

Commentary from the Investment Management Team at Boussard & Gavaudan

European Convertibles Awaken as Markets Shift Beneath the Surface

Equity markets in Europe and the US diverged in June with the EuroStoxx 50® Total Return up 4.66% and the S&P500® Total Return down -0.95%. The market implied volatility measure VStoxx® decreased, finishing the month at 16.6% and the iTraxx Crossover® (S45) decreased to 245bps. Notably, European CB issuance appears to be showing the first signs of a genuine revival after years of dormancy, driven by M&A activity and data centre related capex needs. While we temper our excitement, we believe this could be the beginning of a meaningful window of opportunity for convertible arbitrage strategies as issuers return to the market and pricing normalises.

Convertible Bond Arbitrage

June 2026 was a record-setting month for new issues in the U.S. convertible market, with the arrival of \$36bn new paper. This was headlined by a massive \$19.5bn two-part mandatory deal from Alphabet, followed by a \$3.75bn mandatory deal from Super Micro, and a \$2.875bn convertible bond issue from Ciena Corp. Earlier in the month, a run of smaller deals reflected buoyant sentiment, but valuations softened materially in the wake of the Alphabet and Super Micro transactions. This was compounded by a broader equity rotation away from Mag-7 and AI-related names. Five-year yields increased slightly from 4.14% to 4.23%, and HY CDX spreads widened slightly from 300bps to 306bps. Valuations remain soft entering July, and, with the seasonal summer effects kicking in, we expect July to be a relatively muted month.

The European primary market was notably active this month, with 9 transactions raising a total of €4.2bn. Most of the deals came from repeat issuers, including RAG into Evonik, Vonovia, Orpar into Remy Cointreau and STM. The market also welcomed two new issuers: AT&S, an Austrian semiconductor corporate, and K+S, a German chemicals company focused on agricultural fertilizers. There was also one synthetic deal with Veolia. Overall, demand from both hedge funds and long-only funds remained strong, pushing pricing to the richer end of the range. Sell-side desks are signalling a robust pipeline of new issues yet to come. After a long wait for European CB issuance to gather momentum, we believe we are finally witnessing the first credible green shoots of a revival, underpinned by M&A activity and AI-driven data centre capex needs pushing issuers toward the convertible market. While recent issuance has been richly priced due to strong demand from long only CB funds and hedge funds, we expect this appetite to cool as recent losses weigh on the long only and hedge fund buyers. The effect on pricing from this dampening of demand should be compounded by the increase in supply of CB issuance and we are positioning our strategy to fully capitalise on more attractively priced issuance as this dynamic plays out.

In Asia we see further opportunities across Hong Kong and Japan, in both primary issuance and realised volatility, but remain disciplined by cutting positions with limited reward and steering clear of structures like one-year Hong Kong CB deals, which we view as a liquidity trap for investors despite their rational appeal to issuers and brokers.

Volatility Trading

The volatility regime remained largely unchanged throughout the month. While the first Fed meeting chaired by Warsh briefly pushed volatility slightly higher, the broader constructive market backdrop remained intact. The easing of tensions in the Middle East supported European markets, which once again realised well below implied levels, continuing the pattern observed in recent months and driving implied volatility lower. Overall, we continue to observe elevated volatility concentrated in technology and semiconductor names, while the rest of the market remains relatively quiet. However, this is now increasingly well reflected in implied volatility levels.

Equity Strategies

Intertek and Tate & Lyle both rallied after the approaches they had received in prior months were formally confirmed and converted into firm, board recommended offers, providing a clear catalyst for the market to reprice the targets. Our position in Electronic Arts also contributed positively. The discount to the consortium's offer narrowed following notifications to the European Commission for both antitrust and foreign investment reviews. These filings were widely viewed as the key gating events for the transaction, and the market is now anticipating a swift constructive response from regulators. Following the Poste Italiane's takeover of Telecom Italia, we benefited from the strength of the bidder's share price. Management successfully articulated the value creation potential of its offer, helping convince investors of the upside for Poste shareholders. Tripadvisor stock rebounded after the company announced the sale of The Fork to American Express, a step towards unlocking value. Finally, Commerzbank rose after UniCredit's tender offer proved successful, with the bidder securing a 42.5% stake at the end of the first tender period. The offer is expected to close in a few months following regulatory approvals.

Trading Strategies

June proved a challenging month for macro-driven strategies, with several key themes shaping the trading landscape. Gold markets experienced volatility following a more hawkish-than-expected tone from Fed Chair Warsh at his first meeting, catching many positioned for continued strength off guard. In currency markets, the EURNOK pair saw oil correlation dynamics dominate over rate-expectation drivers, a shift that wrong-footed positioning built on traditional macro relationships.

Elsewhere, USDKD continued to reflect ongoing market caution around China and persistent concerns over capital flows into Hong Kong. European banking sector sentiment remained a focal point, with consensus views still appearing overly bearish relative to fundamentals, even as economic surprise indices sit at deeply depressed levels. Commodity-linked currencies such as the Australian dollar benefited from a constructive backdrop for industrial commodities, reinforcing the view that this segment of the cycle remains supportive.

Equity indices broadly advanced through June, though the calm headline moves masked a notably intense sector rotation beneath the surface, particularly across energy, basic resources, and semiconductors. This rotation created challenging conditions for market-neutral approaches tilted toward the affected sectors, even as broader index levels held steady. Meanwhile, easing interest rate expectations and energy prices trading well below recent peaks pointed to a shifting macro backdrop, with rate and energy markets adjusting accordingly as the month progressed.

June brought notable volatility to crowded short positions across equity markets, with several heavily shorted names reversing sharply higher. Rights issue activity was another feature of the

month, offering opportunities for those able to navigate primary market transactions effectively. The latter half of June also saw a pronounced momentum sell-off take hold across equity markets, unwinding some of the trends that had built up earlier in the year.

Outlook

Against a backdrop of diverging equity markets and compressing volatility, one of the more compelling stories of 2026 is unfolding quietly in Europe's convertible bond market. After years of limited activity, issuance is picking up meaningfully, driven by a wave of M&A financing and the capital needs of an AI-driven data centre build-out that shows little sign of slowing. This is a structural shift as much as a cyclical one: as companies across sectors seek flexible financing to fund transformative investment, convertibles are re-emerging as a natural tool of choice. Early demand has been strong enough to push pricing toward the richer end of the range, but we expect this to ease as issuance volumes build and recent performance tempers buyer enthusiasm.

For convertible arbitrage strategies, that combination of rising supply and normalising valuations points to a genuine and still-early opportunity, one that could mark the start of a more durable window for the asset class after years on the sidelines.

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