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How Insurers Can Benefit From EM Debt Allocations

- Emerging market (EM) debt offers several compelling advantages to insurance investors, including potential for enhanced yields, diversification, and attractive risk-adjusted returns.
- With the US' longstanding dominance potentially weakening, many EM countries could assume larger spheres of influence. Emerging market debt has become far less dependent on cyclical growth factors and more resilient to macroeconomic risks, as evidenced by orderly EM credit spreads in 2025 despite tariff-related turmoil.[1]
- Technical support is also contributing to resilient emerging market credit spreads. The EM corporate bond market has experienced negative net issuance, with cash flows to investors – via coupons, amortization, tenders, and buybacks – exceeding primary issuance and expected to do the same in 2025.
- For insurers, we believe the investment grade US dollar bond market provides the most capital-efficient exposure to emerging markets.

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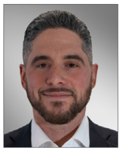

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In recent years, US insurers' exposure to foreign investments declined amid the outperformance of US equities and higher US rates. More recently, the tide has begun to turn alongside geopolitical changes and shifts in global trade and capital markets – and while we don't believe the evolving world order will derail US assets' strategic role with investors, it does serve as a warning against complacency within portfolios. It is also an opportunity for insurance investors to reevaluate their fixed income exposures and to consider the advantages of expanding their emerging market (EM) debt allocations.

Given the traditional assumption that emerging markets are a small cohort of countries with relatively weak institutions, cyclical economies, and shallow capital markets, exposure to EM has been similarly small and cyclical. The reality belies these assumptions: The vast group of countries defined as emerging markets represent roughly 88% of the world's population, more than 40% of global GDP, and more than 25% of the global publicly traded bond market. Yet even as the role of emerging markets has increased alongside these core metrics, insurance investment has declined.

We believe insurers should consider increasing exposure to emerging market debt to reap the potential benefits of greater investment return and risk reduction, along with compelling yields and enhanced diversification. We have managed emerging market debt portfolios for insurance balance sheets for more than 15 years. Here we share our insights and outlook to help insurers unlock EM debt's potential benefits as the world enters a new phase of decentralized economic activity and investment.

[1] Source: J.P. Morgan, Bloomberg, and PineBridge Investments as of 15 May 2025, referencing the JP Morgan CEMBI Broad Diversified Investment Grade and the Bloomberg US Corporate.

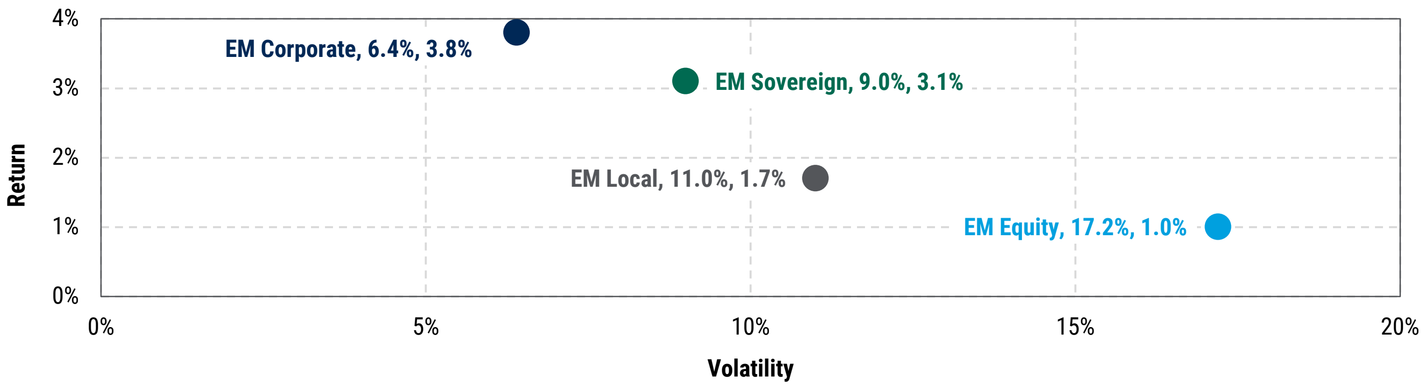
How can insurance investors best tap emerging markets?

There are many ways to invest in emerging markets, but not all options make sense for regulated insurers. EM equity, for instance, faces steep capital charges and foreign exchange volatility, which make investments prohibitive when evaluated against the much larger US equity market. EM local currency debt is also subject to foreign exchange volatility, which can make the market unattractive for liability matching for insurers with US liabilities.

We view the $4 trillion US dollar-denominated EM bond market as the most attractive for insurers looking to invest in emerging markets, with corporate bonds offering investors the strongest risk/return profile.

US Dollar-Denominated Corporate Bonds Are Insurers' Most Compelling EM Investment Option

Annualized volatility and USD returns of EM investment markets (since 2010)

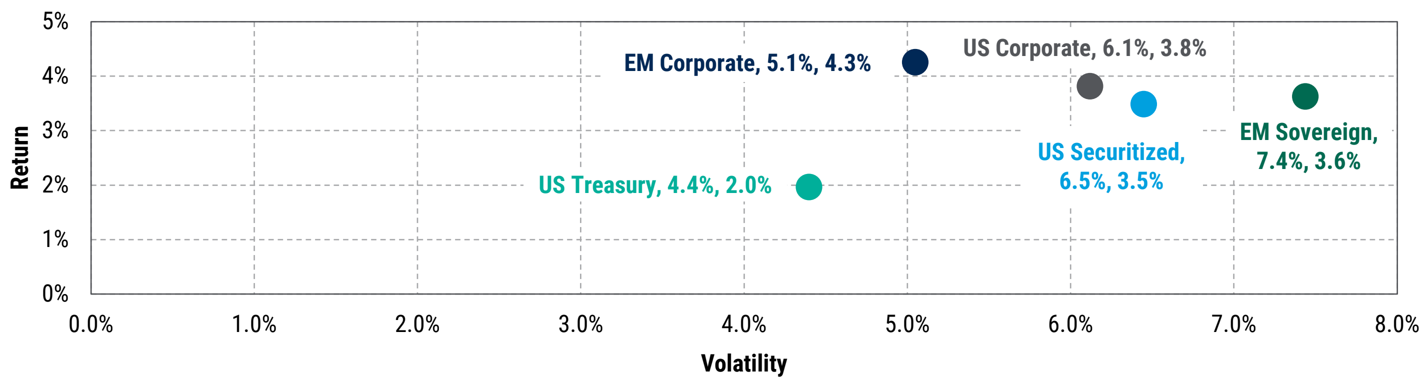


Source: J.P. Morgan and PineBridge Investments as of 31 May 2025. EM Corp. is JP Morgan CEMBI Broad Diversified; EM Sov. is JP Morgan EMBI Global Diversified; EM Local is JP Morgan GBI-EM Global Diversified; EM Equity is MSCI EM Equity Index. For illustrative purposes only. We are not soliciting or recommending any action based on this material. Past performance is not indicative of future results.

For insurers, the investment grade USD bond market provides the most capital-efficient exposure to emerging markets. This market exceeds $1.5 trillion of market cap,[2] comparable to the US high yield bond market. With its breadth of investment opportunities and lower interest rate sensitivity, the investment grade USD EM corporate bond market has delivered strong risk-adjusted returns relative to other fixed-rate USD investment grade credit markets.

Investment Grade US Dollar-Denominated EM Corporate Bonds Have Delivered Strong Risk-Adjusted Returns

Annualized volatility and USD returns of investment grade credit markets (since 2010)



Source: J.P. Morgan, Bloomberg, and PineBridge Investments as of 31 May 2025. EM Corp. is JP Morgan CEMBI Broad Diversified; EM Sov. is JP Morgan EMBI Global Diversified; US Corp. is Bloomberg US Corporate; Securitized is Bloomberg US Securitized. For illustrative purposes only. We are not soliciting or recommending any action based on this material. Past performance is not indicative of future results.

[2] Source: JP Morgan as of 31 March 2025.

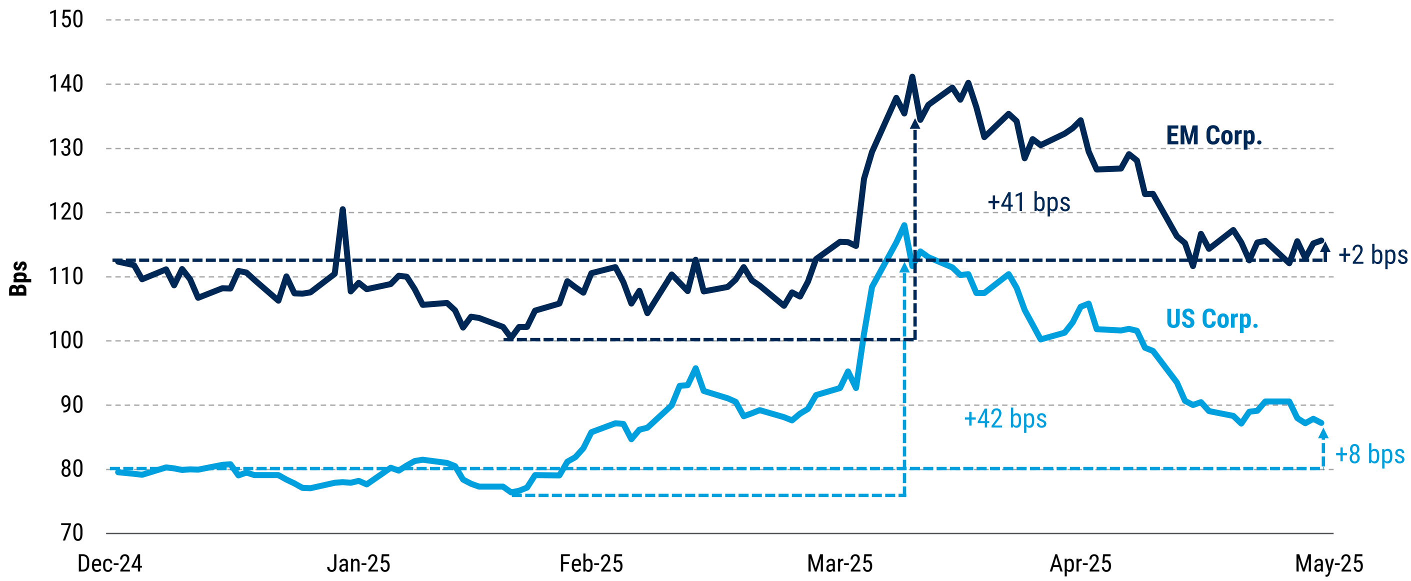
A geopolitical sea change invites investment introspection

The Trump administration has sought to change course from the decades-long geopolitical and global economic status quo, creating market volatility and macroeconomic uncertainty. Whether the administration can both succeed in its objectives and maintain US exceptionalism will be revealed over time. However, it appears that the US' longstanding dominance is likely to give way to a multipolar world order, with many EM countries poised to assume larger spheres of influence.

While this shift has accelerated recently, it has been underway for the better part of the twenty-first century and is predicated as much on changes in technology and energy as it is on a realignment of political and trade relationships. This has led to an accumulation of wealth across many EM countries, improvements in account balances, and strengthening of institutions, along with the development of infrastructure and growth in both domestic consumption and foreign investment. All of these factors make emerging markets far less dependent on cyclical growth factors. The greater resilience of EM economies has lent itself to greater resilience of emerging market debt to macroeconomic risks, as evidenced by EM credit spreads over the course of 2025.

EM Credit Spreads Have Demonstrated Resilience in 2025

Spread change of EM and US corporate IG (year-to-date 2025)



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Many of the risks clouding the macroeconomic outlook have their origins in the US and cast the darkest shadow on the US economic outlook. The de-escalation of tariffs between the US and China seems to acknowledge the lose-lose nature of decoupling the world's largest economies, and we see potential for pro-growth tax and regulatory policies to offset some of the negative impact of tariffs on the US economy. But those pro-growth policies also come with risks, as they include an increase in budget deficits that raises concerns about the sustainability of US debt. Regardless of changes in US policy, the EM debt markets' orderly reaction to tariff risk this year reflects these markets' more limited reliance on revenue from exports to the US.

Technical support is another factor contributing to resilient EM credit spreads. US dollar-denominated EM debt retail funds have seen consistent outflows since the Fed began raising interest rates in 2022, with a peak weekly outflow following the 2 April tariff announcements, surpassing any week since March 2020. However, while higher US rates curtailed retail investment into EM debt, issuance also declined, particularly among corporate issuers, many of whom turned to local bond markets to secure cheaper financing. In fact, for the past four years, the EM corporate bond market has experienced negative net issuance, with cash flows to investors – via coupons, amortization, tenders, and buybacks – exceeding primary issuance, and expected to do the same in 2025.

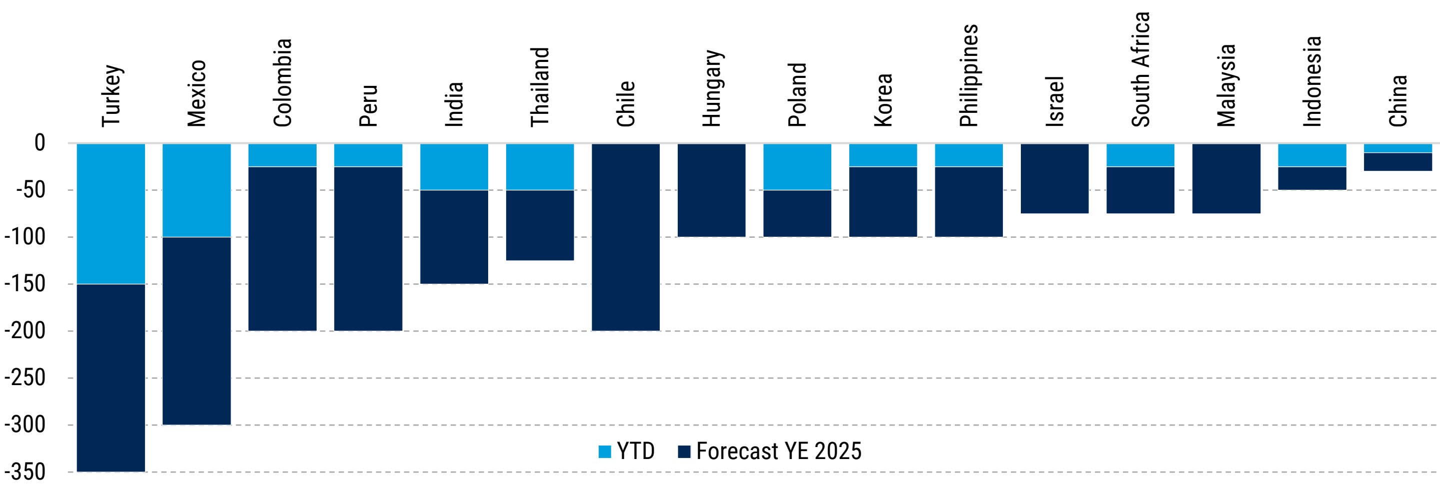
The EM Corporate Bond Market Has Witnessed Negative Net Issuance
Hard-currency EM bond issuance, cash flow, fund flow, and net financing (US$ bil.)

Region/Country	2022	2023	2024	2025 YTD	2025F
Corporate Gross Issuance	222	247	402	180	383
Corporate Cash Flows	480	402	473	181	466
Corporate Net Financing	**-258**	**-155**	**-71**	**-1**	**-83**
Sovereign Gross Issuance	97	134	183	102	199
Sovereign Cash Flows	125	111	142	78	160
Sovereign Net Financing	**-28**	**23**	**41**	**24**	**39**
Hard Currency Fund Flow	-45	-22	-16	-10	TBD
Hard Currency Total Cash Flow	560	491	599	249	616
Hard Currency Total Net Financing	**-241**	**-110**	**-14**	**33**	**-34**

Source: J.P. Morgan and PineBridge Investments as of 31 May 2025. Cash flows include amortizations, coupons, tenders, buybacks, and calls. For illustrative purposes only. We are not soliciting or recommending any action based on this material. Any opinions, projections, estimates, forecasts, and forward-looking statements presented herein are valid only as of the date of this presentation and are subject to change.

Tariffs are a net negative for global growth. But while the US faces stagflation risk, a decline in global trade will result in both slower growth and lower inflation across emerging markets. Inflation was already benign across most emerging markets, and the clarity of lower growth and inflation should allow central bankers to focus on growth and cut rates across many emerging market countries.

Slower Growth and Falling Inflation Will Enable EM Central Banks to Cut Rates
Central bank policy rate cuts: year-to-date and year-end 2025 forecast

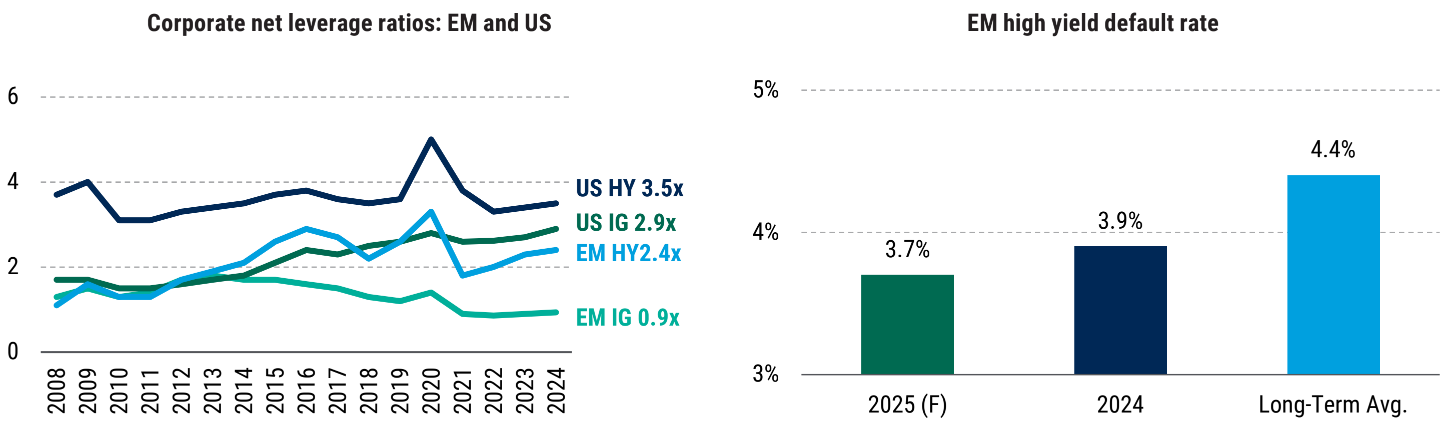


Source: J.P. Morgan and PineBridge Investments as of 30 April 2025. For illustrative purposes only. We are not soliciting or recommending any action based on this material. Any opinions, projections, estimates, forecasts, and forward-looking statements presented herein are valid only as of the date of this presentation and are subject to change.

China receives a lot of attention, given its key role in the global economy and its high-profile trade dispute with the US. In recent weeks, markets have received a stream of positive news out of China, beginning with monetary policy easing and liquidity measures directed toward key sectors, and later a trade deal with the US that surpassed market expectations: The US reduced its average effective tariff rate on Chinese imports to 30%, and China dropped its tariffs on US imports to 10%. That trade deal is not only positive for China but is also a positive sign for other Asian economies working to strike similar trade deals during the negotiating window for US retaliatory tariffs. We expect China to announce fiscal stimulus at its July politburo meeting, which – along with monetary policy easing and a resumption of trade with the US – should enable China to achieve growth in the high-4% area.

A slowdown in growth will hit EM corporate profits, but balance sheets across EM corporate bond markets are strong enough to withstand a slowdown in topline revenue. With net leverage ratios across EM near historical lows, we don't expect slower growth to materially affect credit rating downgrades or defaults, which are forecast to stay below historical averages in 2025 despite macroeconomic uncertainty.

EM Corporate Leverage and Default Rates Support Credit Quality



Source: J.P. Morgan and PineBridge Investments; left as of 31 December 2024, right as of 31 May 2025. For illustrative purposes only. We are not soliciting or recommending any action based on this material.

The impact of adding EM debt to insurance portfolios

The EM corporate bond market contains over 750 issuers from 65 countries (and over 900 issuers from 88 countries when including US dollar sovereign bonds). Nearly 60% of the total market capitalization is investment grade and issued by just under 400 companies. To best understand the addition of EM corporate bonds to a core fixed income portfolio, we can start with a look across the indices.

An Index-Level View of EM Debt Features vs. Core Fixed Income

Core fixed income index comparison

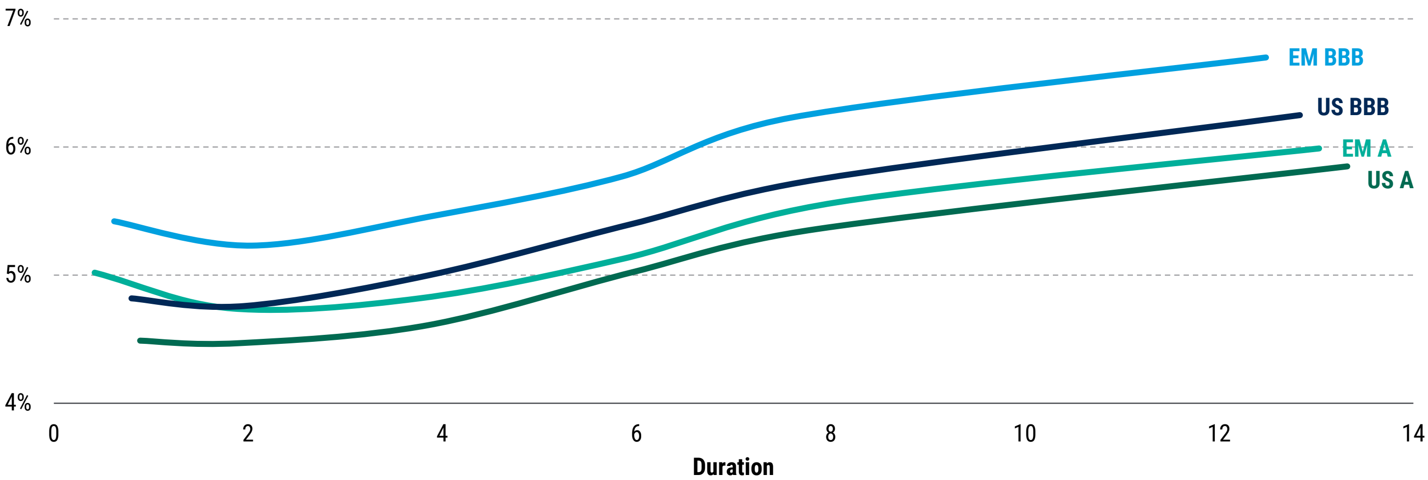
	IG EM Debt		Core Fixed Income		
	Sovereign	Corporate	US Agg.	US Securitized	US Corporate
Yield to Worst	5.50%	5.35%	4.71%	5.13%	5.21%
Spread (bps)	111	116	34	44	87
Duration (years)	7.4	4.5	6	6.0	6.7
Average Rating	A-/BBB+	A-/BBB+	AA/AA-	AA/AA-	A-/BBB+

Source: J.P. Morgan, Bloomberg, and PineBridge Investments as of 31 May 2025. EM Corp. is JP Morgan CEMBI Broad Diversified Investment Grade; EM Sovereign is JP Morgan EMBI Global Diversified Investment Grade; US Agg. is Bloomberg US Aggregate; US Securitized is Bloomberg Securitized; US Corp. is Bloomberg US Corporate. For illustrative purposes only. We are not soliciting or recommending any action based on this material.

At first glance, the yield available within the investment grade EM corporate bond market does not appear to offer particularly compelling value relative to US corporates. However, it's important to note that the EM corporate bond market has more than two years' shorter duration than the US corporate bond market. Credit curves best illustrate the relative value of EM corporates, with attractive opportunities in shorter maturities and where the market's generally steeper yield curves provide greater yield enhancement farther out on the curve. This helps provide better context for the optimal portfolio design to meet specific insurance objectives.

Yield Curves Highlight Potential Benefits of EM Debt Allocations

US and EM corporate credit yield curves: A and BBB rated credit



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Not only does EM corporate debt provide opportunities to enhance yield along the curve, but it can also help diversify risks within an insurance core FI portfolio. While correlations across corporate bond markets remain relatively high, EM corporates provide valuable diversification to US securitized and US Treasuries.

Index Correlation of EM IG and US Core FI Since 2010

	EM Corp. IG	EM Sov. IG	US Corp. IG	US Securitized	US Treasuries
EM Corporate IG	1	0.93	0.90	0.65	0.54
EM Sovereign IG	0.93	1	0.92	0.74	0.67
US Corporate IG	0.90	0.92	1	0.81	0.74
US Securitized	0.65	0.74	0.81	1	0.89
US Treasuries	0.54	0.67	0.74	0.89	1

Source: J.P. Morgan, Bloomberg, and PineBridge Investments as of 31 May 2025. EM Corp. is JP Morgan CEMBI Broad Diversified Investment Grade; EM Sovereign is JP Morgan EMBI Global Diversified Investment Grade; US Agg. is Bloomberg US Aggregate; US Securitized is Bloomberg Securitized; US Corp. is Bloomberg US Corporate. For illustrative purposes only. We are not soliciting or recommending any action based on this material.

Despite all the benefits that EM corporate bonds can provide insurance portfolios, most insurers are strategically underweight EM. The statutory limit of insurance allocation to foreign investments typically ranges from 10% to 20% of admitted assets, with variance by state and insurance type. While this covers all non-US exposures, it does provide ample flexibility for insurance portfolios to unlock the meaningful benefits of EM corporate bonds.

State	Insurance type	% of admitted assets
California	All	12%
New York	Life	16%
	P&C	12%-15%*
	Health	10%
Texas	L&H	20%**
	P&C	20%**
Iowa	All	20%
Illinois	All	20%
Pennsylvania	Life	10%
	Fire & marine	30%

Source: PineBridge Investments as of 31 May 2025.
*Greatest of 12% admitted assets, 15% invested assets, or 1.5 times the amount of reserves and required investments.
**20% of assets and the amount of reserves attributable to business and required investments in any country.

At PineBridge we have managed EM portfolios for insurance clients for more than 15 years. Our investment team includes five portfolio managers and 18 analysts dedicated to emerging market debt, who currently manage more than $10 billion in global EM and Asia bond portfolios on behalf of insurance clients.[3]

While the complexity of the EM debt markets can be a challenge for insurance investors, it also presents broad opportunities for actively managed portfolios to deliver on distinct investment objectives.

[3] As of 31 March 2025.

About PineBridge Investments

pinebridge.com

PineBridge Investments is a private, global asset manager focused on active, high-conviction investing. We draw on the collective power of our experts in each discipline, market, and region of the world through an open culture of collaboration designed to identify the best ideas. Our mission is to exceed clients' expectations on every level, every day. As of 31 March 2025, the firm managed US$188.9 billion across global asset classes for sophisticated investors around the world.

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