Episode 111

Q4 Research roundup: Landings are bumpy

[00:00:42] Lara Rhame: Welcome back to Fireside, a podcast from FS Investments. I'm Lara Rhame, Chief U.S. Economist, and it's hard to believe it's that time again. Our Q4 Research Roundup. Today, I'm joined by Alan Flanagan, an Associate on our team, who will share his outlook for corporate credit in these last months of 2024. Alan, welcome.

[00:00:57] Alan Flannigan: Hey, thanks for having me, Lara.

[00:00:59] Lara Rhame: We're also joined by my podcast partner, Andrew Korz, an Executive Director on our team and our thought leader for equity markets, commercial real estate. It's a lot to discuss. Andrew, welcome.

[00:01:12] Andrew Korz: Howdy, Lara.

[00:01:13] Lara Rhame: it's hard to believe that it's already the last three months of 2024; our Q4 Outlooks are out. This is always about highlighting our big themes, our key takeaways and it's really just fun for us to take a step back and get in a room together and hash it all out. So, I feel like we've kind of come full circle.

[00:01:35] Andrew Korz: Yeah, I think so. It's been a heck of a couple years here for the economy. I think the economy's outperformed pretty much anybody's wild expectations from the start of 2023 all the way through this year. We're starting to see some cracks, Lara. I'm curious if you see those as signifying something more concerning or is it sort of steady as she goes in the economy?

[00:01:58] Lara Rhame: Well, that's when I think of full circle. I feel like we started the year nervous about the economic outlook and all of a sudden, today, we're really nervous about the economic outlook again.

So, to your point, think about back about a year ago. Expectations for growth in 2024, like consensus expectations, were 1%. Real GDP growth and today it's looking, obviously, still missing a quarter but it's looking like it's going to be more like 2.5% a repeat of last year. And such a strong growth rate for our economy, which probably more of you know has a potential growth rate of around 2%—so, strong and that's driven by all the sectors that have just continued to be tailwinds.

We've had a strong consumer. We've had 12 consecutive quarters of positive business investment spending. We've had government spending that continues to really contribute four to five-tenths to GDP growth. And it's meant that, from January to really call it July of peak optimism.

We really saw this strong rotation to everybody expecting just peak optimism in U.S. growth. And that all started falling apart in July with that really disappointing jobs number. We not only had a disappointing jobs number that showed slower growth of employment and the unemployment rate jumping up to 4.3%. But we had backward revisions that show us the labor markets started deteriorating in the second quarter, much earlier than we originally understood.

And all of a sudden, it felt like the Fed was really behind the curve. On September 18, we had that outsized 50bps Fed rate cut.

And so I guess I'll land the plane at the last place that we're full circle; when we started the year, we were expecting really aggressive Fed rate cuts. Today, we're also expecting really aggressive Fed rate cuts. And despite that, markets are at record highs.

[00:04:21] Andrew Korz: Yeah, I think that's such a good way to start this conversation because so much of the performance of the markets has to do with exactly what you just said. If we track the equity market over the past year, we had that big selloff in fall of last year, if you recall, which was basically the ten-year had gone to five. Markets were starting to realize that hey, the Fed actually might hold rates at 5–5.25[%].

[00:04:44] Lara Rhame: Because at one point we had only had one rate cut the entire year. That was in July, that was peak economic optimism.

Andrew Korz: The thought was get it up to five and hold it there. The economy is strong, no need to cut. And equity sort of plunged on that. Then you had this big rally into the end of 2024 when, to your point, everybody started pricing in six, seven cuts, in 2024. We always viewed that as kind of ridiculous. And then in Q1 you had those tough inflation reports, which sort of culminated in the March report, which sent the equity market plunging. At the end of March of this year, the equity market hit 21x earnings on an evaluation perspective, right.

Lara Rhame: It's incredible. Historically, so high.

[00:05:26] Andrew Korz: Very high. And that's sort of the peak we've been since that feverish period of 2021. And then if you look at the markets since then, there's that 21–21.5x earnings is sort of like a glass ceiling of where the market can go and we've hit it three more times right over the past sort of three or four months. We've hit that same valuation ceiling three or four times and it's come right back down. We've had these sort of sharp sell-offs and then the market sort of corrects back up and every time we sort of get this questioning of the narrative, right. The soft landing narrative.

Can we have both a strong economy and the Fed cutting rates? And that's the needle the market's trying to thread. And every time that's questioned, the market sells off and then everyone's like, everything's okay. We'll run it back up to 21.5x. So I think the other thing I want to point out is Q3 really sort of brought into greater contrast the idea that lower rates have a limited ability to drive equities higher. So if we look at the middle of July through today, as you mentioned, the expectation for the Fed funds rate 12 months from now has gone down like 150bps over the time.

[00:06:36] Lara Rhame: Right. Meaning that in July, we're looking ahead to what we thought the Fed would do for the next 12 months. We were thinking three rate cuts. That was back in July. Today, we're thinking 10.

[00:06:48] Andrew Korz: Yeah. Over 200bps of cuts easily. So there's been a complete sea change in what folks think is going to happen in the rates market over that time. Equities are up 1%–2% over that period. We've hit again—that valuation ceiling—and we've priced in a lot more cuts. Any more cuts, I think the market would react negatively to. But, what you've had is, ultimately, this later cycle feeling in equity markets where valuations are high and it's really going to be earnings expectations that will have to keep things afloat.

Again, we've been saying this for a long time. Earnings expectations are really, really Pollyannish right now. And if it's a don't break it equity market—if everything stays the same, we can see it methodically marching higher. But I think the risk of a disappointment on that side is really significant going into the end of the year…especially with the election.

[00:07:43] Lara Rhame: Yes. Well, I was going to say, making the Q4 outlook all the more critical because, what do we have coming up? We have two more Fed meetings. We have the elections and all of that uncertainty.

[00:07:56] Andrew Korz: Absolutely. And I think we're probably seeing some of these similar trends in corporate credit. Alan, you can tell me if that's true or if there's some more nuance there.

[00:08:06] Alan Flannigan: Yeah, it's absolutely right. And you look back over the past year, it's been a great time to be a credit investor. At the start of the year, we're talking about how attractive starting yields—despite tight spreads—would offer good, consistent income like returns. Expect the economy to hold up, keep credit losses contained, that's certainly occurred as well. And so folks have realized that coupon return over the course of the year.

And now we're sitting at a spot where given some of the dynamics you've described at the Fed—the fixed rate products very much been in favor over the variable rate loans and markets are priced pretty tight from a spread perspective. But there still remains meaningful price convexity in the high yield bond market, which, when you add that on to the current yields of around 7%, you're looking at a high single-digit type return profile for that asset class right now. If you're a credit investor, that's great. You're talking about a 4%–6% real return. And again, given the health of the fundamentals in that particular market, we think the credit losses will remain contained.

Now, the loan market is a little bit different story. It's a much more differentiated market. There's large issuers, there's bond and loan issuers, there's loan-only issuers, and there you see where defaults have ticked up. And the aversion from the investor community toward some of the credit loss risk hasn't really ticked up yet. Folks are still willing to support risk in that asset class, but I think you are starting to see some of that around the margins. And I think as the Fed cuts…folks in the loan community lose income on a one-for-one basis from the Fed rate cuts, folks will start to rethink about that asset class.

[00:09:45] Lara Rhame: I think that's where the fundamental outlook is so critical because when I look ahead to the fourth quarter, I think the big economic direction is an incremental slowdown from what is arguably an unsustainably strong pace of growth. So it's something that I think every market…I'm eager to dig through what this means and how it cascades down to all these asset classes. But it's something that the underlying economy can easily absorb and in some ways will add to better balance.

Maybe a healthier savings rate, some moderation. And we've already seen that, I think, in the labor market. The growth piece, to me, is less concerning than the slowdown of the labor market, which…listen, I've been doing this for a long time, the steep significant increase in the unemployment rate is something we all should be paying attention to.

And so the second key theme, for me, that falls out in the fourth quarter is that strap on the seatbelt for the labor data to cause a lot of volatility around Fed policy, around equity markets, around fixed income markets. Because weekly initial claims data, consumer sentiment data around job availability—not to mention those monthly employment reports—are just going to be hotspots for a lot of surprises. These are data reports that tend to surprise anyway. They're

early, they're leading indicators, and I think that is going to be something we're all going to be dealing with in the fourth quarter.

[00:11:27] Andrew Korz: This is such an important point, Lara, because you think about what the equity market's priced for, you can see it in the market. It's priced for really strong earnings growth and the Fed to pretty hastily cut to what somebody would consider the neutral rate—very quickly. And I think there's a lot of time between now and the end of next year or the middle of 2026 where a lot can happen there.

And I think people had to have two scenarios in their mind. They have the soft landing, which is this beautiful bucolic world where everything gracefully comes down to the mean. And then you have a recession, where something happens to growth.

[00:12:03] Lara Rhame: A contraction in growth. Recession, not just slow growth, but a contraction in growth.

[00:12:08] Andrew Korz: Yes. And I think to your point…

[00:12:09] Lara Rhame: …and severe job losses.

[00:12:11] Andrew Korz: And, on the unemployment rate, I think everyone looks at charts of the unemployment rate and when it starts going up, generally speaking, you hear about the Sahm Rule. When it starts going up, it reaches escape velocity and we get a recession, historically speaking. I think what people aren't really talking about is this world where the unemployment rate kind of creeps up a bit and growth kind of slows a bit, but it's not a recession. And what that would do, I think, you wouldn't get the big Fed cuts to restart the cycle, but you also probably wouldn't get the earnings growth either that people are expecting. If you look at the numbers, people are expecting EPS for the S&P 500 in the first half of 2026. So just looking ahead a little bit, to be 30% higher than they were in the first half of this year.

[00:12:53] Lara Rhame: That is something that is consistent with extraordinarily strong nominal GDP growth. Yes. So I think that is just a place where again, expectations continue to be peak optimism, despite what we're hearing and what we're seeing in bond market pricing.

[00:13:09] Andrew Korz: Yes, totally. And I think we're at this part of the cycle again, and Alan, I'll throw it back to you for how this works with credit. But valuations are pretty fully baked again, like equities, do you think they'll go above 21, 22x?

Alan Flannigan: I don't know, maybe.

[00:13:24] Lara Rhame: And what would be the catalyst for that lock-up? I think that's really hard to see in the fourth quarter.

Andrew Korz: Yeah. And spreads. I mean, spreads are very tight right now so you're at this point where the earnings growth and the income on the credit side really need to drive returns.

Lara Rhame: Yeah, what's the outlook in the fourth quarter for corporate credit?

[00:13:39] Alan Flannigan: The spread tightening narrative is a real thing. And it's something that you've got to take into consideration, particularly in the loan market. Loan investors have

been repriced down—in terms of the spread on top of the base rate that they receive—consistently over the course of the year.

And we estimate that it's taken roughly 50bps of income out of the market. That is not as consequential, though, as what the Fed's going to do. One Fed rate cut—that's equivalent to all this repricing, which dominated headlines, which we've talked about previously as well. And so, where you sit today is you've got thinner spreads and are you getting enough compensation for that risk.

We would suggest that right now in high yield, we estimate credit losses for the one-year period to be pretty low—80bps–90bps. In the loan market, it's more like 160[bps]. When you're faced, also, with the risk that the Fed lowers rates on you in the loan market, you're starting to get where that relative value between the two maybe doesn't make as much sense. And so, I think that's how you play the credit market through the rest of the year, is that relative value type of philosophy. And, just going full bore into one market versus the other is probably not the way to go. When value narrows, you want to have a wider lens that you can operate with.

[00:14:57] Lara Rhame: Yeah, that diversification.

[00:14:58] Alan Flannigan: Be it high yield, be it loans, be it various parts of the loan market, private credit, if that's something within the fund manager's mandate. And then securitized credit continues to offer some compelling asset type opportunities.

[00:15:11] Lara Rhame: Yeah. Well, I don't think there's any sector of the economy that is more interest rate–sensitive than real estate. So, Fed's cutting rates. I think, whether we get sort of 100bps of rate cuts total, we've already had 50bps in the fourth quarter or more, what does that mean for the CRE outlook both in the fourth quarter and beyond?

[00:15:33] Andrew Korz: Well, equity rates are up almost 20% in Q3.

[00:15:37] Lara Rhame: So I'm not the only one that notices interest rate senses.

[00:15:39] Andrew Korz: No, no. Do you want to guess what office rates are up just in the past quarter? Thirty percent.

[00:15:45] Lara Rhame: Finally.

[00:15:46] Andrew Korz: Thirty percent in one quarter.

[00:15:47] Lara Rhame: From such depressed levels.

[00:15:50] Andrew Korz: Such depressed levels. They're not near where they were pre-COVID.

[00:15:52] Lara Rhame: Signs of life. Green shoots. Signs of life. Yes.

[00:15:53] Andrew Korz: Yes. A lot of these properties, people said, I don't know how they get refinanced or whatever. The public market is saying, maybe it's not as bad as we thought.

[00:16:02] Alan Flannigan: Well, we're in the office on a Friday. We're leading the charge.

[00:16:04] Andrew Korz: We are leading the charge. Absolutely. Back to office. So I think CRE, what's happened in the past couple of months, I think it mirrors somewhat, what's going on in the housing market where we obviously had mortgage rates basically double. They probably tripled or quadrupled in the housing market, but activity plunged as a result. Because people just really couldn't make the economics of deals work, rates have come down a bit. But the reality is that activity has still been pretty slow to return, because they're still a lot higher than the rate on the existing mortgages.

I think that's where the similarities kind of end. Prices on homes haven't really fallen at all. Commercial real estate prices, depending on your index, are down 15%–20% from their peaks. That's significant, right. And the difference there is, people might still buy a house, even if it's not a great financial decision, because they just want to buy a house.

CRE is investment driven. It's all about what are the IRRs available in the market. So the market's been adjusting to that. The other thing is construction in single-family housing has continued to slowly creep up, whereas in commercial real estate, we've seen it absolutely plunge in terms of housing, in terms of construction starts. So when we look back at this period—the second half of 2024—a lot of the things that happened, a lot of the ingredients that we look for a rebound in the market, and it's been two years since we really had any activity going on in the market. They're all there. Price indexes have started to bottom a little bit.

They've stopped falling. Activities stopped falling. Momentum is so important in these private markets to get the flywheel going. So I think when we look back…2025, we're very bullish on an improvement in activity. We think it'll be clear that buyers and sellers have come to an agreement on where pricing is. But it's not going to be flashy yet, in Q4. It's going to be this consolidation period where the market's sort of mixing up these ingredients. And then 2025 is really where, I think, you're going to start to see the activity again.

[00:18:00] Lara Rhame: Yeah. Okay, so something that we try to do every quarter, which I love that we try to pull this thread from all of our outlooks, of a big theme. And I would say we struggled a little bit this time around, because each of our markets is pricing in such different outcomes. And we realized that is the big theme. So I think again: Economy. Incremental slowdown. Income growth is moderating.

Employment prospects, I would argue, are still healthy, but from the red hot quarters that we are coming off of, feel more lukewarm. And business investment, again, we've had strong, robust growth. I'm very positive about that next year. But given the uncertainty around the election, we may get a pause in that growth piece as well.

Growth for the fourth quarter, I'm expecting to be around 2%. Again, almost 3% in the third quarter. So we don't have that data yet, but that's kind of what it's adding up to right now. o an incremental slowdown that is still a healthy pace of growth. But when you look at the fixed income market, and here I'm talking about benchmark yields, Alan's going to give us the knowledge on credit.

You're seeing pessimism. Deep Fed rate cuts, parts of the yield curve that I think are a better predictor of recession are still flashing that alarm. The 3-month to 18-month, part of the yield curve still deeply inverted. The 3-month to 10-year part of the old curve still deeply inverted. And the Fed rate cuts in and of themselves are something that would be consistent with a pretty rapid deterioration in economic conditions. So juxtapose that to the equity market.

[00:19:58] Andrew Korz: Yeah, so. We have…

[00:20:00] Lara Rhame: ...which we've taught, we've teased. But I think it is important to really hammer that home.

[00:20:03] Andrew Korz: Yeah. The framework I like to use for thinking about the broadest lens of the equity market is this growth policy tradeoff. And what are the tradeoffs for changes in policy, depending on what happens with growth and sort of vice versa. So if you look back like 2022...

[00:20:20] Lara Rhame: I love that framework. I think that's so important. It's a really unique way of looking at things. And I think it's important that everybody appreciates how thoughtful that is because it really is driven so much of the equity market. It's versus the economic data over the past year.

[00:20:36] Andrew Korz: And of course, it doesn't capture all the ups and downs throughout the years. But broadly speaking, I think it's a pretty good framework to fit what's happened since the Fed started raising rates. 2022, the growth policy trade off was absolutely terrible. We had a really sluggish economy in 2022. All the tech firms were laying people off. and, But the Fed was absolutely jacking up rates because inflation was all that mattered. Equity's plunged. In 2023, we didn't necessarily ease policy at all. The market coalesced around the Fed's going to go to 5 and that's going to sort of be the peak of rates.

It's neutral on the policy side, but growth just way outperformed expectations throughout the year. Just consistently. In 2024, this year, growth has been a little bit better than people expect. And on the back end of this year, we've had the ability to price in Fed cuts. You've had positivity from both sides. I think going into next year, to your point, we've turned to the point where the economic data has been a little bit disappointing relative to what people expected and you've got basically a perfect path down for the Fed to a neutral rate.

So I think there's very little room for the equity market to—I mentioned this earlier—move higher on more Fed cuts than we expect because any more Fed cuts than this, I think would imply. That markets are really concerned about a growth slowdown. You're caught between the market expecting this really strong economy that's going to drive again 25%–30% earnings growth over the next two years, and a Fed where the cuts are fully baked if you don't expect a recession.

[00:22:15] Lara Rhame: What role is AI playing in markets expecting earnings growth to just surge?

[00:22:19] Andrew Korz: And I think this is an interesting part because in the beginning, AI was all about promise. It was all about future revenues and profits and, to a certain extent, it still certainly is. But you have seen actually the Mag 7 underperform the market for like two-and-a-half, three straight months now. And actually returns would have been much better in Q3 for the equity market. The S&P is up like three or four. It would have been seven or eight had the Mag 7 participated. They haven't. Part of that is, you know, NVIDIA had sort of a lukewarm...it wasn't terrible, but lukewarm results in the middle of Q3.

But I also think it's the spending. We've talked about this and you wrote about it in your recent "Macro Matters," where you've got CapEx for these seven firms growing at 30% or 35% over the next year. Massive spending...like Microsoft just said they were going to build a new giant nuclear reactor on Three Mile Island to feed their data center. These are massive, massive investments, with the hopes of future returns. And maybe that will be the case. The equity market generally doesn't like giant investments. So I think we've got to this point where...

[00:23:21] Lara Rhame: ...great for the economy, not great for free cash flow economy...

[00:23:25] Andrew Korz: ...great for American-focused firms that are helping to build these types of things. But, for the Mag 7 that are 30%–35% of the market, the market may say show me the money. Where are the returns here? So I think maybe they already have. Yeah, and maybe they're doing that right now. So I think the equity market is in this position where if nothing changes, it can trickle upward based on where the expectations for earnings are going to be. But any shaking of that narrative and, there's some risk there, I think.

[00:23:56] Lara Rhame: Okay, so if equities are incredibly positive and the fixed income market is pretty pessimistic, where does that leave corporate credit?

[00:24:05] Alan Flannigan: Yeah, so when you look at credit, I think both the high yield and the leverage loan market are acting and behaving optimistically. But I would suggest that in the one hand, in the high yield market, you've got pretty ample reason for that. The fundamental health of the balance sheets within that sector are great. When rates went up, the fixed rate product largely insulated many of these borrowers from that pressure on their borrowing costs. And now as some of those bonds are coming to maturity and being refinanced, you have seen interest expense go up incrementally, but it's been at a much slower rate than what you saw in the loan market.

And it's coming at a point in time where rates are starting to come back down. So, maybe they've walked the thin line there and missed falling off into the water. But high yield leverage is roughly four times...that's about a full turn lower than in leveraged loans and interest coverage is, near five times in the high yield bond market. These are great numbers historically...

[00:25:01] Lara Rhame: ...good fundamentals, what we've been saying for a really long time.

[00:25:04] Alan Flannigan: Yeah, and so I think there's really strong cause for optimism there. I think, again, with where high yield bonds are priced currently, you expect to pick up an extra percent, percent- and-a-half in terms of a price return over the coming year or two depending upon the trajectory of rate cuts. But in the loan market, you're starting to see what appears to be the beginning of a little bit of a distress cycle.

And so what I'm watching going forward there is, how much do rate cuts actually help repair some of the balance sheet woes that you see in that market? We know that it'll help, but it took two years to get balance sheets to the state that they're in now. How long will it take to get them back to a healthier state?

Again, you're looking at interest coverage there under three for the market. And when you segment the market into public and private loan borrowers, in smaller loan-only borrowers, a lot of those numbers fall off even further. And so I think it's a situation where idiosyncratic opportunities for active managers will be there, but probably not a buy-the-market scenario and kind of wait and see what signs tell you where we are in the distress cycle and what opportunities might be there be 12 months from now in that market as well.

[00:26:14] Lara Rhame: Okay. As we wrap up, we're going to do two separate rapid fire Round Robins. One thing you're watching in Q4. We'll all go and then we'll finish it out with teasing something important for 2025. So, Andrew, you want to kick us off?

[00:26:33] Andrew Korz: Sure. So in Q4, what I'm watching are actually correlations within the market. And we actually have a chart on this in your macro outlook. There's some pretty

remarkable charts. If you look at the Magnificent 7 versus every other stock in the S&P 500, the correlation between those two groups went to basically zero in the middle of this year, which makes absolutely no sense.

They're both different types of firms, but generally speaking, they're exposed to the same types of risk. And then if you look within the Mag 7, correlations between those seven stocks had plunged as well. Both those correlation numbers have popped back up, and that's why you've seen some volatility in the market pop back up, because everything's kind of moving in the same direction when risk is on versus risk is off.

That's a more normal market environment, so that's something I'm watching, especially as we come up to the election. If you get this internal diversification that we've had, or if you don't. And in commercial real estate, what I'm looking for in Q4 is we've had rates fall, which is one of the reasons we think the market's going to improve next year. I think that should drive some refinancings before it drives acquisition activity. There's been a lot of loans that have been extended and modified. I'll be looking to see if those lower rates allow more and more borrowers to refinance.

[00:27:48] Lara Rhame: Alan?

[00:27:49] Alan Flannigan: So I'm looking at new supply in the market.

We've gone through a period of two years now where much of the volume in loans and high yields has been refinancing, repricing, and not a lot of increasing the stock of capital in that space for acquisitions and M&A activities. And we look over to private equity land and we see that there's a lot of dry powder that needs to be set in motion.

There's a lot of companies held by PE funds that need to be exited, to strategic buyers or to other PE firms or secondaries transactions. And so, private credit is obviously the main preferred source of financing for those types of deals. But the leveraged loan market and the high yield bond market play a role as well.

And I'll be curious to see whether there's some revitalization of these more liquid types of financing for that PE activity and what role that it plays. Because with the shortfall that we've seen over the past couple years in this market, it's been great from a technical perspective to support pricing and put a floor underneath, a spread blowout event or any sort of downside risk.

But the thing about it is when you get new credits being brought to the market, you've got more opportunities. You've got more things to evaluate. And, a newly originated loan, typically the default risk on that over the first year or two of the life of the loan, conditions fairly well at the time of underwriting.

Andrew Korz: You want to buy the on the run stuff.

Alan Flannigan: Exactly. On the run has a history of performing better, from a credit perspective. Bringing some new on-the-run issues to the market, I think would be a great thing for the health of the market overall. And again, just expand the opportunity set for active managers out there.

[00:29:26] Andrew Korz: Lara, what's the data point that we're looking at?

[00:29:29] Lara Rhame: I think it's got to be the labor market in the fourth quarter. I've been reminding people, it's the Sahm Rule, not the Sahm law. I think,

[00:29:39] Andrew Korz: I think she regrets speaking about that.

[00:29:41] Lara Rhame: Well, there are some technical reasons why the unemployment rate may have risen a lot. You know, more importantly, I think at its core, I remain upbeat on the economy in general. So I think we're going to see this incremental slowdown in the labor market. Cool, but not go cold. And then my 2025 teaser, I think the inflation boogeyman is just under the bed. I don't think it's gone for good. I think it comes back in 2025.

[00:30:09] Andrew Korz: I love it. I love it. So for me, equities, and we've said this so many times throughout the past 15 years. But do we get the handoff from U.S. stocks to the rest of the world? China's simulating. Fed's cutting. You could get a weaker dollar. The U.S. has way outperformed the past couple years. Do we finally get the handoff to the rest of the world? We'll see.

Then in CRE, it's the shape of the rebound. We've had a very different type of downturn. We're very confident there's going to be a rebound. We think the shape of it actually is going to look very different, than maybe the past cycles. And if you want to hear more about that, because I know we're wrapping up, go read the CRE Outlook.

[00:30:46] Alan Flannigan: And I am looking at creditor on creditor violence...

[00:30:52] Andrew Korz: ...pugnacious of you...

[00:30:53] Alan Flannigan: Pugnacious of the distressed exchange volume across the leverage credit is at the highest spin since the great financial crisis. We know that there's a cottage industry out there, folks going around and pursuing this opportunity. Tightening up loan docs will be important. Private credit does that. Needs to go into the public market. It will be interesting to see how that plays out over the next year and whether the courts do something about it.

[00:31:16] Lara Rhame: Good stuff. All right. Well, thank you so much. I just love it when we can all get together and hash through our outlooks. All of these are in the show notes. So, this is just great stuff. It's going to be a really interesting last three months of 2024. And thanks guys for getting in the room and mixing it up.

[00:31:35] Andrew Korz: I think when we're recording the Q1 Outlook podcast, there will be a lot of new things to talk about, so I'm excited for that.

[00:31:41] Lara Rhame: Absolutely. Thanks so much.

Andrew + Alan: Thanks Lara.