Market Outlook 2026

MaxCap Group Research – December 2025

What's next in 2026?

"The outlook for 2026 presents a lot of noise for investors to deal with. The key, as always, is to find the signal and identify the investment opportunities with sound risk adjusted returns.

At MaxCap, we are keenly focused on sourcing high-quality opportunities in segments with strong demand fundamentals – clearly evident right now in the living and logistics sectors.

With our established borrower relationships and disciplined approach to origination, we are well positioned to navigate this competitive lending landscape and deliver consistent returns for our investors."

Wayne Lasky Executive Chairman

As cloudy as ever. As any veteran forecaster will tell you, the crystal ball is as cloudy as ever. Trade discord continues to weigh heavily on the global outlook. To this, we now add stretched valuations for US technology stocks, driven by buoyant expectations for artificial intelligence.

Sluggish growth, high inflation. In 2026, major economies are facing mild stagflation – sub-par growth and elevated inflation. Population growth remains firmer in Australia and more subdued in New Zealand, driving divergent demand cycles in 2026 and beyond.

The end is nigh for rate cuts. Stubbornly elevated inflation will bind the hands of central bankers. The window for rate cuts has closed. Investors are now turning their attention to rate hikes in 2026. Investors need to reconfigure their portfolios for this new economic landscape.

Credit versus equity. Interest rates set the price of money over time. It also tilts the balance between equity and credit returns. At current rates, real estate credit is still outperforming real estate equity, albeit to a narrower extent, as equity rebounds in 2026.

Sector selection. While more sectors are returning to profitability, there is likely to be persistent alpha from sector selection. Residential and living segments are still well set to lead the way, followed by industrial and retail sectors, with office expected to lag in 2026.

Navigating markets in 2026. With a subdued economic outlook, investors are set to push into real, resilient incomes, particularly where there are good demand fundamentals like the living sector. The need for inflation and rate hedges are bringing the focus back onto real estate.

Navigating a volatile world

The **global market outlook** remains highly uncertain, clouded by multiple unresolved economic, financial and geopolitical risk factors, all with the potential for significant market impacts in 2026.

- All through 2025, economic growth in major trading partners has slowed with **the on-and-off trade war** between the US and the rest of the world. Actual wars continue to be a source of instability in Europe and the Middle East. The global economy has tracked further along a path of **deglobalisation and fragmentation** for trade and capital.
- In 2026, there are additional risks emerging. **Artificial intelligence** is promising considerable productivity gains over the medium term, but markets are already pricing in stellar valuations in the near term. With stretched valuations, a potential **share market correction** presents a material risk over the outlook.

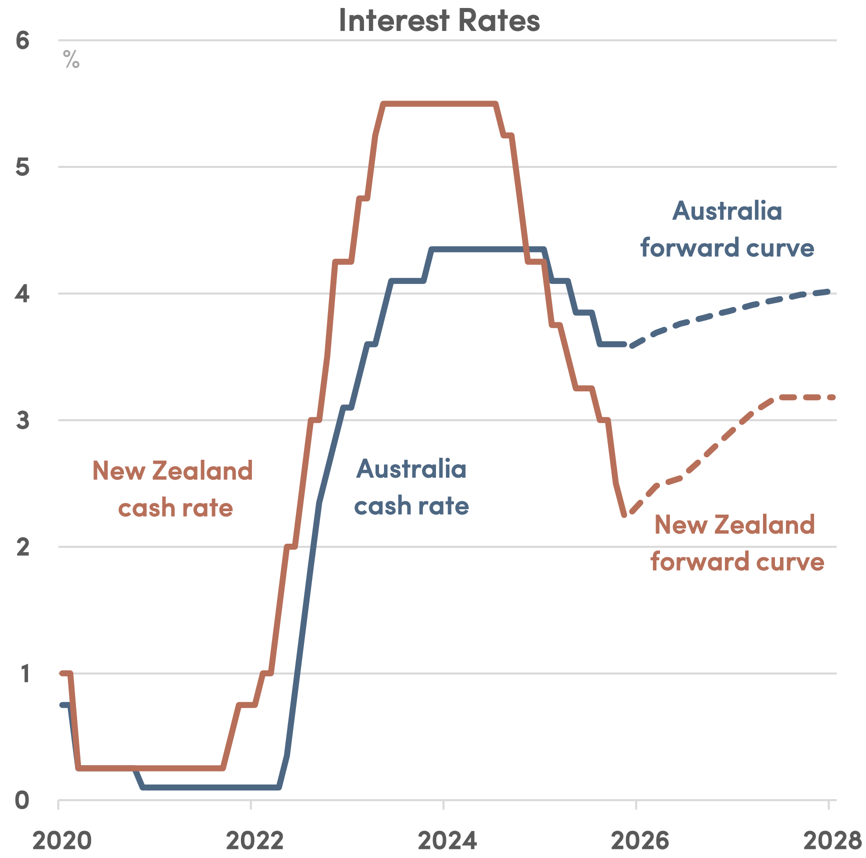
By contrast, **local economies** are marching to very different market cycles, somewhat removed from the hype and mania.

- **Australia** remains on track for a cyclical upswing, buoyed by robust population growth and lower interest rates in 2025. **New Zealand** is still working its way through a cyclical slowdown, weighed down by sustained emigration, especially to Australia.
- Stubbornly **elevated inflation** is the main stumbling block for both economies, breaching the ceilings of official inflation target bands. Altogether, **the window for rate cuts has closed**, as money markets price in higher interest rates in 2026 and 2027.

"While macro setting remains volatile, we're seeing borrowers increasingly gravitate to market players who have a strong track record to provide certainty when it comes to funding requirements. This trend will continue throughout 2026."

Brae Sokolski Executive Director

Stubbornly elevated inflation is closing the window for additional rate cuts ahead. Money markets are progressively turning more hawkish on monetary policy, now pricing in higher rates in 2026 and beyond.



Source: Bloomberg, MaxCap Group (December 2025)

A firmer lending landscape

The outlook for private credit – specifically **commercial real estate debt** – was in good shape in 2025 and well set to improve in 2026.

- Private credit faces **more competition**, with an influx of new managers squeezing margins, particularly in segments like corporate loans and industrial real estate. In our view, deal sourcing and long-standing borrower relationships are the key factors to sustaining sizeable deal pipeline and healthy loan margins in 2026.
- The regulator ASIC is **enhancing surveillance** for the private credit sector, calling out conflicts of interest, disclosure gaps and poor practices. This review is a clear positive for the sector, raising industry standards. Established **institutional managers** with long track records stand to benefit, given stronger platforms and better processes demanded by sophisticated global investors, and now the regulator.
- Looking ahead, **lending risks** are moderating. Interest rates and cost inflation have declined in 2025, which has contributed to the stabilisation in corporate insolvency. There are also broader uplifts in residential and commercial asset values, which reduce collateral risks.

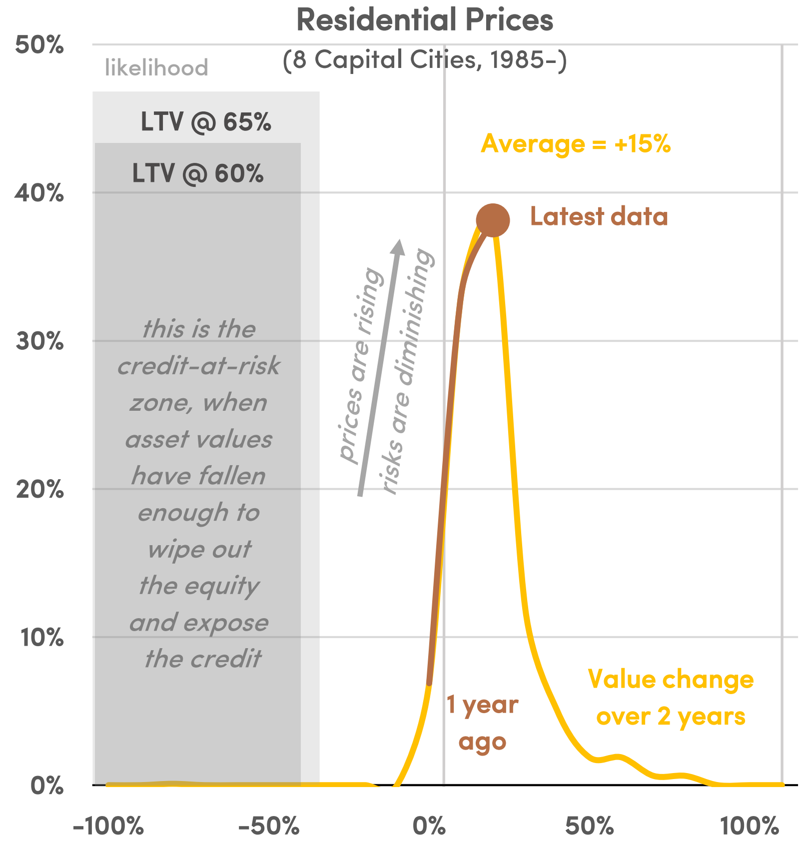
In this context, we see a better set of **commercial real estate debt opportunities** on offer in 2026 and beyond.

- There remains a **fundamental shortage of housing**, given robust demand and lagging supply. Feasibility has improved with higher selling prices and diminished cost inflation. More sectors are coming into play, with the widening uplifts in industrial, retail and office values.

"We still see strong credit opportunities in 2026. Borrower activity is lifting as feasibility improves. With intensifying competition, we are focusing keenly on deal origination, disciplined underwriting and sustainable loan margins."

Bill McWilliams *Chief Investment Officer*

As collateral values rise with firmer residential and commercial property prices, the lender's position is looking progressively stronger. The credit position becomes less exposed, given a wider equity buffer



Source: Proptrack, MaxCap Group (December 2025). LTV = loan to value ratio

A broader cyclical upswing

There are more **encouraging signs of recovery** taking hold across a broader range of residential and commercial real estate sectors.

- In 2025, **lower interest rates** have been the primary catalyst for this turnaround, supporting a clear rebound in asset values and a nascent compression in cap rates. While modest rate increases are likely in 2026, there is sufficient improvement now to support a cyclical upswing, particularly in commercial markets.

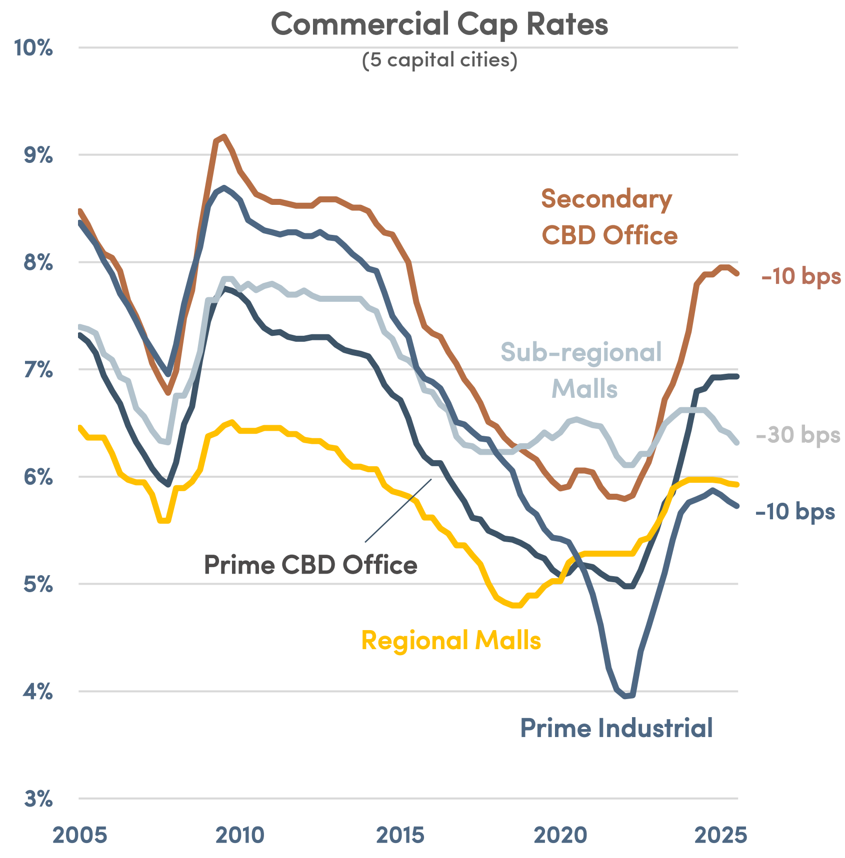
Notably, we are looking at a **more synchronised upswing** in this real estate cycle, which provides a wider set of investor opportunities.

- There are long-running and durable factors behind the current residential market upswing. A wide gulf between robust housing demand and lagging building supply continues to support prices and rents. This **persistent state of undersupply** will take several years – and a lot of policy coordination and political will – to unwind.
- Meanwhile, there is strengthening momentum across **commercial sectors**, with industrial and retail in the lead, and office trailing this cycle. The big structural headwinds of prior years – working from home and shopping online – are no longer presenting the same drag on demand. Investors are now coming back, finding more relative value.
- To this outlook, we add several **alternative niches**. Student accommodation is proving highly resilient, despite expectations of a marked slowdown. Data centres are emerging as a key sector, with robust demand for rack space and a more orderly buildout compared to what is being observed overseas, particularly in the US.

"In 2026, we expect a broader market upswing with firmer sentiment and balanced return spreads. We are seeking opportunities in living, logistics, retail and healthcare, focusing on both value-add and development strategies"

Simon Hulett Head of Direct Investment

There are broader signs of improvement in commercial real estate markets, particularly as more sectors turn the corner and cap rates recompress, with retail and industrial leading the way this cycle



Source: JLL REIS, MaxCap Group (December 2025)

Key themes for 2026

More swings and roundabouts

The **economic outlook** is set to be similarly challenging in 2026, as we face another round of stagflation – subdued growth and elevated inflation – albeit in a milder form than what we saw in 2022.

The interest rate easing cycle is looking relatively short-lived. The **window for rate cuts** has closed, given elevated inflation locally. Markets are now recalibrating their expectations, and turning their attention to rate rises in 2026 and beyond.

Equity versus credit

For investors, there is a perennial choice between **equity and credit**. While credit returns have delivered more strongly in recent years, the gap is clearly closing, as equity returns make a comeback.

Current interest rate levels make for **a more even playing field** in 2026. Equity returns are now better supported by lower funding costs since 2025 and better feasibilities. Credit returns are still looking relatively stable and attractive.

Maintaining your hedges

For many portfolio managers, the big market shocks of recent years are still fresh in their minds. Indeed, the outlook for higher inflation and rates serves up a sharp reminder to **maintain your hedges** in portfolio construction.

Moreover, there has been **a clear lack of diversification** given more correlated stock and bond returns in recent years, driving capital into private credit as a genuine diversifier of investor portfolios.

Sources: MaxCap Group (December 2025)

Additional information

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