CALAMOS WEALTH MANAGEMENT

Calamos Wealth Management Quarterly Commentary

Q3 2024

How long can stocks continue to rally? That is the question we have been asking ourselves, following the strong year-to-date performance from equity markets, particularly in the US. Through the end of September, the S&P 500 returned over 22%, with the NASDAQ only trailing slightly at 21.8%. The third quarter saw areas like US Small Cap equities (Russell 2000 Growth) and international equities (MSCI EAFE) outperform their US Large Cap counterparts.

Can these gains hold up, with an extremely tight election on the horizon? We believe that they can, particularly against a backdrop of still solid economic growth as well as a Fed that recently chose to "go big" with respect to rate cuts.

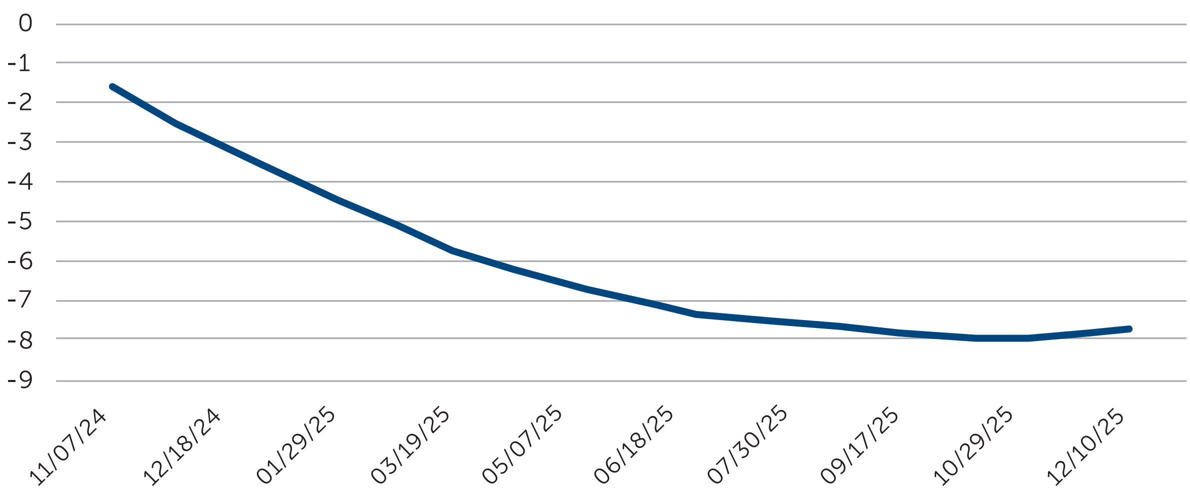
Despite negative performance during the first two quarters of the year, bond markets posted strong returns during the third quarter. US Core bonds (as measured by the Bloomberg Barclays Aggregate Index) rallying over 5%, bringing year-to-date returns to 4.5%.

How far will the Fed go? And what are the various possible outcomes and investment implications of the US election? We focus on these themes and more in the quarter's commentary.

Can the Fed Prolong the Cycle?

As we noted in our special market update following the September 18 Fed meeting, the market is asking, "How far will they go?" The Fed chose the jumbo option, taking the opportunity to reduce rates by 0.5% (to a target range of 4.75%-5.0), its first cut in more than four years. This was a complicated communication challenge for Chair Powell, particularly given the timing just a few weeks before the election. The Fed's next meeting will actually occur the day after the election, when they are expected to again reduce rates by at least 0.25% and potentially 0.5%. The market is currently pricing in about three more cuts this year and about five more cuts in 2025. Importantly, the Fed's current benchmark rate is about 2% above what they consider to be "neutral"- neither stimulating nor restricting growth. This suggests that there is plenty of additional room to cut rates.

Number of Rate Cuts Expected



Source: Bloomberg

We believe that these expected rate cuts will extend the economic cycle by providing relief to consumers as well as business that rely on borrowing. Mortgage rates, for example, have fallen significantly already, with the average 30-year fixed mortgage falling to near 6% from around 8% a year ago. As rates continue to filter through the economy, this should increase residential housing inventory, as homeowners locked into very low rates have been reluctant to sell.

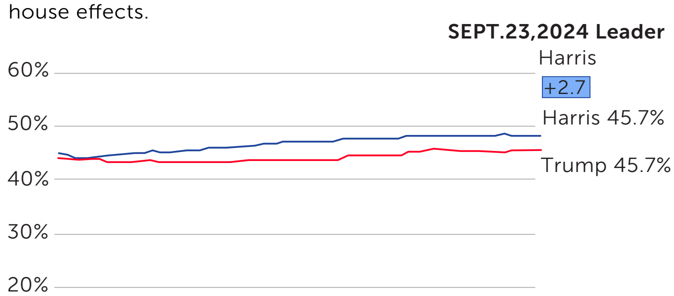
It is not just the Fed cutting rates in isolation. Many other major central banks, including the European Central Bank, are expected to reduce rates significantly. Additionally, China is responding to slowing growth by adding stimulus across both monetary and fiscal policy. There is some global monetary policy divergence however, as the Bank of Japan is increasing rates and Brazil is also hiking rates in response to elevated inflation.

US Election: Another Nail Biter Expected

With just over a month remaining before the US election, polls remain very close. As of this writing, Vice President Harris appears to have a slight lead. However, nearly all swing states are within the margin of error, and Pennsylvania and Wisconsin look especially close.

Who's ahead in the national polls?

Updating average for each candidate in 2024 presidential polls, accounting for each poll's recency,sample size, methodology and house effects.



Source: 538, The Cook Political Report. **Past performance is no guarantee of future results.**

As always, the election will have significant policy implications.

Regarding taxes, VP Harris favors raising the corporate tax rate to 28% from 21%. This was cut to 35% from 21% under President Trump as part of the 2017 Tax Cuts and Jobs Act (TCJA). A Harris victory would also likely mean higher income taxes for high earners, combined with measures aimed at supporting the middle class, such as an expansion of the child tax credit and a first-time homebuyer credit. VP Harris has also proposed increasing the capital gains tax as well as the tax on stock buybacks. President Trump, on the other hand, would likely move to extend the majority of provisions in the TCJA. He has also talked about plans to reduce the corporate tax rate to 15% for companies that "make their products in the US." Finally, Trump has proposed restoring the deductibility of state and local taxes (SALT) which was limited in the TCJA.

Trade policy is another key area where the two candidates differ. Under a Harris presidency, trade policy would likely continue roughly as it is currently, with some tariffs on China continuing. President Trump has proposed tariffs of up to 20% on every foreign import coming into the US, as well as another tariff of over 60% on all Chinese imports. He has also floated the idea of a 100% tariff on countries that shift away from using the US dollar. Trade policy is particularly important as the President has more discretion in this area to enact policy by Executive Order. Below, we summarize key implications in potential election scenarios:

Election Scenarios

	Red Sweep	Blue Sweep	President & Senate (R) House (D)	President & House (D) Senate (R)
Personal Taxes	Lower	Higher	Same or modestly **lower**	Same or modestly **higher**
Corporate Taxes	Lower	Higher	No change	Same or modestly **higher**
Trade	More restricitve, **higher** tariffs	No change	More restrictive, **higher** tariffs	No change

Our View

As we head into the fourth quarter, we believe there is still potential for gains in risk assets, supported by a strong economic backdrop and further expected rate cuts. Additionally, markets may benefit from clarity around the outcome of the US election and its implications for areas like taxes and trade. While not our base case, if the labor market weakens further or consumer spending falls sharply, the Fed has the ability to cut rates aggressively in response.

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S&P 500 Index is generally considered representative of the US stock market.

The S&P 500® Equal Weight Index (EWI) is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

The Nasdaq Composite Index is a market capitalization-weighted index of more than 2,500 stocks listed on the Nasdaq stock exchange. It is a broad index that is heavily weighted toward the important technology sector. The index is composed of both domestic and international companies.

The Russell 1000 Growth and Value US ESG Indexes are alternatively-weighted US equity indexes based on the Russell US Style Indexes. The indexes are designed to meet improved index level ESG profile, while maintaining similar risk/return characteristics to the underlying universe.

The Bloomberg US Agg Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

The MSCI EAFE® Index measures developed market equity performance (excluding the US and Canada).

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The index is calculated on a total return basis, which includes reinvestment of gross dividends before deduction of withholding taxes.

The Russell 2000® Growth Index measures the performance of the small-cap growth segment of the US equity universe. It includes those Russell 2000® companies with higher price-to-value ratios and higher forecasted growth values. The Russell 2000® Growth Index is published and maintained by FTSE Russell.

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