

KKR

# Insights

15.4

Global  
Macro Trends  
December 2025

# High Grading

Outlook for 2026

# Contents

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## 3 Introduction

- |    |                                      |    |                                |
|----|--------------------------------------|----|--------------------------------|
| 8  | High Grading the Portfolio           | 14 | What's Changed in Our Thinking |
| 11 | Managing a Changing Risk Environment |    |                                |

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## 15 Section I: Key Themes / Asset Allocation

- |    |  |    |  |
|----|--|----|--|
| 15 | Corporate Reform: Capital Heavy to Capital Light | 18 | The Security of Everything             |
| 16 | Productivity/Worker Retraining                   | 19 | Intra-Asia Trade                       |
| 17 | Consumption Upgrades in EMs                      | 20 | Global Services as an Investment Theme |
|    |  | 22 | Picks and Pans                         |

---

## 27 Section II: Global / Regional Economic Forecasts

- |    |           |    |       |
|----|-----------|----|-------|
| 29 | U.S.      | 44 | China |
| 38 | Euro Area | 51 | Japan |

---

## 55 Section III: Capital Markets

- |    |                          |    |                 |
|----|--------------------------|----|-----------------|
| 55 | S&P 500                  | 67 | Oil/Natural Gas |
| 61 | U.S. Interest Rates      | 71 | U.S. Dollar     |
| 65 | Euro Area Interest Rates | 74 | Japanese Yen    |
| 66 | Japan Interest Rates     |    |                 |

---

## 75 Section IV: Most Asked Questions

- |    |   |
|----|---|
| 75 | How are you thinking about Expected Returns?                                  |
| 79 | How are you thinking about Relative Value in Credit?                          |
| 82 | How should I think about productivity and worker retraining in the age of AI? |

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## 85 Section V: Conclusion



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# High Grading

## Outlook for 2026

The background for the global economy remains favorable heading into 2026, but we are now later in the credit cycle and more of the productivity miracle is now being properly reflected in capital market assumptions, we believe. In our view, this backdrop argues not for de-risking, but for High Grading, or upgrading portfolios, capital structures, and counterparties to emphasize resilience, quality, and capital efficiency as the cycle matures. The good news is that the cost to High Grade one's portfolio is extremely low today. Meanwhile (and consistent with prior years), we maintain a sharp focus on businesses and assets that can compound through what we believe is a *Regime Change* for investors, including higher-for-longer interest rates, ongoing geopolitical friction, and more discriminating credit markets. Overall, this new world order that we envision argues for a tilt towards quality and scale in Public Equities, and towards Private Market opportunities where we can underwrite targeted corporate carve-outs, collateral-based cash flows, operational improvement, and emerging capital light models across Private Equity, Real Assets, and Private Credit. We believe international markets offer increasingly attractive entry points as earnings momentum turns, corporate reforms accelerate, and valuations remain well below U.S. levels. Our bottom line for 2026: own less beta bets than in the past and favor more alpha in the form of portfolio resiliency, including the ability to make one's own luck through structuring, governance, and active ownership.

Luck is what happens when  
preparation meets opportunity.

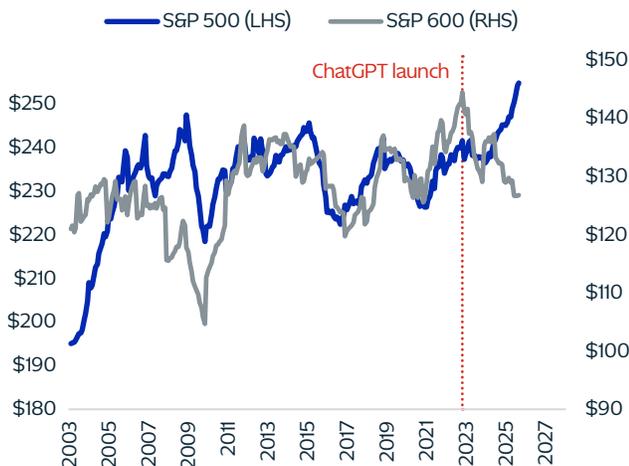
— Seneca the Younger, Stoic philosopher of Ancient Rome

For those who invested in the S&P 500 or Nasdaq during the past three years, it certainly has been a historic run of strong performance. Without question, it reminds me of what it felt like during the 1990s relentless bull market. Having just graduated from the Wharton Business School in 1997, I had returned to Morgan Stanley for my second stint during the 'blow off' phase of the late 1990s. It was quite a time to be on Wall Street, as markets were continually surging beyond investor expectations.

At the time, influential analysts such as Mary Meeker were touting stocks like Amazon, but outside of her higher quality universe, there was a growing and increasingly loud chorus of sell-side cheerleaders who were promoting less secure business models. Pets.com and ARIBA come to mind, though there were certainly a lot more that went public during that period. By comparison, the macro community at the time, including legendary investors Barton Biggs and Julian Robertson, were adamantly warning that things had gone too far too fast.

**Exhibit 1:** Since the Launch of ChatGPT in 2022, the S&P 500's Inflation-Adjusted Revenue per Worker (a Proxy for Efficiency) Is Up 5.5% After 20 Years of Zero Percent Growth. The S&P 600 Is Seeing the Exact Opposite Trend

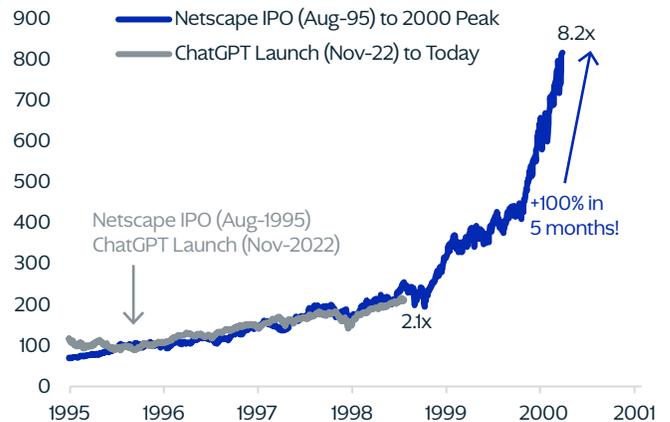
**U.S. Large-Cap vs. Small-Cap Efficiency Gains, Real Revenue per Worker**



Data as at September 30, 2025. Source: Wells Fargo Securities, FactSet.

**Exhibit 2:** The Nasdaq 100 Was Up 8.2x Following the Netscape IPO in August 1995. By Comparison, the NDX Is Up 2.1x Since the Launch of ChatGPT in November 2022

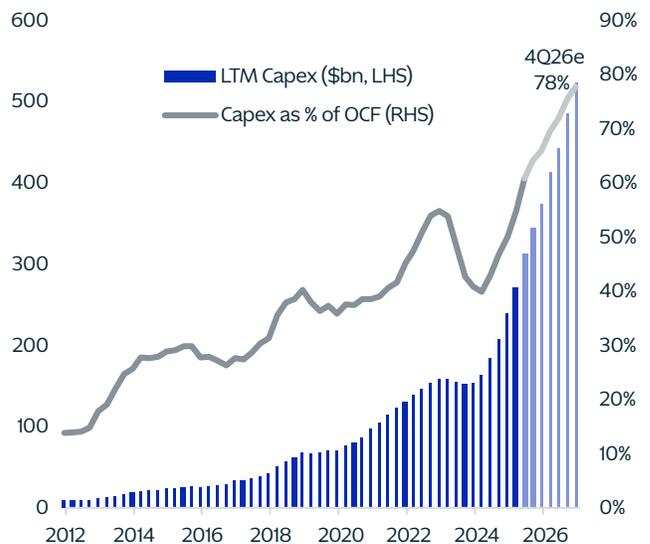
**Nasdaq 100 Performance, (Indexed to 100 at Netscape IPO and ChatGPT Launch)**



Data as at December 10, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

**Exhibit 3:** Hyperscalers Are Now Using 60-70% of Operating Cash Flows On Capital Expenditures

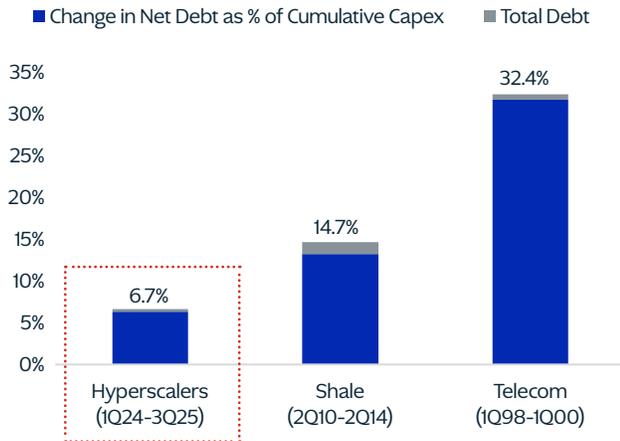
**U.S. Hyperscalers: Capex vs. Operating Cash Flow**



Hyperscalers include MSFT, AMZN, GOOGL, META and ORCL. Data as at October 31, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

**Exhibit 4:** While Not at the Telecom Level of 2000, Investors Will Now Watch Hyperscalers' Leverage Levels More Closely in 2026

**Prior Investment Cycles: % of Capex Funded With Debt**



Data as at October 31, 2025. Source: Wells Fargo Securities, FactSet.

In hindsight, Mary Meeker, Barton Biggs, and Julian Robertson were right. The internet changed almost everything over the long-term (Amazon today is a \$2.6 trillion company versus \$400 million in 1997), but some of the short-term benefits of the technological change got overstated – and for certain the transformation did not happen in a straight line. As a result, there was real bifurcation between those investors who thought long-term and high-graded their portfolios along the way, and those who had a more short-term, speculative tilt to their portfolios.

So, what does this story have to do with our 2026 outlook? To review, our *Glass Half Full* thesis of the past few years has been, similar to the 1990s experience, predicated on a productivity boom that would not only power markets higher but also overcome some of the significant macro headwinds that might keep some investors from leaning in along the way. Automation and digitalization drove post-COVID margin gains for those who had the scale to invest in their businesses, but we believe that a potentially more powerful leg of AI-driven productivity is now upon us. One can see this in *Exhibit 1*. That's the good news.

The potentially bad news, however, is that, similar to the late 1990s, investors are starting to get overly optimistic about what lies ahead, especially for the current set of

AI enablers across the technology, industrial, and utility sectors (important note: we think that a lot of long-term value actually could accrue to those who *apply* AI to their businesses, not just enable). One way we try to quantify current optimism about the future is to measure future growth expectations embedded in markets. To this end, just consider today that the 10-year forward CAGR implied by the S&P 500's current market value is now close to 16%, compared to 8% for much of the prior decade and a long-term average of 11%. To be sure, it is not as high as the 21% achieved in 2000, but it still represents fairly lofty forward growth expectations, in our view. One can see the details in *Exhibit 5*.

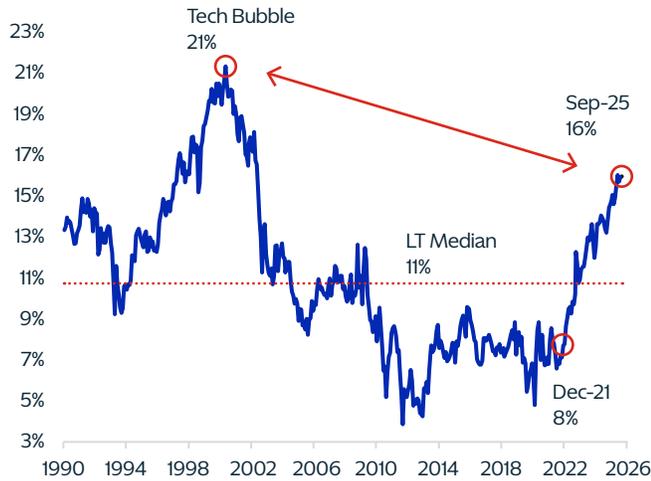
Importantly, this forward optimism is occurring at a time when, despite a Fed easing cycle, the credit markets are starting to send an important signal on two fronts. First is that there was likely too much credit extended on shakier terms in 2021/2022. We do not view this risk as systemic in aggregate, but we do think it will lead to significant vintage risk, including higher severity losses, because certain managers rushed in who did not ascribe to our linear deployment framework. Second (and likely more important overall), as credit losses season from extraordinarily low levels to more normalized levels, there will be, by definition, more strains on credit markets in 2026 and beyond, we believe.

The reality is that the trend towards higher losses has been occurring for some time in the Bank Loan and Direct Lending markets. We are not, however, forecasting anything close to a recession (which would embed cyclically higher losses; in fact, we are actually raising our GDP forecasts in most instances for 2026, and as we show in *Exhibit 10*, we do not embed a GFC-style credit cycle in our forward 5-year forecast), but we do want to signal that we are entering a more normalized period for credit conditions.

First is that there was likely too much credit extended on shakier terms in 2021/2022.

**Exhibit 5:** Optimism Abounds: The Implied Market Pricing of S&P 500 EPS Growth Is Elevated Relative to History, Though It Is Still Below the Tech Bubble

**Market-Implied EPS Growth of S&P 500, Based on 2-Stage DDM**



Data as at September 30, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

**Exhibit 6:** Magnificent Seven Capex + R&D Spending Is Now Running Near the Equivalent of Almost 29% of Total U.S. Tech-Related Equipment and Intellectual Property Investment

Year	Mag. 7 Capex + R&D US\$ Millions	Y/Y % Change	R&D US\$ Millions	Capex US\$ Millions
2011	34,438		21,647	12,792
2012	48,796	42%	27,909	20,887
2013	58,619	20%	32,417	26,202
2014	76,908	31%	42,037	34,871
2015	89,158	16%	52,205	36,953
2016	106,589	20%	61,055	45,534
2017	132,613	24%	76,237	56,376
2018	178,117	34%	94,790	83,327
2019	194,603	9%	114,484	80,119
2020	241,680	24%	133,564	108,116
2021	310,817	29%	165,434	145,383
2022	384,757	24%	212,745	172,012
2023	406,579	6%	239,601	166,978
2024	515,220	27%	262,308	252,912
2025	690,039	34%	309,272	380,767
2026	874,690	24%	368,768	505,922

2025 and 2026 are Bloomberg consensus estimates for the Magnificent 7. Data as at November 17, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

**Exhibit 7:** On the Equity Side, the Premium for Moving into High Quality Global Stocks Has Fallen to Just 17%...

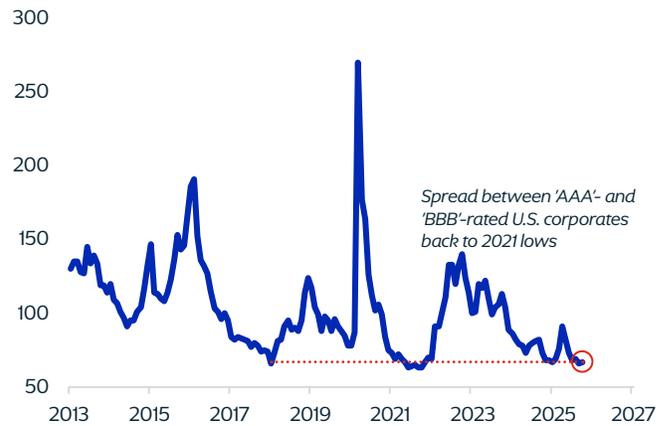
**Relative Valuations: NTM P/E, MSCI AC World Quality Index vs. MSCI AC World**



Quality defined as stocks with high ROE, stable earnings, and low leverage. Data as at November 28, 2025. Source: Bloomberg, MSCI, KKR Global Macro & Asset Allocation analysis.

**Exhibit 8:** ...While Relative Credit Spreads Are as Compressed as They Were in 2021. As Such, the Cost to Improve the Quality of One's Portfolio at Minimal Cost Is Extremely Low

**Relative Valuations: U.S. Credit Spreads BBB - AAA Corporates**



Data as at November 30, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

So, when we pull it all together, we are using this publication to signal a slightly more defensive posture over the next few years. Specifically, we are now late enough in the cycle to suggest that now is the time to start ‘High Grading’ the portfolio, which is also the title of our Outlook for 2026. However, here is the good news: as we detail in this report, the ‘cost’ of upgrading is actually quite low (see Exhibits 7 and 8, respectively), and we think that growth will be strong enough in 2026 to allow CIOs to reposition their portfolios without much friction costs. Indeed, our base case is that the economic cycle continues, and markets move higher in 2026. **What we are signaling, however, is that we all need to acknowledge that the investment community has pulled forward at least some of the exceptionalism/outperformance that we hoped might occur during a productivity boom.** In addition, we think that now is the right time to High Grade your counterparties, including financial institutions, asset managers, and vendors. This viewpoint is also consistent with the resiliency feature embedded in our mega-theme the Security of Everything.

**Exhibit 9:** We Expect Defaults to Rise in Coming Years Towards Post-2011 Averages But Remain Well Below GFC and Dot-Com Era Peaks

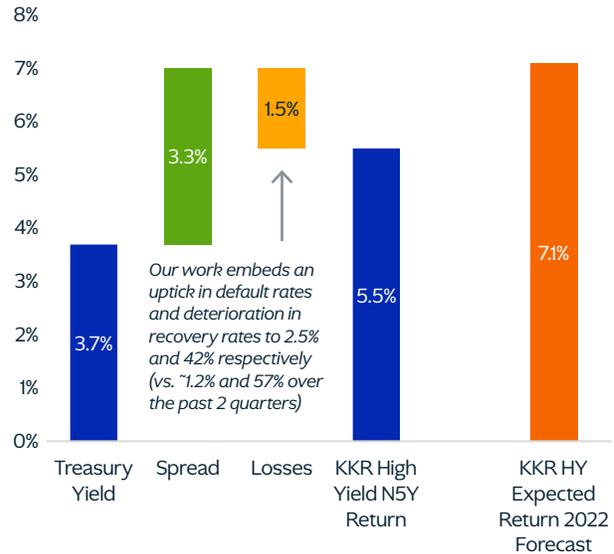
**HY Default Rate, Par-Weighted, %**



Data as at November 26, 2025. Source: BofA Research, KKR Global Macro & Asset Allocation analysis.

**Exhibit 10:** We Expect More Modest Returns in Credit, as Losses Normalize From Extraordinarily Low Levels

**High Yield Next Five Years Expected Return**



Data as at November 26, 2025. Source: BofA Research, KKR Global Macro & Asset Allocation analysis.

**Our bottom line: If we are right about the macroeconomic outlook, then our message is not to refrain from deployment. Rather, it is that all the portfolio construction tools that we have built at KKR over nearly the past two decades make a difference, including linear pacing, position sizing, and leverage levels, and that macro considerations all have more bearing now at this point in the cycle. There is also a real opportunity to create a differentiated outcome through owning more proprietary origination (especially in Credit), to be able to see across asset classes and geographies, and to drive more upside through operational improvement strategies, including employee ownership.**

Own less beta bets than in the past and favor more alpha in the form of portfolio resiliency.

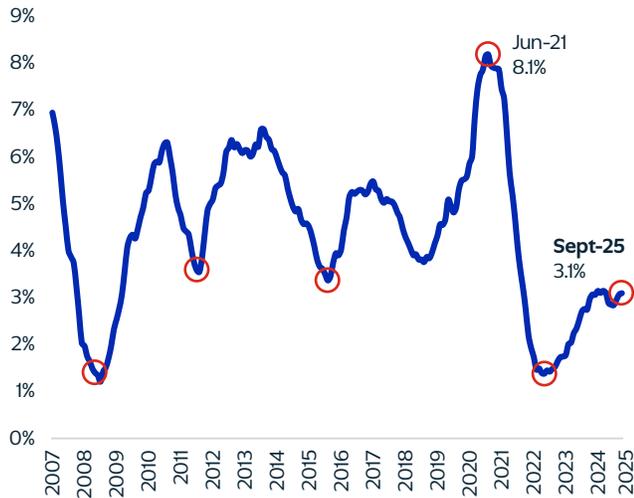
Consistent with this view, we are advocating the following tilts in 2026 as part of our desire to ‘High Grade’ our portfolio:

1. **‘Make Your Own Luck’ again in Private Markets: More operational improvement stories, especially those linked to capital heavy to capital light models.** Not surprisingly, KKR’s deal activity has surged in both the corporate carve-out and public-to-private areas of our global footprint. This reality is intentional because it allows us to bet on ourselves to make businesses better, not on market beta. Indeed, this desire to add alpha by controlling outcomes dovetails nicely with the more muted expected returns that we see over the next five years. See our Expected Returns forecast (*Exhibit 131*) in Section IV: Frequently Asked Questions.
2. **As shown in Exhibits 1 and 100, the ability to scale margins counts in a world where ‘Winners Take Most.’** We are seeing a historic expansion in margins that have built scale, including leveraging technology to drive automation and digitalization as well as AI. One just needs to look at the margins of the S&P 100 relative to the broader market to notice the huge bifurcation that we are seeing between the haves and have-nots, and it is even more extreme if you compare the S&P 500 to the S&P 600. Until the pace of technological changes slows, we think that scale and efficiency gains matter more.
3. **The ability to take advantage of what we call ‘Relative Value Opportunities’ at KKR carries more weight than ever these days.** Leveraging KKR’s \$700 billion of diversified AUM, including its own \$30 billion balance sheet across 37 offices, we are increasing our focus on relative value in today’s market. Key to our thinking is that relative value can be an important source of alpha in a world where we see expected returns being compressed (see Expected Returns in Section IV for more details). To this end, we agree with the growing number of our clients who are pushing towards a ‘Total Portfolio Approach’, which focuses on relative value across asset classes to drive deployment opportunities. From our perch at KKR, we see some of the best relative value today in strategies such as Asset-Based Finance, Capital Solutions, Corporate Carve-outs in PE, parts of Private Investment Grade Debt, and Opportunistic Infrastructure.
4. **We want to own more Asia at this point in the cycle.** Both the corporate reform stories as well as the consumption upgrade stories are gaining momentum. Without question, Japan is ground zero for corporate reform (and 40% of the market still trades for below book value, and 17% of corporate assets are in cash), while India is currently the best play on consumption upgrades, but we are seeing green shoots in Korea (corporate reform) and Southeast Asia (consumption upgrades) that also warrant investor attention. The good news is that investors, especially on the private side, are now generally underweight this region, including Equities, Infrastructure, and Credit.
5. **Own more collateral-based cash flows that tie into our Regime Change thesis.** We still think that we are in a higher resting heart rate environment for inflation in large economies such as the U.S. and Japan, and as such, we want greater linkages to nominal GDP than in the past across our portfolios. High quality Real Estate Credit, Infrastructure, Energy, and Asset-Based Finance all represent High Grading opportunities, we believe.
6. **On the more cautious side, we want to refrain from buying apparently ‘cheap’ assets that face intense competitive pressures and/or shaky capital structures.** Using an education analogy, we think a B is an A in this environment, but a C could be an F. Importantly, we do not believe that we are on the edge of a broad-based credit cycle in 2026. However, we do think that some of the excesses, especially from the 2021 vintage, are going to further manifest themselves in 2026. Beyond the 2021 vintage, pay particular attention to roll-up strategies that benefitted from suppressed interest rates and rich equity valuations coming out of COVID.

We want to own more Asia at this point in the cycle. Both the corporate reform stories as well as the consumption upgrade stories are gaining momentum.

**Exhibit 11: Our Liquidity Indicator Is Still Recovering From Near-Trough Levels**

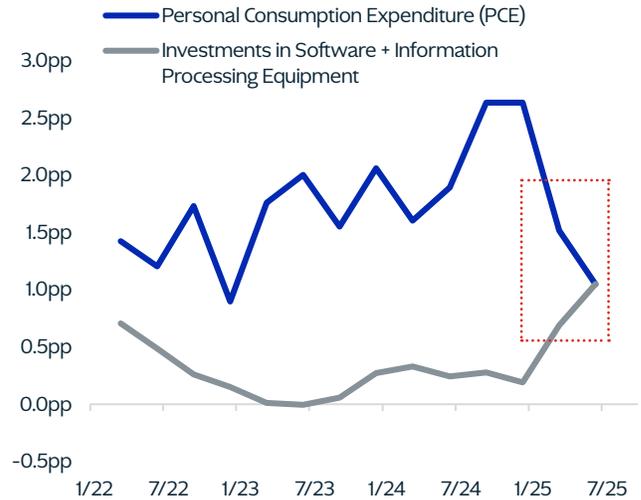
**Capital Markets Liquidity (TTM) as a % of GDP (IPO, HY Bond, Leveraged Loan Issuance)**



Data as at September 30, 2025. Source: Bloomberg.

**Exhibit 13: In 1H25, AI-Related Capex Contributed as Much as Consumer Spending to GDP Growth**

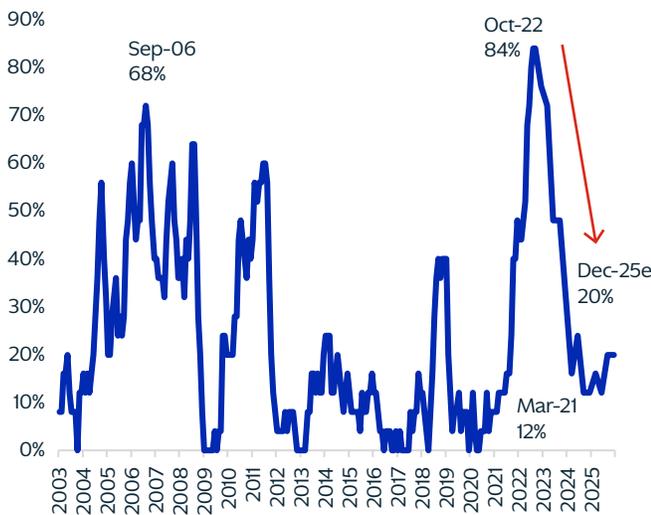
**Contribution to U.S. Real GDP Growth, 2Qtr Moving Average, SAAR %pt**



Data as at September 25, 2025. Source: U.S. Bureau of Labor Statistics, Bloomberg, KKR Global Macro & Asset Allocation analysis.

**Exhibit 12: Risk Assets Are Responding Favorably to the Idea of Fewer Tightenings and More Easings**

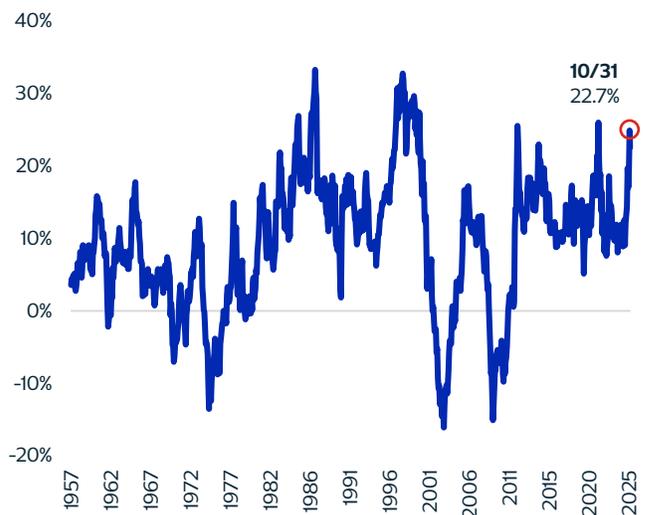
**Percent of Top 25 Global Central Banks Hiking Rates**



Data as at September 30, 2025. Source: Bloomberg.

**Exhibit 14: Three-Year Rolling Returns Are Quite Elevated. However, Productivity Booms Usually Drive Outsized Equity Market Returns for Longer Than the Consensus Thinks**

**S&P 500 3-Year Trailing Return, Annualized**

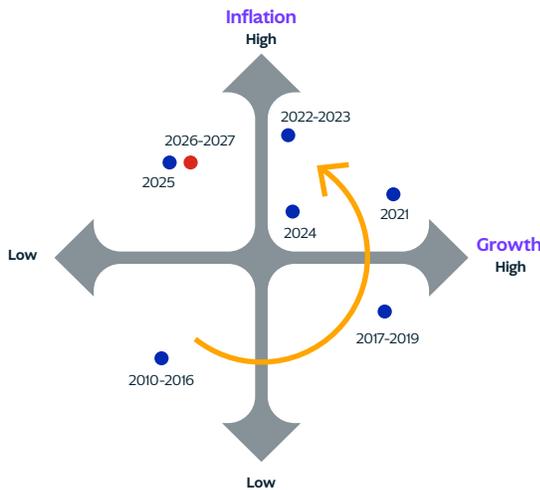


Data as at October 31, 2025. Source: KKR Global Macro & Asset Allocation analysis.

**We also want to re-emphasize our *Regime Change* framework, which argues this time is different for investors.** We continue to see a different economic cycle with different risks and opportunities. As we show below, many of the traditional ‘watch out’ risk metrics one would normally follow are actually not that concerning. For example, capex related to housing is quite low, while the Manufacturing PMI has been below 50 for 34 out of the 36 months. Moreover, there has not been an excessive number of IPOs, or Levered Loan and High Yield issuances (*Exhibit 11*). Yet as we show in the table below, we see different, more non-traditional risks this cycle, and as such, we have created hedging and asset allocation tilts/tools that should help to weather any storm. Consistent with this view, we remain constructive on Real Assets, prefer services over goods, and favor several macro themes that are linked to capital efficiency and productivity.

**Exhibit 15:** We Think 2026 Will Continue to Be a Higher Inflation Environment and That a *Regime Change* Is Ongoing

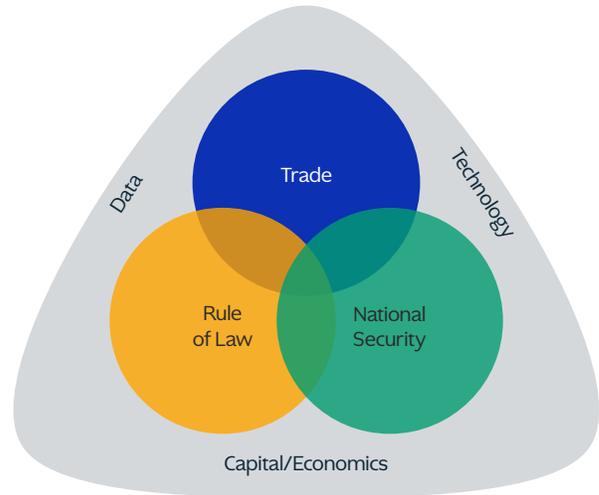
**Low and High Growth and Inflation Regimes**



Data as at November 30, 2025. Source: KKR Global Macro & Asset Allocation analysis.

**Exhibit 16:** National Security Is Now Bundled With Rule of Law and Economics/Trade, and Wrapped in the Complexity of Digitalization

**Blurring of Lines Across Economics, Rule of Law, and National Security**



Data as at November 30, 2025. Source: KKR Global Macro & Asset Allocation analysis.

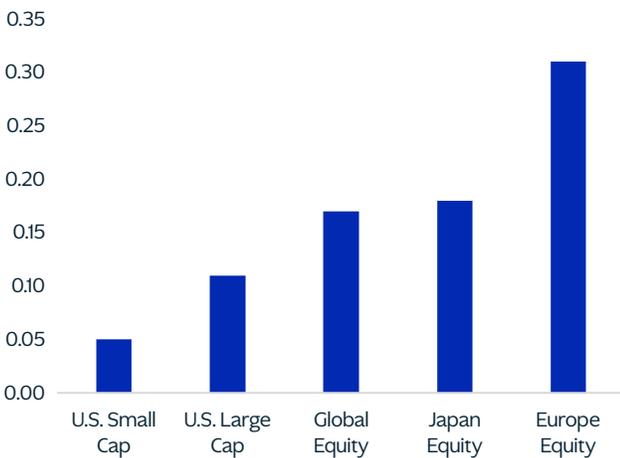
We also want to re-emphasize our *Regime Change* framework, which argues this time is different for investors. We continue to see a different economic cycle with different risks and opportunities.

<b>While Many Traditional Macro Risk Vectors Continue to Look Benign, We Are Focused on Managing a Changing Risk Dynamic</b>			
<b>Traditional Risk Signal</b>	<b>Current Status</b>	<b>Changing Risk Dynamic</b>	<b>Risk-Mitigating Strategies in the Changing Risk Dynamic</b>
<b>Overheated cyclical capex</b>	Aggregate construction and inventory investment – traditionally the most cyclical areas of capex – actually have fallen in inflation-adjusted terms since the Fed began raising rates aggressively in 2022	<b>Regime Change for inflation blunts effectiveness of traditional government bonds as portfolio ‘shock absorbers’</b>	<ul style="list-style-type: none"> <li>Lean into Real Assets, including Infrastructure, Asset-Based Finance, and select Real Estate exposures</li> </ul>
<b>Overleveraging by households and corporates</b>	Debt-to-GDP ratios remain below 2019 levels for both U.S. households and corporates. This has been the first prolonged economic expansion since at least the early 1980s that has not been accompanied by broad increases in private sector leverage ratios	<b>Emerging ‘Goods Glut’ amid shifting supply chains and heated Great Power competition</b>	<ul style="list-style-type: none"> <li>‘Services Over Goods’ as a broad theme, both at the company and macro level</li> </ul>
<b>Capital markets froth</b>	Capital Markets activity – across IPOs and leveraged loans and high yield issuance – fell to GFC-like lows in 2022. Activity has begun healing, but remains below long-term averages relative to GDP	<ul style="list-style-type: none"> <li><b>Sharply diverging growth and margin trends for mega-caps vs. rest of market</b></li> <li><b>Rolling sectoral recessions mean ongoing increase in credit default cycle following 2021/2022 origination surge</b></li> </ul>	<ul style="list-style-type: none"> <li>Favor investments that benefit from the same macro tailwinds that are benefitting scale players: we want to own tech-savvy companies with resilient capital structures that benefit from long-tailed macro themes including Digitalization/Automation, the Security of Everything, and Capital Heavy-to-Capital Light</li> <li>‘Make your own luck’ in Private Markets strategies oriented towards operational improvements</li> </ul>
<b>Broad irrational exuberance</b>	Our cross-asset sentiment indicator was negative for much of 2025, only recently rising above zero. Similarly, our measure of discretionary portfolio tilts among active investors only recently crossed from negative into neutral territory	<b>‘K-shaped’ consumer</b>	<ul style="list-style-type: none"> <li>Consumer Value as a theme at low-to-middle income</li> <li>Move up in quality, particularly in Credit</li> <li>High-end consumer will likely continue to spend</li> </ul>
		<b>U.S. valuations running clearly above-trend, even after adjusting for sector mix shifts and broad index quality upgrades (e.g., less volatile revenues, higher margins, lower leverage, more capital light)</b>	<ul style="list-style-type: none"> <li>Increase global allocations: Ex-U.S. corporate earnings finally began inflecting higher in 2025 following stagnation from 2022-24. Fiscal and monetary impulses have perked up in Europe and Asia, while currencies have stabilized, and ROEs have begun inflecting higher</li> <li>Continue to focus on structural inflections in Japan and Southern Europe, as well as durable secular growth in Southeast Asia</li> </ul>

What does all this mean for asset allocation? See our updated Expected Returns forecast in Section IV, but our message for long-term allocators of capital is that not only do we expect lower returns for the median manager, but we also think that delta between the best returning asset class and the worst performing asset class, on average, will be way below normal, especially compared to the prior decade (when global central banks suppressed interest rates). One can see this in *Exhibit 19*. As such, our strong view is that portfolios should now be designed to benefit from manager alpha, non-correlated assets, and upfront yield (where possible). As part of this world view, we believe that stocks and bonds will remain positively correlated, not negatively correlated the way they have been in the past. One can see some of our new, more detailed work around what this all means for investors in *Exhibit 17*. The U.K., Japan, and the U.S. are the three most prominent markets where we see this relationship changing. See Expected Returns in Section IV for more details, but we believe that over the next five years that High Yield, Private Markets, and International Equities could rival, or outperform in many instances, both large and small cap U.S. Equities.

**Exhibit 17:** As Part of Our *Regime Change* Thesis, We Now Forecast Positive Correlation for U.S. Government Bonds Relative to Most Asset Classes

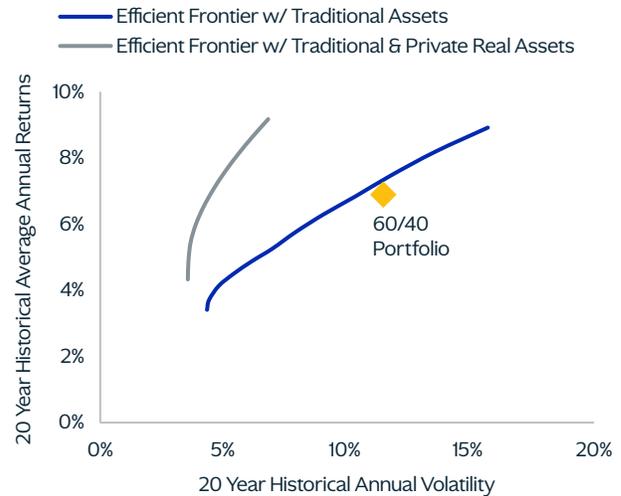
**Select Asset Class Correlations to U.S. Government Bonds**



Data as at November 17, 2025. Source: KKR Global Macro & Asset Allocation analysis.

**Exhibit 18:** Our *Regime Change* Thesis Suggests That Allocators Need to Think Differently About Asset Allocation. Importantly, We Think That Private Markets Can Add Significant Value at This Point in the Cycle

**20-Year Historical Average Annual Returns and Volatility, %**

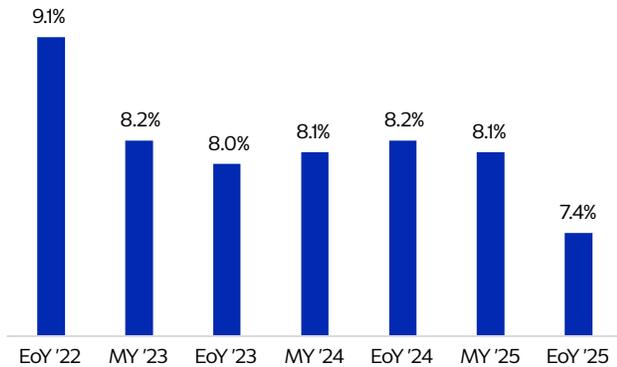


Efficient Frontier with Traditional Assets running with Global Equity (MSCI World), Global Treasury (BBG Global Agg Treasury), U.S. IG (BBG U.S. Agg Index), U.S. High Yield (BBG U.S. Corp High Yield Index), U.S. TIPS (S&P 10-Year U.S. Tips Index), Efficient Frontier with Private Assets include all the strategies mentioned and Private Infrastructure (Burgiss Private Global Infrastructure Index), Private Real Estate Equity (Burgiss Private Global Real Estate Index), Private Real Estate Debt (Giliberto-Levy L1 index). Using 20 years of quarterly returns since June 2003. Data as at June 30, 2023. Source: Burgiss, Bloomberg, KKR Global Macro & Asset Allocation analysis.

As such, our strong view is that portfolios should now be designed to benefit from manager alpha, non-correlated assets, and upfront yield (where possible). As part of this world view, we believe that stocks and bonds will remain positively correlated, not negatively correlated the way that they have been in the past.

**Exhibit 19: The Return Differential Between the Best and Worst Performing Assets in a Portfolio Continues to Tighten to Record Levels, We Believe**

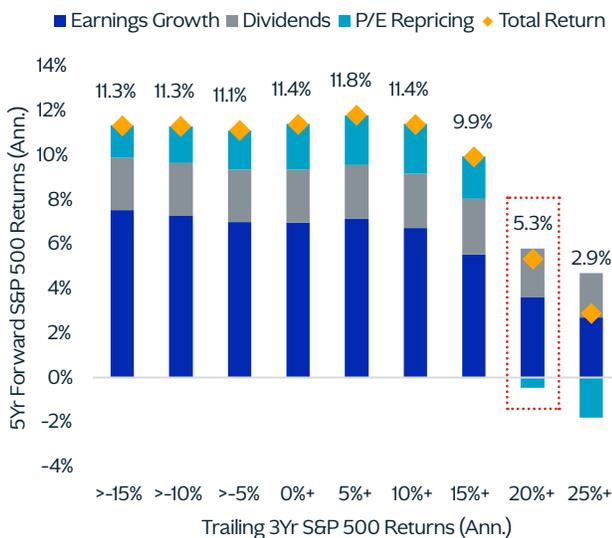
**Expected Returns: Maximum - Minimum Expected Return Differential**



End of Year and Mid-Year. Data as at November 30, 2025. Source: KKR Global Macro & Asset Allocation analysis.

**Exhibit 20: Strong S&P 500 Returns Typically Precede Lower Future Equity Returns**

**S&P 500 3-Year Trailing vs. Future Performance, Annualized, 1983-2025**



Data as at October 31, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

Looking at the big picture, we want to acknowledge that there are several important recent macro trends that are crystallizing six noteworthy shifts in our economic and policy outlook. They are as follows:

1. **First, given political gyrations around the world as well as heightened overall uncertainty, consumers are deleveraging and saving more, a uniquely different approach to a more mature economic cycle.**

All told, the household savings rate in China is now 36.5%, compared to 33.9% in 2019, before COVID. In the Eurozone, the gross household savings rate looks healthy at 15.5%, compared to 13% in 2019. Even the U.S. consumer is saving more now than in the past, with personal savings as a percentage of disposable income at 4.6% (up from a low of 2.2% in 2022). So, the U.S. savings rate is actually now similar to what we are seeing in most developed markets. Importantly, savings are acting as an offset to the recent surge in country government debt (which is up 1,000 basis points, on average, across developed markets since COVID).

2. **Second, is that we are all increasingly dependent on government fiscal deficits, AI-related capital expenditure cycles, and household asset appreciation to drive the economy and markets.** As we show in the table above, these forces represent new and different influences that may prevent historical comparisons from 'rhyming' with the present. As such, should one or more of these positive tailwinds run out of steam, then the potential for a cyclical downturn would increase materially.

3. **Third, everything feels 'K-shaped' these days.** Most acute is that services growth is trumping that of the goods sector in the U.S., while large cap companies with scale are materially outpacing small cap ones. Most importantly, though, is that high-end consumers appear well positioned to spend and thrive, while low-income consumers appear to be facing major affordability issues, especially when it comes to food, healthcare, and electricity costs. Interest rates are a blunt instrument and do not help in a 'distributive manner' when it comes to wealth re-allocation.

4. **Whereas our *Regime Change* thesis felt bullet proof coming out of the stimulus-driven bottom of COVID, that global story now feels a little more fragmented.** On the one hand, the U.K., the U.S., and Japan are all seeing a structurally higher rate of inflation amidst large government deficits; by comparison, China is actually in a deflationary period, while Europe seems to have landed a perfectly balanced inflation outlook. Overall, we still see a higher resting heart rate for inflation this cycle for the developed markets, but this narrative is increasingly feeling more nuanced than when we laid it out in 2020.
5. **Outside of India, the international services economy faces structural challenges, which are impacting non-U.S. countries, preventing them from growing as fast or as profitably as the United States.** Europe, for example, still needs to develop robust cross-border financial services infrastructure, while China needs to develop a domestic services industry to inspire job growth and an exit from deflation. Without question, we believe that part of the asynchronous patterns that we are seeing in global growth is the reality that the world never matured from a goods economy following China joining the World Trade Organization in 2001 to a more broad-based, stable globally-integrated services economy. We have not talked about this theme a lot in the past, but we intend to make it a major focus, given its importance to creating more synchronized global growth, in 2026.
6. **National security considerations continue to gain prominence, particularly around AI infrastructure, energy security, and critical minerals.** These examples all support our bullish stance towards our Security of Everything macro theme, as we believe that the shift from benign globalization to great power competition is only accelerating. Overall, we see a blurring of lines between economics and national security that is making a lower cost of capital across both the private and public sectors much more strategic than in the past. One can see this in *Exhibit 16*.

### What's Changed in Our Thinking

The cost to 'High Grade' one's portfolio is now more attractive relative to history. Make this a priority in 2026

Despite heightened global tensions, we notably raise 2026 GDP in 3 of 4 regions (and are above consensus in all three)

International earnings are now accelerating above trend. Europe, Japan and EM countries should benefit further

Stronger growth and higher inflation in the U.S., but the Fed balance sheet will start to grow again

Our *Regime Change* thesis regarding the role of government bonds in portfolios is now playing out more internationally, including in Japan and the United Kingdom

We further reduce our China inflation forecast to 0.3%, below consensus of 0.8%

We see Credit losses continuing to normalize in 2026, especially around 2021 vintages and sub-scale businesses

The productivity boom is gaining momentum, but more of this improvement is now in the price

Overall, we see a blurring of lines between economics and national security that is making a lower cost of capital across both the private and public sectors much more strategic than in the past.

SECTION I

# Key Themes / Asset Allocation

In the following section, we describe our key macro themes.

## 1

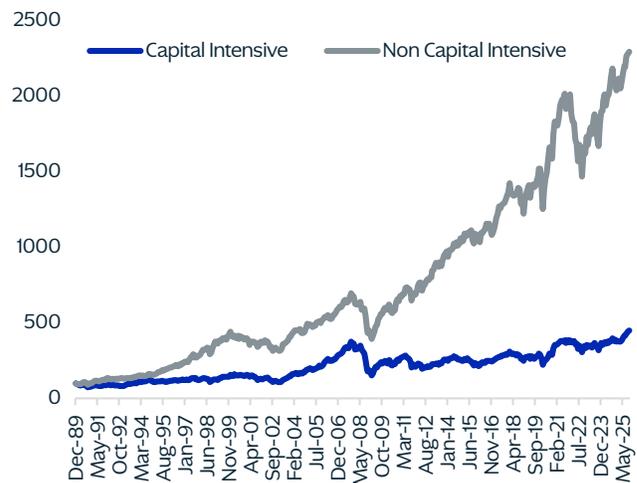
### Corporate Reform: Capital Heavy to Capital Light

As we show in *Exhibit 21*, this theme remains an investor favorite, as well as one of the most active thematics at KKR across a variety of products and regions, as increasingly chief executives around the world are repositioning their companies by shifting from capital heavy to capital light models. In particular, we are seeing a surge in corporate carve-outs, as multinationals seek to reduce their exposure to cyclical or low-return sectors so they can instead focus on more sustainable, higher-margin opportunities. In Europe, for example, just consider that the most recent Pitchbook data suggests that carve-outs are nearing €60 billion in 2025, a substantial segment of the total PE deal value. Carve-outs can help simplify complexity and provide cleaner governance, sharper incentives, and operational separation that can drive margin uplift and cash-flow durability. Meanwhile, on the fixed income side, there may be an even bigger opportunity for investors to underwrite high quality consumer finance, residential mortgages, equipment leases, renewables, and supply chain receivables. The Asset-Based Finance market appears to be a clear winner, as more and more corporates increasingly shed assets to

become more capital light. Without question, this business has been one of the most active at KKR in recent quarters, including sizeable transfers of balance sheet receivables from Paypal, Discover, and Harley-Davidson to our ABF platform. Separately, we are also seeing significant growth in the market for non-correlated assets with compelling cash flow characteristics, including insurance liabilities and music and healthcare royalties.

**Exhibit 21: Non-Capital-Intensive Companies Are Breaking Out. We Like Both the Equity Being Converted Towards Capital Light As Well As the Financing of the Assets Being Sold**

**World Capital vs. Non-Capital Intensive, USD Price Return Indexed to 100 in January 1990**



Capital intensity based on: Assets/Employee, Asset/Net Income, and Capex/Net Income. Data as at October 31, 2025. Source: Goldman Sachs.

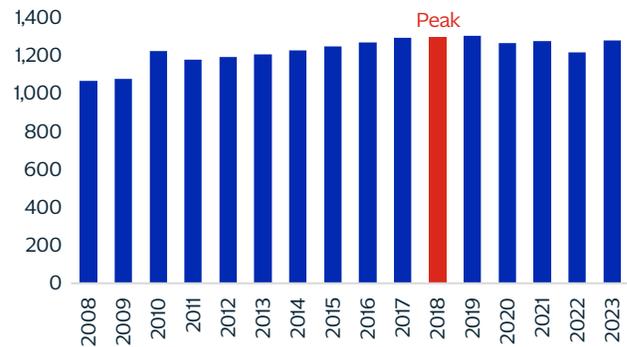
# 2

## Productivity/Worker Retraining

Given sluggish demographics, a dearth of trained workers for key sectors, lower labor participation rates, and weaker immigration trends, we think that corporations will continue to increasingly focus on technology-driven productivity gains to offset these headwinds. While digitalization and automation have accelerated since COVID, AI investment may be the next chapter of the productivity novel. All told, two-thirds of new jobs will likely benefit from or be impacted by AI, according to investment bank Goldman Sachs. Yet, governments and companies around the world are not spending enough on worker retraining. Indeed, as *Exhibit 22* below shows, survey data from approximately 500 global companies suggest that the average spend on worker retraining has actually declined since 2018. Against this backdrop, we think that there will be more opportunities for both workers and employers to lean into retraining as formal degrees become scarcer and the population ages further. Consider that for the third straight year, two-year vocational programs posted robust growth, up nearly 12% year over year, and enrollment at trade-focused institutions now sits at roughly 20% above spring 2020 levels. Armed Forces recruitment too jumped by 12.5% in 2024. If we are right, then skills training and vocational programs, which we think are underappreciated, will become even more of a priority as the U.S. and Europe both seek to reshore key industries where manufacturing will be needed. Importantly, though, most of this investment will need to come from the private sector. Just consider that the U.S. government invests less in worker training and transitioning than almost every other OECD country for which data are available (ranking 34th out of 35 countries, just ahead of Mexico). As such, the opportunity set for both private and public investment, particularly across labor market analytics, job search tools, skills-based training (on- and off-line), and productivity ‘enhancers’ (including workflow tools and automation), will increasingly grow during the next 5-10 years, we believe. Therein lies the opportunity.

**Exhibit 22:** Spend per Employee Has Not Kept Pace With the Need for Skills Upgrading at the Company Level

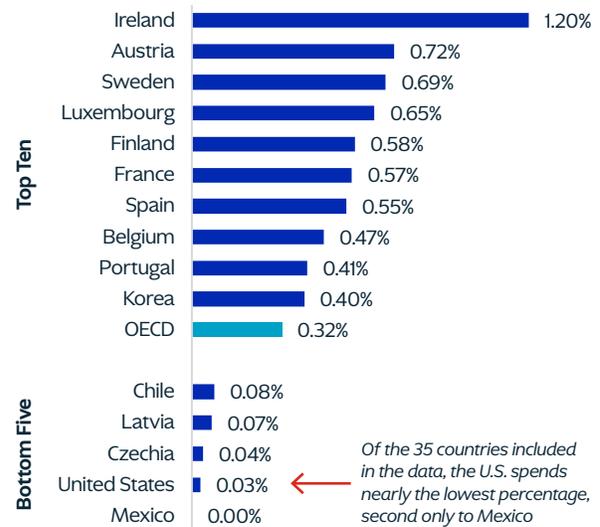
**Average Spend On Workplace Training per Employee Worldwide, 2008-2023 US\$**



Data as at December 31, 2023. Source: ATD 2023 State of the Industry Survey of ~500 worldwide organizations, HRTech Edge.

**Exhibit 23:** Government Labor Policies Help Workers Adapt to Digital Transformation, But Corporate Investment Remains Paramount

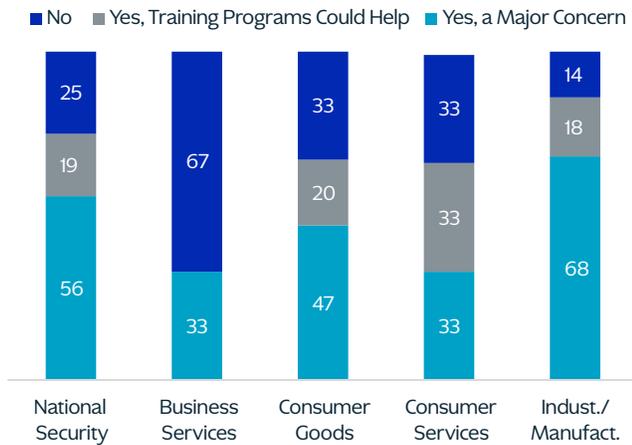
**Public Spending on Active Labor Market Policies for Unemployed, Inactive, or at Risk of Involuntary Job Loss as a % of GDP**



Data as at December 31, 2022. Source: OECD.

**Exhibit 24: Qualified Labor Is a Major Challenge for Manufacturing, Consumer Goods, and National Security**

**Availability of Qualified Labor a Major Consideration for Your Companies as They Consider Producing More Goods in the U.S.? (% Share of Respondents)**



Responses are expressed as share of respondents. Data as at May 31, 2025. Source: BofA Global Research.

# 3

## Consumption Upgrades in EMs

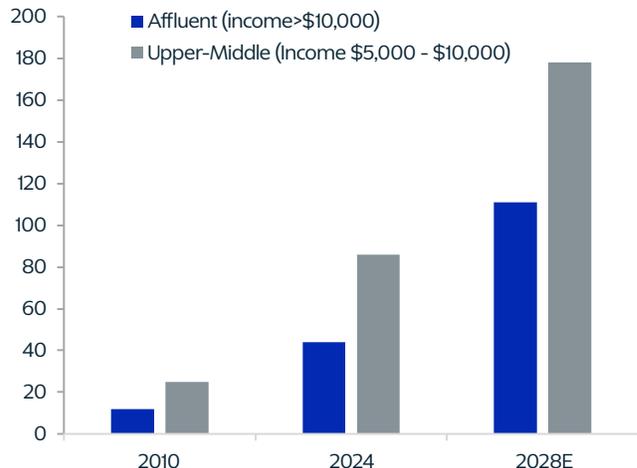
Beyond the reform-driven corporate carve-outs we are witnessing across Asia, most notably in Japan and Korea, one of the most powerful structural forces shaping the region is the steady rise of the consumption-upgrade cycle. Nowhere is this more evident than in India, where the growth impulse is increasingly being led by the middle-to-upper income segments rather than the lower tiers. This dynamic is fueling demand across financial services, healthcare, education, and travel and leisure. Our demographic and income projections suggest that India’s affluent population will expand nearly ten-fold between 2010 and 2028, underscoring the magnitude of this transformation. The trend is already visible in domestic tourism, where higher disposable incomes are translating into a meaningful shift from basic consumption to aspirational spending. Moreover, as growth in India’s upper-middle class accelerates, we are seeing the same

pattern observed in other Asian economies further along the development curve: once the foundational needs of food, shelter, and energy are met, incremental income is disproportionately being directed towards education and healthcare, two sectors where KKR maintains a deep and growing exposure.

Meanwhile, across Southeast Asia, recent moderation in household spending — particularly in Indonesia — highlights that the transition to upper-middle-income status may occur at different speeds across the ASEAN-5 (excluding Singapore), but the region’s long-term trajectory remains underpinned by supportive domestic policies, deepening regional integration, and increasing foreign direct investment. As global multinationals diversify supply chains and seek exposure to Southeast Asia’s expanding consumer base, we expect a sustained uplift in formalization, productivity, and digital participation. Against this backdrop, we continue to see a broad set of capital deployment opportunities spanning financial inclusion and digital enablement, the modernization of retail and e-commerce infrastructure, and rising discretionary demand in sectors such as healthcare and education.

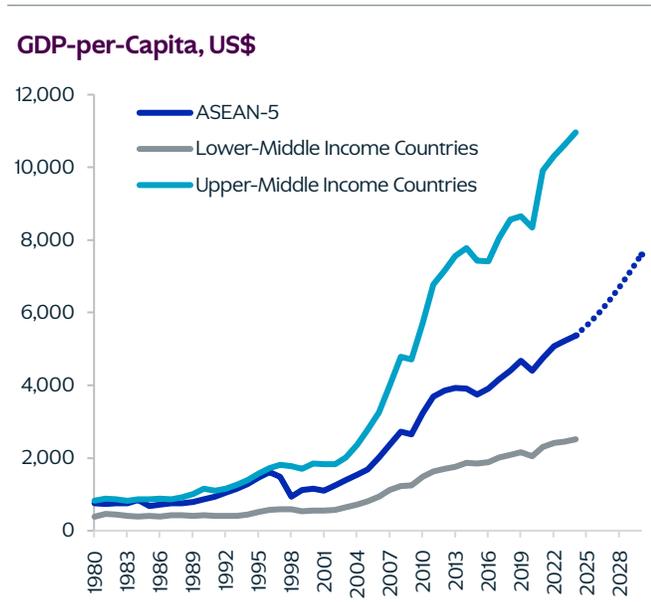
**Exhibit 25: India’s Affluent and Upper-Middle Income Households Are Seeing the Fastest Growth in Formation**

**Number of Affluent/Upper-Middle Households in India, Millions**



Data as at December 31, 2024. Source: Euromonitor.

**Exhibit 26: Southeast Asian Countries Are On Track to Attain Upper-Middle Income Status by the End of the Decade**



Data as at July 2, 2025. Source: IMF, United Nations, World Bank, KKR Global Macro & Asset Allocation analysis.

# 4

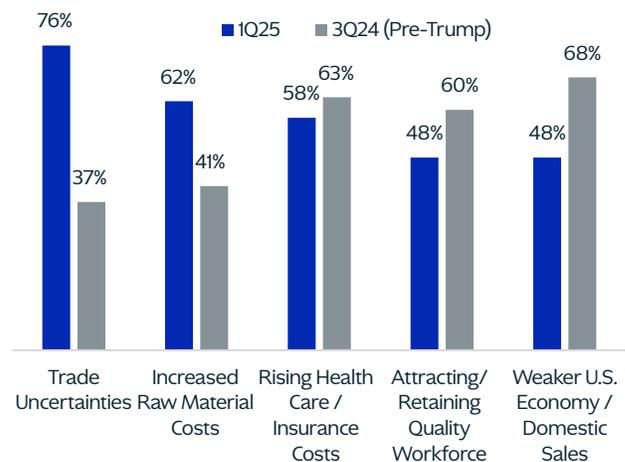
## The Security of Everything

As we discussed in the Outlook for 2025 and at some length in the Mid-Year, we continue to be maximum bullish on this mega theme. Against a continued backdrop of rising geopolitical tensions, cyberattacks, and shifting global supply chains, CEOs around the world have told us that they want to be confident that they are optimizing corporate security and have resiliency when it comes to key inputs such as energy, data, transportation, and pharmaceuticals. President Trump’s emphasis on policies promoting self-reliance already is spurring significantly more efforts to strengthen and rebuild national security, not just in the U.S., but across the globe. Consider that global military expenditure reached \$2.72 trillion in 2024, up 9.4% in real terms from 2023. As an example of this trend, *Exhibit 30* from the Center for Strategic & International Studies shows that defense spending by

NATO members and Canada together increased by an estimated 22% in real terms between 2022 and 2025. Notably, the definition of ‘security’ continues to expand beyond traditional military concerns. Governments and corporations increasingly view security through a broader lens, covering data, transportation, payments, communications, and healthcare, and critically, need supply chains for each. In particular, we have seen that regulators and executives in the financial services industry feel strongly that cyber protection spending should accelerate more meaningfully, especially since the 2023 hack of the Treasury market. As we have noted previously, this theme also ties into rising global temperatures. Companies will need to ensure the security of storage, power, and transportation. Going forward, the defense industry should continue to benefit mightily from this theme, especially in Europe, where Germany has committed to a 70% increase in defense spending, reaching €162 billion by 2029, and the EU has announced a loosening of budget restraints (i.e., rules on deficit spending) aimed at allowing member states to spend more on rearmament.

**Exhibit 27: Manufacturing Survey Data Suggests That CEOs Remain Concerned About Trade Uncertainties**

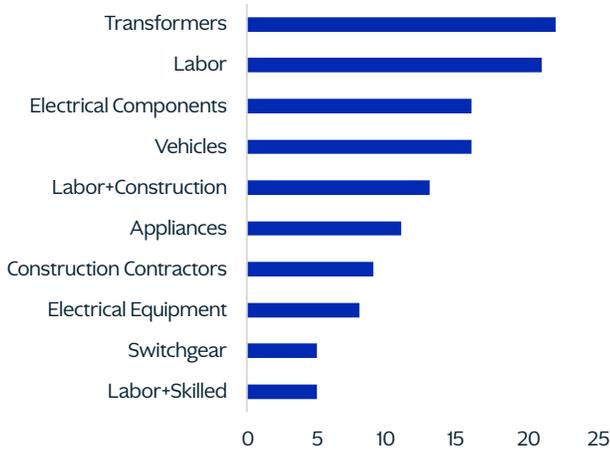
### Top 5 Primary Manufacturing Business Challenges, 1Q25 vs. 3Q24



Represents the % of total respondents currently facing primary business challenges. Responses recorded from February 11 - February 28, 2025. Source: Melius Research.

**Exhibit 28:** Supply and Demand for Industrial Equipment Are Out of Balance Due to Underinvestment, the Energy Transition, and Weather

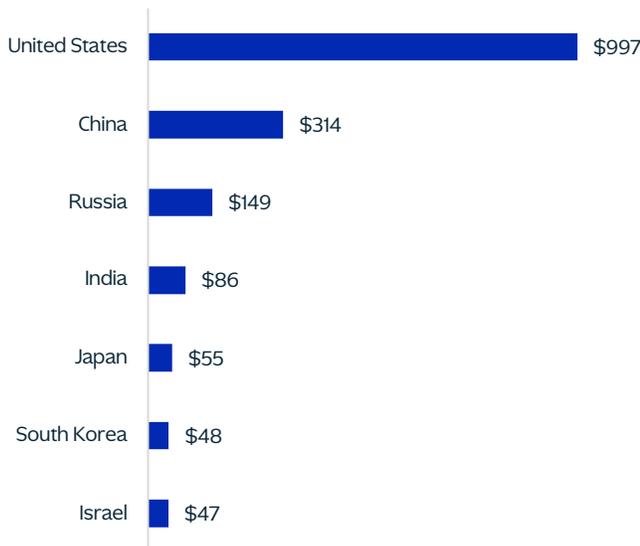
**Supply Shortages in ISM Subsectors, Number of Months in the Last 2 Years**



Data as October 31, 2023. Source: U.S. Census Bureau.

**Exhibit 29:** Uncertainty in the Current Global Security Environment and Heightened Threats Have Prompted Major Investment in Defense Spending

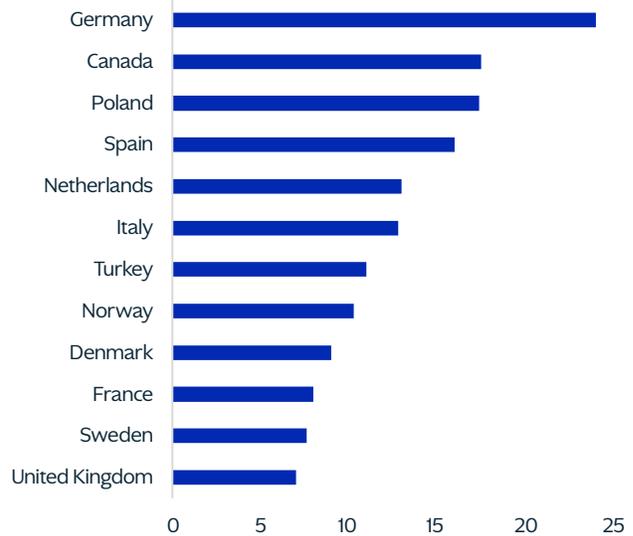
**Select 2024 Military Expenditures**



Data as at December 31, 2024. Source: SIPRI Military Expenditure Database (2024), Stockholm International Peace Research Institute.

**Exhibit 30:** NATO Allies Have Sought to Boost Their Own Defense Capabilities Post Russia’s Invasion of Ukraine

**Real Change in Defense Spending, 2022-2025, US\$ Billions in 2021 US\$ terms**



Germany estimates for 2024 as 2025 data not published by NATO. Source: “Defense Expenditure of NATO Countries (2014-2025),” NATO, August 28, 2025, CSIS.

# 5

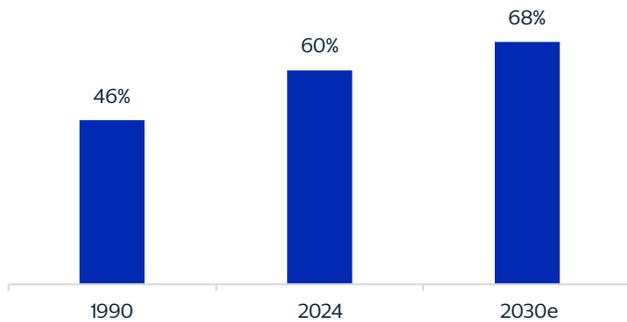
## Intra-Asia Trade

We view Intra-Asia trade as a mega theme as, in our view, it remains one of the true structural investing stories in the region as the economic landscape is reshaped. As supply chains decouple from traditional Western dependencies and regional demand ramps up, intra-Asia flows are increasingly becoming localized. 800 million plus millennials in the region coming of age is certainly helping to drive increased demand for goods and services. Against this backdrop, governments across the region are prioritizing trade facilitation and infrastructure connectivity, often using private sector players to anchor this shift and drive sustained intraregional growth. Back in 1990, only 46% of Asian trade was conducted within the region; by 2024, that percentage had risen to 60%, and we expect it to grow another 8% over the next few

years (*Exhibit 31*). While this growth is accompanied by rising rivalries among countries, China has managed to increase its share not just through competitive exports but by establishing a stronger local presence in key markets like Vietnam. One of the emerging benefits for the region involves the increasing frequency of countries transacting in renminbi, a trend that has gained momentum post-COVID. For us at KKR, this is a scalable, secular trend with real investment potential that spans logistics, manufacturing, consumer markets, and digital enablement. We think Infrastructure and Credit — both liquid and private — also offer compelling ways to capitalize on this ongoing regional shift.

**Exhibit 31: Asian Trade Is Becoming More Local**

**% of Trade within Asia**

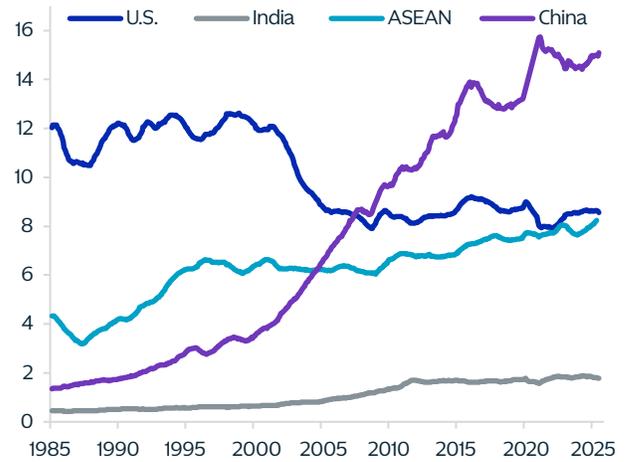


Data as at December 31, 2024. Source: The Economist, KKR Global Macro & Asset Allocation analysis.

In the U.S., the services economy has been a consistent driver of resilience, benefiting from deep capital markets, a sophisticated corporate base, and now the early monetization of AI in areas like automation, customer engagement, and data analytics.

**Exhibit 32: Despite Geopolitical Headwinds, Asia Maintains Trade Competitiveness**

**Share of World Exports, 12-Month Moving Average, %**



ASEAN equals Indonesia, Malaysia, Philippines, Singapore and Thailand. Data as at July 31, 2025. Source: IMF, KKR Global Macro & Asset Allocation analysis.

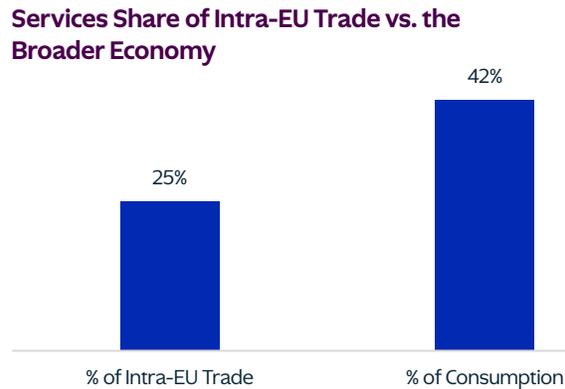
6

**Global Services as an Investment Theme**

While the importance of services to the global growth outlook has never been higher, there are tremendous divergences and varying degrees of opportunity by region. Indeed, services are increasingly becoming a battleground for productivity, trade balances, and market leadership. In the U.S., the services economy has been a consistent driver of resilience, benefiting from deep capital markets, a sophisticated corporate base, and now the early monetization of AI in areas like automation, customer engagement, and data analytics. India is another standout — not because of manufacturing strength, which remains somewhat constrained by regulation and execution risk, but because of its emergence as a global services exporter. The income and wealth effects for India's top 200 million consumers are reinforcing this trend, driving demand for education, healthcare, and discretionary services. By contrast, Europe's services

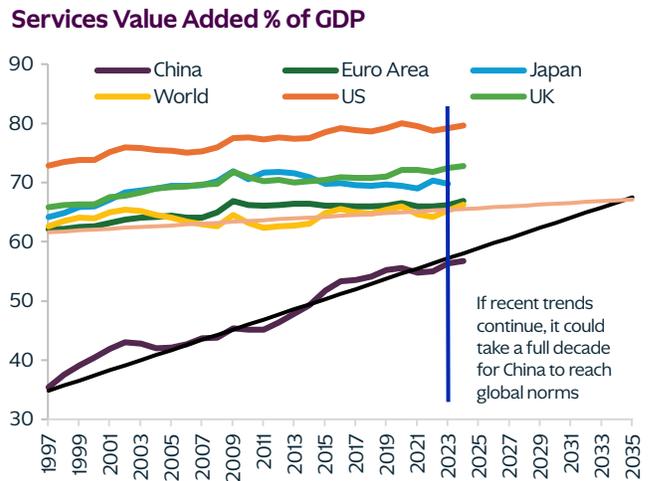
economy is underdeveloped relative to its potential, we believe, a reality heavily reinforced by our last trip this past November. In particular, cross-border financial services remain fragmented, and there is no coherent framework for scaling service exports in the way the U.S. and India have done. This is a structural weakness: in a world where the goods trade is increasingly politicized and capital-intensive manufacturing is harder to onshore at scale, the ability to export high-value services has become a critical offset. China, for its part, faces a different challenge. Its services sector is large in absolute terms but hampered by weak domestic consumption, youth unemployment, and policy uncertainty arising from divergent government priorities. The result is that China's services exports have not emerged as a growth engine in the way India's have. From an investment standpoint, the services theme cuts across Public and Private Markets. In Equities, it means favoring companies and geographies that can scale service offerings globally and embed technology — especially AI — to drive efficiency. In Private Markets, it means leaning into sectors like Healthcare, Education, and Business Process Outsourcing, where operational improvements and technology adoption can lift margins. It also means recognizing that services are less capital-intensive than manufacturing, which changes the return-on-capital profile and the way we think about duration risk. The strategic takeaway is that services can be a structural driver of dispersion between economies. The U.S. and India have shown that a dominant services base can underpin strong equity markets and currency stability over time. Europe needs to close the gap, and China will need to address domestic structural issues if it wants services to play the same role. For us at KKR, this theme has become increasingly embedded in our macro narrative and in our portfolio construction, and can provide a lens for thinking about where sustainable growth will come from in a more fractured, less goods-driven global economy.

**Exhibit 33:** In a Fully Integrated Cross Border Market, One Would Expect the Intra-EU Trade Flows to Map Much More Closely to Consumption. We Believe There is a Lot of Upside Potential if Policy Can Be Resolved



Data as at September 30, 2024. Source: Eurostat.

**Exhibit 34:** Overall, Services Is a Much Smaller Share of China's Economy Than One Would Expect



Data as at July 2, 2025. Source: World Bank.

# Picks and Pans

## ▲ Asia Corporate Reform Stories

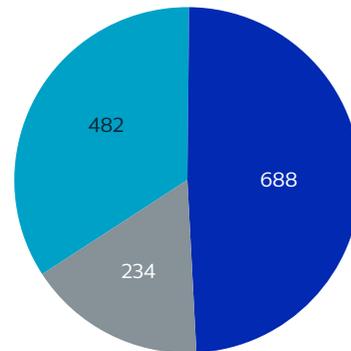
Our view is that global allocators should consider reducing overweight positions by shifting at least a modest amount of capital to international markets, including Asia. What's different now is that structural reforms are taking place in cheaper markets, while a falling dollar is occurring amidst a long-tailed Fed easing cycle. Within the developed markets in Asia, the corporate reform story feels like it is extending beyond Japan, which has been a major focus for KKR, into Korea and even China. Within Korea, despite corporate reforms and shareholder activism driving +50% gains so far in 2025, 70% of the market still trades below book value, compared to 40% in Japan and less than seven percent in the U.S. As we show in *Exhibit 35*, we think further corporate carve-outs are coming as companies seek to better optimize their footprints. This also fits into our KKR mega-theme of 'Capital Heavy to Capital Light', as the global corporate sector looks to not only improve return on capital, but to improve the valuations currently being assigned to conglomerates with non-strategic subsidiaries that could deliver better results elsewhere. China too is cheap, especially if one compares China AI stories relative to their global counterparts in the U.S. Moreover, the dividend and buyback yield in China now exceeds the 10-year government bond yield by 1.5-2.0%. Against this backdrop, we still expect these three markets to exceed investor performance for the foreseeable future.

What's different now is that structural reforms are taking place in cheaper markets, while a falling dollar is occurring amidst a long-tailed Fed easing cycle.

**Exhibit 35:** Japan, in Particular, Has a Large Concentration of Big Conglomerates, With +1,500 Companies Having More Than 10 Subsidiaries

**Number of Consolidated Subsidiaries in Leading TOPIX Companies**

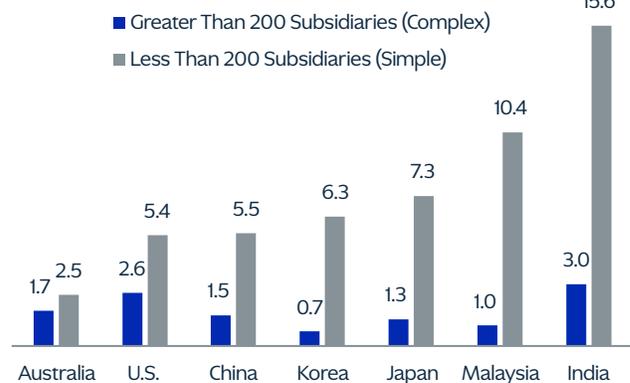
■ Under 10 ■ 10-49 ■ 50 to More than 500



Data as at December 13, 2025. Source: Nikkei.

**Exhibit 36:** We See Opportunities to Unlock Value by Creating Simplicity Out of Complexity

**Average Price-to-Book**



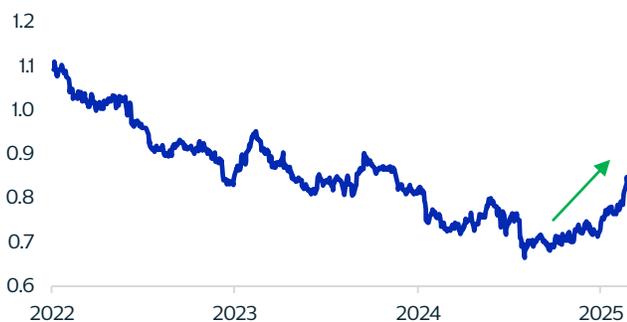
Data as at May 31, 2022. Source: MSCI, FactSet Global, KKR Global Macro & Asset Allocation analysis.

## ▲ Biotech (REPEAT)

After several years of underperformance that left the sector among the weakest in public markets, biotechnology now offers one of the most attractive entry points we've seen in recent years. Valuations have compressed, capital has been scarce, and dispersion remains high, yet underlying fundamentals are improving. We continue to view biotech as a secular growth story, supported by rising technological investment, aging populations, and the unfortunate rise in disease prevalence among younger cohorts that must be addressed. The AI revolution is accelerating this momentum, particularly in tech-enabled drug development, where it is lowering costs and improving success rates across pipelines. Licensing values year-to-date are 50% higher than in 2024, and biopharma deal-making in AI and tech-enabled platforms has surged, with 24 partnerships worth roughly \$28 billion announced between January and August 2025 in the U.S. Facing looming patent cliffs, large drugmakers are turning to AI-driven pipelines to replenish portfolios, while governments are treating biotech innovation, manufacturing, and supply chains as strategic national assets. In our view, biotech offers innovation-driven growth comparable to broader technology sectors, but at far more compelling valuations.

**Exhibit 37: Biotech Has Lagged the S&P for Years, But It Is Now On an Upswing, We Believe**

### NASDAQ Biotech vs. S&P 500 Relative Performance



Data as at November 24, 2025. Source: Bloomberg.

## ▲ HVAC Demand, Including Digitalization and Electrification-Related

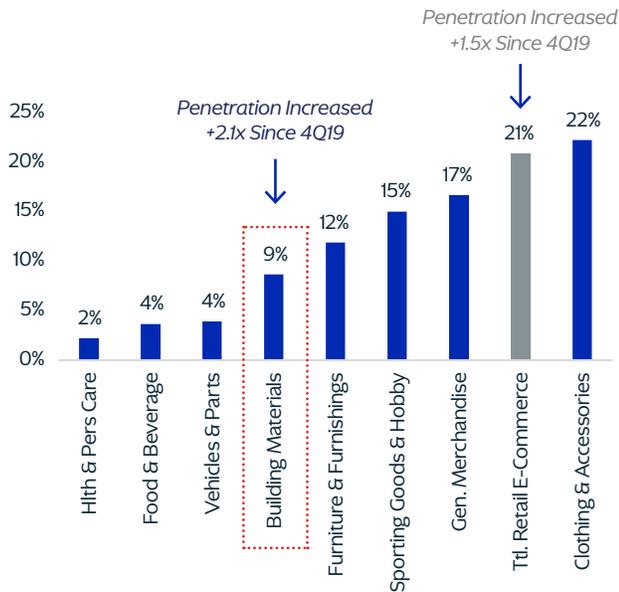
Macro tailwinds for HVAC are substantial. On the residential side, key drivers include aging housing stock (in the U.S., around 80% of dwellings are now over 25 years old) and demand for newer, more efficient products amid rising power costs (power CPI is up 6% y/y in 3Q25 and expected to remain elevated amid AI-related demand strains). On the commercial side, drivers include increasing scrutiny/regulation related to building carbon footprints as well as digitalization-related demand. Further, data centers are now redefining the scale of commercial cooling demand entirely. Whereas traditional high rise office towers require 2-4 commercial chillers, AI training clusters can demand on the order of 100 to 200 chillers per cluster, in addition to liquid cooling technologies applied directly to servers.

We now see these tectonic macro forces driving a sustained upcycle for HVAC and electrical capex. Market research firm BRI expects the global HVAC market to grow at a 6% CAGR through 2033, reaching over \$500 billion in aggregate. Meanwhile, UBS sees a total addressable market greater than \$40 billion for data center cooling emerging, following a 45% CAGR over the next five years. KKR is investing against this opportunity set via multiple angles, including HVAC parts distribution (where e-commerce penetration is increasing rapidly), direct-to-chip cooling, flow control equipment, as well as broader infrastructure opportunities upstream of the cooling demand, across data centers, data networking, power generation, power/transmission, and LNG.

In our view, biotech offers innovation-driven growth comparable to broader technology sectors, but at far more compelling valuations.

**Exhibit 38: E-Commerce Penetration for Building Products, Including HVAC, Has Been Rising Quickly From a Low Base**

**E-Commerce as a % of Total U.S. Retail Sales, 2025**



Data as at December 1, 2025. Source: U.S. Census Bureau, KKR Global Macro & Asset Allocation analysis.

**Private Investment Grade Origination**

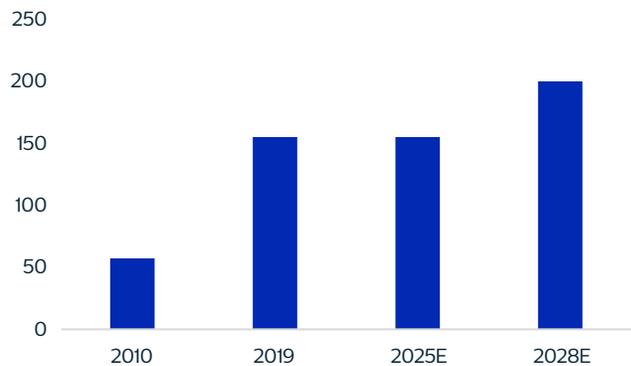
Consistent with our High Grading theme, proprietary investment-grade origination in the Private Markets can deliver yields at an attractive premium to public bonds while preserving quality. Indeed, with public credit spreads near all-time lows, moving down the ratings spectrum in public markets offers little incremental yield, as the AAA-BBB spread is around 60 basis points, roughly half its 25-year average, making it ‘cheap to go up in quality’ with minimal yield give-up. By contrast, Private IG can add about 60 basis points of premium at comparable quality and provides structured documentation and covenants that enhance downside protection and stability of income. Our bottom line for patient capital: go up in quality and shift from public to private to improve returns and reduce risk.

**China Tourism**

We view Chinese tourism as an interesting investment opportunity. Outbound travel, for example, continues to recover from its pandemic depths, up over 50% Y/y in 2024 and expected to finally rebound to pre-COVID levels by the end of 2025 (145.9 million trips outside of China in 2024 compared to 155 million in 2019). Overall, tourism is the strongest growth category for China’s economy, accounting for 10% of Chinese consumption. International tourism beneficiaries are currently more focused on Asian destinations, Japan and Korea in particular, due to cost and ease of visa requirements. Over time, however, we believe long haul travel should begin to take a slightly larger share. The two main demographics driving the sustained travel spending are Gen-Zs and the silver age segment (born between 1956 and 1970). Silver age group travel bookings increased 22% Y/y in 2024 (compared to the national average of 15%). Meanwhile, research from Mintel suggests that Gen-Z’s have a strong and growing preference to spend on ‘experiences’, including leisure and holidays, over ‘things’ including material goods. As this age group continues to make their way into the workforce and gain income share, we think these trends will only increase.

**Exhibit 39: China’s Outbound Tourism Market Is Expected to Fully Recover From 2019’s Levels by Year-End and Reach 200 Million Trips by 2028**

**China Outbound Tourism Trips, Millions**



Data as at October 31, 2025. Source: China National Bureau of Statistics, UNWTO.

## ▲ LNG

The natural gas outlook deserves particular attention. With substantial liquefaction capacity coming online along the U.S. Gulf Coast, we see a compelling long-term structural opportunity for natural gas. The key insight is that demand growth is coming primarily from Asia and Europe, and once liquefaction facilities are completed, export capacity will expand significantly. The infrastructure is already under construction, making our thesis relatively robust. We see this as a multi-year tailwind independent of domestic consumption patterns.

## ▼ Fading Any Material Increase in Oil Prices Again in 2026

We continue to see a challenging supply/demand backdrop for oil through 2026, with prices averaging around \$60 per barrel. The conditions for an oversupplied market are firmly in place. OPEC/Saudi Arabia continue to unwind prior production cuts to regain market share (and penalize non-compliance), normalize spare capacity, and reinforce strategic ties with the U.S. We forecast demand to decelerate to 0.9 million barrels per day in 2026, down from 1.1 million barrels per day this year (both are below the 30-year median of 1.3 million barrels per day). The oil surplus is unlikely to persist indefinitely, and we anticipate a more balanced market by 2027, with crude prices recovering to \$65-70 per barrel by 2027-28, above the futures pricing that has remained anchored near \$60 per barrel. That said, we do not think the case for significant further downside is strong.

## ▼ Long Duration Treasuries

In our view, long-duration Treasuries are no longer a safe haven. Long-end curve steepening driven by U.S. fiscal concerns narrows their expected return advantage relative to shorter-duration IG assets over the next five years. Their materially higher volatility, combined with our expectation of a slightly positive stock-bond correlation and the risk of recurring trade-related tension diverting capital flows from the U.S., further reduces their traditional ability to serve as portfolio shock absorbers.

## ▼ Overly Levered Capital Structures (REPEAT), with a focus on debt-funded roll-ups in Software & Healthcare

Many capital structures underwritten during and immediately after COVID simply did not incorporate a 3-4% neutral rate environment. As credit spreads begin to normalize and risk-free rates stay elevated, these borrowers could face both cost and availability headwinds at precisely the moment when their free cash flow has been compromised. Within Healthcare, the roll-up model faces new pressures, including regulatory scrutiny, cost inflation, operational strain, and market saturation. In Software, we're seeing peak leverage levels with average debt-to-EBITDA ratios nearing historical highs. We want to avoid companies with excessive leverage approaching maturity walls, borrowers relying on refinancing to sustain capital structures, roll-up strategies in saturated markets with regulatory headwinds, and structures underwritten against low-rate assumptions with the current interest rate environment. Instead, we favor operational improvement stories over financial engineering, control positions enabling capital structure retooling, companies with balance sheet strength as a prerequisite, and an up-in-quality bias favoring investment grade over high yield in defensive sectors.

## ▼ Consumer Staples

We are maintaining a cautious stance on the consumer staples sector, as the combination of slowing top-line growth and rising input costs is eroding the defensive appeal that investors have traditionally sought here. Significantly, we are seeing structural shifts in consumption patterns that are weighing on key sub-segments: demand for carbonated soft drinks continues to trend lower amid health-conscious behavior and changing demographics, while alcohol volumes are under pressure from moderation trends and substitution towards non-alcoholic alternatives. At the same time, input costs are moving higher, compressing margins at a

point when pricing power is diminishing. The key takeaway is that consumer staples are losing their ability to pass through inflation without sacrificing volume, creating a more challenging backdrop for earnings growth and valuation support in the years ahead.

## ▼ Speculative Data Center Projects with Uncompetitive Cost Structures

We see some excess exuberance in data centers, with a level of activity that promises both winners and losers. Specifically, estimates point to almost \$7 trillion in global data center infrastructure capital expenditures by 2030, an amount roughly equal to the combined GDP of Japan and Germany. As always, unit economics are key. Developers who focus on return on invested capital after power, capital and maintenance capex costs will do well, while those who focus on theoretical total addressable markets and lose sight of unit economics are likely to suffer.

The key takeaway is that consumer staples are losing their ability to pass through inflation without sacrificing volume, creating a more challenging backdrop for earnings growth and valuation support in the years ahead.

SECTION II

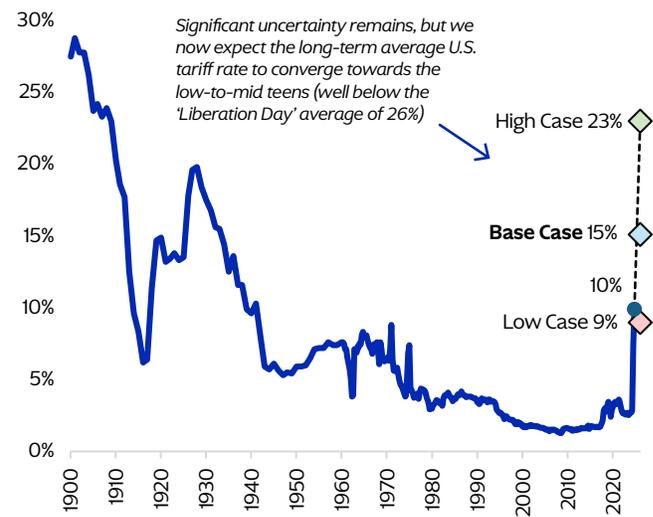
# Global / Regional Economic Forecasts

As we discussed in the Mid-Year Outlook, tariff negotiations continue to evolve and are now becoming embedded features of industrial and geopolitical strategy. While tariff implementation will not be a straight line and there remains significant policy uncertainty, we think that the tariff high-water mark has been reached. Specifically, we expect the 2026 effective tariff rate to settle at 15% (down from 17%) given delays we now expect in the implementation of sector-level tariffs (pharma, semis), potentially until 2027 or beyond. We are also now explicitly accounting for substitution effects and policy slippage in our framework, which lowers our realized tariff rate forecast to 13% on a realized basis. Importantly, our tariff scenarios are now more evenly balanced (9% low case, 23% high case) relative to the upside skew of potential outcomes that we envisioned in our Mid-Year Outlook. *(more details on pages 32-33).*

Looking at the bigger picture (and consistent with our *Regime Change* thesis), we do think this time is different. On the economic front, for example, we have been experiencing an asynchronous expansion defined by rolling recoveries and rolling recessions. Indeed, as we show in *Exhibit 41*, our cycle model continues to show inputs in all four quadrants of the economic cycle. In the past, by comparison, most of the inputs would tend to cluster in just one of the quadrants. During these synchronized cycles, the U.S. consumer would lever up and then buy goods and services from abroad until financial conditions tightened, and ultimately, the trade would all unwind at once.

**Exhibit 40:** Despite Multiple Moving Parts, Our 2026 Base Case Tariff Forecast Stays at 15%

**U.S. Effective Tariff Rate, %**

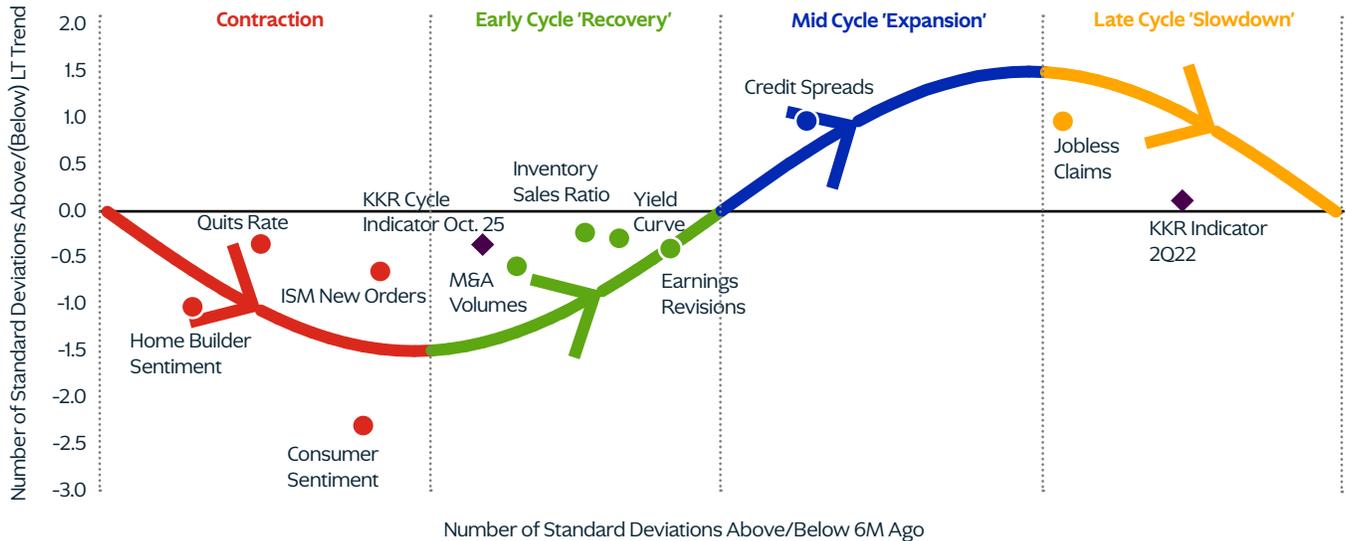


Data as at December 8, 2025. Source: KKR Global Macro & Asset Allocation analysis.

We are now also explicitly accounting for substitution effects and policy slippage in our framework, which lowers our 'realized' tariff rate forecast to 13%.

**Exhibit 41:** Our Cycle Indicator Continues Reflect to a Non-Traditional Economic Cycle Filled With Both Highs and Lows - and Often at the Same Time

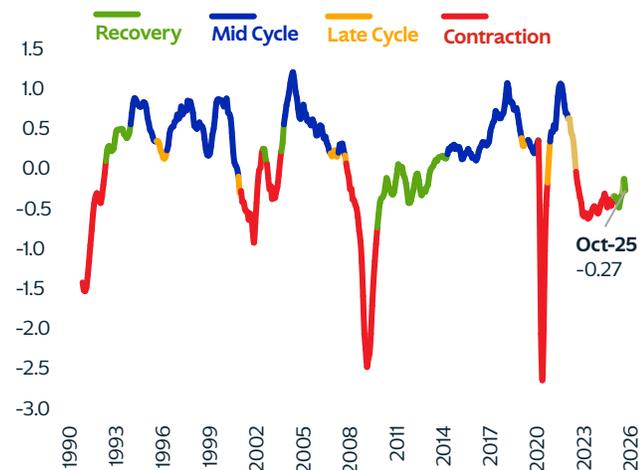
**KKR GMAA Cycle Indicator**



Data as at October 31, 2025. Source: KKR Global Macro & Asset Allocation analysis.

**Exhibit 42:** Interestingly, Though, on a Cyclical Basis, The Model Just Inflected Upward

**KKR Cycle Indicator (1990-Present, Z-Score)**



Data as at October 31, 2025. Source: KKR Global Macro & Asset Allocation analysis.

So, as we enter 2026, our models, which we describe below in detail, are suggesting better-than-consensus growth in three of the four regions where we continuously maintain growth forecasts. Only in the Euro Area does our forecast match the consensus. Moreover, in 2027 we are above consensus for growth in all four regions. On the inflation front, by comparison, we are above consensus for the U.S. (3.0% versus 2.9%), but we are fully 50 basis points below consensus on inflation in China (0.3% versus 0.8%). In 2027 we continue to see above average inflation in the U.S. at 2.5%, in-line with the consensus forecast of 2.5%. In China, though, we estimate 0.3% inflation, well below the consensus of 1.0%.

So, as we enter 2026, our models, are suggesting better-than-consensus growth in three of the four regions.

**Exhibit 43:** We Are Above Consensus on Growth Except for the Euro Area in 2026 and 2027 While Being Somewhat Mixed About Inflation

	2026e Real GDP Growth		2026e Inflation		2027e Real GDP Growth		2027e Inflation	
	GMAA	Bloomberg	GMAA	Bloomberg	GMAA	Bloomberg	GMAA	Bloomberg
	New	Consensus	New	Consensus	New	Consensus	New	Consensus
<b>U.S.</b>	2.3%	1.8%	3.0%	2.9%	2.2%	2.0%	2.5%	2.4%
<b>Euro Area</b>	1.1%	1.1%	1.8%	1.8%	1.5%	1.4%	1.8%	2.0%
<b>China</b>	4.6%	4.4%	0.3%	0.8%	4.4%	4.1%	0.3%	1.0%
<b>Japan</b>	0.9%	0.7%	1.8%	1.8%	1.0%	0.8%	2.0%	1.9%

Data as at November 30, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

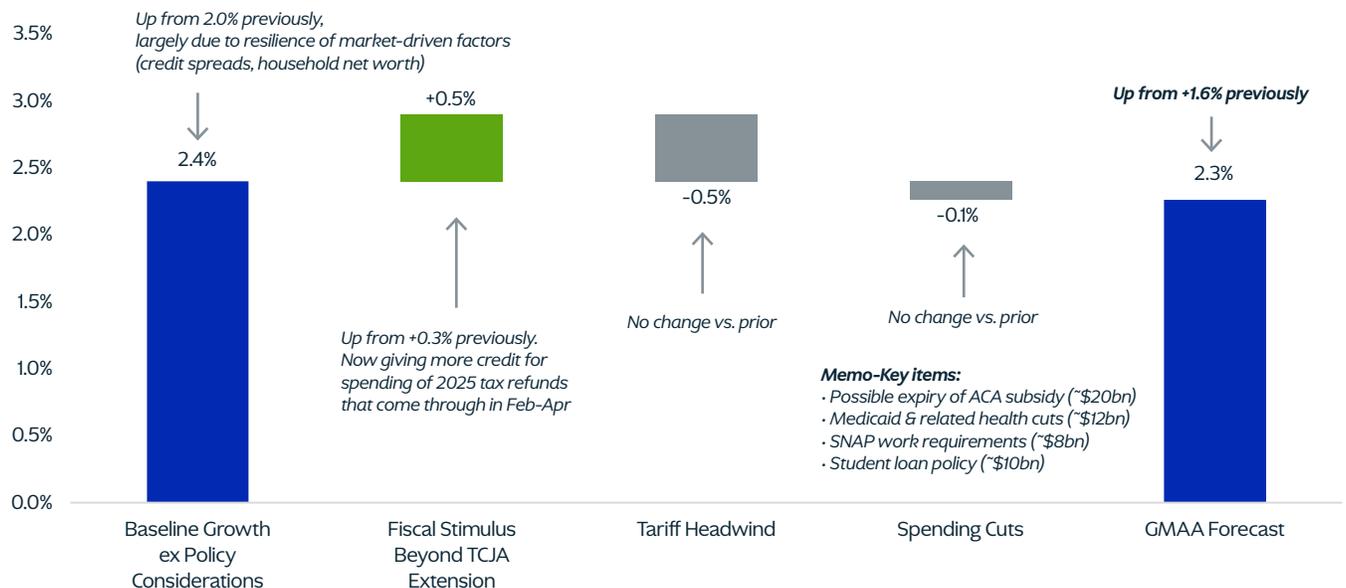
## U.S. GDP

**Forecast:** We have revised our U.S. GDP outlook higher, reflecting a combination of stronger leading indicators, a slightly more constructive flow-through from One Big Beautiful Bill Act (OBBBA) stimulus, and persistent tailwinds from technology-driven capital expenditures. The data continue to point towards an economy that,

while uneven, remains impressively resilient. Our base case, to which we assign 60% probability, calls for 2.3% real GDP growth in 2026 (up from 1.6% previously) and continued low-2% growth in 2027. These forecasts remain above consensus (1.8% and 2.0%, respectively), as we believe markets have yet to fully appreciate the supportive interplay between easing financial conditions, expanding tech investment, and sustained productivity gains.

**Exhibit 44:** We Are Adjusting Upwards Our 2026 GDP Forecast to Reflect Buoyant Signals From Our Leading Indicators As Well As a Slightly More Optimistic Outlook for Flowthrough of OBBBA Stimulus

### GMAA 2026e U.S. GDP Forecast Detail

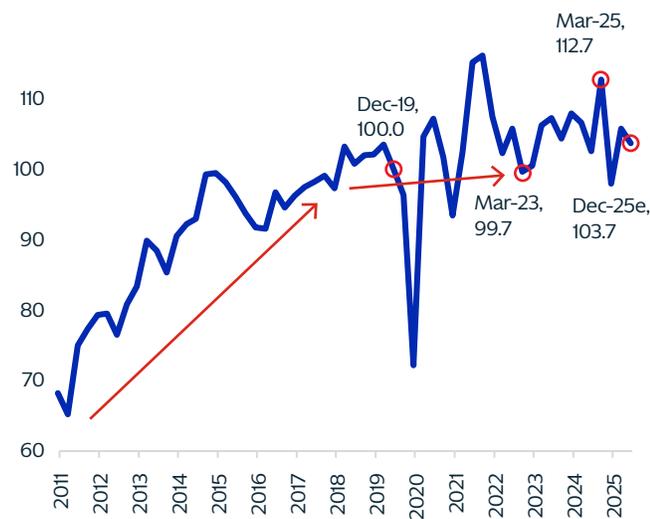


Data as at November 15, 2025. Source: KKR Global Macro & Asset Allocation analysis.

Importantly, we think many of the most traditionally cyclical areas of the U.S. economy remain usually subdued relative to the advanced duration (5+ years) of the current expansion. Construction spending and inventory investment, which together have explained more than 100% of the net contraction in GDP in most recent recessions, have not ballooned. In fact, this has been the first extended expansion in at least 40 years where those metrics have not run higher. It's a double-edged sword: this dynamic of slow growth in traditionally rate-sensitive areas contributes to K-shaped growth dynamics and broader labor market malaise. At the same time, subdued trends in traditionally cyclical areas also help mitigate economic hard-landing risk, in our view. We describe this buffering factor as a phenomenon wherein 'you can only get so hurt falling out of a basement window.'

**Exhibit 45:** True Economic Hard Landings Are Usually Caused by Housing and Inventory Issues. This Cycle Has Not Been Marked by Excesses in Those Areas

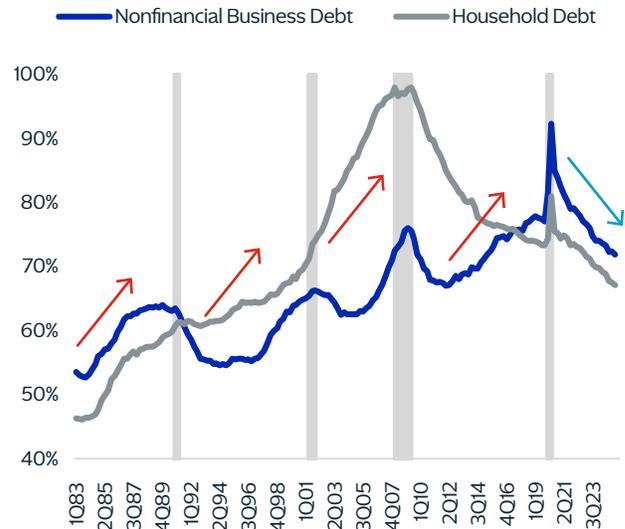
**Real Construction + Inventory Investment, 4Q19=100**



e = KKR GMAA estimates. Data as at November 17, 2025. Source: U.S. Bureau of Economic Analysis, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

**Exhibit 46:** Also Important Is That Business and Consumer Leverage Levels Have Not Increased This Cycle, Which Helps Buffer Against an Outsized Default Cycle

**U.S. Private Sector Leverage as a % of GDP**



Gray shading denotes recessionary quarters. Data as at November 17, 2025. Source: U.S. Bureau of Economic Analysis, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

In terms of scenario analysis, we are assigning a 60% weighting to our Base Case of low-2% growth over 2026-27, as described in more detail below. Meanwhile, we ascribe 20% weights to both our High and Low Cases, which envision low-3% and low-to-mid 1% growth, respectively. Looking at key moving parts, our High Case envisions that growth inflects upward due to a combination of 1) latent and better-than-expected uplift from Fed cuts that have already taken place since the peak of 5.375% and 2) even more outsized AI-related capex tailwinds than envisioned in our Base Case, and potentially 3) further policy stimulus heading into 2026 elections. Meanwhile, our Low Case envisions a backdrop where average monthly job growth is worse than the 50-100k contemplated by our baseline, which catalyzes a broader pullback in spending and investment. The Low Case also embeds a world where geopolitics and tariffs remain persistent irritations even amid low growth, limiting the Fed's capacity to respond with stimulus.

**Exhibit 47: Our Growth Forecasts Reflect Our More Optimistic Than Consensus Views. Inflation Remains More Asynchronous**

	KKR GMAA Real GDP Forecast and Probability, %			KKR GMAA Inflation Forecast and Probability, %		
	Base	Low	High	Base	Low	High
<b>U.S.</b>	60%	20%	20%	60%	20%	20%
2026e	2.3%	1.0%	3.0%	3.0%	2.3%	4.0%
2027e	2.2%	1.5%	3.5%	2.5%	2.0%	3.0%
<b>Euro Area</b>	60%	20%	20%	60%	20%	20%
2026e	1.1%	0.6%	1.6%	1.8%	1.5%	2.2%
2027e	1.5%	0.8%	2.0%	1.8%	1.4%	2.3%
<b>China</b>	55%	30%	15%	55%	30%	15%
2026e	4.6%	4.1%	5.1%	0.3%	-0.1%	0.7%
2027e	4.4%	3.9%	4.9%	0.3%	-0.1%	0.7%
<b>Japan</b>	60%	20%	20%	60%	20%	20%
2026e	0.9%	0.6%	1.2%	1.8%	1.4%	2.2%
2027e	1.0%	0.6%	1.4%	2.0%	1.5%	2.5%

In the U.S. for 2026 and 2027, we assign a probability of 60% for the base case, 20% for the bear case, and 20% for the bull case. In China for 2026 and 2027, we assign a probability of 55% for the base case, 30% for the low case, and 15% for the high case. In Europe and Japan for 2026 and 2027, we assign a probability of 60% for the base case, 20% for the low case, and 20% for the high case. Data as at November 30, 2025. Source: KKR Global Macro & Asset Allocation analysis.

**Commentary:**

The U.S. economy has shown remarkable resilience in 2025, successfully navigating tariff pressures and geopolitical uncertainty. This resilience has stemmed from several underlying strengths: 1) an absence of overheated activity across traditionally cyclical areas including construction and inventory investment; 2) a cautious yet stable backdrop for consumer behavior; and 3) productivity that extends well beyond the AI story, helping spin an ongoing ‘flywheel’ of innovation. These dynamics have helped sustain household wealth through market gains and have bolstered corporate efficiency across industries. We believe these dynamics will continue to support growth through 2026 and 2027.

However, the economy remains uneven, often described as ‘K-shaped’, with widening disparities across income groups as well as industries. Higher-income households and larger companies continue to perform strongly, while lower- and middle-income consumers and smaller businesses face greater pressure from years of higher costs and more constrictive interest rates. These divergences, particularly between goods-producing

and service-oriented sectors, have led to rolling periods of slowdown and recovery that have become more pronounced since the pandemic erupted.

Although we maintain a constructive outlook, our optimism is tempered by recognition of evolving vulnerabilities. Specifically, we expect that cracks in the labor market, including moderating wage growth and fading hiring momentum, particularly in the public sector, will weigh on consumption in 2026, especially among lower- and middle-income households. Coupled with a more constrained fiscal stance relative to 2025, these pressures are likely to limit the pace of economic growth. Even so, we expect the continued expansion of technology capex and broad-based productivity improvements to counterbalance these headwinds over the next two years.

In terms of specifics on which to focus for 2026, we note the following:

**Point #1: Leading Indicators Continue to Signal**

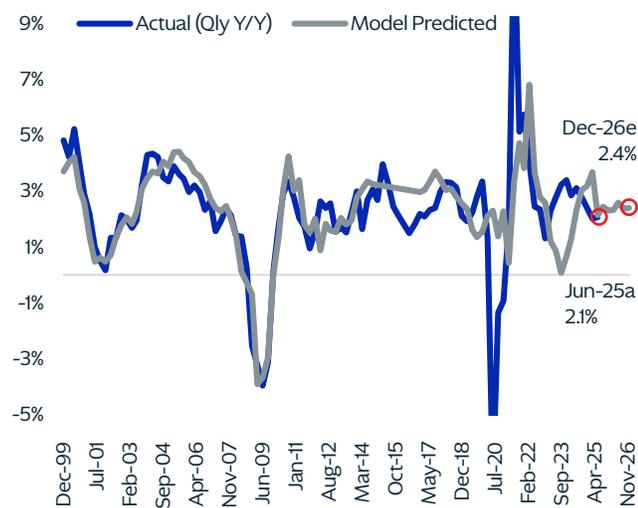
**Resilience.** As shown in *Exhibits 48 and 49*, our U.S. GDP leading indicator continues to point to a durable growth trajectory. Looking at the details of the model, key uplifting factors include benign credit spreads, buoyant upper-income household wealth, moderate oil prices, and easing policy rates across most global central banks. We view all these factors as leading indicators for the economy that suggest underlying growth momentum remains intact. Benign credit spreads reflect a market expectation for monetary easing and improving financial conditions, which should support both business investment and consumer spending, especially in interest rate-sensitive sectors. Household balance sheets remain healthy, particularly at the upper end of the income spectrum. Since 2019, the top 1% of households has seen average net worth rise by approximately \$8.4 million, while the next 19% have gained around \$820,000. This concentration of wealth has sustained high-end consumption and investment activity.

Meanwhile, oil prices of around \$60 per barrel, well below the \$70-\$90 resting rate of 2022-24, act as a direct tailwind to economic growth (*Exhibit 117*). The housing market remains the only material drag on our GDP leading indicator, subtracting roughly 10 basis points from growth. We forecast home price appreciation to average 2.7% annually through 2030, the lowest sustained rate in at least fifty years. However, limited supply, currently at 4.6

months of inventory, below the six-month level associated with price declines, should prevent a significant correction. As a result, we expect the housing-related drag on growth to remain modest and contained.

**Exhibit 48:** Our U.S. GDP Leading Indicator Echoes Our Fundamental Call for a Low-2% GDP Environment...

**U.S. Real GDP Leading Indicator**



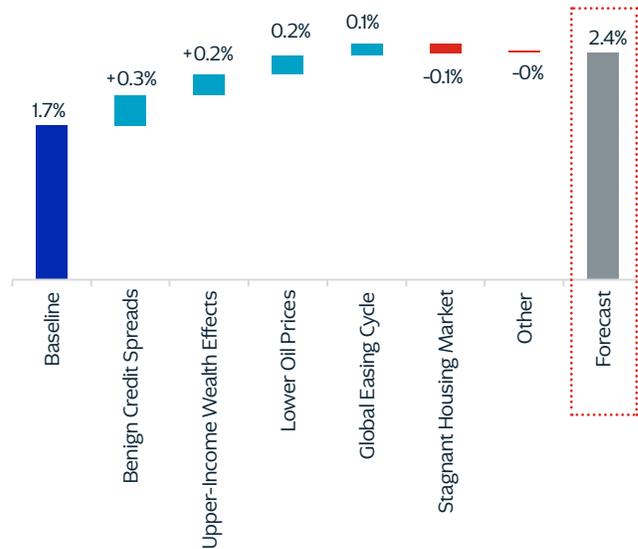
Data as at November 15, 2025. Source: KKR Global Macro & Asset Allocation analysis.

**Point #2: A More Optimistic Outlook for the One Big Beautiful Bill Act as Well as Some Ongoing Tariff Stability Helps to Bolster Our Outlook Relative to Prior Assumptions.** We are incrementally more optimistic about fiscal policy and the tariff backdrop, as the OBBBA provides meaningful short-term support to growth. Though it will not show up immediately in GAAP sell-side estimates (for accounting reasons), we now estimate that this fiscal stimulus will add roughly 50 basis points to 2026 GDP, up from a 30 basis point boost previously, aided by stronger-than-expected spending from 2025 tax refunds during the spring months (our estimate for consumers is that it could be as high as \$125 billion). The structure of the OBBBA, which includes front-loading tax cuts and delaying spending reductions, creates a window of fiscal support through 2026 and potentially into 2027. Key provisions such as the elimination of taxes on tips and overtime, additional deductions for seniors, exemption of auto loan interest, and an increased SALT deduction will bolster

disposable income. All told, roughly two-thirds of the total \$1.89 trillion stimulus is expected to be deployed by 2029.

**Exhibit 49:** ...Supported by Multiple Uplifting Factors

**Elements of 2026eGDP Indication**



Data as at November 15, 2025. Source: KKR Global Macro & Asset Allocation analysis.

Importantly, as we show in *Exhibit 44*, these measures should essentially offset the estimated 50 basis point drag from tariffs next year. To review (and as we mentioned at the beginning of the Economics section), we now expect an effective tariff rate of 15% (down slightly from 17%) in 2026. This change is primarily driven by ongoing developments at the sector level, including our assumption that the U.S. administration delays implementation of pharmaceutical and semiconductor tariffs while domestic capacity gets built and as companies pledge investment in the United States. Consider that pharmaceutical companies have pledged approximately \$325 billion in pharmaceutical investments in the United States across drug production, research and development, and manufacturing. Furthermore, we are now explicitly accounting for substitution effects and policy slippage, which lowers our *realized* tariff rate forecast to 13%. So despite the policy uncertainty that remains, tariff rates have generally been stable over the past six months and are actually starting to tick down at the margin.

Additionally, our tariff scenarios are now more balanced relative to the upside skew that we outlined in our Mid-Year Outlook. Specifically, we now envision a low case where IEEPA gets overturned and the administration only *gradually* launches and implements country-level Section 301 investigations (beyond 2026) to replace the IEEPA tariffs in order to cushion the potential inflationary impact. In this low case, the 2026 ETR would settle around 9%. Notably, though, this is not our base case. Our base view is that the President will exercise his abundant alternative legal authority to implement tariffs if and when IEEPA gets overturned. We continue to model that the administration will use Section 122 (the Balance of Payments authority) to implement universal 15% tariffs (which are below the negotiated rates for most countries) on a temporary basis while the administration launches Section 301 investigations into our largest (top 10) trading partners. Our bottom-line is that our tariff forecasts are settling down and have actually started to move down in recent months given delayed implementation of sector-level tariffs and substitution effects and policy slippage. Additionally, we now think the distribution of outcomes is more balanced and may even skew slightly to the downside. Thus, the contractionary elements of tariffs are starting to look more manageable at a time when there is a healthy amount of fiscal stimulus from the OBBB.

**Point #3: Consumers Are Cautious, But They Are Not Distressed.** The consumer remains the cornerstone of the U.S. economy, though behavior is increasingly shaped by the K-shaped dynamic that reflects diverging realities across income groups. Higher-income households, which account for a disproportionate share of total consumer spending, remain on solid footing given strong balance sheets, elevated savings, and substantial wealth gains since 2019. By comparison, lower-income households are showing more visible strain from rising debt service costs and tighter credit conditions. This divergence has tempered aggregate consumption growth but continues to prevent a broader demand contraction. Against this backdrop, we now expect total consumption growth to moderate from 2.5% in 2025 to 2.0% in 2026 and 1.8% in 2027, reflecting slower job and wage growth as well as more cautious household behavior, especially at the lower end. Our forecasts are slightly above consensus (1.9%) in 2026 and modestly below consensus (2.0%) for 2027.

Our employment outlook is also below consensus: we project average nonfarm payroll growth of roughly 0-100k per month, compared with consensus expectations of 75-125k. Hiring momentum in government, healthcare, and education has faded, and private-sector hiring is unlikely to re-accelerate meaningfully given cooling labor demand and an aging workforce. While we do not expect an outright deterioration in the labor market, these dynamics point to a slower pace of income and consumption gains. However, because upper-income households continue to drive the majority of spending and remain in good financial health, the consumer sector overall remains resilient. Fiscal stimulus from the OBBBA will help cushion lower- and middle-income consumers, while the spending power of higher earners should sustain aggregate demand through 2027, even amid a more uneven labor backdrop.

The consumer remains the cornerstone of the U.S. economy, though behavior is increasingly shaped by the K-shaped dynamic that reflects diverging realities across income groups.

**Exhibit 50: Many Labor Indicators Continue to Look Consistent With Subdued But Still Healthy Job Growth...**

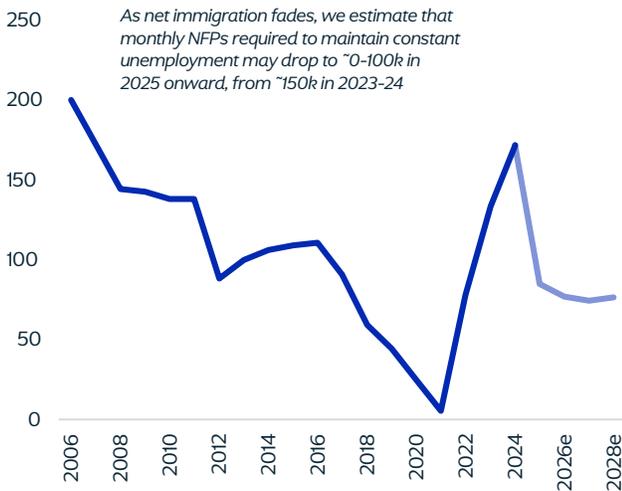
**25th, 50th, 75th %ile Range NFP Range, as Implied by Various Labor Market Measures, 000s**



Data illustrate 25th %ile to 75th %ile NFP data over 1980 to present (where data available) based on current ~5%ile range of given indicator. For NFP, data shows L3M range. Data as at November 11, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

**Exhibit 51: ...But in an Ongoing Low-Immigration Environment, We Think the U.S. Can Only Sustain About 0-100k Jobs/Month**

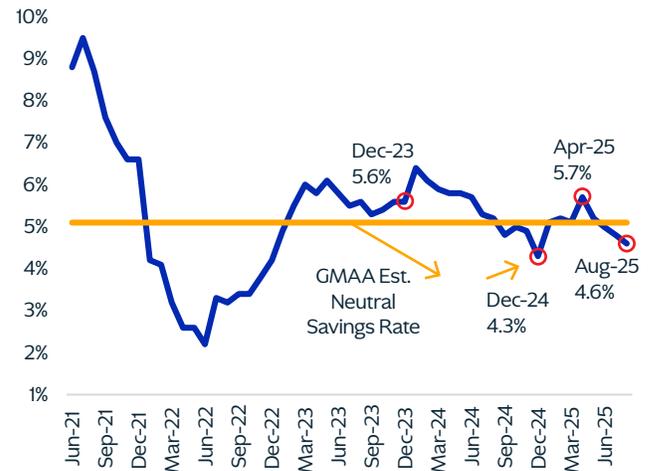
**Approximate Monthly NFP Growth Required to Maintain Constant Unemployment Rate (Thou.)**



Data as at November 15, 2025. Source: KKR Global Macro & Asset Allocation estimates based on U.S. Census Bureau data and population projections.

**Exhibit 52: As Job and Wage Growth Slow, We See Consumers Becoming More Cautious. Following a Consumption Spending Surge in 2024, the U.S. Consumer Has Reverted to More Normal Long-Term Savings Behavior**

**U.S. Household Savings Rate, %**



Data as at November 15, 2025. Source: U.S. Bureau of Economic Affairs, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

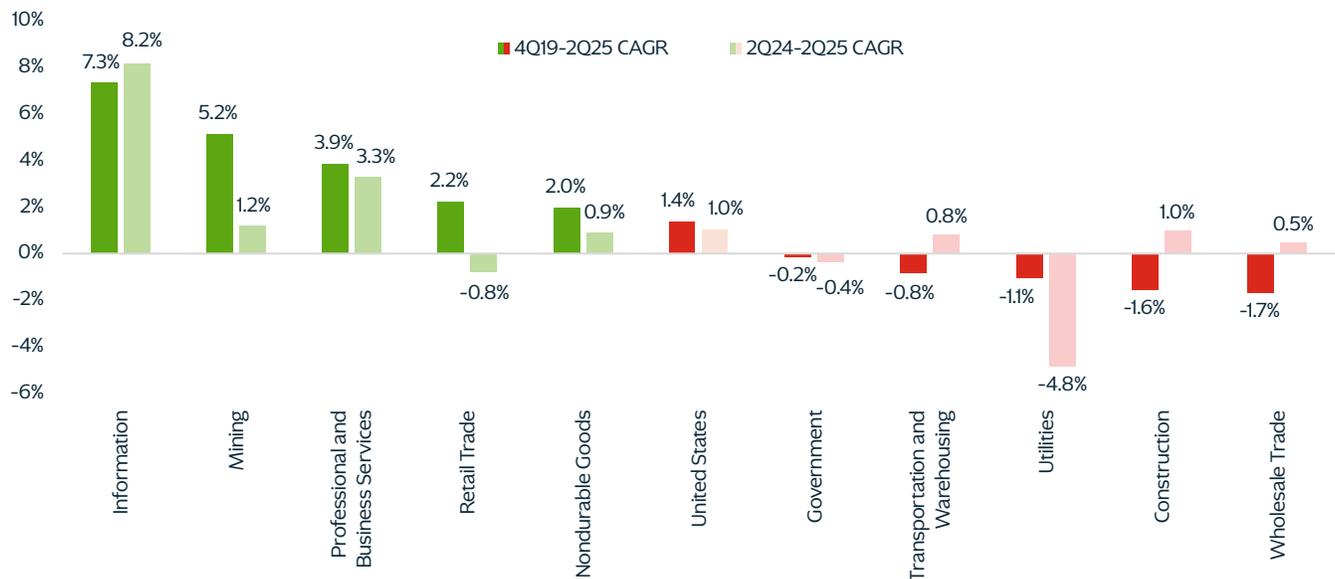
**Point #4: Productivity Remains the U.S. Economy’s Enduring Strength.** As we mentioned in our introduction, productivity growth remains the defining advantage of the U.S. economy. We expect technology-driven capex to remain a key cyclical tailwind through 2026 and 2027. In fact, we forecast productivity (GDP per employee) growth to reaccelerate towards the 2% range during the period, up from a low-1% pace in 2025. These gains are not confined to AI. In retail, e-commerce and logistics efficiencies continue to drive productivity; in energy, technological innovation in shale extraction is improving yields; in business services, enterprise software is raising operational efficiency; and in manufacturing, automation and robotics adoption are transforming production processes. Maybe more importantly, though, is that AI is an increasingly important contributor. Since the release of ChatGPT in 2022, S&P 500 inflation-adjusted revenue per worker has risen by about 5.5%, reversing two decades of stagnation (*Exhibit 1*). As AI tools become more accessible and inference costs decline, a broader swath of firms will be able to automate repetitive tasks, extract insights

from data, and develop new products and services. Over time, as generative AI becomes more commoditized, we expect productivity gains to accrue more to users than to creators, a dynamic akin to the diffusion of electrification in the early 20th century.

NVIDIA’s forward pipeline provides further confidence in this thesis, as it shows a strong correlation with broader tech capex trends, signaling continued strength into 2026–2027. While consensus expects AI-related capex growth to slow from 65% year-over-year in 2Q25 to below 30% by 4Q26, we believe this deceleration actually will be shallower than anticipated, like the upside surprises seen in 2024–2025. The five major Hyperscalers—Amazon, Google, Meta, Microsoft, and Oracle—remain exceptionally well-capitalized, holding over \$1 trillion in cash, and generating approximately \$500 billion in annual free cash flow, while maintaining broad access to credit markets. Capex remains the leading expected use of incremental funds from OBBBA-related inflows.

**Exhibit 53: Key Productivity-Driving Sectors Include TMT, Business Services, Retail, and Oil & Gas Driven by Automation, Digitalization, and E-Commerce Innovation. It’s Not Only an AI Story**

**Productivity Growth by Industry (vs. Dec-2019)**



Data as at November 11, 2025. Source: Haver Analytics, U.S. Bureau of Economic Affairs, KKR Global Macro & Asset Allocation analysis.

More broadly, new business formation and technology investment intentions continue to accelerate despite policy uncertainty, reinforcing the notion that innovation momentum is intact. Companies of all sizes are prioritizing AI deployment, though larger firms have a clear advantage in scale and capital resources. Collectively, these dynamics underpin our belief that the U.S. is in the midst of a sustained productivity renaissance, one that will help buffer the economy against cyclical slowdowns, offset tariff and fiscal headwinds, and anchor growth in the low-2% range through 2027.

**Exhibit 54:** Earnings in Productivity Sectors Continue to Outperform the Broader Economy

**LTM EBITDA Y/Y**

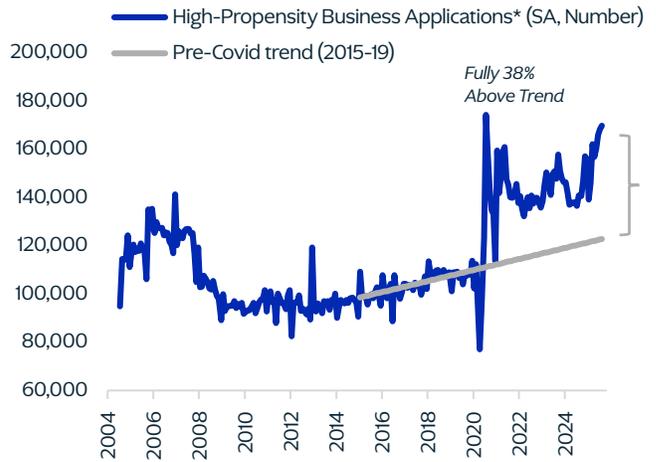


e = Consensus bottom-up estimate per Bloomberg. "Productivity Sectors" = Market cap weighted average of S&P 500 Info Tech, Communications Services, Commercial Services, Retail, Leisure/Hospitality, and Energy. Data as at November 15, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

More broadly, new business formation and technology investment intentions continue to accelerate despite policy uncertainty, reinforcing the notion that innovation momentum is intact.

**Exhibit 55:** Broader Trends Continue to Point to a Healthy Backdrop for Innovation and Productivity

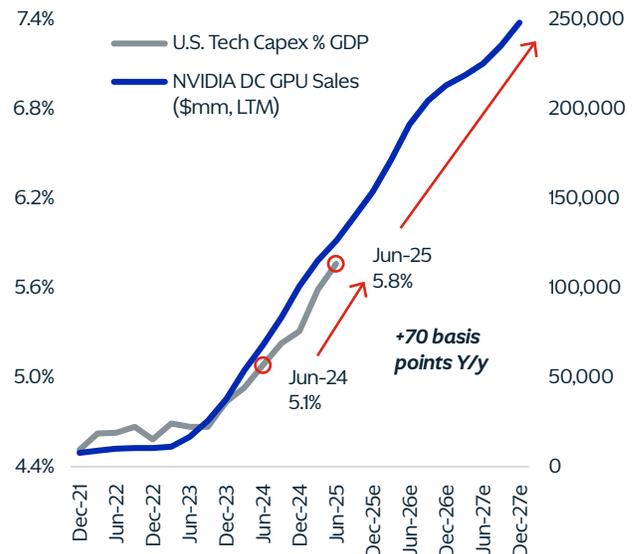
**U.S. Business Formations**



\*Business applications filed with the IRS that have a high likelihood of becoming businesses with employees/payroll. Data as at September 2025. Source: U.S. Census Bureau, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

**Exhibit 56:** The NVIDIA Forward Pipeline Has Demonstrated a Strong Correlation With Broader Tech Capex Trends and Points to Continued Outsized Growth Over 2026-27e

**U.S Tech Capex vs. NVIDIA GPU Sales**



Data as at November 18, 2025. Source: Tech Capex per U.S. Bureau of Economic Affairs; NVIDIA historic and forecast sales per Goldman Sachs Research Estimates.

## U.S. CPI

**Forecast:** We are revising up our 2026 headline CPI forecast to 3.0% from 2.9%, which is above consensus of 2.9%. Beneath the surface, we continue to see ‘super-core’ inflation (i.e., Services less Shelter), as the ‘line of scrimmage’ between tariff-driven goods inflation and supply-driven housing disinflation. Specifically, we are increasingly focused on the impact of tariffs on services, which we think will put more upward pressure on inflation, goods in particular (which has been running at just 1.5% year-over-year), in 2026.

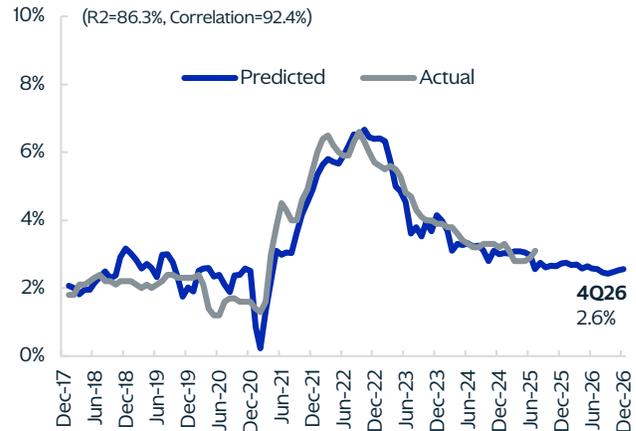
For 2027, our forecast remains at 2.5%, above consensus of 2.4% and consistent with our thesis that inflation has settled at a higher resting rate. Indeed, our models indicate that, even excluding tariffs, inflation would be around 2.5% today. We think this 2.5% level remains the resting ‘heartbeat’ for U.S. inflation this cycle, especially if we are right that the Fed will be cutting rates below neutral even as inflation remains above its two percent target.

**Commentary:** Our proprietary inflation model, which uses broad economic indicators to track inflation drivers across Goods, Housing, Labor, Expectations, and Fiscal/Monetary Policy, but does not include the direct impact of tariffs, shows that disinflation is set to stall out in the mid-two percent range (*Exhibit 57*). Said differently, the ‘run-rate’ for U.S. CPI is now around 2.5%, up from a little under two percent pre-pandemic, we believe. Key to our thinking is that, unlike the post-GFC decade of global excess capacity, today’s environment is marked by scarcity in important real-economy inputs, from energy to labor, amplifying cost pressures. At the same time, consumer and bond market inflation expectations have reset to higher levels.

Longer term, we continue to subscribe to our thesis that inflation has settled at a higher resting heart rate.

**Exhibit 57:** Our Inflation Model Shows Core CPI Settling at Its 2.5% Run-Rate, But This Does Not Include Tariffs

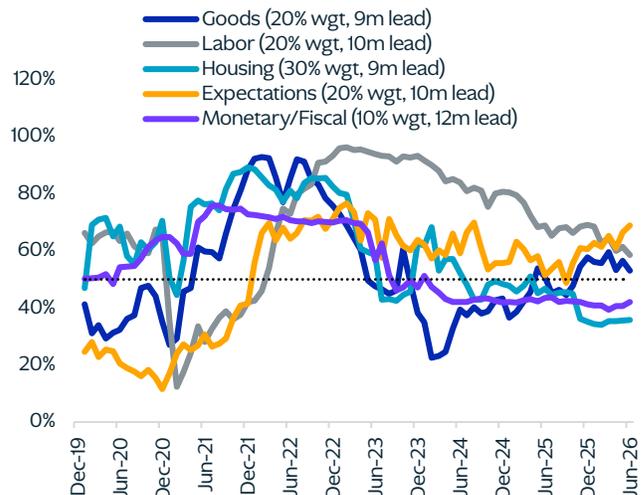
### Core CPI Leading Indicator



Model refit monthly to ensure that forward-looking projections reflect most relevant inflation drivers. Data as at November 11, 2025. Source: Bloomberg, U.S. Bureau of Economic Analysis, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

**Exhibit 58:** Expectations, Labor, and Goods Continue to Put Upward Pressure on Inflation, Partially Offset by Housing

### Leading Inflation Dashboard Components, Indicator Levels as a Percentile of Range Since 2001 with Relevant Leads Applied



Model inputs as %ile of historical range, with relevant leads applied. Data as at November 11, 2025. Source: Bloomberg, U.S. Bureau of Economic Analysis, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

One can see how these inputs factor into our model in *Exhibit 58*. Specifically, we continue to expect a labor market that is tighter than neutral, given constrained supply (consistent with the signal from claims, wage growth, and JOLTS data). Meanwhile, the goods supply chains remain inflationary amidst geopolitical disruption and tariff uncertainty. Perhaps most important, however, is that both household surveys and bond-market breakevens continue to embed higher inflation, which we capture through the 'expectations' channel in our inflation model. Indeed, after 56 consecutive months of missing its inflation target, the Fed faces the challenge of re-anchoring expectations that have become partially self-fulfilling.

Against this longer-term inflationary backdrop, we continue to think that 2026 will be the year of peak tariff impact regarding input costs, which is why our next year forecasts show CPI around three percent, versus the run-rate estimate of 2.5%. Indeed, beyond their direct impact on goods inflation, we now attribute greater importance to the secondary effects of tariffs on services inflation. To see how this logic could play out, consider that pharmaceuticals, medical equipment, and other tariff-affected goods inputs will eventually raise health insurance costs for the end consumer, and ultimately boost services inflation. This logic extends to a broader array of 'other core services' categories historically insulated from trade policy, which is why our 2026 forecasts are becoming more hawkish at the margins.

Though these aforementioned forces are inflationary for services, we do expect some near-term disinflationary offset from shelter inflation (which is upwards of one third of all CPI), which we see continuing to ease in 2026 amidst slowing HPA and rental oversupply in some markets. Specifically, we think CPI shelter inflation is on track to settle in the 3.0% range in 2026, down from four percent in 2025 and below its pre-COVID run-rate of 3.3%. Nonetheless, we think 2026-2027 will mark the lower end of the range for shelter inflation this cycle, especially if we are right that lower construction starts and a constructive demographic backdrop help stabilizing home price growth over time.

Beyond lower shelter inflation in 2026, another potential offset lies in judicial and political pressures on tariffs. The Supreme Court may declare IEEPA tariffs illegal, and even

if not, election-year affordability concerns could pause or reverse tariff escalation. Finally, we do not rule out the chance that growth, hiring, and financial conditions deteriorate in a 'typical' recessionary scenario (consistent with our downside case for economic growth), which would result in a slowdown in wage and price growth and resulting in prolonged lower inflation. Similar to our GDP forecasts, we place the possibility of this 'low case' for inflation at 20%. On the other hand, our high-case scenario (20% probability) envisions inflation responding to a sharper rise in tariffs and a large rebound in energy prices driven by geopolitical risk, along with more stimulative fiscal policies from the government.

For the Federal Reserve, this environment presents a challenge: inflation is not accelerating, but it is not reverting to pre-pandemic norms either. In reality, it is much harder for monetary policy to bring down supply-driven inflation. This is why we think central banks will need to tolerate a higher sustained inflation rate this cycle, and that inflation will not be fully 'defeated' by policymakers any time soon. Against this backdrop, we continue to favor exposure to Real Assets and inflation-linked cash flows, as well as collateral-based assets tied to nominal GDP.

## Euro Area GDP

**Forecast:** As previously published in our [Thoughts from the Road: Europe](#), we have revised our Eurozone Real GDP growth forecast downward to 1.1% in 2026 (from 1.3% and in-line with consensus at 1.1%) and maintain our above-consensus call of 1.5% in 2027 vs. consensus of 1.4%. Downside risks from the energy shock, trade tensions, and the fastest hiking cycle in history have been well managed. Meanwhile, we also see upside levers as being more limited than hoped, given the underwhelming follow-through on the Draghi plan since it was issued in September 2024.

**Commentary:** After a few years of volatility, we think the aggregate Eurozone economy is now close to equilibrium for real and nominal growth rates, with growth momentum having recovered well following a brief pause in 2025 amid tariff uncertainty. The domestically exposed services-driven sectors continue to outperform internationally-exposed manufacturing, which remains

hamstrung by the energy deficit. Services PMIs have re-accelerated as well, now close to 2-year highs. At the same time, manufacturing has found a floor but remains tepid. Despite trade tensions and substantial euro strength, ex-pharma exports to the U.S. have only dropped by 2.5% YTD. Looser financial conditions are finally flowing through as corporates are leveraging up and we see some early signs of an upturn in the capex cycle; but we think manufacturers will continue to struggle under the energy deficit and competition from China.

Importantly, we see French political risk as the key left-tail risk for the Eurozone. French 10-Year sovereign bonds are trading wide of Italy's for the first time in 50 years. Meanwhile, the political deadlock in France appears intractable. However, on the positive side of the ledger, France's intersecting leadership in nuclear, datacenters and defense could prove notable structural supports.

**Exhibit 59: Eurozone Growth Momentum Paused Briefly in 2Q25 Under Tariff Uncertainty. However, It Has Since Accelerated, Now Running at Its Quickest Pace Since the Energy Crisis**

**Eurocoin Eurozone Growth Indicator: Underlying Growth Momentum**



Data as at October 31, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

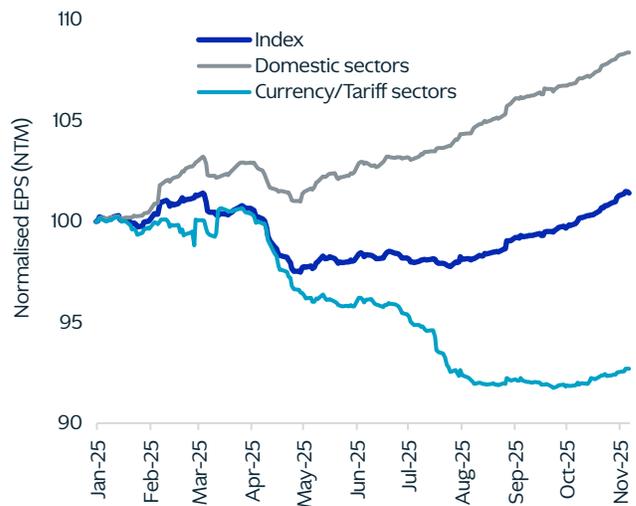
What does this all mean for investing? We think the focus should be on key themes, including:

**Lower Beta European Consumer:** We believe there is limited downside to the European consumer, making Europe a potentially lower beta play than its global peers

as we prepare for the next cycle. The European consumer is sitting on substantial excess savings and high cash allocations with low equity exposure, suggesting a reduced impact in the event of any cyclical pull-back in equities. We think there is room to lean into staples and essential consumer services with pricing power and underwrite non-discretionary European consumer exposure at a slightly higher multiple than public markets. Moreover, for global investors who are concerned about late-cycle exposures in their portfolios, Europe could be worth a look as a diversifier.

**Exhibit 60: Domestic Europe Continues to Be a Driver of Growth, and Internationally-Exposed Sectors Bottomed at the End of 2Q25**

**Europe EPS Revisions Since Jan-25**

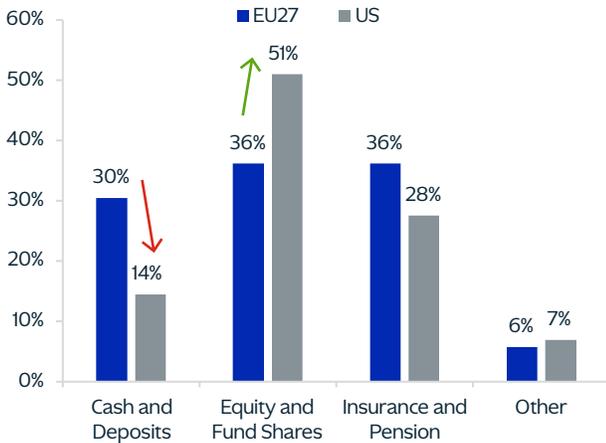


Data as at November 17, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

We believe there is limited downside to the European consumer, making Europe a potentially lower beta play than its global peers as we prepare for the next cycle.

**Exhibit 61:** European Households Are Much Less Exposed to Equity Markets, Holding Just 30% of Their Financial Assets in Cash and Deposits

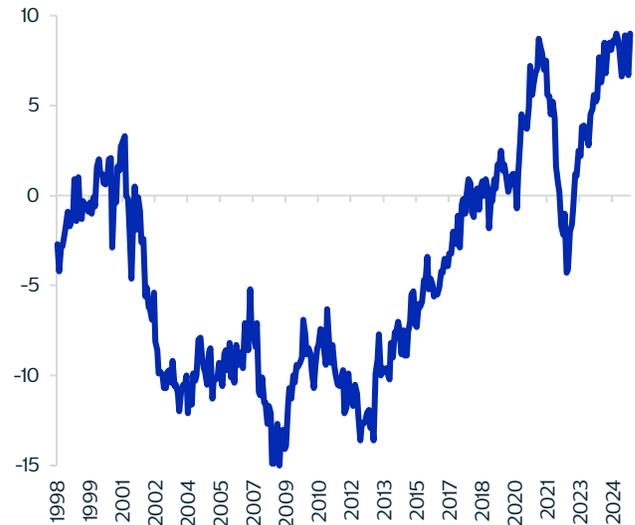
**Europe vs. U.S.: Breakdown of Household Financial Assets**



Data as at December 31, 2024. Source: Eurostat, U.S. Bureau of Economic Affairs.

**Exhibit 63:** Though Households Have Already Built Up a Sizeable Buffer of Savings, It Appears That Their Intention to Save Still Remains Near-Record Highs

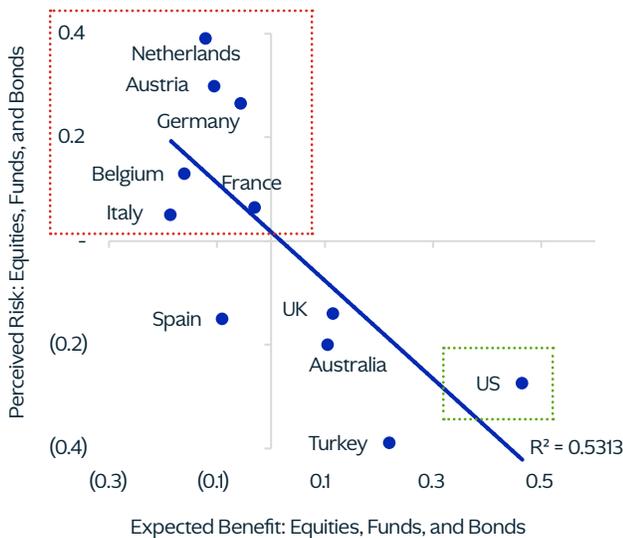
**EU27: Household Savings Intentions, % of Balance**



Data as at October 31, 2025. Source: European Commission.

**Exhibit 62:** European Households’ Perceive a Higher Level of Risk in Financial Markets

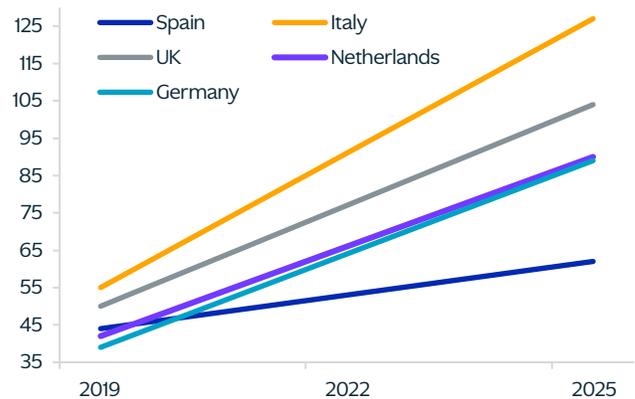
**Household Perception of Financial Investment Risk/Benefits by Country**



Data as at December 31, 2018. Source: Ferreira, M. (2018) “Cross-country Differences in Risk Attitudes Towards Financial Investment.” Centre for Economic Policy Research.

**Exhibit 64:** Spain Has Mostly Decoupled Its Energy System From Fossil Fuels and Now Has Some of the Cheapest Power Prices in Europe

**Average Wholesale Electricity Prices, €/MWh**



Data as at September 30, 2025. Source: Eurostat.

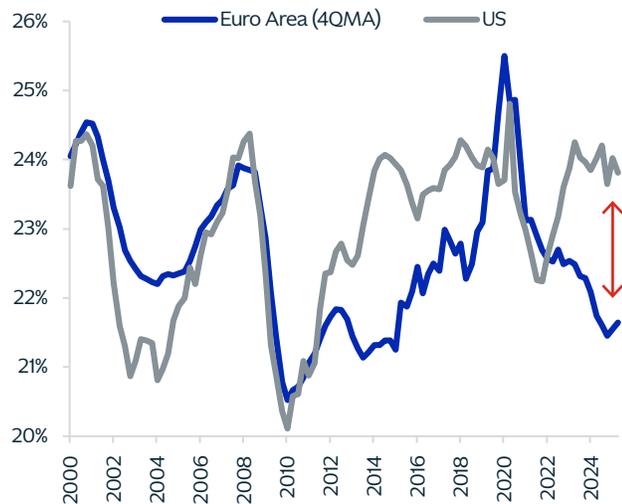
**Carbon Policy Inflation Impact:** European leaders just delayed the enactment of stricter carbon emission regulation under the Emissions Trading Scheme, moving it from 2027 to 2028 to keep energy bills lower for households and provide more headroom for industry. At

today's levels of carbon pricing, that's a 40 basis points (upward) impact on headline inflation for 2028, as building and road transport sectors come under the scope of this policy. If carbon pricing reaches 100 euros per ton (from approximately 80 at the time of writing), you could see an impact of 60-70 basis points on headline CPI. No doubt, there will continue to be competitive tension between the EU's green transition objectives and economic concerns, albeit with notable wins along the way as France and Spain have shown with their impressive nuclear and solar power bases.

**Early Signs of a Capex Pickup:** Capex in Europe has been weak for several years, significantly lagging the U.S. this cycle. However, we are finally seeing early signs that the capex cycle is turning, given higher government spending, the stimulatory real rates backdrop, and easier financial conditions driven by a well-functioning banking system.

**Exhibit 65:** Corporate Capex Cycles in the U.S. and Europe Historically Moved Somewhat in Sync. Since 2023, European Corporates Have Cut While U.S. Corporates Have Accelerated Investment

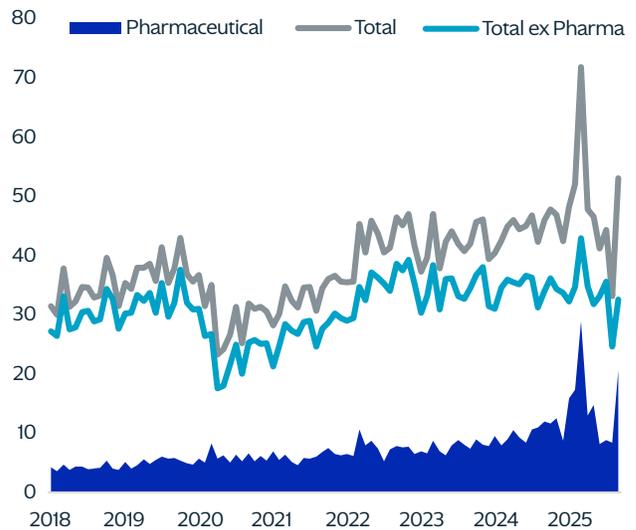
**Non-Financial Corporations: Gross Fixed Capital Formation as % of Gross Value Added**



Data as at June 30, 2025. Source: ECB, Federal Reserve Board.

**Exhibit 66:** Taking Out the Distortion of Front-Loaded Pharmaceuticals, EU Exports to the U.S. Are Only Down 2.5% Year-to-Date in September

**EU Exports to the U.S., EUR Billions**



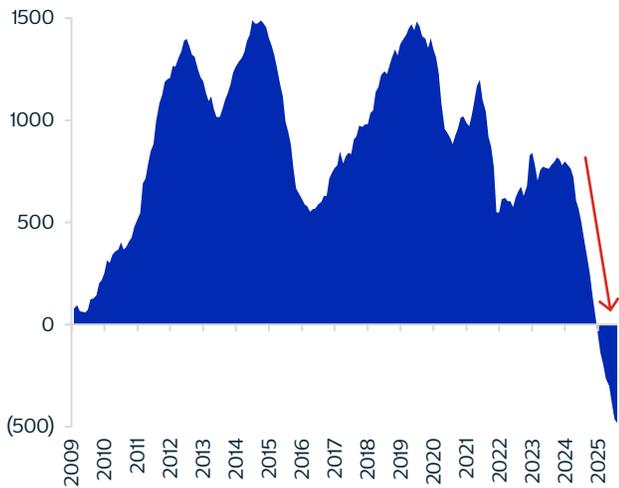
Data as at June 30, 2025. Source: ENTSO-e, LCCC, Montel, BFF.

Meanwhile, trade is showing some resilience in the face of higher U.S. tariffs. That said, the trade backdrop remains fraught. Europe must contend with the redirection of Chinese goods exports in addition to China's advancement up the value curve in direct competition with Germany's industrial heartland. Indeed, Germany's trade balance with China on capital goods has just turned negative for the first time in a decade and a half. In our view, this trend is likely secular, not cyclical, as China's technological progression shows no signs of slowing down.

Capex in Europe has been weak for several years, significantly lagging the U.S. this cycle. However, we are finally seeing early signs that the capex cycle is turning.

**Exhibit 67:** China Is Undoubtedly Moving Up the Value Curve and Is Now Competing Directly with Germany in Capital Goods

**Germany: Investment Goods Trade Balance With China, €Millions, 12MMA**



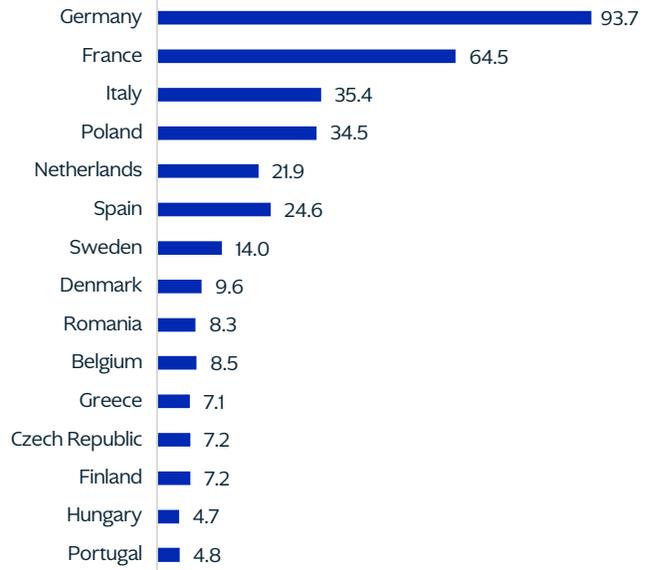
Data as at August 31, 2025. Source: Statistisches Bundesamt.

Defense is another key piece of the capex puzzle. We have already seen over the last couple of years a meaningful pickup in defense spending in specific subsegments — weapons, armor, artillery, and transport vehicles — linked to the war in Ukraine. We also expect these expenditures to occur regardless of the near-term outcome of the current negotiations. Our confidence in ongoing spending reflects the reality that Europe now needs to make up for its relative lack of investment in its own security during recent decades.

Our confidence in ongoing spending reflects the reality that Europe now needs to make up for its relative lack of investment in its own security during recent decades.

**Exhibit 68:** Even Ahead of the Additional Commitments This Year, Germany Had Already Spent Close to \$100 Billion on Defense in 2024

**2024 Defense Expenditure, US\$ Billions**

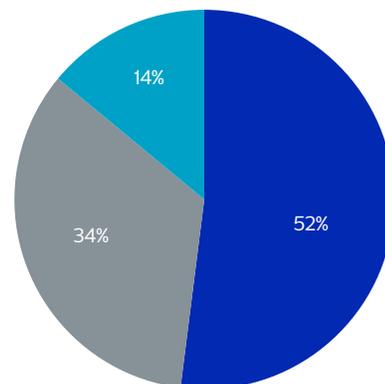


Data as at June 30, 2025. Source: NATO.

**Exhibit 69:** Over the Last 3 Years, Europe Has Procured Approximately Half of Its Defense Procurement Internally, With a Third From the U.S.

**European Defense Procurement by Country, 2022-2024, %**

■ Europe ■ US ■ Brazil, Israel, South Korea



Data at September 30, 2025. Source: International Institute of Strategic Studies.

## Euro Area CPI

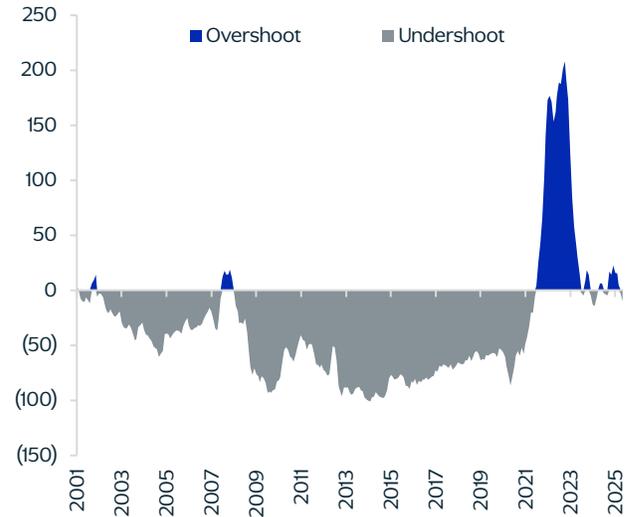
**Forecast:** We forecast Eurozone inflation to average 1.8% in 2026 and 2027, modestly below our prior estimates of 1.9% and 2.0% for 2025 and 2026, respectively, and broadly in-line with the ECB’s target. Our projections are in-line with consensus for 2026, while trending slightly below the consensus levels of 2.0% in 2027. Longer term, there is a trade-off between the green transition and keeping energy prices low, but the ETS2 (Emissions Trading Scheme 2) transition has just been delayed to 2028, showing the sensitivity of policymakers to painful price adjustments. Nonetheless, the ETS2 transition could be worth a 40 basis points addition to inflation when it comes through in 2028.

**Commentary:** The ECB’s fastest hiking cycle was followed by the fastest cutting cycle outside of a crisis, with inflation smoothly landing almost exactly at the ECB’s long-term target of 2%. Everything points to a mid-cycle position today, with the ECB deposit rate just 25 basis points below our neutral rate assumption of 2.25%, underlying inflation running at target, credit creation recovering nicely to normal (circa 3% Y/y) levels, and nominal wage growth also normalizing. Meanwhile, in the banking sector, common equity tier one ratios are the highest they’ve ever been, and loan-to-deposit ratios, cost-to-income ratios, and non-performing loans are all in healthy positions as well, providing a good backdrop for continued transmission of monetary policy to the economy.

If inflation stays well controlled, as in our base case, we see some room for continued euro appreciation in the years ahead, reflecting the still-muted valuation of the euro on a Purchasing Power Parity basis.

**Exhibit 70:** Underlying Eurozone Inflation Has Come Down Straight to Target

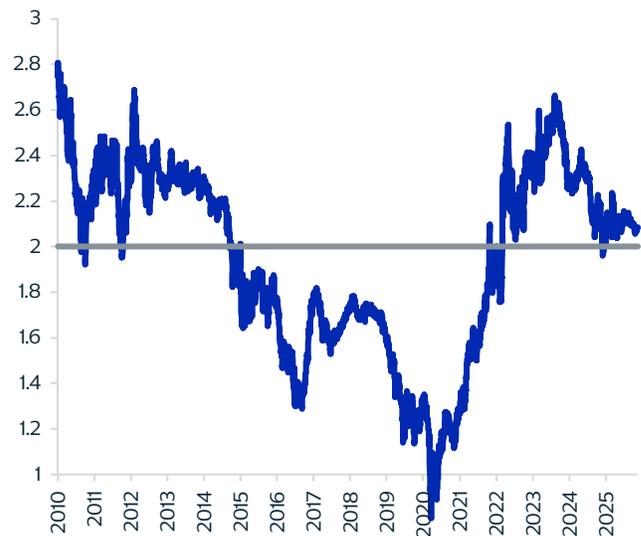
**ECB Underlying Persistent Inflation Deviation From 2% Target, Basis Points**



Data as at September 30, 2025. Source: ECB.

**Exhibit 71:** Inflation Expectations Remain Well-Anchored and Have Moved Within Just a 10 Basis Points Range Over the Past 12 Months

**5-Year Forward Inflation Swaps (Medium Term Inflation Indicator)**



Data as at November 13, 2025. Source: Bloomberg.

The roughly 2% headline inflation comprises goods inflation running at around 1% and services running at around 3%. In our base case, services inflation comes down and manufacturing stays where it is, but we acknowledge risks to this view arising from the energy transition, defense expenditure taking up slack in the manufacturing sector, and continuing global trade and tariff uncertainty. If inflation stays well controlled, as in our base case, we see some room for continued euro appreciation in the years ahead, reflecting the still-muted valuation of the euro on a Purchasing Power Parity basis.

**Exhibit 72:** The ECB's Forward Looking Wage Tracker Points to a Well-Functioning Economy with Nominal Wage Growth Modestly Above Target Inflation of 2%

**Eurozone: ECB Wage Tracker, Y/y %**

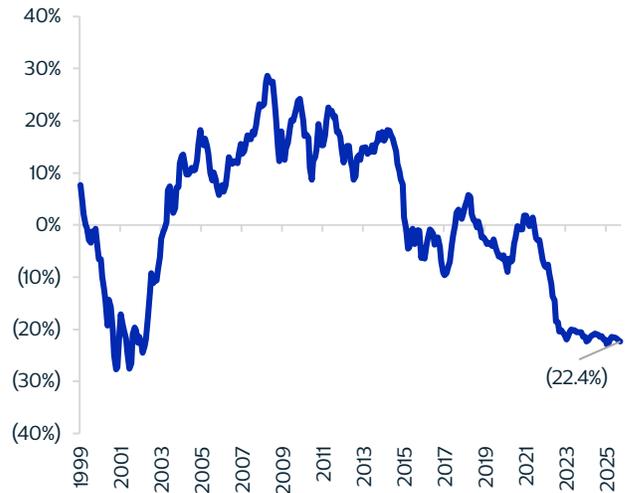


Data as at November 17, 2025 (tracking forward 9 months). Source: ECB.

Despite ongoing global rebalancing, China still accounts for nearly 30% of global manufacturing output, leaving, in our view, more limited room for further expansion.

**Exhibit 73:** Despite the 12% Rally YTD, the Euro Remains Around 20% Undervalued on Purchasing Power Parity

**Euro PPP Valuation Relative to U.S. Inflation, % Points**



Data as at September 30, 2025. Source: Bloomberg.

**China GDP**

**Forecast:** We have revised our forecast for China's real GDP growth to 4.6% in 2026 (from 4.1% previously and above the 4.4% consensus) and to 4.4% in 2027 (versus consensus of 4.1%). The upgrade reflects our expectation of a more favorable China-U.S. trade outcome, with tariffs likely to settle in the 25-30% range versus our prior 40-45% assumption, as well as our conviction that China will need to sustain a structurally higher growth rate to achieve its middle-to-high income objectives by 2035. In practical terms, this implies average real growth of roughly 4.5% during the 15th Five-Year Plan. That said, key risks remain, particularly around youth employment and confidence, which we view as critical swing factors in determining whether China can truly escape deflationary pressures and transition to a more sustainable, consumption-led growth model.

**Exhibit 74:** Despite a Potential 5% Growth Target for 2026, Headwinds From Real Estate and a Weak Job Market Cast Doubt on Achievability

**China GDP Breakdown by Sector, 2026**

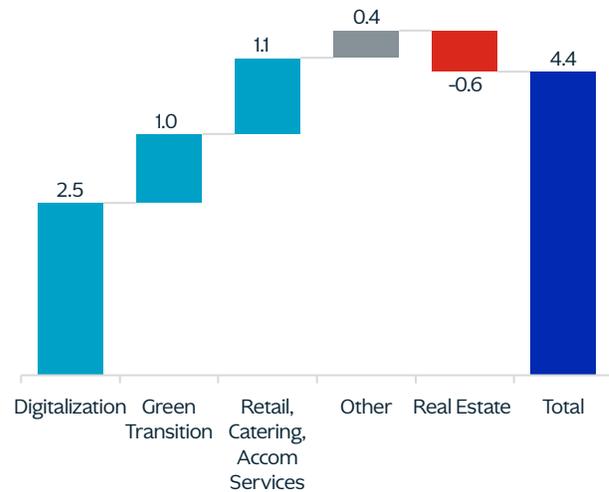


Digitalization is the aggregate of core digital and digital transformation. Core digital industries refer to industries that rely entirely on digital technologies (roughly 10% of the economy), as well as provide technologies for the digitalization of other industries. Green transition includes clean energy, electrified transport, clean industry, etc. Other represents the remainder of the economy, i.e., agricultural, industrial, and services other than digital, green industries, catering and accommodation and retail services. Data as at November 30, 2025. Source: CNBS, BNEF, CAICT, KKR Global Macro & Asset Allocation analysis.

In our view, the prospects for escaping a deflationary trap hinge on the trajectory of household income and consumer confidence, which are best examined through three lenses: employment, household wealth, and the social safety net.

**Exhibit 75:** After Five Years of Correction, the Drag From Real Estate May Ease Significantly by 2027. However, Growth Will Likely Remain Slow as Fiscal Pressures Limit Policy Support

**China GDP Breakdown by Sector, 2027**



Digitalization is the aggregate of core digital and digital transformation. Core digital industries refer to industries that rely entirely on digital technologies (roughly 10% of the economy), as well as provide technologies for the digitalization of other industries. Green transition includes clean energy, electrified transport, clean industry, etc. Other represents the remainder of the economy, i.e., agricultural, industrial, and services other than digital, green industries, catering and accommodation and retail services. Data as at November 30, 2025. Source: CNBS, BNEF, CAICT, KKR Global Macro & Asset Allocation analysis.

**Commentary:** China’s recent economic challenges potentially look more structural and longer lasting than many had anticipated. In our view, the prospects for escaping a deflationary trap hinge on the trajectory of household income and consumer confidence, which are best examined through three lenses: employment, household wealth, and the social safety net. Without a more deliberate policy pivot towards services and consumption-led growth, we think deflationary pressures could persist and become increasingly entrenched. The following analysis outlines why these forces risk hardening over time and highlights potential measures that could help break the cycle.

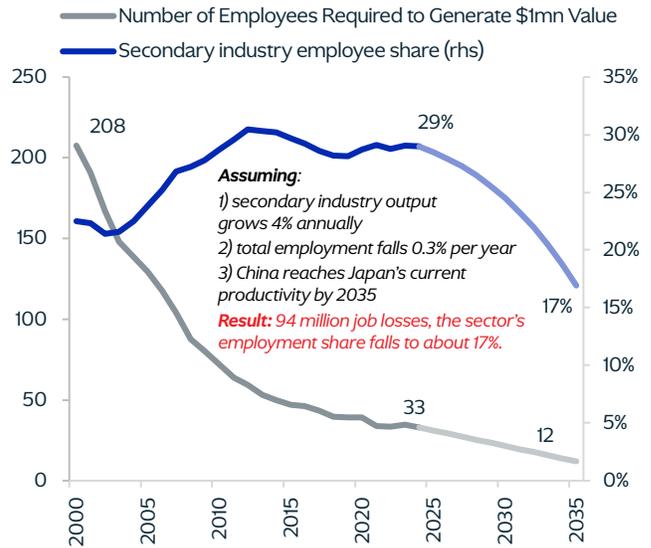
First and foremost, the job market outlook faces significant constraints:

- Manufacturing is at its limit:** Despite ongoing global rebalancing, China still accounts for nearly 30% of global manufacturing output, leaving, in our view, more limited room for further expansion. At the same time, automation is advancing faster than many investors may appreciate: China now hosts the world's largest industrial-robot installation. Even assuming 4% annual growth and productivity gains comparable to Japan's current level, we estimate that secondary-sector jobs in China could decline by 90-100 million over the next decade, reducing their share of total employment from 29% to 17%. For context, the entire U.S. labor force is under 160 million, so the potential displacement is larger than the total workforce of most developed economies.
- Services-sector imperative:** To offset the aforementioned adjustment, we believe policymakers will need to focus on expanding services sectors that can absorb displaced workers at scale. China's services sector remains underdeveloped, accounting for just 56.7% of GDP in 2024 versus a global average of 66.3%. Momentum has also slowed: services output rose only 5.2% annually from 2019-2024, compared to 8.0% during 2014-2019. Our analysis suggests that if productivity continues to improve at its current pace, services-sector output growth must rebound to 6.0% or higher over the next decade to absorb labor released from manufacturing—a challenging target given China's slowing GDP trend. That said, we do see significant opportunities in leasing, business services, retail, and hospitality.

China's services sector remains underdeveloped, accounting for just 56.7% of GDP in 2024 versus a global average of 66.3%.

**Exhibit 76: Productivity Gains Could Eliminate 90-100 Million Secondary Industry Jobs by 2035**

**China's Secondary Industry Employees, Millions**



Value added expressed in 2020 USD. Data as at December 31, 2024. Source: China National Bureau of Statistics, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

**Exhibit 77: China Must Lift Services Output Growth to 6%+ From the Current 5% to Offset Manufacturing Shifts, We Believe**

Additional Jobs Created from Services Sectors in 2035 (vs. 2024, Millions)						
		Real annual growth in Services				
		3.0%	4.5%	6.0%	7.5%	9.0%
Employment per \$1mn worth of output (CAGR)	-2.0%	39	107	187	278	382
	-3.0%	-4	58	128	210	303
	-3.4%	-19	39	107	184	274
	-4.0%	-42	13	76	149	232
	-5.0%	-76	-28	29	93	168
Services % of GDP in 2035						
		Real annual growth in Services				
		3.0%	4.5%	6.0%	7.5%	9.0%
Assuming China real GDP growth at 4.2%		50%	58%	68%	80%	93%

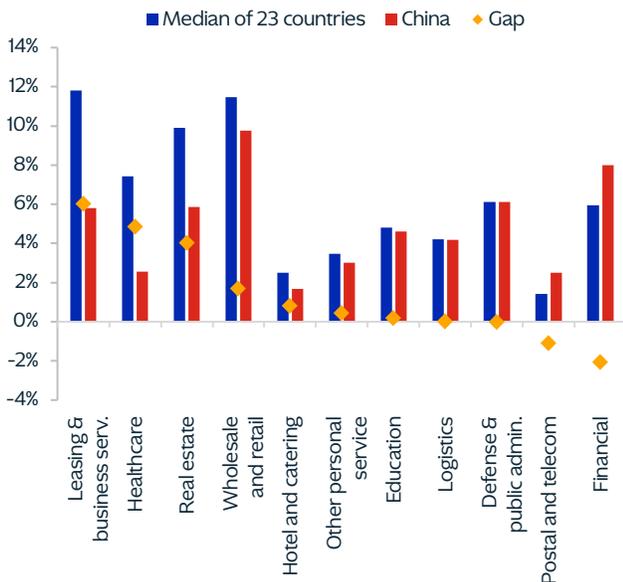
Value added expressed in 2020 USD. Data as at December 31, 2024. Source: China National Bureau of Statistics, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

Taken together, these employment challenges could become even more acute once demographics are fully considered. Despite widely reported declines in marriage

and birth rates and legitimate concerns about long-term growth, China's labor supply will remain substantial over the next decade, with an estimated 216 million working-age individuals still outside the labor force. A demographic overhang adds further pressure: births peaked in 2017 at 18.3 million, and that cohort will enter the workforce around 2035 at the earliest, raising the risk of elevated youth unemployment if the services sector does not expand sufficiently. Meanwhile, deflationary wage dynamics are emerging across many emerging markets, including China, as job insecurity prompts workers to accept lower wages and longer hours. In our view, this combination of excess labor supply, weak services absorption, and rising precautionary behavior is a key channel through which deflationary forces risk becoming more deeply embedded.

**Exhibit 78: Key Potential Service Sectors: Leasing and Business Services, Healthcare, Wholesale and Retail, and Hospitality**

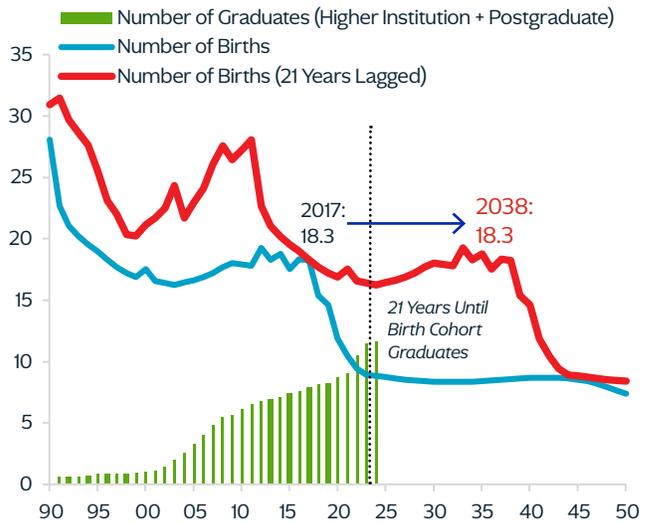
**Services as a % of GDP by Sub-Sector**



The 23 Economies are Australia, Austria, Belgium, Brazil, Canada, China, Taiwan, Germany, Denmark, Spain, Finland, France, United Kingdom, Greece, India, Italy, Japan, South Korea, Mexico, Netherlands, Portugal, Sweden, United States. Data as at December 31, 2024. Source: CF40, ADB, WIOD, KKR Global Macro & Asset Allocation analysis.

**Exhibit 79: Young Entrants to the Labor Force Won't Peak Until 2035-2040, Especially Among University Graduates**

**China: Number of Births vs. Graduates, Millions**

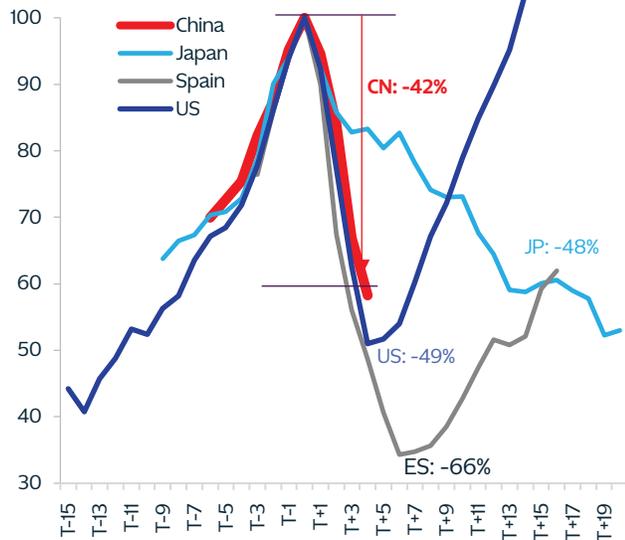


Data as at December 31, 2024. Source: China National Bureau of Statistics, United Nations, KKR Global Macro & Asset Allocation analysis.

Second, China's housing market correction has dealt a major blow to household wealth. Housing, long the cornerstone of savings for retirement, has seen prices fall about 30% from their peak, erasing an estimated RMB 72 trillion (US\$10 trillion), equivalent to about half of China's 2024 GDP, from the value of Chinese residential real estate. The silver lining is that the adjustment has already been deep by historical standards: it is broadly in line with the U.S. housing downturn in 2008 (-30% to -35%), Spain post-2007 (-30% to -50%), and not far from Japan's multi-decade correction (-50% over twenty years). The magnitude of the decline suggests that a substantial portion of the excess has already been worked off; as such, the path forward could prove less damaging than what has already occurred, even if the recovery is likely to be gradual rather than V-shaped.

**Exhibit 80:** China's Housing Market Correction Is Comparable to 2008 in the U.S., Japan's 1992 Bubble Burst (Over Two Decades)

**Housing Market Correction Index: China vs. U.S., Japan and Spain**

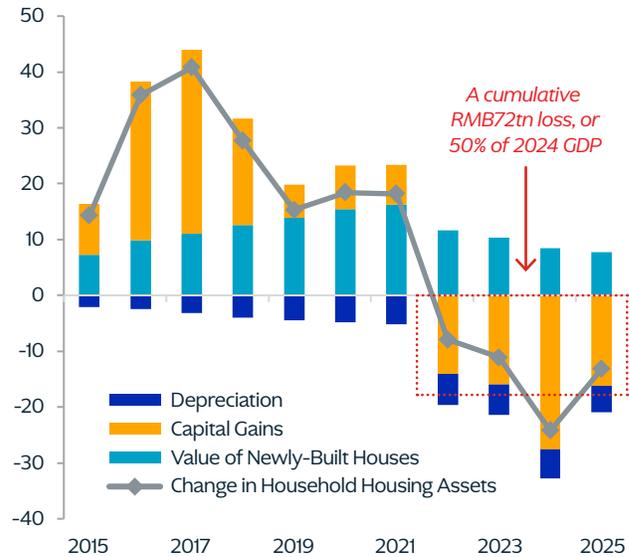


Housing Market Correction Index is the simple average of correction index for housing prices, investment and starts. Data as at October 31, 2025. Source: Japan Ministry of Land, Infrastructure and Transport, China National Bureau of Statistics, Federal Housing Finance Agency, U.S. Census Bureau, Spanish Statistical Office, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

Only about half of China's labor force is covered by urban employee pensions, and just 27% of the population has access to adequate urban healthcare. In this context, the lack of income security and social insurance can at times encourage households to behave in a highly precautionary way.

**Exhibit 81:** Housing Prices Have Plunged About 30%, Erasing RMB 72 Trillion in Household Wealth Since the 2021 Peak, Equivalent to 50% of 2024 GDP

**Change in Chinese Household Housing Asset, RMB Trillions**

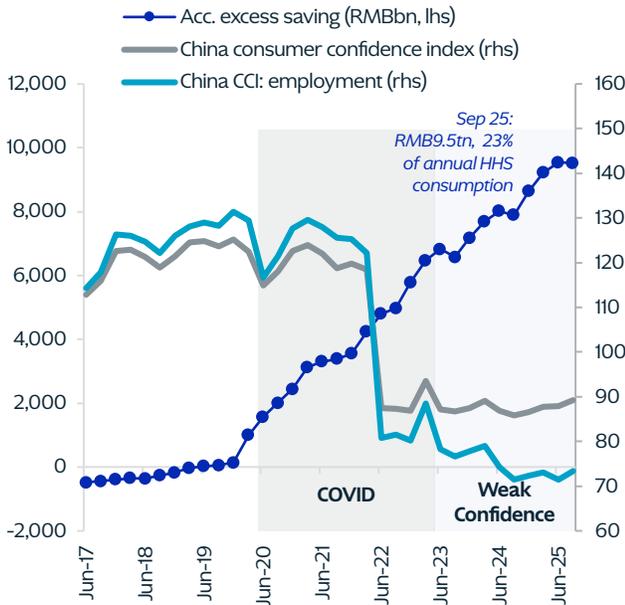


Data as at November 3, 2025. Source: CNBS, Wind, KKR Global Macro & Asset Allocation analysis.

Third, and compounding both the employment and housing shocks, is the absence of a truly universal social safety net, which we think is a critical drag on confidence. Today, only about half of China's labor force is covered by urban employee pensions, and just 27% of the population has access to adequate urban healthcare. In this context, the lack of income security and social insurance can at times encourage households to behave in a highly precautionary way by saving more, spending less, and delaying discretionary outlays. The result is a higher aggregate savings rate and a lower marginal propensity to consume, both of which make it harder for policy to generate a durable, consumption-led recovery and increase the risk that deflationary forces become more entrenched over time.

**Exhibit 82: Profound Structural Change Continues to Shape the Chinese Economic Landscape**

**China: Accumulated Excess Saving vs. Consumer Confidence**



Data as at September 30, 2025. Source: CNBS, Wind, KKR Global Macro & Asset Allocation analysis.

The good news, in our view, is that the Chinese government is not sitting idle in the face of these headwinds. Policy is beginning to move in the right direction, with a greater emphasis on consumption and services than we have seen in prior cycles. As we have highlighted in our Thoughts From the Road: Asia publications over the past two to three years, we continue to believe that China has meaningful potential to escape a deflationary trap if policymakers pivot decisively (see Macro Insights on KKR.com for more details). A key priority, we think, should be further deregulation across the services sector—including technology, education, healthcare, finance, culture, and entertainment—where, as some economists note, “less control is the biggest stimulus.” Complementing this, stronger support for industrial services such as leasing, commercial services, and government procurement for consulting will be important, with neighboring economies like Japan and Korea offering useful precedents on policy design and tax incentives. Just as importantly, integrating China’s 170–180 million migrant workers into the urban social safety net

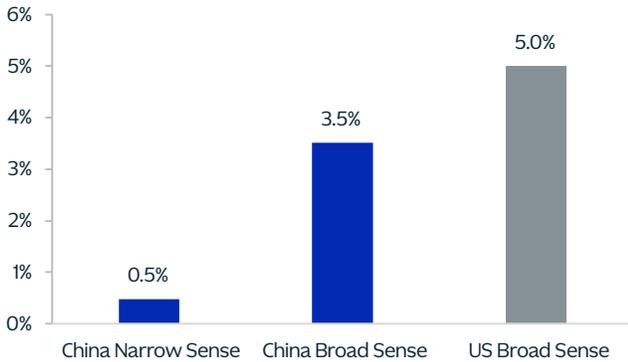
and ensuring access to affordable housing could be a game changer. These workers earn incomes comparable to urban private-sector employees but exhibit much lower consumption propensity for the reasons discussed above; scholars estimate that better integration could boost consumption by 1–2% of GDP.

At the same time, the outlook for Chinese technology innovation remains bright, supported by powerful structural tailwinds. China is now the world’s largest patent applicant and a leader in humanoid robot patents, where it enjoys the lowest cost base globally. In pharmaceuticals, a sharp rise in license-out revenues underscores China’s emergence as a true innovation hub, complementing its traditional manufacturing edge. In AI, the trends are equally compelling: China is advancing rapidly, with an estimated 50,000–60,000 young researchers—nearly half of global top talent by some measures. Government investment in data centers is helping to bridge public-private gaps, with direct AI-related capex around 0.5% of GDP and broader AI spending closer to 3.5%. On our estimates, AI investment alone could add 0.3–0.8 percentage points to annual GDP growth over the next five years, reinforcing our view that China’s innovation ecosystem remains a key offset to cyclical and structural headwinds.

Meanwhile, at the corporate level, China’s leading internet platforms are taking a decidedly more disciplined approach than many U.S. hyperscalers, favoring pragmatic, cost-efficient models over large-scale capital outlays. This year, firms such as Tencent and Alibaba are running capex-to-revenue ratios of roughly eight percent, versus 20% or more for many U.S. peers. In our view, semiconductor restrictions have, somewhat counterintuitively, reinforced this capital efficiency by pushing Chinese companies to innovate around lower-cost model performance rather than relying on heavy hardware spending. This strategy keeps China competitive in many AI applications without matching U.S.-style capital intensity. At the same time, it also implies that AI’s ultimate contribution to GDP growth in China may be more modest than in economies pursuing more aggressive investment strategies, even as it remains an important incremental tailwind to the broader growth story.

**Exhibit 83:** China’s Direct AI Investment Is Estimated at \$90 Billion (0.5% of GDP); AI-Related Capex Is About 3.5% vs. 5.0% in the U.S.

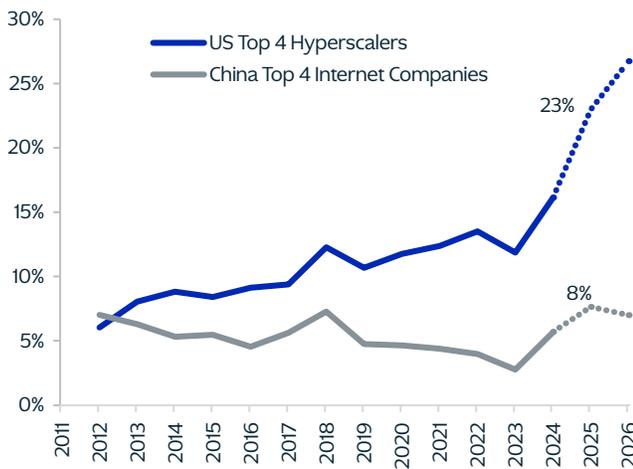
**AI Related Investments as % of GDP**



Narrow sense refers to direct investments in AI, while in a broad sense, it includes fixed investments in computer, communication, and electronic equipment manufacturing, as well as information technology, computer services, and software. Data as at November 15, 2025. Source: CNBS, Bloomberg, KKR Global Macro & Asset Allocation analysis.

**Exhibit 84:** Capex/Revenue Ratio: U.S. Top 4 Is Approximately 16% and On an Upward Trajectory, While China’s Top 4 Is around 8-10% and Stalling

**Capex-to-Revenue Ratio of U.S. and China Leading AI Players**



U.S. top 4 Hyperscalers include Microsoft, Amazon, Google and Meta; China Top 4 internet companies include Alibaba, Tencent, Baidu and JD. Dotted lines are consensus expectations. Data as at November 14, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

Looking at the big picture, we think China is navigating a complex transition, one where manufacturing overcapacity collides with employment displacement, where wealth destruction interacts with underdeveloped social safety nets, and where AI investment provides an important offset but not, in our view, a fundamental solution. The critical swing factor, as we see it, is whether policy pivots meaningfully toward services-sector development and stronger household support. Without that shift, the deflationary pressures and structural challenges we have outlined are likely to persist, with important implications for global growth, inflation dynamics, and the pricing of risk across sectors and geographies. By contrast, a more decisive reorientation towards services, innovation, and consumption could help China stabilize nominal growth, rebuild confidence, and remain a key contributor to global demand—outcomes that would matter a lot for asset allocators everywhere.

**China CPI**

**Forecast:** We now forecast China CPI of 0.3% in 2026 (from 0.7% previously and below the 0.8% consensus) and maintain a below-consensus call of 0.3% in 2027 versus consensus of 1.0%. As discussed earlier, Changchun Hua’s analysis on China’s inflation dynamics remains quite differentiated from the prevailing view, and our revised path reflects that work.

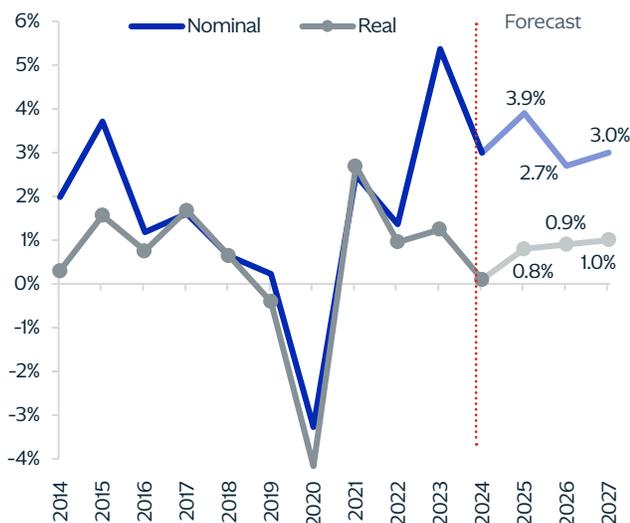
**Commentary:** From a policy standpoint, we expect conditions to remain broadly supportive through 2026–2027. The official budget deficit is likely to hover near 4.0% of GDP, while the augmented deficit may remain around 8.5%, reflecting continued use of ultra-long-term special central government bonds and special-purpose local government issuance. With real rates still elevated, we also anticipate that the PBoC will lower short-term policy rates by 20–30 basis points to make monetary conditions more accommodative. However, in our view, these measures alone are unlikely to fully offset the drag from a soft labor market and substantial household wealth losses. Without more forceful efforts to bolster services and consumption, closing the output gap and escaping the deflation trap will remain a challenging proposition.

## Japan GDP

**Forecast:** Due to the positive follow-on effects of the policy paradigm shift that initially occurred under ‘Abe-ism 2.0,’ we now expect stronger real GDP growth in Japan in 2026–2027. Specifically, we have revised our 2026 forecast to 0.9% from 0.8%, slightly above the 0.7% consensus. For 2027, we now project 1.0% growth versus the consensus view of 0.8%. This upward revision reflects our expectation that the new Abe-ism 2.0 framework, anchored in more proactive fiscal and industrial policy, will accelerate strategic investment in AI, semiconductors, clean energy, digital infrastructure, and defense. These initiatives are being supported by ultra-long-dated government bond issuance and accommodative monetary conditions, including persistently negative real rates. Further, the newly proposed supplementary budget of JPY 17.7 trillion (2.8% of GDP) is meaningfully larger than both last year’s package and market expectations, reinforcing our view that fiscal policy will remain highly supportive as Japan enters its next capex- and productivity-driven expansion phase.

**Exhibit 85:** Takaichi’s Policy Is Likely to Stabilize Japan’s Real GDP Growth Around 1.0%

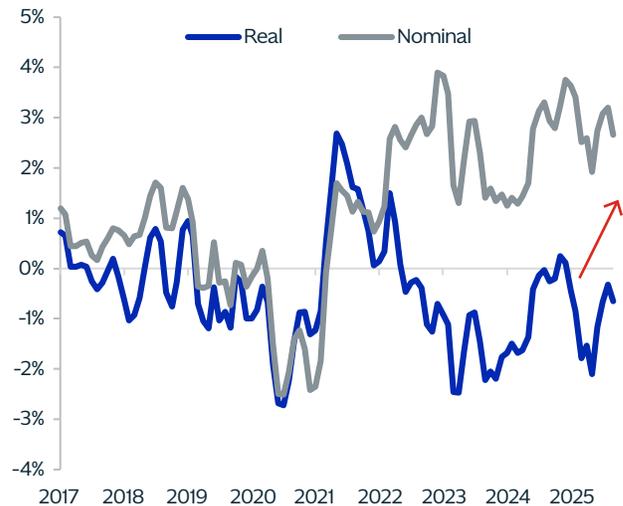
### Japan GDP Growth, Nominal vs. Real



Data as at November 15, 2025. Source: Cabinet Office of Japan, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

**Exhibit 86:** Real Wage Growth, Which Has Been Eroded by a Rice Price Surge, is Now Expected to Finally Rebound as Prices Ease

### Japan Wage Growth, Y/y, 3-Month Moving Average



Data as at September 30, 2025. Source: Japan Ministry of Health, Labor & Welfare, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

**Commentary:** Japan’s macro story is anchored on three ‘Goldilocks blocks’ extending through 2027 and beyond: negative real interest rates, a shift to positive real wage growth, and nominal GDP growth consistently outpacing nominal interest rates. These forces are mutually reinforcing, creating a virtuous cycle that compounds nominal growth, strengthens wages, and enhances returns on capital. Coupled with ongoing corporate governance reforms, Japanese corporates are set to improve capital efficiency and shareholder returns — unlocking a substantial pipeline of investment opportunities. We note the following:

- **First, real wage growth is on track to turn positive in 2026.** Japan continues to exhibit one of the tightest labor markets in the developed world, with unemployment near multi-decade lows, a job-offers-to-applicants ratio above 1.2x, and structural labor shortages driven by demographics, reshoring, and services reopening. These dynamics underpin another solid Shuntō wage round, keeping overall nominal wage growth around 3% even as inflation moderates. A robust supplementary budget of JPY 8–9 trillion (1.3–1.5% of GDP) aimed at inflation relief—pending December

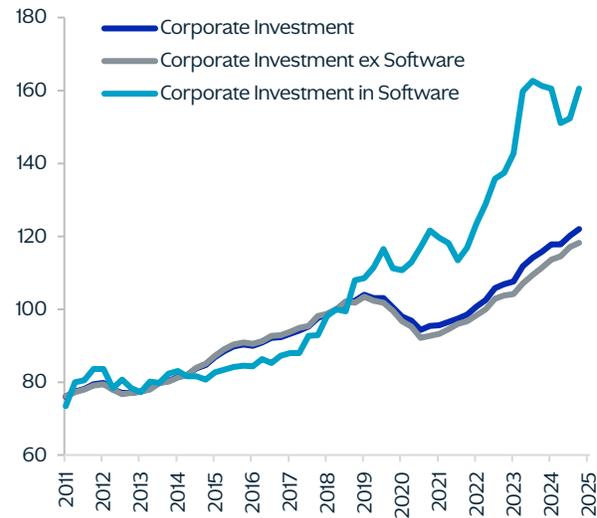
Diet approval—should further ease the inflation burden and support real incomes, while softer food prices help real earnings turn positive. In our view, this combination should unlock pent-up demand in retail, leisure, travel, and discretionary goods, amplified by healthy household balance sheets. As a result, consumption is poised to strengthen in 2026 and help re-establish Japan's long-elusive virtuous cycle of rising incomes, stronger spending, and firmer corporate revenues.

- Second, Japan's capital expenditure cycle is clearly re-accelerating, with a particular focus on labor-saving investments.** The current upswing reflects both cyclical momentum and a new wave of structural policy tailwinds. Under Prime Minister Takaichi's 'Abe-ism 2.0,' strategic investment is expected to flow into AI, semiconductors, cybersecurity, and power infrastructure, critical areas for national security and technological competitiveness, alongside continued labor-saving investments. This policy push is aligned with strong corporate fundamentals: sales and profits have surpassed pre-pandemic peaks. Indeed, software and automation investment has surged since 2021, particularly in labor-intensive sectors such as accommodation, eating & drinking services, retailing, and construction. Combined with negative real rates, an extended reshoring cycle, rising export competitiveness from a structurally weaker yen, and the return of corporate pricing power, these forces are creating a uniquely supportive backdrop for firms to deploy capital more aggressively than in prior cycles.

Under Prime Minister Takaichi's 'Abe-ism 2.0,' strategic investment is expected to flow into AI, semiconductors, cybersecurity, and power infrastructure, critical areas for national security and technological competitiveness, alongside continued labor-saving investments.

**Exhibit 87: Corporate Earnings and Government Policies Will Continue to Provide Support for Corporate Capex, With a Particular Focus on Labor Saving Investments, Especially Software...**

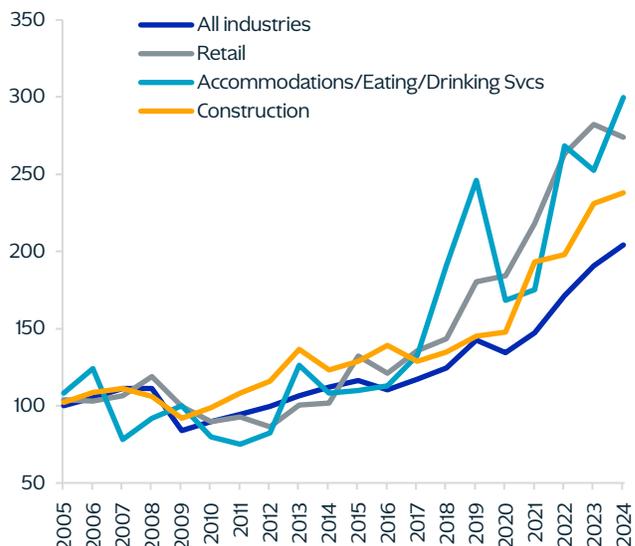
**Japan Corporate Investment (2018=100)**



Data as at June 30, 2025. Source: Japan Ministry of Finance, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

**Exhibit 88: ...Across Sectors Like Retail, Accommodation, Eating and Drinking Services, and Construction**

**Software Investment (2005=100)**

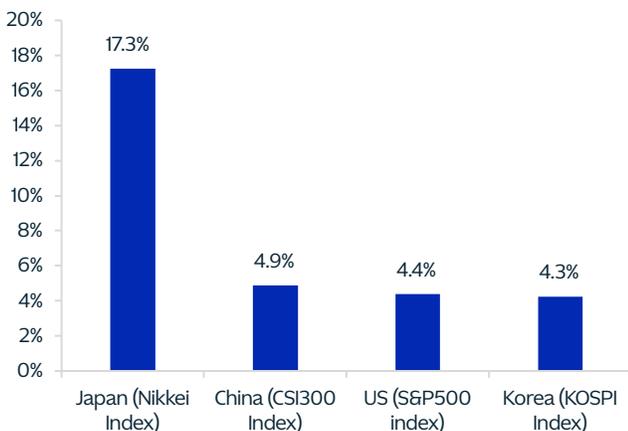


Data as at Dec 31, 2024. Source: Bank of Japan, KKR Global Macro & Asset Allocation analysis.

- Third, corporate governance reform is entering a more consequential stage.** The earlier phase focused on ‘dividing the pie,’ returning capital to shareholders via higher dividends, buybacks, and the unwinding of cross-shareholdings. That foundation has now been firmly laid, we believe. The emerging phase is about ‘growing the pie’: improving balance sheet efficiency, deploying excess cash more productively, and committing to long-term value creation rather than preserving liquidity for its own sake. Rising shareholder activism is accelerating this shift. Foreign and domestic investors are increasingly pressing management teams for clearer capital-allocation frameworks, higher returns on equity, and credible investment roadmaps. With cash still accounting for roughly 17% of corporate assets—well above global peers—the Tokyo Stock Exchange’s initiative requiring companies to justify cash hoards and present actionable investment plans marks a pivotal structural break. Coupled with stronger profitability and government incentives in digitalization, clean energy, semiconductors, and advanced manufacturing, Japan is now positioned for a far more sustained, investment-driven expansion than we have seen in decades.

**Exhibit 89:** There Is Notably More Excess Cash on Japanese Corporate Balance Sheets

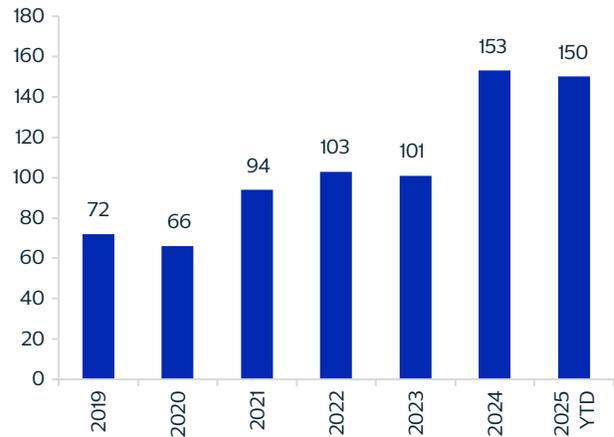
**Cash as a % of Total Assets**



Data as at November 15, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

**Exhibit 90:** Activism Is Clearly Gaining Momentum, Targeting High Net Cash Ratio Companies

**Number of Activist Campaigns in Japan**



Data as at November 15, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

**The bottom line for Japan:** We see a multi-year structural story taking shape under Abe-ism 2.0, driven by corporate governance reform, sustained ROE expansion, a broadening capex recovery, and real wage growth finally feeding into consumption. Negative real rates continue to act as a powerful tailwind, lowering the cost of capital and encouraging firms to deploy excess cash into higher-return investments. Together with Japan’s ongoing investment cycle in AI, semiconductors, clean energy, and advanced manufacturing, these shifts represent one of the most meaningful structural transformations in developed markets in recent years—carrying significant implications for portfolio construction and long-term return generation as Japan transitions towards a more productive, investment-led growth regime.

**Japan CPI**

**Forecast:** We maintain our CPI forecasts of 1.8% and 2.0% for 2026 and 2027, respectively. For 2026, we are in-line with consensus, but we expect a slightly higher reacceleration of inflation than the consensus (1.9%) in 2027. Over the long term, we believe that inflation will remain around 2%.

**Commentary:** Japan’s recent inflation was partly driven by cost-push pressures from rising food and energy prices

and yen weakness, eroding real wages and household purchasing power. However, these headwinds should ease significantly in 2026, as government relief measures take effect and temporary supply-side shocks fade. At the same time, Japan's strengthening wage momentum signals a more durable reflation path to anchor CPI near the 2% target and support a sustained exit from deflation.

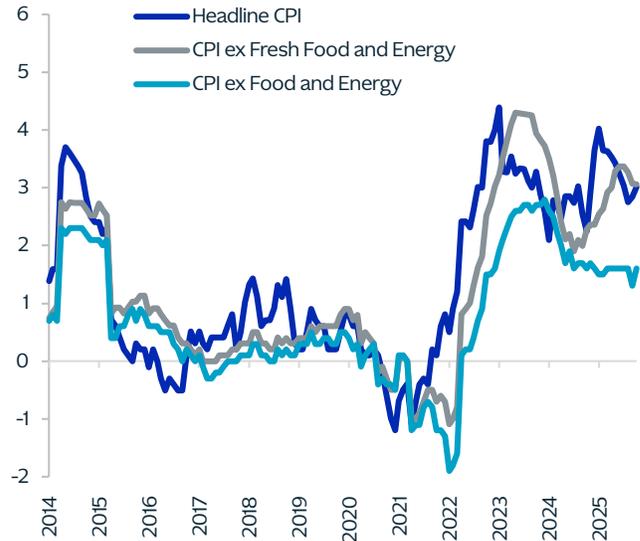
To review, over the past few years Japan has faced 'bad' inflation, largely driven by cost-push factors. Headline CPI surged above 4% at its peak in several months of 2025 as rice prices more than doubled from 2024 levels. These external pressures raised the cost of essential goods and pushed real wage growth into negative territory, eroding household purchasing power. Looking ahead to 2026, however, we expect these cost-driven pressures to ease meaningfully. We forecast headline CPI to moderate to around 1.8%, roughly in line with market expectations. The Bank of Japan is projecting core CPI (all items less fresh food) to slow to 1.5–2.0% through the first half of fiscal 2026 (April 1–September 30), as earlier food price spikes, including rice, roll off. Energy and imported goods, particularly from China, are also likely to make a negative contribution, while ongoing government relief measures should continue to dampen price pressures. Underlying inflation may remain subdued early in the year, but we expect it to gradually firm as labor shortages and rising wage expectations feed through into services prices.

Over the longer term, Japan appears to be entering a virtuous cycle in which wage growth underpins stable, healthy inflation. Supported by tight labor markets and stronger corporate wage commitments, overall wage growth of 3–4% is becoming more common. This trend could sustain inflation near the Bank of Japan's 2% target, reinforcing the reflationary momentum and signaling a more durable exit from the deflationary dynamics that have defined the past three decades.

Over the longer term, Japan appears to be entering a virtuous cycle in which wage growth underpins stable, healthy inflation.

**Exhibit 91: Core Inflation Remains Stable at Around 1.6%**

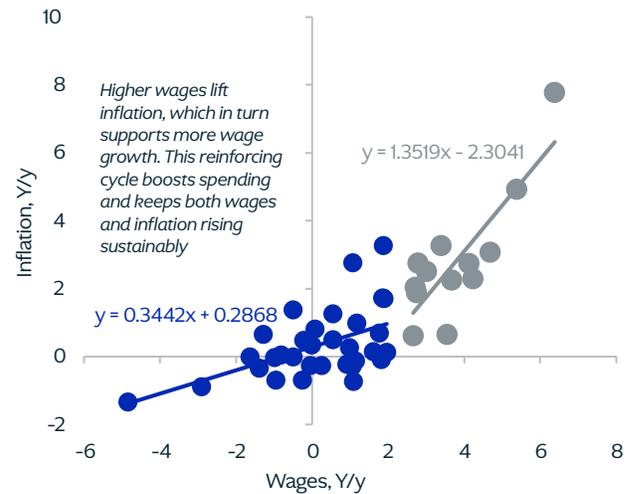
**Japan Inflation, Y/y %**



Data as at October 31, 2025. Source: Japan Ministry of Internal Affairs and Communications, KKR Global Macro & Asset Allocation analysis.

**Exhibit 92: The Virtuous Cycle Between Wages and Inflation Strengthens When Wage Growth Tops 2% (Grey Dots)**

**Japan Wage Growth-Inflation Relationship, 1980-2024**



Data as at December 31, 2024. Source: BOJ, Bloomberg, KKR Global Macro & Asset Allocation analysis.

## SECTION III

# Capital Markets

## S&P 500

**Forecasts:** Our colleague Brian Leung now expects the S&P 500 to reach approximately 7,600 in 2026, implying about a 9% return over the next 12 months (*Exhibit 94*). On EPS, he forecasts 11% year-over-year growth in 2026, which is an above-consensus estimate of \$303 per share (versus the ‘top-down’ consensus estimate of \$301 per share, see *Exhibit 95*). From a valuation perspective, our 2026-27 outlook assumes equity multiples remain in a 22-23x forward earnings range, broadly in-line with current

levels near 22.5x. We are not underwriting further multiple expansion. However, we believe valuations can largely hold steady, supported by easing tariff concerns (barring Supreme Court outcomes), accommodative financial conditions, further (albeit fewer) Fed rate cuts, and ongoing tailwinds from prior global monetary easing. For 2027, he assumes a more modest return of 6-7%, implying a price target of roughly 8,100. His 2027 EPS estimate of \$334 per share is also roughly 4% below bottom-up consensus.

**Exhibit 93:** Given Outsized Trailing Returns and Lofty Embedded Growth Expectations, Future Returns Are Likely to Be More Muted. The Exception to Mediocre 5-Year Forward Returns Was the 1990s

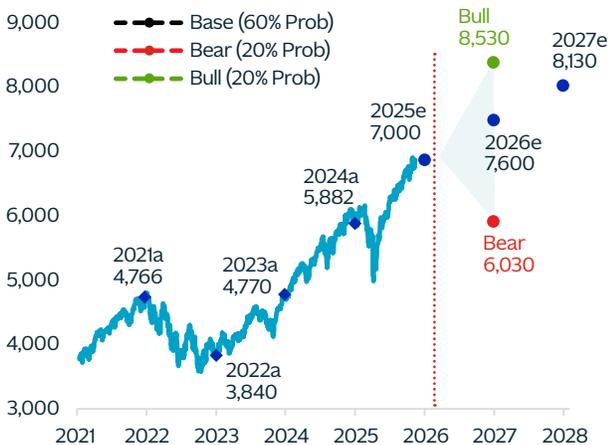
S&P 500 Performance Regimes								
Trailing 3-Year (Annualized)	1-Year Forward				5-Year Forward (Annualized)			
	Earnings Growth	Dividends	P/E Repricing	Total Return	Earnings Growth	Dividends	P/E Repricing	Total Return
-50%	7.8%	2.4%	2.7%	13.0%	7.5%	2.3%	1.5%	11.4%
-10%	7.5%	2.4%	2.5%	12.5%	7.3%	2.4%	1.7%	11.3%
-5%	7.0%	2.4%	3.0%	12.4%	7.0%	2.4%	1.8%	11.1%
0%	6.8%	2.5%	3.5%	12.8%	6.9%	2.4%	2.1%	11.4%
5%	7.3%	2.5%	3.8%	13.6%	7.1%	2.4%	2.3%	11.8%
10%	7.3%	2.5%	3.9%	13.7%	6.7%	2.4%	2.2%	11.4%
15%	8.1%	2.6%	2.0%	12.7%	5.5%	2.5%	1.9%	9.9%
20% (This is where we are today)	7.0%	2.2%	3.8%	13.0%	3.6%	2.2%	-0.5%	5.3%
25%	11.0%	2.0%	-1.4%	11.6%	2.7%	2.0%	-1.8%	2.9%
Average (1981-2025)	7.8%	2.4%	2.7%	13.0%	7.5%	2.3%	1.5%	11.4%

Data as at November 24, 2025. Source: S&P, Bloomberg, KKR Global Macro & Asset Allocation analysis.

**Commentary:** Even though the S&P 500 has delivered an impressive 22% annualized return over the past three years, we still believe it is too early to turn bearish on U.S. Equities. Brian remains constructive, maintaining a 'Glass Half Full' stance with a price target of 7,600 in 2026. We acknowledge that AI-related capex and data center expansion have created areas of froth, which could contribute to greater volatility and periodic drawdowns enroute to these targets. However, investors need not take an all-or-nothing bet on sustained U.S. AI leadership. Encouragingly, international markets are poised to benefit from a more reflationary global environment in 2026–2027 and trade at more attractive valuations. We see diversification across global equities as the prudent way to hedge against a potential AI capex boom-and-bust cycle. Looking at the bigger picture, our outlook for continued, but moderating, market gains suggests that investors should steadily monetize investments over the coming quarters while conditions remain favorable.

**Exhibit 94:** We Expect the S&P 500 to Reach Around 7,600 in 2026 and ~8,130 in 2027

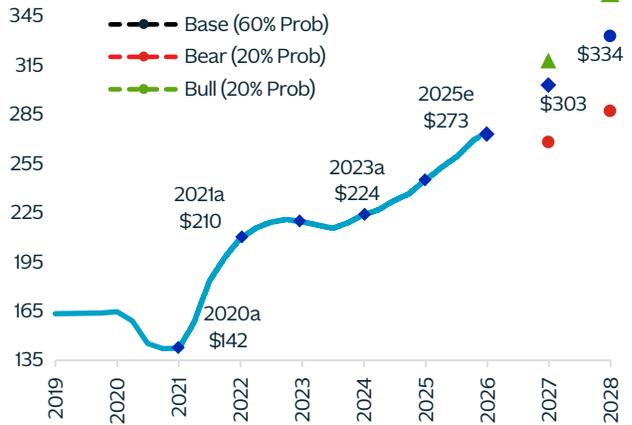
**S&P 500 Price Target**



Data as at December 10, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

**Exhibit 95:** Our Base Case Assumes S&P 500 EPS Reaches \$303 per Share in 2026 and \$334 per Share in 2027

**S&P 500 EPS, US\$/Share**



Data as at December 10, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

**Exhibit 96:** Our Forecasts Reflect What We Believe Is a More Durable Economic Cycle

S&P 500 Price Target Scenarios						
	Base (60% Prob)	Bear (20% Prob)	Bull (20% Prob)	Weighted Average	Bottom-Up Consensus	Top-Down Consensus
<b>2026 Year-End Target</b>	<b>7,600</b>	<b>6,030</b>	<b>8,530</b>	<b>7,472</b>	<i>n/a</i>	<b>7,442</b>
P/E on 2027 EPS	22.7x	21.0x	23.8x	22.7x		
<b>2027 Year-End Target</b>	<b>8,130</b>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
P/E on 2028 EPS	22.7x	<i>n/a</i>	<i>n/a</i>			
2024a EPS	\$245	\$245	\$245	\$245	\$245	\$245
2025e EPS	\$273	\$268	\$275	\$272	\$272	\$269
2026e EPS	\$303	\$268	\$318	\$299	\$311	\$301
2027e EPS	\$334	\$287	\$359	\$329	<i>n/a</i>	<i>n/a</i>
2028e EPS	\$359	\$301	\$391	\$352	<i>n/a</i>	<i>n/a</i>

We assume S&P 500 ends 2025 at ~7,000. Data as at December 10, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

**Our Base Case (60% probability):** Consistent with our Mid-Year Outlook, we continue to see the ingredients for a more durable economic cycle. While negative supply shocks including tariffs and reduced immigration pose headwinds, we do not anticipate a hard landing in 2026. In our view, the Fed is easing policy into an earnings upswing, productivity growth remains above-trend, private sector balance sheets are healthy, and the global backdrop is turning more reflationary. Against this setup, we expect corporate earnings to rise by 11% in 2026, with higher nominal GDP growth and margin expansion powering the next leg of the recovery. Despite elevated valuations, we forecast the S&P 500 to rise about 9%, reaching 7,600 by end-2026. For 2027, we currently assume a more modest return of 6-7%, implying a price target of roughly 8,100.

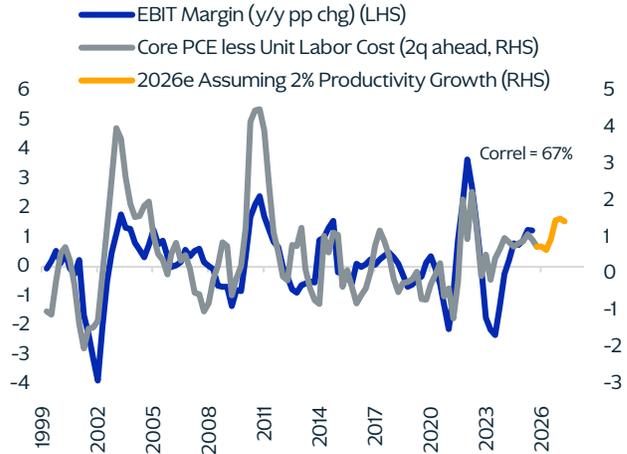
**On EPS:** We project 11% year-over-year EPS growth in 2026, which implies an above-consensus EPS of \$303 per share (versus the ‘top-down’ consensus estimate of \$301 per share). This growth should be supported by wartime-like fiscal deficits, a modest U.S. growth acceleration, stronger global fiscal support, and AI-driven efficiency gains. We continue to view the revival in labor productivity growth as the ‘secret sauce’ to a more sustainable earnings recovery, keeping unit labor costs contained and enabling higher, non-inflationary growth alongside margin expansion (*Exhibit 97*).

Moreover, our regression-based Earnings Growth Lead Indicator (EGLI) continues to grind higher, reflecting global monetary easing, tight credit spreads, stable oil prices, and a weaker U.S. dollar, all reinforcing our confidence in a sustained earnings upcycle (*Exhibit 98*). For 2027, we preliminarily expect EPS to rise another 10% to \$334 per share, which is more conservative than the ‘top-down’ consensus estimate of \$350 per share.

We continue to view the revival in labor productivity growth as the ‘secret sauce’ to a more sustainable earnings recovery.

**Exhibit 97: Higher Labor Productivity Growth Keeps Unit Labor Costs Contained, Allowing Continued S&P 500 Margin Expansion in 2026, We Believe**

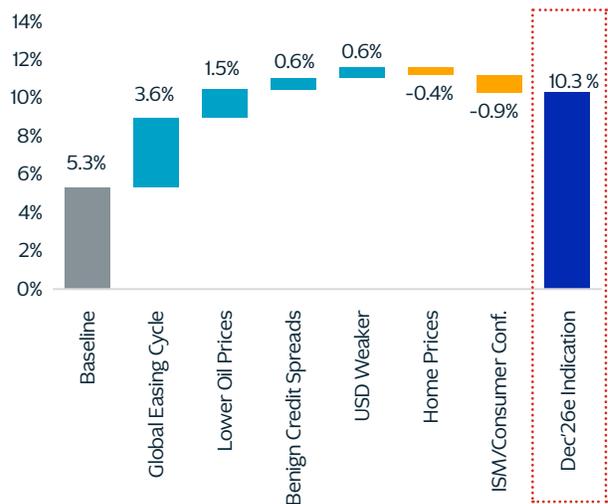
**S&P 500 xFin xEne EBIT Margin**



Data as at November 18, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

**Exhibit 98: Our Earnings Growth Lead Indicator (EGLI) Is Pointing to 10-11% EPS Growth in 2026, Supported by Lower Rates, Lower Oil Prices, a Weaker USD, and Benign Credit Spreads**

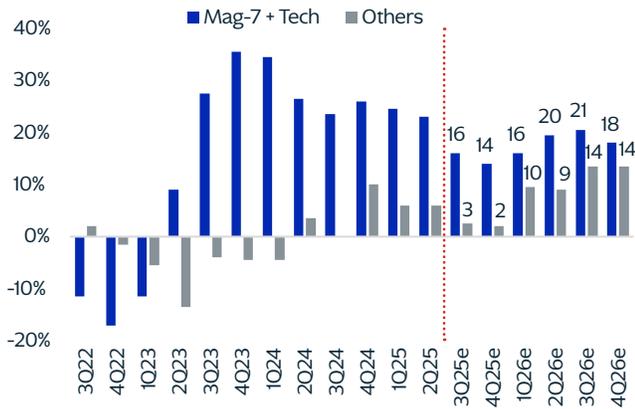
**Contributions to Dec 2026e S&P 500 EPS Growth Indication**



The Earnings Growth Leading Indicator (EGLI) is a statistical synthesis of seven important leading indicators to S&P 500 earnings per share. Henry McVey and team developed the model in early 2006. Data as at November 18, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

**Exhibit 99:** Consensus Is Expecting EPS Growth Convergence Next Year Between Mag-7/Tech and the Rest of the Market. We Maintain a Healthy Dose of Skepticism, Given Repeated False Dawns, But Acknowledge That Some More Broadening Will Finally Occur in 2026

**S&P 500 Quarterly EPS Growth Estimates, Y/Y % Change**



Data as at September 30, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

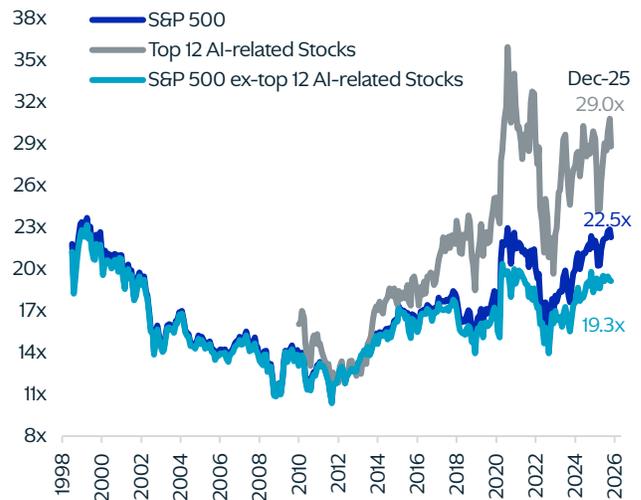
**Valuations:** Our 2026-27 outlook assumes equity multiples remain rangebound at 22-23x forward earnings, broadly unchanged from current levels. We are sympathetic to the view that headline equity valuations appear stretched, even when excluding the top 12 mega-cap Tech and AI stocks (*Exhibit 100*). That said, the S&P 500's current NTM P/E of 22.5x remains below both the 2021 peak (23x) and the 1999 Tech Bubble peak (24x). Moreover, while the market-implied equity risk premium (3.7%) is near its lowest level since the Global Financial Crisis, it remains well above the euphoric 2.1% seen during the height of the 1999-2000 bubble.

Maybe more important, though, is that today's S&P 500 represents a higher-quality index compared with 10-20 years ago. Specifically, it is characterized by stronger margins, lower net leverage, better credit ratings, and a more asset-lite sector mix (though, we acknowledge that this is beginning to shift for hyperscalers). These structural improvements, in our view, justify somewhat higher valuations (*Exhibit 101*). We would also note that valuations are not a short-term market-timing tool; expensive markets can remain expensive in the absence of a clear catalyst. Key downside catalysts to monitor going forward

include a) a non-linear rise in layoffs stemming from further labor market deterioration; b) an unwind of the AI capex cycle; c) excessive investor exuberance and positioning; and d) a renewed inflation surge prompting markets to reprice for rate hikes (a late-1960s analog). While we remain mindful of these risks, we do not assume they materialize under our base case at this stage.

**Exhibit 100:** Headline Equity Valuations Are Extended, Even on an Ex-Top 12 Mega-Cap Tech/AI Stocks Basis...

**S&P 500 NTM P/E Decomposition**

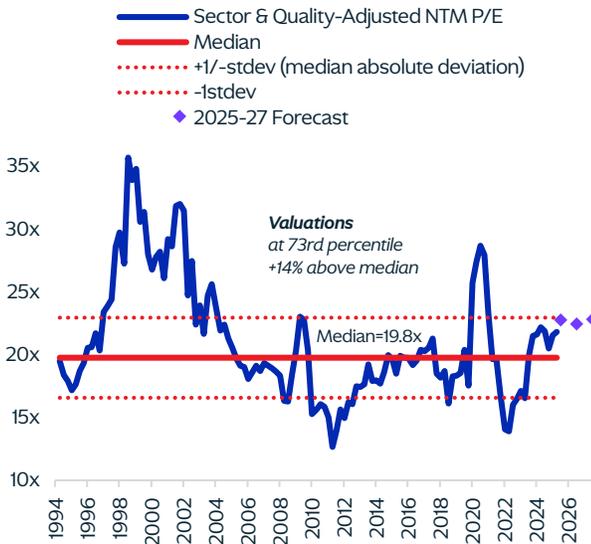


AI-related stocks include Apple, Microsoft, Amazon, Nvidia, Google, Meta, Tesla, Broadcom, AMD, Salesforce, Netflix and Oracle. Data as at December 10, 2025. Source: Bloomberg.

Maybe more important, though, is that today's S&P 500 represents a higher-quality index compared with 10-20 years ago. Specifically, it is characterized by stronger margins, lower net leverage, better credit ratings, and a more asset-lite sector mix.

**Exhibit 101:** ...However, Once We Adjust for Changes in Sector Composition and Quality, S&P 500 Valuations Do Not Look Nearly as Expensive at Just the 73rd Percentile Relative to History

**S&P 500 Sector & Quality-Adjusted NTM P/E**



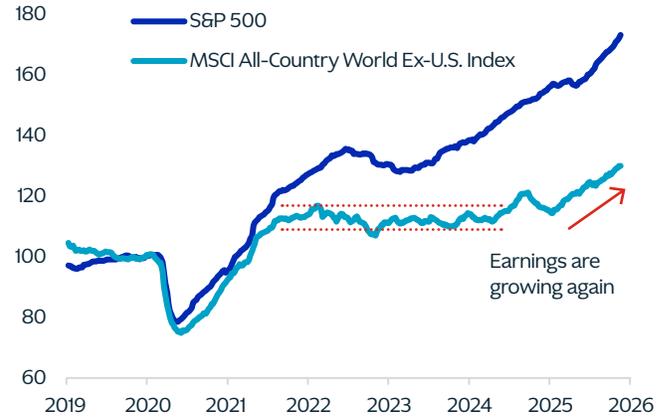
Quality refers to ROIC, operating and net profit margins. For each sector, we adjust the historical earnings by the delta in ROIC, operating margins, and net profit margins back then versus today. Data as at September 30, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

**Our Bear Case (20% probability):** In our bear case, demand for ‘compute’ (a term used here to encompass infrastructure, processing power, and energy resources required to power modern data centers and AI models) fails to keep pace with rapid supply expansion, and AI monetization proves slower than expected, exposing cracks in the AI capex cycle. Should inflation re-accelerate, the Fed could be forced to tighten policy again, pressuring housing, constraining financial conditions, and compressing equity valuations. Under this scenario, the S&P 500 could fall to roughly 6,000 by year-end.

**Our Bull Case (20% probability):** Conversely, our bull case envisions an AI-driven productivity boom that creates a ‘Goldilocks’ environment of strong real GDP growth, continued disinflation, and benign financial conditions. This backdrop would echo the mid-to-late 1990s soft-landing episode, driving a broad market melt-up across both mega-cap tech and cyclical sectors as wider tech diffusion boosts margins. In this scenario, we see the S&P 500 reaching new highs of approximately 8,500 by end-2026.

**Exhibit 102:** Global ex-U.S. Earnings Have Quietly Broken Out, Following Three Years of Stagnation

**U.S. vs Non-U.S. NTM EPS Estimates, US\$/sh, Indexed to 100 in Dec-2019**



Data as at November 18, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

**Exhibit 103:** Even After Adjusting for Expected Growth, European Public Markets Still Appear a Better Value Than the U.S.

**Europe vs. U.S.: PEG Ratio, NTM PE/3-Year Forward EPS Growth**



Data as at November 18, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

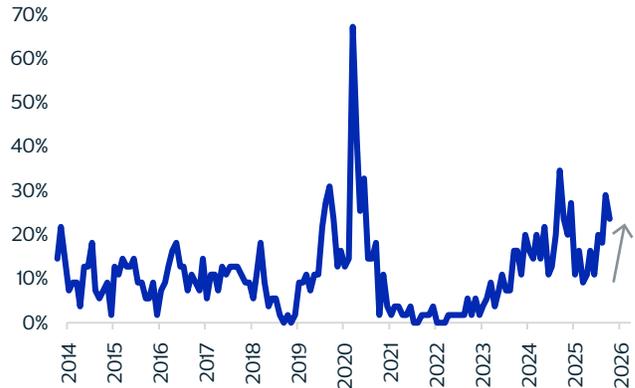
After three years of stagnant growth (*Exhibit 102*), global ex-U.S. EPS has inflected higher this year, driven by stronger momentum in Japan and Emerging Markets. We note the following:

- Japan:** We expect operating leverage to improve as Japan emerges from decades of deflation, supported by ongoing corporate governance reforms. Key initiatives include a) the unwinding of cross-shareholdings, allowing companies to refocus on core businesses and divest underperforming non-core assets; b) greater board-level activism, which should accelerate reform and strengthen profit-oriented decision-making; and c) more efficient capital allocations and productive deployment of cash balances, likely leading to increased investment and higher returns.
- Emerging Markets:** Nearly one-quarter of EM central banks are now cutting interest rates, providing meaningful policy tailwinds. Meanwhile, eight of ten sectors, led by technology, are reporting higher ROEs on a year-over-year basis, signaling the early stages of a productivity-driven upcycle (*Exhibits 104* and *105*). This backdrop has not occurred for quite some time, and as such, we want to continue to lean in.
- Europe:** We continue to emphasize the compelling opportunity in European equity markets. European IPOs this year have handily outperformed the index, which itself has delivered solid gains. Importantly, the valuation discount versus the U.S. remains significant: even after adjusting for growth using consensus forecasts, the PEG ratio still highlights a wide gap in relative value. (*Exhibit 103*). We think investors will increasingly appreciate this gap. Within Europe, though, we look towards continued outperformance of the ‘Periphery’ relative to the ‘Core’.

We continue to emphasize the compelling opportunity in European equity markets.

**Exhibit 104:** Fully 23% of Emerging Market Central Banks Are Now Cutting Rates, With More Room to Run

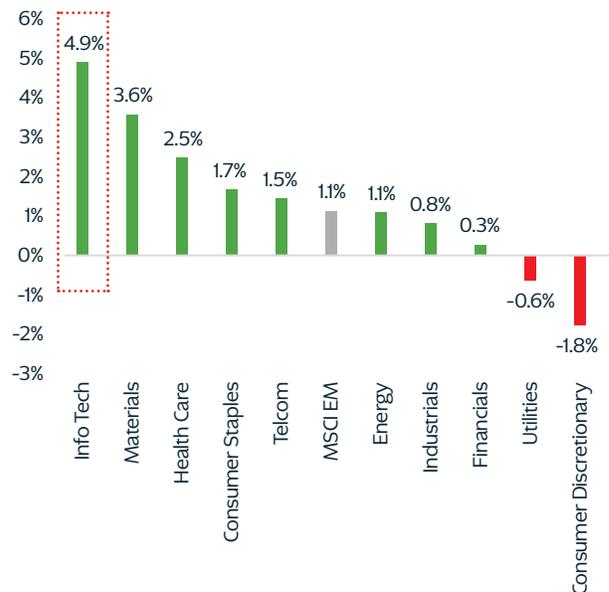
**Percent of EM Central Banks Cutting Policy Rates**



Data as at November 18, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

**Exhibit 105:** Return on Equity Has Increased Across the Majority of EM Sectors, With Technology Exhibiting the Biggest Improvement

**Change in ROE by EM Sector, Y/Y % Change**



Data as at November 18, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

**Bottom Line:** We believe this cycle still has further to run. It is too early to turn bearish on risk assets while fiscal deficits remain historically wide, the Fed is still easing, and our quantitative indicators continue to trend higher. That said, given elevated U.S. large-cap valuations and the risk of an AI capex bubble, we advocate for a more balanced portfolio, diversifying exposure across U.S. and international equities. Finally, as we expect more subdued five-year forward returns for U.S. equities, investors should consider taking advantage of current favorable market conditions to steadily monetize investments where appropriate over the coming quarters. See our Expected Returns in Section IV for more details.

## Interest Rates

**Exhibit 106:** We Remain in the Camp That Interest Rates Will Mostly Remain Higher Than the Consensus Expects

KKR GMAA 10-Year Interest Rate Forecast and Probability, %				
	Base	Low	High	Consensus
<b>U.S.</b>	<b>60%</b>	<b>20%</b>	<b>20%</b>	
2026e	4.25%	3.0%	5.0%	4.16%
2027e	4.0%	3.0%	5.0%	3.99%
<b>Euro Area</b>	<b>60%</b>	<b>20%</b>	<b>20%</b>	
2026e	3.0%	2.20%	3.50%	3.0%
2027e	3.0%	2.0%	3.50%	3.0%
<b>China</b>	<b>55%</b>	<b>30%</b>	<b>15%</b>	
2026e	1.55%	1.25%	1.85%	1.58%
2027e	1.50%	1.20%	1.80%	1.62%
<b>Japan</b>	<b>60%</b>	<b>20%</b>	<b>20%</b>	
2026e	1.90%	1.60%	2.20%	1.85%
2027e	2.10%	1.80%	2.40%	1.95%

Data as at November 19, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

### U.S. INTEREST RATES

**Forecasts:** Our *Regime Change* thesis for inflation means that we continue to see the ‘neutral’ fed funds rate at 3.375% this cycle, which would represent a similar policy gearing in real rate terms to the pre-GFC norm. With that said, we do think the Fed will want to provide more monetary support in the near term, which is why we are lowering our 2026 fed funds forecast to 3.125% from 3.375% previously (i.e., adding one additional cut below neutral next year, followed by a hike in 2027). Our forecast puts us slightly above market consensus, which continues to embed between two and

three cuts next year. Key to our thinking: if we are right that core inflation accelerates in 2026, it will be challenging for the Fed to cut with abandon without increasing borrowing rates at the long end of the curve.

For the 10-year Treasury, by comparison, we are actually raising our 2026 forecast slightly to 4.25%, from 4.0% previously. This decision reflects both the fact that the Fed will be cutting rates below neutral in a year of rising inflation, as well as what we see as a near-term surge in IG issuance at the long end of the curve. Longer term, we stick to our 4.0% forecast for bond yields, as we feel more confident that the drivers of both Treasury supply (including deficits) and Treasury demand (including the Fed’s balance sheet) will stabilize near current levels.

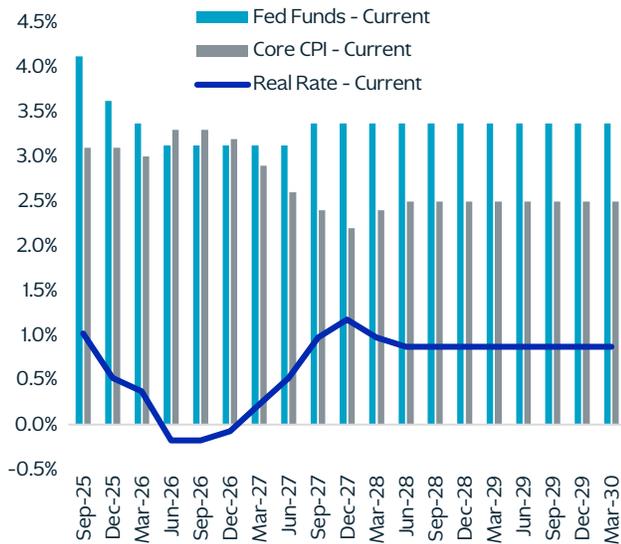
### Commentary:

Why do we think that 3.375% is the right level for fed funds this cycle over the longer term? Central to our view is that, if we are right that core inflation gets stuck around 2.5%, then a 3.375% fed funds rate equates to an approximately 90 basis point ‘real rate’ in the long run, which means that real rates would be about one percentage point less than run-rate real growth. Indeed, this was arguably the ‘neutral’ real rate/real growth relationship for most of the pre-GFC period, which featured cooling, though sometimes above-mandate, inflation, as well as solid productivity growth. One can see this in *Exhibit 108*. By contrast, we do not envision a return to the negative real rate era that followed the GFC, which saw real rates running as much as 3-4 percentage points below real GDP.

Our forecast puts us slightly above market consensus, which continues to embed 2-3 cuts next year. Key to our thinking: if we are right that core inflation accelerates in 2026, it will be challenging for the Fed to cut with abandon without pushing up borrowing rates at the long end of the curve.

**Exhibit 107: Our Fed Forecast Implies That Real Rates Go Negative in 2026, Before Stabilizing Around One Percent**

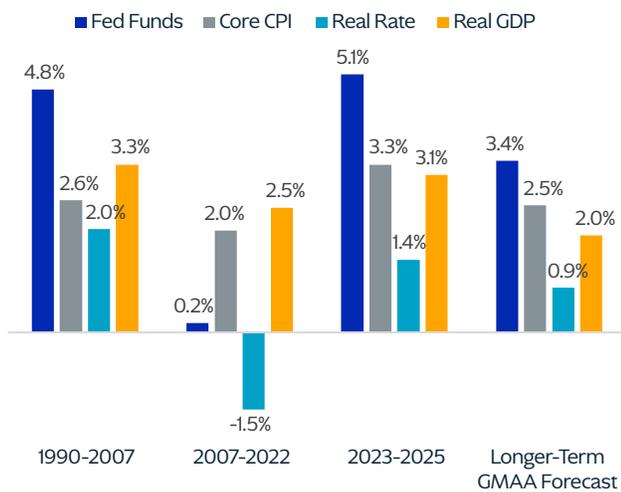
**Real Rates and CPI, %**



Real rate calculated as fed funds less core inflation. Data as at December 10, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

**Exhibit 108: Pre-GFC, Real Rates Tended to Settle About One Percentage Point Below Real GDP, Consistent with a One Percent Real Rate Today**

**Real Rates and Real GDP, %**



Median of quarterly data. Data as at December 12, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

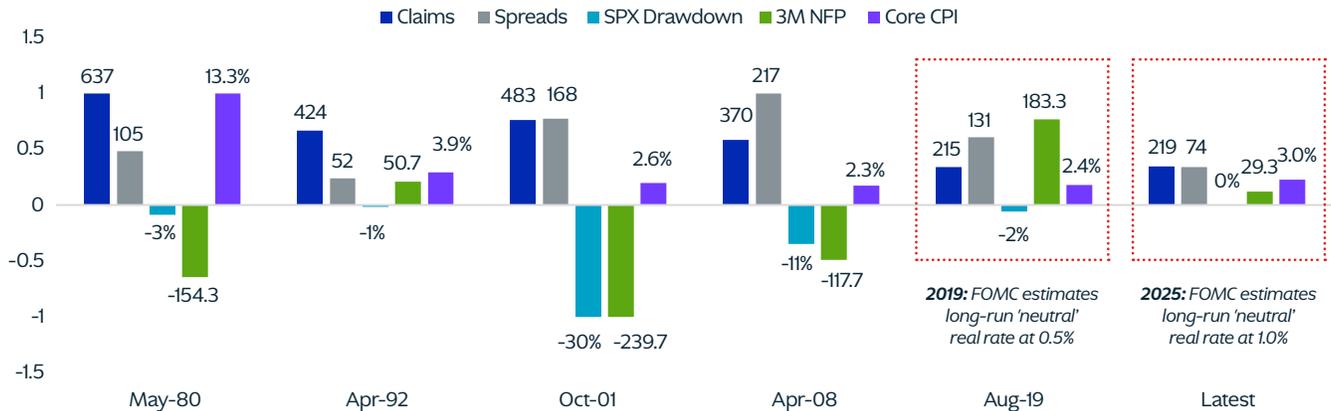
We do think that the Fed will want to take nominal rates below this 3.375% ‘neutral’ level in the near term, as Chair Powell seems more focused on the labor vs. inflation side of the Fed’s dual mandate at this point in the cycle. Recall that in his December press conference, the Chair said that creating a “strong labor market” could help offset price pressures on the bottom half of the ‘K-shaped’ economy. This statement is essentially the inverse of the language Chair Powell used during the hiking cycle that started in 2022, when he emphasized that controlling inflation was the only way to meet the ‘full employment’ side of the Fed’s mandate. Our expectation is that the next Fed chair, whose term will begin in the middle of next year, will likely share this dovish inclination.

With that said, we think there are limits to how far the Fed can cut in the growth and inflation environment we envision for 2026. Perhaps most important, remember that our forecast actually has Core CPI going up next year, while the FOMC’s latest ‘dot plot’ showed Core PCE cooling. As a result, in real terms, our forecast for higher 2026 inflation means that a 3.125% nominal fed funds rate corresponds to a slightly negative real rate next year. One can see this in *Exhibit 107*, which overlays our inflation and fed funds forecasts.

We think that a negative real rate next year represents an especially dovish Fed cutting cycle, as historically, the Fed has tended to cut real rates below zero only when the labor market is under severe pressure. One can see this in *Exhibit 109*. Specifically, almost every time that the Fed cut real rates below zero in the four decades leading up to COVID, job growth was either already negative (1980, 2001, and 2008) or claims were elevated following an extended period of labor market weakness (1992). The one exception was 2019, but this occurred in a context where real rates had been meaningfully negative for most of the preceding decade, the Fed did not perceive a structural inflation problem, and most Fed policymakers thought ‘neutral’ real rates were closer to zero. (Indeed, real rates were above zero for only nine months between the GFC and September 2019, versus thirty months in a row today). So, absent a labor market recession, we think that negative real rates in 2026 would represent a ‘maximally dovish’ Fed.

**Exhibit 109: The Fed Typically Takes Real Rates Below Zero Only When There Is a Downturn in the Labor Market**

**Key Indicators on Dates When Fed Took Real Rates Below Zero**



Spread is based on BAA yield vs. UST yield. Data as at November 11, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

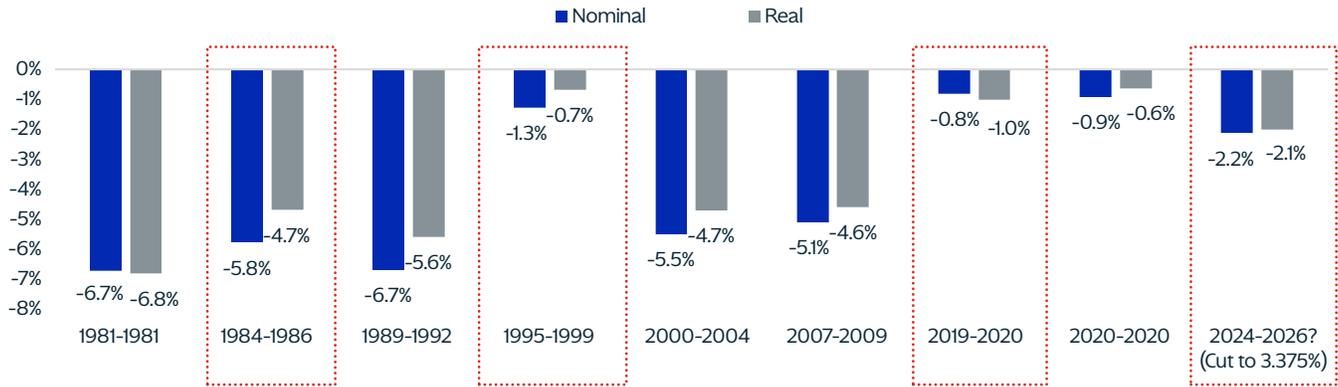
Looking at the change versus the level of fed funds in past cutting cycles points us to a similar conclusion. Consider that the Fed cutting cycle we are envisioning would correspond to 220 basis points of easing in nominal terms from peak to trough, and around 210 basis points of real easing. That is actually roughly 1.5-3x the quantity of easing seen in the two most recent non-recessionary cycles (the mid-1990s and late 2010s), which makes us inclined to think that – barring a recession – there will be little motivation for the Fed to deliver more easing than what we are forecasting for 2026.

With that said, we continue to think that both growth and inflation remain more uncertain today than they have in some time. Accordingly, we continue to embed around a 20% probability low case (which embeds a ‘typical’ recession and cutting cycle, with rates falling below two percent) and high case (which envisions one more net hike, as tariff policy proves more disruptive than we expect to 2026 inflation). One can see this in *Exhibit 111*.

Consider that the Fed cutting cycle we are envisioning would correspond to 220 basis points of easing in nominal terms from peak to trough, and around 210 basis points of real easing.

**Exhibit 110: Taking a Step Back, This Has Been a Fairly Dovish Fed Cutting Cycle by Non-Recessionary Standards**

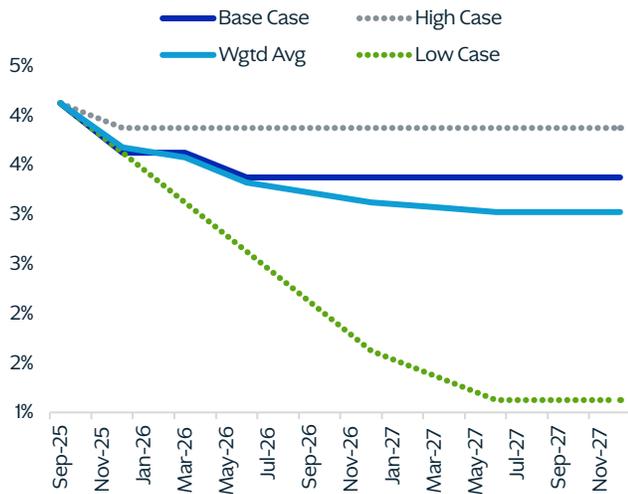
**Peak-to-Trough Change in Rates During Cutting Cycles, %**



Real rate measured as fed funds less core inflation. Red boxes signify cutting cycles in which there were no recessions. Data as at December 10, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

**Exhibit 111: We Are Now Expecting Accommodative Monetary Policy in 2026 That Is Below Our Long-Held Neutral Rate Estimate of 3.375%**

**GMAA vs. Market Forecasts**



Data as at December 10, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

For bond yields, meanwhile, we continue to see the long-term equilibrium level for the 10-year U.S. treasury at around four percent. Implicit in this forecast is that the yield curve steepens, but does not become unglued, as most of the key drivers for our model of UST supply and demand have actually started to stabilize.

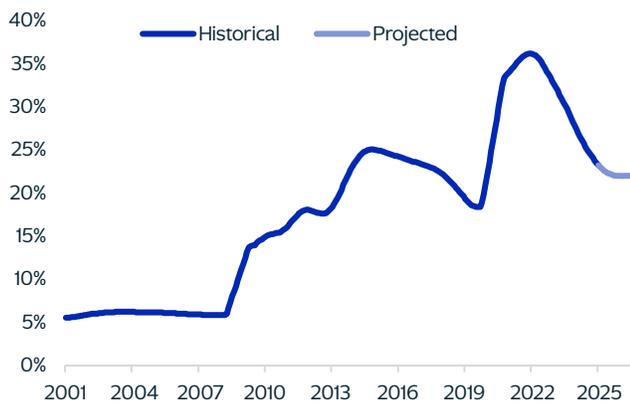
Specifically, we think that the Fed's balance sheet has now settled at around 22% of GDP, as policymakers continue to grow reserves in-line with nominal GDP to stave off funding market pressures (*Exhibit 112*). Meanwhile, in terms of supply, we continue to think that there is not a lot of political appetite to grow deficits from six percent to seven percent (consider, for example, that we have seen fewer new large-scale spending programs from this administration versus the two previous administrations). One can see this in *Exhibit 113*. Lastly, we continue to see upward pressure on yields from both elevated stock-bond correlations and depressed personal savings rates, but we do not see these factors deteriorating in the near term.

So, while we do think that 2026 will see slightly higher bond yields amidst concerns that the Fed is being too dovish, as well as what we view as a temporary surge in IG issuance to fund tech capex, our base case is that the yield curve does not become unglued the way it did in 2023. With that said, we also include a high and low case for our bond yield forecasts. Our high case envisions yields climbing towards five percent, driven by new stimulus leading to fiscal concerns that result in a similarly steep yield curve to France or Italy. By contrast, our low case for UST yields envisions Fed cuts, a wider fiscal deficit, and more steepening, consistent with a U.S. recession amidst continued fiscal pressures.

So, what is our bottom line? The path of interest rate uncertainty has probably narrowed a bit more at the long end versus the short end, which feels very different from 2023, when the market was actively repricing the long-run level for short rates and therefore the appropriate level for long-term bond yields. Nonetheless, we continue to think we are entering a world where bond yields are more volatile than in the past and tend to offer fewer hedging benefits at a portfolio level. Accordingly, for fixed income, we remain cautious about making big bets on duration at a time when the old relationships between ‘risk-free’ bonds and risk assets have broken down.

**Exhibit 112: We Think the Fed’s Balance Sheet Will Stabilize at/or Around 22% of GDP**

**Fed Balance Sheet as % of GDP (12MMA)**



Data as at November 13, 2025. Source: Bloomberg , KKR Global Macro & Asset Allocation analysis.

**Exhibit 113: As Predicted, There Are Few Ambitious Spending Programs from the New Administration, and the Biggest Line Items Constitute an Extension of Current Policy (TCJA Tax Cuts)**

	2025	2026	2027	2028	2029
<b>Current Law Deficit</b>	1,915	1,779	1,746	1,973	2,001
<b>Increase in Spending</b>	59	460	539	494	354
<b>Impact on Debt Service</b>	1	11	29	48	64
<b>Tariff Revenue</b>	-25	-280	-280	-280	-280
Total Increase in Deficit	35	191	288	262	138
<b>Total Deficit</b>	<b>1,950</b>	<b>1,970</b>	<b>2,034</b>	<b>2,235</b>	<b>2,139</b>
<b>Deficit as % of GDP</b>	<b>6.5%</b>	<b>6.3%</b>	<b>6.3%</b>	<b>6.6%</b>	<b>6.1%</b>

Data as at November 13, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

**EURO AREA INTEREST RATES**

**Forecast:** We continue to look for a single 25 basis point rate hike from the ECB, taking the depo rate to 2.25% (our estimate of neutral and in-line with consensus), but we shift the timing of this into 2027, with the depo flat throughout 2026 in our base case. Consensus has no further hikes. Turning to the 10-year bund yield, we look for it to rise to 3.0% at end-26 (flat in 2027), from roughly 2.75% at the time of writing. Consensus forecasts have converged on our long-held 10-year bund view.

**Commentary:** Folks have generally written off further depo rate hikes from the ECB, but we think this is a bit premature. The key point is that the real interest rate in the Eurozone is currently around zero, which is an accommodative stance, and not, in our view, a neutral or mid-cycle stance. To be sure, the single hike we are calling for is not a game-changer, but for rate-sensitive investments this hike, when compounded, can be the difference between a go and a no-go from an investment committee.

The recovery in corporate and household credit creation illustrates our point. It is recovering nicely, responding to the policy accommodation that is being provided. Unless that accommodation is restricted in the future, credit creation will likely continue to grow, eventually getting to uncomfortable levels. True, some policy accommodation can still be withdrawn from the balance sheet side, potentially removing the need for a rate hike. We acknowledge this possibility, but in our base case there is room for both continued declines in the ECB’s Quantitative Easing book and a rate hike.

Folks have generally written off further depo rate hikes from the ECB, but we think this is a bit premature. The key point is that the real interest rate in the Eurozone is currently around zero, which is an accommodative stance, and not, in our view, a neutral or mid-cycle stance.

**Exhibit 114:** Real Rates in Europe Are Much More Stimulatory Than in the U.S., With Close to 0% Real Rates Providing a Tailwind to the Economy

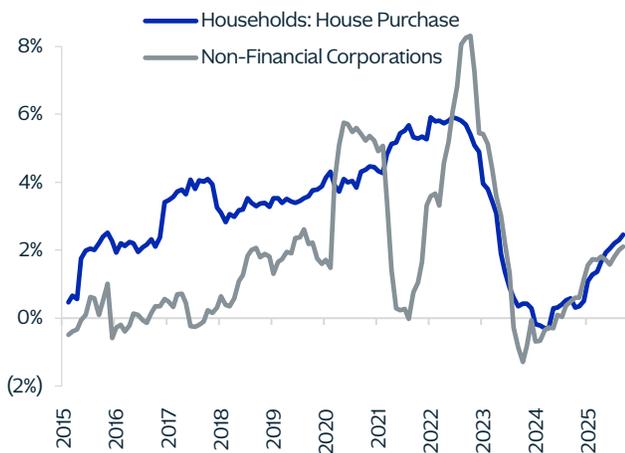
**Real Rates (Bank Rate Minus CPI Inflation): U.S. vs. Europe**



Data as at October 31, 2025. Source: ECB, Federal Reserve Board.

**Exhibit 115:** Household and Corporate Borrowing Is Returning to Healthy Levels

**Eurozone: Loan Growth to Business and Households**



Data as at September 30, 2025. Source: Eurostat.

**Exhibit 116:** The ECB Has Smoothly Removed EUR2.1 Trillion in Excess Liquidity

**ECB: Eurozone Excess Liquidity, € Trillion**



Data as at October 31, 2025. Source: Bloomberg.

Despite our higher-than-consensus rate outlook, we still expect Japan to remain in an extended negative real rate ‘Goldilocks’ environment through 2027.

**JAPAN INTEREST RATES**

**Forecasts:** We expect the Bank of Japan’s terminal policy rate to reach 1.5% in 2027, above the current consensus of 1.19%. Importantly, though, we expect that the pathway to that endpoint should be gradual and predictable, with the next hike likely taking rates to 0.75% in December. From there, we anticipate a steady normalization process culminating in a 1.5% policy rate by end-2027. Meanwhile, on the long end of the curve, we forecast 10-year JGB yields to stay around 1.9% in 2026 and rise further to 2.1% in

2027, both slightly above consensus expectations of 1.85% and 1.95%, respectively.

**Commentary:** Despite our higher-than-consensus rate outlook, we still expect Japan to remain in an extended negative real rate ‘Goldilocks’ environment through 2027. The combination of gradual normalization and persistently accommodative real-rate conditions reinforces the broader investment case for Japan during this multi-year transition towards a more productive, investment-led growth regime.

## Oil

**Forecasts:** We continue to expect a challenging supply-demand backdrop in 2026, with oil prices averaging around \$60 per barrel, which is unchanged from our Mid-Year Outlook and broadly in-line with futures pricing. Even so, we do not expect the surplus to persist indefinitely and anticipate a more balanced market emerging in 2027. Looking further ahead, our view remains more constructive than consensus: we expect crude prices to recover to \$65-70 per barrel by 2027-28, above the futures pricing that has remained anchored near \$60 per barrel.

**Exhibit 117:** Consistent With Our Mid-Year Outlook, We Expect WTI Oil Prices to Average Roughly \$60 Per Barrel in 2026, Before Recovering to \$65-70 Per Barrel in the Medium Term (2027-28)

	GMAA Base Case vs. Futures			High/Low Scenarios		Memo: Jun-25	
	KKR GMAA	WTI Futures	KKR GMAA vs. Futures	KKR GMAA	KKR GMAA	KKR GMAA	WTI Futures
	Latest			High Case	Low Case	June 2025	
2021a	68	68	n/a	68	68	68	68
2022a	95	95	n/a	95	95	95	95
2023a	78	78	n/a	78	78	78	78
2024a	76	76	n/a	76	76	76	76
2H25e	60	62	-2	85	50	60	64
2026e	60	60	0	85	50	60	60
2027e	65	60	5	95	55	65	61
2028e	70	60	10	95	60	70	61

Forecasts represent full-year average price expectations. Data as at November 14, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

**Commentary:** The conditions for an oversupplied oil market in 2026 are now well established. Markets have been anticipating this outcome for nearly a year, with most forecasts calling for a peak excess supply of 2-3 million barrels per day in the first half of 2026. Slowing global oil demand, combined with robust non-OPEC supply growth and the ongoing unwind of OPEC+ production cuts, reinforces our cautious outlook for oil prices next year.

- **Robust Supply:** Supply growth across the Americas is expected to remain strong in 2026, driven by continued growth in the U.S. and Canada, alongside price-inelastic production increases from new FPSO projects in Brazil and Guyana. In addition, OPEC+ is likely to add to the surplus through ongoing production increases, as the group works to regain market share, normalize spare capacity, and deepen growing investment and security ties with the U.S.
- **Subdued Global Demand:** We expect global oil demand to increase by roughly 1.0 million barrels per day in 2026, below the long-term median growth rate of 1.3 million barrels per day. In our view, China’s shift towards electrification and New Energy Vehicles (including LNG trucks) will remain a structural drag on demand. India’s demand growth could offer some offset, but slower urbanization, lower labor force participation, a more services-oriented economy, and earlier EV adoption suggest India’s oil demand is unlikely to match the scale of China’s past expansion.
- **We see real-time evidence of a developing supply glut.** The surge in oil-in-water inventories, coupled with a sharp decline in tanker speeds to the lowest levels since 2022, indicates that supply is running ahead of immediate consumption. While part of this may reflect rerouting linked to Russia sanctions, the more plausible explanation is that cargoes are not yet required by end buyers or, more concerningly, lack firm purchase commitments.

The conditions for an oversupplied oil market in 2026 are now well established.

**Exhibit 118: Oil Markets Are Poised for Larger Inventory Builds, With Peak Surplus Expected in 1H26 as Supply Growth Outpaces Global Demand**

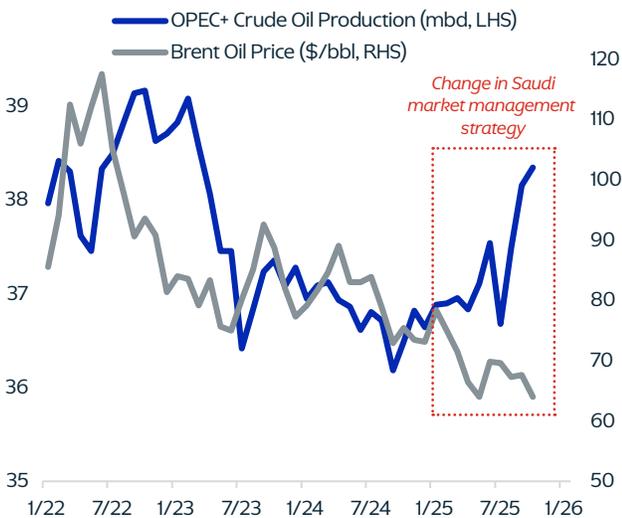
**Global Supply Surplus/Deficit, Millions of Barrels per Day, Consensus Estimates**



Consensus includes MS, JPM, S&P Global, UBS, Piper Sandler, GS, Citi, ABG Sundal Collier, and RBC. Data as at November 17, 2025. Source: Broker Research, KKR Global Macro & Asset Allocation analysis.

**Exhibit 119: OPEC+ Strategy Has Shifted to Normalizing Spare Capacity, Supporting Internal Cohesion, and Retaking Market Share**

**Oil Price and OPEC+ Crude Production**

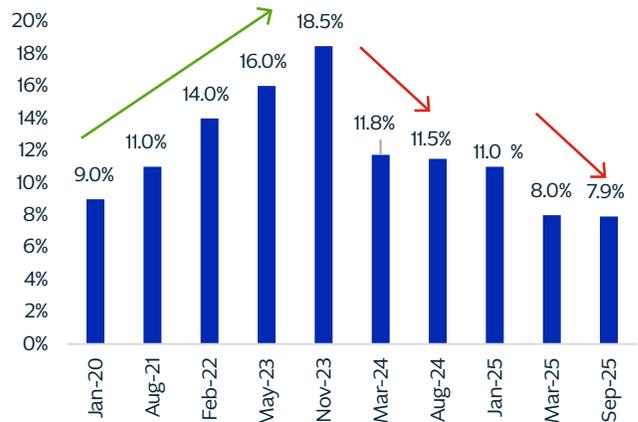


Data as at November 17, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

A critical swing factor remains Russian oil flows. In terms of upside price risk, ongoing Ukrainian drone strikes on Russian export infrastructure and U.S. sanctions on Rosneft and Lukoil could disrupt Russian oil sales, potentially forcing production shut-ins or even permanent capacity losses under a severe scenario. Conversely, a credible peace agreement between Russia and Ukraine would be decisively bearish for oil prices, as it would erase a meaningful portion of the geopolitical risk premium, boost effective Russian supply by easing logistical frictions, and refocus the market on the looming oversupply expected in 2026.

**Exhibit 120: Consensus U.S. EV Penetration Forecasts Are Now Below 2020 Levels, Reversing More Than 3 Years of Upward Revisions**

**Consensus 2025 U.S. EV Penetration Forecast (BEV Sales / Total LV Sales)**

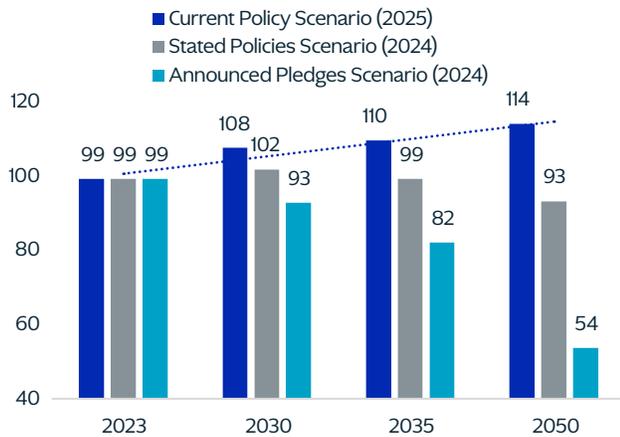


Average Broker Estimates: TD, BofAML, Jeffries, Barclays, and Cox Automotive. Data as at November 17, 2025. Source: KKR Global Macro & Asset Allocation analysis.

Over the next decade, global oil demand should continue to rise, supported by EM/Asia (rising GDP-per-capita), petrochemicals, and jet fuel (where scalable substitutes remain limited).

**Exhibit 121:** The IEA Has Re-Introduced the ‘Current Policy Scenario’, Which Has Global Oil Demand Rising Through 2050

**IEA: Global Oil Demand Scenario Projections, Millions of Barrels per Day**



Current Policy: only policies already in force continue; no new policy measures are added. Stated Policies: latest policy settings and stated plans are applied. Announced Pledges: all announced national targets/pledges are met in full and on time. Data as at November 17, 2025. Source: Bloomberg, IEA, KKR Global Macro & Asset Allocation analysis.

**Longer-term, however, we are still more constructive than the consensus and expect prices to recover to \$65-70 per barrel in 2027-28:**

- 1. Delayed Peak Oil Demand Expectations:** Expectations for peak oil demand continue to be pushed back, reflecting an uneven and slower-than-expected global energy transition. U.S. EV penetration has underperformed prior consensus forecasts, reversing more than three years of upward revisions (*Exhibit 120*). Meanwhile, the renewed global focus on energy security has led the IEA to reintroduce its *Current Policies Scenario*, which assumes no additional climate-related policies are implemented. Under this scenario, global oil demand rises to new highs through 2050, rather than peaking around 2030.
- 2. Durable Consumption Drivers:** We expect emerging markets and petrochemicals to offset structural declines in gasoline demand from developed markets and China. Over the next decade, global oil demand should continue to rise, supported by EM/Asia (rising GDP-per-capita), petrochemicals (demand for naphtha

and LPG), and jet fuel (where scalable substitutes remain limited).

- 3. Slowing Non-OPEC Supply Growth:** From 2027, we expect production growth to slow in the U.S., Brazil and Canada, while Norway, the U.K., China and Mexico face outright declines. Put differently, the global oil market could move towards a more balanced state by 2027, assuming that global demand does not fall sharply.

**Bottom line: Given the near-term oversupply, we remain cautious on oil prices in 2026, with WTI expected to average \$60 per barrel. Prices may remain mired in the \$50s as the market approaches peak surplus in the first half of 2026, before stabilizing and recovering thereafter. That said, we would not turn overly bearish on oil markets, as the current surplus is unlikely to be permanent.** Three factors underpin this view: 1) OPEC+ has meaningful flexibility to adjust production and a strong incentive to defend prices over the medium term, given that most members’ fiscal breakevens are in the low \$90s; 2) China continues to stockpile crude for strategic energy security purposes and has sufficient storage capacity to maintain this for several more years; and 3) U.S. shale breakevens in the Permian and Eagle Ford sit in the low \$60s, suggesting a rapid supply response if prices fall below those levels for an extended period. Taken together, we expect a more balanced market after 2026 and see a recovery in crude prices to the \$65-70 per barrel range by 2027-28.

Given the near-term oversupply, we remain cautious on oil prices in 2026, with WTI expected to average \$60 per barrel.

## Natural Gas

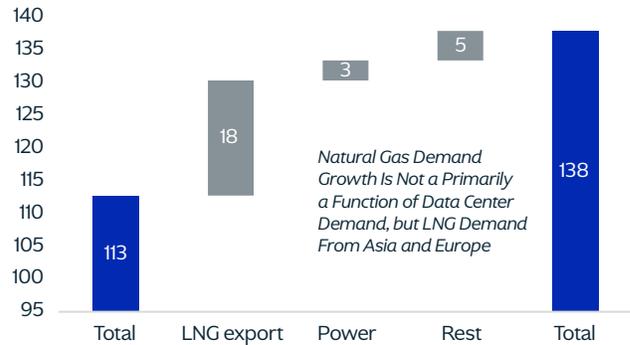
**Forecasts:** We expect Henry Hub prices to average between \$4-\$5/Million British Thermal Units (MMBtu) over the medium term, which is towards the upper end of consensus (around \$4) (*Exhibit 124*). Our view is informed by two historical pricing regimes that we believe establish a floor and ceiling for the coming decade. The first regime – during the shale boom of the 2010s – saw prices average \$3.5/MMBtu, reflecting abundant low-cost supply. The second regime – during the gas-power demand surge in the 2000s – saw prices average \$6.0/MMBtu, marking the upper bound of sustainable pricing. Looking ahead, we expect prices to trade between these two ranges, supported by robust LNG demand growth and plateauing associated gas output.

**Commentary:** On the demand side, LNG exports to Asia and Europe are set to remain the primary medium-term growth driver, potentially adding up to 18 billion cubic feet per day through 2032 (*Exhibit 122*). The share of LNG exports in total gas demand has already risen from 4% in 2015 to 21% in 2025 and is expected to exceed 30% by early 2030. On the supply side, growth will increasingly depend on higher-cost basins, as low-cost production areas (e.g., Marcellus, Utica, and Haynesville) mature and associated gas growth peaks (*Exhibit 123*), exerting upward pressure on breakeven prices. This supply backdrop is also becoming more consolidated among large operators, who face greater pressure to return capital to shareholders, while spare capacity has largely been exhausted.

On the demand side, LNG exports to Asia and Europe are set to remain the primary medium-term growth driver, potentially adding up to 18 billion cubic feet per day through 2032.

**Exhibit 122:** Even Under Conservative Assumptions for AI-Related Demand, the U.S. Needs an Incremental ~25 Bcf/d by 2032, Driven by LNG Exports to Asia and Europe

**U.S. Natural Gas Demand Drivers vs. 2032, Billion Cubic Feet per Day**

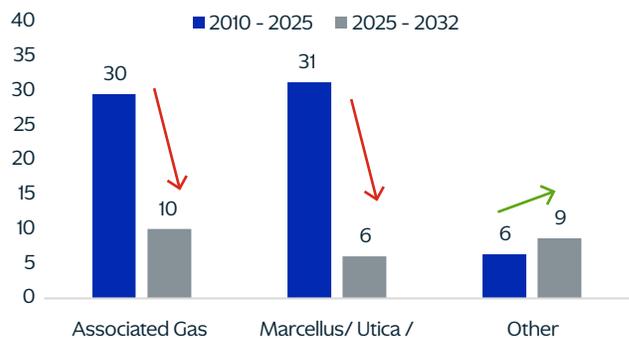


Contribution to Total Demand			
2015	4%	34%	62%
2025	21%	31%	48%
2032	31%	28%	42%

Data as at November 30, 2025. Source: S&P Global, KKR Global Macro & Asset Allocation analysis.

**Exhibit 123:** We Expect Incremental Natural Gas Supply to Come From Higher-Cost Basins, as Low-Cost Plays (e.g., Marcellus, Utica, and Haynesville) Mature and Associated Gas Growth Peaks

**Growth in Natural Supply by Play, Billion Cubic Feet per Day**

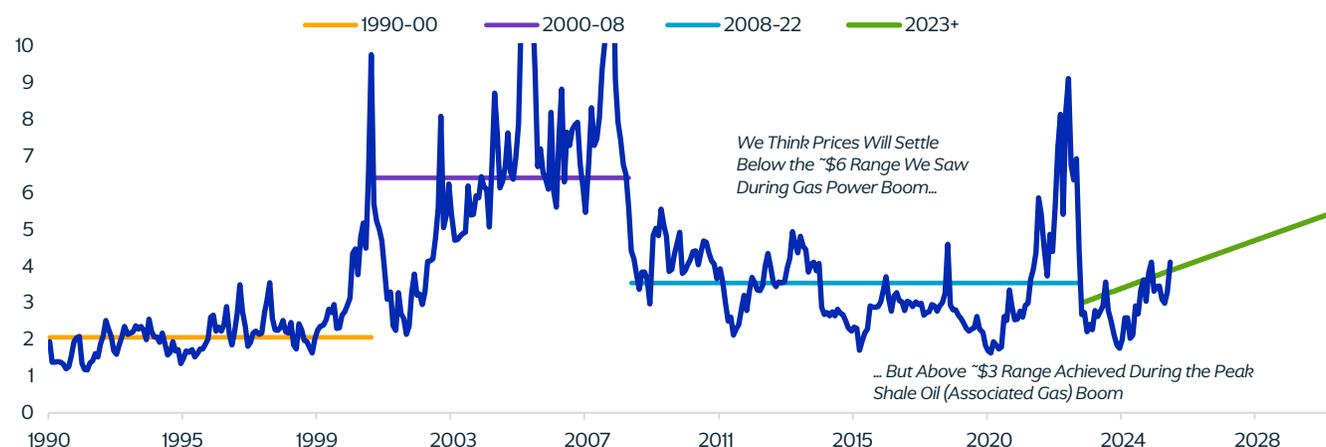


**Breakeven:** \$0 - \$1.5 (Byproduct of Oil Production)      \$3 - \$4      \$4 - \$8

Data as at November 30, 2025. Source: S&P Global, KKR Global Macro & Asset Allocation analysis.

**Exhibit 124:** We Think Natural Gas Prices Will Settle Above the \$3.5/MMBtu Achieved During the Peak of the Shale Boom in the 2010s, But Below the \$6.0/MMBtu Range During the Peak of the Gas Power Boom in the Early 2000s

### Henry Hub Gas Price by Regime \$/MMBtu



Data as at November 30, 2025. Source: Citron Research, KKR Global Macro & Asset Allocation analysis.

## U.S. Dollar

**Forecast:** We continue to believe that the dollar has peaked for this cycle given its high valuation and falling rate differentials. Importantly though, we do not envision another disorderly unraveling as we think there are several supports for the dollar including robust portfolio flows, FDI commitments, and a convergence with rate differentials. So, while we do think the dollar is structurally overvalued, about 15% above its real effective exchange rate, we expect only a gradual adjustment while resilient capital flows and improving U.S. fundamentals may drive some short-term momentum which can offset some of the pressure from falling rate-differentials.

**Short-Term Outlook:** In our Mid-Year Outlook we argued that the macro environment was bearish for the dollar, both cyclically and structurally. However, the massive post-Liberation Day selloff has largely reversed as tariff-induced policy uncertainty faded. Indeed, we see many encouraging signs that the U.S. economy and the dollar are recovering from the Liberation Day shock, such as the fact that 2025 GDP growth expectations are essentially back to where they were at the beginning of the year and that the dollar has mostly converged to its normal relationship with rate differentials.

Looking ahead to 2026, we see the following key dynamics as a partial offset to falling rate differentials:

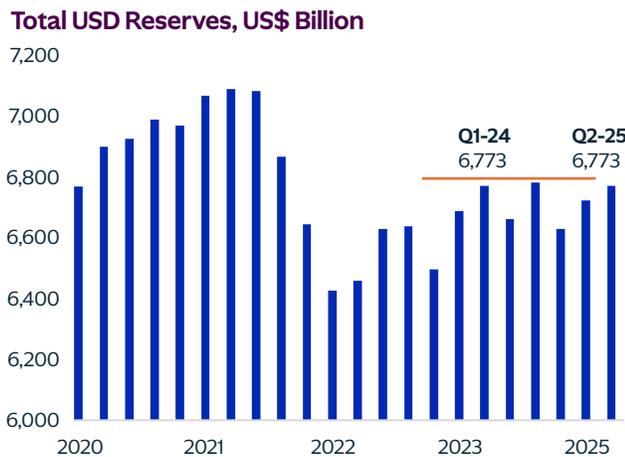
- **First, foreign investors continue to buy U.S. equities and bonds.** Year-to-date inflows are tracking around \$880 billion, comparable to 2023 and above 2024 levels. While a good percentage of these flows are being hedged, which sterilizes the currency impact, overall hedge ratios are declining rapidly, allowing for some support.
- **Second, foreign direct investment (FDI) is expected to continue rising under the so-called 'Framework Agreements'.** These arrangements, part of the tariff negotiations, encourage countries to invest in the U.S. in exchange for reduced tariff rates. Japan and Korea are among the more prominent examples. We estimate FDI could reach roughly \$400 billion by year-end. While these estimates are below official White House estimates, these commitments are still significant developments (*Exhibit 125*).

**Exhibit 125:** Foreign Direct Investment Could Reach \$400 Billion by the End of the Year On a Trailing 12-Month Basis, Given the Magnitude of ‘Framework Agreements’



Data as at November 7, 2025. Source: Bloomberg, JP Morgan Research, Peterson Institute.

**Exhibit 126:** We Think the De-Dollarization Narrative Is Overblown. Central Bank Holdings of Dollars Is About Flat Over the Past Year



Data as at November 7, 2025. Source: Bloomberg, IMF.

- **Finally, we think the dollar is currently near-term undervalued relative to rate differentials:** Our forecasts imply U.S. rate differentials will narrow slightly through 2027, as we expect the Fed to cut rates twice while the ECB and Bank of Japan hike modestly. Despite this, the dollar remains somewhat undervalued relative to these differentials, suggesting that convergence could provide modest near-term support to the currency (*Exhibit 127*).

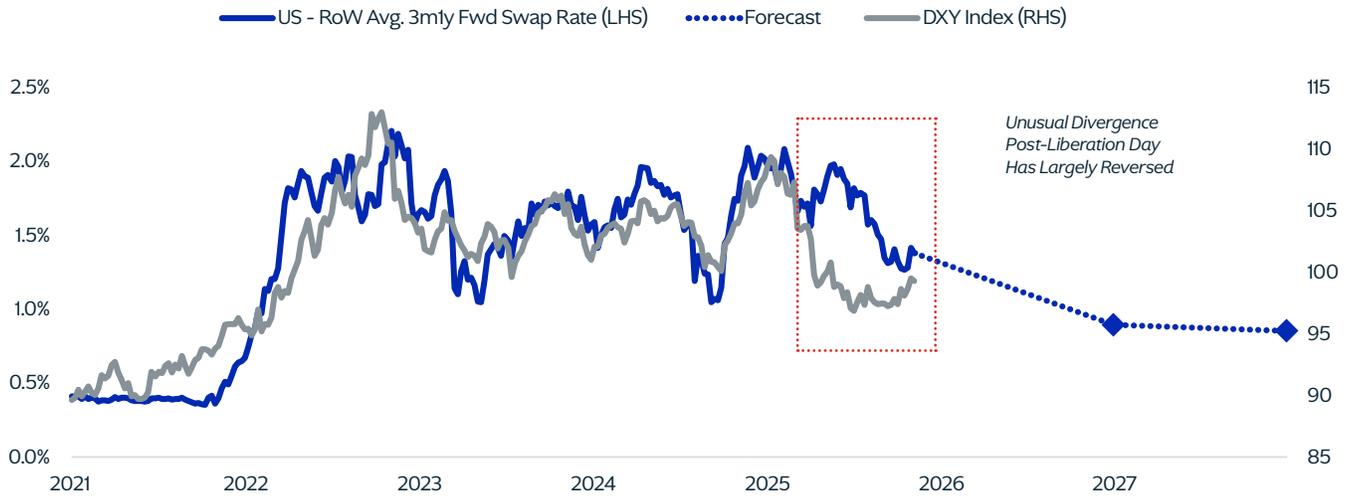
**Bottom-line:** While the dollar faces long-term structural headwinds, history suggests any downtrend will take years to unfold. In the near term, we expect the dollar to trade flat to slightly down as robust portfolio and FDI inflows and declining hedge ratios provide an offset to falling rate differentials.

Finally, we think the dollar is currently near-term undervalued relative to rate differentials: Our forecasts imply U.S. rate differentials will narrow slightly through 2027, as we expect the Fed to cut rates twice while the ECB and Bank of Japan hike modestly.

- **Third, global central banks are not de-dollarizing.** Dollar reserves actually remain broadly unchanged year-over-year, standing at \$6.8 trillion in the second quarter of 2025, the same as in early 2024. While gold holdings have grown at a rapid pace, the dollar continues to dominate global reserves, accounting for just over half of total central bank foreign exchange assets (*Exhibit 126*).

**Exhibit 127:** We Expect USD vs. RoW Rate Differentials to Fall Slightly Through 2027, But We Think the Dollar Is Still Undervalued Relative to Rate Differentials in the Near-Term. Hence, As This Relationship Converges, It Should Provide a Modest Boost to the Dollar

**Dollar vs. Rate Differentials**



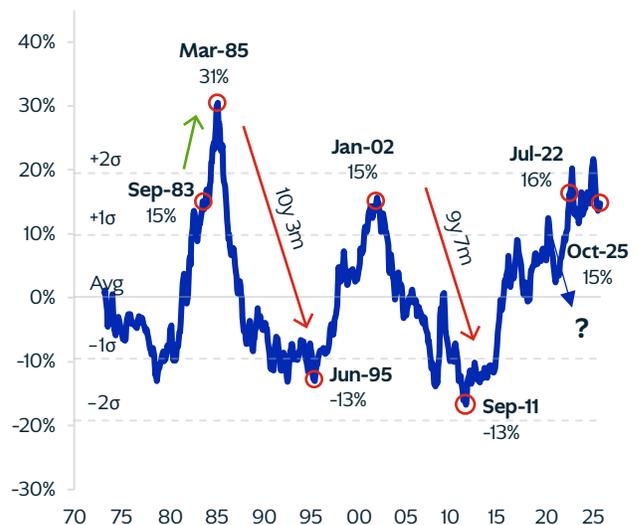
Data as at December 10, 2025. Source: Haver Analytics, Bloomberg.

**Long-Term Outlook:** Our long-term outlook for the dollar is anchored in its elevated valuation. Recall that the real broad trade-weighted U.S. dollar (REER) remains roughly 15% overvalued despite this year’s sell off. Since Fed data began in 1970, there have been only two other periods when the dollar was overvalued by 15% or more: during the mid-1980s and the early 2000s. In September 1983, the dollar continued to appreciate for about 18 months before entering a decade-long bear market following the controlled devaluation known as the Plaza Accord. In February 2002, the dollar peaked just above a 15% overvaluation before embarking on a roughly 10-year decline, ultimately trading about 13% below fair value.

What distinguishes today’s cycle is that since reaching the +15% threshold in early 2022, the dollar has oscillated in a volatile range for more than *three years* rather than reversing decisively and we do not expect a sharp or immediate decline similar to prior periods. Additionally, history suggests that over the next decade the dollar is likely to gradually revert towards or even below fair value on a REER basis. Our bottom-line is that these cycles tend to unfold slowly, typically over a period of about ten years (*Exhibit 128*).

**Exhibit 128:** The Dollar Has Crossed Below the 15% REER Level We Had Been Watching, But Remains Elevated On a Longer-Term Basis

**Real Broad Trade-Weighted U.S. Dollar REER: % Over (Under) Valued**



Data as at October 31, 2025. Source: Bloomberg.

## Japanese Yen

**Forecast:** We forecast the JPY to end 2025 at 152 and be in the 137-147 range for 2026-27. Volatility is expected to stay high owing to the large stock of carry-trade positions.

**Commentary:** Because Japan is in the process of shifting from deflation to inflation, we expect currency volatility to remain high. However, we do expect JPY appreciation over time, as the central bank normalizes interest rates by 2027. Beyond higher interest rates in Japan, we think the currency should benefit from both faster real and nominal GDP growth supported by improved corporate governance reform, ROE expansion, capex recovery, and real wage growth encouraging consumption.

The bottom line for Japan: we see a multi-year structural story playing out around corporate governance reform, ROE expansion, capex recovery, and real wage growth supporting consumption. The policy backdrop remains supportive with gradual policy rate normalization, and the fundamental equity story remains compelling. Overall, the improving macro backdrop and narrowing rate differentials provide a growing fundamental anchor for the yen.

Beyond higher interest rates in Japan, we think the currency should benefit from both faster real and nominal GDP growth supported by improved corporate governance reform, ROE expansion, capex recovery, and real wage growth encouraging consumption.

### Exhibit 129: Interest Rate Differentials Point to JPY Trading in the 137-147 Range Over the Next Two Years

USD/JPY Level calculated from the correlation with 1y10y UST and JGB Yield									
JGB10Y/ UST10Y	3.00	3.25	3.50	3.75	4.00	4.25	4.50	4.75	5.00
1.00	135	138	142	145	149	152	156	159	163
1.25	133	137	140	144	147	151	154	158	161
1.50	131	135	138	142	145	149	152	156	159
1.75	130	133	137	140	144	147	151	154	158
2.00	128	131	135	138	142	145	149	152	156
2.25	126	130	133	137	140	144	147	151	154
2.50	124	128	131	135	138	142	145	149	152
2.75	123	126	130	133	137	140	144	147	151
3.00	121	125	128	132	135	138	142	145	149

Data as at November 15, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

## SECTION IV

# Most Asked Questions

## ● QUESTION NO. 1

### How are you thinking about expected returns?

**Our latest five-year expected return framework points to a potentially more challenging backdrop for portfolio construction than we have seen in recent years.**

Specifically, the efficient frontier has flattened again at the same time that overall absolute return expectations have also declined again. All told, the return differential between the best and worst performing assets in a portfolio continues to tighten and is now 7.4% compared to 8.1% in our mid-year update and 9.1% a few years ago (*Exhibit 19*). Richer valuations in public risk assets and lower starting yields in fixed income are compressing forward-looking return potential, all against a macro backdrop defined by higher trend inflation, persistent fiscal deficits, and rising geopolitical tensions. In such an environment, the premium on quality within public markets has increased meaningfully, while the role of Private Markets as a source of return, diversification, and inflation resilience is becoming more central to portfolio design, we believe.

**However, the flattening of the efficient frontier is actually not a new phenomenon; in fact, it has been underway since we first published on this topic in 2022, but it has now reached its most pronounced point.**

Recall that our *Regime Change* hypothesis suggested we entered a new environment for investing post-pandemic, an environment where underlying forces — in particular

the changing structural relationship between stocks and bonds — demanded a new approach to portfolio construction. Key to our thinking was that not only were forward returns likely to be lower for risk assets, but also traditional Fixed Income would likely no longer serve as a shock absorber for, or diversifier to, Public Equities. Against this more challenging backdrop, however, we still believed compelling opportunities remained to enhance the traditional '60/40' portfolio by the addition of Private Markets as a more holistic way to diversify portfolios and enhance returns. One can see this in *Exhibit 130*. For more details, though, please see our *Regime Change* series, beginning in 2022, available on KKR.com.

To illustrate our thinking (and please note that there are a wide range of portfolios that can be tailored to specific objectives created by our KKR Solutions effort), we ran a traditional '60/40' portfolio against our suggested '40/30/30' portfolio in three differing scenarios: all periods, high and rising inflation, and all other regimes (ex-high and rising inflation). In terms of specifics, we substituted 20% of the Public Equities and 10% of the traditional Bond allocation with a combination of 5% Private Real Estate and 5% Private Infrastructure, and 10% Private Equity and 10% Private Credit. Noting again that the observation period for private asset classes is shorter than for public stocks and bonds, the private Alternatives enhanced '40/30/30' portfolio significantly reduced portfolio volatility while improving returns across the various inflation environments. Most importantly, in high and rising inflation environments, volatility in the '40/30/30' portfolio was reduced by 2.5% while returns were enhanced by 3.7%, improving the Sharpe ratio almost 0.4x.

**Exhibit 130: The '60/40' With Private Markets Outperforms the Traditional '60/40' On A Risk-Adjusted Nominal Return Basis In All Environments**

**60/40 and 40/30/30 in Various Inflation Environments**



	All Periods		High and Rising Inflation		All Other Regimes (ex-High and Rising Inflation)	
	60/40	40/30/30	60/40	40/30/30	60/40	40/30/30
<b>Return</b>	9.2%	10.3%	1.5%	5.2%	10.7%	11.0%
<b>Volatility</b>	12.9%	10.7%	12.5%	10.0%	11.9%	10.4%
<b>Sharpe Ratio</b>	0.71	0.96	0.12	0.52	0.9	1.06

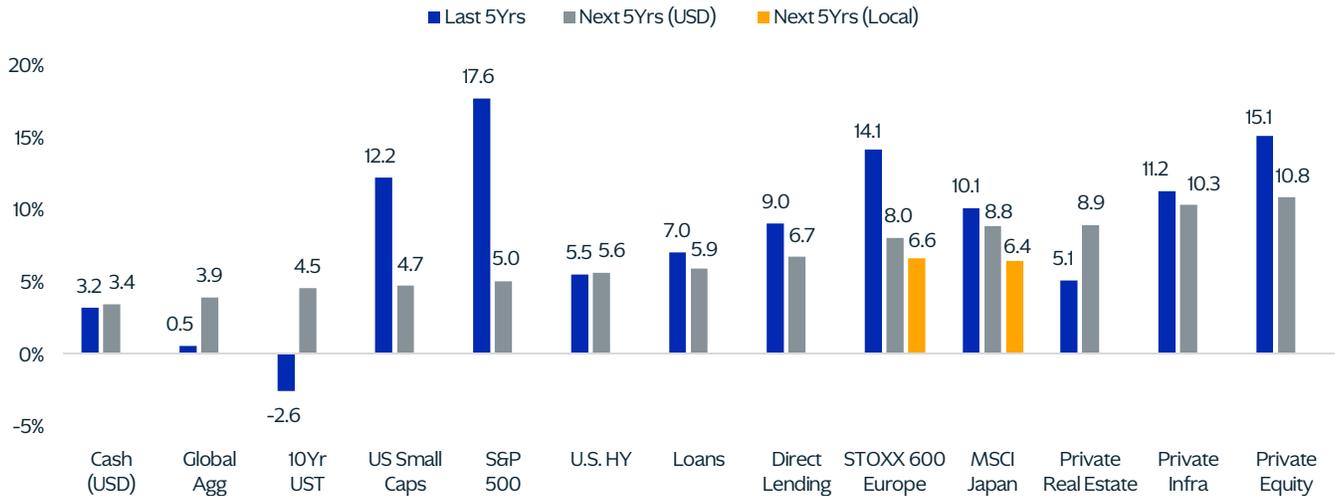
High and rising inflation periods are defined as years with inflation higher than historical median and rising >=1% compared to previous year. Portfolio returns and volatility modeled using annual total returns from 1928 to 2024 for the S&P 500, from 1978 to 2024 for Real Estate, from 2004 to 2024 for Infrastructure, from 1928 to 2024 for Bonds, 1981 to 2024 for Private Equity, and from 1987 to 2024 for Private Credit. Assumes continuous rebalancing of the portfolios. U.S. Equities modeled using the SP500 Index. Bonds modeled using a mix of 50% US T.Bond and 50% Baa Corp Bond annual returns, computed historically by Professor Damodaran (NYU Stern). Real Estate modeled using the NCREIF Property Levered Index. Private Infrastructure modeled using the Burgiss Infrastructure Index. Private Credit modeled using the Burgiss Private Credit All Index. Private Equity modeled using the Burgiss U.S. Buyout.

So, no doubt, in our view Private Markets can enhance outcomes for portfolio construction. That said, as we mentioned earlier, we are forecasting less robust returns as we look ahead. Specifically, across the thirteen major asset classes we forecast, twelve have experienced declines in expected returns since mid-2025, with the gap between the highest and lowest shrinking to historic lows. Two forces dominate this compression: valuations and interest rates. Price-to-earnings multiples have continued to move higher in recent years, and credit spreads sit near all-time lows across investment grade and sub-investment grade markets. While we do not subscribe to a simplistic mean reversion framework, we do believe that today's elevated valuations will eventually weigh on returns, particularly as the tailwind from declining rates fades and productivity ultimately slows (though not our base view in 2026).

Specifically, across the thirteen major asset classes we forecast, twelve have experienced declines in expected returns since mid-2025, with the gap between the highest and lowest shrinking to historic lows. Two forces dominate this compression: valuations and interest rates.

**Exhibit 131: We Continue to Think Expected Returns Over the Next Five Years Will Look Quite Different Relative to the Past Five Years**

**Expected Return, %**



Last 5-Years return from October 31, 2020 to October 31, 2025 for consistency across asset classes. Private Markets as at 2Q25. Source: Bloomberg, BofA, Burgiss, Cambridge, KKR Global Macro & Asset Allocation analysis.

**Within Fixed Income, U.S. Treasury yields are trading near fair value, supported by a structurally lower neutral rate than in prior decades and our expectation of inflation running modestly above the Fed’s two percent target.** This anchors our long-term view of the 10-year yield around four percent, well below the levels seen in the 1980s and 1990s, but higher than the post-GFC era of ultra-low rates. That said, we see upside risks to yields over time, driven by high debt burdens, sustained fiscal deficits, and potential disruptions to capital flows during periods of trade tension. Combined with a structurally higher stock-bond correlation, government bonds may be less reliable as shock absorbers in equity drawdowns. In credit, spreads remain tight even after adjusting for quality shifts, and while structural demand for income should keep them narrower than historical averages, the risk-reward favors moving up in quality. For investors seeking higher yields, we see better opportunities in private credit, where illiquidity premia remain compelling and valuations are more balanced.

**In Public Equities, we expect a divergence between the United States and other developed markets over the next five years.** U.S. corporates continue to benefit from productivity gains, fiscal support, and a favorable growth backdrop, but valuations are increasingly stretched, even

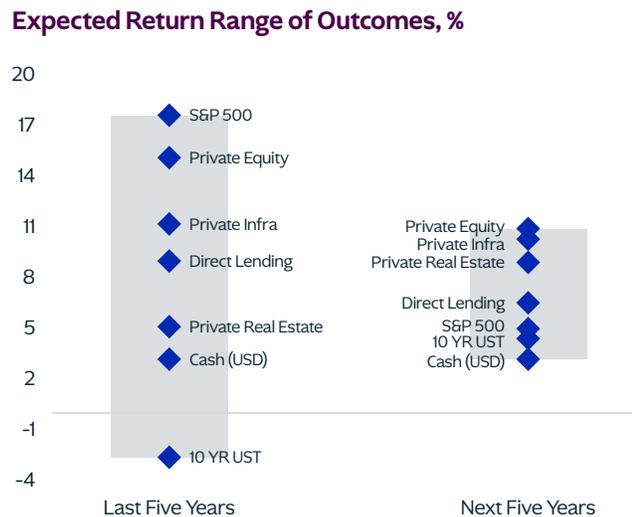
after accounting for the sector mix shift towards higher-multiple industries like technology. While the next one to two years could still deliver attractive opportunities in U.S. large cap, we believe valuation pressures will eventually weigh on returns. By contrast, Japan and parts of Europe offer more attractive starting valuations, higher dividend yields, and less vulnerability to multiple compression. In Japan, corporate reforms, improved capital allocation, and the unwinding of cross-shareholdings are fostering a more profit-oriented corporate culture, which should support earnings growth above Europe but below the U.S. In local currency terms, we expect Japan and Europe to outperform the U.S. by roughly 1.4% annually, with a weaker dollar widening that advantage for global investors.

**Against this backdrop, Private Markets stand out as the most attractive sources of return.** The ‘Three Horsemen’ of Private Equity, Real Estate, and Infrastructure remain our highest-expected-return asset classes, supported by structural tailwinds and more reasonable valuations than their public market counterparts. One can see this in *Exhibit 131*. In Private Equity, the illiquidity premium is a durable source of excess return, and the opportunity set increasingly includes high-quality companies that are either going private or staying private, a significant

contrast with the deterioration that we now see in public small cap equity quality. Meanwhile, Real Estate has largely repriced to reflect higher rates, now offering healthy cap rates, solid NOI growth, and the potential for inflation pass-through over time. Finally, Infrastructure benefits from contractual inflation linkage, less sensitivity to real rates, and strong demand for capital amid constrained government budgets.

**Taken together, this environment requires a different approach to portfolio construction.** Indeed, we think that beta will be less rewarded, and manager alpha will matter. Moreover, the potential for Private Markets to recapture some of their relative performance should improve meaningfully; this statement is not that bold, given U.S. Equities have been compounding at 22%+ for the last three years. As we show in *Exhibit 134*, the potential for the illiquidity premium in asset classes such as Private Equity should grow meaningfully in the environment we are envisioning.

**Exhibit 132:** The Forward-Looking Expected Range of Outcomes Will Be Narrower, We Believe



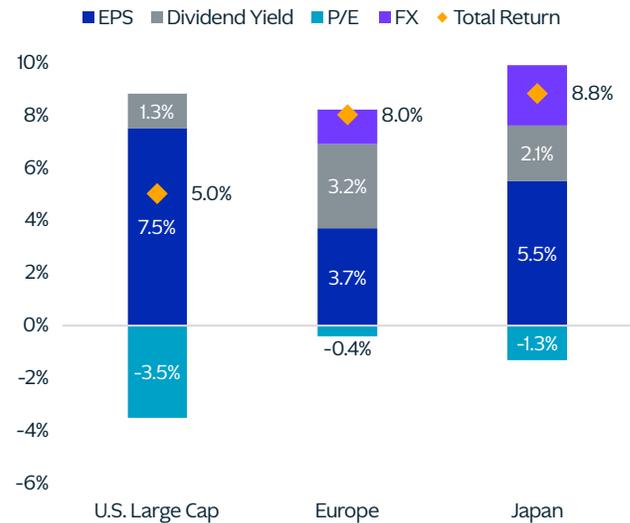
Data as at November 30, 2025. Source: KKR Global Macro & Asset Allocation analysis.

Importantly, we also look for the dispersion of median returns across asset classes to narrow. One can see this in *Exhibit 132*. As we mentioned earlier, we also think that quality will matter more, both in public markets, where the incremental return from taking more risk is limited, and in Private Markets, where manager skill and strategic

asset allocation can meaningfully enhance outcomes. In our view, the next five years will favor investors who can balance resilience and return by leaning into quality, harvesting illiquidity premia, and positioning for a macro regime where inflation runs structurally higher and geopolitical risk remains elevated.

**Exhibit 133:** Multiple Contraction Across All Segments of the Public Equity Market Will Dent Forward Returns. International Equities, Though, Should Benefit From Positive Currency Tailwinds

**Public Equities Next Five Years Expected Return Decomposition**



FX returns based on FX forward implied rates. Data as at November 30, 2025. Source: KKR Global Macro & Asset Allocation analysis.

We also think that quality will matter more, both in public markets, where the incremental return from taking more risk is limited, and in Private Markets, where manager skill and strategic asset allocation can meaningfully enhance outcomes.

**Exhibit 134:** Private Equity Tends to Outperform When Equity Markets Are Less Robust. Looking Ahead, We Now Expect More Modest Public Equity Returns, Which Should Help Bolster the Value of the Illiquidity Premium

**Average 3-Year Annualized Excess Total Return of U.S. Private Equity Relative to S&P 500 Across Public Market Return Regimes**



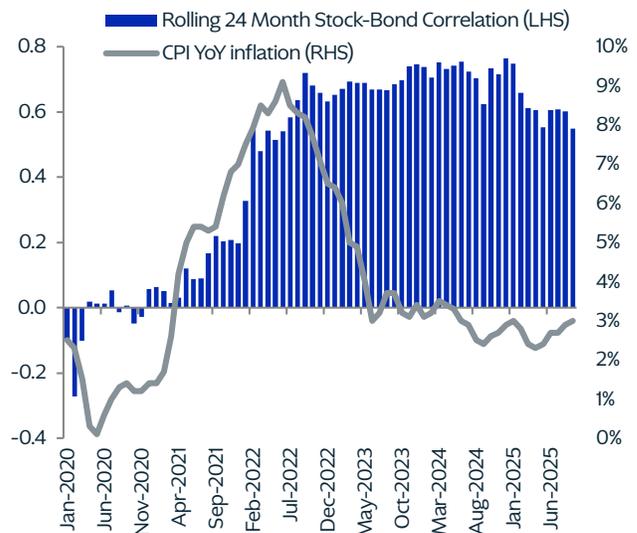
The Cambridge Associates LLC U.S. Private Equity Index is an end-to-end calculation based on data compiled from 1,482 U.S. private equity funds (buyout, growth equity, private equity energy and mezzanine funds), including fully liquidated partnerships. Pooled end-to-end return, net of fees, expenses, and carried interest. Historic quarterly returns are updated in each year-end report to adjust for changes in the index sample. Data is latest available as at June 30, 2025. Source: Cambridge Associates, S&P. Observation Period = 1Q86-2Q25.

Our bottom line: Our message is that the path to achieving incremental performance is changing in important ways. A flatter efficient frontier, narrower dispersion of expected returns over the next five years relative to realized asset class returns over the last five, and less generous starting valuations all argue for a more deliberate approach to portfolio construction, one that emphasizes quality, thoughtful use of illiquidity, and a greater reliance on Private Markets as core building blocks. In our view, the traditional stock-bond relationship now offers less protection in drawdowns and as elevated geopolitical and fiscal risks periodically unsettle markets. Instead, we think investors will need to lean more heavily on manager selection, underwriting discipline, and strategic tilts across geographies and asset classes to harvest the incremental return available. Done correctly, a more diversified '40/30/30'-style architecture that pairs resilient public exposures with targeted allocations to Private Equity, Real Estate, Infrastructure, and Private Credit can still deliver attractive, and importantly more stable, outcomes. As such, we see the coming five years as a period in which asset

allocation, security selection, and active risk management matter more, not less, and where those willing to embrace a broader and more flexible toolkit will be better positioned to compound capital in what we continue to view as a structurally higher-inflation, more volatile macro regime.

**Exhibit 135:** We Think 2026 Will Remain a Higher Inflation Environment and That Our *Regime Change* Narrative Will Continue

**Rolling 24-Month Stock-Bond Correlation and Y/y CPI Inflation**



Data as at September 30, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

**QUESTION NO. 2**

**How are you thinking about Relative Value in Credit?**

Today, we see that a strong positive technical bid, sound fundamentals, and lack of supply have largely kept credit spreads tight throughout the year. However, there have been attractive pockets of temporary volatility, including around tariff announcements and Fed rate decisions. As we look ahead, however, investors should brace for higher loss rates. Indeed, recent events across both Private and Public Credit markets have been a useful reminder of what happens when investors drift away from basic

credit discipline and/or over-concentrate to one sector or time period. Weak underwriting, limited transparency in due diligence, and overly permissive covenants all tend to show up the same way: deteriorating fundamentals and then higher loss rates, especially in parts of the economy experiencing rolling recessions rather than broad-based stress. As the cycle matures, we expect it to be tested, which is why we continue to emphasize structure, seniority, and sponsor quality in our positioning.

To this end, we spent some time as a team examining both public and private sub-asset classes through the lens of expected risk-adjusted returns. Using market risk as the first measure of risk, we compared the loss-adjusted expected return vs. the volatility of the various sub asset classes (*Exhibit 136*). Second, using fundamental risk as another measure of risk, we compared the same asset classes in terms of their loss-adjusted expected return vs. corporate leverage (*Exhibit 137*). Our findings are as follows:

- In a market where Liquid Credit spreads remain tight, certain pockets of the market still offer comparatively attractive relative value, particularly after adjusting for potential credit losses. **Specifically, we continue to view CLO liabilities (BBB/BB ratings) as a compelling, enhanced alternative to traditional bank loans, given their similar or higher spreads and added benefit of structural protections and diversified collateral pools.** In addition, we are increasingly constructive on High Yield, which offers higher average credit quality and fixed-rate coupons – features we expect to be particularly beneficial as rates move lower in 2026. By comparison, the carry profile of loans may face pressure from recent repricing waves as well as elevated defaults and ongoing LME activities. Ultimately, we expect credit selection to remain the primary driver of alpha generation in 2026, particularly among lower-quality issuers, as top-down relative value signals remain inconclusive.
- **Similar to CLO liabilities within Liquid Credit, collateral-backed strategies in Private Credit, such as Asset-Based Finance, have become increasingly attractive on a risk-adjusted basis, we believe.** In our view, Asset-Based Finance, or ABF, remains differentiated by its more substantial illiquidity premium relative to Direct Lending, as well as its market potential (given it is an estimated \$7.7 trillion investable universe versus \$1.6

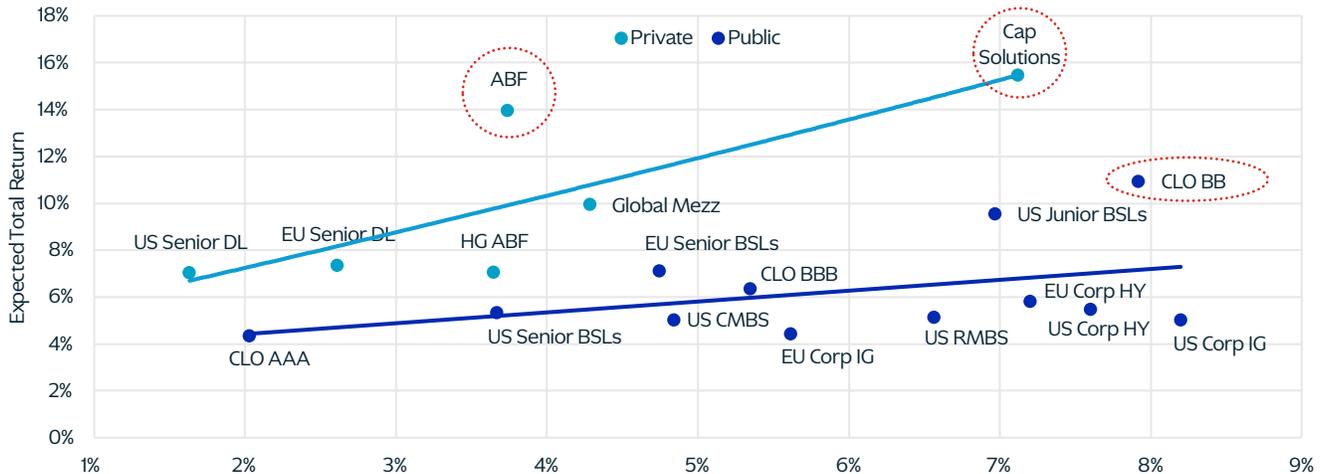
trillion for Direct Lending in the U.S.). Moreover, as more and more companies move to capital light from capital heavy, alternative asset managers are increasingly able to step in to provide liquidity and securitize assets previously held on balance sheets, creating fresh opportunities for investors. In an environment of elevated scrutiny for Private Credit, ABF's direct link to the real economy and its diversified collateral pools make it an attractive source for diversified returns.

- **We also like Capital Solutions/Structured Equity, a market where we think the supply /demand backdrop is incredibly favorable for capital providers these days.** Importantly, as more companies shift towards private financing solutions versus raising equity capital in the public markets, a significant market opportunity has emerged at a time where there is not a lot of sponsorship by capital allocators. Private Equity allocators. Specifically, Private Equity allocators view Capital Solutions returns as potentially too skinny, while traditional Credit allocators view the asset class as potentially too high vol. Therein lies the opportunity, we believe. As such, we're leaning into Capital Solutions and partnership structures that unlock value via contractual returns. These bespoke solutions enable corporates to execute complex transactions without sacrificing control or balance sheet flexibility and are designed on a case-by-case basis to directly address specific challenges, delivering equity-like returns while maintaining debt-like characteristics. Importantly, most of the companies in the Capital Solutions arena are higher quality enterprises where founders often want a sophisticated outside partner to help take their business to a new level.

Looking at the big picture, three themes shape our outlook on credit relative value and our consistent with our High Grading thesis. First, with attractive relative value increasingly scarce, we view this as an opportunity to move up in quality without giving up much spread, which is the essence of our High Grading thesis for 2026. From an insurance market standpoint, this shift is favorable as high-rated assets carry lower capital charges and therefore enhance ROE, particularly as we tilt towards A-rated exposures rather than the BBB-rated paper we have historically favored. Second, with rate cuts expected to continue into 2026, we prefer fixed-rate credit such as High Yield over floating-rate Loans, where

**Exhibit 136:** ABF Remains Differentiated by Its Meaningful Upside Potential and Investable Universe. We Also Like the Return Profile of CLO BB Liabilities and Capital Solutions for Long-Term Investors

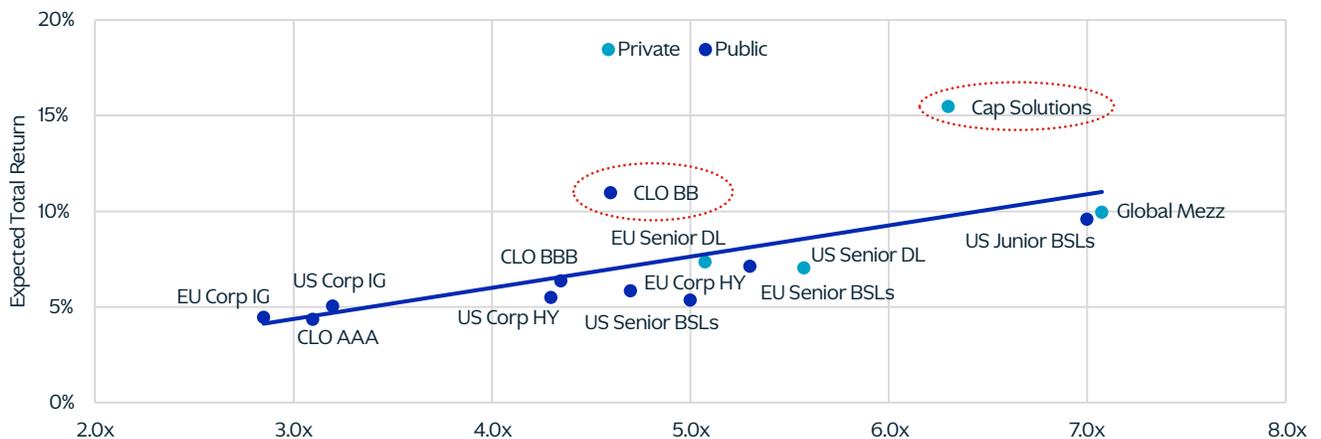
**Credit Efficient Frontier**



Volatility calculated using quarterly returns from Q3-2020 to Q2-2025. Data as at October 31, 2025. Source: KKR Global Macro and Asset Allocation analysis.

**Exhibit 137:** We Favor CLO Liabilities and ABF, Which Provide Structural Protection and Diversified Collateral Pools As Well As Capital Solutions, and Offer Meaningful Upside Convexity Along With Downside Protections

**Credit Return and Leverage Ratio**



Data as at October 31, 2025. Source: KKR Global Macro and Asset Allocation analysis.

coupon income will decline as Fed target rates fall. This preference is further supported by the generally higher quality of the fixed-rate universe where High Yield tends to skew towards BB/B+ ratings, while Loans are more concentrated in single-B issuers, implying lower expected credit losses for fixed-rate markets. Third, we favor

collateral-backed strategies like CLO liabilities, Asset-Based Finance, and Structured Equity, all of which provide some structural protection and/or diversified collateral pools to help mitigate risks in an increasingly complex world.

Our work on credit relative value reinforces a simple but important conclusion: in a world where spreads are tight

and headline opportunities appear scarce, the mix and quality of risk now matter more than the quantity of risk one takes. In our view, 2026 should be a year to upgrade portfolios rather than stretch for yield, including moving up in quality where we can, locking in fixed-rate income where it is still adequately compensated, and leaning into collateral-backed structures that offer both contractual cash flows and protection in downside scenarios. This is the essence of our High Grading thesis. Rather than reaching down in rating or structure to pick up a few extra basis points of spread, we think investors will be better served by reallocating towards high-quality High Yield over Loans, favoring CLO liabilities and Asset-Based Finance where structural protections and diversified collateral pools help mitigate loss severity, and selectively deploying Capital Solutions/Structured Equity where the supply/demand imbalance is most acute. We also favor international diversification, including leaning into Asia, at this point in the cycle. Done thoughtfully, this approach should allow investors to preserve yield carry, improve capital efficiency (especially for insurance balance sheets), and build portfolios that are better positioned to navigate an environment of episodic volatility, idiosyncratic losses, and ongoing macro uncertainty.

**QUESTION NO. 3**

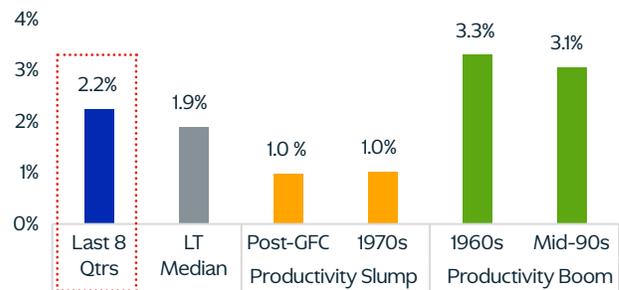
## How should I think about productivity and worker retraining in the age of AI?

We continue to view productivity as one of the defining differentiators of this cycle. In our base case, the current upturn looks more like the productivity booms of the 1960s and 1990s than the muted gains of the post-GFC era. One can see this in *Exhibit 138*. From our perch at KKR, we believe that the seeds of this rebound were planted in the latter half of the last decade, but the pandemic, and the accelerated adoption of automation and digitalization that came with it, pushed many companies to operate more efficiently with leaner teams. Importantly, the industries showing the fastest productivity growth in recent years were often those that saw the sharpest

employment declines in 2020, underscoring how labor scarcity can be a catalyst for innovation.

**Exhibit 138: We Think We Are in a Productivity Cycle That Tracks More Closely to the 1990s and 1960s**

**U.S. Labor Productivity, Q/q, % SAAR**



1960s refers to 1959-68; 1990s-00s refers to 1995-05; 1970s refers to 1973-79. Data as at June 30, 2025. Source: Bloomberg, Federal Reserve Bank of San Francisco.

We believe this scarcity is becoming more clearly structural. Aging populations, persistently low fertility, reduced immigration, and a reversal of globalization are constraining headcount growth across most developed markets, against a backdrop of AI reshaping not just the way tasks are performed but the nature of work itself. In our view, the next leg of the productivity story will be driven by broadening digital access and the diffusion of AI-enabled tools beyond the technology sector. Surveys suggest a majority of employers expect AI, robotics, automation, and advances in energy systems to materially reshape their businesses by 2030. The opportunity, and challenge, is that these shifts will require a significant expansion in workforce skills.

We think the opportunity in 2026 comes from treating ‘workforce capex’ as the necessary complement to AI transformation. Specifically, we favor platforms that certify skills, deliver measurable productivity lifts, and plug directly into employer workflows. Education that emphasizes outcome-linked models should gain share from traditional four-year universities. For allocators, this points to private reskilling providers and software that embeds customized training into the job. This could look like a system building a profile for employees and moving them up the productivity curve while they work, providing real-time feedback. With labor scarce and tasks changing

quickly, the real gains are likely to accrue to firms and investors who lean into upskilling and maximize human-AI joint productivity, not to those who simply rely on the latest, jagged edge of AI capability to try and fully replace workers.

**Exhibit 139:** A Growing Share of Tech Job Postings Are Looking for Experience. Upskilling Will Help New Graduates Differentiate Themselves In a Tough Hiring Backdrop for Entry-Level Candidates

**Distribution of Open Positions by Experience Level in U.S. Tech**

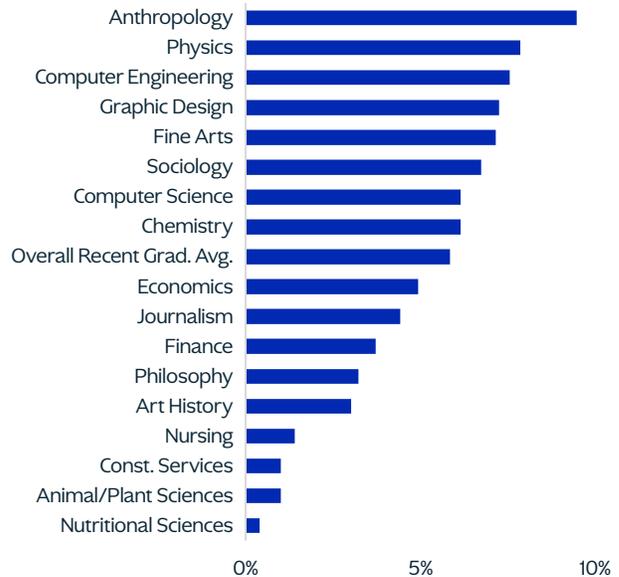


Data as at December 30, 2024. Source: BLS, OEWS, SignalFire, Dice Tech Job Report 2024.

We believe that traditional credentials (e.g., college education in certain instances) are losing some of their monopoly power as employees seek faster, cheaper, and more job-relevant pathways through private providers and hybrid learning platforms.

**Exhibit 140:** Young Professionals Aged 22-25 Face the Most Challenging Entry-Level Job Market in Decades Across Multiple Knowledge-Work Industries

**Unemployment Rates for Recent College Graduates by Major, %**



Data as at October 31, 2025. Source: NY Fed.

We believe that traditional credentials (e.g., college education in certain instances) are losing some of their monopoly power as employees seek faster, cheaper, and more job-relevant pathways through private providers and hybrid learning platforms. Total postsecondary enrollment in fall 2024 rose roughly 4.5% year on year, pushing combined undergraduate and graduate headcount back above 2019 levels for the first time since the pandemic. Within that aggregate the real growth comes from the more than 2.4 million students who came to college specifically for nontraditional pathways, i.e., certificates or other nondegree credentials. Alternative-credential and certificate program enrollment in the latest academic year grew 10%, now running roughly 29% above 2019 levels, while associate and bachelor’s programs still remain below. Community colleges posted nearly 6% enrollment growth between fall 2023 and fall 2024, also meaningfully stronger than public (+3.2%) and private non-profit four-year (+4.4%) institutions.

We think this reflects the growing demand for modular and practical training that can be completed quickly then rapidly deployed in the workforce, matching the pace of the technological advancements that are compressing time to market. Rising tuition costs, changing employer preferences for demonstrable skills over credentials, and the need for faster and more affordable pathways into the workforce are increasingly highlighting the shortfall in the traditional educational paradigm. For investors this points to opportunities in private reskilling providers, outcome-linked credentialing platforms, and workforce development infrastructure that can more rapidly adapt to changing workforce needs.

As we look ahead, we also see governments as clearly having a role to play in helping citizens retool themselves. In the U.S., public investment in targeted labor market policies has lagged for decades (*Exhibit 23*), but to focus on the more recent positives, there are signs of new workforce modernization initiatives and slightly expanded career and technical education funding from the Federal government. On the international front we see some models worth replicating, particularly in Japan and Denmark, where targeted workforce matching platforms and active retraining programs for the unemployed help to alleviate the pressure of ageing and tight labor markets.

Our bottom line is that against a backdrop of structurally tight labor markets and changing skills requirements, strong productivity-enhancing initiatives by both the private and public sectors will be needed to bring developed market economies up to acceptable rates of growth. As this is such a pain point, we think there will be significant investment opportunities in areas such as labor market analytics, job search tools, skills-based training (on and off-line), and productivity 'enhancers', including workflow tools and automation. At the system level a rethinking in approach may be warranted in: (1) putting workforce capex on par with physical capex, (2) shifting from time and credential based pathways to modular, outcomes-based learning, (3) rewiring labor markets around skills data and matching infrastructure; and (4) using policy and public incentives to crowd in private capital in upskilling, and these present attractive opportunities for investors.

Aging populations, persistently low fertility, reduced immigration, and a reversal of globalization are constraining headcount growth across most developed markets, against a backdrop of AI reshaping not just the way tasks are performed but the nature of work itself. In our view, the next leg of the productivity story will be driven by broadening digital access and the diffusion of AI-enabled tools beyond the technology sector.

## SECTION V

# Key Conclusions

As we look towards 2026, our macroeconomic models are pointing to better global economic growth and stronger earnings momentum, a backdrop that historically supports decent performance across asset classes. That constructive outlook remains our base case. However, throughout my career, I have learned that the most important insights about markets often come not from what we expect to happen, but from what we need to prepare for along the way. To that end, there are several considerations that longer-term investors should consider. They are as follows:

**1. There are three positively correlated impulses driving cyclical economic growth today that we need to watch: fiscal spending, AI capex, and increases in household net worth.** These tailwinds could reverse in unison, most likely coinciding with an increase in unemployment too. Thus far, however, standard, sell-side macro models appear prone to extrapolating that these additional growth drivers will continue unabated over the next several years. While that could prove correct, our 'High Grading' thesis for 2026 is predicated on building in more cushion precisely because we believe there may be obstacles along the way. Said differently, we want to start the process of buttressing our portfolio construction models, as growth expectations about the future continue to rise.

**2. For long-term investors, productivity matters a lot.** After three and a half decades watching markets, I have come to learn that productivity not only leads to outsized returns but it also hides a lot of sins. In today's markets productivity has allowed the economy and markets to overcome heightened geopolitics, stickier inflation, and divided political lines. However, it is not a foregone conclusion that productivity will continue at its current level without some hiccups, especially given the amount of AI spending that is taking place around the world. To this end, in the coming quarters we need to study and watch

closely what both government reports and company results are telling us, especially as it relates to automation, digitalization, and AI. Were these tailwinds to slow, it would have material impact on our outlook for risk assets.

**3. Our SPX analysis for 2026 as well as our longer-term capital markets assumption work underscore the dichotomy between near-term upside (*Exhibits 94 and 95*) and longer-term more muted returns after such a strong run (*Exhibit 131*).** As investors, balancing these two crosscurrents to both generate returns and also have the capacity to lean in during periodic market dislocations will be a prerequisite for success in the next leg of this cycle.

**4. Our macro investment themes, which we laid out in Section I, are powerful allies to those who have patient capital and are looking for differentiated returns.** These themes, including capital heavy to capital light, productivity and worker retraining, the security of everything, and our long-standing focus on collateral-based cash flows, are differentiated from market beta and allow us to make our own luck in the current environment. They represent structural shifts that should compound over time, regardless of short-term volatility.

**5. Portfolio construction matters more than ever.** Linear pacing, position sizing, and managing correlations are all tools that should help long-term investors to both deliver returns and manage risks along the way.

**6. Finally, we continue to pound the table that the architecture of portfolios needs to evolve.** As we showed in our earlier work comparing a traditional '60/40' portfolio to a more diversified '40/30/30' construct, modestly reducing reliance on public markets and reallocating towards Private Equity, Real Assets, and Private Credit can improve risk-adjusted returns across a wide range of investing regimes. In our view, allocations to Private Markets are not about 'reaching for risk.' Rather, a

more diversified portfolio helps allocators in quite practical ways by building cushion/creating room to lean into dislocations, while still maintaining a resilient core portfolio that can navigate a world of tighter forward returns and more frequent macro shocks.

**Exhibit 141:** Likewise, the ‘Valuation Spread’, Comparing Valuation of Most Expensive to Least Expensive Stocks, Remains Modest and Not Consistent With a Bubble...

**S&P 500: ‘Valuation Spread’, Ratio of Most Expensive vs. Least Expensive Stocks by PE Ratio**

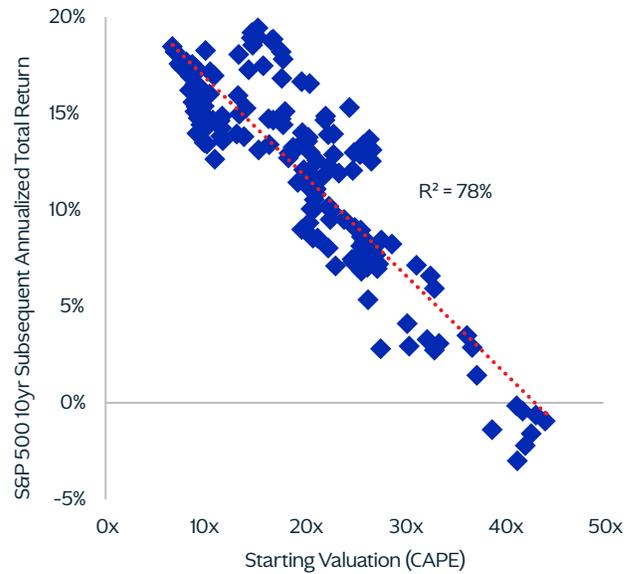


Analysis is based on earnings yield and excludes companies with negative earnings. Data as at October 31, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

In all our years doing macro research and investing, the opportunity set, especially in private side operational improvement stories, collateral-based cash flows, and international markets, appears as robust as we have seen in some time.

**Exhibit 142:** ...But There is No Argument From Us that Higher Multiples Today Will Challenge Long-Term Returns Down the Road

**S&P 500 10-Year Annualized Total Return vs. CAPE Valuations, 1975-2015**



Data as at November 30, 2025. Source: Bloomberg.

Looking ahead, our message is not to head to the sidelines. In fact, in all our years doing macro research and investing, the opportunity set, especially in private side operational improvement stories, collateral-based cash flows, and international markets, appears as robust as we have seen in some time. Rather, our message is to be prepared for this next leg of the cycle, including High Grading one’s portfolio, because investor expectations are now elevated in Equities, while we expect Credit conditions to normalize in Fixed Income. Against this backdrop, (and to steal a line from Roman philosopher Seneca the Younger), our message is “Luck is what happens when preparation meets opportunity.”



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