



Loomis Sayles: multi-asset benefits

Colin Dowdall, director of insurance solutions at Loomis Sayles, explains why having a strong multi-asset strategy is as important as it has ever been

How have you evolved the multi-asset strategy in the face of volatile conditions this year?

Loomis Sayles' selection as multi-asset manager of the year for a second year in a row is a result of significant sweat from many hands pulling in the same direction on the insurance and investment teams.

In the midst of market volatility, we have evolved our multi-asset approach through the utilisation of technology and by incorporating private assets into the investment process.

Our firm has invested heavily in developing fully integrated front office proprietary risk analytics and technology that enhances our investment approach for multi-asset investment mandates.

Insurers give us varying degrees of freedom to fully express tactical views, and we work closely in coordination with our clients to ensure that our views are optimised within the constraints and objectives of each mandate.

We have also found that, for certain insurers, the ability to incorporate private assets into our multi-asset portfolios has given us an additional tool to exploit the illiquidity premium. We have particularly found opportunity within the specialty finance and private ABS market, as these areas have provided an attractive premium to both the public markets and to traditional corporate private placements.

How has multi-asset investing helped insurers to deal with the higher rate environment?

Multi-asset investing is an attractive mandate for insurers that lack the ability to incorporate tactical insights into the day-to-day management of their portfolio. This may be due to a variety of reasons but, typically, complicated governance can serve as an impediment. We have seen a number of themes playing out this year. First, inflation has been stickier than perhaps initially anticipated, resulting in a hawkish Fed approach. Risk assets have rallied from lows, but the ride has been choppy. Credit spreads have held up despite flashing warning signals across markets.

This higher rate environment has been a remarkably net-positive event for insurers. The investment department at an insurer is well positioned to drive profits going forward in the face of challenging underwriting fundamentals. Multi-asset investing has been less focused on reaching for that extra basis point or two in favour of a back-to-basics approach. We have found that having a deep capability in structured assets has



Colin Dowdall

been important as relative value in consumer related assets have looked attractive vs. traditional high-yield corporate debt.

Structured debt continues to grow in importance for insurers – is this trend here to stay even as rates offer higher traditional returns?

The structured debt market has been an important part of an insurance portfolio for decades - typically seen as part of an insurer's core portfolio.

The biggest area of growth in the structured market has been in the asset-based lending space. The opportunity for insurers has been accelerated due to the continued disintermediation of banks, which traditionally held these loans on their balance sheets.

Insurers are uniquely positioned to underwrite the risks, particularly given the longer-term nature of an insurance balance sheet. We tend to like sectors that are backed by hard assets or the consumer and see the opportunity in structured assets in both the public syndicated market as well as the private market. There are only a handful of firms that have a track record of over 10 years in this particular part of the structured market.

We think this trend will continue as there are no signs of bank retrenchment letting up. Additionally, we believe that negative bond technicals, rather than fundamental concerns, are driving today's attractive spread levels in high-quality residential and consumer-related securitised assets compared to investment grade corporates.

What is your outlook on assets in the near-term?

We believe that we are in the midst of a broader structural shift from quantitative easing to quantitative tightening. During these periods we should expect that risk assets will come under some pressure. Additionally, we expect a shift away from the strength of the US Dollar. We favour markets that will drive long-term fundamental growth and generally have a positive view of emerging markets relative to developed markets, and local currencies over hard currency. We would advocate for maintaining a neutral credit beta relative to targets, and place risk in sectors that will be durable in the midst of a recession. However, we expect that any recession will likely be shallow, as the overall fundamentals appear to be strong and capable of withstanding some market pressure.

www.loomissayles.com

This reprint dated as of October 11, 2023 is provided with permission from *Insurance Asset Risk*. Loomis Sayles and *Insurance Asset Risk* are not affiliated.

This marketing communication is provided for informational purposes only and should not be construed as investment advice. Investment decisions should consider the individual circumstances of the particular investor. Any opinions or forecasts contained herein, reflect the subjective judgments and assumptions of the authors only, and do not necessarily reflect the views of Loomis, Sayles & Company, L.P. Investment recommendations may be inconsistent with these opinions. There is no assurance that developments will transpire as forecasted and actual results will be different. Data and analysis does not represent the actual, or expected future performance of any investment product. Information, including that obtained from outside sources, is believed to be correct, but Loomis Sayles cannot guarantee its accuracy. This information is subject to change at any time without notice.

This material should not be considered a solicitation to buy or an offer to sell any product or service to any person in any jurisdiction where such activity would be unlawful.

Market conditions are extremely fluid and change frequently.

Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal.

There is no guarantee that the investment objective will be realized or that the strategy will generate positive or excess return.

Past performance is no guarantee of future results.