THE START OF A MULTI-YEAR CYCLE

Ask the PORTFOLIO MANAGER

What drives your positive outlook for emerging markets in 2018?

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NICK NIZIOLEK

Co-CIO, Head of International and Global Strategies and Senior Co-Portfolio Manager

Emerging markets in January 2018 look attractive based on their fundamentals, relative valuations, liquidity and relative strength, explains Nick Niziolek, Co-CIO, Head of International and Global Strategies and Senior Co-Portfolio Manager.

We remain very positive on emerging markets heading into 2018. And think we could be at the beginning of a multi-year cycle of emerging market outperformance.

Our top-down view includes reviewing four factors that we compare regionally to identify where the best opportunities are to allocate our clients' capital. We look at:

» The fundamentals of the regions that we're investing in

» The relative valuations of the areas that we're investing in

» The liquidity conditions and

» The relative strength.

Looking at the global markets through this lens, emerging markets look very attractive. From a fundamental basis there's been significant progress in emerging markets over the last five to six years in both economic and fiscal reforms. These economies have made significant improvements since the May 2013 Fed taper fear concerns, where we've seen progress in both economic and fiscal reforms. These countries are on a much better footing and we're starting to see the economic growth as global growth is starting to improve in a more synchronized fashion. These markets are starting to benefit.

From a valuation perspective emerging markets remain one of the most attractive asset classes, in our opinion. As they've significantly outperformed in recent years, we think with the improvement that we're seeing in fundamentals, that we're in a position to see that valuation gap close.

From the liquidity standpoint with the dollar continuing to be weak here, and our view that the U.S. dollar is likely overvalued by up to 20% against most major currencies, and the fact that many investors are underweight EM globally, we expect liquidity conditions to remain favorable towards EM and that will be another positive tailwind for this asset class.

And then from a relative strength perspective we continue to see emerging markets outperform here and we—from a bottom-up perspective—are finding significant opportunities that justify our overweight there.

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From a country perspective, our two favorite emerging markets are both China and India. China is a relative value, relative to the rest of the emerging markets. We still see significant bottom-up value there, and when we look across our competitor base, China remains a consensus underweight and we think there's significant opportunity to be adding more exposure there over the coming years.

India on the other hand is a more fully valued market, a consensus overweight amongst our peers. But when we look out over the next three to five years and the reforms that have been implemented and the opportunities that exist, we believe India is one of the most compelling opportunities and that those valuations are more than justified.

When you look across our portfolios, emerging markets remain one of our most favorable areas and one of our most significant overweights.

WATCH VIDEO

Video recorded 1/8/18.

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Calamos Financial Services LLC, Distributor
2020 Calamos Court | Naperville, IL 60563-2787
800.582.6959 | www.calamos.com | caminfo@calamos.com

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