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Outlook for markets and alternatives

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Unless otherwise noted, information as of April 2022

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Key themes in markets

1) **Inflation is a more permanent problem.** Forces pushing inflation up are supply chain problems, energy prices, higher wages, and rising home prices. Inflation peak is delayed by Ukraine situation and China lockdowns.

2) **More Fed rate hikes are coming.** And the Fed's goal with increasing the risk-free rate is demand destruction.

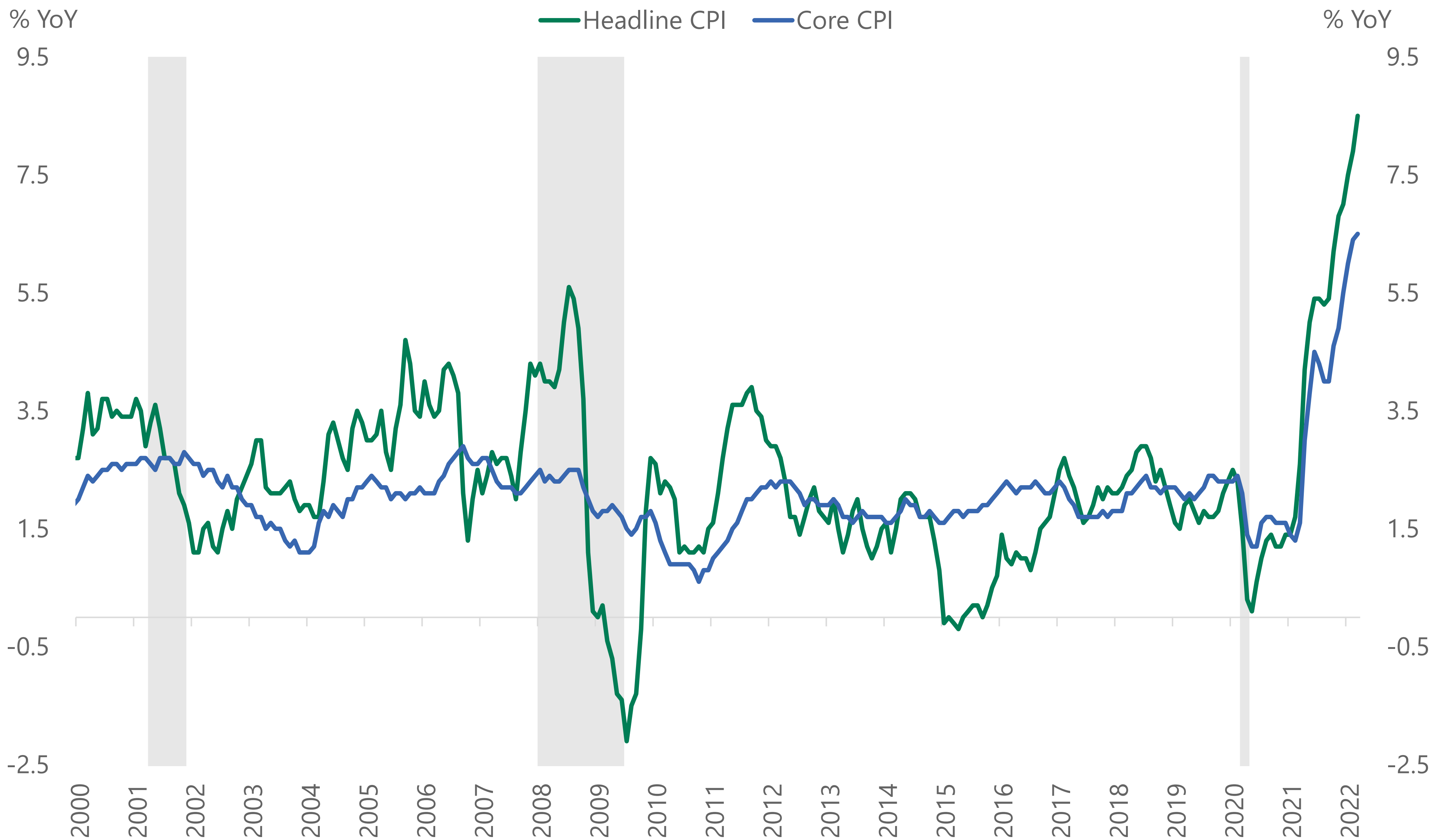
3) **Fed QE has ended.** Fed asset purchases have played a key role supporting rates, credit, and equity markets. QT will have the opposite effect.

Bottom line for markets:

Inflation uncertainty is significant, Fed hikes are coming, and QE is ending. As a result, **we are likely in 2022 to see higher rates, wider credit spreads, and less support for equities.**

Source: Apollo Chief Economist

Inflation is meaningfully above the Fed's 2% target

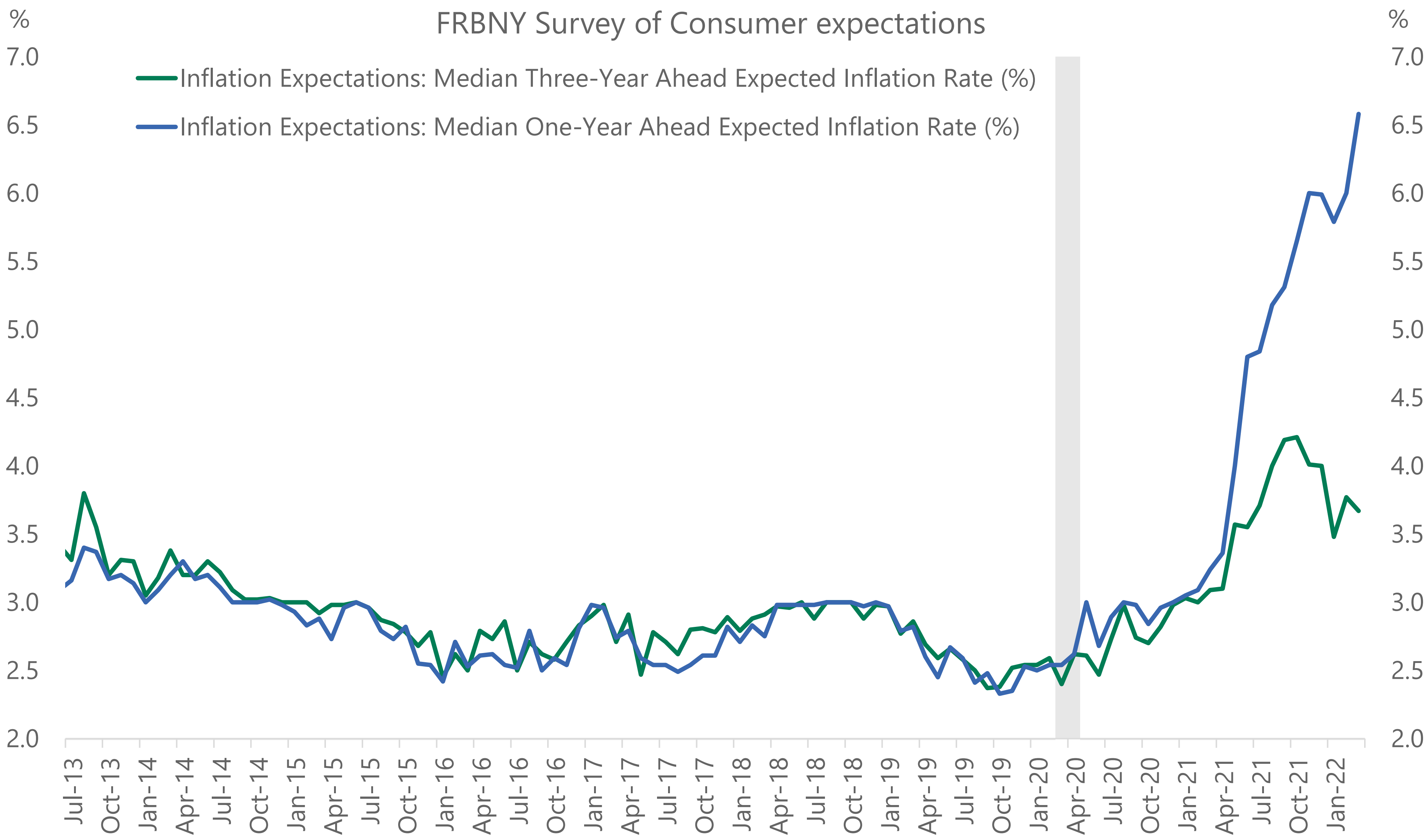


Source: BLS, Haver Analytics, Apollo Chief Economist

Record-high household inflation expectations

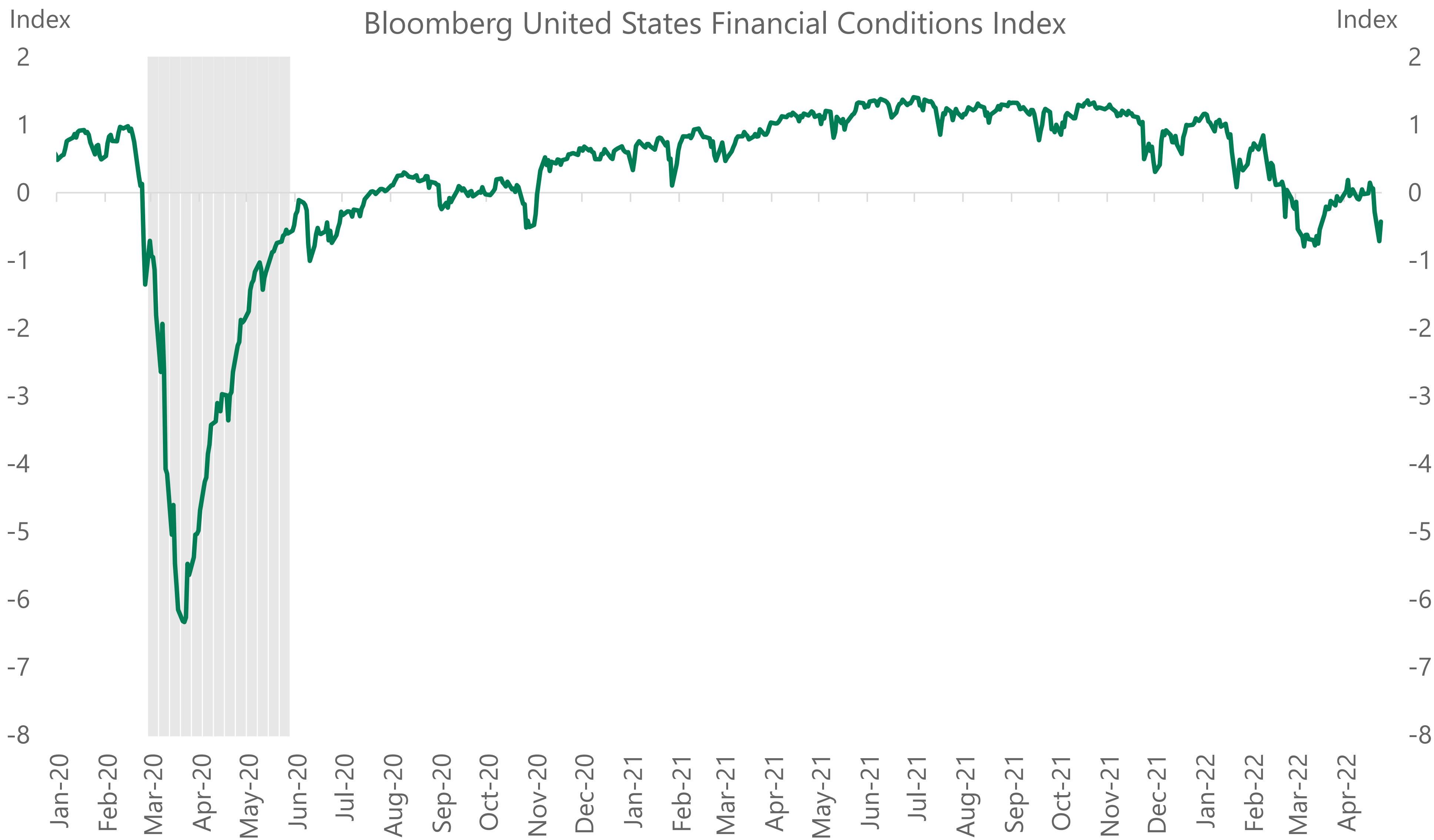
Source: Conference Board, Haver Analytics, Apollo Chief Economist

Inflation expectations becoming unanchored



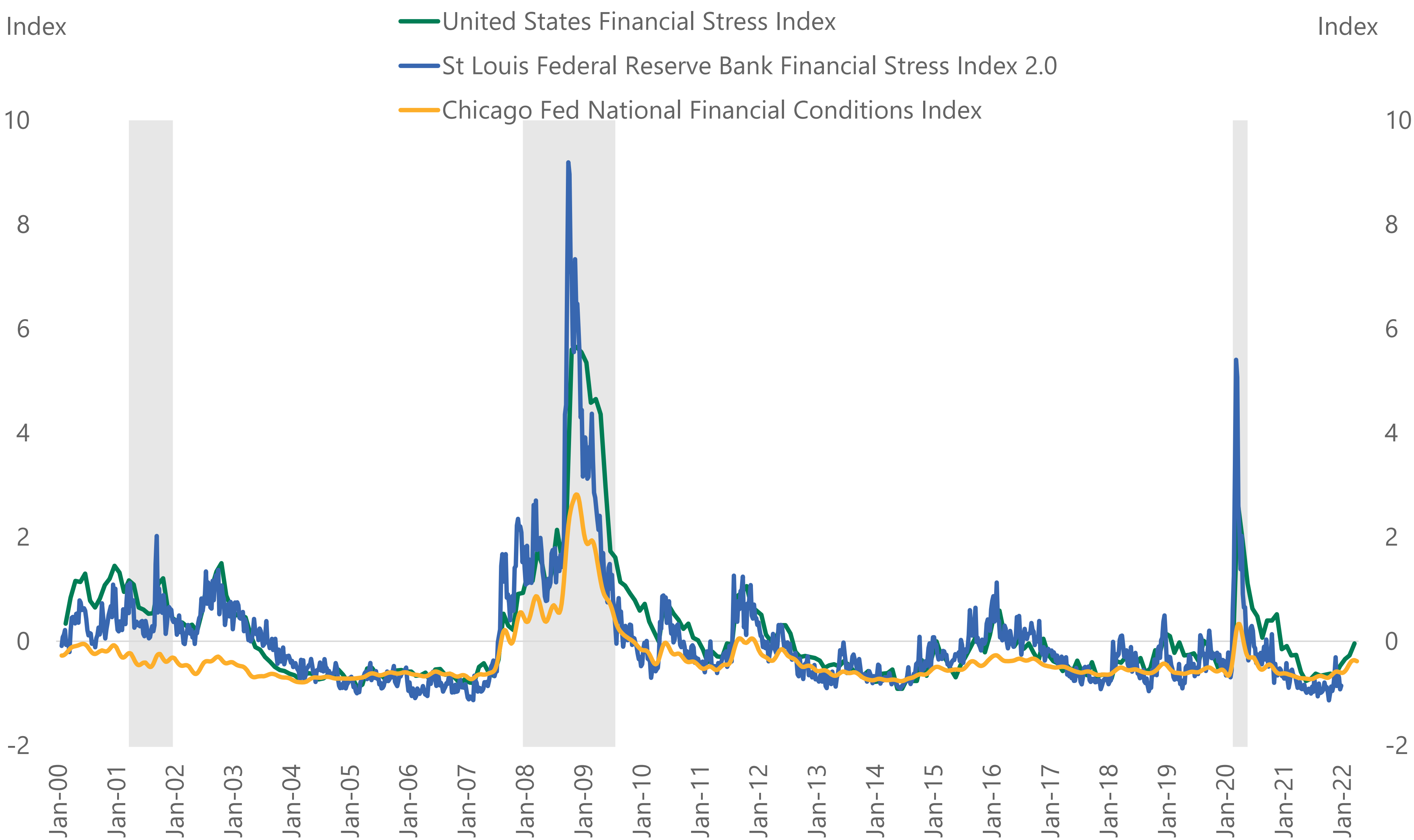
Source: FRBNY, Haver Analytics, Apollo Chief Economist

Financial conditions need to tighten



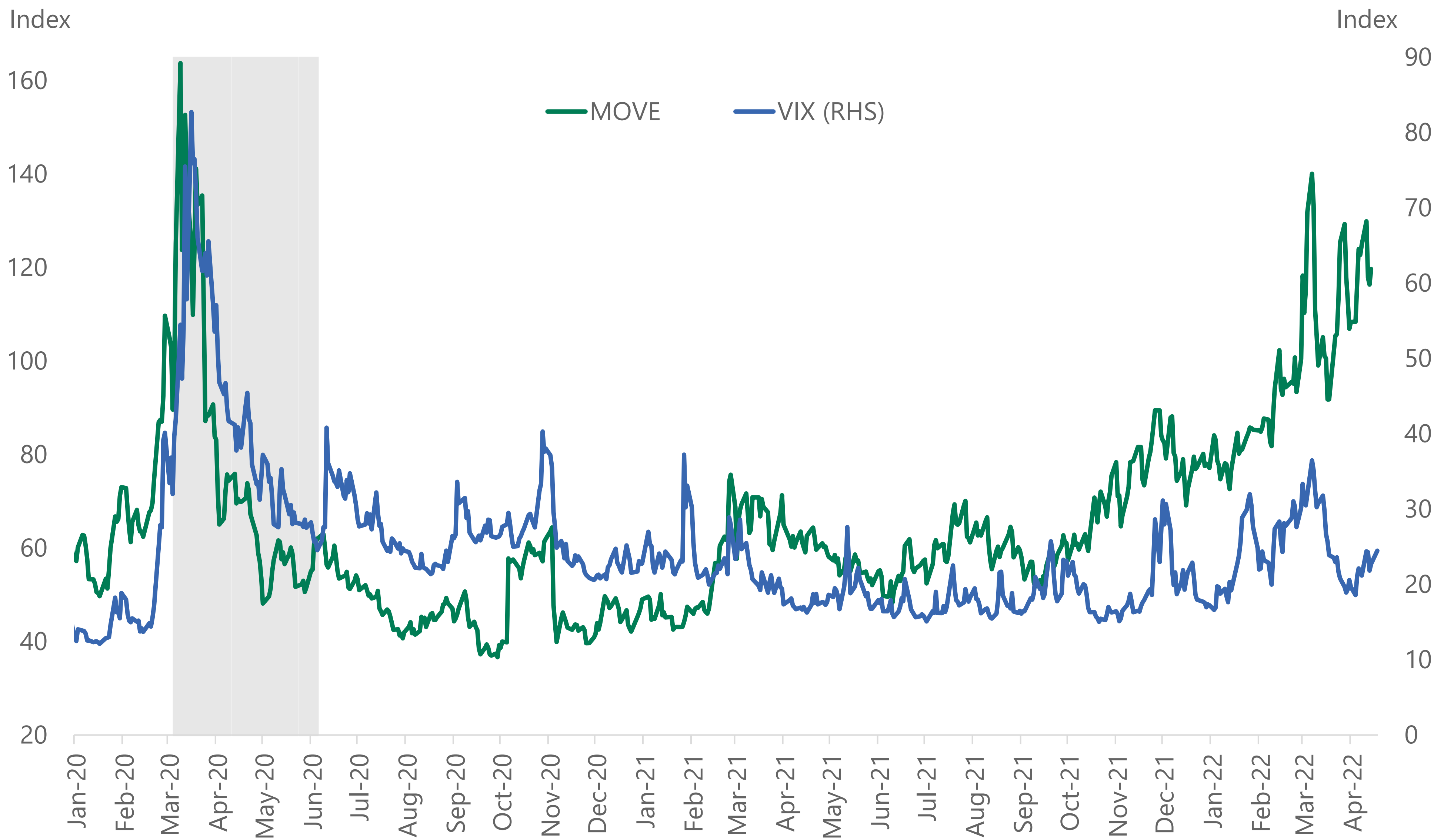
Source: Bloomberg, Apollo Chief Economist

Financial conditions not particularly tight



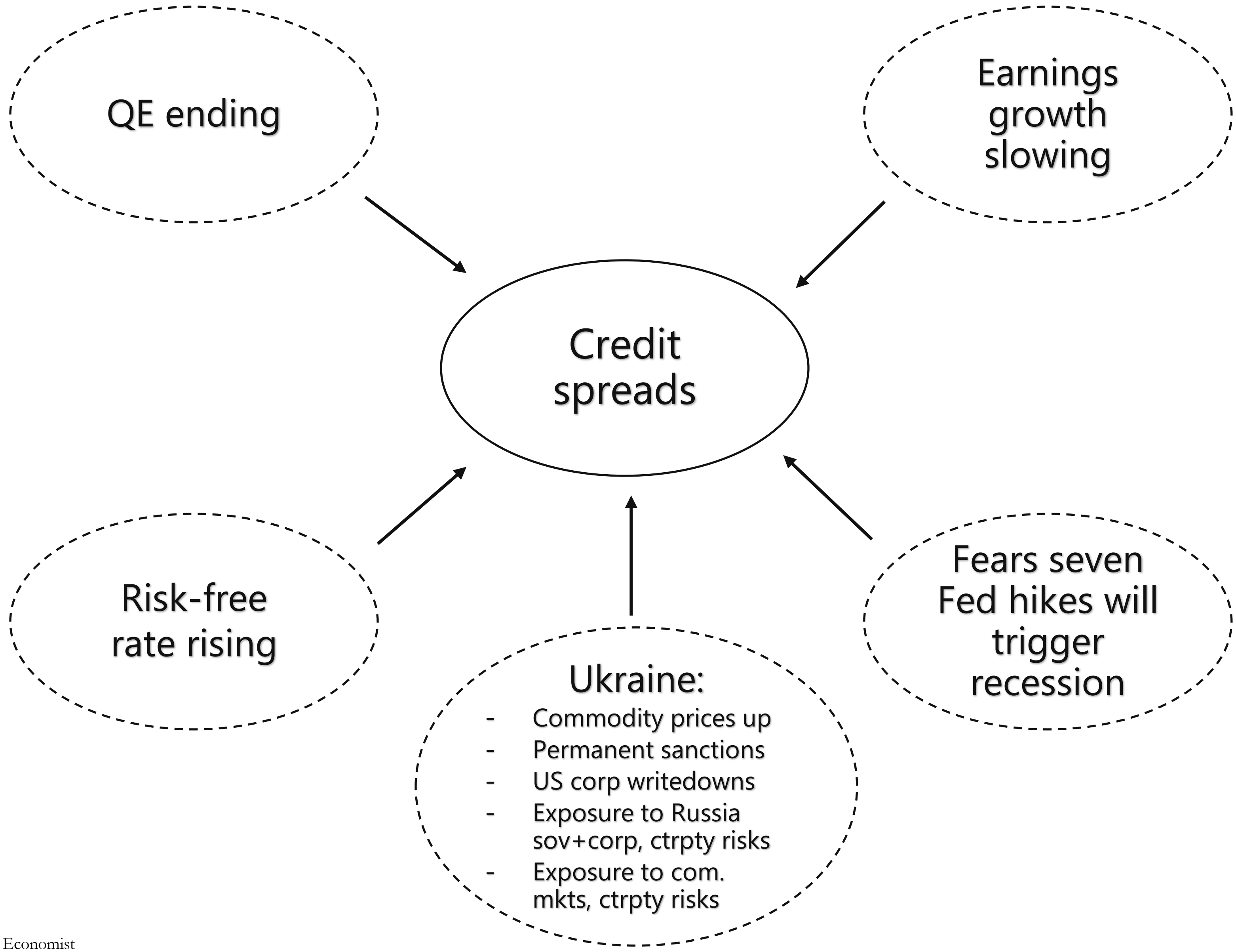
Source: Bloomberg, Apollo Chief Economist

Strong disconnect between rates markets and equity markets



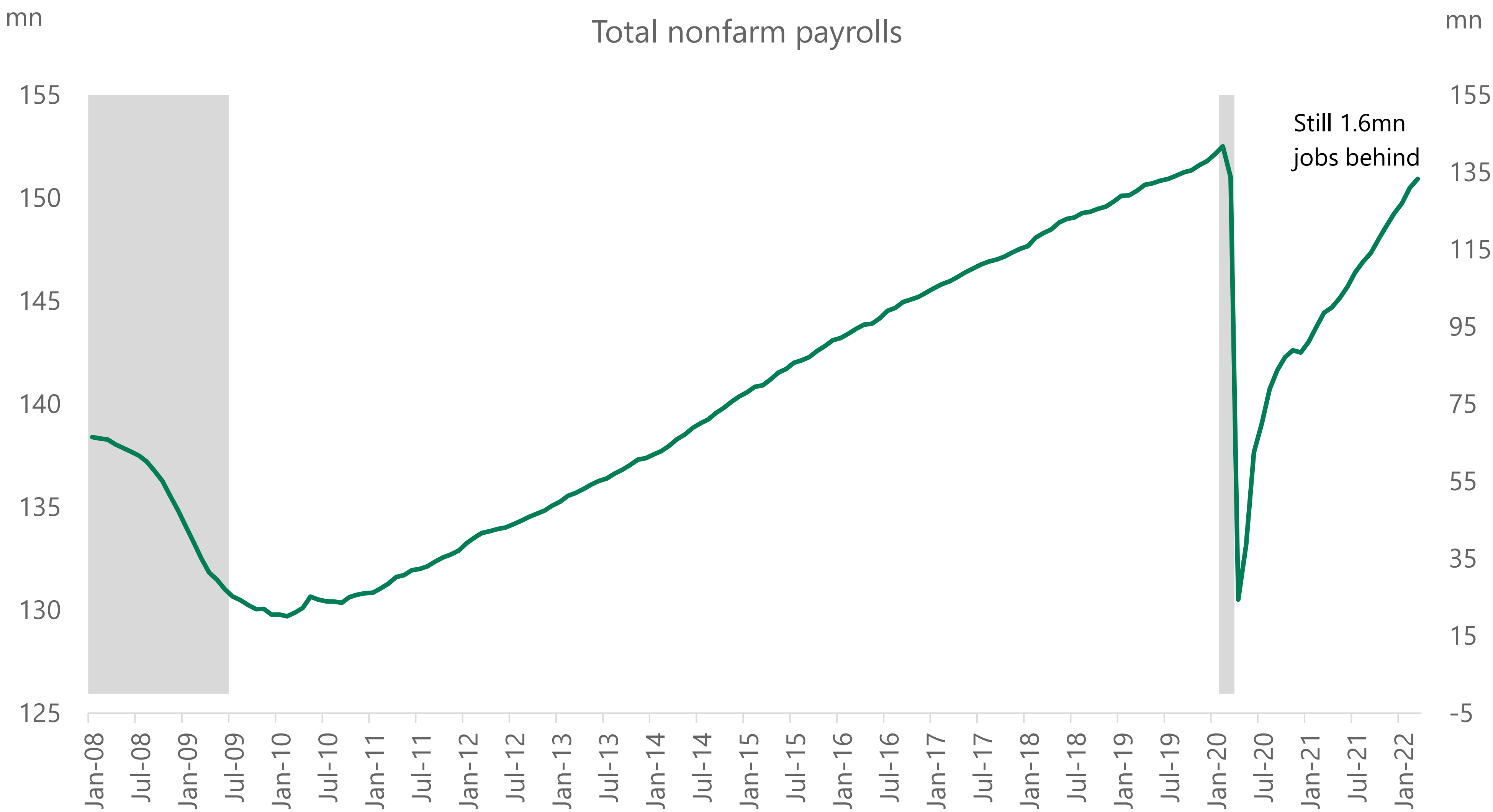
Source: Bloomberg, Apollo Chief Economist

Turbulence in credit markets intensifying



Source: Apollo Chief Economist

Total employment 1.6mn jobs lower than in February 2020

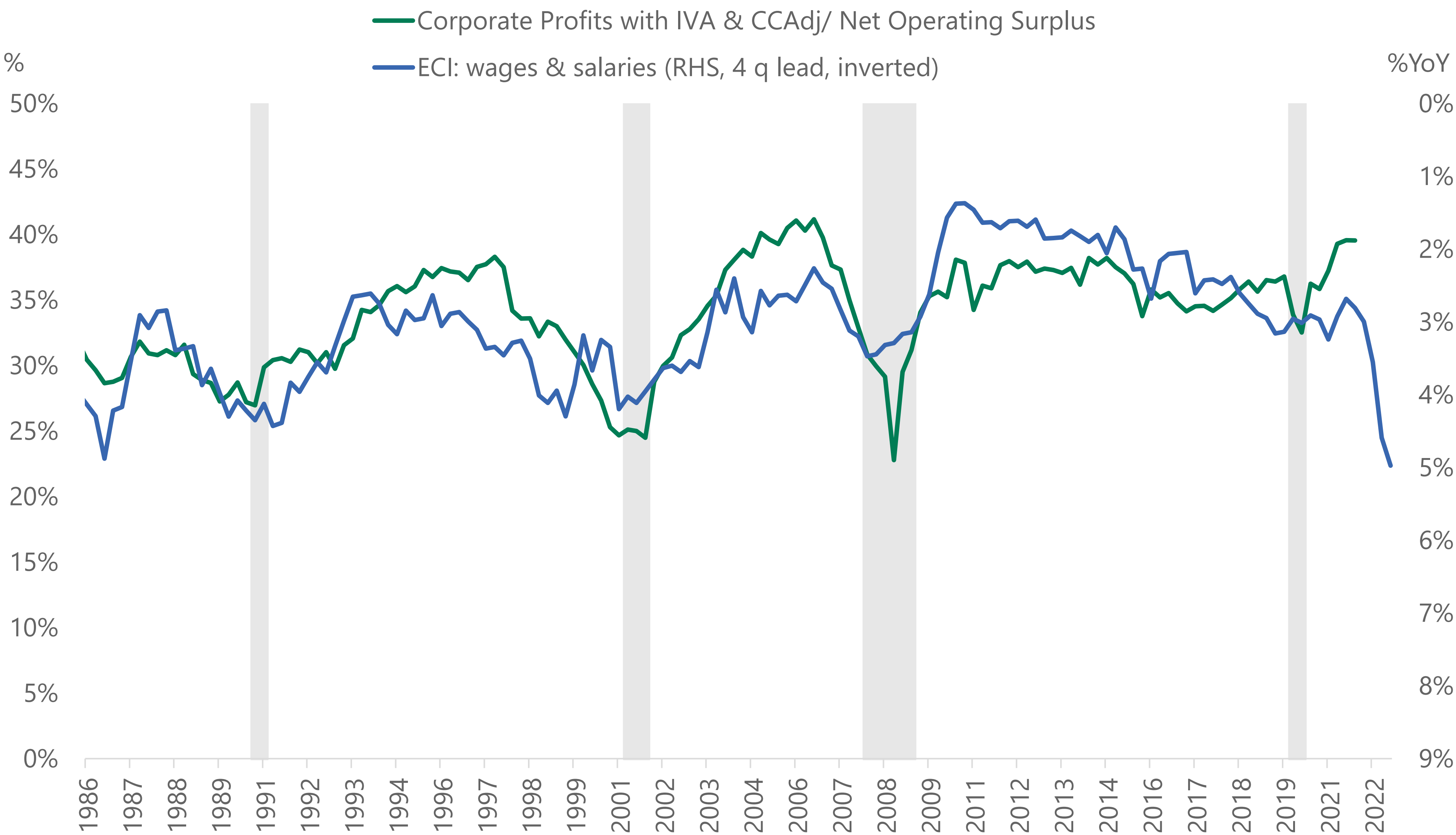


Source: BLS, Apollo Chief Economist

Hotel and restaurant wages substantially above pre-covid trend

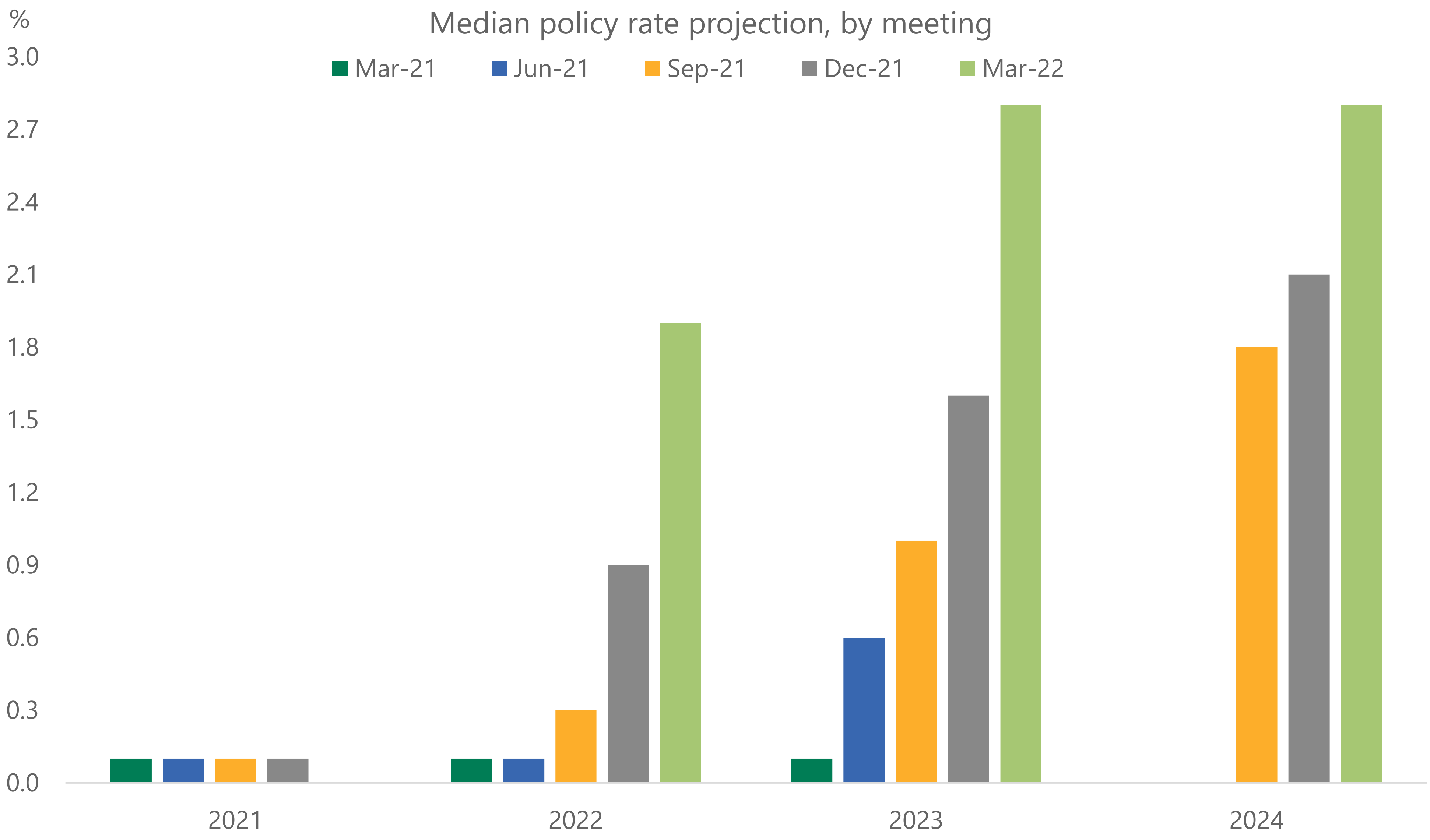
Source: BLS, Haver Analytics, Apollo Chief Economist

Rising labor costs will weigh on profit margins over the coming quarters



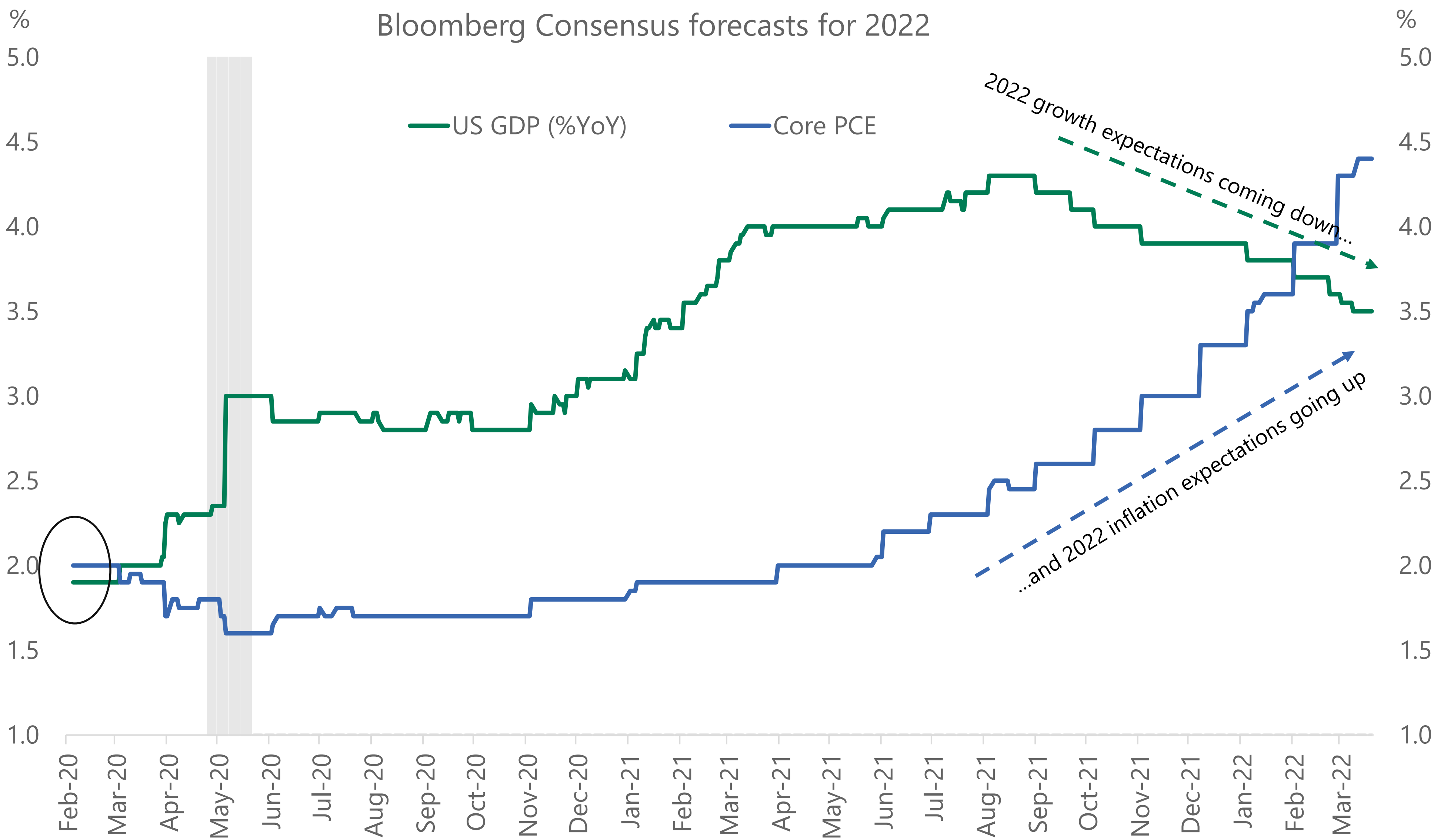
Source: BEA, Haver Analytics, Apollo Chief Economist

Since March 2021, the Fed has become increasingly hawkish



Source: FOMC Summary of Economic Projections, Apollo Chief Economist

Consensus: Nominal growth: From 4% to 8%



Source: Bloomberg, Apollo Chief Economist

Consumer credit quality deteriorating across lower FICO scores

Auto Loans

+60 day delinquency rate

	Feb. 2022	Jan. 2022	Feb. 2021	April 2019
Super Prime	0.0%	0.0%	0.0%	0.0%
Prime plus	0.0%	0.0%	0.0%	0.0%
Prime	0.1%	0.1%	0.2%	0.1%
Near prime	0.5%	0.5%	0.6%	0.4%
Subprime	12.0%	11.2%	10.9%	6.8%
Total	1.7%	1.6%	1.6%	1.1%

Credit Cards

+90 day delinquency rate

	Feb. 2022	Jan. 2022	Feb. 2021	April 2019
Super Prime	0.00%	0.00%	0.00%	0.00%
Prime plus	0.10%	0.00%	0.00%	0.01%
Prime	0.20%	0.20%	0.20%	0.15%
Near prime	0.99%	0.96%	1.04%	1.11%
Subprime	16.53%	15.67%	15.51%	18.8%
Total	1.59%	1.53%	1.33%	1.78%

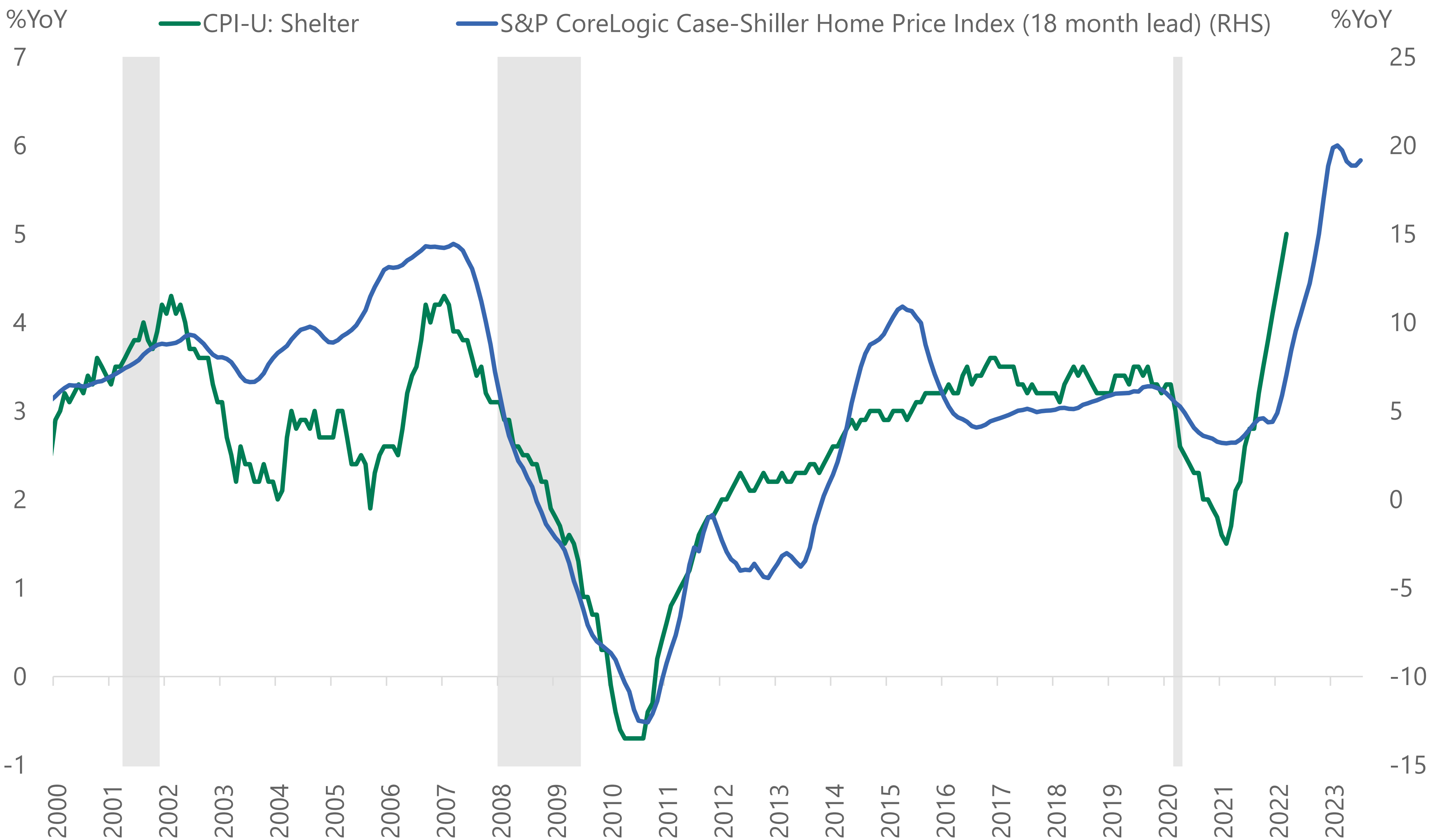
Mortgages

Distribution of Delinquency

	Feb. 2022	Jan. 2022	Feb. 2021	April 2019
Current	95.8 %	95.8%	95.9%	94.0%
30-59 DPD	2.2%	2.3%	2.1%	3.2%
60-89 DPD	1.2%	1.2%	1.2%	1.6%
90+	0.7%	0.7%	0.7%	0.9%
Foreclosure	0.1%	0.1%	0.1%	0.2%

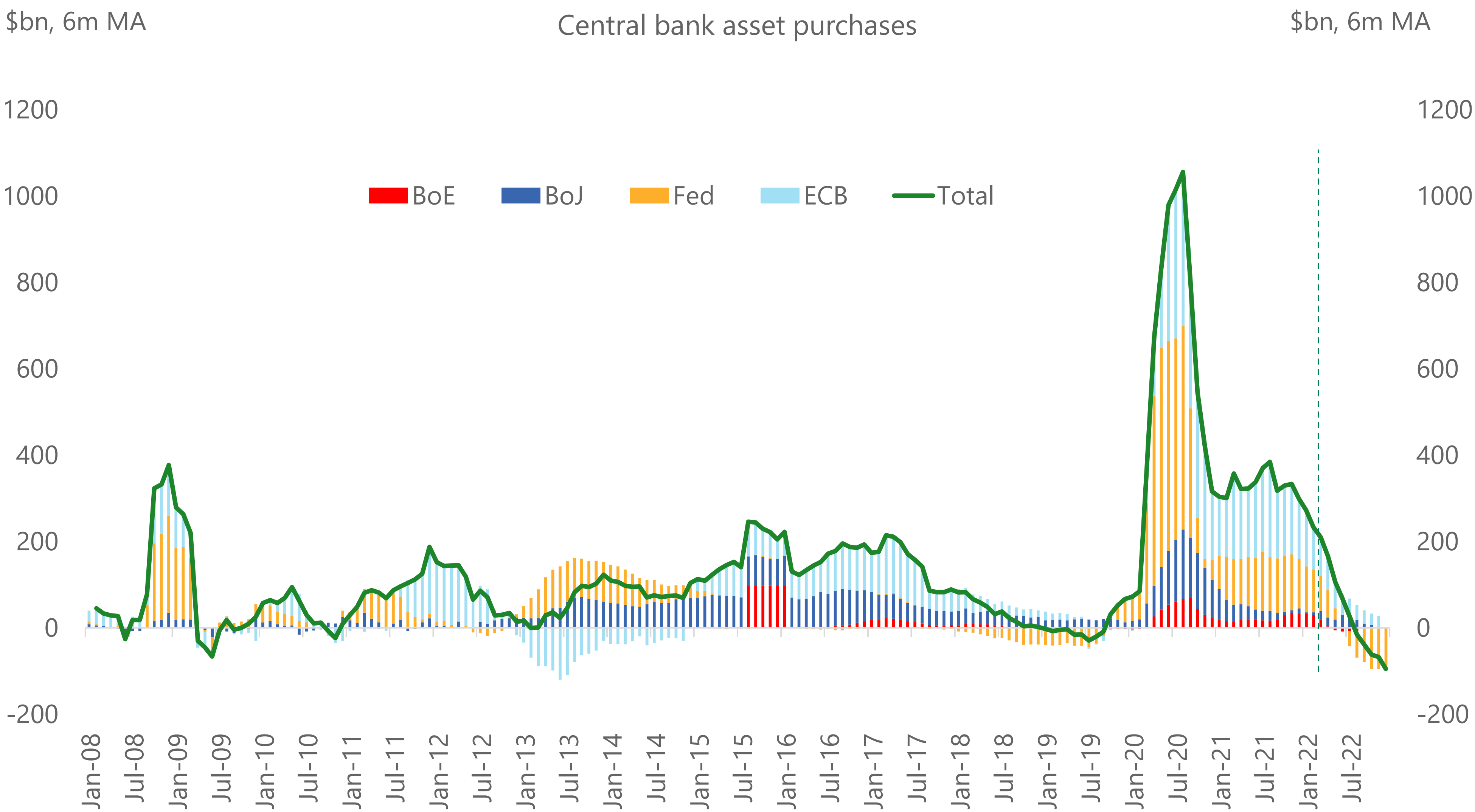
Source: Transunion Monthly Industry Snapshot

Home prices are a leading indicator of inflation



Source: S&P case-shiller, BLS, Bloomberg, Apollo Chief Economist

Global QE is coming to an end



Source: Bloomberg, Apollo Chief Economist. Pace of purchases for 2021: BOE: £3.4bn per week till mid December 2021, FED: USD120bn per month with wind down from December with purchases ending in March 2022, ECB: Euro 90bn per month (20 bn APP + 60 bn PEPP), PEPP till March 2022, Euro 40bn in April, Euro 30bn in May and Euro 20bn in June, and euro 20bn per month onwards. BOJ:: USD 70bn per month. For 2022: All programs are expected to wind down linearly from January 2022 to December 2022. Fed QT $ 95 per month from May 2022.

Credit markets have never been more vulnerable to rising rates.

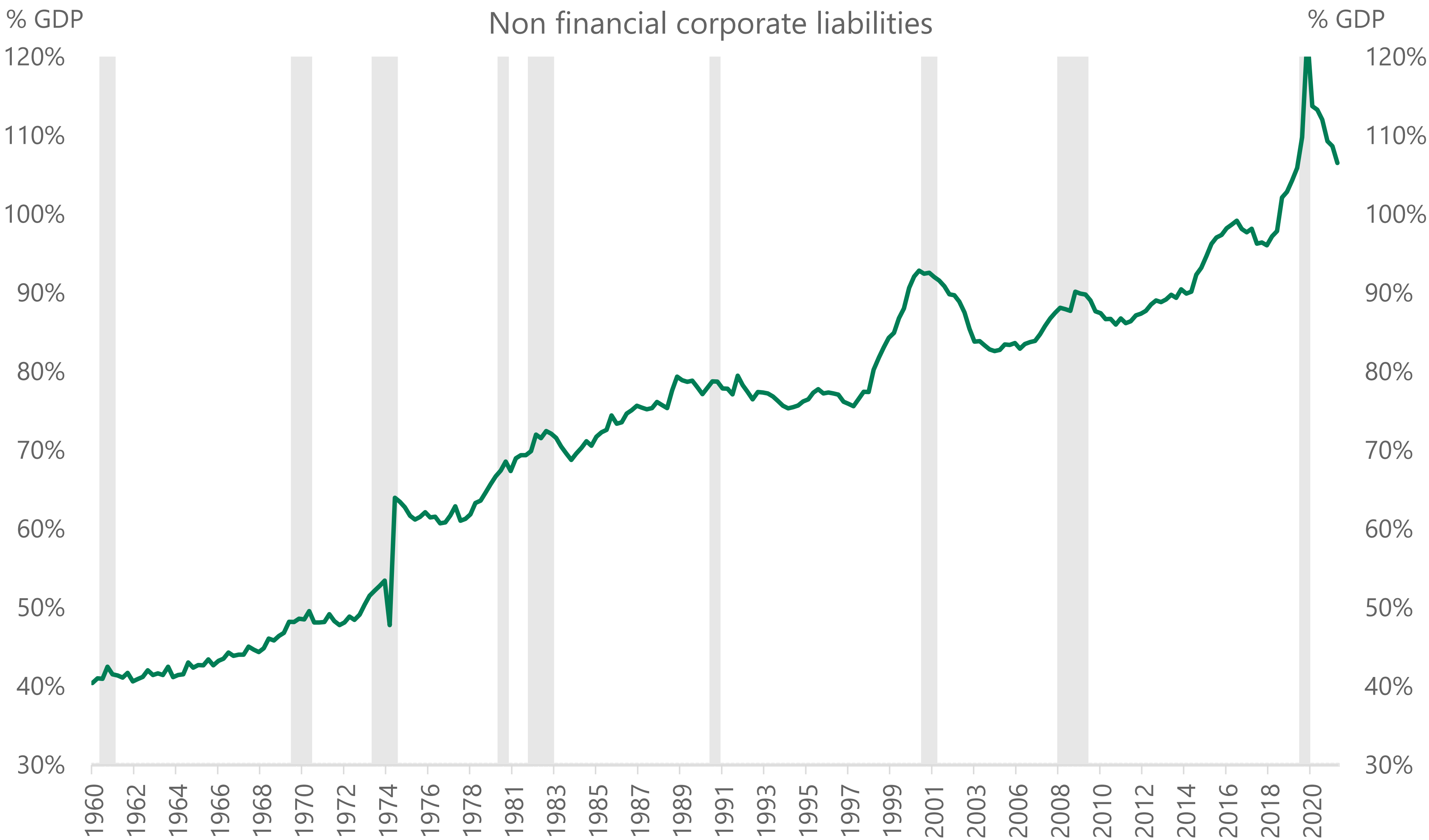
Three reasons:

1) Very high leverage in the corporate sector

2) Lower-rated firms make up big share of all debt outstanding

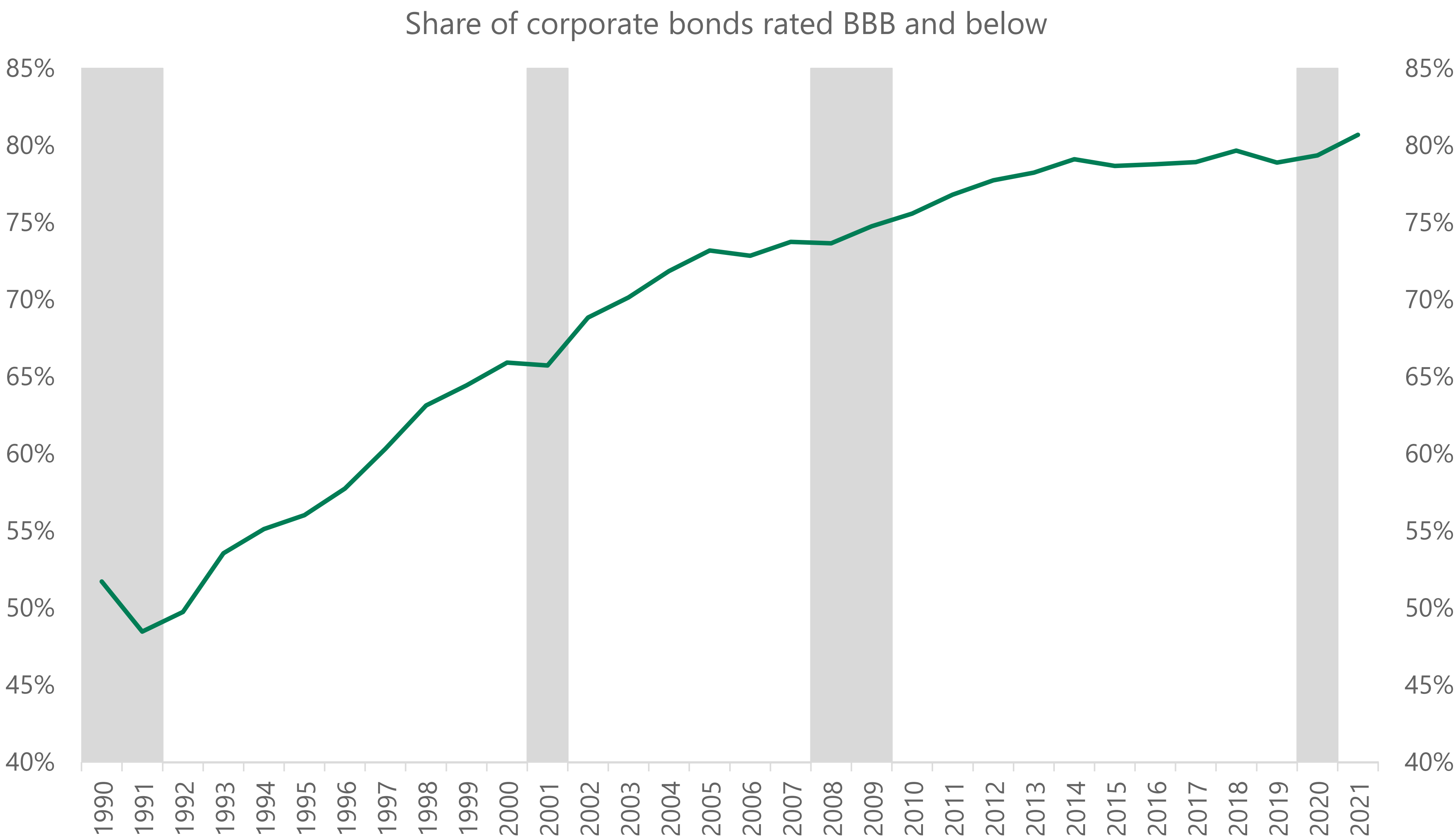
3) Record-high duration for the IG index

High debt level in the corporate sector means more vulnerability to rising rates



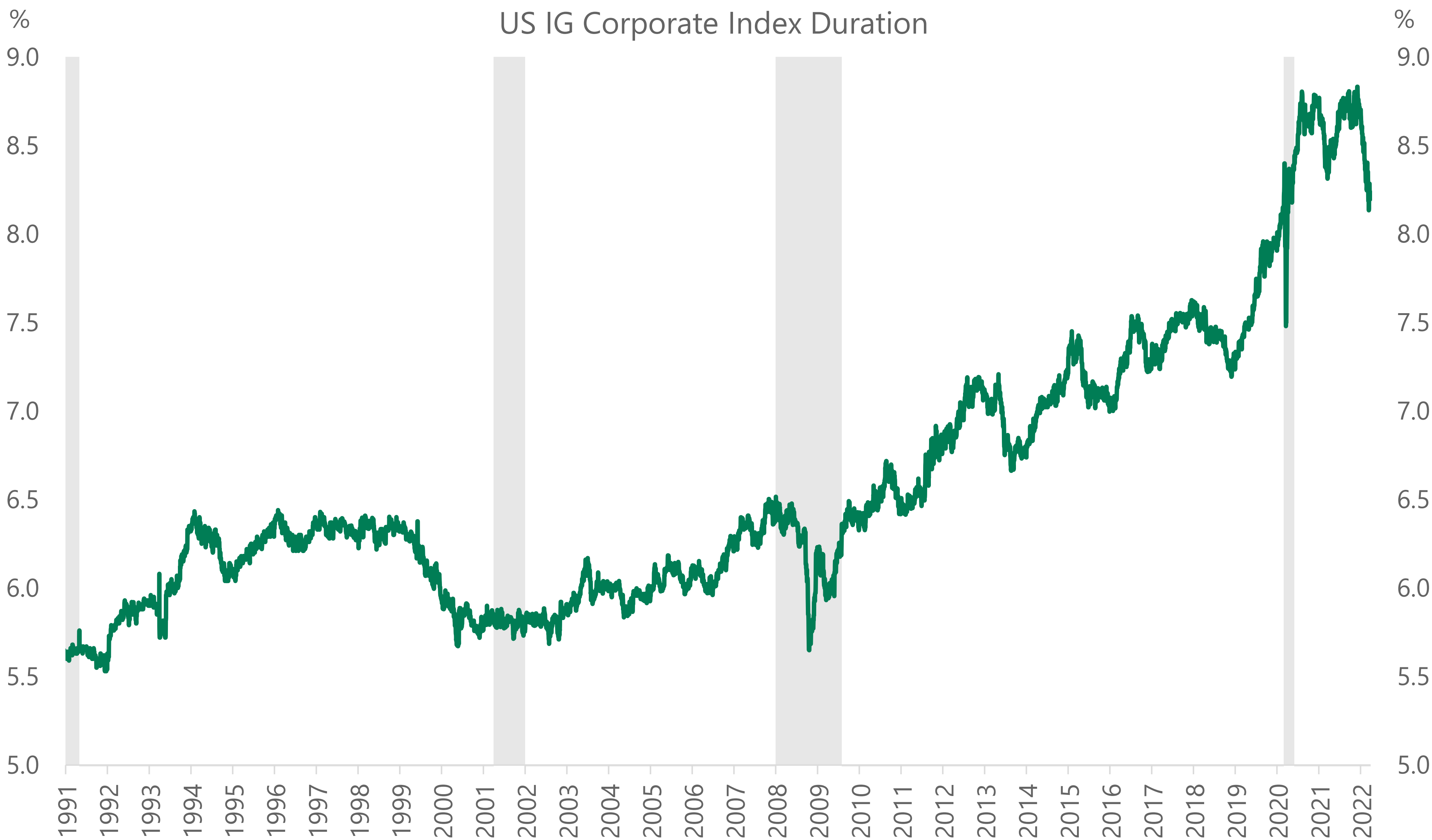
Source: FRB, Haver Analytics, Apollo Chief Economist

Lower-rated firms are by definition more vulnerable to rising interest rates



Source: S&P, Apollo Chief Economist (Note: Data as of July 01, 2021)

Credit has never been more vulnerable to rising rates: IG duration near all-time high



Source: Bloomberg, Apollo Chief Economist. Note: The measure used is modified duration, which measures the expected change in a bond's price to a 1% change in interest rates.

Asset allocation views

Fed outlook Growth slowdown is temporary	Omicron variant has peaked. Ukraine having limited impact on US growth. Consumer spending and capex spending will accelerate in 2022. High inflation is a key risk.
Rates outlook More Fed hikes coming	Inflation at 8.5% is meaningfully above the Fed's 2% target. Forces pushing inflation up are supply chain problems, energy prices, higher wages, and higher housing costs. Curve to flatten.
Credit outlook Fed QE is over	IG duration is record-high and corporate leverage is high. Economic outlook is solid, but Fed is hiking and QE is ending in Q1. Could see repeat of 18Q4.
Equity outlook Valuations high	P/E ratio remains very high. Stock market is vulnerable to higher wages, Fed hiking, and QE ending.
FX outlook Dollar higher	2-year rates expected to go up more in the US than in EU and JP, and the Fed will raise rates before the ECB and BoJ. That should be dollar positive.
Commodity outlook Global recovery supports commodities	Accelerating global growth will support commodity markets, including energy. Could have disruptive energy crisis, in particular in Europe.
Alternative assets outlook Credit selection/stock picking is key	Themes: Inflation high, rates rising, volatility continues.

Source: Apollo Chief Economist

Asset allocation for alternatives

- Inflation is high
High inflation is driven by supply chain problems and by growing demand coming out of covid. **Investors can buy real estate and infrastructure to protect themselves against inflation.**

- Rates rising
Because of high inflation the Fed is hiking rates. The Fed is expected to increase interest rates nine more times this year. **With this backdrop, investors should be buying floating rate high quality credit.**

- High volatility in markets
Because of high inflation and rising rates there is a lot of uncertainty in markets. Credit selection and stock picking are key in turbulent markets. **Entry price matters and many things in recent months just got a lot cheaper, in particular in equity markets.**

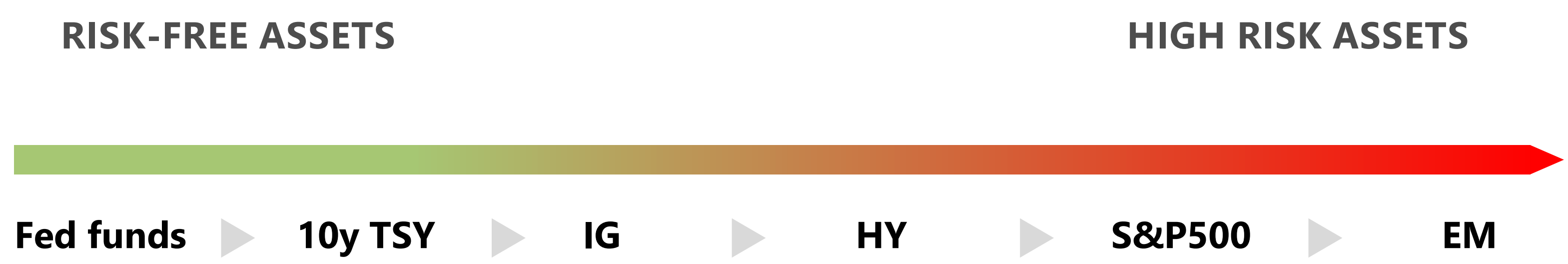
- Ukraine/Russia
Very little direct impact on US credit and equity markets. But has big impact on energy prices and on supply chains. **This is a stagflation shock: Higher inflation and lower growth, in particular in Europe.**

- High energy prices
Will accelerate the energy transition and investment in green energy and renewables. Europe and US looking for other sources of energy than fossil fuels.

Source: Apollo Chief Economist

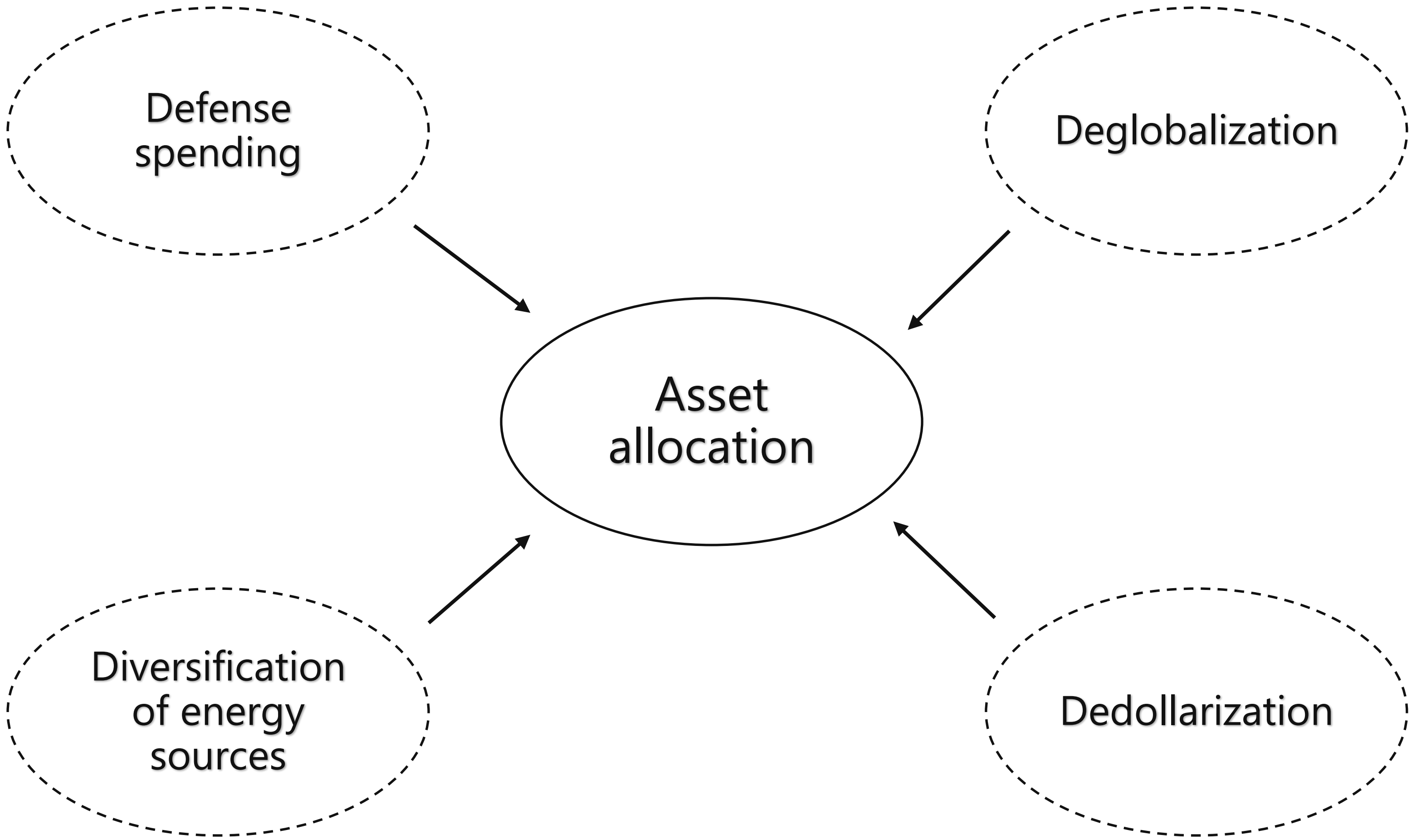
Hunt for yield is reversing. Driven by inflation uncertainty.

Risk Spectrum



Source: Apollo Chief Economist

Four Megatrends Impacting Asset Allocation After February 24, 2022



Source: Apollo Chief Economist

Biography

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Torsten Slok joined Apollo in 2020 as Chief Economist and he leads Apollo's macroeconomic and market analysis across the platform.

Prior to joining, Mr. Slok worked for 15 years as Chief Economist at Deutsche Bank where his team was top ranked in the annual Institutional Investor survey for a decade, including #1 in 2019. Prior to joining Deutsche Bank Mr. Slok worked at the IMF in Washington, DC and at the OECD in Paris.

Mr. Slok has a Ph.D in Economics and has studied at the University of Copenhagen and Princeton University.