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Extended Fixed Income: Seeking Returns in Public and Private Debt

In an environment where rates are normalizing and credit spreads are tight, European insurers are seeing a mix of interesting opportunities in emerging markets debt, private credit and securitised products.

Amid global monetary policy easing and historically tight credit spreads, European insurance companies have needed to adjust their asset allocation positioning to enhance portfolio returns in a similar way to how they needed to during the low-rate environment and post Solvency II.

Most recently this has translated into three main themes:

- Increasing credit risk through a shift into sub-investment grade or high yield credit
- Greater diversification into U.S. and/or emerging markets debt (EMD) from local markets
- Capturing the illiquidity premium in private debt

At the same time these three areas have become increasingly attractive to insurers, a fourth, securitised products, has also been drawing interest following the publishing of the draft amendment of Solvency II in July 2025 and ahead of implementation later in 2026. This is an area we have written about before – [Securitized Products Reform: Unlocking Value for Insurance Companies](#) – and, in combination with these three other investment themes, we think will continue to develop over the next 12 months.

In this article, we take a deeper look at some of these investment themes:

Emerging Markets Debt

Emerging markets debt (EMD) offers a compelling yield premium (see figure 1) and differentiated alpha, driven by diverse regions, countries and issuers. After roughly \$150 billion of outflows from 2022 – 2024, renewed demand in 2025—over \$28 billion of net inflows from April to October—signals a shift toward return and diversification, with momentum likely into 2026. Allocations remain underweight, enhancing the opportunity for active managers to exploit dispersion in valuations, credit trajectories, and currency dynamics.

Fundamentals are resilient. Many EMs pursue orthodox monetary and fiscal policies, reflected in positive credit rating momentum and broadly stable sovereign profiles. Corporates often carry lighter leverage and healthier balance sheets than developed market peers, supporting attractive carry. This foundation positions EMD for spread compression, selective credit upgrades and improved total return as global liquidity conditions ease.

Macro tailwinds strengthen the case. Historically, weaker U.S. dollars and Federal Reserve easing favor EMD across local rates, FX and hard-currency spreads. Today's easing conditions and investor focus on diversification create a runway for continued inflows. The asset class's breadth—sovereign, quasi-sovereign, and corporate; hard and local currency—enables active levers such as country selection, curve positioning, sector rotation and currency management to deliver income and alpha.

European Private Loans

European private loans open access to a broader universe of European corporates than public markets, in a region where over 80% of lending is bank-based. As banks retreat—pressured by capital charges—alternative lenders and long-term investors, including Neuberger, are stepping in to provide five- to 12-year funding that banks have been pulling back from, capturing term and liquidity premiums. Issuers typically have robust balance sheets, conservative capital structures, and strong covenants, positioning loans at the intersection of investment grade and non-investment grade.

The market is large and growing (about €4.5 trillion), with loans generally offering a spread pickup of 1.5 – 2.0% (up to 200 bps) over comparable public bonds. Longer maturities, structural protections, and extensive due diligence—with ECAI ratings—support an attractive risk/reward profile even after a lower liquidity premium. These features contribute to higher yields than equivalent public loans and bonds.

Beyond return, investors gain industry and geographic diversification with limited correlation to public credit. Bank-sourced private loans typically finance established upper mid-market companies with stable business models and conservative financials. As the market expands, allocating to European private loans can enhance income, diversification, and resilience within a balanced fixed income portfolio.

Securitised Products

We see several interesting opportunities across securitised products, including collateralised loan obligations (CLOs) and residential real estate debt.

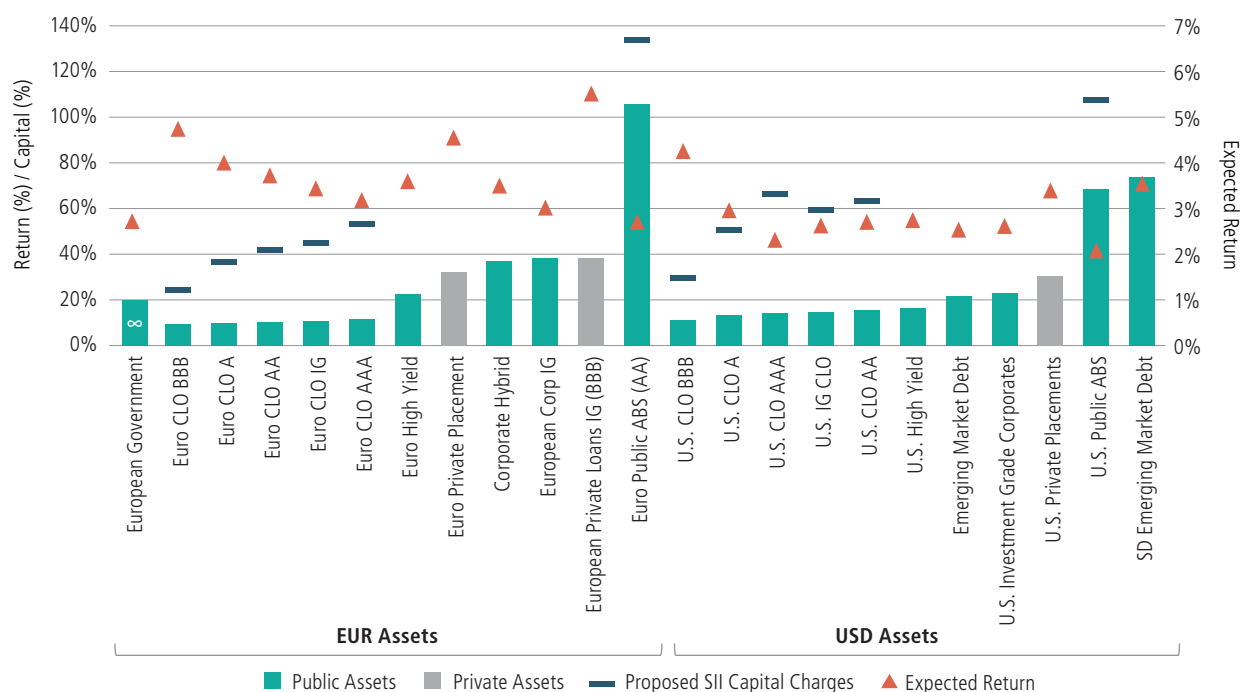
CLOs offer insurers diversified credit exposure through broad pools of senior secured loans across issuers, sectors and vintages, delivering meaningful spread pickups versus broader fixed income. Structural protections—collateral, tranche subordination, and rising credit enhancement—help shield mezzanine and junior tranches during market stress. CLOs’ floating-rate profiles eliminate duration risk while senior tranches (AAA/AA) benefit from deep liquidity in primary and secondary markets, making them effective tools for income generation, risk management and capital efficiency.

Residential real estate debt is likewise emerging as a core solution for insurers seeking long-duration, resilient income. In Europe, robust covered bond markets and sustained RMBS issuance—supported by Basel IV balance sheet dynamics—provide scalable access to high-quality mortgage collateral, reinforcing diversification and attractive spreads under Solvency II.

In the U.S., the structural housing shortfall is catalyzing durable private credit opportunities in short-duration construction and renovation lending, where experienced lenders can capture illiquidity premia against strong asset backing. Supportive regulation—SCR treatment in Europe and NAIC streamlining in the U.S.—aligns with insurers’ liability needs and risk frameworks.

These themes are reinforced by favorable Return on SCR assessments, including the potential revised treatment of securitised products in the Draft Amendment to the Solvency II Directive (July 2025).

A VARIETY OF RETURNS ACROSS ASSET CLASSES AND CURRENCIES



Source: Neuberger Berman, Bloomberg-Barclays, Cambridge Associates, FactSet; analytics are as of October 31, 2025; non-EUR assets are hedged to EUR using 3-month forwards. The performance and risk projections/estimates are hypothetical in nature and reflect the Neuberger Berman’s Capital Market Assumptions. The estimates do not reflect actual investment results and are not guarantees of future results. Actual returns and volatility may vary significantly. Asset classes are represented by benchmarks and do not represent any Neuberger Berman investment product or service.

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