Catastrophe-Bond Investors Hard to Rattle as Florence Approaches.

- **Aon's Schultz sees no panicked sales in 'sophisticated' market**
- **Investors are in 'for the long term,' Fitch's Grimes says**

Catastrophe-bond investors probably stayed calm and didn't nervously sell their holdings as they watched Hurricane Florence hurtle toward the U.S. East Coast this week, market observers say.

Trading has been relatively muted ahead of the storm that's set to make landfall in the Carolinas on Friday, according to Paul Schultz, chief executive officer of the Aon Plc investment-banking group that helps companies issue cat bonds. The securities offer higher yields in exchange for the risk that the principal could be wiped out by natural disasters.

"The market is more sophisticated," Schultz said in an interview. "There's not sort of panicked selling, there's not distressed levels of just getting out of a bond if you think there's some exposure. It's more of an informed view where you're looking at the potential track of the hurricane, you're looking at the implications of your portfolio."

Investors such as pension funds have snapped up cat bonds, which can help diversify portfolios. One gauge of the market, the Swiss Re Cat Bond Price Return Index, prices weekly on Friday. Christopher Grimes, a Fitch Ratings director, said the index might move down slightly, then is likely to recover unless Florence is worse than forecast.

"We don't think that the market is maybe as opportunistic as maybe it was thought to be at one point," Grimes said. "This is fairly sticky capital, where investors are in for the long term."

Florence's leading edge had struck waterfront towns in North Carolina by Thursday afternoon, with the full impact still to come. When the hurricane is done lashing the coast, its storm surge could flood tens of thousands of structures, according to North Carolina Governor Roy Cooper.

Aon's Schultz said that bid-ask spreads this week indicate muted volatility in the cat-bond market. Prospective investors are generally asking for a larger discount, but bondholders seem to be resisting. That reflects a "mature view in the marketplace," Schultz said.

The cat-bond index plunged last year as Hurricane Irma approached Florida. It later rose slightly, but has stayed under pre-Irma levels. Florence's current path could help temper any impact on cat bonds this time around because fewer of the securities carry risk in the Carolinas, and Florida is expected to avoid a hit.

Damage estimates for Florence remain uncertain because the storm's path could shift as it moves inland. Widespread power failures and business interruptions are seen as likely, and hundreds of thousands of people have evacuated the region.

"As long as that hits in a populated area, we would expect it to have some impact to the cat-bond market," said Brett Houghton, a portfolio manager at Fermat Capital Management, which oversees investments in insurance-linked securities.

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