

APOLLO

The Outlook for US Inflation

Torsten Slok, Rajvi Shah, and Shruti Galwankar

tslok@apollo.com

February 2025

Apollo Global Management

Unless otherwise noted, information as of February 2025.

Proprietary - Not for distribution, in whole or in part, without the express written consent of Apollo Global Management, Inc.

Legal Disclaimer

Unless otherwise noted, information included herein is presented as of the dates indicated. Apollo Global Management, Inc. (together with its subsidiaries, "Apollo") makes no representation or warranty, expressed or implied, with respect to the accuracy, reasonableness, or completeness of any of the information contained herein, including, but not limited to, information obtained from third parties. Opinions, estimates and projections constitute the current judgment of the author as of the date indicated. They do not necessarily reflect the views and opinions of Apollo and are subject to change at any time without notice. Apollo does not have any responsibility to update the information to account for such changes. Hyperlinks to third-party websites in these materials are provided for reader convenience only. There can be no assurance that any trends discussed herein will continue.

The information contained herein is not intended to provide, and should not be relied upon for, accounting, legal or tax advice and does not constitute an investment recommendation or investment advice. Investors should make an independent investigation of the information contained herein, including consulting their tax, legal, accounting or other advisors about such information. Apollo does not act for you and is not responsible for providing you with the protections afforded to its clients.

Certain information contained herein may be "forward-looking" in nature. Due to various risks and uncertainties, actual events or results may differ materially from those reflected or contemplated in such forward-looking information. As such, undue reliance should not be placed on such information. Forward-looking statements may be identified by the use of terminology including, but not limited to, "may", "will", "should", "expect", "anticipate", "target", "project", "estimate", "intend", "continue" or "believe" or the negatives thereof or other variations thereon or comparable terminology.



Tailwinds to inflation

- 1) Tariffs increase prices
- 2) Economic momentum is accelerating after the election because of expectations that deregulation, lower taxes, and immigration restrictions are coming
- 3) Tariff fears are pulling forward orders/demand/inventory build
- 4) Inflation expectations are rising both in survey-based measures and market-based measures
- 5) Easy fiscal policy (CHIPS Act, IRA, Infrastructure Act, plus additional new fiscal easing that may come)
- 6) High stock prices and high home prices powering consumer spending
- 7) Tight credit spreads, defense spending, and AI spending boosting capex investment
- 8) Apartment deliveries will slow later this year and put upward pressure on rents
- 9) Residual seasonality
- 10) Worries that the Fed's 2% inflation target will be abandoned when Powell steps down as Fed Chair in early 2026

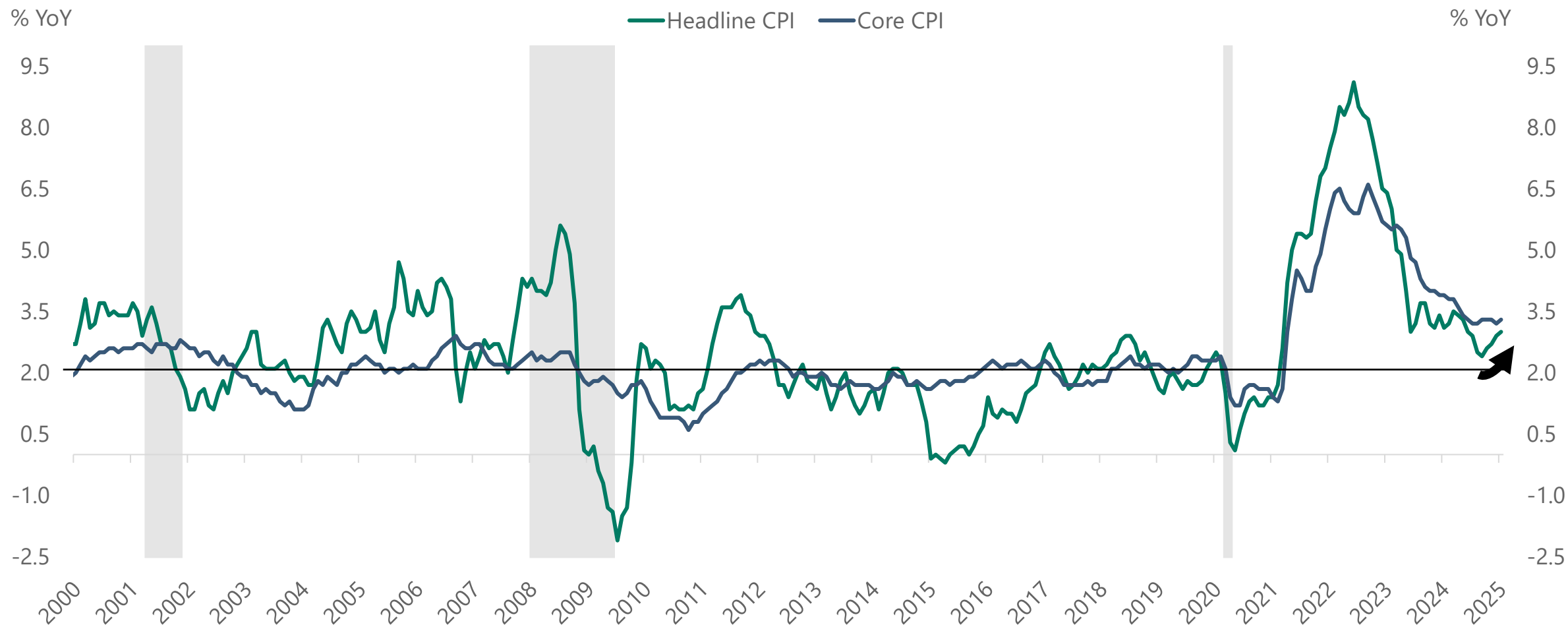
Outline

- 1) Actual inflation
- 2) Survey-based measures of inflation expectations
- 3) Market-based measures of inflation expectations

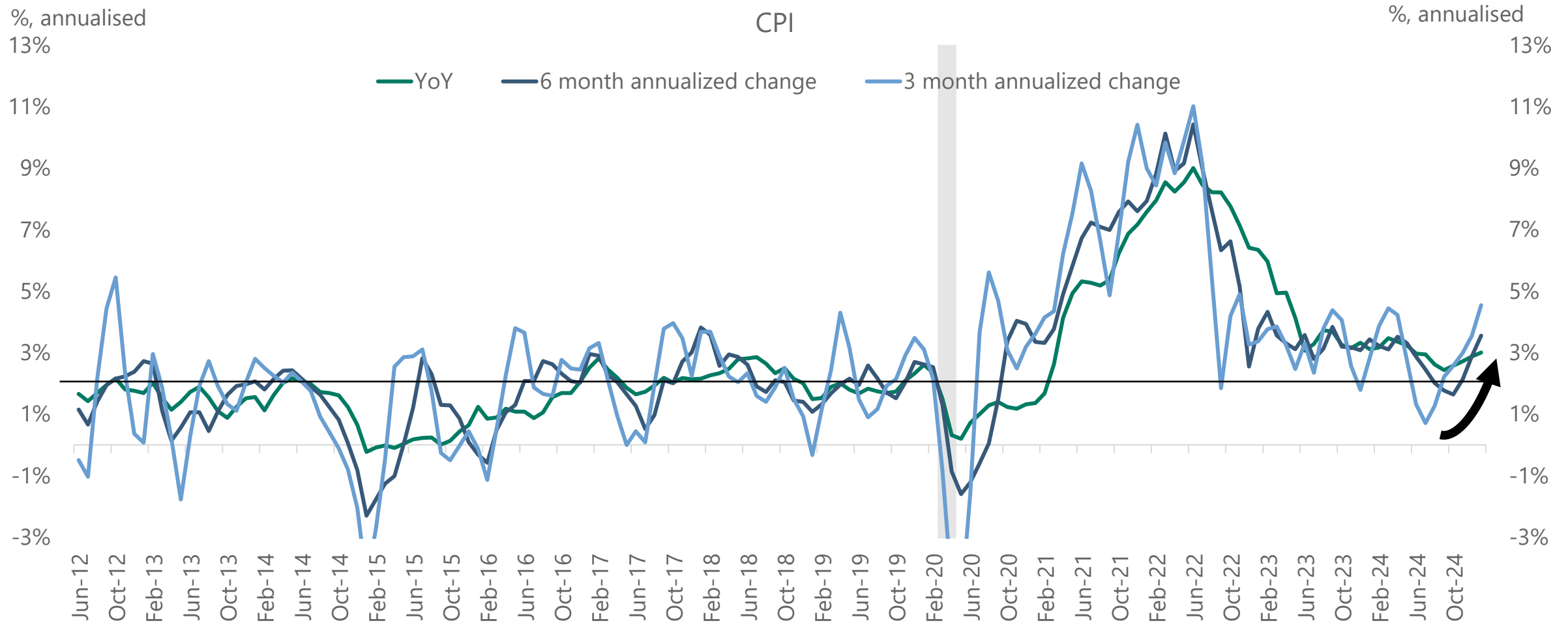
Actual inflation



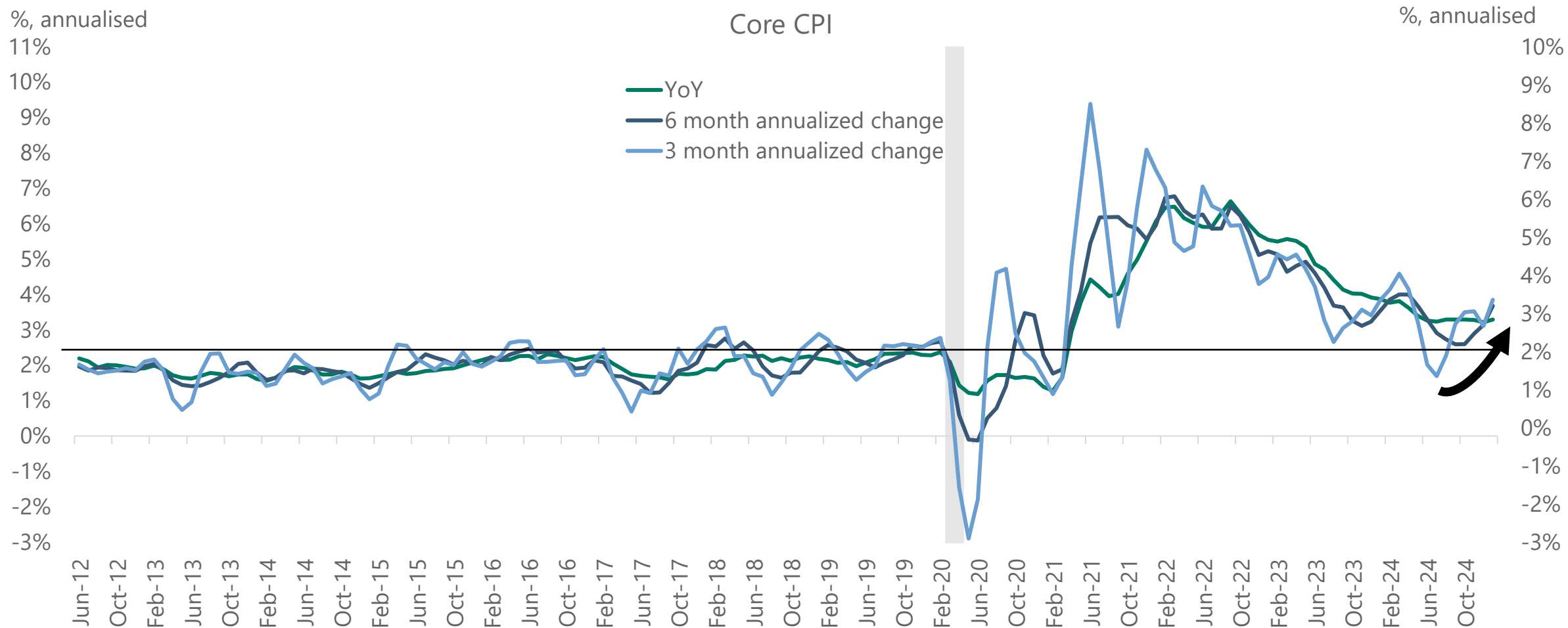
Headline CPI is 3% and core CPI is 3.3%. Significantly above the Fed/s 2% target



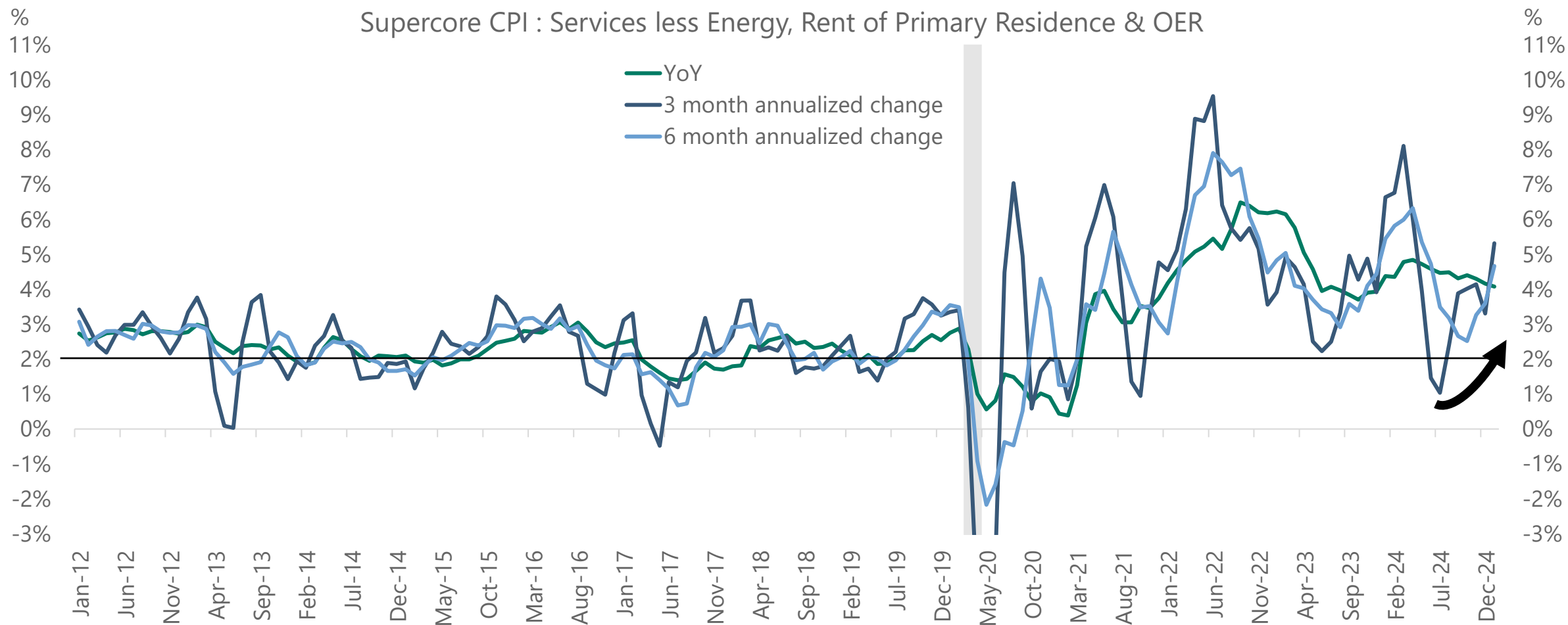
Inflation is moving away from the Fed's 2% inflation target



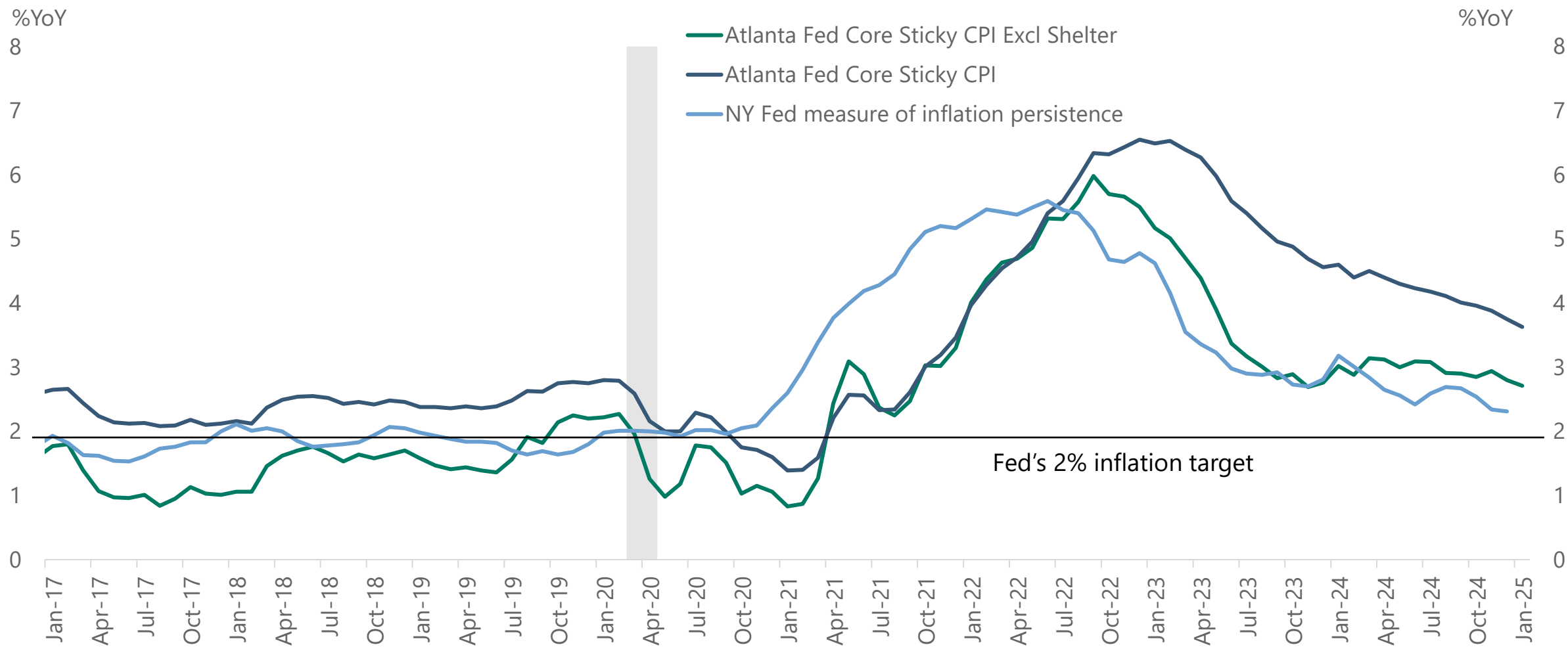
Core CPI moving higher



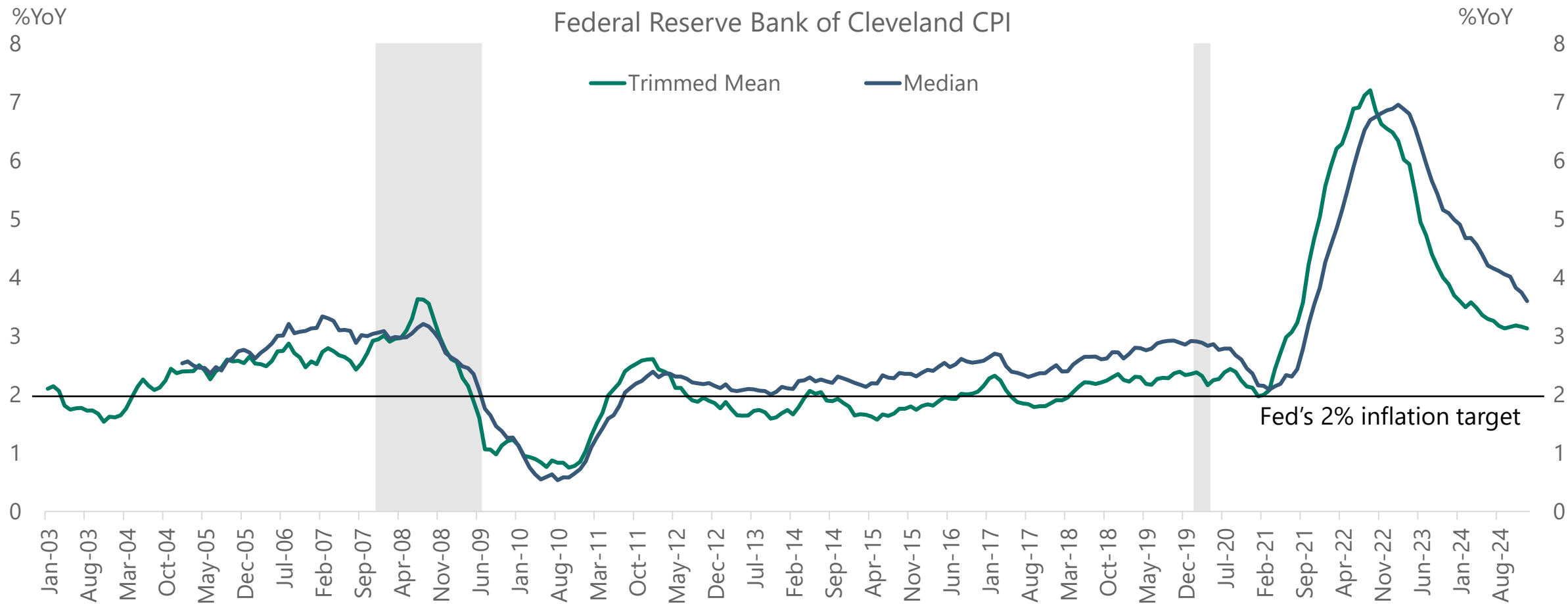
Supercore CPI moving higher



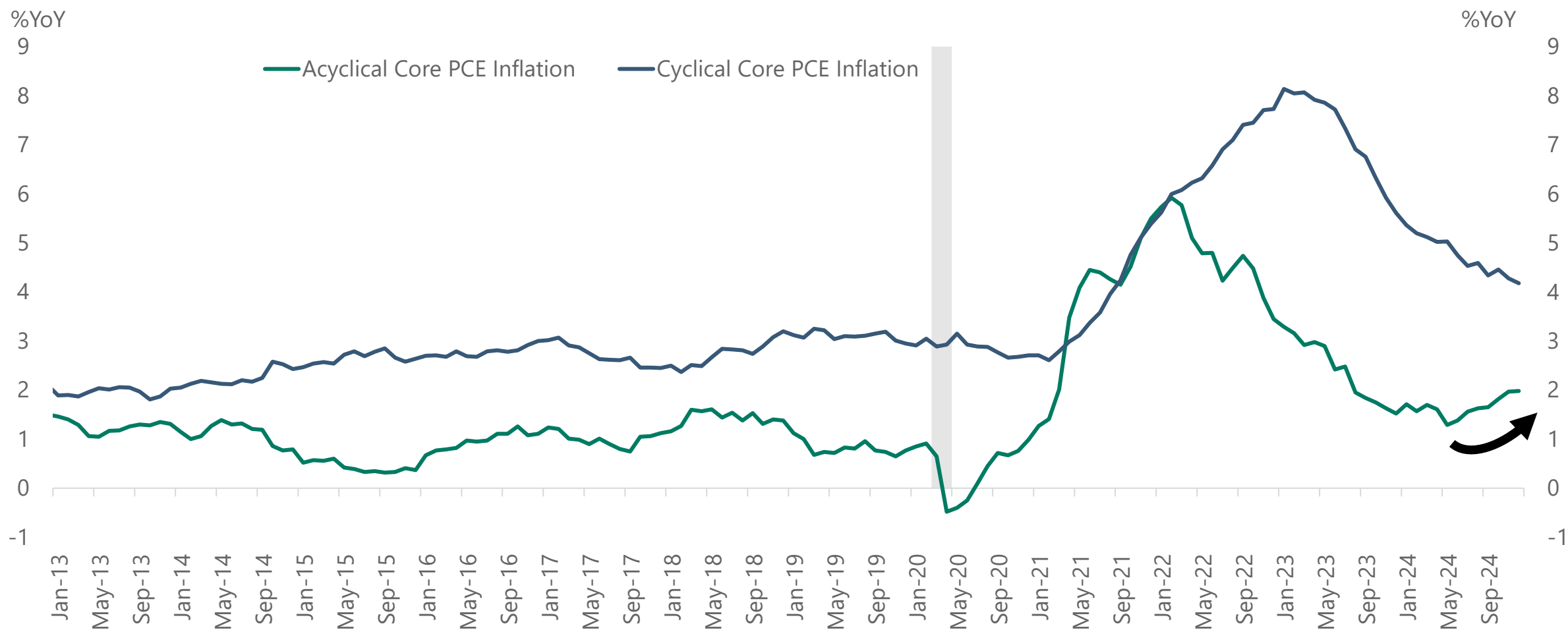
Fed measures of inflation stickiness are well above the Fed's 2% inflation target



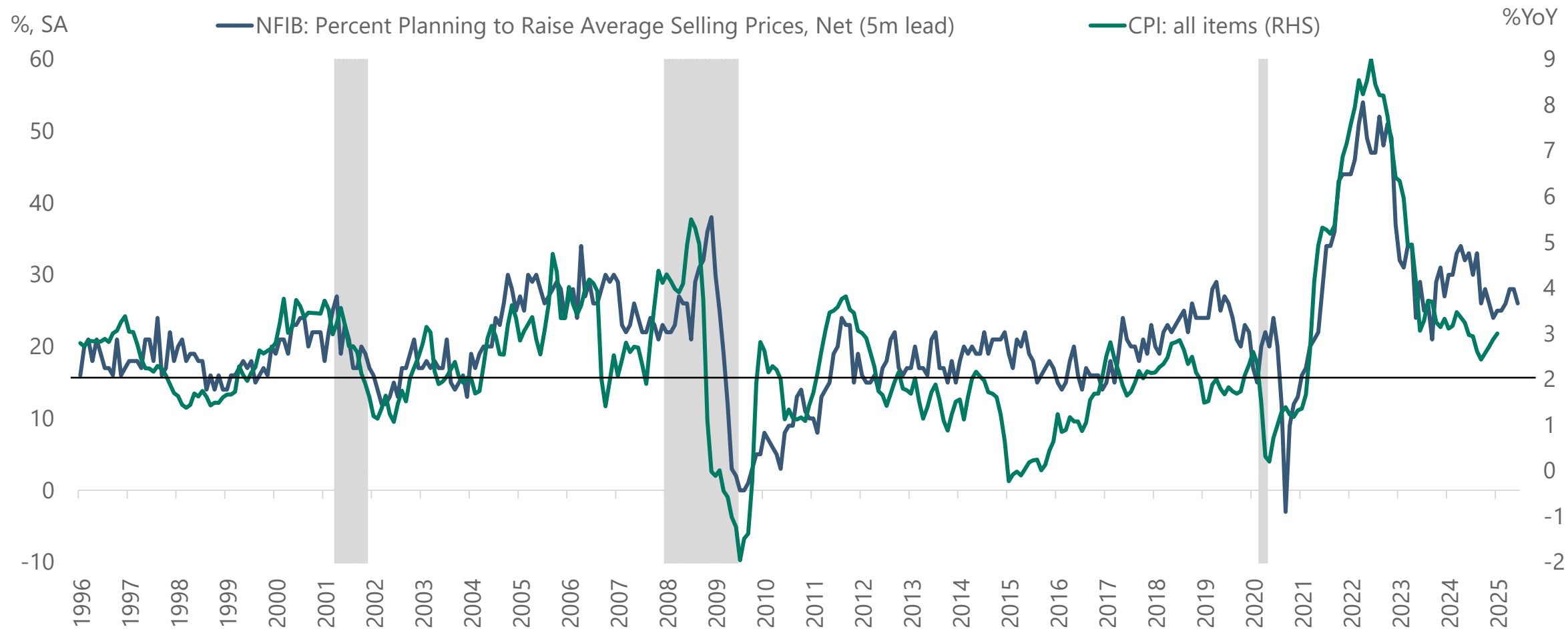
Trimmed mean CPI and Median CPI well above 2%



Fed's measure of acyclical inflation is rising



Upside risks to inflation



Source: NFIB, Haver Analytics, Apollo Chief Economist

ISM Services Price Paid index is a leading indicator for PCE

SA, 50+ = expansion

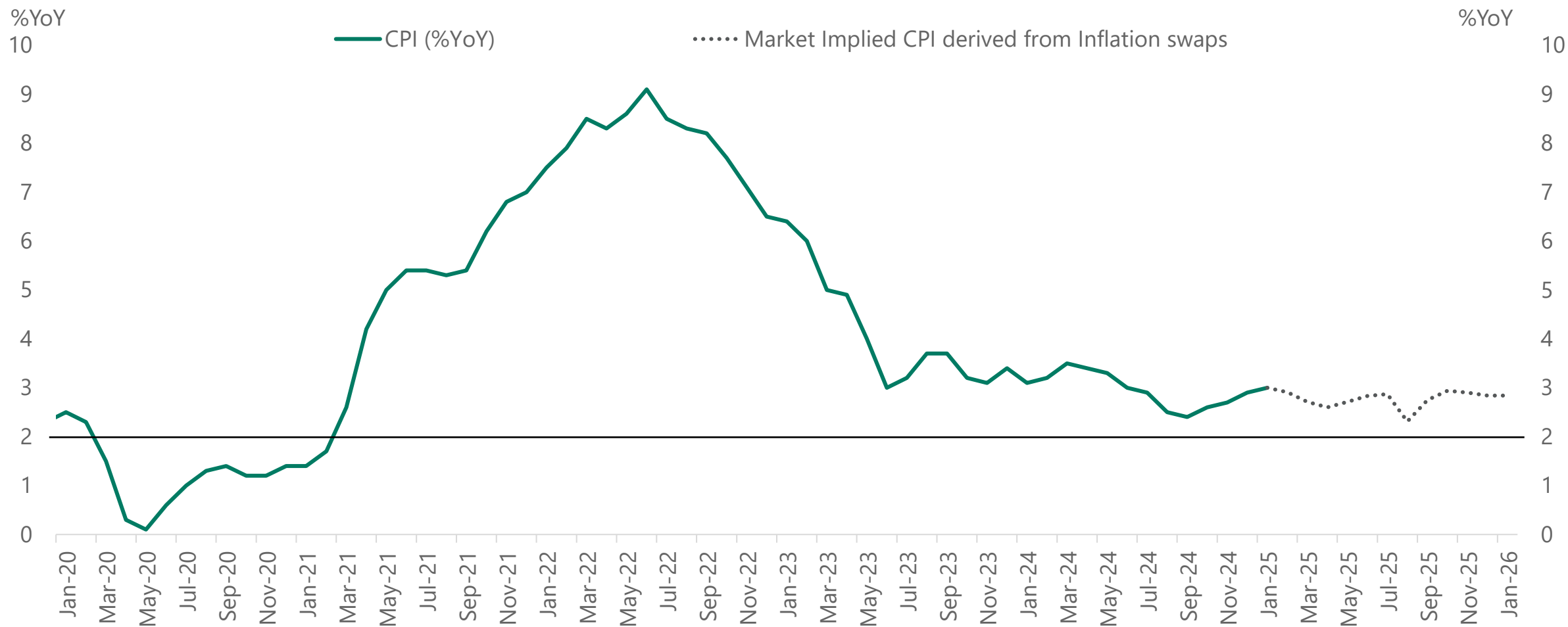
— ISM Services: Prices Index, 3m lead

— PCE (RHS)

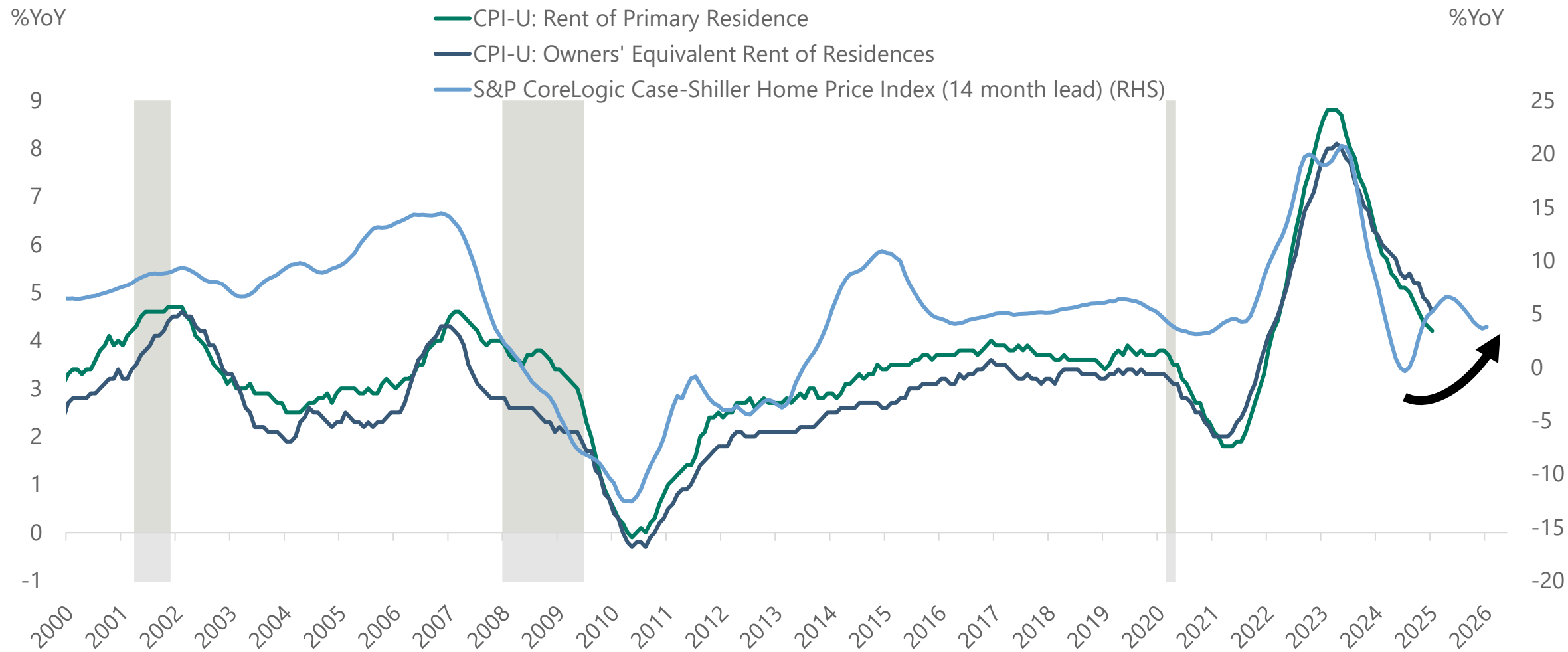
% YoY



Market implied CPI indicates inflation will be sticky at 3%

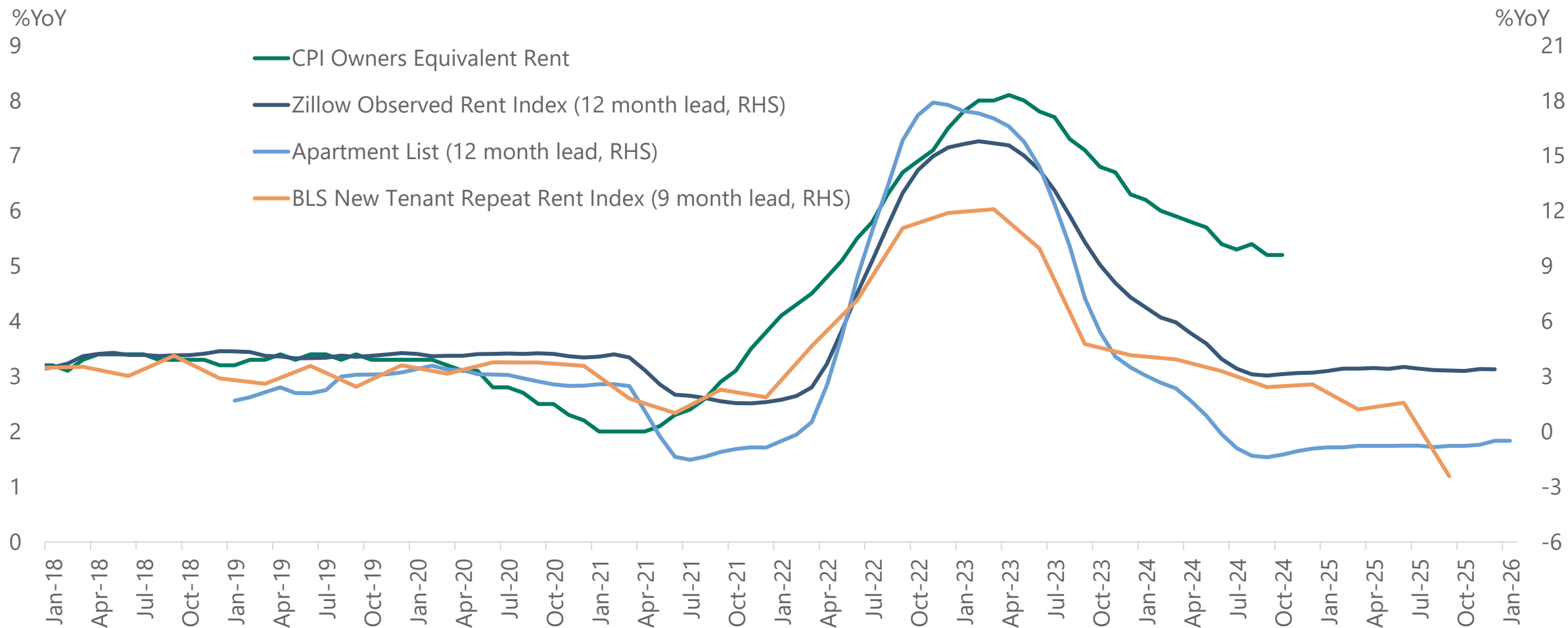


Risk of a rebound in housing inflation

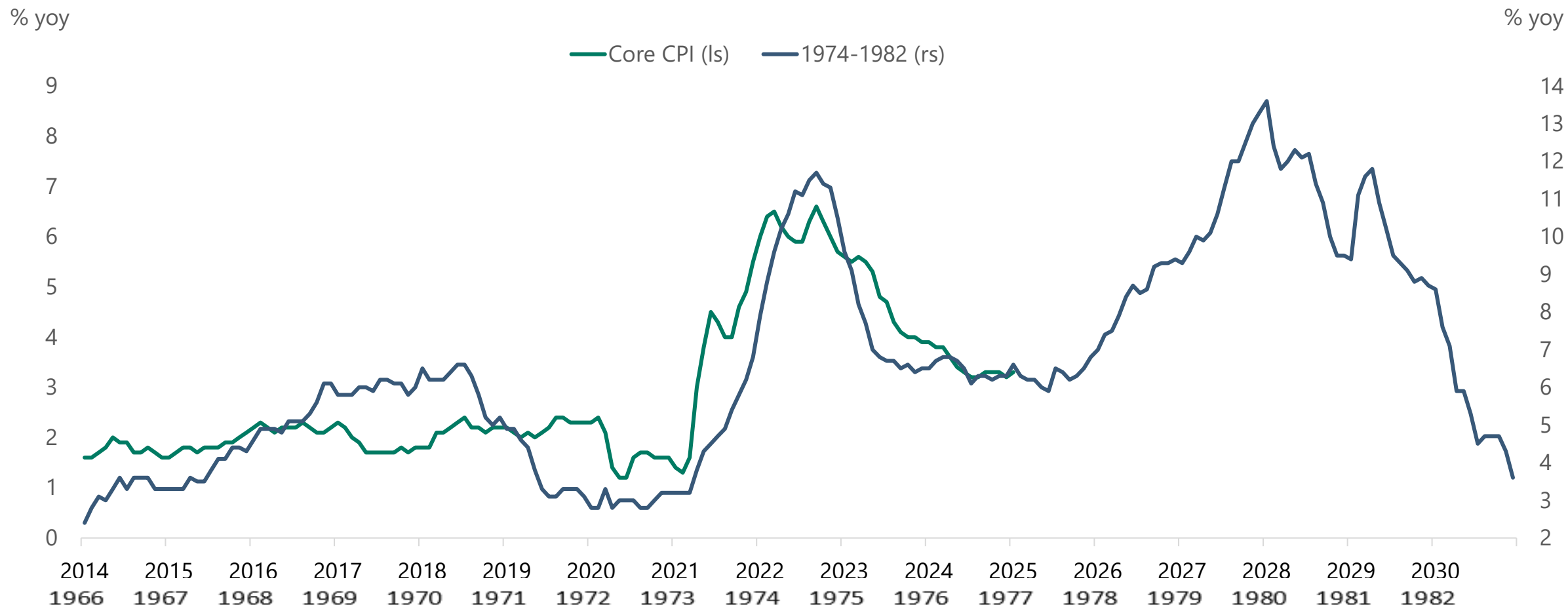


Source: Haver Analytics, BLS, S&P, Apollo Chief Economist

Indicators of housing inflation



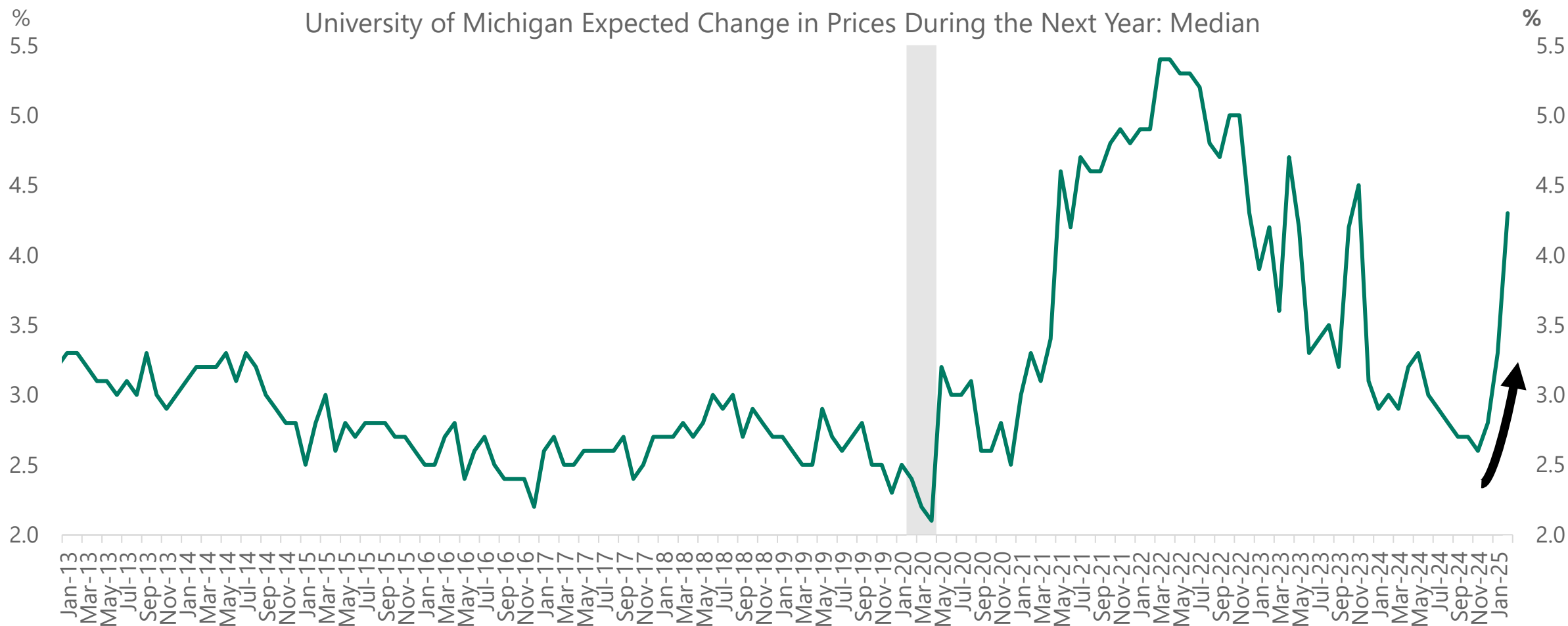
Will we see a repeat of the 1970s?



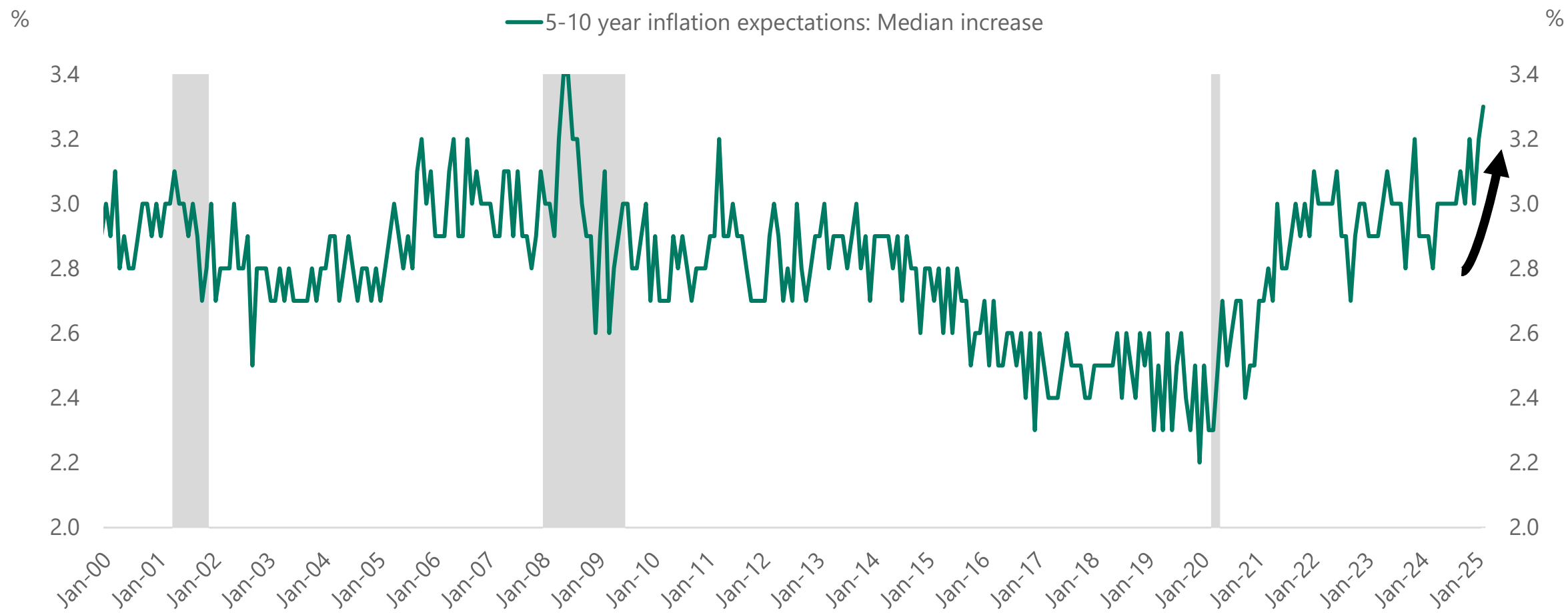
Survey-based measures of inflation expectations



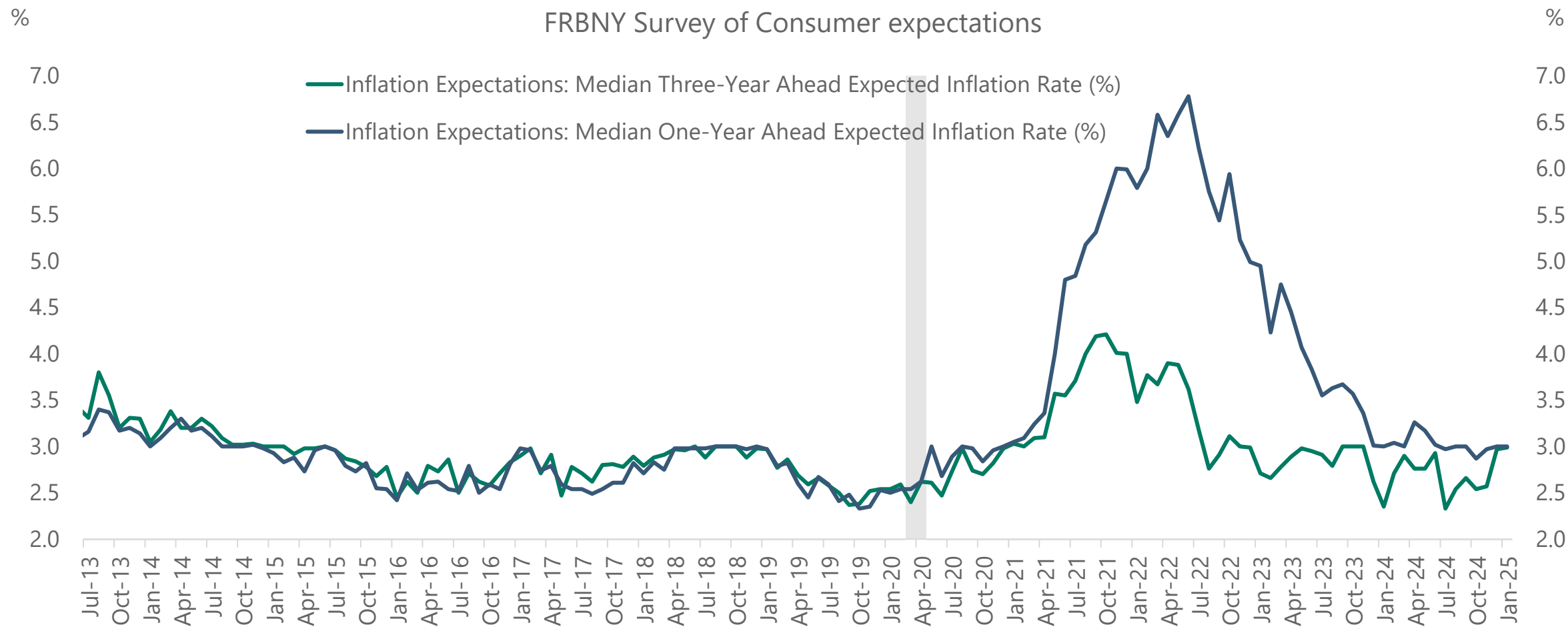
Big jump in short run inflation expectations recently



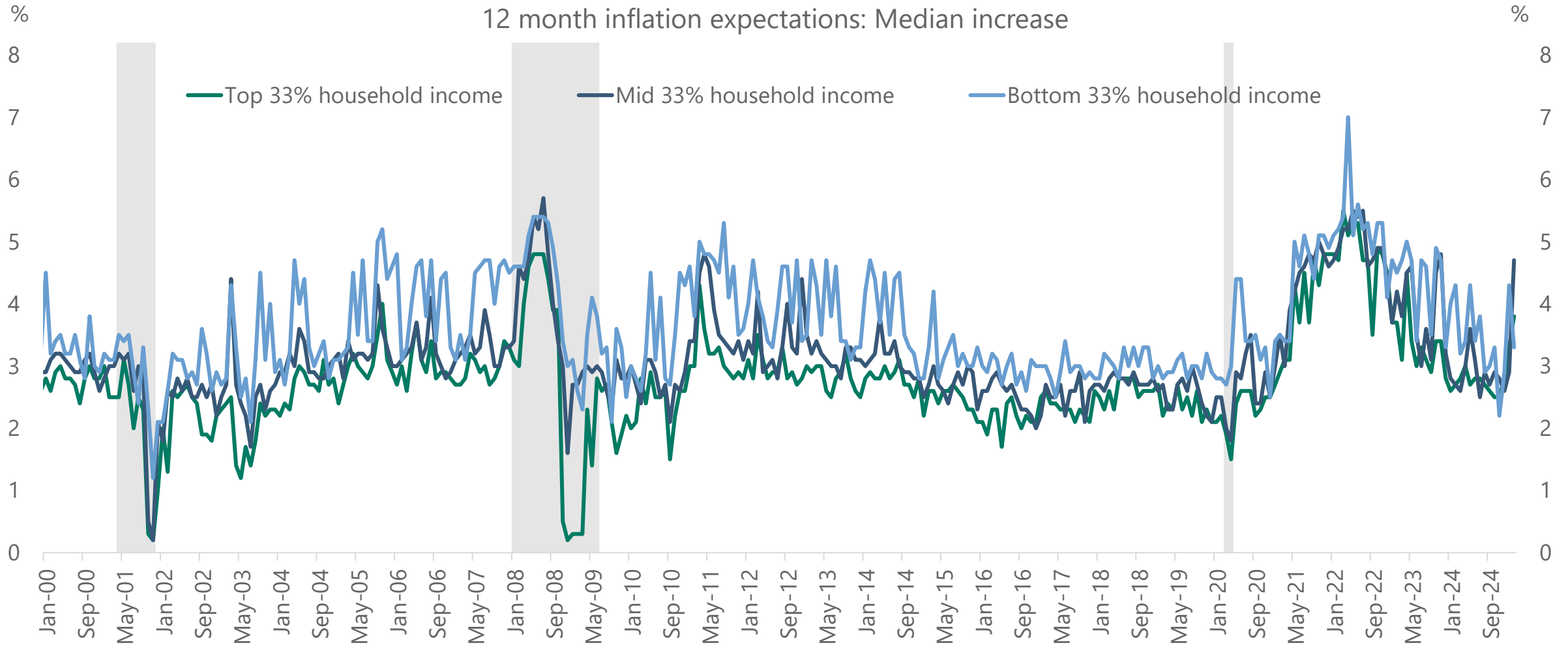
Long run inflation expectations also rising



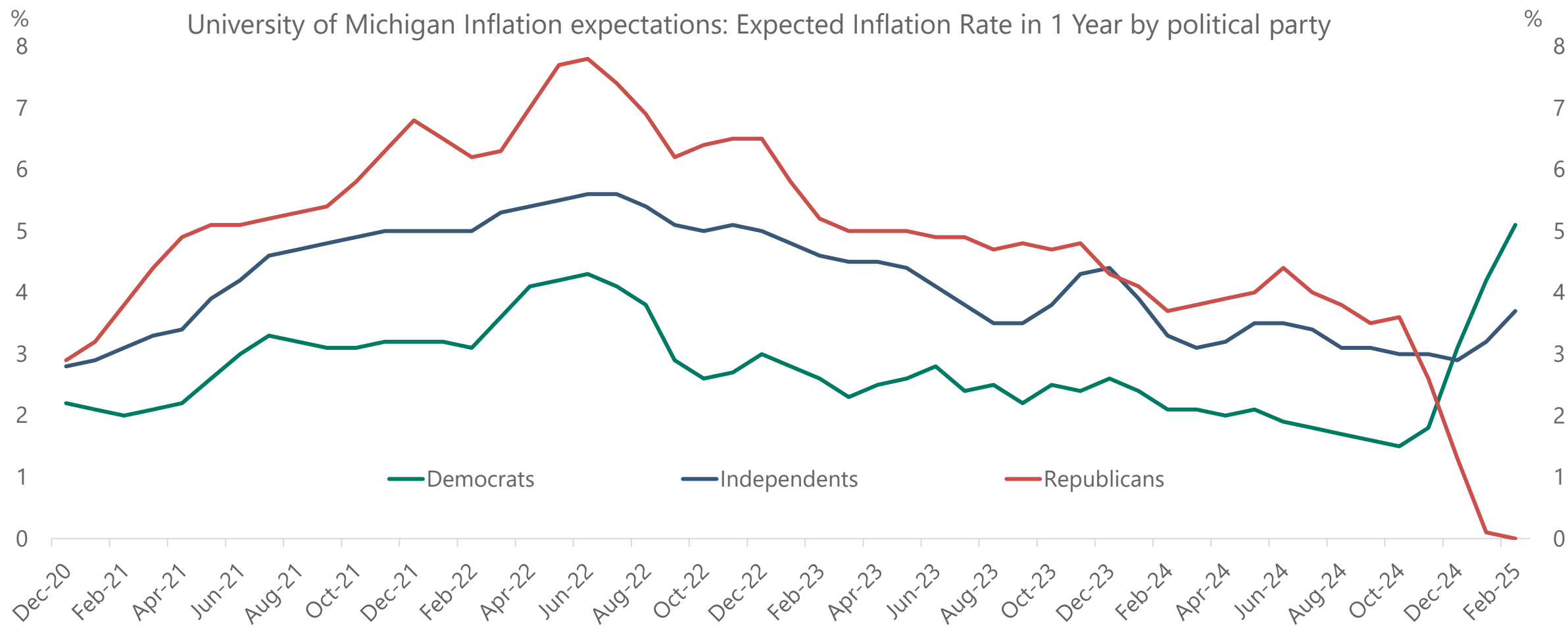
Fed measures of inflation expectations rising



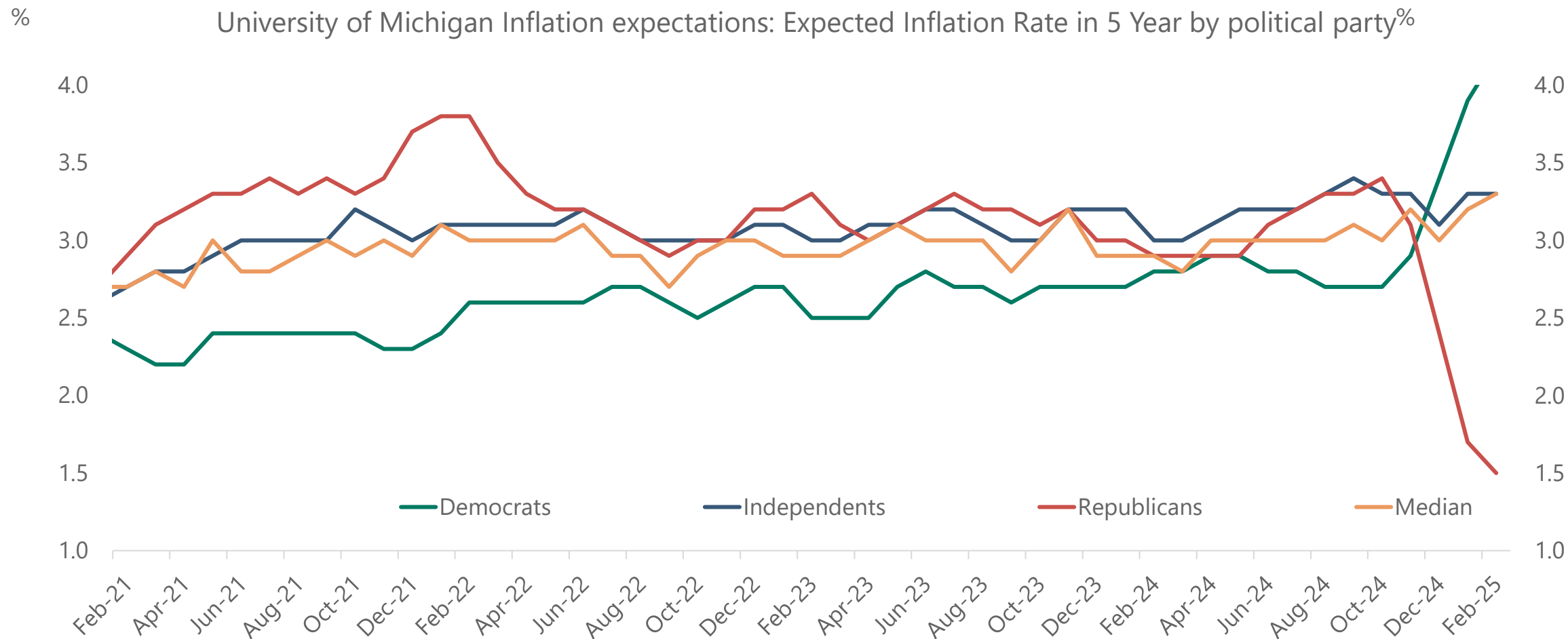
Inflation expectations rising across the income distribution



Inflation expectations, by political party

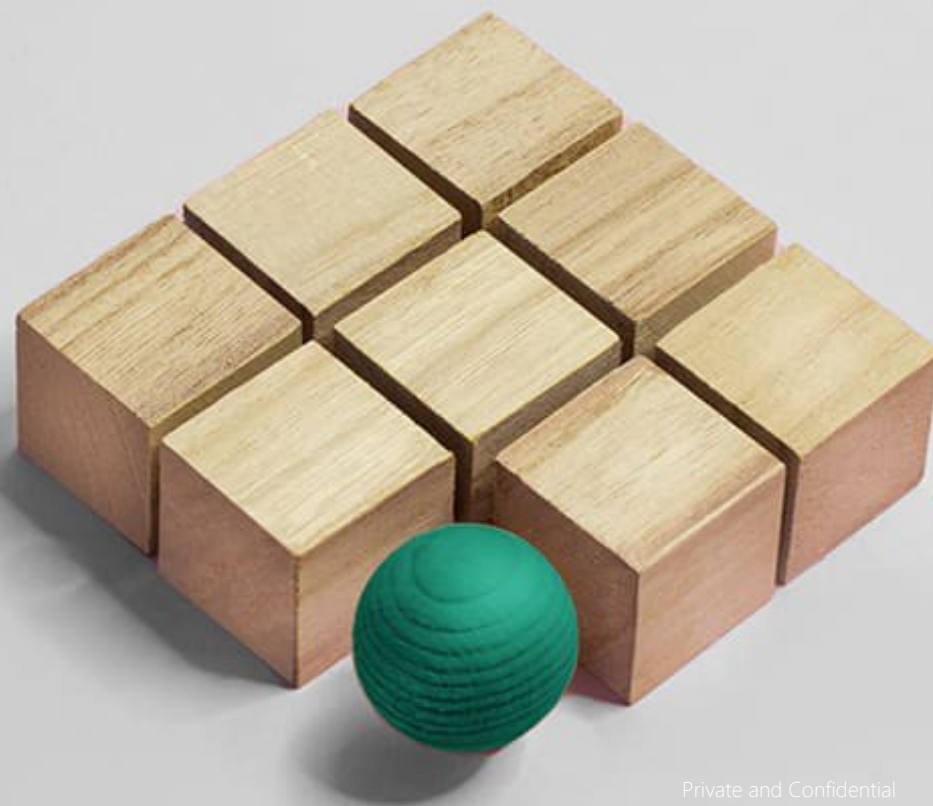


5-year inflation expectations by party affiliation

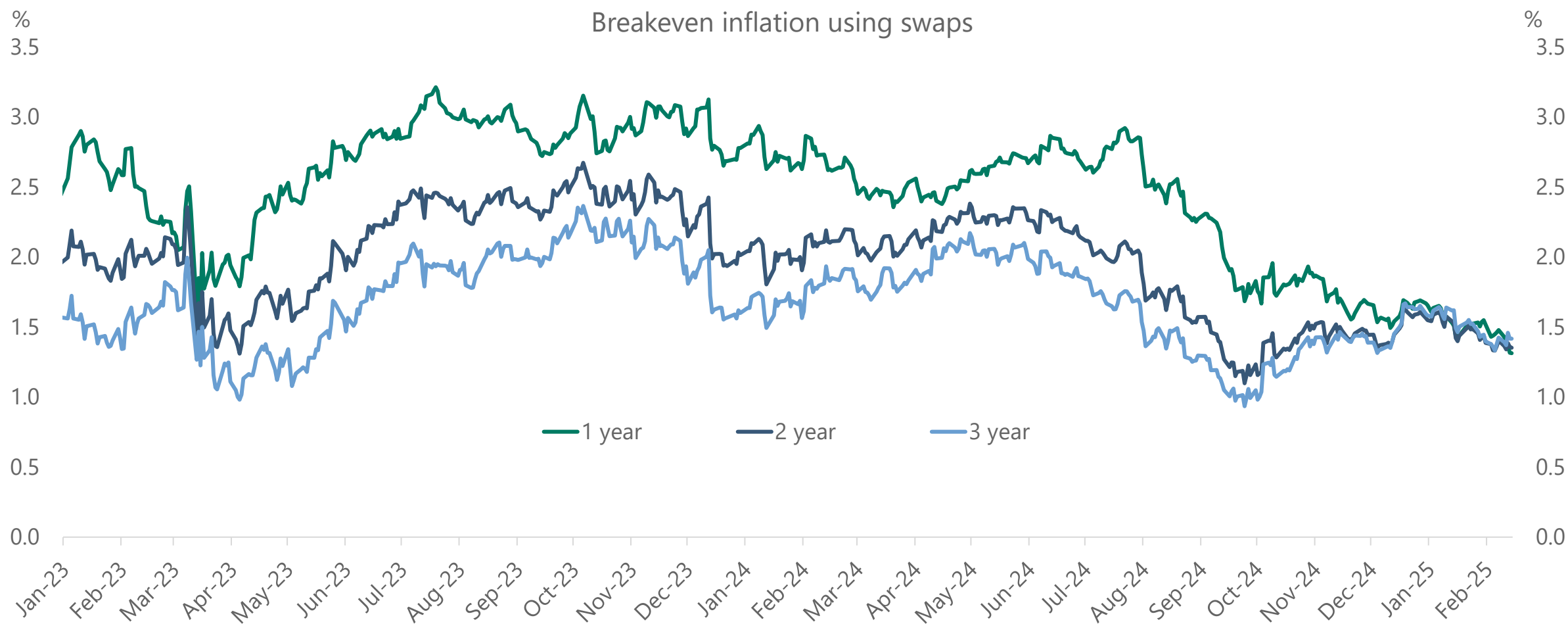


Source: University of Michigan, Bloomberg, Haver Analytics, Apollo Chief Economist.

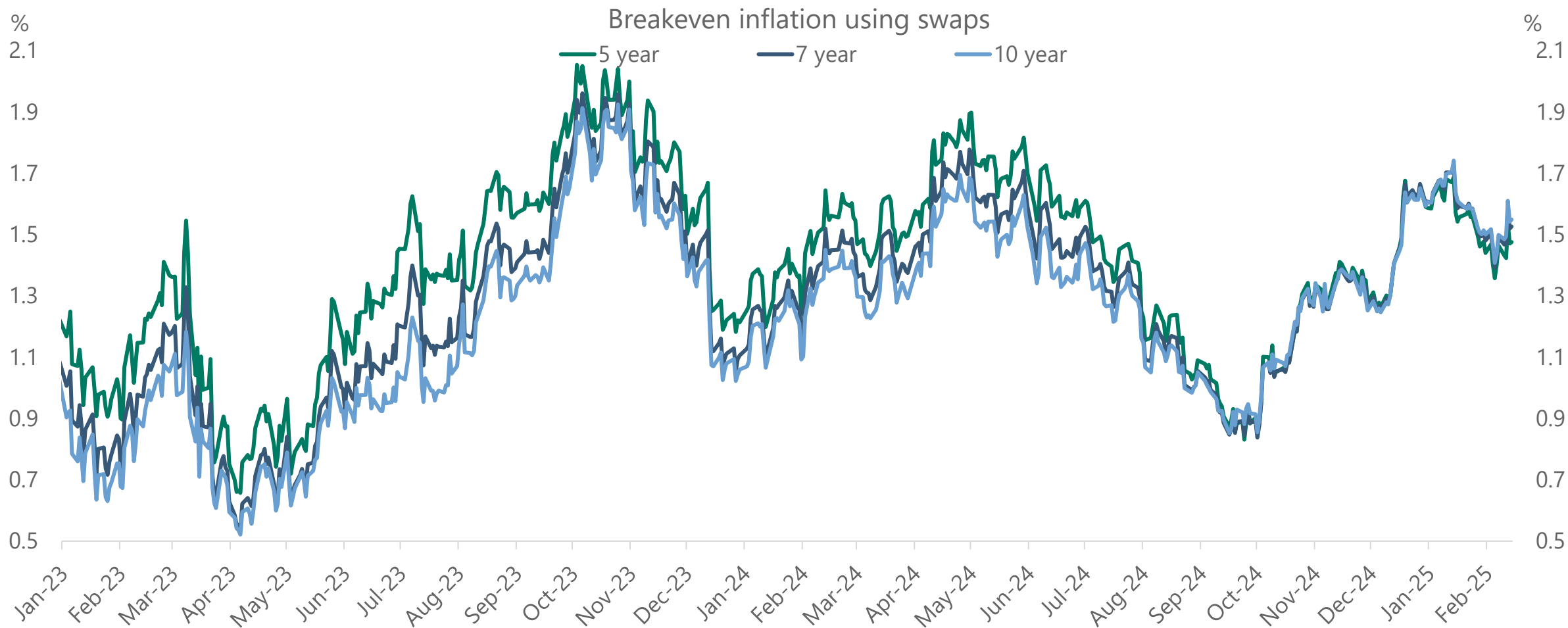
Market-based measures of inflation expectations



Short run breakeven inflation



Long run breakeven inflation rising





Torsten Slok, Ph.D.

Chief Economist

Apollo Global Management

tslok@apollo.com

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 on the sell-side where his team was top ranked in the annual Institutional Investor survey for a decade. Mr. Slok has also worked at the IMF in Washington, DC and at the OECD in Paris.

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