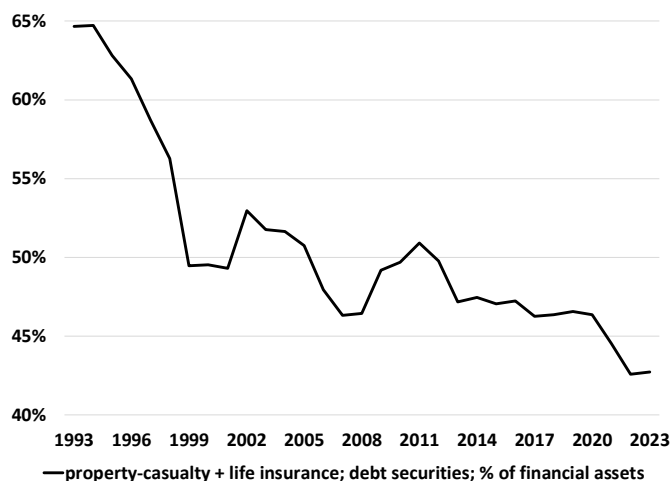


Part 2 of our points of interest related to insurance companies and the Federal Reserve Financial Accounts data set for 1Q 2023.

Insurance company debt exposure as a % of total financial assets is just 0.15% above its lowest level of 42.6% recorded at the end of 2022. As the path for a US economic soft-landing narrows insurance company balance sheets appear to have record cyclical sensitive.

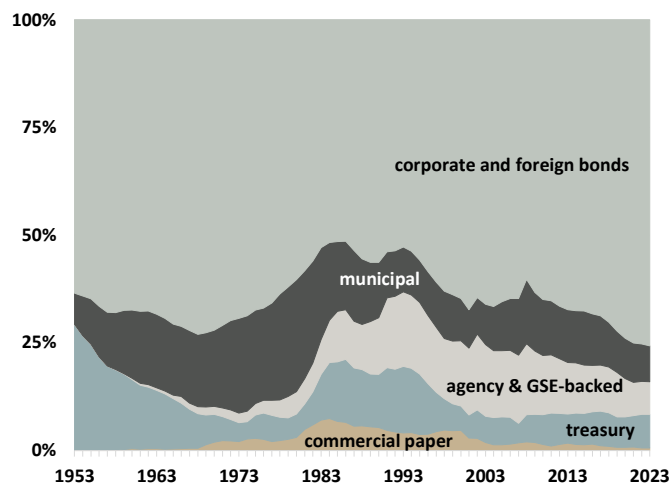
[1] INSURANCE COMPANY DEBT AS % OF FINANCIAL ASSETS



Source: Federal Reserve L.115 & L.116 as of 1Q 2023

Insurance company exposure to corporate and foreign bonds as a % of debt securities is at an all-time high (75.7%). Exposure to municipal bonds is at its lowest point since 1953 (8.4%).

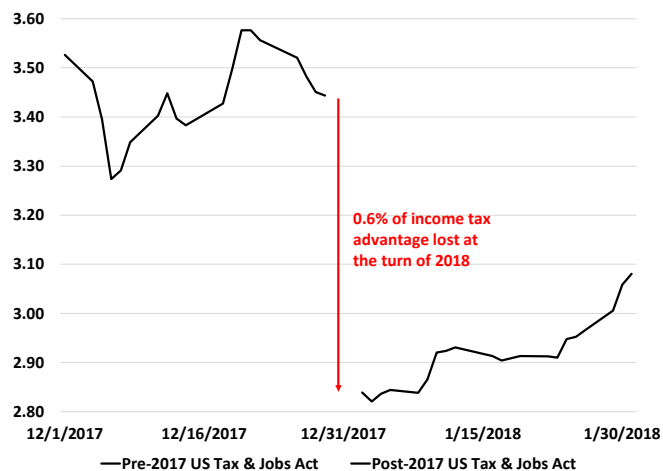
[2] INSURANCE COMPANY DEBT SECURITIES AS A % OF TOTAL DEBT EXPOSURE



Source: Federal Reserve L.115 & L.116 as of 1Q 2023

Property-casualty insurance company exposure to corporate and foreign bonds shot up following the 2017 US Tax Cuts & Jobs Act (TCJA) with the lowering of the corporate tax rate and no grandfathering of the municipal asset class. The effects of TCJA were equal to a 0.6% tax-advantage loss of income which quickly led to selling of municipal bonds in favor of taxable corporate credit risk. As the US Federal debt & deficit grow in focus, we are reminded that nothing in Washington is permanent including the lower US corporate tax rate.

[3] PRE & POST 2017 US TAX REFORM MUNICIPAL INCOME TAX ADVANTAGE: P&C INSURERS



Source: Bloomberg Municipal Bond Index (tax-exempt) proration adjusted for property-casualty insurers pre & post 2017 tax reform

Taxable municipal bonds offer a broad range of high-quality credits that compete with corporate bond yields and can be scaled to maximize income and NAIC capital efficiency for insurers. Municipal infrastructure, in general, has strong cashflows and is considered monopolistic in nature, providing essential services for public purposes. Municipal bonds, in general, are second only to US treasuries in terms of perceived safety.

[4] VALUE PROPOSITION 16ROCK APRIL 25, 2023 TAXABLE MUNICIPAL BOND SPECIAL REPORT



Source: www.16rock.com

IMPORTANT DISCLOSURE INFORMATION

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