MA Financial Group

2025
Investment Outlook

Asset Management

2025 Investment Outlook

Welcome to MA Financial Group's 2025 Investment Outlook.

Our investment professionals share their views and insights into the year that was and the year ahead across key asset classes including private credit, real estate, equities, private equity and venture capital.

In 2024 we witnessed an ever-increasing trend towards investors seeking opportunity in defensive alternatives as they continue to become comfortable with the diversification benefits and risk/return and duration characteristics of private market assets.

We remain cautiously optimistic for Australia's economic outlook for 2025 and our investment teams will continue to seek opportunities based on sound market fundamentals, investing with discipline and rigour.

Regardless of market conditions, our focus remains on delivering attractive long-term risk-adjusted returns and co-investing in our strategies alongside our investors, aligning our interests with theirs.

We hope you enjoy reading our 2025 Investment Outlook.

Sincerely,

Andrew Martin
Head of Asset Management
MA Financial Group

Andrew Martin
Head of Asset Management

Key themes

Cautiously optimistic local and global economic outlook as inflationary pressures have eased and central banks now have room to lower rates further to support growth

Private credit continues its rapid growth, marching towards a US$2.8 trillion global asset class. We continue to have strong conviction in asset backed lending and believe alignment and workouts capabilities matter most

Structural shift to private lenders continuing in 2025 for real estate credit, with cautious and patient deployment of capital, manager experience, platform strength and exit strategies fundamental to success

Elevated construction costs will constrain supply and result in scarcity of options for quality core and alternative real estate assets as demand recovers. The ability to acquire assets at meaningful discounts to replacement value offer a once-in-a-cycle buying opportunity

Major equity market indices in Australia and the US reached new highs in 2024, and regardless of economic conditions we see opportunities to deploy capital in attractive businesses at reasonable prices in 2025

We expect merger and acquisition activity in the growth-tech sector to remain buoyant in 2025 driven by the benefits of consolidation and scale on growth and margins

Investment outlook and macro overview

> Looking ahead, the global economic outlook is cautiously optimistic. Inflationary pressures have eased globally, and central banks have room to lower rates further to support growth...Alternative assets should continue to be in high demand, with the tailwind of an aging population and the associated desire for yield very much intact.

Despite initial expectations for slower US growth at the start of 2024, the US economy largely surprised on the upside. Combined with the initiation of US Federal Reserve (the Fed) interest rate cuts, this set the stage for attractive returns across most asset classes. US mega-cap companies drove the US equity markets to a second consecutive year of 20%+ returns—a feat achieved only four times since the 1930s.[1] Even the previously out-of-favour Chinese stock market posted solid double-digit gains, while Bitcoin, gold, and the US dollar also delivered strong returns.

A few asset classes underperformed, notably long-term bonds, commodities, and the Australian dollar. Stronger growth and resurfacing inflation concerns put pressure on long-term bonds, while worries about China's ability to revitalize its economy weighed on both commodity prices and the Australian dollar. While the Reserve Bank of Australia (RBA) kept interest rates on hold, the Fed initiated a rate-cutting cycle that is expected to continue throughout 2025. The final month of 2024 marked the largest monthly tally of rate cuts across G10 central banks since March 2020, when turmoil from the COVID pandemic roiled global markets.[2]

The US economy continued to expand at a solid pace throughout the year, with corporations posting positive earnings and the labour market remaining relatively tight as employers steadily added workers. However, in mid-2024, weaker economic data emerged, driving the US 10-year bond yield down by 100 basis points to a low of 3.6%, coinciding with the start of the Fed's rate-cutting cycle. In the final quarter of 2024, stronger economic data, coupled with expectations of fiscal looseness through tax cuts and the inflationary impact of tariffs under a newly elected Trump administration, reignited inflation concerns. As a result, bond yields ended the year at 4.57%, near their highest levels for the year and 70 basis points higher than at the start of 2024. Expectations of US rate cuts were also tempered.

The Australian 10-year bond yield mirrored the movement in US bond yields. Australian economic data followed a similar pattern to the US, with weaker-than-expected numbers in the first half, followed by stronger-than-expected results toward year-end. Lower commodity prices, driven by a slower Chinese economy, weighed on the Australian dollar, which finished the year just below 62 cents—a level not seen in the last two decades outside of COVID and the Global Financial Crisis. Meanwhile, the Australian housing market remained resilient, with early-year price growth giving way to more mixed results as the year progressed, particularly in Sydney and Melbourne. Australia's labour market remained robust, with low unemployment, though wage growth slowed in the latter half of the year.

1. Source: JP Morgan.
2. Source: Reuters.

The year ahead

Looking ahead, the global economic outlook is cautiously optimistic. Inflationary pressures have eased globally, and central banks have room to lower rates further to support growth. The potential for productivity gains remains high, particularly with artificial intelligence (AI) adoption gaining momentum and a renewed push in the US to cut regulatory red tape.

For Australia, this cautious optimism presents both challenges and opportunities. While the global economic backdrop is stabilizing, Australia remains highly sensitive to fluctuations in commodity prices—especially with ongoing concerns about China's economic recovery. However, Australia's strong domestic labour market, solid population growth and resilient housing sector provide some buffer. The Australian dollar's weakness, while a drag on imports, can benefit exporters, particularly in the resource and agricultural sectors.

As always, the biggest risks for markets come from the unexpected. The emergence of Chinese company Deepseek as a potential disruptor rattled global equity markets in mid-January. Although share prices have mostly recovered—and in some cases, risen above previous levels—it underscores that many risks come from what investors aren't anticipating. The return of Trump to the White House has also caused market volatility, with what seems like daily swings in sectors and individual stock prices. While his early moves appear to be economic threats to extract concessions, the possibility of a global tariff war—though unlikely—would likely weigh on risk asset prices.

Provided bond yields remain contained, which we expect, investors should be rewarded this year by stock and sector allocation decisions. The historically low Australian dollar is likely to drive further corporate interest in Australian assets. Listed real estate still offers opportunity to acquire assets below Net Asset Value and recent evidence of a transition to rising valuations from declining ones, will likely tempt investors into the sector. A global trend of employers applying increasing pressure to return to work combined with significantly higher replacement costs and limited new supply should provide opportunities in the premium office sector.

Private credit continues to offer attractive returns, and with more capital flowing into the space, Australian investors will need to be additionally discerning when selecting asset managers as the market matures. While US markets remain elevated, a narrow group of companies have driven this, with investment opportunities in other sectors available at attractive multiples. We expect global private equity funds to be active participants.

Alternative assets should continue to be in high demand, with the tailwind of an aging population and the associated desire for yield very much intact.

Private credit

Marching towards a US$2.8 trillion industry, outperforming fixed income

Private credit continues its rapid growth, marching towards a US$2.8 trillion global asset class by 2027 up from US$40 billion at the turn of the century.[3]

It continues to gain market share as investors seek a defensive allocation with outstanding risk-adjusted returns in investments that are secured, collateralised or otherwise have strong downside protection features.

The asset class continues its evolution from a focus on higher risk, opportunistic credit to higher quality, performing credit. The loans themselves are often types banks used to do but can't anymore, or where banks cannot be efficient lenders for various reasons such as regulation, speed to market, technology or other market forces. In simple terms, private credit has largely gone from the 'unbanked' to the 'banked' and it provides investors with a genuine alternative to traditional fixed income such as bonds.

Performance of the asset class has been particularly compelling relative to traditional fixed income. As an example, MA Financial's private credit funds have outperformed traditional fixed income by ~3.9x since inception, including an approximately +350bps outperformance in 2024.[4]

Skin in the game and workouts capabilities matter most in 2025

In our inaugural 2024 Investment Outlook, we said while private credit had been the 'asset class of 2023' the focus for the year ahead would be 'avoiding the losers, not picking the winners'.

In 2025, this statement remains as true as ever and that's why it continues to remain core to our credit investing philosophy.

One of the best ways to achieve this is to align incentives in the right way. For investors, this means working with an asset manager aligned with investor outcomes—consistent returns with good prospects of capital being safeguarded.

What matters most is that asset managers have skin in the game. We are always surprised about how little co-investment most managers have with their investors, which has the potential to skew outcomes and create moral hazard risks. Astoundingly, a report by BIS last year indicated ~40% of private credit managers have no material co-investment with their investors.[5]

At MA Financial we are investors in our funds too, with the firm and our staff having over $190 million invested in our private credit strategies.[6] This sharpens our focus on 'avoiding losers, not picking winners' and on delivering consistent performance and long-term returns.

As always and including in 2025 we are acutely aware low probability events can occur, and the world can change in an unfavourable manner versus the initial investment thesis. Having the right portfolio management, risk management and 'workouts' capabilities matter in these instances.

In 2025 we continue to remain cautious about the proliferation of private credit funds, with many newer players with only 'fair weather' experience and limited history dealing with problems that arise. The ability to workout problems and manage portfolios through different conditions will become more important through 2025 and be a determinative factor in the growth of the sector.

Consistent with our views in 2024, this year we continue to see opportunities to partner with banks as they progress capital optimisation initiatives or collaborate rather than compete with private credit funds.

This year we continue to have strong conviction in asset backed lending being essential and innovative element in Australia's private credit landscape.

3. Prequin 2024.
4. Traditional benchmarks refer to the Bloomberg AusBond Credit 0+ Yr Index (BACR0), a benchmark used to measure performance of the Australian traded debt market. While the Manager of the Fund recognises there is not a widely used index for Australian private credit, the Manager of the Fund considers the AusBond benchmark, representative of the performance of a diversified portfolio of publicly traded debt, to be an appropriate basis for comparison of the performance of the diversified portfolio of private debt represented by MA Financial's flagship private credit strategies. Fund returns are based on FSC re-investing distributions. **Past performance is not a reliable indicator of future performance.**
5. BIS Annual Economic Report June 2024.
6. As at September 2024.

Real estate credit: the whole is not greater than the sum of its parts

We believe the narrative for real estate credit in 2025 is likely to be focused on the challenges in the asset class as a whole, rather than the various investible verticals making up the whole. There will be little distinction between traditional real estate credit managers who have pushed into equity positions, so understanding where their portfolio challenges lie will be important for investors.

We see heightened risk in mezzanine debt and preferred equity. This is due to the very limited ability to truly understand the risk position at any given point of time or have any measurable influence over this risk in these sectors.

We remain positive about senior credit secured by fundamentally good assets: those with enduring value. Well-designed, high-quality assets that are fit for purpose and appropriate for their location will be less volatile if markets drop and will be quicker to respond as markets recover. When appropriately valued and managed, senior principal positions can withstand significant market volatility and stress.

The rate of increase in capital supplying the real estate credit market, coupled with reduced demand from borrowers during 2022–2024 when construction and material costs rose substantially, has resulted in significant competition amongst lenders. In many instances, we believe this has led to some mispricing of risk. We believe this is where sound governance, transparency for investors and a desire to protect shareholder value over the long term will pay dividends.

We expect a substantial increase in demand for capital as borrowers take advantage of changes to government policy supporting an increase in housing supply. We believe 2024 may have represented a cyclical low on the demand side, which has been particularly evident in NSW. Improving construction conditions and a weighting towards the RBA easing the Cash Rate is providing greater confidence in the residential development sector.

We expect borrowers will continue to carefully consider and select lenders based on their track record of developing long term valued relationships with their business.

Greater regulatory focus to provide greater transparency

As the private credit market has become larger, we do expect more regulatory focus on the sector this year.

We think this will ultimately be a good thing, providing greater transparency for investors and ensuring the robust frameworks around governance, valuation and compliance that large institutional-grade asset managers adopt are applied equally throughout the industry.

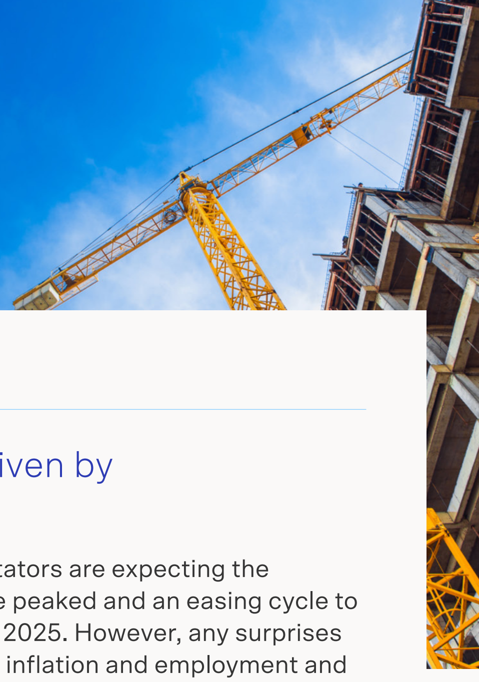
We encourage investors to diligence governance, operational and asset management processes with equal weighting to investment and portfolio management capabilities.

More ways to access private credit

We continue to expect growth and evolution in the ways investors access the asset class. In addition to unlisted fund structures, we expect more interest in listed market structures that provide access to diversified private credit portfolios.

In Australia, the listed investment trust market is re-emerging. This provides a way for investors that want more frequent liquidity than available in unlisted funds to access the fixed income alternative that private credit represents. We anticipate the abolition of AT1 hybrid securities—a more than $40 billion market in Australia—will further support this thematic from investors seeking yield-generating investments in an ASX tradeable form.

Real estate



CORE

Continued weakness in core real estate but signs of a bottom

2024 saw continued weakness in Australian core real estate markets as the prospect of interest rate relief faded and ongoing uncertainty about when the easing cycle would commence persisted.

Capitalisation rates across all sectors softened further as various completed transactions finally reset market levels and consequently valuation metrics. This was inevitable after the sharp rise in interest rates in the prior year, where cap rate increases had been fairly limited relative to the record level of monetary tightening.

The office sector was hit particularly hard with most markets across the country continuing to experience high vacancies and suffering from limited progress to this point on the return-to-work front. Office vacancy rates across all capital cities remained high with Melbourne in particular suffering, ending the year at a vacancy rate of 18.0%.[7] This softness in demand translated into weakness in office valuations with the MSCI Mercer Core Wholesale Property Fund Office index falling by 13.7% over the year compared to the equivalent retail and industrial indices providing marginally positive total returns and the diversified index falling 5.7% for the year.[8]

The retail sector was more resilient having experienced a strong resetting of rental levels immediately post COVID. Despite the interest rate and inflationary environment and consequent cost of living pressures, total annual retail sales grew 2.8% over the year.[9] While this supported the trading environment for retail centres, various market participants opportunistically acquired a number of assets at discounted levels due to redemption and other pressures. Total transactions were ~$9 billion for the year—an increase of almost 50% on the prior year.[10]

The industrial and logistics sector was not immune to the softening in cap rates despite ongoing tailwinds in the sector. Continued rental growth offset some of the impact though there were signs of rental growth slowing over the course of the year. Leasing incentives also trended upwards, indicating an end to the strong momentum the market has experienced over the past few years.

2025 still to be driven by economic factors

Most economic commentators are expecting the interest rate cycle to have peaked and an easing cycle to commence imminently in 2025. However, any surprises in economic data such as inflation and employment and further deterioration in the Australian dollar, which would be inflationary, could flip market expectations.

A confirmation of an easing cycle and ongoing economic data that confirms inflation is relatively under control will be a catalyst for some recovery in core real estate markets. This should see some level of cap rate compression across all real estate sectors as the cost of debt funding reduces. The strength of any such recovery will be dependent on the expected quantum of easing that may be realised during the year. Despite this we believe independent valuations should generally have bottomed for the cycle although specific assets may still experience some weakness based on individual circumstances.

Over the past year we saw select opportunistic buying as some owners were pressured to divest assets at discounted pricing. We believe these opportunities will continue over the first part of 2025 and we will be monitoring the market for opportunities to acquire high quality assets at historically attractive pricing. We are seeing a significant amount of capital waiting to be deployed into core real estate by both institutional and private investors once the cycle turns and expect this to drive demand in the latter part of the year.

We continue to expect weakness in office markets as they struggle with high levels of vacancy, although Brisbane is an exception with forecasts for a much quicker recovery due to lack of new supply and better demand dynamics. We continue to believe the fundamentals within the retail sector are very positive, with resilient retail spending and strong tailwinds from a forecast ongoing reduction in total retail space per capita, due to population growth and some supply being taken out of the market. We also continue to see opportunities in the logistics sector particularly for assets in highly convenient well-located districts, although there are pockets of weakness emerging in some locations where supply has now caught up with demand.

7. CBRE Research – Australian Office, Q4 2024.
8. MSCI Mercer Australia Core Wholesale Monthly Fund Index Data, December 2024.
9. Australian Bureau of Statistics, Monthly Retail Sales Data.
10. Cushman & Wakefield, Marketbeat, Australia Capital Markets Q4 2024.

There is no doubt construction costs are a big factor that will impact real estate markets over the medium term, with costs making it uneconomic to build new space which will restrict supply across all sectors. We see clear opportunities to acquire real estate where acquisition prices are at meaningful discounts to replacement cost.

As noted last year, despite the recent challenges Australian core real estate has historically played a critical role in portfolio allocation providing significant diversification benefits. Strong institutional investor interest in the Asia–Pacific region and the consistent long-term average performance of core real estate is likely to underpin opportunistic buying. Transaction volumes are expected to further increase over 2025 as there is more clarity on the path of interest rates and purchasers return to the market.

ALTERNATIVE

Strong structural tailwinds supporting performance

Strong structural tailwinds supported performance in most alternative real estate sub-sectors in 2024, and we are seeing solid momentum continuing into 2025.

Cap rates were relatively flat over the year as the interest rate environment stabilised and investor appetite remained strong as demand continued for opportunities less correlated with traditional asset classes and with better risk-adjusted returns. The higher inflationary environment underpinned strong earnings growth particularly for sectors with good fundamentals.

This year we will continue to look for long-term thematics and target sub-sectors with strong secular tailwinds where we can bring an institutional-grade approach to asset management and portfolio construction to improve operational outcomes and increase buyer and capital demand on exit—for example in our marinas strategy.

We are seeing and exploring opportunities in the living thematic at present, including across niche residential and accommodation-related real estate sub-sectors.

Active management will continue to be key

Unlike core real estate, the owner of an alternative real estate asset is typically both the tenant and the landlord. The value of any real estate asset is generally a function of its income and growth prospects, including future development potential. By controlling the tenant and landlord relationship there is far greater ability to maximise the value of the land overtime, as well as drive earnings upside and unlock value add-opportunities associated with the operational or going concern interest.

At MA Financial, we have and will continue to focus on alternative real estate assets where we have greater influence over and exposure to the returns generated by the assets.

We are active managers and directly operate and manage many of our real estate and hospitality assets, including hotels and marinas. We continue to believe in-house, hands-on management and expertise results in better risk management and stronger long-term performance of the assets we own and manage on behalf of our clients. In 2025 we will continue to work with sector and strategy specific operators and management and invest in the improvement of people, systems and processes to enhance operational efficiency and customer experiences while concurrently investing in the real estate and other strategic growth initiatives.

Equities

New highs, defying headwinds

Despite navigating a challenging economic landscape over the past five years, global equity markets have demonstrated remarkable resilience. In 2024, major share market indices in both Australia and the US reached new highs, defying headwinds such as wars in the Middle East and Europe, elevated interest rates, and the prospect of trade tensions with Donald Trump's return to the White House.

The good news for equity investors in 2024 was the broadening of the rally beyond the technology sector. In Australia, the ASX 200 reached record highs later in the year, advancing 11%. While the ASX 200 financials index surged 34%, the materials sector weighed on overall performance, falling 14% amid concerns about Chinese economic growth that impacted major mining stocks. In the US the S&P 500 delivered an impressive 25% return, outpacing the Dow's 15% and shy of Nasdaq's 30%. Smaller US companies, as measured by the Russell Micro Cap Index, gained 14% after lagging behind larger companies over the previous two years.

Once again, the Australian market underperformed its US counterparts, primarily due to its limited exposure to technology. While the ASX 200 IT sector rose an impressive 50%, outpacing the S&P 500 IT sector's 38% gain, technology only represents 3.2% of the Australian index compared to a 33% weighting in the S&P 500.[11]

The Australian market continues to grapple with its heavy concentration in financial and resource sectors, which limits diversification. By comparison, the S&P 500 boasts broader sector exposure, with six sectors — IT (33%), financials (14%), consumer discretionary (11%), healthcare (10%), communications (9%), and industrials (8%) — each contributing at least 8% to the index. The ASX 200, however, relies heavily on just three sectors: financials (34%), materials (19%), and healthcare (10%).[11]

While equity markets have delivered above-average returns in recent years, strong earnings growth has been the foundation of this performance. In the US, the IT sector has been a standout, driving one of the strongest performances relative to the last 13 bull markets. Veteran Wall Street strategist James Paulsen notes that most other sectors have underperformed their historical averages during this bull market. Cyclical and defensive stocks have lagged, while small caps have posted the weakest relative returns compared to prior bull markets. A notable anomaly in this cycle has been subdued consumer and business sentiment, which could provide the momentum for continued positive returns as confidence improves.

Promising potential in 2025

The recent years underscore the timeless adage "It's time in the market, not market timing, that counts." The factors underpinning solid equity returns in the past remain relevant today and into 2025. While the future trajectory of returns will likely include bumps along the way, the drivers of company performance—earnings growth, innovation, and productivity—persist.

We may be on the cusp of a significant productivity surge as AI integrates across industries and geographies. Of course, geopolitical risks, inflation, and economic growth remain unpredictable wild cards. Nevertheless, there are still opportunities to deploy capital in attractive businesses at reasonable prices, offering promising potential in 2025 and the years ahead.

11. Source: Bloomberg, 31 Dec 24, returns in local currency.

Private equity and venture capital

Benefits of consolidation and scale driving M&A activity

Private equity and venture capital (PEVC) cover an extensive breadth of investment strategies, risk profiles and specialisations. At MA Financial, our PEVC strategies focus on investment in established, innovative, technology-driven businesses building value through growth.

Broader investment sentiment around software and technology continued its gradual improvement during 2024, with the turmoil of 2022 largely behind us. Market excitement and investor demand coalesced around all things AI—software, hardware and infrastructure—with capital flows driving valuation metrics to aggressive levels. The excitement has pulled broader investor sentiment forward, but along narrowly defined thematics. Sentiment in areas of tech outside of AI-related themes remains subdued.

A few notable IPOs such as Reddit and elections in the US also spurred a recent uplift in investor outlook, confidence and valuations. This broader US uplift has started to filter through to private markets, albeit more gradually in outlier markets such as Australia, which remains closed for tech-related IPOs.

Merger and acquisition activity in the sector remained buoyant in 2024 and we expect this to continue in 2025 driven by the benefits of consolidation and scale on growth and margins. Private equity and venture credit remain active participants and facilitators of the consolidation.

A key inhibitor of a fuller, sustained recovery in ‘growth-tech’ requires an acceleration of liquidity and exit events—to unlock distributions of capital and gains (often referred to in shorthand as “DPI”) for re-investment. At MA Financial, we are proud to have market-leading DPI from our growth venture fund vintages. However, more broadly in the market, the lack of DPI has constrained new capital flows and therefore broader valuations. Tangentially, a lack of exits and pressure for liquidity by investors has accelerated the growth of the venture ‘secondaries’ market—where existing positions in companies, portfolios and funds are transacted, often at discounts to prior valuations. We expect this area of the market to continue to grow, albeit the level of valuation discounts will narrow.

About MA Financial Group

We invest. We lend. We advise.

We are a global alternative asset manager specialising in private credit, core and alternative real estate, hospitality, private equity and venture capital as well as traditional asset classes such as equities. We lend to property, corporate and specialty finance sectors and provide corporate advice.

Our investment teams have diverse skill sets and experience across a range of strategies and market conditions and are focused on delivering long-term growth. Our conviction runs deep and as testament to this we co-invest in many of our strategies alongside our clients, aligning our interests with theirs.

More information

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