CALAMOS INVESTMENTS

CALAMOS GROWTH AND INCOME FUND

Positioned for Mid-Cycle Dynamics and Policy Shifts

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Key Points:

» The economy has transitioned from Covid recovery to a traditional mid-cycle environment characterized by moderate economic and employment growth with industry dispersion.

» Monetary policy is normalizing with the Fed's initial rate cuts, while fiscal policy faces uncertainty under the new administration, particularly regarding tax cuts and spending plans.

» Presidential policy initiatives in immigration, tariffs, and deregulation could create both opportunities and market volatility.

» Company and industry-specific factors are increasingly important, with technology deployment, infrastructure build-out, innovation, consolidation opportunities, and policy shifts creating distinct winners.

» Market valuations appear reasonable given expectations for 2025 earnings growth, lower interest rates, and potential fiscal policy benefits, though careful security selection remains crucial for risk management.

Since early 2020, we have used a Covid recovery framework in our economic and investment outlooks. During this period, fiscal and monetary policy responses to Covid played outsized roles in the economy and investment returns. Individual industry and company drivers continued to play their normal role during this period.

With the Fed beginning its rate normalization process by reducing rates in September 2024, we believe the Covid recovery process is at its conclusion. We will revert to our more traditional economic outlook framework—one that focuses on the stage in economic cycle; fiscal, monetary, and geopolitical policy changes; and individual industry- and company-specific drivers. Our investment outlook integrates our economic outlook with valuation and sentiment factors along with other qualitative and quantitative information.

Our current view of the economic environment places the US economy in the mid cycle, with average total economic growth and employment, albeit with dispersion across industries. With the return of a slightly upward sloping yield curve after the recent Fed funds reductions, we believe the Fed is well on its way to complete its march toward the current view of the neutral rate this year.

Future fiscal policy changes under the new administration may have a significant economic impact, but likely not until 2026, with the magnitude dependent on the size and scope of potential tax and spending changes. With a small Republican majority in Congress, the size and scope of tax and spending cuts is uncertain. Other areas where the President will have more control, such as immigration, tariffs and deregulation, are also areas of uncertainty in regard to size and scope. Uncertainty can create market volatility, so we will watch developments carefully.

In addition to these macroeconomic factors, we are focusing on several industry- and company-specific drivers:

» Financial services companies are positioned to benefit from deregulation and a steepening yield curve while maintaining strong risk management practices. However, their current prominence in momentum strategies warrants careful position sizing.

» In 2025, we expect to see more companies effectively deploying AI and automation to drive productivity gains, with particular emphasis on those showing discipline in capital allocation and clear returns on AI investments.

» Infrastructure and energy transition beneficiaries with proven execution capabilities and pricing power should show good growth, especially those with existing competitive advantages being reinforced by policy shifts.

» Healthcare innovators that can capitalize on technological advances and demographic trends look promising, with the sector offering relatively attractive valuations after recent underperformance.

» Industry consolidation may accelerate due to the combination of deregulation, lower borrowing costs, and technology-driven operational synergies.

» If enacted, lower corporate and individual tax rates would have a positive effect across most companies, especially those paying the highest US tax rates (those doing their primary business in the US, especially small-cap companies).

The current market environment presents several notable characteristics:

» Market valuations reflect improvement in earnings in 2025, the effects of lower short-term interest rates, and in some cases, fiscal policies that have yet to be enacted. Our base case is positive equity market returns, but we remain vigilant for changes in these drivers.

» Momentum strategies have shown strong performance over the past year. These gains have been supported by fundamental earnings growth rather than speculative multiple expansion alone, consistent with typical mid-cycle dynamics. Although we favor momentum strategies over the medium and long term, we are monitoring this exposure closely.

» Small-cap underperformance has been pronounced over the past several years. Recent performance has been better but volatile, as monetary policy eases and fiscal policy may change in a positive way for them. Typically, small-cap equities perform better in the early part of the economic cycle, but policy changes can have a positive impact in the mid cycle.

» Given the current rate environment and policy uncertainty, we maintain our short duration positioning and moderate below-investment-grade credit exposure in Calamos Growth and Income Fund's fixed income allocation. This positioning will be reviewed as fiscal policy clarity emerges throughout the year.

» Convertible securities are our favored portion of the fixed income market. Those securities provide exposure to some favorable but riskier parts of the equity market (small and mid-cap and momentum equities) in a risk-managed way.

Risks to our outcome include policy execution, geopolitical uncertainties, earnings results, market technical factors, and optimistic market valuations. In this type of risk environment, we emphasize several key criteria in security selection:

» Strong and improving free cash flow generation

» Demonstrated pricing power and margin resilience

» Clear competitive advantages being reinforced by current industry or policy trends

» Balance sheet strength providing flexibility for organic investment and M&A

» Valuations with positive upside/downside return scenarios.

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.

This mid-cycle environment, characterized by significant policy shifts and industry-specific evolution, demands careful security selection and risk management. Opportunities exist for companies effectively navigating these changes, but selectivity and attention to valuation are crucial. 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. Cash and short-term Treasuries remain useful tools to lower volatility in multi-asset-class portfolio.

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