

An Expanded Toolkit for the Next Investing Regime

CAPITAL MARKET ASSUMPTIONS | January 2026

At KKR, we have been publishing forward-looking Capital Market Assumptions since 2017 to help investors think more deliberately about asset allocation, risk, and long-term portfolio construction. These assumptions have evolved over time alongside meaningful changes in the macroeconomic and market backdrop, including higher trend inflation, greater geopolitical uncertainty, and the shift away from the unusually supportive conditions that characterized much of the post-GFC period. In this note, we are taking a deeper dive into the CMA analysis that we originally published in 'High Grading', our [Outlook for 2026](#).



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Building on our long-standing investment framework, Christian Olinger, alongside members of the KKR Macro & Asset Allocation and Solutions teams, has brought together our latest assumptions for expected returns, yields, and volatility, correlations, and manager dispersion across both Public and Private Markets. The goal is to provide a coherent set of forward-looking inputs that investors can use to assess trade-offs, size exposures, and position portfolios across different time horizons and risk profiles.

In our view, the investing environment today differs meaningfully from the past decade. Cross-asset return dispersion has narrowed, starting valuations are less forgiving, and traditional diversification has become less reliable. As a result, incremental performance is increasingly driven by how portfolios are constructed, not simply by what they own. Against this backdrop, quality, selectivity, and implementation discipline matter more than ever, and Private Markets are playing an increasingly important role as core building blocks within diversified portfolios.

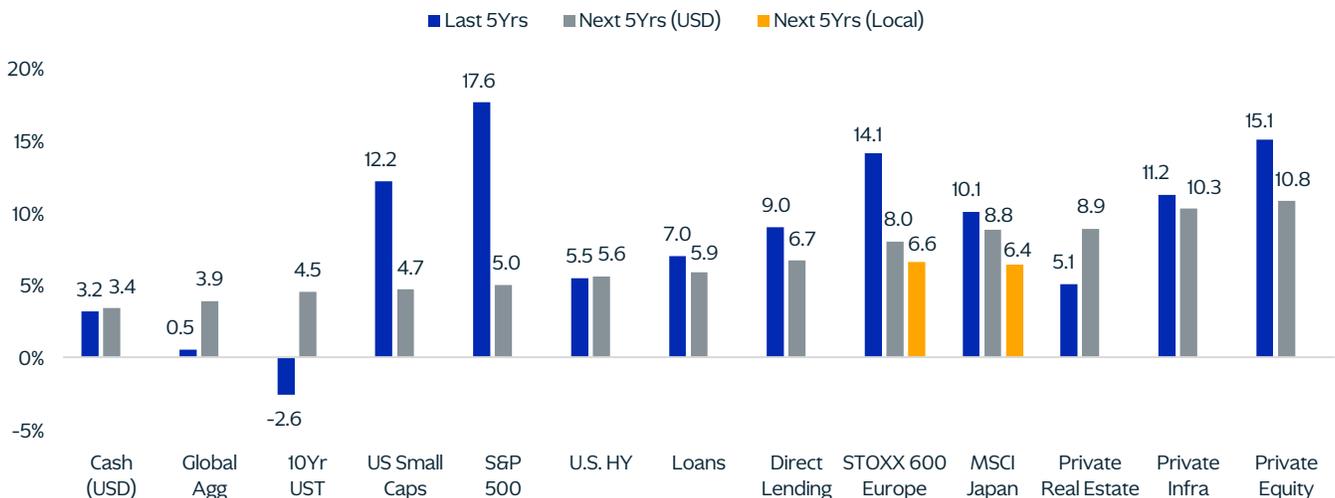
The following key data and assumptions underpin our Capital Market Assumptions and are available in interactive form on [our website](#):

- Term structure of expected returns across 5-, 10-, and 20-year horizons.
- Long-term expected yields by asset class.
- Expected volatility by asset class, including both reported and unsmoothed views for Private Markets.
- Cross-asset correlations to help investors evaluate diversification benefits under our assumptions.
- Private Markets manager dispersion to quantify the potential impact of manager selection.

Our website’s interactive visuals help investors explore these assumptions by comparing expected returns with history, seeing how they change across horizons, and using our volatility and correlation estimates to gauge risk and diversification. The goal is to provide a clear, practical set of inputs that investors can use within their own portfolio construction frameworks to pursue incremental return and improve diversification in a world where broad market exposures are potentially less forgiving.

Exhibit 1: We Continue to Think Expected Returns Over the Next Five Years Will Look Quite Different Relative to the Past Five

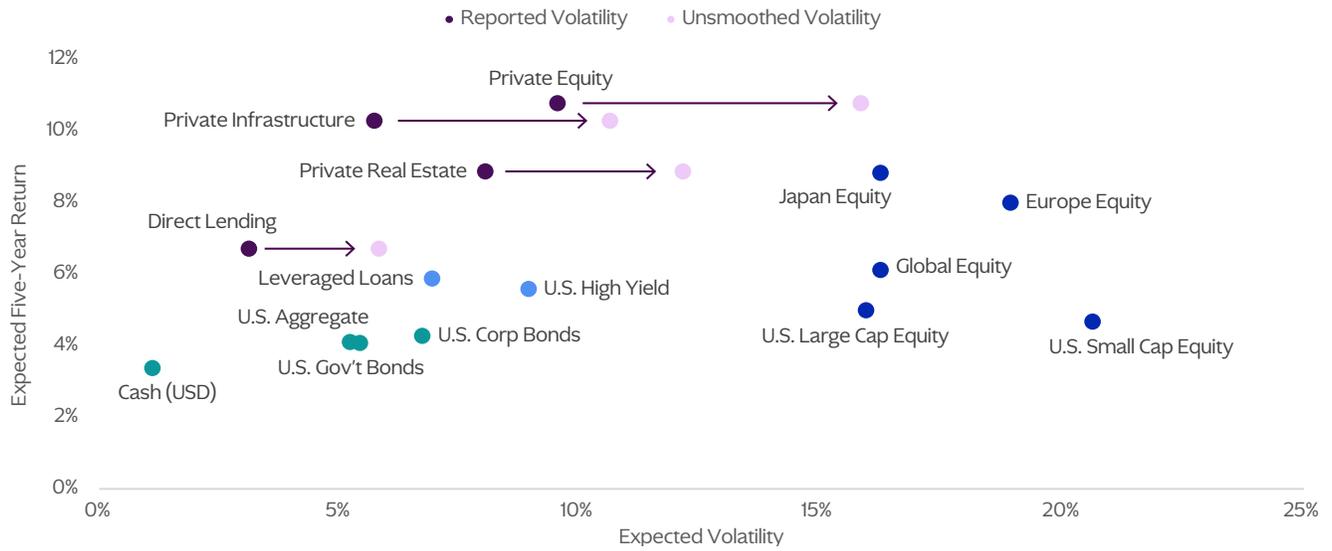
Expected vs. Historical Returns, %



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 Associates, KKR Global Macro & Asset Allocation analysis.

Exhibit 2: Private Markets Provide an Enhanced Return for Their Volatility Levels When Compared to Their Public Counterparts

Asset Class Return and Volatility Expectations



Expected volatility is based on quarterly data with exponential weighting and 6yr half-life. Data as at November 30, 2025. Source: Bloomberg, BofA, Burgiss, Cambridge Associates, KKR Global Macro & Asset Allocation analysis.

Key Insights

The exhibits above summarize our capital market assumptions, and the insights below interpret what those assumptions imply for investors. Taken together, they highlight structural shifts that are reshaping the opportunity set and influencing portfolio construction.

● INSIGHT NO. 1

The opportunity set across asset classes is narrowing

Cross-asset return dispersion has continued to shrink, with the spread between the best- and worst-performing asset classes now at **7.4%**, down from **8.1%** in our 2025 Mid-Year update and **9.1%** several years ago (*Exhibit 1*). As the efficient frontier flattens, incremental return is becoming less about simply owning the 'right' asset classes and more about portfolio construction discipline — how exposures are sized, combined, and diversified — alongside manager selection.

● INSIGHT NO. 2

Starting points are less forgiving

Public market valuations remain elevated, credit spreads are generally tight, and yields are closer to long-term fair value, limiting the scope for price-driven upside in fixed income. While we do not rely on a simplistic mean-reversion framework, history suggests that elevated starting valuations eventually weigh on forward returns, particularly once the tailwinds from falling rates and productivity fade. This backdrop raises the bar on selectivity and reinforces the need to be disciplined about where risk is taken and how it is compensated.

● INSIGHT NO. 3

Resilience matters more

In a regime characterized by higher trend inflation, persistent fiscal deficits, and elevated geopolitical tensions, we believe 'quality' today is being priced at only a modest premium relative to history in both Public Equities and Credit (*Exhibits 3 and 4*). At the same time, we see the stock-bond correlation, especially in certain developed markets, as structurally higher than during the post-GFC era, reducing the reliability of bonds as a consistent diversifier in drawdowns. Against this backdrop, Private Markets' role as a source of return, diversification, and inflation resilience could become more central to portfolio design.

As the efficient frontier flattens, incremental return is becoming less about simply owning the 'right' asset classes and more about portfolio construction discipline — how exposures are sized, combined, and diversified — alongside manager selection.

Exhibit 3: On the Equity Side, the Premium for Moving into High Quality Global Stocks Has Fallen to Just 17%...

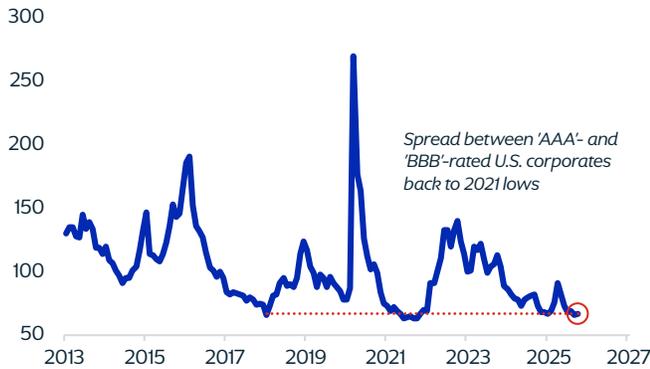
Relative Valuations: NTM P/E, MSCI AC World Quality Index vs. MSCI AC World



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 4: ...While Relative Credit Spreads Are as Compressed as They Were in 2021. As Such, the Cost to High Grade Is Quite Low

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



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

Exhibit 5: The Forward-Looking Range of Five-Year Expected Returns Will Be Narrower, We Believe

Expected Return Range of Outcomes, %



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

Putting these themes together, portfolio outcomes are increasingly driven by deliberate tilts, manager selection, underwriting discipline, and the selective use of illiquidity premia. With narrower dispersion across asset classes and less dependable diversification from traditional offsets, success is less about broad market exposures and more about precision in construction and execution.

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Asset Classes

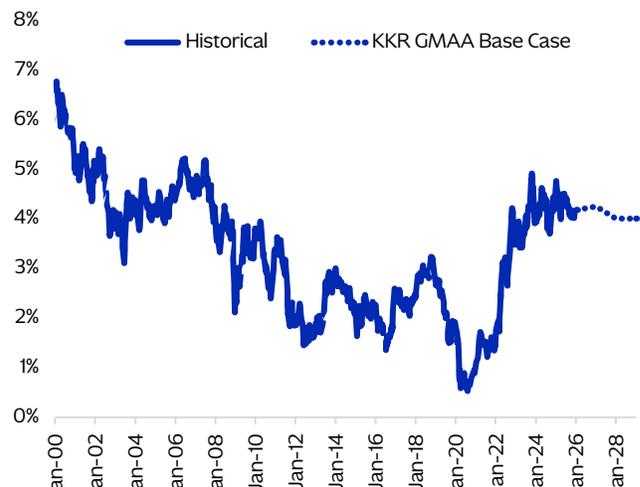
Fixed Income

Within Fixed Income, we believe that 10-year 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 idea anchors our long-term view of the 10-year yield around four percent, well below the levels seen in the 1980s and 1990s, but meaningfully higher than the post-GFC era of ultra-low rates. That said, we see upside risks to yields over time, driven by elevated debt burdens, persistent fiscal deficits, and the potential for episodic disruptions to capital flows during periods of heightened tension. Combined with a structurally higher stock-bond correlation, government bonds may be less reliable shock absorbers during equity drawdowns. In credit markets, spreads remain tight even after adjusting for shifts in quality. While strong structural demand for income should keep spreads narrower than long-term averages, the risk-reward increasingly favors moving up in quality (*Exhibit 6*). For investors seeking incremental yield, we see more attractive opportunities in Private Credit, where illiquidity premia remain compelling and valuations appear more balanced.

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Exhibit 6: Our 10-Year Forecasts for the U.S. Treasury Are Quite Moderate Relative to Long-Term Highs, But Still Elevated by Recent Standards

10-Year UST, %



Data as at January 15, 2026. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

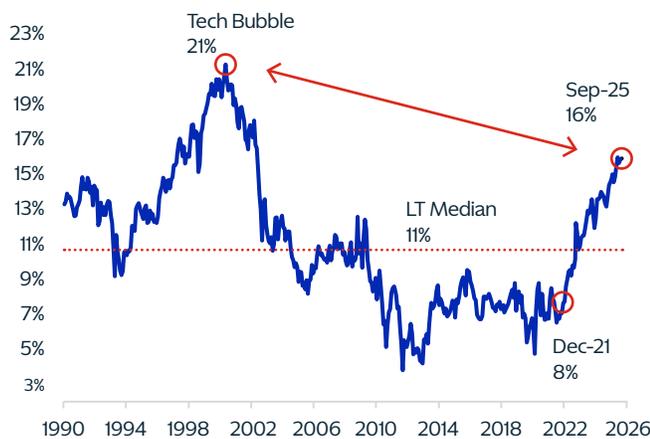
Public Equities

Within Public Equities, we expect increasing divergence between the United States and other developed markets over the next five years. U.S. corporates continue to benefit from productivity gains, supportive fiscal dynamics, and a favorable growth backdrop. However, valuations are increasingly stretched, even after accounting for the market's shift towards higher multiple sectors such as technology. As in the late 1990s, investor optimism appears to be rising, particularly around the cohort of AI enablers in the Technology, Industrial, and Utility sectors. Importantly, we believe a significant share of long-term value creation is more likely to accrue to companies that apply AI in their businesses, not just those that enable it.

One way we quantify this optimism is by examining the future growth expectations embedded in markets. Today, the 10-year forward EPS CAGR implied by the S&P 500's current market value is close to 16%, versus roughly 8% for much of the prior decade and a long-term average of about 11%. While still below the 21% implied in 2000, this nevertheless represents elevated forward growth expectations, in our view (*Exhibit 7*).

Exhibit 7: 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

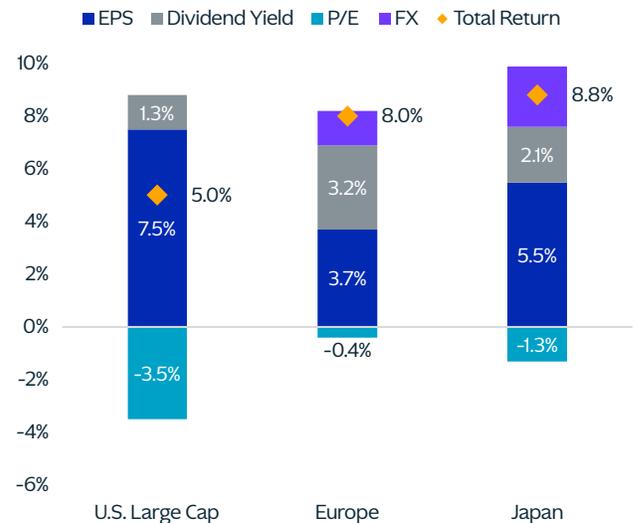


Data as at September 30, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation.

While the next one to two years may still offer attractive opportunities in U.S. Large Cap Equities, we believe valuation pressures are likely to weigh on returns longer term. By contrast, Japan and parts of Europe offer more attractive starting valuations, with higher dividend yields and less vulnerability to multiple compression. Japan stands out in particular. Ongoing corporate reforms, improved capital allocation, and the unwinding of cross-shareholdings are fostering a more profit-oriented corporate culture. These changes should support earnings growth that exceeds Europe's but remains below the U.S. in local currency terms. Taken together, we expect Japan and Europe to outperform the U.S. by roughly 1.4% annually (in local currency), with a weaker dollar further widening that advantage for global investors (*Exhibit 8*).

Exhibit 8: Multiple Contraction Across All Segments of the Public Equity Market May Likely Dent Forward Returns. However, International Equities 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.

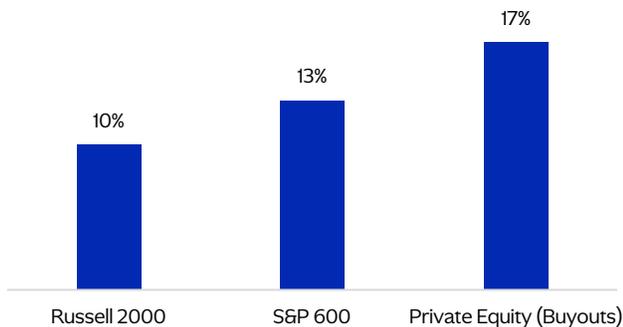
While the next one to two years may still offer attractive opportunities in U.S. Large Cap Equities, we believe valuation pressures are likely to weigh on returns longer term. By contrast, Japan and parts of Europe offer more attractive starting valuations, with higher dividend yields, and less vulnerability to multiple compression.

Private Markets

Against this backdrop, Private Markets can represent some of the most attractive sources of return. 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. Within Private Equity, the illiquidity premium remains 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 to the deterioration that we now see in the quality of public Small Cap Equities (*Exhibit 9*). Meanwhile, Real Estate has also largely repriced to reflect higher rates and now offers healthy cap rates, solid NOI growth, and the potential for inflation pass-through over time. Finally, Infrastructure continues to benefit from contractual inflation linkage, less sensitivity to real rates, and sustained demand for capital amid constrained government budgets.

Exhibit 9: Private Equity-Owned Companies Have Higher EBITDA Margins Than Public Small Caps

EBITDA Margin for Private and Public Companies, %



Data as at December 31, 2024. Source: Burgiss, Bloomberg.

Taken together, this environment requires a different approach to portfolio construction. We think that beta will be less rewarded, and manager alpha will only increase in importance. 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 10*, the potential for the illiquidity premium in asset classes such as Private Equity should grow notably in the environment we are envisioning.

Exhibit 10: 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



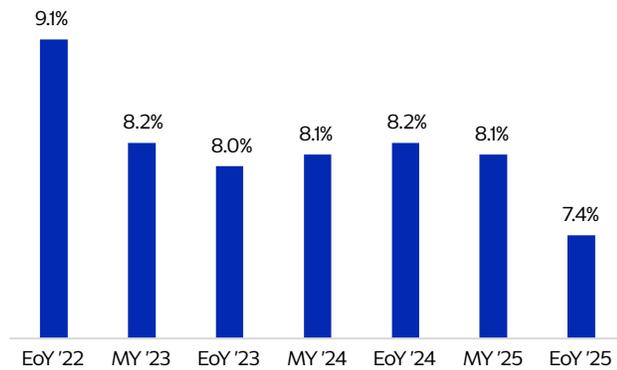
The Cambridge Associates LLC U.S. Private Equity Index is an end-to-end calculation based on data compiled from 1,482 U.S. private equity funds (buyout, growth equity, private equity energy and mezzanine funds), including fully liquidated partnerships. Pooled end-to-end return, net of fees, expenses,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

Taken together, this environment requires a different approach to portfolio construction. We think that beta will be less rewarded, and manager alpha will only increase in importance. Moreover, the potential for Private Markets to recapture some of their relative performance should improve meaningfully.

Importantly, we expect dispersion of median returns across asset classes to narrow, a dynamic illustrated in *Exhibit 11*. 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. Looking ahead, we believe the next five years will favor investors who can balance resilience and return by leaning into quality, harvesting illiquidity premia, and positioning portfolios for a macro regime where inflation runs structurally higher and geopolitical uncertainty remains elevated.

Exhibit 11: The Expected Return Differential Between the Best and Worst Performing Assets in a Portfolio Continues to Tighten

Expected Returns: Maximum - Minimum Expected Return Differential



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

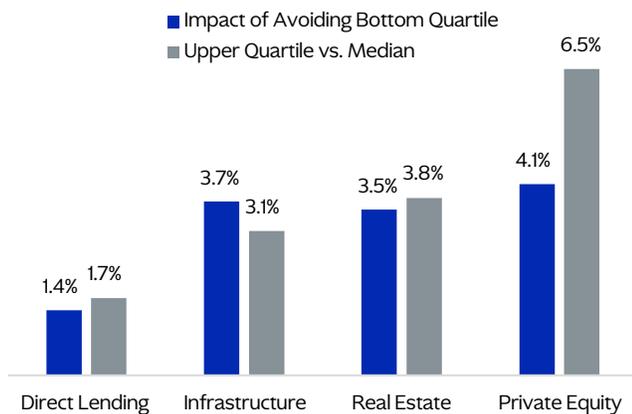
Private Equity, Real Estate, and Infrastructure remain our highest expected-return asset classes, supported by structural tailwinds and more reasonable valuations than their public market counterparts.

Conclusion

Our bottom line: Regime Change The path to generating 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.

Exhibit 12: Manager Selection Is a Key Driver of Outcomes in Private Markets and Can Add Materially Value Above a Median Manager

Historic Manager Dispersion in Private Markets



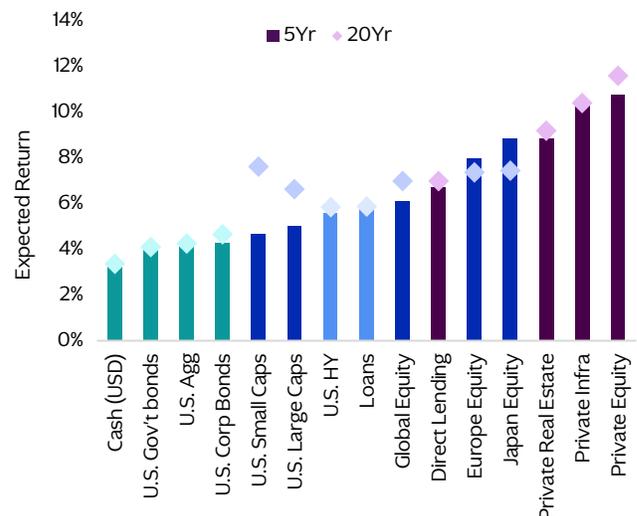
Based on global benchmarks and average IRRs of 2017-2021 vintage years. Top Quartile vs. Median is the average difference between the top quartile IRR and median IRR. Impact of Avoiding Bottom Quartile is the difference between the average pooled equally weighted IRR for top three quartiles and the broad universe of managers. Direct Lending is represented by Private Debt: Senior. Source: Cambridge Associates.

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 (*Exhibit 12*), underwriting discipline, and strategic tilts across geographies and asset classes to harvest the incremental return available. Done correctly,

a more diversified portfolio 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 13: Private Real Estate, Infrastructure, and Private Equity Are Expected to Outperform in Both the Short and Long Term

Expected Return Differences Between 5 and 20 Year Horizons



Data as at December 31, 2025. Source: Bloomberg, BofA, Burgiss, Cambridge Associates, KKR Global Macro & Asset Allocation analysis.

Table 1: KKR GMAA Capital Market Assumptions in USD, %

Asset Classes	Expected Return			Yield	Historical Manager Dispersion		Volatility	
	5Yr	10Yr	20Yr		Top Q vs. Median	Avoiding Bottom Q	Reported	Unsmoothed
Public Equity								
U.S. Large Cap Equity	5.0%	6.2%	6.6%	1.4%			15.9%	
U.S. Small Cap Equity	4.7%	6.6%	7.6%	2.5%			20.6%	
Europe Equity	8.0%	7.7%	7.4%	3.2%			18.9%	
Japan Equity	8.8%	7.9%	7.4%	2.3%			16.2%	
Global Equity	6.1%	6.8%	7.0%	2.0%			16.2%	
Investment Grade Fixed Income								
Cash (USD)	3.4%	3.4%	3.4%	3.4%			1.1%	
U.S. Gov't Bonds	4.1%	4.0%	4.1%	3.8%			5.4%	
U.S. Corp Bonds	4.3%	4.5%	4.7%	4.8%			6.7%	
U.S. Long Gov't Bonds	4.6%	4.7%	5.2%	4.6%			13.9%	
U.S. Long Corp Bonds	4.2%	4.8%	5.4%	5.7%			11.4%	
U.S. Aggregate	4.1%	4.2%	4.3%	4.1%			5.2%	
Global Aggregate	3.9%	4.0%	4.0%	3.9%			4.2%	
Sub Investment Grade Credit								
U.S. High Yield	5.6%	5.8%	5.9%	7.2%			8.9%	
Leveraged Loans	5.9%	5.9%	5.9%	7.4%			6.9%	
Private Markets								
Private Equity	10.8%	11.5%	11.6%	0.0%	6.5%	4.1%	9.5%	15.8%
Private Real Estate	8.9%	9.4%	9.2%	2.0%	3.8%	3.5%	8.0%	12.1%
Private Infrastructure	10.3%	10.4%	10.4%	2.0%	3.1%	3.7%	5.7%	10.6%
Direct Lending	6.7%	6.9%	7.0%	8.1%	1.7%	1.4%	3.1%	5.8%

Data as at December 31, 2025. Source: Bloomberg, BofA, Burgiss, Cambridge Associates, KKR Global Macro & Asset Allocation analysis.

Table 2: Select Asset Class Correlations

Correlations	Global Equity	Global Aggregate	U.S. Aggregate	U.S. Gov't Bonds	U.S. Corp Bonds	Private Equity	Private Real Estate	Private Infra	Direct Lending
Global Equity	1.00	0.48	0.43	0.17	0.66	0.83	0.47	0.65	0.67
Global Aggregate	0.48	1.00	0.96	0.90	0.93	0.35	0.10	0.36	0.09
U.S. Aggregate	0.43	0.96	1.00	0.95	0.93	0.34	0.16	0.43	0.01
U.S. Gov't Bonds	0.17	0.90	0.95	1.00	0.78	0.09	0.02	0.22	-0.25
U.S. Corp Bonds	0.66	0.93	0.93	0.78	1.00	0.58	0.29	0.59	0.33
Private Equity	0.83	0.35	0.34	0.09	0.58	1.00	0.66	0.74	0.74
Private Real Estate	0.47	0.10	0.16	0.02	0.29	0.66	1.00	0.58	0.48
Private Infrastructure	0.65	0.36	0.43	0.22	0.59	0.74	0.58	1.00	0.50
Direct Lending	0.67	0.09	0.01	-0.25	0.33	0.74	0.48	0.50	1.00

Data as at December 31, 2025. Source: Bloomberg, BofA, Burgiss, Cambridge Associates, KKR Global Macro & Asset Allocation analysis.

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