

Episode 14:

Is the time right for Convertible Bonds?

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Listen to senior portfolio manager [Justin Kass](#) discuss how the market for convertible bonds has experienced increased activity during the Covid-19 pandemic, and how that translates into new opportunities for investors. Also: Justin reviews the outlook for convertibles and discusses how investors can consider taking advantage of the asset class' asymmetric risk/return profile.

**Justin Kass**CFA, Managing
Director, Portfolio
Manager

Show notes

Is the time right for Convertible Bonds?

Host: [J.P. Vicente](#)**Featured guest:** [Justin Kass](#)

Notes, quotes and references:

J.P. and Justin discuss why convertible bonds have been so active during the COVID-19 pandemic and opportunities in the asset class, which straddles the equities and fixed-income worlds. They conclude by chatting about surf documentary [Momentum Generation](#) and a Nobel Prize-winning poet.

Some key thoughts and topics from this episode:

How has US Federal Reserve support been helping convertibles?

"(The Fed) backstopping credit absolutely began to free up the credit markets, and when we saw the credit markets opened in the late-March, early-April timeframe, one of the most attractive ways for companies to access capital markets without diluting themselves 100% with equity was through convertible securities."

How has new issuance of convertible been in 2020?

"The size of the convertible market is roughly \$300 billion, and a primary reason (for that is) it's grown by close to \$100 billion this year through new issuance. Through the end of September 2020 ... there's been roughly \$90 billion of new issuance. To put that in context, in 2018-19, each one of those years respectively, we did \$50 billion of new issuance. And the last time we even came close to \$100 billion of new issuance was in 2007 when we were kind of in the mid-\$90 billion range of new

issuance. So, it's been a tremendous year of new issuance."

What are some key characteristics of the asset class?

"The types of companies that historically issued convertibles ... tend to be faster growing companies that typically, it's their first time issuing debt. They don't necessarily want to go to the rating agencies and get a formal review. That tends to lead them to be companies that are in the technology space and the healthcare space. Technology is close to 30% of the overall market, and healthcare is over 15% of the overall market."

What do you expect will drive the convertible market in the coming years?

"Even though interest rates are low and high-quality companies may not choose to issue convertibles, we could see convertible issuance above historical ranges because of the possible merger and acquisition activity that might be coming to the marketplace in the next couple of years."

Why should an investor hold a convertibles allocation?

"We believe investors should have convertible securities in their portfolio at all times, and the reason is pretty simple: Markets are volatile, markets go up and down, markets are hard to predict. ... When you look at the return portfolio of a convertible bond over a full market cycle, when you ask investors, 'Would you like equity-like returns with less volatility?' it makes a lot of sense. Why convertibles are important ... is investors in convertibles are not sacrificing much on the upside, but they get downside protection through that fixed-income instrument."

The full episode has even more details on the topics above. Check it out.

Cultural recommendations:

J.P. talks about [the poetry of Louise Glück](#), this year's winner of the Nobel Prize in literature. In particular, he recommends her Pulitzer Prize-winning collection [The Wild Iris](#), which touches on themes of the passage of time and mortality.

Justin has been unwinding on the weekend by surfing the waves at San Diego's world-renowned beaches. From Trestles to South Bay, [San Diego's 70 miles of coastline has plenty to offer those seeking to hang ten](#), including Justin's personal favorite, [Torrey Pines State Beach](#).

Creativity and editing: Timothy Wong

Production: Mark Egan

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