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TRIVARIATE RESEARCH

HAVE YOU LOOKED AT STOCKS WITH CONVERTIBLE BONDS?

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RESEARCH SUMMARY AND INVESTMENT CONCLUSIONS

Background: We looked at the US equity market and found that over the long term between 1500 and 1750 of the top 3000 stocks have longer-term debt. Within that group, about 20% of companies also issue convertible bonds. The prevalence of convertibles has declined steadily since 2010, recovered briefly from 2018 through the post-Covid period, and has been drifting lower again in recent years. The average company with any debt has 3x more “regular” than convertible debt.

Lower yield and shorter maturity than other bonds: Convertible bonds have consistently carried an average of 150-200 bps lower coupon rate than the broader bond market. Both segments saw coupons decline through the 2010s, bottom in 2021, and modestly rise since. Maturities remain shorter for convertibles, averaging 2.6-years today versus 4.5 years for the broader bond market. Notably, in the past two years median maturities on convertibles have ticked higher, indicating a pickup in new issuance relative to straight bonds, where maturities have shortened.

New convertible issuance: Convertible activity historically was cyclical, rising during favorable market conditions. From 2010 to 2018, quarterly issuance generally ranged between 20 and 40 offerings, before surging in 2020–21 when equity markets were strong and financing costs were low. Issuance volumes peaked at close to 90 deals in a single quarter during this period. The pickup in 2024 and early 2025 suggests that the convertible bond market remains an active channel for funding, even as broader bond issuance has slowed.

Convertibles by cohort: Convertible issuance is more common among smaller companies, with micro- and small-caps using converts far more than large or mega-caps. **Growth stocks are also more frequent issuers than value stocks**. Junk stocks tend to utilize convertibles more often than high-quality companies. By sector, Technology and Healthcare use converts the most, with over 40% of bond issuers also issuing convertibles. In contrast, in Financials, Real Estate, Materials, and Industrials companies are currently making relative less use of the convertible bond market.

INVESTMENT CONCLUSIONS

Returns: The stock returns of companies with convertible bonds are increasingly more volatile than the stocks of companies with straight bonds. This could partly be due to these companies having higher debt-to-equity ratios. Over the last 15 years, companies with convertible bonds in the Materials sector, despite the lower number of issuances, have performed best, and those in Communication Services, Consumer Staples, and Consumer Discretionary the worst. Value companies have on average outperformed growth companies in the convertible space, which is the opposite of the overall market for companies with no bonds.

FCF and net margins: Stocks with convertible bonds had the same free cash flow yield as stocks with straight debt in 2010. Today however, the median stock with a convertible bond has 1.3% lower free cash flow yield than those that don't have converts. The median stock with a convert has nearly 600bps lower net margins than those without a convert.

Short interest and beta of stocks with convertible bonds are unsurprisingly therefore higher.

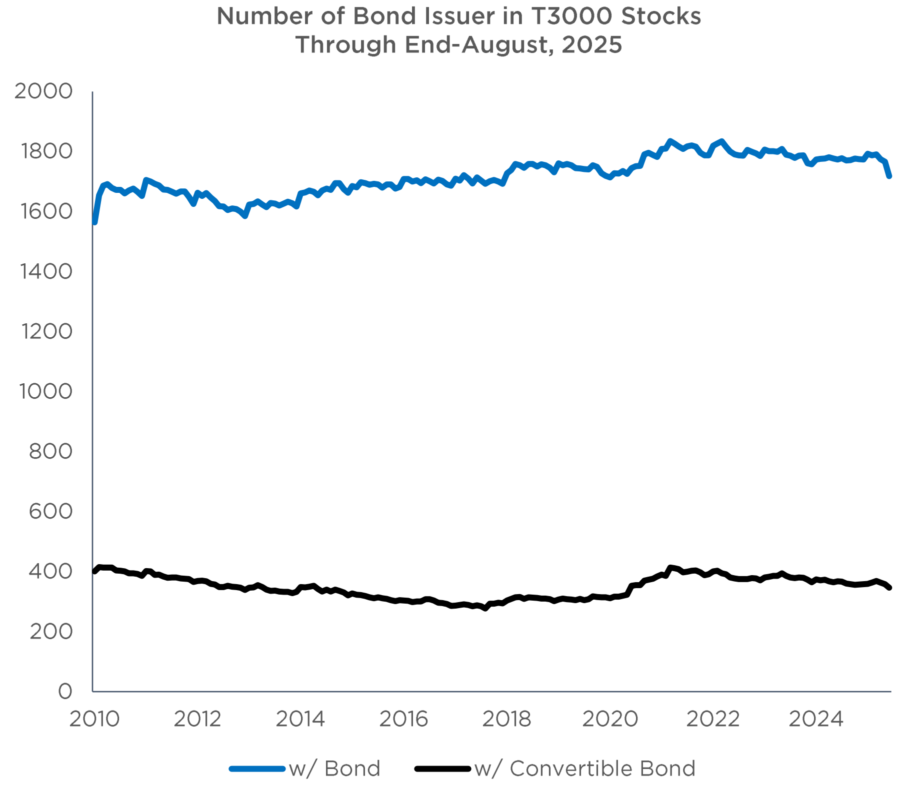
Converts work in a risk on regime: US equities with convertibles tend to beat their industry average when the S&P500 is up. They materially lag when financial conditions are tightening.

Within the growth stock universe, convertible issuers with lower debt-to-equity ratios have sharply underperformed those with higher leverage, the opposite of how leverage works among value stocks with converts.

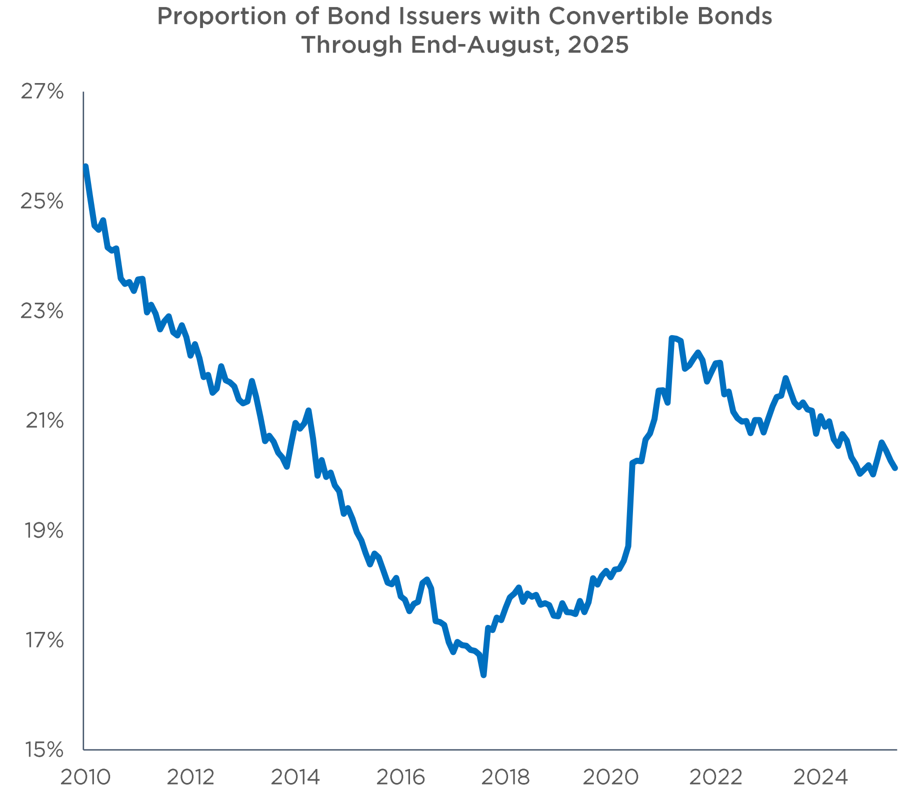
Long and short ideas: **Slide 13 shows long and short ideas among stocks with convertibles, based on earnings growth and leverage, which were effective signals for stock selection. Buy ideas include** Cloudflare, Alnylam Pharmaceuticals, MP Materials, and Lumentum. Among the short ideas are issuers with downward revisions and below-average debt, including ON Semiconductor, Lucid, Oscar Health, and Lantheus.

ABOUT 20% OF STOCKS THAT ISSUE BONDS ISSUE CONVERTS

We looked at the US equity market and found fairly consistently 1500-1750 of the top 3000 stocks have longer-term debt i.e. bonds or notes (left). This base of issuers has remained broadly stable for more than a decade. Within that group, about 20% also issue convertible bonds. The prevalence of convertibles has declined steadily since 2010, recovered briefly from 2018 through the post-Covid period, and has been drifting lower again in recent years (right).



Source: Trivariate Research



Source: Trivariate Research

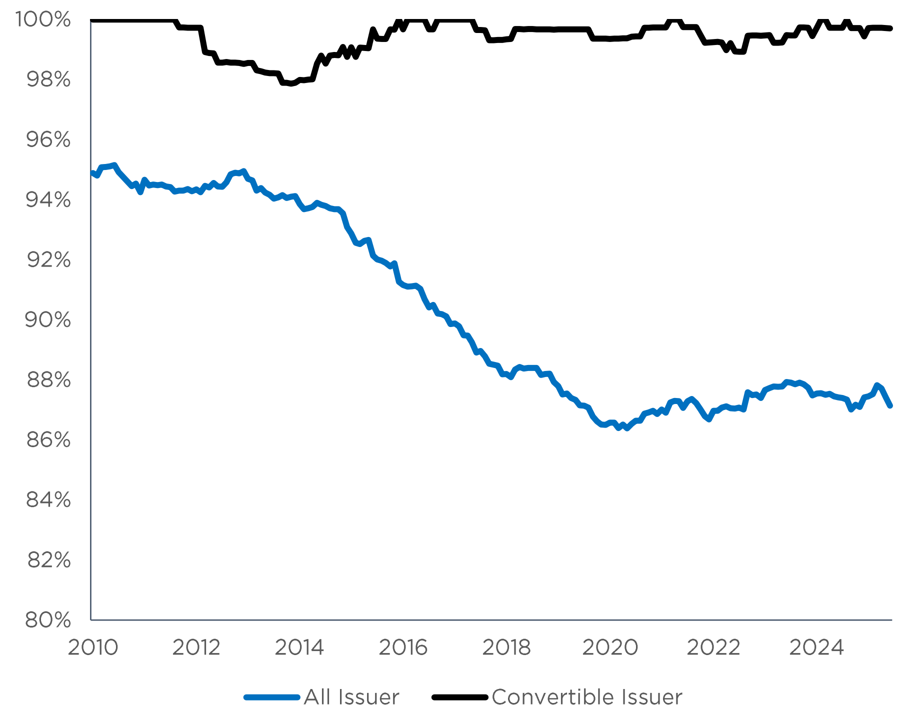
THE AVG. CO. HAS 3X MORE “REGULAR” THAN CONVERTIBLE DEBT

For convertible issuers, the share of debt in convertible bonds has fluctuated sharply. The level was below 20% through most of the 2010s, surged to more than 35% around 2020–21 as firms tapped strong equity markets, and is 24% at present (left). Nearly all convertible bonds of US companies are issued in USD, highlighting their domestic focus. In contrast, the broader bond universe has steadily diversified, with the share of issuers funding solely in USD falling from about 95% in 2010 to under 90% today.

% of Convertible Bond Outstanding Balance of Total Bond Portfolio for Convertible Issuers Through End-August, 2025

Source: Trivariate Research

Proportion of Bond Issuers with All Bonds Issued in USD Through End-August, 2025

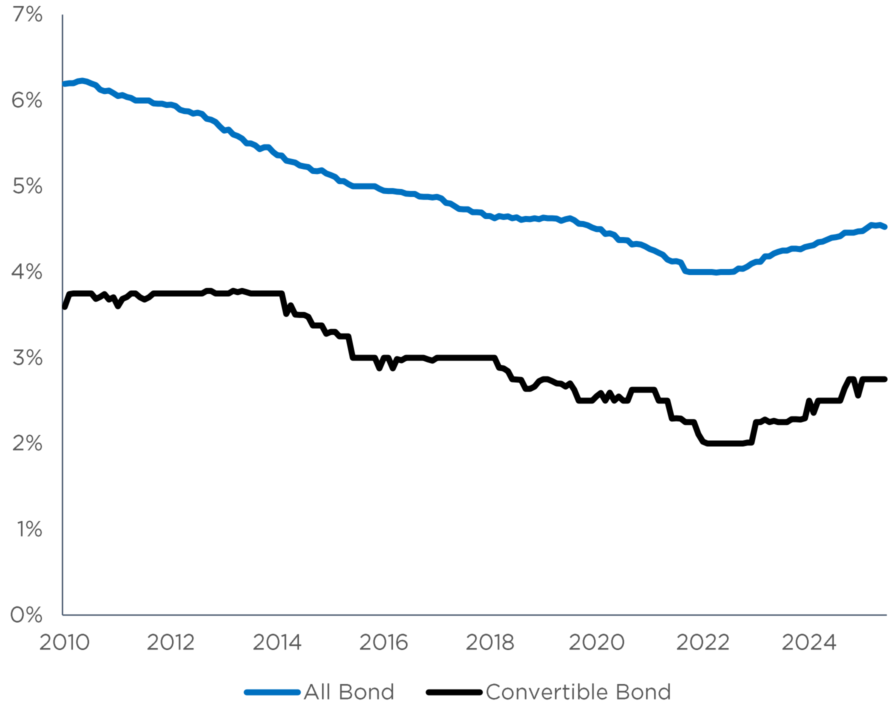


Source: Trivariate Research

CONVERTIBLE BONDS HAVE 150BPS LOWER COUPONS TODAY

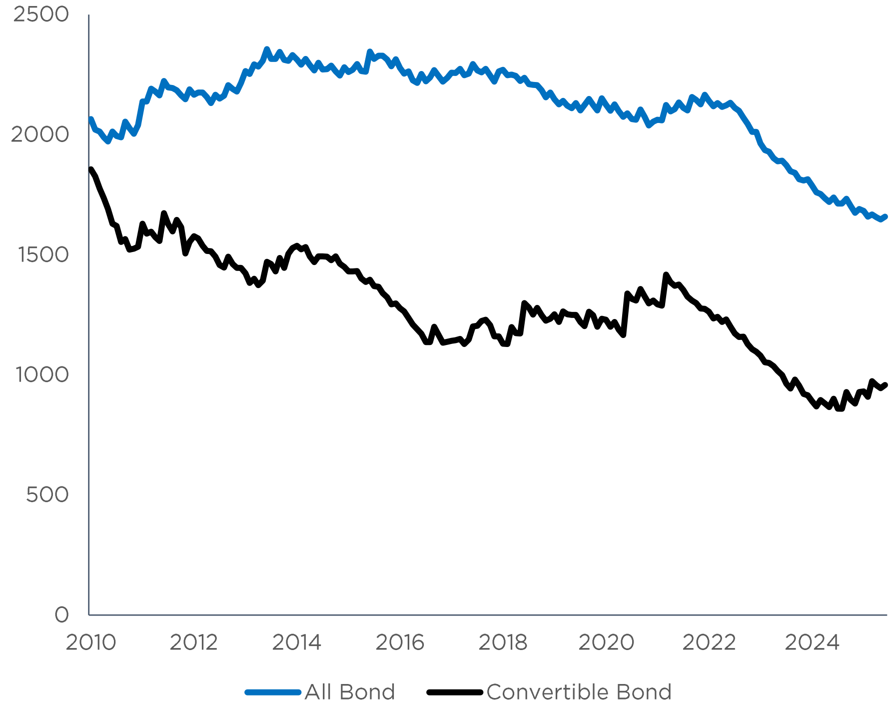
Convertible bonds have consistently carried lower coupon rates than the broader bond market, 150–200 bps on average (left). Both segments saw coupons decline through the 2010s, bottoming in 2021, with a modest rise since then. Maturities remain shorter for convertibles, averaging 2.6 years today versus 4.5 years for the broader bond market (right). Notably, in the past two years median maturities on convertibles have ticked higher, indicating a pickup in new issuance relative to straight bonds, where maturities have shortened.

Median Coupon Rate (Principal-weighted)
Through End-August, 2025



Source: Trivariate Research

Median Days to Maturity (Principal-weighted)
Through End-August, 2025

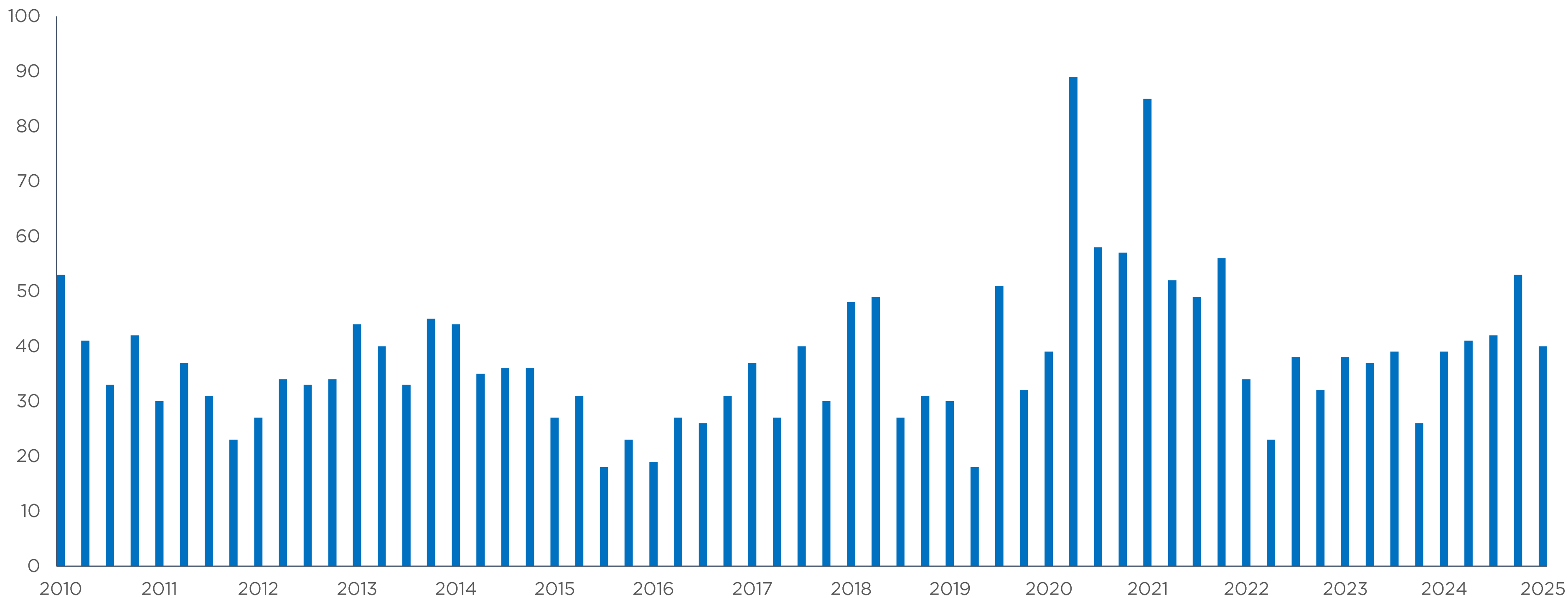


Source: Trivariate Research

THERE WERE 40 CONVERTIBLE BOND DEALS IN Q2 2025

New convertible issuance has historically been cyclical, with activity rising in waves during favorable market conditions. From 2010 to 2018, quarterly issuance generally ranged between 20 and 40 deals, before surging in 2020–21 when equity markets were strong and financing costs were low. Issuance volumes peaked at close to 90 deals in a single quarter during this period. More recently, activity has normalized to a steadier pace of 30–50 deals per quarter. The pickup in 2024 and early 2025 suggests that the convertible bond market remains an active channel for funding, even as broader bond issuance has slowed.

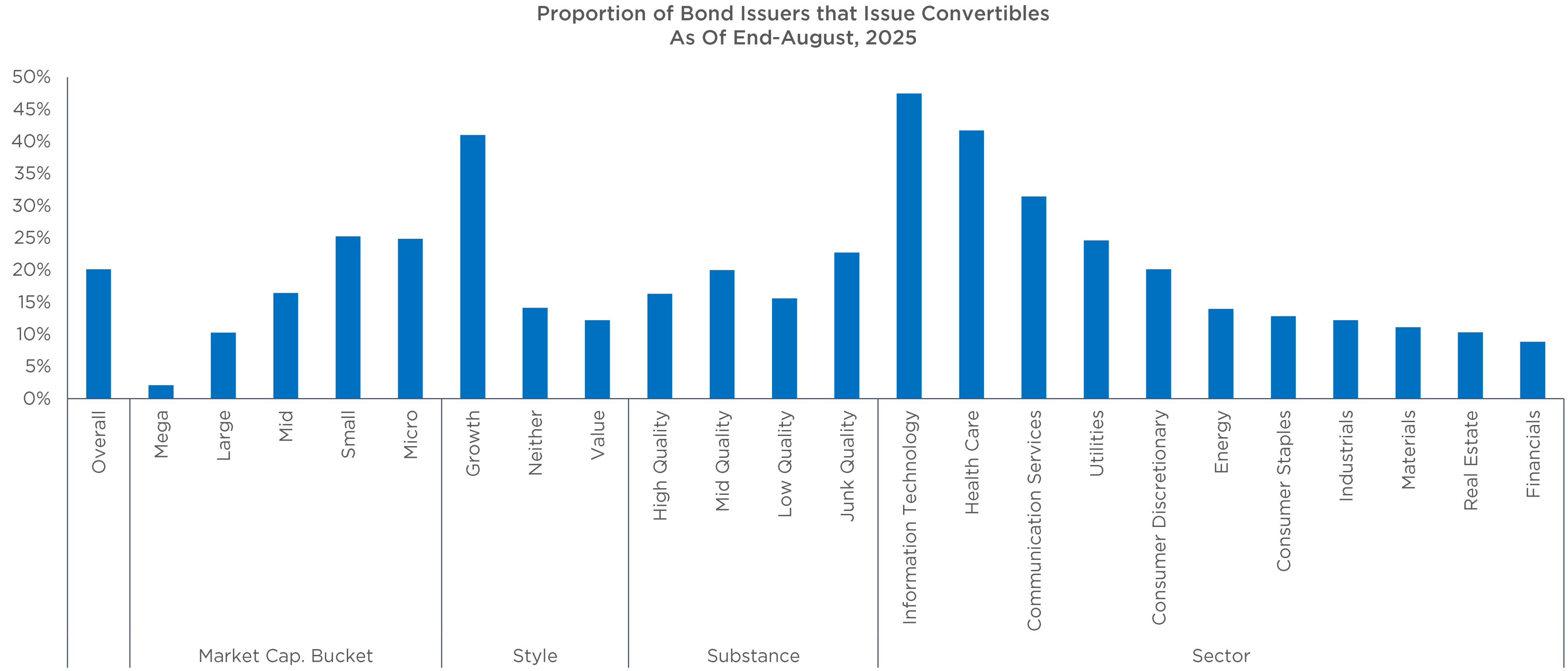
Number of New Convertible Issuance Per Quarter
Through 2025 Q2



Source: Trivariate Research

TECH. AND HEALTHCARE COMPANIES USE CONVERTS THE MOST

Convertible issuance is more common among smaller companies, with micro- and small-caps using the market far more than large or mega-caps. Growth stocks are also more frequent issuers than value. Junk stocks tend to turn to convertibles more often than high-quality companies. By sector, Technology and Healthcare use converts the most, with over 40% of bond issuers also issuing convertibles. In contrast, in Financials, Real Estate, Materials, and Industrials companies are currently making relatively less use of the convertible bond market.

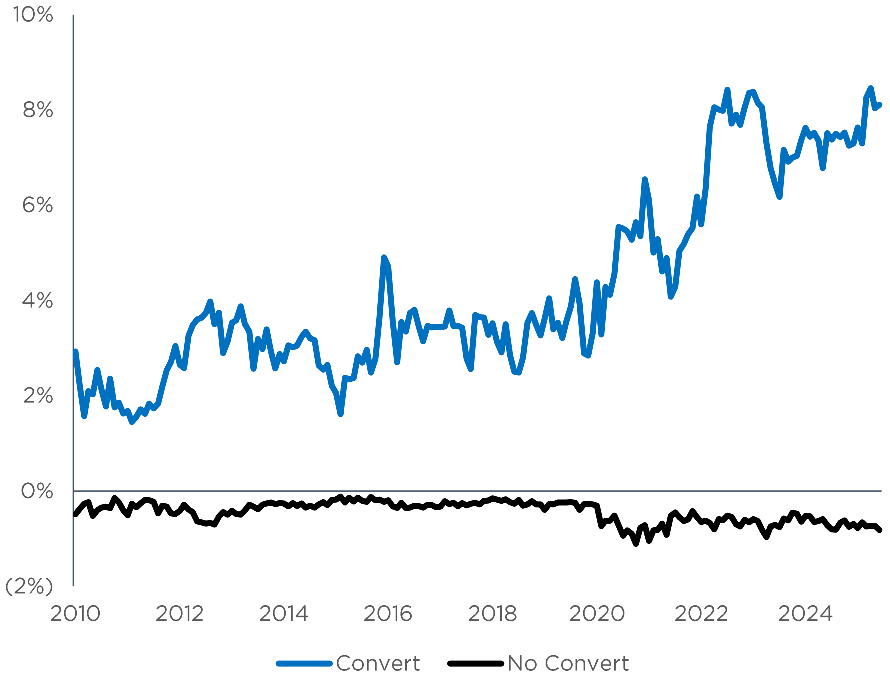


Source: Trivariate Research

STOCKS WITH CONVERTS ARE MORE VOLATILE THAN THOSE WITHOUT

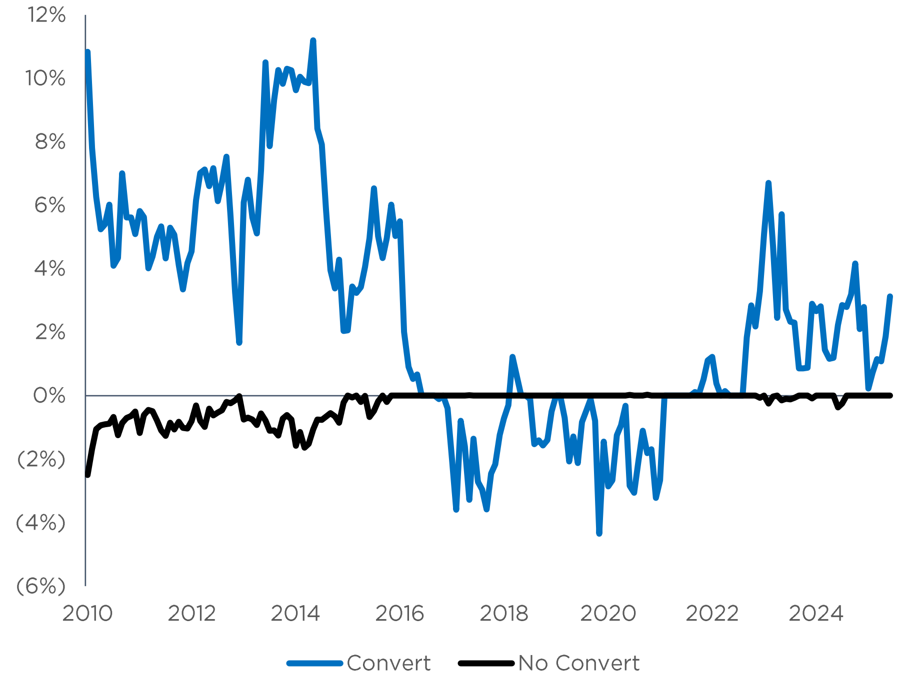
The stock returns of companies with convertible bonds are increasingly relatively more volatile than the stocks of companies with straight bonds (left). This may in part be because these companies are likely to have higher debt-to-equity (right). The average company with a convertible bond has 3% higher debt-to-equity than the average company in its industry, whereas those with straight debt have identical leverage.

Median Industry-Relative 252d Volatility
Public Bond Issuers w/ vs. w/o Convertible Bond
Through End-August, 2025



Source: Trivariate Research

Median Industry-Relative Debt-to-Equity
Public Bond Issuers w/ vs. w/o Convertible Bond
Through End-August, 2025

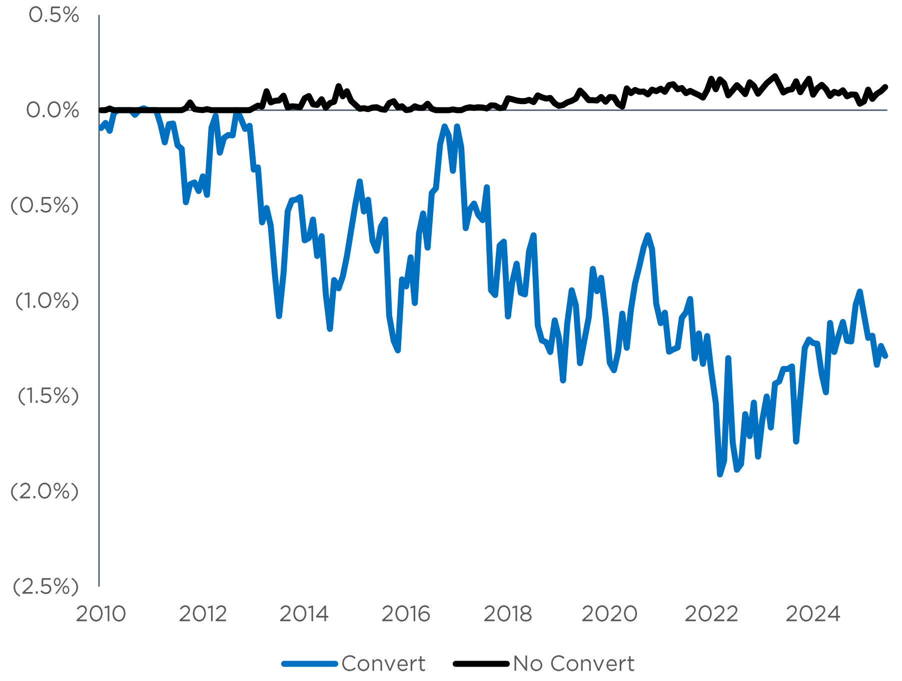


Source: Trivariate Research

MARGINS AND FCF ARE WORSE FOR STOCKS WITH CONVERTS

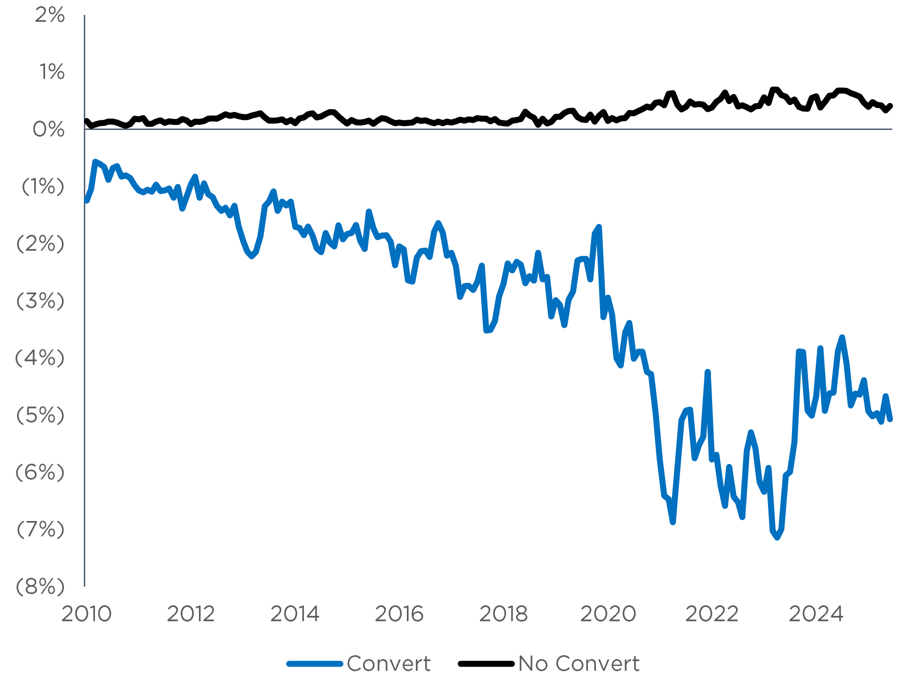
Stocks with convertible bonds had the same free cash flow yield as stocks with straight debt in 2010. Today however, the median stock with a convertible bond has 1.3% lower free cash flow yield than those that don't have converts (left). Net margins for stocks with converts have relatively eroded over time, such that the median stock with a convert has nearly 600bps lower net margins than those without a convert (right).

Median Industry-Relative Free Cash Flow Yield
Public Bond Issuers w/ vs. w/o Convertible Bond
Through End-August, 2025



Source: Trivariate Research

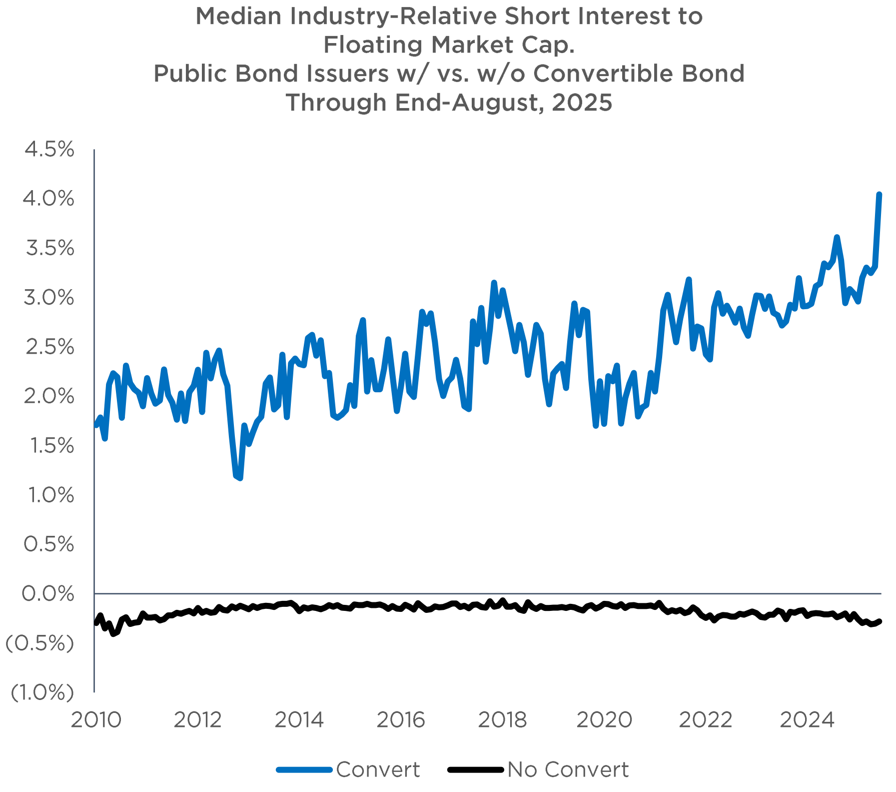
Median Industry-Relative Net Margin
Public Bond Issuers w/ vs. w/o Convertible Bond
Through End-August, 2025



Source: Trivariate Research

BETA AND SHORT INTEREST HAS ALSO RELATIVELY INCREASED

Unsurprisingly, given the inferior margins and FCF characteristics, the median short interest has risen for stocks with converts and is now over 4% higher than the industry average. It makes sense that there would be higher short interest structurally, given many investors buy the convert and short the stock to clip the coupon, but it is less obvious that the short interest should have relatively increased this much (left). It is likely illustrative of an increasingly inferior group of attributes for stocks with converts than straight debt. The beta of the median stock with a convert is also now relatively higher than it used to be (right).



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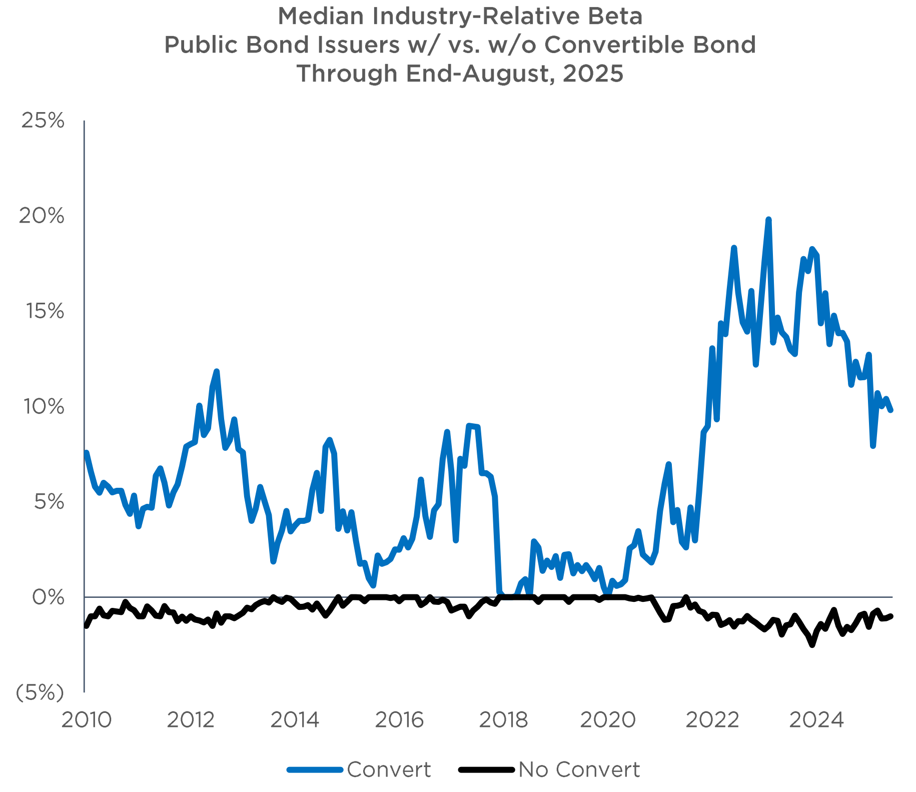
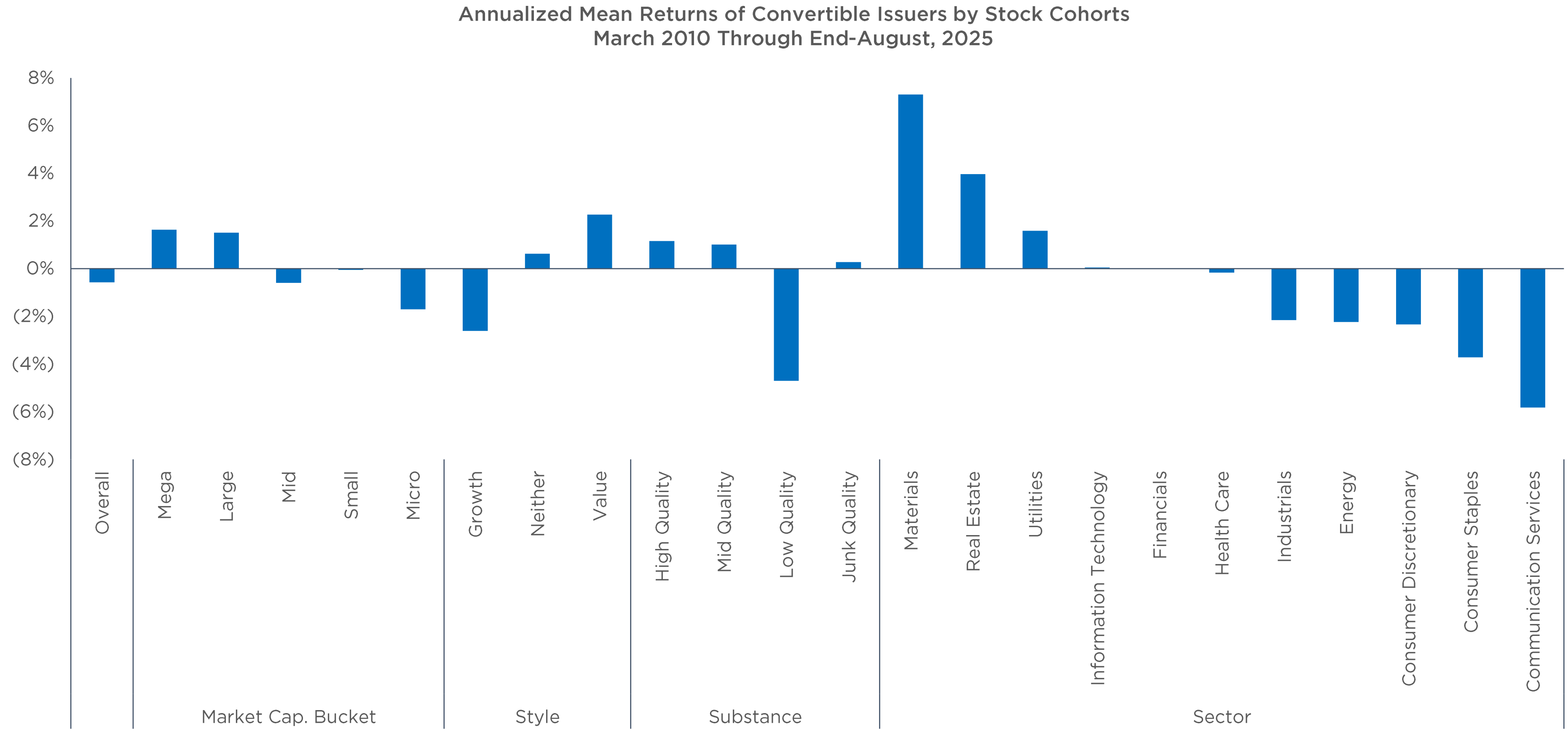


Source: Trivariate Research

VALUE BEATS GROWTH, MATERIALS BETTER THAN CONSUMER

We evaluated the returns of stocks with convertible bonds. Over the last 15 years, companies with convertible bonds in the Materials sector, despite the lower number of issuances, have performed best, and those in Communication Services, Consumer Staples, and Consumer Discretionary the worst. Value companies have on average outperformed growth companies in the convertible space.



Source: Trivariate Research

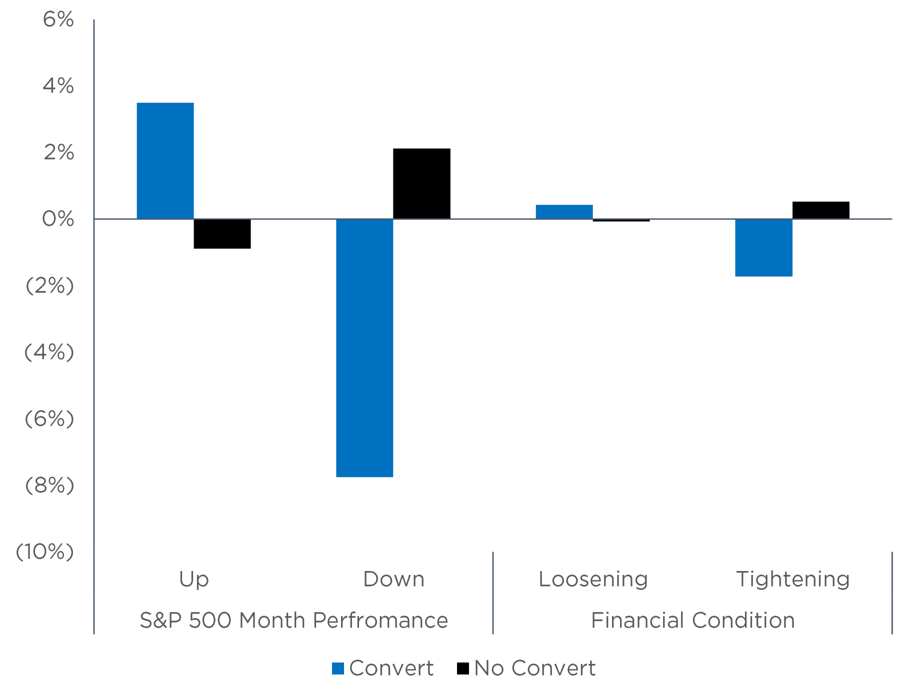
A DOWN MARKET OR TIGHTER FINANCIAL CONDITIONS ARE BAD

Despite the difference between US stocks with converts or just straight debt, the stocks have generally been highly correlated, always averaging above 0.7 (left) over a 6-month period. Correlations declined only during fears about big changes to interest rates. US equities with convertibles tend to beat their industry average when the S&P500 is up. They materially lag when the market is down, and when financial conditions are tightening (right).

Rolling 126d Correlation of Convert Issuer vs. Non-Convert Issuer Returns
Through End-August, 2025

Source: Trivariate Research

Annualized Average Industrial-Relative Returns of Convertible Issuers by Regime
Through End-August, 2025

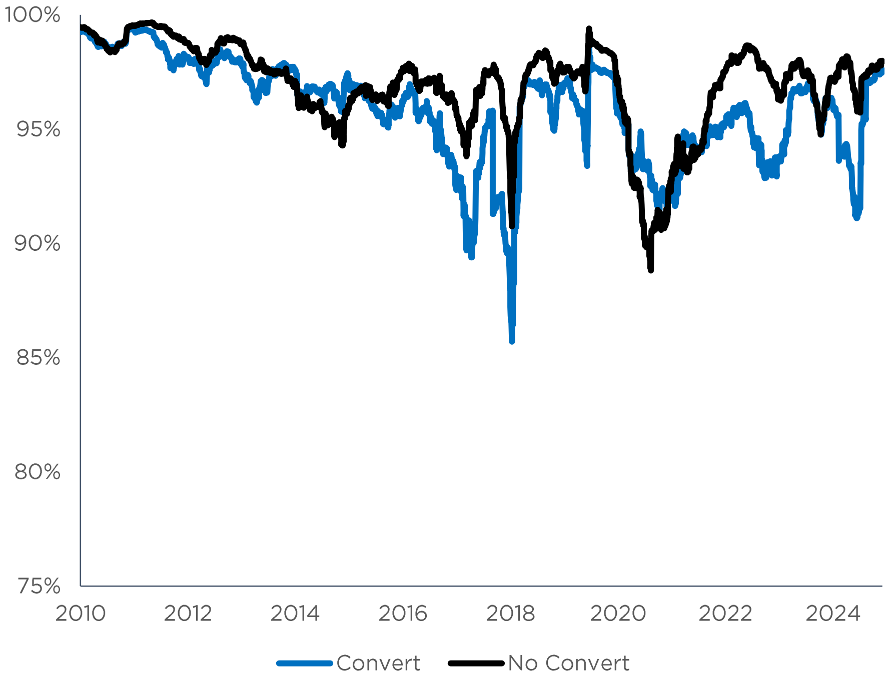


Source: Trivariate Research

CONVERTIBLE BOND ISSUERS ARE CORRELATED TO R2K AND QQQ

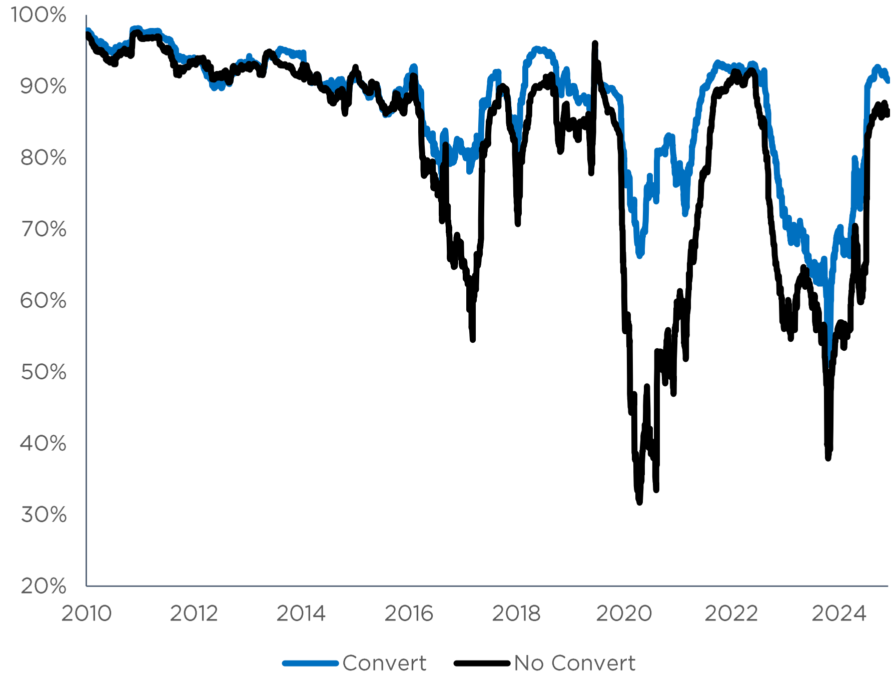
Convertible issuers move broadly in line with equity benchmarks, but with some differences relative to non-convert issuers. Against the Russell 2000, correlations for both groups typically hold above 90%, with only brief declines in stress periods. Against the Nasdaq, however, convert issuers now show higher correlations than non-converts, reflecting their greater concentration in growth-oriented sectors (left). Most recently, correlations for both groups have been high returning toward historical averages (right).

Rolling 126d Correlation of Convert Issuer Returns vs. Russell 2000
Through End-August, 2025



Source: Trivariate Research

Rolling 126d Correlation of Convert Issuer Returns vs. Nasdaq
Through End-August, 2025

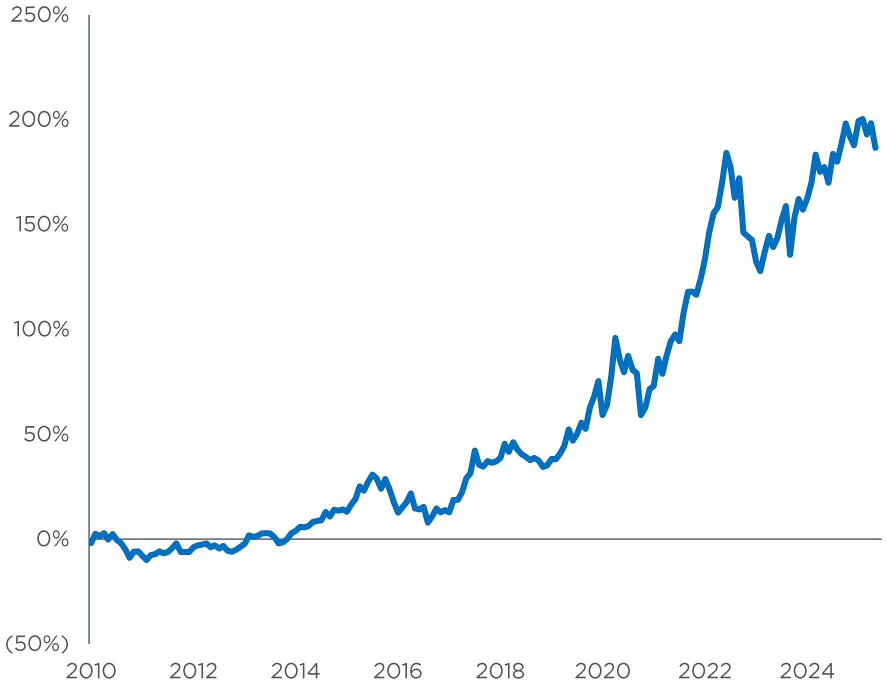


Source: Trivariate Research

EARNINGS REVISIONS WORK, EARNINGS GROWTH USED TO

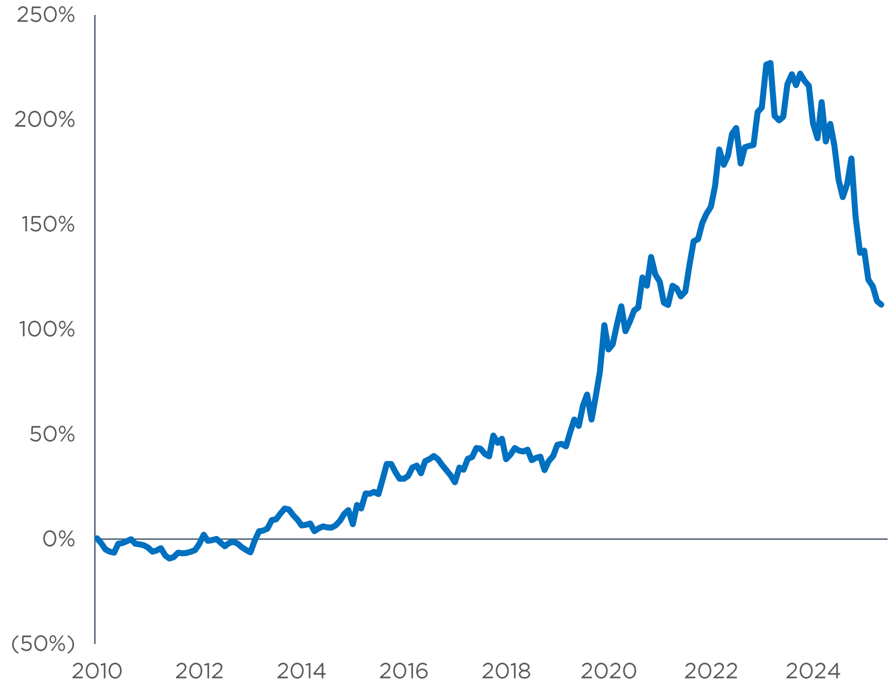
For convertible issuers, earnings revisions are effective at identifying winners from losers (left). Stocks with the most positive earnings estimate revisions have steadily outperformed those with the weakest revisions, producing sustained cumulative gains over the past decade. A similar pattern holds for forward EPS growth, where high-growth issuers delivered large excess returns through 2021–22 before giving back a huge part of those gains in the recent years (right). Our judgment is change in earnings expectations, not the level of expectations will matter for security selection.

Convertible Issuer: Earnings Estimate Revision Cumulative Return of Q1(High) - Q5(Low) Through End-August, 2025



Source: Trivariate Research

Convertible Issuer: Forward EPS Growth Cumulative Return of Q1(High) - Q5(Low) Through End-August, 2025

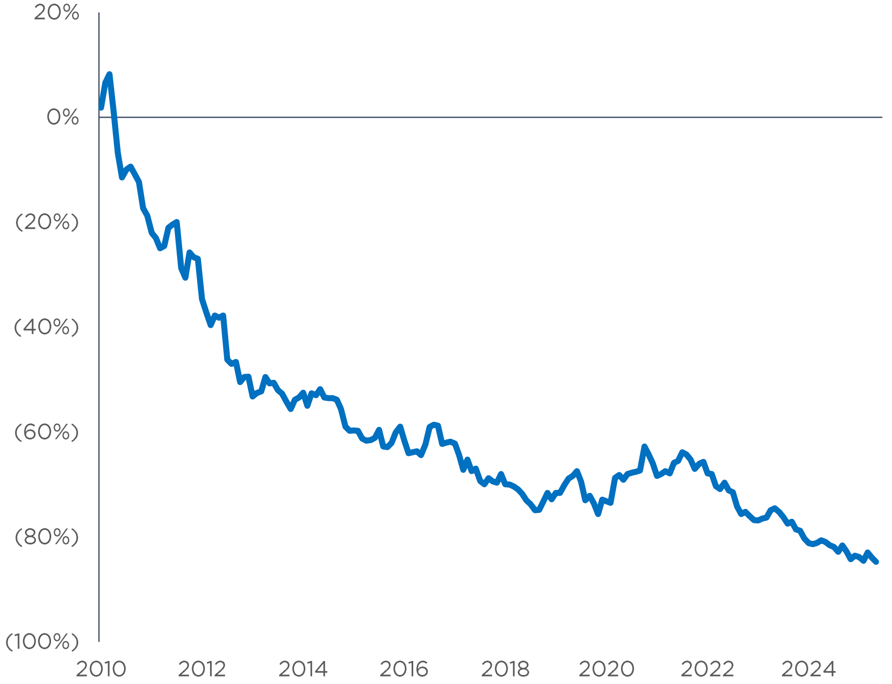


Source: Trivariate Research

HIGH DEBT WORKS IN GROWTH, BUT NOT IN VALUE

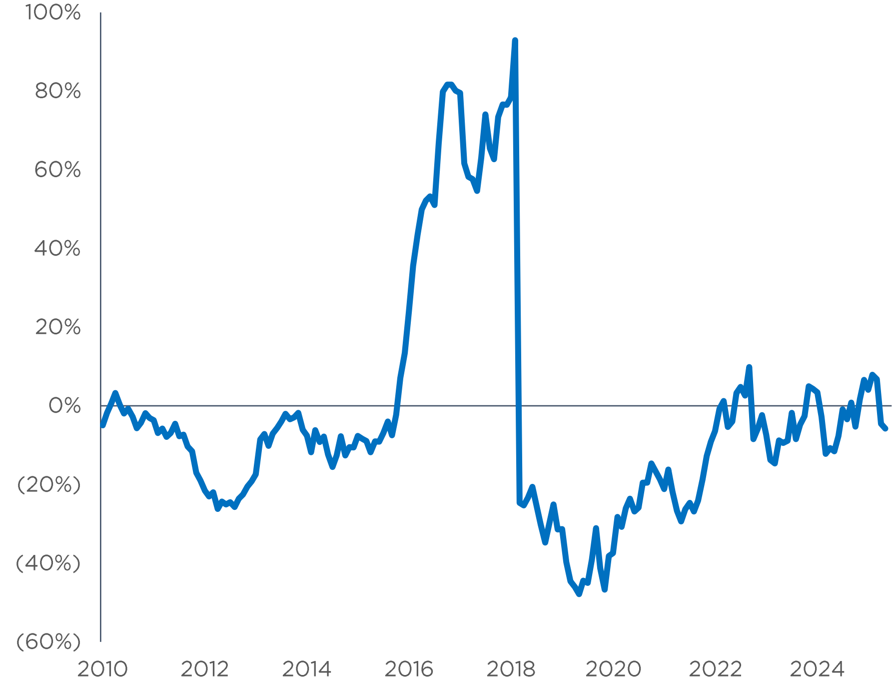
Within the growth stock universe, convertible issuers with lower debt-to-equity ratios have sharply underperformed those with higher leverage (left) which is not the case for value universe (right). This runs counter to the usual expectation that balance sheet strength is rewarded and suggests that for growth convertible issuers, the market has favored firms willing to take on debt to finance expansion, or that those stocks have outperformed because their other fundamentals, like growth and margin, have been good enough to offset their incremental indebtedness.

Growth Convertible Issuer: Debt-to-Equity
Cumulative Return of Q1(Low) - Q5(High)
Through End-August, 2025



Source: Trivariate Research

Value Convertible Issuer: Debt-to-Equity
Cumulative Return of Q1(Low) - Q5(High)
Through End-August, 2025



Source: Trivariate Research

LONG AND SHORT IDEAS AMONG STOCKS WITH CONVERTIBLE BONDS

The screens below highlight two sets of growth convertible issuers. On the long side (left) are companies with upward earnings revisions and above-average debt, including names such as Cloudflare, Alnylam Pharmaceuticals, MP Materials, and Lumentum. On the short side (right) are issuers with downward revisions and below-average debt, including ON Semiconductor, Lucid, Oscar Health, and Lantheus.

Long Ideas
Growth Convertible Issuers with Up Revision and Above Average Debt
As of End-August, 2025

Ticker	Company	Sector	Market Cap. (US$ Bil.)	Convertible Debt Percentage
NET	Cloudflare, Inc.	Information Technology	72.73	94%
ALNY	Alnylam Pharmaceuticals, Inc.	Health Care	58.53	37%
MP	MP Materials Corp.	Materials	12.60	96%
LITE	Lumentum Holdings Inc.	Information Technology	9.28	96%
IRTC	iRhythm Technologies, Inc.	Health Care	5.46	88%
ALHC	Alignment Healthcare, Inc.	Health Care	3.24	98%
ATEC	Alphatec Holdings, Inc.	Health Care	2.35	58%
FIVN	Five9, Inc.	Information Technology	2.08	92%
ANIP	ANI Pharmaceuticals, Inc.	Health Care	1.88	49%
PACB	Pacific Biosciences of California, Inc.	Health Care	0.39	93%

Source: Trivariate Research

Short Ideas
Growth Convertible Issuers with Down Revision and Below Average Debt
As of End-August, 2025

Ticker	Company	Sector	Market Cap. (US$ Bil.)	Convertible Debt Percentage
ON	ON Semiconductor Corporation	Information Technology	20.28	63%
LCID	Lucid Group, Inc.	Consumer Discretionary	6.08	74%
OSCR	Oscar Health, Inc.	Financials	4.30	84%
LNTH	Lantheus Holdings, Inc.	Health Care	3.73	93%
PAR	PAR Technology Corporation	Information Technology	2.08	99%
AAOI	Applied Optoelectronics, Inc.	Information Technology	1.51	60%
IE	Ivanhoe Electric Inc.	Materials	1.18	42%
ATAI	Atai Life Sciences N.V.	Health Care	0.98	52%
INDI	indie Semiconductor, Inc.	Information Technology	0.90	91%

Source: Trivariate Research

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