

Solidum Market Comment:

The importance of ILS in times of high volatility and uncertainty

Tariffs lead to significant market corrections and higher volatility

In light of the recent announcement of President Trump to impose massive import duties, the markets have corrected heavily. Volatility increased sharply and uncertainty is the prevailing sentiment. In particular the latter is a massive burden for stock markets. Should all those tariffs be implemented, a significant reduction of the worlds GDP growth must be expected. Dependent on which country one looks at, stagflation or even a recession is not unlikely. It must be expected that interest rates will rather decrease further, or remain at the currently very low levels, as for example in Switzerland. In such an environment, bond markets are not yielding at attractive levels.

As a conclusion, diversifying in low correlated asset classes is therefore of increasing importance, in order to master this uncertain period in the long run.

Insurance Linked Securities, as part of such a diversification, become an even more important element. As shown in the table below, ILS – investments offer a very low correlation to all other asset classes. Solidum’s flagship fund (SAC2) correlates even lower than the index (Swiss Re Cat Bond TR).

Table 1: Correlation matrix, showing ILS in general and Solidum’s flag ship fund

12-2006 12-2024	Solidum ELS	SPI	DJ EuroStoxx	S&P 500	Sov. Gov. Dev.	S&P 500 Corp IG	S&P 500 Corp HY	Tremont HF Index	Pictet BVG 40	MSCI AC World	BB Barclays	SBI AAA- BBB TR	SIX Real Estate TR	S&P Listed PE
Solidum ELS SAC 2	100%	5%	7%	13%	15%	18%	12%	17%	11%	14%	18%	16%	21%	13%
Swiss Re Cat Bond TR	78%	18%	18%	25%	17%	28%	28%	28%	30%	27%	24%	25%	25%	25%
Swiss Performance Index		100%	87%	78%	1%	32%	54%	60%	86%	77%	20%	14%	34%	73%
Equity Europe (DJ Euro Stoxx)			100%	80%	-4%	33%	59%	67%	77%	83%	18%	15%	36%	78%
Equity US (S&P 500)				100%	3%	43%	70%	73%	79%	96%	40%	20%	32%	89%
Sovereign Gov. Dev. Countries					100%	65%	20%	-15%	17%	1%	63%	70%	18%	-1%
US Corp Bond, Investment Grade						100%	71%	37%	46%	49%	80%	67%	35%	42%
US Corp Bond, High Yield							100%	64%	61%	75%	57%	40%	43%	72%
Tremont HF Index								100%	58%	79%	28%	8%	34%	73%
Pictet BVG 40									100%	75%	26%	45%	40%	72%
MSCI AC World										100%	49%	18%	35%	91%
BB Barclays Global Agg Corporate											100%	50%	25%	40%
SBI AAA-BBB TR												100%	29%	19%
SIX Real Estate TR													100%	36%
S&P Listed Private Equity														100%

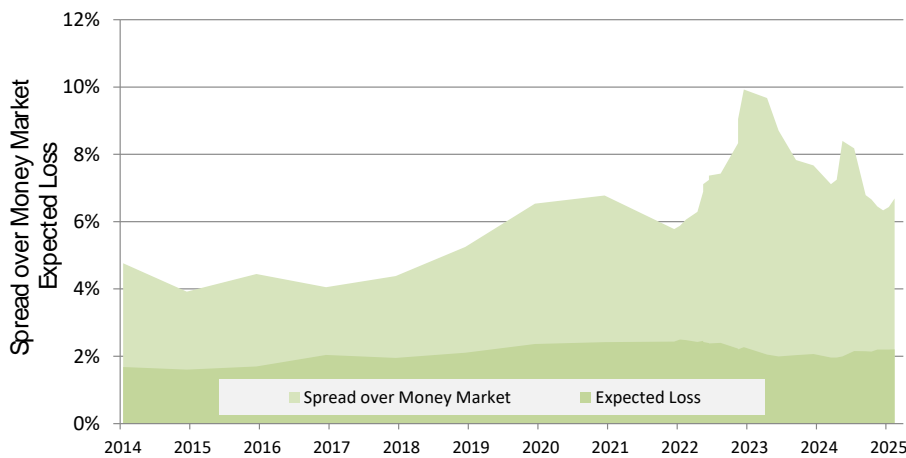
Source: Solidum Partners



In addition to the correlation benefits, spreads are still at attractive high levels

While the effects of a low correlation are only one important element in a portfolio, we also want to highlight the spread situation. It is a fact that the market has left the extreme highs of 2023, but current spreads are still north of 6% above money market, while the expected loss is only around 2.2% on average. These yields are supported by structural forces in the industry and are expected to remain at or near those levels. Both in absolute terms and on a risk adjusted basis, yields are attractive.

Table 2: Cat Bond yields over time



Yields: Based on mid-spreads over MM-rate, various pricing sources, issue weighted, exclusion of «pathological» cases and short maturities (< 1 Year, seasonality effects).
Source: Solidum Partners

Solidum is well positioned to capture this attractive market

Solidum's investment team is managing ILS funds since more than 20 Years, and looks back on a track record (same product, same team) of more than 18 Years for its SAC 2 Fund and more than 15 Years for its Cat Bond Fund. The combined industry experience of the investment team exceeds 100 Years.

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