



KKR Releases 2020 Global Macro Outlook

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Henry McVey: Thoughtful Top-down Approach Warranted in Year Ahead

NEW YORK--(BUSINESS WIRE)-- KKR today released its 2020 Global Macro Outlook piece by Henry McVey, Head of Global Macro and Asset Allocation (GMAA). In “Play Your Game,” McVey outlines his team’s perspective on the current investing environment and reminds investors to play heavily to their own strengths in today’s markets.

“Despite a strong 2019, our macro models suggest that there is still an upward bias to risk assets in 2020, driven by accommodative central banks, low inflation and modest earnings growth,” McVey says. “However, cash flow, cash flow conversion, book value growth and return on capital will all matter much more to performance in 2020 than during the past few years.”

Specifically, McVey and his team note the following insights for investors to consider as they look ahead in 2020:

- Global central banks’ decisions to hold nominal interest rates below nominal GDP at this point in the cycle means that almost all investors should overweight collateral-backed assets with upfront cash flow.
- Given the huge bifurcations now present across most major market indices, there is a significant amount of value in the “middle” part of the market, particularly for companies that can improve their returns and/or cash flow conversion.
- As we enter the decade of Asian millennials and their preferences for “Experiences over Things,” investors should put significant capital behind this theme.
- Investors should remain bullish on cash-flow compounding stories that have built competitive moats around their businesses, including the ability to be a price setter.
- Given the GMAA team’s view that periodic dislocations will now occur more frequently, investors should be overweight investment vehicles that can lean more easily into this type of environment.

Against this backdrop, the report also outlines key macro investment themes investors should consider for the year ahead, including:

- **Complexity 2.0.** Given such wide bifurcations in many of the markets where KKR traffics globally, the GMAA team suggests being even more aggressive in pursuit of complexity. In jeweler’s parlance, the 2020 outlook shifts focus beyond just under-valued “diamonds in the rough” to include the occasional “hidden pearl” trading at a fraction of its intrinsic value.
- **Asian Millennial: Consumption Upgrade.** After long spotlighting the global trend towards Experiences Over Things, this year Henry McVey proposes allocating additional dollars to vehicles that are capturing the explosion in buying power that is being unleashed in Asia.
- **Yearn for Yield Continues; Own More Collateral-Based Assets.** In a world where central bankers are holding nominal interest rates below nominal GDP, CIOs should be increasing their allocations to collateral-based assets with upfront cash flow. Indeed, reinvestment risk is one of the greatest challenges that most CIOs now face in a world of increasingly sluggish nominal GDP growth.
- **Cash Flow Compounders.** Find the companies that have established cash flowing business models where there are identified economies of scale that result in material improvements in cash flow and book value as these businesses grow in size. These companies should have well-identified sources of support for those cash flows, including access to growing end markets, clear economies of scale in production or distribution, brand loyalty, and defensible margins.
- **Lean Into Dislocation/Dispersions.** More volatility is expected in the quarters ahead – even if we do not have a major sustained drawdown like 2008. As such, investors should favor more flexible mandates that can harness volatility to take advantage of periodic drawdowns that result in securities trading below their intrinsic values.

In addition to the aforementioned insights and themes, the report details the GMAA team’s updated views on asset allocation, portfolio construction and hedging, as well as major macro risks that could impact their forecasted outlook.

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](#).

About KKR

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