



KKR Releases “The Uncomfortable Truth”

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New Macro Report Emphasizes Portfolio Repositioning in Current Low Rate Environment

NEW YORK--(BUSINESS WIRE)-- KKR today announced the release of The Uncomfortable Truth by Henry McVey, Head of Global Macro and Asset Allocation. In the firm’s latest Insights report, McVey and his team examine the intensifying yearn for yield by investors increasingly bumping up against “the uncomfortable truth” of declining interest rates amidst soaring fiscal deficits and bulging debt loads.

“It is not business as usual in the capital markets. While we have high conviction that rates are likely to remain lower for longer, both debt issuance and deficits continue to soar across many areas of the private and public sectors. Such backdrop highlights the need to own more cash flowing assets linked to nominal GDP, build more flexibility across mandates, and shorten duration where appropriate,” Henry McVey says.

In this latest report, McVey and his team outline the following conclusions for consideration in repositioning one’s portfolio to outperform without taking on undue risks in this new environment:

1. Beyond just central bank intervention creating downward pressure, aging demographics, excess capacity, and technological innovation are expected to continue to put a lid on interest rates with the overall global interest rate curve remaining low relative to historic levels.
2. Governments are trying to boost nominal GDP by holding down nominal interest rates. As such, investors should consider shortening portfolio duration and owning more collateralized assets linked to nominal GDP.
3. Holding nominal GDP above nominal interest rates also argues for investors to own some form of an overweight to longer duration Real Assets, especially those investments with upfront yield. Consistent with this view, Infrastructure remains one of KKR’s larger overweight positions in its target asset allocation.
4. We also favor Real Estate. Specifically, our call to arms is still to own Real Estate Equity via Opportunistic Real Estate for capital appreciation and B-piece Commercial Real Estate Credit to generate some outsized income. In general, Real Estate acts as a compelling diversifier in portfolios, as it not only provides cash flow but also has a distinct supply/demand cycle that is often separate from the broader economic environment.
5. We continue to advocate flexibility across mandates in the Fixed Income arena, Liquid Credit in particular. Given our view that the shift from monetary stimulus towards fiscal stimulus is likely to create periods of heightened uncertainty, we now heavily favor increasing flexibility across all the mandates that we oversee, including Actively Managed Opportunistic Credit.

Links to access this report 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 [for iOS click here](#), and [for Android 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](#).

About KKR

KKR is a leading global investment firm that manages multiple alternative asset classes, including private equity, energy, infrastructure, real estate and credit, with strategic partners that manage hedge funds. KKR aims to generate attractive investment returns for its fund investors by following a patient and disciplined investment approach, employing world-class people, and driving growth and value creation with KKR portfolio companies. KKR invests its own capital alongside the capital it manages for fund investors and provides financing solutions and investment opportunities through its capital markets business. References to KKR’s investments may include the activities of its sponsored funds. For additional information about KKR & Co. Inc. (NYSE: KKR), please visit KKR's website at www.kkr.com and on Twitter @KKR_Co.

The views expressed in the report and summarized herein are the personal views of Henry McVey of KKR and do not necessarily reflect the views of KKR or the strategies and products that KKR offers or invests. Nothing contained herein constitutes investment, legal, tax or other

advice nor is it to be relied on in making an investment or other decision. This release is prepared solely for information purposes and should not be viewed as a current or past recommendation or a solicitation of an offer to buy or sell any securities or to adopt any investment strategy. This release contains projections or other forward-looking statements, which are based on beliefs, assumptions and expectations that may change as a result of many possible events or factors. If a change occurs, actual results may vary materially from those expressed in the forward-looking statements. All forward-looking statements speak only as of the date such statements are made, and neither KKR nor Mr. McVey assumes any duty to update such statements except as required by law.

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