

## A Safe Harbor for a Stormy Investment Environment

May 19, 2025

The US bond and equity markets have faced significant volatility this year, driven by a confluence of factors, including trade tariffs, potential tax changes, inflationary pressures, shifting foreign demand for US Treasuries, and deleveraging by hedge funds. This has led to increased market volatility across most traditional asset classes, but one area of the fixed income market that has demonstrated notable performance resilience is the Catastrophe/Insurance Linked Securities(CAT/ILS) sector.

The CAT/ILS sector's performance has been striking compared with the more subdued performance of the broader US bond market, the fluctuating US equities market, and the challenging dynamics of the US private equity and private credit markets. As shown below, the CAT/ILS bond market has generated significant excess return advantages over both the investment grade and high yield bond markets, not only during the market tumult of recent months but on average over the last five years.

Comparative Total Returns*	Apr-25	Mar-25	Feb-25	Jan-25	YTD-25	1 Year	2024	5 Years Annualized
US Aggregate Bond Market	0.43%	-0.03%	2.24%	0.52%	3.18%	8.02%	1.31%	-0.51%
US High Yield Market	0.12%	-1.08%	0.97%	1.36%	0.98%	7.62%	7.97%	5.23%
Private Credit Market**	-5.67%	-3.98%	1.33%	3.72%	-4.80%	1.10%	14.58%	16.20%
S&P 500 Index	-0.87%	-5.57%	-1.27%	2.69%	-4.90%	12.07%	24.89%	15.61%
Swiss Re Cat Bond Index	0.23%	1.45%	0.42%	-0.85%	1.40%	13.80%	17.29%	8.93%

\*As of 4/30/2025. \*\*Source: VettaFi Private Credit Index

The CAT/ILS bond market delivered the second highest total return in its history, reaching 17.29% for the full year 2024 with many of the investment strategies involved with this market reporting returns in the range of 12% to 15% for the year. Also, given the record returns achieved by this sector in 2023, based on the Swiss Re Index, it has delivered a combined 37% return over the last two calendar years, making it among the best-performing investment sectors across the fixed income, alternatives, and hedge fund landscape.

It is also worth noting that these favorable relative performance results have occurred during a period when the CAT/ILS market has been subjected to a series of significant international and US domestic natural and man-made disasters. These outcomes also demonstrate the notable resilience and growth of the sector in recent years. In 2024, the market grew by 10.5% year-on-year, reaching \$50 billion in new issuances. With almost \$12.64 billion of catastrophe bonds issued and settled thus far in 2025, this level exceeds the half-year 2024 record of just over \$12.61 billion. The chart to the right shows the 2025 issuance to date, versus the first half of prior years. As catastrophe bond issuance continues to soar in 2025, the outstanding market size has been growing with it. According to Artemis market research, the outstanding marketplace is up by more than 12% year-to-date, reaching a new high of almost \$55.3 billion. While new issuance has been setting records over this year, there has also been a record amount of CAT/ILS bond maturities rolling off. Despite a high volume of existing bonds maturing in 2025, industry sources expect the market to grow by another 20% this year, with new issue activity reaching \$60 billion.

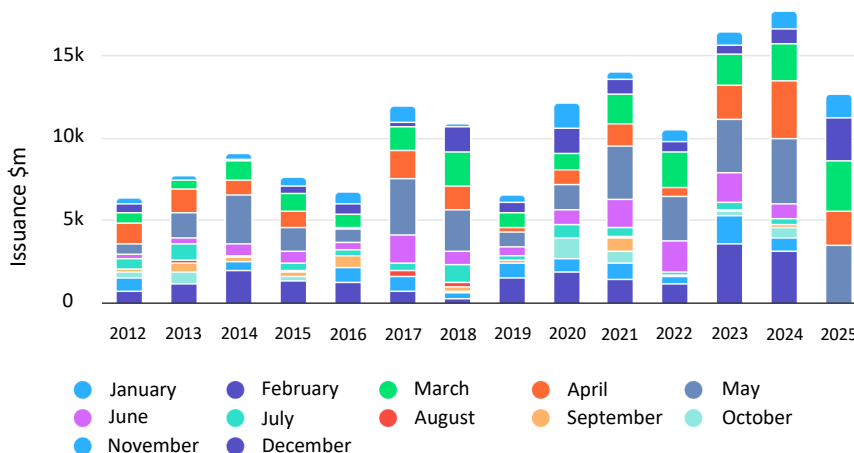
**CAT Bonds & ILS issued by month and year**

Source: [www.Artemis.bm Deal Directory](http://www.Artemis.bm)

Year	January	February	March	April	May	June	July	August	September	October	Total Issuance (\$m)
2012	~1000	~800	~500	~1000	~1000	~500	~500	~500	~500	~500	~6000
2013	~1200	~1000	~800	~1200	~1200	~800	~800	~800	~800	~800	~7500
2014	~1500	~1200	~1000	~1500	~1500	~1000	~1000	~1000	~1000	~1000	~9000
2015	~1200	~1000	~800	~1200	~1200	~800	~800	~800	~800	~800	~7500
2016	~1000	~800	~600	~1000	~1000	~600	~600	~600	~600	~600	~6500
2017	~1500	~1200	~1000	~1500	~1500	~1000	~1000	~1000	~1000	~1000	~11500
2018	~1200	~1000	~800	~1200	~1200	~800	~800	~800	~800	~800	~10500
2019	~1000	~800	~600	~1000	~1000	~600	~600	~600	~600	~600	~6500
2020	~1500	~1200	~1000	~1500	~1500	~1000	~1000	~1000	~1000	~1000	~12000
2021	~1800	~1500	~1200	~1800	~1800	~1200	~1200	~1200	~1200	~1200	~14000
2022	~1200	~1000	~800	~1200	~1200	~800	~800	~800	~800	~800	~10500
2023	~2000	~1800	~1500	~2000	~2000	~1500	~1500	~1500	~1500	~1500	~16500
2024	~2200	~2000	~1800	~2200	~2200	~1800	~1800	~1800	~1800	~1800	~17500
2025	-	~3000	~2500	~2000	~3500	~1500	~500	~500	~500	~500	~12600

**CAT Bonds & ILS issued by month and year**

Source: [www.Artemis.bm](http://www.Artemis.bm) Deal Directory

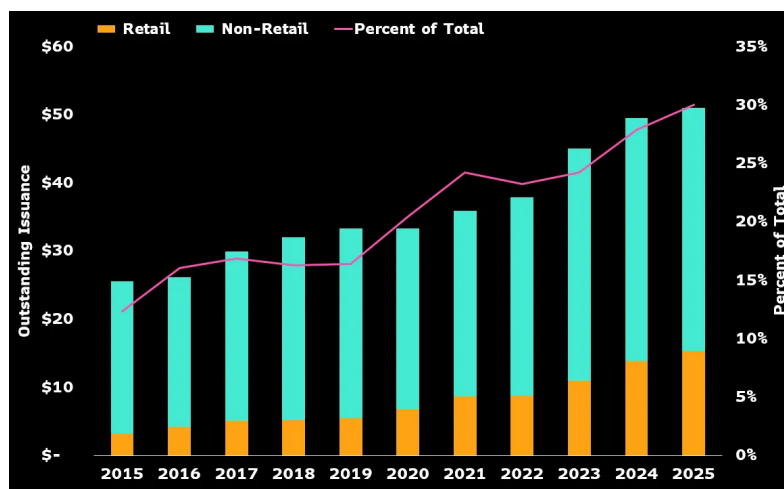


As shown in the chart to the right, the growth in this market has been supported by capital inflows from both sophisticated institutional investors, and increasingly, from international retail investors through their interest in CAT/ILS focused collective UCITS funds. Indeed, according to Christopher Minter, head of Swiss Re Alternative Capital Partners, “the market is growing not just in size, but in breadth and diversification in terms of sponsors and in the types of risk that is being transferred.”

While the broad US bond market has faced headwinds, the CAT/ILS fixed income market has continued to thrive, offering investors a compelling alternative with robust growth and stable returns driven by its unique characteristics, including low correlation with traditional equity and fixed income markets. This has provided valuable diversification benefits for investors seeking alternatives amid broader market uncertainties. The strong issuance pipeline and stable returns have reinforced the attractiveness of CAT/ILS securities, even as the broader bond market grapples with interest rate volatility and economic pressures.

## CAT Bond Market Issuance

Source: Bloomberg Intelligence



## What to Know: Catastrophe/Insurance-Linked Securities (CAT/ILS)

- **Risk Transfer:** CAT/ILS securities are designed to transfer and efficiently convey insurance risk to the capital markets. They are typically used to cover catastrophic events like hurricanes, earthquakes, and other natural disasters.
- **Trigger Mechanisms:** CAT/ILS securities can have parametric or indemnity triggers, which define the conditions under which the capital value of the investment may be adversely impacted.
- **High Yields:** Investors in CAT/ILS receive higher yields compared to traditional bonds due to the higher risk associated with potential catastrophic events.
- **Low Correlation:** CAT/ILS have a low correlation with traditional equity and fixed income markets, providing diversification benefits and mitigating broad market volatility.
- **Returns:** Despite the elevated risk, CAT/ILS have shown stable returns, especially in periods without major catastrophic events.
- **Investor Profile:** Suitable for investors with higher risk tolerance seeking high yields and diversification from traditional asset classes.
- **Market Growth:** The CAT/ILS market has shown robust growth, with strong investor interest and a significant new issue pipeline. This growth trajectory suggests continued opportunities for investors to participate in a growing market.

*Disclosures: This is for informational purposes only and is not intended as investment advice or an offer or solicitation with respect to the purchase or sale of any security, strategy or investment product. Although the statements of fact, information, charts, analysis and data in this report have been obtained from, and are based upon, sources Sage believes to be reliable, we do not guarantee their accuracy, and the underlying information, data, figures and publicly available information has not been verified or audited for accuracy or completeness by Sage. Additionally, we do not represent that the information, data, analysis and charts are accurate or complete, and as such should not be relied upon as such. All results included in this report constitute Sage's opinions as of the date of this report and are subject to change without notice due to various factors, such as market conditions. Investors should make their own decisions on investment strategies based on their specific investment objectives and financial circumstances. All investments contain risk and may lose value. Past performance is not a guarantee of future results.*

Sage Advisory Services, Ltd. Co. is a registered investment adviser that provides investment management services for a variety of institutions and high net worth individuals. For additional information on Sage and its investment management services, please view our web site at [www.sageadvisory.com](http://www.sageadvisory.com), or refer to our Form ADV, which is available upon request by calling 512.327.5530.