CALAMOS INVESTMENTS

CALAMOS GROWTH AND INCOME FUND

Expanding Opportunities, Continued Equity Upside

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Key Points:

» Economic growth and inflation continue migrating toward their historic averages, the Fed's long-awaited rate cuts support the "return to normal" narrative that has been unfolding over many years.

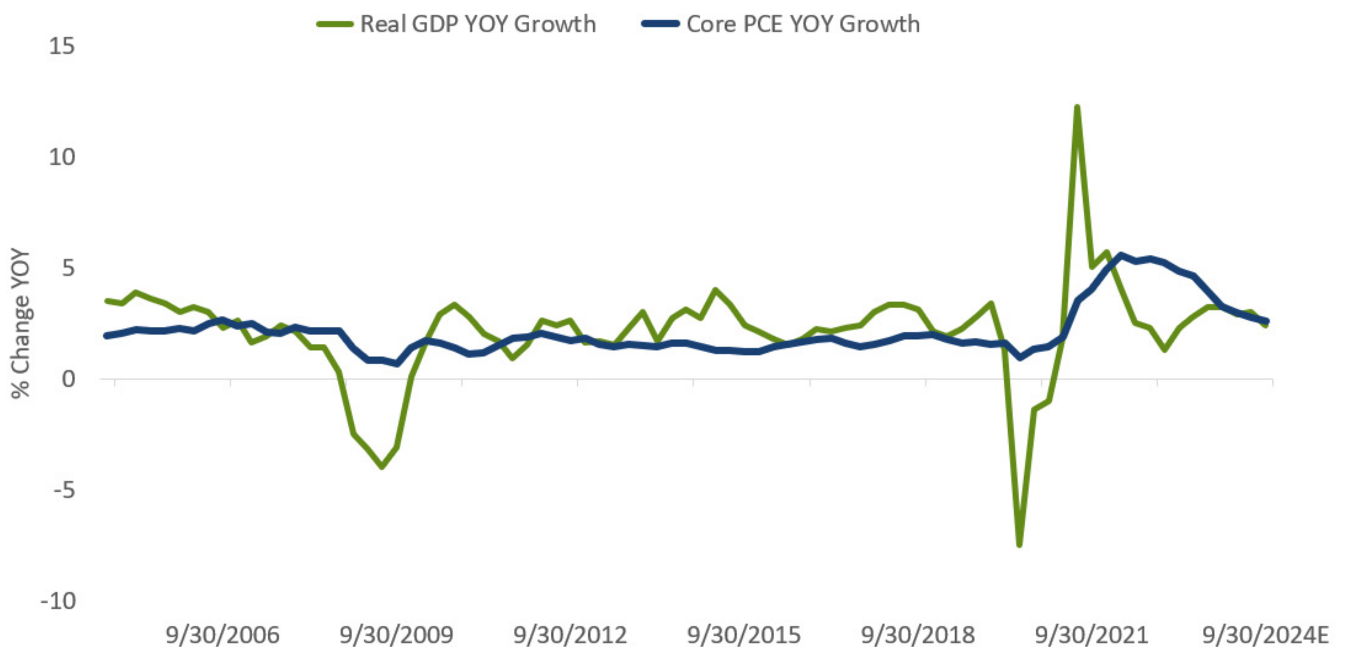
» We expect slow-but-positive economic growth over the next year, with lower interest rates giving an added boost to rate-sensitive sectors of the economy.

» We see tailwinds for areas positioned to benefit from cyclical factors driven by lower rates and government spending and also favor companies that can improve profitability in a slower-growth environment.

» We are identifying opportunities among leaders in artificial intelligence and information technology infrastructure, beneficiaries of government-driven infrastructure projects, utilities companies involved in the energy transition, and select areas of health care.

Over recent quarters, we have focused on the US economy's path back to normalization as the extraordinary measures put into place in response to the pandemic unwind. Real GDP and employment growth have slowed to more typical levels, and inflation is also normalizing. In the second quarter, real economic growth continued at a 3% level, albeit with varying levels across different GDP components. The most recent figures were driven by improvements in private goods industries (oil and autos), while private services (financials and healthcare) showed steady growth.

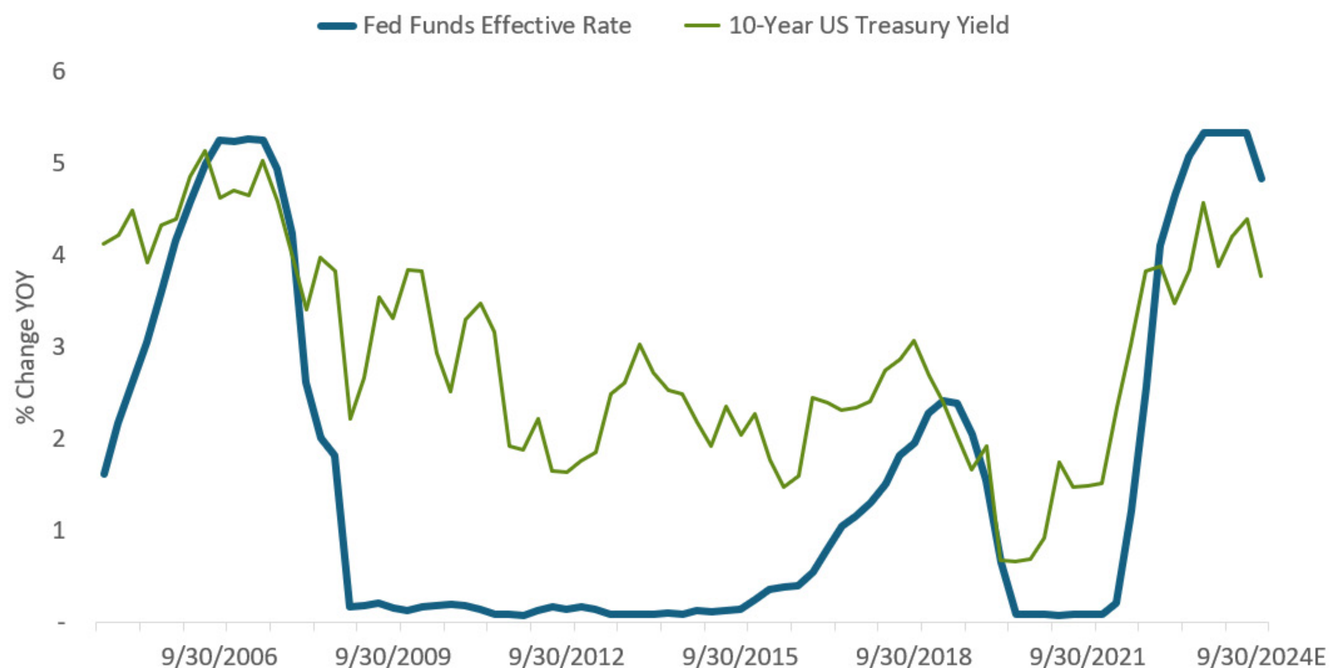
US Growth and Inflation Continue to Approach Historic Averages



Source: Bloomberg

In terms of the normalization story, short-term interest rates have been a holdout—that is, until the final days of the quarter, when the Federal Reserve moved forward with its much-anticipated rate cut, reflecting reduced concern over inflation and a renewed focus on maintaining full employment.

Fed Funds Reduction Cycle Begins; the 10-Year Yield is Already More Normal



Source: Bloomberg. **Past performance is no guarantee of future results.**

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Lower rates should provide some tailwinds to growth in interest-rate-sensitive areas of the economy. US fiscal policy remains in flux, with the upcoming elections likely to shape future tax policies, spending riorities, and regulatory frameworks. Depending on election outcomes, different parts of the economy may be favored over others, but we do not expect a significant overall disruption in growth or inflation trends.

The Fed has joined a growing list of central banks more concerned about slowing growth than inflation. The European Central Bank began to lower rates in June 2024, as it saw inflation declining amid slow growth. On the heels of the Fed's announcement, the People's Bank of China announced cuts in policy interest rates and mortgage costs, along with support for the property and stock markets, as China's government took significant steps to increase economic growth and manage market expectations more effectively.

More importantly, China's Politburo has called for additional stimulus, signaling a shift toward the most aggressive fiscal and monetary policies seen for years. These measures aim to reset growth expectations and support aggregate demand, potentially leading to higher equity prices and higher global growth. That said, time will tell if there will be real growth improvement. China has embarked on policies such as these in the past without intermediate-term positive results in growth and asset prices.

Given our expectation of slow-but-positive economic growth over the next year, we are assessing the investment opportunities with a focus on real growth and return improvement, which includes areas where we see growth that others do not. Earnings surprises have played a significant role in market performance over the past year and explain a substantial share of the dispersion in returns we have seen between winning and losing stocks. We believe the dispersion in returns caused by earnings surprises has occurred because the market had been discounting less robust growth, but positive financial results have caused market participants to re-evaluate their views on current and future growth. We believe that our approach—i.e., seeking out companies with improving fundamentals and equity prices with upside to our intrinsic value calculations—will guide us to the right places.

These opportunities include areas with favorable cyclical factors driven by lower rates and government spending, and companies that can improve profitability in a slower-growth environment. Many companies have been successful in improving their returns on capital through increased efficiencies, normalized supply chains, and revised investment strategies based on the current interest-rate environment. In particular, improved profit margins in large-cap technology and interactive media companies have contributed significantly to the margin expansion of the overall equity market. The resilience of these companies' profit margins has been a key factor in the overall market's stability, even amid economic uncertainties. We believe these and other companies can continue to improve margins and returns, thus driving equity prices higher over the short- to intermediate-term. As the pace of corporate cost-cutting and restructuring has increased over the past several quarters across several areas, this gives our team more opportunities to identify companies with improving returns on capital.

More specifically:

- We see compelling prospects for companies with exposure to new products and geographic growth opportunities that can improve cash flow margins as they execute on growth initiatives.
- The tech sector, particularly companies involved in artificial intelligence and IT infrastructure, continues to drive market performance. We believe an increasing number of companies in these areas will demonstrate growth in profit margins and free cash flow.
- As governments worldwide increase infrastructure spending, companies in the materials and industrial sectors stand to benefit. Investments in these areas are expected to yield improved returns as infrastructure projects ramp up.
- We believe the utility sector offers stable returns and growth opportunities, supported by a global focus on sustainable energy, the modernization of utility infrastructure, and overall electricity demand growth.
- With ongoing advancements in medical technology and pharmaceuticals, the healthcare sector presents robust growth potential. Companies that are leading in healthcare innovation are likely to see sustained demand and profitability.

Calamos Growth and Income Fund pursues lower-volatility equity participation through a multi-asset-class approach. We believe our multi-asset class approach will continue to serve the fund well by providing us with a wider pool of choices from which to select securities with the most favorable expected risk-adjusted returns. The majority of the portfolio is currently invested in common stocks. We are selectively using convertible bonds and options to gain exposure to some higher-risk industries in this low-volatility environment. Cash and short-term Treasuries remain useful tools to lower volatility in multi-asset-class portfolio; although yields are declining, they are still high.

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