INVESTOR INSIGHTS

U.S. P&C insurance industry investment trends

From underwriting strength to investment opportunity

SEPTEMBER 2026

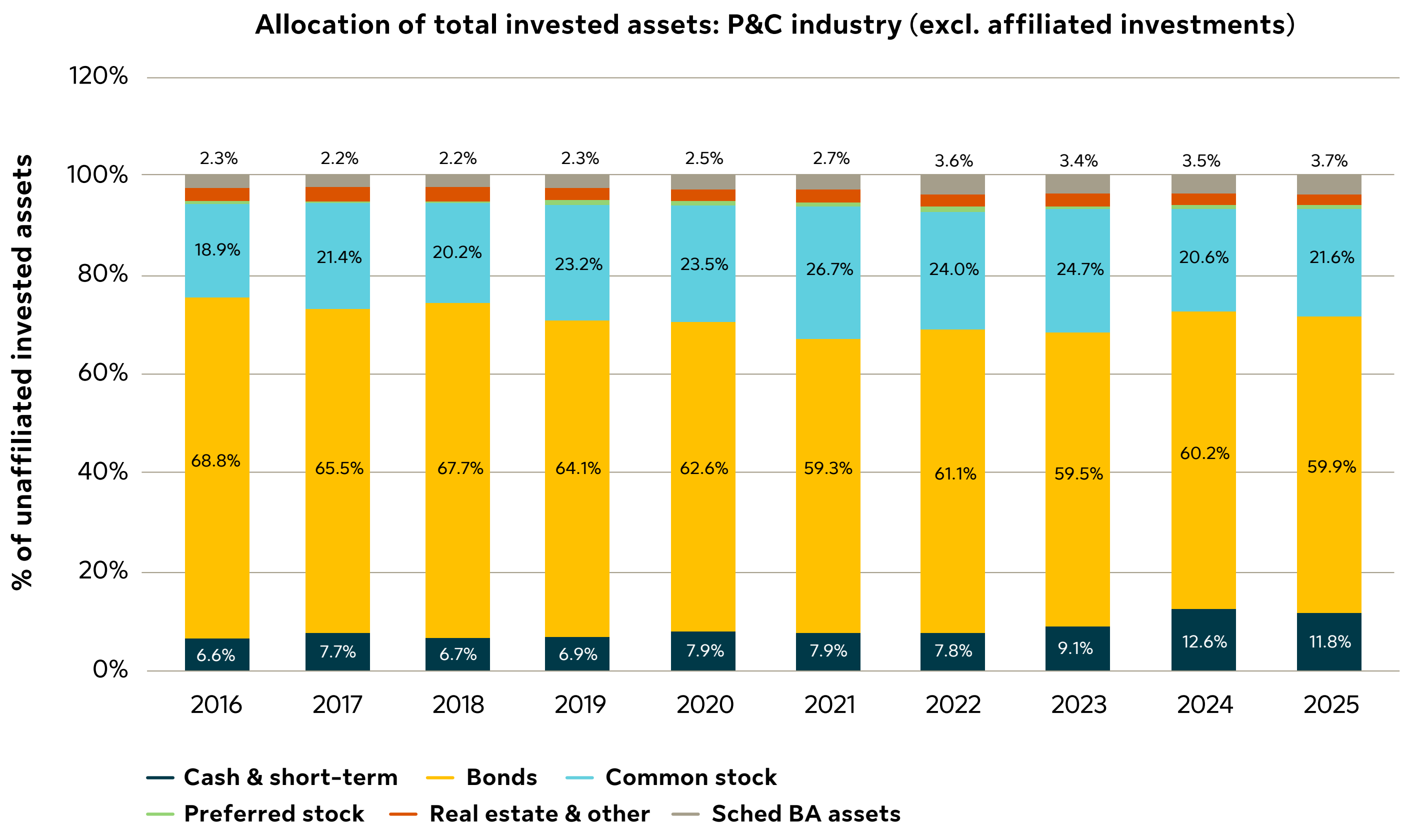
The U.S. property and casualty (P&C) insurance industry is coming off its best underwriting result in 20 years, leaving it with bolstered capital and enhanced balance sheet flexibility (source: S&P Global, 2026). This position of strength creates greater capacity for the industry to consider return-enhancing investments. And while the industry's exposure to risk assets appears elevated on an unadjusted basis, this figure is meaningfully lower after excluding affiliated holdings and two large outlier companies, suggesting many insurers have room to take on additional investment risk.

As insurers evaluate how best to deploy that capacity, private markets continue to attract growing interest. Allocations to investment grade (IG) private fixed income and Schedule BA assets (as classified by the National Association of Insurance Commissioners [NAIC]) increased in 2025, and recent investment activity points to continued demand for income-oriented alternatives. We believe the industry's ability to take on illiquidity risk is one of its greatest – and most underutilized – competitive advantages. With interest rates remaining elevated and private markets offering a growing range of yield-enhancing, capital-efficient strategies, we believe insurers are well positioned to improve portfolio returns without taking on a commensurate increase in risk.

Overall asset allocation

In this analysis, we only consider unaffiliated assets and exclude affiliated assets, with the latter accounting for roughly 8% of the industry's overall invested assets. Unaffiliated assets tend to reflect market-driven investment decisions, whereas affiliated assets are often influenced by corporate structure or strategy. Within the statutory financial statements, affiliated investments appear on both Schedule D – Part 2 (common stocks, as classified by the NAIC) and Schedule BA (other invested assets).

Over the past 10 years, the industry's allocation of cash and invested assets has shifted meaningfully, with increases in the allocations to cash, common stocks and Schedule BA assets, and a decrease in the allocation to bonds.



Source: S&P Capital IQ, SLC Management analysis. Based on statutory financial data. Includes full P&C industry. Excludes affiliated investments. "Real estate & other" category includes company-owned buildings. Real estate equity and debt funds appear on Schedule BA.

However, a closer look at the data reveals that much of the change has been driven by the two largest companies: Berkshire Hathaway and State Farm.[1] When we exclude them, we not only see fairly consistent industry allocations versus a decade ago, but also overall asset allocations that are noticeably different than when including all companies, as shown in the following table.

Allocation of total invested assets: year-end 2025

	Cash & short-term	Bonds	Common stock	Preferred stock	Real estate & other	Sched BA assets
P&C industry	10.9%	55.1%	24.9%	0.6%	2.0%	6.4%
P&C industry (excl. affilated)	11.8%	59.9%	21.6%	0.7%	2.2%	3.7%
P&C industry ex Berkshire (excl. affiliated)	5.5%	73.3%	13.1%	0.4%	2.7%	5.0%
P&C industry ex Berkshire & State Farm (excl. affiliated)	6.1%	76.5%	8.1%	0.5%	2.9%	5.9%

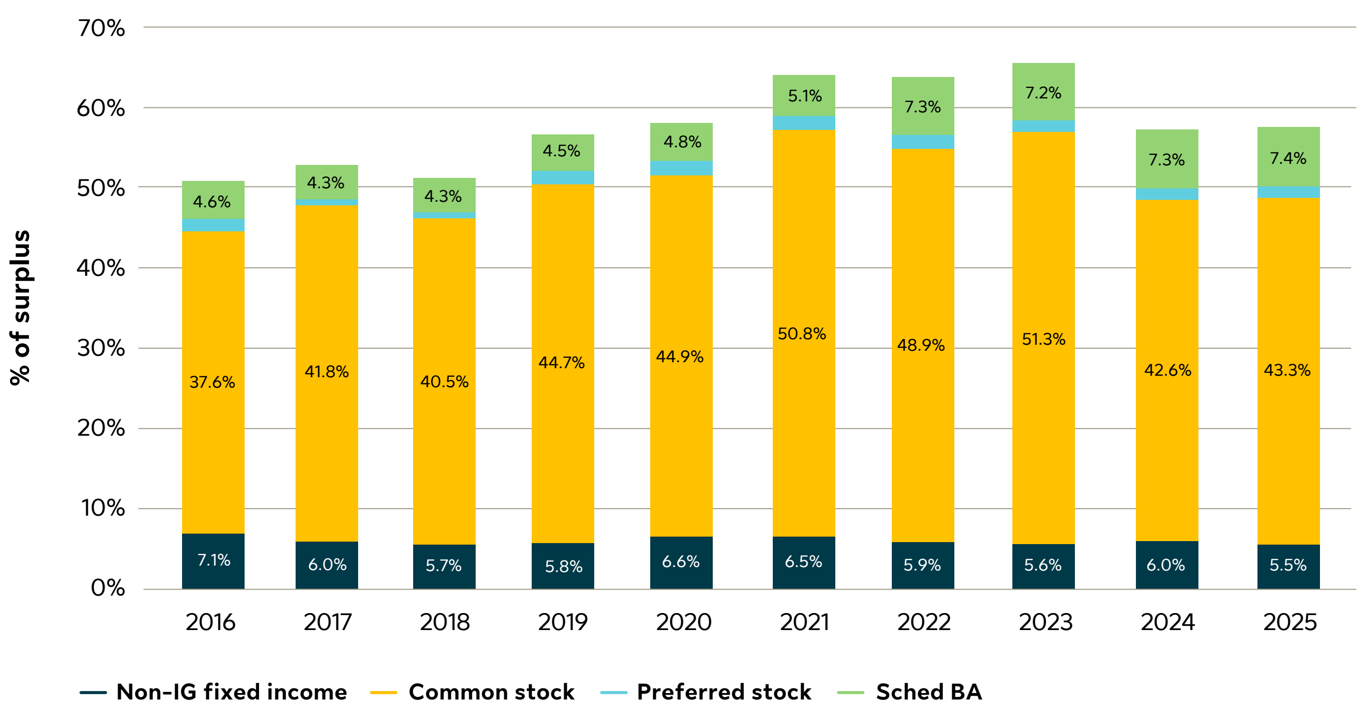
Source: S&P Capital IQ, SLC Management analysis. Based on statutory financial data.

Exposure to risk assets

Rating agencies prefer to measure the amount of risk assets a company holds as a percentage of its surplus rather than as a percentage of its invested assets. Surplus represents the insurer's buffer to absorb investment losses, so a portfolio with a greater amount of risk assets should be supported by a larger surplus base.

Defining risk assets as stocks, Schedule BA assets and non-IG bonds, the industry's overall risk asset exposure is down slightly from several years ago. However, much of the decline has been driven by asset allocation changes at Berkshire Hathaway (out of common stocks and into cash). We note that Berkshire and State Farm have common stock allocations (as a percentage of total invested assets) of nearly 60% and 50%, respectively, which compares to the rest of the P&C industry at less than 10%.

Risk assets as a % of surplus: P&C industry (excl. affiliated investments)



Source: S&P Capital IQ, SLC Management analysis. Based on statutory financial data. Includes full P&C industry. Excludes affiliated investments.

Risk assets as a % of surplus: year-end 2025

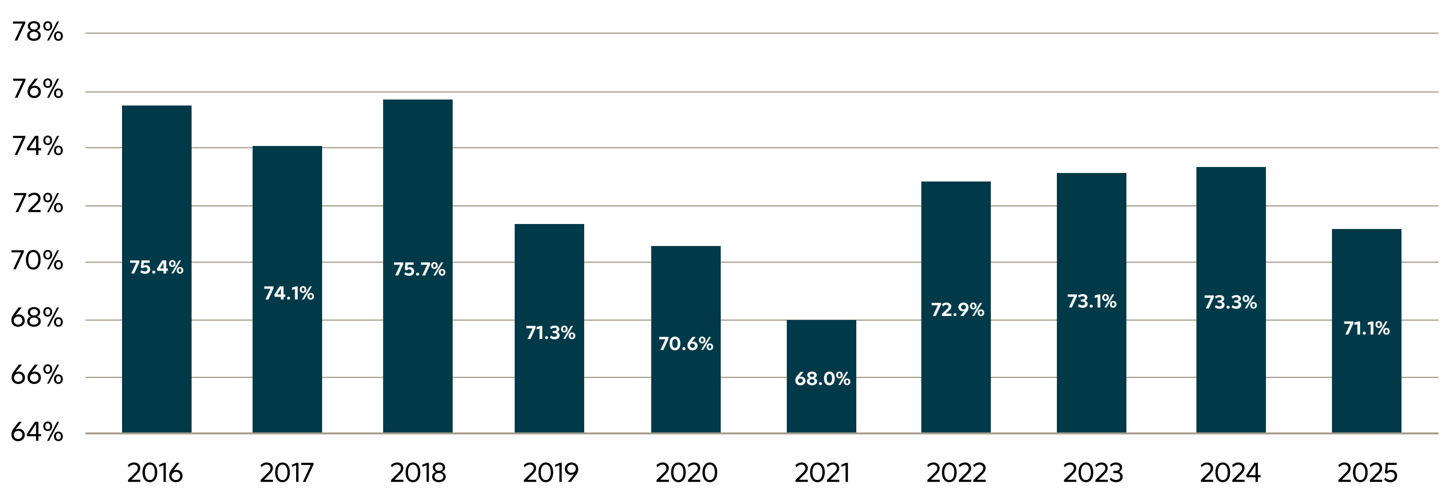
	Non-IG fixed income	Common stock	Preferred stock	Sched BA	Total risk asset leverage
P&C industry	5.5%	54.1%	1.4%	13.9%	74.9%
P&C industry (excl. affiliated)	5.5%	43.3%	1.4%	7.4%	57.6%
P&C industry ex Berkshire (excl. affiliated)	7.5%	28.9%	0.9%	11.1%	48.5%
P&C industry ex Berkshire & State Farm (excl. affiliated)	9.2%	19.1%	1.1%	14.0%	43.4%

Source: S&P Capital IQ, SLC Management analysis. Based on statutory financial data.

Measuring capacity for risk

Before evaluating potential increased allocations to risk assets, it's important to assess a company's capacity to take on additional investment risk. One high level way to do this is by comparing the sum of the company's loss and loss adjustment expense (LAE) reserves and additional required capital needed to support those reserves to its cash and invested assets. As of year-end 2025, we estimate this ratio was 71%,[2] which can be interpreted as follows: 71% of the company's invested assets should be allocated to high quality liquid investments that can be available to fund potential claim payouts, leaving the remaining 29% potentially available to invest in higher-return-seeking or less liquid assets. Given the strong surplus growth the industry experienced in 2025, this indicator of risk capacity for the industry increased.

Loss reserves & additional required capital as a % of unaffiliated invested assets



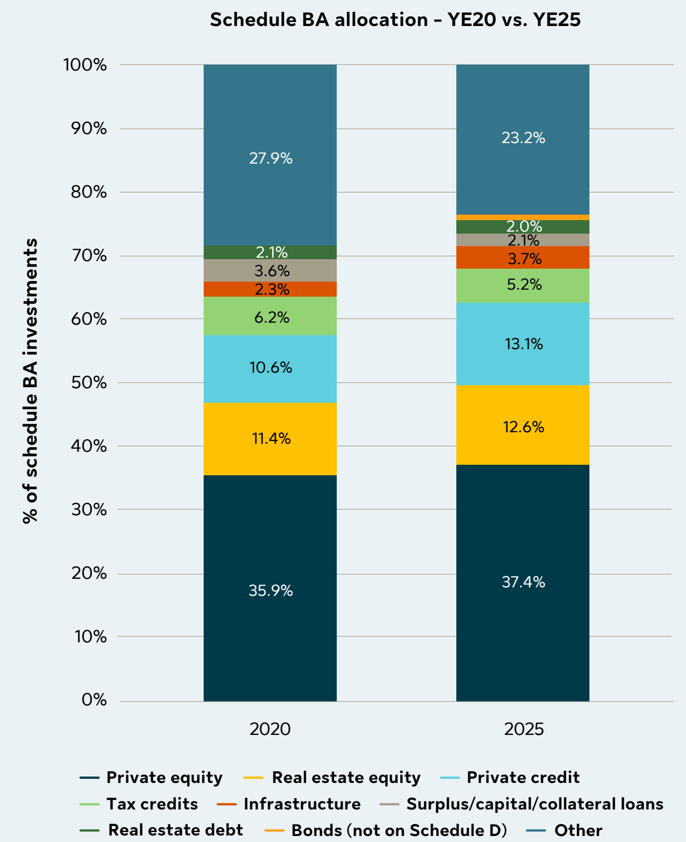
Source: S&P Capital IQ, SLC Management analysis. Based on statutory financial data. Includes full P&C industry. Loss reserves include LAE reserves and estimated losses embedded in the unearned premium reserve. Additional required capital is based on the AM Best BCAR methodology.

Schedule BA trends

The industry's allocation to alternative investments is primarily reported on Schedule BA, which has seen a consistent increase over the past 10 years. While the allocation to unaffiliated Schedule BA assets stood at only 3.7% of invested assets as of year-end 2025 (6.4% including affiliated Schedule BA assets), this is not representative of the amount of time and focus given to these assets by allocators given their attractive yield/ return potential and diversification benefits, along with the growth in new strategies and vehicles offered by the market. We would also note that the industry's exposure to alternative investments is not confined to the funds listed on Schedule BA. For example, debt tranches of rated notes appear on Schedule D – Part 1 and business development companies (BDCs) appear on Schedule D – Part 2.

Classification of Schedule BA assets within an annual statement is difficult given lack of data granularity. However, using the issuer type, asset type and description fields, we attempted to classify the industry's exposure into the broad categories listed in the adjacent graph. We would note that the private equity category likely includes a fair amount of multi-asset, credit, real estate and other funds, as does the "other" category.

That said, we can still glean some observations from the summarized data. Comparing the allocations as of year-end 2020 and year-end 2025, we can see that over the past five years the industry has increased allocations to private credit, real estate equity and infrastructure. Additional data further signal growing interest in private credit: year-end 2025 additional committed capital and calendar year 2025 purchases show a greater amount of recent purchases into the asset class.



Source: S&P Capital IQ, SLC Management analysis. Based on statutory financial data. Includes full P&C industry. Classifications based on analysis of issuer type and asset type fields from Schedule BA schedule. Excludes affiliated investments. 2025 data adjusted for reclassification of large real estate equity allocation previously classified as affiliated.

Schedule BA allocation

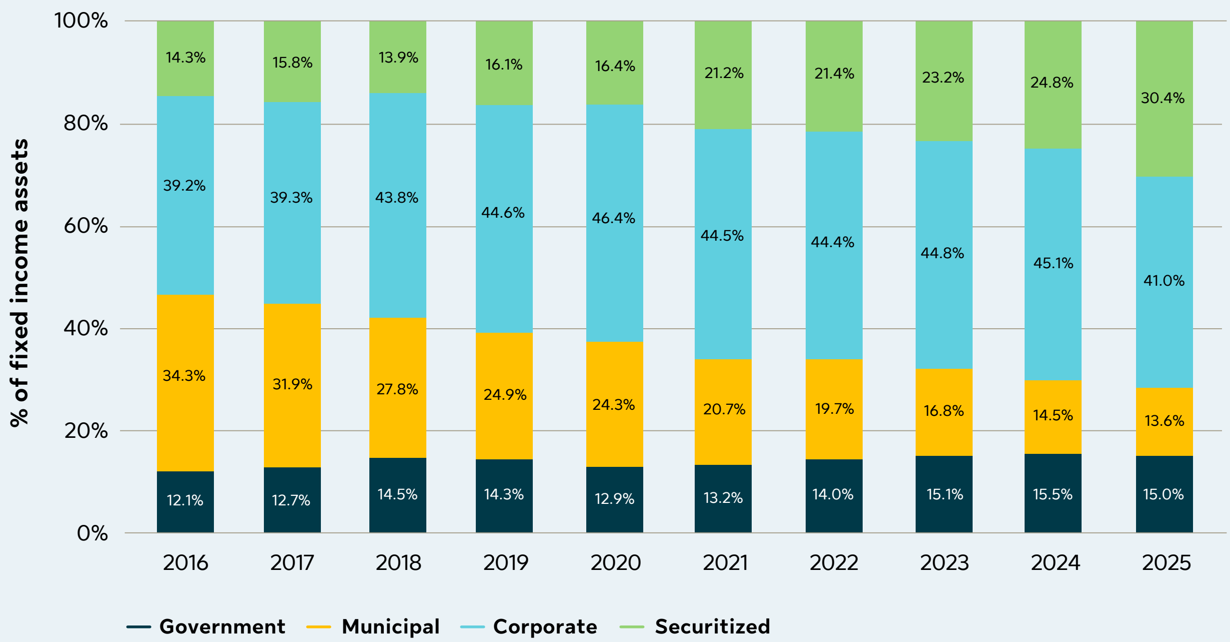
	YE25 additional committed capital	2025 purchases
Private equity	40.3%	20.8%
Other	17.1%	27.9%
Real estate equity	11.2%	5.6%
Private credit	18.9%	21.9%
Tax credits	6.0%	12.0%
Infrastructure	4.1%	4.3%
Surplus/capital/collateral loans	0.1%	4.2%
Real estate debt	2.2%	2.0%
Bonds (not on Schedule D)	0.1%	1.3%

Source: S&P Capital IQ, SLC Management analysis. Based on statutory financial data. Includes full P&C industry. Excludes affiliated investments. Classifications based on analysis of issuer type and asset type fields from Schedule BA schedule.

Fixed income allocation

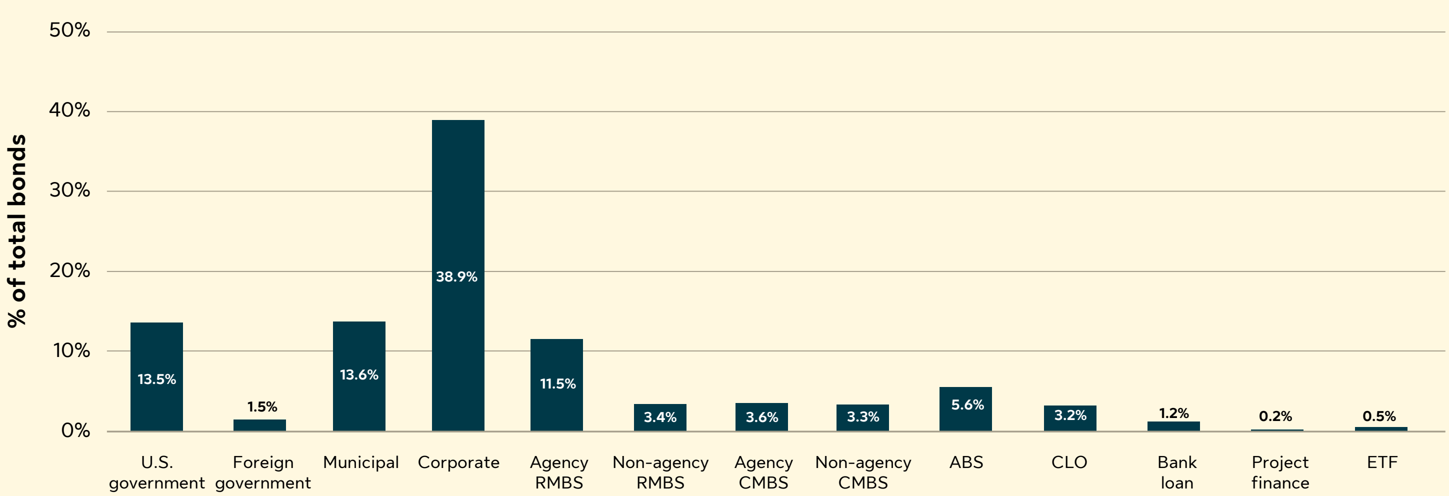
Within the bond portfolios of P&C insurers, there have been two consistent trends over the past 10 years that continued in 2025: (1) a marked reduction in the allocation to municipal bonds (primarily tax-exempt) since the passage of tax reform in 2017; and (2) an increase in the allocation to securitized sectors, which includes residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS). And while the allocation to corporate bonds steadily increased over much of this time period, it decreased in 2025 as tight spreads led insurers to allocate to higher quality sectors offering better relative value. However, we note that part of the corporate allocation decline from year-end 2024 to year-end 2025 may have been driven by reporting classification changes.

Fixed income broad sector allocation



Source: S&P Capital IQ, SLC Management analysis. Based on statutory financial data. Includes full P&C industry.

Fixed income granular breakdown by sector and subsector



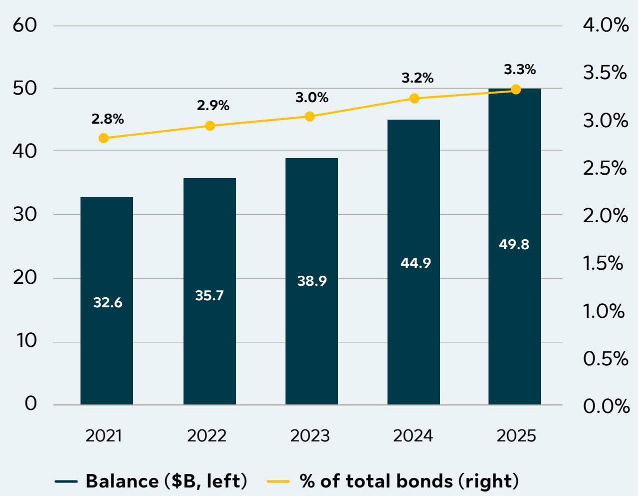
Source: S&P Capital IQ, SLC Management analysis. Based on statutory financial data. Includes full P&C industry.

Two areas within fixed income that we've observed recently as receiving increasing interest have been IG private fixed income and collateralized loan obligations (CLOs). However, the data show different allocation trends in these sectors.

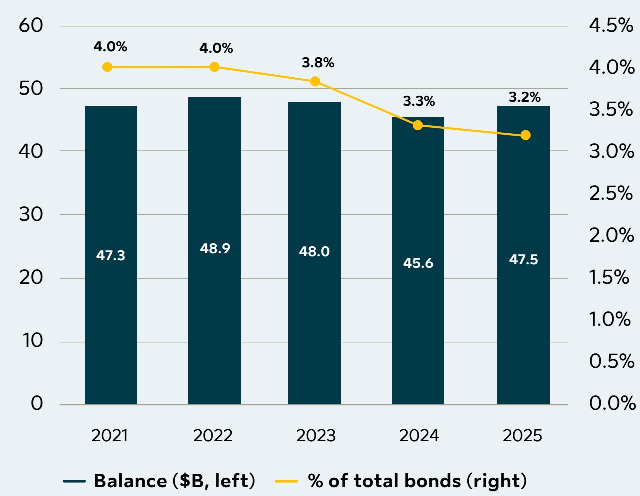
IG private fixed income allocations have steadily increased over several years, rising from 2.8% of P&C bond portfolios at year-end 2021 to 3.3% as of year-end 2025. A longtime staple of life insurer portfolios, growing adoption of the asset class in P&C portfolios has been driven by consistent incremental spread above comparable public bonds, strong lender protections and customized structures, along with a better understanding of liquidity needs. P&C insurers increasingly view this asset class as a natural extension of their IG public bond portfolios and, like with public bond allocations, IG private bond allocations have seen an increase in ABS, which now account for 18% of the total.

CLO holdings within P&C bond portfolios, by contrast, have been relatively flat over this time period, resulting in declining allocations when viewed as a percentage of total bond portfolio holdings. As company investment committees gain comfort with this asset class, we expect increased allocations resulting from attractive spreads, high credit quality and structural protections (such as credit support through backing by senior secured broadly syndicated loans). For both CLOs and IG private fixed income, we note that the larger P&C insurers have greater exposure than smaller insurers.

Private fixed income allocation (excl. 144a)



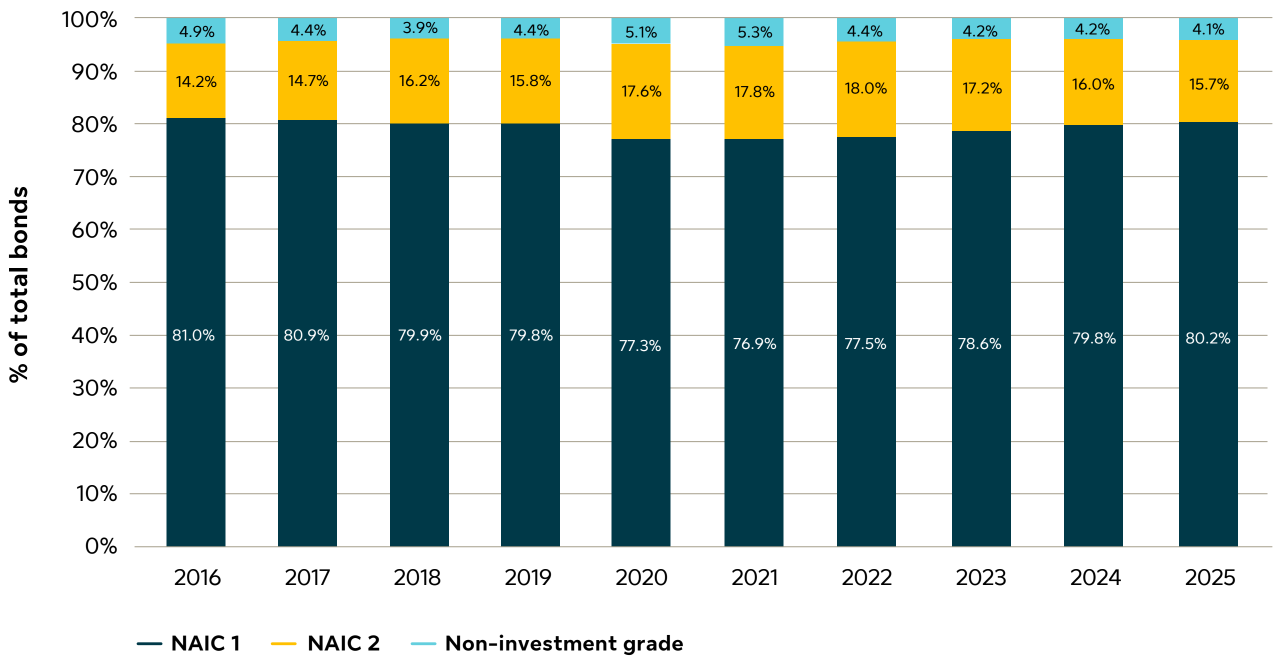
CLO allocation



Source: S&P Capital IQ, SLC Management analysis. Based on statutory financial data. Includes full P&C industry. Only includes individual holdings and not exposure through fund investments.

Historical data on credit quality of P&C insurance bond portfolios show diverging trends over the past 10 years. From 2016 through 2022, allocations to NAIC 2 (BBB-rated) bonds increased and allocations to NAIC 1 (AAA–A-rated) bonds decreased. This was largely driven by the search for yield in a prolonged low-interest-rate environment. Post 2022, the opposite has occurred: allocations to AAA–A-rated bonds have increased and allocations to BBB-rated bonds have decreased. Higher base rates, greater spread compression in BBB-rated bonds and increased allocations to securitized sectors have driven this trend.

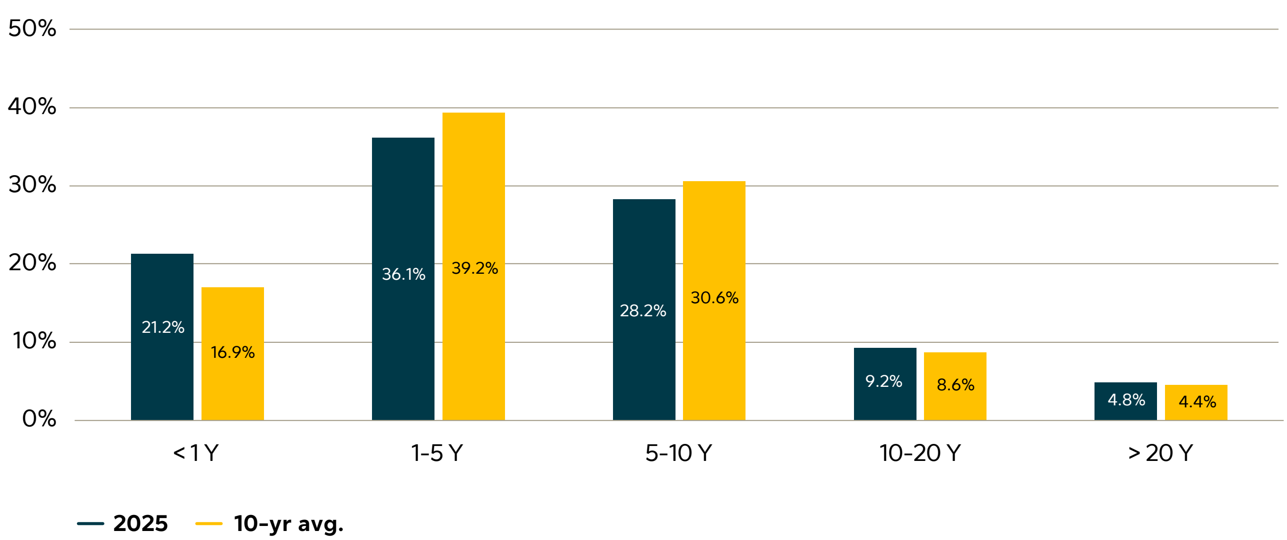
Fixed income credit quality



Source: S&P Capital IQ, SLC Management analysis. Based on statutory financial data. Includes full P&C industry.

P&C bond portfolio maturity structures have also evolved as interest rates have increased. Comparing the industry's year-end 2025 maturity structure to the average maturity structure over the past 10 years, the most notable difference is a higher allocation to the less-than-one-year bucket. This has been largely driven by increased cash holdings. While there was little incentive to hold cash in lower-rate environments, higher cash yields in today's elevated rate environment can allow insurers to maintain a buffer for liquidity while simultaneously earning an attractive yield on that buffer.

Fixed income maturity structure

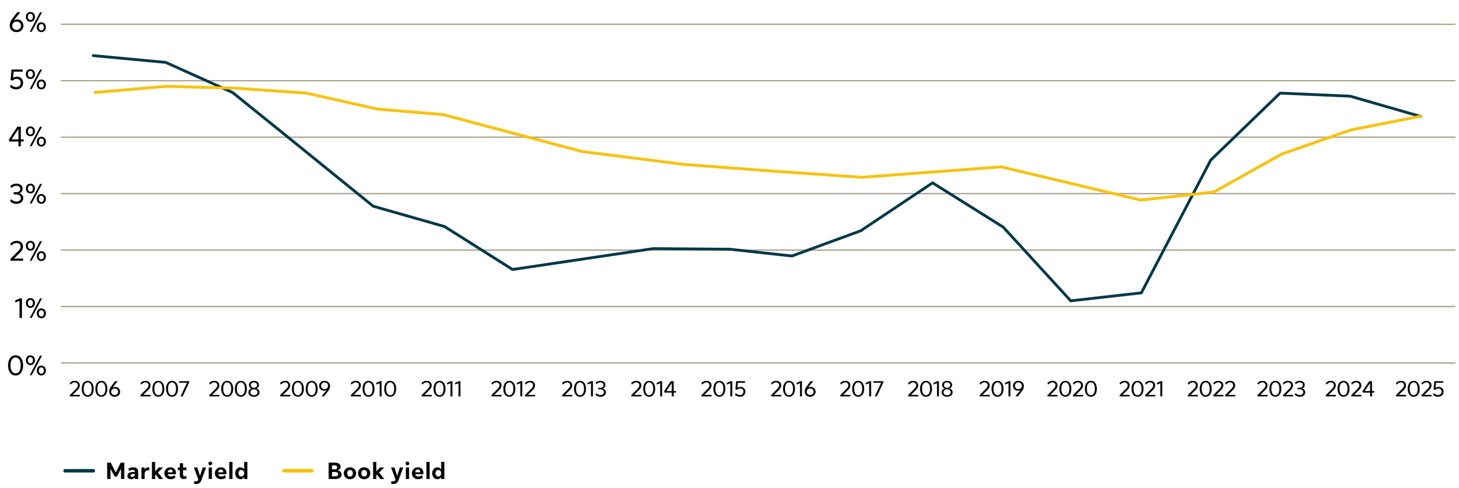


Source: S&P Capital IQ, SLC Management analysis. Based on statutory financial data. Includes full P&C industry.

Measuring investment profitability

The industry's book yield, which represents the average yield at purchase of all of the bonds held by P&C insurers and is the primary measure of the amount of investment income generated by bond portfolios, hit 4.35% by year-end 2025, a level not seen since 2011. Much of the increase can be attributed to natural portfolio turnover as maturing lower-yielding bonds have matured and have been replaced with higher-yielding securities purchased in the elevated rate environment of recent years. In addition, many companies have accelerated their book yield increase by selling lower yielding bonds prior to maturity and reinvesting at higher yields and, in some cases, using the realized losses to offset gains taken elsewhere in their portfolios.

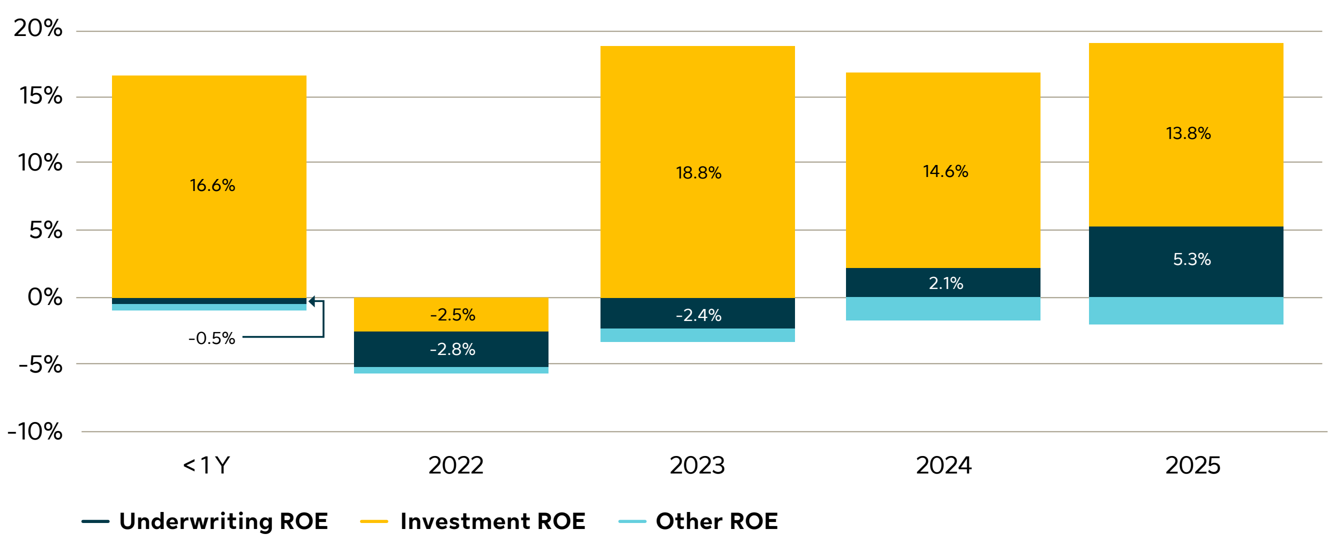
Book yield vs. market yield



Source: S&P Capital IQ, SLC Management analysis. Based on statutory financial data. Includes full P&C industry. Book yield = P&C industry gross bond yield. Market yield = yield on the Bloomberg Intermediate US Aggregate Index.

Rising book yields have been a key driver of higher contribution to return-on-equity (ROE) from investments in recent years. This, combined with positive ROE contribution from underwriting results over the past couple of years, has led to overall ROEs well above historical industry averages. As the market softens and ROE contribution from underwriting dissipates, insurers can look for opportunities within their investment portfolios to drive investment ROE higher and offset some of the expected underwriting ROE decline.

Contribution to return on equity



Source: S&P Capital IQ, SLC Management analysis. Based on statutory financial data. Includes full P&C industry. Investment ROE includes net investment income, realized gain/loss, and change in unrealized gain/loss.

Key takeaways

- The P&C insurance industry is coming off its best underwriting results in 20 years, strengthening the industry's balance sheet and putting it in a position to consider increased allocations to risk assets.
- While the industry's exposure to risk assets (as measured by the ratio of the sum of stocks, Schedule BA assets, and non-IG bonds to surplus) was 75% as of year-end 2025, it is considerably less at 43% after excluding affiliated assets, Berkshire Hathaway and State Farm. At the same time, our measure of risk capacity for the industry reached its highest level in several years.
- The trend of higher allocations to private market investments continued in 2025 and we expect this to be a consistent theme in the coming years. The industry's allocation to both IG private fixed income and Schedule BA assets increased during the year, and recent purchase activity highlights the interest in income-oriented alternatives.
- We believe the industry's ability to take on illiquidity risk is one of its greatest, albeit underutilized, competitive advantages. Given the sustained elevated interest rate environment and the proliferation of higher yielding, capital efficient private market solutions, insurers are positioned to pull this lever to add return-enhancing strategies without a commensurate increase in risk. Strategies that might fit these criteria include:
  - Within IG credit: (1) **private fixed income**; and (2) **CLOs**, both of which can offer attractive spreads to public corporate bonds and come with structural protections (such as credit support through backing by senior secured broadly syndicated loans)
  - Within non-IG credit: (1) **narrowly syndicated loans**, a niche and often overlooked part of the leveraged loan market that offers attractive yield pickup over broadly syndicated loans; and (2) **middle market direct lending**, which despite the headlines have historically offered compelling yield premiums, strong lender protections and resilient downside characteristics in capital friendly rated note vehicles
  - Within real assets: (1) **value add commercial real estate debt**, for its income focus, defensive profile (driven largely by growing equity cushions) and capital efficiency; and (2) **infrastructure**, as its inflation-linked characteristics can benefit portfolios in this macro environment.

Given today's market environment, we believe insurers are well positioned to increasingly seek return-enhancing, risk-managed assets. However, the richness of the opportunity set underscores the importance of partnering with the right asset managers that possess the necessary expertise to navigate ever-changing public and private markets.

Sources: S&P Capital IQ, S&P Global, SLC Management, National Association of Insurance Commissioners 2026.

Notes:

[1] Company names are disclosed due to their status as the two largest asset allocators in the P&C universe and the manner in which they impact the industry metrics, and does not constitute any insights, views or recommendations as to their investment products or any possible status as investable assets.

[2] Based on data from S&P Capital IQ and proprietary analysis, 2026.

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