

KKR

Insights

16.3

Global
Macro Trends
June 2026

The Divergence Conundrum

Mid-Year Outlook for 2026

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The Divergence Conundrum

Mid-Year Outlook for 2026

Joseph Chamberlain's warning in 1902 regarding Britain's position amidst intensifying nationalistic competition feels especially relevant today, as the blurring of geopolitics and economics intensifies and the global economy is moving from a low-cost, efficiency-first model towards one where redundancy, reliability, and resilience matter more. Two new realities, more strategic geopolitical chokepoints and greater demand for critical AI inputs, are likely to contribute to increased volatility. Against this complex backdrop, however, our base case remains that the cycle continues because the current global productivity boom persists for longer than expected. The offset is that intensifying strategic competition will likely make economic growth more concentrated across fewer industries and, at times, more extreme than anything we have seen since the start of the second industrial revolution in the 1870s. 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. This reality is contributing to further bifurcation across sectors, societal cohorts, political and monetary views. For investors, the implication is to stay up in quality, adding more non-correlated exposures, and diversifying into assets that are linked to nominal GDP. This approach leads us towards more corporate carve-outs, more collateral-based cash flows, deeper penetration in power and energy markets, more linkages to national security, and more exposure to Asia.

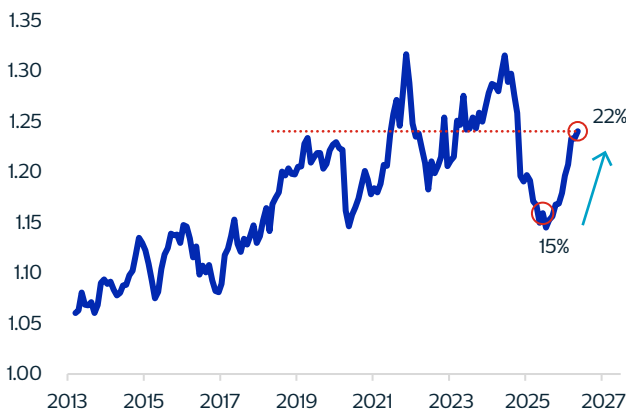
The weary Titan staggers under the
too vast orb of its fate.

— Joseph Chamberlain, British statesman

When we wrote our 2026 Outlook last December, we focused on the notion of ‘high grading’ or upgrading one’s portfolio at a time when the cost to upgrade was still quite low, whether measured in basis points in Credit or multiples in Equities. The good news is that our ‘high grading’ message still feels extremely relevant, as we head into the second half of the year. One can see this in *Exhibits 1* and *2*, respectively. So, our message remains to stay up in quality, continue to diversify into more assets linked to nominal GDP, and own more operational improvement stories in private markets, especially Private Equity. The other piece of good news in our outlook today is that our global productivity boom thesis shows no signs of abating. In fact, we think aggregate productivity could now be accelerating at a faster and more sustainable rate than the more than two percent the U.S. economy has enjoyed in recent quarters (*Exhibit 6*).

Exhibit 1: 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.

The good news is that our ‘high grading’ message still feels extremely relevant.

Exhibit 2: ...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)

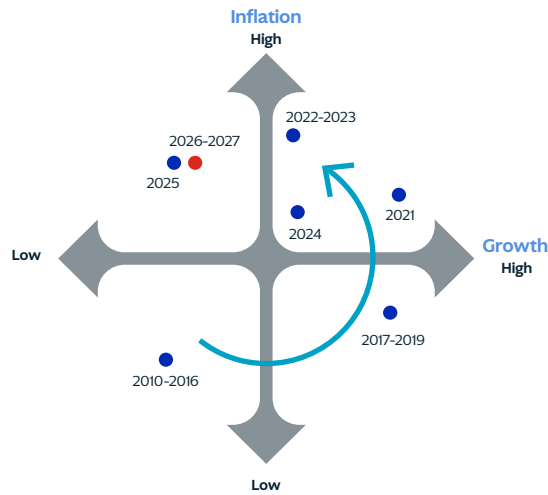


Data as at April 30, 2026. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

On the other side of the ledger, we must also acknowledge that the continued blurring of geopolitics and economics has accelerated even more abruptly than it did post-COVID and Russia’s attack on Ukraine. While it may feel ‘unprecedented’ to some, history actually suggests that this type of transition towards more geopolitical barriers has precedent. For example, during the first great era of globalization, between 1870 and 1914, networks built for commerce, including shipping, insurance, communications and access to key commodities, increasingly became instruments of leverage. Britain’s then dominance in maritime insurance, undersea cables, and critical raw materials gave it strategic advantages that went well beyond traditional military power. However, as Joseph Chamberlain so poignantly said in 1902, “the weary Titan staggers under the too vast orb of its fate.” Indeed, Great Britain ultimately over-extended herself; at the same time, Germany and Japan, recognizing their vulnerability to chokepoints they did not control at the time, responded by building redundancy, securing alternative supply routes, and pursuing greater self-sufficiency.

Exhibit 3: We Still Think 2026 Will Remain a Higher Inflation Environment and That Our Regime Change Narrative Will Continue

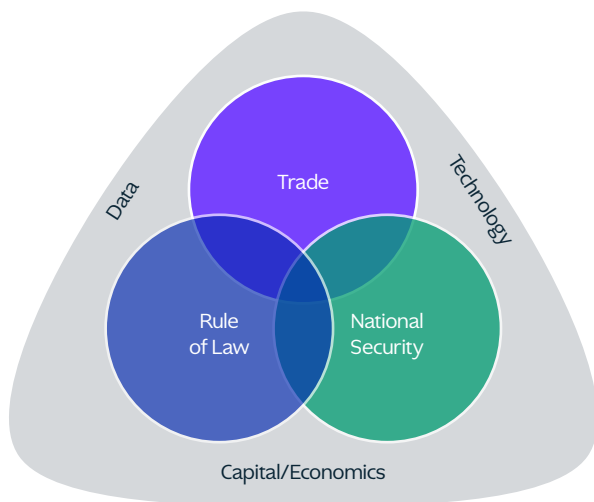
Low and High Growth and Inflation Regimes



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

Exhibit 4: National Security Is Now Bundled With Rule of Law and Economics/Trade, and Wrapped in the Complexity of Digitalization

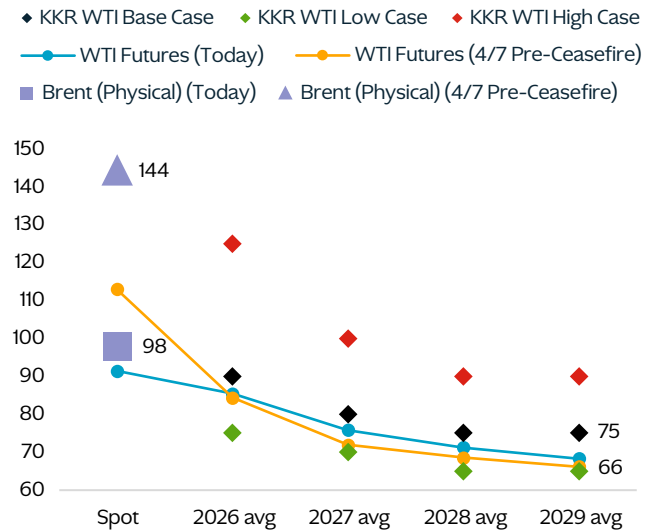
Blurring of Lines Across Economics, Rule of Law, and National Security



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

Exhibit 5: Even with a Settlement, We Think There Should Be a \$5-10 per Barrel Premium for Oil Over the Medium-Term Relative to Pre-War Futures Pricing

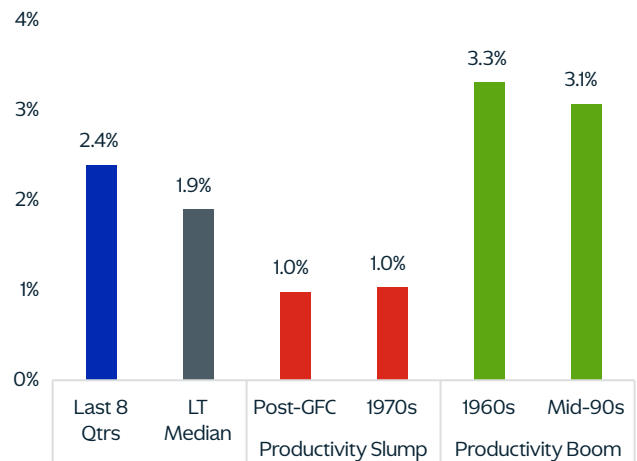
Oil Market Dot Plot (\$/bbl)



Data as at June 8, 2026. Source: Bloomberg.

Exhibit 6: Stronger Labor Productivity Is the 'Secret Sauce' to Extending This Business Cycle

U.S. Labor Productivity (q/q %SAAR)



1960s and Mid-90s are the 'high' productivity growth (>3%) periods, referring to 1958-1968 and 1995-2005, respectively. 1970s and 2010s are the 'low' productivity growth (<1.5%) periods, referring to 1973-1979 and 2010-2019, respectively. Data as at September 30, 2025. Source: Federal Reserve Bank of San Francisco.

From our vantage point at KKR, these lessons from history are worth considering. The inputs may have changed from rubber, tin, and shipping insurance in the 1870s to semiconductors, rare earths, energy infrastructure, helium, sulfuric acid, and financial clearing systems today, but the underlying logic is similar. As governments place greater emphasis on security of supply, national security resilience, and strategic autonomy, the global economy is moving further away from an efficiency-first model and towards one where redundancy, reliability, and control carry a higher premium for nations and also executives. It also means that demand is likely to outstrip supply in key markets such as chips, energy inputs, and critical minerals. Supply-side shocks such as the Iran War only amplify this tension. The policy challenge for central banks in this new world order is becoming increasingly more complicated because, at its core, monetary policy is a blunt, not a nuanced, instrument. In some areas, for example, central banks may want to tighten to slow excessive investment and inflation pass-through; in others, they may need to ease to support lower-income consumers and rate-sensitive sectors (*Exhibit 7*).

Looking ahead, while we have been talking about an economic backdrop of rolling recoveries and rolling recessions across regions and sectors for some time, today's divergences are likely to get even more extreme (as shown in *Exhibits 13* and *28*) given that national security and AI, two key growth drivers, are viewed as existential threats as well as generational opportunities by both the public and private sectors that have the capital to fund these build-outs. However, while not today (or likely even in the second half of 2026), we think some form of rebalancing ultimately will be required. Therein lies both the opportunity and the risk, we believe.

This ongoing combination of productivity-driven growth and increasing leverage of economic chokepoints for political gains reinforces our view that we are indeed in a Regime Change for asset allocation.

Exhibit 7: 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.

For investors, this ongoing combination of productivity-driven growth and increasing leverage of economic chokepoints for political gains reinforces our view that we are indeed in a *Regime Change* for asset allocation. We have left behind an environment of secular stagnation, characterized by low growth, low inflation, and the tight fiscal and loose monetary policies that defined the pre-COVID era in favor of a higher nominal GDP growth environment. Not surprisingly, we still see inflation hovering above the U.S. central bank's target for the seventh year in a row. From our perspective, this reality means that companies with durable moats, contractual revenue, and margin resiliency, especially those linked to services-driven productivity (see *Exhibits 17* and *63*), should fare quite well, while those that cannot defend margins are likely to face continued profitability compression.

In terms of specifics as to where our thinking has evolved the most at the more thematic level, we note the following:

1

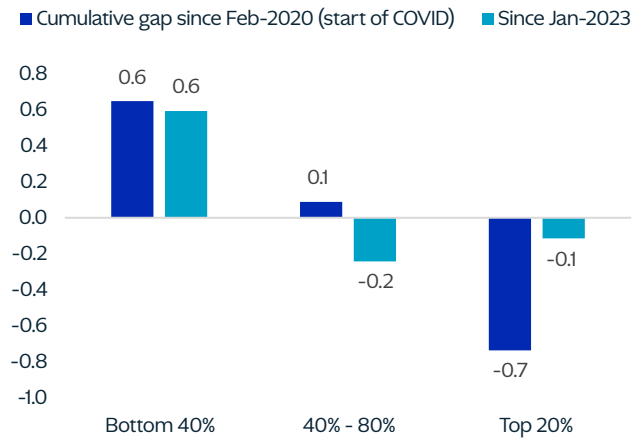
The ‘Divergence Conundrum’ is manifesting itself as K-shaped outcomes across growth, markets, and asset prices.

As we show in *Exhibits 13* and *28*, both earnings and GDP growth are enormously concentrated in just a few areas: technology, high-end services, and fiscal impulse. We have seen this pattern before, including in the 1870s, the 1920s, and the 1990s, and our conclusion based on history is that this concentration may go on longer than many investors think, though not indefinitely, as capital in certain areas ultimately gets misallocated. The current divide is not limited to growth and earnings. Inflation has also been K-shaped: since February 2020, the bottom 40% income cohort has experienced nearly 65 basis points more cumulative inflation than the overall rate, while the top 20% has experienced nearly 75 basis points less (*Exhibit 8*). Housing is the primary driver, as it accounts for nearly half of spending for the bottom 40%, while energy and food represent additional pressure points for lower-income households. Recent geopolitical shocks, including higher energy and food prices tied to the Iran conflict, risk widening these gaps further, particularly as higher rates dampen access to housing and crimp affordability. Against this backdrop, we expect that dispersion is likely to widen across growth drivers, socioeconomic categories, consumption patterns, and even investment manager performance.

Both earnings and GDP growth are enormously concentrated in just a few areas: technology, high-end services, and fiscal impulse.

Exhibit 8: Diverging Inflation Experiences, Alongside Wage and Wealth Effects, Are Driving an Increasingly K-Shaped Economy Across Income Cohorts

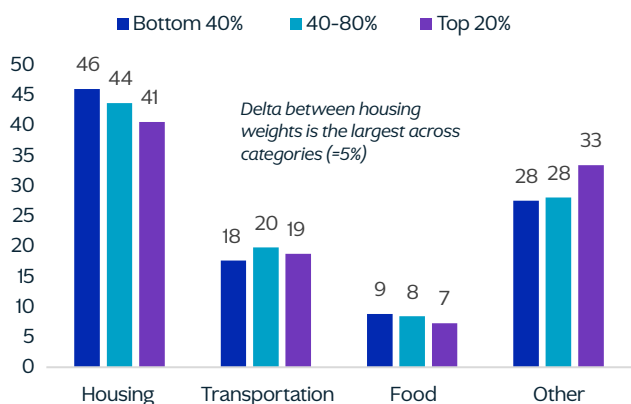
Cumulative Demographic Inflation Rate Gap (percentage points)



Smoothed demographic inflation gaps are calculated as demographic inflation less overall inflation. Data as at March 31, 2026. Source: New York Fed analysis based on Numerator Consumer Spending Data.

Exhibit 9: Lower and Middle-Income Is More Exposed to Housing Inflation, Which Has Consistently Outpaced Headline Inflation Since COVID

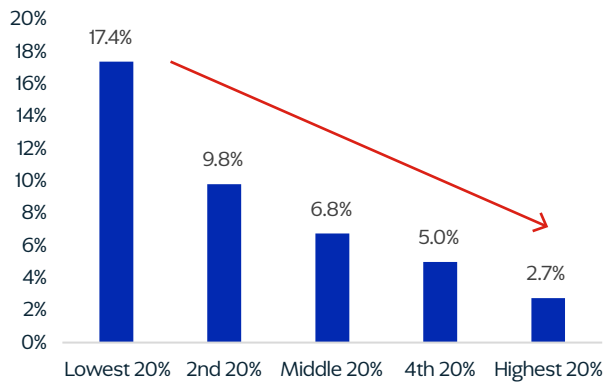
Inflation Shares by Category, %



Data as at March 30, 2026. Source: New York Fed analysis based on Numerator Consumer Spending Data.

Exhibit 10: Rising Energy Costs Are Hitting Lower-Income Households Hardest—Widening Income Dispersion

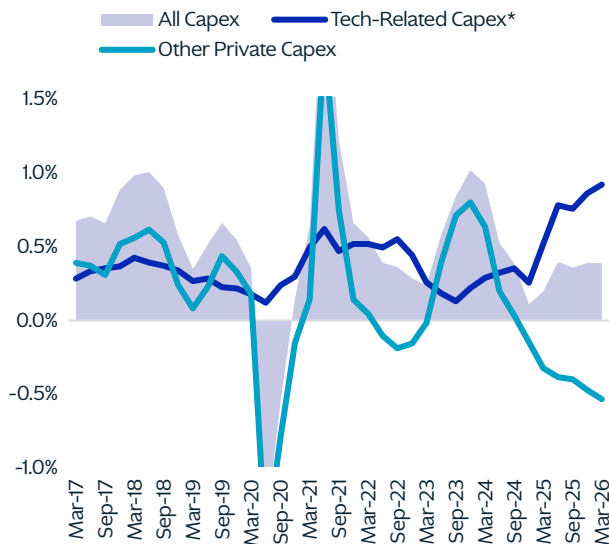
Annual Energy Spend as a % of Pretax Income, by Income Quintile



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

Exhibit 11: Net Capex Levels Have Remained Relatively Stable, Despite the Divergence in Tech Versus Non-Tech Growth

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



*Tech-related capex here includes Tech Equipment spending, Software IP spending, 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.

2

We have more conviction in our *Regime Change* asset allocation framework, which includes a ‘higher resting heart rate’ for inflation in the near term.

We are now forecasting U.S. CPI for 2026 at 3.6%, compared to a consensus view of 3.3%. Our read is that Iran is unfortunately not a geopolitical anomaly. Instead, it is likely part of a continuing trend where rival nations use economic warfare to further political agendas. Equally as important, traditional alliances, even those that have existed for many decades across democracies and like-minded governments, are now breaking down. Consistent with this view, more countries are using economic resources and other sources of leverage to achieve political objectives. This tends to show up in supply chains, commodity volatility, and inflation risk premia. In this context, we think that industrials, materials stocks (aluminum, gold, copper, and certain soft commodities), and infrastructure assets will likely become a bigger part of global indices over the next three to seven years. Finally, in our *Regime Change* thesis, it is governments, not corporations or consumers, that have too much leverage. Hence, as we detail below, our asset allocation call is that stocks not only continue to beat bonds but also that bonds become more correlated to stocks, diminishing their role as shock absorbers in global portfolios. Within bonds, we retain our short duration call, but we do not see U.S. Treasury yields above 5.0% in 2026 for any sustained period.

We expect that dispersion is likely to widen across growth drivers, socioeconomic categories, consumption patterns, and even investment manager performance.

3

Our ‘Security of Everything’ theme is bigger and broader than we originally thought.

Recent trips to Asia and conversations with CEOs across Asia, North America, and Europe suggest that post-COVID, and following on the invasion of Ukraine and the Iranian conflict, there is a broad-based and growing focus on the security and resiliency of supply chains across nations and industries, despite higher costs for inputs. The reality is that supply chains were already tight ahead of the war with Iran. No doubt, energy security has been leading the charge, but the desire for resiliency extends to food, water, chips, and critical inputs. If we had to pick two areas that could emerge as long-term winners, defense and power are the most likely.

4

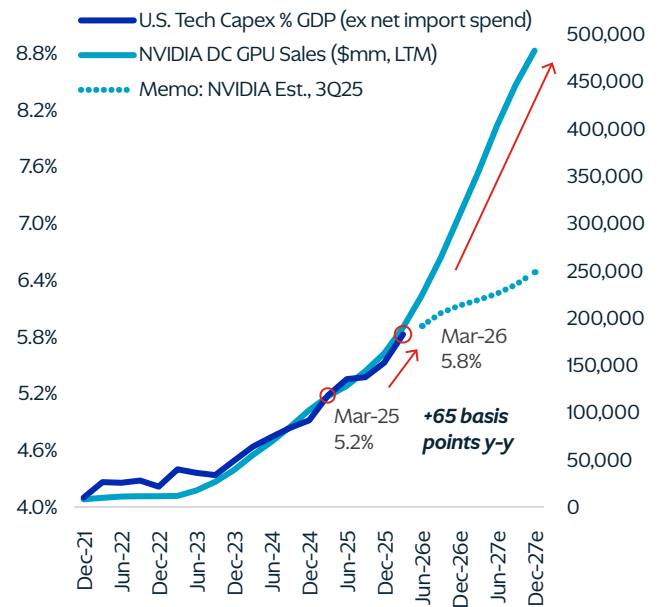
The easing cycle is fading, and the next debate may be more about how long policy stays restrictive.

As such, we have removed our one 2026 rate cut from our forecast for the Fed (see Section III for details). The reality is that central banks have less room to ‘look through’ disruptions than in the past, we believe. Geopolitical shocks are occurring more frequently, while inflation is proving stickier, making it harder for policymakers to respond as flexibly as they did in the last cycle. Maybe more importantly, we are seeing the goods sector now show consistently positive inflation trends, a statement we do not make lightly, as annual goods inflation was actually deflationary for nearly six consecutive years heading into COVID. Put differently, we think the three Fed dissenters, arguing for a more neutral position, are directionally consistent with what we are seeing globally. In this macro setup, we estimate that by the end of May 2026, fully 10%

of the world’s top 30 central banks will have raised interest rates, up from 3% at the end of 2025 and 7% at the end of 2024. At the same time, only 40% will still be cutting rates, down from 60% at the end of 2025 (*Exhibit 14*).

Exhibit 12: NVIDIA Forward Pipeline Has Demonstrated a Strong Correlation With Broader Tech Capex Trends, and Points to Continued Outsized Growth Over 2026-27e

Broader Tech Capex Trends and NVIDIA, % and GPU Sales

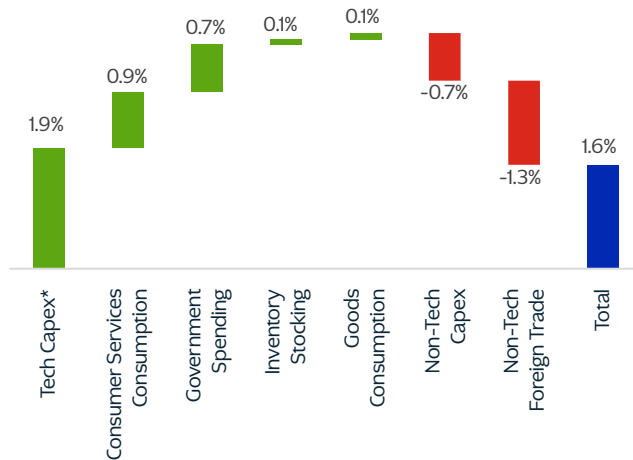


Data as at May 12, 2026. Source: Tech capex per U.S. Bureau of Economic Analysis; NVIDIA historic and forecast sales per Goldman Sachs Research estimates.

We are seeing the goods sector now show consistently positive inflation trends, a statement we do not make lightly, as annual goods inflation was actually deflationary for nearly six consecutive years heading into COVID.

Exhibit 13: ‘Divergence Conundrum’: Tech Capex Accounted for More Than 100% of GDP Growth in the First Quarter. By Comparison, the ‘Old Economy’ of Goods Capex and Trade Contracted

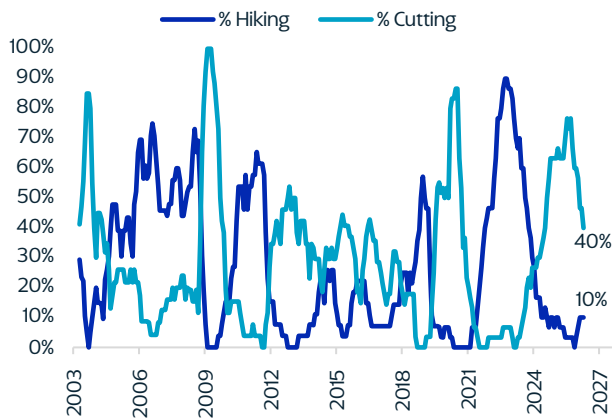
Contributions to U.S. 1Q26 GDP (Q/Q SAAR, % Pts.)



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

Exhibit 14: Winds of Change: The Global Central Bank Impulse Is No Longer Towards Universal Global Easing

Percentage of Top 30 Central Banks Hiking vs. Cutting



Hiking/cutting rates are defined as an increase in rates over the past three months. Data for Central banks include U.S., the EZ, the UK, Australia, Philippines, Chile, Japan, Brazil, Canada, Thailand, Mexico, Colombia, Malaysia, Norway, Sweden, Peru, China, Indonesia, New Zealand, Korea, South Africa, India, Switzerland, Taiwan, Poland, Israel, Hungary, Czech Republic, Vietnam and Russia. Data as at April 24, 2026. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

5

Just as the equity cycle is broadening beyond the narrowest leadership, the global bond sell-off is broadening across countries, albeit for different reasons.

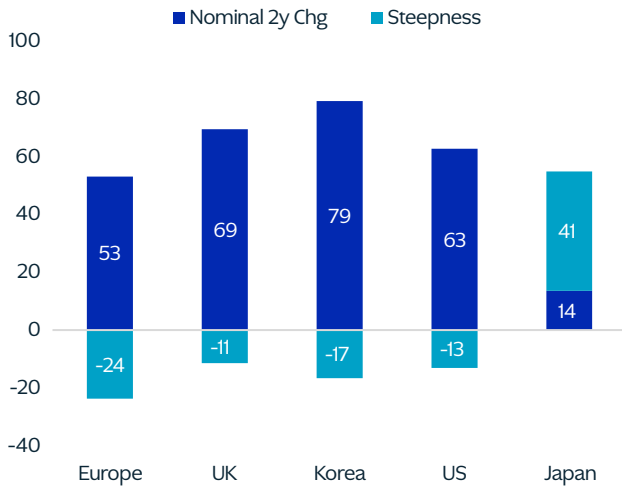
This broad-based decline in bond prices underscores our view that fixed income markets are being asked to offer more compensation, a trend we view as sustainable.

The way we see it at KKR, Japan is the clearest outlier. One can see this in *Exhibit 15*. In Japan, the increase has been largely driven by term premium, as more investors come around to our view that Japan is moving from three decades of deflation psychology towards a more normal inflation and term premium regime. By comparison, most other markets, including the U.S., have moved higher because of a change in 2-year nominal yields, underscoring our ‘new’ learning that investors are repricing the expected policy paths, not just fiscal risk. Previously, we were linking more of the increase to just bigger deficits. In our view, this repricing reflects economies that are proving more resilient, more productivity-driven, and more inflation-prone than we originally expected, leaving central banks with less room to ease. The U.S. is a good example: the recent move looks more like a real-rate and growth story than a disorderly rise in long-end yields. Europe and Japan, by contrast, have been more inflation-driven, while the U.K. and Korea sit somewhere in between. As such, we now have higher conviction that it is extremely important not to treat the global bond sell-off as one uniform event when assessing where to deploy capital across all of global Fixed Income.

This broad-based decline in bond prices underscores our view that fixed income markets are being asked to offer more compensation.

Exhibit 15: Outside Japan, the Recent Rise in Global Yields Actually Has Been Driven Primarily by Higher Expected Policy Paths Rather Than Expanding Term Premium

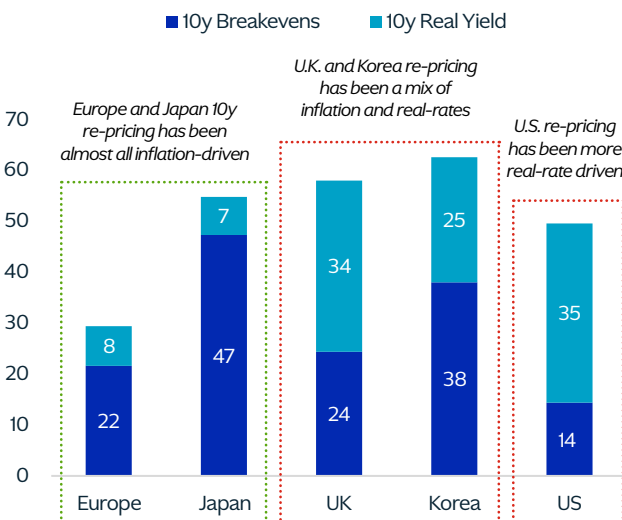
10-Year Rate Decomposition



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

Exhibit 16: 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.

6

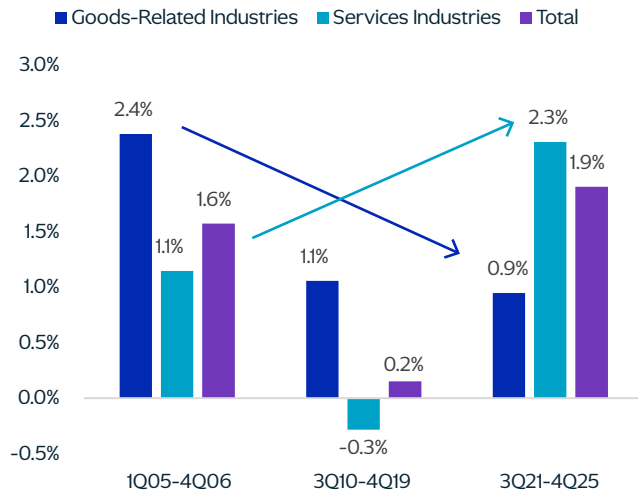
We think that investors and executives are mistaking where the productivity tailwinds have come from so far. We find that services, not goods, are driving productivity gains this cycle.

Meanwhile, we think that the AI portion of the productivity cycle is still in its early stages, and we believe it will emerge as an equally powerful tailwind.

We attended the annual Milken Conference in May 2026, and almost every CEO referenced AI as a productivity driver. *We actually have a different viewpoint, especially through the lens of our 150+ control investments around the world.* History shows that productivity cycles take years, not months, and the drivers tend to be more broad-based than any single technology wave. At KKR, for example, our Private Equity leaders Pete Stavros and Nate Taylor saw revenue per worker improve immediately after COVID, driven by automation, digitalization, and machine learning. Meanwhile, when we look at the public data available through the lens of the S&P 500, recent work done by Dave McNellis and his team suggests that, to date, we have been seeing a services-driven boom in productivity (see *Exhibit 17* for details). We do not think this part of the story is fully understood. As we look ahead, however, we think that the power of AI, especially Claude, is only starting to show up in 2026, and as such, we remain constructive on the productivity cycle. Our recent trips to Asia reinforced the Jevons paradox, especially in China. As the cost of AI falls, usage rises, and demand for compute, power, and enabling infrastructure expands rather than contracts, driven especially by a focus on multiple low-cost, consumer AI offerings. Put simply, we think that we are still in the early stages of AI productivity positively impacting corporate profits, especially for services companies (*Exhibit 18*).

Exhibit 17: Services Are Experiencing a Boom Not Just in Consumption, But Also in Productivity

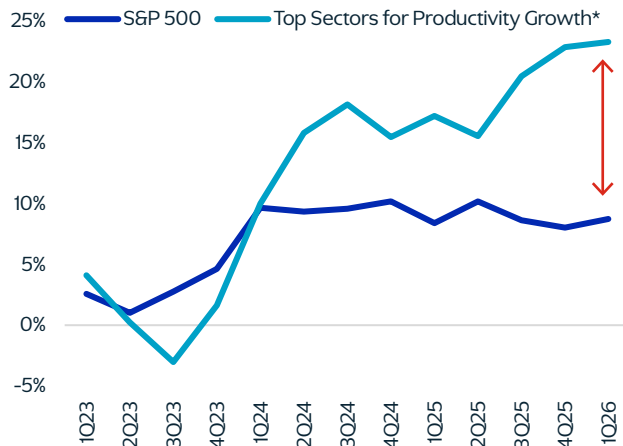
Annualized Growth of Real Output Per Hour of All Employees During Recent Expansions



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.

Exhibit 18: Broader Trends Continue to Point to a Healthy Backdrop for Innovation and Productivity

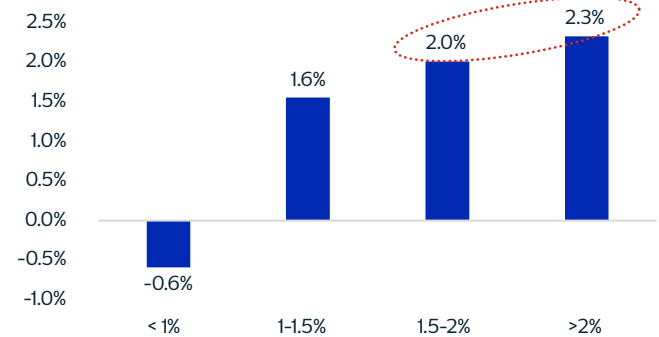
LTM EBITDA Y/y, %



Productivity Sectors = Market-cap-weighted average of S&P 500 Info Tech, Communications Services, Commercial Services, Retail, Leisure/Hospitality, and Energy. Data as at May 15, 2026. Source: Bloomberg, S&P, KKR Global Macro & Asset Allocation analysis.

Exhibit 19: All Else Equal, Higher Productivity Growth During Expansions Is Associated With Higher Real Central Bank Rates

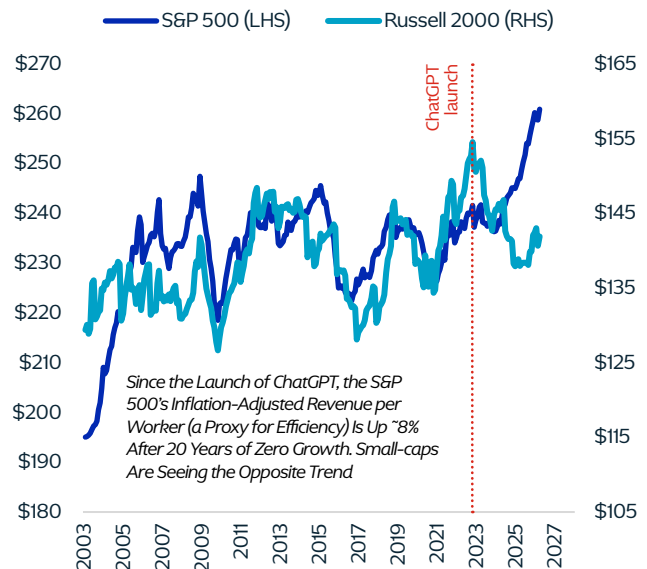
Average Real Fed Funds Rate, by Productivity Regime (1984-2025, ex Recessionary Periods)



Excludes periods during the two years following recessions, as these are typically periods marked by 'bad' productivity (i.e., elevated due to spikes in unemployment). Real central bank rate defined here as fed funds - Core CPI year-over-year and Productivity Regime defined as 3yr CAGR of nonfarm output per hour worked. Data as at January 26, 2026. Source: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Federal Reserve, Bloomberg, KKR Global Macro & Asset Allocation analysis.

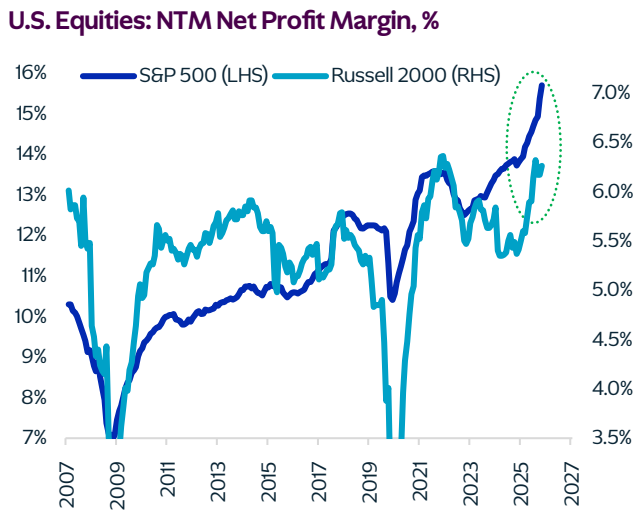
Exhibit 20: S&P 500 Real Revenue Per Worker is Up 8% Since Just Late-2022, Following 20 Years of Stagnation

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.

Exhibit 21: As AI Becomes More Prevalent, Large-Cap Profit Margins Have Gone Vertical



Data as at May 15, 2026. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

7

We feel less good about the supply/demand setup for equities than we did a year ago, even as credit technicals remain more supportive.

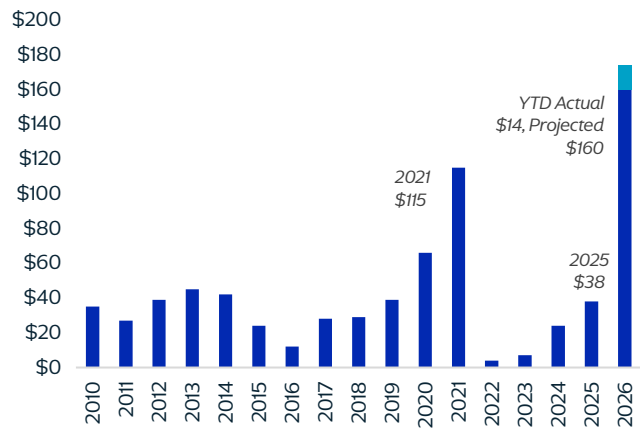
However, 2027 is when the lockups are likely to become more of a headwind.

On the equity side, there is a real inventory of potential issuance that could come to market over the next 6-12 months, including large private companies that could quickly become index constituents. Overall, though, when we roll forward Goldman Sachs' IPO forecasts and JPMorgan's HY/Leveraged Loan issuance forecasts, we estimate our broader capital markets liquidity indicator could rise to approximately 4.7% of U.S. nominal GDP in 2026, up from the washed-out 1-3% range of recent years, but not above the long-term central tendency of 4-6% and way below the 2021 peak of 8.1%. The math is straightforward: \$160 billion of U.S. IPO volume, plus an annualized \$180 billion of rest-of-world IPO issuance, implies roughly \$360 billion of

global IPO volume. Adding \$459 billion of global high yield issuance, including \$375 billion in the U.S. and \$84 billion annualized from the rest of the world, and \$713 billion of global leveraged loan issuance, including \$625 billion in the U.S. and \$88 billion annualized from the rest of the world, brings total issuance to around \$1.53 trillion. Against a \$32.9 trillion U.S. nominal GDP baseline, that equates to 4.7% of GDP. This does not mean the capital markets landscape is broadly problematic. However, it does mean the equity supply/demand picture is less favorable than it was when issuance was scarce and public-market investors were forced to chase a narrower set of AI and growth proxies. By contrast, the debt side still looks more balanced: corporate issuance remains relatively subdued, while demand from liability-driven allocators, including annuities and other spread buyers, remains firm.

Exhibit 22: The Massive IPOs Coming to Market in 2026 Will Have Implications for the Capital Supply Side of the Equation

U.S. IPO Gross Proceeds, US\$ Billions (U.S. Deals Greater Than \$25 Billion in Value)

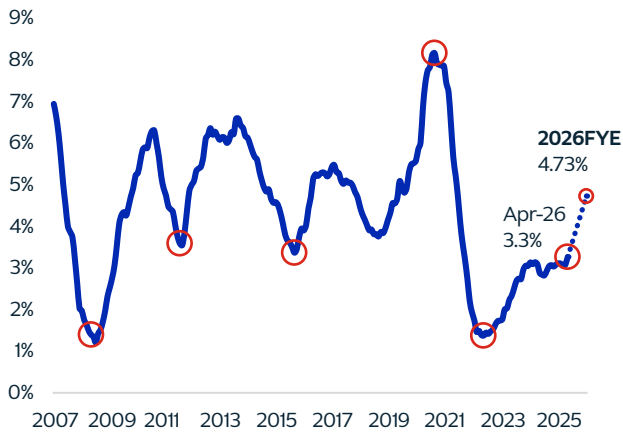


Data as at May 15, 2026. Source: FactSet, Goldman Sachs Investment Research.

We estimate our broader capital markets liquidity indicator could rise to approximately 4.7% of U.S. nominal GDP in 2026.

Exhibit 23: 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.

8

Capital structure flexibility has gone from a 'nice to have' to a prerequisite in industries undergoing change.

The reality is that the pace of change we are seeing in the global economy is occurring more quickly across industries than I have seen in my 35 years on Wall Street. At the same time, we are seeing the interests of both private and public sectors converge as countries compete to become the dominant force or leader in critical verticals, especially as it relates to the technology sector, infrastructure, and national security. As change occurs, companies need more freedom to maneuver their business models than they did in prior cycles. That is why we think balance sheet flexibility matters more than ever, which argues for using less leverage until there is better visibility into what 'tomorrow' actually looks like.

So, where do we come out? Despite all the headline noise, we still come out largely in the same place: The cycle continues, and the path of least resistance for most asset classes outside of government bonds is higher. Indeed, as we detail below, our proprietary KKR models and indicators suggest that the markets have gone from undervalued to fully valued but not yet overvalued, as earnings growth in today's higher nominal GDP environment remains robust.

We are seeing the interests of both private and public sectors converge as countries compete to become the dominant force or leader in critical verticals, especially as it relates to the technology sector, infrastructure, and national security. As change occurs, companies need more freedom to maneuver their business models than they did in prior cycles.

KKR GMAA vs. the Consensus	
<p>Growth / GDP: <i>Above consensus in the U.S.; more selective abroad.</i></p>	<ul style="list-style-type: none"> U.S.: We are above consensus on U.S. growth, with real GDP of 2.4% in 2026 and 2.2% in 2027, versus consensus of 2.1% and 2.0%. Outside the U.S., our view is more mixed. Europe: We are modestly below consensus in 2026 at 0.7%, versus 0.8%, and in line for 2027 at 1.3%. China: We are in line with consensus at 4.6% in 2026 and 4.4% in 2027. Japan: We are slightly below consensus in 2026 at 0.6% vs. 0.7%, but above consensus in 2027 at 1.0% vs. 0.9%.
<p>Inflation / CPI: <i>Higher-for-longer inflation, except China.</i></p>	<ul style="list-style-type: none"> U.S.: We are above consensus, with CPI of 3.6% in 2026 and 2.5% in 2027, versus consensus of 3.3% and 2.4%. Europe: We are also above consensus at 3.0% in 2026 and 2.2% in 2027, versus 2.8% and 2.1%. China: We are in line in 2026 at 1.0%, but below consensus in 2027 at 0.8%, versus 1.1%, reflecting our view that China is stabilizing but not broadly reflating. Japan: We are above consensus in 2026 and 2027 at 2.2% and 2.0%, respectively, versus consensus of 2.0% and 1.9%.
<p>Central Banks / Policy Rates: <i>The easing cycle is fading, even as the Fed likely stays patient.</i></p>	<ul style="list-style-type: none"> Fed: We now expect the Fed to stay on hold through 2026 and deliver just one cut in 2027, bringing fed funds to 3.375%, vs. consensus of 3.59%. For 2027, we are also above consensus at 3.38% vs. consensus of 3.33%. Market pricing moved more hawkish after the energy shock, while earlier in the year it was too dovish. Outside the U.S., however, we are more hawkish. We are above consensus for ECB policy rates in both 2026 and 2027 at 2.5% and 2.25%, respectively, vs. 2.34% and 2.19%. Our BOJ policy-rate forecasts are also higher at 1.25% for 2026 and 1.75% for 2027 vs. consensus of 1.14% and 1.41%, respectively.
<p>Long Rates: <i>Higher long-end yields will remain a pressure point.</i></p>	<ul style="list-style-type: none"> U.S. 10-year: We are above consensus in 2026 at 4.75%, versus consensus closer to 4.31%, but expect a move back towards 4.25% in 2027, above consensus of 4.21%. Over the long term, we expect the 10-year to settle around 4.0%. Bunds: We are also above consensus, with the 10-year bund at 3.25% in 2026 and 3.0% in 2027, vs. consensus of 3.0% and 2.9%, respectively. JGBs: We are also above consensus for 2026 with the 10-year JGB at 2.5%, versus consensus of 2.46%. For 2027, we are at 2.70% vs. consensus of 2.54%.
<p>Oil: <i>The futures curve is still underpricing the risk premium.</i></p>	<ul style="list-style-type: none"> We are more constructive than futures on WTI, with a \$85-95/bbl 2H2026 base case versus futures around \$84, and a 2027 forecast of \$80/bbl versus futures of about \$75. Our medium-term (2028-29) view embeds a \$5/bbl premium versus the curve, reflecting depleted buffers, the need to rebuild inventories, disciplined shale, OPEC+ fiscal incentives, and persistent geopolitical risk.
<p>Equities: <i>Constructive, but will be increasingly dependent on earnings durability.</i></p>	<ul style="list-style-type: none"> We are above top-down consensus on the S&P 500 in 2026, with a target of 7,900, versus top-down consensus of 7,625. Our 2027 S&P 500 target is 8,450, versus top-down consensus of 8,660. We expect EPS of \$323 in 2026, above top-down consensus of \$320, but below bottom-up consensus of \$340. Our 2027 S&P 500 EPS forecast is \$355, below both top-down consensus of \$363 and bottom-up consensus of \$394. For European Equities, lower starting valuations matter, but the bigger point is dispersion. We continue to favor periphery stories. In Asia, we think Japan and Korea still look cheap, as earnings are likely to surprise on the upside in both 2026 and 2027.

KKR GMAA vs. the Consensus	
<p>Currency: The dollar has peaked, but we expect no disorderly unwind.</p>	<ul style="list-style-type: none"> • We think the U.S. dollar has peaked, but we do not expect a disorderly unwind as FDI and continued foreign inflows into U.S. equities remain important offsets to less desire to own U.S. government bonds. • We are more constructive than consensus on the CNY by 2027, with a forecast of 6.50, versus consensus of 6.68. CNY appreciation remains a mega-theme.
<p>Regional Views: <i>Dispersion, reform, and policy-supported capex matter most.</i></p>	<ul style="list-style-type: none"> • Europe: The region is more about periphery strength, generational wealth transfer (both retirement savings and corporate holdings), and policy-supported capex, than broad beta. • Asia: We remain constructive on Asia across private and public markets, driven by corporate reform, AI hardware and enabling infrastructure, and consumption upgrades. • Japan: The country remains a domestic reflation and governance reform story. • Korea: Corporate reform is spreading from Japan to Korea, where the opportunity may be larger than investors anticipate. • China: Selectivity is still required in China. • India: India remains an important long-term expression of the EM consumption upgrade, supported by rising incomes, premiumization, financial deepening and demand for higher-quality services. However, higher energy prices and AI disruption in legacy IT services are tempering near-term growth, but the structural case remains intact for long-term investors. • Middle East: The Middle East remains central to the global infrastructure and energy security agenda, but the investment theme is increasingly about building alternatives to chokepoint risk. In our view, recurring disruptions around the Strait of Hormuz, the Red Sea, and other critical corridors should accelerate investment in redundancy, including pipelines, ports, storage, logistics, power, and regional infrastructure that can keep energy and goods moving even when traditional routes are impaired.
<p>U.S. Jobs / Productivity / Unemployment: <i>Hiring is bifurcating at the sector level, not cracking in aggregate, but productivity is doing more of the work.</i></p>	<ul style="list-style-type: none"> • We expect job growth of +75k per month in 2026, above consensus of +55k, but slowing to +50k in 2027 versus consensus of +73k. Productivity is a key reason we are more constructive on U.S. growth, at 2.1% in 2026 versus consensus of 1.7%, and 1.8% in 2027 versus consensus of 1.5%. We expect the unemployment rate to remain at 4.25% in both 2026 and 2027, compared with consensus of 4.4% in 2026 and 4.3% in 2027. In other words, we see the labor market slowing, but not collapsing.

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

Beyond positive near-term signals from our GDP and EPS models, our capital markets supply/demand models are not yet flashing red lights (*Exhibit 23*), and neither is our central bank tightening model (*Exhibit 14*). To be sure, we think growth is likely to be a bit slower and more jagged than we expected at the beginning of the year. Inflation headwinds will also likely stay a bit higher for even longer, and central banks could be more restrictive than originally thought. However, we are in a productivity cycle that is unfolding against a higher nominal GDP backdrop, which could lead to stronger EPS growth than consensus is accustomed to over the next six to 12 months. Beyond the first half of 2027, however, we will want to watch the macro landscape much more closely.

In this context, our key asset allocation tilts remain intact. Specifically, we still prefer the following:

1. **We still think Asia will continue to outperform across both private and public markets.** Corporate reform (think Japan and Korea), AI (particularly hardware and enabling infrastructure), and consumption upgrades remain the three mega themes. Our three trips to Asia in 1H26 increased our conviction not just in Private Equity, but also in Asia Infrastructure and Asia Corporate Credit (both liquid USD and Private Credit structures with more equity upside).
2. **We do see steep yield curves in the U.K., Japan, and the U.S., but we would not treat them as one uniform signal linked to excessive government debt and runaway long-term yields.** As noted earlier, we are seeing different rate patterns globally. In the U.S., the recent rise in rates has been driven more by front-end repricing, stronger growth, better productivity, and sticky inflation than by a disorderly rise in term premium. This argues for staying disciplined on duration and avoiding an overly dovish position. In Japan, by contrast, the long end appears more exposed, as the market continues to reprice from three decades of deflation towards a more normal inflation regime, with term premium already moving meaningfully higher. The U.K. is different again: fiscal and political uncertainty remain real, but long gilts may already embed a meaningful amount of bad news, so we would be more selective rather than simply short duration across the curve. Practically speaking, we think investors should harvest carry without relying
- too heavily on duration, keep rate risk disciplined, and focus on credit where they are being paid for real structure, covenants, and downside protection, not just headline yield. For insurers and other long-duration capital pools, this means being thoughtful about where duration is added, where it is hedged, and where the better risk-adjusted return may come from spread, structure, or collateral rather than simply extending out the curve.
3. **We still want to own more assets linked to nominal GDP.** In a stickier-inflation world, we prefer cash flows that can reprice and compound with the economy. Japan real estate in a reflationary backdrop is one example. Energy and power infrastructure across the U.S., Europe, and parts of the Middle East, is another, particularly as governments and corporates prioritize reliability, redundancy, and grid resilience. On the Credit side, we reiterate our preference for Asset-Based Finance, especially when linked to proprietary origination.
4. **We continue to think Private Markets' success, especially Private Equity, will tilt much more towards operational improvement, not financial engineering.** The next leg of returns is likely to be driven by a focus on execution and operational improvement, not by adding additional leverage. This keeps us constructive on corporate carve-outs, public-to-private opportunities, and situations where we can control outcomes, including workforce engagement and ownership. Also, consider how meaningful the opportunity could be if smaller companies, such as those referenced in *Exhibits 20 and 21*, were to partner with Private Equity firms to close some of the productivity gap versus their larger-cap peers. Finally, we expect fewer sponsor-to-sponsor deals, especially those linked to 2021 vintages.
5. **We remain bullish on Structured Equity/Capital Solutions.** In our view, one of the more important features of the current environment is that the supply-demand imbalance still favors lenders. The need for financing remains substantial, demand for scaled and flexible capital is persistent, and although capital formation is increasing, it remains short of what is needed to fully address the opportunity set for Structured Equity/Capital Solutions. This market still

does not fit neatly into a 'PE' or 'Credit' box, and that is part of the opportunity. Done correctly, it offers a refined expression of our 'high grading' thesis as it can deliver equity-like returns while staying higher in the capital structure with contractual protections.

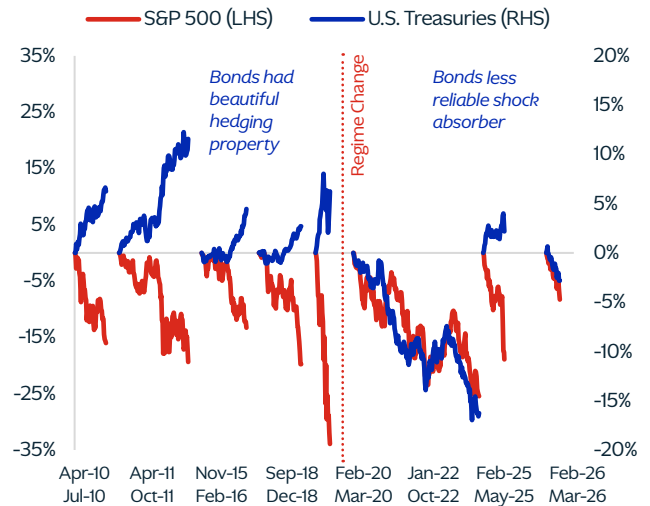
6. Underwritten correctly, current dispersions across Credit are creating more opportunities for active management. We are seeing higher risk-free rates, though frankly, we do not view them necessarily to be risk-free, given the public sector is the area of the economy most over-leveraged this cycle. That said, we do think that credit conditions will normalize, especially if our view that the economy is experiencing both rolling recessions and rolling recoveries across sectors continues. On the Private Credit side, which has garnered the most attention of late, we are seeing higher levels of defaults and lower levels of recoveries. We have continued to watch the Fitch Default data set, which suggests that defaults (their definition includes PIK and extensions) have been running around five percent since that platform's launch in August of 2024. Over time, our vision is that the corporate Direct Lending market consolidates the same way that the liquid credit markets did in prior decades. As we have emphasized for quite some time, diversification and portfolio construction are becoming increasingly important differentiators, especially in Private Credit. To be sure, strong underwriting remains essential, but it is not sufficient on its own. Position sizing, sector exposure, borrower diversification, documentation, and a disciplined approach to yield are all likely to matter more than in the past as this particular cycle evolves. We also think investors should be careful not to conflate idiosyncratic portfolio issues with the health of the entire asset class, particularly in a market where manager dispersion remains significant. Our bottom line: To remain a major player, proprietary origination and the ability to become a control investor, coupled with portfolio construction will be a prerequisite for success if our outlook is correct.

From an asset allocation perspective, we continue to reiterate the same messages as in prior quarters. First, we continue to see lower expected returns across most asset classes. As such, manager selection becomes more important, which is one of the reasons we favor more

control positions than in the past. A second is to add more upfront yield in the portfolio, and a third is to find more non-correlated assets. Finally, we continue to believe that, as part of our *Regime Change* thesis, the relationship between stocks and bonds is changing as long-duration Treasuries as well as their global peers are no longer safe havens (*Exhibit 24*). If we are correct, we think more CIOs and boards need to reassess how they are approaching traditional asset allocation.

Exhibit 24: 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. Data as at March 27, 2026. Source: Bloomberg, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

As we have emphasized for quite some time, diversification and portfolio construction are becoming increasingly important differentiators, especially in Private Credit.

Exhibit 25: The Range of Outcomes Continues to Narrow

Expected Return Range of Outcomes, %



Last five-year return from April 30, 2021 to April 30, 2026 for consistency across asset classes. Private Markets as at 4Q2025. Capital markets assumptions are average across all quartiles with 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 fees and carry. Source: Bloomberg, BofA, Burgiss, Cambridge, KKR Global Macro & Asset Allocation analysis. 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. Model returns are hypothetical in nature and are shown for illustrative, informational purposes only. **Past performance does not guarantee future results.**

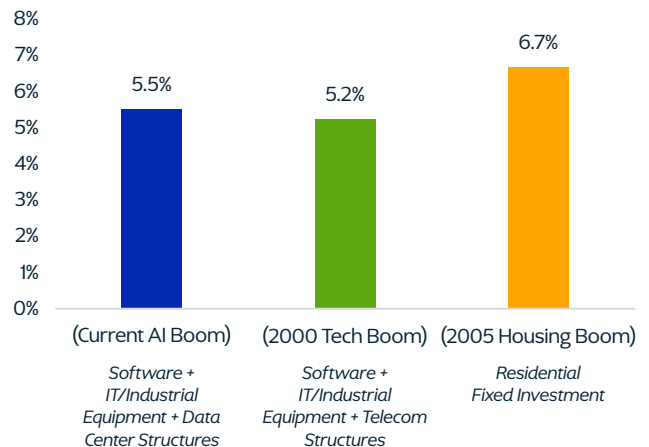
We continue to see lower expected returns across most asset classes. As such, manager selection becomes more important, which is one of the reasons we favor more control positions than in the past.

As mentioned earlier, there are several areas of potential risk that could go bump in the night. These ‘watchouts’ turning sour is not our base case, but do warrant investor attention, we believe:

1. **Valuations for trophy private sector investments where IPO’s turn out to be disappointing at a time when productivity slows.** Already, a complicated web of interlocking buying and selling between different players is muddying the situation, and this is occurring at a time of near-parabolic increase in the value of the semiconductor universe. So, were a broad-based downturn to occur in valuations that prevented AI companies from spending to support their growth, the overall environment – given the concentrations in growth that we have been highlighting (*Exhibits 26 and 27*), could be quite disruptive to global capital markets, we believe. To be sure, this is not our base case, but the tail risk to the current AI trade has increased. Moreover, we already have high inflation and productivity is booming. Were productivity to slow at the same time as growth, developed market economies could endure a form of stagflation not seen for several decades.

Exhibit 26: Technology Investment Spend Is Still Not at Global Financial Crisis Levels but Is Above the Tech Bubble

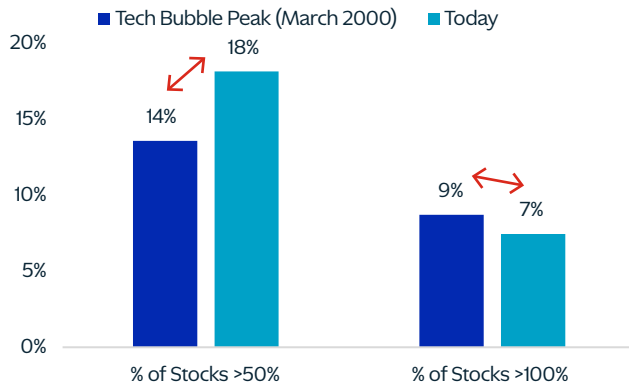
Investment Spend as % of U.S. GDP



Data as at March 31, 2026. Source: U.S. Bureau of Economic Analysis, Haver Analytics.

Exhibit 27: Optimism Abounds as Today's Environment Is Quite Similar to the Tech Time Period of the Early 2000s

**S&P 500 Market Breadth
(% of Stocks Up 50% and 100% Y/y on LTM Basis)**



Data as at May 8, 2026. Source: Bloomberg, S&P, KKR Global Macro & Asset Allocation analysis.

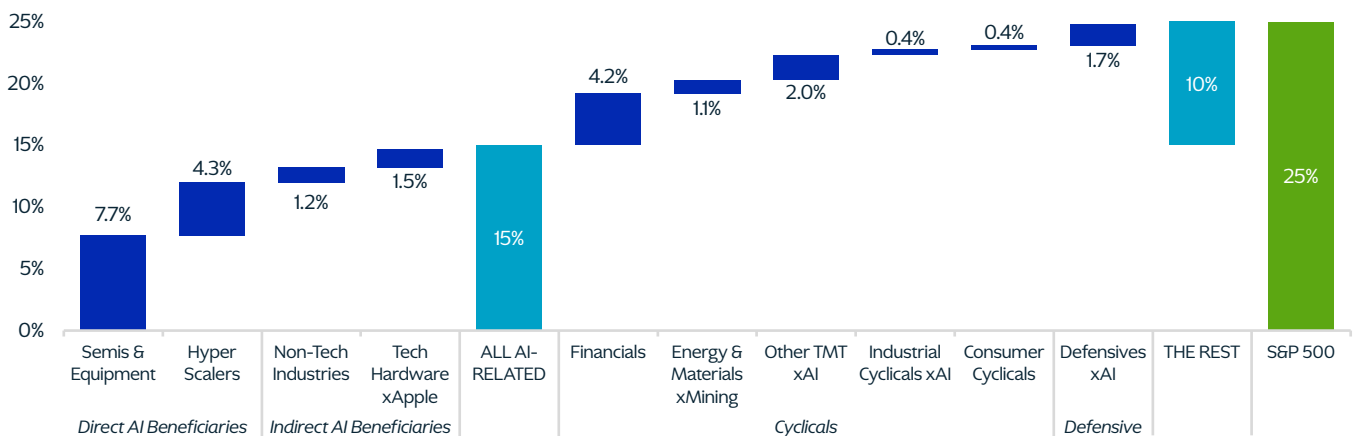
2. **Inflation could increase even faster than our already above-consensus forecast, government deficits continue to increase, and long-end bonds come under further pressure.** As we detail below in Section III, we have raised our inflation forecasts across most countries where we invest, and we remain firmly above consensus for inflation outside of China again

in 2027. We are doing this at a time when government debt loads are at record levels and still rising. Higher commodity prices, which are forcing governments to provide more subsidies and price caps, will not help. Moreover, other countries are taking notice of China's leverage using critical minerals and Iran's use of oil in the Strait of Hormuz to think about creating additional economic leverage points against the United States. As such, there could be more inflationary shocks coming. At present, our base view remains that bond yields rise but do not get unruly (see Section II). That said, we think that hedging this tail risk could make sense for insurers, banks, and retirement security providers who could be subject to heightened redemption risk in a rising rate environment.

- 3. **Unemployment rate gaps up, defying our belief that we are just in a slow growth hiring cycle.** Without question, a key positive input to this cycle is that unemployment has stayed low. To be sure, we know that an outsized proportion of total consumption is linked to the higher end segment of the economy, but a rash of layoffs would affect credit conditions as well as overall spending more than we currently envision.
- 4. **Aggregate earnings could fall.** The biggest risk to our constructive view on Equities is not valuation

Exhibit 28: AI-Related Stocks Drove Approximately 60% of the 1Q2026 EPS Growth; The Rest Accounted for 40%

Contribution to S&P 500 1Q26 EPS Growth (Percentage Points)



Non-Tech Industries equal metals and mining, electrical equipment, construction and engineering, data center REITs, electric utilities and power producers. Semis include NVDA, MU, AVGO and others. Other TMT xAI includes AAPL, NFLX, TSLA, MA, V, and others. Data as at March 31, 2026. Source: DB Research, Bloomberg, KKR Global Macro & Asset Allocation analysis. References to specific companies are for illustrative purposes only and should not be construed as investment recommendations.

in isolation. Rather, it is that earnings, which have driven most of the upside for the market, begin to lose altitude, especially in 2027 (*Exhibit 122*). Thus far, the evidence for continued growth is still supportive as 1Q26 earnings were very strong, margins have expanded, productivity is improving, and the AI capex cycle is increasingly backed by usage and enterprise ROI. However, work by our colleague Brian Leung (*Exhibit 28*) is a useful reminder that some of the earnings support is cyclical and potentially less durable. Higher energy prices, a weaker housing impulse, and more hawkish global policy conditions could all pressure the second half of 2027 EPS growth, which is what our Earnings Growth Lead Indicator has begun to signal (*Exhibit 122*) if Middle East tensions do not subside. So, while we remain constructive, we are not complacent. The market can handle a high multiple if earnings keep compounding. We think it will be much less forgiving if earnings merely flatten.

5. **What if the biggest risk to the productivity cycle is not technology, but politics?** Our constructive outlook assumes that AI, automation, power, data centers, and digital infrastructure continue to scale. The risk is that a larger war, rising populism, permitting bottlenecks, or political dysfunction slows that build-out. In the U.S., this reality could mean data centers, transmission, power generation, and energy infrastructure become harder to site or approve. In Europe, it could mean continued preference for welfare and redistribution over reform, competitiveness, and investment. If politics slows the infrastructure required for productivity to scale, then the cycle could become more inflationary, more concentrated, and less supportive of broad earnings growth.

Thus far, the evidence for continued growth is still supportive as 1Q26 earnings were very strong, margins have expanded, productivity is improving, and the AI capex cycle is increasingly backed by usage and enterprise ROI. However, work by our colleague Brian Leung is a useful reminder that some of the earnings support is cyclical and potentially less durable.

Variant Perception

Where We Differ	What Consensus May Be Missing	Why It Matters	What It Means for Investing
1. The productivity boom is now extending to margins, not just revenues	Investors have focused heavily on AI-driven revenue acceleration, but the next phase of the productivity cycle may increasingly emerge through operating leverage, automation, workflow redesign, and output-per-employee gains. AI will now outpace automation and digitalization as the key driver.	Productivity gains are increasingly appearing through margin resilience, lower error rates, software-enabled workflows, and operating efficiency, particularly across services, information, business services, retail, and technology-enabled operating models.	In private markets, we want to lean into businesses where operational improvement can drive EBITDA growth through automation, digitalization, software-enabled productivity, and revenue-per-employee expansion, rather than relying primarily on financial leverage.
2. Goods inflation is becoming more structural	The old assumption that goods are persistently deflationary is becoming less reliable as supply chains are redesigned around resiliency rather than efficiency.	Goods inflation no longer needs to 'run away' to matter. Instead, it can remain modestly positive, more volatile, and increasingly tied to geopolitics, energy, tariffs, transport costs, and supply-chain disruption.	Underwrite less structural deflation in goods. Favor businesses with supply chain control, domestic capacity, mission critical products, and margin durability.
3. The global economy is increasingly diverging into 'K-Shaped Everything'	Investors still often frame bifurcation primarily through inequality or consumer spending. Increasingly, however, the divergence now spans growth, inflation, earnings, labor markets, housing, and access to productivity itself.	This is the core of the 'Divergence Conundrum' framework. AI capex, software, power demand, and upper-income services consumption continue to drive growth, while housing, lower-income consumption, manufacturing, and rate-sensitive sectors remain under pressure.	Portfolio construction, especially vintage risks, now matters most. Stay disciplined on prices paid across AI-related themes. Focus on second-order beneficiaries such as power, grid infrastructure, cooling, and digital infrastructure.
4. Europe is bifurcating, not collapsing	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.	Germany and the industrial core remain pressured by energy costs, China competition, and manufacturing weakness, but Spain, Italy, Poland, and parts of Eastern Europe are increasingly benefiting from stronger domestic demand, tourism, infrastructure spending, and strategic capex.	Favor opportunities tied to domestic durability, infrastructure, defense, grids, energy systems, logistics, and the European periphery.
5. Japan and Korea corporate reform remains underappreciated	Japan is further along, supported by higher nominal GDP, better capital discipline, rising buybacks, and pressure from the Tokyo Cycle Exchange. Korea is earlier and more difficult, but potentially more rewarding if reforms continue to advance.	Where consensus is focused on value, the real story in Japan and Korea is governance and return-on-capital. Japan is creating a deeper pipeline for change via sharper incentives and more disciplined capital allocation where active ownership can actually move the needle. Korea is following a similar path, leaving behind self-inflicted wounds caused by weak governance, opaque structures and sub-optimal payout policies.	Look for opportunities tied to governance reform, capital return, carve-outs, strategic partnerships, and private capital solutions in Japan and Korea.

Data as at May 23, 2026. Source: KKR Global Macro & Asset Allocation analysis.

SECTION I

Key Themes / Asset Allocation

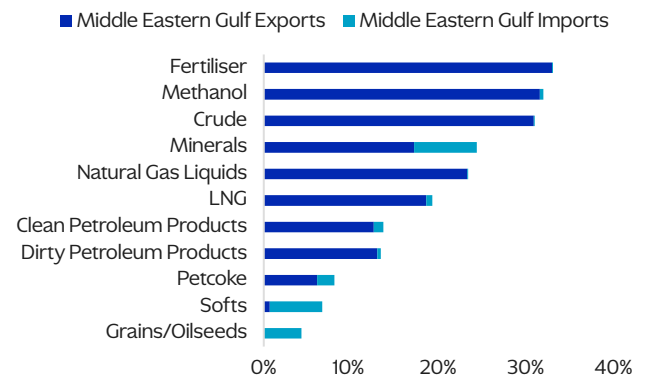
The ‘Security of Everything’

The biggest shift we are seeing on the ground is that ‘security’ is no longer a standalone line item. It is becoming a core operating assumption for CEOs and policymakers, especially as it relates to the durability of supply chains. In an environment of heightened geopolitical rivalries, this mega theme may start with defense and physical security, but now extends across cyber, data, shipping lanes, food and water, energy, critical materials, components, and processing capacity. For investors, the important point is that security is now becoming a capital allocation decision, as well as a policy objective. The global economy has shifted from a world that was largely demand-constrained to one that is increasingly supply-constrained. Inputs once viewed as abundant are increasingly concentrated in a handful of jurisdictions and exposed to export controls, licensing regimes, and strategic stockpiling. In our view, this is a structural reprioritization that is driving incremental capex, changing cost curves, and accelerating the push for redundancy over efficiency.

Looking ahead, we think success will increasingly be defined by resilience, reliability, and control, not just growth. The scale of investment already reflects this shift. Global military spending reached a record \$2.63 trillion in 2025, roughly \$500 billion higher than the pre-Ukraine-war level in 2021, underscoring a more durable rearmament cycle. NATO’s 5% defense commitment is not only about traditional weapons systems; it also includes broader investments in infrastructure, resilience, cybersecurity, logistics, and industrial capacity. The same logic is visible outside defense budgets. Global

Exhibit 29: The Strategic Importance of the Strait of Hormuz Extends Well Beyond Crude

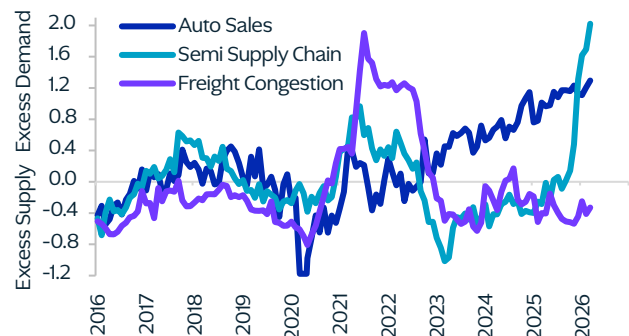
Share of Global Seaborne Commodity Flows Transiting Through the Strait of Hormuz, % (2025)



Data as at December 31, 2025. Source: Kpler.

Exhibit 30: Semiconductor and Auto Supply Chains Were Already Becoming Tight Before the Iran Conflict

Supply Chain Indicators



Data as at April 21, 2026. Source: Bloomberg, Haver Analytics, KKR Global Macro and Asset Allocation analysis.

cybersecurity spending is projected to exceed \$200 billion in 2026, roughly triple the level of a decade ago, as data networks and digital infrastructure are increasingly treated as attack surfaces, not just business tools. Semiconductor policy tells a similar story: the CHIPS Act and allied programs have mobilized more than \$300 billion of committed fabrication investment across the U.S., Europe, Japan, and Korea, not because governments suddenly discovered an interest in chipmaking, but because concentrated advanced production became an unacceptable strategic exposure. Even agriculture, rarely framed in security terms until the Strait of Hormuz closure disrupted fertilizer flows, now sees governments maintaining around 30 active export-control measures on food and fertilizer inputs globally.

Power/Energy Infrastructure

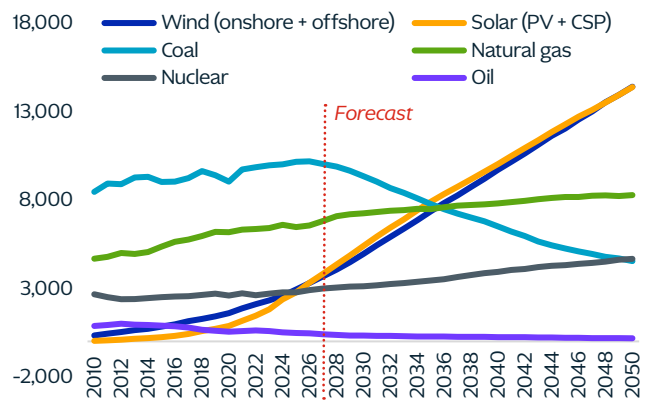
We continue to believe that power and energy infrastructure will be one of the more important long-duration investment themes of this cycle. Unlike prior periods, when electricity demand was often driven by a single dominant force, today several secular trends are moving in the same direction at once. AI infrastructure, electrification, reshoring, and defense readiness are all increasing the need for reliable power, just as the supply side is constrained by permitting, interconnection delays, equipment lead times, and grid complexity. Data centers, which are increasingly focused on TCO, or total cost of ownership, alone underscore the magnitude of the shift: Goldman Sachs expects them to account for 8.5% of America’s peak power demand by 2027, more than double the 4.1% share in 2025. If current trends persist, we think this estimate could be low, as energy security is increasingly becoming synonymous with economic competitiveness.

Importantly, we do not see this as a narrow bet on any single technology or policy outcome. The magnitude and persistence of demand growth suggest that an ‘all-hands-on-deck’ approach will be required across generation, transmission, distribution, storage, and the enabling infrastructure that supports the grid. The constraint, we believe, will increasingly be execution in permitting, interconnection, equipment lead times, and the ability to build capacity where demand is actually emerging. For investors, this reinforces why Infrastructure remains highly

relevant within portfolio construction: demand is durable, many assets are difficult to replicate, and cash flows are often contractual with some degree of inflation linkage. While building capacity to meet demand growth remains key, our take is that the next phase of energy investing will be about building the right capacity in the right places, with shock absorption, endurance, and price stability as the ultimate objectives.

Exhibit 31: We Think All Forms of Global Power Will Be Needed Over the Near to Medium Term

Global Power Penetration by Energy Source (Terawatt Hours)



Traditional fossil fuels represented by dotted lines. Data as at April 30, 2025. Source: S&P Global Commodity Insights.

Collateral-Based Cash Flows

Our client conversations suggest that many investors remain underweight Real Assets, particularly Infrastructure and Energy, at a time when the need for inflation protection and portfolio durability remains elevated. Moreover, if we are right about the step-change in electricity demand tied to AI, then higher-growth Infrastructure assets across data centers, power, grid, logistics, and related bottleneck sectors look increasingly compelling. More broadly, while we are not returning to a 1960s-style ‘guns and butter’ regime of rising defense commitments and expansive domestic spending, we do think global bond market vigilantes may reassert themselves. The key lesson from the 1980s, and more recently the U.K. during the Liz Truss government, is that faster nominal GDP growth does not automatically reduce the debt burden if deficits remain elevated and

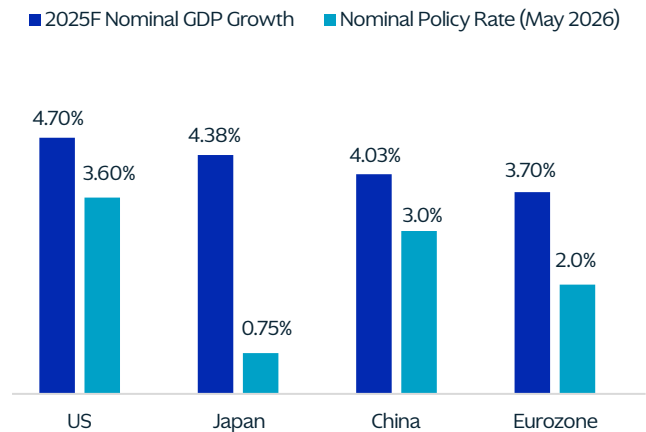
borrowing costs rise alongside growth. That should give investors pause, particularly as they think about portfolio construction.

From our vantage point at KKR, the current U.S. policy mix looks meaningfully different from the 2000–2019 period, which was defined by low growth, low inflation, global interdependence, and tighter fiscal constraints. In the current environment, we expect our asynchronous global recovery thesis, characterized by rolling recoveries and rolling recessions across regions and sectors, to not only continue but also gain broader acceptance. If we are right, the long-term implications for asset allocation could be significant, including the need to own more Real Assets across portfolios. Indeed, in a world 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. Beyond Energy and Infrastructure, this framework also applies to Asset-Based Finance, Real Estate Credit, and Structured Solutions. When inflation headwinds reappear or growth becomes

more uneven, these structures tend to matter more, not less, because they provide clearer visibility on duration, downside risk, and ultimate sources of repayment.

Exhibit 32: Nominal GDP Growth Has Been Clearly Outpacing Policy Rates

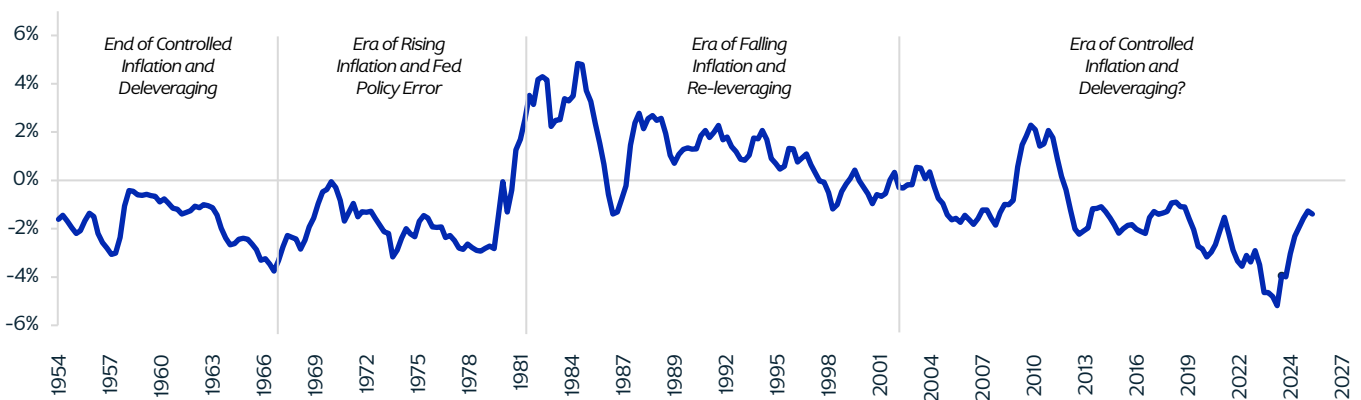
Nominal GDP Growth vs. Policy Rate



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

Exhibit 33: The Cost of Capital Has Risen, But It Has Not Yet Overtaken Nominal Growth. This Backdrop Remains Constructive for Real Assets, We Believe

U.S. Nominal 10-Year Yield % Points Above/(Below) 3yr Avg Nominal GDP



Data as at May 15, 2026. Source: U.S. Bureau of Economic Analysis, Haver Analytics, KKR Global Macro & Asset Allocation.

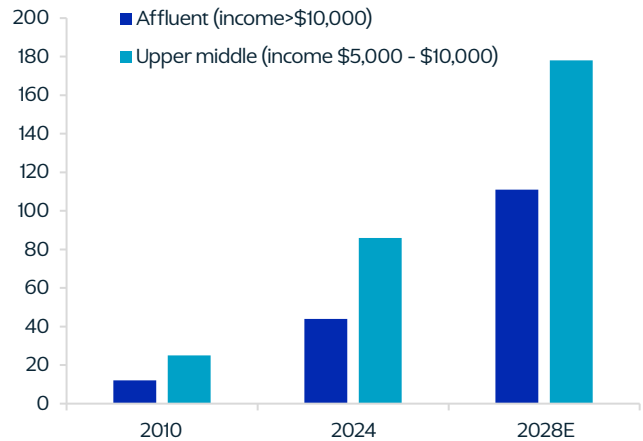
Consumption Upgrades in Emerging Markets

We continue to believe one of the more durable themes across Emerging Markets is the shift in consumption from basic goods and towards higher-value services. As middle- and upper-income cohorts expand, discretionary spending is moving into healthcare, financial services, education, travel, sports, entertainment, and other experience-led categories where demand can be more recurring and margins more durable. India remains an important expression of this theme, as rising incomes support spending on premium services and experiences, not just physical goods. However, we do not view this as an India-only story. Across Emerging Asia, including Indonesia, Vietnam, and the Philippines, larger consumer classes are reshaping spending patterns in ways that look more similar to the multi-decade consumer upgrade cycles seen in Japan and South Korea than to China's export- and infrastructure-led growth model of the 2000s.

Near term, higher oil prices and uneven cost pass-through remain headwinds for many Emerging Asian consumers, but we view these pressures as cyclical rather than as a challenge to the broader structural upgrade in consumption. For investors, the key is not just identifying where consumption is growing, but underwriting businesses with strong brands, trusted distribution, consistent service delivery, and the ability to protect margins through cycles. In our view, these are the companies best positioned to benefit as rising discretionary spending power creates a deeper, more recurring, and more resilient consumer opportunity set across Emerging Markets.

Exhibit 34: India's Affluent and Upper Middle-Income Households Are Seeing the Fastest Growth in Formation

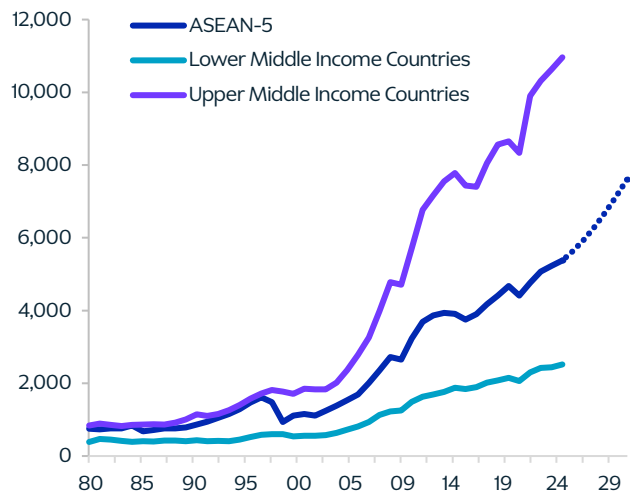
Number of Affluent/Upper Middle Households in India, Millions



Data as at December 31, 2024. Source: Euromonitor, KKR Global Macro & Asset Allocation analysis.

Exhibit 35: Southeast Asian Countries Are on Track to Attain Upper Middle-Income Status by the End of the Decade

GDP-per-Capita, US\$



Data as at July 2, 2025. Source: IMF, United Nations, World Bank, KKR Global Macro & Asset Allocation analysis.

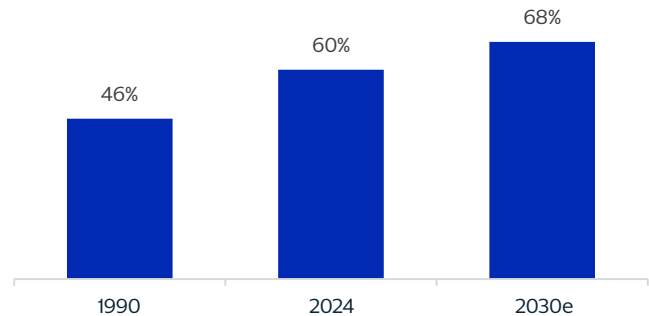
Intra-Asia Trade

Our recent trips to the region, including Beijing and Hong Kong this April, reinforced our view that Asia is becoming more Asia-centric. Conversations on the ground are increasingly focused on energy security, supply chain resilience, logistics connectivity, and domestic demand, rather than many of the Western macro concerns dominating investor discussions elsewhere, including software disruption and Private Credit. China's easing of visa restrictions is also helping drive inbound travel from the Middle East and Southeast Asia, underscoring the deepening regional connectivity.

We think the closest historical analog may be the European Economic Community in the 1960s and 1970s, when countries with distinct cultures and recent histories of conflict concluded that economic integration could serve as a more durable foundation for security and prosperity. The numbers are instructive: intra-regional trade within the EEC rose from roughly 35% in 1958 to more than 60% by the mid-1980s. Asia appears to be moving along a similar path, but at a larger population scale and with the added benefit of digital infrastructure that Europe did not have at the time. In 1990, only 46% of Asian trade occurred within Asia; by 2021, that figure had risen to 58%, and we believe it could approach 68% by 2030 (*Exhibit 36*). In other words, regionalization remains one of the more durable structural investment stories in Asia. As supply chains adjust, governments prioritize stability, and regional demand continues to scale, we see a growing opportunity set across logistics, manufacturing, transportation assets, consumer markets, digital enablement, data centers, and energy transmission. For investors, we believe Infrastructure and Credit, both liquid and private, offer compelling ways to access this theme, particularly as local capital markets deepen and intra-Asia flows become a more important driver of growth.

Exhibit 36: Asian Trade Is Becoming More Local as Consumption Grows and Supply Chains Diversify

% of Trade within Asia



Data as at December 31, 2025. Source: The Economist, Euromonitor, BCG, KKR Global Macro & Asset Allocation analysis.

Productivity/Worker Retraining

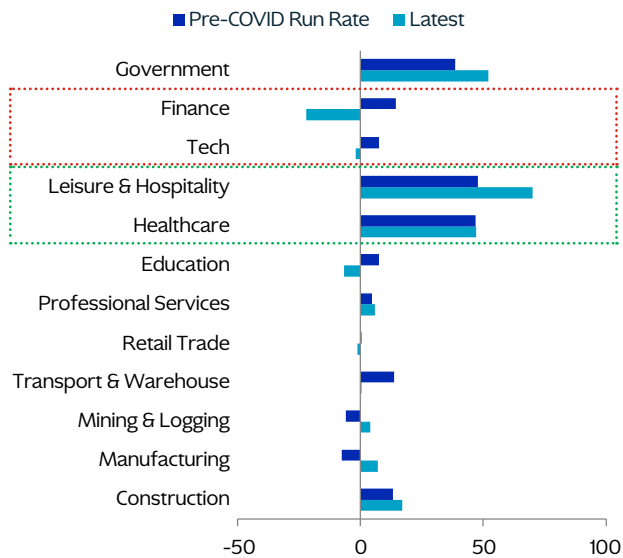
We continue to believe that skills upgrading will be a critical investment theme. Demographic-driven labor scarcity, AI adoption, reshoring, and higher wage floors are all forcing companies to do more with less, particularly in sectors where skilled labor is already in short supply. With skills requirements rising and wages remaining sticky, productivity gains will likely be needed for corporate margins to hold. We do not think AI eliminates the need for retraining. In many cases, it accelerates it. The World Economic Forum estimates that 23% of global jobs will be structurally transformed by 2030, while McKinsey suggests that up to 30% of hours worked in the U.S. economy could be automated over a similar period.

We do not think AI eliminates the need for retraining. In many cases, it accelerates it.

Our take at KKR is that these estimates are directionally right, but the adjustment could happen faster than expected. Workers will likely need to move into adjacent roles with updated skills, while companies will need better tools to identify, train, and deploy talent more efficiently. As a result, the opportunity spans labor-market analytics, job search tools, skills-based training, workflow automation, and other productivity enhancers that help shift the labor market from a credentials-first model to a skills-first model. This matters because qualified labor is becoming a binding constraint across manufacturing, consumer goods, business services, and national security, while workplace training investment has not kept pace. In our view, productivity and worker retraining are no longer just social priorities. They are essential inputs into margins, competitiveness, and long-term GDP growth.

Exhibit 37: Healthcare/Education and Leisure/Hospitality Are Still Driving the Majority of Job Gains, While Technology and Financial Services Have Been Consistently Negative for Some Time

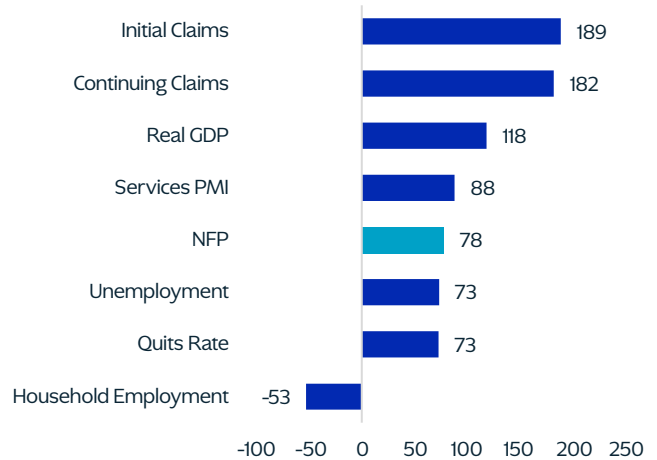
Payroll Growth: Major Services And Goods Sectors (Change '000, Last Month)



Data as at June 5, 2026. Source: Bloomberg, U.S. Bureau of Labor Statistics.

Exhibit 38: Many Labor Indicators Continue to Look Consistent With Subdued But Still Healthy Job Growth

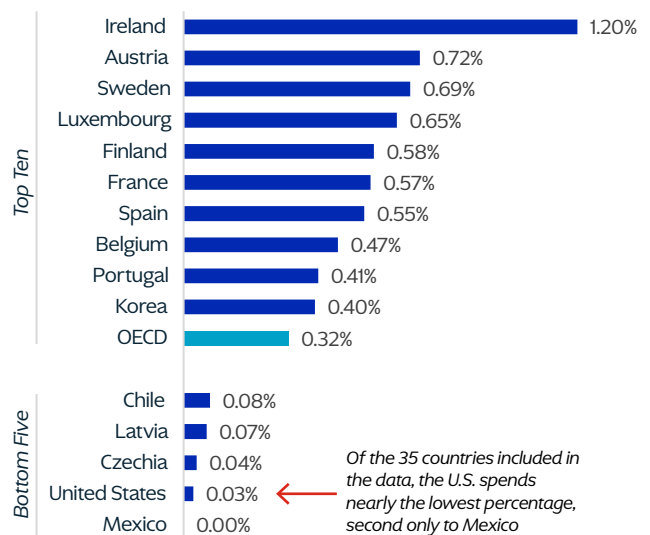
NFP Range Implied by Various Labor Market Measures



Non-Farm Payroll data from 1980 - present where available. Value based on 50th percentile of trailing six-month range of given indicator. Data as at May 15, 2026. Source: Bloomberg, U.S. Bureau of Labor Statistics.

Exhibit 39: Government Labor Policies Help Workers Adapt to Digital Transformation, But Corporate Investment Remains Paramount

Public Spending on Active Labor Market Policies for Unemployed, Inactive, or at Risk of Involuntary Job Loss as a % of GDP

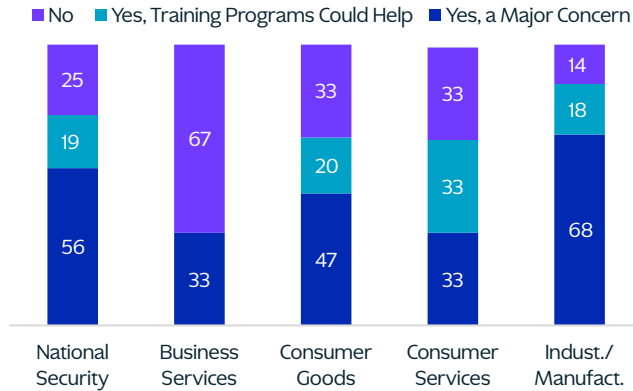


Of the 35 countries included in the data, the U.S. spends nearly the lowest percentage, second only to Mexico

Data as at December 31, 2022. Source: OECD.

Exhibit 40: Qualified Labor Is a Major Challenge for Manufacturing, Consumer Goods, and National Security

Availability of Qualified Labor a Major Consideration for Your Companies as They Consider Producing More Goods in the U.S.? (% Share of Respondents)



Responses are expressed as share of respondents. Data as at May 31, 2025. Source: BofA Global Research.

Transitioning Companies from Capital-Heavy to Capital-Light

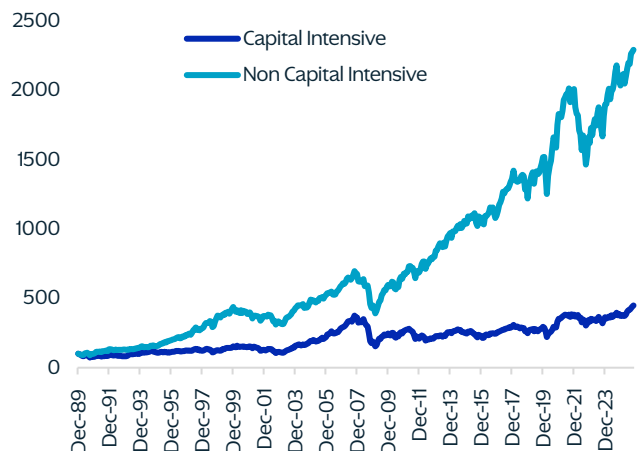
Many investors like capital-heavy businesses with low obsolescence risk. So do we. However, in Private Markets, the more interesting opportunity is often in operational improvement, particularly in a world of higher capital costs and greater volatility. That pressure is changing CEO behavior. Management teams are being pushed to show cleaner returns on invested capital, simplify portfolios, divest lower-return or more cyclical assets, and redeploy capital into businesses with higher margins, more recurring revenue, and the ability to withstand input-cost inflation. The clearest sign of this shift is the surge in corporate carve-outs as multinationals streamline portfolios and reduce complexity. In Europe, for example, recent PitchBook data suggests carve-outs were more than €85 billion in 2025, a meaningful share of total Private Equity deal value. For Private Markets investors focused on operational improvement, the opportunity is particularly robust. Carve-outs create the ability to reset governance, install sharper incentives, and build real standalone operating capability. Done well, that can mean faster decisions, clearer accountability, procurement discipline, tighter working capital management, and a more deliberate capex plan. In other words, carve-outs

can turn complexity into a playbook for margin uplift and cash flow durability.

Importantly, this theme is not limited to equity. On the credit and solutions side, the same corporate pivot is expanding the universe of investable assets that used to sit quietly on bank balance sheets or inside corporate treasury functions. As companies have become more capital-light, they are increasingly able to finance or monetize high-quality pools of consumer receivables, residential mortgages, equipment leases, renewables cash flows, and supply chain receivables. That is one reason Asset-Based Finance and Private Investment Grade continue to grow. It is effectively Private Markets stepping into activities once dominated by banks, but with more tailored structuring, tighter monitoring, and underwriting anchored in collateral and payment streams. The approach is also broadening into adjacent areas such as insurance liabilities and long-duration contractual cash flows like music and healthcare royalties. The common thread is that, when capital intensity is being reduced at the corporate level, the winners tend to be those who can provide flexible capital, underwrite the downside, and actively improve outcomes through structuring and ongoing asset management.

Exhibit 41: Non-Capital-Intensive Companies Are Breaking Out. We Like Both the Equity Being Converted Towards Capital-Light As Well As the Financing of the Assets Being Sold

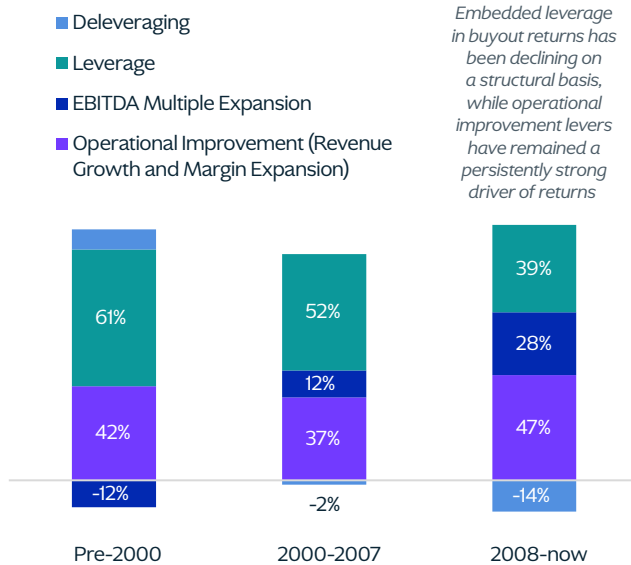
World Capital vs. Non Capital Intensive, Price Return, USD



Capital intensity based on: Assets/Employee, Asset/Net Income, and Capex/Net Income. Data as at May 31, 2026. Source: Goldman Sachs.

Exhibit 42: 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



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.com/publication/performance-analysis-and-attribution-with-alternative-investments/>.

In our view, governments alone will struggle to finance the full 'modernization requirement', creating an expanding role for private capital. Defense is becoming a central pillar of national resilience, and we believe the investment cycle is still in its early innings.

Picks and Pans

▲ Global Defense Stocks

We continue to believe that defense and national security (including space) represent a compelling long-duration investment theme. Global military spending reached a record \$2.63 trillion in 2025, but we do not view this increase as a one-time response to any single conflict. Instead, we think that many of the great powers are now locked into simultaneously fighting active conflicts, replenishing depleted arsenals, modernizing aging platforms, and investing in new technologies across AI, drones, cyber, space, and electronic warfare.

The conflict with Iran, the Russia-Ukraine conflict, NATO allies moving towards and in some cases beyond two percent of GDP, and rearmament across Asia and the Middle East all suggest defense spending is becoming more durable, global, and importantly, policy-backed. For investors, the appeal is that defense demand is largely underwritten by longer-term government funding priorities, rather than the economic cycle. Many companies in the sector benefit from government-backed revenue visibility, long program durations, mission-critical products, and rising barriers to entry.

We also believe the investment universe is broadening beyond traditional prime contractors. As General Petraeus (U.S. Army, Ret.) and Vance Serchuk suggested after their visits to Ukraine, the next phase of defense investing will likely be tied to software, autonomous systems, sensors, cyber, space, secure communications, supply chain robustness, and advanced manufacturing. In our view, governments alone will struggle to finance the full 'modernization requirement', creating an expanding role for private capital. Defense is becoming a central pillar of national resilience, and we believe the investment cycle is still in its early innings.

▲ U.S. High Yield

We are increasingly constructive on the U.S. high yield market, particularly relative to Loans. Part of our enthusiasm reflects sector composition. Software represents only about three percent of the high yield market, compared with roughly 13% of the loan market, an important distinction as investors continue to assess the potential implications of AI-related disruption. Just as important, the quality of the high yield market is much better than in prior cycles. Today, roughly 57% of the market is rated BB, the highest share on record, while defaults remain contained, with the trailing 12-month default rate at just 1.4%. Recoveries have also held up reasonably well, averaging about 44% over the past two years. Meanwhile, issuance trends suggest that the market is attracting higher-quality borrowers. As lending standards tighten in Leveraged Loans and Direct Lending, more companies are recognizing the advantages of the bond market, including fixed-rate financing, greater flexibility, and access to a broader investor base. In our view, these structural tailwinds, combined with a potential rebound in M&A and refinancing activity, could support a meaningful renaissance for the high yield market.

▲ Wheat

We believe wheat has quietly moved back into the strategic asset bucket. In a world increasingly defined by geopolitical fragmentation, climate volatility, and supply chain insecurity, food is no longer just a cyclical commodity tied to weather and planting decisions. It is increasingly influenced by geopolitics, export controls, and fertilizer and energy costs, as well as the desire of governments to secure critical agricultural inputs. Wheat sits at the center of this transition. Countries behind the Strait of Hormuz represent 35-40% of seaborne urea, roughly 50% of seaborne sulfur, 25% of global ammonia, and around 20% of global phosphates. Unlike 2022, when Russian supply was eventually rerouted, parts of Gulf production capacity have reportedly been shut down or destroyed, while urea prices surged 46% between February and March 2026. At the same time, China's phosphate controls, drought stress across nearly 70% of the U.S. winter wheat crop, and El Niño risks are tightening an already fragile

supply environment. The USDA now forecasts U.S. wheat production for 2026-27 will be at its lowest level since 1972, with prices rising to a three-year high. In our view, wheat futures remain a near-term bullish call, but the bigger theme is food-system stability. Agriculture is increasingly joining energy security, defense, and critical minerals as a strategic, policy-backed sector likely to attract sustained investment. Investors should also not underestimate the political consequences of food insecurity: the failed Russian wheat harvest in 2010 helped double wheat prices and contributed to the bread riots that preceded the Arab Spring.

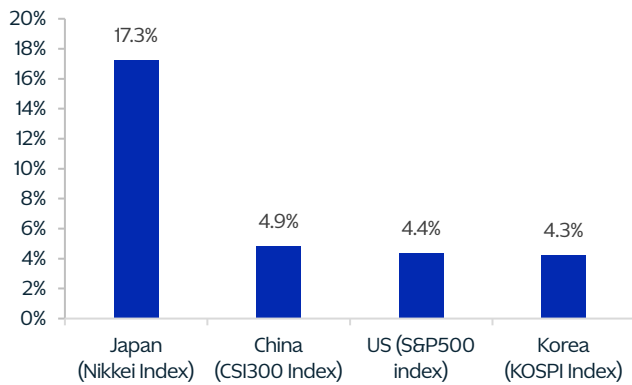
▲ Asian Corporate Reform, including Japan and Korea (REPEAT)

No doubt, one of the more underappreciated opportunities in Asia right now is the increasingly consequential corporate reform story unfolding in Japan and Korea. In Japan, governance reform has accelerated as corporate boards face real pressure to justify balance-sheet inefficiency, deploy excess cash more productively, and focus on return on capital rather than legacy complexity and crossholdings. This matters because it is creating a deeper pipeline of actionable change via carve-outs, non-core asset sales, sharper incentives, and more disciplined capital allocation, where active ownership and operational improvement can actually move the needle. Korea is following a similar path, albeit with its own cadence, as management teams and policymakers increasingly recognize that the 'Korea discount' has often been self-inflicted through weak governance, opaque structures, and sub-optimal payout policies. Corporate reforms to simplify structures, improve capital allocation, and better optimize footprints, coupled with shareholder activism, have already helped drive gains of more than 95% year-to-date in 2026. Yet, we still see meaningful room for improvement: 70% of the Korean market continues to trade below book value, compared to 40% in Japan and less than 7% in the U.S. As these markets lean into transparency, shareholder alignment, and capital efficiency, the opportunity broadens, because the real upside is not just multiple expansion, but a durable

improvement in margins, cash conversion, and the quality of the earnings stream.

Exhibit 43: Japan’s Corporate Reform Momentum Shifts to a Focus On Capital Efficiency by Tackling Excess Cash

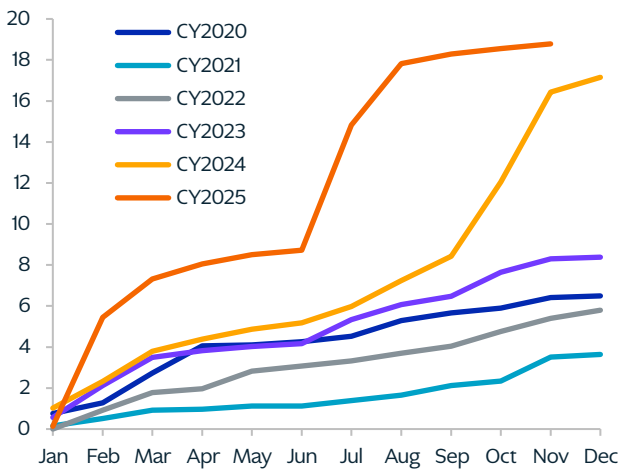
Cash as a % of Total Assets



Data as at September 30, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

Exhibit 44: Buyback Activity in Korea Has Accelerated

Korea YTD Cumulative Buyback Announcement, KRW Trillions



Data as at October 31, 2025. Source: Bloomberg, FactSet, Goldman Sachs Global Investment Research.

▲ HVAC (REPEAT)

In our view, the macro tailwinds for HVAC are more structural than cyclical. On the residential side, housing stock is aging, with roughly 80% of U.S. dwellings now more than 25 years old, while rising power costs are pushing homeowners and builders towards newer, more efficient systems. Power CPI was up 6.1% year-over-year in April 2026, and we expect electricity prices to remain elevated as AI-related demand strains the grid and increases the value of efficiency and reliability. On the commercial side, the drivers are broadening. Building owners are facing more scrutiny around carbon footprints, while digitalization is raising the baseline requirement for cooling, redundancy, and uptime. Data centers are changing the scale of the opportunity entirely. A traditional high-rise office tower might require two to four commercial chillers; by comparison, AI training clusters can require on the order of 100 to 200 chillers per cluster, alongside liquid cooling solutions that sit closer to the server. That is not a marginal increase; it is a step change in commercial cooling demand. We now see these tectonic macro forces driving a sustained upcycle for HVAC and electrical capex. Market research firm BRI expects the global HVAC market to grow at a 6% CAGR through 2033, reaching more than \$500 billion in aggregate, while UBS sees a data-center cooling TAM greater than \$40 billion, following a 45% CAGR over the next five years. KKR is investing against this opportunity set through multiple angles, including HVAC parts distribution, direct-to-chip cooling, flow control equipment, and broader infrastructure opportunities upstream of cooling demand across data centers, data networking, power generation, transmission, and LNG.

▲ China Tourism (REPEAT)

This remains one of our preferred ways to gain exposure to Asia’s consumption upgrade theme. Policy is supportive, demographics are favorable, supply is expanding, and the long-haul travel recovery is still incomplete. China is prioritizing tourism, cultural experiences, and cross-border travel as part of its broader effort to lift household consumption, including through continued visa liberalization. Consider that Outbound trips reached

167.9 million in 2025, nearly back to the 2019 peak and about 15% above 2024 levels. Domestic tourism also remains robust, with 6.52 billion trips and RMB 6.3 trillion of spending, while foreign arrivals rose 26% to 82 million. The multiplier matters too: tourism contributes roughly 4% of GDP directly, but closer to 10-11% when indirect and induced effects are included. What is most interesting, in our view, is the composition of demand. Older consumers are becoming an increasingly important premium travel cohort, particularly for cruises, curated tours, and all-inclusive experiences, while Gen Z continues to shift spending towards experiences over goods. Supply is responding with more resorts, cruise capacity, high-end hotels, wellness, premium food and beverage, and curated travel experiences. Our bottom line: Chinese tourism remains a compelling regional consumption theme because it combines policy support, demographic breadth, premiumization, and still-meaningful recovery potential.

▲ RMB/CNH

Our recent trip to China inspired our view that this currency is poised to gradually appreciate 3-5% per year over the next few years. Key to our thinking is that China's manufacturing scale, supply chain depth, and continued movement up the value chain will allow the country to let the currency appreciate without losing competitiveness in the global economy. Meanwhile, gradual reserve diversification by central banks and global allocators could provide a longer-term tailwind. Our bottom line: We see a stronger structural foundation than for many other Asian currencies, but we do not think policymakers are likely to welcome a sharp or disorderly move higher.

▲ Energy Infrastructure

Iran's economic footprint is modest, but its ability to disrupt chokepoints is not. Iran's economy is roughly 60% the size of Belgium's, yet it is impacting up to 20% of global oil flows and an even larger share of certain supply chain inputs. More broadly, countries around the world are increasingly looking for ways to leverage their economic footprint to match tariffs, create negotiating leverage, and advance political agendas. From an investment standpoint,

recent events reinforce the importance of redundancy, storage, logistics, and infrastructure security. In the Middle East, countries are likely to keep investing to reduce dependence on the Strait through bypass routes, Red Sea and Gulf of Oman ports, storage, and infrastructure security. In Asia, the priority is likely to be greater strategic petroleum reserves, commercial storage, LNG import flexibility, refinery optionality, and domestic power diversification. Ultimately, we see more regionalization of the global economy on the horizon, which reinforces our bullish view on infrastructure investment.

▲ Europe Periphery, including Spain

Within Europe, we look towards continued outperformance of the 'Periphery' relative to the 'Core' as fiscal policy increasingly becomes the incremental growth lever across the region. Put differently, the next turn of European demand is likely to be driven less by exports and more by public-sector investment tied to energy security, defense, grid modernization, and industrial resiliency. In our view, that mix is more supportive for the Periphery, where the multiplier on incremental spending tends to be higher, where there is still more room to absorb investment without running into immediate capacity constraints, and where services and tourism momentum can provide an additional bridge as capex ramps. By comparison, the Core faces a tougher set of starting conditions, including slower trend growth and more binding competitiveness issues, which means that even as Europe spends more, the Periphery is positioned to capture a disproportionate share of the upside.

▼ 2021 Deals (REPEAT)

We remain cautious on many 2021 and 2022 vintage deals, particularly where underwriting was done against peak multiples, unusually low base rates, generous documentation, and a more benign growth outlook. In many cases, those transactions were structured for a world that no longer exists. Revenue growth expectations were higher, capital was cheaper, exit markets were deeper, and the margin for error was wider. Today, rates are higher, refinancing is more selective, operating

performance is more dispersed, and buyers are applying greater discipline to both quality and price. This does not mean all 2021 and 2022 deals are impaired. Many good companies were financed during that period. However, the vintage requires extra scrutiny because original capital structures often assumed continued multiple expansion, rapid revenue growth, or ready access to refinancing markets. In our view, that is a difficult starting point for credit investors. We would rather own businesses and structures built for today's cost of capital than those still trying to grow into yesterday's valuations. As we have written before, the same yield does not mean the same risk, and the same asset class does not mean the same ability to withstand shocks. Documentation quality, leverage discipline, portfolio construction, and entry point matter more now than they did when the crowd was still applauding.

▼ Long-Duration Government Bonds (REPEAT)

In our view, long-duration Treasuries have become a less reliable safe haven since the onset of COVID. As inflation re-emerged, the stock-bond correlation turned positive more often than not, reducing the diversification benefit that government bonds historically provided in multi-asset portfolios. If Treasuries now offer less dependable downside protection, investors should demand more compensation to hold duration. We therefore believe the term premium should remain structurally higher. Inflation uncertainty is elevated, fiscal concerns are persistent, defense spending is adding to deficit pressure, and foreign capital recycling into Treasuries may be less dependable as other economies prioritize domestic rebuilding following the Iran conflict. Trade-related tensions could further redirect capital away from U.S. assets. If these forces continue to drive long-end curve steepening, mark-to-market losses from higher yields could offset higher carry and narrow the expected return advantage of long-duration government bonds relative to shorter-duration IG assets over the next five years. Taken together, these dynamics could further diminish Treasuries' traditional role as portfolio shock absorbers.

▼ Consumer Staples (REPEAT)

We are maintaining a cautious stance on consumer staples, as slowing top-line growth and rising input costs are eroding the defensive appeal investors have traditionally sought from the sector. Structural shifts in consumption are weighing on key sub-segments: demand for carbonated soft drinks continues to trend lower amid health-conscious behavior and changing demographics, while alcohol volumes remain under pressure from moderation trends and substitution towards non-alcoholic alternatives. Most consumer brands cannot rely on high-income households alone. At the same time, input costs such as commodity prices, freight, and packaging are moving higher, compressing margins just as the sector's ability to pass through price increases without sacrificing volume is diminishing. Notably, consumer staples are trading at a stretched 22x NTM P/E, even as operating margins are near three-decade lows (7.7%). The key takeaway is that consumer staples are losing some of their historical inflation-buffer characteristics, creating a more challenging backdrop for earnings growth and valuation support in the years ahead.

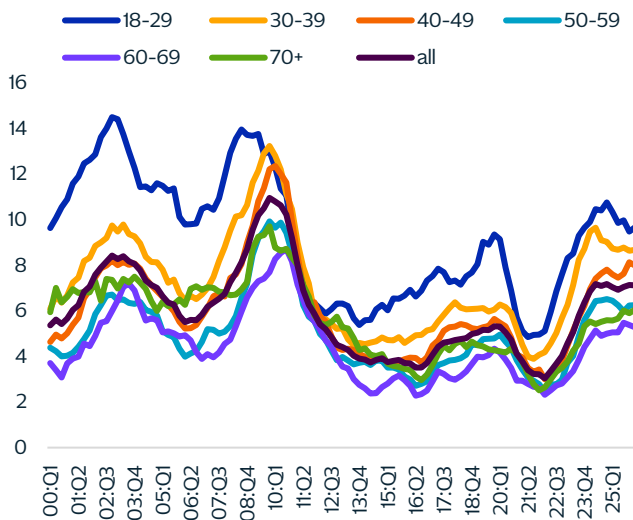
▼ Low-income Consumer (REPEAT)

The Middle East conflict is reinforcing one of the more important macro themes we have been tracking: ongoing pressure on lower-income consumers and persistent K-shaped economic dynamics. For lower-income consumers, higher goods, food, energy, rent, and debt-service costs are absorbing more of the household wallet. Higher energy and food prices are effectively a tax on disposable income, but the burden is not shared equally. Gasoline at roughly \$4 per gallon can translate into about \$1,200 of incremental annual expense for a typical household. For higher-income consumers, that is largely an inconvenience. For lower-income households, where close to 70% of spending is already tied to essentials, it represents a meaningful budget shock. What makes this cycle more challenging is that traditional buffers are thinner than in prior periods. The U.S. household savings

rate has fallen to 3.6%, near the low end of this cycle, and consumers appear less willing to fund incremental spending through additional credit card or auto debt. Meanwhile, high-frequency spending data since the start of the Iran conflict suggest some pullback across everyday and discretionary categories, including food and beverage, clothing, general merchandise, accommodation, and food services. We do not yet view this as the beginning of a broad consumer credit cycle. Auto and credit card delinquencies remain elevated, but there are signs they may be plateauing. Rather, the more nuanced conclusion is that the lower-income consumer is not collapsing but is under increasing pressure. In our view, that pressure is likely to show up through continued trade-down behavior, delayed purchases, and a reallocation of wallet share away from discretionary categories, as higher energy, food, rent, and debt service costs absorb a greater portion of household income.

Exhibit 45: Credit Card Loan Delinquencies (90+) Are Elevated But Show Signs of Plateauing

Transition into Serious Delinquency (90+) for Credit Cards by Age



Four Quarter Moving Sum. Balances may not add up to totals due to a small number of individuals with unknown birth years. Data as at March 31, 2026. Source: New York Fed Consumer Credit Panel/ Equifax.

We would rather own businesses and structures built for today’s cost of capital than those still trying to grow into yesterday’s valuations. As we have written before, the same yield does not mean the same risk, and the same asset class does not mean the same ability to withstand shocks. Documentation quality, leverage discipline, portfolio construction, and entry point matter more now than they did when the crowd was still applauding.

SECTION II

Most Frequently Asked Questions

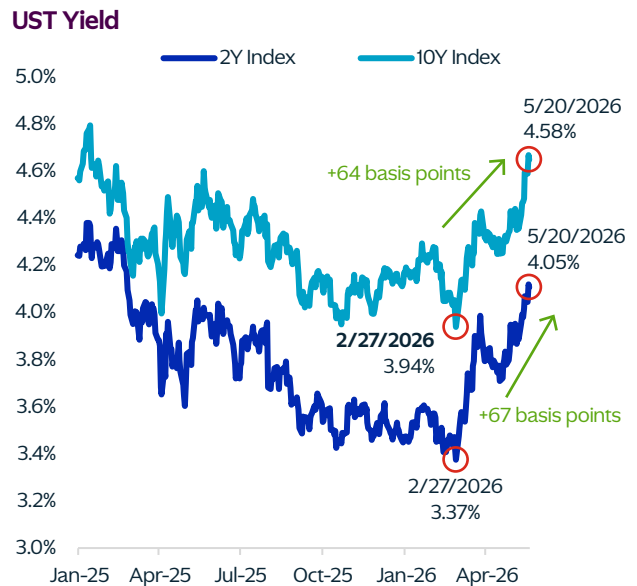
QUESTION NO. 1

What Are the Global Bond Markets Telling Us?

One of the more important debates we are having internally at KKR is whether the recent rise in global bond yields represents a classic fiscal reckoning or something broader. Our conclusion is that the popular narrative has become too one-dimensional. Yes, deficits matter, and yes, term premium can still move higher if fiscal concerns, supply dynamics, or bond market volatility intensify. However, the bigger point may be that the broadening we are seeing in equities is now being mirrored in global bonds. As equities become more competitive across more regions and sectors, fixed income markets are being asked to offer more compensation. At the same time, each country has its own challenges, so while the global bond sell-off is broadening, it is not attributable to one uniform event. For example, the data suggest that the recent move in U.S. rates has been driven less by a disorderly repricing of fiscal risk and more by a shift towards a higher nominal growth regime. Since late February, the two-year Treasury yield is up 67 basis points, while the 10-year is up 64 basis points, and the 2s10s curve, which we use as a simple proxy for term premium, is actually down three basis points since the Iran conflict began (*Exhibits 46 and 47*). Put differently, U.S. term premium appears broadly fair, and the recent move has been concentrated at the front end of the curve, which is much more consistent with a growth and policy rate story than a pure deficit story. In

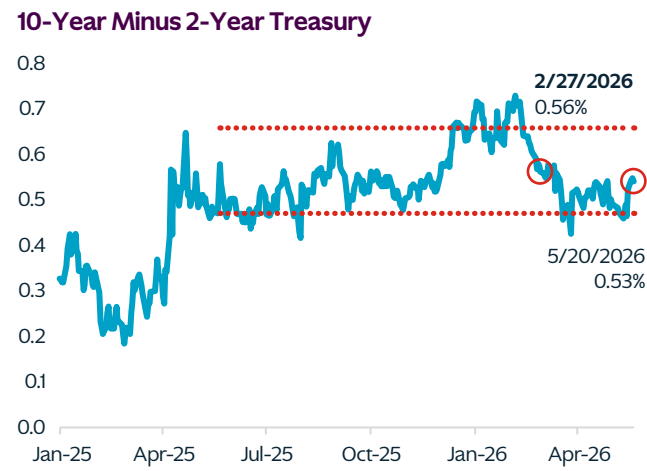
our view, that is an important distinction. The market is not simply punishing the U.S. for higher deficits. It is also adjusting to stronger growth, better productivity, stickier inflation, and a Fed that may have less room to ease than many investors previously assumed.

Exhibit 46: 2-Year Yields Are Up 67 Basis Points Since the End of February, the 10-Year Yield Is Up 64 Basis Points. This Relationship is Important...



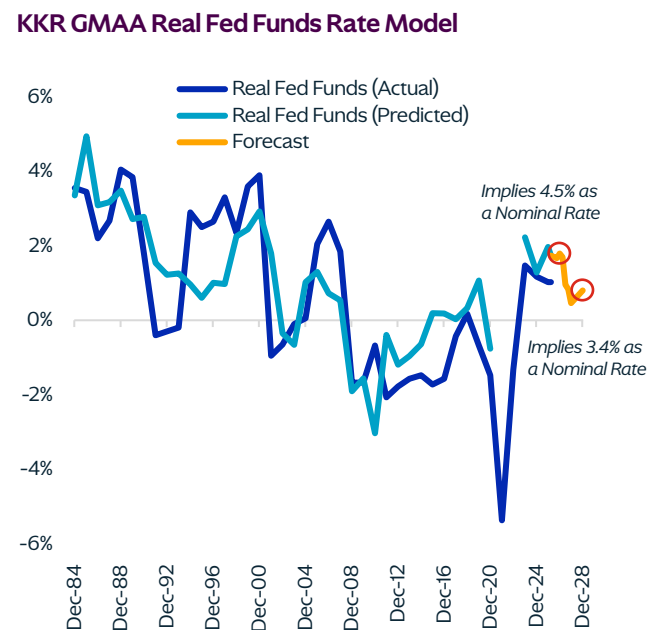
Data as at May 20, 2026. Source: Bloomberg.

Exhibit 47: ...As It Suggests That the Spread Between 2-Year Yields and 10-Year Yields (a Rough Proxy for Term Premium) Has Remained Fairly Constant, Even Amidst the Surge in Geopolitical Tensions



Data as at May 20, 2026. Source: Bloomberg.

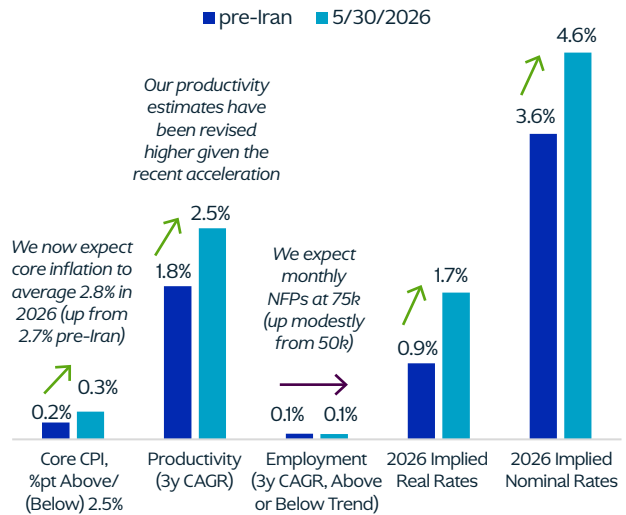
Exhibit 48: Our Model Calls for Real Rates to Peak in 1Q27 at 1.8% Before Settling Around One Percent by the End of the Year



Data as at May 20, 2026. Source: Bloomberg.

Exhibit 49: Alongside a Stronger Employment Backdrop, Higher Productivity Growth Has Pushed Up Our Estimate of Real Rates

Component Forecast Revisions (vs. November 2025)



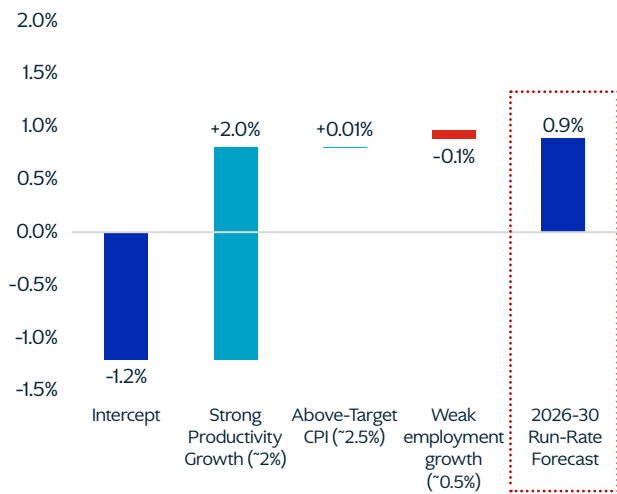
Data as at May 20, 2026. Source: Bloomberg.

Our own models reinforce this point. To pressure test our Fed call, we built a predictive model for fed funds. It is signaling that the appropriate setting for the Fed may briefly approach 1.7% on a real basis (mid-4% nominal) for a period in late 2026 and early 2027, versus 1.0% real/3.625% nominal currently. Drivers of the uplift include rising core inflation, stabilizing job growth, and — most crucially — surging productivity trends. More comfortably from an investing perspective, *Exhibit 50* shows the model still points to a comparatively moderate long-term fair value for fed funds of 0.9% real/3.4% nominal (approximately one cut below the current level of 3.625%). The model suggests that the rates market is correct in diagnosing an upside skew to Fed policy in the near term, but also that the market may have become too hawkish in pricing Fed policy structurally in the high-3% or low-4% range longer term. For the Warsh Fed, we think the key decision is how tactical to be: does it hike 50-100 basis points to address the building wave of energy-led core inflation that is taking place amid buoyant productivity trends? Or does it resolve instead to hold at current levels for a few quarters until the energy challenges steady? For now, we maintain a base case that the Fed holds tight rather than hikes, but we are increasingly watchful that hikes may be required.

Meanwhile, for 10-year yields, we also place significant weight on a quantitative framework. Our yield curve steepness model keys into factors including deficits, stock/bond correlation, household savings rates, and corporate bond supply. This model also sends a hawkish message in the near term, driving our 10-year target of 4.75% this year. Longer-term, our model sees 10-year fair value setting closer to 4.25% by late 2027 and 4.0% longer term as short end rates settle and savings and supply trends cool (*Exhibit 51*). That said, we also see a high case that could approach 5.0% for the 10-year over the long term in a world where inflation, productivity, and issuance trends remain hotter for longer. This is why we do not want to get caught being too dovish at this point in the cycle. The economy is not slowing as much as many expected, inflation is still running above our preferred comfort zone, and if payrolls begin to print consistently north of 100,000, the Fed may need to stay on hold for longer or even consider tightening again.

Exhibit 50: Our Model Calls for About 0.9% Real Rates Long-Term (Around 3.4% Nominal) as Productivity Growth Remains Strong, But Settles Modestly, While the Employment Backdrop Remains Soft

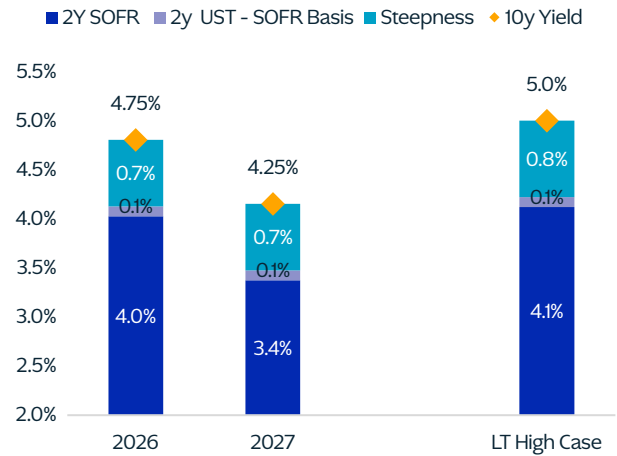
Contributions to KKR GMAA Real Fed Funds Model (Long-Run Neutral Run-Rate)



Data as at May 20, 2026. Source: Bloomberg.

Exhibit 51: As the Market Prices Out Hikes From the Front End of the Curve, We Think the 10-Year Yield Settles Around Our Target of 4.16% (4.25% Rounded Higher) in 2027

UST 10-Year Yield Forecasts (2026/27)



Data as at May 20, 2026. Source: Bloomberg.

The global story is equally important. Across major markets, 10-year yields now screen near historical extremes, with the U.S., Europe, the U.K., Japan, and Korea all near the upper end of their 10-year ranges. However, the drivers are different by region. Outside Japan, the recent backup in yields appears to have been driven primarily by higher expected policy paths rather than a broad steepening of yield curves. In Europe, the U.K., Korea, and the U.S., the contribution from term premium has actually been negative since late February, while Japan is the clear exception, with term premium up meaningfully and now at the 100th percentile. The U.S. has also seen the lowest move in 10-year breakevens, which we think reflects stronger real growth and a stronger dollar. That matters because U.S. robustness and dollar strength can effectively export pressure to the rest of the world, forcing other central banks to defend their currencies or at least tolerate tighter local financial conditions. Europe is a good example. The ECB has already eased more than the Fed, which means markets have had to price out more easing, and in some cases price in a firmer expected policy path, particularly at the two-year point. In summary, we think the U.S. move looks more like a real rate and growth story, Europe and Japan have been more inflation driven, and the U.K. and Korea sit somewhere in between.

This distinction matters for investing, because it argues against treating the global bond sell-off as one uniform event. In the U.S., we remain wary of being long duration too early, given above consensus inflation and resilient growth. In the U.K., by contrast, we think the long end increasingly deserves attention, and we remain overweight gilts on a relative value basis, while acknowledging that the mark-to-market path could remain volatile. The U.K. has a complicated near-term backdrop, including political risk premium, sticky inflation, budget constraints, and the fact that the BoE is still actively selling gilt holdings. However, our base case is that some of the political risk premium fades over the coming quarters, particularly if energy prices remain contained, labor market weakness becomes more visible, and pressure builds for the BoE to slow or further rein in QT if gilt stress is being driven by external factors rather than domestic overheating.

There is also a structural reason we still like the U.K. long end. The U.K. remains one of the deepest sourcing grounds globally for long-dated sterling assets, supported by a large base of insurance capital, defined benefit pension assets, and a long history of matching long-duration liabilities with long-dated government and Private Markets cash flows. That ecosystem has helped create sizeable markets in social housing debt, long-lease real estate, U.K. infrastructure debt, and other long-duration Asset-Based Finance. For insurance-oriented investors seeking to increase asset duration, the key point is the depth and hedgeability of the broader sterling cash-flow ecosystem. The liquidity of the long-end gilt market supports the sterling swap market, provides natural flow for dealers and LDI investors, and allows insurers to hedge interest rate risk more efficiently. In addition, the U.K.'s rule of law and regulatory stability give long-dated creditors more confidence that contractual cash flows will be honored. In that context, mediocre trend growth is less problematic than it would be for an equity investor. What matters more is the durability, enforceability, and hedgeability of the cash flows.

Japan deserves special attention because it is the one market where the steepening looks most structurally vulnerable. In our view, Japan is no longer being backstopped by the same three anchors that suppressed term premium for much of the last cycle: an expanding

BoJ balance sheet, price-insensitive domestic institutional demand, and a relatively quiescent fiscal stance. Instead, the BoJ is normalizing policy and shrinking its balance sheet, wage growth is running at multi-decade highs, core inflation remains sticky above target, and the fiscal impulse remains positive. Consensus still appears anchored to a gradual hiking cycle with terminal rates around 1.0-1.5%, but we think that may underestimate the regime shift. A terminal rate closer to 1.75% looks more plausible to us, with the curve steepening further as the market adjusts.

The technical landscape also matters. Japan's JGB market combines a very large debt stock, long average maturity, and a legacy of low coupon issuance from the yield curve control era. That combination increases the mark-to-market sensitivity of the market even in an orderly normalization. The point is not that Japan needs a crisis for yields to move higher. Rather, modest yield moves can inflict outsized mark-to-market losses on current holders, which can reduce their capacity or willingness to absorb new long-duration supply. At the same time, the traditional domestic anchor, including life insurers, pensions, and banks, appears to be loosening as mark-to-market capital frameworks and offshore reinsurance flows change behavior. This is why the BoJ balance sheet point matters. The BoJ may be reducing assets only gradually, but it is no longer expanding into weakness or acting as the same marginal backstop for the long end. When the largest central bank balance sheet in the world relative to GDP is stepping back, even slowly, the private sector has to absorb more duration at a time when its own mark-to-market sensitivity has increased. The implication is that Japan may have the clearest structural steepening bias among the major sovereign markets, even if the adjustment remains orderly. Japan, therefore, is not simply moving with the rest of the global bond market. It is moving away from three decades of deflation psychology towards a more normal inflation and term premium regime, and that transition may still have further to run.

In the U.S., we remain wary of being long duration too early, given above consensus inflation and resilient growth.

Exhibit 52: The U.S., Europe, the U.K., Japan, and Korea Are All Near the Upper End of Their 10-Year Ranges. Importantly, Though, the Drivers Are Different by Region

Global Government Bond Yield Dashboard

Region	Nominal 2y		Nominal 10y		Real 10y		Nominal Term Premium		Real GDP (3y CAGR)	Real Yield vs. GDP Growth	
	Level	Percentile	Level	Percentile	Level	Percentile	Level	Percentile		Level	Percentile
US	4.0%	79%	4.5%	95%	2.1%	85%	0.4%	56%	2.3%	-0.2%	93%
Europe	2.6%	84%	3.0%	98%	0.9%	89%	0.4%	44%	0.9%	-0.1%	90%
UK	4.3%	88%	4.9%	98%	1.5%	95%	0.6%	62%	1.0%	0.4%	88%
Japan	1.4%	100%	2.7%	100%	0.4%	99%	1.3%	100%	0.3%	0.2%	83%
Korea	3.6%	90%	4.1%	98%	1.2%	67%	0.5%	57%	1.9%	-0.7%	88%
RoW*	2.8%	90%	3.3%	99%	0.9%	93%	0.5%	56%	0.9%	0.0%	90%
US vs. RoW	1.3%	28%	1.2%	16%	1.1%	35%	-0.1%	62%	1.4%	-0.2%	30%

Lookback period is 10-years. Data is limited as 2-Year inflation-linked bonds are not traded actively in every country. *RoW GDP weighted (64% Europe, 14% UK, 1% Japan, 1% Korea). We use 2s10s as proxy for term premium with base rates around neutral. Data as at May 20, 2026. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

The investment implications of this rate backdrop are straightforward but not exactly simple. First, for fixed income investors, the market's obsession with fiscal deficit risks may be missing the more important point: this rate regime is actually being reshaped more by productivity, inflation, and policy uncertainty than deficits in isolation, we believe. Second (and more for equity investors), earnings matter more than the discount rate for equities from here. A 100-basis point move higher in rates is not benign, but a 10% earnings disappointment would be much more damaging to the equity market, in our view. This is still an earnings-driven bull market, and the fact that multiples have compressed while earnings have continued to rise is an important observation.

Third and finally (for all investors), rate discipline now matters much more for investors and business owners alike. Historically, many investors were able to rely on floating rate structures or refinancing optionality to manage rate risk. Going forward, larger fixed rate transactions, particularly those with non-U.S. exposures, will require a more coordinated global rates framework and a more explicit hedging discipline. Region also matters. The U.K. has a deep pool of long-dated sterling assets but sourcing attractive liabilities is competitive. The Eurozone, by contrast, is more fragmented, with easier access to euro liabilities but a more challenging supply of matching long-duration assets. This mismatch reinforces why relative value in rates, currency, asset origination,

and liability sourcing all need to be considered together. While we do see rates eventually moving lower relative to today's levels in some markets, we think it is still too soon for insurers and other long-duration capital pools to move aggressively towards net neutral or long-duration positions. The better approach, in our view, is to harvest carry without relying too heavily on duration, keep rate risk disciplined, and focus on credit where investors are being paid for real structure, covenants, and downside protection, not just headline yield. In our view, the right answer is not to pretend we have perfect visibility. Instead, one should acknowledge that the distribution of outcomes has widened, stay humble on the precise path, and pay for protection when the downside of being wrong is material.

● QUESTION NO. 2

Have Expected Returns Changed Enough to Alter Asset Allocation?

As we show in *Exhibit 53*, our latest Capital Market Assumptions (CMAs) point to a familiar but important conclusion: expected returns are still moderately attractive, but they are becoming harder to capture across most asset classes. We think the reason is

straightforward. In the last cycle, multiple expansion, falling rates, and broad market beta did much of the work for investors. Going forward, we think those tailwinds will be less reliable, as starting valuations are less forgiving and there is less scope for rates to fall than in the past. As a result, the range of expected returns across major asset classes remains relatively narrow and government bonds continue to be less dependable shock absorbers than they were before the pandemic.

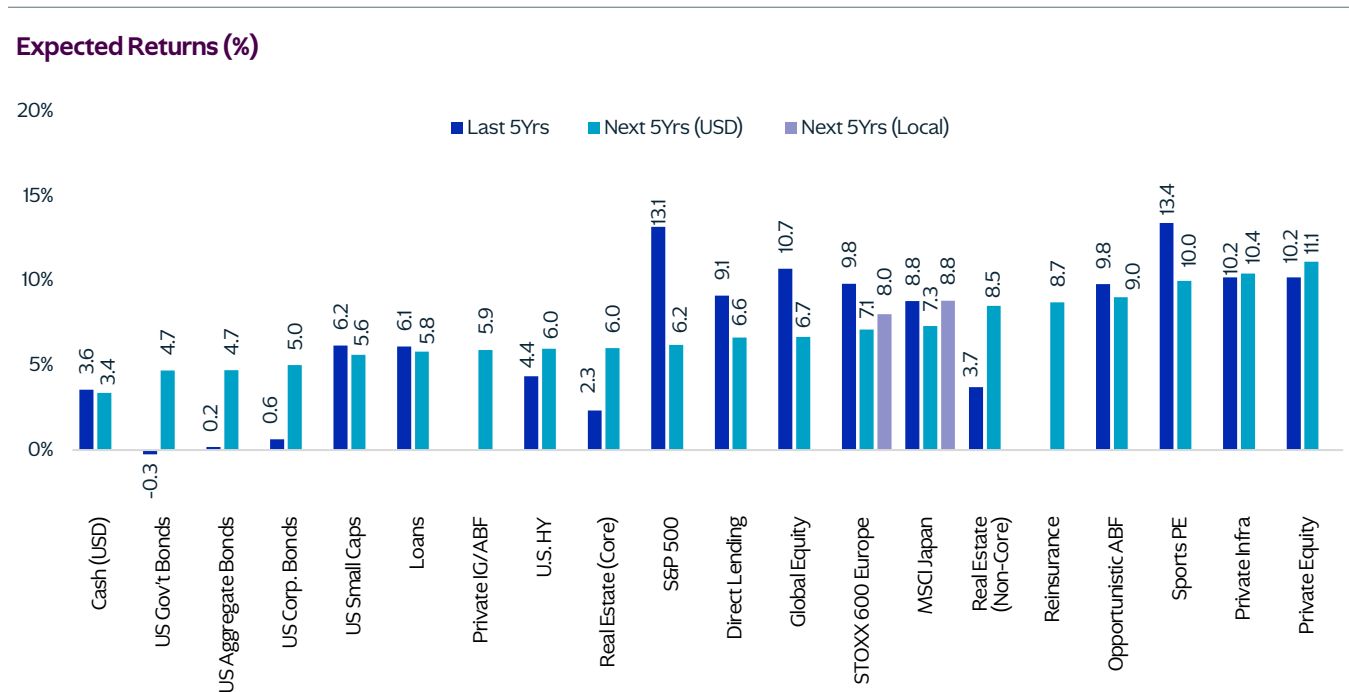
At the same time, however, differences beneath the surface of asset classes are becoming increasingly pronounced. Based on what we are seeing, this reality is the Capital Market Assumptions expression of the 'Divergence Conundrum' we discuss throughout this Mid-Year Outlook. Specifically, while headline asset class expected returns look narrow (*Exhibit 55*), outcomes within asset classes are becoming more dispersed as growth, productivity, margins, and capital access accrue unevenly. As a result, we suggest that investors should treat our CMAs less as a simple ranking of asset classes and more as a framework for understanding what return

streams they can access, how those exposures are structured, and where manager selection can add value.

In terms of specifics, we are using this note to update our 5-, 10-, and 20-year return assumptions to reflect higher near-term Treasury yields, a more gradual path for U.S. equity multiple normalization, tight Investment Grade and High Yield spreads, and wider spreads but higher loss assumptions in Leveraged Loans and Direct Lending. One can see these changes in *Exhibits 54* and *55*, respectively. We also introduce CMAs for five additional Private Markets asset classes including Sports Private Equity, Private Investment Grade/Asset-Based Finance, Opportunistic Asset-Based Finance, Reinsurance, and Core Real Estate.

Taken together, we believe the changes reinforce our broader message that the source of returns is shifting. Broad beta can still contribute, but we think non-correlation, control, collateral, and manager selection are likely to matter more than they did in the past.

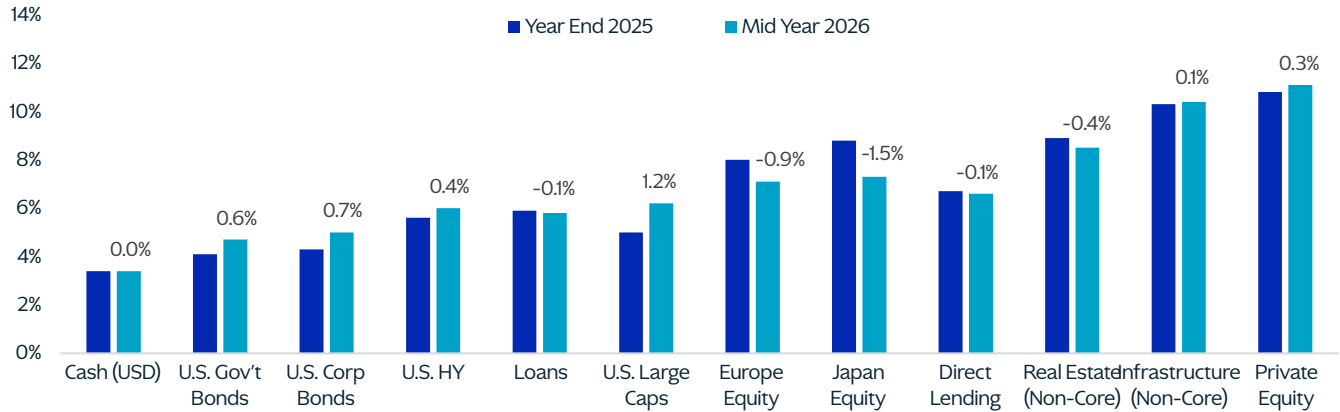
Exhibit 53: We Continue to Think Expected Returns Over the Next Five Years Will Look Quite Different Relative to the Past Five Years



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.** Private Markets as of 4Q2025. Source: Bloomberg, Cambridge Associates, Global Macro & Asset Allocation analysis.

Exhibit 54: Expected Returns Have Changed at the Margin, Reinforcing the Need for Selectivity

Change in 5-Yr Expected Returns



Past performance is no guarantee of future results. Data as at April 30, 2026. Source: KKR Global Macro & Asset Allocation analysis.

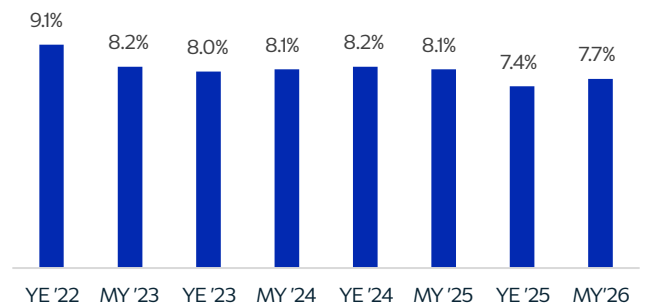
Broad beta is likely to do less work at this point in the cycle. Although the spread between the best- and worst-performing asset classes has increased modestly to 7.7% from 7.4% last December, it remains tight by historical standards. One can see this in *Exhibit 55*. This should keep investors cautious about relying solely on broad asset allocation to drive incremental portfolio return.

However, this reality does not mean opportunities are absent. Rather, it means they are less obvious at the asset class level. In our view, the more important sources of return are increasingly concentrated beneath the surface, where sector, issuer, geography, collateral, and manager selection matter more. The broader message is that when expected return dispersion across asset classes is narrow but outcome dispersion within asset classes is wide, portfolio construction becomes a more important asset allocation lever.

At the same time, however, differences beneath the surface of asset classes are becoming increasingly pronounced.

Exhibit 55: 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.

Starting points have been less forgiving, particularly in Public Equities. U.S. valuations remain elevated, even after adjusting for sector mix, stronger profitability, and the higher-quality composition of the index. At the same time, we do not think elevated valuations should be interpreted through a simple mean-reversion lens. Our constructive earnings outlook, expectation of no hard landing over the next few years, and continued evidence of productivity gains support a more gradual path of multiple normalization than we previously assumed.

Beneath the surface, however, the equity market is becoming more bifurcated. Mega cap companies continue to enjoy stronger margins, higher revenue per worker, better balance sheets, and more durable access to capital than much of the small cap universe. In our view, this is the public equity market's manifestation of our 'Divergence Conundrum' thesis as headline indices increasingly mask meaningful differences in quality, profitability, productivity, and business model durability.

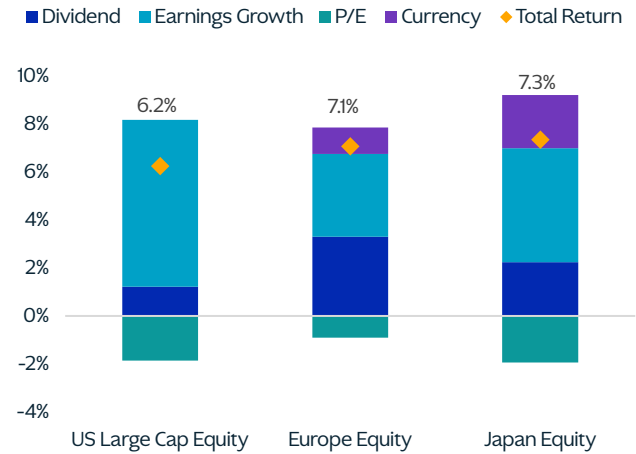
The conclusion, however, is not to own fewer Equities. Instead, we think investors should lean towards quality and remain disciplined about where they are relying on multiple expansion versus earnings growth to drive outcomes. We still see room for equities to compound, but the bar for passive market direction to drive returns is higher than it has been in the past.

Meanwhile, International Equities still look attractive relative to the U.S., though the gap has narrowed. Japan and Europe continue to offer more attractive entry points, but stronger performance and expanding valuations have pulled forward a portion of future returns. We continue to expect Japan and Europe to outperform the U.S., though by a narrower margin than previously anticipated.

The broader portfolio construction issue investors face in Fixed Income is that government bonds have continued to prove less reliable as shock absorbers than they were pre-COVID.

Exhibit 56: We Still See Attractive Entry Points Outside the U.S., But the Relative Valuation Gap Has Narrowed

Decomposition of 5-Yr Expected Returns for Public Equity



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

An investor has to be more thoughtful about both the opportunities and risks across all Fixed Income. Though starting yields are more attractive than they were during the zero-rate era, spreads across Fixed Income are less forgiving. Investment Grade and High Yield spreads remain tight and close to historical lows, while strong structural demand for income should keep spreads narrower than long-term averages.

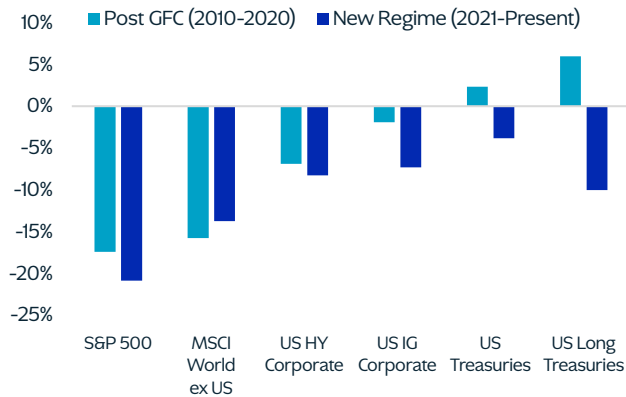
Meanwhile, we have increased loss expectations for Leveraged Loans and Direct Lending over the next few years, reflecting higher default expectations and lower expected recoveries. The pressure, in our view, is likely to remain concentrated in many 2021-era vintages, where transactions were underwritten at peak valuations, low base rates, and looser financing conditions.

The broader portfolio construction issue investors face in Fixed Income is that government bonds have continued to prove less reliable as shock absorbers than they were pre-COVID (*Exhibit 57*). When economic disruptions are tied to larger fiscal deficits, heightened geopolitical conflict, energy insecurity, or stickier goods and services inflation, bonds and equities can come under pressure at the same time and with greater frequency. Many institutional portfolios still rely heavily on the assumption that Public Equities provide growth and bonds provide

downside protection. We think that assumption requires more scrutiny. Bonds can still provide income, liquidity, and diversification in certain environments, but we do not think investors should underwrite the same hedging properties that existed when inflation was low, central banks had ample room to ease, and deficits were less binding.

Exhibit 57: U.S. Treasuries Have Become Less Reliable Shock Absorbers During Equity Drawdowns

Asset Class Returns When S&P 500 Drawdowns >10%



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

We think the return stream, rather than the asset class label, will matter more. This is why we think investors need to be more targeted about what they own and why they own it. We are not arguing that investors should simply own more Private Markets. Rather, we think investors need a more deliberate mix of return drivers that can complement public equity and fixed income allocations in a *Regime Change* environment.

To help enable more intentional portfolio design in Private Markets, we add CMAs for five new asset classes, Sports Private Equity, Private Investment Grade/Asset-Based Finance, Opportunistic Asset-Based Finance, Reinsurance, and Core Real Estate. These asset classes can offer exposures with different roles in a portfolio, including up-front yield, collateral protection, nominal GDP linkage, inflation sensitivity, and lower correlation to public markets. Manager dispersion also remains an important consideration for investors in Private Markets, reinforcing that who implements the exposure may matter as much as the exposure itself. These new asset classes are also

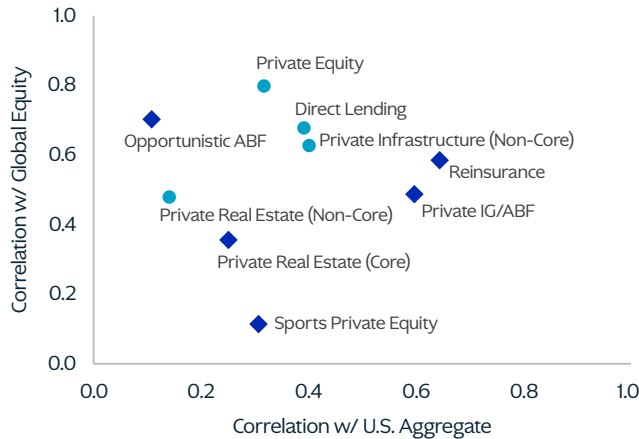
consistent with how KKR's own platform has evolved to meet investors' demand for differentiated sources of return through the additions of Arctos, Health Care Royalties, Global Atlantic, and KJRM.

Asset class	Description
Sports Private Equity	Ownership interests in professional sports teams that provide access to non-correlated revenue streams, including league revenue such as media rights, and local revenue such as ticket sales, merchandise, and sponsorships.
Private Investment Grade/Asset-Based Finance	Investment grade, secured lending backed by recurring, often contractual cash flows from diversified pools of assets, including hard assets, receivables, royalties, consumer or residential loans, leases, and inventory. Downside risk is typically mitigated by collateral coverage and subordinated tranches below the investment grade tranche, with transactions privately originated and negotiated. This represents the majority of the broader Private Investment Grade universe, which also includes corporate and infrastructure-related exposures.
Opportunistic Asset-Based Finance	Equity and non-investment grade tranches of asset-based finance deals, with exposures in sectors similar to those for Private IG/ABF. These portfolios typically contain a mix of financial assets and hard assets, which can provide inflation sensitivity. Collateral helps protect principal and may appreciate with inflation.
Reinsurance	Access to a corporate carve-out sleeve of insurance companies with participation in assets, including diversified investment portfolio, and liabilities, including policies.
Core Real Estate	Exposure to high-quality, fully leased properties with stable, defensive in-place cash flows, generally located in prime markets. These assets tend to derive a relatively high proportion of total returns from income and are typically financed with lower leverage.

Exhibit 58 shows why the new CMA categories are useful for understanding the diversification role these exposures can play in a portfolio beyond expected return. All five have estimated correlations below 0.70 with both Public Equity and Fixed Income, and three have estimated correlations below 0.50 with both. In our view, the more important takeaway is that investors can use these categories to build a more precise taxonomy of exposures, including which assets primarily deliver up-front yield with collateral protection, which are more linked to nominal growth, and which may provide truly diversifying or non-correlated sources of return.

Exhibit 58: The New Private Markets Asset Classes Introduced Are Diversifying Exposures That Can Help Investors Reduce Reliance On the Public Equity and Fixed Income Allocations That Still Dominate Many Portfolios

Private Market Correlations w/ Stocks and Bonds



Data as at 4Q2025. Source: Burgiss, Cambridge Associates, NCREIF, Bloomberg, MSCI, JPM, University of Michigan Ross School of Business, KKR Global Macro & Asset Allocation analysis.

Within Private Markets, our forecast changes reinforce the same broader point that the return stream matters more than the asset class label. As shown in the following exhibits, the moving pieces differ by category. In corporate-oriented private assets, valuations have ticked down in Private Equity and issuance spreads have widened in Direct Lending, improving entry points relative to the prior refresh. We have also incorporated a haircut to Private Equity returns to reflect potential AI-related disruption, particularly in software-oriented businesses. The net result is that Private Equity expected returns moved incrementally higher, but the illiquidity premium compressed. In Direct Lending, expected returns moved marginally lower, as wider spreads were more than offset by higher expected losses. In Real Assets, valuations have expanded as investors seek durable, inflation-sensitive cash-flow profiles. Infrastructure expected returns are broadly unchanged, as higher growth expectations offset higher valuations, while Real Estate expected returns declined, reflecting a more expensive entry point and upside risk to rates over the next few years.

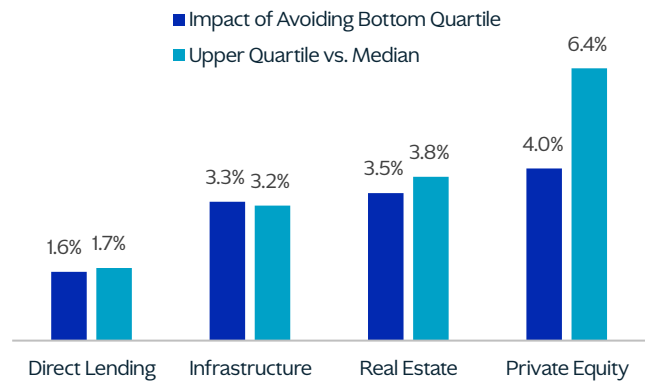
For investors, the takeaway is not simply that one Private Markets category looks better than another. Rather, the

next phase of performance will likely depend on the underlying return stream: Is the cash flow durable? Is there collateral or structure protecting the downside? Is the exposure linked to growth or inflation? And can the manager improve outcomes through pricing, procurement, technology adoption, margin improvement, and revenue-per-worker gains? In a higher-cost-of-capital world, value creation will likely need to come more from operational execution than from leverage or multiple expansion.

Manager selection is a separate but related point. *Exhibit 59* shows that dispersion between stronger and weaker managers can be material, particularly in Private Markets. In a lower-return world, avoiding underperforming managers and accessing top-quartile implementation may become an important source of total portfolio return.

Exhibit 59: 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. Top 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.**

Our bottom line: Expected returns are not unattractive, but investors will need to be more deliberate about the sources of return they underwrite, the structures they use, and the managers they select. Traditional public market diversification is also less dependable when government

bonds are no longer reliable diversifiers during equity drawdowns. Against that backdrop, four implications stand out:

- **Investors need more diversifying and non-correlated exposures.** Traditional stock-bond diversification is less reliable in a world of higher deficits, stickier inflation, and more frequent geopolitical shocks. This reality argues for greater exposure to assets with differentiated return drivers, including contractual revenues, collateral-backed cash flows, and idiosyncratic growth.
- **Up-front yield and nominal GDP linkage matter more.** In a higher nominal growth world, we favor cash flows that can compound with the economy and reprice with inflation. These exposures are particularly valuable when investors receive less support from falling rates and multiple expansion. Asset-Based Finance, Infrastructure, select Real Estate, Reinsurance, and other contractual or collateral-backed sources of return can help address this need when underwritten correctly.
- **Control is becoming more important.** In our view, the next phase of Private Markets performance will favor investors who can influence outcomes through governance, capital structure, pricing, operations, procurement, technology adoption, and strategic repositioning. This is why we continue to favor operational improvement stories and remain cautious on over-levered 2021-vintage deals underwritten to a more accommodating macro environment.
- **Skill matters more where dispersion is high.** With headline expected returns lower and outcomes more differentiated across sectors, structures, and collateral types, manager selection can become a relatively larger contributor to total portfolio results.

Our updated assumptions suggest that the next five years should still offer opportunities, but they will likely be less obvious at the broad asset class level and more dependent on underwriting, structure, and execution. In the environment we are envisioning, the advantage will go to investors who can identify not just where return exists, but whether those returns are durable, diversified, and repeatable.

● QUESTION NO. 3

Where Is Relative Value Most Attractive Today in Credit?

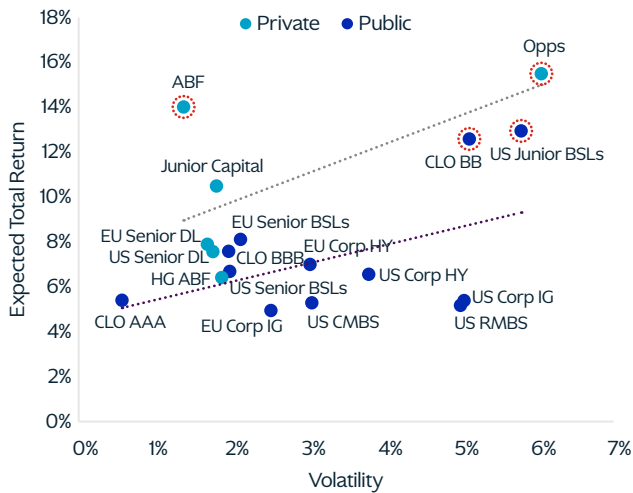
The biggest shift in credit this year has not been spreads. It has been dispersion, which we think holds the key to relative value again in the second half of 2026. The volatility that emerged earlier in the year, driven by software-related credit concerns and redemption pressures in select areas of the private credit market, revealed a market that is becoming less willing to reward aggressive underwriting, elevated leverage, and concentrated risk. While the broader impact has been mostly contained to 2021-22 vintage risk, we think the signals are important. In our view, structure, collateral, documentation, and sponsor behavior are increasingly becoming the real drivers of outcomes in credit.

This backdrop has important implications for relative value. We do not think this is a market that rewards simply reaching for incremental yield. Rather, we think the better opportunity is to stay selective and focus on situations where expected returns are attractive relative to volatility, leverage, and potential loss content. Across both Liquid and Private Credit, that means leaning into quality, structure, and collateral while avoiding parts of the market where spread does not adequately compensate investors for downside risk.

In our view, the next phase of Private Markets performance will favor investors who can influence outcomes through governance, capital structure, pricing, operations, procurement, technology adoption, and strategic repositioning.

Exhibit 60: ABF Remains Differentiated by Its Meaningful Upside Potential and Investable Universe. Opportunistic Strategies Also Offer Meaningful Upside But With Higher Levels of Volatility

Credit Efficient Frontier



Volatility calculated using quarterly returns from 2Q2024 to 1Q2026. Data as at March 31, 2026. Source: KKR Global Macro and Asset Allocation analysis.

Importantly, the recent volatility has played out differently across the two markets. In traded credit, spreads widened sharply before retracing much of the move as liquidity returned and technicals stabilized. Private Credit, by contrast, remains in a period of price discovery. Spreads continue to widen, original issue discount levels have increased, and lenders are increasingly able to secure tighter structures and stronger covenants. We expect this repricing process to continue through the remainder of the year, creating a better entry point for new capital deployment.

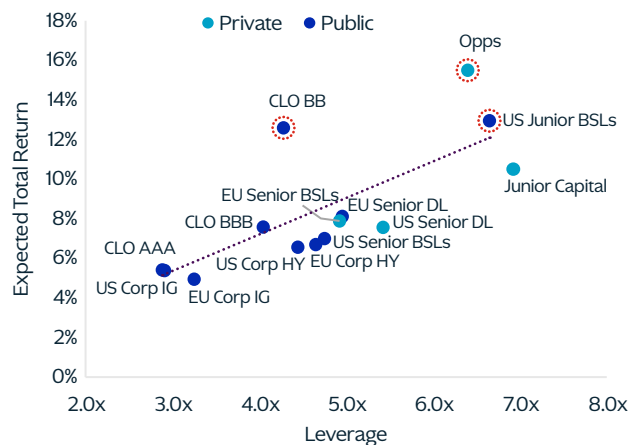
In Liquid Credit, the market has become increasingly bifurcated between quality and risk. BB spreads are near all-time tights, while CCCs remain underbid, particularly within broadly syndicated loans. In our view, investors are still not being paid enough to move meaningfully down the credit spectrum, particularly after adjusting for default risk, recovery uncertainty, and weaker documentation. Said differently, the problem is not that there is no yield in the market. The problem is that some of the incremental yield comes with too much embedded credit risk.

Against this backdrop, CLO mezzanine liabilities continue to stand out for their structural protection and yield pickup. That said, tranche selection matters more than it did a year ago. Dispersion is emerging across manager, vintage, and collateral quality, and we think investors need to be increasingly deliberate about where they take risk. While CLO mezzanine spreads have tightened from the lows, we still see value in structures where collateral quality, subordination, and manager selection provide incremental risk mitigation.

At the margin, we continue to favor High Yield over Loans, particularly in the short-duration segment of the market where credit loss risk appears more remote. High Yield offers higher average credit quality and less exposure to the repricing activity and liability management exercises that continue to weigh on select areas of the loan market. In our view, that combination is important in a market where headline spreads can make risk appear cheaper than it actually is.

Exhibit 61: We Continue to Favor Select CLO Liabilities As Well as Opportunistic Credit Strategies

Credit Return and Leverage Ratio



Data as at March 31, 2026. Source: KKR Global Macro and Asset Allocation analysis.

In Private Credit, we see the most compelling value in strategies where structure and collateral drive outcomes. Asset-Based Finance remains particularly attractive given its diversified collateral pools, contractual cash flows, and expanding opportunity set, as assets continue to migrate away from bank balance sheets. We are also constructive on Capital Solutions, where customized financing structures and partnership-oriented capital can help unlock value for businesses while providing meaningful risk mitigation and, in select cases, equity upside.

We think this point is particularly relevant in today's environment, where IPO and M&A activity remains uneven and sponsor exit timelines have been extended. For allocators, Capital Solutions can serve as a return enhancer within a broader credit portfolio while also providing additional diversification. More broadly, in a market where excess spread is increasingly difficult to find, complexity, structure, and sourcing remain important sources of alpha.

So what is our bottom line? While we do not see a lack of opportunity in credit, we do see a growing gap between strong and weak credits. As that gap widens, we believe underwriting discipline, collateral quality, documentation, sourcing, and transaction structure, not broad market beta, will be the primary drivers of returns.

More broadly, in a market where excess spread is increasingly difficult to find, complexity, structure, and sourcing remain important sources of alpha.

SECTION III

Regional Economic Forecasts

At KKR, we leverage our local presence across more than 20 offices globally to identify growth and inflation trends for our deal teams and investors. At the moment, as *Exhibit 62* shows, we continue to see positive growth. However, our inflation forecasts are consistently above consensus in 2027 except in China (where we see more deflationary conditions persisting). Overall, we continue to subscribe to our middle-through thesis for growth at the headline level, though across sectors we continue to argue for more rolling recoveries and more rolling recessions. Among the key economic variables on which we are particularly focused are productivity and the ability to pass through higher input costs.

U.S. GDP

Forecasts: We are raising our U.S. Real GDP forecasts to 2.4% in 2026 and 2.2% in 2027, up from 2.0% and 1.6% previously. This puts us above consensus of 2.1% in 2026 and 2.0% in 2027. This upgrade reflects two important changes in our thinking. First, we have greater conviction in the AI and tech capex cycle, which our work suggests may still be in the early stages of an unprecedented surge. Second, we have greater conviction in the unique services-oriented nature of this expansion, which we believe gives the cycle more resilience than traditional goods, housing, or credit-led expansions. Put simply, the U.S. economy is getting more support from tech capex and services productivity than we previously appreciated. This

Exhibit 62: We Are Above Consensus on Inflation Everywhere Except China

	KKR GMAA Real GDP Forecast, Probability, and Consensus Estimate, %				KKR GMAA Inflation Forecast, Probability, and Consensus Estimate, %			
	Base	Low	High	Consensus	Base	Low	High	Consensus
U.S.	60%	20%	20%		60%	15%	25%	
2026e	2.4%	1.5%	3.0%	2.1%	3.6%	3.1%	4.6%	3.3%
2027e	2.2%	0.5%	3.5%	2.0%	2.5%	2.4%	2.7%	2.4%
Euro Area	60%	20%	20%		60%	20%	20%	
2026e	0.7%	0.4%	1.3%	0.8%	3.0%	2.0%	3.9%	2.8%
2027e	1.3%	0.6%	1.9%	1.3%	2.2%	1.4%	2.6%	2.1%
China	55%	30%	15%		55%	30%	15%	
2026e	4.6%	4.1%	5.1%	4.6%	1.0%	0.5%	1.5%	1.0%
2027e	4.4%	3.9%	4.9%	4.4%	0.8%	0.3%	1.3%	1.1%
Japan	60%	20%	20%		60%	20%	20%	
2026e	0.6%	0.2%	1.0%	0.7%	2.2%	1.8%	2.8%	2.0%
2027e	1.0%	0.6%	1.4%	0.9%	2.0%	1.5%	2.5%	1.9%

Data as at May 15, 2026. Source: KKR Global Macro & Asset Allocation analysis.

backdrop is why we think the U.S. economy will continue to grow, albeit not in a broad-based way.

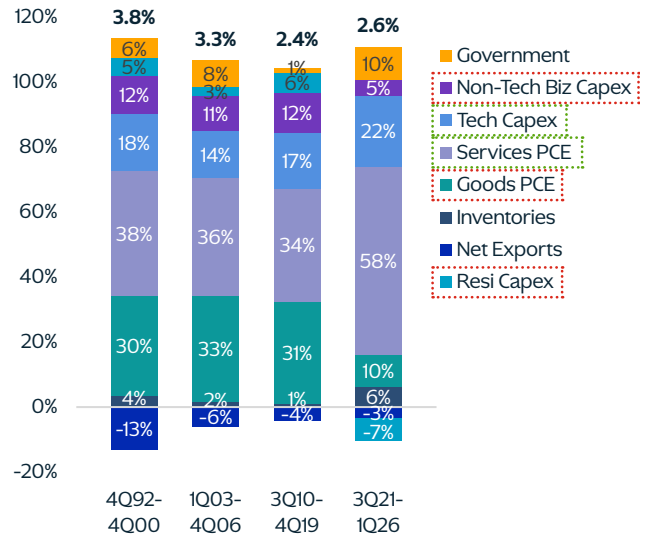
Commentary: The U.S. remains a diverging economy. On the positive side of the ‘Divergence Conundrum’, we see AI capex, services productivity, upper-income wealth effects, benign credit spreads, and continued global demand for U.S. productivity exposure leading to outsized growth and profitability. On the other side, weak goods consumption, a subdued housing market, pressure on lower- and middle-income consumers, higher energy costs, and higher-for-longer rates are pressuring more traditional segments of the economy. The headline GDP number is decent, but the composition is unusually narrow. In other words, the U.S. economy is not strong everywhere. It is strong where AI, digitalization, services, balance sheet quality, and productivity are doing the work (*Exhibit 63*). This reality is also why we think the right phrase is no longer just the K-shaped economy. It is the ‘K-Shaped Everything’, as growth, inflation, labor, consumption, and earnings are increasingly concentrated.

The important message is that we are not upgrading growth because the broad economy is reaccelerating. We are upgrading growth because the capex and productivity tailwinds are proving larger than the consumer and housing headwinds. The most cyclical, interest-rate-sensitive parts of the economy still look weak. However, the AI capex cycle, services growth, and upper-income wealth effects are enough to keep GDP in a low-2% resting-rate environment through 2027, we believe.

The important message is that we are not upgrading growth because the broad economy is reaccelerating. We are upgrading growth because the capex and productivity tailwinds are proving larger than the consumer and housing headwinds.

Exhibit 63: Services and Tech Capex Are Driving This Expansion to an Unusual Degree

Contribution to GDP Growth During Expansions



Data as at May 15, 2026. Source: U.S. Bureau of Economic Analysis, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

#1: Tech capex is now large enough to matter for the macro forecast. Indeed, the biggest change in our forecast is greater conviction in tech capex, which we expect to grow by 18.4% in 2026 and 18.0% in 2027, even as other non-residential capex remains negative and residential investment continues to contract. Fixed investment overall improves from 1.9% in 2025 to 3.4% in 2026 and 5.2% in 2027, but the driver is overwhelmingly technology equipment, software, semiconductor spending, and data center construction (*Exhibit 64*).

This distinction matters as the AI capex cycle is no longer just a market cap story; rather, it is now large enough to meaningfully impact GDP. Our work suggests that U.S. tech capex rose from 5.2% of GDP in March 2025 to 5.8% in March 2026, and the forward pipeline for data center-related spend points to continued outsized growth through 2027. If historical correlations to NVIDIA’s data-center GPU sales hold, total capex linked to technology could approach almost 9% of GDP. We are not taking that extrapolation at face value, but it underscores the point: tech capex is now large enough to matter for the macro forecast, not just for equity market leadership.

Exhibit 64: Drilling Down, Our Outlook for 2026-27 Embeds a Low-2% Resting Rate for GDP. We See Tech Capex Counterbalancing Interest Rate, Consumption, and Government Spending Pressures

KKR GMAA U.S. GDP Forecast Detail, %									
	2019	2020	2021	2022	2023	2024	2025	2026e	2027e
U.S. Real GDP	2.6%	-2.1%	6.3%	2.5%	2.9%	2.8%	2.1%	2.4%	2.2%
Consumption	2.1%	-2.5%	9.0%	3.0%	2.6%	2.9%	2.6%	2.1%	1.8%
Durable Goods	3.3%	7.3%	17.4%	-2.0%	3.8%	3.9%	3.6%	0.9%	0.6%
Non-Durable Goods	3.0%	3.3%	8.7%	0.2%	0.6%	2.3%	3.0%	1.4%	1.9%
Services	1.7%	-5.8%	7.8%	4.9%	3.0%	3.0%	2.3%	2.6%	2.1%
Fixed Investment*	3.0%	-2.1%	7.2%	2.3%	3.8%	2.7%	1.9%	3.4%	5.2%
Tech Capex*	6.4%	5.2%	12.2%	11.0%	4.0%	6.1%	14.2%	18.4%	18.0%
Other Non-Res Capex	3.1%	-8.5%	3.3%	2.7%	8.6%	0.8%	-3.5%	-3.5%	-2.3%
Residential	-0.9%	7.4%	11.2%	-8.1%	-7.4%	3.2%	-2.2%	-5.0%	-2.7%
Inventories (GDP contrib.)	0.1%	-0.5%	0.2%	0.6%	-0.4%	0.0%	-0.1%	-0.1%	0.0%
Government	3.9%	3.4%	-0.1%	-1.2%	3.5%	3.8%	1.1%	0.7%	0.8%
Net Exports* (GDP contrib.)	-0.1%	-0.2%	-1.3%	-0.4%	0.4%	-0.4%	-0.1%	0.3%	-0.2%

We model Tech Capex as: Tech Equipment Capex + Software IP Capex + Data Center Construction Spend - Tech Equipment Net Imports. As such, Tech Equipment Net Imports flow through Fixed Investment in our model, not Net Exports. e = KKR GMAA estimates. Data as at May 14, 2026. Source: U.S. Bureau of Economic Analysis, KKR Global Macro & Asset Allocation analysis.

#2: This is both an investment-led cycle and a services-led productivity cycle. The current expansion is unusual not only because tech capex is large, but also because services are doing so much of the work. Services consumption has accounted for close to 60% of the expansion, versus a historical norm closer to one-third. Tech capex has also contributed an unusually large share. By contrast, non-tech business capex is contributing less than half of what it normally contributes, and goods consumption is contributing only a fraction of its usual share.

That composition matters. Services activity is generally less rate-sensitive and less commodity-sensitive than goods, housing, and traditional industrial capex. That is one reason the economy has been more resilient to higher rates and energy volatility than a more traditional cycle might have been.

The productivity numbers tell a similar story. Historically, strong productivity cycles were often led by the goods side of the economy. This time around, services have moved into the lead. Information, professional and business services, retail, and several other service-oriented sectors are now driving the productivity impulse (*Exhibit 65*). In the 1990s and 2000s, by comparison, globalization was a major source of goods-sector

productivity and disinflation. Today, globalization no longer provides the same tailwind. Instead, the productivity impulse is coming from technology proliferation, digitalization, automation, and AI.

This new reality is important because productivity is the bridge between stronger growth and manageable inflation. If the economy can sustain better output-per-worker, then GDP can run stronger without creating the same labor cost pressures that characterized the 2021-2023 cycle. That does not mean inflation is solved. However, it does mean the economy may be able to carry a higher nominal growth rate without immediately overheating; it also means that it can withstand shocks better than in the past, we believe.

If the economy can sustain better output-per-worker, then GDP can run stronger without creating the same labor cost pressures that characterized the 2021-2023 cycle.

Exhibit 65: Key Productivity-Driving Sectors Include TMT, Business Services, Retail

Productivity Growth by Industry (vs. 12/19)

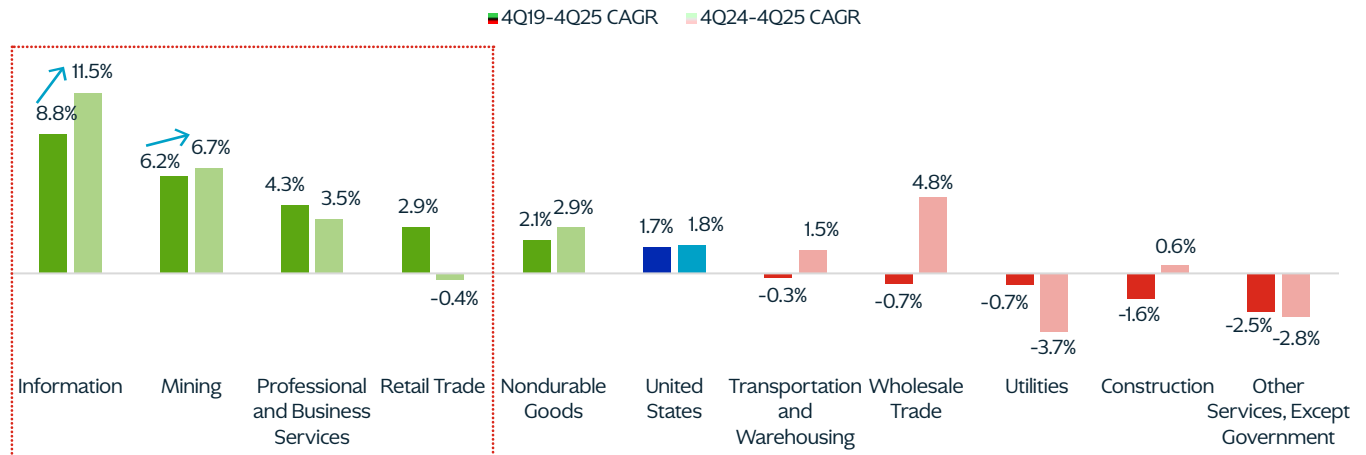


Chart considers top/bottom five industries. Data as at May 14, 2026. Source: U.S. Bureau of Economic Analysis, Haver Analytics. KKR Global Macro & Asset Allocation analysis.

#3: The consumer, housing, and labor markets are constraints, not accelerants. We are not becoming broadly bullish on the consumer. Our forecasts assume consumption slows from 2.6% in 2025 to 2.1% in 2026 and 1.8% in 2027. Durable goods consumption slows more sharply, to 0.9% in 2026 and 0.6% in 2027, which is a weak pace by historical standards. Real PCE is expected to slow to a sub-2% pace over the second half of 2026 and through 2027, a pace that one usually does not see absent a hard landing. The difference this time, we believe, is that weakness in consumption is being offset by capex and productivity. The consumer is not reaccelerating; other parts of the economy are doing more of the heavy lifting.

This environment supports the K-shaped consumer framework. Upper-income consumers remain supported by wealth effects and stronger balance sheets. Lower- and middle-income consumers are increasingly forced to trade down, delay purchases, or reallocate spending towards essentials. The reason we are not more negative is that the consumer is strained, not broken. Auto and credit card delinquencies are elevated, particularly among younger borrowers, but they are showing signs of plateauing rather than accelerating into a broader credit event.

Housing remains another clear constraint on growth. We expect home price appreciation to run at only about 1.5% CAGR through 2029, with weak net demand

accounting for the biggest drag over the forecast period. Affordability remains poor, mortgage rates remain elevated, transaction volumes are subdued, and housing-linked spending remains under pressure. At best, housing stabilizes; it does not reaccelerate.

Exhibit 66: True Economic Hard Landings Are Usually Caused by Housing and Inventory Issues. This Cycle Has Not Been Marked by Excesses in Those Areas

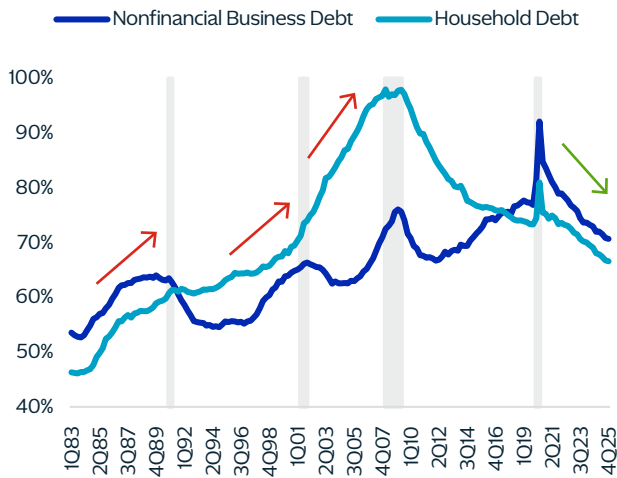
Real Construction + Inventory Investment (4Q19=100)



Data as at May 12, 2026. Source: U.S. Bureau of Economic Analysis, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

Exhibit 67: Also Important Is That Business and Consumer Leverage Levels Have Not Increased This Cycle, Which Helps Buffer Against an Outsized Default Cycle

U.S. Private Sector Leverage as a % of GDP



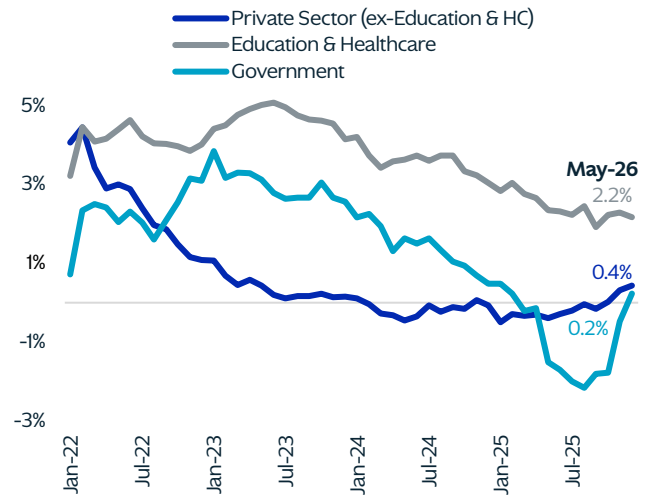
Gray shading denotes recessionary quarters. Data as at May 12, 2026. Source: U.S. Bureau of Economic Analysis, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

The labor market is also cooling but not collapsing. We are raising average monthly job growth in 2026 to 75,000, up from 50,000 previously, while we expect the unemployment rate to remain around 4.25% in our base case for both 2026 and 2027. A key nuance is demographics: in a sustained low-immigration environment, the U.S. may only need 50,000-100,000 jobs per month to maintain a stable unemployment rate, versus roughly 150,000 in 2023-2024. So, employment is not a major growth engine, but it is also not yet the catalyst for a broad pullback in spending and investment.

In a sustained low-immigration environment, the U.S. may only need 50,000-100,000 jobs per month to maintain a stable unemployment rate, versus roughly 150,000 in 2023-2024.

Exhibit 68: Private Sector Jobs (ex. Healthcare & Education) Are Actually Gaining Momentum, While the Drag From Government Jobs Is Fading

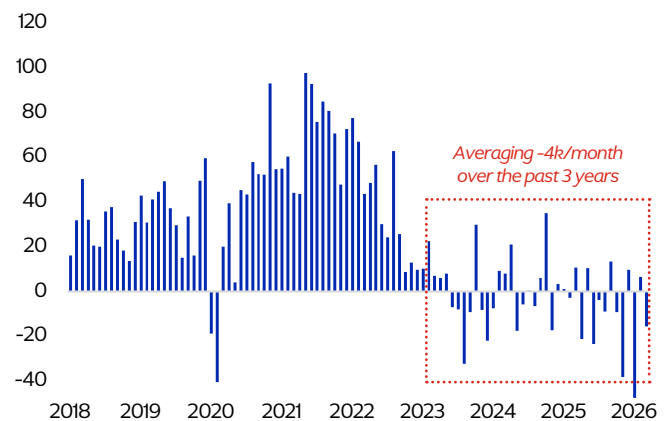
Job Growth By Sector, 6-Month Change, Annualized



Data as at June 5, 2026. Source: U.S. Bureau of Labor Statistics, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

Exhibit 69: Employment in the Top 15-AI Exposed Sectors Has Continued to Struggle, Ticking Down 16,000 in May

Monthly Employment In Top-15 Most AI-Exposed Industries (L3M)

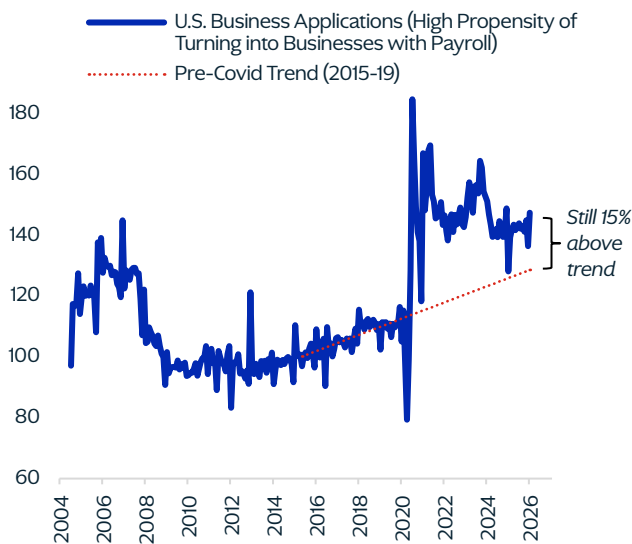


Methodology: Industries are selected based on an AI exposure framework first developed by Evercore ISI. The framework estimates the share of job functions exposed to AI across 800+ U.S. occupations using the Department of Labor's O*NET database. Occupation-level AI exposure scores are weighted by industry employment mix (BLS OEWS) to derive industry-level exposure rankings. The chart aggregates U.S. payroll employment (BLS CES) across the 15 most AI-exposed industries identified under this framework. Data as at June 5, 2026. Source: Evercore, Bloomberg, U.S. Bureau of Labor Statistics, KKR Global Macro & Asset Allocation analysis.

Our bottom line: We are upgrading U.S. GDP because the AI and tech capex cycle is larger, and the services productivity cycle is more durable than we previously thought. However, this is not a broad-based boom. The consumer is slowing, goods spending is weak, housing is subdued, and lower-income households remain under pressure. The reason GDP still holds in the low-2% range is that the positive forces are unusually powerful: AI capex, services productivity, upper-income wealth effects, credit availability, and business formation (*Exhibit 70 and 71*).

Exhibit 70: Business Formation Is Bolstered by AI and Productivity Enhancements

U.S. Business Formations ('000)

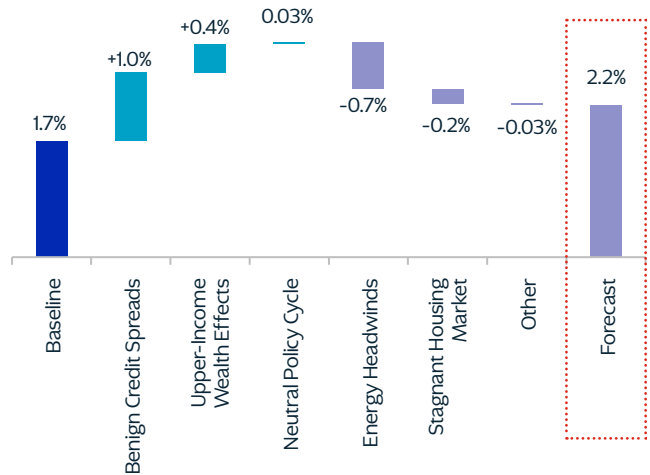


Data as at February 27, 2026. Source: U.S. Census Bureau, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

The U.S. economy is still growing, but it is doing so in a very specific way. The winners are increasingly tied to productivity and capital formation.

Exhibit 71: Wealth Effects and Credit Availability Serve as Offsets to Energy and Housing Related Headwinds

Elements of 2027e GDP Indication



Our GDP leading indicator combines eight macro inputs that we think have significant explanatory power regarding the U.S. growth outlook. Data as at May 15, 2026. Source: Federal Reserve, U.S. Bureau of Labor Statistics, National Association of Realtors, ISM, Conference Board, Bloomberg, KKR Global Macro & Asset Allocation analysis.

The key question is whether AI capex and services productivity can continue to outrun consumer, housing, and energy headwinds. Employment and energy drive the downside case, while AI capex and productivity drive the upside case. This is not a normal expansion but one unusually grounded in services, tech capex, and productivity, rather than goods consumption, housing, or credit.

The investment implication is clear: We want exposure to productivity, digitalization, AI infrastructure, power, data centers, automation, national resilience, and steady cash-flow themes. We are more cautious on lower-income discretionary consumption, housing-linked spending, non-tech cyclical capex, and rate-sensitive assets that require a quick return to lower yields. The U.S. economy is still growing, but it is doing so in a very specific way. The winners are increasingly tied to productivity and capital formation. The laggards are tied to leverage, housing, lower-end consumption, and old-cycle goods sensitivity.

U.S. Inflation

Forecasts: We expect U.S. headline CPI to average 3.6% in 2026 and 2.5% in 2027, above consensus expectations of roughly 3.3% and 2.4%, respectively. Core CPI remains the more important Fed variable, and there our forecast calls for 2.8% in 2026 and 2.6% in 2027, with core peaking in the low-3% range around late 2026 and early 2027 before moving towards 2.2% by 4Q27. We do see inflation moving in the right direction over time, but we do not think the path is fast enough or clean enough for the Fed to declare victory. Goods inflation has flipped to inflationary from deflationary this cycle, energy is creating some incremental core pass-through, and supercore services remain sticky. The offsets are shelter and labor, both of which are increasingly disinflationary, though the former works with a lag and the latter is not yet weak enough to justify aggressive easing.

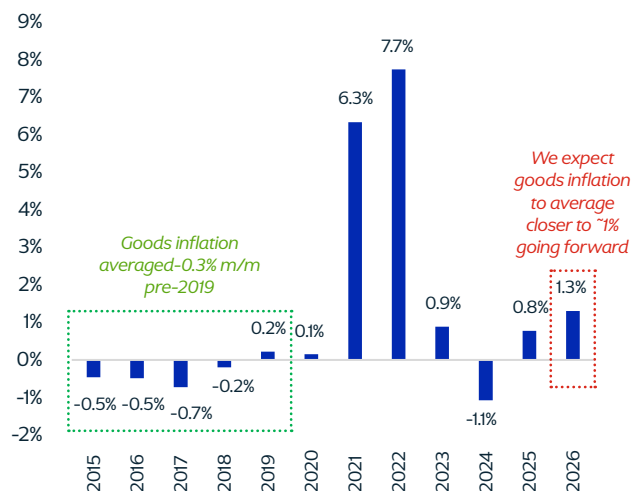
Commentary: Importantly, we do not think inflation is reaccelerating in a dangerous way. However, the U.S. has moved into a higher resting inflation regime very different than the one investors enjoyed before 2019. Our inflation dashboard now shows goods sending an inflationary impulse into the model, reflecting tighter supply chains, higher commodity prices, and a more fragmented global goods setting. At the same time, our core CPI leading indicator points to core inflation staying in the high-two percent range through year-end 2026, with the model showing a strong historical relationship to actual core CPI. That combination is important: inflation is likely to improve, but not quickly enough for the Fed to think the job is done.

Goods inflation, which used to be flat-to-negative, now looks closer to a positive one percent contributor over time. That is manageable, but it is no longer the same offset to sticky services inflation. Energy is also adding to headline inflation and flowing modestly into core goods and core services, while also pressuring real disposable income. On the other side of the ledger, shelter and labor should keep inflation from spiraling. The result is a more complicated inflation environment: better by late 2027, but still too sticky in the near term for the Fed to move aggressively.

First, goods inflation is no longer structurally deflationary. We think goods inflation is no longer the persistent disinflationary force it was in the last cycle (*Exhibit 72*). For decades, globalization, China’s integration into the global trading system, just-in-time supply chains, and low-cost labor created a durable goods deflation tailwind. That world is changing. Supply chains are being duplicated, inventories are being held closer to home, tariffs and trade frictions are more prevalent, energy and transport costs are more volatile, and national security is increasingly influencing corporate sourcing decisions. Before the pandemic, goods prices were typically flat to negative, which gave the Fed an important offset against sticky services inflation. Today, that offset is less powerful as the U.S. inflation problem is no longer just about too much demand. It is also about a changed supply-side regime in which globalization, inventories, and supply chains are no longer delivering the same disinflationary dividend they did in the prior cycle.

Exhibit 72: 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.

Second, energy is a meaningful headline inflation shock, but it is not creating a wage-price spiral. Rising energy costs are the biggest reason our headline CPI forecast rises to 3.6% in 2026. We forecast energy inflation of 14.6% in 2026, which is the dominant driver of the headline uplift. Importantly, though, our work suggests that the pass-through from oil into core CPI should be more modest, likely in the range of 10-20 basis points, with the effect concentrated in core goods and core services ex-shelter. Energy inflation reduces real disposable income, pressures lower- and middle-income consumers, complicates the inflation optics, and can affect expectations if it lasts long enough. However, it is also a tax on consumption, which creates a disinflationary offset over time. That is why we think the Fed should be patient but not panicked as the energy shock argues against aggressive easing, but it does not, by itself, force a renewed tightening cycle unless inflation expectations become unanchored or labor conditions reaccelerate.

Third, shelter and labor are now disinflationary offsets, but they work with a lag. Real-time rent data are already sending a softer message, with Zillow new-tenant rents running at just 0.7% on a three-month annualized basis as of March 2026. In addition, home price appreciation is expected to remain subdued, with the broader housing outlook pointing to roughly 1.5% home price appreciation CAGR through 2029. The challenge is timing. Shelter disinflation does not move through the official CPI data quickly, which is one reason we do not expect core CPI to roll over decisively until late 2027.

The labor backdrop has also changed meaningfully. During the post-COVID reopening cycle, labor was a central inflationary force. Wage growth was too hot, quits were elevated, and companies were forced to compete aggressively for scarce workers. That is no longer the environment we are in today. The quits rate is pointing towards core CPI eventually settling back into the low-two percent range, wage growth is settling into the mid-three percent range, and productivity growth is running closer to 1.5-2.0%. That combination is important because unit labor cost growth is now much less inflationary than it was in 2021-2023. To be sure, the labor market is not collapsing, and weakness is not yet severe enough to justify the Fed cutting below neutral. However, labor is no longer adding

to inflation pressure in the same way.

Fourth, supercore services remain sticky, which is why the Fed needs more evidence. Goods, shelter, energy, and labor all matter, but the Fed will remain highly focused on core services ex-shelter. This is the part of the inflation basket where progress has been slowest. We forecast supercore services ex-shelter at 3.6% in 2026 and 3.7% in 2027, even as broader core CPI gradually improves. Services inflation is being pulled in two directions. Wage growth is cooling, productivity is improving, and shelter is becoming a disinflationary force with a lag. At the same time, many service categories remain labor intensive, demand from higher-income consumers is still strong, and higher energy and input costs can bleed into transportation, insurance, travel, and other services categories. As a result, we expect supercore services to moderate only slowly. Meanwhile, the Fed is unlikely to ease aggressively based on expected disinflation alone. It will want more realized evidence that services inflation is moving lower before declaring victory.

Our bottom line: U.S. inflation is sticky but not spiraling. Goods and energy are the key inflationary impulses; shelter and labor are the main disinflationary offsets; and supercore services remain the sticky middle that keeps the Fed from moving too quickly. By late 2027, the inflation picture looks materially better in our forecast, with core CPI reaching 2.2% by 4Q27 and headline CPI closer to the low-two percent range. Markets may begin discounting that improvement before it fully appears, but the Fed will likely remain cautious given repeated shocks from energy, tariffs, supply chains, geopolitics, and fiscal policy.

For investors, the implication is a higher nominal world than the one that prevailed before 2019. We would not underwrite to runaway inflation, but we also would not underwrite to a quick return to the old investing regime of low inflation, low rates, and structural goods deflation. Instead, we would focus on businesses and assets that can perform in a world of modestly higher inflation, more frequent price-level shocks, and a Fed that has less flexibility than it did in the prior cycle. That means emphasizing resilient pricing, margin durability, and durable revenue, while being careful not to overpay where demand elasticity or cost pressure is not well understood.

Euro Area GDP

Forecasts: We have revised our Eurozone real GDP growth forecast down to 0.7% in 2026 from 1.1% in January and modestly below consensus at 0.8%. We expect growth to improve to 1.3% in 2027, in line with consensus but below our prior 1.5% forecast. The downgrade reflects a more challenging starting point than we anticipated earlier this year, as renewed energy cost pressures, softer external demand, and a more persistent China headwind weigh on activity.

We do not see the conditions for a crisis, however Europe is clearly transitioning from a broad recovery story to a more bifurcated one. Returns will be increasingly concentrated in sectors exposed to domestic resilience rather than exports, and in particular those with a policy-supported capex tailwind. We think the periphery states in particular with services and tourism exposure in Southern Europe, and capex exposure in CEE (Central and Eastern Europe) warrant some attention.

Commentary: Europe’s growth backdrop has clearly become more challenging, but we think the aggregate numbers risk overstating the degree of uniform weakness across the region. Higher energy costs, softer industrial activity, and renewed pressure on real incomes are weighing on the outlook, particularly in Germany and the broader industrial core, where energy intensity, export sensitivity, and China exposure intersect.

However, Europe is increasingly no longer moving as one economy. Unlike prior crises, private sector balance sheets remain relatively healthy, consumers still retain some savings buffers, and services activity has held up better than manufacturing. Meanwhile, the periphery continues to outperform, with Spain and Italy benefiting from stronger domestic demand, healthier labor markets, tourism, and a services mix that is less exposed to the global goods cycle.

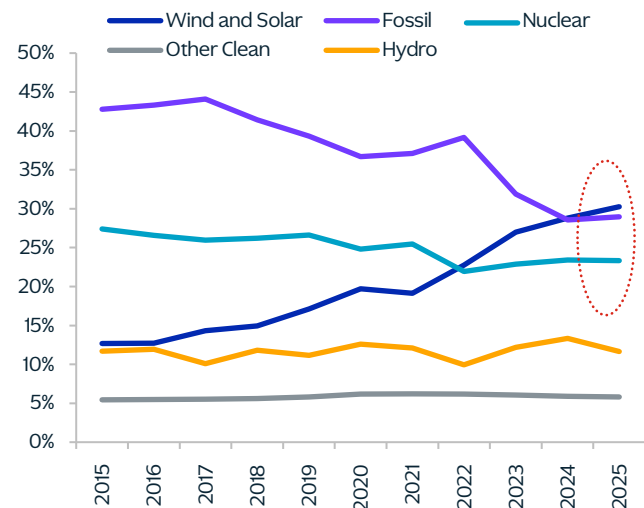
Europe’s push towards greater strategic autonomy is beginning to support an early-stage capex cycle across infrastructure, energy systems, defense, and supply-chain resilience. This investment cycle will not fully offset the near-term cyclical pressures, but it does create a more constructive medium-term roadmap, particularly in areas where public priorities and private capital can align.

Europe faces two major headwinds.

- **First is the current energy shock.** Unlike in 2022, the Middle East conflict is not a replay of the Russia-Ukraine gas crisis. However, Europe’s structural energy dependence still leaves the region vulnerable when prices rise. With roughly 60% of energy imported, higher prices act as both a tax on real incomes and a constraint on corporate margins. The good news is that Europe enters this period with greater resilience than during the prior shock. Renewable capacity has expanded, supply sources are more diversified, and several of the conditions that amplified the last crisis – including weak French nuclear availability and poor hydro output – are not repeating (*Exhibit 73*). That said, gas storage levels remain below seasonal norms, and refined-product risks still warrant monitoring.

Exhibit 73: Wind and Solar Overtook Fossil Fuels in EU Power Generation for the First Time in 2025

EU Electricity Generation by Source, %

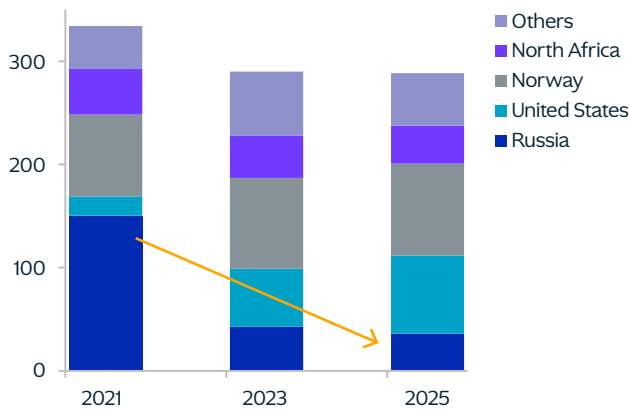


Data as at December 31, 2025. Source: EMBER, KKR Global Macro & Asset Allocation analysis.

Europe is clearly transitioning from a broad recovery story to a more bifurcated.

Exhibit 74: Europe's Gas Supply Base Is Also Now Less Concentrated

EU: Volume of Gas Imported by Source, Billions of Cubic Metres

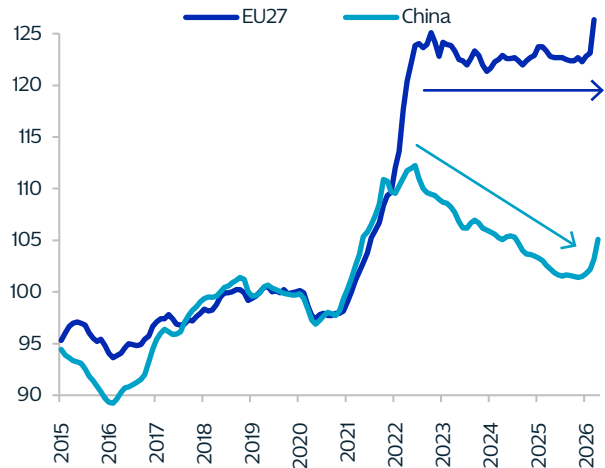


Data as at December 31, 2025. Source: ENTSO-G, KKR Global Macro & Asset Allocation analysis.

- Second is the China shock, which we view as the more structural challenge.** For much of the prior cycle, Europe's industrial core benefited from the combination of cheap Russian energy, high-value manufacturing, and strong Chinese demand. That environment has materially changed as Euro Area exports to China have fallen back towards GFC-era levels, and Germany's trade position with China having weakened quite meaningfully. At the same time, China is exporting disinflation through manufactured goods while competing more aggressively in sectors where Europe historically maintained an advantage, including autos. As a result, European manufacturers are increasingly being squeezed from both sides: higher energy costs are pressuring margins, while Chinese competition weighs on the ability to adjust to rising input costs and output (*Exhibit 75*). This reality is why we view the China shock as more than simply a cyclical export headwind. Increasingly, it represents a medium-term competitiveness challenge for Europe's industrial base, particularly across autos, chemicals, capital goods, and other energy-intensive sectors (*Exhibits 76 and 77*).

Exhibit 75: China's Spare Capacity Means It Is Continuing to Export Disinflation, With Clear Implications for the Viability of Europe's Industrial Base

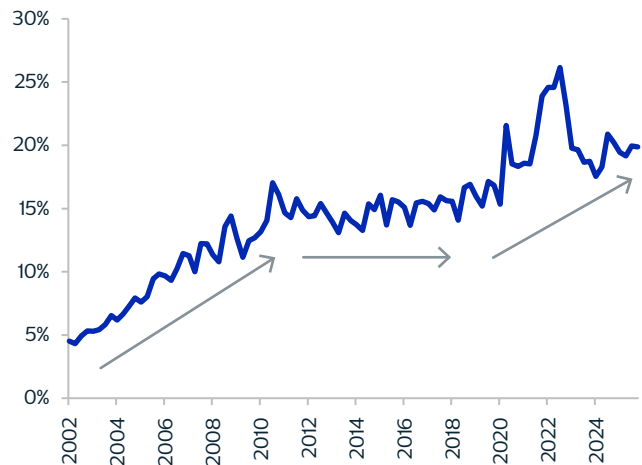
Manufacturing PPI (2019=100)



Data as at April 30, 2026. Source: Eurostat, China Bureau of National Statistics, KKR Global Macro & Asset Allocation analysis.

Exhibit 76: European Dependence on Chinese Imports Has Been Ticking Up Since COVID

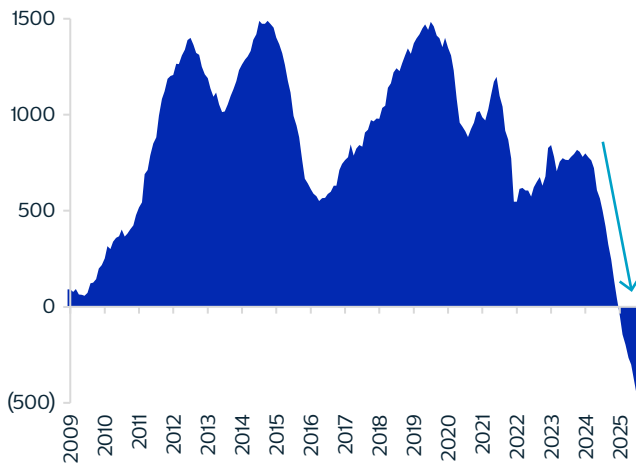
Euro Area: Imports from China as a Percentage of GDP, Manufacturing, %



Data as at 4Q2025. Source: Eurostat, KKR Global Macro & Asset Allocation analysis.

Exhibit 77: China Is Undoubtedly Moving Up the Value Curve and Now Competes Directly With Germany

Germany: Investment Goods Trade Balance with China (€Mn, 12MMA)



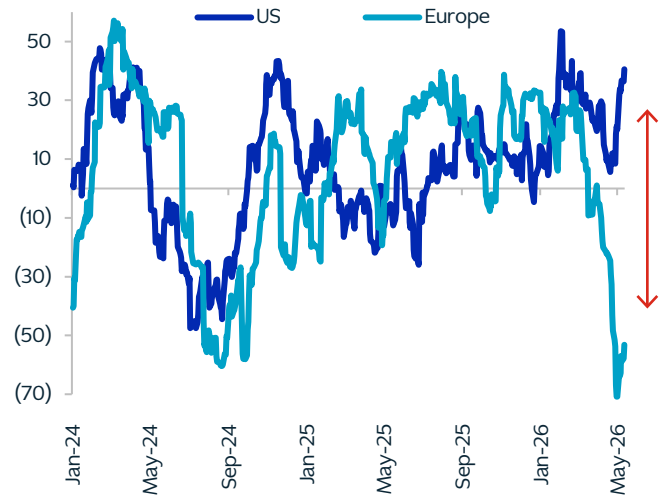
Data as at August 31, 2025. Source: Statistisches Bundesamt.

There are also several buffers that partially offset these headwinds and argue against taking too broad-brush a view of Europe:

- **The periphery remains a key differentiator. Europe is not uniformly weak, and the divergence between the industrial core and the periphery is becoming harder to ignore (Exhibit 79).** Investors still too often view Europe primarily through Germany’s industrial slowdown while underappreciating the stronger domestic momentum in Spain, Italy, and parts of Eastern Europe (e.g., Poland). Consider this: investment in Spain is actually up roughly 20% over the past four years, while Germany is down around 5%. Meanwhile, tourism, services, domestic demand, and stronger capex momentum are helping the periphery absorb a more difficult external backdrop. Poland also deserves increasing attention given its scale, strategic location, and growing role in Europe’s defense and supply-chain architecture.

Exhibit 78: Economic Surprises in Europe Have Deteriorated Sharply Since March, in Stark Contrast to the Continued Improvement in the U.S.

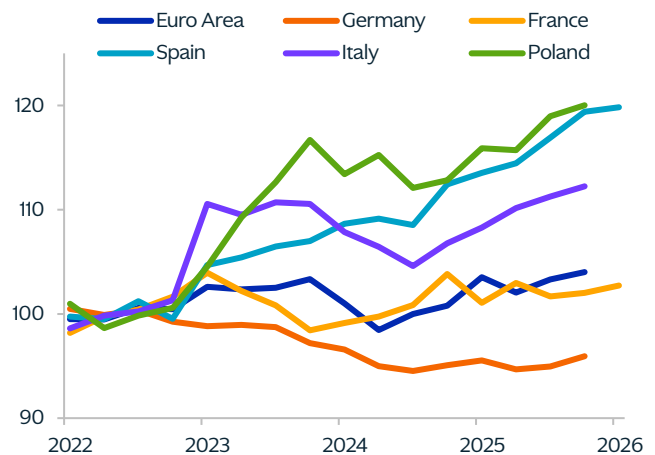
Economic Surprises U.S. vs. Europe



Data as at May 13, 2026. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

Exhibit 79: The Periphery Is an Important Reminder That European Macro Is Not Uniformly Weak

Real Gross Fixed Capital Formation (2022=100)

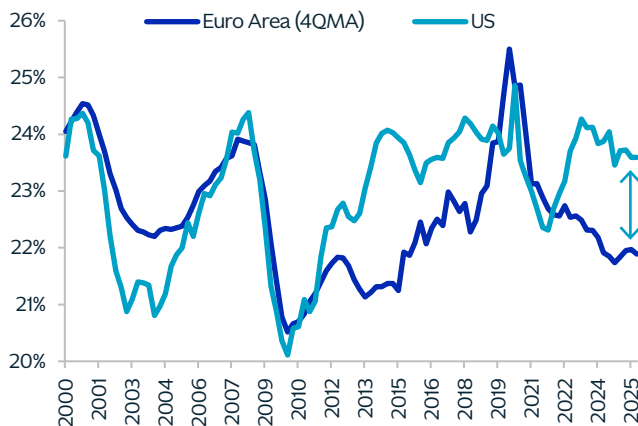


Data as at 1Q2026. Source: Eurostat, KKR Global Macro & Asset Allocation analysis.

- Policy-supported capex is becoming an increasingly important story.** Over the last several years, U.S. corporate investment accelerated while European corporates retrenched (*Exhibit 80*). However, we are beginning to see early signs of stabilization in Europe, including improving capital goods sentiment and a recovery in German domestic manufacturing orders from depressed levels. Europe’s geopolitical vulnerabilities are forcing a rethink of capital allocation at the highest levels. Dependence on Russia for energy, the U.S. for defense, and China for supply chains is pushing Europe towards a multi-year investment cycle centered on energy security, defense, manufacturing durability, and supply-chain redundancy. All told, the Draghi report estimates Europe requires roughly €800 billion of annual investment to address Europe’s competitiveness gap, highlighting the scale of the opportunity. Fiscal constraints will limit how much governments can fund directly, which increases the importance of private capital in financing the next phase of Europe’s strategic transition.

Exhibit 80: Corporate Capex Cycles in the U.S. and Europe Historically Moved Somewhat in Sync, But Since 2023 European Corporates Have Cut Investment While the U.S. Accelerated

**Non-Financial Corporations:
Gross Fixed Capital Formation as % of GVA**



Data as at 4Q2025. Source: ECB, Eurostat, Federal Reserve Board, KKR Global Macro & Asset Allocation analysis.

Exhibit 81: There Are Now Some Early Signs of a Pickup in Sentiment for Capital Goods Manufacturers

EU27: Capital Goods Confidence Indicator



Data as at March 31, 2026. Source: Eurostat, KKR Global Macro & Asset Allocation analysis.

- The consumer should remain an important stabilizer, though we are not underwriting a strong consumption rebound.** Our re-underwrite of the European consumer suggests the starting point for 2H26 remains supportive. Eurozone unemployment remains near record lows, household debt is manageable, savings are still above pre-COVID levels, and lower equity ownership leaves European households somewhat less exposed to market volatility than U.S. consumers. That said, we do want to acknowledge that the labor backdrop is no longer uniformly healthy. Cracks are emerging in Germany, where weakness in manufacturing and autos is increasingly affecting employment. Meanwhile, the consumer itself is becoming more bifurcated: higher-income households continue to benefit from wage growth and asset appreciation, while lower-income cohorts remain more exposed to food and energy inflation. As a result, we expect consumption to provide a floor for growth rather than a powerful cyclical upswing.

Bottom Line: Europe’s growth outlook has weakened, but the investment message is more nuanced than headline macro data suggest. Germany and the industrial core remain pressured by higher energy costs, Chinese competition, and industrial scarring, while the periphery

continues to benefit from stronger domestic demand, tourism, and investment momentum. As such, we remain cautious on energy-intensive and China-exposed industrial sectors, while favoring opportunities tied to domestic strength, periphery strength, and policy-supported capex linked to energy security, grids, defense, and supply-chain resilience. We also think services, including tourism, should continue to thrive.

Euro Area CPI

Forecasts: We now expect Eurozone inflation to average 3.0% in 2026, above consensus at 2.8%. In 2027, we look for inflation to reach 2.2%, which is modestly above consensus at 2.1% and our prior estimate of 1.8%. Our new outlook for inflation is not a signal that Europe is returning to a 2022-style inflation shock. Rather, it is that several of the forces that had been pulling inflation lower have faded, while the economy now has less capacity to absorb another round of cost pressure. Falling energy prices, imported goods disinflation from China and Euro strength helped drive the prior years' fall in headline inflation. Today, energy has moved back from tailwind to headwind, corporate margins offer a thinner buffer against higher input costs, and core inflation troughed at 2.2% and risk second round effects (*Exhibit 82*).

Commentary: Europe entered the year with a cleaner inflation setup than the U.S., extending the relative advantage that allowed the ECB to begin easing before the Fed in 2024. Headline inflation had moved closer to target, goods prices were falling, and the policy path appeared more straightforward. To be sure, services inflation remained sticky, reflecting resilient wage growth and still-tight labor markets. However, the broader direction of travel still looked disinflationary. That picture has become more complicated as energy has moved back from tailwind to headwind. While the latest shock does not carry the same crisis characteristics as 2022, it is still large enough to lift headline inflation and squeeze real incomes. Food inflation also warrants attention, particularly as higher energy, transport, and input costs, including fertilizer, feed through into production and distribution.

Key to our thinking is that the margin cushion is much smaller than it was earlier in the cycle. European companies absorbed part of the prior disinflationary

adjustment through lower profit share, leaving margins near cycle lows. As a result, corporates have less capacity to absorb another increase in energy or input costs without defending earnings through higher final prices (*Exhibit 83*).

Exhibit 82: Three-Year-Ahead Consumer Expectations Have Jumped to 4%

ECB Survey: Median Consumer Inflation Expectations



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

Exhibit 83: Corporates Gave Up Profit Share As Inflation Fell, But Margins Don't Have Much Further to Fall As Costs Will Start Being Passed Through

Euro Area: Profit Share of GDP



Data as at 4Q2025. Source: ECB, Eurostat, KKR Global Macro & Asset Allocation analysis.

The China channel adds another layer of complexity to Europe's inflation picture. On the surface, China's spare capacity means it is continuing to export disinflation through manufactured goods. In a normal environment, that would be unambiguously helpful for headline inflation. However, today it creates a more uncomfortable macro mix. Europe is simultaneously absorbing imported goods deflation from China while facing energy-driven inflation.

Bottom Line: Europe's inflation story is no longer one of clean disinflation. Instead, it is becoming a more complicated mix of imported energy pressure, sticky services inflation, and limited corporate margin absorption. We do not think Europe is entering a 1970s-style inflation regime, but we do believe inflation is likely to remain above the ECB's comfort zone for longer than markets expected earlier this year.

China GDP

Forecasts: We expect real GDP growth of 4.6% in 2026 and 4.4% in 2027, in line with consensus and consistent with our previous forecasts.

The Middle East conflict and higher energy prices trim our 2026 growth estimate by roughly 40 basis points, largely offset by export strength and policy support. China is less exposed to oil shocks than most major economies given its reliance on coal and renewables.

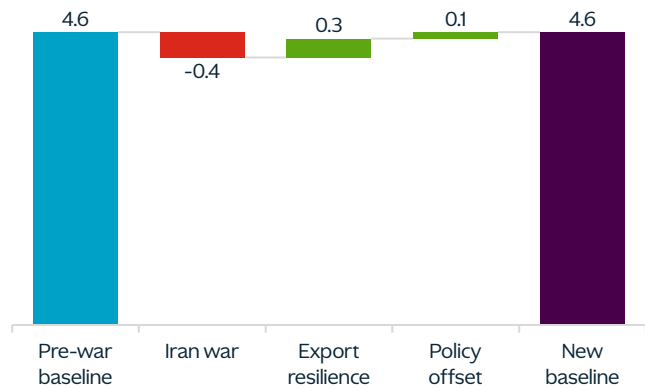
Looking at the big picture, we think that composition now likely matters more than the headline: China is now a mid-4% economy driven by digitalization, green transition, and export resilience, not the old playbook of property, credit, and household reflation. This economy is a supply-side, policy-led capex cycle, with consumption still held back by weak housing, a soft labor market, and cautious households.

Commentary: China's growth engine has rotated. Property, wealth effects, and broad credit are no longer doing the heavy lifting. The new engine—digitalization, green transition, EVs, batteries, solar, robotics, advanced manufacturing, and export diversification—is increasingly clear in the economic data we study. Specifically, the supply side is inflecting; the demand side is still not. One can see this in *Exhibit 85*.

AI, robotics, humanoids, EVs, batteries, and digital infrastructure are giving corporates a reason to invest again after years of regulatory and property-related stress. All told, digitalization and green transition together now account for roughly half of GDP growth over 2026-27 in our forecast.

Exhibit 84: Iran War Drags 2026 China GDP by 40 Basis Points, Largely Offset by Export Resilience and Policy

China GDP Forecast Change (2026)



Data as at May 17, 2026. Source: CNBS, BNEF, CAICT, KKR Global Macro & Asset Allocation analysis.

Exhibit 85: 2027: New Sectors Still Anchor Growth, But With Slower Capex

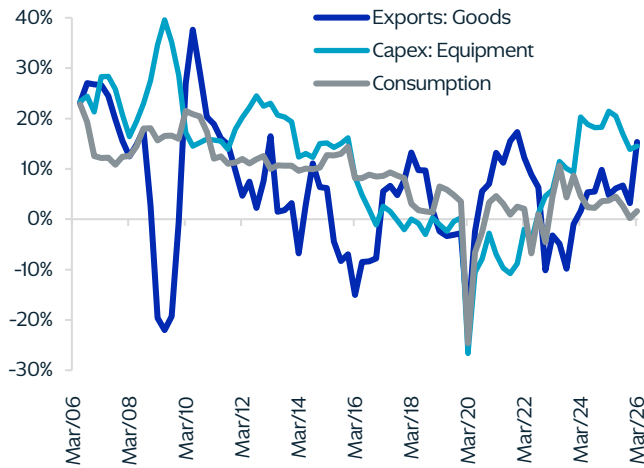
China GDP Breakdown by Sector (2027)



Green economy includes clean energy, electrified transport, clean industry, etc. Data as at May 17, 2026. Source: CNBS, BNEF, CAICT, KKR Global Macro & Asset Allocation analysis.

Exhibit 86: China’s Quiet Rotation: Property-Led FAI Weakness Masks a New-Sector Capex Boom Powering Exports, While Consumption Lags

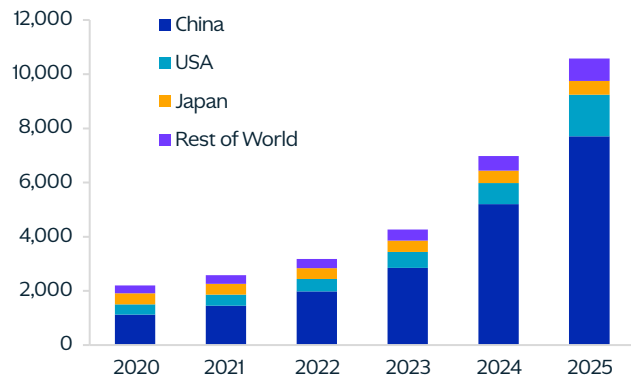
Real Capex, Exports, Consumption Growth in China, Y/y



Digitalization is the aggregate of core digital and digital transformation. Core digital industries refer to industries that rely entirely on digital technologies, as well as provide technologies for the digitalization of other industries. Digital transformation refers to enhanced output and improved efficiency achieved by non-digital sectors through the adoption of digital technologies. Green economy includes clean energy, electrified transport, clean industry, etc. Data as at May 17, 2026. Source: CNBS, BNEF, CAICT, KKR Global Macro & Asset Allocation analysis.

Exhibit 87: China Dominates Humanoid Robotics IP With a 5x Patent Lead on the United States

Humanoid Robotics Patents (Accumulated Since 2020)

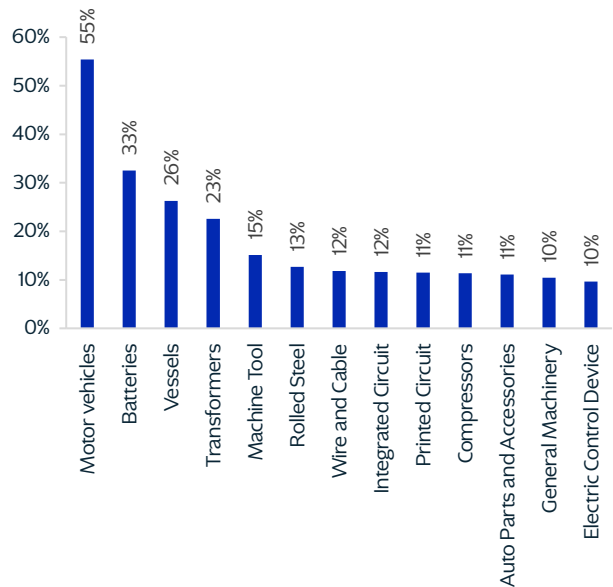


Data as at December 31, 2025. Source: “Humanoid Robot 100: Mapping the Value Chain.” Morgan Stanley, February 6, 2025, China National Intellectual Property Administration, WIPO, KKR Global Macro & Asset Allocation analysis.

Why the economic rotation in China continues. China’s external position is more durable than many expected. To be sure, tariffs appeared to be an initial headwind, but the export model is being re-routed to places such as Mexico, Vietnam, Malaysia, and Thailand. At the same time, China has also taken share in autos, batteries, electronics, solar, and EVs (Exhibits 88 and 89).

Exhibit 88: Autos, Batteries, and Electronics Are Driving Export Outperformance

China Exports by Products (CAGR Over 2021-25)



Data as at February 28, 2026. Source: China Bureau of National Statistics, Wind, KKR Global Macro & Asset Allocation analysis.

The new engine—digitalization, green transition, EVs, batteries, solar, robotics, advanced manufacturing, and export diversification—is increasingly clear in the economic data we study.

Exhibit 89: Non-U.S. Demand and Supply Chain Re-Routing Offset the U.S. Collapse



Data as at February 28, 2026. Source: China General Administration of Customs, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

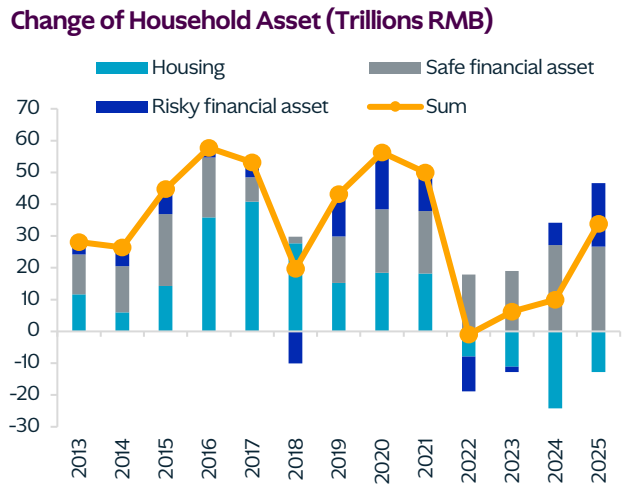
The missing piece is still a lack of domestic demand.

Property remains the single biggest reason we are not more bullish. We still estimate real estate subtracts roughly 1.0 percentage point from 2026 growth and 0.6 points from 2027. The depth of the correction is now broadly comparable to prior major property busts, but China’s inventory overhang makes the clearing process slower.

In addition, the labor market is the deeper constraint: AI is disrupting entry-level white-collar hiring, automation will pressure secondary-industry jobs, and labor supply stays high because pension coverage is incomplete and the graduate pipeline is large. If there is good news, it is that household balance sheets are recovering but better balance sheets do not automatically create a consumption boom (Exhibit 90).

Property remains the single biggest reason we are not more bullish. We still estimate real estate subtracts roughly 1.0 percentage point from 2026 growth and 0.6 points from 2027.

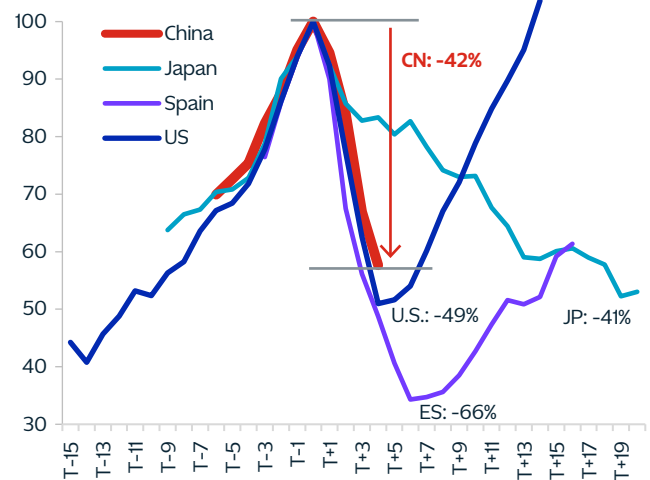
Exhibit 90: 2025 Balance Sheet Recovery Driven by Easing Housing Drag and Equity Re-Rating



Data as at December 31, 2025. Source: Chinese Academy of Social Sciences, China Bureau of National Statistics, China Ministry of Housing and Urban-Rural Development, Asset Management Association of China, State Financial Supervision and Administration Bureau, Wind, KKR Global Macro & Asset Allocation analysis.

Exhibit 91: China’s Correction Mirrors the U.S. and Spain in Depth, But Inventory Overhang Slows the Clearing

Housing Market Correction Index: China vs. U.S., Japan and Spain



The Housing Market Correction Index is the simple average of the correction index for housing prices, investment and starts. Year T is the peak of the housing bubble, which is 2021 for China. Data as at December 31, 2025. Source: Japan Ministry of Land, Infrastructure and Transport, China Bureau of National Statistics, Federal Housing Finance Agency, Census Bureau, Spanish Statistical Office, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

China CPI

Forecasts: We forecast China CPI inflation of 1.0% in 2026 and 0.8% in 2027—in line with consensus for 2026 and 30 basis points below consensus for 2027. Prior to the Middle East conflict, we estimated 0.3% inflation for 2026 and 2027. Simply stated, China may exit outright deflation, but the household demand, wage growth, and property recovery needed for a durable inflation cycle are not in place.

Commentary: After 41 straight months in deflation, PPI finally turned positive in March 2026, which is a supply-led improvement. Much of the lift came from upstream energy prices, induced by the Middle East oil shock, while end demand has grown 0% in four of the past five months. China’s reliance on coal blunts the energy pass-through. A lift from commodities does not, by itself, create durable CPI inflation.

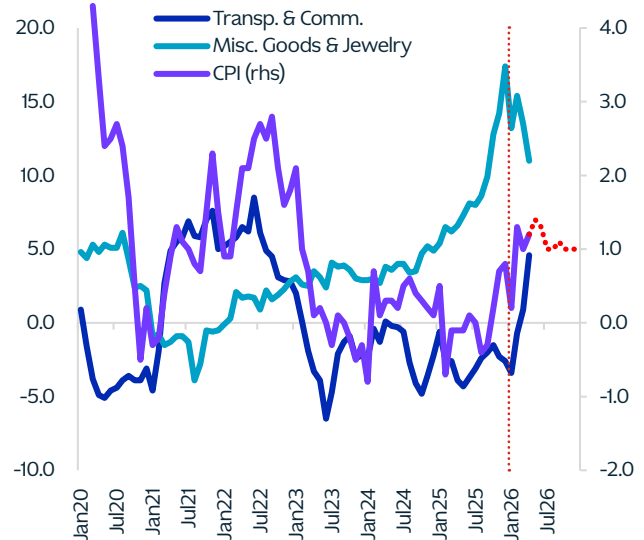
However, we still see China’s CPI staying low (*Exhibit 92*). The labor market continues to disinflate: youth employment is under pressure, AI is hitting entry-level hiring, and an aging population coexists with high labor supply, which is very different from Japan. Excess capacity in autos, EVs, solar, batteries, and chemicals keeps domestic pricing under pressure. Importantly, property remains the key deflationary anchor.

What would change the call. China is taking directionally meaningful steps such as a May 2026 directive delinking public services from hukou, a Shanghai pilot converting second-hand homes to affordable rentals, and an upgraded departure tax refund. However, these remain pilot-scale. We believe the full urbanization of the roughly 200 million migrant workers already in cities, paired with equal access to welfare and a services-sector buildout, would be the move that lets China escape the deflation trap.

Bottom Line: China is stabilizing but not reflatting. Producer prices have turned (*Exhibit 93*) but the household income growth, property recovery, and demand-side policy needed for a durable CPI cycle have not.

Exhibit 92: From Jewelry to Energy: China’s Inflation Is Improving, but the Sustainability of the Recovery Remains Unproven

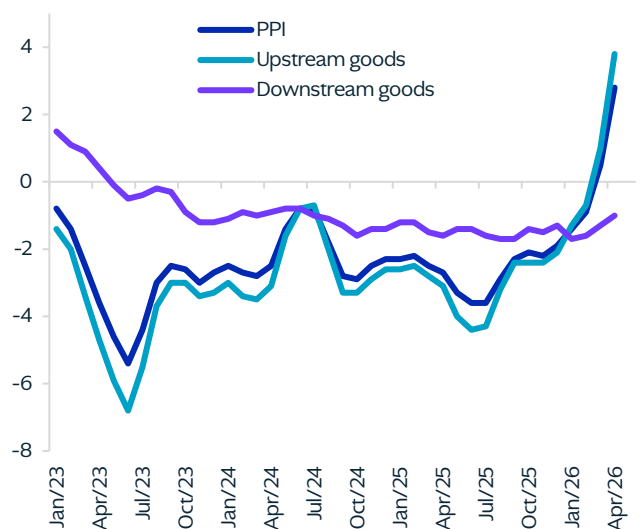
China CPI and Its Forecast (%Y/y)



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

Exhibit 93: China PPI Confirms the Sustainability Concern: Upstream Prices Are Recovering, but Downstream Remains Deflationary

China PPI (% Y/y)



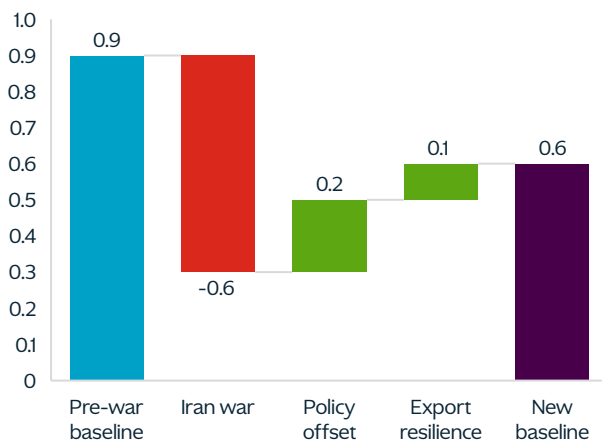
Data as at April 30, 2026. Source: Haver Analytics, KKR Global Macro & Asset Allocation analysis.

Japan GDP

Forecasts: We are taking our 2026 Japan GDP forecast down to 0.6%, from 0.9% previously (consensus: 0.7%), while holding our above-consensus 1.0% call for 2027 (consensus: 0.9%). This revision reflects an approximate 60 basis point drag from the Iran War, only partially cushioned by supportive policy and the robustness of exports (*Exhibits 94 and 95*). We see this downgrade as cyclical, not structural. Domestic demand, a firm corporate capex cycle, strategic investment, and the reflationary nominal GDP dynamics at the heart of our thesis keep the medium-term recovery on track.

Exhibit 94: Iran War Trims Japan’s 2026 Growth by 30 Basis Points Net, as Policy and Exports Partly Offset the Drag

Japan GDP Growth Forecast Change, 2026, ppt, %

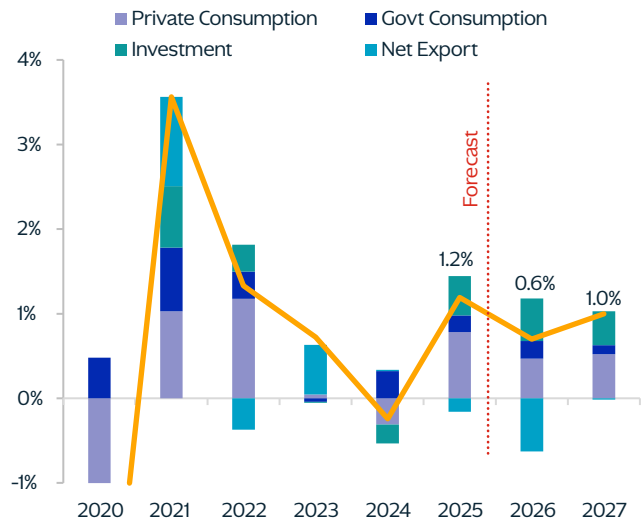


Data as at May 17, 2026. Source: Cabinet Office of Japan, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

Real wages finally turned positive at the start of this year, after printing negative in 40 of the prior 42 months, as imported food-driven ‘bad’ inflation faded.

Exhibit 95: Homegrown Growth: Japan Leans on Domestic Demand Through 2027

Japan Real GDP Growth, %



Data as at May 17, 2026. Source: Cabinet Office of Japan, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

Commentary: In contrast to China, we see private consumption and investment, not exports, leading the 2026 growth story in Japan, with net exports actually being a modest drag this year before evening out in 2027. This breakdown in growth drivers is a meaningful distinction from prior cycles. Indeed, this more domestic, capex-led, wage-supported recovery is both higher quality and more durable than past ones, which were largely driven by exports or FX translation alone. To be sure, the near-term oil shock trims the growth profile but does not derail the bigger picture.

Real wage growth is becoming the backbone. Rising real incomes remain the backbone of Japan’s consumption recovery. Real wages finally turned positive at the start of this year, after printing negative in 40 of the prior 42 months, as imported food-driven ‘bad’ inflation faded. Despite positive trends, a risk we believe is worth watching is that, if the current oil shock reignites imported inflation, the consumer leg could prove more fragile.

Capex as the conviction call for KKR in Japan. Corporate capex remains one of the more encouraging parts of the Japan story, we believe. Indeed, corporates are anchoring capital plans to multi-year strategic outlooks rather than short-cycle demand. Nominal GDP compounding is driving

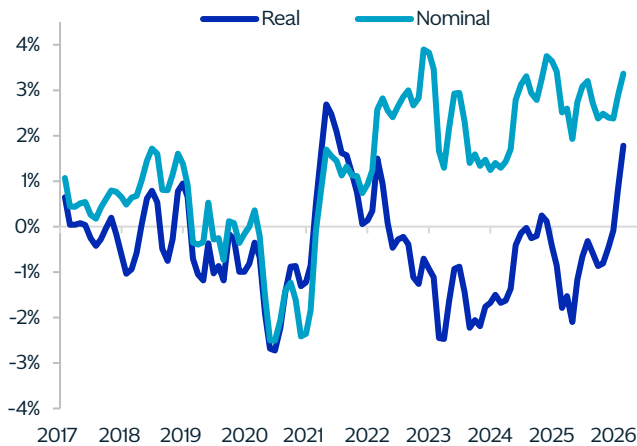
equity strength, enabling rate normalization, and giving management teams confidence to commit. Software-led investment signals durable buy-in to the new regime and points to Japan's strategic role in the global AI cycle.

Japan's AI angle—better positioned than perceived.

Japan lags the U.S. and China in AI adoption, but generative AI is treated as a 'must-have,' a direct response to demographic-driven labor shortages rather than a source of labor market anxiety. On the physical AI side, Japan is a global leader across semiconductor equipment, materials, and industrial robotics, sectors in the global AI value chain that have delivered meaningful excess returns relative to TOPIX. Japan may not lead the adoption curve, but it is supplying the picks and shovels, and that is often where more durable returns get made.

Exhibit 96: Real Wages Rebounded as 'Bad Inflation' Eased. However, the Iran War Threatens to Undo It

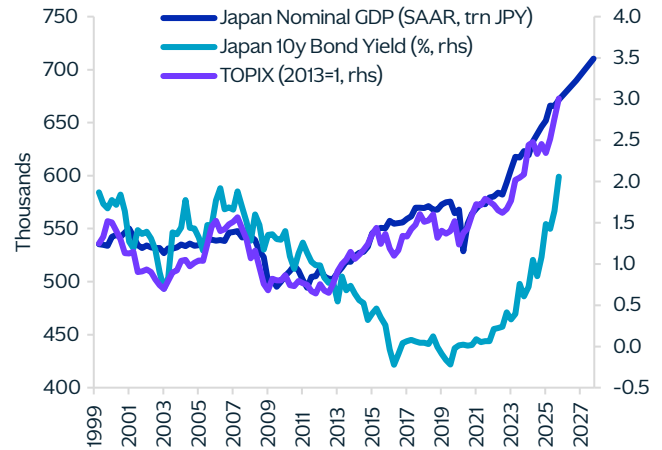
Japan Wage Growth, Y/y, 3-Month Moving Average



Data as at March 30, 2026. Source: Japan Ministry of Health, Labor & Welfare, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

Exhibit 97: Nominal GDP Compounding Drives Equity Strength and Rate Normalization

Japan's Nominal GDP vs. Equity and Bond



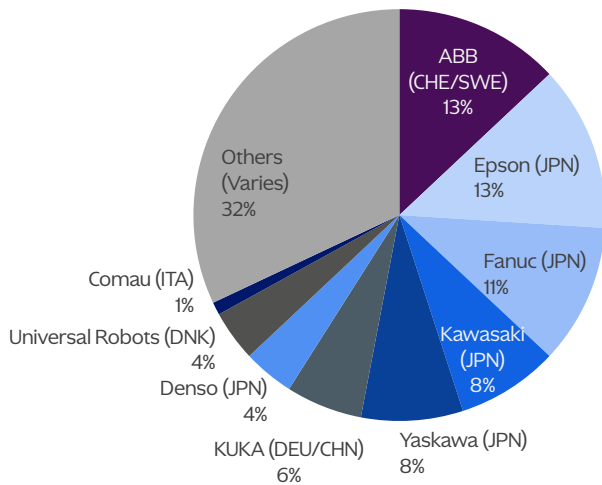
Data as at December 31, 2025. Source: Cabinet Office of Japan, Nikkei, Haver Analytics, Bloomberg, KKR Global Macro & Asset Allocation analysis.

Sanaenomics and the policy tailwind. The three pillars of Sanaenomics, national security, strategic investment, and reflation, point to a capex cycle structurally supported by government policy, not just the business cycle. Japan is building durability across supply chains, energy security, defense, technology, and demographics. The opportunity is broader than simply saying Japanese equities are cheap. The more important point, we believe, is that Japan is moving into a higher nominal GDP regime, with policy, governance, capex, and strategic investment increasingly pointing in the same direction (*Exhibits 98 and 99*).

Japan lags the U.S. and China in AI adoption, but generative AI is treated as a 'must-have,' a direct response to demographic-driven labor shortages rather than a source of labor market anxiety.

Exhibit 98: Japan Holds an Important Global Position in Physical AI, Especially Industrial Robotics

Global Market Share of Industrial Robotics Companies



Data as at December 31, 2024. Source: Statista, KKR Global Macro & Asset Allocation analysis.

Exhibit 99: Robotics and Semiconductors Have Benefited from the Global AI Value Chain, Yielding Strong Excess Returns

Japan Stock Market Performance (2021=100)



Past performance is no guarantee of future results. Analysis of TOPIX and select sub-sectors post-COVID. Data as at December 31, 2025. Source: Cabinet Office of Japan, Nikkei, Haver Analytics, Bloomberg, KKR Global Macro & Asset Allocation analysis.

The other side is the fiscal math. Japan's primary balance is approaching zero, the best level in 25 years, with revenues rising disproportionately as inflation lifts price-sensitive tax categories. However, Prime Minister Takaichi's agenda will test this, as plans to increase military spending and potentially introduce tax cuts could reverse the debt-to-GDP trajectory and push debt sharply higher in the outer years. This new reality does not yet factor in materially higher interest rates, but over time we do think it could further strain the outlook. Exhibits 100 and 101 compare the near-term versus long-term dichotomy.

Exhibit 100: Japan Nears Fiscal Primary Balance as Inflation-Driven Revenue Boosts Receipts Disproportionately...

Japan Government Primary Balance as a % of GDP

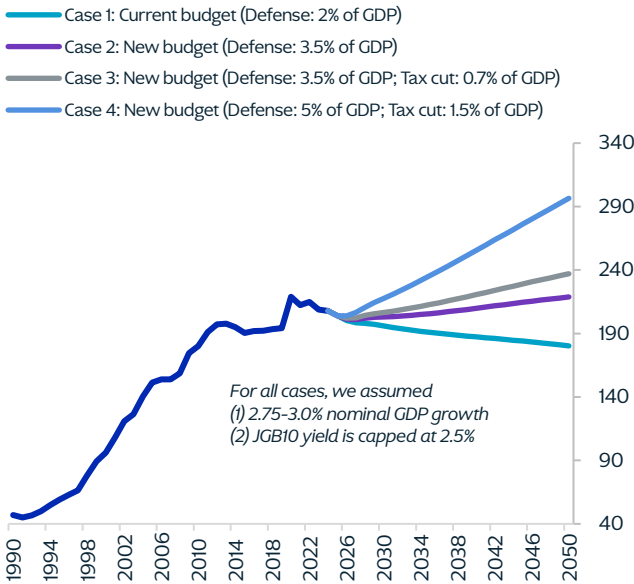


Primary Balance = (Total revenue - proceeds from new bond issuance) - (total expenditures - debt servicing costs). Data as at December 31, 2025. Source: Cabinet Office of Japan/IMF Fiscal Monitor, OECD, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

The three pillars of Sanaenomics, national security, strategic investment, and reflation, point to a capex cycle structurally supported by government policy, not just the business cycle.

Exhibit 101: ...But a Spending Surge and Tax Cuts Could Test Market Tolerance for Japan's Debt Path

Japan Government Debt to GDP Ratio, %



Data as at December 31, 2025. Source: IMF, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

Bottom Line: Japan's 2026 growth forecast has been marked down to 0.6% in our forecast. However, the longer-term growth story has not changed as Japan has exited deflation and entered a higher nominal GDP regime. We fully acknowledge that the Iran oil shock is a real near-term drag through net exports, real wages, and consumption; however, corporate reform, capex and strategic investment will keep the recovery on track, we believe.

Japan CPI

Forecasts: We have revised our Japan CPI forecast up to 2.2%, above consensus expectations of 2.0% and our prior forecast of 1.8%. We also maintain our call of 2.0% for 2027 (just above consensus expectations of 1.9% inflation). We also expect the Bank of Japan to continue normalizing policy, with the policy rate reaching 1.25% in 2026 and 1.75% in 2027, while the 10-year JGB rises to 2.5% in 2026 and 2.7% in 2027.

Commentary: Before the Iran War, inflation had been cooling as we had expected, coming down to 1.3-1.4% year-over-year. This was driven mainly by a normalization

in food prices after a massive spike last year. The oil price surge, however, is adding fresh pressure to inflation expectations, seen in the rising yields. The BoJ's response will be a gradual normalization, not a Volcker-style cycle. It is catching up to a regime where inflation, wages, nominal GDP, and fiscal dynamics have all shifted, but the market is moving faster than the central bank (*Exhibit 102*).

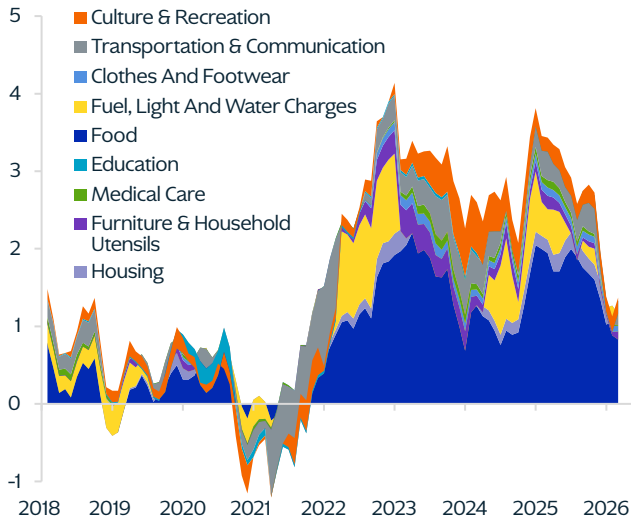
Specifically, the market has shifted its focus from the super-long end to the 10-year (*Exhibit 103*). Super-long selloffs can typically be addressed through supply-demand tools, e.g., MoF issuance adjustments and duration demand from life insurers and pensions, whereas the 10-year reflects the policy path and neutral rate itself, which only the BoJ can anchor. The 10-year JGB has risen towards 2.7%, with the spread over the base rate near 200 basis points versus a historical average of 77 basis points and a prior high of 191 basis points. In our view, the market is repricing Japan's nominal anchor, fiscal risk, and neutral rate all at once.

We expect the BoJ to hike to bring the spread back towards a more sustainable approximate 100 basis points. Counterintuitively, hiking could compress the 10-year spread rather than widen it, by signaling the BoJ is in control of the reflation narrative and reducing the fiscal/inflation risk premium in the long end. Japan also has lower growth and inflation volatility than in the U.S., which argues for a structurally tighter term premium — suggesting the current spread is overshooting fair value.

Japan's inflation is no longer about escaping deflation at any cost. It is about managing a more normal, but still unfamiliar, nominal regime. For investors, the implication is that Japan's playbook has changed. Inflation, wages, rates, and nominal GDP are all higher than in the prior era, which supports equities, capex, and corporate reform. However, it also means the cost of capital is rising. The opportunity is nominal GDP compounding and productivity-led corporate improvement. The risk is imported inflation, yen weakness, and a JGB curve that reprices faster than policymakers expect.

Exhibit 102: Prior to the Middle East Conflict, Disinflation Was Actually Taking Hold In Japan...

Contribution to Headline Inflation, %

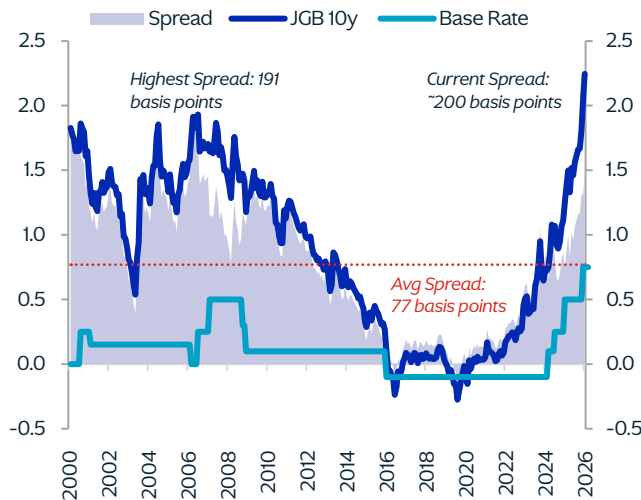


Data as at March 31, 2026. Source: Japan Ministry of Internal Affairs and Communications, KKR Global Macro & Asset Allocation analysis.

For investors, the implication is that Japan’s playbook has changed. Inflation, wages, rates, and nominal GDP are all higher than in the prior era, which supports equities, capex, and corporate reform. However, it also means the cost of capital is rising.

Exhibit 103: ...But Heightened Geopolitical and Fiscal Risk Has Pushed the 10-Year JGB to 2.7%, a 20+ Year High of the Spread Over the Base Rate

JGB 10-Year Yield vs. Base Rate



Data as at May 17, 2026. Source: BOJ, Bloomberg, KKR Global Macro & Asset Allocation Analysis.

SECTION IV

Capital Markets

Interest Rates

We see higher rates around the world, but we do not subscribe to the idea that long-end rates are going to become unglued (*Exhibit 104*). Productivity remains strong, retiree demand for income is still growing, and we think that the long end of the curve will ultimately stay in concert with the short end of the curve, albeit at higher levels than in the past. Across global markets, we think Japanese rates are most at risk of overshooting, while we believe that there is the potential for Eurozone rates to eventually undershoot if the Eurozone's underlying disinflationary tendencies again manifest themselves once the current period of cost-push inflation is resolved.

Exhibit 104: We Remain in the Higher for Longer Camp on Interest Rates Near Term

KKR GMAA 10-Year Interest Rate Forecast and Probability, %				
	Base	Low	High	Consensus
U.S.	60%	15%	25%	
2026e	4.75%	3.0%	5.0%	4.31%
2027e	4.25%	3.0%	5.0%	4.21%
Euro Area	60%	20%	20%	
2026e	3.25%	2.4%	3.75%	2.98%
2027e	3.0%	2.0%	3.5%	2.93%
China	55%	30%	15%	
2026e	1.75%	1.45%	2.05%	1.72%
2027e	1.75%	1.45%	2.05%	1.80%
Japan	60%	20%	20%	
2026e	2.5%	2.0%	3.0%	2.46%
2027e	2.7%	2.2%	3.2%	2.54%

Data as at May 22, 2026. Source: KKR Global Macro & Asset Allocation analysis.

U.S. INTEREST RATES

Forecasts: We now expect the Fed to remain on hold through 2026 and deliver just one 25-basis point cut in 2027, bringing the Fed Funds rate to 3.375% (from 3.625% currently) versus market pricing closer to 3.8%. For the 10-year Treasury, we are raising our 2026 forecast to 4.75% (from 4.5% previously) versus 4.31% consensus. This change primarily reflects higher rates at the front end of the curve, which we think can remain elevated but will ultimately move lower if we are right that core inflation starts to roll over next year and the market begins to take hikes off the table. As such, we expect the 10-year yield to fall towards 4.25% in 2027, which is slightly above consensus of 4.21%. Longer term, we expect that the 10-year will settle around 4.0%.

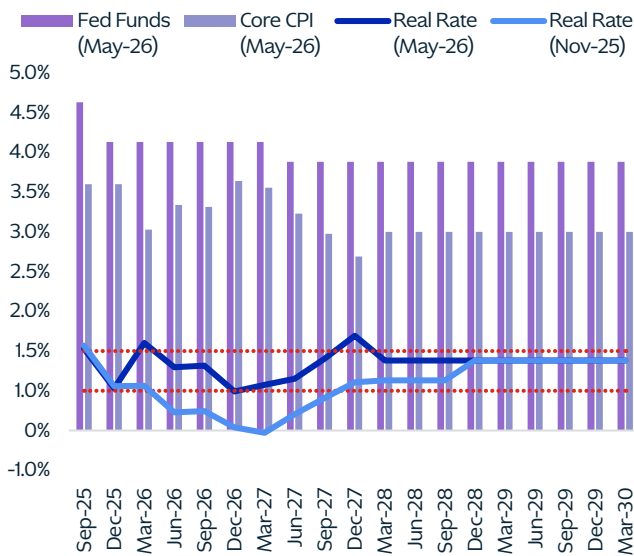
Commentary: We had previously expected the Fed to cut rates modestly below neutral to support weakness in the labor market and persistent pressure in rate-sensitive sectors of the economy (*Exhibit 105*). Since then, several developments have shifted our thinking, including stickier-than-expected supercore services inflation, incremental evidence that the private-sector labor market is recovering, an ongoing productivity breakout, and an energy shock that we expect to pass through modestly to core inflation. Beyond these economic developments, we think the FOMC is clearly pivoting towards wanting to see evidence that core inflation is sustainably moving lower before easing policy further.

While we acknowledge that the oil price shock has shifted the balance of risks, our view is that inflation remains sticky enough to delay cuts but not force the Fed back into a hiking cycle. Rather, we expect the Fed to take a more patient approach to this cycle. When the Fed eventually begins easing policy, we think only a single 25-basis-point cut will be needed to bring rates back towards the upper

end of neutral which our modeling suggests is 0.5-1.0% in real terms.

Exhibit 105: Our Forecasts Imply That Real Fed Funds Stays Around the Upper End of Neutral

Real Rates and Core CPI, %



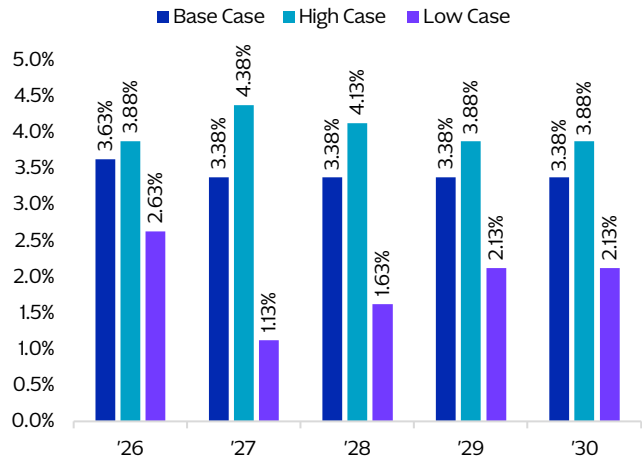
Real rate calculated as fed funds less core inflation. Data as at May 14, 2026. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

How are we thinking about the high/low case? In our high-case scenario, which we assign a 25% probability, oil prices average roughly \$125/bbl and pass-through to core inflation proves materially larger than expected, adding roughly 40 basis points to core inflation. In that environment, the Fed would likely need to deliver two hikes simply to maintain current real rates, followed by an additional hike to move policy further into restrictive territory.

Conversely, our low-case scenario is a traditional recession or hard-landing outcome, which we view as a lower-probability 15% risk. We do not believe an oil shock alone is likely to generate that outcome, as the Fed would probably require evidence of acute labor market deterioration before easing aggressively into a supply-driven inflation shock.

Exhibit 106: Our Fed Funds Scenario Work Envisions an Economic Downturn in 2026-27

Fed Funds Forecasts Scenarios



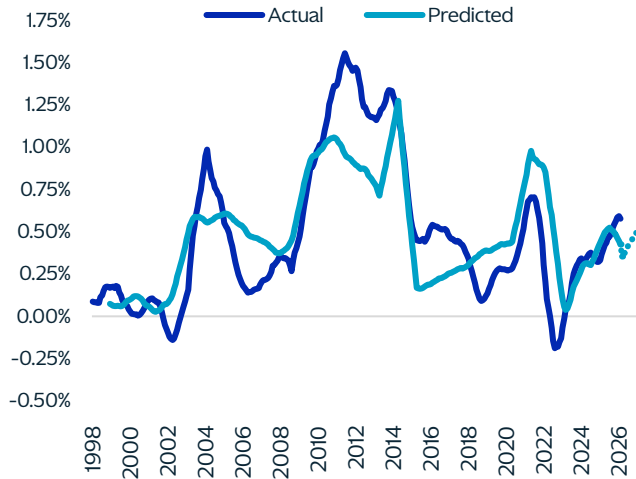
Real rate calculated as fed funds less core inflation. Data as at May 14, 2026. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

When taken together, these scenarios leave our weighted-average policy outlook modestly below current market pricing. More broadly, we think markets have consistently overreacted in both directions over the past year, first pricing in an aggressive easing cycle following soft payroll prints late last year and more recently beginning to price in a partial hiking cycle following the Iran-driven energy shock. Our own view has remained more balanced throughout. We think the Fed will gradually move towards neutral and will not overreact to a couple of months of negative NFP prints or oil price shocks with limited flow-through to core inflation.

While we acknowledge that the oil price shock has shifted the balance of risks, our view is that inflation remains sticky enough to delay cuts but not force the Fed back into a hiking cycle.

Exhibit 107: Our Term Premium Model Is Rolling Over Due to Lower Deficit (Tariffs) and Negative Stock-Bond Correlation, But We Think These Variables Stabilize at Higher Levels

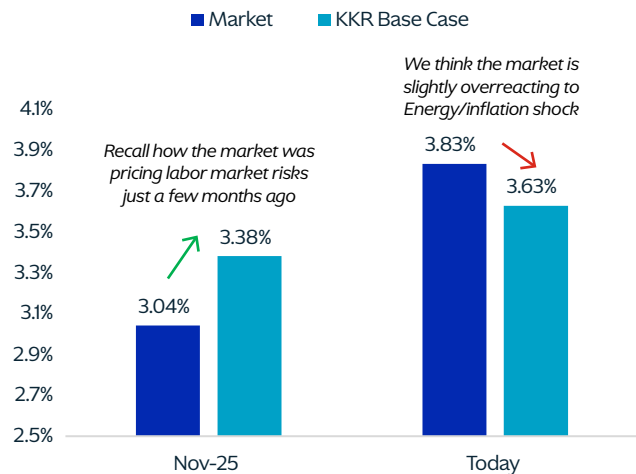
YC Steepness: 10-Year UST -1 Month Bill, 2-Year Forward



Data as at May 14, 2026. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

Exhibit 108: Our Weighted-Average Policy Rate Outlook Is Modestly Below Current Market Pricing

2026 Fed Funds Forecasts Futures Pricing vs. GMAA Forecasts



Data as at May 14, 2026. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

For the 10-year Treasury, we are raising our 2026 forecast to 4.75% from 4.5% previously. This revision largely reflects a move higher at the front end of the curve, where markets are pricing tighter monetary policy over the next two years. While we do not expect a sustained shift back towards a hiking cycle, we think front-end pricing can remain elevated until inflation begins to moderate next year.

Our term premium modeling continues to suggest 60-70 basis points as fair value this cycle, reflecting structurally higher fiscal deficits, lower consumer savings rates, and weaker stock-bond correlations. Putting this together, we expect the front end of the curve to gradually move closer to our policy-rate forecasts as markets price out a renewed hiking cycle (*Exhibit 108*). We expect the 10-year yield to settle closer to 4.25% in 2027, and around 4.0% over the longer term.

More broadly, we continue to view 4.0% as an appropriate long-run equilibrium level for the 10-year this cycle absent a material and sustained upside surprise in either trend growth or inflation. Indeed, history suggests that real 10-year Treasury yields typically settle 1-2% below real growth during expansions. Through that lens, our forecast for a 4.0% nominal 10-year yield is already relatively elevated given our assumptions of roughly 2.5% breakeven inflation and real growth near 2%. By the same logic, we think it will be difficult for 10-year yields to move sustainably towards 5% unless either inflation or growth accelerates materially, which is not our base case.

EURO AREA INTEREST RATES

Forecasts: We now expect the ECB to deliver two pre-emptive 25-basis-point rate hikes this year, one in June and one in September, taking the deposit rate to 2.50% in 2026 (from 2% currently) before cutting back to 2.25% in 2027. This compares with consensus of 2.5% for end-2026 and 2.0% for end-2027, and our previous forecasts of 2.00% and 2.25% in 2026 and 2027, respectively. This is, in our view, not the start of a large tightening cycle, but more of an insurance move designed to preserve credibility and keep inflation expectations anchored and to prevent a supply shock from becoming a second-round inflation problem. Turning to the 10-year Bund yield, we look for it to rise to 3.25% at end-2026 (versus consensus of 3.0%)

and 3.0% in 2027, compared to consensus of 2.9% (and our prior forecast of it rising to 3.0% in 2026 and holding steady in 2027).

Commentary: We think the ECB’s policy backdrop has changed in an important way since our January update. Earlier this year, the central bank looked close to where it wanted to be. Inflation was moving towards its 2% target, the deposit rate was just below our 2.25% neutral rate assumption, and the case for keeping policy broadly steady was strong. Today, the setup is less benign. Energy has moved back from tailwind to headwind, inflation is running at 3%, expectations have picked up, and real policy rates have slipped back towards zero.

The ECB also brings some institutional memory to this decision (*Exhibit 110*). Policymakers do not need to believe that today’s shock is another 2022 to worry about the same transmission channel. The lesson from the last inflation cycle was that energy shocks can broaden if households, workers, and companies begin to extrapolate them. That is the risk policymakers will want to lean against. The bar for pre-emptive action is therefore lower than it was before the last inflation shock, which helps explain why ECB communication has become more hawkish. While our base case remains two hikes, we think a clear signal that geopolitically driven supply shocks are permanently resolving alongside a meaningful growth slowdown in the second quarter of 2026 may open the door for the ECB to pivot to just a single credibility-maintaining hike in June.

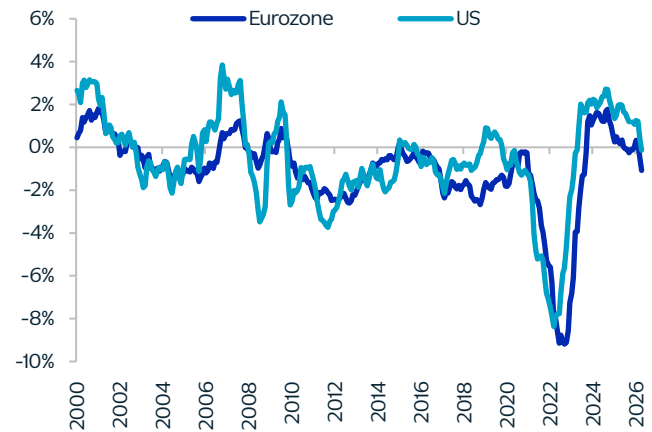
The main risks to our rates view are clear: If inflation expectations re-anchor quickly, services inflation rolls over, or growth weakens more abruptly, the case for pre-emptive hikes would become less compelling. Conversely, if energy pass-through broadens and inflation expectations continue to rise, the ECB may conclude that more forceful action now reduces the risk of more painful action later.

On the long end, long-term European government bond yields have normalized close to levels implied by long-term nominal GDP growth expectations (*Exhibit 111*). Our range for 10-year bund yields of 3.25% in 2026 and 3.0% in 2027 reflects our view that Europe may still attract some safe-haven demand if U.S. yields blow out on fiscal concerns. Europe is not doing as much aggressive fiscal

expansion as the U.S., and the ECB is still perceived as credible in anchoring inflation expectations.

Exhibit 109: European Real Rates Are Now Back to Negative

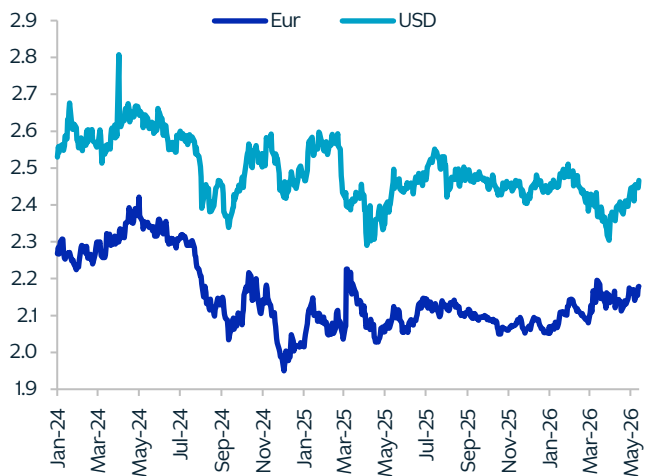
Real Rates (Bank Rate Minus CPI inflation): U.S. vs. Europe



Data as at April 30, 2026. Source: ECB, Federal Reserve Board, KKR Global Macro & Asset Allocation analysis.

Exhibit 110: Market-Based Medium-Term Inflation Expectations Have Been Well Anchored by the ECB. Their Goal Is to Keep It That Way

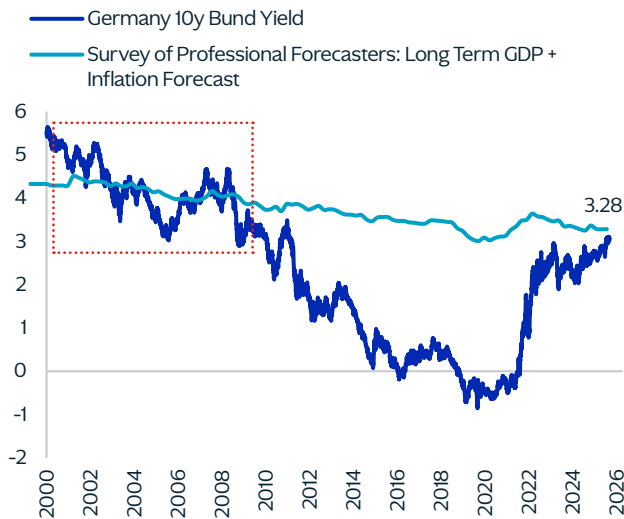
5y5y Forward Inflation Swaps: US vs. Europe



Data as at 4Q2025. Source: ECB, Eurostat, KKR Global Macro & Asset Allocation analysis.

Exhibit 111: Long-Term Government Bonds in Europe Have Normalized Close to the Level Implied by Long Term Nominal GDP Growth Expectations

Europe: Long-Term Nominal GDP Growth Expectations vs. Bonds, %



Data as at May 12, 2026. Source: ECB, Bloomberg, KKR Global Macro & Asset Allocation analysis.

JAPAN INTEREST RATES

Forecasts: We are above consensus on the 10-year JGB yield at 2.5% in 2026 (consensus 2.46%) and 2.70% in 2027 (consensus 2.54%). We also see the BoJ’s terminal rate closer to 1.75%, above consensus of 1.41%. In our view, the JGB curve carries a structural steepening bias that the market is still in the early stages of digesting, reflecting Japan’s transition out of three decades of deflation towards a more normal rate regime.

Commentary: The deeper story is that three traditional anchors of JGB term premium are repricing simultaneously: the BoJ, the domestic institutional bid, and the fiscal stance. As Japan moves towards a more normal inflation and term premium regime, wage growth, sticky inflation, and a more positive fiscal impulse are likely to continue driving rate normalization. In our view, the recent move in the 10-year sector mainly reflects the market repricing towards a higher neutral rate in Japan, an adjustment we view as healthy. By contrast, the move in the super-long sector, particularly 20-year, 30-year, and 40-year JGBs, looks more technical, reflecting supply-demand dynamics, reduced BoJ absorption, and

changing demand from domestic life insurers and pension investors.

Adding to this dynamic, the BoJ is hiking and gradually shrinking its balance sheet into this steepening, rather than backstopping it. It is worth remembering that the BoJ’s balance sheet still exceeds 100% of GDP, meaningfully larger than other major central banks, while the pace of QT remains measured and far from complete. In our view, both factors argue that term premium can continue to rebuild over time as the private sector is asked to absorb more duration.

The institutional bid is also changing. Japan’s new Economic Solvency Ratio, or ESR, framework, which went live in April 2026, is reshaping life insurer behavior in important ways. Under ESR, both assets and liabilities are marked to market, replacing the prior book-value-based Solvency Margin Ratio framework. After years of pre-ESR duration extension, many insurers have already reduced their asset-liability duration gap, which means the old reflex that ‘higher yields automatically create a stronger long-end bid’ no longer holds in the same way. Meanwhile, unrealized losses on legacy low-coupon JGBs make rotation into higher-coupon issuance less attractive in the near term. This is already visible in the market, as major life insurers have publicly moderated JGB purchase plans for FY2026, while ultra-long auctions continue to clear on the softer side.

Taken together, these shifts suggest the JGB curve still has room to normalize. We do not view this as a disorderly adjustment. Instead, it is part of Japan’s broader transition to a higher nominal regime, which remains a constructive setup for the economy and for risk assets more broadly, even as it requires investors to be more disciplined about duration risk at the long end of the curve.

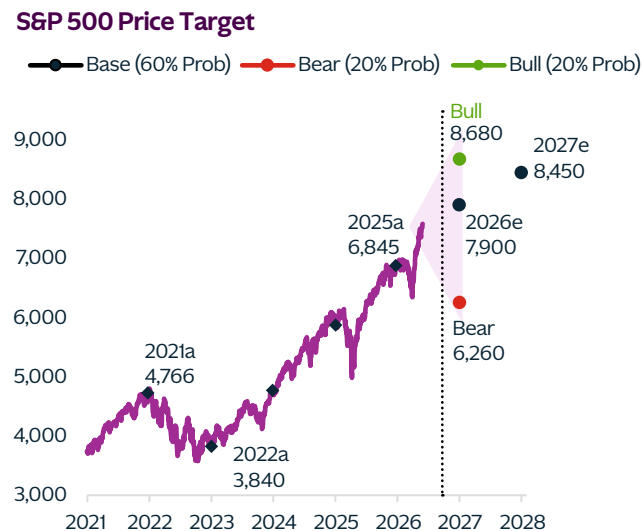
The S&P 500

Forecasts: Our colleague Brian Leung now expects the S&P 500 to reach 7,900 in 2026 and 8,450 in 2027 under our base case (60% probability), which implies roughly 11% upside from current levels over the next 18 months (*Exhibit 112*). **Importantly, we expect earnings, not multiples, to drive the bulk of index returns.** On the earnings front, Brian forecasts 17% year-over-year EPS

growth in 2026 (to \$323 per share), above the ‘top-down’ consensus estimate of \$320 per share. For 2027, he expects EPS to reach \$355 per share (10% year-over-year growth), which is just below the consensus. On valuations, he assumes equity multiples are largely range-bound, little changed from roughly 22x forward earnings today.

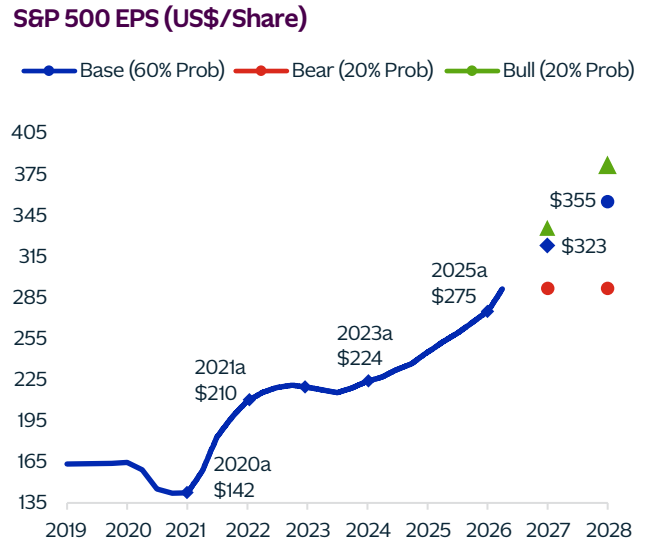
This outlook is anchored in our view that the current market cycle still has room to run. First, our suite of positioning indicators suggests investor sentiment remains far from exuberant and should not be an impediment to further equity upside (*Exhibit 115*). Second, the combination of persistently large fiscal deficits and a resurgence in labor productivity provides a powerful tailwind for corporate profits, supporting both top-line demand and margins (*Exhibit 116*). Third, we believe the AI capex cycle —despite legitimate concerns around its concentration and scale — remains fundamentally supported by rising usage intensity, early evidence of enterprise ROI, the emergence of agentic workflows, and continued improvements in token-level unit economics. **Taken together, we remain constructive on markets but expect an uneven path to our price targets, with two-way volatility along the way. The equity market can still work, but leadership is likely to remain more concentrated and more dependent on earnings durability than multiple expansion.**

Exhibit 112: We Expect the S&P 500 to Reach Around 7,900 in 2026 and Approximately 8,450 in 2027



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

Exhibit 113: Our Base Case Assumes S&P 500 EPS Reaches \$323 per Share in 2026 and \$355 per Share in 2027



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

Exhibit 114: Our Forecasts Reflect What We Believe Is a More Durable Economic Cycle

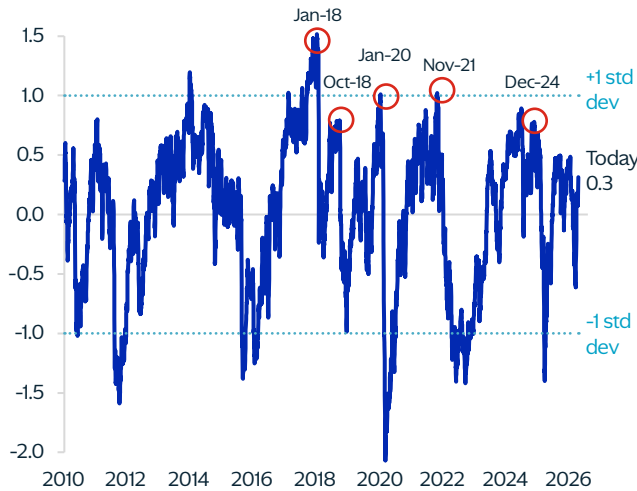
	Base (60% Prob)	Bear (20% Prob)	Bull (20% Prob)	Weighted Average	Bottom-Up Consensus	Top-Down Consensus
2026 Year-End Target	7,900	6,260	8,680	7,728	<i>n/a</i>	7,625
P/E on 2027 EPS	22.2x	21.5x	22.7x	22.2x		
2027 Year-End Target	8,450	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	8,660
P/E on 2028 EPS	22.1x	<i>n/a</i>	<i>n/a</i>			
2025a EPS	\$275	\$275	\$275	\$275	\$275	\$275
2026e EPS	\$323	\$292	\$336	\$319	\$340	\$320
2027e EPS	\$355	\$292	\$382	\$348	\$394	\$363
2028e EPS	\$381	\$306	\$420	\$374	<i>n/a</i>	<i>n/a</i>

Base case price target was 7,600 (or 22.7x 2027 EPS) in November 2025; target was trimmed to 7,300 in March 2026 (22.2x 2027 EPS). Data as at May 29, 2026. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

We remain constructive on markets but expect an uneven path to our price targets.

Exhibit 115: Neither Systematic Strategies Nor Discretionary Investors Are All That Bullied Up. Positioning Is Closer to Neutral Than Stretched

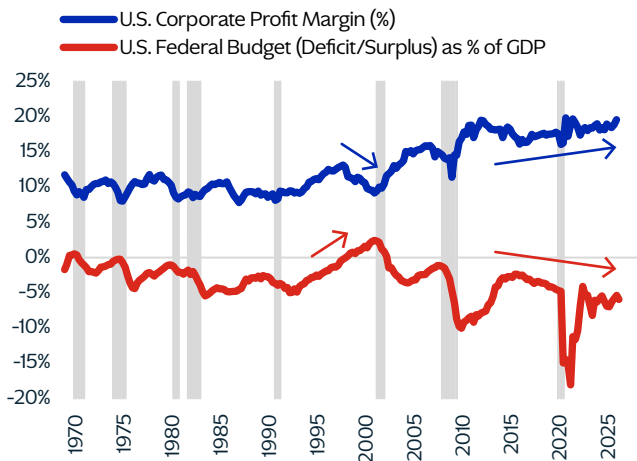
Consolidated U.S. Equity Positioning (Wgtd Avg of Z-scores of Systematic and Discretionary Indicators)



Equity positioning indicators include CTA portfolio weight, Risk-parity portfolio weight, Volatility-control allocation, L/S HF beta, active MF beta, AAll Bull-Bear spread, cash equity median shorts, ETF short interest, equity futures positions, net call volume, S&P 500 option skew. Source: Bloomberg, DB Research, KKR Global Macro & Asset Allocation analysis.

Exhibit 116: Corporate Profits Rise When Businesses Invest, Governments Run Deficits, and Households Dis-Save

U.S. Fiscal Deficits and U.S. Profit Margins



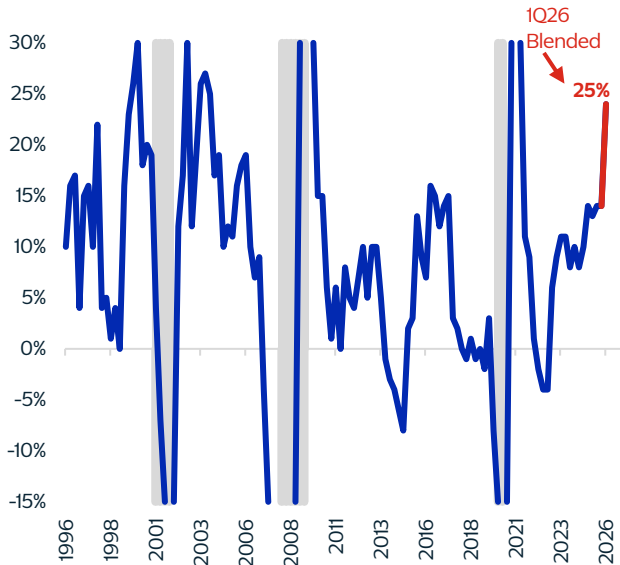
Data as at May 18, 2026. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

On EPS: We project S&P 500 EPS to grow by 17% in 2026, reaching \$323 per share. Our estimate is slightly above the current ‘top-down’ consensus estimate of \$320 per share, and meaningfully higher than our start-of-year forecast of \$303 per share. The key driver of this revision is the strength of the 1Q26 season, which was exceptional by almost any measure. **S&P 500 earnings rose 25% year-over-year, representing the largest mid-cycle acceleration in more than two decades; this type of improvement is more typically associated with the early stages of a post-recession recovery (Exhibit 117).** Admittedly, the results were highly concentrated at the top. AI-related companies, including semiconductors, hyperscalers, and indirect AI beneficiaries, accounted for fully 60% of total earnings growth. However, it would be unfair to characterize the overall earnings breadth as narrow. In fact, 85% of companies beat earnings estimates, 80% beat revenue, and the median company delivered 12% year-over-year EPS growth.

Higher oil prices represent a clear macro headwind, but the impact on the S&P 500 earnings cycle has become more muted than in the past (Exhibit 118). The oil intensity of the index has steadily declined over time, reflecting both the economy’s improved energy efficiency and the index’s shift towards asset-light, higher-margin sectors. **The more important variable for the earnings outlook is the trajectory of AI-related capex. On this front, the evidence continues to validate the spending cycle, in our view.** Until recently, hyperscaler AI capex looked like an expensive, highly speculative strategic arms race with highly uncertain ROI. That is now changing. The introduction of Mythos and the historic ramp in Anthropic’s ARR, suggest that frontier models are still delivering meaningful capability gains, which in turn is expanding the set of high-value enterprise use cases customers are willing to pay for (Exhibit 119). At the same time, the collapse in GPU availability, measured by a proprietary index from 3Fourteen Research, since the start of the year indicates that demand for compute is accelerating in an environment that remains supply constrained (Exhibit 120). These developments make hyperscaler spending increasingly economically defensible.

Exhibit 117: 1Q2026 S&P 500 Earnings Growth Is Up Approximately 25% Year-Over-Year, the Largest Mid-Cycle Acceleration in at Least 20 Years

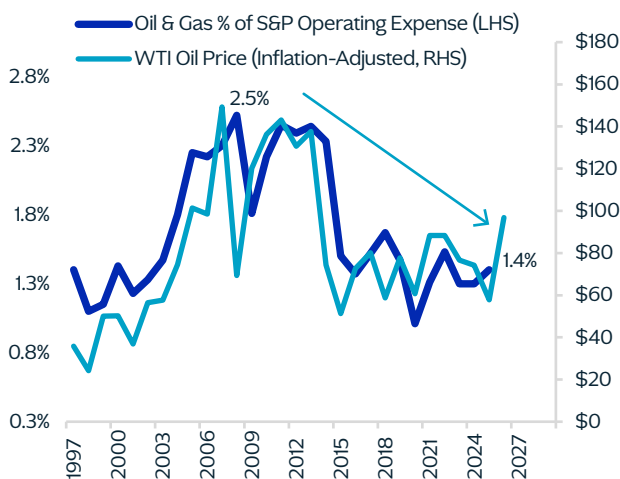
S&P 500 Quarterly Earnings Growth (y/y %chg)



Data as at May 18, 2026. Source: Deutsche Bank Research, Bloomberg, KKR Global Macro & Asset Allocation analysis.

Exhibit 118: Oil Is Just 1.4% of Total S&P Operating Expense, Down From a Peak of 2.5% in 2008. \$100 Oil Would Increase Opex by About 75 Basis Points (or -1.3% to EPS)

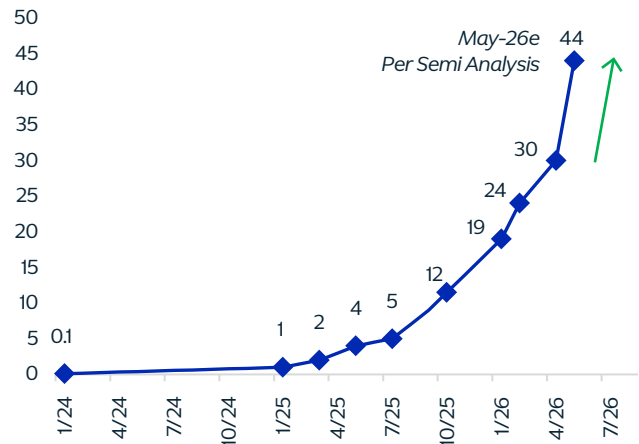
S&P 500 Energy Intensity vs Real Oil Prices



Data as at May 18, 2026. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

Exhibit 119: AI Revenue Growth Is Scaling As Enterprises Pay and Usage Grows. Customers Don't Keep Expanding Spend Unless They See Productivity Gains, Revenue Benefits or Cost Savings

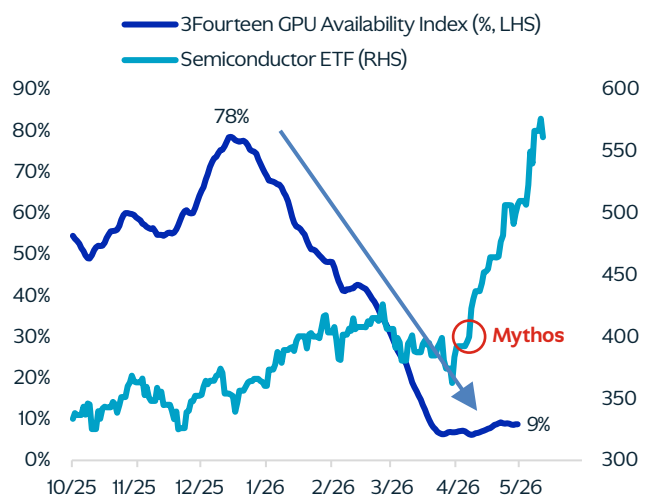
Anthropic Annualized Recurring Revenue: Growth Milestones (\$bn)



Data as at May 18, 2026. Source: Bloomberg, Semi Analysis, KKR Global Macro & Asset Allocation analysis.

Exhibit 120: Low GPU Availability: Demand for Compute Is Accelerating With Few Signs That the Scramble for Compute is Easing. We Are Still Supply-Constrained Despite Unprecedented Hyperscaler Capex

GPU Availability vs. Semis Performance (% of Minutes in an Hour With On-Demand Availability)

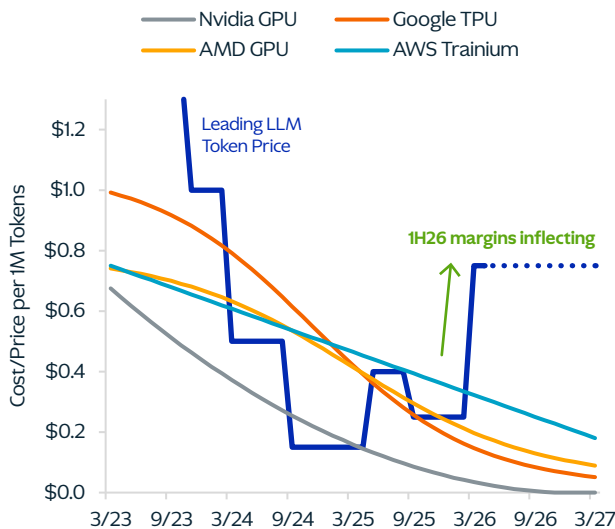


GPU availability is weighted by GPU age and capability (i.e., newer chips receive a higher weight; includes B200, GH200, H100, A100). Data as at May 18, 2026. Source: 3Fourteen Research, Bloomberg.

Meanwhile, recent work from Goldman Sachs shows that token-level unit economics are beginning to inflect positively: cost per token is falling across the stack, while pricing for frontier model tokens is stabilizing (*Exhibit 121*). This creates a more credible path for AI usage to scale without structurally impairing hyperscaler margins, an increasingly important consideration in an agentic AI world, where autonomous workflows could drive a step-change higher in token demand. **For investors, the debate is shifting from whether hyperscalers can monetize AI at all to how quickly improving unit economics can translate into durable revenue growth, margin expansion, and sustained earnings upside across the broader AI ecosystem.**

Exhibit 121: Token Economics Are Turning Positive: Falling Cost per Token and Stabilizing Token Pricing Suggest AI Usage Can Scale Without Destroying Hyperscaler Margins

Token Economics (Token Price vs. Cost)

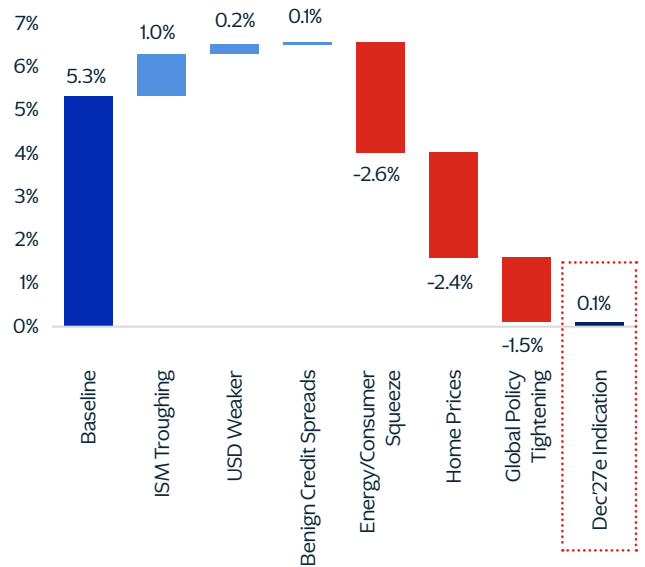


Data as at May 18, 2026. Source: Goldman Sachs Global Investment Research.

The main area of caution is our regression-based Earnings Growth Lead Indicator (EGLI), which is now signaling a sharp deceleration in 2027.

Exhibit 122: Our EGLI Is Pointing to 0% EPS Growth in 2027, Dragged Down by Higher Energy Prices, Weaker Housing, and Global Rate Hikes

Contributions to Dec'27e S&P 500 EPS Growth Indication



The Earnings Growth Leading Indicator (EGLI) is a statistical synthesis of seven important leading indicators to S&P 500 Earnings Per Share. Henry McVey and team developed the model in early 2006. Data as at May 18, 2026. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

The main area of caution is our regression-based Earnings Growth Lead Indicator (EGLI), which is now signaling a sharp deceleration in 2027. This deterioration is being driven by less supportive macro factors including global central bank tightening, softer home prices, and higher oil prices (*Exhibit 122*). For now, we still assume S&P 500 EPS rises another 10% in 2027 to \$355 per share. However, the balance of risks is becoming more two-sided. While AI-related capex remains the dominant earnings tailwind, the broader macro landscape outside of AI could tilt less favorable next year. In short, the earnings story may increasingly depend on whether the AI investment cycle, and related national security spending, can offset a more challenging environment for the real economy.

On Valuations: Our outlook for 2026-27 assumes equity market multiples stay largely range-bound, with the S&P 500 trading roughly 22x forward earnings. **While that headline multiple is elevated relative to long-run history, we do not view it as excessive once adjusted for the**

index's changing composition (*Exhibit 123*). The market today has materially higher weighting towards asset-light, cash generative, high-ROIC businesses with structurally stronger margins than in prior cycles. On a sector- and quality-adjusted basis, current valuations appear more defensible than the headline P/E alone would suggest.

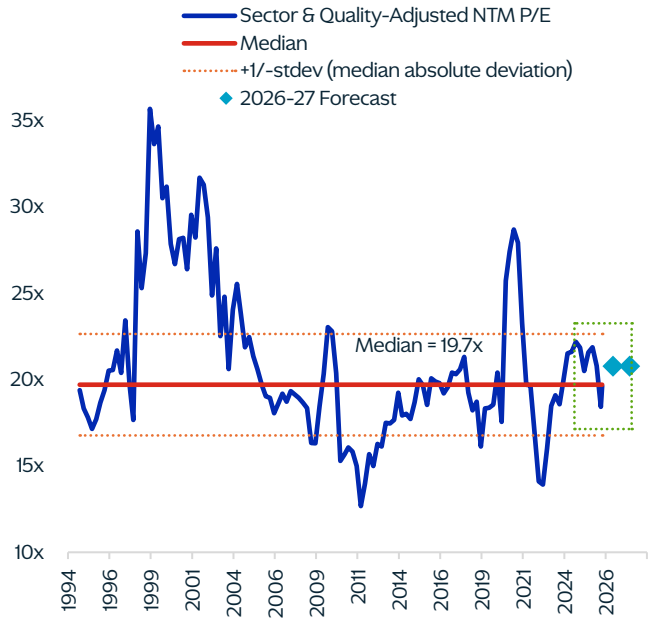
Several datapoints reinforce the view that today's market is far from a late-1990s "irrational exuberance" regime. First, the market-implied equity risk premium is roughly 4.4% today, only modestly below its long-term average, versus 2.1% in December 1999. Second, mega-cap tech valuations are trading near their cheapest levels relative to the S&P 500 since 2019. Third, despite the roughly 50% rally in the S&P 500 technology sector, tech valuations have actually compressed over the past 12 months, implying that earnings growth, rather than multiple expansion, has been the primary driver of returns (*Exhibit 124*).

That said, we are refraining from underwriting further multiple expansion from here. A number of macro and technical headwinds are likely to cap valuations, including higher bond yields driven by inflation uncertainty, fading support from OBBB-related tax refunds, potential midterm election volatility, continued oil price pressures, and the risk that a wave of very large private AI/space IPOs could create near-term equity-supply indigestion. Overall, we expect resilient but range-bound multiples. Valuations are not extreme, but the hurdle for additional re-rating is high.

In short, the earnings story may increasingly depend on whether the AI investment cycle, and related national security spending, can offset a more challenging environment for the real economy.

Exhibit 123: Once We Adjust for Sector and Quality*, S&P Valuations Are Not Actually Expensive; They Are In Line With the Long-Term Median

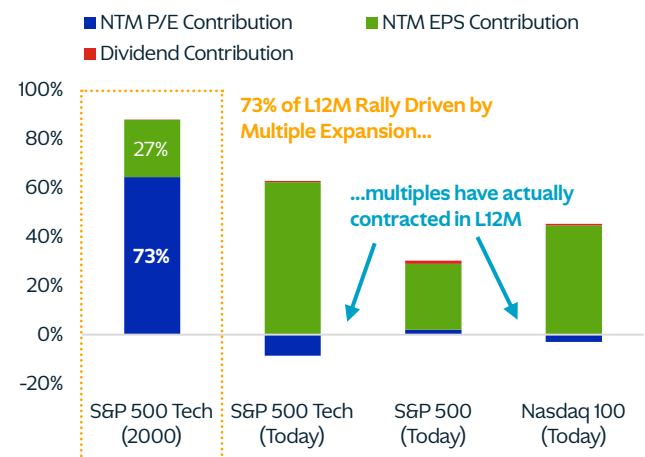
S&P 500 Sector & Quality-Adjusted NTM P/E



*Quality refers to ROIC, operating margins and net profit margins. For each sector, we adjust the historical earnings by the delta in ROIC, operating margins, and net profit margins back then versus today. Data as at May 18, 2026. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

Exhibit 124: It's Been an Earnings-Led Rally, Rather Than One Driven by Multiple Expansion

Total Return Decomposition (Trailing 12m Prior to TechBubble Peak* vs Today)



S&P 500 Peak March 23, 2000. Data as at May 18, 2026. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

Bear Case (20% probability): Inflation reaccelerates due to tariffs, energy and food price pass-through, and a firmer labor market, forcing the Fed to raise rates, tightening financial conditions and driving equity valuations lower. At the same time, demand for compute fails to keep pace with the rapid buildout of supply, while AI monetization remains elusive, causing cracks to emerge in the AI capex cycle. S&P 500 ends the year below 6,300.

Bull Case (20% probability): An AI-productivity boom drives a 'goldilocks' environment of strong real GDP growth, continued disinflation, and benign financial conditions. Markets rhyme with the mid/late-1990s backdrop, with a melt-up in both mega-cap tech/AI stocks and cyclical/reflationary names (thanks to broader tech diffusion boosting margins and OBBB tax provisions), propelling the S&P 500 to new highs of approximately 8,700 by end-2026.

Our Bottom Line: We remain constructive on the S&P 500, but our optimism is rooted primarily in earnings rather than multiple expansion. The key question is whether the AI capex cycle can continue to translate into broader earnings upside across the ecosystem, while offsetting a less favorable macro impulse from higher rates, oil, and fading fiscal support. For now, the evidence still supports that view: positioning is not euphoric, labor productivity is strong, and improving AI unit economics make the capex cycle more defensible. That said, the path is unlikely to be linear. With multiples already near 22x, bond yields rising globally, and our EGLI pointing to slower earnings momentum in 2027, we expect equity returns to be positive but increasingly dependent on continued earnings delivery.

Oil

Forecasts: We expect oil prices to remain elevated in 2H26, with WTI averaging \$85-95 per barrel, as a protracted reopening of the Strait of Hormuz drives a material tightening in global crude balances. This is modestly below our prior \$90-100 range, reflecting a more contained price response thus far than expected, as several mitigating factors discussed below have helped absorb the shock (*Exhibit 127*).

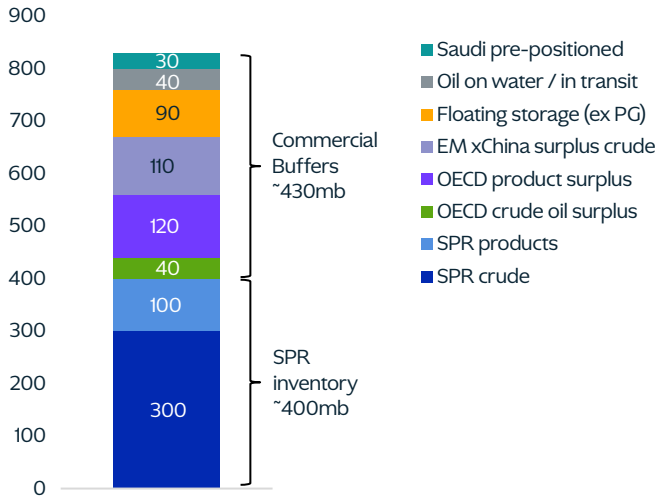
Our revised base case assumes a gradual and incomplete normalization of Hormuz flows in June/July, rather than a clean resolution. Any memorandum of understanding (MOU) is likely to be narrow and leave core issues unresolved. As a result, significant backsliding risk remains, with intermittent flare-ups and disruptions likely to delay a full reopening in the coming months. We estimate OECD inventories draw by approximately 500 million barrels, reducing days of supply to around 57 days, the lowest level since 2013. Beyond the near-term, our medium-term view is more constructive than the futures curve: we expect WTI to average around \$75 per barrel in 2028-29, roughly \$5 above current futures pricing.

Commentary: Despite the scale of the Hormuz disruption, physical crude prices have not risen as sharply as might have been expected. We see at least five reasons:

- **A different starting point:** Unlike 2022, the market entered 2026 in surplus rather than deficit. This initial cushion has slowed the transmission from geopolitical disruption to outright physical scarcity (*Exhibit 125*).
- **Duration matters:** The market has been reluctant to price a sustained disruption amidst intermittent Presidential jawboning and repeated headlines hinting at an imminent resolution. When the news flow keeps pointing to a potentially short-lived shock, it is difficult for even front-month Brent to fully reflect a prolonged disruption.
- **Demand is being throttled through availability:** A meaningful portion of demand adjustment is occurring through rationing and physical scarcity rather than traditional price response. In addition, price pressure has shown up more forcefully in refined product cracks than in outright crude prices
- **China has absorbed the shock better than expected:** China has imported significantly less crude than expected without having to drastically curtail apparent consumption. This has helped prevent an even sharper tightening in seaborne crude markets, at least so far.
- **U.S. exports have filled the gap, but not sustainably:** U.S. crude exports have surged, helping to bridge part of the supply shortfall. However, this increase is coming from inventories rather than new production, making it unlikely to be sustainable if the disruption persists.

Exhibit 125: Pre-Conflict, the Oil Market Had Roughly 430 Million Barrels of Crude Buffers, Plus 400 Million Barrels of SPR Capacity. Though Meaningful, This Surplus Is Not Infinite

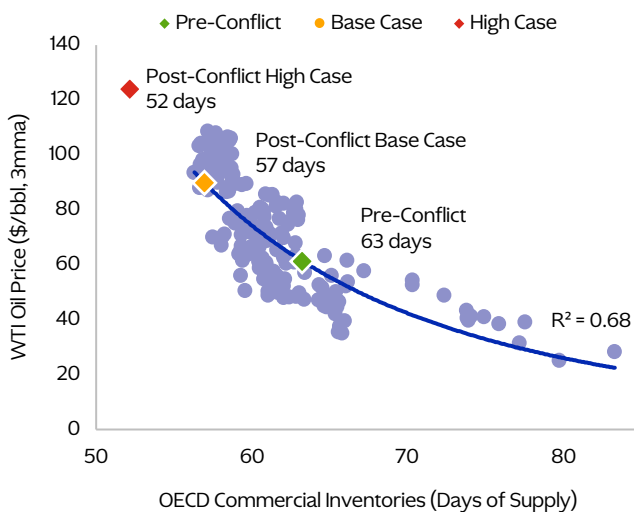
**Pre-Conflict Stock Buffers (mb)
(Surpluses, SPRs and Oil at Sea)**



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

Exhibit 126: Under Our Base Case, We Estimate OECD Inventories Draw by Approximately 500 Million Barrels, Reducing Days of Supply to Around 57 Days, the Lowest Level Since 2013

OECD Inventories (Days of Supply) vs WTI Oil Prices



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

While there remains a wide dispersion of possible outcomes, we frame the 2H26 outlook around three scenarios:

- Base Case – 60% Probability:** Neither side appears willing to resume a protracted large-scale conflict, making a near-term MOU increasingly likely. Under this scenario, Hormuz begins a gradual, limited reopening in June/July, before inventory buffers are fully depleted. However, we expect any agreement to be narrow, leaving core issues such as enrichment, highly enriched uranium, and regional proxies largely unresolved. As a result, substantial backsliding risk remains, with intermittent flare-ups and disruptions likely to delay a full reopening. We expect WTI to average \$85-95 per barrel for the remainder of 2026.
- Low Case – 20% Probability:** Negotiations produce a meaningful breakthrough, with most outstanding issues resolved and Hormuz flows largely returning to pre-war levels over the next one to two months. Under this scenario, WTI would ease sharply, leaving the 2H2026 average around \$75 per barrel.
- High Case – 20% Probability:** Negotiations break down. The shock extends beyond Hormuz restrictions and escalates into broader Gulf infrastructure destruction, restricting supply even after the hot conflict ends. U.S. export flexibility and Chinese import restraint can no longer offset the shortfall. As inventories fall below operational stress levels and approach unknown operational minimums, prices could rise in a non-linear fashion to force demand curtailment. Under this scenario, we think WTI could average approximately \$125 per barrel in 2H2026.

Unlike 2022, the market entered 2026 in surplus rather than deficit. This initial cushion has slowed the transmission from geopolitical disruption to outright physical scarcity.

Looking beyond the immediate disruption, we remain more constructive than consensus on medium-term oil prices and expect WTI to average around \$75 per barrel in 2027-29:

- **More durable demand:** We remain skeptical that oil demand peaks as quickly as consensus expects. EM consumption, jet fuel, and petrochemical feedstocks should continue to offset structural weakness in DM gasoline demand, while energy security concerns could slow the pace of transition-driven demand erosion.
- **Constrained supply growth:** Years of upstream underinvestment have reduced the system's ability to respond quickly to higher prices, especially as effective spare capacity is concentrated in politically sensitive regions.
- **Continued shale discipline:** U.S. shale remains more consolidated and disciplined than in prior cycles, limiting the speed and scale of today's supply response.
- **High OPEC+ fiscal breakevens:** Most OPEC+ producers still require relatively high oil prices to support fiscal balances, creating a strong incentive to defend prices. While the UAE's exit raises the risk of less coordinated supply management, we do not think it fundamentally changes the incentive structure.

In addition, the post-conflict environment is likely to leave a persistent geopolitical risk premium embedded in crude prices. A more hostile Iranian regime, with increased influence over the Strait of Hormuz, should keep energy security concerns elevated. At the same time, the episode may reinforce the perception that the U.S. is no longer as willing or able to serve as the security guarantor for Gulf energy flows. As a result, European and Asian buyers may place a higher strategic value on secure hydrocarbons from the U.S., Canada, and South America, which would be a bullish tailwind for Americas energy investments. We also expect governments and commercial buyers to prioritize rebuilding SPR and commercial inventories, which should support crude demand, and at least for the time being, outweigh calls for an accelerated transition away from hydrocarbons.

Exhibit 127: Our Base Case Now Calls For \$85-95 WTI on Average in 2H2026, With a High Case of ~\$125 and Low Case of \$75

Latest WTI Oil Price Scenarios (Full Year Averages)

	GMAA Base Case vs. Futures			High/Low Scenarios		Memo: Early March F'cast	
	KKR GMAA	WTI Futures	KKR GMAA vs Futures	KKR GMAA	KKR GMAA	KKR GMAA	WTI Futures
	Latest Base Case (60%)			High Case (20%)	Low Case (20%)	Early March	
2022a	95	95	n/a	95	95	95	95
2023a	78	78	n/a	78	78	78	78
2024a	76	76	n/a	76	76	76	76
2025a	65	65	n/a	65	65	65	65
2H26e	85-95	86	4	125	75	90-100	80
2027e	80	76	4	100	70	83	73
2028e	75	71	4	90	65	75	70
2029e	75	68	7	90	65	75	68

Data as at June 5, 2026. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

Bottom line: Oil prices have been relatively contained so far because inventory buffers have helped absorb the Hormuz disruption. Our base case assumes the Strait begins a gradual, limited reopening before these buffers are fully depleted, keeping WTI elevated at an average of \$85-95 per barrel in 2H26. However, if the disruption persists beyond the summer, inventories would be drawn towards operational stress levels and the market would increasingly need to clear through lower crude runs and demand curtailment. Medium term, we remain more constructive than the futures curve and expect WTI to average approximately \$75 per barrel in 2028-29, supported by resilient demand, shale discipline, high OPEC+ fiscal needs, inventory rebuilding, and a more durable geopolitical risk premium.

U.S. Dollar

Forecasts: We maintain our view that the U.S. dollar has peaked for the cycle, but we do not expect a disorderly unraveling. Elevated valuations and falling USD rate differentials versus the rest of the world suggest a weaker dollar over time. Importantly though, there are structural offsets including robust foreign direct investment and continued foreign inflows into U.S. equity securities that reinforce dollar resilience. Therefore, we think a downtrend in the dollar will likely take years to unfold.

Commentary: After Liberation Day, the concern was that bonds, stocks, and the dollar could all sell off together, raising the specter of a broader confidence shock and leading to a sharp sell-off in the dollar beyond what traditional interest rate relationships would imply. Those concerns have significantly subsided as the dollar has now converged to its historical relationship with rate differentials and tariff rates have settled around where we think they will ultimately end up. This reality represents an important change in our thinking. Meanwhile, foreign investors continue to pile into U.S. equities driven by the productivity story as well as AI leadership exposure, while the foreign bid for U.S. bonds has seen a deceleration. We think this ‘yes’ to U.S. equities and ‘no’ to U.S. government bonds will continue to be the appropriate framework well into 2027.

Point #1: Valuation and rate differentials argue for a weaker dollar. Indeed, the dollar appears quite expensive, now trading at 12% above fair value on a real broad trade-weighted (REER) basis which is below the 15% threshold that has historically been an important signal. Rate differentials are also less supportive: we now expect that the Fed will be on hold in 2026, while the ECB and BOJ are now moving in a more hawkish direction and other central banks around the world are generally tightening. As a result, we expect U.S.-versus-rest-of-world rate differentials to fall slightly through 2027.

Point #2: The offset is that FDI and equity flows remain important structural supports, which should help prevent a sudden, sharp sell-off. The dollar is expensive, but it is not unsupported. Foreign direct investment remains strong at roughly \$300 billion on a trailing twelve-month basis. Recall that the U.S. administration is actively

encouraging foreign capital commitments as part of trade and industrial policy. Equity inflows are also strong. Foreigners continue to allocate to U.S. equity securities, but the more important message is that global investors still want the U.S. productivity story. Foreign investors continue to seek exposure to AI, technology leadership, and U.S. corporate earnings.

Point #3: The dollar can weaken without becoming a crisis. Overall, we expect a gradual depreciation from an overvalued starting point, with the near-term adjustment driven by narrowing rate differentials. The offset is that U.S. assets remain highly attractive in sectors tied to productivity, AI, energy security, and corporate earnings. This distinction matters for portfolio construction. A weaker dollar supports non-U.S. returns for dollar-based investors and can help global diversification. But a disorderly dollar decline would be a very different macro event, especially if it came alongside rising Treasury yields and weaker equities, which is not our base case.

While the dollar faces long-term structural headwinds, history suggests any downtrend will take years to unfold and the U.S. remains the world’s most important magnet for productivity-linked capital. In the near term, robust portfolio and FDI inflows provide an offset to the cyclical headwinds of bigger deficits and falling interest rate differentials. Finally, we think the dollar’s path will increasingly depend on whether foreign capital continues to distinguish between U.S. bonds and U.S. equities.

The dollar is expensive, but it is not unsupported. Foreign direct investment remains strong at roughly \$300 billion on a trailing twelve-month basis.

Exhibit 128: The Dollar Remains Below the Key 15% REER Threshold We Have Been Watching

**Real Broad Trade-Weighted US Dollar REER:
% Over (Under) Valued**



Data as at May 21, 2026. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

Overall, we expect a gradual depreciation from an overvalued starting point, with the near-term adjustment driven by narrowing rate differentials. The offset is that U.S. assets remain highly attractive in sectors tied to productivity, AI, energy security, and corporate earnings. This distinction matters for portfolio construction.

SECTION V

Conclusion

As KKR marks its 50th anniversary in 2026, we are reminded that the most durable investment franchises are not built by perfectly predicting every turn in the cycle, but by staying disciplined, adaptable, and thoughtful, especially when the rules of the game are changing. Today, we believe the rules are indeed changing again, especially as it relates to the ‘Divergence Conundrum’ we are seeing across economies, markets, and societies. As our co-founder Henry R. Kravis often reminds us, “If we do not like change, we are going to like irrelevance even less.” That insight, originally attributed to General Eric Shinseki, has long inspired us to remain intellectually curious during periods of significant transition.

We acknowledge that the U.S. economy has experienced periods of bifurcation before, most notably during the industrial expansion of the late 19th century, the consumer and productivity boom of the late 1920s, and the technology-driven expansion of the late 1990s. However, today’s divergence may be broader: it increasingly spans not only wealth and income, but also productivity access, housing, labor markets, capital availability, inflation exposure, and geopolitical positioning.

As we have detailed in this piece, geopolitics and economics are now deeply interconnected, inflation is proving structurally stickier than many expected, and central banks have less flexibility to simply ‘look through’ shocks. At the same time, the global productivity boom we have been highlighting, increasingly driven by digitalization, automation, and now AI, appears not only intact, but also accelerating. This intersection of stronger productivity and more persistent inflation is creating what some view as a modern-day version of stagflation that is also exacerbating the increasingly K-shaped nature of the global economy detailed throughout this report. No doubt, productivity is the variable doing much of the heavy lifting, but it is accruing unevenly across companies, sectors, and countries.

Looking at the broader picture, we believe this combination of stronger nominal growth alongside greater volatility is the defining tension of KKR’s 2026 Mid-Year Outlook. It also reinforces our long-held *Regime Change* thesis for asset allocation and security selection. The old playbook of low inflation, low rates, abundant liquidity, and broad beta-driven returns is giving way to a more selective environment where dispersion, pricing resiliency, collateral, and operational execution matter much more.

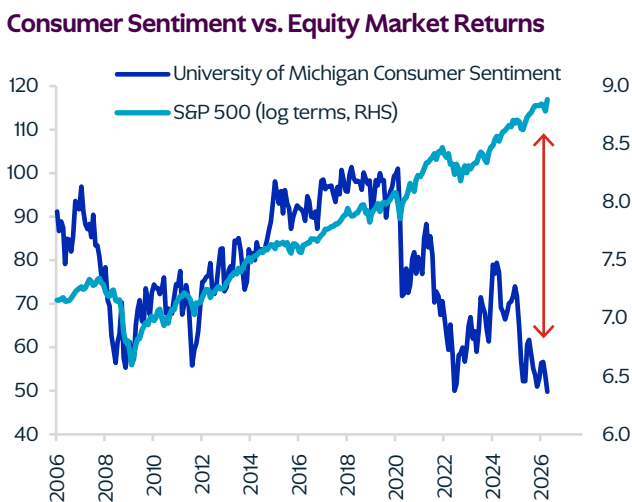
Despite the headline noise, however, we still arrive largely in the same place when it comes to asset allocation: the cycle continues, and the path of least resistance for most risk assets outside of long-duration government bonds remains higher. The difference is that this next phase of the cycle will likely be more concentrated, more uneven, and more dependent on earnings durability, productivity capture, and disciplined capital allocation. The U.S. remains a ‘Divergence Conundrum’ economy, powered by AI capex, services productivity, upper-income consumption, and continued global demand for U.S. innovation, while housing, lower-income consumers, and rate-sensitive sectors remain under pressure. Europe is increasingly a story of regional dispersion and policy-supported investment, where the periphery may continue to outperform the industrial core. Asia continues to stand out as one of the more compelling long-term opportunities, driven by corporate reform, intra-Asia trade, AI infrastructure, and consumption upgrades.

For investors, the answer is not to reach indiscriminately for risk, but to continue ‘high grading’ portfolios. We still favor staying up in quality, diversifying into assets linked to nominal GDP, and emphasizing businesses and assets with the ability to pass through input cost increases, operational flexibility, and durable cash-flow visibility. Specifically, we continue to favor collateral-based cash flows, Asset-Based Finance, Structured Equity and Capital

Solutions, power and energy infrastructure, the ‘Security of Everything’, Asia corporate reform, and productivity-linked investment themes. We also believe that Private Markets, especially Private Equity, will increasingly shift towards operational improvement rather than financial engineering. In a higher-cost-of-capital world, value creation must come more from execution, governance, and productivity enhancement than simply from leverage.

At the same time, the ‘watchouts’ matter. For starters, the AI and productivity story is real, but the concentration and scale of the current investment cycle increase the potential for volatility if earnings delivery disappoints. Inflation could also remain higher for longer, government deficits could place additional pressure on long-end rates, and unemployment could rise more meaningfully than we currently expect. Meanwhile, the equity market’s ability to sustain elevated multiples will increasingly depend on whether earnings continue to compound in 2027 and beyond. Finally, pay attention in Credit. In particular, we think dispersion in Private Credit is increasingly moving towards bifurcation. The distinction will not just be between good and bad credits, but between well-constructed and poorly constructed portfolios.

Exhibit 129: ‘Divergence Conundrum’: Consumer Sentiment Is at All-Time Lows, Even As the S&P Continues to Break All-Time Highs. Should Central Banks Tighten or Ease?



Past performance is no guarantee of future results. Data as at May 28, 2026. Source: University of Michigan Consumer Sentiment Survey, S&P.

So, as we enter the second half of 2026, our conclusion is not to avoid risk, but to adhere even more closely to our *Regime Change* framework, including continuing to ‘high grade’ portfolios at this stage of the cycle. We also want our hands firmly on the steering wheel when it comes to control investments, particularly in Private Equity and Infrastructure. By comparison, we remain more cautious on long-duration government bonds, over-levered 2021 vintage deals, lower-income consumer exposure, and assets that require a rapid return to the old regime of low inflation, low rates, and easy liquidity.

In sum, after 50 years of investing across cycles, one lesson feels especially relevant today: when the distribution of outcomes widens, portfolio construction and discipline matter more, not less. That includes emphasizing linear deployment, using less leverage at entry, and maintaining greater diversification across industries and investment themes. To be sure, we acknowledge that visibility remains imperfect. As such, we enter the second half of 2026 with a disciplined game plan to continue upgrading portfolios where possible, while directing more capital towards areas where resilience, operational improvement, and long-term structural tailwinds remain aligned.

Asia continues to stand out as one of the more compelling long-term opportunities, driven by corporate reform, intra-Asia trade, AI infrastructure, and consumption upgrades.

Exhibit 130: History Suggests That Despite the Recent Strong Moves Upward, the Cycle Will Likely Continue for Longer

Start	End	Bull Market Return	S&P 500 Price Returns									
			Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Jun-49	Aug-56	267%	42%	12%	13%	-2%	20%	37%	16%	-	-	-
Oct-57	Dec-61	86%	31%	10%	-5%	28%	-	-	-	-	-	-
Jun-62	Feb-66	80%	33%	17%	2%	-	-	-	-	-	-	-
Oct-66	Nov-68	48%	33%	7%	-	-	-	-	-	-	-	-
May-70	Jan-73	74%	44%	11%	-	-	-	-	-	-	-	-
Oct-74	Nov-80	126%	38%	21%	-7%	7%	6%	16%	-	-	-	-
Aug-82	Aug-87	229%	58%	2%	14%	28%	38%	-	-	-	-	-
Dec-87	Mar-00	582%	21%	29%	-8%	18%	13%	8%	-2%	34%	25%	29%
Oct-02	Oct-07	101%	34%	8%	7%	13%	15%	-	-	-	-	-
Mar-09	Feb-20	401%	69%	16%	3%	14%	21%	10%	-3%	18%	15%	1%
Mar-20	Jan-22	114%	75%	-	-	-	-	-	-	-	-	-
Oct-22	Jun-26^	112%	22%	34%	13%	???	-	-	-	-	-	-
Average			42%	15%	4%	15%	19%	18%	4%	26%	20%	15%
Median			36%	12%	3%	14%	18%	13%	-2%	26%	20%	15%
% Higher			100%	100%	67%	86%	100%	100%	33%	100%	100%	100%

*Bull market is ongoing. Data as at June 1, 2026. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

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