Financial Review

Macquarie strikes careful tone, answering to new global mood

Jemima Whyte*Senior reporter*

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Macquarie stands to profit more from the renewables opportunity in Europe and in Asia than the green landscape in the US, where the new Trump administration has withdrawn federal funding for clean energy and infrastructure investment.

Chief executive Shemara Wikramanayake said the policy remake in the US was immaterial to Macquarie's expectations of how much it can earn from the climate transition in the world's biggest economy.

Mr Trump signed executive orders rescinding money allocated for lending to clean energy-related projects and withdrew the US from the Paris climate agreement in his first days in office.

Macquarie's financial performance had broadly matched last year's, it reported in a third-quarter update on Tuesday, as higher performance fees and improved profit in the asset management division were offset by lower earnings in parts of the business reliant on global markets and commodities trading.

Ms Wikramanayake said the US accounted for about 10 per cent of the group's $2.5 billion worth of green investments deployed from its balance sheet.

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"It's a very small percentage of that in the US. The opportunity in renewables is in Europe and then in Asia," she told analysts, adding that the US portfolios had been developed over 20 years meaning their development was not contingent on White House handouts.

“To the extent we have assets, we’ve had a look through them,” Ms Wikramanayake said, noting such businesses would still benefit from tax credits.

“We monitor things as they evolved, and that doesn’t have a huge impact on us. It’s not material in terms of the US impact on our green assets at this stage.”

Investors are waiting on the sale of two of Macquarie’s larger assets: European solar energy developer Cero Generation, for which the group has received “good interest”, and offshore wind developer Corio Generation. Both are held on Macquarie’s balance sheet, meaning the group stands to turn a profit if it can trade them profitably.

Ms Wikramanayake said there was no urgency to sell, and agreed there was more interest once they were “scaled up”.

Private credit rewards

The Macquarie boss also called out the potential to keep growing the group’s private credit investments. Despite the rapid growth in the booming sector, which many analysts have warned could pose a risk to financial stability, she said Macquarie would be able to bulk up its lending without compromising returns or risk.

“It’s a very good place to invest ... our team feel they have the capacity to identify much greater volume of investment, and at the sort of returns they’ve been generating, spreads are not compressing, and at the sort of loss ratios they’ve been able to deliver which are very, very low. So we’re keen to support them with more capital.”

Barrenjoey analyst Jonathan Mott described the update as “pleasingly uneventful”. “With consensus having been downgraded with each of the last seven quarterly updates, Macquarie retaining its short-term outlook came as a relief to the market,” he said in a note to clients. The shares rose almost 2 per cent to $232.04.

Commodities division down

More broadly, the group maintains a "cautious stance" regarding the financial year outlook, noting that the timing of transactions, foreign exchange swings and geopolitical events could influence results.

"Macquarie remains well-positioned to deliver superior performance in the medium term with its diverse business mix across annuity-style and markets-facing businesses," Ms Wikramanayake said, citing "deep expertise across diverse sectors in major markets with structural growth tailwinds".

Businesses linked to world markets, including Macquarie's commodities division and Macquarie Capital, were "substantially down" on the comparable period, and for the year to date, their combined net profit contributions would be lower.

It was a different story at the group's annuity-style businesses whose combined third-quarter net profit contribution was "substantially up" year-on-year, due to higher performance fees and investment income.

Macquarie Asset Management oversaw $942.7 billion at December 31, up 3 per cent on September 30.

The banking arm, which was described as a "maverick" by Australia's competition regulator, had total deposits of $163.8 billion, up 7 per cent for the quarter.

Macquarie's home loan portfolio increased 5 per cent to $136.2 billion, while the business banking loan portfolio shrank 1 per cent to $16.5 billion.