# Alternatives: Solving for alpha, income and diversification

Use three *Guide to Alternatives* slides to support client conversations on the opportunities in alternatives.

## Adding alternatives may help optimize risk/return

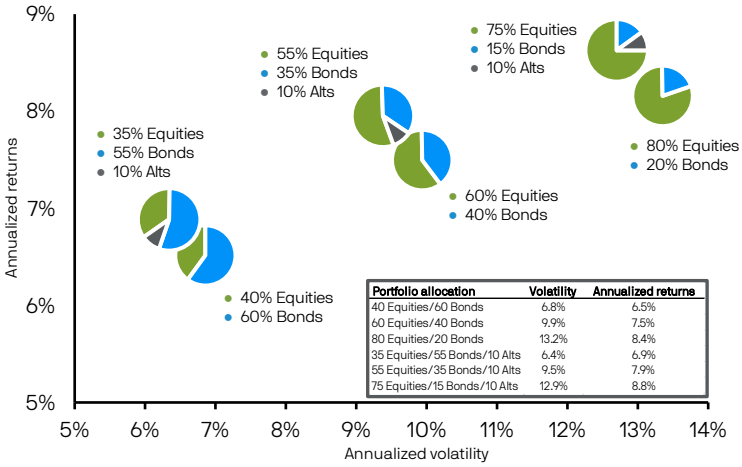
Public asset classes are facing challenges from elevated valuations, low real yields and positive correlation. For those willing to venture outside a traditional stock-bond allocation, adding a sleeve of alternatives may help enhance returns and reduce volatility. However, different alternatives play different roles in portfolios. Investors should first identify their goal, then invest in the alternative asset class with the attributes to achieve it.

Exhibit 1 source: Bloomberg, Burgiss, 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. Data are based on availability as of January 31, 2026. **Guide to Alternatives, page 7.**

**Exhibit 1: Alternatives and portfolio risk/return**

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Annualized volatility and returns, 1Q98 – 3Q25




| Portfolio allocation | Volatility | Annualized returns |
|---|---|---|
| 40 Equities/60 Bonds | 6.8% | 6.5% |
| 60 Equities/40 Bonds | 9.9% | 7.5% |
| 80 Equities/20 Bonds | 13.2% | 8.4% |
| 35 Equities/55 Bonds/10 Alts | 6.4% | 6.9% |
| 55 Equities/35 Bonds/10 Alts | 9.5% | 7.9% |
| 75 Equities/15 Bonds/10 Alts | 12.9% | 8.8% |

## Investors are seeking alpha, income and diversification

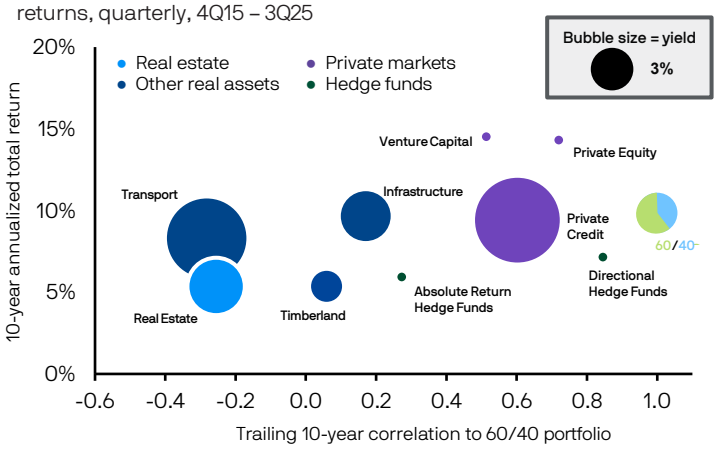
In general, alternatives can enhance return potential, increase income or provide diversification, depending on which asset class is selected. For instance, private equity may enhance returns but may not prioritize income or diversification. Real assets, like real estate and infrastructure, on the other hand, exhibit low or negative correlation to a 60/40 portfolio and often provide stable income and inflation protection.

Exhibit 2 source: Burgiss, Cliffwater, FactSet, MSCI, NCREIF, PivotalPath, J.P. Morgan Asset Management. All categories are global, except for timberland and private credit, which are U.S. Correlations are based on quarterly returns over the past 10 years indicated. The 60/40 portfolio is comprised of 60% stocks (S&P 500 TR Index) and 40% bonds (Bloomberg U.S. Aggregate TR Index). "Absolute Return Hedge Funds" represent asset-weighted returns from the PivotalPath Global Macro and Relative Value indices. "Directional Hedge Funds" represent asset-weighted returns from the PivotalPath Credit, Equity Diversified and Event Driven indices. Data is based on availability as of January 31, 2026. **Guide to Alternatives, page 8.**

**Exhibit 2: Correlations, returns and yields**

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10-year correlations and 10-year annualized total returns, quarterly, 4Q15 – 3Q25




## Manager selection is critical

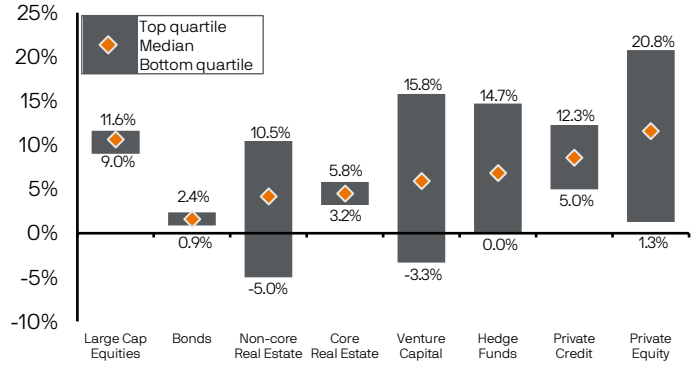
The performance difference between top and bottom managers compounds over time and can impact long-term returns sizably. Manager dispersion is particularly acute in private markets, which are newer and have a wide range of investing approaches. To unlock the return enhancing potential of alternatives, investors must select an effective manager.

Exhibit 3 source: Burgiss, Morningstar, MSCI, PivotalPath, J.P. Morgan Asset Management. All categories are global. *Manager dispersion is based on annual returns over a 10-year period ending 4Q 2025 for: Large Cap Equities, Bonds and Hedge Funds; it is based on annual returns ending 3Q 2025 for Core Real Estate; and it is based on the 10-year internal rate of return (IRR) ending 3Q 2025 for: Non-core Real Estate, Venture Capital, Private Credit and Private Equity. Data is based on availability as of January 31, 2026. **Guide to Alternatives, page 9.**

**Exhibit 3: Public and private manager dispersion**

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Based on returns over a 10-year window (%)*



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