



KKR Releases Report on U.S. Equities by Henry McVey

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NEW YORK--(BUSINESS WIRE)-- KKR today released a new Insights piece titled U.S. Equities: Begin the Process of “Leaning In.” The report, authored by [Henry McVey](#), Member & Head of Global Macro and Asset Allocation (GMAA), details changes he is making to the KKR GMAA Target Asset Allocation. Specifically, McVey adds two percent to the U.S. Equity position, lifting the weighting to 22% from 20% and a benchmark of 20%. This increase takes the overall Global Equity allocation to above benchmark, with a notable overweight to developed markets (DM) relative to an underweight in emerging markets (EM). He funds this increase in U.S. Equities by reducing the cash balance built up in January 2015 (see January 2015 piece [Getting Closer to Home](#)).

From a cyclical perspective, negative sentiment, decent – albeit unspectacular – EPS growth, and reasonable valuations are signals to “Lean In” to certain parts of the U.S. market.

Maybe more importantly, McVey believes that five large-scale investment opportunities may garner an increasing proportion of capital flows and investor attention of the coming years:

1. U.S. household formation is breaking out, and key sectors that may prosper include housing, multi-family rental and home repair, among others.
2. Though there may not be a major shift in consumer preferences towards higher-end products, McVey expects more consumer spending in areas including recreation, beauty, and wellness.
3. U.S. non-cyclical, growth stocks, particularly in Healthcare and Technology, are expected to continue appreciating.
4. U.S. Financial stocks are expected to perform well, too. Indicators suggest that domestic banks, insurance companies, and card companies should benefit from better credit conditions, loan growth, and lower legal costs.
5. A “value” idea for the U.S. equity market centers on the Energy sector, which is suffering from an overhang of excess capacity and capital.

Importantly, his overall allocation message is not “All In.” Rather, he suggests “Leaning In” towards specific pockets of strengths, as he still thinks that there are some important macro crosscurrents unfolding around the globe that are worthy of investor attention. In particular, he thinks we remain stuck in an asynchronous recovery, with lack of global demand from the developed markets weighing on the virtuous “cycle” that defined the economic recoveries of the 1990s and 2000s. Key to his thinking is that global trade as a percentage of GDP has peaked at a time when DM savings are up and EM exports as a percentage of GDP are falling. As such, weakened EM currencies are not helping exports; rather, they are only denting imports, further pressuring global trade.

Links to access the full report as well as an archive of our previous publications follow:

- To read the latest Insights go to <http://www.kkr.com/global-perspectives/publications/us-equities-begin-the-process-of-leaning-in>
- To download a PDF version go to http://www.kkr.com/sites/default/files/KKR_Insights_31-150908.pdf
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