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Private-market investment is a hot topic at Davos. A wealth expert broke down the opportunity for us, which he says is a cheap alternative to stocks and bonds.

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DAVOS, Switzerland – With equity markets hovering near all-time highs, it's no wonder why some investors are starting to search for pockets of untapped value. After all, the decade-plus bull market can't go on in perpetuity.

But Rich Nuzum, president of Mercer's wealth business, thinks he knows exactly where to look: private markets.

"Publicly traded equities have lower expected returns on a go-forward basis than they've had historically," he said in an exclusive interview with Business Insider. "We're seeing good valuations on a relative basis in private market asset classes: private equity and debt, real estate, and infrastructure."

He continued: "I want to emphasize the word relative, because it's relative to public markets."

Today, time-tested valuation gauges such as market capitalization-to-GDP (Warren Buffett's favorite), the cyclically adjusted price-to-earnings-ratio (CAPE), and the price-to-sales ratio all are looking rather steep.

When valuations are on the higher side of the historical norm, astute investors will generally lean into bonds to provide safe and stable income in anticipation of a stock rout.

But today, that dynamic is different – and Nuzum says that this course of action looks unappealing.

"As we look across all the asset classes that are available, we start with long-term real interest rates that – depending on the currency – are either zero or negative," he said. "So bonds are very fully valued, and there's not a great expected return."

With conventional investment routes projecting less-than-stellar returns going forward, Nuzum thinks it would be prudent for investors to consider allocating a larger portion of their portfolio to alternatives and private markets.

"If we then look on a relative basis, private equity, real estate, infrastructure, and private debt are offering a lower return than they were 10 to 20 years ago, but against publicly traded stocks or bonds, the return premium is higher," he said. "If 20 years ago your optimal mix would've been 60/30 and 10% in alternatives, maybe today it's 50/20 and 30% in alternatives. Alternative asset classes are offering better risk-adjusted return prospects."

In addition to more attractive valuations, Nuzum says that private markets also offer a unique opportunity to take advantage of disruptive and emerging trends.

"One other thing that's happening with private markets is disruptive technologies," he said. "If you're trying to hedge against the risk that your existing publicly traded stock exposure will get wiped out by disruptive change, then you have to play in the early-stage private market."

Are private markets as overvalued as public?

With all of that under consideration, Nuzum is quick to note that investors shouldn't be alarmed over the swaths of capital that have entered the private-equity space as of late.

"There's a lot of discussion around the amount of money that's gone into private equity, and whether that's too much. I think, on the surface, that's a lot of money. But what that discussion tends to miss is two dynamics," he said. "Big publicly traded companies can be taken private, but at the other end, small private companies that historically would've gone public are staying private past $1 billion and $10 billion. They're still financing more of their growth. Some of their business models don't need as much capital to grow."

"There's no real limit to private market investing, even for private equity, because the line is fungible," he concluded.