Economic Outlook

CALAMOS INVESTMENTS

JOHN P. CALAMOS, SR.
CEO and Global Co-CIO

INVESTMENT COMMITTEE CONTRIBUTORS

John Hillenbrand, CPA
Co-CIO and Senior Co-Portfolio Manager

David Kalis, CFA
Co-CIO and Senior Co-Portfolio Manager

Nick Niziolek, CFA
Co-CIO and Senior Co-Portfolio Manager

Eli Pars, CFA
Co-CIO and Senior Co-Portfolio Manager

Jeremy Hughes, CFA
SVP and Co-Portfolio Manager

Table of Contents

RELATED RESOURCE

View John P. Calamos, Sr. on Fox Business at www.calamos.com/fox

October 2015

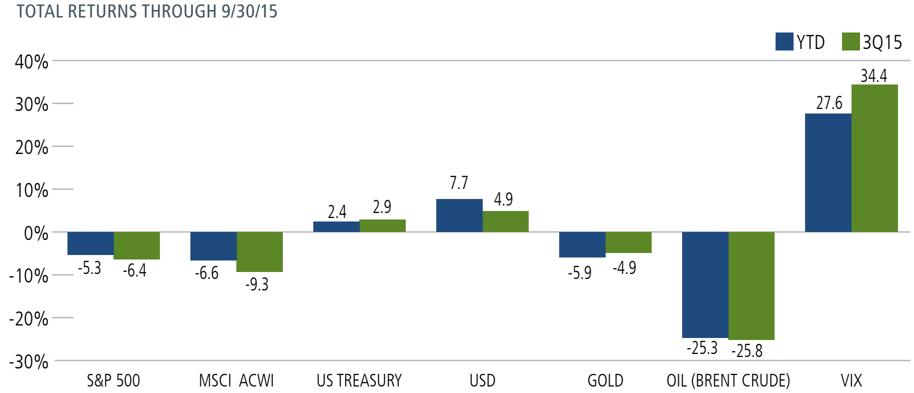
The third quarter proved difficult for investors as apprehension about slowing global growth and monetary and fiscal policies converged. As Figure 1 shows, volatility soared while equities declined sharply and commodities plummeted. Heading into the final months of the year, our positioning is cautious but reflects our view that the markets offer many opportunities, particularly among growth-oriented equities and convertibles, along with high yield.

Although we remain positive, we expect elevated volatility to persist due to global growth concerns and central bank policies—including an uncertain Federal Reserve timeline and divergent courses among global central banks. Fiscal policy is likely to remain a focal point of market anxiety, with the U.S. election among the factors figuring prominently in this regard.

We believe the U.S. and global economies are likely to maintain a muted pace of expansion over the near term. The U.S. consumer remains strong, key data points in the euro zone have shown improvement, and China has many tools to avoid a hard landing. In our view, fiscal policy remains a headwind to more robust expansion, with overregulation among the factors challenging entrepreneurship and business growth in a number of economies, including the U.S.

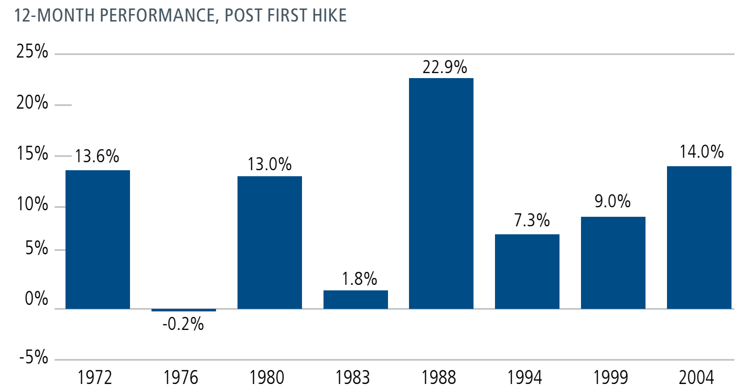
FIGURE 1. 3Q 2015, VOLATILITY SOARS, EQUITIES AND COMMODITIES FALTER

TOTAL RETURNS THROUGH 9/30/15



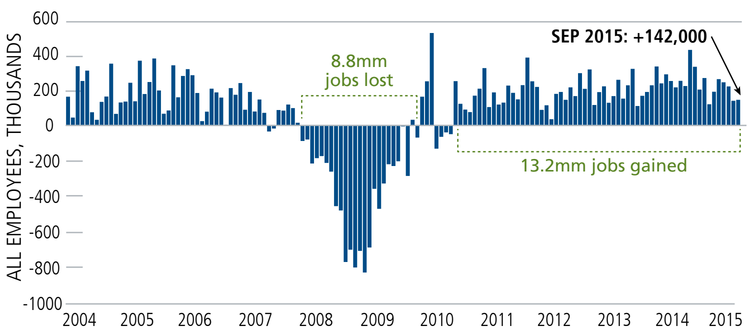
Past performance is no guarantee of future results. Source: Bloomberg.

FIGURE 2. S&P 500 RETURNS AFTER RATE HIKES



Past performance is no guarantee of future results.
Source: Cornerstone Macro. "Positioning For A Fed Tightening Cycle," September 16, 2015.

FIGURE 3. CHANGE IN TOTAL U.S. NONFARM PAYROLL EMPLOYMENT



Source: Bureau of Labor Statistics.

Turning to the Fed, we believe that whenever a rate increase occurs, it should be viewed as a sign of the overall health of the U.S. economy, and also as an affirmation that the global economy is sufficiently stable. Additionally, our view remains that any interest rate increases are most likely to follow a slow and shallow path.

Moreover, a more normal interest rate environment will ultimately benefit the economy and equity markets. While larger corporations have been able to access capital to support their growth, the low interest rate environment has not been as kind to smaller businesses. Because interest rates are lower, the margins that banks make on their loans to small businesses have been lower too. This has contributed to banks' reluctance to lend. If rates were higher, banks would be more likely to lend, provided that the economy was also growing. Small businesses are an important engine of job growth, so with more capital, they would be better able to hire more people, which would in turn support economic growth. Further, as illustrated in Figure 2, stocks have tended to perform well during the first year of an interest rate increase.

U.S. Equities

We continue to believe the U.S. stock market is in a reset period, as investors contemplate the prospect of slowing global economic growth, mixed messages from the Fed (potential tightening) and the continued easing from other central banks (Japan, China and the ECB). Market participants seem concerned about the central banks' inability to manufacture inflation after several years of near-zero interest rates. These concerns have resulted in higher volatility, catching many investors off guard.

While recent job growth data has fallen short of expectations, our view is that the U.S. can still continue on its slow growth course through 2015. Although corporate earnings estimates have come down and commodity overcapacity will create pockets of weakness, other favorable factors should result in moderate growth. Most notably, positive job growth over the longer term (Figure 3), low interest rates, and low energy prices are contributing to strong U.S. consumer activity (Figure 4). Also, a slowly expanding global economy can further support the U.S.

As noted, we expect elevated volatility to persist over the next several quarters, due to both well-entrenched concerns as well as growing uncertainty around fiscal policy and the 2016 election. The recent biotech sell-off provides one example of how the election may influence the markets, as presidential candidates' comments regarding drug pricing fueled a correction, despite elections being over a year away.

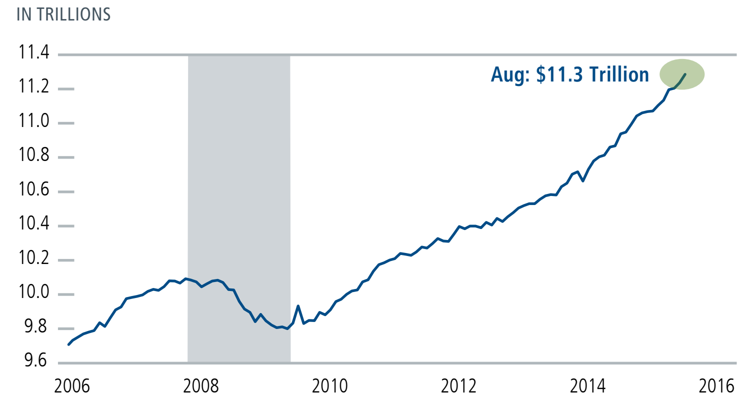
Although markets have been unnerved by the Fed's recent comments and a policy misstep cannot be ruled out, we do not believe a move to tighten monetary policy will upend the economy or the markets over the longer term, particularly given our expectation for a slow and shallow rate-increase path. In an environment of more muted economic growth where earnings growth is more scarce, we believe growth equities remain more attractive than value stocks. Figure 5 supports this view, illustrating that large-cap growth has outperformed large-cap value when trading at a relative discount to forward P/E.

Recent volatility and a sudden reversal of momentum stocks, combined with a rush into commodity and value stocks, has caught investors off guard in an already difficult market. Figure 6 shows the sudden reversal of momentum stocks, driven mostly by pressure on biotech stocks versus the laggards of the last year: commodity and value stocks. While we will continue to see bear market rallies in commodities, it is our view that the market will eventually focus on the fundamentals, including positive earnings growth and clean balance sheets. So, for the time being we are in the "mean reversion camp."

International Markets

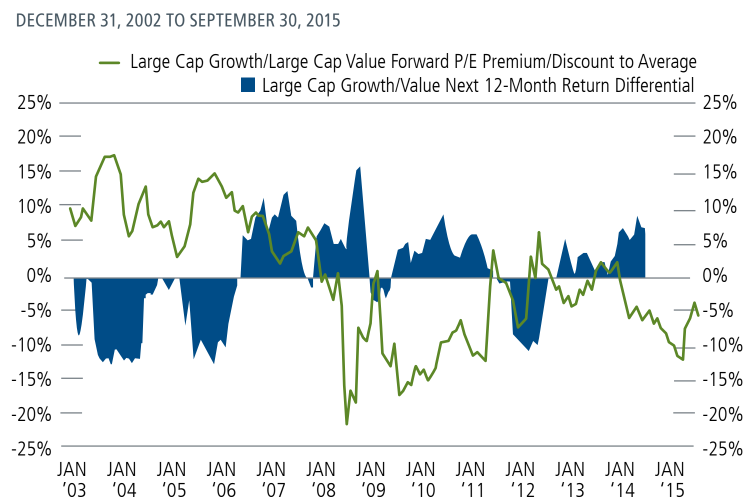
Over the quarter, international equity markets fell across the board (Figure 7). Emerging market equities began to underperform in late May due to concerns surrounding the Chinese equity markets, while developed markets remained relatively more resilient. Conditions became more inhospitable globally when the People's Bank of China (PBOC) announced a change to renminbi policy. Not surprisingly given fears of slowing global growth,

FIGURE 4. U.S. REAL CONSUMER SPENDING



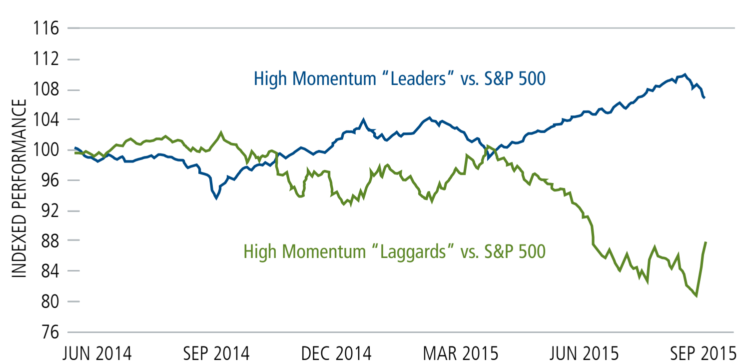
Source: Cornerstone Macro, September 29, 2015. Recession indicated by shaded area.

FIGURE 5. LARGE-CAP GROWTH REMAINS ATTRACTIVELY VALUED VERSUS LARGE-CAP VALUE



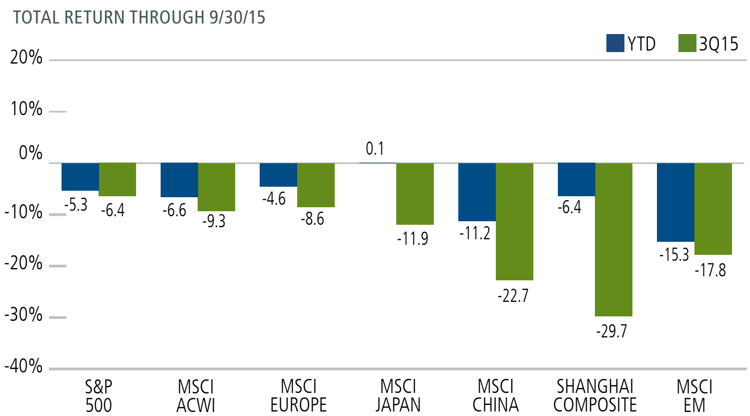
Past performance is no guarantee of future results.
Source: Morningstar and CapIQ. Forward P/E premium/discount is the average since 12/31/02.

FIGURE 6. REVERSAL OF TREND OR MEAN REVERSION?



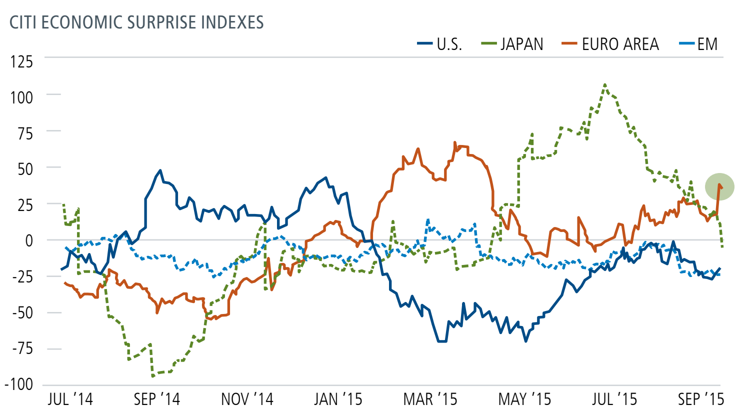
Past performance is no guarantee of future results.
Source: FactSet and Goldman Sachs Global Investment Research

FIGURE 7. INTERNATIONAL EQUITY PERFORMANCE, YTD AND 3Q15



Past performance is no guarantee of future results.
Source: Bloomberg.

FIGURE 8. EURO AREA LEADS IN POSITIVE ECONOMIC SURPRISES



Past performance is no guarantee of future results. Source: Macrobond.

markets within commodity-export-dependent economies performed worse over the quarter. By sector, cyclicals underperformed globally, with the steepest declines in energy and materials. While we did see some resilience in the more defensive consumer staples and utilities sectors, other historically defensive sectors, such as health care and telecom, sold off with the broader market.

RELATED RESOURCE

Read "The Fasten Seatbelt Sign Has Been Turned On," at www.calamos.com/intl

Europe

Although employment and growth remain weak, we have seen improvements in data, particularly within Germany and Spain. Positive economic surprises and PMIs continue to trend well, especially relative to other regions (Figure 8). Fiscal austerity is also becoming less of a drag, although the Syrian refugee situation could create new economic pressures on the region. We are closely watching for signs of flagging business confidence in the wake of well-publicized company-specific misfortunes in autos and mining. But if consumer and business confidence remain resilient, we'd expect fundamental economic data to remain resilient as well. Euro zone companies should benefit from this stabilization as well as from several tailwinds to earnings, including lower commodity prices, lower rates reducing funding costs, and a weaker euro improving competiveness of exports, which should drive margin expansion.

While the relative performance of the European equity markets has weakened recently, we are still seeing attractive valuations relative to other regions. These valuations, combined with a positive liquidity environment and resilient-to-improving economic fundamentals, support our overweight positioning in our global and international portfolios. We continue to identify exporters that can benefit from a weaker euro. We are carefully monitoring individual companies' end-market exposures, particularly when those end-markets are experiencing decelerating growth. Many of these companies operate within the industrials, consumer staples, and health care sectors. Within financial services, we have identified opportunities among high-quality banks but have focused primarily on real estate, which is benefiting from the lower-rate environment and economic recovery, as well as asset managers and insurance. We remain largely underweight energy and materials.

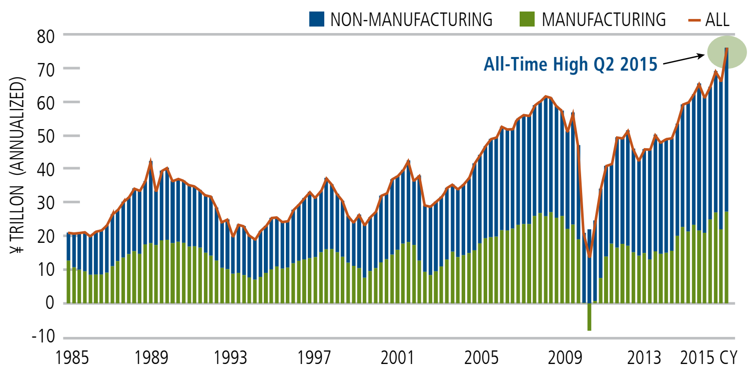
Japan

Japan's economy continues to face challenges. Positive economic surprises have trended down, with less encouraging data in wage growth, industrial production and exports. Given these headwinds, we would not be surprised to see a fiscal/monetary response. We are concerned that Prime Minister Abe may be limited in his ability to advance key economic reforms, given the amount of political capital that he had to expend in support of defense initiatives, but the cost is arguably offset by the benefits of an increased economic relationship with the United States.

Still, we are optimistic about the prospects for Japanese equities, where valuations remain relatively attractive. Many Japanese companies are less dependent on top-line growth to drive earnings surprises as evidenced by profits that have surged over recent years with very little help from revenue growth (Figure 9), and we see bottom-up opportunities for continued improvement in margins and returns. As we have discussed in our blogs, we believe management teams' new focus on cost management and improved capital allocation should provide significant catalysts for earnings growth. Japanese companies should also benefit from lower energy prices and corporate tax rates. In our view, these tailwinds, combined with the pending Trans-Pacific Partnership (TPP) trade agreement, should drive increased competitiveness in several industries.

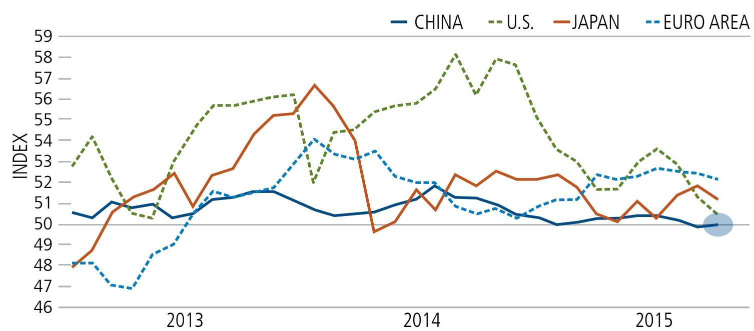
We are generally positioned equal to overweight to Japan across most of our portfolios, with an ongoing focus on secular growth opportunities and companies that we believe can benefit from improved corporate governance, capital allocation policies, a weaker yen, and asset reflation expectations. We are finding these opportunities primarily within the industrials, consumer, information technology and financial sectors.

FIGURE 9. JAPAN: ORDINARY PROFITS REACH NEW HIGHS



Seasonally Adjusted. Source: Barclays Research September 2015, using data from MoF (corporate survey).

FIGURE 10. CHINA: STABILIZING MANUFACTURING PMI

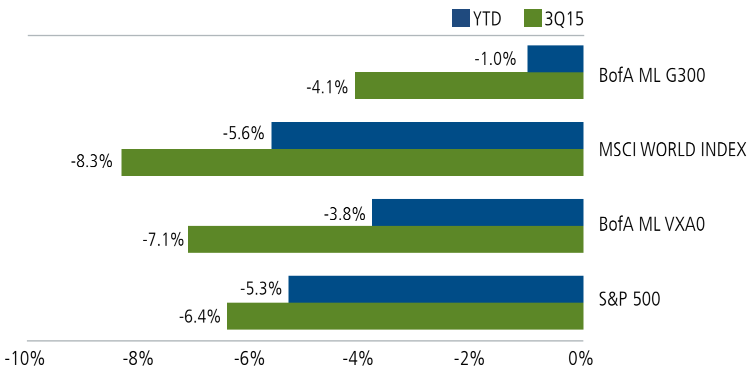


Source: Macrobond.

Emerging Markets

Over the near term, we do not believe a hard landing for China is the most probable outcome. However, there are likely to be challenges along the way as China navigates the complex transition from an investment-led economy to an economy more dependent on consumption and services. As we have noted in the past, the Chinese government has a variety of tools to prevent a sharp deceleration in growth. Over recent months, we've seen monetary policy become more accommodative, additional infrastructure stimulus announced and fiscal stimulus meant to support the housing and auto industries. While we do not expect these measures to spark a reacceleration in growth, they could contribute to a stream of stabilizing data (as we have seen with PMI, as shown in Figure 10) and improve sentiment around the Chinese equity market

FIGURE 11. CONVERTIBLE MARKET PERFORMANCE



Past performance is no guarantee of future results.
Source: BofA Merrill Lynch, Bloomberg, MSCI.

(for more on this, please see our recent blog). Additionally, we do not believe China's decision to "reform" the renminbi signals China's intention to exacerbate a global currency war. To us, it appears China is attempting to quell market concerns by supporting the renminbi at current levels, at least until the IMF makes its decision on including the currency within its special drawing rights reserve in November.

In this environment, we maintain a focus on Chinese companies positioned to benefit from secular growth opportunities, which has led to heavier weights within the technology and consumer sectors. We have also identified opportunities within industrials and financials that we expect to benefit from financial reforms and infrastructure investments.

More broadly, our approach to emerging markets remains highly selective. From a top-down perspective, we are generally favoring commodity consumers over commodity producers, and economies that are advancing economic reforms. We remain underweight to Brazil, along with many other commodity-producing emerging markets, including Malaysia, South Africa, and Russia. We are also underweight to those that are running twin fiscal and current account deficits (such as Turkey).

Convertible Securities

Given our expectation of elevated equity market volatility and the likelihood of rising interest rates, we believe that the hybrid equity/fixed income characteristics of convertibles can prove particularly advantageous.

While the global convertible benchmark has demonstrated greater resilience than the global equity market during the recent market turbulence, the U.S. convertible market experienced unusual but not entirely unprecedented performance trends. The U.S. convertible market, as measured by the VXA0, declined further than the S&P 500 Index (Figure 11). In large measure, this was due to the larger representation of smaller-cap and more growth-oriented names within the index.

RELATED RESOURCE
Read an in-depth convertible guide at www.calamos.com/TheGuide

Importantly, our research has shown that when convertibles trail the S&P 500 during a down quarter, they have posted positive performance two-thirds of the time during the following quarter. In part, this is because investors tend to recognize the fixed-income attributes of the convertible, such as the bond value. This isolated quarter should not challenge the use convertibles as a way to secure equity market participation with reduced downside volatility. However, the volatility contributing to the performance over the third quarter does underscore that active management is essential to capitalize on the benefits that convertibles can offer through full and multiple market cycles.

Our recent positioning has been cautious but not defensive, consistent with our view that the pace of global economic acceleration is likely to slow, but not cease. In this low growth environment, companies with strong balance sheets that generate above-average organic growth have typically been rewarded by investors, which is where our team has increased its focus.

We have continued to identify many opportunities within the consumer discretionary sector, framed by a positive wealth effect that has been supported by encouraging dynamics in the housing market and attractive mortgage rates, employment gains, solid consumer confidence and strong auto sales. Our emphasis on secular growth companies has led us to health care and technology. In regard to health care, we are focused on Medicaid expansion, changes in utilization, home health trends, personalized medicine and genome sequencing. In contrast, we've been underweight to heavy cyclicals including energy, materials, and industrials for most of this year.

However, the type of convertible structures we chose to invest in are just as important as the overall sector allocations. Our current positioning is reflective of our cautious optimism as we seek balanced risk/reward convertibles that still participate on the upside and protect on the downside in what we believe will continue to be a volatile environment.

Although issuance has fallen from levels a year ago, the global convertible market continues to provide us with sufficient breadth. Year-to-date issuance totals $63 billion (USD) versus $73 billion at the end of 3Q 2014. Issuance during the vacation months of July and August are typically light, and this year was no exception. September is usually a strong month but was likely lighter this year due to considerable equity market volatility, as material declines in stock prices tend to prompt corporations to delay issuance. Expectations suggest a decent uptick in issuance over the fourth quarter.

High Yield

We believe the headwinds for traditional fixed income asset classes remain formidable, given paltry yields and the risks associated with an eventual rise in U.S. short-term interest rates. The high yield asset class, particularly energy issuers and bonds rated CCC and below, has also faced pressure due to falling commodity prices, global growth concerns, an approaching rate hike by the Fed, and an increase in expected default rates. As investors have moved to a risk-off posture, we've seen a significant widening of spreads. (Figure 12).

FIGURE 12. THE END OF QE AND AN IMPENDING RATE HIKE HAVE PROPELLED HIGH YIELD SPREADS HIGHER

Past performance is no guarantee of future results.
Source: Bloomberg.

However, we believe that at current valuations, there are opportunities within the high yield market to generate compelling returns over the next 12 months, especially relative to other segments of the fixed income market.

RELATED RESOURCE

Read our U.S. high yield outlook at www.calamos.com/HYinsights

Credit research will be increasingly important, going forward. As lending conditions tighten for high yield issuers, we expect high yield bond default rates to tick upward, but not soar. Moody's Investors Service projects default rates rising from 2.3% over the past 12 months to 3.4% over the next year. Even at this higher level, defaults would remain below their 20-year average of 4.5%. Defaults may be kept in check as high yield companies have refinanced their debt at low interest rates, a move that has reduced interest expenses and extended debt maturity profiles.

Our primary focus remains on combining our proprietary bottom-up research analysis with our top-down view to identify those issuers we believe will be upgraded out of high yield into the investment-grade universe over time. Historically, these bonds have provided a significant source of alpha for those managers that can identify them before the rating agency upgrade.

From an industry positioning standpoint, we are underweight issuers in the energy and metals/mining industries as we expect a challenging commodity price environment to persist over the next year. Our holdings in these industries are primarily in issuers that have more than sufficient liquidity to weather the downturn and own assets to provide ample protection in the event commodity prices trade even lower. We continue to overweight sectors that will benefit from the strength in U.S. consumer spending. In our view, industries such as retail, consumer goods, homebuilding, and automotive are all likely to experience improving fundamentals over the next year.

For additional commentary from our investment team, visit our Investment Team Blog at www.calamos.com/blog and commentary library at www.calamos.com/insights

Indexes are unmanaged, not available for direct investment and do not include fees and expenses. The **U.S. Dollar Index** measures the value of the U.S. dollar relative to a basket of foreign currencies, including Euro Area, Canada, Japan, United Kingdom, Switzerland, Australia, and Sweden.The **CRB Commodity Index** is a measure of the price movements of 22 sensitive basic commodities.The **S&P 500 Index** is considered generally representative of the U.S. equity market. The **MSCI All Country World Index** represents the performance of global equities, including emerging and developed markets. The **MSCI Emerging Markets Index** is a free float adjusted market capitalization index cited as a measure of the performance of emerging market equities. The **MSCI Europe Index** represents the performance of developed European equity markets. The **MSCI Japan Index** represents the performance of Japanese equities. **MSCI China Index** captures large- and mid-cap representation across Chinese companies incorporated on the mainland and traded in Hong Kong. The **Shanghai Composite Index** is an index composed of A-share and B-share stocks that are listed on the Shanghai stock exchange. **Oil** is represented by the Brent Blend Index. **CBOE Volatility Index** (VIX) measures market expectations of near term volatility conveyed by stock index option prices. **Gold** measures gold spot price, quoted as U.S. dollars per Troy ounce. The **BofA Merrill Lynch U.S. High Yield Index** is an unmanaged index of U.S. high yield debt securities. The **BofA Merrill Lynch All U.S. Convertible Index** (VXA0) is a measure of the U.S. convertible market.

The **Citi Economic Surprise Indexes** are objective, quantitative measures of economic news that measure the difference between actual releases and the median of Bloomberg survey data. **Purchasing Managers Index** (PMI) measures the strength of the manufacturing sector. **Earnings per share** (EPS) is a company's profit divided by its number of common outstanding shares. **Price-to-earnings ratio** (P/E) is a valuation ratio of a company's current share price compared to its per-share earnings. Forward P/Es are based on forecasted earnings. **Duration** is a measure of interest rate sensitivity, with higher duration indicating greater sensitivity to changes in interest rates. **Spread to worst** is a measure of the variation of returns within a specific market or between different markets, comparing the best and worst performer. **Quantitative easing** refers to central bank bond buying activities.

CALAMOS® INVESTMENTS

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

Calamos Investments LLP
62 Threadneedle Street | London EC2R 8HP
Tel: +44 (0)20 3744 7010 | www.calamos.com/global

OUTLKCOM 18102 1015O C