Episode 46

Research Roundtable: 5 for 2022 lookback

The Investment Research team gathers to reflect on 2022.

[00:00:00] Kara O'Halloran: Welcome back to FireSide, a podcast from FS Investments. My name's Kara O'Halloran and I'm a director on the investment research team here. 2022 has been rough in financial markets and I'm sure a lot of us are very ready to flip the calendar and put this year behind us. and in the next few weeks we'll be putting out all of the content that you need to prepare for 2023.

[00:00:26] Kara O'Halloran: But before we do that, as much as we probably don't wanna live through this year, again, I think it's helpful to take a look back at what really happened in 2022, how it differed from what we expected heading into the year, and more importantly, what can the events of this year. Tell us about where we may be heading in 2023. So to reflect on all of that, I have brought on my whole team. So with me in the room are Rob Hoffman, Lara Rhame, and Andrew Korz. Thanks for joining everyone.

[00:00:53] Rob Hoffman: Great to be here.

[00:00:53] Andrew Korz: Thanks for having us.

[00:00:54] Rob Hoffman: Yeah.

[00:00:55] Kara O'Halloran: So I want to start with a game.

[00:00:57] Lara Rhame: Uh oh.

[00:00:59] Kara O'Halloran: You [00:01:00] guys know I like to play games, so I think a really common thing that we've heard in this obviously inflationary environment, which is all we've been talking about are the comparisons between 2022 and the 70's. So our game is called, is this headline or quote from 2022 or from the seventies. I spent entirely too much time reading archived newspapers. So...

[00:01:23] Lara Rhame: Bell-bottoms are back in fashion, I feel like, and...

[00:01:26] Kara O'Halloran: So is inflation, apparently.

[00:01:28] Lara Rhame: Yeah. There you go.

[00:01:29] Kara O'Halloran: All right. So I will read a quote or a headline, and you'll just have to tell me what year you think it's from.

[00:01:34] Lara Rhame: Wait, are you going in an order or do we just call out?

[00:01:37] Kara O'Halloran: I'll toss 'em to you. Okay. Right. All right. We'll start. Hopefully we'll start with an easy one, Andrew. We'll start with you.

[00:01:43] Andrew Korz: Okay. Okay.

[00:01:44] Kara O'Halloran: Food prices rose 14.5% last month from a year earlier. The largest annual rise in more than 40 years. High energy costs were still contributing to inflation, growing at its fastest pace and decades. I would say that is from this year.

[00:01:59] Kara O'Halloran: [00:02:00] You got it?

[00:02:00] Andrew Korz: Yes. Okay.

[00:02:02] Kara O'Halloran: I thought we were, I know I wanted to start a little easy.

[00:02:04] Andrew Korz: Yeah.

[00:02:05] Kara O'Halloran: Get you guys feeling comfortable.

[00:02:06] Andrew Korz: It wasn't as easy as I thought.

[00:02:07] Lara Rhame: That wasn't very easy Kara. I'm nervous.

[00:02:10] Kara O'Halloran: Right. All right, Rob, in a real way, the question is, can our modern society with all its troubles face up to the problem of inflation at all?

[00:02:20] Rob Hoffman: I'm gonna say the seventies

[00:02:23] Kara O'Halloran: got it, you guys are killing it.

[00:02:24] Andrew Korz: I say that applies to today too, though.

[00:02:25] Kara O'Halloran: Yeah. Well, I mean, isn't that the point of the game?

[00:02:28] Andrew Korz: Yeah, there you go.

[00:02:29] Rob Hoffman: The writing style of the New York Times in the seventies might have given that away versus,

[00:02:33] Kara O'Halloran: I know, I tried to, yeah, I tried to find ones that, whatever. Oh, this is a good one. All right, Lara ready?

[00:02:41] Lara Rhame: I don't know

[00:02:42] Kara O'Halloran: one service the current bear market may have rendered is to put to rest the overworked and misapplied thesis that stock market, that the stock market offers a consistent hedge against inflation. Stocks have been good inflation hedges historically, only when the rate of inflation has been moderate and relatively predictable. Stocks [00:03:00] have done poorly during periods of rapidly accelerating inflation.

[00:03:05] Lara Rhame: I'm gonna say now.

[00:03:08] Kara O'Halloran: That one is from the seventies, but it's so accurate.

[00:03:11] Lara Rhame: It's exactly, I feel like I, I feel like you were reading back to me what I wrote,

[00:03:15] Kara O'Halloran: so I actually pulled a quote of yours as well. That was the same. I pulled something from yours as well, so () definitely applies, to today as well.

[00:03:25] Lara Rhame: Oh, sorry guys. I'm, I'm the laggard this morning, , [00:03:28] Kara O'Halloran: that one. I threw you the tough one.

[00:03:31] Lara Rhame: But how relevant is that? Right? I mean, yeah. These are not new problems, but we've gotten a really long break from them. Yeah. And it's a really painful reminder that the laws of gravity hasn't changed when inflation's really high.

[00:03:44] Kara O'Halloran: Yeah, a hundred percent. All right. So I think that was enough. That was a good warmup. I kinda set the,

[00:03:49] Andrew Korz: I'm ready to go.

[00:03:49] Kara O'Halloran: She ready to go for let's, we could play this all day, cuz I do have more both. (End Section 1)

[00:03:55] Let's turn now, to this year more specifically. Before we turn [00:04:00] to these chart books, so we each publish a chart book at the beginning of the year called our five or 10 for 2022.

[00:04:06] So our best ideas are our biggest ideas for the coming year. And I wanna kind of check our work a little bit. But before, let's just think back to 2022. I wanna know, obviously it was such a crazy year. What surprised you all, most this year, Andrew, start with you.

[00:04:21] Andrew Korz: Sure, I'll take that. so when I look back, I, I, I think clearly the story is the combination of higher rates and, poor bond returns combined with poor stock returns. to the extent that we really haven't seen in any year in modern history and taking a look at the stock market, I think the most interesting thing to me has been the narrative has been sort of higher interest rates have really weighed on tech stocks, right? These high growth stocks that have been so dominant over the past, 10 to 15 years have really lagged this year, and most people have seen higher interest rates as the core reason for that. For [00:05:00] me, the interesting thing to me has actually been the, business side for a lot of these tech companies, whether it's, the fangs, whether it's companies like, zoom or Peloton, a lot of these companies where we just kind of have taken the growth rates for granted. They've really been called into question this year. you think about Meta and all the layoffs they're having and they're sort of having to spend all this money to sort of generate growth.

[00:05:21] you look at Netflix and the streaming industry that's really seeing, margin compression you think about Google and, again, meta and Instagram where the ad sales market is really kind of struggling now. So I think we're starting to get into this period where the growth rates for a lot of these dominant companies, which are still the best businesses in the world, are, starting to come under pressure.

[00:05:43] Andrew Korz: And, I think the story of the next five years in the stock market is really gonna. What happens with, the growth rates of these great tech companies that we've all taken for granted over the past 10 to 15 years, and now I think there's a lot more uncertainty around those business models than there [00:06:00] has been in a long time.

[00:06:01] Kara O'Halloran: Andrew Overachieving giving us his five year outlook.

[00:06:05] Andrew Korz: I think there,I think 2022 could end up being sort of a seminal year looking back at as sort of an inflection point. the sort of the composition of returns in the stock market.

[00:06:16] Lara Rhame: Well, and I think you bring up really important, like your answer contained fundamental things about each individual company and each sector. But then underlying all of this to me is one of the biggest macro surprises, which is just how aggressive and ferocious this fed rate hike cycle has been. And I feel actually looking back really good about the 10 for 22, I feel like I really hit the nail on the head for like eight and a half outta 10 but like, one that I just really got wrong was how aggressively the Fed was going to move.

looking back at this time last year, November of 2021, we thought the Fed was maybe gonna raise 75 basis points in the coming year. and the fact [00:07:00] that, we're looking at. 425, basis points of rate hikes this year, it's the most fast, aggressive, compressed, concentrated rate hike cycle has just meant this, enormous move in yields and it changes the entire calculation for growth stocks where all of that growth is pushed in the future.

[00:07:21] You're discounting. When these rates are zero, which we've had for so long,your math is just completely different. Your valuations are completely different. So I think there's been so much to your point, even if yields come down somewhat, and I think we're also gonna talk about inflation, but even if yields come down somewhat, Are they gonna go back to zero anytime, , that's really, you think about the macro backdrop for these stocks.

[00:07:47] Andrew Korz: It's just gonna, and we saw we're, recording this, to start the week after we had the CPI report last week where we saw. Inflation coming lower than expected. and we saw these growth stocks just absolutely rip. And so, so I think in the [00:08:00] short term there is this opportunity for the sort of slingshot back, but thinking, into next year, for example, I'm not sure you're gonna get that same tailwind from the macro.

[00:08:10] Kara O'Halloran: Well, I think we're also kind of seeing like a little fed speak this weekend that is bringing stocks a little bit back to earth now. they wanted to rally so markets wanted to rally so badly and they did, they rallied hard last week. But one inflation print, obviously I'll ask Lara this, but I think one inflation print changes the fed's calculus a heck of a lot.

[00:08:28] we're still at very high rates.

[00:08:30] Rob Hoffman: Yeah. I think it's always, it's so surprising. When you sit there and say, okay, this is the landscape that we're in today. This is our outlook, this is what we think is gonna happen. At the tail end of last year, we had some inflation. We didn't know if it was transitory.

[00:08:46] The fed's probably gonna move, the economy's gotta slow down a little. But then you just look at what happened and how different it is. And Andrew, I think you really spoke to a lot of the implications and things that we've seen in equities that we wouldn't have [00:09:00] expected and hadn't. When you look at credit markets, for instance, we had written significantly and looked at a lot of numbers about when you think about a market like high yield as a fixed rate market, it doesn't historically have a lot of duration exposure.

[00:09:15] But when you look at what happened this year, that historical data would not have been a proper plan for how the markets played out this year. I mean, the markets got rocked by duration and it's, that has been, I think, something that's very surprising to me as we think about some of the areas that we cover.

[00:09:31] Lara Rhame: I just wanna point out, I did not write in the 10 for 22 that I thought inflation was gonna be transitory,

[00:09:38] Rob Hoffman: Yes. Not your word.

[00:09:39] Lara Rhame: Yeah.

[00:09:41] Kara O'Halloran: Okay. So let's, we're talking about our 10 for 20 twos and our five for 20 twos, which,those chart books that we publish? I know our group's a little competitive. We all are. We have that competitive streak. So how many did you each get right from your, so Andrew, for context, Andrew, you'd publish a five for 22 and Laura a [00:10:00] 10 for 22 and then Rob and I have five for 22. So Andrew out of five.

[00:10:04] Andrew Korz: Yeah. So I'm gonna, be honest here and say four out of five

[00:10:08] Kara O'Halloran: pretty good.

[00:10:08] Andrew Korz: I probably could have gone four and a half

[00:10:09] Kara O'Halloran: for your real estate outlook. Okay.

[00:10:11] Andrew Korz: Yes,

[00:10:11] Kara O'Halloran: pretty good. Lara you did pretty well. You said eight and a half, right?

[00:10:16] Lara Rhame: I did pretty well. Yeah.

[00:10:17] well, I think, and I'll also add, we, I had written about crypto and about the institutionalization of crypto, and I think obviously events have happened so that has, I think while a lot of companies have considered, wrapping this into their fold, and regulation continues, it's not a place where just because of market dynamics. We've seen that adoption. Yeah. But, but I think other than that,I would give myself an eight outta 10.

[00:10:44] Kara O'Halloran: Pretty good score.

[00:10:45] Yeah. Rob, we didn't do as well.

[00:10:47] Rob Hoffman: Yeah, I think we...

[00:10:49] Kara O'Halloran: we'll take L here,

[00:10:51] Rob Hoffman: at the bottom here, but we got a, the solid three.

[00:10:55] Kara O'Halloran: I wouldn't have accepted that grade in school, but Okay.

[00:10:58] maybe three and a quarter. we got [00:11:00] some themes, right? Even though the call was a little long wrong. So,

[00:11:04] Kara O'Halloran: well, hopefully we'll do better next year. All right. Let's, so Andrew, you got a, you got four of your five real estate, predictions. Correct. So what are you most proud of? What were you like, spot on?

[00:11:14] Andrew Korz: Yeah. I think what I'm most proud of is, my number two call, which is that secondary and tertiary markets would extend their outperform. That really began in 2021. And so, so in, in our call at the time we made this call, the price growth for secondary metros over the, price growth. delta between secondary metros and primary metros was about 7%. That's actually widened this year, and, today it's about 10%. So I. Sort of embedded in our call was this idea that inflation would not be transitory and that a lot of these metros that have seen strong demographic migration trends would continue to see higher inflation specifically in areas like shelter. and that would allow them to drive [00:12:00] better rent growth vis-a-vis the New York's, the Seattle's, the San Francisco's of the world. And that's exactly what we've seen. So I just pulled some numbers this morning. If you look at the CPI, And you'll at large cities in the south versus the west versus the northeast, shelter inflation in the south is running at 9.4%. In the west it's running at 7%, and in the northeast it's only running at 4.6%. So, you think about the,as a property acquirer on the cost side, everybody's hit the same by the higher cost of leverage, right? the higher financing cost, whether they were buying a property in New York or buying a property in Austin. It's the increase in the cost of financing has been about the same, but on the revenue side, it's completely different. Right. The rent growth in an area like, some of the cities in Texas or, the other Sunbelt metrics that we talk about, has been almost double what we've seen in, the big cities in the Northeast.

[00:12:50] So this is a trend that I think can actually extend into 2023. We'll see if it's,I'm not gonna give away whether it's gonna be part of the five for 23, but, I think this is one place [00:13:00] where we were pretty spot on.

[00:13:01] Kara O'Halloran: Nice. All right, Laura. Right. Something you're really proud of.

[00:13:05] Lara Rhame: yeah, so, I think inflation was a big call. It was our, my number one 10 for 22. it may very well still be the number one, as we go into next year. but I had said that I looked thought inflation would really be coming from everywhere and would really accelerate into the next year. so I think that's something that even though the topography of inflation has changed, we've seen services inflation mellow we've, or goods inflation, sorry, moderate. But we've seen services inflation continue to really, accelerate. we've, seen I think some areas that are just very new to our economy, like food, really, increased significantly. And yet we've seen rent. Start to roll over. But, that is going to be,an area that we're watching very closely because that process could take some time. So, another way to think about [00:14:00] inflation is that it went from being driven initially in 2021 by factors which can reverse. Very quickly, two factors which we consider and the Fed actually defines as being more sticky. And I think, one of the areas where we've also seen a lot of price growth has been wages on the labor side of things. And that is a dynamic that at the end of the year is ironically more troubling than it was at the beginning of the year even though it looks like at the headline level, inflation really peaked in June. in inflation is, it's more than just one number, but our expectation that it would really be very strong, from really a wide variety of places in our economy was right. And I think, another call looking internationally that we really got right was China. that China was going to be challenged. A lot of this would be, in some ways self-inflicted wounds. and I think, that is an area where, we've just seen the, this [00:15:00] draconian zero covid policy, badly impact growth. China's GDP numbers were already highly suspect. And now I think there's no doubt that China is in a recession and is seen, either virtually zero growth or very little growth. So, I think sort of one domestic and one international place where I felt like I, I hit the nail on the head. Nice.

[00:15:22] Kara O'Halloran: All right, Rob.

[00:15:23] Rob Hoffman: I think the call of the few that we got right,the strongest one was loans to outperform bonds. And it may seem somewhat obvious to make the call in an environment of expected higher inflation that a floating rate asset class would outperform a fixed rate asset. But Kara, as I'm sure you'll recall, we really struggled with this one.

[00:15:45] Kara O'Halloran: Yeah.

[00:15:45] Rob Hoffman: Part of me actually wanted to make the opposite call and try to justify that when you think about duration and a credit in a asset class that is heavy with credit risk, duration tends to be less important. But ultimately we felt [00:16:00] that the setup heading into this year and the dynamics between the two was, would be too much to overcome.

[00:16:06] Kara O'Halloran: I actually think. Did the math to try to make the bond call work. I was like, Rob, I can't get there.

[00:16:12] Rob Hoffman: Yeah.

[00:16:12] Kara O'Halloran: Like, we just, we can't get these numbers to work

[00:16:15] and it was absolutely the right call. loans have significantly outperformed bonds and I think as we start to look forward, it'll be really interesting because now loans have a higher spread.

[00:16:27] Rob Hoffman: We've written a lot about how the loan market compositionally is arguably a higher risk market than the high yield bond market. And the loan market now, because of what has happened to SOFR and the floating, the base, the floating base rate component of loans have a higher yield than high yield. And historically, the reason that this was a hard call to make to a certain extent, high yield has almost always outperformed loans with, very consistently over the past 20 some odd. Going forward, that may not be the case. that it's something that I think the [00:17:00] market and us and strategists really have to think about because if you now have, fundamentally underpinning that was high yield, had a higher yield in loans, and if that has now reversed and it stays this way, it's gonna make for some interesting, dynamics between those two markets.

[00:17:15] Kara O'Halloran: Yeah. I think it's also important to remember what things were like last December. We were just coming off of a really strong year throughout markets. So, and Lara, you, we talked about this earlier, we were only forecasting our markets were only pricing and I think 75 basis points Yeah of fed rate hike.

[00:17:31] So we thought we were still gonna be in this, this environment of strength really across markets and. The calendar did flip. And things didn't turn out that way. but that's kind of why we were going down that path of like, we really thought things were gonna have, markets were gonna have a great year, credit was gonna have a really strong year. but you know, the best laid plans.

[00:17:53] Okay, so I think this is a good time to pivot to 2023. we are, we're gonna do so much [00:18:00] 2023 Outlook content. but I really wanna, I wanna talk about from your 2022 outlook, what do you think we're still gonna be talking about most in 2023? because as much as I said, as much as we would love to just think that these problems are all gonna go away next.

[00:18:17] markets don't work like that, so I think we're still gonna be talking about a lot of the same things. So I'm curious, what is, what's making a repeat appearance possibly? Lara let's start with you.

[00:18:25] Lara Rhame: Yeah, so, inflation was the headliner last year. I think, going into 2023, it's still the headlining issue. And again, this has been a core driver of performance across financial markets, this higher inflation environment. So the fact that inflation's going to fall in 2023 is now consensus. That's not a wild outlook by any stretch. I think where I deviate from the consensus is thinking that it's going to be. A much more uneven and a much,more, gradual decline. And [00:19:00] I think, that the end of the day we're coming off of 20 years of inflation that really averaged 2%. So it wasn't just a low inflation environment, it was a stably low inflation environment. And, and if you erase. The financial market consequences are significant and I just, we've only begun to appreciate that with this past year and so many other economists that I'm reading make it seem like it's normal to just have this steady, placid, 2% inflation environment and we're just gonna get back to there right away. and that is where I think we have really seen inflation escape this 2% guardrail. And I don't think it fits neatly back into that package, at least in 2023. So I think it's gonna continue to keep financial markets, catch market financial markets wrong footed. I think it's gonna cause volatility and fed rate expectations.

[00:19:58] And I think, there's already [00:20:00] this big drum beat of recession. That's probably the other big overarching theme I'm hearing for 2023. Are we gonna have one? Are we not? I'll leave the cliff hanger to read the 2023 for my answer. but at the end of the day, inflation is going to be. The, just the disruptor that makes it hard for financial markets to find footing.

[00:20:21] Kara O'Halloran: Yeah. Which requires something we've talked a lot about this year is just the, obviously the havoc that inflation has had on both sides of your portfolio, but also how you have to really just rethink portfolio construction. Yeah. As a whole. I mean, you talked about stocks and bonds being done sharply this year, so, possibly more of that to come.

[00:20:37] Lara Rhame: Inflation eats your performance, it eats your returns. I mean, that's really the challenge.

[00:20:43] Kara O'Halloran: All right, Andrew, what's going on in 2023 in real estate?

[00:20:46] Andrew Korz: I wish I could tell you if I knew I wouldn't be here. no. So I'm gonna use my, the one that I got wrong, in my 22 and that's really the one I'm gonna be looking to next year. and this call was that. Higher real interest rates would [00:21:00] have an impact on cap rates. And really the first part of that sentence was absolutely right. We saw real interest rates at the 10 year point, for example, rise 250 basis points this year. and the interesting thing is if you had told me that would be the case, and then you told me that cap rates net would fall during 2022, I probably wouldn't believe you, but that's exactly what we've seen. And I think there's sort of two things that are happening. And one is that the market is still coming to terms with the idea that rates are not going to just come up and then come right down. Right. what we've seen is it's sales volumes have really come down and what that tells me is that you have players in the market who are saying, Hey, the cost of financing is way up.

[00:21:41] I don't wanna buy at the peak here. Basically, I'm gonna wait for rates to come back down and when and basically for the economics to work for me. I think that can only happen for so long. Right? Eventually people have to put money to. buyers and sellers have to come into an equilibrium. And I think next year is really the point where, investors say, oh, shoot, [00:22:00] rates maybe aren't coming back down to a point where I'm comfortable with current valuations.

[00:22:04] We need to readjust and recalibrate, which was the name of my, Q4 outlook. our, market assumptions. And the second thing that's happening is, Look, the one thing that can allow you,or that can combat, higher rates is higher rent growth. And we've clearly seen that, right?

[00:22:20] So investors have been able to justify these lower yields despite higher financing costs because, if you look across the sectors, multi-family rent growth has been upwards of 15%. In some metros, industrial rent growth has been upwards. 10 to 15% depending on your source. So this incredibly strong rent growth environment has allowed investors to justify those valuations.

[00:22:44] And as we go into next year, the question really becomes assuming, and, I don't think we expect real interest rates to fall significantly next year. given our outlook on the Fed and inflation, assuming they stay sort of where they are or potentially go higher. And rent [00:23:00] growth is clearly due to decelerate, not fall, but decal.

[00:23:03] that presents an environment where I believe it's challenging to see an environment where cap rates don't, at the very least, go sideways and probably more likely,have some modest, increases.

[00:23:16] Kara O'Halloran: All right, Rob, take us on with credit.

[00:23:18] Rob Hoffman: So I would also start with our number one on our five for 22. But something that we got wrong, which was a call that high yield spreads would average below 350 and loan spreads would average below 400. We got the,the, you call it the ratio, right? That loans would be at a higher number than high yield. So we got that part right. But you know, clearly where today high yield spreads are, call it 500 and loan spreads are 600 plus, they're a fair bit wider than what we had anticipated. I think that becomes a very interesting dynamic looking into 2023. One of The things that I think we got right about our call, [00:24:00] even though the numbers were wrong, was that underpinning, this was very strong corporate fundamentals, which would drive very low default rates. And when you look at the markets today, the average default rate is still only about one and a half percent between high yield and loans. Your historical average is three to three and a half percent. you've seen spikes into the low teens and recessionary environments, and while the default rate can sometimes be a lagging indicator, there are, even if you expand and start looking at distress ratios and markets and things like that, the default picture is fairly benign. And when you look at credit fundamentals, they are, pretty good, at least through the most recent data that we have and so

I think a very interesting dynamic for next year will be, we're starting at a higher spread level. because of what's happened in interest rates, yields are higher in these markets and most expectations are that [00:25:00] default rates are not even gonna get back to their historical averages next year. That they're still gonna stay below. And, that to me will be a very interesting dynamic. Do spreads sort flatline where they are now and investors are gonna clip really good coupons and actually generate pretty nice returns? Could you even have spread tightening if it looks like the recession, if we have one, is only mild and won't have a major spike implication for default rates? that to me is a very interesting dynamic, looking ahead into 2023 and what could happen in credit markets and where we go.

[00:25:35] Lara Rhame: Yeah, I think, the coming year really is, I've been giving this talk recently about sort of the three big questions for next year. And the big one I'm getting is, has the market bottomed?

[00:25:47] And I think this is the core question, right? Because I mean, I, of all of us, Kara you do such phenomenal cross asset work on top of the real asset and the credit and and the podcast. [00:26:00] but I think what this leaves us with is 2022 really being an extraordinary year where we saw. Stocks decline and bonds decline as well, right?

[00:26:10] This has been the one year since before the seventies when we haven't seen a big decline in stocks be offset by a, an increase in your bond portfolio. What me, what does this dynamic look like next year? Do? Has the market bottomed? Do we get, a rally in one or both?

[00:26:29] Kara O'Halloran: I ask the questions here. Lara

[00:26:30] no no. I mean, I,

[00:26:32] Lara Rhame: toughest for last

[00:26:33] Kara O'Halloran: I think that you know, I'm not gonna answer whether the market is bottomed, right? Like I don't think any of us wants to answer that question, but I think it almost doesn't matter because I think everything that I've heard all of us say today is that it's still a challenging environment next year. and I think that we. It's easy to think, oh, 2022 is a one off, right? Like we're just, we had this hyper, we had, sorry, high inflation environment. and the [00:27:00] Feds hiking really aggressively and that's just wreaking havoc across our portfolios. But the Fed's gonna get inflation back within Target and everything's gonna be great again.

[00:27:08] We're gonna have an environment like we did for the last 10 years. I think we all very much so disagree with that. So I think that something that's been really crystallized this year is the need for alternatives in portfolios, for sources of return outside those stocks and those bonds and sources of diversification, cause traditional sources of diversification have failed.

[00:27:29] so I think that, That's probably the thing, the call that I would be most, convicted in next year is just that, the need for alts now and going forward. I don't think 2022 was a one off, maybe it won't be as bad next year, but I think the need for those alternative investments has been, solidified this for sure.

[00:27:50] Lara Rhame: I wrote all that down.

[00:27:51] Kara O'Halloran: Is that gonna be, did I make the cut for your ten first three?

[00:27:55] Lara Rhame: Yes, absolutely.

[00:27:57] Kara O'Halloran: Nice. alright, well thank you all for [00:28:00] joining. that was a kind of painful to look back at 2022 sometimes, but I think a necessary exercise, as we all start to think about what next year will look like. And we will have all of that content as always up on fs investments.com in the coming weeks. Thanks guys.

[00:28:14] Lara Rhame: Thank you.

[00:28:15] Rob Hoffman: Thank you. Take care.

[00:28:23] Kara O'Halloran: If you liked this episode, subscribe to FireSide wherever you get your podcasts.