

KKR

Thoughts From the Road

SOUTHEAST ASIA | September 2025

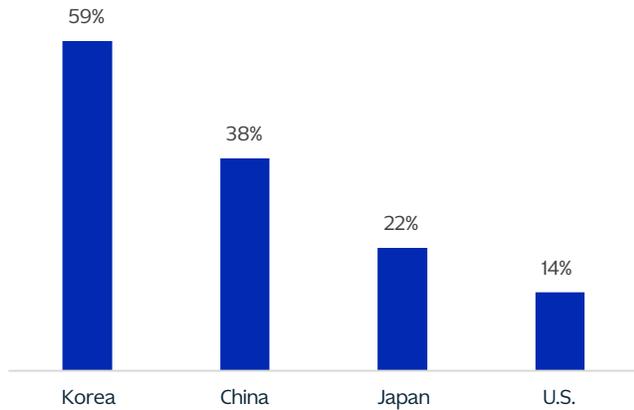
I recently traveled to Southeast Asia with my colleagues Peter Sundheim, from New York, and Richard Bullock, who is based in Singapore and helps to lead our macro effort in the region. During our visit we spent time speaking with macro folks, business executives, deal teams, and clients. **The punch line is that Asia has already entered a capital market ‘sweet spot’ at a time when many investors are underweight the region.** The oft quoted quip from Mark Twain certainly came to my mind as I experienced firsthand what felt like renewed vitality in the region: “The report of my death was an exaggeration.”



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Exhibit 1: Asian Markets Have Been Outpacing the U.S. in 2025

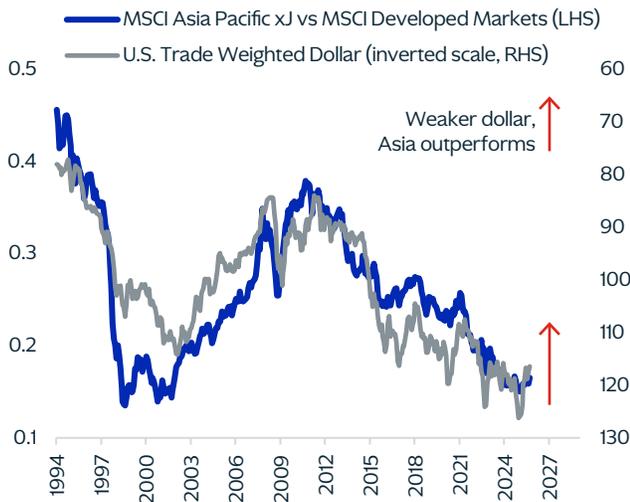
2025 YTD MSCI Total Return, %, USD



Data as at September 16, 2025. Source: Bloomberg, MSCI.

Exhibit 2: When the USD Weakens, Asia Outperforms

Asia vs. DM Relative Performance and the U.S. Dollar



Data as at September 17, 2025. Source: Bloomberg.

Looking at the bigger picture, our Asia trip confirmed our ‘Glass Still Half Full’ thesis for the global capital markets. Global productivity is ticking higher, and we think the recent re-statement of U.S. employment statistics will further boost this call. In Asia, productivity remains robust in key markets such as India; however, in slower growth markets, work still needs to be done. We were encouraged to hear that most CEOs are increasing their spending on digitalization, automation, and worker retraining. Meanwhile, capital markets supply remains below trend in the region (similar to what we are seeing in the U.S. and Europe), which supports our view that the technical bid in the credit markets will likely remain quite favorable. At the same time, corporate earnings growth in Asia should remain solid, albeit unspectacular, for the next two years.

For investors, the key areas on which to focus, we believe, will be corporate reform stories in developed Asia as well as consumption upgrade and urbanization beneficiaries in developing Asia. Importantly, all these changes in the corporate and consumer sectors are occurring against the backdrop of a weaker dollar, which should give a further boost to the region, we believe.

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Details

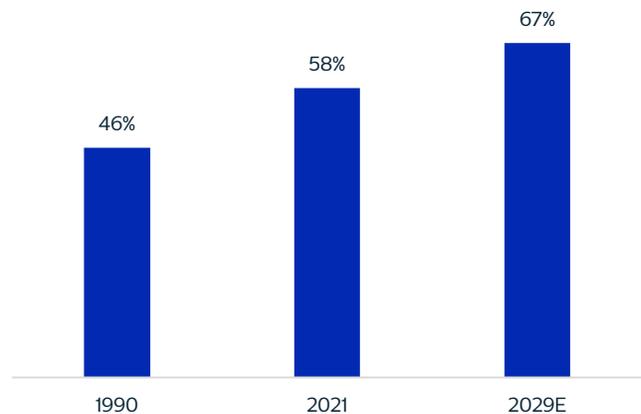
In terms of specific details from our trip, we note the following:

Capital markets in Asia are outperforming, challenging global investors' assumptions that it's still all about the U.S. Indeed, after several years of collective performance that has badly lagged that of the S&P 500, Asia markets certainly have perked up in 2025. Korea's equity markets have appreciated 59%, China is up 38%, and Japan has risen by 22% in total return USD terms. During this period, the S&P 500 has appreciated 14%, marking the first time it has lagged Asia nine months into the year since 2019. One can see this in *Exhibit 1*. Such strong performance has caught many allocators by surprise, and many are now wondering whether their large overweight to U.S. assets is still the 'right' call. Our view is that global allocators should consider reducing such 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 cheap markets, such as Japan and Korea, while a falling dollar is occurring amidst a long-tailed Fed easing cycle. Bottom line: most investors are significantly underweight the region, and the earnings growth rate relative to rest of world is compelling.

Bigger picture, Asia is insulating itself more from Western policy, including trading more with itself. All told, intra-Asia trade rose to 58 percent of regional flows in 2021, compared to 46% in 1990. Importantly, we think that this ratio is headed towards 67% in 2029 (*Exhibit 3*). For investors, this means that logistics, manufacturing, and consumer sectors tied to local demand are enjoying better momentum than expected. Moreover, Asia's 822 million millennials, 6x those of Europe and the U.S. combined, are seeking consumption upgrades as their GDP-per-capita ratios increase. India and Vietnam represent prime examples, we believe.

Exhibit 3: In 1990, Just 46% of Asian Trade Took Place Within Asia; By 2021, That Figure Had Reached 58%

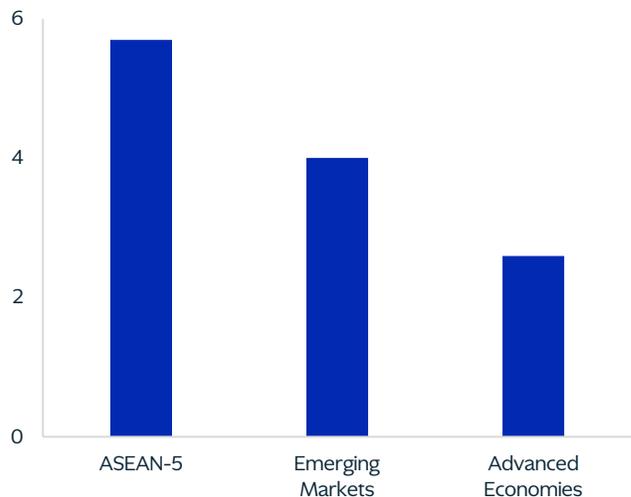
% of Trade That Is Within Asia



Data as at September 2023. Source: The Economist.

Exhibit 4: Rising Asian Consumption Also Makes Local Markets More Attractive

Volume of Imports, Average Annual % Increase, 2023-2027

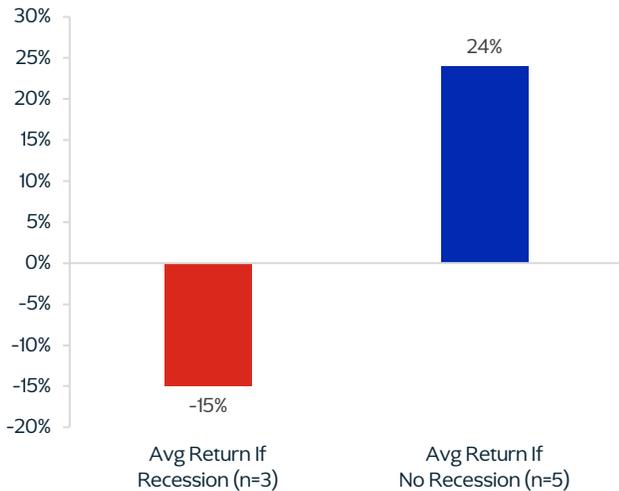


ASEAN 5 equals Indonesia, Malaysia, Philippines, Singapore and Thailand. Data as at September 30, 2023. Source: The Economist.

While history does not always repeat itself, Fed easing cycles are particularly constructive for the region’s performance if there is no U.S. recession (which is our base view; see Exhibits 5 and 6). Thus far, this cycle has been no different. As one can see in Exhibit 2, Asia typically performs quite well when the Fed eases and there is no recession. We also see local currency gains ahead. Importantly, over time, currency appreciation is typically one third of all EM Equity total return, and this easing cycle is occurring when the U.S. dollar is already expensive.

Exhibit 5: 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

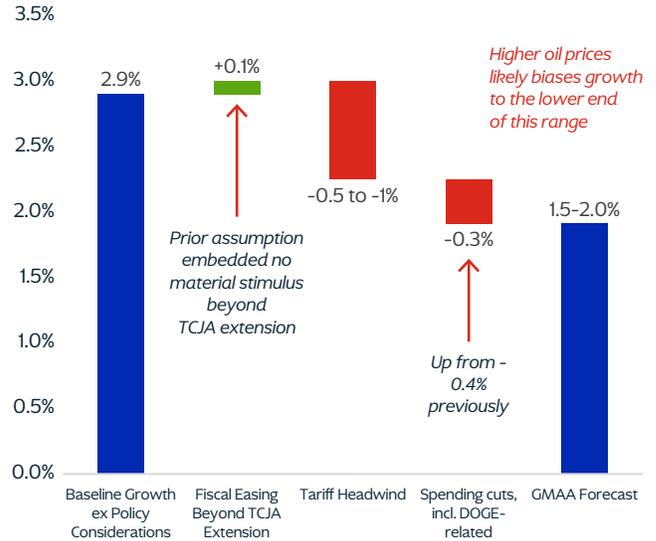


Data as at August 31, 2024. Source: MSCI, Bloomberg, KKR Global Macro & Asset Allocation analysis.

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Exhibit 6: We Have Narrowed the Range of Our 2025 Estimated U.S. GDP Growth Forecast to 1.5-2.0%

KKR GMAA 2025e U.S. GDP Forecast Detail

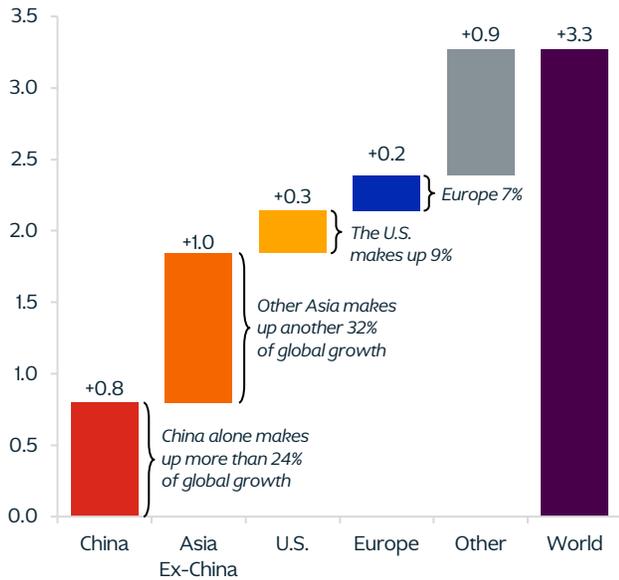


Data as at June 30, 2025. Source: U.S. Bureau of Economic Analysis, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

Demographic shifts amidst both young and old 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. One can see the surge in software demand in key markets such as Japan. At the other end of the spectrum, our research shows Asia has six times more millennials than the U.S. and Europe combined. For this demographic, **consumption upgrades—including savings/brokerage, wellness/healthcare, and leisure—represent major investment themes amid ongoing urbanization.**

Exhibit 7: Asia Will Continue to Drive Nearly 60% of Global Real GDP Growth in Coming Years

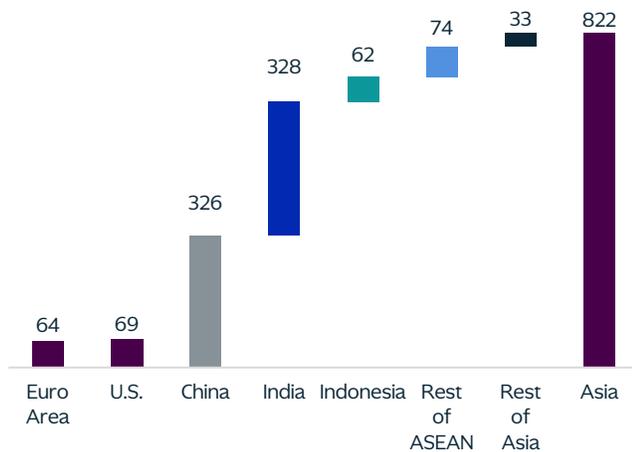
2026 Real Global GDP Growth %, after Growth



Other Asia includes emerging markets in Asia ex-China, Hong Kong, Korea, Singapore, Taiwan, and Japan. Other includes emerging markets ex-Asia and emerging countries within the Eurozone. Other Advanced Economies are the residual of countries not picked up by the other five categories. Data as at October 22, 2024. Source: IMF WEO, Haver Analytics.

Exhibit 8: There Are 6x as Many Millennials in Asia Than in the U.S. and Europe Combined

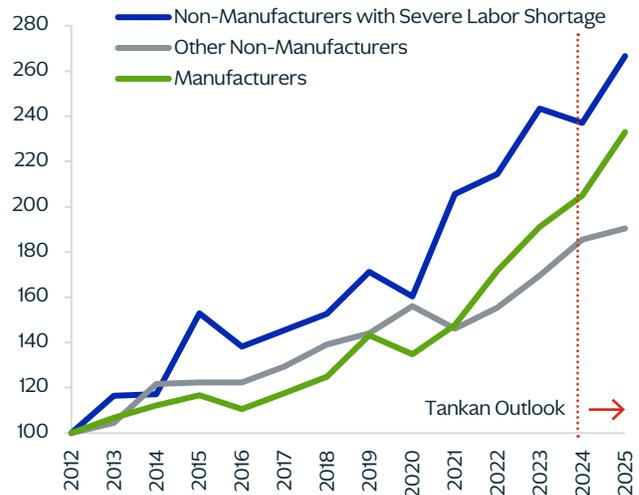
Number of Millennials Born 1980-1994, Millions



Data as at June 29, 2019. Source: IMF, World Bank, National Statistical Agencies, Haver Analytics, McKinsey Smart Cities: Digital Solutions for a More Livable Future 2018, KKR Global Macro and Asset Allocation analysis.

Exhibit 9: There Is Strong Corporate Appetite for Capex Focusing on Digitalization and Automation in Developed Japan

Japan Software Investment, 2012 Indexed to 100

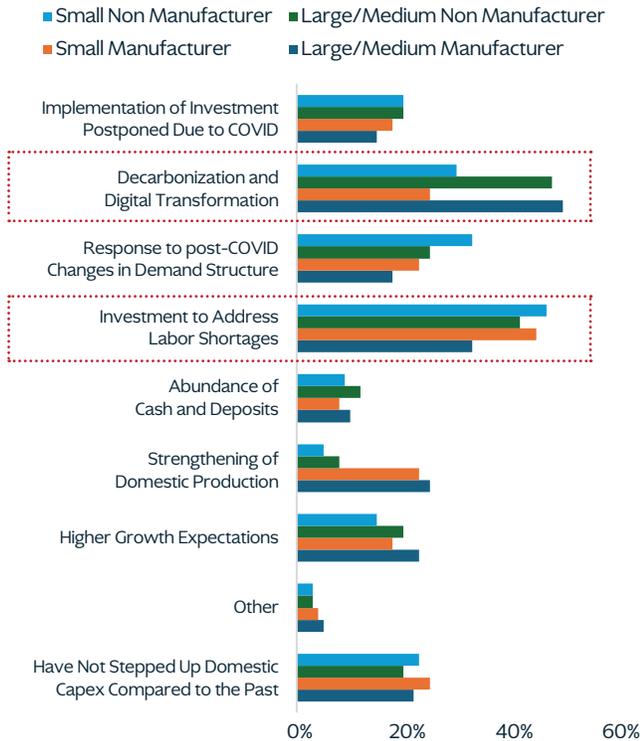


Data as at June 30, 2025. Source: GS Research, BOJ.

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Exhibit 10: Labor Shortages Have Led to Accelerated Capex Expenditures in Japan

BOJ Survey: Purpose of Business Capex Plan in Japan

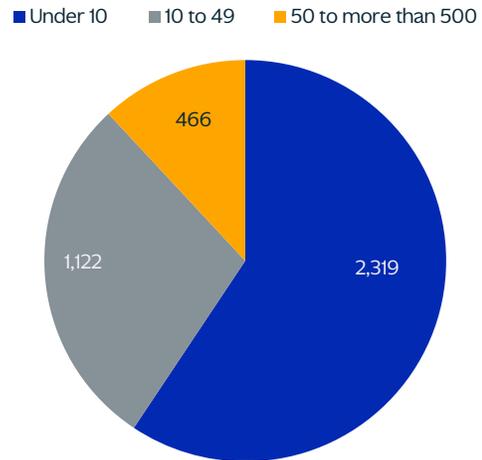


Data as at June 30, 2025. Source: GS Research, BOJ.

With 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 11*, we think further corporate carve-outs are coming as companies seek to better optimize their footprints. 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 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.

Exhibit 11: Japan in Particular Has a Large Concentration of Big Conglomerates, With +1,500 Companies Having More Than 10 Subsidiaries

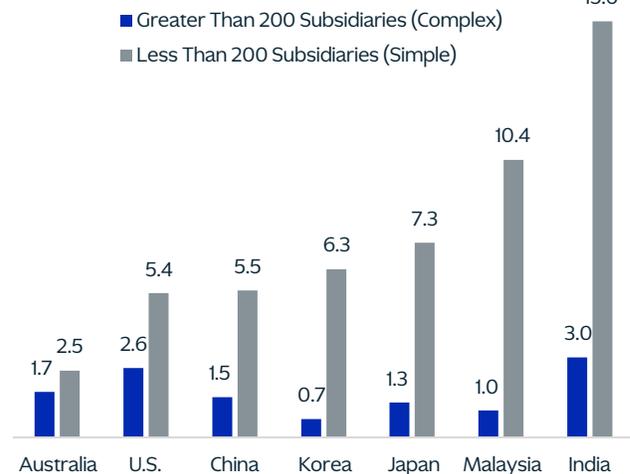
Number of Consolidated Subsidiaries in Leading TOPIX Companies



Data as at December 31, 2015. Source: Nikkei.

Exhibit 12: We See Opportunities to Unlock Value by Creating Simplicity Out of Complexity

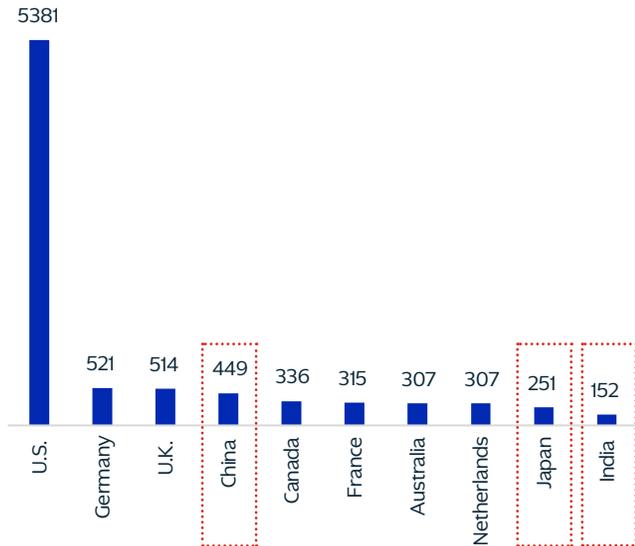
Average Price-to-Book



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

Exhibit 13: The Opportunity in Asia for Data Center Growth Is Massive

Number of Data Centers



Data as at June 30, 2023. Source: Statista.

We spent a lot of time on the future of AI. We have several thoughts. Today, the Asia Pacific stores about 28% of global hyperscale data-center capacity, with U.S. sites still dominating at approximately 40%, and Europe now at approximately 20%. Yet, the region currently generates more than half of all Internet traffic and its share of incremental traffic growth is only expected to keep climbing. This mismatch between where data is created and where it is processed underpins our investment thesis around the Asia Pacific digital infrastructure build-out. A recent Bank of America forecast suggests that data center capacity across the region will double within the next five years, with approximately 2 GW of new capacity added annually throughout various Asian markets. This growth will primarily be fueled by increased demand in key markets, including Japan and South Korea, and Southeast Asian countries such as Indonesia, Malaysia, Thailand, and the Philippines. The projected expansion would represent a significant acceleration compared to the previous five-year period (2018 to 2023), during which the APAC region added roughly just 1 GW of capacity annually. Moreover, we think that AI will increasingly be needed in the region's more developed economies to offset a growing shortage in workers brought on by shifting demographics. Finally, we believe energy policy is going to be a differentiator,

and as such, we think key markets like Japan will need to look for ways to drive down costs if sell-side estimates are right that energy demand in the region grows five percent or more per year after a significant period of energy demand stagnation. This would be 25% faster demand growth than in the prior decade. In Japan alone, data center electricity consumption is expected to triple from 19TWh in 2024 to between 57TWh and 66TWh by 2034 (equivalent to the annual electricity use of approximately 15 million households) due to an anticipated \$28 billion hyperscale investment by the Japanese government to support cloud initiatives. Wind, solar, natural gas, and nuclear will all be required, we believe.

The most frequently asked questions during our trip were around U.S. rates, the 'right' amount of AI to have in one's portfolio from a thematic perspective, and the sustainability of inflation. Our base view on rates remains that the Fed will cut three times this year and three times next year. Meanwhile, we see many endowments and family offices targeting two to four percent of their portfolios in private AI investments and four to eight percent in AI-linked Public Equities. In many instances CIOs are allocating more to passive ETFs to gain this exposure, while global investors are increasingly leaning towards investing behind this theme through cheaper tech stocks in China vs. those in the U.S.

Private markets are playing an increasingly larger role in Asia. Infrastructure has been a major beneficiary as government policies shift growth responsibilities from the public to the private sector. Meanwhile, as mentioned above, corporate reform stories are surging, as governments further appreciate the blurring of lines between national security and economics. Plus, cost of capital now matters to governments, not just to equity and debt investors.

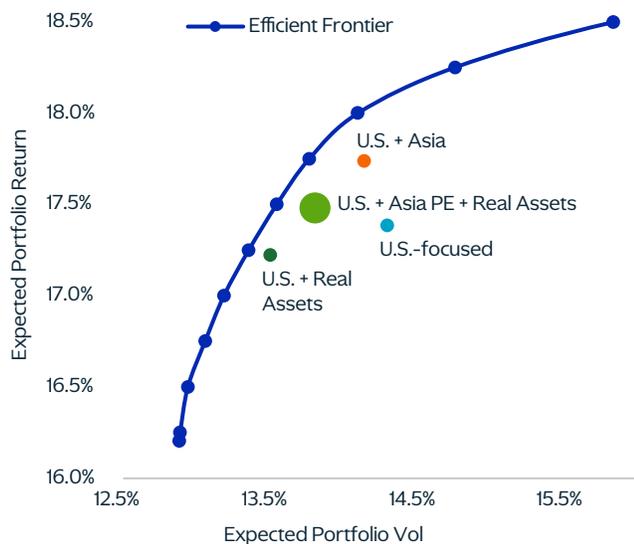
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Conclusion

After years of decelerating growth (largely a product of China slowing) and continued selling pressure by global investors, Asian capital markets now feel poised to surprise on the upside the next few years. Indeed, outside of India, valuations are cheap relative to U.S. markets, ownership is low, and marginal change on ROE is finally tilting more positive in many areas of the region's economy. The Federal Reserve cutting cycle matters, especially given our view on a weakening dollar for the next several years.

Exhibit 14: 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.

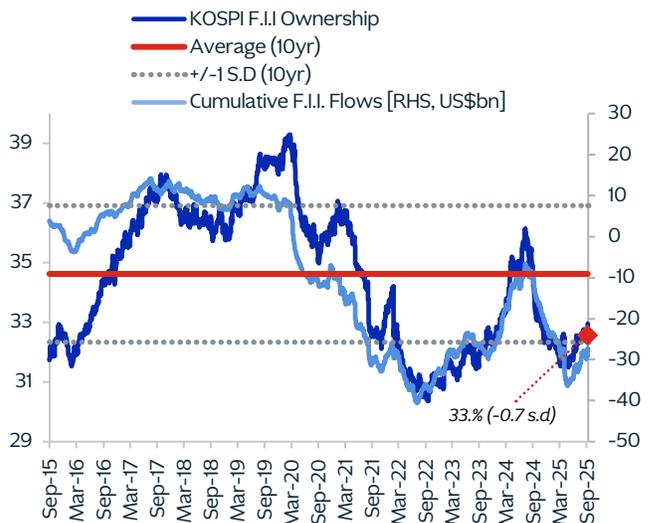
Within the private markets, we see significant opportunities. Private Equity in Asia has come of age, with a growing share of deals now control transactions, where

operational improvement and employee ownership strategies can be implemented. Meanwhile, growth in data centers, along with growth in energy infrastructure alongside logistics, is creating somewhat of a renaissance for Real Assets, especially Infrastructure. Not surprisingly, Structured Credit and parts of Real Estate are benefiting as well.

Finally, we think that under our Regime Change thesis framework, CIOs 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.

Exhibit 15: Many Parts of Asia Are Still Under-Owned by Global Allocators

KOSPI Foreign Ownership Ratio vs. Cumulative Flows, %



Data as at September 11, 2025. Source: Goldman Sachs Investment Research.

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