Swiss Re Institute

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sigma

Growth in the shadow of (geo)politics

Global economic and insurance market outlook 2025–26

Executive summary

The world economy is positioned for solid growth in the next two years but downside risks are elevated.

The global economy is poised for further solid expansion. We forecast global real GDP growth at 2.8% in 2025 and 2.7% in 2026, roughly in line with 2024. However, the distribution of risks is tilted to the downside, driven by geopolitics, the potential for disruptive policy changes, and financial market vulnerabilities. Growing divergence between regions will likely be accentuated by the next US government's policy direction. President-elect Trump's campaign proposals have mixed implications for the US economy that will ultimately depend on their extent and sequencing, but we now anticipate slower disinflation and a shallower interest rate easing cycle. We still forecast continued US growth outperformance, even if momentum will slow sequentially. This will contrast increasingly with the euro area and China, which face headwinds from trade tensions and structural challenges. We forecast global CPI inflation to decline slowly to an average 3.3% in 2025 and 3.0% in 2026, from 5.1% in 2024. In response, a cautious US Federal Reserve will likely proceed with only three interest rate cuts in 2025, while central banks in the euro area and China ease policy faster as growth concerns dominate. However, fiscal risks may add upside pressure to long-dated bond yields in the West. Long term, our "five D" structural themes of deglobalisation, decarbonisation, demographics, digitalisation and debt will shape the outlook.

We monitor alternative scenarios for the risks of a global recession or an inflationary supply shock.

We see risks of an adverse alternative economic scenario emerging. An event such as an escalation in geopolitical tension, for example a disruptive trade war, or in financial market risks, such as a sudden and sharp rise in US Treasury risk premia, could bring us into one of two adverse scenarios we monitor, of (i) "renewed supply shocks" or (ii) a "global recession". A "renewed supply shock" scenario envisages a stagflationary shock of inflation acceleration and weak growth. This would stress non-life underwriting performance via low real premium growth and high claims severity. Asset portfolios would face mark-to-market losses. A "global recession" would see a broad fall in insurance demand and weak profitability of exposed lines. Wider credit spreads, lower interest rates and falling asset prices would depress investment results. We also monitor an upside "productivity revival" scenario, of tech-related investment benefits, but we view the likelihood as lower than the two downside scenarios together.

Non-life insurance profitability is improving while the hard market cycle in rates is plateauing.

The primary non-life insurance industry is improving its profitability and economic sustainability. Underwriting results benefited from easing inflation and higher premium rates this year and we expect them to stay strong in 2025 and 2026. Coupled with improving investment results, this should support profitability. We forecast industry ROE at 10% in 2025 and 2026 in the six largest non-life insurance markets, which would exceed cost of capital. A more resilient industry is better positioned to reduce protection gaps, particularly when the capital base is strengthened. However, social inflation is not slowing in the US and rising costs of legal awards are also emerging in markets such as the UK, Australia and Mexico, impacting casualty insurers. We expect decade-high 4.3% global non-life premium growth this year following the repricing of risk in response to elevated claims. Premium rates are now moderating and we forecast softer global premium growth of 2.3% annually in real terms over 2025-26, below the 3.1% average of the last five years. The active US hurricane season is likely to take global natural catastrophe insured losses to well over USD 100 billion this year for a fifth consecutive year and may delay the onset of softer property insurance pricing.

Life insurance premiums are set to grow by 3% over 2025–26, more than double the rate of the last decade.

The global life insurance market is buoyant. We project growth of more than twice the historical average, at 3% in real terms over 2025 and 2026, after a decade-high 5% growth in 2024. Total global life insurance premiums should reach USD 4.8 trillion by 2035, up from USD 3.1 trillion in 2024, driven by higher interest rates. US individual annuity sales should reach a new record of over USD 400 billion this year. As monetary policy loosens, we expect fixed rate annuity sales growth to slow and the focus to shift to indexed annuities. Pension de-risking offers another long-term tailwind for the life industry, with potentially over USD 300 billion of bulk annuity transfers in the UK and US in the next three years. Demand for risk protection is less interest rate-driven and we expect steady growth. Primary life insurance has a positive profitability outlook in 2025 and 2026, due to still elevated fixed-income yields. Lapse risk is contained, with declining sensitivity to interest rates as central banks lower interest rates.

Key takeaways

We forecast stable global growth and moderating inflation in 2025 and 2026

Swiss Re Institute key forecasts

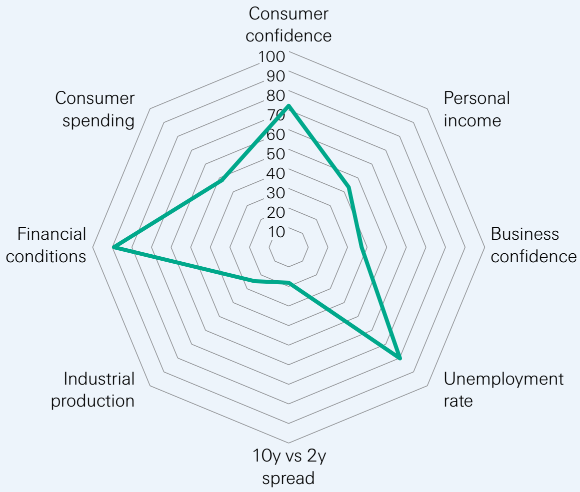
	2023	2024F		2025F		2026F	
	Actual	SRI	Consensus	SRI	Consensus	SRI	Consensus
Real GDP growth, annual average, %							
US	2.9	2.8	2.6	2.2	1.9	2.1	2.0
Euro area	0.5	0.7	0.7	0.9	1.2	1.1	1.4
UK	0.3	0.9	1.0	1.2	1.3	1.5	1.5
Japan	1.9	-0.1	0.0	1.2	1.2	0.9	1.0
China	5.2	4.9	4.8	4.6	4.5	4.1	4.2
Global	2.8	2.8	2.7	2.8	2.8	2.7	2.7
Inflation, all-items CPI, annual average, %							
US	4.1	2.9	2.9	2.5	2.3	2.4	2.4
Euro area	5.5	2.3	2.4	2.0	2.0	2.1	2.0
UK	7.4	2.5	2.5	2.2	2.3	2.3	2.0
Japan	3.6	2.6	2.5	2.0	2.0	2.0	1.7
China	0.2	0.4	0.5	1.1	1.2	1.5	1.5
Global	5.8	5.1	5.2	3.3	3.4	3.0	3.0
Yield, 10-year govt bond, year-end, %							
US	3.9	4.4	3.9	4.2	3.7	4.2	3.7
Euro area	2.2	2.2	2.2	2.3	2.2	2.4	2.3
UK	3.5	4.4	3.9	4.5	3.7	4.5	3.7

Note: F = forecasts. Euro area policy rate refers to the interest rate on the deposit facility; data as of 11 November 2024. US policy rate consensus is mid-point of Federal Funds range. World GDP consensus forecast comes from the IMF (based on market exchange rates).
Source: Bloomberg, Swiss Re Institute

Our radar view of economies shows diverging macroeconomic conditions in key regions

US economy

Latest percentile ranking for US



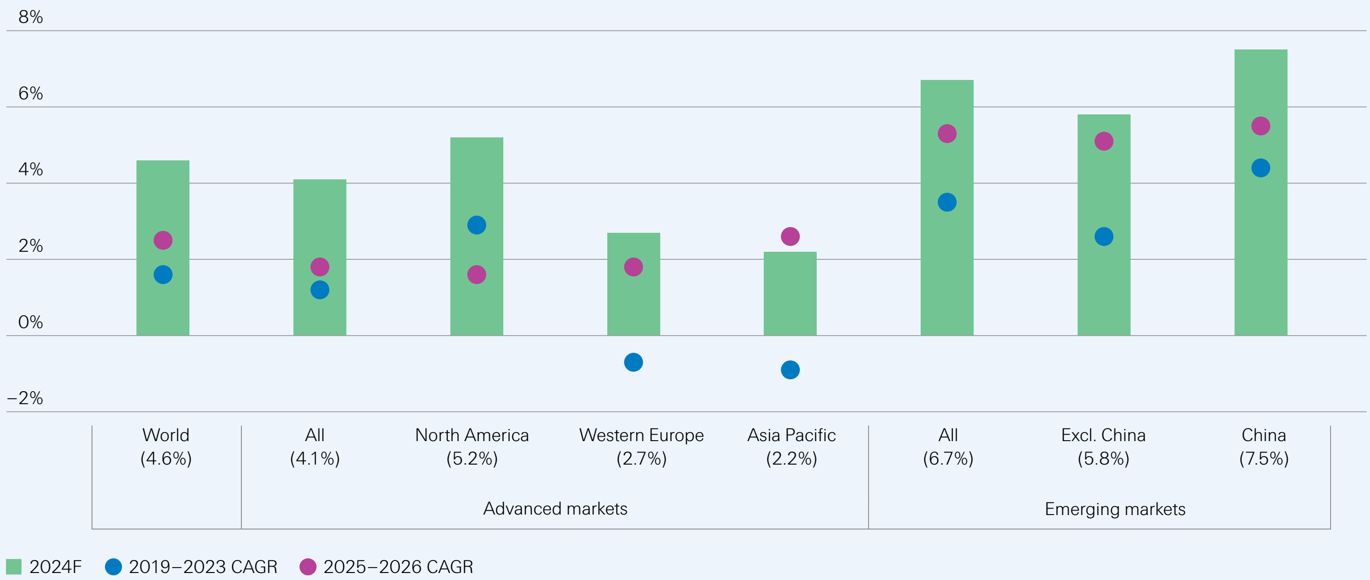
Euro area economy

Latest percentile ranking for euro area

Note: our macro radar charts reflect the percentile ranks of respective economic indicators using historic monthly data since 1990. Higher percentile ranks reflect stronger data relative to history, while lower percentile ranks reflect weakness. The unemployment rate has been inverted. Financial conditions indices are sourced from Bloomberg, with a higher value indicating accommodative conditions. Source: Macrobond, Swiss Re Institute

We forecast global insurance premiums to grow at an above-trend 2.6% annually in real terms in the next two years

Global total insurance premium real growth rates (2024 values in brackets)



Source: Swiss Re Institute

Current non-life underwriting cycle dynamics point to moderating pricing

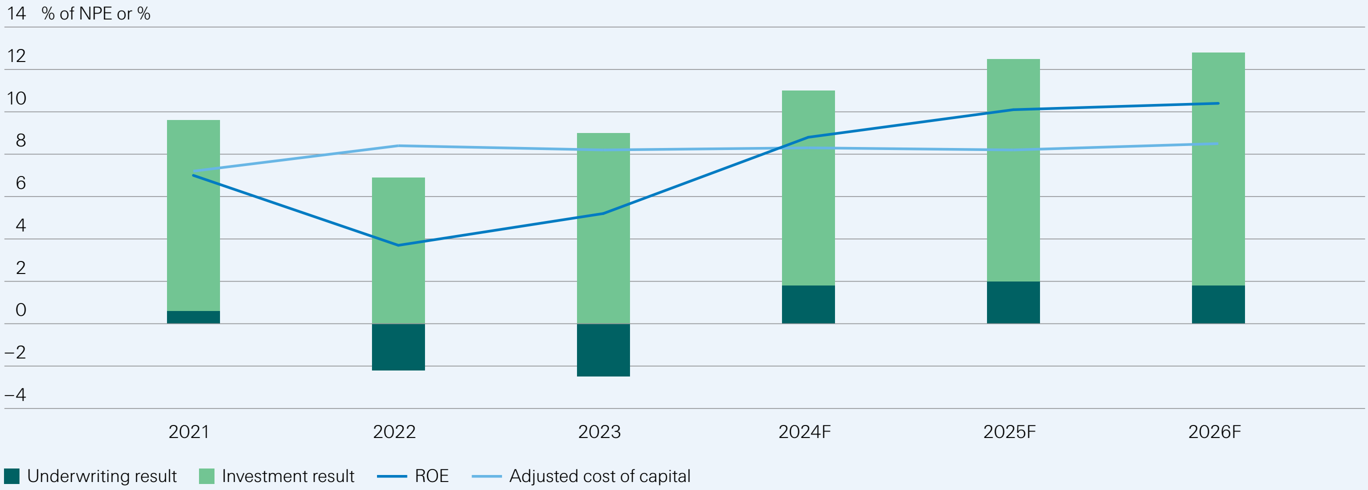
Dynamics of the current underwriting cycle

Cycle dynamics	Current trend	Current impact on pricing	Trend outlook (next 2–3 years)	Pricing outlook	Comments
Underwriting profitability of new business	Plateaued	→	Good u/w profitability increases competitive pressure	↓	Likely peaked in 2024-25
Claims uncertainty	Elevated: model & parameter uncertainties prevail, social inflation	↗	Uncertainties and social inflation trend continue	↗	Structurally higher
Cat losses	Recalibration to higher trend; significant losses from US hurricanes	↗	Continued inflation-adjusted exposure growth at 5–7% CAGR	↗	Structurally higher
Investment income	Improving, due to higher reinvestment yields compared to maturing liabilities	↘	Medium and long-term yields to stay near current levels and not fall with central bank policy rates due to longer duration	→	Investment incomes lags changes in interest rates
Overall balance of pricing		→		↘	

Source: Swiss Re Institute

In non-life insurance we forecast improving Property & Casualty (P&C) sector profitability in six key markets as inflation moderates

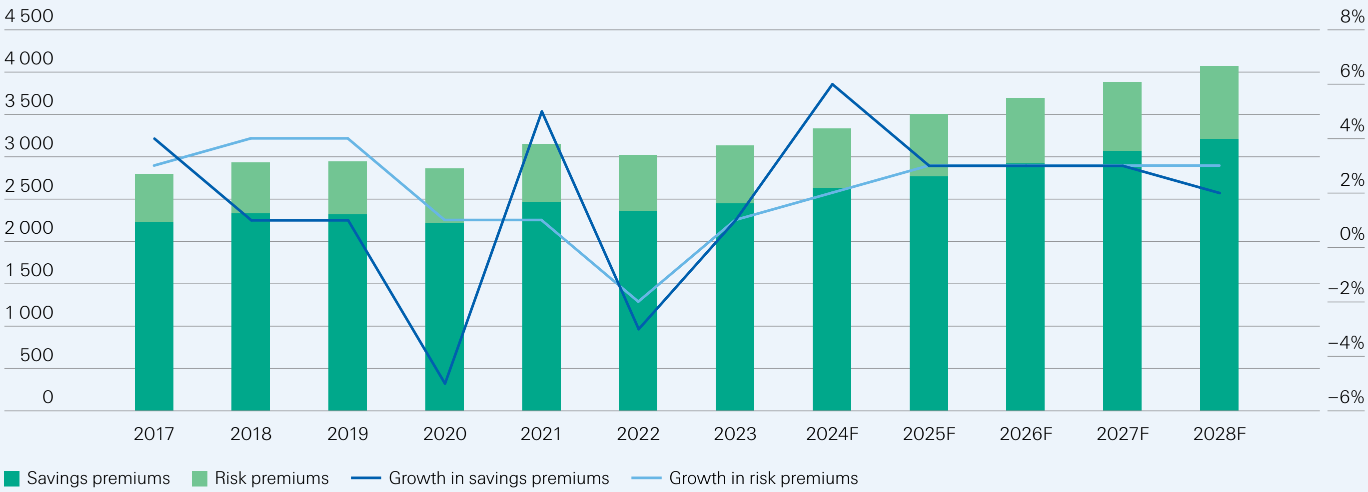
P&C insurance profitability, 2021–2026F, % of net premiums earned, ROE and cost of capital in % of capital



Note: Cost of capital calculations are based on an assessment of the whole P&C industry segment.
Source: Swiss Re Institute

In life insurance, we expect growth in saving and risk premiums to come close to converging as the peak saving growth moderates

Evolution of life insurance saving and risk premiums in volume (USD bn), left axis, and real growth (%), right axis



Source: Swiss Re Institute

Macroeconomic environment and outlook

Our baseline scenario assumes solid growth ahead and we forecast global real GDP growth at 2.8% in 2025 and 2.7% in 2026, roughly in line with 2024 but slower than the 3.1% average growth of the pre-pandemic decade. The key regions are on diverging paths. US growth outperformance will continue even as sequential growth moderates, while both the euro area and China will be weighed down by rising trade tensions and structural growth headwinds. New upside inflation risks threaten to slow progress on disinflation and may limit how much the Federal Reserve in particular cuts interest rates. The distribution of risks around our baseline assumptions is skewed to the downside, driven by geopolitics, potential disruptive policy changes, and financial market vulnerabilities. Fiscal spending risks may add upward pressure on the long end of sovereign bond yield curves. Long term, our five structural themes of demographics, deglobalisation, digitalisation, debt and decarbonisation lead us to a less favourable outlook. In advanced economies we expect average annual real GDP growth of 1.7%, and 2.1% for inflation through 2034, against 2.0% and 1.5% respectively in the pre-pandemic decade.

A benign base outlook but an adverse distribution of risks

The world economy is poised for further solid growth in 2025 and 2026 in the absence of any significant shocks.

The global economy is poised for continued solid growth but disinflation progress is likely to slow, especially in the US where we revise up our CPI forecasts for 2025 and 2026. The US election outcome will likely reinforce existing regional divergences in growth, and increasingly widen gaps in inflation and interest rate paths. We now expect a shallower interest rate cutting cycle in the US relative to economies such as the euro area and China, where growth concerns will likely dominate policymakers' concerns. Geopolitical, financial and macro risks are gathering on the horizon and we see risks around our baseline outlook skewed to the downside (see *Alternative economic and insurance scenarios*).

Table 1: SRI key forecasts

	Swiss Re Institute					Consensus	
	2024F	2025F	2026F	2010–19	2025–34F	2024F	2025F
Real GDP (% change)							
US	2.8	2.2	2.1	2.3	2.0	2.6	1.9
Euro area	0.7	0.9	1.1	1.4	1.1	0.7	1.2
UK	0.9	1.2	1.5	2.0	1.3	1.0	1.3
Japan	-0.1	1.2	0.9	1.2	0.9	0.0	1.2
China	4.9	4.6	4.1	7.7	3.7	4.8	4.5
World	2.8	2.8	2.7	3.1	2.5	2.7	2.8
Advanced economies	1.8	1.9	1.8	2.0	1.7	-	-
Emerging economies	4.1	4.1	3.8	5.0	3.5	-	-
CPI (% change)							
US	2.9	2.5	2.4	1.8	2.3	2.9	2.3
Euro area	2.3	2.0	2.1	1.4	2.1	2.4	2.0
UK	2.5	2.2	2.3	2.2	2.3	2.5	2.3
Japan	2.6	2.0	2.0	0.5	2.0	2.5	2.0
China	0.4	1.1	1.5	2.6	1.8	0.5	1.2
World	5.1	3.3	3.0	2.9	2.8	5.2	3.4
Advanced economies	2.7	2.2	2.2	1.5	2.1	-	-
Emerging economies	8.5	4.8	4.1	5.2	3.6	-	-
10y gov. bond yield (%)							
US	4.4	4.2	4.2	2.4	4.2	3.9	3.7
Euro area	2.2	2.3	2.4	1.0	2.9	2.2	2.2
UK	4.4	4.5	4.5	1.9	4.5	3.9	3.7
Japan	1.0	1.2	1.2	0.5	1.2	1.0	1.3
China	2.2	2.2	2.2	3.5	2.5	2.1	2.0
Central bank rate (%)							
US	4.6	3.9	3.4	0.7	3.2	4.4	3.2
Euro area	3.0	2.0	2.0	-0.2	2.0	3.0	2.0
UK	4.8	3.8	3.5	0.5	2.8	4.7	3.6
Japan	0.3	0.8	1.0	0.0	1.0	0.4	0.7
China	1.5	1.1	1.0	3.0	1.7	-	-

Note: F = forecasts. Euro area policy rate refers to the interest rate on the deposit facility; data as of 11 November 2024. US policy rate consensus is mid-point of Federal Funds range. World GDP consensus forecast comes from the IMF (based on market exchange rates). Source: Bloomberg, Swiss Re Institute

We see an extended business cycle benefiting from past stimulus and potentially bolstered by loose fiscal policy.

We believe this business cycle is atypical, as economies are still benefiting from the unprecedented fiscal injections and robust labour markets of recent years. These have distorted typical cycle trends, bolstered interest rate insensitivity, and limited downside recession risks, especially in the US over the past two years. Those effects could be prolonged and accentuated by incoming changes to fiscal and immigration policy in the US and globally. We anticipate the further re-calibration of monetary and fiscal policy to support and extend the next phase of the business cycle.

Growth divergences across countries set to expand

We see the current US expansion as having further room to run.

The US is poised for continued growth outperformance, even if momentum will slow sequentially, as current and forward-looking consumer and business sentiment data indicate (see Figure 1). We project US real GDP growth to moderate from 2.8% in 2024 to 2.2% in 2025 and 2.1% in 2026.

US consumer fundamentals are historically healthy.

US consumer fundamentals are historically healthy: disinflation is supporting purchasing power, net wealth is near to record highs, up by roughly USD 50 trillion relative to pre-pandemic (2019) levels, and recent benchmark GDP revisions also show consumers held USD 318 billion in greater savings than previously accounted for. The private household debt burden is also tame at 7.7% of household incomes, below the 11.6% just prior to the 2008 global financial crisis.[1]

The policy proposals from the US presidential campaign will have mixed implications for the economy.

Policy proposals from President-elect Donald Trump's campaign will have mixed implications for the US economy, with the ultimate impact depending on the extent of policy changes, their sequencing and how far countries retaliate to trade restrictions, if enacted (see Table 2). The widely expected full extension of the 2017 Tax Cuts and Jobs Act (TCJA) would support growth momentum, primarily in 2026. However, this could be offset by the effects of tariffs or reduced migration. These may pose headwinds because the recent rise in the US labour supply from immigration has been a significant support for growth and disinflation. Immigration is estimated to have boosted payroll job growth by as much as 100 000 jobs per month in 2023 and 2024.[2]

Table 2
Potential macroeconomic impacts of Trump campaign policy proposals

Channel	Policy proposal	Growth	Inflation	Interest rates
Fiscal policy	▪ Personal tax cuts (low and middle income)* ▪ Child tax credit* ▪ Full expensing of business investment* ▪ Qualified business income tax deduction* ▪ AMT exemptions* ▪ Personal tax cuts (high income)* ▪ Estate and gift taxes* ▪ Lowering corporate tax rate from 21% to 15% ▪ Exempting tips from taxes	↑	↑	↑
Trade policy	▪ Keep and expand tariffs on China ▪ Target unfair trade practices globally ▪ Tariffs on Europe and others to negotiate favorable trade agreements ▪ Protect key US industries (technology, auto manufacturing, agriculture)	↓	↑	↓
Immigration policy	▪ Strengthening border security via building a border wall ▪ Increasing border patrol enforcement ▪ Deportation of illegal immigrants and ending catch and release ▪ Reduce legal immigration levels and focus on skilled workers ▪ Tightening visa programs including H-1B visas ▪ Ending birthright citizenship ▪ End chain migration and pressure countries to curb migration	↓	↑	↑
Other	▪ Increasing energy production ▪ Deregulation of key industries including energy, financials ▪ Maintaining a strong military	↑	→	↑
Net impact on US economy over 2025 and 2026		→	↑	↑

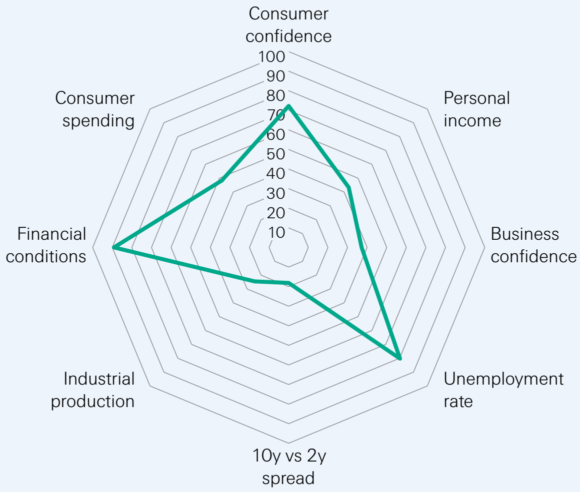
Note: *Expiring tax provision from the TCJA.
Source: Swiss Re Institute

1 *Director's statement on the Updated Budget and Economic Outlook for 2024 to 2034*, CBO, June 2024.
2 *New immigration estimates help make sense of the pace of employment*, The Hamilton Project, March 2024.

Figure 1

Macro radars for the US, euro area, UK, China and Japan

Latest percentile ranking for US



Latest percentile ranking for euro area

Latest percentile ranking for UK

Latest percentile ranking for Japan

Latest percentile ranking for China

Note: our macro radar charts reflect the percentile ranks of respective economic indicators using historic monthly data since 1990. Higher percentile ranks reflect stronger data relative to history, while lower percentile ranks reflect weakness. The unemployment rate has been inverted. Financial conditions indices are sourced from Bloomberg (US, euro area and UK), Yicai (China), and Goldman Sachs (Japan), with a higher value indicating accommodative conditions. Source: Macrobond, Swiss Re Institute

The euro area is at disproportionate risk from rising global trade tensions, particularly manufacturing-reliant Germany.

Europe will navigate a sluggish recovery and underperform relative to the US and its own pre-pandemic trend (see Table 1), despite declining interest rates, resilient labour markets and improving real wage growth (see Figure 1). Our baseline sees the euro area economy growth rising from 0.7% in 2024 to just 0.9% in 2025 and 1.1% in 2026. Germany and Italy are particularly exposed to rising global trade tensions. Countries are also struggling with structural growth challenges such as declining international competitiveness in manufacturing and adverse demographics (see *The 5Ds: catching the next productivity wave*).

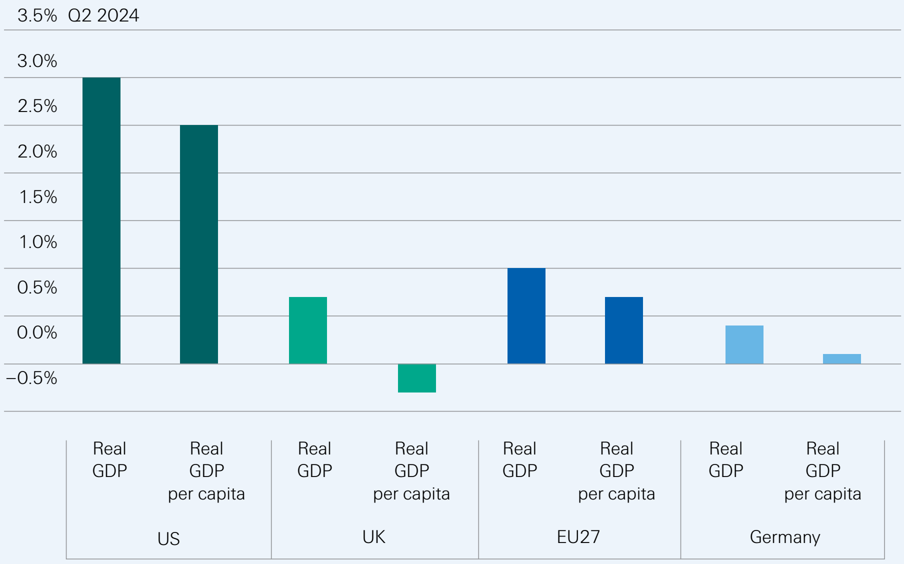
European periphery economies (e.g. Spain) will perform more strongly.

European periphery economies such as Spain and Portugal will be the brighter spot of the outlook and outperform the euro area average growth rate over the next two years, benefiting from their larger exposures to services sectors (e.g. tourism) and NextGeneration EU (NGEU) investments. We see a limited growth boost from a possible increase in euro area defence spending, as this has modest growth multipliers.

The UK will see a boost to near-term growth from greater fiscal loosening.

In the UK, economic growth will follow a similar, albeit slightly better, path than the overall euro area. We forecast UK real GDP growth to rise to 1.2% in 2025 and 1.5% in 2026, supported by greater government net spending and supply-side reforms. The latest Autumn Budget is expected to raise real GDP by around 0.5 percentage points over the next two fiscal years. However, businesses and households will be affected by the significant tax hikes announced. We expect these to weigh on labour markets through slowing hiring and consumption. Under the headline aggregate figures, the UK is already challenged by low real GDP per capita growth, which was even negative as of Q2 2024, with Germany not much better (see Figure 2). US growth outperformance is again seen in its per capita growth, driven by much stronger consumers than in Europe.

Figure 2
Real GDP and real GDP per capita, year-on-year growth, Q2 2024



Source: Macrobond, Swiss Re Institute

China's economy is structurally slowing, with trade tensions a further headwind.

We see the Chinese economy undergoing a structural slowdown in the coming years, also driven by some of the "5Ds" (see *The 5Ds: catching the next productivity wave*). China's real GDP growth is projected to moderate to 4.6% in 2025 and 4.1% in 2026. Domestic demand is historically weak with subdued business and consumer sentiment amid the deep correction in the property market. The threat of US tariffs of up to 60% on Chinese imports may weigh further on China's GDP growth.

China's latest stimulus suggests little improvement to the medium-term outlook.

The Chinese government is taking more robust policy measures that focus on de-risking, stabilising the property market and addressing trade headwinds anticipated under the new US presidency. However, we do not see the latest stimulus fundamentally improving the medium-term outlook and still see more downside than upside risks to the Chinese economic outlook. Despite easing financial conditions, the indebted corporate and household sectors are deleveraging amid lower confidence in the medium-term outlook, undermining the effectiveness of current monetary policy. Fiscal spending is focusing more on fostering new growth engines, primarily high-tech manufacturing and green transition related industries. However, the economic contributions of these sectors to the wider economy are still nascent. Further domestic demand-boosting measures are needed, especially for private consumption, to enable China to transition to a more consumption-led "domestic circulation" economy.

Emerging markets excluding China will be the engine of global growth in 2025–26, led by emerging Asia.

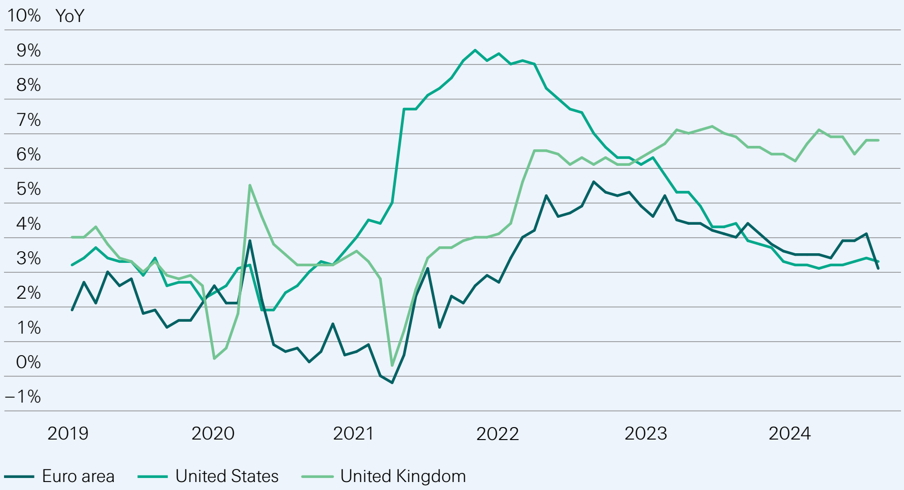
Emerging markets excluding China are the bright spot in our outlook, expected to grow faster than their own previous 10-year average. Emerging Asia will stay the outperformer as we forecast near-6% annual real GDP growth in 2025 and 2026. The region is benefiting from robust domestic consumption amid a broad-based, tech-sector-led export upcycle. India will continue to be the world's fastest-growing major economy (we forecast 6.6% real GDP growth annually on average from 2024 to 2028), with policy stability and economic reforms providing favourable investment conditions. Latin America and emerging EMEA are making slow but consistent progress towards more stable and balanced growth amid interest rate cuts. Nearshoring of production and re-routing of global supply chains provides growth opportunities for both regions' export and investment. Still, the recent escalation of the war in the Middle East and the ongoing war in Ukraine amplify uncertainties, especially for emerging EMEA.

Inflation progress likely to slow, affordability pressures remain

The US election outcome is likely to slow progress on inflation and prompts us to revise up our US CPI forecasts.

The significant disinflation progress made to date will likely slow over the next two years, particularly in the US (see Table 1). The US election outcome has prompted us to revise up our US CPI forecasts to 2.5% (+0.2ppt) for 2025 and 2.4% (+0.1ppt) for 2026. While this is not a game-changer on inflation, it means less disinflation than previously expected. We now expect to see modest tariff hikes on US imports, upward pressure on wage growth from tighter immigration policy, and looser fiscal policy adding to broader inflation risks. Full implementation of the maximum proposed tariffs would lift US inflation even higher (see *Exploring the impact of potential US policy changes*).

Figure 3
Indeed wage growth tracker: average yoy growth in wages advertised in job postings



Source: Indeed Hiring Lab, Macrobond, Swiss Re Institute

The global inflation outlook is more mixed and reliant on the timing of coming US policy shifts.

The global inflation outlook is more mixed and reliant on the timing of coming US policy shifts. For example, the euro area faces near term inflation pressures from a weaker euro-US dollar exchange rate, potentially retaliatory EU tariffs if the US imposes tariffs on EU goods, and wider supply chain disruptions. Yet medium-term euro area risks tilt more towards disinflation, as global trade tensions potentially deliver a growth-reducing demand shock. Other geopolitical risks, such as in the Middle East, add to energy price risks (see *Alternative economic and insurance scenarios*).

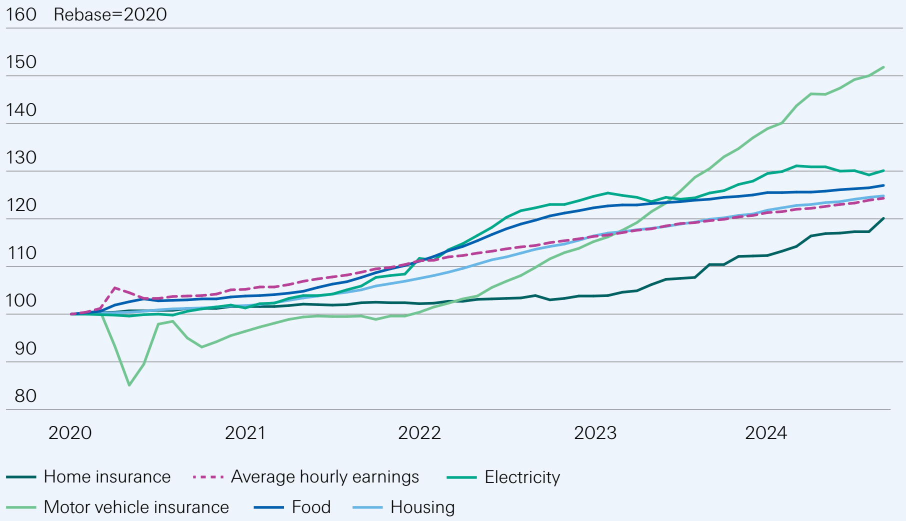
Labour market tightness remains a signpost to watch.

Labour market tightness is also a signpost to watch for underlying inflation pressure. The interest rate cutting cycle risks unwinding some of the progress made on loosening labour markets. Forward-looking indicators of wage growth have already risen slightly in several countries since the start of the rate cutting cycle this year (see Figure 3). Tighter immigration policy in the US could also add to wage growth pressures. This in turn could fuel further persistence in services CPI inflation, currently standing at 4.7% yoy in the US and 3.9% in the euro area as of October 2024, above their respective pre-COVID-19 averages of 2.6% and 1.4% between 2013 to 2019.

Pressure on affordability persists as price gains in consumer staples have far outpaced wage growth.

We also see affordability pressure on consumers persisting despite their resilient finances, as disinflation is not deflation: prices will continue to increase, just more slowly. In relative terms, the increase in the price level of key consumer staples such as food, electricity and housing has far outpaced that of wages since the COVID-19 pandemic (see Figure 4). This is a a headwind to consumer sentiment despite low unemployment.[3]

Figure 4
US average hourly earnings and key price indices, indexed, 2020=100



Source: Macrobond, Swiss Re Institute

Monetary policy landing at higher neutral rate equilibriums

We see greater divergence between countries on interest rate trajectories.

A widening gap in inflation and growth between the US and other regions will become evident in the variation in the easing that central banks pursue (see Figure 5 left). We expect the US Federal Reserve (Fed) to cut interest rates more gradually and keep policy in overall restrictive territory in 2025 and 2026 as it monitors political developments and greater upside inflation risks under the new US administration. Central banks have been in our view lucky in their management of the soft landing (i.e. no recession) and may not be as fortunate in their responses to the next shock.

The Fed will lower interest rates more gradually, and guide policy back towards neutral in 2027.

We forecast the Fed to bring down the policy rate to a range of 3.75-4.00% by the end of 2025 and 3.25-3.50% by end 2026 before restoring it to our estimate of a neutral range of 3.00-3.25% in 2027. This would seek to limit downside growth risks from undue labour market softening while also guarding against the risk of a flare up in inflation should trade policy change dramatically (see *Exploring the impact of potential US policy changes*). The US economy's resilience has increased the Fed's assessment of its longer-run neutral policy rate by 50bps to 2.9% since early 2022, narrowing the gap with market pricing.[4] This supports our view that rates are likely to remain elevated barring a material weakening in the labour market that threatens growth.

The ECB is set to cut interest rates more than the Fed given weaker euro area growth and inflation.

In Europe, in contrast, we forecast the ECB to cut interest rates more quickly down to the neutral rate – we estimate this at around 2.0% for the deposit rate – by 2025, as disinflation progresses faster and the growth recovery in the euro area is fragile. We see a risk of the ECB moving interest rates even lower, as growth concerns dominate. Still,

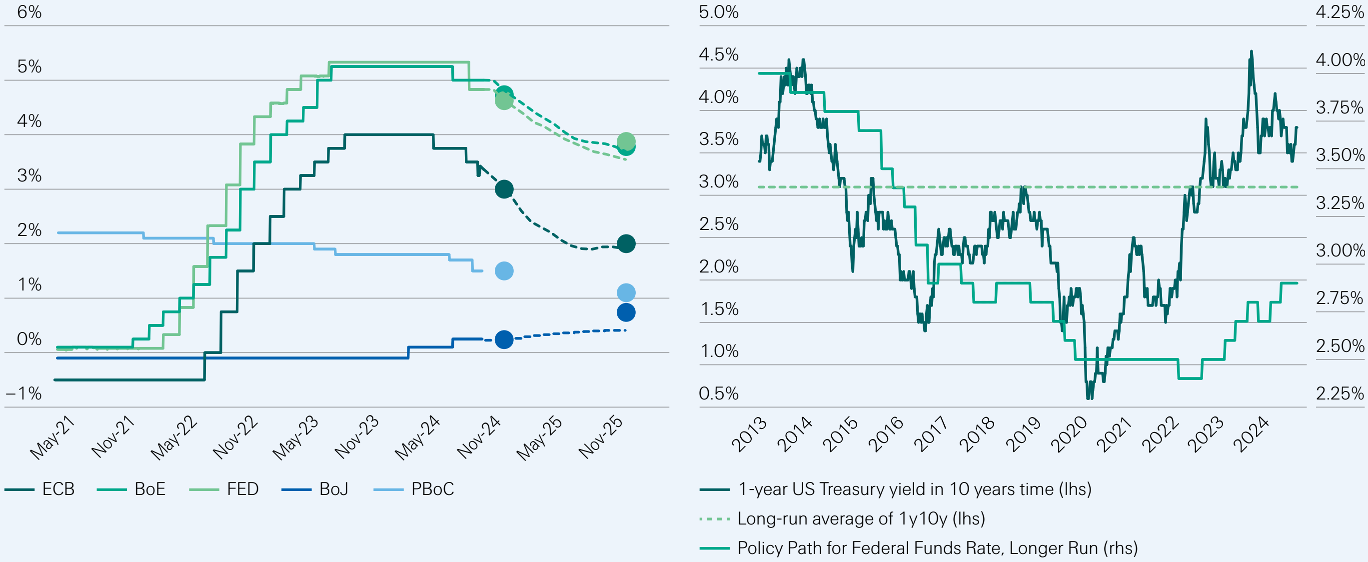
[3] *Consumer sentiment builds momentum as inflation continues to slow*, University of Michigan, September 2024.
[4] We proxy market pricing of the long-run neutral rate through the forward rate on the 1 year government bond yield in 10 years' time.

we do not expect the return to negative policy interest rates. The Bank of England (BOE) is now expected to lower rates more gradually and by less than the ECB (projections: 3.75% by year-end 2025, 3.50% by year-end 2026) amid greater fiscal spending and still-sticky services inflation in the UK.

Central banks in Asia face unique conditions with different policy outlooks.

The People's Bank of China (PBoC) is strengthening counter-cycle policy and pledged more rate cuts to address growth headwinds. We now see China's policy rate (7-day reverse repo rate) falling to around 1.1% by the end of 2025 from current 1.5%, with more policy leeway amid the Fed's cutting cycle. Conversely, the Bank of Japan is poised to continue tightening policy rates toward 1% over the next two years, barring further instability in capital markets.

Figure 5
Left: SRI central bank forecasts with futures pricing. Right: Fed assessments of the neutral rate and market pricing



Note: the dots are SRI forecasts for end of year 2024 and 2025. The dash lines are market-implied future policy rates. SONIA futures, ESTR futures, Fed Funds Futures, JPY OIS curve are used for BOE, ECB, the Fed, and BOJ, respectively.
Source: Bloomberg, Macrobond, Swiss Re Institute

Policy uncertainty will be elevated as the real economy reacts to rate changes with variable lags.

Global policy uncertainty will remain elevated in 2025 for various reasons across different regions. For example, in the US, interest rate resilience may translate into an even slower easing cycle than our baseline expects. The US housing market over the past two years shows why assessing the restrictiveness of policy is so difficult. Fixed-rate mortgages offered a significant share of US households' resilience to higher interest rates, supporting consumption growth by as much as USD 600bn.[5] This same interest rate insensitivity will now similarly delay the effectiveness of rate cuts, creating a lag before lower interest rates fully benefit the real economy.

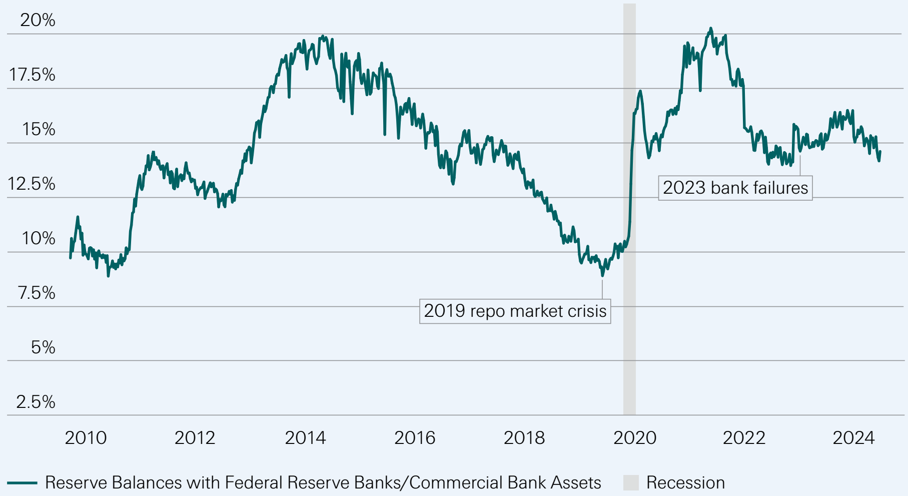
Balance sheet reduction will continue into 2025, barring financial instability.

In addition to the global rate cutting cycle, central banks will continue to normalise the size of their balance sheets in the near term, which could add further upward pressure to sovereign bond yields. While we expect the Fed may need to adjust or end quantitative tightening in the coming quarters to maintain an ample supply of bank reserves, current liquidity conditions remain accommodative. US banks' reserve balances as a share of commercial bank assets are now 14%, compared with 8% during the 2019 repo market crisis (see Figure 6). However, the level of commercial bank reserves at the Fed fell to USD 3.1 trillion in October – the lowest level since the eve of Spring 2023's bank failures. Reserve scarcity is a dynamic concept with no clear threshold. Furthermore, the distribution of reserves among banks is just as important as a given bank's average reserve balance, which is information only the central bank has access to. As a result, we see some risk that liquidity conditions prove

[5] *US mortgage market mutes monetary policy mechanism*, Swiss Re Institute, 2024.

less abundant than they appear, which threatens to raise volatility for risk assets over the coming quarters.

Figure 6
US reserve balances as a percentage of commercial bank assets



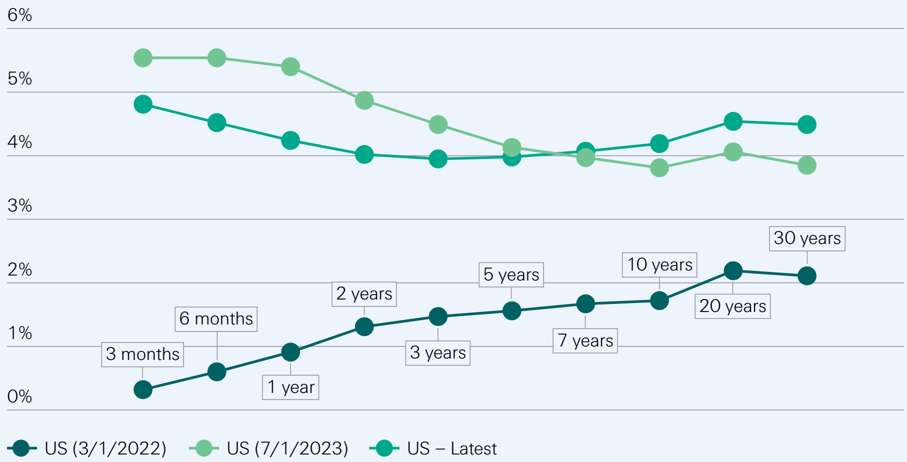
Source: Fed, Macrobond, Swiss Re Institute

The two-year yield curve inversion in the US, UK and Europe is ending, to be followed by a higher curve with a flatter slope.

The yield curve takes on a new shape

The global economic and monetary easing cycles are altering the shape of the yield curve. The 2-year US Treasury yield fell below 10-year Treasury yield in early September, ending a 26-month run inversion of the US yield curve (see Figure 7). We anticipate the yield curve inversions in German bund and UK gilt bond markets to end next year, as the shorter end of the yield curve falls further amid central bank rate cuts. We see the longer end of the yield curve across regions being supported at elevated levels by structurally higher inflation as well as greater fiscal spending risks in response to rising geopolitical risks and reindustrialisation policies, green transition and other challenges (see *The 5Ds: catching the next productivity wave*). The changing shape of the yield curve has important implications for insurance (see *Annuity sales growth past the peak as US Treasury yield curve flattens*).

Figure 7
US yield curve today vs. March 2022 (before first hike) and July 2023 (the most inverted period)



Source: US Treasury, Macrobond, Swiss Re Institute

Diverging central bank policies add to financial market volatility.

Financial markets are underappreciating risks
Excluding some short-lived volatility events this year – such as the unwind of the leveraged yen carry trade – financial markets have been priced to near-perfection. Systemic financial market risks are contained despite elevated valuations in equity markets (see Table 3). High uncertainty and downside risks to the outlook could inject renewed volatility to financial markets and potentially shift the current benign macro baseline to a more adverse scenario (see *Alternative economic and insurance scenarios*). Potential catalysts could be changes in financial market systems or structures that exacerbate volatility during a sell-off; a correction in imbalances (e.g. a sell-off in listed technology stocks); or an exogenous shock such as from geopolitics.

Table 3
US financial market risks heatmap from 2007 to 2024

Note: The data for each variable is transformed into percentile ranks, based on the distribution of its values since 2007. The heatmap presents the distribution of the percentile ranks. Red indicates high percentile ranks (bad) and green indicates low percentile ranks (good). * marks the indicators that the calculation of percentile ranks are reversed for (i.e., lower percentile ranks reflects higher value of the underlying variable).
Source: Bloomberg, Federal Reserve Economic Data, BofA, Swiss Re Institute

Changing market structure could amplify volatility events.

On financial market structure, two concerns are the rise in passive investing and greater concentrations of few companies in wider indices, which both can aggravate one another and amplify volatility events. The total value of passive fund assets surpassed actively managed assets for the first time this year,[6] and can reduce overall market sensitivity to information and make markets less efficient to price new information.[7] This risks building up bigger mispricings over time (i.e. over-valuations) that can leave markets more vulnerable to larger sell-offs later on.

[6] *Active vs. Passive Funds by Investment Category*, Morningstar, 23 September 2024.
[7] V. Haddad, P. Huebner, E. Loualiche, "How competitive is the Stock Market?", available at SSRN, 2024.

Market concentration has increased, which adds vulnerability to sell-offs.

Market concentration has also increased, with the "Magnificent 7" stocks representing now around 32% of the S&P500 total market capitalisation, up from just 9% in January 2015. High concentration makes markets more vulnerable, as concentration in a few stocks amplifies reflexivity during major selloffs. As more investors cluster into a few stocks, and these investors have more inelastic demand amid the rise of passive investing, market efficiency declines further, and reflexivity increases more. However, as long as these sell-offs remain contained and short-lived and do not trigger the default of a larger investment fund or affect the banking channels, systemic risks to the wider real economy should be contained.

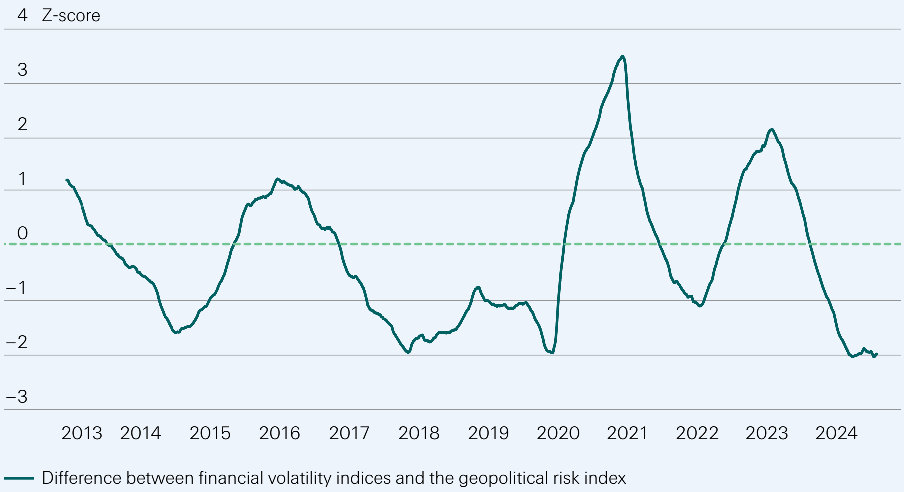
Divergence between developed economies' monetary policies could also drive higher volatility.

Moreover, the divergence between major developed economies' monetary policies could further drive higher financial market volatility. This was seen in early August this year with the unwinding of leveraged yen carry trade that amplified the initial reaction to negative labour market data in the US and sparked a massive sell-off in equity markets around the globe. Within a day, the VIX[8] jumped to levels not seen since 2020. As the interest rate differential between Japan and the US continues to narrow in the coming months and the JPY likely remaining undervalued, the risk of a further unwind in currency positioning and consequent stock market volatility persists.

Changes in market structure could amplify sell-offs in response to exogenous shocks.

Finally, these changes in market structure could amplify sell-offs in response to unexpected exogenous shocks, such as from geopolitics which we see as our top risk to our baseline. Financial market volatility has been comparatively low compared to current high and uncertain geopolitical risks (see Figure 8). The widening gap between an uncertain geopolitical environment and market volatility heightens the risk of sudden volatility spikes and significant asset repricing should a major shock occur.

Figure 8
The difference between financial volatility (average of equity, currency, and high-yield corporate bond volatility indices) and a geopolitical risk index



Source: recreated from the Global Financial Stability Report, IMF, October 2024

[8] VIX refers to the Chicago Board Options Exchange's CBOE Volatility Index, a measure of the stock market's expectation of volatility based on S&P 500 index options.

Exploring the impact of potential US policy changes

President-elect Trump campaigned on policies that would have wide impacts on the US and world economy.

The US presidential election outcome signals a policy shift in US politics. President-elect Trump's proposed agenda would leave wide-ranging macroeconomic impacts through three main channels: immigration, fiscal and trade policy. While the breadth of policy changes remains uncertain, most of them imply higher inflation and lower government revenues. This in turn would suggest higher yields on long-term Treasuries (see Table 4).

Curbing US migration would likely raise inflation.

First, controlling the flow of illegal immigration featured prominently on the campaign trail. We assume that higher deportations and lower unauthorised immigration reduce foreign migration by roughly 1 million people per year, creating inflation pressure in 2025 and 2026 as lower labour supply exacerbates wage costs. Our assumption is guided by historic US deportation efforts such as the 1950s Eisenhower administration.[9]

A full extension of the 2017 TCJA carries significant deficit impacts.

Second, a full extension of the 2017 Tax Cuts and Jobs Act now seems likely. An expected USD 5.4 trillion less in government revenues over the next decade, combined with other campaign proposals, implies a central estimate of USD 7.8 trillion in net deficit impact or as much as USD 15.6 trillion under more aggressive spending shortfalls. This central estimate would see the US debt-to-GDP ratio rise to 143% by 2035 relative to 125% under the current CBO baseline[10] or as much as 161% in an aggressive shortfall scenario. That would raise annual deficits to a range of 7.7 – 12.2% of GDP by 2035, the highest outside of recession or wartime. Such a gain without revenue offsets may erode trust in US debt sustainability, which in turn could add a further premium to Treasury bond markets.

The 2018–19 US-China trade war proved slightly inflationary and weighed on US consumers.

Finally, we quantify the impact from a potential full implementation of President-elect Trump's tariff agenda. This presents significant adverse risks to our near-term global macroeconomic outlook if pursued and confirms our structural theme of deglobalisation (see *The 5Ds: catching the next productivity wave*). The 2018–19 US-China trade war saw a near complete pass-through of import tariffs onto US consumers, costing households up to USD 4 billion per month in additional taxes and lost income.[11]

Table 4
Scenario analysis of policy implications of the new US administration

		Baseline	Escalatory tariffs	Full protectionism	Full fiscal
Narrative		New administration prioritises tariffs and immigration in 1H25 and fiscal agenda in 2H25. Upside risks to bond yields and inflation, but most macro impacts come in 2026	New administration prioritises targeted tariff increases in 1H25 with starker focus on China. Equal weighted risks to growth and inflation	New administration prioritises broader, more severe tariff expansion in 1H25 with focus on China. Key downside risk to growth	New administration prioritises fiscal agenda, using tariffs to offset lost revenues. Key upside risk is to yields given concerns over debt sustainability
Key policy priorities in order of importance	1	10% broad tariffs on the world including China. Close allies (EU, Canada etc) excluded, but some selective tariffs possible	10% broad tariffs on the world excluding close allies (EU, Canada etc). 30% on China with partial retaliation	60% tariffs on Chinese imports, and 10% elsewhere. China and ROW fully retaliate	TCJA fully extended, further personal and corporate tax reductions
	2	TCJA fully extended, but no additional fiscal expansion	TCJA fully extended, but no additional fiscal expansion	TCJA fully extended, but no additional fiscal expansion	10% tariff on all imports from 1H25. 30% tariff on China. Minimal retaliation
	3	1 million deportations + reduced migration/year	500k deportations + reduced migration/year	1 million deportations + reduced migration/year	500k deportations + reduced migration/year

		Baseline			Escalatory tariffs			Full protectionism			Full fiscal		
		US	EA	China	US	EA	China	US	EA	China	US	EA	China
Year 1 impact (ppt change vs baseline)	Real GDP	2.2	0.9	4.6	–0.5	–0.3	–0.5	–1.4	–1.0	–0.9	+0.4	+0.1	–0.2
	CPI	2.5	2.0	1.1	+0.5	–0.1	–0.1	+1.0	+0.1	+0.3	+0.5	+0.2	–0.1
	10y yield	4.2	2.3	2.2	+0.2	–0.1	–0.1	–0.1	–0.4	–0.2	+0.8	+0.6	0.0
	Policy rate	3.9	2.0	1.1	0.0	–0.3	–0.1	–0.3	–0.5	–0.2	0.0	0.0	0.0

	Baseline	Escalatory tariffs	Full protectionism	Full fiscal
Insurance impact	Non-life premium growth positive but moderating; life insurance the bright spot	Lower premium growth, but mostly confined to specialty lines	Lower premium growth and profitability overall	Higher demand overall. Life savings products benefit from elevated interest rates

Note: EA refers to euro area. Pink boxes = tariff assumption, blue boxes = fiscal policy assumption, green boxes = immigration assumption. Source: Swiss Re Institute

9 E. Blakemore, "The Largest Mass Deportation in American History", History.com, 20 August 2024.
10 *The Fiscal Impact of the Harris and Trump Campaign Plans*, Committee for a Responsible Federal Budget, October 2024.
11 *Separating Tariff Facts from Tariff Fictions*, Cato Institute, April 2024.

Trade-exposed economies like the euro area and China would be disproportionately hurt, with the hit to growth greater than on inflation.

The economic growth hit could be greater outside the US, given the US economy is relatively closed compared to more export-oriented economies like Germany and China. The 2018-19 US-China trade war saw trade policy uncertainty significantly disrupt economic activity, with pullbacks in investment alone reducing GDP growth in the Euro area by as much as 0.9ppts.[12] Tariffs also have harder-to-quantify indirect effects, such as tightening financial conditions through greater market volatility, weaker household and corporate sentiment, and delayed (or diverted) business investment. If tariffs look to stay in place beyond the near-term, these exposed countries would suffer also from a foreign direct investment shock, as firms likely relocate production to the US to circumvent tariffs.

We expect a global trade war to be a tail risk – targeted tariffs are more likely.

In our view, the most likely outcome of a trade dispute will be targeted tariffs between the US and China that are used as a negotiating mechanism, similar to the approach taken by the Biden administration. If the most antagonistic tariffs described on the campaign trail are enacted, they may be rapidly unwound again by as soon as 4Q 2025, as a slowdown in global economic activity would threaten to start a global recession.

A severe global trade war poses a material downside risk to our 2025–26 outlook.

A modelling exercise of the most severe tariff proposals ("Full protectionism scenario"): 60% on US imports from China and as much as 10% on all other imported goods, finds that global GDP could be reduced by 1.1ppts (±0.4ppts) over the next two years (see Table 4). We anticipate this "full protectionism" scenario would be magnitudes larger than the 2018-19 conflict, raising US inflation by as much as 1.0ppts (±0.5ppts) in 2025 and triggering equity market losses of as much as 34% (±15%) by mid-year. However, as reflected in wide margin of errors, our estimates are associated with considerable uncertainty as substitution effects, FX changes and some tariff absorption by corporates could dull the economic impacts. A global trade war would further complicate the job of central bankers, who would be torn between cutting rates to prevent a recession while simultaneously keeping policy tight to prevent an unmooring of inflation expectations.

Insurance implications

US P&C insurers face the biggest potential impacts from the policy scenarios outlined above.

The most consistent impact of the various economic scenarios is higher claims costs for P&C insurers – especially in the US (see Table 5). The impact on P&C growth and profitability will depend on consumers' ability to pay. In a "full fiscal" scenario with additional tax cuts and minimal retaliation, after-tax incomes are likely to support US primary insurance premiums that keep pace with claims costs. In the two more adverse trade-war scenarios ("escalatory tariffs" and "full protectionism"), real incomes drop, reducing potential premium growth and resulting in a combination of lower profitability and higher protection gaps.

Table 5
Estimated insurance implications from policy scenarios

	Escalatory tariffs	Full protectionism	Full fiscal
Underwriting profitability			
Property and specialty	Moderate negative impact	Significant negative impact	Moderate negative impact
Motor	Moderate negative impact	Significant negative impact	Moderate negative impact
Liability	Limited impact	Moderate negative impact	Moderate negative impact
Premium volume impact	▪ All LoBs impacted negatively through less economic activity and income growth	▪ All LoBs impacted, but property and specialty impacted the most ▪ Protectionism through non-tariff barriers alters competitive climate for re/insurers	▪ All LoBs impacted positively through higher economic activity and income growth ▪ Savings business benefits from higher interest rates
Profitability impact	▪ Increase in claims costs due to tariffs ▪ Mixed impact on fixed income and equity investment returns	▪ Longer inflation surge broadens out to wages and healthcare costs ▪ Additional inflation for traded goods due to supply disruptions affecting property claims ▪ Lower investment returns	▪ Increase in claims costs across lines due to inflation ▪ Higher investment returns and lower taxes

Significant negative impact   Moderate negative impact   Limited impact

Note: LoB refers to insurance lines of business. Please refer to Table 4 for modelled macroeconomic impacts of tariff scenarios. Source: Swiss Re Institute

[12] *The Impact of Trade Policy Uncertainty in the US and Europe,* Goldman Sachs, July 2024.

Life insurers would see less impact through underwriting, but more through investment returns.

Life insurance underwriting will likely be impacted similarly but through different mechanisms. In "full fiscal", savings product sales improve, while in the escalatory scenarios, sales will likely flatten, as interest rates are not high enough to catalyse demand for fixed rate products, and lower equities decrease the potential pool of annuity funds. Both P&C and L&H insurers would benefit from the higher bond yields anticipated in "full fiscal". P&C insurer investment returns would be first to benefit due to shorter portfolio durations, but life insurers would benefit more significantly over time as long-term bonds mature and are reinvested.

Marine and trade credit insurance lines of business are particularly sensitive to trade disruptions.

In the long term, premium growth largely depends on exposure growth, which is tied to trade flows and economic activity. However, marine and trade credit insurance — which account for less than 2% of global non-life premiums — are particularly sensitive to disruptions in international trade. For example, during the 2019 US-China trade tensions, trade credit premiums globally fell by 3%, and marine cargo premiums in North America decreased by 15% due to a drop in shipping demand.[13] In contrast, property and motor insurance, while still influenced by global trade flows, tend to be affected with a delay since a significant portion of business depends on domestic economic activity. Liability and other lines which are mandatory in most countries are estimated to be moderately impacted even in the most severe tariff restrictions scenario.

Supply driven inflation can increase losses and claims costs.

Trade disputes increase risk and volatility across sectors and impact the profitability of insurers through higher claims in trade credit insurance, non-damage business interruption in property, and accumulation risks in marine insurance. Higher inflation due to supply chain interruption could seep into construction and auto parts costs and can lead to elevated claim costs for shorter tail property and motor lines. Liability claims too could be impacted by a longer inflation surge should that broaden into wages and healthcare costs.

Insurers' risk transfer capacity can be impaired if trade war results in stagflation.

Insurers' ability to provide risk transfer can be weakened if global trade war results in a stagflationary environment,[14] since that creates higher claims inflation without a compensating rise in investment returns. Trade conflicts can lead to more cyber-attacks, especially from nation state actors. Non-tariff barriers in the form of protectionism and regulatory nationalism may pose challenges for re/insurers. Differential tax treatment, right of first refusal and other discriminatory regulations can alter the long-term competitive climate and increase the cost of cross border re/insurance by raising the cost of insurance in a world of greater fragmentation.

[13] International Union of Marine Insurance (IUMI) data and Swiss Re Institute calculations.
[14] There is no universally accepted definition of stagflation, but the term is generally defined as a combination of high inflation and low growth (or high unemployment).

The 5Ds: catching the next productivity wave

We revisit the "5Ds" that we identify as underpinning our long-run outlook for growth, inflation and interest rates.

We revisit the five structural mega-trends, the "5Ds", several of them first identified in our global outlook in 2021,[15] and assess how they have evolved (see Table 6). The 5Ds are instrumental in shaping the global macroeconomic environment over the long term.

Policy that addresses structural challenges can improve productivity and overall economic growth.

These "D" themes present threats and opportunities for the economy and insurance markets (see box below). Policy reactions to these structural themes could also help to address the weakness in economic and productivity growth seen worldwide after the global financial crisis in 2008. Prior to the global financial crisis, annual real GDP growth averaged 2.3% in the euro area and 3% in the US between 1998 and 2007, versus just 1% for the euro area and 1.9% for the US from 2008 to 2023.

Table 6
Our five "D" structural themes

Themes	Description	Evolution	Medium-term macro impact: GDP growth	Medium-term macro impact: Inflation
Demographics	▪ **Fertility rates have been falling**, leading to a decreasing working age population while **life expectancy is increasing** ▪ **This raises old age dependency ratios** and puts pressure on GDP growth as labour supply decreases	▪ **Working-age population projections show a decline in Europe**, China at a tipping point, and a slight but tapering upward trend in the US. ▪ **Anti-immigration policies** risk worsening demographic pressures	↘	↗
Deglobalisation	▪ The era of 'hyper-globalisation' from 1990 to 2008 has **slowed down markedly** ▪ **Geo-economic fragmentation is increasing** amid surging trade restrictions and sanctions	▪ **Deglobalisation is intensifying** as protectionist policies are increasing ▪ The **increasing political popularity of protectionism** points to a further decline in globalisation	↘	↗
Decarbonisation	▪ **The world is decarbonising** to achieve net-zero emissions by 2050, and should under the Paris agreement limit global warming to 1.5 degrees Celsius ▪ **Decarbonisation requires huge investment and alignment between private and public sectors**. This would positively impact GDP growth if implemented	▪ **The world is not on track to meet the Paris target** of less than 1.5 degrees of global warming: more investments are still needed ▪ **Clean energy investments must rise by USD 2.7 trillion annually** to reach net zero, the IEA* estimates	↗	↗
Digitalisation	▪ **Digitalisation has the potential to increase productivity growth** through technologies like AI ▪ **A favourable regulatory environment** and investments in digital infrastructure are needed to unlock the potential	▪ **The world is in the early stage of accelerating digitalisation** in which AI offers significant potential ▪ **About USD 418 billion is needed to achieve universal broadband connectivity**, the IMF** estimates	↗	↘
Debt	▪ **Debt levels are increasing globally:** total public and private debt reached a new record high of USD 312 trillion (328% of global GDP) by the end of June 2024, the IIF*** estimates ▪ **High debt limits governments' fiscal space and investments** in key areas including decarbonisation and digitalisation ▪ **Demographics could put pressure on debt** levels as ageing populations require more public spending	▪ **Strong debt growth should support GDP growth**, for example in countries such as China ▪ **Even in the euro area, fiscal consolidation in 2025** may turn out to be less in practice, despite the reinstated country-level fiscal rules	↗	↗

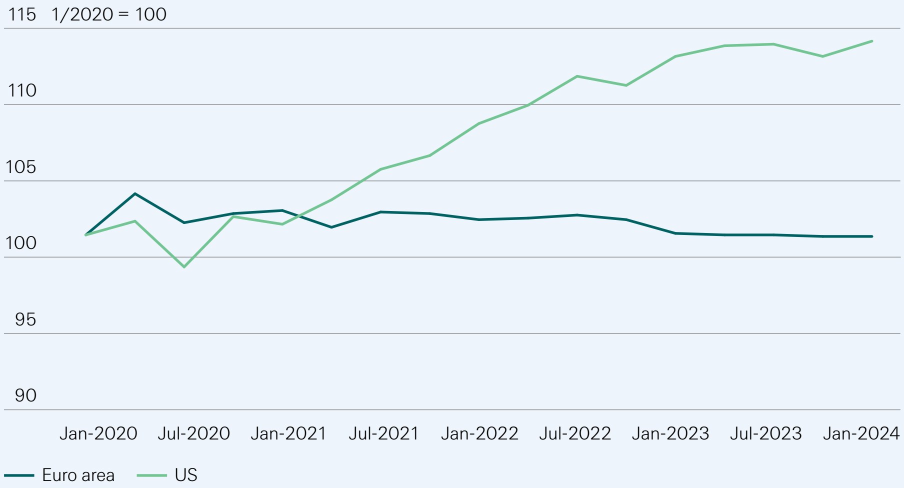
Source: * International Energy Agency, ** International Monetary Fund, *** Institute of International Finance, Swiss Re Institute

[15] *sigma* 5/2021: Global economic and insurance market outlook 2022/23, Swiss Re Institute, 2023.

The growing US-Europe productivity gap may need policy intervention.

Productivity, digitalisation, decarbonisation, industrial policy and insurance
The euro area has especially lagged on productivity growth post-pandemic (see Figure 9). Although certain challenges, such as ageing populations, are difficult to reverse, we see significant opportunities to boost productivity through digitalisation, decarbonisation and other industrial policy initiatives. A recent report by former ECB President Mario Draghi highlights the need for an additional EUR 750–800 billion/year investment to address Europe's productivity and structural weaknesses. The new US government's policy direction may accelerate the euro area's agenda. However, concerns around debt – the fifth D – could constrain the additional spending (see *The fiscal outlook – the 5Ds add to spending pressures*). Financial markets may also act as a disciplining constraint on government spending. To help fill the investment gap, it is essential to crowd-in the private sector by lowering barriers to long-term investment.

Figure 9
US and euro area productivity growth, rebased to January 2020



Source: BLS, ECB, Macrobond, Swiss Re Institute

5D investments can provide opportunities for insurance.

Investments in these areas would provide opportunities for insurance. The rise of digitalisation can support insurance business operations. However, it also increases exposure to cyber risks, data breaches and IT failures in the wider economy, for which cyber insurance will get greater spotlight (see box on *Cyber: rising aggregation risk in a softening market*). Second, the growing green economy poses an increasing risk pool for insurance coverage. Howden estimates that USD 19 trillion has already been committed toward financing the climate transition. However, deploying the funds could require additional insurance coverage for up to USD 10 trillion of these investments.[16]

Domestic industrial policies also offer opportunities.

Finally, the rise of domestic industrial policy in the West particularly poses opportunities for commercial insurance coverages and property insurance to safeguard these investments while for longer-term they represent huge growth challenges. Insurance ensures that companies can pursue ambitious industrial projects without fear of crippling losses, encouraging investment in new technologies and infrastructure that significantly boost productivity.

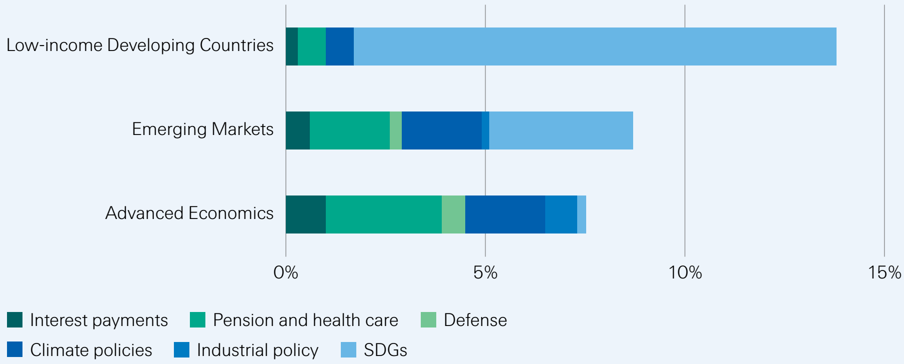
The fiscal outlook – the 5Ds add to spending pressures

Structural shifts will require greater public spending in the significant medium- to long-term.

We see the ongoing structural themes adding medium- to long-term upward pressures for greater government spending around the world, from growing healthcare demand as population age to increasing defence spending amid rising geopolitical tensions (see Figure 10). This implies structurally higher debt levels. IMF's recently published Fiscal Monitor projects global average public debt-to-GDP ratios could approach 100% by the end of this decade after moderately declining to 93% in 2024 (from the 99% peak seen in 2020).[17] The IMF estimates that the average public deficit ratio between 2024–2028 for most major economies would be higher than the average levels between 2015–2019. For economies such as China with more pressing needs to support near-term growth, public debt is projected to grow even faster.

[16] *The bigger picture*, Howden Broking Group, 24 June 2024.
[17] *Putting a lid on public debt*, IMF Fiscal Monitor, October 2024.

Figure 10
Projected annual increases in government spending through 2030 (% of GDP)



Source: International Monetary Fund, Swiss Re Institute

These dynamics are worsened further by refinancing challenges.

These dynamics are worsened further by refinancing challenges. In the US as of Q2 2024, the government's interest expense has climbed to USD 1.096 trillion, outpacing spending on national defence (USD 1.051 trillion) and social security transfers (USD 361.5 billion). The average maturity on US debt is only about six years (vs G7 average is seven years). Debt issued at pre-pandemic low rates will soon face refinancing at much higher yields despite the latest central bank rate cuts. This may create a feedback loop that could crowd out future private investment, fan inflation and weaken growth, crystallising our view that the current debt trajectory in advanced economies is not sustainable. These near-term fiscal pressures will likely manifest as heightened bond market volatility and upward pressures on bond yields over the next two years.

Fiscal challenges also loom large.

We see large fiscal challenges ahead across countries. In the US, lawmakers will need to reach a new deal on extending the government's borrowing limit at the start of 2025, though the risk of a debt-ceiling deadlock is somewhat mitigated by Republican control of both the presidency and both chambers of Congress. Later in the year, the extension of the 2017 Tax Cuts and Jobs Act could contribute as much as USD 5.4 trillion to the US fiscal deficit by 2035. Both events will likely contribute to rising sovereign debt levels as spending needs rise without an equivalent increase in revenues.

We expect similar tensions within the EU as key economies miss the new fiscal rules.

In Europe authorities will also try to navigate new workarounds to support greater spending to counteract the adverse impacts from the "5Ds", including even changing the definition of how debt is measured as seen by in the UK's latest Autumn Budget.[18] In the EU, tensions will continue as key economies seek to balance meeting fiscal rules versus spending and investment needs, as seen this year in Germany. We expect to eventually see greater spending "off balance sheet" at the EU-level (e.g. a NGEU 2.0) to help offset fiscal tightening at the domestic level. The debate on issuing more joint debt could gain traction. We see opportunity for long-term investors, including insurance companies, to play a more important and constructive role in financing the mounting spending pressures, however the barriers for private capital financing need to be lowered further.

Fiscal concerns can threaten central bank independence and a loss of faith in the US' fiscal outlook.

Greater fiscal spending could lead to a more sustained rebuild of term premiums in the US and euro area, adding to previously mentioned upward pressure on government bond yields. In the US, we expect a moderate term premium rebuild over the long run, back in line with its 30-year average of ~80bps. Furthermore, the independence of central banks can be threatened if deteriorating government finances influences monetary policy decisions due to their potential impacts on growth and inflation. Notably, President-elect Trump has been a critic of central bank independence. The combination of these risks could catalyse a loss of investor faith in US fiscal integrity that leads to even more adverse outcomes in bond markets.

[18] L. Ashworth, "Rachel Reeves' new rules", *Financial Times*, 24 October 2024.

Alternative economic and insurance scenarios

We see the balance of risks to our projections as tilted to the downside over 2025 and 2026, with our benign central scenario for the world economy giving limited scope for further upside surprises. In our view, the top two downside macroeconomic risks with the potential to significantly impact the re/insurance industry are (geo)political tensions, and financial stresses. These could precipitate one of our two downside alternative scenarios, of "renewed supply shocks" or a "global recession". There are upside risks too, stemming from technological progress, which could bring about a third, optimistic scenario, of a "productivity revival". We believe early and proactive scenario monitoring is critical for insurance companies' planning, since mitigation, or capitalising on opportunities, can often require long lead times.

Risks call for vigilance against downside impacts

We see more downside risks than upside risks around our baseline scenario.

In our baseline the world economy faces a benign outlook for 2025 and 2026, but risks are skewed to the downside. Escalating geopolitical tensions and potential for central bank policy mistakes are the top downside macro risks that could significantly impact the re/insurance industry. We identify three key alternative future paths that the global economy could take over the next 12–18 months (see Table 7): (i) "renewed supply shocks" brought by escalating geo/political tensions and/or disruptive trade wars, (ii) a "global recession" caused by financial stress as central bank interest rates are held too high for too long or US Treasury bonds see a sudden and sharp rise in the risk premium, and an upside (iii) tech-related "productivity revival" that sees higher capital investments and translates into a growth boom and benign inflation.

Table 7
Swiss Re's baseline and main alternative scenario narratives and key US projections

		Baseline		**Renewed supply shocks** Likelihood: no more than 5–10%		**Global recession** Likelihood: no more than 5–10%		**Productivity revival** Likelihood: no more than 5–10%	
Trigger				Supply shocks from escalating **geo/political** tensions		Demand shock from **monetary policy** kept too tight for too long		Tech-driven **productivity growth** and investment	
Narrative		Normalising but stable global growth		Mild economic contraction with sluggish recovery		Sharply contracting economic activity, rapidly rising layoffs		Up-shift in potential growth	
		Disinflation progressing		Inflation reacceleration, de-anchored long-term expectations		Demand slowdown cools inflation		Somewhat higher but benign inflation	
		Cautious rate cutting cycle in search of a new (higher) equilibrium		Monetary policy and financial conditions tighten, but not enough		Abrupt tightening in financial conditions		Higher neutral rates, benign financial conditions	
Key US forecasts*		**2025**	**2026**	**2025**	**2026**	**2025**	**2026**	**2025**	**2026**
	Real GDP growth	2.2%	2.1%	–0.1%	0.5%	–1.0%	0.6%	3.2%	2.7%
	Inflation	2.5%	2.4%	6.0%	4.0%	1.8%	0.5%	2.8%	2.4%
	10-year yield	4.2%	4.2%	5.7%	4.8%	2.5%	3.1%	5.3%	4.7%
	USD IG spreads	100bps	115bps	160bps	150bps	180bps	170bps	80bps	100bps

Note: *Select macro parameters for the US only are shown, though we monitor the broader scenarios across various macro and financial variables, and across major economies.
Source: Swiss Re Institute

An adverse scenario of renewed supply shocks would pose stagflationary headwinds.

A scenario of renewed supply shocks, for instance if ever-stricter protectionist trade policies were put in place, or geopolitical flashpoints disrupted oil markets or trade, would pose stagflationary headwinds. This would bring reacceleration of inflation, rising interest rates and weak growth. A return of inflationary pressures could interrupt central bank interest rate cutting cycles, which, coupled with a negative growth impact, could raise the risk of recession.

A US recession could lead to wider macro and financial market spillovers to the rest of the world.

A global recession would see sharp slowdowns in economic growth, falling interest rates, widening credit spreads and large financial market losses. The only silver lining would be lower inflation in such a scenario. A recession in the US would in particular cause significant spillovers to the world, especially with China and Europe already in vulnerable positions today.

Insurance industry implications of scenarios

Scenarios can help inform business planning and steering.

Each of the three scenarios brings distinct direct and indirect impacts for the industry (see Table 8). Consideration of alternative scenarios can help prepare for unexpected developments, steer proactive mitigation actions, or making use of opportunities.

Supply disruptions would increase non-life claims severity and erode real premium growth, while higher interest rates may increase lapse risk for life business.

In a **"renewed supply shocks"** scenario, reaccelerating inflation would stress non-life underwriting performance, impacting capital and shareholder equity. Claims severity would increase and profitability would weaken. High inflation would erode the benefits of rising nominal premium rates. Claims for some lines, such as property, motor and business interruption, would also rise due to supply chain disruption, reducing underwriting profitability. Life insurance liabilities would likely see limited impact from the inflation shock, but lapse risk may increase as higher interest rates adversely impact in-force business with lower guaranteed rates. A 100bps increase in policy rates is correlated with about a 30–35bps mean increase in lapse rate, all else equal.[19] Higher interest rates, financial market volatility and declining asset prices would hurt near-term liquidity and the current investment portfolio, but reinvestments in higher-yielding bonds would support medium-term investment income and profitability. For the US, a 100-bps increase in the 10-year Treasury yield is associated with a nearly 300 bps improvement in life insurers' ROE.[20]

The "global recession" scenario would bring a widespread fall in insurance demand and pressure investment results.

Our **"global recession"** scenario would hit both sides of re/insurers' balance sheets, potentially raising solvency concerns. A widespread decline in insurance demand amid falling incomes, rising unemployment and contracting economic activity, would severely hurt nominal premium growth in non-life and life insurance. During the 2020 recession, for example, global nominal premium growth slowed to 1%, vs the 2010–2019 annual average 3.3%.[21] In non-life, profitability of commercial lines, such as trade credit, would be worst hit due to higher insolvencies, bankruptcies and/or defaults. In life, saving products with guarantees would lose their appeal and profitability, whereas protection products would see a limited impact given marginal correlation with income. Investment results would be significantly weakened by financial market stress. On the upside, lower inflation and a reduction in economic activity might limit overall claims growth in non-life, while lower yields would increase the market value of fixed-income securities and improve liquidity.

Strong premium growth in both life and non-life premiums due to optimistic economic environment.

In the upside **"productivity revival"** scenario, both life and non-life businesses would see strong nominal premium growth and investment results. Non-life business would witness a boost in premiums and investment returns due to stronger economic activity and higher interest rates. Commercial lines would benefit most, mainly due to an improved business environment and trade. However, the impact on non-life profitability would largely remain neutral due to higher economic activity and the resulting increase in claims volumes offset by stronger investment returns. For life products, the higher demand would be driven by higher household income, employment, and stock market returns. Better premium and fee income streams as well as better investment returns due to rising interest rates and robust capital markets would support profitability.

[19] *sigma* 2/2024 - Life insurance in the higher interest rate era, Swiss Re Institute, 27 May 2024.
[20] *sigma* 3/2024 - World insurance: strengthening global resilience with a new lease of life, 16 July 2024.
[21] Based on Swiss Re Institute *sigma* data.

Table 8
Impact of the alternative economic scenarios on insurance premiums and profitability, relative to the baseline (2025–2026)

	Renewed supply shocks	Global recession	Productivity revival
Premium growth			
Non-life			
Property	Moderately positive	Negative	Positive
Liability	Moderately positive	Negative	Positive
Motor	Moderately positive	Negative	Positive
Trade credit	Negative	Negative	Positive
Life			
In-force			
Protection	Moderately negative	Moderately negative	Positive
Life savings, guarantees	Negative	Moderately negative	Moderately positive
Life savings, unit-linked	Moderately negative	Negative	Positive
New Business			
Protection	Negative	Moderately negative	Positive
Life savings, guarantees	Moderately negative	Negative	Moderately positive
Life savings, unit-linked	Negative	Negative	Positive
Underwriting profitability			
Non-life			
Property [claims]	Negative	Neutral	Neutral
Liability [claims]	Moderately negative	Moderately positive	Neutral
Motor [claims]	Negative	Moderately positive	Neutral
Trade credit [claims]	Negative	Negative	Positive
Life (operating margins)			
Protection	Moderately negative	Neutral	Neutral
Life savings, guarantees	Moderately positive	Negative	Neutral
Life savings, unit-linked	Moderately negative	Moderately negative	Moderately positive
Investment returns			
	Neutral	Negative	Moderately positive

Negative Moderately negative Neutral Moderately positive Positive

Source: Swiss Re Institute

Insurers are in a better position today to deal with shocks.

The prevailing economic environment has put the industry in a better position to deal with new adverse shocks. Most insurers recorded improvements in solvency, liquidity and profitability at the beginning of 2024 due to higher interest rates, higher premium income, lower dividend payments and an upturn in financial markets.[22] In life business, high interest rates have boosted demand for savings products in particular.[23] In non-life business, higher premium rates despite easing inflation has helped insurers to offset rising claims costs, especially in property and motor lines. However, mitigating potential downside scenarios or taking advantage of upside opportunities is not about adequate capital planning and foresighted risk management alone. It is also about recognising that strategic actions can come with long lead times.

[22] Based on data collected from 60 of the largest international insurance groups and aggregate sector-wide data from supervisors across the globe, covering over 90% of global written premiums see Global-Insurance-Market-Report-mid-year-update-2024.pdf (iaisweb.org)
[23] *sigma* 3/2024 - World insurance, op. cit.

Insurance market outlook 2025–26

The global primary insurance market is to see above-trend growth in the next two years as the non-life hard market reaches an inflection point and life insurance sales ease from recent highs. We forecast 2.6% total global real premium growth on average in 2025 and 2026, lower than 2024 (4.6%), but higher than the past five years (2019–2023 average: 1.6%). Steady global economic growth, resilient labour markets, rising real incomes as inflation moderates, and still-elevated long-term interest rates will support demand. In non-life, rates on commercial lines of business are moderating while personal lines rates have further to rise. Non-life underwriting profitability will improve as lower inflation gradually eases claims severity. Still, natural catastrophes caused at least USD 95 billion of insured losses globally in the first nine months of 2024, we estimate. Recent US hurricanes are likely to take full-year insured losses to well over USD 100 billion for a fifth consecutive year, and may even delay the onset of softer property insurance pricing. For life insurers, demand for savings products is to moderate as interest rates decline, and risk protection products will play a larger role in growth in the next two years. Investment yields have further to rise for all insurers, as portfolio yields are still below market yields. In cyber risk, the CrowdStrike outage shone a spotlight on accumulation risk in software supply chains, which may need investment in data and modelling infrastructure to better underwrite.

Premium growth stabilises at above-trend expansion

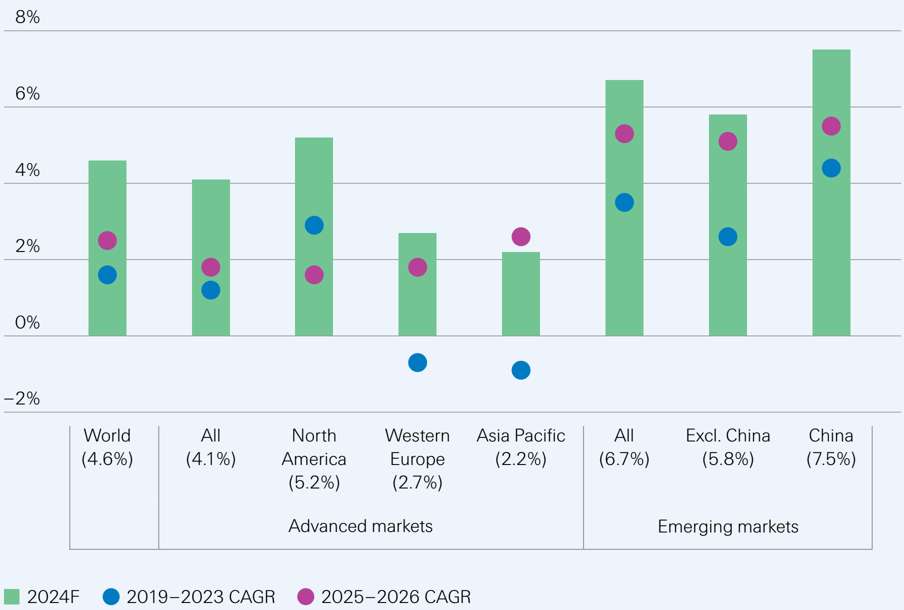
The global insurance industry is set to stabilise at above trend growth in the next two years.

The global insurance industry is set for above-trend growth over the next two years, after a decade-high growth rate in 2024 driven by the hard market in non-life insurance and strong demand for life insurance savings products given high interest rates. We forecast global total insurance premiums to increase by 2.6% on average in real terms in 2025 and 2026, after 4.6% estimated growth in 2024. Our forecast is well above the average of the past five years (2019–2023: 1.6%).

Growth will be largely driven by the life sector as the non-life hard market tapers down.

Growth will be primarily driven by the life sector, although saving business growth will moderate as interest rates decline. Non-life insurance will grow more slowly than in recent years as the boost from the hard market tapers down. Nevertheless, the industry will be supported by steady economic growth, resilient labour markets, rising real incomes as inflation moderates, and still-elevated long-term interest rates that support investment yields. Life and non-life (including health) premiums accounted for 43% and 57% of total premium in 2024, and we expect this mix to stay largely the same over the next decade.

Figure 11
Global total insurance premium real growth rates (2024 values in brackets) by region.



Source: Swiss Re Institute

Non-life insurance: profitability rising while rates flatten

The industry has restored economic sustainability and profitability.

In property and casualty (P&C) insurance we forecast improving economic sustainability and profitability in the next two years, supported by the recent re-pricing of risk. We forecast a more differentiated landscape with different pace across regions and lines of business. Health insurance premium growth is expected to outpace P&C segment growth in 2025 and 2026 due to rising demand for health coverage and medical cost inflation. More sustainable profitability in the re/insurance industry typically attracts capital inflows, which, by improving access to coverage, can create opportunities to reduce protection gaps.

Social inflation and natural catastrophes may counteract the price softening.

Stronger profits, improved terms and conditions, progress on disinflation and higher investment income are all increasing the competitive pressure for downward price adjustments (see Table 9). The rate hardening forces that followed the inflation surge in 2021 and 2022 are fading and the outlook for pricing is now more moderate. However, trends such as social inflation and rising natural catastrophe losses (see *US storms push 2024 natural catastrophe losses over USD 100 billion again*) have the potential to counteract market softening in related portfolios. Geopolitical events also risk an inflation shock that could prolong the cycle transition.

Table 9
Dynamics of the current underwriting cycle

Cycle dynamics	Current trend	Current impact on pricing	Trend outlook (next 2–3 years)	Pricing outlook	Comments
Underwriting profitability of new business	Plateaued	→	Good u/w profitability increases competitive pressure	↓	Likely peaked in 2024-25
Claims uncertainty	Elevated: model & parameter uncertainties prevail, social inflation	↗	Uncertainties and social inflation trend continue	↗	Structurally higher
Cat losses	Recalibration to higher trend; significant losses from US hurricanes	↗	Continued inflation-adjusted exposure growth at 5–7% CAGR	↗	Structurally higher
Investment income	Improving, due to higher reinvestment yields compared to maturing liabilities	↘	Medium and long-term yields to stay near current levels and not fall with central bank policy rates due to longer duration	→	Investment incomes lags changes in interest rates
Overall balance of pricing		→		↘	

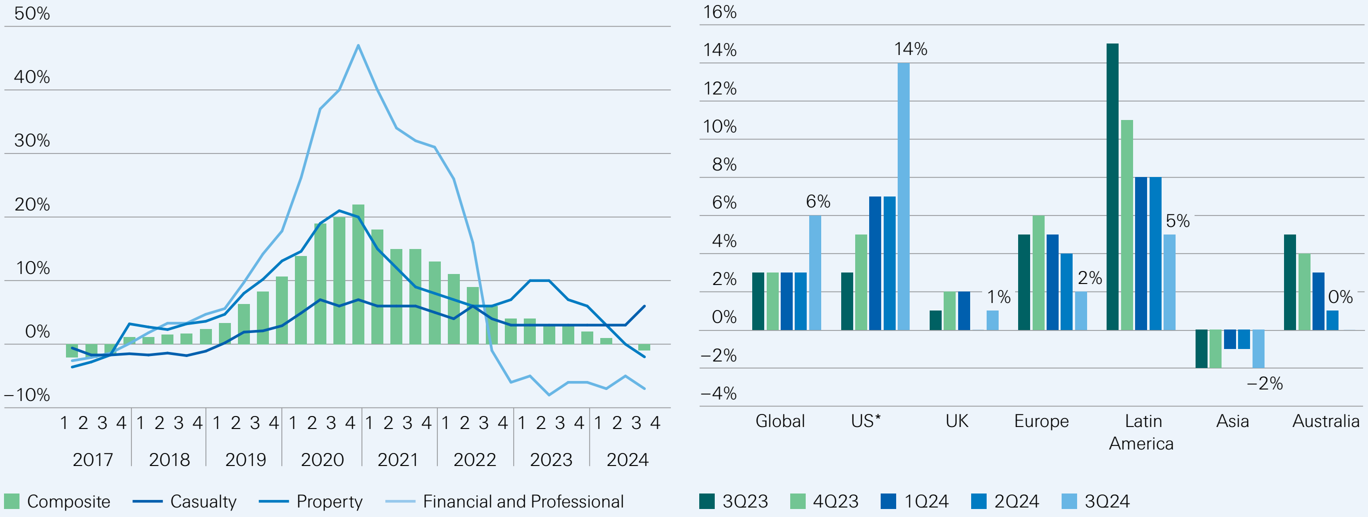
Source: Swiss Re Institute

Commercial lines pricing: rates moderating to softening

Commercial lines rates moderated in Q3 and we expect this to go on, led by property rates.

After 27 consecutive quarters of increases, the Marsh global commercial insurance rate index declined slightly (–1%) in the third quarter of 2024 from flat in the prior quarter. Property rates, which have driven the hardening cycle to date, saw a small decline. US property rates declined by 1% in the third quarter, down from +2% in the second quarter of 2024, +8% growth in 1Q24 and a 11–17% gain in 2023. The recent hurricanes Helene and Milton are unlikely to drive prices higher but may prevent rates from further declining in the US and other affected regions. In continental Europe, 3Q24 property rates rose by 1% (after +7% in 2023), but in the UK and Asia Pacific, rates fell.

Figure 12
Marsh commercial rate index: Left: global, by line of business, 1Q17 to 3Q24. Right: casualty, by region, 3Q23 to 3Q24



Note: * excluding workers' compensation. Source: Marsh, Global insurance market index 3Q24

Casualty prices reflect regional trends, with the US impacted by social inflation.

Casualty pricing, principally for general and motor liability, reflects regional claims trends. In the US, social inflation, in the form of large jury verdicts, continues to have a strong impact. US general liability and auto liability rates have increased by 14% in 3Q 2024, up from 7% increase in the first two quarters.[24] In Continental Europe and the UK, rate increases are mostly driven by US exposures. In Latin America, rates continue to harden as still high inflation drives loss amounts higher, especially for motor vehicles. Japan and China have generally avoided the high inflation and hard markets in rates seen elsewhere. In Financial & Professional lines covers (largely D&O), rates are softening in all regions, a reaction to good results and capacity inflows in this line.

Personal lines: price increases slowing from their 2023–24 strength

Price competitiveness is starting to become apparent in personal lines.

Price competitiveness is starting to become apparent in personal lines as more insurers reach rate adequacy after the strong rate increases of 2023 and 2024, especially in motor and homeowners' insurance in western Europe and the US. For example, UK motor insurance prices weakened by 2% quarter-on-quarter in the second quarter of 2024.[25] In the US, although approved rate filings in August 2024 show auto insurance rates rose by nearly 11% yoy, there were negative rate changes in over 20% of US personal auto insurers' rate filings effective in 3Q24.[26] The German market is one of the few to be still accelerating, with a 9% increase in premium per policy this year, compared to 3% in 2023.

US storms push 2024 natural catastrophe losses to over USD 100 billion again

Natural catastrophe losses are at least USD 95bn globally by September 2024.

Natural catastrophes globally caused at least USD 95 billion of insured losses in the first nine months of 2024, based on our preliminary estimates. This is the fifth consecutive year of losses at this scale and is in line with the 30-year growth trend.

Hurricane losses are expected to be significant…

In October 2024, Hurricane Milton made landfall in the US as a Category 3 storm in Florida. While the worst-case loss scenario was avoided, Milton hit Florida just two weeks after Hurricane Helene. Their combined damage is expected to add up to significant hurricane losses this year. Insured losses may also be amplified by a surge in demand for labour and construction materials. Separately, global insured losses from severe convective storms reached USD 50 billion by the end of Q3 2024, already the second highest level on record for this peril after 2023, confirming a strong long-term loss growth trend.

[24] *sigma* 4/2024 - Social inflation: litigation costs drive claims inflation, Swiss Re Institute, 7 September 2024.
[25] *Motor premiums fall for the first time in two years*, Association of British Insurers, 5 August 2024.
[26] *US Property & Casualty outlook: strong winds, smoother sailing*, Swiss Re Institute, 27 September 2024.

...likely taking the full year insured loss total to well above USD 100 billion again.

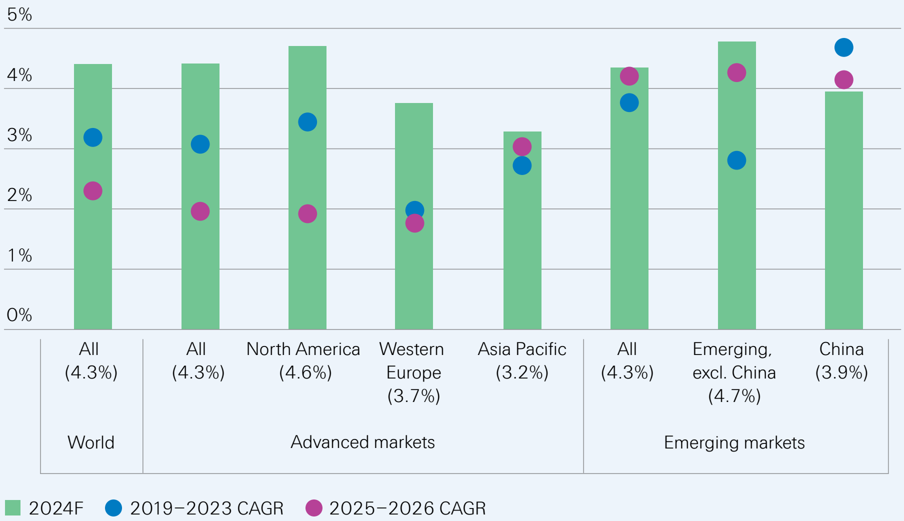
Full year natural catastrophe insured losses will likely reach well over USD 100 billion by our estimates, for a fifth consecutive year and the seventh occurrence since 2017 (on an inflation adjusted basis). It confirms that insured losses continue to grow at a 5–7% average annual rate in real terms. The most significant drivers of rising insured losses, especially from severe convective storms, are wealth accumulation and urbanisation in harm's way, particularly in hazard-exposed areas such as coastlines. Other factors include increasing insurance penetration, and rising vulnerabilities such as from ageing roofs and a growing number of rooftop solar power installations, which are often the most vulnerable part of a building.

We expect rate moderation to drive a slowdown in non-life premium growth.

Premium growth to slow as rates moderate

Global non-life premium growth will slow as pricing conditions become less favourable, led by advanced markets. We forecast global non-life premiums to decelerate to a 2.3% CAGR over the 2025–26 period – below the 4.3% growth rate of 2024 and the 3.1% CAGR of the last five years.

Figure 13
Non-life insurance real premium growth, by regions (2024 values in brackets).



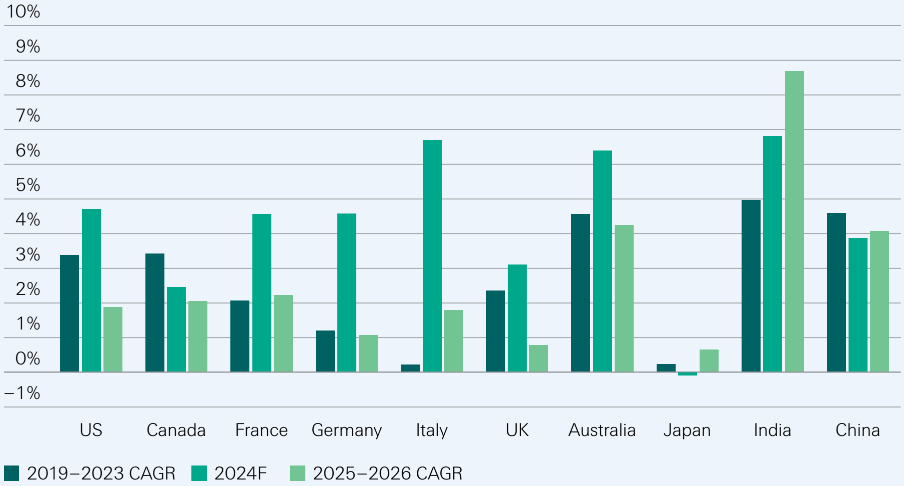
Source: Swiss Re Institute

Growth is decelerating in advanced markets where market conditions are primarily price-driven...

Advanced markets are price-driven, emerging markets exposure-driven

Price moderation will impact **advanced markets** the most in the next two years. The US market, which accounts for 58% of global non-life premiums, is expected to slow from 4.7% real growth in 2024 to a 1.9% CAGR in 2025–26, lower than the 3.4% CAGR of the past five years, as competition builds. In Europe, we forecast Germany (from 4.5% to 1.0%, vs 1.2% in 2019–23), Italy (from 6.6% to 1.8%, vs 0.2% in 2019–23) and the UK (from 3.0% to 0.8%, vs 2.3% in 2019–23) to see sharp declines in growth, reflecting softer pricing conditions (see Figure 14).

Figure 14
Non-life real premium growth, selected markets



Source: Swiss Re Institute

... while accelerating in EMs, where they are primarily exposure driven.

In **emerging markets**, growing exposure rather than pricing is supporting premium growth. We expect a CAGR of 4.1% during 2025–26, slightly below the 4.3% of 2024 and higher than the 3.7% average of 2019–23. Emerging Asia is its main driving force, where non-life premiums are expected to grow at a 7.4% CAGR in 2025–26 as India outperforms all major emerging markets. We forecast India's non-life premium growth at 8.0% and 9.3% in 2025 and 2026 respectively, driven by strong economic growth,[27] with rising demand for auto insurance, health coverages and government support for crop insurance. regulatory efforts to increase insurance take-up will also support non-life insurance demand in the long term.[28]

China's growth will be benefited by stronger policy support.

In **China**, we expect a 4.1% CAGR in the non-life sector in 2025–26, below the 9.8% CAGR of the past decade, as weaker consumer confidence and economic activity weigh on demand. The economic stimulus may benefit cycle-sensitive insurance lines like motor and fiscally reliant segments like agriculture. We see health insurance growing faster than other lines, albeit at a slower pace than recent years, reflecting China's ageing population, rising medical inflation and government incentives.

Rising exposures support growth in key lines of business

Table 10
Global real terms premium growth by line of business

Line of business	CAGR 2000-23	2024F	CAGR 2025-26F
Non-life	3.5%	4.3%	2.3%
Health	4.5%	4.1%	2.5%
P&C	2.8%	4.7%	2.0%
Property	3.7%	4.7%	1.5%
Motor	2.1%	6.9%	1.9%
Liability	3.8%	2.8%	2.5%

Source: Swiss Re Institute

[27] See box: *Emerging markets: climbing up the S-curve* in *sigma* 3/2024: World Insurance, op. cit.
[28] *Insuring India by 2047,* Insurance Regulatory and Development Authority of India, 2022.

Non-life premium growth prospects remain positive.

Despite the expected moderation in premium growth, the outlook for insurance demand is positive as exposures continue to expand. We forecast below-trend growth in **health insurance** in 2025 and 2026 due to base effects after a strong 2024, but still expect growth to outpace that of the P&C market. The key drivers are medical inflation and demand for private medical insurance complementary to public healthcare, particularly in emerging markets.

Rising natural catastrophe exposure will likely underpin property insurance growth.

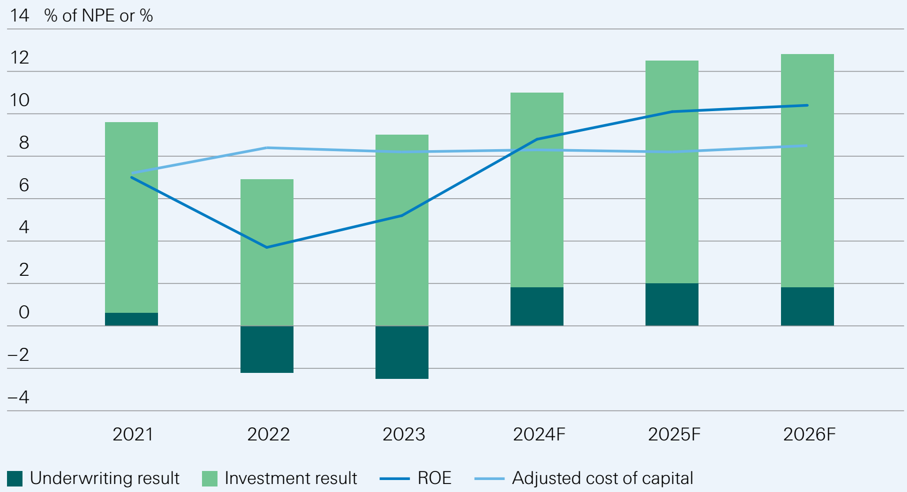
Rising exposure to natural catastrophes will likely underpin **property insurance** growth globally. Legislative changes, such as Italy's 2023 budget law requiring corporations to buy earthquake, flood and landslide insurance protection, are supportive for property insurance market growth. Italy's insured property value could grow significantly due to the new law, which requires compliance by the end of 2024.[29] Measures like these can also help to close protection gaps and speed up climate adaptation efforts. Advances in decarbonisation and renewable energies would also boost **engineering** lines during both the construction and operational phases, as well as create opportunities for property risk coverage.

Profitability outlook: brighter on risk repricing and lower inflation

We expect P&C business profitability to improve significantly yoy in 2024.

We expect P&C business profitability to improve significantly yoy in 2024 in the major markets we monitor.[30] This is principally due to strong improvement in underwriting results and the significant rate increases in personal lines insurance. We expect these trends to increase industry return on equity (ROE) for our sample of global markets to 9%, from 5% in 2023. For 2025 and 2026, we expect 10% ROE, (see Figure 15), meeting and exceeding the cost of capital.

Figure 15
P&C profitability, 2021 – 2026F, % of net premiums earned, ROE and cost of capital in % of capital



Note: Cost of capital calculations are based on an assessment of the whole P&C industry segment.
Source: Swiss Re Institute

Underwriting results benefit from higher rates as well as easing claims inflation.

Underwriting results have strengthened from the combination of higher premium rates and easing claims growth this year. We estimate a net combined ratio of 98% in 2024, an improvement from 102% in 2023. In 2025 and 2026, we estimate that P&C underwriting profits will remain positive at around the same levels as in 2024. Goods inflation has slowed significantly from the highs of 2022 and 2023, and this should ease pressure on claims inflation in property and motor. Nevertheless, more persistent wage and healthcare expenditure prices, as well as rising social inflation pressures in some markets call for further rate adjustments and underwriting discipline in casualty.

[29] *Market Segment Outlook: Italy Non-Life Insurance*, AM Best, June 2024.
[30] We base our estimates on a sample of six large, advanced economies (France, Germany, Italy, Japan, the UK and the US). Realised investment results are considered in the modelled income statement, but unrealised ones only appear in the balance sheet. Cost of capital is calculated on the non-life industry overall, including stock quoted companies, mutuals, government-sponsored entities and other insurers.

Investment income provides an additional tailwind as reinvestment yields are above portfolio yields.

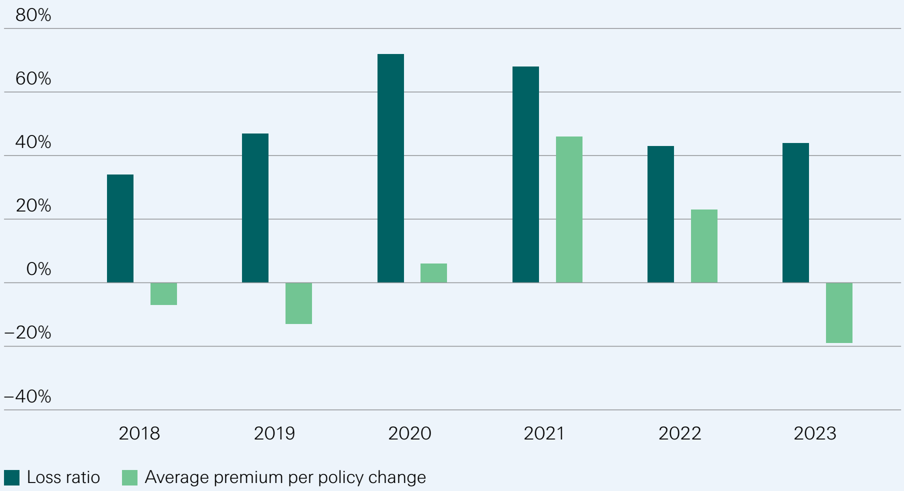
Improvements in the **investment results** are also supportive for an improved profitability in 2024. Investment yields to continue improving as market yields remain above portfolio yields. The impact of high interest rates continues to feed into insurers' portfolios. While further incremental upside to investment results is likely more limited, portfolio yields will not come down in line with central bank policy rates in the next 2–3 years since most insurer fixed-income assets are longer-dated (average maturity ~6 years). We forecast that P&C insurers' investment yield will rise to 3.6% in 2024 and 3.9% in 2025 as average bond portfolios grow out of pre-pandemic low-yielding assets where running yields were at 2.8% on average. As a result, contribution from investment results will improve by about 0.2 ppts to 9.2% of net premiums earned in 2024, and then to 10.5% in 2025.

The cyber insurance market is softening after post-COVID surge in prices

Cyber: rising aggregation risk in a softening market

The volume of malicious cyber-attacks worldwide jumped by 75% yoy in 3Q24,[31] a sign of growing sophistication of cybercriminals and more geopolitical conflict. Cyber risk is the top cause of concern for corporates for the third year in a row.[32] Yet pricing in the cyber insurance market is softening (see Figure 16) and coverages are widening due to a moderation in attritional losses, thanks to better cyber hygiene and prudent underwriting on the part of insurers. However, the pricing outlook seems more differentiated as concerns around large systemic cyber losses intensify in the wake of Generative Artificial Intelligence (GenAI) adoption[33] and geopolitically motivated cyber-attacks against critical infrastructure.[34]

Figure 16
US standalone cyber policies' losses and premium developments



Source: National Association of Insurance Commissioners, S&P Global, Swiss Re Institute

Better data quality and risk modelling is critical to make world more resilient against cyber exposures.

Swiss Re estimates the global cyber insurance market size to reach USD 16.6 billion by 2025. The current estimated cyber protection gap of more than 90% points to significant growth potential.[35] However, sustainable growth will largely depend on managing systemic exposures from both malicious and non-malicious sources. The CrowdStrike outage incident in July 2024 highlighted the aggregation risk from non-malicious events, where losses can quickly accumulate across software supply chains and challenge the capabilities of current cyber risk models.[36] For the re/insurance industry and its clients, this will likely need more investment in areas such as data collection, risk modelling and contract consistency. The industry may also need additional capacity, generated from capital markets and/or government backed programmes, to close the protection gap.

[31] *Weekly Intelligence Report, October 14–20, 2024*, Checkpoint Research, 21 October 2024.
[32] *Allianz Risk Barometer 2024*, Allianz, January 2024.
[33] 55.9% of cyber leaders in a WEF survey feel GenAI will help attackers more than defenders: *Global Cybersecurity Outlook 2024*, WEF and Accenture, January 2024.
[34] *2024 Report on the Cybersecurity Posture of the United States*, The White House, May 2024.
[35] *"Global protection gaps and recommendations for bridging them"*, GFIA, March 2023.
[36] A planned software update by cyber security provider CrowdStrike caused an outage that stopped more than 8 million computers globally from working. Please see David Weston, "Helping our customers through the CrowdStrike outage ", *blog.microsoft.com*, 20 July 2024.

Life insurance outlook

The global life insurance market is reaching a high point this year.

Life insurance global premium growth and reinvestment yields will both reach a peak this year, we estimate, and then see strong, above-average premium growth for the next two years. After two years of record growth in fixed-rate saving business, we expect the next growth tailwinds to come from a demand pivot towards index-linked saving business, and still elevated pension scheme de-risking amid supportive regulatory changes in the UK. Insurers will see further benefits from reinvestment yields that are still higher than maturing yields in the coming years. Lapse risk is contained at present but could be activated by non-economic factors, for example political uncertainty in France or exchange rate movements in Japan.

Growth outlook: stabilising on a structurally higher path

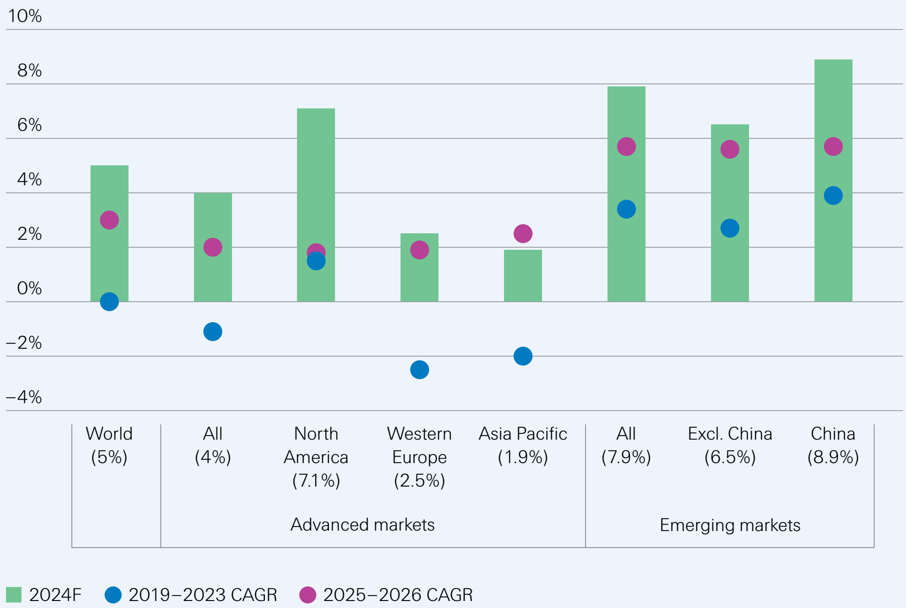
Global life premiums are set to grow at more than double their historical pace over 2025–26 after growing by 5.0% in 2024.

We expect global life premiums to grow by a CAGR of 3.0% in real terms in 2025–26, more than double the past long-term trend (CAGR of 1.3% during 2014–23). We estimate that the global life market grew by 5.0% this year, the highest rate in a decade, primarily driven by strong demand for savings products. The consumer rush into saving business should fade gradually and the growth rates of the saving and protection segments eventually converge (see Figure 18). We see this shift as a transition to a new growth equilibrium for the global life insurance market.

The global life market is expected to reach USD 4.8 trillion by 2035.

We forecast global life insurance premiums to reach USD 4.8 trillion by 2035, up from USD 3.1 trillion in 2024, bringing the life insurance market share up to 43% of global insurance premiums. Interest rates, despite some easing, are set to stay elevated for the medium term, underpinning demand for life saving products, with a demand pivot from fixed-rate to index-linked savings products. Real wage growth, ageing demographics and the rise of the middle class in emerging markets continue to support the positive backdrop.

Figure 17
Global life insurance premiums, real terms growth rates (2024 values in brackets)



Source: Swiss Re Institute

Advanced and emerging markets to grow above the long-term trend in 2025–26.

Advanced markets are to grow by 2.0% annually on average in 2025–26 in real terms, considerably stronger than the recent long-term trend (2019–23: –1.1%). Growth is normalising due to strong base effects from 2024, with North America the key driver (2025–26 CAGR: 1.8%, down from 7.1% in 2024). In emerging markets, we forecast a real CAGR of 5.7% in 2025–26, also above the long-term trend (CAGR 2019–23: 3.4%), driven by China and India (2025–26 CAGR of 5.7% and 5.8%, respectively).

The saving segment will be the growth engine for life insurance.

We forecast **savings premiums** to grow by 3.0% in 2025–26, above the long-term trend (0.7% annually, 2014–23 CAGR). Three themes define the savings segment:

The consumer rush into higher yielding products is fading and offset by...

1. **Fading consumer rush.** Consumers worldwide are racing to lock in high rates, a rush that will slowly fade to stabilise sales at above pre-pandemic levels. In the US, we expect individual annuity sales to reach a new record of over USD 400 billion this year – well above the USD 234 billion average of the past decade – as consumers front-load annuity purchases ahead of monetary policy rate cuts. In China, sales are also being boosted by an anticipated reduction in saving product guaranteed interest rates. Demand for UK fixed-rate annuities should gradually slow in 2025 and 2026.

... a pivot to index-linked policies as monetary policy normalises in 2025–26.

2. **Demand pivots.** Advanced market consumers will likely pivot from fixed to index-linked annuities policies in 2025–26 as monetary policy normalises. In Europe, unit-linked sales are rising strongly this year, particularly in Italy and France, and we expect this to broaden to markets such as the US from 2025 (see *Peak annuity sales growth is past as yield curve flattens*). We also see positive spillovers for risk protection business as index-linked saving products typically include life protection riders. In Japan, demand for yen products is improving as interest rates rise, after years of demand for FX policies.

Pension de-risking activity to stay elevated in the next three to five years.

3. **Pension de-risking** is a long-term tailwind for global saving business. Bulk annuity transfers are high in many markets this year as life insurers compete for assets. US market volume is expected to reach a near-record USD 50 billion in 2024, driven by large transactions. Monetary policy normalisation could accelerate transfers in 2025 and 2026. In the UK and the US, life insurers could accumulate over USD 300 billion of pension premiums in the next three years, with regulatory tailwinds in the UK arising from changes to the UK Solvency II regime. We expect global spillovers for longevity reinsurance and higher allocation to illiquid assets.

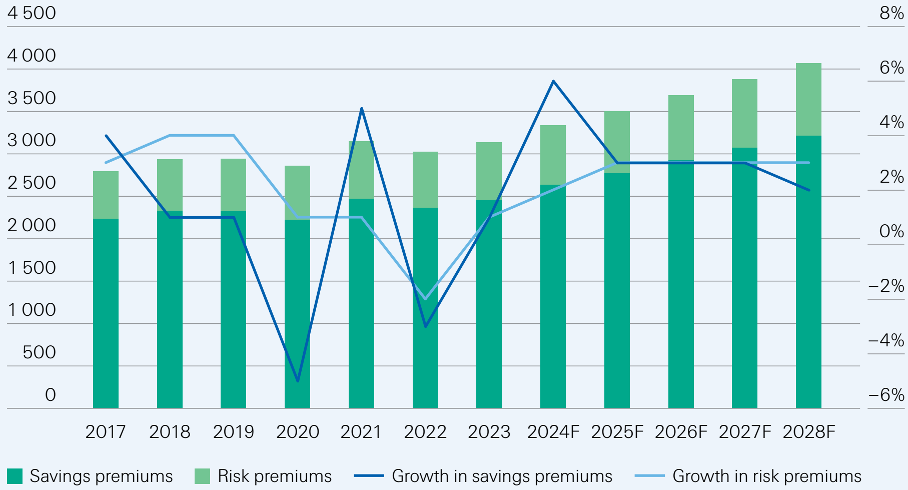
Life risk protection growth has been more stable than saving business as demand is less responsive to interest rates...

Life **risk protection** business growth has been relatively more stable than saving business in recent years. We forecast 2.7% premium growth annually in 2025 and 2026, below the long-term trend (3.7% per year over 2014–23). Demand for protection products is generally less responsive to changes in interest rates, with re-pricing slower to materialise, but pockets of growth remain.

...but pockets of growth in the US, Europe and Australia remain.

In European markets we see resilient demand for disability and long-term care coverages. We expect demand for risk protection through 2025–26 to be driven by cyclical factors (improving mortgage markets), structural trends (costlier health and nursing services, ageing demographics) and attractive product bundling. In Australia, the repricing of disability income products following underwriting losses and rising demand for mental health-related disability coverage should underpin risk premium sales. In the US, we expect individual life protection sales to remain roughly flat, but group life and health sales are slightly more resilient, buoyed by strong employment levels and wage gains.

Figure 18
Evolution of saving and risk premiums by volume (USD bn), left axis, and real growth (%), right axis

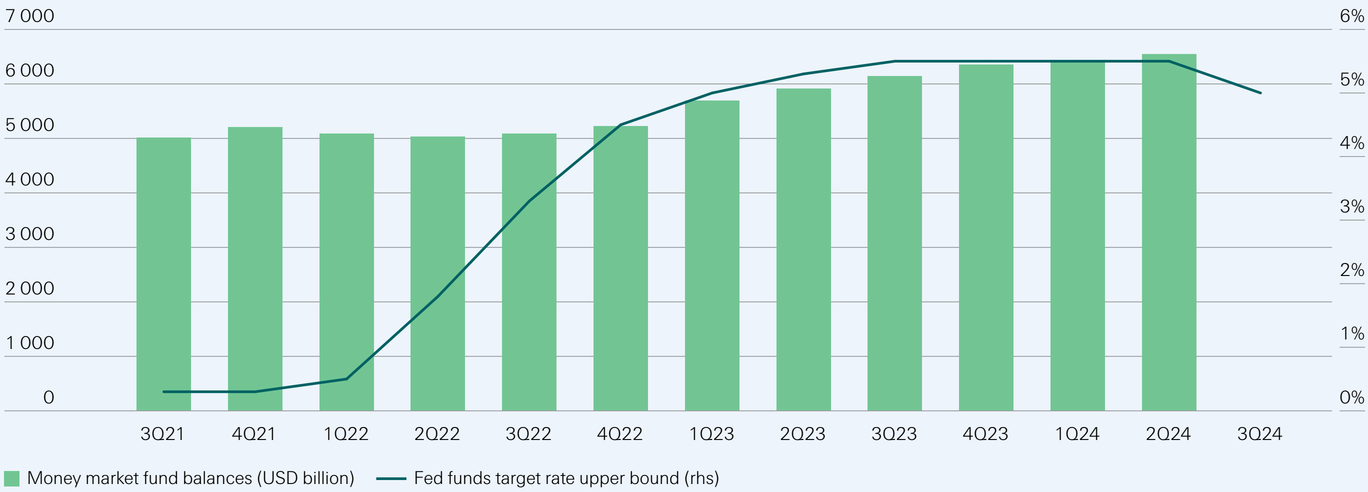


Source: Swiss Re Institute

As central banks cut rates, investors will seek alternatives to bank deposits and money market funds.

Annuity sales growth past the peak as US Treasury yield curve flattens
As interest rates, especially short-dated, decline in most advanced economies, the resulting yield curve normalisation (see *The yield curve takes on a new shape*) offers life insurers opportunities and some headwinds. There is potential for significant additional flows into annuities as the result of a substitution effect: investors will likely increasingly seek alternatives to their current investments in bank deposits, money market funds and other short-term products. For example, USD 6.5 trillion had accumulated in US money market funds by the end of June 2024 (see Figure 19), up from USD 5 trillion in 2022 when the Fed began to raise interest rates.

Figure 19
Money market fund balances and policy interest rate



Source: U.S. Department of Treasury, Federal Reserve, Swiss Re Institute

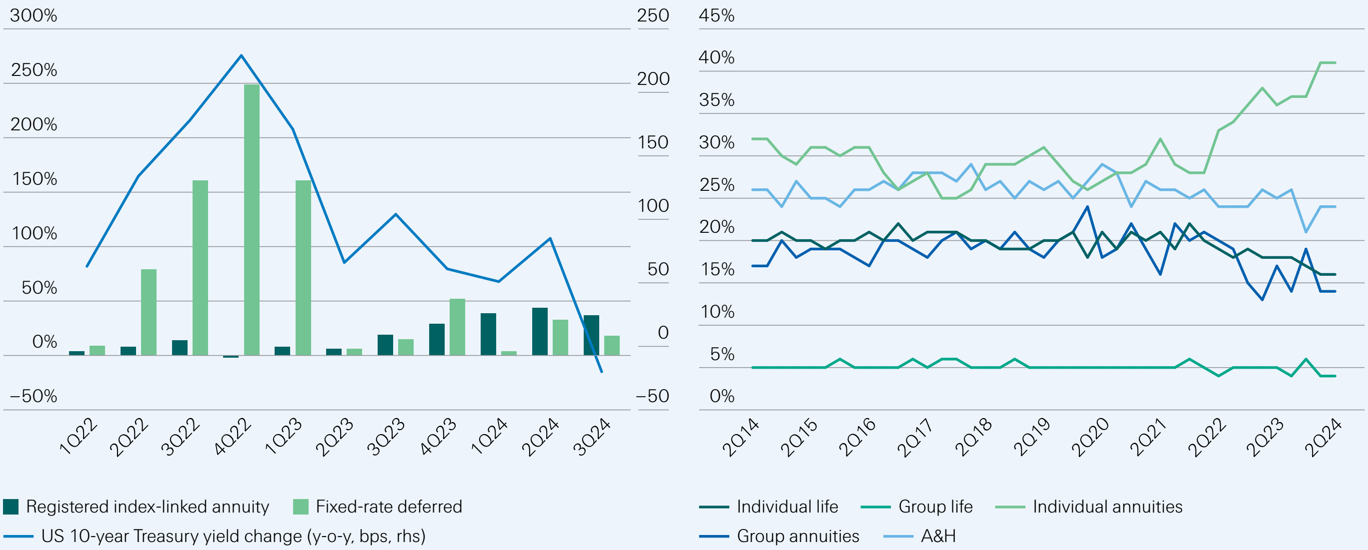
Insurance products may gain attractiveness as investors leave cash.

The rotation out of cash offers insurers an opportunity to offer attractive investment options, such as annuity sales. However, with interest rates past their peak surge – the 10-year Treasury is the benchmark for annuity pricing – blockbuster annuity sales growth is probably over. Some insurers are instead starting to emphasise indexed, or unit-linked, products, in contrast to the fixed-rate deferred annuities sold in recent years. Demand for indexed annuities is less sensitive to interest rates than fixed-rate products, and in the US, growth rates of products such as registered index-linked annuities (RILAs) have started to outpace fixed rate (see Figure 20). This product pivot could significantly support industry growth: since mid-2022, individual annuity sales accounted for over a third of US life premiums, and over 40% in 1H24.

Customers are rotating to indexed savings products from fixed rate products.

In the UK, individual annuity sales rose 55% yoy to GBP 3.6 billion in 1H24 as rising government bond yields translated into attractive annuity rates. UK annuity business has a positive outlook driven by elevated long-term government bond yields, growing defined contribution pension assets, and supportive regulatory changes. We expect demand to shift to investment-linked and enhanced annuities over time. In continental Europe, higher interest rates have had a more muted demand impact as index-linked business is already prevalent, there is more competition from shorter-term investment options, and macroeconomic conditions are weaker than in the US and the UK. Still, consumer saving confidence is at a multi-decade high and unit-linked products are expected to see double-digit growth in Italy and France this year.

Figure 20
Left: Annuity sales yoy growth rates and 10-year Treasury yield Right: Share of US L&H insurance premium by line of business



Source: LIMRA, S&P Capital IQ, Swiss Re

Profitability outlook: positive even after reinvestment yields peak

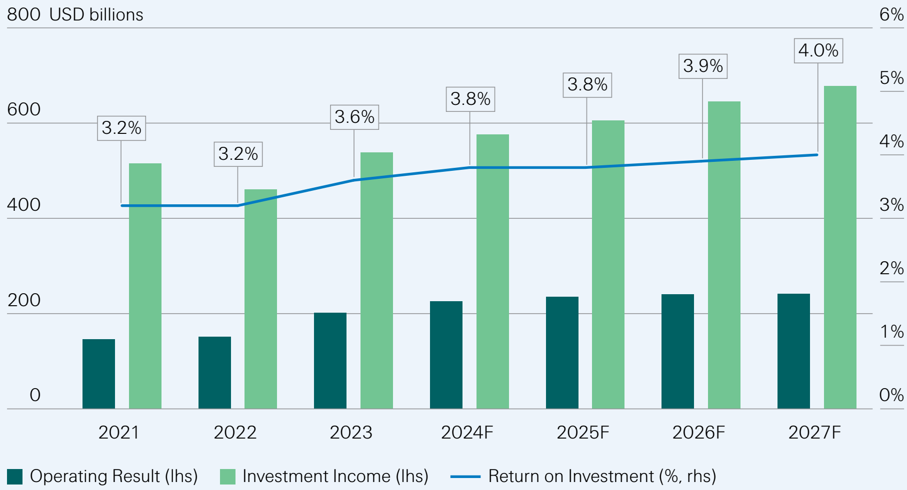
Life insurers face a positive profitability outlook even after the peak of reinvestment yields.

We expect life sector profitability to remain positive over 2025–26. Reinvestment yields will peak this year in markets where monetary policy is loosening, and the differential over average portfolio yields will narrow as (short-term) interest rates decline. We expect reinvestment yields to stabilise at a structurally higher level than pre-2019 – as an indicator, the US 10-year Treasury bond yield averaged 2.4% in 2010–19, and we expect it to average 4.2% in the coming decade – causing overall portfolio yields to be higher than in previous years. The level of unrealised losses should also decline as bonds mature, limiting credit losses.

We estimate the aggregate ROI for primary life insurers in eight markets will continue to rise in 2025–26.

Our profitability model estimates a 4% yoy rise in the operating result for primary life insurers in eight major life markets in 2025.[37] This is lower from the estimated 12% growth this year, driven by slower premium growth in the US and UK due to base effects after strong multi-year growth. Investment income will also continue to grow steadily, as market yields remain at levels above maturing portfolio yields in the years to come. We estimate that will contribute to a 10bps increase in return on investment (ROI) in said markets to 3.9% by 2026.

Figure 21
Key eight markets' aggregate life insurance operating result and investment income, (both in USD bn) and return on investment (in %)



Source: Swiss Re Institute

We expect profitability to remain favourable in the US, after estimated strong performance in 2024.

We expect profitability to remain favourable for life insurers in the **US** in 2025–26, after strong performance in 2024. This is due to higher interest rates and strong sales of savings products having generated cash flows for faster portfolio yield improvement. For the next two years, profitability will continue to be supported by continued annuity inflows. Meanwhile, expectations of lower levels of excess mortality should flatten death benefit payments.

In the UK, pension de-risking activity supported by regulatory changes are proving highly profitable.

In the **UK**, bulk annuity transfers also supported by regulatory changes are proving highly profitable and generating new (IFRS17) Contractual Service Margin (CSM) growth.[38] The reform to the UK Solvency II regime (fully effective by end-2024) should bring positive changes for the life segment. It is expected to improve margins on new annuity business (single and bulk) and to broaden the investment pool available to insurers to include more illiquid assets and sub-investment-grade bonds. Overall, the reform should further increase the profitability of the UK pension risk transfer marketplace in the coming years, with positive spillovers for domestic investments in productive assets and infrastructure.

Overall, the profitability outlook in Euro Area is positive, but Germany is neutral.

Most of the **euro area** – except Germany – has a positive outlook for profitability. In France solid premium growth prospects across all life segments contributes to an encouraging outlook. The industry has reported promising CSM generation in the first half of 2024, along low excess mortality levels. However, increased regulatory scrutiny to offer better value for money to policyholders could pressure protection business profitability. In Italy, the industry's performance should remain solid, on the back of rising investment returns, low excess mortality and improved margins on traditional saving products and multi-class products. In contrast, Germany's profitability outlook is now neutral, as we forecast negative real premium growth in 2024–25 and high guarantees on legacy portfolios have limited margins generation.

[37] Based on Swiss Re Institute's life profitability model to forecast operating investment profitability trends. The eight major life insurance markets covered (US, Canada, UK, Germany, Italy, France, Japan, and Australia) are referred to as "Major life markets" in this report. Life insurance premiums written in these eight markets represents close to three-fifths of the global life premiums and around three-quarters of the life premiums in advanced markets.
[38] CSM is a concept introduced by IFRS 17 that represents the unearned profit that an entity expects to earn as it provides services. See The IFRS 17 Contractual Service Margin, Institute and Faculty of Actuaries, accessed on 5 June 2024.

We expect further improvements in profitability for life insurers in Japan.

We estimate profits for life insurers in **Japan** to have improved in 2024 after many lost years and expect further improvements in 2025–26. This will be supported by continued solid underwriting results based on lower pandemic-related claims and a moderating trend in policy surrenders. Investment returns are projected to increase given higher domestic and global interest rates and stock market performance.

Lapses: risk is contained, but France and Japan still on the radar

Our estimates suggest that peak lapse risk has now passed, but not fully minimised in the near-term.

Our research suggests that key global markets passed peak lapse risk in 2024. Lapse risks tend to be higher at the start of a monetary tightening cycle. However, residual lapse risks can still materialise up to two years after the peak policy rate is reached. We find that lapse sensitivity to interest rates is lowest when policy rates reach a neutral stance close to 2%.[39] As we expect lower policy rates in the US and Western Europe in 2025, lapse sensitivity to interest rates should decrease, but other lapse triggers may still arise. For example, in **France**, tax regime uncertainty associated with the new government, and potential sovereign rating downgrades resulting from political paralysis, may cause savings outflows to other European jurisdictions.

We expect possible residual lapse activity for FX-denominated products in the near-term.

In **Japan**, lapse risk is likely to stay low but still faces risks. As the BoJ pursues monetary policy tightening, the market's exposure to both USD- and JPY-denominated products suggests lapse activity could be indirectly influenced by US monetary policy and currency markets. In recent years, lapse rates in Japan increased as the yen depreciated, due to policyholders selling off FX-denominated policies to cash-in profits. Subsequent regulatory interventions, yen appreciation, Japanese government bond (JGB) yield curve steepening and a re-orientation of life insurance companies towards yen-denominated products, all helped to stabilise the liquidity risks associated with lapse activity in 2023 and 2024. We could see some residual lapse activity in 2025, due to profit-taking from FX-denominated products (single-pay) and competition from strong equity markets. We would expect this to gradually cool-off in the medium term due to moderate yen appreciation and a historically steep JGB yield curve.

[39] *sigma* 2/2024: Life insurance in a higher interest rate era, op. cit.

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