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2023: Slowing Growth, But Not Recession

- » The horizon for elevated recession risk has drawn nearer, but recession does not appear imminent, nor are we yet forecasting an earnings recession in 2023.
- » Households are protected by their accumulated savings and healthy employment markets, while substantial segments of the corporate sector enjoy solid financial health. Credit spreads and other indicators of financial stress are far from extremes.
- » Investors properly understand the logic of recession, but it will not happen soon, and **it may not be severe**. The key driver for markets is more about the inflation cycle and less about the earnings cycle.
- » 2023 is still a year of absorbing the massive fiscal and monetary support of the pandemic. Barring new shocks, the path ahead need not be as dark as frequently painted. We expect US nominal GDP to advance above-trend again in the coming year.

The Known “Unknowns”

- » Was the inflation surge all about Covid? Will inflation revert to its pre-pandemic trend (à la the post-WWII surge) or a trajectory that is modestly higher than the post-2008 era?
- » Will the extraordinary Covid stimulus (fiscal and monetary) outlast the risk that the Federal Reserve overtightens? Will the US consumer outlast the inflation surge that the Fed is so focused upon?

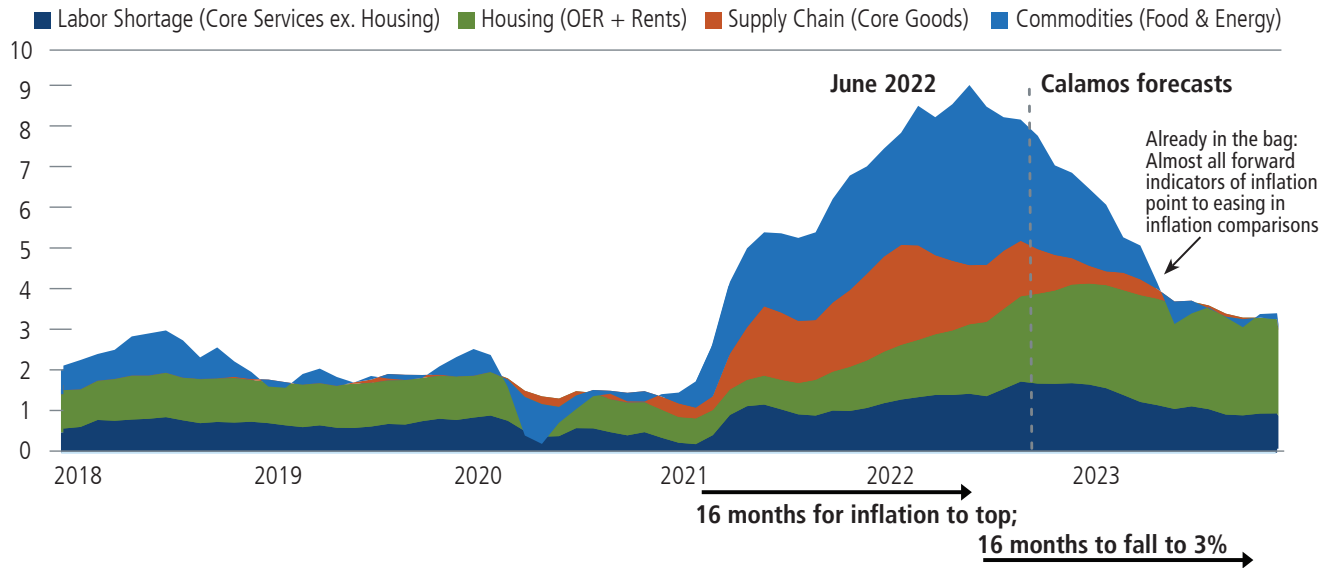
2023: No Return to Free Money

Equity markets have been repriced for slower growth and normalized (post-Covid) monetary policy. The trajectory of corporate profits will now determine if the bear market is complete. Conviction in a soft landing rather than recession will drive style and industry performance well into 2023.

Healthy nominal GDP (5%-6%) implies corporate profitability can be sustained. However, operating leverage will become more muted. Drivers of valuation (inflation, interest rates and Fed policy) rather than corporate profitability will determine market performance through H1 2023.

Figure 1. A window of disinflation will be the story of H1 2023

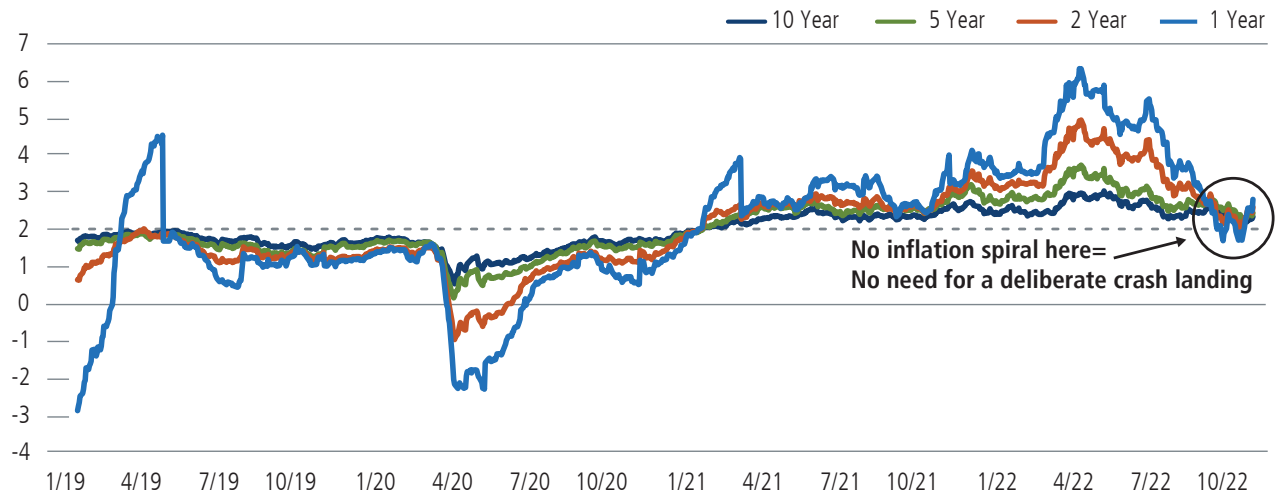
Contributions to Y1Y CPI inflation with Calamos Long/Short Team forecast



Past performance is no guarantee of future results. Source: Haver and JEF Economics. Forecasts are Calamos forecasts.

Figure 2. Inflation expectations are well anchored

US Breakevens Over Different Timeframes (future inflation priced into bond markets)



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

Recession will come later than many expect. The key debate is the post-pandemic inflation cycle. We see a resilient US economy in coming years, while deflationary forces still dominate large parts of the global economy. We expect inflation pressures will ease steadily (Figure 1).

The consensus expectation is for something to break the markets. However, the credibility of the Federal Reserve is rock solid and inflation expectations are well anchored (Figure 2).

Key Forecast Narratives: Sectors and Styles: Calamos Phineus Long/Short Fund (CPLIX)

Across industries, we emphasize quality and profitability within sensible valuation parameters. This style “wins” as long as investors believe recession is inevitable.

The end of “free money” implies the investment landscape is being reconstituted, i.e., a new set of winners and losers versus those that characterized the long era of excessive monetary accommodation.

- » **Growth** stocks can bounce as rates peak but selectively for two reasons. First, central banks will extend their timetable to remove excess liquidity; second, corporate profitability for many has peaked structurally (given the reversal of globalization and low interest rates).
- » **Technology** leadership will resume selectively once 2023 outlooks are de-risked in Q1. We emphasize attractive GARP quality (Alphabet and Microsoft), while avoiding names without valuation support. Amazon has become a pandemic “loser,” but we view it as washed out and investable.
- » **Financials** will benefit from a “soft landing,” which should be a key catalyst. Banks are a good cyclical hedge that is priced appropriately for the downside risks. With labor resilient and household balance sheets intact, Banks are compelling in a lower-return world for equities.
- » Structural underinvestment in **Energy** should allow oil prices to remain higher for longer but we tactically turned negative due to slower global growth and excessive war-related inventory hoarding. We await tactical opportunities to reengage.
- » **Consumer Staples** and **Utilities** are vulnerable to normalized rates and unable to pass thru higher costs. We see capital rotating into more attractive, stable businesses with pricing power like railroads, industrial gases and defense contractors.
- » **Healthcare** is an attractive, stable opportunity once we acknowledge that many reforms will prove too difficult to implement without bipartisan support.
- » **Defense companies** are attractive for their total-return character and resilience to many of the macro concerns.
- » After being at the heart of the pandemic, airlines and hotels are now beneficiaries as the floodgates of pent-up demand are opened; less obvious post-pandemic winners include aircraft lessors and ride-hailing.
- » We prefer US versus non-US, UK versus continental Europe, and emphasize quality and profitability factors. Profitable small cap is intriguing.

Strategic and Tactical Outlook

US SECTORS	STRATEGIC	TACTICAL
Financials	Positive	Positive
Consumer Discretionary	Neutral	Selective
Health Care	Neutral	Selective
Technology	Positive	Negative
Consumer Staples	Negative	Negative
Energy	Positive	Negative
Industrials	Neutral	Positive
Communication Services	Positive	Positive
GLOBAL/REGIONAL		
Europe	Negative	Neutral
Emerging Markets	Neutral	Negative
US Domestic Consumer	Positive	Selective
Defensive, Stable Growth	Neutral	Selective
Technology, Cyclical Growth	Positive	Selective
Global Trade	Negative	Neutral

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An investment in the Fund(s) is subject to risks, and you could lose money on your investment in the Fund(s). There can be no assurance that the Fund(s) will achieve its investment objective. Your investment in the Fund(s) is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. The risks associated with an investment in the Fund(s) can increase during times of significant market volatility. The Fund(s) also has specific principal risks, which are described below. More detailed information regarding these risks can be found in the Fund's prospectus.

The principal risks of investing in the Calamos Phineus Long/Short Fund include: equity securities risk consisting of market prices declining in general, short sale risk consisting of potential for unlimited losses, foreign securities risk, currency risk, geographic concentration risk, other investment companies (including ETFs) risk, derivatives risk, options risk, and leverage risk.

Before investing carefully consider the Fund's investment objectives, risks, charges and expenses. Please see the prospectus and summary prospectus containing this and other information which can be obtained by calling 1-800-582-6959. Read it carefully before investing.

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INVESTMENTS

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