Part 5

Taking the Alternate Route

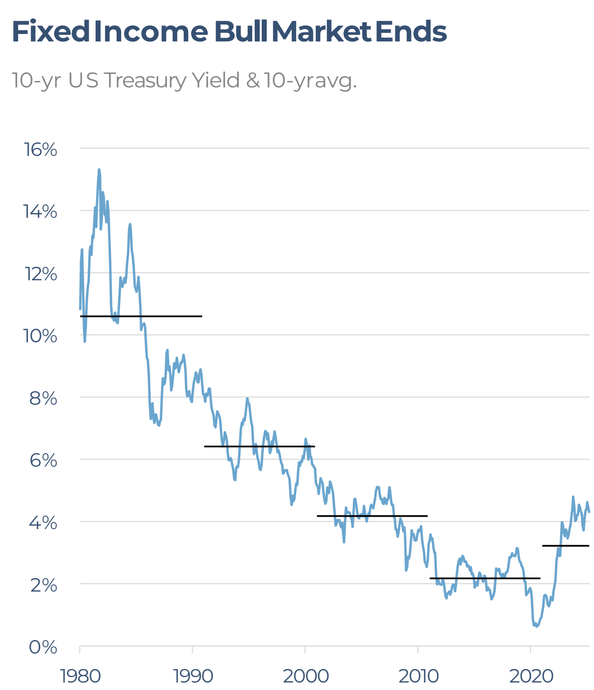
TAKING THE ALTERNATE ROUTE

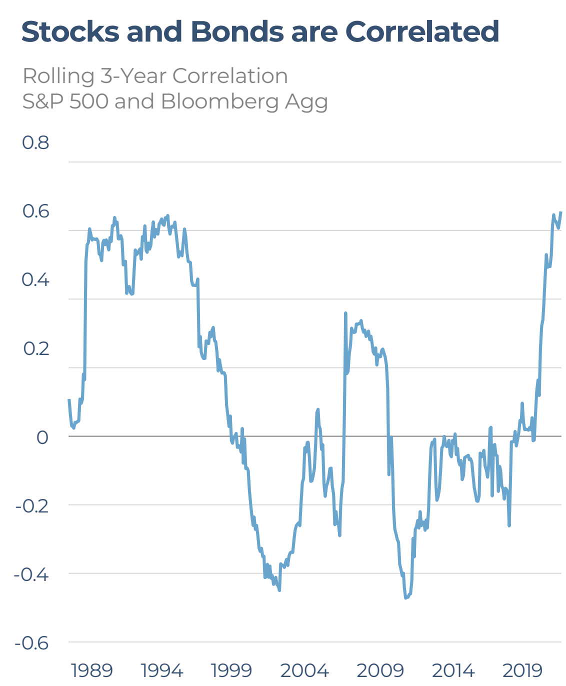
After a long stretch of open highway, the ride has felt smooth. Traffic has moved steadily, the road has been well paved, and progress has been easy to measure. Yet despite the calm, many investors are uneasy. The concern is not that the road is no longer passable, but that it has become increasingly crowded, with fewer ways to maneuver if conditions change.

Public equity markets heading into 2026 feel much like that highway. Returns have been stronger than usual, volatility has remained muted, valuations sit near peak, and retail investor participation has broadened. On the surface, the journey appears orderly. Beneath it, however, the road has narrowed. More capital, more portfolios, and more outcomes are increasingly concentrated in a small group of large public technology companies. Most investors are not speeding recklessly, but they are traveling together, exposed to the same turns ahead.

Periods of stability and concentration often persist longer than expected, until they falter. Market cycles rarely provide advance notice. Today's imbalance is not necessarily a signal that conditions are about to change, but it does raise an important question: how resilient are portfolios if they do? That question has become harder to answer. Rotating away from large-cap public technology exposure can mean replacing one crowded trade with another, accepting greater volatility, or risking the opportunity cost of missing continued gains. At the same time, traditional public-market diversifiers have been less effective than history would suggest.

The familiar 60/40 portfolio helps explain the challenge many investors face today. Bonds have long served as the stabilizing ballast in client portfolios, providing income, diversification, and protection during equity drawdowns. Over the past decade, however, public bond returns have averaged under 2% annually and, more recently, have struggled to provide the diversification investors have historically relied on as stock and bond correlations have risen. The traditional off ramp has narrowed just as traffic has increased.





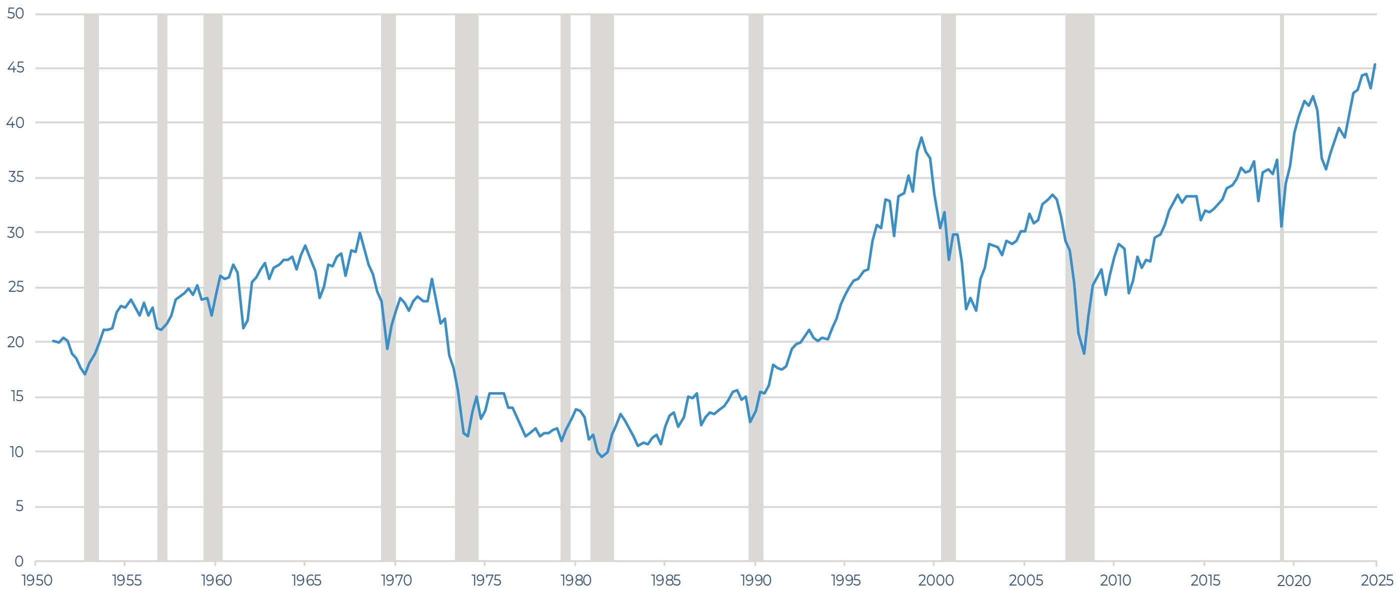
Source: Bloomberg Finance L.P., as of March 31, 2025.

The challenge, then, is not predicting the turns in the road, but recognizing when it makes sense to reduce reliance on a single route. Rather than waiting for conditions to shift, investors can begin charting an alternate path. Broadening portfolios beyond crowded public equity markets and into a wider set of investments can reduce concentration risk, introduce new drivers of return, and help portfolios keep moving forward without depending entirely on one road whose destination remains uncertain.

This reassessment starts from a position of concentration. Entering 2026, individual investors hold a higher proportion of their net worth in public equities than at almost any point in history. Federal Reserve data shows public equities now represent nearly half of household financial assets, comparable to periods preceding prior market drawdowns, including the late 1990s and mid-2000s. Historically, household equity exposure tends to peak during periods of optimism and stability, not stress.

Investors Hold Nearly Half of Net Worth in Public Equities

Households and Nonprofit Organizations; Corporate Equities Held as a % of Financial Assets



Source: Board of Governors of the Federal Reserve System (US)

When starting points are stretched, portfolio construction matters more than prediction. This is where diversification becomes practical rather than theoretical. Harry Markowitz famously described diversification as “the only free lunch in investing,” demonstrating that combining assets with imperfect correlations can reduce risk without sacrificing long-term return potential. Today, that logic increasingly points beyond traditional stock and bond portfolios and toward investments with fundamentally different drivers of return.

The question is not whether stock markets will correct in 2026, but whether portfolios are built to withstand a wide range of outcomes when prediction is difficult. After years of public equity-driven returns, many portfolios remain highly sensitive to a narrow set of risks, leaving them vulnerable to shifts in sentiment and momentum. In this environment, diversification is less about reallocating within equities and more about incorporating assets designed to behave differently as conditions change.

Wherein response to that uncertainty, taking an alternate route becomes compelling. Each investor embarking on this journey resembles a different kind of driver. Risk tolerance, income needs, and time horizon all shape how they navigate the road. While there are many routes to the same destination, the key is alignment between the vehicle and the journey, between investment choices and long-term objectives.

In investment terms, those vehicles extend beyond traditional public equities. They include private equity and venture capital, private credit, real assets such as infrastructure and income-producing real estate, hard assets like commodities, structured products, and hedge funds. Each offers a distinct profile of return potential, stability, and control. As we move into 2026, the question is no longer whether to leave the crowded highway, but which alternate routes best suit the journey ahead.

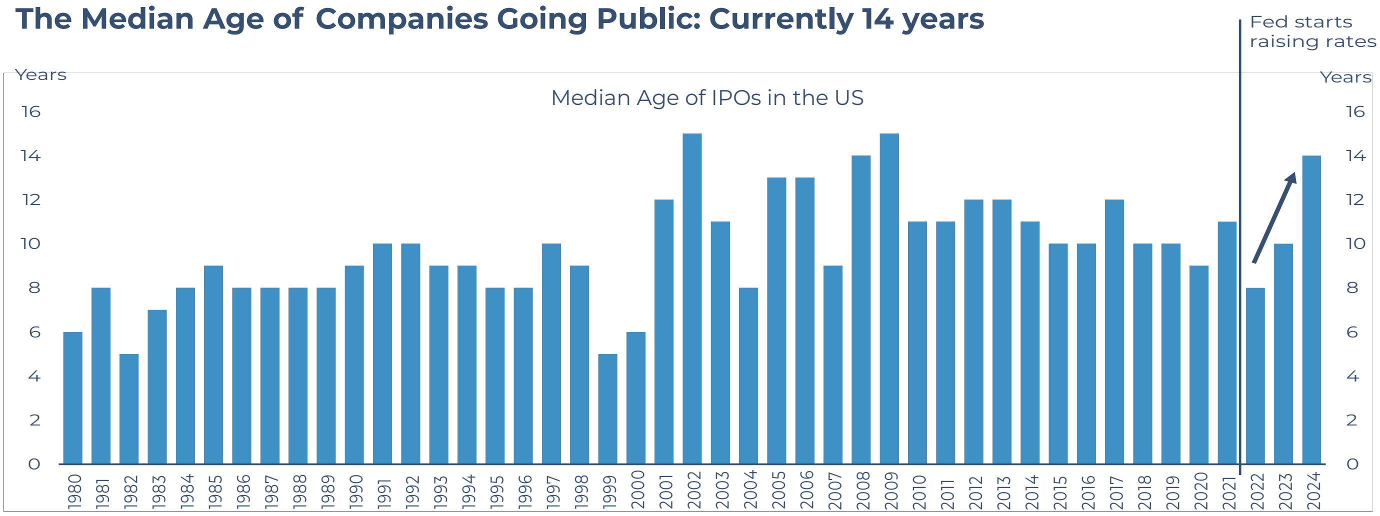
Asset Class	Diversification Merit	Role in Portfolio
Private Equity & Venture Capital	Expanded opportunity set; lower correlation to public equities	Growth enhancement and long-term return amplification
Private Credit	Yield with lower duration risk and stronger covenants	Income generation and downside mitigation
Real Assets	Inflation hedge; cash flow resilience	Ballast amid inflation and equity volatility
Hard Assets	Distinct drivers tied to supply–demand and geopolitics	Inflation hedge and shock absorber in stress periods
Hedge Funds	Potentially low beta and diversified sources of alpha	Crisis buffer and active risk management

For investors seeking to complement public equity exposure with differentiated growth opportunities, private equity and venture capital offer a faster lane. These markets provide access to thousands of companies that traditionally would have been public, expanding the opportunity set beyond public exchanges and offering return drivers less tied to daily market sentiment.

After a period of rain and overcast conditions, the backdrop for 2026 appears to be improving on the margin. Lower policy rates, improving financing conditions, and a renewing IPO window support a healthier deal environment and more credible exit paths for sponsors. At the same time, secondary markets in private equity offer opportunities to buy interests at discounts to prior valuations, effectively improving entry points for new capital.

While those benefits are present, this alternate road is unlikely to be smooth. Higher return potential does not imply quicker realization. These strategies are inherently illiquid, with capital typically locked up for years and highly dispersed outcomes across managers and vintages. Elevated valuations in certain growth segments, longer holding periods, and execution risk all argue for selectivity and rigorous manager due diligence. For investors willing to accept these constraints, private equity and venture capital can complement public equity exposures, but they are best approached as part of a disciplined, long-term roadmap rather than a shortcut.

The Median Age of Companies Going Public: Currently 14 years



Source: Jay Ritter, University of Florida, Apollo Chief Economist

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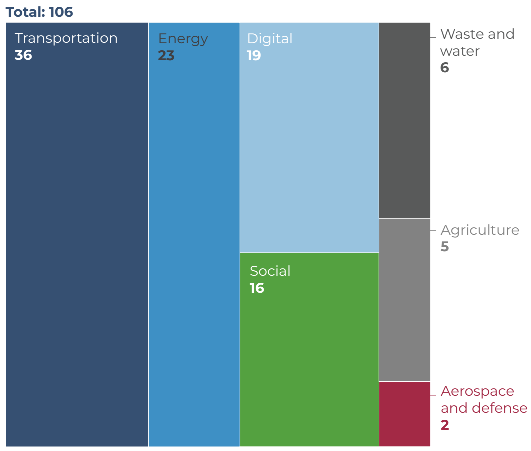
Private credit occupies a steadier middle lane between equity risk and traditional fixed income. It encompasses non-bank lending through privately negotiated loans, offering direct exposure to borrower cash flows and often stronger structural protection than public bonds.

Private credit enters the year on steady footing as higher base rates and tighter bank lending standards continue to support elevated spreads and provide attractive opportunities. Strategies such as direct middle-market lending, asset-based lending, specialty finance, and real estate debt benefit from floating-rate structures, senior secured positions, and active underwriting, which can help reduce interest rate sensitivity and enhance downside protection.

As monetary policy transitions toward continued accommodation, private credit's contractual income profile and reduced duration risk offer a compelling complement to traditional fixed income. In an environment of ongoing market volatility and evolving rate expectations, these features position private credit as a potential source of income stability and portfolio diversification for investors who want to keep moving forward without flooring the accelerator.

Cumulative Infrastructure Investment is Expected to Reach as High as $106 Trillion by 2040

Total infrastructure investment projected through 2040, by sector, $ trillion



Note: Figures do not sum, because of rounding.
Source: Food and Agriculture Organization; Global Infrastructure Hub; International Energy Agency; International Monetary Fund; Organisation for Economic Cooperation and Development; Prequin; United Nations; World Bank; World Economic Forum; McKinsey

Real assets are the infrastructure of the journey itself: the roads, bridges, power lines, and buildings that make economic activity possible. They represent investments in physical, economically essential assets, such as infrastructure, real estate, and natural resources whose values are tied to long-term demand and often supported by contractual or usage-based revenue models. These characteristics provide a degree of inflation protection and reduce risks born from high public market valuations.

This year, infrastructure may prove to be a standout sector within real assets, supported by significant and sustained investment in AI buildout, data centers, and decarbonization initiatives. These structural forces are directing capital toward energy generation and transmission, digital infrastructure, transportation networks, and regulated utilities – the essential services that keep the broader economy moving.

Hard assets, particularly commodities and select cryptocurrencies, function as guardrails within a portfolio, helping smooth out the bumps when growth, inflation, or geopolitics surprise. Broad commodity exposure, along with targeted allocations to energy, metals, agriculture, and digital assets, can provide a differentiated return stream relative to traditional equities and bonds. Performance in these areas is driven more by supply–demand dynamics, geopolitical developments, and physical constraints than by earnings multiples.

Heading into 2026, the case for hard assets is straightforward: inflation remains above target in many economies, policy tolerance for higher inflation has risen, and the energy transition continues to reshape commodity demand. Precious metals appear well positioned, supported by persistent inflation pressures, elevated geopolitical risk, and ongoing demand for perceived stores of value. Select cryptocurrencies may benefit from growing institutional adoption and their role as speculative "digital risk" assets. At the same time, investors must weigh meaningful drawbacks: commodities and crypto can be highly volatile, prone to sharp drawdowns, and often require derivatives, futures, or specialist vehicles to access efficiently, introducing complexity and potential roll or basis risk.

For investors willing to accept these trade-offs, measured allocations to hard assets can complement real assets and traditional inflation hedges. Rather than serving as the primary vehicle on the trip, commodities and cryptocurrencies are often most effective as part of the toolkit that helps portfolios navigate unexpected potholes in inflation, policy, or geopolitical stability, without relying solely on equities and bonds for risk management.

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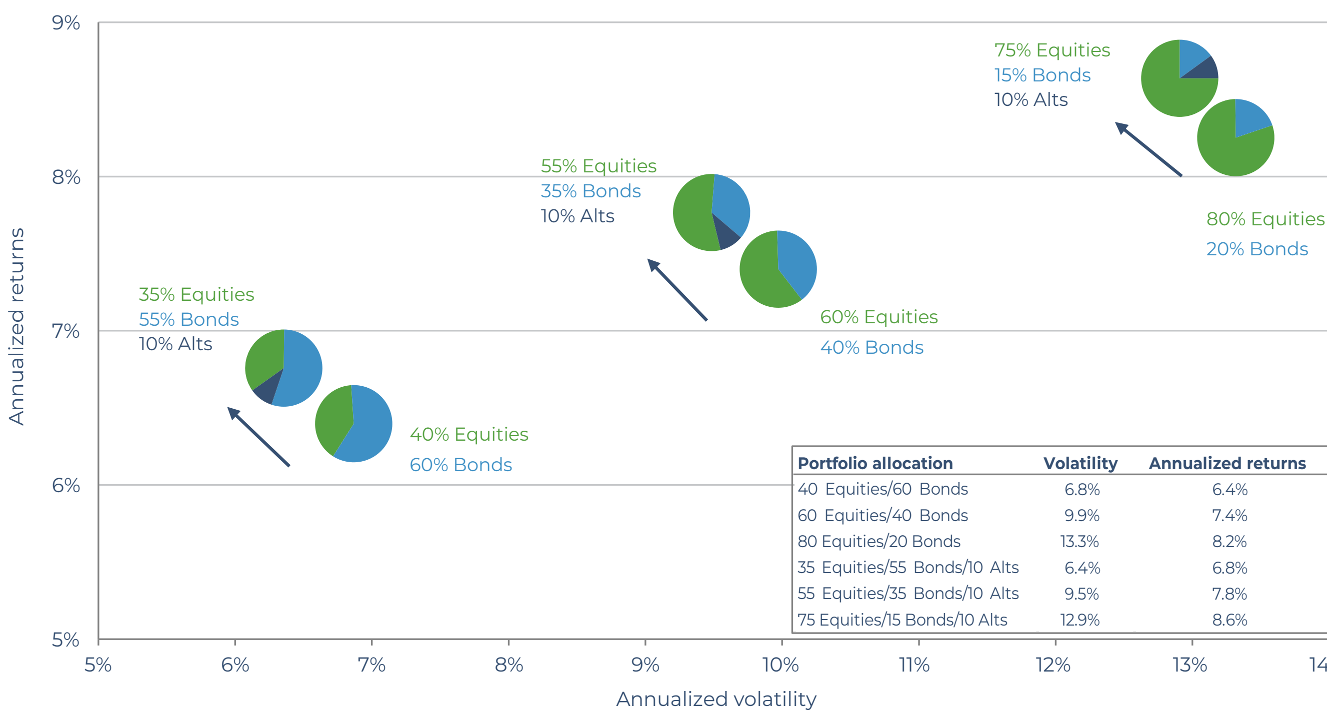
Hedge funds resemble skilled drivers who can shift lanes, tap the brakes, or change speed as conditions evolve, rather than committing to a single, unhedged route. They encompass a broad set of actively managed strategies designed to generate returns with lower dependence on broad market beta, using tools such as dynamic exposure management, short positions, derivatives, and cross-asset allocation to manage risk and capture relative value opportunities.

The current backdrop of greater market dispersion, policy divergence, and macro uncertainty creates a more fertile environment for many hedge fund approaches. Market-neutral, global macro, relative value, and event-driven strategies may be well positioned to take advantage of volatility, dislocations, and shifting economic conditions, potentially reducing portfolio-level volatility and providing diversification when traditional assets move in tandem. However, the opportunity set is highly manager-specific: wide dispersion of returns, higher fees, limited transparency, and occasional liquidity constraints all argue for careful selection, alignment of terms, and ongoing oversight.

> Market leadership shifts, valuations evolve, and risks that once seemed remote can quickly move to the forefront. Simply owning more equities, or even more diversified equities, is no longer enough on its own. In an environment where correlations change and traditional buffers weaken, portfolio resilience increasingly depends on how different return drivers work together, not just how much exposure investors have to any single one. Diversification remains the only free lunch in investing. But in today's market, it is earned not by staying in the same lane, but by thoughtfully combining alternative paths that can carry portfolios through whatever lies ahead.

Alternatives and Portfolio Risk/Return

Annualized volatility and total return, 1Q98 - 2Q25



Portfolio allocation	Volatility	Annualized returns
40 Equities/60 Bonds	6.8%	6.4%
60 Equities/40 Bonds	9.9%	7.4%
80 Equities/20 Bonds	13.3%	8.2%
35 Equities/55 Bonds/10 Alts	6.4%	6.8%
55 Equities/35 Bonds/10 Alts	9.5%	7.8%
75 Equities/15 Bonds/10 Alts	12.9%	8.6%

Source: Burgiss, Bloomberg, FactSet, NCREIF, PivotalPath, Standard & Poor's, J.P. Morgan Asset Management.
The alternatives allocation includes hedge funds, real estate and private equity, with each receiving an equal weight. Portfolios are rebalanced at the start of the year. Equities are represented by the S&P 500 Total Return Index. Bonds are represented by the Bloomberg U.S. Aggregate Total Return Index. Volatility is calculated as the annualized standard deviation of quarterly returns. past performance is not a reliable indicator of current and future results.
Guide to Alternatives. Data are based on availability as of November 20,2025.

DISCLOSURE

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