HSBC Asset Management

Securitised Credit: An increasingly compelling allocation for institutional investors

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As institutional investors assess how best to generate resilient income while managing duration, volatility and liquidity, Securitised Credit is attracting renewed attention. The asset class combines floating-rate exposure, credit enhancement and access to diversified pools of underlying loans—features that can offer a differentiated risk–return profile relative to traditional corporate bonds and private credit.

This opportunity is particularly relevant now given the higher-for-longer interest-rate environment.

The floating-rate advantage

Securitised Credit returns are driven primarily by two components: the relevant base rate and a credit spread. Depending on the market, the reference rate may be SOFR in the US, SONIA in the UK or Euribor in Europe.

Because much of the asset class is floating rate, coupon income adjusts as base rates change. This can provide investors with a direct benefit from higher interest rates, while limiting exposure to the duration risk associated with fixed-rate bonds.

Credit spreads provide a second source of income. Securitised Credit continues to offer an attractive relative-value opportunity compared with corporate bonds. While spreads across securitised markets have tightened from their late-2024 levels, they remain meaningfully more attractive than those available in much of corporate credit, where valuations are close to historically tight levels.

The result is an asset class that can offer both elevated income and a relatively low sensitivity to changes in interest rates.



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Source: HSBC Asset Management. 30 September 2026

Complementing traditional fixed income

Securitised Credit may play several roles within an institutional portfolio.

For traditional fixed-income investors, its floating-rate structure and credit spread premium can provide diversification. Allocating to Securitised Credit may help reduce overall portfolio volatility while enhancing income and returns.

The asset class also benefits from structural credit protection. Securitisation transforms pools of loans into bonds issued in different tranches, each with a different level of seniority and risk. Senior tranches benefit from subordination, or credit enhancement, provided by junior tranches. This means that losses in the underlying loan pool are absorbed by the junior layers before affecting senior investors.

That structural protection can be particularly valuable during periods of economic stress, although it does not eliminate market or credit risk.

Sitting between public and private credit

Securitised Credit can also serve investors reviewing their allocations to private credit.

Private credit generally provides illiquidity and complexity premia, but investors may face limited transparency and less frequent pricing. Securitised Credit occupies a middle ground: it is typically less liquid than standard corporate bonds, but substantially more liquid than private loans.

Investors can generally access:

- Regular, often daily, market pricing
- Public ratings from recognised rating agencies
- Greater visibility into transaction structures and underlying collateral
- The ability to adjust exposures more readily as market conditions change

This combination of liquidity and transparency is becoming increasingly important as institutional investors scrutinise portfolio construction, capital efficiency and the ability to manage allocations through different market cycles.

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Globally dynamic allocations

Our approach is global and actively managed across developed markets, sectors and structures. The aim is to direct capital towards areas offering the most attractive combination of income, credit quality and relative value.

Collateralised loan obligations: Corporate loan securitisations, commonly known as collateralised loan obligations, or CLOs, represent the largest allocation within the strategy. The US and Europe are the principal markets, with allocations adjusted according to relative value.

Residential mortgages: Residential mortgage-backed securities form another important allocation. The strategy focuses on non-agency mortgages—loans that are not guaranteed by US government-sponsored agencies—and prioritises prime borrowers.

Commercial mortgages: Commercial mortgage-backed securities provide exposure to loans secured against assets such as offices, hotels and retail properties. Here, asset selection is central. It's important to focus on high-quality, fit-for-purpose properties, including new-build offices that are better positioned for changing workplace patterns.

Consumer credit: The strategy also invests selectively in securitised consumer loans, including auto loans and credit-card receivables. Again, the emphasis is on prime-quality collateral rather than subprime exposure.

The common thread across these sectors is a focus on institutional-quality assets, strong underwriting and avoidance of segments where structural deterioration or weaker borrower quality may amplify losses.

Unlocking the complexity premium

Securitised Credit often pays an additional spread because it is more complex than conventional corporate bonds. Analysing a transaction requires an understanding of collateral characteristics, structural protections, tranche-level risks, documentation and the behaviour of the underlying borrowers.

That complexity can create opportunities for managers with the resources and experience to analyse the market in depth. It can also create risks for investors who treat the asset class as a simple extension of traditional fixed income.

The HSBC Asset Management team has been managing Securitised Credit strategies for approximately 16 years. In higher-quality strategies the team has experienced no credit losses or defaults over that period, although market values have fluctuated.

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Managing mark-to-market volatility

Low duration does not mean that Securitised Credit is immune from losses. Bonds are marked to market, and spreads can widen even where underlying defaults remain limited.

The experience of 2022 provides a useful example. As interest rates rose rapidly, investors became concerned that borrowers might struggle to service their debts. Credit spreads widened across markets, creating mark-to-market losses.

Lower-risk Securitised Credit strategies declined by around 2%, compared with a fall of approximately 15% for the broader corporate bond market. Once rates stabilised at higher levels, the floating-rate nature of the assets supported a significant increase in income.

This highlights an important distinction for institutional investors: Securitised Credit may experience short-term price volatility, but its structural features and floating-rate coupons can contribute to a different risk profile from duration-heavy fixed income.

Revisions to Solvency II

The European securitisation market may receive further support from regulatory changes scheduled for January 2027, when revisions to the Solvency II framework are expected to take effect.

The broader policy objective is to encourage both the supply of securitised assets and institutional demand. More issuance could help channel capital through the financial system and support lending to the real economy, while revised capital treatment could make securitisation more efficient for insurers and banks.

Under the revised framework, capital requirements are expected to become more favourable for certain securitisation investments. This includes qualifying simple, transparent and standardised, or STS, transactions, as well as senior tranches of certain non-STS securitisations.

For insurers, the changes could improve the capital efficiency of allocating to Securitised Credit. This should support growth in both issuance and demand, potentially making Europe a more active and attractive market for institutional investors.



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Summary

For institutional investors, Securitised Credit may offer several potential portfolio benefits:

- Floating-rate income in a higher-for-longer interest-rate environment
- Attractive spreads relative to tightly valued corporate credit
- Lower duration exposure than many traditional fixed-income strategies
- Diversification across collateral types, regions, and borrower groups
- Potential resilience supported by credit enhancement and structural protections
- Access to complexity premia through specialist analysis and active management
- A supportive regulatory environment for European insurers

The opportunity, however, is not simply a matter of buying the broad asset class. Security selection, structural analysis, and ongoing monitoring remain essential. The complexity that creates the potential premium also makes expertise and risk management central to the investment process.



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Key risks

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- **Interest rate risk:** As interest rates rise debt securities will fall in value. The value of debt is inversely proportional to interest rate movements.
- **Counterparty risk:** The possibility that the counterparty to a transaction may be unwilling or unable to meet its obligations.
- **Credit risk:** Issuers of debt securities may fail to meet their regular interest and/or capital repayment obligation. All credit instruments therefore have the potential for default. Higher yielding securities are more likely to default.
- **Default risk:** The issuers of certain bonds could become unwilling or unable to make payments on their bonds.
- **Emerging markets risk:** Emerging markets are less established, and often more volatile, than developed markets and involve higher risks, particularly market, liquidity and currency risks.
- **Exchange rate risk:** Investing in assets denominated in a currency other than that of the investor's own currency perspective exposes the value of the investment to exchange rate fluctuations.
- **Investment leverage risk:** Investment Leverage occurs when the economic exposure is greater than the amount invested, such as when derivatives are used. A Fund that employs leverage may experience greater gains and/or losses due to the amplification effect from a movement in the price of the reference source.
- **Asset Backed Securities (ABS) risk:** ABS are typically constructed from pools of assets (e.g. mortgages) that individually have an option for early settlement or extension and have potential for default. Cash flow terms of the ABS may change and significantly impact both the value and liquidity of the contract.
- **Derivatives risk:** The value of derivative contracts is dependent upon the performance of an underlying asset. A small movement in the value of the underlying can cause a large movement in the value of the derivative. Unlike exchange traded derivatives, over-the-counter (OTC) derivatives have credit risk associated with the counterparty or institution facilitating the trade.
- **High yield risk:** Higher yielding debt securities characteristically bear greater credit risk than investment grade and/or government securities.
- **Liquidity risk:** Liquidity is a measure of how easily an investment can be converted to cash without a loss of capital and/or income in the process. The value of assets may be significantly impacted by liquidity risk during adverse markets conditions.
- **Operational risk:** The main risks are related to systems and process failures. Investment processes are overseen by independent risk functions which are subject to independent audit and supervised by regulators.

Further information on the potential risks can be found in the governing documents.

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