High Income Opportunities Strategy Quarterly Commentary

CALAMOS INVESTMENTS

Market Overview

As represented by the Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index, the US high-yield bond market returned 0.17% in the fourth quarter.

In a quarter full of important economic data releases and an active Fed-cutting cycle, the most significant event was the conclusion of the 2024 US election cycle. Trump's victory and a Republican sweep of both chambers of Congress imply major policy changes in 2025. Proposals repeatedly broadcast during the campaign included slashing federal expenses, cutting taxes, implementing additional tariffs, undertaking mass deportations, and reducing regulatory burdens—especially on energy production. All of these factors could significantly impact economic activity.

How successfully President Trump can implement his agenda will be a critical determinant of the ultimate economic impact. Many bolder proposals will likely open negotiating positions to frame the administration's goals. There will be resistance to most of the proposed policies, and many will get bogged down in legal battles. In reality, there are still many unknowns.

At the same time, we expect the Fed to slow the pace of cuts in 2025. The yield curve should continue steepening as policy eases toward the Fed's presumed neutral rate. We still expect the Fed to lower rates two to four more times, with rates around 3.5% at the end of 2025.

Inflation will likely be a thorn in everyone's side—for the Fed, the administration, and consumers alike. Year-over-year measures are already reaccelerating, and unless an unexpected recession develops, our team sees inflation data releases settling back into readings of ~3%, well above the Fed's 2% symmetrical target.

At the market level, fundamentals for high-yield companies remained solid. Third quarter earnings results (released in Q4) for the high-yield universe increased at a 3% annualized rate, although mature sectors such as metals/mining, retail, and transportation did see declines. Interest coverage deteriorated marginally. Strong demand from credit investors has allowed companies to extend maturities and any concerns about a maturity wall have been pushed well beyond 2025.

Risk markets delivered modest positive returns during the quarter despite high equity multiples and relatively tight credit spreads offering limited compensation for taking on additional credit risk. Following a strong third quarter, the S&P 500 gained 2.4%, and the Russell 2000 rallied 0.3%, while the high-yield market returned 0.2% as spreads moved slightly tighter while Treasury yields rose 60–80bps across intermediate maturities, eroding most of the quarter's income return. At ~23x current earnings, earnings expansion is likely necessary to fuel further material advancement of equities.

High-yield spreads closed the quarter 8 basis points tighter at +287. Higher base rates on Treasuries were the greater driver of returns during the final calendar quarter, as they drove negative price returns that eroded most of the quarter's income return. Investment-grade spreads were also tighter, closing at +80 basis points following the previous quarterly close of +89. Returns across credit qualities were directional, with lower-rated credits leading the way. This is typical given the environment, as BBs tend

All portfolio positioning and sector information is for a representative portfolio. Please see additional information that follows commentary.

to have the highest Treasury sensitivity and the lowest income cushion. BB issuers returned -0.5%, while B-rated credits delivered 0.3%, and CCCs returned a carry like 2.3%. Trailing 12-month defaults decreased to 1.5% in December, less than half the long-term average of 3.4%. In the loan market, trailing 12-month defaults are at 4.4%, well above that market's long-term average of 3.0%. The gap between high-yield bond and loan defaults is the highest so far this century. The best-performing sectors in the Bloomberg Barclays US Corporate High Yield 2% Issuer Cap Index were transportation (+1.8%), communications (+1.5%), and brokers/asset managers/exchanges (+1.0%), while REITs (-1.5%), electric utilities (-1.2%), and capital goods (-0.7%) represented the largest laggards.

Performance Review

For the quarter ending December 31, 2024, the strategy returned 0.65% (gross of fees) and 0.54% (net of fees) versus the Bloomberg US High Yield 2% Issuer Capped Index return of 0.17%.

Positive Influences on Performance

- Security selection among communications companies, notably driven by the cable satellite industry, boosted returns.
- Security selection within the energy sector also strengthened relative performance, particularly among midstream pipelines.

Negative Influences on Performance

- Security selection within the technology sector weighed on returns.
- Security selection within the capital goods sector, specific to the packaging industry, dragged on performance.

Positioning and Portfolio Changes

From an economic sector perspective, the portfolio holds overweight positions in the energy and REITs sectors. Underweights include consumer cyclicals and technology.

Over the quarter, notable sector changes to the portfolio included:

Insurance. The team increased the allocation to holdings in this sector, largely in the property and casualty industry.

Consumer Non-Cyclicals. The allocation to the consumer cyclical sector was reduced, notably in healthcare and the food and beverage industry.

From a credit quality perspective, the portfolio is overweight out-of-benchmark investment-grade positions while underweight to all below-investment-grade rating categories. Market level credit spreads offer low compensation for additional risk versus historical ranges, and the team has been migrating credit quality higher in response to these conditions. The team continues to find positions in both leveraged loans and investment-grade credit that we believe benefit the portfolio's construction. During the final calendar quarter, we increased the strategy's allocation to investment-grade paper by roughly 1%.

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Positioning Implications

Our philosophy is rooted in being adequately compensated for the risks we are taking. Even though credit spreads can trade in tight ranges for years, it is prudent to use expensive markets as a low-cost opportunity to migrate to higher overall credit quality. The team has been actively doing so across strategies for multiple quarters, investing in secure structures when possible. However, we maintain meaningful exposures to acceptable credit risks identified through our research-driven process.

Futures markets are pricing an additional three or four cuts through 2026 with a terminal Fed funds rate of about 3.8%. Given the cyclical risks, geopolitical wildcards, and changing political landscape, we believe it is more likely the Fed will overdeliver on cuts. However, in Calamos High Income Opportunities Strategy, where interest-rate sensitivity is a lower-order driver of returns, the strategy is short of benchmark duration.

Outlook

Given our inflation concerns, persistent interest rate volatility, a higher-than-expected terminal Fed funds rate, and the market's growing unease at the size of persistent US deficits (reflected in a higher term premia), our view is that long-maturity Treasury rates will be stickier at high levels with the yield of the 10-year Treasury closing 2025 in a range of 4.75%–5.25%. As such, we favor the front end of the curve. Fed cuts could generate positive price returns in short-duration strategies, while the long-end dynamics could result in flat-to-slightly negative price returns on strategies with intermediate-to-longer durations.

The consumer is still partying like it's 1999, although consumption is far from evenly distributed, with high earners driving most of the improvement in retail sales. Given the increasing stress on low-income consumers, we see GDP growth decelerating to trend by year-end. That should cause credit spreads in the investment-grade and high-yield markets to widen modestly from their cycle lows. Even so, our team believes that with a starting yield above 7% and fairly sturdy fundamentals, the high-yield market should deliver mid-single-digit positive returns for 2025.

For additional information please visit the strategy's profile page:
https://www.calamos.com/strategies/high-income-opportunities/

DATA AS OF 12/31/24

HIGH INCOME OPPORTUNITIES AVERAGE ANNUAL RETURNS (%)

	QTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE INCEPTION (11/99)
High Income Opportunities (gross of fees)	0.65	8.84	3.53	4.74	5.11	6.93
High Income Opportunities (net of fees)	0.54	8.35	3.06	4.26	4.51	6.22
Bloomberg US High Yield 2% Issuer Capped Index	0.17	8.19	2.92	4.20	5.16	6.65
ICE BofA High Yield BB-B Constrained Index (HUC4)	-0.17	6.84	2.46	3.64	4.86	6.15

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Past performance does not guarantee or indicate future results. Current performance may be lower or higher than the performance quoted. Portfolios are managed according to their respective strategies which may differ significantly in terms of security holdings, industry weightings, and asset allocation from those of the benchmark(s). Portfolio performance, characteristics and volatility may differ from the benchmark(s) shown.

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The information portrayed is for the Calamos High Income Opportunities Strategy. Representative holdings and portfolio characteristics are specific only to the portfolio shown at that point in time. Other portfolios will vary in composition, characteristics, and will experience different investment results. The representative portfolio shown has been selected by the advisor based on account characteristics that the advisor feels accurately represents the investment strategy as a whole.

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The information provided in this report should not be considered a recommendation to purchase or sell any industry, sector or particular security. There is no assurance that any industry, sector or security discussed herein will remain in a client's account at the time of reading this report or that industry, sectors or securities sold have not been repurchased. The industries, sectors, or securities discussed herein do not represent a client's entire account and in the aggregate may represent only a small percentage of an account's holdings.

It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

Returns and Risk/Reward statistics presented reflect the **Calamos High Income Opportunities Composite**, which is an actively managed composite that invests in high-yield securities, primarily with credit ratings lower than investment grade securities. The Composite was created January 1, 2001, calculated with an inception date of November 1, 1999. The Composite results include all fully discretionary accounts, including those no longer with the Firm.

Fixed Income Risks: Portfolios that invest in fixed income securities are subject to several general risks, including interest rate risk, credit risk, and market risk, which could reduce the yield that an investor receives from his or her portfolio. These risks may occur from fluctuations in interest rates, a change to an issuer's individual situation or industry, or events in the financial markets.

High-Yield Fixed-Income ("Junk Bond") Securities Risk: Investments in Junk Bonds entails a greater risk than an investment in higher-rated securities. Although Junk Bonds typically pay higher interest rates than investment-grade bonds, there is a greater likelihood that the company issuing the Junk Bond will default on interest and principal payments. In the event of an issuer's bankruptcy, claims of other creditors may have priority over the claims of Junk Bond holders, which may leave few or no assets to repay Junk Bond holders. Junk Bonds are also more sensitive to adverse economic changes or individual corporate developments than higher quality bonds. During a period of adverse economic changes or including a period of rising interest rates, companies issuing Junk Bonds may be unable to make principal and interest payments. **Interest-Rate Risk:** The value of fixed-income securities generally decreases in periods when interest rates are rising. In addition, interest rate changes typically have a greater effect on prices of longer-term fixed-income securities rather than shorter-term fixed-income securities. A strategy is subject to the risk that the market value of the bonds in its portfolio will fluctuate because of changes in interest rates, changes in supply and demand for investment securities, or other market factors. Bond prices generally are linked to the prevailing market interest rates. In general, when interest rates rise, bond prices fall; and conversely, when interest rates fall, bond prices rise. The price volatility of a bond also depends on its duration. Duration is a measure that relates the expected price volatility of a bond to changes in interest rates. The duration of a bond may be shorter than or equal to the full maturity of a bond. Generally, the longer the maturity of a bond, the greater its sensitivity to interest rates. Bonds with longer durations have more risk and will decrease in price as interest rates rise. For example, a bond with a duration of three years will decrease in value by approximately 3% if interest rates increase by 1%. To compensate investors for this higher interest rate risk, bonds with longer maturities generally offer higher yields than bonds with shorter duration. If interest rates increase, the yield of a strategy may increase and the market value of the strategies' securities may decline, adversely affecting the strategies' net asset value ("NAV") and total return. If interest rates decrease, the yield of a strategy may decrease and the market value of the strategies' securities may increase, which may increase the strategies' NAV and total return.

The **Bloomberg US Corporate High Yield 2% Issuer Capped Index** measures the performance of high-yield corporate bonds with a maximum allocation of 2% to any one issuer.

Unmanaged index returns assume reinvestment of any and all distributions and do not reflect any fees, expenses or sales charges. Investors cannot invest directly in an index.

Fees include the investment advisory fee charged by Calamos Advisors LLC. Returns greater than 12 months are annualized. Chart Data Sources: Calamos Advisors LLC and Bloomberg.

Average annual total return measures net investment income and capital gain or loss from portfolio investments as an annualized average assuming reinvestment of dividends and capital gains distributions.

Calamos Advisors LLC is a federally registered investment advisor. Form ADV Part 2A, which provides background information about the firm and its business practices, is available upon written request to:

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