

KKR

Thoughts From the Road

EUROPE AND THE MIDDLE EAST | March 2025

My colleague Aidan Corcoran, who heads our international macro effort at KKR, and I recently spent time in Europe meeting with executives, CIOs, macro experts, and central bank watchers. This trip followed on the heels of my visit to the Middle East, where I engaged with a similar line-up of people from the region, including business executives, investors, and central bankers. As we detail below, after having also traveled to Mexico, China, and within the U.S. of late, Europe and the Middle East probably are seeing the greatest positive rate of economic change these days. In particular, our time in Europe leads us to believe that we are witnessing an important and potentially pivotal moment. Overall, though, the global landscape is as dynamic and complex as Aidan and I can remember.



Henry H. McVey
Head of Global Macro
& Asset Allocation,
CIO KKR Balance Sheet
henry.mcvey@kk.com

Aidan Corcoran
Managing Director, Co-
Head Global Macro & Asset
Allocation
aidan.corcoran@kk.com

Bola Okunade
Principal, Global Macro &
Asset Allocation
bola.okunade@kk.com

Asim Ali
Principal, Global Macro &
Asset Allocation
asim.ali@kk.com

Whether intended or not, **President Trump's agenda is inspiring Europe to invest much more aggressively in itself, a dynamic that the region has been lacking for some time.** Our bottom line: this time feels different in Europe, and as such, we think the EU's new self-help initiative, with Germany leading the way, warrants investor attention.

Overall, though, our travels across both Europe and the Middle East over the past few weeks underscore four significant changes unfolding across the globe. They are as follows:

1

European Renaissance?! At a time when investors appear woefully underweight European assets (*Exhibit 24*), the Continent is confronting the realities of the war in Ukraine/Russian aggression and the policies of the Trump administration, using these challenges as a catalyst to fundamentally reshape its economic model—both to safeguard itself and to accelerate growth. As such, we have revised our growth forecasts to reflect the likelihood of improved growth for the Euro Area economy. **Notably we now expect real GDP growth of 1.0% in 2025, up from 0.8% previously, and 1.6% in 2026, up from 1.2% previously, with the main drivers being the proposed large fiscal injection from Germany (spanning defense and infrastructure).** These events triggered the largest one day move in the 10-year bund yield since 1990, which one can see in *Exhibit 4*. Our revised growth outlook is also supportive of our higher than consensus view on inflation, which we upgrade from previous estimates of 1.9% in 2025 and 2.2% in 2026 to 2.2% and 2.4%, respectively, due to the change in fiscal policies likely leading to a rise in inflation. **We also upgrade our 10-year bund forecasts by 50 basis points, now targeting a long-term range of 3.25%, up from 2.75% previously.** As we outline below, these developments represent a monumental shift in the approach to growth, security, and fiscal austerity—for the Continent as a whole, but particularly in Germany—and carry significant implications for macro and asset allocation professionals. This is especially relevant for those engaged with fixed income instruments in the region, including insurers.

2

China: A Significant Change in Its Messaging.

Conversations with senior Chinese executives in the Middle East have strengthened our conviction that President Xi Jinping is shifting the narrative in China to be more capital markets friendly. Indeed, his recent statement that the private economy has great potential—combined with recent technological advances by Chinese firms such as DeepSeek—collectively represent what we think is an inflection point in the Chinese capital markets, one that some investors may still underappreciate. Even for those who don't invest in China, we maintain our view that DeepSeek's emergence poses a meaningful challenge to the Mag 7's dominant position in global AI trade. The knock-on effect has already begun to impact the multiples of the market-cap-weighted S&P 500, a dynamic that we think now must be factored into future expected returns.

3

America First. The America First agenda continues to deliver both near-term and long-term surprises. In the near-term, President Trump's team is moving aggressively to implement tariffs on both friends and foes. **As a result, we have lowered our U.S. GDP forecast to 2.1% from 2.5%, as we now assume 80 basis points of drag from tariffs, compared to 40 basis points in January.** We are making this change, despite the reality that there is no actual revision in our base case modeling forecast for 2025 that—in aggregate—tariffs in the U.S. will increase from 3.8% to 10.8% of total imports. Longer-term, though, we think the messaging of the strategy is more sound. In fact, we are increasingly of the mindset that current Treasury Secretary Scott Bessent is signaling a strategy reminiscent of that of Bob Rubin, the former Treasury Secretary, who worked to jawbone the long end of the Treasury curve down during the 1990s. In both instances, these gentlemen have advocated for policies centered on lower deficits, less government crowding in markets and regulation, and more company-specific freedom.

4

The Middle East: Think Differently. Another trip through this region underscores both its opportunity set as well as its unique complexities by each individual country. To state the obvious, there is no one 'Middle East,' but its collective growth and transition towards more of a diversified economy warrants investor attention. See below for details, but we see the region as a compelling destination for capital, especially across Infrastructure and Private Lending.

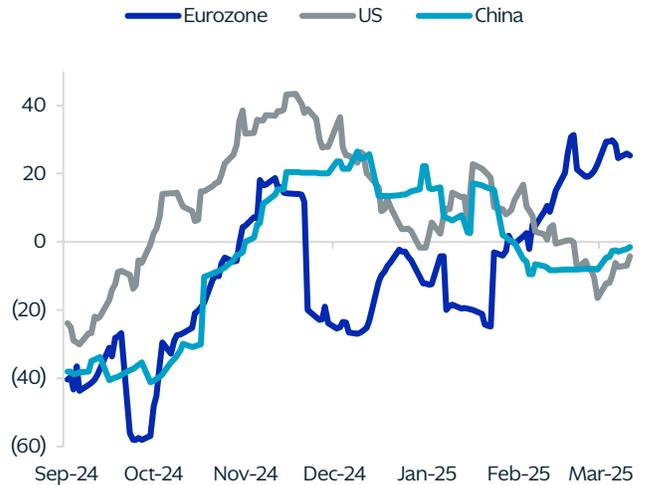
Details

Besides the politicians' shift in the approach to growth, security, and fiscal austerity, what stood out most for us during this trip was how different the mood in Europe felt, even in the face of a potential trade war with the U.S. Indeed, even before the stimulus announcements, Europe's economy was already delivering positive surprises (*Exhibit 1*) and as we indicated above, growth estimates are moving higher, not lower. Meanwhile, the stock market has been outperforming the S&P 500, with the STOXX 600 up +7.6% YTD, compared to -13.1% for the Mag 7 and -4.1% for the S&P 500 (*Exhibit 2*). We think the German pivot away from austerity will likely only add further fuel to this rally.

Against this backdrop, Aidan and his team have increased their expectations for real GDP growth, inflation, and interest rates. See below for more detail, but we also think the neutral rate for the Eurozone is now closer to 2.5% (where the deposit rate is today). That said, we still believe the ECB will need to navigate near-term headwinds, including the impacts of tariffs and the immediate tightening of financial conditions driven by the rise in long-end yields. As such, we still expect one to two additional rate cuts by the ECB over the remainder of this year, before returning to neutral in 2026.

Exhibit 1: Even Before the Recent Stimulus Announcement, European Economic Surprises Had Entered a Positive Cycle

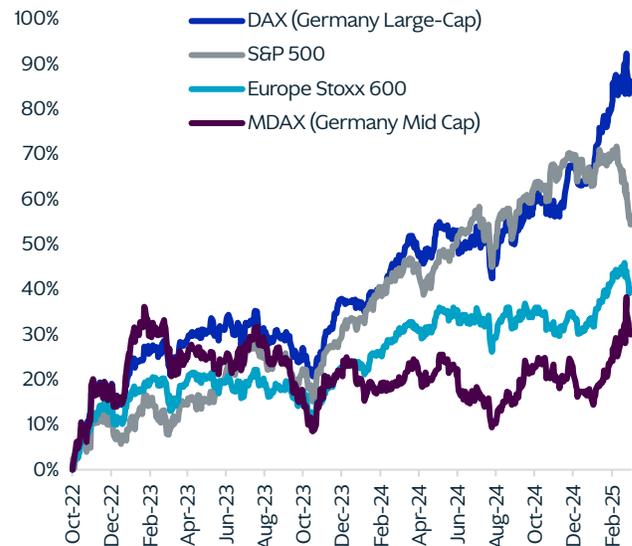
Citi Economic Surprise Index



Data as at March 11, 2025. Source: Bloomberg.

Exhibit 2: European Equity Markets, Led by Germany, Actually Have Been Outperforming for Some Time

Equity Market Price Returns Since Oct 22



Data as at March 15, 2025. Source: Bloomberg.

Exhibit 3: Our Most Recent Forecast Revisions Reflect Some Significant Changes in Policy Around the World, Especially in Europe and the U.S.

KKR GMAA Forecast Changes			
U.S. GDP	Current	Prior	Consensus
2025	2.1%	2.5%	2.3%
U.S. CPI			
2025	3.2%	3.1%	2.8%
Euro Area GDP			
2025	1.0%	0.8%	0.9%
2026	1.6%	1.2%	1.3%
Euro Area CPI			
2025	2.2%	1.9%	2.2%
2026	2.4%	2.2%	1.9%
Depo Rate, Year End			
2025	2-2.25%	2.0%	2.0%
2026	2.5%	2.5%	2.0%
10-Year Bund, Year End			
2025	3.0%	2.5%	2.4%
2026	3.25%	2.75%	2.4%

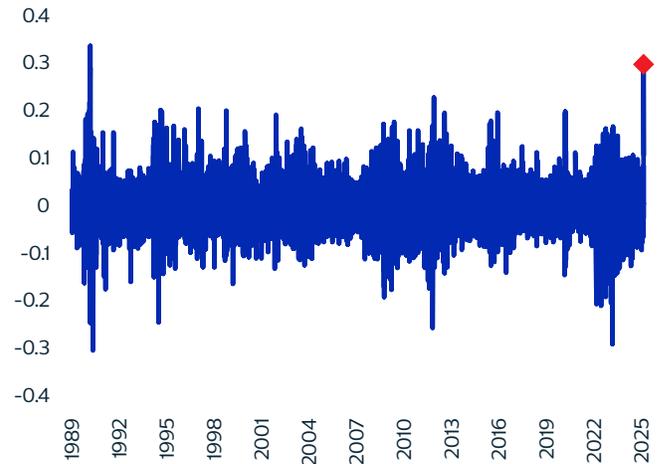
Data as at March 14, 2025. Source: KKR Global Macro & Asset Allocation analysis.

However, for Europe to sustain the momentum and optimism we felt on the ground, it must truly embrace change. Specifically, it must address several critical priorities: 1) address its excessive security dependence on the U.S./underinvestment in defense; 2) reduce dependence on natural gas from Russia; and 3) decrease reliance on China for trade. In addition, Europe needs to focus on boosting productivity (*Exhibit 7*), given an aging workforce and ongoing skills mismatches. The good news, we believe, is that current events are fostering a sense of urgency for reform that we haven't seen since the fall of the Berlin Wall in November 1989. We think this renewed drive for change could position Europe for success on these fronts going forward.

The good news is that current events are fostering a sense of urgency for reform that we haven't seen since the fall of the Berlin Wall in November 1989.

Exhibit 4: We Saw the Largest 1-Day Move in Bund Yields Since the German Reunification in 1990

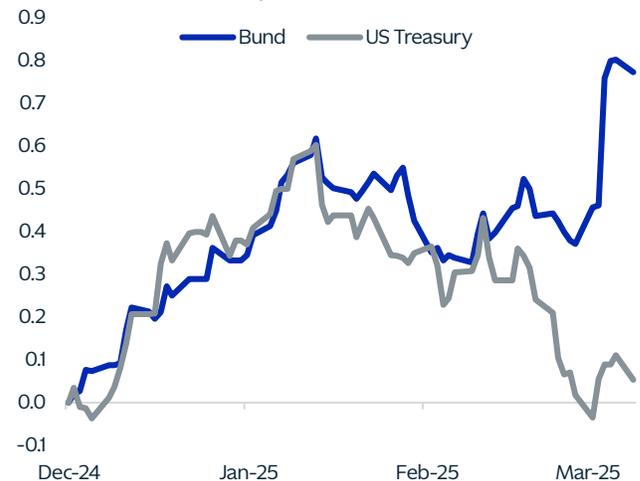
German 1-Year Bund: One Day Move in Yields



Data as at March 5, 2025. Source: Bloomberg.

Exhibit 5: After Moving in Tandem From December 2024 Through Mid-February, Moves in German and U.S. Yields Have Sharply Diverged

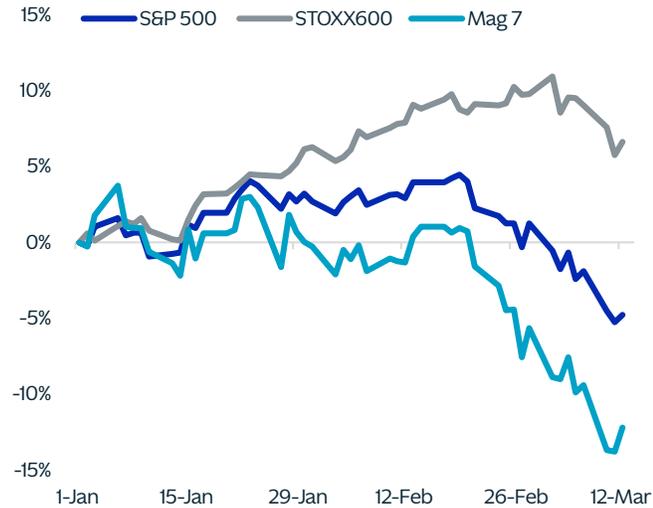
10-Year Government Bond Yields, Cumulative Change Since December 2024, % Points



Data as at March 10, 2025. Source: Bloomberg.

Exhibit 6: Year-to-Date the STOXX 600 Has Easily Outperformed Both the S&P 500 and Mag 7

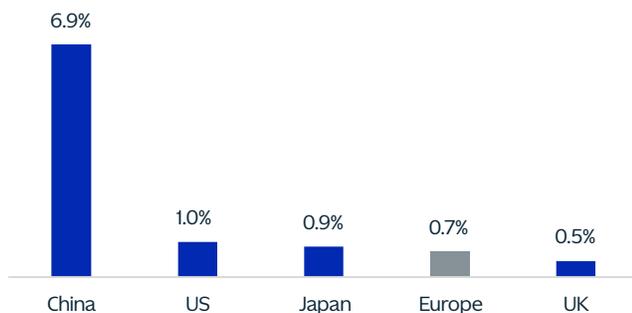
Equity Market Price Returns YTD



Data as at March 12, 2025. Source: Bloomberg.

Exhibit 7: Productivity Growth in Europe Has Been Slower Than in the U.S., Representing a Source of Upside for Firms That Are Front Footed on Technology

Labour Productivity Per Hour Worked: CAGR Since 2010



Data as at December 31, 2024. Source: The Conference Board.

In terms of key themes to invest behind for the region, we left with the following action items:

1. **Tech is not just a U.S. story; Europe is expanding too.** While Europe does not get much credit for its innovation, the European TMT sector has been expanding nicely, including significantly outpacing GDP growth. Historically, many European Tech success

stories have opted to list in the U.S., but in a more fragmented world, the desire to remain more local could change that. We see meaningful value creation in European Tech, both within our portfolio and in the broader market, as the region continues to foster innovation and scale. Already in our portfolio, we have seen success in small business software accounting, industrial software to improve warehouse efficiency, and online classifieds businesses, with AI deployment offering further upside to these existing themes. Interestingly, in the Defense sector, Europe has the opportunity to potentially skip a generation of more traditional tech (aircraft carriers) and focus on software, space, micro-electronics, and other verticals, we believe.

2. **Capital Solutions and M&A.** European policymakers appear to be rethinking their stance on M&A and consolidation as they reassess the importance of achieving economies of scale for European companies to strengthen the Continent's economic and trade resilience. This is consistent with the recent Draghi report and has been given a boost by U.S. policymaking since the presidential election. Against this backdrop, we expect to see an acceleration in corporate activity around divestments and M&A, creating a demand for flexible capital solutions and partnerships with financial investors.
3. **Infrastructure.** The need for greater infrastructure spending in Germany—and across Europe more broadly—has been clear for some time. Indeed, this backdrop has been a huge tailwind for KKR's efforts in the region. What's different now is that governments are finally awakening to this necessity. Significantly, we think Germany's approach is more likely to crowd in than to crowd out private capital, and it has the debt capacity to help support the initiative – a fiscal set-up that is not true in most developed markets. Beyond Trump 2.0., this change in approach is directly linked to the urgent geopolitical need to build resiliency in areas such as transportation, energy infrastructure, and communication networks. To be sure, there is some chance that Russia could resume significant pipeline flows to Europe amidst a détente in Ukraine. However, our structural view remains that this time is different, and as such, Germany will continue to invest money to

create energy, defense, and economic resiliency, and seek to minimize dependence on any one supplier.

4. Investments into European productivity plays are likely to do well. While the recent announcements we have seen support GDP growth, they do little to address Europe's demographics headwinds, making the need to achieve more productivity from a flat/declining working population even more urgent. We see multiple ways to address this challenge, from worker retraining programs to AI deployment to the creation of European champions with economies of scale. Productivity software in the manufacturing sector too will grow. Overall, this reality is a pre-existing theme that is further supported by recent fiscal policy shifts and should likely create attractive opportunities for investors.

5. European public equity valuations remain attractive; we see more public-to-private activity ahead. European Equities continue to offer compelling value, particularly when compared to the U.S. In fact, the valuation gap remains at historically significant levels (*Exhibits 8 and 9*). As economic momentum builds, and fiscal policy becomes more supportive, the opportunity for investors to extract value —particularly through take-private transactions—is becoming increasingly attractive, we believe.

6. Services remain a powerful investment theme as shifting trade dynamics and evolving consumer preferences reshape demand. Unlike goods, services are more insulated from U.S. tariffs and benefit from long-term trends such as digitalization and the increasing preference for experiences over things. We think these factors help position services as a resilient and high-growth theme for investors to consider.

We think Germany's approach is more likely to crowd in than to crowd out private capital, and it has the debt capacity to help support the initiative – a fiscal set-up that is not true in most developed markets.

Exhibit 8: A Record Valuation Gap: European Public Markets Still Offer Attractive Targets for M&A as Well As Public-to-Private Activity

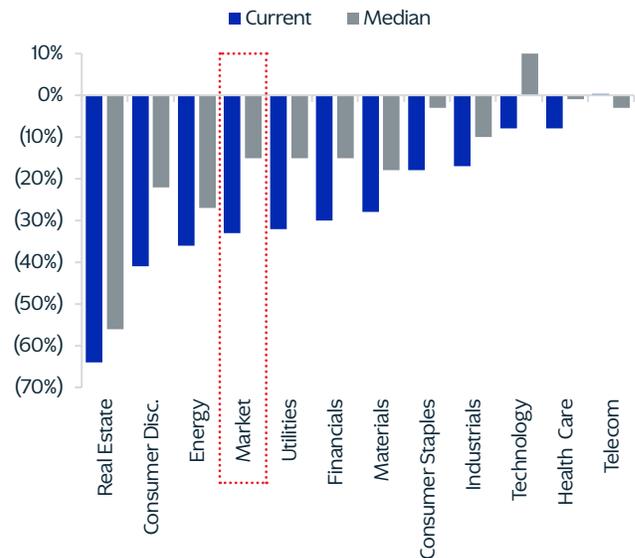
The U.S. vs. Europe Cyclically Adjusted P/E



Data as at March 13, 2025. Source: Barclays Research, LSEG Data & Analytics, IBES.

Exhibit 9: Europe Is Still Trading at Twice Its Average Discount to the U.S.

Europe vs. The U.S. 12 Month Forward P/E Premium, Discount



Data as at March 31, 2025. Source: MSCI.

Key Questions

To better understand why the investing landscape across Europe and the Middle East warrants investor attention, we address five of the most asked questions post our trip. They are as follows:

● QUESTION NO. 1

What is different this time, especially in Germany, that leads you to conclude there is an investing renaissance in Europe?

In a landmark move, likely incoming Chancellor Friedrich Merz unveiled a bold fiscal package that we believe marks a departure from Germany's long-held commitment to fiscal conservatism. For decades, Germany was the bastion of budget discipline, following a strict framework epitomized by a constitutional debt brake that, since 2009, limited the structural deficit to just 0.35% of GDP. While this rule was meant to ensure fiscal stability, it has increasingly been seen as an obstacle to essential long-term investment, especially for a country that has been grappling with growing infrastructure challenges and escalating defense needs. So, Merz's newly announced fiscal package, which includes €500 billion in infrastructure investment over twelve years along with a historic expansion of defense spending, represents a pivotal shift, we believe. At its core, we think this new approach should set the stage for a fundamental change in Germany's economic future, while also helping to close the gap between Europe's periphery, which has notably outperformed the core in recent years. No doubt that the fiscal side will remain under control, but these adjustments do represent the new economic reality.

Central to this shift is the removal of key restrictions under the constitutional debt brake, which as noted above, currently limits Germany's structural deficit to 0.35% of GDP each year. To address these challenges, the package introduces three key reforms: (i) national rules that exempt defense spending above 1% of GDP from the debt brake,

allowing for potentially uncapped military investment; (ii) the creation of a constitutionally enshrined special purpose vehicle to fund €500 billion in infrastructure spend over the next 12 years, equivalent to more than 10% of 2024 GDP; and (iii) adjustments to the debt brake that provide greater fiscal flexibility at the local level. As a result, the German government is now projected to run sustained fiscal deficits in the 5-6% range (*Exhibit 10*).

These measures are beginning to shape broader EU policy beyond Germany. With a more flexible and less restrained Germany at the helm, the EU is considering a partial exemption for defense spending from its debt rules, aiming to enhance self-sufficiency across member states.

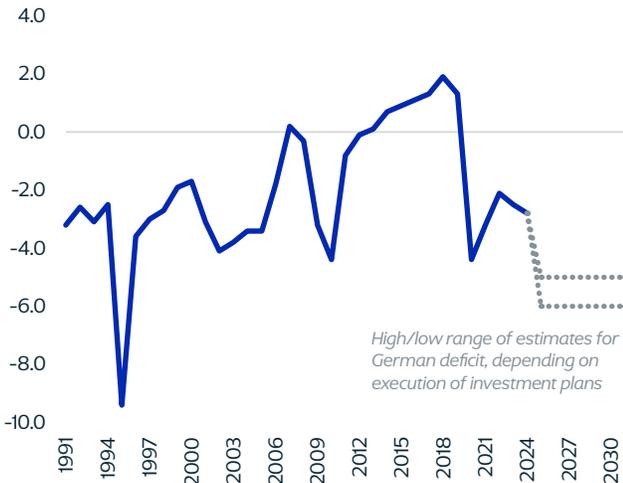
As we mentioned earlier, the immediate market reaction to the fiscal announcement underscored the significance of the proposed measures. The 10-year bund yield saw the largest one-day move since 1990, driven by the expectation of sustained fiscal deficits in Germany. At the same time the euro strengthened 4% over the next two trading days as investors anticipated that increased spending in both Germany and the broader Eurozone will provide a much-needed economic boost.

In the very near term, we believe that the impact of Germany's fiscal expansion on growth will be somewhat muted. The main benefit is likely to come from a moderate boost in sentiment and capex as companies resume investment plans that had been stalled due to Germany's weak structural backdrop. More broadly, the infrastructure package is projected to generate an additional €50 billion in annual investment, roughly 1% of GDP, though the actual yearly outlay will depend on how the funds are deployed over time. Importantly, we see a meaningful fiscal multiplier effect from this type of spending, as it sends a clear signal that government support for the economy is here to stay. This dynamic should attract additional private capital, reinforcing the broader Eurozone recovery.

Historically, a significant proportion of Europe's defense spending has flowed abroad, limiting its domestic economic impact.

Exhibit 10: The German Government Is Now Expected to Run Fiscal Deficits in the 5-6% Range for Years to Come

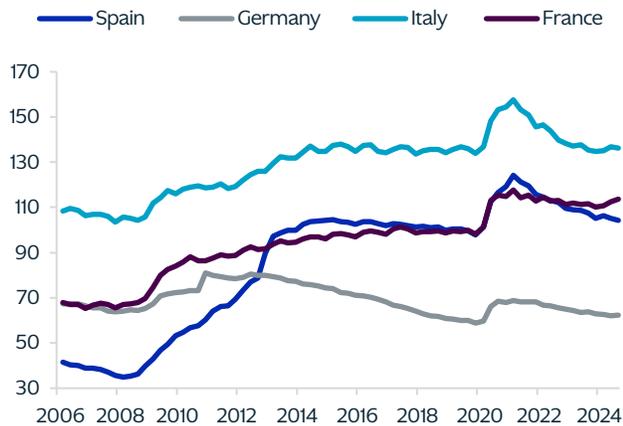
German Government Budget Surplus/Deficit, % of GDP



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

Exhibit 11: With Low Debt Levels Relative to Its European Counterparts, Germany Retains Significant Fiscal Capacity

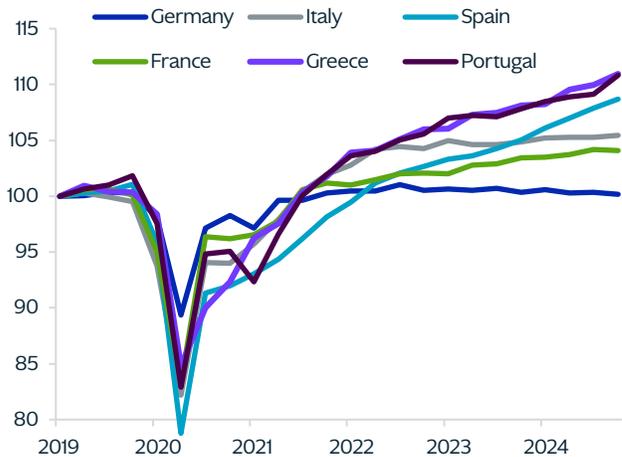
Government Debt as a % of GDP



Data as at September 30, 2024. Source: Eurostat.

Exhibit 12: Europe's Periphery Has Been Outperforming, But Recent Announcements Suggest Core Growth Will Also Inflect Up

Real GDP: Selected Eurozone Countries, 1Q 2019=100



Data as at December 31, 2024. Source: Eurostat.

Looking ahead, we think that there are a few structural hurdles that Europe, Germany in particular, must address to unshackle itself from the past. They are as follows:

Hurdle 1: Europe heavily relies on U.S.-sourced armaments, and is purchasing Russian LNG at an unprecedented pace

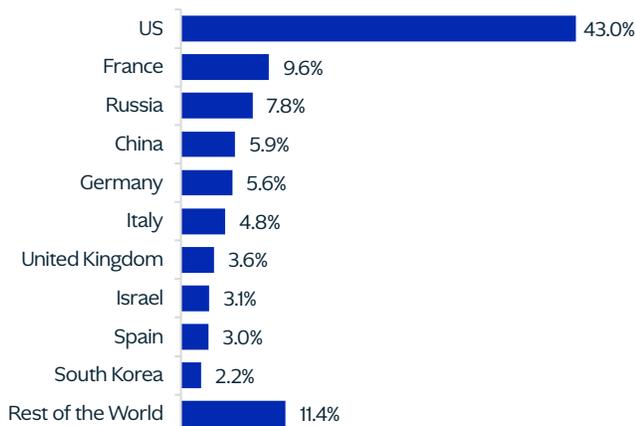
Historically, a significant proportion of Europe's defense spending has flowed abroad, limiting its domestic economic impact. This dynamic reflects the U.S.'s long-standing role as Europe's primary military power and security guarantor since NATO's inception. The Draghi report highlights this dependence, noting that of the €75 billion spent on defense equipment procurement between June 2022 and June 2023, 78% went to suppliers outside of the EU. While European policy makers have expressed a strong desire for greater defense independence, scaling up domestic capabilities at the necessary pace will take time and more focus, we believe. From our perch at KKR, we think that Europe already possesses a globally competitive defense sector with all the requisite technical know-how; however, it is just too small to make a difference to the local economy. Scaling up internal production, overcoming hurdles associated with national fragmentation, and creating incentives for disruptors are all challenges that need to be addressed - and in short order to meaningfully shift the narrative towards Germany becoming a formidable player that can compete against

global players (and also positively impact GDP growth with a multiplier effect). Therein lies both the opportunity and challenge that we think all investors must monitor closely during the next 12-24 months.

At the same time, Europe continues to grapple with the challenge of reducing its reliance on Russian gas. While significant progress has been made in cutting imports of Russian piped gas since the onset of the Ukraine war, the Continent’s continued dependence on Russian LNG highlights the ongoing difficulty of actually fully severing energy ties (*Exhibit 14*). If a peace agreement is actually reached in Ukraine, there may be greater desire by those in manufacturing and heavy industry to once again increase pipeline gas flows, not least due to the lower cost and smaller environmental footprint when compared to LNG cargoes. Recall that Russia surpassed Qatar last year as Europe’s second largest LNG supplier, trailing the U.S. Regardless, fully moving away from this prior dependency will require accelerated investment in alternative energy sources and deeper supplier agreements with non-Russian producers, a transition that remains both urgent and highly complex. However, the good news is that the momentum behind energy independence now appears fully embedded in Europe’s policy agenda.

Exhibit 13: The U.S. Holds a Dominant Position in the Global Arms Trade, Accounting for 43% of Total Exports, More Than Four Times the Share of the Next Largest Exporter, France

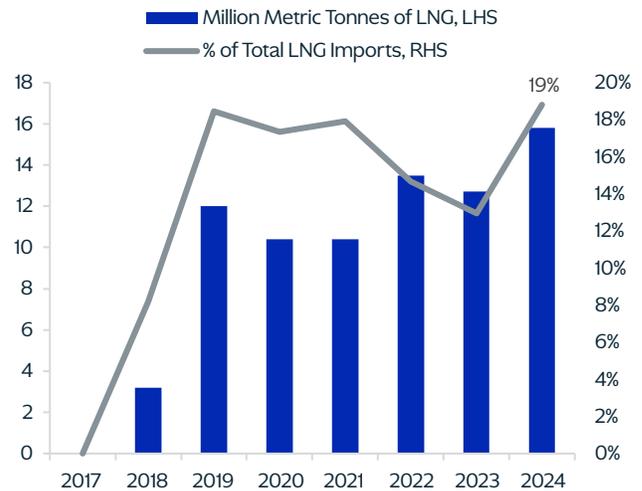
Share of Major Global Arms Exports, % of Total, 2020-24



Data as at December 31, 2024. Source: SIPRI.

Exhibit 14: Russian LNG Cargoes to the EU Actually Hit a Record High in 2024, and Somewhat Surprisingly, It Now Accounts for 19% of EU LNG Cargo Imports

Russian LNG Imports to EU



Data as at December 31, 2024. Source: ICIS.

Hurdle 2: Germany’s economy is still too dependent on autos and China

Germany’s economy has long been tethered to the auto industry, with companies such as Volkswagen and BMW forming the backbone of both its industrial base and export strength. However, this dependence has more recently become a double-edged sword. The global shift towards electrification is challenging the dominance of traditional combustion engines, while Germany’s reliance on China—both as a critical market for its exports and a key player in its supply chain—has exposed the vulnerabilities of its economic model, particularly as Germany’s exports to China have been slowing as Chinese firms rapidly scale domestic production (*Exhibits 15 and 16*).

Chinese car makers such as BYD have been steadily increasing their market share in Europe and making significant efforts to establish local production facilities there, enabling them to bypass tariffs and capitalize on the proximity to key European markets. These challenges highlight the need for Germany to diversify its trade relationships and lessen its reliance on the auto sector, along with the strategic risks associated with dependence on China. While increased defense and infrastructure spending will help, Germany and its peers will need to do more, including accelerating productivity.

Exhibit 15: Germany's Car Production Has Dropped Markedly. This Trend Looks Increasingly Structural

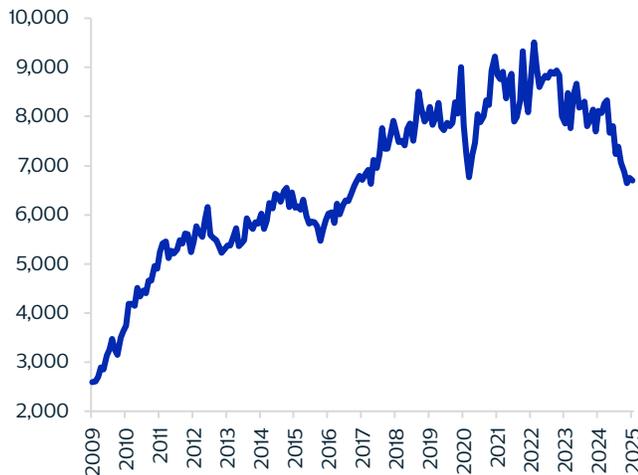
Germany: Passenger Car Production, Thousands, 4-Month Moving Average



Data as at February 28, 2025. Source: Verband der Automobilindustrie.

Exhibit 16: Germany's Exports to China Peaked in 2022

Germany Goods Trade With China: Exports, EUR Millions



Data as at January 31, 2025. Source: Federal Statistics Office.

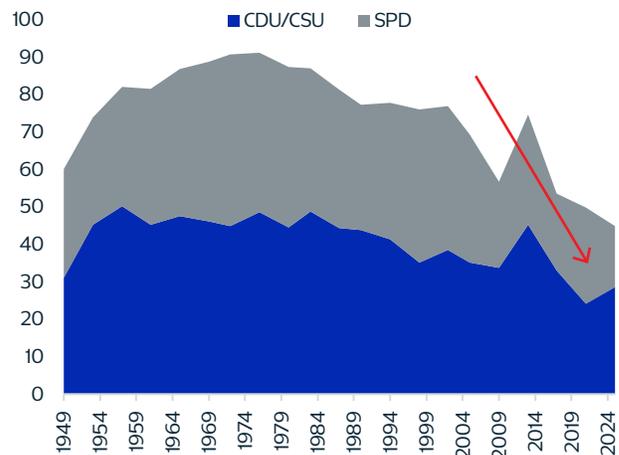
Hurdle 3: Like other parts of Europe, the far right has been growing in popularity in Germany

The rise of the far right in Germany poses a significant challenge for policymakers navigating the country's fiscal and economic landscape. In the recent election, the AfD (Alternative für Deutschland) garnered 20.8% of the vote, effectively doubling its previous share and positioning itself as the second-largest party in the Bundestag (Exhibit 18). This marks a structural shift in Germany's political landscape, as the AfD expands its influence beyond its traditional eastern stronghold.

As political fragmentation increases, efforts to recalibrate Germany's fiscal framework may encounter growing resistance within an increasingly polarized Bundestag. This reality prompted centrist political parties to set aside their differences and pass one of the most significant pieces of legislation in post-war Germany during a brief window before the new, more fragmented parliament takes office. While the centrists have succeeded in this immediate effort, the challenges posed by the rising influence of far right (and also the far left) parties will remain a pressing concern for years to come.

Exhibit 17: The Centrist Parties' Vote Share in Germany Fell to Its Lowest Since Federal Elections Began in 1949

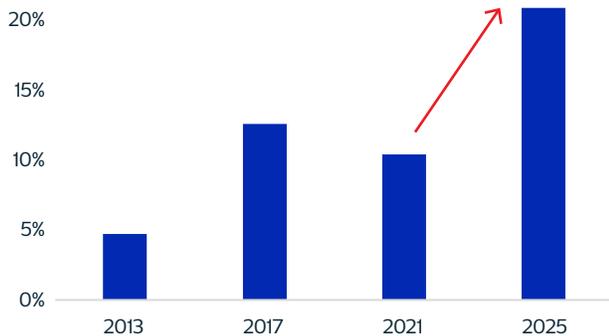
Germany Federal Elections, Vote Share of Centrist Parties



Data as at February 28, 2025. Source: Federal Returning Officer.

Exhibit 18: The Afd (Alternative fur Deutschland) Surged to Become the Second Largest Party in the Bundestag, Securing 20.8% in the Federal Election

German Elections: Afd Vote Share, %



Data as at February 28, 2025. Source: Federal Returning Officer.

So, as we look ahead, our expectation is that a coalition will soon take charge in Germany with Merz as Chancellor, but that coalition will likely feel pressure from the huge rise in Afd popularity for years to come. Given this backdrop, we are very encouraged that the centrist parties managed to agree to an economic reform plan in the dying days of this parliament.

QUESTION NO. 2

Is the outlook for interest rates in Europe really changing?

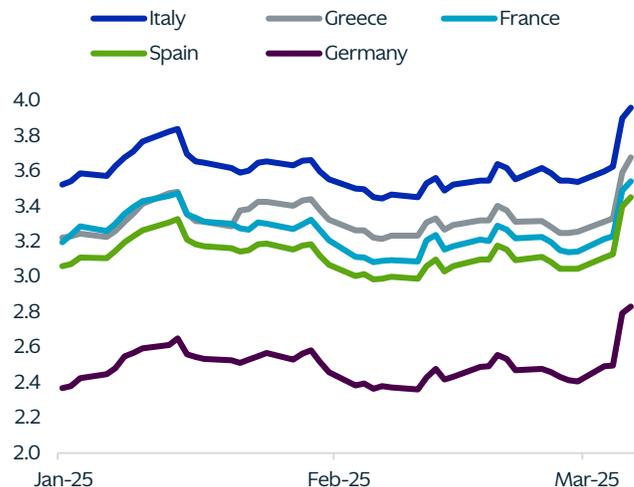
With this expected substantial increase in government spending, there is a risk that the ECB may pause to assess the long-term effects, potentially scaling back its rate-cutting cycle if near-term growth and inflation exceed expectations. For now, pending final approval of the planned German stimulus and further details on execution, we broadly stick to our call for a 2.0% trough depo rate but incorporate an uncertainty band to 2.25%, stepping up to 2.5% in 2026 (our estimate of the neutral rate).

Importantly, with improved medium-term growth prospects and increased bond issuance, we anticipate further upward pressure on 10-year bund yields. At present, the 10-year bund yield has already risen to 2.8% (*Exhibit 19*) and we now see scope for it to reach 3% by end-2025 (our new base case, up from 2.5%). We expect

it to settle in a range centered around 3.25% over the long term (up from our prior estimate of 2.75%), if Germany manages to execute on its ambitious plans through timely deployment of capital beyond investment and defense expenditure. It's also worth noting that while government bond rates have surged, swap spreads have tightened significantly, which is mitigating the impact of government bond rate changes on corporate borrowers with debt linked to swaps. One can see this in *Exhibit 20*.

Exhibit 19: German Yields Remain the Benchmark; We Saw a Symmetrical Move Up in Bond Yields Across Europe

Europe: 10-Year Government Bond Yields, %

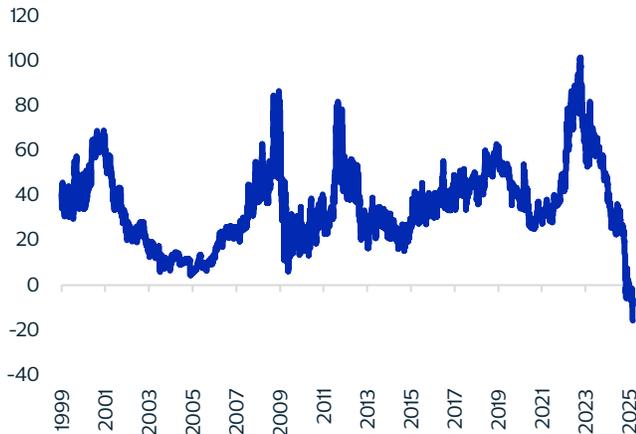


Data as at March 6, 2025. Source: Bloomberg.

Importantly, with improved medium-term growth prospects and increased bond issuance, we anticipate further upward pressure on 10-year bund yields.

Exhibit 20: Swap Spreads Have Tightened Significantly, Softening the Impact of Government Bond Moves On Corporate Borrowers

EUR 10-Year Swap Spreads



Data as at March 6, 2025. Source: Bloomberg.

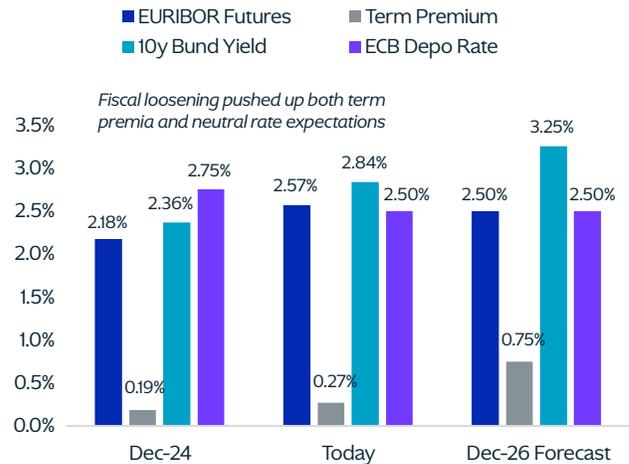
QUESTION NO. 3

What does all this mean for asset allocation, especially for local investors?

Without question, this trip reinforced that our *Regime Change* thesis of heightened geopolitics, bigger deficits, a messy energy transition, and sticky services inflation is now alive and well in Europe. While bond yields have risen everywhere in Europe of late, the trajectory of German bund yields are probably the biggest signal to the world that this time is different. If we are right, then the traditional role that government bonds have played in diversified portfolios in both Europe and the U.K. has changed materially. One can see this in *Exhibits 21* and *22*, which shows both the introduction of some real term premium and a growing positive correlation between stocks and bonds. While this correlation will likely remain volatile—especially in an environment of fiscal expansion—we believe that asset allocators need to be cautious about stock/bond correlation and adjust their positions accordingly on a through-the-cycle basis.

Exhibit 21: Over Time, We Think the Market Reprices the Term Premium Higher

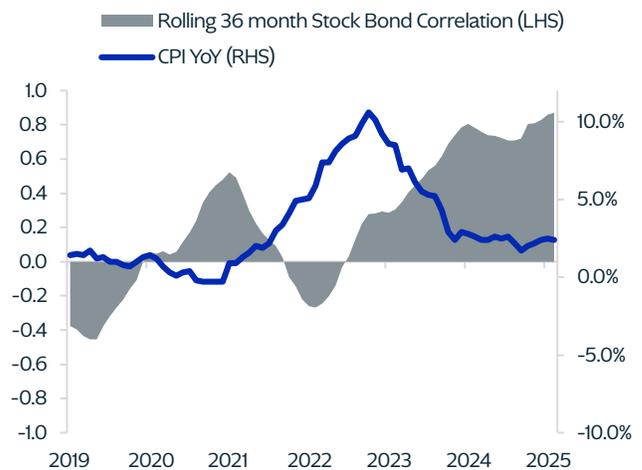
10-Year Bund Yield Decomposition and Forecasts, %



Data as at March 6, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

Exhibit 22: Even With Inflation Trending Lower, Stock/Bond Correlations in Europe Remain Positively Elevated, a Clear Signal That Investors Need to Reassess Asset Allocation Playbooks

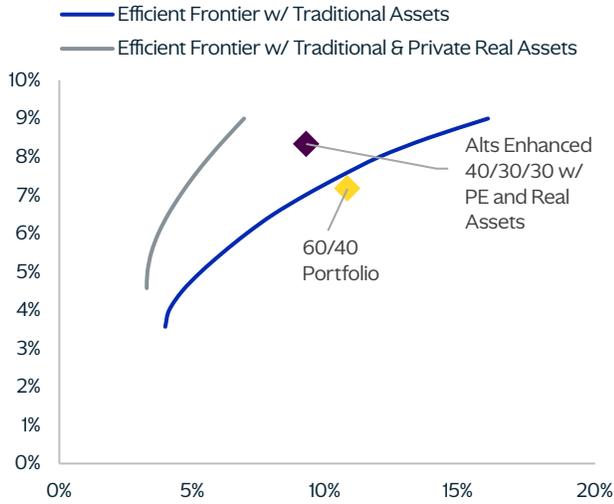
European Stock Bond Correlation and Euro Area CPI, %



Data as at March 6, 2025. Source: Bloomberg.

Exhibit 23: Private Assets Often Enable Investors to Build Portfolios With Higher Realized Returns While Also Reducing Volatility. This Viewpoint Is Especially True When Stocks and Bonds Become More Positively Correlated

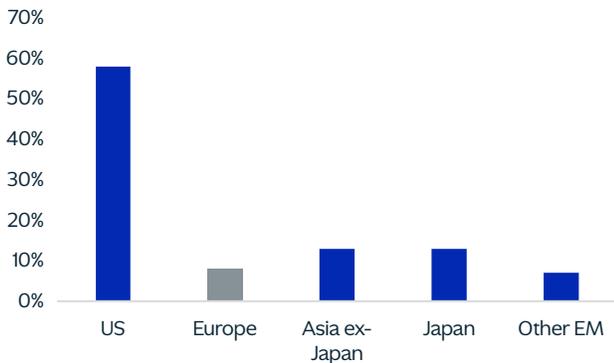
20-Year Average Annual Return and Annual Volatility, %



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

Exhibit 24: Only 8% of Investors Expected European Equities to Outperform This Year

Which Region Will Perform Best in 2025 (Local Currency)?



Data as at Jan 2025. Source: Goldman Sachs Investment Research.

So, our bottom line is that, with more term premium coming back into this market (*Exhibit 21*), we think that the traditional role of government bonds, especially for insurers and pensions, no longer makes as much sense.

As such, we are inclined to include more collateral-based cash flows that prosper in a higher nominal GDP environment. Infrastructure, Asset-Based Finance, and Real Estate Credit all appear to be attractive options at current levels. On the equity side, we like control Private Equity positions, especially corporate carve-outs, Capital Solutions, and some Public Equities, given how negative sentiment is (*Exhibit 24*).

QUESTION NO. 4

Is there upside to the U.K.’s services-driven economy?

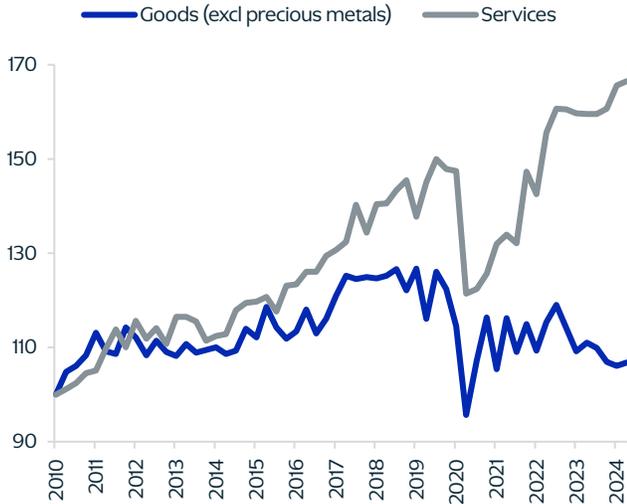
While the overall economy is facing some challenges, we believe the U.K.’s position as a global services leader should offer a competitive advantage in an era of rising protectionism. Indeed, as the world’s second largest services exporter, the U.K. is less exposed to tariff shocks than more goods-heavy economies. Financial and professional services continue to drive export growth, and the U.K.’s ability to tap into high-value, knowledge-intensive industries reinforces its resilience amidst shifting trade dynamics. Consistent with this view, we spent time on the U.K.’s advances in biotechnology, film, and artificial intelligence, and we believe the value creation potential for its companies in these sectors is likely being underestimated.

In addition, driven by higher immigration, the population has been growing at a notably faster pace than the rest of Europe. While much of the Continent grapples with demographic headwinds including shrinking labor forces and rising dependency burdens, the U.K. is projected to see population growth over the next 25 years (*Exhibit 26*).

We believe the U.K.’s position as a global services leader should offer a competitive advantage in an era of rising protectionism.

Exhibit 25: The U.K.'s Exports Are Increasingly Driven by Services

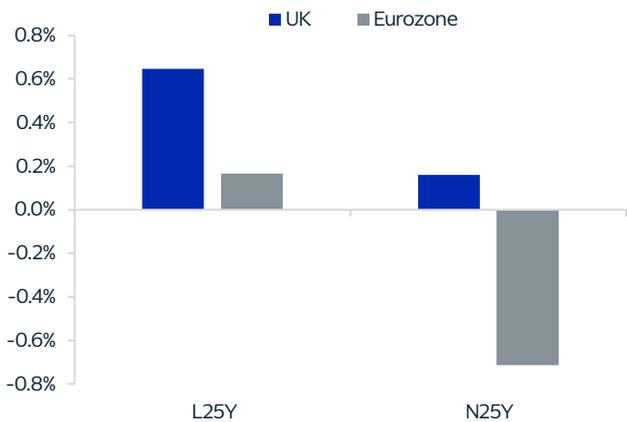
The U.K. Exports, 2010=100



Data as at June 30, 2024. Source: ONS.

Exhibit 26: The U.K.'s Working Age Population Is Expected to Grow Over the Next 25 Years

The U.K. vs. Eurozone Working Age Population Growth, CAGR %



Data as at December 31, 2024. Source: UN Population Estimates.

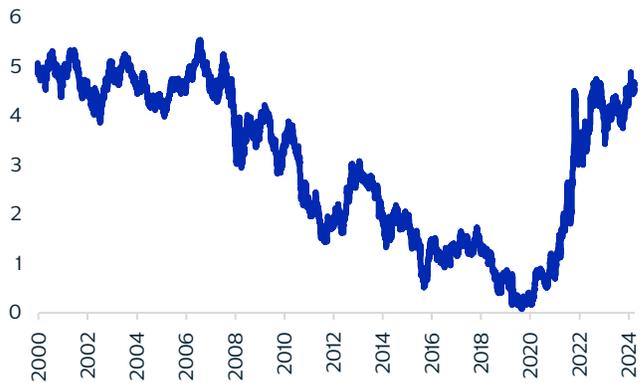
Where can more be done? We believe that while trade fundamentals and demographics in the U.K. are relatively positive, the country needs to take further steps to ensure it remains a major destination for businesses and capital in the coming decades. Indeed, similar to many of its developed market peers, the U.K.'s infrastructure

has lagged behind, particularly in transport and water infrastructure, areas where private capital can work synergistically with the national agenda.

Meanwhile, the fiscal outlook presents a more challenging picture. This was evident in January when markets sent a clear warning signal by pushing 10-year gilt yields to their highest levels since 2008 as investors reassessed the U.K.'s fiscal trajectory. The nation's debt trajectory is a concern, but context does matter. Its debt-to-GDP ratio is projected to reach 108% by 2029, a high level by historical standards, but not particularly extreme in an international context. By comparison, the U.S. is on track to hit 138% over the same period, suggesting that while the U.K.'s fiscal position will require management, it remains comparatively more contained than in some other countries.

Exhibit 27: The U.K.'s Borrowing Costs Surged to the Highest Level Since the GFC in January, Eroding Most of the Government's Fiscal Headroom

The U.K. 10-Year Gilt Yield, %

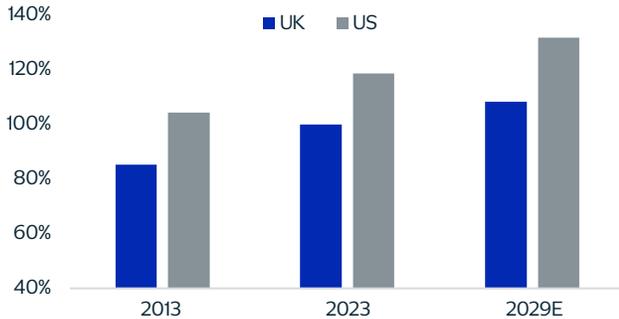


Data as at March 10, 2025. Source: Bloomberg.

To realize its growth potential, we believe the U.K. must do more to address the weak productivity and investment trends it has experienced in recent decades.

Exhibit 28: While the U.K.'s Debt-to-GDP Ratio Remains Elevated, the U.S.'s Trajectory Is More Concerning

The U.K. vs. The U.S.: Government Debt to GDP, %

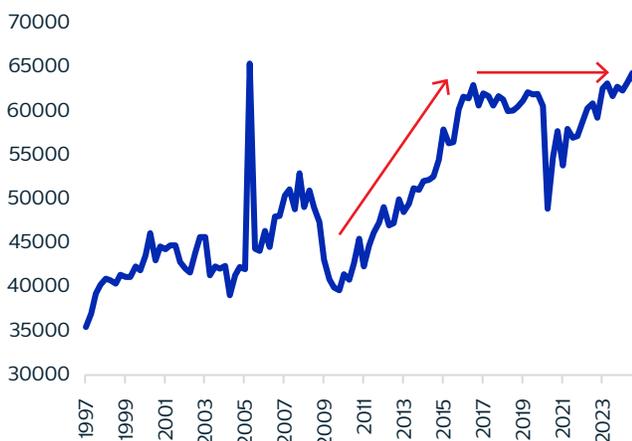


Data as at December 31, 2024. Source: IMF WEO.

To realize its growth potential, we believe the U.K. must do more to address the weak productivity and investment trends it has experienced in recent decades. While these issues will take time to fix, the U.K. benefits from a relatively stable political backdrop, which is critical for tackling these structural issues. If there is good news, however, momentum is tilting positive. As such, we believe international investors are underestimating the U.K.'s potential to unlock more meaningful growth in the years ahead.

Exhibit 29: Investment Has Remained Notably Weak for Much of the Past Decade

The U.K. Business Investment: Real Gross Fixed Capital Formation, GBP Millions per Quarter, 2022 Prices



Data as at December 31, 2024. Source: ONS.

QUESTION NO. 5

How attractive is the Middle East as a business hub and a market on its own?

Upon returning from my trip to the Middle East, I felt further convinced of our thesis that cities like Dubai are emerging as serious competitors to Hong Kong and other city-states as prime destinations for capital. All told, the six Gulf Cooperation Council (GCC) states collectively represent 60 million people and a \$2.2 trillion economy that is becoming increasingly integrated, not a market that can be overlooked. Energy independence has kept inflation significantly below global levels over the past few years and wages have grown quickly, helping to attract global talent in the financial sector and beyond. From 2020 to 2023, net migration to the UAE alone amounted to 12% of the population. Additionally, rule of law, innovation, organic growth, and stability are all distinguishing features that make us bullish on this region as an investment destination.

Given these drivers, it was no surprise to learn that the GCC economies are now collectively 9.3% larger than they were pre-COVID, compared to just 5% growth for the Eurozone (in local currencies). Leveraging ease of business, rule of law, innovation, and technology, these economies are also actively continuing to diversify away from oil as their primary growth driver. Indeed, as we show in *Exhibit 30*, Saudi Arabia in particular has done an impressive job of shifting its economy away from oil towards traditional corporate businesses. Limited debt issuance over the past few decades has kept government finances in good shape, allowing government-linked companies and sovereign wealth funds to deploy this substantial firepower locally to attract investment in areas such as renewables capacity, datacenters, and financial exchanges. As a result, FDI projects have jumped by fully 277% since 2018. One can see the size of the jump in *Exhibit 32*.

Exhibit 30: Saudi's Oil Sector Now Accounts for Less Than 30% of GDP, Down From 40% Fifteen Years Ago

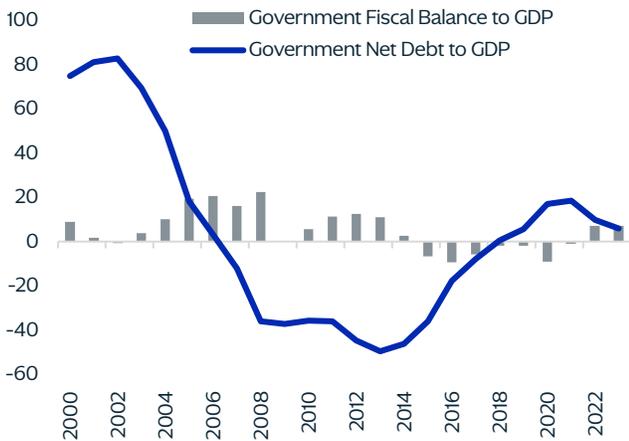
Saudi Arabia - Oil Activities Share of GDP, %



Data as at December 31, 2024. Source: Saudi General Authority for Statistics.

Exhibit 31: Running Massive Financial Surpluses Through the Oil Boom Years Have Left GCC Governments With Net Debt of 5% of GDP

GCC Government Finances, %

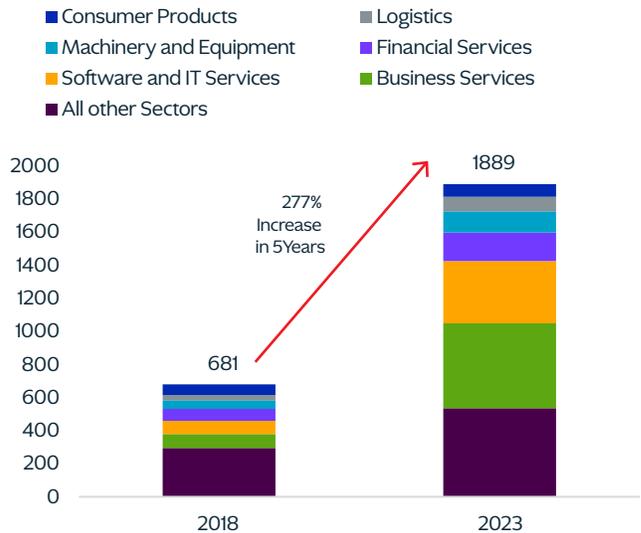


Data as at December 31, 2023. Source: IMF.

Rule of law, innovation, organic growth, and stability are all distinguishing features that make us bullish on this region.

Exhibit 32: The Number of FDI Projects in the GCC Has Jumped by 277% in 5 Years, in Large Part Driven by a Bump in Business and Software Services Projects

GCC FDI Projects: 2018 vs. 2023



Data as at December 31, 2023. Source: fDi Markets.

Exhibit 33: Corporate Tax Rates Vary Across the GCC But Are Very Competitive On An International Playing Field

GCC Corporate Tax Rates, %



Data as at December 31, 2024. Source: EY Worldwide Corporate Tax Guide 2024.

Overall, we left the Middle East feeling optimistic about the investment opportunities available. Our visits to Doha, Riyadh, Dubai, and Abu Dhabi have reinforced our belief that this region is a compelling destination, particularly for long-term investors with a focus on Infrastructure, Asset-Based Finance, and Private Credit. Beyond favorable demographic tailwinds, growth in commerce and sound regulatory practices are elevating many cities in the Middle East towards becoming economic hubs that compete against London, Hong Kong, and Singapore for capital, talent, commerce, and culture.

Our visits to Doha, Riyadh, Dubai, and Abu Dhabi have reinforced our belief that this region is a compelling destination, particularly for long-term investors with a focus on Infrastructure, Asset-Based Finance, and Private Credit

Conclusion

“L’Europe se fera dans les crises et elle sera la somme des solutions apportées à ces crises.” Jean Monnet

Aidan’s and my trip to Europe, along with my recent visit to the Middle East, has left us with the clear conclusion that investors need to pay closer attention to these regions. Indeed, earning outsized investment returns is often about understanding the intersection between the rate of change and sentiment. In our view, many investors view Europe negatively at a time when fundamentals appear to be accelerating. Meanwhile, a large percentage of these same investors look to the Middle East as just a destination to raise capital, where we see it as a destination to invest capital, too. Therein we believe lies the opportunity.

Important Information

The views expressed in this presentation are the personal views of Henry McVey of Kohlberg Kravis Roberts & Co. L.P. (together with its affiliates, "KKR") and do not necessarily reflect the views of KKR itself or any investment professional at KKR. This presentation is not research and should not be treated as research.

This presentation does not represent valuation judgments with respect to any financial instrument, issuer, security or sector that may be described or referenced herein and does not represent a formal or official view of KKR. This presentation is not intended to, and does not, relate specifically to any investment strategy or product that KKR offers. It is being provided merely to provide a framework to assist in the implementation of an investor's own analysis and an investor's own views on the topic discussed herein.

The views expressed reflect the current views of Mr. McVey as of the date hereof and neither Mr. McVey nor KKR undertakes to advise you of any changes in the views expressed herein. References to "we", "us," and "our" refer to Mr. McVey and/or KKR's Global Macro and Asset Allocation team, as context requires, and not of KKR. Opinions or statements regarding financial market trends are based on current market conditions and are subject to change without notice. References to a target portfolio and allocations of such a portfolio refer to a hypothetical allocation of assets and not an actual portfolio. The views expressed herein and discussion of any target portfolio or allocations may not be reflected in the strategies and products that KKR offers or invests, including strategies and products to which Mr. McVey provides investment advice to or on behalf of KKR. It should not be assumed that Mr. McVey has made or will make investment recommendations in the future that are consistent with the views expressed herein, or use any or all of the techniques or methods of analysis described herein in managing client or proprietary

accounts. Further, Mr. McVey may make investment recommendations and KKR and its affiliates may have positions (long or short) or engage in securities transactions that are not consistent with the information and views expressed in this document.

This presentation has been prepared solely for informational purposes. The information contained herein is only as current as of the date indicated, and may be superseded by subsequent market events or for other reasons. Charts and graphs provided herein are for illustrative purposes only. The information in this presentation has been developed internally and/or obtained from sources believed to be reliable; however, neither KKR nor Mr. McVey guarantees the accuracy, adequacy or completeness of such information. Nothing contained herein constitutes investment, legal, tax or other advice nor is it to be relied on in making an investment or other decision.

There can be no assurance that an investment strategy will be successful. Historic market trends are not reliable indicators of actual future market behavior or future performance of any particular investment which may differ materially, and should not be relied upon as such. Target allocations contained herein are subject to change. There is no assurance that the target allocations will be achieved, and actual allocations may be significantly different than that shown here. This presentation should not be viewed as a current or past recommendation or a solicitation of an offer to buy or sell any securities or to adopt any investment strategy.

The information in this presentation may contain projections or other forward-looking statements regarding future events, targets, forecasts or expectations regarding the strategies described herein, and is only current as of the date indicated. There is no assurance that such events or targets will

be achieved, and may be significantly different from that shown here. The information in this presentation, including statements concerning financial market trends, is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. Performance of all cited indices is calculated on a total return basis with dividends reinvested. The indices do not include any expenses, fees or charges and are unmanaged and should not be considered investments.

The investment strategy and themes discussed herein may be unsuitable for investors depending on their specific investment objectives and financial situation. Please note that changes in the rate of exchange of a currency may affect the value, price or income of an investment adversely.

Neither KKR nor Mr. McVey assumes any duty to, nor undertakes to update forward looking statements. No representation or warranty, express or implied, is made or given by or on behalf of KKR, Mr. McVey or any other person as to the accuracy and completeness or fairness of the information contained in this presentation, and no responsibility or liability is accepted for any such information. By accepting this presentation in its entirety, the recipient acknowledges its understanding and acceptance of the foregoing statement.

The MSCI sourced information in this presentation is the exclusive property of MSCI Inc. (MSCI). MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed or produced by MSCI.

KKR

Kohlberg Kravis Roberts & Co. L.P.

30 Hudson Yards
New York, New York 10001
+1 (212) 750.8300
www.kkr.com