

CALAMOS GLOBAL CONVERTIBLE FUND**2023: The Start of a Global Convertible Issuance Surge?**

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The Federal Reserve has raised rates by 425 basis points in 2022 and is not done. These hikes, combined with the start of quantitative tightening (which has barely begun) have pushed the effective overnight rate to 6.5%. We haven't seen rates this high since the Fed tried to pop the internet bubble in 2000.

Although the economy has shown remarkable resiliency so far, we are still early in the process because of the lagged effects of monetary policy. None of this points to smooth sailing ahead. The market won't wait for calm seas—it will look forward through the fog. But at the minimum it seems as if market participants will need at least some confidence that rates are headed back down. Although the Fed may stop raising rates in the first quarter of 2023, it likely won't cut rates until it is comfortable that inflation is not only abating but is on its way to their 2% target. In the meantime, the economy must deal with the highest rates in a generation.

Our risk/reward positioning in Calamos Global Convertible Fund remained relatively unchanged over the quarter. Although at the margin we continue to look to add risk to the portfolio, we believe it is too early to be aggressive. From a regional perspective, the fund remains overweight to the US and underweight to Europe. From a sector standpoint, the fund maintains its overweight to technology.

We saw a welcome uptick in new issuance during the fourth quarter of 2022. Additionally, we believe we can lay out a bull case for convertible new issuance over the next few years.

THE BULL CASE FOR CONVERTIBLE ISSUANCE

Market volatility and anxiety about the Fed has caused many companies to put growth plans on hold. We believe there is substantial pent-up demand from prospective convertible issuers once the market gets past these concerns. Most of these prospective issuers are likely traditional growth companies that have dominated issuance in recent years. On top of this, we should continue to see demand from existing issuers to refinance convertibles as they mature. Both 2020 and 2021 were banner years for issuance, with the bulk of securities issued with five-year maturities. Typically, refinancing begins a bit earlier, and we expect some of the refinancing of 2020 and 2021 issues will happen in 2023. In addition to this, we have a large high-yield maturity wall that starts in 2024.

There is a chance that issuance is even brighter than that scenario. As low-coupon nonconvertible debt issued after the Great Financial Crisis starts to come due, corporations will face a grim prospect: replacing coupons of 1% to 2% with coupons of 5% or 6%. Suddenly, the idea of issuing a 2% convertible bond looks more compelling. Although convertible issuance has been healthy since 2008, we have not seen the investment-grade issuers return. This higher interest rate environment could bring them back. And that's when we could see the big upside tail in convertible new issuance, fueled by individual investment grade issuers bringing \$1 billion to \$5 billion to the market.

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