



KKR

Global Wealth
Investment Playbook

February 2024 | Highlights

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Quarterly Takeaways

- 01 While we expect disinflation to continue this year, our thesis around Tectonic Shifts driving a higher inflation bias, leading to higher rates remains intact. This Regime Change requires a shift from the traditional asset allocation to meet return goals, hedge against inflation, and achieve diversification.
 - 02 Tectonic Shifts (energy transition, geopolitical tensions, labor shortages and massive investments in AI) as well as a combination of loose fiscal policy resulting in higher deficits and tight monetary policy have driven the creation of a new regime of a higher inflation bias leading to higher and more volatile rates and slower, though positive, real GDP relative to the pre-Covid average.
 - 03 While we expect elevated rates to lead to disinflation and a growth slowdown ultimately resulting in central bank rate cuts by the end of this year, we expect the new regime to persist in the long term.
 - 04 Even in 2024, the stock-bond correlation will likely remain elevated as fixed income instruments continue to perform amid the disinflationary impulse and higher yields, while public equity performance remains positive, but slows. Cash appears to have attractive current returns relative to risk assets but exhibits large reinvestment risk as front-end rates fall.
 - 05 Against this backdrop, private market Alternatives become even more critical to boost returns, hedge against inflation, reduce volatility, and increase diversification.
-

We Believe The Pandemic Has Catalyzed Four Tectonic Shifts That Have Profound Implications For Investing

Major Shifts That Have Emerged From The Covid-19 Disruption And Russia's Invasion Of Ukraine And Are Upholding A Higher Inflationary Bias In The System



The New Investing Environment

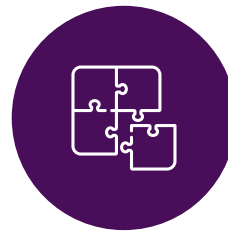
New Macro Regime

- Higher Inflation And Rates
- Asynchronous Regional Cycle
- Slower Real Economic Growth



Implications For Asset Allocation

- Lower Asset Class Returns
- Shifts In Asset Class Correlations



Opportunities In Private Assets

- Increased Importance Of Alternatives
- Control-Equity/Real Assets Outperformance
- Regional Diversification

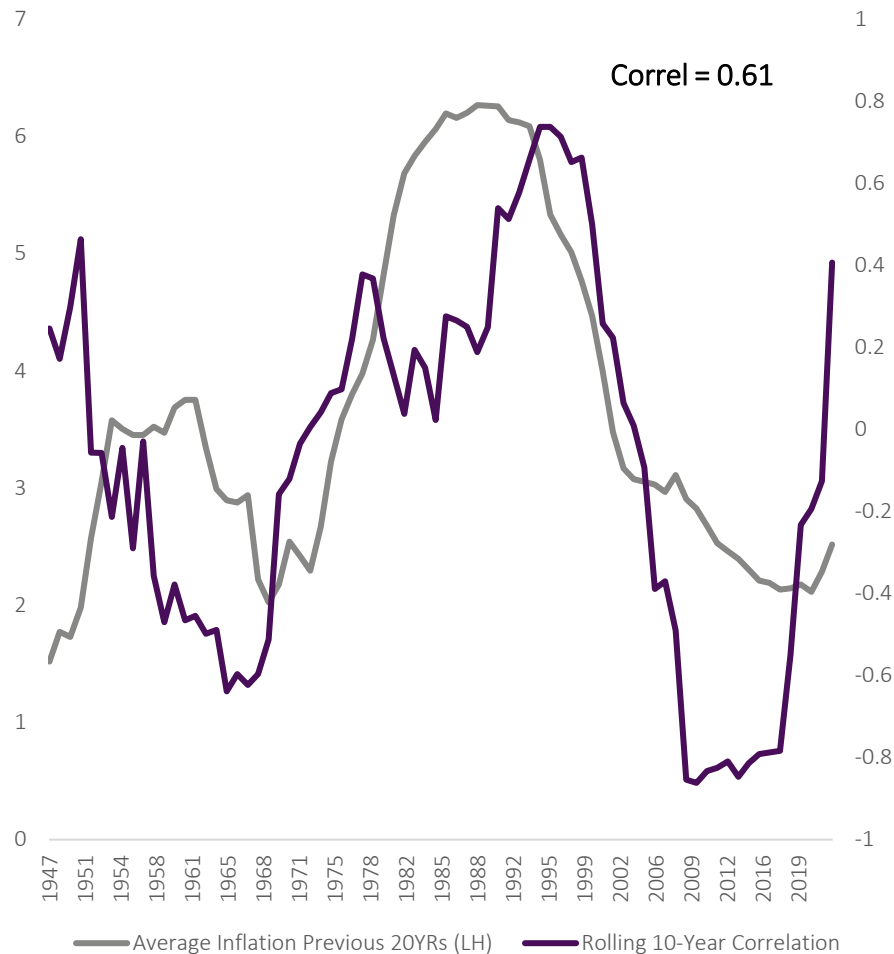


Stock/Bond Correlations Likely To Remain High Given Margin Improvement And Lower Discount Rates

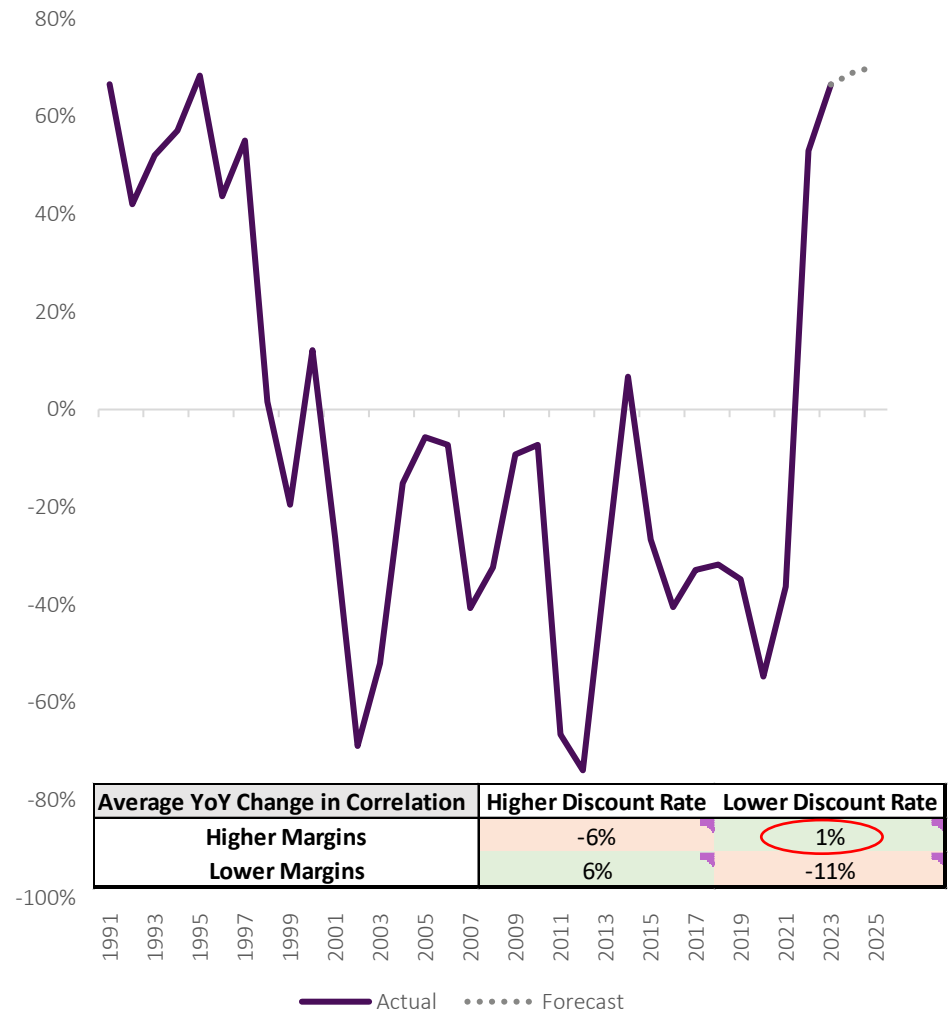
Following Periods of Elevated Inflation, An 'Inflation Bias' May Continue to Influence Correlations For Long Periods Of Time

Both Discount Rates and Corporate Margins Are Important Drivers of the Stock/Bond Correlation. Given our expectations for rates to fall and corporate margins to improve on the back of solid top line growth.

'Inflation Bias' Is Highly Correlated With Medium-Term Stock/Bond Correlations



Stock/Bond Correlation (Rolling 24-Month)

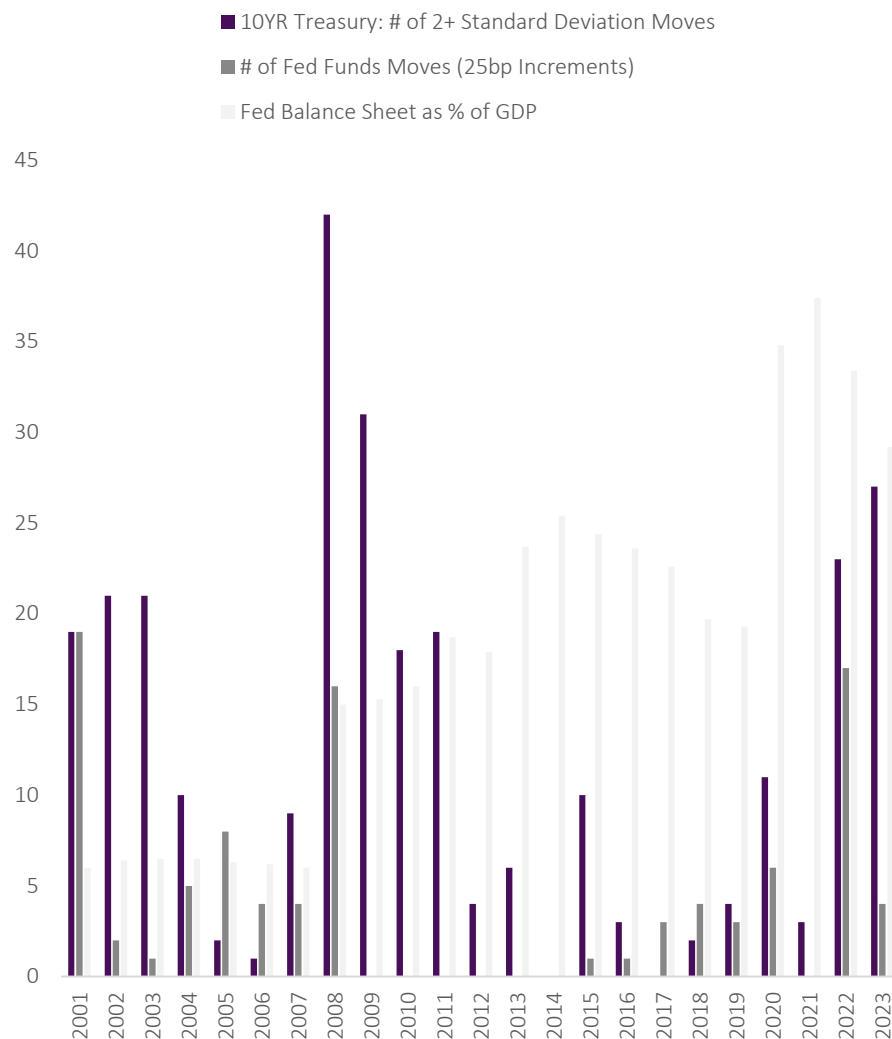


KKR Note: Margins and Discount Rate are 1YR Forward, reflecting how the market is incorporating expectations into asset pricing. Calculations are made using annual data since 1991 on S&P 500 Profit Margins, the EOP 10YR Treasury Rate, and the Rolling 24 Month Correlation between monthly Stock & Bond returns. Source: Bloomberg, NYU, KKR GBR Analysis.

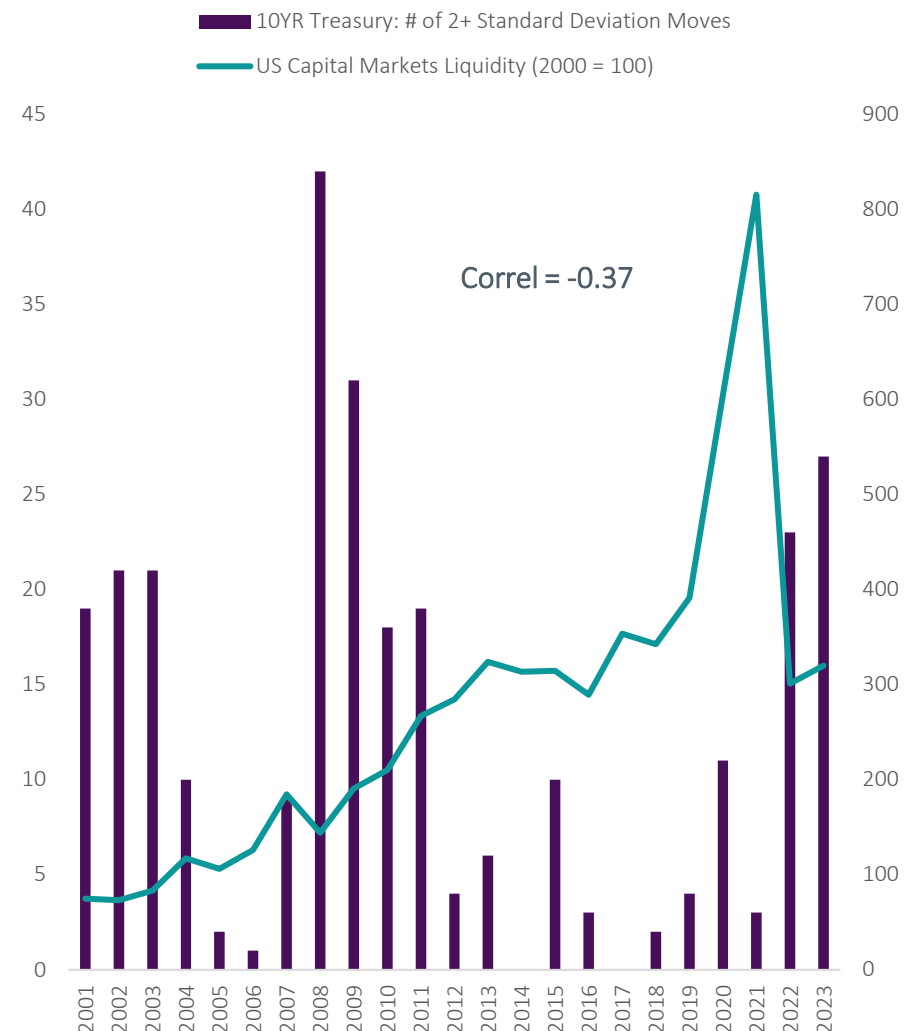
Extremely High Rate Volatility Has Contributed To Uncertainty Around Valuations, Making An Investor's Job Difficult

- As the Fed switched to a tighter monetary policy stance from an era of loose financial conditions, rate volatility has jumped upwards.
- High rate volatility makes investment decisions more difficult, given the increased uncertainty over valuations, which should support better capital markets activity as volatility comes off its highs in 2024.

Treasury Market Volatility Influenced By Monetary Policy



High Rate Volatility Creates Difficult And Uncertain Investing Environments



Globally 2024 Will Be A Historical Year For Public Policy, And Another Source Of Volatility In Public Markets

- In 2024, elections will occur in countries that make up over 60% of global GDP including in four of the world's largest countries (US, India, European Parliament, Russia). We expect some common themes and policy areas of focus across many of these elections, including geopolitical issues, homeland economics, migration issues, populism and institutional distrust, and social media & AI distortions.
- Importantly, the 2024 U.S. election will likely be the most significant fiscal event globally in 2024. Policy uncertainty will likely lead to increased volatility in public markets. In times of heightened volatility and “short-termism,” exposure to long-term structural trends (like Tectonic Shifts) could prove a defining edge in generating outperformance. Alternatives, which offer regional and asset class diversification benefits, can mute some volatility. Returns of many Private asset classes tend to rely more heavily on longer-term value-creation levers, such as operational improvement, and are less exposed to the daily repricing seen in traditional asset classes.

2024 Election Map

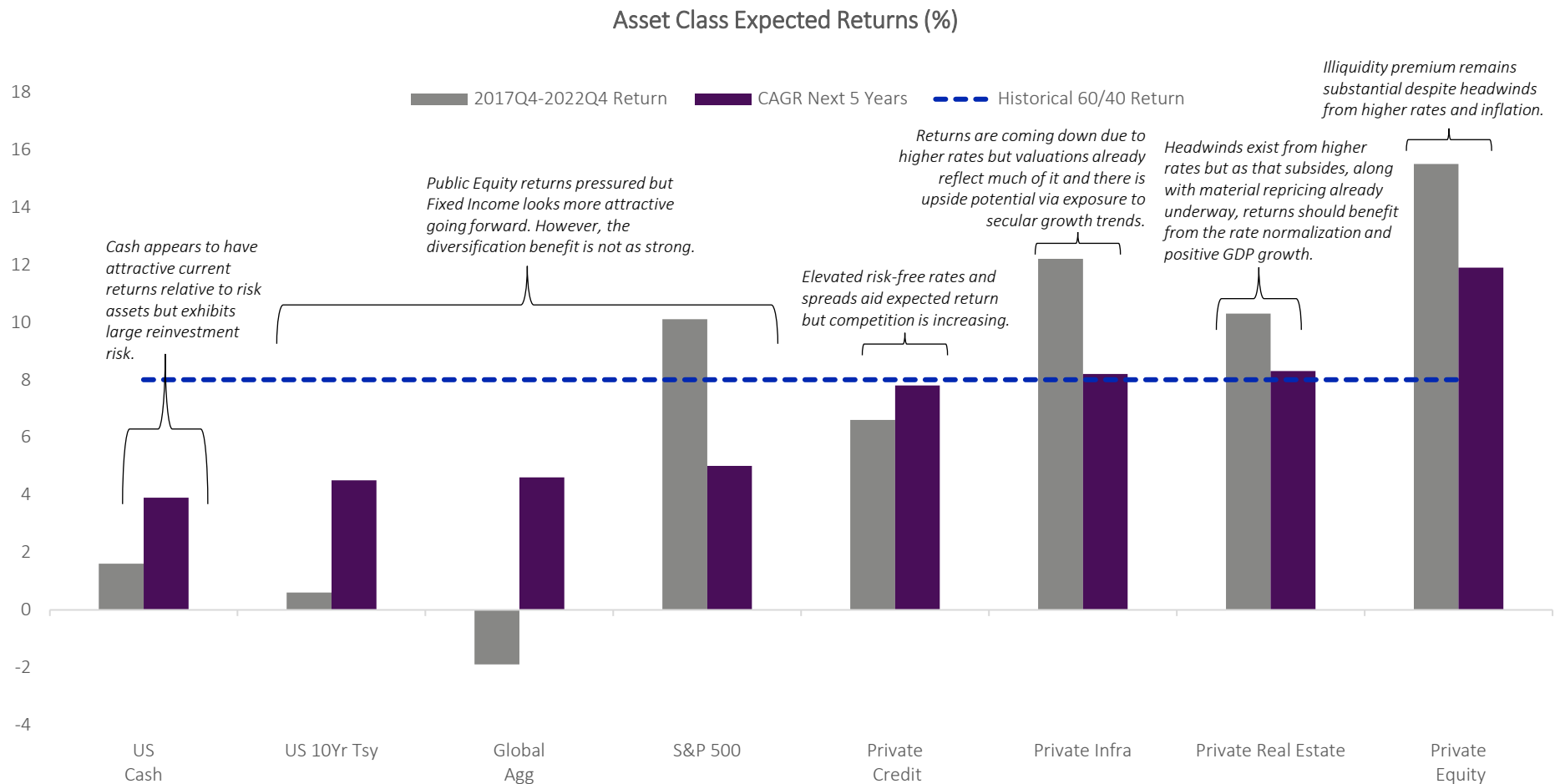


Investment Implications

The background features a series of white, curved, parallel lines that sweep across the right side of the page. These lines are arranged in two main groups: one group in the upper right quadrant and another, larger group in the lower right quadrant. The lines are thin and closely spaced, creating a sense of motion and depth against the light gray background.

Going Forward, Traditional Asset Classes May Be Insufficient To Achieve Return Goals

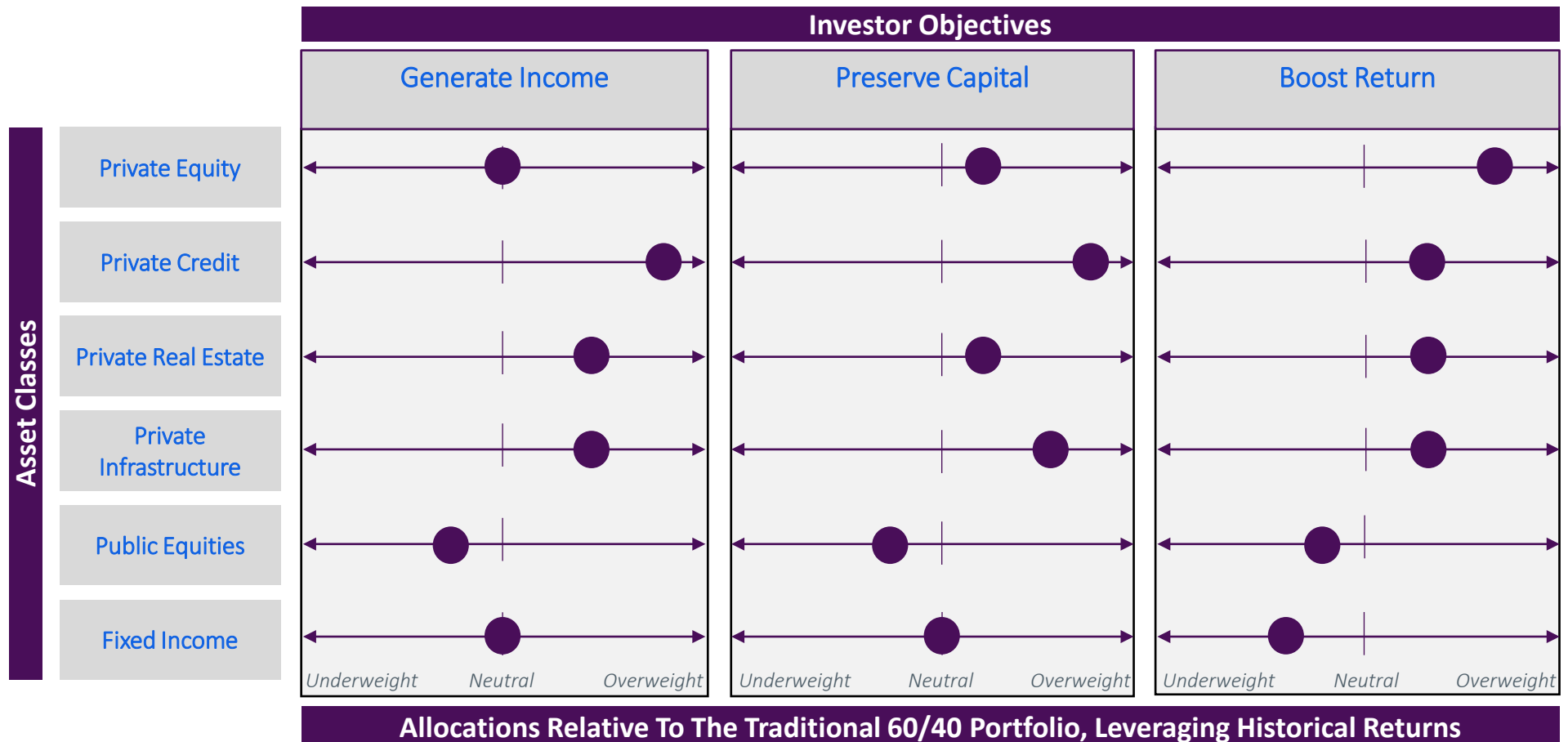
- Over the past 10 years, 60/40 portfolios returned an average of ~8%.
- To achieve close to that return over the next five years amid elevated inflation, higher borrowing costs, and slower real economic growth, investors may need to diversify into alternative asset classes.



Data as at 12/31/2023. Note: Capital markets assumptions are average across all quartiles annualized total returns. Forecasts represent five-year annualized total return expectations. For private asset classes (Private Credit, Private Infra, Private Real Estate, and Private Equity), returns are net of Fee/Carry. Note that we have altered our Private Credit methodology to exclude fund-level leverage, which has lowered total return on a go forward basis. Source: Cambridge Associates, Bloomberg, KKR Global Macro, Balance Sheet and Risk analysis. Compound Annual Growth Rate (CAGR) measures an investment's growth rate, assuming profits are reinvested at the end of each period. Private Real Estate modeled using the Cambridge Associates Real Estate Index. Private Infrastructure modeled using the Cambridge Associates Infrastructure Index. Private Equity modeled using the Cambridge Associates Private Equity Index. Private Credit modeled using the Cliffwater Direct Lending Index. No representation is made that the trends depicted or described above will continue.

Relative to the Traditional 60/40 Portfolio, Investors Can Tilt Asset Class Exposure To Increase Return And Reduce Vol

- The incorporation of investor preferences is an integral step in the strategic asset allocation process.
- To incorporate Alternatives into an existing traditional 60/40 portfolio, it is important to thoughtfully reduce allocations to equities and fixed income in a manner consistent with portfolio objectives (i.e. reducing fixed income more than equities when incorporating Alternatives into the 'Boost Return' objective) and to consider asset class performance, volatility, and correlations between asset classes.



Alternative Asset Classes Have Historically Helped Investors Generate Income, Preserve Capital, And Boost Returns

- Today, many investor portfolios still resemble the traditional 60/40 portfolio, but investors are increasingly looking to enhance their portfolios with Alternatives to achieve their investment objectives in this new macroeconomic regime.
- Through optimization techniques applied to historical asset class returns, return volatility, and cross-correlations, we back tested the output confirming the incorporation of Alternatives, aligning with investor preferences, has historically enhanced the relevant objective.

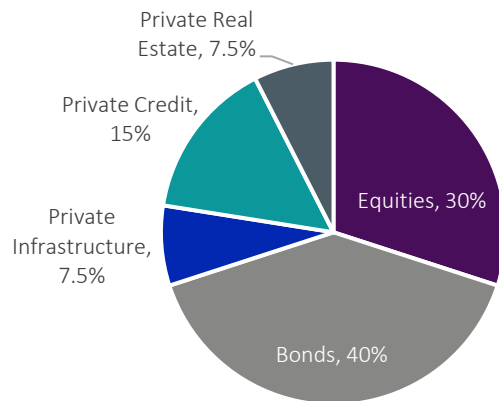
KKR Alts Enhanced Framework For Wealth

Objective: Increase income potential of portfolio while maintaining liquidity

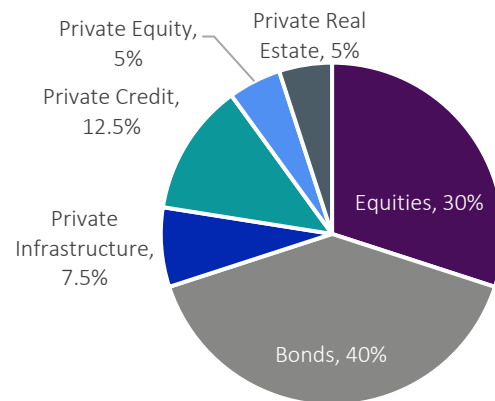
Objective: Receive loss protection and inflation hedging benefits

Objective: Boost the return potential of the portfolio

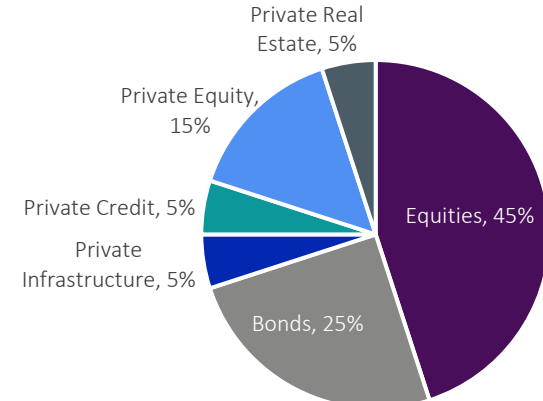
Alts Enhanced – Generate Income



Alts Enhanced – Preserve Capital



Alts Enhanced - Boost Return



Historical Performance vs 60 / 40:

- Income +1.6%
- Liquidity ↓

- Volatility -2.4%
- Liquidity ↓

- Return +1.1%
- Liquidity ↓

Traditional

- Reallocate from the Public Equity tranche to more yield, inflation protection and diversification in Alternatives. Maintain substantial Bond allocation

- Reduce portfolio volatility by tilting some Public Equities exposure to Alts. Maintain substantial Bond allocation given downside protection

- Increase the return potential of the portfolio by tilting Bond allocation towards Equities

Alts

- Increase Private Credit allocation given predictable and high streams of cash flow, followed by Infra & Private Real Estate (yield may emanate from RE Credit vs Equity) for both additional yield and diversification

- Increase allocation to Private Credit given potential for downside protection followed by Private Infrastructure which benefits from lower volatility and inflation-hedging attributes

- Overweight Private Equity to boost total return, followed by Real Assets

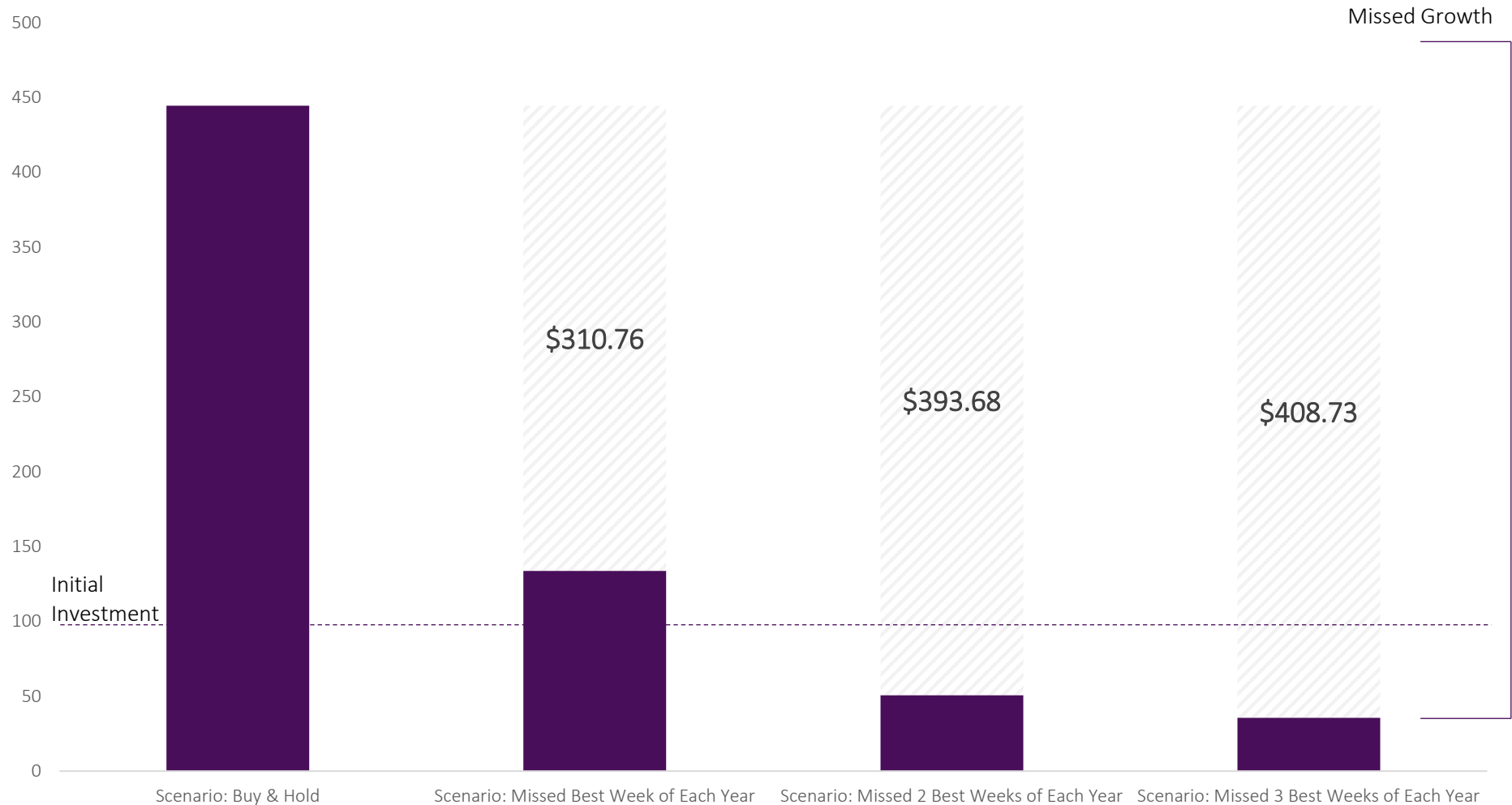
KKR

Source: KKR GBR analysis. **Note:** Optimization and historical analysis performed using the S&P 500 for Public Equities, the Bloomberg Global Aggregate for Fixed Income, the Cambridge Associates Benchmark for Private Equity, the Cliffwater Direct Lending Index for Private Credit, the Cambridge Associate Global Infrastructure Benchmark for Private Infrastructure, and the Cambridge Associates Real Estate Index for Private Real Estate. Income modeled for Public Equity using S&P 500 12M gross dividend yield, Private Equity proxied using S&P Small Cap 12M gross dividend yield, Private Infrastructure proxied using S&P Infrastructure 12M gross dividend yield from 12 2006 onwards and 1990-2006 back filled using S&P Utilities, Public Credit based on Bloomberg US Agg yield to worst, Private Credit using Cliffwater Direct Lending Index Income Return, Private Real Estate based on Green Street All-sector Equal-weighted cap rate. Source: Cambridge, Bloomberg, KKR GBR analysis. No specific KKR products referenced.

Linear Deployment Helps Protect Portfolios From The Large Opportunity Cost Of Missing Out On Returns

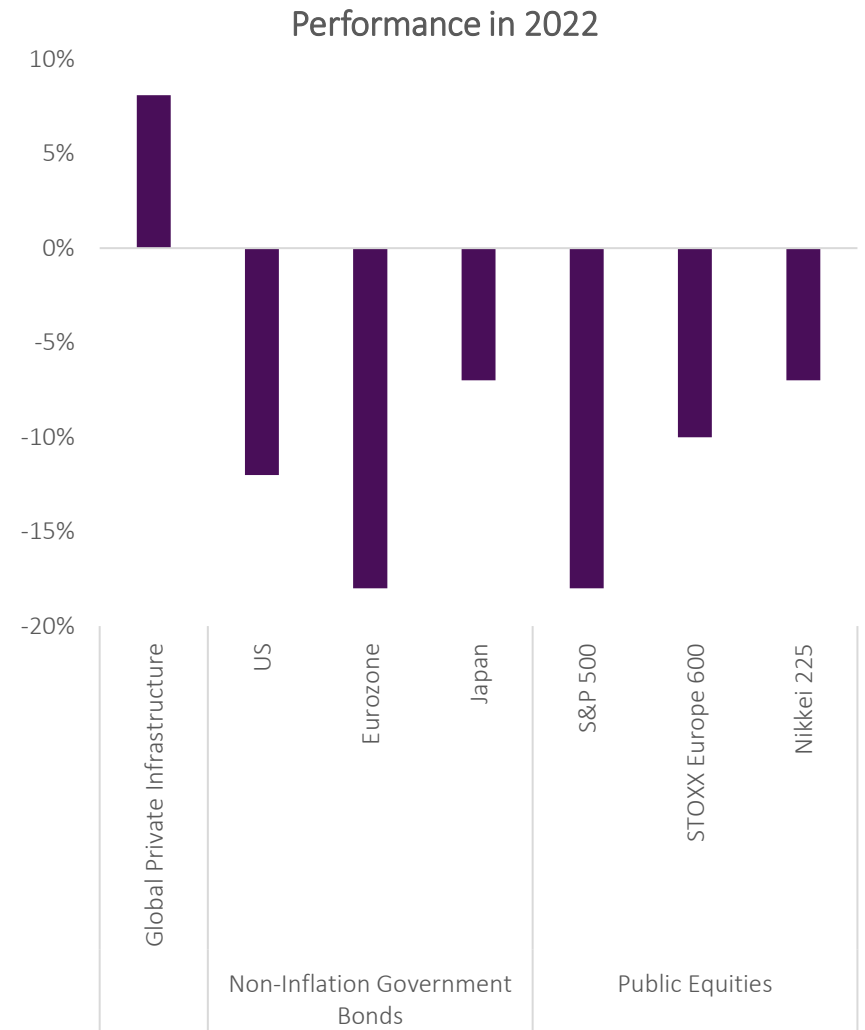
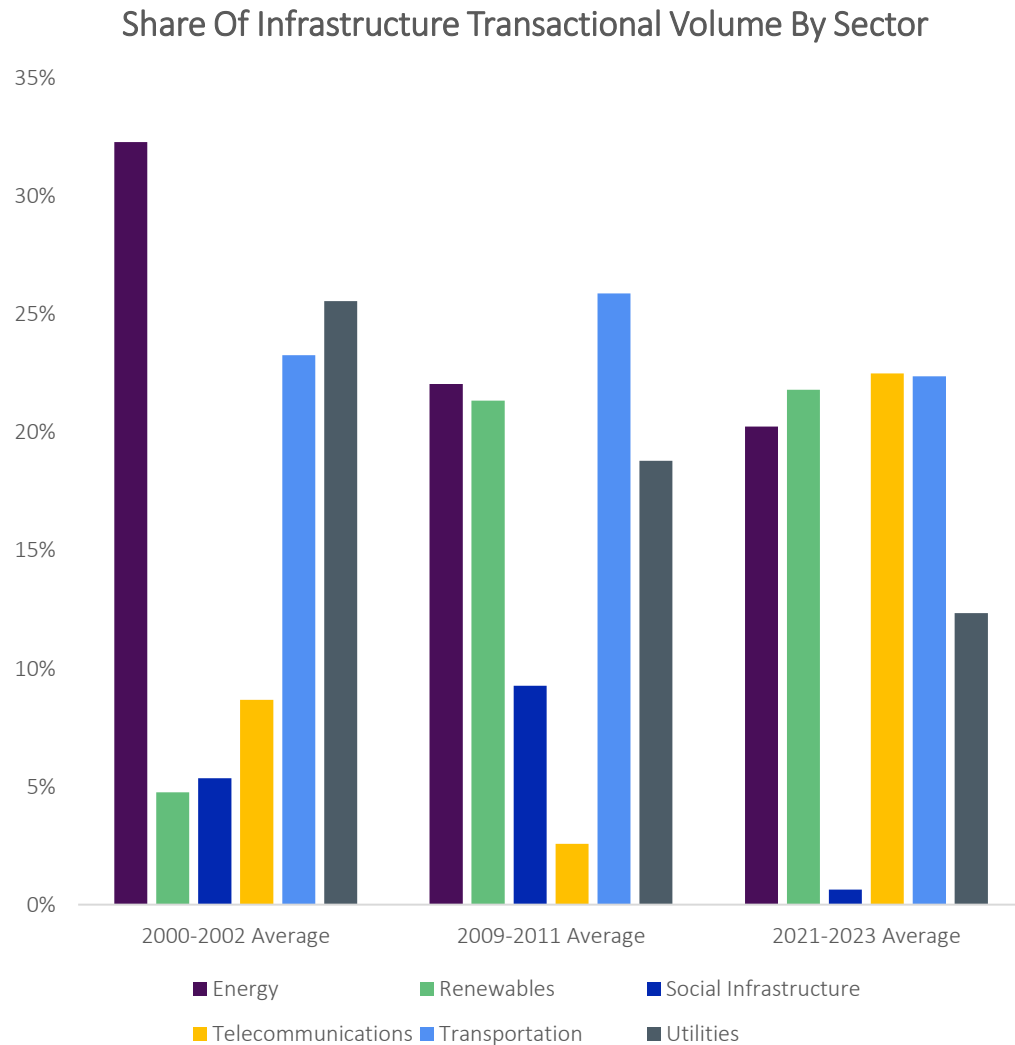
- Since 2001, if an investor in the S&P500 missed only the best week of performance each year, an investor would've missed out on ~70% of the returns. Market timing is difficult because missing out on just a few days of strong performance can dramatically alter cumulative returns.

The Perils of Market Timing (2001-2022)



This Is Not ‘Your Grandpa’s Infrastructure’

- The volume of investment into Infrastructure has changed materially over the past decade, from an asset class primarily focused on ‘Old Economy’ items like Utilities to ‘New Economy’ sectors like Renewables.
- The essential nature of the asset base with contracted yield provides downside protection.

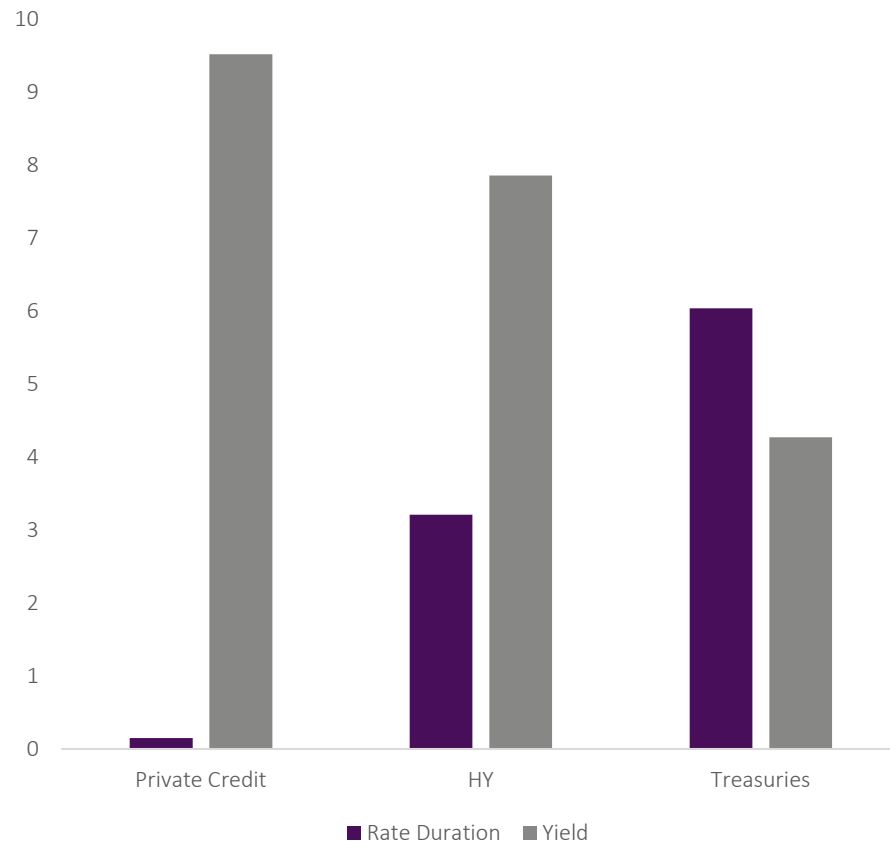


We Believe Investors Can Achieve Higher Yields, With Much Lower Loss Rates in Private Credit

- Private Credit's carry advantage over other areas of corporate credit remains attractive – even in a forward scenario of downward base rates.
- Private Credit has historically experienced much lower levels of losses than some other credit markets.

Private Credit Yields Are Materially Higher Than In HY

Duration And Yield Comparison



Private Credit Tends To Suffer Much Lower Levels Of Losses Than HY

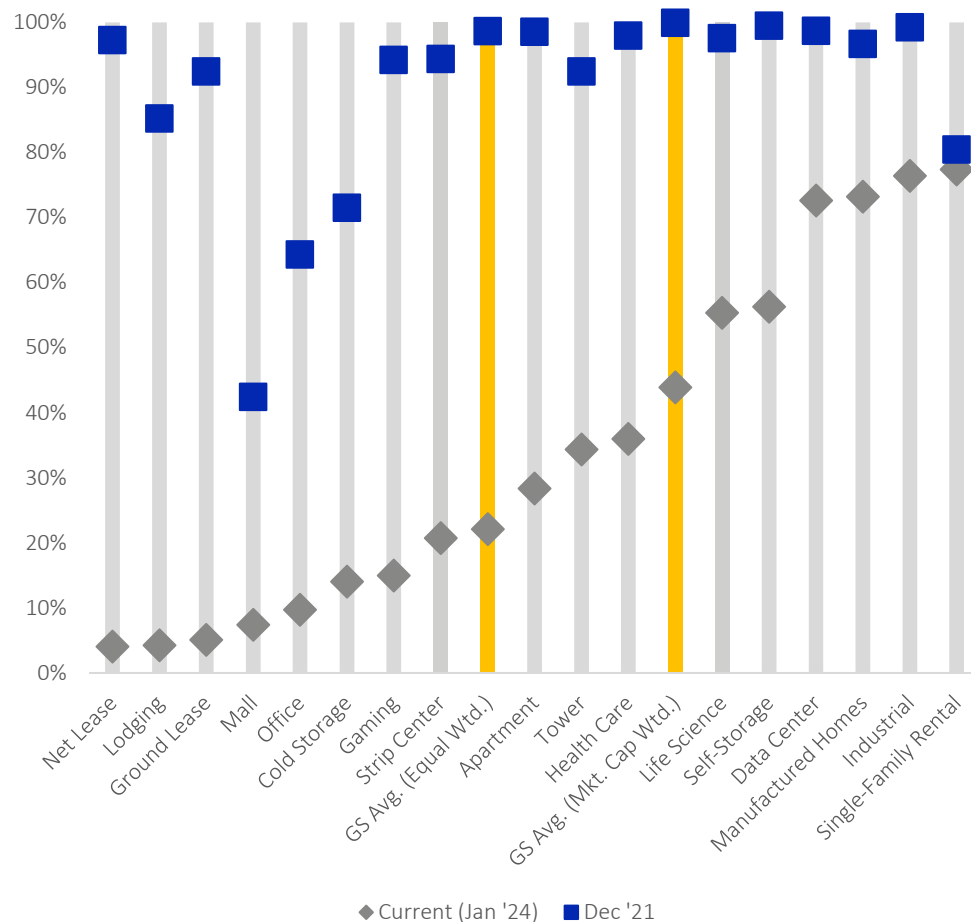
Loss Comparison



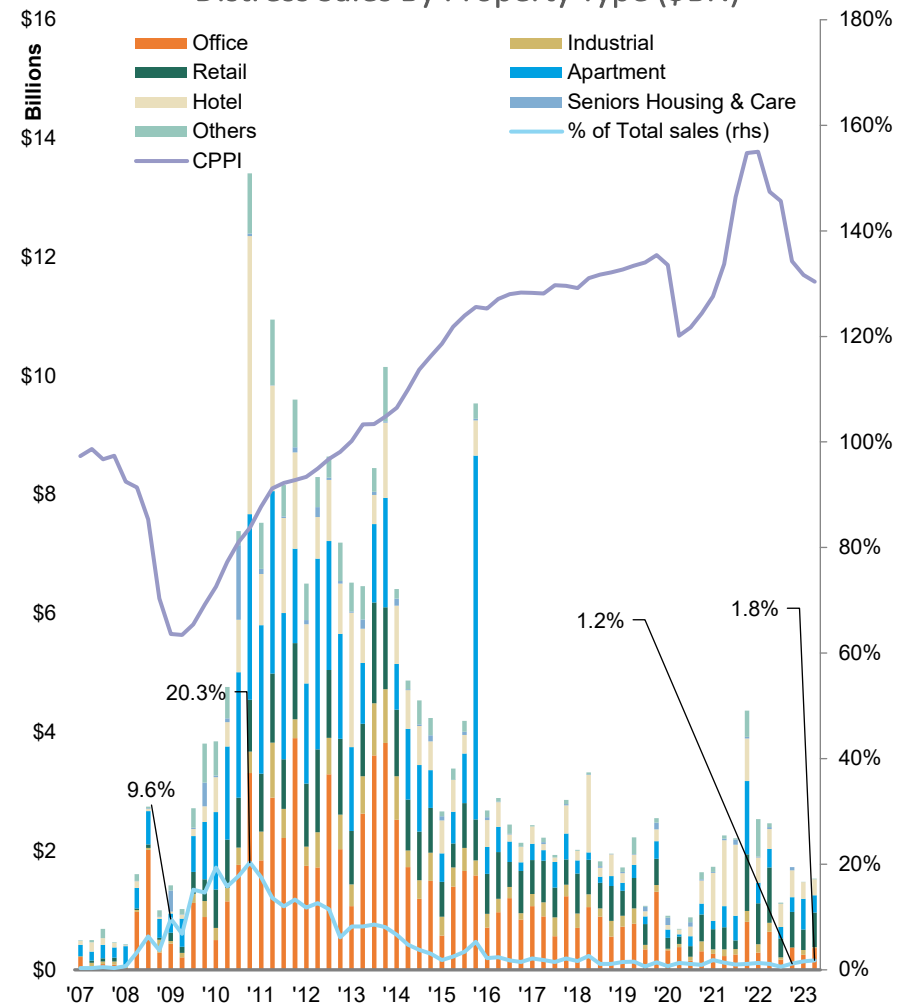
The Higher Rate Refinancing Environment Has Started To Create Attractive Buying Opportunities in Real Estate

- Following the disruption and repricing we witnessed over the past 12 months; the attractiveness of real estate has improved – notably so in sectors with still robust fundamentals and secular tailwinds.
- Distressed sales are increasing as a percentage of all sales, across several sectors like Office, Retail, and others.

Private Real Estate Sector Valuation Historical Comparison (Percentile Ranking)



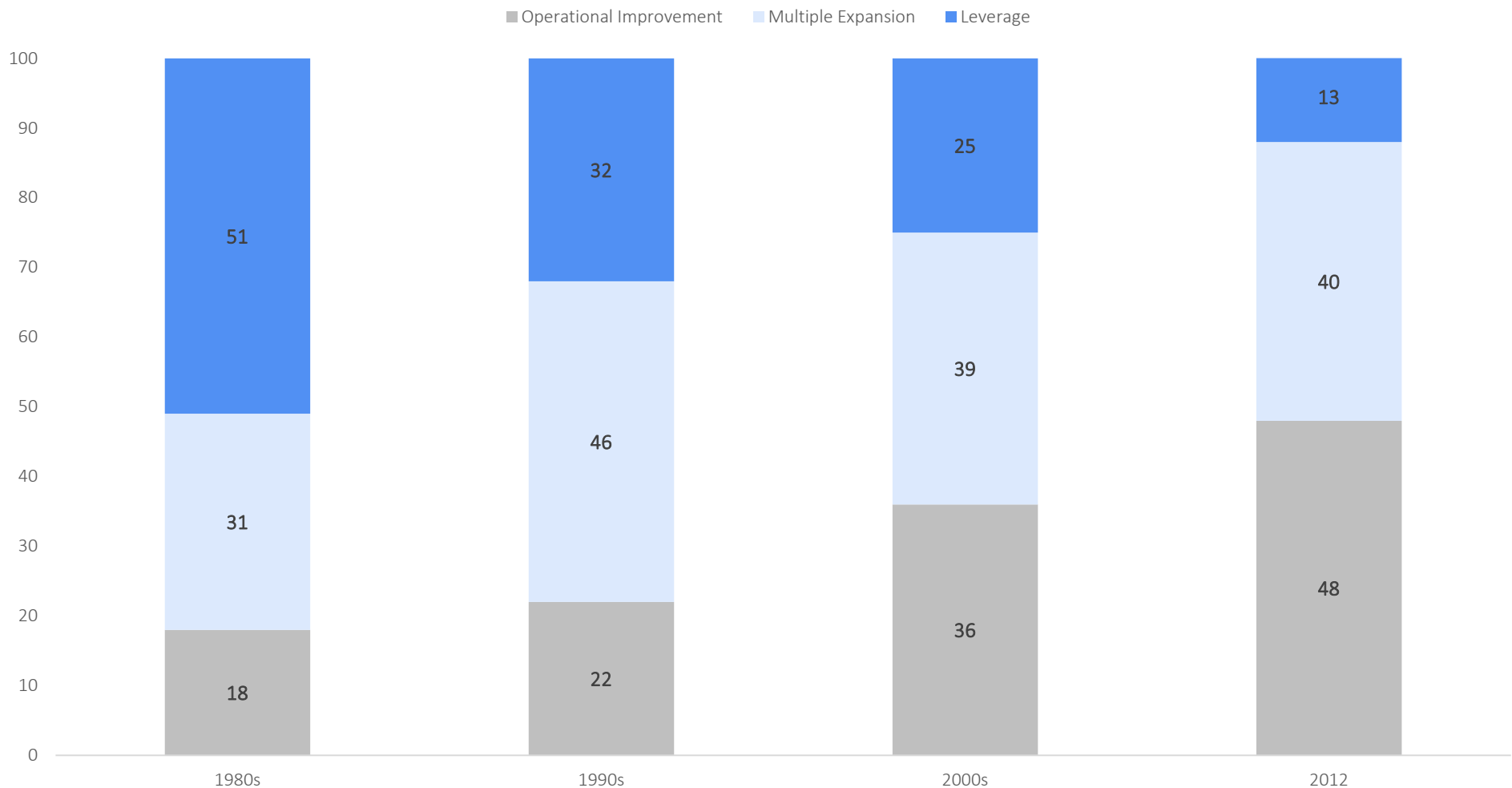
Distress Sales By Property Type (\$BN)



Decomposition Of PE Returns Shows Importance Of Thematic Focus And Operational Improvement Capabilities

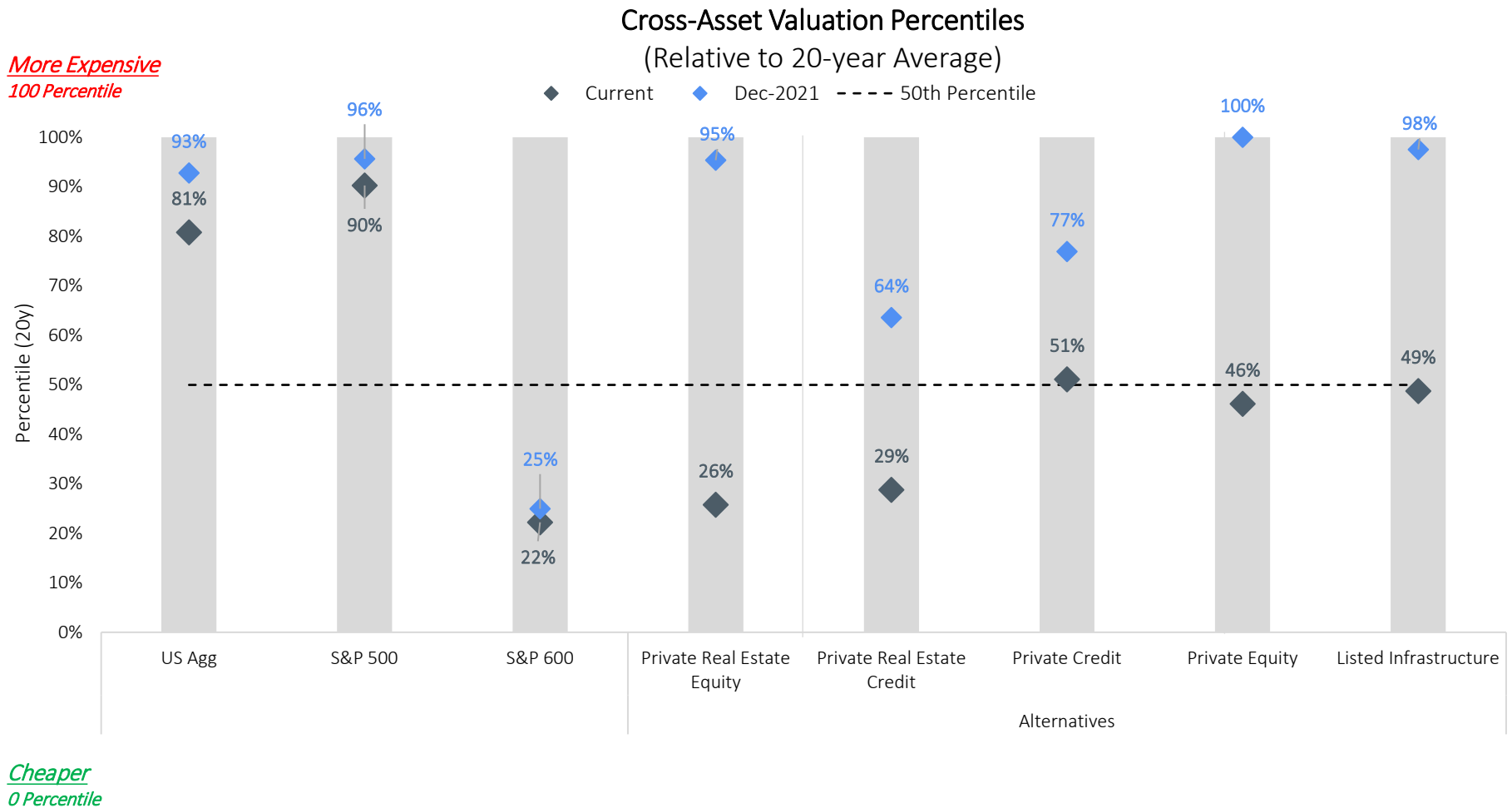
- Value Creation and exposure to thematic tailwinds is more important in a world where leverage is less helpful, or worse detrimental, to overall returns.
- Contrary to expectation, leverage has not been the crutch that Private Equity relies on for value creation. In fact, operational improvement is the single largest source of value creation.

Contribution To Value Creation In PE Deals (%)



Determining The Right Entry Point Is Important

- Valuations for Alternatives have reset more than Large Cap Equities, which has created opportunities.
- Broadly, Credit continues to look cheaper than Equity



Note: S&P 500 and S&P 600 refers to NTM P/E; US Agg refer to Option-Adjusted Spread; Private Real Estate Equity refers to nominal cap rate; Private Real Estate Credit refers to mortgage spreads; Private Credit refers to spread to the 10YR Treasury Rate. Private Equity refers to exit multiples; Listed Infrastructure refers to dividend yield. Data since 1997, or since available, and as at 12/31/2023, except for Private Credit and Private Equity as at 6/30/2023; percentiles from 2002-date where available. Source: Bloomberg, Haver Analytics, Burgiss, Green Street, Cambridge Associates, Giliberto-Levy, KKR GBR analysis.

Appendix



By The Numbers – Macro

	Current as of February 2024	December 2024 Forecast (Base Case)
S&P 500	5035	5200
US 10 Year	4.15%	4.25%
WTI Oil Price	76	78

S&P 500 Price Target Scenarios				
	Base (60% Prob)	Bear (20% Prob)	Bull (20% Prob)	Weighted Average
Current = 5,035				
2024 Year-End Target	5,200	4,450	5,350	5,080
P/E on 2025 EPS	20.0x	19.3x	20.5x	20.0x
2025 Year-End Target	5,530	4,008	5,673	4,424
P/E on 2026 EPS	20.8x	17.0x	19.9x	19.9x
2022a EPS	\$220	\$220	\$220	\$220
2023e EPS	\$220	\$215	\$226	\$220
2024e EPS	\$240	\$204	\$251	\$235
2025e EPS	\$260	\$231	\$261	\$254
2026e EPS	\$266	\$236	\$285	\$264

- ✓ As we see it, ERP at ~4.5% is back within the post-GFC average after the recent rally in equities.
- ✓ But, after the simultaneous recent credit spread compression, excess risk premia to HY spreads is still around historically average levels of ~120bps
- ✓ While we remain below consensus, and despite our forecast for slower nominal GDP in 2024, KKR's multi-factor EPS model calls for growth in EPS of ~8%, aided by an economy moving from contraction to early cycle recovery.
- ✓ On price-to-earnings multiples, large cap stocks trading at 23x do not appear cheap versus their long-term average, so there will likely be less multiple expansion from current levels. However, outside of the large-cap growth sector within the S&P 500, average trading multiples appear much more reasonable, in our view.

By The Numbers – Portfolio Construction

All Periods by Portfolio	Return	Volatility	Return per Unit of Risk	△ vs. 60/40	% Liquid Asset	Cash Yield
Alts Enhanced - Generate Income	8.7%	10.8%	0.81	0.14	70%	5.7%
Alts Enhanced – Preserve Capital	9.0%	11.1%	0.81	0.14	70%	5.4%
Alts Enhanced - Boost Return	10.2%	14.0%	0.73	0.06	70%	3.9%
60 / 40	9.1%	13.5%	0.67		100%	4.1%
High Inflation						
Alts Enhanced - Generate Income	9.7%	10.8%	0.90	0.19	70%	6.4%
Alts Enhanced - Preserve Capital	10.2%	11.1%	0.92	0.20	70%	6.0%
Alts Enhanced - Boost Return	11.9%	13.6%	0.87	0.15	70%	4.4%
60 / 40	9.5%	13.2%	0.72		100%	4.9%
Low Inflation						
Alts Enhanced - Generate Income	7.7%	10.4%	0.75	0.16	70%	4.5%
Alts Enhanced - Preserve Capital	7.9%	10.7%	0.74	0.15	70%	4.1%
Alts Enhanced - Boost Return	8.8%	14.7%	0.60	0.01	70%	3.0%
60 / 40	8.2%	14.0%	0.59		100%	2.6%

Note: Alts Enhanced – Boost Return refers to a portfolio allocation of 45% Public Equity, 25% Bonds, 5% Private Real Estate, 5% Private Infrastructure, 15% Private Equity, and 5% Private Credit. Alts Enhanced – Preserve Capital refers to a portfolio allocation of 30% Stocks, 40% Bonds, 5% Private Real Estate, 7.5% Private Infrastructure, 5% Private Equity, and 12.5% Private Credit. Alts Enhanced – Generate Income refers to a portfolio allocation of 30% Public Equity, 40% Bonds, 7.5% Private Real Estate, 7.5% Private Infrastructure, and 15% Private Credit. 60 / 40 refers to a portfolio allocation of 60% Public Equity and 40% Bonds. High Inflation is defined as annual CPI > 2.5% and Low Inflation is defined as annual CPI < 2.5%. Portfolio returns and volatility modeled using annual total returns from 1971 to 2022 for the S&P 500, from 1997 to 2022 for Private Real Estate, from 2004 to 2022 for Private Infrastructure, from 1974 to 2022 for Bonds, from 1997 to 2022 for Private Equity, and from 2005 to 2022 for Private Credit. Assumes continuous rebalancing of the portfolios. U.S. equities modeled using the S&P 500 Index. Bonds modeled using Bloomberg US Agg. 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. Cash yields modeled using annual data from 1970 to 2022 for Public Equity, from 1976 to 2022 for Bonds, 2000 to 2022 for Private Real Estate, 1990 to 2022 for Private Infrastructure, 1994 to 2022 for Private Equity, and 2005 to 2022 for Private Credit. Public Equity using S&P 500 12M gross dividend yield, Private Equity proxied using S&P Small Cap 12M gross dividend yield, Private Infrastructure proxied using S&P Infrastructure 12M gross dividend yield from 2006 onwards and 1990-2006 back filled using S&P Utilities, Public Credit based on Bloomberg US Agg yield to worst, Private Credit using Cliffwater Direct Lending Index Income Return, Private Real Estate based on Green Street All-sector Equal-weighted cap rate, Source: Cambridge Associates, Green Street, Bloomberg, NCREIF, KKR GBR Analysis.