

# The Portfolio Lens: Geopolitics

## Investor Concern

My portfolio has held up well so far, but is it time to pull back on some of my alternative investments amid the current geopolitical volatility?

Amid shifting global dynamics, investors may question whether their portfolios can withstand ongoing uncertainty. Although many investors say geopolitical events make them hesitant to make significant changes, in today's environment, inaction can also feel risky. Advisors have an important role to play in guiding clients beyond the headlines—which often create short-term volatility—to make informed and proactive portfolio decisions.

## Discussion Points

- **Focus on portfolio resilience:** The vast majority of investors—79%—say they would invest more in alternatives if they could see how they perform in down markets.<sup>1</sup>

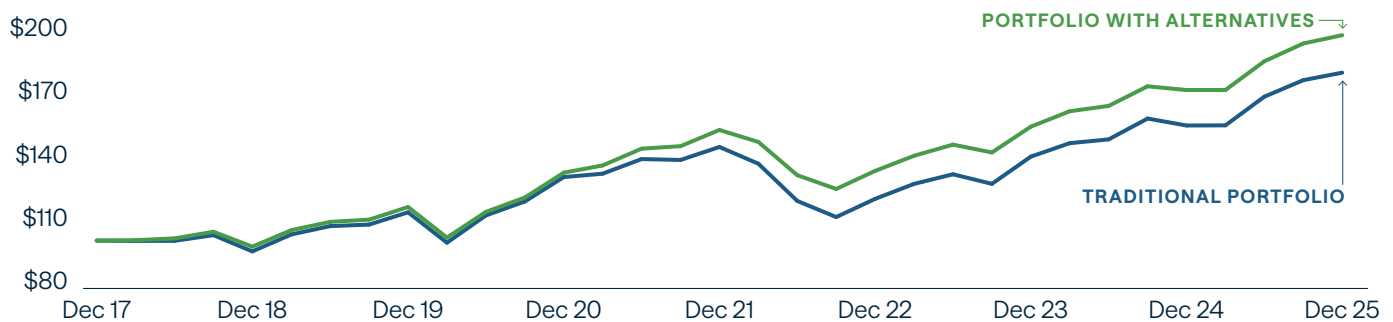
Use the Alts Allocator<sup>2</sup> to run a scenario analysis that shows how a client's current portfolio would hypothetically behave under various market conditions. Compare portfolios with a traditional 60/40 mix or a small allocation to alternatives against a more diversified alternatives strategy to demonstrate how adding alts may help mitigate downside risk.

- **Point to the potential for private markets to moderate volatility:** As they have a lower correlation to public markets and are not subject to daily market pricing, alternatives may help dampen the impact of short-term market shocks.

56%

of investors agree that periods of high volatility in public markets make alternative investing increasingly appealing.<sup>1</sup>

## Growth of \$100: Comparing Traditional vs. Alternative-Enhanced Portfolios



	Global Equities	Global Bonds	Private Credit	Private Infrastructure	Private Real Estate	Private Equity
— (Blue)	60%	40%	—	—	—	—
— (Green)	55%	25%	5%	5%	5%	5%

**Past performance is not indicative of future results.** Diversification does not guarantee a profit or protect against loss. For illustrative purposes only. This information does not represent the returns of a fund. An investor cannot invest in an index. Global Equities represented by the MSCI World Index, Global Bonds by the Bloomberg Global Aggregate Bond Index, Private Credit by the Cliffwater Direct Lending Index, Private Infrastructure by the Preqin Infrastructure Index, Private Real Estate by the Preqin Private Real Estate Index and Private Equity by the Preqin Private Equity Index. Please see disclosures for additional information.

Source: Bloomberg, Cliffwater, MSCI, Preqin. January 1, 2018, through December 31, 2025.

- **Explain the role alts can play in today’s geopolitical and macroeconomic climate:** Help clients understand how alternatives may strengthen portfolios by highlighting the benefits and risks of investing in specific types of strategies amid evolving global conditions. Managers with deep, cycle-tested experience may be well positioned to navigate periods of market stress and identify potential opportunities during dislocations.

Economic Trend	Investor Concern	Alternative Solution	The “Why”
Inflation	Eroding purchasing power	<b>Real Assets</b> (Infrastructure, Real Estate)	Real assets often appreciate or income is adjusted in line with rising consumer prices.
Rising Rates	Public bond volatility	<b>Private Credit</b>	Floating-rate structures offer higher yields and less sensitivity to rate hikes.
Market Volatility	Broad equity sell-offs	<b>Hedge Funds</b>	These specialized strategies are designed to reduce downside risk and find returns with low correlation to public markets.
Slowing Growth	Sluggish broad markets	<b>Private Equity</b>	Focuses on niche opportunities and operational value creation regardless of GDP.
Global Disruptions	Supply chain/logistics	<b>Infrastructure</b>	Essential services (data, energy) remain resilient across geopolitical and economic climates.

## The Opportunity

With the ongoing market volatility and geopolitical risks, many investors are seeking portfolio guidance. Proactively discussing the role of alternatives can help clients navigate this uncertainty with greater confidence and clarity, and in many ways, can also open up a broader conversation about a client’s total portfolio. Accordingly, 82% of financial advisors agree that alternative investments have enhanced their client conversations about portfolio construction.<sup>1</sup>

## The Bottom Line

Now is the time to enhance the alts conversation, deepen client trust and ensure client portfolios are positioned to meet their objectives—no matter what the global landscape brings. A valued manager with strong expertise can help investors understand how alternatives may align with their overall portfolio strategy amid today’s geopolitical uncertainties.

The Alts Institute offers a comprehensive platform with client-friendly resources, advanced asset-allocation strategies and best practices to help you engage clients as their investment priorities and needs evolve.

## Endnotes

1. Brookfield commissioned CoreData Research to conduct separate online surveys between April and June 2024 of 300 financial professionals in the U.S. and Canada with an average practice AUM of US\$633 million, and 625 high-net-worth investors in the U.S., Canada, Hong Kong, Singapore and Taiwan with at least US\$2.5 million in household investable assets. Results may not be representative of the broader investor population.
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## Risks to Consider

Alternative investments are complex, speculative investment vehicles and are not suitable for all investors. An investment in an alternative investment entails a high degree of risk, including loss of principal, and no assurance can be given that any alternative investment fund's investment objectives will be achieved. Alternative investments are often illiquid, subject to lock-ups, gates, capital calls, and valuation lags.

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The Bloomberg Global Aggregate Index is a market-capitalization-weighted index comprising globally traded investment-grade bonds. The index includes government securities, mortgage-backed securities, asset-backed securities and corporate securities to simulate the universe of bonds in the market. The maturities of the bonds in the index are more than one year.

The Cliffwater Direct Lending Index measures the unlevered, gross-of-fees performance of U.S. middle market corporate loans, as represented by the asset-weighted performance of the underlying assets of business development companies (BDCs), including both exchange-traded and unlisted BDCs, subject to certain eligibility requirements.

The MSCI World Index is a free-float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of developed markets.

The Preqin Private Equity Index captures in an index the return earned by investors on average in their private equity portfolios, based on the actual amount of money invested in private capital partnerships. Historical data points are not recalculated as time passes, except for the latest two quarters available, which are preliminary. The preliminary quarters are finalized at a three-quarter lag coinciding with the full constituency for the as-at date being met. The universe of funds for each quarterly point in the index may change over time depending on data availability.

The Preqin Infrastructure Index captures the average returns earned by investors in their infrastructure portfolios, based on the actual amount of money invested. Historical data points are not recalculated as time passes, except for the latest two quarters available, which are preliminary. The preliminary quarters are finalized at a three-quarter lag coinciding with the full constituency for the as-at date being met. The universe of funds for each quarterly point in the index may change over time depending on data availability.

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