



Navigating the Global Markets: What to Expect in 2025



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KEY TAKEAWAYS



2024 was a pivotal year for the global economy. With inflationary pressures easing and interest rate hikes concluding, markets are adapting to a new economic landscape. This shift is set to benefit private credit and private equity, fostering greater deal activity and improving exit opportunities in 2025.



Private credit has remained a resilient asset class despite economic uncertainty. Growing demand for flexible financing solutions and sustained investor interest suggest moderate growth potential in 2025, though market conditions will play a key role in shaping its trajectory.



After playing catch-up by the end of 2024, private equity deal activity showed signs of recovery, fueled by investor optimism and interest in large-scale buyouts. The momentum is expected to continue into 2025, driven by improved valuations and exit activity and a more favorable rate environment.



Global equities and gold delivered strong performances in 2024, driven by the AI theme, robust U.S. tech stocks, and lower interest rates, alongside economic uncertainty and strong central bank purchases for gold. In 2025, equities are expected to be fueled by capital expenditures and labor demand, while gold is likely to further solidify its status as a safe-haven asset.

The global economy is a complex interplay of forces influenced by social, political, and economic trends that shape consumer and investor behavior. While events such as elections and regime changes can significantly impact market sentiment, they rarely alter the underlying long-term trajectory of fundamental economic indicators. Ultimately, global investment markets are guided by macroeconomic trends that, over time, determine their direction.

THE MACROECONOMIC FACTORS



Interest Rates

Economic Growth



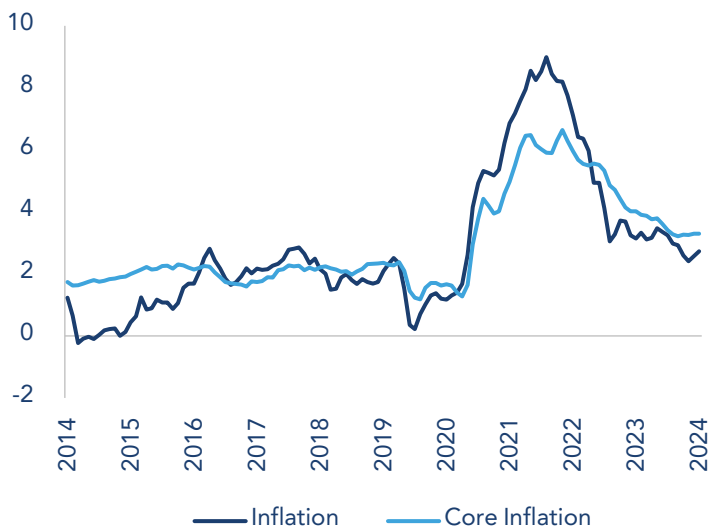
Inflation

Fundraising Environment



INFLATION

US Inflation



Source: FRED Economic Data

- After more than two years of volatility, the macroeconomic environment is showing signs of stabilization, with inflation moderating throughout 2024.
- The U.S. inflation rate dropped to a 3.5-year low of 2.4% in September but rose to 2.9% by year-end. While this marks a slight decrease from December 2023's 3.3%, it remains above the Federal Reserve's 2% target.
- Primary driver is core inflation, which is sticky and remains high at over 3%, signaling stalled progress toward the Fed's objective.
- Despite the economic slowdown, unemployment rates have stayed near historic lows, supporting consumer spending and mitigating the effects of higher borrowing costs and inflation.
- The U.S. inflation outlook has been adjusted upward due to expected tax cuts and the short-term effects of potential new tariffs proposed by President-elect Donald Trump, which could contribute to inflationary pressures.

U.S. inflation in 2025 is expected to range between 2.1% and 2.8%*, remaining above the Federal Reserve's target. The Fed is likely to prioritize traditional policy measures, such as interest rate adjustments, before considering any formal change to its inflation target.

INTEREST RATES AND YIELDS

Interest Rates



Source: Bloomberg, Federal Reserve Economic Data

- The Fed held the federal funds rate at a two-decade high for over a year to combat inflation and cool the economy before lowering it by 50bps in September, followed by two additional 25bps cuts later in 2024.
- The job market's deceleration, without a complete collapse, and easing inflation prompted central banks to reduce rates, spurring borrowing by both individuals and corporations.
- However, the threat of sticky core inflation remains, and the anticipated tariffs from the Trump administration are likely to complicate the central bank's path to further rate cuts.
- The U.S. Federal Reserve has revised its 2025 interest rate cut projections, now anticipating two 25-basis-point reductions instead of the previously expected four. This adjustment reflects sustained inflationary pressures, and potential policy shifts under the new U.S. administration¹.

Amid persistent inflationary pressures, we expect rate cuts to occur at a slower pace and with smaller magnitude. Our projections, in line with the Federal Reserve's outlook, foresee two 25-basis-point reductions, bringing the target rate to a range of 3.75%-4.0%**.

This cautious approach is reflected in market yields, with the 10-year and 2-year Treasuries yielding around 4.6% and 4.3%, respectively, signaling investor expectations of a measured policy response rather than aggressive easing.

Source 1: Forbes

*Based on market estimates from Blue Chip Survey of 50 economic forecasters (Federal Reserve Bank of St. Louis).

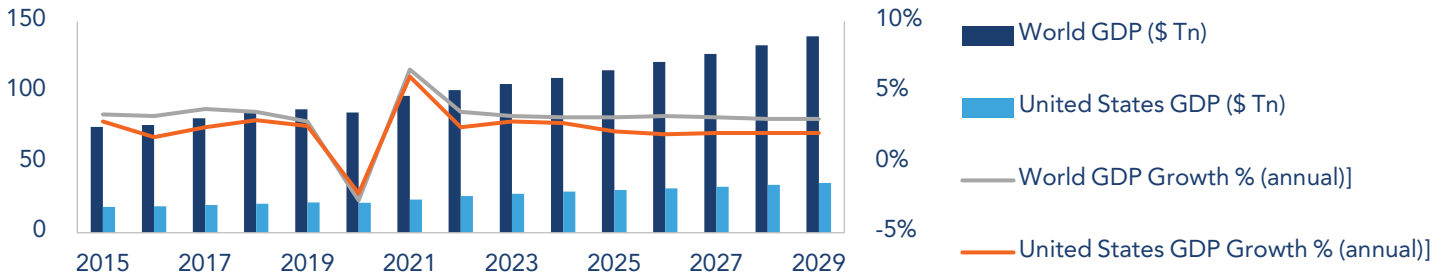
** Based on market estimates from CNBC, Blackrock (CNN), iShare, Forbes, Reuters.



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GDP

World and US GDP



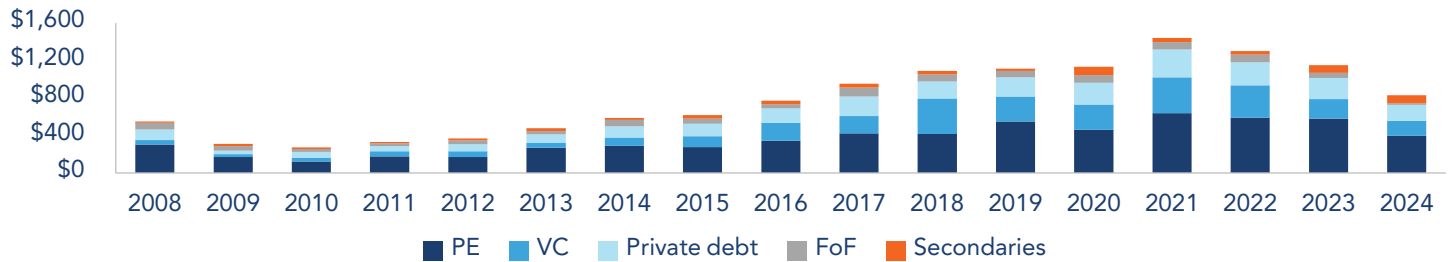
Source: IMF

- In 2024, the U.S. economy outperformed expectations, achieving a robust 3.1% QoQ growth in Q3. This strong performance was driven by a surge in consumer spending and sustained productivity.
- However, the initial fiscal boost has begun to fade due to shifts in administration and policy uncertainty, which has introduced new challenges to economic stability.
- Looking ahead to 2025, the economic outlook is more cautious. Potential tariff increases and rising consumer prices are expected to weigh on spending, while also limiting the central banks' ability to implement further rate cuts.

Real GDP is projected to slow from 2.5 - 2.8%* in 2024 to 2.1% - 2.2%* in 2025, as higher tariffs drive up consumer prices, compounded by wage pressures stemming from stricter immigration policies.

FUNDRAISING ENVIRONMENT

Private Capital Fundraising (\$ Bn)



Source: Pitchbook; 2024 data as of Q3/24

- In recent years, private market fundraising has been increasingly impacted by volatile trends and unexpected shifts. High financing costs and uncertain growth prospects, largely driven by geopolitical tensions, have posed significant challenges.
- Fundraising in the first three quarters of 2024 lagged behind 2023, mainly due to anticipated interest rate cuts. Preqin projects that the number of fund closures in 2024 will hit a decade low¹.
- As of Q3 2024, LPs have become increasingly selective, with 85% of capital flowing to established firms, while emerging managers secured just 15%. In an environment of uncertainty, experienced managers offer distinct advantages. Their refined underwriting processes, extensive track records, and strong credibility provide investors with greater confidence, making them the preferred choice for capital allocation during uncertain times².
- With deal-making and exits picking up in late 2024, fundraising in 2025 is expected to gain traction as successful exits enhance investor confidence. However, the process may remain extended due to pent-up demand from GPs, creating a more competitive landscape.

We expect that 2025 may not bring much relief, with high probability of stagnant fundraising opportunities compared to 2024.

Source 1: Preqin

Source 2: Pitchbook

*Based on market estimates from Federal Reserve Bank of St. Louis, PWC, CBO, J.P. Morgan.

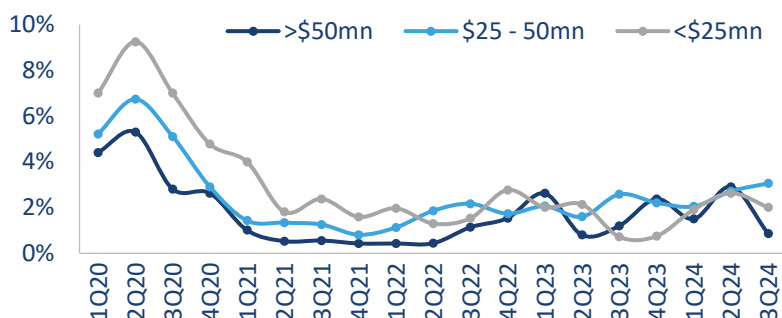


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PRIVATE CREDIT: WHAT TO EXPECT IN 2025

In 2024, the global economic environment, especially in the U.S., began to shift as inflation showed signs of easing. This change helped boost investor confidence and stimulated fundraising activities in the latter part of the year. The reduction in interest rates kept overall default rates low and increased demand for private credit by lowering borrowing costs. As a result, any potential decline in performance from lower risk-free rates was offset, preserving the appeal of private credit investments.

Default Rate by EBITDA




Source: Preqin Private Credit Default Index


- In 2024, the U.S. economy exceeded market expectations, avoiding a recession despite signals from the yield curve inversion. By mid-year, narrowing of the 2/10 spread indicated changing economic conditions, with rates stabilizing by August.
- Private credit maintained moderate default rates, supported by strong underwriting practices and protective covenants. For larger companies (at least \$50 million in EBITDA), default rates dropped sharply from 2.8% in Q2 to 0.8% in Q3 2024, outperforming smaller and lower middle-market companies¹.




Interest Rate: Private credit continues to gain momentum in a high-interest-rate environment, offering attractive returns through floating-rate loans. While anticipated rate cuts in 2025 may temper returns, they are expected to stimulate deal activity by fostering a more favorable environment for mergers and acquisitions (M&A). This uptick in activity is likely to drive increased demand for debt, solidifying private credit's role as a key player in financing strategic acquisitions.



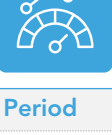
Inflation: Inflation erodes real value of fixed-income assets, with political policies uncertainty adding risk. Private credit, especially middle-market direct lending, offers resilience through floating rates and structured protections. With diversification and low public market correlation, it remains a strong hedge in volatile times.



Default Rates: In 2025, defaults are expected to rise slightly as higher interest rates persist and economic growth slows marginally. However, experienced managers with the expertise to navigate financial stress should keep defaults at manageable levels. Those with a conservative strategy and a strong track record will be well-positioned to handle these challenges.



Fundraising: The outlook for private credit fundraising in 2025 is set to improve gradually. While 2024 saw a slowdown in fundraising across private markets, private credit—particularly core middle-market sponsored direct lending—emerged as a relative bright spot. Looking ahead, modest improvement in the fundraising environment is expected, supported by increased deal activity and a potential rise in distributions from realizations.



Performance: The private credit market in 2025 offers a dynamic blend of opportunities and challenges, yet the overall outlook remains optimistic. Private debt continues to deliver robust income and higher spreads compared to the BSL and HY markets.

Period	Q3 2024	YTD 2024*	1 Year (TTM)	5 Years*
Preqin Private Debt Index Return ¹	1.72%	8.55%	8.79%	9.18%

As of Q3 2024, the Preqin Private Debt return has shown year-over-year growth, underscoring the resilience of private credit as an attractive asset class. It stands out for its consistent returns and favorable risk-adjusted profile.

Private credit is set for a strong year, proving resilient amid inflation and prolonged high interest rates, thanks to its floating-rate structure. Core middle-market direct lending remains a solid foundation with strong risk coverage, while distressed debt benefits from market dislocations as a satellite strategy. Multi-manager fund structures leveraging this mix are gaining traction, enhancing diversification, reducing concentration risk, and expanding access to private credit opportunities.

Source 1: Preqin
*Annualized

PRIVATE EQUITY: WHAT TO EXPECT IN 2025

Private equity (PE) has faced significant challenges in recent years, particularly grappling with the steepest interest rate hikes in two decades. However, 2024 marked a turning point, ushering in a monetary loosening cycle that provided much-needed relief. Despite widespread fears of a global recession, these concerns did not materialize, leaving the sector in a stronger position heading into 2025. Buyout transactions and deal values exceeded pre-pandemic levels, demonstrating notable resilience.

- Sectors such as healthcare continued to present strong opportunities, driven by a focus on value-based care and advancements in emerging healthcare technologies. Additionally, investments in artificial intelligence (AI) are expected to fuel leveraged buyout activity, particularly in businesses with valuable data assets.
- While large funds successfully raised capital, smaller and less-established firms faced challenges in securing commitments. By Q3 2024, 87% of capital raised in private equity was allocated to established firms².
- The secondaries market remains a compelling option for buyers, offering the potential for higher risk-adjusted returns. Notably, new capital inflows into LP- and GP-led secondaries, including continuation vehicles, surged significantly. As of Q3 2024, total committed capital for these funds reached \$97.5 billion—a 30.9% year-over-year increase². This trend suggests that continuation funds offer a scalable alternative to traditional M&A and IPO routes.

US Private Equity Exit Activity



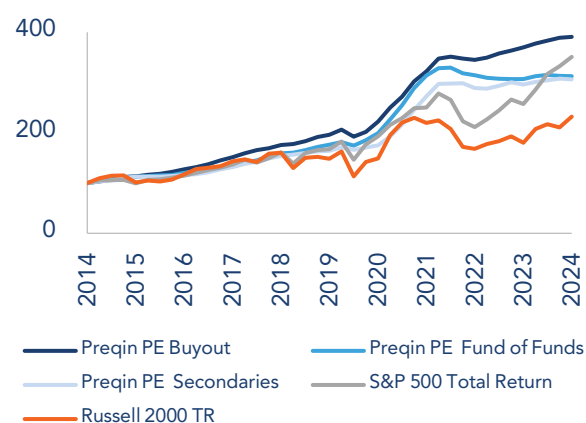
Source: Pitchbook

◆ **Deal Activity:** The first half of 2024 saw subdued deal activity, with GPs delaying larger exits due to historically low valuations that remained below public market levels. However, as inflation concerns eased and interest rates declined, deal count, and value rebounded significantly in the latter half of 2024. This momentum is expected to persist into 2025, supported by a more stable macroeconomic environment and improved credit conditions.

◆ **Fundraising:** Private equity (PE) fundraising slowed in 2024, though average fund size increased due to strong mega fund performance. Fundraising picked up in Q4, driven by interest rate cuts and contributions from non-institutional investors like family offices and wealth managers. Fundraising may remain subdued in early 2025 but could rebound later as deal and exit activity improves, though challenges persist for funds reliant on distributions for new capital.

◆ **Performance:** Private equity showed resilience in 2024, with returns stabilizing but falling short of the sector's usual double-digit growth. It lagged behind major indices, as the Preqin PE Buyout Index posted a 4.7% annualized return for the first three quarters of 2024, compared to the S&P 500's 31.5%¹. However, a more favorable environment in 2025 is expected to drive stronger returns, with managers remaining optimistic about capitalizing on improved dealmaking and exit opportunities.

Preqin Index returns



Source: Preqin; Index rebased to 100 as of September 30, 2014

Looking ahead to 2025, private equity is set for a potential rebound, driven by improving investor sentiment and a stabilizing exit market. While fundraising and valuation challenges persist, the sector's adaptability and innovation position it for growth. Established fund managers and strategic investments in high-growth sectors are expected to drive performance and maximize alpha, with a potential return to double-digit growth. These factors reinforce private equity's role as a cornerstone of diversified investment portfolios.

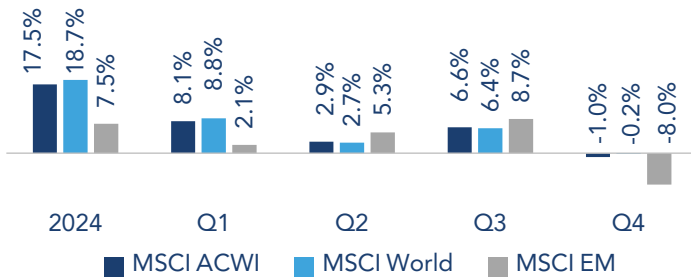
Source 1: Preqin
Source 2: Pitchbook

Navigating the Global Markets: What to Expect in 2025

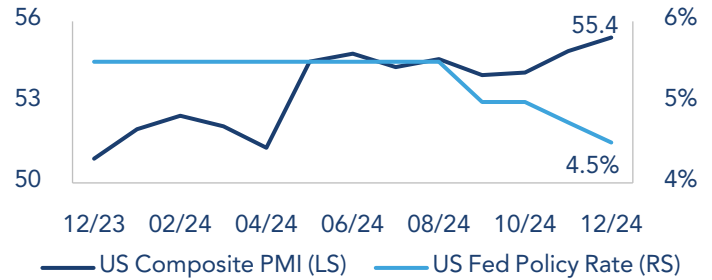
GLOBAL EQUITIES AND GOLD

In 2024, equities delivered strong returns, driven by the AI theme, economic resilience, and monetary policy shifts. U.S. equities outperformed, primarily due to the dominance of high-growth technology stocks, with the "Magnificent 7" rising by 67%¹. European equities lagged, weighed down by weak economic data. Emerging markets also underperformed, largely due to sluggish economic growth in China. While the U.S. manufacturing outlook remained somewhat subdued, the services sector showed strength, resulting in robust composite PMI (Purchasing Managers' Index)* readings.

2024 Global Equity Performance



US Equity Return Drivers

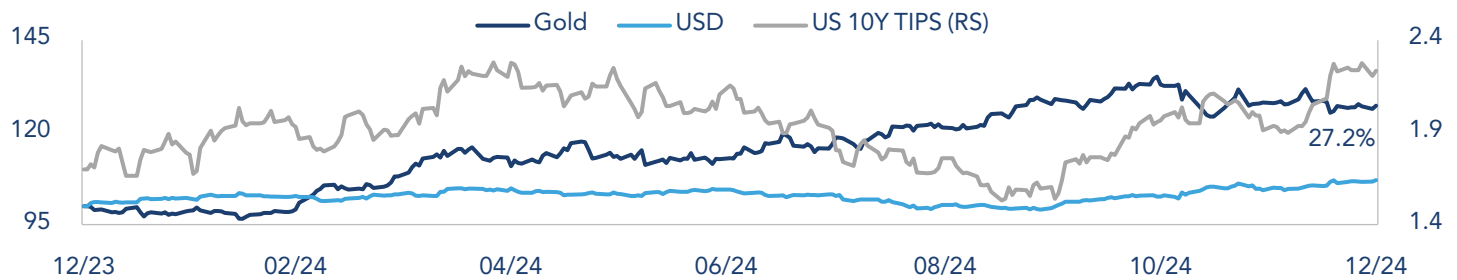


Source: Bloomberg

Investors expect global equities to grow in 2025 at a more moderate pace, with projections for the S&P 500 ranging between 6,500 to 6,800^{**}. Optimism stems from factors including capital expenditures, and improved labor. However, risks include high valuations, inflation concerns, and a growing U.S. fiscal deficit, with outcomes hinging on the new administration's policies.

Gold delivered a robust performance in 2024, rising by 27.2%¹. The U.S. Federal Reserve's decision to cut interest rates made gold a more attractive investment. As interest rates declined, the opportunity cost of holding non-yielding assets like gold decreased. Additionally, fluctuations in global financial markets and expectations of further monetary easing drove demand for gold as investors sought a hedge against inflation and economic instability.

Gold Rises Significantly on Weakening USD and Falling Real Yields



Source: Bloomberg

Market volatility further underscored gold's appeal as a safe-haven asset. Strong purchases by central banks also bolstered demand, effectively offsetting weaker consumer interest. This institutional buying played a crucial role during periods of economic uncertainty, solidifying gold's reputation as a reliable store of value.

The outlook for gold in 2025 appears promising, with strong price performance projected in the range of USD 2,900 to USD 3,000^{***}. This optimism is supported by sustained demand from central banks, lower policy rates, and rising consumer demand. However, potential shifts in U.S. monetary policy, such as unexpected interest rate hikes, or changes in global market dynamics, could introduce volatility and exert downward pressure on prices.

*Note: The Purchasing Managers' Index (PMI) is a key economic indicator gauging changes in key business activities in Services and Manufacturing. A PMI above 50 indicates expansion in the sector, while a PMI below 50 indicates contraction.

**Note: Corresponds to 10.5% to 15.6% return. Based on market estimates from Goldman Sachs, BofA (Bloomberg), Carson Group.

***Note: Based on market estimates from Goldman Sachs, J.P. Morgan, BofA, Citi Bank, Wells Fargo, ANZ Bank.

Source 1: Bloomberg





CIO Office

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Head Office : King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia ,Tel: 011 2256000 - Fax: 011 2256068