CIO currently sees appeal in direct and indirect infrastructure exposure, and direct commodity exposure. (UBS)

Can real assets help diversify my portfolio?

31 March 2023, 2:59 pm CEST, written by UBS Editorial Team

Exposure to real assets, including commodities, infrastructure, and real estate, can provide investors with additional portfolio diversification and income, as well as the potential for long-term inflation mitigation.

We currently see appeal in direct and indirect infrastructure exposure, and direct commodity exposure. We stay selective in real estate.

Infrastructure-linked assets can help stabilize income generation in an uncertain economic environment.

- High barriers to entry and the monopolistic positioning of many of these assets make them less cyclical.
- Some operate on long-term contracts tied to inflation, providing a potential degree of inflation mitigation over the long term.
- Assets linked to digital connectivity and the energy transition are in particular focus.

The structural case for further upside in energy, base metal, and agriculture prices remains intact.

- Our view is based on a robust economic recovery in China, a potential inflection in the Fed’s rate-hiking cycle, and supply-side issues that will keep market tight.
- We maintain our most preferred stance on commodities and see total returns of 20% on the CMCI index over the next 12 months.
- Currently, we prefer direct exposure. But given the unique traits and drivers of each commodity, we think actively managed strategies provide better risk-reward.

We like to stay selective in real estate.

- We remain positively biased toward semi-liquid and private equity real estate over the medium term, as rental indexation and reversion should support distribution yields. But current market illiquidity means we are neutral in the near term.

- We are neutral on listed real estate globally. An exception is Swiss-listed real estate funds which we find attractive due to steep price correction in 2022 and solid market fundamentals in Switzerland.

Did you know?

- Direct exposure to the cashflows from utility, communication, or transportation assets can be attained via private market vehicles. Indirect exposure can be attained via bond or equity markets.
- We have a most preferred stance on global utilities and industrials sectors—both are indirect ways of investing in infrastructure.
- Like with infrastructure, investors can gain exposure to commodities directly and indirectly. We currently prefer direct exposure.

Investment view

We currently see appeal in direct and indirect infrastructure exposure and direct commodity exposure. We stay selective in real estate.

Content is a product of the Chief Investment Office (CIO).

Original report - **Can real assets help diversify my portfolio?** 31 March, 2023.