MetLife Investment Management



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What Lies Beneath: How Insurance CIOs Are Managing Complexity

Key takeaways

- Higher yields have created the potential to earn attractive income without reaching for yield or illiquidity. But valuations are tight, and the decision to extend duration is challenging with the path of interest rates uncertain and the shape of the yield curve changing.
- As private credit has expanded into new asset classes and sectors, chief investment officers (CIOs) have more opportunities to match specific investment characteristics to fit their liability profiles. But the breadth of the risk-return spectrum in the asset class is not always captured in the headlines.
- The AI build-out offers a generational demand for capital, but the amount of issuance across asset classes makes it difficult to track overall portfolio exposure.
- Both regulators and insurers are grappling with understanding the risks embedded in increasingly complex portfolios, sometimes with multiple managers.

The CIOs who attended our recent 2026 Insurance CIO Summit described an opportunity set that has grown richer but not easier.

After years of extraordinarily low interest rates, meaningful yields are available across fixed-income markets. Meanwhile, growing demand for annuities and pension risk-transfer solutions is creating new opportunities to deploy capital. Yet many of the factors making the opportunity set more attractive are also bringing up new challenges. The economists, investment professionals and CIOs at our Summit returned time and again to a common thread running through these challenges: understanding and balancing the underlying risks and exposures in increasingly complex portfolios. Below, we detail what these experts said about some of the most important challenges facing CIOs today.

Higher yields, tighter spreads and the challenge of continuous deployment

Elevated yields have created the potential to earn attractive income without reaching aggressively for credit or illiquidity premiums. Locking in long-duration assets requires some thought when the ultimate path of interest rates remains uncertain, and yield curves continue to adjust to changing expectations around inflation, growth and fiscal policy. Forming a view on why rates are going up is important, too, as a broad-based economic boom pushing rates higher has different implications for risk than concerns about the ballooning U.S. deficit, for example.

A flatter curve, changing prepayment expectations and renewed opportunities to lock in attractive yields have brought asset-liability considerations back to the center of duration decisions. Some of the CIOs on our panel discussed using barbell approaches that combine shorter- and longer-dated assets, while others highlighted the importance of maintaining flexibility as extension risk and prepayment risk become relevant considerations again.

Despite widespread expectations that higher rates would eventually create broader market stress, attractive entry points have remained surprisingly scarce, with spreads in many markets seemingly parked at or near all-time tights. The result is a tension between patience and deployment, balancing the need to put money to work with the desire to preserve dry powder should more attractive opportunities emerge.

The private credit opportunity set has broadened, but it has also become more complex.

Private credit has been a staple on insurance company balance sheets for decades. MetLife, Inc., the parent company of MetLife Investment Management, has been investing in commercial mortgages for more than 150 years and private placements for more than a century, for example.

But the asset class expanded quickly after the Global Financial Crisis as banks pulled back on certain kinds of lending. With more structures and more participants comes more opportunity–private assets helped many insurers achieve returns in low-rate environments, for example–but also more potential failure points.

Headlines tend to lump corporate private placements, commercial mortgages, private infrastructure debt, asset-based finance and direct lending into a single “private credit” category. However, the sub-asset classes are best viewed as a collection of exposures to sectors, structures and risk profiles that require individual assessment. Ultimately, insurers have to find the combination of assets that currently offer the risk-adjusted returns necessary to match their liability pools.

Private infrastructure debt, for example, tends to have very long tenors, making it a good fit for long-term liabilities. Private asset-based finance can offer access to a broader range of durations and cash flow profiles, providing additional flexibility in aligning assets with liabilities. Some insurers may also maintain a modest allocation to direct lending, accepting somewhat shorter durations and higher credit risk in exchange for enhanced income and potential portfolio diversification.

As private markets have expanded beyond their traditional institutional investor base, insurers must evaluate not only the underlying assets but also the capital investing alongside them. Panelists noted concerns about leading managers being distracted by well-publicized redemption requests from individual investors who needed more liquidity than gated vehicles could provide, as well as lower yields due to competition for deals to meet demand from new investors.

One insurance executive characterized some of the recent stress in private credit as normalization. After years of exceptionally low credit losses, investors are once again confronting defaults and impairments that had always been contemplated in underwriting and pricing assumptions. While they did not see recent stresses in parts of the market as a broad indictment of private credit, panelists also did not dismiss them outright. As the opportunity set expands, differences in underwriting standards, servicing capabilities, collateral quality and manager expertise are increasingly important.

CIOs are grappling with AI as a whole-portfolio exposure

AI is affecting insurance investment in multiple ways: as a force that could reshape the economy, a source of relentless demand for capital across multiple types of debt and equity financing and a concentration risk that may be hiding across multiple asset classes.

The last challenge is especially pressing. CIOs are faced with looking across infrastructure financing, private equity, public securities and corporate debt holdings to understand the portfolio's collective AI exposure. Focusing on one tangible asset–a data center–exposure could come in private infrastructure debt (or equity), commercial real estate, private equity, publicly traded bonds and equities, and structured assets. As more managers, even those who have not traditionally focused on AI, technology or infrastructure, look to get exposure to the trend, insurers may find that a portfolio can have heavy exposure to something like data centers even if it was not originally underwritten that way. It all adds up to the possibility of concentration across managers and mandates even when each individual allocation appears diversified.

Rather than avoiding exposure altogether, which has risks of its own, many CIOs are focusing on carefully mapping it and considering where risks may be aggregating. First movers are not always the long-term winners in an infrastructure build-out or the development of a transformational technology, making it important to be selective in the early stages. Then again, unlike in the dot-com boom, which produced companies with little substance or long-term staying power (the infamous Pets.com springs to mind), the AI capex story is broad, cutting across physical infrastructure and real estate (data centers), utilities, tech, model developers, data and more. Throughout the day, panelists emphasized that the particulars of individual investments, the credibility of the companies and teams behind the investment and credit underwriting are critically important.

There's also the macro backdrop to consider. While AI is a near-term demand shock pushing up rates, will it ultimately be deflationary? Will the transformational change it causes revolutionize businesses faster than technologies such as electricity or personal computers did? Will that cause social unrest, lead to an explosion in true innovation, or both? These are the questions insurers and other investors must keep in mind when making long-term investments.

Better look-through is becoming both an investment imperative and a regulatory expectation

The increasing complexity of insurance portfolios is creating a common challenge for investors and regulators: understanding the risks embedded within increasingly diverse and interconnected holdings. As private markets expand, AI exposures span multiple asset classes, and investment strategies become more specialized, both regulators and CIOs are seeking more granular visibility into what insurers actually own.

At a regulatory session, panelists discussed a series of initiatives from the National Association of Insurance Commissioners aimed at giving regulators greater visibility into the risks embedded within increasingly complex portfolios. These include enhanced reporting requirements and new statutory disclosures, recently approved collateralized loan obligation capital modeling, ongoing work around the treatment of asset-backed securities, gaps in the risk-based capital framework and oversight on how credit ratings translate into capital charges.

Conclusion

As portfolios become larger, more specialized and more interconnected, broad asset-class labels and headline narratives are becoming less useful guides to risk. Success increasingly depends on understanding what ultimately drives returns, how assets interact with liabilities, where exposures overlap and whether investors are being adequately compensated for the risks they assume.

In that respect, the conversations at our summit suggested that the industry's focus is shifting from asset allocation alone to something more fundamental: developing the information, perspective and discipline needed to navigate a more complex opportunity set with greater precision.

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