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Perspectives on Wealth Management in Uncertain Times

As U.S. elections draw closer and the pandemic continues, we understand that many of our clients are apprehensive about the economy and markets. Although there's been a brisk rebound in the markets, many news headlines are discouraging—whether they are focused on economic data points, political tensions, or the uncertain trajectory of the pandemic.

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While it is true that there is a great deal of uncertainty, it's important to recognize the historic resilience of the economy and markets, the ability of individuals and businesses to innovate and adapt, and finally, that opportunity exists in all environments. Throughout these challenging times, the Calamos portfolio management teams have found many opportunities—across asset classes—for our selective and fundamentally driven approaches. Meanwhile, our Wealth Management Teams have focused on ensuring that each client's wealth management strategy appropriately aligns with their long-term needs and the opportunities we see.

Over recent months, I've shared my cautious optimism for a V-shaped economic recovery, with a downturn that is likely to be relatively short lived. I continue to hold this view. Supported by more than $25 trillion in global monetary and fiscal stimulus, economies around the world are making their way back. There's additional upside for global equity and convertible markets through the remainder of the year and beyond, supported by unprecedented monetary and fiscal policy measures, synchronized global recovery, and attractive valuations in many parts of the world.

Of course, even in an overall V-shaped scenario, there will still be challenges and a long road ahead. The pace of recovery will vary from country to country, due to fiscal policy and differing degrees of stimulus, as well as the course of the pandemic. And despite the many support measures put in place, we cannot dismiss the pressures facing many businesses and individuals, particularly those in lower-income households. High savings rates and low mortgage rates are encouraging, but unemployment and bankruptcy risk both remain high. These are areas that we will be watching carefully, especially as more robust benefits roll off.

Many people have been unnerved by recent economic data. For example, in the U.S., second quarter GDP plummeted by record levels, contracting 9.5% for the quarter (for an annualized rate of -32.9%), while consumer activity imploded amid soaring unemployment. However, **we must remember how resilient the economy has been—both during past challenges as well as now. On a month-to-month basis, we have seen upticks in a variety of U.S. and global economic data points related to consumer and company activity.** We are already seeing improvements against expectations for a number of data points in the U.S., China and Europe.

Many investors have become more worried about inflation, as massive monetary stimulus has propelled the U.S. and global economies into uncharted waters. As the economy heals, consumers begin to spend, and supply chains become more localized, inflation is likely to notch up modestly after 2020. Over the near term, we don't expect these inflationary pressures to upend recovery, although they may intensify further thereafter.

Markets have once again demonstrated their propensity to be forward looking, as evidenced by the strong gains we've seen since the selloff peaked in late March (Figure 1). While rising Covid-19 cases in many regions of the U.S. and around the world are deeply concerning, market participants have not lost sight of the progress that has been made in vaccination trials. Volatility has settled down, and credit spreads have narrowed. Consensus earnings expectations for the S&P 500 Index in 2021 are quite similar to those of 2019 (Figure 2).

We are in a period of accelerated disruption, which creates opportunity for the most innovative businesses—and for selective investment strategies. There is likely to be a significant divergence in fortunes over these upcoming quarters, with many companies struggling while recent winners continue to widen their leads. We continue to expect a protracted solvency phase, with many businesses succumbing to pressures and defaults. And indeed, recent weeks have brought a steady string of headlines announcing high-profile bankruptcies among companies that have not been able to withstand the pressures of the shutdown.

Meanwhile, other companies are quickly adapting and gaining ground. Many are part of the trend of "the big get bigger," including the handful of mega-cap tech and consumer names that have driven the stock market's rebound. However, these aren't the only winners. There are also a number of lesser-known, smaller-cap U.S. companies that have flourished, many of which are tied to themes that have gathered force in a short time—for example, telemedicine and a variety of other "at home" trends. Looking globally, key investment themes include artificial intelligence and automation, bioprocessing, global payment networks, and green energy solutions.

Perspectives on Opportunity

Against a backdrop of accommodative policy and economic recovery, we expect strong reflationary tailwinds will support stocks, convertible securities and other risk assets—both in the U.S. and globally. However, active management is paramount, given the many uncertainties in the global economy, as well as the continued bifurcation we expect between leaders and laggards. In the current environment, our teams have identified opportunities both in longer-term business model winners supported by secular themes as well as higher-quality cyclical names that should benefit from improved economic growth.

FIGURE 1. REBOUND DEMONSTRATES THE MARKETS' RESILIENCE (TOTAL RETURN %)
MARCH 24, 2020 TO JULY 31, 2020

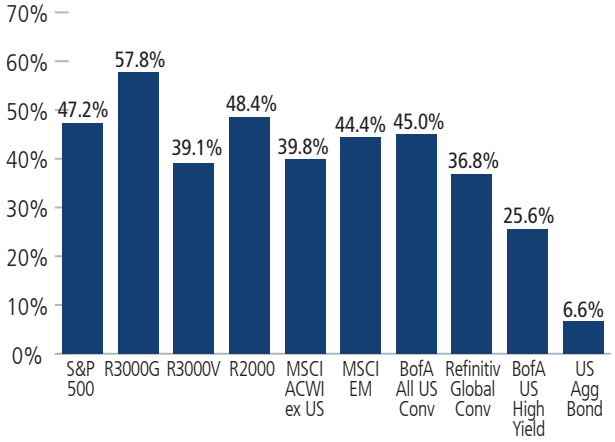
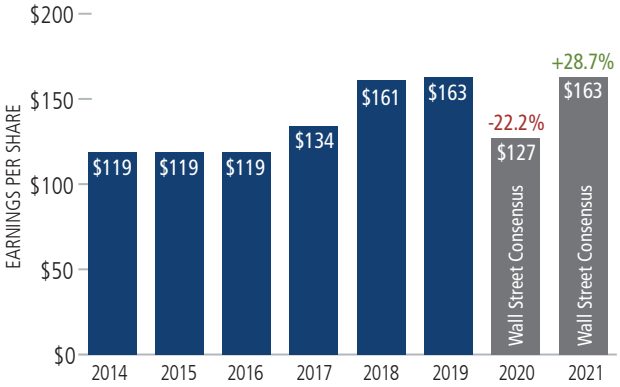


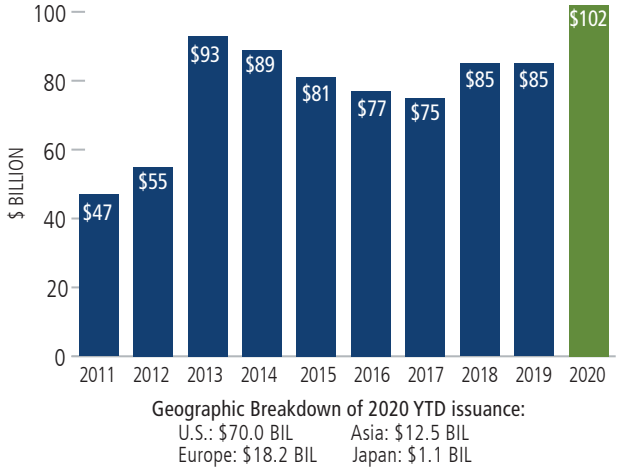
FIGURE 2. S&P 500 INDEX ANNUAL EPS–BOTTOM-UP CONSENSUS



Source: Morningstar (Figure 1), FactSet (Figure 2). **Past performance is no guarantee of future results.**

The convertible market continues to offer abundant opportunities for our active approach—and a means to invest in an exciting breadth of companies. Through July, global companies have issued $102 billion in convertible securities, led by the U.S. at $70 billion (Figure 3). This issuance has already surpassed the full-year totals of recent years and has included many attractive structures, across market sectors. In our clients' convertible strategies, we remain highly active, continually rebalancing to enhance risk/return characteristics, an approach which has proven beneficial in 2020.

FIGURE 3. GLOBAL CONVERTIBLE ISSUANCE ($ BILLION)



As of July 31, 2020. Source: BofA Global Research.

Asset Allocation: Wealth Management Strategies in Volatile Markets

Investors should be prepared for significant market volatility and market rotation. Fiscal policy has been a key underpinning of market sentiment, so as the U.S. presidential election approaches, markets are likely to become increasingly jittery. As the saying goes, markets hate uncertainty. Although many polls currently suggest there may be a change in leadership, we don't need to look too far back in history to see that anything is possible. This lack of visibility requires that investors maintain a long-term perspective—and focus on putting a plan in place now versus making frantic portfolio shifts in the days before and after the election.

My investment career extends back 50 years, and in my experience, a well-diversified, risk-aware asset allocation is one of the best tools for navigating uncertain markets and for turning volatility into opportunity. This principle is a cornerstone of the Calamos Wealth Management approach.

We believe that geographic diversification is very important. U.S. companies across the capitalization spectrum offer compelling growth potential, but adding strategies that invest in non-U.S. allocations provide access to a broader opportunity set. For example, our global strategies include companies that are at the forefront of innovations in artificial intelligence, bioprocessing, and global payments.

We also focus on providing asset class diversification in line with each client's unique needs. Given our expectation for rising but volatile equity markets, convertible securities offer many potential benefits for many clients. For example, convertibles can provide lower volatility equity participation or provide a hedge against rising rates and inflation. This makes them an attractive choice for our clients who are worried about stock market volatility or interest rates. Dedicated convertible strategies or multi-asset strategies that include convertibles along with stocks and bonds may make it easier for investors to maintain stock market participation through choppy periods.

During the extended equity bull market, many investors lost sight of the value of fixed income allocations, but the first quarter selloff has rekindled appreciation for bonds' diversification benefits. A cornerstone allocation to fixed income investments—for example, short-term bonds or core-plus total return approaches—may help enhance the stability of an overall asset allocation while also supporting income needs. Meanwhile, for certain investors, allocations to risk-managed high-yield bond portfolios can provide added income and appreciation potential.

For many of our wealth management clients, alternative strategies can be included as a means to enhance an equity or fixed income allocation. For example, we may add hedged equity and long/short approaches to our equity allocations. Compared to traditional stock strategies, these alternatives can deploy a broader range of tools for navigating downside risk and capitalizing on upside. Turning to fixed income allocation, our market neutral income approach has proven to be an advantageous addition for many of our clients' portfolios, thanks to its time-tested approach. With income generation that is not dependent on interest rates, the strategy can provide an attractive complement to traditional bond strategies.

In Closing

I first began helping clients achieve their wealth management goals in the 1970s—many of you may remember how difficult that environment was. There have also been many scary times for investors since, from the downturn of 1987 to the Great Financial Crisis of 2008-2009. Over time, the markets and the economy have found their way back, rewarding investors with long-term perspective.

Even in these highly uncertain times, we see many opportunities for our Calamos Wealth Management clients. Not all companies will fare equally well during this period of accelerated disruption, but **we have already seen many innovative businesses adapting and flourishing as they meet the needs of a rapidly evolving global economy.** In an environment that favors active and selective approaches, fundamental research, and innovative risk management, we believe our customized wealth management strategies are well positioned to help our clients meet their long-term wealth management goals.

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The Strategies discussed may not be available to you and would depend upon which Calamos Wealth Management LLC investment program you have invested. The asset allocation considerations are not intended to be a representation of what Calamos Wealth Management LLC would suggest for your specific situation. Each individual's tax and financial situation is unique.

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Asset allocation and diversification do not guarantee a profit or protect against a loss.

Important Risk Information.
The value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors also, may have an effect on the convertible security's investment value. Convertible securities and corporate bonds entail interest rate risk and default risk.

As a result of political or economic instability in foreign countries, there can be special risks associated with investing in foreign securities, including fluctuations in currency exchange rates, increased price volatility and difficulty obtaining information. In addition, emerging markets may present additional risk due to potential for greater economic and political instability in less developed countries.

Alternative strategies entail added risks and may not be suitable for all investors. In addition to the risks listed above, principal risks of the market neutral income strategy include: equity securities risk consisting of market prices declining in general, convertible securities risk consisting of the potential for a decline in value during periods of rising interest rates and the risk of the borrower to miss payments, synthetic convertible instruments risk, convertible hedging risk, covered call writing risk, options risk, short sale risk, interest rate risk, credit risk, high yield risk, liquidity risk, portfolio selection risk, and portfolio turnover risk

An investment in a Calamos strategy is subject to risks, and you could lose money on your investment in the strategy. There can be no assurance that a strategy will achieve its investment objective. Your investment in the Strategy is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency.

Indexes are unmanaged, do not reflect fees and expenses and are not available for direct investment.

The **U.S. Dollar Index** measures the value of the U.S. dollar relative to a basket of foreign currencies, including Euro Area, Canada, Japan, United Kingdom, Switzerland, Australia, and Sweden. The **Russell 3000 Growth Index** and **Russell 3000 Value Index** measure U.S. growth and value equities, respectively. The **Russell 2000 Index** measures U.S. small cap stock performance. The **S&P 500 Index** is considered generally representative of the U.S. equity market. The **MSCI All Country World Index** represents the performance of global equities. The **MSCI All Country World ex U.S. Index** represents the performance of global equities, excluding the U.S. The **MSCI Emerging Markets Index** is a measure of the performance of emerging market equities. The **ICE BofA U.S. High Yield Index** is an unmanaged index of U.S. high yield debt securities. The **ICE BofA All U.S. Convertible Index (VXA0)** is a measure of the U.S. convertible market. The **Refinitiv Global Convertible Bond Index** measures the performance of 300 global convertibles. The **Bloomberg Barclays Aggregate Index** represents the performance of U.S. investment grade bonds. ICE Data: Source ICE Data Indices, LLC, used with permission. ICE permits use of the ICE BofA indices and related data on an `as is' basis, makes no warranties regarding same, does not guarantee the suitability, quality, accuracy, timeliness, and/ or completeness of the ICE BofA Indices or data included in, related to, or derived therefrom, assumes no liability in connection with the use of the foregoing and does not sponsor, endorse or recommend Calamos Advisors LLC or any of its products or services.

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