

SSI Convertible Market Flash Report (as of 10/31/2022)

U.S. Convertible Market Update

Performance Attribution:

The US Convertible Market, as measured by the ICE BofA All US Convertibles Index (VXA0), returned 3.26% during October and has declined by 17.38% year-to-date. All sectors produced positive returns for the month.

Issuance:

New issuance in October was slow with 5 deals for \$1.3bn. Total new issuance for the year is at \$21.4bn.

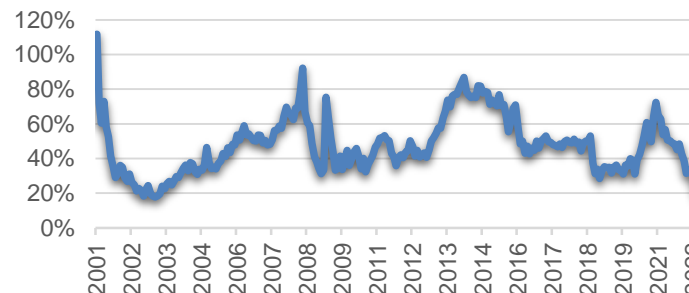
Portfolio Impact:

A key factor in the overall structure of the convertible market is the embedded fixed income component of the convertible security which creates an investment/bond floor. The bond floor provides the defensive characteristic of convertibles. At current prices, many convertible issues are trading close to their bond floors, resulting in increased downside protection. As of September 30, 2022, **the Investment Value Premium (Bond Price/Bond Floor) for the ICE BofA All US Convertible Index (VXA0) measured 17.14%, which equates to the lowest month-end value in multiple decades (Exhibit 1).** This data point highlights the high degree of implied downside protection available in the asset class.

Additionally, the convertible market's depreciation since November 2021 affords investors other opportunistic considerations alongside the heightened degree of downside protection. The market displays above average yield-to-best and a potentially strong ability to rebound. Based on data from BofA Global Research, the median 3-month, 6-month, and 12-month rebounds off historical troughs for the top 5 largest drawdowns in the convertible market since 1997 produced returns of 21.3%, 30.3%, and 48.4% respectively.

Portfolio Impact (Continued):

Exhibit 1: Investment Value Premium for VXA0 (Bond Price/Bond Floor)



Performance

	MTD %	QTD %	YTD %
Convertible Index Performance			
ICE BofA US (VXA0)	3.26	3.26	-17.38
Refinitiv US Focus	2.50	2.50	-21.42
ICE BofA Global (VG00)	2.04	2.04	-15.32
ICE BofA Global ex US (VG2I)	-0.09	-0.09	-13.82
ICE BofA Invest Grade (V0S1)	7.82	7.82	3.26
ICE BofA IG 5% Constrained (VX5C)	4.52	4.52	-5.93

Convertible Arbitrage

HFRX RV: FI- Convertible Arbitrage Index (HFRXCA)	1.29	1.29	-13.47
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Past performance is not indicative of future results. This material is provided for internal and educational purposes only and should not be construed as investment advice or an offer or solicitation to buy or sell securities.

Footnotes and disclosures located on page 2 of Convertible Market Flash Report.

U.S. Convertible Performance Heat Map

	MTD %	QTD %	YTD %
Top Sectors (month)			
Energy	13.16	13.16	36.21
Transportation	7.41	7.41	-8.89
Consumer Discretionary	6.15	6.15	-27.03
Bottom Sectors (month)			
Consumer Staples	0.61	0.61	-19.94
Financials	0.96	0.96	-21.36
Technology	1.38	1.38	-21.73
Credit Quality			
Investment Grade	3.45	3.45	-7.79
High Yield	4.18	4.18	-22.15
Investment Objective			
Equity Alternative	6.92	6.92	-20.72
Total Return/Balanced	3.59	3.59	-17.44
Fixed Income Alternative	1.98	1.98	-14.05
Company Size			
Small	-0.14	-0.14	-10.37
Mid	2.23	2.23	-13.39
Large	4.12	4.12	-19.19

U.S. Convertible Portfolio Characteristics¹

	MTD
Current Yield	2.00%
Duration	2.13
Delta	0.41
Percent Cheap	0.88%
Conversion Premium	53.53%
Investment Value Premium	21.99%

Footnotes & Disclosures

¹U.S. Convertible Portfolio Characteristic represent the ICE BofA All U.S. Convertibles Index (VXA0)

Sources: BofA Global Research, Bloomberg, Barclays Live Research, BofA Global Convertibles Chartbook, November 1, 2022, SSI Internal Research
Data as of October 31, 2022, unless specified otherwise.

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