

# Global Convertibles Quick Note

## Diverse new deals offer optionality on AI

### US volumes total \$17bn and pacing for \$90bn by year-end

Over the past few days, the convertibles primary market has continued to surge as \$6.5bn of new paper has priced in first week of March, bringing the global year-to-date total to nearly \$21bn. The pace is particularly pronounced in the US as all of last week's offerings came from US-based issuers—the region has now seen almost \$17bn year-to-date through the 10<sup>th</sup> week of 2024, second only to 2021 over the last 5 years (Exhibit 1). The current run-rate suggests global and US totals of nearly \$115bn and over \$90bn, respectively, versus our forecasts for \$90-100bn globally with \$60-65bn from the US (refer to our [2024 outlook](#) for details). Why the blistering pace? As we wrote last month, we believe CFOs have accepted that rates may remain higher-for-longer, suggesting there's little benefit to wait to refi soon-to-mature debt (much of which comes due in the next 12-24 months) or raise fresh capital. What's more, we think the lapse of Q4 earnings blackouts and the stock rally has opened a window for issuers to raise equity-linked capital at a favorable time (see our [28-Feb Global Convertibles Quick Note](#)).

### New deals offer exposure to larger, established names....

Among of the most notable features of this year's class of US new deals is the diverse types of borrowers and sectors. Notably, the two largest deals of the year so far (the \$2.3bn Albemarle 7.25% mandatories and the \$2.0bn Global Payments 1.5% convertible notes), come from large, established, high quality issuers with sizable capital structures—as do a number of 2024's smaller deals (Exhibit 3). Indeed, like last year, a significant chunk of the volumes has been IG-rated (21%), in sharp contrast to the pandemic-era, when the majority of deals were brought to market opportunistically by lower credit quality and younger companies (Exhibit 4). What's more, the sectors of the US new deals have been more diverse and differentiating from what's currently available in the secondary market. Specifically, materials, financials, and energy have seen the most new volumes relative to their current size in the US secondary space (Exhibit 5).

### ...and long-dated optionality on trends like AI and crypto

Besides exposure to established, quality names, 2024's deals also allow for long-dated optionality on topical themes, including AI and crypto. For example, among this year's new offerings are a CB from Super Micro Computer (\$1.7bn SMCI 0% '29), a first-time issuer and AI-darling whose stock has rallied 300% year-to-date and is now set to join the S&P 500, and a third tranche from MicroStrategy (\$700mn MSTR 0.625% '30), which will use proceeds to add to its Bitcoin coffers. Given the highly uncertain nature of these themes, as we wrote in our [2024 outlook](#), we think investors looking to participate would be prudent to do so via CBs, which offer asymmetric exposure to their issuers' stocks—upside participation with downside protection. Why not use listed call options, which offer similar asymmetry? We believe these themes are multi-year stories, and CBs are often the only way to get liquid, long-term optionality (and their vols may be similar to or lower than listed options). Indeed, while the new SMCI and MSTR CBs both mature in 5+ years, their longest-dated listed options expire in just 2-2.5 years (Exhibit 6).

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**Refer to important disclosures on page 3 to 5.**

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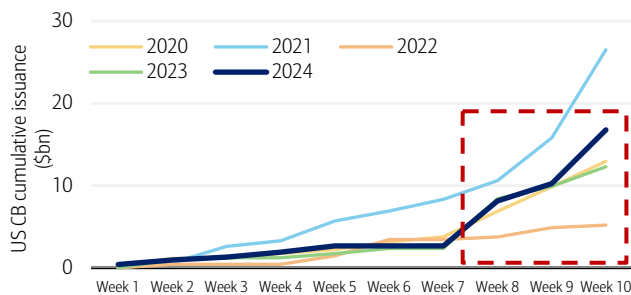
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#### Abbreviations

- AI: Artificial intelligence
- CB: Convertible bond
- IG: Investment grade

**Exhibit 1: Pace of US convertible bond new issuance**

After a slow start, the pace of US CB issuance has picked up meaningfully, and now, versus the past 5 years, trails only 2021's record pace

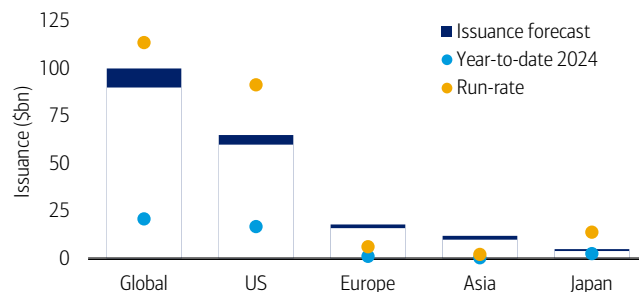


Source: BofA Global Research. Data as of 07-Mar-24.

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**Exhibit 2: Global convertible bond new issuance versus our forecasts**

US CBs volumes are now at a run-rate that suggests over \$90bn by year-end, which would exceed our \$60-65bn forecast (\$90-100bn globally)

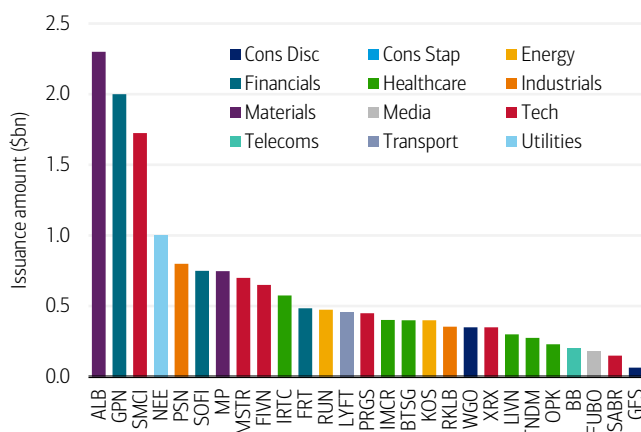


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**Exhibit 3: All US convertible bonds new deals year-to-date 2024**

2024's new deals offer exposure to both older economy sectors and newer, buzzy names, including those directly involved in AI and crypto

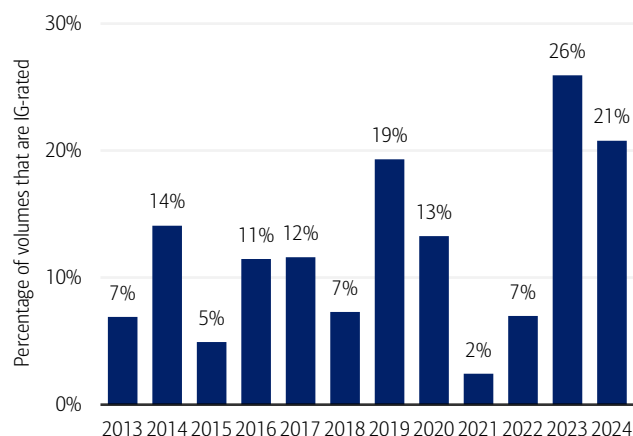


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**Exhibit 4: IG portion of US convertible bond issuance by year**

A continuation from 2023, 2024's new deals have come from larger, more established companies with better credit ratings

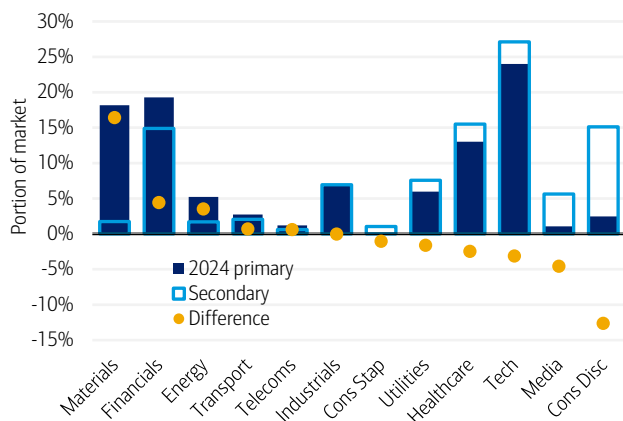


Source: BofA Global Research. Data as of 07-Mar-24.

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**Exhibit 5: US CB 2024 primary versus secondary market sectors**

The sector breakdown of 2024's deals differs from that of the CB secondary market, with the largest relative differences in materials and financials

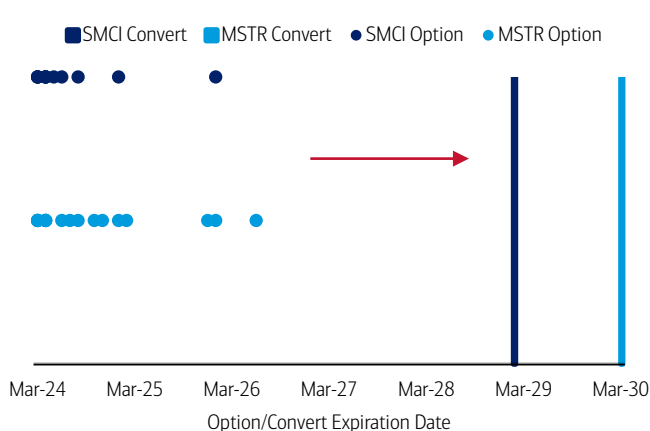


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**Exhibit 6: SMCI and MSTR listed option and new issue CB expirations**

Super Micro Computer and MicroStrategy's new CBs offer asymmetric exposure with a far longer tenor than what's available in listed options



Source: BofA Global Research, Bloomberg. Data as of 06-Mar-2024.

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