U.S. Insurance

4Q23 Earnings Preview: orderly 1/1 renewals as reinsurers remain disciplined

Price Objective Change

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Equity
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P&C: uneventful 1/1 renewals; auto margins to improve

We continue to believe personal auto and reinsurance subsegments offer the most attractive opportunities within our coverage. Personal lines earnings are expected to benefit from 1) higher earned pricing ameliorating onto the P&L and 2) mild U.S. weather activity during the quarter should result in lighter catastrophe losses. Reinsurers are expected to post another quarter of strong ROEs with mild global cat activity. Investors will be focused on any commentary regarding the 1/1 renewals which predominantly focuses on global catastrophe property reinsurance. Early prognostications suggest more stable conditions as compared with 2023 with pricing modestly up, addressing a key investor concern coming into the renewal period. Lastly, we expect material BVPS growth following downward move in interest rates during the quarter for the entire P&C space, which we have modelled into our forecasts.

Quiet quarter with modest catastrophe losses expected

We do not expect 4Q23E to be an outsized catastrophe quarter for P&C companies. Domestic insurers are expected to have modest losses related to tornados impacting northern Tennessee as well as other various convective storms. Early catastrophe results from Progressive and Allstate insinuate a manageable quarter for cat losses for personal lines. Global carriers may report losses related to Hurricane Otis in Mexico and various severe convective storms and flooding events impacting the European continent. Overall, we have modestly reduced our forecasts for catastrophe losses during the quarter. Albeit not a Q4 event, there were a couple of large earthquakes impacting Japan early in 2024 which we expect to be topic of interest during this quarter's earnings calls and potential impacts for 4/1 renewals.

Life: end of rate cycle help alleviate credit/CRE concerns

Life insurance shares reacted positively following stronger economic data and more dovish comments from the FOMC committee. With the market pricing in several rate cuts in 2024, life insurers seem to have receive some reprieve from credit and commercial real estate (CRE) concerns that impacted valuations in 2023. We expect lapse rates to remain elevated albeit decelerating as investors lock in higher yielding fixed annuities with the expectations of lower rates in the near-term. With a more stable interest rate environment, funding mandates could be an area of focus for companies with asset management and retirement businesses.

Brokers: lower fiduciary income weighs on EPS revisions

We expect a continuation of recent trends with 4Q23E results: mid-to-high single digit organic growth, margin expansion, and fiduciary income growth. However, given widespread expectations for interest rate cuts later in the year, we lower our 2024E-25E EPS to reflect lower fiduciary income. We also expect slowing organic growth as nominal GDP growth decelerates. Despite these headwinds, late-2023 market multiple expansion drives net PO increases for most of the group. Given Aon's pending acquisition of NFP, we expect the outlook for segment M&A to be a recurring topic on earnings calls.

Exhibit 1: Updated POs

PO changes reflect events occurring during the quarter and various P/E multiple changes.

		Price Objective	
Ticker	Rating	New	Old
AFL	Buy	92	85
ALL	Buy	170	168
AIG	Buy	75	73
AON	Neutral	356	358
ACGL	Buy	94	101
AJG	U/P	203	187
AXS	Buy	69	70
BRO	Neutral	77	no change
BRP	Buy	44	41
CB	U/P	210	203
CNA	Neutral	39	37
CRBG	Buy	33	29
EG	Buy	522	504
GSHD	U/P	41	no change
HIG	Buy	97	88
LNC	Neutral	27	24
MMC	Neutral	207	198
MET	Buy	89	82
PFG	Neutral	84	78
PGR	Buy	234	225
PRU	Neutral	107	99
RNR	Buy	281	287
TRV	U/P	188	no change
TRUP	Neutral	38	no change
UNM	Neutral	46	50
VOYA	Buy	83	81
WRB	Buy	87	85
WTW	U/P	233	210

Source: BofA Global Research estimates
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Refer to important disclosures on page 33 to 36. Analyst Certification on page 32. Price Objective Basis/Risk on page 25.
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Overview of Model Changes

Exhibit 2: Price Objective and 4Q23E Changes

We update our 4Q23E EPS forecasts to account for events during the quarter.

			Price Objective		4Q23E EPS		
Company	Ticker	Rating	New	Prior	BofA New	BofA Prior	Cons.
Commercial P&C							
American Int'l	AIG	Buy	$ 75	$ 73	$ 1.55	$ 1.66	$ 1.65
Arch Capital	ACGL	Buy	$ 94	$ 101	$ 2.09	$ 2.04	$ 1.97
AXIS Capital	AXS	Buy	$ 69	$ 70	$ (0.70)	$ 2.04	$ 2.07
Chubb	CB	Underperform	$ 210	$ 203	$ 4.93	$ 4.57	$ 5.08
CNA Financial	CNA	Neutral	$ 39	$ 37	$ 0.97	$ 0.91	$ 1.05
Everest Re	EG	Buy	$ 522	$ 504	$ 14.93	$ 15.60	$ 14.22
Hartford Financial	HIG	Buy	$ 97	$ 88	$ 2.36	$ 2.31	$ 2.38
RenaissanceRe	RNR	Buy	$ 281	$ 287	$ 10.02	$ 10.03	$ 8.24
Travelers	TRV	Underperform	$ 188	no change	$ 5.25	$ 5.05	$ 4.98
W.R. Berkley	WRB	Buy	$ 87	$ 85	$ 1.47	$ 1.42	$ 1.36
Personal Lines							
Allstate	ALL	Buy	$ 170	$ 168	$ 3.17	$ 2.57	$ 3.09
Progressive	PGR	Buy	$ 234	$ 225	$ 2.45	no change	$ 2.43
Life Insurance							
Aflac Inc.	AFL	Buy	$ 92	$ 85	$ 1.59	$ 1.54	$ 1.45
Corebridge Financial	CRBG	Buy	$ 33	$ 29	$ 1.03	no change	$ 0.98
Lincoln National	LNC	Neutral	$ 27	$ 24	$ 1.52	$ 1.57	$ 1.43
MetLife	MET	Buy	$ 89	$ 82	$ 2.09	$ 2.08	$ 1.92
Principal Financial	PFG	Neutral	$ 84	$ 78	$ 1.77	$ 1.72	$ 1.69
Prudential Financial	PRU	Neutral	$ 107	$ 99	$ 2.72	$ 2.67	$ 2.62
Unum	UNM	Neutral	$ 46	$ 50	$ 1.83	$ 1.78	$ 1.85
Voya Financial	VOYA	Buy	$ 83	$ 81	$ 1.75	no change	$ 1.87
Insurance Brokers							
Aon	AON	Neutral	$ 356	$ 358	$ 4.01	no change	$ 4.07
Arthur J. Gallagher	AJG	Underperform	$ 203	$ 187	$ 1.85	no change	$ 1.85
Brown & Brown	BRO	Neutral	$ 77	no change	$ 0.52	$ 0.51	$ 0.53
BRP Group	BRP	Buy	$ 44	$ 41	$ 0.11	no change	$ 0.12
Marsh & McLennan	MMC	Neutral	$ 207	$ 198	$ 1.66	$ 1.67	$ 1.63
Willis Towers Watson	WTW	Underperform	$ 233	$ 210	$ 7.06	$ 7.05	$ 7.04
Insurtech							
Goosehead	GSHD	Underperform	$ 41	no change	$ 0.36	$ 0.39	$ 0.33
Trupanion	TRUP	Neutral	$ 38	no change	$ (0.13)	$ (0.15)	$ (0.15)

Source: BofA Global Research estimates

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Exhibit 3: Full-Year EPS Forecasts

Some of our full-year EPS forecast changes upon interpolating 4Q23E events.

		2023E		2024E		2025E		2026E
Company	Ticker	BofA New	BofA Prior	BofA New	BofA Prior	BofA New	BofA Prior	BofA New
Commercial P&C								
American Int'l	AIG	$ 6.55	$ 6.65	$ 7.60	$ 8.00	$ 8.70	$ 9.40	$ 9.35
Arch Capital	ACGL	$ 8.05	$ 8.00	$ 8.45	$ 8.50	$ 8.90	$ 8.95	$ 9.70
AXIS Capital	AXS	$ 6.20	$ 8.95	$ 9.30	$ 9.35	$ 9.65	$ 9.70	$ 10.15
Chubb	CB	$ 19.20	$ 18.85	$ 20.35	$ 19.75	$ 21.90	$ 21.25	$ 23.45
CNA Financial	CNA	$ 4.35	$ 4.30	$ 4.75	$ 4.60	$ 4.90	$ 4.85	$ 5.40
Everest Re	EG	$ 55.80	$ 56.49	$ 62.05	$ 63.08	$ 67.95	$ 70.51	$ 75.00
Hartford Financial	HIG	$ 8.20	$ 8.15	$ 9.85	no change	$ 11.50	$ 11.55	$ 12.85
RenaissanceRe	RNR	$ 35.44	$ 37.25	$ 33.25	$ 34.20	$ 36.65	$ 37.60	$ 39.15
Travelers	TRV	$ 11.40	$ 11.20	$ 17.30	$ 17.10	$ 19.10	$ 19.05	$ 21.30
W.R. Berkley	WRB	$ 4.95	$ 4.90	$ 6.05	$ 6.10	$ 6.50	$ 6.55	$ 6.90
Personal Lines								
Allstate	ALL	$ (2.05)	$ (2.65)	$ 13.45	$ 12.15	$ 16.95	$ 15.80	$ 18.70
Progressive	PGR	$ 5.60	no change	$ 10.40	no change	$ 13.20	no change	$ 15.18
Life Insurance								
Aflac	AFL	$ 6.05	$ 6.00	$ 6.75	no change	$ 7.15	no change	$ 7.55
Corebridge Financial	CRBG	$ 4.10	no change	$ 5.10	$ 4.95	$6.00	$ 5.80	$ 6.90
Lincoln National	LNC	$ 5.30	$ 5.35	$ 7.05	$ 7.00	$ 8.20	$ 8.10	$ 9.25
MetLife	MET	$ 7.50	$ 7.50	$ 8.80	$ 9.05	$ 9.95	no change	$ 10.85
Principal Financial	PFG	$ 6.50	$ 6.45	$ 7.65	$ 7.50	$ 8.30	$ 8.20	$ 8.80
Prudential Financial	PRU	$ 11.75	$ 11.70	$ 12.95	$ 12.75	$ 14.10	$ 13.90	$ 15.30
Unum	UNM	$ 7.70	$ 7.65	$ 7.70	$ 7.65	$ 8.25	no change	$ 8.95
Voya Financial	VOYA	$ 7.15	$ 7.20	$ 9.05	$ 8.60	$ 10.80	$ 10.35	$ 13.20
Insurance Brokers								
Aon	AON	$ 14.26	no change	$ 15.73	$ 15.78	$ 16.89	$ 17.07	$ 18.94
Arthur J. Gallagher	AJG	$ 8.77	no change	$ 10.03	no change	$ 10.87	no change	$ 11.91
Brown & Brown	BRO	$ 2.75	$ 2.74	$ 2.98	$ 3.00	$ 3.26	$ 3.34	$ 3.58
BRP Group	BRP	$ 1.09	no change	$ 1.72	no change	$ 2.20	no change	$ 2.57
Marsh & McLennan	MMC	$ 7.96	$ 8.68	$ 8.53	$ 8.68	$ 9.06	$ 9.38	$ 9.71
Willis Towers Watson	WTW	$ 14.08	$ 14.07	$ 15.82	$ 16.02	$ 17.53	$ 18.03	$ 19.54
Insurtech								
Goosehead	GSHD	$ 1.31	$ 1.34	$ 1.72	$ 1.65	$ 2.32	$ 2.25	$ 2.29
Trupanion	TRUP	$ (1.16)	$ (1.19)	$ (0.02)	$ (0.13)	$ 0.36	$ 0.29	$ 0.55

Source: BofA Global Research estimates

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Exhibit 4: 4Q23E Catastrophe Loss Forecasts

We do not expect catastrophe losses to be elevated in 4Q23E.

		Catastrophes ($m)		Catastrophes (%)	
Company	Ticker	New	Prior	New	Prior
Allstate	ALL	457	681	3.6%	5.4%
American Int'l	AIG	267	370	4.4%	5.7%
Arch Capital	ACGL	68	88	2.0%	2.6%
AXIS Capital	AXS	41	59	3.2%	4.6%
Chubb	CB	444	571	4.6%	5.9%
CNA Financial	CNA	57	71	2.4%	3.0%
Everest Re	EG	148	140	4.1%	3.8%
Hartford Financial	HIG	100	136	2.6%	3.6%
Progressive	PGR	126	135	0.8%	0.9%
RenaissanceRe	RNR	105	125	4.8%	5.8%
Travelers	TRV	211	262	2.1%	2.6%
W.R. Berkley	WRB	35	49	1.3%	1.8%

Source: BofA Global Research estimates

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P&C Insurers

Allstate (ALL)
Price Objective: $170

BofA 4Q23E EPS Estimate: $3.17

Street High/Cons/Low: $4.47/$3.09/$2.03

Release date: 2/7 after market close; call at 9 a.m. on 2/8

Items to Watch:

- We expect $457mn in catastrophe losses in 4Q23E, or a cat load of 3.6%. Allstate did not pre-announce catastrophe losses for October or November, indicating that they were below $150mn each month. We expect catastrophe losses in December to be above the prior two months, acknowledging potential losses from the tornados impacting Tennessee. The company will pre-announce December catastrophe losses on January 18th (if they exceed $150mn), potentially providing further clarity in advance of earnings.

- We model an underlying P&C loss ratio of 72.0% vs 77.3% in 4Q22 with improvement driven by stronger Auto results. We forecast an Auto underlying loss ratio of 80.2% vs 87.8% in 4Q22 as higher earned rate restores profitability. We continue to expect gradual, sequential improvement in the underlying loss ratio as the company implements higher rates.

- Following the series of reserve charges in 2022 and 9M23, the company appears to have buffered its reserves. The company reported $166mn in reserve charges in 3Q23, split between run-off book and National General related to personal injury coverages. While we do not expect this quarter to deliver overly outsized catastrophe losses, investors may still be concerned around capital levels and will be carefully watching for commentary around reserve adequacy.

- We forecast $155mn in performance-based investment income assuming an annualized yield of 6.5%, below our run rate expectation of 8%. Alternative investment income is typically reported on a lag, so 4Q results should reflect 3Q market weakness.

- We raise our PO to $170 from $168 based on the 2025 peer group P/E multiple (10x). Material upside vs our PO informs our Buy rating; we expect outperformance as the company reaps the benefits of the transformative growth program and higher earned premiums from hard market pricing in personal lines.

American International Group (AIG)
Price Objective: $75

BofA 4Q23E EPS Estimate: $1.55

Street High/Cons/Low: $1.87/$1.68/$1.56

Release date: TBD

Items to Watch:

- AIG initiated separation of its Life & Retirement businesses (Corebridge Financial) through an IPO in mid-September 2022 and has subsequently reduced its share via secondary offerings, most recently in November and December 2023. Any updates regarding the progress of expense management and/or potential timing of reducing the stake in Corebridge could be of investor interest.

- We expect $267mn in catastrophe losses (4.4% loss ratio impact). While 4Q23E was a mild catastrophe quarter in terms of large single events, we expect AIG to have exposure to several severe weather events around the globe including Hurricanes Otis, windstorms in Europe, and convective storms in the U.S. However, reunderwriting efforts over recent years should constrain losses relative to similarly active quarters in the past although the company's large international portfolio could see above-average losses.

- We forecast an underlying loss ratio of 56.8% for General Insurance, or 30bps of YoY improvement. We expect a modest 200bps of improvement for North America Commercial lines to 61%, although we acknowledge the possibility for bidirectional surprises in loss cost trends given inflationary pressures. There could also be volatility to loss ratio forecasts following the divestiture of Validus Re. Any management insights into commercial pricing vs loss cost trends could influence sentiment.

- We caution there could be some noise in premium growth following the Validus Re and Crop Risk Services divestitures. We are forecasting premium growth to decline -7.5% in North America Commercial, reflecting the divestitures. In aggregate, we model top line growth of 3.7% for General Insurance.

- We do not model any prior year reserve development outside of the amortization of the deferred gain on the NICO ADC. Given historical reserve challenges at AIG, we remain cautious in our outlook.

- Our PO rises to $75 from $72 based on a sum-of-the parts valuation including 1) our expected value of AIG's 50% stake in Corebridge, 2) an expectation that AIG's P&C businesses should take a peer P/E multiple (currently 9.6x 2025) and 3) a time-value discounted multiple for its deferred tax assets. The increase in our PO is driven by a higher expected value of the company's core P&C business. Upside potential vs our PO informs our Buy rating; we expect valuation re-rating following the separation of the life insurance business.

Arch Capital Group (AGCL)
Price Objective: $94

BofA 4Q23E EPS Estimate: $2.09

Street High/Cons/Low: $2.31/$1.97/$1.64

Release date: 2/14 after market close; call 2/15 at 11 a.m.

Items to Watch:

- We model $98mn in catastrophe losses in 4Q23E, or 2% loss ratio impact. We expect Arch to have some exposure to severe weather events around the globe; however, we do not expect 4Q23E to be a noteworthy catastrophe quarter for reinsurers. While Arch often has limited cat exposure vs peers, recent growth in property lines could inflate losses relative to recent history.

- Arch is one of few P&C companies that has fully embraced higher P&C pricing trends to increase its exposure footprint, which we expect to continue in 4Q23E. We are estimating 10% net premium written growth in the Insurance segment, while Reinsurance should remain flat as 4Q22's results included a few non-recurring items. We believe risk vs our forecasts is skewed to the upside.

- We are forecasting a 55.5% core loss ratio for 4Q23E in the Insurance segment, reflecting 70bps of YoY improvement. In Reinsurance, we are forecasting a 53% underlying loss ratio for 4Q23E, or 430bp improvement YoY as 4Q22 included an elevated number of large attritional losses. Absent the one-off impacts, our forecast reflects ~70bps of deterioration compared with 4Q22.

- We believe the default rate in the Mortgage Insurance business has bottomed as impacts of the macro environment begin to weigh on results; we forecast 1.8% default rate vs 1.7% in the prior quarter. We also forecast $50mn in favorable reserve development (-18% segment loss ratio impact), a decline compared to recent quarters as a large portion of pandemic-era reserves have already been released. Given the dramatic rise in mortgage rates occurring in 2022-1H23, any commentary around developing delinquency trends could impact the stock performance.

- Arch's probable-maximum-loss (PML) for a 1-in-250 year peak zone catastrophe event have steadily climbed from 4.7% of tangible common equity in 4Q21 to 10.1% as of October 1st. Despite commentary around favorable pricing and strong premium growth, PMLs remain well below the theoretical limit of 25% of tangible common equity. Investors will be interested to see 1) any color regarding recent property-catastrophe renewals on 1/1 and 2) insights on other 2024 reinsurance renewal dates, particularly April 1st following the Japanese earthquake in early January.

- Our PO declines modestly to $94, predicated on 110% the peer group 2025E P/E multiple (9.6x, formerly 10x on FY24E). We apply a premium to the peer group valuation to reflect Arch's tactical capital management and the once-in-a-generation opportunity in reinsurance markets. Upside vs our PO underlies our Buy rating; we expect outperformance due to above-average cures in the mortgage business and recent growth in the P&C business.

AXIS Capital (AXS)
Price Objective: $69

BofA 4Q23E EPS Estimate: -$0.70

Street High/Cons/Low: $2.50/$2.07/$1.52

Release date: 1/31 after market close; call 2/1 at 9:30 a.m.

Items to Watch:

- We expect $41mn in catastrophe losses, or a 3.2% loss ratio impact. Overall, 4Q23E was a mild catastrophe quarter, with notable events including Hurricanes Otis, windstorms in Europe, and convective storms in the U.S. With AXIS no longer participating in the reinsurance property-cat markets, most cat-related losses should reside in the Insurance segment.

- We model $4.8mn alternative investment income based on a 2% yield, below our run rate assumption of 6.5%. Alternative investment income tends to earn in on a lag, so 4Q23E results could reflect 3Q23 negative market performance.

- We expect an underlying loss ratio of 52% in Insurance, or 260bps YoY deterioration. This also reflects a 50bps sequential deterioration. The prior year's results reflect a tougher YoY comparison following a change in loss trend assumptions in liability lines beginning in 1Q23.

- In Reinsurance, we are forecasting a 65.5% underlying loss ratio compared to 65.2% in 4Q22. The company recently launched Monarch Re, a collateralized reinsurer, and subsequently retroceded $400mn of reinsurance premium. We acknowledge potential for higher dispersion across estimates while the Street adjusts to the segment's new composition.

- Since Vincent Tizzio started as Chief Executive Officer (CEO) earlier this year, the company has conducted a full review of its reserving methodology. We forecast a $300mn reserve strengthening at AXIS in 4Q23E to shore-up any gaps detected in the review, split $200mn/$100mn Insurance/Reinsurance. We acknowledge upside/downside risk if the reserve charge is below/above our estimate. We also remove our forecast for share repurchases in 4Q23E due to the expected charge; however, we expect buybacks to resume in 2024. Investors have widely anticipated a charge since the management change, reducing the potential for a material surprise.

- Our PO falls slightly to $69 from $70, based on 75% of the peer group P/E multiple of 9.6x on our 2025E EPS (prior 10x on 2024E). Material upside vs our PO drives our Buy rating; AXIS has taken steps to reduce earnings volatility and has one of the best-positioned investment portfolios in our coverage.

Chubb (CB)
Price Objective: $210

BofA 4Q23E EPS Estimate: $4.93

Street High/Cons/Low: $5.68/$5.08/$4.57

Release date: 1/30 after market close; call 1/31 at 8:30 a.m.

Items to Watch:

- We forecast $444mn in Global P&C catastrophe losses, or 4.6% loss ratio impact. We expect Chubb to have exposure to inclement weather events around the globe in the quarter, such as Hurricanes Otis, windstorms in Europe, and convective storms in the U.S.

- Chubb has industry-leading core margins, which could be difficult to expand even with favorable pricing trends. We model 20bps of YoY underlying loss ratio deterioration in North America Commercial to 60.5%, as mid-single-digit price increases contend with higher loss cost trends. For Global P&C, we forecast the core loss ratio to rise 50bps YoY to 55.7%.

- The industry has grown increasingly wary of higher lost cost trends, particularly in long-tail casualty lines stemming from the 2016-2019 "soft market" years. Chubb has gradually raised its loss cost trend assumptions over the past two years. Management has highlighted concerns around "social inflation" and recently pointed to higher medical loss inflation trends. Any updated color on the impact of inflation on current loss costs, prior period reserves, and market pricing dynamics could influence sentiment.

- We model $550mn of repurchases in 4Q23E following a new $5bn share repurchase authorization on July 1st. However, we acknowledge that repurchases could be dilutive to tangible book value per share. Chubb announced on the 3Q23 earnings call that it had acquired additional shares of Huatai, a Chinese insurance company, that increase's its aggregate ownership to 83-86%.

- Our PO rises to $210 from $203 based on 9.6x 2025E P/E, which is in-line with large-cap commercial lines peers, reflecting the historical trading range.

Downside vs our PO drives our Underperform rating; we expect difficulties expanding margins, leading our EPS forecasts to be materially below consensus.

CNA Financial (CNA)
Price Objective: $39

BofA 4Q23E EPS Estimate: $0.97

Street High/Cons/Low: $1.20/$1.05/$0.91

Release date: TBD

Items to Watch:

- We expect $57mn (2.4% loss ratio impact) in catastrophe losses. Although we expect CNA to experience losses from various inclement weather events in the quarter, it typically has lower exposure to catastrophic events than peers.

- Long-term care results are likely to remain a major driver for sentiment, especially following unexpected adverse results from peers in 3Q23. The LTC book benefited from lower claims activity during the pandemic, which has since abated. Any volatility in claims trends as society adjusts to the “new normal” could drive variance vs our estimates.

- We model a limited partnership yield of 3% in 4Q23E, reflecting the moderately negative market performance in 3Q23. Historically, CNA’s alternative investment results have more closely followed real time market performance vs peers, most of which report on a lag. However, recent portfolio rebalancing has translated to a greater lagged component; we expect increased market volatility and pressure on private equity and real estate valuations to weigh on returns.

- We model the 4Q23E attritional P&C loss ratio at 60.3%, a 30bps deterioration YoY, reflecting rising loss cost trends. Both Commercial lines pricing and renewal premium change remained solid through 9M23. We expect loss costs trends and pricing dynamics to remain key topics on the earnings call, particularly in light of the current inflationary environment.

- Our PO increases $2 to $39 which is based on 80% of the average consensus large-cap P&C peer P/E multiple (9.6x). Minimal upside/downside vs our PO underlies our Neutral rating while we believe the stock offers an attractive dividend yield, which we forecast a forward dividend yield of 9%.

Everest Group (EG)
Price Objective: $522

BofA 4Q23E EPS Estimate: $14.93

Street High/Cons/Low: $15.64/$14.42/$12.82

Release date: 2/7 after market close; call at 8 a.m. on 2/8

Items to Watch:

- We forecast $148mn in catastrophe losses (4.1% loss ratio impact). We expect Everest to have exposure to severe weather events around the globe including Hurricane Otis, windstorms in Europe, and convective storms in the U.S. However, we do not expect 4Q23E to be an outsized catastrophe quarter for reinsurers.

- We model 13.6% net premiums written (NPW) growth for 4Q23E (excl. reinstatement premiums). We forecast a solid 10% NPW growth in Insurance, and modestly better 12.5% NPW growth in Reinsurance. Investors will likely focus on any pricing and growth commentary related to 1/1 renewals.

- We estimate a consolidated underlying loss ratio of 58.6%, translating to a 90bps improvement YoY. By segment, we forecast a core loss ratio of 63% for Insurance (10bps YoY deterioration) and 58.6% for Reinsurance (140bps YoY improvement). Any additional color on pricing or impacts on loss trends could influence sentiment.

- We expect an alternative investment yield of 5% in 4Q23E, below our run rate assumption of 6.5%. Alternative investment income is typically reported on a lag, so results should reflect 3Q23 negative market performance.

- We increase our PO to $522 from $504 which is predicated on 80% of the peer group multiple (9.6x) on our FY25E EPS estimate (previously FY24E). Material upside vs our PO informs our Buy rating; we believe the stock is undervalued and well-positioned to benefit from the hard market in reinsurance pricing.

Hartford Financial (HIG)
Price Objective: $97

BofA 4Q23E EPS Estimate: $2.36

Street High/Cons/Low: $2.75/$2.38/$1.96

Release date: 2/1 after market close; call 2/2 at 9 a.m.

Items to Watch:

- We model catastrophe losses of $100mn (2.6% loss ratio impact) for 4Q23E. We expect The Hartford to have exposure to inclement weather events in the quarter, such as the Tennessee tornadoes.

- We expect a Commercial core loss ratio of 56.5%, 80bps deterioration YoY due to a tough YoY comparison. Furthermore, workers' comp is the company's largest line of business; any updates on loss trends/pricing could be particularly important for sentiment, especially following deterioration in some peers' results in 3Q23.

- We expect the core loss ratio in Personal Lines to remain under pressure, modeling 350bps YoY deterioration. The Hartford, like peers, has been increasing rates in response to inflationary pressures on repair costs. Management reported renewal written price increases of 20% in 3Q23 with similar levels expected into 4Q23E. Management remains confident in returning the auto business back to target profitability in 2025. Any updates on the trajectory for personal auto pricing and margins could impact stock reaction.

- Group Benefits has continued to benefit from improving mortality trends and strong disability trends in 2023. We estimate a benefit ratio of 73%, or 60bps YoY improvement. If favorable disability trends persist to a greater degree than we currently expect, our forecasts could be overly pessimistic.

- Our PO increases to $97 from $89 as we roll our valuation forward to 2025. Our PO is predicated upon 90% of the large-cap P&C peers' multiple (9.6x). Material upside vs our PO underlies our Buy rating; we believe the stock is undervalued given a better earnings outlook vs peers.

Progressive Corp. (PGR)
Price Objective: $234

BofA December 2023 / 4Q23E EPS Estimates: $0.83 / $2.45

4Q23E Street High/Cons/Low: $2.59/$2.43/$2.24

Release date: 1/24 before market open; 4Q23 earnings call TBD

Items to Watch:

- We expect $81mn in catastrophe losses (1.7% loss ratio impact) in December, bringing the 4Q23E total to $126mn (0.8%). We expect the company to have catastrophe losses in December related to convective storms and tornados impacting Tennessee.

- The company increased personal auto rates by roughly +4% in 3Q23, bringing 9M23 to +16%. In addition, management commented on the flattening of loss cost trends for fixing and replacing vehicles. The combination of decelerating loss costs and increased rate should continue to improve underwriting margins. We expect the loss ratio to be in-line with recent months, modeling a total core loss ratio of 73.6% in December. For Personal Auto, we estimate 74.5%, reflecting 60bps improvement YoY. Any data points on claims and pricing trends could impact sentiment.

- In order to protect the company's ethos of delivering at least a 4% underwriting margins while growing as fast as possible, the company has pulled back on marketing spend (albeit Q4 is not typically an outsized quarter for policy growth). We expect policies-in-force (PIF) for Personal Auto to increase 8.5% YoY in December, however this would represent a -0.2% decline sequentially, reflecting continued suppression of marketing spend. We expect reignited marketing spend in 1Q24E, modeling improving PIF growth in in 2024E. We believe the company is a primary beneficiary of the current competitive landscape with significant runway for growth.

- Our PO rises modestly to $234 from $225 due to multiple expansion in the 2025E S&P 500 multiple (17.7x from 17.6x). Material upside vs our PO informs our Buy rating; we expect Progressive to sustain above-average growth and margins over the long term due to superior execution.

RenaissanceRe (RNR)
Price Objective: $281

BofA 4Q23E EPS Estimates: $10.02

Street High/Cons/Low: $10.03/$8.24/$7.50

Release date: 1/30 after market close; call at 11 a.m. on 1/31

Items to Watch:

- We forecast $105mn in catastrophe losses (4.8% loss ratio impact). We expect RenRe to have exposure to several severe weather events around the globe including Hurricanes Otis, windstorms in Europe, and tornadoes in Tennessee. However, we do not expect 4Q23E to be a large catastrophe quarter for reinsurers. We also strongly believe that the company has been over-reserving for smaller catastrophe events with the potential for releases in later years.

- We forecast $2.05 billion in in net earned premium for 4Q23E including $275 million related to the Validus transaction. Q4 tends to be a seasonally low quarter for newly written business production, limiting growth comparisons vs 9M23. Any management color on pricing dynamics at 1/1 renewals for global catastrophe reinsurance could be important for sentiment. Brokers told us to expect a strong 1/1 renewal from RenRe in meetings we attended in December.

- We expect an underlying loss ratio of 65.0% in the Casualty business. This is 130bps of deterioration YoY, but 220bps of improvement from 3Q23, which saw elevated losses in specialty lines. Management has indicated that the Casualty business should produce a mid-90s combined ratio. We forecast an underlying combined ratio of 94.8% in 4Q23E. We anticipate gradual improvement towards a core loss ratio in the low 60% going forward.

- The Validus Re acquisition required seller AIG to deliver $4.5bn gross/$1.765bn net investable assets at fair value regardless of the level of interest rates. Interest rates have moved higher since the transaction announcement in May, rendering the deal even more favorable for RenaissanceRe. Given the 4Q23 deal close, there could be elevated variability among sell-side forecasts.

- Given favorable reinsurance market dynamics, we expect management to deploy capital into growth rather than returning capital to shareholders via share repurchases. Accordingly, we do not forecast any buybacks in 4Q23E.

- Our PO falls modestly to $281 from $287 which is predicated on 80% of the large cap P&C year-ahead P/E multiple (10x) on our 2025E EPS forecast. Material upside vs our PO informs our Buy recommendation; we believe current valuation is attractive vs peers and underestimates RenRe's earnings power.

Travelers (TRV)
Price Objective: $188

BofA 4Q23E EPS Estimates: $5.25

Street High/Cons/Low: $5.61/$4.99/$4.55

Release date: 1/19 before market open; call at 9 a.m.

Items to Watch:

- We estimate $211mn in 4Q23E catastrophe losses, or 2.1% loss ratio impact. Despite a relatively light quarter for singular catastrophe events, we expect Travelers to have some exposure to convective storms in the Midwest and the tornados in Tennessee.

- We expect a core loss ratio of 60% in Business Insurance (40bps YoY improvement) and 48% in Bond & Specialty (190bps YoY deterioration). Travelers is the first commercial lines peer to report earnings, so any management insights into loss cost trends and pricing could influence sentiment for the group. Specifically, color on social inflation and economic inflation and their impacts on loss trends should be of interest.

- We forecast a Personal Lines 4Q23E underlying loss ratio of 66.9% vs 69.9% in 3Q23 and 71.9% a year earlier. We model material improvement in the auto core loss ratio as higher rate begins to earn into results, while homeowners should see core loss ratio deterioration as inflation continues to weigh on repair costs. We model 790bps of auto improvement YoY but 200bps of sequential deterioration due to seasonality. Any insights regarding progress on restoring auto margins could be key for sentiment.

- We expect an annualized alternative investment yield of 5.75%, below our run rate assumption of 8%. Alternative investment income is typically reported on a lag, so 4Q23E results should reflect 3Q23 market weakness.

- Our PO remains $188 following updates to our EPS forecasts. Travelers' price objective is based on the large-cap commercial lines peer group (9.6x). Limited upside vs our PO informs our Underperform rating; we believe decelerating pricing and elevated personal lines loss trends should weigh on results.

W.R. Berkley (WRB)
Price Objective: $87

BofA 4Q23E EPS Estimates: $1.47

Street High/Cons/Low: $1.51/$1.36/$1.27

Release date: 1/24 after market close; call at 5 p.m.

Items to Watch:

- We estimate $35mn in catastrophe losses in 4Q23E. We expect Berkley to have exposure to severe weather events around the globe; however, we do not expect 4Q23E to be a noteworthy catastrophe quarter. Furthermore, its catastrophe exposures tend to trend lower than those of peers.

- We model 11.5% NPW growth in 4Q23E, continuing the recent trend of growth acceleration as Berkley capitalizes on the favorable specialty pricing environment. We acknowledge downside to our forecast if competition or macro pressures provide greater headwinds than we anticipate.

- We model an underlying loss ratio of 59.1%, or 20bps of YoY improvement, as Berkley continues to earn rate in excess of loss cost trends. Berkley delivered a strong renewal rate of 8.5% and 8.2% (excluding worker's compensation) in 3Q23 and 2Q23, respectively, which could lead to margin improvement in the coming quarters. Any further color regarding economic inflation and social inflation could also influence sentiment.

- We continue to expect alternative income to be challenged, forecasting $16mn, equivalent to a 4% yield (below our run-rate yield of 6.50%). However, following strong market performance in 4Q23E, we are increasing our return expectations for 1Q24E, since alternative income tends to correlate with broad market performance on a lag. We expect ~$7mn in arbitrage trading fund income, reflecting our run rate yield of 3.5%.

- We raise our PO to $87 from $85 as we roll our valuation methodology to our FY25E forecast. Our PO is based on 140% of the large-cap P&C peer multiple of 9.6x. With material potential upside to our price objective and a demonstrated track record of superior results in the form of higher return on capital, we recommend shares as Buy.

Insurance Brokers

Aon (AON)
Price Objective: $356

BofA 4Q23E EPS Estimate: $4.01

Street High/Cons/Low: $4.22/$4.07/$3.93

Release date: TBD

Items to Watch:

- We forecast 6% total organic growth for 4Q23E and FY23E, keeping with management guidance for "mid-single digits or greater". We expect results in the Commercial Risk segment to be under scrutiny as underlying growth has recently lagged that of peers. We forecast 5% Commercial Risk growth for 4Q23E, modest improvement from 4% in 3Q23. If the recent slowdown in M&A and IPO activity continues to weigh on organic growth more than we expect, our forecast could be overly optimistic.

- We expect adjusted operating margins to improve 90bps YoY to 34.1%. With 3Q23 results, the company announced a new restructuring program targeting $350mn in savings by YE26E. That said, the program is unlikely to tangibly benefit results this quarter. Higher fiduciary income should continue to boost margins in 4Q23E; however, given expectations for interest rate cuts next year, YoY change in fiduciary income should inflect to a net headwind in mid-2024E.

- In December, the company announced plans to acquire middle market broker NFP for $13.4bn. While management expects the transaction to close in mid-2024E, all guidance associated with the deal "conservatively" assumes a mid-2025E close. Any updates on deal timing and financial targets could impact sentiment.

- Despite the pending NFP transaction, management expects to continue repurchasing shares. Noting the late-December deal announcement date, we model strong buybacks of $600mn in 4Q23E. However, we expect repurchases to fall in 2024E-25E as the company prepares for NFP integration and de-levers post-close.

- We lower our PO to $356 from $358, reflecting 120% the year-ahead S&P 500 P/E multiple (18x vs prior 17.5x) on our 2025E EPS. A modest decrease in our EPS estimate drive the decrease. We believe current valuation appropriately reflects growth opportunities in the current macro environment as well as potential deal execution risk, leading us to a Neutral rating.

Arthur J. Gallagher (AJG)
Price Objective: $203

BofA 4Q23E EPS Estimate: $1.85

Street High/Cons/Low: $1.92/$1.85/$1.76

Release date: 1/25 after market close; call at 5:15 p.m.

Items to Watch:

- We model 7.5% 4Q23E organic growth in the Brokerage segment, in line with management's most recent outlook of 7-7.5%. This brings FY23E organic growth to 8.9%, the top end of guidance of 8.5%-9.0%. Organic growth should decelerate vs 9M23 in the 9-10% range primarily due to a one-time true-up in the prior-year quarter.

- In Brokerage, we model 50bps of margin improvement to 31.8% in 4Q23E, following guidance for 40-50bps of expansion. We expect FY23E margins to expand 20bps to 34.4%, with a) challenging FX dynamics earlier in the year and b) the acquisition of lower-margin Buck to weigh on improvement. Beyond 4Q23E, we caution that Gallagher earnings are tethered to fiduciary income more so than other brokers in our coverage. As short-term interest rates recede, margin expansion could become increasingly challenging.

- We forecast 4Q23E organic growth of 11.0% in the Risk Management segment, with FY23E reaching +15.2%. We concede upside risk if 9M23 levels in the mid-to-high teens recur. We model Risk Management margins to expand 90bps YoY to 20.2%, while FY23E margins land at 19.8%. in line with management's outlook for nearly 20%.

- We model $410mn in acquired revenues for 4Q23E following multiple sizeable deal announcements during the quarter. Management continues to highlight a robust M&A pipeline, limiting the likelihood of share buybacks for the foreseeable future.

- Our PO rises to $203 from $187, reflecting 130% the year-ahead S&P 500 P/E of 18x on our 2025E EPS estimate (prior 2024E, 17x), plus the time discounted value of Gallagher's tax credits. Recent favorable market performance drives the increase. We believe that current valuation overly reflects the company's growth opportunities, driving our Underperform rating.

Brown & Brown Inc. (BRO)
Price Objective: $77

BofA 4Q23E EPS Estimate: $0.52

Street High/Cons/Low: $0.56/$0.53/$0.50

Release date: 1/22 after market close; call at 8 a.m. on 1/23

Items to Watch:

- We forecast organic growth of 6.2% for 4Q23E vs 11.1% in 9M23. The slowdown is predominantly concentrated in the National Programs segment, which benefitted from a one-time growth bonus and elevated claims processing fees from Hurricane Ian in the prior-year quarter. More broadly, we expect organic growth to slow to mid-single digits moving forward as inflation and nominal GDP growth decelerate.

- We model adj. EBITDAC margins of 30.8% in 4Q23E, or 60bps of deterioration YoY. The contraction is also related to the tough YoY revenue comparison in the National Programs business. For FY23E, we forecast 1.1% margin expansion to 33.9%, in line with management guidance for at least +100bps improvement.

- We project +4% net M&A growth impact in the quarter. The recent Kentro transaction ($90mn annual revenues) is the largest contributor, along with ongoing smaller "tuck-in" acquisitions. However, the 4Q23 divestiture of part of the Services business should partly offset inorganic growth. Any management commentary regarding the M&A environment in light of widespread expectations for lower interest rates could influence sentiment.

- Although we expect 4Q23E investment income of $17mn, in line with 3Q23, we have reduced our forward forecasts, lowering our 2024E-26E EPS. Broker investment income is driven by interest rates at the short end of the curve; as such, expected rate cuts later this year weigh on the earnings outlook.

- Our price objective remains $77, predicated on 135% the 2025E S&P 500 P/E multiple (18x) on our corresponding EPS forecast. Immaterial upside vs our PO underlies our Neutral recommendation; we believe that a slowing organic growth outlook should limit multiple expansion.

BRP Group (BRP)
Price Objective: $44

BofA 4Q23E EPS Estimate: $0.11

Street High/Cons/Low: $0.13/$0.12/$0.10

Release date: 2/28 after market close; call at 5 p.m.

Items to Watch:

- We expect 17% organic growth in 4Q23E, modestly above management's guidance of 12-14%. We forecast organic growth to moderate gradually in 2024 with an estimate of 16%. This is above management expectations of organic growth "on the high-end of 10-15%", acknowledging BRP has a history of organic growth results exceeding guidance.

- Following the announced launch on Juniper Re, BRP's specialist reinsurance arm, we expect margins to contract in 4Q23E due to start-up costs. We model 4Q23E adj. EBITDA margin of 15.2%, or 70bps YoY deterioration compared with year earlier. We forecast adj EBITDA margin of 20.3% for FY23E. Management also announced cost savings initiatives that should accelerate margin expansion beginning in 2024 and into 2025. We forecast adj EBITDA margin of 23.9% for FY24E, representing 360bps of margin expansion.

- With management's primary focus on de-levering the business, we do not model any acquired revenues in 4Q or in 2024. Management has indicated it will remain opportunistic regarding M&A if attractive opportunities arise next year, but our forecasts expect de-levering to remain the top priority.

- Our PO of $44 is based on a 20x P/E multiple to reflect stronger organic growth outlook vs peers. However, we lower our multiple to 20x from 24x to reflect the company's decelerating growth profile as the business gains scale. Upside vs our PO drives our Buy rating; we believe current valuation does not fully reflect the company's growth potential.

Marsh & McLennan (MMC)
Price Objective: $207

BofA 4Q23E EPS Estimate: $1.66

Street High/Cons/Low: $1.70/$1.63/$1.51

Release date: 1/25 before market open; call at 8:30 a.m.

Items to Watch:

- We forecast 7% total organic growth for 4Q23E and 9% for 2023E, in line with full-year guidance of +9-10%. We project 6% consulting organic growth and 9% brokerage organic growth for 4Q23E. However, brokerage underlying growth is 6% excluding fiduciary income; we expect a fiduciary boost in line with recent quarters. Any color on expected organic growth in 2024E could be key for sentiment.

- We expect total margins of 23.1% in 4Q23E, or 110bps YoY expansion. The Risk & Insurance segment leads the improvement; however, we caution that the expansion comes from fiduciary income growth. For the Consulting segment, we forecast 50bps of expansion YoY to 20.5%, although we concede downside to our forecast if the margin contraction from 1H23E recurs. The company anticipates $225mn in savings from its current restructuring program in 2023E, partly cushioning margins from inflationary pressures.

- Given widespread expectations for interest rate cuts later in the year, we lower our 2024E-25E EPS estimates, expecting fiduciary income to flip to a net headwind in 2H24E. Risk & Insurance segment organic growth and margins have benefited significantly from sharp growth in fiduciary income over the past year. As fiduciary income recedes, margin expansion should become increasingly difficult.

- We expect a continuation of strong repurchase activity in 4Q23E, modeling $300mn for the quarter. However, we acknowledge potential downside to our forecast if attractive M&A opportunities or macroeconomic uncertainty weigh on buyback activity.

- Our PO rises to $207 from $198, reflecting 130% the year-ahead S&P 500 P/E of 18x on our 2025E EPS estimate (prior 2024E, 18x). Recent favorable market performance drives the increase. Relatively limited upside vs our PO informs our Neutral rating; we believe current valuation adequately reflects current growth opportunities.

Willis Towers Watson PLC (WTW)
Price Objective: $233

BofA 4Q23E EPS Estimate: $7.06

Street High/Cons/Low: $7.29/$7.04/$6.76

Release date: 2/6 before market open; call at 9 a.m.

Items to Watch:

- We forecast 4Q23E organic growth of 7%, with 6% in Health, Wealth & Career and 8% in Risk & Broking. Management has previously communicated that book of business settlements are expected to be similar to 4Q22, facilitating YoY growth comparisons. However, we expect a continued benefit from rising fiduciary income. We forecast 6% total organic growth excl. interest income.

- We estimate an adj. operating margin of 33.7% for 4Q23E, or 130bps YoY improvement. We expect Risk & Broking to lead the consolidated improvement largely due to higher fiduciary income from a) higher interest rates and b) a reallocation of interest income out of the corporate segment.

- Management typically provides a detailed year-ahead outlook with Q4; any revisions to current margin and EPS targets could impact stock reaction. Given widespread expectations for interest rate cuts later in the year, we lower our 2024E-25E EPS estimates, expecting fiduciary income to flip to a net headwind in 2H24E. As fiduciary income recedes, organic growth comps and margin expansion should become increasingly difficult. We currently forecast 2024E margins of 22.7%, at the low end of the guided 22.5%-23.5% range.

- We estimate FY23E free cash flow margins of 11.5%, effectively in line with company guidance of 12%. We believe that the longer-term goal of 16% is achievable; however, if prior free cash flow challenges resurface, our forecasts could be overly optimistic.

- We model $100mn in repurchases in 4Q23E, bringing 2H23E repurchases to $450mn per most recent guidance. To the extent guidance proves conservative, there could be upside vs our forecast.

- Our PO rises to $233 from $210, reflecting 75% the year-ahead S&P 500 P/E of 18x on our 2025E EPS estimate (prior 2024E, 17x). Recent favorable market performance drives the increase. We remain cautious on the stock given historical operational challenges; downside vs our PO informs our Underperform rating.

Life Insurers

Aflac, Inc. (AFL)
Price Objective: $92

BofA 4Q23E EPS Estimate: $1.59

Street High/Cons/Low: $1.54/$1.45/$1.37

Release date: 1/31 after market close; call at 8 a.m. on 2/1

Items to Watch:

- Aflac Japan comprises ~65% of the company's revenues. However, Yen-based premium has declined in recent years due to increased competition as well pandemic impacts on sales. Management believes continued launches of new and refreshed products through different distribution channels will help attract younger and new customers and contribute to positive sales growth. Any updates on sales growth or premium outlook could influence sentiment.

- Following a US voluntary benefit sales decline of 5% in 3Q23 (on the back of 20%+ in 1H23), restoring positive momentum will be important as Aflac seeks to increase premium figures to pre-pandemic levels and reignite growth.

- Commercial real estate (CRE) continued to be a source of concern into 3Q23. With the 3Q23 results, Aflac noted that approximately $1bn of commercial real estate remained on the watch-list, two-thirds of which was in active foreclosure proceedings. The company increased CECL (current expected credit losses) reserves and took ownership of two properties. CRE concerns should reduce with more stable interest rates (with potential cuts in 2024), but we remain on the lookout for any further developments regarding Aflac's CRE portfolio.

- Aflac has historically been active in capital return to shareholders through both dividends and share repurchases. Aflac repurchased $700mn each quarter in 2023, the largest share repurchases in the company's history. We model $600mn in share repurchases in 4Q23E. However, we acknowledge potential downside to our forecast if macroeconomic uncertainty weighs on buybacks.

- Our PO rises to $92 from $85, based on 70% of the 2025E S&P 500 P/E multiple of 18x (prior 2024E, 17.3x). Material upside vs our PO informs our Buy rating; we believe current valuation overly discounts the return to normalized earnings power in Japan and the emerging growth story of the U.S. voluntary benefits offerings.

Corebridge Financial (CRBG)
Price Objective: $33

BofA 4Q23E EPS Estimate: $1.03

Street High/Cons/Low: $1.04/$0.98/$0.89

Release date: TBD

Items to Watch:

- Corebridge has historically comprised AIG's Life & Retirement segment. AIG still owns a ~50% stake in the company, although it has indicated plans for an eventual full separation. Any comments around remaining transaction costs and general updates as a standalone company could be of investor interest.

- We expect positive net flows in the annuities business, forecasting net inflows of $500mn, with a 3% sequential increase in AUM from 3Q23. This compares with negative flows in 3Q23 where the company experienced elevated surrenders due to processing of an operational backlog. We expect higher demand for fixed annuity products as investors lock in higher yields following more dovish comments from the FOMC indicating interest rates may be at or near a peak. Variable annuities flows could be more muted given the uncertainty in the macro environment.

- Corebridge intends to return 60-65% of operating income to shareholders by 2024E. The target return includes ~$600mn in annual dividends with the share repurchases as the remainder. We expect the company to accomplish its target, with forecasts of $2.1bn in capital returns to shareholders in both 2023E and 2024E. We project total repurchases of $212mn in 4Q23E. Additionally, the company issued a special dividend of $1.16/sh in 4Q23 from the proceeds of the Laya Healthcare divestiture.

- Following the separation from AIG as a standalone company, management is pursuing a cost reduction program that should deliver $400mn pre-tax annual run rate in savings within the next several years. With the 3Q23 earnings, the company had achieved 81% of the run rate $400mn goal. Any further commentary from management on the progress and outlook for the expense management program could drive stock reaction.

- We expect alternative investment returns to lag recent quarters and remain below normalized expectations ($92mn below normalized expectations). Alternative investment income tends to earn in on a lag, so 4Q23E results could reflect 3Q23 adverse market performance. Corebridge's alternative investment portfolio skews more towards real estate investments over private equity/hedge funds. Alternative asset managers may be reluctant to mark-up their portfolios in the current macro environment, primarily related to concerns around private company valuations and commercial real estate.

- Our PO increases marginally to $33, based on 70% of the 2025E peer group P/E multiple of 8x (formerly 2024; 8.3x). Material upside vs our PO informs our Buy rating; we believe current valuation overly discounts macro sensitivity and underappreciates a strong capital management outlook, above-average dividend yield, and ongoing restructuring initiatives to reduce expenses.

Lincoln Fin'l (LNC)
Price Objective: $27

BofA 4Q23E EPS Estimate: $1.52

Street High/Cons/Low: $1.76/$1.43/$1.05

Release date: 2/8 before market open; call at 8:30 a.m.

Items to Watch:

- Following a $2.3bn GAAP reserve charge in 3Q22, the company has been focused on rebuilding capital. On October 1, the company closed a reinsurance transaction expected to improve the company's RBC ratio by 15pts and improve ongoing free cash flow by $100mn annually, despite being dilutive on a GAAP basis. Further updates on the impact of the transaction, as well as progress on other strategic objectives and improvement in capital position, will be important for investor sentiment.

- We expect a $405mn in net outflows in the Annuities business, driven by greater policy surrenders in variable annuities more than offsetting inflows in indexed variable annuities and fixed annuities due to the current macro environment. We expect surrender rates for annuities products to remain elevated as investors shift into higher yielding products.

- We expect alternative investment returns to underperform by about $20mn relative to normalized expectations. Alternative investment income tends to earn in on a lag, so 4Q23E results could reflect 3Q23 adverse market performance. Alternative asset managers may be reluctant to mark-up their portfolios in the current macro environment, primarily related to concerns around private company valuations and commercial real estate.

- Following the 3Q22 charge, the company paused share repurchases until it has rebuilt its capital position. Accordingly, we do not model any share repurchases for the quarter and throughout 1H24 with repurchase resuming in 3Q24E. However, the company has maintained its dividend throughout the capital rebuilding process.

- Our PO rises modestly to $27 from $24, reflecting 40% of the U.S. large-cap life peer year-ahead (2025E) P/E multiple of 8x. Our target multiple follows 3Q22 assumption review, variable annuity headwinds from volatile markets, and potential ratings/regulator uncertainty with regards to capital return commentary. Minimal upside/downside vs our PO underlies our Neutral rating; we believe current valuation adequately reflects ongoing challenges the company faces as it looks to repair its balance sheet.

MetLife (MET)
Price Objective: $89

BofA 4Q23E EPS Estimate: $2.09

Street High/Cons/Low: $2.09/$1.92/$1.73

Release date: 1/31 after market close; call on 2/1 at 9 a.m.

Items to Watch:

- We forecast MetLife's Group Benefits' benefits ratio to increase marginally to 88% in 4Q23E. This represents 100bps increase from 3Q23 but a 50bps YoY improvement. In 2024, we forecast the benefits ratio report around the mid-point of the company's annual target of 85-90%.

- MetLife's investment portfolio has a relatively large amount of exposure to commercial real estate through CMBS, whole mortgage loans, and physical real estate. The asset class has been one of the market's primary concerns over the past year. We expect any updates regarding commercial real estate market conditions and MetLife's exposures to continue be topics of interest on the call.

- We expect alternative investment returns to trend below normalized expectations ($105mn below normalized expectations). Management recently guided results to be comparable to 2Q23, which fell below quarterly expectations. Alternative investment income tends to earn in on a lag, so 4Q23E results could reflect 3Q23 adverse market performance, as well as ongoing CRE concerns. We expect below-average investment returns across the US Retirement & Income Solutions, Asia, and Holdings segments, where alternative exposures are concentrated.

- MetLife has historically been very active with share repurchase over recent years, largely funded by strong alternative investment results and rationalizing the business mix. We model $750mn in share repurchases for 4Q23E, as well as $750mn quarterly repurchases throughout 2024, while acknowledging potential downside if the company elects to retain more capital in response to market volatility and concerns in CRE.

- Considering stabilizing interest rates and potential for interest rate cuts in 2024, any updates on the risk transfer market environment could be interesting for investors. Although the company has improved its business mix over the past several years, including reinsuring a piece of its legacy Holdings segment in 4Q23, the segment still contains runoff blocks of more capital-intensive business.

- We raise our PO to $89 from $82 based on 110% of the year-ahead life insurance peer group multiple (8x). Material upside vs our PO underlies our Buy rating; we expect ongoing multiple expansion relative to the group due to the transition away from capital intensive businesses and focus on higher-growth opportunities.

Principal Fin'l (PFG)
Price Objective: $84

BofA 4Q23E EPS Estimate: $1.77

Street High/Cons/Low: $1.82/$1.69/$1.53

Release date: 2/12 after market close; call on 2/13 at 10 a.m.

Items to Watch:

- We estimate negative net flows of $3.9bn and $2.1bn for Principal Global Investors in 4Q23E and 1Q24E respectively, mainly driven by equity net outflows. This is in line with management guidance about two large institutional outflows impacting net cashflows by $5bn in total. Investor demand for real estate has moderated this year following the rapid rise in rates, but management highlighted attractive opportunities in the pipeline on the 2Q23 and 3Q23 earnings calls. Any comments around demand or the institutional pipeline could be important for sentiment.

- We forecast net outflows of $2bn in Retirement in 4Q23E driven by negative flows within the fee-based business. This is in line with management expectations as well as historical trends of negative net cash flows in the fourth quarter; a period when plans often change providers. Management has highlighted optimism around the business's pipeline for 1Q24E, noting that it generally onboards new plans in the first quarter. Comments around the onboarding pipeline could be important for sentiment.

- We expect alternative investment returns in the quarter to be comparable to 1H23 results, remaining below normalized expectations by -$46mn. Alternative investment income tends to earn in on a lag, so 4Q23E results could be impacted by market declines in 3Q23. Alternative asset managers may also be reluctant to mark-up their portfolios in the current macro environment, primarily related to concerns around private company valuations and commercial real estate.

- We forecast $250mn in repurchases for 4Q23E, an acceleration from $200mn repurchases in the prior quarter, in line with management guidance of full year repurchases of $700mn. We acknowledge potential upside/downside to our forecasts if Principal's businesses generate/require more capital than currently anticipated. Management has expressed commitment to the target 40% dividend payout ratio, and we expect investors to be looking for additional commentary around 2025E capital returns on the call.

- Our PO increases to $84 from $78 based on 130% of the year ahead 2025E peer group multiple of 8x applied on our 2025E EPS forecast (formerly 2024; 8x). While we are not overly concerned regarding Principal's commercial real estate (CRE) exposure, we expect the uncertainty of CRE valuations to weigh on the stock for the foreseeable future, which informs our Neutral rating.

Prudential Fin'l (PRU)
Price Objective: $107

BofA 4Q23E EPS Estimate: $2.72

Street High/Cons/Low: $2.76/$2.62/$2.37

Release date: 2/6 after market close; call on 2/7 at 11 a.m.

Items to Watch:

- Our EPS forecast of $2.72 is slightly below management's baseline of $2.75. The variance is primarily driven by lower variable investment income and weaker results in the US businesses.

- We continue to expect strong sales with FlexGuard product suite with $1.4bn in 4Q23E, representing a 6% increase from 3Q23. We model $1.5bn in overall net flows for total actively-sold annuities products; representing a deceleration from 3Q23. Higher interest rates should continue to lead increased sales interest in fixed annuities as investors seek to lock in higher yields.

- We expect alternative investment returns to remain below normalized expectations ($84mn below normalized expectations), following adverse market performance in 3Q23 that followed positive market performance in 1H23. Alternative investment income tends to earn in on a lag, so 4Q23E results could reflect the mixed performance in these recent prior quarters. Alternative asset managers may be reluctant to mark-up their portfolios in the current macro environment, primarily related to concerns around private company valuations and commercial real estate.

- The company currently targets $11bn in capital returned to shareholders over 1Q21-1Q24E. We expect the company to meet this goal, including $704mn in 4Q23E. We model $250mn quarterly share repurchases in 2024 in line with the recently disclosed $1bn repurchase authorization for 2024.

- Prudential has been pursuing "key initiatives" to reduce costs and reallocate capital to higher growth, lower risk businesses. Recent developments include creating Prismic Life Reinsurance along with Warburg Pincus and a $10bn reinsurance transaction on its traditional variable annuity block in May 2023. Any further commentary from management on the outlook for these initiatives, particularly the specifics of the capital reallocation process, could drive stock reaction.

- Our PO rises to $107 from $99 upon updating for our 2025E EPS forecast. Our PO is predicated upon 5% discount to the peer group multiple of 8x on our 2025E EPS forecast estimate (formerly 2024; 8.2x). Modest upside vs our PO drives our Neutral rating; although Prudential has continued to derisk its book of business, we believe macro sensitivity is still high relative to the group.

Unum (UNM)
Price Objective: $46

BofA 4Q23E EPS Estimate: $1.83

Street High/Cons/Low: $1.97/$1.85/$1.78

Release date: 1/30 after market close; call at 8 a.m. on 1/31

Items to Watch:

- Unum reached a solution with the Maine Bureau of insurance in 2020 to recognize its premium deficiency reserve (PDR) over 7 years. However, the rise in interest rates over the past 2 years has had a favorable impact on the PDR, allowing the company to recognize it by the end of 2023, thus freeing the company from contributing further capital to the related subsidiary and increase discretionary capital towards potential buybacks or M&A. With the 3Q23 earnings release, the company reiterated that it is on track to fund the PDR by the end of the year. Any additional commentary surrounding the PDR and potential risk transfers could be important for sentiment.

- Unum has delivered industry leading results for Group Disability over the last several quarters. For Group Disability, we forecast a loss ratio of 62% for 4Q23E following management guidance for low 60% range for the remainder of 2023. The company believes the strong labor market and rising wages encouraged employees to return to work faster, driving favorable incidence experience. We will be on the lookout for commentary on the staying power of these strong trends going into 2024.

- Long-term care (LTC) remains a topic of heightened investor interest. In 3Q23, the company reported higher benefits experienced and disclosed expectations for lower earnings following the assumption update, causing the stock to re-rate lower. We forecast an LTC interest-adj. loss ratio of 91.0%, within run rate guidance of low to mid-90s. Any updates from management on the outlook for the book could impact investor sentiment.

- Following an improved outlook in resolving the capital requirements for the PDR, the company expects to materially accelerate repurchases in 2024 vis-à-vis recent years. We forecast $75mn of repurchases in 4Q23E and $125mn per-quarter going forward beginning 1Q24E.

- We lower our PO to $46 from $50, reflecting 70% (vs 80% previously) of the U.S. large-cap life peer year-ahead (2025E) P/E multiple of 8x. We lower our relative valuation to reflect the lower expected trajectory of earnings following the 3Q23 long-term-care assumption review. Minimal upside vs our PO underlies our Neutral rating as we expect uncertainty surrounding the LTC to continue to weight on the company's valuation.

Voya (VOYA)
Price Objective: $83

BofA 4Q23E EPS Estimate: $1.75

Street High/Cons/Low: $2.21/$1.87/$1.58

Release date: 2/6 after market close; call at 10 a.m. on 2/7

Items to Watch:

- We model organic growth of -2.4% in Investment Management for 4Q23E and –3.6% for FY23E. This is below longstanding management guidance of 2-4%

following negative organic growth in the past 2 quarters. Management attributed the negative growth in 2Q23/3Q23 to challenges resulting from ongoing transition in the company's international distribution channels; we believe these challenges persisted into 4Q23E. We forecast investment management margins of 24.3% for 4Q23E and 24.4% for FY23E.

- In Wealth Solutions, we estimate Full-Service outflows of $2.9bn in 4Q23E, towards the upper end of management expectation of net outflows of $2bn - $3bn driven by one large-case departure. We also anticipate $692mn of inflows in Recordkeeping, bringing total segment outflows to $2.2bn. We acknowledge upside should net flows exceed our forecast as consumers seek insulation from broader market volatility.

- Our estimates follow Voya's pre-announcement of alternative income and prepayment fees between $0mn - $10mn pre-tax; translating to approximately $45mn - $50mn below long term expectations. Alternative investment income tends to earn on a lag, so 4Q23E results could reflect the market performance in prior quarters (i.e., positive market performance in 1H23 followed by adverse performance in 3Q23). Alternative asset managers may be reluctant to mark-up their portfolios in the current macro environment, primarily related to concerns about private company valuations and commercial real estate.

- Voya acquired BenefitFocus in November 2022 to fill a product gap in its product suite. The company views Benefitfocus as an accelerant to its workplace benefits and savings strategy and provides the company with fee-based revenues. With the 3Q23 earnings release, management sounded optimistic around BenefitFocus contributing to growth going forward. We will be on the lookout for any additional management commentary regarding integration and potential revenue/margin targets for 2024 and beyond.

- Voya resumed share repurchases in 3Q23 following a brief pause from 4Q22-1Q23 after the BenefitFocus transaction. The company had an outstanding repurchase authorization of $555mn at the end of 3Q23. We are modelling $160mn in share repurchases in 4Q23E, up from $54mn in the prior quarter. We expect the forward repurchase outlook to remain a key topic on the call.

- Our PO rises modestly to $83 from $81, based on a sum-of-the-parts of the various businesses in which Voya operates. Material upside potential vs our PO informs our Buy rating; we believe the outlook for Voya's core businesses is positive, with additional upside from its notable excess capital position.

Insurtech

Goosehead (GSHD)
Price Objective: $41

BofA 4Q23E EPS Estimate: $0.36

Street High/Cons/Low: $0.39/$0.33/$0.26

Release date: TBD

Items to Watch:

- We estimate $69.3mn in revenues in 4Q23E and $267.5mn for FY23E, slightly above the guided range of $260mn-$267mn. This implies FY23E growth of 28% vs guidance for organic growth of 24-28%. Goosehead should continue to benefit from higher pricing in 2023; however, it should also experience headwinds from declining housing market activity and lower contingent commissions from elevated severe weather. Any guidance regarding 2024 revenues could be important for sentiment.

- Historically, increasing the number of franchises has been key to maintaining Goosehead's significant revenue growth. Franchise growth has moderated over recent quarters and turned negative in 3Q22 as the company has focused on culling non-performing franchises. Management has guided for culling of non-performing franchises to peak at the end of quarter and normalize thereafter. With a greater focus on quality agencies as opposed to quantity, Goosehead is confident that productivity will increase; however, results to date lack sufficient evidence of improvement. Any management updates on the franchise/agent pipeline could influence stock reaction.

- We forecast FY23E net premiums written of $2.95bn, within the guided range of $2.87bn-$2.99bn. This implies organic growth of 33% vs. guidance of 29%-35%, reflecting benefits from greater renewal pricing in addition to strong persistency.

- We model an adj. EBITDA margin of 27.9% in 4Q23E, or 720bps expansion YoY, reflecting investments in the business and a stronger emphasis on producer productivity. Management has guided to "moderate" expansion; we concede downside risk vs our forecast if improvement decelerates more than we currently anticipate. For FY23E, we model 9.2% of margin expansion for the year to 26.7%.

- Our PO remains $41 based on a DCF valuation. We believe current valuation overly reflects Goosehead's growth trajectory, leading us to an Underperform rating.

Trupanion (TRUP)
Price Objective: $38

BofA 4Q23E EPS Estimates: -$0.13

Street High/Cons/Low: -$0.02/-$0.16/-$0.24

Release date: TBD

Items to Watch:

- We estimate $294.7mn in revenues in 4Q23E and $1.11bn in revenues for FY23E, representing 20% and 22% YoY growth, respectively. Our FY23E revenue is modestly above guidance of $1.100bn-1.108bn. Our FY25E revenue forecast of $1.36bn falls below management's original forecast of $1.5bn (from 2020) largely due to a contract change in the "other" business segment.

- We are forecasting 74K gross new subscription pets for the quarter, demonstrating a 15% growth YoY and 1% sequentially. Should gross new subscription pets result in stronger/weaker additions than we assume, there could be upside/downside risk to our forward EPS estimates.

- 2022 experienced an unprecedented surge in loss costs, with annual veterinary inflation of 12%, double the historical rate. The company currently assumes 15% YoY inflation through 2025 and continues to pursue rate increases, aiming to restore target margins by YE24E. We forecast a Subscription operating margin of 11.6% in 4Q23E, below the company's 15% target but steady improvement from 10.1% reported in 3Q23. We forecast loss ratio improvement throughout 2025 as higher rates earn into results. We expect inflation trends and pricing dynamics to remain key topics on the earnings call.

- Trupanion delivered positive free cash flow of $7mn in 3Q23, one quarter ahead of management's target. We model $3.7mn in free cash flow in 4Q23E and expect consistent positive free cash flow going forward.

- Trupanion currently has several growth initiatives underway, including partnerships (i.e., Aflac, Chewy), recent acquisitions (PetExpert, SmartPaws), new product launches, and international expansion. The company expects to increase disclosures detailing the growth of these new initiatives beginning this quarter. We look for any incremental management commentary regarding early reception, margin impact, and the timing of further rollouts.

- Our PO remains $38 combining a DCF of the run-off of the current book of business and valuing new branded business at an 8x 2024 P/E multiple. We believe the subscription business could trade at a premium-to-market multiple given its higher revenue growth rate. However, inflationary pressures currently limit the predictability of future earnings, auguring for a discount given increased risk and volatility. Despite material upside to our forecast, elevated risk of earnings volatility leads us to a Neutral rating.

Price objective basis & risk

Aflac (AFL)
Our $92 price objective for AFL is based on 70% of the year-ahead S&P 500 P/E multiple (18x). Aflac had historically traded in parity with the market multiple multiple but experienced a downward revaluation of 20-40% following the financial crises from 2008-2012. Our discount of 30% is at the mid-point of the range, reflecting the company's defensive business model, robust capital management and a potential inflection to revenue growth.

Downside risks to the achievement of our PO are a deterioration in margins, lower-than-expected sales and premium growth, lower-than-projected capital management, and a weaker Japanese yen.

Allstate Corp. (ALL)
Our $170 PO is based on parity with the peer group 2025E P/E multiple of 10x. The life insurance divestiture from two years prior and upcoming announced health divestiture should drive a higher relative valuation compared to the past, and, given our view that personal lines is a better business, there could be upside potential should the market shift to valuing personal lines at a premium. We believe this valuation is supported by our forecast for a 20%+ ROE (on tangible and stated).

Downside risk is presented by the pressure from lower interest rates causing a decline in earnings power and potentially leading the company to miss our EPS expectations. The race to reprice business following the new wave of auto accident frequency and severity could take longer that we forecast. The volatility associated with catastrophes also creates the risk of missing or exceeding our EPS outlook. Another risk: revenue and earnings uncertainty looms in the distance with the eventual adoption of autonomous vehicles.

American International Group (AIG)
We arrive at a price objective of $75, based on a sum-of-the-parts valuation including 1) our expected value of AIG's 50% stake in Corebridge, 2) an expectation that AIG's P&C businesses now unencumbered would take at a peer P/E multiple (currently 10x 2025E) and 3) a time-value discounted multiple for its deferred tax assets. We also note that, while the stock currently trades below book value, the traditional 1x book backstop tends to have less meaning broadly in times of crisis and hasn't acted as a backstop for AIG's valuation in particular much over the past few years.

A bi-directional risk comes from the greater clarity as regards inflation. Currently an overhang on the stock, investors fear that it may be a headwind for further earnings and margin improvement. However, should the specter of inflation subside, we would expect investors to have a more favorable outlook for the sector and AIG in particular. Catastrophe losses remain a key factor in earnings volatility and, in a low catastrophe year, could cause the EPS results to exceed our forecasts. Its indirect exposure to Corebridge also means its earnings have material volatility with changing equity markets.

Aon (AON)
Our $356 price objective for shares of Aon Plc is based on 1.2x of the S&P 500's 2025E consensus P/E multiple (18x) on our corresponding EPS estimate, within the historical trading range. We believe the premium valuation is warranted given the company's position in a global insurance broking duopoly, strong emphasis returning capital to shareholders and its capital light business model.

Upside risks to our PO are outsized organic growth as economic expansion continues into 2024. Further, insurance brokerage stocks tend to trade up upon announcement of restructuring programs, where investors often embrace the cost saves while ignoring the costs to achieve.
Downside risks: operating margins could see compression as travel and entertainment expenses resume. Current valuation multiples represent a historical ceiling, which could be prelude to future multiple compression.

Arch Capital (ACGL)
Our price objective is $94 is based on 110% of the large-cap P&C peer year-ahead P/E multiple (10x) on our 2025 EPS forecast. While there is no impact from a Bermudian income tax in 2024, we are also reducing the multiple by the impact we expect such a tax to have in 2025. This is a premium to the historical trading range (90% of the peer group P/E) given Arch's above-average growth, margin outlook and tactical capital management strategy.

Downside risks are depression-like scenarios leading to a collapse in homeownership rates, however, Arch does have $3 billion of collateralized reinsurance protection, partly mitigating this material risk. While Arch had been generally under-exposed to natural catastrophe losses in recent years, the company has been recently increasing its exposure to such events as the price of underwriting that risk has been increasing.

Arthur J. Gallagher & Co. (AJG)
Our $203 price objective for shares of Arthur J. Gallagher is based on 130% of the S&P 500's year-ahead consensus P/E multiple (18x) on Gallagher's fully-taxed earnings (incl. amortization) plus $4 per share based on our estimation of the discounted time value of Gallagher's deferred tax credits. The price of the stock has from time to time extended through the long-term trading range of 100-130% of the S&P 500's P/E multiple for the insurance peers, and we are forecasting a reversion towards the upper bound of that trading range as the economy recovers from the COVID19 recession. Our revenue forecast assumes top line tailwinds from the economic recovery, partially offset by margin pressure as T&E spend resumes post-pandemic. A GAAP tax increase in 2022 could slow GAAP earnings growth, though its cash impact is minimal as the company utilizes its deferred tax assets.

Upside risk to our PO would likely stem from organic growth in excess of peers and our forecast. Downside risks: decelerating organic growth, operating margins could see compression as travel and entertainment expenses resume. Integration risk for the recent reinsurance brokerage acquisition.

Axis Capital (AXS)
Our price objective of $69 represents a 25% discount to the P/E multiple of the U.S. P&C insurance peer group (10x). This steeper-than-peer discount we believe to warranted in a period of management and strategy transition. Still, despite the sizable discount there is still material upside to our price. We believe the company's investment portfolio is particularly well-positioned for the inverted yield curve environment. Additionally, we believe fears of a 4Q23 reserve charge may be weighing on the stock, and we might expect a re-rating as we get past 2023 numbers.

Upside risks are an acquisition of AXIS at a premium valuation, lower-than-expected catastrophe losses, and favorable prior-year reserve development.
Downside risks are higher-than-expected catastrophe losses, reserve charges, and further elevation in casualty loss cost trends. The reserve charge risk is likely the greatest focus of skeptical investors today.

Brown & Brown (BRO)
Our $77 price objective is based on 135% of the S&P 500's 2025E P/E multiple (18x) on our corresponding EPS estimate, reflecting the historical average trading range. We believe the historical relative valuation remains appropriate given our forecasts for reversion to long-term organic growth levels in the mid-single-digits, margins remaining in the target 30-35% range, and a continuation of industry-leading cash flow conversion. Upside risks to our PO include persistently above-average organic growth and greater-than-expected margin expansion. Downside risks include margin contraction, earnings volatility from claims in the captive insurers, falling fiduciary investment income, and challenges in integrating M&A.

BRP Group, Inc. (BRP)
Our PO of $44 is based on a 20x year-ahead (2025E) P/E multiple. Although this represents a premium to the broker peer group (19x), we believe it is merited due to BRP's double-digit organic growth vs mid-single digit for large cap brokers. We believe there is adequate upside to recommend acquiring shares of BRP with a margin of safety that covers its strong M&A appetite.

Downside risks are macroeconomic pressures on the top line, M&A integration risk, and dilution from larger-than-expected share issuance (to fund M&A) moving forward. Upside risks are faster-than-expected economic recovery, continued P&C pricing hardening, and elevated acquired revenues vs expectations.

Chubb Ltd (CB)
We arrive at a price objective of $210 based on 10x 2025E P/E, which is in line with large-cap commercial lines peers, reflecting the historical trading range.

Upside risk is posed by a material improvement in underwriting margins. The company has been experiencing meaningful price increases in 2020, but these have not translated into meaningfully improving margins so far. Downside risk is presented by the pressure from lower interest rates causing a decline in earnings power and potentially leading the company to miss our EPS expectations. The volatility associated with catastrophes also creates risk of missing or exceeding our EPS outlook. Likewise, reserve adequacy is a bi-directional risk to our price objective.

CNA Financial (CNA)
Our price objective of $39 is based on 80% of the average consensus large-cap P&C peer P/E multiple (10x), compared with a 75-100% range where it has traded in the past. We think the discount is appropriate given the overhang associated with its closed-block long-term care book and its general inability/aversion to repurchasing its own shares, even when trading at a discount to perceived fair value. Trading history around a range validates this relative multiple.

Upside risks include sustained higher interest rates which ameliorate the reserve pressures on the LTCi book and allow the company to earn more income on its investment float. Additional upside risk could come from majority owner Loews buying the remaining limited float trading today. Downside risk is presented by a return to the low interest rate environment, causing a decline in earnings power and potentially leading the company to miss our EPS expectations. The volatility associated with catastrophes also created the risk of missing and exceeding our EPS outlook. The company's recent premium growth could be indicative of adding less/unprofitable clients to its book of business, thus adversely impacting future earnings and increasing the probability of a future reserve charge serves as an additional downside risk.

Corebridge Financial (CRBG)
Our price objective of $33 is based on 70% of the 2025E peer group P/E multiple (8x). We use a discount to the peer group to reflect a) the overhang of limited float and b) below-average valuations for competitors in the VA market.

Upside risks are accelerated market recovery, higher interest rates, accelerated capital returns to shareholders, an increased savings target, and higher operational synergies from the Blackstone partnership.

Downside risks are a continuation of equity market pressure, lower interest rates, pressures on sales and flows, and challenges executing the savings program.

Everest Group LTD (EG)
Our price objective of $522 is based on 80% of the year-ahead multiple for large cap property and casualty (P&C) peers (10x). The 20% discount is based on a reversion to the relative multiple where RE has traded in the past, which we also find likely/appropriate given the greater earnings volatility associated with the reinsurance subsector. While there is no impact from a Bermudian income tax in 2024, we are also reducing the multiple by the impact we expect such a tax to have in 2025.

Downside risks are pressure from lower interest rates causing a decline in earnings power and potentially leading the company to miss our EPS expectations, volatility associated with catastrophes also creates the risk of missing or exceeding our EPS outlook, and lawmakers enacting what the industry sees as a retrospective change in coverage to insurance contracts, enfranchising virus-triggered business interruption.

Goosehead Insurance Inc. (GSHD)
Our $41 price objective is based on discounted-cash-flow analysis using our earnings projections for a 15-20% revenue CAGR through 2028 and a residual growth rate of 10%. The 10% residual growth rate runs ahead of mature large-cap brokers, but smaller outfits have tended to grow more quickly. We select an 12% discount rate to reflect the surge in interest rates beginning last in 2021.

Downside risks are disintermediation of the agency sales model to captives and direct channels as well as declining interest from potential franchisees. Upside risks are acceleration in franchise growth and increased pace of homeownership.

Lincoln National (LNC)
Our PO of $27 is based on 40% of the U.S . large-cap life peer year-ahead (2025) P/E multiple of 8x on our 2024 EPS estimate. The discount is in line with the stock's more recent historical relative valuation likely due to the higher capital intensivity of Lincoln's businesses. The recent 3Q22 assumption review charge leaves it less able to execute on capital return initiatives relative to peers, and for this we believe the discount justified.

Downside risks to achieving our PO are a severe equity market decline, persistently low interest rates, lower than expected flows and sales, and lower than anticipated capital deployment. There is also upside risk, as noted in our PO, which its not insignificantly above the current price. However, we believe current risks justify a higher requirement to recommend ownership. However, a strong rally in equity markets will likely accrue to higher fee income and diminished concerns around capital, which could push the stock higher. A resumption in share repurchases and dividend increases would also be reflected positively in the stock.

Marsh McLennan (MMC)
Our $207 price objective for shares of Marsh & McLennan is based on 1.3x of the S&P 500's year-ahead consensus P/E multiple (18x) on our 2025E EPS estimate, reflecting the historical trading range.

Upside risks to our PO are outsized organic growth as economic expansion continues into 2023. Further, insurance brokerage stocks tend to trade up upon announcement of restructuring programs, where investors often embrace the cost saves while ignoring the costs to achieve. Downside risks: operating margins could see compression as travel and entertainment expenses resume. Current valuation multiples represent a historical ceiling, which could be prelude to future multiple compression.

MetLife (MET)
Considering our 2025E EPS forecast, we arrive at a price objective of $89, based on 110% of the U.S. large-cap life peer year-ahead P/E multiple of 8x. The premium reflects a transformation at MetLife away from capital intensive businesses and increasing focus on core capabilities by selling the P&C business.

Downside risks to achieving our PO are weaker equity markets and persistent low interest rates, additional charges or reserve issues, failure to achieve net expense initiatives, and lower-than-expected capital deployment.

Principal Financial Group (PFG)
Our price objective of $84 is based on 130% of the U.S. large-cap life peer year-ahead (2025) P/E multiple of 8x applied to our 2024E EPS forecast. The premium multiple reflects PFG's higher free cash flow generating business mix and lower exposure to long-dated guaranteed policies.

Downside risks to our PO are an equity market decline, a decline in core business margins, a deterioration in fund flows, and inefficient deployment of capital (i.e., unprofitable M&A). Upside risks to our PO are stronger than expected equity market returns, better than projected core business margins, stronger fund flows, and higher-than-anticipated capital deployment.

Progressive (PGR)
Our $234 price objective is based on the current S&P 500 P/E multiple for 2025 of 18x on our 2025E EPS forecast. Due to quickly accelerating EPS ahead of the market growth rate, as seen in 2016-2019, we believe Progressive shares should trade at a premium to market as its earnings accelerate. However, given a multiple valuation two years out, we only assume parity due to the necessarily decreased certainty in an out-year forecast.

Downside risks to our PO are 1) presented by the pressure from lower interest rates, causing a decline in earnings power and potentially leading the company to miss our EPS expectations, 2) the volatility associated with catastrophes, which also creates the risk of missing and exceeding our EPS outlook, 3) the impact of material pricing changes by major competitors, 4) the long-term impact of emergent technologies, such as ride-sharing applications and autonomously driven automobiles.

Prudential Financial (PRU)

Our $99 price objective for PRU is based on a 5% discount to the current year-ahead life insurance P/E multiple (8x) on our 2024E EPS forecast. Prudential has de-risked its businesses, however it is still sensitive to changes in interest rates and equity markets.

Downside risks to the achievement of our PO are a weakness in credit and equity markets, lower than expected interest rates, and lower growth and returns in U.S. and international businesses, and lower than anticipated capital deployment. Upside risks to our PO are better than expected equity market returns and higher interest rates, higher than estimated growth and returns in U.S. and international businesses, and higher than anticipated capital deployment.

RenaissanceRe (RNR)

Our $281 PO is based on 80% of the large cap P&C year-ahead P/E multiple (10x) on our 2025E EPS forecast. While there is no impact from a Bermudian income tax in 2024, we are also reducing the multiple by the impact we expect such a tax to have in 2025. We believe that RenaissanceRe, because it is uniquely constrained to reinsurance markets, may be disadvantaged from a valuation standpoint. Once it traded at a premium, but currently reinsurance is viewed as a derivative market with less upside in an improving market for P&C underwriting margins.

Downside risk is presented by the pressure from lower interest rates causing a decline in earnings power and potentially leading the company to miss our EPS expectations. The volatility associated with catastrophes also creates the risk of missing or exceeding our EPS outlook.

The Hartford (HIG)

Our price objective of $97 is based on 90% of the large-cap P&C peers' multiple (10x) on our 2024E EPS estimate. We continue to value Hartford's earnings at a 10% discount to the peer group, noting its sub-scale personal lines business..

Risk to our PO comes from the risk of loss cost inflation in years to come. Further, given many claims against it for COVID19, Hartford seeks greater clarity as to whether or not the industry receives court assurance that it is not responsible for many categories of virus claims. Additionally, catastrophe losses remain a key factor in earnings volatility and, in a low catastrophe year, could cause the EPS results to exceed our forecasts. Prior year reserve adequacy risk is also bidirectional. Currently, spiking auto accident frequency and broad personal lines severity could put pressure on this segment.

Travelers Cos (TRV)

Our $188 price objective is based on 105% of the large-cap P&C peer group's next-year P/E multiple (currently 2025E), which currently stands at 11x. The modest premium in the multiple is due to our view of Travelers as the benchmark in terms of quality and scope of disclosure among commercial P&C insurers. The company's transparency aids in establishing investor confidence in its reserving methodology and underwriting discipline.

Upside risks to our price objective are the potential that commercial loss reserves established during the COVID19 period do not evolve into paid claims and instead create earnings in the form of net prior-year favorable reserve development. Additionally, high loss cost trend has muted the impact of rate improvements. Should loss costs decelerate, the company's underlying margins would expand more quickly. Downside risks are workers' comp claims could accelerate as back-to-work trends post-pandemic trend toward full employment. Catastrophe losses remain a key factor in earnings volatility and could prevent the company from achieving our price objective. The risk of inflation remains a longer-term concern that would likely weigh materially on results or improve results in an extended disinflationary period.

Trupanion (TRUP)
Our $38 price objective is based on summing the value of future and legacy pets' earnings. Legacy business is valued at 1x the runoff discounted cash flow (DCF) valuation of the current economics. Future value is based on putting a multiple on the long-term value added by next year's new pets and putting a multiple on that. We value the Trupanion businesses at a 8x 2024 P/E multiple. The Pets Best business, which will be in a form of run-off, we value at 3x. The non-subscription businesses (Pets best/other) make up less than $100mn of the equity valuation. We believe the subscription business could trade at a premium-to-market multiple given its higher revenue growth rate, currently 20% in 2023-2024 in our model. However, inflationary pressures on the unit economics currently suggest that future earnings are less predictable, auguring for a discount.

Downside risks to our PO are 1) the company misses on execution of its five-year growth plan, 2) the revenue growth rate deteriorates to at-or-below that of he broader pet insurance market, 3) pet owners show higher price sensitivity to Trupanion's high-ticket product vs cheaper competitor products, 4) Trupanion fails to improve penetration rates in current markets, and 5) Trupanion incurs unexpected losses to a potential disease outbreak affecting insured pets. Upside risks recognize the very high retail short interest in the stock where a low bar where favorable news could have an outsized impact.

Unum (UNM)
Our $46 price objective for UNM is based on 70% of the U.S. large-cap life peer year-ahead (2025E) P/E multiple of 8x. Our target multiple is modestly below UNM's 8x-9x post financial crisis average and the P/E we target for most life insurance peers given Unum's heightened risk in long-term care, capital constraints and very low cash flow conversion related to its agreements with regulators, and lack of earnings growth trajectory.

Downside risks are charges or unfavorable developments for long-term care insurance, lower-than-expected sales and margins at the ongoing operations, and lower-than-anticipated interest rates. Further reserve charges for the company's long-term care risk, whether concluded upon internally or forced upon Unum by regulators, could further erode the capital flexibility and dividend paying capacity of the company.

Upside risks are positive developments for long-term care insurance, better-than-expected sales and margins at the ongoing operations, and higher-than-anticipated interest rates.

Voya (VOYA)
Our price objective of $83 is based on a mixed-multiple sum-of-the-parts methodology consistent with the differentiated businesses in which Voya operates. We use a 2025E P/E multiple of 9x for the Retirement business, 8x for the Investment Management business, and 10x for Employee Benefits. These are equal to the average P/E multiples of appropriate peer groups equivalent to the values of Voya's businesses. Additionally, Voya's notable excess capital position, high free cash flow conversion (90%+) and its sizable deferred tax asset combine for material upside potential compared with the current stock price.

Risks to our price objective are lower capital returns to shareholders than we expect and capital markets volatility weighing on AUM levels and fund flows.

W.R. Berkley (WRB)
Considering our 2025E EPS estimate, we arrive at a price objective of $87, valued at 140% of the large-cap P&C peers' P/E multiple of 10x. Berkley has traditionally enjoyed a sizable premium to peer multiple valuation likely due to its long-term compounding of

equity in excess of other best-in-class peers. As the premium valuation has dissipated to be being arguably negligible, this gives investors an opportunity to own a premium franchise at no premium. We would expect the stock can re-rate upward from here. That said, book value growth has been material dependent on realized investment gains during an equity bull market, which could persist as long as the bull market lasts, but also presents a risk, should those conditions change.

Upside risk comes from recent price gains manifesting themselves as widening underwriting margins in excess of our expectations. Downside risk presented by the pressure from lower interest rates causing a decline in earnings power and potentially leading the company to miss our EPS expectations. The volatility associated with catastrophes also created the risk of missing and exceeding our EPS outlook. Additionally, the state of Berkley's loss reserves, be they deficient or redundant, creates a bi-direction risk for the stock.

Willis Towers Watson (WTW)
Our price objective of $233 reflects 75% of the year-ahead S&P 500 P/E multiple (18x) on our 2025E EPS forecast. While this is lower compared to the historical relative valuation of 90%, we believe the discount is merited in the near term due to a) legacy operational challenges paired with currently high execution risk, b) the presence of a takeout premium for much of 2019-21, and c) substantial international exposures in a volatile geopolitical environment.

Upside risks are accelerated growth recovery, faster-than-expected savings execution, and higher-than-anticipated capital returns to shareholders.

Downside risks are prolonged disruption from recent staff departures, difficulties executing the restructuring program, and escalating geopolitical tensions.

Analyst Certification

We, Joshua Shanker and Grace Carter, CFA, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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BofA Securities is currently acting as Advisor to NFP Corp in connection with its proposed acquisition by Aon Plc, which was announced on December 20, 2023.

US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Aflac	AFL	AFL US	Joshua Shanker
	Allstate Corp.	ALL	ALL US	Joshua Shanker
	American International Group	AIG	AIG US	Joshua Shanker
	Arch Capital	ACGL	ACGL US	Joshua Shanker
	Assurant	AIZ	AIZ US	Grace Carter, CFA
	Axis Capital	AXS	AXS US	Joshua Shanker
	BRP Group, Inc.	BRP	BRP US	Joshua Shanker
	Cincinnati Financial Corporation	CINF	CINF US	Grace Carter, CFA
	Corebridge Financial	CRBG	CRBG US	Joshua Shanker
	Everest Group LTD	EG	EG US	Joshua Shanker
	Intact Financial	YIFC	IFC CN	Grace Carter, CFA
	Intact Financial	IFCZF	IFCZF US	Grace Carter, CFA
	MetLife	MET	MET US	Joshua Shanker
	Progressive	PGR	PGR US	Joshua Shanker
	RenaissanceRe	RNR	RNR US	Joshua Shanker
	The Hartford	HIG	HIG US	Joshua Shanker
	Voya	VOYA	VOYA US	Joshua Shanker
	W.R. Berkley	WRB	WRB US	Joshua Shanker
NEUTRAL				
	Aon	AON	AON US	Joshua Shanker
	Brown & Brown	BRO	BRO US	Grace Carter, CFA
	CNA Financial	CNA	CNA US	Joshua Shanker
	Lincoln National	LNC	LNC US	Joshua Shanker
	Marsh McLennan	MMC	MMC US	Joshua Shanker
	Principal Financial Group	PFG	PFG US	Joshua Shanker
	Prudential Financial	PRU	PRU US	Joshua Shanker
	The Hanover	THG	THG US	Grace Carter, CFA
	Trupanion	TRUP	TRUP US	Joshua Shanker
	Unum	UNM	UNM US	Joshua Shanker
UNDERPERFORM				
	Arthur J. Gallagher & Co.	AJG	AJG US	Joshua Shanker
	Chubb Ltd	CB	CB US	Joshua Shanker
	Goosehead Insurance Inc.	GSHD	GSHD US	Joshua Shanker
	Selective	SIGI	SIGI US	Grace Carter, CFA
	Travelers Cos	TRV	TRV US	Joshua Shanker
	Willis Towers Watson	WTW	WTW US	Joshua Shanker

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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