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Insurers favor tactical changes in higher-for-longer rate environment

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Insurers are taking advantage of opportunities to trade up in quality, lock in higher fixed rates, extend duration and add a little more liquidity with public investments.

Over 220 insurance companies globally (along with nearly 580 other institutional investors) share their views in our latest annual EQuilibrium institutional investor survey.

From views on the macro environment and asset allocation to sustainability and the energy transition, the survey reveals new insights into how these insurers manage over of $5.7 trillion.

Three clear trends are evident as we enter 2024: asset allocation changes are tactical rather than strategic; demand for alternatives continues; and action, not talk, is the focus of sustainability investments.

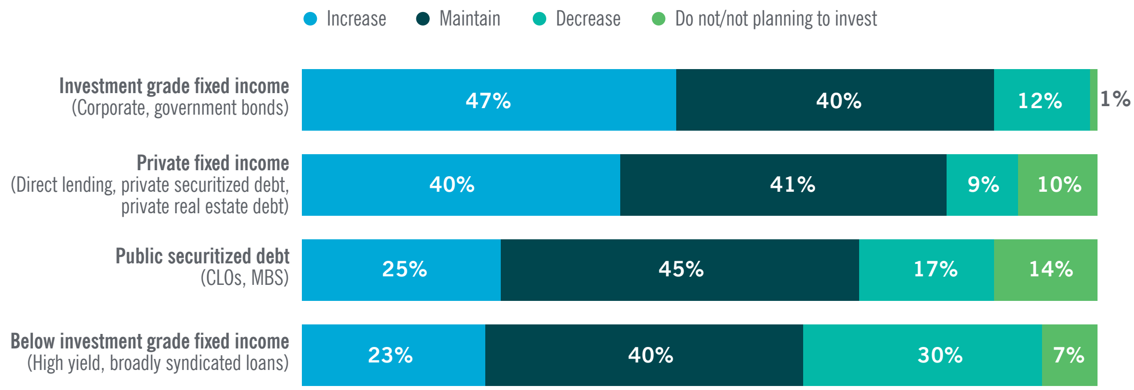
1 TACTICAL RATHER THAN STRATEGIC ASSET ALLOCATION CHANGES

Only one in five insurers (21%) are making foundational changes to strategic asset allocation, which is far lower than the almost one-third (31%) who were doing that in our 2023 study. In 2024, more (32%) are making significant changes to tactical allocations.

Digging deeper into the data, we see these changes are at the margin. Insurers seem to have adjusted to the higher rate environment with big portfolio shifts in 2023. Now, they're taking advantage of opportunities to trade up in quality, lock in higher fixed rates, extend duration and add a little more liquidity with public investments.

Nearly half (47%) are adding public investment-grade bonds, while 30% are reducing public below-investment grade. Corporate and government bonds are the top choice among public investment grade, and private infrastructure debt is top in private fixed income.

Q: The current environment has many investors adjusting their fixed income allocations. Please indicate the directional changes you plan to make in the next two years.



N = 224 (All insurers)
Figures may not sum to 100% due to rounding.

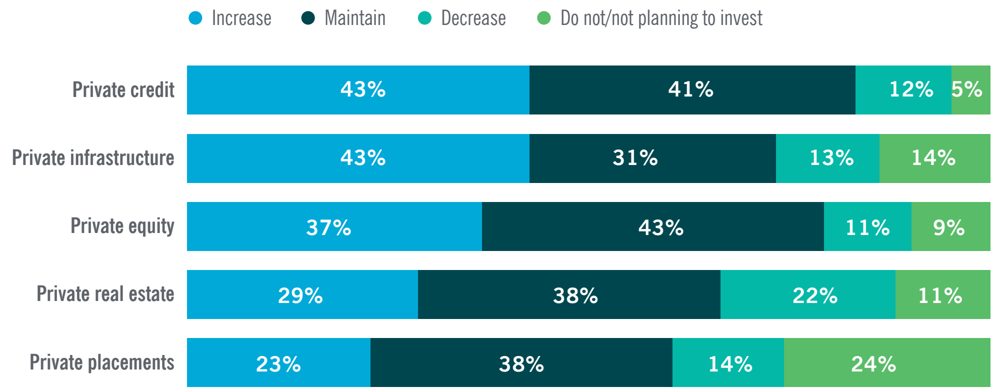
2 ALTERNATIVES DEMAND CONTINUES

Even after last year's surge in interest, demand for alternatives remains strong. More insurers are adding rather than reducing allocations across all subsectors, with private infrastructure, private credit and private equity the top choices.

The survey data indicated a year-over-year decline from 2023's high demand levels, although importantly the longer-term trend is upwards. 2023 data likely reflected the higher proportion of insurers making significant strategic allocation changes in response to rapidly changing rates. Going into 2024, with a relatively more settled rate environment, the focus is more on the subtle asset allocation tweaks mentioned above.

Over the course of 2023, some insurers had a hard time deploying as much capital as they wanted within infrastructure. TIAA, Nuveen's parent, experienced much of the same. The quest for relative value within infrastructure is one of the reasons they are now focusing more on transitional energy infrastructure than they have in the past.

Q: Please select the alternative investments you are currently allocated to and how you plan to adjust allocations over the next 2 years.



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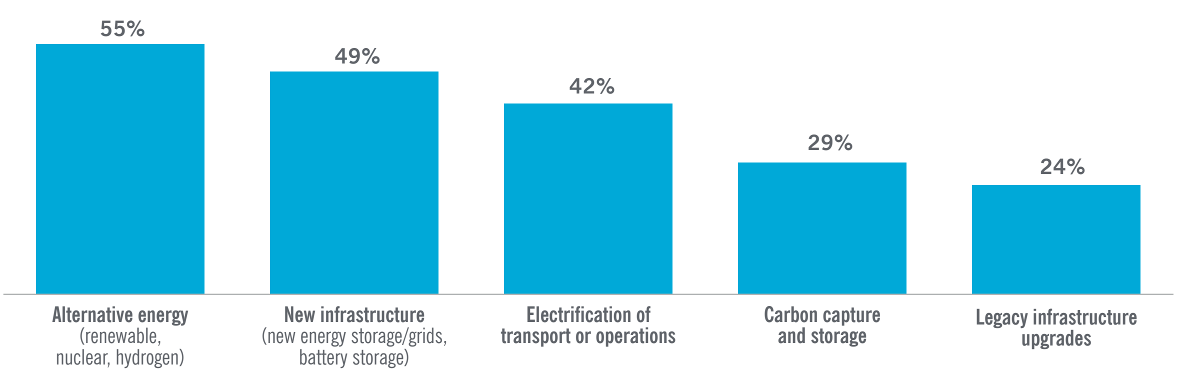
3 ACTION, NOT TALK, IS FOCUS OF SUSTAINABILITY INVESTING

In 2023, 91% of insurers globally indicated they consider or plan to consider environmental, social and governance (ESG) factors in investment decisions. In 2024, that figure dropped slightly to 86%.

Some North American insurers have pulled back. Europe, however, continues to lead the way in terms of sustainability — acknowledging climate risk, making net zero commitments, investing in impact and energy transition — with Asia Pacific insurers not too far behind.

Looking at where dollars are being allocated, energy transition investments are attracting interest in all three regions. That tells us that insurers globally are continuing to pursue opportunities in sustainability and the transition to a low carbon economy. This is despite the political narrative around a roll back in ESG commitments and views from a number of institutional investors and policymakers.

Q: Please indicate the thematic areas your organization already invests in or plans to invest in over the next 5 years.



N = 224 (All insurers), multiple answers allowed.

For further insights into how insurers globally are investing in 2024, download EQuilibrium.

Endnotes

Responsible investing incorporates Environmental Social Governance (ESG) factors that may affect exposure to issuers, sectors, industries, limiting the type and number of investment opportunities available, which could result in excluding investments that perform well.

ESG integration incorporates financially relevant ESG factors into investment research in support of portfolio management for actively managed strategies. Financial relevancy of ESG factors varies by asset class and investment strategy. Applicability of ESG factors may differ across investment strategies. ESG factors are among many factors considered in evaluating an investment decision, and unless otherwise stated in the relevant offering memorandum or prospectus, do not alter the investment guidelines, strategy or objectives.

This information does not constitute investment research as defined under MiFID.

Sources

EQuilibrium, Nuveen Institutional Investor Study, 2024

A word on risk

All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time. Investing in municipal bonds involves risks such as interest rate risk, credit risk and market risk, including the possible loss of principal. The value of the portfolio will fluctuate based on the value of the underlying securities.

Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, tax risk, political and economic risk, and income risk. As interest rates rise, bond prices fall. Credit risk refers to an issuer's ability to make interest payments when due. Below investment grade or high yield debt securities are subject to liquidity risk and heightened credit risk. Non-U.S. investments involve risks such as currency fluctuation, political and economic instability, lack of liquidity and differing legal and accounting standards. These risks are magnified in emerging markets. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

Investors should be aware that alternative investments are speculative, subject to substantial risks including the risks associated with limited liquidity, the use of leverage, short sales and concentrated investments and may involve complex tax structures and investment strategies. Alternative investments may be illiquid, there may be no liquid secondary market or ready purchasers for such securities, they may not be required to provide periodic pricing or valuation information to investors, there may be delays in distributing tax information to investors, they are not subject to the same regulatory requirements as other types of pooled investment vehicles, and they may be subject to high fees and expenses, which will reduce profits. Alternative investments are not suitable for all investors and should not constitute an entire investment program. Investors may lose all or substantially all of the capital invested. The historical returns achieved by alternative asset vehicles is not a prediction of future performance or a guarantee of future results, and there can be no assurance that comparable returns will be achieved by any strategy. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

Because infrastructure portfolios concentrate their investments in infrastructure-related securities, portfolios have greater exposure to adverse economic, regulatory, political, legal, and other changes affecting the issuers of such securities. Infrastructure-related businesses are subject to a variety of factors that may adversely affect their business or operations, including high interest costs in connection with capital construction programs, costs associated with environmental and other regulations, the effects of economic slowdown and surplus capacity, increased competition from other providers of services, uncertainties concerning the availability of fuel at reasonable prices, the effects of energy conservation policies and other factors. Additionally, infrastructure-related entities may be subject to regulation by various governmental authorities and may also be affected by governmental regulation of rates charged to customers, service interruption and/or legal challenges due to environmental, operational or other mishaps and the imposition of special tariffs and changes in tax laws, regulatory policies and accounting standards. There is also the risk that corruption may negatively affect publicly funded infrastructure projects, especially in emerging markets, resulting in delays and cost overruns. In addition, investing internationally presents certain risks not associated with investing solely in the U.S., such as currency fluctuation, political and economic change, social unrest, changes in government relations, differences in accounting and the lesser degree of accurate public information available, foreign company risk, market risk and correlation risk. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

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