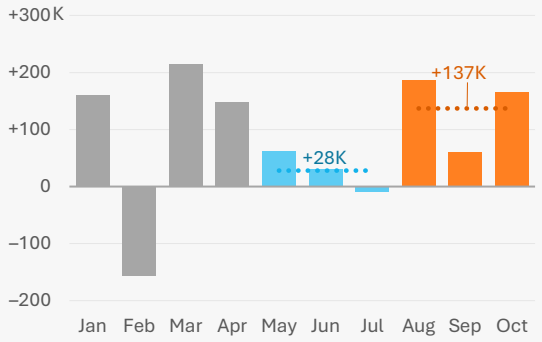
State of the Economy: What We're Watching

1. Employment Growth Is in Flux

Net employment growth has accelerated over the last three months, averaging 137K jobs—a stark change from the prior three months, which only averaged 28K jobs. Overall, 2026 is showing improvement from 2025, but the volatility observed month-to-month has reduced our confidence in a renewed increase in hiring.

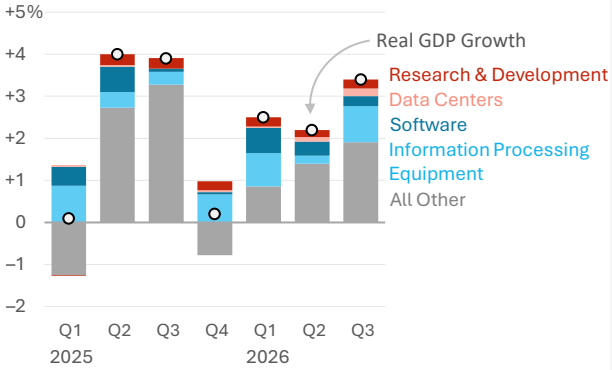
Monthly Change in Nonfarm Employment



2. AI Has Become a Bigger Share of Growth

AI investment has contributed to nearly half of GDP growth in 2026. In the latest quarter, the economy grew at a strong 3.4% annualized pace, with AI contributions equaling 1.5%. Outside of AI investment, economic growth is also spurred by growing contributions from consumer spending, the largest piece of the economy.

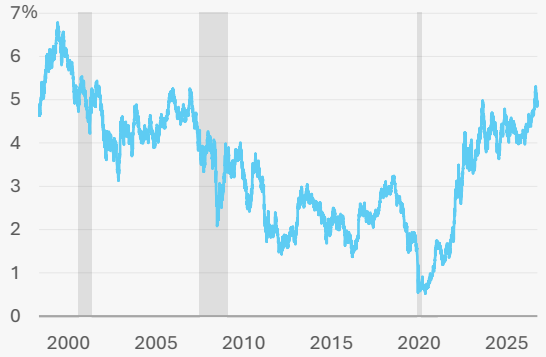
Annualized Contribution to Real GDP



3. 10-Year Treasury Yields See New Highs

Treasury yields across the curve have risen in 2026. The benchmark 10-year yield has risen from 4% in February to 5% as of November. Elevated inflation, government deficits, and corporate debt issuance to fund AI investments have all been contributing factors to higher yields.

Daily Par Yield Rate of 10-Year Treasury



Workers Compensation Perspective

The recent increase in employment growth helps support payroll growth, the basis for workers compensation premium. However, this surge in short-tenured workers could lead to more injuries of inexperience, impacting frequency trends.

Economic concentration in related sectors can signal greater economic fragility. While AI investment has become a larger share of both the economy and growth in 2026, economic activity outside of these sectors remains solid, alleviating some of the concentration risk.

After over a decade of low interest rates, it appears interest rates have durably shifted higher. Higher reinvestment yields and net investment income for workers compensation may offset any potential rise in industry combined ratios.

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