



Convertible Snapshot



US Convertible Securities market update: February 2018



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Performance

The US convertible asset class rallied in January, up 3.94%, on the back of very strong equity markets. Non-rated issues drove the market higher, up 4.96%, followed by investment grade, up 2.98% and high yield, up 2.51%.¹ (See Asset Class Performance table).

All capitalization segments contributed positively to performance with large capitalization convertibles leading the asset class, up 5.72%. Mid cap and small cap convertibles also rallied, up 2.12% and 1.37%, respectively.¹

The best performing sectors were Technology, up 6.93%, and Healthcare, up 6.38%. The weakest sectors were Financials, down 0.93%, and Transportation, down 0.47%.

Equity component

The month-end equity options delta for the convertible market was 69.58%, which is on the higher end of historical norms.² The S&P 500 Index and Russell 1000 were both higher by 5.72% and 5.49%, respectively.³ Equities underlying convertibles securities outperformed the broader equity markets, up 6.28%.¹

Fixed income component

The fixed income component was a slight drag on performance last month. The yield on the 10 year Treasury rose 30 basis points to 2.70%, negatively impacting convertibles with longer durations or low equity sensitivity. Credit spreads tightened slightly, but not enough to offset the rise in general interest rates.

New issues

The new issue market normalized last month, raising \$6.3 billion through 14 deals.¹

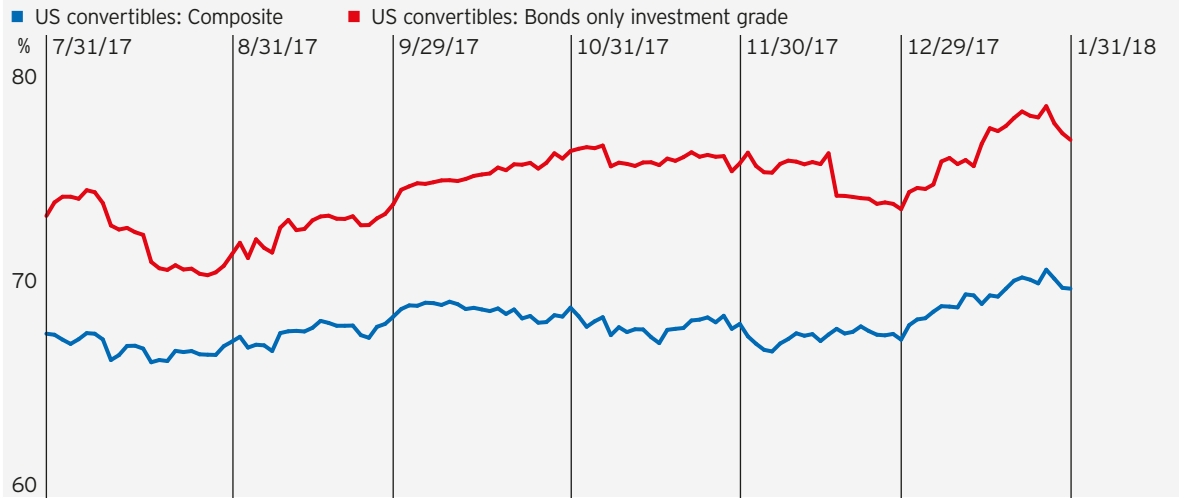
Outlook

The behavior of equity markets should continue to drive performance of the asset class going forward given the high level of equity sensitivity. The fixed income component will act as a stabilizer for the market should equities soften meaningfully.

Equity sensitivity

Equity sensitivity of the US convertible market was higher last month.

US convertible equity deltas

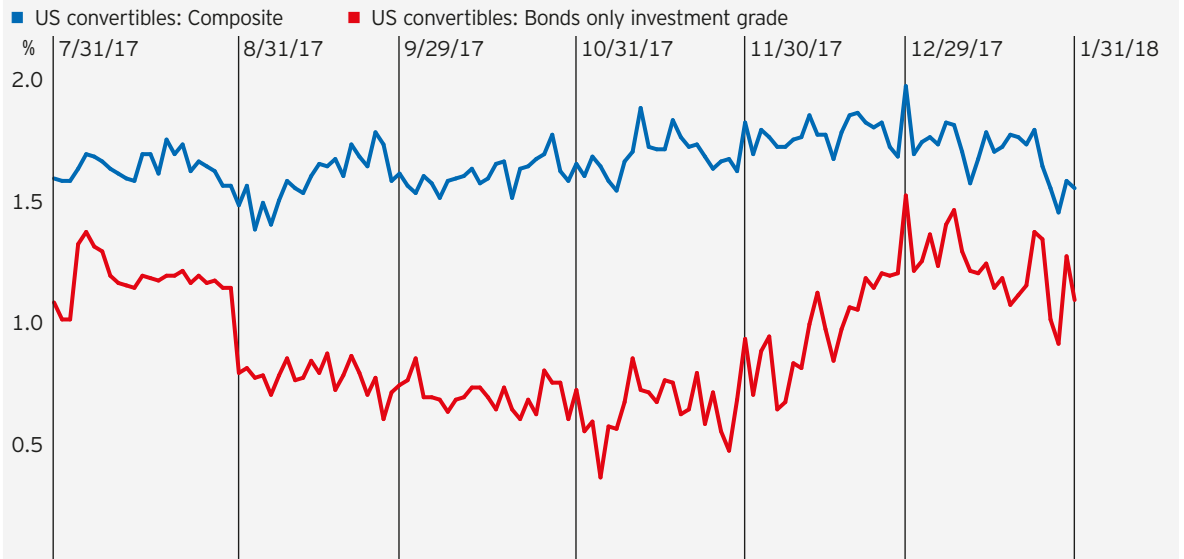


Source: Bloomberg Barclays as of January 31, 2017. The U.S. convertible composite encompasses the full universe of convertible securities. Delta is the amount of change in the price of an option for every one-point increase in the underlying asset, or the percentage of the change in the price of the underlying asset that is reflected in the price of an option.

Richness/Cheapness of the convertible asset class

The convertible asset class remains rich to its theoretical value.

US convertible richness/cheapness

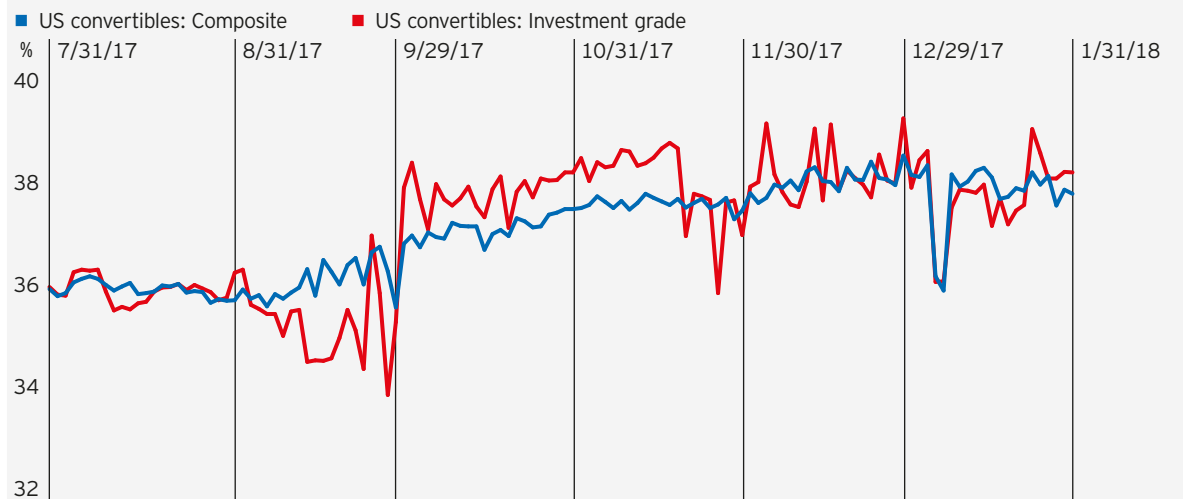


Source: Bloomberg Barclays as of January 31, 2017. Richness/cheapness measures the market value of the convertible market in relation to its theoretical value (fair value). Theoretical value is the value produced by a model which indicates where the market should be based upon a number of inputs, such as stock price, strike price, implied volatility, interest rates and yield curve shape.

Convertible implied volatility

Implied volatility was essentially unchanged in January.

US convertible implied volatility



Source: Bloomberg Barclays as of January 31, 2017. Volatility is calculated using standard deviation and measures an investment's range of total returns and identifies the spread of an investment's short-term fluctuations.

Asset class performance

Asset class	January 2018 (%)	YTD 2017 (%)
Bloomberg Barclays US All Convertible Index	3.94	3.94
Bloomberg Barclays US Convertible Underlying Equities Index	6.28	6.28
Bloomberg Barclays US Investment Grade Convertibles Index	2.98	2.98
Bloomberg Barclays US High Yield Convertibles Index	2.51	2.51
S&P 500 Index	5.72	5.72
Russell 1000 Index	5.49	5.49

Source: Bloomberg Barclays as of January 31, 2017, total returns in USD. Past performance does not guarantee future results.

Investment risk

Convertible securities may be affected by market interest rates, issuer default, the value of the underlying stock or the right of the issuer to buy back the convertible securities.

The value of investments and any income will fluctuate (this may partly be results of exchange rate fluctuations) and investors may not get back the full amount invested.

- 1 Bloomberg Barclays as of January 31, 2017; Bloomberg Barclays US ALL Convertible Index; Bloomberg Barclays US Investment Grade Convertible Index; Bloomberg Barclays US High Yield Convertible Index; Bloomberg Barclays US Convertible Underlying Equities Index. Returns stated are total returns in USD. Credit spreads are for the Bloomberg Barclays US ALL Convertible Index. Market caps, nonrated performance and sectors are included with the Bloomberg Barclays US ALL Convertible Index.
- 2 Bloomberg Barclays as of January 31, 2017; equity delta is calculated using the US convertible composite, which encompasses the full universe of convertible securities.
- 3 Bloomberg L.P. as of January 31, 2017. Returns stated are total returns in USD.

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