

# SSI Convertible Market Flash Report (as of 11/30/2022)

## U.S. Convertible Market Update

### Performance Attribution:

The US Convertible Market, as measured by the ICE BofA All US Convertibles Index (VXA0), returned 1.58% during November and has declined by 16.07% year-to-date. All but two sectors produced positive returns for the month.

### Issuance:

In November, new issuance produced \$3.3bn. Total new issuance for the year is at \$24.7bn. Although issuance in 2022 has lagged recent years, the second half of 2022 will produce nearly double the issuance from the first half of the year. Importantly, as the cost of raising capital increases, the convertible market becomes a more attractive avenue for companies seeking to save on borrowed capital. Additionally, the average new deal coupons have increased from under 2% in 2021 to 3%-4+% today.

### Portfolio Impact:

Previously in this report, we highlighted the embedded fixed income component of the convertible security which creates an investment/bond floor. The bond floor provides the defensive characteristic of convertibles. With convertible issues trading close to their bond floors, the US convertible market still displays an investment value premium (bond price/bond floor) that measures higher approximately 94% of the time, compared to month-end values since 1995. Meaning, right now the asset class continues to provide a high degree of implied downside protection with the ability to capture upside. For example, quarter-to-date, US convertibles are up 4.89% and have captured 45% of the returns of the underlying equities.

Combining heightened downside protection, a low duration profile, and the ability to benefit from equity recoveries, creates an opportunity for investors to enter the convertible market under unique defensive market dynamics and with metrics that are not commonly accessible.

## U.S. Convertible Performance Heat Map

	MTD %	QTD %	YTD %
<b>Top Sectors (month)</b>			
Utilities	5.51	9.42	4.68
Consumer Discretionary	3.49	9.85	-24.48
Transportation	2.72	10.34	-6.42
<b>Bottom Sectors (month)</b>			
Telecoms	-1.93	3.84	-6.53
Industrials	-0.46	5.65	-10.56
Consumer Staples	0.68	1.29	-19.40
<b>Credit Quality</b>			
Investment Grade	3.36	6.93	-4.69
High Yield	2.60	6.90	-20.13
<b>Investment Objective</b>			
Equity Alternative	0.76	7.73	-20.12
Total Return/Balanced	3.04	6.75	-14.93
Fixed Income Alternative	0.86	2.86	-13.31
<b>Company Size</b>			
Small	-1.20	-1.34	-11.45
Mid	0.86	3.11	-12.65
Large	2.25	6.46	-17.37

## U.S. Convertible Portfolio Characteristics<sup>1</sup>

	MTD
Current Yield	2.04%
Duration	1.98
Delta	0.44
Percent Cheap	-0.09%
Conversion Premium	49.27%
Investment Value Premium	24.89%

## Performance

	MTD %	QTD %	YTD %
<b>Convertible Index Performance</b>			
ICE BofA US (VXA0)	1.58	4.89	-16.07
Refinitiv US Focus	3.48	6.07	-18.68
ICE BofA Global (VG00)	2.31	4.40	-13.37
ICE BofA Global ex US (VG2I)	3.43	3.33	-10.87
ICE BofA Invest Grade (V0S1)	0.83	8.71	4.12
ICE BofA IG 5% Constrained (VX5C)	2.94	7.59	-3.17
<b>Convertible Arbitrage</b>			
HFRX RV: FI- Convertible Arbitrage Index (HFRXCA)	1.78	3.10	-11.93
<b>Broad Index Performance</b>			
S&P 500	5.59	14.14	-13.12
Russell 1000	5.41	13.86	-14.15
Russell 1000 Growth	4.56	10.67	-23.26
Russell 1000 Value	6.25	17.14	-3.68
Russell 2000	2.31	13.58	-14.94
S&P 500 Low Volatility	5.83	13.22	-2.91
60% S&P / 40% Agg <sup>2</sup>	4.87	9.39	-12.37
ICE BofA US HY (H0A0)	1.87	4.77	-10.54
Bloomberg US Agg Bond <sup>3</sup>	3.68	2.33	-12.62

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.

## Footnotes & Disclosures

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

<sup>2</sup>60% S&P 500 + 40% Bloomberg US Aggregate Bond Index

<sup>3</sup>Bloomberg US Aggregate Bond Index

Sources: BofA Global Research, Bloomberg, Barclays Live Research, BofA Global Convertibles Chartbook, December 1, 2022, SSI Internal Research  
Data as of November 30, 2022, unless specified otherwise.

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