

FOR PROFESSIONAL INVESTORS ONLY

CONVERTIBLE BONDS

THE BEST OF BOTH, ALL OVER AGAIN

Resilient returns and renewed issuance highlight why convertible bonds continue to capture equity upside while limiting downside.



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Q4 2025

The first nine months of 2025 have been a showcase for why convertible bonds deserve a strategic place in investors' portfolios. The asset class delivered a strong 14.9% return over the period, capturing close to 60% of their underlying equities' gains. It also showed notable downside protection during the April correction – when global equities fell 12.5%, yet convertibles declined by only 2.8% – once again demonstrating the convexity profile that underpins their appeal.

Beyond simple performance, convertibles' underlying equities have outpaced the MSCI

World Index by 957 basis points year-to-date, underscoring the quality of issuers accessing this market. Importantly, since the start of the year, convertibles have captured around 50% of their underlying equities' upside in risk-on phases, but only 41% of the downside in risk-off phases – a clear illustration of convexity in action.

Finding calm amid the noise

The resilience of convertibles is especially relevant in today's macro environment. Political uncertainty – from US tariffs to unrest in France and persistent geopolitical flashpoints – has reinforced the need for assets



that balance growth with protection. With the Federal Reserve expected to cut rates further, and trade tensions showing tentative signs of easing, conditions are supportive for issuers to raise capital. Convertibles' hybrid nature means they can perform across a range of political and economic scenarios, offering investors both participation and defence. In practice, this asymmetry can provide serenity to investors, as they do not need to time markets perfectly in order to benefit.

A primary market revival

A notable development this year has been the revival of the primary market. Year-to-date, global issuance has already reached USD 115 billion, refreshing the opportunity set with more balanced structures, higher coupons, and improved terms compared with previous cycles. The US continues to dominate, accounting for 69% of issuance and a USD 345 billion market capitalisation, but Europe is quietly gaining ground.

Investment-grade issuers now represent 45% of EMEA issuance versus a historical average of 31%, while EU regulatory harmonisation through the Capital Markets Union is set to support further development. The depth and liquidity gap with the US remains material, yet Europe's slower-growth backdrop arguably enhances the relative appeal of convertibles as a way to access upside without taking on full equity risk.

Another striking trend is the broadening of the issuer base: more mature companies with solid balance sheets – from real estate to utilities – are returning to the market, pushing the share of larger issuers above historical norms.

Where the next growth stories lie

The opportunity is not only regional but also sectoral. Technology remains a standout,

particularly software and semiconductors where valuations look attractive after recent rotations. Healthcare offers scope through both undervalued small-caps and ongoing M&A activity, while the materials sector benefits from tailwinds in precious metals amid what many view as a new super-cycle in gold and silver. Asia is also emerging as a more meaningful market, with Japan in particular likely to see increased issuance as domestic rates rise.

Positioned for recovery

Looking ahead, convertibles also offer meaningful catch-up potential. Their underlying equities have lagged broader indices by more than 56 percentage points since late 2020, suggesting further room for recovery. This is especially true in small- and mid-cap names, where valuations remain close to long-term averages, while large-cap valuations appear stretched and the relative discount between the two has widened to levels not seen since the financial crisis.

Another structural feature is the asset class's link to corporate activity: close to 75% of global issuers taken over in the past 12 years have had market capitalisations below USD 5 billion, underscoring convertibles' role as both a financing tool for innovative companies and a fertile hunting ground for strategic acquirers.

Ultimately, convertibles have proven their worth once again in 2025: equity-like returns, lower volatility, strong downside protection and access to growth sectors. With a robust primary market, an evolving issuer base and a supportive macro backdrop, the case for active, high-conviction management in this hybrid space has rarely looked stronger. For investors navigating uncertainty but unwilling to sit out equity-driven innovation, we believe convertibles remain one of the most compelling options available.



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