

Global Convertibles Quick Note

The pipeline has opened

After a slow start, the CB new deal pipeline has opened...

Following a lethargic January and early February, the global convertible bond primary market opened up meaningfully last week as \$6.1bn was priced across 6 new deals—Global Payments (\$2.0bn), Kansai Paint (\$665mn), Parsons (\$800mn), Sunrun (\$475mn), Lyft (\$460mn), and Super Micro Computer (\$1.7bn)—one of the highest volume weeks on record (Exhibit 1 and Exhibit 2). The strong week has been followed up by another as \$2.0bn has come to market week-to-date (NextEra, Progress Software, and Five9).

...supported by higher-for-longer rates and the stock rally

We believe the recent surge is mostly of a function of the market's acceptance that rates are likely to remain higher-for-longer. Indeed, in light of January's hotter-than-expected CPI report driven by sticky inflation in the services sector, the Fed pushed back on the prospect of a March rate cut. The market is now pricing-in just three 25bps rates cuts versus more than 6 at the start of the year (Exhibit 3), and our BofA economists are also now calling for three cuts, beginning in June (see their [16-Feb Global Economic Weekly](#) for details). With borrowing costs unlikely to meaningfully decline in the medium-term, CFOs have little incentive to wait to refinance soon-to-mature debt—much of which comes due in the next 12-24 months (Exhibit 4). What's more, we think the recent stock rally has provided a window to issuers to raise equity-linked capital at a relatively favorable time, and most companies have now exited their Q4 earnings blackout periods.

While reminiscent of 2021, pricing's been more reasonable

Unsurprisingly, most deals in the recent wave have been refinancings of existing debt, and the majority have been priced cheap to fair value with reasonable terms—we calculate the global average coupon and premium year-to-date as 2.2% and 26.3%, respectively. However, there has been some opportunism more in-tune with 2021's pandemic-era boom. Specifically, Super Micro Computer raised \$1.7bn of zero coupon CBs, the first US zeroes of notable size since Confluent's \$1.1bn zero coupon offering from December of 2021. Still, this deal was more the exception than the norm—Super Micro Computer's stock has roughly tripled since the start of the year on the back of AI-driven optimism, and the underlying shares' high vol is particularly attractive to CB arbitragers. Regardless, with just a handful of exceptions (namely Sunrun), the class of new deals has been favorably-received and has traded well since issue (Exhibit 5).

We maintain our call for \$90-100bn of issuance globally

In our 2024 outlook, we outlined our call for \$90-100bn of global convertible bond new issuance by year-end, with \$60-65bn from the US (see our [20-Nov Year Ahead 2024](#) for details). This is suggestive of a ~20% pickup versus 2023's total of just under \$80bn. After the recent deal push, global volumes (\$13.7bn) are at a run-rate just shy of that forecast (about \$85bn), driven mainly by disappointing volumes out of Europe and Asia. However, the US's run rate (\$62bn, based on \$10.1bn year-to-date) is on par to meet our target, while Japan's (\$12bn, based on \$2.0bn year-to-date) is currently ahead (Exhibit 6).

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Refer to important disclosures on page 4 to 6.

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Convertibles Strategy
Global

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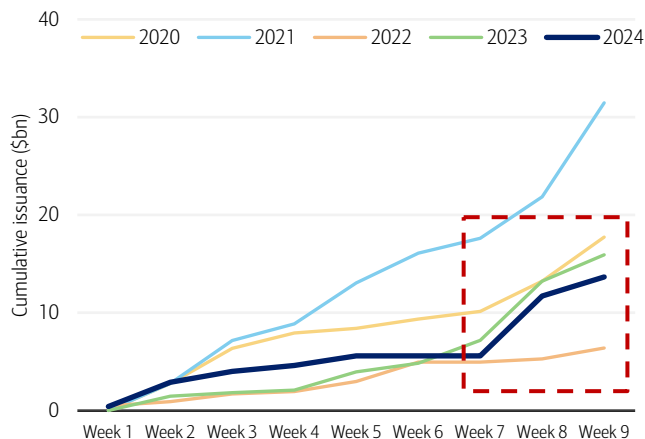
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Abbreviations

- CB: Convertible bond
- HY: High yield
- CPI: Consumer Price Index
- AI: Artificial intelligence

Exhibit 1: Global CB new issuance pace by week since 2020

After a slow start, the pace of global CB new issuance has materially risen

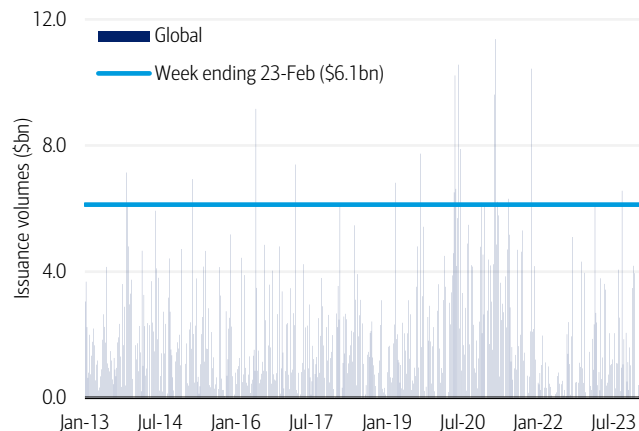


Source: BofA Global Research. Data as of 28-Feb-2024.

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Exhibit 2: Weekly global CB new issuance volumes

Last week's \$6.1bn was among the best weeks for volumes historically

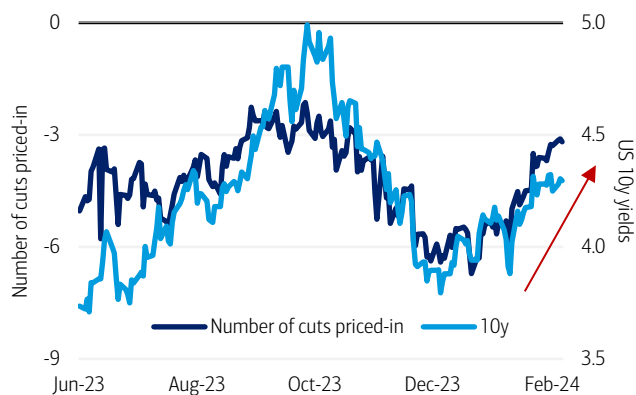


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Exhibit 3: Number of rate cuts priced-in and US 10y yields

Since peaking in December, the number of rate cuts the market has priced-in has declined, suggesting investors think rates will stay higher-for-longer

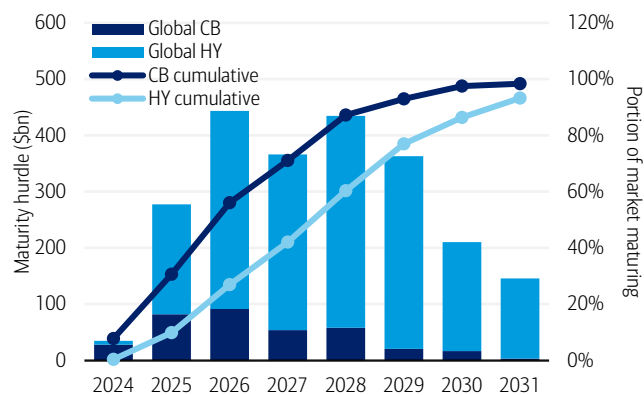


Source: Bloomberg. Data as of 28-Feb-2024.

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Exhibit 4: Global CB and HY maturity hurdles

The majority of the converts market and a sizable portion of the high yield market are set to mature in 2025 and 2026

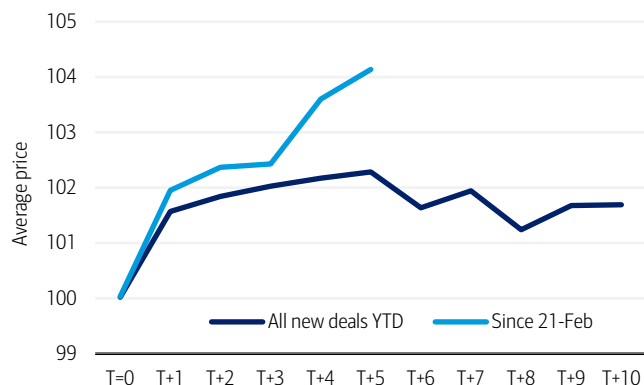


Source: BofA Global Research, ICE Data Indices, LLC. Data as of 28-Feb-2024.

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Exhibit 5: Weighted average price of global CB new deals since issue

2024's deals have performed well, especially those priced since last week

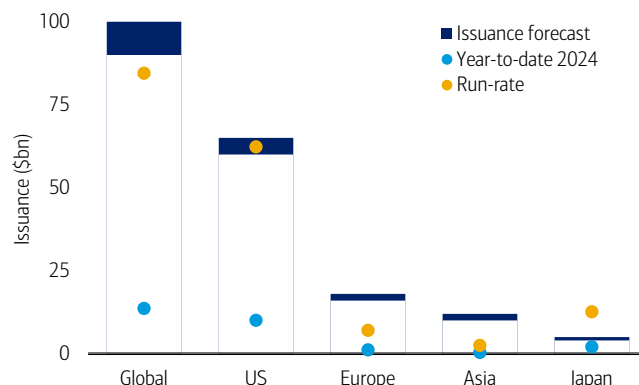


Source: BofA Global Research, Bloomberg. Data as of 28-Feb-2024.

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Exhibit 6: Global CB new issuance forecasts versus realized

We're calling for \$90-100bn of issuance globally (\$60-65 from the US)



Source: BofA Global Research. Data as of 28-Feb-2024.

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