

Convertibles and Rising Interest Rates

Rising interest rates create headwinds for government bonds and other types of fixed income securities. However, convertible securities may offer compelling benefits, due to their ability to provide equity upside with potential downside protection. Furthermore, widening spreads bode well for the continuation of a strong year for convertible issuance, boosting the opportunity set for convertible investors and overall market liquidity.

Bonds tend to lose value in an environment of rising interest rates while equities, in many cases historically, have gone the opposite direction.

Convertible securities¹ have fixed-income qualities and can be affected by rising interest rates, but they also can take on equity qualities because of the option to convert them into a predetermined number of issuer shares. In general, the more a convertible's price is determined by the value of its underlying equities, the greater its tendency not to be influenced by changing interest rates.

▸ In general, the more a convertible's price is determined by the value of its underlying equities, the greater its tendency not to be influenced by changing interest rates.

The graph below shows what has happened to stocks, bonds and convertible indexes when the 10-year Treasury yield rose more than 100 basis points. Convertible returns tended to more closely reflect equity returns than bond returns.

RETURNS IN RISING INTEREST RATE ENVIRONMENTS

	10/15/93-11/7/94	1/18/96-6/12/96	10/5/98-1/20/00	11/7/01-4/1/02	6/13/03-6/14/04	6/1/05-6/28/06	12/30/08-6/10/09	10/7/10-2/8/11	7/26/12-12/27/13
Yield Increase (bps)*	286	150	263	122	176	134	187	134	157
BofA Merrill Lynch All U.S. Convertibles Index	-2.28	11.97	68.85	2.29	11.49	9.46	24.68	11.63	35.49
S&P 500 Index	2.22	11.42	46.59	3.07	14.66	6.71	9.41	14.89	42.09
Barclays U.S. Government/Credit Index	-5.15	-4.08	-3.38	-3.09	-3.64	-1.49	-2.08	-3.94	-2.14

*10-year Treasury yield. Performance shown is cumulative.
Sources: Morningstar and Bloomberg

Past performance is no guarantee of future results. Current performance may be lower or higher than the performance quoted.

¹ Convertible securities are interest-paying securities, similar to corporate bonds, in which investors have the option to turn the bonds into a predetermined number of shares. The hybrid nature of the securities offers investors the principal protection and income characteristics of bonds with the opportunity for higher returns if the issuer's stock price rises. This discussion includes convertible bonds and preferred shares.

The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice. The information in this report should not be considered a recommendation to purchase or sell any particular security.

There are certain risks associated with an investment in a convertible bond such as default risk—that the company issuing a convertible security may be unable to repay principal and interest—and interest rate risk—that the convertible may decrease in value if interest rates increase.

Government credits are subject to interest rate risk, if rates increase the value of the security declines.

Equity securities are subject to "stock market risk" meaning that stock prices in general (or in particular, the prices of the types of securities in which a fund invests) may decline over short or extended periods of time.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

Index Definitions BofA Merrill Lynch All U.S. Convertible Index (VXA0) is comprised of approximately 700 issues of convertible bonds and preferreds of all qualities. The S&P 500 Index is considered generally representative of the U.S. stock market. The Barclays U.S. Government/Credit Index includes long-term government and investment-grade corporate debt securities and is generally considered representative of the performance of the broad U.S. bond market. Unlike convertible bonds, U.S. Treasury bills are backed by the full faith and credit of the U.S. government and offer a guarantee as to the timely repayment of principal and interest. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect fees, expenses or sales charges. Investors cannot invest directly in an index.

CALAMOS[®]

INVESTMENTS

Calamos Financial Services LLC
 2020 Calamos Court | Naperville, IL 60563-2787
 800.582.6959 | www.calamos.com | caminfo@calamos.com

© 2015 Calamos Investments LLC. All Rights Reserved.
 Calamos[®] and Calamos Investments[®] are registered trademarks of
 Calamos Investments LLC.

CVRIRCOM 8959 04150 R