



- **Looking in the rearview mirror.** Some companies prefer to issue convertibles instead of corporates during periods of higher rates because convertible debt can price with a lower coupon (the covid period of 2020/2021 was an outlier as most companies had to access debt markets for liquidity). This trend has continued as US convertible issuance has already surpassed last year's annual total.
- **Feel the [tail]winds in your hair.** The “higher for longer” rate narrative could bring ongoing supply to the convertible market, as companies continue to look for ways to reduce interest expense. Higher yields, coupled with the removal of an accounting rule, should continue to bolster issuance.
- **There are several possible routes.** The tradeoff of lower coupons is the possibility of diluting shares outstanding, which is why more companies do not regularly tap that market; issuers are typically growth-oriented and/or unrated. However, in 2023, investment-grade (IG) issuers have represented 34% of total issuance – a new record – with the first IG utility convert in nearly twenty years.
- At IR+M, we think the healthy resurgence of supply can help investors build a more diversified portfolio in the sector, especially if investors are allowed to purchase high-yield and unrated securities.

Sources: Bloomberg and BofA. IG Corporate Yield based on the Bloomberg Corporate Index at each year-end and 9/1/23. IG Corp issuance, as part of Convert Issuance Relative to IG Corp Issuance, sourced from Bloomberg as of 9/1/23. Convertible issuance sourced from BofA as of 8/31/23. Reprinted by permission. Copyright © 2023 Bank of America Corporation (“BAC”). The use of the above in no way implies that BAC or any of its affiliates endorses the views or interpretation or the use of such information or acts as any endorsement of the use of such information. The information is provided “as is” and none of BAC or any of its affiliates warrants the accuracy or completeness of the information. The views contained in this report are those of Income Research & Management (“IR+M”) and are based on information obtained by IR+M from sources that are believed to be reliable but IR+M makes no guarantee as to the accuracy or completeness of the underlying third-party data used to form IR+M’s views and opinions. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product. Investing in securities involves risk of loss that clients should be prepared to bear. More specifically, investing in the bond market is subject to certain risks including but not limited to market, interest rate, credit, call or prepayment, extension, issuer, and inflation risk. It should not be assumed that the yields or any other data presented exist today or will in the future. It should not be assumed that recommendations made will be profitable in the future. Actual results may vary. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research & Management. “Bloomberg®” and Bloomberg Indices are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited (“BISL”), the administrator of the index (collectively, “Bloomberg”) and have been licensed for use for certain purposes by IR+M. Bloomberg is not affiliated with IR+M, and Bloomberg does not approve, endorse, review, or recommend the products described herein. Bloomberg does not guarantee the timeliness, accuracy, or completeness of any data or information relating to any IR+M product.