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The Carlyle Compass

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Welcome back to ***The Carlyle Compass****, your weekly newsletter that brings together the latest research and market insights from our global team. This week, we explore key takeaways from my latest deep dive into the increasing opportunities in private markets. Download the full paper, "The Rise of Private Markets," here. Received this email as a forward? Subscribe here.*

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1. The use of “alternatives” to categorize private assets has become an anachronism. As the investment opportunity set has shifted decisively towards private markets, so too must investors’ portfolio allocations.

2. As more companies choose to remain private, a larger share of the value created over their lifetime accrues to private rather than public markets investors. With yesterday’s “growth stocks” now largely in private portfolios,

the remaining pool of public stocks is larger, older, and more correlated. The same signs of adverse selection are evident in credit markets.

3. For a time, the risks of a more correlated and concentrated stock market had been offset by a negative correlation in the returns of stocks and bonds. But, as vividly illustrated over the past few months, bonds no longer "hedge" risk assets. Broader recognition of this regime shift in stock-bond correlations could accelerate the growth in private market allocations.

4. The "liquidity" of traded securities can prove illusory. Order flow can drive market prices far from levels consistent with fundamentals and drawdowns during market-wide shocks tend to be concentrated in the most liquid assets – i.e., those that are easiest to sell.

5. A portfolio with a 20% allocation to private assets dramatically outperforms counterparts restricted to publicly-traded stocks and bonds and that outperformance spans the range of investors' risk tolerance.

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