

APOLLO GLOBAL MANAGEMENT

# Outlook for markets and alternatives

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October 2022

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Unless otherwise noted, information as of October 2022

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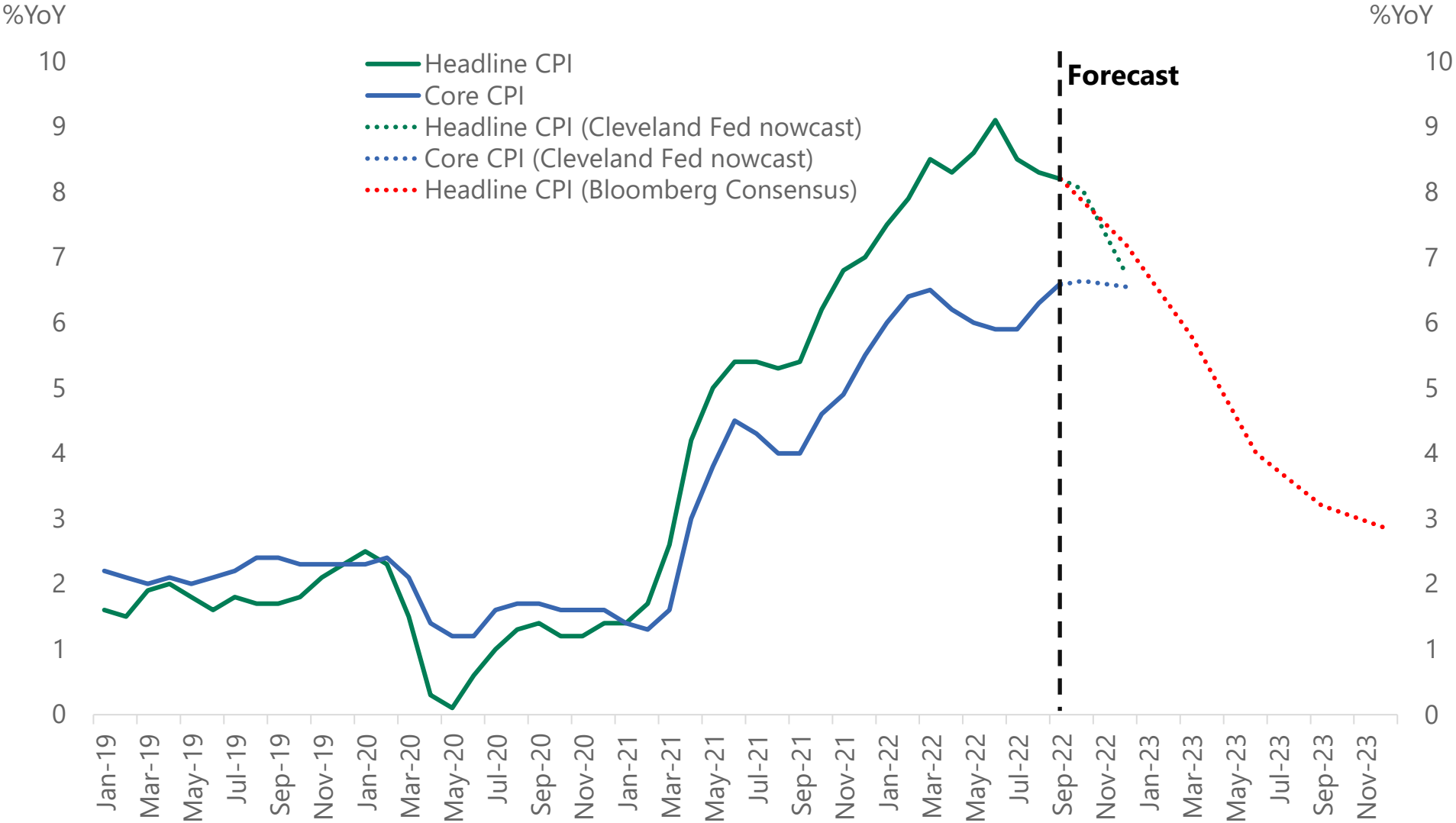
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## Key themes in markets

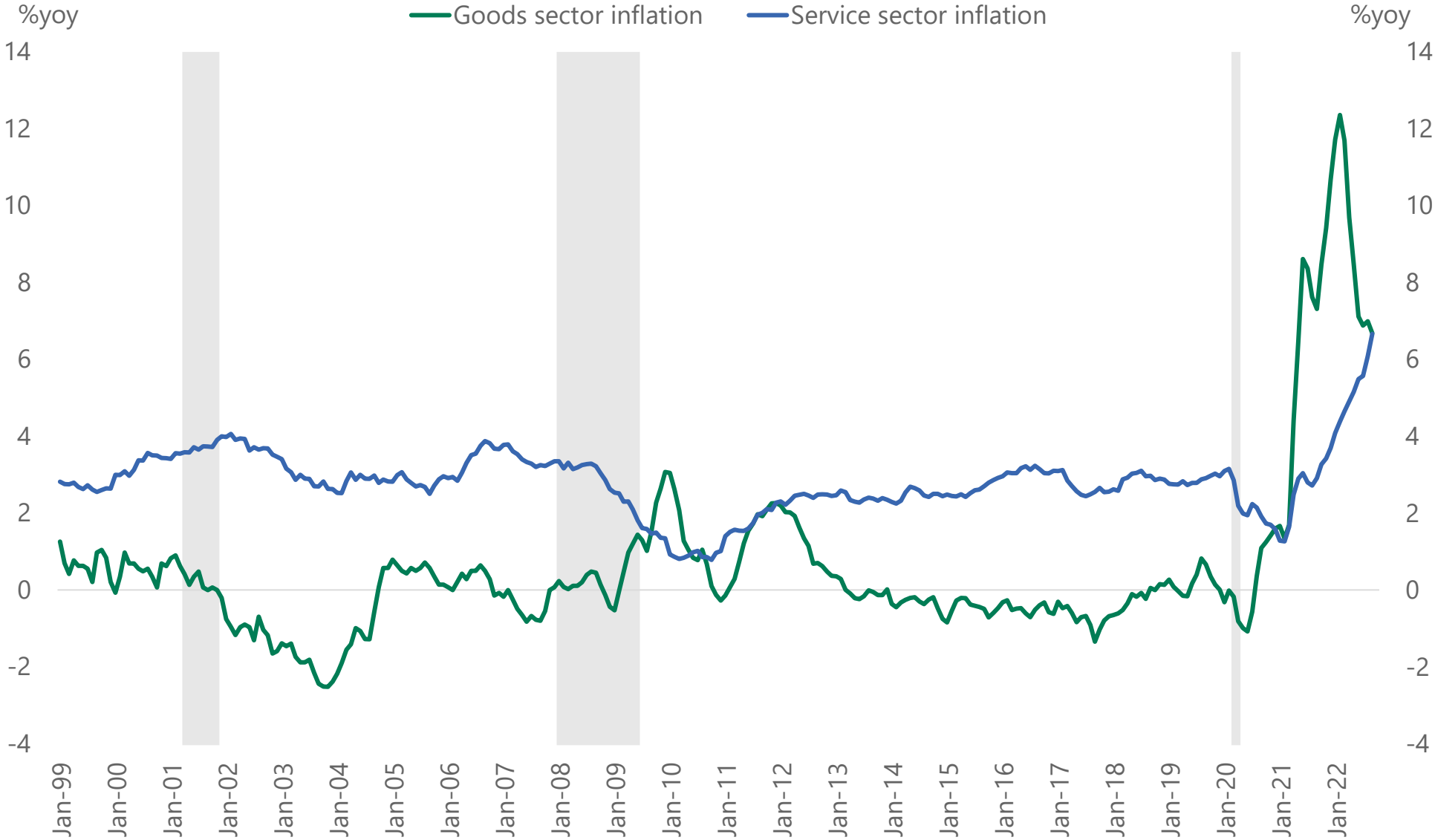
- 1) Waiting for inflation to come down from 8.2% toward 2%
- 2) Waiting for signs if this will be a soft or a hard landing

# Inflation expected to decline as we go through 2023



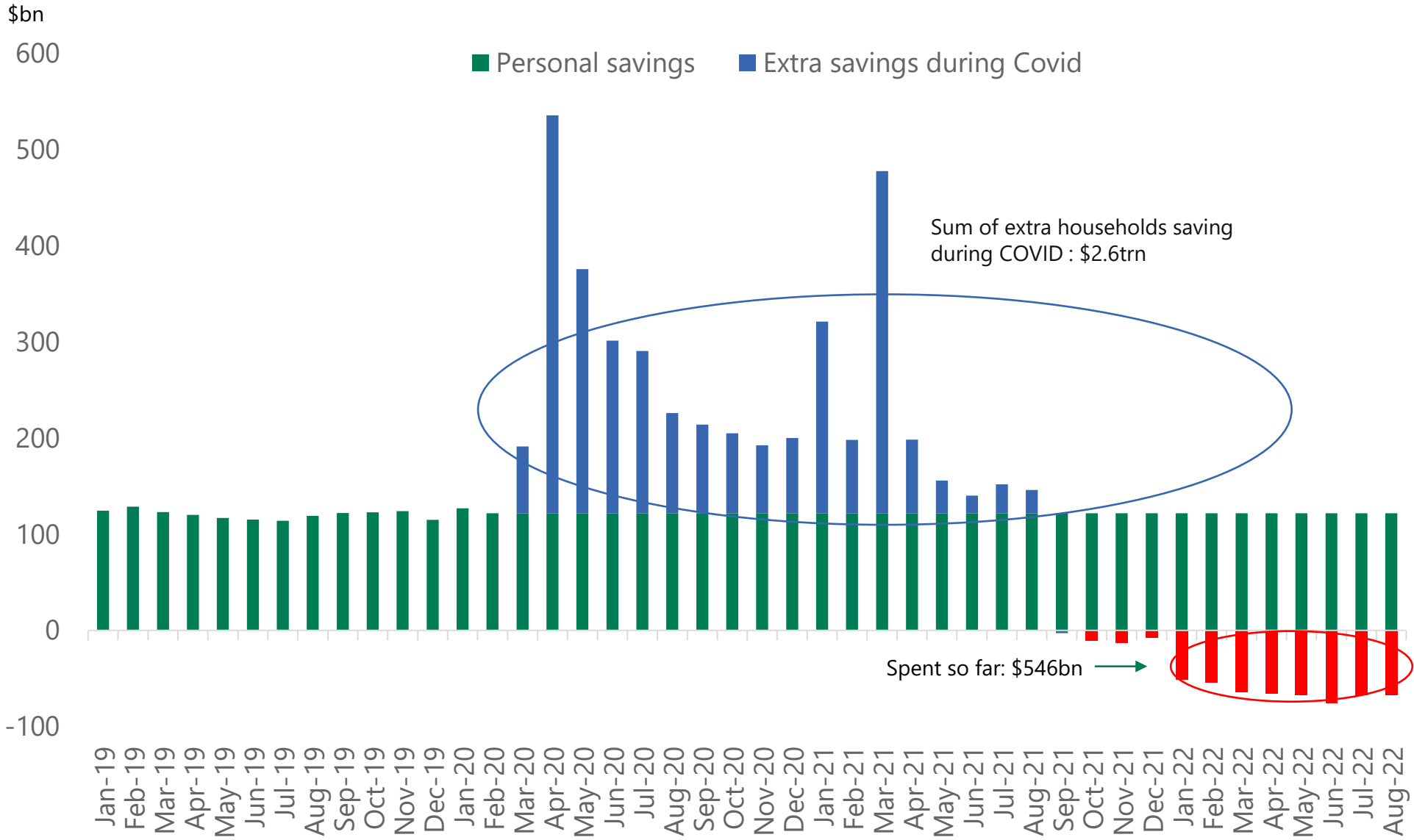
Source: Cleveland Fed, Bloomberg, Haver Analytics, Apollo Chief Economist

# Goods sector inflation vs service sector inflation



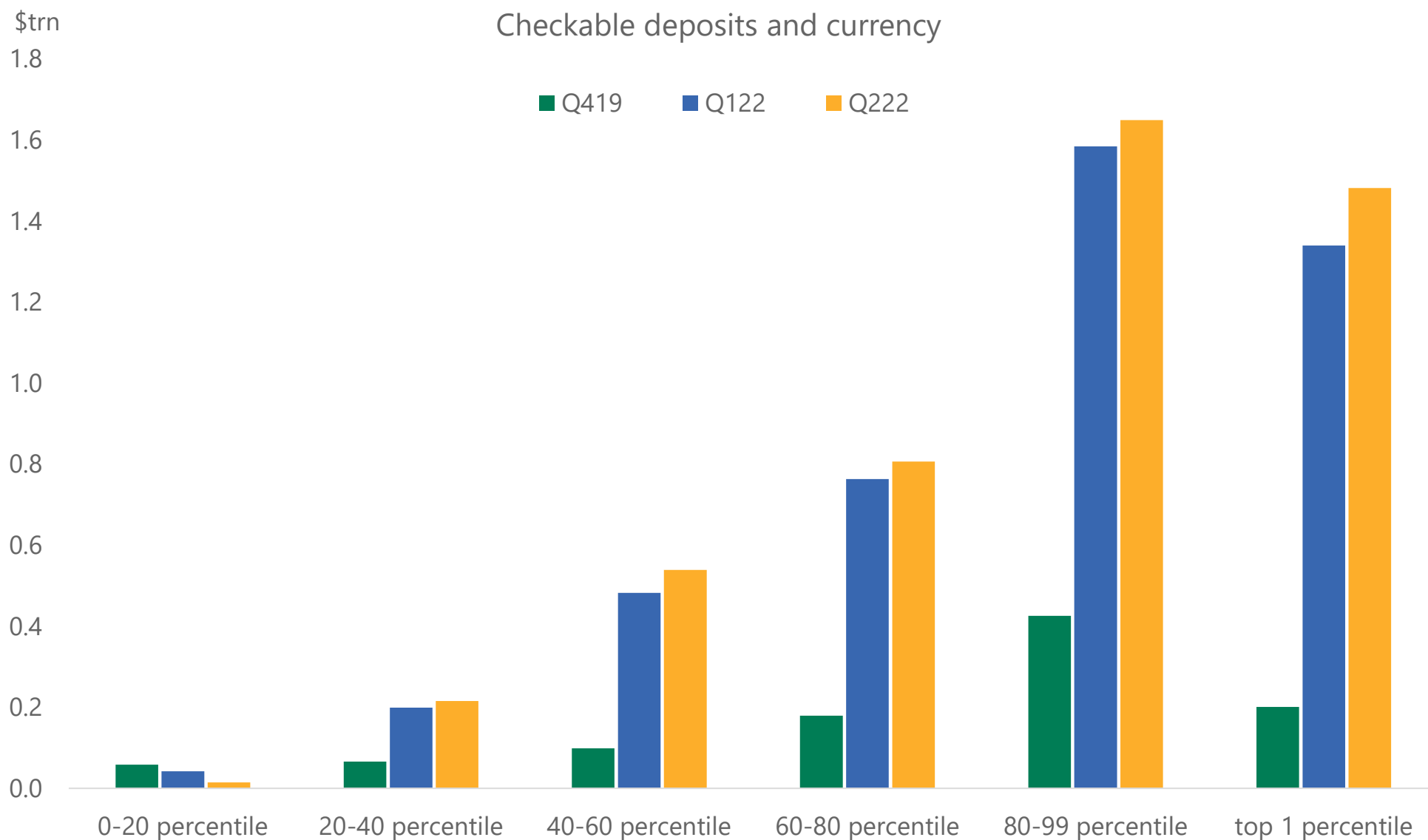
Source: BLS, Haver Analytics, Apollo Chief Economist (Note: Goods = Commodities Less Food & Energy Commodities; Service = Services Less Energy Services)

# Households have \$2trn in excess dry powder, saved during the pandemic



Note: Bloomberg, Apollo Chief Economist

# Household savings across different income groups



Source: FRB, Haver Analytics, Apollo Chief Economist

# Subprime credit quality starting to deteriorate

| Auto Loans               |           |            |           |           |
|--------------------------|-----------|------------|-----------|-----------|
| +60 day delinquency rate |           |            |           |           |
|                          | Aug. 2022 | July. 2022 | Aug. 2021 | Aug. 2019 |
| Super Prime              | 0.0%      | 0.0%       | 0.0%      | 0.0%      |
| Prime plus               | 0.01%     | 0.01%      | 0.01%     | 0.01%     |
| Prime                    | 0.12%     | 0.12%      | 0.11%     | 0.12%     |
| Near prime               | 0.5%      | 0.5%       | 0.5%      | 0.4%      |
| Subprime                 | 11.7%     | 11.4%      | 9.4%      | 7.7%      |
| Total                    | 1.8%      | 1.7%       | 1.3%      | 1.3%      |

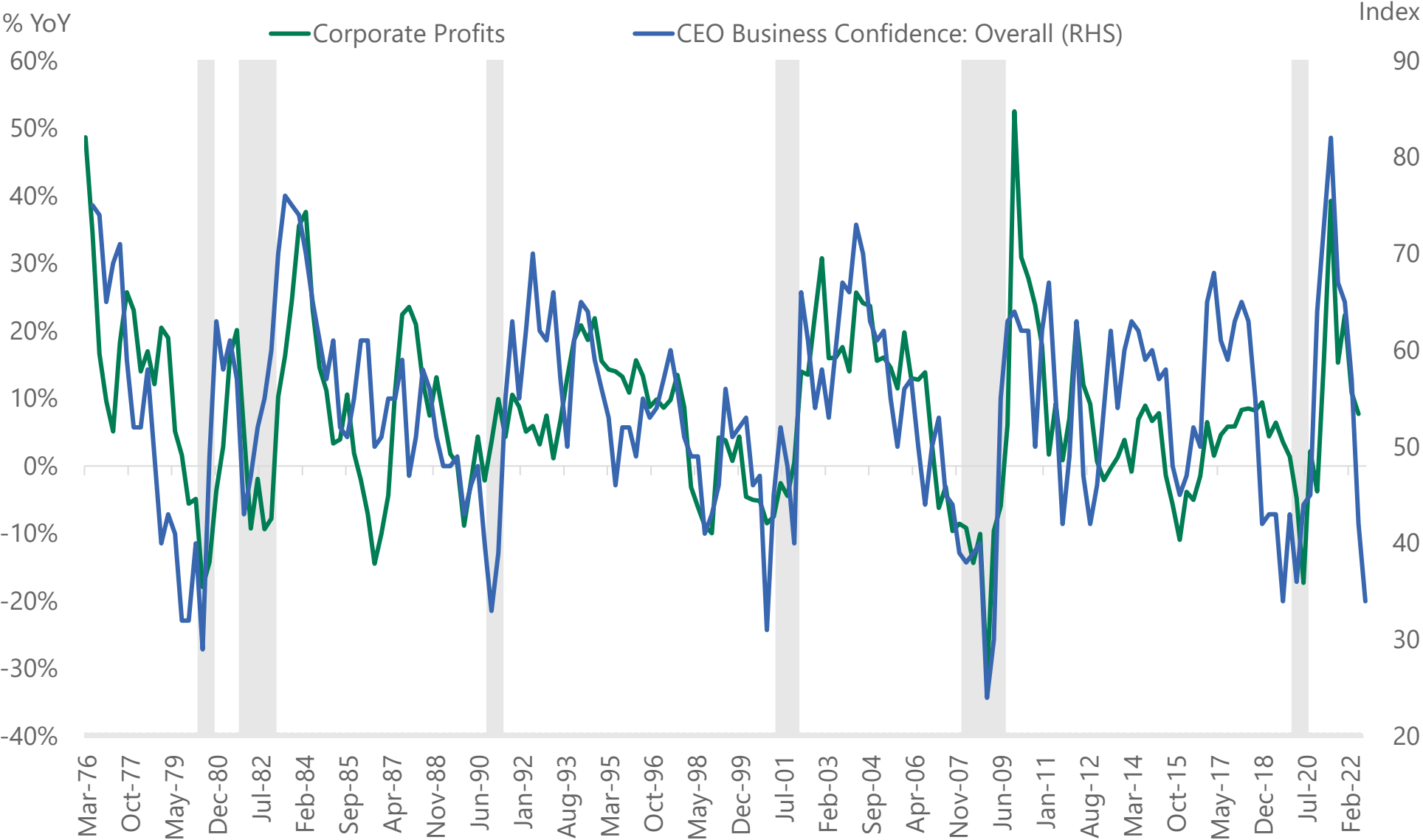
| Credit Cards             |           |            |           |           |
|--------------------------|-----------|------------|-----------|-----------|
| +90 day delinquency rate |           |            |           |           |
|                          | Aug. 2022 | July. 2022 | Aug. 2021 | Aug. 2019 |
| Super Prime              | 0.00%     | 0.00%      | 0.00%     | 0.00%     |
| Prime plus               | 0.01%     | 0.01%      | 0.01%     | 0.01%     |
| Prime                    | 0.17%     | 0.17%      | 0.14%     | 0.15%     |
| Near prime               | 0.95%     | 0.95%      | 0.83%     | 1.07%     |
| Subprime                 | 16.6%     | 15.4%      | 11.2%     | 16.78%    |
| Total                    | 1.76%     | 1.62%      | 0.99%     | 1.72%     |

| Mortgages                   |           |            |           |           |
|-----------------------------|-----------|------------|-----------|-----------|
| Distribution of Delinquency |           |            |           |           |
|                             | Aug. 2022 | July. 2022 | Aug. 2021 | Aug. 2019 |
| Current                     | 95.5%     | 95.6%      | 96.5%     | 93.5%     |
| 30-59 DPD                   | 2.5%      | 2.4%       | 1.8%      | 3.6%      |
| 60-89 DPD                   | 1.2%      | 1.2%       | 1.0%      | 1.8%      |
| 90+                         | 0.7%      | 0.7%       | 0.6%      | 0.9%      |
| Foreclosure                 | 0.1%      | 0.1%       | 0.1%      | 0.2%      |

Source: Transunion Monthly Industry Snapshot July 2022

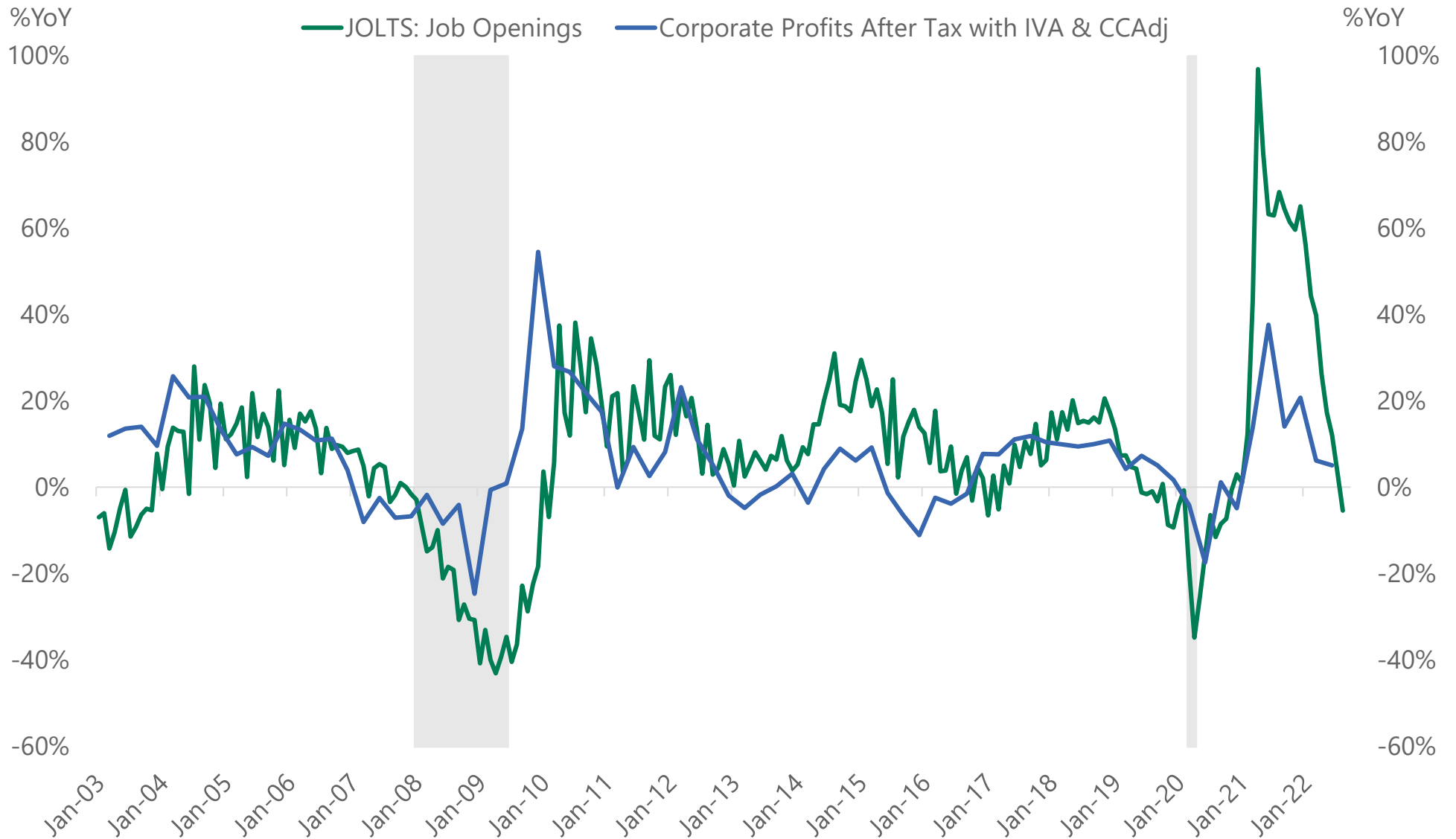


# CEO confidence and corporate profits



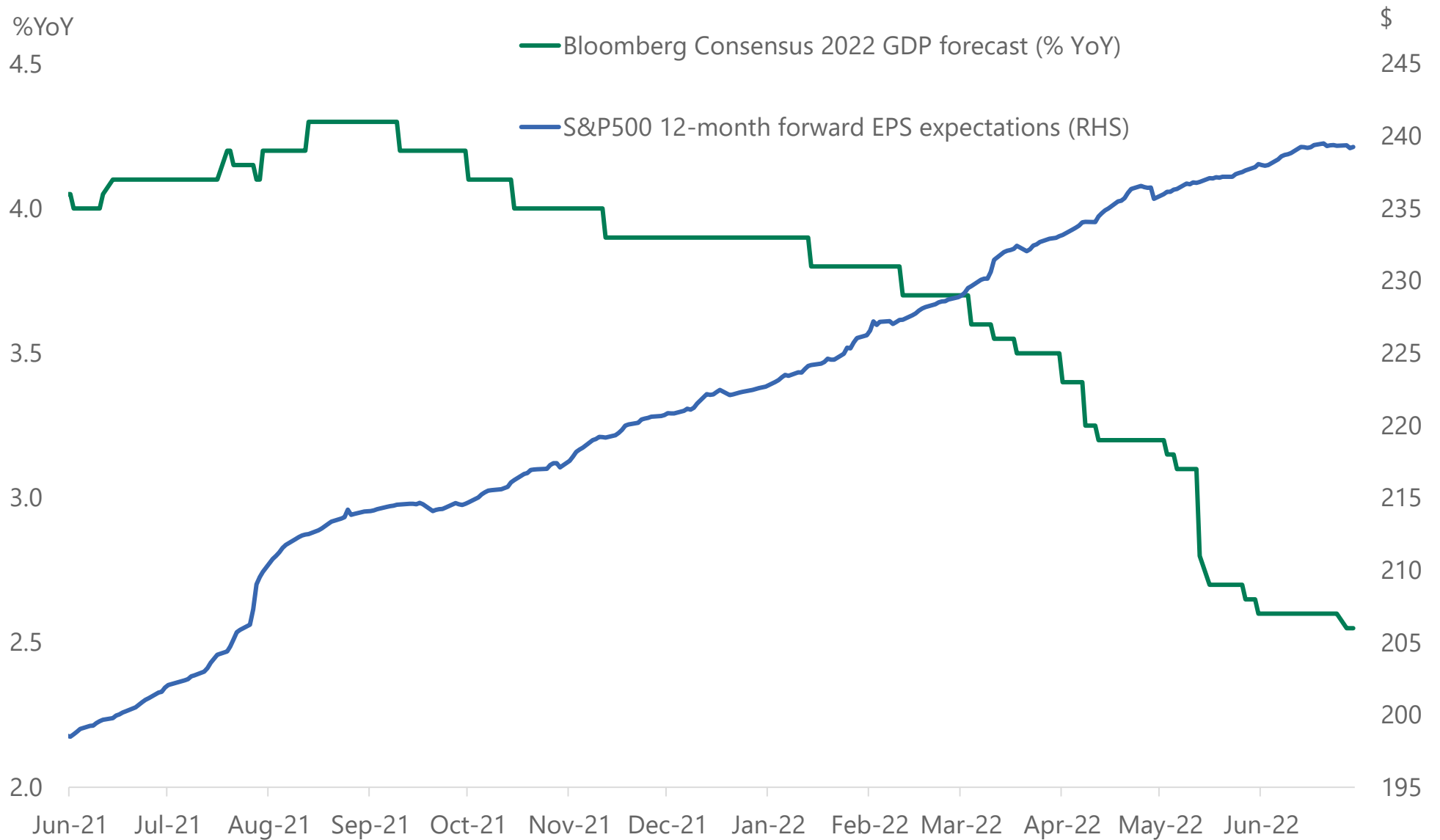
Source: The Conference Board, Haver, Apollo Chief Economist

# Job openings and Corporate profits



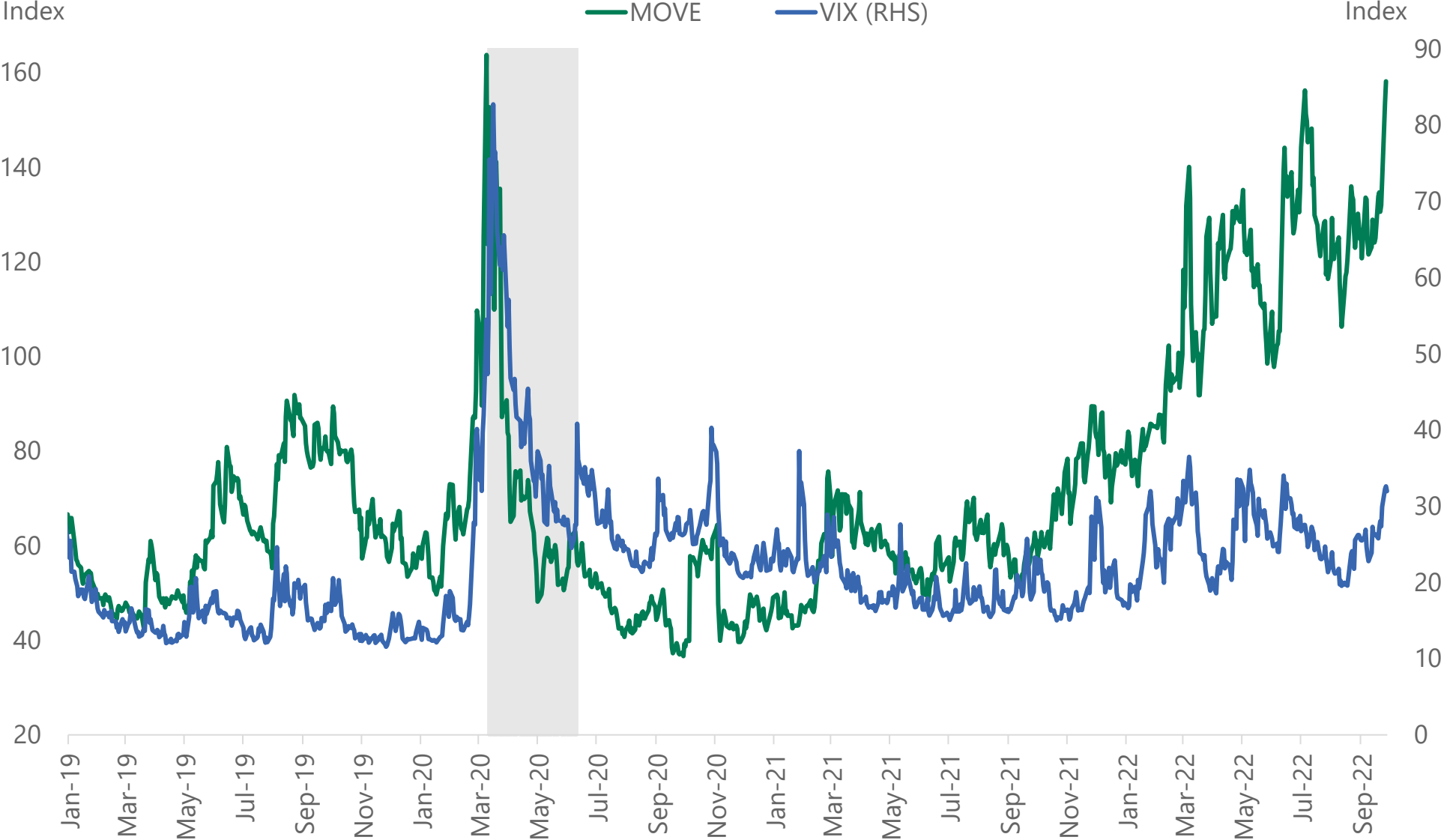
Source: BLS, BEA, Haver Analytics, Apollo Chief Economist

# Divergence between S&P500 earnings expectations and GDP growth expectations



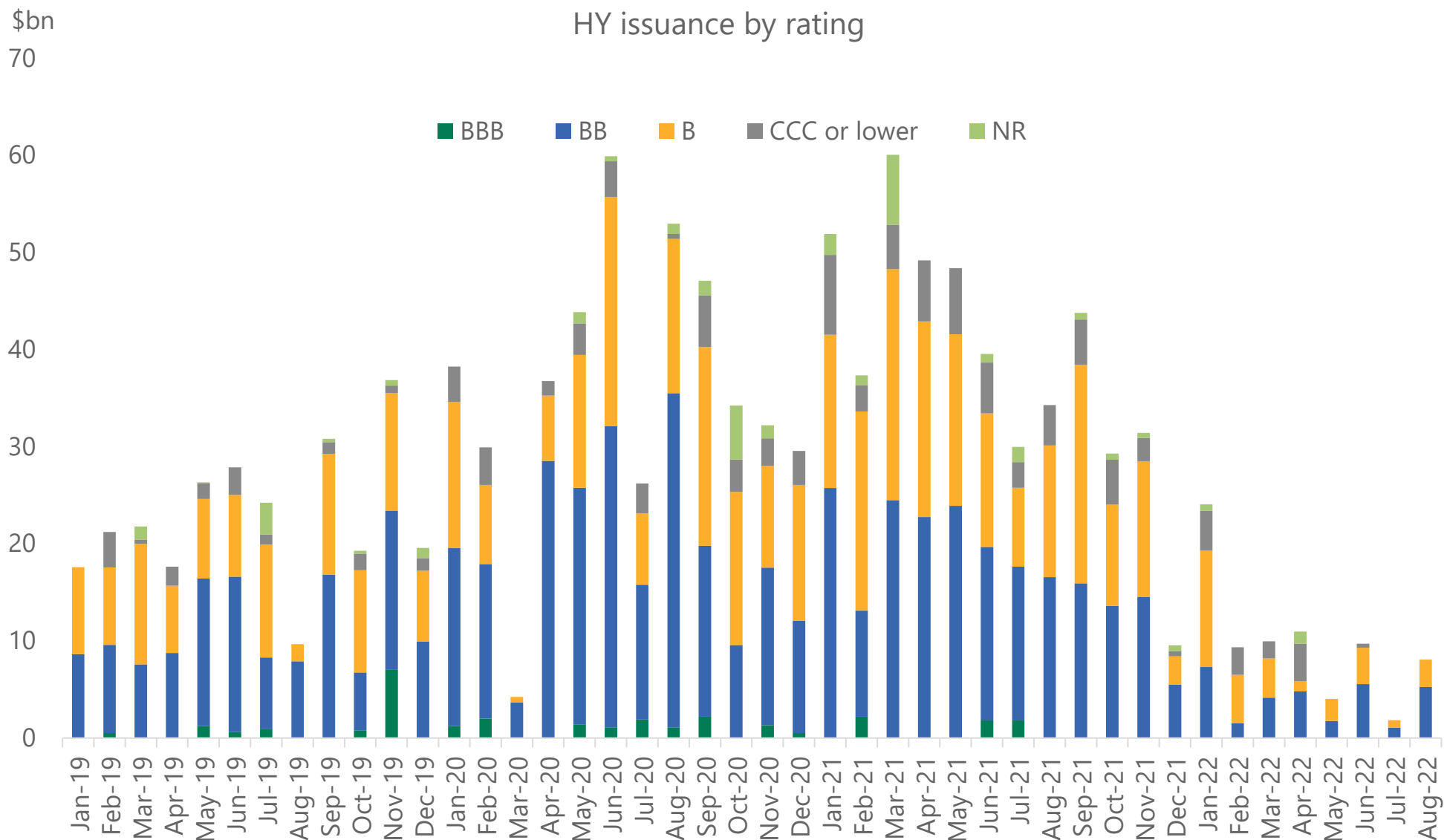
Source: Bloomberg, Apollo Chief Economist

# Strong disconnect between rates markets and equity markets



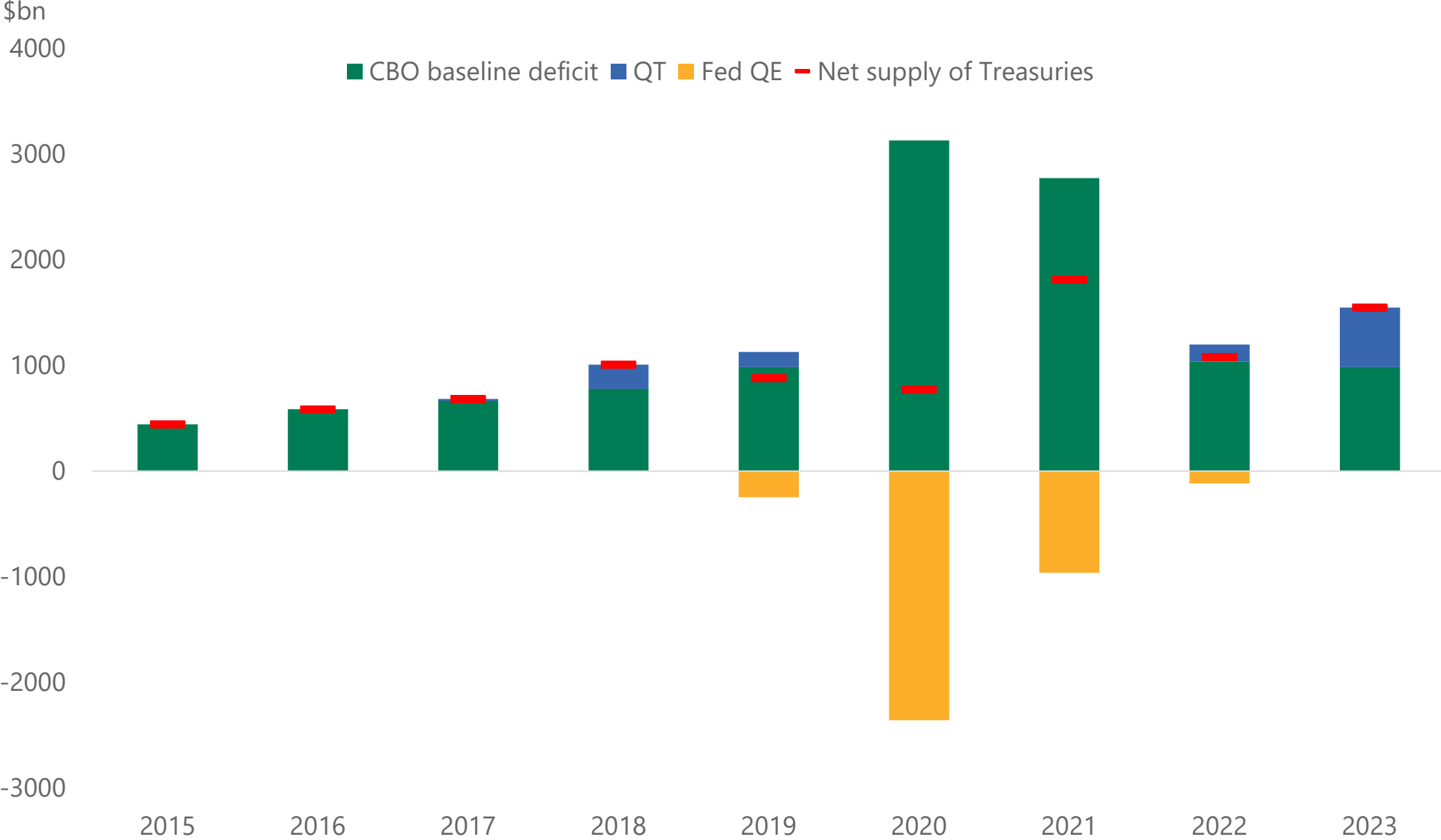
Source: Bloomberg, Apollo Chief Economist

# HY issuance by rating



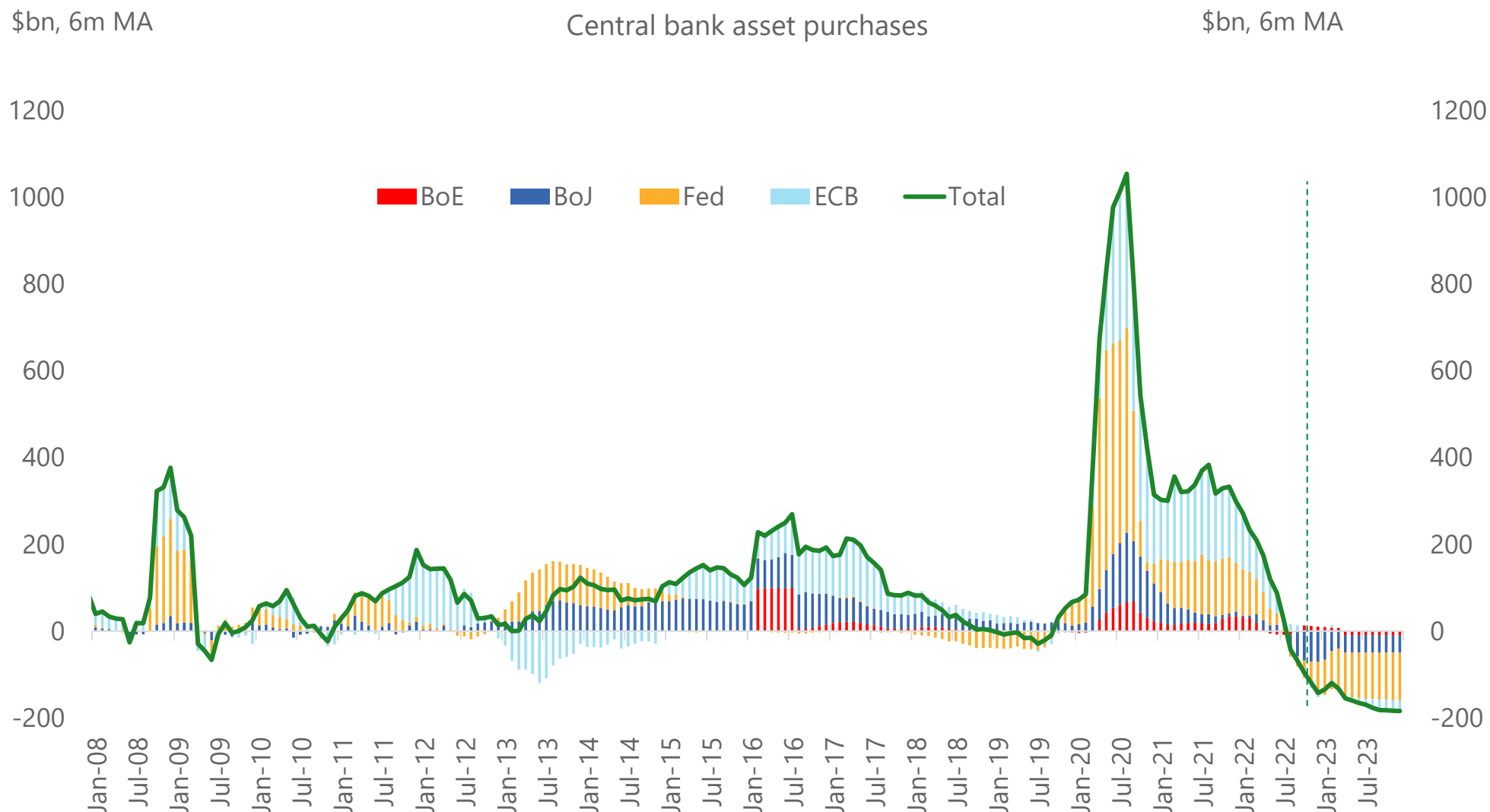
Source: S&P LCD, Apollo Chief Economist. Note: Data as of 30<sup>th</sup> April 2022

# Net supply of Treasuries: \$500bn before the pandemic and \$1.5trn in 2023



Source: CBO, FRB, Haver Analytics, Apollo Chief Economist. Note: QT is SOMA redemptions with cap assumed \$60 bn per month in 2023.

# From QE to QT



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 only redemptions reinvested from August. 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. BoE starts to sell GBP80 bn in the next 12 months and ECB starts QT in 2Q23

# Asset allocation views

|   |   |
|---|---|
| <p><b>Fed outlook</b><br/>Growth slowing but unclear if it will be a soft or hard landing</p> | <p>The Fed is trying to tighten financial conditions to slow growth. Persistent high inflation is a key risk. Consensus sees 50% chance of a recession within 12 months</p> |
| <p><b>Rates outlook</b><br/>More Fed hikes coming</p>   | <p>Inflation at 8.3% is meaningfully above the Fed's 2% target. Curve to flatten and invert further.</p>  |
| <p><b>Credit outlook</b><br/>From Fed QE to QT</p>  | <p>IG and HY duration near record-highs and corporate leverage is high. Economic outlook is solid, but Fed is hiking and QE is ending. Could see repeat of 18Q4.</p>        |
| <p><b>Equity outlook</b><br/>Fed tightening slowing earnings growth</p>                       | <p>Fed wants to slow growth to cool down inflation. Stock market is vulnerable to higher wages, Fed hiking, and QE ending.</p>  |
| <p><b>FX outlook</b><br/>Dollar higher</p>  | <p>2-year rates will go up more in the US than in EU and JP, and the Fed will raise rates more than the ECB and BoJ. That should be dollar positive.</p>                    |
| <p><b>Commodity outlook</b><br/>Slowing growth will weigh on commodities</p>                  | <p>Slowing global growth will weigh on commodity markets, including energy. Could have disruptive energy crisis, in particular in Europe.</p>                               |
| <p><b>Alternative assets outlook</b><br/>Credit selection/stock picking is key</p>            | <p>Themes: Inflation high, short rates rising, volatility continues.</p>  |

Source: Apollo Chief Economist



# Asset allocation for alternatives

## 1) Inflation is high

Investors can buy real estate and infrastructure to protect themselves against inflation.

## 2) Short rates rising

Because of high inflation the Fed is hiking rates. **With this backdrop, investors should be buying floating short rates high quality credit.**

## 3) High volatility in markets

Because of high inflation there is a lot of uncertainty in markets. Credit selection and stock picking are key in turbulent markets. **Entry price matters and in 2022 many things have become a lot cheaper, in particular in equity markets.**

## 4) 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.**

## 5) 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.

# Biography



## **Torsten Slok, Ph.D.**

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Torsten Slok joined Apollo in August 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.