



Convertible Snapshot



US Convertible Securities market update: October 2017



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Performance

The US convertible asset class continued its march higher last month on the back of strong equity markets, gaining another 1.42% (14.65% YTD). High Yield convertibles led the market, up a notable 2.86%, followed by investment grade, up 1.62%, and non-rated, up 0.68%.¹ (See Asset Class Performance table).

All capitalization segments of the asset class performed well, with small cap leading the way higher, up 2.05%, followed by mid cap up 1.40% and large cap up 1.10%.¹

There was a fairly large dispersion of sector returns in the market last month. The best performing sectors were Energy, up 5.95%, Technology up 2.79% and Transportation up 2.79%. The weakest sectors were Communications, down 2.83%, and Utilities, down 0.84%.

Equity component

Equity sensitivity in the market was high to start the month and got more acute as equity markets rose, which caused the embedded equity options to pick up stock sensitivity. The end of month equity options delta, 68.3%, is the highest level over the last 12 months.² The S&P 500 Index and Russell 1000 were both higher by 2.06% and 2.13%, respectively.³ Equities underlying convertibles slightly outperformed these broader equity markets, rising 2.42%.¹

Fixed income component

For the first time in many months, the fixed income component was a slight headwind for the asset class. Ten year US government interest rates rose approximately 21 basis points, ending the month at 2.33%. Corporate credit spreads were essentially flat and did not have a material impact on performance. Given the equity sensitivity of the market, the fixed income component takes a smaller role in performance unless there are large moves in the capital markets.

New issues

The new issue market remained active with 10 deals, raising \$3.6 billion in proceeds. The YTD new issue total is \$31.3 billion through 82 new deals.¹

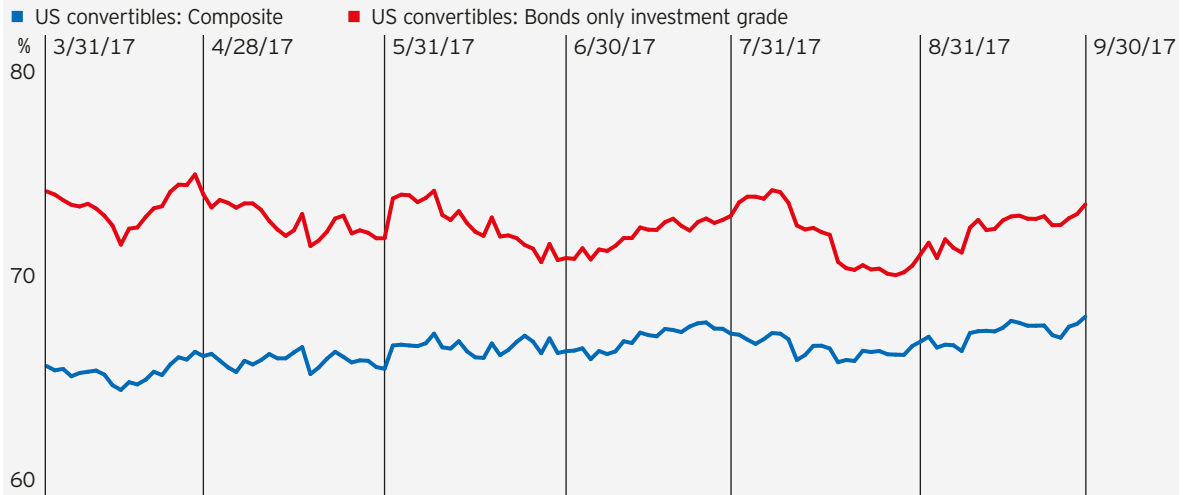
Outlook

The equity sensitivity of the asset class is quite high and underlying equity performance should drive performance of the asset class going forward. The fixed income component should help mitigate the downside in the event of significant equity market weakness.

Equity sensitivity

Equity sensitivity of the US convertible market grew during the month as equity markets rose.

US convertible equity deltas

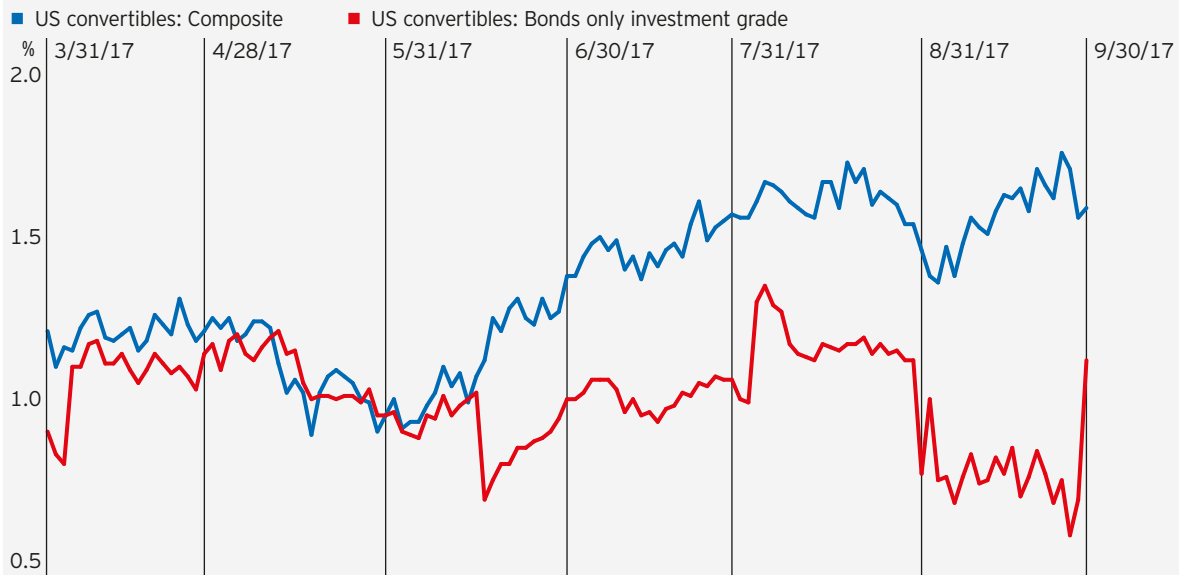


Source: Bloomberg Barclays as of Sept. 30, 2017. The U.S. convertible composite encompasses the full universe of convertible securities. Delta is the amount of change in the price of an option for every one-point increase in the underlying asset, or the percentage of the change in the price of the underlying asset that is reflected in the price of an option.

Richness/Cheapness of the convertible asset class

The convertible asset class is still rich to theoretical value.

US convertible richness/cheapness

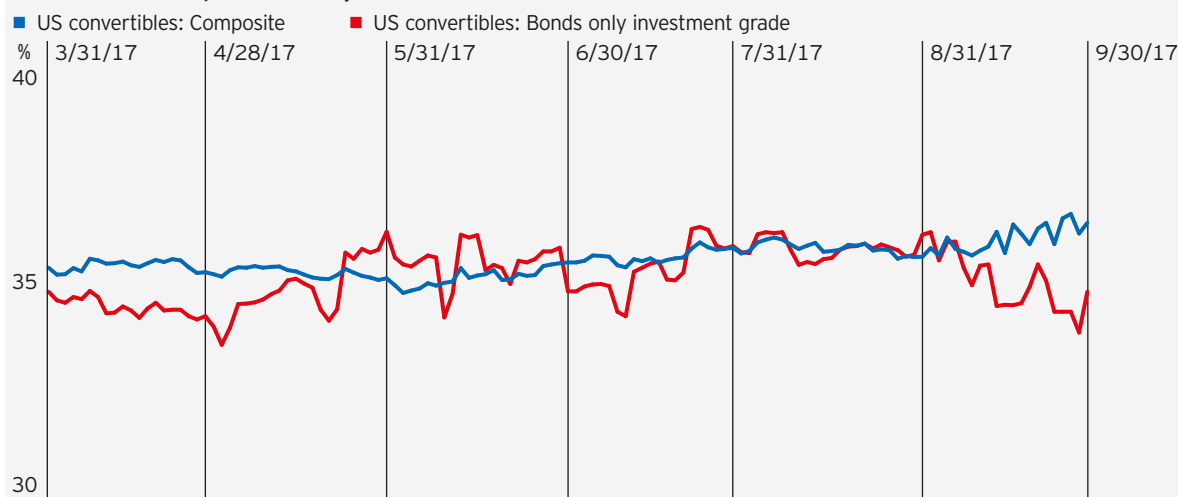


Source: Bloomberg Barclays as of Sept. 30, 2017. Richness/cheapness measures the market value of the convertible market in relation to its theoretical value (fair value). Theoretical value is the value produced by a model which indicates where the market should be based upon a number of inputs, such as stock price, strike price, implied volatility, interest rates and yield curve shape.

Convertible implied volatility

Implied volatility in the broader convertible market was higher last month.

US convertible implied volatility



Source: Bloomberg Barclays as of Sept. 30, 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	September 2017 (%)	YTD 2017 (%)
Bloomberg Barclays US All Convertible Index	1.42	14.65
Bloomberg Barclays US Convertible Underlying Equities Index	2.42	15.38
Bloomberg Barclays US Investment Grade Convertibles Index	1.62	17.31
Bloomberg Barclays US High Yield Convertibles Index	2.86	13.69
S&P 500 Index	2.06	14.24
Russell 1000 Index	2.13	14.16

Source: Bloomberg Barclays as of Sept. 30, 2017, total returns in USD. Past performance does not guarantee future results.

- 1 Bloomberg Barclays as of Sept. 30, 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 Sept. 30, 2017; equity delta is calculated using the US convertible composite, which encompasses the full universe of convertible securities.
- 3 Bloomberg L.P. as of Sept. 30, 2017. Returns stated are total returns in USD.

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