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Systematically building private market investments

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Given the ongoing high level of uncertainty due to the geopolitical situation, but also the positive developments in the technology sector, private investors can complement their portfolios with private market investments to improve diversification.

At the risk of sounding cliché: Rarely have we experienced a market phase characterized by such high uncertainty. Donald Trump's aggressive foreign trade policy, conducted through tariff threats, led to sharp setbacks in equity markets in April. Although the suspension of most of the "reciprocal" tariffs led to a recovery, it remains unclear for now how much damage has already been done. Reports indicate that both air and sea freight volumes from China to the US have fallen by about half. And the longer the paralysis of the economy and the disruption of global supply chains persist, the greater the economic slowdown is likely to be in the US and elsewhere.

There is still hope that a rapid de-escalation of the trade dispute can avert the worst-case scenario of a global recession. Besides the headline-dominating US trade policy, there are also positive developments to comment on—especially in the US. For example, major US technology companies continue to announce significant investments in artificial intelligence. Combined with automation and robotics, this is expected to drive substantial productivity gains in the coming years, boosting profits and stock prices. From a longer-term perspective, it is therefore important to remain invested in the markets while also optimally diversifying an investment portfolio.

Besides public markets, investors should also consider private market investments such as private equity, as this asset class has historically provided attractive risk-adjusted returns and valuable diversification compared to traditional equity and bond markets. Private equity gives access to companies that are not publicly listed, opening up investment opportunities in innovative growth areas that are often not available on public markets. Studies show that private equity has outperformed equity markets over longer periods, particularly through active management and targeted value creation strategies. In addition, private market investments are less susceptible to short-term market fluctuations, as they are not traded daily and valuations are adjusted less frequently. This can reduce overall portfolio volatility and increase the stability of capital investments.

Our asset allocation specialists advise allocating up to 20 percent of the equity allocation to private market investments to take advantage of diversification benefits without excessively increasing liquidity risk. Since private equity involves longer capital commitment periods, a systematic, gradual build-up of positions over several years is recommended. A so-called private equity roadmap helps to stagger investments, take different market cycles into account, and minimize the risk of unfavorable entry points. By investing regularly in different fund vintages, a so-called vintage effect is achieved, which balances out fluctuations in individual years and better exploits return potential. At the same time, investors can benefit from the expertise of professional managers who selectively choose, develop, and exit companies at optimal times.

Systematically building a private equity portfolio can also help to provide continuous cash flows from exits and distributions, which can in turn be reinvested. Overall, such a strategy could strengthen the resilience of a portfolio and increase the chance of long-term wealth growth.

Importantly, when investing in alternative investments like private markets, investors must be aware of the risks inherent to the asset class, such as a lack of liquidity, lack of control, limited disclosure, blind pool risk, uncertain cash flows, and the use of leverage.

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