KKR

Flash Macro Update

TARIFFS 2.0 | April 2025

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What You Need to Know

1 What is our latest thinking on tariffs, the global economy, and markets?

While we expect the tariff negotiations to remain fluid, our base case is that we now envision a steady state, with a 10% base rate across many countries, as well as flexible reciprocal tariffs and select sector-specific levies across autos, steel, semiconductors, pharmaceuticals, and critical minerals. All told, these considerations take our average aggregate tariff assumption up to 18% (with the severity of China's tariffs pushing the average higher).

Our base case now has GDP growth in the U.S. running at 0.5-1.5%, compared to our quantitative GDP model of 2.9% (which does not include tariffs). DOGE likely drags down growth by 60 basis points, while tariffs reduce growth by 1.5-2.0%. As offsets to these headwinds, however, we do expect the Trump administration to push extremely hard on both tax reform and further deregulation in the near-term.

Importantly, with President Trump pursuing fiscal consolidation, the positive fiscal baton is now being handed from the U.S. to Europe and Asia. Specifically, as we detail below in *Exhibit 6*, more fiscal stimulus in Germany and China is coming at a time when the U.S. — after being the lead spender immediately during and after COVID — is now embarking on fiscal tightening. For investors, this relative regional differential represents a notable reversal since 2020.

On trade negotiations, an approach that we think both executives and investors might reward with significant enthusiasm would be if the U.S. government signed a 'deal' with a like-minded country such as Japan. To review, Japan holds $1.1 trillion of U.S. debt, has similar national security preferences, and a consistent rule of law. The United Kingdom is the third largest holder of U.S. Treasuries, and it too has many of the same attributes as Japan. Separately, we also like the idea of reducing non-USMCA tariffs to 12.5% from 25% with Mexico and Canada, which we think would be well received by market participants and would help improve both future growth and inflation expectations.

In speaking with many CEOs and CIOs around the world, the biggest tension points are linked to the inability to quickly reconfigure supply chains, uncertainty around overall tariff policy (are tariffs a negotiating tool or revenue source and for how long?), and ongoing bond market/currency volatility (which makes it hard to determine one's cost of capital). After fortifying supply chains following COVID, our engagement with the business community underscores the belief that they can handle most tariff scenarios if allowed time for proper planning. The same CEOs and CIOs also suggested that consistency of communication (akin to what we have seen from Secretary of the Treasury Scott Bessent) would help. Finally, there still remains a lot of CEO and CIO concern about a potential disorderly dollar or U.S. interest rate unwind, given a radically different view on U.S. exceptionalism/ cooperation from global investors following 'Liberation Day.'

Markets are clearly trading at more attractive levels, and they are now pricing in a modest recession, we believe. However, positive price movements are also likely capped on the upside in the near-term. As we show below, Equities are likely pricing in low single digit EPS growth, while High Yield prices are suggesting defaults of around 3-4%, compared to 6-7% during the 2022 downturn. Interestingly, our Earnings Growth Lead Indicator (EGLI), compliments of lower global rates and lower oil prices, suggests positive, albeit quite mild, EPS growth during the next 12 months.

On the investing front, we believe that our *Regime Change* asset allocation framework, driven by larger fiscal deficits, heightened geopolitics, a messy energy transition, and sticky inflation, has become even more relevant under President Trump 2.0. See below for details, but we continue to think the traditional relationship between stocks and bonds is breaking down. If we are correct, then a different approach to asset allocation is warranted.

At KKR, we want to 'make our own luck' in this macro environment. As part of this mindset, we favor operational improvement stories, want to be higher up in the capital structure where we can, think prudently about leverage, and emphasize relative value in this market. As such, we favor European Credit, Capital Solutions, Asset-Based Finance, Infrastructure, control Private Equity, and certain parts of Real Estate, including Real Estate Credit.

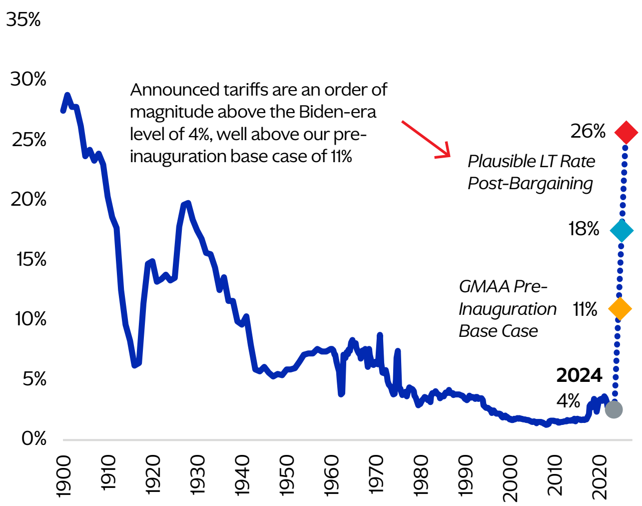
We continue to feel quite positive about our key investment themes, including the Security of Everything, Productivity/Worker Retraining, Collateral-Based Cash Flows, Capital Heavy to Capital Light, and Intra-Asia Trade, which have only gained in significance since 'Liberation Day.'

What Has Changed In Our Thinking?

Recent shifts to the 'Liberation Day' strategy help GDP growth on the margin, but uncertainty remains high. To review, in terms of what we had been modeling for GDP purposes, we raised our tariffs forecast to 18% on April 2nd from 11% pre-inauguration. Subsequently, President Trump established a 90-day reprieve for many of the U.S.'s trading partners; at the same time, though, tariffs were raised on China to 145%, followed by a reprieve for imported electronics (which we view as a big deal, given the $52 billion in phone and $48 billion in computer imports from China annually).

Recall that our original math post April 2nd was that from the 2.9% GDP baseline predicted by our EGLI, we subtracted roughly 200 to 250 basis points from 2025 growth due to tariffs. Furthermore, we considered that DOGE-related spending cuts could haircut growth by an additional approximately 60 basis points spread across 2025-26. All-in, at that time we anticipated that growth in the U.S. would be close to stall speed (0.5%) in 2025, followed by an elongated, modest recovery in 2026 (1.3%), before bouncing back to more normal average growth rates thereafter (2-2.5%). Prior to knowing the full impact of tariffs, we discounted a blow of about 1.4% combined from DOGE and tariff headwinds. See *Exhibit* 6 for full details of our forecast revisions.

Exhibit 1: Announced Measures Will Take the U.S. Effective Tariff Rate to the Highest Levels in the Past 100 Years (Above the Smoot-Hawley Era Peak of 20%)



Forecasts reflect peak U.S. average tariff rate of 26%, which moderates to 18% over the course of 2H25 as country-level negotiations conclude. Data as at April 4, 2025. Source: U.S. Bureau of Economic Analysis, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

To be sure, delays in implementation and the possibility for exemptions may shift the growth narrative somewhat, but we should all still brace for slower growth and higher inflation in the near-term. Tariffs are a supply shock—one that could be the equivalent of oil prices increasing from $60 per barrel to $150+ per barrel. If there is good news, it is that recent exemptions could mean slightly better growth (e.g., around 1.0-1.5% U.S. GDP in 2025 rather than the 0.5% if full tariffs were implemented and maintained). For inflation, CPI could be milder, at approximately 3.5% in 2025 versus 4.0%, but we still see it well above the Fed's mandate across most scenarios.

From a more strategic perspective, our hope is that recent revisions and the potential for tiering may signal a shift back towards what we saw under U.S. Trade Representative Robert Lighthizer's targeted approach during President Trump's first term. Based on our conversations with CEOs across the globe, many would favor that approach due to the interconnectedness of global trade and supply chains. Indeed, remember that about 80% of the U.S. goods deficit comes from three categories: electronics, autos, and capital goods. One can see this in *Exhibit 3*. From a country perspective, the trade deficit with China remains the most substantial, followed by the European Union (pharma and autos as major influences), Mexico, and Vietnam.

Exhibit 2: 61 % of the U.S. Trade Deficit Is With Five Countries/Regions: China, the EU, Mexico, Vietnam and Canada

Rank	Region	Total Deficit ($bn)	Total Trade (Exports + Imports) ($bn)	Deficit as % of Trade	Contribution To Total Deficit (%)
1	China, Mainland	-295	577	-51%	19%
2	European Union	-236	961	-25%	15%
3	Mexico	-172	826	-21%	11%
4	Vietnam	-123	139	-89%	8%
5	Canada	-121	766	-16%	8%
6	Taiwan	-74	149	-50%	5%
7	Japan	-68	228	-30%	4%
8	Republic of Korea	-66	197	-33%	4%
9	India	-46	128	-36%	3%
10	Thailand	-46	77	-59%	3%
11	Switzerland	-38	76	-51%	2%
12	Malaysia	-25	74	-33%	2%
13	Indonesia	-18	36	-49%	1%
14	Other Europe	-15	45	-33%	1%
15	South Africa	-9	20	-44%	1%

Data as at April 5, 2025. Source: U.S. Bureau of Economic Analysis, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

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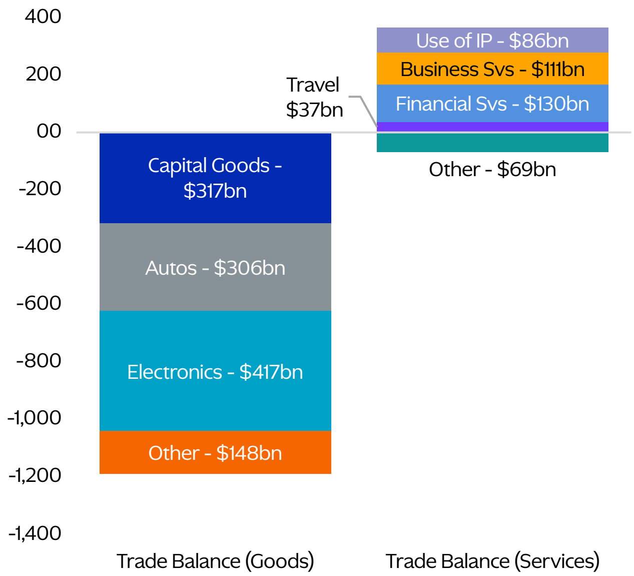
Exhibit 3: Autos, Capital Goods, and Electronics Represent the Lion's Share of the United States' Trade Deficit in Goods. By Comparison, the U.S. Has a Large Services Surplus

U.S. Goods and Services Trade Balance, US$ Billions, 2024



Data as at April 5, 2025. Source: Goldman Sachs Research, KKR Global Macro & Asset Allocation analysis.

There likely has been too much focus of late on U.S. deficits and not enough on how they may be funded. Today, the U.S. runs both a current account and a fiscal deficit. This makes the U.S. more vulnerable during periods of transition, especially given that these imbalances in many instances are funded in part by foreign investors owning U.S. debt. Remember that foreign investors own about 33% of the $26 trillion in U.S. government debt, with Japan ($1,126 billion) and the United Kingdom ($750 billion, partly reflecting its role as a conduit for capital flows) ranking at number one and three, respectively.

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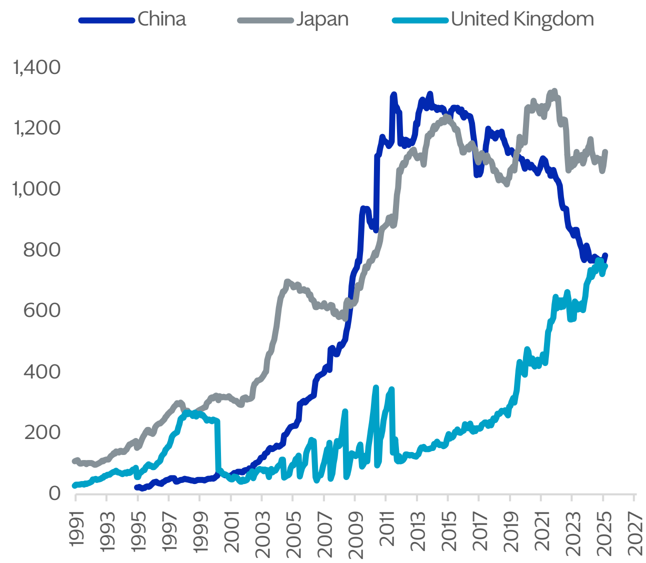
Exhibit 4: The Trump Administration Is Currently Negotiating New Trade Terms With Some of the Largest Owners of U.S. Treasuries

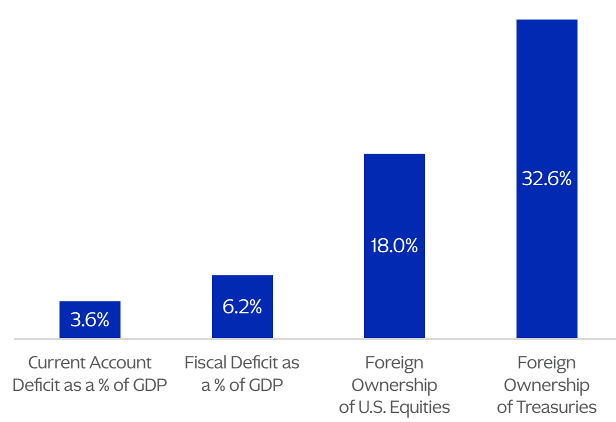
Foreign Holdings of U.S. Treasuries, US$ Billions



Data as at February 28, 2025. Source: Bloomberg.

Exhibit 5: Foreign Investors Have Been Buying U.S. Assets to Support the U.S. Running Sizable Twin Deficits. This Relationship Now Feels More Tenuous

Current Account and Fiscal Deficits as a % of GDP, and Foreign Ownership of Equities and Treasuries



Data as at January 31, 2025. Source: U.S. Bureau of Economic Analysis, Haver Analytics.

One significant difference in the current turbulence compared to prior periods of market/economic stress is that this downturn is largely policy induced. In 2001, we faced a downturn triggered by a terrorist act, while the 2008 crisis stemmed from excessive leverage in the banking and consumer segments of the economy. What's different this time is that the current downturn is occurring at a time when the U.S. is trying to engineer fiscal consolidation and has less flexibility on the monetary front. In contrast, my travels to Europe and China lead me to believe that these regions will be increasing their relative fiscal and monetary impulses meaningfully. The magnitude of these impacts can be seen in *Exhibit 6*.

Exhibit 6: Though Our Asynchronous Recovery Thesis Is Still intact, It Is Playing Out Differently Across the Globe

Impact of Tariffs and Fiscal Stimulus On KKR GMAA GDP and CPI Forecasts, Y/y %								
	U.S.		China		Eurozone		Germany	
	2025	2026	2025	2026	2025	2026	2025	2026
GDP Growth ex Tariffs/Fiscal	**+2.9**	**+2.0**	**+4.0**	**+4.0**	**+1.2**	**+1.2**	**+1.0**	**+1.0**
Tariffs Impact	-2.0	-0.5	-1.3	-0.8	-0.8	-0.4	-1.2	-0.6
Fiscal Impulse	-0.4	-0.2	+1.6	+1.0	+0.2	+0.5	+0.4	+1.0
Revised GDP Growth Forecasts	**0.5%**	**1.3%**	**+4.3**	**+4.2**	**+0.6**	**+1.3**	**+0.2**	**+1.3**
Previous Forecast	**+2.1**	**+2.0**	**+4.4**	**+4.2**	**+1.0**	**+1.6**	**+0.8**	**+1.6**
CPI Forecasts	**+4.0%**	**+3.5%**	**0.9%**	**+1.0%**	**+2.1%**	**+2.1%**	**2.1%**	**2.0%**

The fiscal impulse for China is measured as the additional stimulus. Government regular spending for consumption and infrastructure (contributing 1.2 percentage points to growth) is included in GDP growth, excluding tariffs and fiscal measures. Data as at April 3, 2025. Source: KKR Global Macro & Asset Allocation analysis.

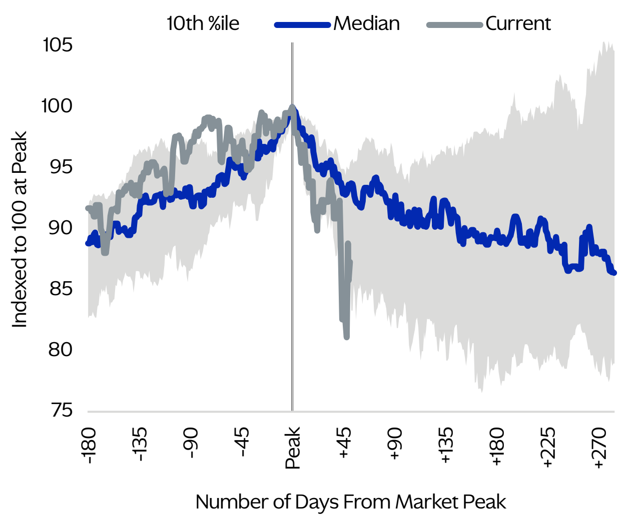
What markets are pricing in: Our punch line is that the U.S. is pricing in a 'growth scare' and mild recession in both the Public Equity and Liquid Credit markets. While that headline may not be so unique relative to past downturns, there are several factors that distinguish this most recent bout of risk disposition. They are as follows:

1. **First, the speed of this decline is notable**. It ranks as the third fastest decline among the 17 bear markets since World War II, surpassed only by the COVID sell-off in 2020 and the 1998-99 LTCM crisis.
2. **Second, in terms of breadth, nearly 60% of S&P 500 stocks are down 20% or more, reminiscent of the market conditions in late-2018 following Fed Chair Powell's remarking that we were "a long way from neutral."** Yet, this percentage is still below the 74% seen in 2022, the 81% in 2020, and the staggering 97% in 2009. We would suggest leaning into the dislocation more aggressively if market breadth deteriorates to 2022 levels, even if it doesn't quite reach those of 2009.
3. **Unlike past starts of bear markets, the supply picture is quite favorable.** Our work shows that negative operating leverage at the corporate level and excess supply usually lead to more dramatic bear markets. This time, as we show in *Exhibits 9* and *10*, there is still a lot of cash sitting on the sidelines, and there is also very little issuance. On the latter, today's situation looks extremely different from what we saw at the end of 2021, and we note that our data does not include SPAC issuance, which would have made 2021 look even more extreme.

One significant difference in the current turbulence compared to prior periods of market/economic stress is that this downturn is largely policy induced. In 2001, we faced a downturn triggered by a terrorist act, while the 2008 crisis stemmed from excessive leverage in the banking and consumer segments of the economy.

Exhibit 7: Of the 17 Prior Bear Markets Since WWII, the Speed of the Current Sell-off Is the Third Quickest. Only the 2020 COVID Sell-off and 1998-99 LTCM Crisis Happened Faster

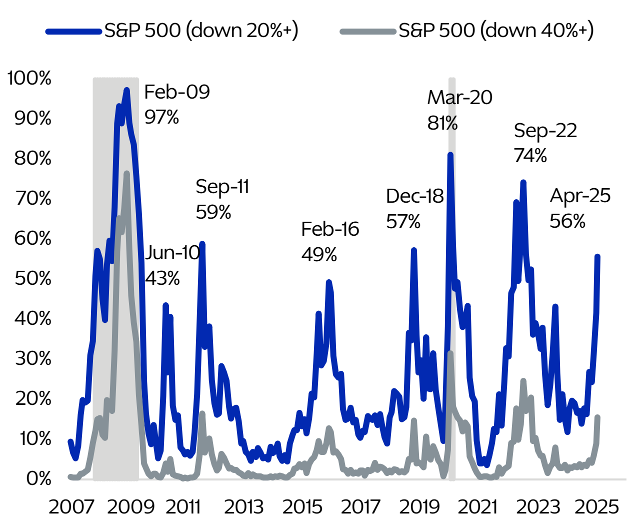
S&P 500: Current Sell-Off vs. Prior Bear Markets



Data as at April 11, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

Exhibit 8: Almost 60% of SPX Stocks Are Now Down 20% or More, Which Is Comparable to How Washed-Out the Markets Were Back in December 2018

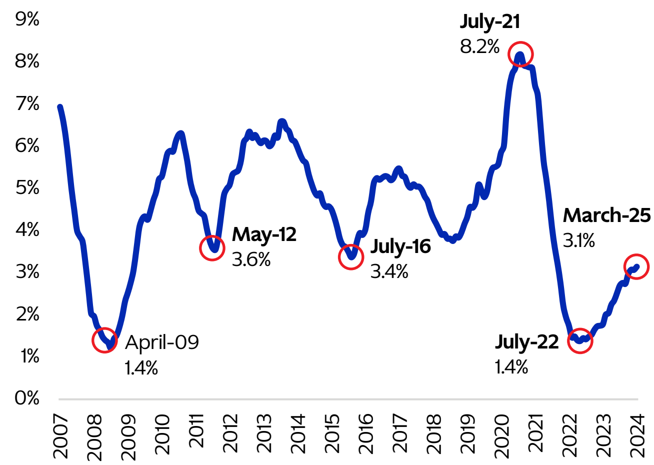
Proportion of Stocks In 'Bear Market' Territory



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

Exhibit 9: Our Liquidity Indicator Is Still Recovering From Near-Trough Levels

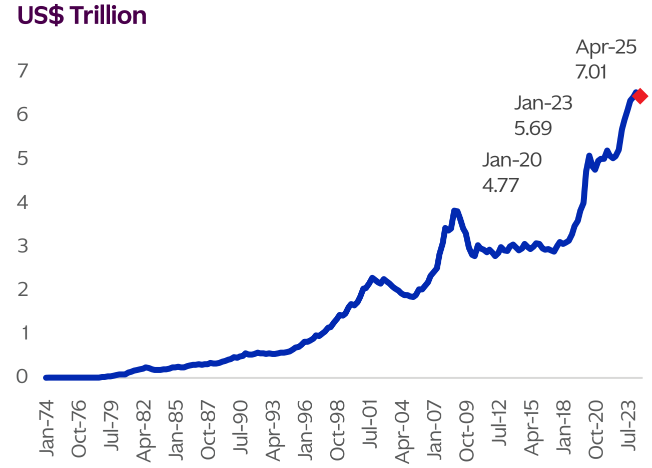
Capital Markets Liquidity (TTM) as a % of GDP (IPO, HY Bond, Leveraged Loan Issuance)



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

Exhibit 10: There Is Still a Wall of Cash. Money Funds in the U.S. Have Risen by Nearly $3.5 Trillion Over the Last Decade

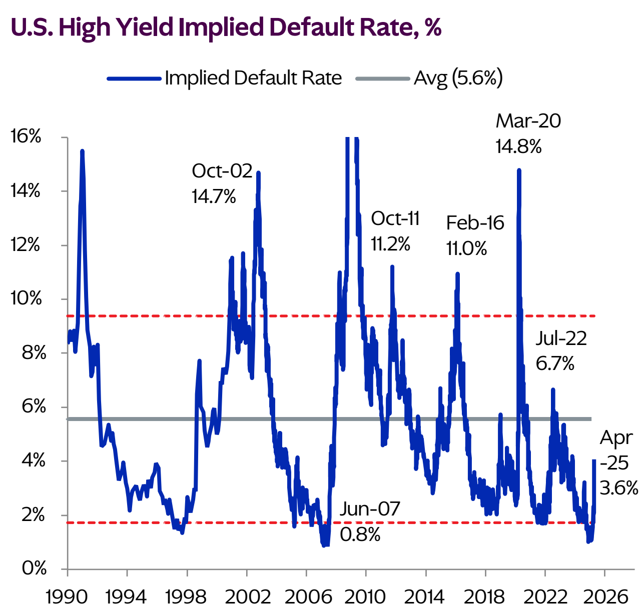
Total Financial Assets: U.S. Money Market Funds, US$ Trillion



Data as at April 10, 2025. Source: ICI, FRED.

On the Credit side, our High Yield default indicator suggests that defaults will not be a major headwind this time. We will continue to monitor, but we do take some comfort that 55% of the index is now rated BB, compared to 35% two decades ago. Meanwhile, one third of the market is now senior secured, compared to 15% just before COVID, according to our colleague Kris Novell, who heads Portfolio Construction for our Global Credit and Insurance teams.

Exhibit 11: Our High Yield Implied Default Rate Indicator Has Jumped Higher, But There Are Currently No Significant Signs of Stress



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

Our base case remains that Credit bends but does not break, and we believe that lower rates and inflation in Europe make that area of the world particularly attractive in the near term.

Exhibit 12: Although Spreads have Widened Amid Recent Volatility, They Remain Tighter than the Peak Wide Levels Seen in 2022

Market vxSegment	Current Spread, (bps)	Week over Week	12/31/2024	2022 Wide	Δ Today vs. 2022
Investment Grade	**118**	**114**	**82**	**171**	**53**
AAA	51	56	34	82	31
AA	68	70	48	98	30
A	99	97	69	144	45
BBB	146	141	102	210	64
High Yield	**426**	**445**	**292**	**599**	**173**
High Yield BB	278	294	186	422	144
High Yield B	446	469	296	671	225
High Yield CCC	1076	1099	746	1289	213
AAA CLO	**150**	**150**	**112**	**230**	**80**
AA CLO	205	195	160	300	95
A CLO	240	215	175	395	155
BBB CLO	325	350	270	585	260
CLO BB	715	725	610	1050	335
US Loans	**462**	**454**	**398**	**569**	**107**
BB Loans	297	291	256	421	124
B Loans	476	468	410	612	136
CCC Loans	1539	1504	1271	1620	81

Data as at April 11, 2025. Source. Bloomberg.

Where we are seeing opportunities: We like the dispersions and dislocations we are seeing in Credit right now, especially in the Liquid Credit markets. Overall, our base case remains that Credit bends but does not break, and we believe that lower rates and inflation in Europe make that area of the world particularly attractive in the near term. The ECB's recent decision to lower rates will only fuel this sentiment, we believe.

In the U.S., one appealing area of Credit for today's environment might be within Residential Real Estate, especially if we are right that there is no surprise convexity trade coming in 2025/2026. Recall that we do not believe bond yields will rally the way they did in past cycles (i.e., crashes below 3%), nor sell off sustainably above 5%. Also, we retain our constructive view on housing in the U.S. and still view post-COVID home price appreciation as a durable tailwind for households, which should provide these securities with more equity 'cushion' than in the past. Both of these factors make us more constructive about several different 'flavors' of mortgage-backed securities.

Elsewhere in Credit, we remain constructive on CLO Equity in deals led by experienced managers. No doubt, when it comes to leveraged credit fundamentals, we expect more dispersion in this credit cycle between names that are able to grow revenues despite slowing activity and those that are not (or those that are directly exposed to macro/tariff headwinds). However, market disruption means that the overall set up for the level of collateral spreads vs. liability spreads within CLOs remains quite attractive, which should work to the benefit of managers with careful portfolio construction/ security selection. We would note that this constitutes 'variant perception' at a time when fewer new CLOs are coming to market.

For Real Assets, the big story is really around growth in data as well as the trend towards an increase in governments outsourcing their infrastructure needs, including for space, transportation, and energy/water, to the private sector. We also believe opportunities in the Asset-Based Finance side of Infrastructure could be plentiful. Against the current economic backdrop we think investors will increasingly seek greater protection in a higher nominal GDP environment.

For our Private Equity business, we also see a lot of opportunities in corporate carve-outs, companies wanting to move from capital heavy to capital light, productivity/worker retraining initiatives, the need for data intensifying, and our Security of Everything thesis. Public-to-private transactions should also accelerate. Many investors tend to underestimate that the value of the illiquidity premium actually goes up in less robust equity markets. One can see this in *Exhibit 13*.

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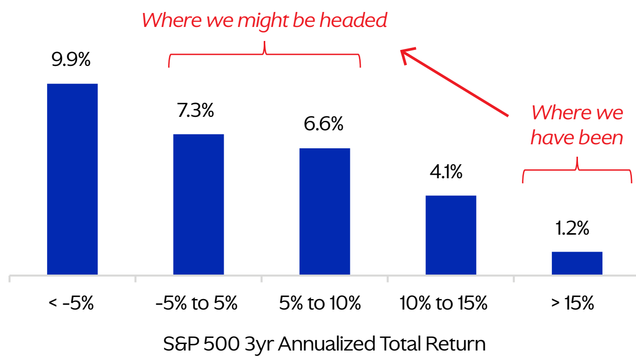
Exhibit 13: The Illiquidity Premium Actually Outperforms Public Markets in Less Robust Equity Markets

Avg. 3yr Annualized Excess Total Return of U.S. Private Equity Relative to S&P 500 in Various Public Market Return Regimes

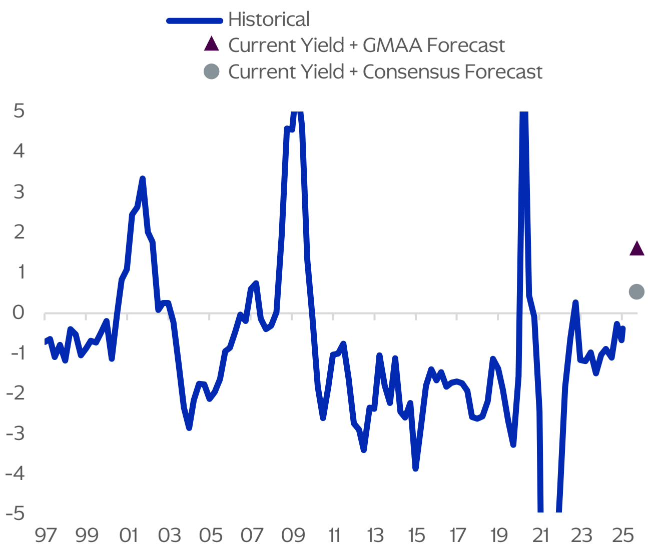


Data as at 1Q89 thru 3Q24. Source: S&P 500, Cambridge Associates U.S. Private Equity, Bloomberg.

What we are watching as potential hotspots: Currency depreciation is the most efficient way to respond to tariffs; we need to watch this segment of the market extremely closely. Meanwhile, Treasury Secretary Bessent has stated the importance of a lower 10-year yield. His comments that he could do something akin to an operation 'twist' to suppress longer-term rates gives us additional confidence that U.S. Treasury prices are not poised to get unglued in the near-term. Third, we are watching real rates increase in the U.S. While near-term inflation expectations have risen, long-term inflation fears have collapsed, which has lifted real rates to quite restrictive levels, in our view. One can see this in *Exhibit 14*. Finally, we are watching how tariffs impact discretionary spending and the credit performance of lower- and middle-income U.S. consumers. Our work shows that middle-income households (30-70th percentile) generally spend a full 30-40% of their disposable income on consumer goods—goods that will face some tariff impact—which is much higher than the approximate 20% budget allocation spent by top-decile households.

Exhibit 14: Real Yields Are Already Quite High, and As Such, We Do Not Think the U.S. Can Sustain 5%+ 10-Year Yields in the Growth Environment We Envision

TIPS 10-Year Yield vs. Real GDP Growth



Data as at April 15, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

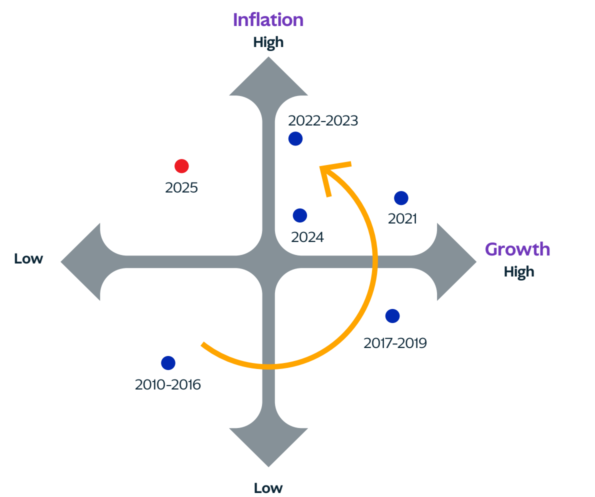
Conclusion: What Does This Mean For Investing?

Given all the uncertainty, is now really the time for global allocators to reposition their portfolios? We think so. Simply stated, just as CEOs changed their supply chains after their learnings from COVID, we believe that 'Liberation Day' will serve as an important catalyst encouraging CIOs to review their global portfolio construction.

At the top of the most asked questions of late is whether the 'trade' of owning U.S. assets but being beholden to foreign liabilities still makes sense. From almost any vantage point, the U.S. market probably got over-owned after COVID, and as such, the U.S. dollar probably has more vulnerability than in the past. All told, some of our models still show the USD to be 15% overvalued and will likely remain so if there is not some return to normalcy on the trade front. That said, U.S. markets are about 4x as liquid as Europe's, for example, so there are multiple considerations on what makes the most long-term sense. The U.S. has also had the best productivity trajectory this cycle. While there are puts and takes on regional allocation, what we do not think is up for debate is the desire by allocators to find non-correlated assets, especially as the traditional relationship between stocks and bonds breaks down. To this end, we think that *Exhibit 18* represents an important roadmap for CIOs to consider.

Exhibit 15: We Think We Have Moved to a Higher Inflation, Lower Growth Environment

Low and High Growth and Inflation Regimes

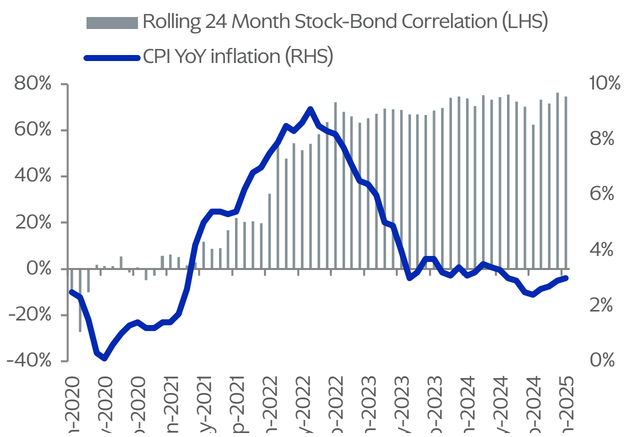


Data as at April 5, 2024. Source: KKR Global Macro & Asset Allocation analysis.

From almost any vantage point, the U.S. market probably got over-owned after COVID, and as such, the U.S. dollar probably has more vulnerability than in the past.

Exhibit 16: We Think the Stock-Bond Correlation Will Break Down Even Further in the Rising Inflation Environment

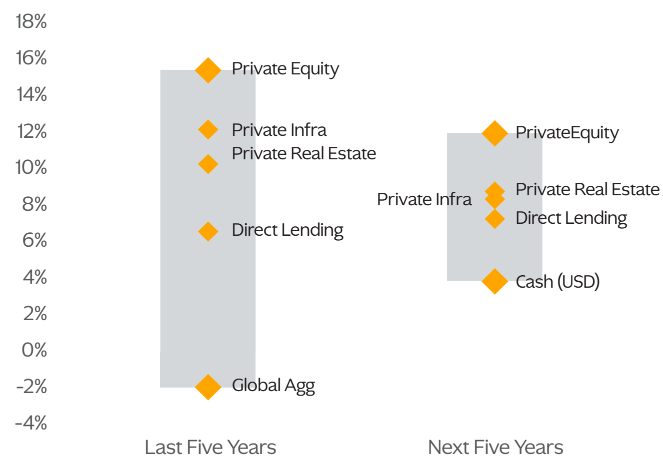
U.S. Stock-Bond Correlation and U.S. CPI, %



Data as at January 31, 2025. Model retrained monthly to better reflect latest CPI inflation trends. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

Exhibit 17: The Forward-Looking Expected Range of Outcomes Will Be Narrower, We Believe

Expected Return Range of Outcomes, %



Data as at September 30, 2024. Source: KKR Global Macro & Asset Allocation analysis.

Exhibit 18: More CIOs Are Now Focused on the Diversification Benefits of Non-Traditional Asset Classes

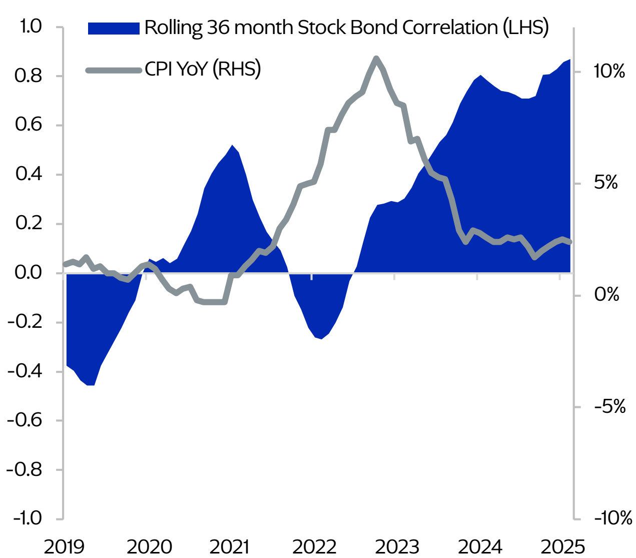
	Public Fixed Income	Public Equities	Asset-Based Finance	Direct Lending	Junior Debt	Private Oppor-tunistic Credit	Real Estate Credit	RE Value-Add & Opp	Buyout	Growth	Venture	Global Infra
Public Fixed Income	-	0.34	0.14	-0.01	0.20	0.01	0.45	0.01	0.27	0.21	0.10	0.21
Public Equities	0.34	-	0.53	0.68	0.71	0.67	0.33	0.38	0.79	0.78	0.54	0.58
Asset-Based Finance	0.14	0.53	-	0.71	0.72	0.68	0.25	0.61	0.67	0.52	0.44	0.52
Direct Lending	-0.01	0.68	0.71	-	0.77	0.75	0.44	0.52	0.73	0.67	0.48	0.53
Junior Debt	0.20	0.71	0.72	0.77	-	0.77	0.27	0.75	0.88	0.77	0.60	0.77
Private Opportunistic Credit	0.01	0.67	0.68	0.75	0.77	-	0.27	0.60	0.78	0.69	0.44	0.63
Real Estate Credit	0.45	0.33	0.25	0.44	0.27	0.27	-	0.16	0.34	0.35	0.24	0.23
RE Value-Add & Opp	0.01	0.38	0.61	0.52	0.75	0.60	0.16	-	0.72	0.57	0.52	0.70
Buyout	0.27	0.79	0.67	0.73	0.88	0.78	0.34	0.72	-	0.88	0.70	0.77
Growth	0.21	0.78	0.52	0.67	0.77	0.69	0.35	0.57	0.88	-	0.82	0.67
Venture	0.10	0.54	0.44	0.48	0.60	0.44	0.24	0.52	0.70	0.82	-	0.43
Global Infra	0.21	0.58	0.52	0.53	0.77	0.63	0.23	0.70	0.77	0.67	0.43	-

Correlations are calculated with quarterly returns between September 30, 2004 and June 30, 2024. Each asset class is modeled as follows: Public Fixed Income (Bloomberg Global-Aggregate Total Return Index Value Unhedged USD), Public Equities (MSCI World Index), Asset-Based Finance (KKR Private Credit ABF composite investments post January 1, 2017 is shown for illustrative purposes only to depict the possible diversification benefits of non-traditional asset classes), Direct Lending (Cliffwater Direct Lending Index), Junior Debt (Burgiss Private Debt/Mezz), Private Opportunistic Credit (Burgiss Private Debt/Generalist), Real Estate Credit (Gilberto-Levy Level I Index), Real Estate Value-Add & Opp (Burgiss Real Estate Index: Value-Add/Opportunistic), Global Infrastructure (Burgiss Infrastructure Index), Buyout (Cambridge Buyout), Growth (Cambridge Growth Equity), Venture (Cambridge Venture Capital). Source: Bloomberg, Cambridge, Burgiss, Gilberto-Levy, Cliffwater, KKR Global Macro & Asset Allocation analysis.

There is also a question around pacing. While we do not believe that the current opportunity is as attractive as the 2020 or 2022 sell-off, we do think that 49 years of data at KKR shows that linear pacing wins the day for the long-term investor. So, our message is to lean in prudently during this period of heightened uncertainty. Importantly, given the amount of money on the sidelines, we think Credit will likely bend, not break. On the Equity side, we expect more volatility, potentially presenting opportunities to lean in if a recession scenario becomes fully priced in.

Exhibit 19: Even With Inflation Trending Lower, Stock/Bond Correlations in Europe Remain Positively Elevated This Cycle, a Clear Signal That Investors Need to Reassess Asset Allocation Playbooks

European Stock Bond Correlation and Euro Area CPI, %

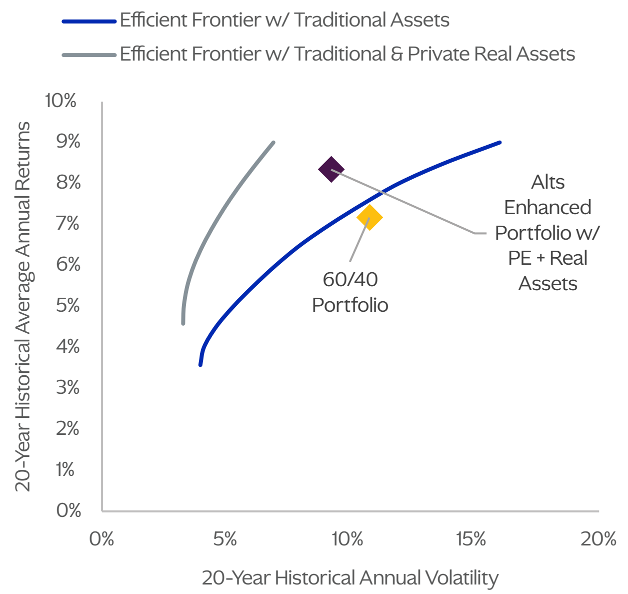


Data as at March 6, 2025. Source: Bloomberg.

Looking ahead, we maintain our view that we have entered a period of lower expected returns, as well as our thesis that the return between the best performing asset class and the worst performing asset class will be much narrower this cycle. Against this backdrop, we want to make our own luck by owning more control positions in Private Equity, be higher up the capital structure in Credit (in addition to focusing on the significant dispersions we are seeing across Credit), and own more Infrastructure/Real Assets.

Exhibit 20: Private Assets Often Enable Investors to Build Portfolios With Higher Realized Returns, While Also Reducing Volatility. This Viewpoint Is Especially True When, Like Today, Stocks and Bonds Become More Positively Correlated

20-Year Average Annual Returns and Volatility of Real Assets and 60/40 Portfolios, %



Data as at June 30, 2023. Source: KKR Global Macro, Balance Sheet & Risk analysis.

We maintain our view that we have entered a period of lower expected returns, as well as our thesis that the return between the best performing asset class and the worst performing asset class will be much narrower this cycle.

From a thematic perspective, we favor the following investment themes:

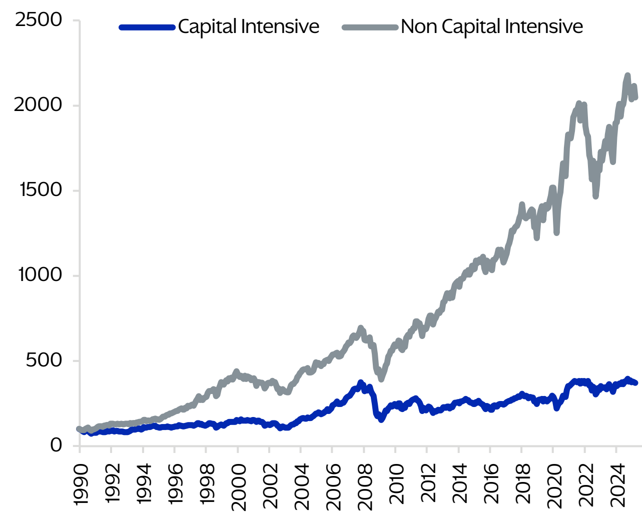
1

Improved Capital Efficiency: We continue to believe more companies will shift from capital heavy to capital light business models. We have seen a growing number of public companies essentially take themselves private through better capital allocation, including aggressive buyback programs. They are also selling off capital heavy parts of their businesses, including divestitures and securitizations. This de-emphasis on cyclical or lower-returning components helps to create more sustainable companies with greater visibility of earnings and returns. In Credit, there may be an even bigger opportunity for credit providers to make a compelling economic rent by providing the 'off ramp' for the assets being sold. Credit card receivables, houses, non-performing loans, real estate, facilities, and equipment are all being financed by the Asset-Based Finance market, a trend we see accelerating. Already, this market opportunity has reached trillions of dollars, and we are now seeing it expand into other markets, such as insurance liabilities.

During our recent discussions in Washington, D.C., it became clear that the combination of rising deficits and the desire for 'less' government will lead to the private sector having a more significant future role in key growth markets.

Exhibit 21: Non-Capital Intensive Companies Are Breaking Out. We Like Both the Equity Being Converted Towards Capital Light As Well As the Financing of the Assets Being Sold

World Capital vs. Non-Capital Intensive, USD Price Return Indexed to 100 in January 1990



Capital intensity based on: Assets/Employee, Asset/Net Income, and Capex/Net Income. Data as at March 31, 2025. Source: Goldman Sachs.

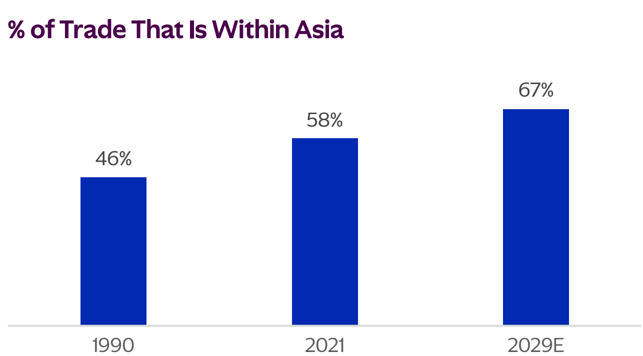
2

Private Sector Market Share Gainers: During our recent discussions in Washington, D.C., it became clear that the combination of rising deficits and the desire for 'less' government will lead to the private sector having a more significant future role in key growth markets. Areas such as digital infrastructure, space exploration, retirement savings, and defense are likely to see outcomes shaped by increased private investment. In many instances, projects that require capital intensity until they are fully ramped could be in better hands under private ownership. Private owners are also likely to be more focused on deadlines and ROIC, so these opportunities could be good ones to pursue, we believe.

3

Intra-Asia: Repeated trips to Asia in 2023, 2024 and 2025 confirmed for us that a meaningful transition is occurring: Asia is becoming more Asia-centric, with increased trade within the region rather than simply with developed markets in the West. Already, the share of Asian trade with regional partners (versus with the West) has increased massively to 58% in 2021 from 46% in 1990. We believe that more market share gains are likely, particularly when one considers that intra-Europe trade stood at 69% in 2021. All told, we think that intra-Asian trade could hit 65-70% in the next five to seven years, especially as the United States continues to pivot away from traditional alliances and values-based diplomacy towards 'America First' policies in a region home to very trade-dependent economies. Key areas in Asia on which we are focused include transportation assets, subsea cables, security, data/data centers, and energy transmission. Importantly, local banks are taking more of the local market share as part of this build-out. Before the Global Financial Crisis, Western financial firms accounted for two-thirds of the region's overseas lending. Today, by comparison, local Asian banks, led by China, Japan, and Singaporean entities, account for more than half. We also look for significant growth in non-bank lending, including in both Liquid Credit and Private Credit, as this theme gains further momentum across the region.

Exhibit 22: In 1990, Just 46% of Asian Trade Took Place Within Asia; By 2021, That Figure Had Reached 58%



Data as at September 30, 2023. Source: The Economist.

4

Security of Everything: We remain the maximum bullish on this theme. Against a background of rising geopolitical tensions, cyberattacks, and shifting global supply chains, CEOs around the world tell us that they want to know that they are optimizing corporate security and have resiliency when it comes to key inputs such as energy, data, transportation, and pharmaceuticals. In particular, we think that regulators and executives in the financial services industry feel strongly that cyber protection spending should accelerate more meaningfully, especially after the 2023 hack of the Treasury market. This theme also ties into rising geopolitical temperatures around the world. Companies will need to ensure the security of storage, power, and transportation. The defense industry should also benefit mightily from this theme, especially in Europe.

5

Worker Retraining/Productivity: We think the opportunity set for lifelong learning and worker retraining may be as large as it has ever been for several reasons. In a world where technology is shifting the competitive landscape rapidly, we see increasing numbers of workers needing more training or retraining more often to compete. Learning loss and educational disengagement have remained high among younger Americans since COVID, creating a need for 'education completion' and 'career-ready skills' efforts. Finally, the retirement of the huge baby boom generation has reduced the supply of available workers. Going forward, there will be a lot of pressure to bring unemployed/underemployed workers from lower-skilled sectors, as well as workers potentially disrupted by AI and technology, into higher-skilled jobs left open by pandemic-era retirements. Demand for recognizing the skill adjacencies between professions and connecting workers with platforms that can identify and offer upskilling for sectors where employer skill needs are changing, will increase. Against a backdrop of enhanced skills requirements and stickier wages, we think strong productivity will be needed to allow corporate margins to hold. With only marginally positive net immigration going forward, we see investment opportunities in areas such as labor market analytics, job search tools, skills-based training (on- and off-line), and productivity 'enhancers' including workflow tools and automation.

Going forward, there will be a lot of pressure to bring unemployed/underemployed workers from lower-skilled sectors, as well as workers potentially disrupted by AI and technology, into higher-skilled jobs left open by pandemic-era retirements.

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