

Rebalancing the Global Portfolio: Strategic Asset Allocation in a Post-Liberation Landscape

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KEY TAKEAWAYS

- **Liberation Day as a catalyst:** Trump's tariff announcement in April 2025 accelerated the reassessment of global portfolios, exposing the risks of structural U.S. overweight. Rebalancing is now underway.
- **Regional beneficiaries:** Europe, the UK, and Japan are absorbing flows as China remains constrained and India increasingly crowded.
- **Private capital fundraising:** Fundraising remains below the 2021 peak with pressure most acute in private equity. Capital is consolidating among the largest platforms, while LPs demand more from GPs - from co-investment and knowledge transfer to local presence and alignment.
- **New dynamics in public markets:** Fixed income yields remain compelling, while equities face continued concentration risk driven by the dominance of the Magnificent Seven.

Executive Summary

The return of Donald Trump to the White House in January 2025 has reintroduced a new phase of political and economic uncertainty. His announcement of sweeping, across-the-board tariffs in April, dubbed 'Liberation Day', acted as a catalyst for a fundamental reassessment of global portfolios. For many investors, this marked not simply a policy shift, but a psychological turning point: permission to begin reducing the structural overweight to U.S. assets that had accumulated over more than a decade of extraordinary returns.

Since the Global Financial Crisis, compounding gains across U.S. equities, fixed income, private equity, private credit and real estate drove allocations well beyond their strategic anchors. Meanwhile, equity markets became increasingly narrow, dominated by a handful of mega-cap technology and AI names. The result was an over-reliance on a single engine of growth. The events of April 2025 have accelerated normalisation. With China constrained, India increasingly crowded, and Southeast Asia lacking sufficient scale, investors are widening their opportunity set to include Europe, the UK and Japan as pragmatic alternatives. Recent flows already show renewed interest in these markets, while private capital fundraising has weakened, fixed income has regained appeal, and investors are demanding greater transparency, co-investment opportunities, and more aligned economics, alongside renewed attention to the currency implications of a multipolar portfolio.

The Catalyst: Policy Shock Meets Portfolio Math

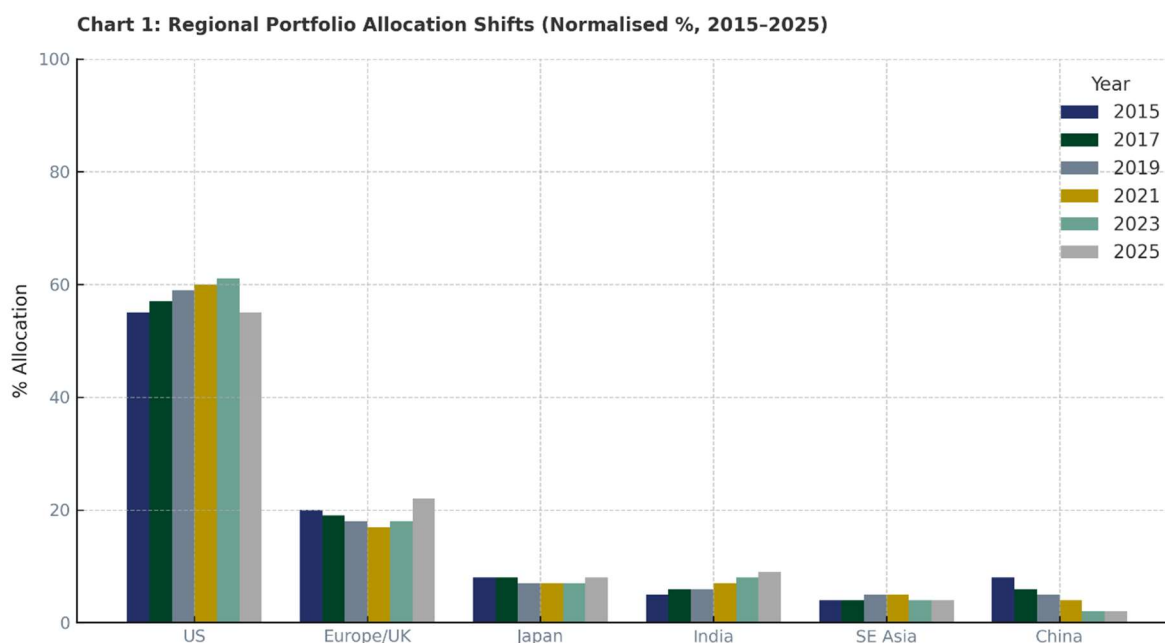
The April 2025 tariff announcement underscored the renewed volatility in U.S. policy. For CIOs and boards already uneasy about concentrated U.S. exposures, it crystallised the case for rebalancing, not as a rejection of America's long-term economic strength, but as a prudent risk-management step after more than a decade of exceptional returns and compounding portfolio drift.

This recalibration is visible in regional portfolio allocation shifts between 2015 and 2025 (see Chart 1), where allocations to Europe, the UK and Japan have risen as investors seek balance away from the U.S.

What's changed?

- **Concentration risk:** The top cohort of U.S. mega-caps commands historically high index weight, amplifying idiosyncratic risk in passive beta.
- **Policy uncertainty:** Trade and industrial policy have become primary macro variables, not background noise
- **Opportunity abroad:** Valuations and diversification benefits outside the U.S. look more attractive on a relative basis, and flows have begun to reflect that.

Chart 1: Regional Portfolio Allocation Shifts (Normalised %, 2015–2025, every 2 years)



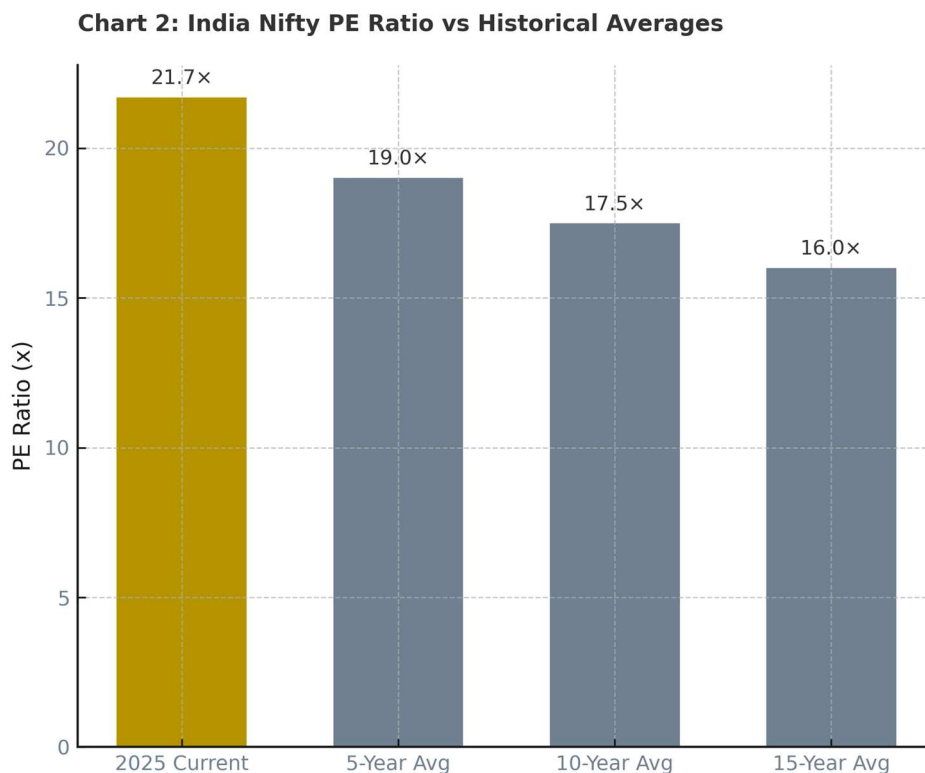
Source: based on industry commentary and allocator trends (Invesco 2025, OMFIF 2025, Preqin 2025).

Where Could The Money Go?

Europe, the UK and Japan are offering balanced sectoral exposures, deeper liquidity, and, in places, more reasonable entry points. Their renewed relevance reflects portfolio construction advantages rather than political enthusiasm. Indeed, flows into Europe in early 2025 represent the strongest inflows since early 2022 (see Chart 1).

India remains a beneficiary of the broader reweighting away from China. Yet, after two years of heavy inflows, valuations in public markets are stretched: the Nifty 50 trades at around 21.7× earnings, well above historical averages (see Chart 2). Private markets continue to offer idiosyncratic opportunities, but selectivity is required.

Chart 2: India Nifty PE Ratio vs Historical Averages



Source: NSE India, Bloomberg

China, by contrast, remains hampered by governance, regulatory and property-sector risks, deterring many large allocators. Southeast Asia presents promise, underpinned by demographics and supply-chain diversification, but lacks the scale to absorb large reweighting flows. It remains an environment for targeted, rather than wholesale, opportunities.

Equities: From Narrow Leadership To High-conviction Alpha

U.S. equity markets have become unusually concentrated, with a handful of mega-cap names, the so-called “Magnificent Seven”, dominating index performance. The top ten companies in the S&P 500 now account for nearly 40% of the index, a level not seen in decades (see Chart 3).

Chart 3: S&P 500 concentration, Top 10 Companies as % of Index (2010–2025)

Source: S&P Dow Jones Indices / S&P Global Market Intelligence

This narrow leadership has reduced the diversification benefits of passive exposure and increased the idiosyncratic risk borne by investors. For many allocators, the response is not to abandon passive investing, which remains a reliable and cost-effective foundation, but to complement it with more targeted, high-conviction mandates. Consultant advice and manager research have increasingly emphasised concentrated portfolios, typically ten to twenty-five holdings, designed to offset the risks of passive mega-cap exposure. In this sense, concentration becomes not a weakness but a deliberate feature, provided that appropriate governance safeguards are in place.

The practical result is a recalibration of equity portfolios. Core beta remains in place, but is increasingly surrounded by satellite strategies: active managers with differentiated styles, exposures to quality and cash-flow compounders, and selective opportunities in Europe and Japan where recovery dynamics present compelling entry points. In short, equity allocations are becoming more globally diversified, more conviction-driven, and less reliant on a single U.S. technology-AI growth engine.

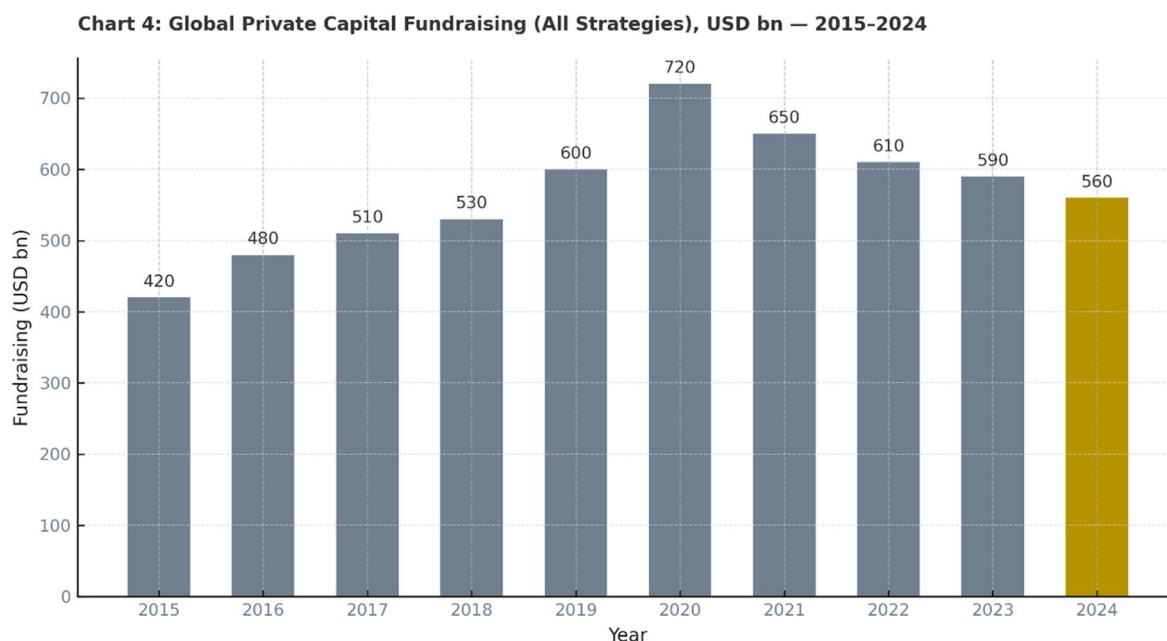
Private Markets: Dispersion And Demands

Private markets have entered a new phase. After nearly a decade of uninterrupted growth, private capital fundraising — spanning private equity, private credit, real estate, infrastructure and natural resources — remains well below the 2021 peak (see Chart 4). Early data from 2025 confirms a continued slowdown, with H1 volumes significantly lower than 2022's peak. Capital continues to concentrate in the largest global platforms, while mid-market managers face longer fundraising cycles and higher barriers to securing anchor commitments. Performance dispersion across vintages and managers has also widened.

These dynamics apply across private capital, though the pressures are most acute in private equity fundraising, where reliance on distributions has made the slowdown particularly stark.

The lesson for asset owners is clear: manager selection now matters as much as asset allocation.

Chart 4: Global Private Capital Fundraising (All Strategies), USD bn — 2015–2024
Includes private equity, private credit, real estate, infrastructure, and natural resources (Preqin aggregate)



Source: Preqin

McKinsey's 2025 review underscores this uneven backdrop: slower fundraising and subdued dealmaking persisted into 2024, even as deployment rose. Asset owners are responding by sharpening their focus on sourcing advantages, governance discipline, and reporting quality

Investors are also demanding more from their managers:

- For mid-sized public funds, knowledge transfer and consistent reporting standards are increasingly valued, particularly where internal teams remain lean.
- Larger asset owners expect access to co-investment, though governance capacity often determines whether smaller plans can participate effectively.
- Economics and alignment are under scrutiny; from flexible fee and carry structures to preferred co-investment tranches, and in some cases minority stakes in the GP as part of long-term partnerships.
- Local presence is another priority, especially for sovereign investors seeking tangible on-the-ground commitment.

The reality of co-investment remains mixed. Academic evidence suggests risks of adverse selection, though more recent work finds no systematic underperformance on a gross basis. Ultimately, the outcome depends on programme design, selection discipline, and governance cadence. For general partners, this means capital raising is no longer about selling a product. Success depends on access, credibility and alignment - engaging deeply with the decision-making layers of public asset owners, tailoring reporting and dialogue to high-touch anchors, and structuring vehicles that meet LP objectives without eroding the economics needed to govern deals effectively.

Private Credit: Between Buckets And Jurisdictions

Private credit has grown into a core component of institutional portfolios, yet its classification remains contested. Return profiles often fall below the 12–15% internal hurdle rates typically assigned to “alternatives,” but the illiquid nature of the instruments makes them difficult to fit neatly within fixed income allocations. For

many investment committees, this creates governance friction - a reminder that private credit is as much about categorisation as it is about performance.

Investor approaches continue to diverge. Large public asset owners increasingly prefer to go direct, particularly in senior secured lending, where scale provides negotiating power on fees and alignment. Mid-sized investors, family offices and private wealth channels often favour evergreen or semi-liquid vehicles, which provide programmatic exposure and smoother vintage diversification without the need for dedicated teams.

Cross-border structuring remains a challenge. Non-U.S. investors must navigate the risk of effectively connected income (ECI) from U.S. source interest, which can create unexpected U.S. tax liabilities. While structures such as BDCs, RICs and blockers can mitigate exposure, the complexity has encouraged many allocators to seek alternatives. In this respect, the rapid rise of European private credit in 2025, in some measures outpacing North America, provides a timely and scalable option for non-U.S. institutions.

Specialised opportunities, such as capital solutions and asset-backed lending, remain attractive but capacity-constrained. They demand operational intensity and are therefore more accessible to large, sophisticated allocators with the resources to underwrite bespoke exposures. For smaller or mid-sized plans, such strategies may remain aspirational rather than practical.

Fixed Income: The Renaissance And The Barbell

After more than a decade defined by the search for yield, fixed income has remained a genuine source of return for the past several years. Investment-grade bonds continue to provide meaningful carry with liquidity - a combination that is proving invaluable as private equity distributions slow and private credit extends duration. For many asset owners, this has prompted a renaissance in fixed income allocations.

The dominant approach is a barbell strategy: liquid investment grade on one end to provide stability and optionality, and illiquid private markets on the other to capture excess return. This rebalancing restores fixed income to its traditional role as both a source of income and a counterweight in portfolios, after years in which it was relegated to a marginal position. Leading asset managers have echoed this stance in their own house views, reinforcing the trend.

Within this broader repositioning, Europe has emerged as a focal point. Over the past six months, global investors, including U.S. allocators, have re-engaged European fixed income, attracted by both carry and diversification. In a landscape where political and policy risks are increasingly shaping capital flows, Europe has reasserted its relevance as a practical, liquid and diversifying destination.

Real Assets, Hedge Funds and FX: Selectivity and Scale

Real assets continue to face headwinds. Higher policy rates and persistent inflation have kept valuations under pressure, with bid-ask spreads remaining wide and transaction volumes muted. Yet beneath this broad slowdown, certain niches continue to attract capital. Infrastructure, logistics and data centres, in particular, have sustained activity, often through direct deals or club structures led by large public asset owners. Even so, private real estate fundraising remains subdued overall, with Europe and Asia comparatively more resilient than North America in recent rankings.

Hedge funds present a similarly bifurcated picture. A handful of large multi-manager platforms dominate both flows and talent, benefiting from their scale and infrastructure. By contrast, much of the broader hedge fund universe continues to struggle in attracting new capital. Some public plans now fund hedge fund exposures from opportunistic sleeves to retain governance flexibility, underscoring the increasingly selective nature of allocator commitments.

Currency is increasingly central to portfolio outcomes. Shifts in allocations are already triggering meaningful changes in FX exposure. Allocators are reassessing both hedging strategies and active positioning. The dollar remains structurally strong, but policy volatility and divergent rate paths have widened dispersion across G10 and emerging market currencies. For some, FX is treated purely as a risk to be neutralised: for others, it is a source of alpha in its own right, often accessed via multi-asset or hedge fund strategies.

In practical terms, the FX dimension reinforces the broader theme of adaptation. Normalisation of global portfolios entails not only asset-class rotation but also active management of currency exposures, whether through strategic hedging, selective carry, or opportunistic relative-value trades.

How Portfolios Are Being Re-built

The process of portfolio reconstruction is no longer about marginal adjustments; it is about deliberate adaptation to a changed environment. The central challenge for asset owners is how to retain the benefits of U.S. exposure while reducing the risks of over-concentration. For many, this means pairing core U.S. passive allocations with non-U.S. active and high-conviction strategies, broadening both sector and factor exposure.

Private markets are being re-tiered. Investors are consolidating around flagship relationships while pruning the long tail, with renewed emphasis on managers able to demonstrate genuine sourcing advantages rather than simply scale. In fixed income, the renaissance of yield has restored its role as a true counterweight in portfolios. Investment-grade bonds, in particular, are being re-established as both a liquidity tool and a stabiliser of risk budgets - a marked shift after years of marginalisation.

Co-investment and separately managed accounts remain important, but allocators are becoming more selective. The discipline lies in pursuing them where governance capacity and selection rigour exist, rather than accepting every offer of “free” co-invest, which can quietly erode GP economics and deal quality.

Geography and geopolitics are also shaping allocation decisions. China remains constrained by governance and political risk; India offers opportunity but at stretched valuations; Southeast Asia has promise but lacks the necessary scale. Against this backdrop, Europe, the UK, and Japan have become the pragmatic default for many investors offering diversification, liquidity, and entry points that are more balanced than the alternatives, even once currency dynamics are considered.

Implications For Capital Raisers

For managers, success is no longer determined solely by performance. Access, credibility and alignment have become the critical currencies of fundraising. Raising capital in 2025 requires a deep understanding of the decision-making architecture within public asset owners - the boards, committees and individuals who ultimately determine allocations. Those who can engage meaningfully, offer transparency and adapt structures to investor objectives will thrive.

Evergreen and wealth-channel vehicles are expanding, but managers must remain vigilant about the gradual erosion of economics through unfettered co-investment demands. Equally, the rise of retail and private wealth distribution is reshaping the capital base, requiring new forms of engagement and education.

For investors, the imperative is to rebalance with purpose. Programmatic approaches, rather than one-off trades, will be essential in private markets, where liquidity must be matched against realistic timelines for exits and distributions. Allocators must also be explicit in their expectations: whether it is knowledge transfer, co-investment cadence or local presence, these requirements should be codified in mandates and reinforced in ongoing reviews.

Diversification, too, must be reconsidered. Blending low-cost beta with high-conviction active exposures across multiple geographies is increasingly necessary to mitigate the single-engine risk posed by U.S. mega-cap equities. The balance of power between LPs and GPs is shifting. Sovereign and public capital is asserting itself more forcefully, demanding not just economics but deeper partnership - from strategic stakes in GPs to operational alignment in priority markets. Mid-sized allocators, meanwhile, are pressing for practical knowledge transfer and greater transparency.

In this new environment, the most successful managers will be those who adapt their approach to engagement - offering transparency, alignment, and genuine partnership to the investors that matter most, while maintaining discipline in how and where they deploy their resources.

Conclusion

The liberation from a decade of financial repression has created an asset allocation landscape that is more demanding, more differentiated, and more politically entangled than before. The opportunities are substantial - higher fixed income yields, selective equity alpha, the rise of private credit, and targeted real estate and infrastructure plays – but so too are the pressures.

For asset owners, the challenge is not simply one of rebalancing portfolios. It is about managing liquidity in the face of lower distributions, reassessing risk where political alignment increasingly matters, and extracting more value from their relationships with managers. The tilt away from the United States is not a rejection of its markets, but a recognition that portfolios had drifted too far from their strategic anchors. Normalisation, not abandonment, is the theme.

For managers, success will be determined by their ability to engage more deeply with investors – to educate, to structure, and to align. Performance alone is no longer sufficient; credibility, access, and the willingness to adapt will distinguish those who thrive from those who struggle. The days of capital flowing freely to any fund with a track record are over. Today's fundraising environment demands higher touch, greater transparency, and genuine partnership.

The balance of power between LPs and GPs is shifting. Sovereign and public capital is becoming more assertive, pushing for economics, co-investment, and even stakes in the GP itself. At the same time, mid-sized allocators are pressing for knowledge transfer and local presence. For managers, this requires a more thoughtful deployment of time and resources: selective in engagement, deliberate in execution, and aligned to where they can create the greatest impact.

Rebalancing the global portfolio in this environment is not an exercise in optimisation alone. It is, in every sense, an exercise in adaptation – to markets, to politics, and to the evolving expectations of investors. The institutions that adapt most effectively will not only protect their capital, but position themselves to capture the opportunities of a more multipolar investment world.

ABOUT AKA & ASSOCIATES

Aka & Associates advises investors and managers navigating global markets. Leveraging over 25 years of experience and relationships with leading asset owners and managers, we combine expertise in capital raising, governance, and portfolio construction with the ability to draw on trusted experts across geographies when needed. Clients benefit from both proven perspective and targeted insight at the right moment.

For GPs and Asset Managers

“Are you positioning your strategy clearly to public asset owners?”

We help managers sharpen their value proposition, focus scarce sales resources more effectively, and build trusted relationships that lead to successful fundraising.

For LPs and Asset Owners

“How do you balance portfolio objectives with manager selection?”

We support asset owners in aligning investment needs with manager capabilities, ensuring that engagement, portfolio construction and governance decisions remain both rigorous and forward-looking.

Entering New Markets and Strategies

“How are you approaching new jurisdictions and strategies?”

We help managers evaluate market fit, adapt strategies to new environments, and engage investors in ways that resonate across geographies and asset classes.

About Jahangir Aka

Jahangir Aka is the Founder of Aka & Associates. He is the former Managing Director and Global Head of Official Institutions at Neuberger Berman, with more than 25 years of leadership in investment management, capital raising and advising central banks, sovereign wealth funds, public pension funds and multilateral institutions.

He has built and led businesses across the Middle East, Africa and Central Asia, and worked directly with many of the world's leading strategic asset owners. At Neuberger Berman he expanded the firm's global footprint with sovereigns and public allocators; earlier he launched SEI's Middle East business and held senior roles at Standard Chartered Bank.

Jahangir brings a practitioner's perspective to capital raising, global markets and portfolio construction, drawing on long-standing relationships with asset owners and managers. He remains active in mentoring and in initiatives that broaden access to education and improve food security.

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