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A Different Kind of Recovery

To be prepared
is half the victory.

— Miguel de Cervantes

KKR GLOBAL INSTITUTE

Contents

KKR GLOBAL MACRO & ASSET ALLOCATION TEAM

Henry H. McVey
Head of Global Macro & Asset Allocation
henry.mcvey@kkr.com
+1 212 519 1628

Frances Lim
frances.lim@kkr.com

David McNellis
david.mcnellis@kkr.com

Aidan Corcoran
aidan.corcoran@kkr.com

Changchun Hua
changchun.hua@kkr.com

Brian Leung
brian.leung@kkr.com

Rebecca Ramsey
rebecca.ramsey@kkr.com

Miguel Montoya
miguel.montoya@kkr.com

CONTRIBUTORS:
Ken Mehlman, Neil Brown, Phil Kim, Paula Roberts, Kris Novell, Deepali Bhargava, Michaela Beck, Roiana Reid, Rachel Li, Bola Okunade, Dian Xu

MAIN OFFICE
Kohlberg Kravis Roberts & Co. L.P.
30 Hudson Yards
New York, New York 10001
+ 1 212 750 8300

COMPANY LOCATIONS
New York, San Francisco, Menlo Park, Houston, London, Paris, Dublin, Madrid, Luxembourg, Frankfurt, Hong Kong, Beijing, Shanghai, Singapore, Dubai, Riyadh, Tokyo, Mumbai, Seoul, Sydney

A Different Kind of Recovery

As we peer around the corner towards tomorrow, our macro viewpoint remains that this cycle will be different. The ongoing uncertainty linked to COVID-19 has meant looser fiscal and monetary policies for longer relative to history. Moreover, the global energy transition, coupled with excess consumer savings, is impacting the economic recovery in ways that are dramatically different than recent recoveries. Our base view is that, after almost four decades, disinflation is giving way to reflation. Therefore, to be successful in the environment we envision will require preparation, including both a deep study of the past as well as a vision towards the future. As one of the world's greatest novelists, Miguel de Cervantes, once noted: To be prepared is half the victory. Overall, our posture at KKR is that the current environment remains generally constructive for risk assets. Key to our thinking is that the total 'stock' of global monetary support, including the $12.8 trillion of increased central bank liquidity injected from the G4 economies since the start of the pandemic, will overpower the global interest rate tightening cycle that already has started. In addition, real rates, except in China, are still extremely low, which elevates the value of the illiquidity premium. However, as we detail in this piece, the road ahead will be a bumpy one, particularly as the 'flow' of central bank liquidity into the system slows, or even reverses direction, in the coming quarters. Finally, this cycle — more than ever — will favor thematic investors who are able to incorporate a top-down approach that champions both innovation and complexity amidst periodic dislocations to take advantage of the robust opportunity set we see unfolding.

To be prepared is half the victory.

—**Miguel de Cervantes,** Spanish writer

One of the key attributes of the investment management business, and one that we have always found appealing, is it is a learning business. Without question, both investing successes and failures — and probably more so the failures than the successes — help to build muscle memory and pattern recognition that can alert us to what might unfold next. These past learning experiences taken together can often serve as a differentiating feature for predicting the direction of future returns, especially during periods of heightened uncertainty. And, if there is one thing we have had in abundance over the past 18 months, it has been heightened uncertainty.

The good news is that we at KKR have plenty of experience on which to draw. Henry Kravis and George Roberts, who founded KKR over 45 years ago, have ensured through the appointment of their successors Joe Bae and Scott Nuttall that we remain a learning institution. At our core, we draw upon our past, including both what worked and what did not. In fact, post-mortems conducted by the Firm led to the creation of the KKR Global Institute to ensure that macro, geopolitics, and government and public policy became important considerations for every investment. However, we are also cognizant that even learning institutions must continue to evolve. Indeed, both our founders often quote General Erik Shinseki at our KKR town halls, reminding us that "If you don't like change, you are going to like irrelevance even less."

So, where does this leave us today as we use our existing resources and past experiences to peer around the corner on what tomorrow might look like? Not surprisingly, given the substantial amount

How Our Thinking Has Evolved	Action Item
Inflationary pressures, labor and housing in particular, remain key areas of focus. All told, 24 of 26 headline CPI inputs are now above the Fed's two percent long-run inflation goal.	We boost our CPI forecast in the U.S. to 5.0% in 2022, compared to a consensus of 3.6%. We remain positive on pricing power stories and collateral-based cash flows across Private Equity and Real Assets.
Despite tightening measures in 2022, we look for real rates outside of China to lag this cycle.	We forecast real rates of -0.5% in the U.S. and -0.1% in Europe, respectively, in 2022. Housing should remain a major beneficiary.
Equities remain the asset class of choice. Both innovation and complexity should work this cycle.	We remain overweight Global Equities again in 2022. Our new projected path has the S&P 500 ending 2022 at about 4,900 with 15% EPS growth.
We are now in a global tightening cycle, but the sheer stock of liquidity will keep financial conditions from getting too tight.	Unlike the onset of the taper tantrum in 2013 (when the short-end of the curve was mispriced), we would now hedge the long-end of the interest rate curve.
We still see both strong demand and uneven supply, albeit better than in 2021, for commodities again in 2022.	We still favor select commodities linked to the global energy transition. We still like longer-dated Oil.

of liquidity that is in the system, our quantitative models, our fundamental research, and our intuition lead us to believe that economic growth continues at a solid clip on a *nominal* basis for the next few years. If we had to say the current period 'rhymed' with a past period, it would be the 2001–2007 economic recovery. During those years, China's fixed investment build-out created inflationary pressures and a strong capex cycle; this time, by comparison, it is both record levels of stimulus and the global energy transition that are acting as important catalysts for upward pressure on input costs.

1. **Unlike the GFC, this recovery is being driven by the West**, not the East.

2. **It is heavily front-end loaded**, with the one-two punch of both monetary *and* fiscal stimulus.

3. **Input costs, we believe, will stay higher for longer**, driven by rising wages and reconfiguration of global supply chains.

4. Periodic growth slowdowns **will likely be more driven by supply constraints, not demand ones**. Both COVID flare-ups and the global energy transition could amplify this tightness in supply.

5. Outside of China, **real rates generally will lag this cycle**.

Importantly, as we show in *Exhibit 1*, our research suggests that, despite several macroeconomic headwinds, now is not the time to hit the panic button. In fact, based on 2021's strong returns, the probability of positive forward returns over the next 12 months is approximately 75% or greater. On a 3-year basis, it is actually 90% plus or higher.

Exhibit 1

Strong Returns in 2021 Actually Bode Well for 2022

Trailing 12-Month Return	1-Year Forward Return	Hit Rate	Count	3-Year Forward Return (Annualized)	Hit Rate	Count	5-Year Forward Return (Annualized)	Hit Rate	Count
0%+	10.0%	81%	1,624	8.9%	85%	1,539	8.2%	75%	1,436
5%+	9.5%	79%	1,427	8.4%	85%	1,368	7.6%	73%	1,268
10%+	10.3%	79%	1,129	8.9%	87%	1,093	7.3%	75%	999
15%+	11.2%	79%	779	9.6%	89%	760	7.1%	76%	703
20%+	**11.0%**	**78%**	**523**	**9.9%**	**90%**	**514**	**7.1%**	**77%**	**500**
25%+	**10.3%**	**76%**	**315**	**10.4%**	**94%**	**311**	**7.0%**	**77%**	**310**
30%+	8.9%	75%	164	10.3%	93%	162	6.2%	73%	162
35%+	5.5%	68%	79	10.6%	94%	79	5.5%	71%	79
40%+	6.4%	64%	36	11.1%	97%	36	6.2%	72%	36
Total	**10.4%**	**79%**	**2,078**	**9.2%**	**85%**	**1,974**	**8.9%**	**80%**	**1,870**

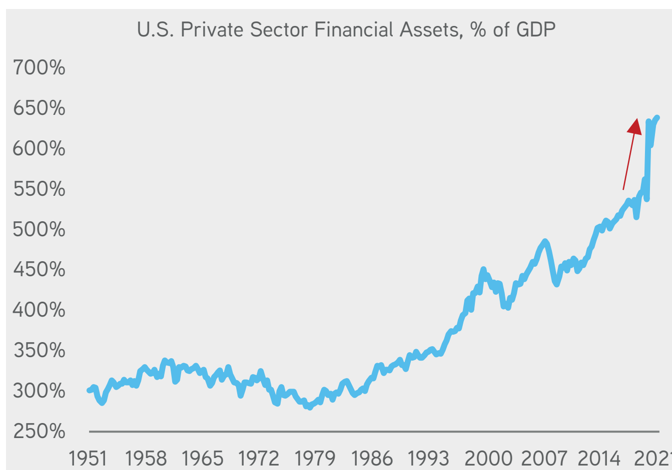
Analysis based on weekly S&P 500 price returns from 1981 to present. Data as at October 26, 2021. Source: Bloomberg.

Yet at the same time, both structural and cyclical risks are mounting. On the structural front, for example, we think that the risk of 'irrelevance' from disintermediation is spiking. Innovation is rampant across multiple industries, and it is leading to disruptors displacing incumbents. Just consider that the average company in the S&P 500, one of the most blue chip of equity indexes, now lasts just 12 years as an index member; in 1958, by comparison, the average company lasted 61 years. All of our thematic work at KKR suggests that the pace of innovation will continue to accelerate. At the heart of this increase, we believe, is the proliferation of global data that can be shared, analyzed, and interpreted. All told, global data is likely to double every two to three years, we believe.

Not surprisingly, given the substantial amount of liquidity that is in the system, our quantitative models, our fundamental research, and our intuition lead us to believe that economic growth continues at a solid clip on a nominal basis for the next few years.

Exhibit 2

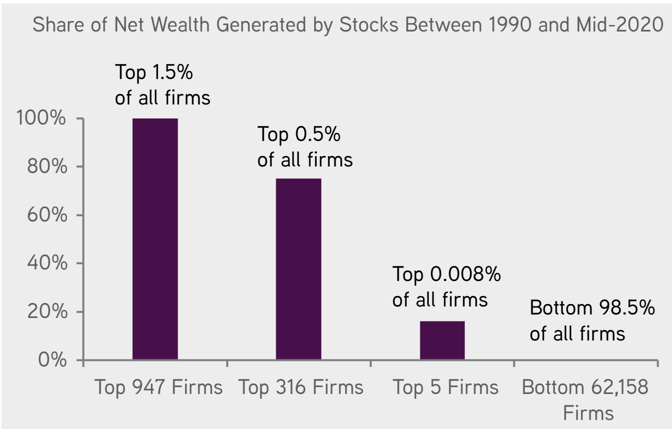
Both Quantitative Easing (QE) and Increased Innovation Have Led to a Surge in Financial Assets; We Now Tilt More of Our Portfolio Towards Real Assets



Note: Includes assets of Households, Nonprofits, and Non-Financial Corporations. Data as at June 30, 2021. Source: Federal Reserve, Bureau of Economic Analysis, Haver Analytics.

Exhibit 3

Just 1.5% of All Stocks Have Generated Net Wealth in the Global Markets Since 1990. We Remain Bullish on Innovation



Note: Net wealth accounts for wealth generated above the performance from one-month Treasury bill. Data as at June 30, 2020. Source: H Bessembinder, Arizona State University 2020.

Exhibit 4

Long Waves of Innovation Require Creative Destruction; We Now Think We Are in the Sixth Wave

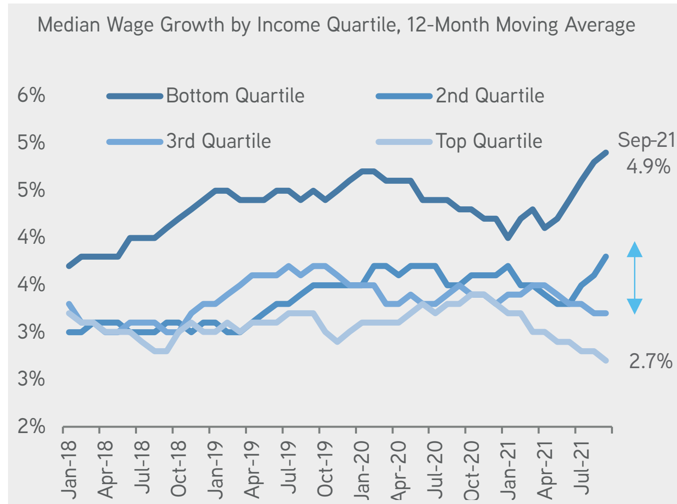
First Wave	Second Wave	Third Wave	Fourth Wave	Fifth Wave	Sixth Wave
Water, Power, Textiles, Iron	Steam, Rail, Steel	Electricity, Chemicals, Internal-Combustion Engine	Petro-chemicals, Electronics, Aviation	Digital Network Software, New Media	Digitization (AI, IoT, AV, Robots and Drones) Clean Tech
60 years	**55 years**	**50 years**	**40 years**	**30 years**	**25 years**

Data as at 2021. Source: Edelsen Institute, Detlef Reis.

Consistent with this view, we see that emerging industries such as life sciences, renewables, and digitalization as well as technologies linked to more sustainable supply chains, financial services, bionic humans, and blockchain are all chipping away at incumbent processes and/or offerings. In many cases, we think that industry change is occurring faster than many may now think. History, though, suggests few incumbent CEOs will actually embrace the creative destruction required to maintain their companies' leadership positions in their respective industries. And, all of this is happening at a time when the 'visible hand' of government intervention has driven down the cost of capital for new entrants/disruptors to record low levels. So, no, it is not business as usual for long-term investors.

Exhibit 5

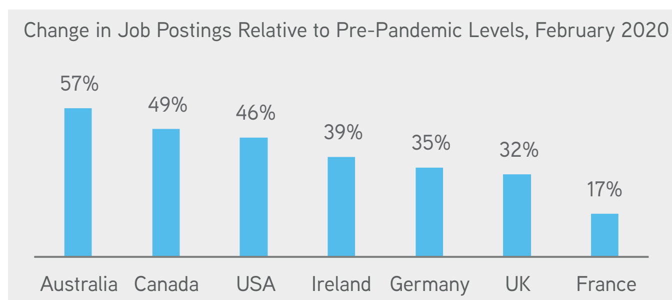
Wage Pressures Are Most Pronounced at the Lower End of the Income Spectrum



Data as at October 20, 2021. Source: Atlanta Fed, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

Exhibit 6

Labor Shortages Are Widespread Across Major Developed Markets

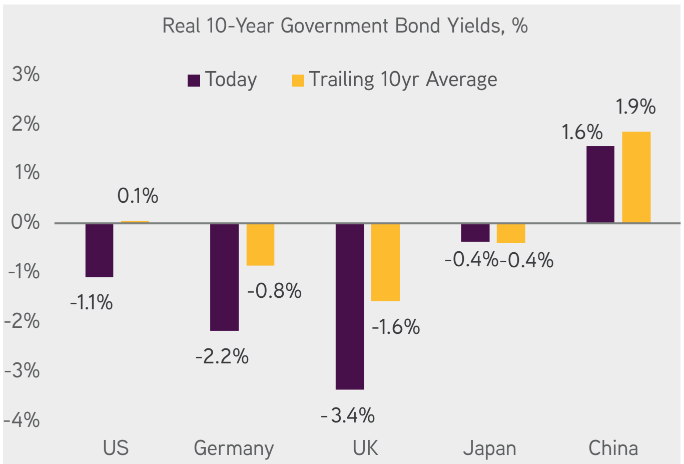


Data as at October 8, 2021. Source: Indeed Hiring Lab, Haver Analytics.

On the cyclical side of the risk ledger, there are certainly inflationary pressures to consider. For example, we are using a five percent inflation rate for the U.S. in 2022, and on a global basis, we are generally above consensus. See our discussion on interest rates for more details, but we think the 'Authorities' are now just coming around to our view that many aspects of the current inflationary backdrop will *not* prove to be transitory, particularly as it relates to labor costs (*Exhibits 5* and *6*). Said differently, we think inflation is going to land at a higher resting rate than it did in the past. We also think that real rates will lag this cycle in the developed markets (*Exhibit 7*), despite our view that global monetary policy accommodation will begin to shift in 2022.

Exhibit 7

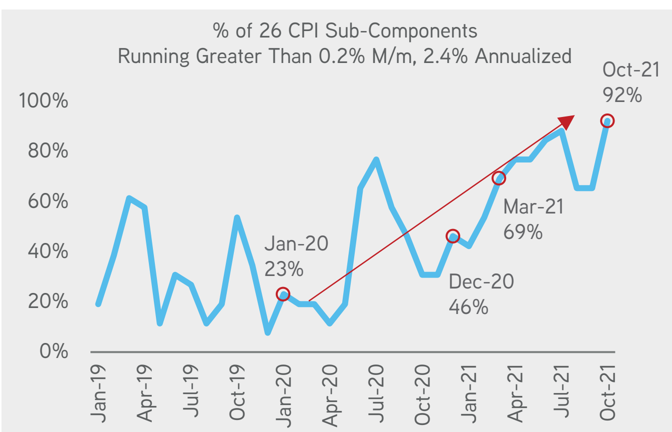
Outside of China, Real Yields Will Remain Much Lower This Cycle



Data as at November 30, 2021. Source: Bloomberg.

Exhibit 8

U.S. Inflation Is Now Broad-Based Across Industries

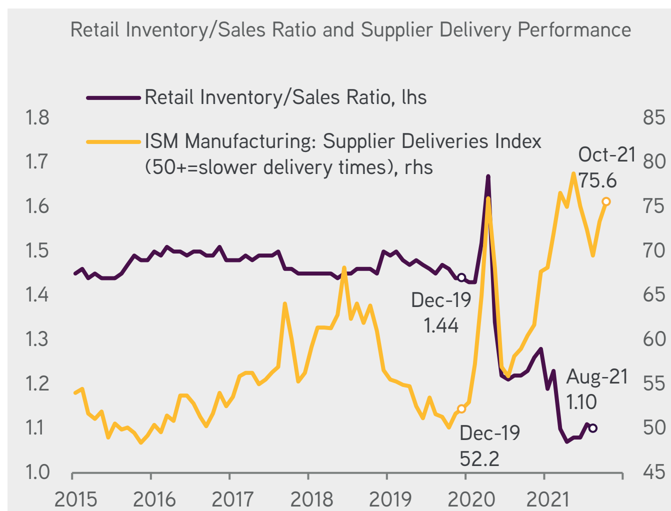


Data as at November 15, 2021. Source: Zillow, Manheim, Bureau of Labor Statistics, Haver, Bloomberg, KKR Global Macro & Asset Allocation analysis.

Against this backdrop, we think that the current recovery will be best remembered for its *reflationary* nature. In our humble opinion, there is likely too much money in the system for the current growth trajectory we are forecasting. There are also too few people available to work for key industries in developed markets like the United States. So, as we have discussed for quite some time (see *2021: Another Voice* from December 2020, *Testing the Limits of Reflation* from May 2021, and *Same As it Ever Was?* from July 2021), we see inflation settling at a higher resting rate than in the past. Also, while the recovery has been V-shaped of late, monetary policy — until recently — has been L-shaped. As such, we look for an economic backdrop that is wildly different than what unfolded after the 2008 downturn.

Exhibit 9

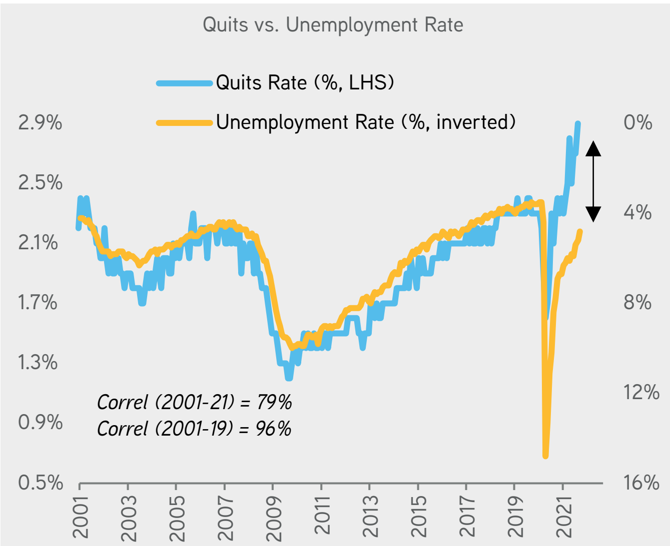
U.S. Inventories Are Quite Low, Which Bodes Well for Both Growth and Pricing



Data as at October 31, 2021. Source: Census Bureau, Institute for Supply Management, Haver Analytics.

Exhibit 10

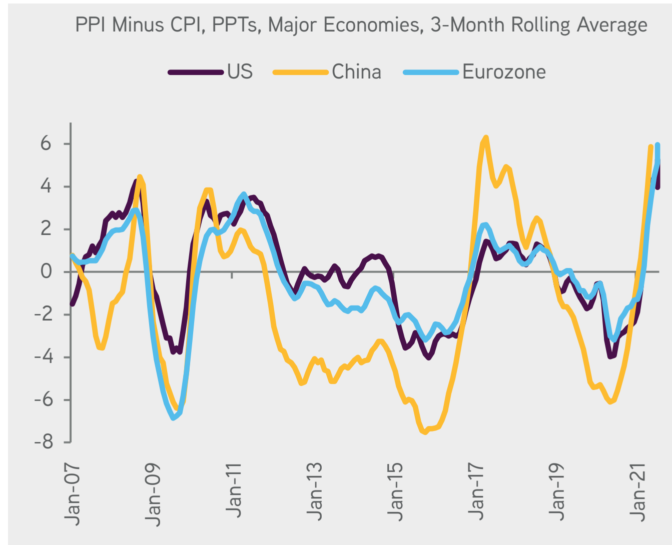
Workers Are Quitting at a Rate That Would Normally Be Associated With Unemployment of Around One Percent



Data as at October 20, 2021. Source: BLS JOLTS Survey, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

Exhibit 12

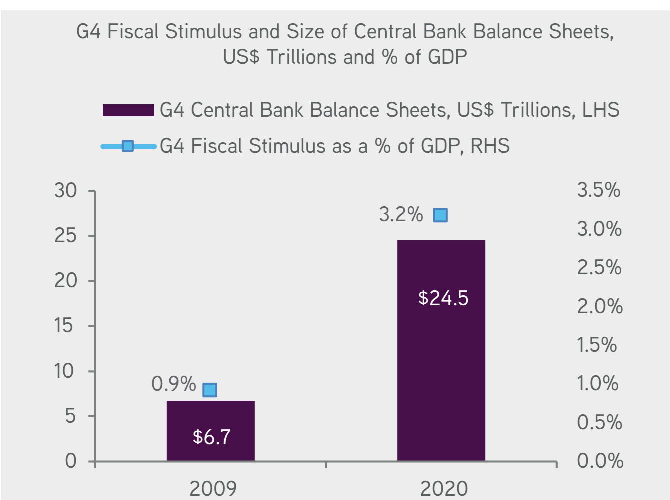
With Input Costs Surging, Our Call to Arms Is to Own Pricing Power Stories



Data as at September 30, 2021. Source: Bloomberg.

Exhibit 11

Relative to History, COVID-19 Has Encouraged Central Bankers and Politicians to Spend More Upfront On Stimulus This Cycle



Data as at October 26, 2021. Source: Bloomberg, Morgan Stanley.

Against this backdrop, we think that the current recovery will be best remembered for its reflationary nature. In our humble opinion, there is likely too much money in the system for the current growth trajectory we are forecasting. There are also too few people available to work for key industries in developed markets like the United States.

So, the road ahead will indeed be a bumpy one. As such, it favors thematic investors who can incorporate a top-down approach and who are willing to lean into uncertainty/dislocation. To this end, we believe strongly in the following six top-down themes:

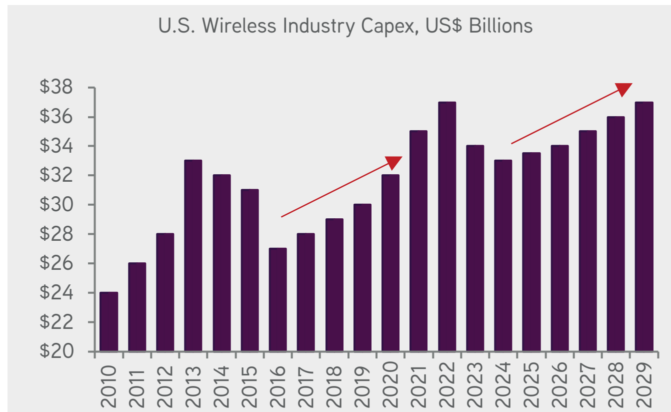
1 **Remain Long Pricing Power**: Unlike the disinflationary tilt that defined the post-2009 recovery, the front-loaded nature of this recovery is leading to higher input costs. All told, 24 of the 26 inputs in the October CPI were running above the Fed's long-term target for inflation (*Exhibit 8*). We do see supply chain pressures easing, but not to the degree or at the speed that some optimistic investors now anticipate. Maybe more importantly, though, is that the shortage of skilled labor has emerged as a structural headwind in many parts of the world, the U.S. in particular. Consistent with this backdrop, input costs, as measured by the PPI, are rising faster than output costs, as measured by the CPI (*Exhibit 12*). This type of environment heavily favors companies with pricing power, we believe, and against this backdrop, we look for a major valuation differential to emerge between price makers and price takers.

2 **Own More Collateral-Based Cash Flows**: Given the unusual backdrop of rising cyclical inflation, more stimulus, and higher commodity prices, we believe that demand for collateral-based cash flows, including Infrastructure, Real Estate, and Asset-Based Finance, is poised to accelerate more than many investors now think. Not surprisingly, the sharp drop in rates following the onset of the pandemic has only accelerated this phenomenon.

We do see supply chain pressures easing, but not to the degree or at the speed that some optimistic investors now anticipate. Maybe more importantly, though, is that the shortage of skilled labor has emerged as a structural headwind in many parts of the world, the U.S. in particular.

Exhibit 13

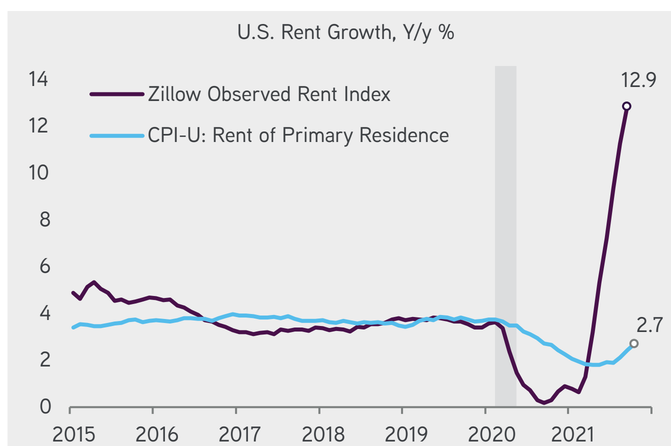
The Explosion in Data Continues to Make Us Bullish on Communications Infrastructure, Particularly Last Mile Financings



Data as at June 5, 2020. Source: Company reports, Deutsche Bank *Communications Infrastructure.*

Exhibit 14

Returns on Apartment Real Estate Have Surged, Reflecting Outsized Rent Growth; and Remember Rent Growth Is Nearly One Third of CPI



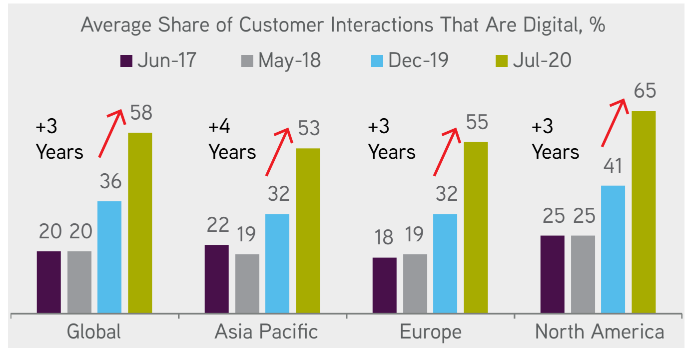
Data as at October 31, 2021. Source: National Council of Real Estate Investment Fiduciaries.

3 Digitalization/Decentralization: Consistent with our view that we are in an innovation boom, we think that the pace of disruption accelerates, particularly as it relates to technological change across multiple industries. At the same time, though, the competitive landscape is changing rapidly, and as we indicated earlier, traditional incumbents, especially in financial services, will be challenged. Specifically, we think that blockchain technologies could lead to a shift from centralization to decentralization across many established sectors, including music and healthcare royalties as well as loans, custody, and insurance. This shift is a big deal, and we think it warrants investors' attention.

At the same time, though, the competitive landscape is changing rapidly, and as we indicated earlier, traditional incumbents, especially in financial services, will be challenged. Specifically, we think that blockchain technologies could lead to a shift from centralization to decentralization across many established sectors, including music and healthcare royalties as well as loans, custody, and insurance. This shift is a big deal, and we think it warrants investors' attention.

Exhibit 15

Digitalization, Which Has Accelerated Since COVID-19, Is Now One of the Most Important Future Business Priorities



Note: McKinsey survey of 899 C-level execs and senior managers across all industries. Data as at July 2020. Source: McKinsey.

Exhibit 16

Blockchain Could Soon Have an Immense Impact on Financial Services

Six Ways Blockchain Will Impact Business As We Know It		
Business Use	**Blockchain Value**	**Example**
Static Registry	Distributed databases for storing reference data	Titles; Food safety and origin; Patents
Identity	Distributed database of identity-related info; Particular case of static registry treated as a separate group of use cases due to extensive set of identity-specific use cases	Identity fraud; Civil-registry; Identity records; Voting
Smart Contracts	Set of conditions recorded on a blockchain triggering automated, self-executing actions when predefined conditions are met	Insurance-claim payout; Cash-equity trading; New music releases
Dynamic Registry	Dynamic distributed database that updates as assets are exchanged on the digital platform	Fractional investing; Drug supply chains
Payments Infrastructure	Dynamic distributed database that updates as cash or crypto payments are made amongst participants	Cross-border peer-to-peer payment; Insurance claims
Other	Use case composed of several of the previous; Standalone not defined	Initial coin offering; Blockchain as a service

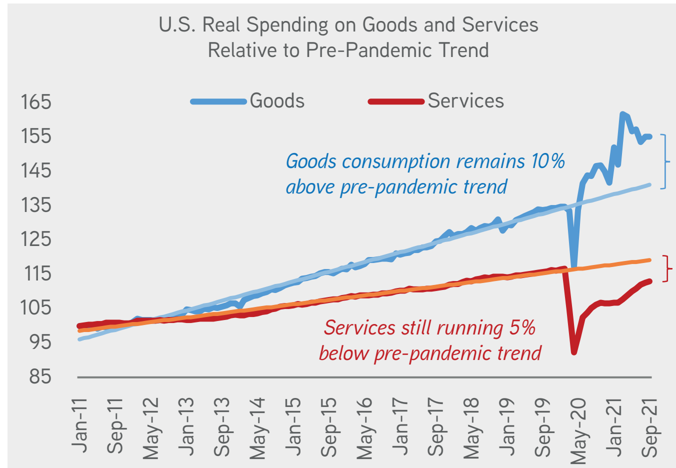
Data as at June 19, 2018. Source: McKinsey.

4 Normalization: Revenge of Services: If the U.S. is a precursor to other economies with U.S. goods buying still running 10% above trend (down from a peak of 29% earlier this year) and services running five percent below (up from 10% below), we think that it is the time to flip exposures to the underdog category, services. We are not bearish on 'things', but we do think that consumers will ramp their exposure to 'experiences' during the next 24–36 months, as the societal tools we have to manage the spread of COVID continue to improve and we all better adapt to the new paradigm of living with the virus. We make this statement despite our belief that new variants will continue — unfortunately — to emerge along the way.

As we look ahead, companies that leverage their competitive advantages, including technological prowess and speed to market to raise their prices and keep pace with soaring input costs will likely be winners in the environment we envision. Price makers often can reprice their goods and services quickly, or they offer critical components of relatively small cost compared to the overall price of the finished product.

Exhibit 17

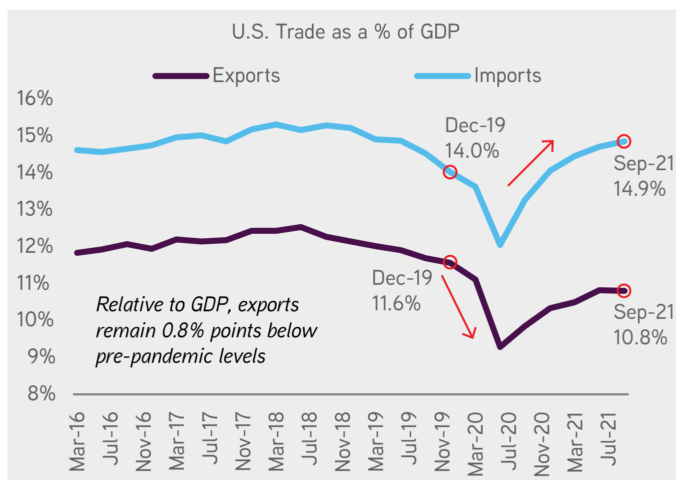
Services, Which Represent Almost 70% of Total Consumer Spending, Are Still Recovering



Data as at November 15, 2021. Source: Bureau of Economic Analysis, Census Bureau, KKR Global Macro & Asset Allocation analysis.

Exhibit 18

U.S. Exports Are Still in Early Stage Recovery. Foreign Tourism Will Be an Important Driver on the Services Side



Data as at November 15, 2021. Source: Bureau of Economic Analysis, Census Bureau, KKR Global Macro & Asset Allocation analysis.

5 The Energy Transition: A Mega Theme: Environmental considerations represent a major investment opportunity, particularly amidst growing concerns about supply chain resiliency. This mega theme is broad-based, and as such, we think that almost all aspects of ESG are worth considering, including climate action (e.g., energy transition including solar, wind, batteries and storage, EV, distributed generation, energy efficiency, etc.). We also think that ensuring resiliency and sustainability of supply chains (e.g., power transmission, distribution, charging stations, etc.) could fuel a capex super-cycle. However, we believe that there is an opportunity to help improve the ESG footprints of many old economy sectors as well, including traditional commodity producers and manufacturers, many of which are currently being starved of capital, despite the stark reality that they still play critical roles in the greening of the global economy. Remember that today, less than 20% of the total global energy supply is linked to clean energy sources (*Exhibit 20*). As part of the energy transition, we are also seeing a growing number of global businesses shedding complex portions of their overall corporate footprints to reduce sustainability challenges and/or conflicts. As part of this transition, we also expect to see consumer patterns change, including championing products that are more environmentally friendly. The capital markets too will play a role, as companies with cleaner carbon footprints may be able to finance themselves more cheaply on a relative basis.

However, we also believe that there is an opportunity to help improve the ESG footprints of many old economy sectors as well, including traditional commodity producers and manufacturers, many of which are currently being starved of capital, despite the stark reality that they still play critical roles in the greening of the global economy.

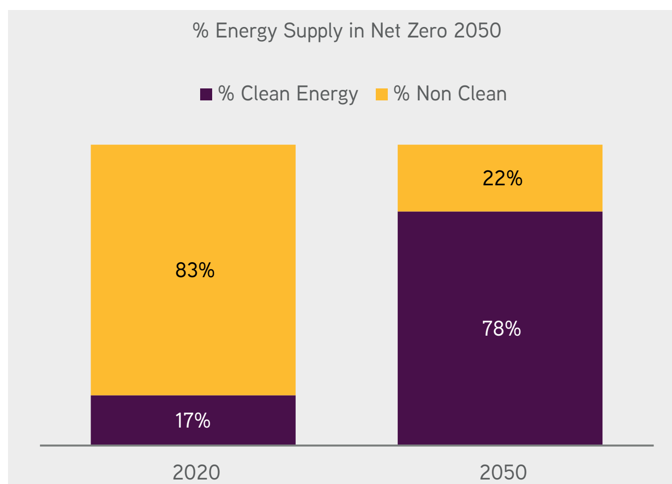
Exhibit 19

There Is Enormous Pressure from Stakeholders to Focus On Sustainability, Yet…

Data as at October 12, 2020. Source: BP Statistical Energy Review 2020 and 2015, BLS, World Energy Consumption database 1820-2018 (2020 revision) Paolo Malanima.

Exhibit 20

…Net Zero Is Not That Easily Achieved



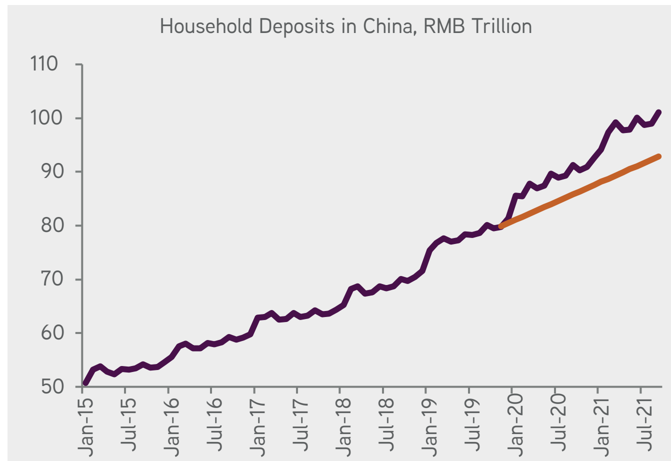
Data as at May 2021. Source: International Energy Agency (2021), Net Zero by 2050, IEA, Paris: Net Zero by 2050 Scenario - Data product - IEA. License: Creative Commons Attribution CC BY-NC-SA 3.0 IGO.

6 **We Have Entered Into a Savings Bull Market:** In Asia, for example, we now have more than 800 million millennials who want to build a safety net via increased savings for their families. Nesting, retirement products, and financial planning should all benefit. Meanwhile, in the developed markets, quantitative easing has 'stolen' from older savers, who now are being forced to run with higher savings rates. QE has also lowered the real return on all investments, which means more must be tucked away to protect purchasing power. It also means the value of the illiquidity premium has increased. As we detail below, low rates are likely to persist for some time, which means, for example, that more large blocks of life insurance books will be brought to market for sale. This backdrop favors scale players that can leverage technology, sourcing, and portfolio construction to deliver better investment management results. Finally, as we discuss in our themes section, we are on the cusp of a major intergenerational wealth transfer, one that could dwarf what the financial planning community has enjoyed so far.

Across all these ideas, we believe that — when possible — now is the time to buy complexity and sell simplicity. Consistent with this view, portfolio managers will need to be more thematic about where an industry is headed. Can we buy down a multiple through tuck-in acquisitions; should we take the business in a new direction; and/or is this a good business but being run by a management team that lacks vision? From our vantage point, we still believe that the opportunity set to acquire high-quality carve-outs across PE, Infrastructure, and Energy remains outsized. In particular, for investors who are willing to take some small development, operational, and/or financing risks, there is the potential to earn outsized returns relative to when the story becomes more simplified in the public markets. Importantly, though, we are not advocating buying what appear to be 'cheap' assets in industries that face potential secular headwinds. Rather, we are advocating getting behind situations where active corporate management can unlock value that the public markets may be missing. We also see many opportunities where a slice of the capital structure just does not fit nicely into a specific allocation bucket for institutional investors (e.g., a complicated convertible bond, or a bond with equity warrants). As such, the incremental total return pick-up for investors who are willing to do additional work to understand the real opportunity set is really quite meaningful in both absolute and relative terms.

Exhibit 21

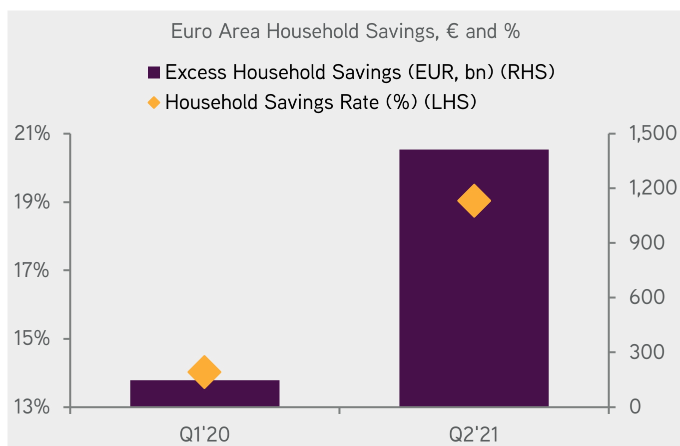
In China, Excess Household Deposits Now Total 18% of Annual Retail Sales



Data as at November 16, 2021. Source: Wind, KKR Global Macro & Asset Allocation analysis.

Exhibit 22

We Expect Household Consumption to Continue to Benefit from Large Amounts of Forced Savings Accumulated During the COVID Crisis



Data as at June 30, 2021. Source: Statistical Office of the European Communities, European Central Bank, Haver Analytics.

Without question, at KKR our thematic work increasingly drives our thinking around deployment, monetization, and asset allocation. To this end, we wanted to flag our latest *Picks and Pans* that reflect our views as to where we believe portfolio managers and asset allocators should be leaning in *and* out. They are as follows:

PICK

We remain overweight Global Equities again this year relative to sovereign debt. This has been the big call this cycle for asset allocators, and we see no reason to change it. Within Global Equities, we favor *a balanced exposure of* Growth and Value (i.e., be long both innovation and complexity), and we are generally size agnostic outside of our distaste for large mega-cap tech and speculative growth names with no line of sight towards profitability. The U.S. should again perform well, but we look for Europe and a few select Emerging Markets to be the star performers in 2022.

PICK

We are overweight almost all investments linked to pricing power and collateral-based cash flows. This viewpoint is consistent with our focus on owning pricing power stories during an era of rising inflation. As such, **we suggest overweight positions in Infrastructure, Real Estate, and Asset-Based Finance, including Housing**.

PICK

Remain long innovation, particularly in the private markets. We remain in a global innovation cycle that has the potential to provide outsized returns to investors who can commit capital wisely behind mega-themes that are reshaping the global capital markets. Just consider that only 1.5% of the total companies in global stock markets over the last 30 years created 100% of the net wealth in stock market gains (*Exhibit 3*). And, many of the most promising companies are actually still private. To this end, we suggest allocating some slug of capital to leaders in blockchain, life sciences, payments, and software spaces.

PICK

Buy some of what is out of favor. In a world awash in liquidity, spend some time going where others are not. At present, we see opportunities in Energy, European banks, Chinese technology companies, beaten-down conglomerates, and China High Yield debt (USD). Not surprisingly, we also find public 'break-up' stories that are trading at attractive sum-of-the-parts multiples, or Real Estate/Infrastructure that is trading well below replacement costs as compelling investment opportunities to pursue.

PICK

Within Liquid Credit, we still prefer Bank Loans to High Yield; overall, though, we favor Opportunistic Credit, which gives us the ability to toggle across multiple asset classes as opportunities arise. We also like structures in Credit where portfolio managers can lock in fixed rate liabilities and manage the asset side of the balance sheet to capture both higher rates and portfolio construction to enhance returns.

PICK

Own select Commodities. See below for details, but **we still favor oil at several spots on the forward curve (e.g., 2024); we also like commodities linked to our energy transition thesis, including aluminum, copper, and lithium, as well as derivative plays such as carbon credits.** We are bullish too on the picks and shovels associated with the global energy transition, and as such, services linked to this business movement seem sensible.

PICK

Capital solutions. Providing unique capital solutions, including convertible preferred shares or PIK/Equity structures, to private companies in innovation sectors makes a lot of sense to us. Many, though not all, of these early stage companies are already cash generative, and an investor can move up in the capital structure at a time of lofty valuations and potentially still participate in some upside sharing if valuations hold and earnings come through. Media, biotech, gaming, and blockchain all potentially could be beneficiaries. We also like that many traditional banks appear less interested in extending capital to these segments of the market and/or that large allocators may not have a specific 'bucket' for this type of security.

PAN

Price takers. The current environment most likely is going to lead to multiple and earnings de-ratings for companies that have high leverage levels and the inability to pass through costs, including labor. For example, we think that consumer product companies with unhedged input costs will likely suffer. A similar story could play out for companies with large lower-wage workforces and limited pricing power, such as second-tier retailers and certain healthcare services. We are also wary of companies that could have trouble passing on higher input costs to a small and powerful base of buyers (e.g., government services or auto parts arenas).

PAN

Long Duration Bonds. Last year we talked about the short-end being at risk; this year we think the risk is at the long-end. As we show in *Exhibit 56*, the market has now priced in the risk of the Fed moving three times in 2022 (we agree). Yet, at the same time, the consensus is that the long-end of the curve will be essentially flat 10-years from now on a forward basis (*Exhibit 97*). We think that this forecast for the long-end is too pessimistic. We also note that when the taper tantrum occurred, by comparison, the market was pricing a 10-year forward of more than four percent. So, if there is risk to the consensus, we see it clearly at the long-end.

PAN

Big cap technology stocks. In line with what we laid out in our December 2020 Outlook *Another Voice*, **we still see many of the most popular growth stocks, including some of the unprofitable momentum ones, not doing as well.** Whereas last year we pointed some of our focus towards China's tech boom, we now turn our attention towards the U.S. The law of large numbers, increased regulatory scrutiny (anti-trust, data, etc.), and higher multiples in certain instances could all soon begin to act as potential headwinds. Tightening financial conditions too should bring scrutiny to some of the unprofitable, momentum names in 2022, we believe.

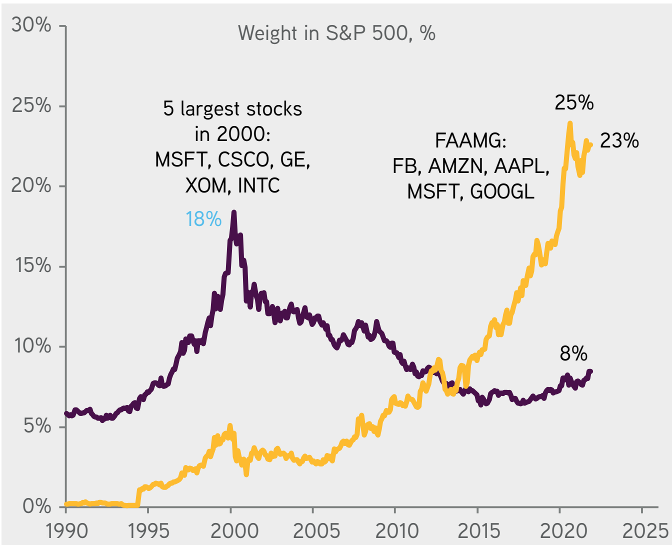
PAN

Turkey and Mexico. For the fourth year in a row, we continue to think that Turkey represents an unwelcome macro destination for capital. The country's policies are out of step with the global reflation theme we see unfolding. As a result, we think that both the currency and the stock market will continue to struggle. On Mexico, we are increasingly unsettled by recent administration moves, including its relationship with the central bank.

We are overweight almost all investments linked to pricing power and collateral-based cash flows. This viewpoint is consistent with our focus on owning pricing power stories during an era of rising inflation. As such, we suggest overweight positions in Infrastructure, Real Estate, and Asset-Based Finance, including Housing.

Exhibit 23

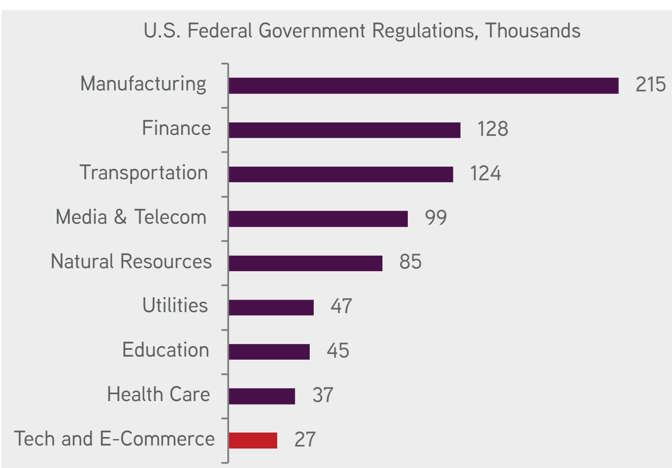
Equity Market Leadership Is Difficult to Maintain: The Five Largest Stocks in 2000 Now Comprise Only Eight Percent of the S&P 500 Equity Cap Today



Data as at November 12, 2021. Source: Goldman Sachs Global Investment Research.

Exhibit 24

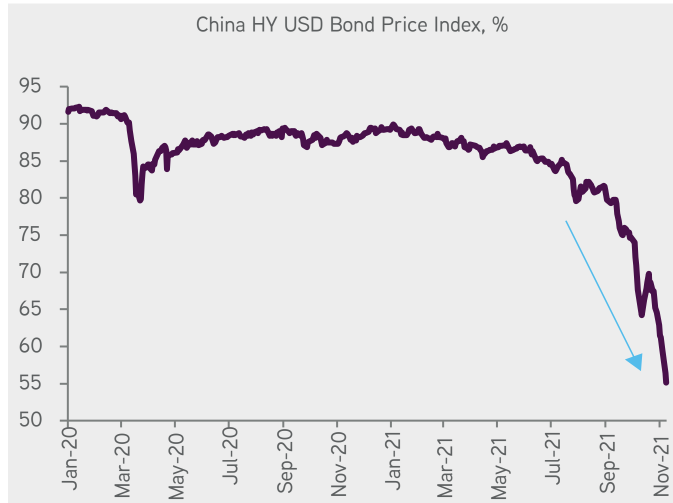
Despite Its Increasingly Monopolistic Position, Technology Remains One of the Least Regulated Industries. We Think That This Reality Is Poised to Change



Data as at April 2018. Source: BofAML.

Exhibit 25

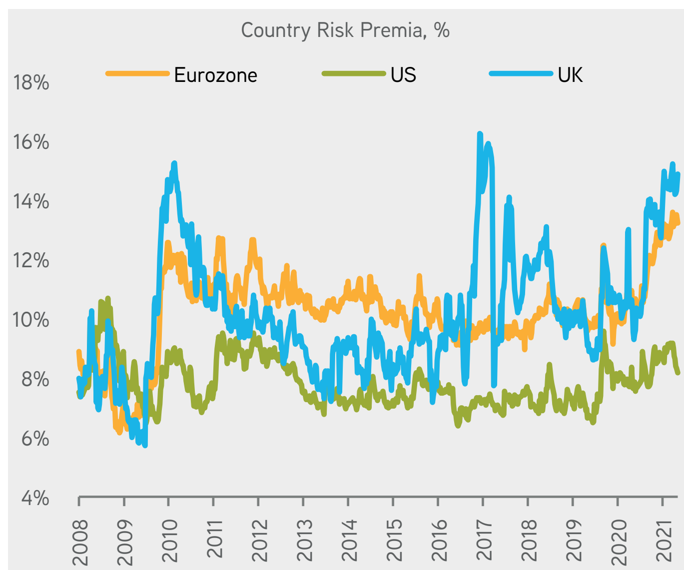
China Distressed High Yield Could Be a Good Investment Opportunity



Data as at November 16, 2021. Source. Bloomberg.

Exhibit 26

European Risk Premia Now Looks Too Elevated Relative to the United States



Note: Europe is the average of Eurozone and the UK. Data as at October 31, 2021. Source: Bloomberg.

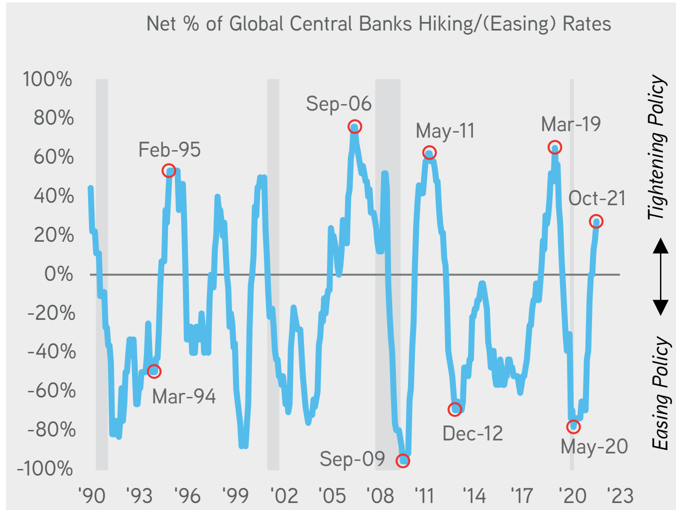
In terms of what keeps us up at night, we are obviously keeping a close eye on the emergence of new variants. This is first and foremost a health concern. From an economic perspective, however, our base case is that excess stimulus and rapidly evolving science keep recent mutations from permanently denting the economic recovery we are forecasting over the next few years.

Beyond the threat of COVID, our list of concerns really starts and ends with the interplay between interest rates and financial conditions. So, what scenarios should investors worry about? We definitely believe that there is now a greater risk of faster than expected tightening of financial conditions in 2022. In this scenario, growth would slow more than anticipated. So, though nominal rates might actually not move much from current levels, real rates would increase as future inflation expectations nose dive. Without question, this backdrop, which we think would lead to a broad-based and rapid tightening of global financial conditions, would be bearish for most risk assets.

Beyond the threat of COVID, our list of concerns really starts and ends with the interplay between interest rates and financial conditions. So, what scenarios should investors worry about? We definitely believe that there is now a greater risk of faster than expected tightening of financial conditions in 2022. In this scenario, growth would slow more than anticipated.

Exhibit 27

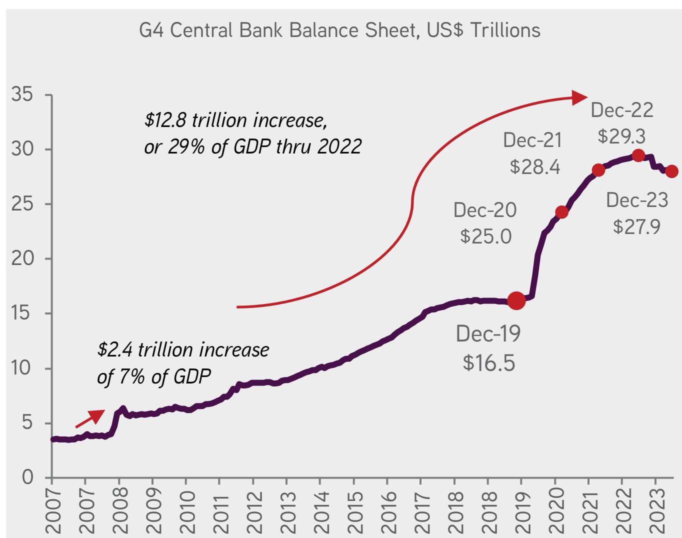
We See Financial Conditions Tightening in a Mid-Cycle Playbook



Data as at October 31, 2021. Source: Respective Central Banks, Haver Analytics.

Exhibit 28

However, the Absolute Stock of Liquidity in the System Should More Than Offset the Reversal in Flow That We Are Forecasting in 2022



Data as at October 31, 2021. Source: Fed, Bloomberg, Morgan Stanley estimates.

The other interest rate scenario we fear — though we also view it as unlikely — is that nominal yields could rise sharply, while real yields do not move up at all. In this scenario, investors would have lost confidence in the central banks' ability to control inflation. Were this to occur, both Equities and Bonds would de-rate meaningfully in value, with Commodities (e.g., Oil) being the relative beneficiary.

However, we enter 2022 with a generally constructive view of the world. To be sure, we expect a lot more volatility in 2022, as both the recovery and central bank policies are not in sync across the various regions where KKR does business. Also, the pandemic is not over; it just continues to reinvent itself. As such, we do think that there is more than a 50% chance that we get a tradeable 10% or more correction in 2022, which would represent a major break from 2021's near-nirvana backdrop.

That said, we remain pro-risk in our asset allocation based on the following over-arching premise: *we do not see financial conditions tightening enough in 2022 to permanently offset the extreme amount of absolute liquidity that is still in the system (Exhibit 28). Also, real rates outside of China remain so low in absolute terms that any tightening begins off of a tremendously low base relative to history (Exhibit 7).*

So, even if the central banks begin to taper more quickly (which would imply COVID cases in early 2022 fall quickly, which is not our base case), the balance sheets of the G4, for example, are already up more than $12 trillion versus its peak last cycle — and remember it actually took four years before the Fed's balance sheet began to shrink after it announced tapering. Moreover, following our recent European trip, we are of the view that its central bank will be even more accommodative for longer. Finally, after a surprisingly sluggish 2021, we would not be surprised to see China easing somewhat in the first half of 2022.

SECTION I: GLOBAL/REGIONAL GDP FORECASTS

Global GDP Overview

As we show in *Exhibit 29*, we generally lag the consensus in terms of growth forecasts, except for in the United States. However, because of our more reflationary bias, we are more constructive on nominal GDP in almost all regions of the world. Just consider, for example, that — after growing 10.2% in 2021 — we expect nominal GDP growth could reach nearly nine percent again in 2022. By comparison, as the recovery started after the Global Financial Crisis, nominal GDP averaged just 7.1% during the 2011-2016 period.

Exhibit 29

Our Global Forecasts Are Out of Consensus in the United States. In China, We Are Much More Measured on 2022 Growth Due to Deceleration of Property Investment

	2022 Real GDP Growth		2022 Inflation		2023 Real GDP Growth		2023 Inflation	
	GMAA Target	Bloomberg Consensus	GMAA Target	Bloomberg Consensus	GMAA Target	Bloomberg Consensus	GMAA Target	Bloomberg Consensus
U.S.	4.1%	3.9%	5.0%	3.6%	3.2%	2.5%	2.0%	2.3%
Euro Area	4.0%	4.2%	2.5%	2.2%	2.2%	2.2%	1.5%	1.5%
China	4.8%	5.3%	2.5%	2.2%	5.4%	5.4%	2.3%	2.2%
Mexico	2.9%	2.9%	4.9%	4.4%	2.1%	2.0%	3.8%	3.6%

Data as at November 30, 2021. Source: KKR Global Macro & Asset Allocation analysis.

Regional GDP Forecasts

United States Outlook

For 2022, we are forecasting U.S. Real GDP growth of 4.1%, up 10 basis points from our prior forecast of four percent and 20 basis points above current consensus. For 2023, we also raise our forecast, to 3.2% from 3.0% previously and 70 basis points above the consensus of 2.5%. Implicit in our forecast is a view that, while Omicron will likely hinder the recovery in early 2022 (i.e., similar to how Delta pressured GDP to decelerate to 2.1% annualized in 3Q21 from 6.7% in 2Q21), it will largely exert pressure on already constrained sectors (e.g., travel and entertainment). As such, there will not be a substantial new wave of lockdowns creating widespread job loss.

As we look further ahead, we see at least four fundamental drivers powering the next leg of the U.S. economic expansion. Specifically, we believe that services consumption, business capex, private inventories, and exports are all still in the early phases of recovery. We expect tailwinds from these factors to offset headwinds from moderating goods consumption. Our U.S. GDP indicator supports these calls, as it anticipates growth remaining above-trend through mid-2023, though with some notable deceleration as high energy prices and labor force constraints weigh on growth around 2H22-1H23.

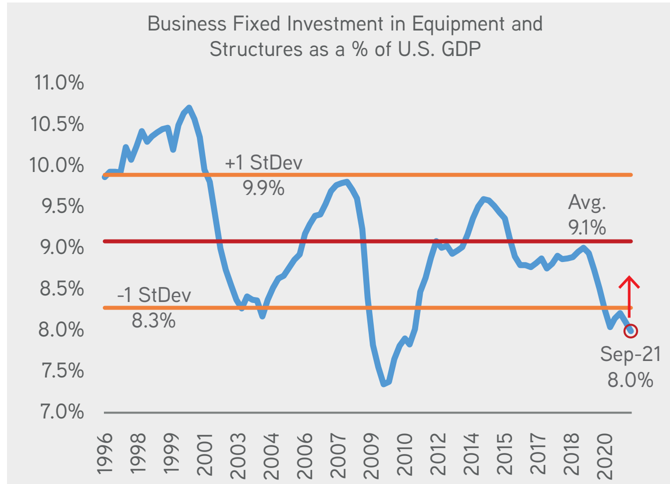
Exhibit 30

Finished Goods Inventories Remain Historically Lean. We See Considerable Scope for Recovery

Data as at November 15, 2021. Source: Bureau of Economic Analysis, Census Bureau, KKR Global Macro & Asset Allocation analysis.

Exhibit 31

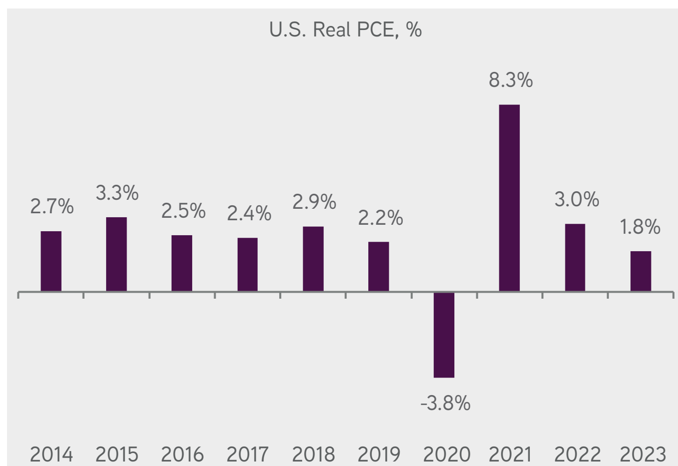
Capex Is Still in the Early Phases of Bouncing Off of a Cyclical Low



Data as at November 15, 2021. Source: Bureau of Economic Analysis, Census Bureau, KKR Global Macro & Asset Allocation analysis.

Exhibit 32

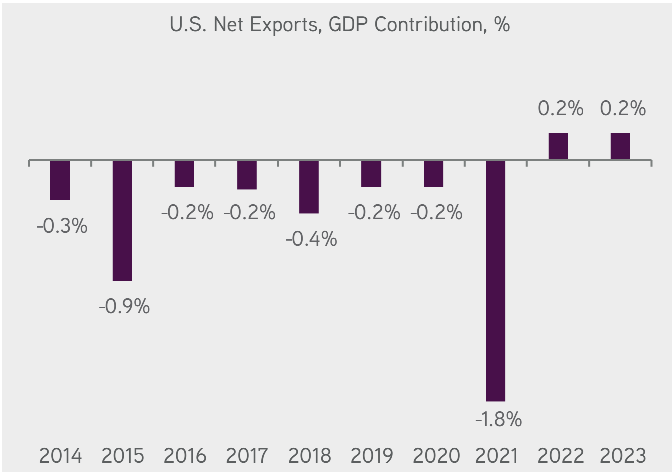
Consumption Will Remain Strong in 2022, Despite Higher Oil Prices



Data as at November 15, 2021. Source: Bureau of Economic Analysis, Census Bureau, KKR Global Macro & Asset Allocation analysis.

Exhibit 33

Net Exports Will Bounce Into Positive Territory. Foreign Tourism Could Further Bolster These Trends



Data as at November 15, 2021. Source: Bureau of Economic Analysis, Census Bureau, KKR Global Macro & Asset Allocation analysis.

Goods and services inflation pressures are converging upward in the near term, building to what we think could be a crescendo by June. As such, we see headline CPI running at five percent in 2022, far above the consensus of 3.6%, and up further from 4.7% in 2021. Drilling down into this change, we would highlight several 'sticky' inflation points including: **1)** Shelter inflation, which drives about 40% of core CPI, is likely headed considerably higher in coming months; **2)** Vehicle price inflation continues to be aggravated by the semiconductor shortage; **3)** Inflation pressures are broadening as 24 of the 26 sub-components of CPI are now above the Fed's two percent threshold; and **4)** Workers are quitting their jobs—usually for new ones with higher pay—at an outsized rate that would normally be associated with unemployment of just one to two percent.

Exhibit 34

We See Inflation Running Above Seven Percent in 1Q22, As Services Inflation Heats Up at the Same Time that Goods Remain Supply-Constrained and Commodity Prices Remain Elevated

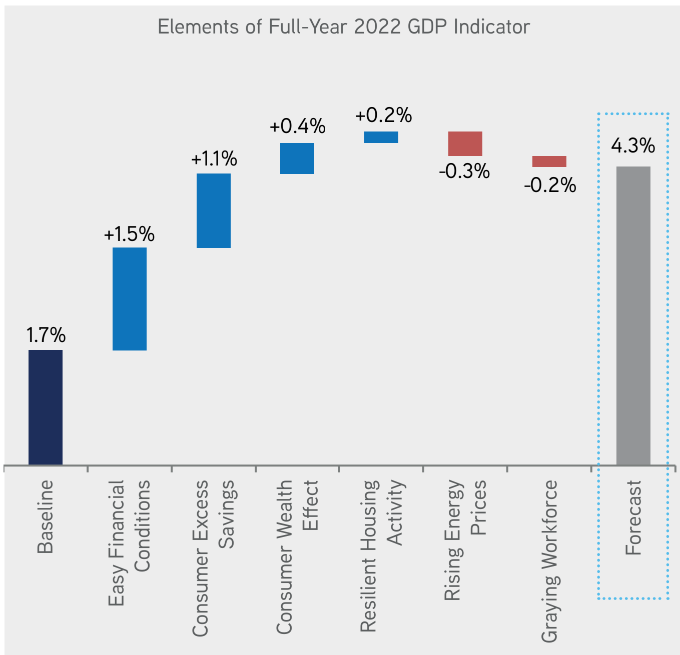
	Year/Year % Changes									
	1Q21	2Q21	3Q21	4Q21e	Full-Year 2021e	1Q22e	2Q22e	3Q22e	4Q22e	Full-Year 2022e
Headline CPI	**1.90%**	**4.80%**	**5.30%**	**6.80%**	**4.70%**	**7.30%**	**5.80%**	**4.30%**	**2.40%**	**5.00%**
Energy (7%)	3.90%	25.70%	24.40%	30.10%	21.00%	18.00%	11.10%	5.80%	-2.30%	8.20%
Food (14%)	3.60%	2.30%	3.90%	6.10%	4.00%	7.60%	7.20%	5.90%	4.10%	6.20%
Core CPI (79%)	**1.40%**	**3.70%**	**4.10%**	**5.10%**	**3.60%**	**6.40%**	**5.00%**	**3.90%**	**2.60%**	**4.50%**
Core Goods (21%)	**1.60%**	**6.50%**	**7.80%**	**9.80%**	**6.40%**	**12.70%**	**8.30%**	**3.80%**	**-0.40%**	**6.10%**
Vehicles (7%)	4.10%	14.70%	17.20%	19.40%	13.80%	26.40%	14.20%	4.90%	-2.50%	10.80%
Other Core Gds (13%)	0.10%	1.60%	2.10%	3.80%	1.90%	4.50%	4.50%	3.10%	1.00%	3.30%
Core Services (58%)	**1.40%**	**2.80%**	**2.80%**	**3.50%**	**2.60%**	**4.30%**	**3.90%**	**3.90%**	**3.70%**	**3.90%**
Shelter, Hlth, & Ed. (43%)	1.90%	1.80%	2.00%	3.10%	2.20%	4.20%	4.70%	4.80%	4.50%	4.50%
Other Core Services (13%)	-0.10%	5.70%	5.10%	4.70%	3.90%	4.50%	1.60%	1.40%	1.50%	2.30%

Data as at November 15, 2021. Source: Census Bureau, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

Against this backdrop, we forecast that nominal GDP could hit fully nine percent in 2022, only a touch below the 10.4% rate we are tracking for 2021. However, not all enterprises will be winners. In our view, one will need strong unit volumes, pricing power, and technological prowess to offset some of the macro headwinds, energy costs in particular, that we see adversely affecting the economy by 2023.

Exhibit 35

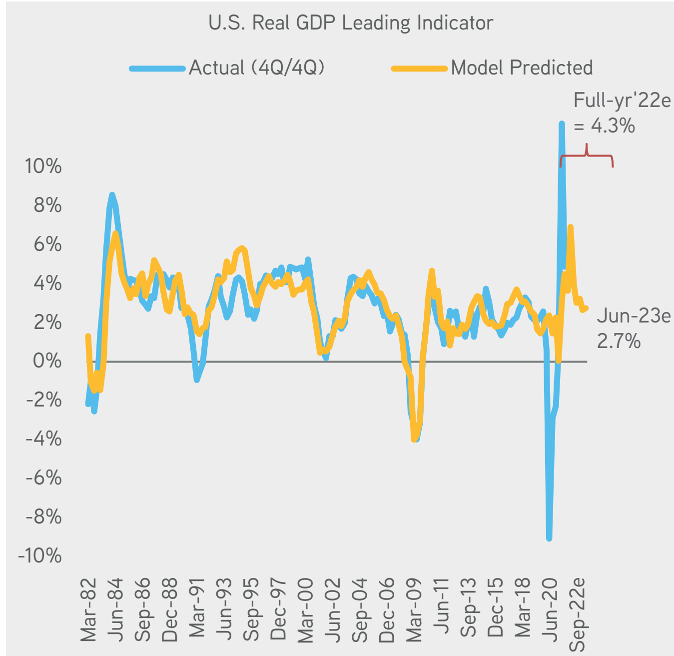
Our Quant GDP Model Envisions Substantial Boosts in 2022 From Easy Financial Conditions, Excess Savings, and Wealth Effects, Sending a Signal That Is Very Similar to Our 4.1% Fundamental Forecast



Our GDP leading indicator is a combination of eight macro inputs that in combination we think have significant explanatory power regarding the U.S. growth outlook. Data as at November 15, 2021. Source: Federal Reserve, Bureau of Labor Statistics, National Association of Realtors, ISM, Conference Board, Bloomberg, KKR Global Macro & Asset Allocation analysis.

Exhibit 36

Over Time, However, High Energy Prices and Labor Force Constraints Begin to Offset These Tailwinds



Our GDP leading indicator is a combination of eight macro inputs that in combination we think have significant explanatory power regarding the U.S. growth outlook. Data as at November 15, 2021. Source: Federal Reserve, Bureau of Labor Statistics, National Association of Realtors, ISM, Conference Board, Bloomberg, KKR Global Macro & Asset Allocation analysis.

Meanwhile, given the long-tail nature of our investment perspective, we spend a lot of time as an organization trying to discern where we are in a cycle. To this end, we have added a new tool that aims to distinguish patterns, test our assumptions, locate where we are, and forecast where we might be down the line in the economic cycle. As *Exhibit 37* shows, this model is indicating that we are largely mid-cycle from an economic standpoint and can expect to remain so until financial conditions begin to tighten and growth momentum decelerates further.

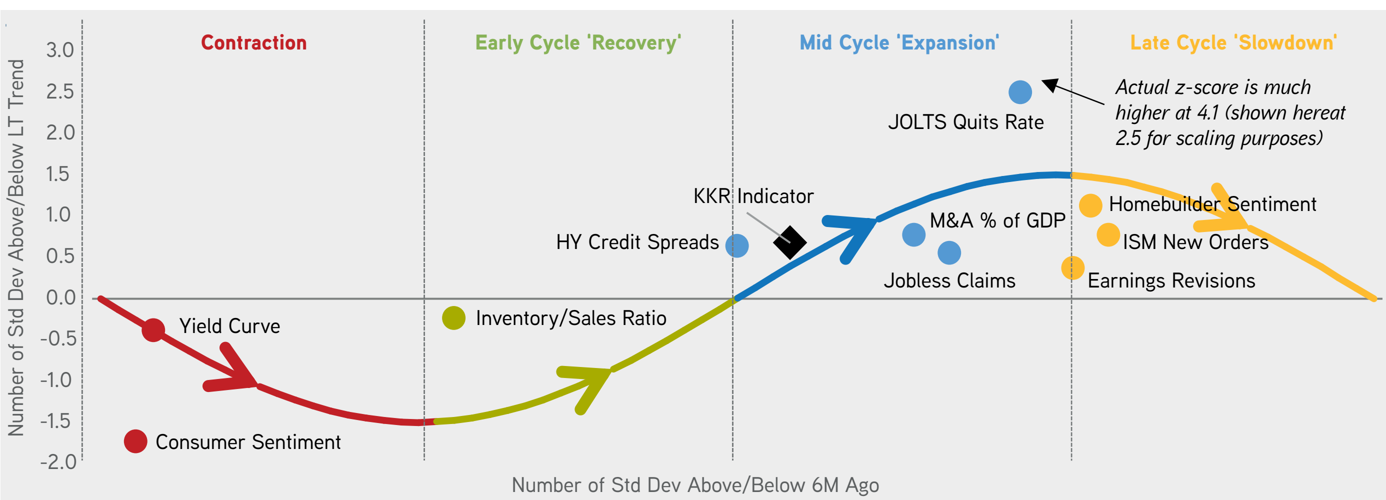
What really caught our eye, however, was what the model flagged as leading and lagging in this cycle. On the one hand, the depressed inventory-to-sales ratio suggests supply chain issues are still preventing this cycle from achieving its full potential. This viewpoint is consistent with our bigger picture belief that supply, not demand, headwinds are the concerns on which to focus at present (hence, our pricing power thesis). On the other hand, the jobs quits rate, declining consumer sentiment, and flatness of the 5s/30s yield curve suggests we are more later-cycle. Our interpretation of these various inputs is that the elevated inflation rate is eroding the perceived consumer purchasing power, while investors are also betting that the Fed may have to tighten more quickly over time, which may lead to slower growth down the road. It also reflects the huge demand that insurers have for longer-tail liabilities as well as our macro view that inflation will ultimately rest at a higher rate this recovery.

Overall, we think our cycle indicator is doing an admirable job of signaling not only where we are in the cycle but also the specific nuances investors need to appreciate about the cycle. In this instance, we think that a tightening job market and a low inventory situation support our belief that there will be upward pressure on prices during this cycle. Hence, our view remains that this cycle's reflationary nature will be its defining feature.

Overall, we think our cycle indicator is doing an admirable job of signaling not only where we are in the cycle but also the specific nuances investors need to appreciate about the cycle. In this instance, we think that a tightening job market and a low inventory situation support our belief that there will be upward pressure on prices during this cycle. Hence, our view remains that this cycle's reflationary nature will be its defining feature.

Exhibit 37

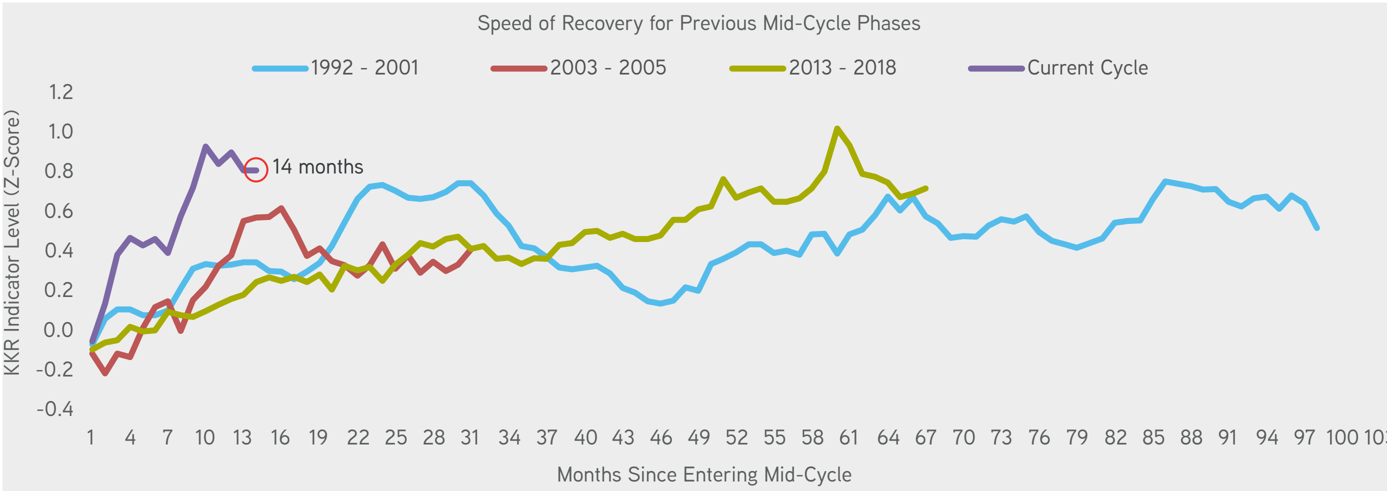
We Are Still Mid-Cycle of the Post-Pandemic Economic Recovery, but...



Data as at November 30, 2021. Source: Bloomberg.

Exhibit 38

...This Mid-Cycle Recovery Has Been Much Faster/Stronger Than Previous Cycles



Data as at November 30, 2021. Source: Bloomberg.

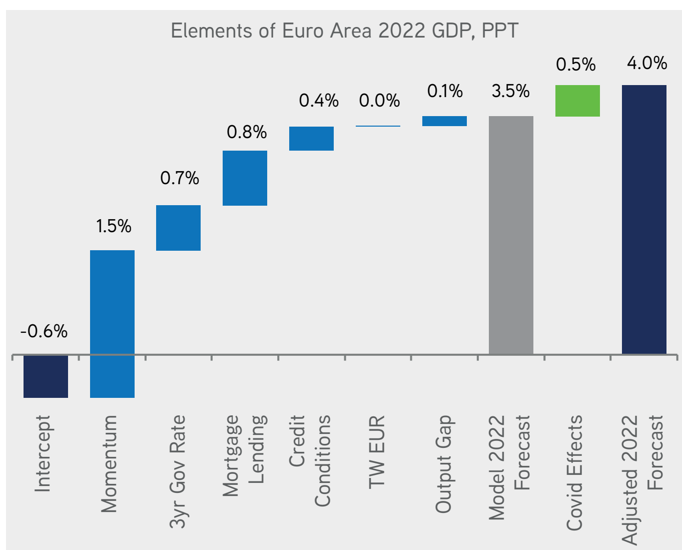
Euro Area Outlook

My colleague Aidan Corcoran expects strong domestic demand and expansionary fiscal and monetary policy to continue to provide support for Euro Area GDP growth. As such, he is forecasting a 2022 Real GDP growth rate of four percent, which compares to a consensus forecast of 4.2%. While the headline number appears compelling, Europe is actually underperforming its near-term potential. Manufacturing production continues to be hurt by low supplies of raw materials and key components, poor freight availability, and port congestion. Meanwhile, exports remain under pressure due to COVID-related slowdowns globally but particularly in China. For 2023, Aidan expects growth to decelerate, as the post-crisis bounce runs out of steam and the impact of expansionary policy wanes. He is calling for 2023 Euro Area Real GDP growth of 2.2%.

My colleague Aidan Corcoran expects strong domestic demand and expansionary fiscal and monetary policy to continue to provide support for Euro Area GDP growth.

Exhibit 39

While We Think Euro Area GDP Growth Has Likely Already Peaked, We See Strong Domestic Demand and Expansionary Fiscal and Monetary Policy Continuing to Provide Support



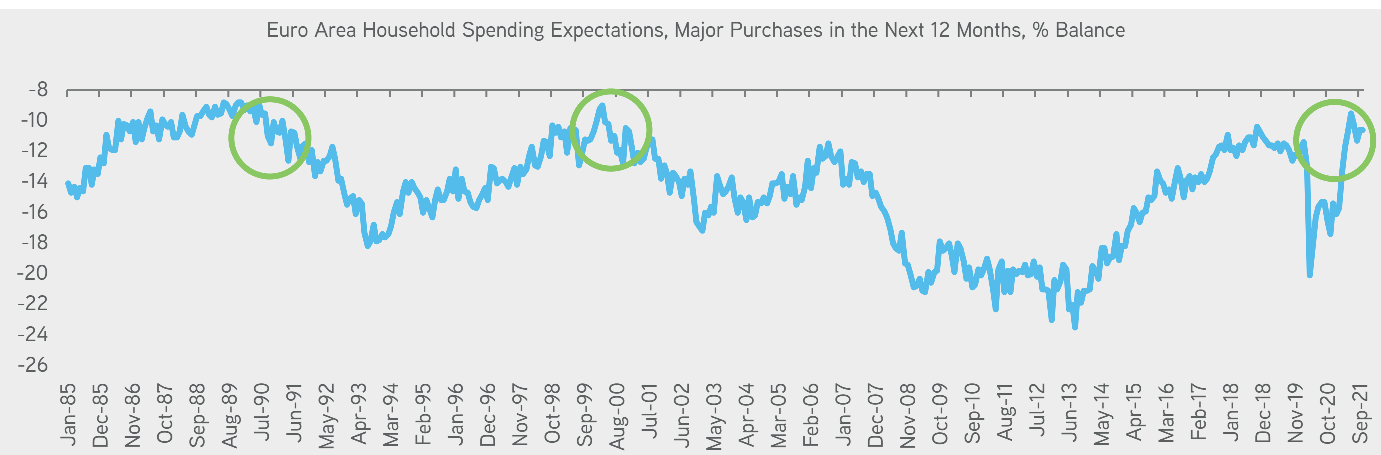
Data as at November 12, 2021. Source: KKR Global Macro & Asset Allocation analysis.

That said, consumer demand should remain strong this cycle. Limited spending opportunities, combined with incomes that were largely protected from the downturn by government intervention, have driven household savings rates to levels that are now way above pre-pandemic levels. We acknowledge the increase in prices is likely to weigh on consumer spending in the near term as real incomes continue to be squeezed, but we do not expect these headwinds to materially dent the recovery. Just consider that household consumption in the Euro Area lies some seven percent below pre-pandemic levels (as at 2Q21); yet, future spending expectations are now back to essentially pre-COVID levels. One can see this in *Exhibit 40*. As such, we see plenty of room for catch-up spending, particularly when one factors in high savings. The downside risk once again this year is that moving forward, COVID levels force more severe restrictions than we anticipate. With lockdowns being reinstated or considered throughout many parts of Europe, this scenario is increasingly a clear and present danger in the near-term. However, we are hopeful it diminishes as we move through 2022, with vaccination booster campaigns again in full swing.

Consumer demand should remain strong this cycle. Limited spending opportunities, combined with incomes that were largely protected from the downturn by government intervention, have driven household savings rates to levels that are now way above pre-pandemic levels. We acknowledge the increase in prices is likely to weigh on consumer spending in the near term as real incomes continue to be squeezed, but we do not expect these headwinds to materially dent the recovery.

Exhibit 40

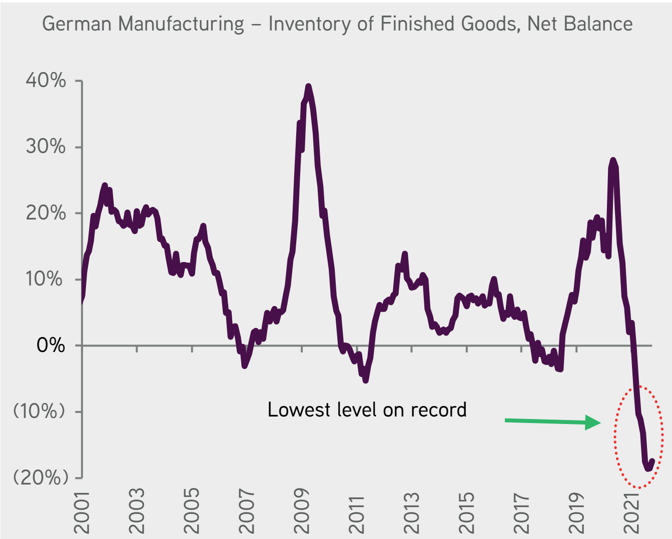
Euro Area Household Spending Expectations Point to Strong Consumer Demand In 2022



Data as at October 31, 2021. Source: European Commission, Haver Analytics.

Exhibit 41

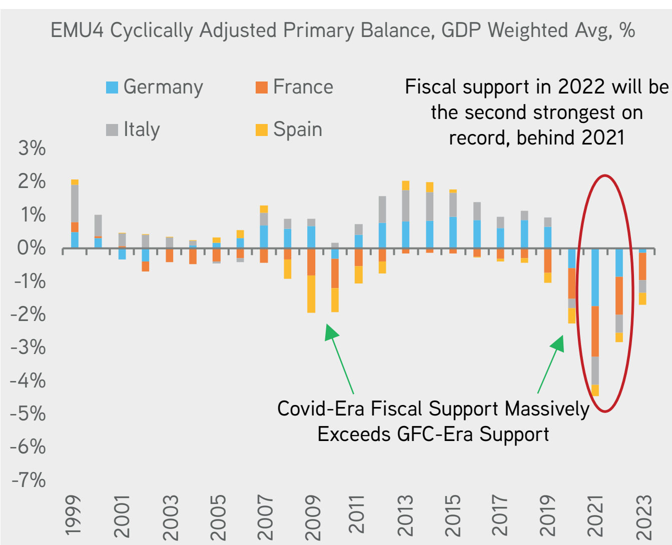
Supply Chain Pressures in Germany Have Led to a Significant Drop in German Manufacturing Inventories



Data as at October 31, 2021. Source: Institute for Economic Research, HIS Markit PMI, Haver Analytics.

Exhibit 42

We Also See Persistent Fiscal Support Across Europe

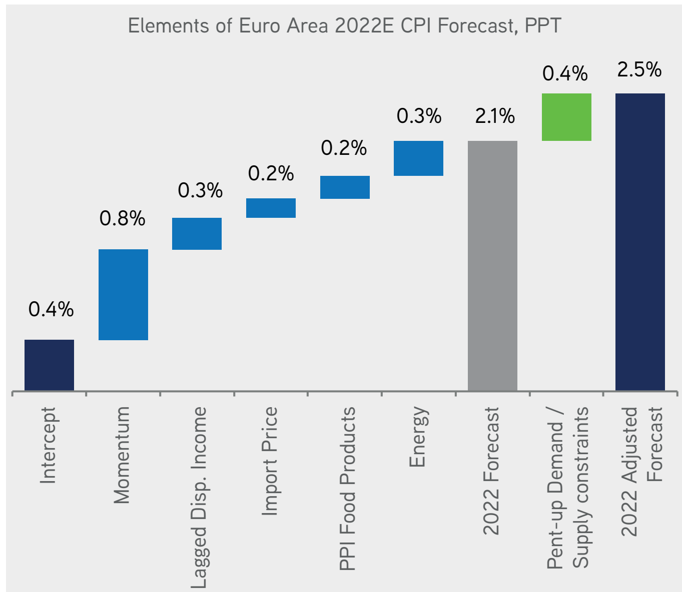


Data as at October 31, 2021. Source: Statistical Office of the European Communities, ECB.

Regarding inflation, we continue to expect it to remain solid in the near-term, at least relative to what Europe had been experiencing prior to the pandemic. The current bout of Euro Area inflation is strongly concentrated in volatile items such as energy and commodities, a backdrop we expect to continue for some time. Therefore, for 2022, we believe Euro Area inflation will reach 2.5% (following 2.4% inflation in 2021), before falling back to 1.5% in 2023. By comparison, in 2015 and 2019 inflation ran at 0.2% and 1.2%, respectively.

Exhibit 43

We Expect 2022 Inflation to Remain Strong at 2.5%



Data as at November 30, 2021. Source: KKR Global Macro & Asset Allocation analysis.

Asia Outlook

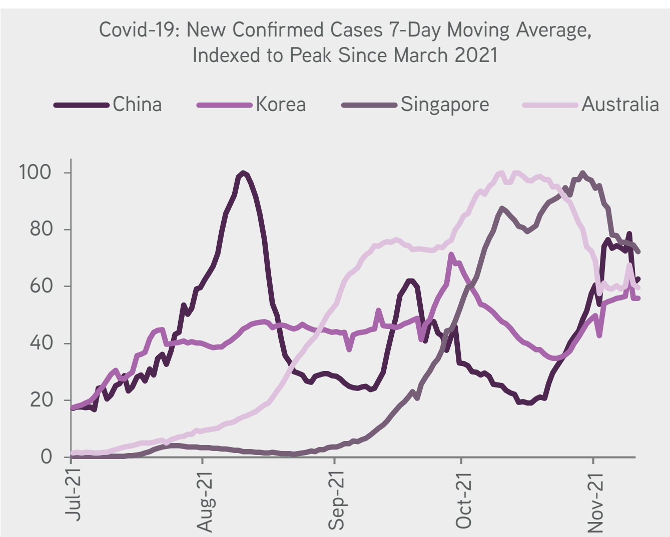
Unlike some of the V-shaped rebounds that we have seen recently in many Western economies, growth in Asia has been more tepid relative to trend of late. Two key factors drive this divergence. The first is the pace of vaccinations, which has lagged in Asia relative to the U.S. and Europe. As a result, politicians have imposed mobility restrictions to safeguard their populations, which has held the recovery back.

Second, many of the Asian economies that were the first to recover in 2020 are now further along in their cycles versus other parts of the world. Remember, for example, China was the first to rebound after the pandemic, and as a result, it actually started tightening monetary policy in 2020. Moreover, this strong growth early in the cycle allowed the government to tilt its priorities more towards structural reforms in 2021 versus protecting employment through fiscal stimulus as the U.S. did.

Similarly, Korea, which benefited from the strong semiconductor cycle early in the global recovery, is now experiencing an interest rate tightening cycle. In fact, the Bank of Korea has already hiked twice and is set to raise rates further. If there is good news, it is that we do not envision central bankers going overboard on tightening financial conditions, given the slowing growth profile in the region.

Exhibit 44

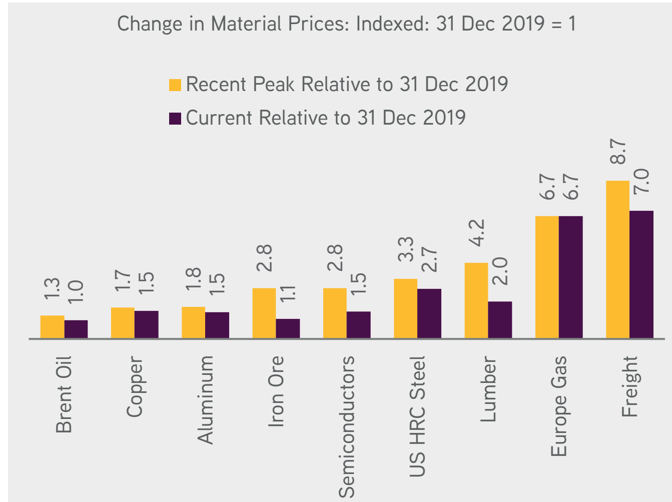
Living With the Delta Wave Has Impacted Growth Across Asia in Different Ways



Data as at November 30, 2021. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

Exhibit 45

Commodity Prices Have Been Slow to Normalize, and Will Likely Have a Higher Resting Rate This Cycle



Data as at November 30, 2021. Source: Bloomberg, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

Looking ahead, we continue to focus on China as an important driver of growth in the region as well as around the world. To this end, our new colleague Changchun Hua, who now serves as the greater China economist for KKR, expects 2022 China Real GDP growth to slow to 4.8% in 2022, slightly below consensus of 5.3%, but well below the 8.0% growth enjoyed during 2021. One can see this in *Exhibit 48*.

As a firm, we are below consensus because **1)** we are more bearish on property-related activities; **2)** we do not see a massive easing cycle in 2022; **3)** we believe the zero-COVID policy will last for most of 2022; and **4)** we anticipate a range of heavy industrial shutdowns in Northern China linked to the Winter Olympics. In terms of sequencing in 2022, we believe that growth momentum will likely slow further in the first half of 2022 before bottoming out in the second quarter of 2022.

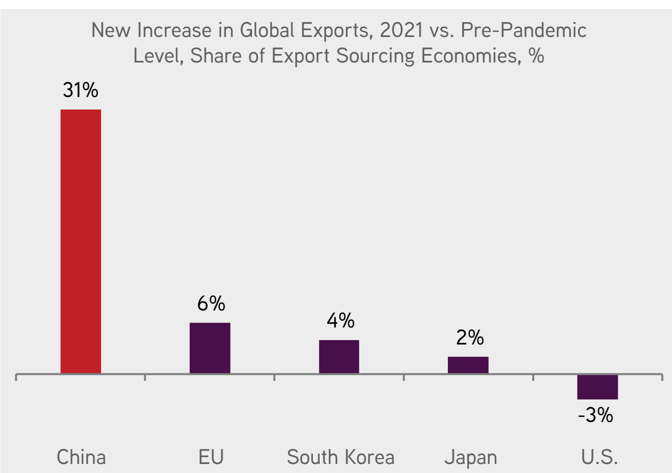
Exhibit 46

The New Economy in China, Which We Estimate to be 20-30% of Total GDP, Is Still Growing Nicely

Data as at November 16, 2021. Source: PBoC, UBS, Bloomberg, KKR Global Macro & Asset Allocation analysis.

Exhibit 47

Despite Repeated Lockdowns, Fully 31% of the New Increase in Global Trade from Pre-Pandemic Levels Was Captured by China



Data as at November 16, 2021. Source: China General Administration of Customs, IMF, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

That said we do not expect a hard landing in China either, as policy easing has started (e.g., the December RRR cut) and will likely accelerate somewhat. Major new initiatives such as the energy transition and digitalization will support exports and the manufacturing sector, partly offsetting the property sector-related slowdown, we believe. One can see this in *Exhibits 46* and *47*, respectively. Finally, similar to the U.S. and Europe, consumption should also get some support from the elevated amount of savings and the overall health of the Chinese consumer. Changchun estimates that excess savings in China are equivalent to 18% of annual retail sales. Plus, the labor market is still tight. Strong global growth, particularly in the U.S., should bolster exports, though its contribution will not be enough to fully offset the weakness the country is expecting in the property sector *(Exhibits 50* and *51).*

Exhibit 48

Shifts in Policy, Including a Greater Focus on Regulation and the Environment, Likely Mean Slower Structural Growth in China

China: Real GDP			
	Base	Bear	Bull
2020	2.3%	2.3%	2.3%
2021e	8.0%	7.8%	8.2%
2022e	4.8%	4.3%	5.3%
2023e	5.4%	4.7%	6.0%
2024e	5.2%	4.2%	6.0%
2025e	4.9%	3.8%	5.8%
2026e	4.8%	3.6%	5.8%
CAGR '21-'26e	5.1%	4.2%	5.8%

Data as at December 6, 2021. Source: KKR Global Macro & Asset Allocation analysis.

That said we do not expect a hard landing in China either, as policy easing has started and will likely accelerate somewhat. Major new initiatives such as the energy transition and digitalization will support exports and the manufacturing sector, partly offsetting the property sector-related slowdown, we believe.

Exhibit 49

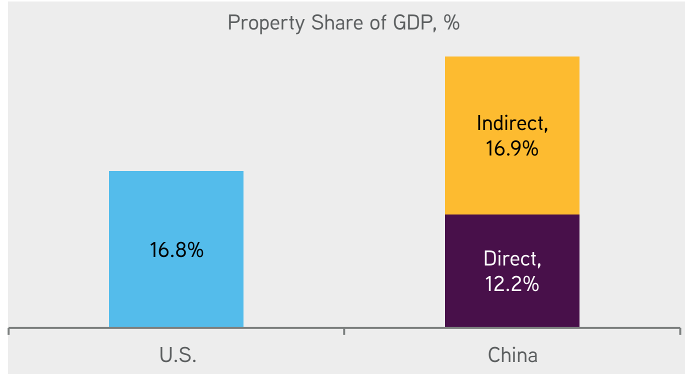
Inflation in China Will Pick Up in 2022 versus 2021, But We Do Not See It Running Away

China: Headline CPI			
	Base	Bear	Bull
2020	2.5%	2.5%	2.5%
2021e	1.0%	0.7%	1.3%
2022e	2.5%	2.0%	3.0%
2023e	2.3%	1.7%	2.9%
2024e	2.3%	1.3%	3.0%
2025e	2.3%	1.3%	3.0%
2026e	2.0%	1.0%	2.7%
CAGR '21-'26e	2.2%	1.4%	2.9%

Data as at December 6, 2021. Source: KKR Global Macro & Asset Allocation analysis.

Exhibit 50

The Issues in the Property Sector Will Be a Major Headwind for China Again in 2022...



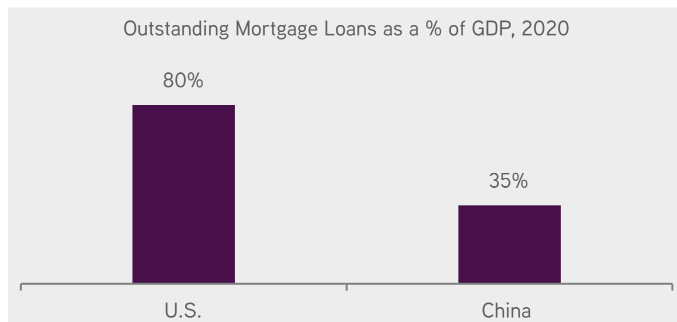
Data as at November 16, 2021. Source: Wind, Haver Analytics, NBS, CICC, KKR Global Macro & Asset Allocation analysis.

On the inflation front, Changchun looks for inflation to increase to 2.5% in 2022, up sharply from 2021 but more in line with the 2.5% in 2020. Thereafter, he sees inflation growth of 2.3% during the 2023-2025 period in his base case. One can see this in *Exhibit 49*.

Looking at the bigger picture, we see an important transition occurring within China. Frances Lim, Head of Asia Macro, suggests that China is leaving Phase I of its agenda (which occurred from 2012 to 2020), a period linked primarily to the government's heavy pursuit of doubling GDP. She now believes we are entering Phase II, which is focused on 'common prosperity' and the doubling of the middle-income population from 400 million to 800 million. To achieve these new goals, governmental policies are now concentrating on innovation, a priority that ensures inclusive growth for all citizens while also building greater societal resilience and national security. As a result, the Chinese government is more than willing to tolerate somewhat weaker growth to achieve these ambitions. This mindset is quite different than before, and we believe it definitely warrants all investors' attention.

Exhibit 51

...but We Don't Expect to See a Japan Style Bubble Burst for China



Data as at November 30, 2021. Source: Federal Reserve Board, Bureau of Economic Analysis, PBoC, China NBS, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

To achieve these new goals, governmental policies are now concentrating on innovation, a priority that ensures inclusive growth for all citizens while also building greater societal resilience and national security.

Mexico Outlook

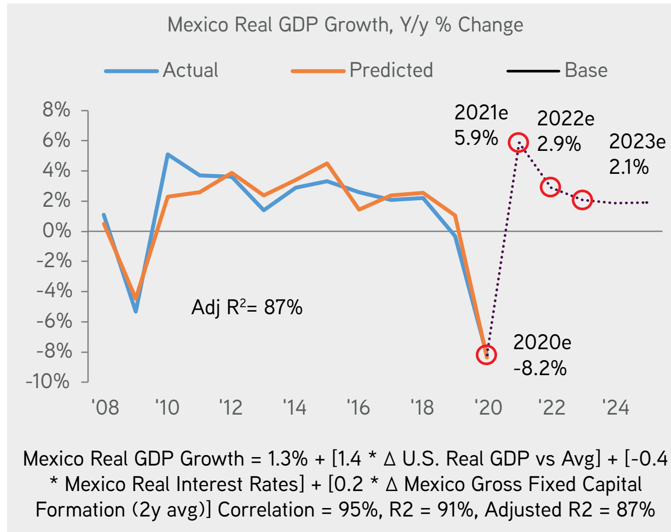
We expect 2.9% Real GDP growth for Mexico in 2022 and 2.1% in 2023, down from a strong approximately 5.9% this year, supported by both the strength of the U.S. economy (exports and remittances) and the continued reopening of the economy (vaccinations and social fatigue leading to higher mobility and services recovery). Services sectors such as accommodation, restaurants, and entertainment remain about 25% below pre-crisis levels and have room to run as activity normalizes further.

However, Mexico's longer-term growth prospects remain challenged, as fiscal austerity — coupled with chronic under-investment and a past-peak demographic dividend — means potential GDP growth is likely below the pre-pandemic estimate of around two percent. A proposed constitutional reform on electricity is likely the big idiosyncratic risk for 2022, as it would reduce competition, increase power prices, and hurt business confidence. As such, we stay more pessimistic about Mexico's growth dynamics, as we see a gradual deterioration of fiscal accounts, intensifying business/regulatory uncertainty under AMLO (including the recent surprising central bank governor appointment), and little tangible progress on improving public security. Overall, we continue to favor opportunities leveraged to external de-mand, exports and near/reshorings, as opposed to domestic demand plays.

However, Mexico's longer-term growth prospects remain challenged, as fiscal austerity — coupled with chronic underinvestment and a past-peak demographic dividend — means potential GDP growth is likely below the pre-pandemic estimate of around two percent.

Exhibit 52

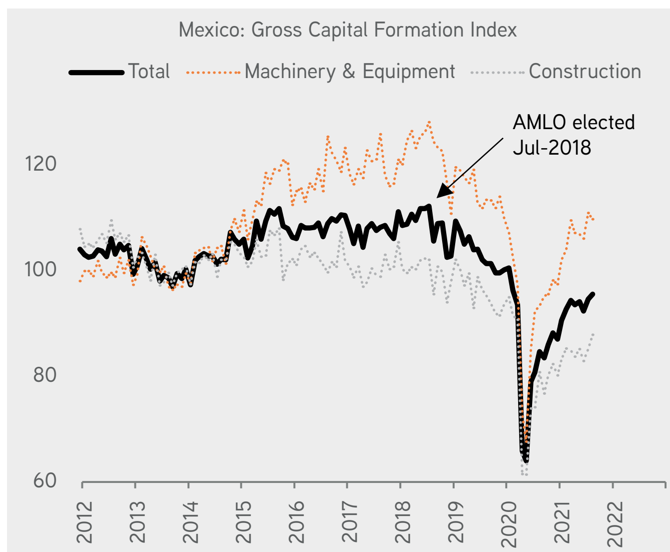
We Expect Mexico Real GDP to Grow 2.9% in 2022, from 5.9% in 2020 Moderating to 2.1% in 2023…



Data as at November 30, 2021. Source: Bloomberg, Haver Analytics, Banxico, INEGI, KKR Global Macro & Asset Allocation analysis.

Exhibit 53

…While Investment Has Been Normalizing From Lows, Policy and Uncertainty Headwinds Will Keep It Subdued Compared to GDP

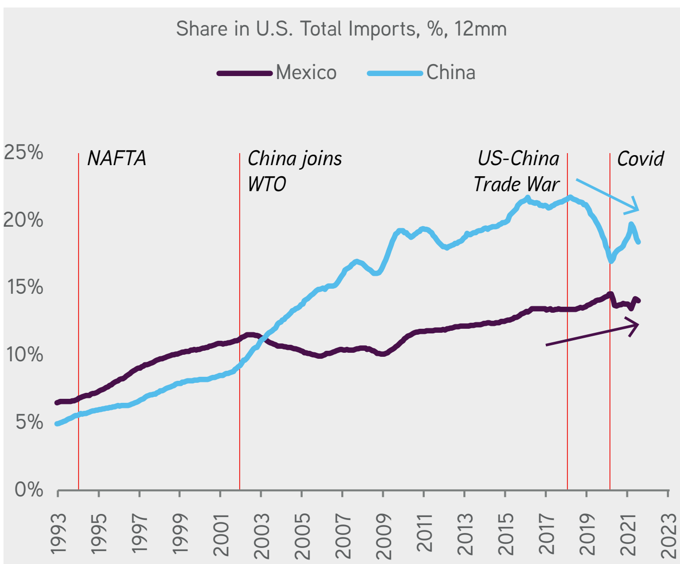


Data as at November 30, 2021. Source: Bloomberg, Haver Analytics, Banxico, INEGI, KKR Global Macro & Asset Allocation analysis.

Meanwhile, inflation prints have consistently surprised on the upside, with core inflation running at the fastest pace since 2009. One can see this in *Exhibit 55*. As in other countries, inflation is elevated due to base effects, higher energy/food prices and COVID-related supply shortages. But in Mexico, inflation is also high because of rising inflation expectations, normalizing services inflation, negative supply shocks (e.g., minimum wage increases), higher effective tax rates, and energy shortages. Overall, we expect the shocks to subside over the course of next year, with CPI averaging 4.9% in 2022 (versus consensus at 4.4%) and 3.8% in 2023 (versus consensus at 3.6%), which is down from five to six percent this year but above the central bank inflation target of three percent.

Exhibit 54

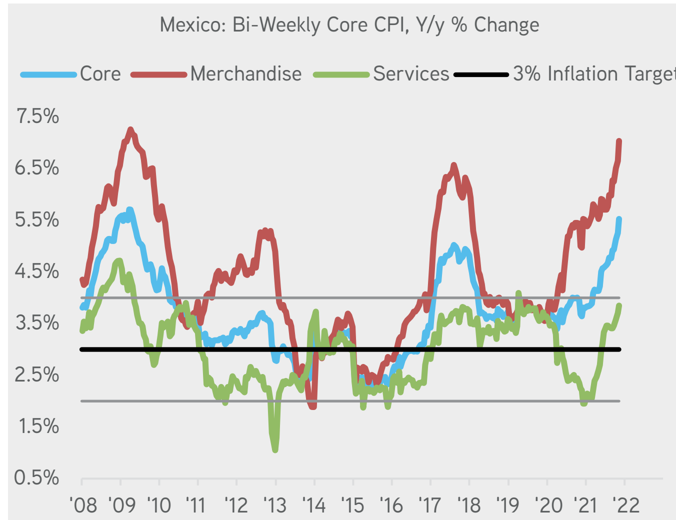
While China's Overall Exports Are Growing, Its Exports to the U.S. Could Be at Risk to Mexican Competition



Data as at November 30, 2021. Source: Bloomberg, Haver Analytics, Banxico, INEGI.

Exhibit 55

We Expect Headline CPI to Average 4.9% in 2022, Moderating to 3.8% in 2023



Data as at November 30, 2021. Source: Bloomberg, Haver Analytics, Banxico, INEGI.

However, we enter 2022 with a generally constructive view of the world. To be sure, we expect a lot more volatility in 2022, as both the recovery and central bank policies are not in sync across the various regions where KKR does business. Also, the pandemic is not over; it just continues to reinvent itself.

SECTION II: KEY MACRO INPUTS

U.S. and European Interest Rates: A Year of Change Lies Ahead

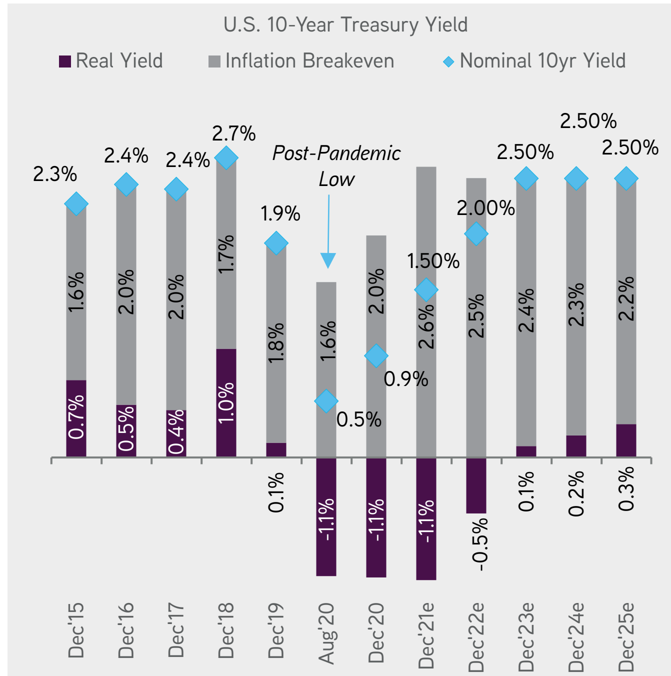
Without question, most of the global discussion on interest rates starts and ends these days with the Federal Reserve. The most notable recent Fed development, in our view, has been the more hawkish tone that Chair Powell started conveying in his testimony to Congress on November 30, 2021. His posture then intensified even further during the December FOMC meeting, with the Chairman of the Federal Reserve finally acknowledging that there is *'a real risk that inflation could be more persistent'* than previously anticipated. We see multiple likely drivers of the Fed's tone shift, including the following: **1)** pricing pressures have become more broad-based; **2)** constrained items like autos have not gotten better; **3)** wage inflation has accelerated; and **4)** bond market break-evens remain elevated.

Consistent with the Fed's more hawkish view, it updated its `dots plot' to reflect three hikes in 2022 (vs. essentially zero previously) and accelerated its QE taper to end in mid-March (vs. June previously). Even more interesting than the quantitative shift in targets, however, was Chairman Powell's qualitative shift in tone regarding the persistence of inflation. Indeed, for someone who had termed inflation as a `transitory' phenomenon, his recent responses to the threat of inflation represent somewhat of a historic sea change for this central bank.

Meanwhile, an important new consideration for us all, including the Federal Reserve and its peers, is the emergence of the Omicron variant. We are still early in understanding exactly how it will affect the global economy, but our initial sense — and we think perhaps Powell's too — is that Omicron more likely presents further inflationary supply shocks, rather than a significant deflationary hit to demand.

Exhibit 56

We Expect Real Rates to Remain Below the Pre-Pandemic Norm, Even As Nominal Rates Rise



Data as at November 15, 2021. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

We see multiple likely drivers of the Fed's tone shift, including the following: 1) pricing pressures have become more broad-based; 2) constrained items like autos have not gotten better; 3) wage inflation has accelerated; and 4) bond market break-evens remain elevated.

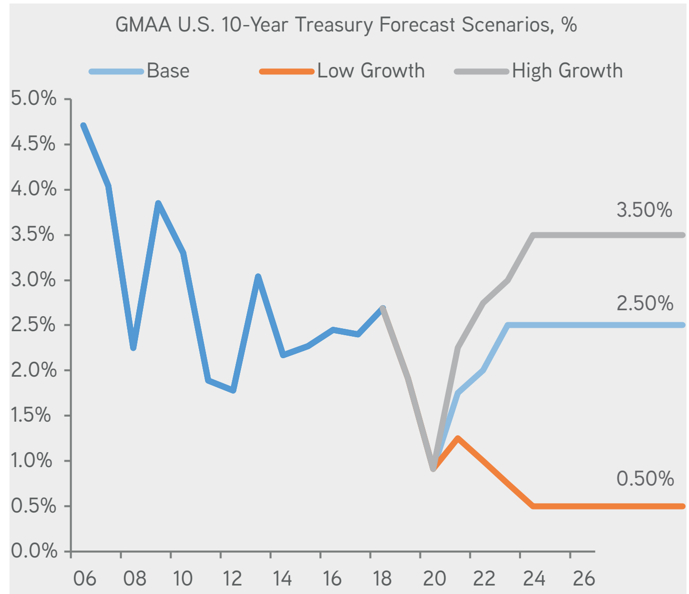
Overall, we think that the FOMC's new direction makes sense, as it is much better aligned with the nominal GDP environment we envision. In particular, we believe the Fed is now recognizing the breadth of inflation (i.e., it is more broad-based than previously acknowledged) as well as the ongoing pressures on labor participation.

What does all this mean for our rate forecast? We *have pulled forward three rate hikes into our 2022 forecast, versus our earlier expectation of a 2023 liftoff. This acceleration in timing is driven by our sense that inflation will run 'hot' in the first half of the year of 2022, and that underlying labor demand will remain outsized, even as the participation remains slow to recover and could be hampered further by new COVID waves*. Following liftoff, however, we believe the Fed will likely proceed relatively slowly (in the realm of around two to four hikes per year), always with an eye on the labor market. Said differently, we think that the chance of a taper-tantrum is already pricing in for calendar year 2022.

In terms of 10-year yields, we have raised our 2022 10-year target to two percent from 1.75%, reflecting our accelerated Fed expectations. So far, the market has treated the potential for accelerated Fed hikes as a curve-flattening event. We think, over time, the market will recognize the underlying durability of nominal GDP and price higher equilibrium rates into the long end of the curve. Importantly, long-term rates tend to move up only about six months before the Fed starts hiking. One can see this in *Exhibit 58*. This informs our thinking on the long-end starting to move higher in early 2022. Longer-term, however, there is no change to our target of around 2.5% nominal 10-year rates and 0–0.5% real rates.

Exhibit 57

Our Scenario Analysis Now Leads to Wider Tails, Underscoring the Uncertainty of Recent Policy Initiatives

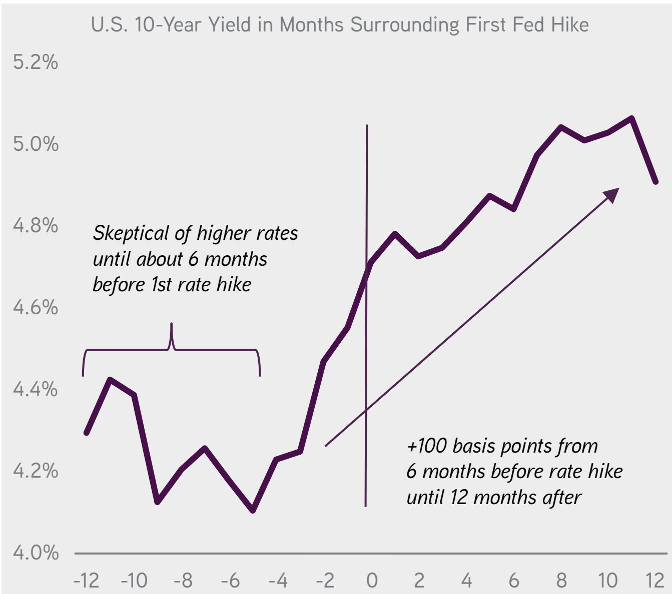


Data as at November 15, 2021. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

Overall, we think that the FOMC's new direction makes sense, as it is much better aligned with the nominal GDP environment we envision. In particular, we believe the Fed is now recognizing the breadth of inflation (i.e., it is more broad-based than previously acknowledged) as well as the ongoing pressures on labor participation.

Exhibit 58

The Market Tends to Remain Skeptical of Fed Tightening Until About Six Months Before the First Hike

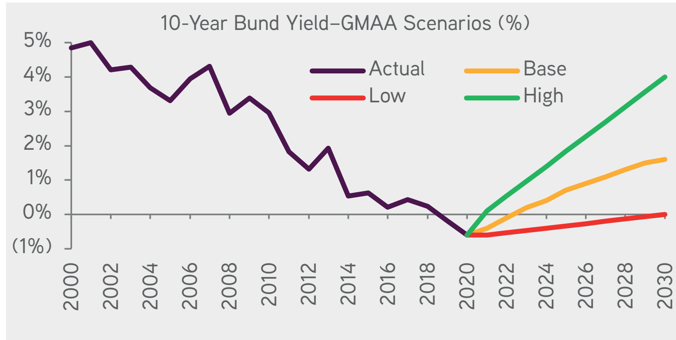


Note: Average of 10-Year yields in months surrounding first Fed hikes in February 1994, June 1999, June 2004, and December 2015. Data as at June 28, 2021. Source: Bloomberg.

Meanwhile, we also pay a lot of attention to the German bund, as we think that the 10-year Bund and Treasury will trade within a band. One can see this in *Exhibit 55.* Consistent with this view, we also look for interest rates to start to back up, albeit at a measured pace. Indeed, similar to our outlook on Euro Area inflation, we do not envisage a sustained breakout in 10-year yields. One can see this in *Exhibit 57*, which shows our forecast of 10-year nominal yields in Germany reaching around zero by the end of 2022, compared to about -34 basis points at the time of writing. All told, our base case calls for about a sixty basis point increase in bund yields by the end of 2023. In fact, we think a full decade of normalization at this kind of pace is a sensible base case.

Exhibit 59

We Look for a Gradual Return to Normalcy for the Bund

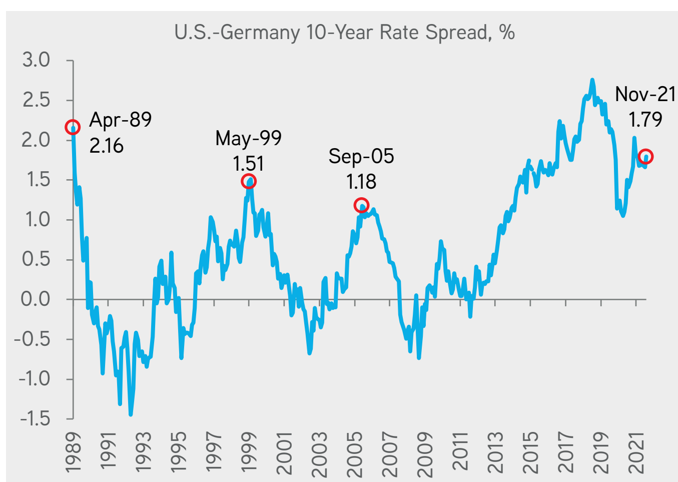


Year	Base	Bear	Bull
2020	-0.60%		
2021	-0.40%	-0.60%	0.10%
2022	-0.10%	-0.53%	0.53%
2023	0.20%	-0.47%	0.97%
2024	0.40%	-0.40%	1.40%
2025	0.70%	-0.33%	1.83%
2026	0.90%	-0.27%	2.27%
2027	1.10%	-0.20%	2.70%
2028	1.30%	-0.13%	3.13%
2029	1.50%	-0.07%	3.57%
2030	1.60%	0.00%	4.00%

Data as at November 12, 2021. Source: KKR Global Macro & Asset Allocation analysis.

Exhibit 60

The Yield on the 10-Year U.S. Treasury Rarely Detaches Itself from the German Bund



Data as at November 30, 2021. Source: Bloomberg.

So, our bottom line is that 2022 will be a year of transition for interest rates. Indeed, we also believe they are finally headed higher, and we do expect some volatility along the way. However, we believe that the outsized liquidity in the system (i.e., the overall stock outstanding of central bank balance sheet holdings) will be enough to support risk assets, despite a more hawkish bent to financial conditions in 2022, including a less attractive 'flow' environment in the form of higher short- and long-term interest rates in many parts of the world.

Oil: The Impact from the Energy Transition

We believe the bullish oil price backdrop will likely prove durable. Despite concerns about COVID-19 mutations denting growth, we remain optimistic about the long-term fundamentals for oil. For our nickel, we believe that both the energy transition and ESG activism are constraining supply growth much more than demand, creating a structurally supportive backdrop for longer-term oil prices. Key to our thinking:

- Physical markets continue to improve as the global demand recovery from the Delta impact has been faster-than-expected.
- Overall, we are observing a structurally altered price versus supply function, primarily due to **1)** continued capital restraint; and **2)** a surge in climate activism in the post-pandemic era.
- We expect continued OPEC+ cohesion to maintain healthy supply/demand, particularly given the surprisingly settled U.S. shale rig count.
- The technical backdrop for crude oil trading remains supportive despite the robust rally; speculator positioning actually tilts net cautious, which is contrarian bullish.

Bottom-line: See *Exhibit 64* for full details, but we now expect WTI to average around $80 per barrel in 2022, in the $70s in 2023, and to center around the mid-to-high $60s longer term (up from our prior estimates of high-$50s to low-$60s). We acknowledge Omicron presents a near-term headwind. However, even under a fairly conservative case involving curtailments of international travel as well as some reduction in domestic mobility, we still estimate oil demand destruction will likely only amount to one to two million barrels a day over the course of a few months. In fact, this scenario would translate to a price headwind of less than $5 per barrel in our fair value estimates — something that the market has more than discounted, given the more than $15 per barrel decline in WTI between early and late November. Overall, our forecasts suggest a moderately declining price trend in coming years, but are still quite bullish relative to what is priced into futures today, and therefore bullish for energy equities.

Exhibit 61

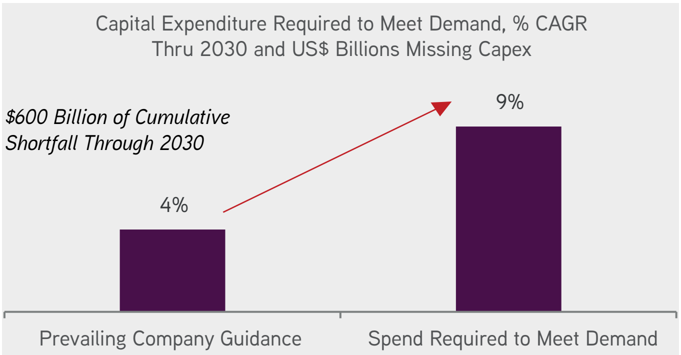
Shale Rig Count Continues to Be Slow to Reflect the Oil Price Recovery

Data as at September 30, 2021. Source: Baker Hughes, Bloomberg, KKR Global Macro & Asset Allocation analysis.

Despite concerns about COVID-19 mutations denting growth, we remain optimistic about the long-term fundamentals for oil.

Exhibit 62

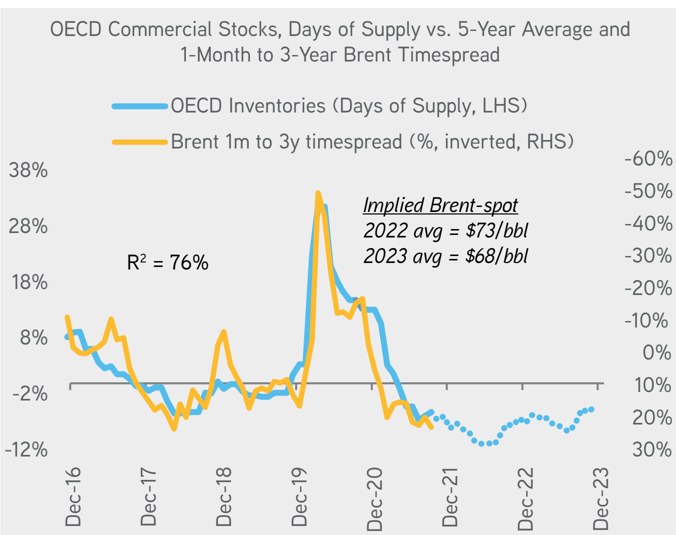
Based on Current Upstream Spending Plans, There Could Be an Approximate $600 Billion Capex Shortfall by 2030, Risking an Oil Price Overshoot



Data as at October 30, 2021. Source: JPM estimate of capex required to meet demand.

Exhibit 63

Our Model Linking OECD Inventories to Crude Timespreads Supports Oil Prices Averaging at Least in the $70s per Barrel in 2022 and Mid-$60s in 2023



Data as at October 31, 2021. Source: Energy Intelligence.

Exhibit 64

While the Macro Backdrop for Crude Oil Has Evolved Mostly In-Line With Our Expectations, We Are Raising Our Price Targets to Reflect Even Higher Conviction in the Structural Improvement Story

	KKR GMAA (Oct'21)	WTI Futures (Oct'21)	Oct'21 Forecasts GMAA vs. Futures
2019a	57.04	57.04	0.0
2020a	39.34	39.34	0.0
2021e	69.50	68.82	0.7
2022e	80.00	77.26	2.7
2023e	72.50	69.50	3.0
2024e	67.50	63.94	3.6

Forecasts represent full-year average price expectations. Data as at October 15, 2021. Source: KKR Global Macro & Asset Allocation analysis.

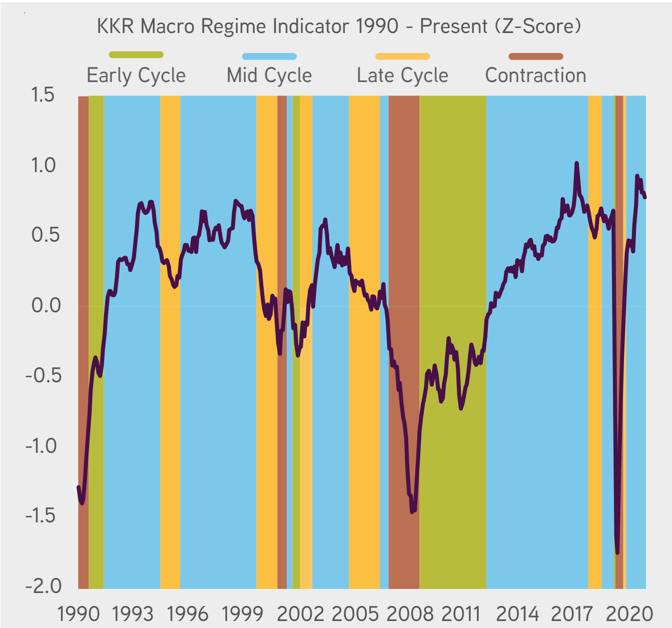
S&P 500 EPS and Valuation: More Upside in 2022

As indicated at the outset, we remain positive on Global Equities in 2022. We view this asset class as an attractive vehicle for investors during a period of reflation and increasing unit volumes. We also think the dividend yield on Global Equities is still competitive enough with bonds to attract incremental flows from global asset allocators. Importantly, while valuations and earnings are up materially versus a year ago, our base case is that we are mid-cycle for Equities. One can see this in *Exhibit 66*. The exhibit also shows that mid-cycle returns are generally solid for investors, albeit they are less than early cycle ones.

Importantly, while valuations and earnings are up materially versus a year ago, our base case is that we are mid-cycle for Equities.

Exhibit 65

Despite COVID Cross-Currents, Our New KKR Macro Regime Indicator Suggests the U.S. Economy Is Still in the Mid-Cycle 'Expansion' Phase

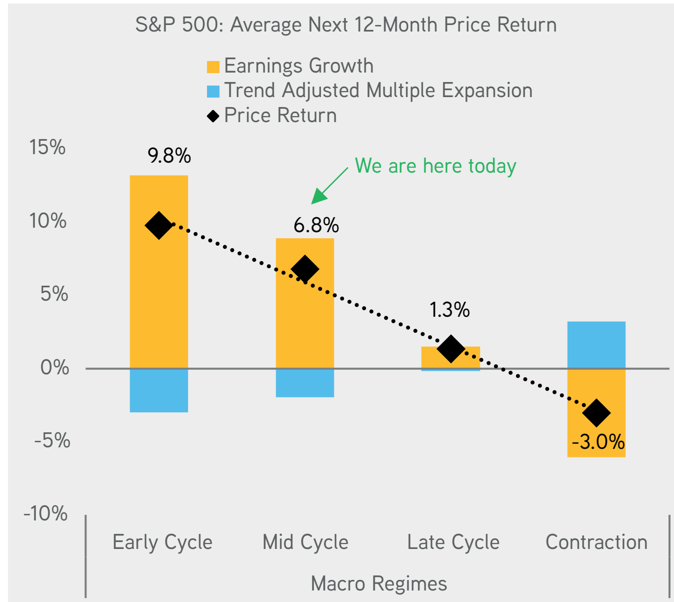


Our Macro Regime Indicator is an equal-weighted average of ten components spanning macro, rates, corporate activity and the consumer that tries to quantify where we are in the cycle: 1) Early Cycle: indicator is below long-term trend, but the breadth of components is improving versus its trailing 6-month average; 2) Mid Cycle: indicator is above long-term trend and the breadth of components is improving versus its trailing 6-month average; 3) Late Cycle: indicator is above long-term trend, but the breadth of components is deteriorating versus its trailing 6-month average; and 4) Contraction: indicator is below long-term trend and the breadth of components is deteriorating versus its trailing 6-month average. Data as at November 30, 2021. Source: Census Bureau, BLS, BEA, ISM, NAHB, Conference Board, Haver Analytics.

We remain positive on Global Equities in 2022. We view this asset class as an attractive vehicle for investors during a period of reflation and increasing unit volumes. We also think the dividend yield on Global Equities is still competitive enough with bonds to attract incremental flows from global asset allocators.

Exhibit 66

Mid Cycle Is Consistent With Above-Average Equity Market Performance Over the Next 12 Months. Importantly, Returns Are Driven More by Earnings Growth Than Multiple Expansion



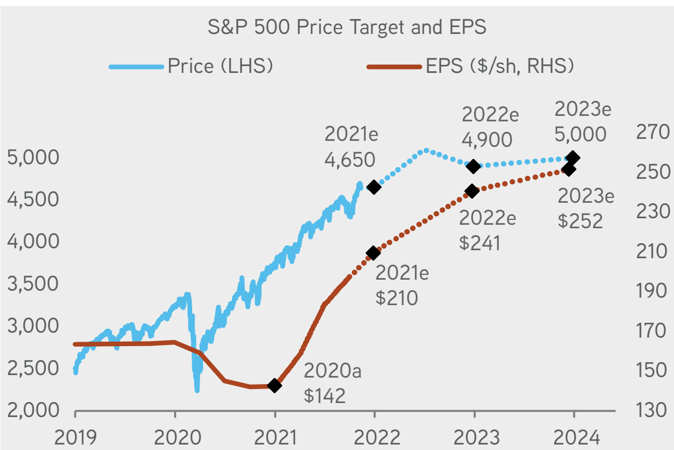
Data as at November 30, 2021. Source: Census Bureau, BLS, BEA, ISM, NAHB, Conference Board, Haver Analytics.

In terms of specifics for 2022, our base case is that, as we show in *Exhibits 67* and *68*, the lion's share of returns at this point in the cycle will come from earnings growth — not multiple expansion. The good news is that we are forecasting solid earnings growth in 2022. Specifically, as we detail in *Exhibit 67*, we forecast EPS growing to $241 in 2022 from $210 in 2021, almost a 15% increase. Remember, though, that we expect nominal GDP to grow more than nine percent in 2022, partially offset by 8.2% of multiple compression of 22.1x to 20.3x on a last 12 months (LTM) basis. So, against this backdrop of higher earnings but a lower peak multiple, we expect equities to return 6.7% in 2022, including dividends.

For 2023, both our earnings growth and multiple expansion expectations are much more conservative. As a result, our 2023 forecast is for total returns of just 3.4% based on earnings growth of 4.5% and an additional LTM multiple compression of 2.3% to 19.8x from 20.3x. Importantly, as we show in *Exhibit 69*, we also expect some tax headwinds to impact earnings in 2023. Specifically, S&P 500 EPS would take a 2.1% hit from the assumed implementation of a 15% minimum book tax, a 15% GILTI tax on foreign income, a one percent buyback tax and no change to the 21% corporate tax rate. Notably, the expected tax impact is more modest than our prior estimate of four to five percent when the corporate tax rate was slated to rise towards 25%.

Exhibit 67

Our New Projected Path Has S&P 500 Ending 2022 At About 4,900 on $241 of EPS (More Bullish 1H22 Than 2H22) and Ending 2023 at Around 5,000 on $252 of EPS



Data as at November 11, 2021. Source: Bloomberg, Factset, KKR Global Macro & Asset Allocation analysis.

From an asset allocation perspective, we still believe that Equities remain an attractive inflation hedge amidst the more reflationary recovery that we are envisioning.

Exhibit 68

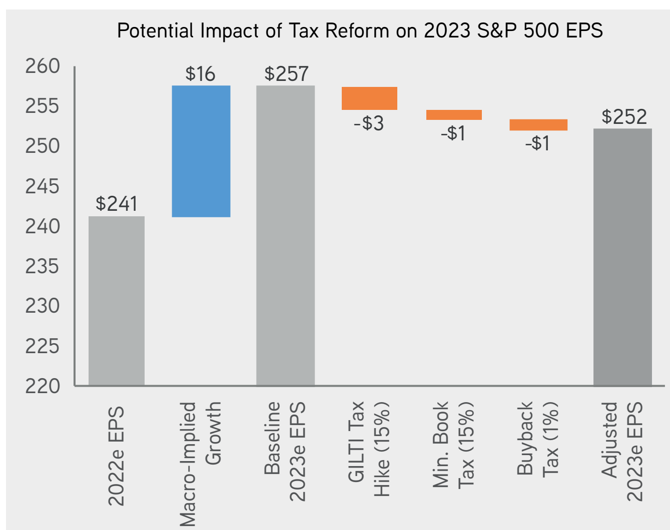
Our Case for 2022 Assumes That Equities Grind Higher in 2022, Driven by EPS Growth, Not Multiple Expansion

	2021	2022 Scenarios			2023
		Base	Bear	Bull	Base
Price Target	4,650	4,900	4,150	5,600	5,000
y/y %chg		*5.4%*	*-10.7%*	*20.4%*	*2.0%*
EPS ($/sh)	$210	$241	$223	$251	$252
y/y %chg		*14.8%*	*6.1%*	*19.7%*	*4.5%*
LTM P/E	22.1x	20.3x	18.6x	22.3x	19.8x
y/y %chg		*-8.2%*	*-15.9%*	*0.6%*	*-2.3%*
NTM P/E	19.3x	19.4x	16.5x	22.2x	18.9x
y/y %chg		*0.9%*	*-14.6%*	*15.3%*	*-2.8%*
Assumptions		-	-	-	-
10y UST yield		*2.00%*	*2.50%*	*1.50%*	*2.50%*
Implied ERP		*4.70%*	*4.90%*	*4.50%*	*4.70%*

Data as at November 11, 2021. Source: Bloomberg, Factset, KKR Global Macro & Asset Allocation analysis.

Exhibit 69

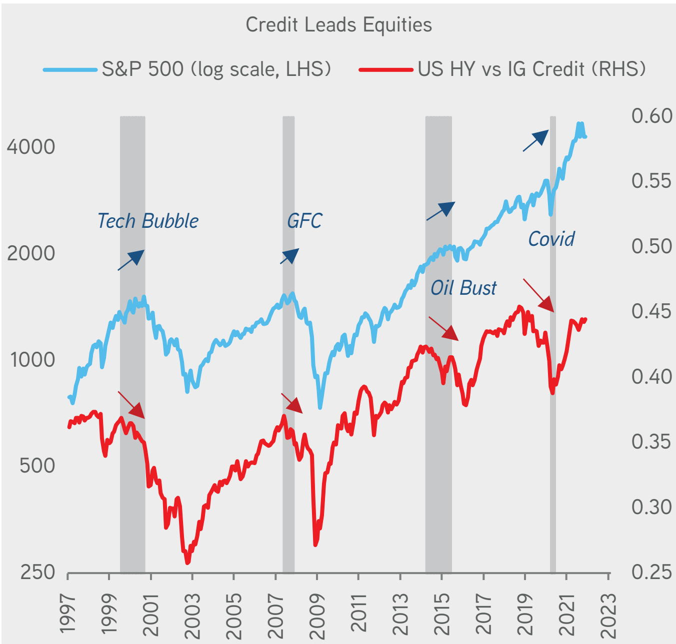
A Watered Down Infrastructure Spending Plan Has Slimmed Down the Proposed Tax Bill to Just 15% Minimum Book Tax, 15% GILTI Tax on Foreign Income and a One Percent Tax on Gross Buybacks. That Translates into Around a 2.1% Hit to EPS



Data as at November 16, 2021. Source: Bloomberg, Factset, KKR Global Macro & Asset Allocation analysis.

Exhibit 70

Credit Has Historically Led Equities into Bear Markets (e.g., COVID, Oil Bust, GFC). Thus Far, We See No Credit Deterioration



Data as at November 16, 2021. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

As in past years, we also use an equity risk premium (ERP) framework to inform our thinking. The combination of central bank liquidity, unprecedented fiscal support and strong economic growth has compressed the ERP to 4.6% today from a high of six percent during the onset of COVID (*Exhibit 72*). While financial conditions remain accommodative relative to history, we expect higher real rates to coincide with decelerating economic growth, weaker earnings momentum and higher equity/rate volatility heading into the second half of 2022. As such, we use a higher ERP of 4.7% for 2022, which is 30 basis points above its long-term average. From an asset allocation perspective, we still believe that Equities remain an attractive inflation hedge amidst the more reflationary recovery that we are envisioning. However, as the economy matures, we do expect the strong cyclical rally today to give way to more muted returns in 2023.

Exhibit 71

Our S&P 500 2022 Fair Value Estimate Is 4,900, Which Suggests Another Six to Seven Percent of Upside from Today's Level, Including Dividends

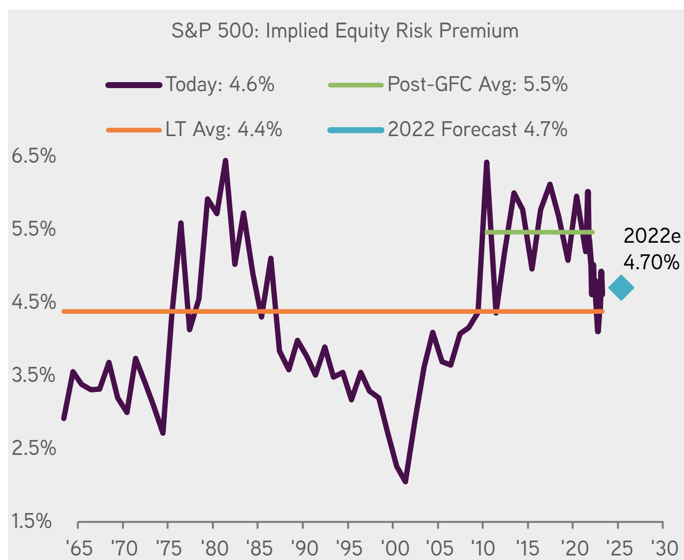
Implied Equity Risk Premium (%)

10y US Treasury yield (%)	5.45%	5.20%	4.95%	4.70%	4.45%	4.20%	3.95%
2.75%	3,893	4,081	4,288	4,518	4,773	5,059	5,381
2.50%	3,999	4,193	4,407	4,643	4,906	5,201	5,532
2.25%	4,107	4,307	4,527	4,770	5,041	5,344	5,686
2.00%	4,217	4,422	4,649	4,900	5,179	5,491	5,842
1.75%	4,328	4,540	4,773	5,031	5,318	5,639	6,001
1.50%	4,442	4,659	4,899	5,165	5,460	5,790	6,162
1.25%	4,557	4,781	5,027	5,300	5,604	5,944	6,327

Data as at November 11, 2021. Source: Bloomberg, Factset, KKR Global Macro & Asset Allocation analysis.

Exhibit 72

We Assume ERP Inches Higher to 4.7% in 2022, 30 Basis Points Above Long-Term Average, As the Macro Environment Becomes Less Supportive on the Margin



Data as at November 11, 2021. Source: Bloomberg, Factset, KKR Global Macro & Asset Allocation analysis.

Credit Looks More Expensive Relative Equities; Where to Focus in Credit

While we still see upside to risk assets in 2022, we acknowledge that most asset classes look expensive relative to history. One can see this in *Exhibit 73*, which shows valuations are stretched except for one key metric: interest rates. However, interest rates do matter. Nominal interest rates are low because central banks are encouraging buyers to move further out on the risk curve.

With that said, Equities look attractive relative to Credit, we believe. One can see in *Exhibit 75*, which shows the earnings yield on stocks (i.e., the Earnings over the Price) looks compelling relative to the yield-to-worst in High Yield. Importantly, given the reflationary environment we are forecasting, we feel strongly that Equities represent better value versus a fixed coupon credit instrument. However, it is not just tight credit spreads that are skewing our model towards Equities. Rather, both the low absolute level of interest rates across all Fixed Income as well as the ongoing improvement in earnings for Equities are also impacting this relationship. To this end, we note that the dividend yield on 50% of the S&P 500 companies is now above the level of the U.S. 10-year. One can see this in *Exhibit 76*.

Within Credit, our strong belief remains to stay nimble; hence, as we indicated in the Introduction, we favor our PICK of owning Opportunistic Credit, which has the ability to toggle across Loans, High Yield, and Structured Products.

Exhibit 73

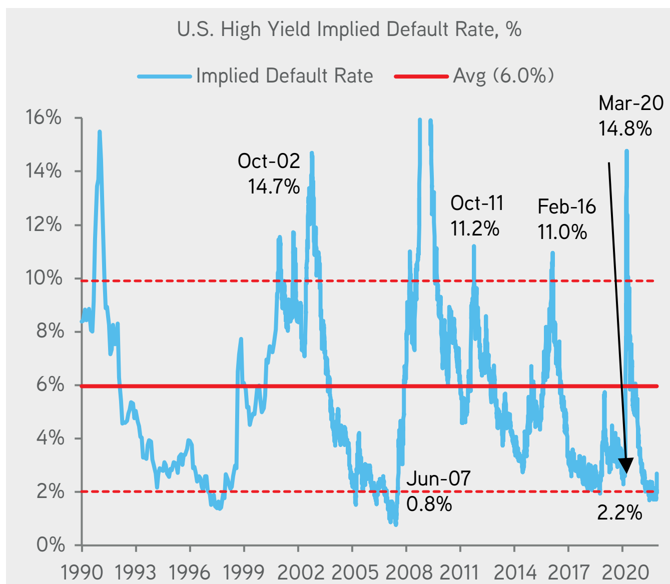
In This Environment, Investors Need to Find Ways to Buy Down Entry Multiples and/or Arbitrage Cash Flow Relative to Financing Costs

	S&P 500 Aggregate Index	
Valuation Metric	**Current**	**Historic Percentile**
U.S. Market Cap/GDP	287%	**100%**
Forward P/E	21.6x	**93%**
EV/Sales	3.4x	**100%**
EV/EBITDA	16.6x	**98%**
Price/Book	4.8x	**96%**
Cyclically Adjusted P/E	34.4x	**95%**
Cash Flow Yield	5.5%	**96%**
Free Cash Flow Yield	3.6%	**60%**
Yield Gap vs. 10-Year UST	597 Basis Points	**58%**
Median Absolute Metric		**96%**

Data as at October 7, 2021. Source: Goldman Sachs Research.

Exhibit 74

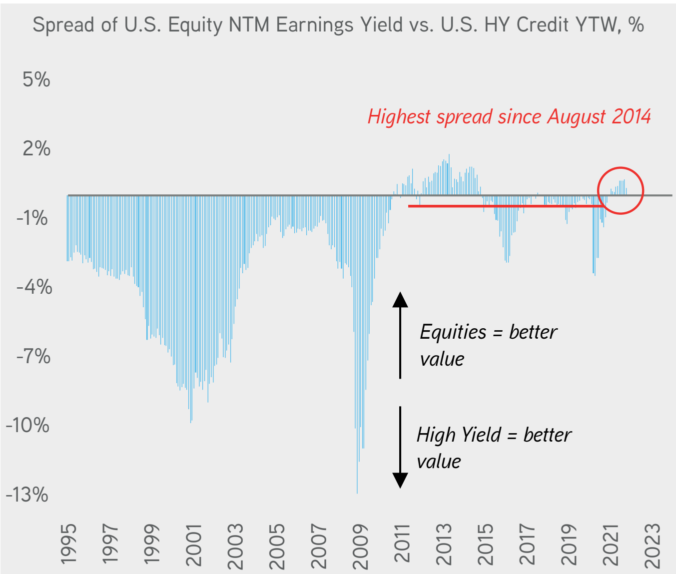
Our U.S. High Yield Default Monitor Is Now One Full Standard Deviation Below the Long Term Average



Data as at November 25, 2021. Source: Bloomberg, ICE-BofAML Bond Indices.

Exhibit 75

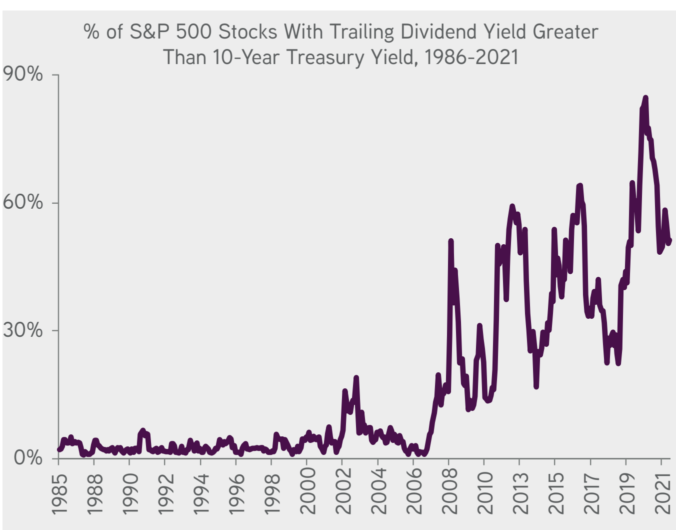
On a Relative Basis, U.S. Equities Look More Attractive Than High Yield Credit by the Widest Margin in Seven Years



Data as at November 30, 2021. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

Exhibit 76

Fully 50% of S&P 500 Companies Have a Higher Dividend Yield Than the 10-Year Yield



Data as at October 31, 2021. Source: Bloomberg, BofAML Global Research, KKR Global Macro & Asset Allocation analysis.

Within Credit, our strong belief remains to stay nimble; hence, as we indicated in the Introduction, we favor our PICK of owning Opportunistic Credit, which has the ability to toggle across Loans, High Yield, and Structured Products. We also like some of the opportunities we are seeing in the larger end of the Private Credit market. We take comfort in both the value of the illiquidity premium in today's low rate environment as well as the shift in skew we are seeing towards larger, more stable companies with less volatility in their EBITDA trajectory.

Overall, we retain our preference of floating rate over fixed rate in both private and public markets, although we acknowledge that the recent volatility has made liquid High Yield — on the margin — more attractive in the short term. For High Yield, we favor single B and CCC given underweight duration positioning. CCC spreads in both the U.S. and Europe are at elevated levels in the last 12 months, with Europe trading wide to the U.S. on a spread basis for the first time in 10 years. Meanwhile, within the floating rate market, we like Bank Loans and CLO BBs with spreads in the mid 600's, which is wide to where they have traded in the past year. We've also seen strong demand and record issuance in this space. If concerns on rates continue, CLOs would naturally benefit, we believe. Meanwhile, Euro Loans, which are very CLO driven, also look attractive on a hedged yield basis.

We also like some of the opportunities we are seeing in the larger end of the Private Credit market. We take comfort in both the value of the illiquidity premium in today's low rate environment as well as the shift in skew we are seeing towards larger, more stable companies with less volatility in their EBITDA trajectory.

Exhibit 77

Recent Volatility Has Led to Attractiveness Within CLO BBs, U.S. CCC's, and EU Bund Spreads

		Percentile, 0% to 100% = Wider to Tighter of Range Specified		
	Current Levels	1-Year	5-Year	10-Year
US Bonds Spreads				
US High Yield	367	18%	60%	78%
US BB	263	20%	28%	60%
US B	415	11%	37%	60%
US CCC	727	17%	74%	82%
US BBB	126	18%	81%	91%
US IG	103	12%	75%	87%
US HY Energy	438	43%	64%	71%
EU Bonds Spreads				
EU High Yield	374	0%	33%	59%
EU BB	290	0%	29%	48%
EU B	497	0%	44%	59%
EU CCC	770	26%	69%	78%
EU Corporate IG	111	0%	45%	59%
EU HY Fixed	371	0%	32%	58%
EU HY Floating	428	13%	45%	66%
US Loans Spreads				
US Bank Loans	418	25%	48%	74%
US BB	321	0%	23%	61%
US B	436	9%	50%	75%
US CCC	839	16%	84%	88%
EU Loans Spreads				
EU Bank Loans	462	21%	28%	64%
EU BB	372	0%	15%	57%
EU B	456	14%	47%	73%
US CLO Spreads				
US AAA	116	45%	67%	80%
US AA	180	1%	33%	63%
US A	215	15%	58%	77%
US BBB	330	16%	53%	75%
US BB	665	11%	42%	50%
EU CLO Spreads				
EU AAA	112	100%	45%	63%
EU AA	165	96%	66%	77%
EU A	220	42%	56%	71%
EU BBB	330	37%	51%	68%
EU BB	640	10%	33%	38%

Data as at November 30, 2021. Source: KKR Portfolio Construction analysis.

SECTION III: PANDEMIC REFLECTIONS AND FORWARD LEANING THEMATIC PROJECTIONS

The pandemic has clearly been unprecedented, with a devastating impact on so many individuals, families and institutions. Beyond the human tragedy, there are also important market considerations that, as fiduciaries, we are bound to consider. How will the stimulus filter through the system, what parts of the economy will recover, what areas will continue to face more structural headwinds, and finally, what approaches are the best for deploying capital in an uncertain time?

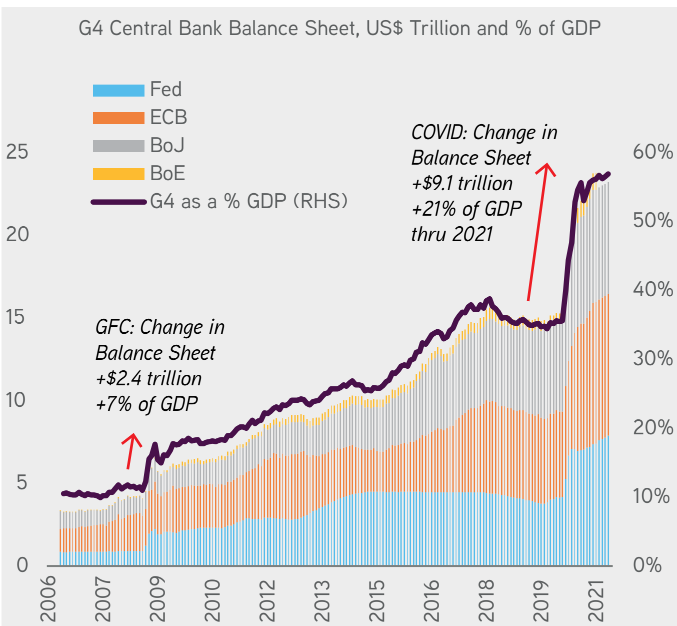
Fortunately, as a firm, we have been able to navigate the pandemic from a position of strength. We had strength in our balance sheet, which was buttressed by both substantial cash holdings and long-term liabilities. There was also strength from our differentiated investment platforms, including sourcing and our ability to transact up and down capital structures, across both geography and sector. Finally, we have been able to operate from a position of strength because of the in-house team of operating professionals who worked tirelessly to guide our portfolio companies throughout the pandemic as well as the expertise and guidance from our infectious disease expert.

Looking forward, the good news is that, while the investing environment today is more richly priced than it was in 2020, there are still abundant new opportunities — despite some significant geopolitical and macro crosscurrents that must be considered. Importantly, the current cycle is likely to be quite different than the last. We would note six areas of difference and opportunity relative to the 2009 to 2019 recovery.

The first is that the monetary response has been much larger and more front-ended. Unlike the aftermath of the Global Financial Crisis, there have been no significant debates about austerity post pandemic. The average inflation targeting program adopted by the Fed is likely the biggest shift in U.S. monetary policy since the introduction of quantitative easing at the end of the GFC and should hold rates much lower than would have been considered historically. This policy shift will allow inflation to run above the target of two percent for some time before hiking interest rates, and importantly, fuel CIOs to buy complexity and sell simplicity, as they are forced to become more thoughtful in the use of illiquidity to capture higher returns. In past years, we have argued that corporate carve-outs are amongst the most attractive ways to find devalued and underappreciated companies in bifurcated markets — markets that seem to eschew complexity in favor of simplicity at almost all costs. We still believe that the opportunity set to acquire high quality carve-outs across PE, Infrastructure, and Energy remains outsized.

Exhibit 78

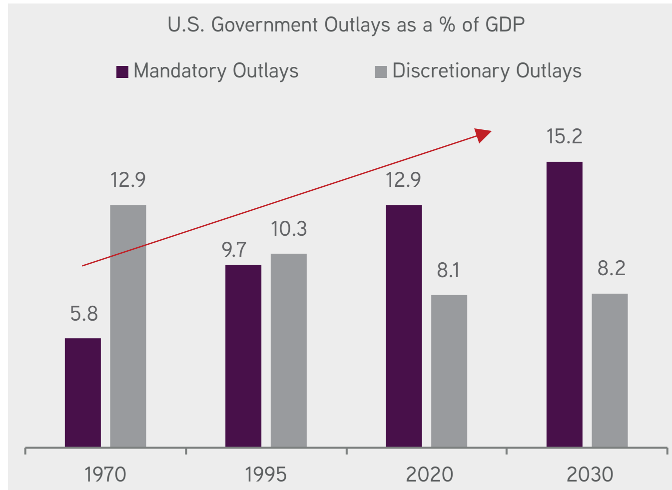
Despite Tapering, There Is Still a Huge Amount of Stimulus in the System



Data as at October 31, 2021. Source: KKR Global Macro & Asset Allocation analysis.

Exhibit 79

In the U.S., There Has Been a Structural Move to More Permanent Support of Consumer Outlays



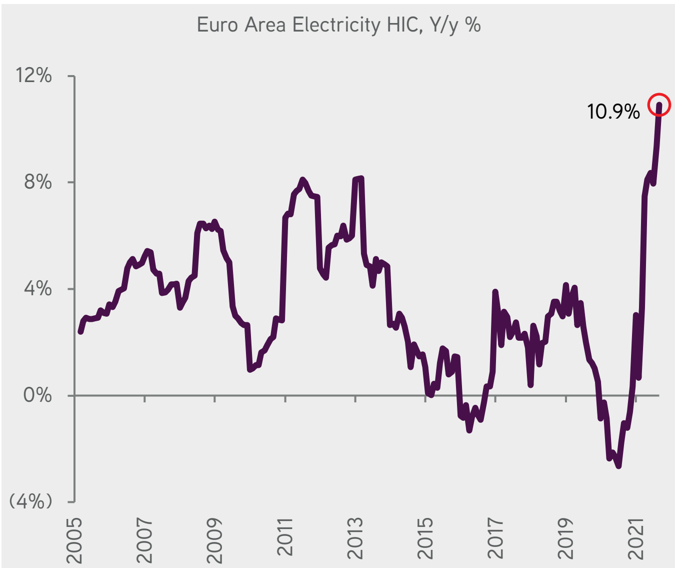
Data as at August 31, 2021. Source: Congressional Budget Office.

The second is that the global fiscal response to the pandemic has been approximately three times greater than the support provided during the GFC. The type of stimulus provided is also very different, as is the intensity with which global central banks have responded. There has also been considerably less bank de-leveraging. We believe that the intensity of this response will continue to support our thesis that this recovery will be much more robust relative to the prior recovery in 2009.

We still believe that the opportunity set to acquire high quality carve-outs across PE, Infrastructure, and Energy remains outsized.

Exhibit 80

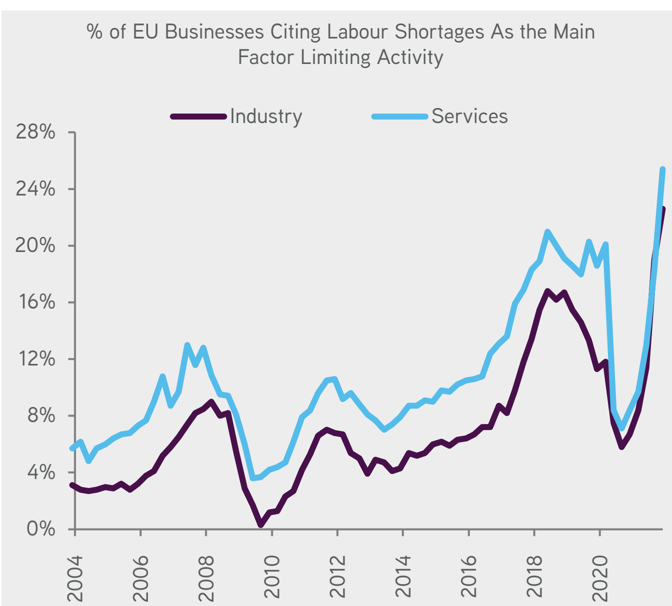
Surging Demand, Compliments of Record Stimulus, Is Driving Electricity Prices Higher at a Time When Supply Can't Respond Fast Enough



Data as at October 31, 2021. Source: European Communities, Bloomberg.

Exhibit 81

Businesses Are Citing Labor Issues as a Cause for Alarm



Data as at October 31, 2021. Source: European Communities, Bloomberg.

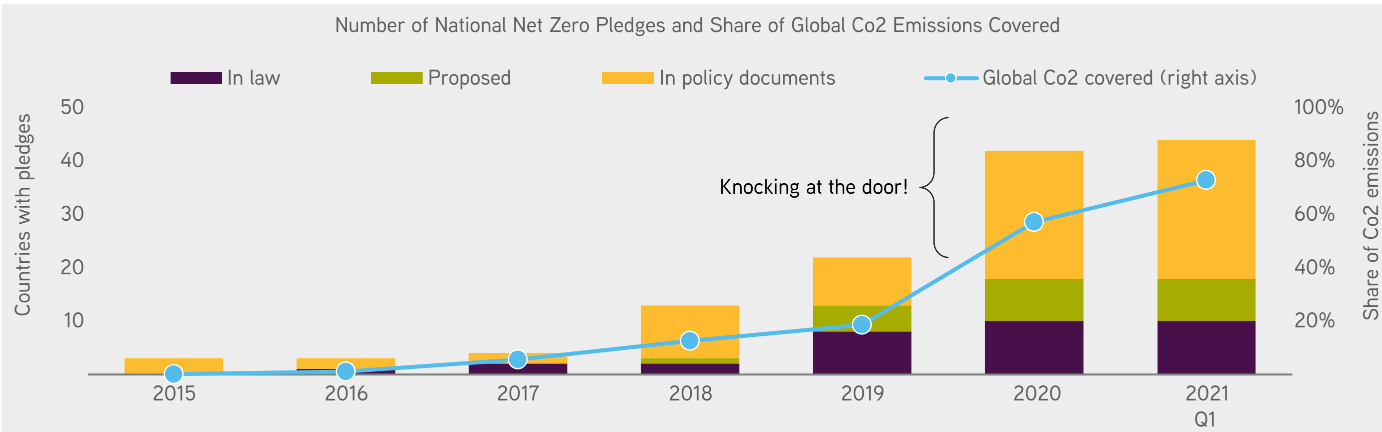
The third is, as we discussed earlier in some detail, given all of the stimulus we are now in a world where input costs, including wages and select commodity prices, are increasing at a faster pace than consumer prices. While we do expect many commodity prices to retreat from record prices, we expect them to remain generally well-bid and volatile. Therefore, this part of the macroeconomic landscape is not 'transitory', and as such, it likely means that innovation becomes a prerequisite for success to overcome ongoing margin pressure. From our vantage point, we now believe that almost all things cloud-based will prosper, as will vast segments of the online security industry. Digital business-to-business applications, including healthcare, also are likely to thrive. On the consumer side, the shift online in key industries such as healthcare, retail, and business services likely has been accelerated by five to seven years. Make no mistake, though, we believe that all industries could be impacted, including healthcare, consumer, logistics, manufacturing, and financial services.

The fourth area of difference is real interest rates. While we expect some tightening of financial conditions in 2022, we expect real interest rates to be lower for longer this cycle, which we think further increases the value of the illiquidity premium generated by private investments. This causes us to be particularly bullish on assets linked to nominal GDP growth with upfront cash flows. As a result, we have moved to an even more overweight position in our balance sheet asset allocation to Asset-Based Finance in Credit, Infrastructure, and parts of Real Estate. Besides the upfront yield, the ability of these investments' collateral to appreciate alongside — or potentially even faster than — nominal GDP is compelling.

Fifth, there is also the energy transition to consider. This movement is quite large, is shifting very quickly, and is yielding some important, unintended consequences. How big is it? All told, we estimate that countries accounting for over 70% of world GDP and greenhouse gases now have formalized targets for net-zero emissions, typically by 2050. While estimates vary substantially, our research at KKR suggests that the energy transition space is an approximately \$1.5–\$2.0 trillion per year growth opportunity. See our themes section for full details but we believe that this type of growth opportunity suggests almost all aspects of sustainability, resiliency and environmental services could be winners. Somewhat ironically, though, the push for a cleaner environment may actually create more reflationary trends and exacerbate inequality in the near-term.

Exhibit 82

We Are At a Massive Inflection Point in the Regulatory Environment Pertaining to Climate Change



Data as at October 8, 2021. Source: International Energy Agency (2021), Net Zero by 2050, IEA, Paris: Net Zero by 2050 Scenario - Data product - IEA. License: Creative Commons Attribution CC BY-NC-SA 3.0 IGO as modified by KKR, BloombergNEF, Bloomberg Terminal, Nexant ChemSystems, Tecnon OrbiChem.

Finally, there is an abundance of excess savings, which we think will fuel strong consumer demand for quite some time. This was clearly not the case in the 2009 recovery. Just consider, for example, the U.S. consumer savings rates peaked at just 7.9% post the GFC, compared to a record 33.8% post-COVID. As a result, my colleague Dave McNellis estimates fully 17% of personal consumption expenditures, or $2.5 trillion, has been put aside to help drive consumption during the coming quarters. Moreover, with unemployment levels declining and real wages increasing, we think consumers will begin to spend some of this dry powder, even if inflation pressures do remain elevated. Indeed, even in a five to six percent inflationary environment, we have yet to see consumers dipping into their savings to make discretionary purchases.

So, pulling all of this together, what does this backdrop mean for investing? We think there are several key themes to invest behind and they are as follows:

Pricing Power: Buy Price Makers, Avoid Price Takers. As we look ahead, companies that leverage their competitive advantages, including technological prowess and speed to market to raise their prices and keep pace with soaring input costs will likely be winners in the environment we envision. Price makers often can reprice their goods and services quickly, or they offer critical components of relatively small cost compared to the overall price of the finished product.

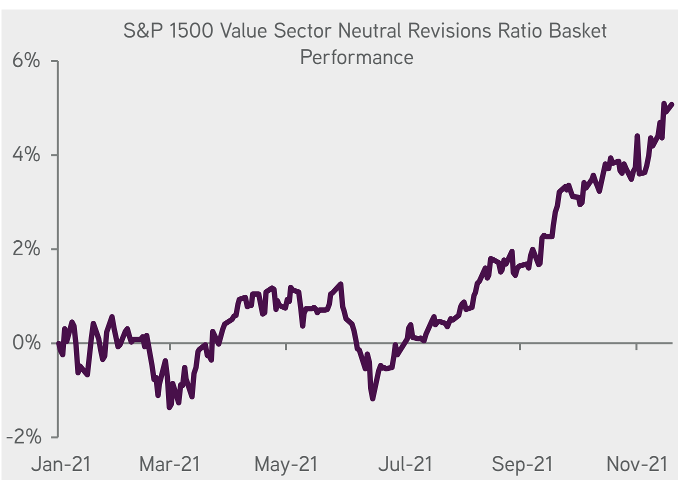
Ideally, 'price maker' companies will not be subject to monopsony-type dynamics with just a few powerful buyers and many undifferentiated sellers. They generally can pass through cost increases via frequent contract repricings or inflation-linked pricing on long-term contracts. They also are not subject to economically insensitive pricing dynamics that can inhibit the ability to maintain margins in a rising cost environment.

Real assets should do particularly well in a reflationary, pricing power-driven economy. Investments tied to collateral-based cash flows in key sectors such as Real Estate, Infrastructure and Asset-Based Finance can deliver pricing power in the macroeconomic backdrop we envision. The value of today's existing collateral, particularly if it is cash flowing, will rise because it is more expensive to replace in a reflationary environment.

Meanwhile, with climate change initiatives accelerating, beneficiaries over the long term could include early movers on low-carbon technology development in building materials. They likely will be in better cost positions when economics change with carbon pricing. Somewhat ironically, with so much focus globally on shifting to clean energy, the transition to net zero could boost inflation. Developing new technologies is expensive, and policies to encourage the transition may hike supply chain prices as emission and tariff policies add to production costs.

Exhibit 83

EPS Revisions, Which Captures Sales and Cost Management, Is the Number One Factor Driving Stocks These Days. We View This Quantitative Reality as Supportive of Our Pricing Power Thesis

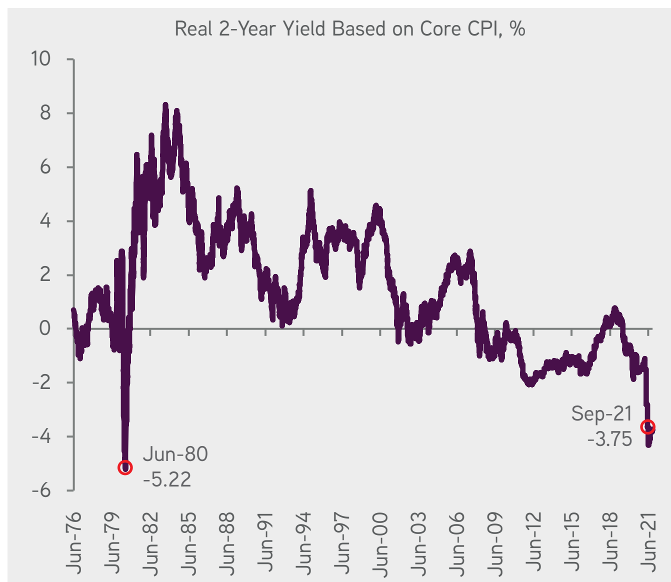


Data as at October 22, 2021. Source: Cornerstone Macro.

By comparison, investors should be wary of price takers. The current environment likely will lead to multiple and earnings declines for companies that have high leverage levels and the inability to pass through costs, including labor. Consumer product companies with unhedged input costs are likely to suffer, as could others with large lower-wage workforces and limited pricing power, such as retailers and health care services. Investors should also be wary of companies that could have trouble passing on higher input costs to a small and powerful base of buyers, including the government services and auto parts arenas.

Exhibit 84

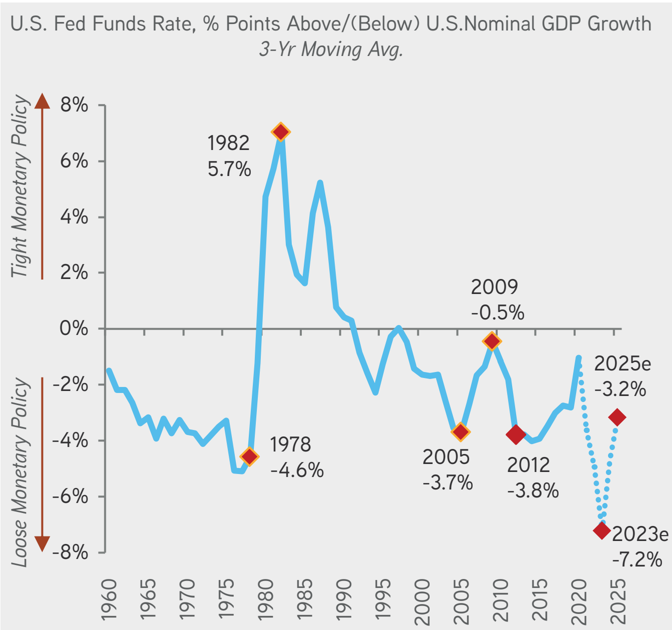
We Had to Go Back Through 40 Years of Data to Find Real Yields on Two-Year Notes at Such Extreme Levels. Our Response Is to Own More Cash Flowing Assets With Pricing Power and Collateral Support



Data as at June 30, 2021. Source: Bureau of Labor Statistics, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

Exhibit 85

The Strategy to Reflate Is Based on Holding Nominal Interest Rates Below Nominal GDP

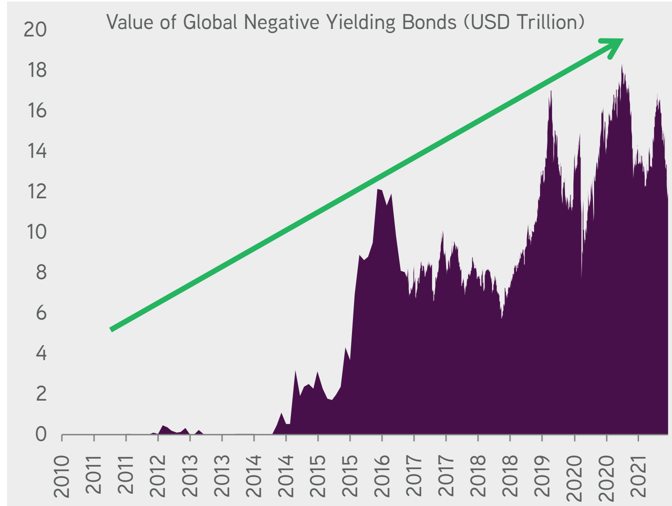


Data as at September 30, 2021.Source: BEA, Federal Reserve, Haver Analytics.

Yearn for Yield: We also believe that demand for collateral-based cash flows, including Infrastructure, Real Estate, and Asset Based Finance, is poised to accelerate more than many investors now think. We have entered a unique period where global central bankers, particularly in the United States, are doing everything in their power to stoke some inflation to accelerate growth in nominal GDP by holding interest rates at record low levels. Central bankers are committed to generating sufficient growth to benefit historically marginalized populations, including attempting to close the employment and growth gaps between White and Hispanic and Black Americans. It is also an attempt to lower debt levels relative to GDP by encouraging nominal growth of the economy that is far in excess of the level of interest rates. One can see this in *Exhibit 85*.

Exhibit 86

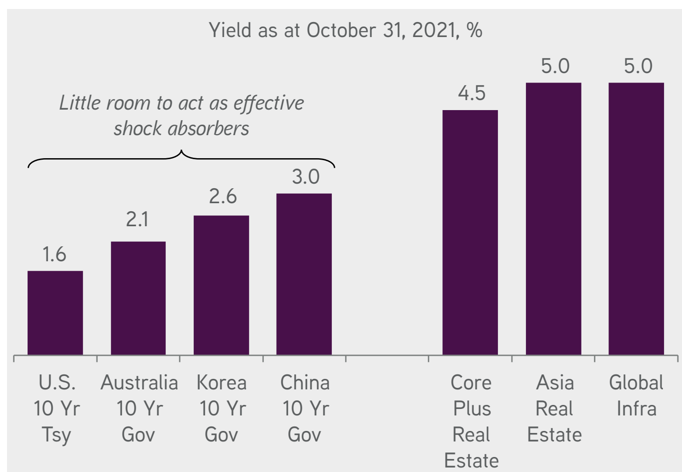
The Value of Global Negative Yielding Bonds Remains High



Data as at October 15, 2021. Source: Bloomberg Barclays Aggregate Negative Yielding Debt Index.

Exhibit 87

With Bond Yields Close to Decade Lows, Real Assets With Yield and Inflation Protection Look Interesting to Us



Data as at October 31, 2021. Source: Bloomberg, KKR estimates.

What is different this time — and why we think reflation will occur — is that we are getting a V-shaped recovery amidst an L-shaped response by the Federal Reserve and European Central Bank. Moreover, fiscal stimulus has been front-loaded. At the start of the 2009 recovery, both fiscal and monetary stimulus started small, and occurred late. Indeed, just consider that the Fed's current forecasts have inflation ahead of its target for *four* consecutive years.

Against this backdrop, we want to own collateral that can consistently distribute a recurring cash flow stream and can raise prices enough to offset rising input costs. Our bottom line: As we look ahead, we have high conviction that — driven by a structural yearn for yield — we are still in the early innings of a structural upward re-rating in collateral-based assets that can generate a competitive upfront yield without too much leverage.

Another key investment area in a market that is being fueled by ample central bank liquidity is to buy complexity and sell simplicity. The reality is that the shift in the Fed's policy to average inflation targeting as well as similar programs developed by central banks around the globe have forced many CIOs to be more thoughtful in the use of illiquidity to capture higher returns. In past years, we have argued that corporate carve-outs are amongst the most attractive ways to find devalued and underappreciated companies in bifurcated markets — markets that seem to eschew complexity in favor of simplicity at almost all costs. We still believe that the opportunity set to acquire high quality carve-outs across PE, Infrastructure, and Energy remains outsized. For example, we see many ongoing 'last mile' financings in key markets like Infrastructure and Real Estate where core buyers are not willing to deploy capital until a project is fully developed. As such, for investors who are willing to take some small development and financing risks, there is the potential to earn outsized returns relative to when the story becomes more simplified in the public markets. Meanwhile, within our Credit Opportunities franchise, we are seeing unique capital solutions, including convertibles and preferred securities that offer above average returns because they do not fit nicely within the asset allocation of a traditional pension and/or endowment.

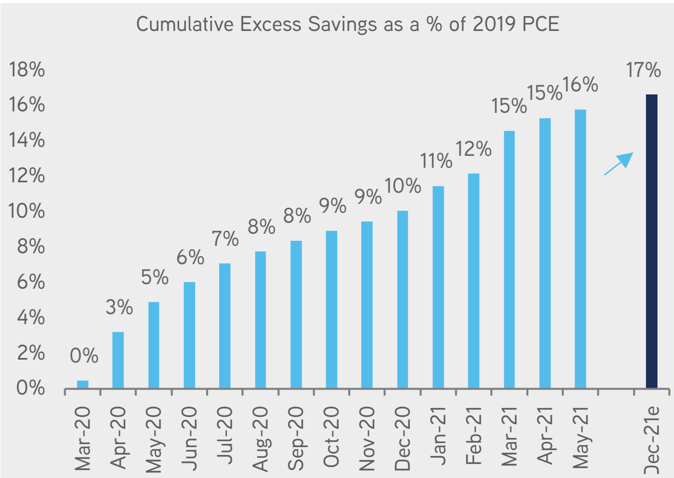
We also believe that the current macroeconomic backdrop is creating a savings bull market. There are several important forces to consider that we think make savings an extremely compelling investment theme to pursue. First, while there are economic benefits to quantitative easing in the form of easier financial conditions, it does have the long-term effect of unduly punishing current retirees by reducing interest rates to levels below where they otherwise would be. Said another way, for an insurance company that represents millions of individual savers, not only are they earning less on their current investments, but the value of their liability stream is also increased.

Second is that, because of the QE and the increase in disposable income, the savings rate has increased meaningfully since the pandemic, despite interest rates having fallen further. In fact, we now estimate that U.S. consumers will have banked about $2.5 trillion in extra savings by year-end, equivalent to fully 17% of pre-pandemic annual consumption spending. In Europe, my colleague Aidan Corcoran thinks excess savings by Eurozone households in 2020 alone reached close to half a trillion euros, about 75% of which reflected the restricted ability to consume during the pandemic, with the remainder mostly reflecting increased precautionary saving. Meanwhile, Changchun Hua, our greater China economist, believes that the number is close to RMB 6.2 trillion, equivalent to 18.2% of pre-pandemic annual retail sales in China.

Third, because of record direct government assistance this cycle, U.S. consumers have saved, paid down debt, and improved their cost of capital on what debt remains. Indeed, as exiting Federal Reserve Vice Chairman Richard Clarida noted in a speech in November 2020, 'This was the only downturn in my professional career in which disposable income actually went up in a deep recession, and a lot of that has been saved.'

Exhibit 88

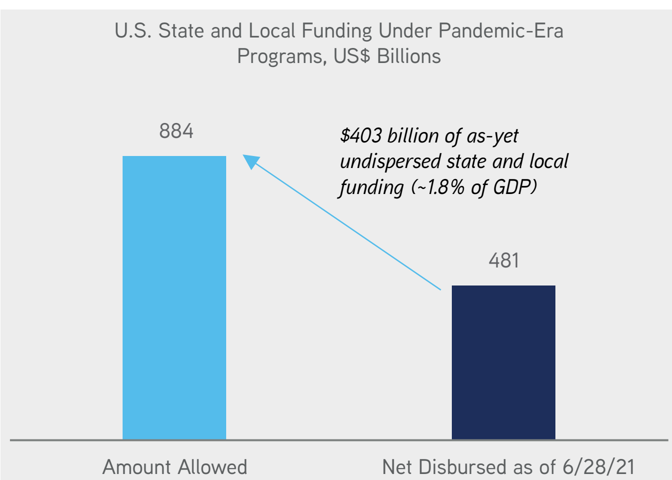
Pandemic-Era 'Excess Savings' Are Set to Peak Around $2.5 Trillion, or Fully 17% of Annual Consumption Spending



Excess Savings = Savings in excess of 7.7% run-rate savings rate (based on the 2018-19 average). Data as at June 28, 2021. Source: Bureau of Economic Analysis, KKR Global Macro & Asset Allocation analysis.

Exhibit 89

In Addition, Unspent State and Local Stimulus Funds Amount to a Further $400 Billion, or About 1.8% of GDP

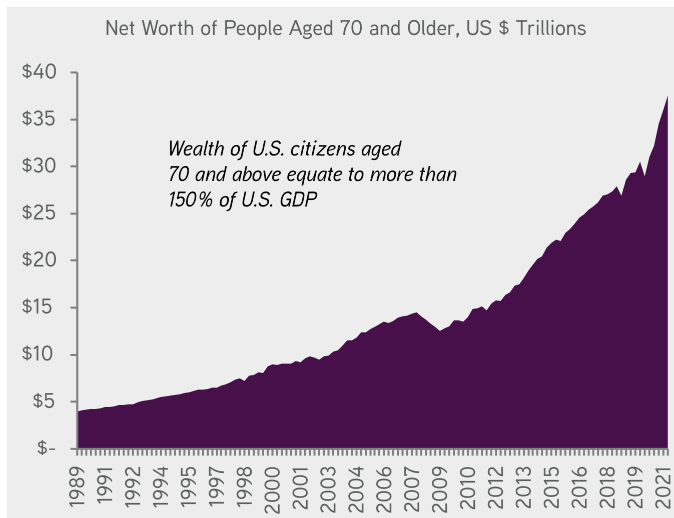


Data as at June 28, 2021. Source: Covidmoneytracker.org

Fourth, because of all the innovation and consolidation, there is a tremendous amount of corporate and investment related wealth that will eventually need to be transitioned. One can see this in *Exhibit 90*. Just consider that in a 2019 wealth transfer report, Cerulli Associates estimated that 45 million households will transfer as much as $68 trillion between generations within 25 years. Nearly 60% of that wealth transfer will benefit Generation X and millennial households. Focusing on millennials alone, Cerulli estimates that as baby boomers die between 2036 and 2040, millennials could inherit up to $22 trillion by 2042.[1]

Exhibit 90

At the End of 1Q21, Americans Age 70 and Above Had a Net Worth of Nearly $35 Trillion, Amounting to 27% of All U.S. Wealth...



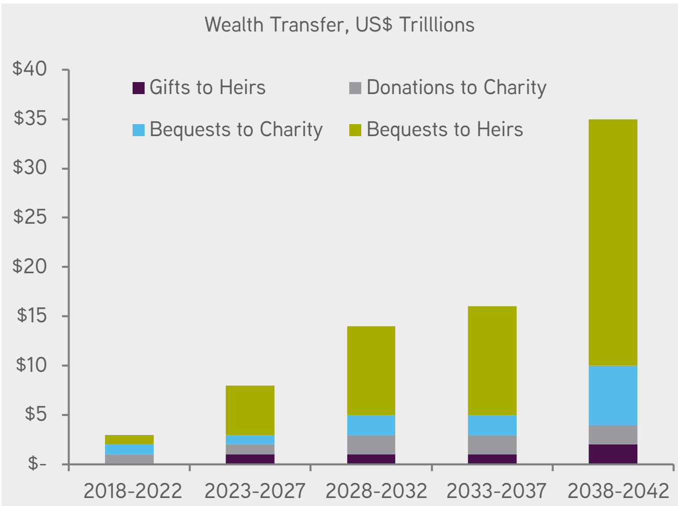
Figures in 2018 dollars. Data as at 2Q21. Sources: Federal Reserve, Haver Analytics.

Just consider that in a 2019 wealth transfer report, Cerulli Associates estimated that 45 million households will transfer as much as $68 trillion between generations within 25 years.

1 Data as at October 2020. Source: The Economist and 2019 Cerulli Wealth Transfer report.

Exhibit 91

…by 2042, Older Americans Are Projected to Hand Down Nearly $70 Trillion



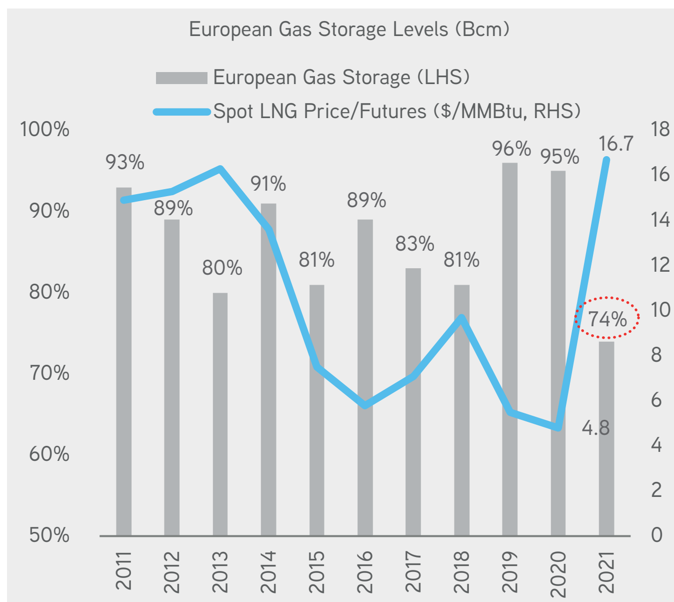
Figures in 2018 dollars. Totals represent the transfer for the five-year increment indicated (not cumulative). Data as at October 2020. Source: Federal Reserve (net worth); U.S. Bureau of Economic Analysis (GDP); Cerulli Associates (wealth transfer).

So, our bottom line is that investors need to shift their portfolios to gain exposure to this theme. For high net worth individual investors, we like some of the vehicles that provide tax-efficient distributions via acquired blocks of businesses that are mature. Second, we favor an overweight in Financials, particularly those focused on retirement planning, and/or exposure to yield curve plays. Finally, we like parts of the Technology sector, including innovative solutions to payments, custody, measurement, and financial advice.

Finally, environmental considerations represent a major opportunity, particularly amidst concerns about supply chain resiliency. As mentioned earlier, we think the energy transition is a $1.5-$2.0 trillion opportunity per year. We believe half of that spending will go directly towards de-carbonization. Not surprisingly, as part of the trend towards higher fiscal outlays, we think that almost all aspects of ESG are winners, including climate action (e.g., energy transition including solar, wind, batteries and storage, EV, distributed generation, energy efficiency as well as industries that manage and adapt to the impacts of climate change, such as carbon capture/abatement, land remediation, water and wastewater treatment, and green infrastructure), asset integrity, responsible waste management and resource efficiency. We also think resiliency of energy transportation (e.g., pipelines, power grids, supply chains, etc.) could create a capex super-cycle, the magnitude of which many investors are likely still underestimating. Cyberattacks, data security, and climate change will only accelerate this growing investment need, we believe. Importantly, these aforementioned changes will occur both in the private and in the public sectors. Against this backdrop, substantial worker retraining will be required, which has implications for how governments, companies and educational institutions train people, as well as for unemployment and government deficits.

Exhibit 92

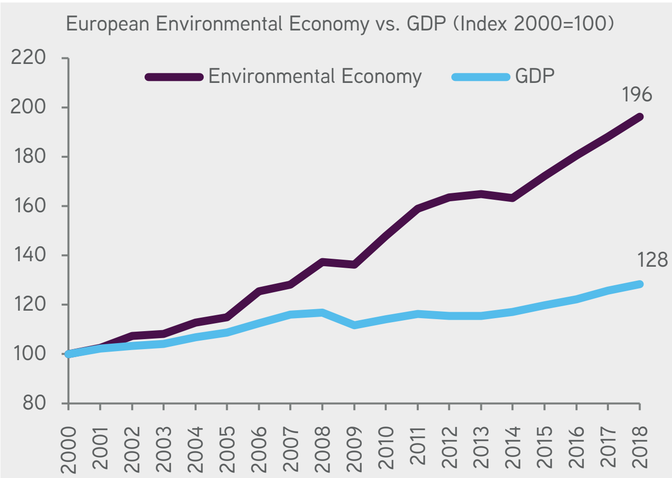
European Gas Storage Levels Sit at An 11-Year Low, Pushing Spot Pricing to 11-Year Highs



Data as at October 14, 2021. Source: Bloomberg, European Climate Exchange (ECX), KKR Global Macro & Asset Allocation analysis.

Exhibit 93

The Sustainability Transition Is Arguably the Critical Investment Theme of Our Generation



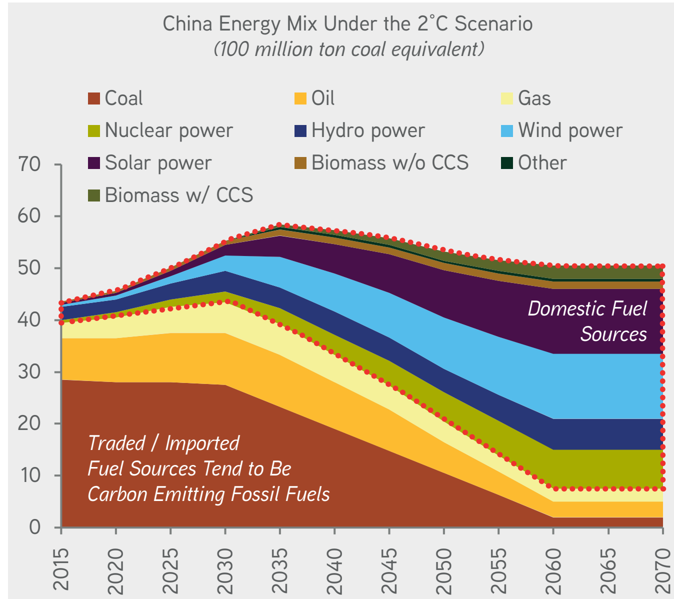
Note: The 'environmental economy' is an EU statistical concept that includes goods and services such as renewable energy, electric vehicles, organically grown fruits and vegetables, sewerage and waste treatment services or the rehabilitation of mining sites. Data as at September 30, 2021. Source: Statistical Office of the European Communities.

We also hold the strong view that many 'old economy' inputs such as aluminum, copper, and lithium could continue to perform well. Also, while we are constructive on renewables, 81% of global energy still comes from traditional sources, particularly as it relates to the emerging markets. As such, natural gas and the infrastructure that supports it as well as more efficient oil production (e.g., cleaner re-stimulation of old wells) may actually gain share during the initial part of the transition phase.

We also think resiliency of energy transportation (e.g., pipelines, power grids, supply chains, etc.) could create a capex super-cycle, the magnitude of which many investors are likely still underestimating.

Exhibit 94

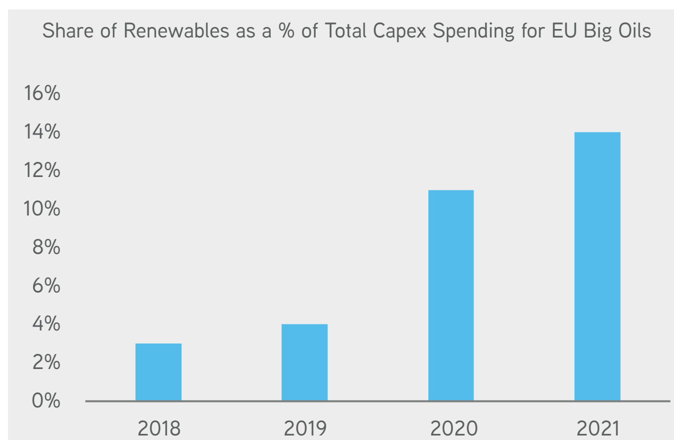
Environmental Policy Is, Unwittingly, Trade Policy as Alternative Energy Is Domestically Sourced



Data as at October 12, 2020. Source: Tsinghua University report.

Exhibit 95

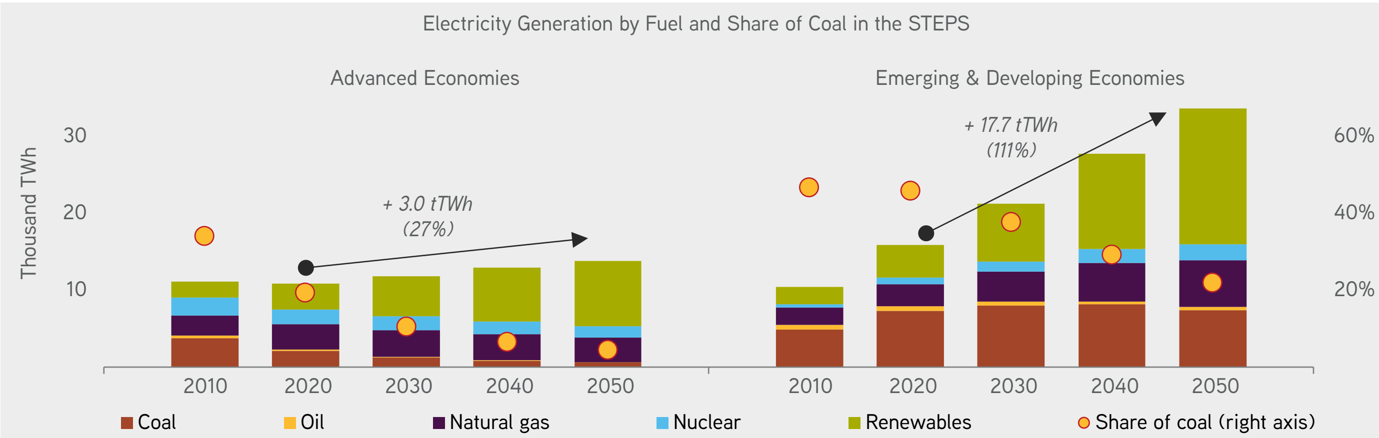
Traditional Oil and Gas Capex Falls by 20% in 2020-2021 as the Majors Shift Towards Renewables



Note: Big Oil includes BP, Equinor, TOTAL, RDShell, ENI, Respol, Galp; 2020 and 2021 are GS estimates. Data as at June 30, 2020. Source: Goldman Sachs.

Exhibit 96

The Emerging Economy Opportunity for Power Generation Is 5x That of Advanced Economies



Note: The Stated Policies Scenario (STEPS) takes account only of specific policies that are in place or have been announced by governments. Data as at May 2021. Source: International Energy Agency (2021), Net Zero by 2050, IEA, Paris: Net Zero by 2050 Scenario - Data product - IEA. License: Creative Commons Attribution CC BY-NC-SA 3.0 IGO.

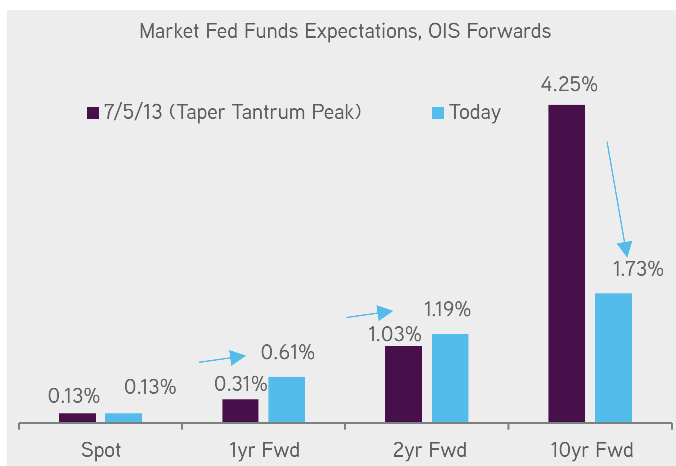
Finally, we believe that we are on the cusp of a major shift in consumer preference towards corporations and financial institutions that are committed to shrinking their carbon footprints. As part of this transition, we expect more consumers, for example, to rideshare or cycle to work, complete less business travel, and eat healthier foods that are less damaging to the environment.

SECTION IV: INVESTMENT CONSIDERATIONS/RISKS

Concern #1: A Sharp, Unexpected Move in Real and/or Nominal Rates. In recent months Mike Wilson, my long-time friend who is CIO at Morgan Stanley, and some of his colleagues penned a piece talking about whether the world's economy faced greater risks from Fire (the risk that growth was too hot), or Ice (the possibility that growth undershot expectations). We really enjoyed the straightforwardness of the framework because it addresses one of the key debates in the market today. From our perch at KKR, we think that Fire, not Ice, is the bigger risk. However, given ongoing COVID shutdowns, the uncertainty surrounding new variants, and rising geopolitical tensions, our strong view is that a Fire environment will not be too extreme. It is central to why we think real rates will stay long at a time when nominal GDP stays strong.

Exhibit 97

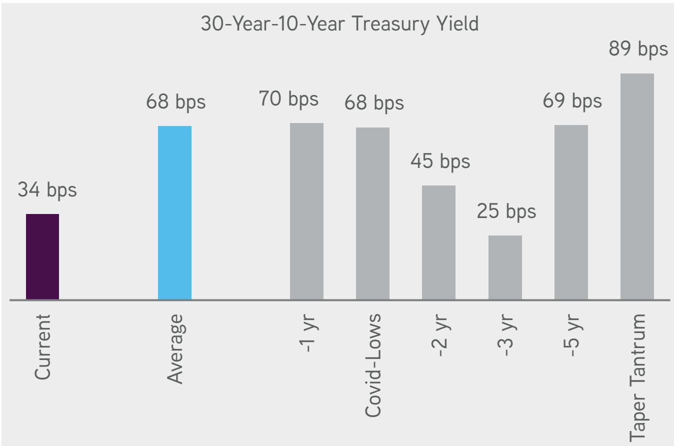
We Believe the Risk Lies at the Long-End of the Curve...



Data as at November 4, 2021. Source: Bloomberg.

Exhibit 98

...Particularly as One Goes Further Out the Curve



Data as at November 23, 2021. Source: Bloomberg.

However, if we are wrong and central bankers did have to withdraw liquidity much faster than expected, then this outcome represents the greater risk to investors, we believe. It could play out one of two ways. First, real rates could rise as growth and inflation expectations are falling; or real rates could stay negative, but permanent, sticky inflation pushes nominal rates towards uncomfortable levels that dent valuations and credit spreads. Either way, these types of events would certainly signal that we are much later cycle than we believe.

To be sure, an overly aggressive central banking community is not our base case, but we do acknowledge that the winds of fortune are starting to change. To hedge against these types of outcomes, my colleagues Phil Kim and Michaela Beck suggest the following:

For those who believe in growth potentially undershooting, or the ICE scenario, we suggest remaining long 5-7 year duration via either outright receiver fixed swaps or 6-month receiver swaptions in the United States. We like this part of the curve, particularly given the divergence between U.S. and European rates in these tenors. Also, this part of the curve is where we believe U.S. rates would be most impacted in an ICE scenario.

For those who believe in the risk of a FIRE scenario (which we think could be more likely), we suggest 6-month payer swaptions on the 5-year swap rate. These instruments, we believe, will perform well if growth and inflation overshoot and the Fed hikes rates at a faster than anticipated pace over the next several years.

Concern #2: Risks Surrounding Geopolitics. While the Biden Administration is taking a different approach to the U.S.-China relationship by trying to create more of a global 'coalition of the willing' to balance China's influence, its intentions are not dissimilar we believe to those of the Trump Administration. Specifically, we think that there is consensus in Washington today for being tough on China as an emergent/emerged competitor capable of threatening the United States' status as a superpower. This mentality is probably best exemplified by Secretary of State Antony Blinken's construct for bilateral relations with China: that the U.S. will 'compete where needed, confront when necessary, and cooperate where possible.' However, this approach is not simply a U.S.-China issue. Many other countries and regions including Australia, Japan, India and the European Union are reexamining political and economic partnerships/cooperation as well as regulatory and data privacy issues as they try to navigate and balance the shifting world order.

There are also no easy answers. Already, rule of law issues and data concerns have become increasingly tense across a wide swath of countries, but we acknowledge that the scope of the lens could widen even more. For example, we expect supply chains to splinter further, particularly in key areas such as 5G, data, semiconductors, and healthcare. That said, there are still trade-offs, including low-cost production, that must be considered before moving aggressively. Just bear in mind that the AmCham China 2021 white paper found nearly 85% of members are actually not considering relocating manufacturing or sourcing away from the China market.

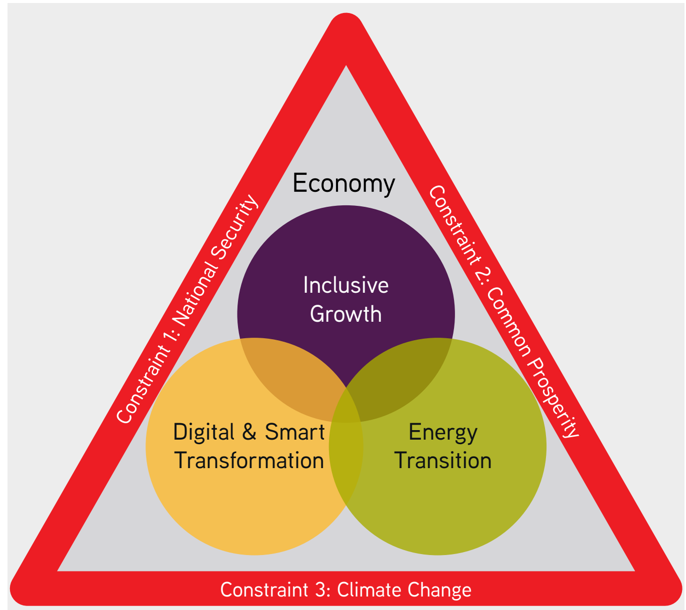
In terms of capital flows, we do want to underscore that our base view remains that capital will continue to flow freely across borders, albeit with greater oversight and approval requirements. The reality is that China needs foreign inflows into its capital account to sustain its growing consumption economy as its current account balance moves into deficit. At the other end of the spectrum, many other countries not only rely on China's exports but also want access to its large consumer market.

So, how does one hedge rising geopolitical risks? We start with the base premise that global investors should not be wildly over-committed to China — or any country for that matter. Consistent with this view, we have seen an increasing number of advisory boards encouraging CIOs to agree to a more diversified Asia-Pacific portfolio, including deploying capital in 'new' markets such as the Philippines, Vietnam and Indonesia. Moreover, within allocations to more complicated markets like China, we also favor investing with local players that understand the nuances of the Venn diagram that we detail in *Exhibit 99* and that can align themselves with China policy.

There are also no easy answers. Already, rule of law issues and data concerns have become increasingly tense across a wide swath of countries, but we acknowledge that the scope of the lens could widen even more. For example, we expect supply chains to splinter further, particularly in key areas such as 5G, data, semiconductors, and healthcare.

Exhibit 99

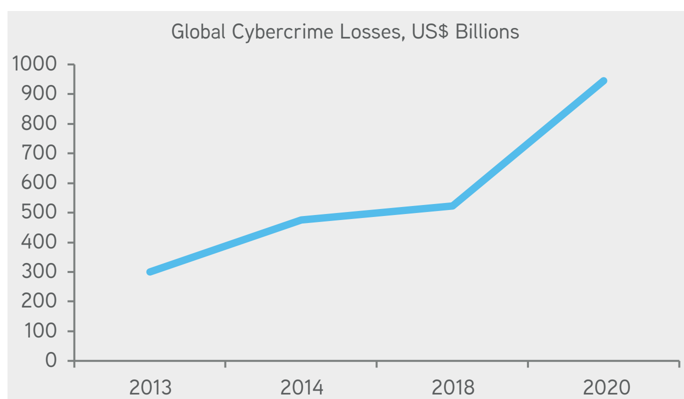
Having a Thoughtful Framework Is Required for Investing in Today's China



Data as at November 30, 2021. Source: KKR Global Macro & Asset Allocation analysis.

Exhibit 100

The Cost of Cybercrime Has Increased More Than 50% Since 2018

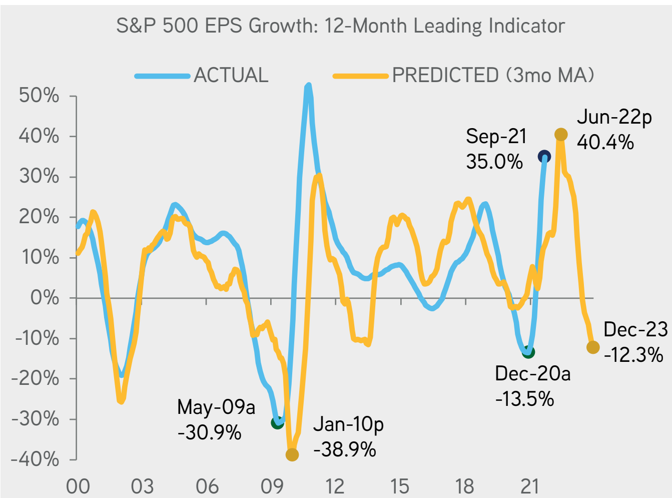


Data as at December 7, 2020. Source: The Hidden Costs of Cybercrime, McAfee and CSIS.

Concern #3: Further Spikes in Commodity Prices.
As we have indicated, our base case is that consumer demand and strong capital expenditures outweigh the 'pinch' from rising input costs. However, given how tight supplies are on a global basis, there is a high degree of risk that we have a further commodity spike in 2022. Such an occurrence would dent demand, puncture corporate margins, and tighten financial conditions. As we approach 2023, as shown in *Exhibit 102*, our proprietary earnings lead indicator is already being negatively impacted by higher energy costs. However, were input costs to rise further from here, it would likely pull forward and intensify the slowdown we are already forecasting for 2023.

Exhibit 101

Our Earnings Growth Leading Indicator Suggests Elevated Input Costs Could Become a More Systemic Issue for Equity EPS by Early-2023...



Our Earnings Growth Leading Indicator is a combination of seven macro inputs that in combination we think have significant explanatory power regarding the S&P 500 EPS growth outlook. Data as at November 15, 2021. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

Exhibit 102

...Importantly, If Oil Prices Go Higher From Current Levels, It Could Intensify the Slowdown We Are Already Forecasting

	Dec-22 Contribution	Dec-23 Contribution	Delta
Oil Prices	4.0%	-17.6%	-21.6%
Real Home Price Appreciation	15.8%	0.9%	-14.9%
Credit Spreads	1.5%	0.0%	-1.5%
Consumer Confidence	1.3%	0.0%	-1.3%
G7 ex U.S. Monetary Policy	0.0%	-0.3%	-0.3%
ISM PMI	-0.9%	-0.9%	0.0%
Baseline Growth	5.3%	5.3%	0.0%
Trade-Weighted USD	0.0%	0.3%	0.3%
Total	**26.9%**	**-12.3%**	**-39.2%**

Our Earnings Growth Leading Indicator is a combination of seven macro inputs that in combination we think have significant explanatory power regarding the S&P 500 EPS growth outlook. Data as at November 15, 2021. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

SECTION V: CONCLUSION

To see things in the seed, that is genius. Inspired by Lao Tzu

As we look ahead, we think now is the time to leverage one's cumulative investment knowledge to better understand what will be required to outperform during what we believe will be a 'different kind of recovery.' In particular, we think a willingness to gain toeholds in emerging ideas that are still in 'seed' form and then invest aggressively behind them in size as one gains conviction may be necessary. Now, all our 'seed' work leads us to tilt our portfolio towards one that will outperform in a structurally higher interest rate, faster nominal GDP environment which favors collateral-based cash flows and pricing power. Flexibility to pivot amongst asset classes and up and down capital structures will also likely be important as well.

Overall, though, we remain pro risk in our allocations. The reality is that, while financial conditions will begin to tighten in 2022, we are starting from an extraordinarily low base when it comes to real rates and an extremely high base when it comes to overall liquidity in the system. Against this backdrop, we favor the following themes and positioning:

1 We continue to think overweight positions in Real Estate Equity, Credit, and Core are still justified; we also favor a similar approach to the various sub-components of Global Infrastructure.

2 We also still suggest an overweight position towards Public Equities and Private Equity. We are largely style and region agnostic, though we do expect Europe and select Emerging Markets as well as Energy, Industrials, and Financials to outperform.

3 The global energy transition is a mega-theme that warrants investors' attention. Importantly, we favor both the old economy part of the transition as well as some of the new entrants, particularly on the technology and infrastructure side. We also see consumer buying patterns changing, as individuals increasingly favor greener vendors with their discretionary purchases.

4 We think the long-end of the fixed income curve is unattractive. The spread between 30-year and 5-year yields looks out of balance with the environment we are forecasting.

5 Given our view that markets will be choppier in 2022, we support positions in Opportunistic Credit and cross-over debt/equity funds that can seize upon periodic dislocations as well as extend debt to higher quality growth companies that no longer want to dilute their shareholders, including themselves. We also like Private Credit opportunities that can both harness the value of the illiquidity premium and provide hedging with their floating rate structures.

6 Finally, we think sizeable allocations towards non-correlated assets, including royalties, blockchain technologies, and music rights, could be additive to one's portfolio.

To be sure, many things could go bump in the night. As such, now is the time to both diversify and build some additional flexibility into one's asset allocation. Consistent with this view (and as we detailed in Section IV), we also suggest spending around 50 basis points of one's total expected return on hedges, including strategies that protect against a change in interest rates, geopolitics, and/or rising commodity prices.

We have entered a unique period where global central bankers, particularly in the United States, are doing everything in their power to stoke some inflation to accelerate growth in nominal GDP by holding interest rates at record low levels. Central bankers are committed to generating sufficient growth to benefit historically marginalized populations, including attempting to close the employment and growth gaps between White and Hispanic and Black Americans.

Exhibit 103

During Historical Fed Tightening Cycles, Equity Returns Are Generally Positive, but Below Average; Oil and Commodities Tend to Perform Better Than Average

Annualized Cross-Asset Performance During Prior Fed Tightening Cycles

				Annualized Performance					
Start	End	Policy Rate	# of Years	S&P 500	P/E Ratio	Commodities	Oil	U.S. Dollar	10y UST Yield
Nov-54	Oct-57	2.7	2.9	5.9%	-0.2		2.8%		
Jul-58	Nov-59	3.3	1.3	15.4%	+0.7		-2.5%		
Jul-61	Nov-66	4.6	5.3	3.3%	-1.4		0.0%		+96
Oct-67	Aug-69	5.3	1.8	0.9%	-0.8		4.7%	1.7%	+65
Feb-71	Aug-71	1.9	0.5	4.6%	-0.8	-7.4%	0.0%	-6.2%	+27
Feb-72	Aug-73	7.2	1.5	-1.5%	-2.9	38.0%	12.3%	-8.6%	+80
Feb-74	Jul-74	4.0	0.4	-40.1%	-6.4	17.1%	0.0%	-5.7%	+210
Nov-76	Apr-80	12.7	3.4	1.2%	-1.0	10.3%	23.3%	-5.9%	+110
Mar-81	May-81	3.8	0.2	-14.7%	-2.5	-12.8%	0.0%	62.1%	+229
Apr-83	Aug-84	2.8	1.3	1.0%	-2.3	-3.9%	-3.5%	10.0%	+186
Nov-86	May-89	3.8	2.5	9.4%	-1.2	6.1%	10.4%	-1.2%	+58
Jan-94	Feb-95	2.9	1.1	1.1%	-2.6	-0.1%	18.1%	-9.9%	+145
May-99	May-00	1.5	1.0	8.7%	-2.3	38.2%	54.2%	6.1%	+65
May-04	Jun-06	4.0	2.1	5.8%	-1.4	20.5%	26.0%	-2.1%	+24
Nov-15	Dec-18	2.2	3.1	5.7%	-0.7	3.4%	2.7%	-1.3%	+15
	Median Return	**+3.8pp**	**1.5 years**	**3.3%**	**-1.4x**	**6.1%**	**2.8%**	**-1.7%**	**+80bp**
Memo: Thru-Cycle Median Return				***9.4%***	***0.0x***	***2.7%***	***0.0%***	***-0.2%***	***+5bp***

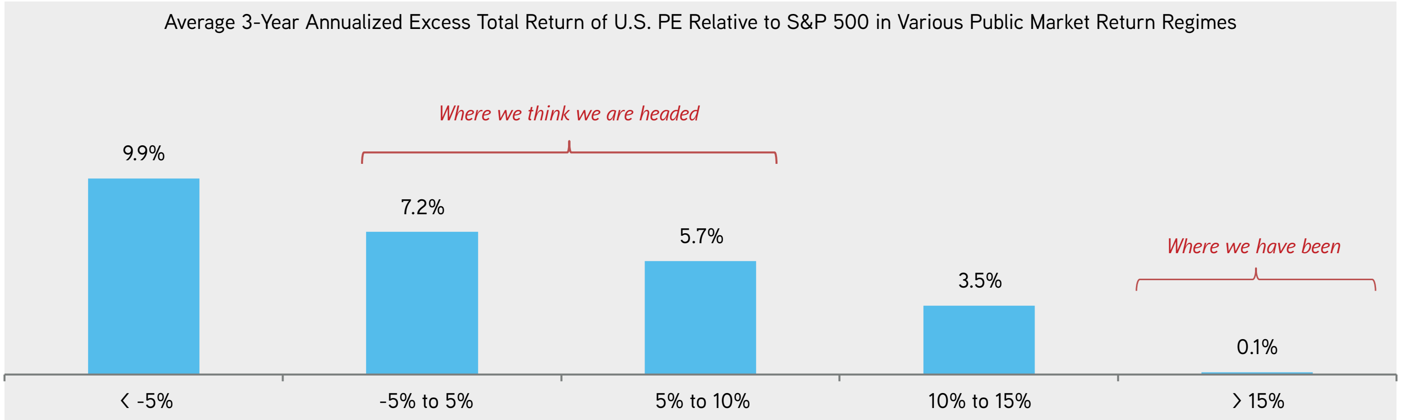
Data as at October 31, 2021. Note: Commodities refers to SPGSCI Index; Oil refers to WTI Oil; log-returns shown. Source: KKR Global Macro & Asset Allocation analysis, Haver Analytics, Bloomberg.

We also support tilting towards investments that can leverage the illiquidity premium in today's low interest rate environment. One can see the logic to our thinking in *Exhibit 104*, which shows that the benefits of the illiquidity premium actually tend to increase as the cycle matures. However, we are not advocating just dialing up risk at the expense of liquidity. So, similar to what we learned from our 2021 Insurance Survey *(Dream Big)*, we think that now is the time to move up — not down — the quality curve in both liquid and illiquid investments.

However, we are not advocating just dialing up risk at the expense of liquidity. So, similar to what we learned from our 2021 Insurance Survey (*Dream Big*), we think that now is the time to move up — not down — the quality curve in both liquid and illiquid investments.

Exhibit 104

Private Equity Tends to Show the Strongest Long-Term Outperformance at Times When Public Market Returns Are Moderate



Data Observation Period = 1Q86-4Q20. Source: Cambridge Associates, S&P, KKR Global Macro & Asset Allocation analysis.

Overall, though, we remain confident about our long-term game plan of marrying the macro with the micro. To be sure, there will be events that surprise even the most seasoned investors in the coming months. However, our strong view is that learning from the past, particularly as it relates to the relationship between nominal interest rates and nominal GDP, actually holds the key to the future, as we look ahead towards a more reflationary environment. Moreover, if these learnings are combined with a consistent, thoughtful, top-down approach to both thematic investing and asset allocation, we believe the potential for outsized alpha generation in 2022 remains quite compelling.

We continue to think overweight positions in Real Estate Equity, Credit, and Core are still justified; we also favor a similar approach to the various sub-components of Global Infrastructure.

Important Information

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Kohlberg Kravis Robert & Co. L.P.
30 Hudson Yards
New York, New York 10001
+ 1 (212) 750 8300
www.kkr.com