CALAMOS® WEALTH MANAGEMENT

Quarterly Commentary

THREE QUESTIONS FOR H2

Market Review

» The US Federal Reserve paused its series of hikes, though markets interpreted it as a "hawkish" pause and expect at least one more rate hike this year.

» Inflationary pressures eased with an 11th consecutive decline in the Consumer Price index (CPI) combined with a lower-than-expected reading in the Fed's preferred inflation measure, the core personal consumption expenditures (PCE).

» Economic data remained resilient, defying the recession skeptics for at least another quarter. Additionally, consumer confidence increased to the highest level in nearly one and a half years.

» US equity markets posted continued strong performance, with the S&P 500 up 8.7% during the second quarter (16.9% year-to-date) and the Nasdaq up 13% (32.3% year-to-date).

» Fixed income markets continued to be volatile, with the US 2-year Treasury rising almost 90 basis points to 4.9% during the quarter.

Market Outlook

» We believe it will be difficult for the Fed to continue its rate hike cycle after July, given declining inflationary pressures and financial stability risks that are still present.

» Monetary policy divergence, financial stress, and geopolitical tensions should present more opportunity for active management to add value.

» Concerns about the durability of equity performance will continue in the second half of the year as markets digest slowing corporate earnings and the impact of the rapid rate hike cycle.

» We view core fixed income as increasingly attractive, given the backup in yields as well as the increased diversification potential in portfolios.

This quarter, we highlight three key questions, the answers to which we believe will be the main drivers of markets for the second half of the year:

1. Will Market Breadth Widen This Year?
2. Fed: One More and Done? Or More to Follow?
3. Long-Anticipated Recession or Soft Landing?

Will Market Breadth Widen This Year?

In our May monthly commentary, we highlighted the fact that US stock markets had been overwhelmingly driven by a handful of mega-cap technology stocks. This trend continued in June, driven by investor enthusiasm for AI as well as the perceived safety of these large companies. In fact, the top five companies in the S&P 500 have returned almost 75% year-to-date on average, whereas the remainder of the index has remained relatively flat.

	YTD Return through June	S&P 500 Weight	S&P 500 Contribution
S&P 500	16.89%		
Apple	49.72%	7.35%	3.65%
Microsoft	42.67%	6.63%	2.83%
NVIDIA	189.54%	2.31%	4.38%
Google	36.33%	3.65%	1.33%
Amazon	55.19%	3.13%	1.73%
Top 5 Total		23.07%	13.91%
Everything else		76.93%	2.98%

Source: Bloomberg. Past performance is no guarantee of future results.

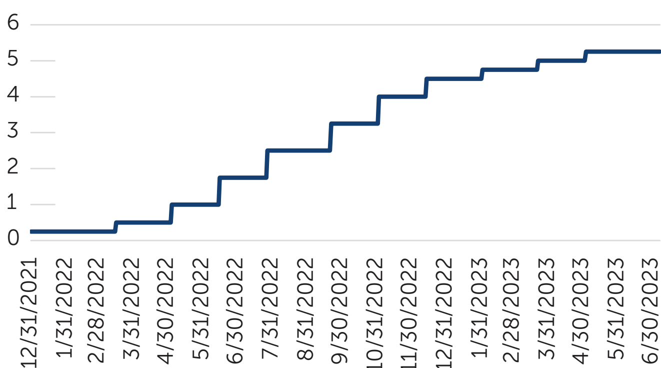
The long-term winners and losers of the rise of AI remain uncertain. There is considerable disagreement among equity analysts, with some companies named "winners" on some lists and "losers" on others.

Many investors are looking at the AI infrastructure space as a potentially low-risk long-term play compared to the actual software developers. Chips and data centers seem to be early beneficiaries. It has become clear that companies will increase their investment in this area, potentially favoring companies like Microsoft with the ability to allocate large investments behind this theme. The AI-fueled rally could also extend outside of technology, and there were some initial signs of a broadening out late in the second quarter.

Fed: One More and Done? Or More to Follow?

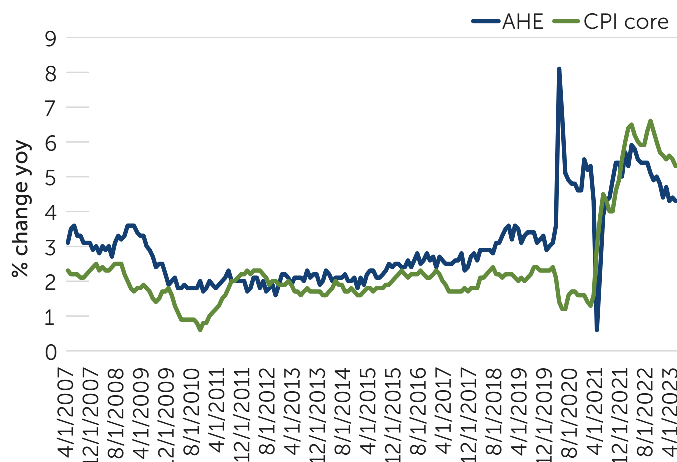
One more hike from the US Federal Reserve appears likely, though after that all bets are off. As of the end of the quarter, markets were pricing in over an 80% chance of a hike in July, another partial rate later in the year. Expectations for rate cuts continued to be pushed out into 2024. This tightening cycle is the fastest pace since the 1980s.

Fed Funds Rate (%)



Fed Chair Jerome Powell said in late June that the central bank's 2% inflation target is unlikely to be achieved for a few more years. However, we have seen evidence of moderating inflationary pressures, as can be seen in the US Wage Growth versus Core CPI Chart below.

US Wage Growth, Inflation Moderating



Source: US Bureau of Labor Statistics

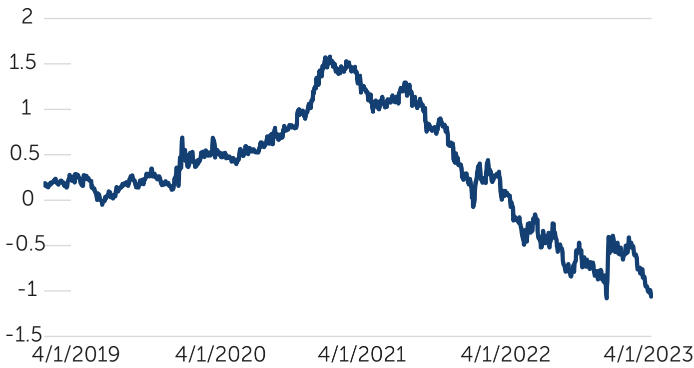
Average hourly earnings (AHE) is a measure of the average hourly earnings of all private employees on a "gross" basis, including premium pay for overtime and late-shift work. Core CPI is an aggregate of prices paid by urban consumers for a typical basket of goods, excluding food and energy.

As noted above, we believe it will be difficult for the Fed to continue its rate hike cycle after July, given these declining inflationary pressures and financial stability risks that are still present. Where we differ from market expectations is that we feel that potential rate cuts will be further out and perhaps less dramatic than what the market is currently pricing in. Over the course of the first half of the year, investors have consistently been forced to push back expectations for rate cuts, and we feel this could continue.

Long-Anticipated Recession or Soft Landing?

Market strategists have flagged recessionary fears for well over a year now. Hawkish central banks and declining corporate earnings expectations have led to concerns about a hard landing. Additionally, US factory activity has contracted for eight consecutive months. Many have pointed to the continued inversion of the US yield curve (in particular the 2-year and 10-year US Treasury note) as evidence of an upcoming recession. The curve inverted further during the quarter as the front end pushed higher, anticipating further rate hikes.

US 10yr-2yr Yield



Source: Bloomberg. **Past performance is no guarantee of future results.**

Despite these warnings, the US economy has remained resilient, and unemployment remains exceptionally low. Robust consumer confidence adds to the case for a gradual slowing of economic activity instead of a rapid one. Given no clear signs of excess in the overall economy as well as a still-buoyant consumer, we find ourselves in the soft landing camp.

Summary

We remain cautiously optimistic about the global economy, given a resilient consumer as well as strong employment data. From an equity standpoint, we are relatively neutral on growth versus value. Although growth has sharply outperformed this year, we feel that this performance could widen and benefit equities more broadly. We feel that now is a good time for investors to consider increasing exposure to high-quality core fixed income, given attractive yields and diversification properties.

Definitions

Core PCE: Measures the changes in the price of goods and services purchased by consumers for the purpose of consumption, excluding food and energy.

CPI: A measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

Core CPI: An aggregate of prices paid by urban consumers for a typical basket of goods, excluding food and energy.

AHE: A measure of the average hourly earnings of all private employees on a "gross" basis, including premium pay for overtime and late-shift work.

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