



KKR Releases 2021 Global Macro Outlook

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Henry McVey: The Path Towards Faster Nominal GDP Growth

NEW YORK--(BUSINESS WIRE)-- KKR today released its 2021 Global Macro Outlook piece by Henry McVey, Head of Global Macro and Asset Allocation (GMAA). In "Another Voice," McVey outlines his team's perspective on why we are entering a new period of heightened economic growth that will create significant potential investment opportunities.

In McVey's view, several forces at work are likely to lead to strong gains in global nominal GDP in the year ahead, including:

- **Sustained Government Spending.** We expect this will support major initiatives in broadband, education, supply chain resilience, energy transition and climate change, health care coverage, and traditional infrastructure.
- **A Stronger Than Expected Rebound in Consumer Spending Once the Vaccine Is Widely Available.** We think the potential magnitude of this spending power could be underestimated, as consumers at the high end have benefitted from increased rates of savings while those at the low end have been supported by generous government transfers.
- **The Federal Reserve and Its Global Peers Remaining Aggressive.** We expect the Federal Reserve to remain extremely aggressive on the bond buying front and also expect more action from the Bank of England and the European Central Bank in 2021.
- **Faster Than Expected Recovery in Asia, with Continued Expansion beyond China.** The recent surge in Japan's stock market suggests cyclical growth is accelerating and we also see China's millennial population remaining increasingly resilient in 2021. Given China typically accounts for about one third of global growth each year, this positive momentum has important implications for the global economy.

Overall, this transition towards faster nominal GDP growth is hugely important for investors and permeates all aspects of the GMAA team's top-down thinking. To this end, the team is bullish on the following themes as we enter 2021:

- **Asset-based Cash Flows:** We have entered a unique period where global central bankers, particularly in the U.S., are doing everything in their power to stoke some inflation to accelerate growth in nominal GDP by holding nominal interest rates at record low levels. In the near-term, the importance of an above average cash flow generated by these assets could improve trading multiples. Longer-term, we think the value of the sound collateral that backs the cash flows will further enhance performance.
- **Rise of the Global Millennial:** We think we are at an inflection point for consumption patterns by the global millennial, with the most powerful part of the global millennial story emanating from Asia. All told, there are now 822 million Asian millennials, 12 times more than in the U.S.
- **Fiscal Beneficiaries, Including ESG, amidst a Renaissance in Big Government:** In a world of low rates and high unemployment, we expect governments to spend aggressively to sustain economic growth and to push for higher minimum wages. As part of the trend towards higher fiscal outlays, we think that many aspects of ESG should benefit.
- **Domestication of Global Demand and Supply:** We believe rising nationalistic sentiment, combined with a post-COVID focus on redundant, reliable and resilient supply chains for critical products, will lead to more local bias in terms of both consumption and production. We now expect global capex to surprise on the upside in the second half of the year.
- **Embrace Dislocation and Dispersions:** Though perhaps not as extreme as in 2020, we expect 2021 to be another year of heightened volatility. This backdrop should present global allocators of capital with opportunities to take advantage of both periodic dislocations and heightened dispersions.
- **Secular Winners:** While there is clearly a more distinct cyclical bias inherent in our portfolio for 2021, innovation is still highly relevant in the world we envision. Indeed, given all the seismic changes that have taken place in Healthcare, Security, Software and Consumerism, we still want to be long disruptors.

What does all this mean for asset allocation and investing? The GMAA team's key points are as follows:

- **Equities will likely outperform Credit in 2021, but the real story will be about narrowing dispersions as market breadth widens.**
- **Continue to lighten up on sovereign debt and shorten duration, as the bull market in risk-free rates that started in 1982 is now over.**
- **Increase exposure to collateral-based cash flow with income generation and pricing power, including Asset-Based Finance, Infrastructure and parts of both Real Estate Equity and Real Estate Credit.**
- **Sell dollars to fund other investments.**
- **Buy U.S. exporters, Asian Equities and high-quality EM Local Debt (both Public and Private).**
- **Overweight Opportunistic Credit, dislocation funds, relative value hedge funds and macro funds.**
- **Overweight Global Private Equity vehicles that leverage the illiquidity premium.**

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 and Asset Allocation team. Mr. McVey also serves as Chief Investment Officer for the Firm's Balance Sheet and oversees Firmwide Market Risk at KKR. 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](#).

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