

Outlook for 2026

In Brief

Global Macro Trends | January 2026



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Outlook for 2026](#).

At KKR, our [2026 Outlook](#) reaches a clear conclusion: the world has changed, and portfolios must adapt. While the macro backdrop remains supportive, we are later in the credit cycle, and a meaningful portion of the productivity miracle is now embedded in equity capital market assumptions. In this environment, we believe the next phase of the cycle will reward investors who prepare rather than pause by upgrading portfolios, counterparties, and capital structures with an emphasis on quality, resilience, and capital efficiency. Private Markets, including operational improvement strategies, collateral-based cash flows, and international opportunities now offer attractive risk-adjusted return potential. Against this backdrop, we outline below where our views diverge from consensus, and how those differences can help advisors engage clients with greater clarity and conviction.

1

The cost to upgrade portfolios has rarely been lower. We think this is a unique later-cycle window to improve the quality of portfolios without sacrificing returns.

Today, quality Equities trade at only a ~17% premium, near eight-year lows, and relative credit spreads are as compressed as they were in 2021. We believe advisors can help clients improve portfolio durability with very little friction.

Exhibit 1: On the Equity Side, the Premium for Moving into High Quality Global Stocks Has Fallen to Just 17%...

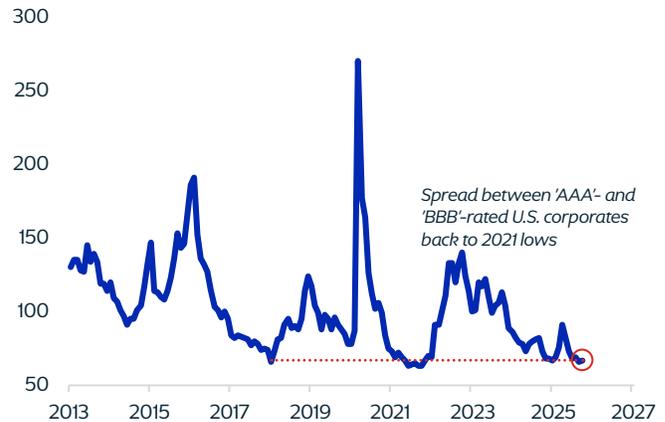
Relative Valuations: NTM P/E, MSCI AC World Quality Index vs. MSCI AC World



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 2: ...While Relative Credit Spreads Are Now as Compressed as They Were in 2021. As Such, the Cost to Improve the Quality of One's Portfolio 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.

In this environment, we believe the next phase of the cycle will reward investors who prepare rather than pause by upgrading portfolios, counterparties, and capital structures with an emphasis on quality, resilience, and capital efficiency.

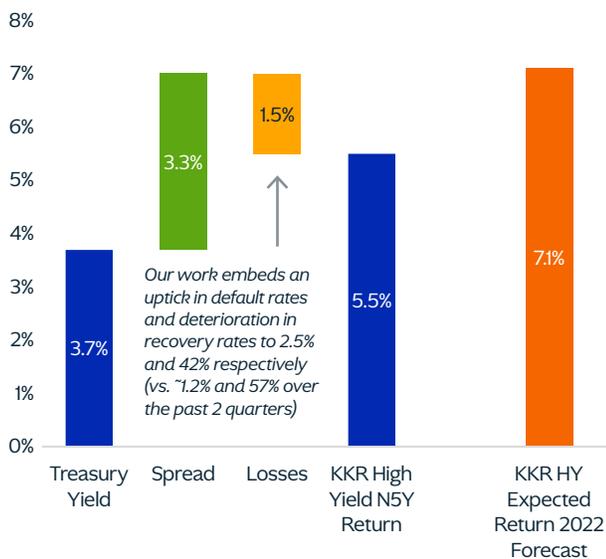
2

However, expect the trend towards higher defaults and lower recovery rates to continue across Credit markets in 2026. For example, we expect defaults in High Yield to rise towards 2.5%, a return to long-term norms, but not a crisis.

The real pressure is occurring in 2021-22 vintages and over-levered roll-ups, not across the system. Meanwhile, the cost to move up in quality is historically low, with spreads between AAA and BBB compressed to near 2021 levels.

Exhibit 3: 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.

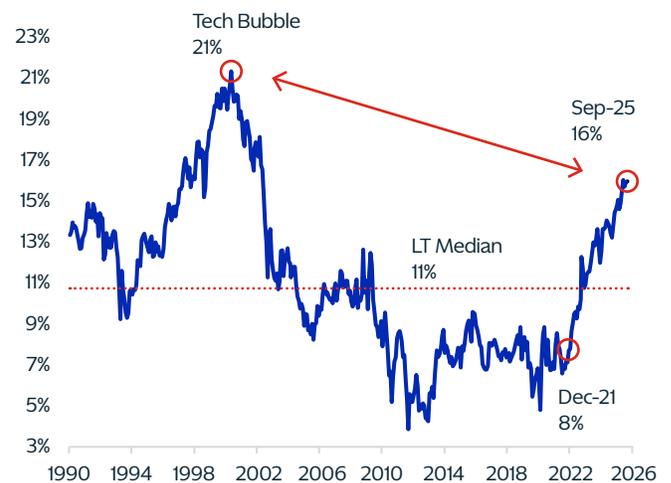
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The S&P 500 should remain a core allocation, but advisors must help clients recalibrate expectations and build portfolios that rely less on market beta and more on diversification, quality, and alternative sources of return.

After a historic run, future public market returns are likely to be more modest and driven by earnings growth rather than by valuation expansion.

Exhibit 4: Optimism Abounds: The Implied Market Pricing of S&P 500 EPS Growth Is Now Quite 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.

4

Our outlook suggests stronger global GDP growth than many expect. Economic resilience will give advisors room to reposition now, without stepping away from opportunity.

While others are calling for slowing growth, our models point to above-consensus GDP in three of the four major economies. There is a real opportunity to create differentiated outcomes by owning more proprietary origination (especially in Credit) as well as to be able to discern relative value across asset classes and geographies and to drive more upside through operational improvement strategies.

Exhibit 5: We Are Above-Consensus On Global Growth for the Next 24 Months, Except for Europe in 2026

	2026e Real GDP Growth		2027e Real GDP Growth	
	GMAA	Bloomberg	GMAA	Bloomberg
	New	Consensus	New	Consensus
U.S.	2.3%	1.8%	2.2%	2.0%
Euro Area	1.1%	1.1%	1.5%	1.4%
China	4.6%	4.4%	4.4%	4.1%
Japan	0.9%	0.7%	1.0%	0.8%

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

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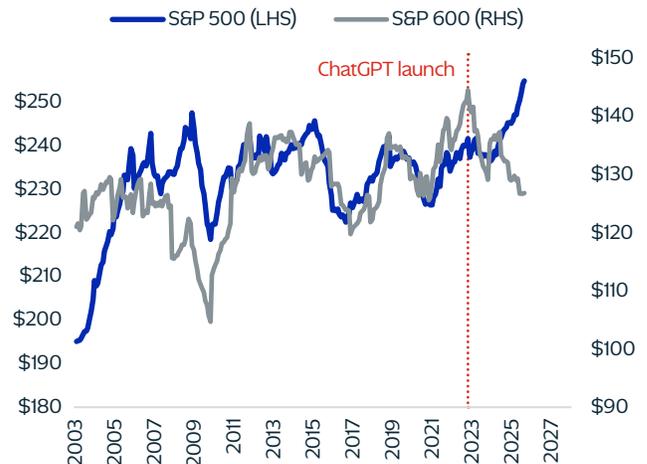
5

Productivity is the quiet force powering the current expansion. Persistent productivity gains can help offset inflation, support earnings, and create durability across portfolios, even in an uncertain macro backdrop.

Since the launch of generative AI, S&P 500 real revenue per worker has risen ~5.5% after two decades of stagnation. Automation, digitalization, and AI are reshaping margins well beyond the tech sector. To date, however, we have not seen the same productivity gains reflected in the S&P 600.

Exhibit 6: 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. By Comparison, 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.

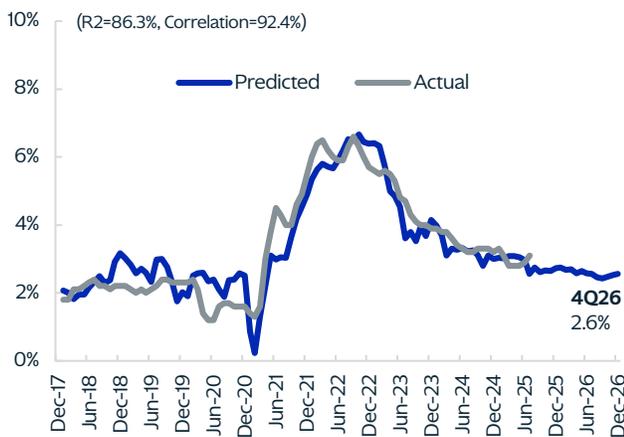
6

Inflation isn't going back to the 'old' normal. A higher inflation investing regime calls for assets that participate in nominal GDP growth like Infrastructure, Asset-Based Finance, and Real Estate Credit.

Consistent with this view, we want to shift away from assets with an inability to pass through price increases. Our research shows U.S. inflation is settling closer to a 2.5% 'resting heart rate,' not the pre-pandemic level of generally below 2.0%. Services costs, certain commodities, and tariffs keep a firm floor under prices.

Exhibit 7: Our Inflation Model Shows Core CPI Settling at Its 2.6% 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.

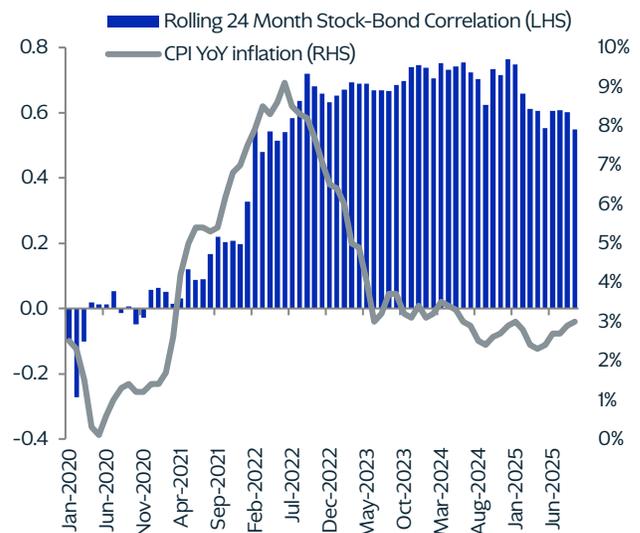
7

In our *Regime Change* framework, stocks and bonds now move together more often than in the past. This reality is why a classic '60/40' portfolio may no longer be sufficient amidst this change in correlations.

Against this backdrop, we think portfolios could benefit from the diversified return engines of Private Markets, including collateral-based cash flows. We expect positive stock-bond correlations to persist across the U.S., U.K., and Japan, a departure from the diversification dynamic that advisors have relied on for decades.

Exhibit 8: Government Bonds Are No Longer Acting as Effective 'Shock Absorbers' in Portfolios

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



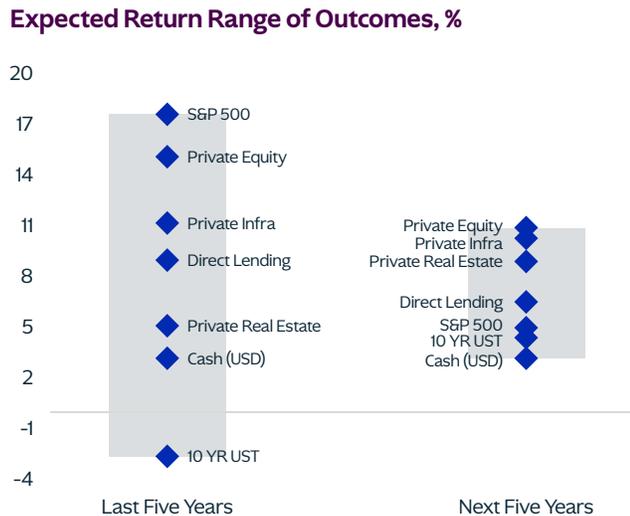
Data as at September 30, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

8

Expected returns are compressing, but many Private Markets investments appear poised to deliver strong relative returns.

Our view is that active asset allocation is imperative as access, selection, and manager quality become central to outcomes. Our forward return work shows a flattening efficient frontier and a narrowing gap between the best- and worst-performing asset classes. Public valuations now embed elevated expectations, while Private Markets still offer certain structural return advantages in Private Equity, Infrastructure, Real Estate, and Private Credit.

Exhibit 9: The Forward-Looking Expected Range of Outcomes Will Be Narrower, We Believe



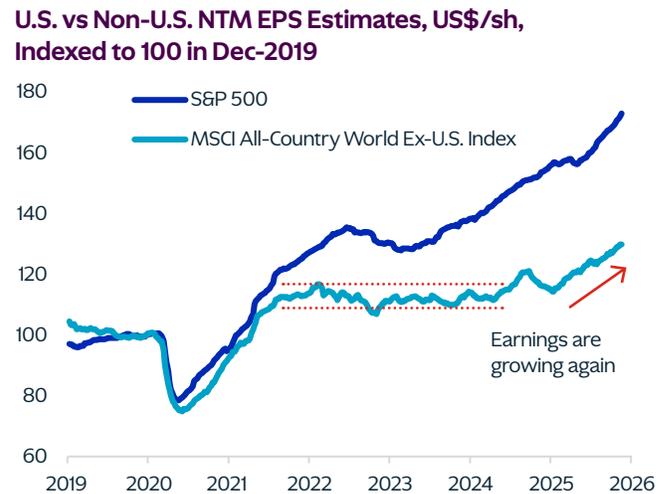
Data as at November 30, 2025. Source: KKR Global Macro & Asset Allocation analysis.

9

Asia is one of the most under-owned opportunities in global portfolios. Clients who remain U.S.-heavy miss one of the most attractive global entry points in years, just as international earnings begin to inflect.

We believe Asia is entering a multi-year structural upswing. In Japan, 40% of companies still trade below book value. In India, affluent and upper-middle-income households are expanding rapidly, driving durable consumption trends. In Korea and Southeast Asia, reform and digitalization are accelerating.

Exhibit 10: Global ex-U.S. Earnings Have Quietly Broken Out, Following Three Years of Stagnation



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

10

In a world of flatter expected returns, investing themes create differentiation and can help drive outperformance.

Advisors who align client portfolios with long-term structural shifts, rather than with short-term market narratives, can help clients access more durable sources of growth and diversification. Looking forward, KKR believes that the next phase of the cycle will be driven more by structural investment themes that compound over time, regardless of short-term volatility. These themes are not tactical calls; rather, they reflect durable shifts in the way capital is allocated, how businesses are operating, and economies are growing.

Capital Heavy to Capital Light	Companies are shedding non-core assets, simplifying balance sheets, and improving returns on capital. This shift is driving corporate carve-outs in Private Equity, Real Assets, and Asset-Based Finance, and it is leading to more capital efficient business models across both Public and Private markets.
Productivity and Worker Retraining	Automation, digitalization, and AI are reshaping labor markets. The opportunity lies not just in technology providers, but in platforms that improve workforce efficiency, retraining, and human-AI collaboration.
The Security of Everything	National security, energy security, data security, and supply-chain resiliency are converging into a powerful capex cycle spanning defense, infrastructure, cybersecurity, and critical systems.
Consumption Upgrades in Emerging Markets	Rising incomes in India and Southeast Asia are driving long-duration demand for services, healthcare, education, and financial inclusion.
Intra-Asia Trade and Global Services	Trade and growth are becoming more regional and more service-oriented, favoring economies and companies that can scale high-value offerings rather than just capital-intensive manufacturing.
Collateral-Based Cash Flows	Investment in hard assets that rise in value with consumer prices, have floating rate coupons, or long-term price escalators/contracted revenues help offset 'higher for longer' inflation concerns and can provide downside protection and more predictable revenue streams.

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