Outlook

CALAMOS INVESTMENTS

January 2020

CALAMOS INVESTMENT COMMITTEE

JOHN P. CALAMOS, SR.
Founder, Chairman and Global CIO

Matt Freund, CFA
Co-CIO and Senior Co-Portfolio Manager

Michael Grant
Co-CIO and Senior Co-Portfolio Manager

John Hillenbrand, CPA
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

Brandon Nelson, CFA
Senior Portfolio Manager

Post-trade deal, what's next?

During the fourth quarter, investors focused on supportive Federal Reserve policy, progress in U.S.-China trade negotiations, and continued resilience in the U.S. economy and corporate earnings. These better-than-feared developments helped investors look past U.S. political uncertainties and fueled gains across global markets.

» We believe the U.S. and global economies are positioned for growth in 2020, benefiting from accommodative monetary policy, stimulative fiscal policy and a resilient U.S. consumer.

» Although anxiety around the Fed and trade policy abated, investors should be prepared for sideways markets and volatility fueled by U.S. elections and geopolitics. Investors should also be attentive to the potential for higher longer-term interest rates due to inflation or geopolitical events.

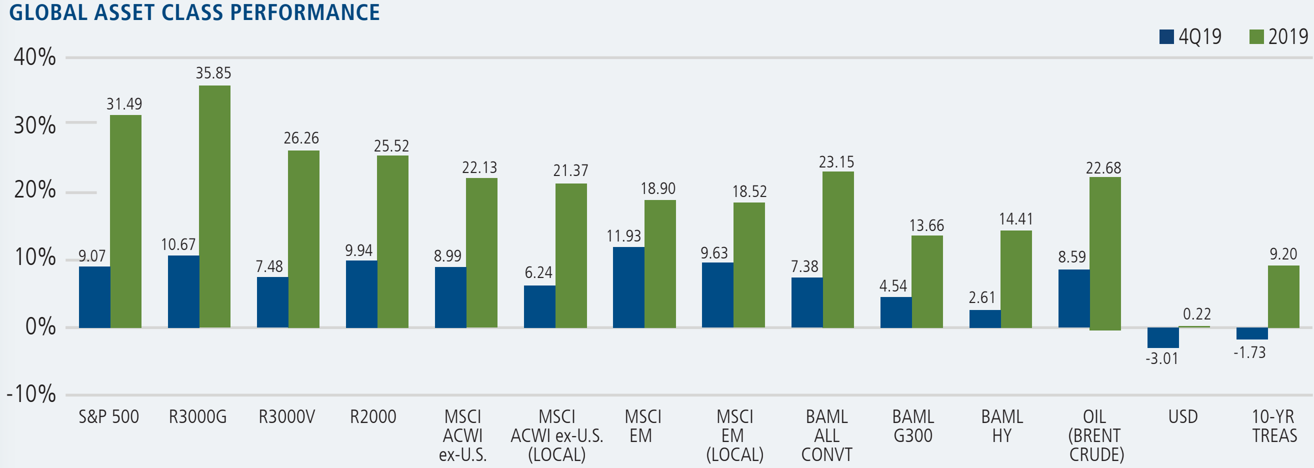
» At this phase of the cycle, active management and individual security selection are paramount, particularly for the highest valued securities, which would be vulnerable to a shift in sentiment should earnings growth disappoint or monetary policy change course.

» Our teams are identifying opportunities across asset classes, including equities, convertible securities and areas of fixed income, with alternative strategies offering compelling diversification benefits.

MARKET REVIEW

Although 2019 was not without its volatility and drawdowns, investors are likely to remember the year fondly. During the fourth quarter, growth outperformed value, and U.S. small caps and global markets rebounded. Optimism extended across asset classes, including equity and economically sensitive areas such as convertible securities and high yield bonds.

GLOBAL ASSET CLASS PERFORMANCE



Past performance is no guarantee of future results. Source: Bloomberg and Morningstar. Data shown in USD unless otherwise noted.

United States

We believe the U.S. economy will sustain its expansion in 2020. Some may worry that this growth phase has to end soon because it has run for so long, but the length of an economic cycle is driven by fiscal policy and fundamentals—not time. The Federal Reserve has signaled that it will remain accommodative, even if inflation rises a bit over the near term. Consumer activity is firm, and unemployment is extremely low. Inflation is either a bit below the Fed's threshold or a bit above it, depending on the measure (Figure 1), and although it may ramp up modestly over these next quarters, we do not expect it to derail the economy. While it's too soon to tell how successful the Phase 1 trade agreement between the U.S. and China will be, the cooling of tensions is positive.

The U.S. election cycle will fuel volatility, particularly if markets sense an imminent change from the pro-business fiscal and regulatory policy that has supported the economy in recent years. Other risks include a potential misstep from the Fed in managing its balance sheet and liquidity, given the pivotal role that central banks have played in shaping this bull market. Trade negotiations with China are ongoing and progressing favorably, although we could see setbacks at some point. Finally, we are sensitive to the pace of earnings growth, including increased pressure on corporate margins as labor costs rise.

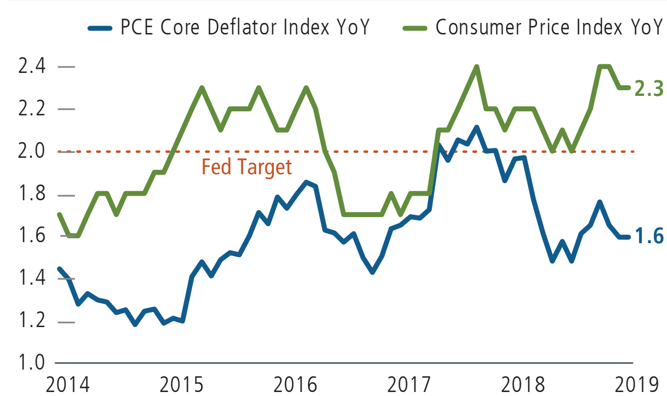
Steady economic growth, low interest rates, and contained inflation favor growth stocks with higher quality attributes. Against this macro backdrop, valuations do not seem extreme. Our teams are identifying attractively valued growth stocks, including technology companies and areas positioned to benefit from healthy consumer activity. In a number of our strategies, we have also added select cyclical positions in industrials, technology and financials that we believe should benefit from improving growth outside the United States. In terms of market cap, opportunities extend across the spectrum, including small- and mid-caps where our team believes there are substantial valuation discounts.

Global and International Strategies

We see many tailwinds for global equities in 2020 and believe non-U.S. markets offer especially good hunting grounds. (See our recent post, *"The Global Opportunity Set Is Growing in 2020."*) Valuations are especially reasonable outside the U.S. (Figure 2); monetary policy and fiscal policy are working in tandem; and although global manufacturing data is still bleak, consumer data is more encouraging. The signing of the Phase 1 trade deal is certainly not the closing chapter as the U.S. and China vie for global leadership and regional supply chains are re-drawn, but the agreement does provide a meaningful boost to economies around the world in the coming year.

The Fed's easing has given other central banks more latitude to lower rates, with more than 100 cuts since the Fed began its easing cycle. We expect more cuts to follow, which could help catalyze the global manufacturing sector. Historically, there has been a close correlation between global manufacturing PMI and the number of central banks that are easing versus tightening, and the accommodative policy we are seeing today could help spark a pickup in global manufacturing.

FIGURE 1. U.S. INFLATION REMAINED BENIGN IN 2019



Source: Bloomberg.

FIGURE 2. GLOBAL VALUATIONS

AS OF 1/9/20

	FWD P/Ex	TRAILING P/Ex	EPS CAGR 2020-2021	FWD Px/SALES	TRAILING Px/SALES	SALES CAGR 2020-2021
U.S.	18.8	22.4	9.3%	2.3	2.4	5.0%
Japan	14.0	15.6	6.4%	0.9	0.9	0.9%
Europe	14.7	20.4	8.7%	1.3	1.3	1.4%
EM	13.1	15.4	11.8%	1.3	1.4	7.1%

Past performance is no guarantee of future results. Source: Bloomberg. Data in USD terms.

Also, non-U.S. equities have historically benefited from a weaker dollar. Figure 3 illustrates the tight inverse correlation between the Fed's balance sheet and the strength of the U.S. dollar. We expect more Fed expansion, and by extension more dollar weakening, which in turn can support non-U.S. equities.

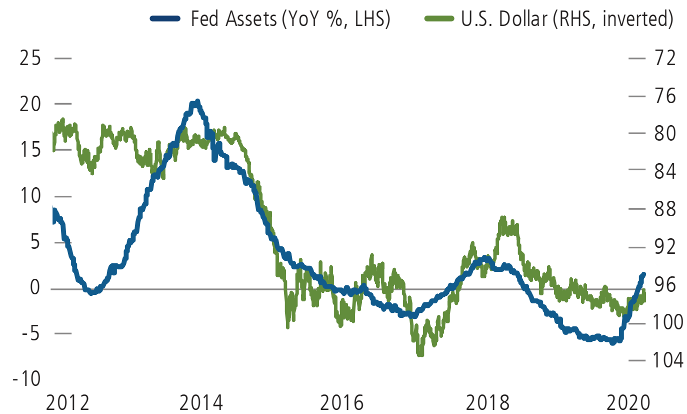
At the same time, fiscal stimulus is ramping up worldwide. Even Europe is taking part, following years of fiscal restraint. Much of Europe's stimulus is focused on green initiatives, which has created opportunities in renewable energy and energy-efficient construction companies. In China, we are investing alongside China's targeted stimulus programs. These investments include construction, technology and telecom companies participating in the country's aggressive and rapid 5G buildout, as well as industrial and consumer discretionary companies profiting from the country's massive housing renovation program (see our October post, *"China's Stealth Stimulus: Part 2"*).

Convertible Securities

For the year, global convertible issuance came in at a healthy $85 billion, in line with 2018 levels (Figure 4). In addition, the convertible market enjoyed a net expansion of $10 billion in 2019, the highest annual level since 2007. We continue to find a good supply of convertible securities that offer an attractive balance of upside and downside participation. These include names in technology, health care and consumer areas that are benefiting from top-down thematic tailwinds and bottom-up solid execution.

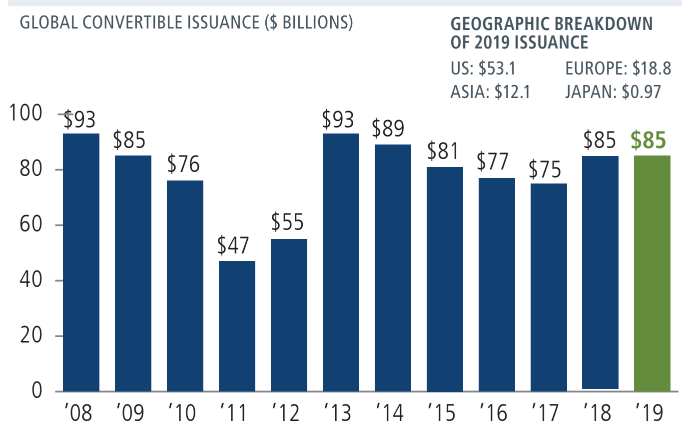
In addition to providing lower-volatility equity participation, convertible strategies can be included within an enhanced fixed income allocation as a hedge against higher long-term interest rates. Convertibles have outperformed traditional fixed income securities when long-term rates rise. Although short-term rates are likely to remain low, it is important to remember that long-term rates are influenced by other factors, such as inflation and geopolitical events. Since long-term rates can rise sharply and with little warning, many investors may welcome the added potential protection convertibles can provide, ahead of a turn.

FIGURE 3. GROWING FED BALANCE SHEET, WEAKER USD



Source: Macrobond. U.S. Dollar represented by DXY Index. Total Fed assets includes securities held in custody for foreign official and international accounts.

FIGURE 4. 2019: STRONG GLOBAL CONVERTIBLE ISSUANCE



As of December 31, 2019. Source: BofA Merrill Lynch Global Research. The ICE BofA Merrill Lynch Global 300 Convertible Index is a global convertible index composed of companies representative of the market structure of countries in North America, Europe and the Asia/Pacific region.

Fixed Income

Individual security selection will be as important in the bond market as it is in the equity market. Monetary policy and market technicals are favorable for many fixed income assets in 2020, but narrow spreads suggest market complacency, which we are careful to guard against. In the corporate credit market, cash flows and earnings are growing but at a slower rate with variations among credit tiers. Many investment grade companies still hold worrisome levels of debt on their balance sheets, despite some marginal improvements as buyback activity slows.

In a diverse market of bonds, we see compelling potential idiosyncratic high yield issuers. High yield bonds are hybrids with characteristics of stocks and higher quality bonds. As such, they traditionally have had much lower sensitivity both to rising interest rates (lower duration) and equity drawdowns. These characteristics make high yield an attractive diversifier. Our bond-by-bond approach has led us to higher quality high yield bonds as well as CCC rated issues where our research indicates we will be well compensated for the risks undertaken. In the investment grade space, we have identified select investments that meet our criteria, such as AAA rated securitized products that provide the opportunity to move up in credit quality without giving up yield.

We are also constructive on preferred securities, especially bank issues supported by strong fundamentals, as well as higher quality bank loans. Finally, our yield-oriented shorter-duration bond strategy offers an attractive alternative to cash for investors seeking a potential haven from equity market volatility.

Alternative Strategies

To complement the opportunities we see in traditional asset classes and long-only strategies, we encourage investors to consider alternative strategies as a way to navigate volatility and event-driven risk. For example, our market neutral income strategy and hedged equity strategy have been positioned with the goal of managing increased political risk through the U.S. primary cycle. Meanwhile, our long/short equity strategy can provide compelling diversification benefits, due to its flexible global opportunity set and the freedom to adjust exposure to the equity market.

Conclusion

Monetary and fiscal policy combined with a healthy U.S. consumer in particular support moderate economic growth in the U.S. and a brighter outlook for the global economy. However, the economy and the markets are not the same. While there are many opportunities for active approaches, we expect volatility to rise due to the U.S. elections and geopolitical uncertainty. Market sentiment shifts quickly, and we would not be surprised to see leadership rotation, sideways markets and drawdowns. This environment may challenge investors, particularly on the heels of a strong fourth quarter and 2019. As always, we believe the best course for investors is to maintain long-term perspective and appropriately diversified asset allocations. Our teams are also taking a long-term view, guided by their commitment to pursue opportunities through a risk-managed approach.

Diversification and asset allocation do not guarantee a profit or protect against a loss. Alternative strategies entail added risks and may not be suitable for all investors. 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 **Russell 3000 Growth Index** and **Russell 3000 Value Index** measure U.S. growth and value equities, respectively. The Russell 2000 Index measures U.S. small cap stock performance. The **S&P 500 Index** is considered generally representative of the U.S. equity market. The **MSCI All Country ex U.S. Index** represents the performance of global equities, excluding the U.S. The **MSCI Emerging Markets Index** is a measure of the performance of emerging market equities. The **ICE BofA U.S. High Yield Index** is an unmanaged index of U.S. high yield debt securities. The **ICE BofA All U.S. Convertible Index (VXA0)** is a measure of the U.S. convertible market. The **ICE BofA G300 Index** measures the performance of 300 global convertibles. **Oil** is represented by current pipeline export quality Brent blend. The **Bloomberg Barclays U.S. Aggregate Bond Index** is a broad based benchmarks of the U.S. investment grade and global investment grade bond market, respectively. They include Treasury, government related, corporate and securitized fixed-rate bonds. ICE Data: Source ICE Data Indices, LLC, used with permission. ICE permits use of the ICE BofA indices and related data on an `as is' basis, makes no warranties regarding same, does not guarantee the suitability, quality, accuracy, timeliness, and/or completeness of the ICE BofA Indices or data included in, related to, or derived therefrom, assumes no liability in connection with the use of the foregoing and does not sponsor, endorse or recommend Calamos Advisors LLC or any of its products or services. The **Consumer Price Index** is a measure of inflation. The **Personal Consumption Expenditures Core Price Index** tracks overall price changes for goods and services purchased by consumers and is a broader based measure than the CPI.

Earnings per share (EPS) is a company's profit divided by its number of 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. **CAGR**, or compounded annual growth rate measures year-over-year growth. **Price-to-sales ratio** measures a company's stock price versus its revenues. **Duration** is a measure of interest rate sensitivity, with longer durations indicating increased sensitivity to changes in interest rates.

Opinions, estimates, forecasts, and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. The views and strategies described may not be suitable for all investors. References to specific securities, asset classes and financial markets are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations.

CALAMOS®
INVESTMENTS

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

OUTLKCOM 18754 0120O