

Market Review & Outlook

CALAMOS®

Clear Skies Ahead?

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The great stimulus and bailout seems to have worked—so far. Global manufacturing and economic growth data appear to confirm the recession has ended. We believe the near-term prospects are good. Even the unemployment picture in the U.S. is less bleak and housing values appear to have stopped falling. Risk taking is coming back, and the hunt for yield is on again.

Libor interest rate and credit spreads indicate that the global liquidity position has vastly improved, but global debt excess is growing rapidly. While the engine of commerce is moving again, it may be running on a fuel that will ultimately consume it. The great deleveraging cycle has been stopped in its tracks and the great asset reflation and debt super-cycle has reemerged, but for how long?

As we discuss in this commentary, we remain concerned about the implications of poor policy choices and a lack of fiscal discipline. Compared to other post-recessionary periods, we believe the global economy is more vulnerable to higher interest rates and stagflation.

Yet, we also see opportunities for risk-conscious investors. Global relationships are changing and the economy is evolving rapidly. Global business models provide a new way for corporations to sustain their health.

I. MARKET REVIEW: 1ST QUARTER, 2010

The first quarter started with China, the consensus world growth engine and liquidity provider, making moves to reduce the spectacular level of monetary and credit expansion in its economy. China raised reserve requirements and tightened lending in an effort to

reduce overheating credit expansion. These are the first signs that the credit and monetary engines are starting to shift globally. It's possible the liquidity that the markets thrive on may be shifting as well.

**Think globally, be flexible, be bold
and be careful.**

For the first time since the Asian currency/debt crisis, the global markets also had to come to grips with a sovereign debt crisis and the potential of a region being dragged down. Country fiscal and monetary risks are front and center now that the PIIGS (Portugal, Italy, Ireland, Greece and Spain) are dealing with debt crises. Greece is the current concern, and although recent debt issues went better than anticipated, that country has more rounds of financing to address. Greece has promised to significantly reduce its deficit, but odds are, it will not be able meet its aggressive targets in the next few years. Stay tuned as the "welfare-state" societies try to align spending and revenue. We are likely to see one of the other PIIGS get a bailout in the next 12 to 18 months, which by most accounts will come from the IMF and eurozone. The bailout will likely come with austerity measures that will grind the troubled

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Past performance is no guarantee of future results.

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economy to a halt and force some tough discipline on the country. The markets and more fiscally conservative countries are in no mood for mismanaged debt and fiscal policies. We expect aggressive market responses to countries that have lost their focus on sustainable growth and debt management. The “moral hazard” risk is rearing its ugly head again, and each country will ultimately act in its own interest.

The great thing about global business models is that you are not hostage to one country, one currency or one region for opportunity.

The quarter also included a potential warning sign as Berkshire Hathaway, Procter & Gamble Co., Johnson & Johnson and Lowe’s Companies debt each traded at lower yields than comparable short-term Treasuries! (“Obama Pays More than Buffett as U.S. Risks AAA Rating,” Bloomberg.com, March 22, 2010.) Although this didn’t last long, the timing was remarkable as the U.S. moved forward with a welfare-state-type health care plan that will significantly increase state and federal debt levels, and ultimately the government’s reach into the economy and private lives. The next time corporate debt spreads trade below Treasuries, it may be for a sustained period and “a shot heard around the world.”

Another ominous sign during the last month was a surge in trade tariff posturing, and in particular Senator Schumer’s insistence

that China be tagged as a currency manipulator in the foreign exchange report due April 15. One-hundred-thirty members of Congress signed on to the China-bashing policy. (Because we believe free trade is an important economic freedom, we were disappointed, but given the economic and political climate, not surprised.)

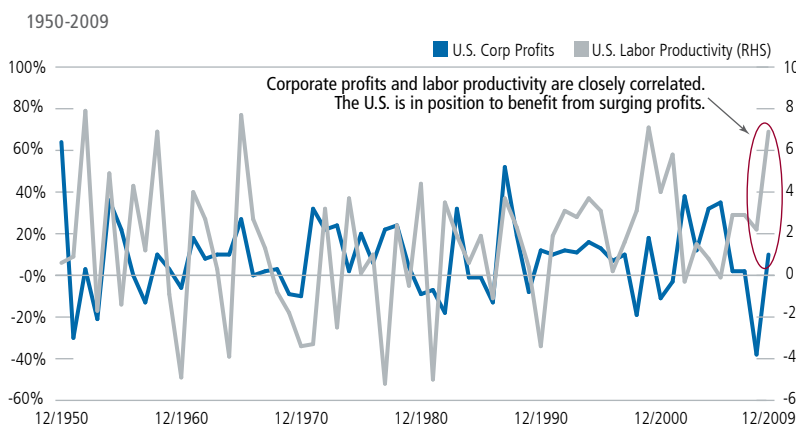
Revenue growth is still hard to find; and job creation has been nonexistent, although the rate of decline in the work force has slowed. To our surprise, consumers have slowed savings and increased spending, even though wage levels are barely moving up.

The good news was fourth quarter 2009 U.S. corporate earnings continued to surprise on the upside. Earnings-per-share for the S&P 500 were up 4% quarter-over-quarter, and operating earnings increased 8.75% quarter-over-quarter. Operating earnings are still 38% below the peak 12-month numbers, but we expect another good earnings quarter in the first quarter of 2010.

We continue to expect a capital-spending-led economic recovery, for the next six months or longer, with exports making a notable contribution to GDP. Surging U.S. productivity should boost profits and spur capital spending, helping to drive GDP and the equity and corporate bond markets for the remainder of the year.

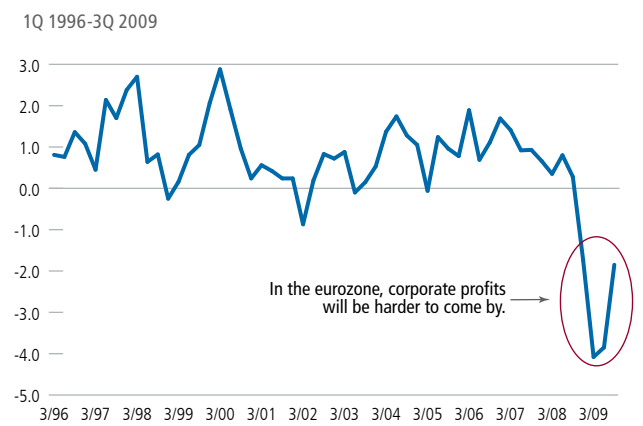
Figure 1 shows how corporate profits correlate with productivity, and illustrates why we believe the U.S. is in a good position to benefit from this surge. Eurozone productivity tells a different

FIGURE 1. U.S. CORPORATE PROFITS AND U.S. LABOR PRODUCTIVITY



Source: FactSet

FIGURE 2. EUROZONE LABOUR PRODUCTIVITY



Source: ECB (European Central Bank, www.ecb.int)

story (Figure 2), however, and suggests that corporate profits will be harder to come by. This is one reason we are favoring the U.S. over companies domiciled in the eurozone. The eurozone is saddled with uncompetitive labor costs and potential woes emanating from the PIIGS sovereign crisis. The euro has not escaped these issues yet and may have further to fall relative to the U.S. dollar.

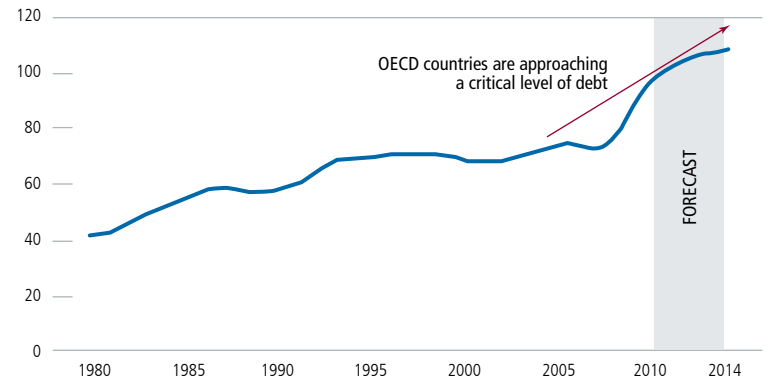
II. LEVERAGE AND DEBT: THE WRITING ON THE WALL?

Our “short-term bullish, long-term scared” investment stance will morph into “short-term scared” if U.S. fiscal policy direction and heavy debt levels are not addressed in the next few years. The United States, Europe and Japan have all crossed a debt threshold that historically has been unsustainable and associated with significant economic crisis. In the past, debt levels greater than 90% of GDP have been precursors for economic meltdowns, severe recessions or even depressions, as the currency of profligate nations implodes and debt deleveraging cycles take hold. Alternatively, when countries reach these debt-to-GDP levels, governments have also often opened the monetary spigots, inflating the economy and devaluing the currency. Stagnation takes hold as GDP slows to a crawl.

Because the dollar is a reserve currency, the U.S. can push this envelope further than other countries can. Still, one wonders if we are close to using up the reserve currency status benefit. Once nominal GDP growth is lower than the government’s cost of debt, the economy is forced into a debt deleveraging cycle, and with this comes a smaller economy. The OECD countries* are all near this high-risk–low-return plight (Figure 3). The shortening of debt maturities is a near-term means for staying ahead of this cycle, but it may not be a sustainable solution, given that low savings rates and higher refinancing costs may soon catch up with the developed world.

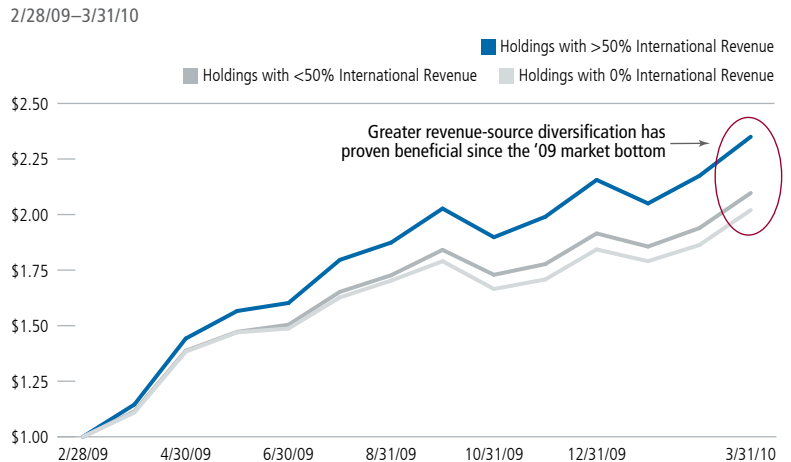
In our last outlook, “‘Hair-of-the-Dog’ Economics Policies or Buying Time to Heal?” (January 2010), we explained that the debt cycle was being prolonged to avoid the pain of a meaningful economic cleansing. The policy of reflating the asset bubble in housing is questionable, since housing is an unproductive asset. Reflating unproductive assets has no real value to society and wealth creation overall. It’s just buying time to see if we can jump start the real economy.

FIGURE 3. GENERAL GOVERNMENT DEBT, ADVANCED ECONOMIES AS A % OF GDP



Source: IMF

FIGURE 4. MARKET BOTTOM TO NOW: RUSSELL 3000® INDEX AND INTERNATIONAL REVENUE SEGMENT RETURNS



Source: Model Station for returns/backtest. Compustat via Model Station for company data and % of foreign sales, updated annually.

There are inescapable symbiotic relationships in the economy. Corporate America is healthy, but how long can the symbiont live on a host that is in bad health? Can Corporate America’s strengths offset a structurally flawed U.S. economic condition or will the host bring down the symbiont?

The great thing about global business models is that you are not hostage to one country, one currency or one region for opportunity. We believe companies with a significant global reach and stellar balance sheets should survive a slow growth or a “double-dip” decade because they aren’t relying on one host for survival. Over the past two years, we’ve increased our focus on companies with more global revenue sources. For example, where possible, we moved to portfolio holdings that

*Organisation for Economic Co-operation & Development, an economic organization of 30 countries, the vast majority of which are developed markets.

on average had over 50% of revenue from outside the United States. As we look to the future, we are increasing our emphasis on emerging market revenue sources, as growth should be easier to come by in these economies. Figure 4 shows how well revenue source diversification has paid off in the broad stock market since the 2009 market bottom.

III. DON'T FALL IN LOVE WITH YOUR OWN COUNTRY'S STOCKS: THINK GLOBALLY, BE FLEXIBLE, BE BOLD AND BE CAREFUL.

We have been in the business too long to think that the future is knowable. We know we cannot predict the new industries and business formations that will emerge. We will be surprised by the creativity and determination of entrepreneurs around the world, including those in America. The New Economy companies and industry groups that will help propel America's future are not likely to be on the radar screen—and they definitely are not in government statistics yet.

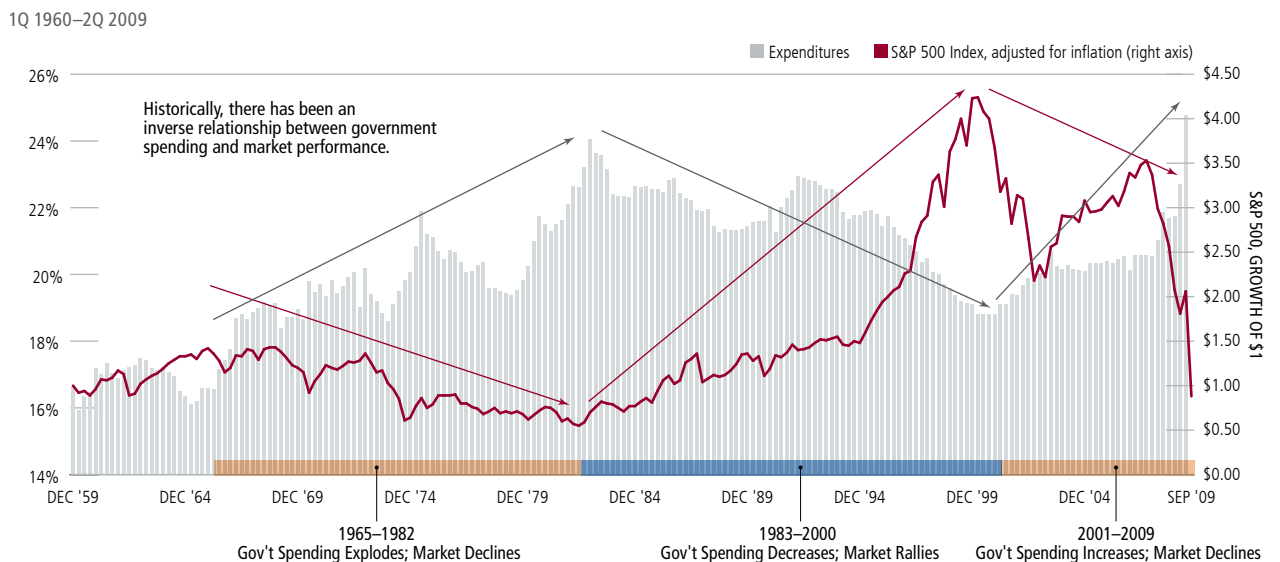
But even so, from a debt and fiscal-spending standpoint, the math only works if we have near-zero interest rates and GDP growth that's near our long-term average. The current focus is on asset inflation—engineered by the Fed and supported by deficit-spending fiscal policy. This focus does not provide a path to long-term economic success.

What is the right investment model for a future that will likely be characterized by slow growth in the developed world, as well as by expanding global education, knowledge and communication? Demographics and productivity are colliding with the “welfare-state” model. The developed world is like the U.S. auto industry, with an aging work force, noncompetitive compensation, old infrastructure and legacy costs that will overwhelm and destroy the business model. These trends are overtaking Europe and Japan, with the U.S. not far behind. It's an abyss that will be difficult to get out of.

Meanwhile, the developing world—fraught with risks, poverty, pollution and other complex issues—may be the New World Order's, or at least growth capital's, best answer. Today, credit spreads for emerging market debt are near those in developed countries, indicating little difference in the perceived credit risks of emerging and developed countries. We are excited about the opportunity in the developing world and continue to look for lower-risk ways to participate. This includes investing in U.S., Japanese and eurozone businesses that sell products, technology and know-how to developing countries.

Welfare state economies—in Europe, Japan and U.S.—may be fast approaching a breaking point. Aging demographics, huge unfunded liabilities, growing debt levels and, in some countries, inflexible labor contracts are adding to the pressures.

FIGURE 5. FEDERAL GOVERNMENT EXPENDITURES AS A % OF GDP



Source: Federal Government Expenditure Data provided by Bureau of Economic Analysis; S&P 500 data from Bloomberg

Government is less productive than the competitive business sector for obvious reasons. During this current cycle, productivity increases need to drive GDP since population growth is slowing and taxes and regulations will be on the rise. We can only hope that the government sector will shrink as a percentage of GDP. Historically, when the government sector shrinks, currency values rise, and price-to-earnings ratios, employment and GDP growth increase. Figure 5 shows the difficulty of building wealth in a country that is growing its public sector reach.

As growth investors, we need to go to where the growth will be.

Given the high level of debt and leverage in the economy and higher taxes, we expect higher-than-normal risk in the future. Keynesian economics presumes that government and private sector spending have an equivalent impact on GDP growth. The spending multiplier assumes that for each \$1 the government spends, more than \$1 in value is created. Unfortunately, historical proof of this is at best very weak; most often the government spending is detrimental to growth beyond the initial spurt. The current administration's expectation is that the government spending multiplier is above 1.0; and therefore, spending will continue to stimulate growth. While the Keynesian multiplier

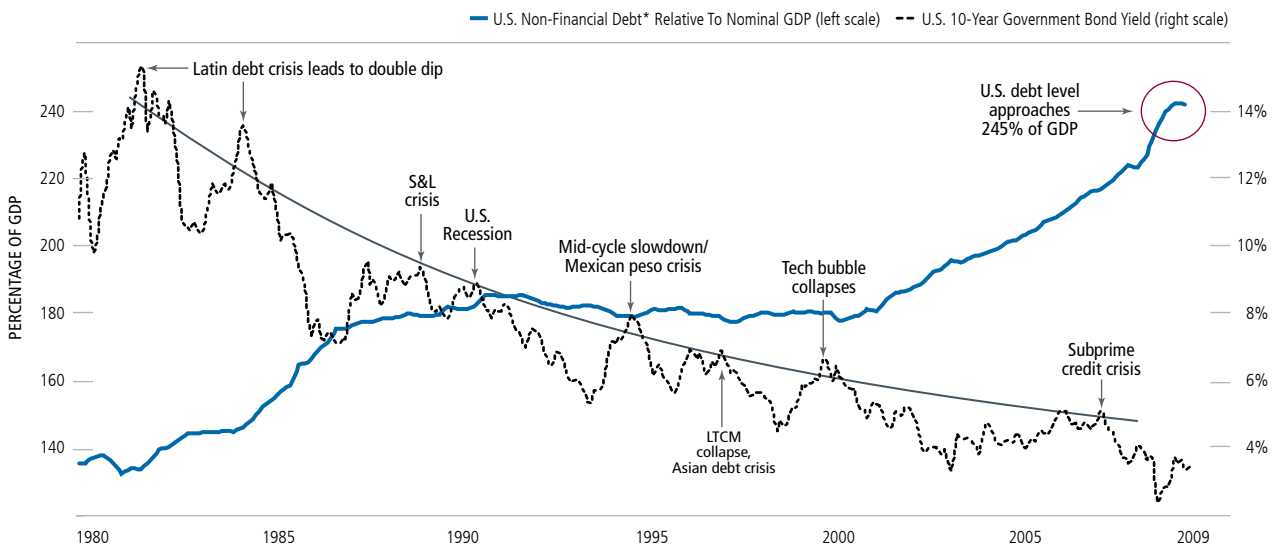
is lower than 1.0 by some studies' accounts, almost no one questions if the private sector spending multiplier is above 1. The reason the government spending multiplier fails is because government spending lacks a focus on productivity, competition and consumer choice, and is often eaten up by bureaucratic waste and political pet projects.

Our thesis continues to be that unemployment will be sticky in the near future, with GDP growth more lumpy and slower than normal as a result of longer-lingering bankruptcies, higher unemployment, larger government intervention and more prevalent volatility shocks due to excessive debt leverage.

High debt levels reduce the options we have as a country and small changes in the economy are magnified. Just as a heavily indebted household feels the strain of heavy debt and no options, the economy can fall prey to similar pressures. At the risk of sounding like we should all buy guns and canned food and hunker down for the inevitable collapse, the economy has some structural issues that can persist for a long time (as they have in Japan for 20 years). Or, these issues can be addressed and we will move forward as a nation.

Because of its skyrocketing leverage, the developed world has increased dramatically its vulnerability to interest rate increases. Figure 6 shows the relationship between leverage and interest-rate sensitivity. Low interest rates have given us some breathing

FIGURE 6. A HIGH DEBT LEVEL INCREASES VULNERABILITY TO RATE CHANGES AND EVENT RISK



Sources: Non-Financial Debt from Federal Reserve Board, Flow of Funds Report, GDP data from the Bureau of Economic Analysis, government bond yields from FactSet.

room on our current heavy government debt levels. The current cost of carrying the debt (as percentage of GDP) is at 1996 levels and below what we faced in the 1980s. But, the amount of debt outstanding is four times more than it was in the 1980s. Homeowners with adjustable rate mortgages on properties they can't afford know the potential issues our country may face in the coming decade should interest rates rise.

Change will be forced upon the OECD economies or change will happen as political pressures mount. The main point here is risk levels are much higher at this level of debt and most asset classes do not reflect this added structural risk component. But that is for another day as the skies look clear today.

The runaway welfare state government can best be understood through Figure 7. U.S. total federal government real (inflation adjusted) spending has skyrocketed 242% since 1970, but median real household income is up just 29%! During the Watergate crisis, a damaged President Nixon lost control of spending to Congress. Congress eliminated the President's line-item veto and ushered in the era of pork-barrel spending earmarks, because nobody was responsible for the spending. We believe the mismatch between government spending and household income may be on its last legs, and headed for an inevitable collapse.

How did the global economy get into a economic position that is dependent upon China—a centrally controlled communist

regime engineering GDP expansion in a way that looks like Bernie Madoff was overseeing performance reporting? Everything about the nature of communism and planned economies driving global growth feels wrong. According to the Heritage Foundation's Index of Economic Freedoms, China is the 140th most free of 179 ranked economies. The global recession barely registered as a change in China's GDP because of China's government expansion—expansion that dwarfs our multi-trillion dollar stimulus effort.

How foolish we all have been to think that all we have to do to be successful as a nation is to let central government spend as much money as it can to build infrastructure and production output, with no "market economy" to direct risks and opportunities. If we continue down this road, we'll be told what we like and how much of it we can each have. History has shown the error of this approach. The USSR's economy was thought by many economists and liberal politicians to rival ours. There, government officials directed the economy and made up economic statistics if they did not look good. Because it's starting at such a low base line in regard to infrastructure and living standards, China can see progress for many years ahead before the major capital allocation mistakes and lack of private property rights, transparency, legal system and economic freedoms lead to stagnation.

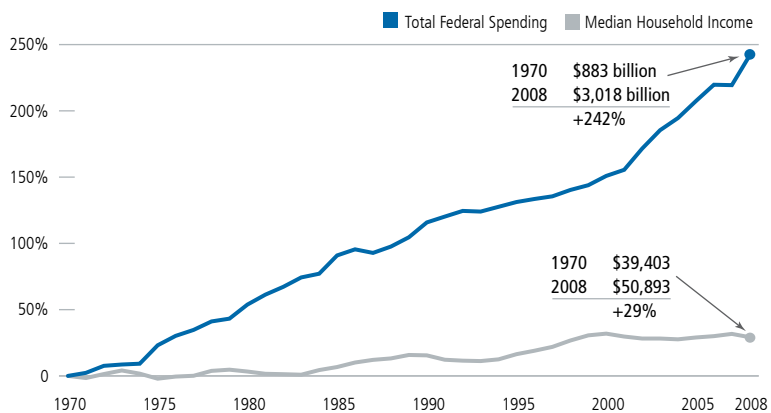
IV. NOT THE "NEW NORMAL" BUT THE "OLD NORMAL" AGAIN

Economists and forecasters who compare this recession to past recessions seem to assume that the large debt build up and huge forecasted deficits will not have to be reconciled or that we're already on a road to solving these problems.

The equity, convertible and bond markets and many economic indicators are closely following the "normal" track for a recovery from a post-WWII economic recession. Equity market valuations and index prices are tracking the normal recovery very closely (Figure 8). Indeed, most companies we analyze (that is, for which we determine an intrinsic business value based on likely future free-cash-flow growth and capital growth) are also selling at stock prices that imply a "normal" economic environment to come. Most risk assets are back to or very close to more typical

FIGURE 7. FEDERAL SPENDING GREW MORE THAN EIGHT TIMES FASTER THAN MEDIAN INCOME

PERCENTAGE CHANGE OF INFLATION-ADJUSTED DOLLARS (2009)



Source: White House Office of Management and Budget and US Census Bureau

historical relationships, including credit spreads, global stocks, and non-U.S. bonds.

The market is getting its cue from economic statistics that for the most part are also responding in a normal post-WWII recovery mode. Personal consumption, non-private non-residential capital investment, the ISM Manufacturing Index and even global exports all track the “old-normal” path (Figures 9, 10, 11), suggesting the U.S. should shortly find itself in a normal economic expansion.

So what does not look so normal with this recovery? Even though it is a lagging indicator, unemployment has remained stubborn (Figure 12). Credit is not expanding, and the velocity of money has collapsed (Figure 13). Debt build continues from already extended levels.

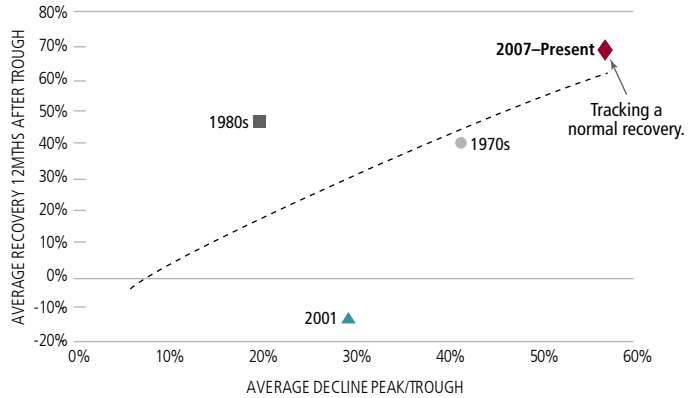
Housing prices look like they have bottomed, but in the next year, many ARMs will reset and banks will have to deal with the heavy load of second mortgages on their books. The small community banks are mostly in dire straits. Interest rates are near zero and real rates along the government curve are below the normal spread. The real estate markets in the developed world have not yet cleared, but these are less liquid markets and governments have significantly supported these assets to avoid further asset deflation and financial market grief.

These factors also suggest to us that we’re in a different environment than other post-WWII recessions in the United States:

- 1) Higher debt levels going into the recession.
- 2) Bubble in non-productive assets (housing), financed with debt by the banks with very little equity from the buyers.
- 3) Demographics—aging population with significant unfunded liabilities and the ramp-up of Baby Boomers reaching retirement.
- 4) The global nature of the crisis—every major developed nation has been included.
- 5) Significant decline in the velocity of money (see Figure 13).

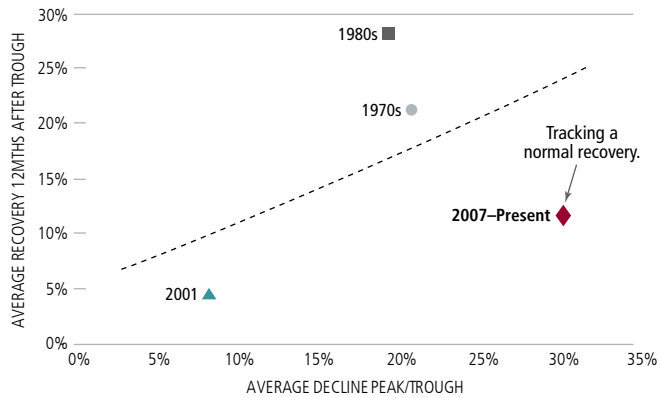
Was this a normal recession and are we on track for a new bull market cycle and sustained economic expansion? We don’t think so, because at some level the debt build will matter—generally when the carry costs become too heavy. As we

FIGURE 8. S&P 500 FALL/RISE OF 1970s, 1980s, 2001 & 2007 RECESSIONS



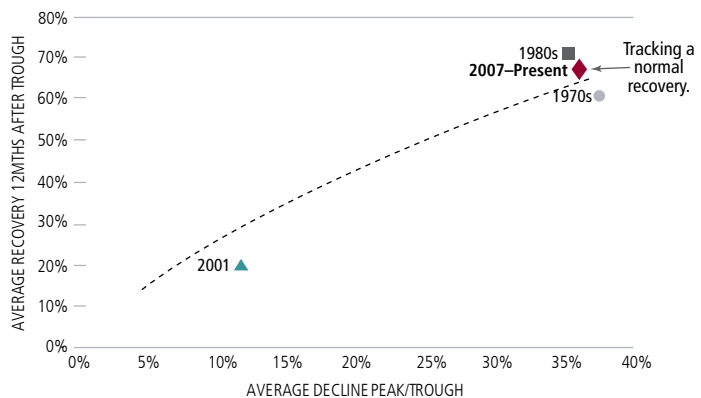
Source: Bloomberg

FIGURE 9. REAL DOMESTIC INVESTMENT FALL/RISE OF 1970s, 1980s, 2001 & 2007 RECESSIONS



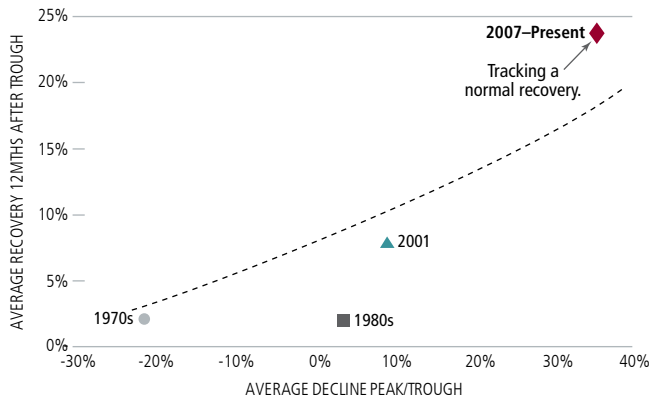
Source: Domestic Investment from Bureau of Economic Analysis

FIGURE 10. ISM MANUFACTURING FALL/RISE OF 1970s, 1980s, 2001 & 2007 RECESSIONS



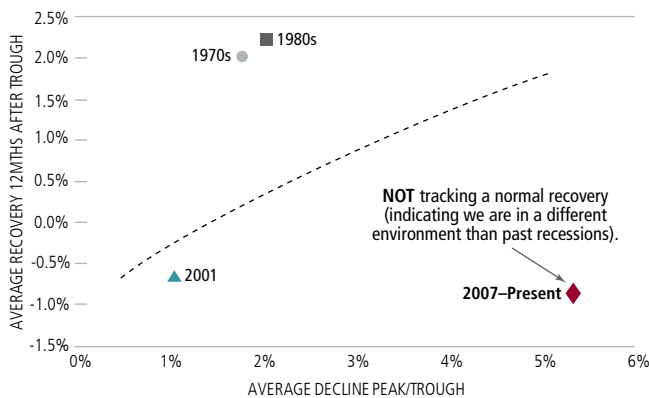
Source: FactSet

FIGURE 11. G7M EXPORTS FALL/RISE OF 1970s, 1980s, 2001 & 2007 RECESSIONS



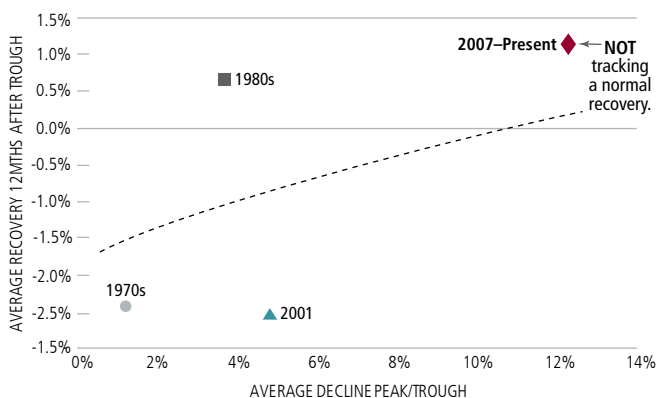
Source: FactSet

FIGURE 12. TOTAL NONFARM PAYROLL FALL/RISE OF 1970s, 1980s, 2001 & 2007 RECESSIONS



Source: FactSet

FIGURE 13. VELOCITY OF MONEY FALL/RISE OF 1970s, 1980s, 2001 & 2007 RECESSIONS



Source: FactSet

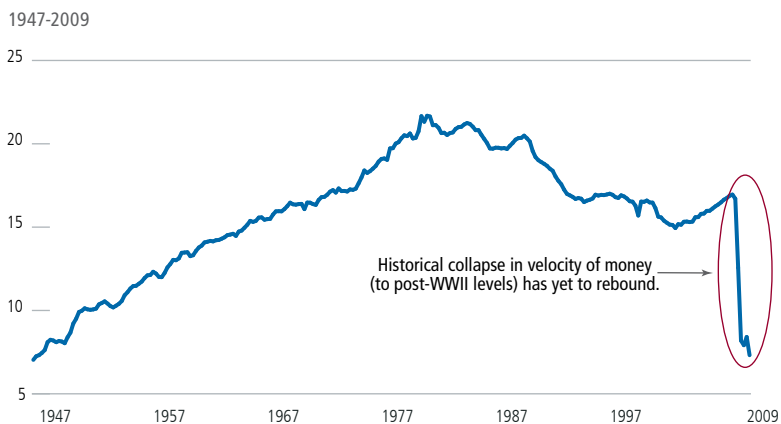
showed in Figure 6, we are vulnerable to higher interest rates and economic stagnation more so than any other recession. We may be able to skirt the economic reality of the debt burden for years, but the risks continue to build. World GDP is bouncing back (Figure 15), but it has been fueled by an unprecedented amount of deficit spending and monetary stimulus.

At Calamos, we respect the wisdom of the markets and the millions of intelligent individuals whose actions culminate into market pricing and information. Yet, this time around, we find ourselves at odds with the market. We are not claiming to be smarter than the cumulative wisdom imbedded in market pricing, but maybe we are more risk averse or have a longer time horizon for our valuation perspectives. Just maybe Keynesian economics can work into perpetuity, although when asked about the inevitable flaw in his economic approach, Keynes's famous response was "in the long run, we are all dead." Or, perhaps the markets are expecting a turn back from the welfare state models, as well as a resurgence in private sector growth and a sustainable government spending plan.

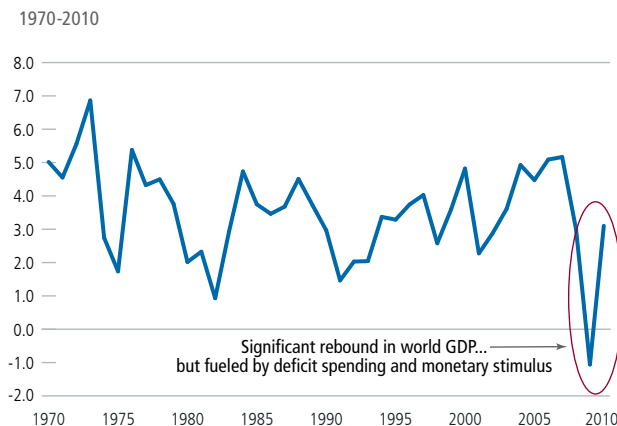
V. LOOKING AHEAD

Our investment philosophy has been to stay with high-quality balance sheets and to further upgrade quality as the recovery continues. Over the last two years, we have also looked to maximize our holdings in global businesses that can find the growth consumer or business beyond countries mired in low growth or stagnation. Companies with global brands, capital access, distribution and management with global know-how are priced no higher than the markets as a whole. The sovereign crisis in Greece highlights why you want to be a global investor. This is not the time to be locked into a single country's economic or fiscal policies (Greece) if those policies may have devastating impacts on real wealth creation. (How painful it would be to have invested exclusively in Japanese equities or bonds over the last generation!)

We are looking for great businesses anywhere. We don't expect this diversification will protect us from another global recession. As we have seen during crises, correlations go to 1.0; we are all still globally connected. But we expect global

FIGURE 14. RATIO OF GDP TO MONETARY BASE (VELOCITY OF MONEY)

Source: Federal Reserve Bank of St. Louis

FIGURE 15. WORLD GDP ANNUAL PERCENT CHANGE

Source: International Monetary Fund, World Economic Outlook Database, October 2009. 2010 data is estimated

diversification will help us to perform better during “normal” times and even during cyclical turning points for the developed economies. Investing in global businesses (both U.S. and non-U.S.) does help mitigate some of the country risks with which we are concerned. This investment approach is not new: Sir John Templeton pioneered global investing many decades ago in this country. At Calamos, we have been investing in non-U.S.-based business for over two decades.

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We are focused on identifying the places that treat capital best and offer the best risk/reward. For decades, some of our country’s greatest businesses have been doing this themselves, to great success. In the past two years, we have emphasized companies that derive a significant or majority of revenue from outside the United States. Going forward, we intend to target international revenue exposure even more precisely. As growth investors, we need to go to where the growth will be. (For more on how our growth discipline influences our sector positioning, please see the “Sector Outlook and Positioning” table on page 11.)

OUR APPROACH

- 1) More conservative than in the past, with risk management even more top of mind.
- 2) More global.
- 3) More sensitive to changes in public and private debt levels and interest rates.
- 4) Increased focus on market and financial liquidity—In the past, we focused most heavily on capital access on the intermediate and long-end of the curve and with equity financing. We did not focus on short-term liquidity because our other investment criteria would exclude companies with short-term liquidity risks. But as the past years have illustrated, understanding the short-term liquidity warnings in the market as a whole should be part of the risk management process and is part of ours now.
- 5) After identifying bubbles and excess, we will likely do more than avoid the industry, sector or country at risk, and hope to understand the systemic risk implications, if any.

We are also expecting continued M&A activity and even acceleration in activity, as high levels of corporate liquidity and competitive factors drive economies of scale and distribution.

From an asset class perspective, we continue to favor equities and convertibles issued by high-quality large-cap and mid-cap growth companies with global business models. Moreover, in regards to convertibles, although valuations have moved up considerably from their lows in 2008, we continue to find securities that offer what we see as compelling risk/reward characteristics, at attractive valuations. Convertibles are distinguished by their potential for downside protection and participation in equity market upside. We believe that these features will continue to be advantageous to investors, given our expectation of continued equity market volatility.

VI. CONCLUSION

As we have observed in the past, the rules of the global economy are continually being re-written and relationships are changing quickly. We understand some investors may find themselves unsettled when they contemplate the potential implications of these cross currents on their asset allocations. How easy it would be if risk were not part of the equation!

Yet, we encourage investors to not lose sight of the fact that change brings opportunity. Even amid our concerns about global policies and debt levels, we are inspired by what globalization can mean—for the world and for investors. Globalization is an exciting backdrop for progress, for innovation and for building long-term wealth. Our investment team is finding companies all over the world that are seizing the opportunity that change creates. At the same time, they remain dedicated to understanding, responding, and adapting to the risks in the economy and markets. We believe this awareness of risk—in combination with our comprehensive research and decades of experience—will set us apart in serving our clients in the years to come.

SECTOR OUTLOOK AND POSITIONING

As in our past commentaries, we summarize our sector positioning below:

SECTOR	POSITIONING*	KEY CONSIDERATIONS
Financials	Equal Weight	<p>Banks will be under pressure to pay for the FDIC's huge insurance liability, while new regulations, lower ROEs and ROAs continue to make the banking sector too dicey to participate in.</p> <p>Mid-size banks should benefit from local bank consolidation and government loss share.</p> <p>Asset managers and insurance look reasonable from valuation- and business-model perspectives.</p>
Technology	Significant Overweight	<p>Capital spending as a percentage of GDP is at a 40-year low, and we expect that this trend will reverse. Technology companies are positioned well for a rebound in the capital spending cycle and are very used to competing in a deflationary environment.</p> <p>Productivity enhancement and cost controls should help technology spending.</p> <p>We see consumers remaining willing to purchase certain "special" products such as cell phones, laptops and flat-screens.</p> <p>The sector will benefit from global infrastructure stimulus spending.</p> <p>Stock valuations are attractive and the risk/reward is compelling.</p> <p>The sector may be re-establishing its leadership position in the equity market for the first time since last decade's collapse.</p>
Consumer Staples	Neutral/underweight	<p>Opportunistic approach – add to on weakness. We favor low-cost producers with global reach and brand focus.</p> <p>There is presently a narrow risk/reward band, but as emerging economies improve, we may consider moving to overweight exposure.</p>
Industrials	Neutral	<p>Valuations previously implied a very weak economic cycle for the next decade, but valuations are now pricing in a more normal cycle; in the third quarter of 2009, we reduced our overweight to a neutral weight.</p> <p>Global infrastructure stimulus spending will benefit many companies in this sector, so we expect that overall growth should be above the average global growth rate.</p>
Materials	Neutral	<p>Valuations are getting stretched. We favor commodity businesses over the raw materials.</p> <p>Further U.S. dollar devaluation and global stimulus spending should help boost commodity prices.</p>
Energy	Overweight	<p>U.S. dollar devaluation should help support energy prices.</p> <p>Mid-East turmoil adds to the attractiveness of this sector as it can hedge unforeseen energy price spikes.</p>
Consumer Discretionary	Underweight	<p>Stocks offer significant discrepancies in values and opportunities, with a widening divide between winners and losers.</p> <p>The U.S. appears to have excess retail capacity.</p>
Health Care	Underweight	<p>This sector may be undergoing some significant changes with the government taking on a more activist approach, and becoming a major player and insurer. It is important to follow government actions and adjust accordingly.</p> <p>We are assessing potential opportunities and risk given recent healthcare legislation and likely responses.</p>

* Sector overweights and underweights are general indications for the broad sectors. Each portfolio may hold different overweights or underweights due to characteristics particular to individual asset classes utilized.

S&P 500 Index-Is generally considered representative of the U.S. stock market. **Russell 3000 Index**-Includes small-, mid-, and large-cap stocks and is seen as a benchmark of broad performance in the U.S. stock market. Unmanaged index returns assume reinvestment of any and all distributions and, unlike fund returns, do not reflect fees, expenses or sales charges. Investors cannot invest directly in an index.

Example company names mentioned in the "corporate debt spreads vs. Treasuries" text have been chosen solely on the basis of name recognition and to illustrate these macroeconomic concepts. Use of these names does not constitute a recommendation to buy or sell any security or product.

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