

APOLLO

Outlook for public and private markets

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Apollo Global Management

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Unless otherwise noted, information as of July 2024.

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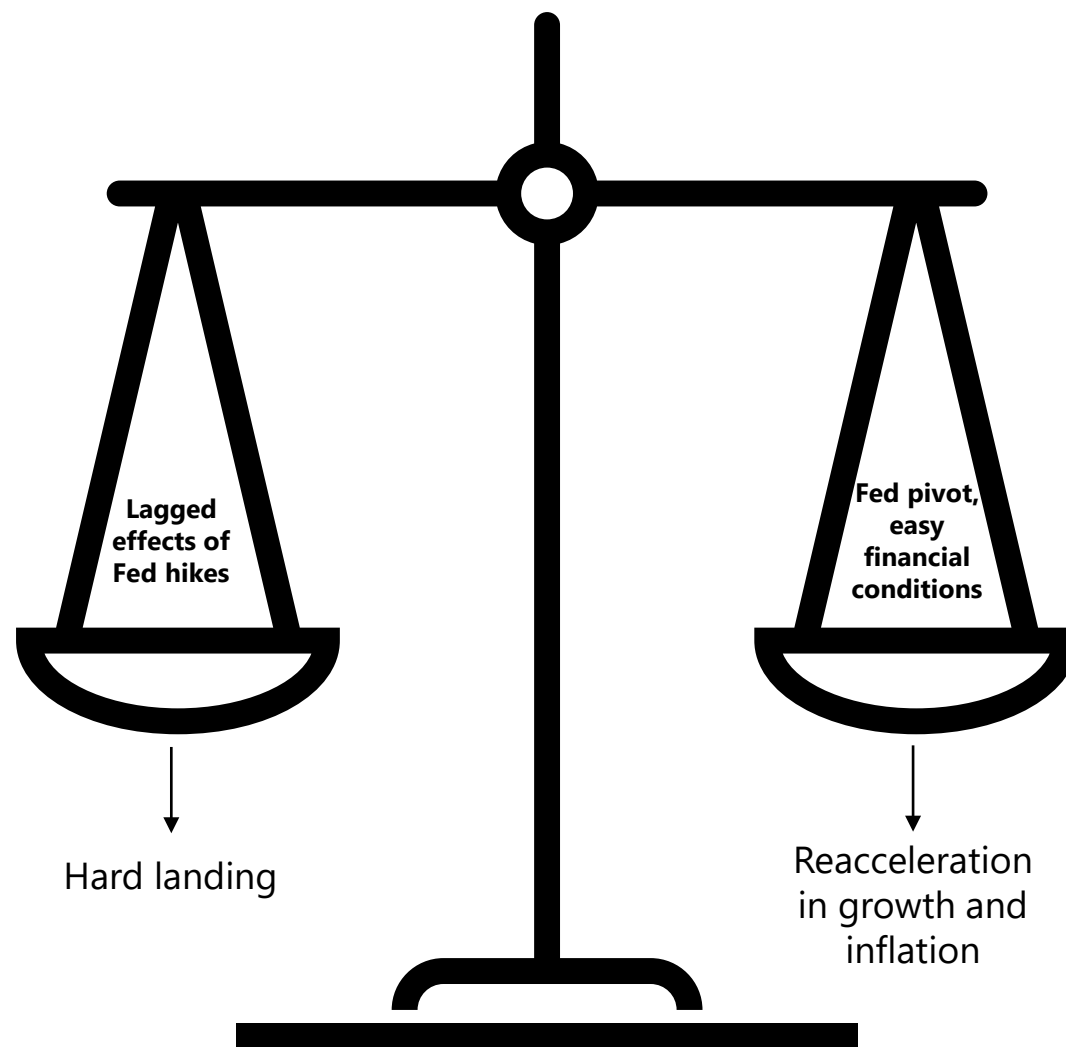
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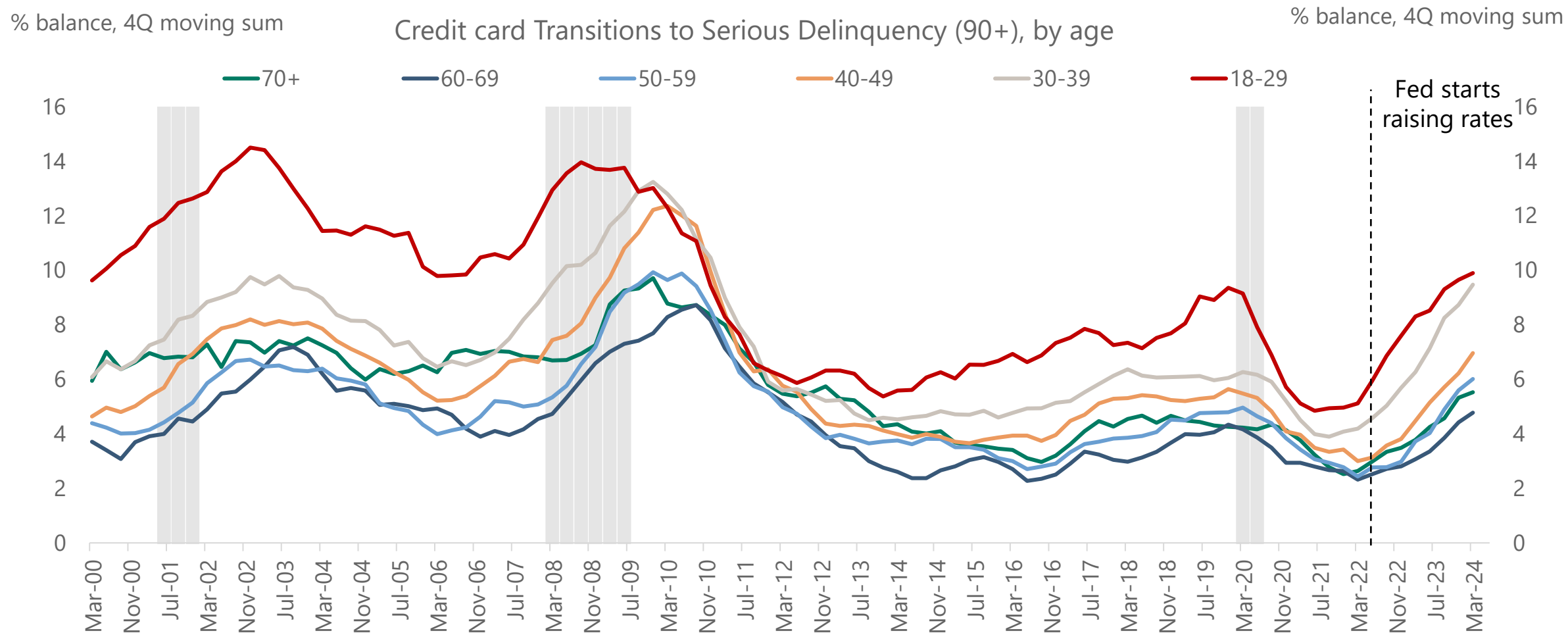
The fragile US economic outlook



Fed hikes weighing on consumers, firms, and banks



Credit card delinquency rates rising



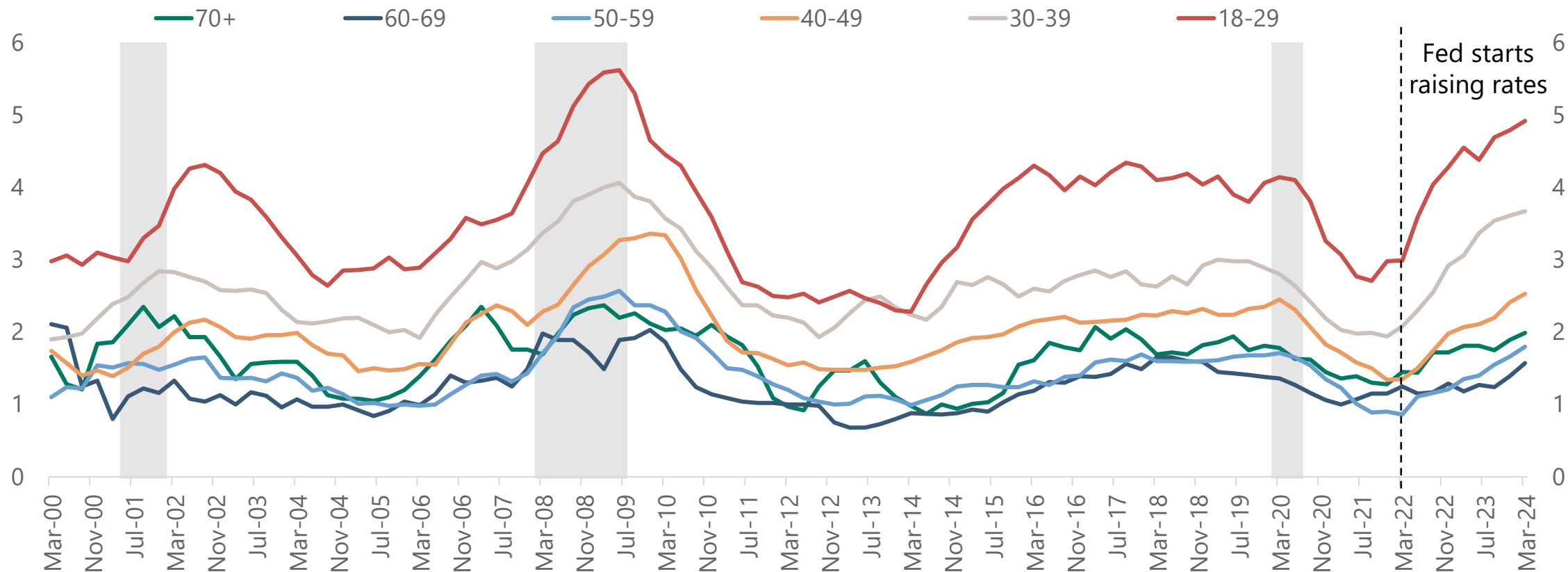
Source: New York Fed Consumer Credit Panel / Equifax, Apollo Chief Economist

Auto loan delinquency rates rising

% balance, 4Q moving sum

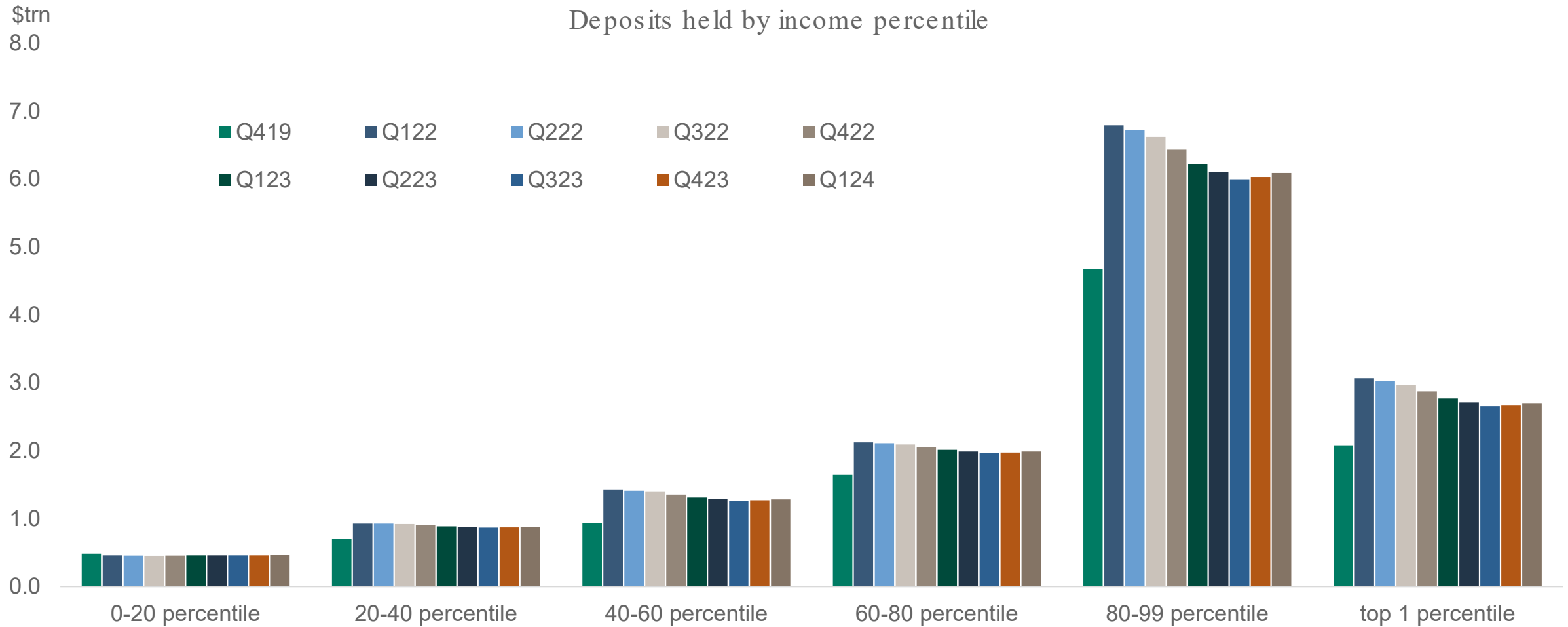
Auto Loan Transitions to Serious Delinquency (90+), by age

% balance, 4Q moving sum



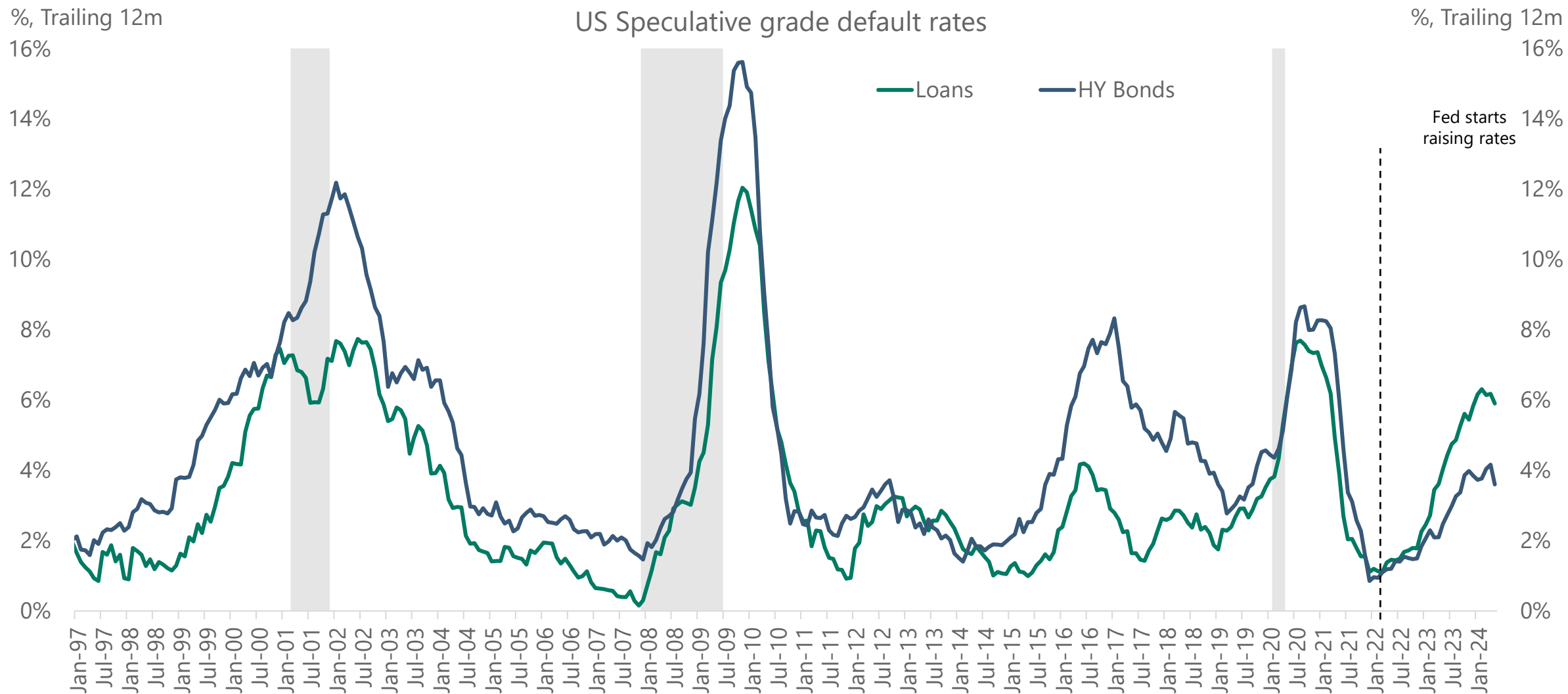
Source: FRBNY Consumer Credit Panel, Equifax, Haver Analytics, Apollo Chief Economist

Pandemic savings across the income distribution



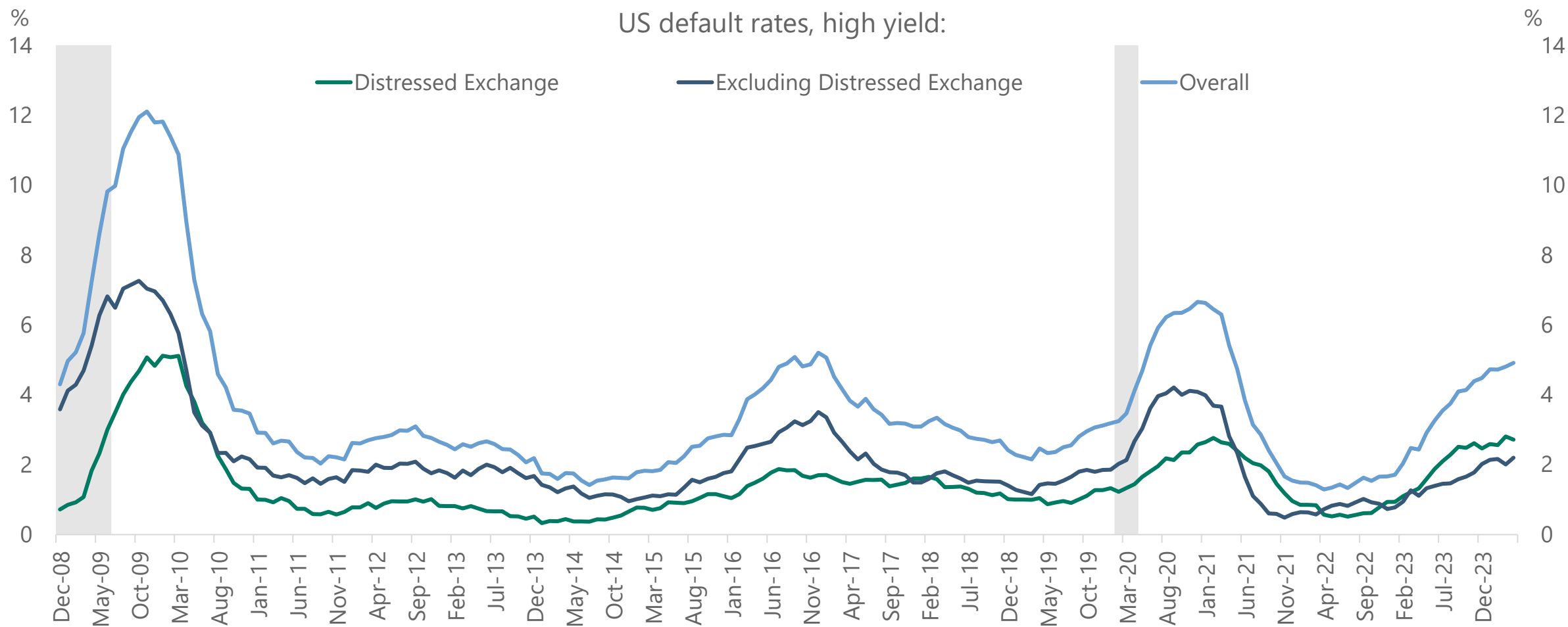
Source: FRB, Haver Analytics, Apollo Chief Economist

Default rates starting to decline



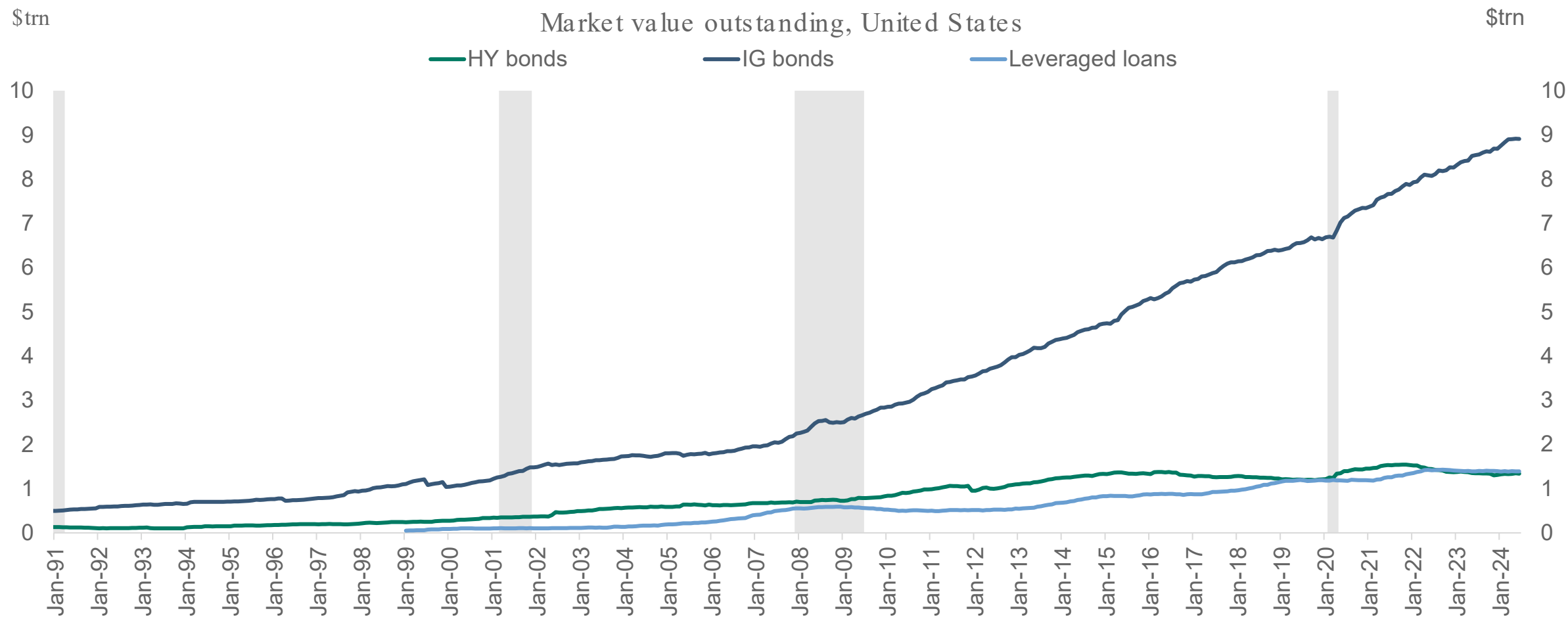
Source: Moody's Analytics, Apollo Chief Economist

Default rates flattening out



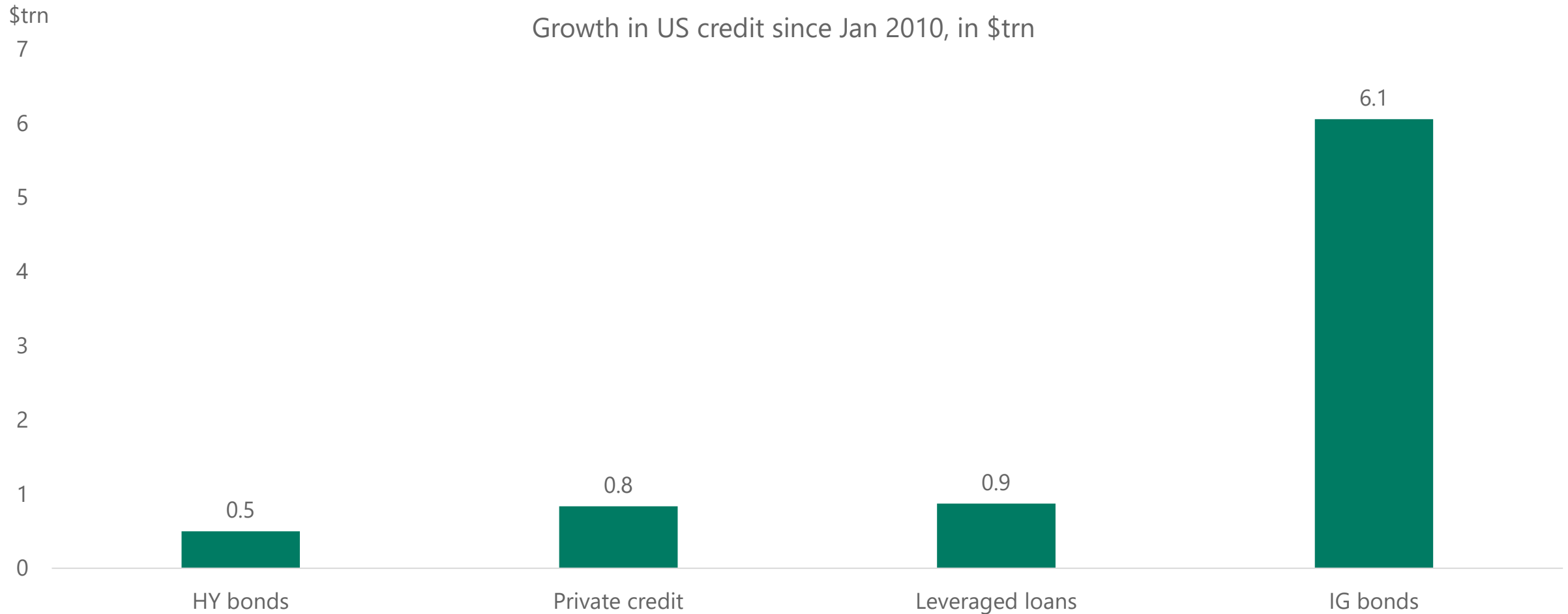
Sources: S&P Global Market Intelligence's CreditPro; S&P Global Ratings Credit Research & Insights, Apollo Chief Economist

Public IG market has grown from \$3trn in 2010 to \$9trn today

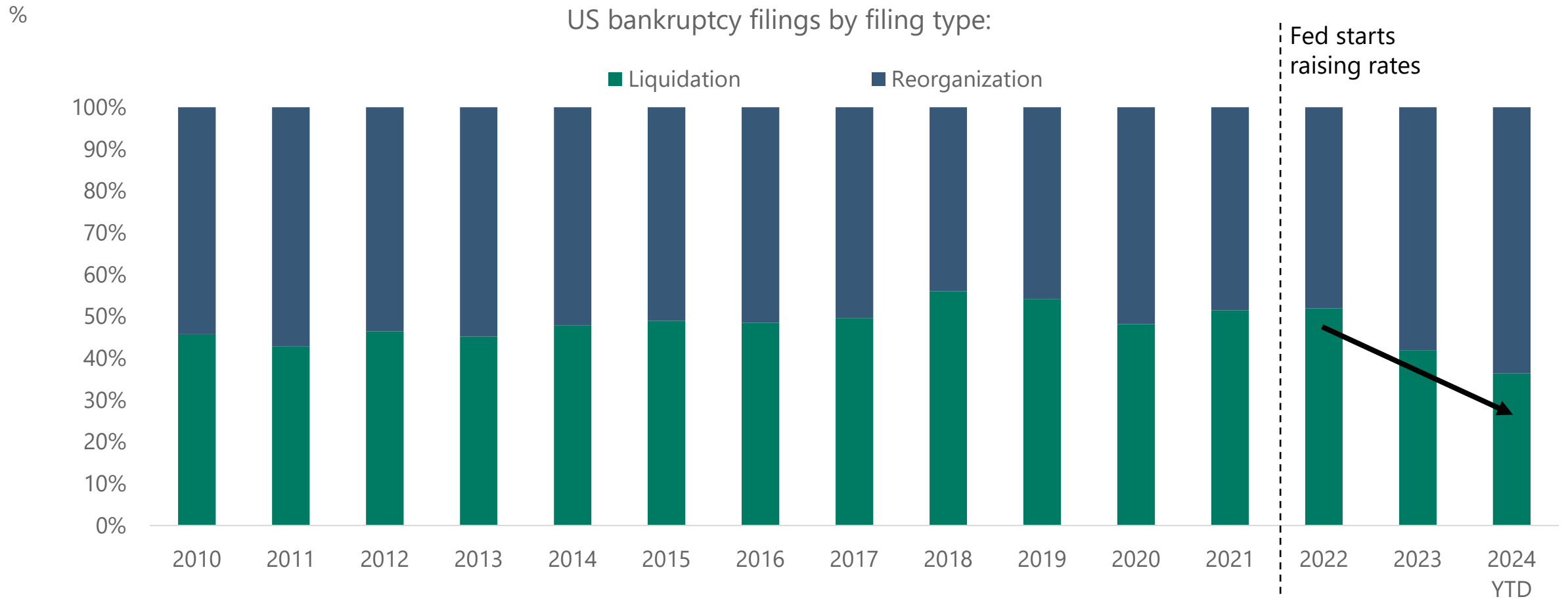


Source: ICE BofA, Bloomberg, Pitchbook LCD, Apollo Chief Economist. Note: Ticker used for HY is H0A0 Index and for IG it is C0A0 Index and for Loans it is SPBDALB Index.

The IG market has grown much faster than HY, loans, and private credit

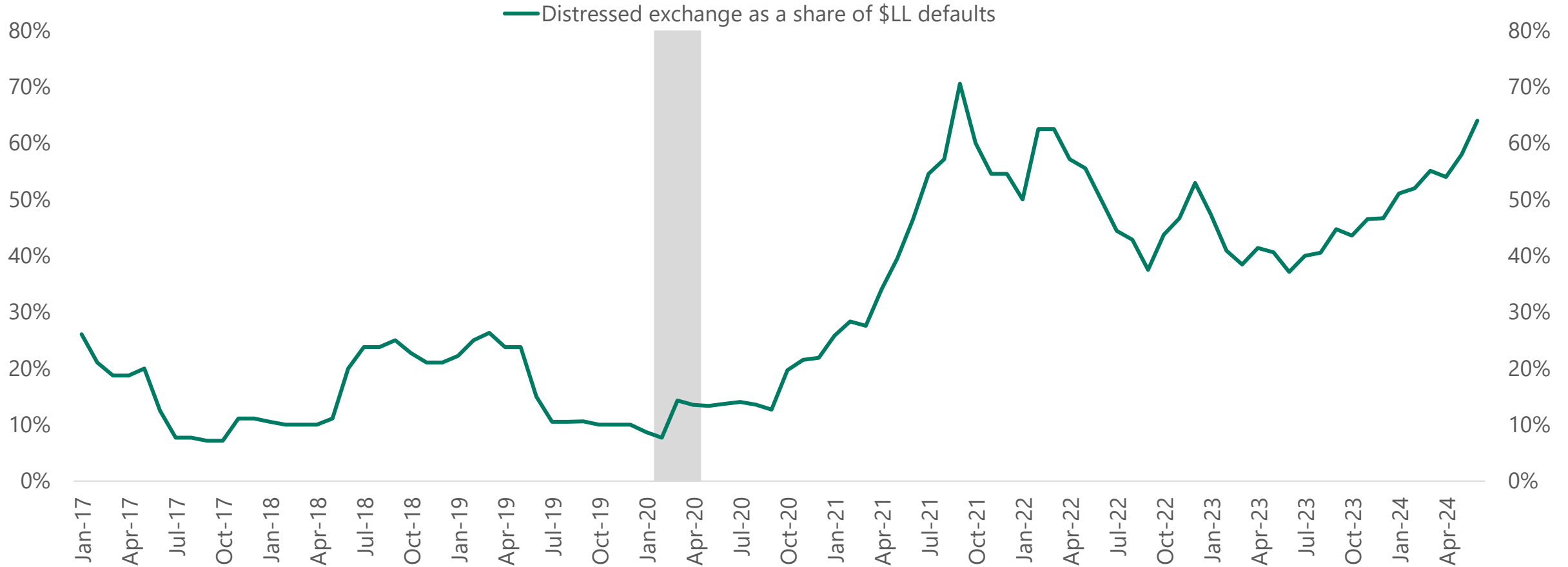


US bankruptcies: Fewer liquidations and more reorganizations



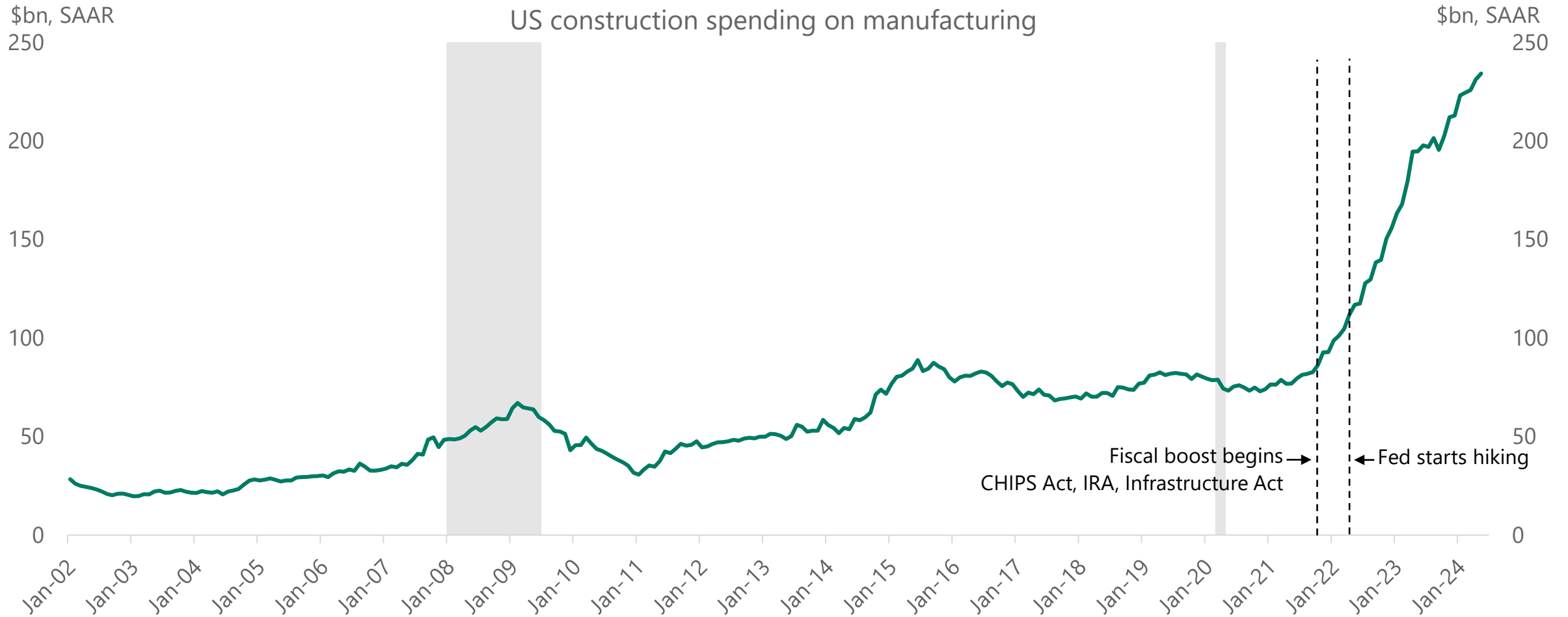
Source: S&P CapitalIQ, Apollo Chief Economist. Note: Data till March 14, 2024. Bankruptcy figures include public companies or private companies with public debt with a minimum of \$2 million in assets or liabilities at the time of filing, in addition to private companies with at least \$10 million in assets or liabilities. Chapter 11 liquidation and Chapter 7 bankruptcy filings are categorized as liquidation and other Chapter 11 bankruptcy filings as reorganization.

Distressed liability exchange transactions as a share of total defaults rising



Source: S&P, LCD Pitchbook, Apollo Chief Economist

Positive effects of fiscal policy dominating negative effects of Fed hikes



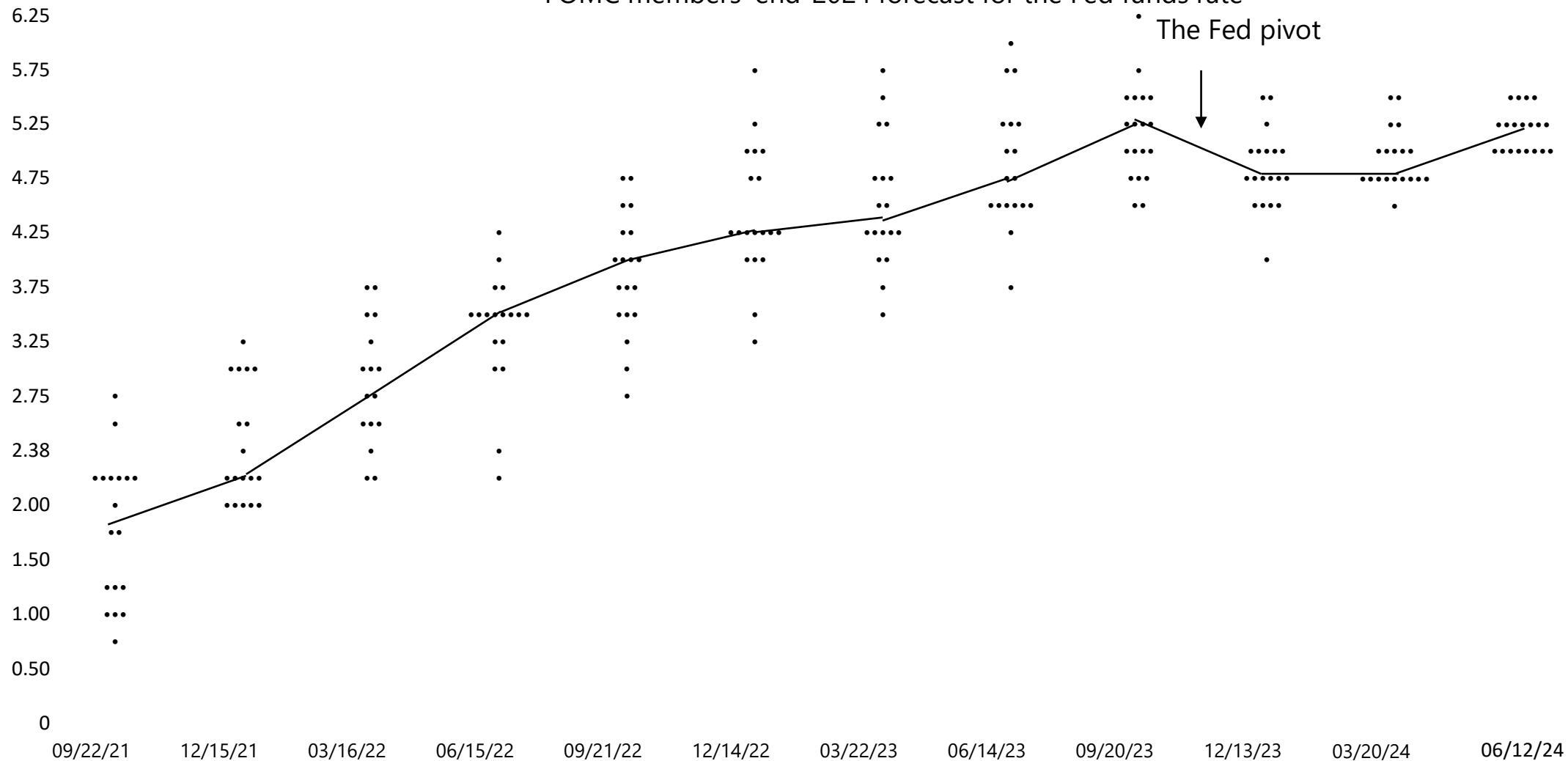
Source: Census Bureau, Haver Analytics, Apollo Chief Economist

Upside risks to inflation



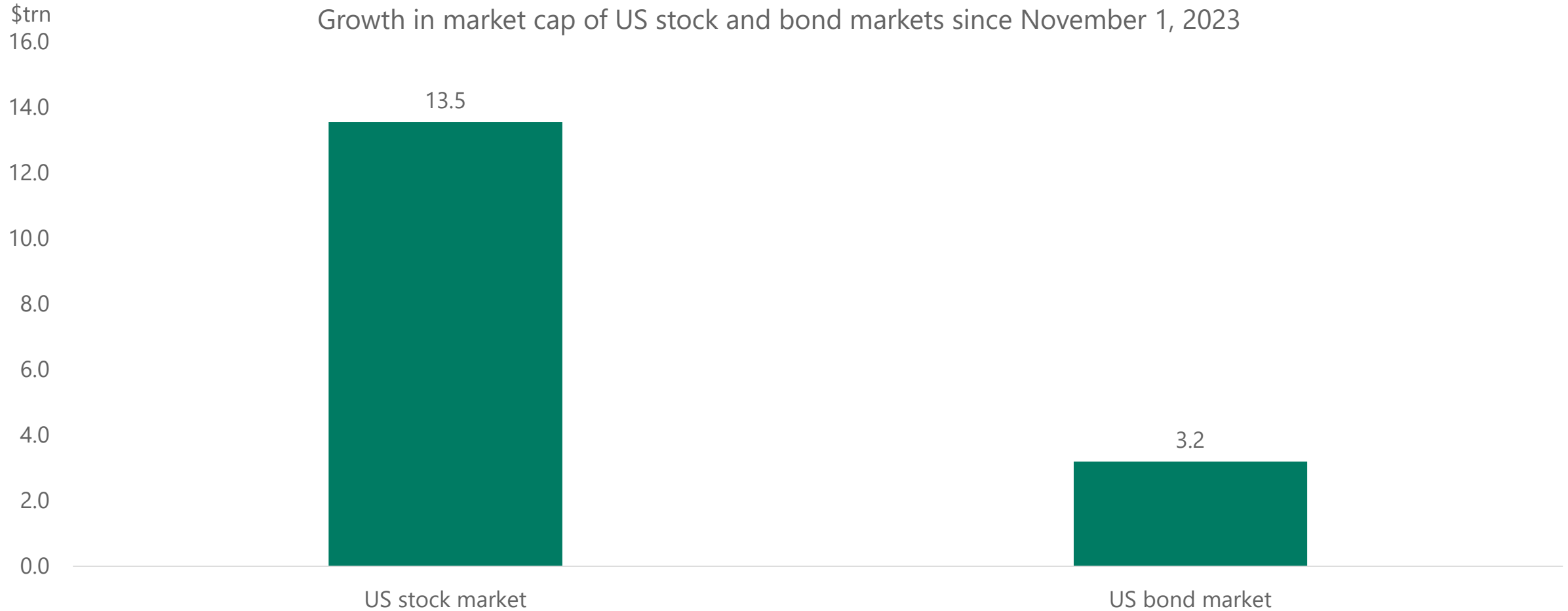
The Fed pivot

FOMC members' end-2024 forecast for the Fed funds rate



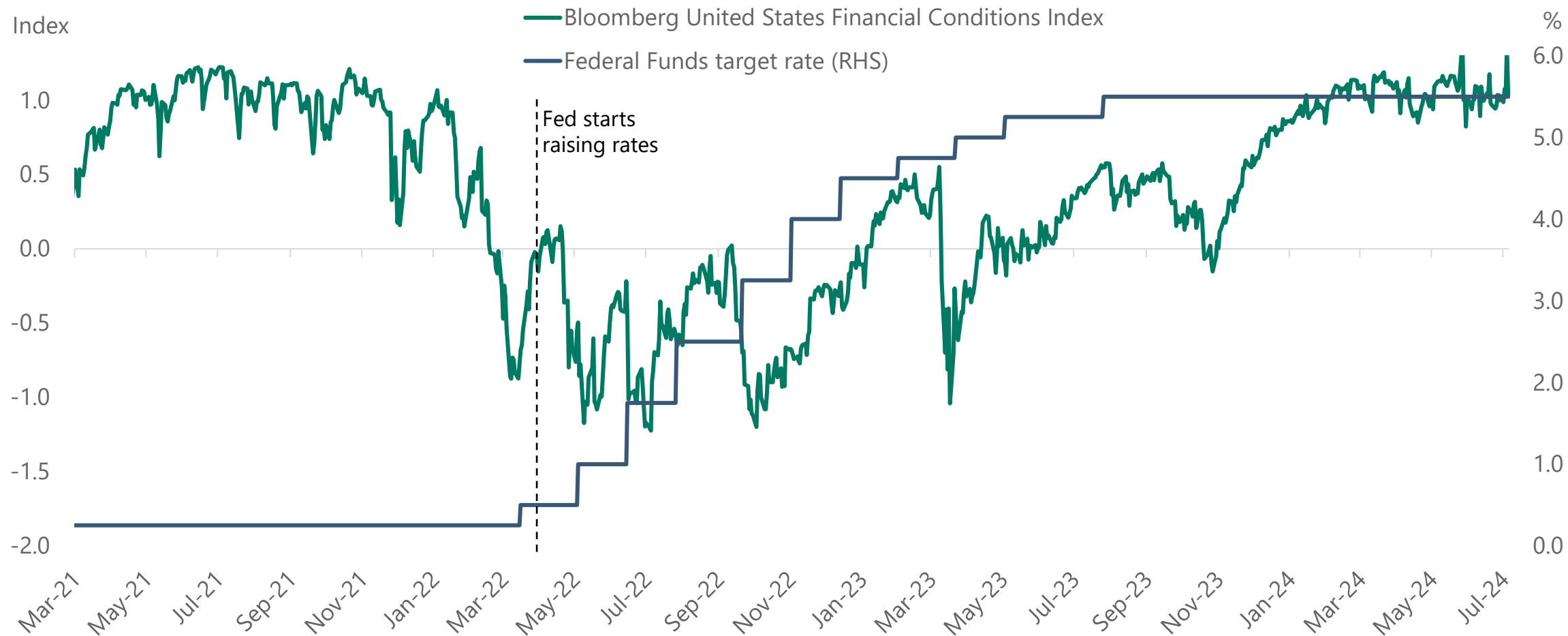
Source: Bloomberg, Apollo Chief Economist

Wealth has increased \$16.7trn since the November FOMC meeting



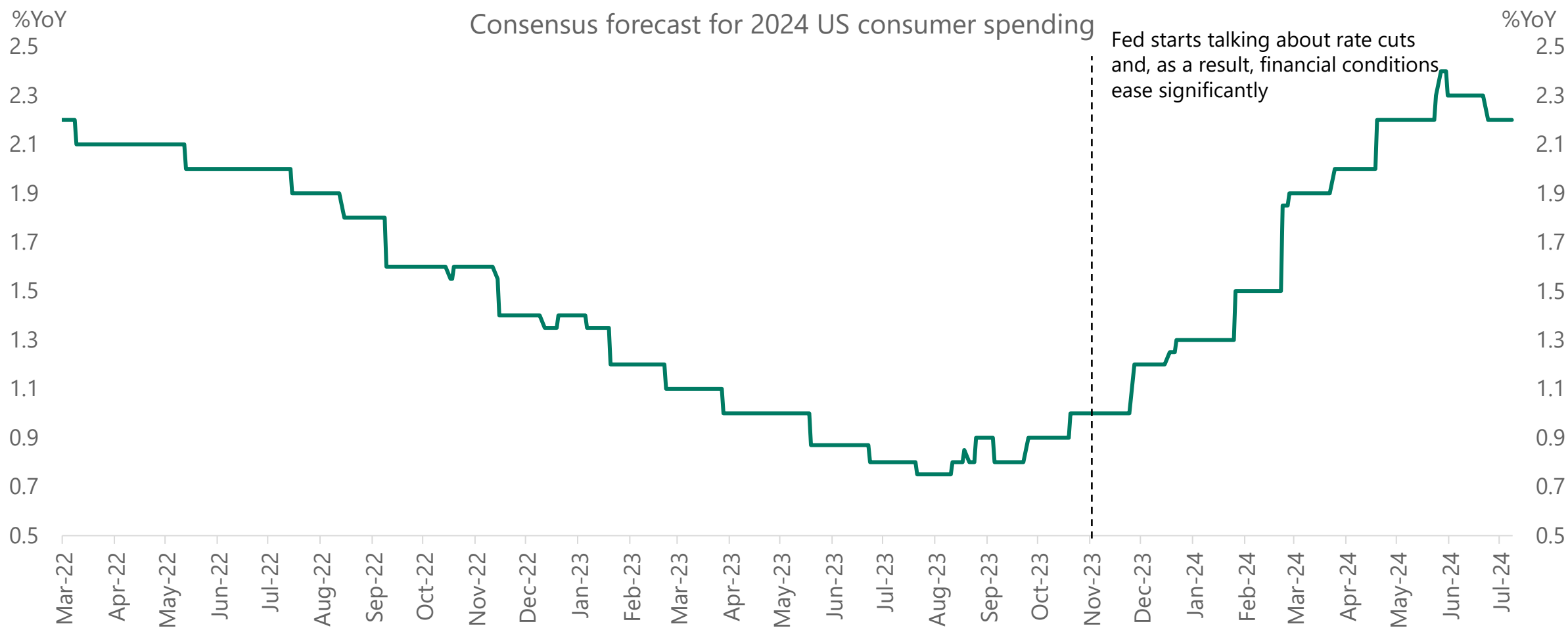
Source: Bloomberg, Apollo Chief Economist. Note: Indices used WCAUUS Index and LC07TRUU Index

Financial conditions are significantly easier than when the Fed started tightening in March 2022

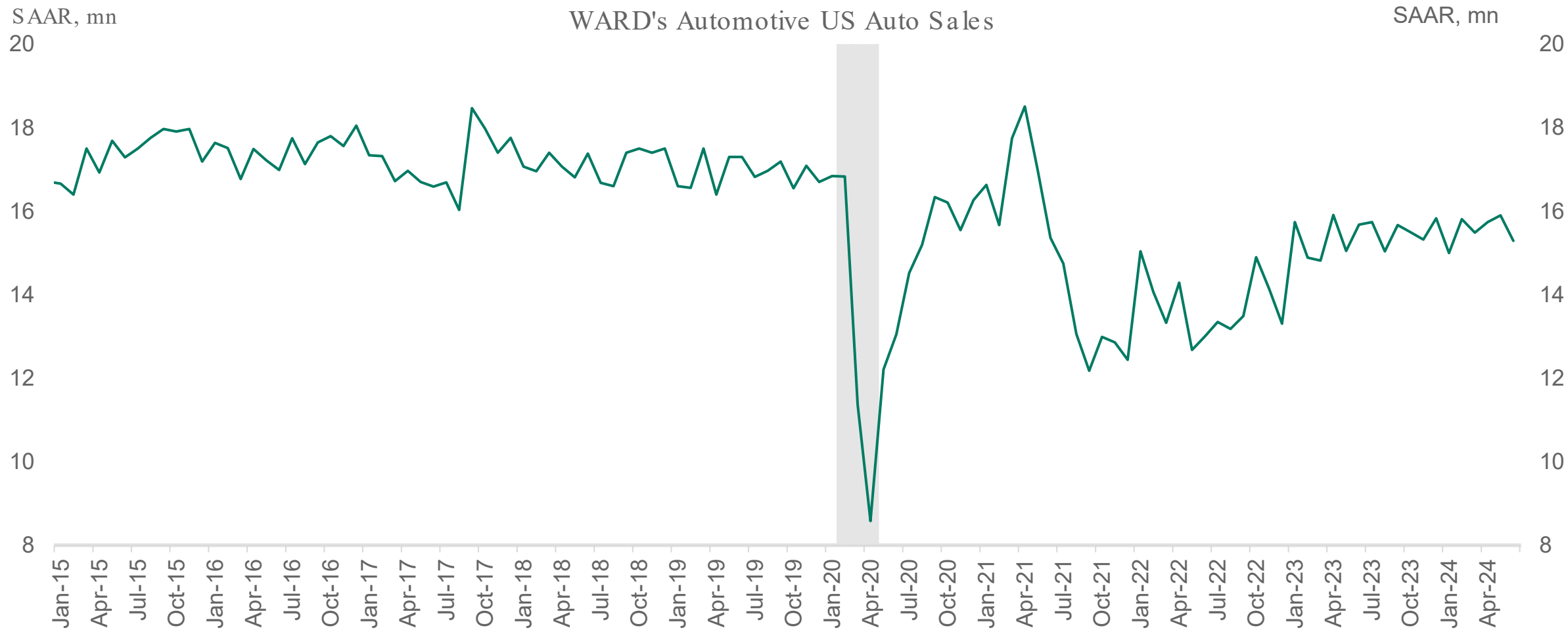


Source: Bloomberg, Apollo Chief Economist

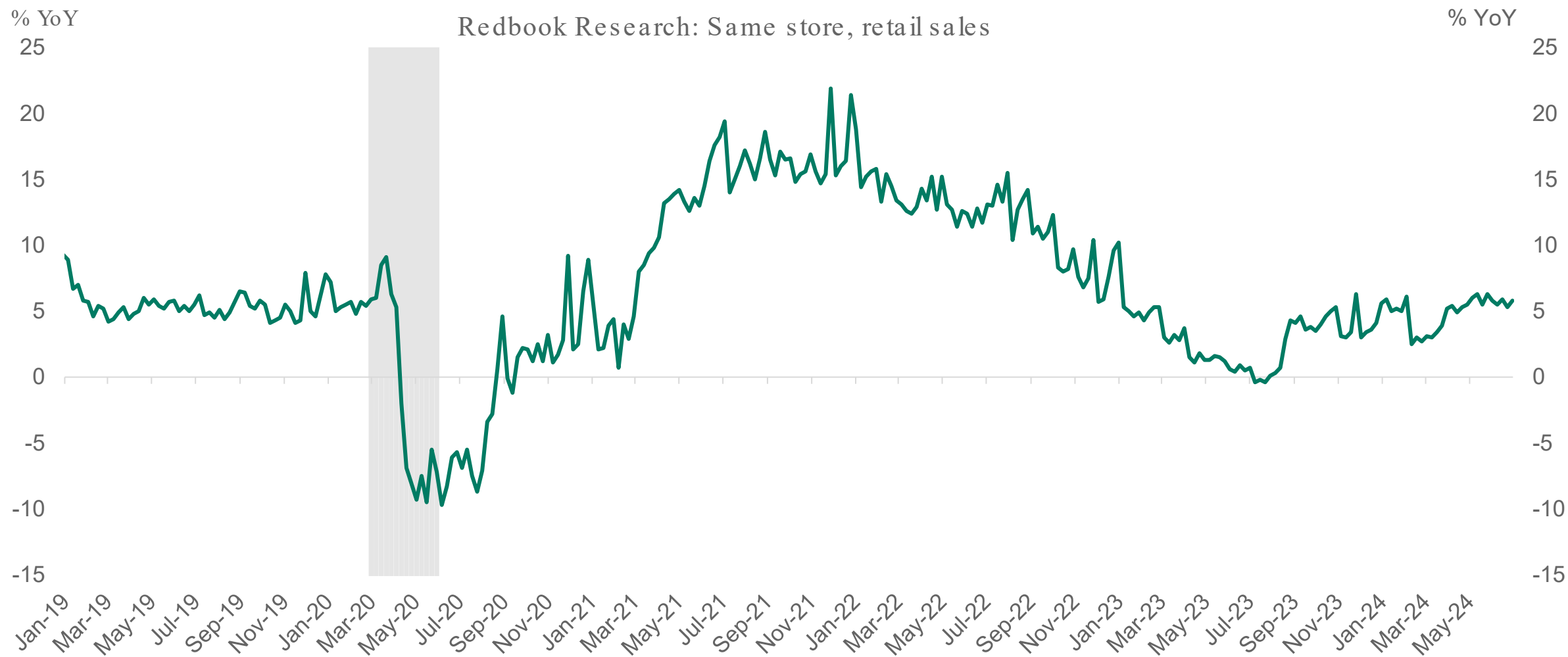
The consensus is very bullish on the US consumer



No signs of a slowdown in auto sales

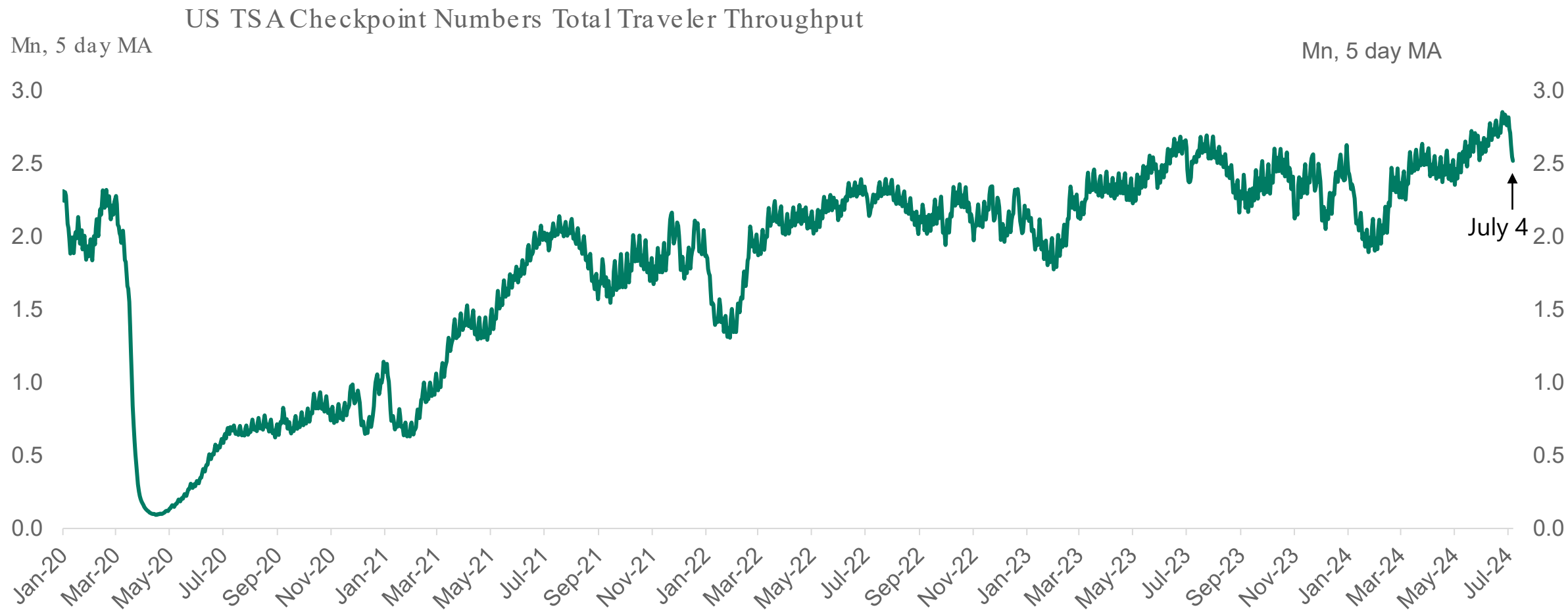


Weekly data for same-store retail sales still strong



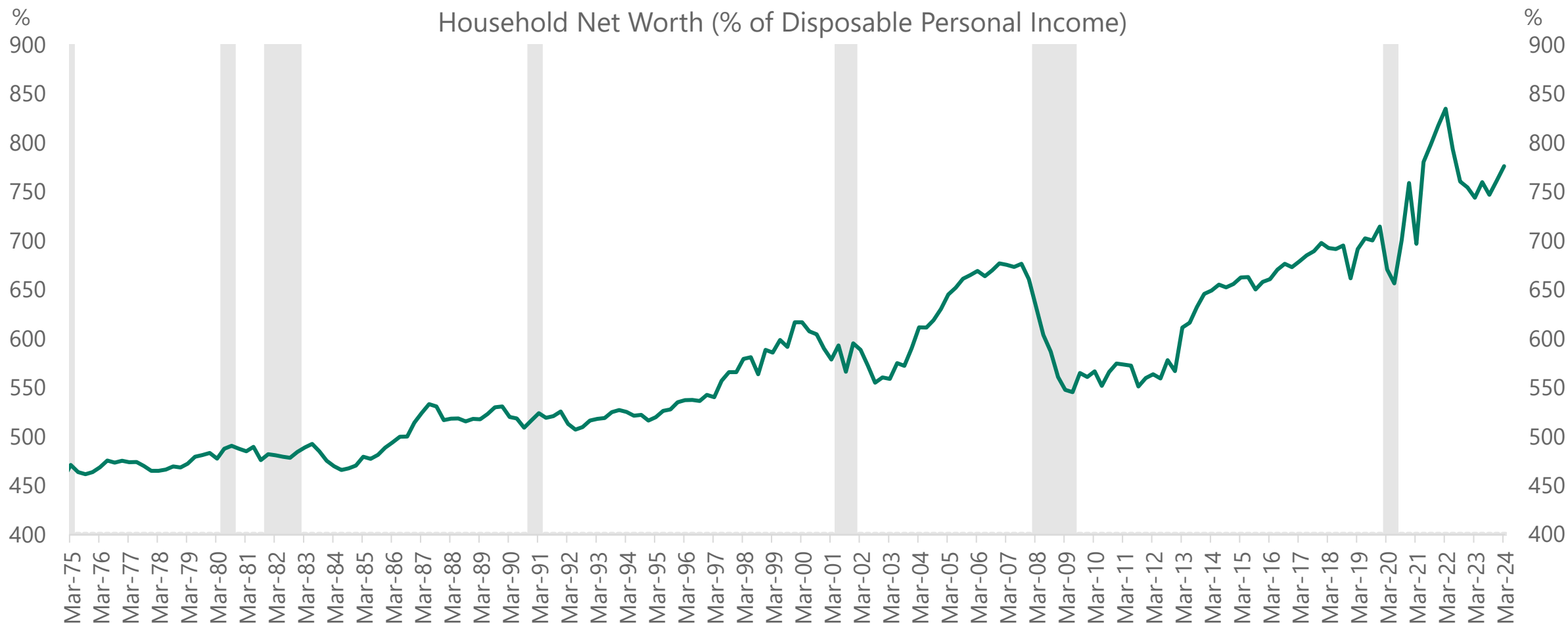
Source: Redbook, Bloomberg, Apollo Chief Economist

TSA data shows record-high demand for air travel



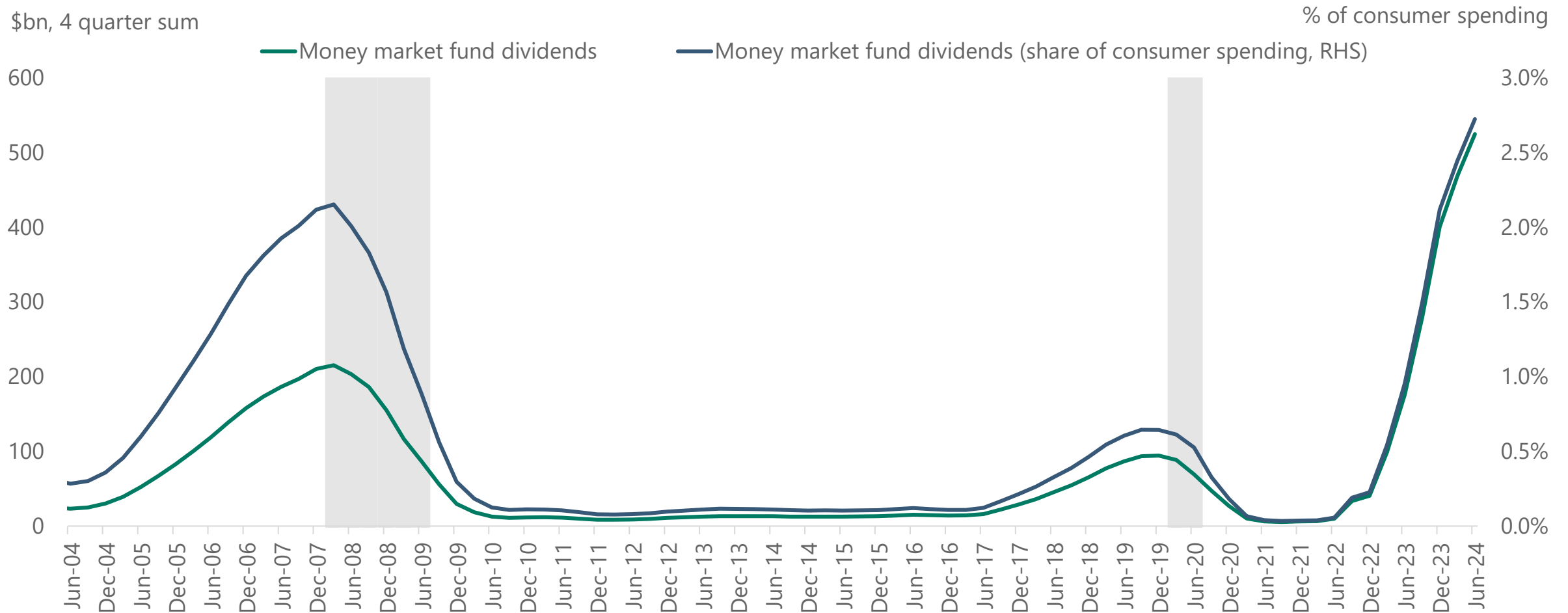
Source: Transportation Security Administration, Apollo Chief Economist

Household net worth close to all-time highs



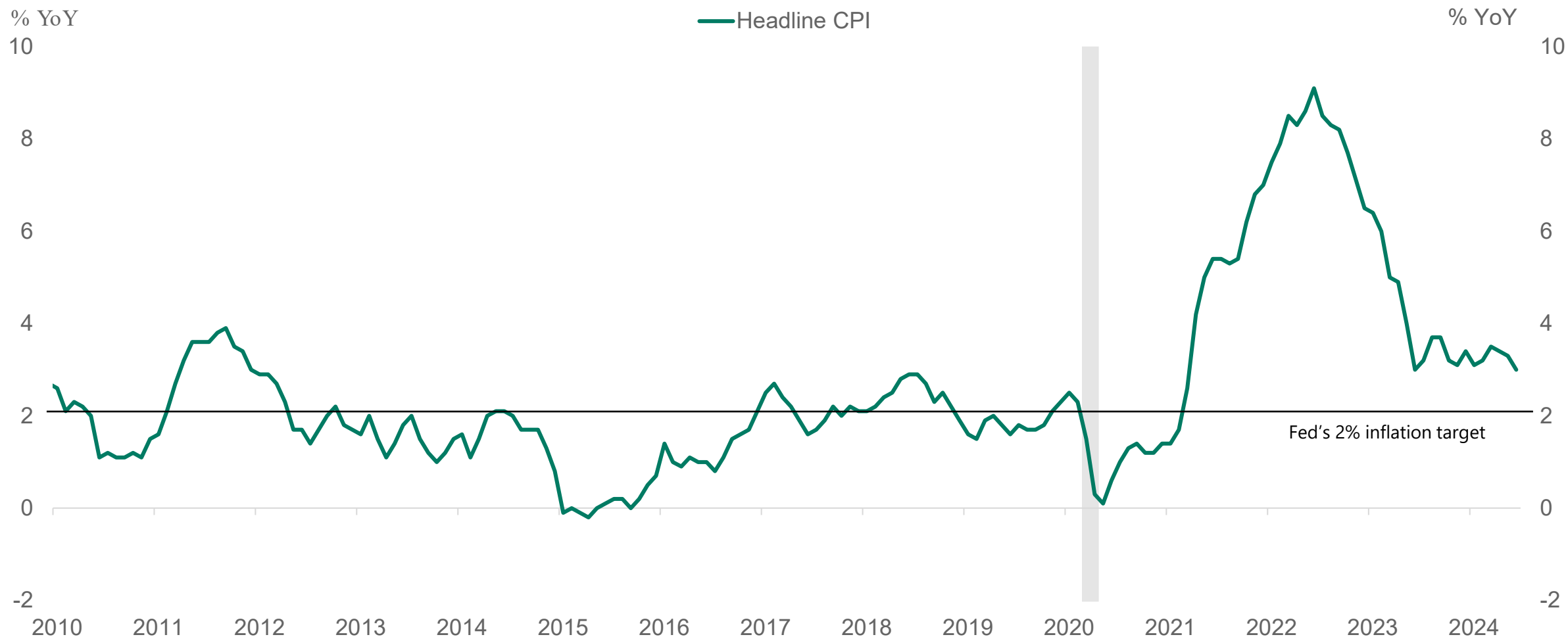
Source: FRB, Haver Analytics, Apollo Chief Economist

Money market funds currently pay around \$500bn in dividends.
That's 2.5% of annual consumer spending.

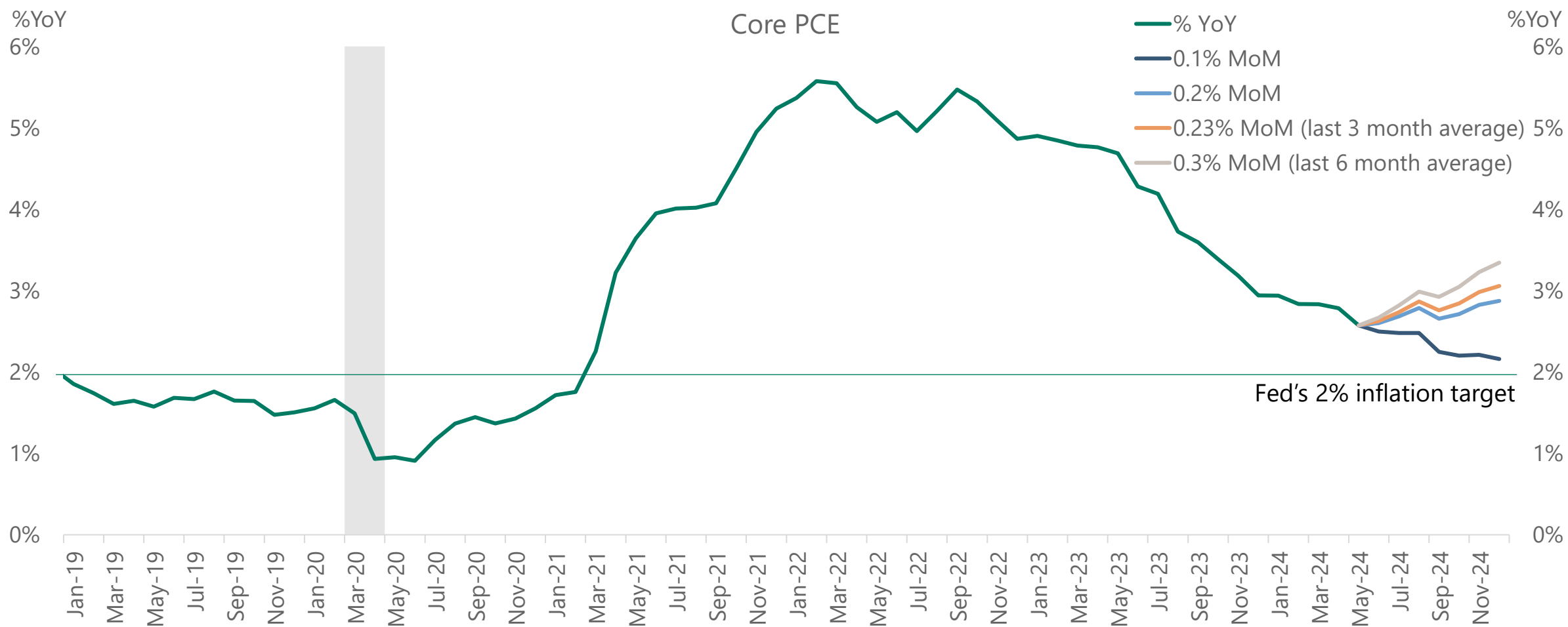


Source: BEA, ICI, Haver Analytics, Apollo Chief Economist. Note: Q124 and Q224 are estimates, dividends include dividends paid and dividends reinvested. Consumer spending is PCE.

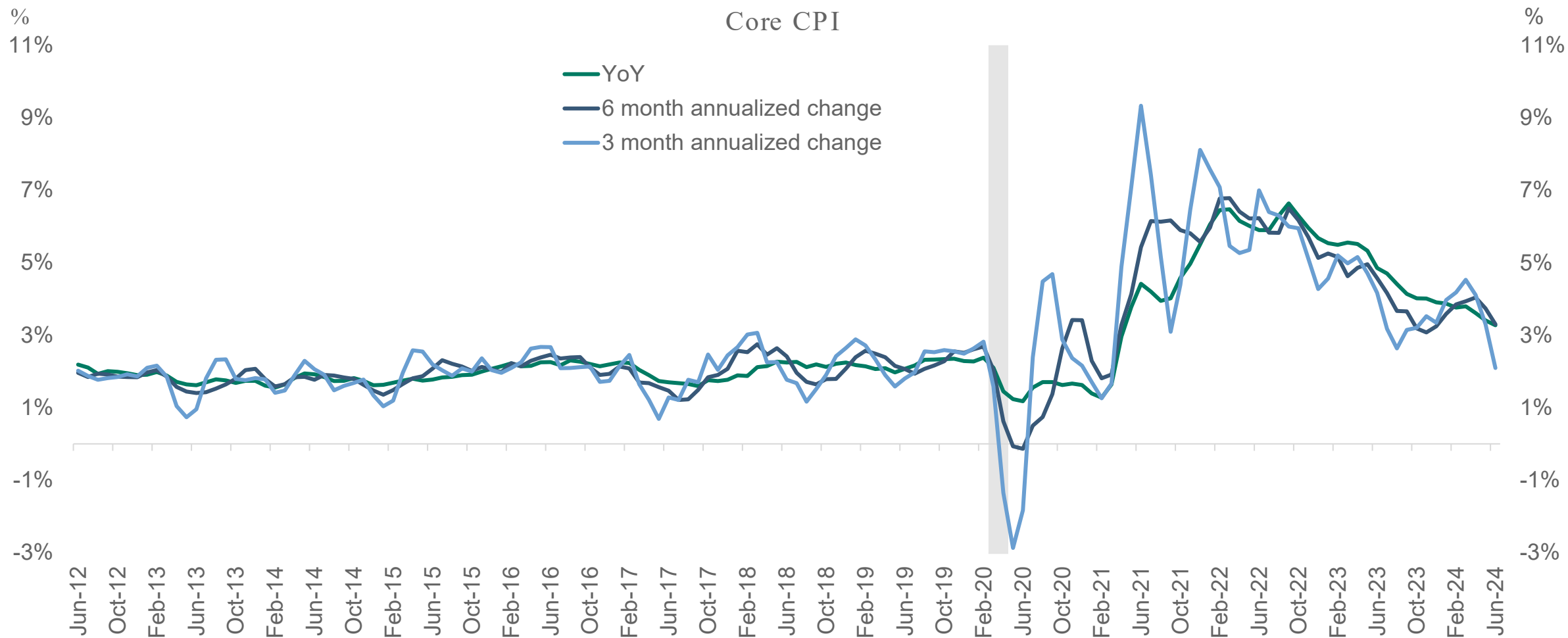
Inflation is sticky above the Fed's 2% inflation target



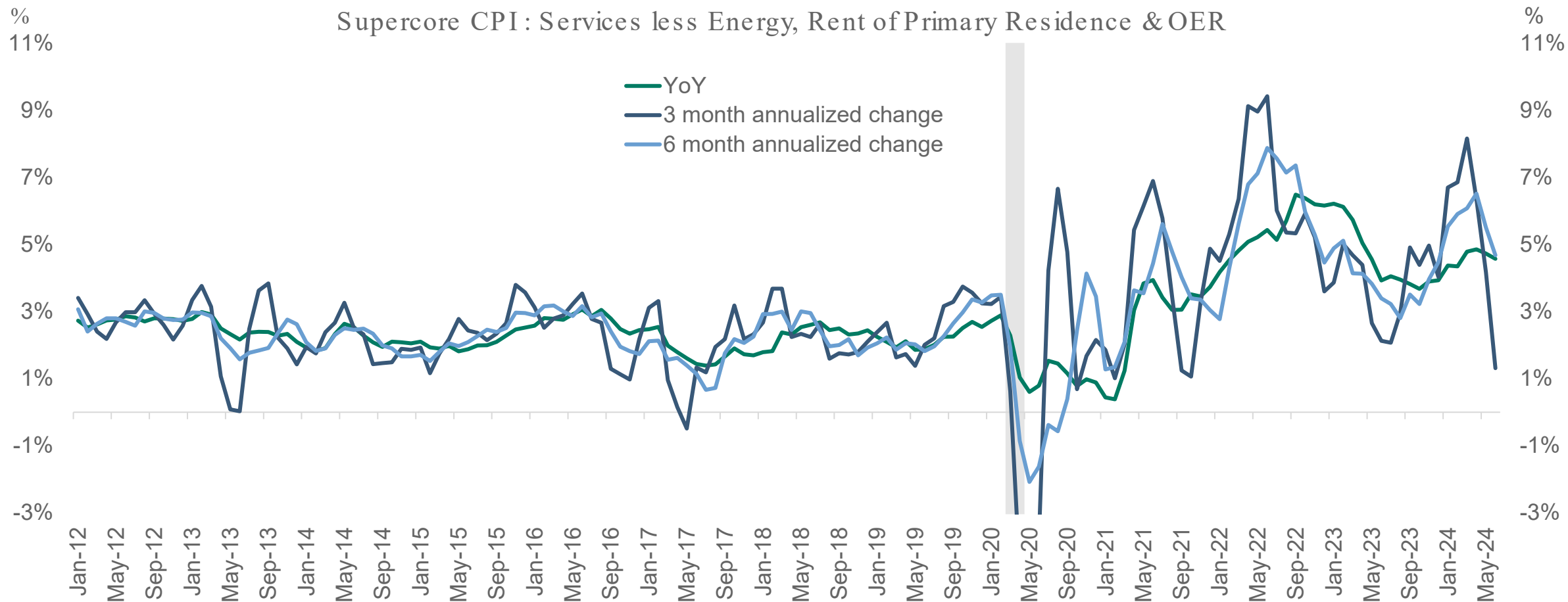
Core PCE inflation will remain high



Inflation is still well above the Fed's 2% inflation target

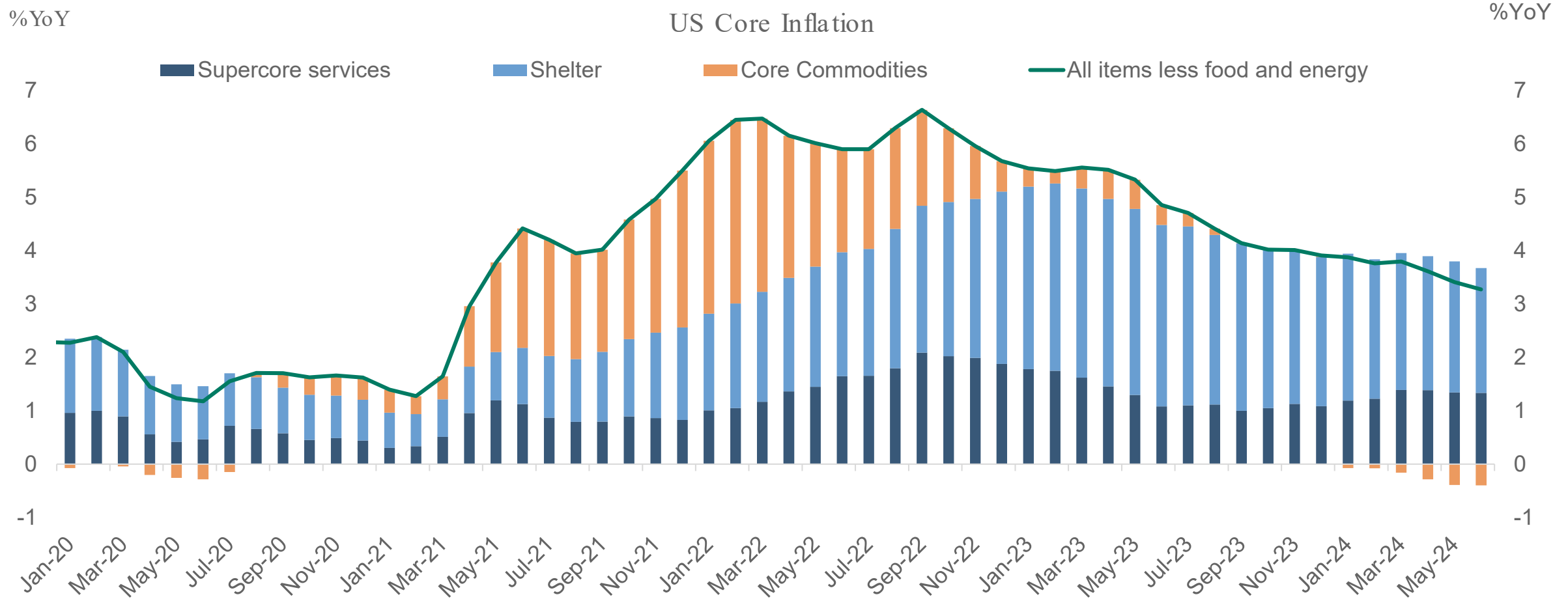


Supercore inflation



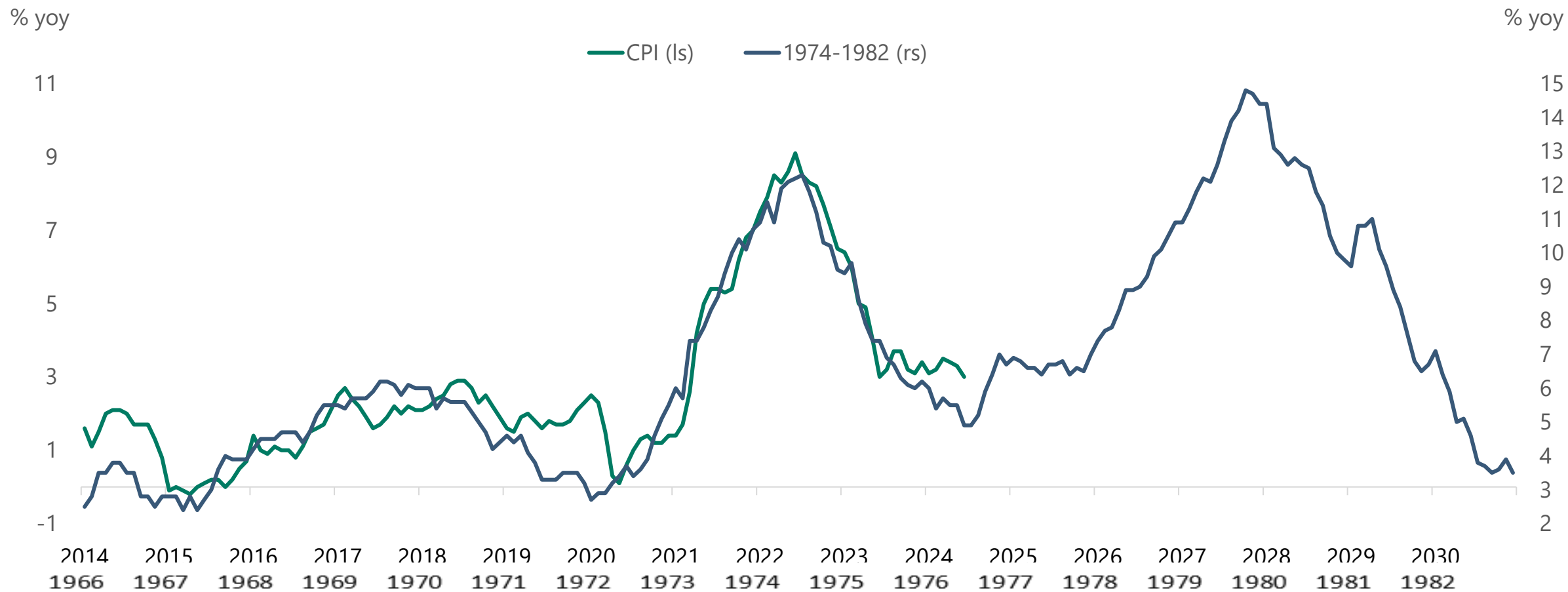
Source: BLS, Haver Analytics, Apollo Chief Economist

Inflation: first goods, then services

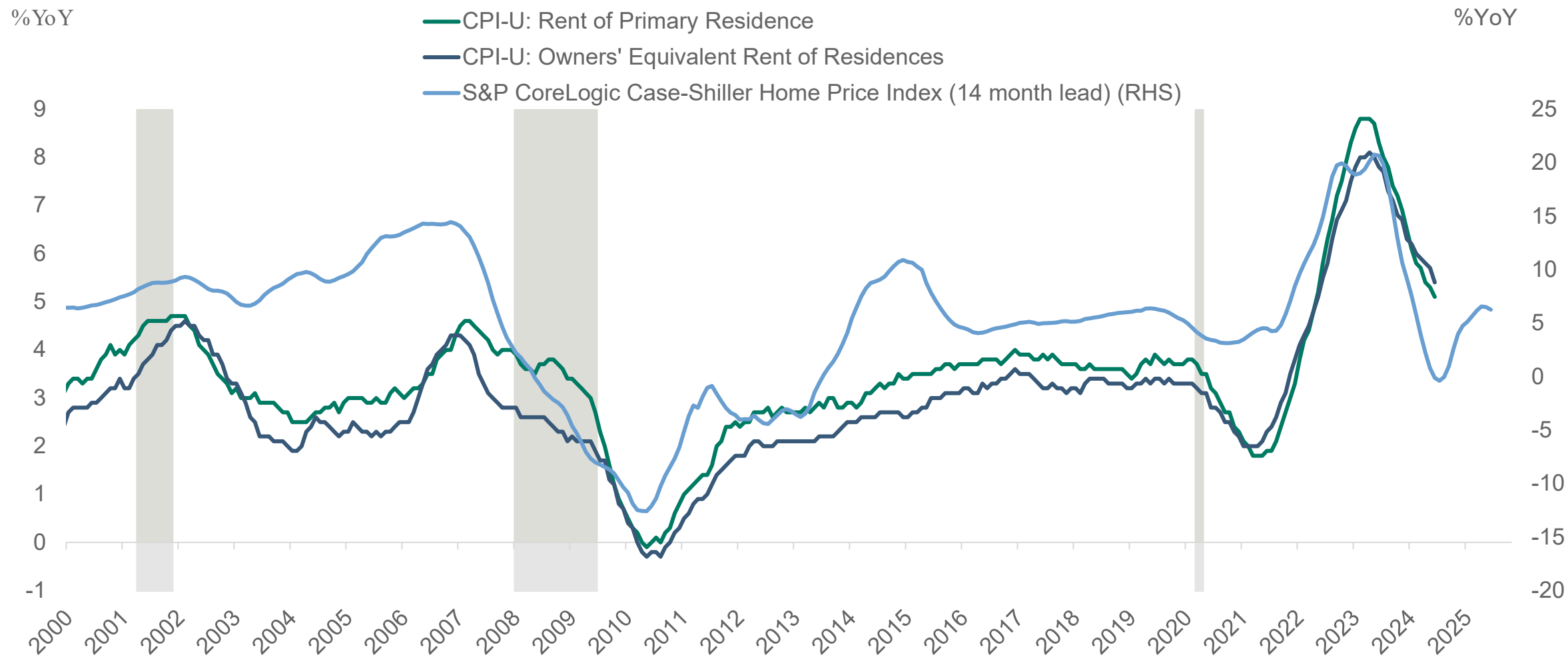


Source: BLS, Haver Analytics, Apollo Chief Economist

Dovish Fed could create another spike in inflation



Rebound coming in housing inflation

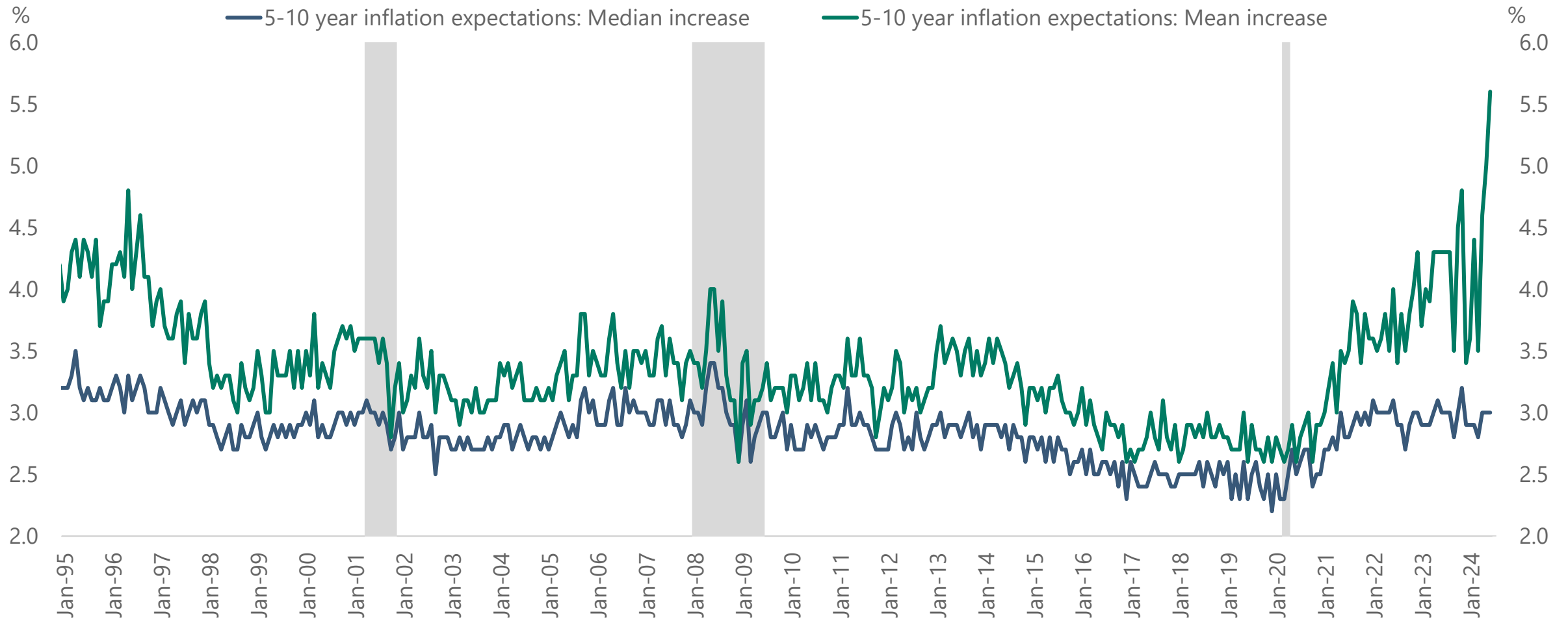


Source: Haver Analytics, BLS, S&P, Apollo Chief Economist

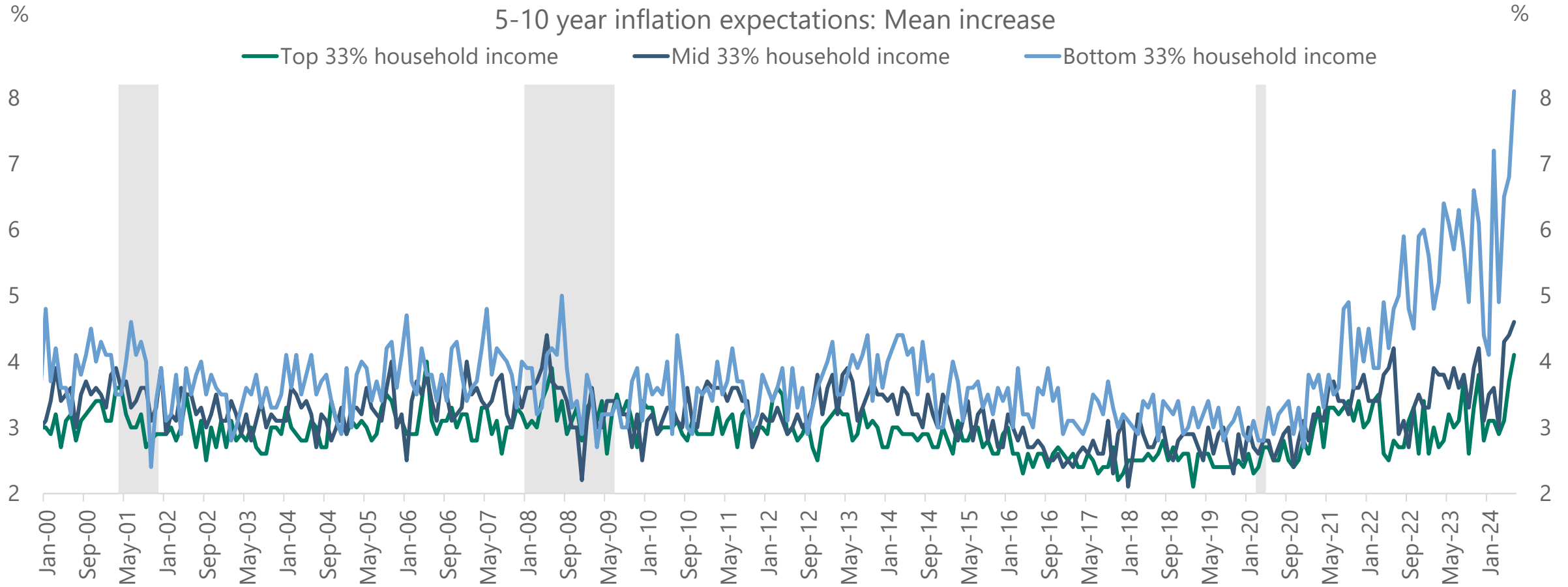
Inflation expectations rising for
some parts of the population



Inflation expectations: Big difference between median and mean

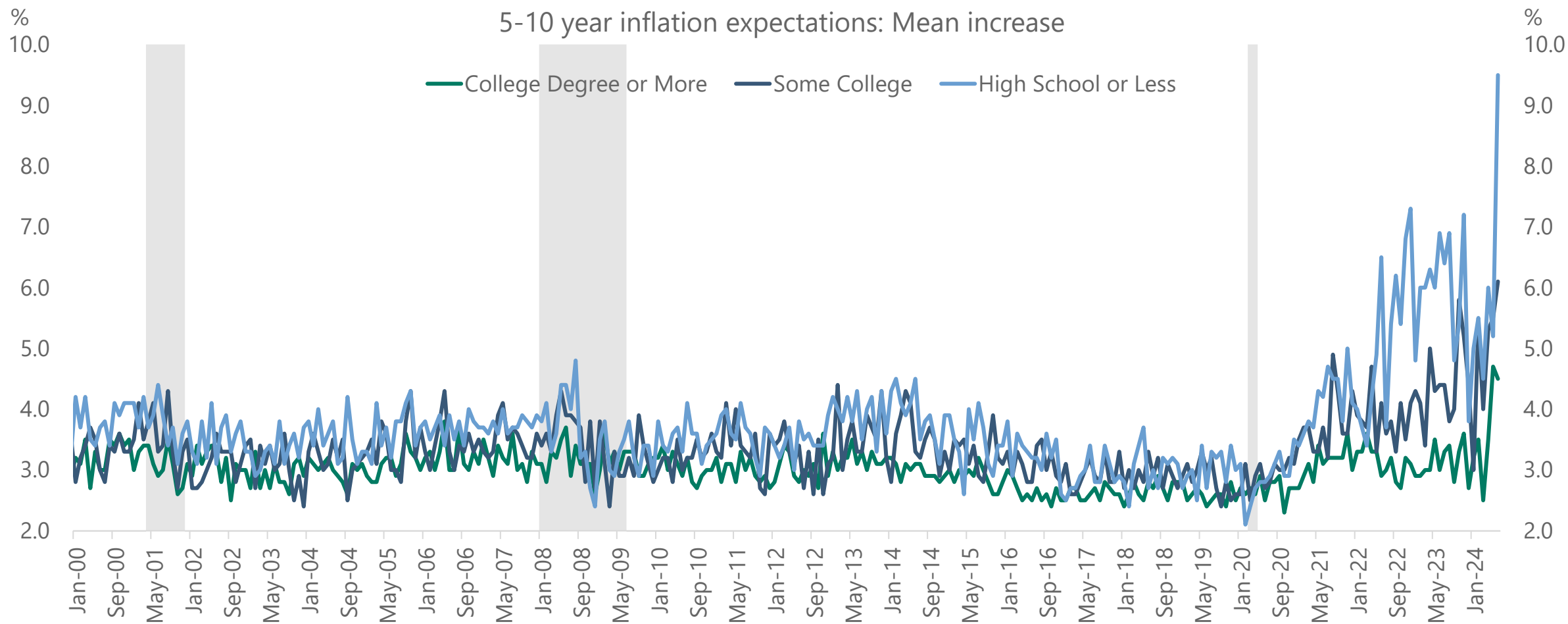


Lower income households expect much higher inflation

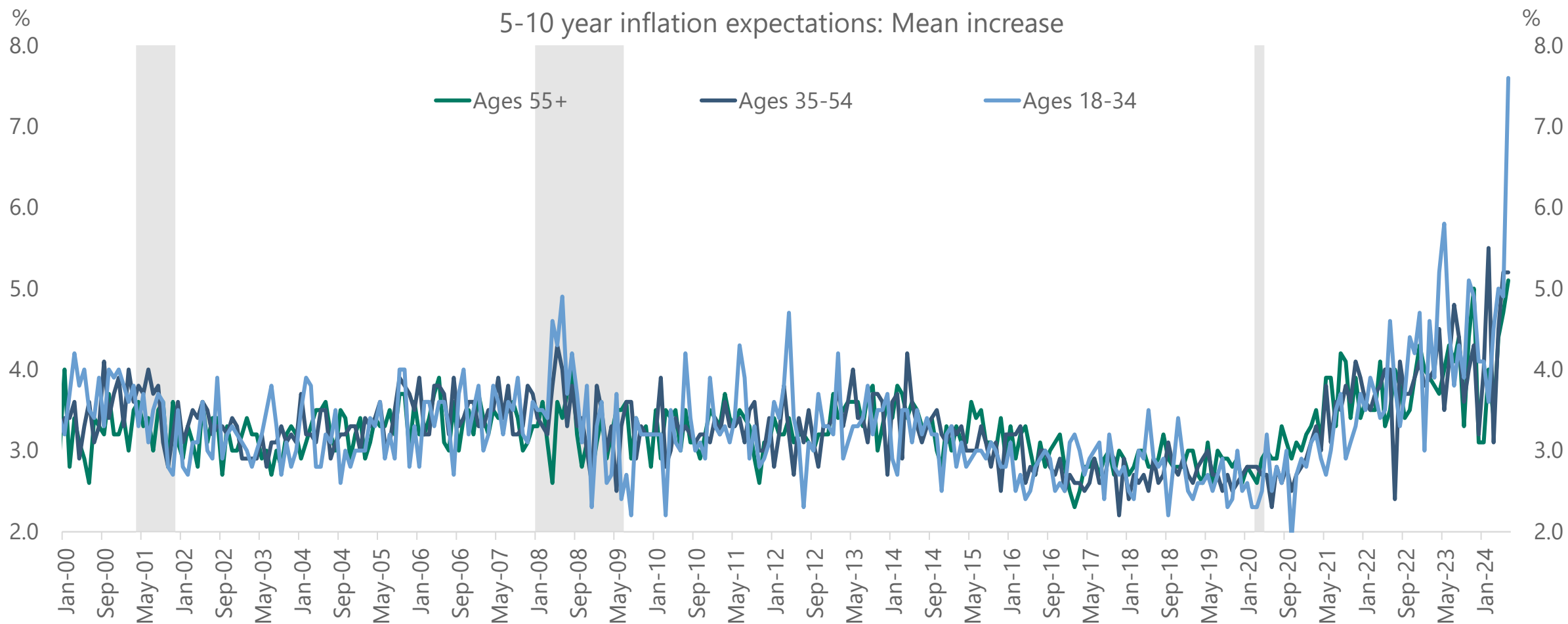


Source: University of Michigan, Haver Analytics, Apollo Chief Economist

Inflation expectations across education levels

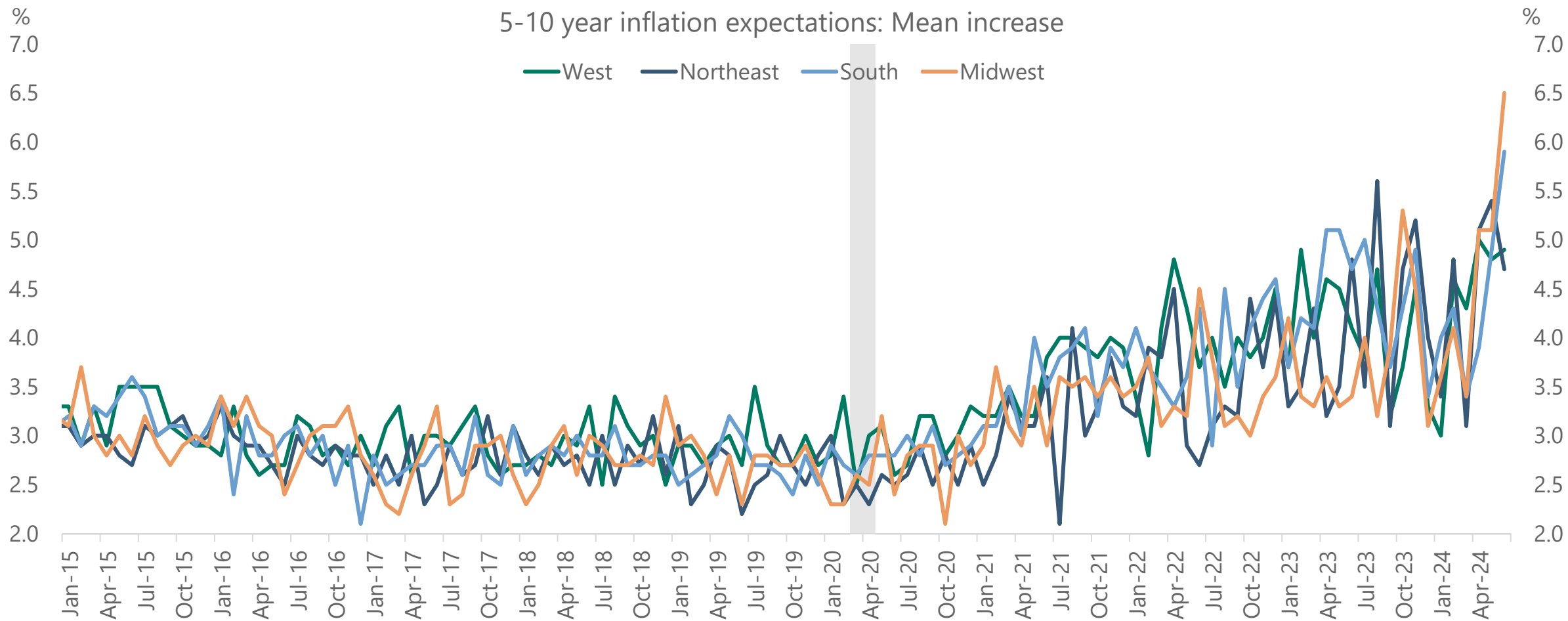


Inflation expectations rising across age groups



Source: University of Michigan, Haver Analytics, Apollo Chief Economist

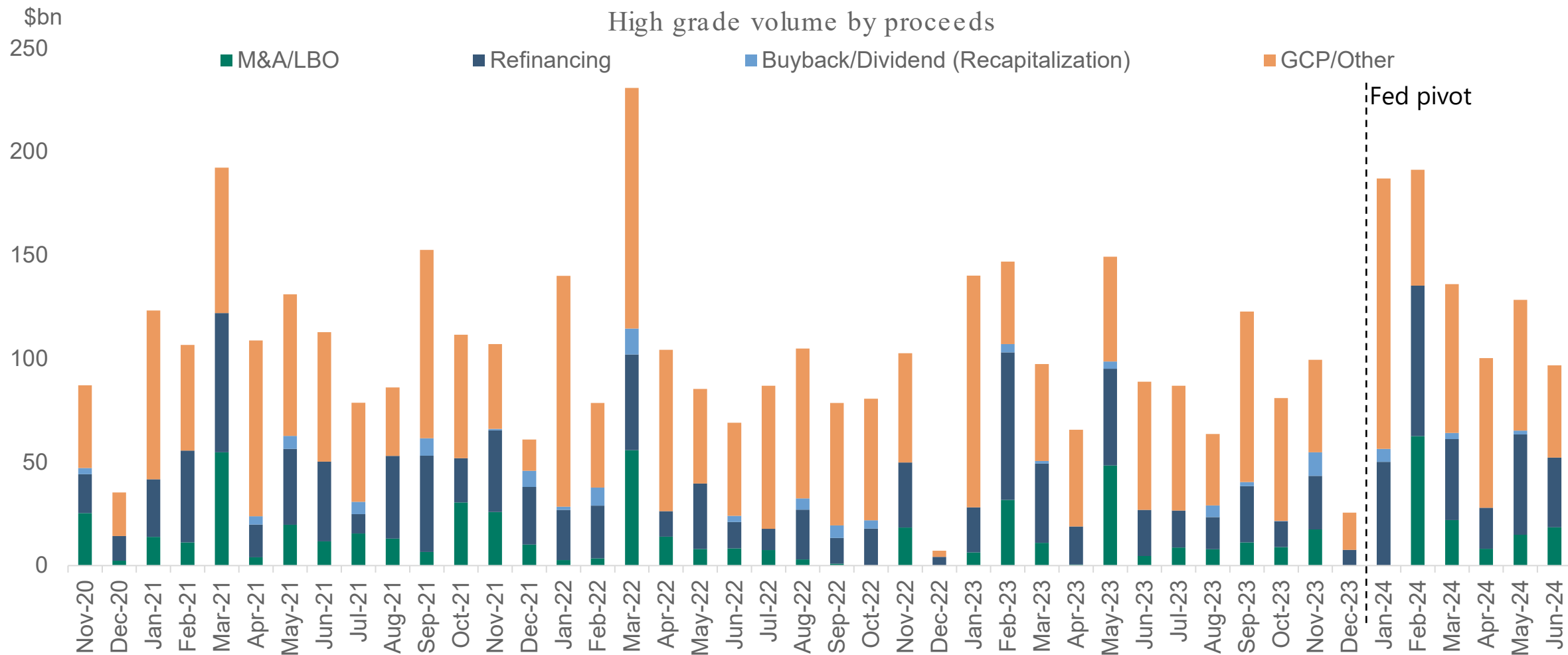
Inflation expectations rising across regions



Implications for credit, equity, and real assets

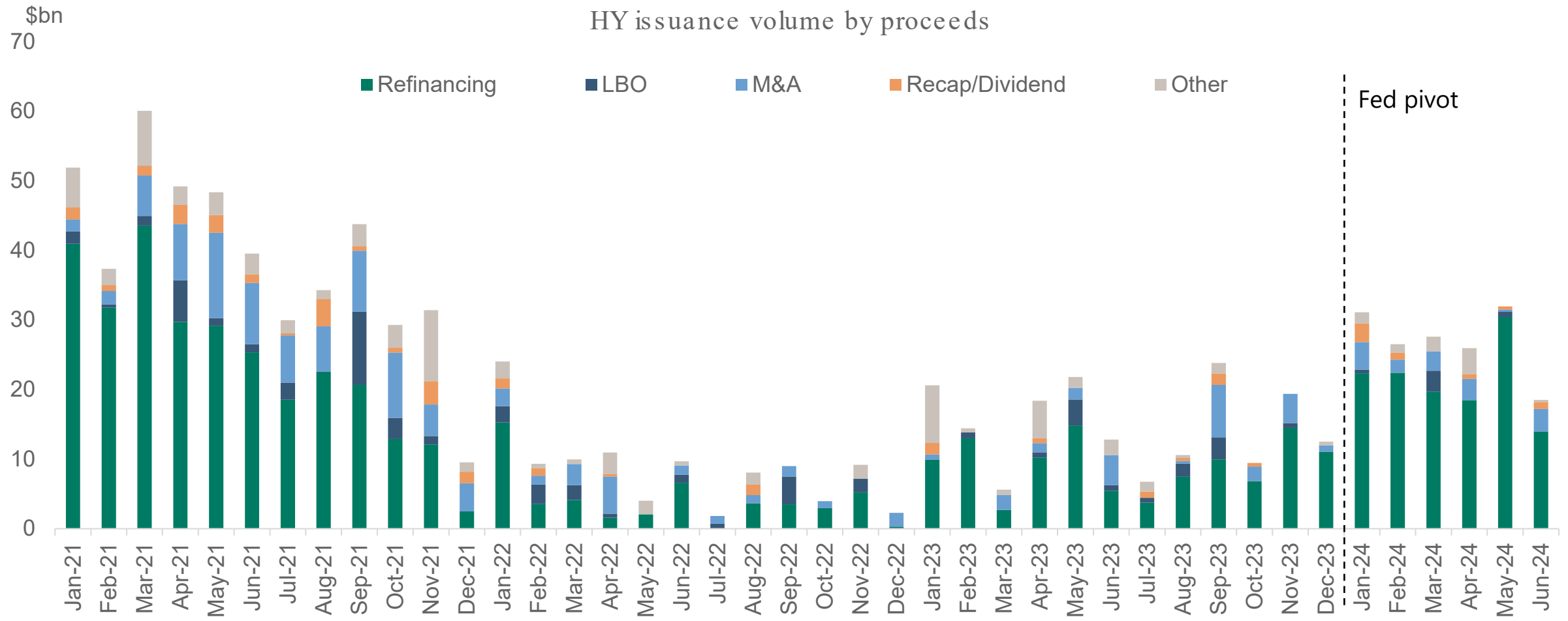


IG issuance rising after the Fed pivot in December



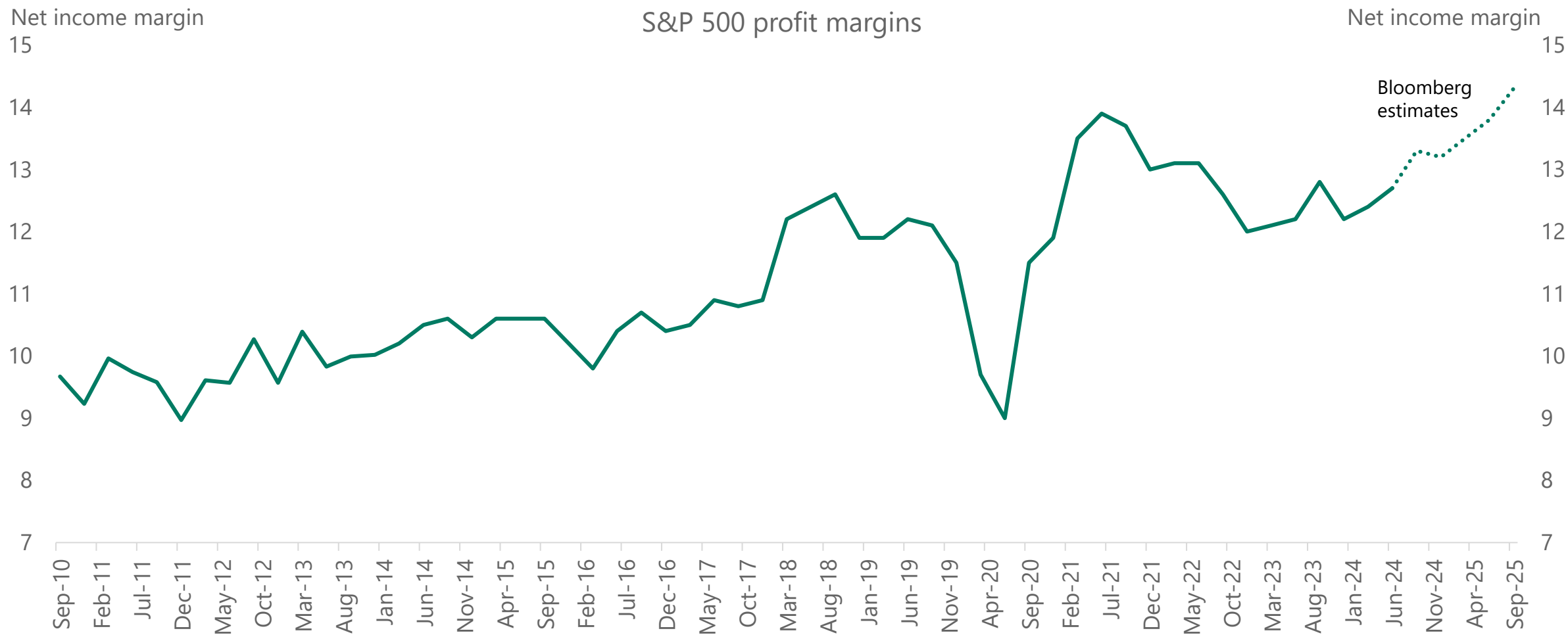
Source: Pitchbook LCD, Apollo Chief Economist. Note: GCP means General Corporate Purpose, which means making or financing any payment for working capital, capital expenditures or any other general corporate purpose.

High yield issuance rising after the Fed pivot in December



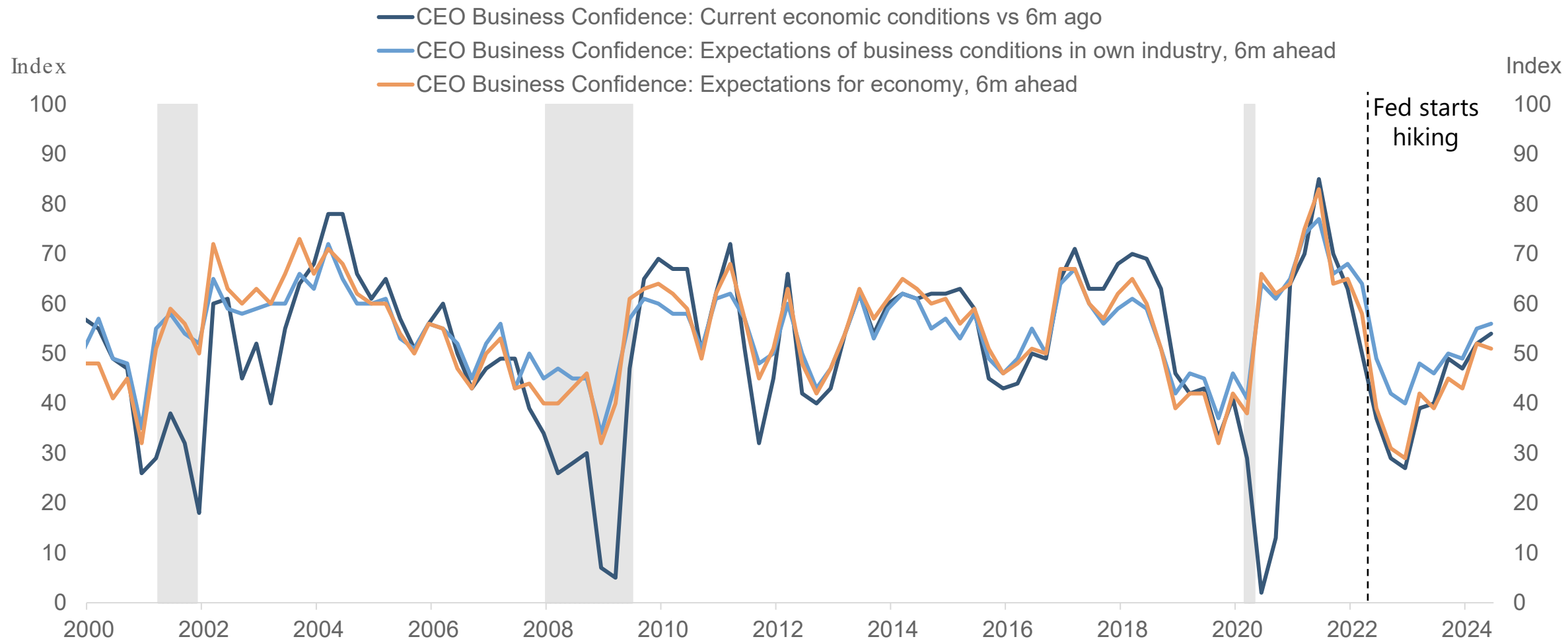
Source: Pitchbook LCD, Apollo Chief Economist

S&P500 profit margins very high



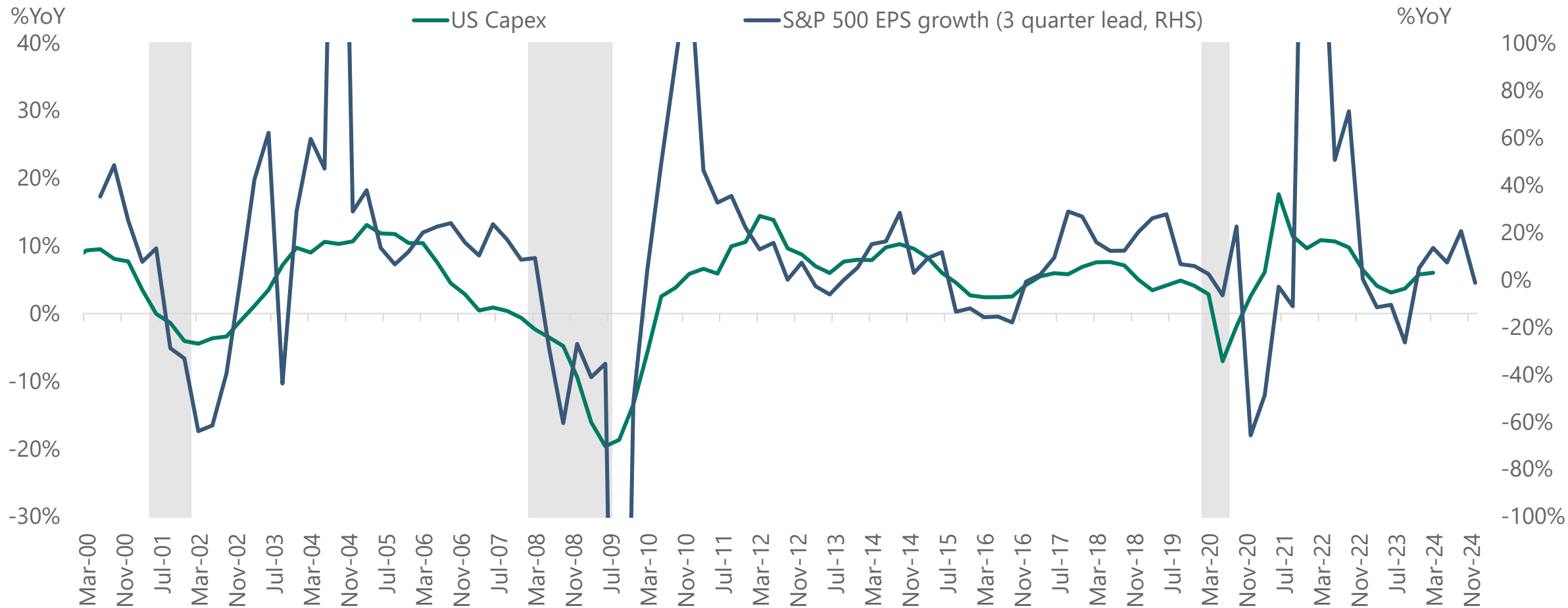
Source: Bloomberg, Apollo Chief Economist

Fed hikes not slowing down the uptrend in CEO confidence



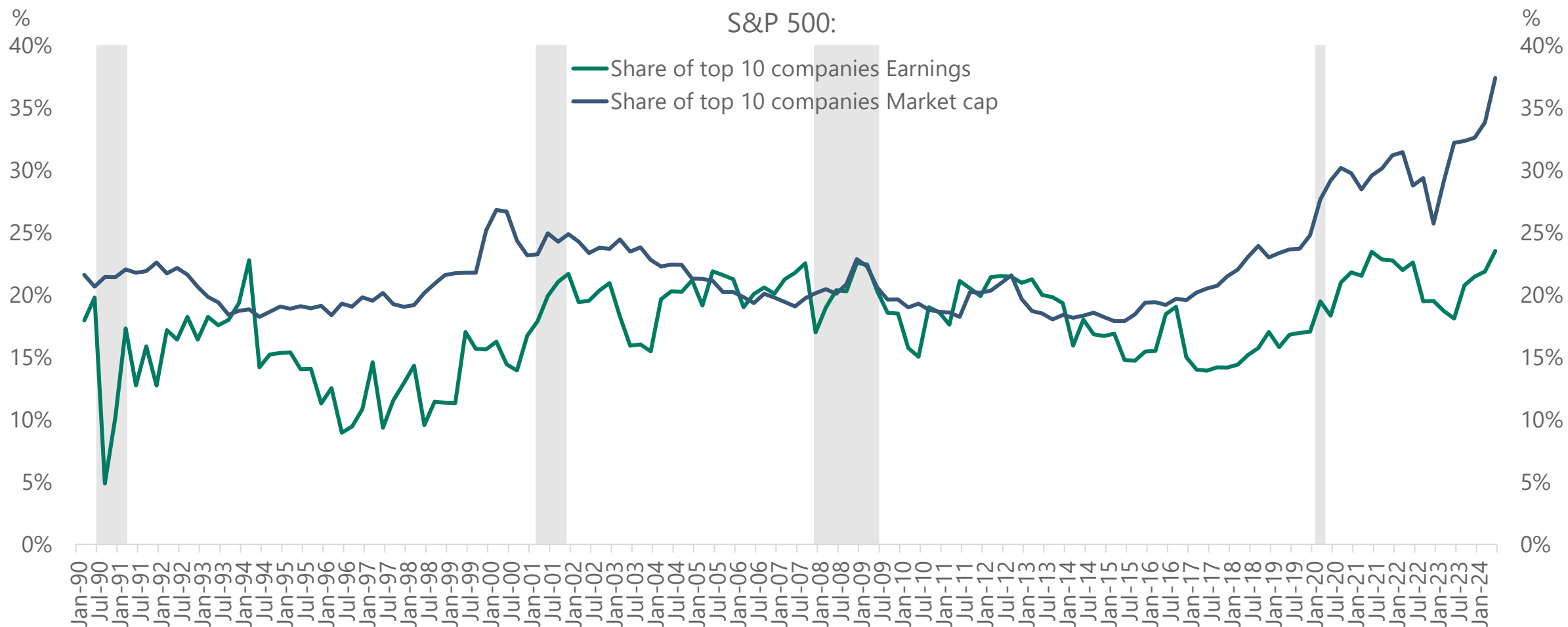
Source: Conference Board, Haver Analytics, Apollo Chief Economist

Continued strong earnings growth points to higher capex spending ahead

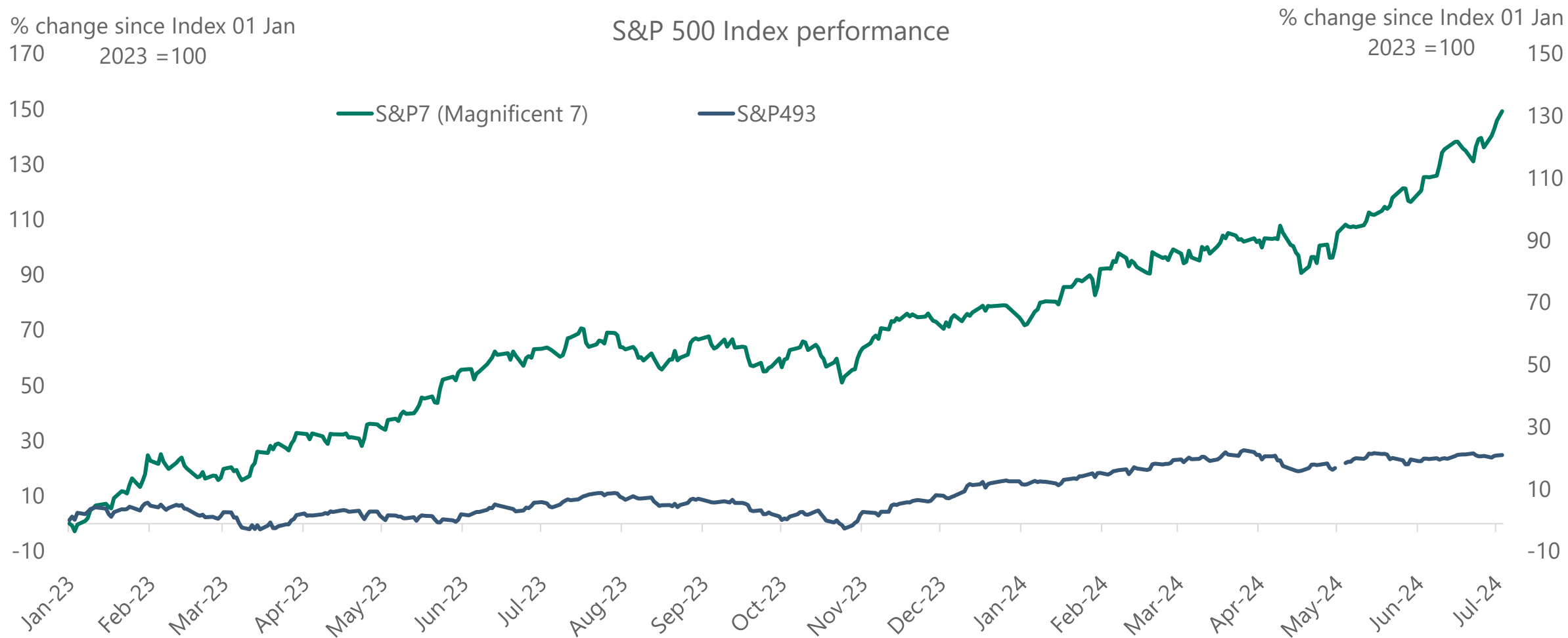


Source: BEA, S&P, Haver Analytics, Apollo Chief Economist

S&P500: Record high bullishness on future earnings



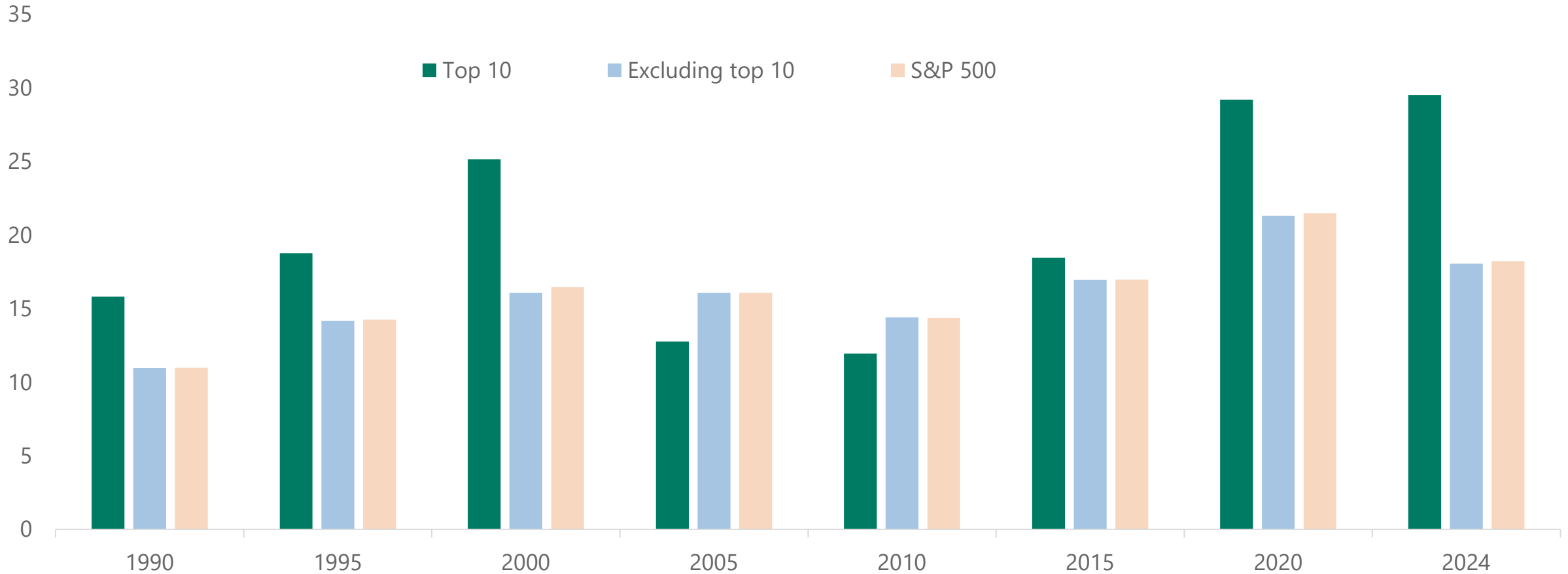
S&P7 is up 149% since early 2023. S&P493 up much less.



Source: Bloomberg, Apollo Chief Economist. Note: The S&P7 is the Magnificent 7: Apple, Microsoft, Alphabet, Amazon, NVIDIA, Meta, and Tesla.

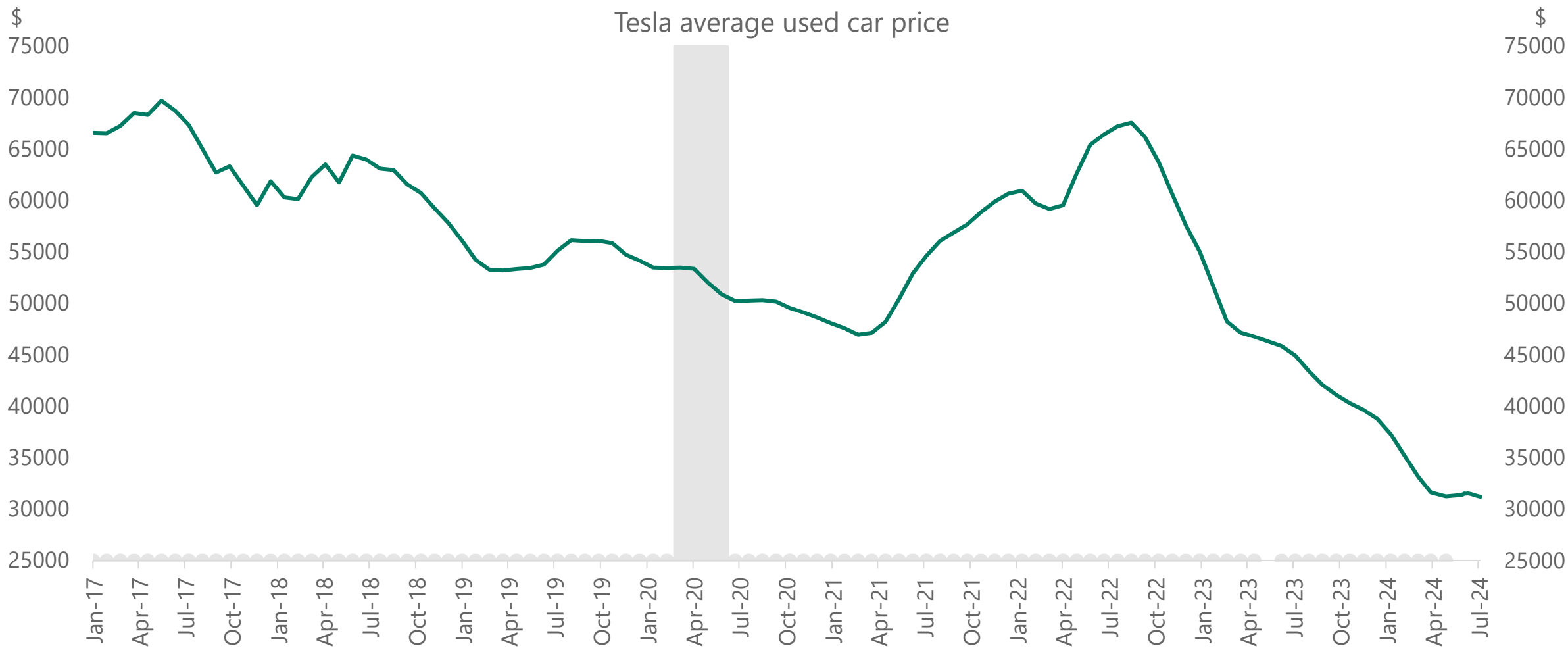
The current AI bubble is bigger than the 1990s tech bubble

12 month forward P/E



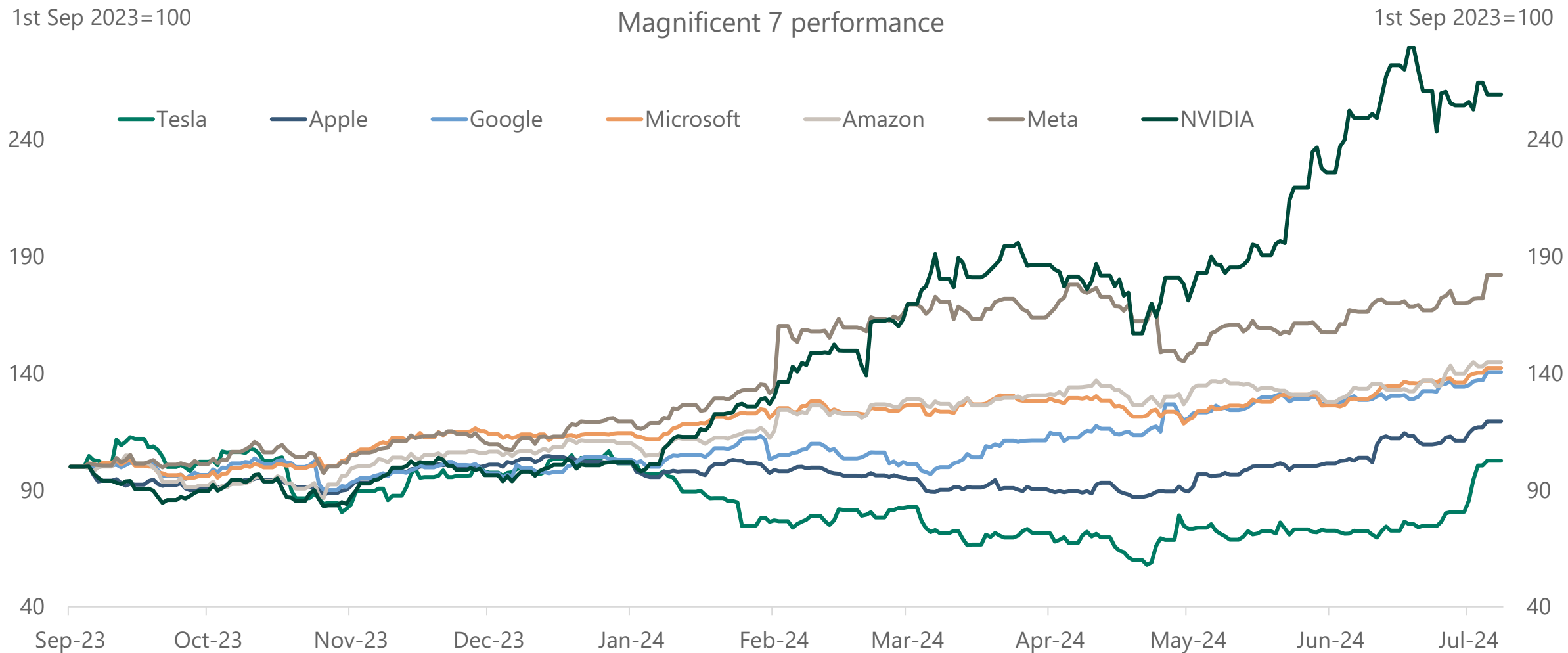
Source: Bloomberg, Apollo Chief Economist. Note: Date as of 31 January 2024

Tesla used car prices have fallen significantly

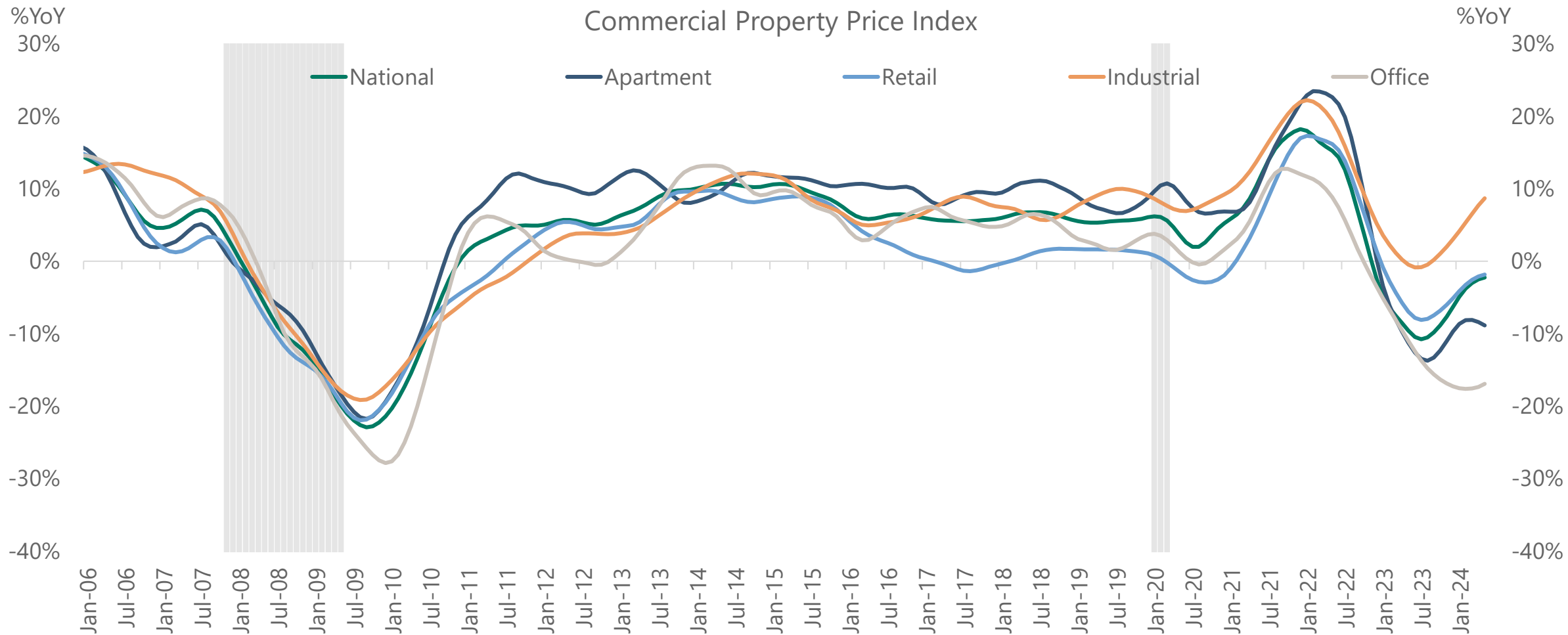


Source: Cargurus.com, Apollo Chief Economist

The Magnificent 7 story is getting more complicated

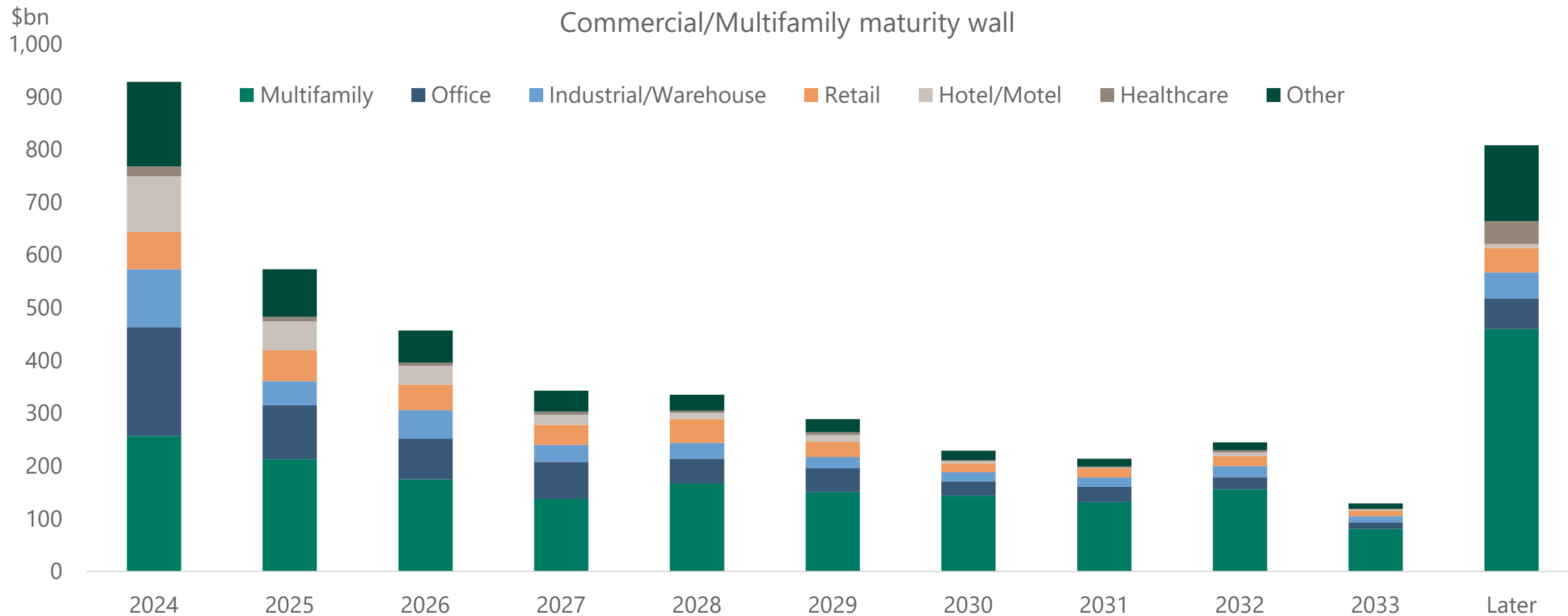


CRE prices mixed



Source: RCA, Bloomberg, Apollo Chief Economist

The CRE maturity wall is very steep

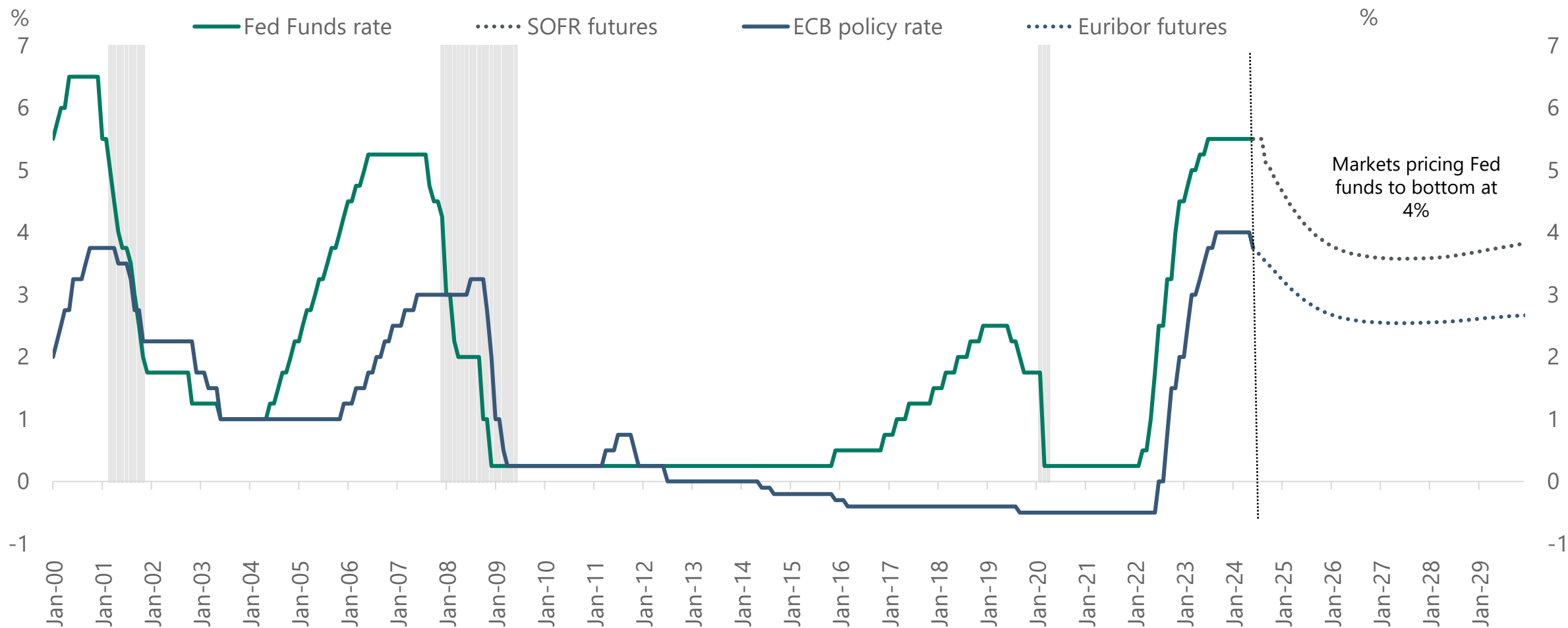


Source: MBA, Apollo Chief Economist

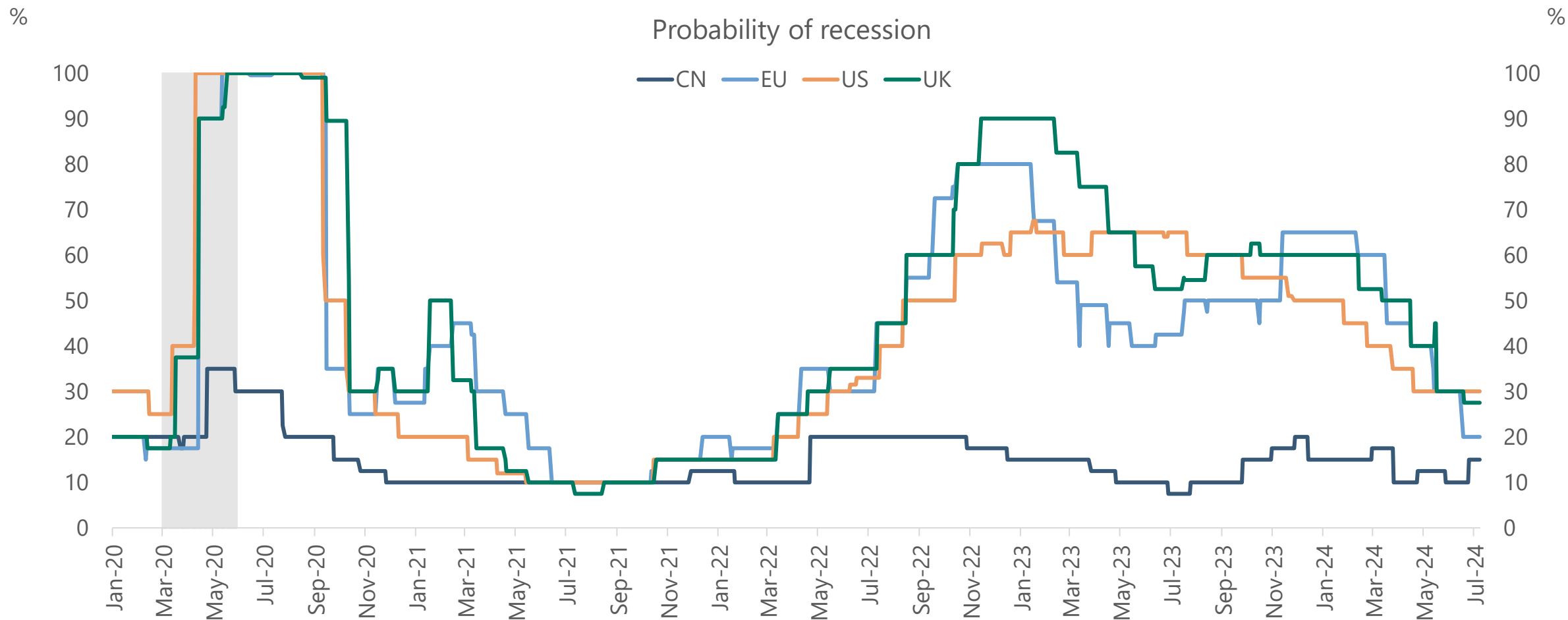
Asset allocation implications



Interest rates will remain permanently higher

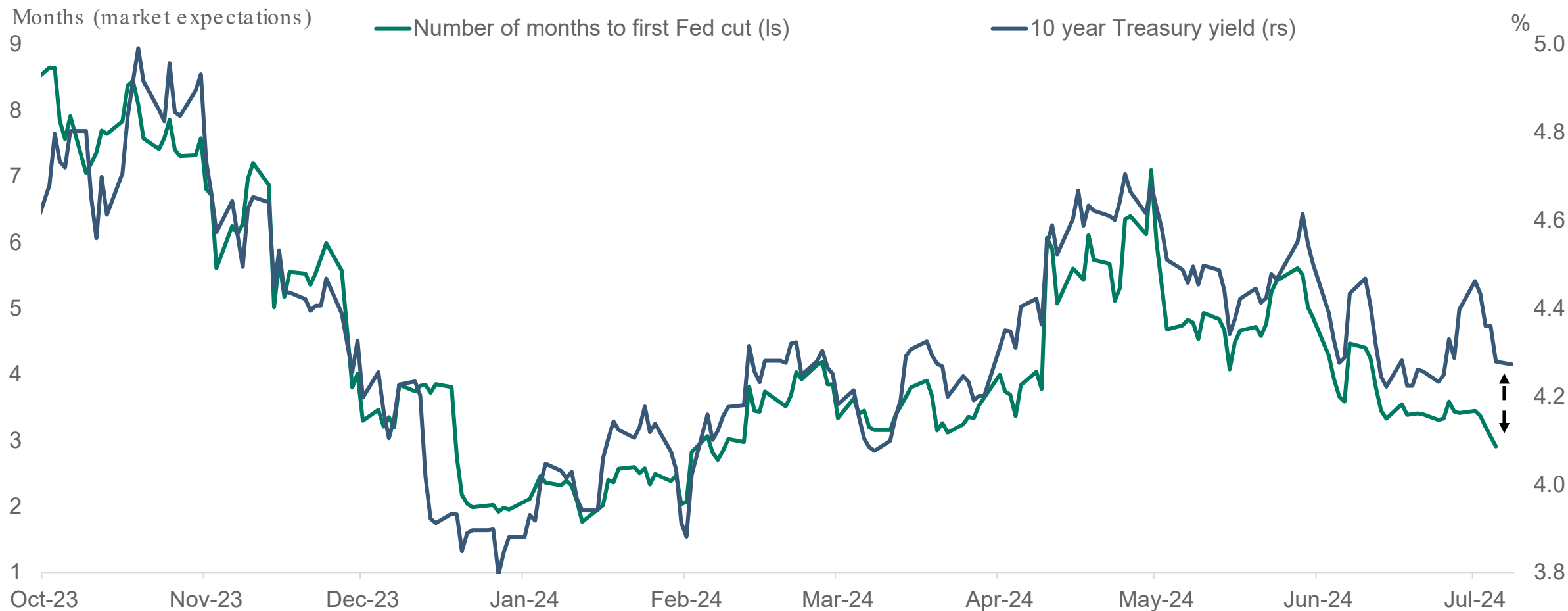


Consensus: 30% probability of recession in the US, and 20% probability in Europe



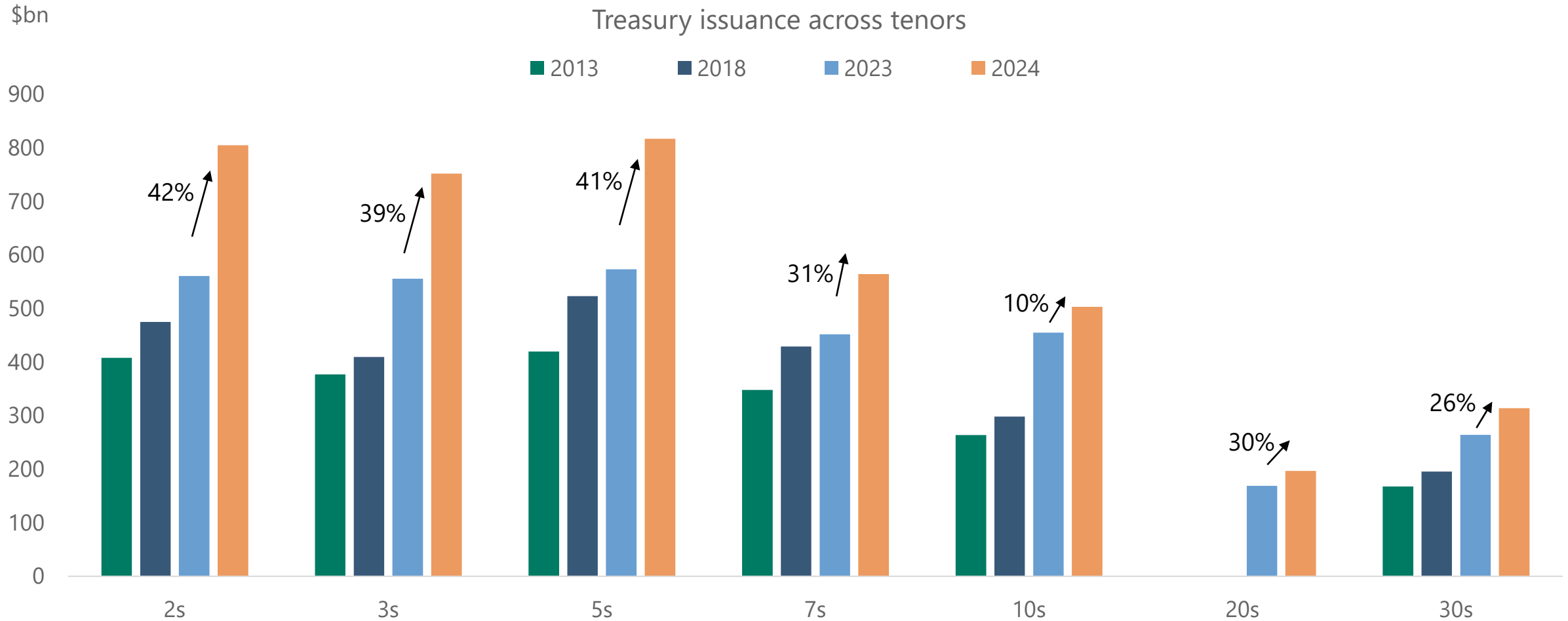
Fiscal outlook starting to play a role?

Ten-year Treasury yield no longer driven only by Fed expectations



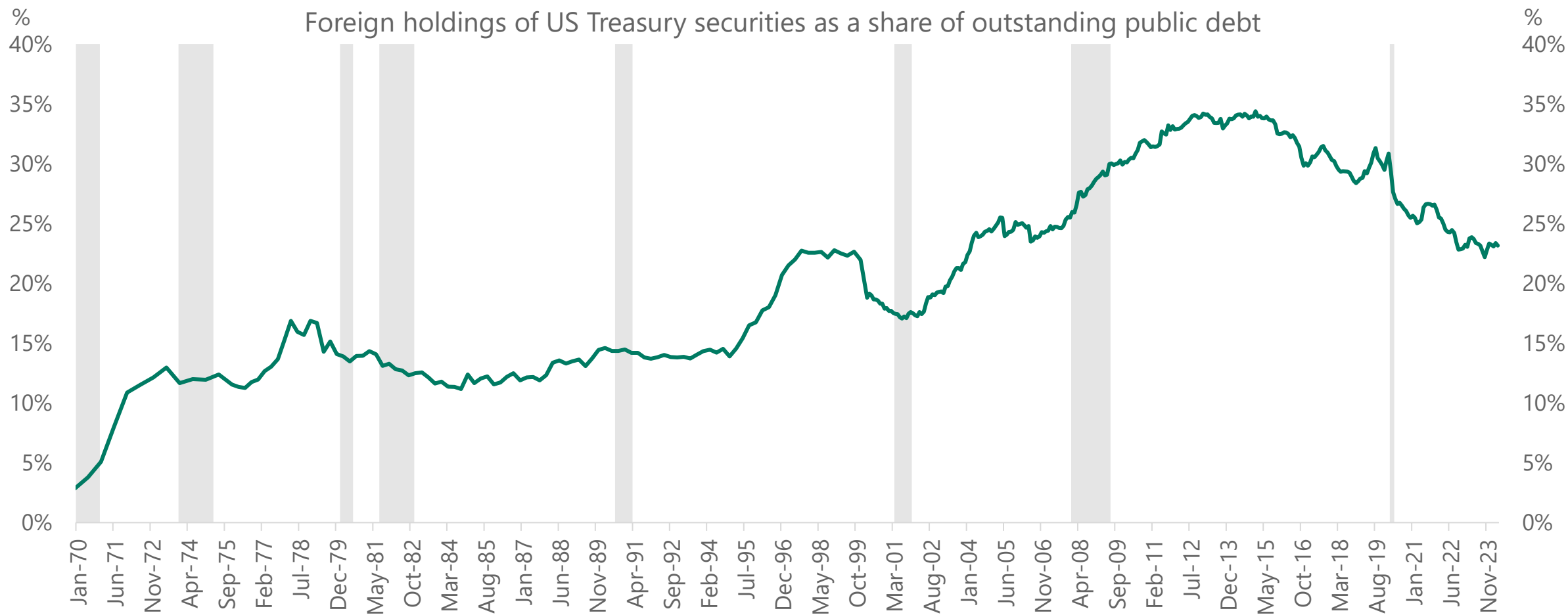
Source: Bloomberg, Apollo Chief Economist. Note: The indices used from Bloomberg are MSM1UT Index and GT10 Govt.

Treasury auction sizes will in 2024 increase on average 35% across the yield curve



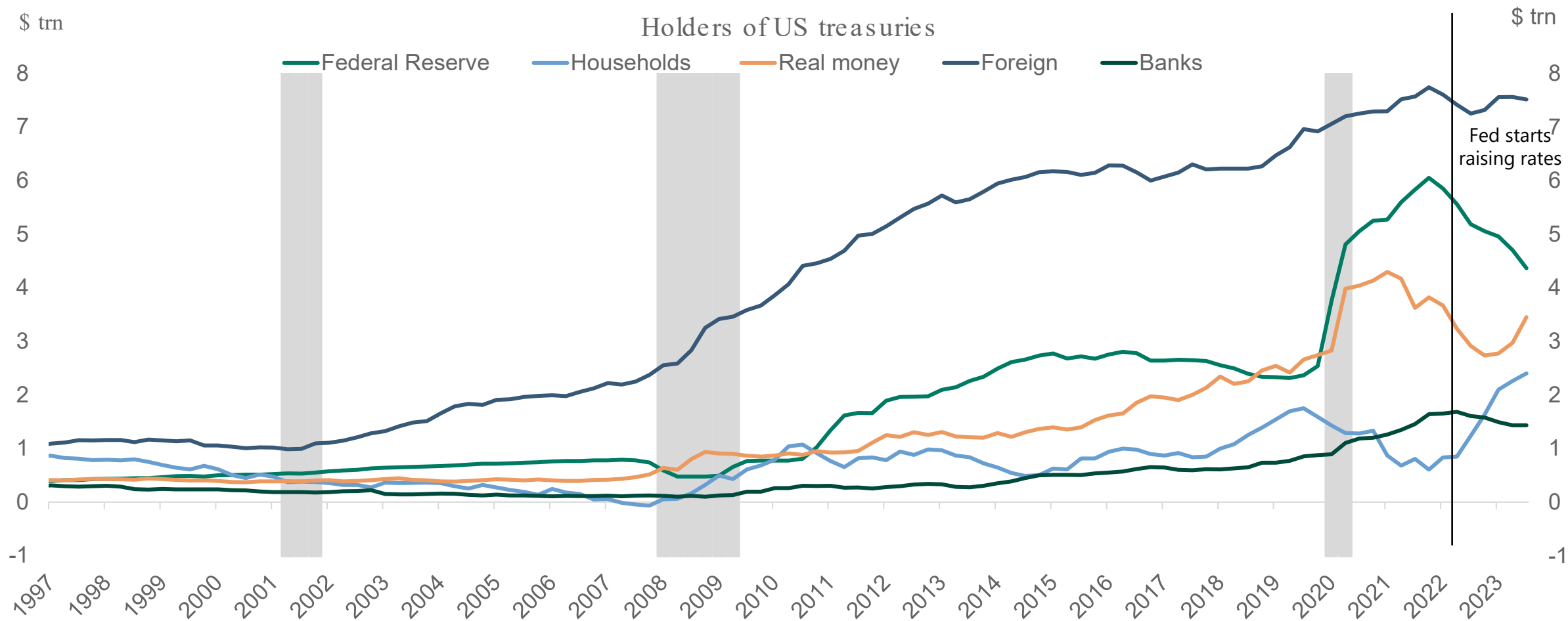
Source: SIFMA, TBAC, Haver Analytics, Apollo Chief Economist. Note: Estimates from September 2023 to Dec 2024 from the TBAC neutral issuance scenario.

Trend decline in foreign ownership of US government bonds since 2015



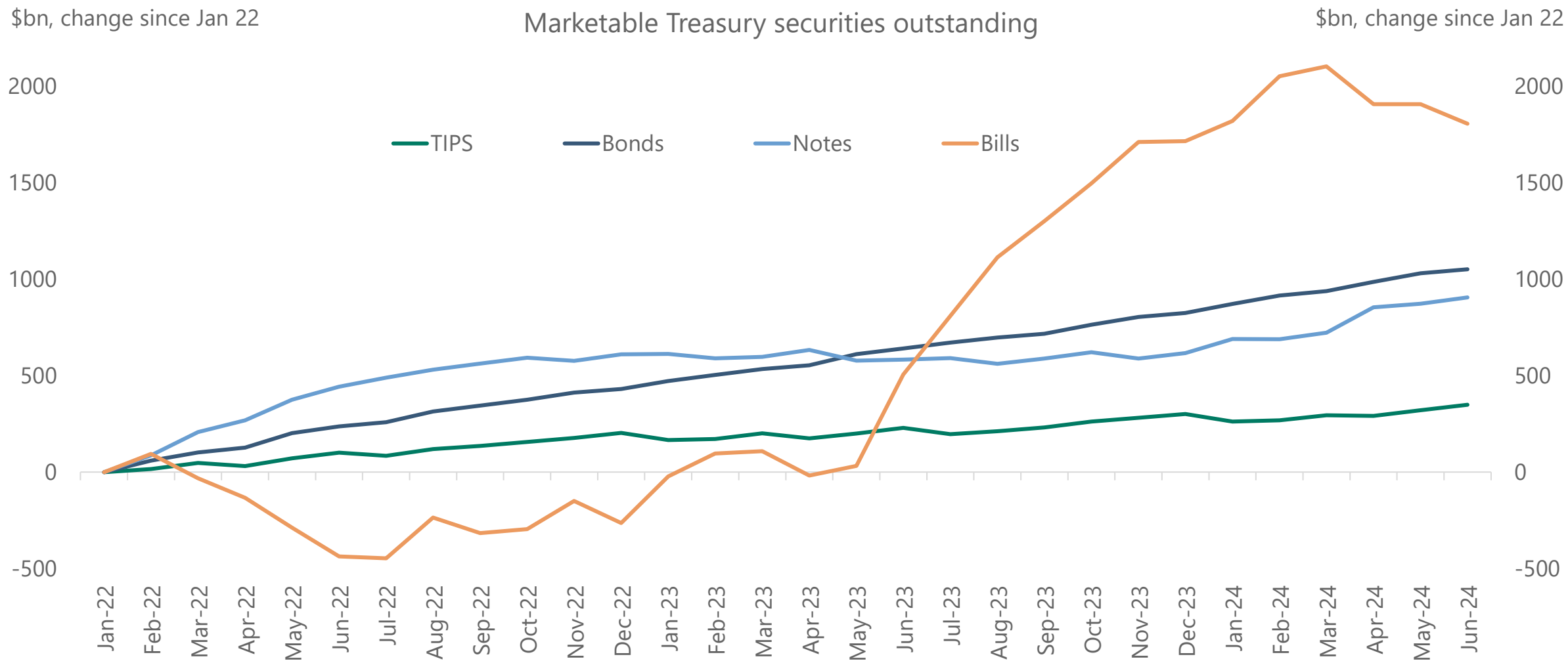
Source: Treasury, Haver Analytics, Apollo Chief Economist

US households and real money buying Treasuries. Fed and foreigners selling Treasuries



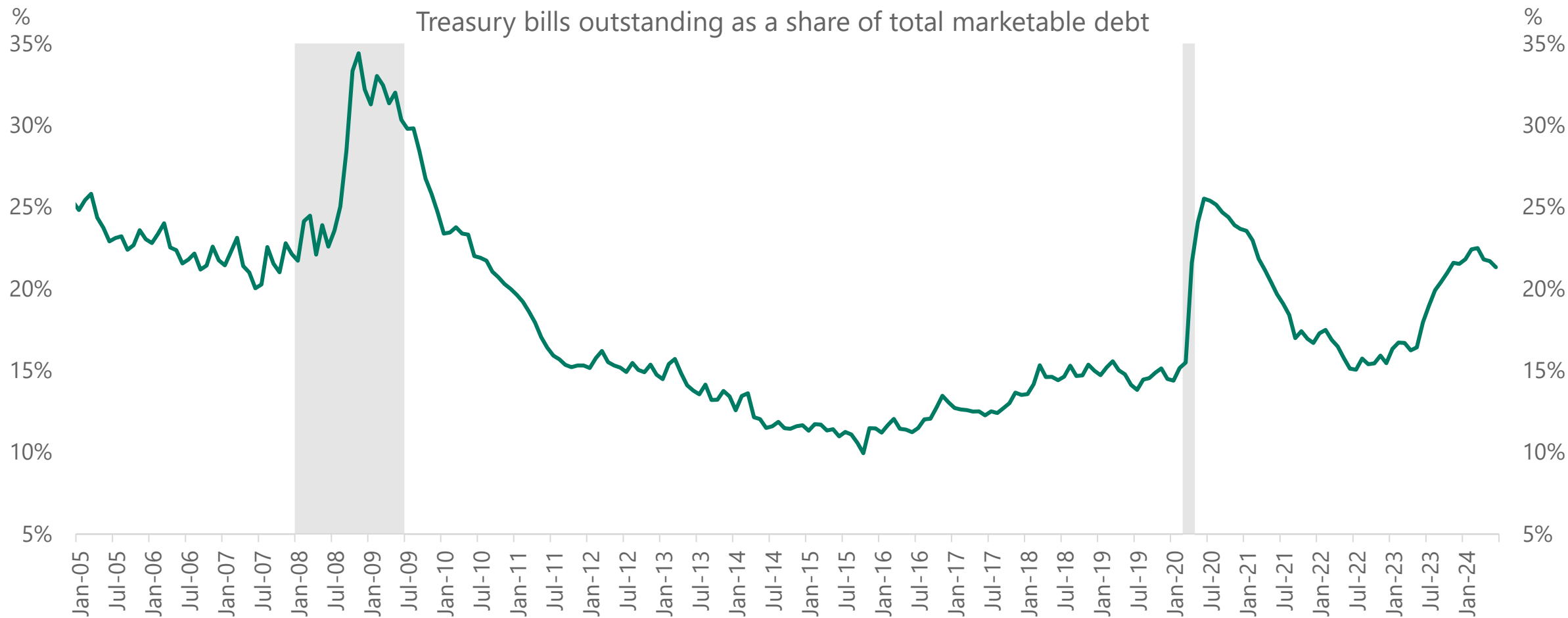
Source: FFUNDS, Haver, Apollo Chief Economist

More T-bill issuance recently



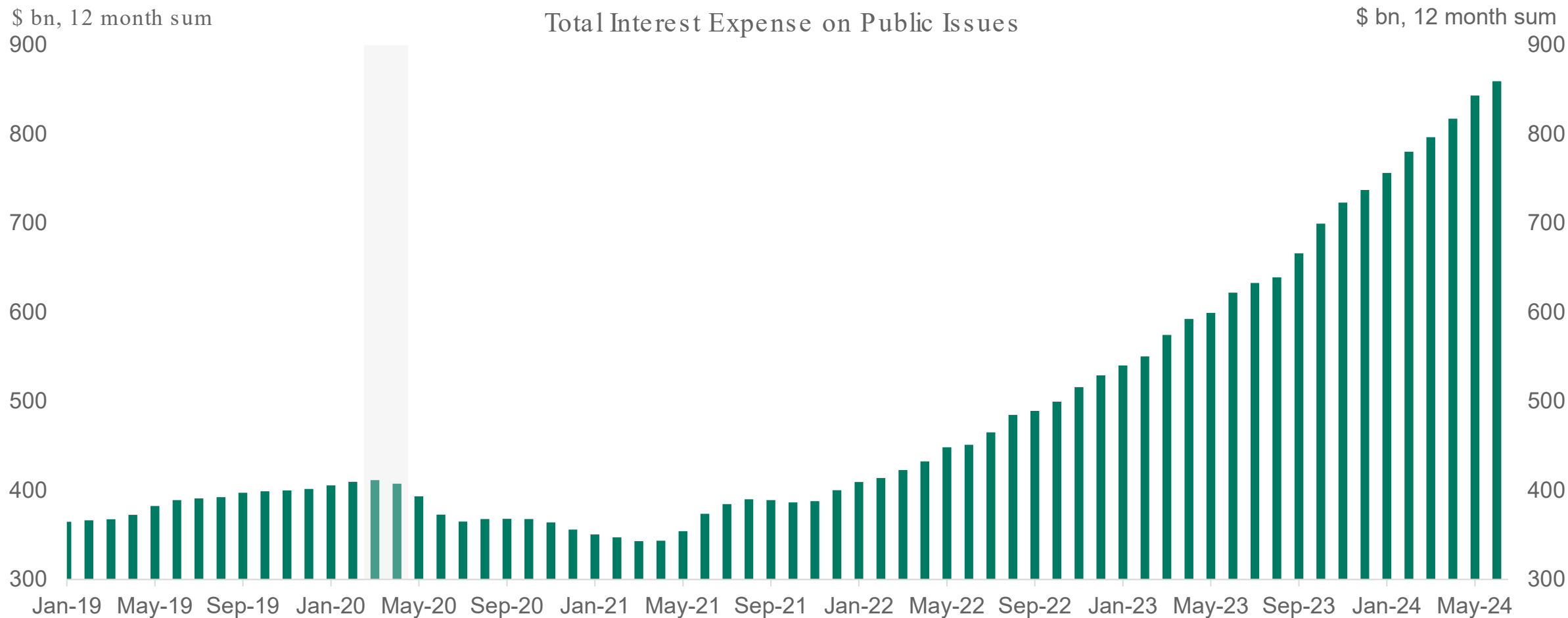
Source: Treasury, Haver Analytics, Apollo Chief Economist

Share of T-bills has increased significantly



Source: Treasury, Haver Analytics, Apollo Chief Economist

Total US government interest expenses now at \$800bn



Source: US Treasury, Haver Analytics, Apollo Chief Economist

Bottom line:

Interest rates will stay higher for longer; the Fed funds rate is not going back to zero.

A permanently higher risk-free interest rate has important implications for credit, equity, and real assets.



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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.