



Private markets offer access to underrepresented industries and sectors. (UBS)

# Adding private market exposure may help steady portfolio returns

08 May 2024, 2:52 pm CEST, written by UBS Editorial Team

**Global investors have faced volatile conditions in recent weeks, with markets pulled in several directions by geopolitical risks, uncertainty over monetary policy, and robust tech earnings. We believe the overall risk-return outlook for equities remains fairly balanced, supporting an in-line equity allocation, and we continue to prefer quality income in our global portfolios.**

But with near-term public asset volatility likely to continue, investors seeking smoother returns and who can tolerate lower liquidity should consider adding more alternative assets to their portfolios:

**Adding private market exposure may help steady portfolio returns.** Locking up capital for longer also has its advantages, giving fund managers more scope to take advantage of market dislocations, and protecting investors from behavioral biases like panic-selling. Public markets offer many examples of fast repricing of risk assets, both up and down; private markets only moderately participated in the move higher, and so far have remained broadly stable. A CIO analysis shows that adding private equity could help reduce the expected swings in an investor's portfolio—the reported volatility—by about 30 basis points per annum over a longer time horizon.

**Private equity and debt could deliver strong returns, in our view.** We expect private equity and private debt to return around 11% and 9% per year, respectively, over a full business cycle, in excess of many public stock and bond markets. Based on CIO analysis, a balanced investor who replaces up to 10% of their global public equity exposure with private equity exposure could benefit from around 20–30 basis points of additional expected returns each year over the long term.

**Private markets offer access to underrepresented industries and sectors.** More firms are choosing to stay private, delay listings, or avoid them altogether. Between 2000 and 2023, the number of private-equity-backed companies has

risen sixfold to nearly 11,000. This is a trend we think is unlikely to reverse. Overlooking these opportunities risks leaving investors with long-term underexposure to those fast-growing sectors of the economy whose companies choose not to list.

So, we suggest investors with a long-term time horizon and the ability to lock away capital for longer consider adding more private market exposure to their portfolio. Within private markets, entry multiples have moved lower, with particular opportunities to create value in the middle market, and in carveouts and divestures. We like secondaries with solid fundamentals that can capitalize on market needs for liquidity events, and we like thematic growth exposure to healthcare and software. We are more selective in private credit given rates risks, with a preference for senior upper-middle-market and sponsor-backed loans, and a sector tilt to less cyclical exposure. We also like infrastructure assets, with a low correlation to other investments and resiliency both to the economic cycle and to inflationary environments.

Of course, investors considering private market investments must consider important risks around leverage, illiquidity, the potential for defaults, and concentration. We believe strict manager selection, due diligence, and investment monitoring can help address some of these risks.

Main contributors - Solita Marcelli, Mark Haefele, Karim Cherif, Antoinette Zuidweg, Jon Gordon, Jennifer Stahmer

Original report - [Volatile conditions highlight the appeal of alternatives, 8 May 2024.](#)

**Important information**

As a firm providing wealth management services to clients, UBS Financial Services, Inc is registered with the U.S. Securities and Exchange Commission (SEC) as an investment adviser and a broker-dealer, offering both investment advisory and brokerage services. Advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate contracts. It is important that you carefully read the agreements and disclosures UBS provides to you about the products or services offered. For more information, please visit our website at [www.ubs.com/workingwithus](http://www.ubs.com/workingwithus).

© UBS 2023. All rights reserved. UBS Financial Services Inc. is a subsidiary of UBS AG. Member FINRA/SIPC.

There are two sources of UBS research. Reports from the first source, UBS CIO Global Wealth Management, are designed for individual investors and are produced by UBS Global Wealth Management (which includes UBS Financial Services Inc. and UBS International Inc.). The second research source is UBS Group Research, whose primary business focus is institutional investors. The two sources operate independently and may therefore have different recommendations. The various research content provided does not take into account the unique investment objectives, financial situation or particular needs of any specific individual investor. If you have any questions, please consult your Financial Advisor. UBS Financial Services Inc. is a subsidiary of UBS AG and an affiliate of UBS International Inc.