

# Flash Macro Update

U.S. Markets | April 2026



**Henry H. McVey**  
Head of Global Macro,  
Balance Sheet &  
Risk, CIO of KKR's  
Balance Sheet  
[henry.mcvey@kk.com](mailto:henry.mcvey@kk.com)

**Dave McNellis**  
Managing Director,  
Co-Head of Global  
Macro & Asset Allocation  
and Head of Portfolio  
Construction and Multi-  
Asset Strategies for  
Private Markets

**Brian Leung**  
Director, U.S. Macro

**Ezra Max**  
Principal, U.S. Macro

**Miguel Montoya**  
Associate, U.S. Macro

## What You Need to Know

### 1 How are we thinking about the recent capital markets volatility?

We subscribe to the muddle through thesis, as markets are trying to digest several consequential narratives all at once. Geopolitics is a story unto itself, but it also has refueled the inflation debate. Meanwhile, Private Credit is being re-underwritten as default rates normalize and investors are still sorting through what AI means for growth, margins, and employment.

In terms of focus areas, oil is not the only variable that matters, but it has become a focal point in the near term as it is the fastest channel through which geopolitics can alter the path for inflation, growth, and central bank policy. Interestingly, though, as we show in *Exhibit 1*, Equities and Credit have been much slower to react to recent news than during either 'Liberation Day' or the Russia/Ukraine war.

Amid these crosscurrents, it has been helpful to be on the road, building a clearer mosaic of both global opportunities and global concerns. Over the last several weeks I have spent time in Tokyo, Paris, Washington, DC, and San Francisco, comparing notes with policymakers, CEOs, CIOs, and KKR colleagues. While each conversation was different, the same issues kept resurfacing. What AI disrupts versus what it enables. How Private Credit behaves as the cycle normalizes. The length and severity of the Iran conflict, and what it means for supply chains, energy, investor confidence.

Against this backdrop, we are updating our forecasts and scenarios, guided by the KKR Global Institute's latest thoughtful assessment of developments in the Middle East. As we detail below in *Exhibit 12*, **our base case reflects no**

**significant further destruction of Middle East energy infrastructure, but we do assume the re-opening of the Strait takes weeks or months, not days. We also incorporate a faster transmission into growth headwinds, particularly in Asia, than typical models would ordinarily imply** and a higher path for headline inflation than we expected previously.

At the same time, however, we are not building a ‘Fed hikes into the shock’ narrative. The more likely outcome, we believe, is delayed easing. Inflation uncertainty forces patience, but softer growth and a subdued labor backdrop keep the medium-term bias towards modest cuts, especially if the job market weakens further under AI anxieties.

**Exhibit 1: Our Market Pricing Table Suggests That Investors Are Not Yet Assigning the Same Risk Premium to the Current Set of Macro Crosscurrents Relative to Past Ones**

Comparison of Ongoing Iran Conflict With Other Recent Market Dislocations	Current as a % of		Iran (Current)	Ukraine Invasion Trough	Liberation Day Trough
	Ukraine Invasion	Liberation Day			
Inflation (2yr CPI Breakeven)	67%	98%	3.3%	4.9%	3.4%
Crude (12mo Fwd WTI Crude)	74%	N.M.	73	100	69
LNG (Japan-Korea 12mo Fwd)	24%	106%	2,431	10,113	2,301
Leveraged Loan Spread Widening	27%	58%	53	198	92
S&P 500 Drawdown	35%	33%	-6%	-18%	-19%

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

Below we summarize our headline forecast changes for the United States. We will update our forecasts for Europe and Asia separately, but it is worth noting that higher commodity prices unfortunately tend to have a higher beta effect on growth and inflation in those regions than in the United States. We provide detail on our updated assumptions for oil, growth, inflation, interest rates, and the S&P 500.

**1. Oil: Our revised 2026 base case (60%) assumes \$90-100 WTI (\$100-110 Brent), which is roughly**

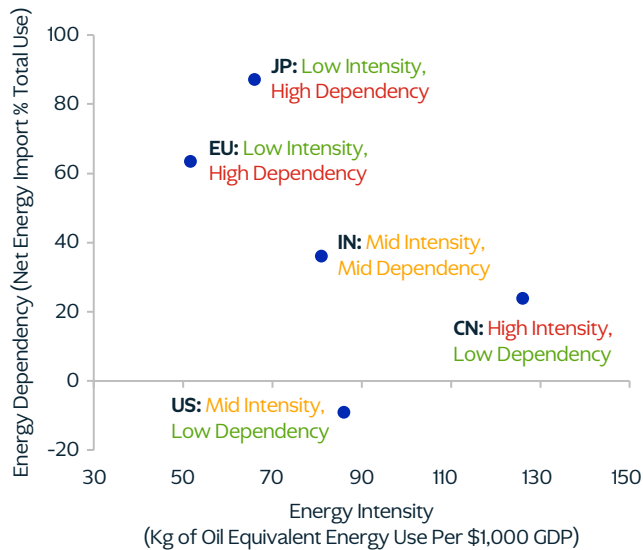
**\$10 above current futures pricing.** During 2026, we see a peak sustained level of \$130-150 for WTI and \$140-160 for Brent. Beyond 2026, we see WTI averaging \$75-80, still \$5-10 above the forward curve, reflecting what we view as a more persistent geopolitical risk premium tied to a more hostile Iranian regime. By contrast, the \$75-80 WTI (\$85-90 Brent) base case for 2026 we outlined in early March, along with sustained peaks in the low-\$100s, now becomes our 15% low-case scenario. We believe the low case would require a meaningful breakthrough in negotiations over the next one to two weeks.

- GDP: We lower our base case U.S. GDP forecasts to 2.0% in 2026 and 1.6% in 2027, down from 2.5% and 2.2% previously.** The key drag on our outlook is the ‘tax’ from higher energy prices. Under traditional macro relationships, higher energy prices weigh on GDP with about a one-year lag, but we think growth slows faster this cycle because the spike in energy prices is from a pure supply shock, not from a demand acceleration. Financial conditions also add pressure by tightening modestly at the margin (wider credit spreads, volatile markets). Our revised forecasts are below consensus expectations of 2.3% for 2026 and 2.0% for 2027, respectively.
- Inflation: We raise our U.S. headline CPI forecasts to 3.8% in 2026 (above consensus of 3.0%) and 2.5% in 2027 (in line with consensus), versus 3.3% and 2.2% previously.** The revision is overwhelmingly energy driven. By contrast, we only nudge 2026 core CPI to 2.8% from 2.7%, as we still see this as a headline shock with limited second-round effects.
- Interest Rates: We do not subscribe to the thesis that the ‘Fed will hike into the shock’.** Instead, we think the Fed will assume a more patient approach. **We now expect one cut in 2026 and one in 2027, taking Fed funds to 3.125% by end-2027.** This is versus our prior path of two cuts in 2026 followed by a hike in 2027, which implied a higher 3.375% terminal rate. At the long end, we lift our 2026 10-year Treasury forecast to 4.5% from 4.25% on higher term premium and inflation uncertainty, while keeping our 2027-and-beyond anchor around 4.0%.

5. **S&P 500: We lower our 2026 year-end target to 7,300 from 7,600 and reduce our 2026 EPS growth forecast to 8% from 11%, reflecting softer demand and higher operating costs in a \$90-100 WTI environment.** We also lower our 2027 year-end target to 7,800 from 8,130 and now expect a choppier path to that level, with a fatter left tail than markets were pricing a few weeks ago.

**Exhibit 2: Not All Energy Profiles Are Equal: China Is Still More Energy Intensive, But Less Import Dependent**

### Energy Intensity and Energy Dependency

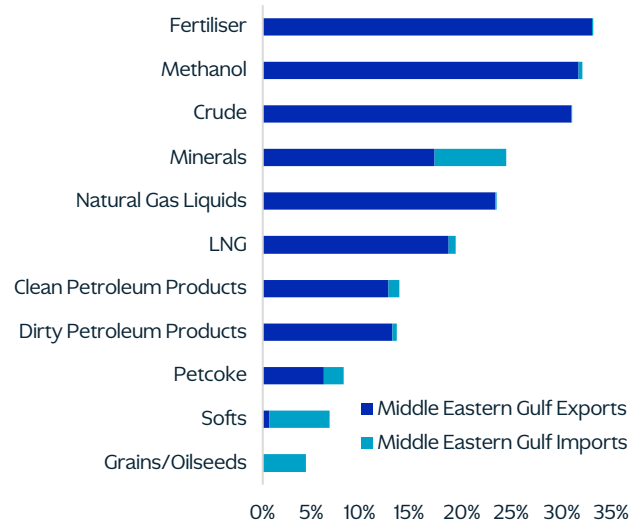


Data as at October 7, 2025. Source: World Bank.

Our travels, particularly in Asia, reinforced that the disruption in Hormuz is already likely rippling through select supply chains, even if tensions were to cool more quickly than expected.

**Exhibit 3: 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.

To be sure, no one has a macro crystal ball, but we do think that there are some important conclusions beyond the forecast changes above that warrant investor attention. They are as follows:

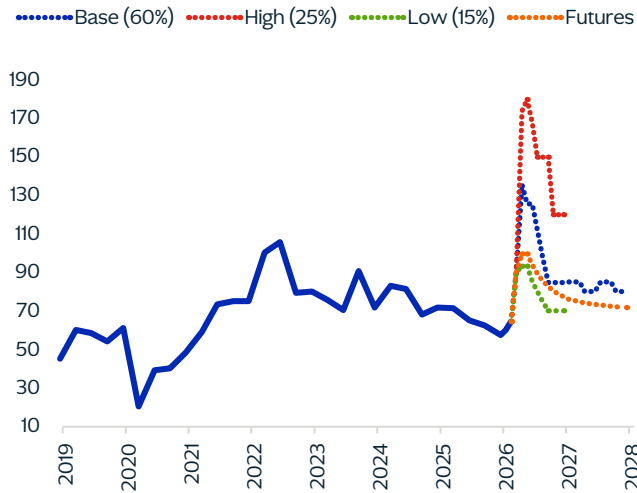
## 1

### Supply chains were tight even before the conflict.

One can see this in *Exhibit 5*. Our travels, particularly in Asia, reinforced that the disruption in Hormuz is already likely rippling through select supply chains, even if tensions were to cool more quickly than expected. The betting markets right now are assuming about a 30% chance of a U.S.-Iran ceasefire in April, but that percentage increases to 50% in May. We are not war experts, but our instinct is to lean more cautious on timing given that the U.S., Israel, and Iran appear to have different definitions of what a workable 'endgame' looks like.

#### Exhibit 4: Latest WTI Oil Price Scenarios to Navigate the Shifting Outlook

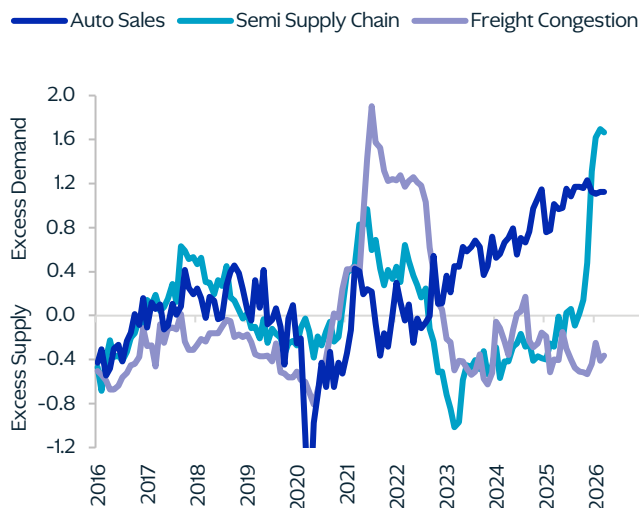
##### WTI Crude Oil Price Scenarios, US\$/bbl



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

#### Exhibit 5: Semiconductor Supply Chains Were Already Becoming Tight, Even Before Embedding Potential Headwinds to Taiwanese Production From LNG and Helium Scarcity

##### Supply Chain Indicators



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

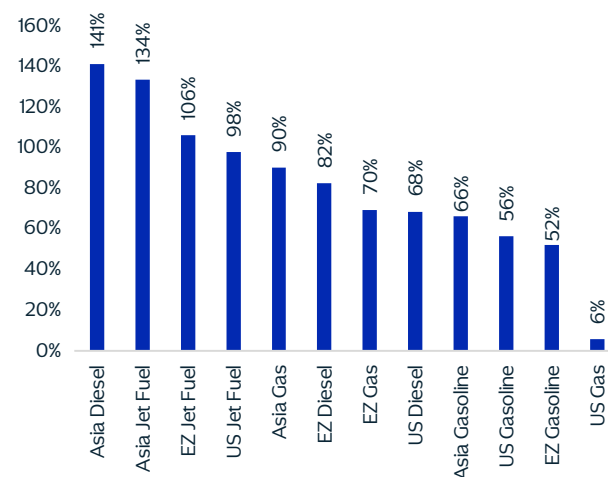
## 2

Markets are treating this conflict very differently than prior geopolitical events, and we are not so sure this more optimistic approach is the right one.

As *Exhibit 1* shows, equities and credit spreads have, until recently, priced in a fraction of the concerns we saw after ‘Liberation Day’ or Russia’s invasion of Ukraine. *Exhibit 6* below shows that near term, Asian diesel and jet fuel prices have been most impacted, increasing 141% and 134%, respectively, since the end of February. This illustrates why we believe the optimism feels mispriced, given our view that supply chains are likely to remain more snarled than the consensus now thinks.

#### Exhibit 6: Asian Diesel and Jet Fuel Prices Have Been Most Impacted Since the Iran Conflict, Increasing 141%, and 134%, Respectively, Since End-February

##### Global Crude and Refined Products (% Change Since February 28)



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

## 3

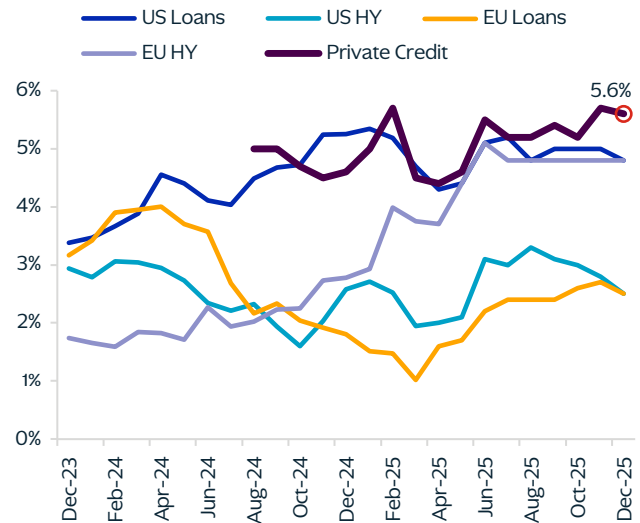
We think this Private Credit cycle will likely be more defined by recovery rates than defaults.

We think this Private Credit cycle will likely be more defined by recovery rates than defaults. During our travels, we heard lots of comments that defaults have only recently spiked. Our team has a slightly different view. For some time, Kris Novell and the macro team have been tracking Fitch's broader default measure, which extends beyond a simple missed-payment definition and includes stress events such as PIK'ing (Payment-in-Kind) of interest and amend-and-extend transactions to avoid a default. (Note: payment-in-kind allows a borrower to preserve cash by capitalizing interest into the loan balance instead of paying it in cash, which can be a sign of stress if used to solve a liquidity problem, often resulting in increasing leverage and potentially lowering recoveries later. Amend-and-extend transactions work similarly by pushing maturities out, often with higher spreads or fees, which can suppress near-term default statistics but lead to more recovery-negative outcomes if the business does not improve). On that yardstick, the stress rate has been fairly steady at around 5-6% in the past 2 years. Looking ahead, the key to this cycle, we believe, will be in recovery rates, which could land below the 50-60% of prior cycles. It is hard to predict, but we think that number could actually be 30-40% in certain instances, especially for smaller companies and situations where the lender is not willing to take over the company, or the terms were too loose at the outset. We believe the endgame winners will be defined less by who can chase yield and more by who can originate well, construct portfolios thoughtfully, and actively manage outcomes when Credit underperforms expectations.

Looking ahead, the key to this cycle, we believe, will be in recovery rates.

**Exhibit 7: Private Credit Defaults Have Been Elevated for the Past Two Years, and Trending Up**

#### LTM Default Rates (Fitch)



Direct Lending default rate refers to issuer-weighted uncured payment default, bankruptcies (liquidations, ceased operations, wind-up procedures), distressed debt exchanges /restructurings (including new PIK options and amend-to-extend). Data as at December 31, 2025. Source: Fitch.

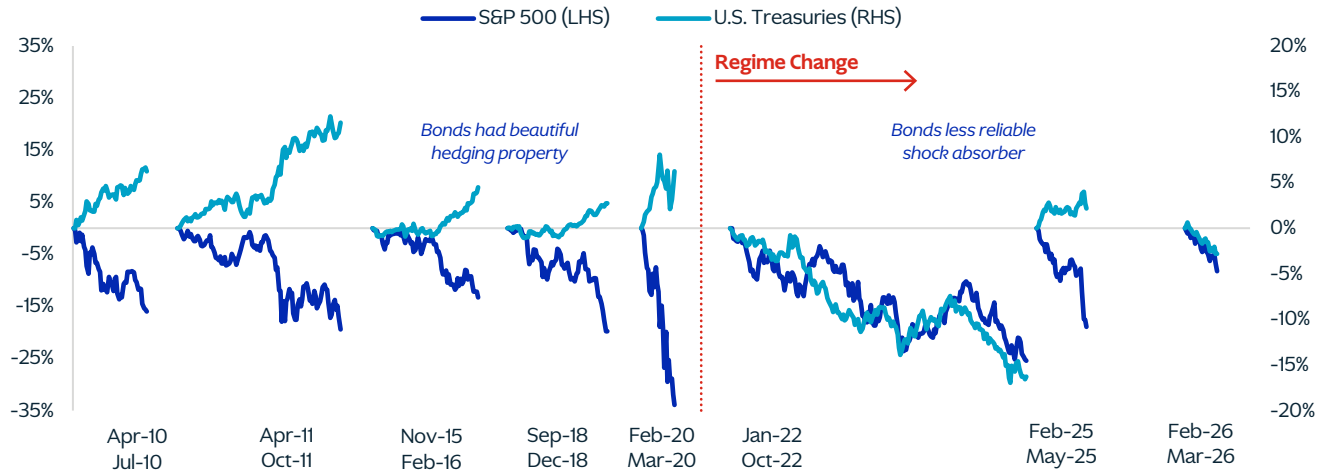
## 4

The Middle East conflict is, unfortunately, reinforcing our *Regime Change* thesis and the challenges we see for traditional portfolio construction.

Since 2020, we have argued that four forces are reshaping the macro backdrop: larger fiscal deficits, heightened geopolitical uncertainty, a messy energy transition, and stickier, more volatile inflation. Against this backdrop, we are seeing the historical relationship between stocks and bonds become less reliable, as both become more positively correlated with each other. Said another way, in this *Regime Change* environment, stocks and bonds can be under pressure simultaneously, which can render the traditional 60/40

**Exhibit 8:** Consistent With Our Regime Change Framework, Bonds Have Become Consistently Less Effective Shock Absorbers During Recent S&P 500 Corrections

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



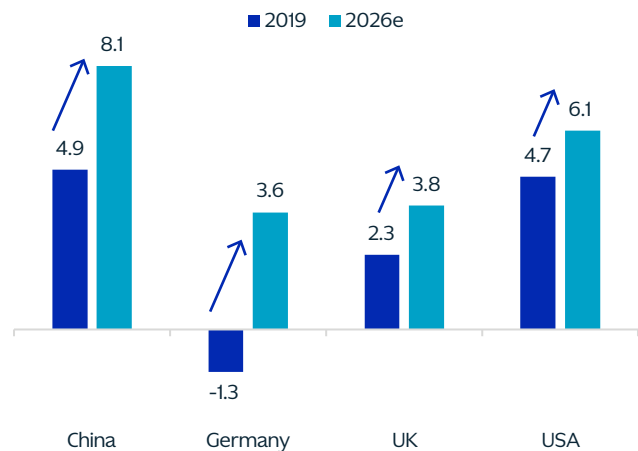
Data as at March 27, 2026. Source: Bloomberg, Haver, KKR Global Macro & Asset Allocation analysis.

framework less effective in delivering the same level of diversification benefits, particularly during periods of macro and geopolitical uncertainty. This reality is dethroning the traditional role of bonds as a 'shock absorber' in most portfolios. While the U.K. has been the most extreme case, we are seeing similar dynamics in the U.S., Germany, and Japan where bond prices are increasingly moving in lockstep with the price of equities.

Since 2020, we have argued that four forces are reshaping the macro backdrop: larger fiscal deficits, heightened geopolitical uncertainty, a messy energy transition, and stickier, more volatile inflation.

**Exhibit 9:** Bigger Deficits Remains One of the Four Key Pillars of Our Regime Change Thesis

**Fiscal Deficits as a % of GDP, Positive = Deficits**



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

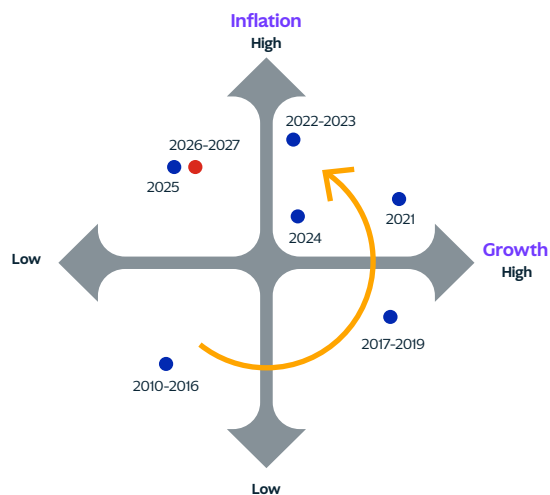
## 5

Issues in the Middle East will also reinforce several of our key long-term macro themes.

For example, the war and its knock-on impact on fuel and food prices will, unfortunately, likely intensify K-shaped economy outcomes across the U.S., Europe, and Asia. The Middle East conflict will likely inspire more spending via our 'Security of Everything' thesis, as CEOs are demanding more resiliency in their supply chains. Energy security, in particular, will likely lead to a resurgence in diversified power sources, including renewables. Finally, in a world of more uneven growth, companies will lean into making their corporate footprints more efficient (including selling non-core assets) as well as ongoing Productivity/Worker Re-Training initiatives.

**Exhibit 10:** We Think 2026 Will Remain a Higher Inflation Environment and That Our Regime Change Narrative Will Continue

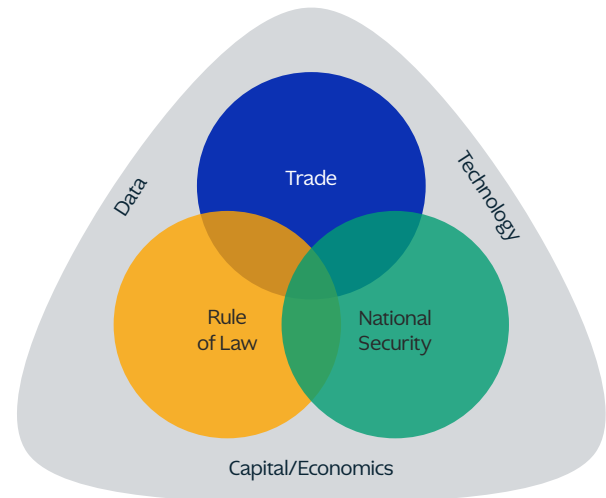
### Low and High Growth and Inflation Regimes



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

**Exhibit 11:** 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 November 30, 2025. Source: KKR Global Macro & Asset Allocation analysis.

Ultimately, while today's macro shocks feel unprecedented, the reality is that KKR has operated through volatility (and many 'unprecedented' times) over the last 50 years. Even during my 15 years with the firm, we have navigated the European sovereign debt crisis, a global pandemic, the fastest rise in short-term U.S. interest rates in modern history, and multiple wars. The common thread throughout all these events is that we have continued to deliver for our clients by leveraging our insights and remaining true to our culture. So, while I am not saying it will be easy, there is always a path forward, especially for those who can, in Rudyard Kipling words, "...keep your head when all about you are losing theirs..." Therein lies the opportunity, we believe.

Finally, in a world of more uneven growth, we expect companies will lean into making their corporate footprints more efficient.

# Forecast Updates

## Exhibit 12: Headline CPI Moves Higher on Energy

U.S. Forecast Revisions Table												
	WTI			U.S. Real GDP			U.S. CPI			Fed Funds		
	Base (60%)	Low (15%)	High (25%)	Base (60%)	Low (25%)	High (15%)	Base (60%)	Low (15%)	High (25%)	Base (60%)	Low (25%)	High (15%)
2024a	76	76	76	2.8%	2.8%	2.8%	3.0%	3.0%	3.0%	4.38%	4.38%	4.38%
2025a	65	65	65	2.1%	2.1%	2.1%	2.7%	2.7%	2.7%	3.63%	3.63%	3.88%
2026e	95	77	130	2.0%	0.5%	2.5%	3.8%	3.3%	4.8%	3.38%	2.13%	4.13%
2027e	83	70	100	1.6%	0.5%	2.2%	2.5%	2.2%	2.6%	3.13%	1.13%	3.88%

Change vs. Prior												
	WTI			U.S. Real GDP			U.S. CPI			Fed Funds		
2026e	18	20	35	-0.5%	-0.7%	-0.7%	0.5%	0.8%	0.6%	0.25%	0.50%	0.25%
2027e	13	15	10	-0.6%	-1.0%	-0.8%	0.3%	0.7%	0.1%	-0.25%	0.00%	0.50%

GMAA vs. Consensus												
	WTI			U.S. Real GDP			U.S. CPI			Fed Funds		
2026e	11	-7	46	-0.3%	-1.8%	0.2%	0.8%	0.3%	1.8%	0.00%	-1.25%	0.76%
2027e	10	-3	27	-0.4%	-1.5%	0.2%	0.0%	-0.3%	0.1%	-0.13%	-2.13%	0.63%

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

Looking at the bigger picture, while there could be some headline resolution announcements, we remain mindful of the KKR Global Institute's assessment that conflict at roughly current intensity through mid-April, with meaningful potential to extend beyond that, is now the appropriate base case. As such, we are updating our key energy and macro forecasts to reflect these realities on the ground. The headline changes are as follows:

## Crude Oil

**Crude oil: The backdrop we outline above, with acute supply disruption lasting for weeks or months, rather than days and aligns with what had previously been our 30% high case scenario. We now treat that scenario as our 60% base case. Under this framework, WTI averages roughly \$90-100 in 2026 (Brent \$100-110), with peak months potentially reaching the mid-\$100s.**

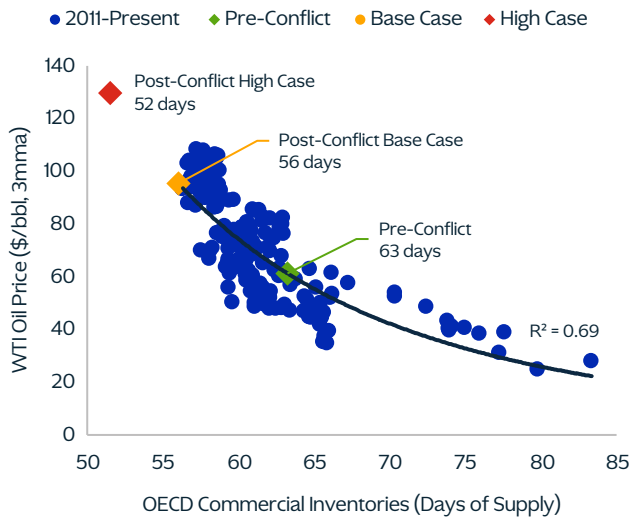
**Our revised 2026 base case of \$90-100 WTI (\$100-110 for Brent) is roughly \$10 above current futures**

**pricing.** Beyond 2026, we see WTI averaging \$75-80, still \$5-10 higher than the curve, reflecting a persistent geopolitical risk premium tied to a more hostile Iranian regime. This outlook assumes the Strait of Hormuz remains effectively closed for weeks or months, with limited visibility on reopening. In this scenario, some regional refining capacity sustains physical damage, but crude production facilities are largely spared and most shut-ins are precautionary. We estimate a 300-400 million barrels draw in OECD inventories, reducing days of supply down to roughly 56, the lowest level since 2011 (*Exhibit 13*). In response, WTI rises to sustained levels in the mid-\$100s to balance the market via demand destruction, lifting the full-year average toward the \$90-100 range.

Beyond 2026, we see WTI averaging \$75-80, still \$5-10 higher than the curve.

**Exhibit 13:** Our Revised Base Case Now Implies a 300-400 Million Barrel Draw in OECD Inventory, Leaving Just 56 Days of Supply, Which Is the Lowest Level Since 2011

### OECD Inventories (Days of Supply) vs. WTI Oil Prices



Data as at March 25, 2026. Source: EIA, Energy Intelligence, KKR Global Macro & Asset Allocation analysis.

**By contrast, the base case we outlined in early March, \$75-80 WTI (and \$85-90 Brent) with sustained peaks in the low-\$100s, now becomes our 15% low case. To get there, we think we would need to see a meaningful breakthrough in negotiations over the next one to two weeks.** Unfortunately, we still cannot rule out a higher-severity outcome. **In our 25% high case, the shock is not limited to extended Hormuz restrictions, but also to a sharp escalation in hostilities resulting in extensive further Gulf infrastructure destruction, restricting supply well beyond the conclusion of the hot conflict. In this case we think oil could average \$130 in 2026, with peak months around \$180 (>\$200 Brent).** While such pricing would mark a sharp escalation, we note that this scenario is actually aligned with in-house forecasts of major oil producers should the energy shock persist past April. It would also be consistent with the tripling of oil prices that took place during the 1973-74 OPEC embargo. If there is any good news, we feel strongly that oil prices will eventually moderate back below \$80-100 even in this high case, which would be different from the structural price increases that the world weathered in the 1970s. The crucial differences this cycle, we believe, are that

1) global demand growth is now much slower than the approximately 5% structural demand growth the world was experiencing in the late-1960s and early-1970s, and 2) shale oil now offers a much more flexible source of supply growth relative to the long-lead/capex heavy cycles of traditional oil development.

## U.S. GDP

### U.S. GDP: We are lowering our base case GDP

**forecasts for 2026-27 by a cumulative 1.1%.** Looking at the details, 2026e falls to 2.0% from 2.5% and 2027e to 1.6% from 2.2%. These estimates are now below consensus of 2.3% for 2026 and 2.0% for 2027.

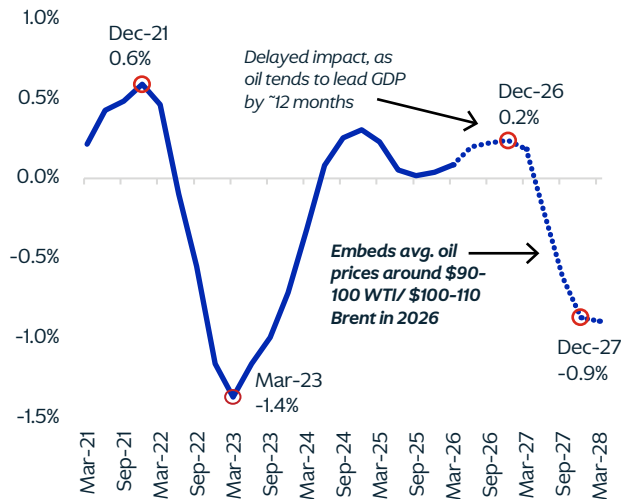
**Importantly, the U.S. is not unique: across most regions, our revised base cases assume a roughly one percentage point headwind from higher energy prices in the near term.** We are particularly alert to pressure on discretionary consumption, especially among middle- and lower-income households, as well as on cyclical and rate-sensitive parts of the economy such as construction, residential housing, and credit-financed consumer durables. Geographically, we remain most watchful of energy import-dependent economies, particularly where LNG reliance is high and balance-of-payments dynamics could come under stress.

**Unsurprisingly, higher energy prices — specifically the ‘tax’ on disposable incomes — is the key pressure point on our outlook.** *Exhibit 14* shows how higher oil prices flow through to our statistical leading indicator model with a max drag of 0.9%. Beyond the 0.9% energy drag, other macro factors now weighing on our outlook (and explaining the cumulative 1.1% reduction in our forecast) include associated growth drags from moderately wider credit spreads and reduced household wealth effects.

Unsurprisingly, higher energy prices — specifically the ‘tax’ on disposable incomes — is the key pressure point on our outlook.

**Exhibit 14:** Our Models Embed a Max Cumulative GDP Headwind of -0.9% from Oil. Because a Supply Shock Is Driving High Prices, We Expect the Headwind to Materialize Faster Than the 'Normal' 4-6 Quarter Lag

#### Oil Price Contribution to GDP Growth, Per GMAA Leading Indicator Model



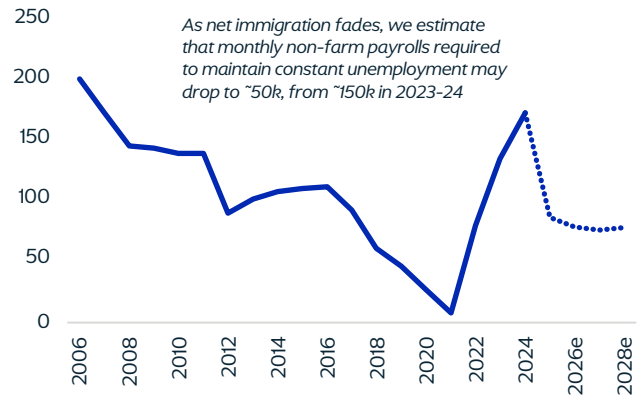
Our U.S. GDP Growth Leading Indicator is a combination of eight macro inputs that together we think have significant explanatory power regarding the U.S. real GDP growth outlook. Data as at March 25, 2026. Source: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Haver Analytics, Bloomberg, KKR Global Macro & Asset Allocation analysis.

One wrinkle in our revisions is that we expect higher oil prices to start weighing on growth as soon as 2Q26, which is different from the 4-6 quarter lag that our quant models would traditionally expect between oil prices and growth headwinds. What we think is different now is that the oil price spike is coming from a pure supply shock, whereas higher energy prices are normally associated with strong demand from healthy near-term growth.

The U.S. is not unique: across most regions, our revised base cases assume a roughly one percentage point headwind from higher energy energy prices in the near term.

**Exhibit 15:** In a Sustained Low Immigration Environment, We Think the U.S. Can Actually Only Sustain About ~50k Jobs/Month

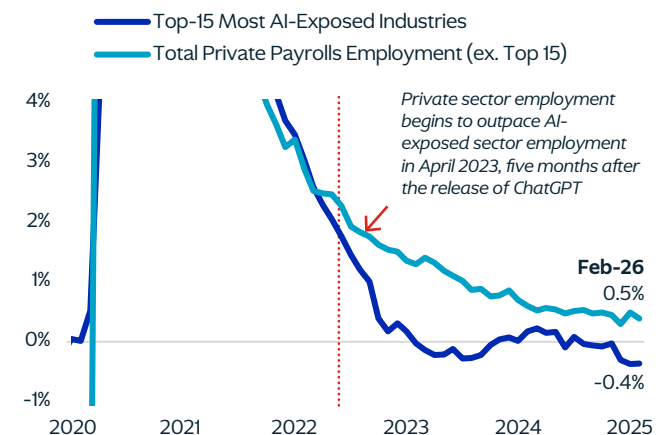
#### Approximate Monthly NFP Growth Required to Maintain Constant Unemployment Rate (Thou.)



Data as at September 30, 2025. Source: U.S. Bureau of Economic Analysis, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

**Exhibit 16:** AI Has Yet to Become a Prime Mover of the Jobs Cycle, However, It Is a Headwind at the Margins

#### Employment in Top-15 Most AI-Exposed Industries vs. Rest of Economy (%chg yoy)



Industries are selected based on 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 February 28, 2026. Source: Evercore, Bloomberg, U.S. Bureau of Labor Statistics, KKR Global Macro & Asset Allocation analysis.

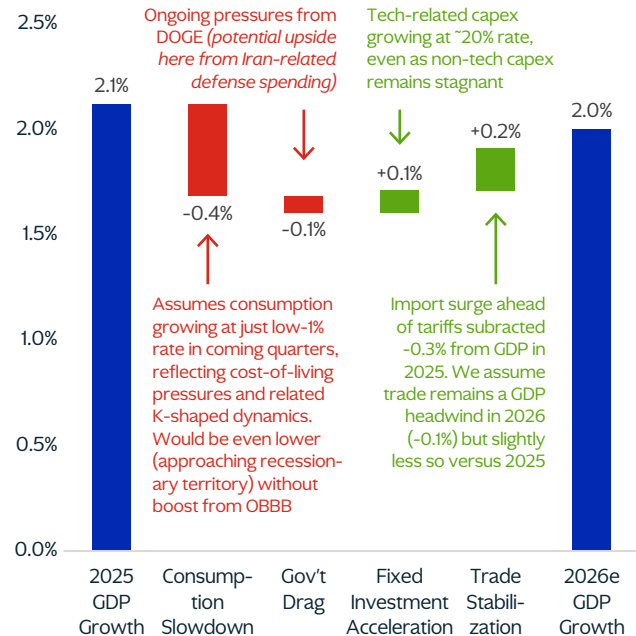
**Moving beyond quant models, the areas where we are most heads-up about fundamental crosscurrents include the following:**

- Discretionary consumer spending, particularly for middle and lower-income consumers:** As outlined in *Exhibit 17*, we expect real Personal Consumption Expenditure growth to fall to just a mid-1% rate in coming quarters. Ex OBBB tax refunds, we think growth would approach just 1%, which is traditionally where consumer spending falls in mild recessions. We expect the most acute pressures on middle- and lower-income consumers, for whom energy bills eat up a considerable chunk of income (*Exhibit 18*). One point to keep in mind today is that job growth had been running at just zero-to-50k per month even before the energy shock. By comparison, during the last energy shock in 2022, the labor market was still in a heated phase of post-pandemic job creation (+375k per month on average), which provided a substantial buffering effect to households. To be clear, our base case is not calling for hard landing or for a substantial spike in unemployment (6%+), but we do think the weaker labor market means that this cycle will be different for consumer spending.

We are particularly alert to pressure on discretionary consumption, especially among middle and lower-income households, as well as on cyclical and rate-sensitive parts of the economy such as construction, residential housing, and credit-financed consumer durables.

**Exhibit 17:** We Assume a Weak Consumer Backdrop in 2026 (Akin to Just Around 1% Growth), But Tech Capex and Trade Stabilization Are Key Offsets. OBBB Stimulus Also Helps Buffer Consumers

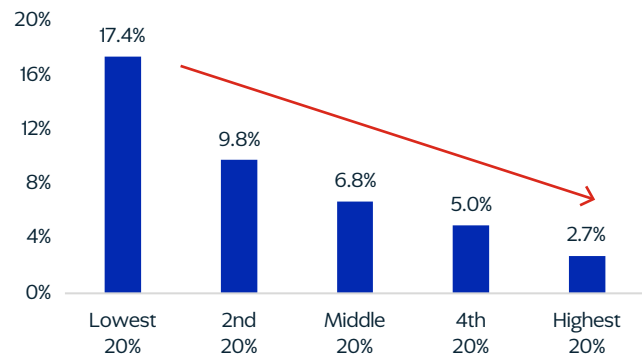
#### Contributions to KKR GMAA 2026e GDP Differential vs. 2025



Data as at March 25, 2026. Source: KKR Global Macro & Asset Allocation estimates.

**Exhibit 18:** Lower-Income Households Are Most Challenged By High Energy Prices

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



Energy spend here includes gasoline, motor oil, electricity, fuel oil, and natural gas. Latest data as at March 10, 2026. Source: 2024 BLS Survey of Consumer Expenditures, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

- **Areas that are both cyclical and rate-sensitive, including Residential Housing, Non-Residential Construction, Non-Tech Capex, and variable-rate financing.** Consistent with our Regime Change framework, long-term interest rates have so far risen — not fallen — in response to the Iran shock. As such, we expect further pressures on markets that were already under pressure from higher-for-longer rates, particularly in terms of construction investment, HPA, credit-financed consumer durable goods, and non-tech capital expenditures.
- **Likely Offsets: Lower Tariffs, Defense Spending, Tech Capex.** As outlined in *Exhibit 17*, an import surge in advance of tariffs was a notable drag on growth in 2025. With this one-time surge now normalizing, we expect trade may prove less of a growth headwind in 2026. Furthermore, we may actually see tariff rates fall further in 2026. In particular, we think the U.S. Trade Representative may struggle to roll out the Section 301 rulings that would be necessary to replace the Trump Administration's temporary 10% Section 122 tariffs set to expire this July. Separately, we expect an acceleration in defense spending, which may help offset ongoing pressures on government non-defense spending. Finally, we expect AI-related capex to remain a considerable tailwind across tech equipment, software, data centers, and electrical spending.
- **In terms of High and Low scenarios, our probabilities align with the oil cases outlined above.** Specifically, in our 25% High Case for oil (prices averaging \$130 in 2026, with peak months of \$180-200) we would want to prepare for a hard landing scenario of 0-1% GDP in 2026-27 and unemployment > 6%. Meanwhile, in our 15% low case for Oil, GDP could revert back to our prior base case of mid-2% or higher growth this year and next.

## U.S. Inflation

In the U.S., we now forecast CPI inflation of 3.8% in 2026, which is a considerable jump from 3.3% previously (and well above our pre-conflict baseline of 2.6%). Not surprisingly, a spike in energy inflation drives most of

the revision, though we also see upward pressure on Core inflation items including airfares and raw material-intensive goods prices. One partial offset remains shelter, where a softer housing backdrop continues to dampen inflation in a category that represents roughly 40% of Core CPI. Importantly, we continue to believe that second-round effects into core inflation will remain contained. As such, we are increasing our 2026 core CPI forecast by just +0.1pp to 2.8%, reflecting limited spillovers beyond energy.

**We expect the pass-through from energy into core inflation to remain modest**, consistent with prior geopolitically driven supply shock episodes (e.g. Ukraine, Libya, Venezuela). Empirically, a 10% increase in oil prices typically adds only around 5 basis points to core inflation, underscoring that the transmission into core inflation is modest.

At a more granular level, energy shocks feed most quickly into transportation-related categories, including autos and airfares, typically within a 0-4 month window. Core goods ex-autos tend to follow with a lag, reflecting higher input and distribution costs. At the same time, higher energy prices weigh on real incomes and tighten financial conditions, which should drive some near-term softness in shelter inflation, even as broader core services inflation firms modestly over time. **Importantly, these second-round effects should remain gradual and limited in magnitude, reinforcing our view that this is primarily a headline-driven inflation shock rather than a broad-based reacceleration in underlying inflation.**

**In terms of High and Low scenarios, our probabilities align with the oil cases outlined above.** In our high case (25% probability), where oil prices average approximately \$130 per barrel, we would expect headline inflation to rise to 4.8% in 2026, with core inflation increasing to 3.0% in 2026 and remaining elevated at 2.9% in 2027. **Importantly, in this scenario we would expect supply chain disruptions to extend beyond energy into fertilizers, industrial inputs, and semiconductors.** Conversely, in our low case (15% probability), where energy prices normalize more quickly, inflation would revert toward our prior baseline, with headline CPI at 3.3% and core inflation at 2.7%.

**Exhibit 19: We Expect the Pass-Through From Energy Into Core Inflation to Remain Modest**

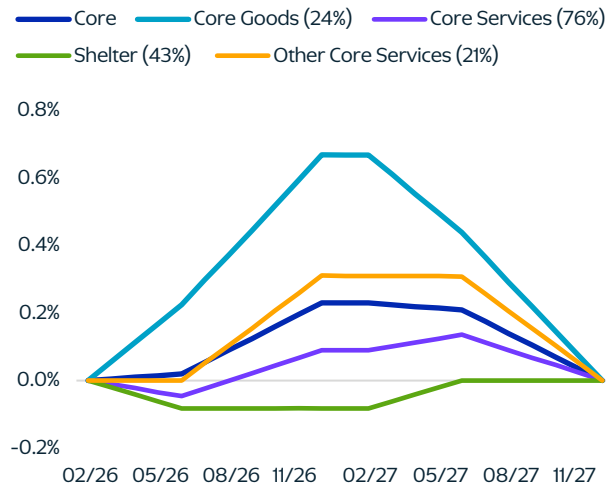
KKR GMAA U.S. CPI FORECAST DETAIL											
	1Q26e	2Q26e	3Q26e	4Q26e	1Q27e	2Q27e	3Q27e	4Q27e	Full-Year 2025	Full-Year 2026e	Full-Year 2027e
<b>Headline CPI</b>	<b>2.6%</b>	<b>4.6%</b>	<b>4.2%</b>	<b>3.9%</b>	<b>3.8%</b>	<b>2.0%</b>	<b>2.1%</b>	<b>2.2%</b>	<b>2.7%</b>	<b>3.8%</b>	<b>2.5%</b>
Energy (7%)	3.0%	29.9%	25.1%	15.5%	16.0%	-5.8%	-2.0%	2.5%	0.1%	18.4%	2.7%
Food (13%)	3.0%	3.0%	2.8%	2.9%	2.5%	2.4%	2.4%	2.4%	2.9%	2.9%	2.4%
<b>Core CPI (80%)</b>	<b>2.6%</b>	<b>2.8%</b>	<b>2.8%</b>	<b>3.1%</b>	<b>3.0%</b>	<b>2.7%</b>	<b>2.5%</b>	<b>2.2%</b>	<b>2.9%</b>	<b>2.8%</b>	<b>2.6%</b>
<b>Core Goods (18%)</b>	<b>1.2%</b>	<b>1.7%</b>	<b>1.9%</b>	<b>2.4%</b>	<b>2.4%</b>	<b>1.8%</b>	<b>1.0%</b>	<b>0.3%</b>	<b>0.8%</b>	<b>1.8%</b>	<b>1.4%</b>
Vehicles (6%)	-0.8%	0.5%	1.1%	1.4%	2.2%	1.4%	0.7%	0.2%	1.0%	0.5%	1.1%
Other Core Gds (12%)	2.3%	2.4%	2.4%	3.0%	2.6%	2.0%	1.2%	0.3%	0.7%	2.5%	1.5%
<b>Core Services (62%)</b>	<b>3.0%</b>	<b>3.1%</b>	<b>3.0%</b>	<b>3.3%</b>	<b>3.2%</b>	<b>3.0%</b>	<b>2.9%</b>	<b>2.8%</b>	<b>3.6%</b>	<b>3.1%</b>	<b>3.0%</b>
Shelter (35%)	3.1%	2.8%	2.6%	2.7%	2.6%	2.5%	2.4%	2.3%	3.9%	2.8%	2.4%
Medical (7%)	4.0%	4.0%	3.9%	4.7%	4.7%	4.6%	4.5%	4.3%	3.4%	4.1%	4.5%
Education (3%)	2.8%	2.8%	2.9%	3.1%	3.3%	3.4%	3.2%	3.1%	3.5%	2.9%	3.3%
Other Core Services (18%)	2.5%	3.6%	3.6%	4.1%	3.7%	3.4%	3.2%	3.1%	3.0%	3.5%	3.4%
<i>Memo: 'Supercore' Svcs ex Shelter</i>	2.9%	3.6%	3.6%	4.1%	3.9%	3.7%	3.6%	3.4%	3.1%	3.6%	3.7%

KKR GMAA U.S. CPI FORECAST REVISIONS (PRIOR = 3/12/26)											
	1Q26e	2Q26e	3Q26e	4Q26e	1Q27e	2Q27e	3Q27e	4Q27e	Full-Year 2025	Full-Year 2026e	Full-Year 2027e
<b>Headline CPI</b>	<b>-0.1%</b>	<b>0.7%</b>	<b>0.8%</b>	<b>0.6%</b>	<b>0.9%</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.2%</b>	<b>0.0%</b>	<b>0.5%</b>	<b>0.3%</b>
Energy (7%)	-1.0%	11.0%	11.1%	6.4%	10.7%	0.3%	0.0%	2.0%	0.0%	6.9%	3.3%
Food (13%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Core CPI (80%)</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.1%</b>	<b>0.2%</b>	<b>0.2%</b>	<b>0.2%</b>	<b>0.1%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.1%</b>	<b>0.2%</b>
<b>Core Goods (18%)</b>	<b>0.0%</b>	<b>0.2%</b>	<b>0.4%</b>	<b>0.6%</b>	<b>0.6%</b>	<b>0.5%</b>	<b>0.3%</b>	<b>0.1%</b>	<b>0.0%</b>	<b>0.3%</b>	<b>0.4%</b>
Vehicles (6%)	0.0%	0.5%	0.7%	0.7%	0.7%	0.3%	0.1%	0.0%	0.0%	0.5%	0.3%
Other Core Gds (12%)	0.0%	0.0%	0.2%	0.5%	0.6%	0.6%	0.4%	0.1%	0.0%	0.2%	0.4%
<b>Core Services (62%)</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.1%</b>
Shelter (35%)	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	-0.1%	0.0%
Medical (7%)	0.0%	0.0%	0.1%	0.3%	0.3%	0.3%	0.2%	0.1%	0.0%	0.1%	0.2%
Education (3%)	0.0%	0.0%	0.1%	0.3%	0.3%	0.3%	0.2%	0.1%	0.0%	0.1%	0.2%
Other Core Services (18%)	0.0%	0.0%	0.1%	0.3%	0.3%	0.3%	0.2%	0.1%	0.0%	0.1%	0.2%

Data as at March 27, 2026. Source: Bloomberg, KKR Global Macro &amp; Asset Allocation analysis.

## Exhibit 20: Expected Uplifts/(Pressures) on Core CPI Components Over Time From Energy Prices

### Uplift to Core Inflation, %



Data as at March 25, 2026. Source: Bloomberg, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

## Interest Rates

Markets are increasingly pricing in a base case where higher headline inflation forces the Fed back into hiking mode. No doubt, the Fed needs to manage the risk that higher energy prices lead to unmoored consumer inflation expectations. However, as described above, we actually think most core CPI categories will ultimately not surge as much as headline inflation.

At the same time, the growth drag from higher oil means that the Fed will have more pressure on the full employment side of its mandate, too. Against that backdrop, we think the Fed will opt for a more patient approach to this cycle but will ultimately need to cut rates as labor market pressures become more visible.

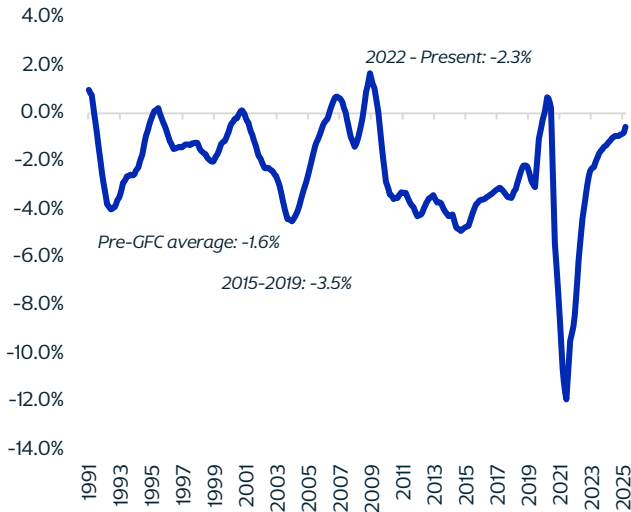
- **Fed funds:** We have moved from two cuts in 2026 to one cut in 2026 followed by one additional cut in 2027. That path takes fed funds to 3.125% by year-end 2027, below our pre-conflict expectation of 3.375%, as commodity prices stabilize and the Fed's focus shifts back toward the full-employment side of its mandate (meaning the Fed will need to take rates a bit below neutral).

- **Neutral rate:** Our longer-term view of neutral remains unchanged at approximately 3.375% this cycle. We think about neutral policy in terms of the real policy rate, which we measure as fed funds less core CPI. We continue to see a neutral real rate of roughly 1.0% this cycle (*Exhibit 21*), and our forecasts actually imply that the Fed takes real rates modestly below this level to stimulate the economy in 2027 (*Exhibit 22*). Said differently, in real terms, our forecasts have the Fed easing, but not aggressively, and not quickly.
- **10-year Treasury:** We raise our 2026 10-year Treasury forecast to 4.5% from 4.25%. Beneath the surface, we see the combination of wider deficits, higher inflation uncertainty, and positive stock-bond correlations adding about 20 basis points to our term premium model in the near term, which drives our revisions, even as our longer-term neutral expectations remain unchanged. Longer term, we continue to view 4.0% as an appropriate 'resting' level for the 10-year this cycle absent a material, sustained upside surprise in trend growth and/or inflation. Indeed, history suggests that real 10-year Treasury yields typically settle 1-2% below real growth during expansions (*Exhibit 24*). Through that lens, our forecast for a 4.0% nominal 10-year yield is already relatively high 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 towards five percent on a sustainable basis unless inflation/growth were to accelerate, too (which is not our base case).

We think the Fed will opt for a more patient approach to this cycle but will ultimately need to cut rates as labor market pressures become more visible.

**Exhibit 21: We Think 'Neutral' Real Rates Are About 100 Basis Points Below Real Growth This Cycle**

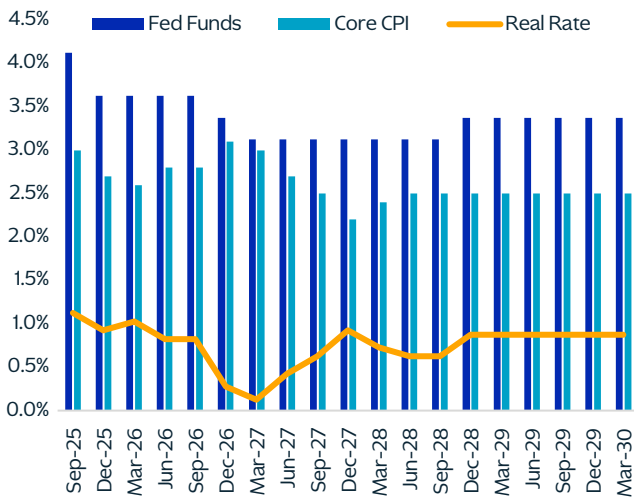
**TTM Real Rate - Real GDP**



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

**Exhibit 22: Our Fed Funds Forecast Implies Real Rates Move Only Slightly Below Neutral in 2026-2027, as the Fed Balances Its Growth and Inflation Mandates**

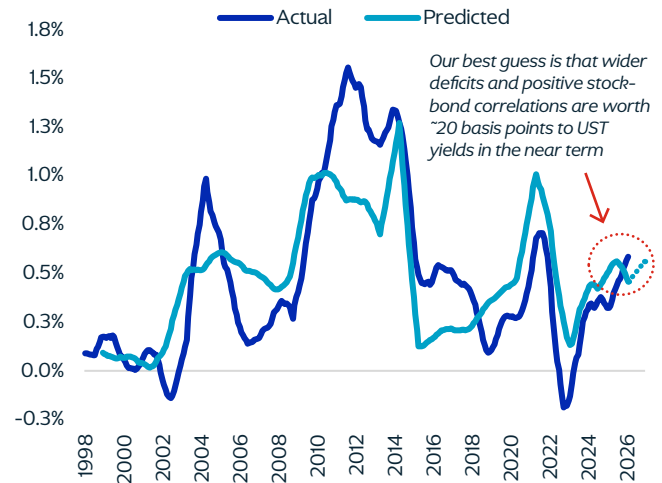
**Real Rates and CPI, %**



Data as at March 27, 2026. Source: KKR Global Macro & Asset Allocation analysis.

**Exhibit 23: Our Best Guess Is That Wider Deficits and Positive Stock-Bond Correlation Add an Additional 20 Basis Points to 10-Year UST Yields in the Near Term**

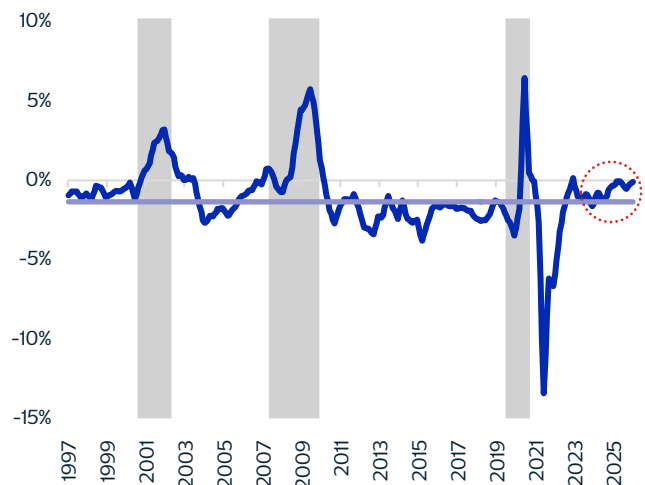
**Yield Curve Steepness: 10-Year U.S. Treasury - 1 Month Bill, 2-Year Forward**



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

**Exhibit 24: History Suggests That It Will Be Difficult to Sustain Bond Yields at Current Levels, Barring a Big Acceleration in Growth and/or Inflation**

**'Yield Premium': Real 10-Year Yield - Real GDP Growth, 3 Month Moving Average**



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

## S&P 500

**We lower our year-end targets to 7,300 (from 7,600) for 2026 and to 7,800 (from 8,130) for 2027.** While we still see upside for U.S. equities over the next 9-12 months, near-term downside risks have increased, with the index potentially testing sub-6,000 levels — a 15-20% peak-to-trough drawdown comparable to the Russia/Ukraine and ‘Liberation Day’ selloffs. This would compress NTM P/E to around 18x (from about 19x today and a peak of around 23x in 4Q25), a level at which downside risks are more fully priced, paving the way for stabilization and recovery in subsequent months. We think 6,000 would bring embedded EPS growth closer to its long-term average of 11%, down from 13% currently and fully 15% at the beginning of the year.

### On earnings, we view the impact of \$100 WTI as actually more manageable than one might expect.

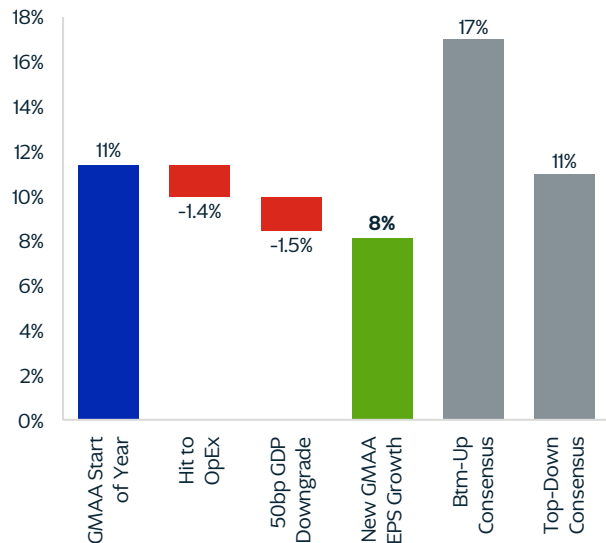
Oil accounts for just 1.5% of total S&P 500 operating expenses, implying a direct EPS headwind of roughly 1.4%. The indirect impact of weaker demand (-50 basis points to U.S. real GDP growth) reduces EPS by an additional 1.5%. In aggregate, we lower our 2026 EPS growth forecast to 8%, from 11% previously (*Exhibit 25*). By comparison, both top-down and bottom-up consensus still point to 11-17% growth.

**On fair-value valuations, we return to the view that today’s S&P 500 is a higher-quality index than it was 10-20 years ago,** characterized by stronger margins, lower net leverage, better credit ratings, and a more asset-light sector mix. In our view, these structural improvements, together with lower oil intensity in the S&P 500 cost structure, justify somewhat higher valuations. We see fair value at 21-22x NTM P/E, above the long-term sector- and quality-adjusted median of 19.7x (*Exhibit 26*).

Oil accounts for just 1.5% of total S&P 500 operating expenses, implying a direct EPS headwind of roughly 1.4%.

**Exhibit 25:** We Lower Our 2026 S&P 500 EPS Growth Forecast to 8% (From 11%), As \$100 Oil Prices Lead to Weaker Demand and Higher OpEx

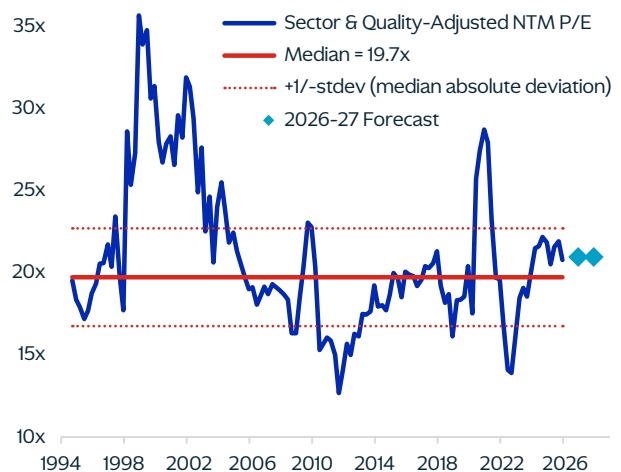
### S&P 500 2026 EPS Growth Decomposition (Impact on EPS from ~\$100/bb WTI Oil Price)



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

**Exhibit 26:** Once We Adjust for Changes in Sector Composition and Quality, S&P 500 Valuations Do Not Look Nearly as Expensive Relative to History

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



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

## Conclusion

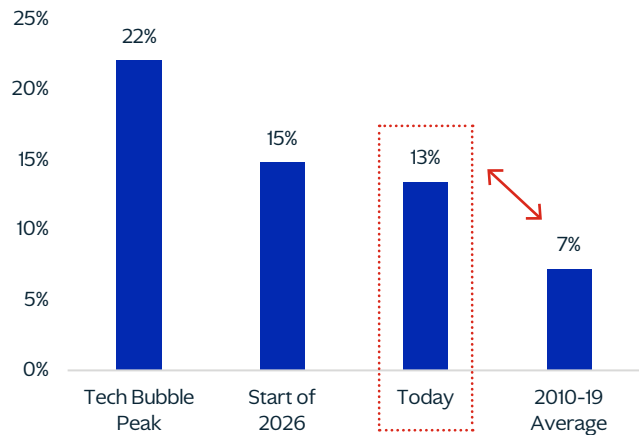
We update these forecasts with a great deal of humility given the dynamic and uncertain environment we now see unfolding. Regardless, we think the team's collective efforts intend to suggest not only a harsher environment in our base case but also that the distribution of outcomes has widened and is now likely more centered around commodity prices than in the past. Moreover, for global allocators, we think traditional diversification tools are less reliable in this environment, especially as stocks and bonds can struggle at the same time when inflation risk premia rise and term premium is repriced.

Looking ahead, our central macro framework is largely unchanged. Specifically, as we mentioned at the beginning of the year in our High Grading note (see our [Outlook for 2026](#)), now is the time to upgrade one's portfolio. We certainly did not forecast the current series of events, but our models were showing that both embedded equity growth expectations (which were 15% at the beginning of the year versus a long-term historical average of 11%) and implied default rate (of just slightly above 2% in High Yield, compared to a historical average of 5.4%) were probably too rosy.

We think the team's collective efforts intend to suggest not only a harsher environment in our base case but also that the distribution of outcomes has widened and is now likely more centered around commodity prices than in the past.

**Exhibit 27:** The Implied Market Pricing of the S&P 500 EPS Growth Remains Elevated Relative to the 2010-19 Average

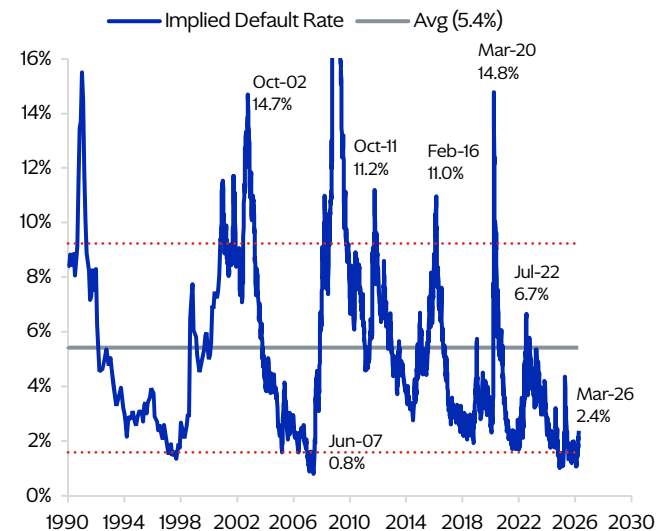
### Market-Implied EPS Growth of S&P 500, Based on 2-Stage Dividend Discount Model



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

**Exhibit 28:** U.S. High Yield Implied Default Rate at <2.5% Remains Too Rosy, In Our View

### U.S. High Yield Implied Default Rate, %



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

As we move ahead, we want to keep reinforcing that our latest five-year expected return framework points to a potentially more challenging backdrop for portfolio construction than we have seen in recent years. Specifically, the efficient frontier has flattened at the same time that overall absolute return expectations have also declined again. All told, the return differential between the best and worst performing assets in a portfolio continues to tighten and is now 7.4% compared to 8.1% in our Mid-year 2025 update and 9.1% a few years ago (*Exhibit 29*). Richer valuations in public risk assets and lower starting yields in fixed income are compressing forward-looking return potential, all against a macro backdrop defined by higher trend inflation, persistent fiscal deficits, and rising geopolitical tensions. In such an environment, the premium on quality within public markets has increased meaningfully, while the role of Private Markets as a source of return, diversification, and inflation resilience is becoming more central to portfolio design, we believe.

As such, across Private Markets, we are leaning into what we think works best in a narrower-return world. That includes operational alpha in Private Equity with less reliance on leverage, upfront yield and stronger structures in Private Credit, and inflation-linked cash flows in Infrastructure and Asset-Based Finance, where contractual frameworks can help dampen macro noise. Events in Iran also reinforce our longer-running themes around *Regime Change* and the Security of Everything, where spending on resiliency, power, logistics, and defense continues to rise.

As we move ahead, we want to keep reinforcing that our latest five-year expected return framework points to a potentially more challenging backdrop for portfolio construction than we have seen in recent years.

**Exhibit 29:** The Forward-Looking Expected Range of Outcomes Will Be Narrower, We Believe

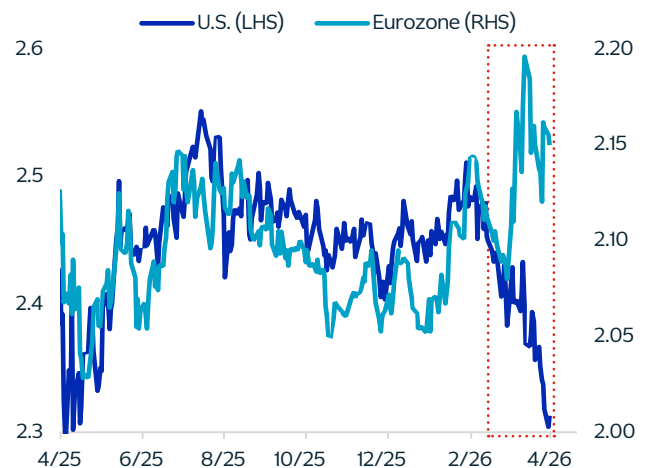
### Expected Return Range of Outcomes, %



Data as at November 27, 2025. Source: KKR Global Macro & Asset Allocation analysis.

**Exhibit 30:** There Is a Divergence Happening in Inflation Pricing as U.S. Inflation Expectations Remain Well Anchored, While the Eurozone Has Surged

### 5y5y Forward Inflation Swaps



Data at March 30, 2025. Source: Bloomberg.

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## Important Information

### Past performance is no guarantee of future results.

References to “we,” “us,” and “our” refer to Mr. McVey and/or KKR’s Global Macro and Asset Allocation team, as context requires, and not of KKR. The views expressed reflect the current views of Mr. McVey as of the date hereof and neither Mr. McVey nor KKR undertakes to advise you of any changes in the views expressed herein. Opinions or statements regarding financial market trends are based on current market conditions and are subject to change without notice. References to a target portfolio and allocations of such a portfolio refer to a hypothetical allocation of assets and not an actual portfolio. The views expressed herein and discussion of any target portfolio or allocations may not be reflected in the strategies and products that KKR offers or invests, including strategies and products to which Mr. McVey provides investment advice to or on behalf of KKR. It should not be assumed that Mr. McVey has made or will make investment recommendations in the future that are consistent with the views expressed herein, or use any or all of the techniques or methods of analysis described herein in managing client or proprietary accounts. Further, Mr. McVey may make investment recommendations and KKR and its affiliates may have positions (long or short) or engage in securities transactions that are not consistent with the information and views expressed in this document.

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# KKR

Kohlberg Kravis Roberts & Co. L.P.

30 Hudson Yards  
New York, New York 10001  
+1 (212) 750.8300  
[www.kkr.com](http://www.kkr.com)