Sector Theme 01

A New Era of Life is Upon Us

A New Era of Life is Upon Us: Structural Re-rate Call on the Life Insurance Sector

In a market where growth at a reasonable valuation is harder to come by, we are increasingly confident in our longer-term structural re-rate call on the North American life insurance sector. We believe the current macro backdrop – higher and longer-term rates, demographic trends, and generational wealth transfer – presents a tremendous tailwind for the life insurance group, which has been largely out of favour for the better part of two decades.

The Post-GFC Era: A Challenging Decade

After the global financial crisis (GFC), we experienced more than a decade of near-zero interest rate policy as central banks embarked on multiple instances of quantitative easing. This environment proved to be challenging for the life sector. The present value of liabilities ballooned while new money yields dramatically fell, straining balance sheets. Products rich with features such as variable annuities with guaranteed minimum withdrawal benefits (GMWBs) and long-term care insurance policies with lifetime benefits and inflation riders became increasingly capital-intensive. This ultimately led to many insurers exiting these product lines or moving them into run-off portfolios.

During this period, most of the life insurance space focused internally on shrinking balance sheets, reducing risk, and returning any excess capital to shareholders via buybacks – with growth becoming an afterthought.

The New Era of Life: A Shift in Strategy

The life insurance landscape has shifted significantly. Companies today have materially reduced tail risk through risk-transfers and spinouts. Product design has been drastically de-risked. Moreover, the era of easy financial conditions (quantitative easing, zero interest-rate policy) likely appears to be behind us. This could create favourable asset/liability dynamics for life insurance companies.

In response, life companies have shifted their strategy from shrinking balance sheets and returning capital to growing once again. Recently, several of the largest North American life insurance companies have increased their earnings growth algorithms and longer-term return on equity (ROE) targets, including Manulife Financial Corp, Sun Life Financial Inc, Reinsurance Group of America, and most recently, MetLife Inc.

These targets signal high-single-digit to low-double-digit earnings per share (EPS) growth and ROEs in the high teens – profiles that haven't been seen since pre-GFC. This shift supports our view that the current environment will usher in a new era for life insurance companies.

“We believe life insurance companies are well-positioned for a transformative period of sustained earnings growth.”

Favourable Comparisons to Banks and P&C Insurers

Additionally, these earnings algorithms screen much more favorably than both banks and property & casualty (P&C) insurance companies, which currently trade at sizeable premiums to the life insurance space (29% and 30% respectively).

This discrepancy highlights an opportunity for life insurance companies to capture increased market attention and valuation re-rates.

29%

Banks trading premium to life insurance.

Valuation gap that presents an opportunity for life insurance companies to gain market attention and potential valuation re-rates.

Our View

A New Era Brings New Opportunity

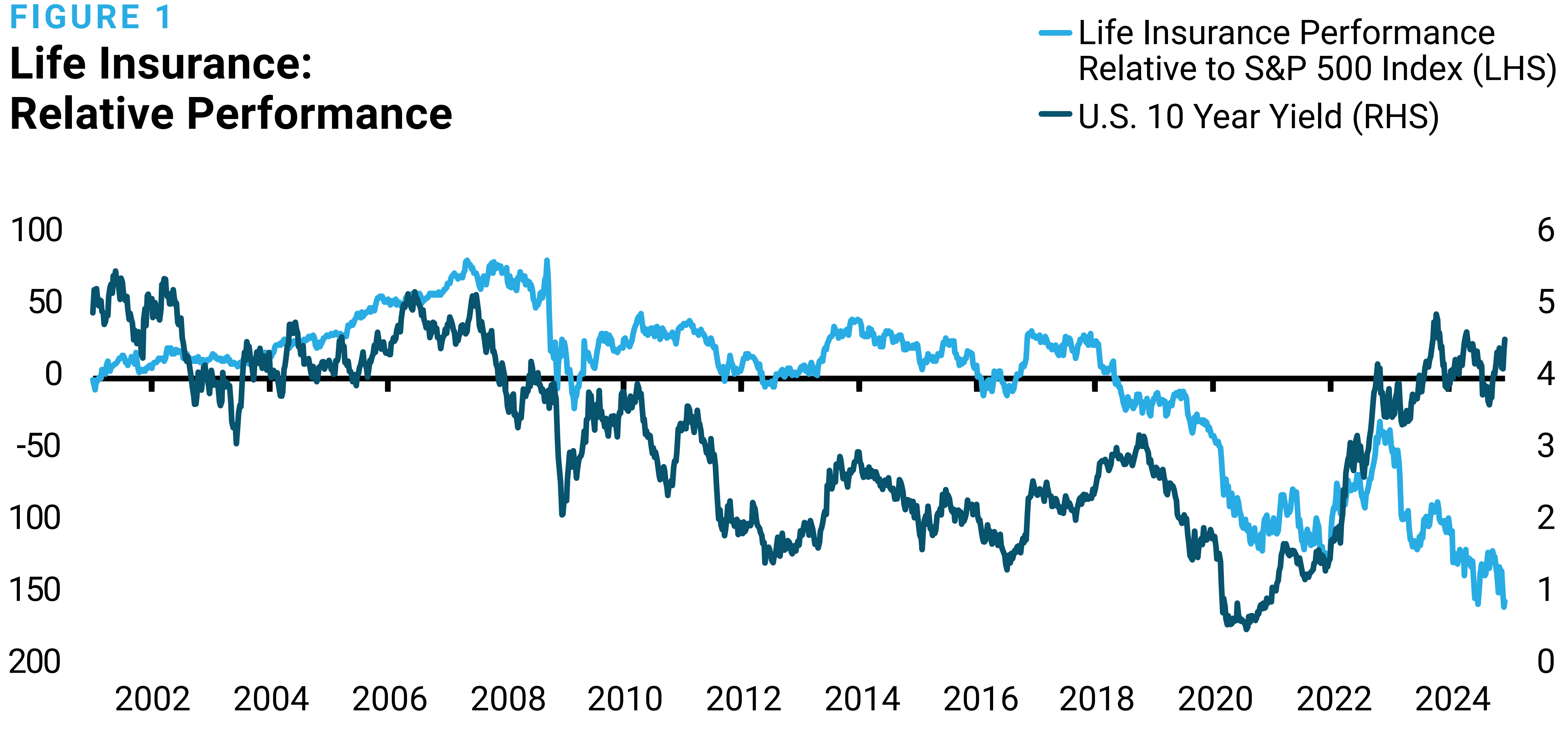
We are big fans of structural re-rates driven by positive fundamental change, especially in areas of the market that have been largely ignored for the better part of the past two decades.

With the tailwinds of higher rates, de-risked products, and a renewed focus on growth, we believe life insurance companies are well-positioned for a transformative period of sustained earnings growth and improved ROEs.

This new era of life insurance could offer compelling opportunities for investors seeking exposure to a sector on the cusp of re-rate potential.

FIGURE 1

Life Insurance: Relative Performance

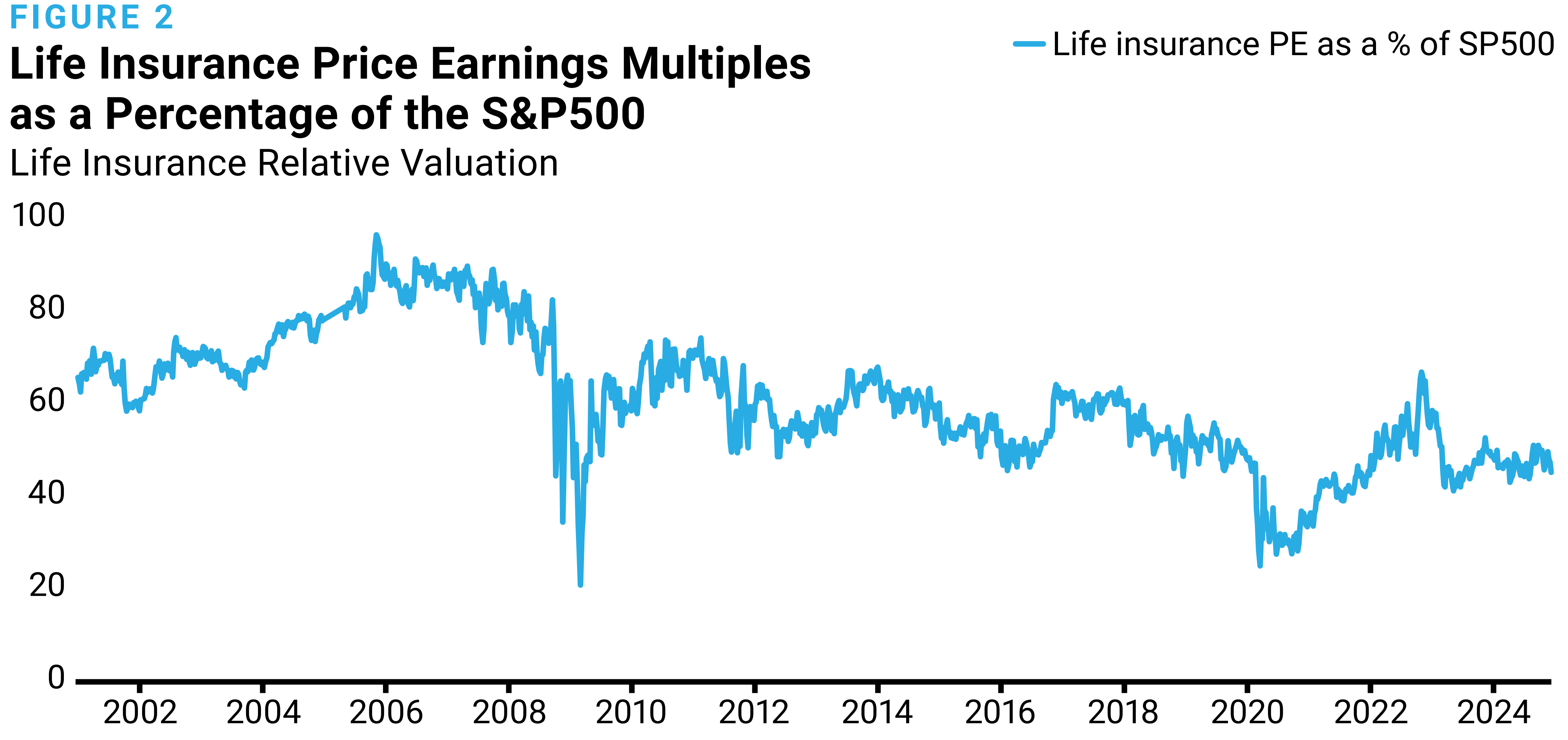


Source: Bloomberg, L.P., Picton Mahoney Asset Management Research. Jan 2001 to Dec 2024.

FIGURE 2

Life Insurance Price Earnings Multiples as a Percentage of the S&P500

Life Insurance Relative Valuation



Source: Bloomberg, L.P., Picton Mahoney Asset Management Research. Jan 2001 to Dec 2024.

Head Office
33 Yonge Street, Suite 320
Toronto, Ontario
M5E 1G4

Telephone: 416-955-4108
Toll Free: 1-866-369-4108
Retail Sales: 1-833-955-1344

General Inquiries
invest@pictonmahoney.com

Vancouver
Four Bentall Centre
1055 Dunsmuir Street, Suite 3370
Vancouver, British Columbia
V7X 1L3

Calgary
Bankers Hall, West Tower
888 3rd Street SW, 10th Floor
Calgary, Alberta
T2P 5C5

Montréal
1155 Metcalfe Street, Suite 1502
Montréal, Québec
H3B 2V6

pictonmahoney.com

All figures provided are sourced from Bloomberg L.P. unless otherwise specified, and are based on data as at the dates indicated.

This material has been published by Picton Mahoney Asset Management (PMAM) as at January 10, 2025. It is provided as a general source of information, is subject to change without notification and should not be construed as investment advice. This material should not be relied upon for any investment decision and is not a recommendation, solicitation or offering of any security in any jurisdiction. The information contained in this material has been obtained from sources believed reliable; however, the accuracy and/or completeness of the information is not guaranteed by PMAM, nor does PMAM assume any responsibility or liability whatsoever. All investments involve risk and may lose value. This information is not intended to provide financial, investment, tax, legal or accounting advice specific to any person, and should not be relied upon in that regard. Tax, investment and all other decisions should be made, as appropriate, only with guidance from a qualified professional.

This material may contain “forward-looking information” that is not purely historical in nature. These forward-looking statements are based upon the reasonable beliefs of PMAM as of the date they are made. PMAM assumes no duty, and does not undertake, to update any forward-looking statement. Forward-looking statements are not guarantees of future performance, are subject to numerous assumptions and involve inherent risks and uncertainties about general economic factors which change over time. There is no guarantee that any forward-looking statements will come to pass. We caution you not to place undue reliance on these statements, as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made.

All projections provided are estimates and are in Canadian dollar terms, unless otherwise specified, and are based on data as at the dates indicated.

There is no guarantee that a hedging strategy will be effective or achieve its intended effect. The use of derivatives or short selling carries several risks which may restrict a strategy in realizing its profits, limiting its losses, or, which cause a strategy to realize or magnify losses. There may be additional costs and expenses associated with the use of derivatives and short selling in a hedging strategy.

® Registered trade-marks of Picton Mahoney Asset Management.
© 2025 Picton Mahoney Asset Management. All rights reserved.