

Economic outlook and private market update



Lara Rhame

Chief U.S. Economist,
Managing Director
FS Investments



Andrew Korz

Executive Director
FS Investments

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FIRM OVERVIEW

FS Investments

FS Investments is a global alternative asset manager dedicated to delivering attractive returns across private equity, private credit and real estate. Their active partnership model creates a virtuous cycle of superior market insights and deal flow, which inform the underwriting process and help to generate strong returns.

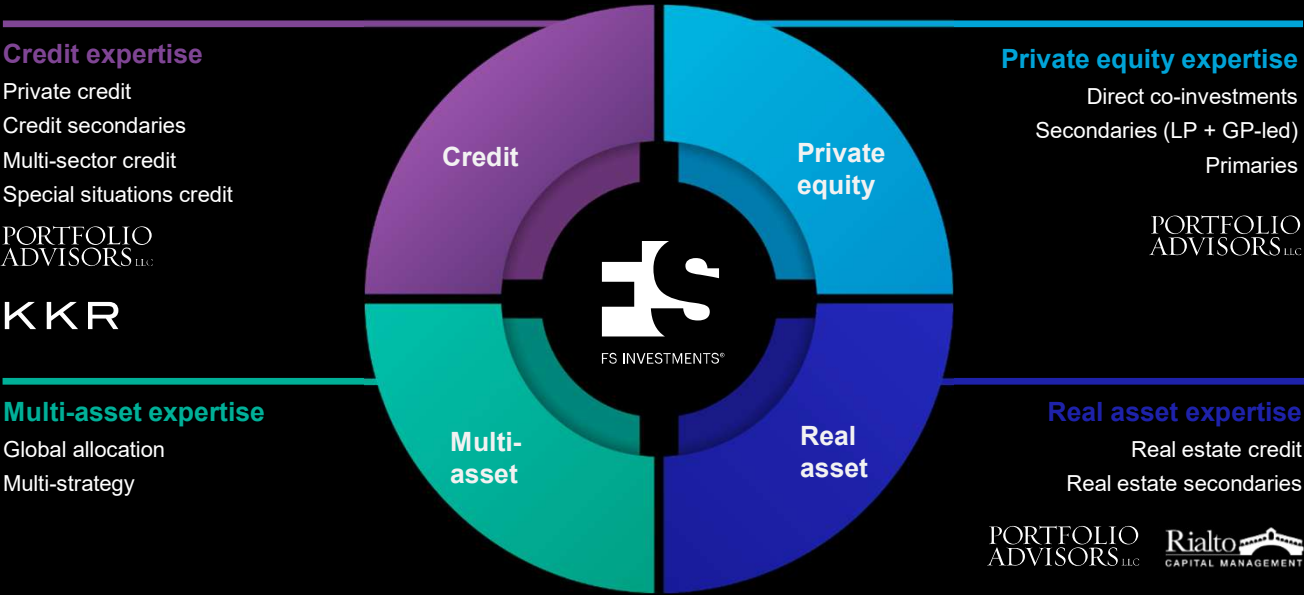
Key facts As of June 30, 2024

\$82B+ Total assets under management ¹	9 Global offices (Headquartered in Philadelphia)	30+ Years of leadership in private markets
300+ Sponsor relationships	500+ Professionals worldwide	22 Private and public market offerings

1. Total AUM estimated as of June 30, 2024. References to "assets under management" or "AUM" represent the assets managed by FS Investments or its strategic partners as to which FS Investments is entitled to receive a fee or carried interest (either currently or upon deployment of capital) and general partner capital. FS Investments calculates the amount of AUM as of any date as the sum of: (i) the fair value of the investments of FS Investments' investment funds; (ii) uncalled capital commitments from these funds, including uncalled capital commitments from which FS Investments is currently not earning management fees or carried interest; (iii) the value of outstanding CLOs (excluding CLOs wholly-owned by FS Investments); (iv) the fair value of FS KKR Capital Corp. joint venture (JV) assets and FS Specialty Lending Fund JV assets; and (v) the fair value of other assets managed by FS Investments. The AUM also includes the estimated AUM of Portfolio Advisors, LLC as of June 30, 2024, which FS acquired through a merger on June 30, 2023. AUM for Portfolio Advisors, LLC is measured as adjusted reported value plus unfunded commitments. FS Investments' calculation of AUM may differ from the calculations of other asset managers and, as a result, FS Investments' measurements of its AUM may not be comparable to similar measures presented by other asset managers. FS Investments' definition of AUM is not based on any definition of AUM that may be set forth in agreements governing the investment funds, vehicles or accounts that it manages and is not calculated pursuant to any regulatory definitions.

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Access to a broad suite of alternative asset classes and strategies through our investment teams and partners:

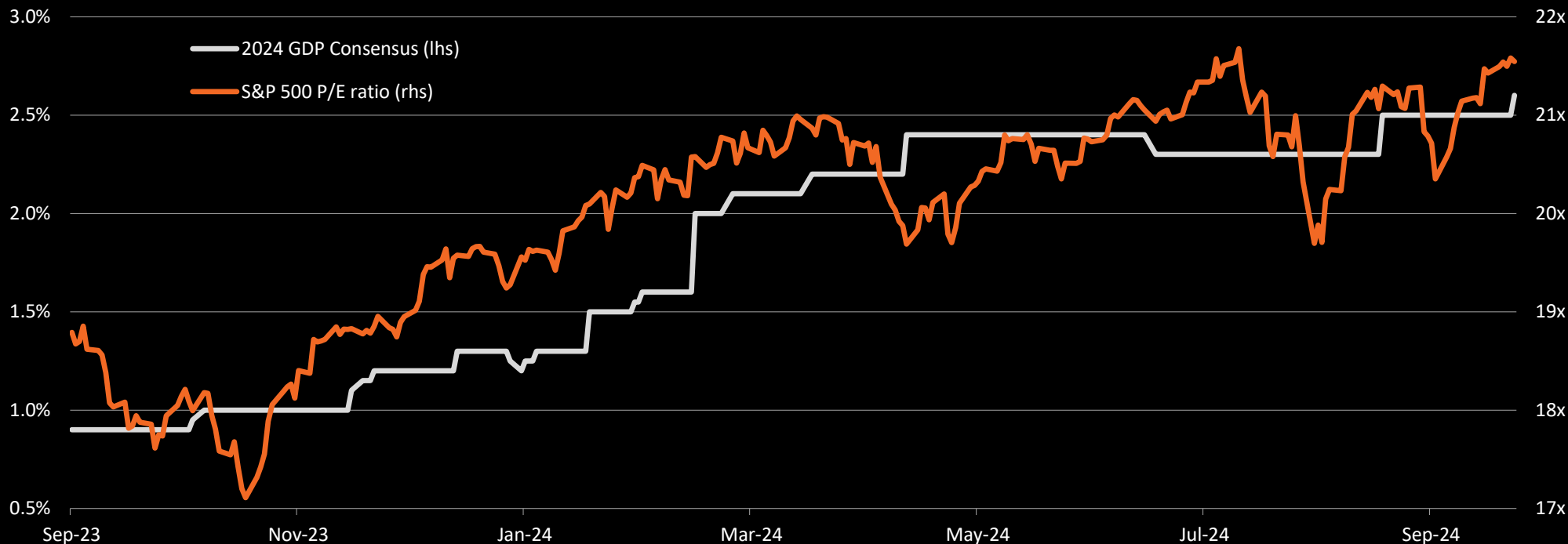


Financial
markets

The economy

Economic optimism helped power valuations

Consensus expects real GDP growth of 2.6% in 2024



Source: Bloomberg Finance, L.P., as of September 30, 2024.
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1

Economy:
Check in and outlook

2

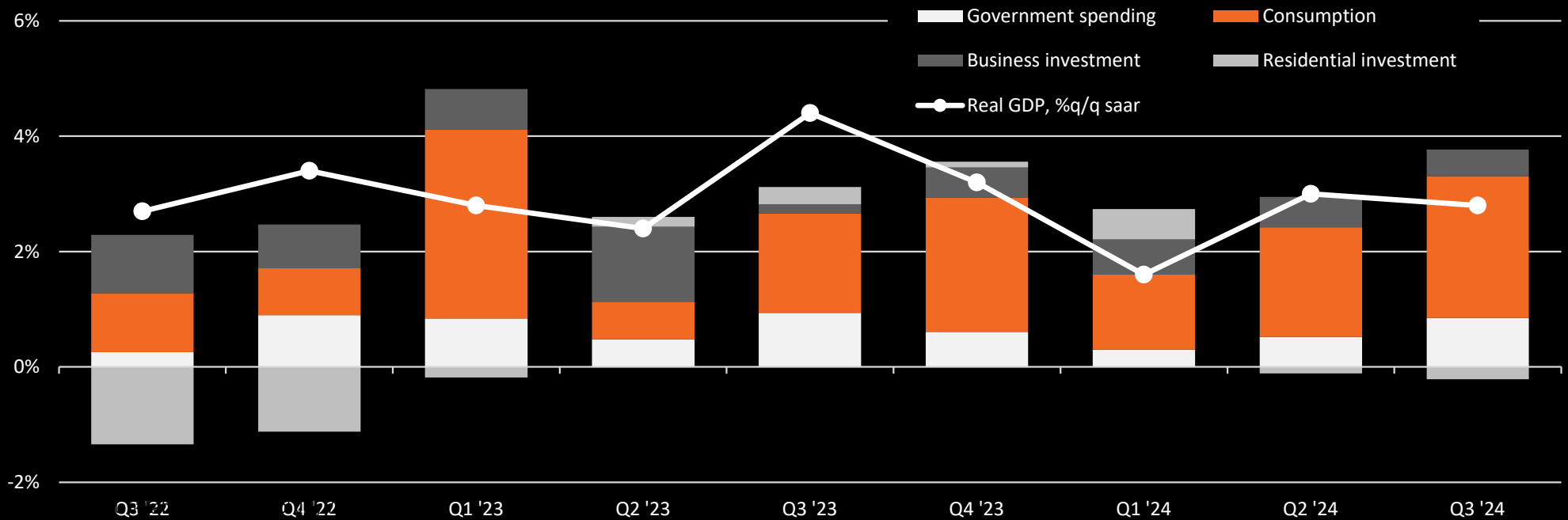
Policy uncertainty:
The Fed and the election

3

Private markets:
A new landscape

Economy is firing on all cylinders

Real GDP growth and sector contributions

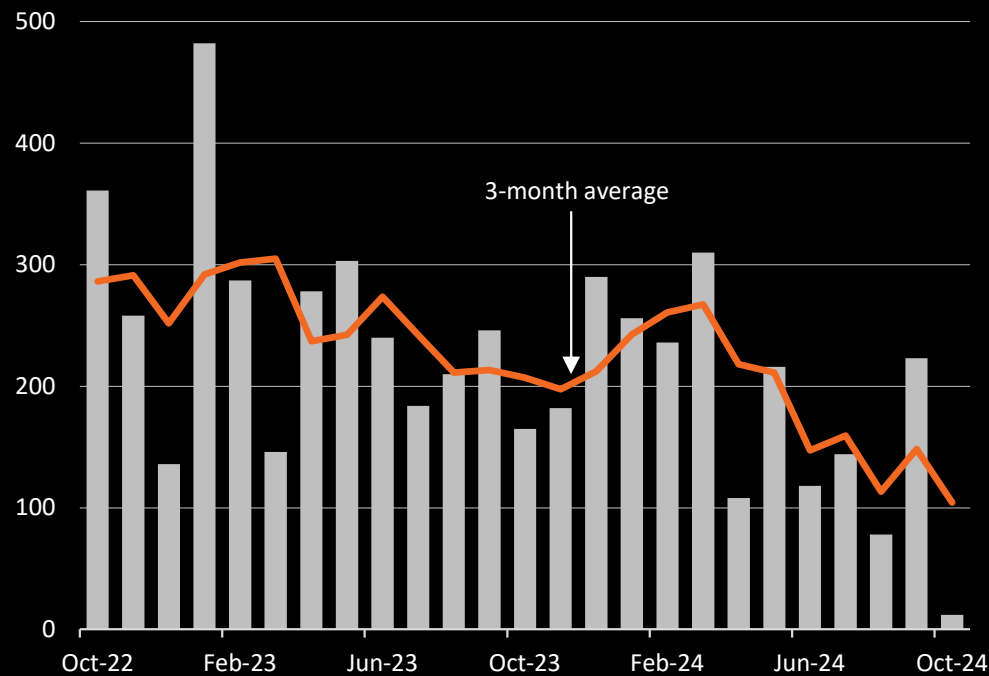


Source: Bureau of Economic Analysis, as of November 11, 2024.

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Job market: From normalization to slowdown

Payroll growth, thousands



Unemployment rate



Source left chart: Bureau of Labor Statistics, as of November 11, 2024. Source right chart: Department of Labor, November 11, 2024.

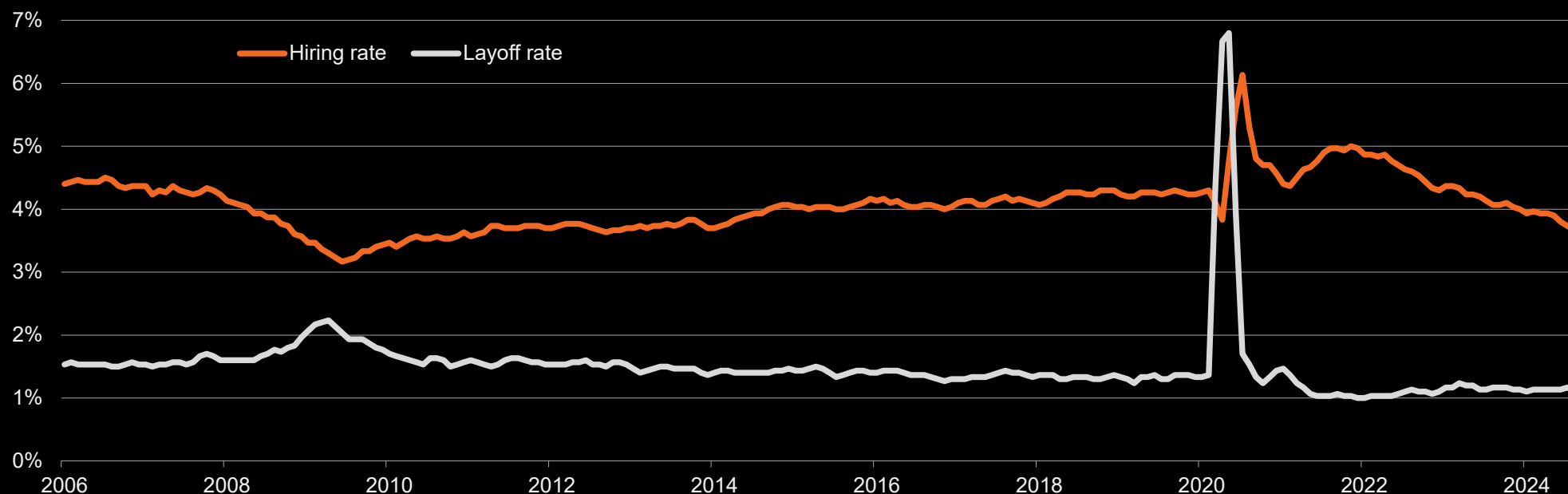
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The two-speed jobs market is unique

Hiring is slowing, but there are still few layoffs

JOLTS survey: rate of hiring and firing

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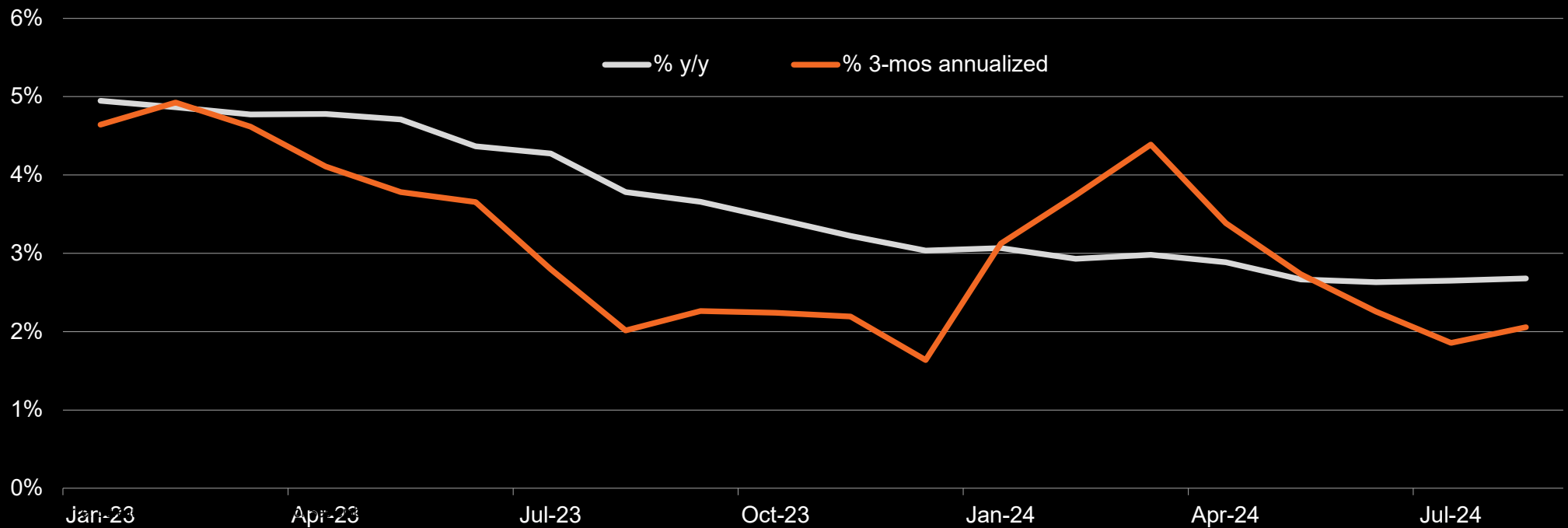


Source: Bureau of Labor Statistics, as of August 31, 2024.

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Inflation offers a window of opportunity for the Fed

Core PCE deflator

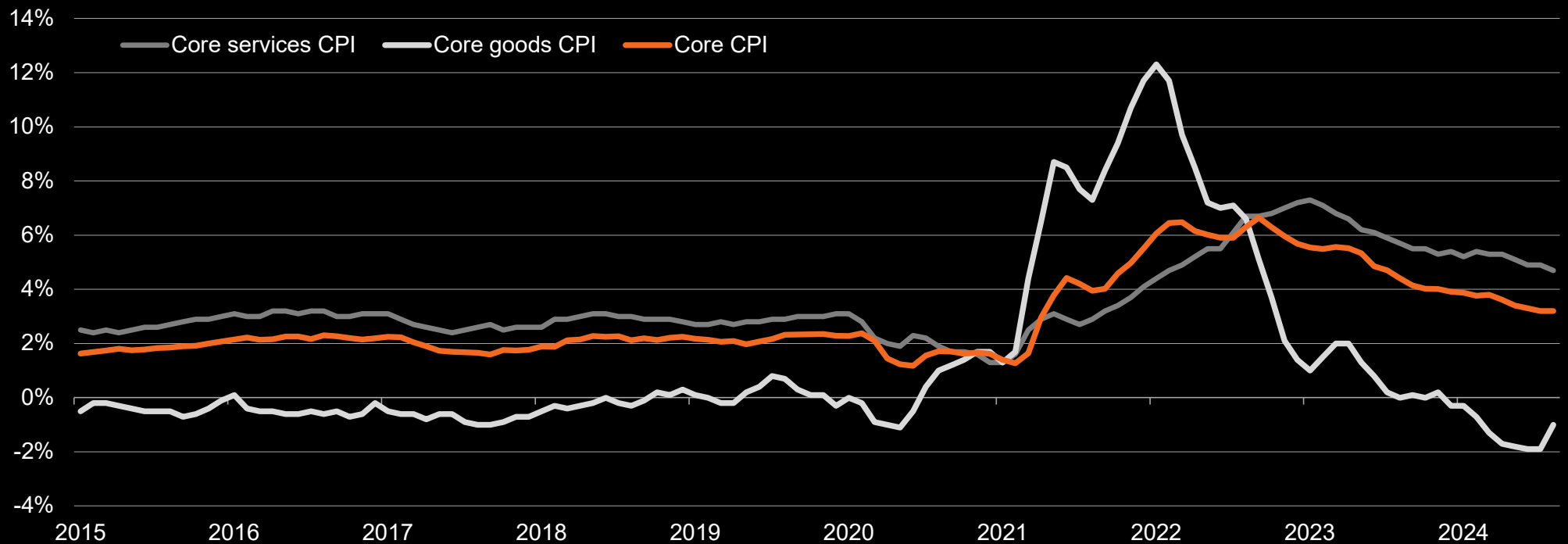


Source: Bureau of Economic Analysis, as of September 30, 2024.

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Inflation far off pre-COVID underlying trends

Goods vs services, %y/y



Source: Bureau of Labor Statistics, as of October 13, 2024.

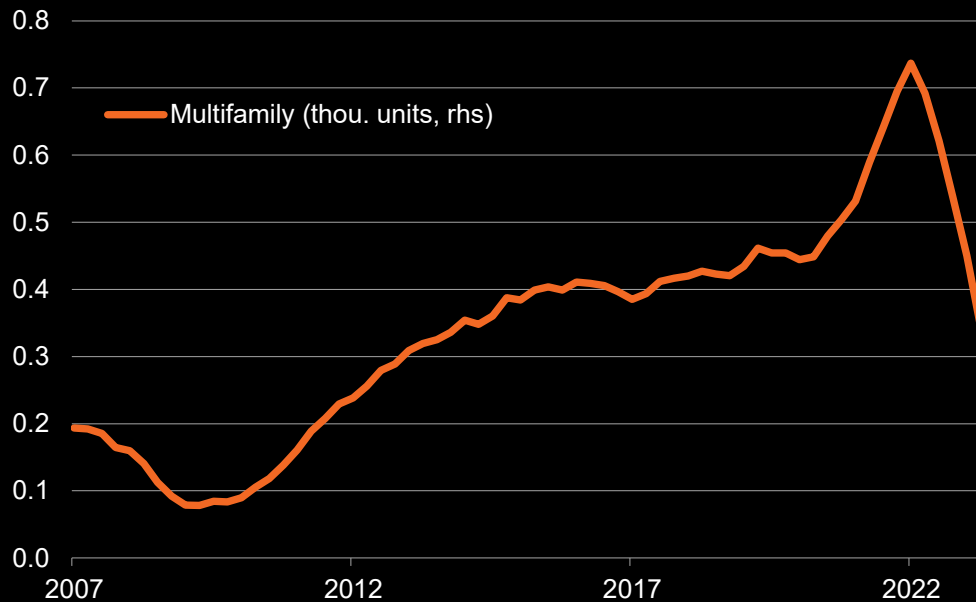
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The housing paradox: If interest rates stay high, rents will rise

The brief construction boom is over

Total construction starts¹

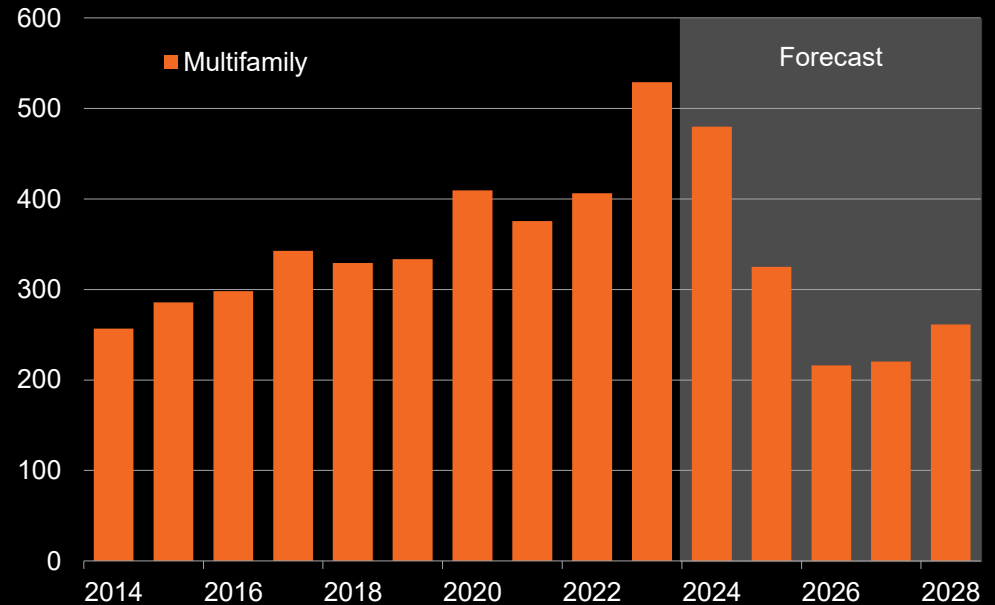
Trailing 4 quarters



The coming years will feature a trickle of supply

CRE net deliveries by year⁽¹⁾

Total square feet (millions)

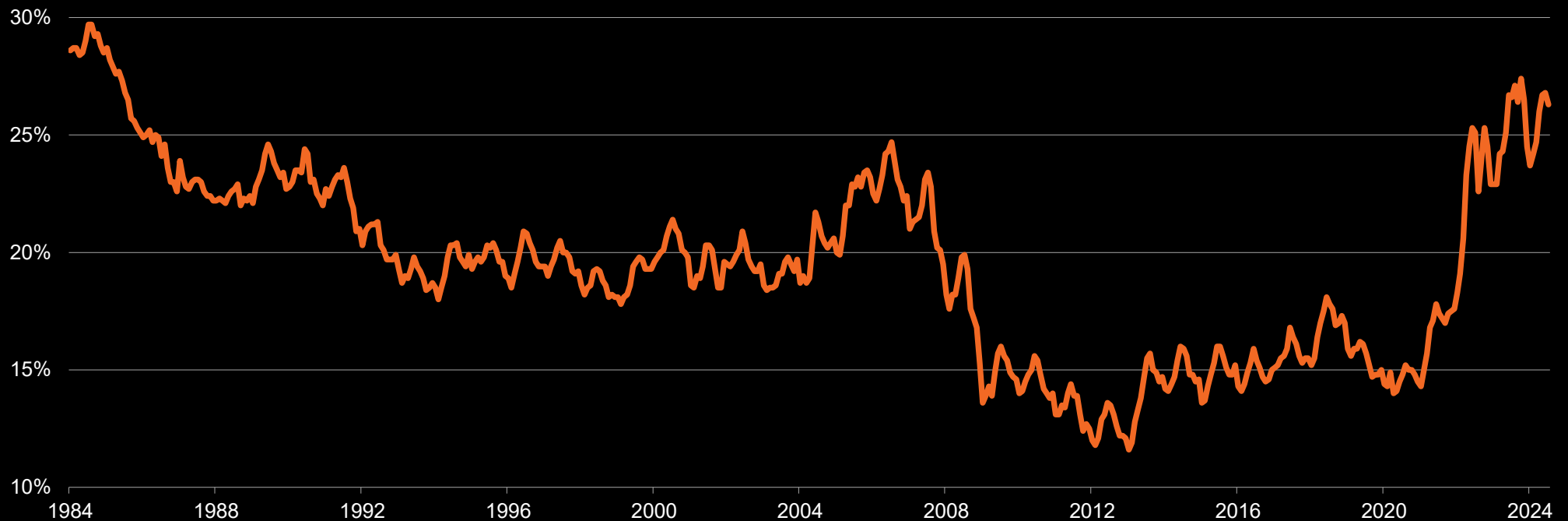


Left and right chart: CoStar, as of September 30, 2024.

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The housing paradox: If rates fall, house prices will likely re-ignite

Mortgage payment, % of household income



Source: National Association of Realtors, September 16, 2024.

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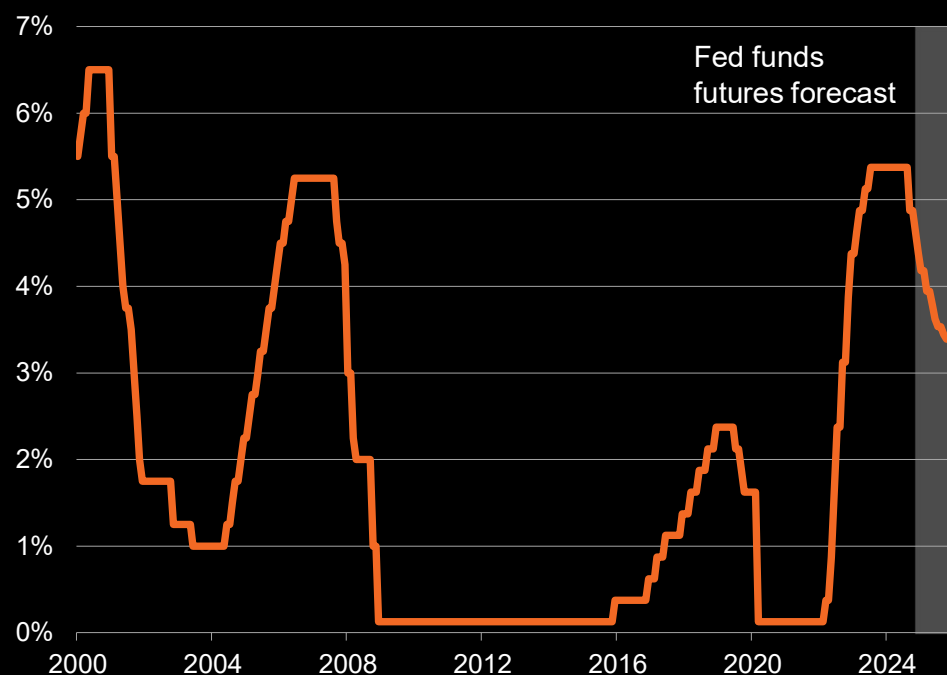
Policy uncertainty:
The Fed and the election

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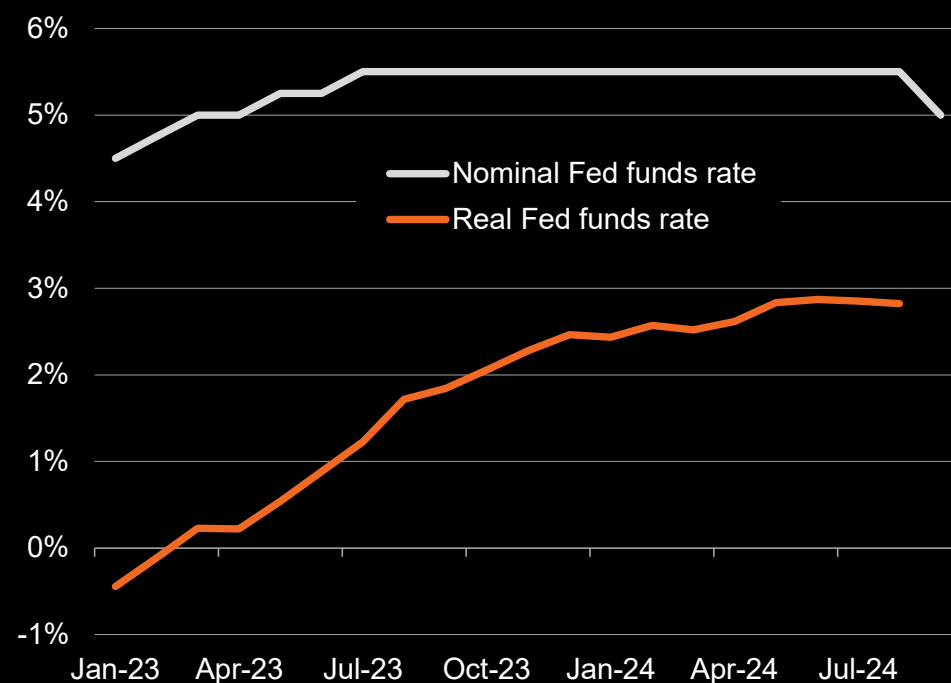
Alternatives help navigate
investment outcomes

Fed prepares to cut rates, but by how much?

Markets expect about 100 bps more by end 2024



Falling inflation raised real rates

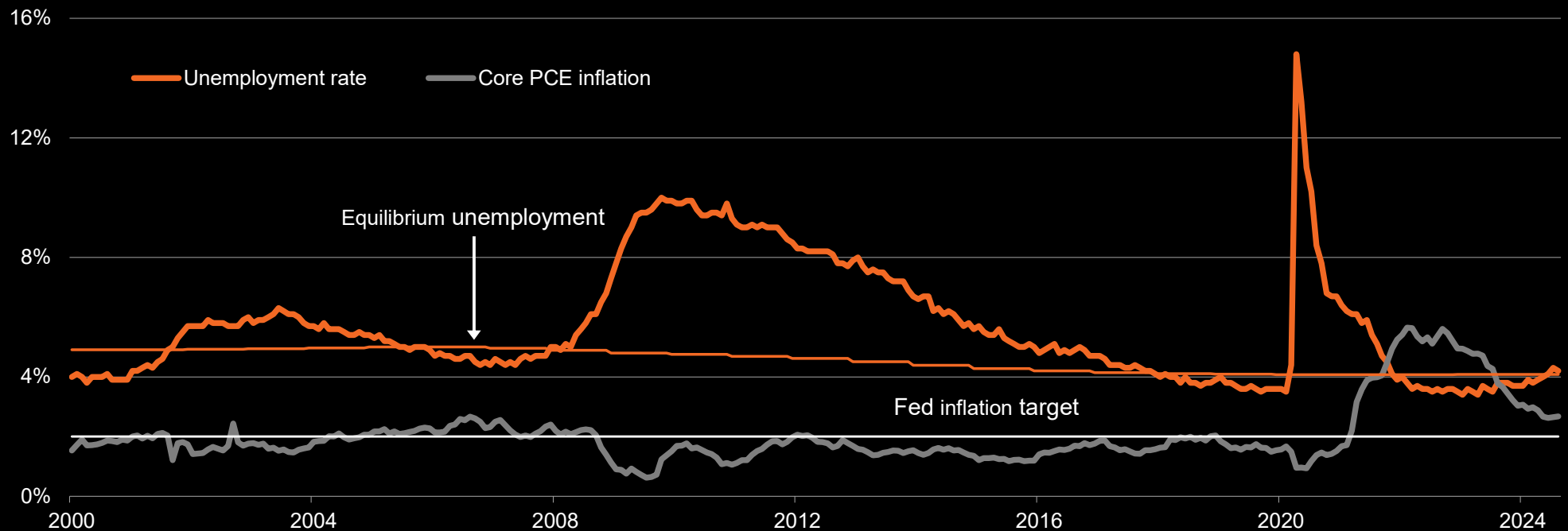


Source left chart: Federal Reserve, Bloomberg Finance, L.P., as of September 30, 2024. Source right chart: Bureau of Economic Analysis, Bloomberg Finance, L.P., FS Investments, as of September 30, 2024.

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Fed policy: Dual-ing it out

Which Fed mandate should be the focus?

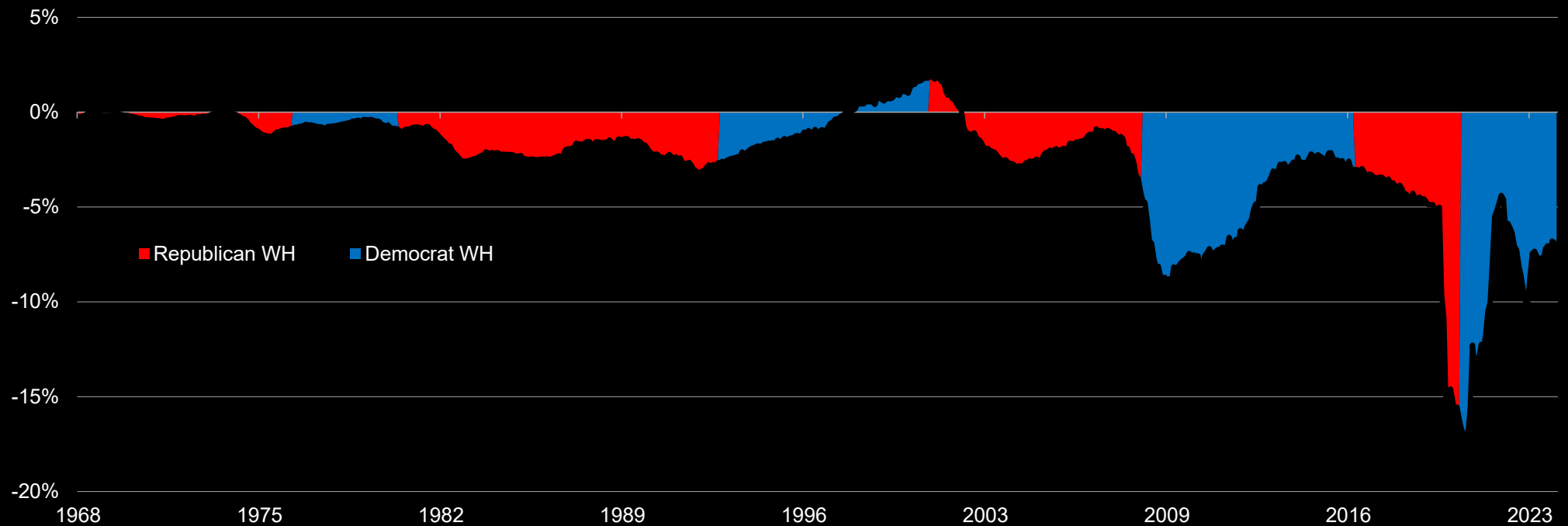


Source: Bureau of Labor Statistics, OECD, Federal Reserve. Equilibrium unemployment reflects the OECD estimate of NAIRU. Y-axis truncated due to COVID distortions.

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The government deficit is a growing problem

Government budget deficit, % GDP

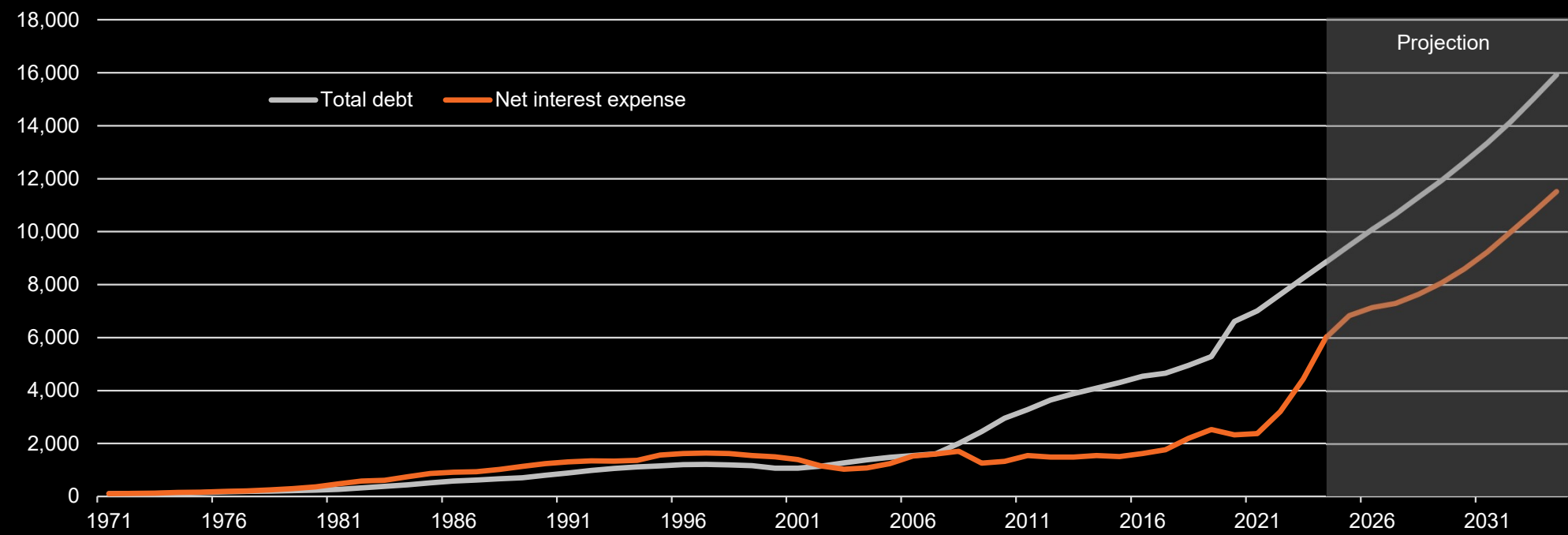


Source: Macrobond, Bureau of Economic Analysis, FS Investments, as of September 30, 2024.

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Debt and deficit dynamics hit a tipping point

Indexed to 100 = January 1971

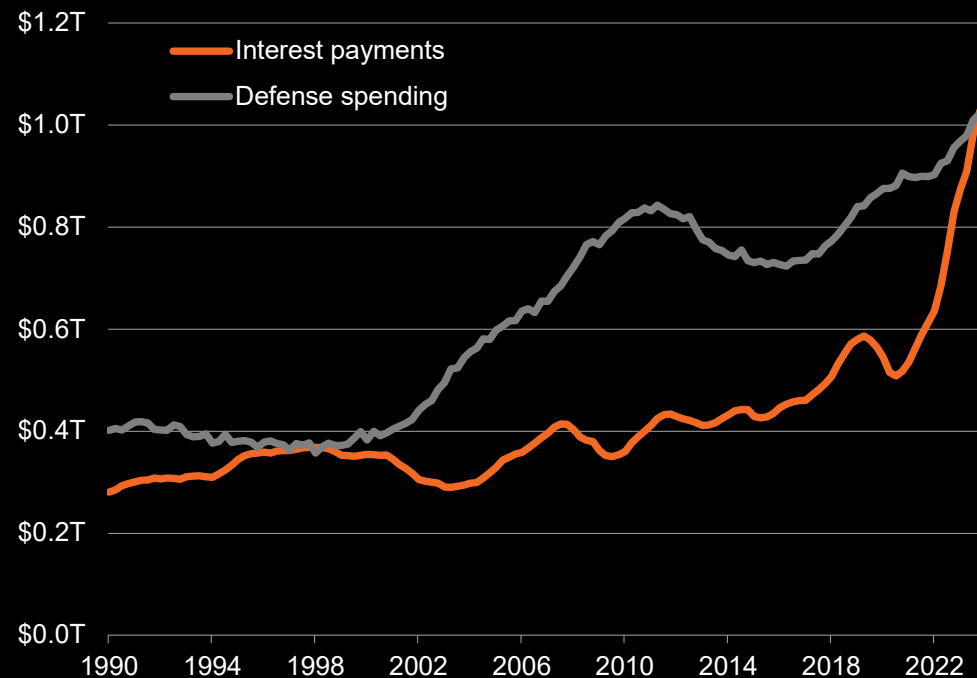


Source: Congressional Budget Office estimate, February 25, 2024

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Supply and cost of debt is likely to rise

Interest payments overtake defense spending

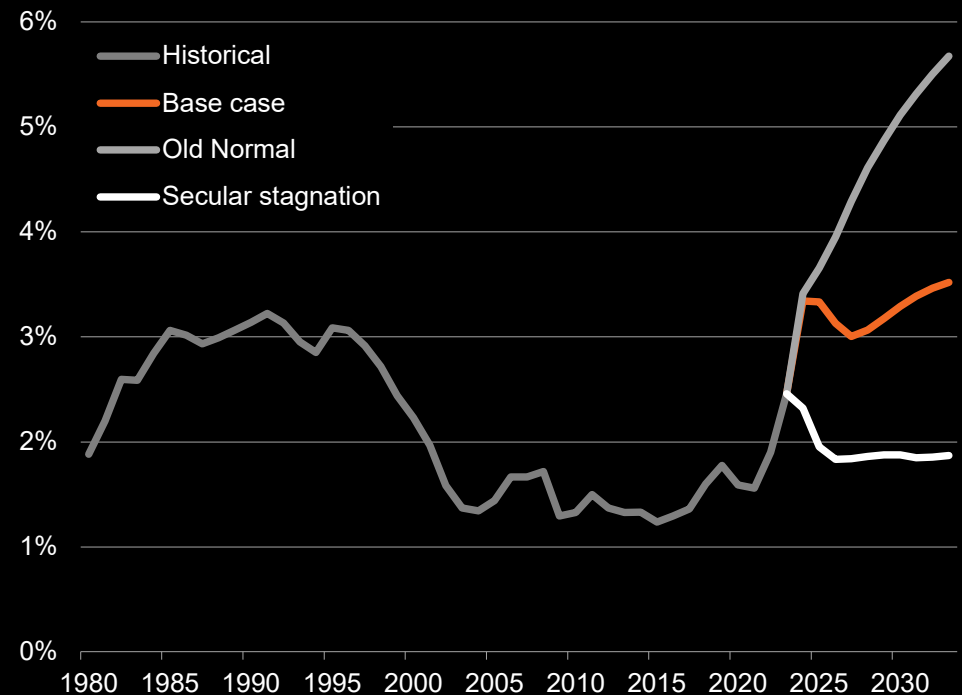


Source left chart: Congressional Budget Office, as of June 6, 2024.

Source right chart: Congressional Budget Office, Bureau of Economic Analysis, FS investments, as of June 6, 2024. Old normal yield curve is the average of 1995-2005 yield curve.

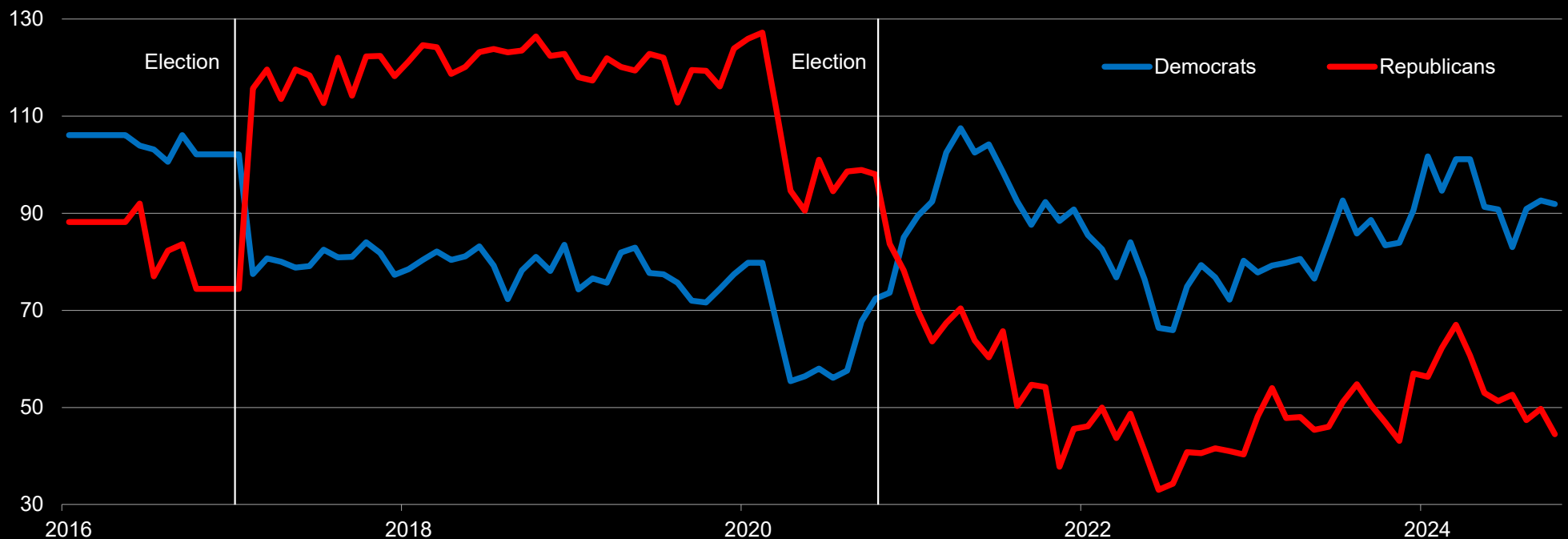
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Yield curve estimates of debt service, %GDP



Opinions about the economy are highly subjective

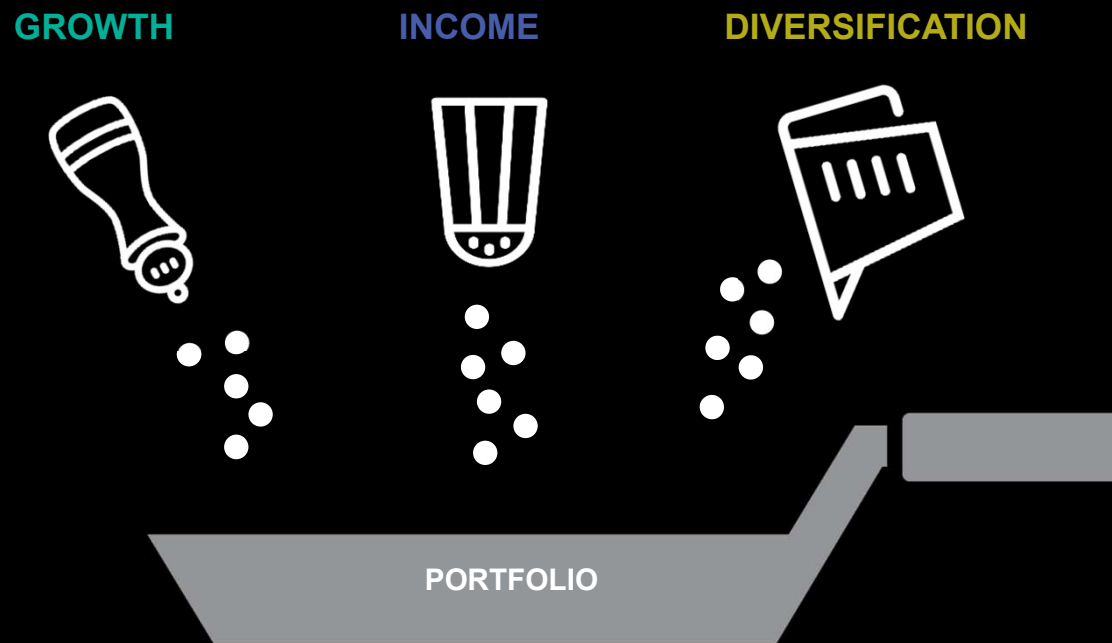
University of Michigan consumer sentiment



Source: University of Michigan, as of October 11, 2024.

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Times may change but individuals' goals are timeless



1. FS Investments survey administered through Google Surveys to a sampling of 536 investors between June 16, 2017 and June 21, 2017. Respondents indicated they had \$100,000 or more of invested assets.

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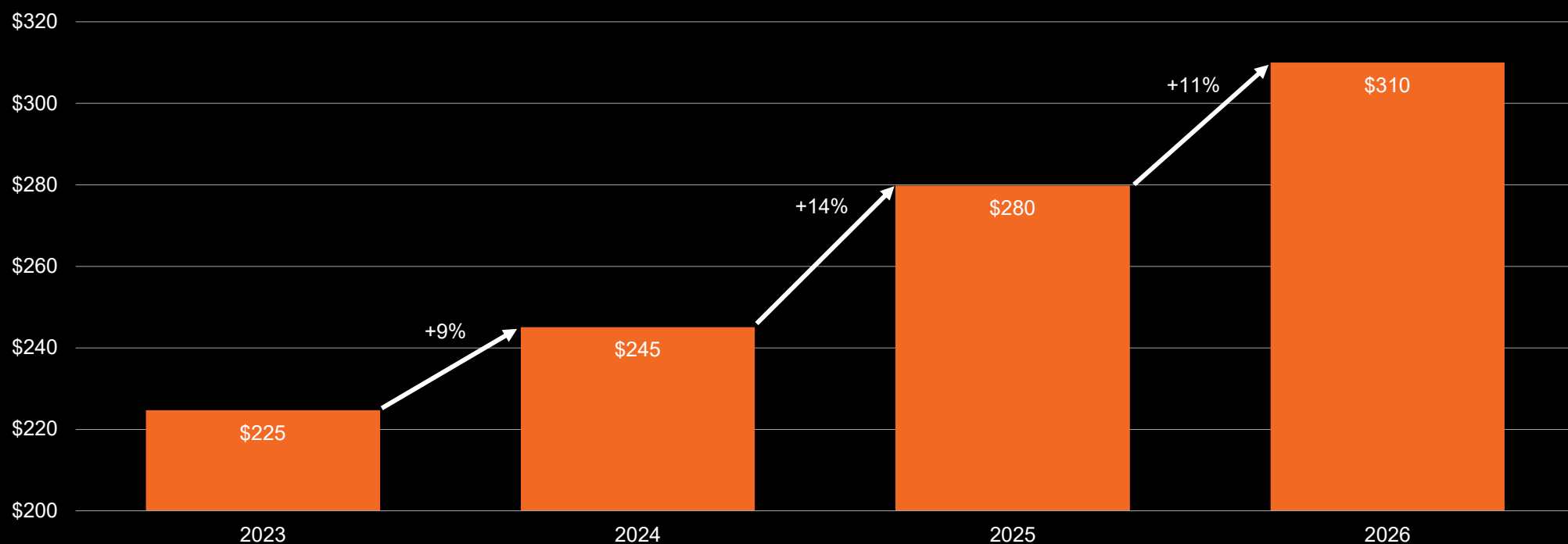
Policy uncertainty:
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Alternatives help navigate
investment outcomes

Growth expectations may be too optimistic

S&P 500 consensus EPS estimates

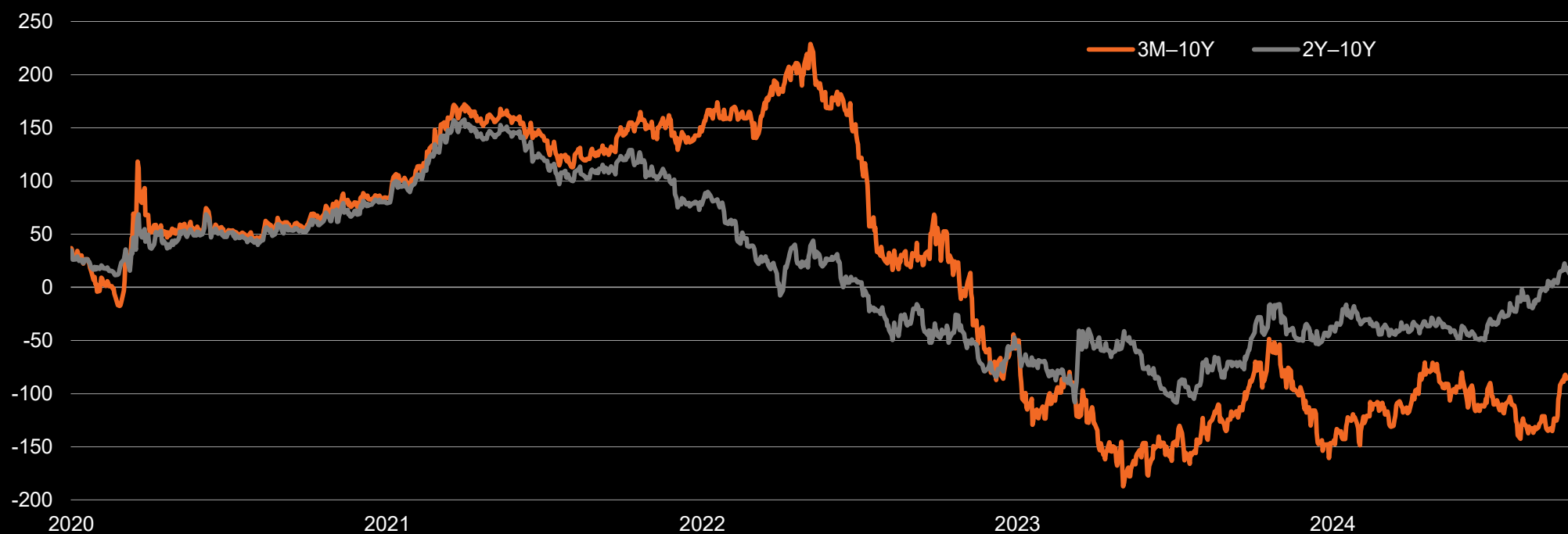


Source left and right charts: Bloomberg Finance, L.P., as of September 30, 2024.

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Yield curve is still inverted

Yield curve slop, basis points



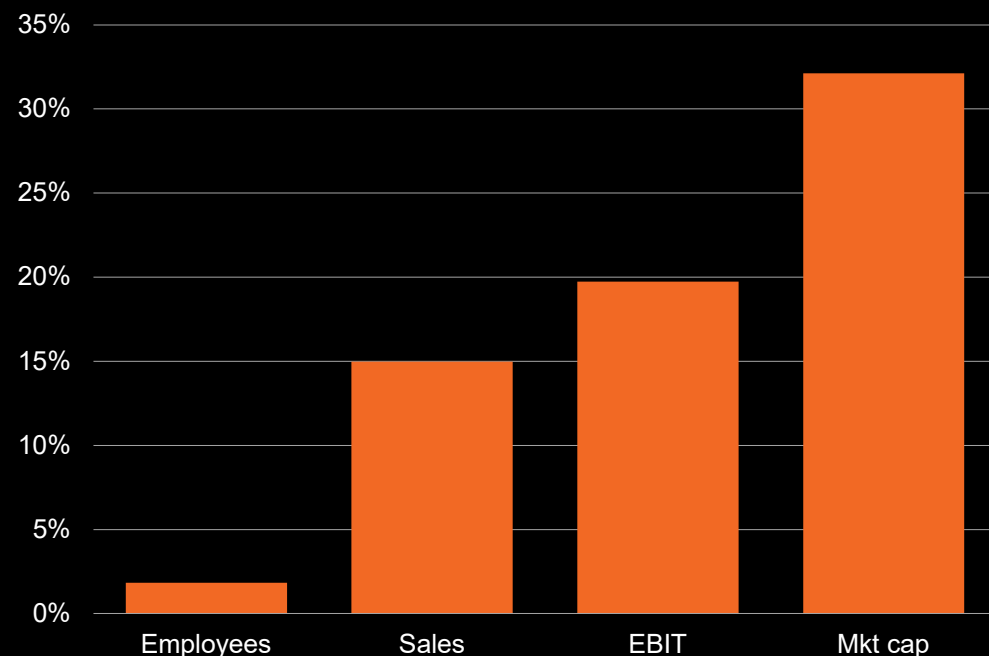
Source: Bloomberg Finance, L.P., as of September 30, 2024.

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The stock market is not the economy

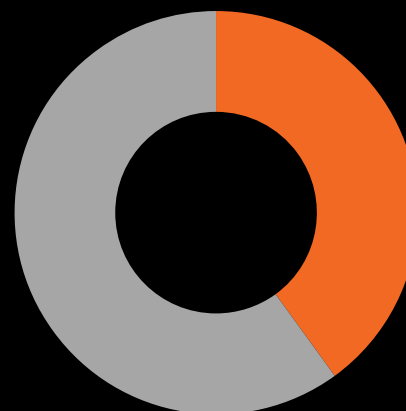
Top 10 U.S. publicly traded firms

% share of U.S. economy



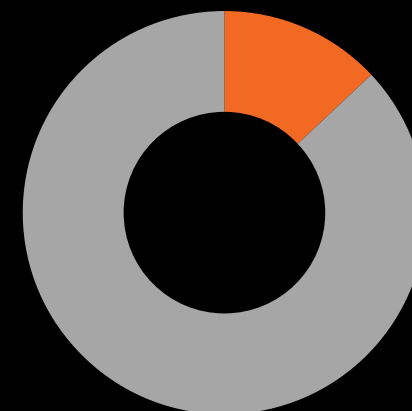
S&P 500 vs U.S. economy: International exposure

S&P 500



Foreign revenue
Domestic revenue

U.S. GDP

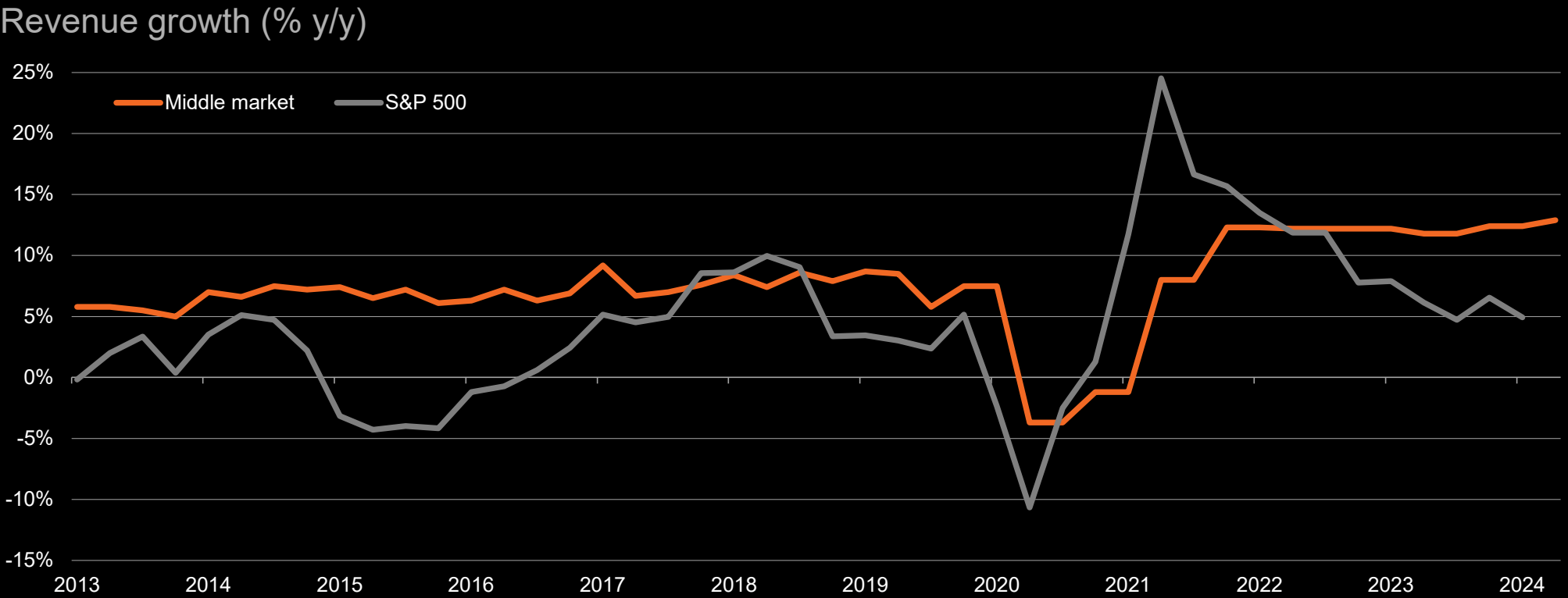


Foreign trade
Domestic demand

Source left chart: Bureau of Economic Analysis, Bureau of Labor Statistics, Bloomberg Finance, Flow of funds, L.P., FS Investments, as of September 9, 2024. Top 10 companies by market capitalization are AAPL, MSFT, NVDA, AMZN, META, GOOGL, BRK/B, LLY, AVGO, JPM. Source right chart:

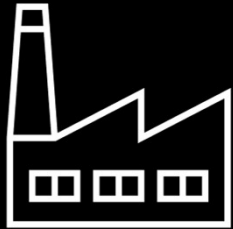
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Middle market earnings vs S&P 500



Source: National Center for the Middle Market, S&P, as of Q2 2024.
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What are private markets?



Private corporate capital



Private real assets

Equity

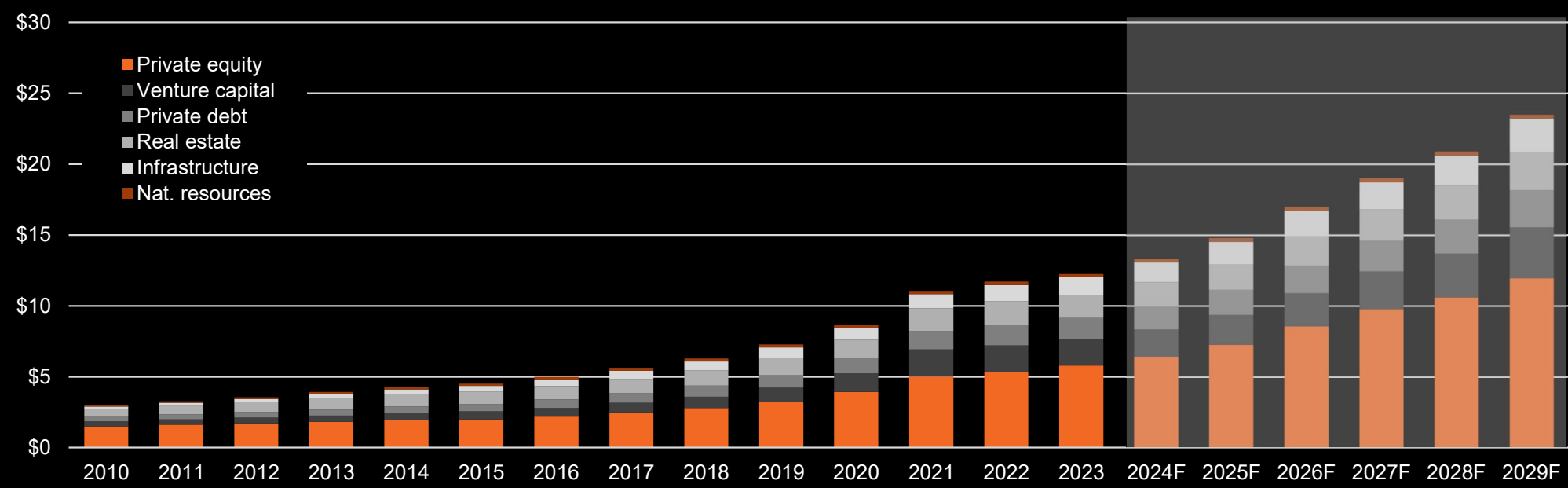
Debt

- Not traded on an exchange
- Illiquid
- Historically, high investment minimums
- Long time horizons

Growth of private markets

Private capital AUM has reached \$13 trillion, with more growth to come

Global private markets AUM (\$ trillions)

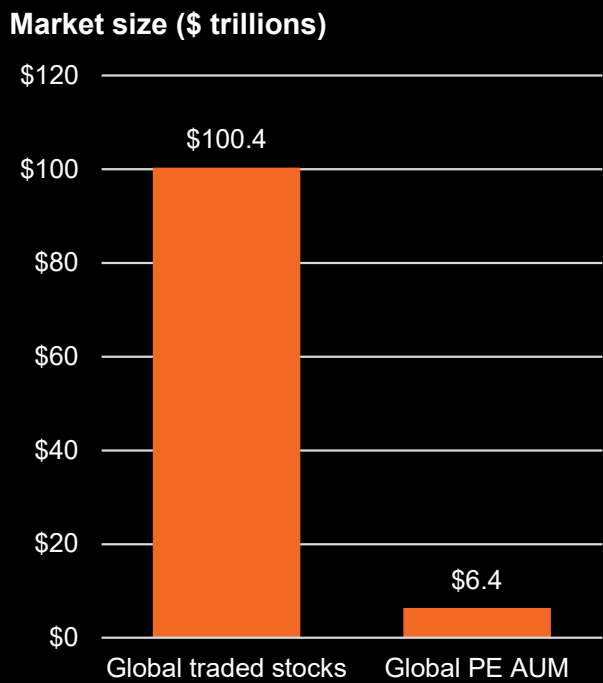


Source: Preqin as of September 30, 2024.

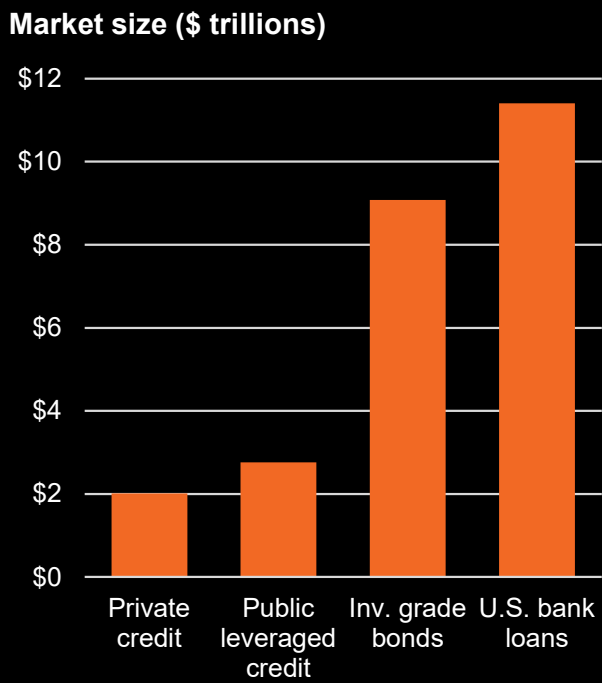
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Comparing size of private and public markets

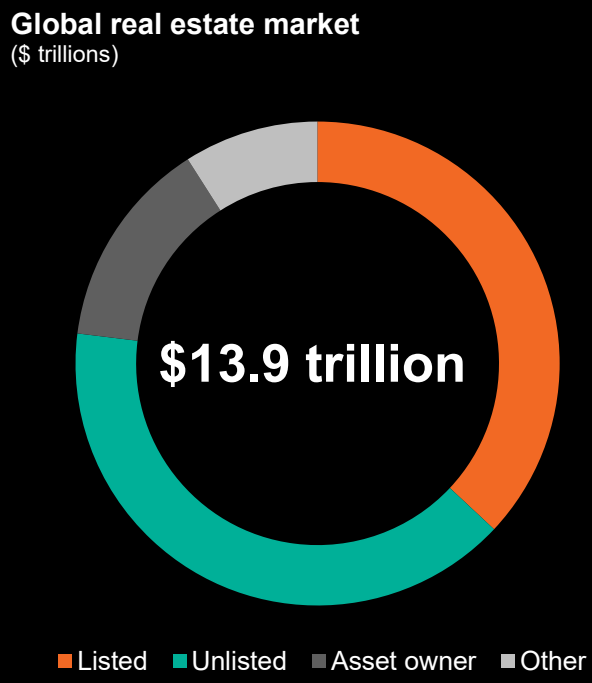
Public vs. private equity



Credit market sizes



Global CRE market



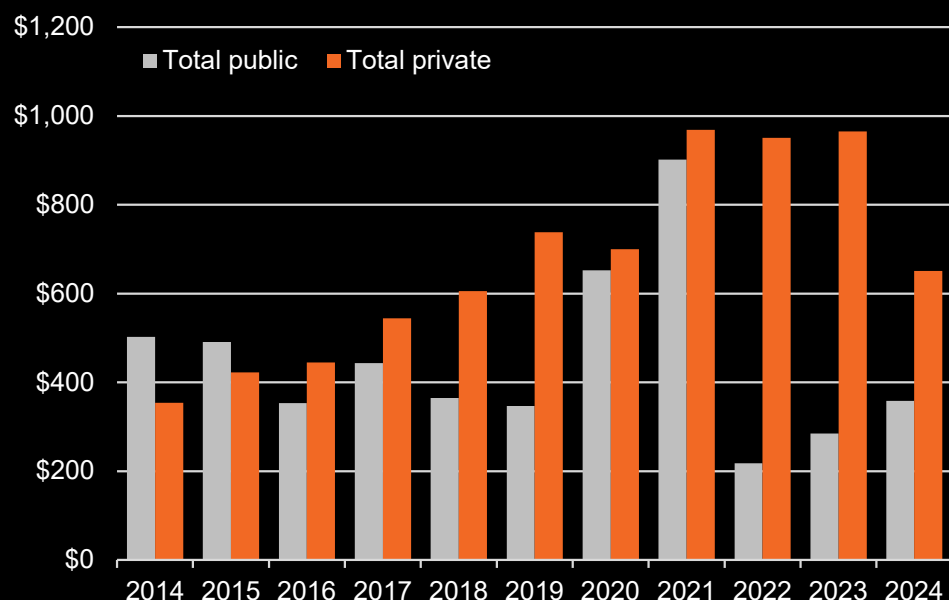
Left chart: Bloomberg Finance, L.P., Preqin, as of November 12, 2024.
Center chart: Pitchbook, Bloomberg Finance, L.P., Federal Reserve, as of June 30, 2024.
Right chart: MSCI Real Capital Analytics, as of December 31, 2023.

Activity has increasingly moved to private markets

Private markets may be relatively small now, but they punch above their weight

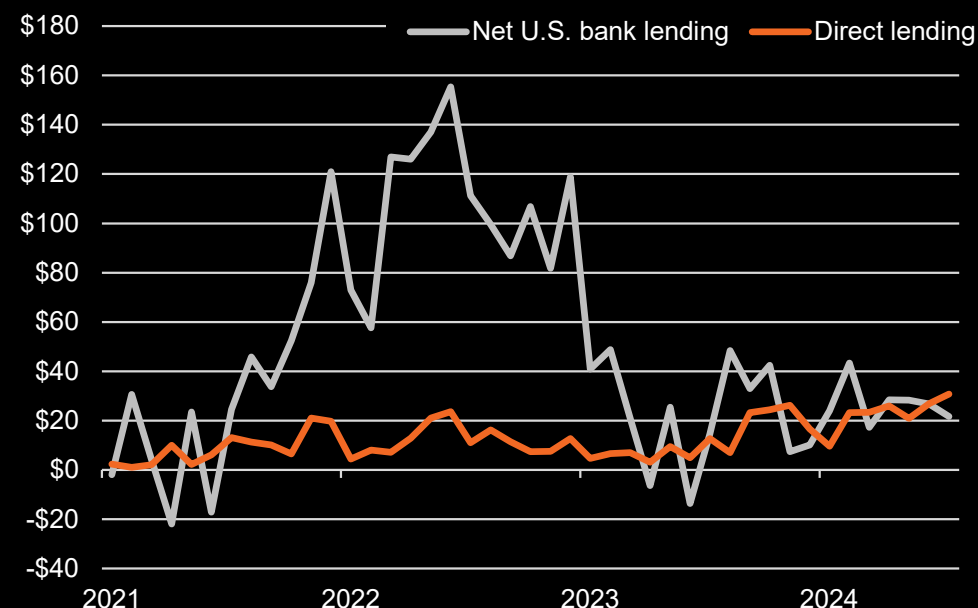
Equity capital formation

Public vs. private; N. America and Europe



Credit growth, banks vs. PC

Monthly originations (\$ billions)



Left chart: Bloomberg Finance, L.P., as of October 31, 2024. Public capital formation includes IPOs and secondary offerings. Private capital formation includes PE fundraising and take-privates.
Right chart: DBRA, Federal Reserve, as of July 31, 2024.

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Secular drivers of private markets growth

Firms stay private longer

Number and size of U.S. public firms



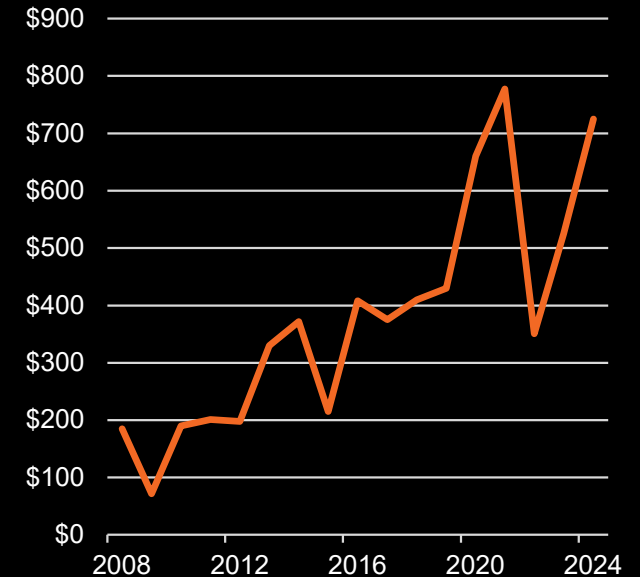
Bank disintermediation

Bank share of business debt



Growth and maturation

Median deal size, U.S. LBO \$ millions



Left chart: World Bank, Jay R. Ritter (Univ. of Florida), as of 2022.

Center chart: Federal Reserve, as of March 31, 2024.

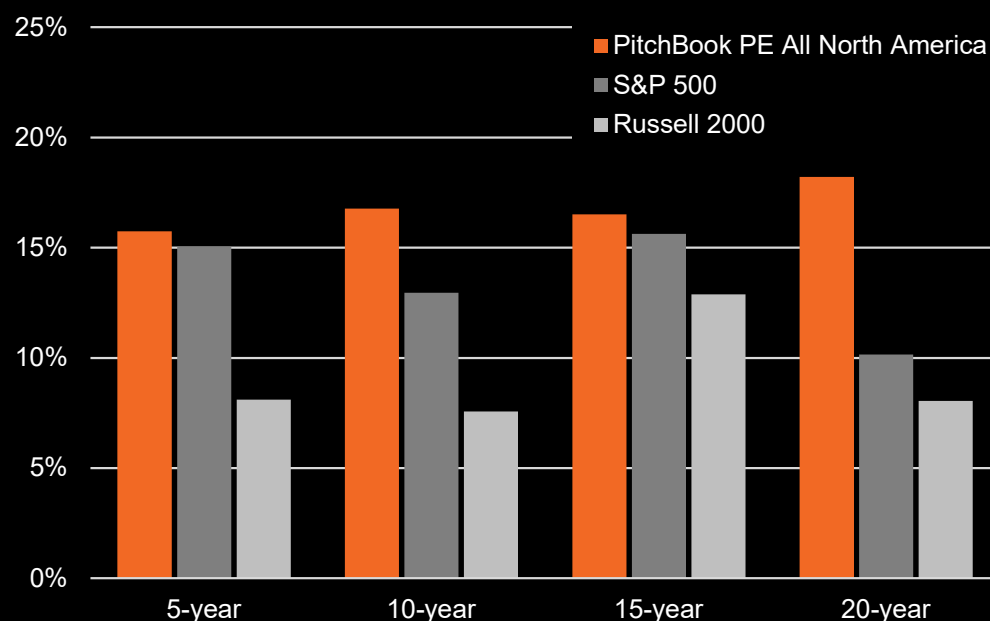
Right chart: Pitchbook, as of December 31, 2023.

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Investor demand driven by positive experience

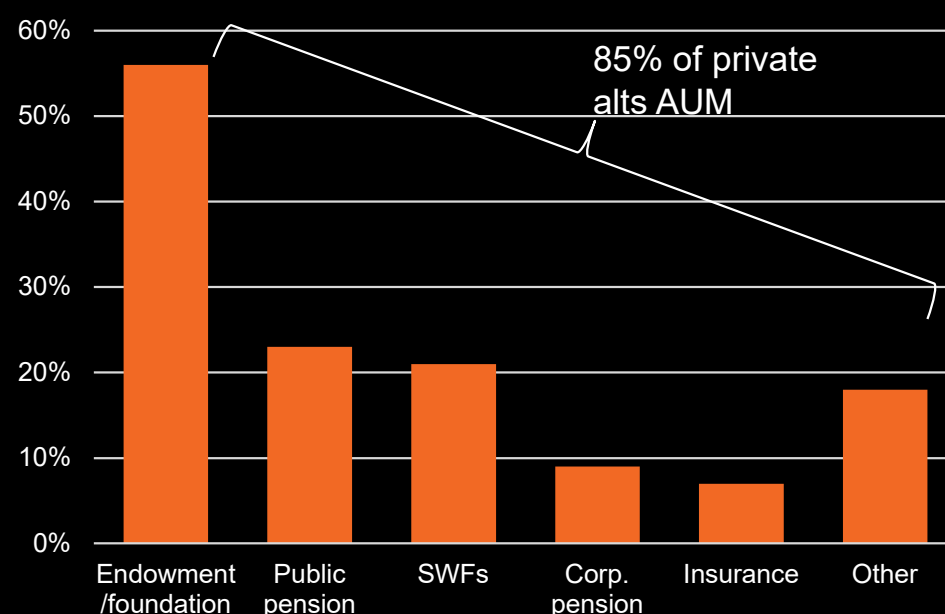
Private markets have outperformed

Public vs. private equity returns



Institutional investors have flocked to alts

Inst'l investor allocation to private alts



Left chart: Bloomberg Finance, L.P., Pitchbook, as of June 30, 2024.

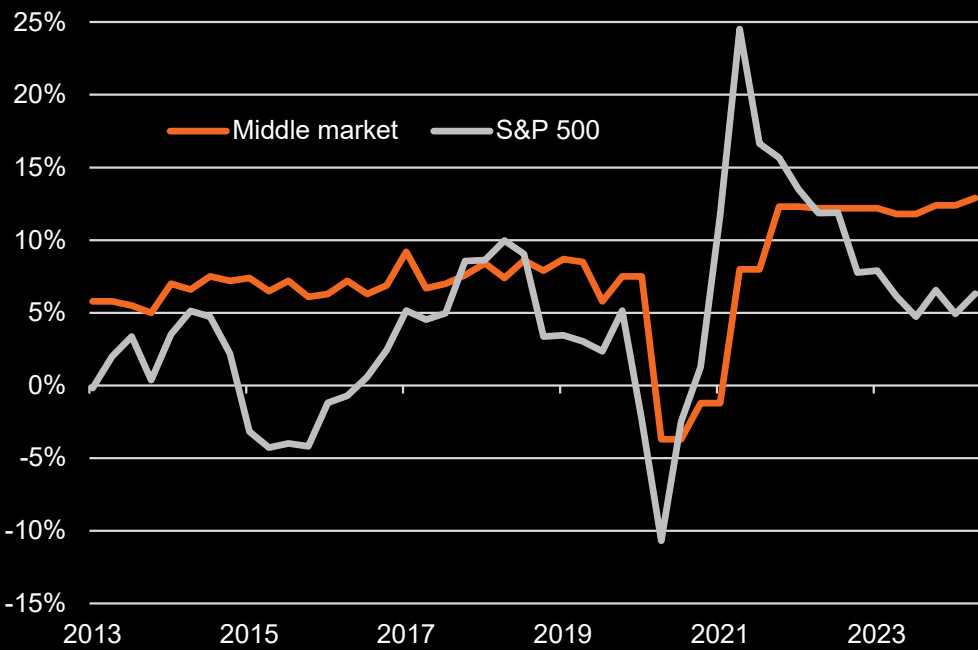
Right chart: Bain & Co., as of year-end 2022.

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Private equity outlook

Fundamentals have been rock solid

Market revenue growth, % y/y

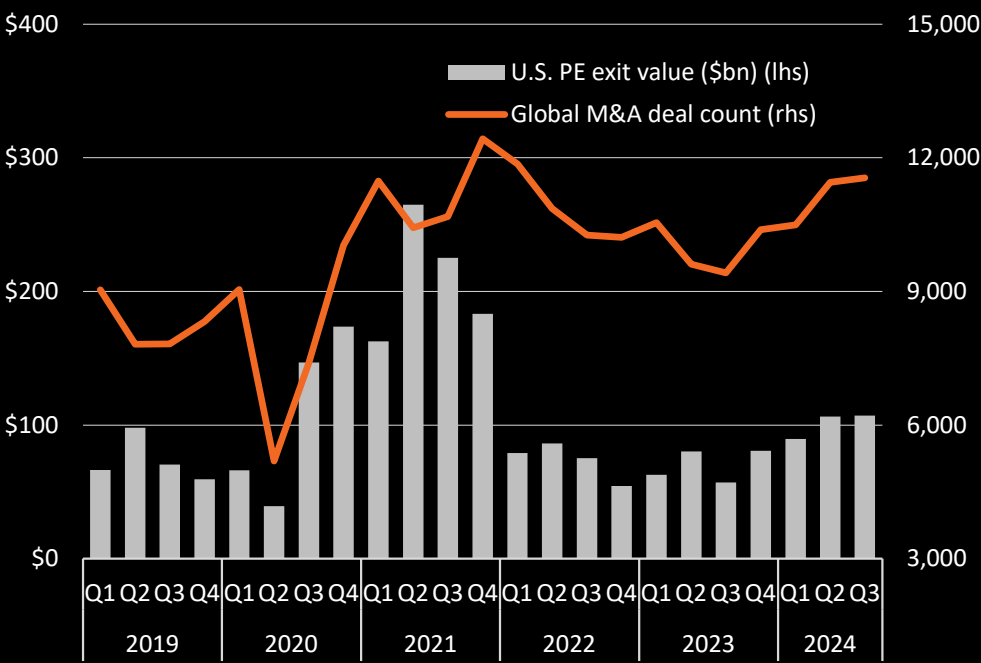


Left chart: National Center for the Middle Market, as of June 30, 2024.

Right chart: Pitchbook, as of September 30, 2024.

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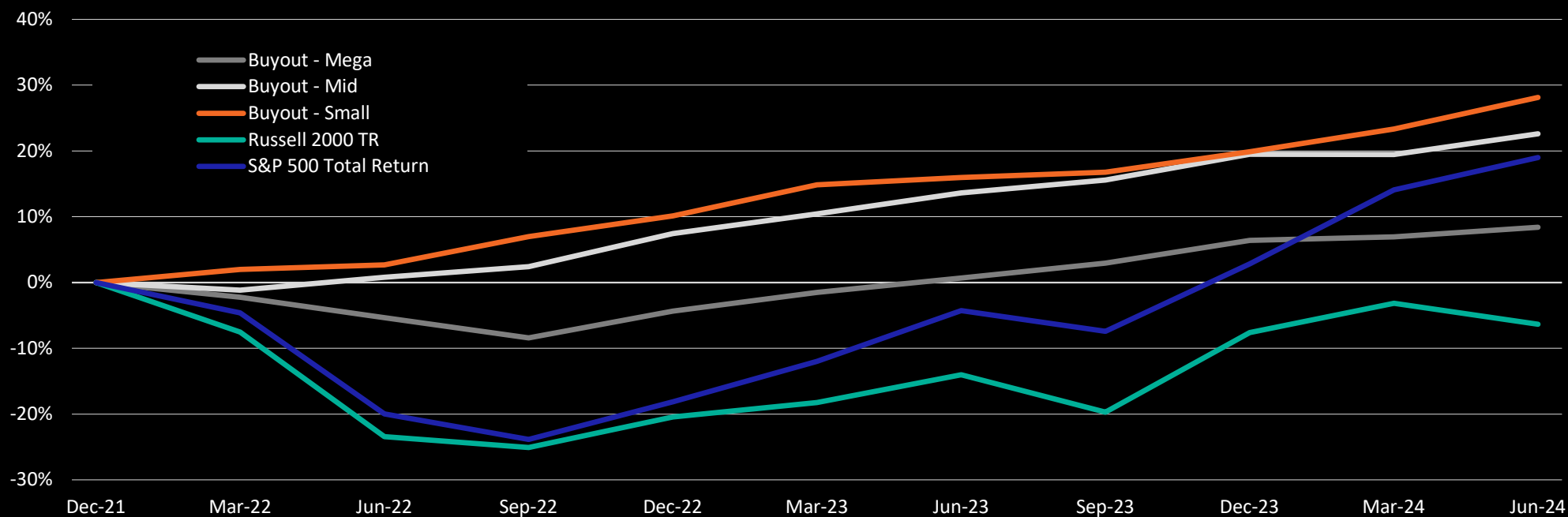
Higher rates have thrown sand in the gears



Private equity outlook

Smaller, less rate-sensitive parts of the market have flourished

Cumulative returns since Fed rate hikes commenced



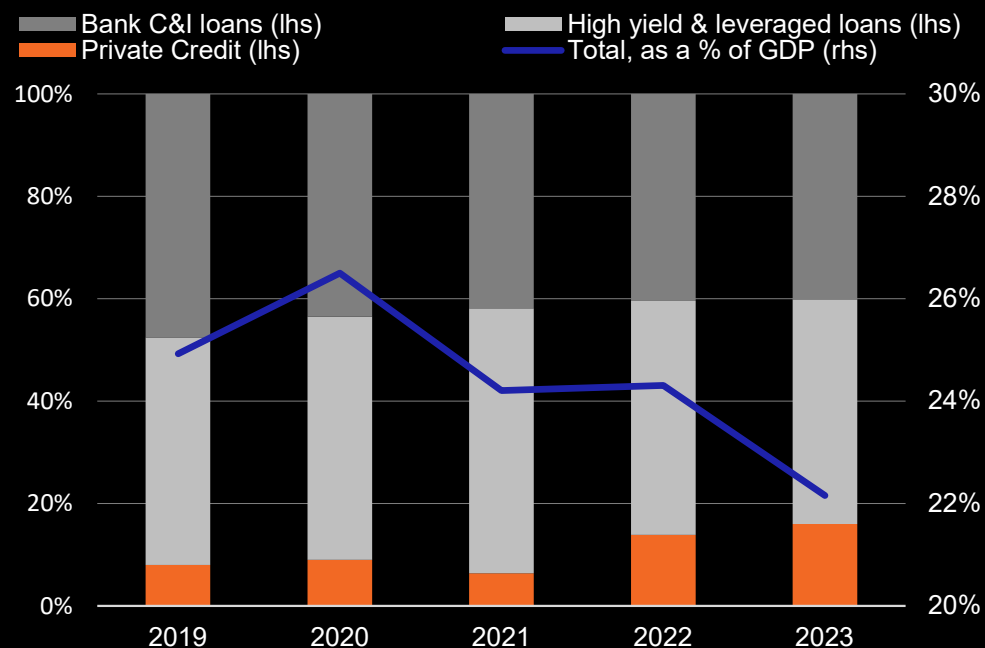
Source: Pitchbook, as of June 30, 2024.

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Private credit outlook

Still significant room for expansion

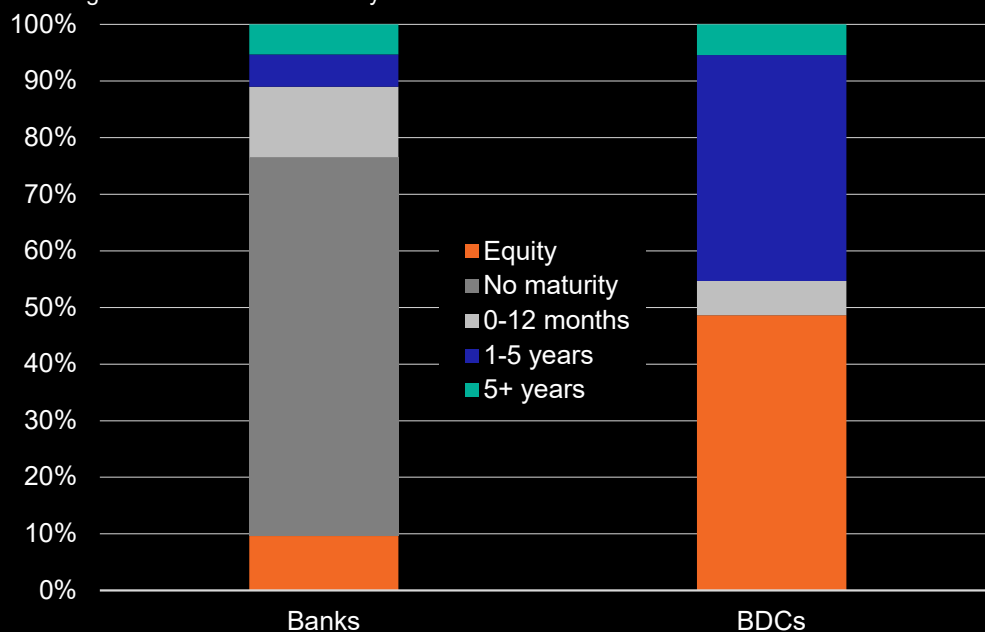
Leveraged credit market share, by lender type



A better mousetrap?

Financing structure of banks and private credit BDCs

Leverage and distribution of liability maturities

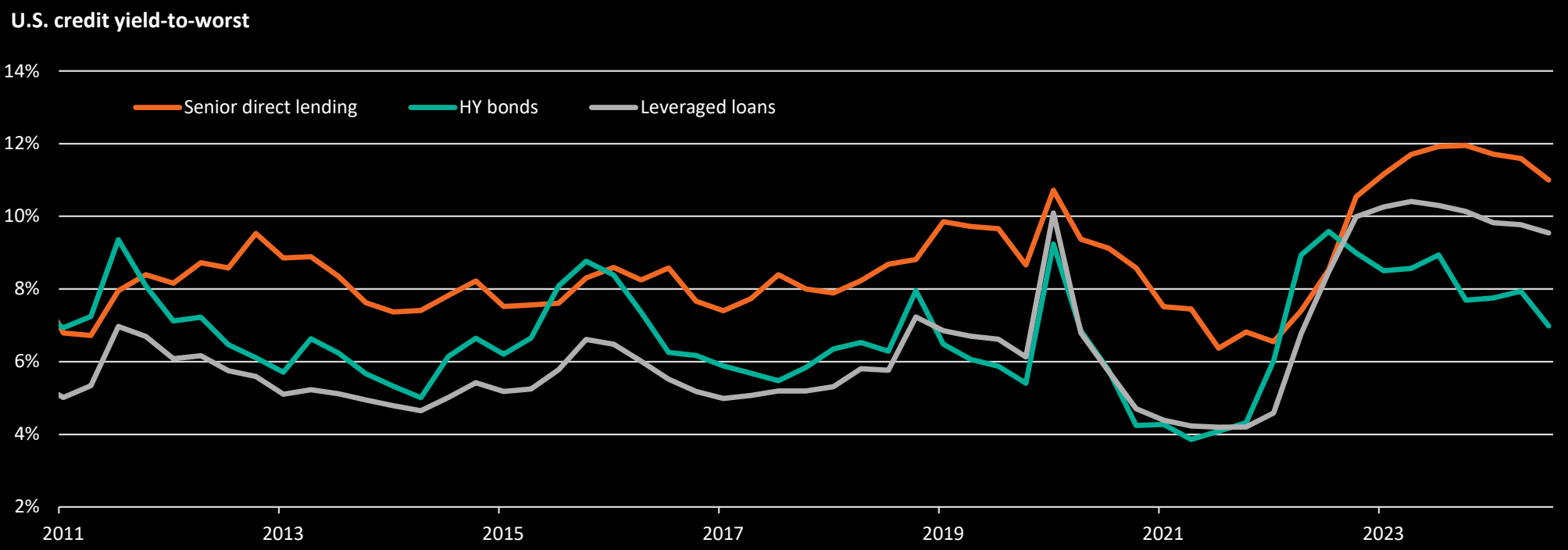


Left chart: Bloomberg Finance, L.P., BofAML, Federal Reserve, Preqin, U.S. BEA, as of YE 2023.

Right chart: Federal Reserve, company reports, as of Q2 2024.

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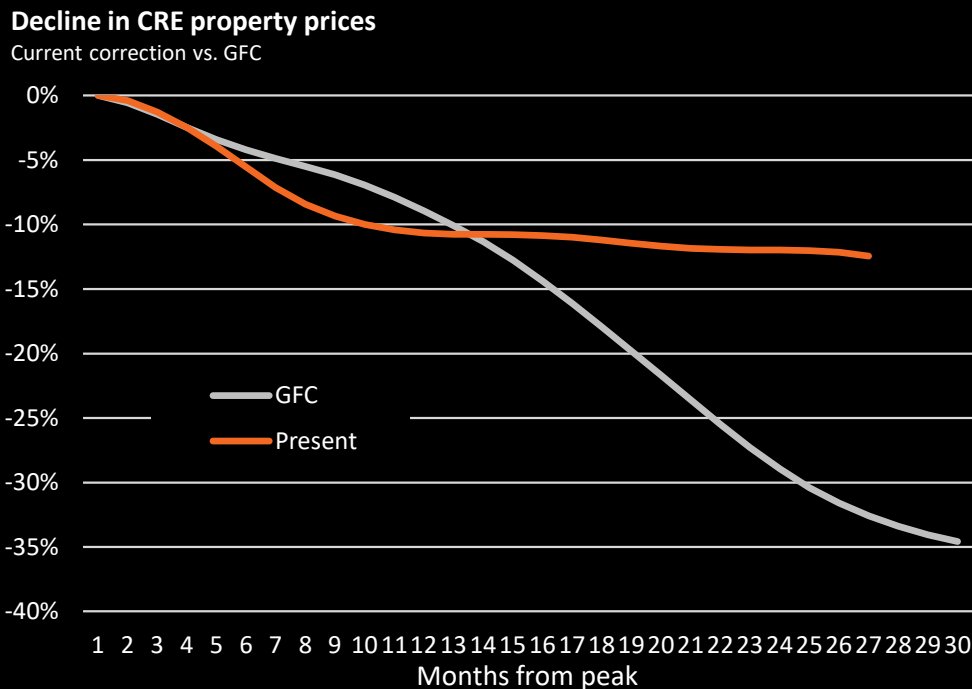
Private credit outlook



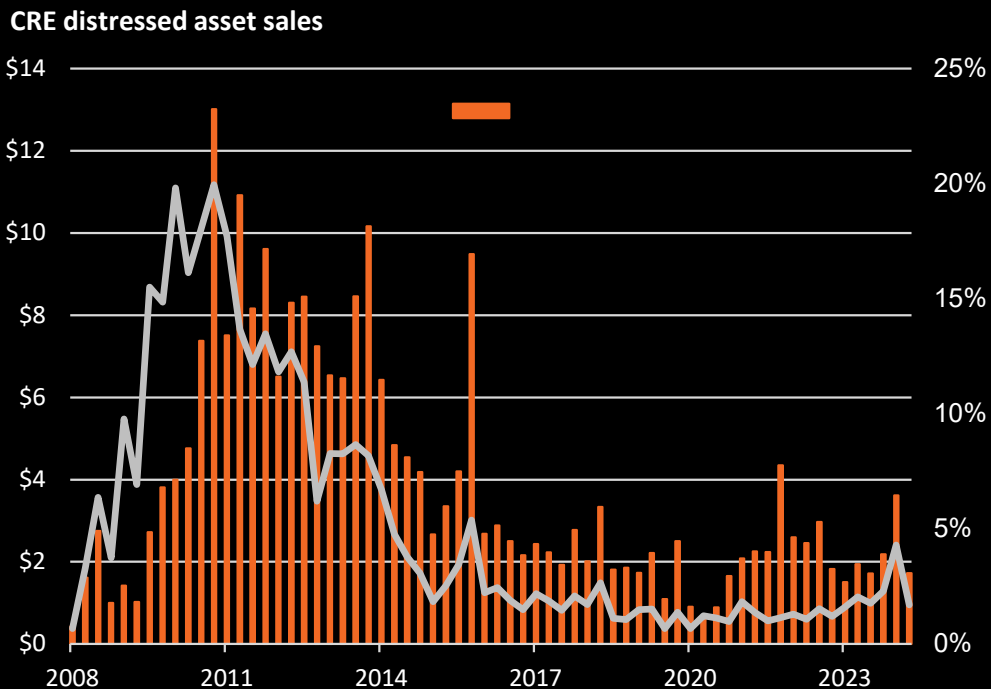
Sources: Cliffwater, BofAML, Pitchbook, as of June 30, 2024.
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Commercial real estate outlook

This correction has been unique



Distress has been isolated to the office sector



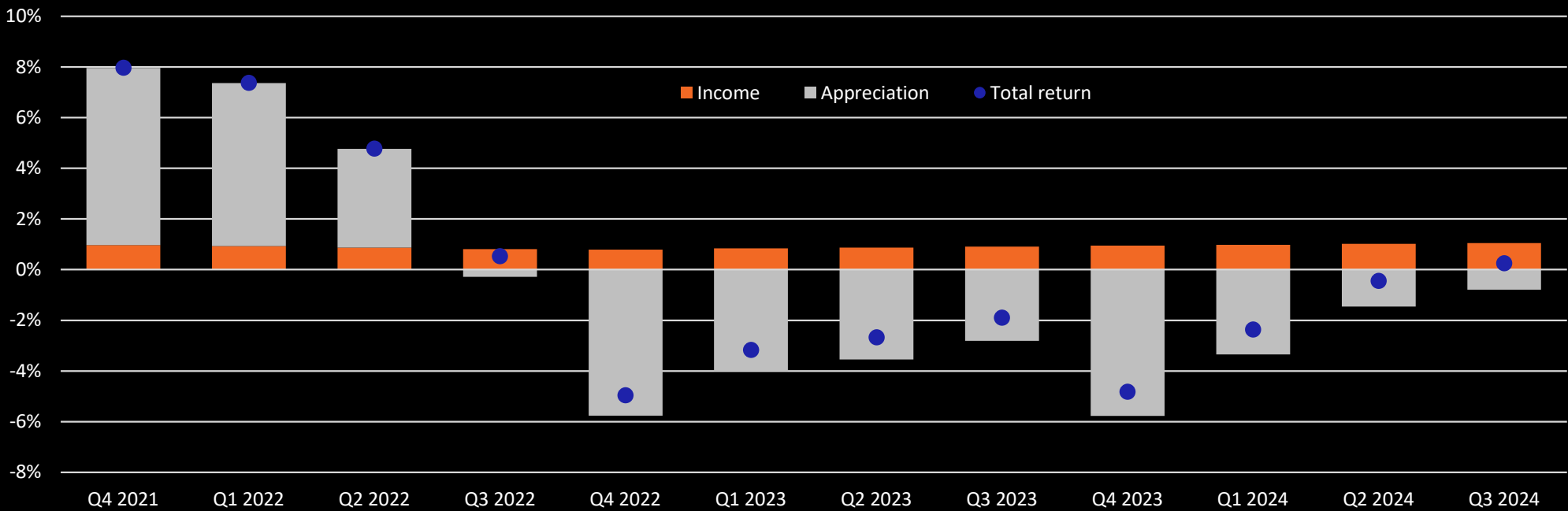
Left chart: MSCI Real Capital Analytics, as of September 30, 2024.

Right chart: MSCI Real Capital Analytics, as of June 30, 2024.

Commercial real estate outlook

Property values have stopped falling – but will they rise meaningfully?

NCREIF ODCE Index quarterly returns

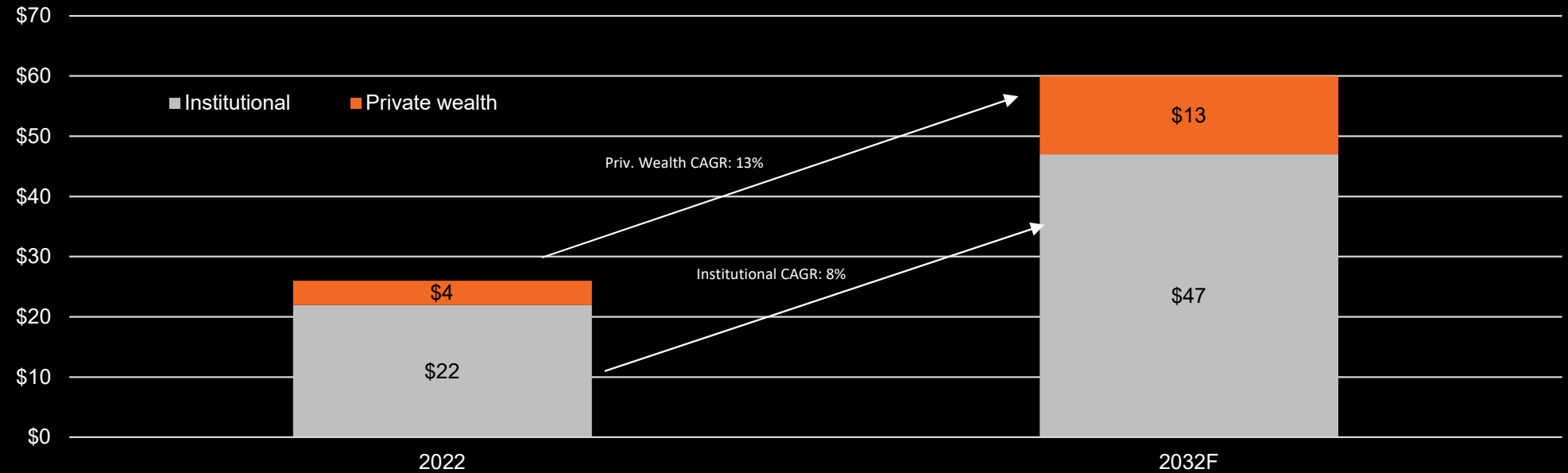


Source: NCREIF ODCE Index, as of September 30, 2024.
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The next frontier of private alternatives growth

Global alternatives AUM

\$ trillions



Source: Bain & Co., as of December 31, 2022.

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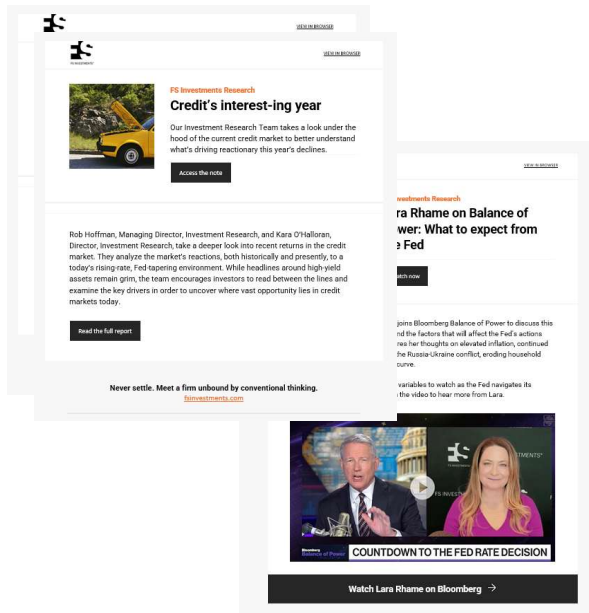
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Additional resources

1

FS Insights

Read articles and research on the markets and economy

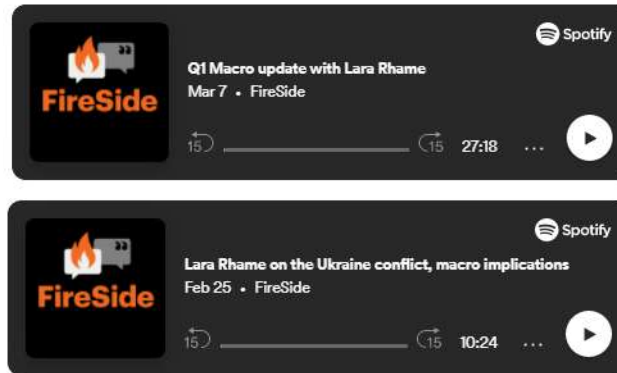


2

FireSide podcast

Research insights

From our top minds to your ears. Get the latest takes on market outlooks, industry news, and current events directly from our dedicated Investment Research team.



3

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