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The State of the U.S. Consumer

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PREPARED FOR
THE FEDERAL RESERVE BANK OF NEW YORK, ECONOMIC ADVISORY PANEL MEETING

SEPTEMBER 20, 2024

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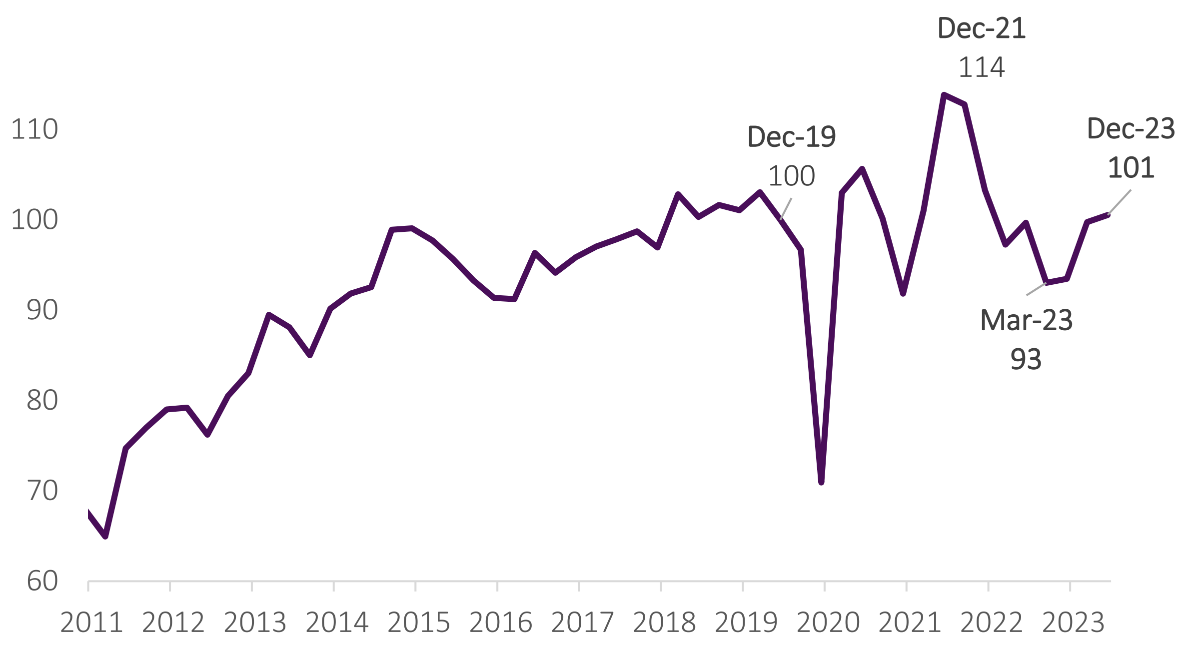
We Do Not Expect A Hard Landing

Recessions Are Typically Caused by Housing and Inventory Issues. That Backdrop Does Not Look Likely This Cycle

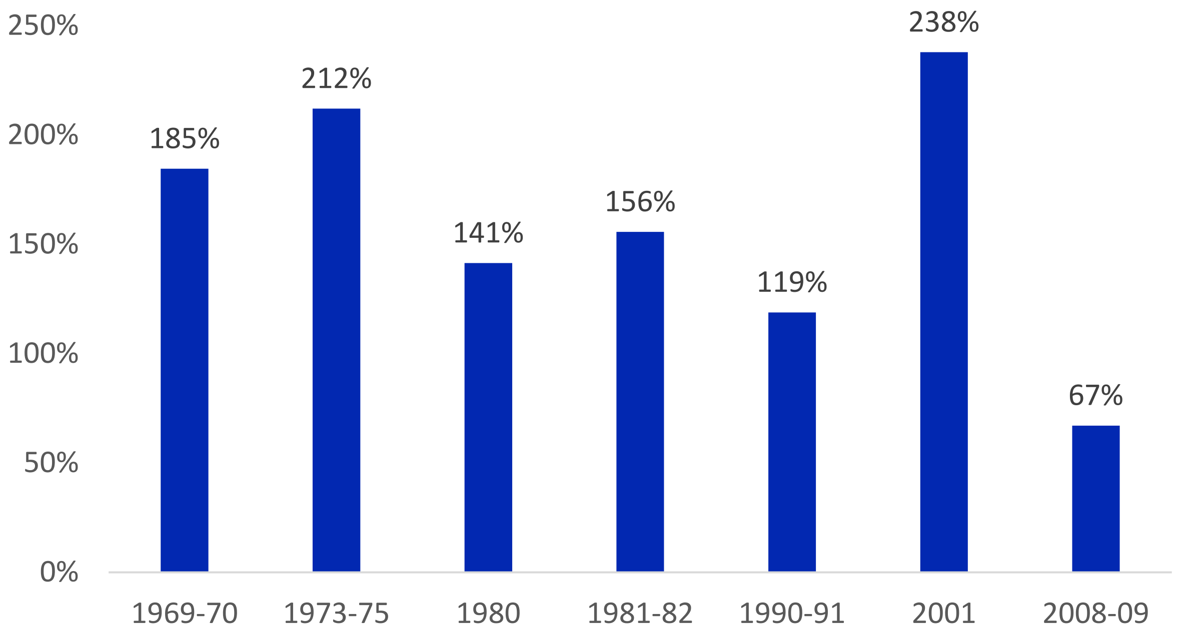
Real Construction + Inventory Investment (4Q19=100)



Data as at December 31, 2023. Source: U.S. Bureau of Economic Analysis, Haver Analytics, KKR Global Macro & Asset Allocation analysis.

Consistently, Across Cycles, Inventory and Construction Capex Contractions Have Driven the Great Bulk of Recessionary Downturns

% of GDP Recession Explained by Inventories and Construction



Recession periods examined: 3Q69-2Q70, 4Q73-1Q75, 1Q80-3Q80, 3Q81-1Q82, 3Q90-1Q91, 2Q01-4Q01, 2Q08-2Q09. Data as at November 10, 2023. Source: BEA, Haver, KKR Global Macro & Asset Allocation analysis.

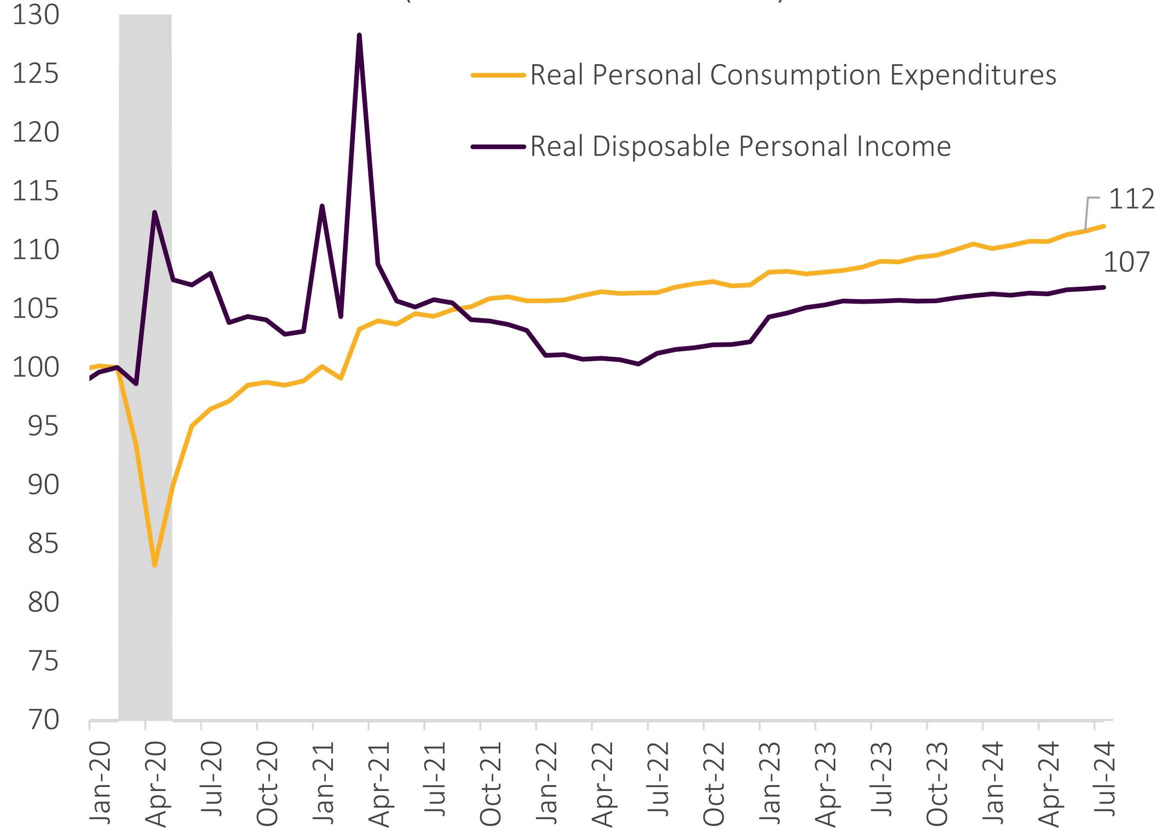
The Consumer Has Been A Ballast Of Support For The U.S. Economy

Consumer Spending Has Been Resilient Due To 1) A Resilient Labor Market As Labor Shortages Have Kept Unemployment Low And Wages Elevated, 2) Healthy Consumer Balance Sheets, And 3) $2.1 TN In Excess Savings (At Peak)

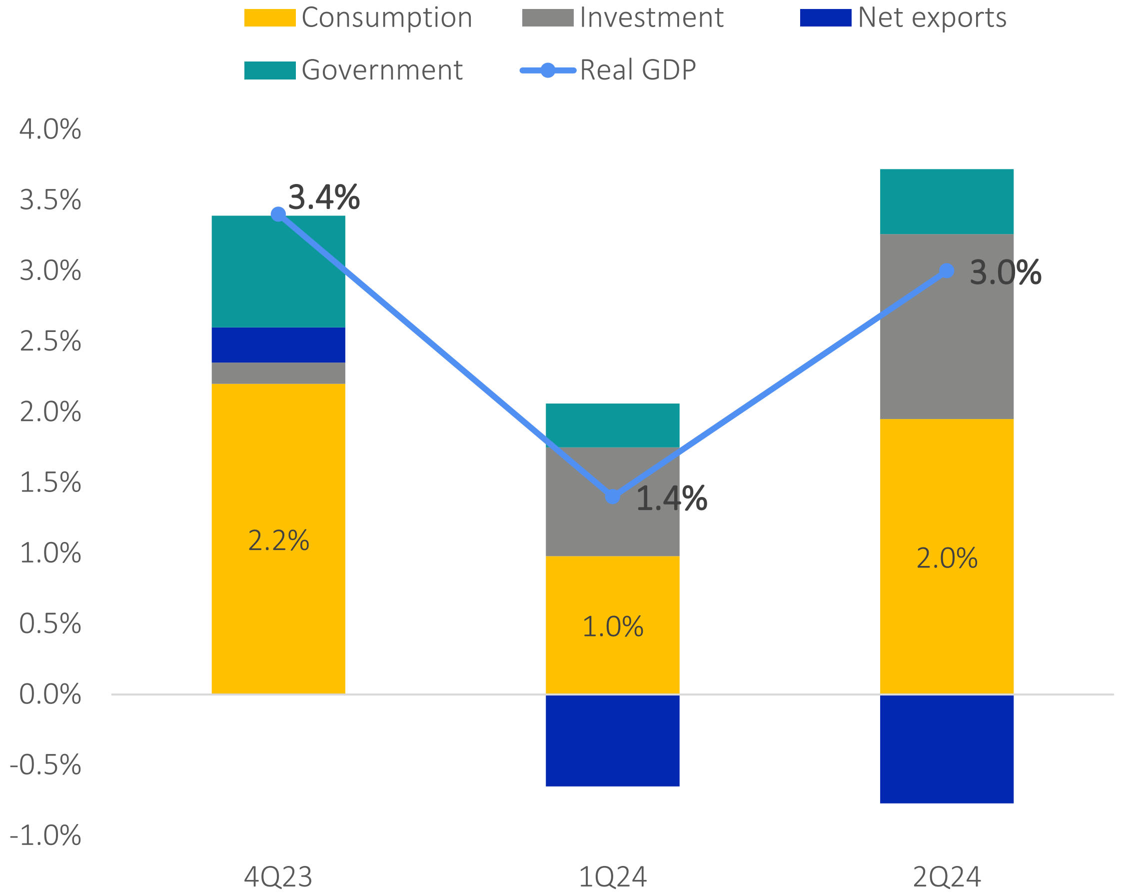
Since The Start Of The Pandemic On Average 50% Of GDP Growth Has Been Attributed To Consumption (vs. 42% in 2010-2019)

Real Personal Consumption Expenditures and Real Disposable Personal Income

(index=100 on Feb-2020)



Contribution to U.S. Real GDP (%)

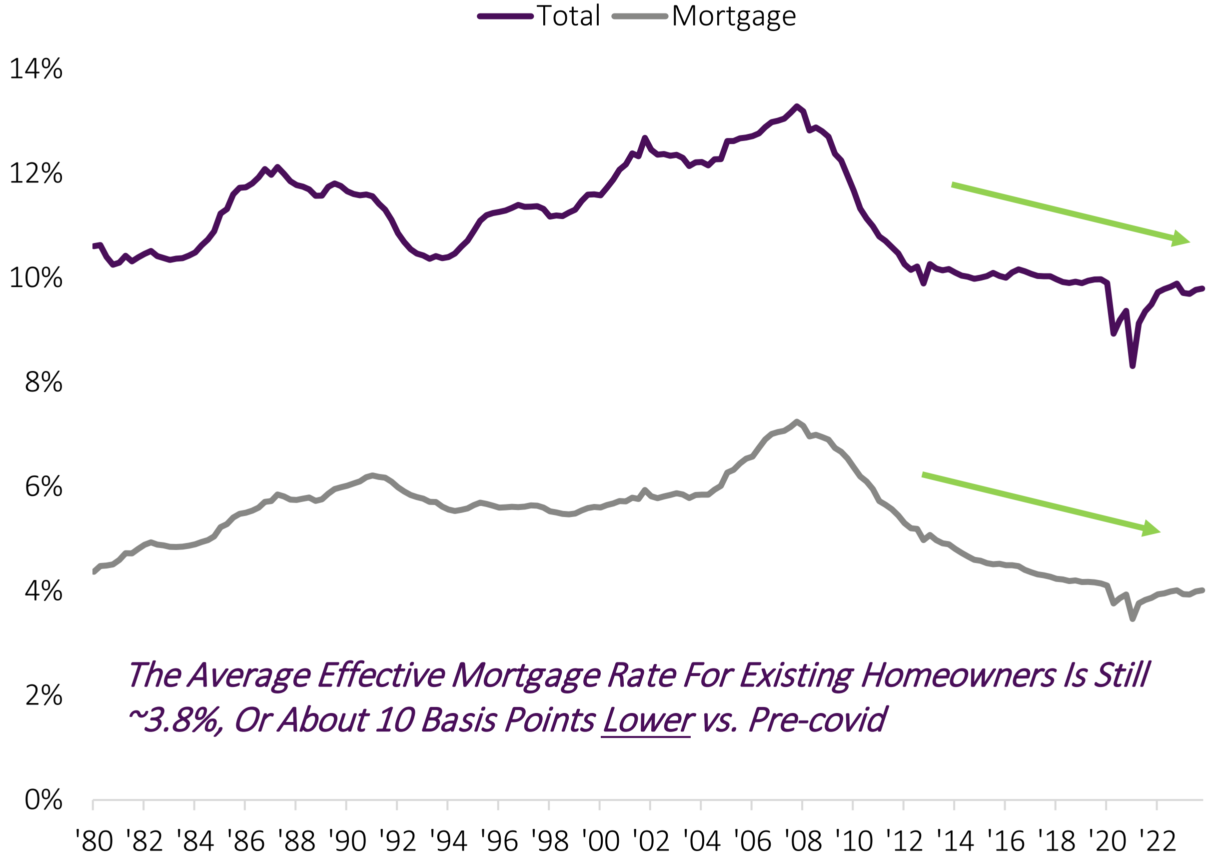


Left and Right: Source: Bureau of Economic Analysis, Haver Analytics. No representation is made that the trends depicted or described above will continue

On The Surface, Balance Sheets Appear Healthy

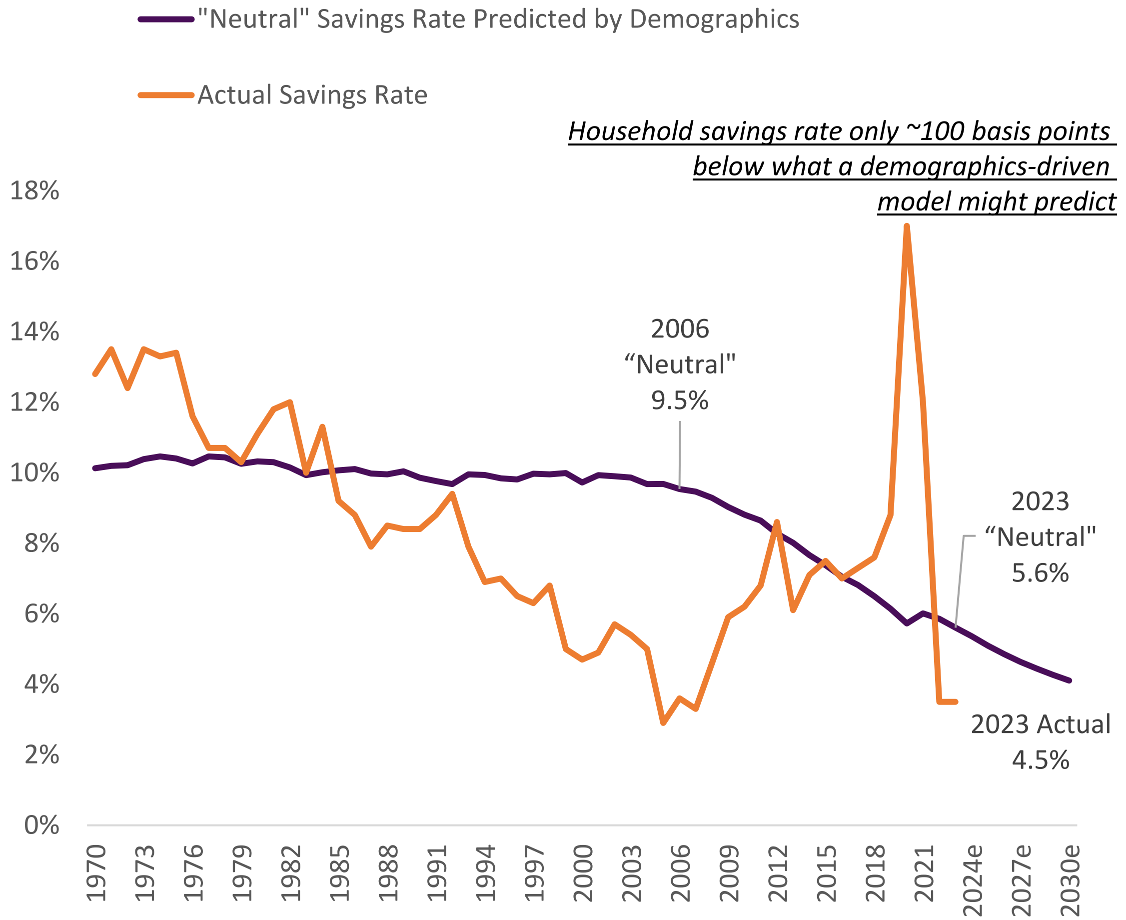
The Consumer Does Not Appear Over Levered

U.S. Consumer Debt Service as a % of Disposable Income



And Even The Savings Rate Seems Reasonable Once One Accounts for Demographic Shifts

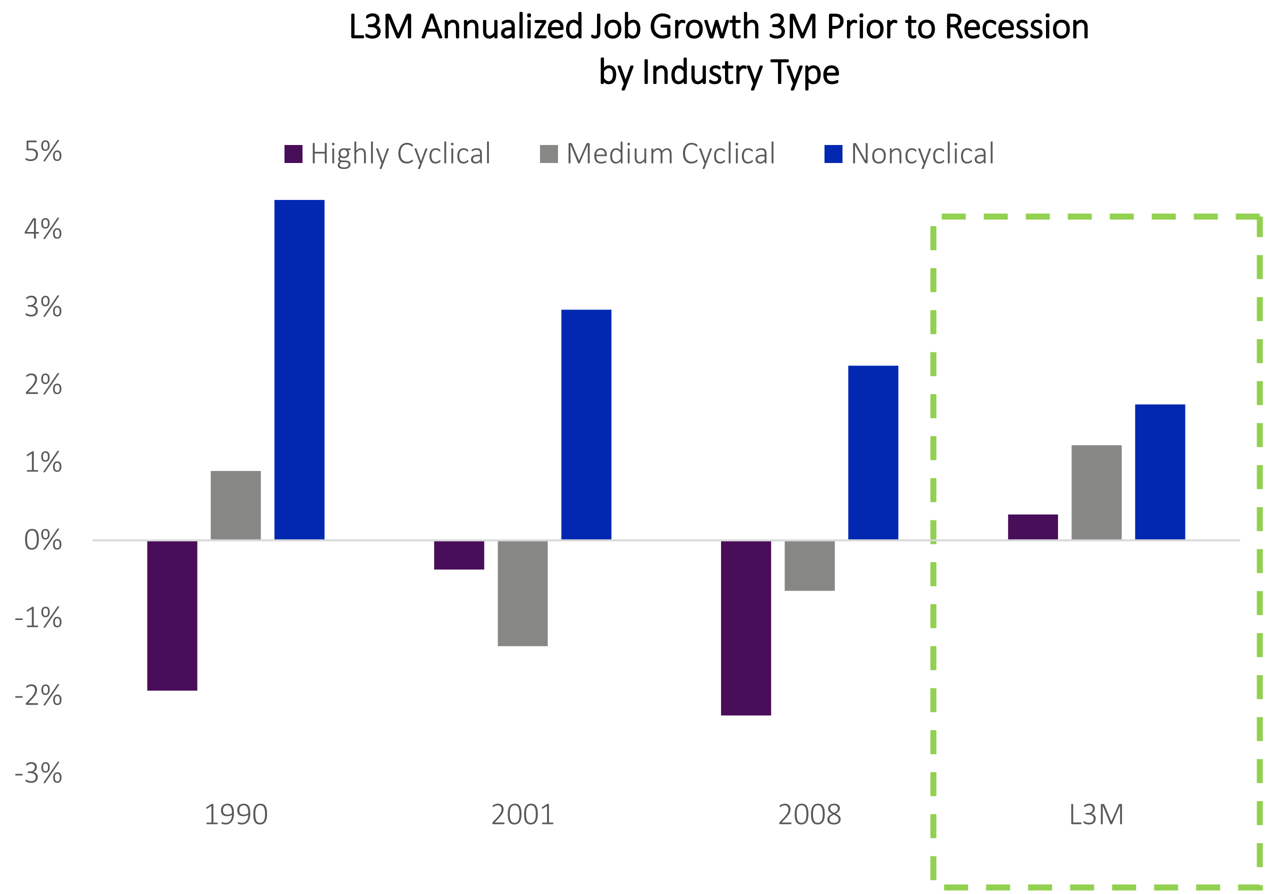
Aging Demographics Are Pushing Down on the “Neutral” Savings Rate



Source: Federal Reserve Board. No representation is made that the trends depicted or described above will continue.

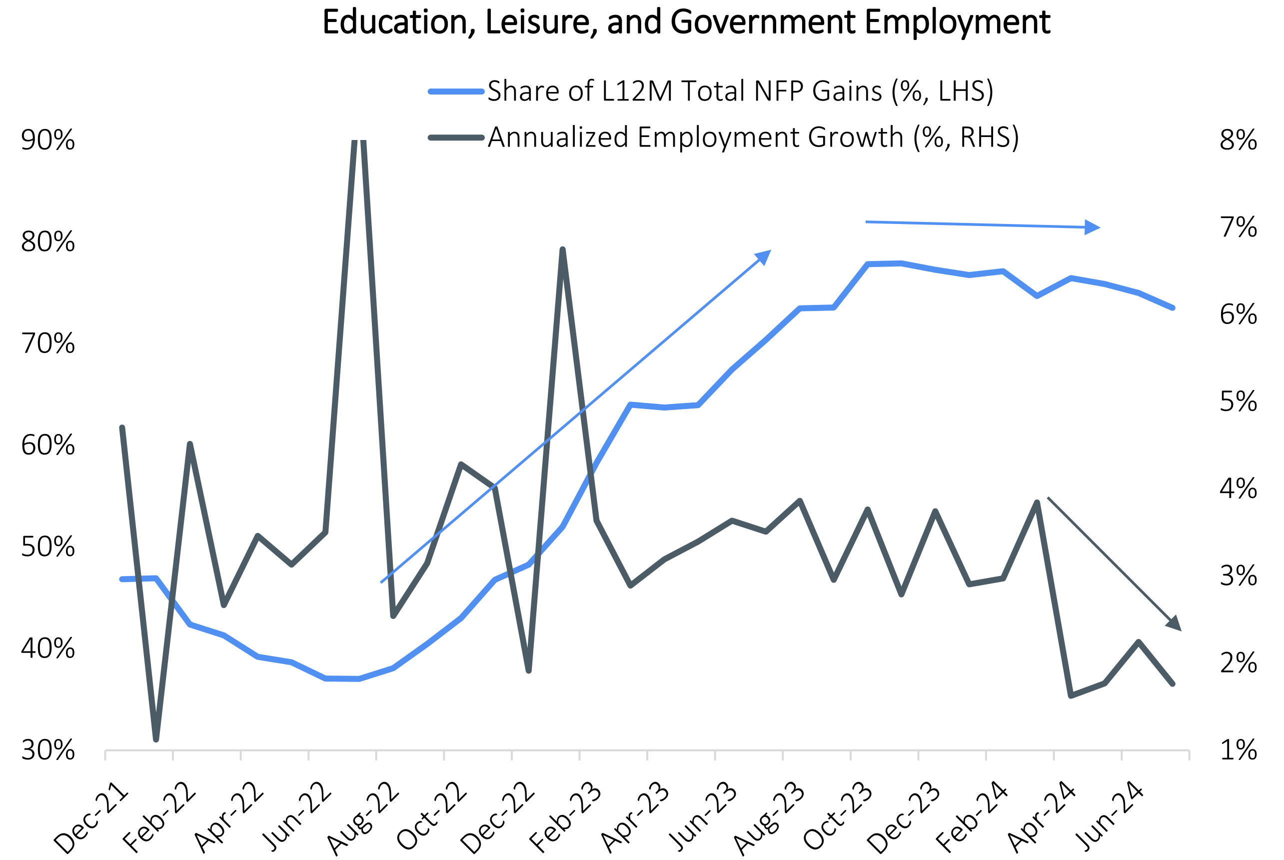
Job Growth Is Slowing, But Remains Solid

This Does Not Look Like The Start To A 'Typical' Recession



Data as at July 31, 2024. Source: Bloomberg, KKR GMAA Analysis. Highly cyclical includes construction, manufacturing, and tech/publishing. Medium cyclical includes wholesale trade, transportation, and other. Noncyclical includes finance, education/healthcare, leisure/hospitality, and government. No representation is made that the trends depicted or described above will continue

The Services Employment Recovery – Which Has Powered Total Job Growth – Is Slowing



Data as at July 31, 2024. Source: Bloomberg. No representation is made that the trends depicted or described above will continue

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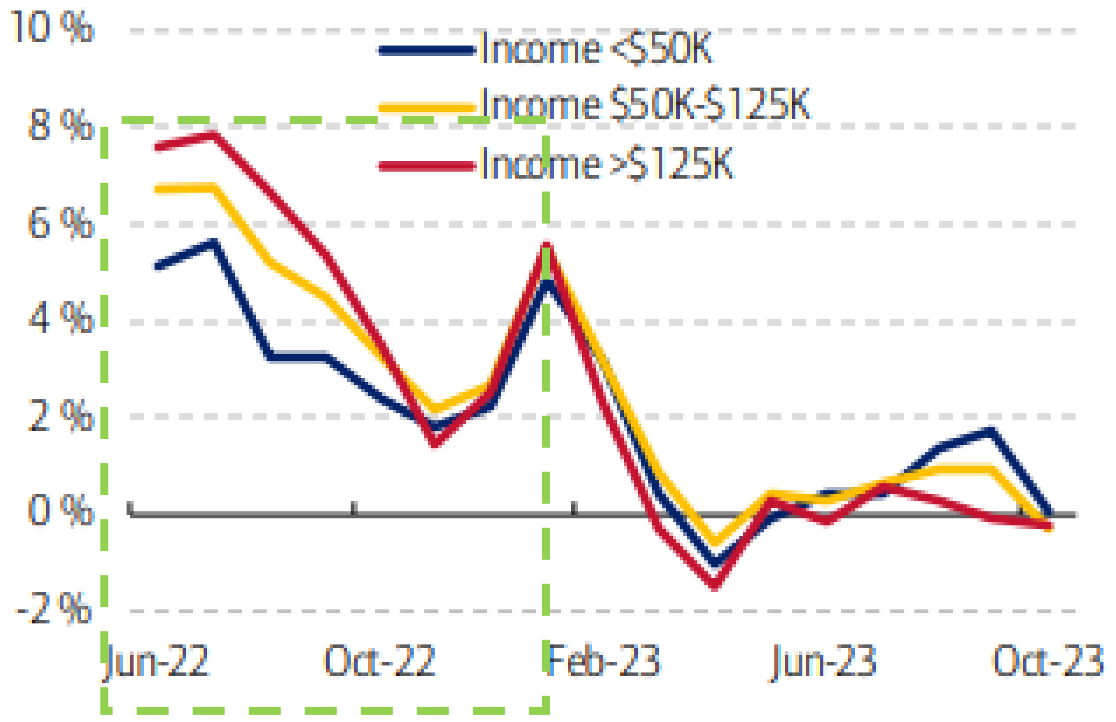
1Q24 Credit Card Data Suggests Spending Growth Has Slowed For All Income Cohorts, But Higher Income Consumers Have Pulled Back Slightly More Than Lower Income

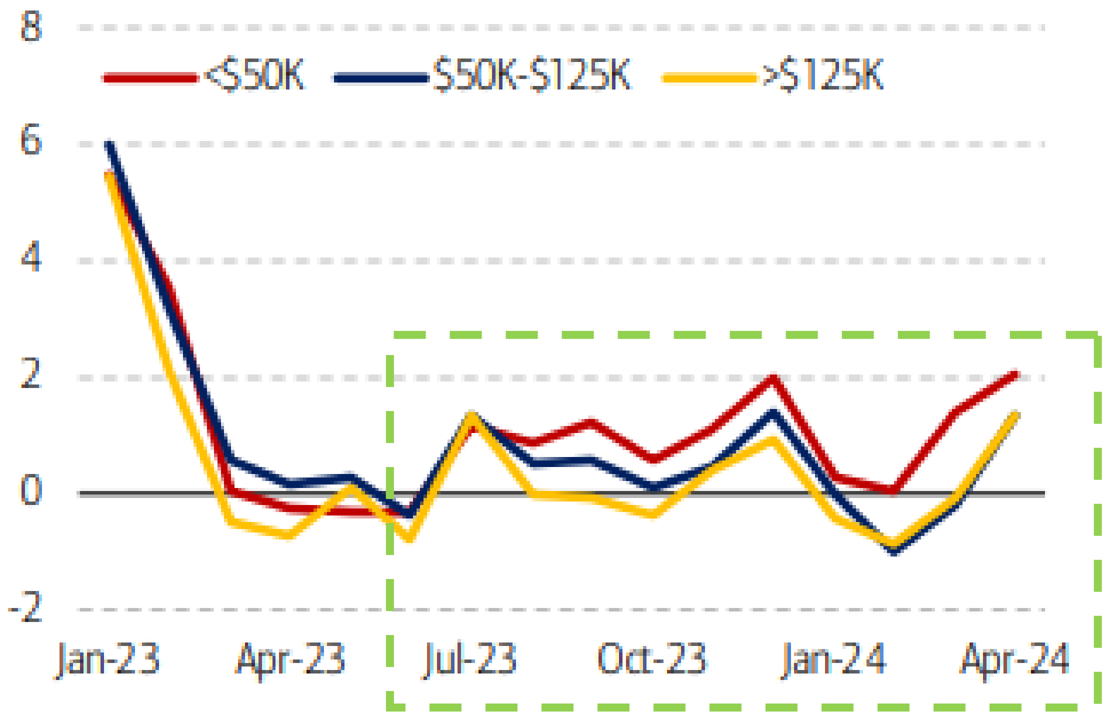
Coming Out Of COVID, Spending By Higher Income Households Tended To Outpace The Lower Income Cohort

Total card spending per household YoY growth by income (%, seasonally adjusted, monthly)



This Trend Has Reversed. Looking At 1Q24 Lower-Income Spending Has Softened Since 2023, But Remains Stronger Than Higher-Income Spending

Total card spending per household YoY growth by income (%, seasonally adjusted, monthly)



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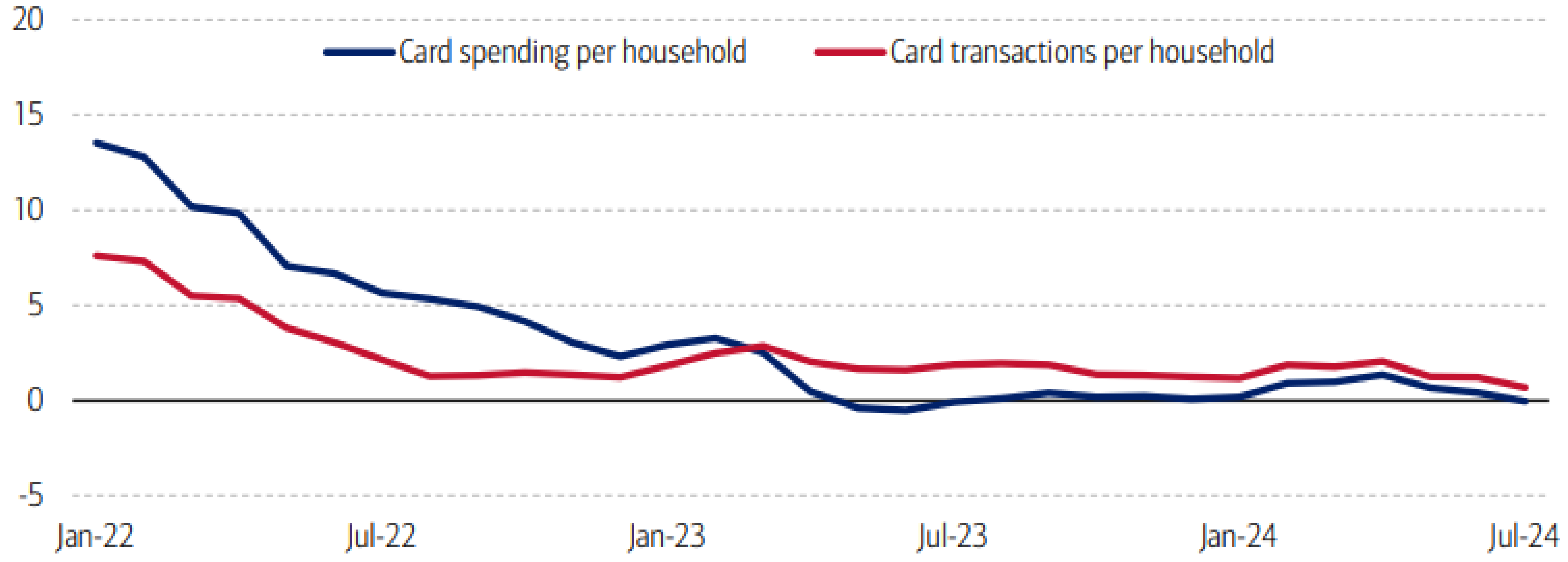
Source: Bank of America. No representation is made that the trends depicted or described above will continue.

Demand For Discretionary Goods And Services Is Softening

Credit Card Spending Is Showing Some Signs Of A Slowdown Over The Last Few Months

Number of card transactions per household and total card spending per household (3-month moving average, % YoY, NSA)



Survey Data Suggests Consumers Are Likely To 1) Continue Prioritizing Essentials Like Groceries And Household Supplies And 2) Focus On Stretching Their Dollars

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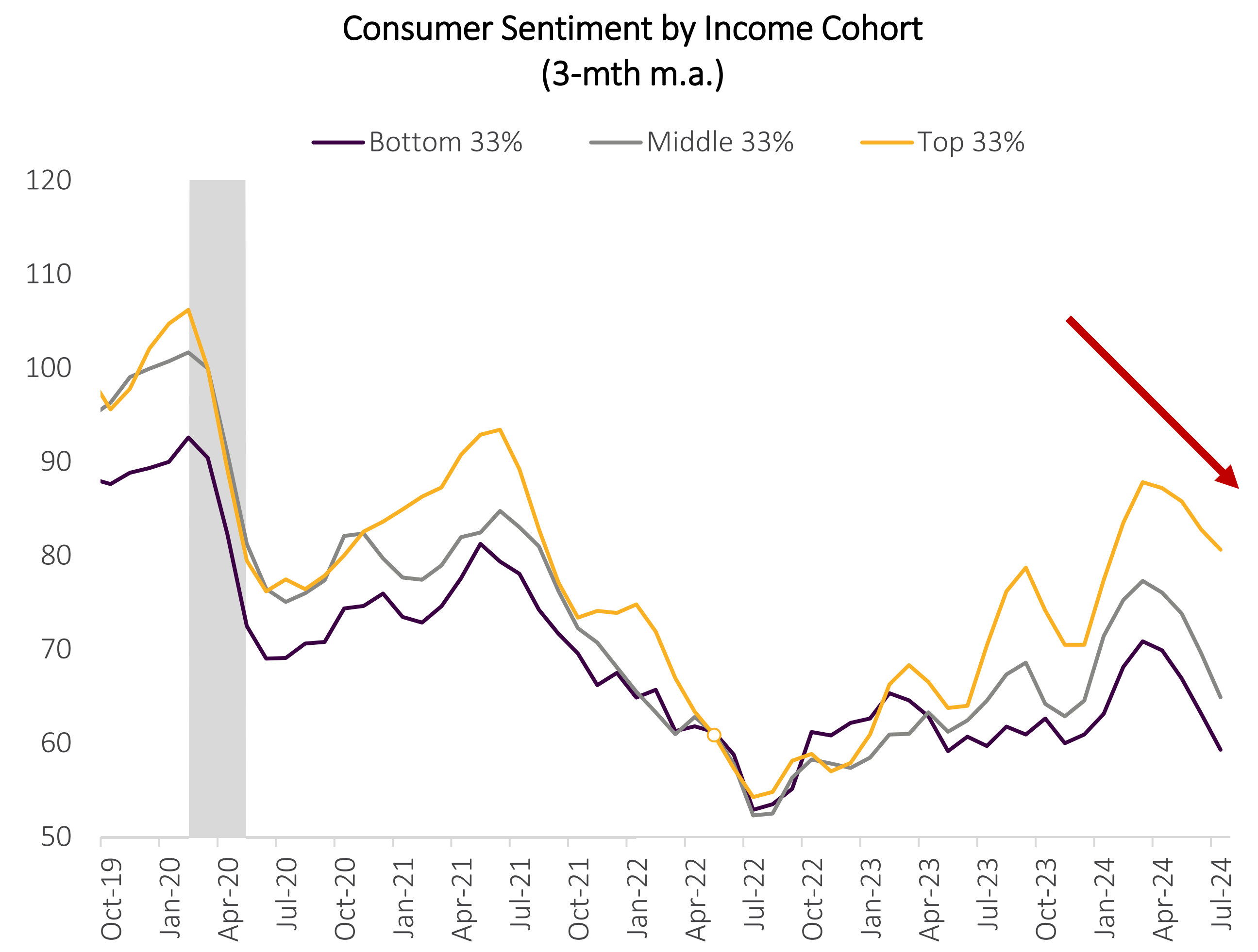
Source: Bank of America. No representation is made that the trends depicted or described above will continue.

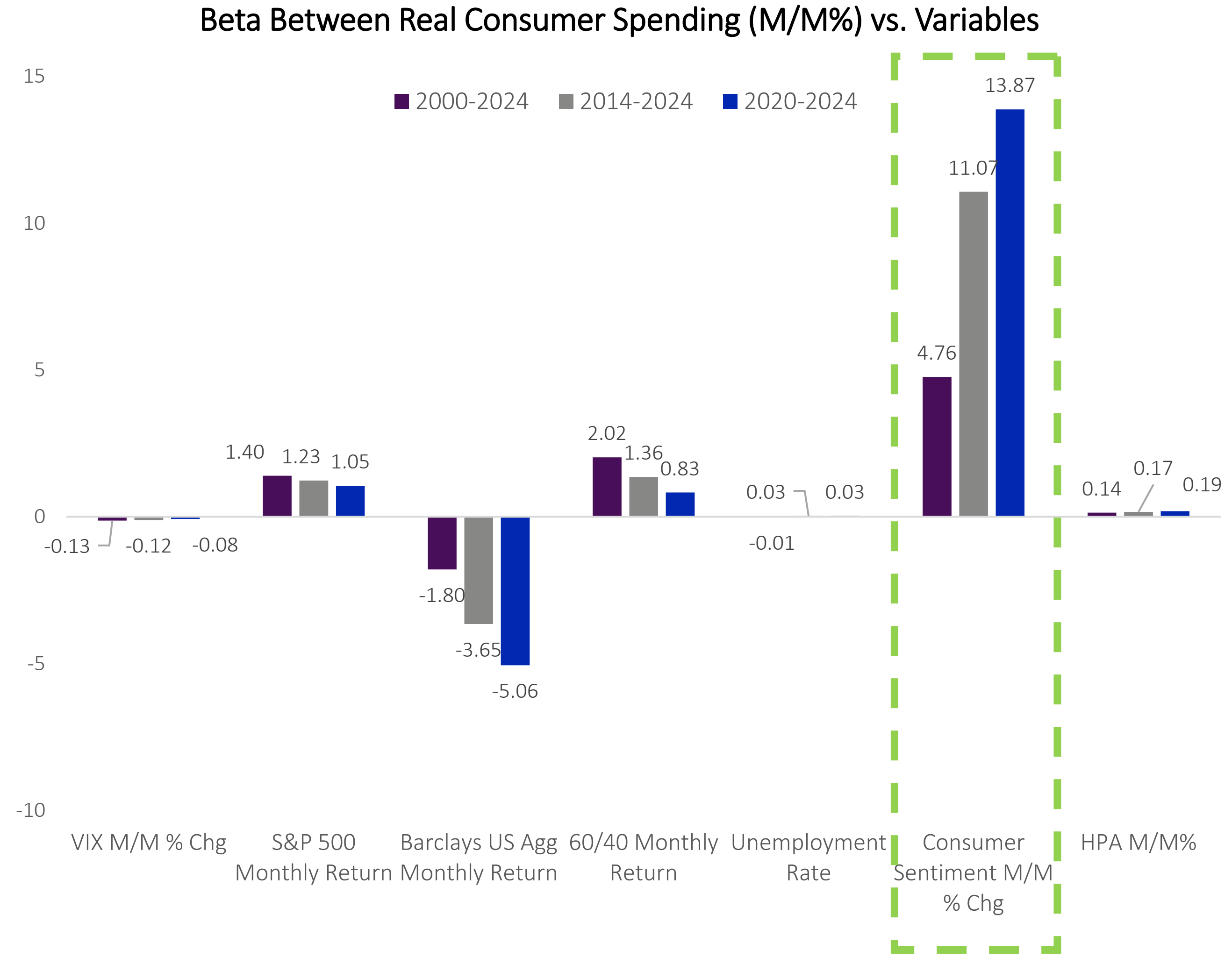
Key Areas To Watch

Consumer Sentiment, Which Has A High Beta To Spending Data, Has Been Trending Down Across Income Brackets Since The Start Of 2024

Consumer Sentiment Across Income Cohorts Has Been Trending Down In 2024 In Light Of Higher Interest Rates, Slowing But Sticky Inflation, And Muting Growth



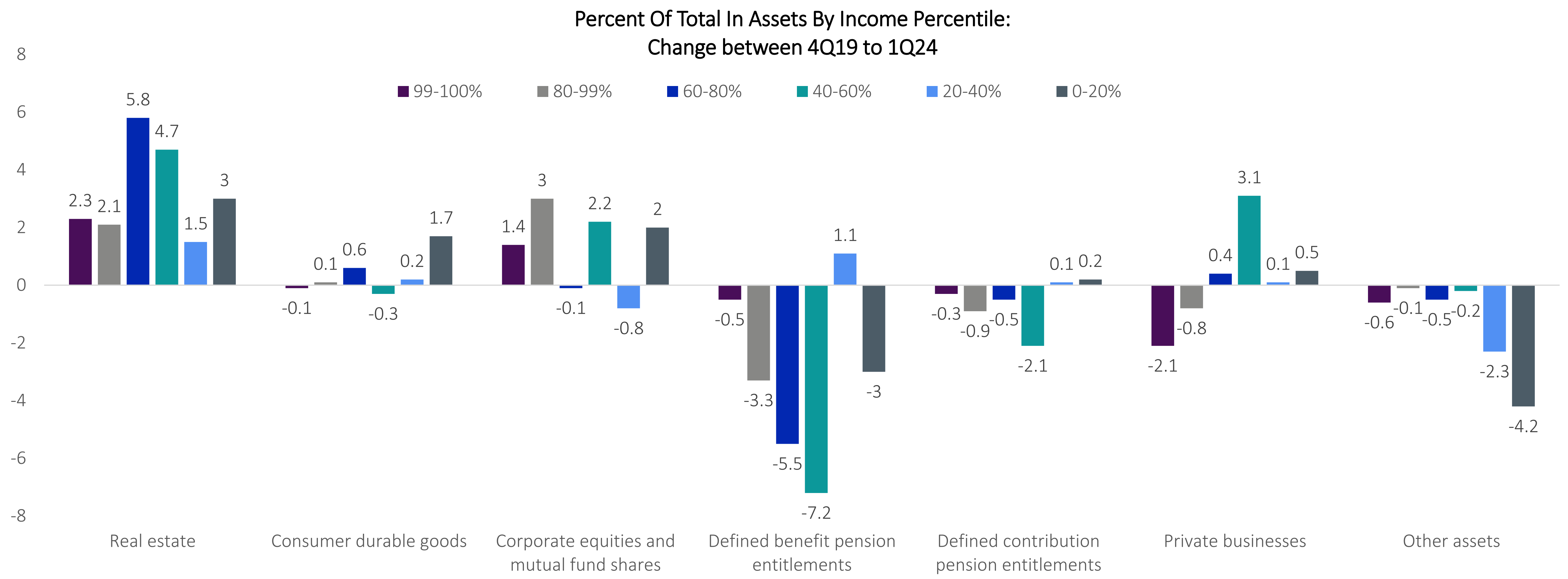
Consumer Spending Is Especially Sensitive To Consumer Sentiment, The Saliency Of This Relationship Has Improved Since The Pandemic



Left- Source: University of Michigan, Bloomberg. Right- Source: Bureau of Economic Analysis, Haver Analytics. No representation is made that the trends depicted or described above will continue.

Real Estate Has Driven Wealth Creation for Many Since The Onset Of COVID

Households Across The Income Spectrum Are Sitting On Record Levels Of Wealth. Wealth Components Have Evolved Since 2019, Favoring Real Estate, Durable Goods, and Equities, Which Has Been Supporting Economic Growth And Financial Markets



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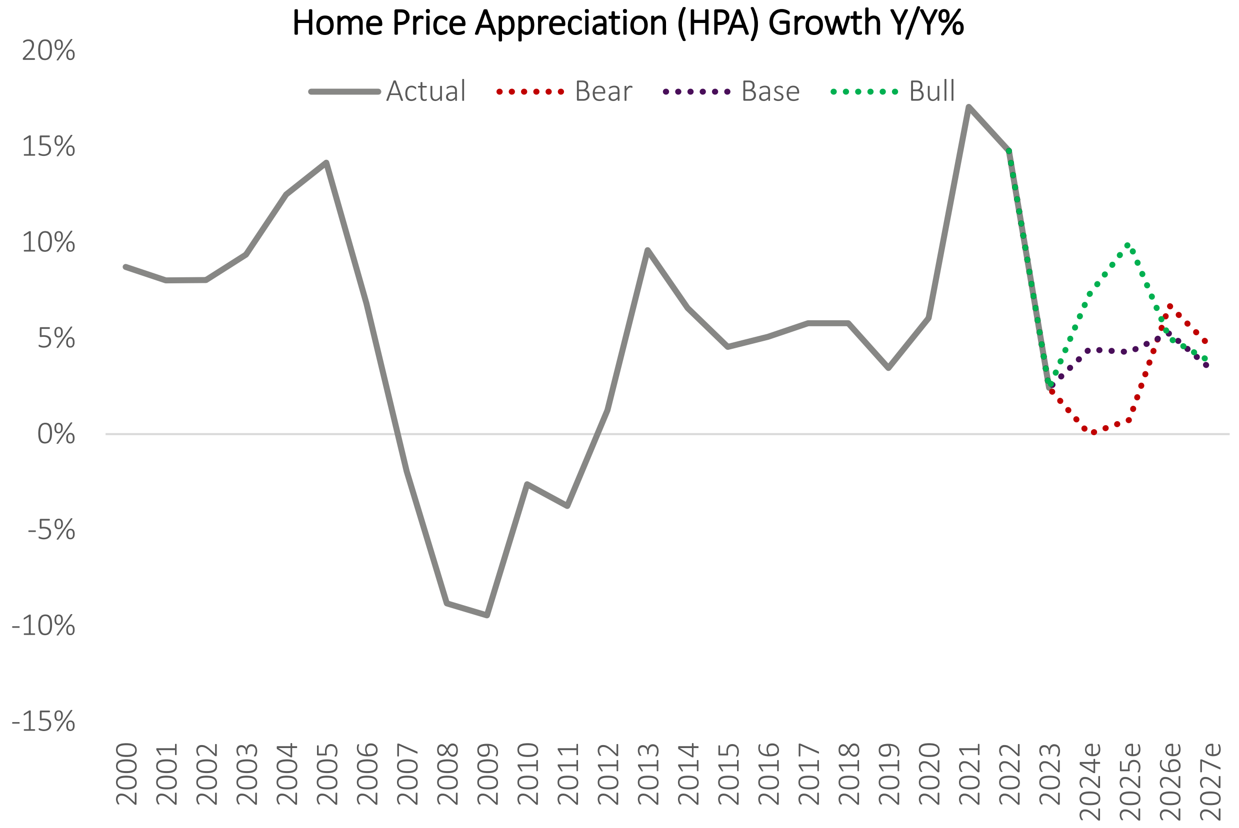
Source: Federal Reserve. No representation is made that the trends depicted or described above will continue.

Strong HPA Has Been A Massive Tailwind For Homeowners

In 2024-2028 We Expect Home Prices To Grow At ~4.3% CAGR Reflecting The More Persistent Supply Tightness In Light Of The "Lock-In-Effect"



The "lock-in effect" driven by persistently high mortgage rates, has discouraged existing homeowners from selling. Affordability should improve at the margin as mortgage rates come down on the back of Fed cuts, helping the demand side. Increasing supply and improving demand should mean an increase in housing activity and positive, but modest, HPA.

Given The Lack Of Affordability We Have Seen Increased Migration To The South. NC, SC, FL, And TX Are Home To The Majority Of This Year's Most Moved-to Locations

Rank	Cities With the Highest Number of Move-Ins Ranked In '24
1	Myrtle Beach, SC/Wilmington, NC (1st in 2023)
2	Ocala, FL (4th in 2023)
3	Houston, TX (5th in 2023)
4	Greenville-Spartanburg, SC (10th in 2023)
5	Charlotte, NC (16th in 2023)
6	Raleigh, NC (20th in 2023)
7	Phoenix, AZ (18th in 2023)
8	Knoxville, TN (7th in 2023)
9	Jacksonville, FL (8th in 2023)
10	Asheville, NC (17th in 2023)

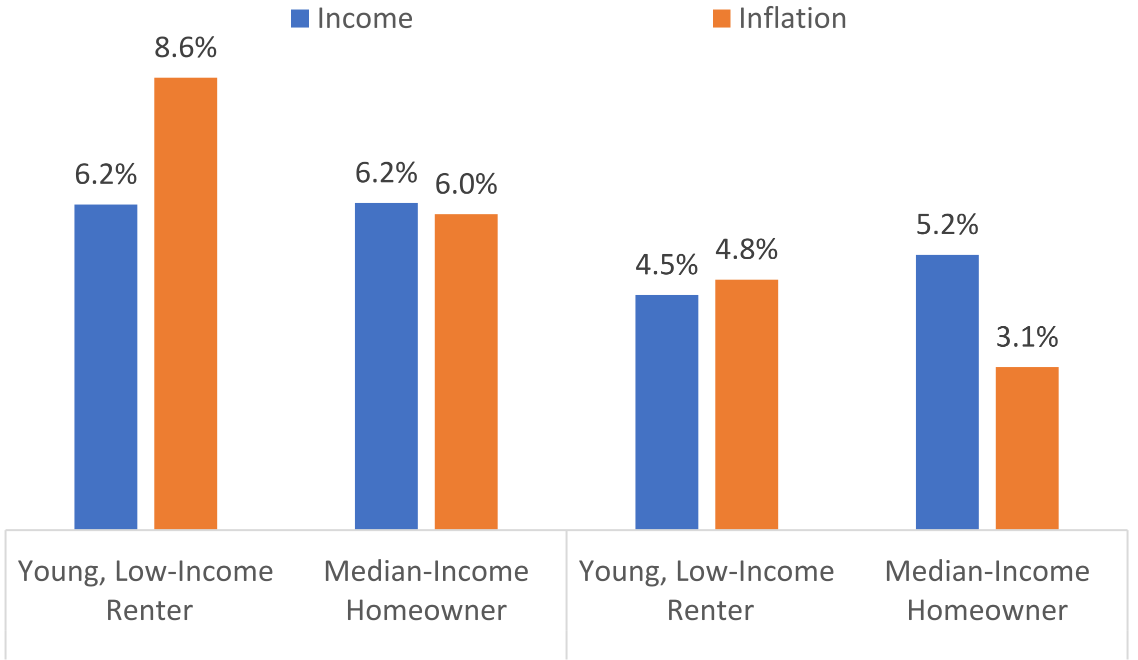
In 2023, FL dominated the top 20 list with six cities, including five in the top 10. In 2024, only three made the top 10 list as rising costs of living and extreme weather take a toll.

Left - Source: KKR GBR. Model as of August 2024. Right: PODS Move-Ins. No representation is made that the trends depicted or described above will continue.

But Low-Income and Younger Consumers' Who Tend To Be Renters Have Seen More Financial Pressures Over The Last Two Years

Renters Have Borne the Brunt of Inflation: Homeowners' Effective Real Incomes Have Actually Risen

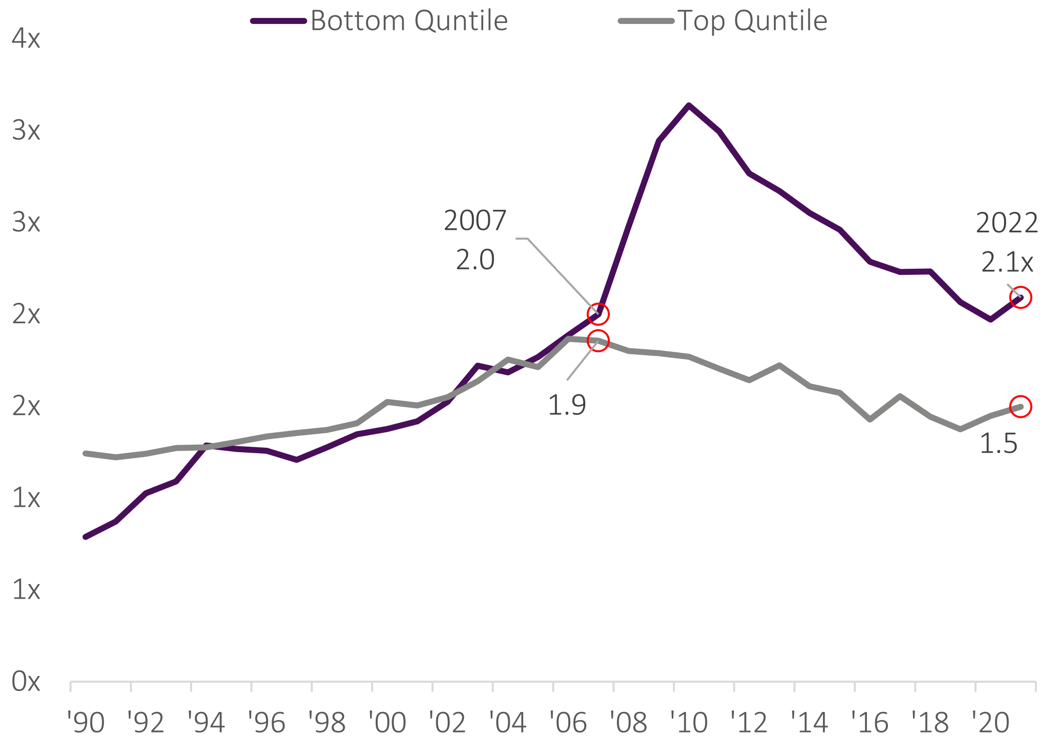
Income and Inflation Growth, %



Inflation data excludes the impact of OER, which does not flow through to homeowners' consumption costs. Young, low-income renter data based on under-25 income mix, and spending habits for renters earning ~35k/year. Average-income homeowner data based on median-income (~60k/year) income mix, and average inflation rate assuming flat shelter costs due to fixed-rate mortgages. Other income growth is assumed to match aggregate per PCE data, and 2023 income growth based on PCE data across categories. Data as at December 31, 2023. Source: BEA, BLS, KKR GBR. No representation is made that the trends depicted or described above will continue.

Low-Income and High-Income Balance Sheets Have Followed Divergent Paths

Household Debt/Income Ratio by Income Quintile



Data as at December 31, 2022. Source: Federal Reserve, Bureau of Economic Analysis, KKR GMAA Analysis. No representation is made that the trends depicted or described above will continue

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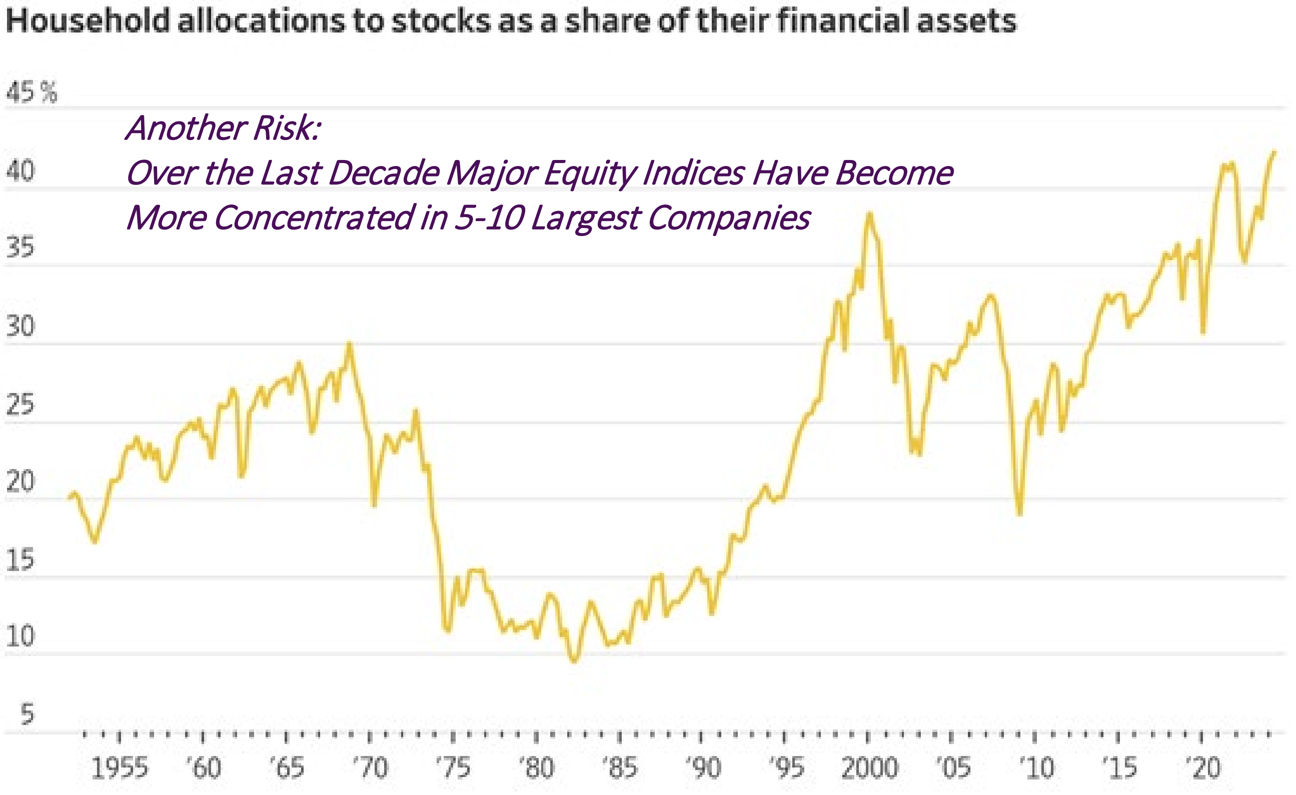
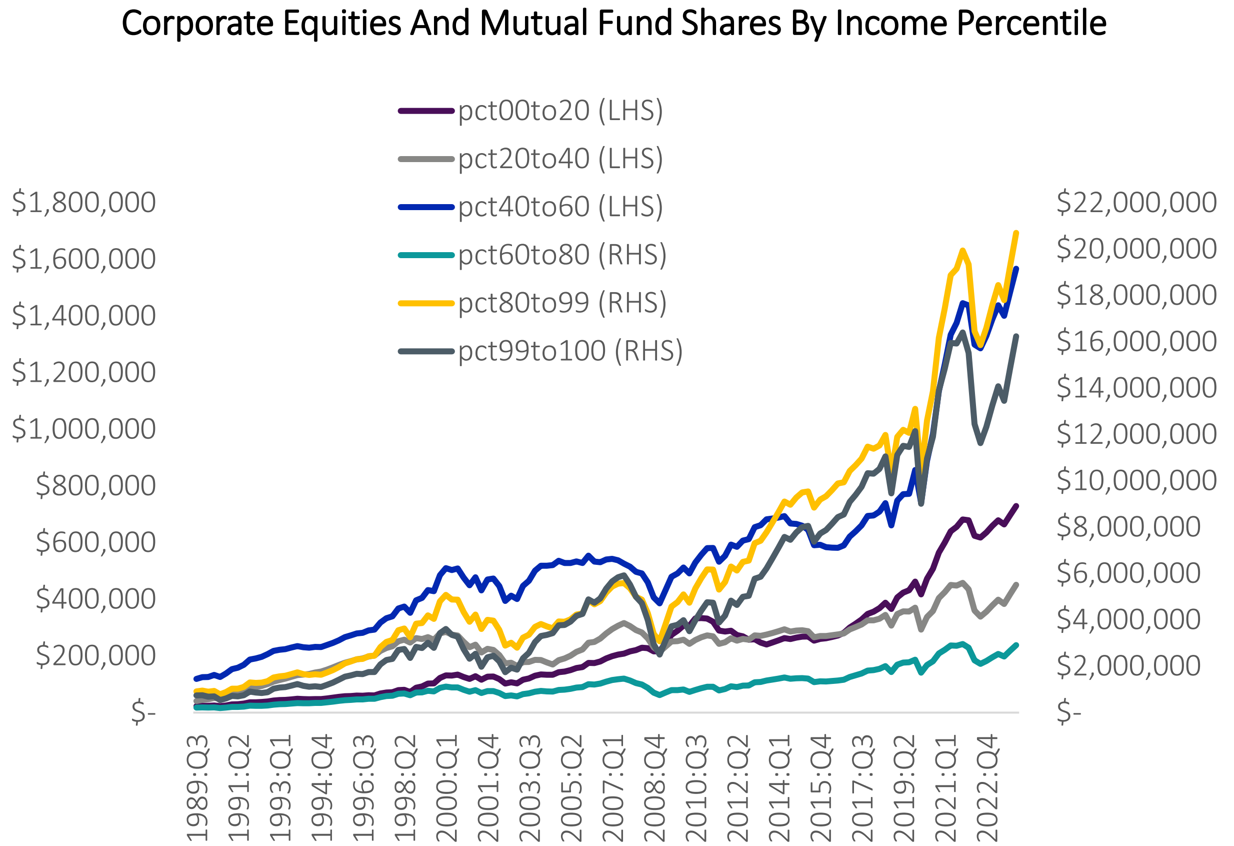
Increased Financial Asset Ownership Is Positive, But Also Presents Risk

Stocks Account For ~42% Of Households" Total Financial Assets, The Most On Record Since 1952

Households Across Income Brackets Are More Exposed To Stocks Than Ever





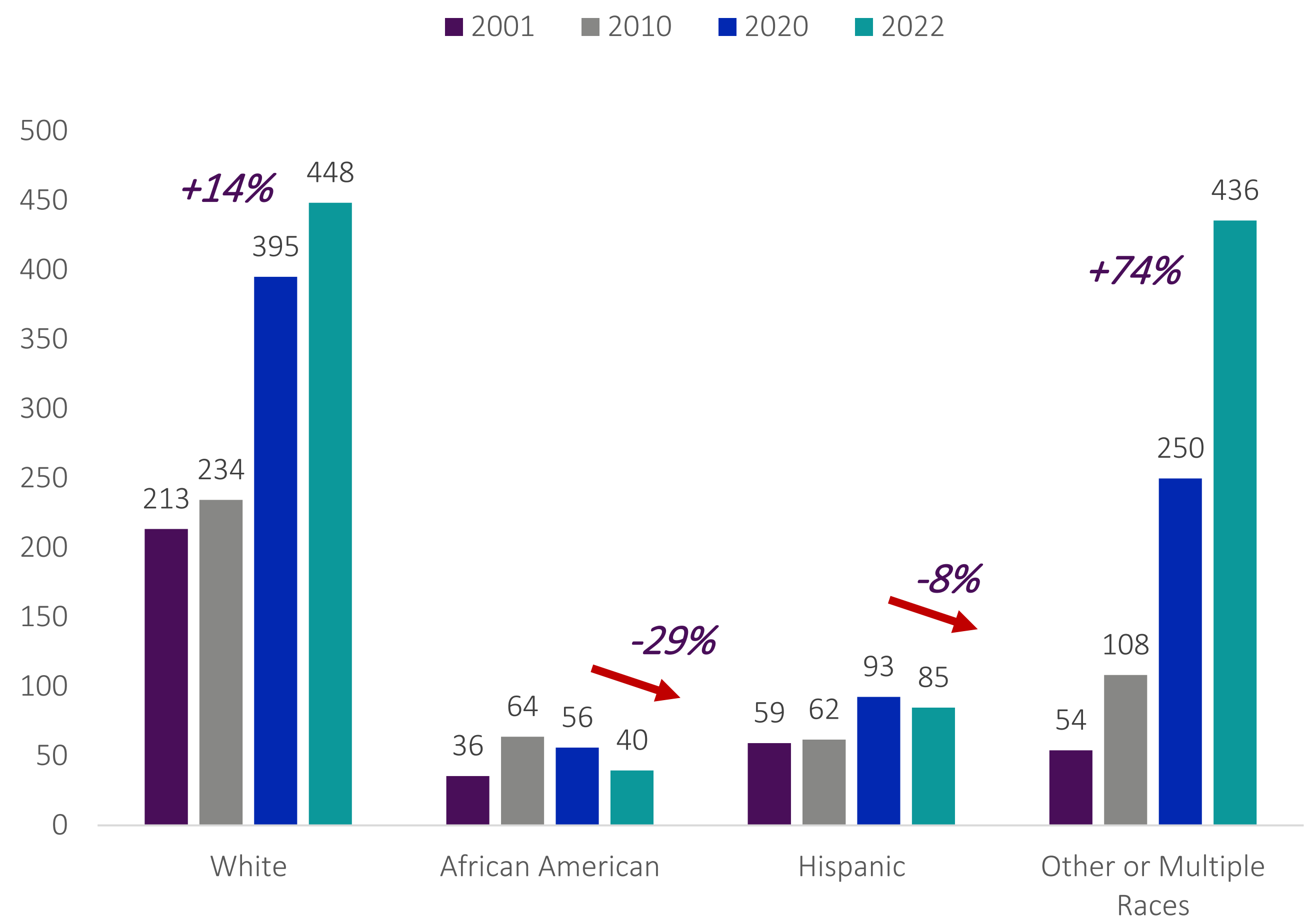
We Believe The N5Y Outlook For Public Equities Is Challenged Due To An Elevated Inflationary Bias And Higher Than Pre-COVID Interest Rates
Other Sources of Volatility In Financial Markets Include: Technical Factors (Yen Carry,) Inflation, Growth, AI, Elections, Geopolitics, Pandemic Wildcards

Left- Source: JP Morgan. Right- Source: Federal Reserve Board. No representation is made that the trends depicted or described above will continue.

Many Households Have Not Witnessed An Uptick In Financial Asset Ownership

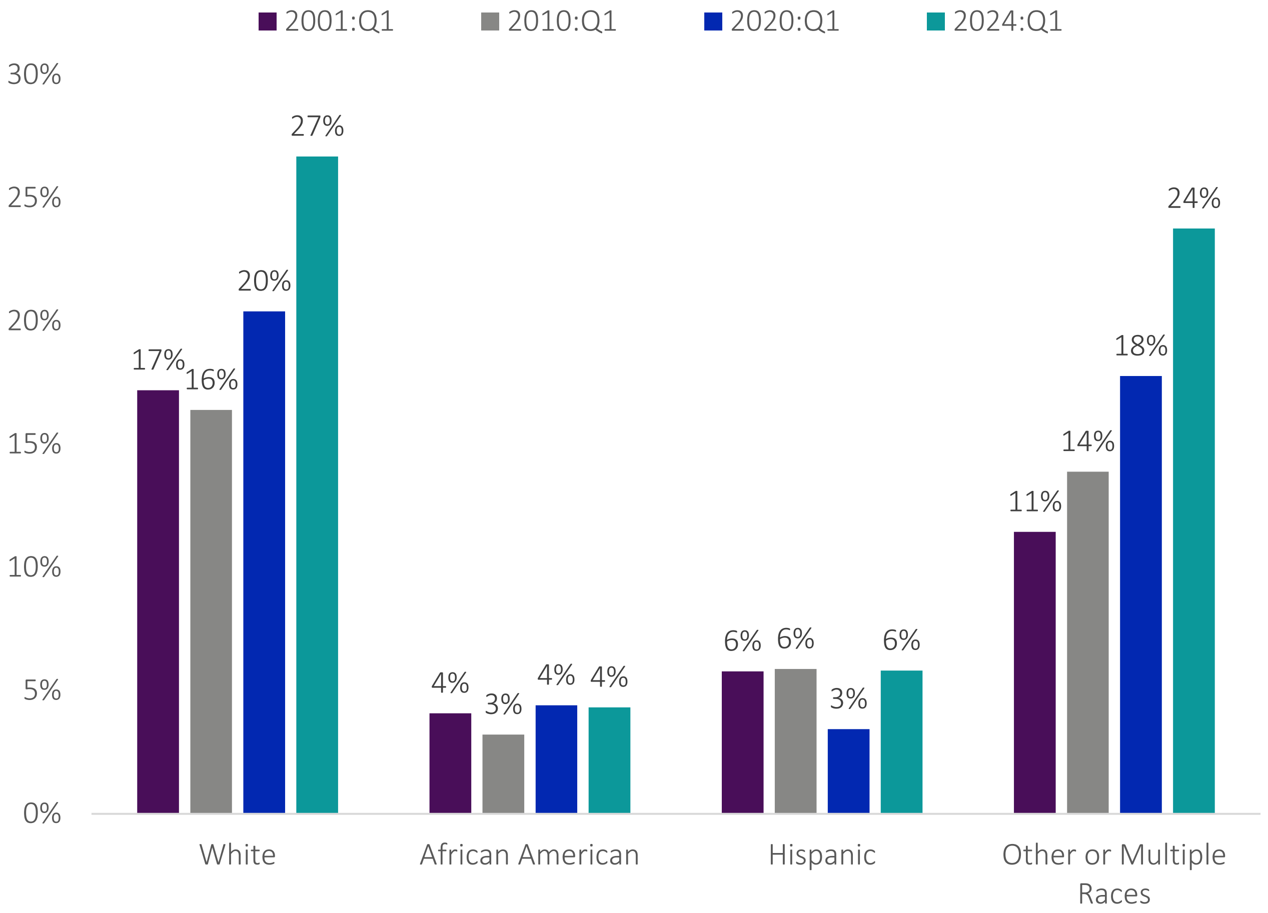
Stock Holdings Of An Average African American Or Hispanic Household Have Declined Since The Onset Of The Pandemic

Family Holdings: Mean Value of Equity Assets By Race (Thous. $)



Public Equities As A Share Of Total Assets Have Not Ticked Up Meaningfully Over The Last Two Decades For African Americans And Hispanics

Equities As Share Of Total Assets By Race



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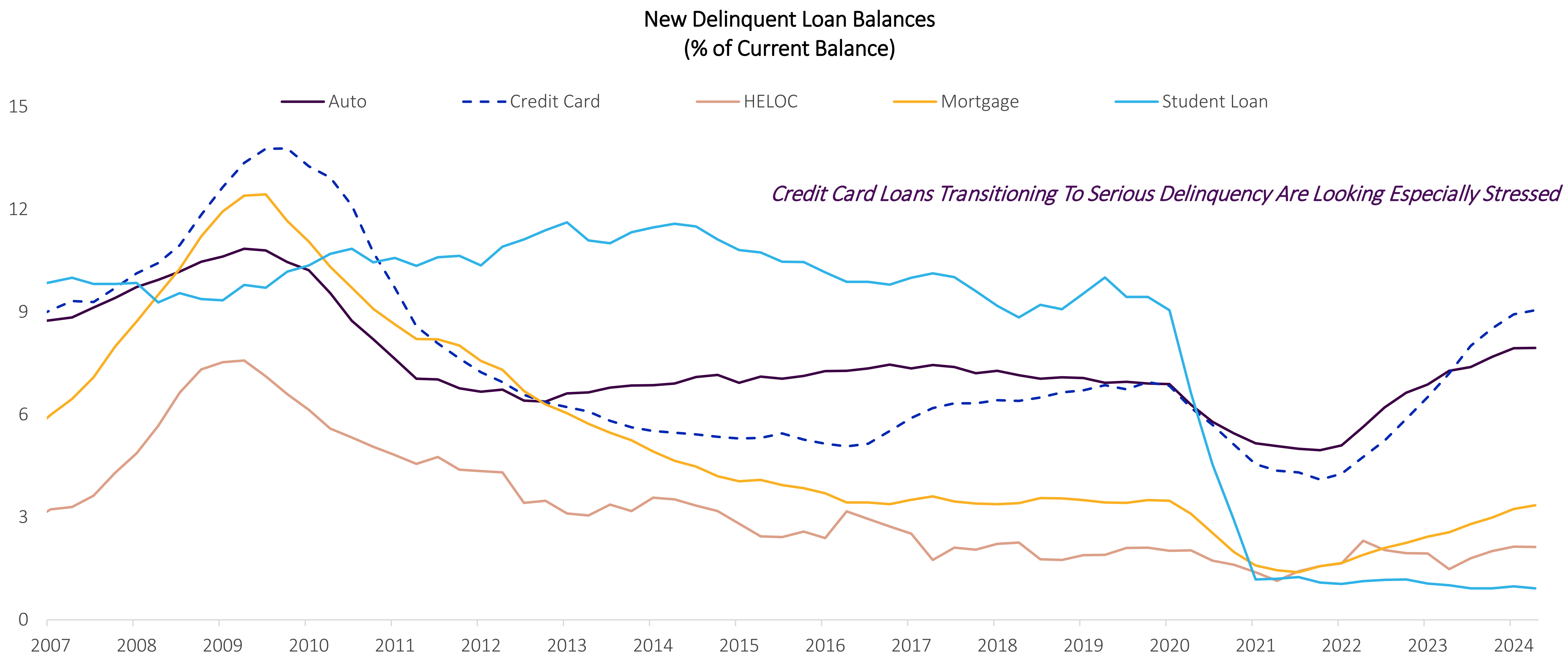
Source: Federal Reserve, Haver. No representation is made that the trends depicted or described above will continue.

Delinquencies Are Rising Across Debt Types

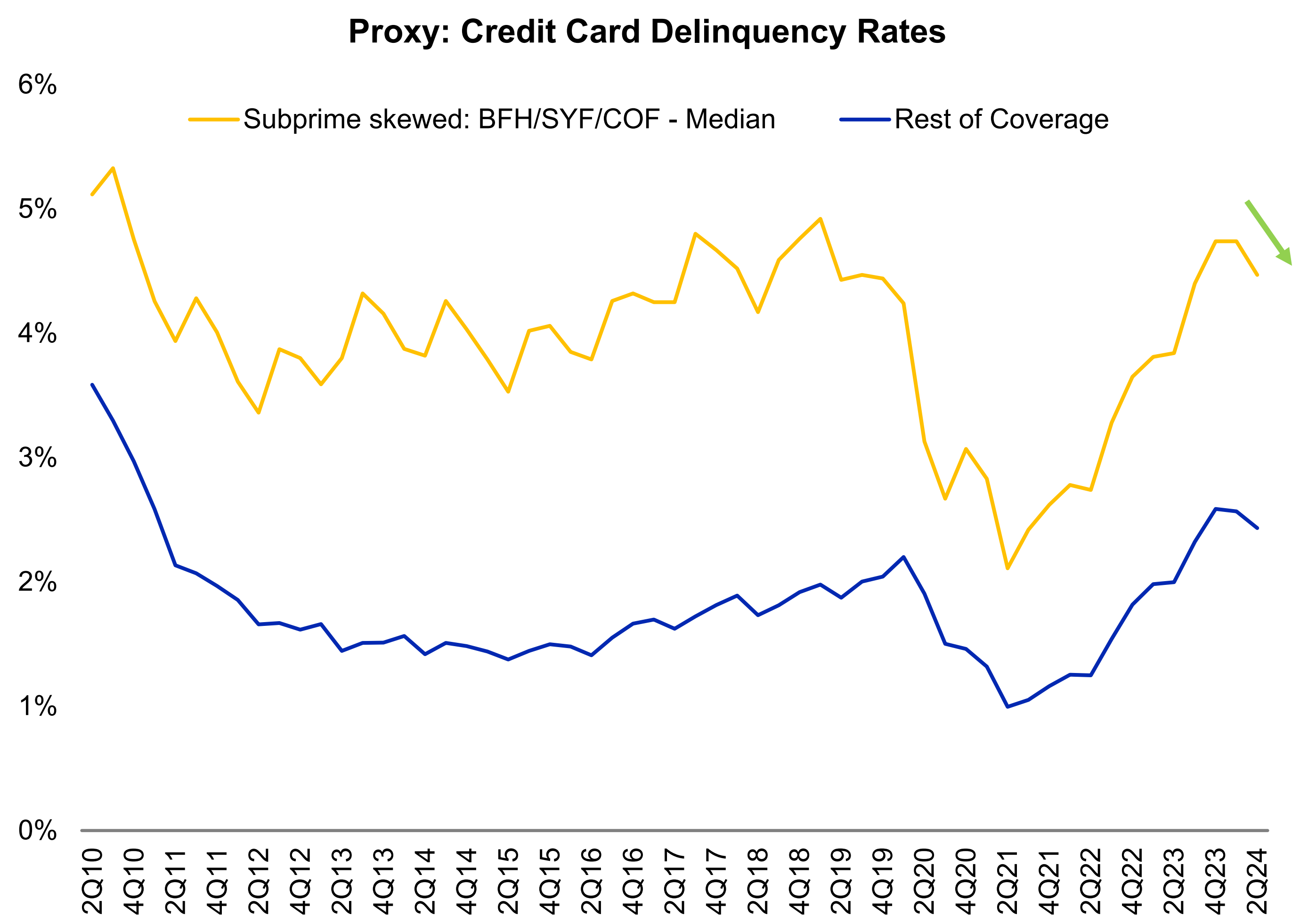
New Delinquencies Have Been Rising Steadily Since 2023 As Households Overextended Themselves During "Easy Money" Monetary Regime



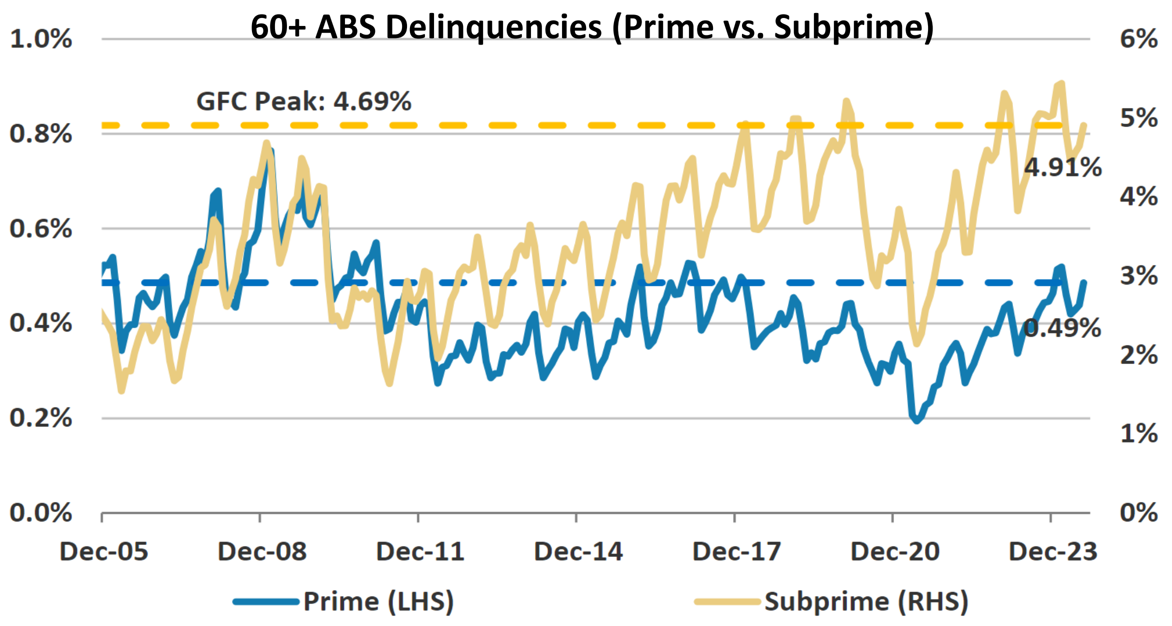
Left and Right - Source: Federal Reserve Board. No representation is made that the trends depicted or described above will continue.

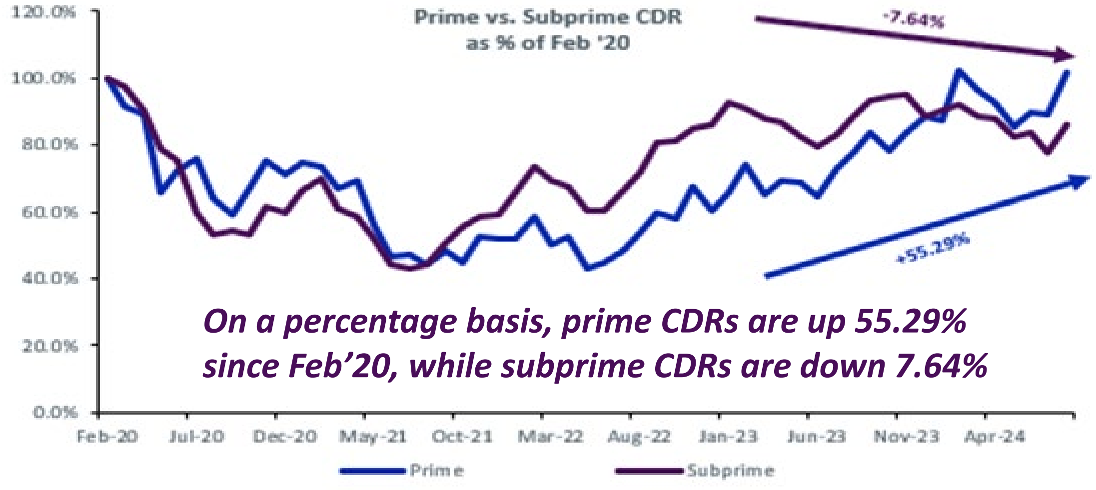
Subprime Debtors Are Especially Challenged, But There Are Some Signs Of Stabilization

Credit Card Delinquencies For Subprime Debtors Have Doubled Since 2021, But Have Begun To Edge Lower



60+ Day Auto Delinquencies For Subprime Borrowers Are Above GFC Peak Levels , But Credit Default Rates (CDR) Appear To Be Stabilizing



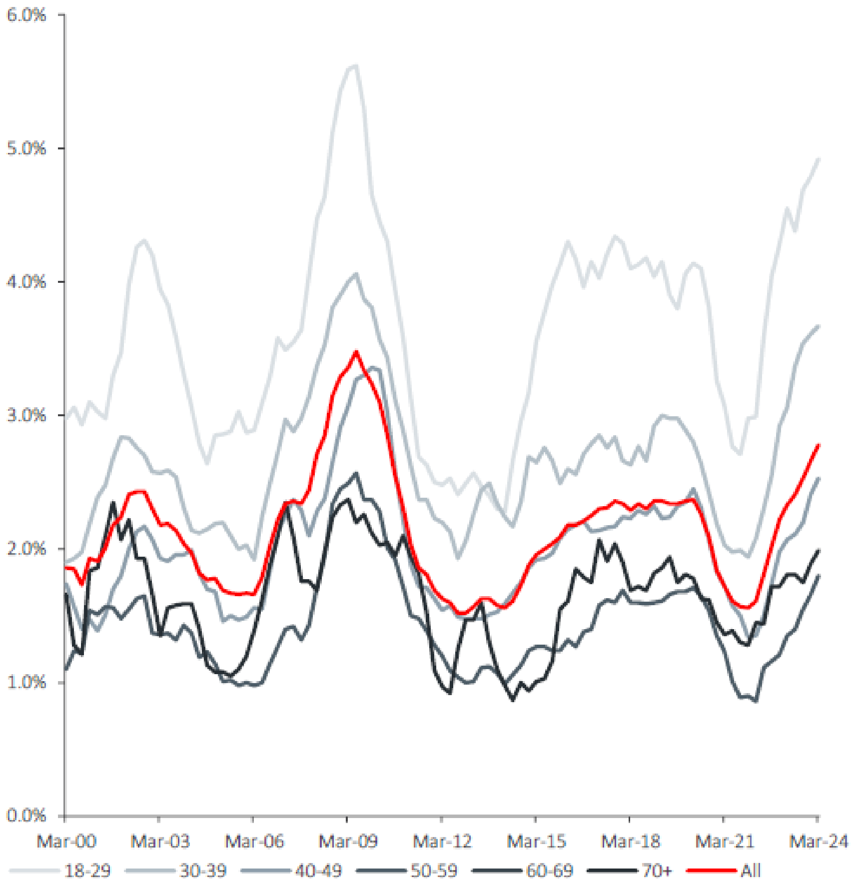


Left and Right- Source: Morgan Stanley. No representation is made that the trends depicted or described above will continue.

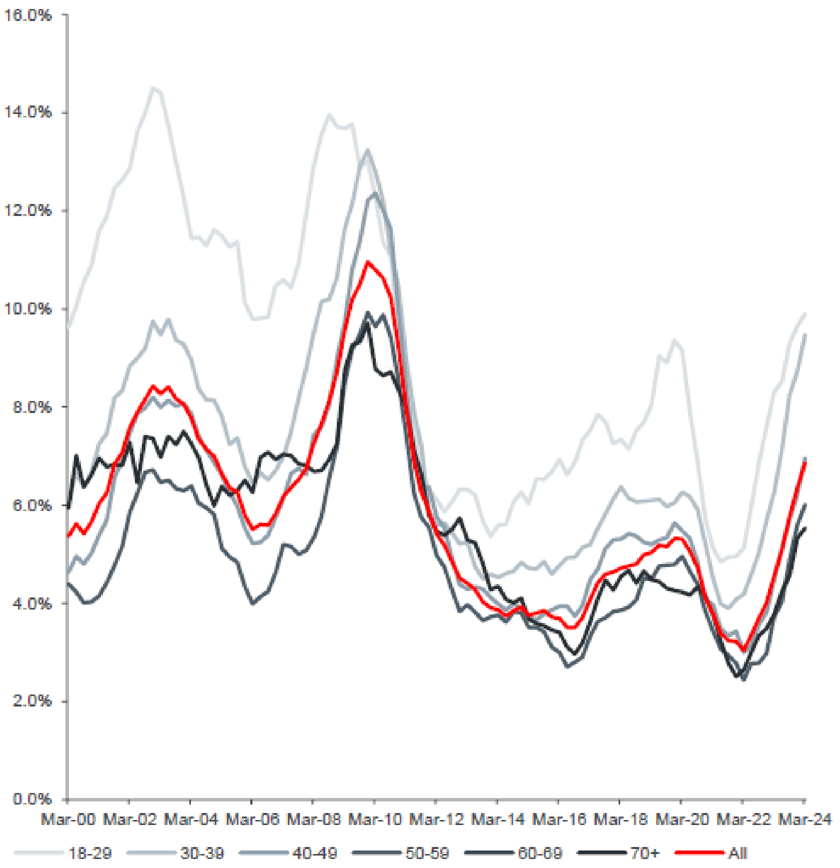
Younger Borrowers Are Also Under Pressure

In Auto, Transitions To Serious Delinquency Are Rising Disproportionately For Younger Borrowers. Credit Card Has Seen Similar Trends, Albeit Much More Strongly Pronounced For The Millennial (30-39) Age Bucket

<u>Auto</u> % Transition Into 90+ Delinquency By Age Group



<u>Credit Card</u> % Transition Into 90+ Delinquency By Age Group



<u>Why are younger consumers under more pressure?</u>

1. Younger consumers are typically in lower income brackets, which has rendered them more susceptible to rising living expenses.

2. Older generations have disproportionately reaped the benefits of asset price inflation through Covid.

3. The resumption of student loan repayments has and will continue to present headwinds for younger consumers.

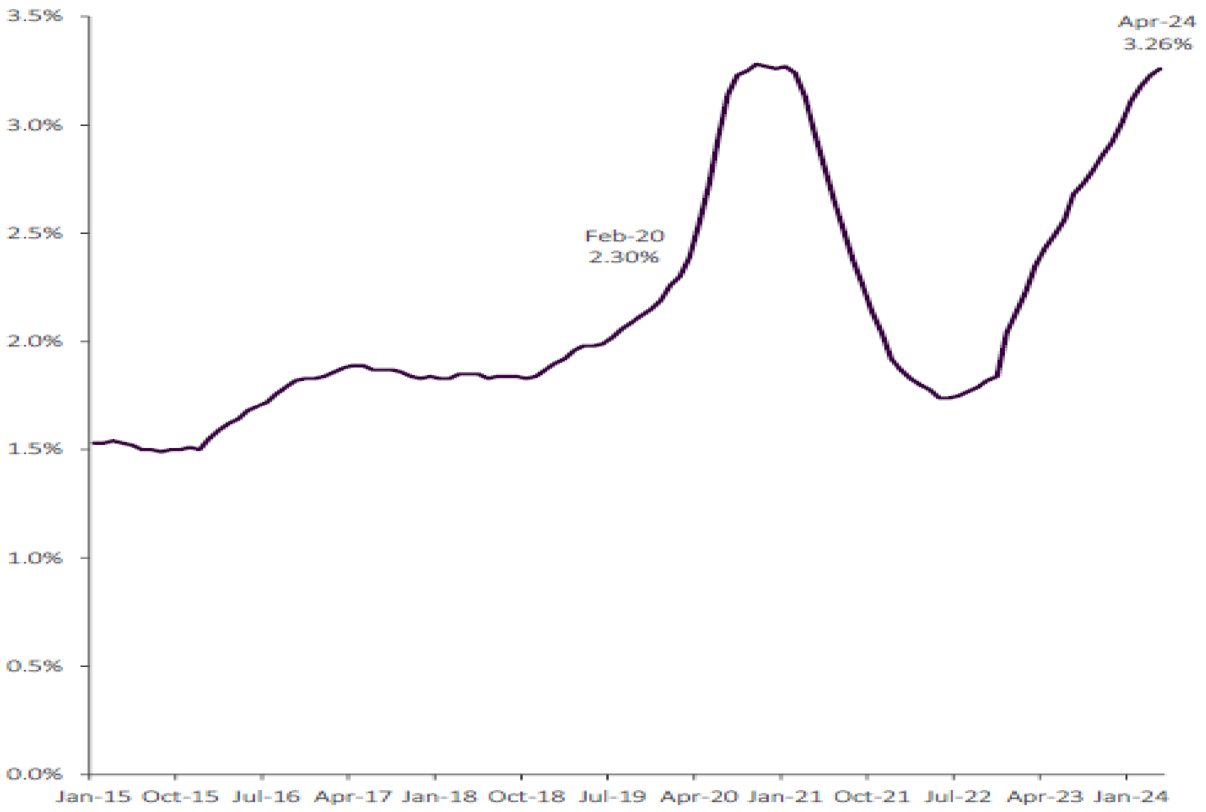
Left and Right- Source: NY Fed No representation is made that the trends depicted or described above will continue.

Small Businesses Are Also Feeling The Impacts Of Higher Interest Rates/Slowing Growth. Higher Income Consumers Can Also Be Exposed To Credit Distress

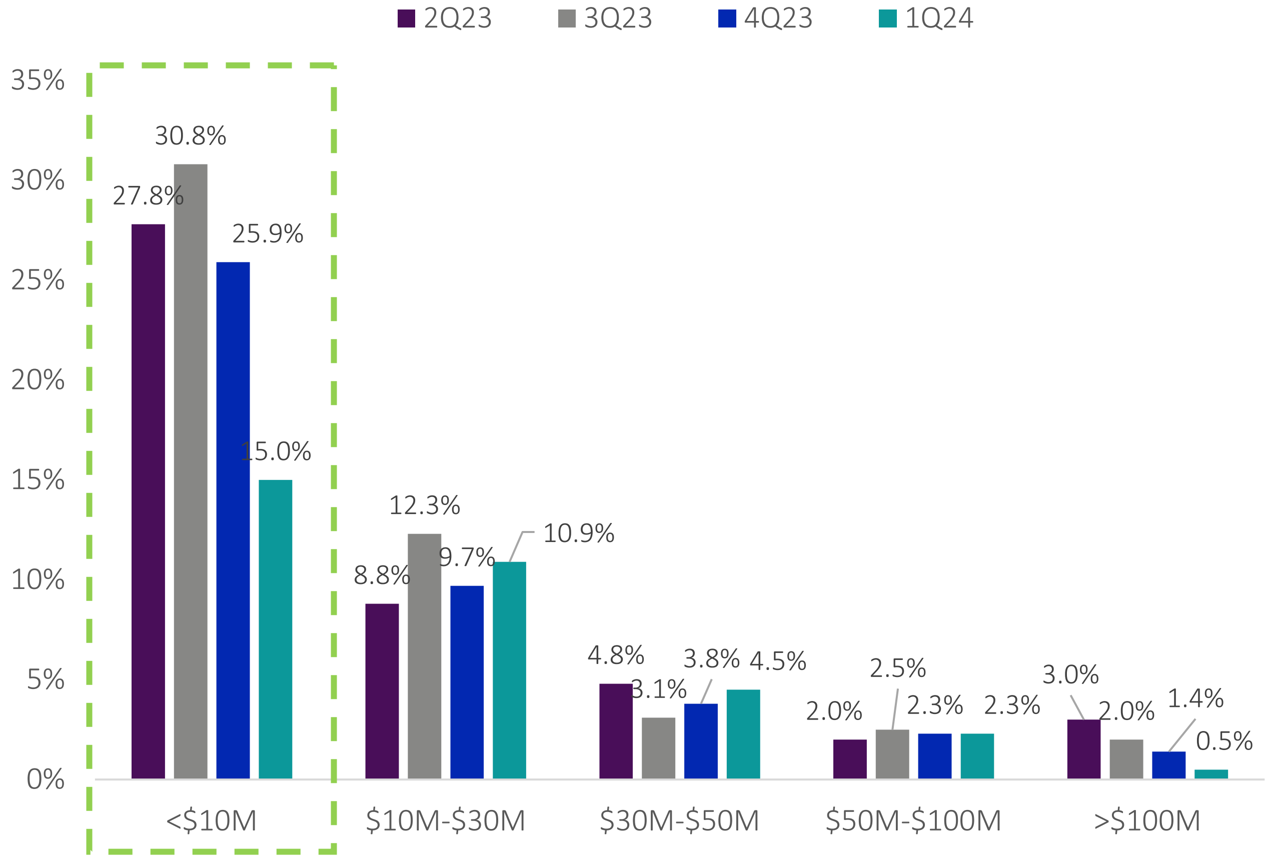
The Small Business Default Index Continues To Be Significantly Elevated vs. Feb'20

The Percent Of Companies With <$10M EBITDA Defaulting On One Or More Covenants Remained Highest In 1Q24

SB Insights Small Business Default Rate



Private Credit Covenant Default Rate by Size



Left - Source: SB Insights, Small Business Delinquency and Default Indices. Right - Source: Lincoln International; Private Market Perspectives: US Edition as of May 2024. No representation is made that the trends depicted or described above will continue.