

CALAMOS GLOBAL CONVERTIBLE FUND

Maintaining Caution Around Re-Risking

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With May's inflation number pushing the Federal Reserve to be more aggressive in raising short-term interest rates, it's hard to see the US avoiding at least a technical recession in the next 12 months. Layoffs at the mortgage units of JP Morgan and Wells Fargo may be the canary in the coal mine that the housing sector may be cracking. It does not appear the eurozone economy is any better than the United States, especially because of Europe's energy dependency on Russia and concerns about Italy's ability to handle a significant rise in rates.

In Calamos Global Convertible Fund, we are focused primarily on maintaining a good risk/reward profile. Often, this involves increasing equity sensitivity after markets decline. However, we have not been aggressive adding risk back in the wake of the most recent decline. We are looking for signs to do so, but do not believe we are there yet. That said, the fund's equity sensitivity (or "delta") is only modestly less than that of the global convertible market, as measured the Refinitiv Global Convertible Bond Index.

From a sector standpoint, the fund's biggest deviations from the market on an absolute basis remain an overweight to technology and an underweight to Europe. On a delta-adjusted basis, the fund's technology weight is much closer to the market, but the underweight to Europe endures.

Convertible issuance has been very slow in 2022. IPO, secondary, and SPAC markets have been quiet, too. This slowdown in convertible issuance is what normally happens during periods of equity market volatility. After Lehman went under in 2008, I don't believe we saw a new issue until March of 2009. Although we don't expect that long a lull in issuance and we saw a trickle of deals in June, it may be a bit longer before the taps reopen. But it is likely we will get a deluge of paper once the market begins to open up. Usually when equity capital markets are closed, convertibles are the first to reopen. And the early deals are often attractively priced.

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