



## Markets and Economies

# Checking In on Convertible Bonds

We believe there is still additional upside for the asset class as the market recovery continues.



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It's been a strong year thus far for the convertible bond market, with the benchmark ICE BofA U.S. Convertible Index returning 9.6% year to date through July 31. And in a period marked by volatility amid concerns over the impact of U.S. trade policy, the convertible market has indeed offered attractive risk-adjusted returns based on the Sharpe ratio of the ICE BofA index relative to broader equity indexes. The market displayed its historical resilience, providing limited downside when markets sold off through early April, while offering significant upside participation during the subsequent market rally into June.

One major driver of convertible returns has been the strength in mid cap growth equities, where returns have been better than both their large- and small-cap growth equity counterparts (see Figure 1). Historically, convertible returns are most highly correlated to mid-cap growth equities.

**Figure 1. First-Half Strength in Mid-Cap Growth Equities Carries Favorable Implications for Convertible Bonds**

*Year-to-date index returns (ended July 31)*

YTD Return (thru 7/31/25)	
Russell Large Cap Growth Index	10.1%
Russell Midcap Growth Index	12.0%
Russell Small Cap Growth Index	1.2%

Source: Morningstar. Data as of July 31, 2025. Russell Large Cap Growth Index = Russell 1000® Growth Index. Russell Small Cap Growth Index = Russell 2000® Growth Index. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment. **Past performance is not a reliable indicator or guarantee of future results.**



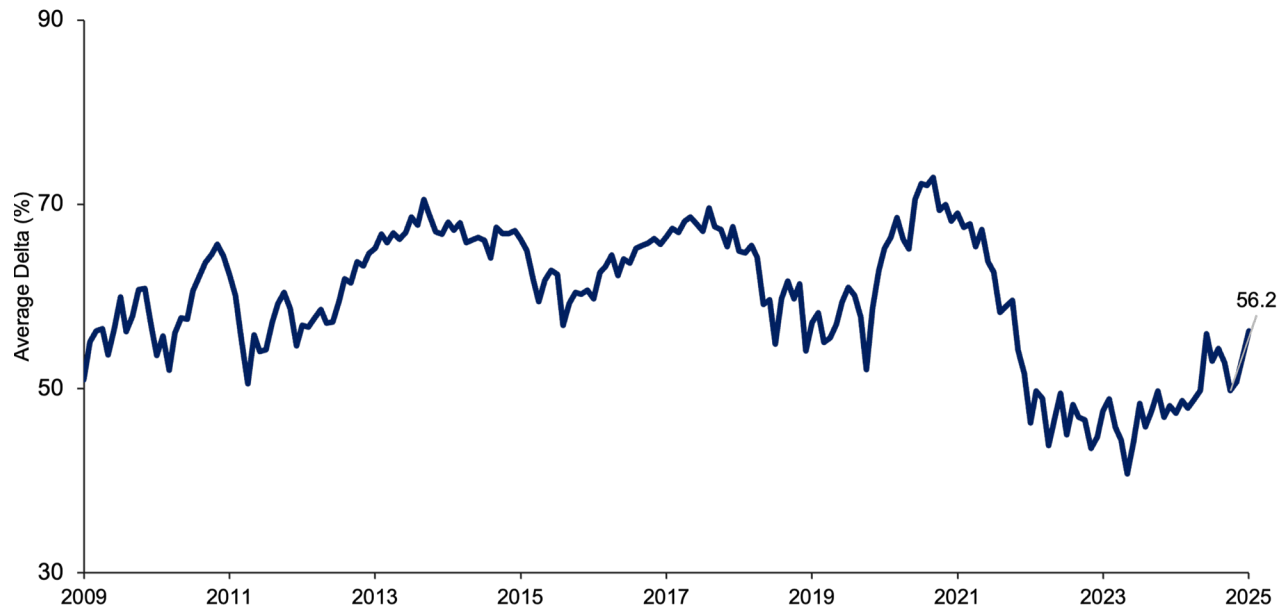
## What is the outlook for convertible bonds for the rest of 2025?

The market was able to weather the volatility of the first half. But what's ahead? Our outlook for the convertible market through the rest of the year remains quite favorable.

Due to the strong year-to-date returns, the convertible market's delta (a measure of the sensitivity of the price of a convertible bond to changes in the price of the underlying stock) is now in the mid-50s, up from the high 40s earlier in the year.

**Figure 2. Convertible Market's Delta Has Risen, But Remains Below Highs of Recent Years**

*Data for the period 06/30/2009 – 06/30/2025*



Source: Bloomberg. Data as of June 30, 2025. Delta refers to the sensitivity of the price of a convertible bond to changes in the price of the underlying stock; the lower the delta, the lower the sensitivity.

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While the convertible market has a higher level of equity sensitivity compared to recent history, this is still well below where the market delta has generally traded over the past 10 years. At these levels, an investor still has the potential to garner highly attractive risk-adjusted returns relative to history.

## What are the key signals for convertibles for the second half of the year?

The convertible market is just now eclipsing its prior peak seen in November 2021, as compared with other major equity indices that are trading well above their prior peak. This suggests that the market recovery for convertibles may be in its early stages.



**Figure 3. A Quick Comparison of Equity Benchmarks Suggests Convertibles' Recovery May Have More Room to Run**

*Index data as of July 31, 2025*

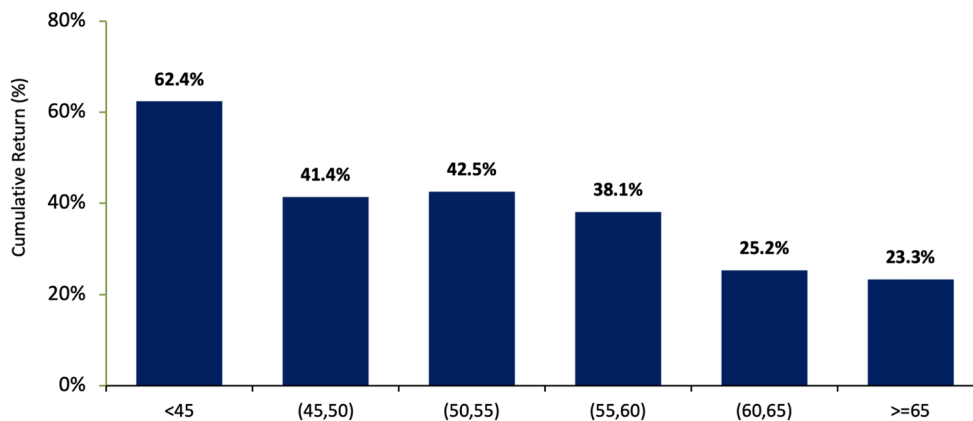
% Above 11/8/21 Market Peak (as of 7/31/25)	
ICE BofA U.S. Convertible Index	6.0%
Russell Midcap Growth Index	19.7%
S&P 500 Index	42.8%
Nasdaq Composite Index	36.1%

Source: Bloomberg. Data as of July 28, 2025. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment. **Past performance is not a reliable indicator or guarantee of future results.**

And with a market delta in the mid-50s, as mentioned earlier, history would also suggest strongly positive forward returns over a 3-year period:

**Figure 4. Low-Delta Periods for Convertibles Have Historically Been Followed by Strong Returns**

*Average three-year forward cumulative total returns for the Bloomberg U.S. Convertible Bond Index by delta range, as of June 30, 2025*



Source: Bloomberg. Data as of June 30, 2025. Delta refers to the sensitivity of the price of a convertible bond to changes in the price of the underlying stock; the lower the delta, the lower the sensitivity. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment. **Past performance is not a reliable indicator or guarantee of future results.**



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## What are the key takeaways for convertible bond investors?

The convertible market's strong returns so far this year are a good reminder of the asset class's ability to deliver compelling risk-adjusted returns in a volatile environment. We believe there is still additional upside in convertibles going forward as the market recovery continues.

To take advantage in this current market environment, we believe that a flexible, opportunistic approach is most appropriate. Lord Abbett has been managing convertible securities for over five decades (dating back to 1971) as a component of our multi-sector strategies. The depth of our analytical and security valuation resources across innovation equity, as well as credit research, empowers the team to utilize an unbiased approach that can capture opportunities across the credit and delta spectrum, which we believe is crucial as it offers the potential to drive alpha in today's market.



## Glossary & Index Definitions

**Coupon** represents the annual interest rate paid on a bond, expressed as a percentage of the face value and paid from issue date until maturity.

**Delta** represents the sensitivity of the price of a convertible bond to changes in the price of the underlying stock.

**Downside/UpSide capture:** These ratios measure a manager's performance in down or up markets relative to a particular benchmark. A down market is one in which the market's quarterly (or monthly) return is less than zero; an up market is greater than zero. For example, a downside capture ratio of 50% means that the portfolio's value fell half as much as its benchmark index during down markets.

**Growth/Value Investing:** Growth stocks may be characterized as equities of companies that have demonstrated better-than-average gains in earnings in recent years and that are expected to continue delivering high levels of profit growth. Growth equities typically carry higher price-to-earnings multiples than the broader market, high earnings growth records, and greater volatility than the broader market. Secular growth stocks are stocks of companies whose economic performance is relatively immune to economic cycles. Value stocks may be characterized as equities of companies that have fallen out of favor with investors but still have good fundamentals, or new companies that have yet to be recognized by investors. Value stocks typically feature lower price-to-earnings multiples than the broader market, and often industry peers; and somewhat lower volatility than the overall equity market.

The **Sharpe Ratio**, named after American economist, William Sharpe, is commonly used to gauge the performance of an investment by adjusting for its risk. The higher the ratio, the greater the investment return relative to the amount of risk taken. The ratio can be used to evaluate a single stock or investment, or an entire portfolio.

The **yield** on a security is the amount of cash (in percentage terms) that returns to the owners of the security, in the form of interest or dividends received from it.

The **Bloomberg U.S. Convertibles Index** is designed to represent the market of U.S. convertible securities, such as convertible bonds and convertible preferred stock.

### Bloomberg Index Information

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The **ICE BofA U.S. Convertible Index** tracks the performance of publicly issued U.S. dollar-denominated convertible securities of U.S. companies.

### ICE BofA Index Information:

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The **NASDAQ Composite Index** measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The index is market value weighted, meaning that each company's security affects the index in proportion to its market value.

The **Russell 1000® Growth Index** measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

The **Russell 2000® Growth Index** measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

The **Russell Midcap® Growth Index** measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000 Growth index.

The **S&P 500® Index** is widely regarded as the standard for measuring large cap U.S. stock market performance and includes a representative sample of leading companies in leading industries.

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