CALAMOS GLOBAL EQUITY TEAM PERSPECTIVES
Sustained Tailwinds for Global Risk Assets
4Q/2020: STRATEGY POSITIONING AND OUTLOOK

Nick Niziolek, CFA, Co-CIO, Sr. Portfolio Manager
Dennis Cogan, CFA, SVP, Co-Portfolio Manager
Paul Ryndak, CFA, SVP, Head of International Research
Kyle Ruge, CFA, AVP, Senior Strategy Analyst
3Q 2020 Global Equity Market Review

Global equity markets continued their recovery during the third quarter, but took a breather in September after a strong July and August. The consumer discretionary and information technology sectors remain the best performing in this recovery, with sustained support from e-commerce and online services companies that have benefited as work, consumption, and a host of other activities are done increasingly in the home. Performance also picked up in the housing and semiconductor industries as well as in areas that were significantly disrupted by Covid-19 and are now benefiting from re-opening—for example, gaming and travel. Several areas within the more cyclical industrial and materials sectors have posted better returns, reflecting improvement in the global economic landscape and expectations that these improvements will continue. Financials and energy remain the notable laggards due to formidable structural headwinds that have overwhelmed what would typically be a supportive backdrop.

FIGURE 1. GLOBAL SECTOR RETURNS (%), YEAR TO DATE THROUGH SEPTEMBER 30, 2020

Past performance is no guarantee of future results. Source: Morningstar and Bloomberg. MSCI Index data shown for Europe, Japan, Emerging Markets and World ex U.S. Currency indexes for the euro, British pound and Japanese yen are shown per USD. High Yield is represented by the ICE BofA HY Index. 20+ Year Treasury represented by the ICE BofA Treasury 20+ Bond Index. The U.S. Dollar Index, represented by the DXY 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. Oil is represented by for Brent crude, CRY is the Thomson Reuters/Core Commodity CRB Commodity Index. Please see end notes for additional index disclosures.
The Case for Synchronized Global Recovery

As we move into the fourth quarter, global equity markets remain focused on the two unknowns that will shape the outlook for 2021—the pandemic and U.S. election. On the medical front, Covid-19 cases are surging globally, but hospitalization and mortality data have not shown commensurate increases on the whole. We believe another large-scale global quarantine is unlikely, but consumer and business confidence will have a major impact on the pace of recovery in 2021. We await the vaccine solution and logistics around an effective rollout but also understand that the global economy recovered from the shocks of prior pandemics without effective vaccines and are encouraged by the progress we’ve seen to date.

The second major question is the U.S. election. The markets appreciate certainty, and with so much uncertainty around the potential results and their timing (particularly given the expectations for higher-than-usual mail-in voting), we are anticipating increased volatility during the fourth quarter until this question has been resolved.

With so much near-term uncertainty, one might expect a less constructive outlook for global equities. However, decades of experience investing through cycles has taught us that volatility creates opportunity. From a health perspective, we believe human ingenuity and unprecedented efforts of the global healthcare sector will prevail to curb Covid. When vaccine and treatment breakthroughs come, the ability to return to some semblance of “normal” daily life, in combination with massive global monetary and fiscal stimulus, should fuel a synchronized global recovery. To be clear, a sustained and healthy longer-term recovery requires a hospitable environment for businesses to deploy capital confidently and productively, and this will shape the longer-term outlook for individual economies. But in the near term, we expect the fiscal and monetary support we’ve seen globally to be enough to drive growth for the next several quarters.

In regard to the U.S. election in November, our dispassionate view is that while there will certainly be industry- and company-specific winners and losers depending on the outcome, it’s unlikely there is any scenario in which the monetary and fiscal support goes away and drives markets into risk-off mode. Indeed, once we have put the election behind us, we could easily see better coordinated monetary and fiscal policy efforts. The Federal Reserve is likely to provide greater clarity on the specific parameters of its new inflation averaging framework, which would likely increase the market’s confidence that we are entering a new monetary policy regime. And there is plenty of room for collaboration across government to improve, which could increase the strength and efficacy of fiscal stimulus.

UNITED STATES

During the third quarter, the U.S. economy continued its rapid recovery, although the degree to which economic data has surprised to the upside began to wane in September. The U.S. equity market had a similar experience. Fueled by the large-cap growth stocks that have led this market for most of the past decade, the U.S. equity market posted very strong returns for the quarter, with gains in July and August more than offsetting a September correction.

One of the most significant events for the quarter was Fed Chairman Powell’s speech at Jackson Hole, in which he laid out the framework for setting Fed policy for the next five years. This speech was well telegraphed, so the market reaction on that day was muted, but we believe this change in the policy has major implications for global risk assets and reinforces our positive outlook. At a high level, this speech communicated that the bar is now higher for the Fed to remove monetary stimulus and begin another easing cycle. This is a significant change from what we’ve seen over most of the past decade, which was tightening actions at the first signs of an acceleration in inflation expectations. As a result, inflation never rose materially above the Fed’s target and averaged well below that target. We expect that over the next 10 years, inflation will average above the Fed’s target.

FIGURE 2. CITI GLOBAL ECONOMIC SURPRISE INDEXES

Source: Macrobond. The Citi Economic Surprise Indexes are objective, quantitative measures of economic news that measure the difference between actual releases and the median of Bloomberg survey data.
In our view, one of the most encouraging data sets we are seeing is coming from the U.S. housing sector. New starts continue to exceed expectations, home prices are increasing, and we are seeing strong demand in the secondary market with low supply. The direct impact of real estate construction on the U.S. economy has moved between 5% and 10% of GDP, but the second and third derivative impacts are much more significant. With nearly 70% of the U.S. economy based on personal consumption, the health of the consumer balance sheets and consumer confidence have a significant impact on the growth potential of this economy. With home prices increasing, equity markets rallying globally, and savings rates at very high levels, the consumer balance sheet is in a good position today. We believe the U.S. housing industry stands to benefit.

The debate in the market revolves around how much of the current demand is temporary and due to Covid (e.g., the desire to move out of urban areas and add home offices) versus a more sustained recovery. Based on demographic data, U.S. housing supply, and insights gained from our discussions with U.S. homebuilders, we believe this is a more sustained recovery. Unlike the prior cycle, when builders rushed to add leverage to increase land stock, during this cycle builders are broadly maintaining capital discipline and shifting to more asset-light business models. This has the potential to result in a significant re-rating of the industry in coming years as the market becomes more confident in the shape of this recovery and homebuilders’ capital discipline through the cycle.

The other major debate in the U.S. equity market is whether mega-cap growth can continue to lead the market higher. We are sympathetic to these concerns as we’d expect the leadership of global equity markets to transition toward more cyclical growth opportunities when a vaccine or effective treatment option for Covid becomes widely available. Still, at this point, we are hesitant to materially reduce our exposure to this cohort. The massive outperformance of mega-cap growth companies over the past few years can be justified by their dominant competitive positions and improving fundamentals.
Reflecting these views, we’ve executed a barbell approach. We have maintained significant exposure to businesses benefiting from secular tailwinds and the acceleration in penetration and adoption due to Covid-induced demand. Meanwhile, we are incrementally adding exposure to industries that we believe will see a sharp acceleration in demand in a post-Covid world as well as to industries that would outperform in a reflationary environment. (We take a deeper look at this topic in our post, “Perspectives on Growth and Inflation Expectations in a Post-Covid World.”) These adjustments in our positioning have resulted in a decrease in our overweight to the U.S. as we fund new opportunities within the emerging markets, Europe, and Japan.

EUROPE

Europe was hit hard by the onset of Covid-19, and strict quarantines were imposed, with Sweden’s very limited measures an exception. But we are seeing a strong rebound in economic activity as restrictions have been loosened across the continent. More recently, rising case counts have raised concerns of a second wave in Europe, but with hospitalizations and deaths not showing similar acceleration, we think it’s unlikely we see a return of the disruptive restrictions put in place in March and April.

Winston Churchill and Rahm Emmanuel have each famously commented about taking advantage of a crisis to implement change, during WWII and the GFC, respectively. The European Union seems to have heeded that advice this year. For most of the past decade, we’ve seen generally easy monetary conditions across the eurozone, but a combination of overregulation and fiscal austerity have stifled growth. One of the main challenges of the past two decades in Europe relates to having a currency union without congruous fiscal or banking unions. This has led to lack of agreement from country-to-country on just about any fiscal policy issue as well as inaction in addressing bank balance sheet recapitalizations since the GFC more than a decade ago. As a result, investors in Europe have had to live in fear of a fracturing monetary union. When Britain voted to leave the European Union, this anxiety was intensified. After initial squabbling when the pandemic took hold, there was agreement on a €750 billion recovery package, the hallmark feature of which is supranational bond issuance by the EU. In the near term, the recovery package and the ECB’s Pandemic Emergency Purchase Programme will provide countries across Europe with the fiscal space and financing needed to stimulate their economies.
In the medium-to-longer term, the EU recovery fund takes a significant step in the direction of greater fiscal consolidation, mutual bond issuance, and centrally controlled taxing and spending by the EU. Markets interpreted this development positively, as it reduced political tension and eurozone breakup risk and clarified the direction of fiscal policy. This improved sentiment has been reflected in a sharp appreciation of the euro.

Last year, before Covid struck, there was already a clear shift in place with regard to Europe’s, and particularly Germany’s, appetite for greater fiscal expansion. Much of this increase in spending was earmarked to support “green” initiatives, including investment in renewable energy and other environmentally friendly areas. The recovery agreement, and the fiscal and funding transformation that it looks set to bring, should only expand investment in these areas. Furthermore, a sustained increase in productive European investment has the potential to reduce the region’s reliance on exports as the main lever for growth, which should allow for greater tolerance of euro strength by the ECB. The region has often been a source of disappointment for investors over the past decade, so a dose of caution is warranted as we monitor how productively capital is deployed, whether this indeed is a transformation in fiscal policy, and whether euro strength persists.

In terms of positioning, the Calamos global and international portfolios already had exposure to companies in the industrial, utility, and energy sectors. These areas are positioned to benefit from increased spending on renewables, and we remain constructive on these opportunities. We also continue to hold positions in innovative businesses in payments, healthcare, and online services that should grow strongly irrespective of the cyclical growth backdrop. But as the recovery in global growth takes hold into 2021, we expect earnings for companies in more cyclically oriented sectors with higher operating leverage to demonstrate improving profitability. Valuations in many of these names remain quite attractive as compared to less cyclically exposed companies. As a result, we have increased our exposure to high-quality companies in these areas.

**EMERGING MARKETS**

Investors often discuss emerging markets as a singular asset class with similar drivers and return expectations. There is some truth to this. There has been a tendency for emerging markets to outperform in weak-dollar environments and their equity markets are more geared toward cyclical sectors. (See our post “Cyclical Themes: Outlook for the U.S. Dollar” for more on this topic.) However, the reality is that there are fundamental and consequential differences among emerging economies. From an investment standpoint, every year the dispersion between the strongest and weakest performing emerging market is significant.

In a similar vein, Covid shed light on another shortcoming of the “Emerging Market Asset Class” construct—specifically, the role on MSCI and other major indices to determine the constituency of EM benchmarks. As the pandemic fueled the growth of work/consume-from-home models, we have seen consumer, technology, and internet companies throughout the emerging markets adapt and thrive. We held many of these companies at sizeable weights in our portfolios, with their fundamentals improving rapidly and generating strong equity returns, although MSCI had not yet added these positions to their benchmarks.

Year-to-date emerging market index returns have yet to recapture their pre-Covid highs. But for active managers who do not utilize a benchmark to define their universe, there has been significant opportunity to benefit from the tremendous growth and innovation in this asset class. We may look back at 2020 as the year markets began to realize the shortcomings of index providers driving passive investors’ allocations.

**FIGURE 8. TOWARD THE RETURN OF FISCAL POLICY IN THE EUROZONE**

CHANGE IN THE CYCLICALLY ADJUSTED PRIMARY BALANCE, AVERAGE OF OECD AND IMF

![Diagram showing change in the cyclically adjusted primary balance of the eurozone](source: Gavekal Data/Macrobond. Nick Andrews and Cedric Gemehl, Strategy Monthly, “A New European Dawn?”, July 2020.)
From a macro perspective, we believe Asia is one of the most attractive regions in emerging markets today. Asia is benefiting from its first-in, first-out position during this Covid crisis as well as from cultural and societal norms that enabled quick responses to this pandemic. As the European and U.S. economies recover, Asia has seen an acceleration in exports as it meets the recovery in demand. Monitoring current inventory levels across many industries throughout Asia, we've seen much of this demand has been met in part by drawing down inventory levels. This gives us significant optimism that as business and consumer confidence improve, we'll see a restocking cycle unlike anything we've seen in recent years.

While Asia is benefiting from near-term increased demand from Europe and the U.S., over the medium term we believe Asia is transitioning to an environment where China will be the key source of demand. President Xi has recently begun promoting this “China dual circulation” policy, which to our eye is just a fancy term for increasing consumption. We've long discussed the opportunity for consumption to become a larger percentage of emerging market economies, and Calamos Investments even launched a mutual fund in 2008 to take advantage of this shift in demand.

President Xi sees the benefits of increasing consumption, and we expect reforms to modernize China’s domestic economy, strengthen its supply chains, and encourage both domestic and foreign investments that promote Chinese consumption supported its own supply chains and those of its allies. We have identified Chinese “National Champions” and emerging Chinese brands that we believe can capitalize on this shift of consumption and profit from these new reforms and initiatives.

In our opinion, the primary factor in China’s shift toward internal consumption is the result of the continued separation of the U.S. and Chinese economies. We have long believed these economies will decouple, creating near-term risks and volatility but also significant growth potential.
for select companies as supply chains re-orient and new opportunities emerge. Although the headlines will continue to gravitate toward “worst fear” scenarios, we typically view the reality as much less concerning, and the volatility can create dislocations that we can take advantage of.

We continue to monitor policy and adjust our exposure to benefit from policy tailwinds. A recent example of this relates to China’s policy to internalize all IT systems and software over the next three years. This policy fueled significant demand within the Chinese software-as-a-service (SaaS) industry. The positions we’ve added in anticipation of this increased demand have already proved beneficial to our portfolios. We also look outside of China for opportunities, with Taiwan, Korea, Vietnam, and Malaysia just a few of the countries that are seeing increased demand as supply chains re-orient as a result of U.S.-China trade disputes.

As previously discussed, a synchronized global recovery and a weak-U.S. dollar regime would be very beneficial for outperformance of the emerging market asset class. But looking beyond the broad asset class, we continue to identify secular and cyclical tailwinds that provide differentiated exposure to the growth of the emerging markets.

JAPAN
One might have expected that when a prime minister as successful as Shinzo Abe resigned over health issues that the Japanese equity market would underperform due to the uncertainty of future leadership. However, Abe’s transitioning of responsibilities to Yoshihide Suga has been viewed positively, as Suga has ensured the continuation of Abe’s reforms along with new arrows of focus. When Abe first came into office, he implemented a “three-arrow” strategy (often referred to as “Abenomics”), utilizing aggressive monetary policy, fiscal stimulus, and structural reforms that included improved corporate governance and capital allocation. Japan never achieved the inflation targets Abe originally intended, with demographics and a heavy debt burden proving too strong of headwinds to be fully offset by these pro-growth policies. Even so, Abe instead can declare victory via the four million jobs that have been created in Japan since he took office in 2012. From our perspective, Prime Minister Abe’s greatest impact was via improvements in corporate governance, notably increased disclosures, more diversified boards, increased use of stock buybacks, and improved capital allocation.
While it is very early days in Prime Minister Suga’s term, we have been pleased with the initial outline of “Suganomics”—most notably, a continuation of the existing three-arrow strategy with a new emphasis on the digital transformation of both the public and private sector. Japan has managed the Covid crisis better than many other countries, but the pandemic has exposed the country’s lack of IT infrastructure to support work-from-home and digital government services. It is therefore not surprising that Suga has focused first on initiatives to promote the digital transformation of local government while also promoting programs to support the migration out of rural city-centers as remote working solutions are implemented. While still early days, Suga has already announced that Japan will move to digital drivers’ licenses, utilizing the My Number ID System, which is expected to be the backbone for future digitization programs. To benefit from these new initiatives, we have been adding exposure to companies within Japan’s IT services industry that will implement these digital initiatives in the public and the private sector. More broadly, we believe the continuation of the three-arrow strategy should be positive for the broader Japanese equity market.


While it is very early days in Prime Minister Suga’s term, we have been pleased with the initial outline of “Suganomics”—most notably, a continuation of the existing three-arrow strategy with a new emphasis on the digital transformation of both the public and private sector. Japan has managed the Covid crisis better than many other countries, but the pandemic has exposed the country’s lack of IT infrastructure to support work-from-home and digital government services. It is therefore not surprising that Suga has focused first on initiatives to promote the digital transformation of local government while also promoting programs to support the migration out of rural city-centers as remote working solutions are implemented. While still early days, Suga has already announced that Japan will move to digital drivers’ licenses, utilizing the My Number ID System, which is expected to be the backbone for future digitization programs. To benefit from these new initiatives, we have been adding exposure to companies within Japan’s IT services industry that will implement these digital initiatives in the public and the private sector. More broadly, we believe the continuation of the three-arrow strategy should be positive for the broader Japanese equity market.


While it is very early days in Prime Minister Suga’s term, we have been pleased with the initial outline of “Suganomics”—most notably, a continuation of the existing three-arrow strategy with a new emphasis on the digital transformation of both the public and private sector. Japan has managed the Covid crisis better than many other countries, but the pandemic has exposed the country’s lack of IT infrastructure to support work-from-home and digital government services. It is therefore not surprising that Suga has focused first on initiatives to promote the digital transformation of local government while also promoting programs to support the migration out of rural city-centers as remote working solutions are implemented. While still early days, Suga has already announced that Japan will move to digital drivers’ licenses, utilizing the My Number ID System, which is expected to be the backbone for future digitization programs. To benefit from these new initiatives, we have been adding exposure to companies within Japan’s IT services industry that will implement these digital initiatives in the public and the private sector. More broadly, we believe the continuation of the three-arrow strategy should be positive for the broader Japanese equity market.
Beyond the optimism around Suganomics, we believe the Japanese equity market is well positioned to benefit as a post-Covid synchronized global recovery fuels a more reflationary environment. With a combination of attractive relative valuations and significant exposure to capital-intensive manufacturing and automation industries, the Japanese equity market tends to perform well during these reflationary periods, most recently in 2016 and 2018. We expect a similar experience as consumer and business confidence improve post-Covid and the massive liquidity and fiscal stimulus that has been implemented globally experiences an acceleration in deployment. In recent weeks, we’ve seen many companies in these industries exhibit stronger price momentum, in addition to indications that fundamentals are inflecting positively. The Japanese equity market remains a consensus underweight per the market data we monitor and our portfolio management team has been proactively closing our own underweight given our increased optimism, both for internal reforms, as well as the building global recovery.

For additional commentary from the Calamos Global Equity team and information about our global and international capabilities, please visit our global resource center at calamos.com/globalmarkets.

GLOBAL EQUITY TEAM CONTRIBUTORS

Nick Niziolek, CFA, Co-CIO, Head of International and Global Strategies, Senior Co-Portfolio Manager
As a Co-Chief Investment Officer, Nick Niziolek is responsible for oversight of investment team resources, investment processes, performance and risk. As Head of International and Global Strategies, he manages investment team members and has portfolio management responsibilities for international, global and emerging market strategies. He is also a member of the Calamos Investment Committee, which is charged with providing a top-down framework, maintaining oversight of risk and performance metrics, and evaluating investment process. Nick joined the firm in 2005 and has 18 years of industry experience, including tenures at ABN AMRO and Bank One. He received a B.S. in Finance and an M.B.A. from DePaul University.

Dennis Cogan, CFA, Senior Vice President, Co-Portfolio Manager
Dennis Cogan is responsible for portfolio management and investment research for the firm’s global, international, and emerging market equity strategies. He joined Calamos in 2005 and has 20 years of industry experience. Previously, Dennis worked for Accenture in Strategic Planning and Analysis. He received a B.S. in Finance from Northern Illinois University.

Paul Ryndak, CFA, Senior Vice President, Head of International Research
Paul Ryndak is responsible for developing, enhancing, and maintaining our research processes and resources, working in partnership with senior members of our investment organization. He has oversight over the fundamental research efforts of our global equity research team and research associates. Paul has been with the firm for 17 years and has 20 years of industry experience. His previous experience includes roles at Fitch Ratings and GE Capital. Paul received a B.S. in Finance from Eastern Illinois University, and an M.S. in Finance from DePaul University.

Kyle Ruge, CFA, Associate Vice President, Senior Strategy Analyst
Kyle Ruge is a member of the international and global investment team and is responsible for fundamental research as well as for assisting in the portfolio management of the firm’s global, international, and emerging market equity strategies. He joined the firm in 2006 and has 16 years of industry experience. Kyle began his career with Broadview Advisors and McCarthy, Grittinger and Weil Financial Group. Kyle graduated magna cum laude from Marquette University with a B.S. in Finance.
Calamos Global and International Strategies: A Robust Global Investment Process

**TOP-DOWN THEMATIC VIEWS**
» Expressed via active bets to key secular growth themes

**TOP-DOWN CYCLICAL VIEWS**
» Expressed via active bets to countries, currencies, sectors, etc.

**BOTTOM-UP QUANTITATIVE TOOLS**
» Calamos Timeliness Tools
» 3rd Party Quantitative Tools
» MSCI BARRA Factor Analysis
» MSCI ESG Ratings

**BOTTOM-UP FUNDAMENTAL RESEARCH**
» Analyze business model and growth drivers, competitive landscape, near-term catalysts, key risks and ESG considerations, business valuation, and capital structure opportunities

Themes Provide a Tailwind for Sustainable Growth

**WE IDENTIFY AND PURSUE THEMES WE EXPECT TO DRIVE GROWTH AND CREATE INVESTMENT OPPORTUNITIES**

**Secular Themes:** Long-term trends that drive growth for years/decades to come in a particular sector or industry. We believe that these themes provide a tailwind for select companies.

» Mobility and connectivity (cloud computing/SaaS, e-commerce, mass digitalization, online services, payments)
» Shifts in consumer preferences (global middle class, experiences vs. things, healthier lifestyles, aging demographics)
» Artificial intelligence and automation (productivity gains, autonomous machines/vehicles)
» Green energy solutions (renewable energy generation, storage, EVs)
» Advances in nanotech, biotech, and genetics (bioprocessing, precision medicine, next generation diagnostics/treatment/monitoring)
» Globalization reversing (rising nationalism and trade/geopolitical tensions, localizing supply chains)

**Cyclical Themes:** Themes tied to the general business cycle. These themes are shorter in duration but can provide shorter-term opportunities.

» Global central bank monetary policies
» Regional government fiscal policies/election cycles/reform initiatives
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.

As a result of political or economic instability in foreign countries, there can be special risks associated with investing in foreign securities, including fluctuations in currency exchange rates, increased price volatility and difficulty obtaining information. In addition, emerging markets may present additional risk due to the potential for greater economic and political instability.

Indexes are unmanaged, do not include fees or expenses and are not available for direct investment. The S&P 500 Index measures the performance of large-cap U.S. equities. The Russell 3000 Index is a measure of the broad U.S. stock market. Russell 3000 Growth Index and Russell 3000 Value Index measure U.S. growth and value equities, respectively. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI World ex U.S. Index measures developed market equities, excluding the U.S. The MSCI ACWI Index is a measure of the global stock market performance, including developed and emerging markets. The MSCI ACWI Growth Index and MSCI ACWI Value Index measure global growth and value equities, respectively. The ICE BofA U.S. High Yield Index is an unmanaged index of U.S. high yield debt securities. The ICE BofA Treasury 20+ Year Bond Index is market value weighted and designed to measure the performance of the U.S. dollar denominated, fixed rate 20+ Year U.S. Treasury market.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE