Quant insight

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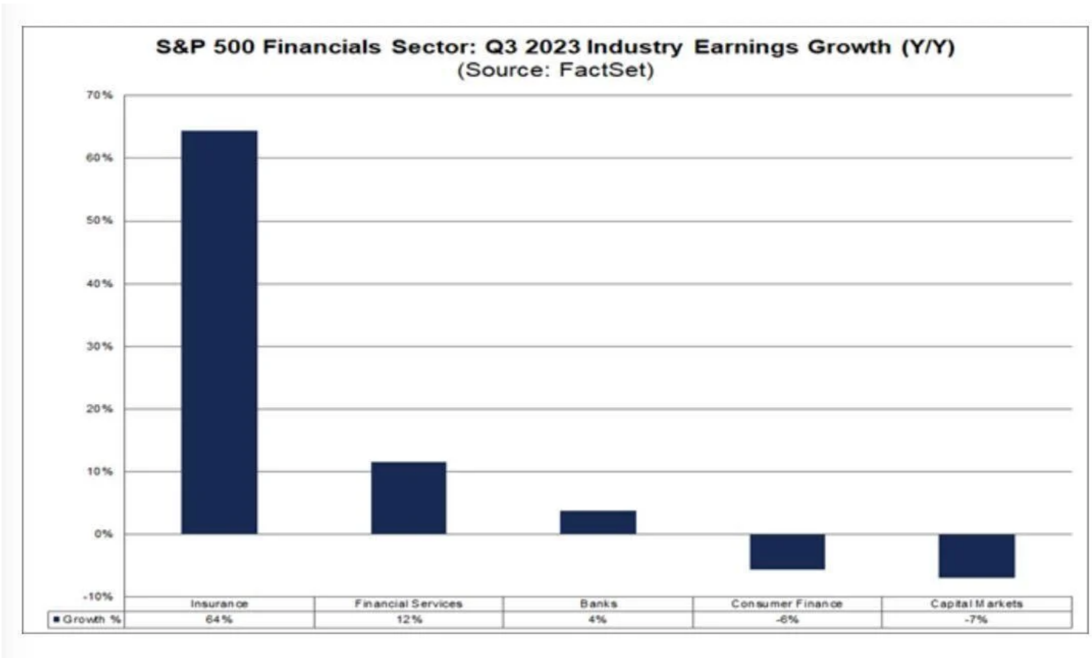
Insurers - where company and macro fundamentals meet?

Banks kick start the Q3 reporting season this week but arguably it is the non-banks part of the Financials sector that is most interesting right now.

Insurers in particular stand out. Aside from their traditional defensive properties, history shows they are often one of the better performing sectors after the final Fed rate hike.

That might explain the FactSet chart below showing earnings projections for the Financials sector broken down by industry. If analysts expectations are right, insurers are the strongest group by some margin with YoY earnings growth of 64%.



So the bottom-up view looks constructive, what's the macro picture for insurers?

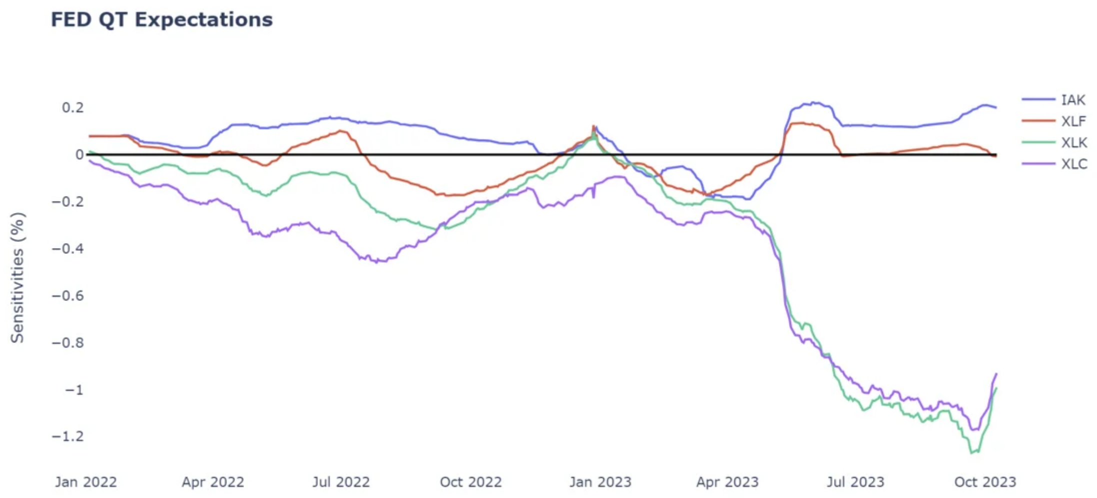
At the industry level, Qi models IAK - the iShares ETF that tracks the Dow Jones US Select Insurance Index.

What stands out in terms of the macro regime, are insurer's defensive properties:

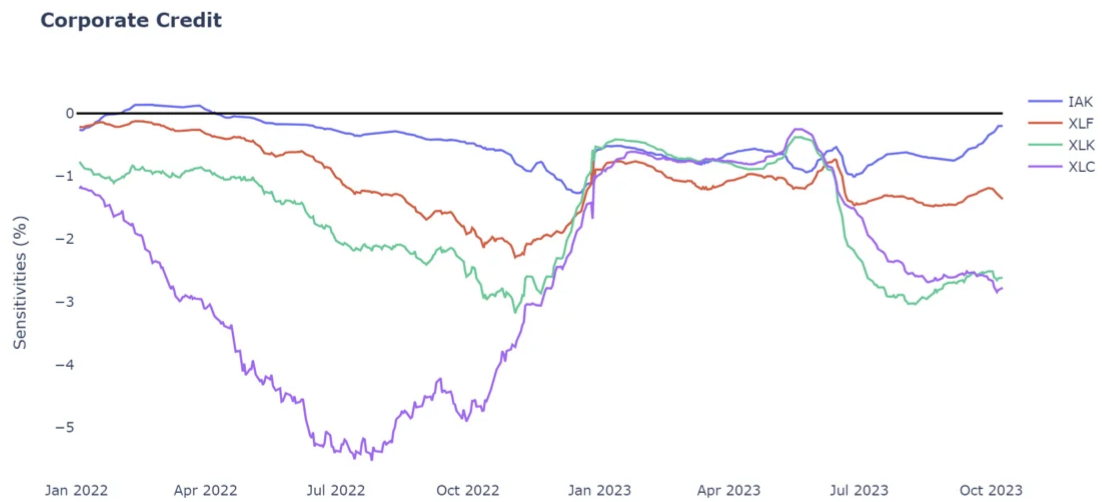
- rising **interest rate volatility** is actually a benefit for the industry
- sensitivity to **credit spreads** is negative but very small. Relative to its peers, IAK is comparatively immune to wider credit spreads
- a stronger **Dollar** is a tailwind, not a headwind

Focusing on rate volatility given it's importance in this recent re-pricing of the bond market, the chart below shows how IAK is comfortable with rising rate volatility.

That stands in sharp contrast to some others, notably Technology with market leaders like XLK and XLC increasingly vulnerable to our Fed QT expectations factor.



It's a similar picture when we screen for sensitivity to credit spreads. IAK's defensive traits are clear to see.



The net result of that is that overall macro-warranted fair value has actually moved up during this recent period of equity stress.

The indexed chart below shows Qi model value for IAK versus the broader Financials sector XLF, Technology XLK and Communication Services XLC over the last year.

Financials and insurers took longer to recovery after SVB etc and missed out on the AI-driven rally in Tech over Q2/Q3.

But during the most recent equity market wobble, **IAK has seen macro conditions grind higher.**

There is no strong valuation edge. Qi's model shows IAK at macro fair value. For now, the bigger focus is **rising macro momentum**.

But an example of how 2 minutes spent on the Qi platform gives bottom-up investors a chance to head into earnings season better prepped.

There's no replacing fundamental analysis, but its equally important to get a quick sanity check on macro dynamics.

Watch the video