INSURANCE INVESTMENT ADVISORS

SOLIDUM PARTNERS

Hurricane Outlook, Season 2026

Key themes 2026

Emerging El Niño

Slightly above average SST (Sea Surface Temperature)

Cooler Ocean Heat Content (OHC) in the Main Development Region (MDR) than in 2024 and 2025

Forecast consensus: Below to near-normal Hurricane season

Solidum Partners AG
May / 2025

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Executive Summary:

The 2026 Hurricane season presents a different macro setup than the prior two years. The following themes drive our outlook and positioning:

01

El Niño dominates the macro

NOAA/CPC now sees a 61% probability of El Niño emerging in May–July 2026, with 88–94% persistence into Q4.

El Nino's historical pattern: Increased Atlantic wind shear, reduced cyclone formation and intensification.

02

MDR cooler than in previous years

Ocean Heat Content (OHC) in the Main Development Region (MDR) is at its second-coolest level in the 2013–2026 climatology

Sea Surface Temperatures (SSTs) are +0.33˚C above normal across the basin. The thermal "fuel" for major hurricanes is reduced versus 2024 or 2025.

03

Discipline > activity counts

Two seasons in a row (2024 Milton & Helene, 2025 Melissa) demonstrated that elevated activity does not necessary translates to industry loss.

Solidum view: Near-normal to below-normal 2026 hurricane season – slight and disciplined increase of portfolio risk, moving closer to index, with continued underweight on the highest-impact U.S.-landfall layers.

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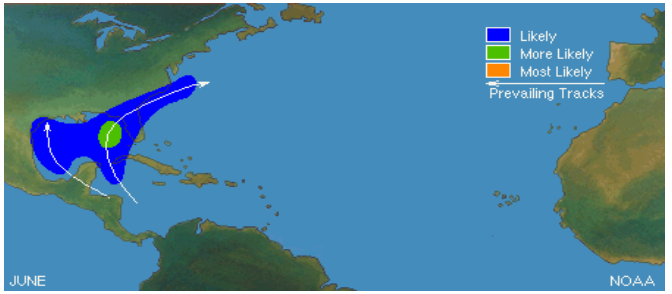
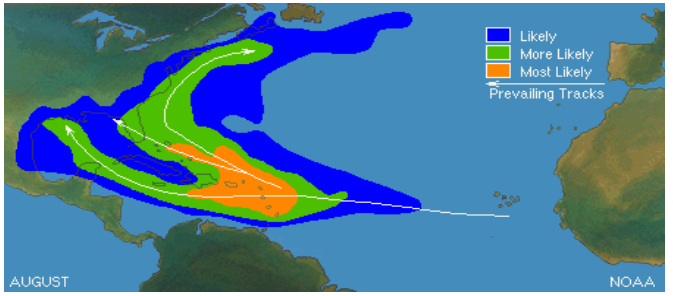
General information: Necessary input factors for a thorough prognosis (1/2)

The pattern and type of hurricanes changes during the season:

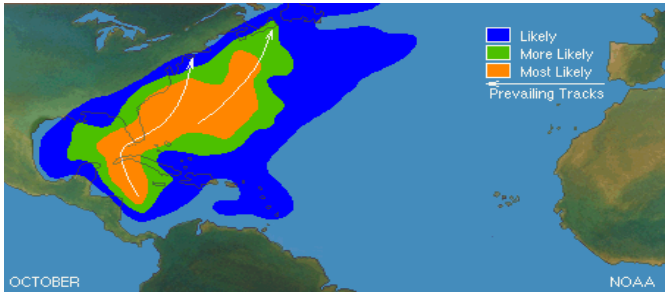
- May – June: Hurricanes typically emerge in the southern Caribbean and in the Golf of Mexico



- July – October: Hurricanes typically emerge off the coast of Africa (so called Cap Verde storms). During the move westwards, such hurricanes can “tank” a lot of energy in the Main Development Region (MDR) and may therefore often become strong hurricanes



- October – November: Hurricanes typically emerge again in the Golf of Mexico.



In general, a surface water temperature **of at least 26.5 Celsius** is needed for a hurricane to develop

General information: Necessary input factors for a thorough prognosis (2/2)

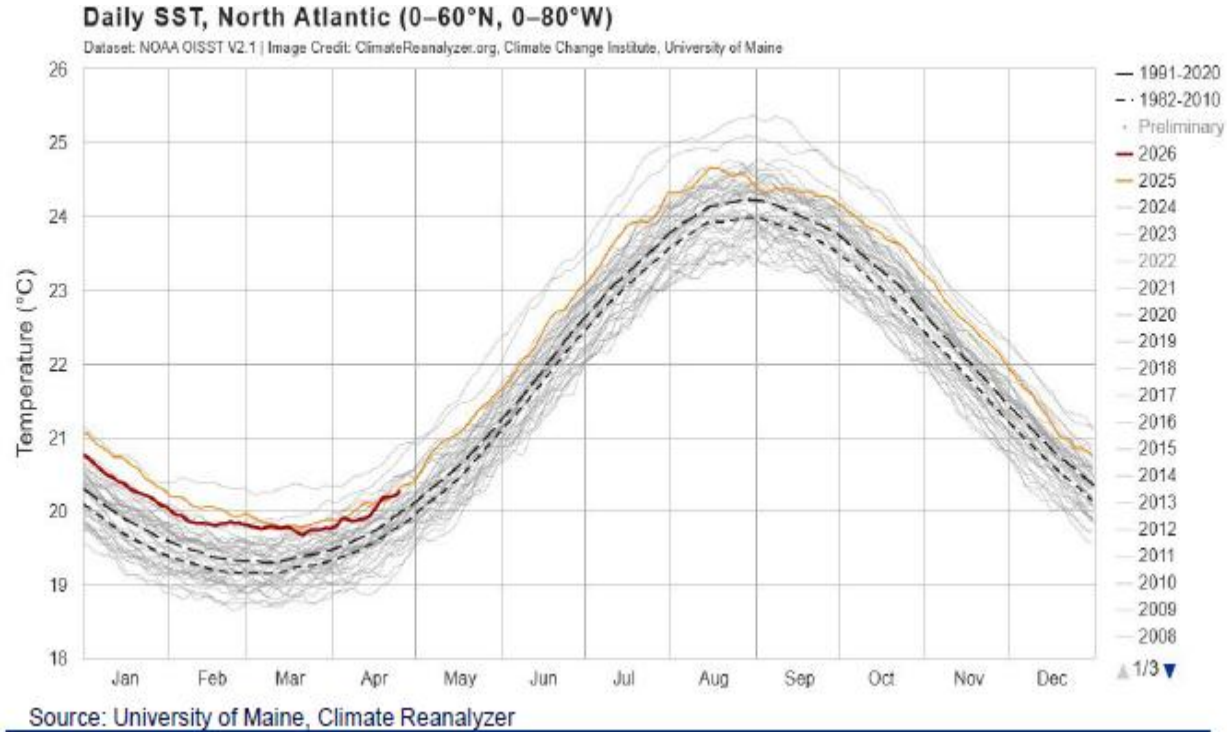
The most important input factors are:

- Makro: Sea Surface Temperatures (SSTs), especially in the Main Development Region (MDR). Warmer SSTs → more energy available for storm formation and intensification.
- Makro: Ocean Heat Content (OHC): Depth and volume of warm water (not just the surface). This is critical for sustaining strong hurricanes.
- Makro: El Niño–Southern Oscillation (ENSO): El Niño → tends to suppress Atlantic hurricanes (more wind shear).
  - La Niña → tends to enhance hurricane activity (less wind shear).
  - Vertical wind shear: The difference in wind speed / direction between lower and upper atmosphere. High shear tears storms apart; low shear allows development.
- Shorter term influence:
  - Atmospheric moisture (Mid-Level Humidity): Dry air (especially from the Saharan Air Layer) inhibits storm formation. Moisture supports convection and cyclone development.
  - Pre-Season storm activity: Any early-season storms can signal favorable conditions.
  - African easterly waves: These disturbances move off the African coast and often seed hurricanes.
  - General pressure systems distribution over the US and jet stream path
- Historical analogs: Past years with similar oceanic/atmospheric patterns are used for comparison.
- Global climate models: Complex simulations that forecast large-scale patterns months ahead.

While all these inputs are of importance, **the SST in MDR, the OHC and the ENSO** are the most relevant factors

General information: SST (Sea Surface Temperatures)

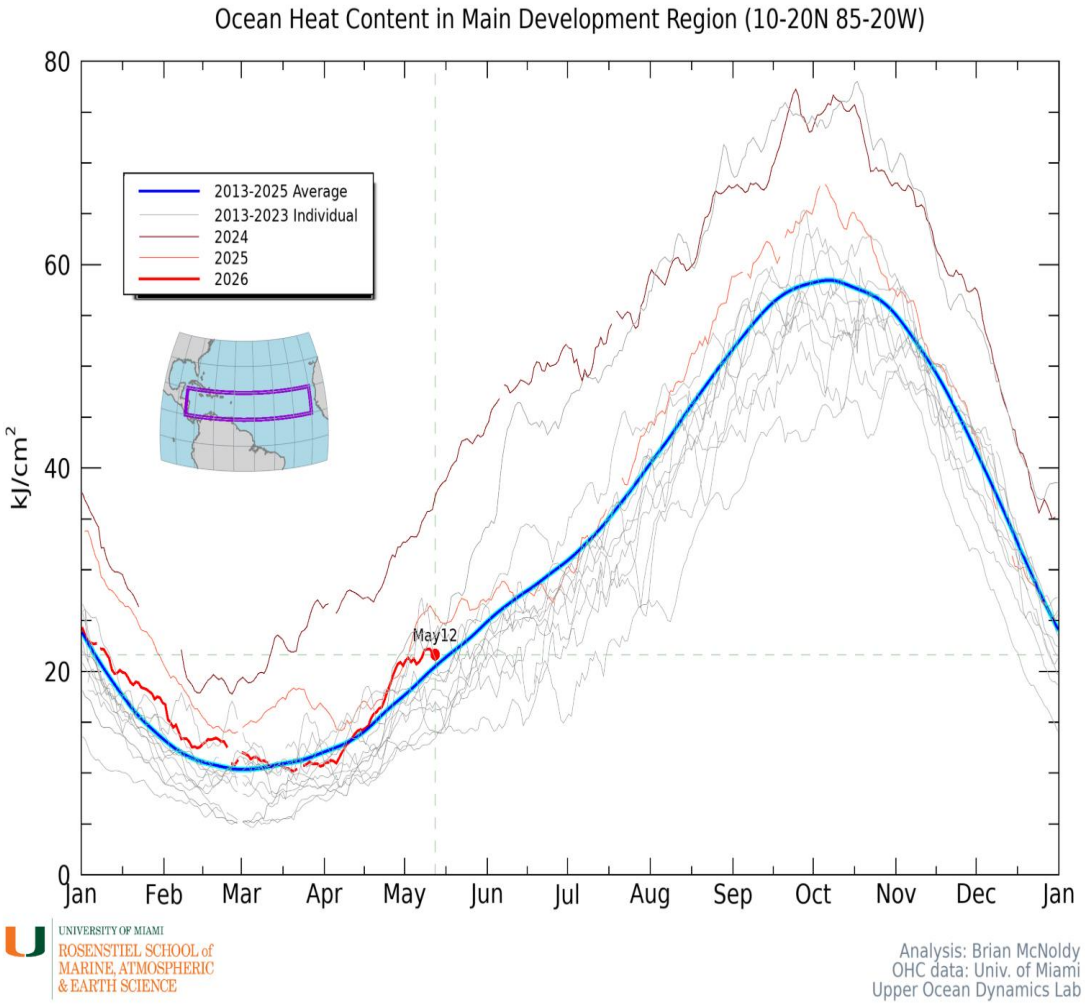
- One “booster” for Hurricanes is the temperature of the Sea. The warmer, the more “fuel” for a Hurricane.
- North Atlantic Sea Surface Temperatures are still elevated, but not at the highs of for example 2024.
- In more detail, Caribbean, Gulf, and Subtropical Atlantic are above average, while the MDR (main development region) is slightly cooler



- Dryer than normal conditions are predicted across the Caribbean and the MDR. Less humidity rather leads to lesser Hurricanes

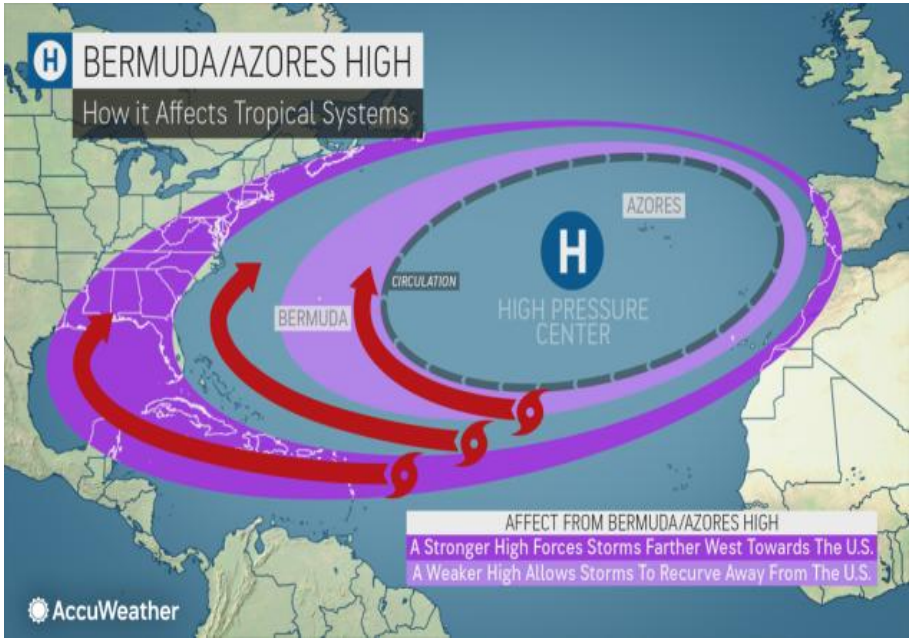
General information: OHC in MDR

- The “booster” for hurricanes is the so-called **oceanic heat content** (OHC) in the Atlantic ocean . It measures the amount of thermal energy stored in the upper layers of the ocean. It is measured from the surface to a specific depth.
- The deeper and warmer the water, the more sustained energy is available for a storm.
- Rather than measuring the temperature of most of the mid Atlantic, there is a much more relevant “**main development region**” (MDR). The OHC in this region is highly relevant for the prognosis of the hurricane season. MDR is generally defined as the region between latitudes 10°N to 20 °N and longitudes 20 °W to 60 °W.
- As one can see, OHC in the MDR has cooled meaningfully from the records of 2024 and is now tracking close to – or slightly below – the 2013–2025 average.



General information: What impacts the path of a hurricane

- The information on the previous slides showed the factors influencing whether a strong hurricane season can be expected.
- These factors do not determine whether a hurricane will make landfall. Hurricanes turning back to the Atlantic obviously don't create damage. Therefore, it is important to also gain information about the likelihood of such landfalls.
- The high-pressure system over Bermuda or the Azores—often called the Bermuda High or Azores High—plays a critical role in determining the track and landfall of Atlantic hurricanes.
- The Bermuda high is a semi-permanent subtropical high-pressure system in the North Atlantic.



Strong / westward Bermuda High

Storms are pushed westward toward the Caribbean, Gulf of Mexico, or U.S. mainland. Higher landfall risk, typically the more damaging configuration for re-insurance exposure.

Weak / eastward Bermuda High

Storms tend to curve northward and recurve out to sea (avoiding landfall). This was the dominant 2025 pattern – Erin, Humberto and Gabrielle all turned away from the U.S.

General information: Glossary of key terms

Saffir-Simpson Scale
Hurricane intensity classification by sustained wind speed: Cat 1 (74–95 mph) to Cat 5 (≥157 mph). Cat 3+ = "major hurricane".

ACE
Accumulated Cyclone Energy. Squared wind speed summed over storm lifetime; measures combined frequency, intensity and duration of a season. Long-term median ~96; above-normal threshold 126.1.

Expected Loss (EL)
Modelled annual probability of loss on a cat bond or portfolio. The Solidum Cat Bond Fund's EL is typically lower than the index EL; movements reflect both new issuance and active positioning.

MDR
Main Development Region: 10°N–20°N, 20°W–60°W. The tropical Atlantic corridor where the strongest Cape-Verde-type hurricanes originate August–October.

OHC / SST
Ocean Heat Content (kJ/cm²) measures thermal energy stored in upper-ocean layers and is the "fuel" for major hurricanes. Sea Surface Temperature (SST) in °C is the surface signal. OHC matters more for sustained intensity.

ENSO / El Niño / La Niña
El Niño–Southern Oscillation. El Niño (warm central Pacific) increases Atlantic wind shear → fewer/weaker Atlantic hurricanes. La Niña is the opposite. Neutral falls in between.

Bermuda / Azores High
Subtropical high-pressure system over the North Atlantic. A strong, westward-displaced high steers storms toward the US; a weak/eastward-displaced one allows recurvature back into the open ocean.

Rapid Intensification
≥35 mph (≥30 kt) increase in sustained winds over 24 hours. Strongly correlated with warm OHC and low wind shear. Increasingly common in recent seasons in the Atlantic Ocean.

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Review Season 2025: A historic gap between intensity and impact

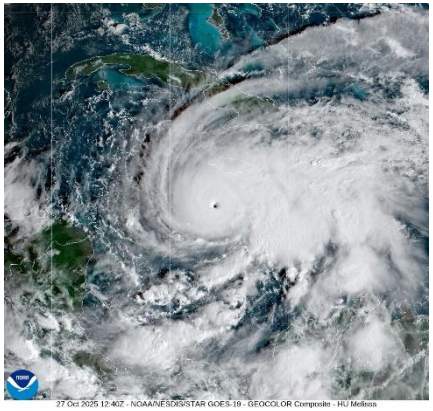
- For the first time in a decade (since 2015), no hurricane made landfall in the continental United States – despite three Cat 5 storms forming in the Atlantic basin.
- The dominant steering pattern repeatedly recurved storms (Erin, Humberto, Gabrielle) northward and eastward, away from the U.S. coast – a classic weak / eastward-displaced Bermuda High signature.
- Even non-landfalling storms generated significant impacts: Erin's storm surge and waves caused severe beach erosion and house collapses along the North Carolina Outer Banks; Tropical Storm Chantal brought flooding to North Carolina (the only U.S. landfall of any storm).
- A long break in Hurricane formation occurred; the scientific “reasons why” are not fully understood as per today
- **A pronounced "intensity – impact gap" defined the season: ACE was above-normal, but U.S. insured hurricane losses were the lowest in years.**

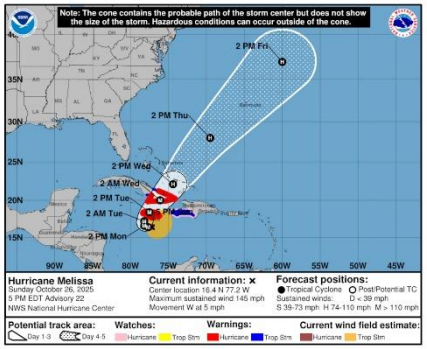
Key takeaway

2025 was another year in which high Atlantic activity did not translate into catastrophic insured losses for the re/insurance industry. Storm counts and ACE measure activity, not damage. Tracks, intensity and landfall location drive losses. The most famous example for a disastrous landfall is **Hurricane Andrew** in 1992. **This occurred in a El Nino year with average OHC and SST**.

Review Season 2025: Hurricane Melissa – the season's defining event

- Melissa became a tropical storm on Oct 21 in the central Caribbean and underwent **a very rapid intensification**, reaching 185 mph (≈300 km/h) winds and a central pressure of 892 mb on Oct 27.
- Direct Cat 5 landfall in Jamaica – the strongest hurricane ever to strike the island and one of only a handful of Cat 5 Caribbean landfalls in the modern record.
- Widespread devastation in Jamaica: 40–50% of hotels damaged, hundreds of thousands of acres of crops destroyed, over one million homes left without water service.
- Insured losses concentrated in the Caribbean re-insurance and parametric layers.
- Solidum had a critical view on this Jamaica World Bank Cat Bond, for various reasons:
  - we considered the structure as clearly “over-engineered”
  - the coverage terms were such that the Cat Bond would have been affected very early, even with far less intensive storms and other paths
  - the spread / coupons was, in our view, around 30% too low for the risk





For those reasons, **Solidum did not invest in the respective bond** and was not impacted by Hurricane Melissa. The structure, the general metrological situation and the compensation for the risk were not in line with our risk assessment

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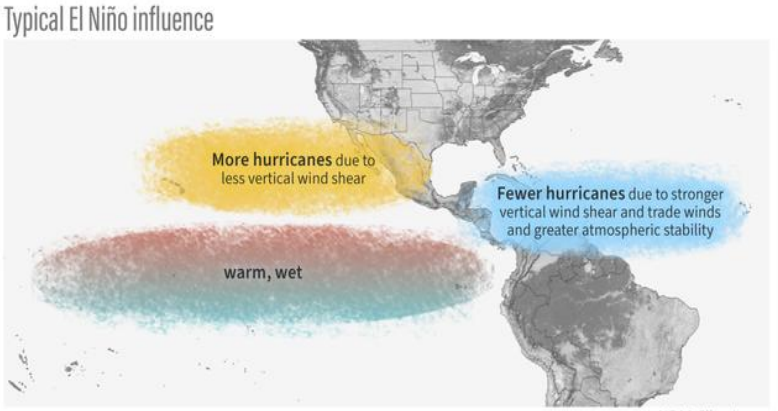
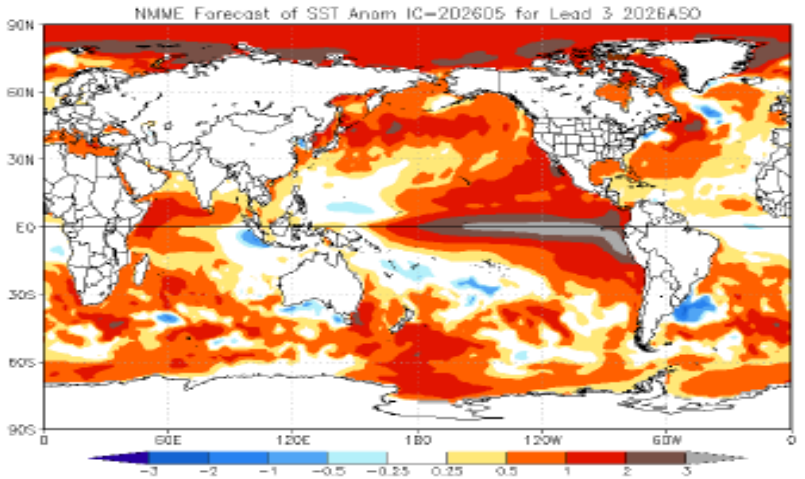
Outlook 2026: El Nino is a dominant factor

- El Nino leads, in general, to fewer hurricanes in the Atlantic, but more in the Pacific.
- As sea surface temperatures in the eastern Pacific are higher during an El Niño and, at the same time, wind shear tends to occur less frequently there, an El Niño increases the risk of hurricanes making landfall on the Mexican Pacific coast.
- One example is the year 2023, when a very active season was recorded during a significant El Niño and, among other events, Hurricane Otis made landfall near Acapulco as a Category 5 storm with peak winds of 260 km/h.
- The likelihood of a “Super El Niño” is growing, though peak strength of the El Niño event will likely be after the conclusion of the hurricane season.
- The picture from NOAA (National Oceanic and Atmospheric Association) shows rather extreme temperatures in the Pacific and consensus is that 2026 will experience a very strong El Nino





Source: NOAA CPC

Outlook 2026: Forecaster consensus – below to near-normal

- The outlooks from leading research institutes from April / May 2026 converge on a below-normal to near-normal season, driven primarily by the expected El Niño rather than by SSTs

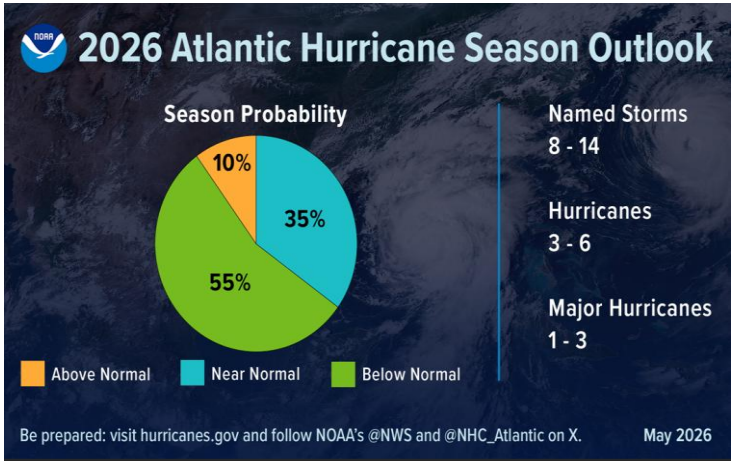
Forecaster	Named storms	Hurricanes	Major hurricanes	ACE	Tone
Long-term average (1991–2020)	14	7	3	123	—
2025 actual	13	5	4	132.6	Above-normal ACE
CSU (Apr 2026)	13	6	2	90	**Below-normal**
TSR (Apr 2026)	12	5	1	66	**Below-normal**
AccuWeather (Apr 2026)	11–16	4–7	2–4	—	Near-/below-normal
TWC (Apr 2026)	12	6	2	—	**Below-normal**
NCSU (Apr 2026)	12–15	6–9	2–3	—	Near-normal
U. Arizona (Apr 2026)	20	9	4	155	Above-normal (outlier)

Source: Solidum compilation from CSU, TSR, AccuWeather, TWC, NCSU, University of Arizona. ACE = Accumulated Cyclone Energy.

Outlook: NOAA

NOAA's Outlook is the "gold standard" in the industry, which is why we highlight it separately

- NOAA predicts a 10% chance of an above-normal season, and a 55% chance of a below-normal season.
- The agency is forecasting a total of 8-14 named storms (winds of 39 mph or higher). Of those, 3-6 are forecast to become hurricanes (winds of 74 mph or higher), including 1-3 major hurricanes (category 3, 4 or 5 with winds of 111 mph or higher).
- NOAA has a 70% confidence in these ranges. An average season has 14 named storms with seven hurricanes, including three major hurricanes.
- El Niño is expected to develop and intensify during the hurricane season, while ocean temperatures in the Atlantic are expected to be slightly warmer than normal and trade winds are likely weaker than average.
- El Niño conditions tend to support less tropical storms and hurricanes, while warmer ocean temperatures and low winds support a more active year.



Outlook 2026: General conclusions

- El Nino strengthens, and it is likely that 2026 will become a **«Super El Nino»** year. This will lead to additional wind shear which hampers the development of a Hurricane.
- Higher SSTs across the Gulf of Mexico and Caribbean may offset some, but not all of the El Niño effects
- Drier than normal conditions in the Caribbean and tropical Atlantic lead to less “fuel” for a Hurricane
- Lesser Hurricane activity reduces the probability for major hurricane landfalls along continental US coastline and in the Caribbean, but…

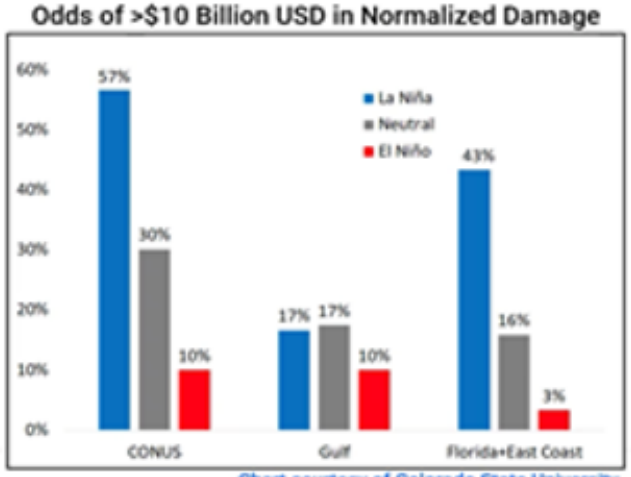


Chart courtesy of Colorado State University

- …insured losses do not always correlate with Atlantic Hurricane activity. While El Nino and other atmospheric conditions influence the occurrence of Hurricanes and the strength of a season, it is also a fact that damage is also determined by **where a hurricane has landfall**
- **A good example for a situation of an El Nino year with a soft Hurricane season, but a disastrous impact, was Hurricane Andrew in 1992 (see next page)**

Outlook 2026: Hurricane Andrew in 1992; a deep dive

- 1992 fell within an El Niño period (the 1991–1992 El Niño was fairly significant), and El Niño does tend to suppress Atlantic hurricane activity.
- The 1992 Atlantic season reflected this. It was below average in overall numbers, with roughly 7 named storms, 4 hurricanes, and only 1 major hurricane for the whole year. It also started unusually late.
- The crucial lesson, though, is that seasonal activity (how many storms form) is a very different thing from the intensity or impact of any single storm.

- Andrew formed in mid-August, struggled at first against exactly the kind of shear El Niño promotes, and nearly fell apart as a weak tropical storm. **But once it moved into a more favorable pocket with high sea-surface temperatures and reduced shear, it underwent rapid intensification** and slammed into south Florida near Homestead on August 24 as an extremely intense hurricane. It then crossed the Gulf and struck Louisiana a few days later.
- Andrew was the costliest U.S. hurricane on record at the time, with damage usually cited around $26–27 billion in 1992 dollars. The destruction was concentrated in southern Dade County — Homestead and Florida City were essentially flattened.

> According to Swiss RE / RMS, the cost if Andrew hit again (same wind speed, same landfall) **are estimated to be USD 150 – 200 Bn.,** whereas insured costs are estimated **at USD 90 – 110 Bn.**

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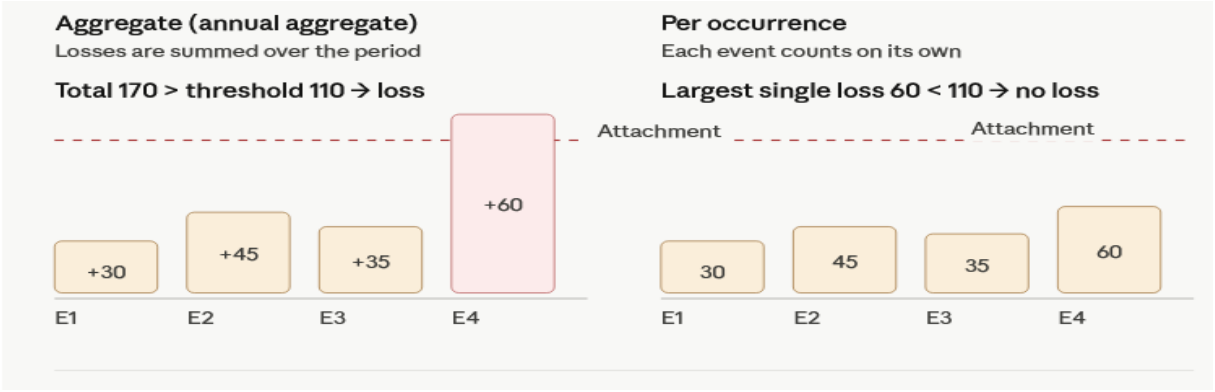
Conclusions: In general

- All major meteorologic data indicate a below normal to normal Hurricane season.
- While those data indicate a softer season, they don't predict the path and landfall of a Hurricane. However, lower activity leads to lesser probability of Hurricanes hitting the US coast. It is important to distinguish between **frequency** and **severity**.
- Certain tactical decisions can still be made once a Hurricane forms or is in the water, but the strategic positioning must be done pre-season.
- In general, and for Solidum's Cat Bond Fund, we plan to shift our clearly more conservative positioning from recent years (expected loss around 10-15% below index) closer to the index, so selectively increase the risk exposure, while still be slightly more conservative than the index.
- **However, one needs to carefully select the "ideal" types of Cat Bonds, profiting from such an atmospheric framework while keeping overall (peak…) risks under control.**

Conclusions: Positioning

Starting Point: Per occurrence coverage vs. aggregate Cat Bonds

- "Per occurrence" means that each individual event **is assessed on its own**. For investors to take a loss, a *single* catastrophe event must breach the attachment point by itself. Several small events are not added together — each storm, each earthquake stands alone.
- In aggregate structures, **multiple events are summed over a defined risk period (usually one year)**. The attachment point is reached once the *cumulative* loss total breaches the threshold — regardless of whether that comes from one large event or many smaller ones.
  - typical here is a deductible: Events that individually exceed a certain minimum size count toward the aggregation at all. This prevents every minor loss from eroding the bond.
  - some bonds incorporate maximum limits, in order to structure a 2nd, 3rd or 4th event (e.g. above USD 20 Bn.)



Conclusions: Positioning

- In a situation with estimated less frequency, **aggregate structures become more attractive**. Solidum has been very selective when conducting such investments in 2024 and 2025 because of estimated strong Hurricane seasons. Historically many (avoidable) losses fund managers faced were triggered by, in our view, unfavourable aggregate structures.
- As outlined, we expect a softer season in the Atlantic. However, the Pacific has every ingredient for a “perfect storm”. The El Nino leads to record high temperatures in the Pacific, and SST’s as well as OHC is estimated to reach peak levels. **We therefore avoid any coverage in Mexico’s Pacific coast.**
- The slightly higher SST’s don’t allow to go for an “unlimited” risk, for example for the Florida region. An Andrew event is still possible. We therefore avoid too risky structures and carefully balance our portfolio.