U.S. Insurance

4Q23 SMid-cap P&C preview

Price Objective Change

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Equity
United States
Insurance

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4Q23 unlikely to be a standout catastrophe quarter

We broadly expect 4Q23E catastrophe loads to fall below run rate Q4 expectations. While we expect our coverage to have exposure to inclement weather in the quarter, such as the December Tennessee tornadoes, a general lack of major domestic events should benefit results. However, given significantly elevated convective storm losses earlier in the year, FY23E cat loads should still land above long-term expectations.

Personal lines margins showing green shoots

To date, loss cost pressure from inflation has been most pronounced in personal lines, with nearly universal deterioration across auto and homeowners' margins. However, loss ratios have likely peaked for several names as recent pricing actions earn into results. We largely expect personal lines margin improvement in 4Q23E, particularly in auto. However, we caution that results are likely to deteriorate sequentially; wintry road conditions seasonally elevate Q4 claims.

We continue to monitor commercial loss cost trends

While commercial lines results have not been under the same extent of pressure as personal lines, various players have reported margin contraction in recent quarters. YTD, Industry peers have been particularly focused on rising casualty loss costs. Updated color from management teams on liability loss trends as pandemic-related court backlogs unwind could impact group sentiment. We expect ongoing pricing and reunderwriting actions to benefit commercial margins for regional P&C peers in 4Q23E.

Lowering short-term yield forecasts

Given widespread expectations for interest rate cuts in 2024, we have reduced our short-term yield forecasts, weighing on 2024E-25E EPS estimates. Alternative investments generally correlate with the broad market on a lag; for 4Q23E, we expect results to fall below long-term expectations due to 3Q23 equity market weakness.

Year-ahead outlooks to impact sentiment

We expect most names to provide margin and/or growth outlooks with 4Q23 results. Any updates from management teams on the balance of loss costs vs pricing across different lines could impact sentiment. We broadly expect continued margin improvement in personal lines in 2024E as inflation retreats and corrective pricing earns into results. Commercial margins are more likely to tread water given the tension between pricing and rising casualty loss trends. The extent to which 2024E guidance compares (un)favorably with current Street forecasts could influence stock reaction.

Updating POs for recent market movements

We roll forward our POs to reflect 2025E group P/E and EPS metrics vs prior 2024E. We also introduce 2026E EPS forecasts. Most POs net rise despite the impact of lower investment income on forward EPS estimates. Furthermore, broad market strength in late 2023 benefits the valuation for Cincinnati's sizeable common equity portfolio and Assurant's capital light operations.

Exhibit 1: Updated POs
Updating POs for recent market movements

			Price Objective	
Company	**Ticker**	**Rating**	**New**	**Prior**
Assurant	AIZ	Buy	$205	$195
Cincinnati	CINF	Buy	$129	$121
Selective	SIGI	U/P	$103	$104
The Hanover	THG	Neutral	$130	$127

Source: BofA Global Research estimates
BofA GLOBAL RESEARCH

Summary of key changes

Exhibit 2: Updated price objectives and 4Q23E EPS forecasts

Relatively limited catastrophe activity increases 4Q23E EPS estimates.

		Price Objective		4Q23E EPS		
Ticker	Rating	New	Prior	BofA New	BofA Prior	Cons.
AIZ	Buy	$ 205	$ 195	$ 3.61	$ 3.37	$ 3.64
CINF	Buy	$ 129	$ 121	$ 1.84	$ 1.69	$ 1.89
SIGI	Underperform	$ 103	$ 104	$ 1.95	$ 1.85	$ 1.94
THG	Neutral	$ 130	$ 127	$ 2.52	$ 2.42	$ 2.70

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

Exhibit 3: 4Q23E catastrophe estimates

We update our catastrophe loss estimates for events in the quarter.

	Catastrophes ($m)		Catastrophes (%)	
Ticker	New	Prior	New	Prior
AIZ	13	29	2.5%	5.5%
CINF	85	119	4.2%	5.9%
SIGI	31	37	3.1%	3.7%
THG	66	71	4.5%	4.8%

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

Exhibit 4: Updated full-year EPS forecasts

2024E-25E EPS forecasts broadly fall on lower investment yields. We introduce 2026E estimates.

	2023E		2024E		2025E		2026E
Ticker	BofA New	BofA Prior	BofA New	BofA Prior	BofA New	BofA Prior	BofA New
AIZ	$ 14.55	$ 14.30	$ 14.30	$ 14.75	$ 15.90	$ 16.75	$ 17.30
CINF	$ 5.60	$ 5.45	$ 6.25	$ 6.20	$ 7.00	$ 7.00	$ 7.45
SIGI	$ 5.90	$ 5.80	$ 8.20	$ 8.35	$ 9.00	$ 9.55	$ 9.80
THG	$ 0.95	$ 0.85	$ 11.15	$ 11.50	$ 13.70	$ 14.15	$ 15.15

Source: BofA Global Research estimates

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Assurant (AIZ)

Price Objective: $205

BofA 4Q23E EPS Estimate: $3.61

Street High/Cons/Low: $4.07 / $3.64 / $3.37

Release date: 2/6 after market close; call 2/7 at 8 a.m. ET

Items to Watch:

- We model $13mn in catastrophe losses, or a 2.5% catastrophe load, in the Global Housing segment. We expect below-average cat losses in 4Q23E given relatively few major domestic events. On an ex-cat basis, we forecast adj. EPS of $3.81.

- Excluding catastrophe losses, we forecast +3% YoY growth in Global Housing EBITDA in 4Q23E, bringing FY23E to +49% vs guidance for "significant growth". Margins have benefited in recent quarters as expense reductions and corrective pricing actions have earned into results.

- We expect Global Lifestyle adj. EBITDA to rise +7% in 4Q23E. This brings FY23E adj. EBITDA to -3% YoY, in line with company expectations for a modest decline. International strain on the consumer and foreign exchange volatility have pressured results in recent quarters; however, in 3Q23, the company lapped challenging YoY comps. Any updates on near-term expectations for consumer demand and inflationary pressure on claims costs could influence sentiment.

- We expect consolidated adj. EBITDA to rise +15% for FY23E per guidance for growth in the mid-to-high teens. We also expect growth in ex-cat adj. EPS of +18%, also in line with the company's outlook.

- Although Assurant gave an initial preview into 2024E expectations last quarter, we expect additional details with 4Q23 results. However, the yield environment has evolved since management provided the initial outlook in early November. Given widespread expectations for interest rate cuts later this year and ~18% of Assurant's portfolio in cash and short-term investments, we have reduced our 2024E-25E EPS forecasts. Any guidance updates could be consequential for stock reaction.

- We forecast $130mn in repurchases in 4Q23E to achieve the FY23E target of $200mn. We expect repurchases of $240mn/year going forward, following annual run rate guidance of $200mn-$300mn.

- Our PO rises to $205 from $195, predicated on 80% the forward S&P 500 P/E multiple of 18x on our 2025E EPS forecast incl. amortization expense (prior 18x on 2024E EPS). Recent favorable broad market performance drives the increase. Material upside vs our PO underlies our Buy rating; we believe current valuation does not adequately reflect Assurant's capital-light business mix.

Cincinnati (CINF)

Price Objective: $129

BofA 4Q23E EPS Estimate: $1.84

Street High/Cons/Low: $2.09 / $1.89 / $1.69

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

Items to Watch:

- We forecast $85mn in net catastrophe losses, or 4.2% combined ratio contribution. While we expect Cincinnati to have exposure to the Tennessee tornadoes, we anticipate below-average catastrophe losses due to relatively few domestic events.

- We estimate a Commercial core loss ratio of 61.3% for 4Q23E, or 30bps YoY deterioration. Cincinnati has recently lapped difficult margin comparisons, particularly for commercial umbrella. While we broadly expect continued improvement going forward, some lines posted atypically low core loss ratios in 4Q22, namely property and workers' comp, which should weigh on YoY comparisons this quarter.

- For Personal lines, we expect a 4Q23E core loss ratio of 58.0% vs 56.6% in 4Q22. Similar to Commercial lines, 4Q22 results benefited from unusually low losses in the personal property book. As such, we expect modest core margin deterioration in 4Q23E despite modeling continued improvement in personal auto.

- We forecast a total combined ratio of 96.1% for 2023E (92.2% in 4Q23E) vs the original outlook of low-to-mid-90%s. Elevated catastrophe activity in 1H23 essentially drives the variance vs guidance. Reserve reestimates are also likely to be a source of volatility; we forecast -3.2% loss ratio impact in 2023E vs -2.3% in 2022 and -6.9% in 2021.

- Cincinnati often provides year-ahead combined ratio commentary with 4Q results. We forecast a flat combined ratio YoY at 96.1% for 2024E, with better attritional results and catastrophe losses offset by a lower benefit from reserve releases. The extent to which management's 2024E targets compare (un)favorably with current Street forecasts could influence stock reaction.

- Cincinnati has an atypically high allocation to common equities; they comprise ~40% of the company's investment portfolio. We currently model Cincinnati to exceed its long-term average value creation target of +10-13% in 2023E with positive equity market performance cushioning elevated cat losses.

- We increase our PO to $129 from $121 upon updating our sum-of-the-parts calculations to reflect 2025E EPS and group P/E vs prior 2024E. Favorable equity portfolio mark-to-market drives the bulk of the increase. Material upside vs our PO underlies our Buy recommendation; we believe forward earnings risk is skewed to the upside.

Selective (SIGI)

Price Objective: $103

BofA 4Q23E EPS Estimate: $1.95

Street High/Cons/Low: $2.10 / $1.94 / $1.72

Release date: 1/31 after market close; call 2/1 at 11 a.m. ET

Items to Watch:

- We estimate $31mn in 4Q23E catastrophe losses, or 3.1% loss ratio impact. We expect below-average cat losses given relatively few major domestic events.

- For Standard Commercial, Selective's largest segment, we expect an underlying loss ratio of 58.0%, or 320bps improvement YoY. Inflationary pressures weighed on 2022 results, and we expect this to persist to a degree in the near term. However, the 9M23 underlying loss ratio of 58% improved vs 61% for FY22, and we expect further improvement as higher pricing earns into results.

- We forecast 230bps of deterioration YoY in the Personal core loss ratio to 72.5%, reflecting the impact of inflation. We do not forecast any reserve development, but if the strengthening that occurred in 9M23 persists, there could be downside to our forecasts. Any updates on the timeline for recapturing target margins could be key for sentiment.

- We forecast a 2023E combined ratio of 96.5%, or 96.6%, excluding any further reserve development, effectively in line with guidance. On an underlying basis, we forecast 90.5%, also in line with management's outlook.

- Selective typically provides a year-ahead outlook with 4Q results. We currently forecast a 2024E combined ratio of 94.7% vs the long-term target of 95%, incl. a -50bps benefit from reserve releases. We estimate a 90.5% core combined ratio for 2024E, flat with 2023E. The extent to which management's 2024E targets compare (un)favorably with current Street forecasts could influence stock reaction.

- We model an alternative investment yield of 0% for 4Q23E vs our run rate estimate of 9%. Alternative investments often correlate with the broad market on a lag; as such, we expect results to reflect 3Q23 market weakness.

- Our PO falls to $103 from $104 reflecting 120% the peer group forward P/E multiple of 10x on our 2025E EPS forecast (prior 2024E, 10x). Lower forward EPS projections drive the net decrease. Relatively minimal upside vs our PO underlies our Underperform rating; Selective's current premium vs the group is above-average and could be difficult to sustain over the longer term.

The Hanover (THG)

Price Objective: $130

BofA 4Q23E EPS Estimate: $2.52

Street High/Cons/Low: $3.07 / $2.70 / $2.42

Release date: 1/31 after market close; call 2/1 at 10 a.m. ET

Items to watch:

- We estimate a 4Q23E catastrophe load of 4.5% ($66mn). We do not expect a noteworthy cat quarter given relatively few major domestic events. However, following a spate of elevated losses over the past year, management expects to give investors a detailed catastrophe management update with 4Q23 results. The company has implemented remedial actions in recent months to reduce cat exposures. While we expect these efforts to be successful, they will likely require time to make a noticeable difference. Any updates on forward cat load expectations and the timing of improvement could be key for stock reaction.

- We forecast a Personal lines core loss ratio of 70.5% in 4Q23E, or 210bps YoY improvement. We expect Personal Auto to drive the improvement, forecasting a core loss ratio of 81%, or -460bps YoY. However, we expect sequential auto deterioration due to seasonality from driving in wintry conditions. We expect deterioration in the Homeowners' core loss ratio, expecting recent pressure from inflation, large losses, and inclement weather to persist. Any updates on the pace of expected improvement in Personal lines margins could affect sentiment.

- We project a Core Commercial attritional loss ratio of 58% for 4Q23E, or 220bps YoY improvement. Inflation and large property losses pressured 2022 results, but margins have recently improved, benefiting from reunderwriting actions. If 2Q23-3Q23 levels in the 56-56.5% range persist, there could be upside vs our forecast. For Specialty, we forecast a 53.5% underlying loss ratio, or 200bps of deterioration YoY to more "normal" levels.

- For FY23E, we forecast an ex-cat combined ratio of 91.9%, in line with guidance for "the higher end of 91-92%". The Hanover typically provides a year-ahead combined ratio outlook with Q4 results. We forecast an ex-cat combined ratio of 90.4% for 2024E, expecting reunderwriting actions and rate increases in Personal lines to benefit results. The extent to which 2024E targets compare (un)favorably with current Street forecasts could influence stock reaction.

- We forecast an alternative investment yield of +7% in 4Q23E, below our 8.5% run rate expectations. Alternative investments often correlate with the broad market on a lag; as such, we expect 3Q23 market weakness to weigh on results.

- Our PO rises to $130 from $127, reflecting the year-ahead peer group P/E multiple of 10x on our 2025E EPS. Multiple expansion vs prior 9x drives the net increase. Relatively limited upside vs our PO underlies our Neutral rating; we believe current valuation adequately reflects progress in margin remediation plans.

Exhibit 5: Stocks mentioned
Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AIZ	AIZ US	Assurant	US$ 164.64	B-1-7
CINF	CINF US	Cincinnati	US$ 107.37	B-1-7
SIGI	SIGI US	Selective	US$ 101.68	B-3-7
THG	THG US	The Hanover	US$ 122.93	B-2-7

Source: BofA Global Research

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Price objective basis & risk

Assurant (AIZ)

Our price objective of $205 is based on 80% of the S&P 500 year-ahead P/E multiple of 18x on our 2024E EPS forecast including amortization expense. This is an increase compared to the historical valuation vs the S&P 500 (70%), which we believe is merited given a) Assurant's increasingly capital-light business mix and b) the relative defensiveness of its businesses.

Downside risks to our price objective are a slowdown in capital returns to shareholders, outsized catastrophe losses, loss of a major distribution partnership, and a deceleration in top line growth for the Connected World businesses.

Cincinnati Financial Corporation (CINF)

We arrive at our $129 price objective via summing the value per share of a) the company's insurance operations and b) the common equity portfolio. We estimate $67/sh for the insurance operations, predicated on 100% the year-ahead peer group P/E multiple (10x) on our op. 2025E EPS forecast. We expect valuation within the long term average range of 95-105% based on current margin and growth projections. We estimate $62/sh for the common equity portfolio, based on our long-term market appreciation assumption of +6.5% on the marked-to-market portfolio value ($10bn), tax-effected and multiplied by the S&P 500 forward P/E multiple (18x).

Bidirectional risks to our PO are the magnitude of catastrophic losses, prior year reserve development, the evolution of industry rate and loss cost trends, and equity market movements.

Selective (SIGI)

Our price objective of $103 reflects 120% of the 2025E peer group P/E multiple (10x) applied to our corresponding EPS forecast. This premium is above longer-term averages (110%), reflecting Selective's higher operating and investment leverage and return profile in a challenging loss cost environment.

Bi-directional risks to our PO are the magnitude of catastrophic losses, prior year reserve development, investment yield trajectory, P&C (property and casualty) pricing trajectory, and changes in loss cost trends. An increase in capital returns to shareholders could also present upside risk.

The Hanover (THG)

Our price objective of $130 reflects 100% of the P&C group forward P/E multiple (10x) applied to our 2025E EPS forecast. We assign a relative valuation near historical averages. We believe the stock will have difficulty capturing the premium valuation implied by the company's business mix while it executes its margin remediation plan.

Bi-directional risks to our PO are catastrophic losses, reserve development, investment yields, changes in P&C pricing trajectory, evolving loss cost trends, and changes in the competitive environment.

Analyst Certification

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

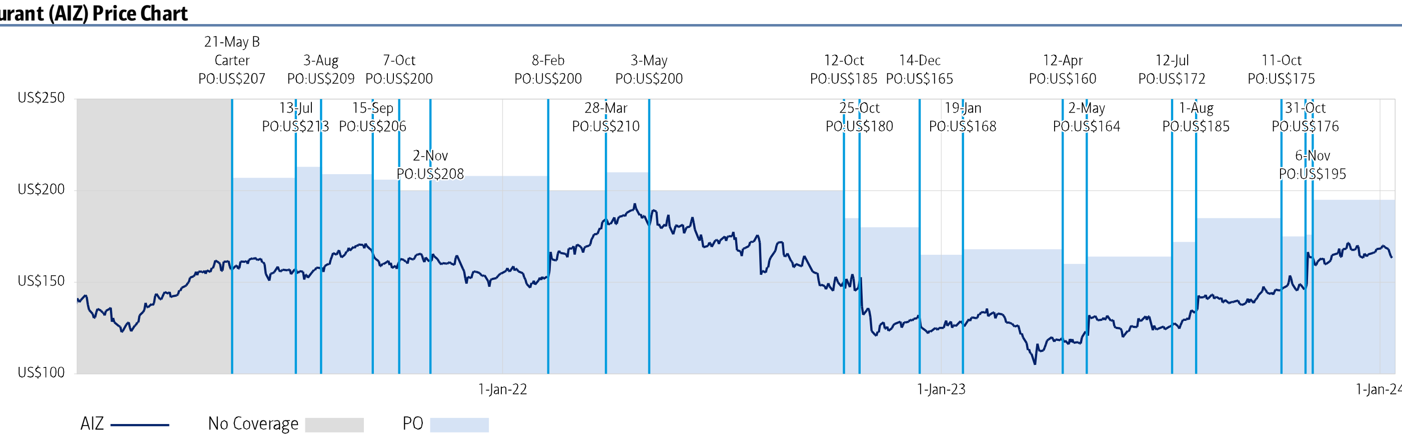
US - Insurance Coverage Cluster

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

Assurant (AIZ) Price Chart

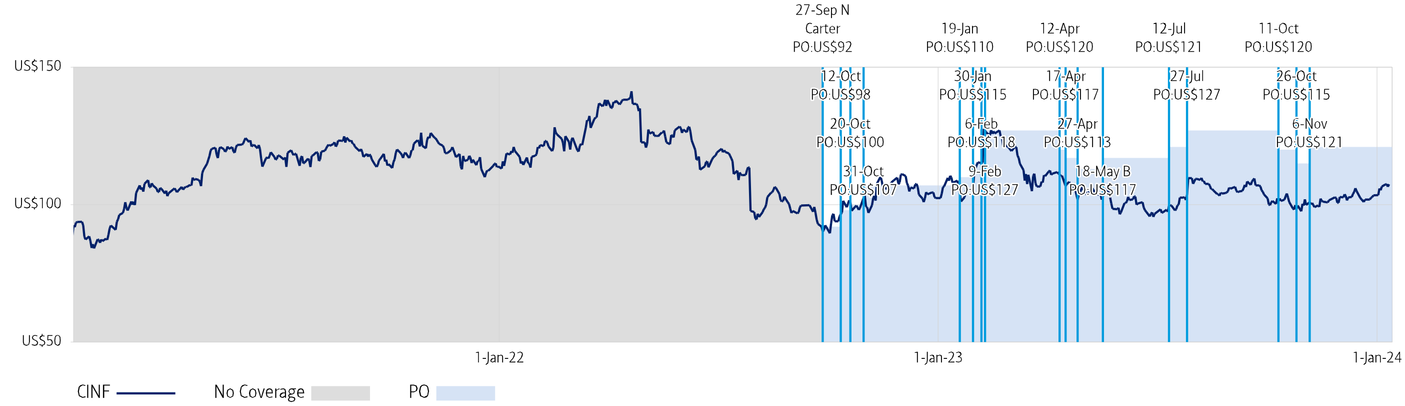


B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Assurant (AIZ) Price Chart

Cincinnati (CINF) Price Chart



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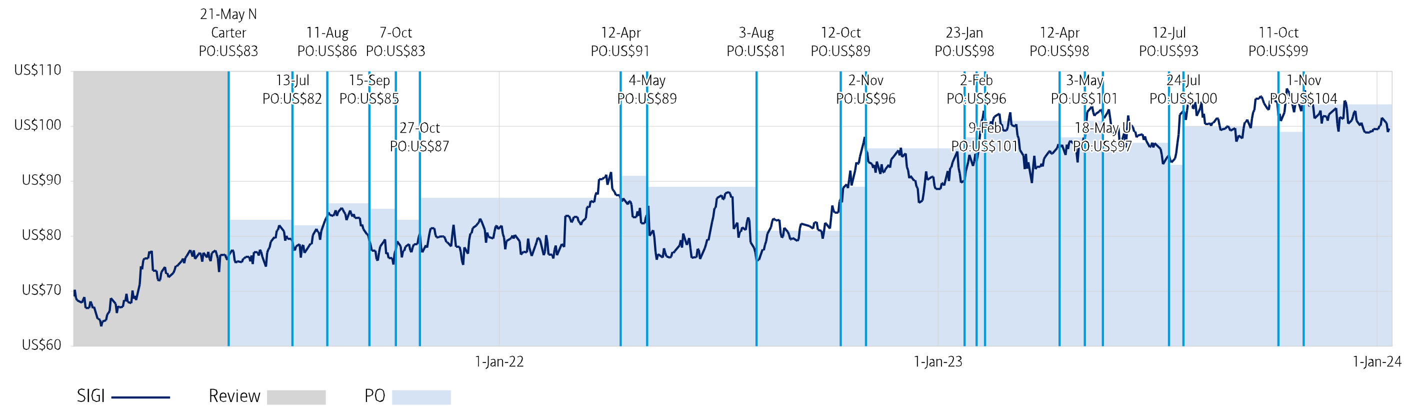
Selective (SIGI) Price Chart



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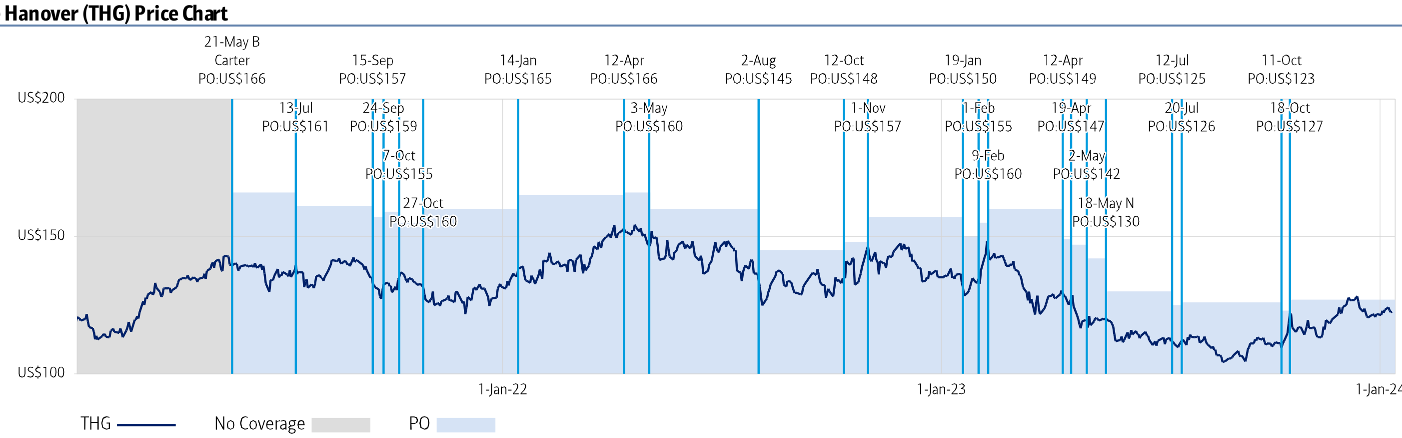
The Hanover (THG) Price Chart



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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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