KKR

In Brief

CTRL + ALT + CREDIT

Credit & Markets | March 2026

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Credit markets entered 2026 in better shape than many expected after a year marked by persistent uncertainty, sector-specific stress, and a steady flow of headlines. Markets remained open, income continued to compound, and defaults were contained in aggregate. More recently, volatility tied to developments in AI has added another layer of complexity for investors to navigate. Market news has shared no shortage of concerns. Macro and geopolitical uncertainty remain elevated, software valuations are being reassessed, defaults are expected to rise from historically low levels, and private credit has faced a more challenging narrative. Public markets, particularly in storied sectors, have experienced increased volatility, while investors continue to debate the durability of current valuations.

Yet despite these concerns, credit spreads remain near historical tights on a relative basis. This raises an important question. If the headlines feel increasingly uncertain, why do credit markets still appear relatively calm?

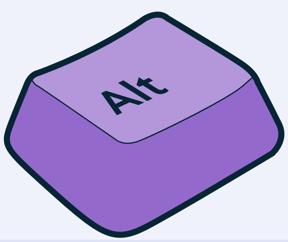
From our vantage point, the data tells a more balanced story. Defaults have normalized after a benign period but have not signaled a broad deterioration in credit conditions. What we are seeing instead is greater dispersion between stronger and weaker borrowers as well as between managers. In other words, the market is becoming more selective.

Periods like this can feel uncomfortable, but they are often when disciplined investors find the most attractive opportunities. The benefits of diversification, global reach, and thoughtful deployment through the cycle tend to matter most when markets are uncertain.

As a result, we remain focused on moving up-in-quality, diversifying across asset classes and regions, and thoughtful portfolio construction. We believe this market calls for selectivity and that generating excess return will require proprietary origination and the ability to make “your own luck”. **In this environment, outcomes will be designed, not discovered**.

This edition of *In Brief* draws out the key themes explored in depth in our recent investor letter, **CTRL + ALT + CREDIT**.

Controlling the inputs. Prioritizing higher-quality borrowers, durable capital structures, and disciplined underwriting that emphasizes downside protection. In this environment, outcomes will be driven by intention and portfolio construction rather than renting market beta.



Thinking in alternatives. Leveraging the full breadth of our platform to integrate private, proprietary origination, and cross-asset solutions into multi-asset credit portfolios. Scale, connectivity, and collaboration across strategies allow us to access differentiated opportunities and shape outcomes rather than react to them.

Asset selection as alpha. Dispersion remains elevated and the cost of being wrong is higher. Avoiding mistakes and allocating capital with precision may be the biggest contributor to return in this market. In our view, the most important metric is the return per unit of risk investors are taking – not yield in isolation.

1

Income will continue to compound, but structure will increasingly determine outcomes.

Key takeaway: In 2025, income, not price appreciation, was the dominant driver of returns. With spreads tight across many segments, where you sit in the capital structure and how a deal is structured can make the difference between income that compounds steadily and income that is interrupted at the wrong time.

Despite volatility, credit delivered resilient performance across regions. Where outcomes typically diverged was in credit quality: higher-quality credits performed as expected, while weaker structures did not get the benefit of the doubt.

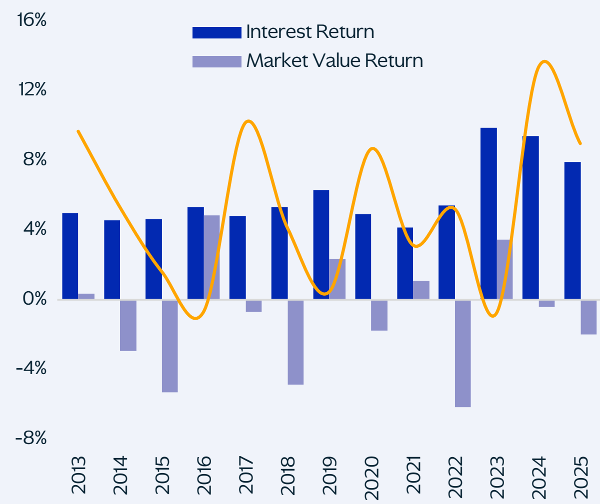
Why it matters: When the margin for error is thin, capital preservation and downside protection matter more important than chasing incremental yield.

Multi-asset credit has evolved from a tactical allocation into a structural tool for diversification and income stability, giving investors access to multiple credit sources that behave differently across market environments.

EXHIBIT 1

Income continues to be the driver of returns

U.S. Leveraged Loan Return Decomposition

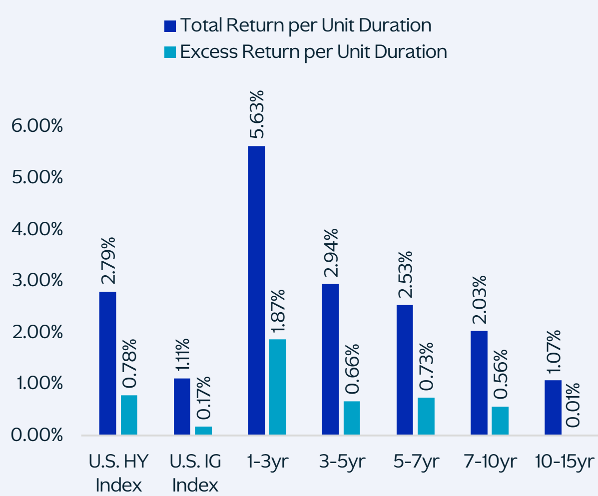


Sources: PitchBook | LCD, LSTA Morningstar and KKR Credit Analysis as of December 31, 2025.

EXHIBIT 2

Short-dated U.S. high yield offers an attractive return per unit of risk in a tight market

US HY Return per Unit of Duration



Source: ICE BofAML and KKR Credit Analysis as of December 31, 2025.

2

Intentional portfolio construction will be a structural advantage.

Key takeaway: Multi-asset credit has evolved from a tactical allocation into a structural tool for enhanced diversification and income stability. Access to origination, structure, and cross-asset insight has become a source of alpha.

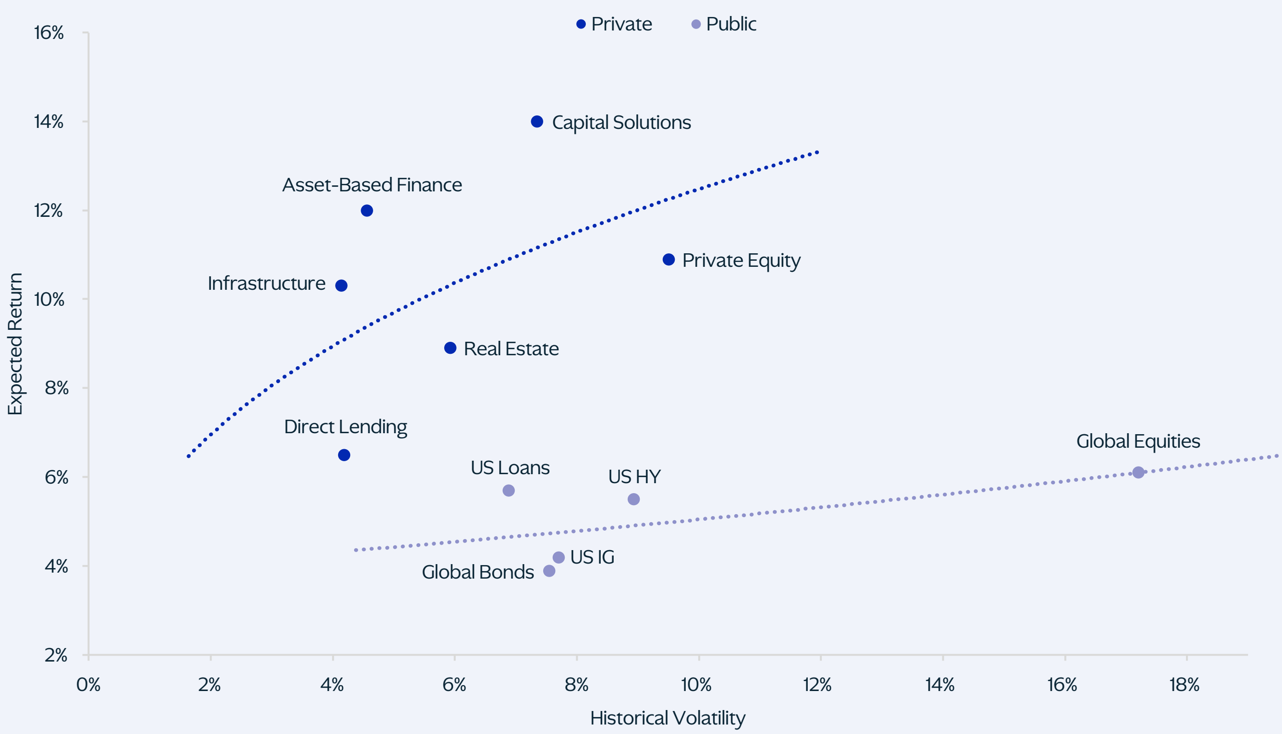
Investors who are leaning into multi-asset credit portfolios that combine public and private credit are capturing opportunities to generate income from different sources and asset types that respond differently to market stress. These portfolios are not about taking more risk, but different risk. Additionally, incorporating a liquid credit allocation into a private credit multi-asset portfolio can provide an efficient way to deploy what would otherwise remain as cash and helps mitigate ramp up period inherent in many drawdown vehicles.

Why it matters: In a harder market, we believe resilience is engineered through intentional design. By combining structurally protected income across public and private credit, multi-asset credit portfolios have historically occupied a more efficient risk-return profile than public equity benchmarks.

EXHIBIT 3

A multi-asset public and private credit portfolio can provide structurally protected income

Illustrative Risk/Return Snapshot Across Asset Classes



Source: KKR Global Macro & Asset Allocation as of December 31, 2025.

3

Although defaults have felt loud, they are not signaling a systemic breakdown.

Key takeaway: Defaults have been elevated in parts of the leveraged loan market over the past three years largely due to rolling recessions rather than a broad deterioration in credit quality. It is important to remember that in senior secured lending, it would take a severe and prolonged spike in defaults combined with weak recoveries to materially impair overall returns.

Average leveraged loan defaults were approximately 3.8% over this period. Stress was often concentrated in specific sectors and issuers, tied to secular pressure points, capital structure composition, or business models not suited to a higher-for-longer cost of capital. In direct lending, larger companies with more durable earnings profile, i.e. greater than $50 million of EBITDA, fared better than smaller ones.

Importantly, portfolio construction, diversification and consistent position sizes are going to be critical in building a resilient direct lending portfolio that provides meaningful cushion against losses. For example, an unlevered portfolio generating roughly 8% annual income could withstand approximately 33% cumulative defaults with only 50% recoveries before returns approach breakeven (i.e. 0%). In other words, defaults would have to rise significantly, and recoveries would have to be very poor before returns moved meaningfully lower. In an environment severe enough to produce that level of credit stress, public equity markets would likely be experiencing far greater volatility.

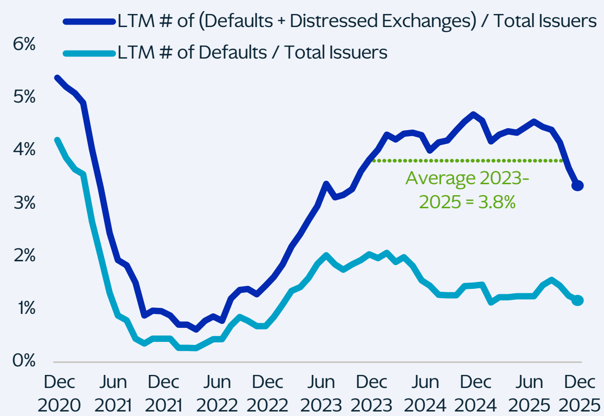
This is where an important misconception deserves to be addressed directly. Weaker capital structures or cyclical sector pressure are risks that can exist in public and private markets alike. The differentiator is not the label attached to the asset, but the quality of the underlying borrower and underwriting discipline embedded at entry.

Why it matters: Today's environment looks more like a normalizing cycle than the start of a credit crisis.

EXHIBIT 4

Defaults across leveraged loan issuers has been elevated

Defaults have been a result of rolling recessions

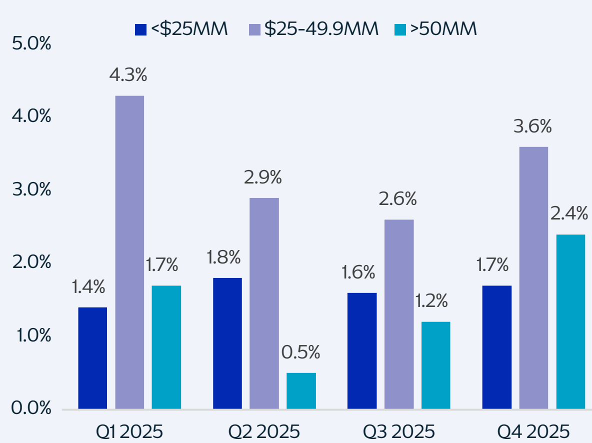


Source: BofA Global Research, ICE Data Indices LLC, LCD/Pitchbook, Proskauer Private Credit Default Index and KKR Credit Analysis as of December 31, 2025.

EXHIBIT 5

In Direct Lending, larger borrowers with durable business models have fared better than smaller ones

Defaults by EBIDTA in Direct Lending



Source: BofA Global Research, ICE Data Indices LLC, LCD/Pitchbook, Proskauer Private Credit Default Index and KKR Credit Analysis as of December 31, 2025.

4

Credit selection matters more than ever

Key takeaway: Dispersion remains elevated and the cost of being wrong is higher. Avoiding mistakes and allocating capital with precision may be the greatest contributors to return. We are focused on return per unit of risk, not yield in isolation.

The recent sell-off in software highlights this dynamic. While parts of the market are reassessing software risk through the lens of AI disruption and valuation compression, this pattern is consistent with a normalizing credit cycle versus a signal of systemic stress. Even within software, outcomes are increasingly dispersed with credit risk being driven by business model durability, cash flow visibility and underwriting discipline. Our lending approach in software focuses on companies with predictable cash flows, flexible cost structures, and low capital intensity. As a result, our exposure to more speculative, annual recurring revenue (ARR)-dependent, or high growth nascent software businesses has remained intentionally limited.

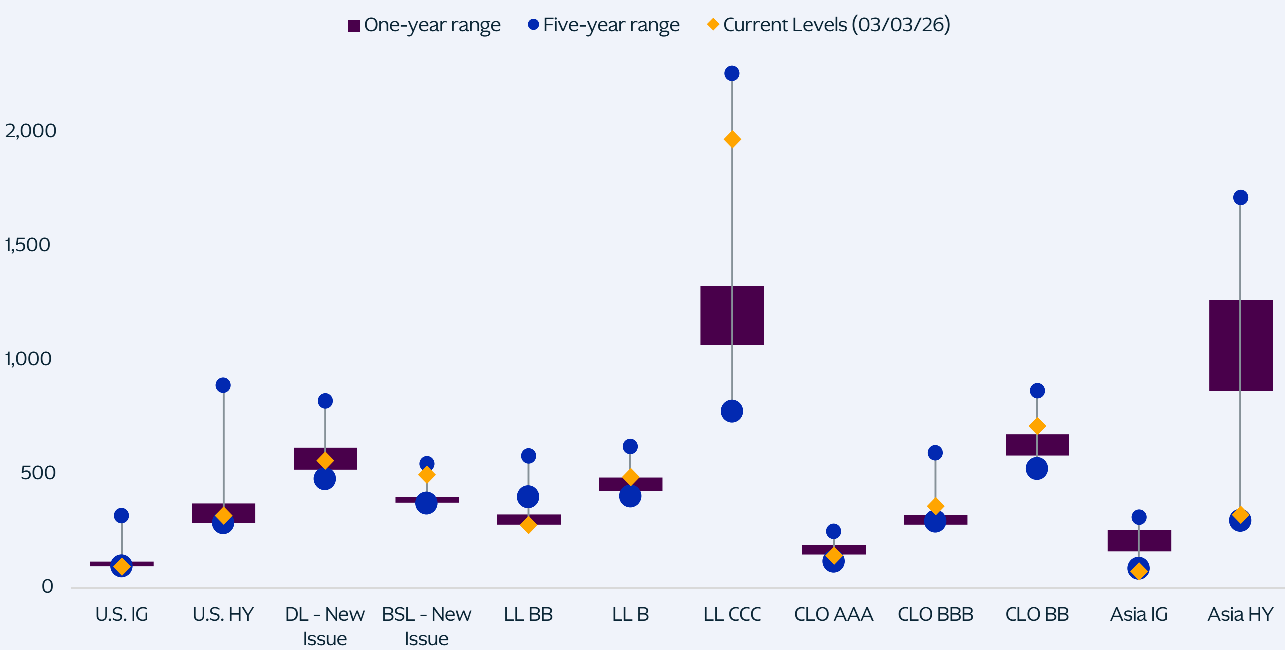
Why it matters: In a normalizing credit cycle, avoiding mistakes and underwriting durable businesses may be the most important drivers of return.

In a market defined by uncertainty and episodic volatility, we believe complacency poses the biggest risk. By focusing on durable income, resilient capital structures, and intentional diversification, we believe investors can navigate 2026 with confidence.

EXHIBIT 6

Dispersion remains elevated across global credit markets

Spread Ranges (Bps) Across Asset Classes



Source: S&P LSTA LL Index, Ice BofAML, JPMorgan CLLIE, Bloomberg and KKR Credit Analysis as of March 03, 2026

Past performance is not a guarantee of future results

Private		
Asset Class	**Expected Return Source**	**Volatility Proxy**
Private Equity	KKR Capital Market Assumptions	Cambridge Buyout
Real Estate	KKR Capital Market Assumptions	Cambridge Real Estate
Infrastructure	KKR Capital Market Assumptions	Cambridge Infrastructure
Direct Lending	KKR Capital Market Assumptions	Cambridge Senior Debt
Asset-Based Finance	KKR Marketed Net Returns	KKR ABF Composite
Capital Solutions	KKR Marketed Net Returns	KKR Capital Solutions Composite
Public		
Asset Class	**Expected Return Source**	**Proxy**
Global Bonds	KKR Capital Market Assumptions	Bloomberg Global-Aggregate Total Return Index Value Unhedged USD
US Loans	KKR Capital Market Assumptions	Morningstar LSTA US Leveraged Loan TR USD
US IG	KKR Capital Market Assumptions	ICE BofA US Corporate Index
US HY	KKR Capital Market Assumptions	ICE BofA US High Yield Index
Global Equities	KKR Capital Market Assumptions	MSCI World Index

Note: Pairwise correlations derived from historical quarterly returns (from 3/31/11 to 12/31/24) of public proxies, for each private credit strategy. The Private Credit strategies are modelled using the following proxies: US DL: Morningstar LSTA US Leveraged Loan TR USD; EU DL: Morningstar European Leveraged Loan TR EUR; Junior Capital: 55% S&P LCD Second Lien Index, 45% ICE BofA US High Yield Index; Opportunities / Capital Solutions: 10% FTSE NAREIT Mortgage REITS TR Index, 25% ICE BofA US High Yield Index, 25% Morningstar LSTA US Leveraged Loan TR USD, 40% ICE BofA US Convertible Index; Asia Credit: 35% ICE BofA Australia Corporate Index (x1.25), 20% ICE BofA High Yield Emerging Markets Corporate Plus India Issuers Index, 22.5% ICE BofA BB Asian Dollar High Yield Index, 22.5% ICE BofA B Asian Dollar High Yield Index; Distressed: ICE BofA US Distressed High Yield Index; CLO Equity: J.P. Morgan CLO B Post-Crisis Total Return Level (x1.20); Asset Based Finance: 50% Bloomberg U.S. Securitized: MBS/ABS/CMBS and Covered TR Index Value Unh (x3.0), 50% ICE BofA AA-BBB US Asset Backed Securities Index (x3.0); SASB CMBS B-Piece: Bloomberg US CMBS 2.0 Aa Index Total Return Index Unhedged; RE Opportunistic Credit: KKR Real Estate Finance Trust Inc, backdated with FTSE NAREIT Mortgage REITS Total Return Index (x0.6)

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