

## US Market Commentary: CLO Q&A with PineBridge's Kollmorgen and Remeza on spreads direction across the stack as insurers plan to deploy about \$1tn from robust annuity inflows

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In an exclusive interview, *LFI* spoke with **PineBridge Investments'** (\$203.1bn AUM) Laila Kollmorgen (PM CLO tranche) and Helen Zhou Remeza (head of insurance investment strategies) about US CLO spreads across the capital stack and demand from insurance firms. Kollmorgen noted that the CLO market remains strong with tighter spreads and robust support. She highlighted that seasonal factors and low net supply are driving strong demand. Remeza explained that higher interest rates have boosted demand for annuity products, which may be supported by CLOs and other high-yield assets. Remeza discusses that insurance companies are increasingly allocating to CLOs.

### ***LFI: What's top of mind regarding the CLO market's direction?***

**PineBridge (LK):** The markets are at a high level of global confidence, very euphoric. The Santa rally continues. Despite any volatility or backup in rates away from the CLO market, the CLO market continues to work in its own way. It remains strong, with tighter spreads and strong support.

### ***LFI: One of the themes in market is strong demand stoked by low net supply. Are you seeing this?***

**PineBridge (LK):** That's right. It's also seasonal. We'll see that going into the end of the calendar year. Once we start the new year, it starts again. We have the promise of animal spirits, deregulation and other aspects that could happen in 2025. The timing is unknown, but January will start strong, maybe into February. After that, we tend to see wider spreads as primary supply increases. We have a new administration coming in, and everyone is talking about that. It's hard to predict beyond the next few weeks.

### ***LFI: Where do you think spreads will be in the next four to six weeks for Triple A and mezzanine tranches?***

**PineBridge (LK):** It feels like we are going tighter across the cap stack. Anyone able to buy in the primary or secondary market now is chasing dwindling supply. Many managers are looking to refinance or reset transactions given the tighter spreads. We anticipate increased supply. The market will die down for about two weeks at the end of December, but by January 6, we'll be off to the races again.

### ***LFI: On the ownership trend, I saw that about \$1tn in annuities have been sold since 2021. How does that impact demand and potential structures?***

**PineBridge (HR):** Given the higher interest rates, demand for annuity products has been quite strong overall. Products like MYGA (multi-year guaranteed annuity) are alternatives to bank CDs, offering competitive rates. These products may be partly supported by CLOs, private credits and other higher-yielding assets. Insurance companies are well-positioned to earn the perceived illiquidity premium due to their asset-liability matching programs. The trading volumes in the secondary market for CLOs have expanded, enhancing their liquidity.

### ***LFI: Are insurance companies looking to buy more CLO products?***

**PineBridge (HR):** Yes, we do asset allocation analysis for insurance clients. Some sophisticated insurers have over 10%-15% CLO allocation, while some newer entrants have 3%-5%. It varies by type of insurance, but CLOs are becoming a mainstay on insurance balance sheets due to their relative value and consistent performance.

### ***LFI: Where are insurers in terms of equity and lower mezzanine tranches? Some say returns are strong enough to keep investing despite capital charges.***

**PineBridge (HR):** The life insurance industry faces higher capital charges for CLO equity, up from 30% to 45% as an interim solution. There are proposals for permanent solutions, including maintaining a 30% charge for CLO equity with the next tranche up being investment-grade. The timeline for resolution is unclear. The residual interest charge is increasing, which may limit demand for CLO equity from insurers. However, insurers with strong capital cushions may be less sensitive.

**LFI: What else is topical for insurance solutions with the CLO format?**

**PineBridge (HR):** The revision of insurance capital charges for CLO debt is being closely watched. PineBridge is involved in the NAIC Ad Hoc CLO working group, helping refine assumptions and calibrate results. The NAIC aims to replace rating agency ratings with model-based assessments for regulatory purposes. The timeline for rolling out results is delayed, but senior CLO tranches are likely to have the same or reduced risk based capital charges.

**LFI: How has the NAIC process impacted the CLO market?**

**PineBridge (LK):** The process has already impacted the market. We see senior and junior tranches within Triple B tranches, with senior tranches expected to have lower capital charges. This trend will continue, affecting CLO structures and pricing.

**LFI: What about rated feeder notes for private credit CLOs?**

**PineBridge (HR):** Rated feeder notes are often used for direct lending platforms, less so for broadly syndicated loans. They have simpler structures with fewer tranches and are typically not secured like CLOs. They offer flexibility and capital efficiency, making them insurance-friendly. PineBridge was one of the first to have publicly rated feeder notes, promoting transparency in this space.

**LFI: Are they shadow rated or difficult to track?**

**PineBridge (HR):** Most are privately rated, but PineBridge's feeder notes carry public ratings. We promote transparency and better disclosure in this space.

For more information, see is an October report co-authored by Remeza and Kollmorgen on insurance firms involvement in CLOs: [Insurer CLO Demand Holds Firm Despite Falling Interest Rates | PineBridge Investments](#).

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