GSR Research

Asset Allocator Series

An Opportune Environment to Invest in U.S. Convertible Securities

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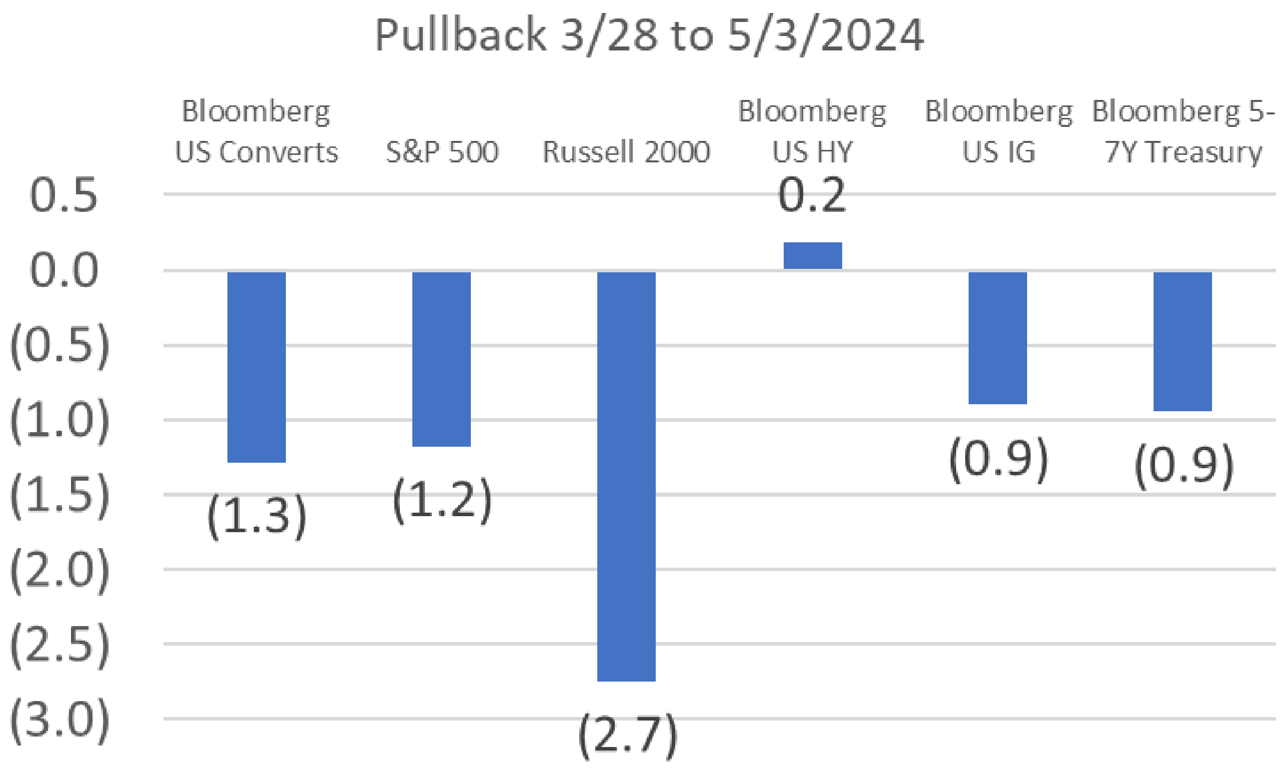
Risk assets have pulled back in the last month as investors re-calibrate expectations



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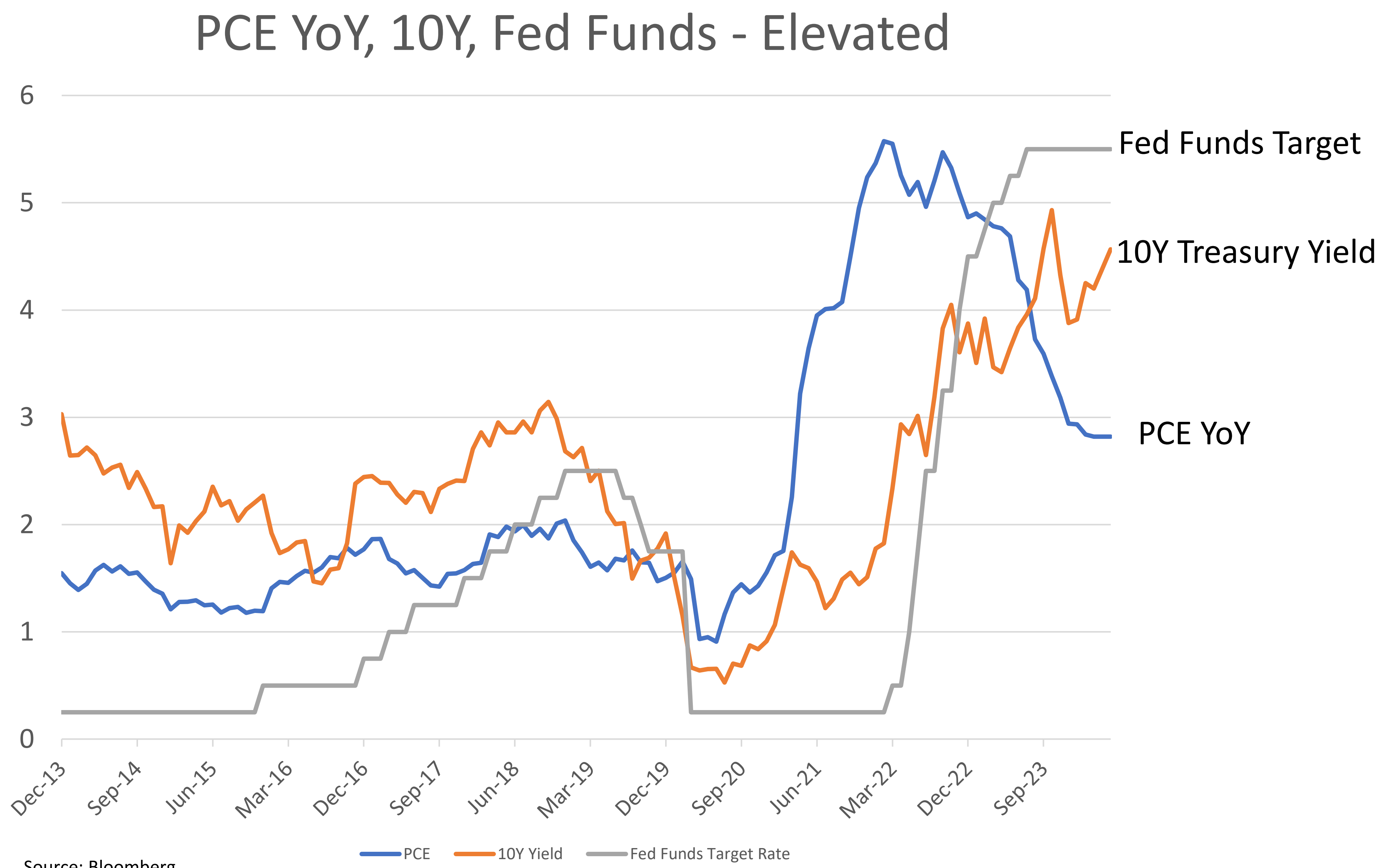
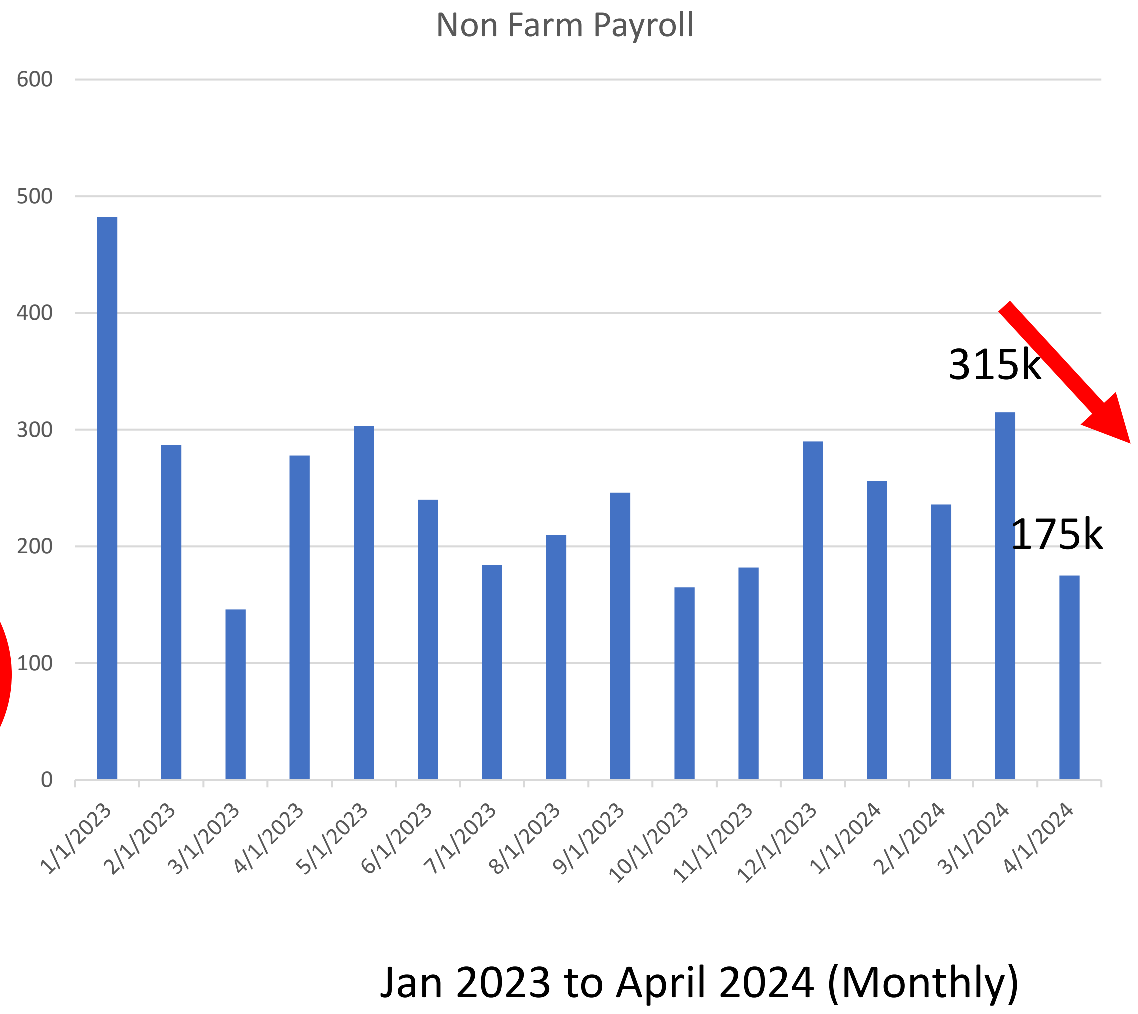
Stubborn Inflation > Fed on hold > Higher for longer rates



Source: Bloomberg

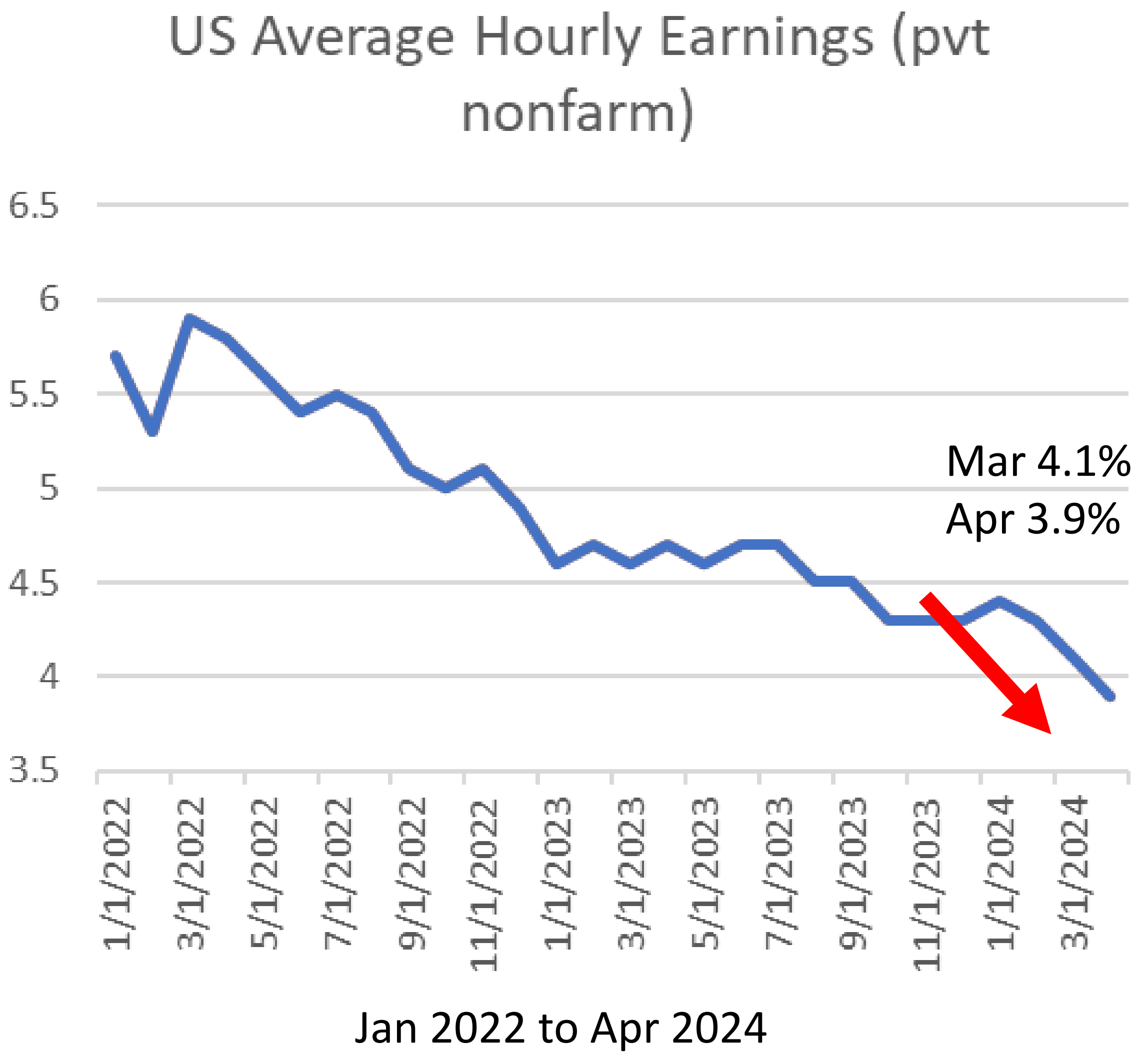
Unemployment ticked up but still low…payroll weaker and 1Q 24 GDP growth was weaker at 1.6%

Source: U.S. Bureau of Labor Statistics (FRED)

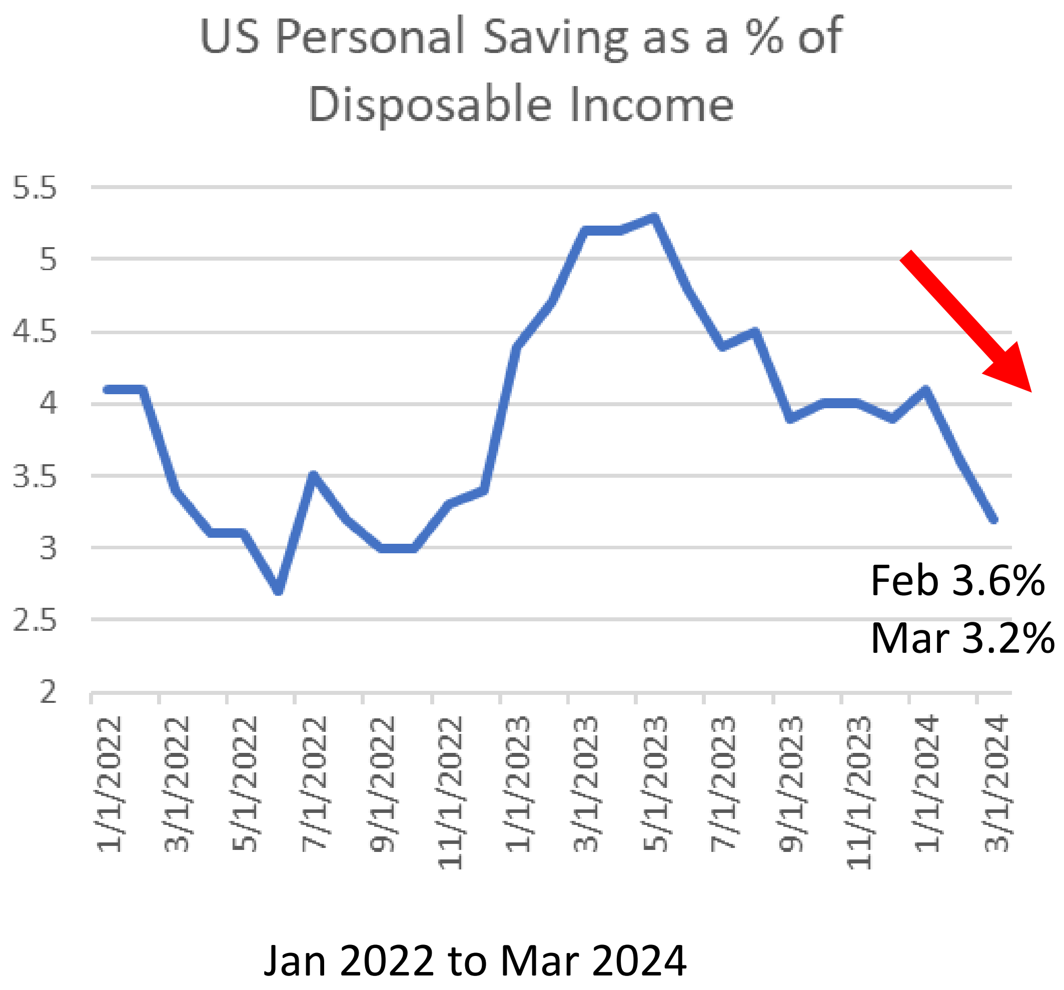


Source: U.S. Bureau of Labor Statistics (FRED)

Avg hourly earnings growth and savings rates declining

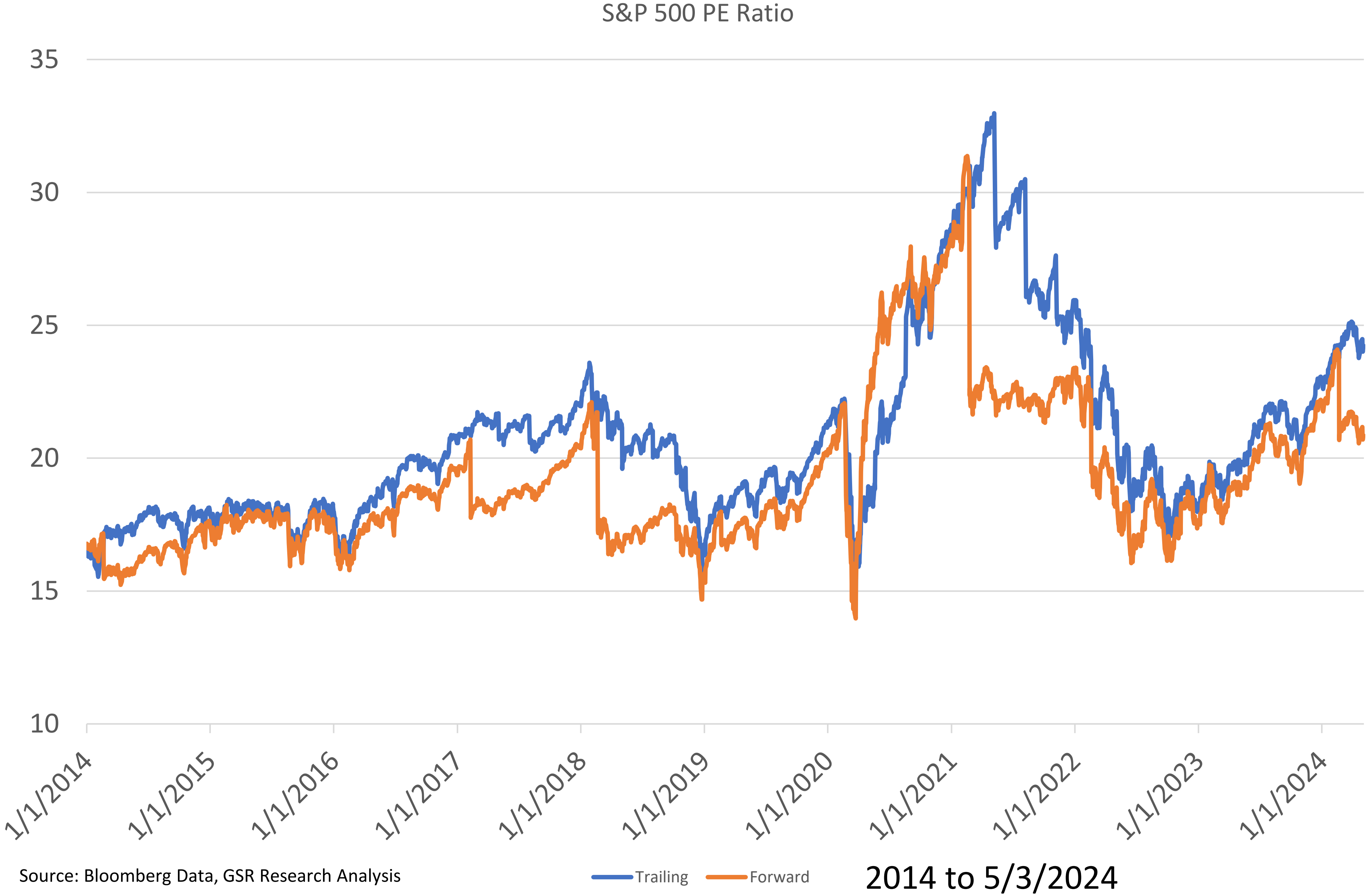


Source: U.S. Bureau of Labor Statistics (FRED)



Source: U.S. Bureau of Economic Analysis

Equity multiples are elevated versus pre-Covid levels…

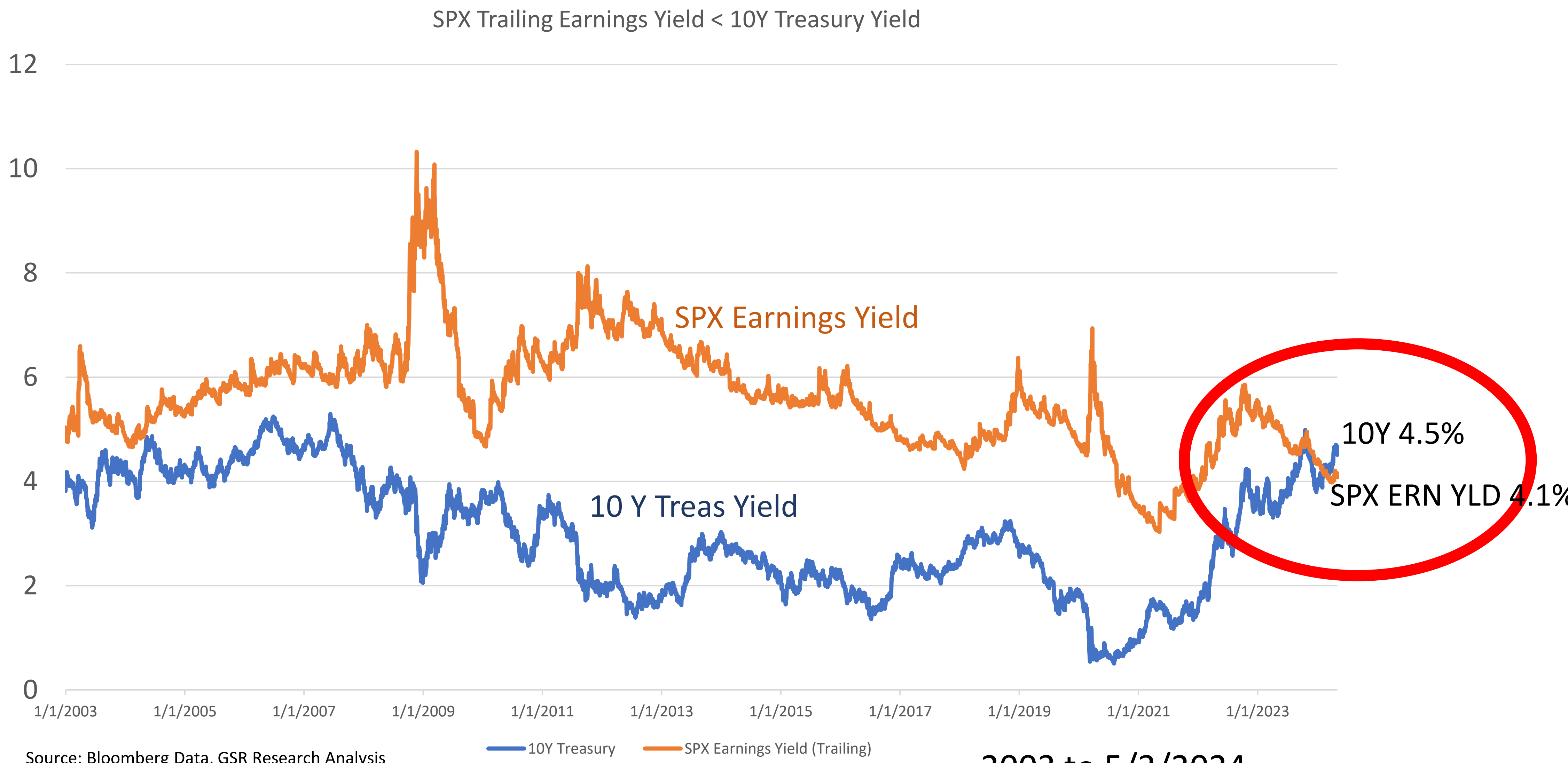


SPX 1/1/14 - 5/3/24	Trail. PE	Fwd. PE
~10 year Med.	**20.0x**	**18.3x**
5/3/2024	**24.2x**	**20.9x**
Current - Med.	**4.2x**	**2.5x**

Source: Bloomberg Data, GSR Research Analysis

2014 to 5/3/2024

Trailing S&P 500 Earnings Yield Lower than 10Y Treasury Yield for the first time in over 20 years



Source: Bloomberg Data, GSR Research Analysis

2003 to 5/3/2024

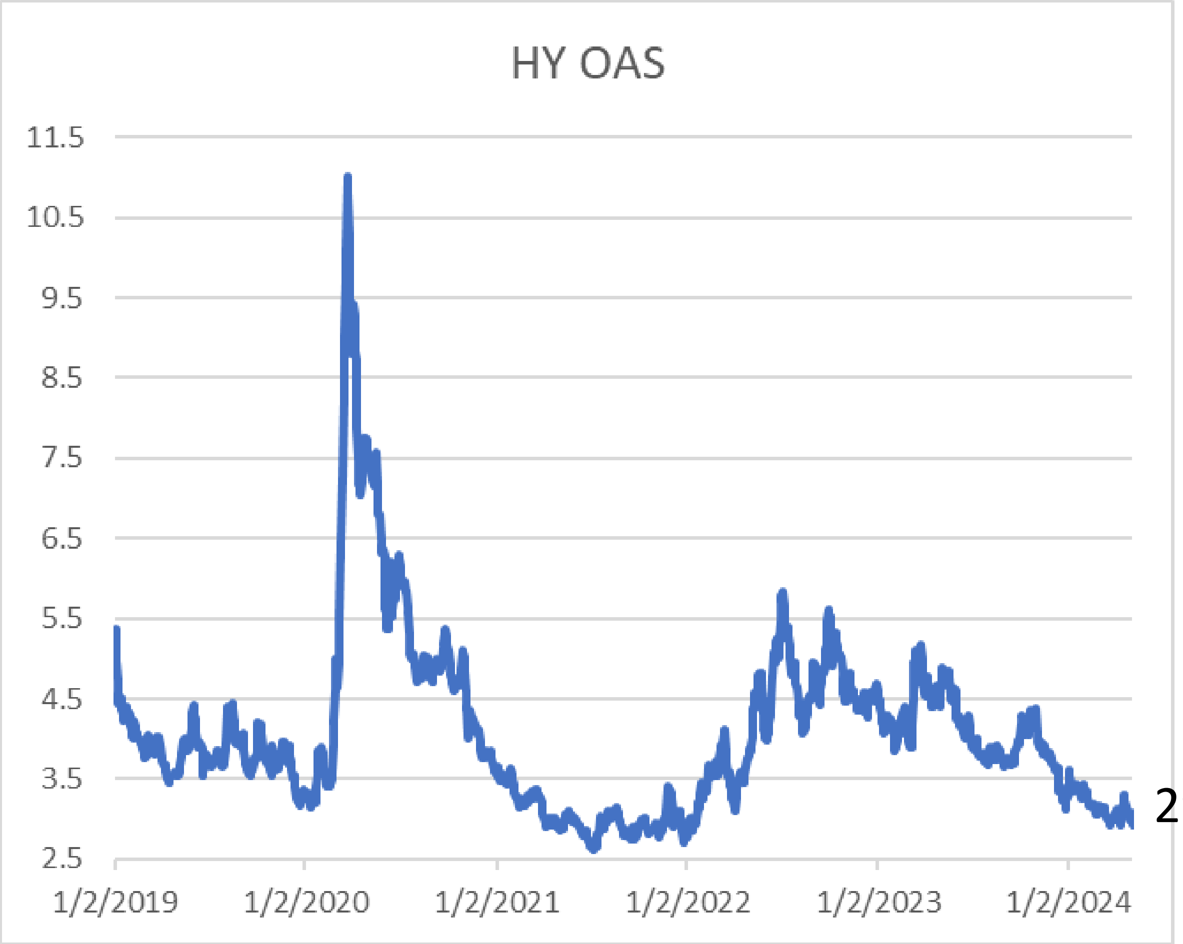
Street targets and earnings expectations for the S&P 500 are muted with limited upside

	2024 End Target	2024 EPS
Average	5070	$ 238
Median	5170	$ 240
High	5535	$ 250
Low	4200	$ 223
Data points	21	21
Current	5188	***

* Summary as of 4/15/24, Avg as of 5/7/24

Source: Bloomberg

High yield spreads have tightened significantly with limited room for further compression…



293bps

2019 to 5/3/2024

Source: Bloomberg

~$268 bn market is well balanced with 2% yield & 48% delta…robust primary calendar enhances appeal

Description	Stat
Market Value	$268 billion
Number of Securities	498
Current Yield	2%
Avg Delta	48%
Avg Premium	51%
Avg Price	~100

* Summary as of 5/3/24

Source: Bloomberg Data, GSR Research Analysis

Bond structures account for most of the market elevating converts higher up in the cap structure (Sr Unsecured)

Type	No. of Sec	No. of Sec (%)	Mkt Val ($bn)	Mkt Val (%)
Bonds	476	96%	246	93%
Preferreds	15	3%	10	4%
Mandatories	7	1%	8	3%
Total	**498**	**100%**	**264**	**100%**

Source: Bloomberg Data, GSR Research Analysis

And varied profiles offer investors the opportunity for calibrated exposure…from more bond-like, to balanced to more equity like

Ratings	No. of Sec	No. of Sec (%)	Mkt Val ($bn)	Mkt Val (%)
Balanced	174	35%	94	35%
Equity Sensitive	99	20%	75	28%
Credit Sensitive	188	38%	88	33%
Distressed	37	7%	8	3%
Total	**498**	**100%**	**264**	**100%**

Source: Bloomberg Data, GSR Research Analysis

Small caps largest in number of securities but large caps highest in value

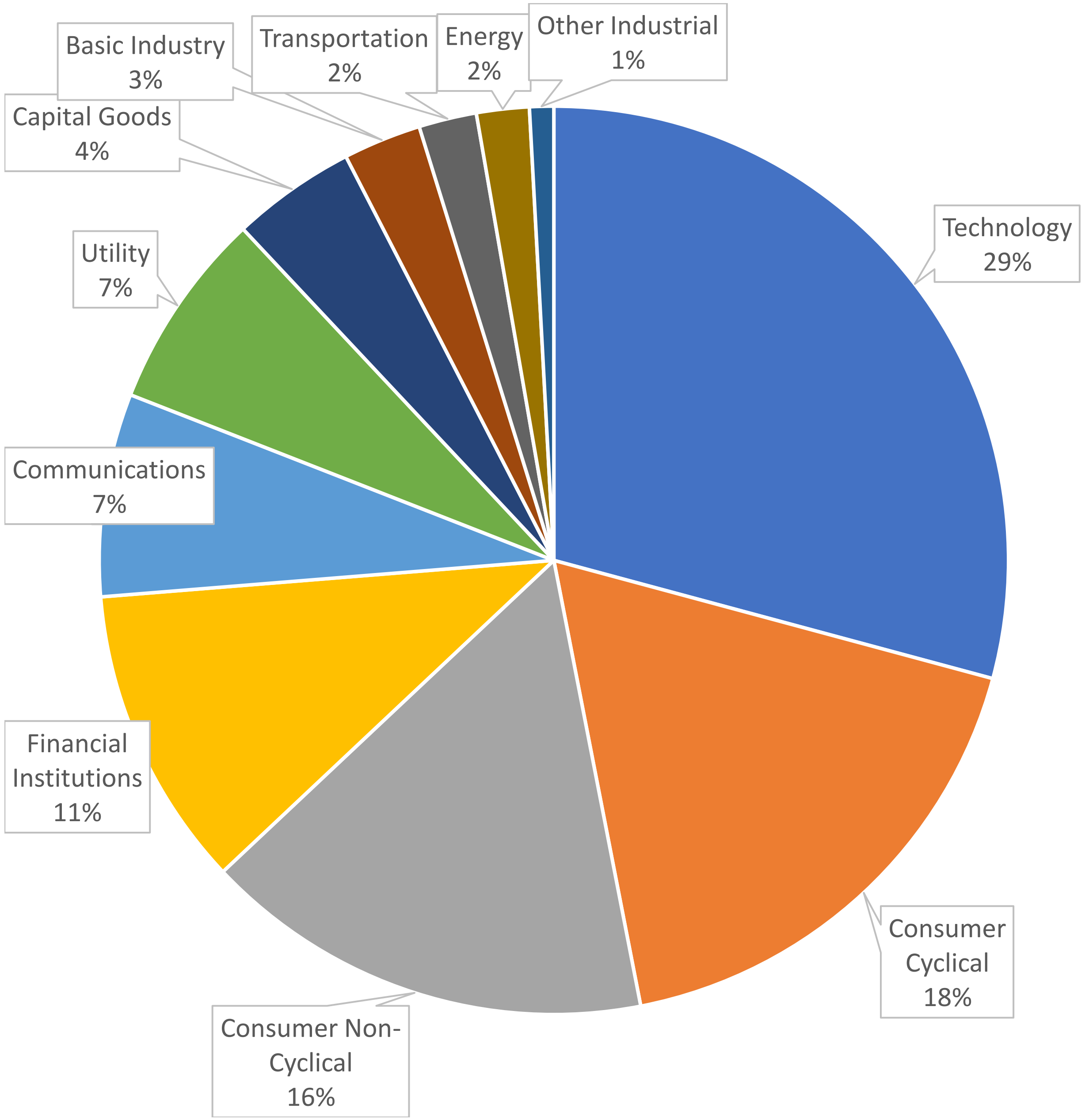
Ratings	No. of Sec	No. of Sec (%)	Mkt Val ($bn)	Mkt Val (%)
Small Cap	244	49%	65	24%
Mid Cap	109	22%	57	22%
Large Cap	145	29%	142	54%
Total	**498**	**100%**	**264**	**100%**

Most converts by number and market value are non-rated

Ratings	No. of Sec	No. of Sec (%)	Mkt Val ($bn)	Mkt Val (%)
IG	36	7%	33	13%
Non- IG	19	4%	15	6%
Non Rated	443	89%	216	82%
Total	**498**	**100%**	**264**	**100%**

Source: Bloomberg Data, GSR Research Analysis

Tech and consumer cyclical/non-cyclical sectors account for the largest fraction of the market



Source: Bloomberg Data, GSR Research Analysis

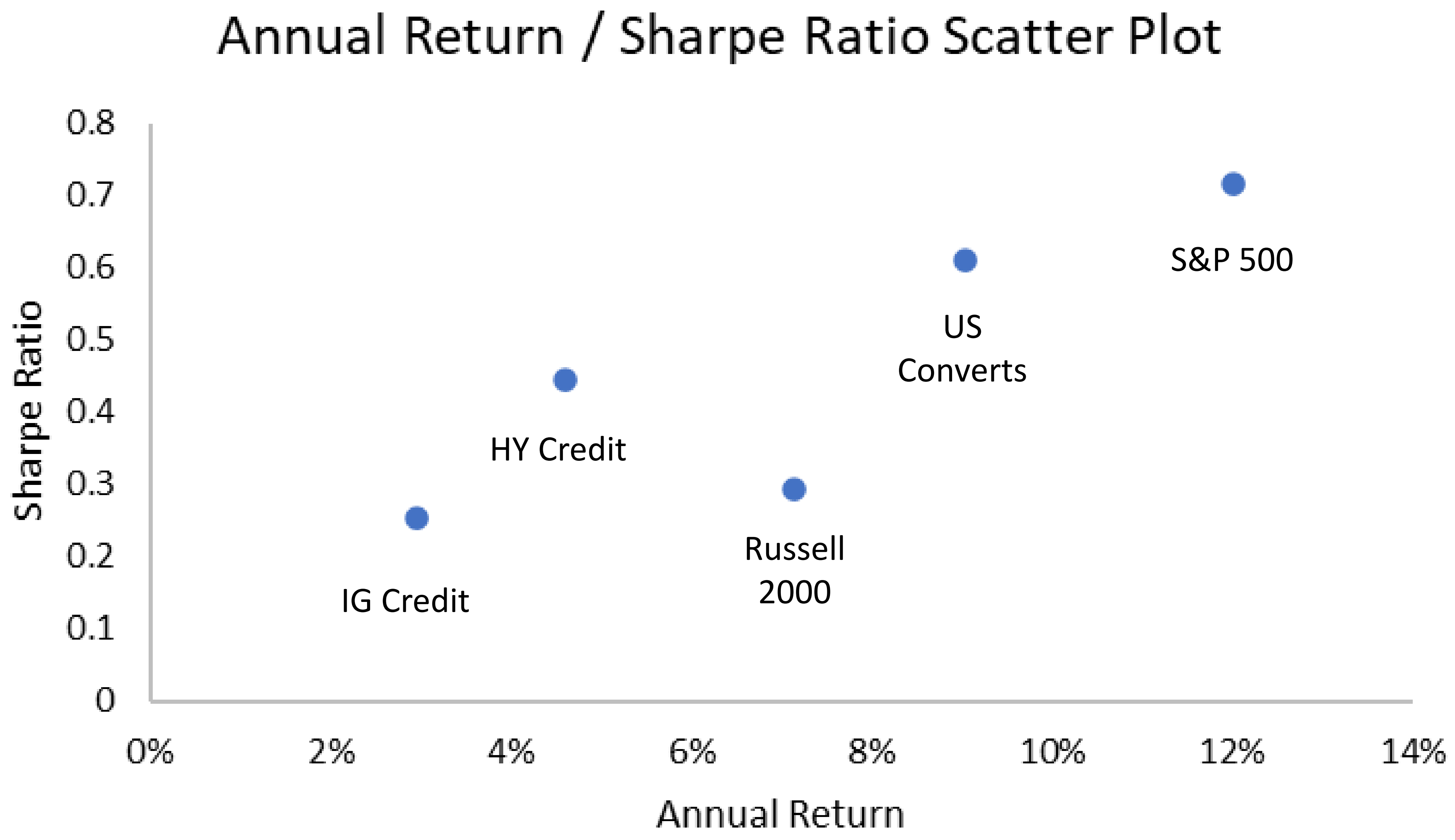
Convertibles Delivered Attractive Long Term Returns...

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 YTD	10Y (14-23) Ann.
Bloomberg US Converts	7.8	(2.0)	10.7	16.8	(2.0)	23.0	50.3	4.3	(18.9)	13.5	0.8	**9.0**
S&P 500	13.7	1.4	11.9	21.8	(4.4)	31.5	18.4	28.7	(18.1)	26.3	9.3	**12.0**
Russell 2000	4.9	(4.4)	21.3	14.6	(11.0)	25.5	19.9	14.8	(20.5)	16.9	2.3	**7.1**
Bloomberg US HY	2.5	(4.5)	17.1	7.5	(2.1)	14.3	7.1	5.3	(11.2)	13.4	1.7	**4.6**
Bloomberg US IG	7.5	(0.7)	6.1	6.4	(2.5)	14.5	9.9	(1.0)	(15.8)	8.5	(1.3)	**3.0**
Bloomberg 5-7Y Treasury	4.8	2.0	1.3	1.9	1.4	6.8	8.5	(2.9)	(11.2)	4.5	(1.8)	**1.6**

** 2024 YTD as of 05/07/24 close*

Source: Bloomberg Data, GSR Research Analysis

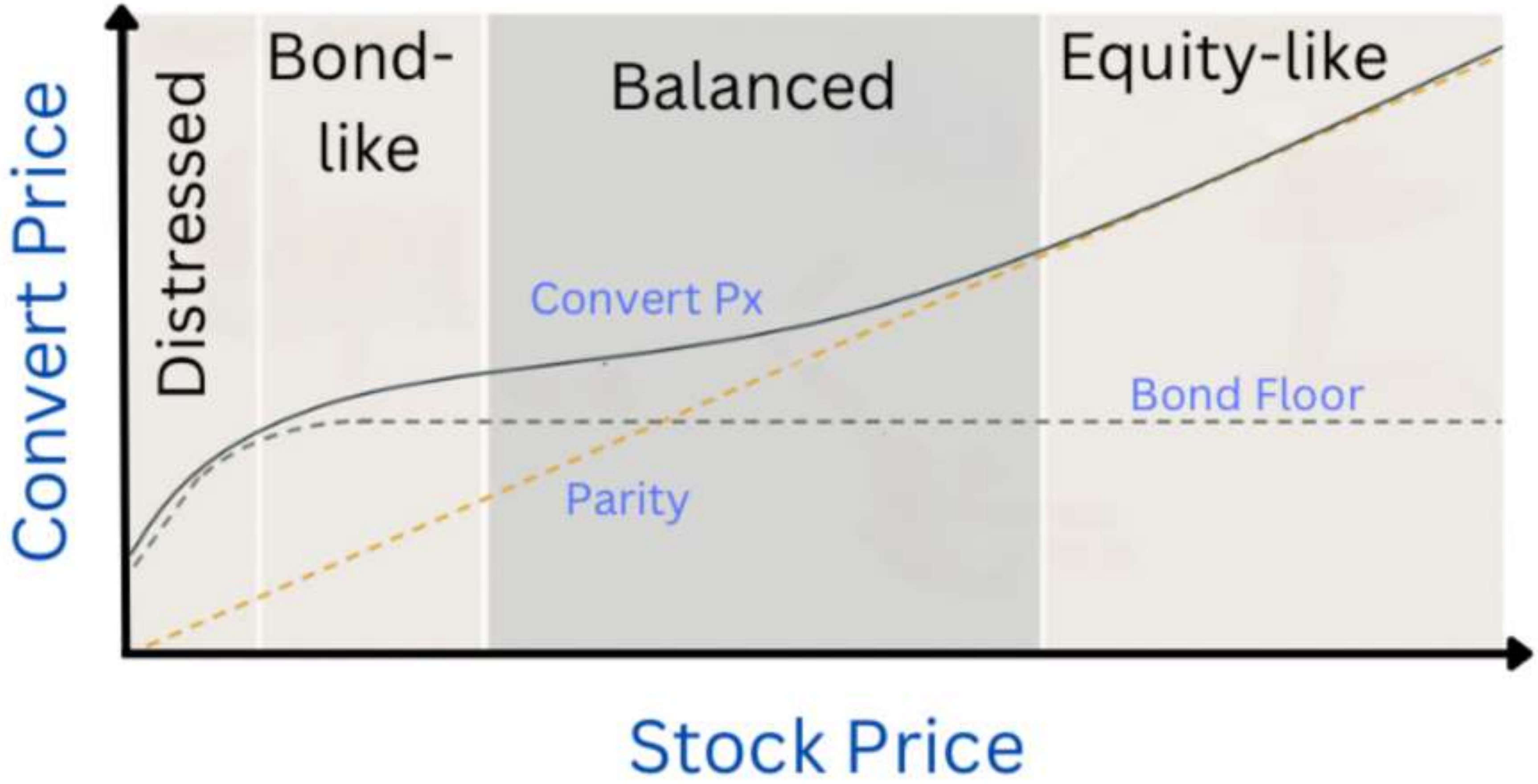
With a high Sharpe ratio (10Y)



Defensive risk-reward appealing

PTON 0% ($1bn) due 2/26	2/9/2021	5/7/2024	% Change
Stock	$ 145.0	$ 4.1	-97%
Convert	100	88	-12%

PANW 0.375% ($2bn) due 6/25	6/4/2020	5/7/2024	% Change
Stock	$ 77.8	$ 305.5	293%
Convert	100	305	205%



Convert, High Yield & Equity PMs (Institutional)

If you require co-pilot services to help with your U.S. Convertible securities selection and portfolio management process from time to time, we can help.

Institutional sell side teams, we can help with various bespoke services relating to the U.S. Convertibles asset class.

Please feel free to get in touch to discuss

Note: We do not offer investment advice and are not a registered investment advisor.