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As Milton Approaches, Reinsurance Stocks Fall

Shares of insurance firms that provide backstop coverage to the industry for major loss events—known as reinsurers—are selling off heavily.

As Hurricane Milton is also likely to hit populated areas of Florida, reinsurance stocks in the S&P 500 index were collectively down over 7% on Monday, their biggest one-day drop since the early pandemic market plunges of March 2020. The decline was driven by shares of RenaissanceRe and Everest Group, down over 9% and 8%, respectively. U.S. depository receipts for reinsurers Swiss Re and SCOR, which aren't in that index, were down more than 3% and 8%, respectively.

Shares of many primary insurers that write coverage for consumers and businesses and that buy reinsurance coverage were hit hard, with S&P 500 property-and-casualty stocks down 4.3%, that group's worst one-day drop since June 2020, including with a nearly 5% decline for Allstate, and a nearly 4% drop for Progressive.

While estimates of Hurricane Helene's insured losses don't currently suggest the storm's insurance hit would rise to levels generally covered by reinsurers, there seems to be more concern about Milton.

Early Monday, before more recent updates on Milton's strength and trajectory, analysts at KBW wrote that "current track forecasts suggest that Milton could cause very significant" insured losses, meaning \$10 billion-plus.

Up until now, some reinsurance and insurance shares enjoyed strong performance amid what was expected to be a historically active storm season. That was aided by a combination of prior storms not causing widespread industry losses, as well as the benefit of falling interest rates on fixed-income investment portfolios. Like banks, insurers often own large portfolios of bonds whose prices rise when rates fall, boosting the firms' book values. RenaissanceRe had its record closing high on Friday. Even after Monday's decline, it is up about 30% in 2024.

Reinsurers' shares are often volatile as storms approach and after they land because the aftereffects of a major event can be complex. Reinsurers' shares frequently rally after a storm hits and figures for expected insurance claims coalesce into a narrower range. The stocks sometimes benefit from expectations that postevent, they might be able to push through higher rates when contract renewals begin.

But with huge uncertainty about Milton's impact, investors appear to be in a defensive mode ahead of the storm.

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