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Trade war, markets, and the economic outlook

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Apollo Global Management

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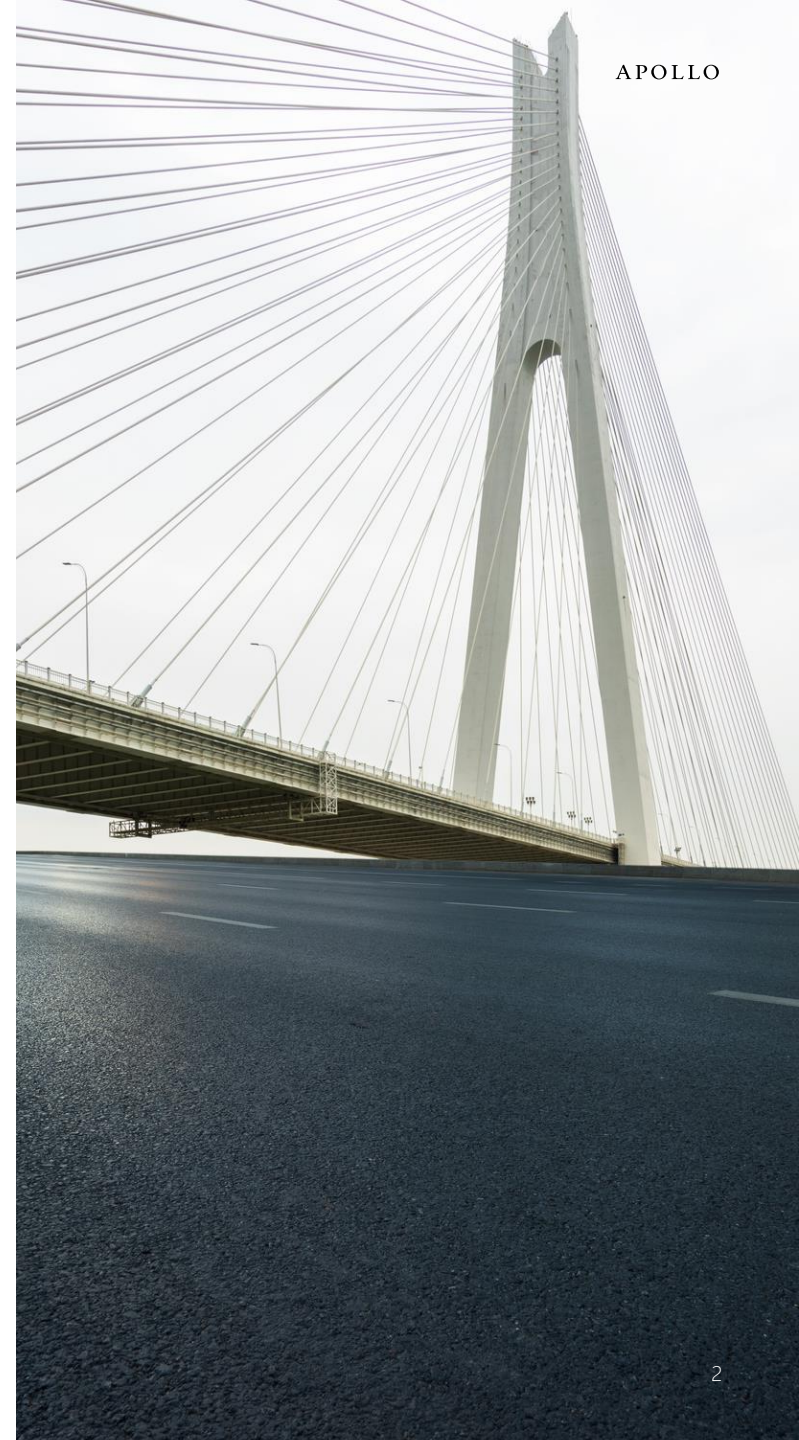
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Conclusions

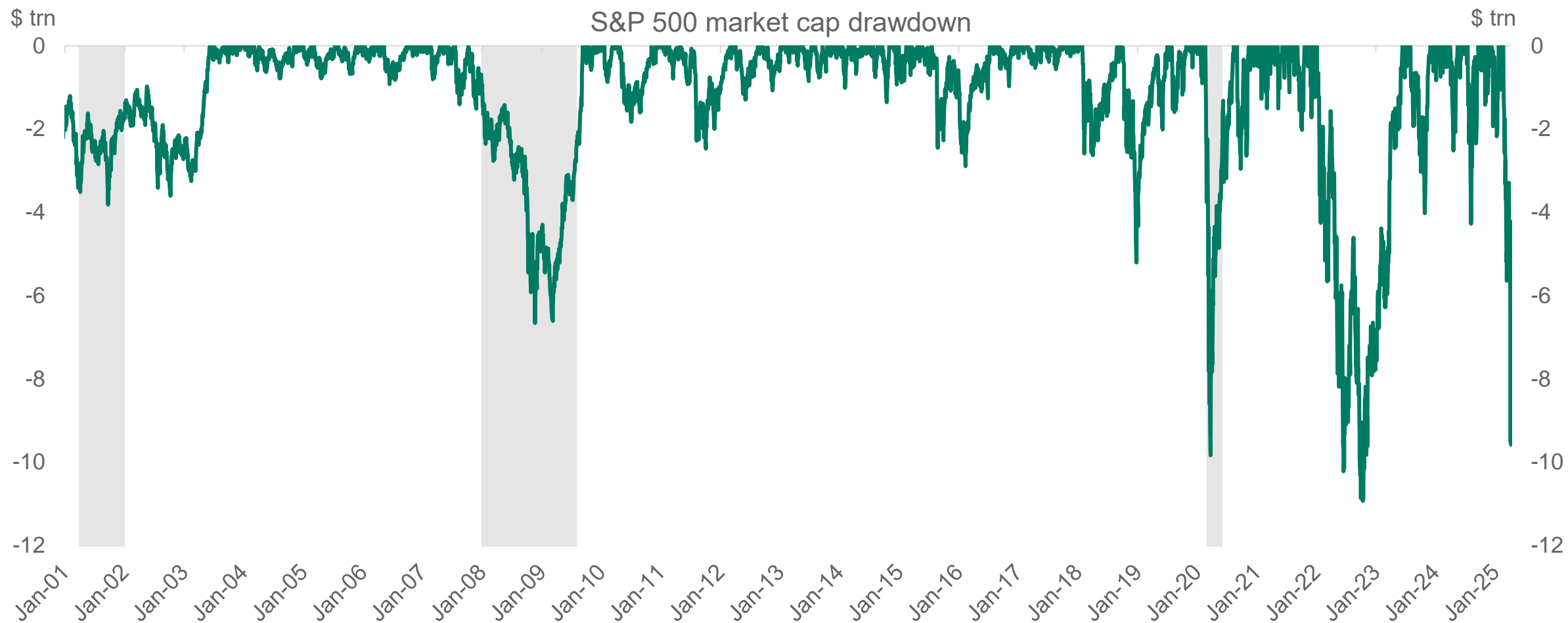
- 1) **Tariffs are not going away**, negative hit to earnings and inflation coming.
- 2) **Correlations breaking down across equity, rates, and credit markets.** This is very important because it could be a sign of forced sellers in various markets.
- 3) **The Fed will not cut rates in response to lower stock prices.** They will cut rates if the unemployment starts rising. Or if there are signs of financial instability.

Bottom line: Significant uncertainty about the coming impact of tariffs on earnings, and how long it will take for tariffs to come down (because of deals made with countries). DOGE also pushing unemployment higher. **More downside risks to S&P 500 and low-quality credit. Volatility will continue to be high.**

Markets

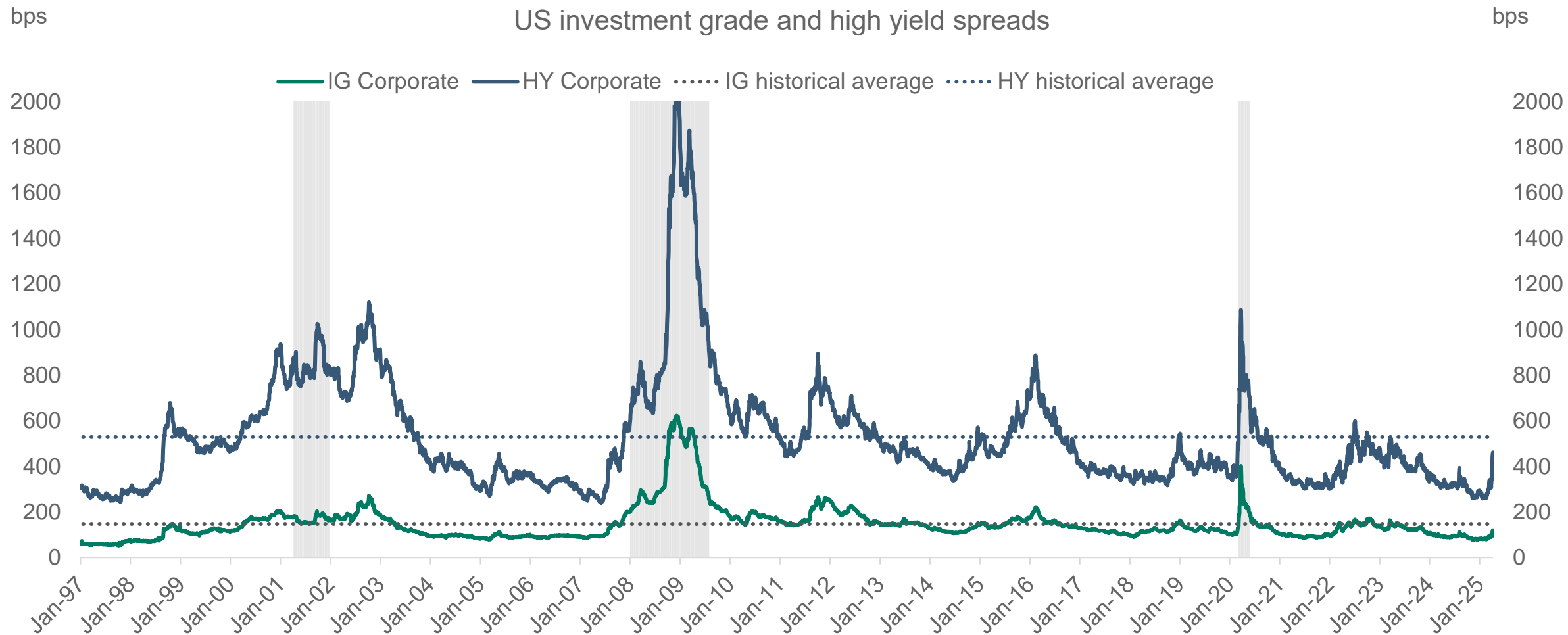


The S&P 500 has fallen by \$10trn from its peak



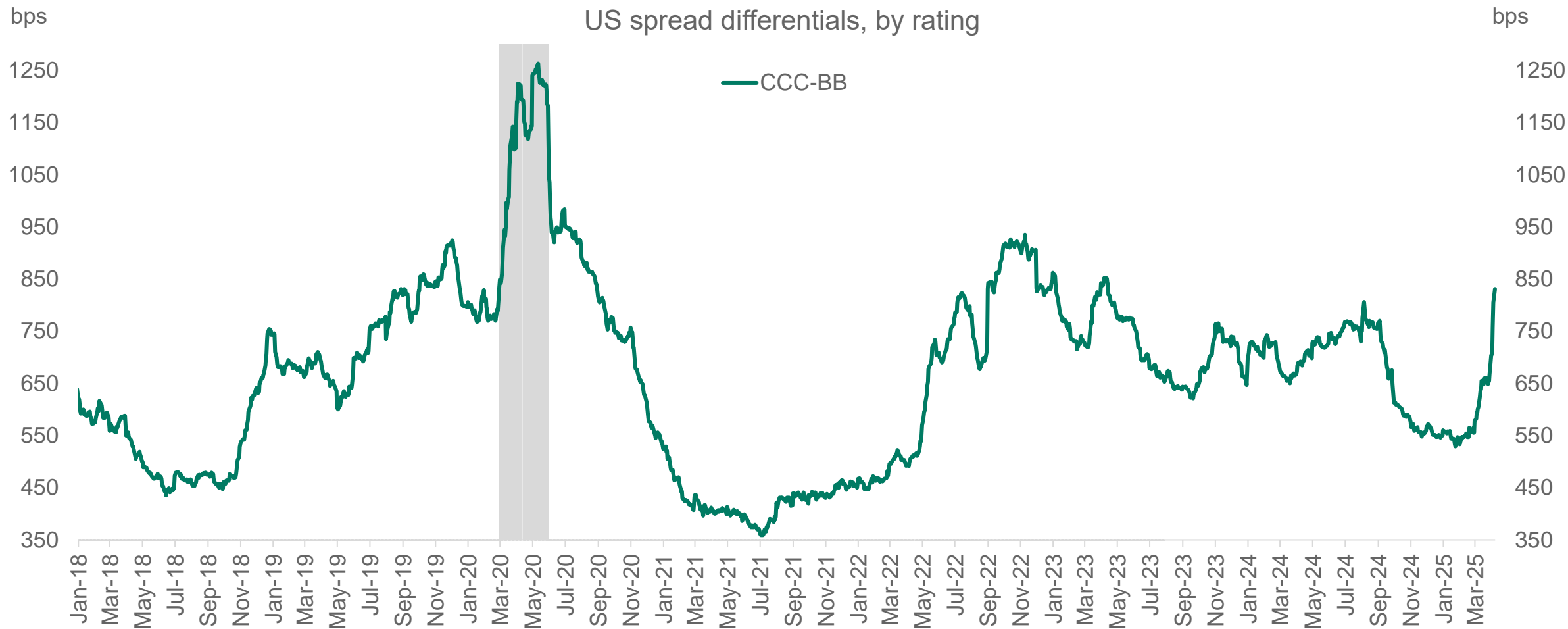
Source: Bloomberg, Apollo Chief Economist. Note: Peak is defined as maximum value in the past 240 days.

Credit spreads not signalling a recession is coming



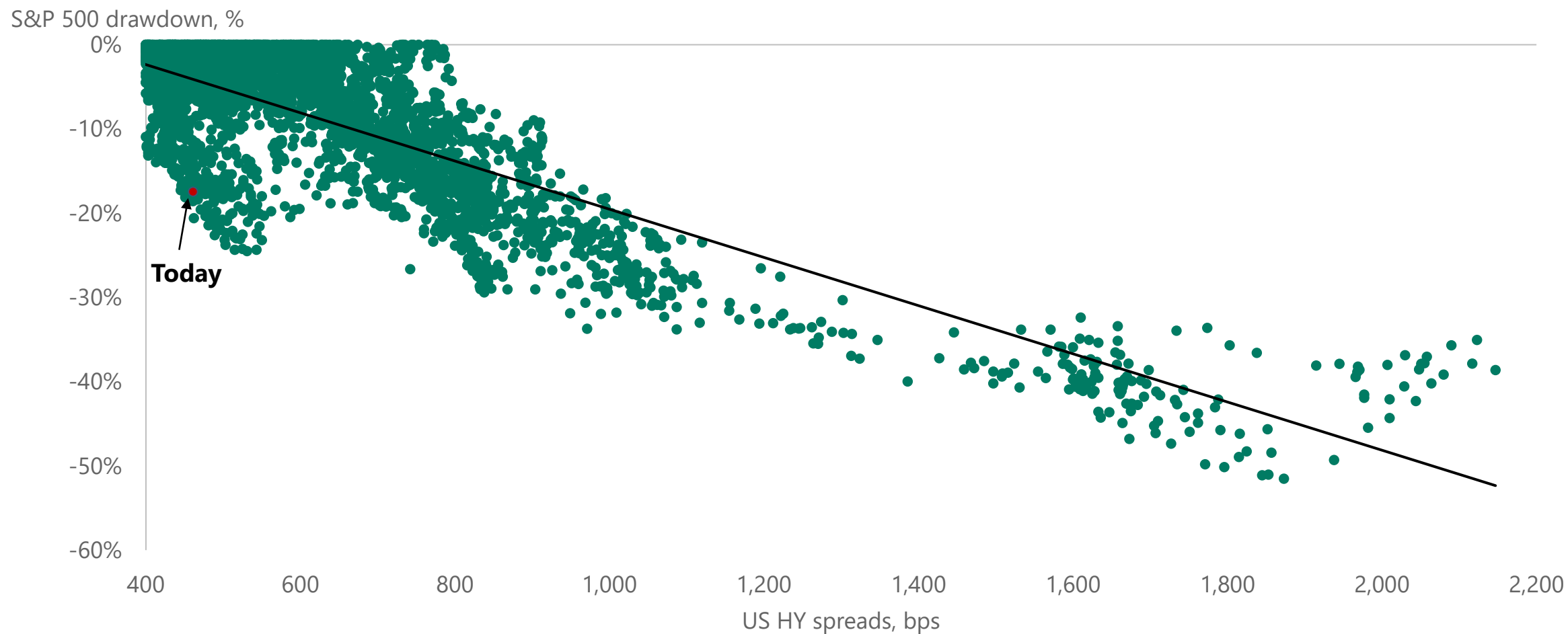
Source: ICE BofA, Bloomberg, Apollo Chief Economist

Lower-rated credits have sold off more



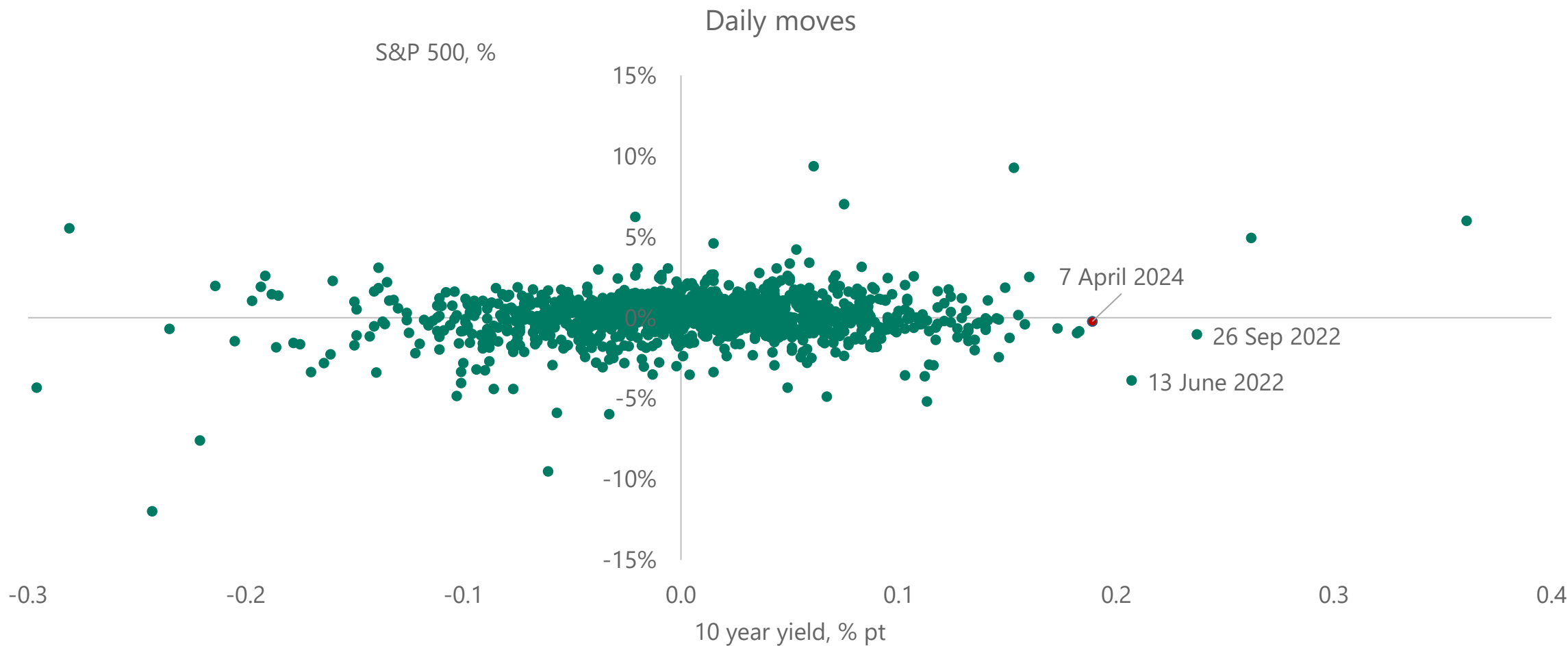
Source: ICE BofA, Bloomberg, Apollo Chief Economist

Very modest sell-off in credit markets relative to the sell-off in equities



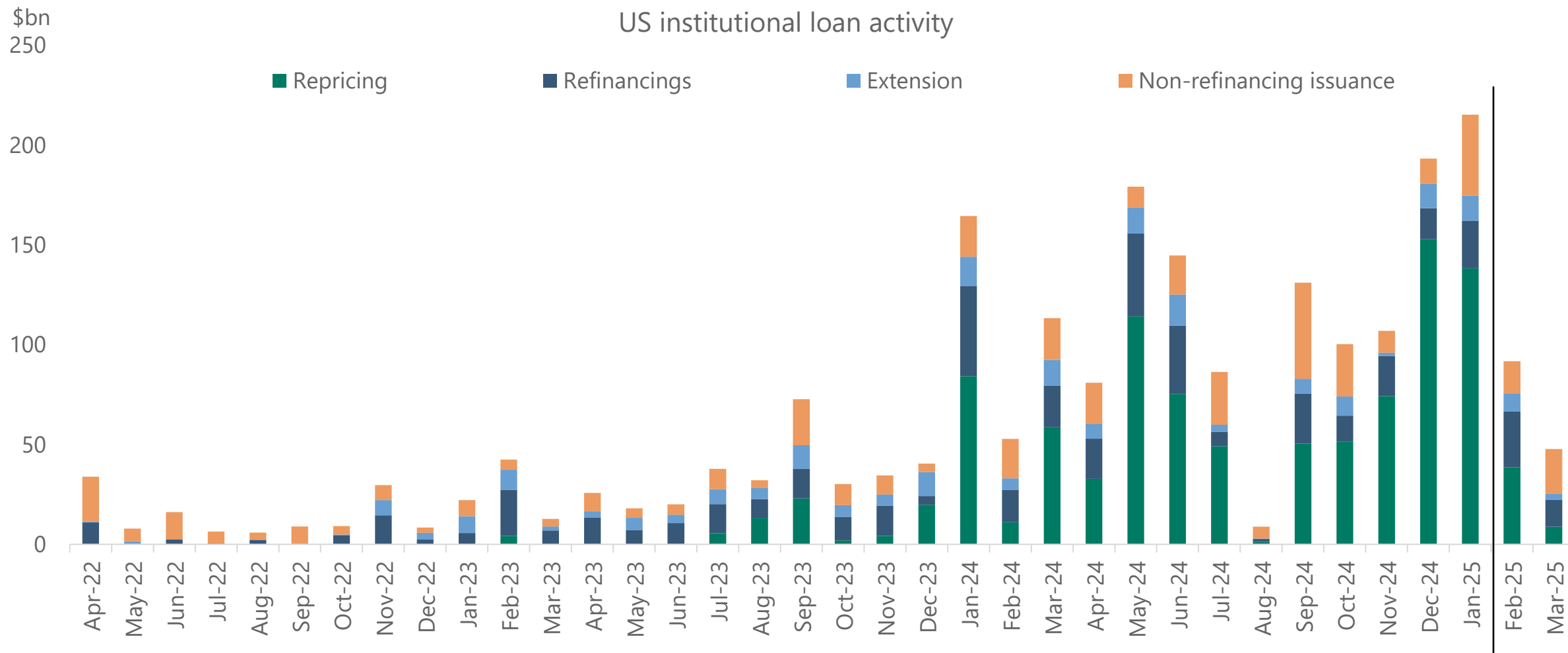
Source: Bloomberg, Apollo Chief Economist. Note: Data from 1997 and peak for S&P 500 defined as peak in the previous 240 days.

Very unusual moves in long rates



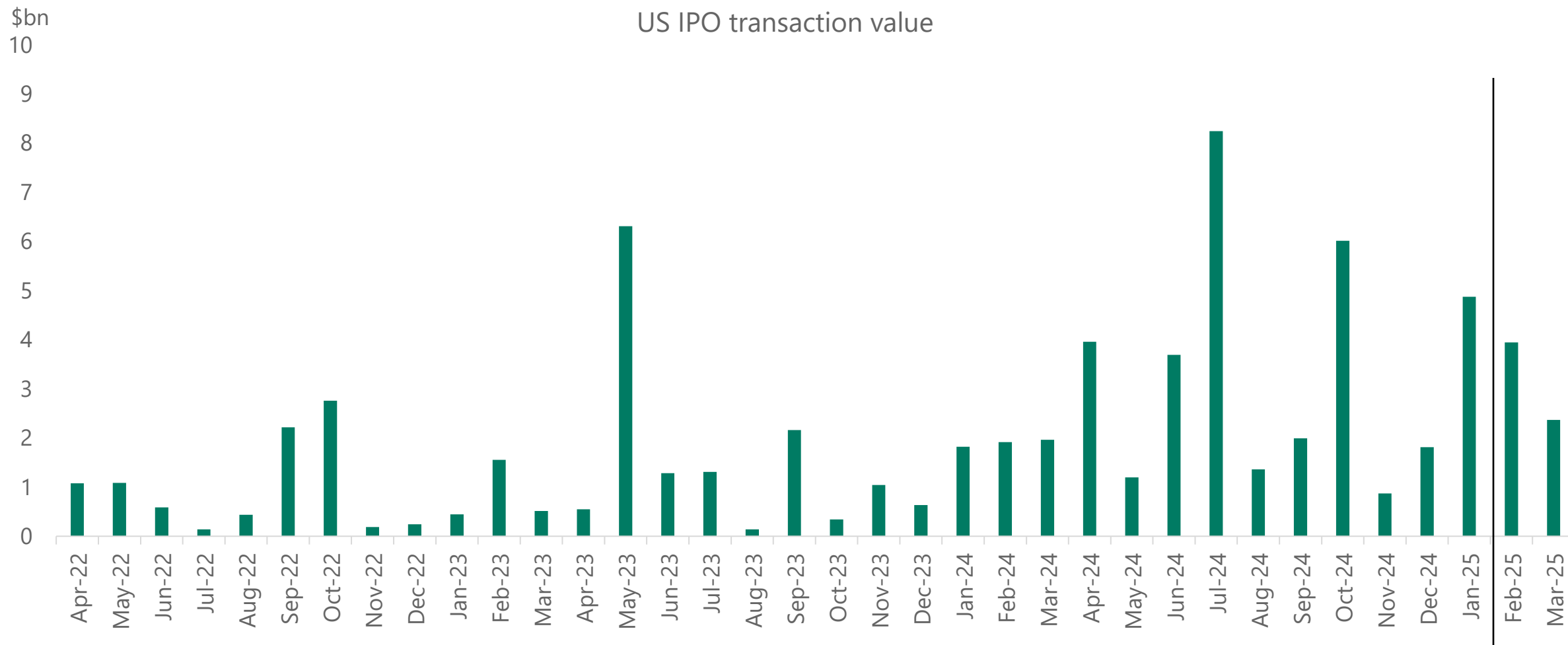
Source: Bloomberg, Apollo Chief Economist. Note: Data starts from Jan 2020

When policy uncertainty went up, loan issuance went down



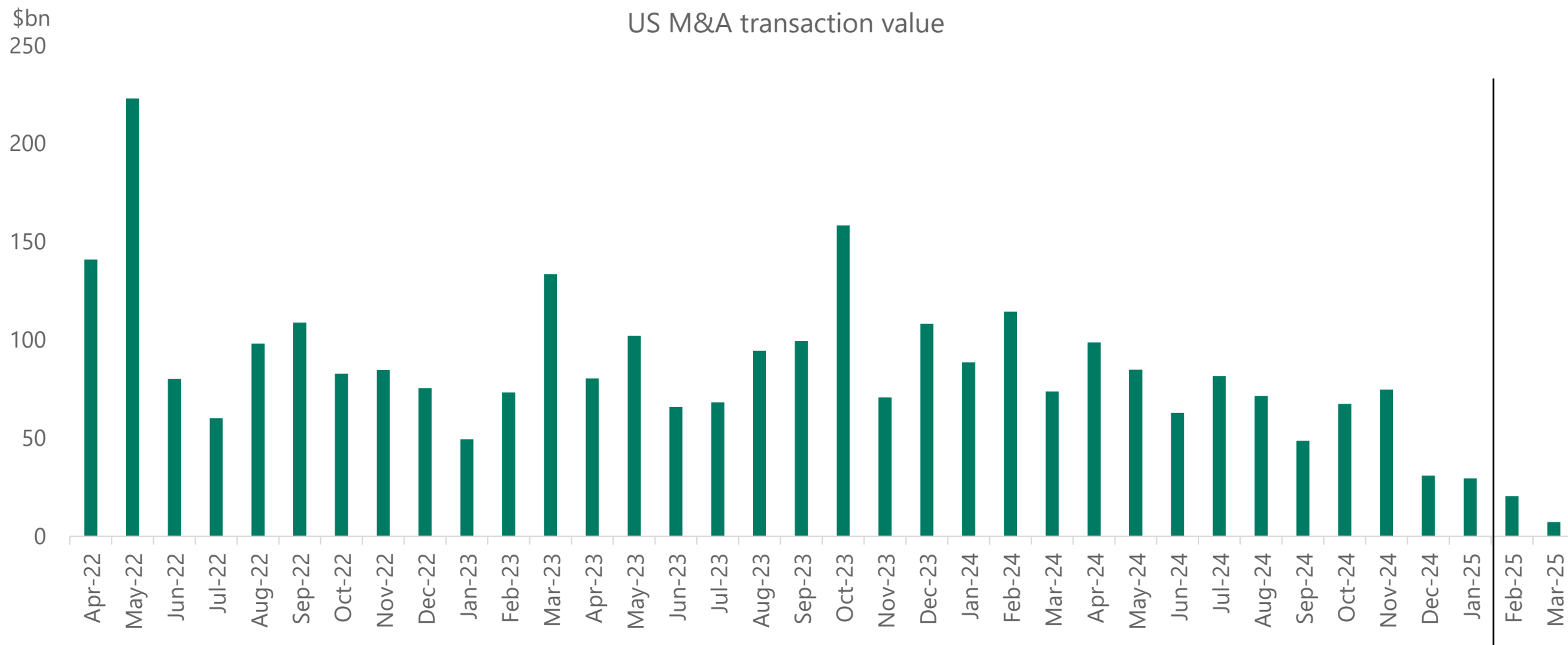
Source: Pitchbook LCD, Apollo Chief Economist. Note: Reflects repricings and extensions done via an amendment process only

When policy uncertainty went up, IPO activity went down



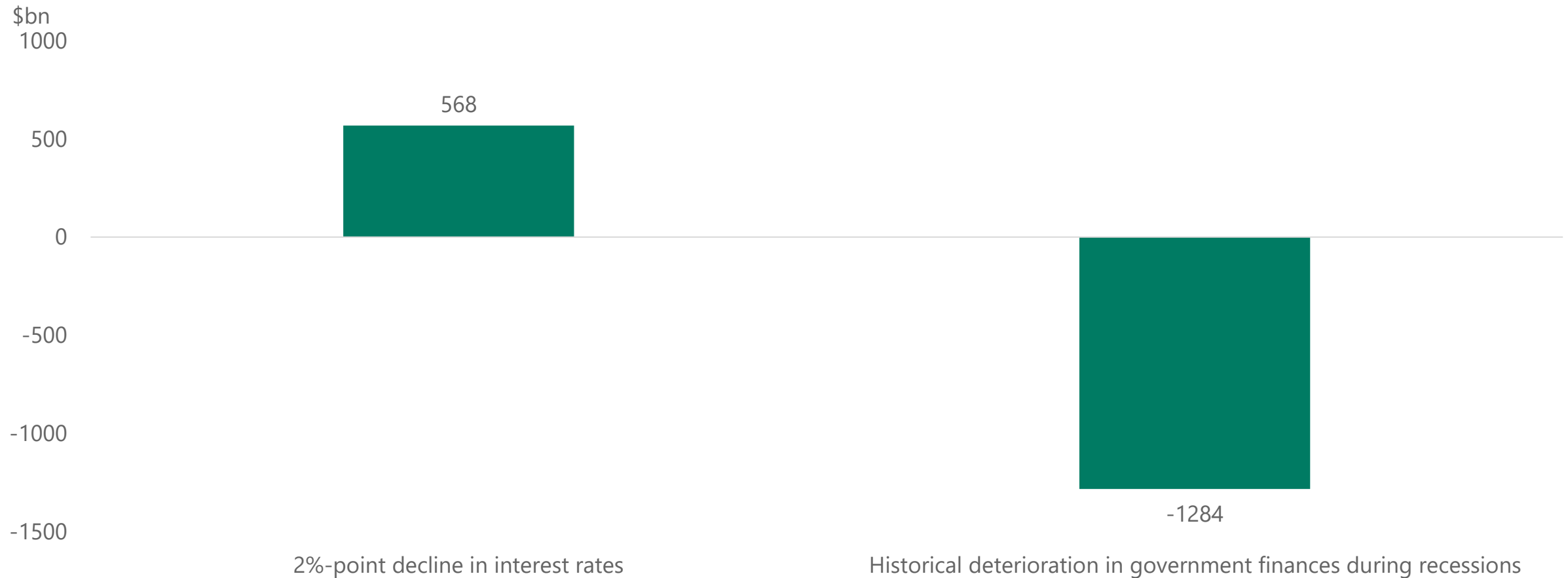
Source: S&P CapitalIQ, Apollo Chief Economist. Note: Data shows completed IPO transactions

When policy uncertainty went up, M&A activity went down



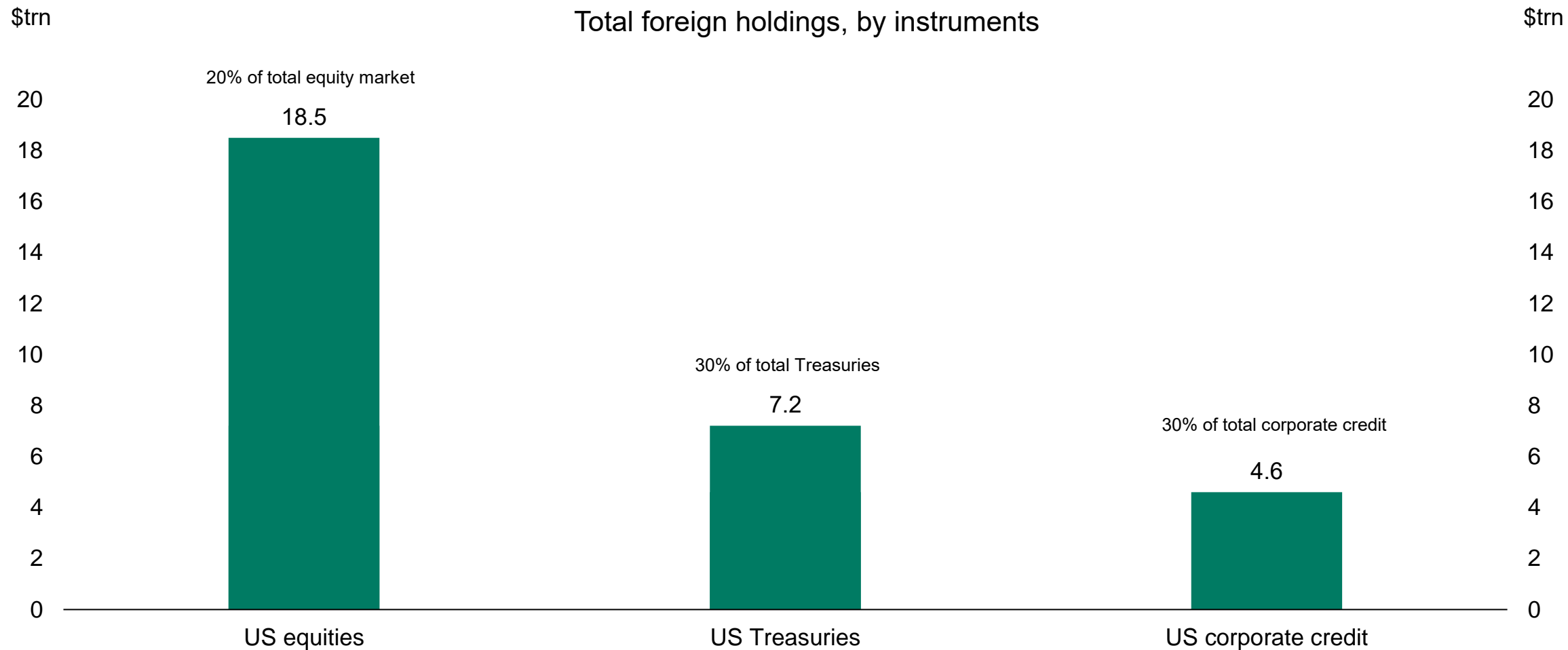
Source: S&P CapitalIQ, Apollo Chief Economist. Note: Data shows completed M&A transactions

A 2% reduction in interest rates is having a smaller positive impact on government finances compared with the likely decline in the budget deficit during a recession



Source: US Treasury, CBO, Bloomberg, Apollo Chief Economist. Note: Assuming a decline in interest rates by 2%-pt relative to current CBO assumption resulting in \$568 bn interest expense savings on Federal debt. Fiscal deficit growing by 4.4% of GDP on average in recessions since 1968.

Total foreign holdings of US financial assets



Downside risks to the economy intensifying

- 1) Consumer confidence deteriorating
- 2) Corporate confidence deteriorating
- 3) Negative impact of tariffs on earnings and GDP
- 4) Negative impact of retaliation (including less tourism into the US)
- 5) Negative wealth effect of a \$10trn decline in the S&P 500
- 6) DOGE layoffs: True federal government employment: 10mn workers



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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.