



Checking in on Convertibles

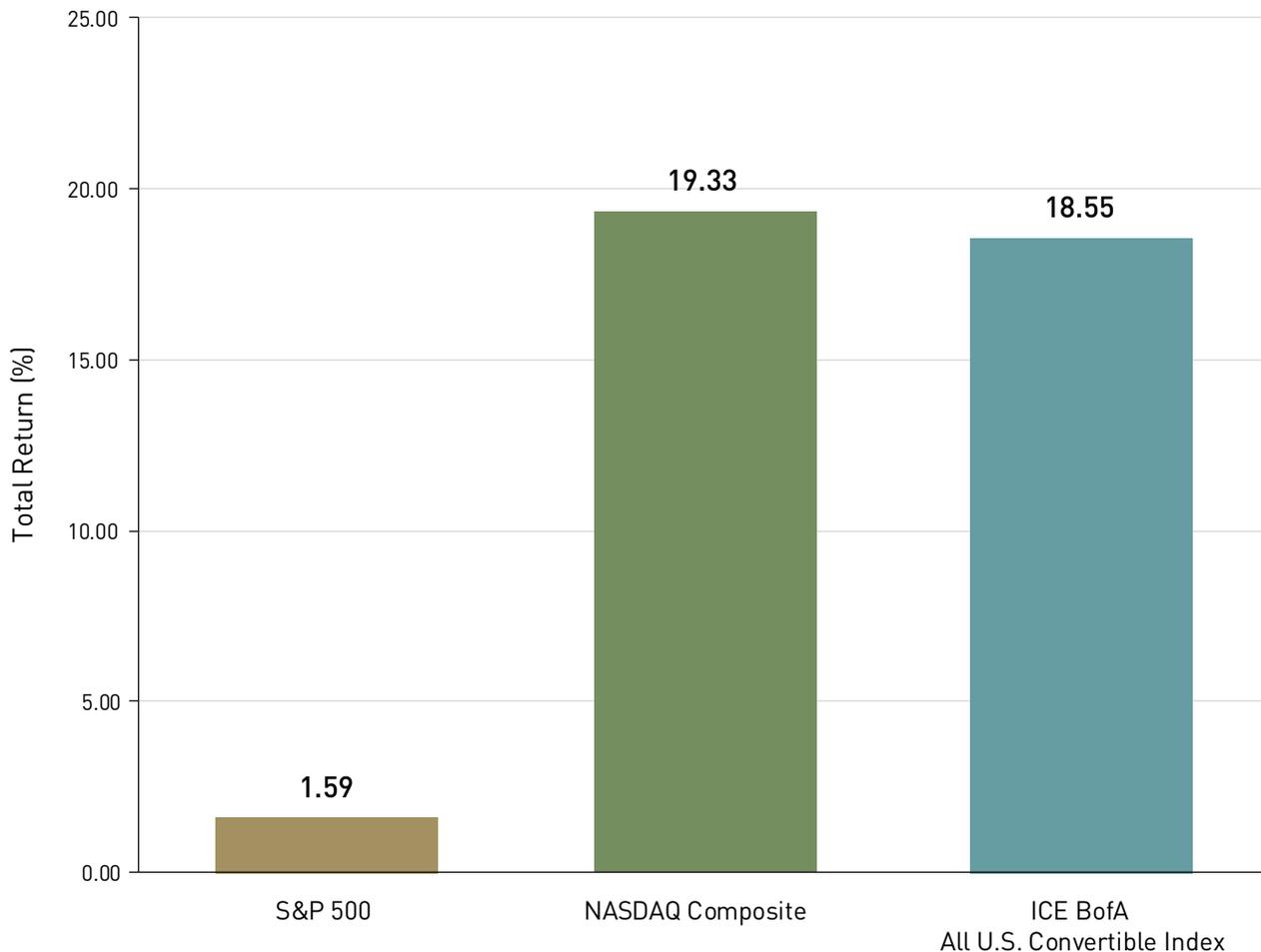
A brief update on convertible securities, an asset class that has thrived amid the volatility of 2020.



Tarik Ancrum
Product Consultant

Figure 1. Tracking Convertibles' Strong Performance Thus Far in 2020

Year-to-date total return through September 23



Source: Bloomberg. Data as of September 23, 2020.

The historical data are for illustrative purposes only, do not represent the performance of any specific portfolio managed by Lord Abbett or any particular investment, and are not intended to predict or depict future results. 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.**



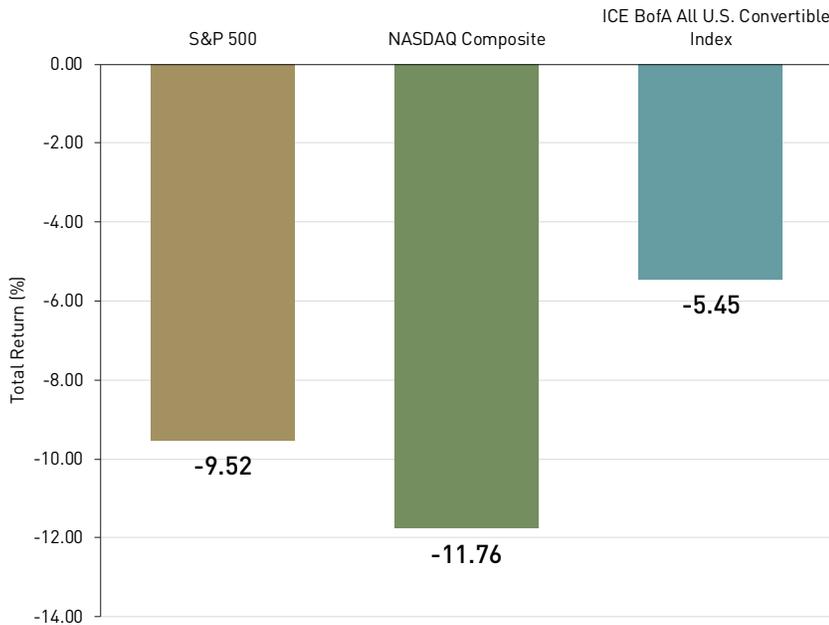
Earlier this year, *Market View* provided updates on convertible securities, including reports during [the emergence of market volatility](#) in mid-March and [the subsequent market recovery](#) in late June. As [the U.S. presidential election](#) approaches, and stock market valuations hovering just below multi-year highs, we thought now would be a good time for another look at the asset class.

Recent sentiment reports indicate that investors have become less optimistic about the current market recovery. However, convertible bonds have thrived amid the volatility of 2020. Convertibles (as represented by the ICE BofA Convertible Index) have outperformed the S&P 500® Index by nearly 1700 basis points (bps) and have been roughly comparable the tech-led NASDAQ Composite Index, year-to-date through September 23 (see Figure 1).

As equity markets have experienced some renewed volatility in recent weeks, convertibles have continued to display the historical benefits of their unique structure¹ and asymmetrical risk/reward profile. (See Figure 2.)

Figure 2. Once Again, Convertibles Proved Relatively Resilient During the Recent Selloff

Total return for the period September 3–September 23, 2020



Source: Bloomberg.. Data as of September 23, 2020.

The historical data are for illustrative purposes only, do not represent the performance of any specific portfolio managed by Lord Abbett or any particular investment, and are not intended to predict or depict future results. 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.

CONVERTIBLE



SECURITIES

While this has truly been a standout year for the asset class, we think its long-term risk/return profile versus other asset classes over the past 25 years continues to argue a case for a strategic allocation to actively managed convertible bonds. Take a look at Figure 3, which depicts convertibles' historical resiliency during the S&P 500's largest selloffs between 1990-2019.

Figure 3. Historically, Convertible Bonds Have Outperformed in Market Declines

Max S&P 500 Drawdown Period	S&P 500 Index Return	U.S. Convertible Index Return	Convertibles ¹ Downside Capture	
10/09/2007 - 3/09/2009	-55.2%	-42.8%	78%	
3/24/2000 - 10/09/2002	-47.4%	-38.5%	81%	
7/16/1990 - 10/11/1990	-19.2%	-16.8%	88%	
9/20/2018 - 12/24/2018	-19.4%	-12.2%	63%	
4/29/2011 - 10/03/2011	-18.6%	-16.8%	90%	
7/17/1998 - 8/31/1998	-19.2%	-15.0%	78%	Average Downside Capture for Converts 65%
04/23/2010 - 7/02/2010	-15.6%	-9.7%	62%	
11/27/2002 - 3/11/2003	-14.2%	0.2%	-2%	
11/03/2015 - 2/11/2016	-12.7%	-13.9%	110%	
5/21/2015 - 8/25/2015	-11.9%	-9.0%	76%	
7/16/1999 - 10/15/1999	-11.8%	-5.3%	45%	
10/07/1997 - 10/27/1997	-10.8%	-4.7%	44%	
1/02/1990 - 1/30/1990	-10.0%	-4.6%	46%	
1/26/2018 - 2/08/2018	-10.1%	-6.2%	61%	

Source: Bloomberg. Max intra-year declines, starting January 1, 1990. Start dates inclusive. U.S. Convertible Index = ICE BofA Merrill Lynch All Convertible, All Qualities Index. ¹Downside capture: The downside capture ratio measures a manager's performance in down markets relative to a particular benchmark. The historical data are for illustrative purposes only, do not represent the performance of any specific portfolio managed by Lord Abbett or any particular investment, and are not intended to predict or depict future results. 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.**

Summing Up

We believe convertible securities continue to offer a favorable risk-reward return profile and diversified sector and credit exposure, especially compared to traditional fixed income markets. Furthermore, while secular growth companies continue to dominate the convertible universe, the large increase in issuance from travel, leisure, and other cyclical companies may provide additional opportunities for active managers should the U.S. economy continue to recover at a steady pace. At a time when investors may be weighing economic and electoral uncertainty, we believe convertibles represent an attractive way to maintain equity exposure while potentially mitigating downside risk.



¹As a reminder, a convertible bond is a fixed income instrument that allows the holder to convert the bond into equity under specific conditions. The basic structure of a convertible bond gives the holder the option to hold the bond until maturity and receive cash par value, or to convert the bond into a specified number of shares of stock of the same company.

A Note about Risk: Convertible securities are subject to the risks affecting both equity and fixed income securities, including market, credit, liquidity, and interest rate risk. Convertible securities tend to be more volatile than other fixed income securities, and the markets for convertible securities may be less liquid than markets for common stocks or bonds. High yield, lower-rated convertible securities carry increased risks of price volatility, illiquidity, and the possibility of default in the timely payment of interest and principal.

No investing strategy can overcome all market volatility or guarantee future results.

Forecasts and projections are based on current market conditions and are subject to change without notice. Projections should not be considered a guarantee.

This article may contain assumptions that are “forward-looking statements,” which are based on certain assumptions of future events. Actual events are difficult to predict and may differ from those assumed. There can be no assurance that forward-looking statements will materialize or that actual returns or results will not be materially different from those described here.

Statements concerning financial market trends are based on current market conditions, which will fluctuate. There is no guarantee that markets will perform in a similar manner under similar conditions in the future.

Glossary of Terms

A **basis point** is one hundredth of one percent.

Downside capture: The downside capture ratio measures a manager’s performance in down markets relative to a particular benchmark. A down market is one in which the market’s quarterly (or monthly) return is less than zero. For example, a ratio of 50% means that the portfolio’s value fell half as much as its benchmark index during down markets.

The **Sharpe ratio** is a measure that indicates the average return minus the risk-free return divided by the standard deviation of return on an investment.

Standard deviation measures the dispersion of data from the mean. Applied to a rate of return, standard deviation is an indication of an investment’s volatility.

The **ICE BofA All Convertibles Index** contains issues that have a greater than \$50 million aggregate market value. The issues are U.S. dollar-denominated, sold into the U.S. market and publicly traded in the United States.

ICE BofA Index Information:

Source: ICE Data Indices, LLC (“ICE”), used with permission. ICE PERMITS USE OF THE ICE BofA INDICES AND RELATED DATA ON AN “AS IS” BASIS, MAKES NO WARRANTIES REGARDING SAME, DOES NOT GUARANTEE THE SUITABILITY, QUALITY, ACCURACY, TIMELINESS, AND/OR COMPLETENESS OF THE ICE BofA INDICES OR ANY DATA INCLUDED IN, RELATED TO, OR DERIVED THEREFROM, ASSUMES NO LIABILITY IN CONNECTION WITH THE USE OF THE FOREGOING, AND DOES NOT SPONSOR, ENDORSE, OR RECOMMEND LORD, ABBETT & CO. LLC., OR ANY OF ITS PRODUCTS OR SERVICES.

The Nasdaq Composite Index is the market capitalization-weighted index of over 2,500 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests.

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.

Indexes are unmanaged, do not reflect deduction of fees and expenses and are not available for direct investment.

The information provided is not directed at any investor or category of investors and is provided solely as general information about Lord Abbett’s products and services and to otherwise provide general investment education. None of the information provided should be regarded as a suggestion to engage in or refrain from any investment-related course of action, as neither Lord Abbett nor its affiliates are undertaking to provide impartial investment advice, act as an impartial adviser, or give advice in a fiduciary capacity. If you are an individual retirement investor, contact your financial advisor or other fiduciary about whether any given investment idea, strategy, product, or service may be appropriate for your circumstances.

The opinions in this *Market View* are as of the date of publication and are subject to change. Additionally, the opinions may not represent the opinions of the firm as a whole. The document is not intended for use as forecast, research, or investment advice concerning any particular investment or the markets in general, and it is not intended to be legal advice or tax advice. This document is prepared based on information Lord Abbett deems reliable; however, Lord Abbett does not warrant the accuracy and completeness of the information.

Investors should carefully consider the investment objectives, risks, charges, and expenses of the Lord Abbett funds. This and other important information is contained in each fund’s summary prospectus and/or prospectus. To obtain a prospectus or summary prospectus on any Lord Abbett mutual fund, contact your investment professional or Lord Abbett Distributor LLC at 888-522-2388, or visit us at lordabbett.com. Read the prospectus carefully before you invest.