
SSI Convertible IQ:

Convertible Bonds Currently Stand at a Historic Entry Point

Convertible Bonds have been the best performing Fixed Income asset class over the past 3, 5, 10 and 20 years. Given their underlying equity option, Convertible bonds can provide a unique risk/reward profile to a Fixed Income allocation, as shown in the chart below:

Annualized Returns as of 9/30/2022

Product Name ¹	3 Years	5 Years	10 Years	20 Years
ICE BofA All US Convertibles (VXA0)	10.14	9.28	10.14	9.03
Bloomberg US Aggregate	-3.26	-0.27	0.89	3.08
Bloomberg US Intermediate Treasury	-1.72	0.17	0.59	2.36
Bloomberg US Long Treasury	-8.51	-1.62	0.59	4.10
ICE BofA US Corporate & Government	-3.26	-0.08	1.03	3.18
ICE BofA US High Yield	-0.67	1.41	3.86	7.27

1. Sources: ICE BofA Indices, Bank of America Research, Bloomberg Indices, Bloomberg. BoA Global Research and Bloomberg disclaimer located at end of document.

Investors are looking to reduce exposure to rising rates by lowering portfolio duration. Convertibles can provide a strong solution, as they typically perform well when interest rates rise due in large part to their low duration profile. They also provide a competitive current income with the opportunity for significant upside due to the optionality provided by the equity component.

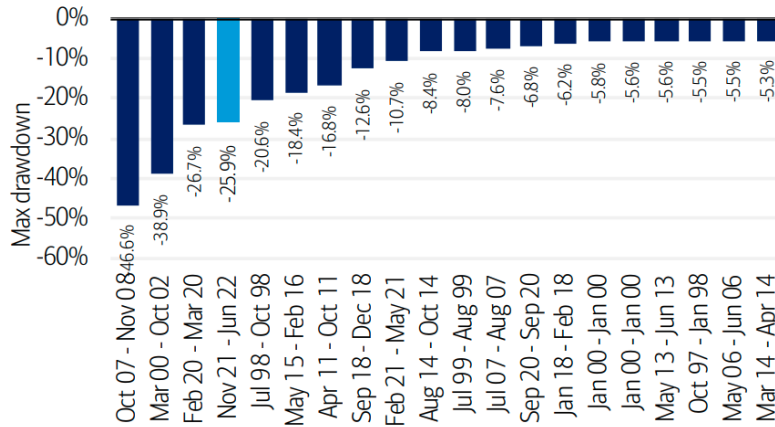
In fact, the asset class is currently at a historic entry point caused, in large part, by the volatility in the overall market. The magnitude of the sell-off has left the convertibles market well positioned to provide meaningful opportunity for upside capture in a market rebound. Concurrently, an investment value premium well below long-term averages, offers downside protection. This potential upside capture combined with downside protection define the hybrid nature of convertibles.

From November 2021 – June 2022, the US Convertible market experienced the fourth largest peak-to-trough sell-off in many years. However, the 3 largest previous declines led to periods where the asset class rebounded strongly, outperforming equity and fixed income indexes as illustrated in the following chart:

Outright Convertible Market Performance

Top 20 peak – to- trough drawdowns in US Convertibles (VXA0)²

The current drawdown (since November 2021) is the fourth-largest peak-to-trough selloff



US Convertible bonds (VXA0) median rebounds from historical troughs³

US convertibles have seen strong rebounds off their historical troughs, once they have bottomed, especially those from the most severe peak-to-trough drawdowns

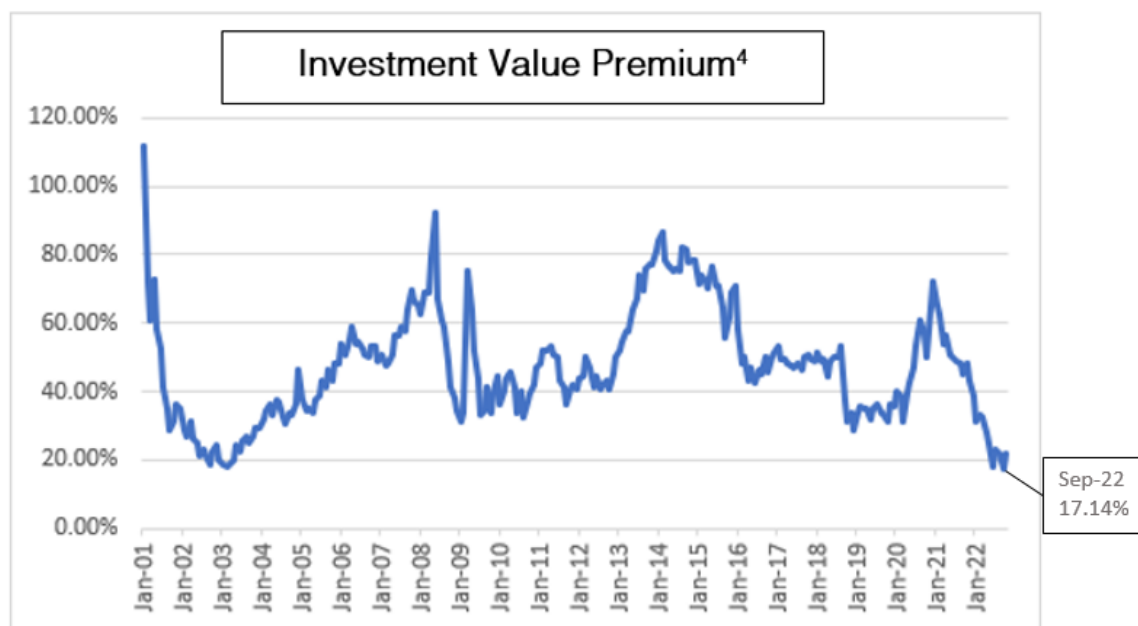


2. Source: BofA Global Research, ICE Data Indices, LLC. Data as of 6/30/2022. BofA Global Convertibles Chartbook, 7/1/2022

3. Source: BofA Global Research, ICE Data Indices, LLC. Data as of 5/31/2022. BofA Global Convertibles Chartbook, 6/1/2022
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Another key factor is the embedded fixed income component of the convertible security providing 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 that result in *an 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 since 2001⁴. This data point highlights the high degree of implied downside protection available in the asset class.



4. Lowest Investment Value Premium ranging from 1/31/2001 to 9/30/2022. Source: BofA Global Research, Global Convertibles Chartbook, 10/3/2022

Additionally, the convertible market's depreciation since November 2021 affords investors other opportunistic considerations alongside the heightened degree of downside protection. The US Convertibles (VXA0) universe has an average yield-to-best of 5.8%, representing an above average metric for current yield and accretion⁵. The primary driver for potential future returns remains the ability for **strong capital appreciation when markets 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% respectively⁶.

The convertible asset class stands at a historic position. The combination of principal protection, increased level of portfolio income, enhanced downside protection, significant rebound potential, and a low duration profile provides an attractive entry point for the asset class. For investors looking to establish new exposures coming out of the current market turbulence, the case for convertibles appears promising.

5. Yield-to-Best (YTB) is defined as the higher of current yield, yield to maturity or yield to put. SSI uses YTB because once a convertible is in the money; Yield-to-Worst (YTW) is not a relevant concept, as the bond will not mature at par but at parity. Source: SSI Internal Research.

6. Source: BofA Global Research, ICE Data Indices, LLC. Data as of 5/31/2022. BofA Global Convertibles Chartbook, 6/1/2022
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Bank of America Data/Charts

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