



FS INVESTMENTS®

# **The not so hidden risk in your equity portfolio**

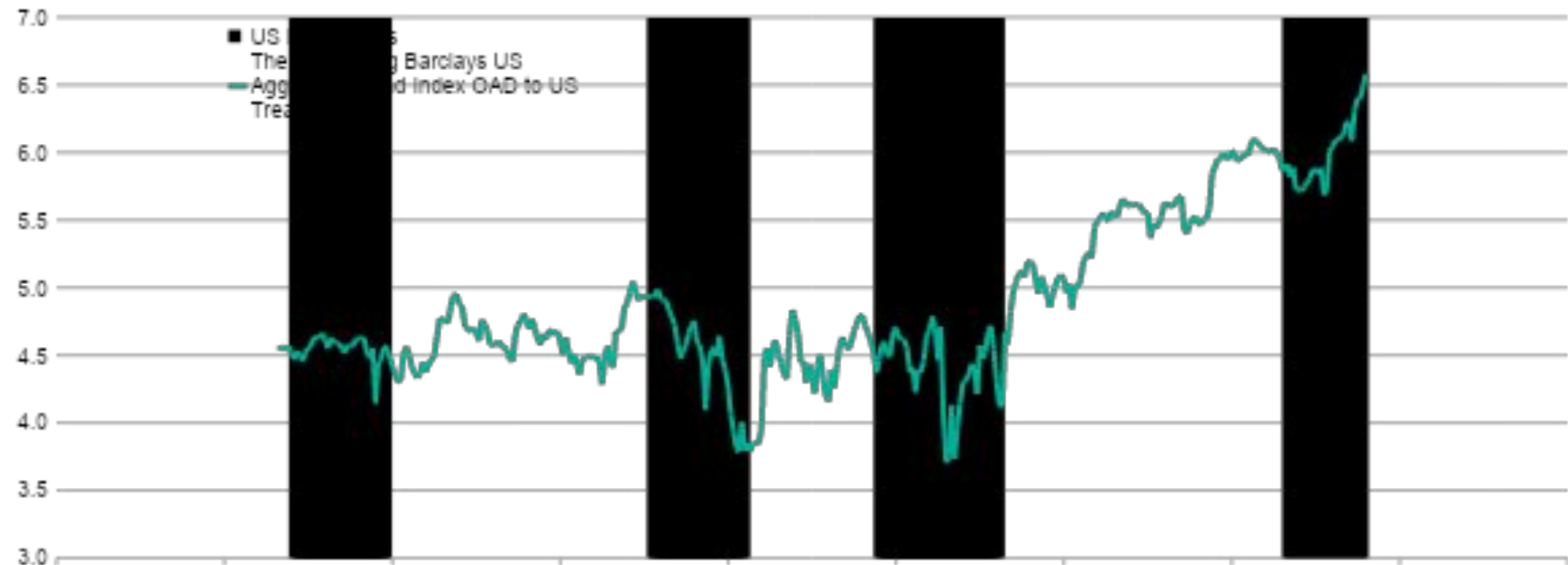
2021 Forbes/SHOOK Top Advisor Summit

OCTOBER 6, 2021

# Bond duration has exploded

Bond duration remains at decade highs

Duration of Bloomberg Barclays U.S. Aggregate Bond Index (yrs.)<sup>1</sup>

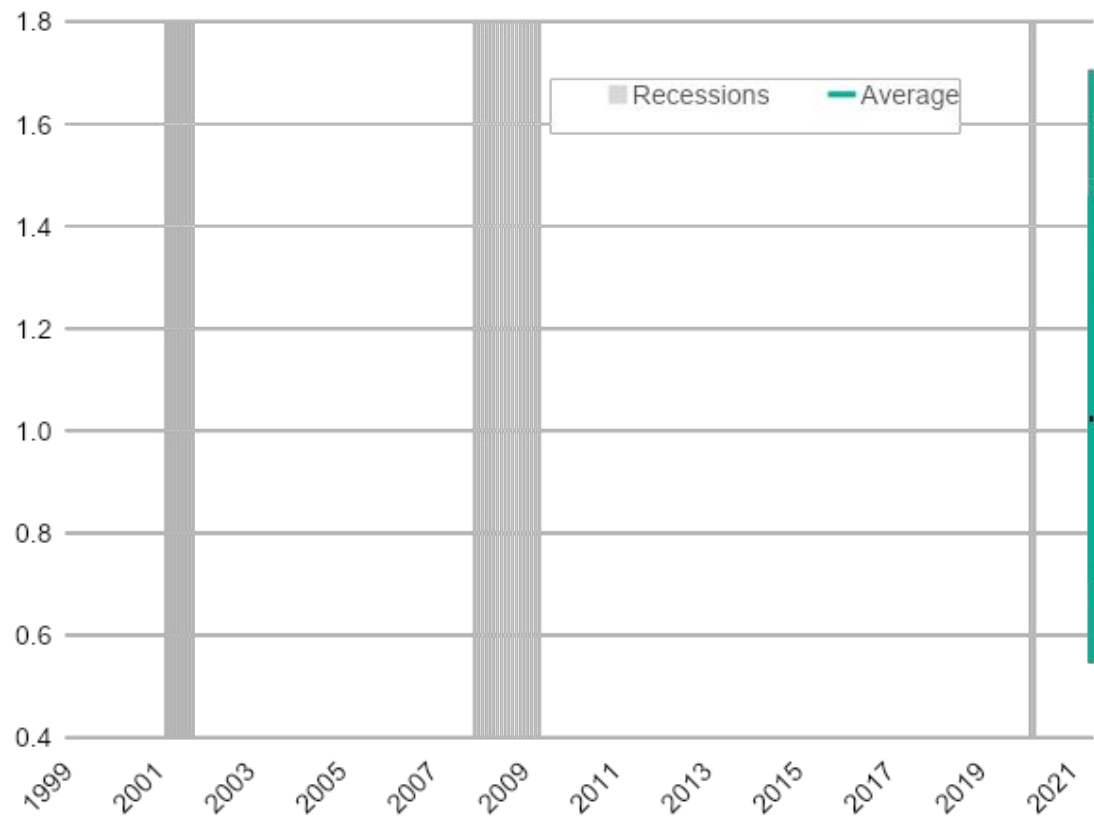


1. Source: Bloomberg, as of June 30, 2021.

# Equity markets are increasingly impacted by rates

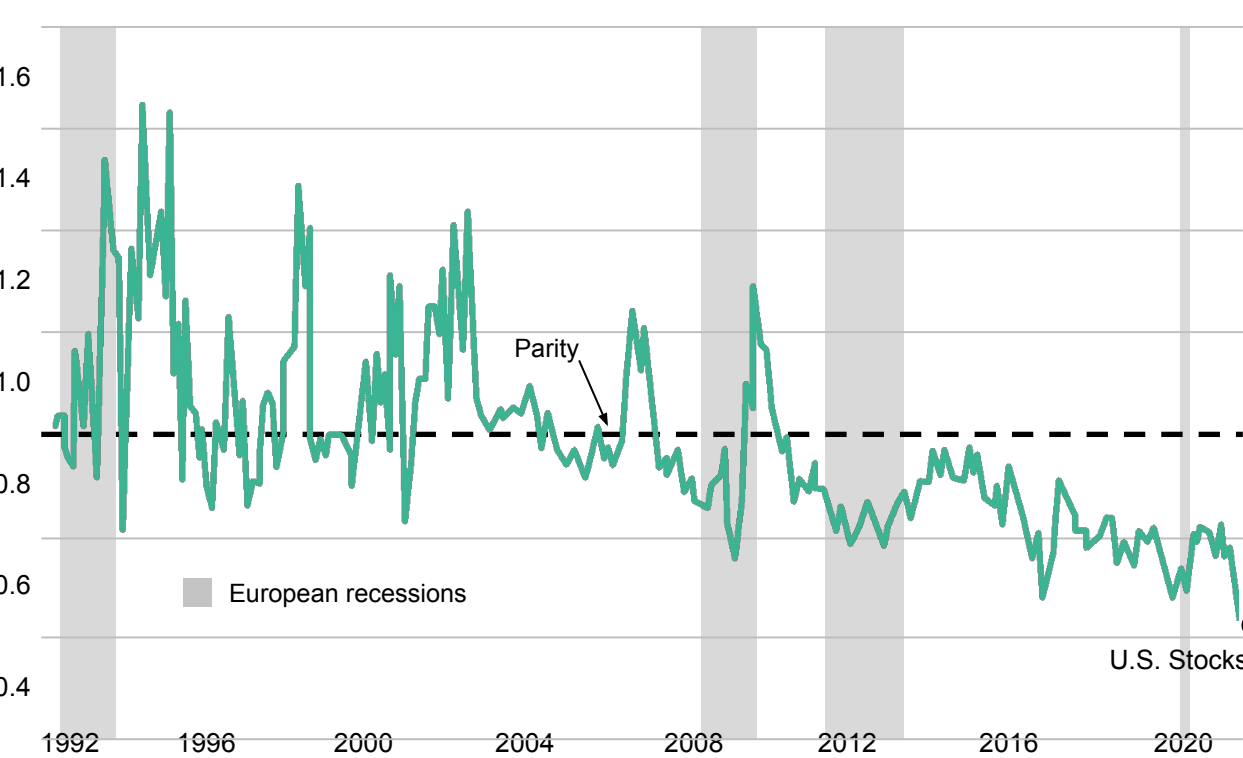
Stocks with highest correlation to long-term treasuries trade at extremely high premiums

Premium to forward price-to-earnings<sup>1</sup>



While stocks that are least correlated to long-term treasuries are trading at large discounts

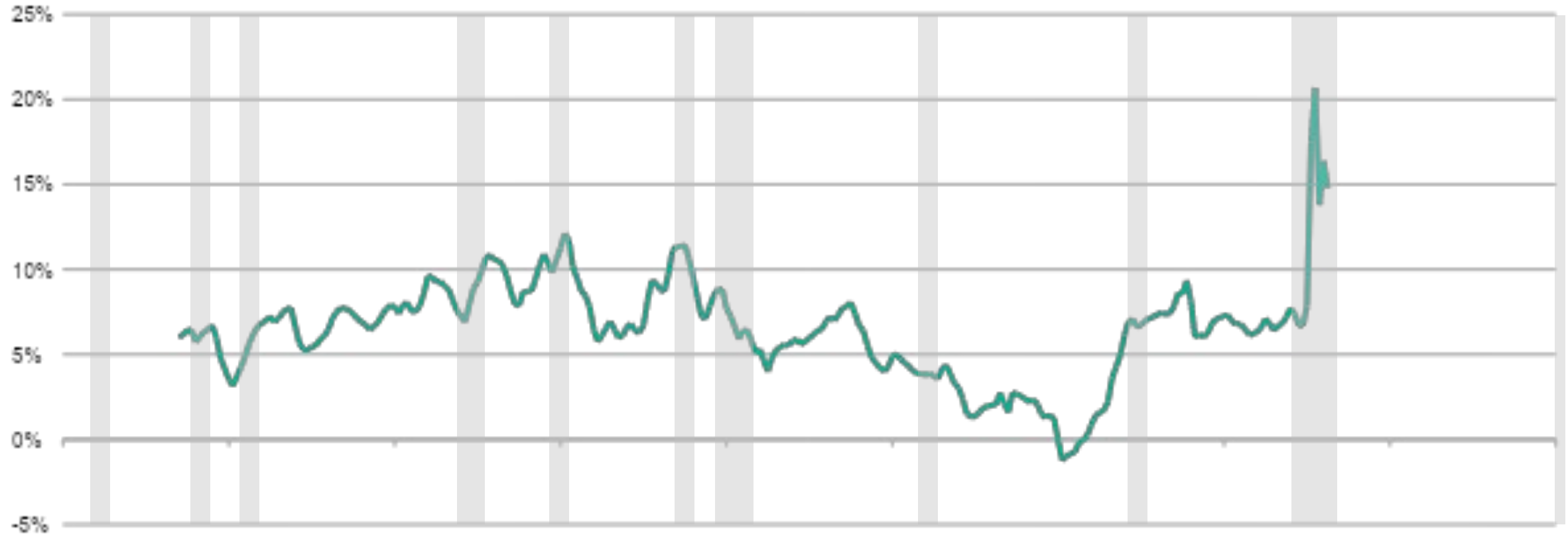
Discount to forward price-to-earnings<sup>1</sup>



1. Source: Empirical Research Partners. Developed Markets (ex-U.S.) stocks that are most correlated (highest quintile) and least correlated (lowest quintile) to the performance of the U.S. Treasury bond market.  
2. Relative to the U.S. Market.

# The set up for the consumer is different today

U.S. consumer free cash flow as a share of disposable personal income (1952-Q1 2021)



Source: Bureau of Economic Analysis, Federal Reserve Flow of Funds, NBER, FS Investments, as of September 27, 2021.

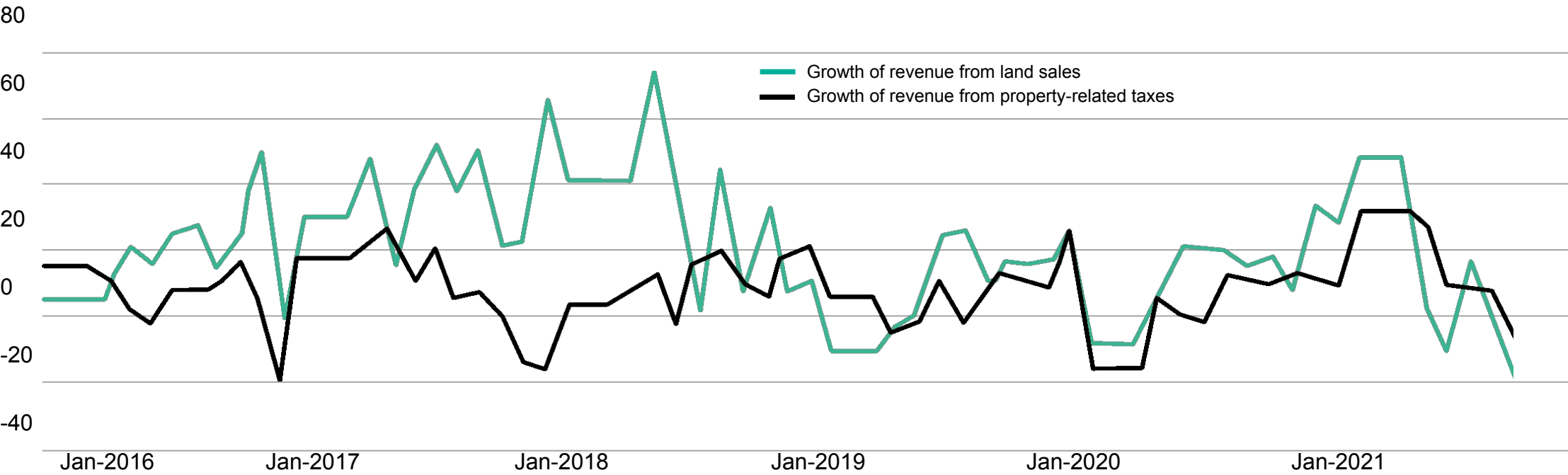
Note: U.S. Consumer free cash flow shown as gross savings less capital expenditures on durable goods and housing, as a share of personal disposable income. Data are shown as a 2-quarter moving average. Shaded areas reflect NBER recessions.

CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR INVESTOR USE.

# China: Property, not platforms, are the concern

Growth of government revenue from land sales and property-related taxes

% year-over-year change



Note: We use the average January–March data to largely smooth out the LNY distortions.  
Source: WIND and Nomura Global Economics.  
CONFIDENTIAL. FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR INVESTOR USE.

# Important disclosures

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.



To learn more

visit [www.fsinvestments.com](http://www.fsinvestments.com)