

CALAMOS GROWTH AND INCOME FUND

The Cycle Persists Through Geopolitical Disruption

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John Hillenbrand, CPA

Co-CIO and Senior Co-Portfolio Manager

Summary Points:

- We maintain a positive but cautious risk posture; the war in Iran is a disruption within a mid-cycle expansion, not a catalyst for US economic contraction.
- Our base case assumes the Strait of Hormuz normalizes toward late April or early May and that the inflation shock remains confined to energy and does not broaden into wages or core prices.
- AI infrastructure spending continues to accelerate, with hyperscaler capital commitments now representing roughly 90% of the growth in all domestic corporate capital spending this year; agentic AI adoption outside of coding is an emerging growth driver we are monitoring closely.
- We used the quarter's volatility to concentrate Calamos Growth and Income Fund's portfolio in areas with real growth tailwinds, using convertible securities and options to restrike the portfolio's risk-reward profile.
- We would reverse course if the economic data pointed to a more persistent slowdown, if labor market data broke decisively, or if hyperscaler spending guidance were revised lower.

The US economy entered the year in a mid-cycle expansion supported by fiscal tailwinds, easing monetary policy, and a capital-spending boom driven by artificial intelligence. The war in Iran and its effects on energy markets have introduced competing forces: higher commodity prices squeezing real incomes, tighter financial conditions, and renewed uncertainty over supply chains. The central question for investors is whether this shock is large enough to end the expansion or is a disruption that the cycle can absorb. We believe it is the latter. Growth may slow but not contract, the labor market is softening but not breaking, headline inflation is rising but core remains contained, and capital spending continues.

Our January outlook argued that above-consensus US growth would persist as the tariff drag faded, fiscal support from the One Big Beautiful Bill Act (OBBBA) flowed through, and the Fed eased toward short-term rates of 3.00% to 3.25%. Economic data through February confirmed that view. The war in Iran disrupted the trajectory in March, with a rise of more than 50% in the price of oil, a 60-basis-point tightening in financial conditions, and the effective closure of the Strait of Hormuz. The fund returned -3.92% for the quarter, ahead of the S&P 500 Index's -4.3% decline. Selection within equities contributed positively, although the portfolio's elevated equity sensitivity, consistent with our mid-cycle posture, was a headwind in a down market.

Growth Drivers Remain Intact

The positive forces supporting economic expansion have not been impaired. Lagged effects of last year's rate cuts are still flowing through, fiscal support from the OBBBA is additive to consumer and corporate spending, defense and energy security infrastructure investment is accelerating, and the AI infrastructure buildout has become a meaningful driver of the real economy, contributing roughly a third of real-GDP growth last year. The hyperscalers have shown no inclination to pull back; their capital spending guidance has ratcheted higher through each successive reporting season, and their suppliers are converting that spending into earnings at exceptional incremental margins.

The AI investment thesis is evolving in ways that matter for positioning. Coding assistance has achieved strong adoption but has created volatility in application software names as investors debate disruption risk versus embedded AI benefits; we are waiting for earnings to provide more data points before adding there.

More important for the cycle, agentic AI adoption outside of coding is emerging as a growth driver; industries with the highest exposure to LLM-automatable tasks are showing the highest rates of business AI deployment, suggesting companies are finding productive applications for real-world labor tasks. Early evidence suggests companies deploying these models at scale are converting adoption into revenue at rates that support the spending trajectory. We are monitoring for the inflection point where hyperscaler cloud and AI services' profit growth outpace capital spending growth, which would validate the return-on-investment case.

Risks and the Inflation Question

The forces opposing the expansion are real but, in our assessment, manageable. Higher energy prices are squeezing real incomes, with the burden falling disproportionately on the bottom 60% of the income distribution, where the combined effects of tariffs, benefit adjustments, and the oil shock amount to roughly a full percentage point drag on disposable income. Central banks may delay rate cuts as they assess the persistence of the energy price shock. Private debt default rates running at several multiples of commercial bank loan book defaults are a source of stress if capital markets tighten. The labor market is softening but not breaking, with slowing demand balancing reduced supply from immigration restrictions. That balance is fragile.

The critical distinction in our framework is between a headline inflation shock that remains confined to energy and one that broadens into wages and inflation expectations. We see more parallels with 1990–91 and 2000, where energy shocks occurred against moderate demand and roughly neutral policy, than with 2021–22, when broad supply disruptions coincided with expansionary policy and tight labor markets. The oil intensity of US GDP has declined substantially, domestic shale provides a partial offset, and core disinflation from the waning tariff impact should outweigh the energy price effect over the coming months. This assessment supports our decision to maintain mid-cycle equity sensitivity rather than shift to a defensive posture.

Positioning and Outlook

Our positioning reflects this framework. We concentrated the Fund's portfolio in areas where we see real growth tailwinds and improving returns on capital: AI infrastructure and semiconductor equipment, targeted pharma and biotech, energy innovation and security, and international markets where valuations offer favorable entry points. The war in Iran has reinforced the case for domestic energy infrastructure, a theme we had been building before the disruption.

We rotated healthcare to active stock selection where we see improving returns on capital; trimmed rate-sensitive financials as near-term easing expectations shifted; retained core bank holdings where the yield curve thesis remains intact; and took profits on semiconductor convertible winners where the risk-reward had narrowed. We are using convertible securities and options to adjust the portfolio's risk-reward profile in this environment.

We assign the highest probability to a base case in which the Strait of Hormuz returns to normal operations toward late April, energy prices ease in the second half, and the economic damage remains contained. The upside case sees rapid conflict resolution and accelerating AI monetization; the downside sees the war persisting through mid-year with inflation broadening into core measures.

The catalysts that will determine which path materializes are the trajectory of the war, the inflation data over the next two months, and first-quarter hyperscaler earnings guidance. A favorable resolution would validate a return to the more constructive posture we held entering the year. An extended conflict that pushed inflation into wages and core prices, a decisive break in labor market data, or a downward revision to hyperscaler spending guidance would prompt us to de-risk through the convertible and options sleeves of the portfolio. The mid-cycle thesis remains intact, and we are positioned to participate as clarity returns.

Annualized Total Returns (%) as of March 31, 2026	1Q 2026	1 Year	3 Year	Since Inception (July 6, 2022)
Calamos Growth and Income Fund (I Shares USD Acc I)	-3.92%	18.14%	14.96%	10.61%
S&P 500 Index	-4.33%	17.80%	18.32%	14.47%
ICE BofA All US Convertible Ex Mandatory Index	4.41%	25.76%	14.35%	10.82%

Performance data quoted represents past performance, and may not be a reliable guide to future results. Performance data quoted does not include the Fund's maximum 5% front-end sales charge. Had it been included, the Fund's returns would have been lower. Performance shown reflects the management fee. All performance shown assumes reinvestment of dividends and capital gains distributions. Returns for periods less than 12 months are not annualized.

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CALAMOS[®]
INVESTMENTS

Calamos Advisors LLC
2020 Calamos Court | Naperville, IL 60563-2787 866.363.9219 |
www.calamos.com | caminfo@calamos.com

CACEIS Investor Services Ireland Limited
4th Floor | One George's Quay Plaza | George's Quay |
Dublin 2 | Ireland
Tel: +353 1 440 6555 | Fax: +353 1 613 0401
www.calamos.com/global E-mail:
dublin_ta_customer_support@caceis.com

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