Macro State of Play

In Brief

Global Macro Trends | September 2025

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As we digest the latest round of economic data and policy developments, the macro environment continues to evolve in ways that reinforce our core thesis that we're operating in a *Regime Change*—one where the traditional investment 'state of play' for financial advisors may require adjustment. Perhaps most importantly, our recent travels through Southeast Asia have strengthened our conviction that global investors are missing a significant opportunity as most allocators are meaningfully underweight the region (up to 600 basis points), which supports the strong technical bid we are forecasting for assets in Asia.

> The best time to plant a tree was 20 years ago. The second best time is now.
>
> — **Chinese Proverb**

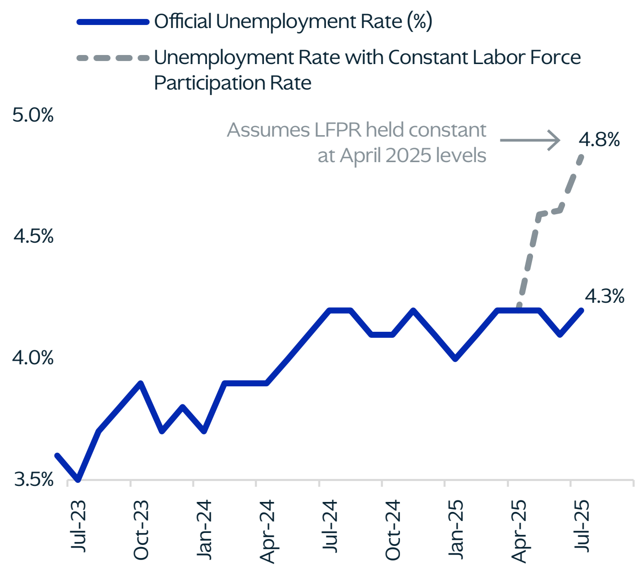
1

The market's focus, along with the Fed's, is now more on employment than inflation.

The Fed's September decision to cut rates by 25 basis points, coupled with forward guidance suggesting additional easing ahead, validates our view that the Fed will be cutting multiple times, even though inflation will likely not hit its target until 2026 at the earliest. The Fed is starting to recognize downside risks to employment as lack of available workers is helping to offset sluggish demand, thus preventing layoffs. We estimate that unemployment would be closer to 5.0% if supply had not been curtailed in recent months. That said, the Fed is cutting into a balance sheet that is still 22% of GDP and financial conditions remain accommodative, which is why we do not think the U.S. cycle is over, given what we are seeing on the productivity front (which should help offset weaker job growth).

Exhibit 1: If Not for Collapsing Labor Force Participation (Lower Immigration and Labor Supply), the Unemployment Rate Would Have Climbed to Nearly 5% in August Instead of 4.3%

U.S. Unemployment Rate



Data as at September 5, 2025 Source: U.S. Bureau of Labor Statistics, KKR Global Macro & Asset Allocation analysis.

Chair Powell's comments endorsed our view that the Fed needs to cut rates faster, given worsening labor risks but still somewhat sticky inflation concerns.

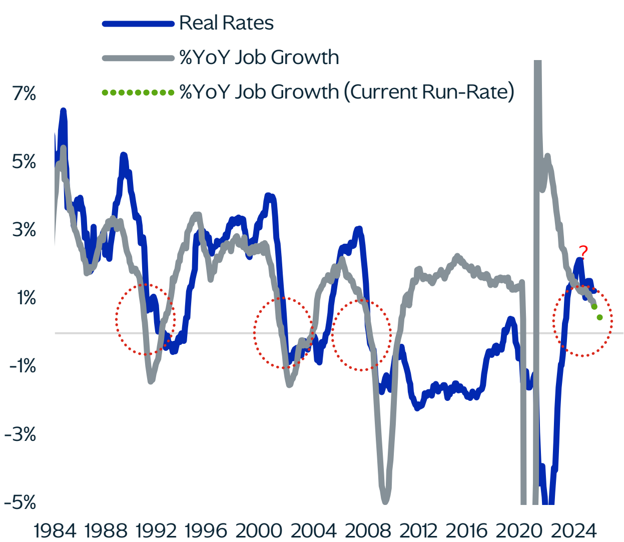
2

The Fed has now come round to our long-term view that they need to cut rates faster.

Fed cuts amid above-target inflation (and a worsening labor market as highlighted above) underscores the structural considerations we have been highlighting around deficits, demographics, geopolitics, and the energy transition. The Fed now plans to cut rates back towards neutral, while keeping real rates around one percent. In practice, however, we think the Fed will ultimately need to ease rates a bit faster than its dot plots suggest. KKR GMAA is currently at three cuts each year in 2025 and 2026.

Exhibit 2: Job Growth Is Running Near Stall Speed, Which Would Typically Call for Real Rates Near Zero Percent…

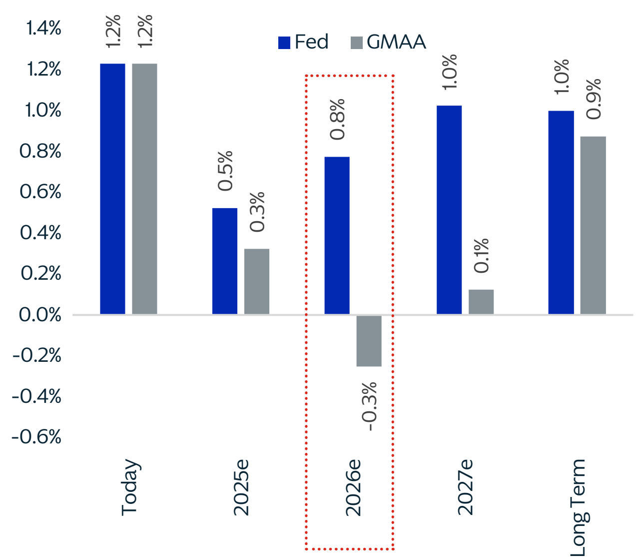
Real Rates vs. Job Growth, %



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

Exhibit 3: …Which Is Why We See a Faster Easing Cycle Playing Out in 2026 vs. the Fed

Real Fed Funds, %



Fed data uses Core PCE inflation vs. Core CPI for GMAA. Data as at September 17, 2025. Source: Bloomberg, Federal Reserve Board, KKR Global Macro & Asset Allocation analysis.

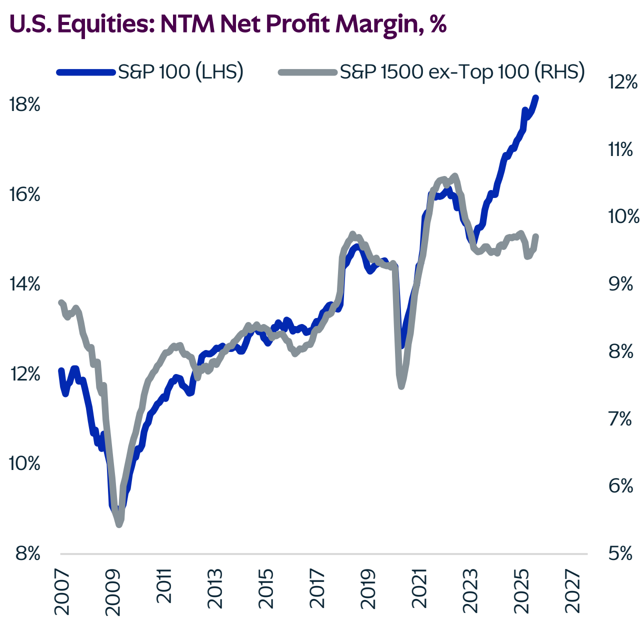
We do not see this balance of risks shifting back towards significantly higher inflation in 2026, which is why we think the Fed will ultimately cut rates more aggressively than policymakers expect over the next twelve months.

3

Lower rates help levered structures, which directly benefit many parts of the private markets.

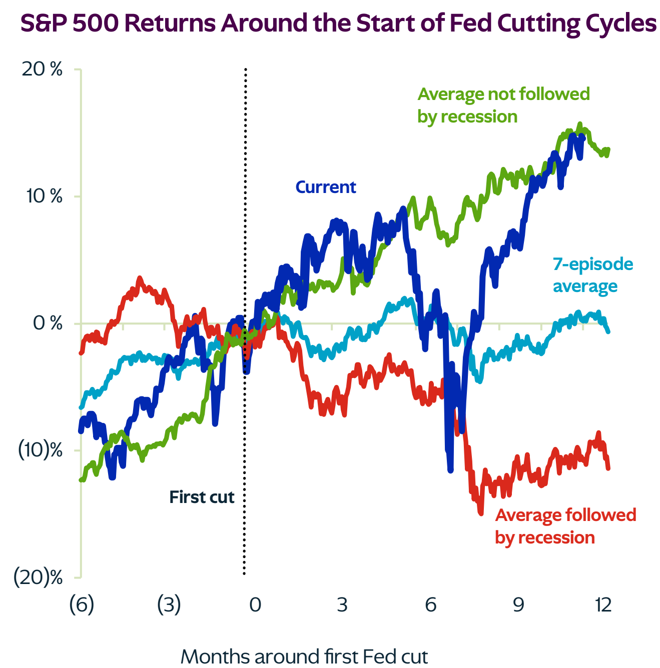
Six months from now, equity markets are likely to head higher, the dollar is likely to be headed lower, and the demand for collateral-based cash flows and other forms of inflation protection will remain robust. Longer term, we think the cycle continues until productivity falters, AI capex spending falls significantly, and/or unemployment ticks up more materially.

Exhibit 4: Outside of the S&P 100, Many in the Corporate Sector Feel That Real Rates Remain Too Restrictive



Data as at August 29, 2025. Source: KKR Global Macro & Asset Allocation, Bloomberg, S&P.

Exhibit 5: Market Performance Will Depend on Whether the Economy Enters Recession This Cycle



Data as at June 30, 2025. Source: Datastream, Worldscope, Goldman Sachs Global Investment Research.

We advocate shortening duration, leaning into collateral-based cash flows, and overweighting opportunistic vehicles across liquid and private markets.

How Lower Interest Rates May Affect Private Market Asset Classes

Private Markets Asset Class	Impact from Lower Rates
Direct Lending	• Lowers the cost of capital (i.e. leverage) • Reduces cash interest expenses, increasing margin of safety for operational or performance challenges • Stimulates borrowing and lending, thereby increasing M&A/LBO deal flow • Lower base rates may pressure distributions
Asset-Based Finance	• A Fed easing cycle amid what remains above-target inflation reinforces our call for a Regime Change in asset allocation, supporting higher allocations to real assets including ABF • Companies can access capital at lower interest rates (assuming no recession) • Enhanced ability to structure existing assets • The diversification benefits of the asset class become more pronounced during periods of interest rate transitions • Typically drives valuations higher although lower rates can signal slowing growth which could impact credit quality
Private IG	• Most private IG loans are fixed rate, allowing investors to keep earning the same steady income, even if overall interest rates decline • Private IG continues to pay a premium above public investment grade bonds, offering investors higher yield for similar credit quality • Increased demand can help support strong valuations
Private Equity	• Cheaper financing for portfolio companies can improve cash flows and valuations • Over time, lower rates stimulate increased borrowing and lending, thereby driving more activity • Lower rates may signal slowing growth
Real Estate	• Moderating yields create a more constructive backdrop for Real Estate cap rates • Longer term, lower rates make financing more accessible and can stimulate activity/demand • In our view, further rate cuts are likely necessary before Fed policy can truly stimulate incremental consumer demand for housing
Infrastructure	• A Fed easing cycle amid what remains above-target inflation reinforces our call for a *Regime Change* in asset allocation, supporting higher allocations to Real Assets including Infrastructure • Reduces the cost of leverage • May provide refinancing opportunities

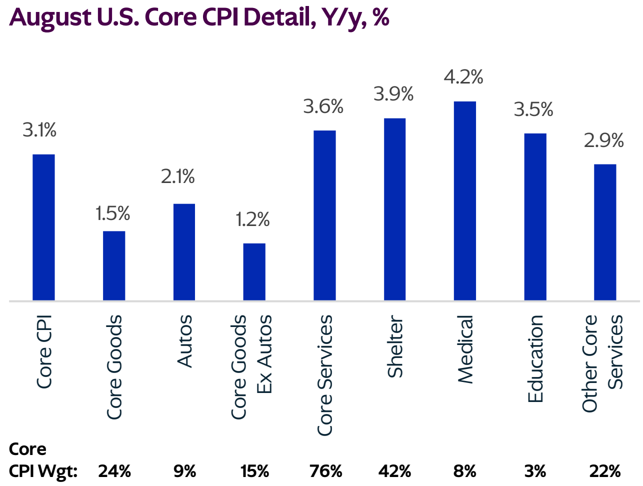
Data as at September 24, 2025. Source: KKR Global Macro & Asset Allocation analysis.

4

Core services' inflation looks set to continue moderating, making it easier for policymakers to look through tariff-related inflation.

Goods inflation remains hot (as expected), but we think sticky core services inflation is settling in a healthier range. We revise up our 2026 CPI forecast to 2.9% from 2.8% (marking to market for energy-related inflation), but the key signal we take away is that core services inflation looks set to continue moderating.

Exhibit 6: On a Y/y Basis, We Are Yet to See the Full Impact of Tariff Related Inflation in Goods Categories



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

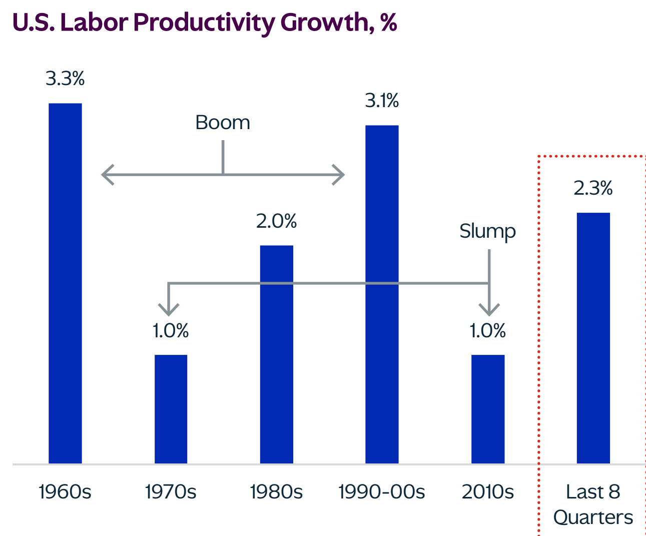
In a world of levered governments with big deficits, rising input costs, and slowing labor force growth, we think productivity has emerged as a key differentiator.

5

We still see the 'Glass Half Full', boosted by productivity.

In a world of levered governments with big deficits, rising input costs, and slowing labor force growth, we think productivity has emerged as a key differentiator. We think productivity stories across all markets are likely to be revalued upward, while we see growing strains in the bank loan market of smaller companies that lack scale and/or a technological advantage. We are tilting more towards operational improvement stories in **Private Equity** (especially corporate-carve outs), collateral-based cash flow (**Infra**, **Real Estate Credit**, and **Asset Based Finance**), and **structured deals** (including structured equity with both downside protection and upside equity opportunity).

Exhibit 7: Stronger Labor Productivity Is the 'Secret Sauce' to Extending the Business Cycle As Well As Partially Offsetting Higher Deficits



1960s refers to 1959-68; 1990s-00s refers to 1995-05; 1970s refers to 1973-79; 2010s refers to 2010-19; 1980s refers to 1980-88. Data as at June 30, 2025. Source: Bloomberg, Federal Reserve Bank of San Francisco.

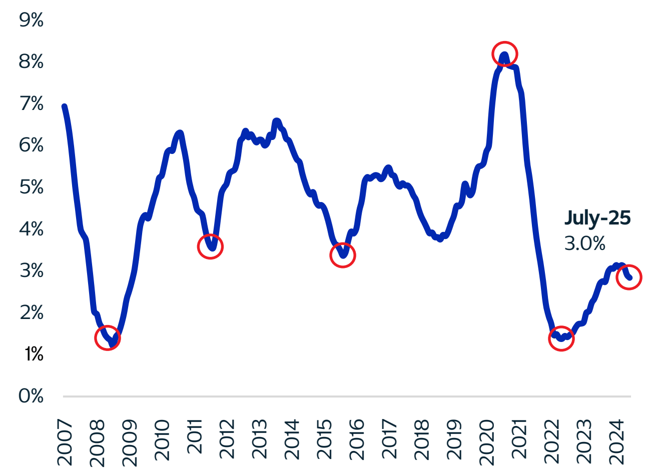
6

From a total return perspective, we think capital markets are now more of a global story.

The U.S. maintains strong technical fundamentals including limited net supply, and a corporate sector whose balance sheets never embraced the leverage of prior cycles. This should result in solid but unspectacular earnings and GDP growth. However, we expect international markets, Asia in particular, will outperform U.S. small caps. As such, we would stay overweight the U.S. with a focus on large-cap stocks. In terms of asset allocation nuances (and despite lower rates), outside of the U.S., we favor Japan, China, India, Germany and Spain.

Exhibit 8: Our Liquidity Indicator Is Still Recovering From Near-Trough Levels

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

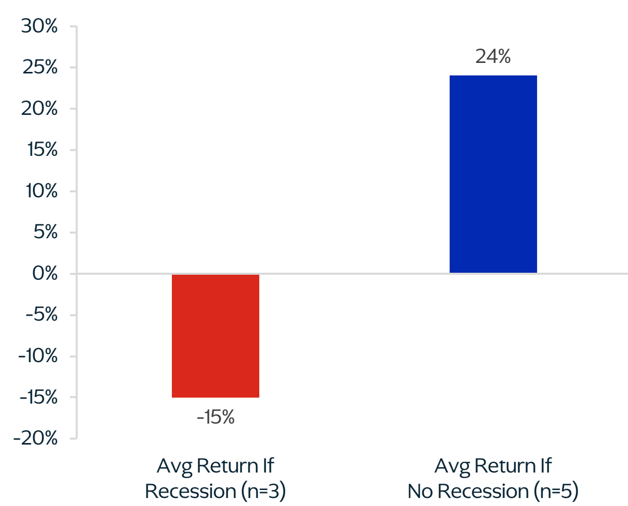


Data at July 31, 2025. Source: Preqin, Bank of America, Bloomberg, KKR Global Macro & Asset Allocation analysis.

The U.S. maintains strong technical fundamentals, including limited net supply and a corporate sector whose balance sheets never embraced the leverage of prior cycles. However, we expect international markets, Asia in particular, will outperform U.S. small caps.

Exhibit 9: We See the Fed Easing But Are Not in the Recession Camp. As Such, We Think That Returns in Asia Are Poised to Accelerate

MSCI Asia Pacific xJ N12M Return After First Fed Cut, Based on Past 8 Easing Cycles Since 1989



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

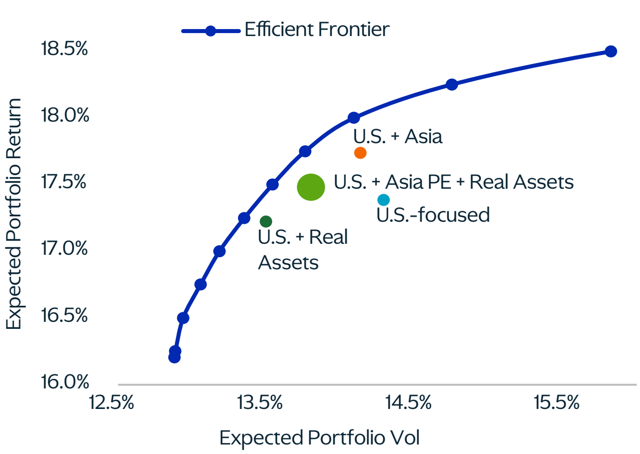
7

We think that under our *Regime Change* thesis framework, allocators will further migrate towards investments that help diversify portfolios.

Asia clearly checks that box in many instances, and as such, we suggest that there should be some immediacy to adding positions, given that both the macro and micro-outlooks are improving at a time when global investors are significantly underweight the region. Alternatives, in particular, warrant consideration as Private Markets capture the illiquidity premium many daily priced funds do not. Real Assets embed inflation protection and can benefit from the 'Security of Everything' and private markets stepping in to fill the void left by governments. Private Credit and PE provide idiosyncratic alpha and operational value-creation that passive Public Equities holding miss.

Exhibit 10: Our Work for the KKR Balance Sheet Shows a Combination of Asia PE and Global Real Assets Can Help Improve Risk Adjusted Returns

Expected Portfolio Return and Volatility by Type of Portfolio, %



Data as at June 30, 2023. Source: KKR Global Macro & Asset Allocation analysis.

Exhibit 11: The Forward-Looking Expected Range of Outcomes Will Likely Be Narrower. Therein Lies the Opportunity, We Believe

Expected Return Range of Outcomes, %

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

Asia clearly checks the box in many instances, and as such, we suggest that there should be some immediacy to adding positions, given that both the macro and micro-outlooks are improving at a time when global investors are significantly underweight the region.

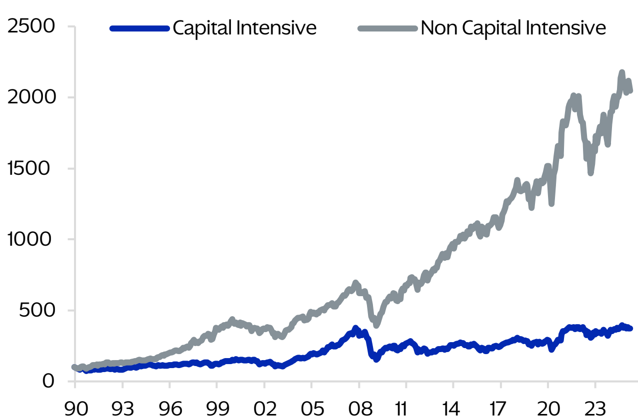
8

In a world where an investor needs to make his or her own luck, having the tailwind of a major investment theme that is not fully priced in represents a major opportunity.

These include **Security of Everything** (driven by geopolitical tensions, cyber threats, and shifting supply chains/resiliency), **Capital Heavy to Capital Light** (improved capital efficiency while reshaping corporate strategies and investment), **Collateral-based Cash Flows** (owning more Real Assets linked to nominal GDP), **Productivity/ Worker Retraining** (efficiency tools to offset demographics and labor supply shortages, lifelong learning, and worker retraining), and **Intra-Asia Trade** (Asia becoming more Asia-centric).

Exhibit 12: 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 June 30, 2025. Source: Goldman Sachs.

Demographic shifts amidst both young and old in Asia are surging. All told, the 65+ age group will be 18% of the Chinese population by 2030; already in Japan 30% of the population is over 65, and in Korea that percentage is 20%. Not surprisingly, this slowdown in population growth is leading to a surge in productivity-enhancing capex.

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