

Insurance Bonds

Outlook 2026

Drying Supply, Strong Outperformance Ahead

Executive Summary

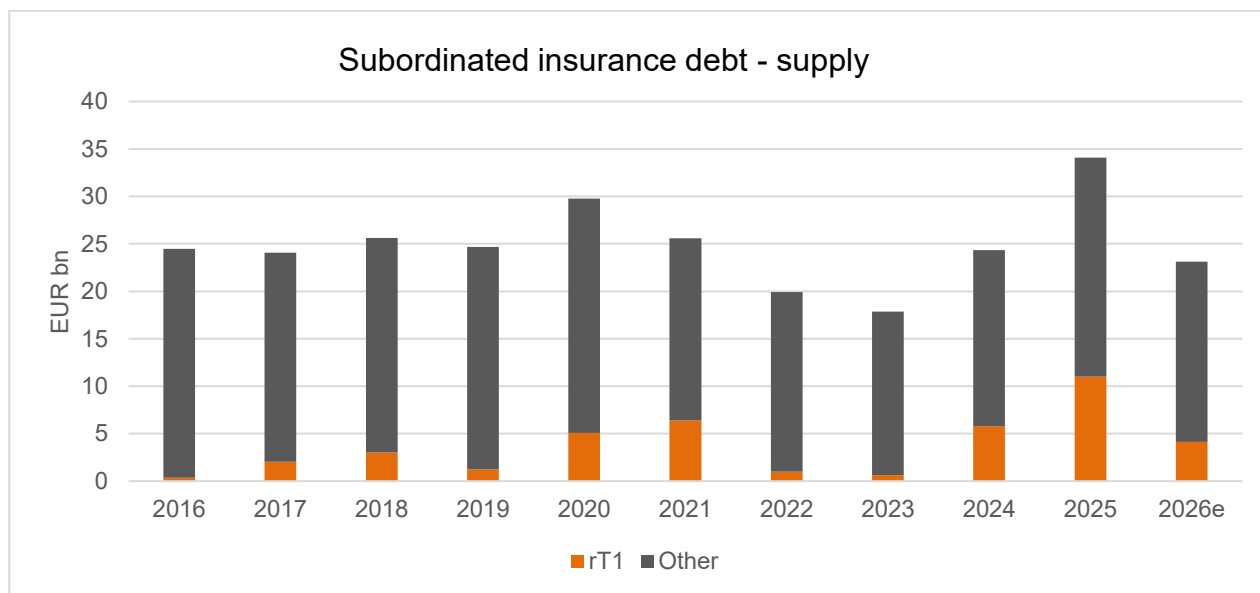
Subordinated insurance debt is poised to *outperform again in 2026*. After a record year of rT1 issuance in 2025, supply is set to decline materially, while demand remains robust. In a credit market where overall supply is likely to outpace demand in 2026, a sector with strongly declining issuance should continue to outperform.

Despite last year's rally, subordinated insurance paper – and rT1 in particular – still offers meaningfully higher yields than other credit sectors. With insurers remaining overcapitalised, refinancing needs limited, and monetary easing expected across the Eurozone, UK and US, the asset class benefits from both attractive spreads and a supportive rates backdrop. Together, these dynamics create a compelling investment opportunity relative to broader credit markets.

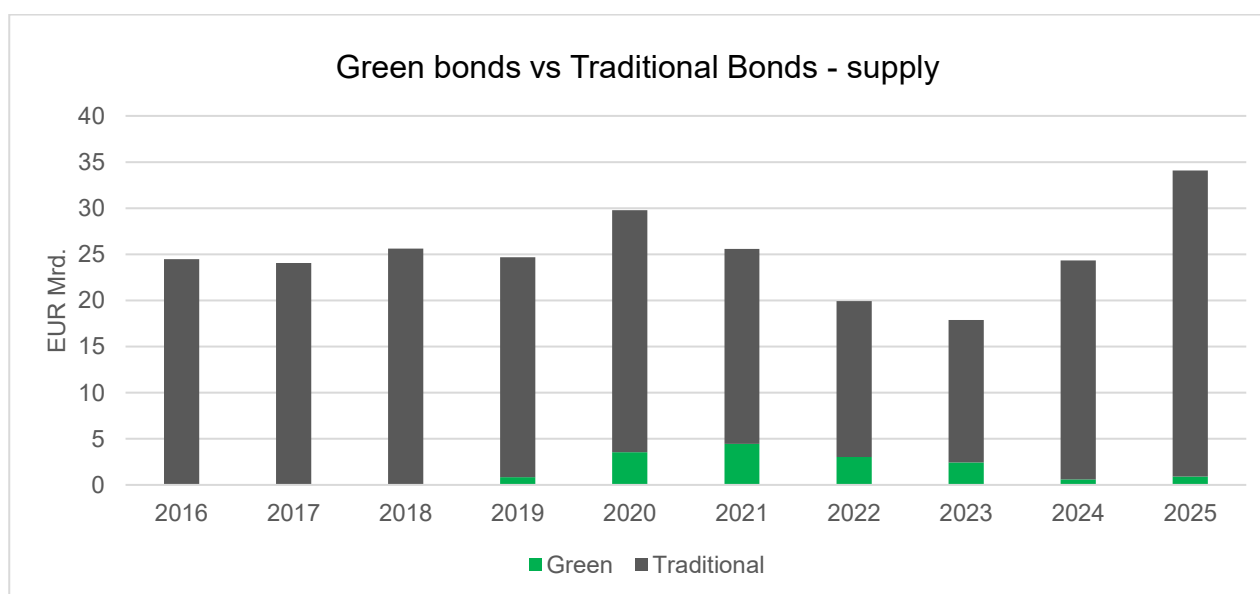
2025 Recap: Record Supply

Issuance of subordinated insurance debt reached EUR 34bn in 2025, the second-highest year on record. Restricted Tier 1 (rT1) capital issuance reached its highest level ever and accounted for EUR 11bn, with 32% of total issuance in this format – a record share. Attractive market conditions and tight spread differentials between rT1 and Tier 2 paper supported issuance, while M&A activity (e.g., Ageas) added further supply.

Several first-time issuers entered the rT1 market, including Chesnara, Sampo, and Generali, with Generali achieving one of the tightest deals of the year. Resolution Life also surprised the market by opening a new segment with the first Bermuda T1 issue.



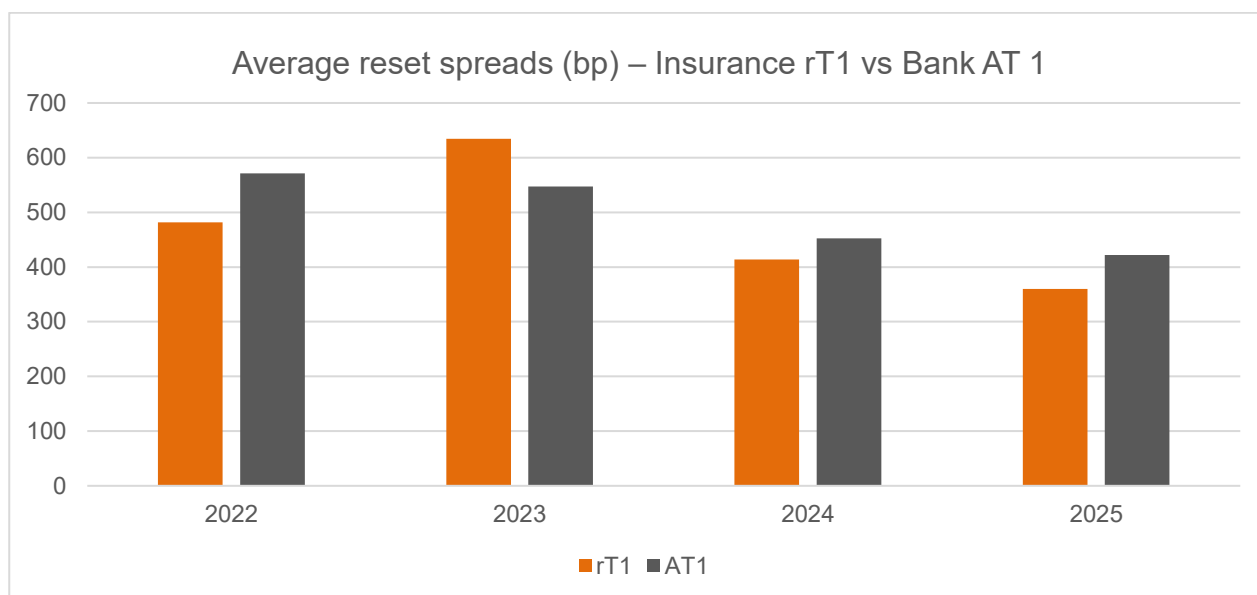
Green issuance remained negligible, at just 2.6% of total supply (2024: 2.4%), far below levels seen in 2020–2023. Reporting requirements, limited spread advantages, and shifting sentiment have reduced issuer appetite. We see little prospect of recovery in the near term.



Market Discipline & Call Behavior

Market discipline prevailed in 2025, with all rT1 bonds called at their first call dates. Allianz was the only issuer to signal a deviation, stating it would call on an “economic basis.” Its first rT1 bond was partly tendered before being called economically, postponing any real test of market reactions to a non-call.

Reset spreads of new issues continued to tighten, reinforcing our view that almost all rT1 bonds will be called at first opportunity, though the relatively small sample size warrants caution.



Drying Pipeline

Looking ahead, supply is set to fall sharply in 2026, in contrast to broader credit markets where issuance is expected to rise. Several insurers have already pre-financed upcoming call dates, and most potential rT1 issuers have now tapped the market. We expect total new issues to fall from EUR34bn to EUR 21 - 24bn. This includes EUR 3.5 - 4.5bn of rT1 and around EUR14bn of T2 issuance. The remainder comprises mostly bonds issued under the SST and Bermuda regimes. Our estimate includes primarily refinancing of outstanding bonds which are likely to be called or redeemed in 2026 and early 2027 as well as an allowance for funding of organic growth a relatively limited large scale M&A activity. With refinancing activity likely to remain sluggish until the end of the decade, subordinated insurance debt stands out as a niche where demand exceeds supply. This applies in particular to the rT1 segment where supply is likely to decline by 60%.

Insurers remain highly capitalised, with substantial excess capital positions. This limits the need for new issuance to fund growth or M&A, especially as large acquisitions appear unlikely. While profitability may erode slightly in 2026 due to pricing pressure in non-life and reinsurance, and potentially lower investment returns, most large players have strengthened reserves in recent years. These buffers allow insurers to offset margin decline while continuing to fund growth and distributions.

Only Munich Re has announced moderate releveraging plans, though it is uncertain whether this will begin in 2026.

Attractive Relative Yields & Supportive Rates Backdrop

Despite the strong performance of subordinated insurance debt in 2025, valuations remain compelling. rT1 instruments continue to offer significantly higher yields than comparable subordinated or hybrid instruments in banking, corporate hybrids, or high yield markets. The combination of lower

reset spreads, conservative capital structures, and disciplined call behavior supports a yield premium that has not been fully arbitrated away.

Looking ahead, expected rate cuts across the Eurozone, UK, and US should provide an additional tailwind for bond valuations. Lower policy rates reduce refinancing costs for issuers and enhance the relative attractiveness of fixed income carry strategies. For subordinated insurance debt – where supply is shrinking and investor demand remains strong – this macro backdrop amplifies the potential for further spread compression and total return outperformance.

Bullish Outlook

With supply drying up, demand remaining relatively strong, and insurers well capitalised, subordinated insurance debt is positioned to outperform other sectors in 2026. The sector continues to offer a rare combination of declining issuance, attractive carry, and disciplined call behavior.

Crucially, even after last year's rally, rT1 and broader subordinated insurance paper still provide materially higher yields than most competing credit segments. As central banks in the Eurozone, UK, and US move toward monetary easing, the resulting decline in risk free rates should add further momentum to valuations.

We maintain a bullish view on the asset class and expect subordinated insurance debt – especially rT1 – to continue delivering superior risk adjusted returns relative to broader credit markets.

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