KKR

Flash Macro Update

TARIFFS | February 2026

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What You Need to Know

1 How are we thinking about the February Supreme Court ruling on tariffs, and U.S. GDP?

We received two key pieces of macro news for the U.S. on Friday: 1) In a 6-3 ruling, the Supreme Court overturned President Trump's IEEPA tariffs and 2) 4Q25 U.S. GDP came in at +1.4%, disappointing consensus (+2.8%) on a headline basis, but exhibiting encouraging fundamental momentum beneath the surface, driven by tech capex and consumer services spending.

See below for details, but on net we view these developments as quite consistent with our *Regime Change* framework for a higher rate of deficits and nominal growth. The tariff overturn does not affect our outlook for the Fed (two more cuts in 2026). However, we are slightly trimming our CPI forecast to +2.6% this year (from +2.7%) and +2.3% next year (from +2.4%), reflecting marginally lower core goods inflation due to Section 122 "Balance of Payments" tariffs being set at 10%, versus our prior assumption of 15%. Meanwhile, we are modestly upgrading our 2026e U.S. GDP forecast to +2.5% from +2.3%, reflecting the ongoing strength we are seeing across tech-related capex and consumer services spending.

INITIAL THOUGHTS ON THE SUPREME COURT'S OVERTURN OF IEEPA TARIFFS

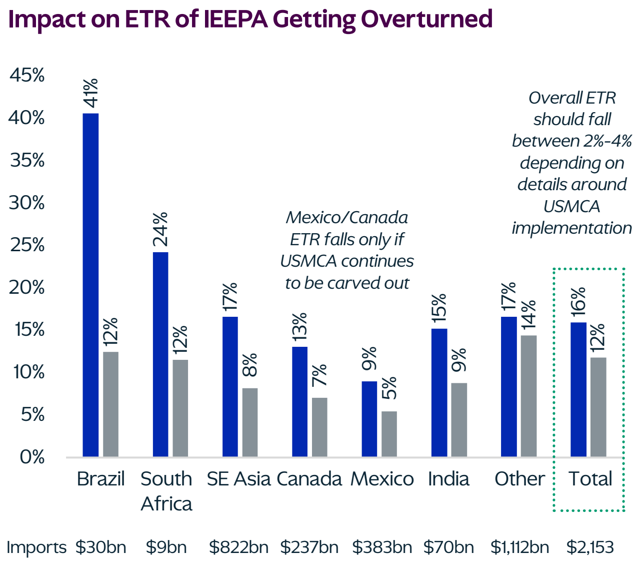
The Court's decision is not a major needle-mover for our outlook, as an overturn has been our Base Case since mid- 2025. These developments are also consistent with the 'tariffs have peaked' messaging Henry McVey heard in Washington DC over his visit last December. **Regardless, we do think there will be several important moving parts to monitor over coming weeks:**

- **Crucially, we think the broad strokes of President Trump's tariff initiatives are here to stay…** President Trump and his team believe in using tariffs for national security and economic policy reasons and as negotiating leverage. Moreover, consider that collections of overturned IEEPA tariffs were running around $200bn/year, which equates to almost 0.7% of GDP. Given the already substantial ~6% Federal deficit, we think the administration will need to find some substitute for that revenue.
- **…That said, we will need to monitor the exact nature of replacement tariffs:**
  - **President Trump announced his intention to replace IEEPA tariffs with blanket global 10% tariffs for 150 days under his Section 122 'Balance of Payments' authority. However, key uncertainties remain, particularly regarding USMCA. Crucially, a 10% blanket global tariff could include USMCA imports from Mexico and Canada, which have been excluded from IEEPA tariffs thus far. Our base case is that USMCA is carved out from this new 10% tariff, but we are not yet certain.** Depending on how USMCA treatment shakes out, we think the IEEPA replacement with a 10% global tariff would lower the effective U.S. tariff rate (ETR) by 2-4 percentage points (*Exhibit 1*). This outcome is only slightly more dovish than our Base Case before the ruling, which envisioned the President would impose his full 15% 'Balance of Payments' tariff authority, with a USMCA carve out, for an ETR decline of two percentage points.
  - **Meanwhile, the President confirmed that he will be initiating Section 301 and 232 investigations to impose tariffs indefinitely under more durable tariff authority. This is consistent with our prior Base Case.** Still unclear, however, is the scope of countries on which these new investigations will run. For now, our Base Case remains that investigations target the top ~10 U.S. trading partners, encompassing ~80% of total U.S. trade.
  - **Important note: the President already has Section 301 authority to tariff China. Said differently, the Court's ruling on Friday does not materially impede the administration's ability to use tariffs as a negotiating tool with China**
- **Are previously collected IEEPA tariffs rebated, and how quickly?** As mentioned above, we think the now-overturned IEEPA tariffs had already collected something on the order of $200 billion, or ~0.7% of GDP. Quick rebates would amount to a substantial economic stimulus . However, we do not expect rebates to materialize quickly, and we have not factored this into our base case for 2026. We expect this will be tied up in the courts – possibly for years. But this is another important moving part to watch.
- **Do countries honor preexisting framework trade deals?** Since Liberation Day, the Trump administration has negotiated a large number of framework trade deals, across Europe, Asia and the Middle East. Several of these deals included significant FDI commitments to the U.S., including Japan ($550 billion), the EU ($600 billion), Qatar ($1.2 trillion), and Saudi Arabia (~$1 trillion). Our base case is that these partner countries – with the possible exception of the EU – will honor those commitments to avoid potentially higher tariffs under Section 301. However, any large rollbacks of FDI commitments could contribute to pressures on the USD.

What does all this mean for investing? The signal amid the noise: the Supreme Court and Congress are co-equal branches of government, which always slows presidential initiatives, particularly in a second term — and could continue to slow Trump initiatives at the margin. Our bigger picture thought is that, as we have said to start 2026, we think that we have passed the point of peak tariffs but trade barriers will remain higher than before President Trump's inauguration. Affordability is an important consideration, but the President and his team believe in tariffs for many reasons.

Maybe more importantly, presidents always face growing boundaries in their second term. These institutional guardrails, including policy being challenged and overturned in some instances, are notable to watch. Importantly, let's not lose focus on the bigger picture that we are in a *Regime Change*. Governments around the world are now using bigger deficits to fund growth at a higher level of nominal GDP to attract voters, geopolitical rivalries are intensifying, AI energy demand is exacerbating a messy energy transition, and volatility around cost inputs is leading to stickier and more volatile inflation.

Exhibit 1: Replacing IEEPA With 10% Balance of Payments Tariffs Lowers Aggregate U.S. Effective Tariff Rate by 2-4 Percentage Points (With USMCA Treatment Being the Key Swing Factor)



Source: KKR GMAA Analysis, Census Bureau as of 2/20/2026. Southeast Asia: Vietnam, Malaysia, Indonesia, Thailand, Taiwan. Import levels represent FY 2024 imports (excl. Section 232 product categories). Data as at February 20, 2026. Source: U.S. Bureau of Economic Analysis, KKR Global Macro & Asset Allocation.

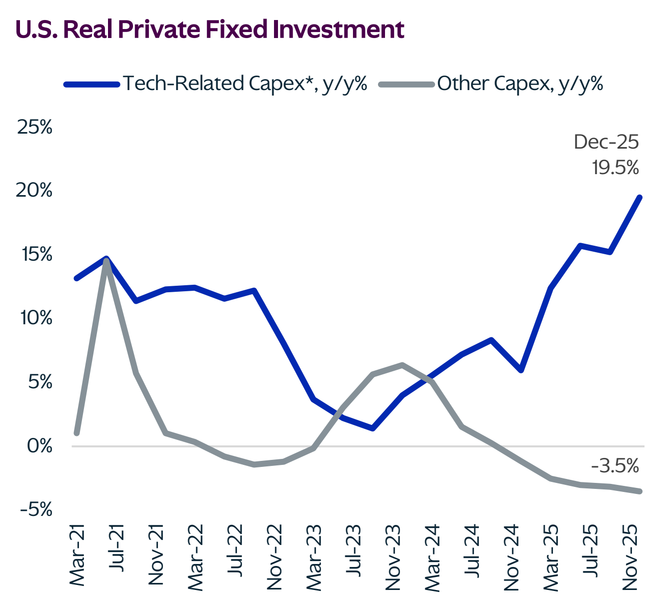
HOW ARE WE THINKING ABOUT THE U.S. 4Q25 GDP RELEASE?

As mentioned above, 4Q25 U.S. GDP came in at +1.4%, disappointing consensus (+2.8%) on a headline basis. The 43 day government shutdown over Oct-Nov was the key drag, as it weighed on the BEA's estimate of Federal spending by fully 17%, subtracting 1.2 percentage points from headline GDP (i.e., ex this drag, GDP would have come in close to consensus). Overall, however, we view this Federal drag as statistical "accounting noise."

The more important signals we draw from this report are the fundamental momentum we are seeing in tech capex and consumer services spending. Reflecting on this momentum, we are raising our 2026 GDP forecast to 2.5% from 2.3% (vs. consensus which now stands at 2.4%, up from 1.8% in December). Key thoughts:

Tech-related capex grew at a blistering 19% annualized rate in 4Q25, contributing 1.1 percentage points to growth in the quarter (i.e., fully 78% of 1.4% net growth). Growth was robust across major categories including tech equipment spending (+36% SAAR), data center construction (+18% SAAR), and software investment (+7% SAAR). Software spending looks even stronger on a y/y basis at +14%, which is near the highest rate we have seen in the past 10+ years – an interesting counterpoint to consider amid the current market volatility for the sector.

Exhibit 2: U.S. Capex Dynamics Look Increasingly K-Shaped



* Tech-related capex here includes Tech Equipment spending, Software IP spending, and Data Center Construction spending. Data as at February 20, 2026. Source: U.S. Bureau of Economic Analysis, KKR Global Macro & Asset Allocation.

- **Capex trends look increasingly 'K-Shaped' across tech vs. non-tech spending.** As mentioned, tech-related capex grew near 20% y/y, while non-tech capex contracted by 4% (*Exhibit 2*). This dynamic contributes to the broader "K-shaped" patterns we are seeing including high vs. medium/low-income households and mega-cap vs. smaller companies.
- **In aggregate, consumer spending remains robust, particularly on the services side.** Real personal consumption spending grew +2.4% annualized in 4Q25, which we consider particularly resilient for a quarter with essentially zero employment growth. Services spending was particularly robust at +3.4%, while goods spending was stagnant at -0.1%. We expect the consumer backdrop to remain healthy in 1H26, amidst OBBA-related tax rebates.

Exhibit 3: U.S. GDP Details

	% Chg, Q/Q SAAR				% Contrib to Ttl GDP		
	4Q25 Actual	4Q25e Per Bloomberg Consensus	Memo: 4Q25e Per "GDPNow"	3Q25	**4Q25 Actual**	Memo: 4Q25e Per "GDPNow"	3Q25
Real GDP	**1.4**	**2.8**	**3.0**	**4.4**	**1.4**	**3.0**	**4.4**
Pers. Consumption Expenditure	**2.4**	**2.4**	**2.5**	**3.5**	**1.6**	**1.7**	**2.3**
Goods Consumption	-0.1		0.8	3.0	0.0	0.2	0.6
Services Consumption	3.4		3.2	3.6	1.6	1.5	1.7
Gross Private Domestic Investment	**3.8**	**1.7**	**6.1**	**0.0**	**0.7**	**1.0**	**0.0**
Private Fixed Investment	**2.6**		**2.9**	**0.8**	**0.5**	**0.5**	**0.2**
Resi Fixed Investment	-1.5		0.0	-7.1	-0.1	0.0	-0.3
Non-Res Structures	-2.4		-1.8	-5.0	-0.1	-0.1	-0.2
Non-Res Equipment	3.2		4.8	5.2	0.2	0.3	0.3
Non-Res Intel. Prop.	7.4		5.6	5.6	0.4	0.3	0.3
Inventories (GDP Contrib.)	**0.2**		**0.5**	**-0.1**	**0.2**	**0.5**	**-0.1**
Net Exports (GDP Contrib.)	**0.1**		**0.0**	**1.6**	**0.1**	**0.0**	**1.6**
Exports	-0.9	1.5	0.6	9.6	-0.1	0.1	1.0
Imports	-1.3	-2.0	0.3	-4.4	0.2	0.0	0.6
Government	**-5.1**	**-1.6**	**1.4**	**2.2**	**-0.9**	**0.2**	**0.4**
Federal	-16.6		1.1	2.7	-1.2	0.1	0.2
State & Local	2.4		1.6	2.0	0.3	0.2	0.2
Memo:							
Final Sales to Domestic Purchasers	***1.1***		***2.4***	***2.8***			
Final Sales to Private Domestic Purchasers	***2.4***		***2.6***	***2.9***			

Data as at February 20, 2026. Source: U.S. Bureau of Economic Analysis, KKR Global Macro & Asset Allocation.

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