

Navigating 2025: Strategic Opportunities in the Credit Market

By Matthew Macreadie

The economic outlook for 2025 paints a cautiously optimistic picture, with gradual disinflation and modest economic growth expected to shape the year ahead. However, navigating this landscape will require vigilance, as potential fiscal instability in the United States and ongoing global geopolitical tensions add layers of uncertainty. Amid these challenges, the credit market—especially within Australia—emerges as a fertile ground for investors employing a strategic approach.

Macroeconomic Overview

Disinflation: Progress Amid Challenges

While disinflation is anticipated to continue in 2025, progress may face obstacles. The introduction of new US tariffs and a growing fiscal deficit could slow momentum, presenting challenges for economic stability. Additionally, the possibility of a US recession, currently underappreciated by the market, could prompt the Federal Reserve to implement deeper rate cuts than forecasted.

Australian Interest Rates: Waiting for a Cut

In Australia, interest rate cuts are unlikely before May 2025. The Reserve Bank's decisions will hinge on sustained disinflation and a resilient economy. Investors must remain flexible and prepared for various scenarios as the trajectory of monetary policy unfolds.

Opportunities in the Credit Market

Investment-Grade Credit: A Promising Landscape

Investment-grade (IG) credit is poised to deliver strong returns in 2025, supported by tightening credit spreads and elevated yields. This market segment offers a compelling proposition for investors seeking stable, risk-adjusted income.

The Rise of Private Debt

Private debt in Australia continues its rapid expansion, creating lucrative opportunities. In particular, private revolving warehouses are attracting attention for their significant yield premiums compared to public mezzanine credit.

Shifting Dynamics in the Hybrid Market

The Australian Prudential Regulation Authority (APRA) has proposed phasing out listed bank hybrids for retail investors, leading to a shift towards over-the-counter (OTC) hybrid issuance. This change presents new opportunities for investors in this segment, offering wider margins and greater choice.

Investment Strategies for 2025

Balancing Fixed and Floating Rates

A balanced portfolio strategy that combines fixed and floating rate bonds is key to navigating the year ahead. Bonds with maturities in the 4-5 year range are particularly attractive, offering a blend of yield and stability.

High-Quality Bonds at the Forefront

High-quality IG bonds, such as major bank Tier 2 bonds and those issued by leading insurers, remain a cornerstone of a robust investment portfolio. These securities provide reliable returns and strong performance potential.

Diversifying with Government Bonds and RMBS

Incorporating government bonds and residential mortgage-backed securities (RMBS) into a diversified portfolio can enhance risk management while optimising returns.

Take the Next Step

To learn more about creating a credit strategy with Income Asset Management (IAM), please contact one of our relationship managers.

Our team of fixed income experts can provide a range of tailored investment solutions, including direct investment options and model portfolios, catering to a variety of investors' needs and enabling personalised strategies to achieve financial goals.

2025 presents a dynamic landscape filled with both challenges and opportunities. By adopting a well-structured, diversified approach, investors can position themselves to navigate uncertainties and capitalise on the evolving credit market.

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