CALAMOS INVESTMENTS

May 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

Economic and Market Outlook

2020 will forever be remembered as the year of COVID-19. Economic activity has plummeted as countries struggle to address a global health crisis of staggering proportions. As investors panicked, the 11-year bull market in equities came to end in March, and the yield of the 10-year Treasury fell to all-time lows.

From an economic and market perspective, there are signs of recovery and cause for cautious optimism. Led by the U.S., global monetary and fiscal stimulus has been sweeping in scope—topping $20 trillion, or about one-quarter of global GDP. The U.S. and other shuttered economies have begun to re-open, while Asian economies are showing real signs of recovery.

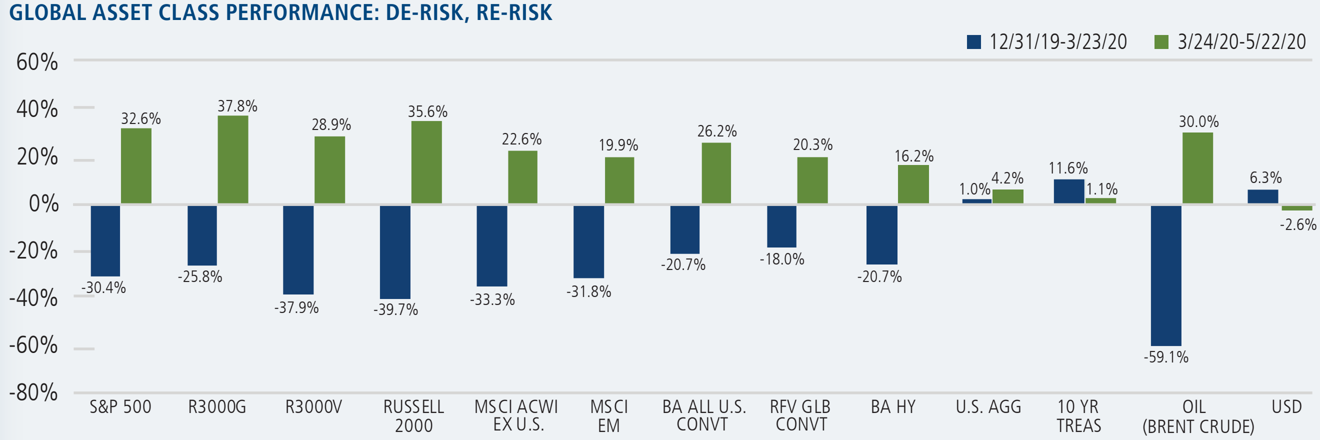
Since the March low, stocks have rallied, market volatility has moderated, spreads have tightened from their highs, and the yield curve has steepened modestly (long rates have increased slightly while the short end of the curve has remained well anchored). There's abundant liquidity in the markets as evidenced by surging convertible bond and corporate bond issuance. Many businesses have devised innovative solutions to adapt in this unprecedented period, and companies are accessing the capital markets in a bid to ensure they have adequate liquidity to weather the current crisis.

The economic downturn is likely to be severe but short, unlike conditions we saw in 2008-2009. The fiscal and monetary policy response has mitigated financial stress and by mid-year, the global output cycle is likely to be well on its way to returning to pre-pandemic capacity. There's unprecedented pent-up consumer demand poised for release, most notably in the developed world where many have been paid a high percentage of their normal income while on furlough.

MARKET REVIEW

Equities corrected sharply around the world, reaching a low in late March. Convertible securities and high yield bonds also sold off but held up relatively better. As investors sought to de-risk, investment-grade bonds posted positive performance. Since then, sentiment has improved markedly with growth-oriented companies outperforming.

GLOBAL ASSET CLASS PERFORMANCE: DE-RISK, RE-RISK



Past performance is no guarantee of future results. Source: Morningstar. Data shown in USD.

However, we are still in a period of unprecedented uncertainty. We are confident that effective COVID-19 treatments and vaccines will eventually be developed, but it is impossible to predict precisely when. In the meantime, there are a wide range of outcomes that could shape the market environment. These include the trajectory of the pandemic (most notably, the severity of second waves) and the economic responses (the scope of any future shelter-in-place orders and quarantines). There are also a range of potential outcomes for fiscal policy and the U.S. election. Depending on the political climate, economies could be healing, but corporations may not be optimistic in the face of less business-friendly fiscal policy. Inflation is not a concern for 2020, but pressures are likely to build in 2021 and beyond, as supply chains become more localized and labor becomes scarcer.

Although we have passed through the liquidity phase of the crisis, the solvency phase could prove challenging and protracted. The global pandemic will have near and long-term impacts on behaviors. There will be winners and losers, disruptors and the disrupted. Even with all the backstops put in place and a release of catch-up demand, not all companies will survive if they must operate with permanently reduced capacity.

As the economy recovers and reflationary pressures build, we expect choppy markets and leadership rotation from quality-oriented secular growth to include more cyclical-oriented opportunities. Many areas of the market can benefit from this reflationary shift, including non-U.S. equities and smaller-cap names, supporting the case for diversification. However, uncertain markets also bring the need for risk-management and lower-volatility strategies into sharp perspective. Active management and individual security selection will be crucial, as changing behaviors create tailwinds for some businesses and stiff headwinds for others.

From an asset allocation standpoint, long-term perspective is exceptionally important, given the dangers of hopping in and out of the market. Markets have already recouped a significant percentage of their first-quarter losses, and investors who sold at the low could have easily missed the turn.

U.S. Equities

We anticipate a severe-but-short U.S. recession. Unlike past economic crises, including 2008-2009, policymakers have kept credit markets functioning in the midst of the downturn. The Fed has been operating with a "whatever it takes" mentality to ensure that capital flows to businesses and consumers alike. Furthermore, it is unlikely that Congress and the administration are finished delivering relief and support to families and small businesses. Additionally, the consumer is in a far different position now than in 2008. Then, consumers were highly leveraged and the source of the problem. Today, consumer balance sheets are in far better shape and policymakers have tried to replace lost income.

Structural bear markets typically take longer to heal than event-driven bear markets, and we believe we are experiencing the latter. In the past several weeks, the market has sorted through the rubble, quickly and clearly identifying which companies are well positioned and which ones are poorly positioned in this new environment. While many companies have suspended earnings guidance, many have increased communication and have provided weekly progression of trends from late March to early May. Generally speaking, over that time, the year-over-year growth rates kept getting less negative. Consensus earnings estimates have stabilized, with a bounce back forecasted for next year.

We are in a critical period for active management. Oversold markets and dislocations have created many pockets of opportunity. However, the performance dispersion taking place across the stock market this year is the highest it's been in more than 10 years, and leadership is narrow. Year-to-date through May 22, the equal-weighted S&P 500 Index has returned -16.0%, versus -7.8% for the market-cap weighted index.

Lower-volatility equity strategies. Our lower-volatility equity approach seeks to provide equity upside participation with potentially less exposure to equity downside. Our emphasis remains on longer-term business model winners—that is, high-cash-flow-generating growth businesses that are able to increase their earnings power during the downturn. We are seeking companies that have the capital and resources required to weather this storm, as well as business models that can thrive in an evolving paradigm. As the market recovers, we expect one key theme will be "the big get bigger." Companies that have invested in omnichannel strategies are seeing a payoff, and we expect many will continue to widen their leads and gain market share. Health care and safety will be paramount, and businesses that address those needs are also attractive in our view. The use of data, connectivity and virtualization will also be themes that should benefit going forward long after the pandemic fades.

However, given our view that the downturn is likely to be relatively short, we are also positioned to participate in an economic rebound through select positions in more cyclically oriented names that have been oversold versus their intrinsic value. We are not seeking out the highest beta, highest risk names. Here, we often find that convertible securities provide an attractive way to gain cyclical exposure while potentially mitigating risk. We are also actively utilizing options and the convertible market in order to manage the risk/reward of the portfolios as a whole.

Small cap and smid cap strategies. We see a strong case for small and mid-cap names as part of a diversified equity allocation. Small cap stocks, in general, have lacked the attention that their large cap brethren have enjoyed. The small cap universe offers the same compelling growth stories and themes as the broad market leaders: technology for personal and corporate connectivity, security solutions, as well as health care. All the while, small cap stocks trade at relative discounts to their large cap growth peers. We believe that this combination speaks to a great opportunity for investors going forward.

In our small cap and smid portfolios, we remain tilted toward secular growth companies with high quality attributes and strong fundamental momentum but also have some select exposure to high-quality cyclical names as well. We are optimistic with regard to overcoming the health issues, re-opening our economy, and opportunity for strong growth businesses. However, given the macro uncertainty and many moving parts involved, this diversification is especially prudent. We've found several cyclical opportunities within the consumer discretionary and industrial sectors. Information technology companies are well represented, with a diverse mix of secular and cyclical growth opportunities.

Multi-cap growth strategies. Here too, our positioning remains broadly diversified with a mix of secular and cyclical growth holdings. Connectivity, data storage, and online retail remain key themes, and there are many businesses in these spaces that offer strong growth prospects, even in less certain economic times. Our investment criteria have led us to many stocks in information technology and consumer discretionary. Additionally, we have found a number of names in the industrials sector where an overly pessimistic consensus view has created favorable risk/reward opportunities.

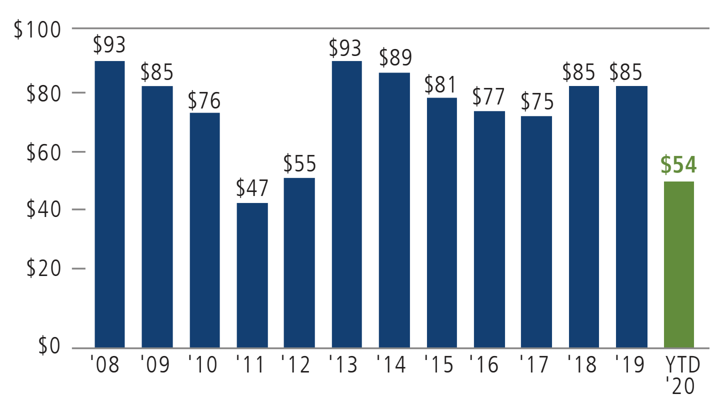
Convertible Securities

We believe current conditions provide a timely opportunity to establish or add to strategic convertible allocations. As we discussed in our recent blog post "Convertible Securities: A Compelling Choice for Uncertain Times," the hybrid characteristics of convertible securities provide many long-term advantages. With active management, a convertible strategy can provide lower volatility equity participation. Also, convertible securities have been less vulnerable to changes in interest rates than traditional bonds and can serve as a potential hedge against an eventual rise in inflation rates. Consequently, a strategic convertible allocation may make it easier to stay invested through volatile stock markets, changing interest rate environments and evolving economic conditions.

Historically, convertibles have been one of the first markets to open back up after periods of stress, and we've seen this hold true this year. Global companies have brought $54 billion to market through mid-May, including a surge of about $33 billion since the end of the first quarter. In April, U.S companies issued $13.5 billion—the most seen in a single month since 2008. With higher volatility and wider credit spreads, the convertible market is an attractive market to raise capital, and new issue trends could continue at a brisk pace if spreads and volatility stay wider than historical norms.

FIGURE 2. GLOBAL CONVERTIBLE ISSUANCE HAS SURGED IN 2020

$ BILLIONS , AS OF MAY 18, 2020



Source: BofA Global Research. The ICE BofA 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.

Issues have been coming to market with very attractive structures and provide a breath of opportunity. About two-thirds of new issues are from companies new to the convertible market. From a sector standpoint, issuers include larger consumer companies, cyclicals, tech and health care. The convertible market is typically dominated by growth focused companies, so the increase in cyclical names provides a nice complement. As companies seek to shore up their balance sheets, we've also seen a rise in investment-grade companies issuing new paper.

In the wake of high issuance and the first quarter correction, convertible valuations are compelling on the whole, providing a good starting point for our active approach. However, rigorous fundamental research is extremely important, as not all of the new issues provide the characteristics we seek. **As we have emphasized throughout the years, successfully utilizing convertibles depends on bottom-up security selection and ongoing active management—not buying the market as a whole.** Our focus remains on securities that offer an attractive balance of upside equity participation and equity risk mitigation. Issues with too much equity sensitivity may be too exposed to equity downside, while those with too much credit sensitivity may not offer sufficient exposure to upside. We maintain a bias toward secular growth companies in technology and have also invested in companies positioned to capitalize on emerging trends, such as telemedicine. As a complement to these longer-term secular winners, which are typically more growth oriented, we have also selectively added cyclical positions where we see potential for significant upside, in areas such as retail, airlines and cruise lines.

Global and International Strategies

In the wake of the selloff and given our expectation of recovery, we are constructive on global equities, including China and other emerging markets, where valuations provide well-priced access to growth. While the economic impact of COVID-19 has been significant, the fiscal and monetary response globally has been significant as well. Lower rates, liquidity, increased demand and the spending of stimulus money set the stage for a reflationary response in 2020, likely with a shift in market leadership to Asia, where real recovery is furthest along and likely to get stronger. Compared to the U.S., China has been relatively slower in announcing stimulus, but we expect more coming out of the National People's Congress meeting.

If Asian economies provide an accurate roadmap for how Europe and the U.S. can resume economic activity, the monetary and fiscal response has the potential to fuel a very strong global recovery. Market leadership has been quite narrow, but we believe an effective vaccine or treatment for COVID-19 will cause market breadth to widen, with more cyclical industries outperforming globally.

> A strategic convertible allocation may make it easier to stay invested through volatile stock markets, changing interest rate environments and evolving economic conditions.

The positioning of the global and international strategies reflects a highly active approach. From a bottom-up perspective, we have maintained a focus on high quality companies with high growth attributes, such as strong balance sheets, attractive credit fundamentals and wide moats. Our goal is to invest in companies that can compound in value over time, and also hold up better during downturns. Secular growers currently make up the lion's share of our holdings, but we are adjusting exposures actively given our expectation for also the potential for reflation and recovery, which would benefit cyclicals, emerging markets and more value-oriented opportunities.

Our identification of secular growth themes has been an extremely important driver of performance over recent years, including so far in 2020. Secular trends provide a "wind in the sails" for companies, and this tailwind is especially important during more challenging economic periods. (For more on this, please see our recent "Global Insights" paper and our blog posts.) We expect this will continue, especially as the pandemic has accelerated the pace of disruption and the adoption of industries such as bioprocessing, artificial intelligence, big data, telemedicine, e-commerce, gaming, online education, and digital payments. In many instances, the growth we expected over the next three to five years has been pulled forward to this year. Our expectation is that in a post-COVID world, these industries will continue to grow off of these now larger bases, creating tremendous growth potential for a number of countries.

Figure 3 illustrates the potential impact of thematic tailwinds, using baskets of stocks tied to key themes. Each has strongly outperformed the MSCI ACWI and S&P 500 Index for the year-to-date period, as well as for the trailing one-year and two-year periods.

From a geographic perspective, we believe countries that have the ability to fiscally stimulate, aren't reliant on U.S. dollar funding for a majority of their debt issuance and have less dependence on non-tech global trade and tourism will be better positioned in the earlier stages of this recovery. Within this framework, China, Korea, Taiwan, and Russia are more attractive versus the Philippines, Thailand, Malaysia, and South Africa. As it relates to specifically to China, we expect continued headline risk and volatility, but the on-the-ground fundamentals continue to improve. Asia was first into this health crisis, and we see a great deal of data that says it will be first out as well. A rekindling of U.S.-China geopolitical tensions is always a risk, but we believe both countries would prefer to show progress rather than escalation in the near term.

In a number of our strategies, we utilize convertible securities or synthetic convertibles. As we discussed earlier, convertibles can provide a way to participate in higher growth areas of the market while mitigating equity downside. Similarly, we can use convertible structures as a way to gain access to cyclical opportunities and markets that may be more speculative based on other metrics, such as Russia.

Fixed Income

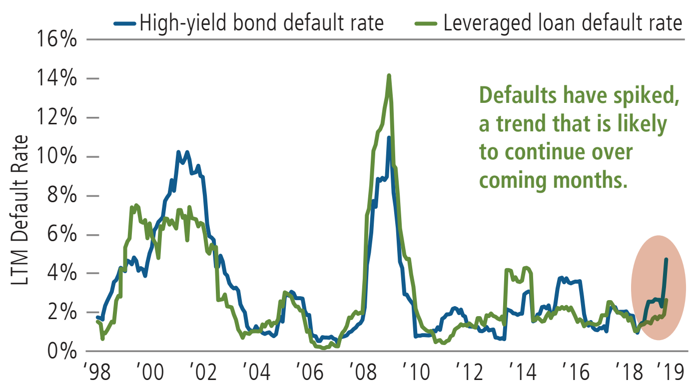
The relative resilience of fixed income classes, such as investment-grade credits and short-term bonds, once again highlights the benefits of strategic diversification. Additionally, in other areas of the market—including high yield and mortgage backed securities—the current environment provides an expanded pool of opportunities for the bottom-up investor.

FIGURE 3. ACCELERATED DISRUPTION FUELS GROWTH OPPORTUNITY

	YTD	1 YEAR	2 YEAR
Cloud	16.26%	21.80%	99.13%
Payments	5.10	7.54	89.97
Bioprocessing	18.75	48.43	107.67
E-commerce	25.75	68.22	189.26
Online Services	22.35	59.08	42.57
MSCI ACWI	-12.77	-4.42	0.99
S&P 500	-9.30	0.85	14.45

Past performance is no guarantee of future results.
Source: Bloomberg. Data in USD terms. Data as of 4/30/2020.

FIGURE 4. IN SOLVENCY PHASE, A BOND-BY-BOND APPROACH IS CRUCIAL



Source: J.P. Morgan Default Monitor, May 1, 2020.

Since the end of March, there's been massive issuance in both high yield and investment-grade, as companies seek to shore up liquidity and balance sheet strength, albeit at increased costs. Year-to-date, investment-grade issuance totals more than $1,002 billion (a year-over-year increase of 87%), and high yield issuers have brought $145 billion to market (a year-over-year increase of 50%). However, defaults have also spiked upward (Figure 4), and the ranks of fallen angels have grown. Continued downgrades are likely to be par for the course. Rating agencies used to be countercyclical, but now seem to be much more pro-cyclical in their approach, which is influencing this downgrade activity.

Our approach to navigating this environment reflects the view that crises like this generally have two phases: a liquidity phase and a solvency phase. The liquidity phase of this crisis was fairly short lived. It hit all sectors of the market but especially the less-liquid sectors, starting in credit and high yield, then migrating to the investment-grade area as spreads radically widened, then it struck the non-agency mortgage market. An aggressive Fed response was central to containing this liquidity crisis. This response included slashing the overnight rate to 0.0%, introducing hundreds of billions of repo lines, and purchasing well over $1 trillion in fixed income securities. Facilities were also opened to provide liquidity in corporate credit, including the purchases of corporate bonds and high yield ETFs. Once the Fed said it would buy, everyone else jumped in, providing a historic example of the power of "signaling" as a way to stabilize markets.

This challenging environment demonstrates the potential merits of including alternatives in strategic asset allocation.

We are now in the solvency phase. Solvency is influenced by two factors: financial leverage (analysts are quick to identify more liabilities than assets), and operating leverage (which is independent of the amount of financial leverage a company has). It will take time to determine the lasting changes to the economy and which companies will not be able to adapt and survive. Disruption has put incredible pressure on a number of industries and will contribute to more defaults, particularly in energy-related industries.

Indeed, it is certainly a bond-pickers environment—which gives our risk-aware, fundamentally driven approach an advantage. We are adhering to our disciplined approach of building portfolios bond-by-bond with a focus on being well compensated for the risks taken. At the height of the crisis, the opportunities were exceptional as credit spreads widened and they still are very good—especially for the selective manager. Within the high yield market, we have invested in fallen angels, and idiosyncratic opportunities in insurance, pharmaceuticals, and brokerage and asset managers. From a credit quality perspective, we have invested in fallen angels in the higher tiers of the high yield space, as well as in lower rated issues where our research indicates a reasonable risk/reward trade-off. We remain wary of taking on undue duration risk.

In our core-plus bond strategy, we continue to favor corporate credit, including both investment-grade and high yield, with consumer cyclical and consumer non-cyclical issues well represented. During the liquidity phase of the crisis, we sought to capitalize on dislocations and added industrial-related names. Following the Fed's announcement that it would re-institute quantitative easing in the mortgage backed sector, we also added mortgage-backed securities.

Alternatives

This challenging environment demonstrates the potential merits of including alternatives in strategic asset allocation. As market conditions have changed rapidly, our strategies have been able to capitalize on volatility and opportunity in ways that long-only strategies cannot.

Global long/short. Our global long/short strategy is positioned to reflect the view that policy will win out, and when economic activity resumes, markets will enjoy a sharp rebound. Since October 2018, our view was that the risk versus reward for equity investors did not add up. Conditions changed in March, and for the first time in years, the math for equity investors is compelling. Some of this reflects the swift improvement in valuation levels, including the extreme liquidation across cyclical industries. Risk prices are dominated by the immediate distress of events, yet equities will invariably move toward a renewed earning cycle in 2021 and beyond. History argues that recession marks the end of the cyclical bear, not the start of a new one. (For more, please see our most recent quarterly commentary.)

Our long book is balanced between traditional quality growth and higher beta, cyclical growth stocks. While maintaining many of our established long-only positions, we have been adding selectively to cyclicals, such as airlines, banks and energy. Financials and energy currently offer valuations, dividends and cash flows at levels that have not been seen for decades, which argues for exposure. In addition, we have increased our exposure in Europe, most notably in the energy and health care sectors, as valuations and yields offer opportunities. Meanwhile, the strategy's short positions are dominated by defensive names—the type of companies that everyone wanted in the eye of the storm, where we believe many names are overvalued and demand will not be sustainable. These include consumer staples stocks that will likely come under pressure as equity markets recover and investors rotate into risk-on growth opportunities.

Oversold markets and dislocations have set the stage for long-term opportunities across asset classes.

Hedged equity. Our hedged equity strategy has maintained its focus on being positioned for as many outcomes as possible. While volatility has fallen from its peak crisis levels, the daily ups and downs we are seeing create a favorable backdrop for our approach. We use these ebbs and flows to rebalance our option hedges. For example, in January, our positioning was more defensive, but by the end of March, we had shifted to a longer-leaning stance. More recently, the back and forth in the market has allowed us to layer in more protection and add defensiveness as market recovered, while also holding calls to participate in equity upside. Conversely, should the markets retreat, the short calls and long puts we have in place are designed to provide a measure of downside protection.

Market neutral income. With a historically low correlation to traditional bonds, our market neutral income strategy sources income from strategies that are not reliant on interest rates, providing a compelling choice for a fixed income alternative. Our market neutral income strategy is also structured to benefit from the "volatility in volatility." Recent conditions have provided an attractive backdrop for our approach, which encompasses our hedged equity and convertible arbitrage capabilities. Although reduced interest rates detract from what can be earned through convertible arbitrage, the valuations in the new issuance and secondary convertible markets provide a tailwind that we believe can offset the rate move, at least for 2020. Against this backdrop, we've increased our allocation to our convertible arbitrage strategy to its highest level in years.

Conclusion

We cannot predict when conditions will return to something that feels more normal, and we recognize how challenging this period is for many investors. However, we are confident that the efforts of the medical community and health care companies, along with the incredible level of fiscal and monetary support, will enable economies and markets to recover. We are confident in the U.S.'s position in the world and believe having freely functioning markets is the best alternative for restoring balance to supply and demand.

Businesses that are managing to opportunities and needs will be rewarded. Oversold markets and dislocations have set the stage for long-term opportunities across asset classes. We believe our active, risk-conscious and research-driven approaches will provide us with a clear advantage in helping our clients achieve their long-term financial goals.

Diversification and asset allocation do not guarantee a profit or protect against a loss.

Alternative strategies entail added risks and may not be appropriate 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 World Index** represents the performance of global equities. The **MSCI All Country World 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 **Refinitiv Global Convertible Bond 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.

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 appropriate 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.

Secular Themes. In Figure 3, baskets shown are equal weighted average returns, all periods are through 4/30/20. Companies included within each basket are as follows. Cloud: CRM, 268 HK, COUP, NOW, WDAY, MSFT; Payments: V, MA, ADYEN NA, PYPL, SQ; Bioprocessing: LONN SW, DHR, 2269 HK, RGEN; ecommerce: AMZN, SE, SHOP, BABA, MELI; Online Services: 1044 HK, NTES, 035720 KS, 035420 KS, EDU, 1833 HK. ADYEN two-year return is from 6/12/18 - 4/30/20, reflecting when it went public.

Source for issuance and market size data (high yield and convertible): Bank of America.

CALAMOS®
INVESTMENTS

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

OUTLKCOM 18792 0520 O C