

Strategic: Diversify with alternatives

Diversify with alternatives

Author: Sagar Khandelwal, Strategist, UBS Switzerland AG

- **Why?** 1) Global macro hedge funds have historically fared well in geopolitical crises, while market neutral and multi-strategy funds can monetize dispersion when traditional diversification is less effective. 2) Private infrastructure can diversify long-term income sources, with inflation-linked cash flows potentially appealing if oil supply disruptions persist. 3) Now is a good time to review liquidity needs amid select evergreen vehicles limiting redemption, with a focus on selectivity, manager diversification, and following disciplined investment plans.



Source: Sinitta Leunen_Unsplash

Hedge funds

In our view, hedge fund strategies like discretionary macro, equity market neutral, and multi-strategy platforms are well placed to earn returns amid volatility and an environment where the performance differences between the top and bottom performing stocks is historically large.

From 1997 to March 2026, discretionary macro traders posted an average annualized return of 7.2% (BarclayHedge Global Macro Index) with volatility of 5.6%—comparable to equities but with less than half the volatility. Meanwhile, the maximum drawdown for macro strategies over the past two decades was 8.1% versus 54.0% for developed market equities (MSCI World).

We also see ongoing opportunities for equity market neutral and multi-strategy funds, which can generate returns in both rising and falling markets as they flexibly position around economic developments.

Investors seeking diversification, ways to limit portfolio losses, and access to unique return opportunities within a broader alternatives or multi-asset portfolio can also consider Asian hedge funds. Underresearch and high levels of retail participation may add to dislocations and dispersion that local hedge fund managers can exploit. While no guarantee of future returns, Asian hedge funds have historically delivered appealing returns. Over the past five years, Asian hedge funds have delivered returns broadly

comparable to Asian equities and a global 60/40 portfolio, but with less than half the volatility of both. Relative to global hedge funds, returns and risk-adjusted performance have also been broadly comparable.

We also remain positive on merger arbitrage, though performance may soften if deal activity slows.

Private infrastructure

We believe infrastructure assets are well positioned to deliver resilient, inflation-linked returns through market cycles. Many infrastructure assets face limited competition and high barriers to entry, so owners can pass through cost increases to users. Infrastructure investments can help hedge against inflation because revenue streams are often tied to CPI, particularly for core strategies operating in regulated or contracted assets. Their income streams may therefore be more robust than other yielding assets to both economic volatility and inflation. Such qualities appear increasingly valuable in the current environment.

Infrastructure's returns have looked appealing relative to other parts of a well-diversified portfolio. Private infrastructure has delivered annualised returns of around 11% over the past decade, according to data from Cambridge Associates. But infrastructure also behaves differently to other assets, potentially helping steady portfolios. Recent years have seen the asset class's already low correlations with traditional stocks and bonds fall

This report has been prepared by UBS Switzerland AG. **Please see important disclaimers and disclosures at the end of the document.**

further. Infrastructure returns display only a 30% correlation with a standard 60/40 portfolio, and even less so with other diversifying assets like gold.

In the current climate, we believe investors who focus on diversified, core/core-plus assets in non-cyclical sectors—prioritizing predictable, inflation-linked cash flows—are best positioned to capture attractive, risk-adjusted returns, while supporting the essential modernization of the global economy.

Core and core-plus infrastructure strategies focus on already mature assets with stable income, potentially more matched to income-focused or balanced investors who want to generate the bulk of returns through yield. When observing historical performance of lower risk, core infrastructure strategies, more than 50% of total returns were derived from income. Investors overallocated to other private assets that pay income (private credit and real estate) could look at these types of assets.

Private equity

Private equity returned around 11% in 2025 (Cambridge Associates, global private equity), underperforming the MSCI AC World and S&P 500 indexes by 12 and 7 percentage points, respectively. But we see signs of potentially improved performance going forward.

Over the 12 months to the end of the first quarter of this year, deal value and deal count grew 26% and 7% year over year, respectively, driven by increased interest in HALO (hard assets with low obsolescence risk) and the energy sector.

While raising fresh capital remains challenging—especially for smaller funds—we expect a gradually improving trend of exits and a resilient US macro environment to support the asset class.

We view managers with a value bias who are active in the middle market or skilled at executing complex transactions as best positioned. Regionally, we recommend diversification beyond the US. Meanwhile, the appeal of the secondary market remains intact—and areas such as tech, health care, energy, and defense present attractive thematic opportunities to capture long-term growth.

Select direct lending

Over a full economic cycle, CIO sees merit in diversified allocations to direct lending, sized to investor individual risk and liquidity preferences. However, in the near term, we expect risk-adjusted returns to moderate.

For those considering adding to direct lending allocations, we continue to urge selectivity with a bias toward higher-quality, larger-cap, and sponsor-led deals and an avoidance of riskier and growth-sensitive underwriting in the lower-middle markets and below.

Risks are rising among lower-middle-market borrowers and 2021-22 vintages, with defaults rising to 2.7% in the first

quarter (Proskauer data). Looking ahead, we expect returns to moderate, as spreads remain tight and default rates normalize.

Diversification across private market strategies may help manage risk, but investors must be prepared to tolerate illiquidity and limited transparency in both good and more challenging market conditions.

Investors subject to redemption restrictions in evergreen structures should:

- Review liquidity terms, redemption mechanics, and governance provisions.
- Pay particular attention to manager quality—including liquidity management, communication, and alignment—particularly in stress scenarios.
- Diversify across fund structures and liquidity profiles to help mitigate concentration risk.
- Ensure their own liquidity needs are compatible with their chosen vehicle's design and be prepared for periods of restricted access to capital.

Private real estate

In global direct real estate, we expect total returns to be primarily driven by income, with a smaller contribution from capital gains, as rental growth moderates. We currently see core/core-plus strategies—particularly in logistics, data centers, and living sectors with robust fundamentals—as offering relatively attractive risk-adjusted returns.

Alternatives carry unique risks that investors must be aware of before investing, including limited transparency, potentially high fees, and illiquidity.

Non-traditional asset classes are alternative investments that include hedge funds, private equity, private credit, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. **An investment in an alternative investment fund is speculative and involves significant risks.**

Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

- **Hedge Fund Risk:** There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, "junk bonds," derivatives, distressed securities, non-U.S. securities and illiquid investments.
- **Managed Futures:** There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.
- **Real Estate:** There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
- **Private Equity:** There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
- **Private Credit:** There are risks specifically associated with investing in private credit. This could include losses stemming from defaults on loans, which in significant adverse circumstances could result in a substantial loss of investment.
- **Foreign Exchange/Currency Risk:** Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.

Global asset class preferences definitions

The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the collective judgement of the members of the House View meeting, primarily based on assessments of expected total returns on liquid and commonly known indices, House View scenarios, and analyst convictions over the next 12 months. Note that the tactical asset allocation (TAA) positioning of our different investment strategies may differ from these views due to factors including portfolio construction, concentration, and borrowing constraints.

Attractive: We consider this asset class to be attractive. Consider opportunities in this asset class.

Neutral: We do not expect outsized returns or losses. Hold longer-term exposure.

Unattractive: We consider this asset class to be unattractive. Consider alternative opportunities

Note: For equities, we have a five-tier rating system with two additional preferences

Most Attractive: We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.

Least Attractive: We consider this asset class to be among the least attractive. Seek more favorable alternatives opportunities.

When equities are included with the other asset classes in the three-tier rating system, we collapse "Most Attractive" with "Attractive" and "Least Attractive" with "Unattractive."

Appendix

Risk information

UBS Chief Investment Office's ("CIO") investment views are prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland) or its affiliates ("UBS"), part of UBS Group AG ("UBS Group"). UBS Group includes former Credit Suisse AG, its subsidiaries, branches and affiliates. The investment views have been prepared in accordance with legal requirements designed to promote the **independence of investment research**.

Generic investment research – Risk information:

This publication is **for your information only** and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. The analysis contained herein does not constitute a personal recommendation or take into account the particular investment objectives, investment strategies, financial situation and needs of any specific recipient. It is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness (other than disclosures relating to UBS). All information and opinions as well as any forecasts, estimates and market prices indicated are current as of the date of this report, and are subject to change without notice. Opinions expressed herein may differ or be contrary to those expressed by other business areas or divisions of UBS as a result of using different assumptions and/or criteria. UBS may utilise artificial intelligence tools ("AI Tools") in the preparation of this document. Notwithstanding any such use of AI Tools, this document has undergone human review.

In no circumstances may this document or any of the information (including any forecast, value, index or other calculated amount ("Values")) be used for any of the following purposes (i) valuation or accounting purposes; (ii) to determine the amounts due or payable, the price or the value of any financial instrument or financial contract; or (iii) to measure the performance of any financial instrument including, without limitation, for the purpose of tracking the return or performance of any Value or of defining the asset allocation of portfolio or of computing performance fees. By receiving this document and the information you will be deemed to represent and warrant to UBS that you will not use this document or otherwise rely on any of the information for any of the above purposes. UBS and any of its directors or employees may be entitled at any time to hold long or short positions in investment instruments referred to herein, carry out transactions involving relevant investment instruments in the capacity of principal or agent, or provide any other services or have officers, who serve as directors, either to/for the issuer, the investment instrument itself or to/for any company commercially or financially affiliated to such issuers. At any time, investment decisions (including whether to buy, sell or hold securities) made by UBS and its employees may differ from or be contrary to the opinions expressed in UBS research publications. Some investments may not be readily realizable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, divisions or affiliates of UBS. Futures and options trading is not suitable for every investor as there is a substantial risk of loss, and losses in excess of an initial investment may occur. Past performance of an investment is no guarantee for its future performance. Additional information will be made available upon request. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting

market information.

Different areas, groups, and personnel within UBS Group may produce and distribute separate research products **independently of each other**. For example, research publications from **CIO** are produced by UBS Global Wealth Management. **UBS Global Research** is produced by UBS Investment Bank. **Research methodologies and rating systems of each separate research organization may differ**, for example, in terms of investment recommendations, investment horizon, model assumptions, and valuation methods. As a consequence, except for certain economic forecasts (for which UBS CIO and UBS Global Research may collaborate), investment recommendations, ratings, price targets, and valuations provided by each of the separate research organizations may be different, or inconsistent. You should refer to each relevant research product for the details as to their methodologies and rating system. Not all clients may have access to all products from every organization. Each research product is subject to the policies and procedures of the organization that produces it. The compensation of the analyst(s) who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking, sales and trading or principal trading revenues, however, compensation may relate to the revenues of UBS Group as a whole, of which investment banking, sales and trading and principal trading are a part.

Tax treatment depends on the individual circumstances and may be subject to change in the future. UBS does not provide legal or tax advice and makes no representations as to the tax treatment of assets or the investment returns thereon both in general or with reference to specific client's circumstances and needs. We are of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we would recommend that you take financial and/or tax advice as to the implications (including tax) of investing in any of the products mentioned herein.

This material may not be reproduced or copies circulated without prior authority of UBS. Unless otherwise agreed in writing UBS expressly prohibits the distribution and transfer of this material to third parties for any reason. UBS accepts no liability whatsoever for any claims or lawsuits from any third parties arising from the use or distribution of this material. This report is for distribution only under such circumstances as may be permitted by applicable law. For information on the ways in which CIO manages conflicts and maintains independence of its investment views and publication offering, and research and rating methodologies, please visit www.ubs.com/research-methodology. Additional information on the relevant authors of this publication and other CIO publication(s) referenced in this report; and copies of any past reports on this topic; are available upon request from your client advisor.

Important Information About Sustainable Investing Strategies: This terminology refers to definitions in the UBS Sustainable Investing Framework and does not refer or relate to any product specific regulatory labelling regime or naming conventions. Sustainable investing strategies aim to consider and incorporate environmental, social and governance (ESG) factors into investment process and portfolio construction. Strategies across geographies approach ESG analysis and incorporate the findings in a variety of ways. Incorporating ESG factors or sustainable investing considerations may inhibit UBS's ability to participate in or to advise on certain investment opportunities that otherwise would be consistent with the Client's investment objectives. The returns on a portfolio incorporating ESG factors or sustainable investing considerations may be lower or higher than portfolios where ESG factors, exclusions, or other sustainability issues are not considered by UBS, and the investment opportunities available to such portfolios may differ.

External Asset Managers / External Financial Consultants: In case this research or publication is provided to an External Asset Manager or an External Financial Consultant, UBS expressly prohibits that it is redistributed by the External Asset Manager or the External Financial Consultant and is made available to their clients and/or third parties.

USA: Distributed to US persons only by UBS Financial Services Inc. or UBS Securities LLC, subsidiaries of UBS AG. UBS Switzerland AG, UBS Europe SE, UBS Bank, S.A., UBS Brasil Administradora de Valores Mobiliarios Ltda, UBS (Brasil) Corretora de Valores S.A., UBS Asesores Mexico, S.A. de C.V., UBS SuMi TRUST Wealth Management Co., Ltd., UBS Wealth Management Israel Ltd and UBS Menkul Degerler AS are affiliates of UBS AG. **UBS Financial Services Inc. accepts responsibility for the content of a report prepared by a non-US affiliate when it distributes reports to US persons. All transactions by a US person in the securities mentioned in this report should be effected through a US-registered broker dealer affiliated with UBS, and not through a non-US affiliate. The contents of this report have not been and will not be approved by any securities or investment authority in the United States or elsewhere. UBS Financial Services Inc. is not acting as a municipal advisor to any municipal entity or obligated person within the meaning of Section 15B of the Securities Exchange Act (the "Municipal Advisor Rule") and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of the Municipal Advisor Rule.**

For country information, please visit ubs.com/cio-country-disclaimer-gr or ask your client advisor for the full disclaimer.

Except as otherwise specified herein and/or depending on the local entity from which you are receiving this report, this report is distributed by UBS Switzerland AG, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).

Version C/2026. CIO82652744

© UBS 2026. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.