MACRO INSIGHTS

Flash Macro: U.S. Markets Update

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How are we thinking about the recent capital markets volatility?

We subscribe to the muddle through thesis, as markets are trying to digest several consequential narratives all at once. Geopolitics is a story unto itself, but it also has refueled the inflation debate. Meanwhile, Private Credit is being re-underwritten as default rates normalize and investors are still sorting through what AI means for growth, margins, and employment.

In terms of focus areas, oil is not the only variable that matters, but it has become a focal point in the near term as it is the fastest channel through which geopolitics can alter the path for inflation, growth, and central bank policy. Interestingly, though, as we show in Exhibit 1, Equities and Credit have been much slower to react to recent news than during either 'Liberation Day' or the Russia/Ukraine war.

Amid these crosscurrents, it has been helpful to be on the road, building a clearer mosaic of both global opportunities and global concerns. Over the last several weeks I have spent time in Tokyo, Paris, Washington, DC, and San Francisco, comparing notes with policymakers, CEOs, CIOs, and KKR colleagues. While each conversation was different, the same issues kept resurfacing. What AI disrupts versus what it enables. How Private Credit behaves as the cycle normalizes. The length and severity of the Iran conflict, and what it means for supply chains, energy, investor confidence.

Against this backdrop, we are updating our forecasts and scenarios, guided by the KKR Global Institute's latest thoughtful assessment of developments in the Middle East. As we detail below in Exhibit 12, our base case reflects no significant further destruction of Middle East energy infrastructure, but we do assume the re-opening of the Strait takes weeks or months, not days. We also incorporate a faster transmission into growth headwinds, particularly in Asia, than typical models would ordinarily imply and a higher path for headline inflation than we expected previously.

At the same time, however, we are not building a 'Fed hikes into the shock' narrative. The more likely outcome, we believe, is delayed easing. Inflation uncertainty forces patience, but softer growth and a subdued labor backdrop keep the medium-term bias towards modest cuts, especially if the job market weakens further under AI anxieties.

EXHIBIT 1: Our Market Pricing Table Suggests That Investors Are Not Yet Assigning the Same Risk Premium to the Current Set of Macro Crosscurrents Relative to Past Ones

Comparison of Ongoing Iran Conflict With Other Recent Market Dislocations

	Current as a % of				
	Ukraine Invasion	'Liberation Day'	Iran (Current)	Ukraine Invasion Trough	'Liberation Day' Trough
Inflation (2yr CPI Breakeven)	67%	98%	**3.3%**	4.9%	3.4%
Crude (12mo Fwd WTI Crude)	74%	N.M.	**73**	100	69
LNG (Japan-Korea 12mo Fwd)	24%	106%	**2,431**	10,113	2,301
Leveraged Loan Spread Widening	27%	58%	**53**	198	92
S&P 500 Drawdown	35%	33%	**-6%**	-18%	-19%

Data as at March 30, 2026. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

Below we summarize our headline forecast changes for the United States. We will update our forecasts for Europe and Asia separately, but it is worth noting that higher commodity prices unfortunately tend to have a higher beta effect on growth and inflation in those regions than in the United States. We then provide detail on our updated assumptions for oil, growth, inflation, interest rates, and the S&P 500.

1. Oil: Our revised 2026 base case (60%) assumes $90-100 WTI ($100-110 Brent), which is roughly $10 above current futures pricing. During 2026, we see a peak sustained level of $130-150 for WTI and $140-160 for Brent. Beyond 2026, we see WTI averaging $75-80, still $5-10 above the

forward curve, reflecting what we view as a more persistent geopolitical risk premium tied to a more hostile Iranian regime. By contrast, the $75-80 WTI ($85-90 Brent) base case for 2026 we outlined in early March, along with sustained peaks in the low-$100s, now becomes our 15% low-case scenario. We believe the low case would require a meaningful breakthrough in negotiations over the next one to two weeks.

2. GDP: We lower our base case U.S. GDP forecasts to 2.0% in 2026 and 1.6% in 2027, down from 2.5% and 2.2% previously. The key drag on our outlook is the ‘tax’ from higher energy prices. Under traditional macro relationships, higher energy prices weigh on GDP with about a one-year lag, but we think growth slows faster this cycle because the spike in energy prices is from a pure supply shock, not from a demand acceleration. Financial conditions also add pressure by tightening modestly at the margin (wider credit spreads, volatile markets). Our revised forecasts are below consensus expectations of 2.3% for 2026 and 2.0% for 2027, respectively.

3. Inflation: We raise our U.S. headline CPI forecasts to 3.8% in 2026 (above consensus of 3.0%) and 2.5% in 2027 (in line with consensus), versus 3.3% and 2.2% previously. The revision is overwhelmingly energy driven. By contrast, we only nudge 2026 core CPI to 2.8% from 2.7%, as we still see this as a headline shock with limited second-round effects.

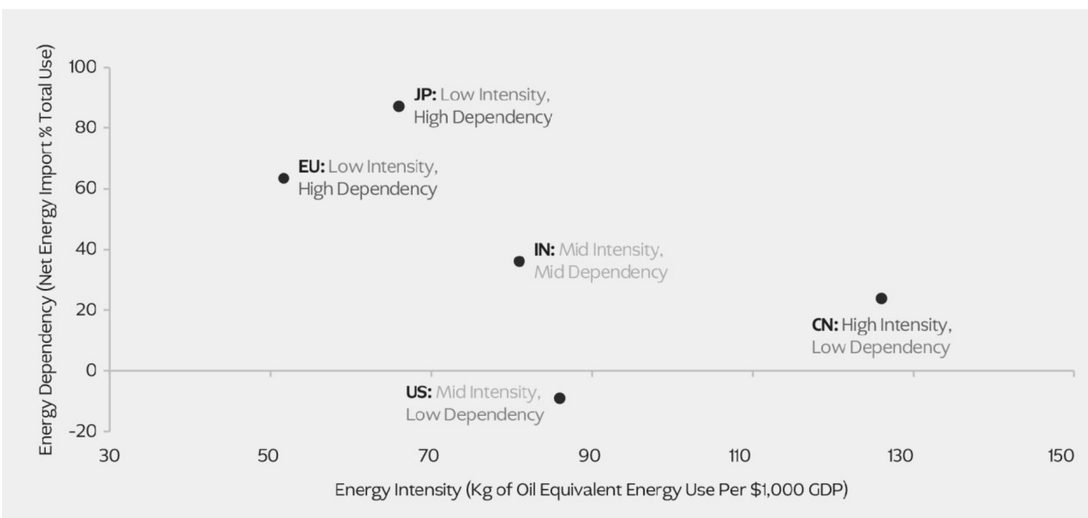
4. Interest Rates: We do not subscribe to the thesis that the ‘Fed will hike into the shock’. Instead, we think the Fed will assume a more patient approach. We now expect one cut in 2026 and one in 2027, taking Fed funds to 3.125% by end-2027. This is versus our prior path of two cuts in 2026 followed by a hike in 2027, which implied a higher 3.375% terminal

rate. At the long end, we lift our 2026 10-year Treasury forecast to 4.5% from 4.25% on higher term premium and inflation uncertainty, while keeping our 2027-and-beyond anchor around 4.0%.

5. S&P 500: We lower our 2026 year-end target to 7,300 from 7,600 and reduce our 2026 EPS growth forecast to 8% from 11%, reflecting softer demand and higher operating costs in a $90-100 WTI environment. We also lower our 2027 year end target to 7,800 from 8,130 and now expect a choppier path to that level, with a fatter left tail than markets were pricing a few weeks ago.

EXHIBIT 2: Not All Energy Profiles Are Equal: China Is Still More Energy Intensive, But Less Import Dependent

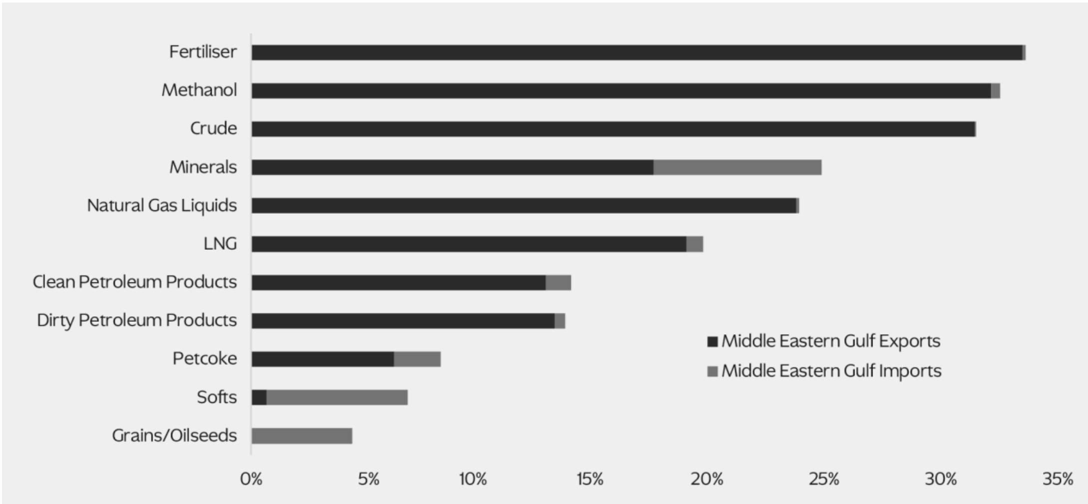
Energy Intensity and Energy Dependency



Data as at October 7, 2025. Source: World Bank.

EXHIBIT 3: The Strategic Importance of the Strait of Hormuz Extends Well Beyond Crude

Share of Global Seaborne Commodity Flows Transiting Through the Strait of Hormuz, % (2025)



Data as at December 31, 2025. Source: Kpler.

To be sure, no one has a macro crystal ball, but we do think that there are some important conclusions beyond the forecast changes above that warrant investor attention.