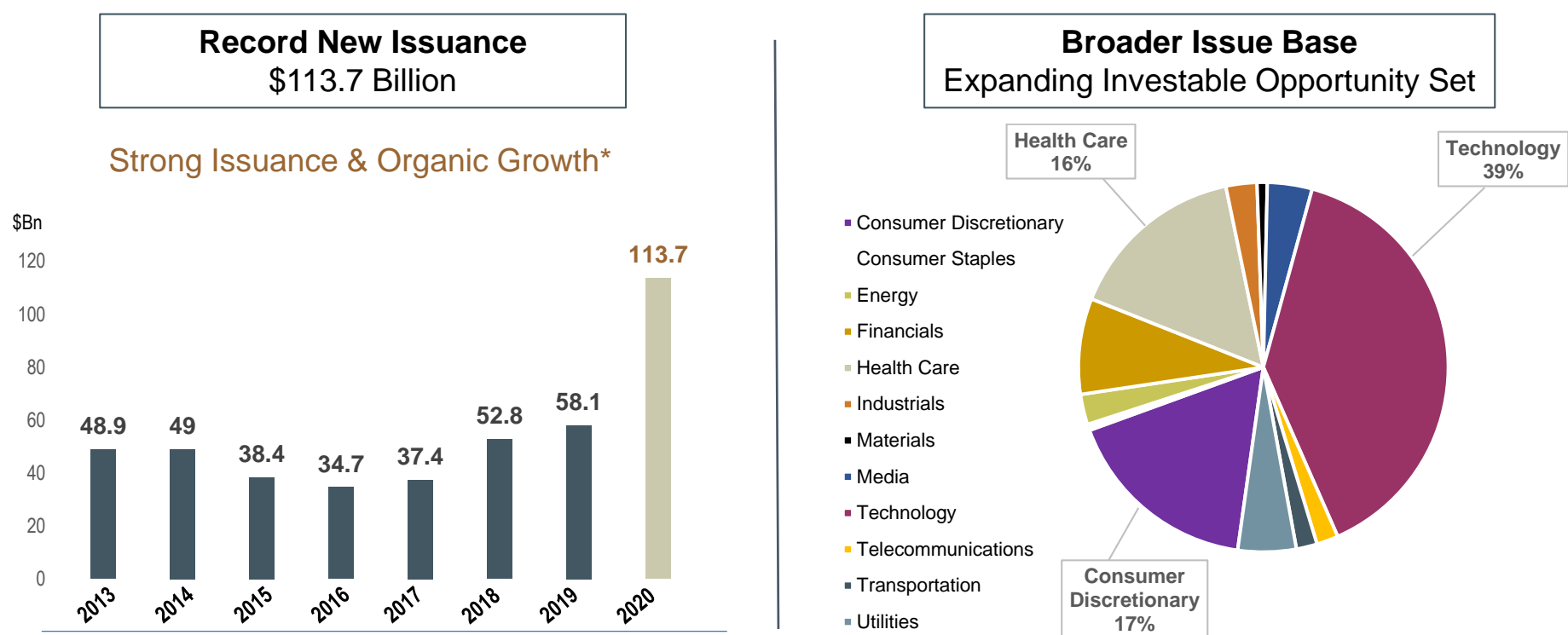


Convertible IQ

Q: The Convertibles market saw record issuance and strong performance in 2020. Will this trend continue in 2021?

Convertible issuance set a new record in 2020 with \$113.7 billion of new issuance. The surge in issuance can be attributed primarily to growth sectors, such as Tech and Healthcare, and a significant number of issuers from recovery companies, primarily in the Consumer Discretionary sector, many of which were negatively impacted by the Covid-19 crisis. Sector and issuer composition has significantly broadened the investible landscape, especially as we enter an economic recovery.



While we expect 2021 issuance to remain strong, the pace will likely moderate as market conditions normalize over the year. We believe issuance supply will be supported by the sharp earnings rebound from a cyclical recovery, healthy equity valuations, increased issuer capital spending, attractive pricing, and the presence of several large issuers. In addition, since there is still uncertainty on the timeline of normalization, we believe issuers will utilize Convertibles as a low-cost source of new capital to address any potential liquidity events and for liquidity insurance purposes.

The surge in Covid cases and uncertainty regarding the vaccine rollout has increased market volatility which has created a perfect storm for Convertibles to thrive due to their convex nature and low duration characteristics. This is supported by strong convert market technicals, fair aggregate valuations, low convert credit spreads, and minimal default risk exposure. As the equity market recovers, we expect converts to benefit from capturing equity upside, primarily in the Consumer Discretionary, Tech, and Healthcare sectors.

* Source: Bloomberg Barclay Research. New issuance data for Year 2020 as of 12/31/2020
 **Sector calculations presented above depict the legacy ICE BofA convertible index sector classification system

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