Calvert Income Fund

BROAD MARKETS FIXED INCOME TEAM

Key Takeaways

- Mixed performance by risk assets[1] led to modest or slightly negative returns in fixed income markets in the first quarter, as the Federal Reserve delayed rate cuts in view of a stronger-than-expected economy.
- Calvert Income Fund (the Fund) outperformed its benchmark, the Bloomberg U.S. Credit Index (the Index), which returned -0.41%.
- The Fund's security selection was the leading contributor to returns relative to the benchmark.
- An out-of-benchmark allocation to agency mortgage-backed securities (MBS) was the largest detractor from relative returns during the period.
- We are positioning for moderating growth. The Fund maintains a slightly underweight interest rate duration.

Performance Review

In the quarter period ending March 31, 2024, the Fund's I shares returned 0.72% (net of fees)[2], while the benchmark returned -0.41%.

Market Overview

The performance of risk assets was mixed in the first quarter. Globally, equity and high yield bond indexes posted gains amid resilient U.S. growth and expectations the U.S. Federal Reserve (Fed) and other major central banks would begin lowering interest rates in 2024. Conversely, despite a tightening in credit spreads, investment grade indexes generally declined as the start of anticipated rate cuts was pushed out, sending global bond yields higher. Against this backdrop, the Bloomberg U.S. Aggregate Bond Index returned -0.78% for the quarter, driven by weakness in longer-duration sectors.

Heading into the year, markets were pricing in six to seven 25-basis-point rate cuts from the Fed in 2024. That number dropped to three by the end of March, a reflection of stronger-than-expected U.S. growth and inflation data. While the labor market showed some signs of cooling, including an increase in layoffs, overall conditions remained tight, supporting healthy levels of consumer spending. In addition, business investment in manufacturing construction continued to surge, in part financed by government funding and tax incentives.

Despite strong demand for labor, the pace of annual wage gains was stable alongside a post-pandemic rebound in immigration that has expanded the labor supply. However, broad measures of inflation for the first two months of the year came in hotter than expected. Perhaps most notably, the Fed's preferred inflation gauge — the core personal consumption expenditures (PCE) price index — climbed 2.6% in January and 2.9% in February on a six-month annualized basis, up from 1.9% in December. (Source: Bureau of Economic Analysis, U.S. Department of Commerce. Data as of March 29, 2024.)

The Federal Open Market Committee (FOMC) held the federal funds rate target range at 5.25%-5.5% during the quarter. Much to the relief of market participants, the central bank's updated rate forecasts issued in March projected three rate cuts in 2024 — the same number as the previous estimate from last December. Moreover, Fed Chair Powell downplayed the stronger inflation data in his post-meeting press conference. He said, "… the story is really essentially the same, and that is of inflation coming down gradually toward 2% on a sometimes bumpy path."

The European Central Bank (ECB) and Bank of England joined the Fed in holding policy steady and signaling rate cuts later in the year. However, the ECB pushed back on expectations for an April cut given strong eurozone wage growth and stubborn service-sector inflation. Expressing confidence that Japan was entering a period of stable inflation, the Bank of Japan (BOJ) began to normalize policy by ending negative interest rates, yield-curve control and certain types of asset purchases. The BOJ pledged to move very cautiously to minimize potential market volatility.

During the quarter, U.S. Treasury yields rose for all but the shortest maturities, and investment grade and high yield credit spreads tightened. This was a departure from what we saw during the period of interest rate volatility last fall, when spreads widened as rates backed up. We attribute this quarter's decoupling of yields and spreads to the FOMC's late-2023 pivot toward lowering rates, which prompted strong inflows into the U.S. bond market.

[1] Risk asset is a term broadly used to describe any security that is not a "risk-free" asset like a high quality U.S. government bond. A risk market refers to these securities.
[2] Source: Calvert. Data as of March 31, 2024. Performance for other share classes will vary.
This document constitutes a commentary and does not constitute investment advice nor a recommendation to invest. The value of investments may rise as well as fall. Independent investment advice should be sought before any decision to invest.

We also observed that, while credit spreads broadly tightened during the quarter, there was more dispersion in the performance of individual credits. This is typical of a late-cycle environment where balance sheets are generally strong but idiosyncratic issuer and sector challenges begin to emerge against a backdrop of tighter spreads.

Contributors

- Security selection in the Fund, especially within investment grade corporates, contributed most to returns relative to the Index during the period.
- The Fund's overall sector allocation also contributed to relative performance.
- Out-of-Index allocations to asset-backed securities (ABS), high yield securities, and commercial mortgage-backed securities (CMBS) were particularly beneficial.

Detractors

- The Fund's out-of-Index allocation to agency MBS detracted most from relative returns during the period.
- An underweight allocation to investment grade corporates also had a slight negative impact on relative performance.

Market Outlook

Recently, we have become more positive in our outlook for the U.S. economy. Although we still expect U.S. growth to slow over the next few quarters, we believe the economy will likely continue to expand. Strong labor market conditions and elevated household sentiment bode well for consumer spending. In addition, key pieces of government legislation are stimulating business spending and investment. Upcoming inflation prints will likely be bumpy, but we believe the inflation data will likely still allow the Fed to start lowering rates later this year.

As we enter the second quarter, we continue to emphasize higher quality fixed income. All-in yields in higher quality sectors look very attractive, especially going into a rate-cutting cycle, and the yield curve looks appropriately priced. In securitized credit, we continue to prefer commercial versus consumer collateral pools while avoiding office. In corporate credit, we further reduced exposure to the utility sector during the quarter in favor of financials and other industrials. Within financials, we trimmed our opportunistic allocation to super-regional U.S. banks and added to money center banks. We also continued to reduce longer-duration non-financial exposure, as credit curves continue to flatten and are less attractive in our view. Lastly, we maintained our allocation to agency MBS.

The Fund's overall duration remained slightly underweight at quarter-end. We have maintained our yield-curve steepening position on the view that the market is correctly pricing in rate cuts beginning this year but has not yet priced in a potentially higher neutral policy rate. The longer end of the yield curve is also vulnerable to growing deficits and Treasury demand that is likely to be weaker and purchased by more price-sensitive buyers.

Current fixed income valuations reflect the market's high degree of confidence in a soft landing for the U.S. economy. That said, many investors have been under-allocated to fixed income and are now building back their exposure, which could support valuations at these tighter levels. We believe this reallocation is in its early innings, and that continued inflows into the U.S. bond market should benefit active multisector strategies in the months ahead.

Fund Facts

Class I inception	02/26/1999
Class A inception	10/12/1982
Performance inception	10/12/1982
Benchmark	Bloomberg U.S. Credit Index
Class I expense ratio	**0.68 %**
Class A expense ratio	**0.93 %**

Where the net expense ratio is lower than the gross expense ratio, certain fees have been waived and/or expenses reimbursed. These waivers and/or reimbursements will continue for at least one year from the date of the applicable fund's current prospectus (unless otherwise noted in the applicable prospectus) or until such time as the fund's Board of Directors/Trustees acts to discontinue all or a portion of such waivers and/or reimbursements. Absent such waivers and/or reimbursements, returns would have been lower. Expenses are based on the fund's current prospectus. The minimum investment is $1,000 for A Shares and $1,000,000 for I Shares.

Performance (%)

As of March 31, 2024	MTD	QTD	YTD	1 YR	3 YR	5 YR	10 YR
Class I Shares at NAV	1.41	0.72	0.72	5.72	-1.12	2.20	2.87
Class A Shares at NAV	1.32	0.59	0.59	5.39	-1.38	1.95	2.51
A Shares with Max. 3.25% Sales Charge	-1.99	-2.65	-2.65	1.96	-2.46	1.27	2.17
Bloomberg U.S. Credit Index	1.23	-0.41	-0.41	4.15	-1.86	1.39	2.49

Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. For the Fund's performance as of the most recent month-end, please refer to calvert.com. Investment returns and principal value will fluctuate and fund shares, when redeemed, may be worth more or less than their original cost.

Returns are net of fees and assume the reinvestment of all dividends and income. Returns for less than one year are cumulative (not annualized). Performance of other share classes will vary.

Top 10 Holdings (% of Total Net Assets)^

	FUND
FNMA TBA 30 YR 5 SINGLE FAMILY MORTGAGE	7.43
Calvert Floating-Rate Advantage Fund	1.64
Bank of America Corp	1.53
United States Treasury Note/Bond	0.88
NextEra Energy Capital Holdings Inc	0.88
US Bancorp	0.88
VMC Finance 2021-HT1 LLC	0.83
Toronto-Dominion Bank	0.81
JPMorgan Chase & Co	0.79
Sprint LLC	0.77

^ Top 10 Holdings excludes cash and equivalents. Portfolio profile subject to change due to active management.

INDEX INFORMATION: The **Bloomberg U.S. Credit Index** measures the performance of investment-grade U.S. corporate securities and government-related bonds with a maturity of one year or more.

The **Bloomberg U.S. Aggregate Index** tracks the performance of all U.S. government agency and Treasury securities, investment-grade corporate debt securities, agency mortgage-backed securities, asset-backed securities and commercial mortgage-backed securities.

The indexes are unmanaged and do not include any expenses, fees or sales charges. It is not possible to invest directly in an Index. Any index referred to herein is the intellectual property (including registered trademarks) of the applicable licensor. Any product based on the index is in no way sponsored, endorsed, sold or promoted by the applicable licensor and it shall not have any liability with respect thereto.

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market liquidity. While certain U.S. Government-sponsored agencies may be chartered or sponsored by acts of Congress, their securities are neither issued nor guaranteed by the U.S. Treasury. Investments rated below investment grade (sometimes referred to as "junk") are typically subject to greater price volatility and illiquidity than higher rated investments. Investing primarily in responsible investments carries the risk that, under certain market conditions, the Fund may underperform funds that do not utilize a responsible investment strategy. The Fund is exposed to liquidity risk when trading volume, lack of a market maker or trading partner, large position size, market conditions, or legal restrictions impair its ability to sell particular investments or to sell them at advantageous market prices. The impact of the coronavirus on global markets could last for an extended period and could adversely affect the Fund's performance. No fund is a complete investment program and you may lose money investing in a fund. The Fund may engage in other investment practices that may involve additional risks and you should review the Fund prospectus for a complete description.

SPECIAL EQUITY

Portfolio characteristics exclude 1 security in Calvert's High Impact Investments program, which represented 0.0817% of the portfolio as of 03/31/2024. High Social Impact Investments are investments that, in the Adviser's opinion, offer the opportunity for significant sustainability and social impact. These investments are generally illiquid and involve high risks. See the Fund's prospectus for details and calvert.com for a complete list of Fund holdings.

IMPORTANT INFORMATION

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Please consider the investment objective, risks, charges and expenses of the fund carefully before investing. The prospectus contains this and other information about the fund. To obtain a prospectus, download one at https://funds.eatonvance.com/all-mutual-funds.php or contact your financial professional. Please read the prospectus carefully before investing.

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