KKR Releases 2016 Global Macro Outlook

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Henry McVey Calls it a Year for "Adult Swim Only"

NEW YORK--(BUSINESS WIRE)-- KKR today released the 2016 Global Macro Outlook piece by Henry McVey, Head of Global Macro and Asset Allocation. In "Adult Swim Only," McVey cautions investors on the year ahead while noting that there are still pockets of investment opportunities:

"In laymen's terms, today's market conditions are somewhat akin to swimming at the beach when there is a strong undertow that could pull a less experienced swimmer out to sea. It might not happen, but the probability is certainly higher than under normal circumstances. As such, we think that the mantra "Adult Swim Only" seems to be a prescient catch phrase for the current macro investing environment," Henry McVey said. "That said, the current macro backdrop does not mean that there are no good investment opportunities. Rather, one just needs to think through how to embrace current market volatility to one's advantage."

Key investment opportunities for 2016 include the following:

1. **Private Credit Appears to Be a Huge Opportunity in 2016**. Recent gyrations in the financing markets are providing non-bank lenders a significant opportunity to leverage the market's illiquidity premium to earn compelling risk-adjusted returns. In particular, private financing opportunities linked to real estate, infrastructure, corporate take-overs, and equipment currently appear to be the best risk-adjusted opportunity in the market today.

2. **Liquid Markets Favors Credit**. Within liquid markets, we currently favor credit over equities, and within credit, we see strong relative value across credit particularly in high quality levered loans. In equities, we argue for multiple contraction, driven by China's shift in currency policy, heightened geo-political tensions, and the lengthy duration of the cycle.

3. **Global Consumer**. The outlook for certain segments influenced by the global consumer is positive. A high priority, we believe, would be to find opportunities around key trends like improving household formation, increasing Internet penetration, and an intensifying focus on healthcare/beauty/wellness.

4. **Debt-Driven Restructurings**. China's ongoing slowdown in fixed investment could lead to new and exciting opportunities for Distressed/Special Situations investors. We are also bullish on the dislocated credit opportunities that we see in Europe (largely financial institutions).

5. **Infrastructure/Real Estate**. Within Real Assets, the current environment favors investments that can provide yield and growth versus owning outright commodity positions.

In addition to the above themes, the report details key macro influences that factor into the Global Macro and Asset Allocation's updated asset allocation model for 2016.

Links to access the 2016 outlook pieces 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.
- To download the KKR Insights app on iTunes: click here.
- For an archive of previous publications of Insights and Thoughts From the Road: click here.

About Henry McVey

Henry H. McVey (New York) joined KKR in 2011 and is Head of the Global Macro and Asset Allocation team. Mr. McVey also serves as Chief Investment Officer for the Firm's Balance Sheet. 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). Prior to that, he was a portfolio manager at Fortress Investment Group and chief U.S. investment strategist for Morgan Stanley. While at Morgan Stanley, Mr. McVey was also a member of the asset allocation committee, and the top ranked asset management and brokerage analyst by Institutional Investor for four consecutive years before becoming the firm's strategist. He earned his B.A. from the University of Virginia and an M.B.A. from the Wharton School of the University of Pennsylvania. Mr. McVey serves as co-chair of the TEAK Fellowship board of trustees and is a member of the Pritzker Foundation and Lincoln Center Investment Committees.

About KKR

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