

SSI Convertible Market Flash Report (as of 12/31/2022)

U.S. Convertible Market Update

Performance Attribution:

The U.S. Convertible Market, as measured by the ICE BofA All US Convertibles Index (VXA0), returned -3.14% during December and has declined by 18.71% year-to-date. 2022 represents the worst annual returns for the U.S. Convertible Market since 2008.

Issuance:

In December, new issuance produced \$3.7bn. Total new issuance for the year was \$28.4bn. 2023 has the potential for a more robust new issuance environment. As the cost of raising capital increases, the convertible market becomes a more attractive avenue for high yield borrowers. From an investor's perspective the deal terms have improved since the post-pandemic levels. The results are new issues with higher coupons and moderated conversion premiums.

Portfolio Impact:

The market is generally trading more like bonds than stocks. It has progressively shifted, resulting in an increase in securities that are trading below par, with attractive yield profiles, stable credit profiles, and offer optionality to participate in market rebounds. With this profile, there are distinct opportunities for active management and investors. Convertibles continue to trade at historic defensive levels that offer the potential for meaningful downside protection in the near-term. With convertible issues trading close to their bond floors, the US convertible market displays an investment value premium (bond price/bond floor) that measures higher approximately 99% of the time, compared to month-end values since 1995. This value represents one of the strongest values recorded for implied downside protection vs. equity underlying securities. 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 uniquely reinforced implied defensive characteristics that are not commonly accessible.

U.S. Convertible Performance Heat Map

	MTD %	QTD %	YTD %
Top Sectors (month)			
Healthcare	-0.29	3.68	-12.13
Consumer Staples	-0.37	0.92	-19.70
Financials	-1.14	1.61	-20.85
Bottom Sectors (month)			
Materials	-10.54	-5.60	-6.81
Consumer Discretionary	-5.93	3.34	-28.96
Energy	-5.62	7.58	29.50
Credit Quality			
Investment Grade	-3.19	3.52	-7.73
High Yield	-3.89	2.74	-23.23
Investment Objective			
Equity Alternative	-8.09	-0.98	-26.58
Total Return/Balanced	-4.31	2.14	-18.59
Fixed Income Alternative	-0.54	2.31	-13.77
Company Size			
Small	-1.53	-2.85	-12.80
Mid	-1.40	1.66	-13.87
Large	-4.25	1.94	-20.88

U.S. Convertible Portfolio Characteristics¹

	MTD
Current Yield	2.11%
Duration	2.37
Delta	0.39
Percent Cheap	1.12%
Conversion Premium	56.92%
Investment Value Premium	18.03%

Performance

	MTD %	QTD %	YTD %
Convertible Index Performance			
ICE BofA US (VXA0)	-3.14	1.59	-18.71
Refinitiv US Focus	-2.94	2.95	-21.07
ICE BofA Global (VG00)	-1.81	2.51	-14.94
ICE BofA Global ex US (VG2I)	0.65	4.00	-10.29
ICE BofA Invest Grade (V0S1)	-4.85	3.44	-0.93
ICE BofA IG 5% Constrained (VX5C)	-3.19	4.16	-6.26
Convertible Arbitrage			
HFRX RV: FI- Convertible Arbitrage Index (HFRXCA)	-0.65	2.43	-12.50
Broad Index Performance			
S&P 500	-5.77	7.55	-18.13
Russell 1000	-5.82	7.23	-19.14
Russell 1000 Growth	-7.66	2.19	-29.14
Russell 1000 Value	-4.05	12.40	-7.56
Russell 2000	-6.49	6.20	-20.46
S&P 500 Low Volatility	-1.75	11.24	-4.61
60% S&P / 40% Agg ²	-3.64	5.40	-15.56
ICE BofA US HY (H0A0)	-0.75	3.98	-11.22
Bloomberg US Agg Bond ³	-0.45	1.87	-13.01

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

Footnotes & Disclosures

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

²60% S&P 500 + 40% Bloomberg US Aggregate Bond Index

³Bloomberg US Aggregate Bond Index

Sources: BofA Global Research, Bloomberg, Barclays Live Research, BofA Global Convertibles Chartbook, January 3, 2023, SSI Internal Research
Data as of December 31, 2022, unless specified otherwise.

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