



With Benoit Le Pape
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« Mobilis in mobile »

The month of September has continued to be particularly instructive in the convertible market. In addition to the well-identified trend of «Americanization of the European primary market» (which is reflected in the predominant arrival of issuers with a strong Growth & Tech connotation), there was a mirror effect of a trend of «Europeanization of the American primary market» (which is reflected in the arrival of zero coupons and high premiums, e.g. Solaredge 0% coupon & 50% premium, Shopify 0.125% coupon & 60% premium, Ring Central 0% coupon & 52.5% premium...). We could finally find some “Asian” style on the Nasdaq volatility market: a Japanese player, having shown a sometimes inordinate appetite for American technology companies, has driven the market upwards, thus moving optional equity volatility on the way up as well.

During this month, convertibles continued to play their role as a volatility shock absorber with a decline of less than -1% on average, but continue to be the so-far best-performing global listed asset class in 2020. In our opinion, October should continue to be quite choppy as the factors of uncertainty are numerous and incompressible in the short term (sanitary risks, political risks in the United States, geopolitical risks, etc.).

An internal study carried out by the management teams, concerning the weekly Ex Ante volatility of the Schelcher Prince Convertibles Euro fund, has estimated it at 9.42% in a central scenario. This estimate was made using the anticipated correlations and implied volatilities by sectors of the fund. While this level of volatility may seem high, it must be balanced by noting that since April, the fund has realized less than a third of the ex post volatility of European equities, but has captured more than half of their rise. This volatility validates in our view the favorable treatment reserved for them under Solvency 2.

The relative resilience of the asset class is intimately linked to the companies that make up the global convertible bond world, i.e. companies with powerful organic growth plans which are able to keep moving and adopting an agile stance that allows them to evolve in a world of fluctuations and uncertainties.

THE CONVERTIBLE BOND MARKET



The color «Green» marked the primary market of September 2020: EDF, Falck, SolarEdge, Canadian Solar, NextEra Energy...

- Europe : EUR 2.9bn (3 deals)
- US : USD 6.2bn (11 deals)

PICK OF THE MONTH : EDF 0% 2024

The «Green» theme continues to be very much in evidence across all asset classes and it is natural that convertibles bonds are getting used as a financing tool for companies with significant CAPEX plans. With EUR 2.4bn, EDF has issued the largest European convertible since 2003.

This convertible allows to be convexly exposed to the Hercules project to split the company in 2 parts : Green (Renewable) and Blue (Nuclear). The 9 Green convertibles that have been issued since September 2018 with Sumitomo Forestry being the very first one, have mainly addressed the field of solar and wind energy. Let's hope that the primary will now evolve towards hydrogen energy as it is currently being developed by European industrial champions.

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