Slow and Steady Can Win the Race in 2019

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What is Calamos' assessment of today's market opportunities?

Transcript of a video recorded on March 21, 2019

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After the worst December since the Great Depression era, we had the best January in over 30 years for the U.S. equity markets.

It's been difficult to define a broad market trend; things can change quickly. For example, the probability of a Fed interest rate hike for 2019 fell from 90%, or almost near certainty, to zero, or no chance, in just a few months' time.

Overall, we believe the U.S. economy to be in good standing, as corporate and consumer balance sheets are in good shape. It's highly likely that the pace of earnings growth will slow from last year's torrid pace, but companies are broadly earning a positive spread over the low cost of capital. Valuations based on forward earnings are well within five-year averages. Overseas, conditions are a bit murkier, with most notable concerns around China and stimulus measures, as well as global trade, with the U.S. and China trade talks front and center. Additionally, we have Brexit, which is a real-life experiment in the making.

To the bond market, high-yield corporate credit looks to be pretty good. Interest coverage has been improving for the last few years. On the investment grade side, though, leverage is off peak levels, but higher than 2008 levels, as many companies issued debt at lower cost of capital. These issues, that were for M&A activity as well as share buybacks, have made the BBB portion the biggest percentage of the investment-grade market in its history.

We see mixed signals in the economic data, which is not a bad thing. Slow and steady can win the race. We don't see a recession in the works, but we must always be prepared for choppy markets and changing sentiment, as we've discussed. We can't really call whether we're mid, late or end of cycle—we'll take a page from the Fed and take a data-dependent approach to that as well. But volatility does tend to increase near the end of economic cycles. Challenging markets don't change long-standing principles of asset allocation. Diversification of return sources within equity and fixed income, as well as strategies that can take advantage of volatility, should be top of mind.

WATCH VIDEO

Video recorded 3/21/19.

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