KKR

Thoughts From the Road

CHINA | April 2026

I recently returned from Asia, including stops in Beijing and Hong Kong, my third visit to the region so far in 2026. Each trip has continued to reinforce our conviction that Asia remains a core focus of KKR's global investment strategy. Indeed, between the ongoing corporate reform momentum in markets such as Japan and Korea, and the powerful consumption upgrade stories unfolding across India and Southeast Asia, the region continues to benefit from multiple, durable tailwinds. Consistent with this view, we remain actively engaged in Asia both deploying and monetizing across Private Equity, Infrastructure, Real Estate, Capital Solutions, and Credit.

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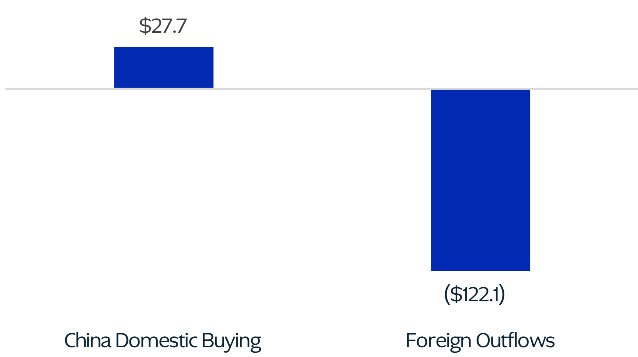
> # In chaos, seize victory.
> — **Sun Tzu**, Chinese general and strategist

However, it is certainly not business as usual. Recent developments in the Middle East are figuring more prominently in conversations than in the U.S. or Europe. Rising commodity prices and renewed pressure on supply chains are beginning to create more immediate friction across parts of the region, especially in some of the smaller countries in Southeast Asia. As a result, market attention is much more skewed towards energy security and supply chain resilience than concerns such as software disruption and Private Credit. In China, for example, there is definitely less worry about software obsolescence, given that the region largely bypassed the traditional SaaS buildout, and also there is more limited exposure to Private Credit.

Exhibit 1: Domestic China Buying of Equities Has Helped to Modestly Cushion Foreign Equity Outflows. We Sense China Wants More Stability Via More Domestic Flows, But We Still Think Foreign Capital Plays an Important Role

China Equities: Domestic Buying vs. Foreign Outflows, 2026 YTD, US$ Billions



Domestic buying is China Southbound Connect domestic investors buying into Hong Kong-listed China exposures. Foreign outflows are China-dedicated foreign/global investor flows into China-focused equity funds. Data as at April 10, 2026. Source: EPFR, Goldman Sachs EM Weekly Fund Flows Monitor.

Exhibit 2: 'New Economy' Sector Growth Is Expected to Drive China GDP Growth in 2026. If There is Good News, it is That Real Estate is Now Less of a Drag

China GDP Breakdown by Sector (2026)

'Green transition' is based on green finance and transition investment studies from the Beijing Institute of Finance and Sustainability as well as reported by BNEF. 'Digital economy' added value is as reported by CAICT, including added value of the information industry (core digital) and added value that the information industry brings to other industries (core part: roughly 10% of the economy; overall: ~45%). Real estate's drag is estimated by the KKR GMAA team with an IO table and includes the real estate industry itself and the industry's impact on upstream and downstream. 'Other' represents the other half of the economy, i.e., agricultural, industrial, and services other than digital, green industries, catering and accommodation and retail services. Data as at April 9, 2026. Source: Beijing Institute of Finance and Sustainability. China National Bureau of Statistics, BNEF, CAICT, KKR Global Macro & Asset Allocation analysis.

Overall, my meetings with a broad cross-section of policymakers, political officials, corporate leaders, and investors left me with several important conclusions that we believe warrant investor attention. They are as follows:

1

Despite ongoing imbalances and pressure on profits, aggregate GDP growth in China now appears quite steady.

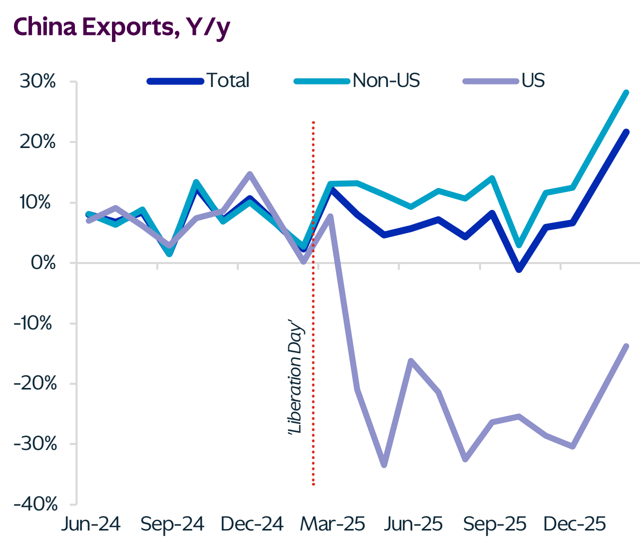
Exports remain solid, fixed investment towards AI is strong, and consumption is positive, albeit unspectacular. At the same time, the drag from the property sector is moderating, with our work suggesting roughly a 100-basis points headwind in 2026 (*Exhibit 2*), down meaningfully from a peak level of drag (fully 370 basis points) in 2022. Importantly, for those expecting a large, stimulus-driven consumer inflection point, that approach does not appear to be on the agenda. Rather, the government appears focused on 'fixing' legacy imbalances, namely housing, local government financing vehicles, and excess capacity, in a more deliberate and controlled manner that does not rely on external capital or in a way that does not create some internal moral hazard conundrum.

2

The country has seen its currency strengthen, a signal of more global interest in owning Renminbi assets, as well as growing confidence among Chinese policymakers that it does not need a 'cheap' currency to increase competitiveness.

We think that 4-5% appreciation per annum during the next few years makes sense, a tailwind that should help improve domestic consumers' buying power. However, over time, we believe the bigger opportunity for China lies in further rebalancing its economy away from just exports and fixed investment to include a broader and deeper offering of services in the economy, particularly as automation accelerates further (which we think will put more pressure on traditional manufacturing job loss; see *Exhibit 21*). Encouragingly, we are already seeing early signs of this shift. China's easing of visa restrictions is supporting a pickup in inbound travel. For instance, my hotel this trip was atypically packed with business visitors and tourists from the Middle East and Southeast Asia. As we detail below, we are also in favor of the Chinese government using its current deflationary-linked, low long-term interest rates to issue bonds to pay for more government safety net programs, especially ones linked to healthcare coverage and retirement security. In our view, this idea is a big one that we think could ultimately help reduce the country's high savings rate to more normalized levels. In doing so, it would also reduce fixed investment if confidence can be restored, which would allow the marginal propensity to spend to normalize again. Finally, we also believe that policy might be needed, especially during the current AI transition, to match the 11-15 million of university grads that are entering the workforce each year at a time when annual retirees are 'just' 8-12 million (see below for more details).

Exhibit 3: Despite Direct Material Declines in Exports to the U.S. from China, Strong Non-U.S. Demand and Re-Routing of Supply Chains Has Supported China's Overall Export Performance

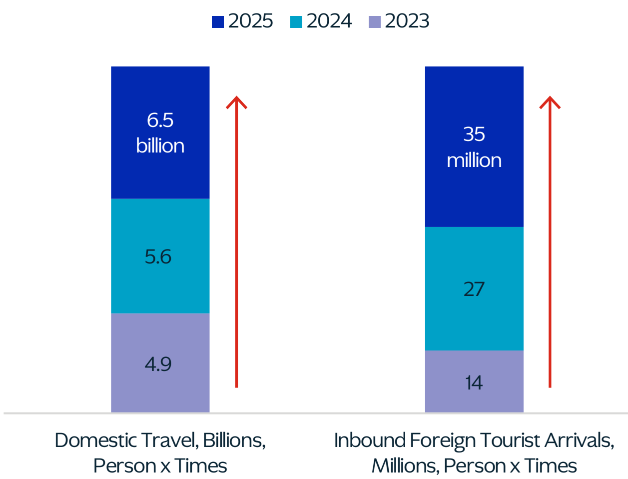


Data as at February 28, 2026. Source: China General Administration of Customs, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

Market attention in China is much more skewed towards energy security and supply chain resilience than concerns such as software disruption and Private Credit.

Exhibit 4: Experiential and Cultural Consumption Has Boosted China Domestic Tourism, While Visa Easing Is Lifting Inbound Travel

Total Number of Tourist Trips Made, Domestic (Chinese Citizens) and Foreign Tourist Arrivals



Data as at December 31, 2025. Source: China National Bureau of Statistics, KKR Global Macro & Asset Allocation analysis.

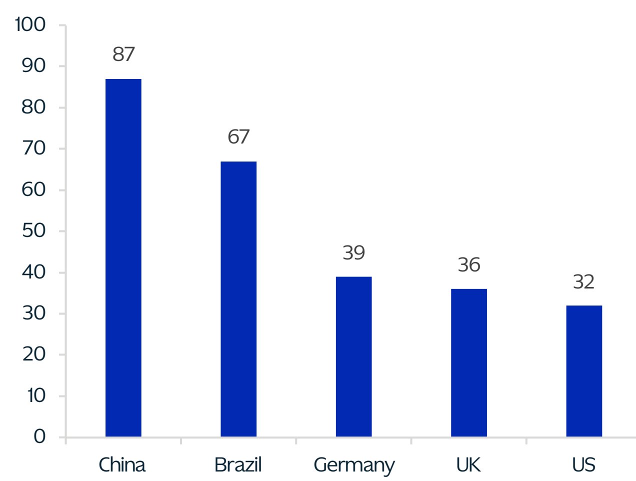
3

China's AI strategy is scaling rapidly, but with distinct differences as well as similarities to the United States.

Comparable to the U.S., AI is now central to all-things China. We met with executives across auto, robotics, and consumer services, and all anyone could talk about was how AI is upgrading their productivity performance. Also, similar to the U.S., China is seeing well-funded private start-ups battling large, entrenched tech incumbents with millions, if not billions, of existing consumer touch points. There is also increasing concern in both China and the U.S. about intensifying cyberattacks and misuse of AI if placed in the wrong hands. Finally, also consistent with the U.S., Chinese business executives are working hand in hand with local AI entrepreneurs *en masse* to drive productivity that dwarfs what we are seeing in some other countries in Europe and Asia. In contrast to the U.S., however, China is also pursuing a much more consumer-oriented, lower cost model that does not define success by touching the outer boundaries of what is achievable. Said differently, AI adoption is surging through a consumer-driven grassroots effort that is not as heavy-handed as the enterprise focus in the United States. It also costs less, which we think is part of the master plan to increase adoption. The other big difference with the U.S. is that there also appears to be less concern around disintermediation risks relative to what we are hearing in markets such as the U.S. and India. One can see this in *Exhibit 5*. In terms of who is winning the AI race, we are not 100% sure, but our takeaway is that scale will matter, and one or two large existing technology platform companies and maybe some new entrants are likely best positioned to capture the most value in this 'winners take most' segment of the tech stack.

Exhibit 5: Most Chinese Deeply Trust AI, While in the United States We See the Opposite Trend

Edelman Trust Barometer Survey: % of Respondents Who Trust AI



Survey across 28 countries and +30k respondents. Data as at December 31, 2025. Source: 2025 Edelman Trust Barometer, KKR Global Macro & Asset Allocation analysis.

AI adoption is surging through a consumer-driven grassroots effort that is not as heavy-handed as the enterprise focus in the U.S.

4

China's supply chain position appears more resilient than most, though not without internal strains.

Relative to other parts of Asia that I have visited recently, supply chains in China currently feel more stable, with pressures more concentrated in select areas such as high-end memory chips rather than around broader inputs like helium, plastics, or petrochemicals. Importantly, this relative resilience reflects China's ability to rely more heavily on domestic energy sources, including coal (61% of total energy) and renewables (10% of total energy), which has allowed it to absorb the initial shock from the Middle East conflict and take it more in stride than many of its global peers. That said, beneath the surface, there are still areas of vulnerability within China. In particular, we had several discussions around the financial strain facing local governments, where traditional funding models, especially those tied to land sales, are under pressure, reinforcing the need for ongoing structural adjustments. Also, the marginal propensity to spend remains challenged, and as referenced earlier, the savings rate at 32% remains abnormally high (and remember savings = investment, which ultimately often leads to overcapacity).

5

We spent a lot of time learning more about advanced manufacturing, with a specific focus on robots.

Our discussions across the region, including time spent with leaders in robotics and automation, reinforced just how quickly China is scaling capabilities across advanced manufacturing. We met with leaders of a global start-up to better understand potential applications, particularly across healthcare to industrial production to logistics, over the next five years. This meeting did not disappoint, and we view the opportunity as significant. Importantly, this push is not just cyclical; it is strategic. The reality is that advanced manufacturing is now likely a key underpinning of China's upcoming 15th Five-Year Plan, reflecting a broader shift towards industrial upgrading, digitalization, and green investment. As such, we believe these areas, not a sharp acceleration in consumption, are likely to be the primary drivers of growth going forward, a view that is consistent with what we are seeing in our own GDP modeling *(Exhibit 2)*.

6

Meanwhile, consumer behavior in China is increasingly segmented.

What is working today is not broad-based consumption, but rather targeted pockets of strength. Large-scale discounters (e.g., PDD), membership-based models (e.g., Sam's Club), and digital platforms such as ByteDance are gaining share. Notably, impulse-driven online purchasing is becoming more prominent, particularly on platforms like Douyin, where we think that nearly 40% of purchases come from impulse purchases, compared to 11% for TMALL/Taobao. In terms of sectors, consumer health continues to demonstrate strong growth as does pet care. What surprised us, though, is that some of the growth in spending is occurring in Tier III and Tier IV cities, suggesting more geographically dispersed consumption growth.

7

China is still flirting with deflation, but it does feel like a bottom may soon be reached.

While China is still contending with deflationary forces, there are early signs that the trough may be near. In this type of pricing environment, multinational companies have become more circumspect about what their go-forward business strategy is in China, which is creating investment opportunities for Private Equity. One notable trend we picked up during our visit is an acceleration in corporate carve-outs and restructuring activity across China, especially as international firms reassess their footprints and capital allocation priorities.

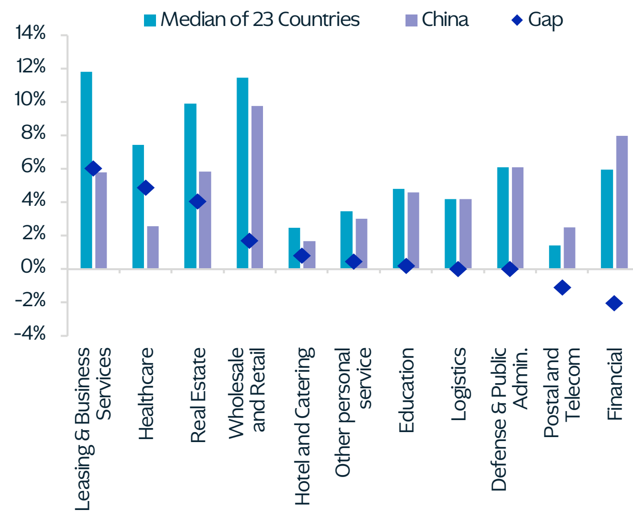
8

Still more work to be done?

While China has made progress in recent quarters, we believe that there is more that could be done to both improve growth and attract attention from longer-term investors. For starters, the country still needs to focus more on building out its services economy, especially around retirement and healthcare security. We also think that the country may want to consider letting foreign direct investment be repatriated. To be sure, it is extremely beneficial that domestic flows are accelerating (*Exhibit 1*), but over the coming years China cannot generate enough domestic capital to fund all its growth, especially as the economy matures. Shaky local government finances, especially when coupled with deflationary local competition, are dampening inflation and spending expectations. As such, China also likely needs to get its high-end consumers to spend more on services and to keep the spending on domestic experiences such as travel and entertainment more at home than abroad. Finally, as mentioned before, we think that China should take advantage of its low rates to issue long-duration bonds to jump start some type of more comprehensive social safety net program.

Exhibit 6: We Believe That Sectors Like Leasing & Business Services, Healthcare, Wholesale and Retail, and Hospitality Need to Represent a Bigger Share of Services

Services Subsectors as a % of GDP



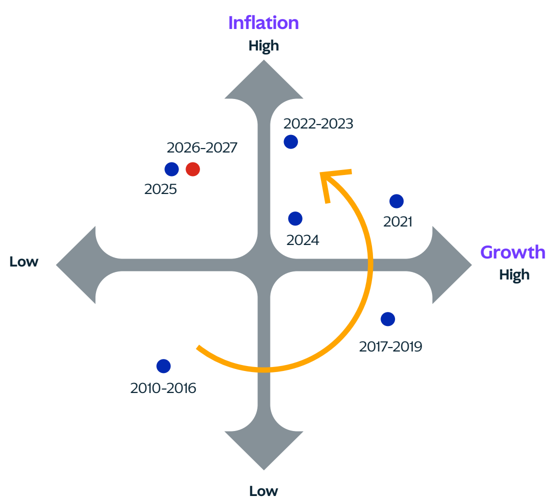
The 23 countries are Australia, Austria, Belgium, Brazil, Canada, China, Taiwan, Germany, Denmark, Spain, Finland, France, the United Kingdom, Greece, India, Italy, Japan, South Korea, Mexico, Netherlands, Portugal, Sweden, and the United States. Data as at December 31, 2024. Source: CF40, ADB, WIOD, KKR Global Macro & Asset Allocation analysis.

China also likely needs to get its high-end consumers to spend more on services and to keep the spending on domestic experiences such as travel and entertainment more at home than abroad.

What do we think this means for investing? Looking at the bigger picture, our trip reinforced at least three major observations that have recently surfaced across all my meetings in the Americas, Europe, and Asia. First, as we move away from what my colleagues General (Ret.) David Petraeus and Vance Serchuk have described as a period of benign globalization towards one of great power competition, my travels lead me to believe that political leaders around the world are increasingly weaponizing economic pressure points to create leverage with their immediate competitors as well as long-term adversaries *(Exhibit 8)*. In our view, this reality is not an aberration, but the beginning of a trend that all investors must incorporate into their thinking. For us at KKR, it reinforces both our investment theme of the 'Security of Everything' as well as our *Regime Change* asset allocation framework.

Exhibit 7: We Think 2026 Will Remain a Higher Inflation Environment and That Our Regime Change Narrative Will Continue

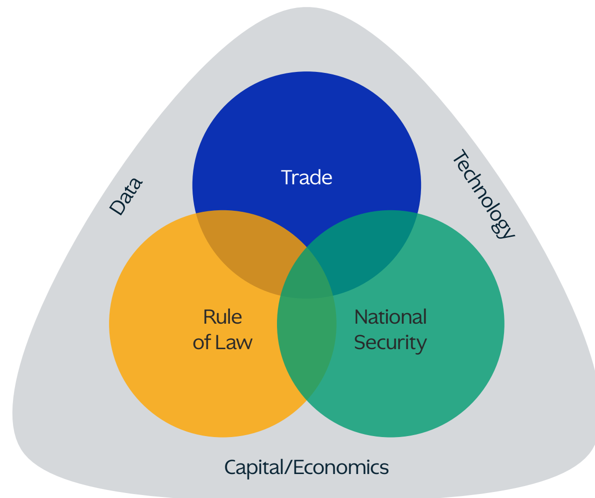
Low and High Growth and Inflation Regimes



Data as at November 30, 2025. Source: KKR Global Macro & Asset Allocation analysis.

Exhibit 8: National Security Is Now Bundled With Rule of Law and Economics/Trade, and Wrapped in the Complexity of Digitalization

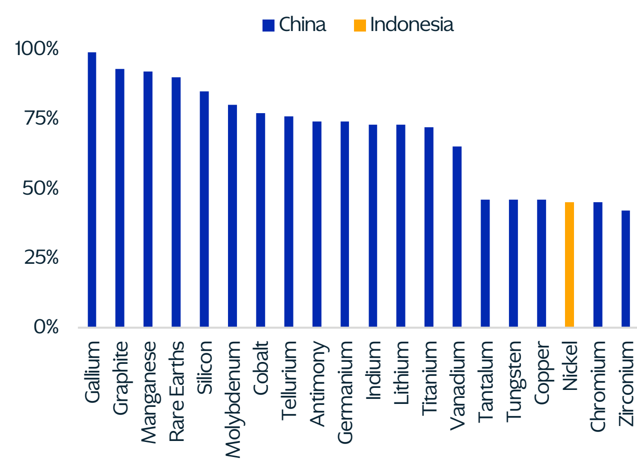
Blurring of Lines Across Economics, Rule of Law, and National Security



Data as at November 30, 2025. Source: KKR Global Macro & Asset Allocation analysis.

Exhibit 9: Critical Minerals Have Emerged As An Important Economic Battleground

Share of Top Producer Refined Energy-Related Strategic Minerals



Data as at December 31, 2024. Source: IEA, USGS, EU Raw Materials Information System.

For example, in recent months China, through its substantial market share in the critical heavy minerals universe *(Exhibit 9)*, has gained leverage against many of its largest trading partners and sometimes political rivals. However, China is not alone, and we increasingly see other nations following suit to achieve their economic and political goals, which are increasingly blurring across the 'traditional' lines of economic priorities and national security.

Second, Iran's ability to gain control and disrupt the Strait of Hormuz, even intermittently, underscores the growing importance of bottlenecks in an increasingly fragile global supply chain. What was once a 'just-in-time' system is now shifting towards a more 'just-in-case' framework, where redundancy, resilience, and security matter as much as efficiency. Beyond the human tragedy in the Middle East, these developments raise broader questions around the rules of global commerce, from shipping access to settlement mechanisms, including the potential use of alternative currencies, especially if Iran is able to receive a transfer tax on ships via crypto or RMB.

Third, in a world of more heightened uncertainty, greater flexibility in capital structures has gone from a 'nice-to-have' to a prerequisite of success in many instances these days. Indeed, against a backdrop of rising geopolitical conflict, increasing AI-driven disruption, and evolving dynamics within Private Credit, liquidity — even though we still forecast decent global growth — has become paramount. The reality is that the range of potential outcomes has widened in ways that are not always easily quantifiable. As such, having the capital flexibility to pivot one's business model to not only play defense but also to take advantage of the evolving opportunity set has become much more of a distinguishing feature for the executives and politicians with whom I am meeting.

What does all this mean for investing? We believe that we are still in a *Regime Change*, a backdrop driven by bigger government deficits, heightened geopolitics, a messy energy transition, and stickier, more volatile good and services inputs. Against this backdrop, we see the following:

1. **Stocks and bonds are increasingly moving together, challenging traditional portfolio construction *(Exhibit 10)*.** One of the more important shifts we have been observing in recent years is the breakdown of the historically negative correlation between equities and fixed income. In prior cycles, particularly during periods of financial stress, bonds provided a reliable hedge as equities sold off. However, more recent episodes, including Russia's invasion of Ukraine, 'Liberation Day,' and the U.S. strike on Iran, suggest a different dynamic, wherein both asset classes have come under pressure simultaneously. We view this as a key confirmation of our *Regime Change* framework that 'this time is different'.
2. **The expected returns we model between the best and the worst returning asset classes are now as narrow as we have seen in years**. In this environment, beta alone is unlikely to deliver the outcomes investors have grown accustomed to. Instead, manager selection, non-correlation, and upfront yield become more critical drivers of performance. The importance of this view is reflected in our own capital allocation decisions, including KKR's recent strategic investments in Arctos, Healthcare Royalties (HCR), and KJRM in Japan, all of which are designed to enhance access to differentiated return streams and improve overall portfolio construction.
3. **Control, operational expertise, and thematic investments are becoming increasingly critical to outperformance, in our view.** In the new world order we envision, characterized by higher volatility, tighter return dispersion, and more frequent shocks, simply providing capital is no longer sufficient. Instead, we believe that greater control over origination, coupled with deep operational expertise, are required to consistently generate attractive returns. At the same time, we think a more thematic approach to investing is essential. Key areas of focus include the Security of Everything, Energy and Power Resiliency, Productivity and Worker Retraining, Collateral-Based Cash Flows, and the ongoing shift from Capital Heavy to Capital Light, including corporate carve-outs of non-core subsidiaries. Collectively, these themes reflect where capital is needed most and where we believe long-term value creation will be most durable.
4. **We still think that Asia can represent an important diversifier for global portfolios, especially in private portfolios.** As we show in *Exhibit 11*, Asia assets can help

with both performance and diversification. Importantly, Private Markets allow investors to get long GDP-per-capita growth, as well as corporate reform stories. By comparison, many publicly traded benchmarks, especially equity indexes across the region, are over-concentrated in state run financial institutions, commodity producers, and industrial companies, many of which are more directly linked to government policies than we generally prefer.

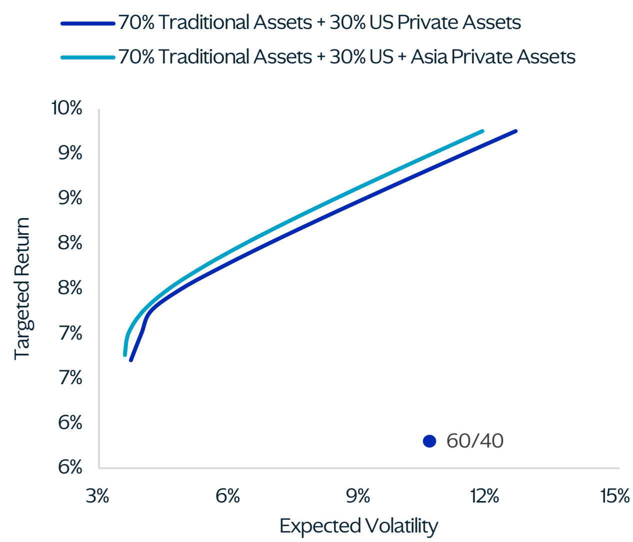
Exhibit 10: The Forward-Looking Expected Range of Outcomes Will Be Narrower, We Believe

Expected Return Range of Outcomes, %

Capital markets' assumptions are an average across all quartiles with annualized total returns. Forecasts represent five-year annualized total return expectations. For private asset classes (Private Credit, Private Infra, Private Real Estate, and Private Equity), returns are representative of the median manager return net of Fee/Carry. Private Real Estate modeled using the Cambridge Associates Real Estate Index. Private Infrastructure modeled using the Cambridge Associates Infrastructure Index. Private Equity modeled using the Cambridge Associates Private Equity Index. Private Credit modeled using the Cliffwater Direct Lending Index. For Financial Advisor Use Only. Target and model returns are hypothetical in nature and are shown for illustrative, informational purposes only. Past performance does not guarantee future results. Indexes are unmanaged. It is not possible to invest directly in an index. Compound Annual Growth Rate (CAGR) measures an investment's growth rate, assuming profits are reinvested at the end of each period. Last 5-Years return from October 31, 2020, to October 31, 2025, for consistency across asset classes. Private Markets as at 2Q25. Source: Bloomberg, BofA, Burgiss, Cambridge Associates, KKR Global Macro & Asset Allocation analysis.

Exhibit 11: Adding High Quality Asian Private Market Exposures to an Existing Portfolio Focused On the U.S. Can Often Help to Add Return and Dampen Volatility in Many Instances

Targeted Return and Expected Returns of Public + Private Portfolios Featuring U.S. and U.S. and Asia Assets



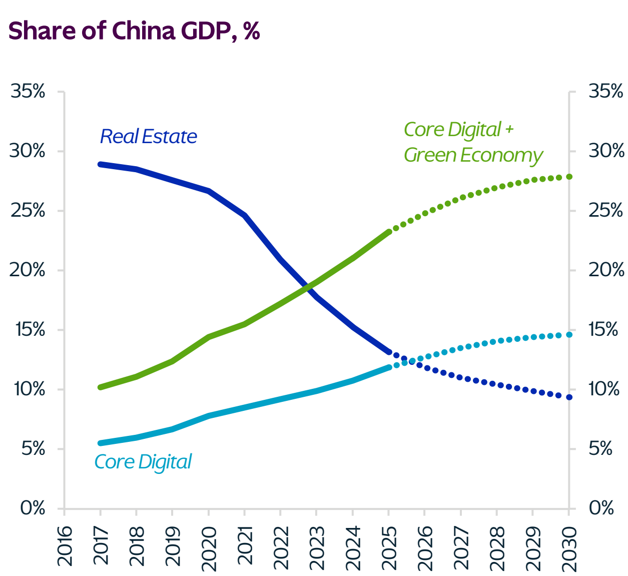
Public Equities proxied by MSCI ACWI Index, and Public Fixed Income proxied by Bloomberg Global Aggregate Index. Private Equity ex Asia proxied using an approximate 75/25 blend of Cambridge US and Canada Buyout and Growth, Private Equity Asia proxied by Cambridge Asia Buyout and Growth. Private Infrastructure ex Asia proxied using an approximate 75/25 blend of Burgiss Americas Private Infrastructure, Private Infrastructure Asia proxied by Burgiss Asia Private Infrastructure. Private Real Estate ex Asia proxied using an approximate 75/25 blend of Burgiss Americas Private Real Estate, Private Real Estate Asia proxied by Burgiss Asia Private Real Estate. Private Credit ex Asia proxied using an approximate 75/25 blend of Burgiss Americas Private Credit, Private Credit Asia proxied by Burgiss Asia Private Credit. Traditional Assets (70%) are a blend of Public Equities and Public Fixed Income. 60/40 portfolio proxied using a 60/40 blend of those. Volatilities and correlations based on GMAA's internal assumptions. Optimization is subject to a 30% total private assets constraint and a 10% maximum allocation to each private strategy to limit concentration risk. Data as at 3Q25. Source: Bloomberg, MSCI, Cambridge, Burgiss, KKR Global Macro & Asset Allocation analysis.

We still think that Asia can represent an important diversifier for global portfolios, especially in private portfolios.

Details From Our Trip

The drivers of China's GDP are likely still misunderstood and potentially underappreciated. As we show in *Exhibit 13*, the composition of China's expected 4.6% GDP growth in 2026 looks quite different from prior cycles. Specifically, digitalization contributes approximately 2.8 percentage points, or roughly 60% of total growth, while the green transition is adding another 1.6 percentage points, or about 35% of incremental growth. Taken together, these two segments now account for more than 95% of expected growth, underscoring a meaningful shift away from traditional drivers such as housing and manufacturing. For investors, the implication is that China's growth is increasingly being driven by structural, policy-backed sectors tied to technology, the energy transition, and industrial upgrading, rather than the more cyclical components that defined prior expansions.

Exhibit 12: Real Estate's Share of the Economy Has Fallen from About 30% to the Low Teens



Data as at April 9, 2026. Source: Beijing Institute of Finance and Sustainability. China National Bureau of Statistics, BNEF, CAICT, KKR Global Macro & Asset Allocation analysis.

Exhibit 13: 96% of Our Forecasted 2026 China GDP Growth Is Driven by 'New Economy' Sectors of Digitalization and the Green Transition

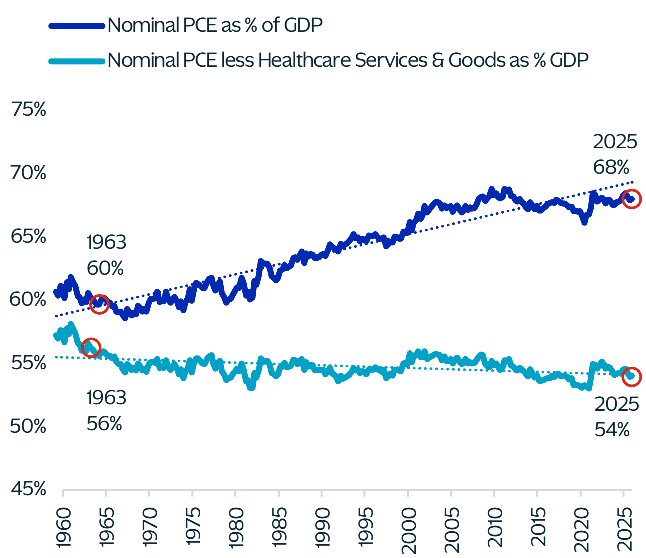
'Green transition' is based on green finance and transition investment studies from the Beijing Institute of Finance and Sustainability as well as reported by BNEF. 'Digital economy' added value is as reported by CAICT, including added value of the information industry (core digital) and added value that the information industry brings to other industries (core part: roughly 10% of the economy; overall: ~45%). Real estate's drag is estimated by the KKR GMAA team with an IO table and includes the real estate industry itself and the industry's impact on upstream and downstream. 'Other' represents the other half of the economy, i.e., agricultural, industrial, and services other than digital, green industries, catering and accommodation and retail services. Data as at April 9, 2026. Source: Beijing Institute of Finance and Sustainability. China National Bureau of Statistics, BNEF, CAICT, KKR Global Macro & Asset Allocation analysis.

We also want to address the headline narrative that China has failed to grow its consumption economy, as the data tell a more nuanced story. Chinese household consumption has actually grown approximately 13x in nominal terms since 2000, rising from roughly $0.6 trillion to nearly $7 trillion today. That is not an economy where consumption has stood still. Rather, the more accurate critique is one of relative composition. Over the same period, fixed asset investment has grown even faster (closer to 18x), which is why consumption's share of GDP has remained structurally compressed, hovering around 38-40% versus 65-70% in developed markets. No doubt, China has built an enormous consumption economy in absolute terms, but the challenge is that it has built an even larger investment economy alongside it.

Looking ahead, while we understand the Chinese government's near-term focus is on extending its competitive positioning in critical industries such as advanced manufacturing, some rebalancing, or at least some catch-up, is definitely required, we believe. In our view, the United States can provide a useful roadmap for thinking about China's consumption trajectory. While consumption in the U.S. has steadily increased as a share of GDP over time, this rise has been driven almost entirely by healthcare rather than by traditional discretionary spending. In 1963, U.S. personal consumption expenditures were approximately 60% of GDP, compared to roughly 68% today. Importantly, of that spending, healthcare's share expanded from approximately 4% of GDP in the early 1960s to 14% today *(Exhibit 14)*. In fact, excluding healthcare, the U.S. consumption-to-GDP ratio has remained broadly stable across generations.

Exhibit 14: Healthcare Accounts for Nearly All the Increase in U.S. Consumption-to-GDP Since 1963. To Grow Consumption in China, We Think a Bigger Safety Net and Broader Inclusion Could Be Required

U.S. Personal Consumption Expenditure as % GDP



Data as at December 31, 2025. Source: Haver Analytics, KKR Global Macro & Asset Allocation analysis.

Today, by comparison, China's consumption sits at roughly 40% of GDP, well below that of most developed markets that we track. However, in our view, the binding constraint is not simply a matter of income growth; rather, it is more structural. Specifically, we believe China's high savings rate reflects a lack of confidence in healthcare coverage and retirement adequacy, a backdrop that is forcing millions of households across China to self-insure against large, unpredictable costs. With healthcare spending at only 5-7% of GDP (versus 16-18% for the U.S. and 9-10% for the OECD) and the reality that a significant portion is continuing to be paid out of pocket on an ongoing basis, precautionary savings will likely remain elevated, we believe.

So, our bottom line is that without meaningful progress by the Chinese government around healthcare and retirement systems, the country's consumption will likely struggle to re-rate sustainably towards levels that we think could help quietly rebalance the economy (which we prefer to consumption subsidies). Indeed, if China closes even part of the gap with OECD peers on the healthcare front, the release of pent-up demand could be both significant and durable. From our vantage point, the U.S. experience—albeit an imperfect one—suggests that healthcare access and retirement security are not peripheral social policy issues for GDP-per-capita stories that move well beyond the $10,000 where China currently is; instead, these offerings become the central pillars of a more balanced, mature economy over time.

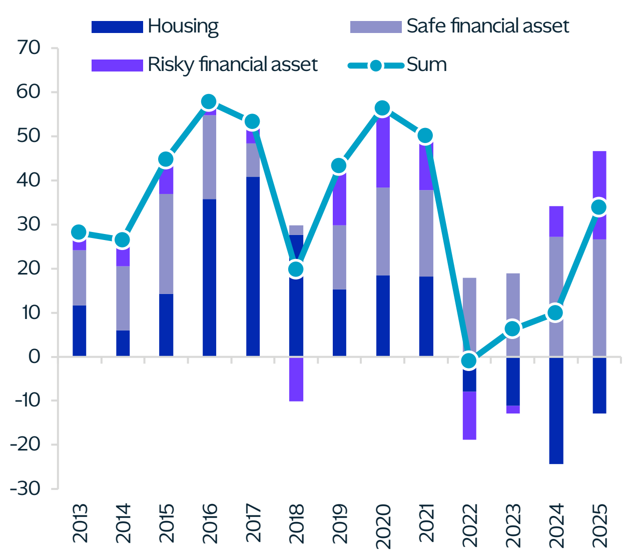
China's housing overhang remains a drag, but we are likely nearing an important inflection point. We continue to believe there is still significant excess inventory in the system, estimated at 30-40 million units (which we think is down from a peak of 50-60 million), where prospects for meaningful price appreciation remain limited. As a result, the marginal propensity to spend has been subdued, consistent with what we have observed in prior housing-led downturns, including in Japan, Spain, and the United States.

That said, the magnitude of the correction suggests we are closer to the end than the beginning. We do not make this statement lightly, as housing sluggishness has masked some really strong growth in other areas of the Chinese economy in recent years. Using a composite index of housing prices, investment, and starts, *Exhibit 16* shows that China's housing market has now corrected by approximately 42% from its 2017 peak, broadly in line with Japan (~41%) and approaching the U.S. experience (~49%), though still below Spain (~66%). History would suggest that we are moving towards the later stages of the adjustment process, even if the path forward remains uneven.

Encouragingly, household balance sheets are beginning to stabilize. In 2025, for the first time in several years, household asset values turned positive, supported by a moderation in housing-related losses as well as an improvement in equity markets. Though this is not yet a full recovery, directionally it represents an important shift. In our view, stabilization is the key precondition for consumption to reaccelerate, and directionally, it is the turn we have been waiting for.

Exhibit 15: There Are Early Signs of Household Balance Sheet Recovery in 2025, Driven By the Easing Housing Drag and Equity Re-Rating

Change in Household Assets, Trillions RMB

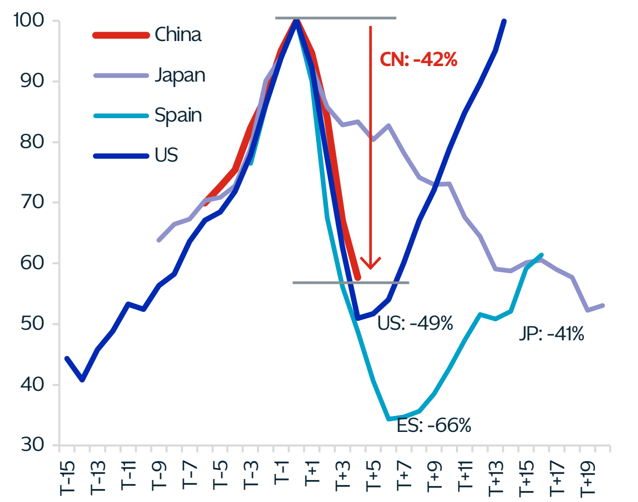


Data as at December 31, 2025. Source: Chinese Academy of Social Sciences, China National Bureau of Statistics, China Ministry of Housing and Urban-Rural Development, Asset Management Association of China, State Financial Supervision and Administration Bureau, Wind, KKR Global Macro & Asset Allocation analysis.

China's dominance across the rare earth value chain adds an additional layer of economic resilience.

Exhibit 16: The Housing Market Correction Seems Close to Bottoming, Though a Strong Rebound Is Unlikely

Housing Market Correction Index: China vs. U.S., Japan, and Spain

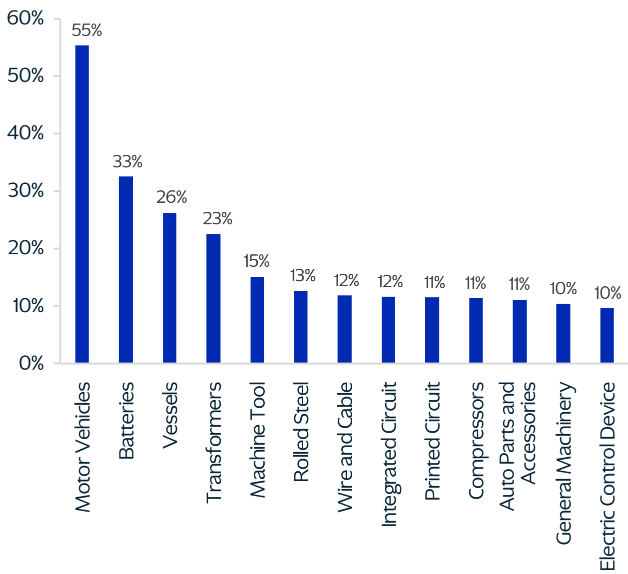


The Housing Market Correction Index is a simple average of the correction index for housing prices, investments and starts. Year T is the peak of the housing bubble, which is 2021 for China. Data as at December 31, 2025. Source: Japan Ministry of Land, Infrastructure and Transport, China National Bureau of Statistics, Federal Housing Finance Agency, U.S. Census Bureau, Spanish Statistical Office, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

Control of critical inputs reinforces China's strategic positioning. Beyond manufacturing scale, China's dominance across the rare earth value chain adds an additional layer of economic resilience *(Exhibit 18)*. Indeed, with China controlling approximately 52% of global mining, 91% of refining, and 94% of magnet production, this level of concentration is not easily replicated in the near-term by other external global players, we believe. So, in a world where supply chain security and economic resilience are becoming central policy priorities, this positioning is likely to remain a key factor (and leverage) in global trade discussions for years to come.

Exhibit 17: Gains in Export Competitiveness Across Autos, Batteries, and Electronics Drove a Strong Trade Surplus

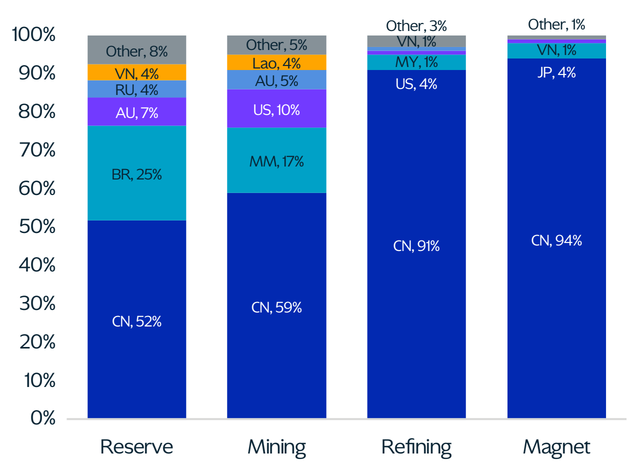
China Exports by Products, CAGR Over 2021-25



Data as at February 28, 2026. Source: China National Bureau of Statistics, Wind, KKR Global Macro & Asset Allocation analysis.

Exhibit 18: Rare Earth Dominance Underpins Strong Supply Chain Bargaining Power

Country Shares Across the Rare Earth Value Chain



Data as at February 28, 2026. Source: USGS, IEA, KKR Global Macro & Asset Allocation analysis.

China's manufacturing and supply chain positioning remains a structural advantage, not a cyclical one, despite growing concerns around tariffs, diversification, and geopolitical friction. In reality, the composition of exports tells a more durable story, albeit one that has important implications for global trade negotiations. Indeed, growth has clearly been strongest in capital goods and energy transition sectors, not low-value commodities. One can see this in *Exhibit 17*. All told, between 2021 and 2025, auto exports compounded at 55%, batteries at 33%, vessels at 26%, and transformers at 23%, all areas where global demand remains robust and substitution is difficult in the near term. At the same time, anti-involutionary policies[1] put forward in 2024 and refined in 2025 are beginning, at the margin, to restore some pricing power to corporates. Indeed, after 42 consecutive months of PPI deflation *(Exhibit 19)*, leading to a meaningful drag on margins and confidence, we are now seeing early signs of a turn, supported by supply-side reform and higher input costs, including energy. While downstream demand remains soft, the key point is that the direction of travel has changed, which historically has mattered for both profitability and capital allocation.

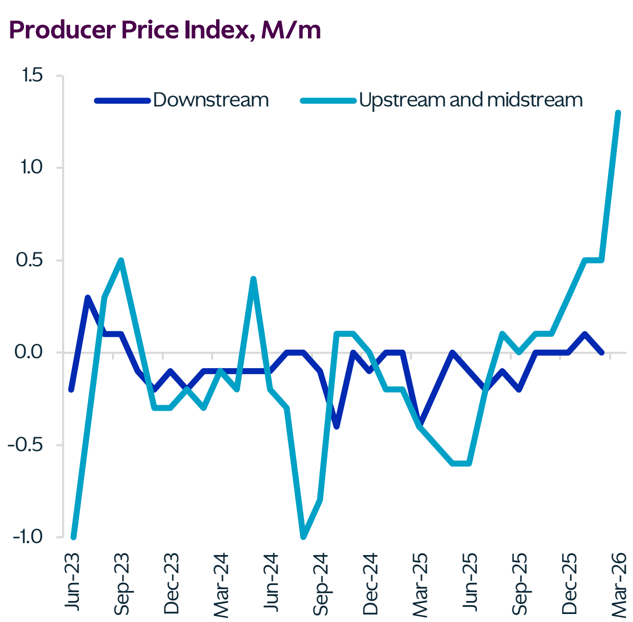
In reality, the composition of exports tells a more durable story, albeit one that has important implications for global trade negotiations. Indeed, growth has clearly been strongest in capital goods and energy transition sectors, not low-value commodities.

1 Chinese anti-involutionary policy measures are designed to reduce destructive, low-return competition and excess capacity in key industries, and instead promote more sustainable, higher-quality growth.

Exhibit 19: PPI Turned Positive After 42 Months of Deflation, Albeit Much of the Improvement Seen So Far Is From Import Prices

Data as at March 31, 2026. Source: Wind, KKR Global Macro & Asset Allocation analysis.

Exhibit 20: PPI Recovery Has Been Driven Largely by Upstream Prices Though End-Demand Remains Weak



Data as at March 31, 2026. Source: Wind, KKR Global Macro & Asset Allocation analysis.

However, current labor market dynamics remain a binding constraint for growth – a key reason we continue to expect a more measured economic recovery. Our bottom line is that productivity gains are accelerating rapidly, but they are coming with meaningful displacement. All told, as China pushes towards increased levels of efficiency across its manufacturing sector, my colleague Dr. Changchun Hua, who leads our China macro effort at KKR, estimates that 90-100 million jobs could be displaced by 2035, driven by automation, robotics, and AI adoption *(Exhibit 21)*.

Importantly, while the services sector offers real absorptive potential for the decline in manufacturing jobs, Dr. Hua's research shows that it must grow at 6% or more annually, above the current ~5% pace, just to offset this tricky manufacturing transition. Even then, though, China would still remain below developed market norms as a share of GDP *(Exhibits 22* and *23)*. As such, while China's long-term competitiveness is clearly improving, the near-term reality is one of tension between productivity and employment, which will likely keep wage growth and inflation subdued. Said differently, the China employment story is one of structural strength alongside cyclical constraint, reinforcing our view of a gradual, uneven process. That said, we do believe that a steady end state is achievable over time if the government and private sector work effectively together during what we believe is an economically sensitive and incredibly important transition period within the country.

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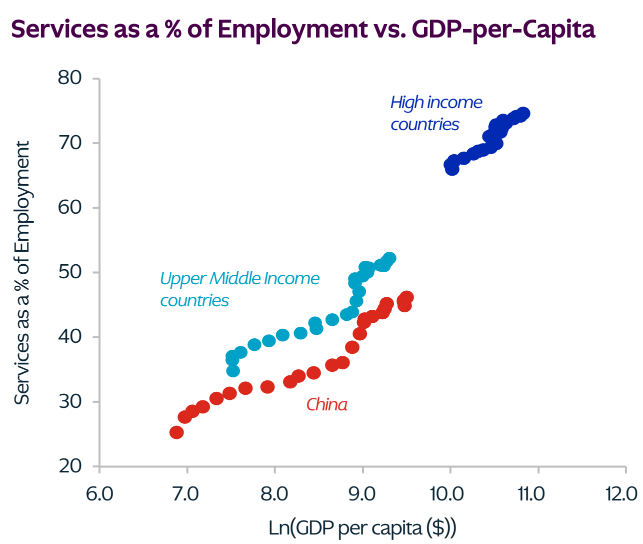
Exhibit 21: Rising Manufacturing Productivity May Dampen Labor Demand for Workers

Value added expressed in 2020 USD. Data as at December 31, 2025. Source: China National Bureau of Statistics, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

Exhibit 22: China's Services Job Creation Is Still Well Below Other Economies, Especially High Income Ones



Data as at December 31, 2025. Source: World Bank, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

Exhibit 23: Scenario Analysis: China Must Lift Services Output Growth to 6%+ Per Annum From Current 5% to Offset the Emerging Manufacturing Employment Decline We Are Forecasting

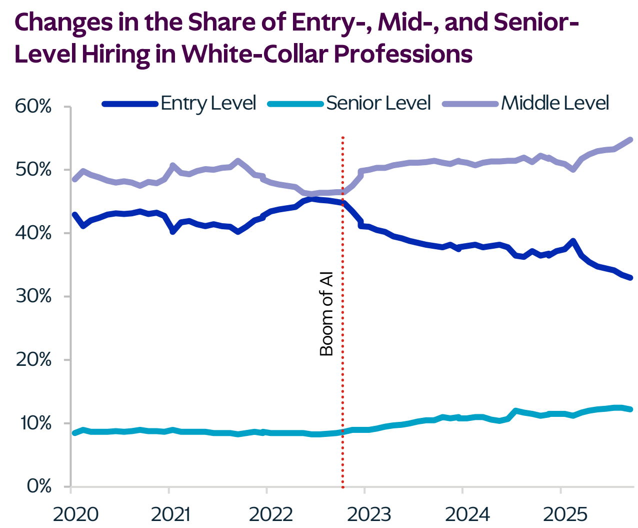
Additional Jobs Created from Services Sectors in 2035 (vs. 2024, Millions)						
		Real Annual Growth in Services				
3.0%		4.5%	6.0%	7.5%	9.0%	
Employment per $1mn Worth of Output (CAGR)	-2.0%	39	107	187	278	382
	-3.0%	-4	58	128	210	303
	-3.4%	-19	39	107	184	274
	-4.0%	-42	13	76	149	232
	-5.0%	-76	-28	29	93	168
Services as a % of GDP in 2035						
		Services Real Annual Growth				
3.0%		4.5%	6.0%	7.5%	9.0%	
Assuming China Real GDP Growth at 4.2%		50%	58%	68%	80%	93%

Value added expressed in 2020 USD. Data as at December 31, 2025. Source: China National Bureau of Statistics, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

Importantly, though, it is not just manufacturing. Labor supply dynamics are compounding the employment challenge, especially as it relates to inequality. All told, we estimate that the total supply side of the labor market is still not adjusting in a way that fully alleviates what we see on the demographic front, especially as it relates to retirement trends. University graduates are expected to remain elevated at 11-15 million per year through 2030, with the cohort not peaking until 2035-2040; at the same time, however, urban retirements run at only 8-12 million annually. The result is a persistent and unfortunate imbalance, we believe.

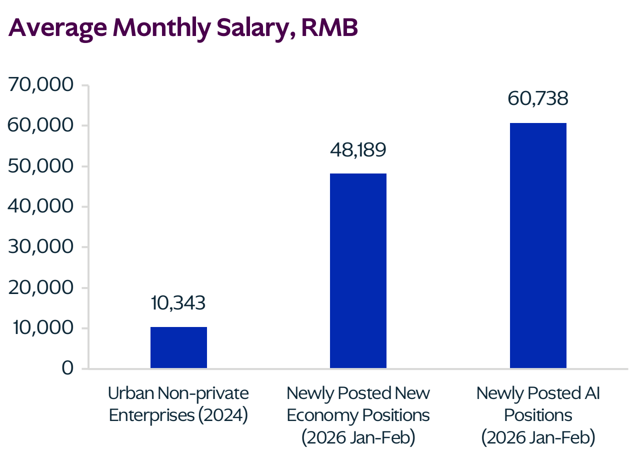
A second factor to consider is that AI is disrupting entry-level white-collar hiring precisely as this wave of graduates enters the workforce. A dramatic bifurcation in wages highlights the issue clearly, we believe. Just consider that newly created AI roles command salaries of over RMB 60,000 per month, compared to roughly RMB 10,000 for the average urban worker *(Exhibit 25)*. So, our bottom line is that absent policy intervention, this widening gap is likely to constrain aggregate consumption of China's broad middle class on a relative basis compared to what we think China might otherwise be able to achieve. To be sure, there are always trade-offs, but we think that this segment of the market potentially warrants more attention.

Exhibit 24: AI Is Disrupting Entry-Level White-Collar Hiring in China



Data as at February 28, 2026. Source: Zhilian Recruiting, CF40, KKR Global Macro & Asset Allocation analysis.

Exhibit 25: At the Same Time, However, AI Creates New Opportunities With Highly Attractive Salaries



The 'new economy' sector refers to industries driven by technologies such as the Internet, big data, cloud computing and AI. Data as at February 28, 2024. Source: China National Bureau of Statistics, Maimai, Global Macro & Asset Allocation analysis.

Conclusion

After what we believe was the 'bottom' in the China story in the fall 2024 (see *Thoughts From the Road Asia*), China has methodically moved its way back towards more normalized conditions. Indeed, growth is more steady, exports are increasingly competitive in higher value-added sectors, and policy is increasingly focused on quality over quantity. At the same time, new drivers including digitalization, green investment, and advanced manufacturing are taking a larger share of the growth mix. There is also the reality that what seemed at the time China's relentless focus on renewables, solar panels, and EVs now looks quite prescient, given all that has taken place in the Middle East.

Moreover, some of the biggest domestic headwinds are beginning to moderate. The housing correction, while still a drag, appears to be nearing a later-stage adjustment, and early signs of stabilization in household balance sheets are emerging. That does not mean a sharp recovery is imminent, but it does suggest that the worst of the downside risk is likely to be behind us.

Meanwhile, this visit again reinforced that China retains several structural advantages, and that the government is encouraging the private sector to extend its first-mover competitive advantage to something more permanent. China continues to hold a dominant position in global manufacturing and supply chains, particularly in capital goods and energy transition technologies. It also continues to exert meaningful control over critical inputs, including rare earths. This strong positioning should help China in any negotiation with its trading partners. Finally, during our visit we witnessed firsthand the rapid scaling of AI and automation across multiple sectors, albeit through a more consumer-driven and cost-efficient model than what we are seeing in the United States.

That said, challenges remain. Job growth is lackluster in aggregate, deflationary pressures are only just beginning to ease, and the transition to a services-led economy will take time. We are particularly focused on China building out its social safety net and healthcare services offerings. Also, local and foreign businesses continue to worry that growth in their sector is not leading to a commensurate increase in profits. This viewpoint has significant implications for both Chinese corporates as well as its global counterparts. So, a key variable where we see capital allocators spend more time is whether jobs and profits come from the growing number of sectors where China holds or is building a dominant global export position. Therein lies the opportunity, we believe, for the government to help the private sector find the right balance.

Moreover, some of the biggest domestic headwinds are beginning to moderate. The housing correction, while still a drag, appears to be nearing a later-stage adjustment, and early signs of stabilization in household balance sheets are emerging. That does not mean a sharp recovery is imminent, but it does suggest that the worst of the downside risk is likely to be behind us.

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