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# U.S. Macro Outlook


- NOVEMBER 2025/BRIAN LEUNG
  DIRECTOR, KKR GLOBAL MACRO

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# Where We Are Focused

| | |
|---|---|
| *Regime Change* Thesis Accelerates Amidst Bumpy Growth | **Our *Regime Change* thesis, which is driven by bigger deficits, heightened geopolitical competition, a messy energy transition, and stickier inflation, is now being also impacted by a weaker dollar**. We do not see a recession, but our top-down framework suggests flatter returns amidst an asynchronous global economy, which will likely require a different playbook for capital deployment. Diversification and non-correlation now matter more. |
| High Conviction Investment Themes | **We remain maximum bullish on KKR's investing themes.** We favor the Security of Everything, Capital Heavy to Capital Light, Productivity/Worker Retraining, Collateral-Based Cash Flows, Growth in Data, etc. |
| Mitigate Risks | **There are several important macro risks to consider**. Market vulnerabilities include a weaker dollar, higher long-term rates, a slowdown in AI spending, and obviously increased geopolitical tensions. Linear pacing, more moderate leverage, and less duration have become portfolio management prerequisites for success. |
| Asset Allocation: Make Your Own Luck | **Now is time to 'Make Your Own Luck'**. We see higher markets, but we want to increase our chance of outperformance. Within Credit, focus on dispersions and getting higher up in the capital structure. In Real Assets, lean into collateral-based cash flows. In the highest returning strategies such as Private Equity, focus on repeatable processes, control positions, operational improvement, and a wide sourcing funnel. |




3

# **Regime Change**: From 'Secular Stagnation' to Post-Covid Reflation

**Higher Inflation Volatility and Changing Stock/Bond Correlation Imply Greater Need for Portfolio Diversification and Inflation Hedging**

**Macro Regime**:

- The era of fiscal prominence (higher deficits and more industrial policy) leads to a higher-pressure economy characterized by higher inflation, higher nominal GDP growth and higher rates, which in turn drives a greater need for productivity improvements
- As a result, we expect the stock/bond correlation to stay positive, term premium to rise, real assets to outperform, Rest-of-World equities to be more competitive with U.S. equities, and gold should be an effective hedge (against weaker USD) for portfolios

**Key Characteristics**

| 'Secular Stagnation'<br>Post-GFC to Covid | Post-Covid Reflation<br>Covid to Today |
|---|---|
| Benign globalization | Great power competition |
| Loose labor market | Tighter labor |
| Net oil importer | Net oil exporter |
| Laissez-Faire | Strategic industrial policy |
| Fiscal prudence | Fiscal prominence |
| Lower deficits | Higher deficits |
| Consumer deleveraging | Healthier balance sheets |
| Low inflation | Higher inflation |
| Low NGDP growth | Higher NGDP growth |
| Low productivity | Higher productivity |
| ZIRP | Higher rates |

**Implications**

| Post-GFC to Covid | Covid to Today |
|---|---|
| Negative stock/bond correlation | Positive stock/bond correlation |
| Low term premium | Higher term premium |
| Buy long duration bonds | Buy real assets |
| Buy tech growth | Buy quality |
| Long U.S. assets | Long RoW assets |
| Long USD | Long Gold |

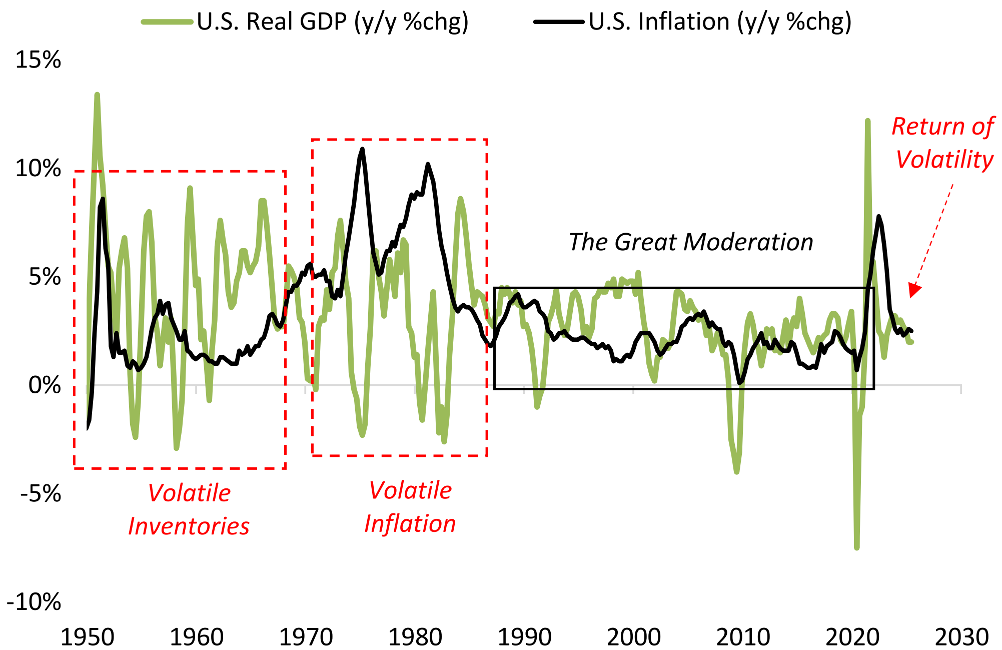
Source: KKR GMAA

# **Regime Change**: Higher Inflation Volatility and Changing Stock/Bond Correlation Imply Greater Need for Portfolio Diversification and Inflation Hedging

Higher and More Volatile Inflation → Fixed Income is Likely to Be a Less Effective Shock Absorber Going Forward

## The Return of Inflation Volatility on a Structural Basis Due to the Interplay of Intensifying Geopolitics, Economic Nationalism, and Fiscal Prominence

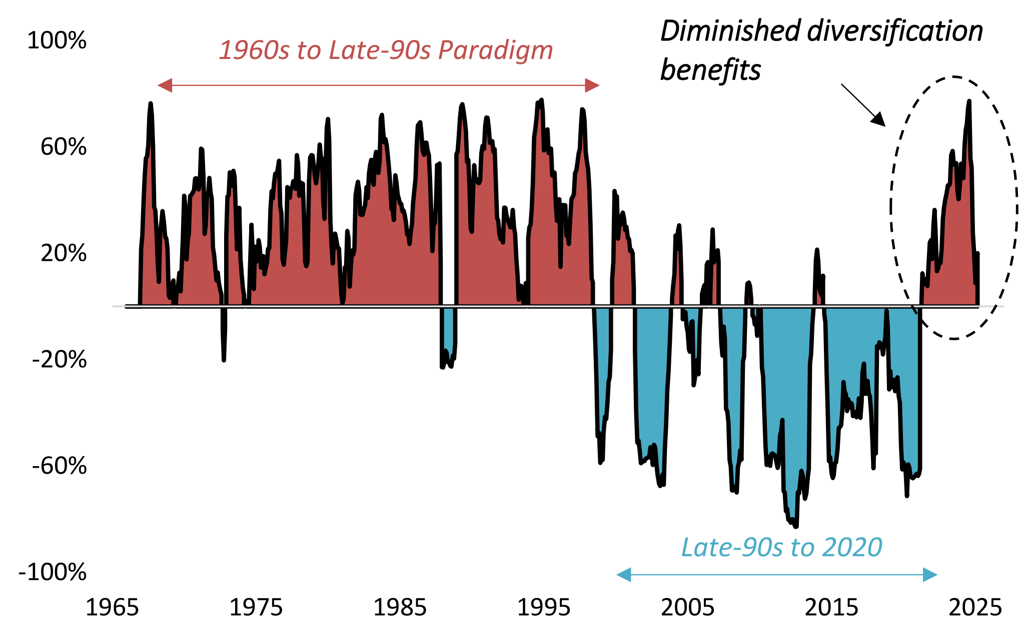
**U.S. Macroeconomic Volatility Through the Decades**




Data as of 2Q2025. Source: KKR GMAA, Bloomberg

## Since Covid, The Stock-Bond Correlation Has Reverted Back to the 1960s-1990s Paradigm, When Equity Market Sell-Offs Coincided With Higher Not Lower Bond Yields

**S&P 500 vs 10y UST Bonds**
(Rolling 12-Month Correlation)

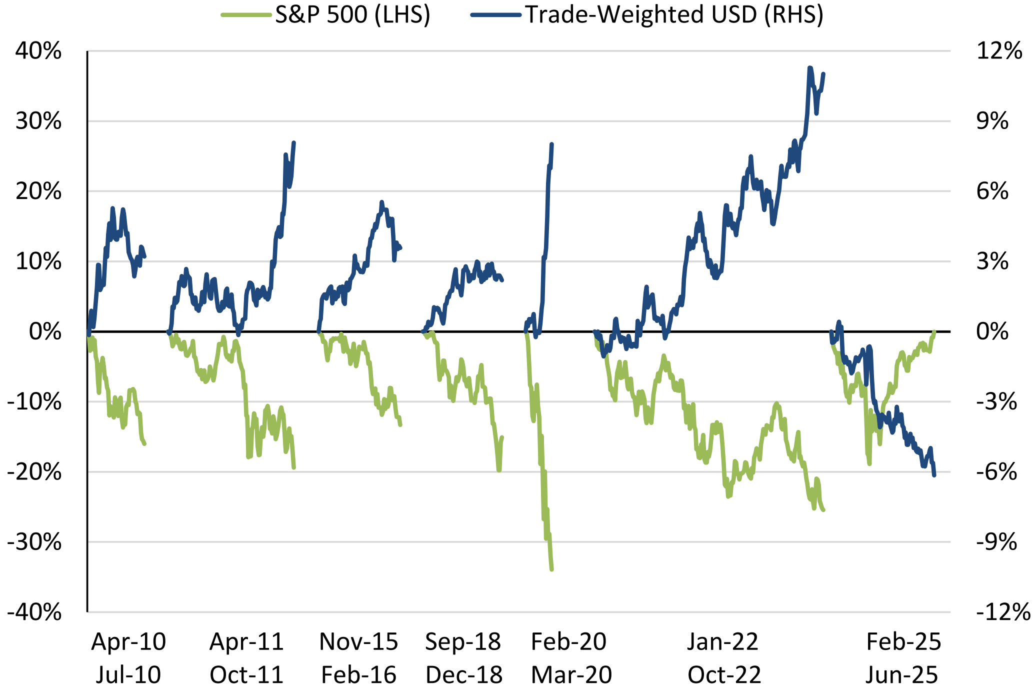



Data as of 2Q2025. Source: KKR GMAA, Bloomberg, S&P

# **Regime Change**: Gold/Hard Assets As a Portfolio Hedge Against Currency Debasement Worries

## Together With Bonds, the U.S. Dollar Has Also Become a Less Reliable 'Shock Absorber', In Our View

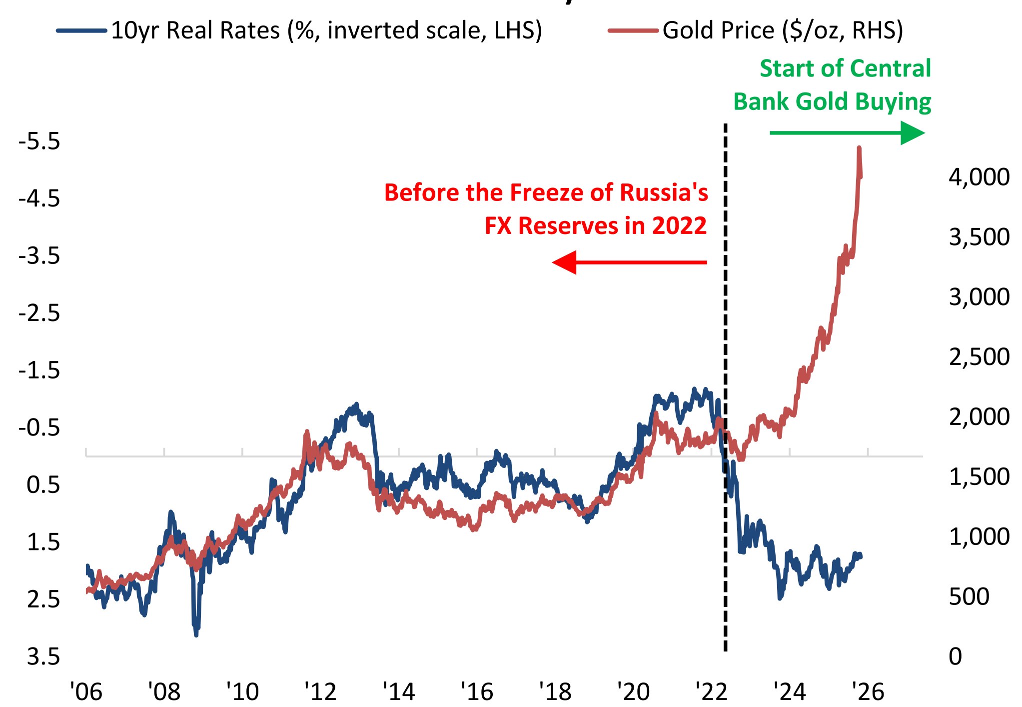
**U.S. Dollar Performance During Prior S&P 500 Corrections**




Note: Chart shows S&P 500 corrections of 15% or more since 2010 and 'industrial recession' in 2016
Data as of October 2025. Source: KKR GMAA, Bloomberg

## The Relationship Between Gold and Real Rates Has Decoupled Since the Russia/Ukraine War

**Gold vs U.S. 10yr Real Rates**

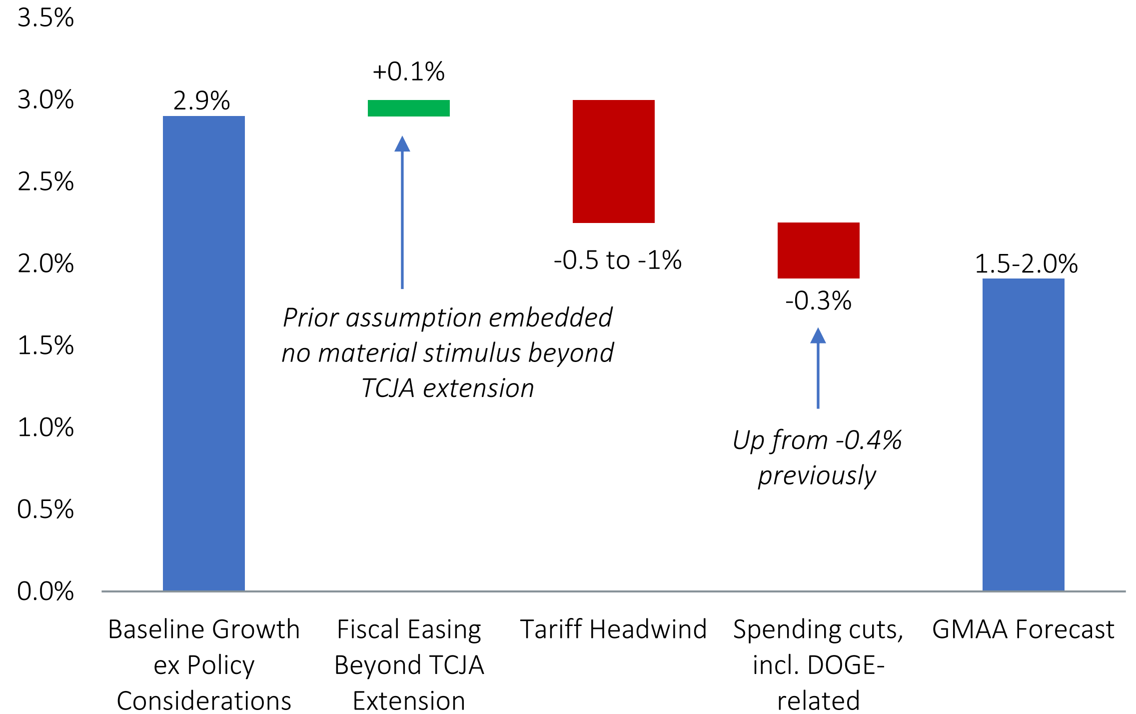



Data as of October 2025. Source: KKR GMAA, Bloomberg

# U.S. Economic Outlook: “It Is Hard to Hurt Yourself Too Badly Falling Out of A Basement Window”…

We See Below-Trend U.S. Real GDP Growth of 1.5-2.0% for 2025

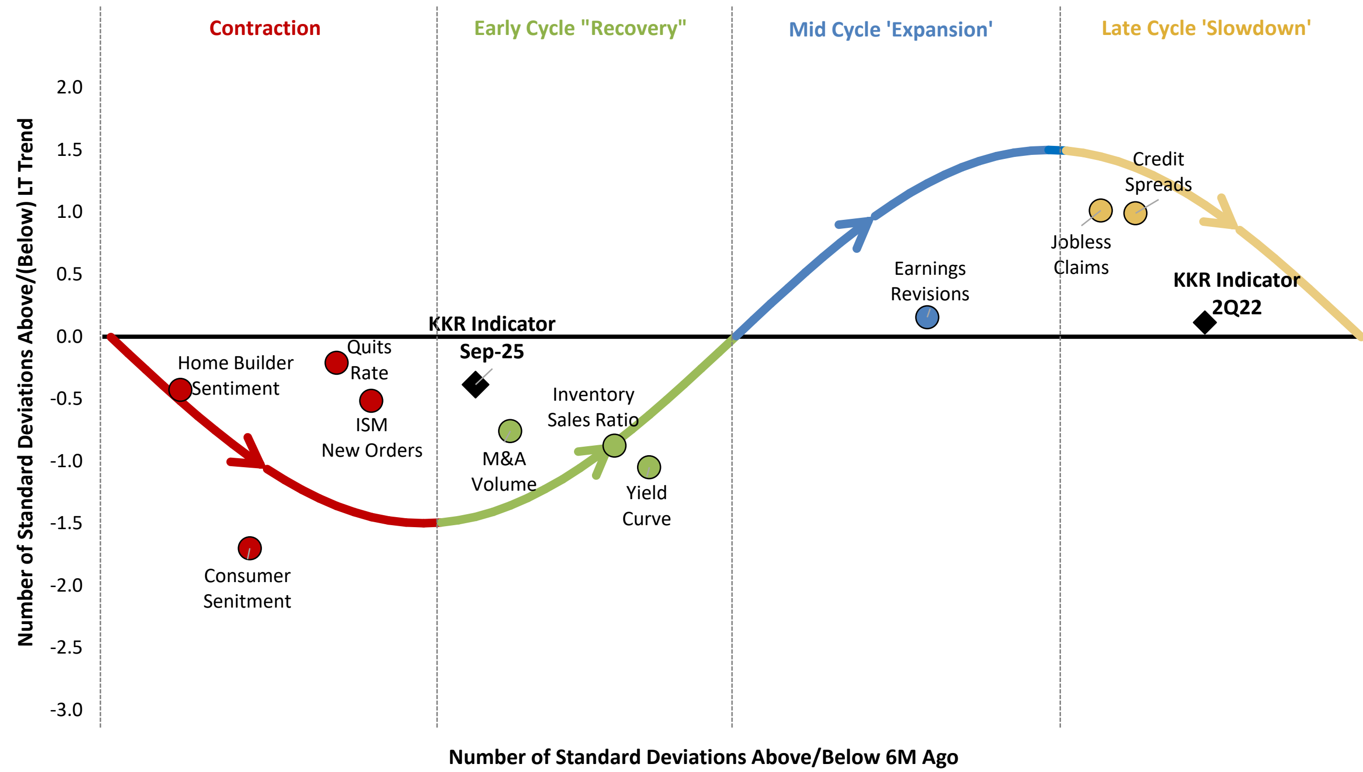
GMAA 2025e U.S. GDP Forecast Detail




Data as of June 2025. Source: U.S. Bureau of Economic Analysis, Haver Analytics, KKR GMAA

Our Business Cycle Indicator: Rolling Downturns and Rolling Recoveries Have Characterized the Current Expansion

KKR GMAA Cycle Indicator



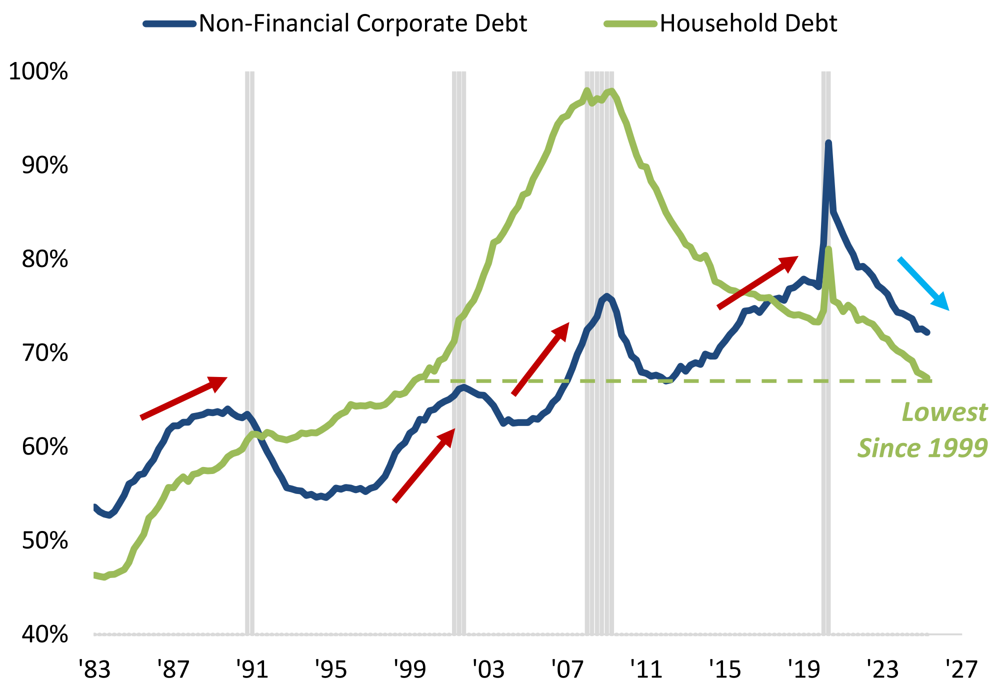

Data as of September 2025. Source: U.S. Bureau of Economic Analysis, Haver Analytics, KKR GMAA

# …Our Base Case Is "Muddle-Through", But We Do Not See a Hard Landing

## Growth Down, Inflation Up. But Deep Recessions Are Usually Preceded by Credit/Capex Excesses, Neither of Which Has Emerged Thus Far

**Five Years Into the Expansion, U.S. Corporate and Consumer Leverage Ratios Are Still Hovering At Multi-Year Lows. Leverage Build-Up Has Occurred in the Government Sector This Time**

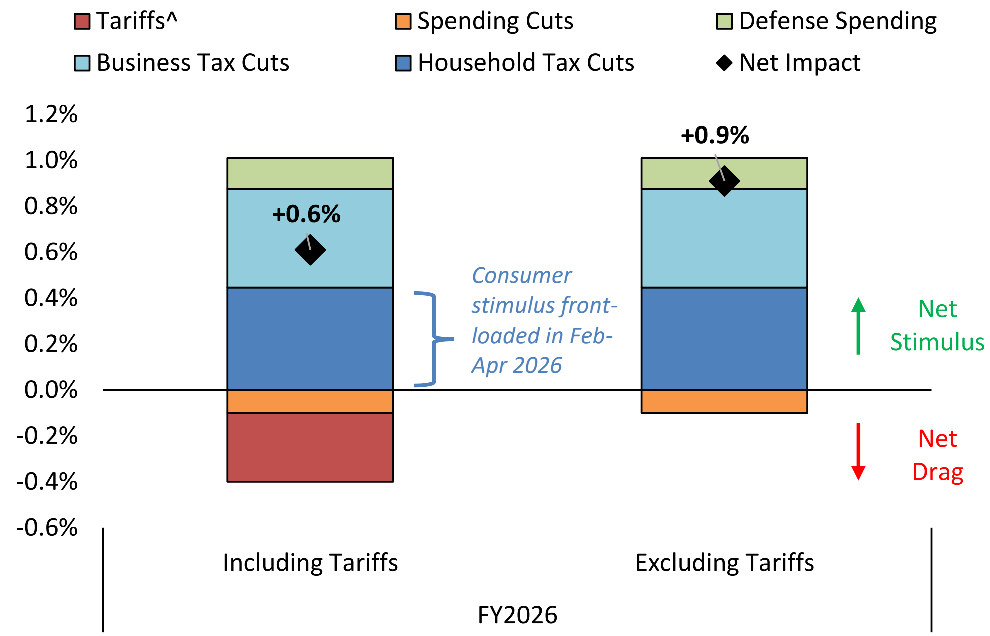
**U.S. Private Sector Leverage as a % of GDP**




Data as of 2Q2025. Source: KKR GMAA, Federal Reserve, BEA, Haver Analytics
Gray shading denotes recessionary quarters

**Adding Up All The Moving Pieces, We Think the Net Fiscal Impulse for the Economy Could Be Modestly Expansionary for FY2026**

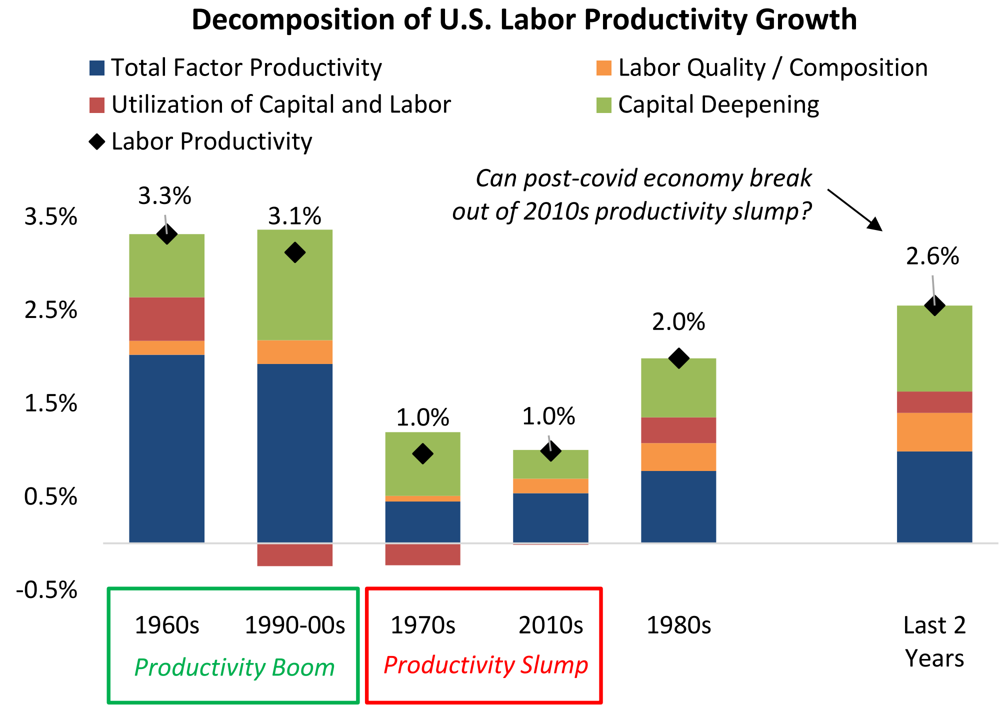
**U.S. Fiscal Policy Changes as % GDP* (FY2026)**




Estimates of OBBB provisions for FY2026 (starting 10/1/25) is relative to current policy baseline
^ Based on incremental tariff revenue expected for FY2026, assuming Supreme Court upholds IEEPA tariffs and 50/50 incidence between consumers and businesses
Note: household tax cuts include individual tax cuts (SALT, standard deduction, and child tax credit) and retroactive tax cuts (deductions for tips, overtime, auto loans, and senior citizens)
Business tax cuts include bonus depreciation for equipment and manufacturing structures, R&D expensing, interest deductibility and increased chip manufacturing tax credit
Source: KKR GMAA, CBO, Evercore ISI

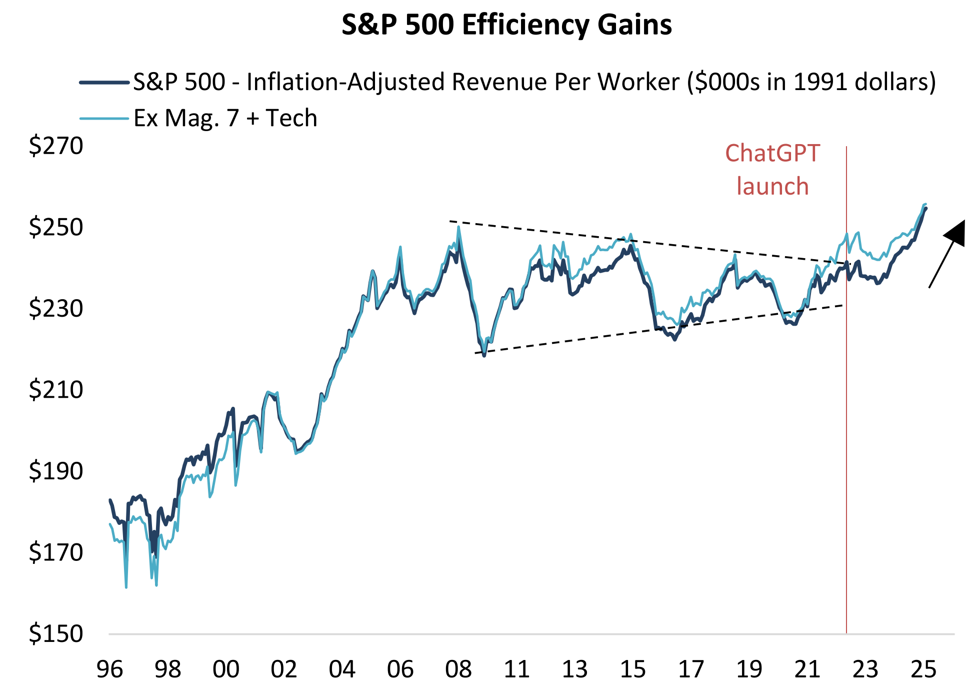
# Stronger Productivity Growth Is the 'Secret Sauce' to Extending the Business Cycle

**Stronger Productivity Would Dampen Inflationary Pressures and Help Preserve Corporate Margins**




Note: 1960s refer to 1959-68; 1990s-00s refer to 1995-05; 1970s refer to 1973-79; 2010s refer to 2010-19; 1980s refer to 1980-88.
Data as of 2Q2025. Source: Bloomberg, Federal Reserve Bank of San Francisco

**Since The Launch Of ChatGPT In November 2022, Real Revenue Per Worker For The S&P 500 Has Risen 5.5%, Following Two Decades Of Stagnation**




Data as of September 2025. Source: Wells Fargo Securities, Factset

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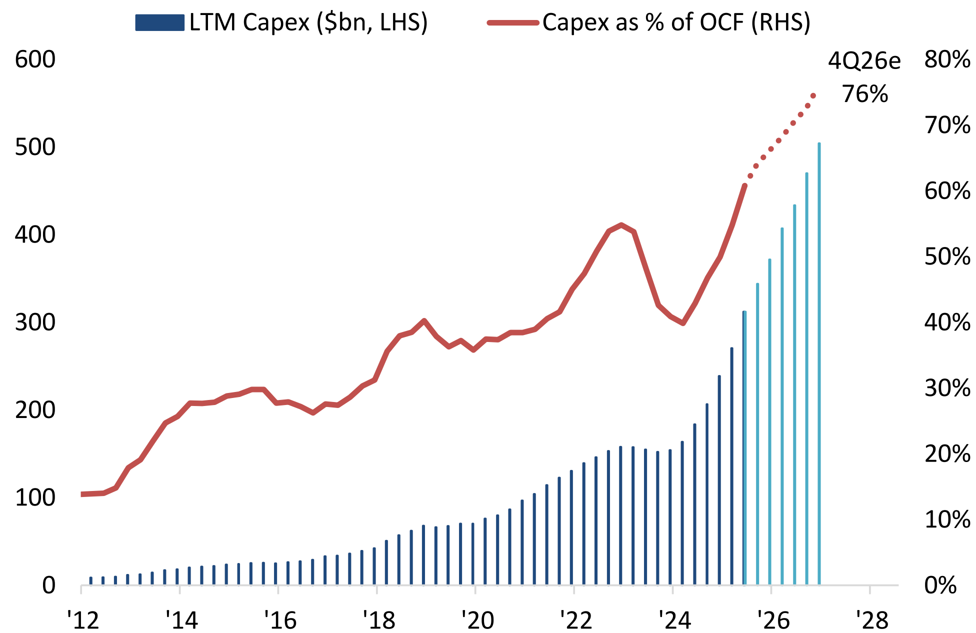
# AI/Tech-Related Investments Showing No Signs of Slowing

**With Some Exceptions, Hyperscalers Have Generally Been Able To Fund The AI Capex Via Cash Flow Generation And Existing Cash Balances Rather Than Debt Financing**

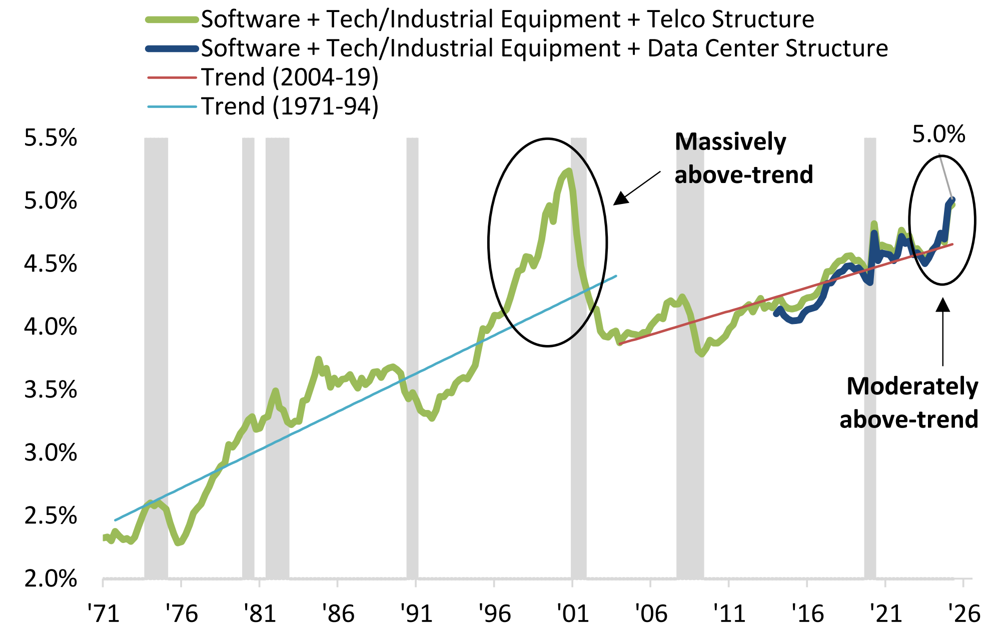
**U.S. Hyperscalers: Capex vs. Operating Cash Flow**




Note: Hyperscalers include MSFT, AMZN, GOOGL, META and ORCL
Source: KKR GMAA, Bloomberg

**AI-Related Capex is Now Roughly 5% of U.S. GDP and Growing ~10% Per Year…But The Level of Spend Still Pales Relative to the Late-90s / Early 2000s Tech Boom**

**Investment Spend as % of U.S. GDP**

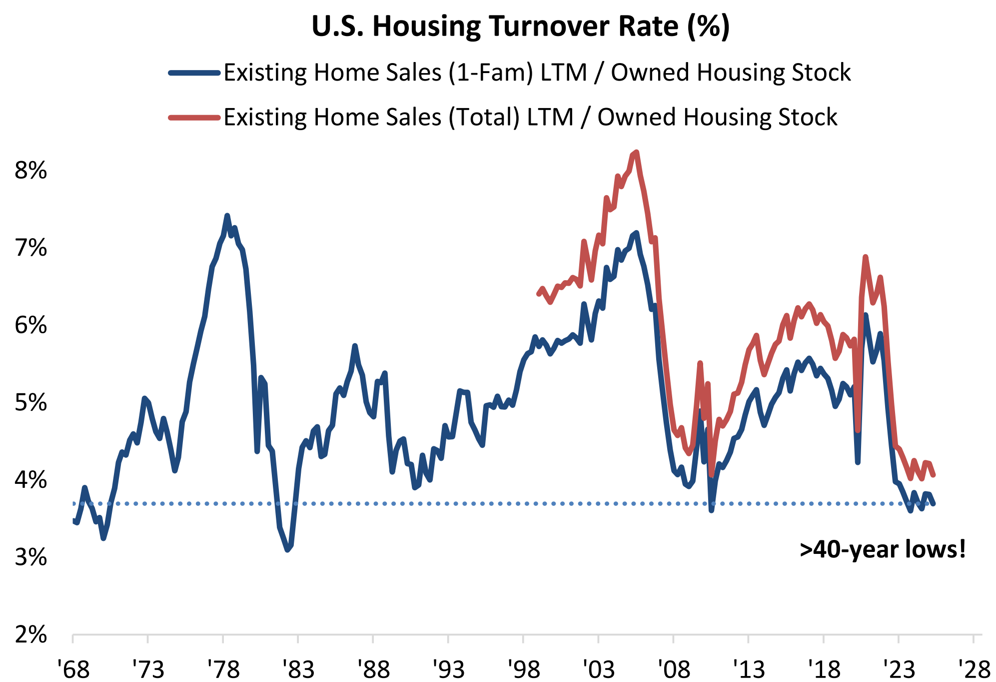


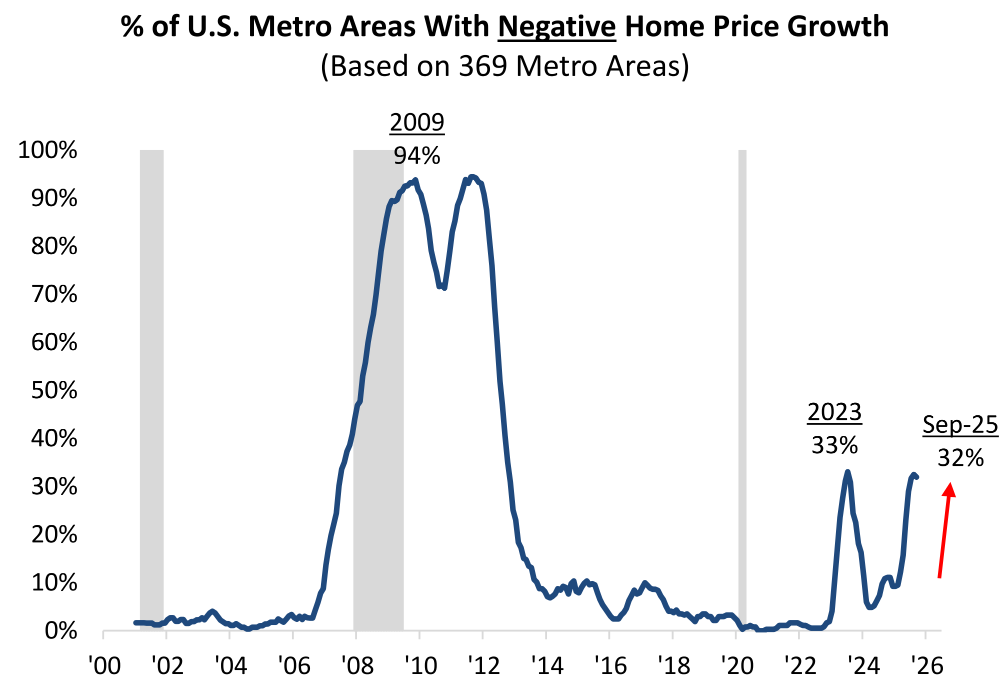

Data as at 2Q2025. Source: Bloomberg, BEA, Census

# **Headwind #1:** U.S. Housing Does Not Work With 6-7% Mortgage Rate

Housing Activity is Hovering at 40-Year Lows…Weighed Down By High Mortgage Rates and Affordability Challenges

As Inventories Rise, Home Prices Have Been Deflating Across The Country (Especially, Florida, Arizona, Texas and California)



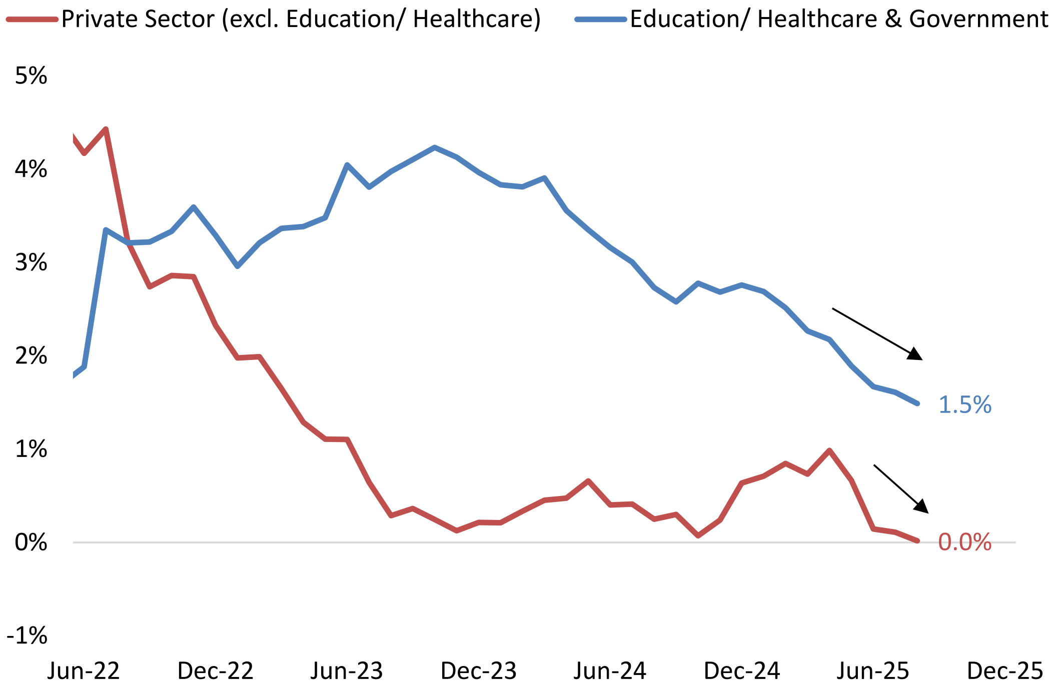




Data as of September 2025. Source: KKR GMAA, Bloomberg, Zillow, NAR

# **Headwind #2:** U.S. Labor Market is Slowing With Private Sector Job Creation Hovering Near Stall Speed

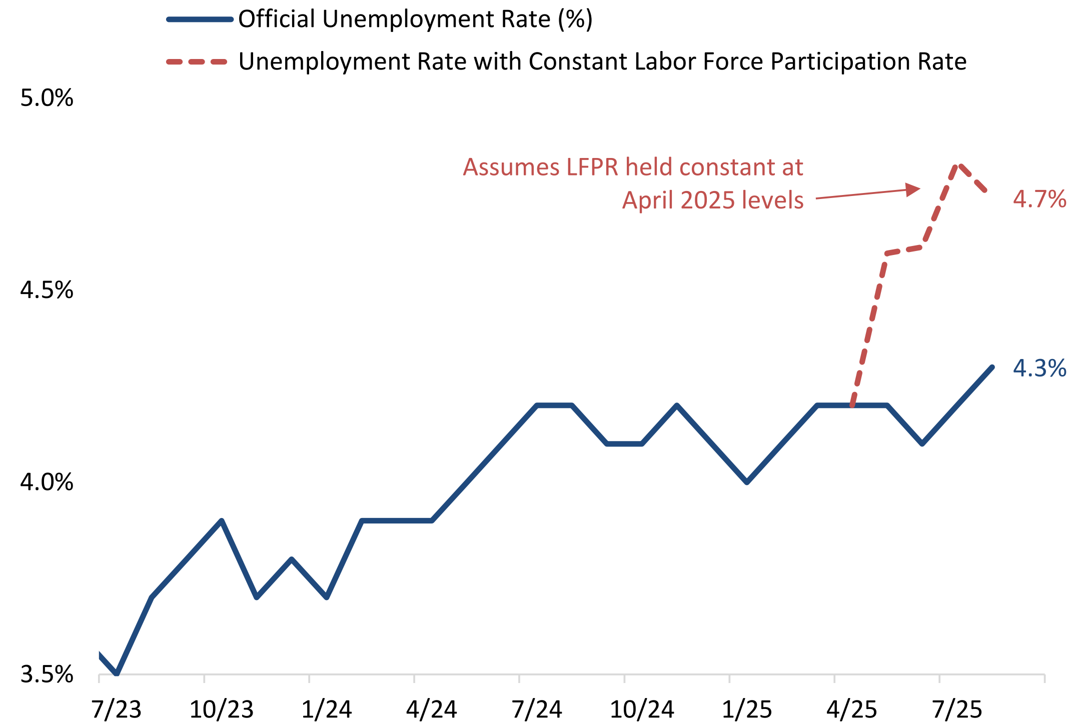
**Breadth of Labor Market Remains An Issue. Excluding Education and Healthcare, Private Sector Job Growth Has Basically Ground to a Halt**

**U.S. Job Growth By Sector**
(6m chg, annualized)




**If Not For Collapsing Labor Force Participation (Lower Immigration and Lower Labor Supply) Since April 2025, The Unemployment Rate Would Have Climbed To 4.7% in August 2025 Instead of 4.3%**

**U.S. Unemployment Rate**

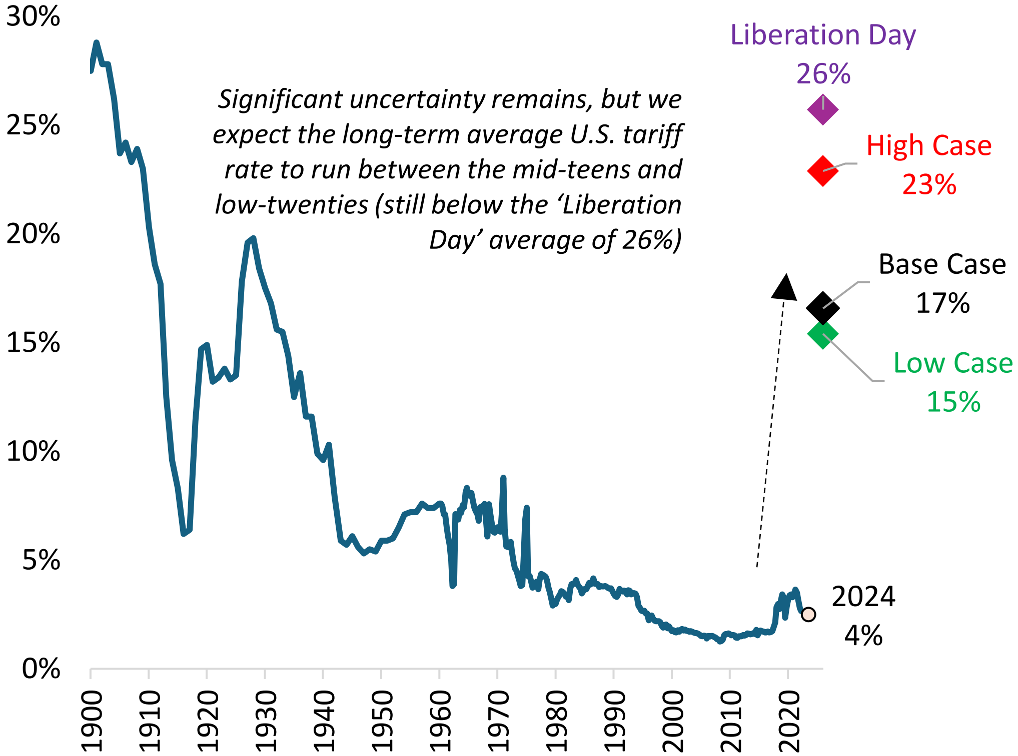



Data as of August 2025
Source: KKR GMAA, Bloomberg, BLS

# **Headwind #3:** Tariff Uncertainty Will Likely Persist

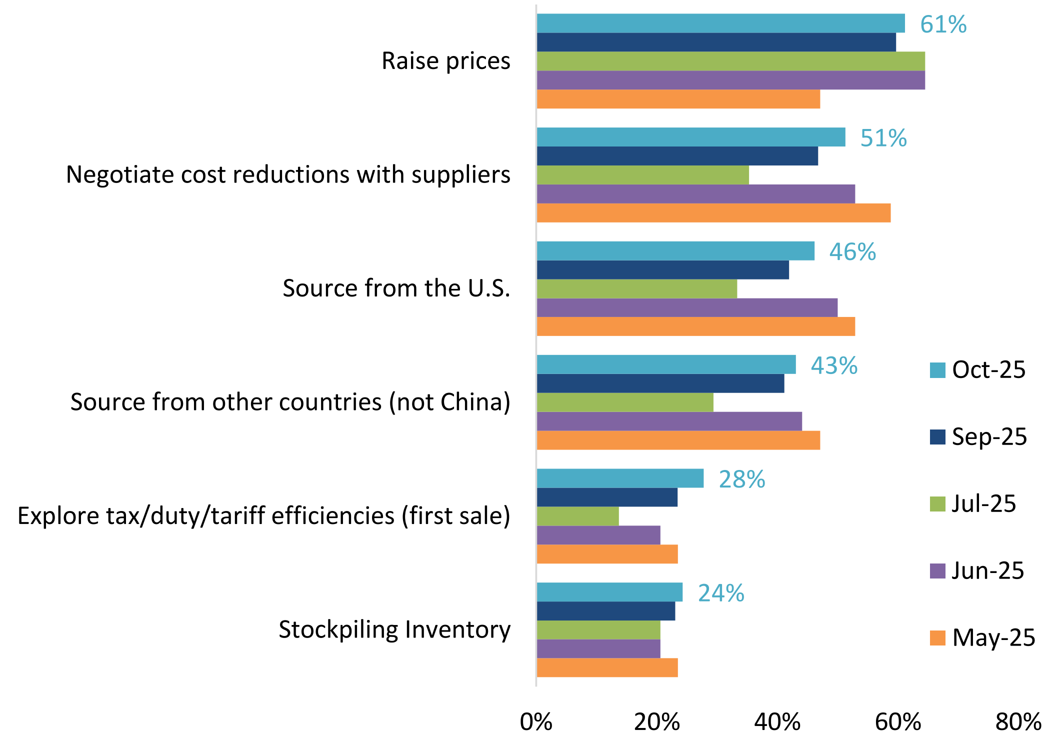
We Are Focused on a Variety of Scenarios With a Range of Outcomes

**U.S. Effective Tariff Rate, %**




When It Comes To Tariff Mitigation, The Most Common Response Is Raising Prices, Followed By Renegotiating With Suppliers. These Strategies Are The Fastest To Implement But Depend On Companies Having Strong Pricing And Bargaining Power

**Company Survey: What Are Your Tariff Migitation Strategies?**
(% Saying Yes - Select All That Apply)

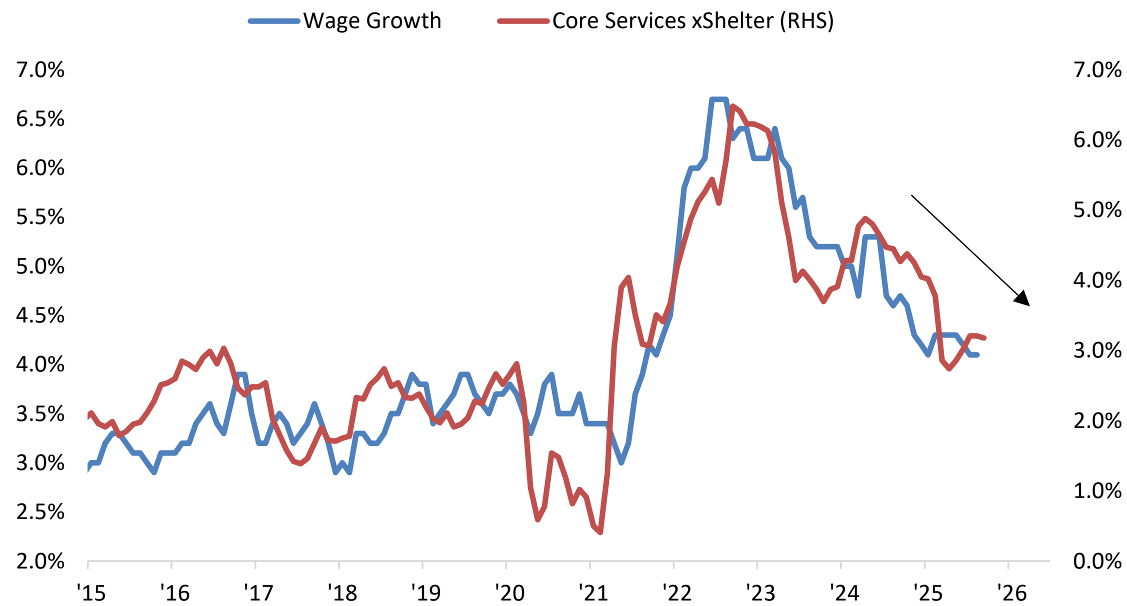



Data as of September 2025. Source: KKR GMAA, USITC, Bloomberg

# **U.S. Inflation Outlook:** We Expect Services Disinflation to Provide a Meaningful Offset to Higher Tariff-Induced Goods Inflation

## Core Goods Inflation Will Heat Up, But More Than Offset By Softer Shelter Inflation and Moderating (Albeit Sticky) Core Services xShelter Inflation, In Our View

**Wages vs Core Services xShelter Inflation**




Data as of September 2025. Source: Bloomberg, Atlanta Federal Reserve Bank, BLS

## We Expect Headline and Core CPI to Average Roughly 3% This Year and Next (2.5% is Our Long-Term Run-Rate Assumption)

**KKR GMAA U.S. CPI FORECAST DETAILS**

| KKR GMAA U.S. CPI FORECAST DETAIL | 3Q25 | 4Q25e | 1Q26e | 2Q26e | 3Q26e | 4Q26e | Full-Year 2024 | Full-Year 2025e | Full-Year 2026e |
|---|---|---|---|---|---|---|---|---|---|
| **Headline CPI** | **2.9%** | **2.9%** | **2.9%** | **3.3%** | **3.4%** | **3.4%** | **3.0%** | **2.8%** | **3.2%** |
| Energy (7%) | 0.0% | 1.0% | -0.6% | 1.1% | 2.1% | 2.0% | -1.3% | -0.6% | 1.1% |
| Food (13%) | 3.0% | 2.9% | 2.6% | 2.6% | 2.5% | 2.4% | 2.3% | 2.9% | 2.6% |
| **Core CPI (80%)** | **3.1%** | **3.1%** | **3.2%** | **3.6%** | **3.7%** | **3.7%** | **3.4%** | **3.0%** | **3.5%** |
| **Core Goods (18%)** | **1.4%** | **2.0%** | **2.4%** | **3.1%** | **3.3%** | **3.3%** | **-1.1%** | **0.9%** | **3.0%** |
| Vehicles (6%) | 1.8% | 1.5% | 0.9% | 2.1% | 2.8% | 2.7% | -2.4% | 1.0% | 2.1% |
| Other Core Gds (12%) | 1.2% | 2.3% | 3.4% | 3.8% | 3.7% | 3.7% | -0.5% | 0.9% | 3.6% |
| **Core Services (62%)** | **3.6%** | **3.5%** | **3.4%** | **3.7%** | **3.8%** | **3.8%** | **5.0%** | **3.7%** | **3.7%** |
| Shelter (35%) | 3.8% | 3.5% | 3.4% | 3.2% | 3.1% | 3.2% | 5.4% | 4.0% | 3.2% |
| Medical (7%) | 4.1% | 4.0% | 4.4% | 4.2% | 4.1% | 4.3% | 2.8% | 3.5% | 4.3% |
| Education (3%) | 3.5% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.1% | 3.5% | 3.0% |
| Other Core Services (18%) | 2.9% | 3.3% | 3.2% | 4.7% | 5.0% | 4.9% | 5.3% | 3.2% | 4.4% |
| *Memo: 'Supercore' Svcs ex Shelter* | *3.3%* | *3.4%* | *3.5%* | *4.4%* | *4.5%* | *4.6%* | *4.5%* | *3.3%* | *4.2%* |

Data as of September 2025. Source: Haver Analytics, BLS.

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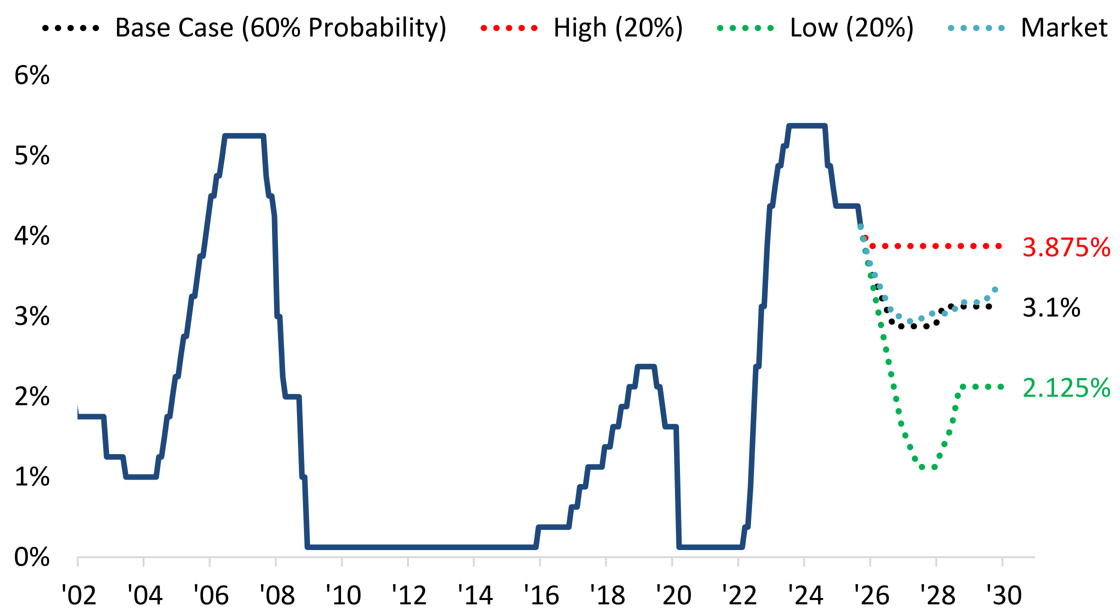
# **U.S. Rates Outlook:** More Fed Easing to Come, But We Expect the 10yr Treasury Yield To Stay Higher-For-Longer

We Expect Another Four Fed Cuts Over The Next 12 Months, With Long-Term 'Neutral' Rate ~3%. Real Rates Remain Too Restrictive Today, In Our View

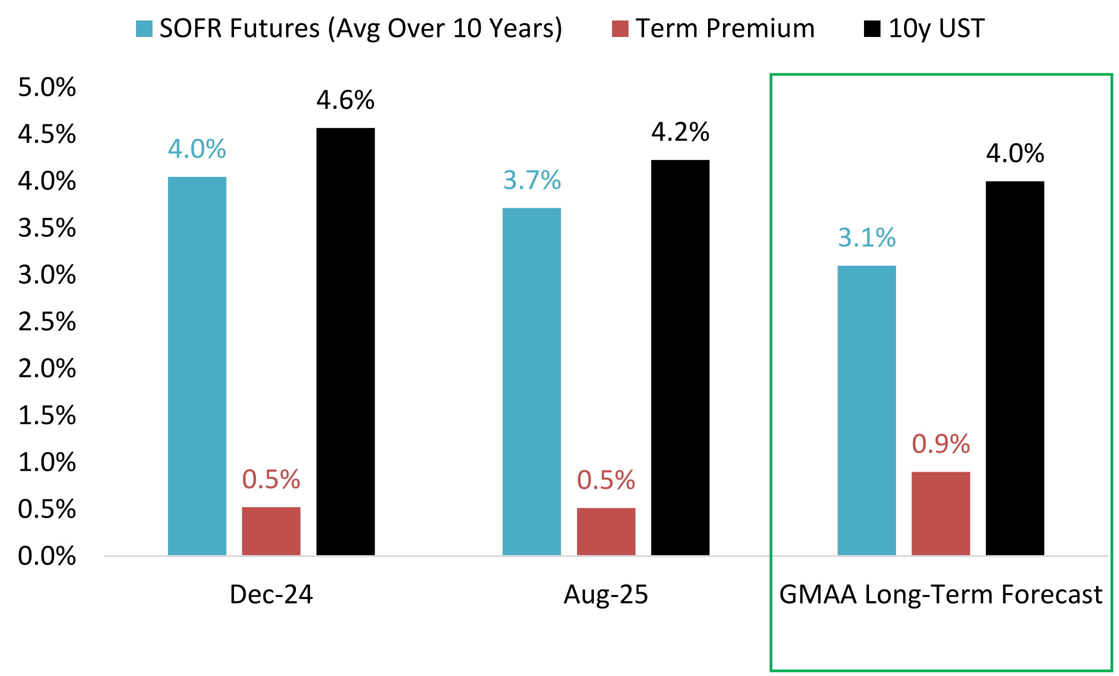
We Embed A Higher Term Premium In Our Forecast For Rates, Due to Positive Stock/Bond Correlations, Bigger Deficits, Higher Bond Volatility, And Diminished Foreign Appetite On The Margin

**U.S. Fed Funds Rate Forecast Scenarios**




Data as of September 2025. Source: Bloomberg, GMAA

**U.S. 10-Year Treasury Decomposition and Forecasts**




Data as of September 2025. Source: Bloomberg, KKR GMAA

# **U.S. Fiscal Sustainability:** Investor Discomfort With Wide Deficits Is Often Expressed Through Currency Weakness, Rather Than Surge in Govt Bond Yields

There Are Few Ambitious Spending Programs from the New Administration, and the Biggest Line Items Constitute an Extension of Current Policy (TCJA Tax Cuts)

| | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|---|---|---|---|---|
| Current Law Deficit | 1,915 | 1,779 | 1,746 | 1,973 | 2,001 |
| Increase in Spending | 59 | 460 | 539 | 494 | 354 |
| Impact on Debt Service | 1 | 11 | 29 | 48 | 64 |
| Tariff Revenue | -25 | -280 | -280 | -280 | -280 |
| Total Increase in Deficit | 35 | 191 | 288 | 262 | 138 |
| **Total Deficit** | **1,950** | **1,970** | **2,034** | **2,235** | **2,139** |
| **Deficit as % of GDP** | **6.5%** | **6.3%** | **6.3%** | **6.6%** | **6.1%** |

Estimates consistent with a ~15% tariff rate on 2.5tn of goods, at a 75% multiplier. For conservatism, deficit growth based on run-rate 4% NGDP growth. Data as of May 31, 2025. Source: PSC, Bloomberg, KKR GMAA

High Levels of Government Debt Tend to Lead to Weaker Currencies…Not Necessarily Higher Bond Yields

**Major Government Deleveraging Episodes**

| | | Belgium | Japan | Canada | Eurozone |
|---|---|---|---|---|---|
| **Dates** | Start | 1990 | 1996 | 1991 | 2007 |
| | End | 2000 | 2006 | 2001 | 2017 |
| **Government Debt/GDP** | Start | 104% | 66% | 56% | 66% |
| | Peak | 117% | 99% | 65% | 93% |
| | End | 99% | 133% | 46% | 88% |
| **Currency** | Start | 0% | 0% | 0% | 0% |
| | Peak | -33% | -19% | -28% | -26% |
| | End | -33% | -4% | -28% | -19% |
| **10-Year** | Start | 10.0% | 2.8% | 8.1% | 4.3% |
| | Peak | 10.0% | 2.8% | 9.1% | 4.3% |
| | End | 5.6% | 1.7% | 5.4% | 0.4% |
| **2-Year** | Start | 10.1% | 0.7% | 7.0% | 4.0% |
| | Peak | 10.1% | 0.8% | 8.6% | 4.0% |
| | End | 5.0% | 0.8% | 3.2% | -0.6% |
| **10s/2s Yield Curve** | Start | -0.1% | 2.1% | 1.1% | 0.3% |
| | Peak | 2.6% | 2.1% | 2.3% | 2.1% |
| | End | 0.6% | 0.9% | 2.2% | 1.1% |

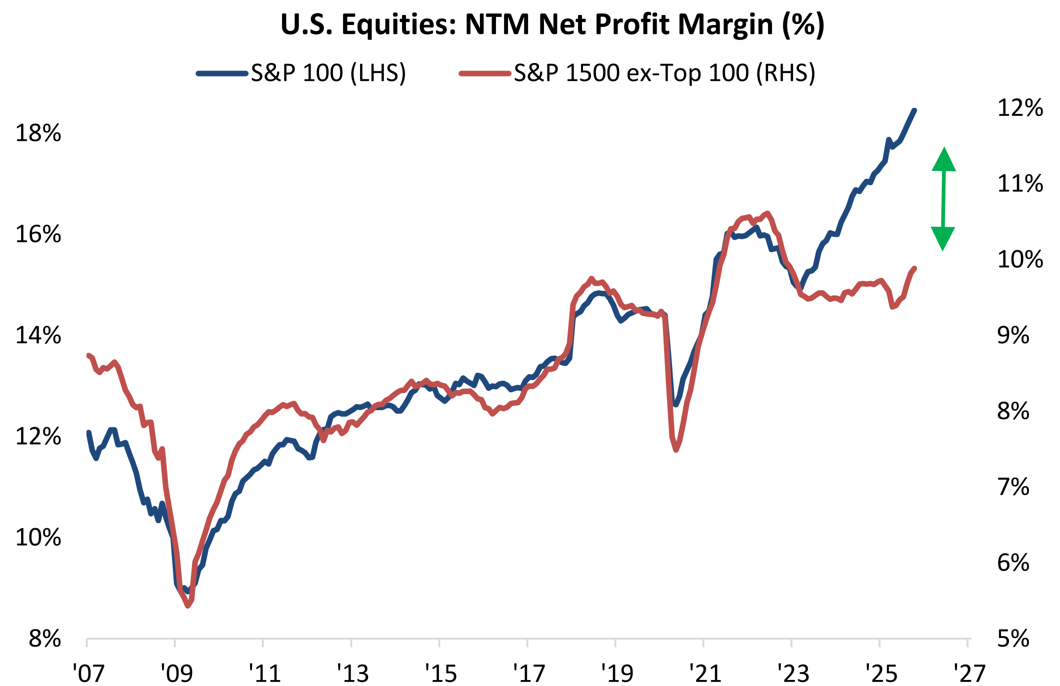
Belgium yield data on full-year average basis; Japan data based on pre-GFC period of debt growth. Data as of June 30, 2025. Source: Haver Analytics, IMF, Federal Reserve Board, Bloomberg

# U.S. vs Rest-of-World: From ‘Exceptional' to ‘Less Exceptional’

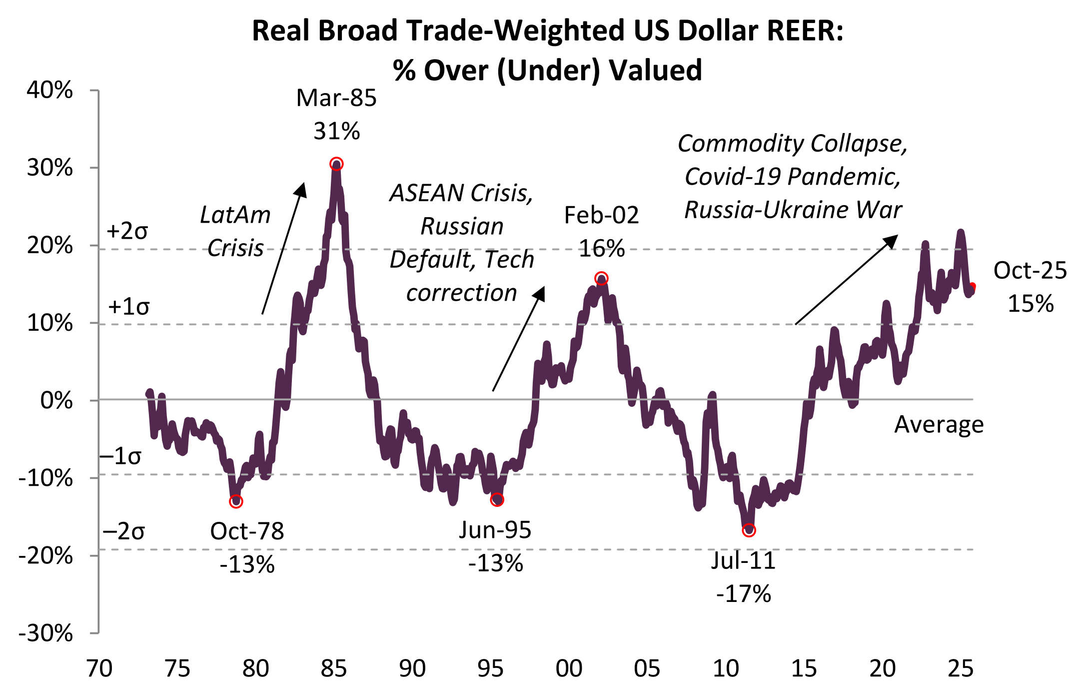
## Six Reasons Why Rest-of-World Assets Could Become More Competitive Going Forward

1. **Initial conditions**: U.S. assets are over-owned and richly valued
2. **Fiscal impulse**: U.S. fiscal stance turning less expansionary, while RoW is turning more expansionary
3. **Diminished U.S. growth prospects** relative to baseline due to negative supply shocks (e.g., tariffs, deportations, etc)
4. **Erosion of policy certainty** (e.g., tariffs, Fed independence, etc)
5. **U.S. was flattered – on a relative basis - by temporary factors** from 2022 inflation scare
6. **U.S. tech / AI leadership** challenged by China and sector is morphing from asset-lite to capex growers

## Stark Divergence Between Record Margins For the Mega-Caps and Stagnant Margins For the Rest




## The U.S. Dollar is Still Overvalued By ~15% and We See More Weakness Ahead Structurally




Data as of October 2025. Source: KKR GMAA, Bloomberg, Federal Reserve, S&P

# **Conclusions**: Regime Change Thesis Intact

01 In Our *Regime Change* thesis, we have migrated from benign globalization to one of Great Power Competition. Geopolitics, bigger deficits, a messy energy transition, and stickier inflation are the four factors on which to focus

02 There are several mega-investment themes of generational importance that we believe require trillions of dollars of capital to support their growth

03 Things that could bump in the night: USD, bigger deficits, geopolitical tensions, and slowing productivity

04 Asset Allocation: Control your destiny with the macro and make your own luck with the micro