



CIO believes alternative investments can smooth portfolio performance and diversify returns. (UBS)

Alternatives can help diversify investors' returns in 2025

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Heading into 2025, we believe alternative investments can smooth portfolio performance and diversify returns. We favor hedge fund strategies that capitalize on market dispersion amid potential volatility.

CIO likes thematic private equity in software, health, and climate solutions, along with AI-linked infrastructure such as data centers and power generation. Investing in alternatives comes with multiple risks, and investors must consider their risk tolerance.

Alternatives can help diversify investors' returns in 2025.

- Alternatives can enhance portfolio resilience through diverse return streams that are less correlated to traditional assets.
- Within hedge funds, we like low-net-equity long/short strategies amid dispersion, discretionary macro for its portfolio effect, and multi-strategy platforms for flexibility. Convertible arbitrage looks attractive, too.
- Investing in private infrastructure, like data centers or power infrastructure, may provide stable, attractive returns.

Exposure to asset classes like private credit can help enhance income generation, too.

- Private credit can enhance income generation, with high-single- to low-double-digit returns—a yield premium over traditional fixed income.

- Within private credit, we favor senior debt in the less cyclical part of the upper middle market, focusing on newer vintages.
- We are selective on private credit overall amid higher market dispersion and the lagged effects of higher rates.

Strategies like private equity can offer long-term capital appreciation.

- Private equity (PE) can offer long-term capital appreciation through value creation and exposure to diverse sectors.
- We like value-oriented buyouts, which focus on management and operational improvements. We also like secondaries.
- Thematic PE also looks compelling, with long-term exposure to software, health, and climate-related technologies.

Did you know?

- Generating alpha is typically a core aim for alternative investment managers.
- Global discretionary macro hedge funds have historically shown an average correlation of 0.2-0.4 with various bond indices since 1997, and exhibit negative downside correlation during periods of financial stress.
- Private debt typically exhibits lower volatility than conventional debt with similar ratings.
- Investors should consider the risks inherent to private markets before investing, including illiquidity, long lockup periods, leverage, and over-concentration.

Investment view

Incorporating alternatives into a diversified portfolio can enhance returns, reduce volatility, and generate income, in our view. Alternatives such as hedge funds, private equity, and infrastructure can provide unique return streams that complement traditional assets, though investors must also consider risks like illiquidity.

[Original report: How can I invest in alternatives in 2025?, 27 January 2025.](#)

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