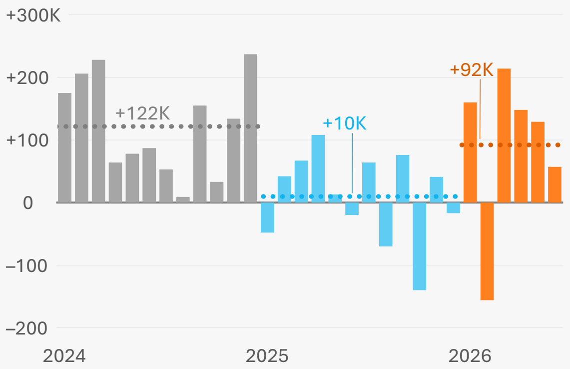
State of the Economy: What We're Watching

1. Employment Is Rebounding

Employment is showing positive signs year to date in 2026. Hiring has picked up, with jobs averaging 114K monthly this year compared to only 10K last year. These gains have expanded beyond health care to include construction, manufacturing, and transportation.

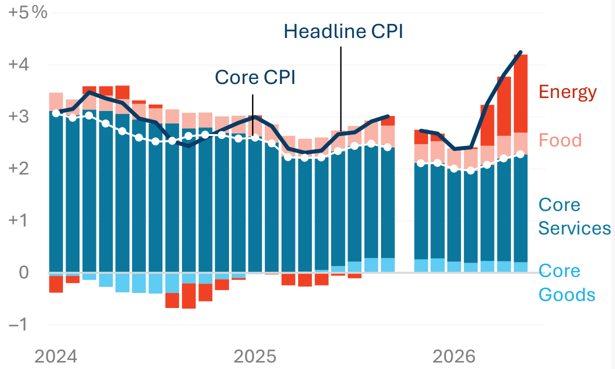
Monthly Change in Nonfarm Employment



2. Inflation Has Likely Hit Its Peak

High energy prices have led to inflation accelerating above 4% year over year. It has mainly impacted energy-adjacent items and has had limited spillover into prices for other goods and services. We believe this is likely the peak.

Year-Over-Year Inflation Growth Rate



3. Interest Rates Outlook Has Changed

With stronger hiring easing concerns around the labor market, the Federal Reserve's monetary policy reaction function has shifted from labor market softness to inflation firmness. This has moved their expectations from lower interest rates to higher ones.

Median Federal Open Market Committee (FOMC) Participants' Assessments of Appropriate Monetary Policy

Workers Compensation Perspective

More employment combined with continued high wage growth is boosting payroll, which has corresponding implications for premium. However, increased hiring could add to injury frequency due to less experienced workers.

Medical inflation continues to be subdued despite acceleration in overall economic inflation. Drug prices have declined in recent months, alleviating concerns that they would increase due to tariffs.

Since workers compensation is a long-tail line of business, higher interest rates could be impactful to the present value of long-term liabilities and investment results.

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