KKR

Make Your Own Luck

In Brief

Global Macro Trends | July 2025

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The first half of 2025 has reminded investors that capital markets can ascend, even when geopolitics unsettle, tariffs cause uncertainty, and macro data send mixed signals. The resilience we are describing is no accident; it is a by-product of a potentially underappreciated global easing cycle that is still gaining traction, a technical backdrop starving of net supply, and a corporate sector whose balance sheets never embraced the leverage of prior cycles. There are also some higher growth, compelling macro investment themes that have kept growth moving along better than market bears have forecasted. Yet, sentiment has generally remained quite poor and therein lies the opportunity, we believe. Our message for the balance of the year is not one of complacency. Rather, it is discipline. Read more in our Mid-Year Outlook note: *Make Your Own Luck*.

> You never know how things are going to change. You've got to be ready when they change. And you have to be prepared to get lucky.
>
> — **Scott Bessent,** 79th Secretary of the Treasury of the United States

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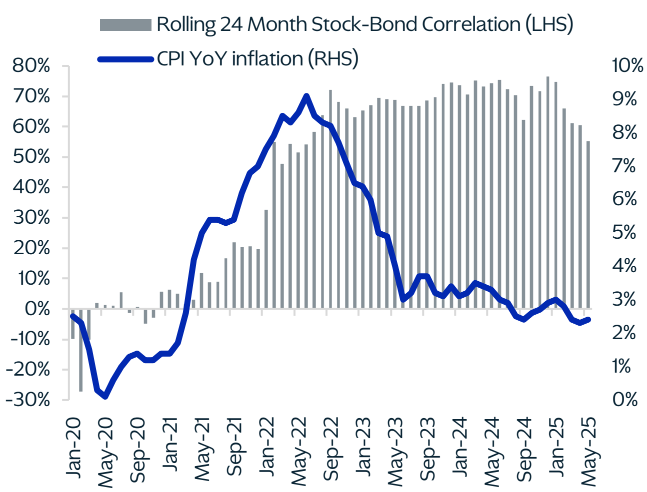
Make Your Own Luck...Our Regime Change thesis for asset allocation remains a high-conviction framework at KKR.

Prioritize assets with operational leverage and macro tailwinds, such as Private Equity with control positions, senior slices of Credit, and Real Assets with inflation-linked contracts.

Exhibit 1: This Time is Different, as We No Longer See the Stock/Bond Correlation as Negative. This Viewpoint Has Major Implications for Asset Allocation

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



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

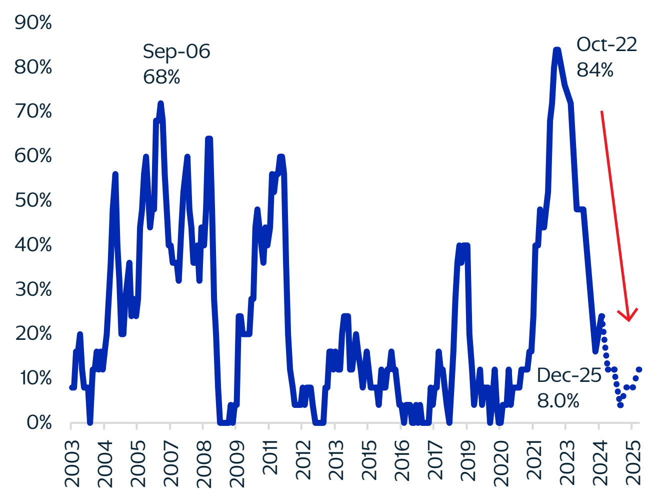
2

Capital markets are responding favorably to a global easing cycle.

While the easing is unfolding asynchronously outside the U.S., we believe it is helping to reset risk premiums in a way that supports Equities and Credit.

Exhibit 2: Risk Assets Are Responding Favorably to the Idea of Fewer Tightenings and More Easings

Percentage of Top 25 Central Banks Hiking



Hiking/cutting rates defined as an increase in rates over the past three months. Data for U.S., JP, CN, AU, CA, E2, NZ, NO, SE, GB, JP, CH, IN, ID, KR, PH, TW, TH, VN, BR, CL, ZA, TR, IL, CZ, HU, PL. Data as at June 15, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

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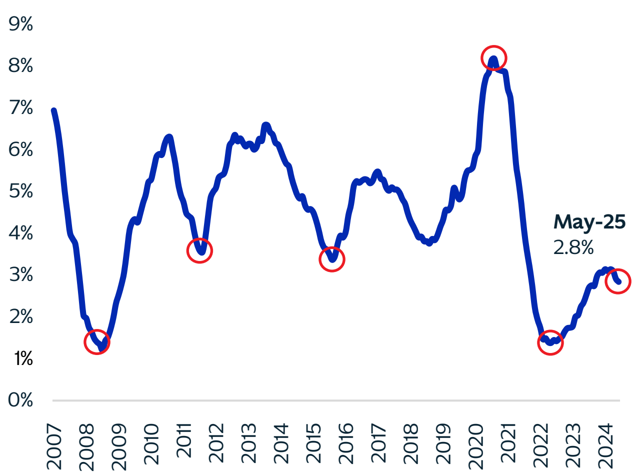
A stellar technical backdrop has supported/bolstered markets nicely.

These elements, combined with powerful investment themes such as the Security of Everything and the shift from Capital Heavy to Capital Light models, create a favorable environment for investors to leverage macro trends and enhance returns.

Exhibit 3: Our Liquidity Indicator Suggests We Are Still Recovering From Near-Trough Levels

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



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

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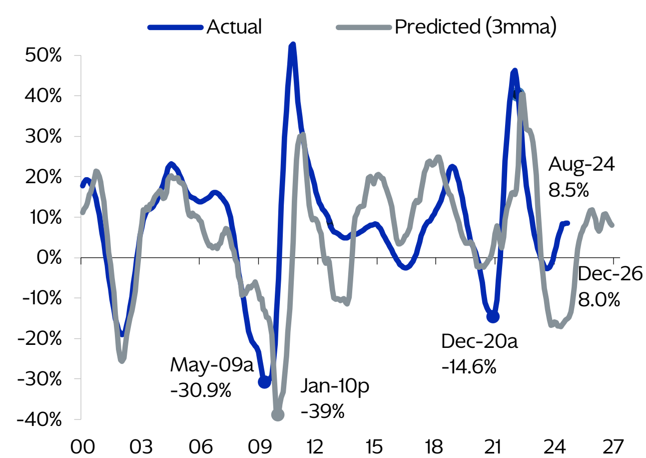
Despite tariff-induced uncertainty, positive earnings momentum has continued.

Our EGLI model suggests a positive outlook, with year-ahead growth signals improving to +8% recently, up from +4% following recent geopolitical and policy-related uncertainties.

Exhibit 4: Year-Ahead Growth Signals From Our EGLI Have Actually Improved to +8% Recently From +4% in the Weeks Immediately Following 'Liberation Day'

S&P 500 EPS Growth: 12-Month Leading Indicator



Our S&P 500 Earnings Growth Leading Indicator ('EGLI') is a combination of seven macro inputs that together, we think have significant explanatory power regarding the S&P 500 EPS growth outlook. Data as at July 2, 2025. Source: National Association of Realtors, ISM, Conference Board, Bloomberg, KKR Global Macro & Asset Allocation analysis.

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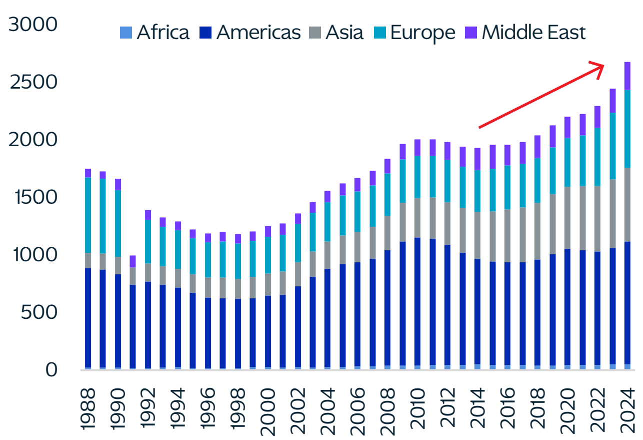
We think that the KKR Global Institute's long-held belief that the lines between geopolitics, politics, and economics are blurring, is only gaining momentum.

We think the desire for self-sufficiency, security, and resilience across governments and corporations will ultimately reshape energy policies, supply chains, and even consumption patterns as the transition from benign globalization to great power competition continues.

Exhibit 5: There Have Been Robust Increases in Defense Spending Across Every Region, a Trend We Expect to Accelerate

Military Expenditure by Region, US$ Billions in 2023 Prices and Exchange Rates



For full details and disclosures on calculation refer to https://www.sipri.org/databases/milex. Data as at December 31, 2024. Source: Stockholm International Peace Research Institute, Goldman Sachs Research.

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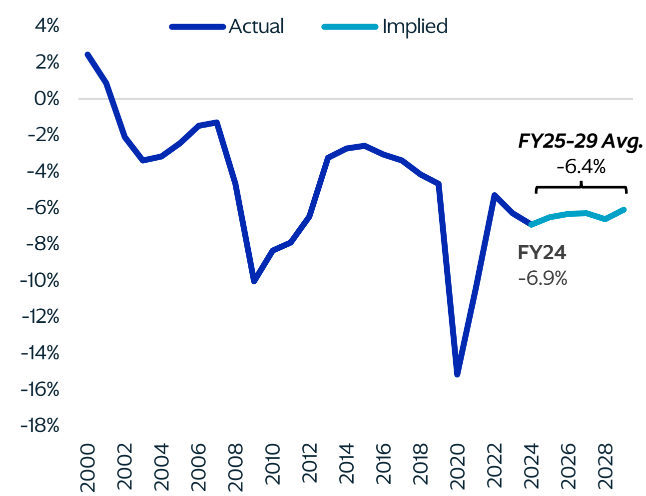
Sustained and bigger U.S. deficits may now require a greater 'term' premium by investors for owning American assets than we imagined at the start of the year.

Focus on assets that offer protection against inflation and are linked to nominal GDP growth such as Infrastructure, Real Estate, and Asset- Based Finance, providing collateral-backed cash flows that are less sensitive to interest rate fluctuations.

Exhibit 6: We Think Deficits Settle Closer to 6% than 7% in Coming Years

U.S. Deficit, as a % of GDP



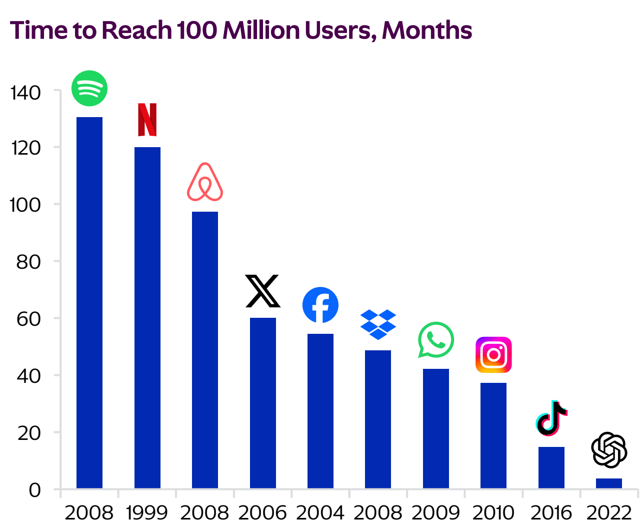
Data as at May 31, 2025. Source: PSC, Bloomberg, KKR Global Macro & Asset Allocation analysis.

7

The speed of change in AI, including the emergence of DeepSeek as well as the capital flowing into this domain, has been even faster than we imagined.

AI represents a transformative investment opportunity with hyperscalers accelerating capex to upwards of $200B this year, benefiting multiple sectors including data center real estate, engineering and construction, nuclear and renewable power, energy transmission, gas-powered electricity, cooling technologies, and electrical components that connect it all.

Exhibit 7: ChatGPT Has Experienced the Fastest Adoption Rate in History



Data as at March 31, 2023. Source: NVIDIA, Capital Creek Partners.

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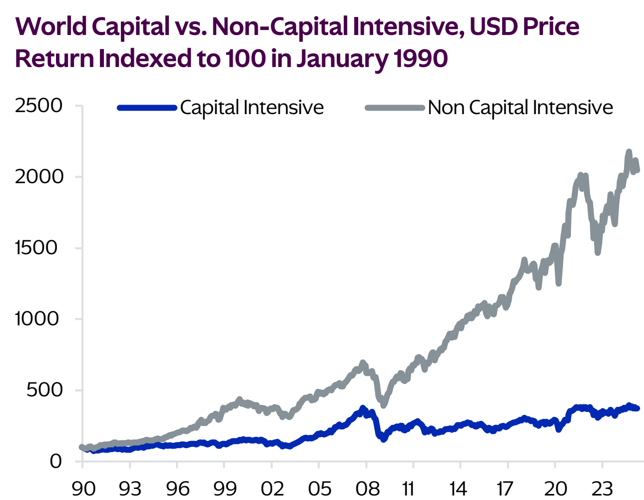
In a world where an investor needs to make his or her own luck, having the tailwind of a major investment theme that is not fully priced in represents a major opportunity.

These include Security of Everything, Capital Heavy to Capital Light, Collateral-based Cash Flows, Productivity/Worker Retraining, and Intra-Asia Trade.

Exhibit 8: 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



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

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