

APOLLO GLOBAL MANAGEMENT

Outlook for 2023: Inflation has peaked, time to put money to work

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Unless otherwise noted, information as of November 2022

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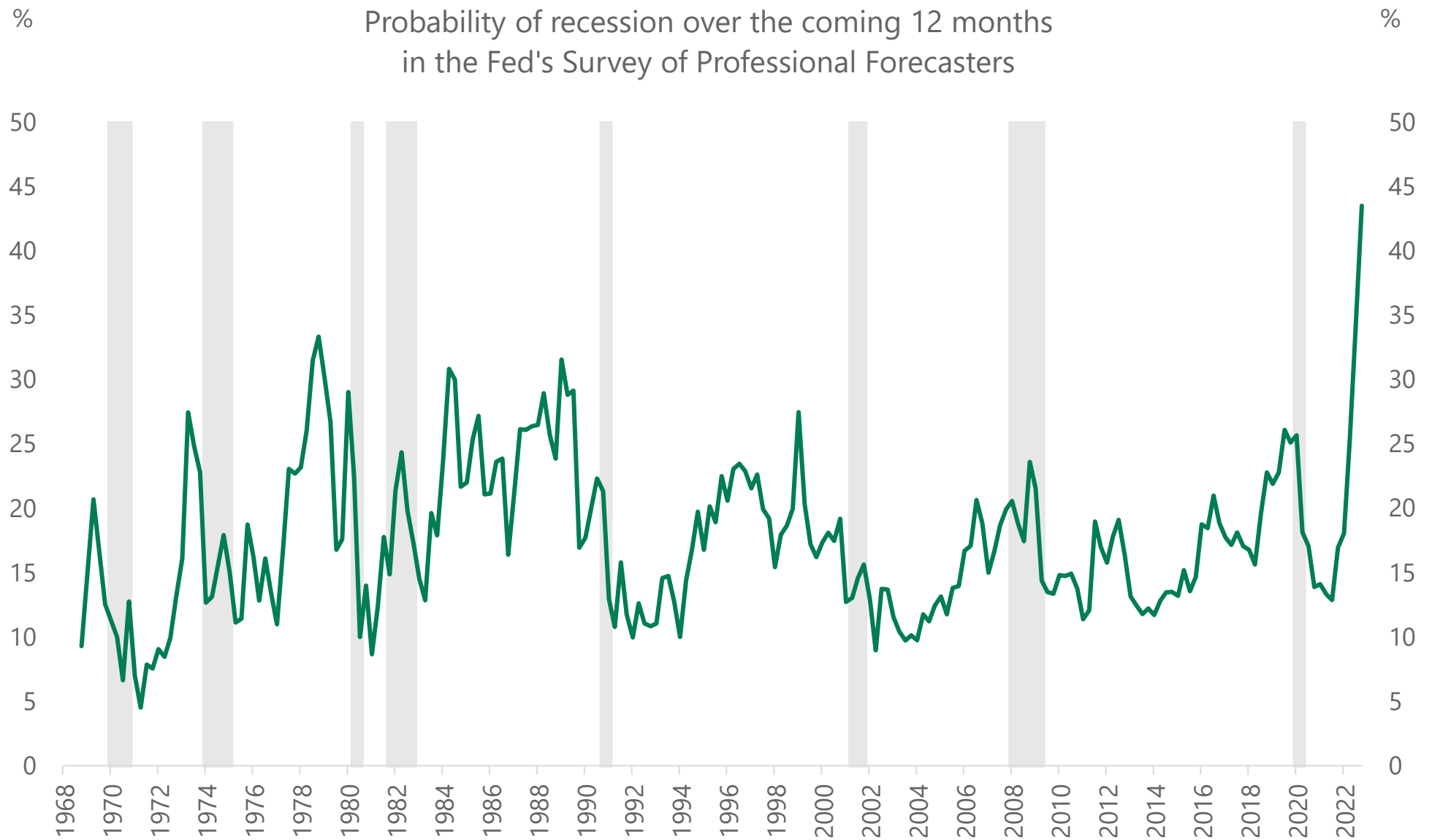
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Key themes in markets

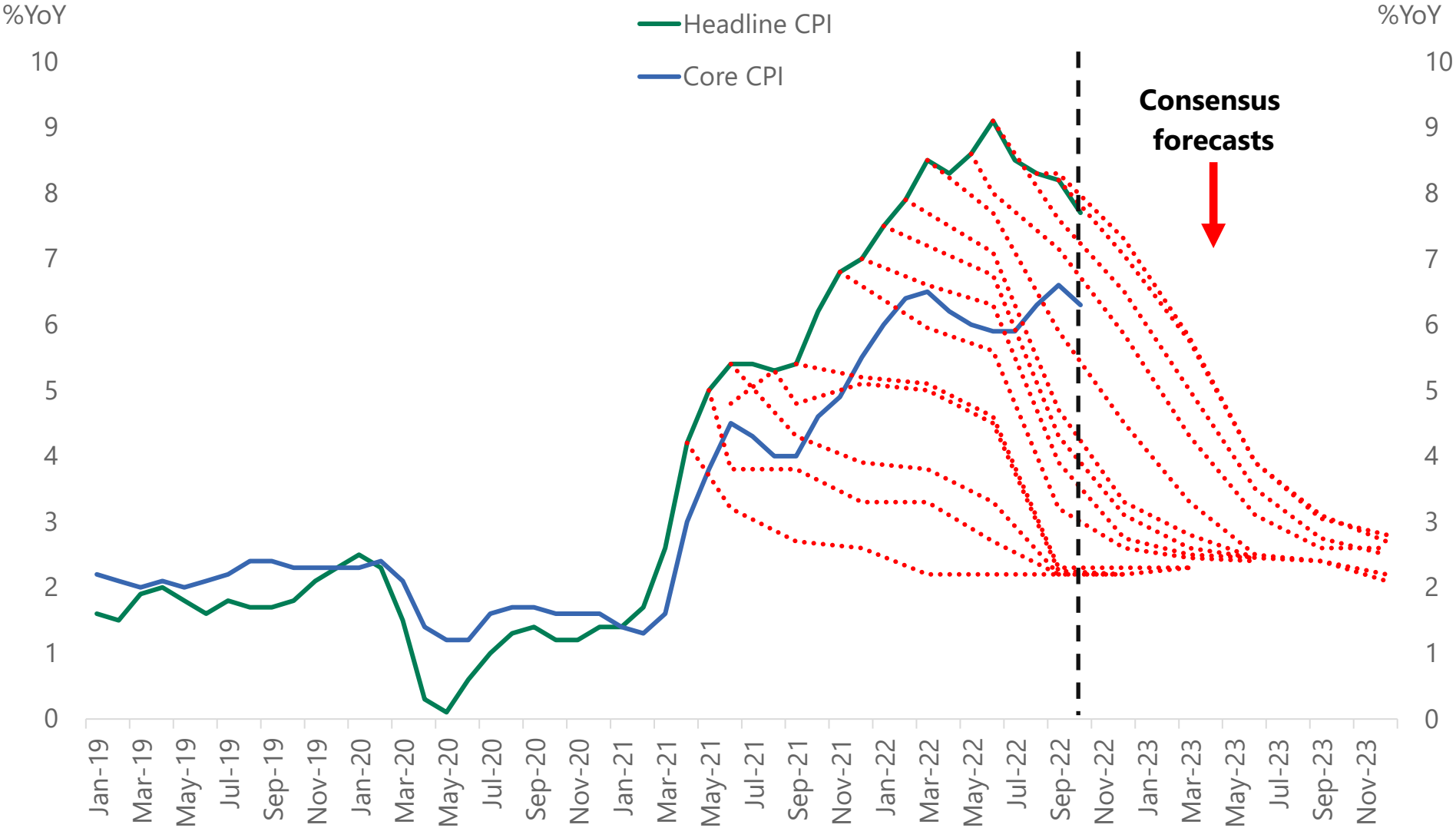
- 1) Waiting for inflation to come down from 7.7% toward 2%
- 2) Waiting for signs if this will be a soft or a hard landing

The most anticipated recession ever



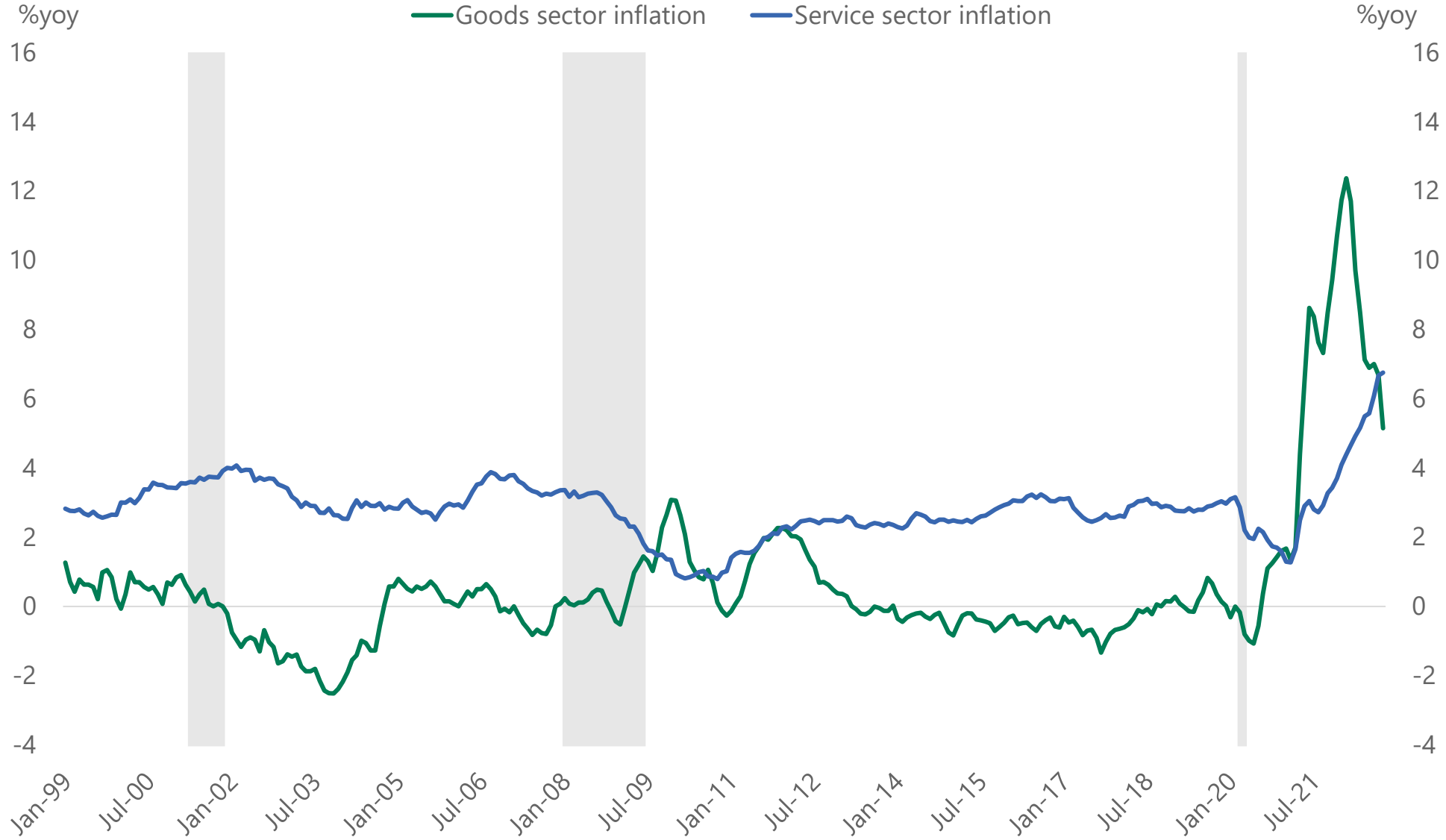
Source: Federal Reserve Bank of Philadelphia, Haver Analytics, Apollo Chief Economist

The consensus has been systematically wrong about inflation coming down



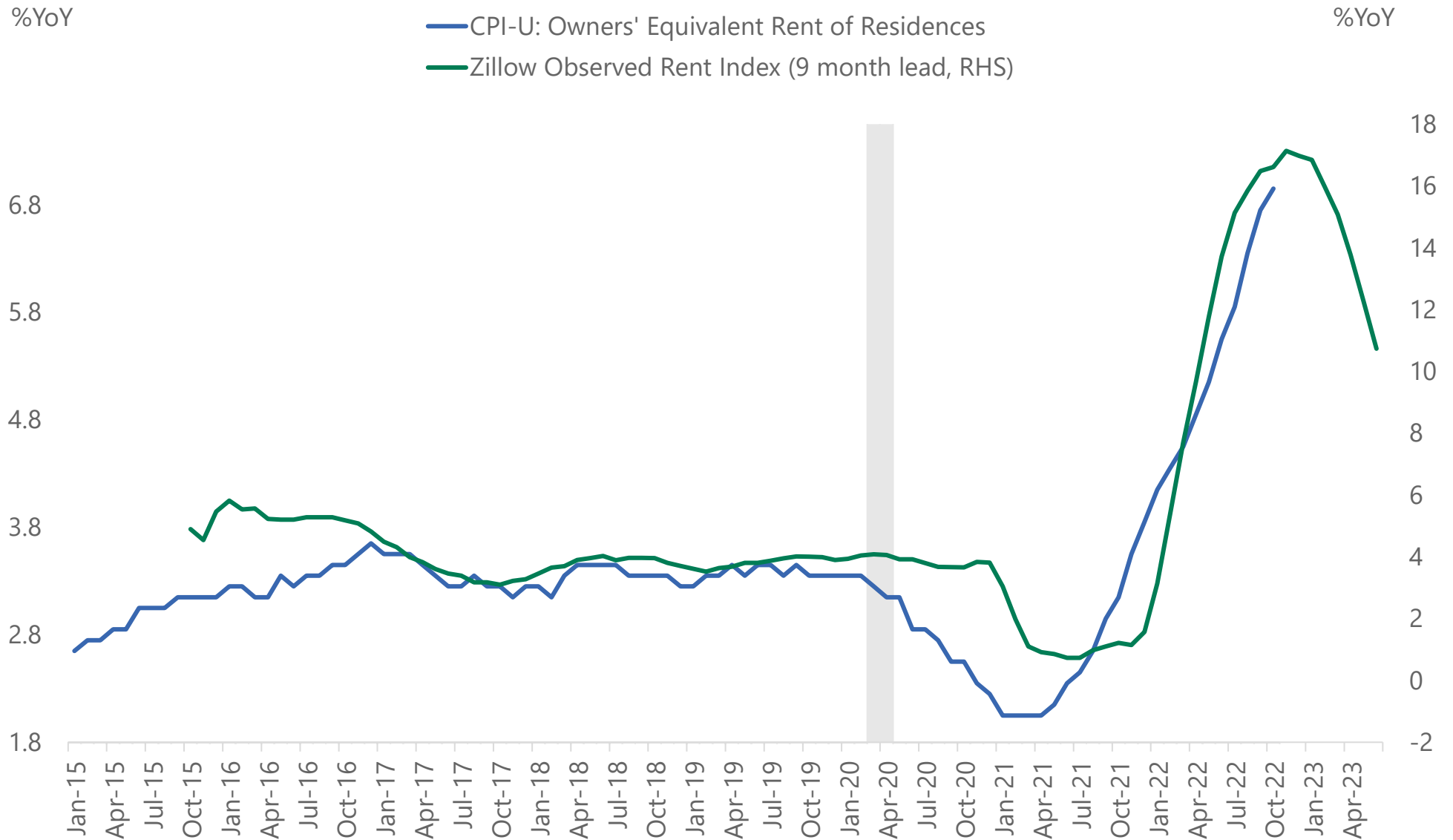
Source: Bloomberg, Haver Analytics, Apollo Chief Economist

Goods sector inflation and service sector inflation



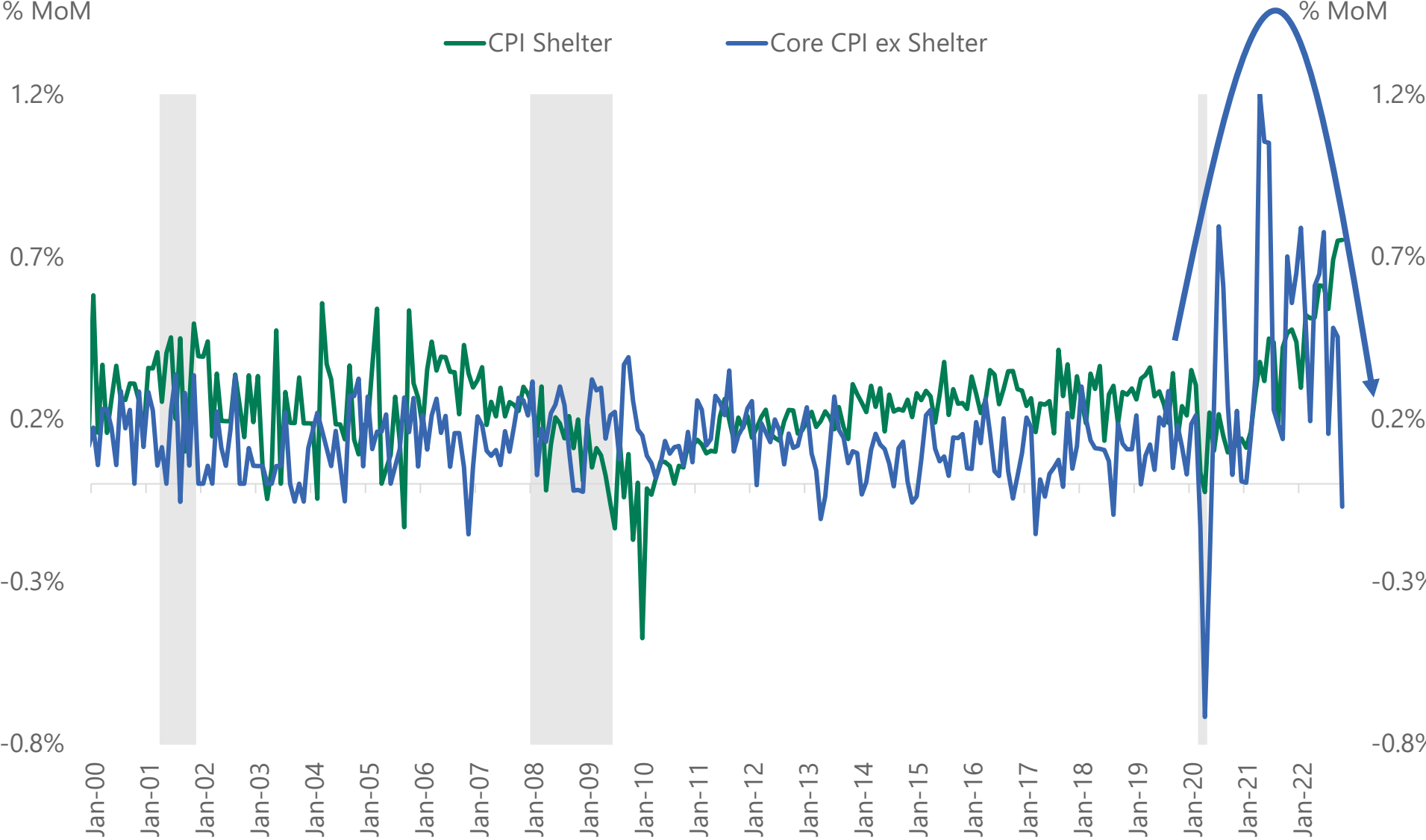
Source: BLS, Haver Analytics, Apollo Chief Economist (Note: Goods = Commodities Less Food & Energy Commodities; Service = Services Less Energy Services)

Housing inflation about to come down



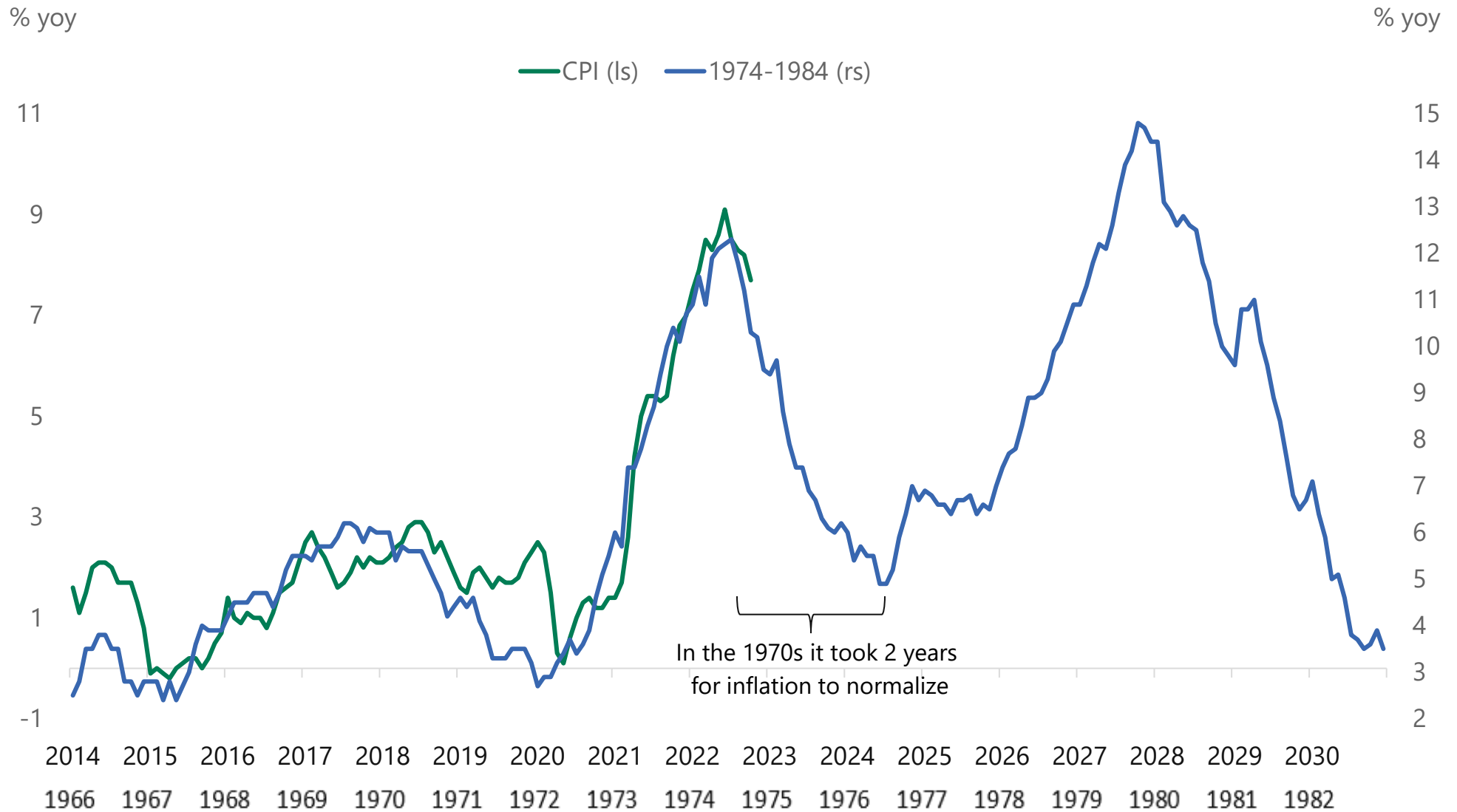
Source: Zillow, BLS, Haver Analytics, Apollo Chief Economist

Core inflation ex-shelter is rolling over



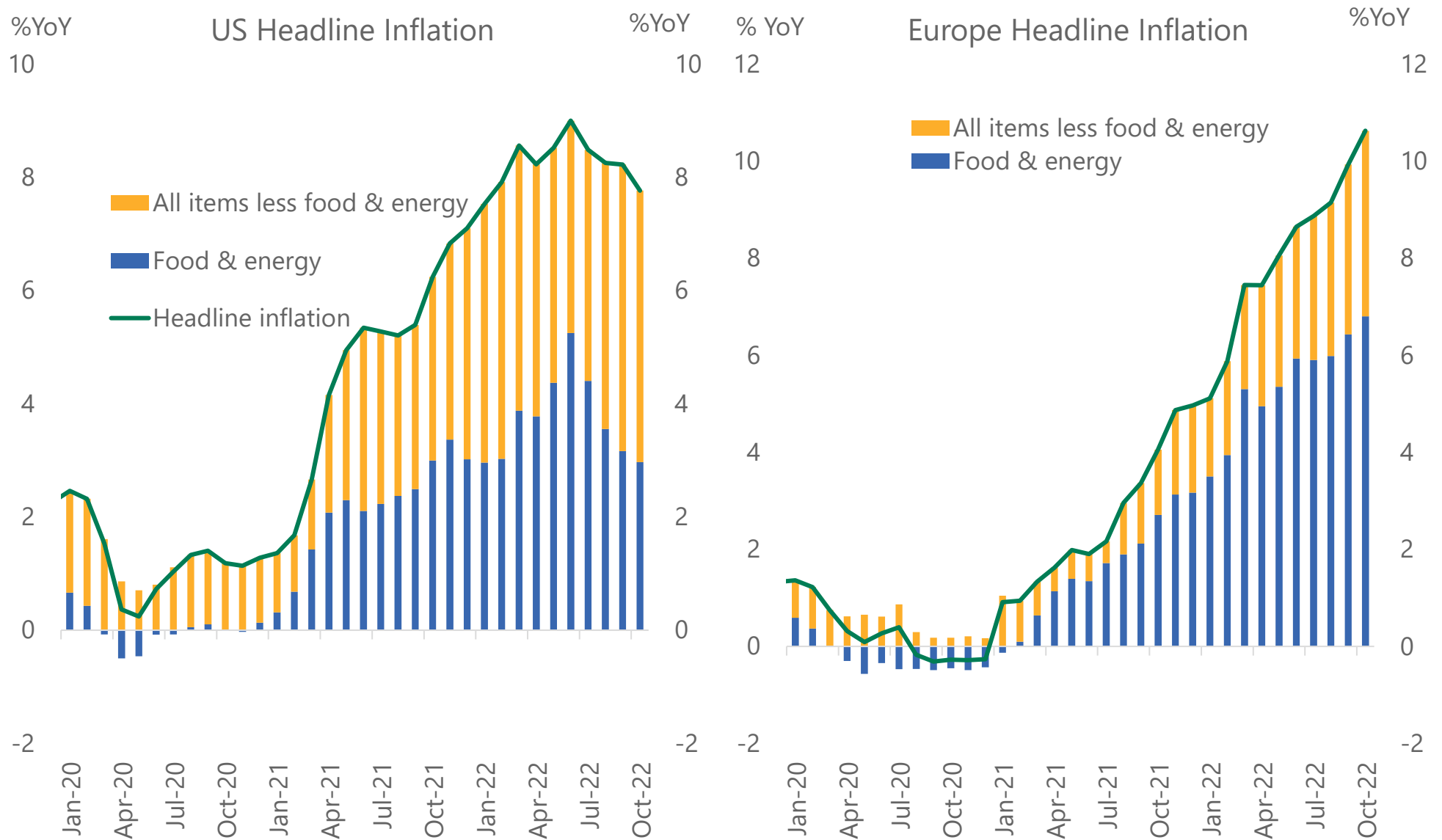
Source: BLS, Haver Analytics, Apollo Chief Economist

US inflation: Today vs 1974-84. So far, so good



Source: BLS, Bloomberg, Apollo Chief Economist

Euro area inflation is mainly food and energy

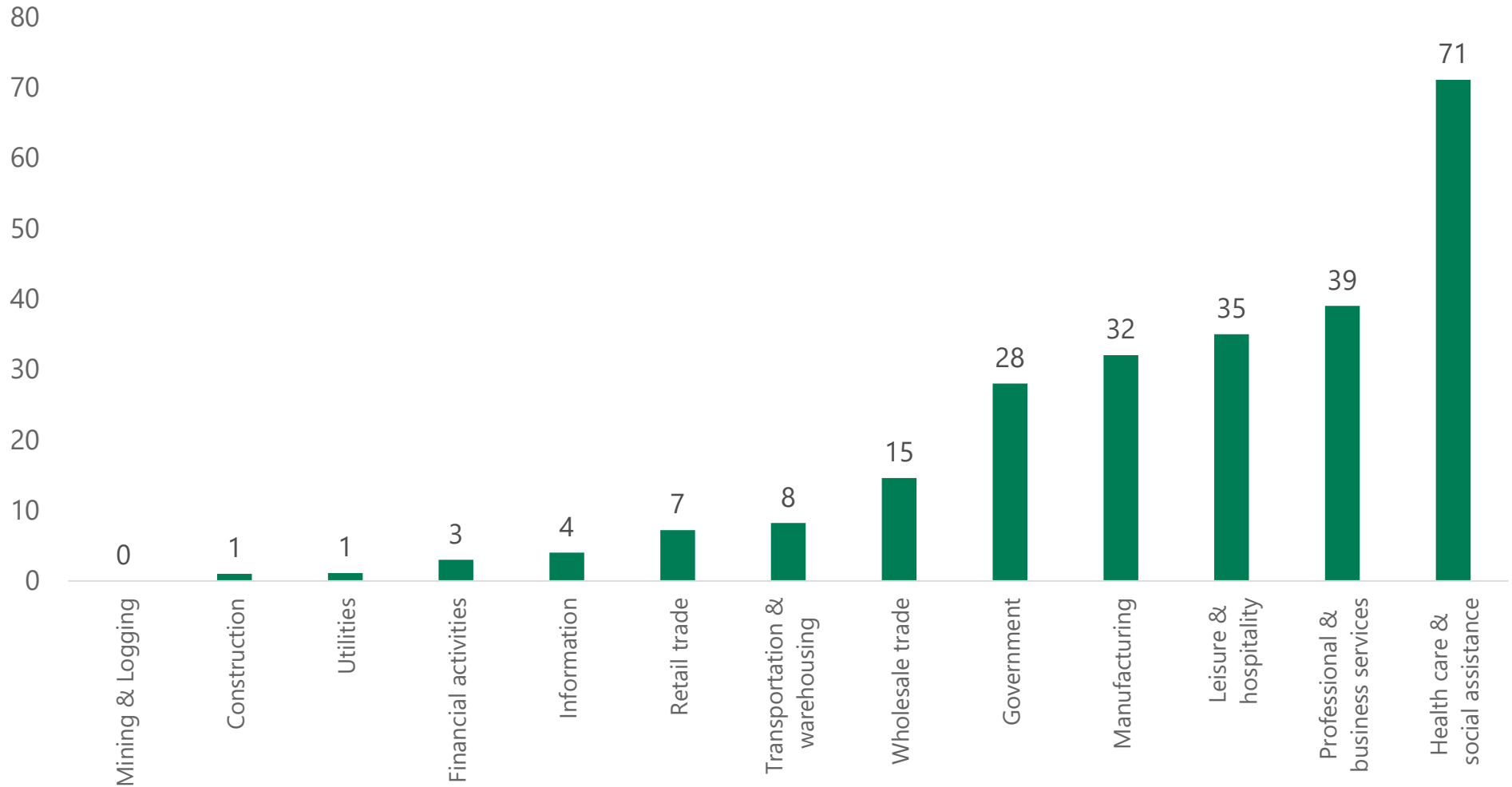


Source: BEA, Eurostat, Haver Analytics, Bloomberg, Apollo Chief Economist

Hiring is solid in the ex-tech service sector, manufacturing, and the government

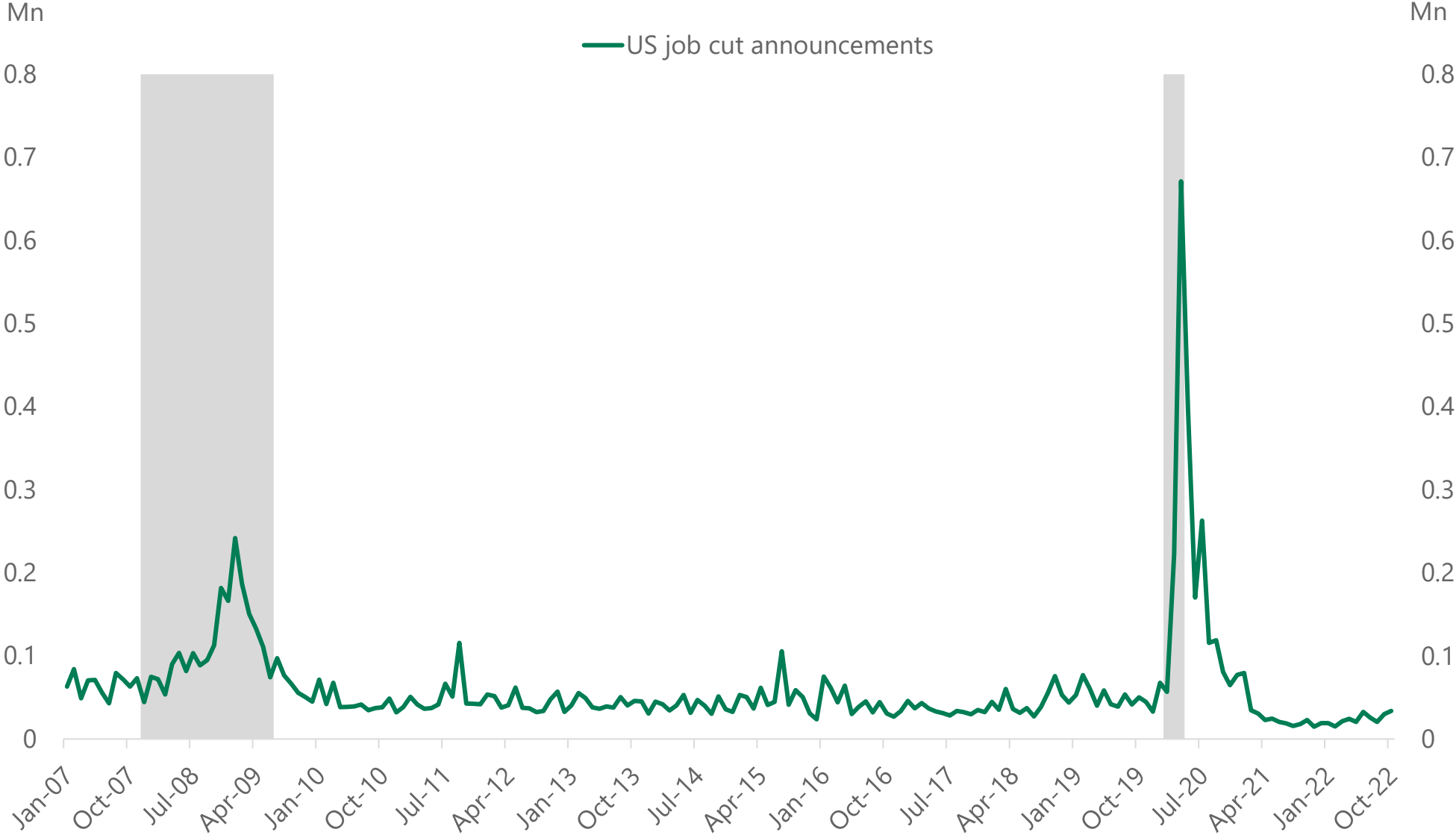
Thousands

Nonfarm payrolls: Jobs added in October 2022



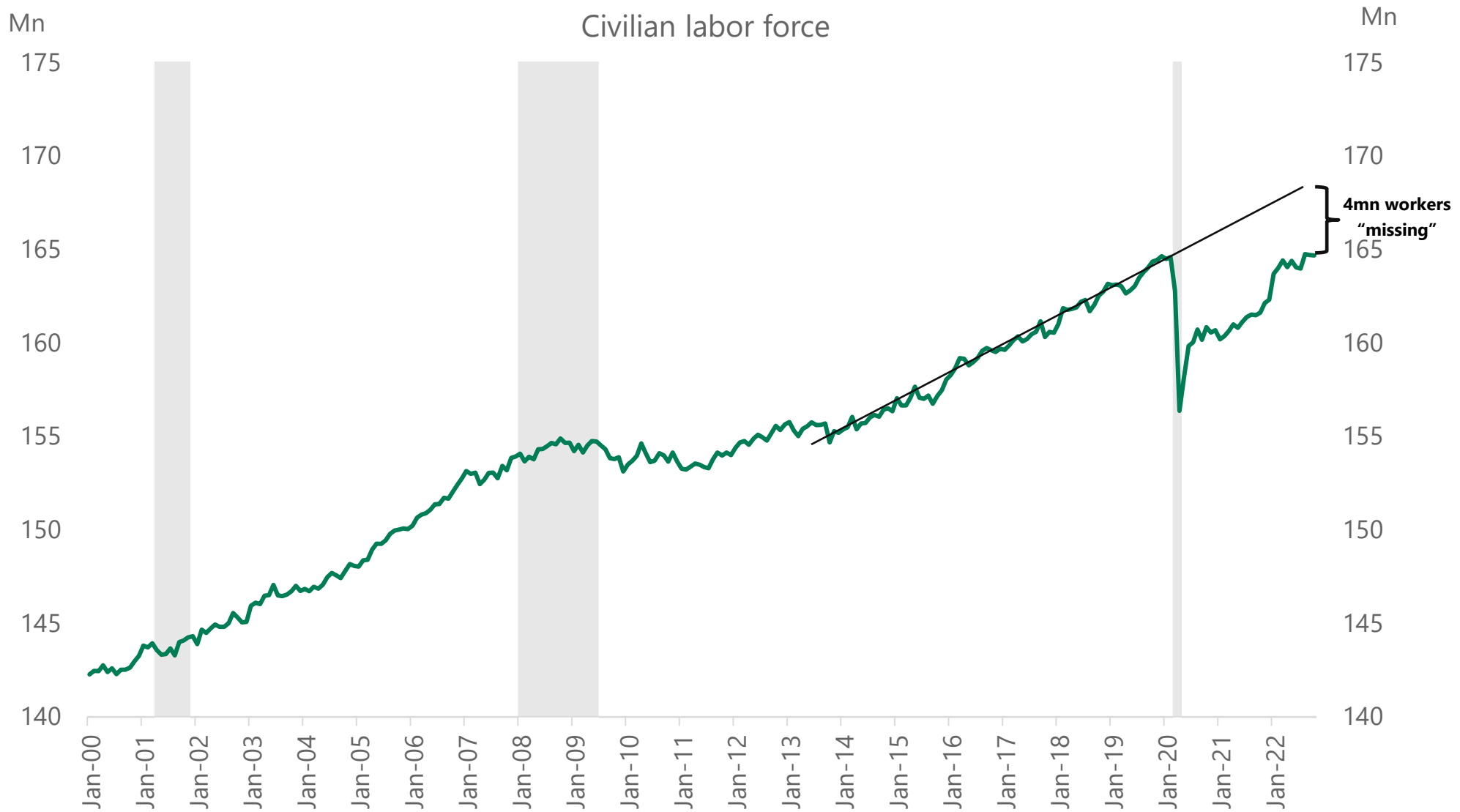
Source: BLS, Haver, Apollo Chief Economist

US job cut announcements have moved up but remain at pre-pandemic levels



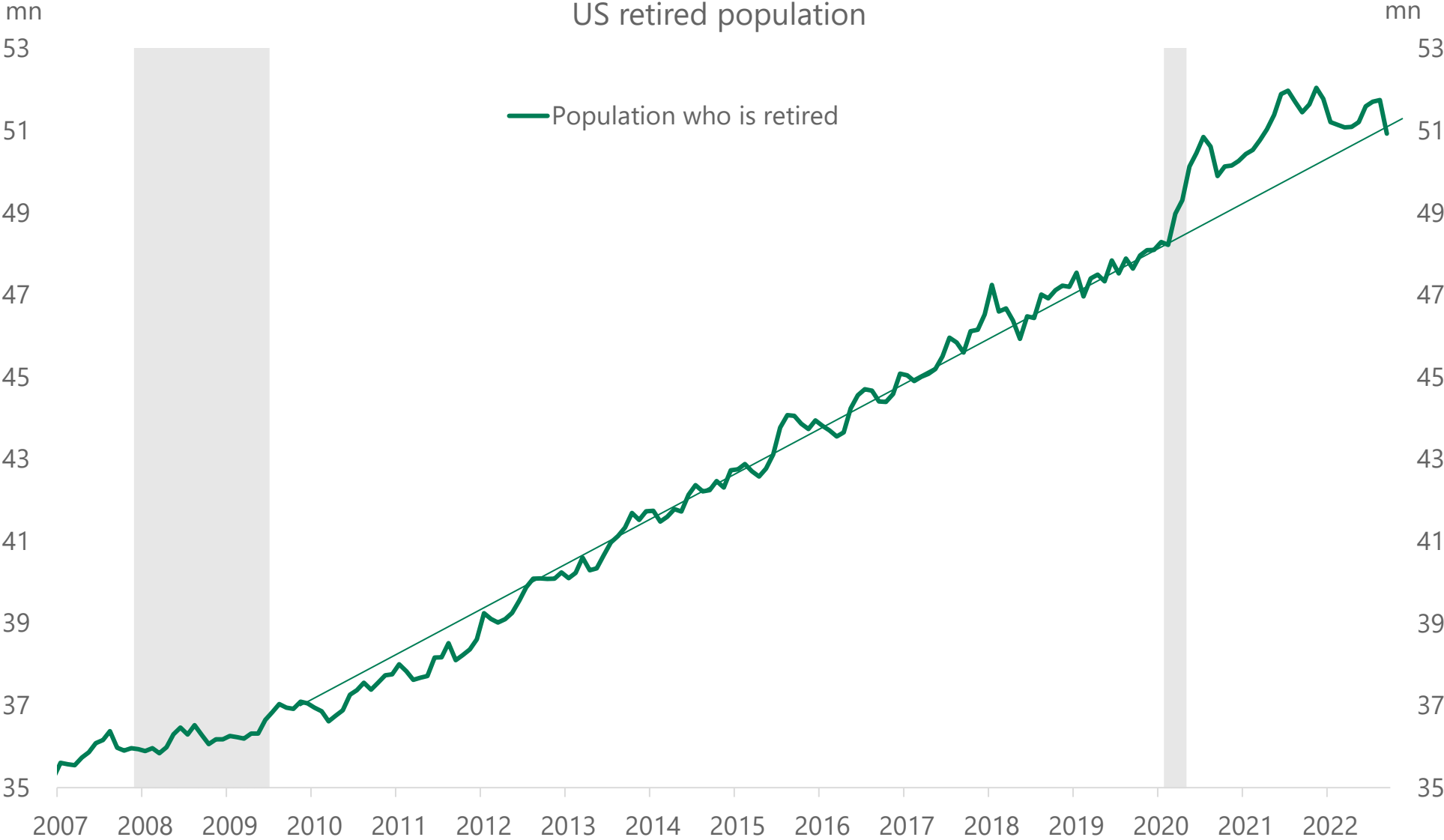
Source: Challenger, Gray and Christmas Inc, Bloomberg, Apollo Chief Economist

Labor supply is 4mn workers lower than the pre-pandemic trend



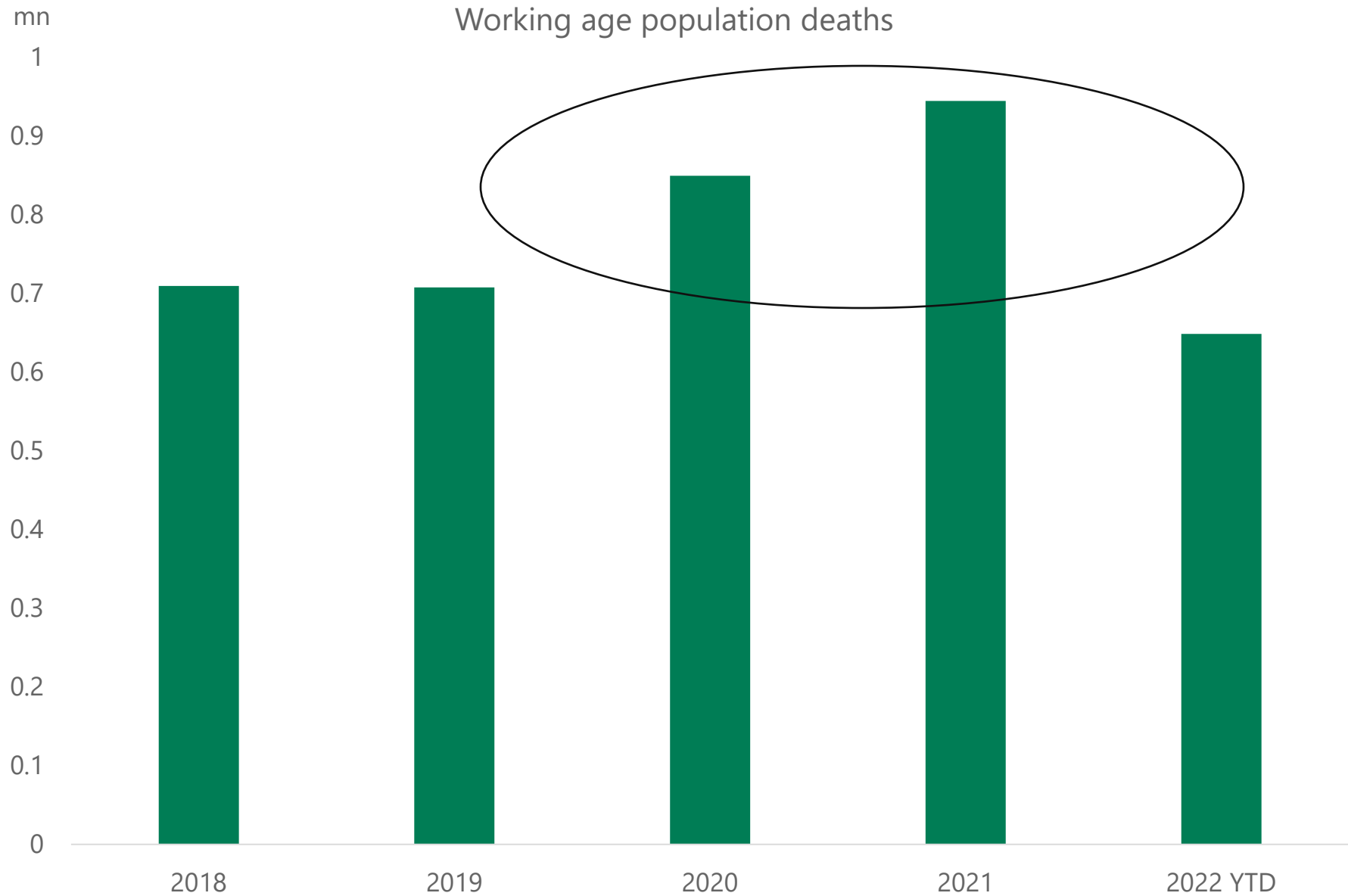
Source: BLS, Haver, Apollo Chief Economist

US retired population is back at trend



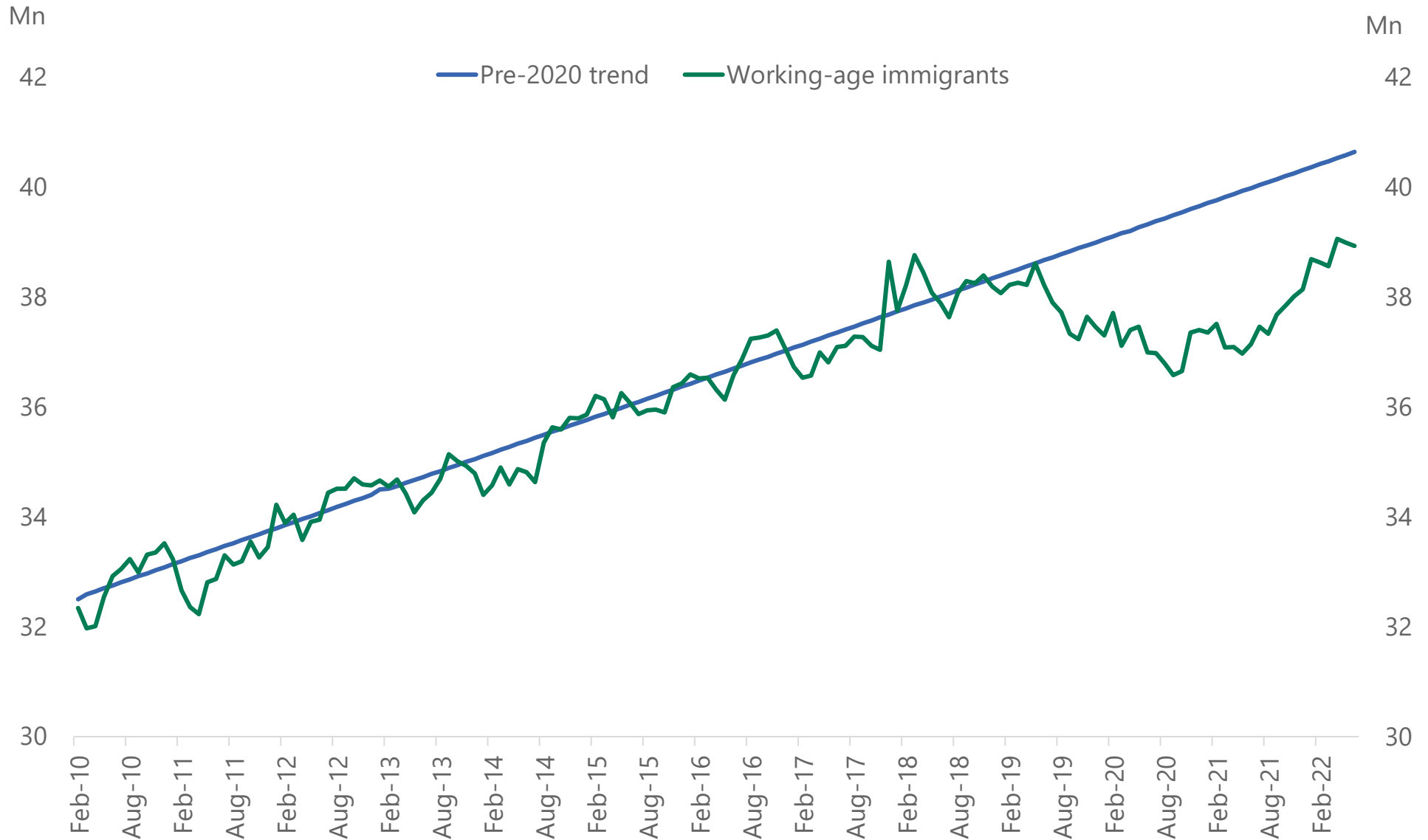
Source: CPS IPUMS, Apollo Chief Economist

About 350K excess deaths among working age population during covid



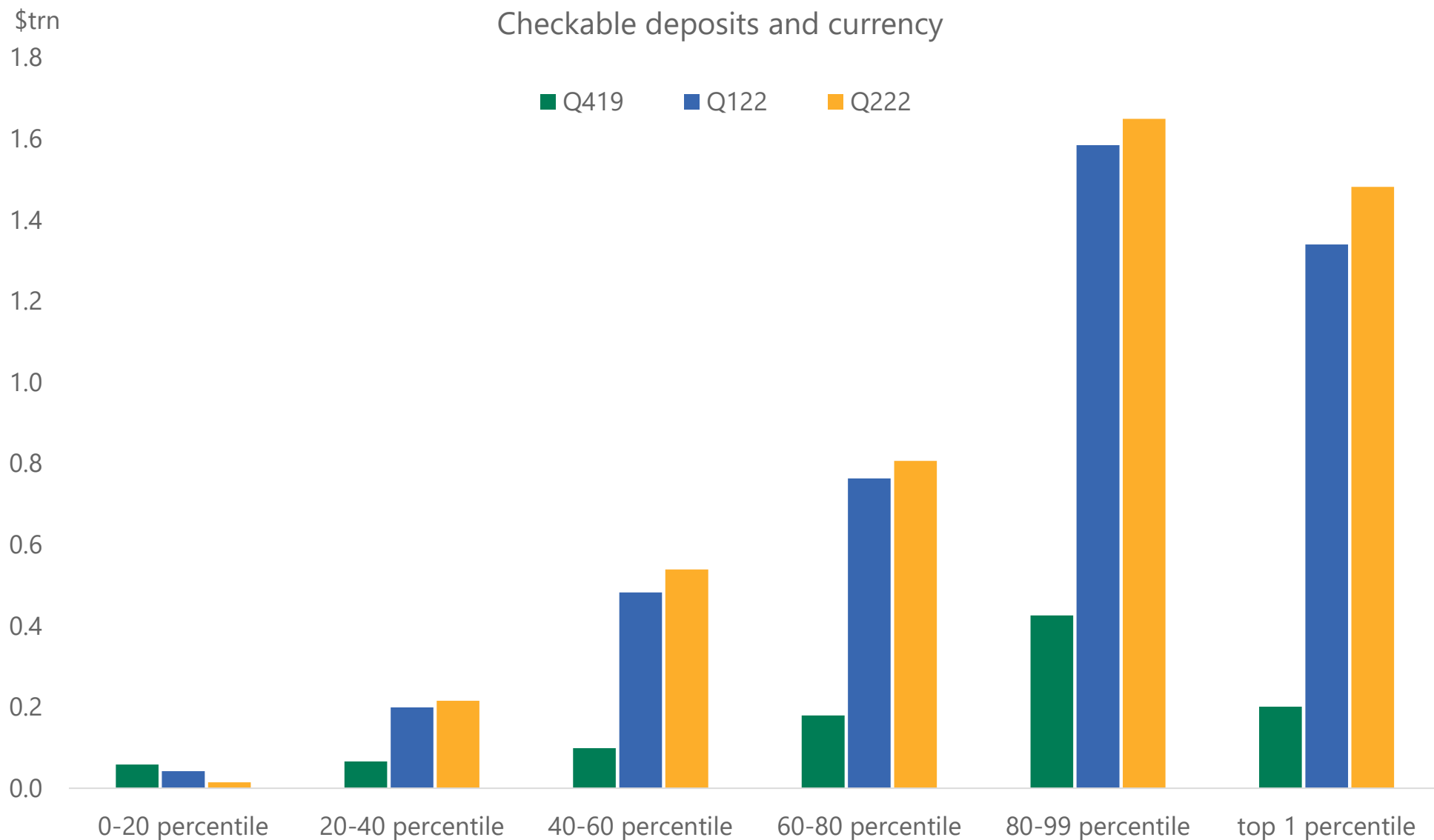
Source: BLS, Haver, Apollo Chief Economist

Working-age immigrants 1.7mn below the pre-pandemic trend



Source: Census Bureau, Bloomberg, Apollo Chief Economist

Household savings across different income groups



Source: FRB, Haver Analytics, Apollo Chief Economist

Subprime credit quality starting to deteriorate

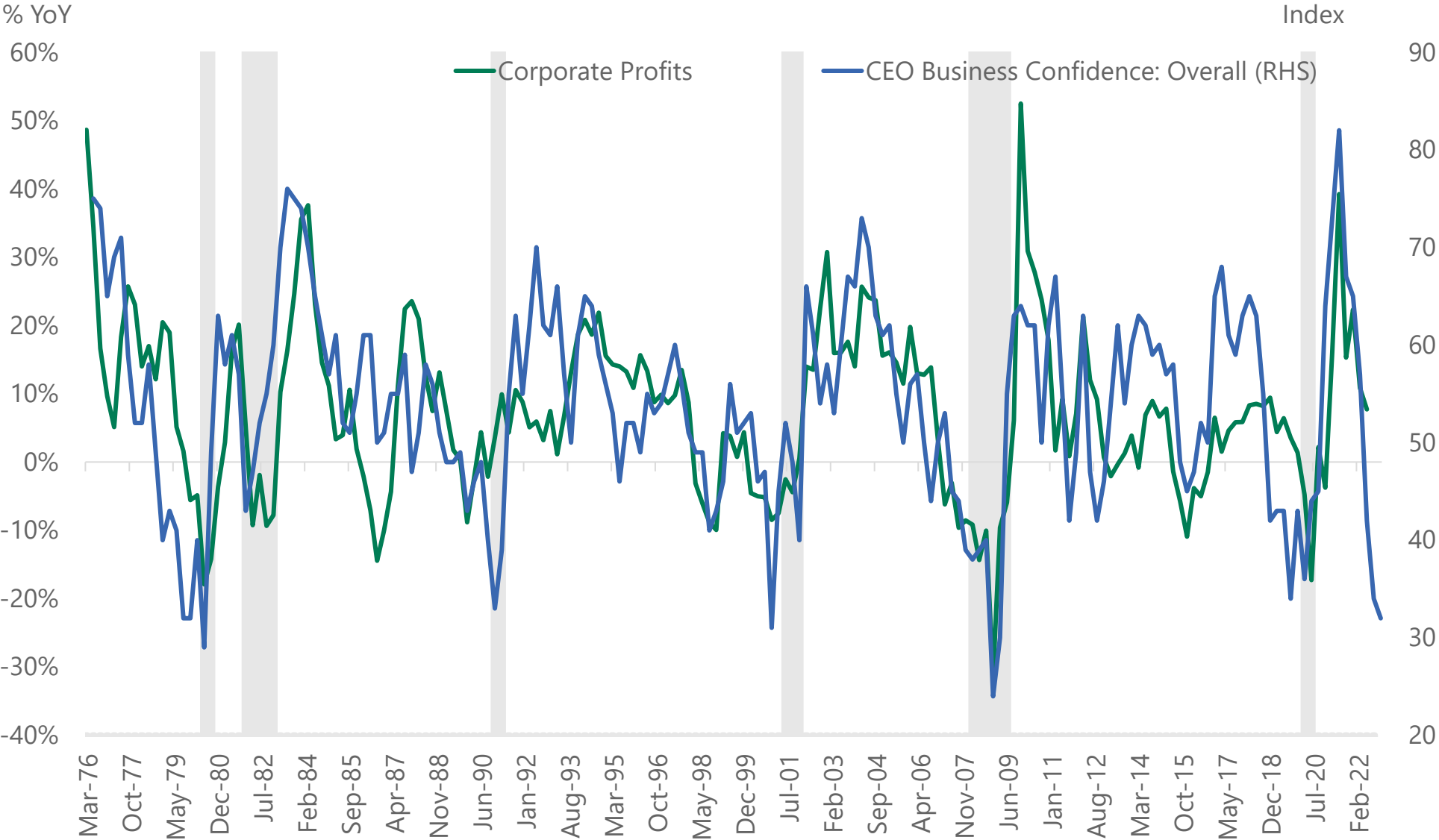
Auto Loans				
+60 day delinquency rate				
	Oct. 2022	Sep. 2022	Oct. 2021	Oct. 2019
Super Prime	0.0%	0.0%	0.0%	0.0%
Prime plus	0.01%	0.01%	0.01%	0.01%
Prime	0.13%	0.13%	0.10%	0.14%
Near prime	0.5%	0.5%	0.46%	0.44%
Subprime	11.8%	12.1%	10.16%	8.21%
Total	1.86%	1.86%	1.44%	1.4%

Credit Cards				
+90 day delinquency rate				
	Oct. 2022	Sep. 2022	Oct. 2021	Oct. 2019
Super Prime	0.00%	0.00%	0.00%	0.00%
Prime plus	0.01%	0.01%	0.01%	0.01%
Prime	0.18%	0.18%	0.15%	0.19%
Near prime	1.08%	1.02%	0.87%	1.20%
Subprime	18.6%	17.9%	13.3%	18.92%
Total	2.02%	1.91%	1.22%	2.02%

Mortgages				
Distribution of Delinquency				
	Oct. 2022	Sep. 2022	Oct. 2021	Oct. 2019
Current	95.3%	95.4%	96.3%	93.4%
30-59 DPD	2.6%	2.6%	1.9%	3.5%
60-89 DPD	1.3%	1.2%	1.0%	1.9%
90+	0.7%	0.7%	0.7%	1.0%
Foreclosure	0.1%	0.1%	0.1%	0.2%

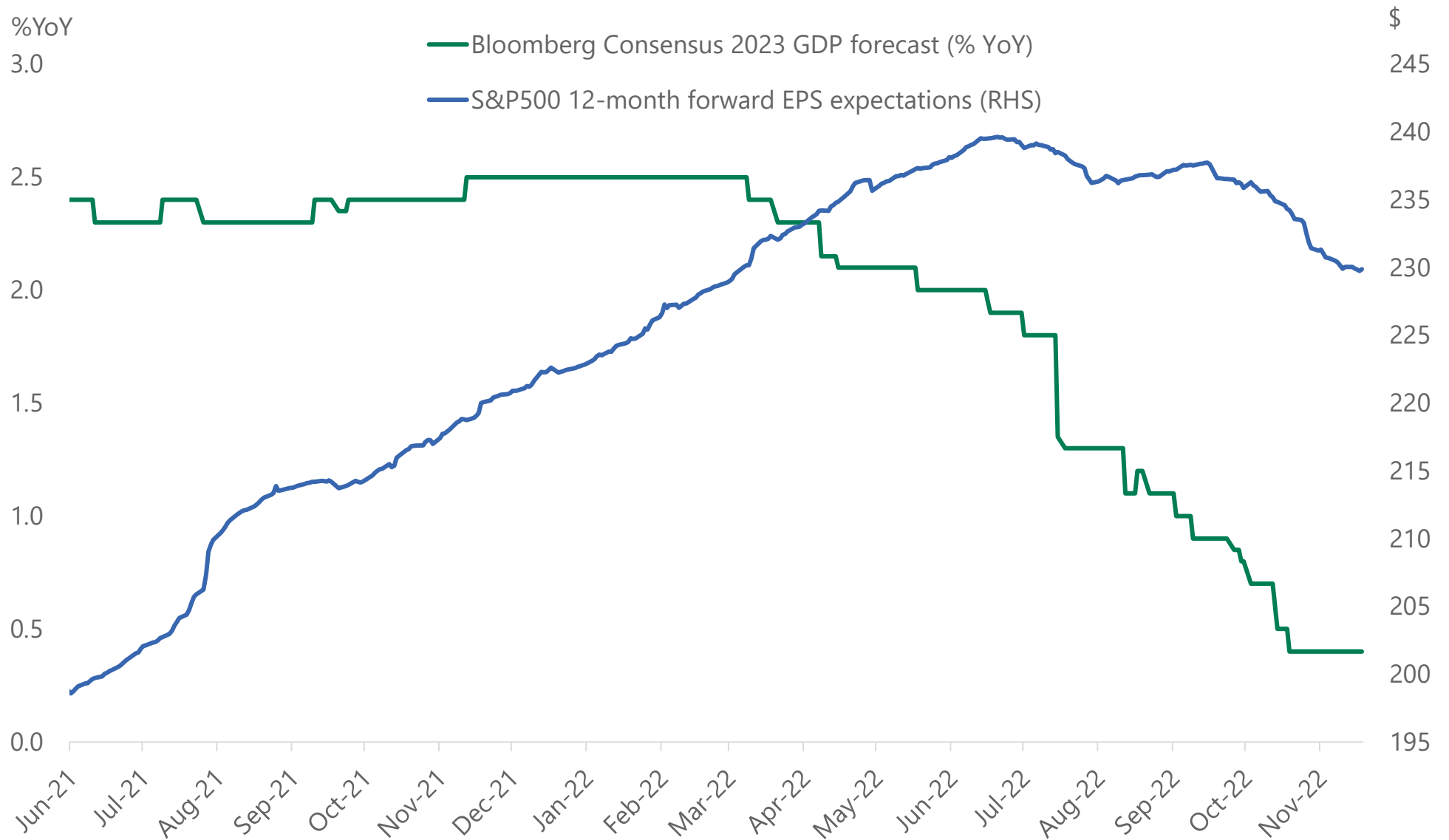
Source: Transunion Monthly Industry Snapshot October 2022

CEO confidence and corporate profits



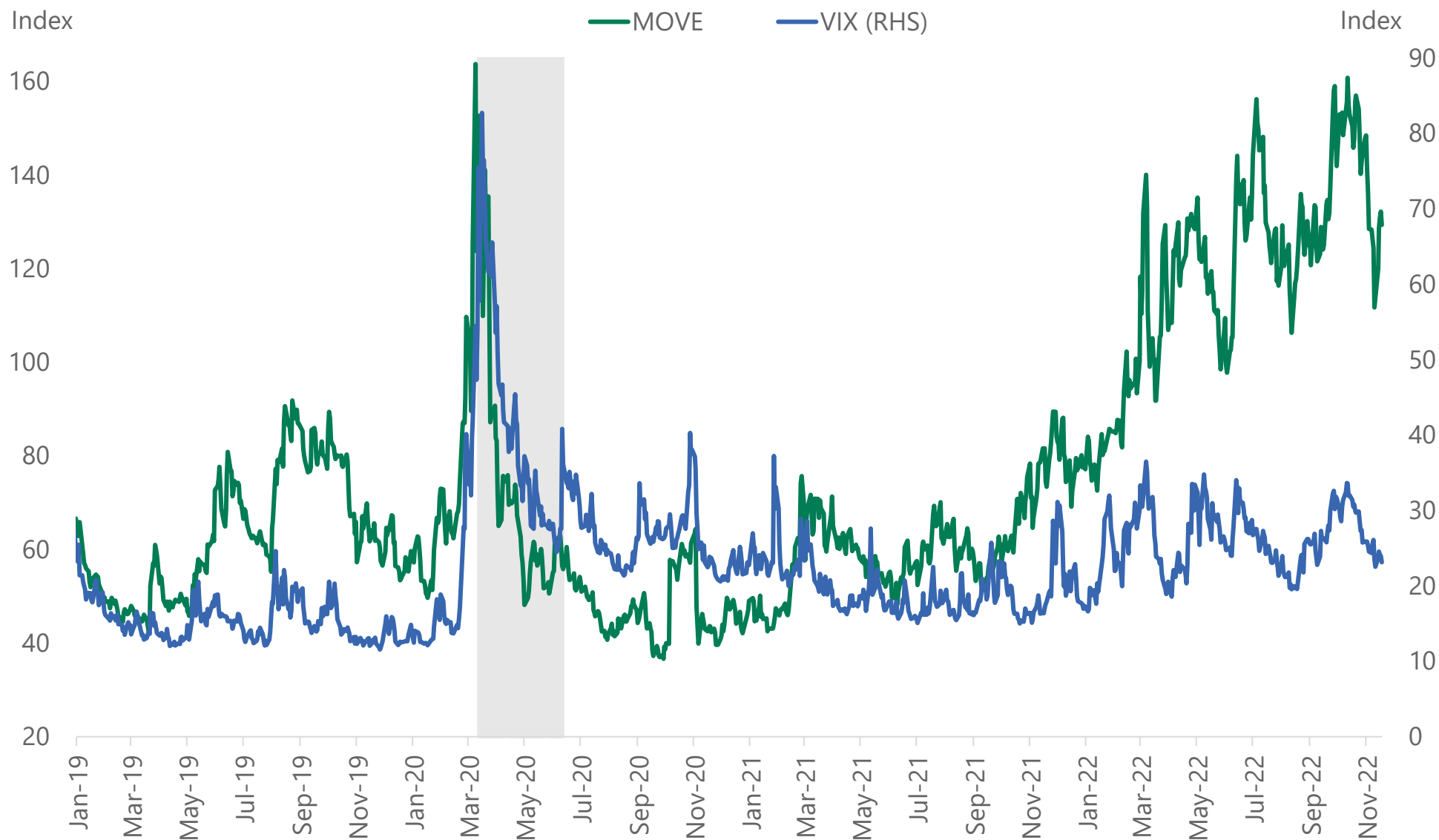
Source: The Conference Board, Haver, Apollo Chief Economist

Divergence between S&P500 earnings expectations and GDP growth expectations



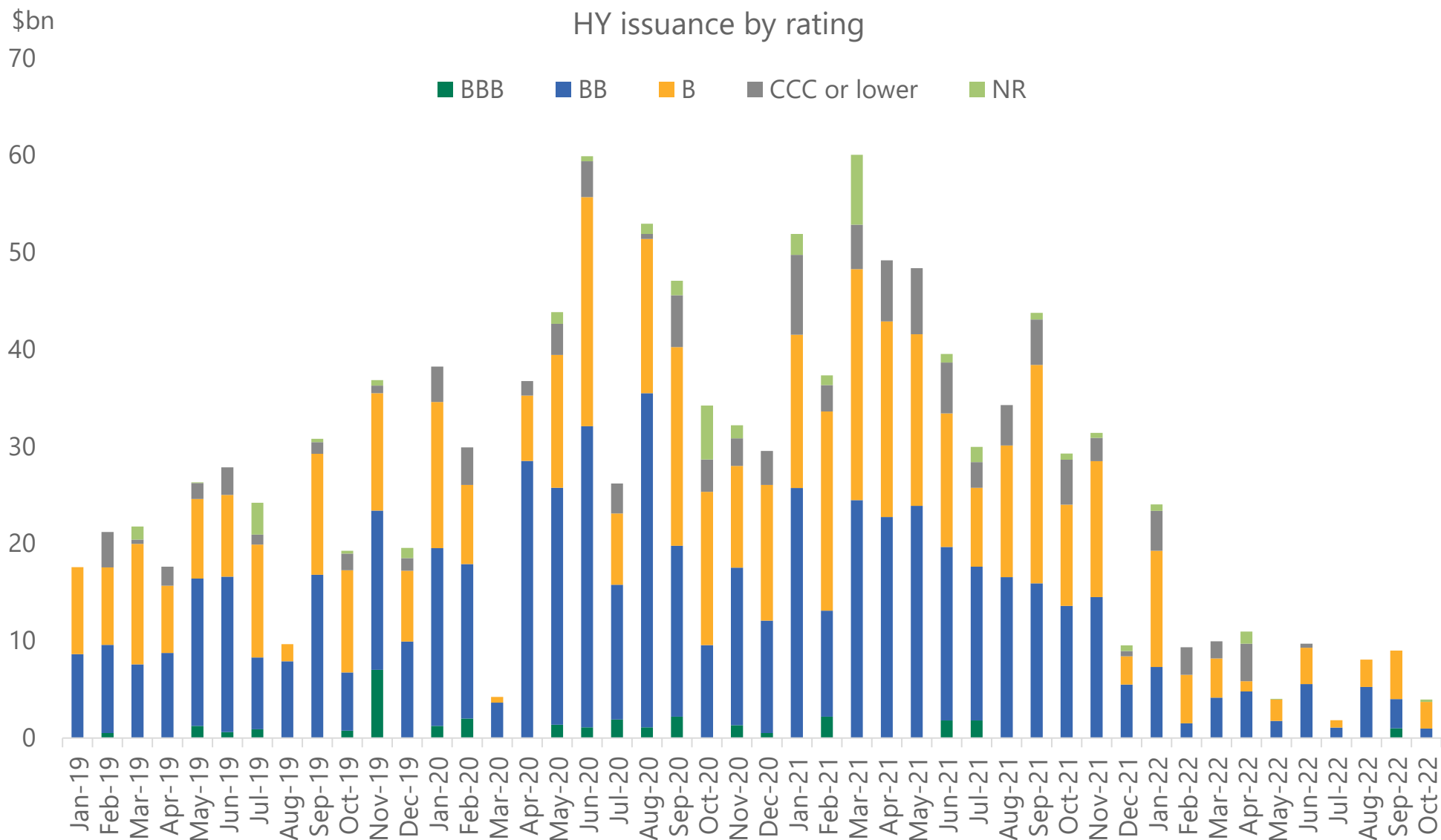
Source: Bloomberg, Apollo Chief Economist

Disconnect between rates markets and equity markets



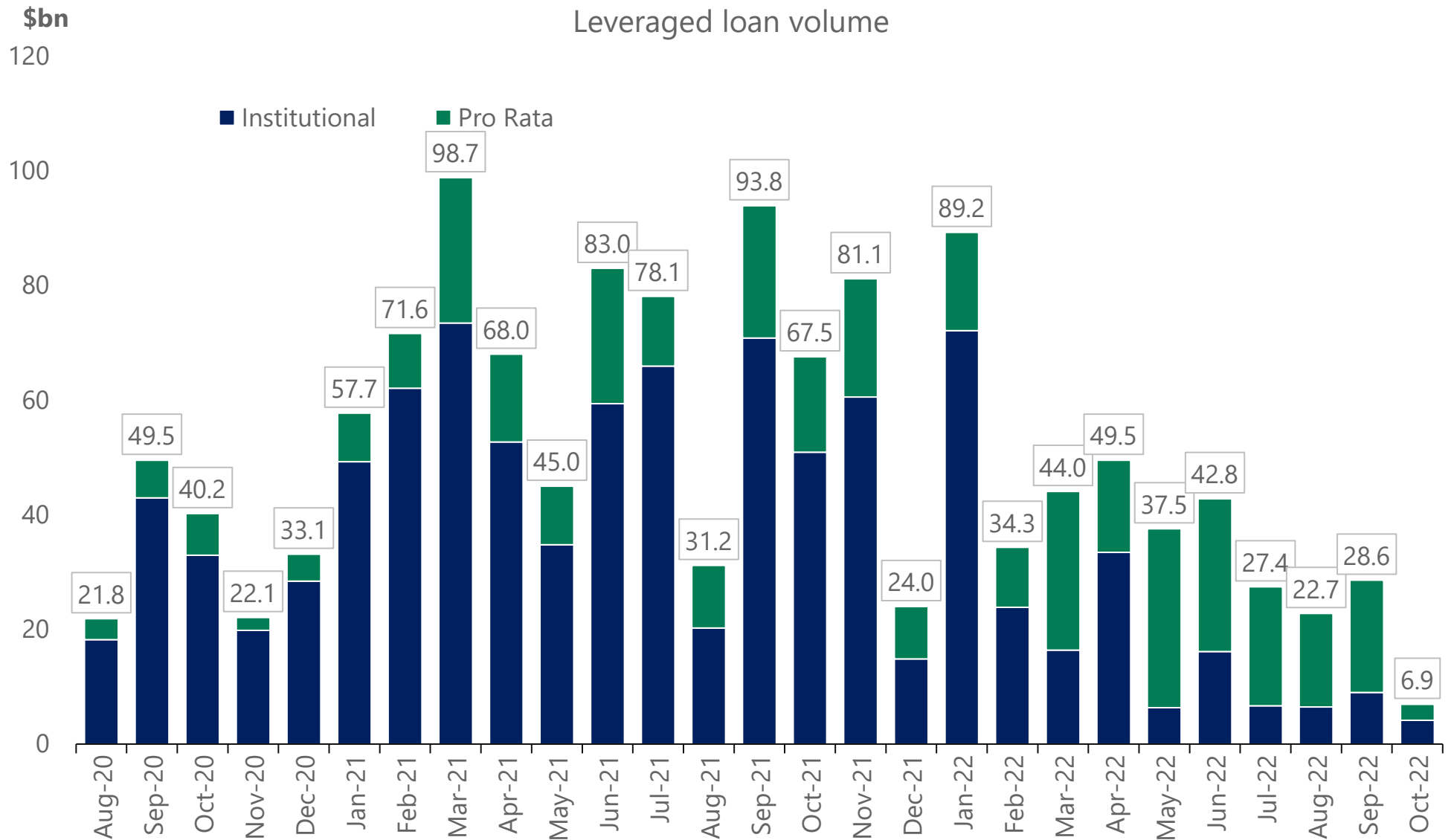
Source: Bloomberg, Apollo Chief Economist

HY issuance by rating



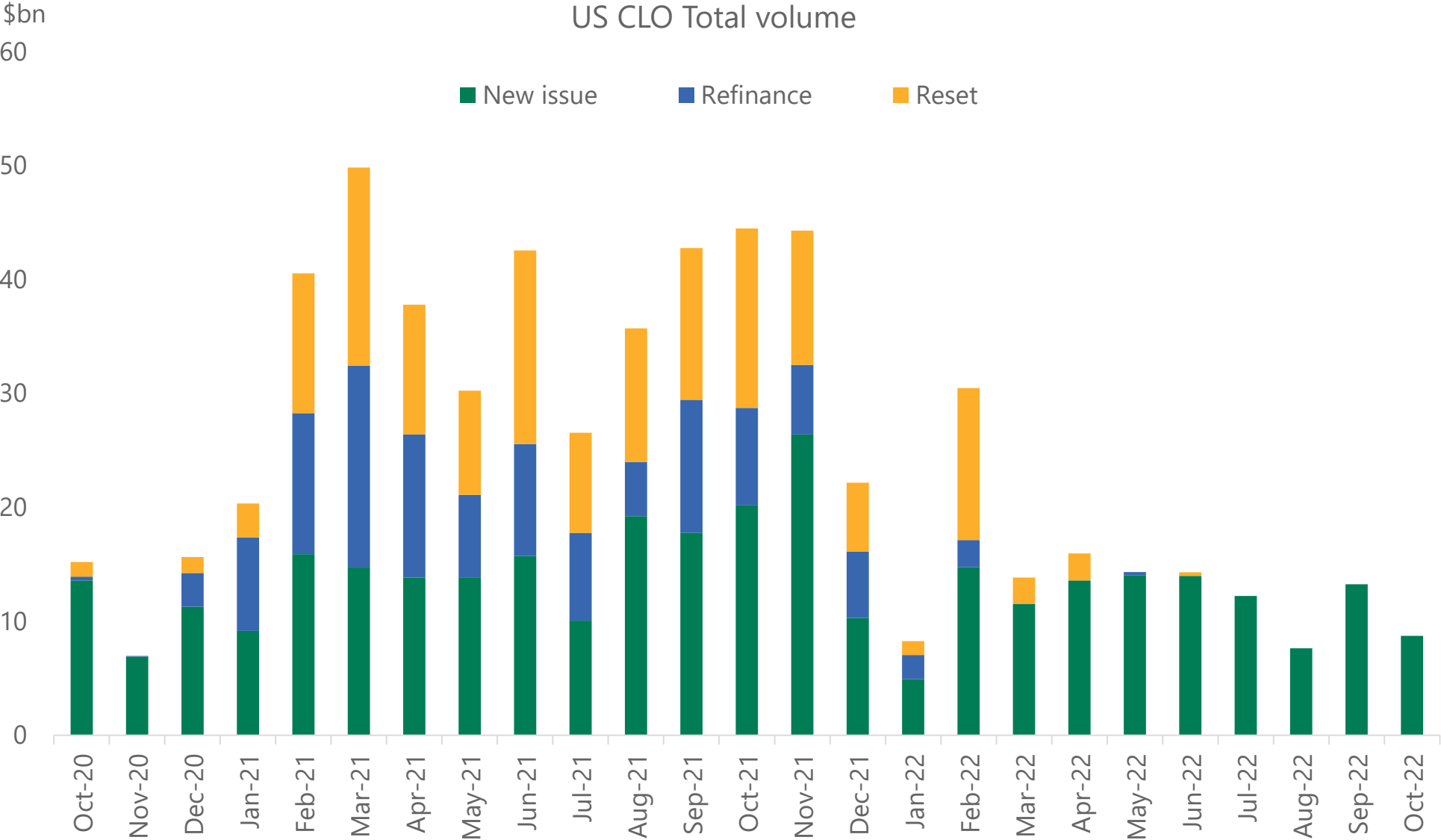
Source: S&P LCD, Apollo Chief Economist. Note: Data as of 30th April 2022

Leveraged loan volume



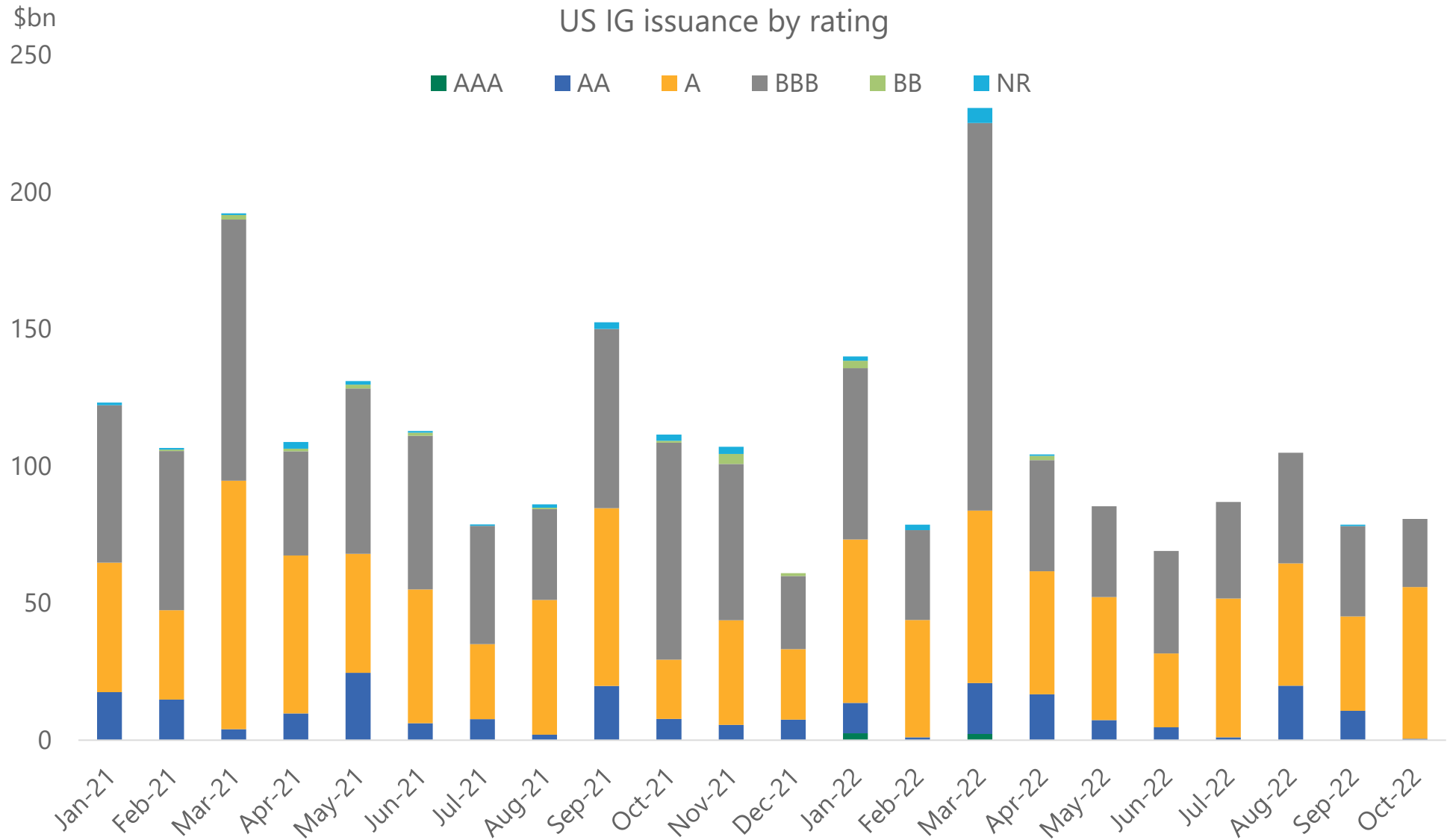
Source: S&P LCD, Apollo Chief Economist.

US CLO total volume



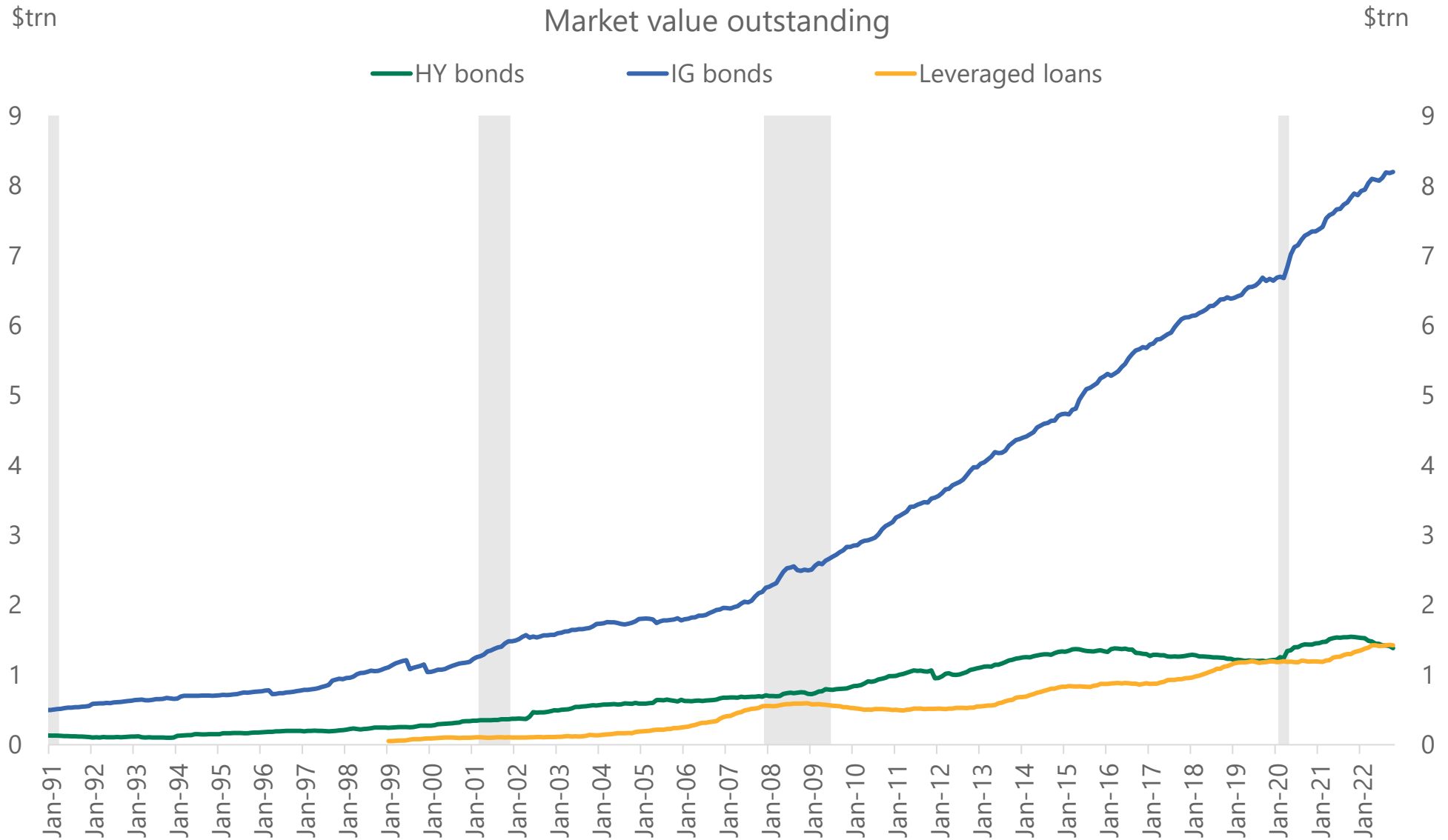
Source: S&P LCD, Apollo Chief Economist.

IG issuance by rating



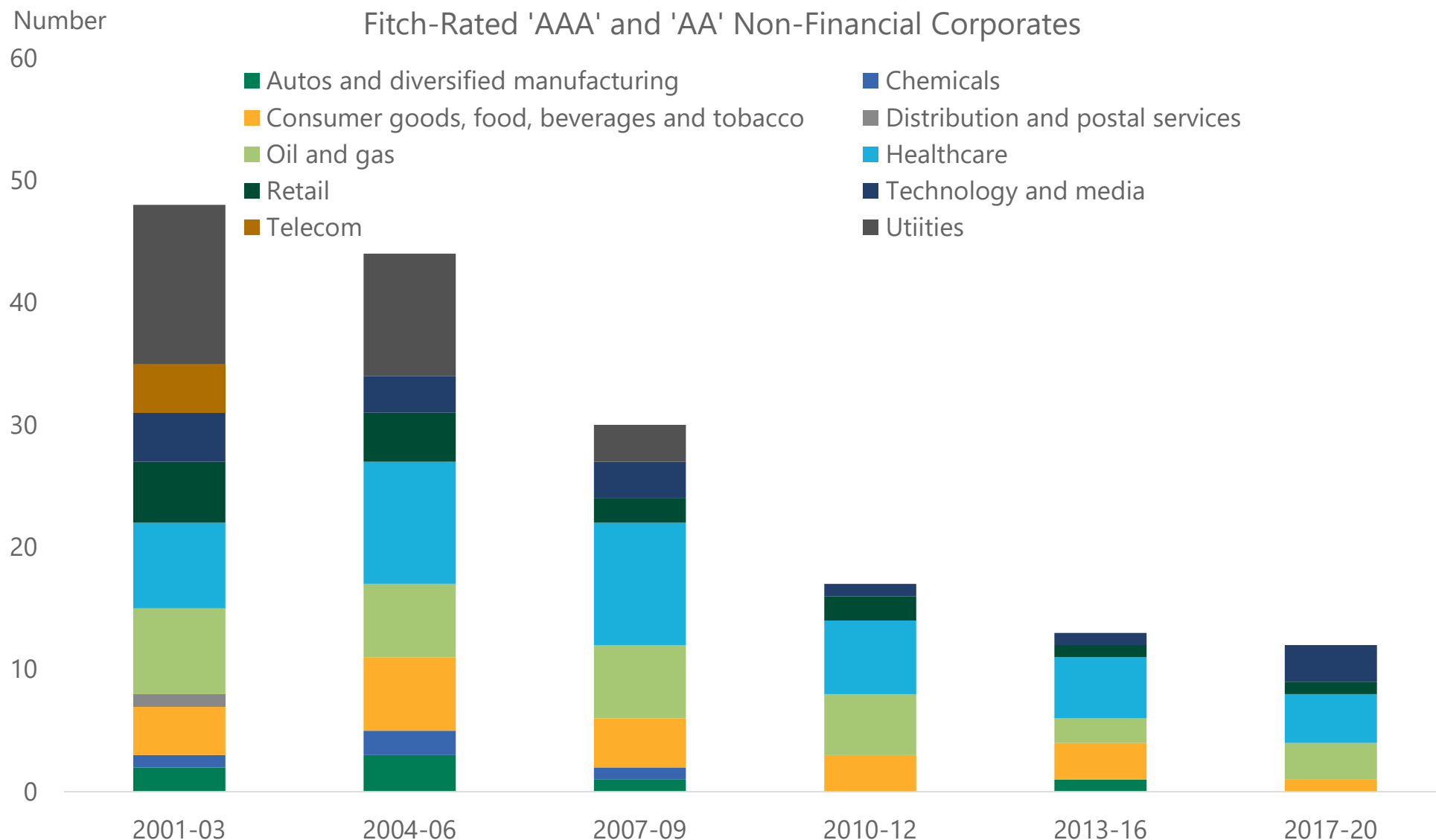
Source: S&P LCD, Apollo Chief Economist.

IG market is seven times bigger than HY and seven times bigger than the loan market



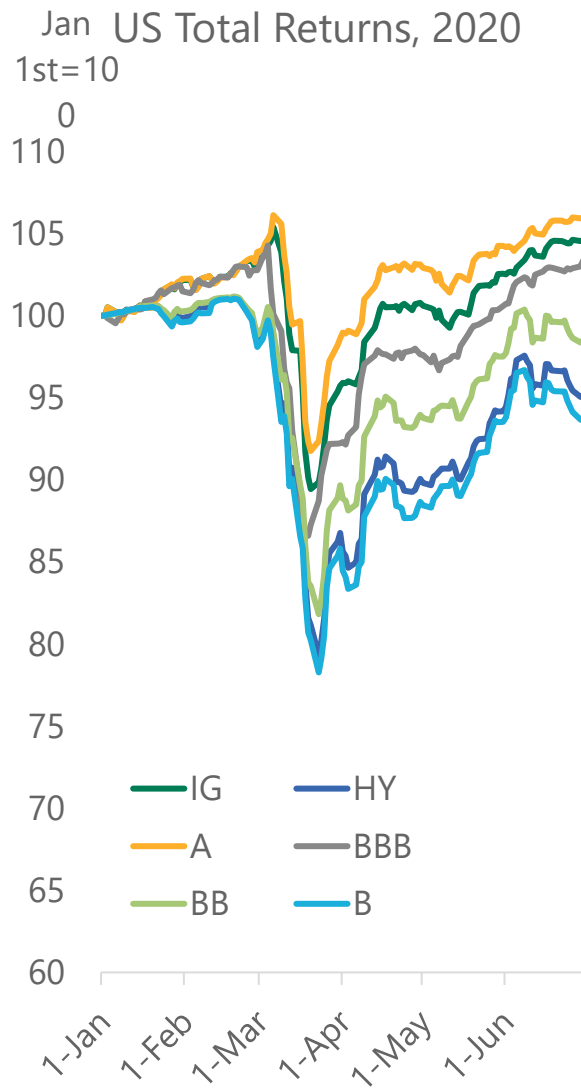
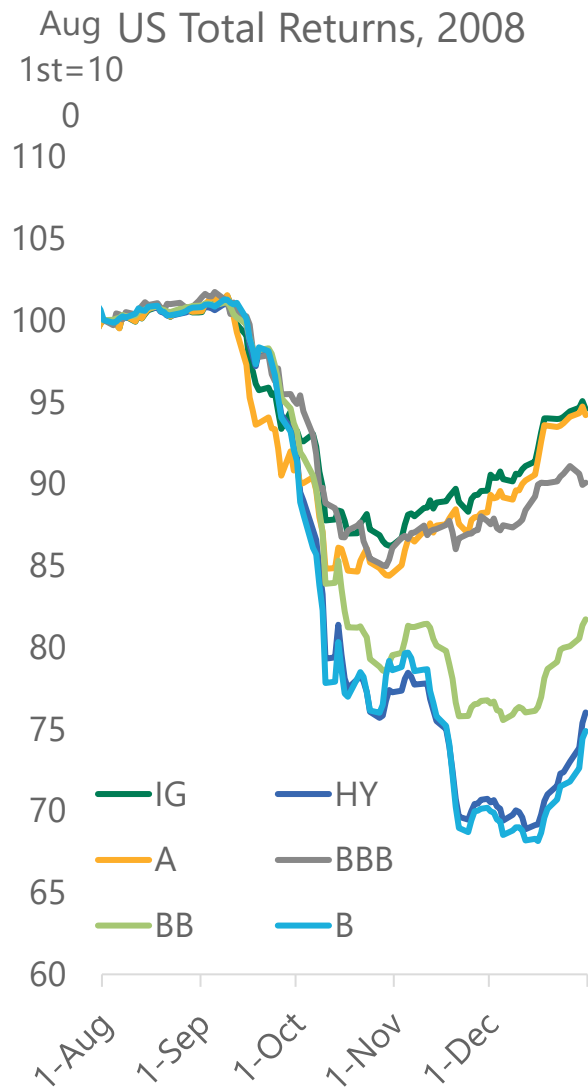
Source: ICE BofA, Bloomberg, S&P LCD, Apollo Chief Economist. Note: Ticker used for HY is H0A0 Index and for IG it is C0A0 Index and for Loans it is SPBDALB Index.

Fewer and fewer corporate bonds are rated AAA and AA



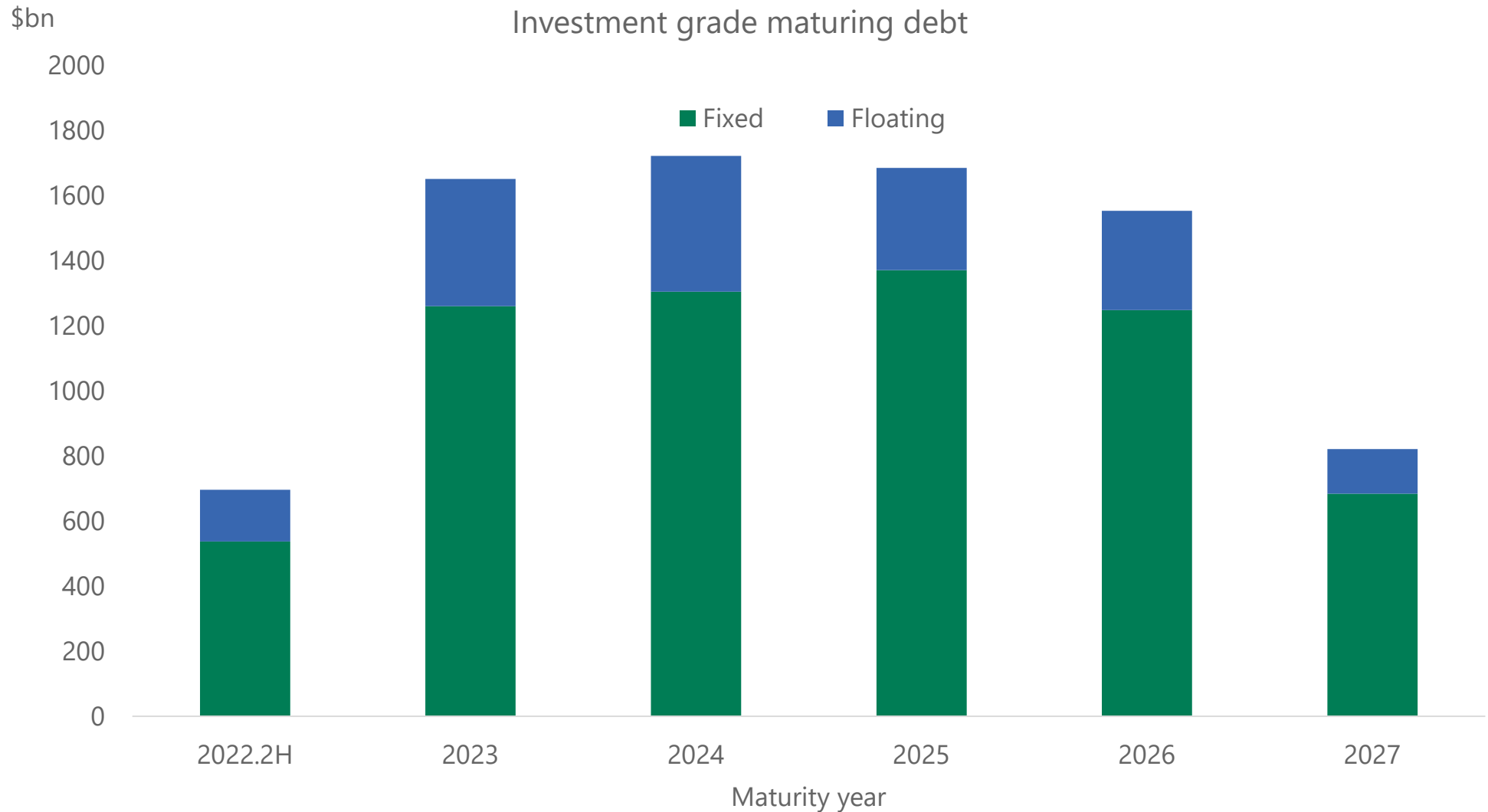
Source: Fitch Ratings, Apollo Chief Economist. Note: Including state-linked issuers with Standalone Credit Profiles in the 'AA' category. Data cover issuers that have been rated for at least six years or at end-2020.

Synchronized sell-off in credit so far. Little differentiation between credits compared with 2008 and March 2020 episodes.



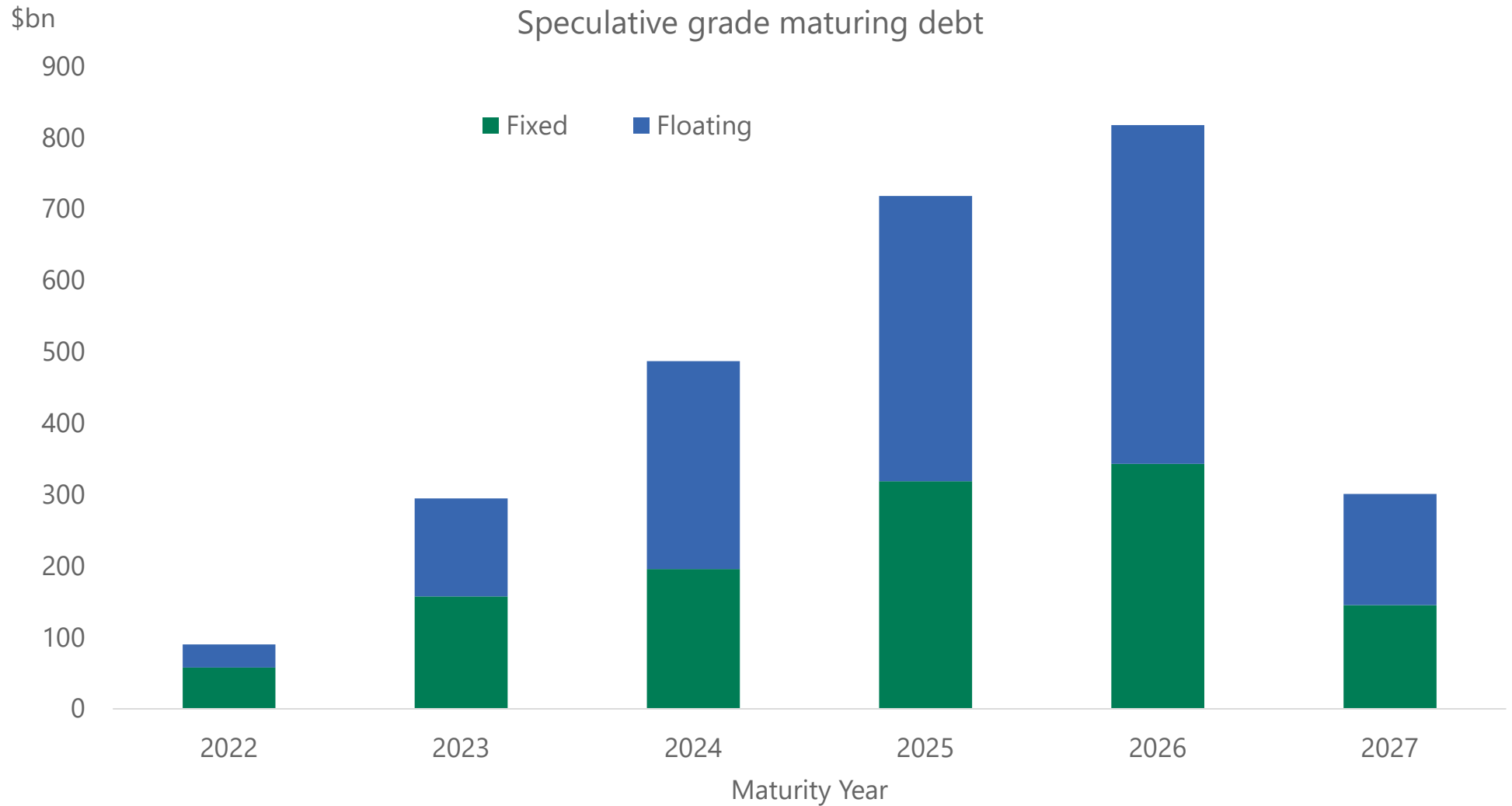
Source: Bloomberg, Apollo Chief Economist

Investment grade maturity wall is manageable



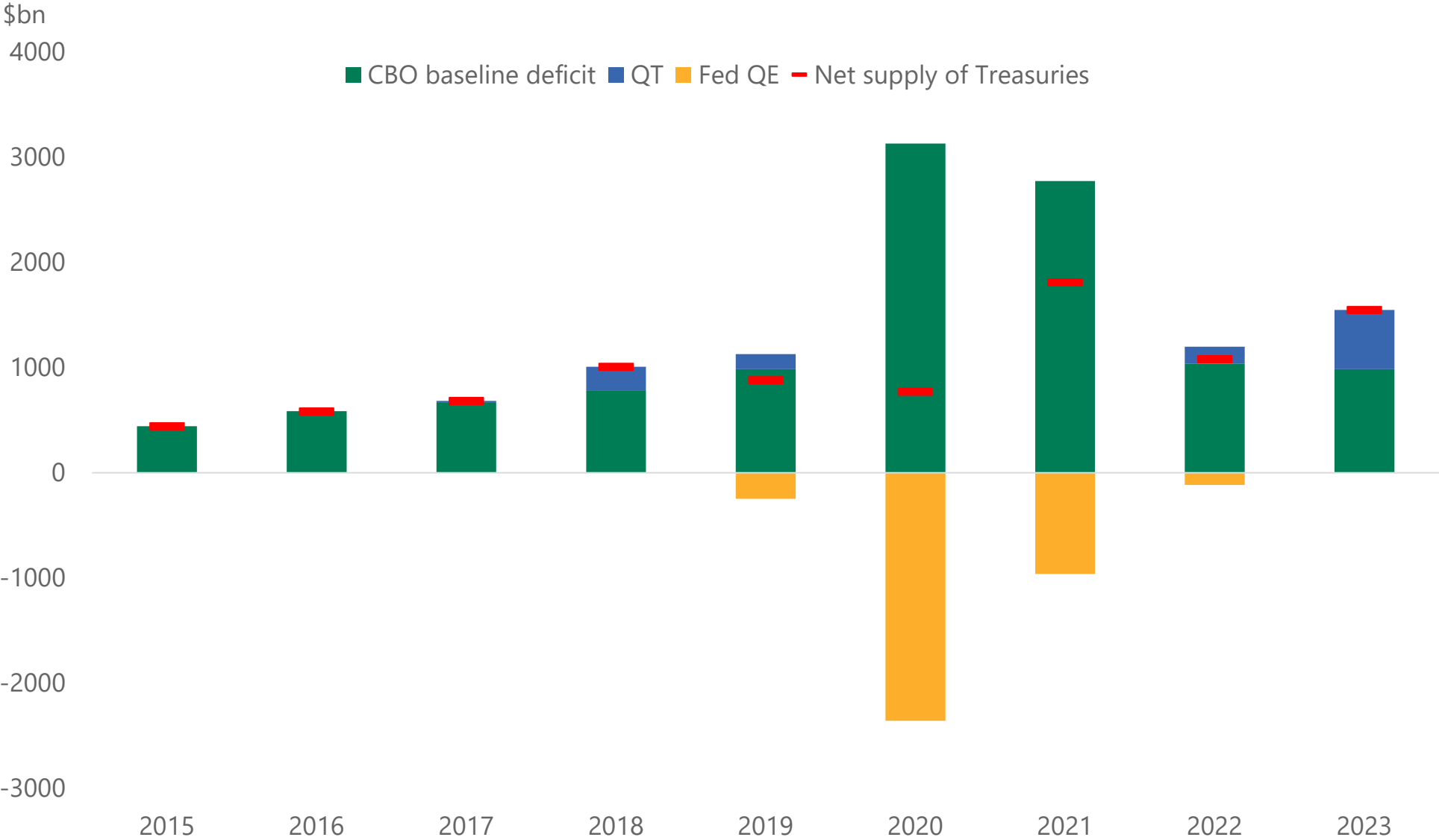
Source: S&P Global ratings Research, Apollo Chief Economist. Note: Data as of July 1, 2022. Includes issuers' investment-grade bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings.

High yield maturity wall is manageable



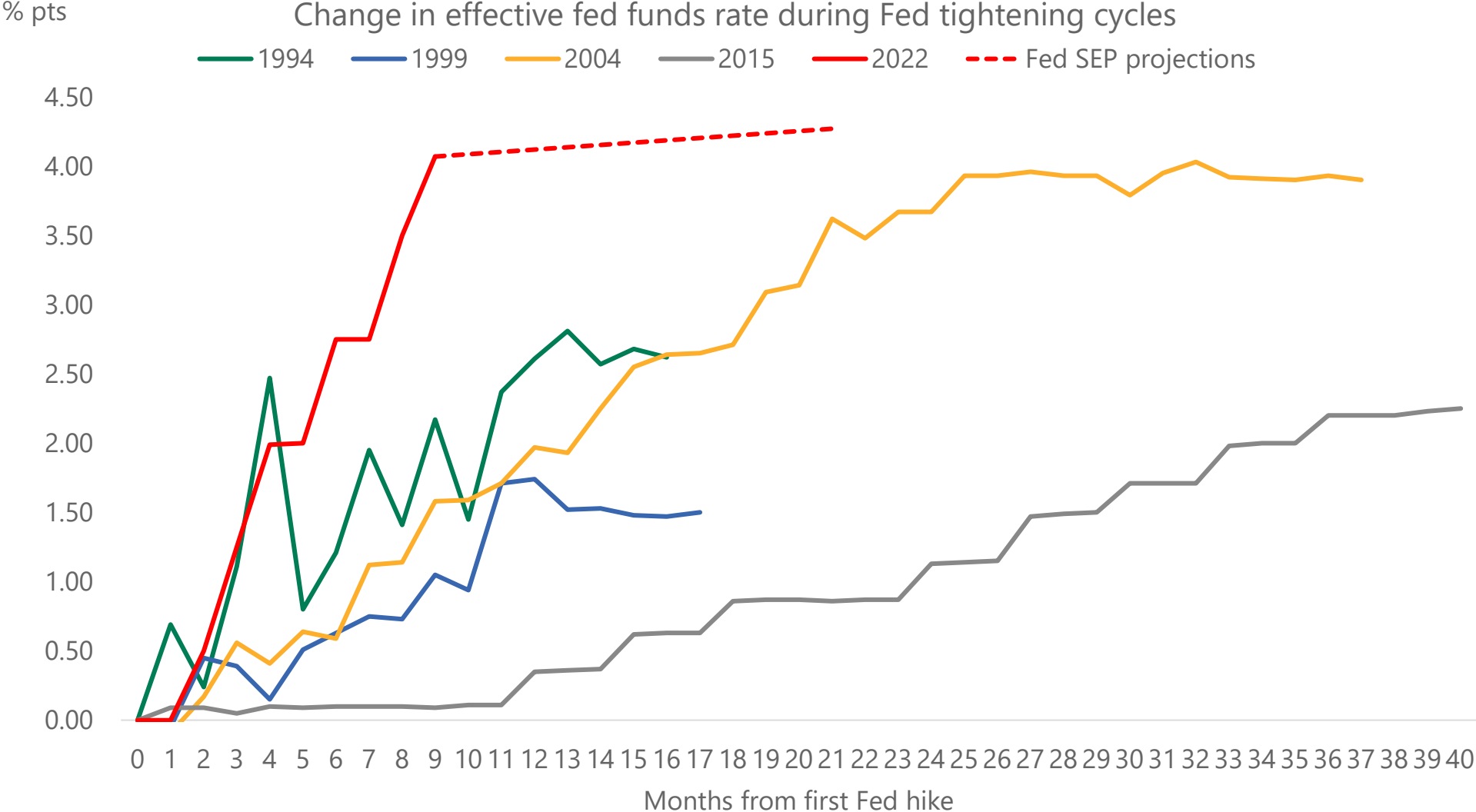
Source: S&P Global ratings Research, Apollo Chief Economist. Note: Data as of July 1, 2022. Includes issuers' speculative-grade bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings.

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



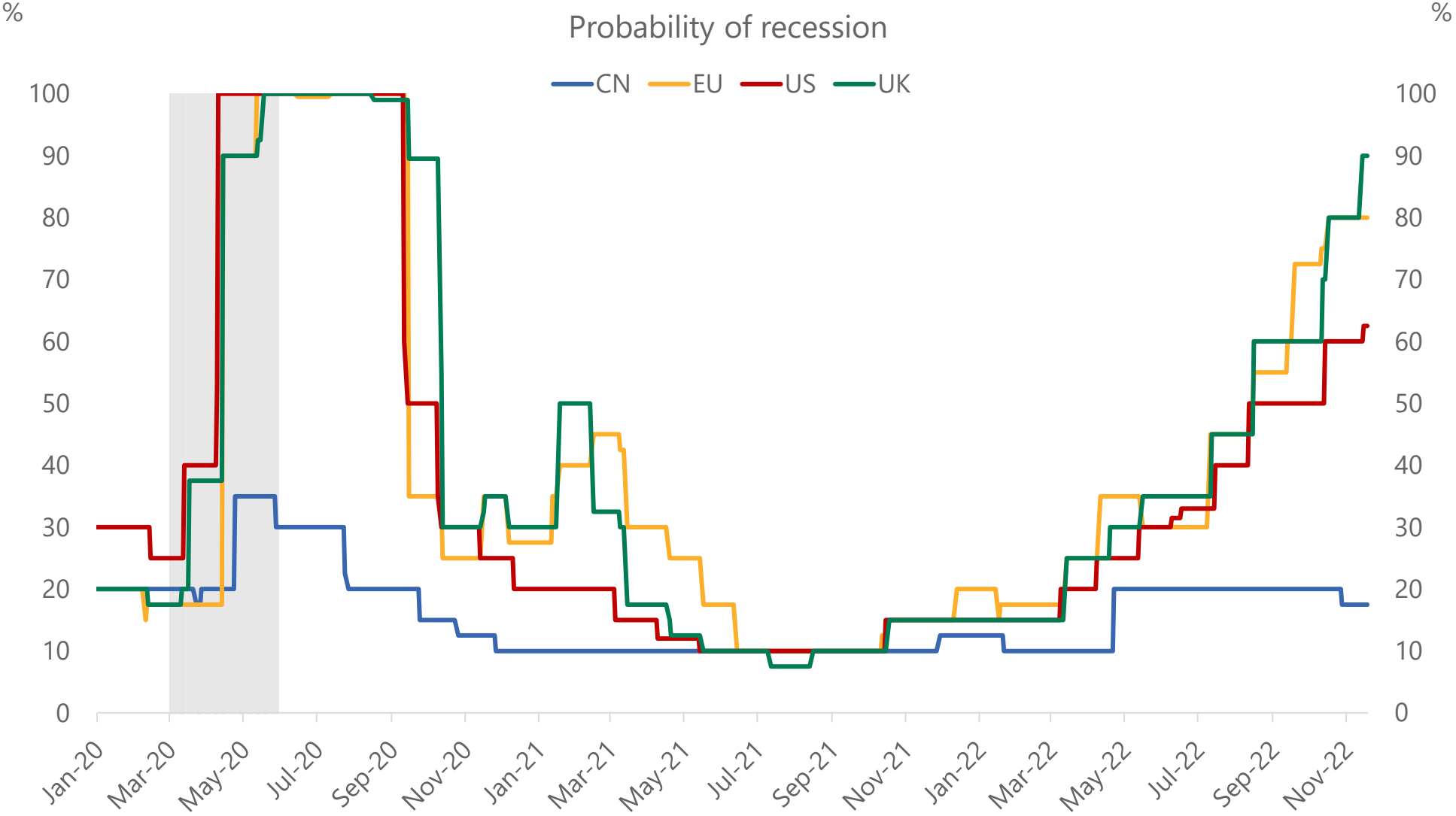
Source: CBO, FRB, Haver Analytics, Apollo Chief Economist. Note: QT is SOMA redemptions with cap assumed \$60 bn per month in 2023.

Fed is hiking rates faster than in 1994



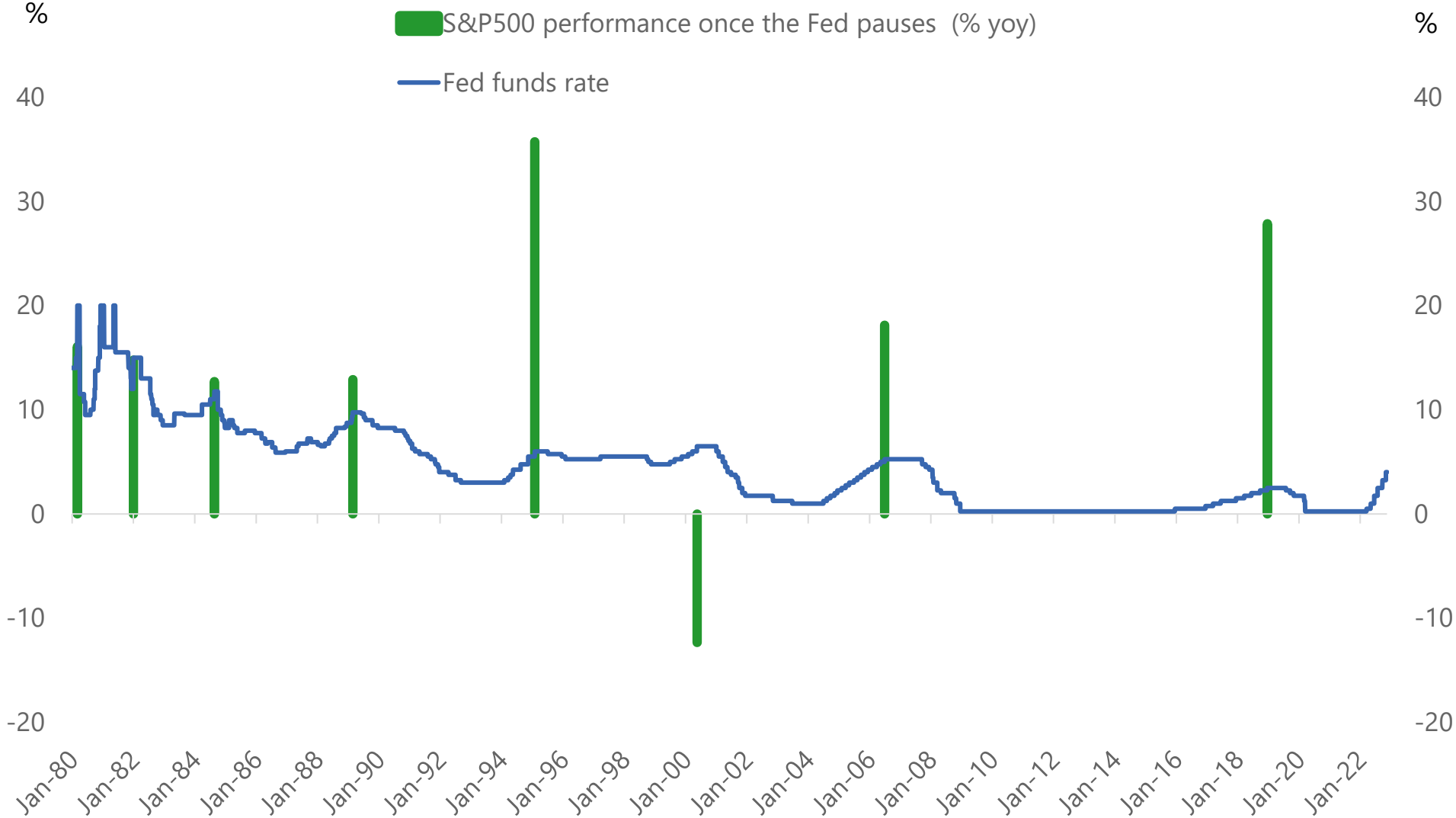
Source: FRB, Haver Analytics, Apollo Chief Economist

Probability of recession rising for US, EU, and UK



Source: Bloomberg, Apollo Chief Economist

S&P500 performance in the 12 months following a Fed pause



Source: Bloomberg, Apollo Chief Economist

Asset allocation views

<p>Fed outlook Growth slowing, but still 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 60% chance of a recession within 12 months</p>
<p>Rates outlook More Fed hikes coming</p>	<p>Inflation at 7.7% is meaningfully above the Fed's 2% target. The FOMC forecasts that it will take three years before inflation is back at 2%. Inflation persistence is a key risk. Curve to flatten and invert further.</p>
<p>Credit outlook From Fed QE to QT</p>	<p>Inflation has peaked and risky assets will likely rally before inflation gets back to 2%. Upside risks to inflation and downside risks to labor market.</p>
<p>Equity outlook Fed tightening slowing earnings growth</p>	<p>Inflation has peaked and risky assets will likely rally before inflation gets back to 2%. Upside risks to inflation and downside risks to labor market.</p>
<p>FX outlook Dollar higher going into 2023</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. When the Fed pauses, the dollar will likely decline.</p>
<p>Commodity outlook Slowing growth will weigh on commodities</p>	<p>Slowing global growth will weigh on commodity markets. Could have disruptive energy crisis, in particular in Europe.</p>
<p>Alternative assets outlook Credit selection/stock picking is key</p>	<p>Themes: Inflation high, short rates rising, volatility continues.</p>

Asset allocation for alternatives

1) Inflation is high

Investors can consider buying real estate and infrastructure to protect against inflation.

2) Short rates rising

Because of high inflation the Fed is hiking rates. **With this backdrop, investors can consider 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 when uncertainty is high. **Entry price matters and in 2022 many things have become a lot cheaper in both equity and credit.**

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



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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. 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.