



In CIO view, incorporating alternatives into a diversified portfolio can enhance returns, reduce volatility, and generate income. (UBS)

How can I invest in alternatives in 2025?

25 November 2024, 3:12 pm CET, written by UBS Editorial Team US Editorial Team

Heading into 2025, CIO believes alternative investments can smooth portfolio performance and diversify returns. They 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 like data centers and power generation. Investors must consider their individual risk tolerance before investing.

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 that can benefit from market dispersion, and multi-strategy platforms for their flexibility.
- 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 take a selective stance 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 can drive growth through strategic management and operational improvements. We also like secondaries.
- Thematic PE also looks compelling, with long-term exposure to software, health, and climate-related solutions.

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 indexes since 1997, and exhibit negative downside correlation during periods of financial stress.
- Private debt typically exhibits lower volatility than conventional debt with similar ratings, resulting in more moderate reactions to public market volatility and changes in risk sentiment.
- 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.

Main contributors – Karim Cherif, Laetitia Friedemann, Antoinette Zuidweg, Tony Petrov, Jon Gordon, Matthew Carter

Original report - [How can I invest in alternatives in 2025?, 25 November 2024.](#)

The document and the information contained herein is intended for UBS internal use only and solely for the UBS employee to whom it was provided. It may in no circumstances be distributed outside of UBS. Information contained in this document has not been tailored to the specific needs, investment objectives, personal and financial circumstances of a client or any other recipient outside of UBS. This document shall not be construed to include any legal or tax advice, investment research, sales prospectus, an offer or a solicitation of an offer to enter in any investment activity. Neither UBS nor its directors, employees or agents accept any liability for any loss or damage arising out of the use of all or any part of this document. For further information, please contact the document owner.

Important information

As a firm providing wealth management services to clients, UBS Financial Services, Inc is registered with the U.S. Securities and Exchange Commission (SEC) as an investment adviser and a broker-dealer, offering both investment advisory and brokerage services. Advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate contracts. It is important that you carefully read the agreements and disclosures UBS provides to you about the products or services offered. For more information, please visit our website at www.ubs.com/workingwithus.

© UBS 2024. All rights reserved. UBS Financial Services Inc. is a subsidiary of UBS AG. Member FINRA/SIPC.

There are two sources of UBS research. Reports from the first source, UBS CIO Global Wealth Management, are designed for individual investors and are produced by UBS Global Wealth Management (which includes UBS Financial Services Inc. and UBS International Inc.). The second research source is UBS Group Research, whose primary business focus is institutional investors. The two sources operate independently and may therefore have different recommendations. The various research content provided does not take into account the unique investment objectives, financial situation or particular needs of any specific individual investor. If you have any questions, please consult your Financial Advisor. UBS Financial Services Inc. is a subsidiary of UBS AG and an affiliate of UBS International Inc.