



Convertible first quarter update and 2Q 2026 outlook

From Convertibles

Performance

The U.S. convertible market finished the first quarter of 2026 with a remarkable performance. What made the performance noteworthy was the benchmark's 3.72% rise despite not only a decline in equity markets but also a coincident rise in interest rates and a corresponding drop in the high yield and Treasury bond markets. Generally, a drop in both equity and bond markets would make a decline in convertible securities a near certainty. However, several unusual occurrences in the first quarter allowed convertibles to outperform nearly every other asset class, a continuation of the trend we experienced in 2025. For the first quarter, the ICE BofA U.S. Convertibles Index's 3.72% advances compares to the 4.35% decline in the S&P 500 and the 6.96% loss in the NASDAQ. The smaller cap Russell 2000 posted a small gain of .92% for the quarter which provided a small tailwind to the convertible market, as many convertible securities in the Index emanate from small and mid-cap issuers. The main driver of convertible performance, however, was the sharp rise in several large Index constituents seen as beneficiaries of the buildout of A.I. data centers. The Index's largest constituent, Lumentum Holdings, a manufacturer of optical equipment used in data transmission, rose 90% in the first quarter

alone after gaining more than 300% in 2025. In addition, data storage companies, Seagate Technologies and Western Digital, two other large Index constituents, rose 42% and 57% respectively, in the first quarter following very strong advances in 2025 as well. In addition, the U.S. convertible market was not burdened by the weak performance of the so-called Magnificent Seven stocks which have an outsized impact on the large cap equity indices. The stocks of all seven companies posted first quarter declines and enhanced the relative performance of the U.S. convertible market versus equity indices such as the S&P 500 and the NASDAQ Composite.¹

While the first quarter gains versus equities are remarkable, they have been relatively concentrated in the bonds of a few companies tied to the buildout of data centers, data storage, and power demand related to the needs of AI infrastructure. It may be difficult for those gains to broaden out in an environment of high energy prices, higher interest rates, and concerns related to private credit investments. However, if the war in the Middle East can be ended relatively quickly on terms seen as favorable to the U.S., a broad rally in equities and equity-linked securities such as convertibles is likely.

1. Data source: Bloomberg

Issuance

For the first quarter of 2026, new issuance totaled \$26.0 billion (from Bank of America data), ahead of last year's \$15.8 billion of new issuance for the same period.

Issuance totals in the first quarter were impacted by Oracle Corporation's \$5 billion convertible preferred share issue, the proceeds of which will be used to fund its buildout of AI computing and data storage facilities. Additional issuance came from companies seeking to refinance existing convertible debt. We expect the pace of new issuance to remain strong through the balance of the year as numerous bonds that came to the market during the pandemic-fueled issuance spree of 2020- 2021 approach maturity and need to be refinanced. However, a prolonged slump in equities may dampen issuance somewhat from other companies.

Positioning and outlook

We are surprised by the convertible market's strong performance so far this year particularly within the

backdrop of falling stock and bond markets. Surprised but pleased. Despite the narrow scope of the convertible market's advance, we have kept pace with the Index even with our relatively conservative portfolio positioning which outperformed the Index on most down days. Some of our large data center and storage holdings were benchmark winners, which rose by avoiding anything linked to cryptocurrency such as MicroStrategy and Coinbase, which continue to fall in value even after last year's very poor performance. We remain overweight in the Healthcare, Consumer Staples, Information Technology sectors, market-weighted the Communication, Consumer Discretionary, Real Estate, Energy sectors, and underweight Financials, and Utilities. We believe that in the absence of a prolonged spike in energy prices, the economy can maintain its pace of low single- digit GDP growth combined with relatively low, sub-5% unemployment. We continue to believe that our process, which emphasizes strong company fundamentals and reasonable valuation, will outperform over a complete market or economic cycle.

IMPORTANT DISCLOSURE

Availability of products and services provided by MacKay Shields may be limited by applicable laws and regulations in certain jurisdictions and this document is provided only for persons to whom this document and the products and services of MacKay Shields may otherwise lawfully be issued or made available. None of the products and services provided by MacKay Shields are offered to any person in any jurisdiction where such offering would be contrary to local law or regulation. This document is provided for information purposes only. It does not constitute investment advice and should not be construed as an offer to buy securities. The contents of this document have not been reviewed by any regulatory authority in any jurisdiction. All investments contain risks and may lose value and these materials do not undertake to explain all of the risks associated with any investment strategy referred to herein. Clients and investors should not invest in any strategy referred to herein unless satisfied that they and/or their representatives have requested and received all information that would enable them to evaluate the merits and risks thereof. Any forward-looking statements speak only as of the date they are made, and MacKay Shields assumes no duty and does not undertake to update forward looking statements. Any opinions expressed are the views and opinions of certain investment professionals at MacKay Shields which are subject to change without notice. There may have been, and may in the future be, changes to the investment personnel responsible for the management of the strategy(ies) described herein, as well as changes to the investment process utilized by such investment personnel. Past performance is not indicative of future results.

At the time of writing, MacKay Shields LLC maintains investments in the securities, issuers and/or companies cited herein. References to such securities, issuers and/or companies for educational and informational purposes only, and are intended to convey factual information and current market conditions. Such names are not intended, nor should they be construed as, a recommendation to buy and sell any individual security.

Information included herein should not be considered predicative of future transactions or commitments made by MacKay Shields LLC nor as an indication of current or future profitability. There is no assurance investment objectives will be met.

Past performance is not indicative of future results.

NOTE TO UK AND EUROPEAN UNION AUDIENCE

This document is intended only for the use of professional investors as defined in the Alternative Investment Fund Manager's Directive and/or the UK Financial Conduct Authority's Conduct of Business Sourcebook. To the extent this document has been issued in the United Kingdom, it has been issued by NYL Investments UK LLP, 200 Aldersgate Street, London UK EC1A 4HD, which is authorised and regulated by the UK Financial Conduct Authority. To the extent this document has been issued in the EEA, it has been issued by NYL Investments Europe Limited, 77 Sir John Rogerson's Quay, Block C Dublin D02 VK60 Ireland. NYL Investments Europe Limited is authorized and regulated by the Central Bank of Ireland (i) to act as an alternative investment fund manager of alternative investment funds under the Alternative Investment Fund Managers Directive (Directive 2011/61/EU) and (ii) to provide the services of individual portfolio management, investment advice and the receipt and transmission of orders as defined in Regulation 7(4) of the AIFMD Regulations to persons who meet the definition of "professional client" as set out in the MiFID Regulations. It has passported its license in additional countries in the EEA.

This document only describes capabilities of certain affiliates of New York Life Investments and/or MacKay Shields LLC. No such affiliates will accept subscriptions in any funds not admitted to marketing in your country or provide services to potential customers in your country, including discretionary asset management services, except where it is licensed to do so or can rely on an applicable exemption.

MacKay Shields LLC is a wholly owned subsidiary of New York Life Investment Management Holdings LLC, which is wholly owned by New York Life Insurance Company. "New York Life Investments" is both a service mark, and the common trade name of certain investment advisers affiliated with New York Life Insurance Company. Investments are not guaranteed by New York Life Insurance Company or New York Life Investments.

NOTE TO CANADIAN RECIPIENTS

The information in these materials is not an offer to sell securities or a solicitation of an offer to buy securities in any jurisdiction of Canada. In Canada, any offer or sale of securities or the provision of any advisory or investment fund manager services will be made only in accordance with applicable Canadian securities laws. More specifically, any offer or sale of securities will be made in accordance with applicable exemptions to dealer and investment fund manager registration requirements, as well as under an exemption from the requirement to file a prospectus, and any advice given on securities will be made in reliance on applicable exemptions to adviser registration requirements.

Information included herein should not be considered predicative of future transactions or commitments made by MacKay Shields LLC nor as an indication of current or future profitability. There is no assurance investment objectives will be met. Past performance is not indicative of future results.

NOTE TO JAPANESE RECIPIENTS

In Japan, this is issued by New York Life Investment Management Asia Limited (Financial Instruments Business Operator, Kanto Local Finance Bureau (FIBO) No. 2964, Member of Japan Investment Advisers Association and Type 2 Financial Instruments Firms Association) for institutional investors only. As costs and/or fees to be borne by investors vary depending on circumstances such as products, services, investment period and market conditions, the total amount nor the calculation methods cannot be disclosed in advance. All investments involve risks, including market fluctuation and investors may lose the principal amount invested. Investors should obtain and read the prospectus and/or information set forth in Article 37-3 of the Financial Instruments and Exchange Act carefully before making investment decisions.

MacKay Shields LLC is a wholly owned subsidiary of New York Life Investment Management Holdings LLC, which is wholly owned by New York Life Insurance Company. "New York Life Investments" is both a service mark, and the common trade name of certain investment advisers affiliated with New York Life Insurance Company. Investments are not guaranteed by New York Life Insurance Company or New York Life Investments.

SOURCE INFORMATION

"Bloomberg[®]", "Bloomberg Indices[®]", Bloomberg Fixed Income Indices, Bloomberg Equity Indices and all other Bloomberg indices referenced herein are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the indices (collectively, "Bloomberg") and have been licensed for use for certain purposes by MacKay Shields LLC ("MacKay Shields"). Bloomberg is not affiliated with MacKay Shields, and Bloomberg does not approve, endorse, review, or recommend MacKay Shields or any products, funds or services described herein. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to MacKay Shields or any products, funds or services described herein.

All ICE Data indices referenced herein (each such index, the "Index"), are products of ICE data indices, LLC ("ICE Data"), and are used with permission. ICE[®] is a registered trademark of ICE Data or its affiliates, and BofA[®] is a registered trademark of Bank of America Corporation licensed by Bank of America Corporation and its affiliates ("BofA") and may not be used without BofA's prior written approval. ICE Data, its

affiliates and their respective third party suppliers disclaim any and all warranties and representations, express and/or implied, including any warranties of merchantability or fitness for a particular purpose or use, including the indices, index data and any data included in, related to, or derived therefrom. Neither ICE Data, its affiliates nor their respective third party suppliers shall be subject to any damages or liability with respect to the adequacy, accuracy, timeliness or completeness of the indices or the index data or any component thereof, and the indices and index data and all components thereof are provided on an “as is” basis and your use is at your own risk. Inclusion of a security within an index is not a recommendation by ICE Data to buy, sell, or hold such security, nor is it considered to be investment advice. ICE Data, its affiliates and their

respective third party suppliers do not sponsor, endorse, or recommend MacKay Shields LLC, or any of its products or services.

INDEX DEFINITIONS

The ICE BofA All U.S. Convertibles Index is an unmanaged index that consists of convertible bonds traded in the U.S. dollar denominated investment grade and non-investment grade convertible securities sold into the U.S. market and publicly traded in the United States. The Index constituents are market value weighted based on the convertible securities prices and outstanding shares, and the underlying index is rebalanced daily.

For more information
nylim.com
mackayshields.com



MacKay Shields LLC is a wholly owned subsidiary of New York Life Investment Management Holdings LLC, which is wholly owned by New York Life Insurance Company. “New York Life Investments” is both a service mark, and the common trade name of certain investment advisers affiliated with New York Life Insurance Company. Investments are not guaranteed by New York Life Insurance Company or New York Life Investments.