



KKR Releases “Regime Change: Enhancing the ‘Traditional’ Portfolio”

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Latest Macro Report Highlights Why Today’s Investment Regime Warrants a New Approach to Portfolio Construction

NEW YORK--(BUSINESS WIRE)-- KKR, a leading global investment firm, today announced the release of *Regime Change: Enhancing the ‘Traditional’ Portfolio* by Henry McVey, CIO of KKR’s Balance Sheet and Head of Global Macro and Asset Allocation (GMAA) and Racim Allouani, who oversees Portfolio Construction, Risk Management and Quantitative Analysis across KKR’s Private and Public Markets Investments. In the latest *Insights* piece, McVey and Allouani assert that we have entered a new investment regime in which rising interest rates, higher levels of inflation, heightened geopolitical risks and structural forces, including a changing relationship between stocks and bonds, are creating the need for a new approach to portfolio construction.

“In today’s world of heightened macro and geopolitical uncertainty, we suggest that allocators of capital revisit whether the underlying characteristics of their existing portfolios may be changing. We firmly believe that what has worked in the past, particularly in the last decade of returns being enhanced by the negative correlation of stocks and bonds, will not be as effective in the new macroeconomic environment we envision,” said McVey and Allouani.

As such, McVey and Allouani urge investors to reexamine the traditional 60/40 portfolio construction model in order to protect their purchasing power and potentially enhance returns in this new environment. Specifically, they believe that investors should consider:

1. Enhancing the traditional 60% capital appreciation component by allocating 10% to private infrastructure and 10% to private real estate investments.
2. Rethinking the traditional 40% income component by allocating 10% to private credit investments.

According to McVey and Allouani, this 40/30/30 portfolio model materially enhances returns per unit of risk by incorporating assets that correlate positively to inflation and enable investors to capture the value of the illiquidity premium. Based on their analysis, the 40/30/30 portfolio performed better than the 60/40 model in most environments and especially during periods of high inflation, when it offered significantly less volatility and better returns than the alternative. It also did not materially dent overall liquidity.

“We think that increasing diversification to enhance portfolios so there are ‘more ways to win’ is important in the environment that we believe we are entering,” said McVey and Allouani. *“Overall, our work shows that there is a significant opportunity to not only protect but also potentially enhance both the equity and fixed income sleeves of portfolio returns.”*

Links to access this report in full as well as an archive of Henry McVey’s previous publications follow:

- To read the latest Insights, click [here](#).
- To download a PDF version, click [here](#).
- For an archive of previous publications, please visit www.KKRInsights.com.

About Henry McVey

Henry H. McVey joined KKR in 2011 and is Head of the Global Macro, Balance Sheet and Risk team. Mr. McVey also serves as Chief Investment Officer for the Firm’s Balance Sheet, oversees Firmwide Market Risk at KKR, and co-heads KKR’s Strategic Partnership Initiative. As part of these roles, he sits on the Firm’s Investment Management & Distribution Committee and the Risk & Operations Committee. Prior to joining KKR, Mr. McVey was a Managing Director, Lead Portfolio Manager and Head of Global Macro and Asset Allocation at Morgan Stanley Investment Management (MSIM). Learn more about Mr. McVey [here](#).

About Racim Allouani

Racim Allouani joined KKR in 2015 and oversees Portfolio Construction, Risk Management and Quantitative Analysis across KKR Private and Public Markets. Prior to joining KKR, he spent five years at the hedge fund of Lombard Odier as a senior quantitative portfolio analyst and risk manager, covering equity and credit long/short strategies. Prior to that, he was at Arden Asset Management, a fund of hedge funds, in the portfolio optimization group. Mr. Allouani also previously held positions at Deutsche Bank in equity research and Bank West LB in fixed income research. Learn more about Mr. Allouani [here](#).

About KKR

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