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Investing in transformative technologies with private equity

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Swiss investors generally have excessive exposure to the domestic market and thus a suboptimal sector allocation. Private market investing could improve access to innovative sectors and companies.

In our latest Year Ahead issue, we not only discuss our most attractive tactical investment recommendations for 2025, but we also take a close look at the major trends that will shape the second half of this decade. We have identified five topics in this regard. These "Five Ds" include: debt, deglobalization, demographics, decarbonization, and digitalization.

With regard to the longer-term macroeconomic effects, steadily rising global debt is a particular cause for concern. The same applies to the ongoing deglobalization trend due to trade conflicts, and the high burden on social systems due to the aging of many societies (demographics). But these challenges can be offset or even compensated for all the better if the groundbreaking technological upheavals in the field of digitalization—the keyword being artificial intelligence—as well as the decarbonization or electrification of the economy lead us into a world with significantly higher productivity growth and more sustainable production processes. At least in the US, which is probably the most innovative economy in the world in these areas, we have already seen an increase in productivity growth in recent quarters. And the rapid development in the field of artificial intelligence, as well as automation and robotics, suggests we could well enter a stage with above-average productivity growth.

In the area of electrification of the economy and society, we have also identified many innovative companies along the entire value chain that can benefit from the ongoing efforts to decarbonize the economy in many places. Only some of these companies are publicly traded on the stock markets. A large proportion of the most innovative companies—in whatever sector—are privately held rather than listed. As a result, anyone who wants to invest in these areas of fast-growing, often still relatively young companies will need to leave publicly accessible stock exchanges and enter the field

of private equity investments. Investors with a slightly longer investment horizon, who can deal with illiquidity alongside lower transparency and control over their investments, could be rewarded with higher returns than when investing in listed companies. Investing in private equity can help address Swiss investors' tendency toward overexposure to their home market, which also leads to a skew toward those sectors that dominate the Swiss stock market. These mainly include companies from the health care and consumer staples sectors. By diversifying into private equity investments, Swiss investors can gain access to a much wider range of industries and innovations that are not sufficiently represented in local indices.

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