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Why add private markets to your portfolio?

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In private equity, we currently seek exposure to value-oriented buyout and continue to recommend allocations to secondaries. We also see opportunities in thematic private equity for those investors seeking long-term growth in areas such as software, health, and climate-related solutions. We anticipate exit options for portfolio companies to remain subdued through the first half of 2024 but expect secondary exit solutions, such as GP continuation funds, to see a pickup in deal activity. We expect more Limited Partners (LPs) and General Partners (GPs) to turn to the secondaries market for liquidity solutions across both PE and VC

In private credit, we continue to see private debt as attractive for investors as a portfolio diversifier, particularly given our soft-landing outlook. With the recent outperformance of the syndicate market, we look for private credit spreads to tighten the gap and trend lower in 2024

In real assets, the case for private real estate as a diversifier remains intact. But we stay selective and recommend focusing on assets benefiting from strong fundamentals such as logistics, multifamily and data centers. 2024 has the potential to be a transitional and much more interesting year for private commercial real estate (CRE): the plethora of dry powder on the sidelines that needs to go to work, the potential for increased distress in attractive asset classes—including multifamily, which could begin to unlock the transaction market—and clarity from the Federal reserve on the direction of interest rates, with the potential for several fed funds rate cuts in 2024.

For the full report, see: [Quarterly private markets update]

Non-Traditional Assets

Non-traditional asset classes are alternative investments that include hedge funds, private equity, 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.
- 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.