

APOLLO

Does the Foundation Still Support the Structure?

9 Private Market Takeaways
For Rebalancing Portfolios Now

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Public equities are near all-time highs. By most accounts, portfolios look healthy. But beneath the surface, the foundation supporting those returns has weakened as risk compensation has thinned, concentration has intensified and traditional diversification no longer works the way it used to. For investors who held through the recent turbulence, this may be a rare opportunity to reassess portfolio allocations before the market forces action.

What follows are nine takeaways for evaluating whether a portfolio is still aligned with its intended purpose in a market with heightened volatility and uncertainty, and how private markets can play a role in shaping more durable, resilient outcomes.

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1. Hidden Risks in Public Portfolios

Is the Market Paying Enough for Risk?

The most fundamental question in portfolio construction is simple: are investors getting paid enough for taking risk? Right now, the answer is not encouraging across either public equities or fixed income.

On the equity side, the implied equity risk premium stood at 4.36% as of May 1, down from 4.77% in early April, as stocks jumped to record highs following volatility earlier in the year. While the risk premium is roughly in line with the long-run average of 4.25% since 1960, it is well below the 5.16% average of the past two decades.¹ And consider what investors are absorbing for that premium: record index concentration, a drawn-out war with Iran and oil prices jumping above \$100 a barrel. We believe an average premium during a period of above-average risk does not equal adequate compensation.

Stocks are also richly priced on traditional valuation measures, with both the forward price-to-earnings ratio and the cyclically adjusted Shiller CAPE measure firmly above historical norms. Another key indicator, the earnings yield spread, now shows that investors are earning less from

stocks than from investment-grade corporate bonds.

Public fixed income tells a similar story. In January 2026, investment-grade credit spreads stood at just 73 basis points, the tightest in over 25 years and well below the long-run average of 145 basis points. High-yield spreads were at 265 basis points, or barely above the all-time tightness and far below their 507 basis point average. While the Q1 selloff pushed spreads wider, the move was short-lived — by the end of April, IG had fallen back to 78 basis points and HY to 268 basis points, barely above January's figures. Investment-grade spreads remain relatively tight versus historical norms. And in the high-yield market, current yields of roughly 7% for largely unsecured risk, in our view, look less "high" than the label suggests when compared with long-run averages and secured alternatives.

There is another risk brewing. Investment grade bond indexes are generally considered low risk and broadly diversified, but that may change in the future due to the technology sector's enormous financing needs for the AI buildout. Tech issuers now account for about 11% of the IG index's value, up from approximately 2% two decades ago.² And that share could grow significantly if hyperscalers (e.g., Amazon.com, Meta, Microsoft, Google and Oracle) fund just 20% of their estimated \$2.7 trillion in planned capital expenditures through the investment-grade market.³ Each company would become among the largest issuers in the index, meaning investors who turned to investment-grade fixed income to diversify away from tech-heavy equities may find the same concentration risk waiting in their bond portfolio.

We believe an average premium during a period of above-average risk does not equal adequate compensation.

¹Professor Aswath Damodaran

²Investment grade index is the JP Morgan JULI Index. Source: JP Morgan Guide to the Markets, 2Q 2026

³Data as of September 2025. Source: S&P Capital IQ

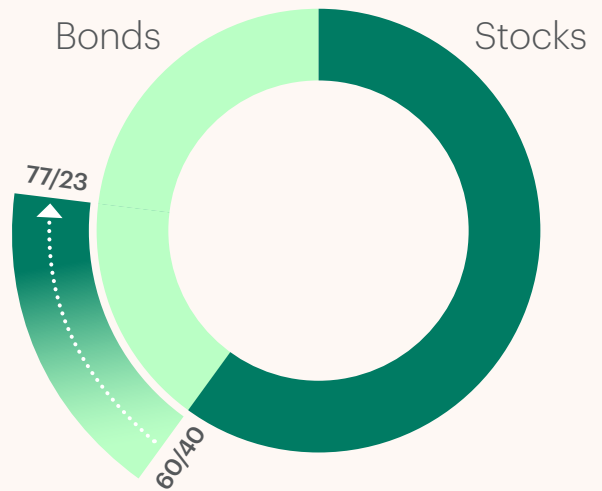
2. Hidden Risks in Your Public Portfolio

Is the 60/40 Portfolio Still 60/40?

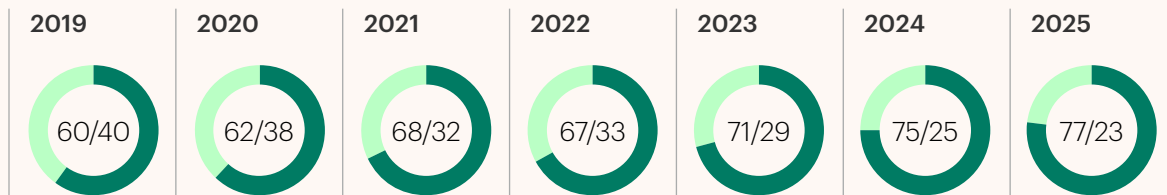
As markets move, so do portfolio weights. The S&P 500 delivered double-digit gains in the past three years, while bond prices have been largely flat over that time frame. That divergence has quietly shifted many 60/40 portfolios closer to 70/30, without any conscious decision by the investor.

This passive drift warrants attention because it can increase the risk profile of an entire portfolio. A portfolio designed for moderate risk may have become more heavily allocated to equities, increasing exposure to downside risk. In some cases, this additional exposure may be concentrated in a relatively narrow set of mega-cap names, where valuations may merit closer evaluation.

Portfolio Drift from 60/40 to 77/23 — 2019–2025



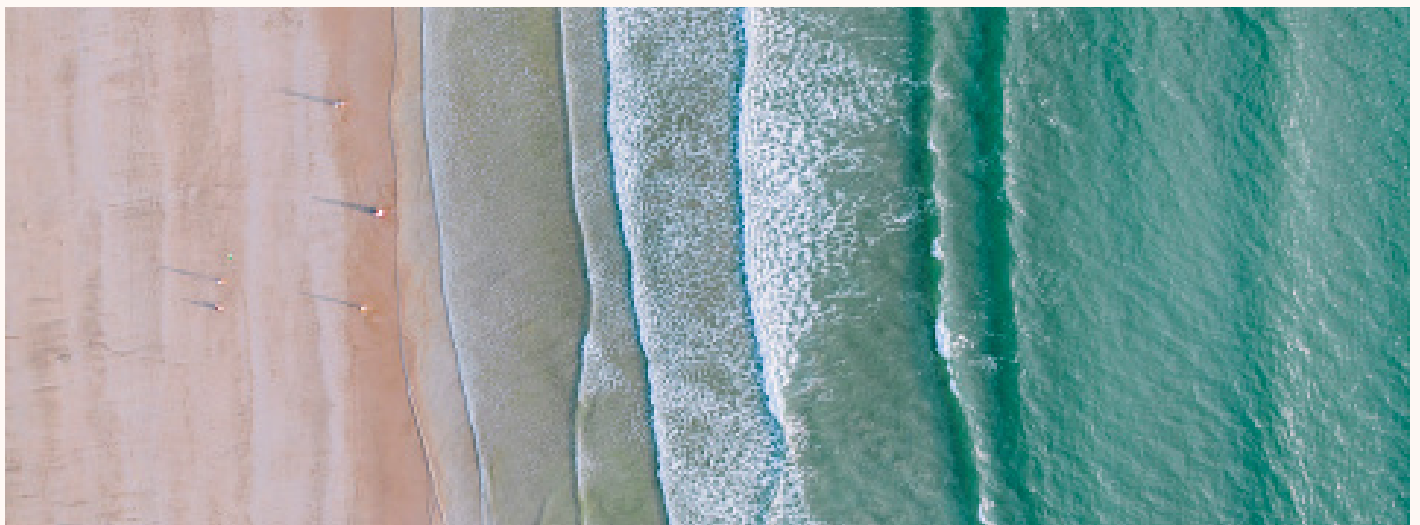
60/40 Weight (year ending December 31, 2025)



Growth of 100

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|--------|------|--------|--------|--------|--------|--------|--------|
| Stocks | 100 | 118.39 | 152.38 | 124.78 | 157.59 | 197.01 | 232.24 |
| Bonds | 100 | 107.50 | 105.84 | 92.07 | 97.16 | 98.38 | 105.57 |

Stocks are represented by the S&P 500. Bonds are represented by the Bloomberg US Aggregate Bond Index. Illustration represents growth of \$100 invested in each index, from December 31, 2019 to December 31, 2025 with no rebalancing. Sources: Bloomberg, Apollo Analysts



3. Hidden Risks in Your Public Portfolio

Is There Hidden Overlap Across Index Holdings?

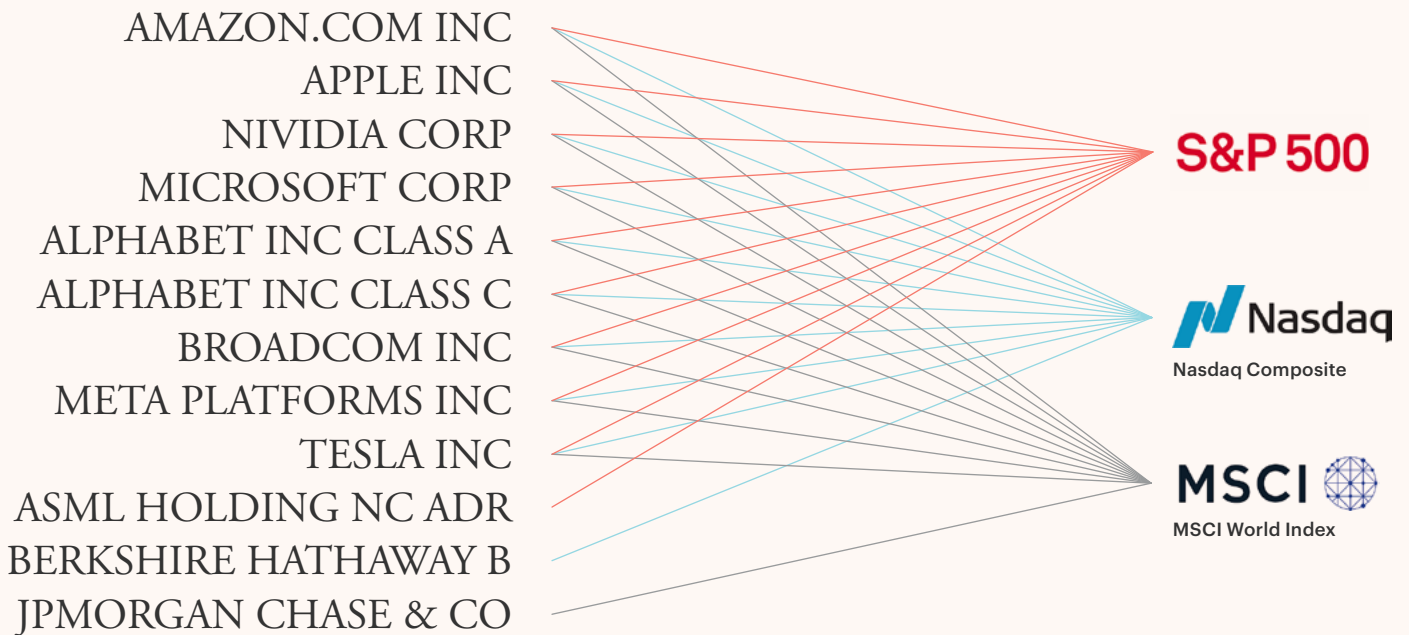
Many investors believe they are sufficiently diversified because they have exposure to the S&P 500 (diversified large caps), the Nasdaq Composite (tech) and the MSCI World Index (international). In reality, there is significant overlap between the three, as they all have essentially the same top holdings: Apple, Microsoft, NVIDIA, Amazon.com, Google (Alphabet) and Meta. And despite having “world” in its name, US companies account for 71% of the MSCI World Index.⁴ Meanwhile, the top 10 stocks in the S&P 500 now represent over 40% of the benchmark’s market capitalization — a record high.⁵ An investor with exposure to all three indices is making almost the same concentrated bet three times over.

The overlap problem extends beyond equities. The correlation between stocks and bonds has changed in a way that undermines the foundation of the 60/40 portfolio. Over the past 25 years, the correlation coefficient between the S&P 500 and the Bloomberg US Aggregate Bond

Index averaged just 0.13, essentially uncorrelated. That is the diversification benefit the 60/40 model was built on. But since early 2022, that correlation has surged to 0.66.⁶ Stocks and bonds have been moving in the same direction two-thirds of the time, driven by a common sensitivity to interest rates and inflation uncertainty. Simply splitting a portfolio between stocks and bonds is no longer the diversifier it once was.

This is where private markets can serve a more meaningful diversification role. Because private assets are not marked to market daily and their return drivers differ from public equities and bonds, they can introduce real diversification into a portfolio — the kind that combining traditional asset classes no longer reliably provides. Beyond diversification, private markets can offer the opportunity for return enhancement (income and growth) and access to differentiated investment opportunities that may not exist in public markets.

Different indices, but nearly the same top holdings



⁴MSCI

⁵Bloomberg as of April 2026

⁶Bloomberg data from December 1999 to March 2026.

Building a Private Markets Allocation

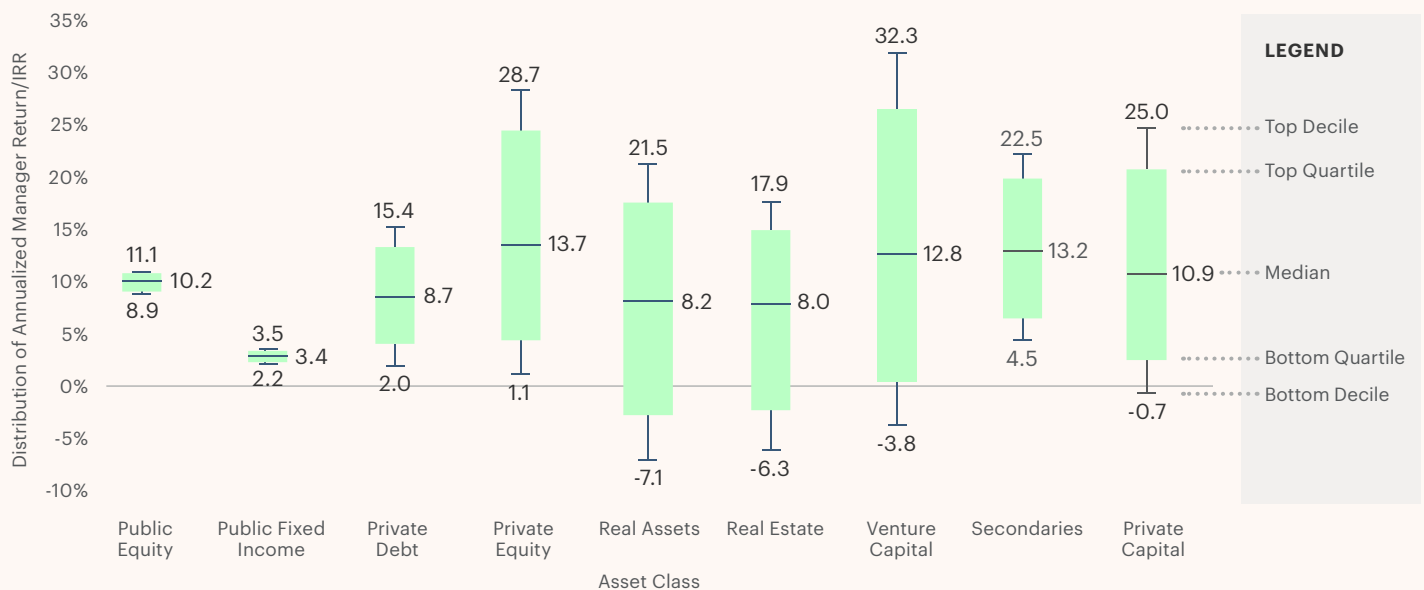
Public markets represent a shrinking slice of the real economy. The number of publicly listed US companies has been cut by about half since the mid-1990s, and 87% of US companies with over \$100 million in annual revenue are now private.⁷ A portfolio allocated entirely to public markets is missing a significant portion of the investable economy. Historically, incorporating private markets into a traditional 60/40 portfolio has both increased returns and reduced overall risk (see [“After 60/40: Model Portfolios Need a Modern Makeover,”](#) Apollo Academy, January 2026).

4. How Should Private Market Allocations Reflect the Risk Profile?

Not all private market allocations should look the same. The composition of the private markets sleeve depends on the investor’s objectives, time horizon and risk tolerance. An income-focused investor can prioritize private credit strategies with enhanced yield characteristics, such as private investment-grade credit, asset-backed finance (ABF), as well as infrastructure. A growth-oriented investor with an 80/20 stock-bond portfolio may tilt toward a diversified private markets strategy, private equity and secondaries for higher return potential and lower volatility.

Given significant dispersion in returns of private market asset classes, portfolio construction is critical. In private equity, the gap between top- and bottom-decile managers is roughly 30 percentage points and approximately 13 percentage points in private debt, compared to just 2 percentage points in public equities,⁸ meaning the way an allocation is constructed and who manages it are among the most important decisions.

Manager Choice Matters, Private Markets Have Realized Higher Median levels of Return, but with Larger Variability



For illustrative purposes only. Subject to change at any time without notice. Past performance is not indicative nor a guarantee of future results. (1): Public Equity data is from Morningstar US Large Blend and Public Fixed Income data is from Morningstar US Fund Intermediate Core Bond 20 year return dispersion through 12/2025. All other asset classes sourced from PitchBook database of funds across vintage year funds from 2005-2019 as of 3/2025 (20 year IRR). The primary metric is IRR; Private Debt includes CLO, Direct Lending, Special Situations, Distressed, Mezzanine, Bridge Financing, RE Debt, Infra Debt, Venture Debt; Private Equity includes Buyout, Growth/Expansion, Diversified Private Equity, Turnaround; Real Assets includes Real Estate and Infrastructure, Real Estate includes Core, Core Plus, Value Added, Opportunistic and Distressed; Venture Capital includes Angel Fund, Early Stage, Later Stage; Secondaries includes all asset class; Private Capital includes Private Equity, VC, Real Estate, Infra, Private Debt, Secondaries. Manager percentiles calculated by Apollo.

⁷S&P Capital IQ, Apollo Chief Economist

⁸PitchBook for private equity and private debt. Morningstar for public equity.

5.

Building a Private Markets Allocation





Is There Overallocation to One Alternative Asset Class?

The growth of private credit has been one of the defining trends in asset management over the past decade. But for many investors, private credit exposure is concentrated almost entirely in corporate direct lending. While that strategy has delivered strong results, treating corporate direct lending as the entirety of a private credit allocation misses a significant part of what we see as a [\\$40 trillion opportunity set](#).

Asset-backed finance represents a distinct and complementary segment. Where direct lending is backed by a corporation's cash flows and protected by covenants and seniority, ABF is backed by diversified pools of assets such as consumer loans, residential mortgages, equipment finance and similar receivables. Protection comes through credit enhancement, overcollateralization and tranche structures rather than corporate covenants. The two strategies have different return drivers, different risk profiles and different cycle sensitivities. [Pairing them together](#) can diversify the sources of risk within a private credit allocation and broaden the opportunity set.

Asset-Backed Finance and Direct Lending Are Complementary Allocations

Complementarity Grid (illustrative)

| |  ABF |  Direct Lending |  What It Means |  Portfolio Effect |
|----------------------------|--|---|--|---|
| Source of repayment | Asset pool cash flows | Corporate cash flows, refinancing, asset sale | Different drivers underpin returns | Diversifies risk sources |
| Downside mitigation | Underlying collateral pool and credit enhancement | Conservative underwriting and seniority in capital structure | Distinct protection mechanisms | Reduces tail risk |
| Cash-flow profile | Contractual, self-amortizing, fixed and floating rate | Floating rate, negotiated | Self-liquidation vs. matched-term funding | Smoother cycle performance |
| Risk drivers | Asset pool performance vs. underwritten assumptions | Corporate entity performance | Corporate entity performance | Broader opportunity set |

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6. Building a Private Markets Allocation

How Is AI Reshaping the Case for Real Assets and HALO Assets?

A significant structural shift is underway in how the market values different types of businesses. The rise of AI has triggered a reassessment of which assets are durable in a world where software and information-driven businesses face increasing disruption risk. This dynamic is contributing to a rotation toward hard assets with low obsolescence, such as factories, fiber-optic networks, railroads, data centers, and power infrastructure, collectively known as HALO (Hard Assets, Low Obsolescence).

The economics behind this shift are substantial. The market currently expects \$4 trillion to \$5 trillion of digital infrastructure investment by 2030 to support AI deployment.⁹ Each category (data centers, power, chips, servers, networking) faces its own bottlenecks, and financing that buildout represents an enormous opportunity for private capital. Private real asset strategies can offer exposure to these secular tailwinds while providing durable income and inflation mitigation.



7. Building a Private Markets Allocation

Is Cash Working Hard Enough?

For much of 2023 and 2024, money market funds and short-term Treasuries yielded about 5%, making them ideal places to park cash. More recently, yields have fallen below 4%, and with inflation running at 3.3%,¹⁰ real returns on cash may be limited. For longer-term sidelined cash that does not need daily access, investors may have additional options to consider.

Short-duration private investment-grade credit may represent an alternative for investors seeking to deploy capital beyond traditional cash instruments. These strategies have historically generated incremental spread relative to comparable public instruments, not by taking on more credit risk, but through illiquidity, structuring and origination premiums. Many of these strategies offer monthly or quarterly redemptions, providing practical access. The question becomes whether lower real returns are an acceptable cost for liquidity that often sits unused.

⁹Apollo Analysts

¹⁰Represented by the headline consumer price index for March 2026. Source: Bureau of Labor Statistics

Due Diligence: Vintage and Alignment

What to invest in is only part of the equation. Evaluating when capital gets deployed and how closely a manager's incentives align with investor outcomes can be just as consequential.

8. Why Is Timing as Important as Selection?

In private markets, when capital is deployed can be an important consideration alongside what is invested in. Capital raised and deployed during different market environments carries a fundamentally different risk-return profile. Capital deployed when valuations were stretched and leverage was cheap faces headwinds that newer vintages do not. Conversely, capital deployed in 2023–2026, with more attractive valuations and more conservative underwriting, may benefit from a more favorable starting point.

Real estate provides a useful example. Properties acquired during the low-rate environment of 2020–2021 may be working through a challenging mark-to-market period as cap rates adjust to higher interest rates. At the same time, fresh capital can be deployed at more attractive current-vintage entry points.

Additionally, private equity portfolio companies acquired at higher entry multiples have taken substantially longer to exit than those purchased at lower valuations,¹¹ a dynamic that has become more pronounced in recent vintages.

9. Due Diligence: Vintage and Alignment

Is the Manager Aligned With Investor Outcomes?

In public markets, the relationship between the investor and manager is largely transactional. The investor invests in a strategy, the manager runs it and performance is evaluated against a benchmark. In private markets, the relationship can be more like a partnership, and alignment of interests and outcomes is critical. When a manager invests its own balance sheet capital alongside investors, the outcomes are shared. That enforces discipline, including sound underwriting, rigorous risk management and a focus on excess return per unit of risk.

Meaningful alignment starts with the manager committing substantial capital alongside investors, so that outcomes are truly shared. It continues with fee structures that reward long-term performance over asset gathering, and governance that provides real transparency into portfolio decisions, including a willingness to co-invest on the same terms. No manager can guarantee results, but when incentives are structured this way, it greatly narrows the gap between the manager's interests and the investor's.



¹¹PitchBook

Conclusion

The market environment in 2026 is defined by a tension between surface-level resilience and underlying fragility. Headline equity index levels suggest strength. But beneath them, the risk-reward profile has deteriorated: valuations are stretched, credit spreads are tight and the traditional diversification benefits of a stock-and-bond portfolio have weakened. The nine takeaways outlined here represent a framework for evaluating whether a portfolio is still built for what can come next. Rebalancing from a position of strength is a rare advantage. The question is whether that window will remain open.



About the Author



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Alexander Wright is Partner and Global Wealth Strategist. Previously, Alexander was a portfolio manager for Apollo's closed end funds, CLOs and private BDC. Prior to joining in 2011, he was with GSC Group where he served in a variety of different roles, most recently as Chief Administrative Officer, Chief Financial Officer, and Head of US Corporate Debt. Before that, Alexander was with IBJ Whitehall Bank & Trust Corporation and Chemical Banking Corporation.

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