

# Cat Bonds Alternatives Allocation Update

Q4 2025

## In a Nutshell

A double digit gain for the third consecutive year

### Summary

The Cat bond index was up 2% in Q4, which brings the calendar year return to 11.5% (in USD terms). Cat bonds delivered a double digit gain for the third year in a row. The Cat bond index has compounded at 16%pa over the past three years (to end December 2025), due to a combination of high starting yield and some spread tightening. Cat bonds also offer valuable diversification benefits.

The Atlantic hurricane season activity was broadly in line with historical averages, with four major hurricanes. No hurricane made landfall on the US mainland for the first time in ten years. Jamaica was not so lucky, with the advent of Hurricane Melissa in late October, which was the strongest hurricane to make landfall in Jamaica. Melissa caused more than 100 fatalities and an estimated \$9bn of damage. From an investor perspective, a single Cat Bond issued by IBRD defaulted and paid out in full, adding \$150m to the government's disaster relief efforts. The bond was approximately 0.3% of the total Cat bond universe, so had a very limited impact on overall Cat bond performance last year.

The total yield on the index has fallen to 9% as spreads have narrowed and the risk free rate has fallen in line with rate cuts. Should yields and spreads continue to fall we will revisit our Cat bond allocation in balanced portfolios.

### Performance

The SwissRe Cat bond index gained 2.3% in Q4, which brings the calendar year return to 11.5% (in USD terms). The Cat bond index has compounded at 16%pa over the past three years (to end December 2025), due to a combination of high starting yield and some spread tightening. Over the past ten years Cat bonds have delivered a 7%pa annualised return with very low levels of volatility, making them an attractive source of diversification within balanced portfolios.

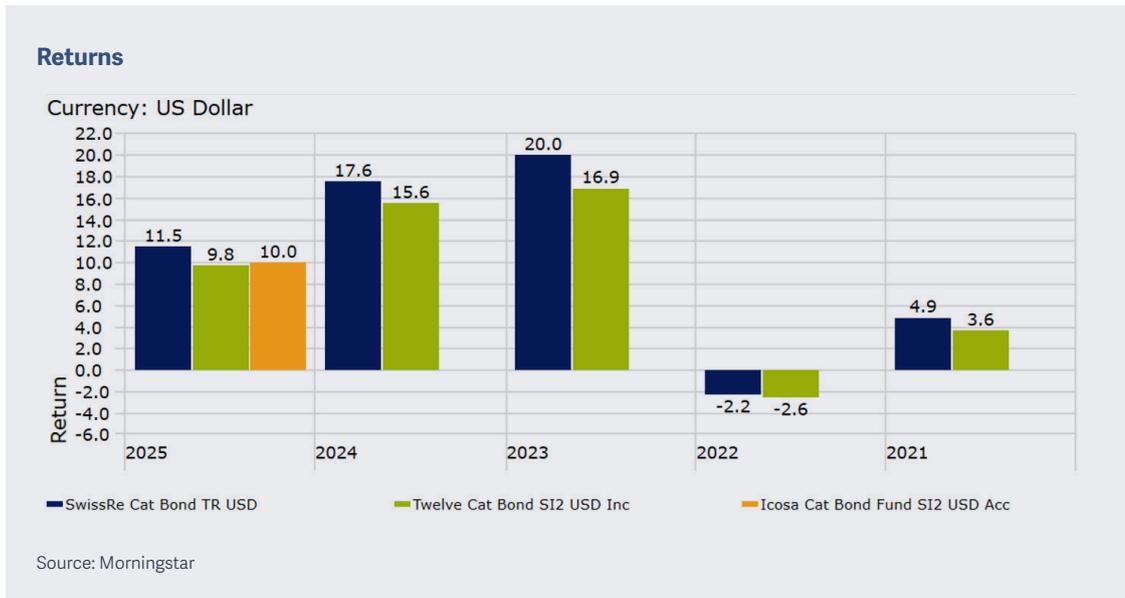
### Returns



Source: Morningstar

Cat bonds delivered extremely strong returns over the past three years

Strong performance in 2025 follows two excellent years for the asset class: +18% in 2024 and +20% in 2023.



Cat bonds produced double digit gains for the third year in a row

Last year, our two chosen active funds (Twelve and Icosa) also produced a healthy return, both up around 10%. We prefer the greater diversification (and hence lower risk) of active managers in this specialist area. The Cat bond index is more highly concentrated in US hurricane risk.

The fund manager at Icosa summarised it nicely in his most recent update:

*“From the perspective of Cat bond investors, 2025 as a whole was characterized by an attractive premium environment, robust market liquidity, and only a limited number of relevant catastrophe events. Despite isolated large-loss events, the asset class once again confirmed its resilience and the relatively high predictability of returns, provided no significant events occur. At the same time, the broad independence from macroeconomic and geopolitical factors once again underscored the added value of cat bonds as a strategic diversification component within institutional portfolios.”*

**Issuance**

Primary market issuance set a record in 2025, approaching \$25bn. New issuance was particularly strong in December with 19 transactions totalling \$5bn (source: Maneki). This included a number of new sponsors using the market to help with their risk transfer strategies. In addition to natural catastrophe risks, issuance also included non-traditional risks such as cyber. Beazley sponsored a record \$300m cyber Cat bond last year.



2025 was a record year for Cat bond issuance

As a result total, the total Cat bond market grew to over \$60bn in size for the first time. “A growing number of institutional investors are allocating to Cat bonds as they gain a deeper understanding of the asset class’s diversification benefits, as well as its relatively attractive spread levels compared with other asset classes where valuations appear stretched.” (source: Maneki)

**Hurricane Season Review**

The Atlantic hurricane season is the dominant risk (or peril) in Cat bond markets. Peak hurricane season occurs between August and November each year. The 2025 Atlantic hurricane season produced 13 named storms, five hurricanes and four major hurricanes: Erin, Gabrielle, Humberto and Melissa.

Forecaster	Named storms	Hurricanes	Major hurricanes
NOAA	13 – 18	5 – 9	2 – 5
Colorado State University	16	8	3
Tropical Storm Risk	16	8	3
Accuweather	13 – 18	7 – 10	3 – 5
Weatherbell	15 – 19	7 – 9	2 – 3
UK Met Office	16	9	4
The Weather Company	19	9	4
NC State University	12 – 15	6 – 8	2 – 3
ECMWF	15	7	–
Artemis Average forecast	16	8	3
<b>2025 Hurricane Season Actuals</b>	<b>13</b>	<b>5</b>	<b>4</b>
1950 – 2024 long-term average	12	7	3
1981 – 2010 median	12	6	3
1991 – 2020 NOAA average	14	7	3
2015 – 2024 recent average (10-year)	18	8	4

Source: Atermis.bm

Four major hurricanes in 2025

Whilst storm activity was broadly in line with historical averages, no hurricane made landfall on the US mainland for the first time in ten years. As a reminder, the principal determinant of Cat bond losses is landfall location for major hurricanes and population density in those areas. Jamaica was not as lucky, with the advent of Hurricane Melissa in October, which unfolded as we went to press with last quarter’s Cat bond update.

**Hurricane Melissa**

Hurricane Melissa in late October was the strongest hurricane to make landfall in Jamaica, surpassing Hurricane Gilbert in 1988. Melissa caused more than 100 fatalities and an estimated \$9bn of damage. It also recorded the highest wind gust ever recorded by dropsonde data, with a gust of 252mph at an altitude of 200m (source: Wikipedia).



Hurricane Melissa's eyewall photographed by storm hunters on Oct 27, prior to landfall

Source: Wikipedia

From an investor perspective, a single Cat bond issued by IBRD defaulted after its parametric trigger wind speed threshold was met. The bond paid out in full, quickly adding \$150m to the government's disaster relief efforts. The bond was approximately 0.3% of the total Cat bond universe, so had a very limited impact on overall Cat bond performance last year.

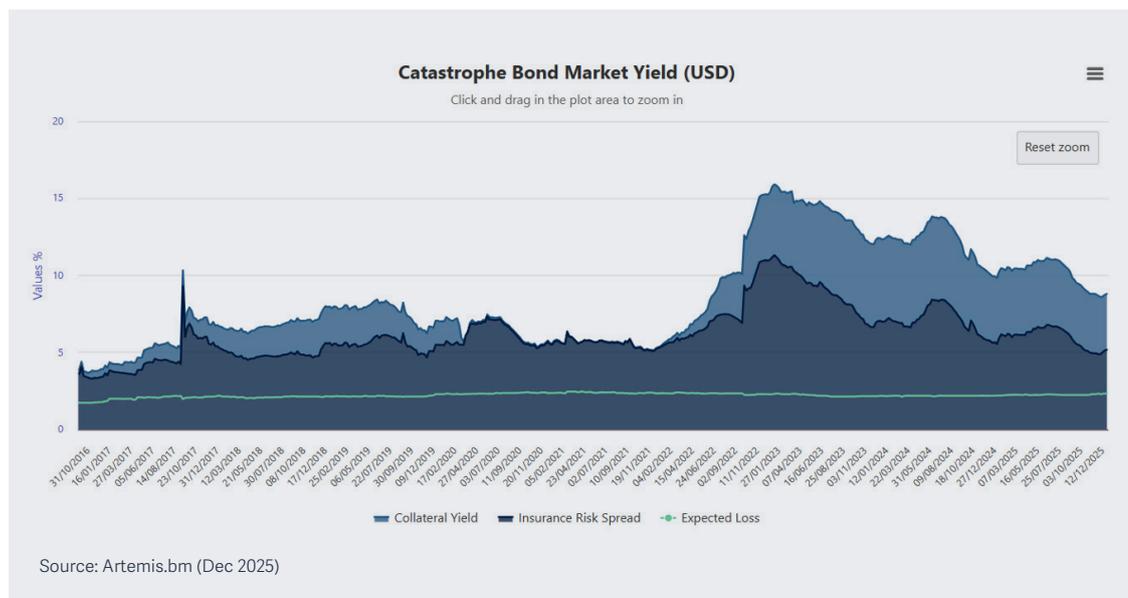
*"This rapid, contractually predefined provision of liquidity is a core feature of parametric structures and can make a meaningful difference in the immediate aftermath of a natural disaster. In practice, this means that financial resources are not dependent on lengthy loss assessment processes but can be deployed quickly where they are most needed. For this reason, Cat bonds are often regarded as a sustainable asset class, combining the provision of risk capital for insurers, reinsurers, and public sponsors with a clear benefit for affected regions by strengthening financial resilience following natural catastrophes."* (source: Icosa)

### Valuation / Yield

Yields on Cat bonds remain attractive at around 9%, although this has fallen a little recently. The risk free rate reduced in line with rate cuts whilst spreads have tightened because of a lack of major hurricanes making US landfall. Yields are still high in nominal terms, but they are closer to historical averages rather than the very attractive levels seen in recent years. In early 2023 spreads reached 11% and total yield 16%, for example. We have benefited in recent years from this spread compression (hence the strong returns).

As a reminder, the overall yield on a Cat bond comprises two elements:

- Risk free rate – has dropped to 3.6% as central banks have cut rates
- Credit spread – spreads have tightened to 5.2%, slightly below the long-term average (6%)



Total yields and spreads continue to fall back towards average levels

### Positioning

The Cat bond allocation in balanced portfolios remains 5%. We own two specialist Cat bond funds: Icosa and Twelve Securis. Icosa is a specialist Cat bond boutique set up by Florian Steiger, who was previously a portfolio manager at Twelve Capital. Icosa AUM has grown to over \$850m in just two years, which is great progress. Twelve Capital recently completed a merger with rival ILS firm Securis, forming the new combined firm Twelve Securis. Their fund is now over \$4.5bn in size – one of the largest dedicated Cat bond funds.

We monitor a number of other Cat bond funds as part of a shortlist. This quarter we heard from King Ridge Capital, who are the manager of the first Cat Bond ETF – a development we will watch with interest, although assets remain too small for our consideration just yet.

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