improve the pricing environment for sales of savings products and are expected to boost profitability in 2024 and 2025, given higher investment yields and reserve releases.

Headwinds slow the pace of recovery

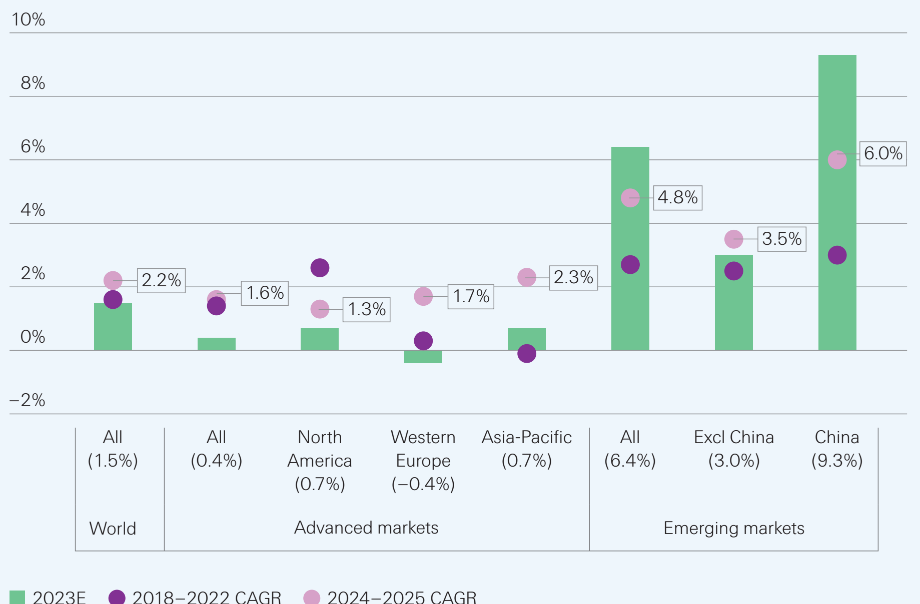
War in the Middle East adds a new challenge to the insurance outlook.

The global insurance industry's strengthening financial position offers welcome reinforcement against elevated macroeconomic and geopolitical risks. However, these headwinds are slowing the pace of growth and a persistent underwriting gap is not yet fully closed. The evolving conflict between Israel and Hamas, while currently contained, may trigger risks such as higher inflation and volatile financial markets, which may negatively impact insurers' capital positions. Careful monitoring is warranted for an escalation of the conflict that could induce a 1970s style stagflation tail risk scenario and drastically stress underwriting performance (see *Alternative economic and insurance scenarios*).

We forecast 2.2% average real growth in global premiums in the next two years.

We forecast 2.2% average real growth in global total insurance premiums in the next two years (2024 and 2025), after moderate growth of 1.5% in 2023. Our forecast is well below the trend of the two years prior to COVID-19 (2018–2019: 2.8%), although it is higher than the average growth of the past five years (2018–2022: 1.6%). This is principally due to a return to growth in health insurance (1.5% vs. 2023: –0.6%). The life sector will see growth lift from a moderate recovery to a relatively strong annual change (2.3% average for 2024–25 vs. 2023: 1.5%), attributable to rising demand for savings insurance in the context of high interest rates and disposable incomes. In P&C, a significant repricing of insurance risk in 2023 means we estimate 3.4% global premium growth this year, softening to 2.6% growth forecast in 2024–25.

Figure 12
Global total insurance premium real growth rates (2023 values in brackets) by region



Source: Swiss Re Institute

Regions are on divergent paths.

Regions are on divergent paths. Emerging markets, especially the 6.0% real growth rate in China over 2024–25, are the main contributors to global growth rates in the next two years. We expect flat real-terms growth in the US market in 2024 (0.4%) given a recessionary environment in the coming year, before a rebound in 2025 (2.0%). In Europe, the premium outlook is also divergent as the recessionary environment is expected to put pressure on premium growth prospects, particularly for Germany and Italy. In the medium term, we see accelerating nominal wages and improving real incomes, further market hardening and declining inflation supporting insurance demand (see Table 6). China is set to decelerate next year due to weak domestic and external demand, which is also reflected into premium forecasts in the next two years.

Table 6
Total insurance premium real growth rates by key insurance markets

Country	2018–19	2022	2023E	2024F	2025F	Trend
US	3.2%	–0.3%	0.7%	0.4%	2.0%	
Canada	4.2%	0.0%	1.0%	2.0%	3.3%	
France	1.9%	–4.2%	1.9%	2.5%	2.0%	
Germany	3.4%	–5.8%	–4.3%	1.2%	1.6%	
Italy	2.5%	–14.2%	–4.7%	1.4%	0.9%	
UK	–1.6%	–0.3%	2.3%	0.9%	1.6%	
Australia	–4.9%	0.9%	1.5%	2.6%	2.1%	
Japan	–0.8%	10.1%	–0.1%	1.1%	1.2%	
India	7.4%	5.9%	4.7%	5.4%	5.7%	
China	5.3%	2.5%	9.3%	6.4%	5.6%	

Source: Swiss Re Institute

Non-life: growth and optimism despite claims surge

Claims dynamics are the key concern

Macroeconomic factors, particularly inflation, remain top concerns for insurers' claims development.

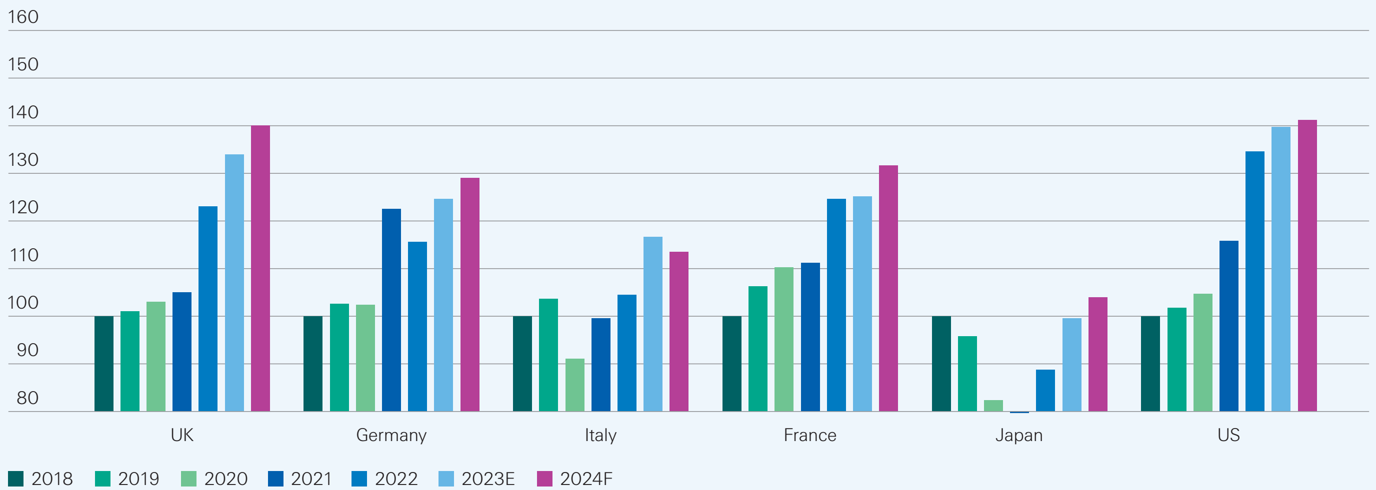
Despite the progress on economic disinflation, claims development dynamics are a major concern for the P&C insurance sector. Claims have risen significantly across lines of business in virtually all major non-life insurance markets over the past five years (see Figure 13). The impact of economic inflation on claims growth is easing in 2023 from the highs of 2022, but it remains elevated. The shift of inflation into wages and healthcare costs this year is seen in increasing claims costs in casualty lines. In the 2023 Allianz risk barometer, macroeconomic risks "such as inflation, financial market volatility and a looming recession" move up to #3 from #10 year-on-year, behind only cyber risks and business interruption.[21]

We expect the impact of economic inflation on claims to ease further.

We expect the impact of economic inflation on claims to ease further over the course of 2024 and 2025. As it does, more structural trends such as social inflation and increasing natural catastrophe exposure are likely to return to the heart of claims dynamics (see special topic boxes on the next pages).

[21] *Allianz Risk Barometer*, Allianz, January 2023.

Figure 13
Claims development for non-life and P&C business in selected markets, 2018 = 100, reporting currency



Note: E = estimates, F = forecasts. Numbers for France, Japan and the UK refer to non-life claims. For Germany, Italy and the US they refer to P&C claims.
Source: FFA, ANIA, GDV, ABI, NAIC, Swiss Re Institute

Motor claims frequency and severity have increased rapidly.

Claims in motor insurance, the second-largest non-life line of business, have risen swiftly in major markets in 2023. There is now both higher claims frequency and severity in motor liability insurance. This differs from the initial post-pandemic claims surge, which was driven principally by surging repair costs for motor-own damage claims (spare parts, replacement cars, repair costs). For example, in the German motor market, liability claims went up by more than 20% over the last two years and the combined ratio is expected to reach 101.2%, up from 96.5% in 2022. In the US, the personal auto combined ratio reached 112% in 2022, the highest since 1975. Loss costs have decelerated somewhat recently, but the combined ratio may well remain above 100% in the coming years.

Property claims are still rising due to inflation in replacement costs and rising natural catastrophe losses.

Property insurance is still experiencing a strong upward trend in claims, fuelled by much higher replacement costs today than two years ago. While cost pressure from construction materials has generally eased, higher wages and higher financing costs as a result of tighter monetary policy keep construction costs elevated. The global loss burden from natural catastrophes is also continuing to grow, and we estimate the long-term growth rate at 5%–7% in inflation-adjusted terms since 1992 (see *Natural catastrophe insured losses on track for a USD 100bn year*).

Natural catastrophe losses are set to reach USD 100 billion for the fourth consecutive year.

Natural catastrophe insured losses on track for a USD 100bn year
We are anticipating natural catastrophe insured losses to total USD 100 billion or higher in the full year 2023, for a fourth consecutive year and the sixth year since 2017 (on an inflation adjusted basis). The growth in exposure values, driven primarily by continued construction in high-hazard areas, and rising replacement costs – largely due to inflation – are the most significant factors responsible for increasing catastrophe losses in the recent years. Based on our preliminary estimates, insured losses totalled at least USD 80 billion in the first nine months of 2023. This is above the 10-year average of USD 74 billion (inflation adjusted, nine-month period) and without any major peak peril loss event. Losses so far have been driven by severe convective storms in the US, while devastating earthquakes have added to the toll. At USD 6 billion in estimated insured claims, the February 2023 earthquake in Turkey and Syria is the costliest insured loss event this year so far. Year to date losses are characterised by a high number of low single-digit billion-dollar events, some of which represent loss severity records in their countries.

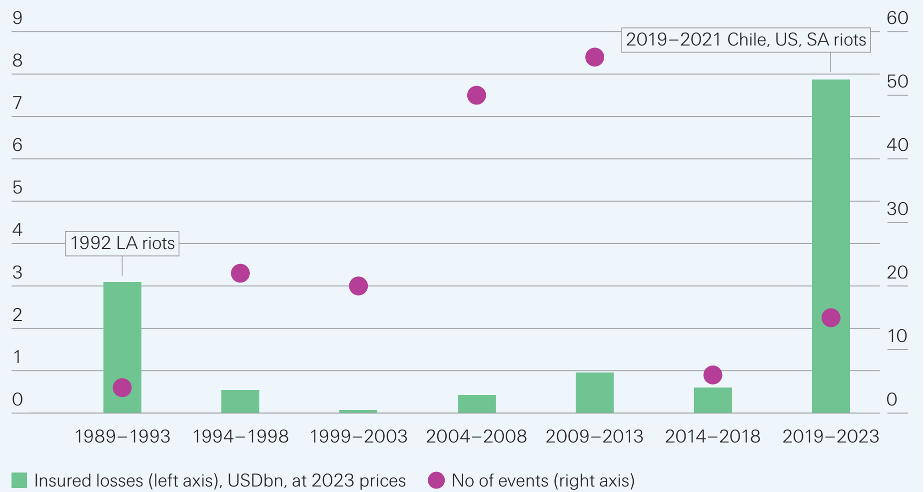
Severe convective storm insured losses reached USD 50 billion for the first time by end-September.

Global severe convective storm insured losses surpassed USD 50 billion for the first time ever, already in the first nine months. These storms can bring a range of hazards including tornadic and straight-line winds, intense rainfall, lightning, and most damaging of all, large hailstones. The US is particularly prone to severe convective storms due to its geography and so accounts for most of the losses, but losses from this composite peril have also been rising elsewhere. The severe convective storms in northern Italy in July 2023, were the largest insured loss event for this peril outside the US and caused a record loss for both that peril and weather-related losses in Italy. Globally, losses from severe convective storms are rising by about 7% annually in the last 30 years and have surpassed USD 30bn every year since 2020.

The importance of SRCC losses has grown.

Strikes, protest movements and civil unrest are on the rise.[22] Strikes, riots and civil commotion (SRCC) risk is traditionally covered by all risks property damage insurance and business interruption policies and has caused insurance claims of more than USD 10 billion since 2015, according to Howden.[23] Increased economic and political tensions are likely to lead to more civil unrest, although compared with the 1970s, the number of working days lost to strikes is still very low.[24] As claims rise, property coverage is being tightened to limit accumulation risks and avoid surprise losses. However, more severe scenarios such as the strikes turning into social unrest, are risks to watch, though destruction to property from strikes (or other "social perils") are often subject to lower indemnity sub-limits.[25] Covers responding to limitations of access or cancellation, such as travel and event cancellation, could also be impacted.

Figure 14
Number of major riots and insured losses



Source: Swiss Re Institute

Rising concerns about reserve adequacy in liability lines.

Liability lines comprise the majority of P&C industry reserves, and the adequacy of reserves after the inflation surge is emerging as a key risk. In the US, reserves for lines such as commercial motor and certain general liability categories are already viewed as deficient. Other lines are subject to a wider range of uncertainty due to court closures and other factors since 2020 that have disrupted claims development patterns (see *Social inflation in the US*). For claims which already occurred, insurers can only speed up claims payments, or in order to isolate themselves from further increases, enter into adverse-development reinsurance contracts.[26]

[22] *Strikes, riots and civil commotion – a test of business resilience*, Allianz, February 2023.
[23] *A world of trouble*, Howden Group, April 2023.
[24] *Stagflation in the 1970s: Is history repeating itself in the 2020s?* Deutsche Bank, 9 October 2023.
[25] *Season of discontent: strikes in Europe*, Swiss Re Institute, 21 April 2023.
[26] See also *sigma* 4/2023: raising the bar, Swiss Re Institute, 9 September 2023.

This challenging claims backdrop is likely to continue.

This challenging post-pandemic claims backdrop for non-life insurance is likely to continue in 2024 and 2025. We anticipate that the industry may need to consider strategies to restore profitability and commercial sustainability. This includes setting appropriate and commensurate rates and being disciplined in underwriting policies.

Social inflation in the US

"Social inflation" refers to rising claims severity beyond what is attributable to economic inflation.

"Social inflation" in general refers to the increasing severity of insurance claims beyond what can be explained by inflation measured by official economic indices. "Social" trends include expanding concepts of liability, a rising willingness to settle conflict via the legal system, large defence costs, jurors' changing attitudes toward corporations, extremely high jury awards (nuclear verdicts), broader insurance policy interpretation and a more plaintiff-friendly environment. Social inflation is primarily a US trend, resulting principally from aspects of its legal system and culture.

US liability claims have risen by 16% on average each year from 2017–2022.

Industry data shows that US liability claims have risen by 16% on average each year from 2017–2022; commercial motor liability claims have risen by over 10% in the same period. In contrast, economic inflation averaged 3.6%. To calculate severity proxies, we subtract real GDP growth from liability claims and change in trucking miles driven from commercial motor. Figure 15 shows that a social inflation episode is emerging today, following earlier claims surges in the 1980s and early 2000s.

On an accident-year basis, 5yr average growth exceeds inflation by 4–5ppts.

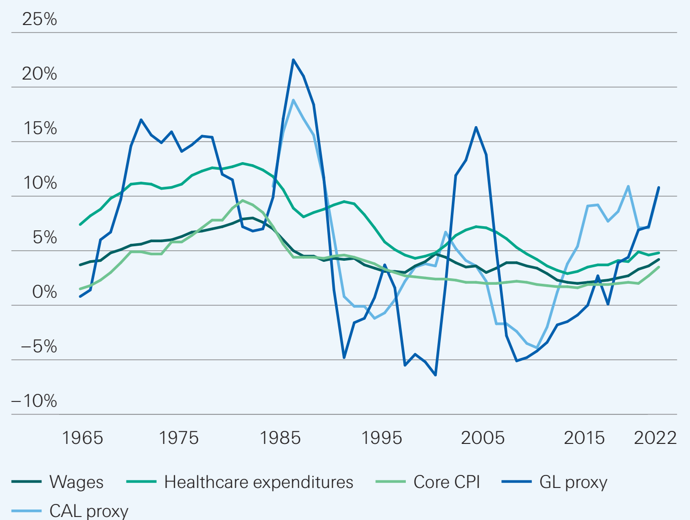
Table 7 quantifies this on an accident year basis, where five-year average growth in claims severity exceeds economic inflation metrics by 4 to 5ppts. On a calendar year basis, claims severity has exceeded economic inflation by 6 to 7ppts. The current pace of claims trends challenges the insurability of liability risks.

Table 7
Accident year claims growth compared to economic inflation indices, five-year CAGR

General liability		GL	CPI	CPI core	Wages	HCE
Correlation coefficient	[1]		45%	48%	53%	62%
Average growth	[2]	8.5%	3.6%	3.5%	4.2%	4.8%
Residual growth	[2,3]		4.9%	5.0%	4.3%	3.7%
Commercial auto liability		**CAL**	**CPI**	**CPI core**	**Wages**	**HCE**
Correlation coefficient	[4]		20%	43%	35%	30%
Average growth	[2]	8.8%	3.6%	3.5%	4.2%	4.8%
Residual growth	[2,3]		5.2%	5.3%	4.6%	4.0%

Notes: [1] Correlations of 5-year compound average growth rates (CAGR) based on calendar-year claims for longer time series, 1965–2022, [2] CAGR 2018–2022, [3] Claims incurred on accident-year basis minus economic inflation variables, [4] Correlations of 5-year CAGR, 1984–2022.
Sources: Standard & Poor's Macrobond, Swiss Re Institute

Figure 15
US liability claims severity proxies and economic inflation, five-year moving average



Source: Swiss Re Institute

Real growth in non-life premiums is relatively low, but some P&C lines are diverging from health.

Premium growth outlook: benefiting from risk repricing

Non-life insurance premiums should expand by 1.6% globally in real terms in 2024, after 1.4% y-o-y real growth in 2023. Across insurance sub-categories, growth diverges significantly between high-growth property and motor on one hand, and far flatter casualty lines and health on the other (see Table 8). We estimate that P&C premiums (excluding health) grew by 3.4% in real terms in 2023, by 6.3% in property and 3.9% in motor. This compares with a 0.6% decline in both liability and health premiums, although the gap partly closes in 2024–25.

Table 8
Real growth in global insurance premiums, selected business lines, in USD

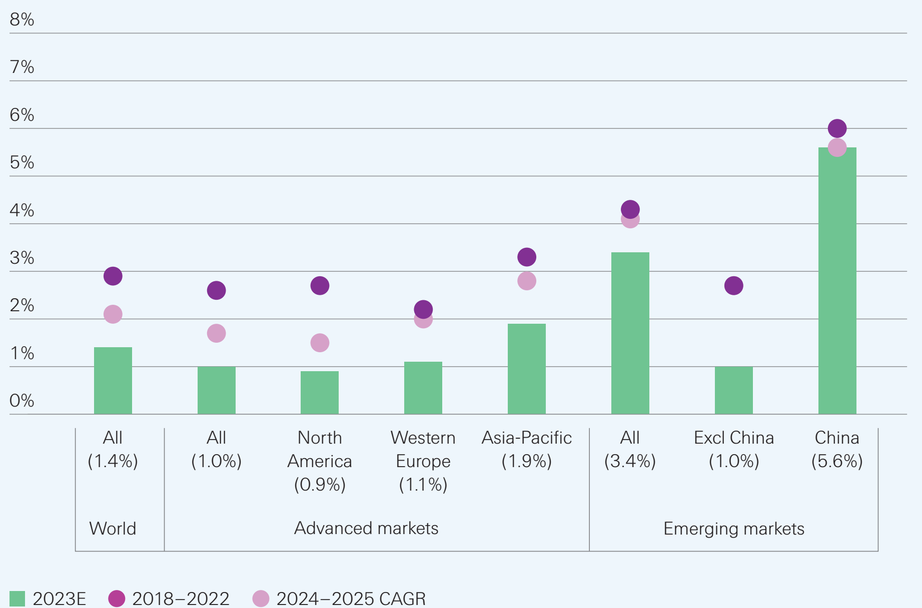
Category	2018–2022 CAGR	2023E	2024–2025F CAGR
Non-life	2.9%	1.4%	2.1%
P&C	2.7%	3.4%	2.6%
Property	4.4%	6.3%	2.6%
Motor	0.4%	3.9%	2.6%
Liability	6.5%	–0.6%	2.3%
Health	3.0%	–0.6%	1.5%

Source: Swiss Re Institute

Non-life premium growth depends on the interplay between rate hardening and economic recessions.

Personal lines pricing is accelerating, as expected, compared to 2022, and commercial property insurance remains in a hard market, supporting premium growth. In H1 2023, Marsh's rate index for global commercial property pricing re-accelerated to 10% y-o-y, before slowing to 7% in 3Q, still reflective of hard conditions.[27] This may continue in 2024, and is a contributor to the outperformance of property and motor in non-life in terms of real growth. Overall in 2023–24, the expected repricing of risk more than offsets pressures on insurance demand from the global economic slowdown versus 2022. In 2025, headwinds from slow GDP growth should dissipate, supporting demand, but the insurance pricing cycle may also normalise. Real non-life premium growth should reach 2.6% in 2025, albeit still below the five-year average of 2.9% (see Figure 16).

Figure 16
Global non-life insurance premium growth rates in real terms (2023 values in brackets)



Source: Swiss Re Institute

[27] *Global insurance market index*, Q3 2023, Marsh.

Growth in 2024–25 is forecast to be weaker than the 2018–2022 average in advanced markets, less so in emerging regions.

In advanced economies, we expect growth of 1.0% in 2023 and 1.7% on average in 2024–25 as this interplay of insurance pricing dynamics and soft economic activity plays out. In China, we anticipate non-life real premium growth of about 5.6% in 2023, and close to that in 2024 and 2025. The exit from the pandemic has boosted insurance demand. Non-motor lines are valued to support the real economy's recovery after the pandemic, and motor premium growth has normalised after adjusting due to motor sector reforms. Structural economic weakness nonetheless translates into a growth profile that is clearly below historical trends (11.5% on average from 2016 to 2020). In any case, Chinese premiums are forecast to grow faster than those in other emerging markets (1.0% in 2023).

Profitability outlook: improving amid higher investment returns

We forecast non-life sector ROE at about 10% in both 2024 and 2025.

We expect non-life sector profitability to improve to about 10% return on equity (ROE) in both 2024 and 2025, well above the 10-year average of 6.8% (2014–2023). This is driven by higher investment returns given the higher interest rate environment, as well as better underwriting results due to more commensurate premium rates in both commercial and personal lines. Underwriting is also being supported by disinflation and improved terms and conditions, which we expect to increasingly mitigate the effects of inflation on claims costs. Gains from higher reinvestment yields are beginning to accrue in average portfolio yields after a long period of decline. Investment returns have surpassed 3.3% in 2023 and we expect them to climb to around 3.7% in 2024 and 3.9% in 2025. Investment results are expected to be a more important component of industry returns in the coming years.

The underwriting profitability gap should decline to just 2% on average in 2024–25.

We anticipate the underwriting profitability gap for the eight major non-life insurance markets globally to decline to 2% in 2024–25 annually on average, from 4% in 2023. The gap has diminished significantly, but we estimate that the industry will still not earn its cost of capital in 2024 or 2025 in most markets. Canada and Australia were the only two countries to exceed their ROE targets in 2022. We expect continued performance in those countries to revert towards target, while the US, the UK, Germany, France and Italy are expected to improve significantly.[28]

Table 9
Profitability of the eight major non-life markets, 2022–2025F

	2020	2021	2022	2023E	2024F	2025F
Premiums (USD bn)	**970**	**1 040**	**1 070**	**1 150**	**1 210**	**1 270**
% of premiums						
U/W profits	1.7	1.4	–1.1	0.0	2.3	2.3
Investment returns	7.6	8.5	6.5	8.2	9.2	9.6
Pre-tax profits	**9.3**	**10.0**	**5.4**	**8.2**	**11.5**	**11.8**
After-tax profits	7.7	8.3	4.4	6.5	9.3	9.5
Cost of capital	8.9	9.5	10.6	11.2	10.8	10.9
RoE	7.0	7.5	4.1	6.8	9.8	10.0
Investment yield	2.8	3.1	2.4	3.3	3.7	3.9
Combined ratio	98	99	101	100	98	98

Note: aggregate of eight major advanced markets (Australia, Canada, France, Germany, Italy, Japan, the UK and the US).
Source: Swiss Re Institute

[28] For more on the underwriting profitability gap, see *sigma* 4/2023: raising the bar, op. cit.

Life insurance outlook: rising profitability

Higher demand for saving business to drive growth in 2024–25

Global life direct premiums are expected to grow by 2.3% (in real terms) in 2024–25.

The adjustment to the new normal of higher interest rates is supportive for the global life insurance industry, in our view. Coupled with a growing global middle class, we anticipate strong growth in savings products, especially annuity products, in the next two years as individuals increasingly look to insurers for their retirement planning. We see premium growth on a robust recovery path. We estimate 1.5% total global growth in premiums in 2023 (real terms), after a 1.7% contraction in 2022. The 2023 estimate is slightly above the long-term trend (2013–22: 1.3%). We forecast still higher premium growth in the medium term (2024–25: 2.3%) driven largely by emerging markets (+5.1%), but also supported by advanced (+1.3%) markets.

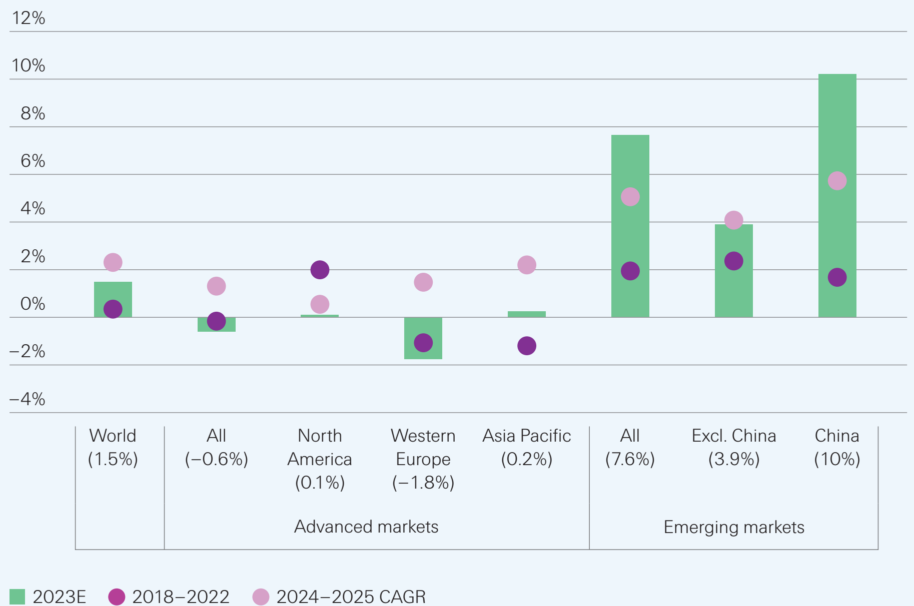
Advanced markets should return to growth in 2024–25, but with a mixed outlook across markets.

We forecast advanced markets to return to growth in 2024 after a slight contraction in 2023 (–0.6%). However, the outlook is mixed across markets. We see improved growth in France, Italy, and Germany, either due to base effects and/or supported by savings products. In the UK, we expect a high volume of Pension Risk Transfer deals growing moderately each year, and in some advanced Asian markets (eg Singapore) due to repricing for life products with a time lag, while other financial products become more attractive in the short term in the context of higher interest rates. We expect US life premiums to remain weak in the medium term.

Emerging markets will likely contribute more than half of additional global premiums over 2024–25.

In absolute volume terms, we expect more than half (52%) of the additional global premiums written in 2024–2025 to be from emerging markets (incl. China), up from 45% in the past five years. We continue to see China as the engine of emerging markets growth, representing 68% of the additional premiums of the next two years. Here, the fundamentals of the economy, including a growing middle class and rising risk awareness will continue to support a moderate recovery in risk-type products. Meanwhile, consumers' willingness to save more in fear of future income, low bank interest rates and policy support for private pensions are likely to boost sales of savings products. In other emerging markets, we expect robust life premium growth due to current low penetration, regulatory support and growth of the middle class.

Figure 17
Global life insurance premium growth rates in real terms, actual and forecast (2023 values in brackets)



Source: Swiss Re Institute

In 2023, advanced EMEA premiums are set to contract but other regions continue to grow.

In 2023, we estimate a sharp contraction in premium growth in Western Europe (–1.8%) led by Germany and Italy, partially offset by some growth in the UK and France. The US and advanced Asia should see slight growth. In emerging markets, we expect 7.6% premium growth driven by strong growth in China (10.2%), where life premiums are being boosted by strong sales of savings-type products, mainly via the bancassurance channel. In other emerging markets (excl China), premiums return to growth in 2023 after a slight contraction in 2022. This is supported by a mix of factors across emerging markets including regulatory changes and demand for inflation-linked products.

Savings: short-term tailwinds and long-term retirement opportunities

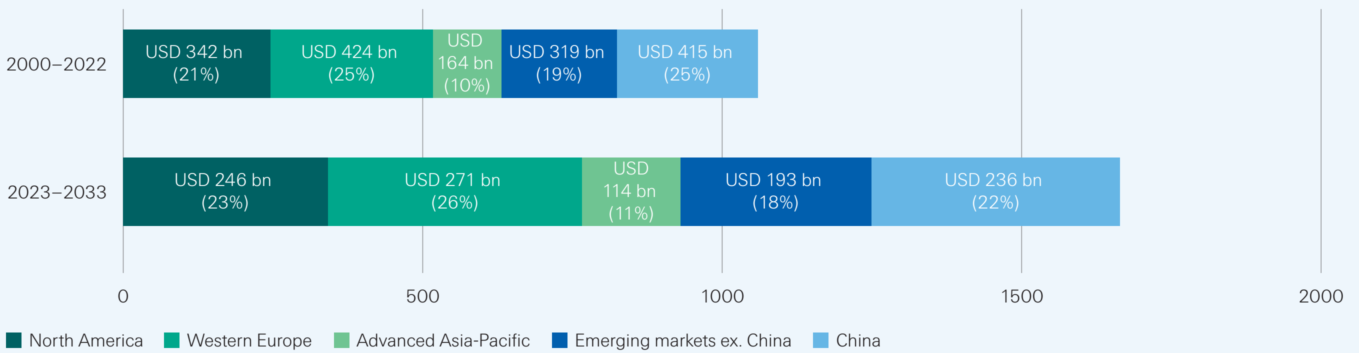
We expect strong growth in the life savings market over the next decade.

We expect strong growth in the life savings market over the next decade as a growing global middle class adopts retirement planning, and incomes rise in emerging markets. About USD 2.3 trillion of savings premiums were written globally in 2022, and we forecast this to grow to USD 4.0 trillion in 2033, a 2.7% average annual growth rate in real terms (see Figure 18). This would translate into USD 1.7 trillion of additional savings premiums over the next 10 years, a 65% increase in new business premiums compared to the past two decades. Our growth forecast for the next decade is significantly higher than that for the past 20 years, which spanned the global financial crisis, the low interest rate era and the COVID-19 pandemic.

We estimate the retirement savings gap for six advanced economies, China and India at USD 106 trillion in 2022.

In the short-term, rising rates have a positive impact on saving business through two channels: it is improving crediting rates on fixed annuity products, prompting new demand. Funding ratios on corporate pension schemes are also improving and prompting bulk annuity transfers, mainly in the UK and the US. Longer-term, we estimate that the life re/insurance industry has an opportunity to become a lifeline for retirement preparedness in the private saving market. Yet, competition will be fierce, calling for product innovation and rebranding to stand out and capture demand. The retirement saving market is evolving rapidly as the role of governments and employers in pension provision declines. There is growing concern that the rate of saving for retirement accumulation globally falls far short of the sums that individuals will need. We estimate the retirement saving gap for six advanced economies and China and India at USD 106 trillion in 2022.[29] Left unaddressed, the gap would grow to USD 483 trillion by 2050, reaching up to USD 450 000 per capita in the UK and the US.

Figure 18
Origin of new life insurance savings premiums by region, USD billions



Source: Swiss Re Institute

[29] *A retirement lifeline: capturing the insurance opportunity in the private savings market*, Swiss Re Institute, 24 October 2023.

We hold a positive profitability outlook for 2024–25 for the global life segment.

Life sector profitability outlook: positive for 2024–25 but risks remain

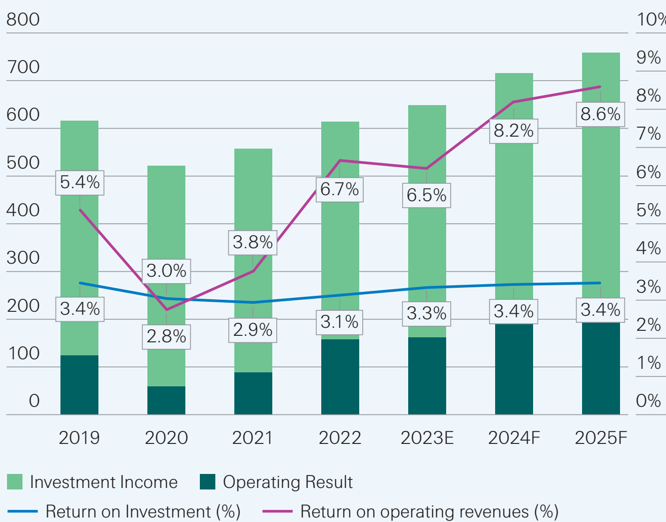
We are positive on life sector profitability over 2024–25, but tighter credit conditions can still create emerging risks. Our life profitability model estimates that the average return on operating revenues for primary life insurers in eight major life markets covered should slightly decrease from 6.7% in 2022 to 6.5% in 2023, driven by adverse US operating profitability developments. It should improve to over 8% in 2024–25 (see Figure 19, left). Investment income continues to improve and we expect reinvestment yields at levels above running yield in the years to come. We estimate that the aggregate return on investment (ROI) will rise by 20bps to 3.3% in 2023, due to higher yields on fixed-income investments and reinvestments. The expected improvement in running yields in 2023 since 2022 ranges from 20bps in the US to 70bps in Italy, where we estimate slightly shorter duration of investment portfolios (see Figure 19, right).

Deteriorating credit conditions and housing market downturns are risks to the outlook.

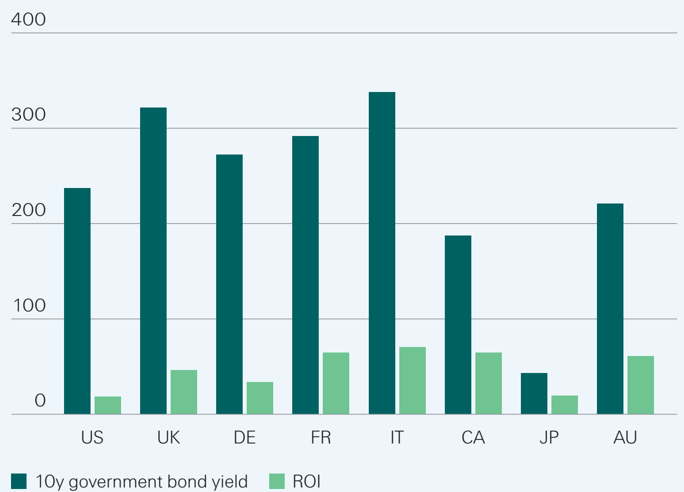
Risks to the outlook include deteriorating credit conditions and potential upticks in defaults. High, sometimes leveraged exposure to corporate credit (a median of 41.3% in the US)[30] is a primary source of risk, following tightening of credit conditions in North America and Western Europe. If this risk crystalises, it could potentially impact investment profitability and insurers' liquidity positions. Yet, we caution that life insurers' investments remain well-diversified across asset classes and allocated towards investment grade assets, a risk mitigator. Another source of risk in Western Europe relates to elevated mortgage costs that could accelerate the housing market downturn and impair demand for life insurance sold through mortgage issuances (France). Consumers are more exposed to elevated mortgage costs in the UK due to the prevalence of shorter-term fixed rate deals, than in France, Germany, or Italy.

Figure 19

Life insurance operating and investment profitability



Estimated investment yield changes over 2022–23 (bps)



Source: Swiss Re Institute estimations

Germany's profitability expected to decline but turn back positive along other European markets in 2024.

A supportive environment for life sector profitability across regions

In Western Europe, the life sector's Contractual Service Margin (CSM), a forward-looking profitability indicator under IFRS17 reporting, improved in 2023 for most companies within our coverage except for one in Germany. We expect Germany's life industry profitability to marginally decline in 2023 due to continued premium contraction, as consumers are reportedly preferring to invest in high-yielding term deposits rather than life insurance policies. Over 2024–25, operating results should improve in Germany, Italy and France along with the uptick in premium growth. Higher reinvestment yields are expected to continue to support European life insurers' profitability.

[30] *Life insurance 3Q23 Preview: Uncertainty Creates Risk … and Opportunity*, J.P.Morgan, 6 October 2023.

Record bulk annuity transfers support the UK outlook, despite regulatory headwinds.

We maintain a positive outlook for UK life insurance profitability. The trend is supported by record-breaking transfers on the bulk annuity market as schemes' funding levels have improved with higher rates. A partial offset to this may come from new consumer duty rules introduced this year, which require companies to show fair value to consumers. This could lead some insurers to reduce customer charges, but also push for internal cost-cutting and digitalisation of operational processes.

Lower claims and higher interest rates should boost profitability in Japan over time…

In Japan, life insurers' operating profitability should improve from a low base as COVID-19-related claims fall in 2023. And as the era of negative interest rates and yield curve control comes to an end, the structural increase in domestic sovereign bond yields should benefit insurers' investment yields in the long run. Insurers have not adjusted their asset allocation hugely so far nor repatriated foreign holdings back into yen,[31] despite surging currency hedging costs creating incentives to reduce foreign asset exposures.[32] One reason is that US Treasury yields have risen by even more: the UST/JGB 10-year spread is over 400bps, the most since 2002. Selling out now would mean crystallising significant mark-to-market losses and lower returns.

…though there is a potential risk of a UK LDI-like stress episode.

Insurers also have incentives to ramp purchases of very long-duration Japanese government bonds to reduce the gap with their liabilities[33]. This is partly driven by anticipation of the scheduled move to market value-based valuation of liabilities in 2025, which the Bank of Japan suggests may also be the reason for the increasing use of interest rate swaps by large domestic life insurers.[34] This brings memories of the UK pension funds' LDI liquidity stress episode last year, due to sharply higher yields. Though unlike UK pension funds with large unfunded deficits, Japanese insurers had generally switched away from guaranteed savings to protection products during the decades of extremely low interest rates. That should mean lower interest rate sensitivity and less pressure to reach for yield with highly leveraged investments.

Mortality level normalisation and rising investment returns support a positive US outlook.

In North America, we envisage slightly lower life insurer profitability in 2023 as higher payments for surrenders and disability/A&H benefits more than offset mostly flat death benefits and premiums, and higher investment income. Rising interest rates and a normalisation of health benefit utilisation and mortality levels as the COVID-19 pandemic becomes endemic are driving these trends. Profitability should strengthen in 2024–25 given higher investment returns and normalisation of mortality levels for life and A&H lines. Market interest rates exceed running portfolio yields, but the impact is gradual. Life insurers' typically long duration to maturity (roughly 11 years in the US) implies that the bond portfolio rollover is slow, while the yield curve inversion muted the impact of higher yields at the short end of the curve.

Stresses and gains in the higher interest rate era

Higher interest rates are generally positive for life insurers, but risks can emerge.

A higher interest rate environment is in general beneficial for the life insurance industry, boosting demand for insurance and investment income. Still, short-term rates volatility is associated with an underperforming insurance sector. Insurers can also face higher risk of lapses in saving policies, which can crystallise previously unrealised losses if insurers are forced to sell assets to fund outflows.

[31] About 30% of Japanese life insurers' portfolio investments are in still in foreign assets.
[32] The JPY has depreciated against the USD by about 12% YTD to around 150 JPY/USD, H. Poulsen, "Japan insurers calibrate overseas investments as hedging barrier climbs", *AsianInvestors, 17 May 2023*.
[33] S. Tezuka, "Japan life insurers set to buy more ultralong bonds on BOJ policy shift", *Nikkei Asia, 11 August 2023*.
[34] *Corporate Pension Funds' Investment Strategies and Financial Stability: Lessons from the Turmoil in the UK Gilt Market*, Bank of Japan Review, March 2023.

Table 10
Impact of interest rates on life insurance demand, lapse risk and profitability

		Demand		Lapse risks		Profitability	
Protection products	Risk products	Demand rises as price for protection policies decreases marginally	↑→	No major impact on lapses: the impact on market prices is moderate and mortality risk charges rise with age compared to prior policy terms	→	Positive impact on profitability. Yield on existing portfolios typically lags market rates	↑→
Savings-type products	Decumulation (payout) annuities products	Demand rises driven by more attractive annuity rates	↑↑	Increases for fixed annuities, mitigated with surrender charges	↑→	Higher investment margin on new business. Yield on existing portfolios typically lags market rates. Reduction of reserves for guarantees	↑↑
	Accumulation (savings) products	Demand shifts to products with higher guarantees, away from variable (equity/index based) products	↑↓	Increases if new products offer better benefits and/or surrender charges are low	↑	Increases modestly as the insurer participates partially in the higher investment returns. Reduction of reserves for guarantees	↑

Note: protection products include term assurance, disability, health and critical illness insurance. Savings-type business includes payout annuities (a decumulation product), endowment and with-profits insurance, deferred fixed annuities, and universal and whole-life products. In lapse risks column, red arrow indicates a negative impact on profitability compared to actuarial assumptions.
Source: Swiss Re Institute

Higher interest rates can improve sales of savings products…

Impact on demand: the life sector is dominated by savings-type products with long-dated contracts, such as annuity, endowment and with-profits policies. Savings products accounted for 78% of total global life premiums in 2022, down from 84% in 2010. Higher interest rates improve the crediting rates on fixed annuity products, making them more attractive. For example, in the US, life insurers saw record annuity sales with fixed annuities increasing by 111% to USD 112bn in 2022, and fixed indexed annuity sales were up 25%. In the UK, bulk annuity transactions are expected to reach record levels in 2023, as rising rates have increased defined benefit pension scheme funding ratios.[35] Rising rates also improve the pricing of protection business, boosting demand more gradually.[36]

…but increase lapse risk on in-force business.

Impact on lapse risk: higher rates can lead to increased lapses on existing business. In-force fixed rate annuity products are the most vulnerable, especially policies with lower guarantees, as alternative investments offer higher returns and policyholders can re-assess investment opportunities. Lapses also depend on other factors, such as withdrawal penalties or limits, tax advantages and maturity bonuses that are only granted if the policy is held until maturity.

Lapse risks are more elevated in markets offering attractive investment alternatives.

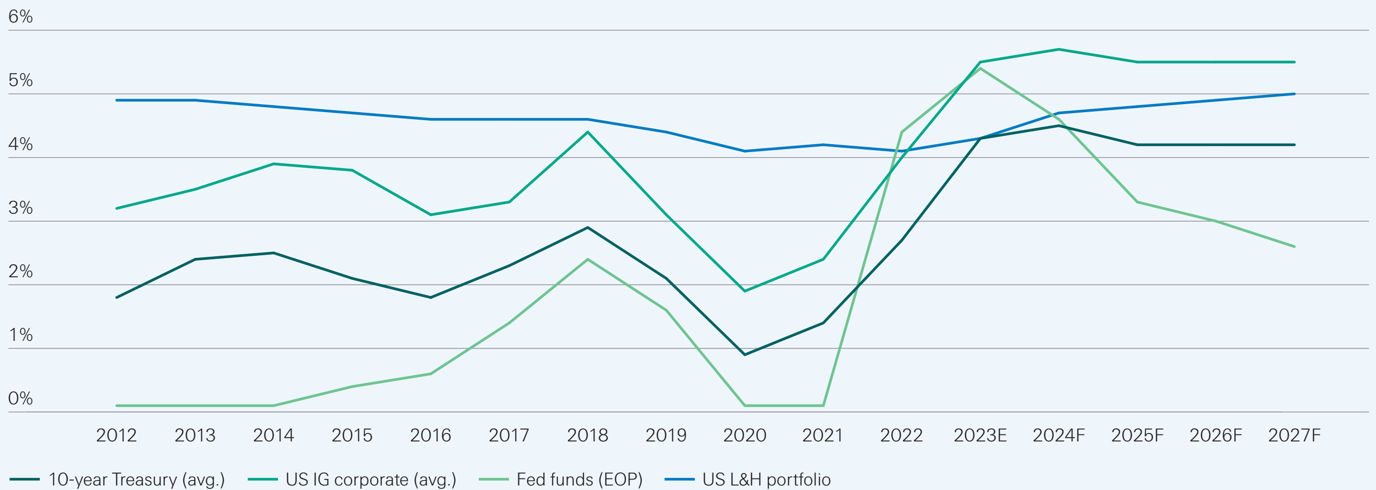
Lapse risks are typically higher in markets offering attractive investment alternatives. In general, lapse rates are in a manageable range. For example, in Germany the lapse rate in 2022 was stable at about 2.6%. In the US, surrender rates of fixed rate deferred annuities increased to 11.1% in 1Q23 from 8.1% in 1Q22, but this is lower than some historical highs and at a manageable level.[37] In Italy, surrender rates increased sharply in late 2022 and 2023 reaching the peak of monthly average rate 1.12% in March 2023, around double the rate in most of 2020–2022. This was driven by increasing rates and exacerbated by stress in an insurer. Still, the surrender rate declined to 0.85% in June 2023 and is expected to fall further into 2024.[38]

[35] K. Jimenez-Sanchez, *"UK bulk annuity market to experience a record-breaking 2023: Aon", Reinsurance.ws*, 03 October 2023.
[36] *Lower for even longer: what does the low interest rate economy mean for insurers?* Swiss Re Institute, September 2020.
[37] LIMRA Annuity Product Reports.
[38] *Italian Insurer Surrender Rates Still High but May Have Peaked, Fitch Ratings*, 07 September 2023.

Higher interest rates improve the profitability of savings products through higher investment income.

Impact on profitability: Higher interest rates bolster life insurers' profitability as higher reinvestment yields boost overall investment income.[39] Our analysis of eight leading life markets suggests that aggregate RoI increased from 2.9% in 2021 to 3.1% in 2022 and 3.3% in 2023.[40] However, as mentioned, the impact is gradual due to the longer duration of portfolios. The rise in the portfolio yield of L&H insurers, where a smaller share is reinvested annually, has been small (see Figure 20).

Figure 20
US L&H portfolio yields and interest rate forecasts



Source: Swiss Re Institute

Rising rates can also increase unrealised losses.

However, sudden rises in interest rates can cause financial stress such as credit downgrades, higher capital requirements and debt defaults. Rising rates can lead to large unrealised losses on the assets backing policy liabilities and higher lapse rates can crystallise these losses. Further, a broad-based rating downgrade of invested assets may force insurers to sell such securities and realise losses.

Higher rates will likely continue to support life insurers in the short to medium term.

Outlook: we see higher rates continuing to support life insurers in the short to medium term.[41] To manage lapse risks, insurers have updated or are in the process of updating lapse assumptions. Many insurers are using dynamic lapse formulae that capture sharp increases in lapses due to higher rates. Insurers are also often using interest rate hedging to deal with interest rate volatility.[42] To manage interest rate risks during the low-rate era, life insurers in some European markets moved from guaranteed rates to investment-linked business, which should limit any possible impact of the change in rates.

[39] *Interest rates & insurance, NAIC*, 24 August 2023.
[40] See *Life sector profitability outlook: positive for 2024-25 but risks remain*, page 32 of this report.t
[41] See *Real interest rates: the higher new (old) normal*, page 12 of this report.
[42] *The impact of rising interest rates for life insurers*, Milliman, April 2023.

Alternative economic and insurance scenarios

Uncertainty around the economic outlook is high as recession and inflation risks remain elevated, accentuated by the latest flare-up in tensions in the Middle East. In particular, risks of a "1970s style stagflation" scenario have risen amid latest geopolitical events, but a "severe global recession" is also another relevant alternative downside scenario for the industry to think through. These scenarios pose distinct challenges, with the former most stressing underwriting performance while the latter would hit more broadly both sides of the balance sheet and raise solvency concerns. Mitigation in many instances involves long lead times, which makes early and proactive scenario monitoring critical.

Economic context

Uncertainty around the economic outlook is high as recession and inflation risks remain elevated.

Escalating tension in the Middle East adds an additional layer of uncertainty to the macroeconomic environment. We see two distinct adverse "tail risk" scenarios (with probabilities of 5–10% each) as key for insurers to consider for balance sheet resilience, capital planning and risk appetite. These are a "severe global recession" and "1970s style stagflation". The latest geopolitical risks in particular accentuate the risk of the second of these. The scenarios constitute two of the most challenging backdrops for insurers. The probability of an upside scenario (or "soft landing") is lower in our view than the two adverse scenarios combined.

Alternative scenarios

Our three alternative economic scenarios cover both upside and downside risks.

A productivity revival that mirrors higher capital investments, resilient growth and benign inflation would be an upside scenario. Meanwhile, a severe global recession scenario would see both an adverse macro and financial market environment, with sharp slowdowns in economic growth, declines in interest rates, and significant financial market losses. A scenario of 1970s style stagflation would in turn comprise severe inflation amid stagnating growth. Key developments to watch that could portend a shift towards one of these alternatives include unanticipated inflation persistence or economic reacceleration, renewed energy/commodity price pressures, monetary policy mistakes, or financial market distress. An escalation of the tensions in the Middle East (e.g. larger oil players like Iran getting involved) could easily spark these catalysts for a 1970s style stagflation.

Figure 21
The three alternative economic scenarios we monitor

		Productivity revival		1970s-style structural stagflation		Severe global recession	
Narrative		Tech driven productivity growth		Comodity shocks, wage-price spirals		Significant global financial system stress	
		Higher capital investment		Lacklustre growth and runaway inflation		Abrupt tightening in financial conditions	
		Benign financial conditions		Central banks lose credibility		Severe economic contractions	
Top signposts	1	**Higher capital investment**		**Renewed energy supply disruptions**		**Unexpected monetary policy moves**	
	2	**Resilient growth, benign inflation**		**Economic reacceleration**		**Pockets of financial market stress**	
	3	**Manageable energy pressures**		**De-anchored inflation expectations**		**Sharp slowdown in demand**	
Key US forecasts		**2024**	**2025**	**2024**	**2025**	**2024**	**2025**
	Real GDP growth	3.2%	2.7%	–1.4%	0.1%	–2.5%	0.5%
	Inflation	2.8%	2.6%	10.0%	7%	1.5%	1%
	10-year yield	5.0%	4.6%	6.2%	5%	1.2%	1.8%
	USD IG spreads	90bps	110bps	230bps	190bps	280bps	210bps

Source: Swiss Re Institute. Note: Our tail risk scenarios are parametrised to capture 5–10% likelihoods. Of course, there are grey areas of scenarios which can also qualify as a "stagflation", "severe global recession" or "productivity revival" scenario with a higher likelihood and hence the overview is not absolute. While select parameters for only the US are shown, we continuously monitor the broader scenarios across major economies.

The macroeconomic environment plays an important role in insurance industry developments.

We use selected key macro indicators including economic growth (GDP), inflation rates, interest rates, and defaults, and assess the implications for insurance markets. Table 12 elaborates the expected impact of the three alternative economic scenarios on insurance premium developments, claims trends and profitability relative to the baseline scenario.

Life and non-life premiums would see a significant boost in the optimistic scenario.

In our optimistic **"productivity revival"** scenario, both life and non-life insurers would see stronger demand and investment returns, supported by higher economic activity. For non-life, commercial lines will likely benefit the most due to the improved trade and business environment. We expect non-life profitability would be neutral in this scenario. Higher claims volumes due to increased economic activity would be offset by lower claims values from lower inflation than in the baseline scenario, and higher investment returns. For life business, we expect stock market gains, rising income levels and higher employment will translate into stronger demand for life insurance. Life profitability would benefit from higher premium and fee income. Investment returns owing to higher interest rates would also boost profitability.

In a severe recession, lower non-life claims would partially offset the impact of weak demand on profitability

A **"severe global recession"** would hit both sides of the balance sheet and raise solvency concerns. Contracting demand would see both life and non-life insurers experience a sharp drop in nominal premium growth. Additionally, lower interest rates, widening credit spreads and asset price declines would generate negative investment returns, dragging on profitability and putting pressure on the liability side. For non-life insurers, however, lower inflation and economic activity would reduce claims relative to our baseline, thereby partially offsetting the impact of the premium decline on profitability.

Both life insurance premiums and profitability would see a hit in a severe global recession scenario.

For life insurers, lower disposable income and higher unemployment would likely see premium volumes fall across all lines of business. Savings products will likely see the strongest decline as financial market losses and low interest rates would make them particularly unattractive to consumers. Overall life profitability would be negative in a recession scenario. However, protection business may benefit from higher lapse rates, particularly if the lapses occur during the latter part of the policy term, due to a decline in policy-related expenses and liabilities.

Despite higher nominal growth in non-life premiums, high inflation would erode real premium growth rates.

A **1970s-style stagflation scenario** would seriously stress underwriting performance, with insurers' liquidity, capital, and shareholder equity all heavily impacted. Non-life insurers would be most exposed to the inflation shock through lower demand, increased claims severity and weakened profitability. As insurance rates rise to meet claims costs, nominal premium growth would be strong albeit with a lag, and high inflation would result in lower real premium growth than in our baseline. It is worth noting that some major non-life segments (such as property and motor damage) are already experiencing a stagflation-like operating environment. In a stagflation scenario, we expect the effects on these lines to be further amplified.

Life insurance profitability may be moderately positive in a stagflation environment.

Life insurance would see weak demand due to higher unemployment and falling disposable income levels. However, life insurance profitability may be positive for protection and savings products. As in the recession scenario, higher lapses may reduce policy-related expenses for protection business while higher interest rates might provide reinvestment benefits and support the profitability of savings products. The adverse impact on insurers' investment income would depend on the degree of ALM matching, i.e., the extent to which higher reserves are immediately matched with additional assets which lose value with higher yields. However, reinvestments in higher-yielding bonds would support longer-term investment income.

The insurance sector is in a resilient position to weather new shocks thanks to strong capital buffers.

The good news is that the insurance sector entered 2023 with solid capital buffers and solvency and liquidity positions only slightly below pre-COVID-19 levels and still well above 100%.[43] Moreover, monetary tightening has brought with it the end of financial repression, with the benefits of strongly higher investment yields outweighing the higher cost of capital, and making new business significantly more attractive today than two years ago.

Proactive long-term strategic actions are still needed to mitigate against tail risk scenarios.

Mitigating these challenges requires not only strong capital and risk management but also recognising that strategic actions come with long lead times. For example, when facing an inflationary environment, mitigation options include repricing risks on the underwriting side and steering new business to lower-risk products and away from unfavorable lines, both of which take time. Asset allocation and other hedging tools, on the other hand, allow for more agile management of investment risk, though repositioning must still consider capital requirements and liquidity needs.

Not being ready to capitalise on upside scenarios is also an opportunity cost.

That said, monitoring for more optimistic macro scenarios is also crucial, as this year's stronger than expected economic data especially in the US has shown. More robust economic growth, benign inflation momentum and a gradual repricing higher in interest rates would be positive for the insurance industry. Such a scenario would most likely entail better than expected premium growth and investment returns for both life and non-life business. Still, such a scenario may not always be as straightforward.

Scenario signposts

It is also key to have clearly defined scenario signposts.

Designing and parametrising scenarios is a necessary first step, but it is also key to have clearly defined scenario signposts, and mitigation strategies should scenario signposts be breached. The signpost monitor below provides a high level, non-exhaustive overview of the parameters that we monitor for the US, to better assess whether the baseline scenario moves closer to or further away from a particular alternative scenario.

[43] *Global Insurance Market Report: mid-year update*, International Association of Insurance Supervisors, July 2023.

Table 11
Signpost monitor for selected US indicators

Signpost for 1970s-style stagflation	Series to monitor	Latest	Percentile rank (%)	Trend	Assessment
Inflation reacceleration and de-anchoring of inflation expectations	Core CPI (m-o-m %, 3m ma annualised)	3.1	88%	↑	
	Average hourly earnings (y-o-y, %)	4.1	80%	↓	
	Conference Board inflation 1Y expectations (survey, %)	5.9	81%	↑	
	10y breakeven inflation (%)	2.5	77%	↑	
Continued labour market tightness and insufficient policy tightening	Vacancies-to-unemployed (ratio)	1.5	92%	↑	
	Nonfarm payrolls (y-o-y, %)	1.9	79%	↓	
	Deviation of inflation from target (24m ma, ppts)	4.5	97%	↑	
	Taylor rule – Policy rate (ppts)	2.2	68%	↓	
Renewed supply shocks (e.g. energy, commodity market stress)	Brent crude price (index)	724	73%	↓	
	Brent crude (magnitude of change, m-o-m %)	–7.8	15%	↓	
	Natural gas price (index)	6.5	2%	↑	
	Natural gas (magnitude of change, m-o-m %)	13.1	87%	↑	
Signposts for severe global recession	**Series to monitor**	**Latest**	**Percentile rank (%)**	**Trend**	**Assessment**
Persistent inflation risking more aggressive policy tightening	Core CPI (m-o-m %, 3m ma annualised)	3.1	88%	↑	
	Share of PCE items with price growth above 5% (%)	65	63%	↑	
	PPI inflation (y-o-y, %)	2.2	57%	↑	
	Taylor rule – Policy rate (ppts)	2.2	68%	↓	
Signs of substantial demand slowdown	Consumer confidence (index)	103	56%	↓	
	initial jobless claims (y-o-y, %)	4.3	68%	↓	
	Retail sales (y-o-y, %)	3.8	42%	↑	
	Manufacturing PMI (index)	47	10%	↓	
	Services PMI (index)	51.8	17%	↓	
Disruption and deterioration of financial markets	Financial conditions index (Chicago Fed, index level)	–0.4	68%	↓	
	IG credit spreads (bps)	129	45%	↑	
	Equity returns (ytd, %)	9.2	74%	↓	
	30y mortgage rate (%)	7.8	97%	↑	
	Bankruptcies (index)	92.2	47%	↑	
Signposts for productivity revival	**Series to monitor**	**Latest**	**Percentile rank (%)**	**Trend**	**Assessment**
Strong growth underpinned by higher productivity and investment	Leading indicator index (OECD, index)	99.4	35%	↑	
	Durable goods industry new orders (y-o-y %)	2.2	57%	↑	
	Capital expenditure intentions (y-o-y %)	–56.4	13%	↓	
	Labour productivity (y-o-y %)	2.2	69%	↑	
Benign financial markets and inflation	IG credit spreads (bps)	129	45%	↑	
	Equity returns (ytd, %)	9.2	74%	↓	
	Headline CPI (y-o-y %)	3.7	82%	↓	
	Energy CPI component (y-o-y %)	–0.5	34%	↑	
Optimism over the economic outlook	1Y ahead nominal GDP forecast dispersion (y-o-y %)	–9.4	30%	↓	
	Economic surprise index (Citi, index)	63.4	92%	↑	
	Economic policy uncertainty (6M ma filter, index)	128	61%	↓	
	CEO confidence (index)	46	29%	↓	
	Small business optimism (index)	90.8	15%	↓	
	Consumer confidence (index)	103	56%	↓	

far from scenario | to watch out for; moving towards scenario | close to or at scenario

Note: to assess the current status of the US economy relative to our three scenarios, we identify signposts and monitor both percentile and trend for a selection of key indicators for each signpost. This approach, both static and dynamic, enables us to pinpoint whether the US economy is moving towards or away from the scenario. Monthly data is used (except for CEO confidence, labour productivity and forecast dispersion, which are quarterly).
Source: Macrobond, Swiss Re Institute

Table 12
Impact of the alternative economic scenarios on insurers' premiums and profitability (2023–2024)

	Productivity revival	Severe global recession	1970s style stagflation
Premium growth			
Non-life			
Property	Positive	Negative	Moderately positive
Liability	Positive	Negative	Moderately positive
Motor	Positive	Negative	Moderately positive
Trade credit	Positive	Negative	Negative
Life			
In-force			
Protection	Positive	Moderately negative	Moderately negative
Life savings, guarantees	Moderately positive	Moderately negative	Negative
Life savings, unit linked	Positive	Negative	Moderately negative
New business			
Protection	Positive	Moderately negative	Negative
Life savings, guarantees	Moderately positive	Negative	Moderately negative
Life savings, unit linked	Positive	Negative	Negative
Underwriting profitability			
Non-life			
Property [claims]	Neutral	Neutral	Negative
Liability [claims]	Neutral	Moderately positive	Negative
Motor [claims]	Neutral	Moderately positive	Negative
Trade credit [claims]	Positive	Negative	Moderately negative
Life (operating margins)			
Protection	Neutral	Moderately positive	Moderately positive
Life savings, guarantees	Neutral	Negative	Negative
Life savings, unit linked	Moderately positive	Moderately negative	Moderately negative
Investment returns	Moderately positive	Negative	Moderately negative

Negative Moderately negative Neutral Moderately positive Positive

Note: growth rates are in nominal terms.
Source: Swiss Re Institute

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Swiss Re Management Ltd
Swiss Re Institute
P.O. Box
8022 Zurich
Switzerland

Telephone +41 43 285 2551
Email institute@swissre.com

Authors
Lucia Bevere
James Finucane
Hendre Garbers
Loïc Lanci
Roman Lechner
Sebastian Maser
Charlotte Mueller
Mahesh Puttaiah
Mahir Rasheed
Patrick Saner
Ayush Uchil
Arnaud Vanolli
Shuyang Wu
Dr Li Xing
Weijia Yao

Contributors
Xin Dai
Dr Thomas Holzheu
Daniel Ellarby Sanchez
Diana Van der Watt
John Zhu

***sigma* Editor**
Alison Browning

Managing editor
Dr Jerome Jean Haegeli
Swiss Re Group Chief Economist

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Swiss Re Management Ltd.
Swiss Re Institute
Mythenquai 50/60
P.O. Box
8022 Zurich
Switzerland

Telephone +41 43 285 3095
swissre.com/institute