

Global insurers wary of recession: Goldman Sachs

By Editorial Staff Thu, Apr 25, 2019

'Global insurers are decreasing allocation to public equities,' said Michael Siegel, GSAM's Global Head of Insurance Asset Management. 'Insurers are also shifting to less liquid asset classes such as private equity.'

Far more insurers believe the U.S. economy will dip into recession in 2020 or 2021 (82%) than believe a recession will occur in 2019 (2%) or not at all in the next three years (16%), according to Goldman Sachs Asset Management's (GSAM) eighth annual global insurance survey.

This year's survey, called "Cautiously Opportunistic," showed that slowing global growth and market volatility has led to heightened credit cycle concerns, with 85% (up from 34% last year) of respondents believing we're in the late stage of the cycle.

GSAM interviewed 307 CIOs, CFOs and senior professionals at global insurance companies, representing more than \$13 trillion in balance sheet assets and approximately half of the balance sheet assets for the global insurance sector

The results showed shifts in perceived risks and lower expectations for investment opportunities. Respondents indicated that investment opportunities are either stagnant (46%) or getting worse (40%), with only 14% indicating the opportunities are improving.

"Global insurers are decreasing allocation to public equities," said Michael Siegel, GSAM's Global Head of Insurance Asset Management, in a release. "Insurers are also shifting to less liquid asset classes such as private equity in order to avoid exposure to the increased volatility as speculation around a recession continues to rise."

Highlights from the survey include:

- Concerns around rising interest rates decreased significantly (7%, down from 30% last year) as insurance investors are increasingly concerned with credit quality deterioration in their portfolios (38%, up from 23% last year).
- Fewer respondents are concerned about inflation in the next three years in their domestic market (27%, down from 74% last year).
- More than half of respondents (62%) expect the 10-year U.S. Treasury yield to range between 2.5% and 3.0% by year-end, a break from their previous upward bias.
- 62% of respondents include environmental, social and governance (ESG) assets among their investment considerations; the sentiment was voiced by 83% of those in Europe,

81% of those in the Asia Pacific region, and only 43% in the Americas.

- 56% of insurers invest in ETFs, Fixed income ETFs are most often used to manage short-term tactical exposures or achieve operational efficiency.
- 46% of respondents invest in insurtech, with Asia Pacific as an outsized contributor at 68%. Operational efficiency is the most common reason for these investments.
- Year-over-year, 10% more respondents ranked political events as a top three macro risks (42%). Regional consensus showed the U.S.-China trade conflict is the greatest risk to investment portfolios over the next 12 months (53%).

For the second year, the Insurance Asset Management team also surveyed retail distribution business leaders in North America. The survey covered macro risks, market outlook, the credit cycle and evolving industry themes. Credit and equity market volatility, potential U.S. economic slowdown or recession, and deteriorating liquidity conditions were the three biggest macroeconomic concerns.

GSAM Insurance Asset Management partnered with KRC Research on its global insurance investment survey.

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