

KKR

# Thoughts From the Road

ASIA | August 2025

I recently spent time with many of my KKR colleagues in China and Japan, including Changchun Hua (who serves as our economist for Greater China and Northern Asia), meeting with business executives, monetary policymakers, government officials, and our KKR deal teams. This was my second trip to the region this year and the sixth since COVID. Lucky or good, my timing for my recent trips to Asia has been quite fortuitous. Last September, for example, China had a ‘whatever it takes’ moment the day I landed, while Japan elected a new Prime Minister that very same week (see [Thoughts from the Road Asia, October 2024](#), for details). Meanwhile, my first trip to Asia this year (during the first quarter of 2025) occurred near the height of trade tensions. That backdrop led to multiple high-level discussions on how the global economy would function as it transitioned from an era of benign globalization to one of great power competition.



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This visit, however, topped them both, as the mood in China around a potential major trade deal was running quite 'hot', while in Tokyo both Japanese election results and a Trump trade deal had just occurred. Against the backdrop of increased intra-Asia connectivity (part of our global thesis that across the Americas, Europe, and Asia, we are moving towards the emergence of more regional 'hub-and-spoke' models), we continue to 'lean in' as a firm to the region. Indeed, Asia continues to be a major focus for KKR, given strong underlying growth and the subsequent demand for capital that this growth requires across corporate, financial services/insurance, infrastructure, real estate, and credit verticals. All told, we now have over 600 employees across 9 offices in Asia managing more than \$75 billion on behalf of our clients, with another \$4.5 billion (cost, not fair market value) invested in the region across KKR's balance sheet.

What did we learn this trip?

**Our key conclusions from China are as follows:**

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1

**The worst part of the slowdown is over, but there is still not enough of a positive stimulus 'shock' to fully arrest the deflationary conditions that exist (e.g., 34 consecutive months of negative PPI), especially since housing appears to have weakened since my last visit in March.**

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2

**Incredibly fierce local competition, government subsidies, and rapid change in technology are leading to an innovation surge that seems somewhat unprecedented, especially in the manufacturing sector (e.g., automation).** Visits to Xiaomi's headquarters as well as discussions with Tencent's AI division underscored just how rapidly the manufacturing and technology sectors are changing.

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3

**Looking ahead, our base view remains that China will need to better develop its services economy, including healthcare services, tourism, education, financial services, and telecommunications.**

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4

**We left China with the sense that U.S.-China negotiations involving H2O chips and rare earths set the table for more positive and broad-based negotiations in the future.**

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5

**In terms of capital markets insights, we sensed that the importance to a country's cost of capital as it relates to the accelerating blurring between economic security and national security gained in stature for those who watch the Chinese stock market closely relative to the U.S. and Europe.**

Indeed, Asia continues to be a major focus for KKR, given the strong underlying growth of the region and the subsequent demand for capital that this growth requires across corporate, financial services/insurance, infrastructure, real estate, and credit verticals.

Our key conclusions from Japan are as follows:

1

**While not ideal, the recent election results do not lead us to believe that the Japan corporate reform story is derailing.**

2

**Wage growth will win out over cyclical inflationary pressures, we believe.** Indeed, the good news is that wages appear to be structurally improving, while much of the inflationary pressures are more cyclical in nature. Also, we take a lot of comfort that the recent surge in capex is going mainly into software to improve worker productivity, not manufacturing hardware.

3

**Beyond the election results, the other big news was the Trump trade deal with Japan. It is being viewed bullishly by both sides, and it sets a framework for future deals.**

4

**From a markets perspective, negative real rates in Japan remain a major differentiator, despite the reality that Japan is tightening at a time when most central banks are easing.** We also take comfort that our discussions with currency watchers led us to believe that 145 JPY/USD (with a band of 130 to 150) is an acceptable range.

5

**The most compelling investment themes we heard during our visit were labor-driven productivity, tourism, and retirement security in a negative real rate environment.**

6

**Despite turnover in the Prime Minister position, corporate reform, labor-saving technology, and energy independence remain important, government-driven initiatives.**

Looking at the big picture, our base view remains that Asia is likely in somewhat of an underappreciated ‘sweet spot’ these days. Many investors are underweight the region in their portfolios at a time when a global easing cycle has begun, valuations are largely compelling, the U.S. dollar is weakening, and mega-themes such as digitalization, retirement security, intra-Asia trade, and productivity-driven technology are creating significant investment opportunities, we believe. As such, we think any potential normalization in exposure towards benchmark weights by global investors could drive markets substantially higher in the coming quarters. For private investors, in particular, we favor corporate carve-outs in Japan, Infrastructure linked to surging intra-Asia trade, and Private Credit and Structured Equity linked to more complex transactions. In the interim, however, we at KKR will continue to ‘make our own luck’ through more control and operational improvement stories, where we are able to create competitive advantage that may offer opportunities for differentiated performance outcomes.

Looking at the big picture, our base view remains that Asia is likely in somewhat of an underappreciated ‘sweet spot’ these days.

SECTION I

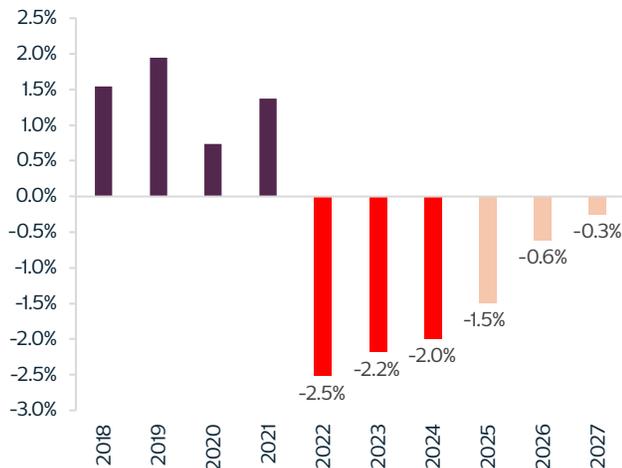
# Update on China

This trip was my sixth trip to China since COVID and second in 2025. We note the following relative to prior visits:

**The worst part of the slowdown is over, but there is still not enough of a positive stimulus ‘shock’ to fully arrest the deflationary conditions that exist (e.g., 34 months in a row of negative PPI), especially given that housing appears to have weakened a bit since my last visit in March.** All told, we still think that there are 40 million too many homes where the prospects for appreciation generally remain low. As such, the marginal propensity to spend remains subdued, a trend that is consistent with past housing crises we have studied in key markets such as Japan.

**Exhibit 1:** China’s Housing Market Correction Remains an Ongoing Headwind, Though We Are Forecasting Less of a Drag Over the Next Few Years

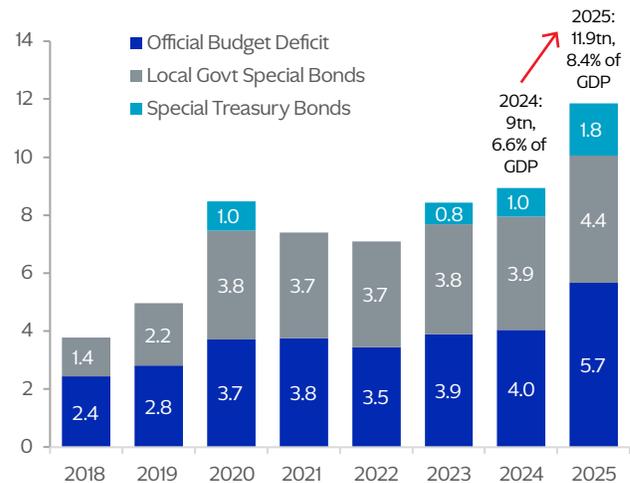
**Housing Contribution to GDP Growth, %ppt**



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

**Exhibit 2:** The Chinese Government Expanded Its Augmented Fiscal Budget, But We Think More May Be Needed to ‘Fix’ Housing

**Augmented Fiscal Deficit, Trillions of RMB**

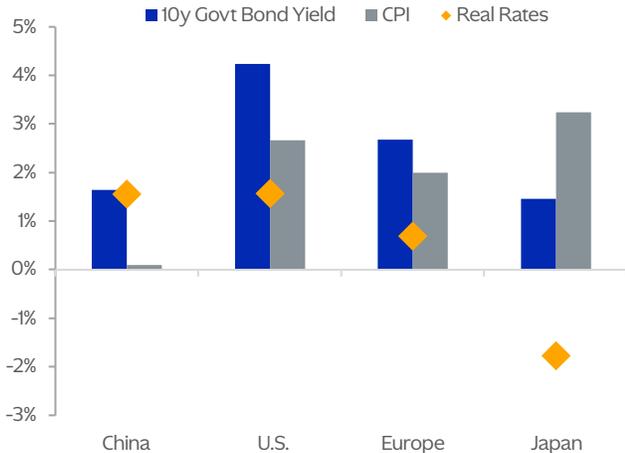


Data as at March 5, 2025. Source: Chinese State Council, Wind, KKR Global Macro & Asset Allocation analysis.

The Chinese economy has bottomed, but there is still not enough of a positive stimulus ‘shock’ to fully arrest the deflationary conditions that exist (e.g., 34 months in a row of negative PPI), especially given that housing appears to have weakened a bit since my last visit in March.

**Exhibit 3:** Deflationary Pressures Have Led to China Having the Highest Real Rates Among Major Economies

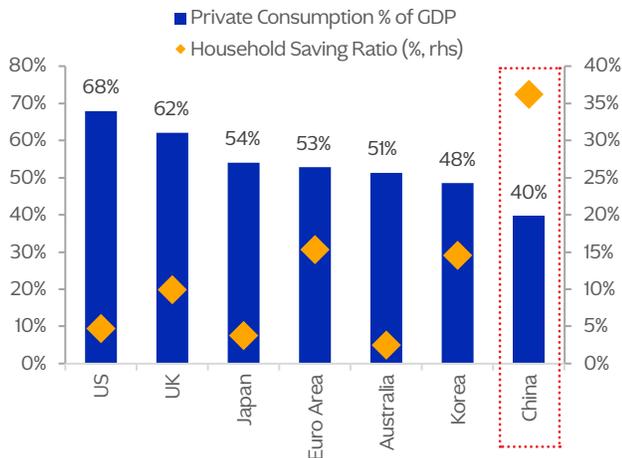
**Real Interest Rates In Major Economies, %**



Real rates = 10-year government bond yield-CPI Y/y. Data as at June 30, 2025. Source: U.S. Treasury, European Central Bank, Ministry of Finance Japan, China National Bureau of Statistics, Haver Analytics.

**Exhibit 4:** Private Consumption as a Share of GDP in China Lags Far Behind Other Major Countries

**Consumption and Savings by Country, %**



Data as at December 31, 2024 or the latest available. Source: Cabinet Office of Japan, Bureau of Economic Analysis, Office for National Statistics, Australian Bureau of Statistics, Bank of Korea, Eurostat, Haver Analytics.

**Incredibly fierce local competition, government subsidies, and rapid change in technology is leading to an innovation surge that seems somewhat**

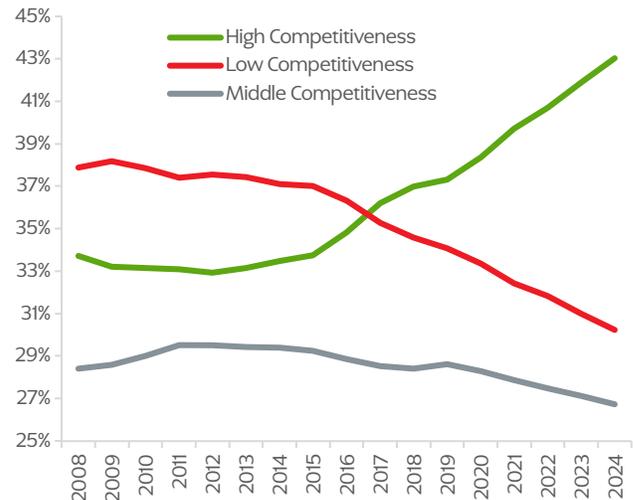
**unprecedented, especially in the manufacturing sector (e.g., automation).** That’s the good news when it comes to

China’s competitive positioning in the global marketplace, particularly as it relates to industrial automation and robotics. As we alluded to earlier, the speed and precision we witnessed from Xiaomi’s auto production (and just how far it has come of late) as well as the ability of Tencent to leverage its customer base – in partnership with DeepSeek – warrant investor attention, we believe.

The bad news is that this economic backdrop is not only creating too much capacity, but it is also leading to profitless prosperity in many sectors (especially for non-market leaders with scale), as well as denting employment and wage growth in key consumer markets such as the middle class. The government is cracking down on predatory pricing, but we do not believe this ‘innovation conundrum’ will be fixed overnight.

**Exhibit 5:** Highly Competitive Sectors Now Account for Nearly Half of China’s Industrial Output

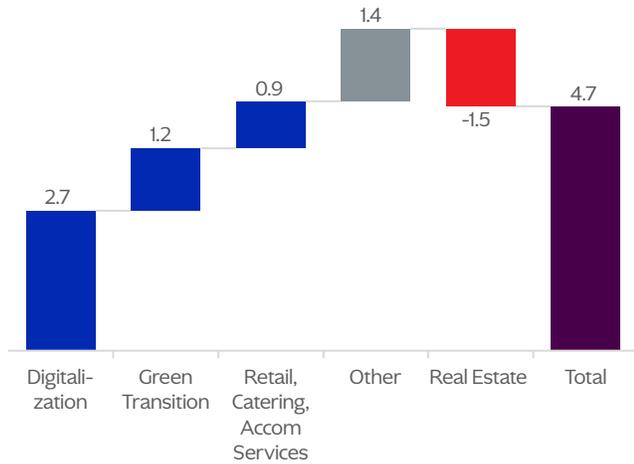
**Share of Industrial Production, %**



Industries are classified by the increase/decrease in the share of export delivery value over the past 10 years. High competitive industries include computers, electronic equipment, autos, general equipment, and pharmaceuticals. Middle competitive industries include chemical, food, metal, and other transport equipment. Low competitive industries include wood processing, textile, apparel, plastic products and agriculture. Data as at December 31, 2024. Source: China National Bureau of Statistics, Wind, KKR Global Macro & Asset Allocation analysis.

**Exhibit 6:** The Structural Transformation of China's Economy Continues, With Digitalization and the Green Transition Projected to Contribute 3.9ppt to Growth in 2025

**China GDP Breakdown by Sector (2025)**

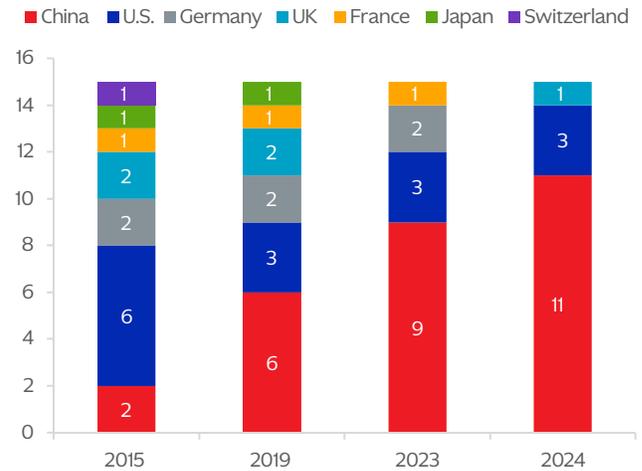


'Green transition' is based on green finance and transition investment studies from the Beijing Institute of Finance and Sustainability as well as reported by BNEF. 'Digital economy' added value is as reported by CAICT, including added value of the information industry (core digital) and added value that the information industry brings to other industries (core part: roughly 10% of the economy; overall: ~45%). Real estate's drag is estimated by the KKR GMAA team with an IO table and includes the real estate industry itself and the industry's impact on upstream and downstream. '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 June 30, 2025. Source: Beijing Institute of Finance and Sustainability, China National Bureau of Statistics, BNEF, CAICT, KKR Global Macro & Asset Allocation analysis.

Sentiment around both export activity and trade negotiations with the United States was more positive than we were expecting in China. On the export front, Africa, Southeast Asia, and parts of Europe have filled the gap from slower U.S. imports.

**Exhibit 7:** China's Innovation Landscape Has Experienced Significant Growth

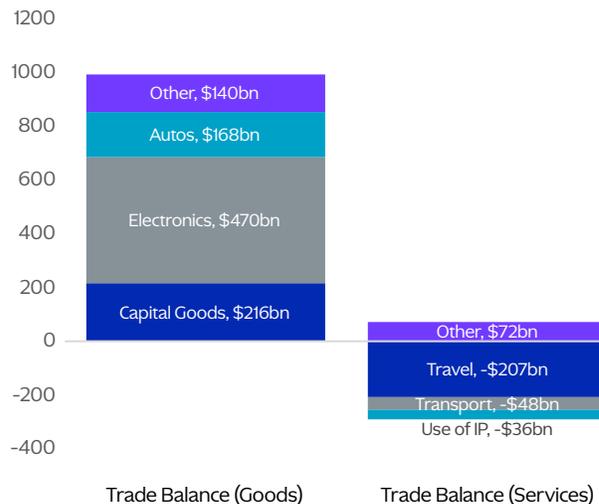
**Number of Academic Institutions Among the Top 15 in Nature Index Rankings**



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

**Exhibit 8:** Unlike the U.S., China Currently Has a Surplus in Goods and a Deficit in Services. We Strongly Believe That the Economy Needs to Grow Its Services Sectors

**China Goods and Services Trade Balance, US\$ Billions, 2024**



Data as at December 31, 2024. Source: General Administration of Customs of the P.R.C (GACC), State Administration of Foreign Exchange (SAFE), KKR Global Macro & Asset Allocation analysis.

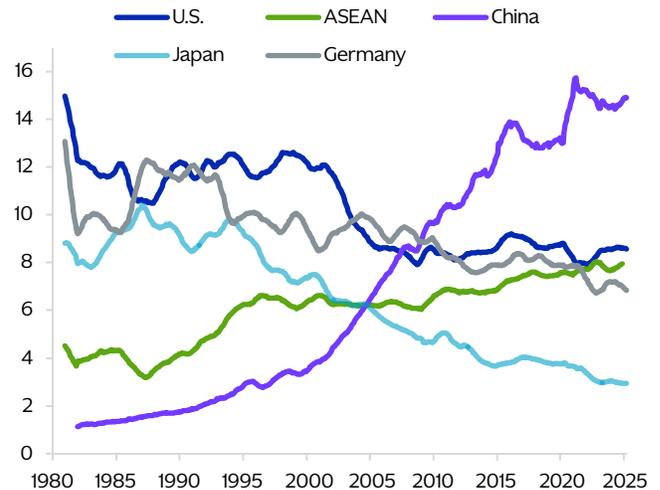
Against this increasingly competitive industrial backdrop, **our base view remains that China will need to better develop its services economy, including healthcare services, tourism, education, financial services, and telecommunications** if it is to improve its outlook as well as maintain strong growth in GDP-per-capita. However, at the moment, many in the services industries are feeling the squeeze of fewer reimbursements and more government scrutiny.

**Sentiment around both export activity and trade negotiations with the United States was more positive than we were expecting.** On the export front, Africa, Southeast Asia, and parts of Europe have filled the gap from slower U.S. imports. All told, China's share of global exports continues to rise to record levels, which supports our view about intense local competition on the mainland across a variety of sectors, including autos, solar, etc. Maybe more importantly, though, **we left China with the sense that U.S.-China negotiations involving H2O chips and rare earths set the table for more positive and broad-based negotiations in the future.** To be sure, China feels more emboldened, particularly given that the U.S. did not use 'Liberation Day' to isolate China (rather, it imposed tariffs on both allies and foes), but our overall impression was one of consistent optimism/willingness to buy that we did not hear during either our October 2024 or March 2025 visits. That said, we are not going to see a return to the era of 'benign globalization' between these two countries. In fact, our on-the-ground discussions still led us to believe that the steady state will be north of 30% tariffs on China for goods entering the United States.

Incredibly fierce local competition, government subsidies, and rapid change in technology is leading to an innovation surge that seems somewhat unprecedented.

**Exhibit 9:** China's Export Performance Has Been Resilient Amid U.S. Trade Tensions

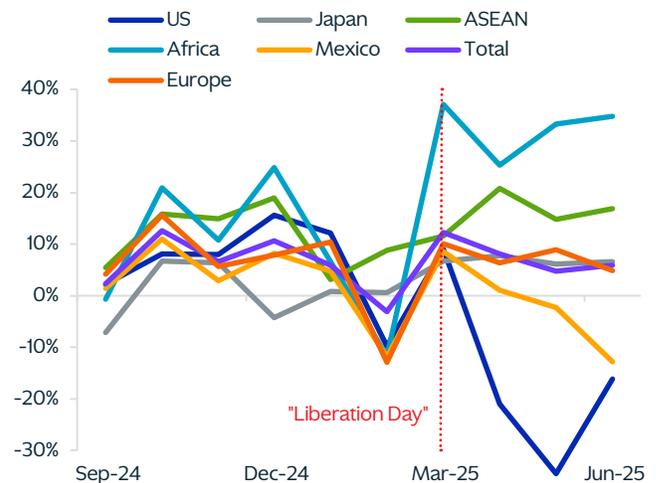
#### Share of World Exports, 12-Month Moving Average, %



Data as at March 31, 2025 or latest available. Source: IMF Direction of Trade, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

**Exhibit 10:** Chinese Exports After Liberation Day Were Down to the U.S. and Up to ASEAN and Africa

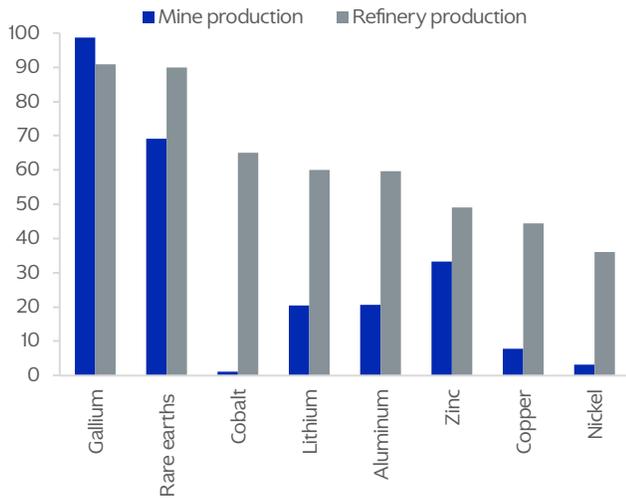
#### China Export Growth By Destination, Y/y %



Data as at June 30, 2025. Source: China Customs, Wind, KKR Global Macro & Asset Allocation analysis.

**Exhibit 11:** China Commands a Dominant Share in the Refining and Production of Critical Minerals

**China % of Global Production, %**

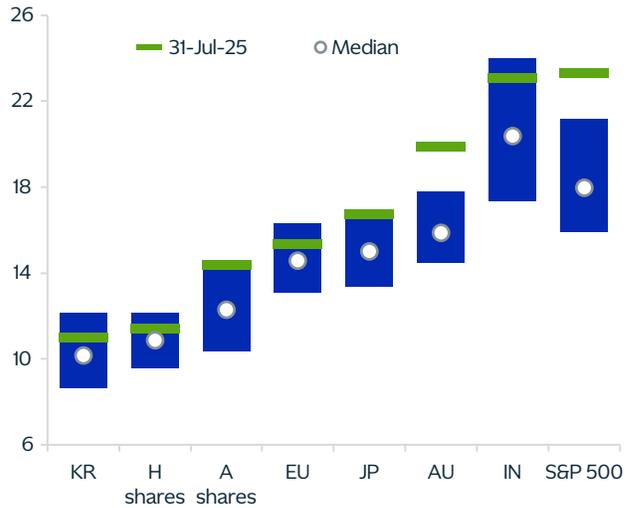


Data as at December 31, 2024 or the latest available. Source: USGS and other public information, KKR Global Macro & Asset Allocation analysis.

**In terms of capital markets insights, we sense that the importance of a country’s cost of capital gained in stature as it relates to the accelerating blurring between economic security and national security for those who watch the Chinese stock market closely relative to the U.S. and Europe.** As such, we still think the Chinese market will continue to be a strong performer, which remains an out of consensus view. From our vantage point, what we see is very little sponsorship of this Chinese public equity market by global institutional investors at a time when the macro narrative is improving on the margin. The potential for a stronger currency over time is likely important to some global investors. On the fixed income side, we expect rates to stay low, though we believe the government does not want to lower the short end of the curve more, given that net interest margin in the banking sector is already under a lot of pressure. Our view would be to take this risk and consider subsidizing the banking sector to better the current deflationary headwinds, including the growing propensity to delay big ticket items such as housing, capital goods, etc.

**Exhibit 12:** China’s Market Valuation Remains Discounted Compared to the U.S. and Europe...

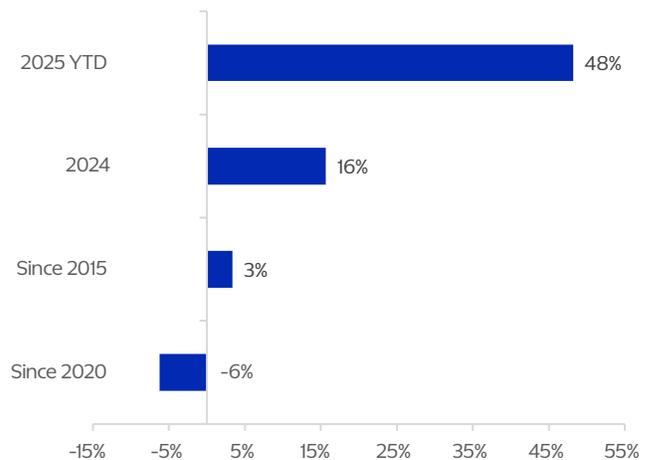
**NTM P/E Ratio vs +/-1σ Range, 2013-2025**



A shares are represented by the CSI300 Index; H shares by the Hang Seng Index; U.S. equities by the S&P 500 Index. For KR, EU, JP, AU and IN, the corresponding MSCI country indices are used. Data as at July 31, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

**Exhibit 13:** ...Even Though Market Performance Has Improved in Recent Years

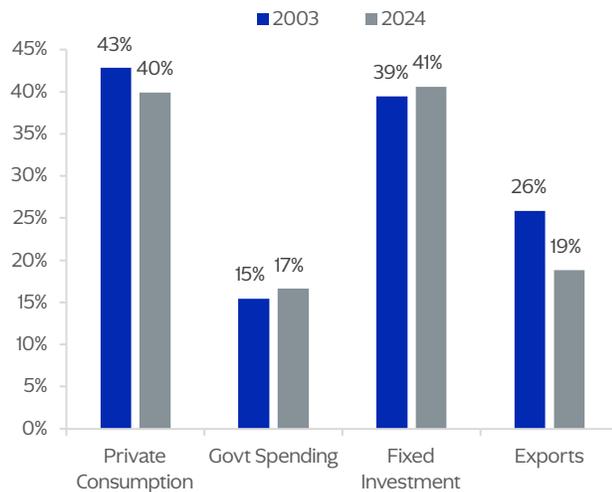
**Annualized Return of MSCI China Index, %**



Data as at July 23, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

**Exhibit 14:** There Are Persistent Imbalances Between Investment and Consumption in China, Despite Reduced Export Dependency

#### China's Economic Structure, % of Nominal GDP



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

**Exhibit 15:** Valuations Have Rebounded in China, Though They Are Still Below the U.S., the EU, and Japan

#### LTM PE Ratio



Data as at July 23, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

In terms of capital markets insights, we sense that the importance to a country's cost of capital as it relates to the accelerating blurring between economic security and national security gained in stature for those who watch the Chinese stock market closely relative to the U.S. and Europe. As such, we still think the Chinese market will continue to be a strong performer, which remains an out of consensus view.

## SECTION II

# Update on Japan

Meanwhile, for Japan our conclusions are as follows:

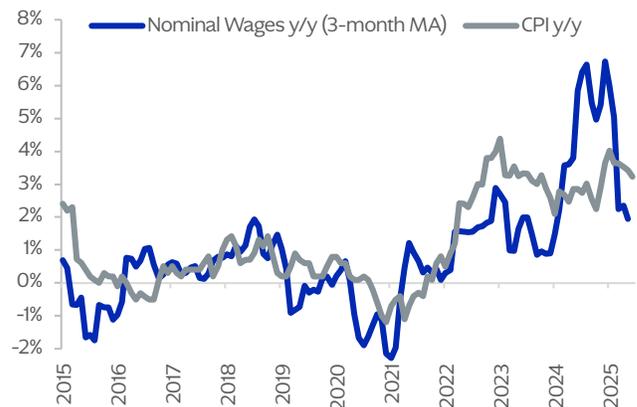
**While not ideal, the recent election results do not lead us to believe that the Japan corporate reform story is derailing.** Indeed, despite the LDP only garnering 47 of the 50 seats it needed to maintain a majority in the upper house (it also marks the first time in history that the ruling party has a minority in both chambers of the Diet), key areas such as economic security, digital transformation, and green transition appear to maintain bi-partisan support.

**Wage growth will win out over cyclical inflationary pressures, we believe.** The election results underscored that rising living costs were a key reason for current voter dissatisfaction. Our take is that, while Japan has exited deflation, some of the ‘flation’ the country is experiencing is ‘bad’ inflation because of increases in key inputs such as rice. The good news is that wages appear to be structurally improving, while much of the inflationary pressures are more cyclical in nature. Also, we take a lot of comfort that the recent surge in capex is now going mainly into software to improve worker productivity, not into manufacturing hardware.

Our take is that, while Japan has exited deflation, some of the ‘flation’ the country is experiencing is ‘bad’ inflation because of increases in key inputs such as rice.

**Exhibit 16:** Wage Growth Will Win Out Over Cyclical Inflationary Pressures, We Believe

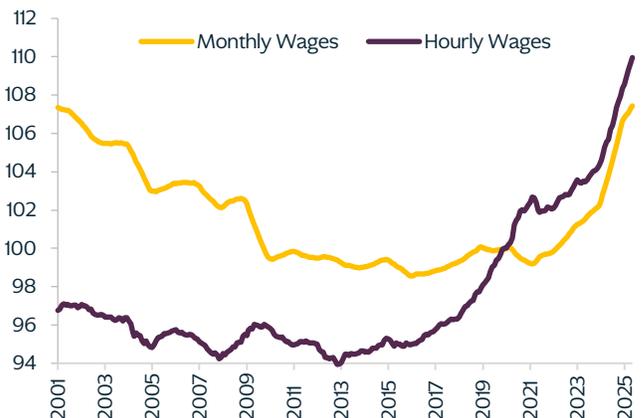
## Japan Wages vs. Inflation, %



Data as at May 31, 2025. Source: Japan Ministry of Health, Labor & Welfare, Japan Ministry of Internal Affairs and Communications, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

**Exhibit 17:** Wages Hold the Key to the Long-Term Sustainability of Higher Nominal GDP and Lower Deficits

## Contractual Earnings (Jan-20=100)



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

**Beyond the election results, the other big news was the Trump trade deal with Japan. It is being viewed bullishly by both sides, and it sets a framework for future deals.** Overall, while our aggregate tariff estimate of 17% on U.S. imports won't change a lot, there are three important nuances: a) likely a higher base rate than the 10% Washington had been previously signaling; b) more wiggle room around sector tariffs (15% versus 25% in autos in this instance); and c) similar to Middle East negotiations, President Trump seems more focused on having the art of the deal include more purchases of U.S. natural gas, agriculture, etc. Overall, the Japan arrangement aligns with our view that tariffs are now becoming a permanent part of American foreign policy, signaling the arrival of the American economic nationalism that we've been highlighting since 2019. President Trump has indicated that Japan will also lower barriers for U.S. autos and agriculture – the latter being particularly politically sensitive for Tokyo.

Overall, while our aggregate tariff estimate of 17% on U.S. imports won't change a lot, there are three important nuances: a) likely a higher base rate than the 10% Washington had been previously signaling; b) more wiggle room around sector tariffs (15% versus 25% in autos in this instance); and c) similar to Middle East negotiations, President Trump seems more focused on having the art of the deal include more purchases of U.S. natural gas, agriculture, etc.

**Exhibit 18: As Negotiations Evolve, We Are Focused On the Tariffs Settling to a Base Rate Around 15%**

### Key Trends We Are Observing in Tariff Negotiations

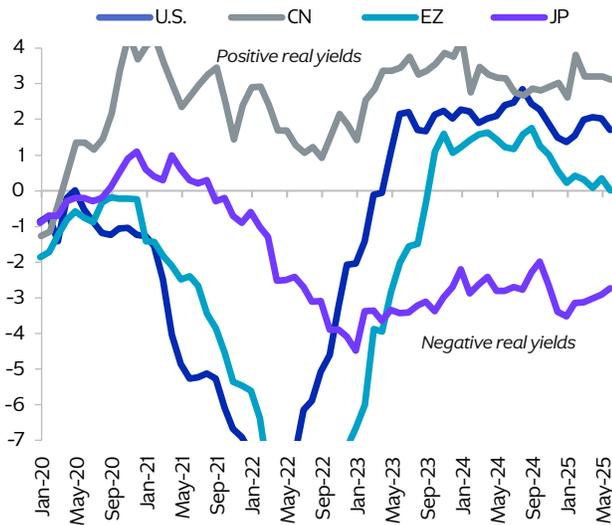
1. **A potentially higher base rate:** We now expect a base 'reciprocal' tariff rate of 15% for most key developed market trading partners, up from the 10% base rates that we originally forecast. Remaining unknowns continue to leave room for scenarios between the mid-teens and low-20s, but we think high-teens remain the most likely direction of travel. Overall, though, we do expect President Trump to make amends with most countries, even including Canada.
2. **Greater negotiability of some sector tariffs...** We've long assumed there would be some exemptions to auto tariffs, but it now looks like close to 80-90% of auto-related imports could end up exempted down to base reciprocal rates (vs. the 25% headline sector rate). This is more generous than our earlier expectation of exemptions for approximately half of auto-related imports.
3. **...But with stringent emphasis on national security considerations,** e.g., elevated 50% tariffs on steel/aluminum/copper, with few exemptions thus far; U.K. pharmaceutical tariff exemptions in exchange for supply chain security guarantees.
4. **'Pay to Play':** \$550 billion U.S. investment commitment by Japan; Trump administration suggestions that an EU deal may feature similar commitments.
5. **Key questions going forward:** 1) Are IEEPA tariffs upheld by the courts? 2) Contours of a final China deal; 3) Headline tariff rate on outstanding 232 negotiations (semiconductors, lumber, pharma, etc.)

Data as at July 23, 2025. Source: KKR Global Macro & Asset Allocation analysis.

**From a markets perspective, negative real rates in Japan remain a major differentiator, despite the reality that Japan is tightening at a time when most central banks are easing.** We also took comfort that our discussions with currency watchers led us to believe that 145 JPY/USD (with a band of 130 to 150) is an acceptable range. Below 130 and the Bank of Japan will have a hard time keeping inflation up. Meanwhile, a currency above 150 or so negatively impacts consumer/voter purchasing power, despite the benefits it does provide to the country's exporters. Overall, the markets continue to be attractively priced, shareholder unwinds and deal activity remain robust, and financing is readily available.

**Exhibit 19: Japan Maintains Negative Real Policy Rates Amid Monetary Tightening**

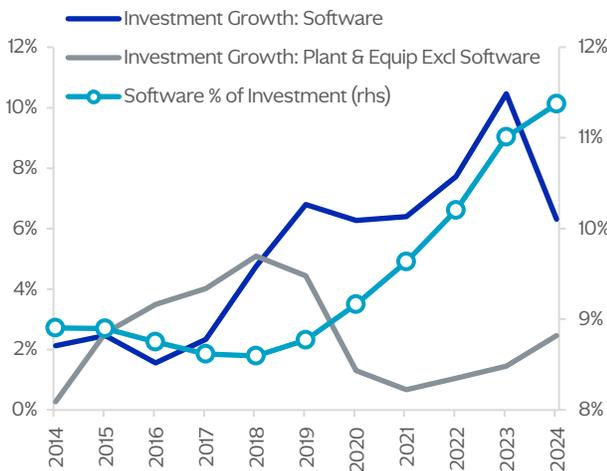
**Real Policy Rates, %**



Real policy rates = policy rates - CPI Y/y. Data as at June 30, 2025. Source: PBoC, Federal Reserve Board, ECB, Bank of Japan, China National Bureau of Statistics, U.S. Bureau of Labor Statistics, Japan Ministry of Internal Affairs and Communications, Statistical Office of the European Communities, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

**Exhibit 20: The Recent Surge in Capex Is Now Directed Towards Software. We View This Transition Quite Positively From a Productivity Standpoint**

**Japan Corporate Investment, 5-Year Moving Average**



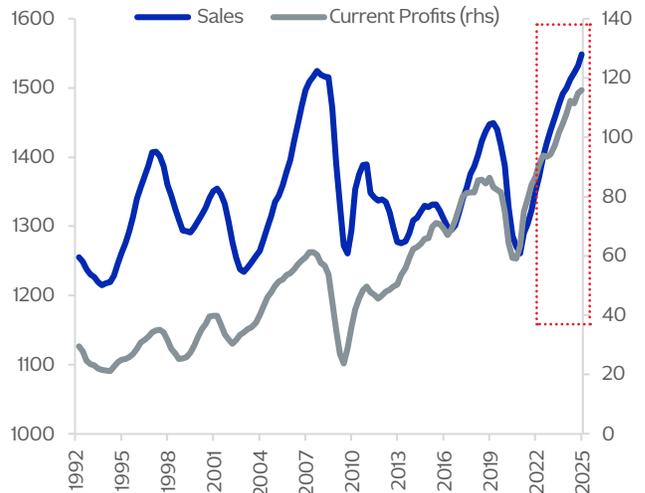
Data as at December 31, 2024. Source: Japan Ministry of Finance, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

**The theme in Tokyo on which we spent the most time was leveraging productivity to drive growth and profits.**

One can see this in *Exhibit 20*. Similar to the U.S., when wages rise Japan shifts its capex to software that can drive productivity. The surge we see in this spending is quite impressive. AI is only further fueling the spend, given Japan lacks workers (so there is much less political concern about job displacement, especially as immigration remains a challenge). Separately, even though the currency has appreciated from 160, a JPY of 130-150 is still quite cheap; as such, **tourism continues to shine as a growth industry**. Finally, **retirement savings/security is still front of mind, and we spent more time on insurance and savings products this visit**.

**Exhibit 21: We Gain Even More Confidence from Japan's Improving Corporate Revenue and Profits**

**Japan Corporates Sales and Profit, Trillions JPY, 1-Year Moving Sum**

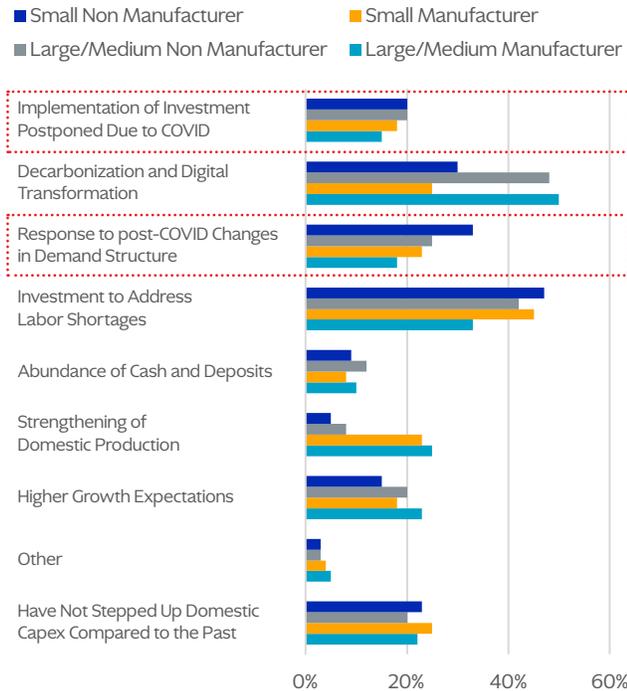


Data as at March 31, 2025. Source: Japan Ministry of Finance, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

The theme in Tokyo on which we spent the most time was leveraging productivity to drive growth and profits.

**Exhibit 22:** In Japan, There Is a Strong Appetite for Corporate Capex to Address Labor Shortages Through Digitalization

**BOJ Survey: Purpose of Business Capex Plan**



Data as at December 31, 2024. Source: Goldman Sachs Investment Research, BOJ.

**Exhibit 23:** Japan Has Offset Significant Demographic Headwinds by Improving Participation Rates, Especially Amongst Women and 65+

Contributions to Workforce Growth (Millions)			
	U.S.	Europe	Japan
<b>1Q10 workforce</b>	<b>153.7</b>	<b>159.8</b>	<b>65.7</b>
<i>Demographics</i>	<b>10.7</b>	<b>-3.7</b>	<b>-3.7</b>
<i>Change in Participation</i>	<b>1.8</b>	<b>13.2</b>	<b>6.6</b>
<i>Change in Prime-Age Male Participation</i>	-0.4	-0.1	0.0
<i>Change in Prime-Age Female Participation</i>	1.0	2.6	2.5
<i>Change in 55-64 Participation</i>	0.2	8.9	1.9
<i>Change in 65+ Participation</i>	1.0	1.8	2.3
<b>1Q23 workforce</b>	<b>166.3</b>	<b>169.3</b>	<b>68.6</b>

Europe data based on the 'Euro-Area 19' subset of EU members. Data as at March 31, 2023. Source: U.S. Bureau of Labor Statistics, Eurostat, Japan Statistics Bureau.

**Given the rapid increase in PM turnover, the next generation of policy in Japan will matter a lot.** After having thoughtfully done more to bring women and elders back into the labor force, Japanese policymakers now must find new ways to boost GDP growth and grow wealth. We left thinking that Japan needs to do more to shift money out of cash — now that inflation is sustainable — into investment products that can earn a higher nominal return. On the employee front, worker retraining, worker productivity (i.e., labor-saving technology), and worker mobility will all become more important. Finally, given increasing energy demands linked to AI, Japan must lower its overall energy prices and dependence (remember 85% of their energy usage today is still fossil fuels, most of it imported).

Similar to the U.S., when wages rise Japan shifts its capex to software that can drive productivity. The surge we see on this spending is quite impressive. AI is only further fueling the spend, given Japan lacks workers (so there is much less political concern about job displacement, especially as immigration remains a challenge).

## SECTION III

# Conclusion

Given its size and influence, Asia remains a critical part of KKR's overall investment footprint. All told, Asia will drive 60%+ of global growth over the next 5 to 7 years. Mega themes such as the rise of the millennial and Gen-Z consumer, digitalization, logistics, and services will fuel this growth.

However, our trip again reinforced that there is no 'one' Asia. This means that a more nuanced approach is needed to both policy and investments. For example, in China, we believe the growth in the services economy is likely required to boost GDP-per-capita, create jobs, and inspire confidence. However, this initiative will require a change in approach, as the country's playbook of heavy fixed investment in the goods sector and strong exports has allowed it to improve the standard of living by 13x (\$13,000 GDP-per-capita from \$1,300) in just 21 years.

Meanwhile, in Japan, the country must lower its energy costs if it is serious about competing with China and the U.S. in AI. It must also establish policies that inspire savers to shift their assets towards investments that have a higher total return in a higher nominal GDP environment. During deflationary periods, by comparison, holding cash in deposit form was not only smart but it was also profitable. Finally, it must create more of its own labor-saving technology to boost productivity.

Importantly, these nuanced changes must all occur at a time of increased geopolitical crosscurrents. Therein lies the opportunity, we believe, for investors who are long-term focused and can leverage the value of the illiquidity premium during today's heightened uncertainty.

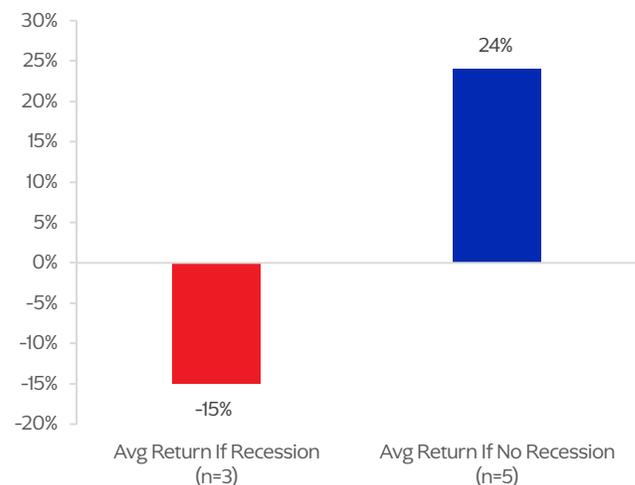
**Overall, though, our base view is that investors should 'lean in' before the consensus turns more positive.**

Valuations are attractive, local currencies have more appreciation potential, and mega themes such as intra-Asia trade, digitalization, and consumer upgrades should

all lead to faster than expected growth and returns over the coming 3 to 7 years, we believe. Against this backdrop, we think that the Asian markets are in somewhat of a 'sweet spot', especially if the global easing cycle continues.

**Exhibit 24:** 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.

Overall, though, our base view is that investors should 'lean in' before the consensus turns more positive.

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