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# THE ALTS HYPE MACHINE

Anybody who reads the Wall Street Journal lately will have noticed something unusual: seemingly every other day, the business-related newspaper will feature a special advertising section or large advertisement telling readers to *"Think it New"*—the slogan for Apollo Global Management's 'alternative investment' expertise. They are told that *'perspective is power,'* and that the Wall Street Journal audience needs to think past the boring, stuffy stocks and bonds and put their money in the '*convergence of public and private markets,'* aka *'the future of finance.'*

Apollo Global Management is a giant packager of investment products, alongside Blackstone. KKR & Co., Morgan Stanley and Blackrock—all companies that have been aggressively promoting 'alternatives' to a new audience of retail investors who are not hedge funds, giant college endowments or the kind of people who like to compare whose super-yacht is larger than whose. The 'alts' they're pushing might be private equity or private credit, real estate or infrastructure; what they have in common is very high management fees, greater risk and a lack of liquidity—roughly translated as: if you don't like how the investment is performing, you can't get out of it.

The massive marketing push has been remarkably effective. If you tell people they need something enough times, many will believe you. In the case of alts (as they're known colloquially), a full quarter of retail investors now own at least one private equity investment, and overall some $15 trillion (with a T) of private market assets are under the management of these giant marketing machines—er, investment management firms.

And those investors are reaping enormous profits, right? Actually… State Street's private equity index tracks returns from private equity, private debt and venture capital funds. For 2024, the aggregate alts return in 2024 was 7.08%, compared with a 25% total return for the S&P 500 index. The stodgy stock index also outperformed private funds on a 3-, 5- and 10-year basis. This might be related to the fact that fees for private market funds have been reported to be three times higher than those for public investments.

Three times? That might actually be a significant under-estimate. The average expense ratio for semi-liquid funds, according to the Family Wealth Report, is 3.16% a year. It's not hard to find index ETFs that cost .25% or less. By that measure, an alts investor is paying 13 times as much to a big giant institutional manager to achieve this level of long-term underperformance.

There may be excellent alternative fund investments in the marketplace, but those tend to be snapped up by the super yacht owners, endowments and mega-giant investment pools, who can darken the sky with analysts and due diligence attorneys. Retail investors get whatever is left over, whatever the big guys aren't interested in or reject on the merits.

There's an old adage in the investment world: whatever Wall Street is pushing aggressively is probably not what you want to buy. The giant brokerage firms and institutional managers aren't spending all that money in the Wall Street Journal and elsewhere because they want to give outsized returns out of the goodness of their hearts. They see a chance to pocket a lot of your money by hyping up something new and different, that looks exciting mostly because they say it is.

Boring is not beautiful, but at least it's not overpriced and illiquid.

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# MIXED SIGNALS

If you're reading tea leaves about the future of the U.S. economy, and whether the U.S. Fed will raise or lower interest rates, the most readable fronds are the monthly unemployment rate statistics.

Usually. In the case of the newly-released December numbers, the U.S. economy added just 50,000 jobs in the last month of the year, according to the Bureau of Labor Statistics. But at the same time, the Bureau calculated the unemployment rate to be 4.4%, down from 4.5% in November.

Now that the data from 2025 is in the books, last year's job growth was the weakest since 2003, with just 584,000 jobs added. To put that in perspective, an estimated 3.9 Americans reached age 18—the age when many Americans look for full-time employment—at some point in calendar 2025. Meanwhile, wages (adjusted for inflation) have been flat in recent months.

Economists have tried to explain the contradiction of fewer jobs added with fewer people looking for work by pointing out that the Trump Administration's immigration policy has slowed the supply of new workers into the economy. They also point to the impact of higher tariffs, which has left employers reluctant to expand their workforces. The result has been dubbed a 'low fire, low hire' staffing dynamic.

But there's another interesting dynamic going on that seems to be underreported in the press. According to the Bureau of Labor Statistics, the labor participation rate—the percentage of Americans actually looking for jobs—never fully recovered from the Covid pandemic. Just over 62% of Americans seem to want jobs, down from more than 66% in 2006.

So what are all these tea leaves telling us? If overall unemployment remains low, then the Federal Reserve might not worry about the health of the economy, and be inclined to fight the persistently stubborn inflation rate—which means keeping interest rates where they are. That's the short-term view. But if hiring remains stalled, and wages are stuck in the mud, that could eventually trickle down to the growth of the economy, leading to fewer retail sales—the main driver of economic growth.

It's a muddled picture, for sure. But if you've ever tried to make sense out of the contents of your morning tea cup, or gazed into the distortions of a crystal ball, you know that the future isn't easily predicted. The only advice that has reliably worked over market history is to stop trying and harvest the fruits of hundreds of millions of workers going to work every day to make the companies they work for incrementally more valuable.

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# ONCE A DEADBEAT...

After the coup, removing Venezuela's president, Venezuela's new leadership is going to start paying their bills. Right?

Eight years ago, Venezuela defaulted on $59 billion worth of government bond obligations, and they haven't made a payment since. But investors holding what was looking like worthless paper seem to believe that this is about to change. Venezuelan government notes due in 2027 jumped 29% in value on the open markets right after the seizure of Nicolas Maduro.

Toting it all up, the Venezuelan government and state-owned oil company Petroleos de Venezuela owe $43 billion in past due interest payments, on top of the face value of the bonds. The country has undeniable value in its 303 billion barrels oil reserves, but due to decaying equipment, its derricks produce only about 1% of the world's oil output. Venezuela's total gross domestic product totals around $42.6 billion—meaning a year's worth of the entire economy's production equals what the country owes its creditors in back pay.

Observers close to the oil industry have speculated that American bond holders might consider investing in Venezuela's oil infrastructure if, in return, the country would redeem their notes at par. That would leave European and Chinese bondholders out of the loop and probably without remuneration. It might also mean that it would take years, perhaps decades, for the oil to flow again, leaving only a favored few to see any return on the bonds that the new government may, or may not, feel like honoring.

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