

# Mid-Year Outlook for 2026

## In Brief

Global Macro Trends | June 2026



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Access our full Insights note  
[The Divergence Conundrum:  
Mid-Year Outlook for 2026.](#)

At KKR, our 2026 Mid-Year Outlook reaches a clear conclusion: the cycle continues, but the rules of the game are changing. The global economy is moving from a low-cost, efficiency-first model towards one where redundancy, reliability, resilience, and control carry a higher premium. We are calling this environment the 'Divergence Conundrum,' an investing landscape where certain segments of the economy and markets are starved for capital, while others are flush with attractive financing options. For investors, the implication is not to avoid risk, but to be more disciplined in how that risk is owned.

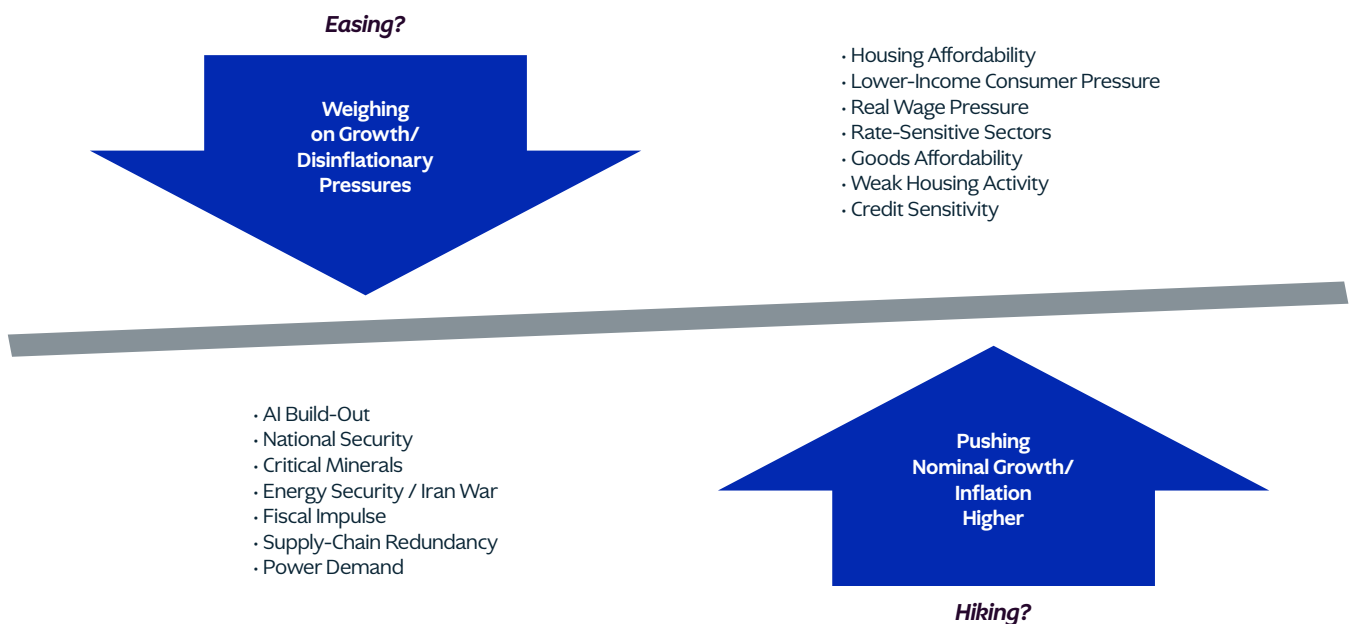
# 1

We believe the ‘Divergence Conundrum’ is the defining feature of this cycle. For investors, we think this is a time to stay up in quality, focus on durable cash flows, and lean into managers and assets that can create value through operational improvement, productivity gains, and disciplined capital allocation.

The ‘Divergence Conundrum’ thesis encapsulates our view that the economy is no longer moving in one clean direction. Some areas, like AI, productivity, high-end services, and national security, are still attracting capital and driving growth. Other areas, like housing, lower-income consumers, old economy capex, and rate-sensitive sectors, remain under pressure. For investors, the question is whether the economic resilience they are seeing is increasingly concentrated in a few pockets of strength rather than broad-based. For policymakers, the challenge is setting monetary policy for an economy that is hot in some areas and cold in others.

**Exhibit 1:** The ‘Divergence Conundrum’ Is Poised to Become More Extreme as the Cycle Continues. Against This Backdrop, the Complexity of Economic, Societal, and Monetary Considerations Becomes More Challenging

## The Divergence Conundrum

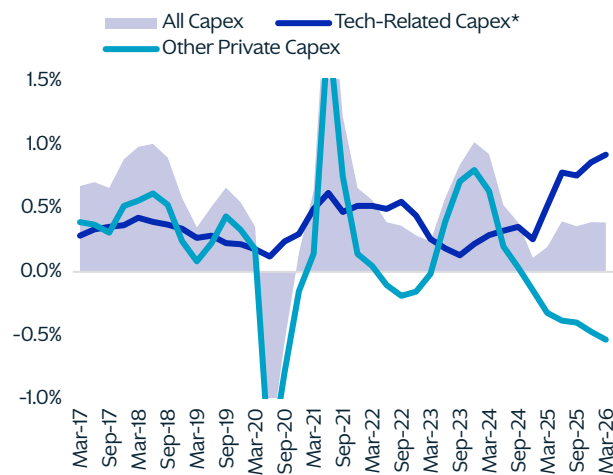


Data as at May 28, 2026. Source: KKR Global Macro & Asset Allocation analysis.

## Key Drivers of our Divergence Conundrum Thesis:

**Exhibit 2: Driver One: Economic Momentum Becomes More Concentrated in Tech/AI and National Security Issues**

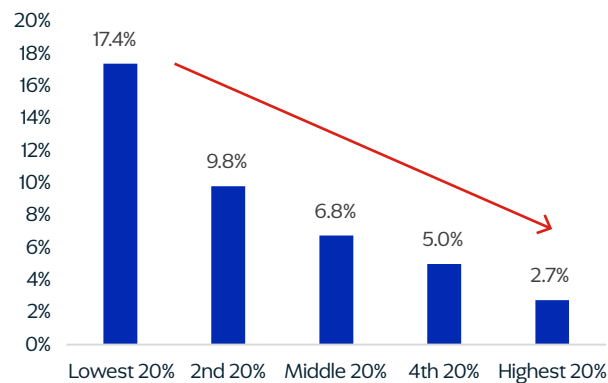
**Capex Contribution to U.S. GDP Growth (LTM, %pts)**



\*Tech-related capex here includes Tech Equipment, Software IP, and Data Center Construction spending. Net imports of technology goods are deducted from technology capex. Data as at May 28, 2026. Source: U.S. Bureau of Economic Analysis, Haver Analytics.

**Exhibit 3: Driver Two: Critical Minerals and Oil Supplies Increasingly Become Chokepoints for Economic Leverage and Exacerbate K-Shaped Dynamics**

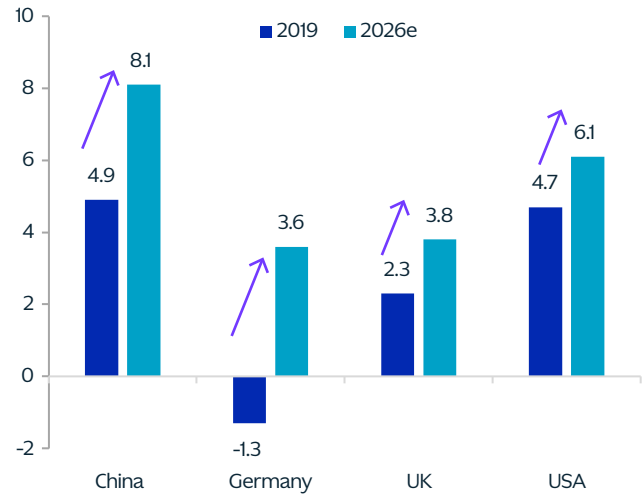
**Annual Energy Spend as a % of Pretax Income, by Income Quintile**



Data as at March 10, 2026. Source: U.S. Bureau of Labor Statistics Survey of Consumer Expenditures, Haver Analytics.

**Exhibit 4: Driver Three: Leverage Concentrates In Governments, Not Consumers**

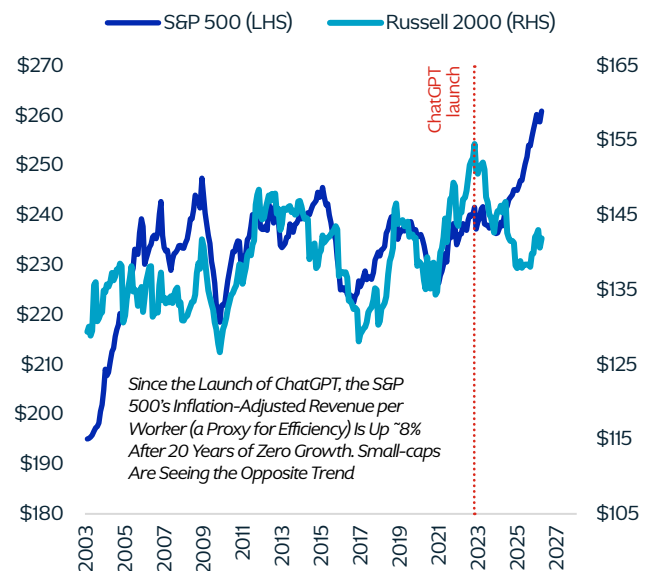
**Fiscal Deficits (% of GDP, Positive = Deficits)**



Data as at March 30, 2026. Source: Ministry of Finance of China, Bloomberg, KKR Global Macro & Asset Allocation analysis.

**Exhibit 5: Driver Four: The Productivity Boom Likely Favors Capital Over Labor and Consumption**

**U.S. Large-Cap vs. Small-Cap Efficiency Gains, Real Revenue Per Worker**



Data as at April 30, 2026. Source: Wells Fargo Securities, FactSet, KKR Global Macro & Asset Allocation analysis.

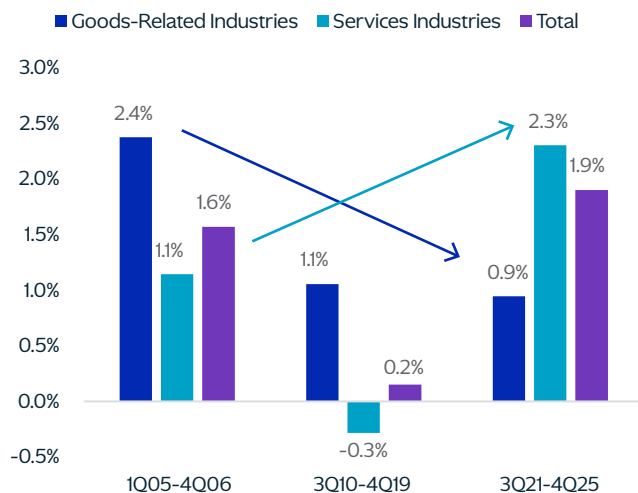
# 2

Productivity is the secret sauce extending the business cycle, but the benefits are uneven. For investors, the message is to focus on companies and strategies that can convert productivity into margin durability, revenue-per-worker gains, and operational improvement.

The global productivity boom shows no signs of abating. Importantly, services, not goods, appear to be driving productivity gains this cycle, while AI is still in the early stages of becoming an equally powerful tailwind.

**Exhibit 6:** Services Are Experiencing a Boom Not Just in Consumption, But Also in Productivity

### Annualized Growth of Real Output Per Hour of All Employees During Recent Expansions



Industries weighted by gross output. Goods-related industries: Mining, Utilities, Construction, Manufacturing, Wholesale Trade, Transportation & Warehousing. Services-related industries: Retail, Information, Finance & Insurance, Real Estate Rental and Leasing, Professional & Business Services, Educational Services, Healthcare and Social Assistance, Arts & Entertainment, Accommodation and Food Services. Data as at May 11, 2026. Source: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

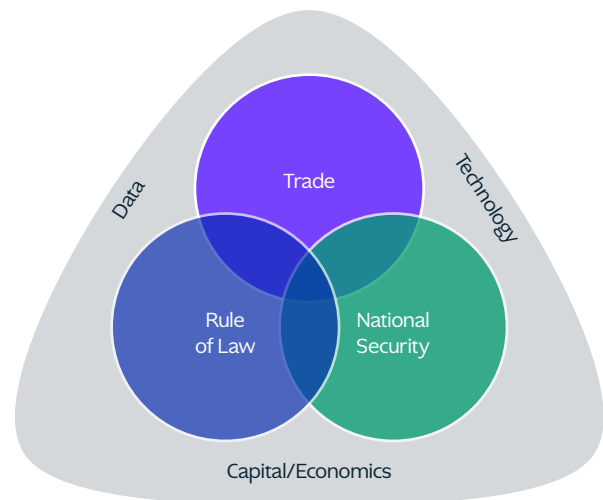
# 3

The ‘Security of Everything’ Is becoming a capital allocation decision. For allocators of capital, this argues for more exposure to assets that provide resilience, reliability, and redundancy.

Security is becoming a core operating assumption for CEOs and policymakers. This mega theme began with defense and physical security, but now extends across cyber, data, shipping lanes, food and water, energy, critical materials, components, and processing capacity. From an investment standpoint, we think this argues for exposure to infrastructure and other Real Assets tied to this transition, business models that help companies navigate the adjustment, and management teams that are already ahead of the curve in managing supply chain complexity, resiliency, and security risk.

**Exhibit 7:** National Security Is Now Bundled With Rule of Law and Economics/Trade, and Wrapped in the Complexity of Digitalization

### Blurring of Lines Across Economics, Rule of Law, and National Security



Data as at May 30, 2026. Source: KKR Global Macro & Asset Allocation analysis.

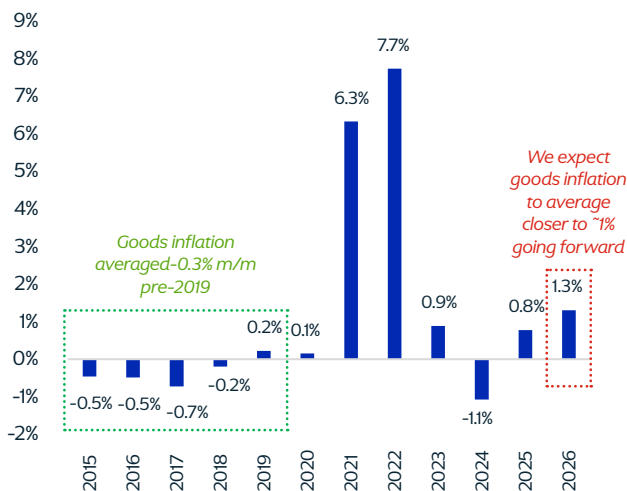
# 4

As part of our *Regime Change* thesis, we expect a higher resting heart rate for inflation this cycle. As such, we think portfolios need more nominal GDP linkage.

We have more conviction in our *Regime Change* asset allocation framework, including a higher resting heart rate for inflation. Goods inflation is no longer the persistent disinflationary force it was in the last cycle, while geopolitics, energy, tariffs, transport costs, and supply-chain disruption are keeping a firmer floor under prices.

**Exhibit 8:** We Have Moved Away From Structural Goods Deflation. We Expect Goods Inflation to Settle About 100 Basis Points Above Pre-Pandemic Levels

### Annual Goods Inflation, Y/y %



Data as at April 30, 2026. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

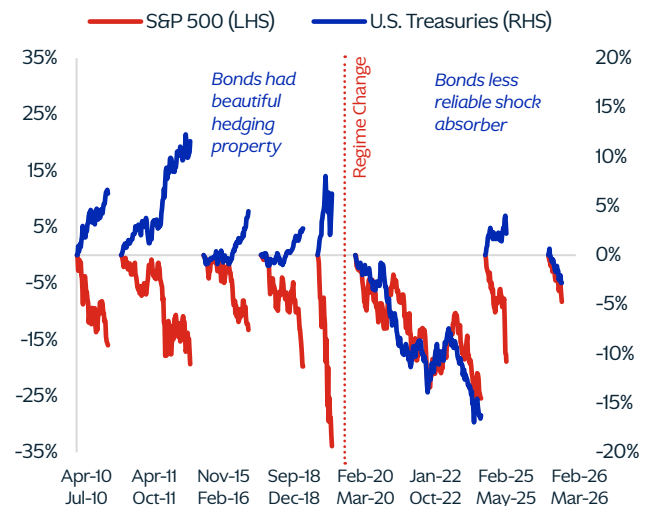
# 5

We believe the relationship between stocks and bonds is changing. In a world of higher deficits, stickier inflation, and more frequent geopolitical shocks, investors should be careful about relying too heavily on long-duration Treasuries as safe havens.

For portfolios, this argues for adding differentiated return streams beyond traditional public equities and fixed income. The goal is not to replace public markets, but to complement them with exposures that can improve diversification, income, and resilience across a more volatile cycle.

**Exhibit 9:** Stocks and Bonds Continue to Offer Diminished Diversification Benefits

### UST Performance During Prior S&P 500 Corrections



**Past performance is no guarantee of future results.** Indexes are unmanaged. It is not possible to invest directly in an index. Data as at March 27, 2026. Source: Bloomberg, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

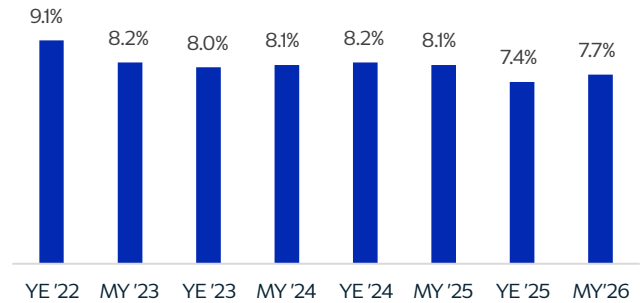
# 6

Expected returns are not unattractive, but they are becoming harder to capture across most asset classes. As a result, we believe investors should be more deliberate about the return streams they underwrite, the structures they use, and the managers they select.

Broad beta, multiple expansion, and falling rates are likely to do less work than in the last cycle. In our view, the advantage will go to investors who can identify not just where return exists, but also whether those returns are durable, diversified, and repeatable.

**Exhibit 10:** The Expected Return Differential Between the Best and Worst Performing Assets in a Portfolio Remains Tight

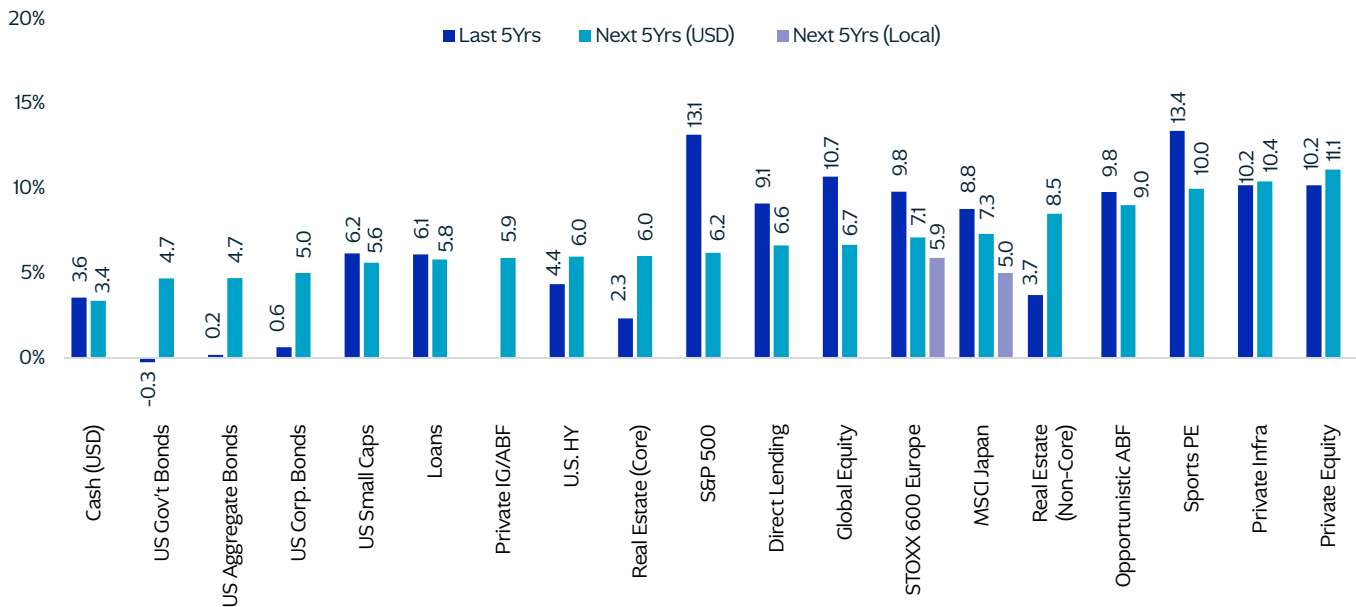
### Maximum - Minimum Expected Return Differential



YE refers to Year End and MY refers to Mid-Year. **Past performance is no guarantee of future results.** Data as at April 30, 2026. Source: KKR Global Macro & Asset Allocation analysis.

**Exhibit 11:** We Continue to Think Expected Returns Over the Next Five Years Will Look Quite Different Relative to the Past Five Years

### Expected Returns (%)



Private Real Estate and Infrastructure refer to non-core exposures. Last five years return from April 30, 2021 to April 30, 2026 for consistency across asset classes. **Past performance is no guarantee of future results.** For additional details regarding expected returns please refer to the Important Information section. Private Markets as at 4Q2025. Source: Bloomberg, Cambridge Associates, KKR Global Macro & Asset Allocation analysis.

# 7

Private Markets investors should tilt towards operational improvement, not financial engineering. We are constructive on corporate carve-outs, public-to-private opportunities, and situations where investors can control outcomes.

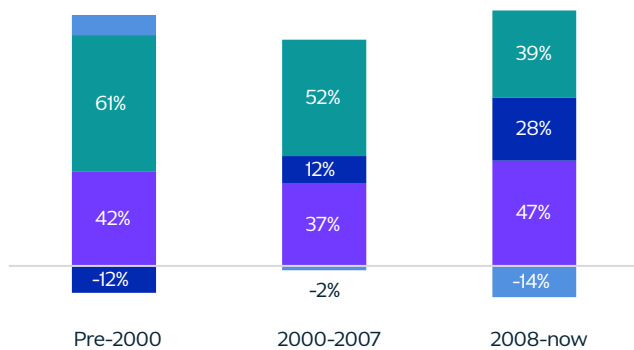
The next leg of returns is likely to be driven by execution, governance, pricing, procurement, technology adoption, margin improvement, and revenue-per-worker gains, not by adding additional leverage.

**Exhibit 12:** We Think Value Creation and Exposure to Thematic Tailwinds Is More Important In a World Where Leverage Is Increasingly Less Helpful to Overall Returns

### Value Creation Percent Contributions in Global Buyout Investments

- Deleveraging
- Leverage
- EBITDA Multiple Expansion
- Operational Improvement (Revenue Growth and Margin Expansion)

*Embedded leverage in buyout returns has been declining on a structural basis, while operational improvement levers have remained a persistently strong driver of returns*



Source: KKR Global Macro & Asset Allocation analysis of data presented in Binfare, M., Brown, G., Ghent, A., Hu, W., Lundblad, C., Maxwell, R., Munday, S., & Yi, L. (2022). "Performance analysis and attribution with alternative investments." Institute for Private Capital White Paper, Kenan Institute of Private Enterprise. <https://uncipc.org/wp-content/uploads/2022/02/IPC-Performance-Attribution-Analysis-2022-01-23.pdf>.

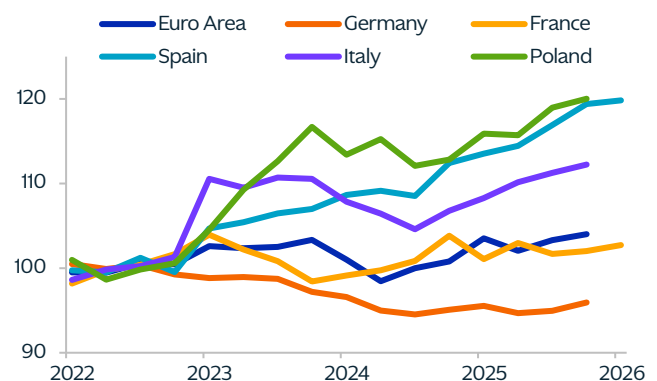
# 8

Europe and Asia remain compelling long-term opportunities. Investors who remain overly U.S.-centric may miss out on what could be two of the more durable sources of long-term growth and diversification.

Markets still too often view Europe through the lens of Germany's industrial slowdown, while underappreciating the resilience emerging across the periphery and the policy-supported investment cycle. Within Europe, we favor opportunities tied to domestic durability, infrastructure, defense, grids, energy systems, logistics, and the European periphery. Meanwhile, Asia continues to stand out across private and public markets, driven by corporate reform, intra-Asia trade, AI hardware and enabling infrastructure, and consumption upgrades. Japan and Korea remain important corporate reform stories, while India and Southeast Asia remain expressions of the Emerging Markets consumption upgrade.

**Exhibit 13:** The Periphery Is an Important Reminder That European Macro Is Not Uniformly Weak

### Real Gross Fixed Capital Formation (2022=100)



Data as at 1Q2026. Source: Eurostat, KKR Global Macro & Asset Allocation analysis.

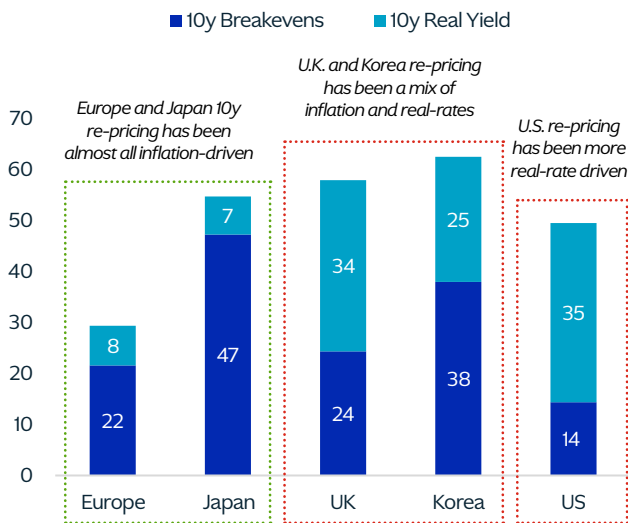
# 9

Just as the equity cycle is broadening beyond the narrowest leadership, volatility in global bond markets is broadening across countries, albeit for different reasons. The drivers of yields differ meaningfully by region.

This broad-based decline in bond prices underscores our view that fixed income markets are being asked to offer more compensation, a trend we view as sustainable. Importantly, however, we do not think investors should treat the global bond sell-off as one uniform event.

**Exhibit 14:** While the Broad Yield Backup Has Been Global, the Underlying Mix Between Real Yields and Inflation Compensation Has Differed Meaningfully Across Countries

### 10-Year Rate Decomposition



Data as at May 29, 2026. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

# 10

We feel less constructive about the supply/demand setup for equities than we did a year ago, even as credit technicals remain more supportive. For investors, this does not make equities unattractive, but it does raise the bar for selectivity, quality, and earnings durability.

The reopening of IPO markets could make the public equity supply/demand backdrop less favorable than it was when issuance was scarce and investors were crowded into a narrower set of AI and growth proxies. By contrast, credit technicals remain more supportive, as corporate issuance is still relatively contained and demand from spread buyers remains firm.

**Exhibit 15:** Even Amid the IPO Surge, Our Capital Markets Liquidity Indicator Is Trending Only Back to Normal Territory, Not Overheated

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



Data as at April 30, 2026. Source: Bloomberg.

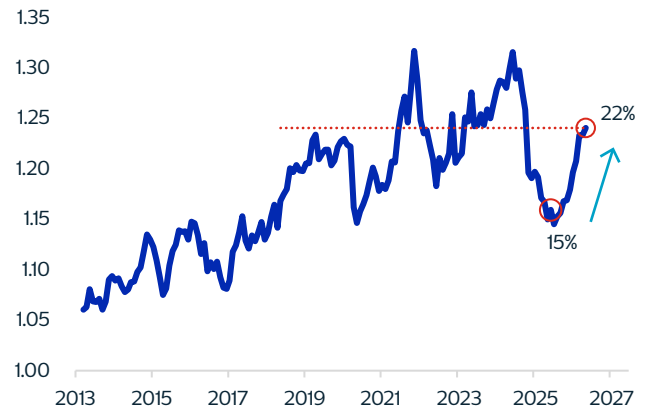
# 11

‘High Grading’ still matters, and the cost to upgrade remains low. For allocators of capital, the message is to stay up in quality while continuing to diversify into assets linked to nominal GDP and operational improvement stories in Private Markets.

For multi-asset portfolios, that means leaning into companies, managers, and assets with stronger balance sheets, more durable cash flows, a greater ability to pass through cost increases, and greater control over outcomes. In Credit, it means emphasizing structure, collateral, documentation, and downside protection, not just headline yield. In Private Markets, it means favoring operational improvement stories and managers who can create value through execution rather than relying primarily on leverage or multiple expansion. Importantly, capital structure flexibility has gone from a ‘nice to have’ to a prerequisite in industries undergoing change.

**Exhibit 16:** Quality Equities Have Rebounded Since the Start of the Year, But We Think That the Trend Is Still Their Friend...

**Relative Valuations: NTM P/E (MSCI AC World Quality\* Index vs. MSCI AC World)**



\*Quality defined as stocks with high ROE, stable earnings, and low leverage. Data as at May 26, 2026. Source: Bloomberg, S&P, KKR Global Macro & Asset Allocation analysis.

**Exhibit 17:** ...While Relative Credit Spreads Are As Compressed As They Were in 2021. As Such, the Cost to ‘High Grade’ Is Quite Low

**Relative Valuations: U.S. Credit Spreads (BBB -AAA Corporates)**



Data as at April 30, 2026. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

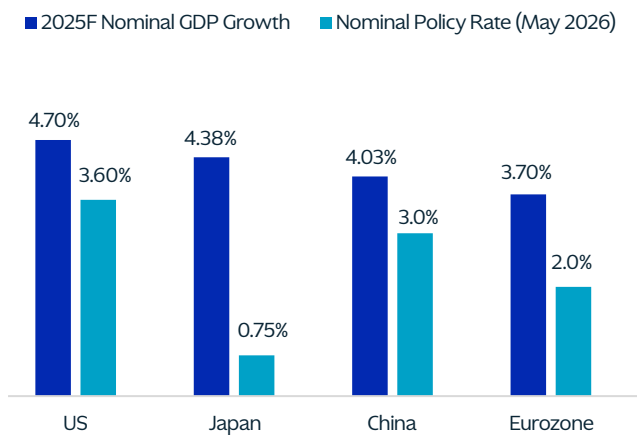
# 12

Collateral-based cash flows are becoming more important as traditional diversification becomes less dependable. Beyond Energy and Infrastructure, this framework applies to Asset-Based Finance, Real Estate Credit, and Structured Solutions.

In a higher nominal GDP growth environment where dispersion is rising and traditional diversification is less dependable, we continue to favor return streams anchored in hard assets and collateral-based cash flows. These exposures do not eliminate volatility, but they can improve the controllability of outcomes through seniority in the capital structure, stronger recovery prospects, and cash flows tied to essential activity in the real economy.

**Exhibit 18:** Nominal GDP Growth Has Been Clearly Outpacing Policy Rates

### Nominal GDP Growth vs. Policy Rate



China policy rate is 1-year. Data as at May 31, 2026. Source: OECD, Bloomberg, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

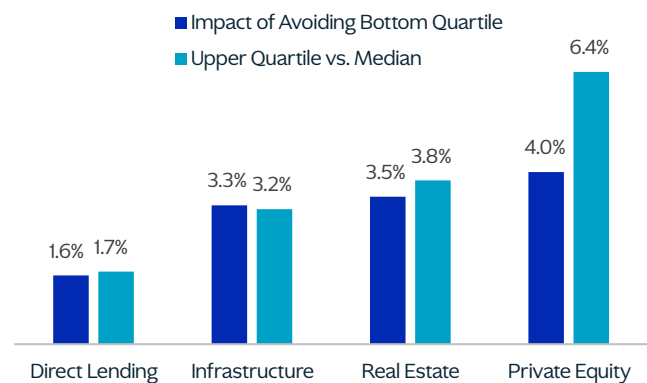
# 13

In a lower-return, higher-dispersion world, manager selection becomes a larger part of the return equation, as the ability to underwrite durable cash flows, structure downside protection, and create value through execution can matter as much as the asset class itself.

This is particularly important in Private Markets, where dispersion across managers remains wide and where control, structure, sourcing, portfolio construction, and operational improvement can become meaningful differentiators.

**Exhibit 19:** Manager Selection Is a Key Driver of Outcomes in Private Markets and Can Add Material Value Relative to a Median Manager

### Historic Manager Dispersion in Private Markets



Based on global benchmarks and average IRRs of 2017-2021 vintage years. Upper Quartile vs. Median is the average difference between the top quartile and median internal rate of return. Impact of Avoiding Bottom Quartile is the difference between the average pooled equally weighted IRR for top three quartiles and the broad universe of managers. Direct Lending is represented by Private Debt: Senior. Source: Cambridge Associates. **Past performance is no guarantee of future results.**

# 14

Structural themes create differentiation, particularly in a flatter return world. For investors, the goal is to own themes that can translate secular demand into durable cash flows and attractive risk-adjusted returns.

In our view, the most attractive themes are those where demand, policy support, private capital needs, and the ability to withstand volatility reinforce one another over multiple years. The goal, we believe, should be to invest behind assets, companies, and managers that can convert those trends into long-term value creation.

<b>Security of Everything</b>	Defense, energy, data, pharmaceutical innovation, and transport security are converging into a multi-year capex cycle.
<b>Power/Energy Infrastructure</b>	Power and energy infrastructure are becoming essential enablers of AI buildout, electrification, reshoring, and national security.
<b>Capital Heavy to Capital Light</b>	Corporate carve-outs and simplification of business models remain important levers for improving returns on capital across Public and Private Markets.
<b>Productivity/Worker Retraining</b>	As automation, digitalization, and AI reshape the labor market, we think portfolios should include exposure to the technologies and business models that help improve workforce efficiency.
<b>Collateral-Based Cash Flows</b>	We would lean into hard assets supported by inflation linkage, floating-rate coupons, and/or long-term contracted revenue streams.
<b>Consumption Upgrades in EM</b>	Rising incomes in India and Southeast Asia drive durable demand for services and financial inclusion.
<b>Intra-Asia Trade</b>	Trade and growth are turning more regional, supporting intra-Asia supply chains and connectivity.

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## Important Information

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**Exhibit 11:** Note: Capital markets assumptions are average across all quartiles annualized total returns. Forecasts represent five-year annualized total return expectations. For private asset classes (Private Credit, Private Infra, Private Real Estate, and Private Equity), returns are representative of the median manager return net of Fee/Carry. Source: Bloomberg, BofA, Burgiss, Cambridge, KKR Global Macro & Asset Allocation analysis. Compound Annual Growth Rate (CAGR) measures an investment’s growth rate, assuming profits are reinvested at the end of each period. Private Real Estate modeled using the Cambridge Associates Real Estate Index. Private Infrastructure modeled using the Cambridge Associates Infrastructure Index. Private Equity modeled using the Cambridge Associates Private Equity Index. Private Credit modeled using the Cliffwater Direct Lending Index. No representation is made that the trends depicted or described above will continue. For Financial Advisor Use Only. Target returns are hypothetical in nature and are shown for illustrative, informational purposes only. Past performance does not guarantee future results. Indexes are unmanaged. It is not possible to invest directly in an index. Model returns are hypothetical in nature and are shown for illustrative, informational purposes only. Past performance does not guarantee future results. For Financial Advisor Use Only.

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