

# Economic outlook and private market update



**Lara Rhame**

Chief U.S. Economist,  
Managing Director  
FS Investments



**Andrew Korz**

Executive Director  
FS Investments

This information is educational in nature and does not constitute a financial promotion, investment advice or an inducement or incitement to participate in any product, offering or investment. FS Investments is not adopting, making a recommendation for or endorsing any investment strategy or particular security.

All investing is subject to risk, including the possible loss of the money you invest.

CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

## 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<sup>1</sup>

**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

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

### Credit expertise

- Private credit
- Credit secondaries
- Multi-sector credit
- Special situations credit

PORTFOLIO  
ADVISORS, LLC

**KKR**

### Multi-asset expertise

- Global allocation
- Multi-strategy

### Private equity expertise

- Direct co-investments
- Secondaries (LP + GP-led)
- Primaries

PORTFOLIO  
ADVISORS, LLC

### Real asset expertise

- Real estate credit
- Real estate secondaries

PORTFOLIO  
ADVISORS, LLC 

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.



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.

CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# 1

Economy:  
Check in and outlook

# 2

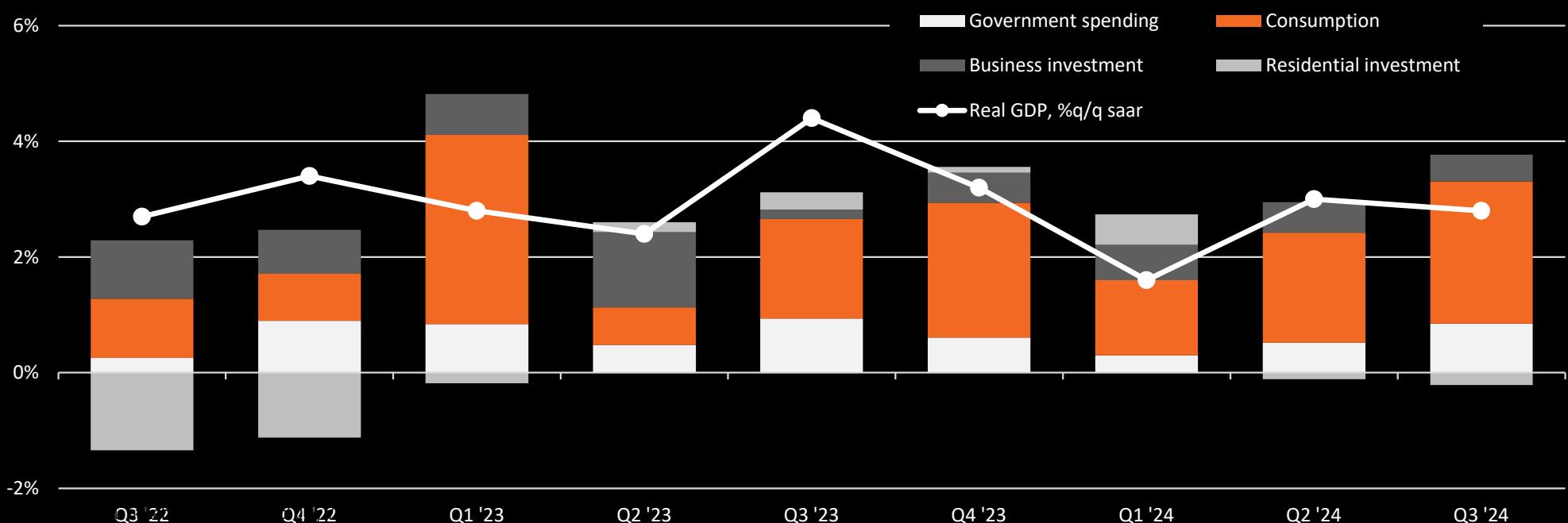
Policy uncertainty:  
The Fed and the election

# 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.

CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# 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.

CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# The two-speed jobs market is unique

Hiring is slowing, but there are still few layoffs

JOLTS survey: rate of hiring and firing

3mma

7%

6%

5%

4%

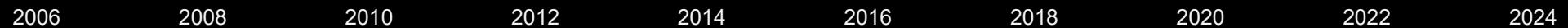
3%

2%

1%

0%

Hiring rate Layoff rate

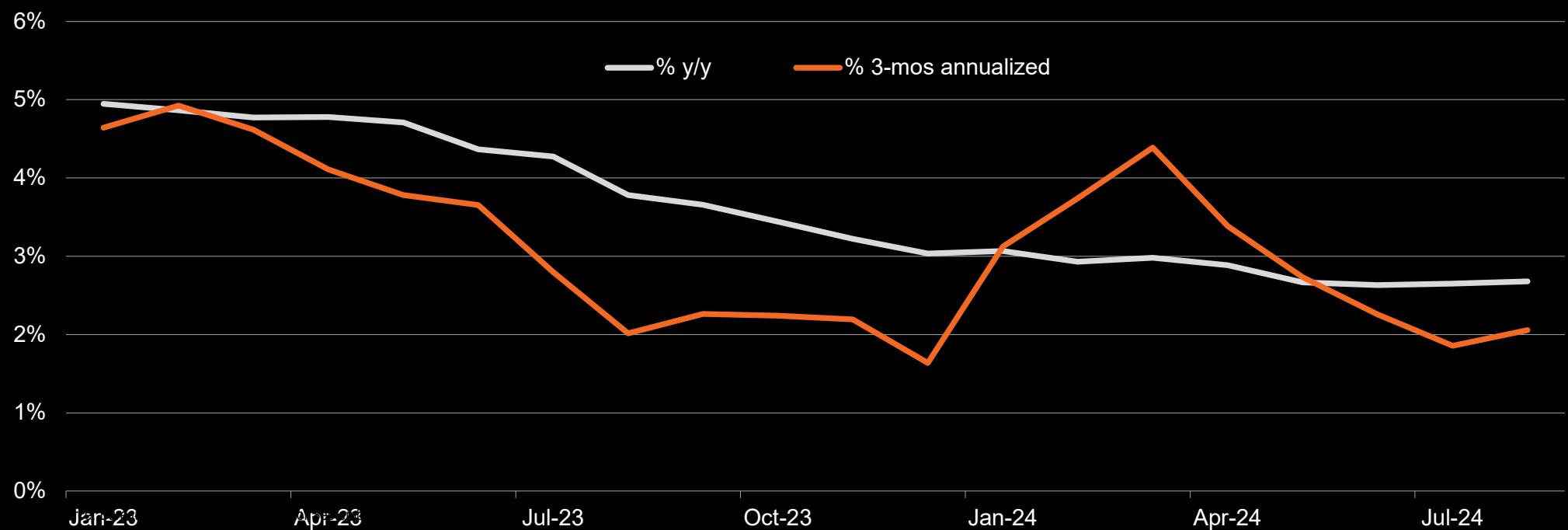


Source: Bureau of Labor Statistics, as of August 31, 2024.

CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# Inflation offers a window of opportunity for the Fed

Core PCE deflator

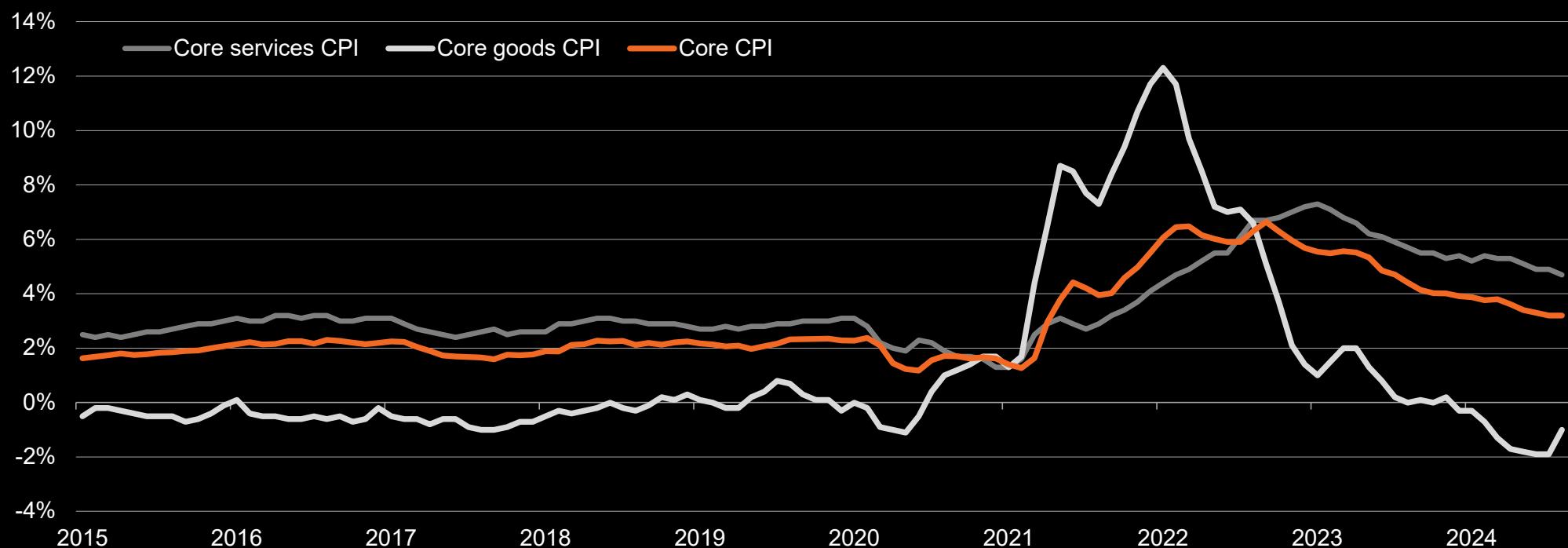


Source: Bureau of Economic Analysis, as of September 30, 2024.

CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# Inflation far off pre-COVID underlying trends

Goods vs services, %y/y

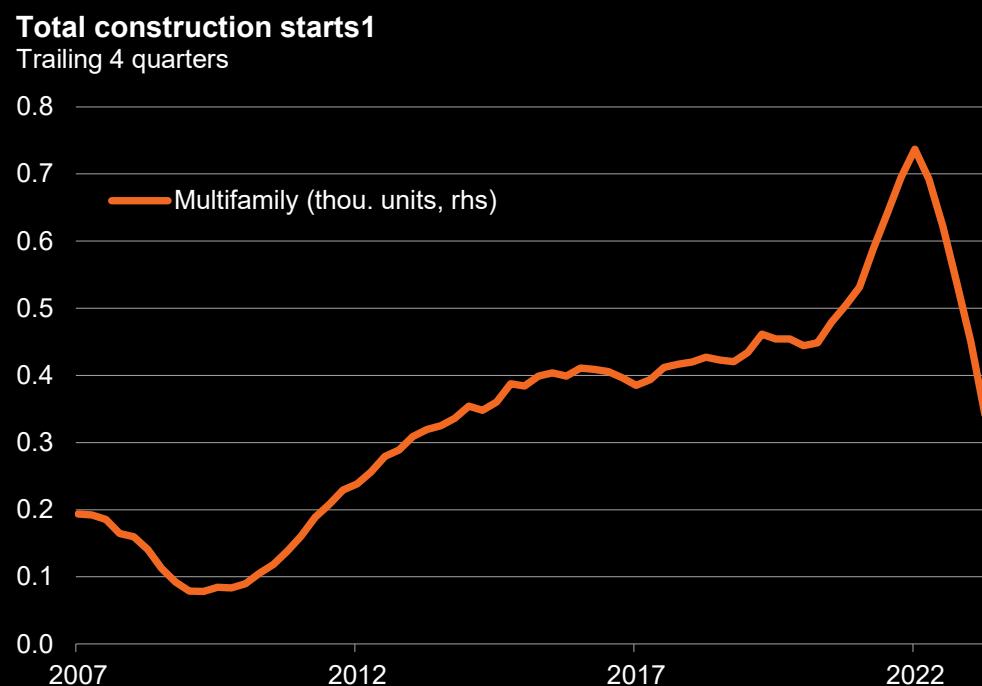


Source: Bureau of Labor Statistics, as of October 13, 2024.

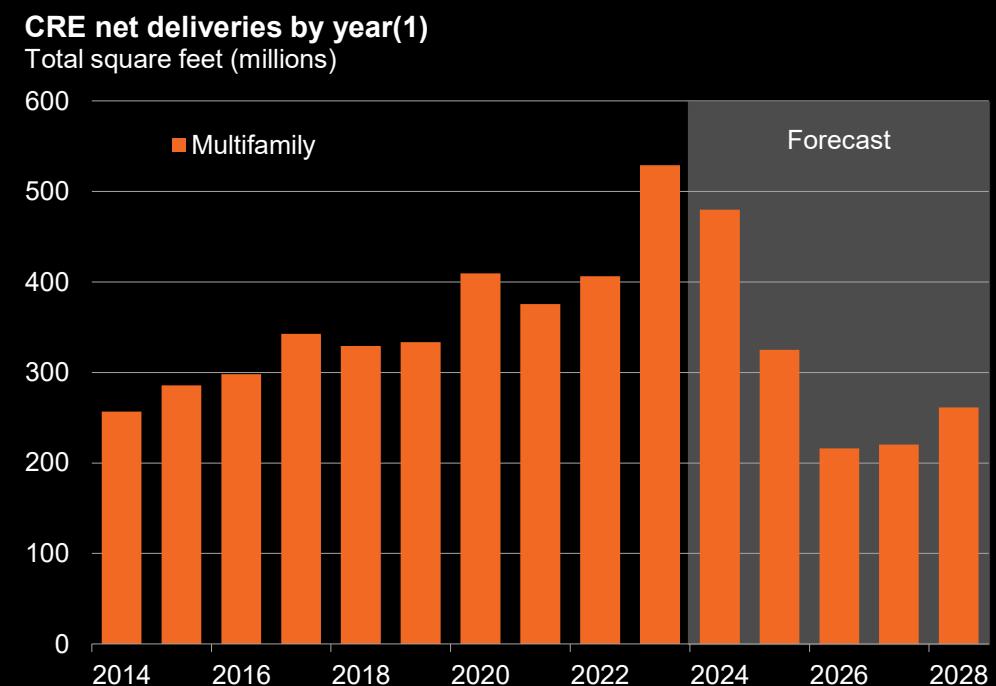
CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

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

The brief construction boom is over



The coming years will feature a trickle of supply



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

CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# 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.

CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# 1

Economy:  
Check in and outlook

# 2

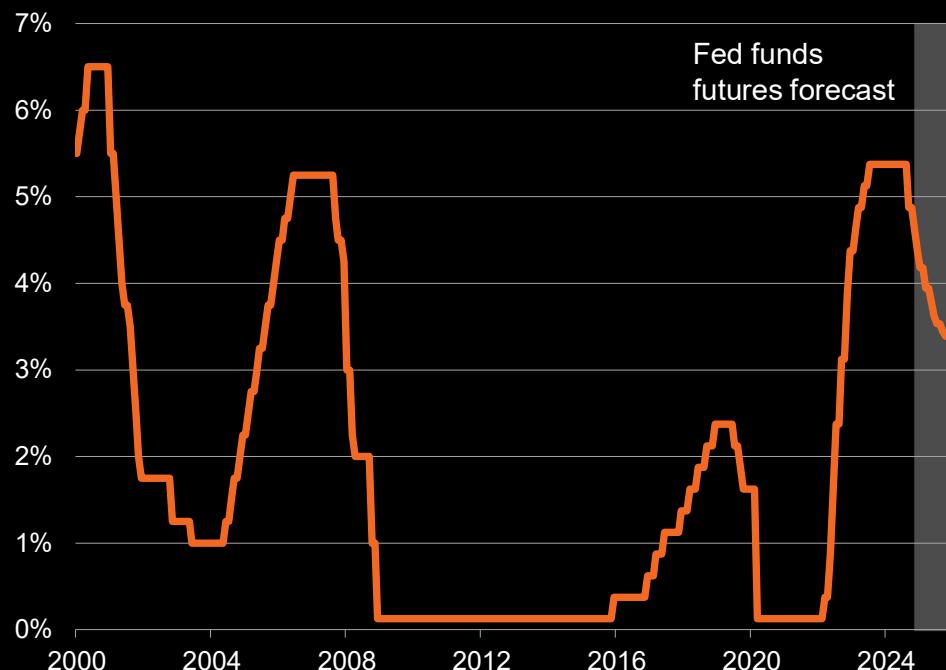
Policy uncertainty:  
The Fed and the election

# 3

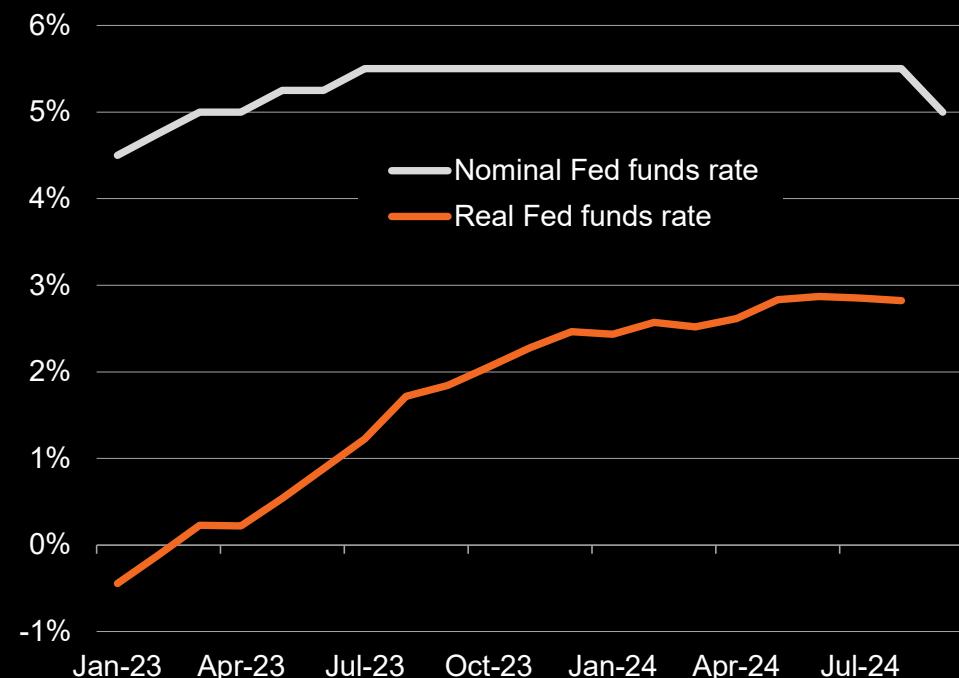
Alternatives help navigate  
investment outcomes

# Fed prepares to cut rates, but by how much?

Markets expect about 100 bps more by end 2024



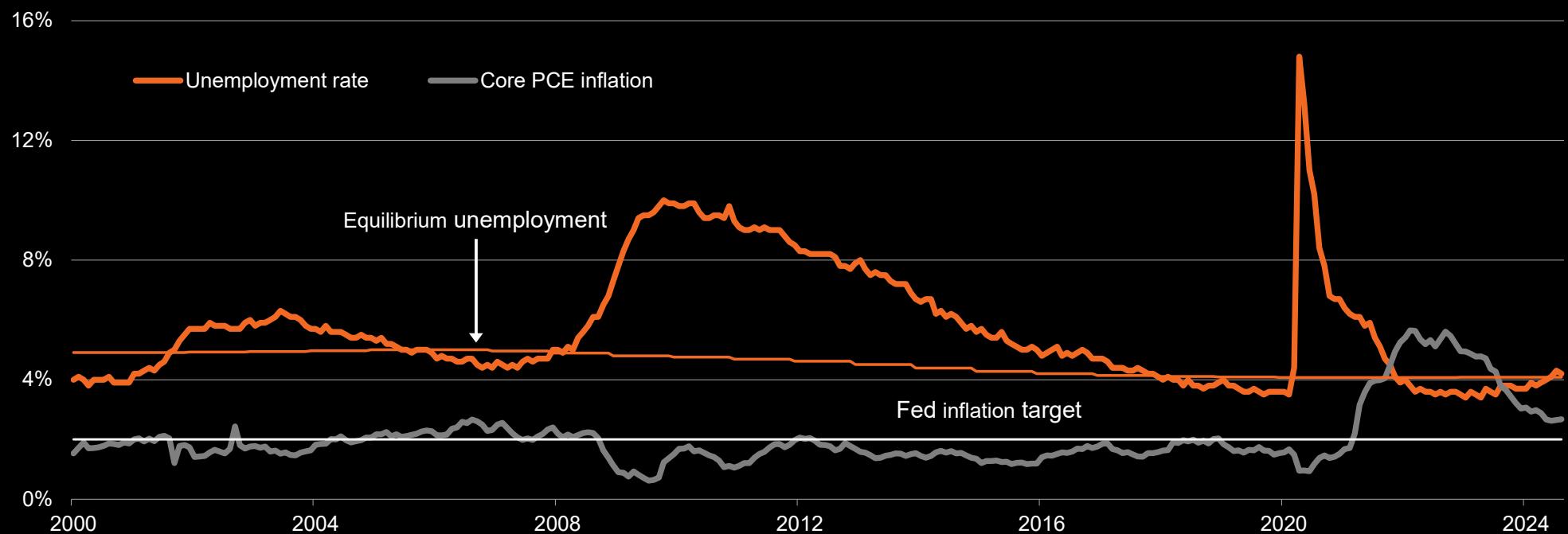
Falling inflation raised real rates



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.  
CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# Fed policy: Dual-ing it out

Which Fed mandate should be the focus?

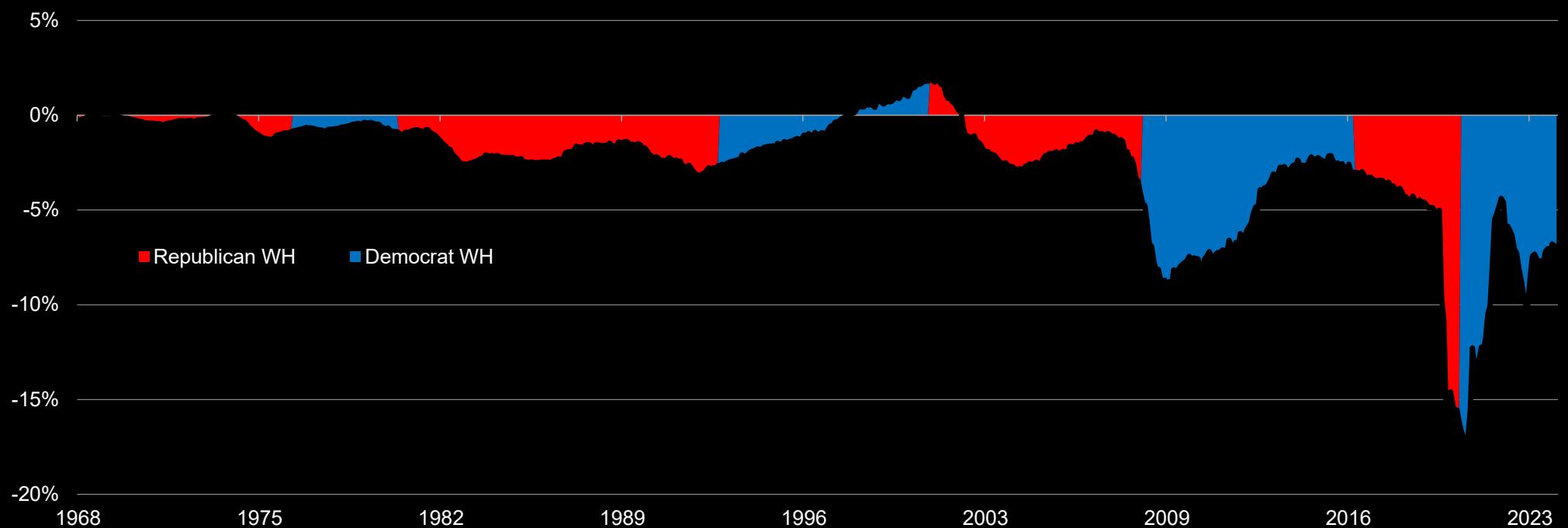


Source: Bureau of Labor Statistics, OECD, Federal Reserve. Equilibrium unemployment reflects the OECD estimate of NAIRU. Y-axis truncated due to COVID distortions.

CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# The government deficit is a growing problem

Government budget deficit, % GDP

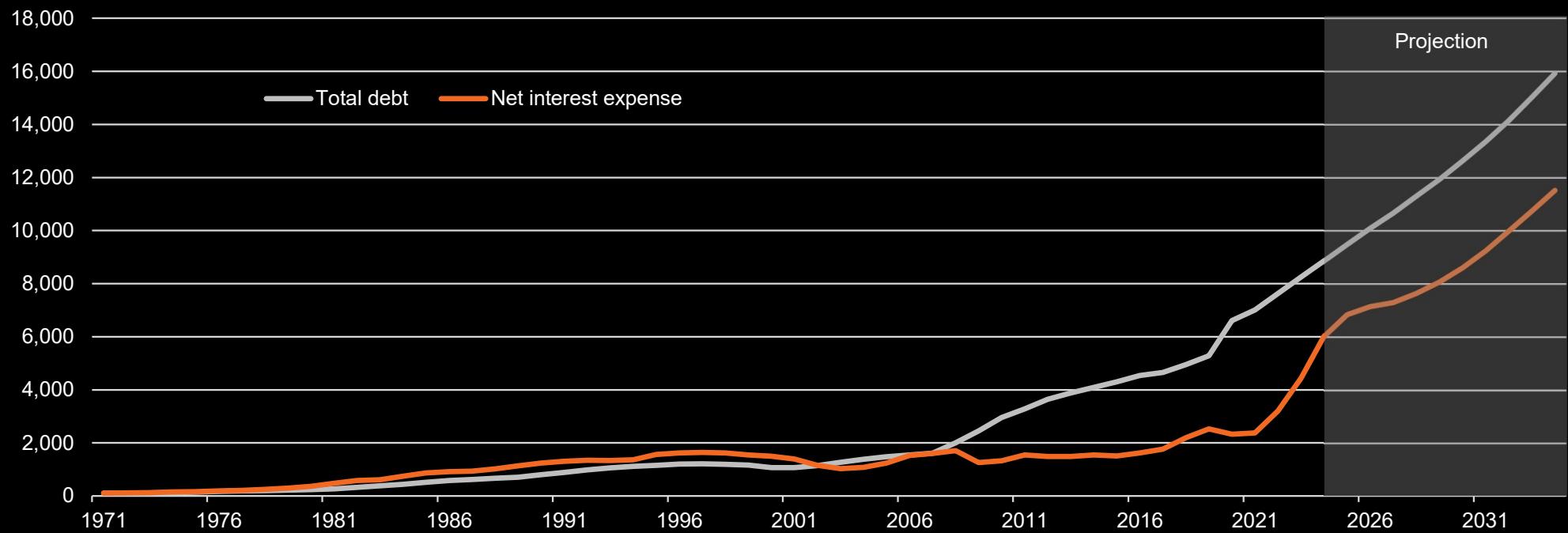


Source: Macrobond, Bureau of Economic Analysis, FS Investments, as of September 30, 2024.

CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# Debt and deficit dynamics hit a tipping point

Indexed to 100 = January 1971



Source: Congressional Budget Office estimate, February 25, 2024

CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# Supply and cost of debt is likely to rise

Interest payments overtake defense spending



Yield curve estimates of debt service, %GDP



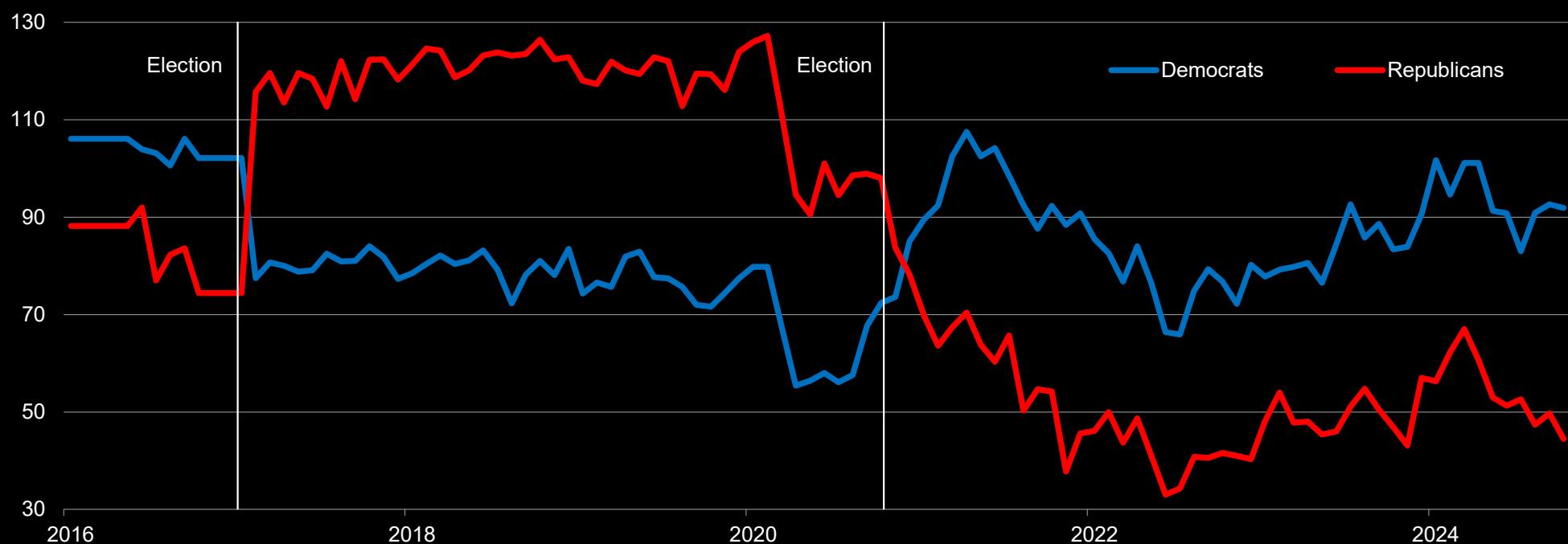
Source left chart: Congressional Budget Office, as of June 6, 2024.

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.

CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# Opinions about the economy are highly subjective

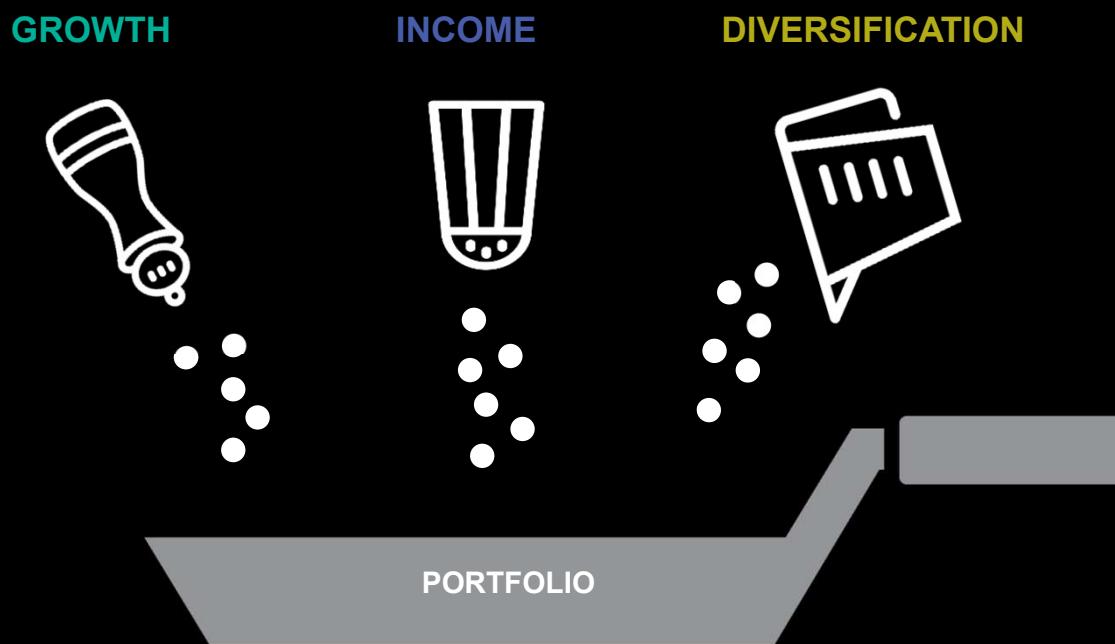
University of Michigan consumer sentiment



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

CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# 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.

CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# 1

Economy:  
Check in and outlook

# 2

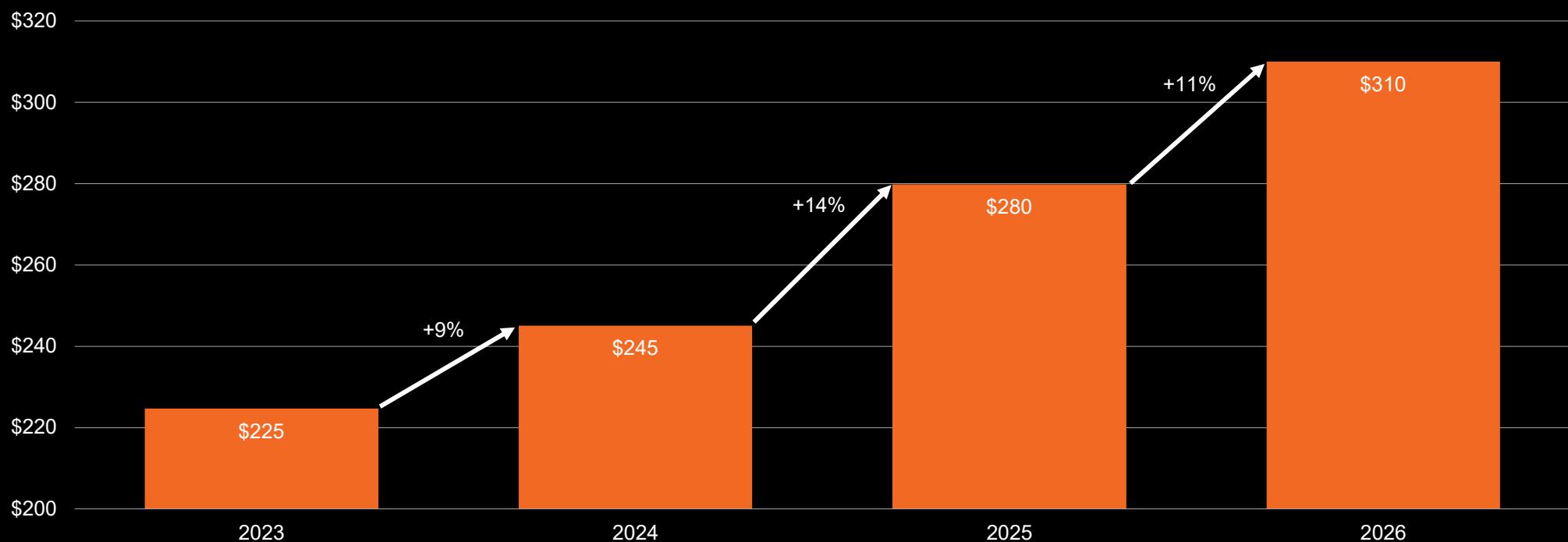
Policy uncertainty:  
The Fed and the election

# 3

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.

CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# Yield curve is still inverted

Yield curve slop, basis points

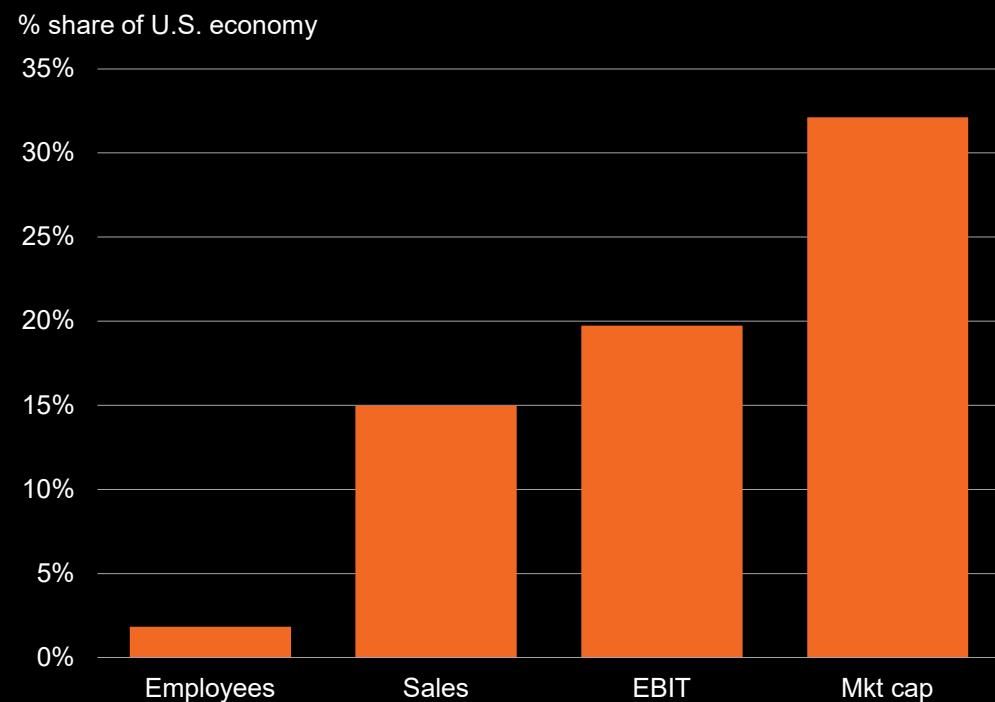


Source: Bloomberg Finance, L.P., as of September 30, 2024.

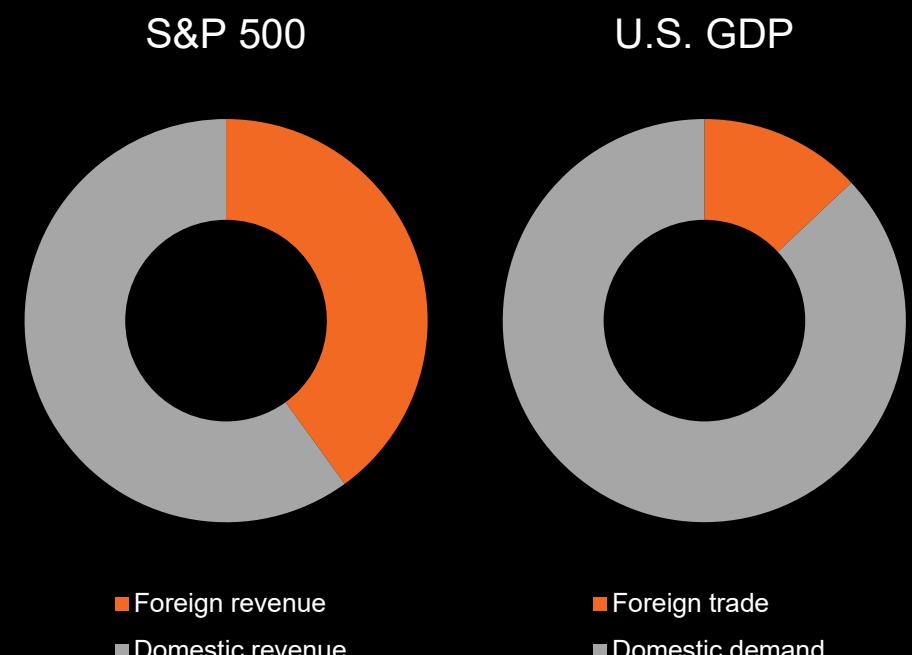
CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# The stock market is not the economy

Top 10 U.S. publicly traded firms



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



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:

CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# Middle market earnings vs S&P 500

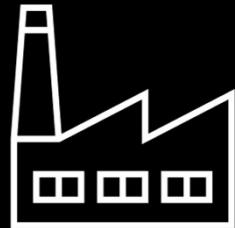
Revenue growth (% y/y)



Source: National Center for the Middle Market, S&P, as of Q2 2024.

CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# What are private markets?



Private corporate capital



Private real assets

Equity

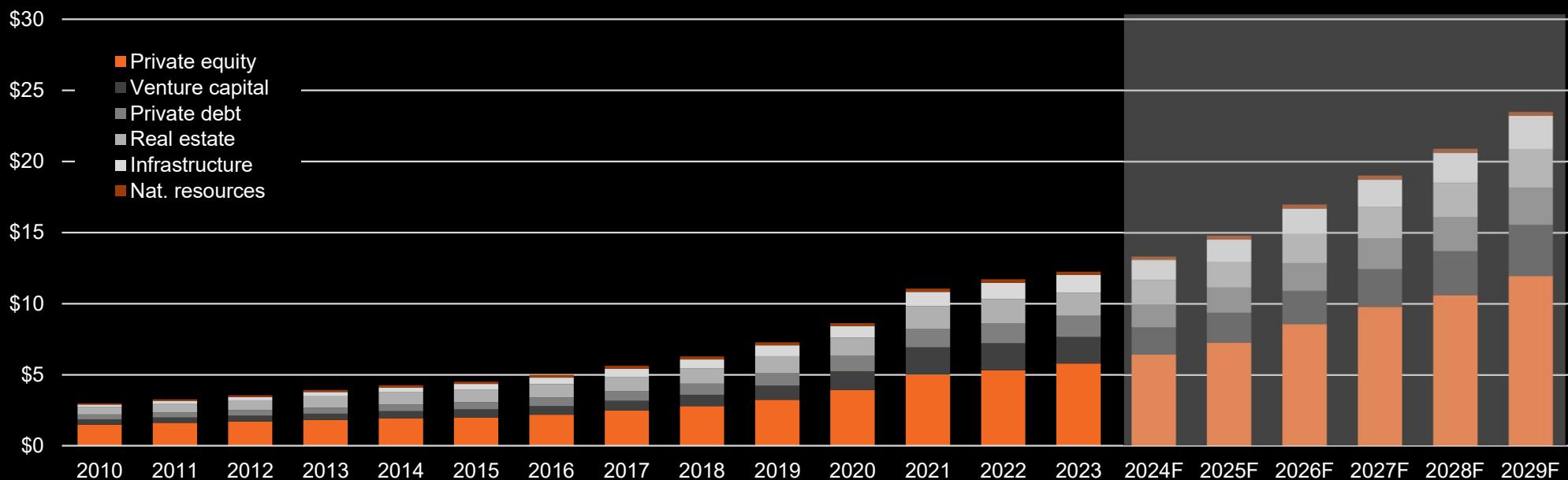
Debt

- 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)

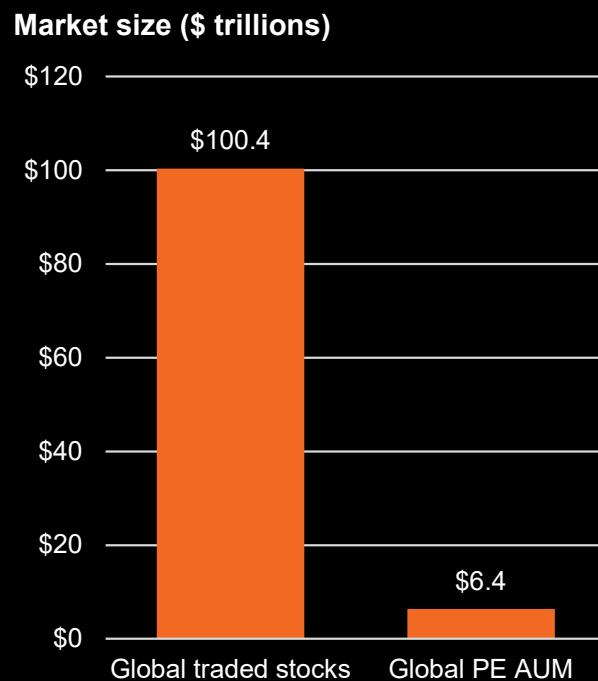


Source: Preqin as of September 30, 2024.

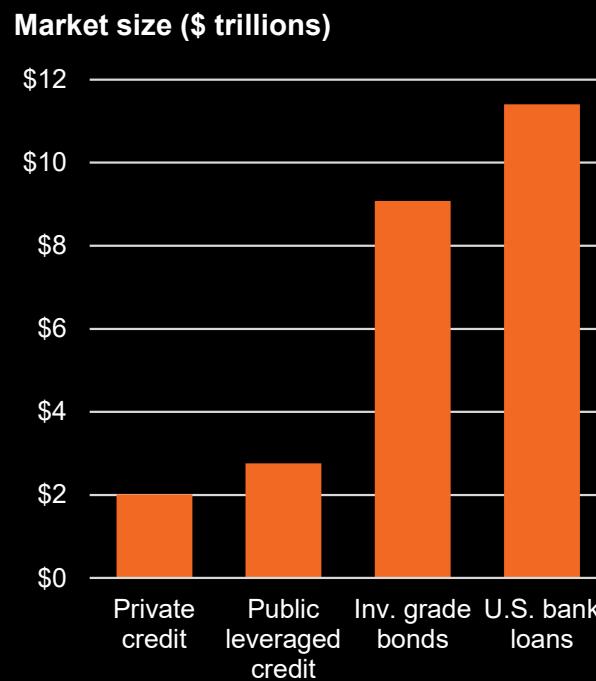
CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# Comparing size of private and public markets

## Public vs. private equity



## Credit market sizes



## Global CRE market

### Global real estate market (\$ trillions)



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.

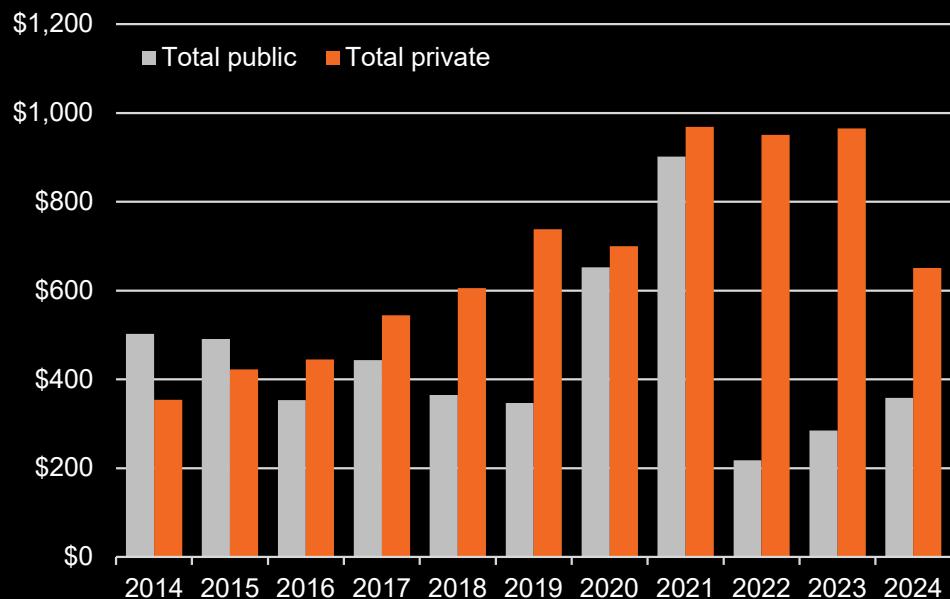
CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# Activity has increasingly moved to private markets

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

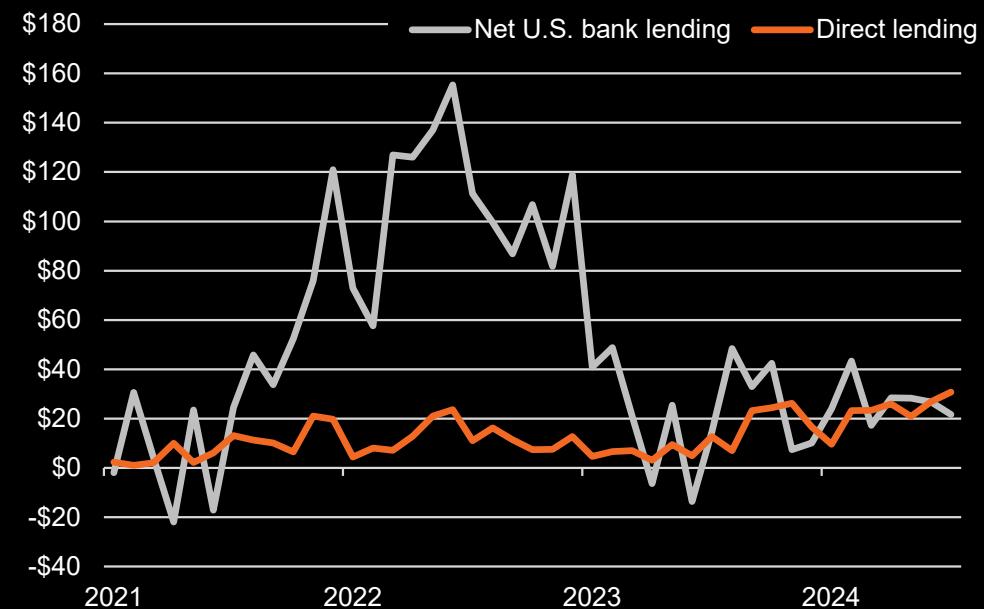
## Equity capital formation

Public vs. private; N. America and Europe



## Credit growth, banks vs. PC

Monthly originations (\$ billions)



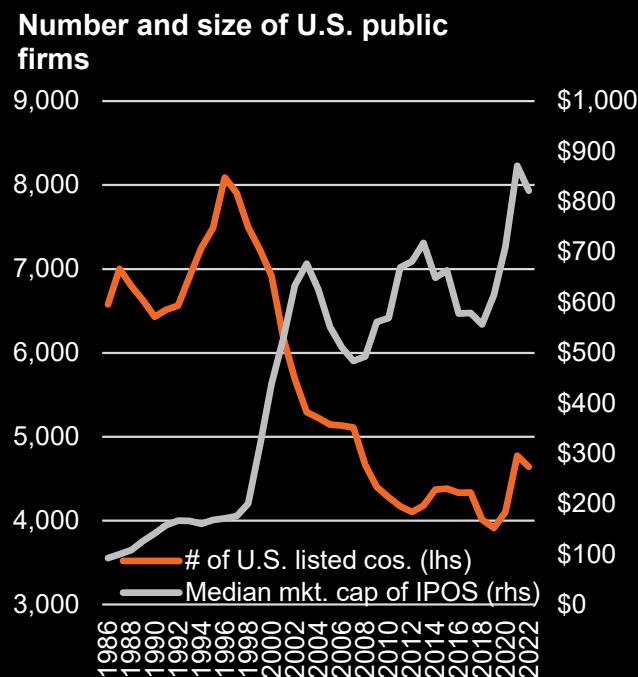
Left chart: Bloomberg Finance, L.P., as of October 31, 2024. Public capital formation includes IPOs and secondary offerings. Private capital formation includes PE fundraising and take-privates.

Right chart: DBRA, Federal Reserve, as of July 31, 2024.

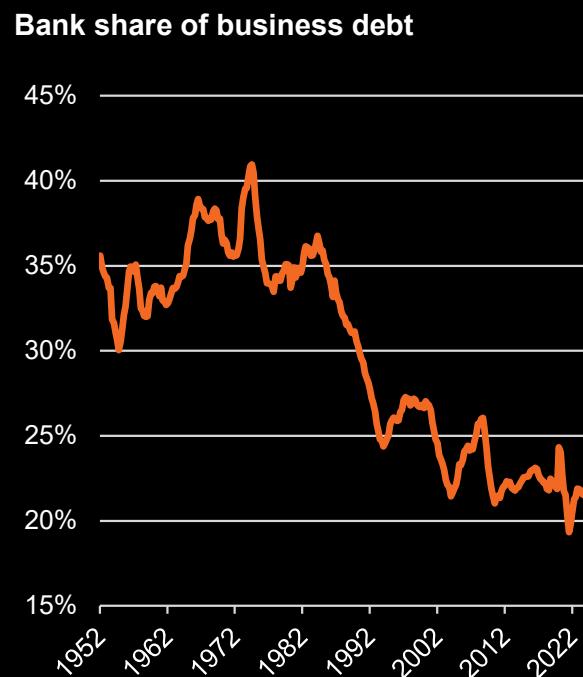
CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# Secular drivers of private markets growth

## Firms stay private longer



## Bank disintermediation



## Growth and maturation



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

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

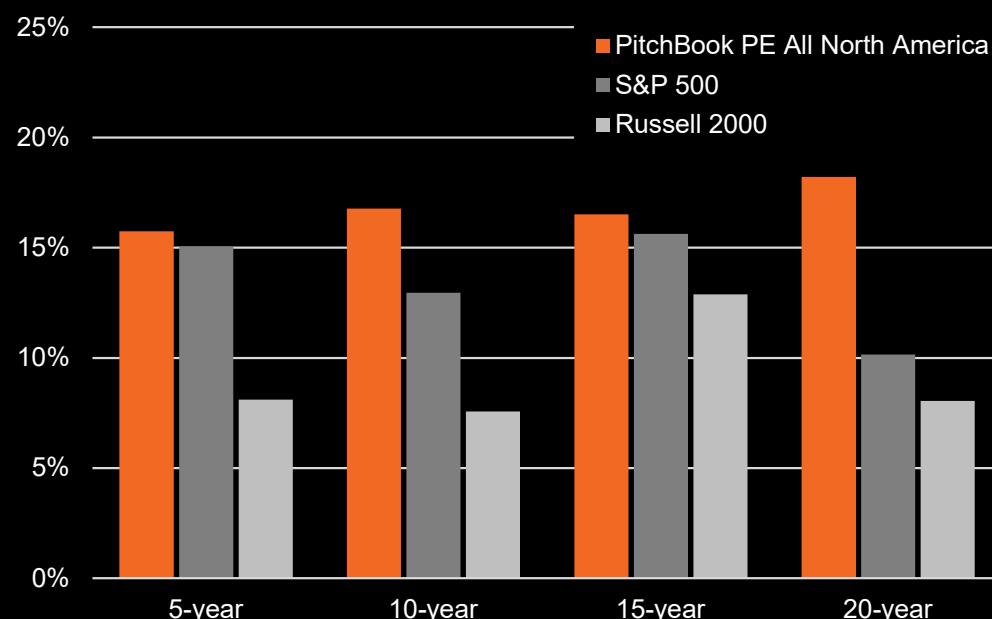
Right chart: Pitchbook, as of December 31, 2023.

CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# Investor demand driven by positive experience

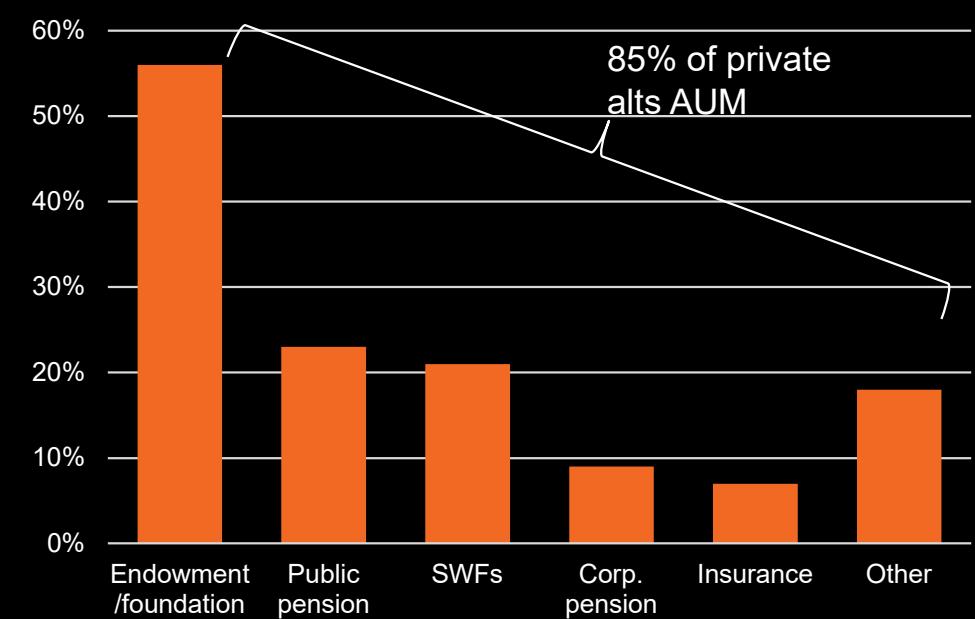
Private markets have outperformed

Public vs. private equity returns



Institutional investors have flocked to alts

Inst'l investor allocation to private alts



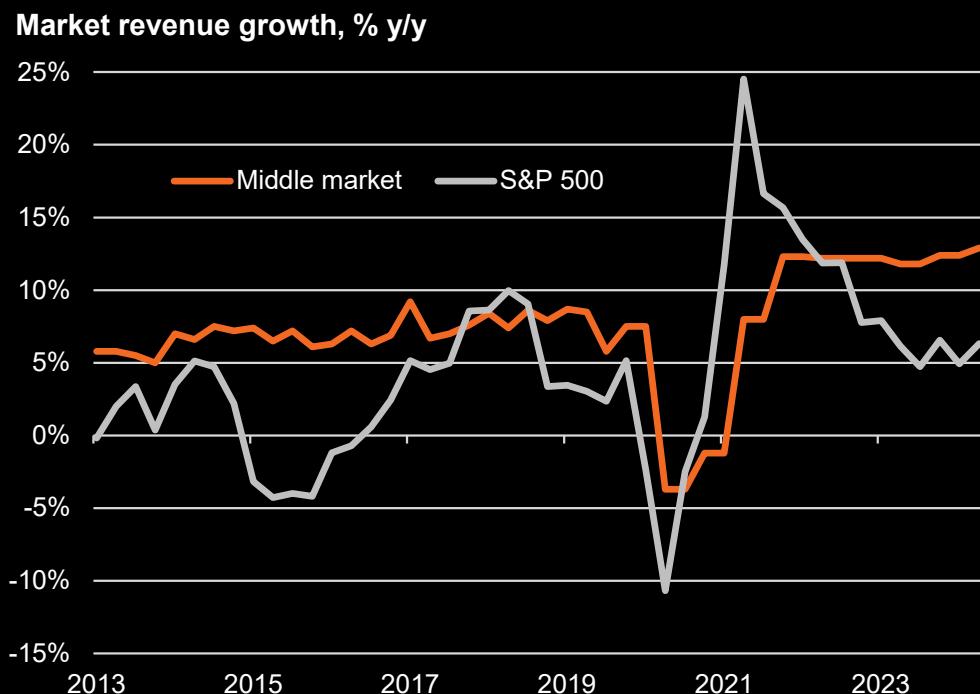
Left chart: Bloomberg Finance, L.P., Pitchbook, as of June 30, 2024.

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

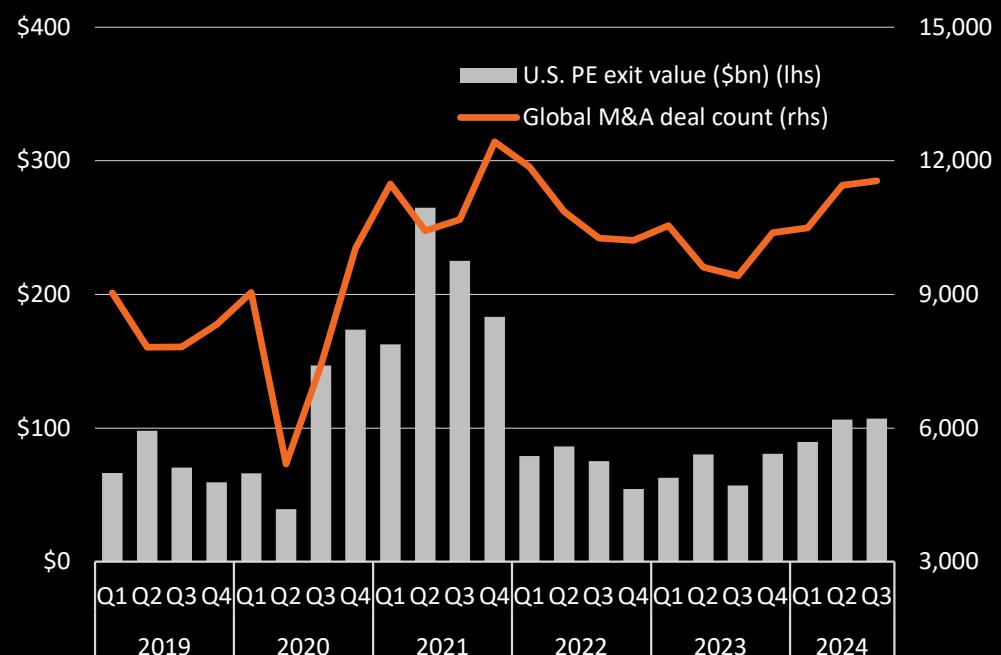
CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# Private equity outlook

Fundamentals have been rock solid



Higher rates have thrown sand in the gears



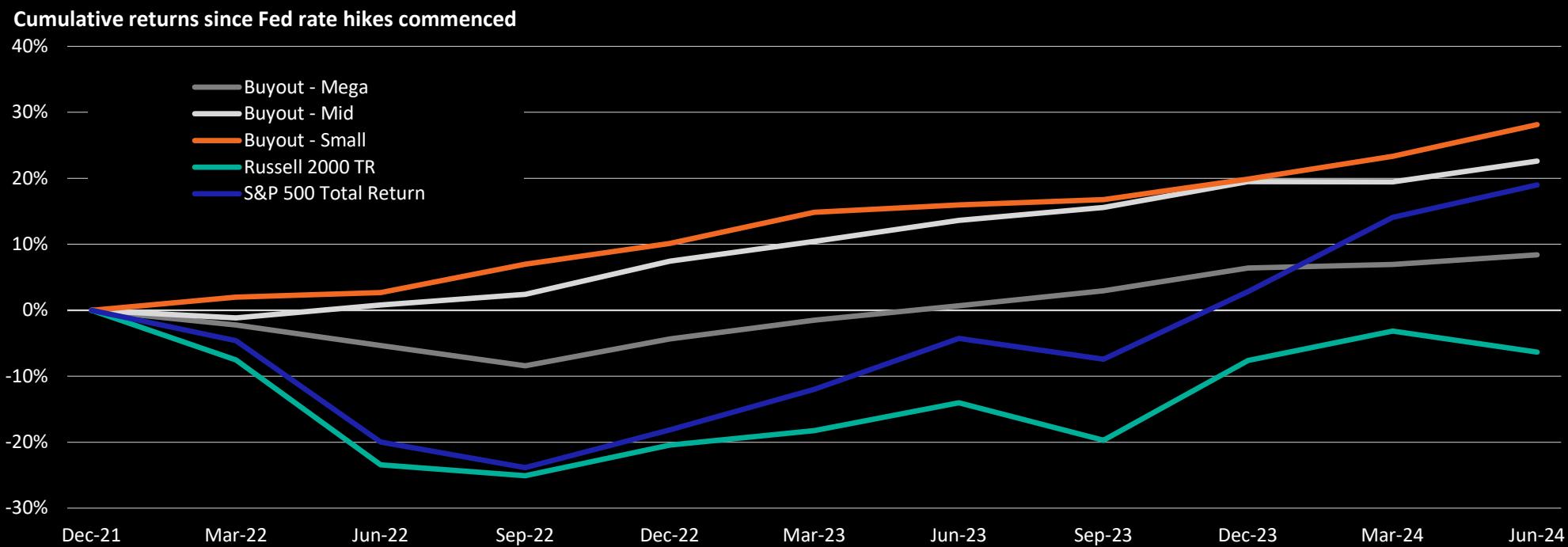
Left chart: National Center for the Middle Market, as of June 30, 2024.

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

CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# Private equity outlook

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



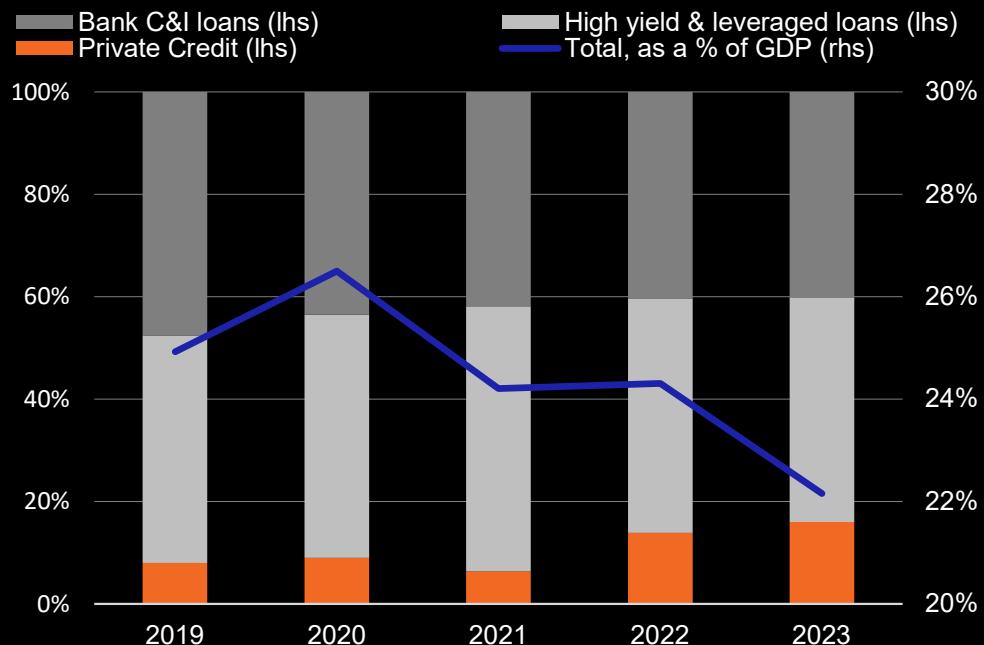
Source: Pitchbook, as of June 30, 2024.

CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# Private credit outlook

Still significant room for expansion

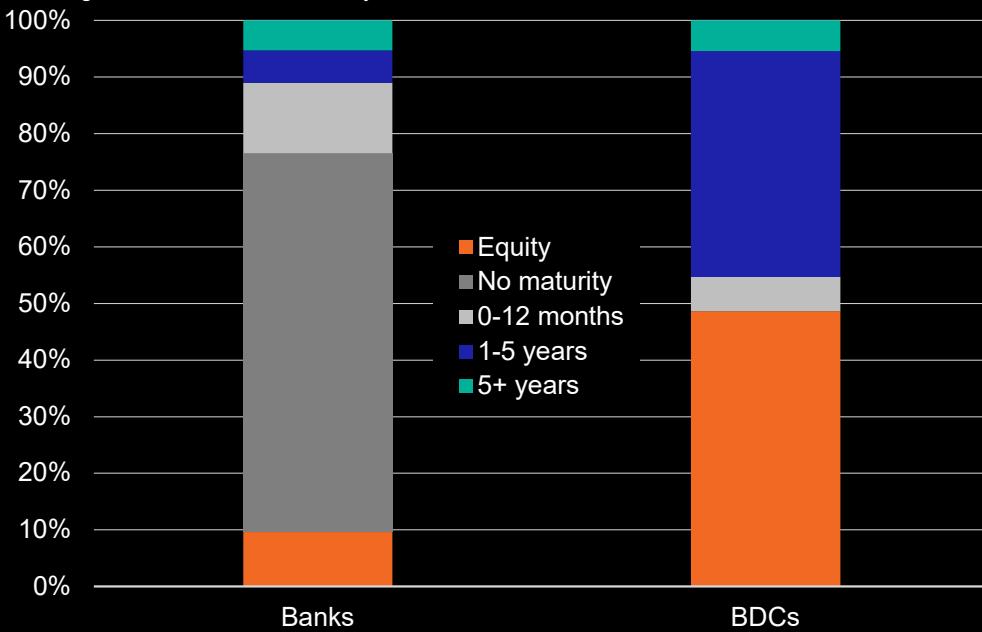
Leveraged credit market share, by lender type



A better mousetrap?

Financing structure of banks and private credit BDCs

Leverage and distribution of liability maturities



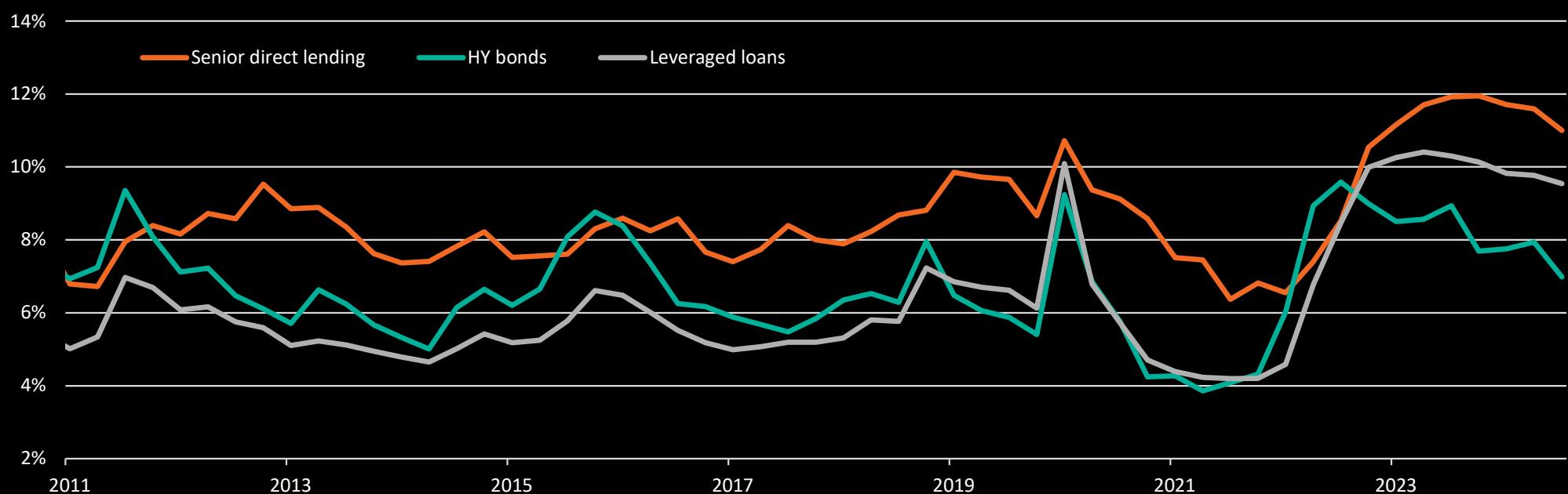
Left chart: Bloomberg Finance, L.P., BofAML, Federal Reserve, Preqin, U.S. BEA, as of YE 2023.

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

CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# Private credit outlook

## U.S. credit yield-to-worst

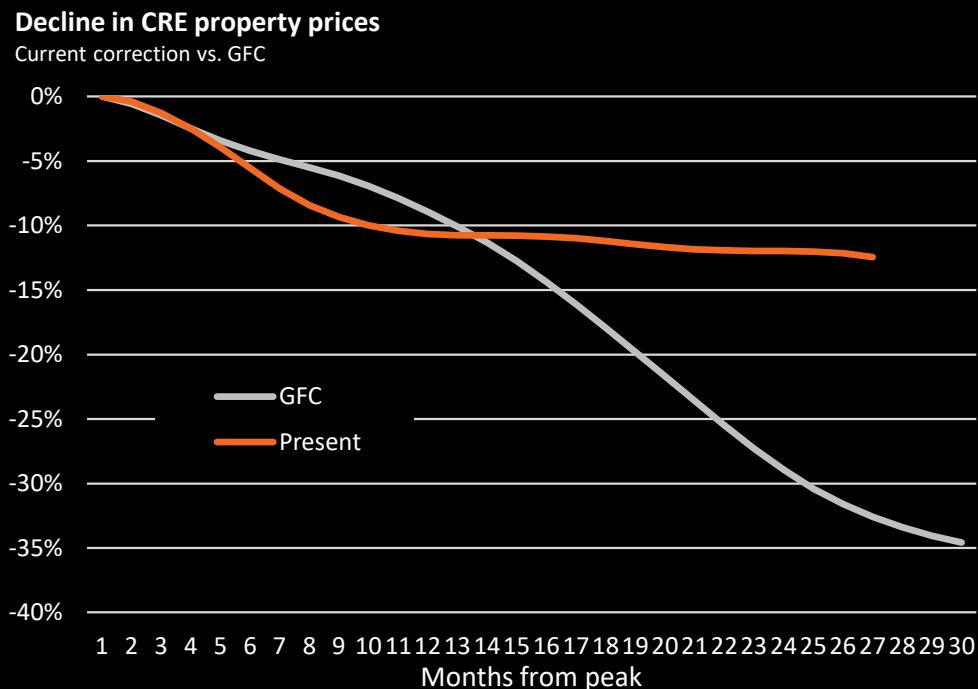


Sources: Cliffwater, BofAML, Pitchbook, as of June 30, 2024.

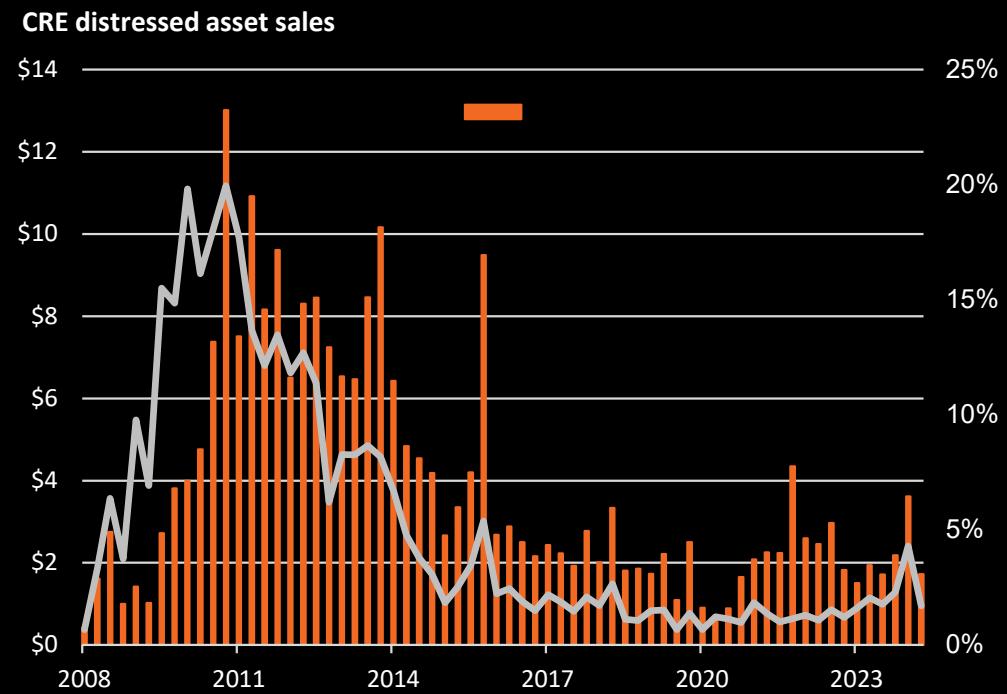
CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# 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.

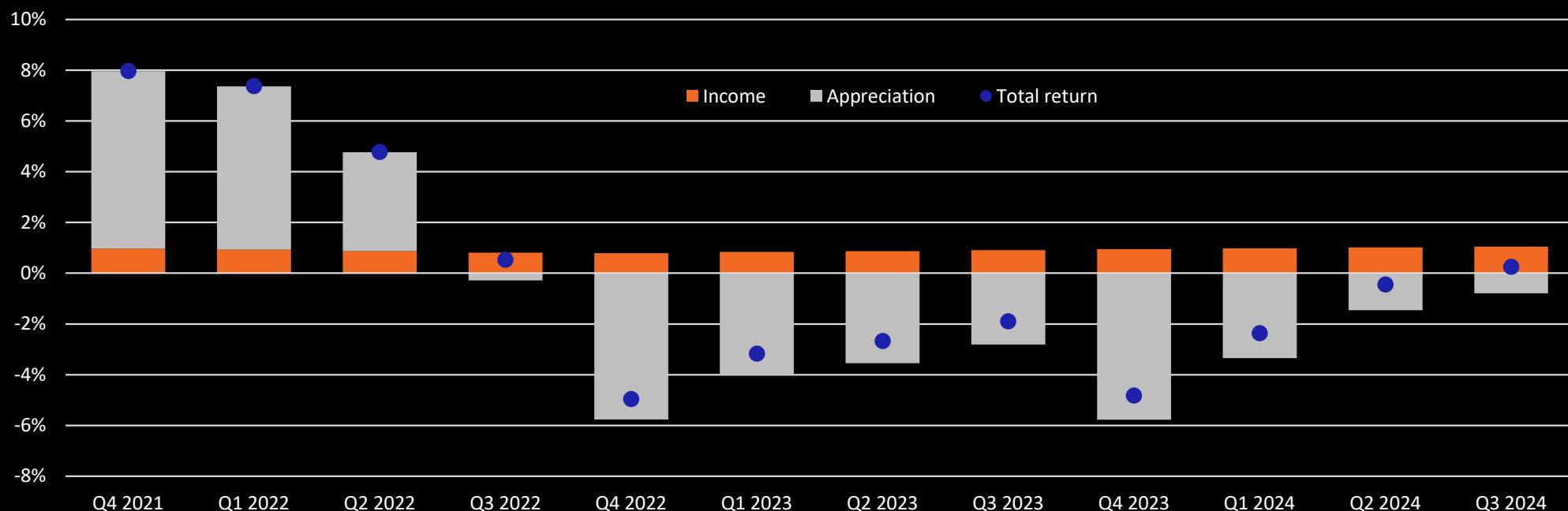
Right chart: MSCI Real Capital Analytics, as of June 30, 2024.

CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# Commercial real estate outlook

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

**NCREIF ODCE Index quarterly returns**



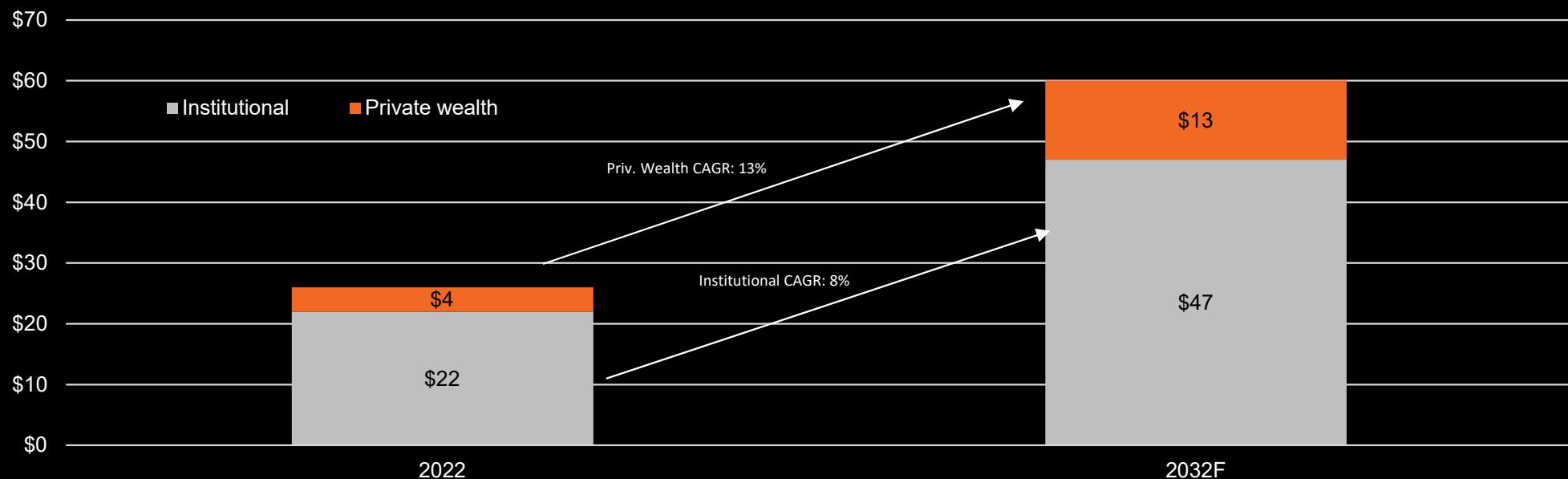
Source: NCREIF ODCE Index, as of September 30, 2024.

CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# The next frontier of private alternatives growth

Global alternatives AUM

\$ trillions



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

CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH INVESTORS.

# Important disclaimer

This information is educational in nature and does not constitute a financial promotion, investment advice or an inducement or incitement to participate in any product, offering or investment. FS Investments is not adopting, making a recommendation for or endorsing any investment strategy or particular security. All opinions are subject to change without notice, and you should always obtain current information and perform due diligence before participating in any investment. FS Investments does not provide legal or tax advice, and the information herein should not be considered legal or tax advice. Tax laws and regulations are complex and subject to change, which can materially impact any investment result. FS Investments cannot guarantee that the information herein is accurate, complete, or timely. FS Investments makes no warranties with regard to such information or results obtained by its use, and disclaims any liability arising out of your use of, or any tax position taken in reliance on, such information. FS Investments cannot be held responsible for any direct or incidental loss incurred as a result of any investor's or other persons reliance on the opinions expressed herein. Investors should consult their tax and financial advisors for additional information concerning their specific situation.

Any projections, forecasts and estimates contained herein are based upon certain assumptions that the author considers reasonable. Projections are speculative in nature, and it can be expected that some or all of the assumptions underlying the projections will not materialize or will vary significantly from actual results. The inclusion of projections herein should not be regarded as a representation or guarantee regarding the reliability, accuracy or completeness of the information contained herein, and neither FS Investments nor the author are under any obligation to update or keep current such information.

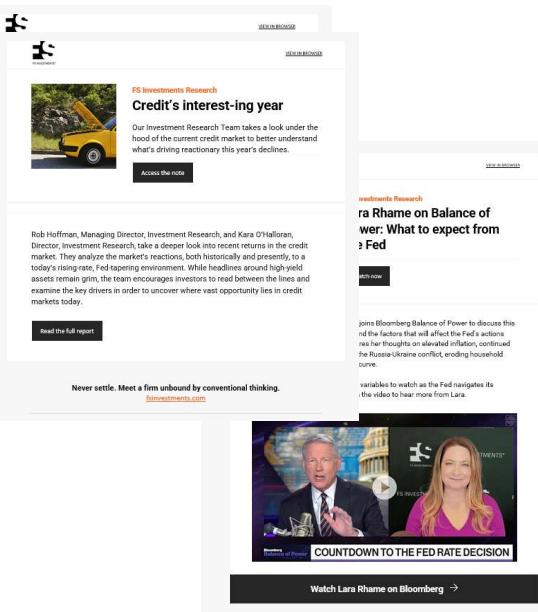
All investing is subject to risk, including the possible loss of the money you invest.

# Additional resources

1

## FS Insights

Read articles and research on the markets and economy



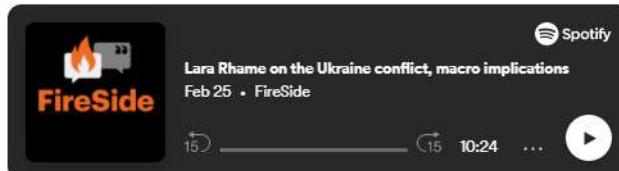
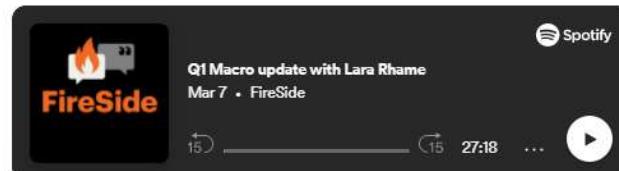
The screenshot shows the FS Investments Research section. It features a report titled 'Credit's interest-ing year' with a yellow car image, a video thumbnail for 'Lara Rhame on Balance of Power: What to expect from the Fed', and a video thumbnail for 'COUNTDOWN TO THE FED RATE DECISION' with a Bloomberg logo. Text on the page includes 'Never settle. Meet a firm unbound by conventional thinking.' and 'Read the full report'.

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

## Follow us on social media



The social media feed shows a LinkedIn post from 'FS Investments' with 10,860 followers, featuring a video of Troy Gayeski on Yahoo Finance. It also shows a Twitter post from 'Yahoo Finance' with a link to a CPI report. A chart titled 'Inflation weaks havoc on traditional assets' is displayed, showing real returns for various asset classes from 1970 to 2020.

# Important disclaimer

This information is educational in nature and does not constitute a financial promotion, investment advice or an inducement or incitement to participate in any product, offering or investment. FS Investments is not adopting, making a recommendation for or endorsing any investment strategy or particular security. All opinions are subject to change without notice, and you should always obtain current information and perform due diligence before participating in any investment. FS Investments does not provide legal or tax advice, and the information herein should not be considered legal or tax advice. Tax laws and regulations are complex and subject to change, which can materially impact any investment result. FS Investments cannot guarantee that the information herein is accurate, complete, or timely. FS Investments makes no warranties with regard to such information or results obtained by its use, and disclaims any liability arising out of your use of, or any tax position taken in reliance on, such information. FS Investments cannot be held responsible for any direct or incidental loss incurred as a result of any investor's or other persons reliance on the opinions expressed herein. Investors should consult their tax and financial advisors for additional information concerning their specific situation.

Any projections, forecasts and estimates contained herein are based upon certain assumptions that the author considers reasonable. Projections are speculative in nature, and it can be expected that some or all of the assumptions underlying the projections will not materialize or will vary significantly from actual results. The inclusion of projections herein should not be regarded as a representation or guarantee regarding the reliability, accuracy or completeness of the information contained herein, and neither FS Investments nor the author are under any obligation to update or keep current such information.

All investing is subject to risk, including the possible loss of the money you invest.