In CIO's view, investors who are willing and able to tolerate lower liquidity and less transparency should consider the benefits of allocating part of their portfolio to alternative assets. (UBS)

# Consider the benefits of alternative assets

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**The Federal Reserve's actions and guidance look likely to drive markets in the weeks to come. The US central bank is set to reduce interest rates from its 23-year high of 5.25-5.50%, a level where they remained for the past 14 months to combat inflation.**

Whether the Fed will cut rates by 25 or 50 basis points remains a debate among market participants, with the August retail sales figure due Tuesday having the potential to tip the balance.

How markets would interpret and react to the Fed's decision poses further uncertainty for investors, while growth concerns and US election risks are unlikely to fade anytime soon. But while there are ways to hedge portfolios against near-term volatility, investors should not lose sight of their longer-term financial goals. Investors willing and able to tolerate lower liquidity and less transparency should consider the benefits of allocating part of their portfolio to alternative assets, in our view.

**Examining one's portfolio with a longevity lens may increase confidence in venturing into alternative assets.** In addition to managing cash flows for short-term expenses, investors should hold a portfolio that aims to meet their financial objectives over a lifetime. The focus, in our view, is to produce consistent growth and income to ensure that their lifetime spending needs will be met, even if there is a stretch of volatility or poor market returns. This context could help investors tap into more opportunities offered by alternative assets and avoid behavioral biases amid uncertainty.

**Hedge funds are designed to navigate volatile, unpredictable markets.** Hedge funds can mitigate portfolio drawdowns during periods of heightened volatility. Historical data show that certain hedge fund strategies consistently outperform traditional asset classes during market sell-offs owing to their low to moderate correlation with equities and bonds. In addition, hedge funds can take advantage of market dislocations to increase alpha potential. We believe hedge funds are well positioned to navigate changing market conditions. Strategies like low net equity, alternative credit, global macro, and multi-strategy funds can boost portfolio resilience and enhance risk-adjusted returns.

**Private assets offer potential benefits both in terms of better risk-adjusted performance and enhanced diversification.** Over the long run, we expect portfolios that include private assets to outperform those that do not, as less efficient markets and active ownership should offer greater opportunities to capture a premium. In private equity, we currently seek exposure to value-oriented buyout strategies and continue to recommend allocations to secondaries. In private credit, we prefer those with disciplined underwriting approaches and diversified businesses. In real assets, the case for private real estate as a diversifier remains intact, and we believe markets will rebound in the years ahead thanks to strong demographics, migratory patterns, and job creation.

So, for investors willing and able to manage inherent risks such as illiquidity and leverage, we continue to believe that allocations to alternatives in a well-diversified portfolio can help investors grow long-term wealth while navigating near-term uncertainty.

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