The explosion of the Australian credit market!

By Emily Boden

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A reshaping of Australia's financial landscape is underway, driven in large part by the Australian Prudential Regulation Authority's (APRA) 2024 mandate to phase out bank hybrids by 2032. For decades, hybrids have been a cornerstone of Private Wealth client's investment portfolios, offering a combination of yield, accessibility, and franking benefits. As this market winds down, investors and advisors are being prompted to rethink how income is sourced.

For many Private Wealth clients, hybrids have delivered reliable income while maintaining the familiarity of ASX-listed securities. NAB Private Wealth estimates that retail investors hold approximately 20–30% of the $43.2 billion ASX-listed hybrid market (as at 30 April 2025), underscoring the scale of capital potentially seeking a new home as these securities are called or mature. **Source: NAB** Australia's $43 billion bank hybrid market faces extinction

Head of Markets Group, JBWere (Private Wealth), Kim Pham, believes the phase-out of bank AT1 is driving a meaningful reallocation of capital and accelerating the evolution of the domestic credit market.

"As existing hybrid exposures are called, private wealth investors need to actively consider reinvestment opportunities. The phase-out of bank AT1 leaves a structural gap in portfolios, but it is also opening the market to a broader range of issuers and structures in the Australian dollar market," she said.

"We are seeing a more developed and diversified market emerge. There has been a clear pickup in Kangaroo issuance, a resurgence in corporate hybrid activity, and more recently the introduction of insurance over the counter (OTC) AT1 structures. This is expanding the investable universe beyond traditional listed bank hybrids. The launch of transactions such as Suncorp's A$200m franked perpetual NC6 (non-call 6 years) has demonstrated the viability of new formats in the Australian market and has further catalysed investor interest in OTC structures. These developments highlight the growing depth and flexibility of the market, particularly as investors look beyond traditional listed products."

Understanding hybrids and their role in credit

Hybrids combine elements of debt and equity. Like bonds, they pay a fixed or floating return; like shares, they carry equity-like risks, including subordination and potential conversion to equity. This places them between traditional credit and equities, offering higher income potential alongside added complexity. Importantly, as hybrids roll off, investors are not just losing yield—they are also losing key structural features:

- Exposure to regulated, large-scale issuers
- Flexibility to enter and exit positions
- Liquid income streams
- Daily pricing and transparency

Replacing these attributes requires careful reassessment of portfolio construction.

The reinvestment challenge

As capital is returned to investors, the key question becomes: where does it go next? Regular income remains a priority, alongside demand for transparency and liquidity.

The opportunity set is now broadening. Investors can access fixed income directly, which allows their portfolios to blend multiple income sources, balance yield, diversification and liquidity.

The issuance explosion

As hybrids roll off, a significant pool of capital is being returned to investors and actively redeployed. At the same time, demand for fixed income investments remains strong, creating a clear supply-demand imbalance.

In response, issuers are Issuing more regularly in larger volumes then we have seen in many years. Corporates, asset managers, and credit providers are increasingly utilising public markets to access funding, diversifying their bond strategies, and income securities available to investors.

This marks a structural shift in how credit is accessed in Australia. Where banks once dominated hybrid issuance, a broader mix of participants is emerging. Over time, this is expected to drive increased domestic issuance, as the markets evolves to fill the gap.

Early signals from the market

Evidence of this shift is already emerging, with strong primary market activity supported by both institutional and private wealth demand.

Angela Modica, Senior Adviser, Perpetual CT Markets & Operations concurs “We’re seeing very strong demand for credit issuance in 2026, with transactions often multiple times oversubscribed. NAB’s recent senior and subordinated deals attracted over A$6.7 billion across three tranches, while Suncorp’s subordinated notes were around six times covered. This depth of demand is allowing issuers to tighten margins and price competitively, reflecting a highly engaged investor base.”

This level of oversubscription highlights both the depth of demand and the growing importance of credit markets as a source of income.

Looking ahead

The winding down of the hybrid market marks a significant transition for Australian Private wealth advisors and their clients. Over the next three to five years, the fixed income landscape

is likely to become more diverse, with increased issuance, product innovation, and a broader mix of issuers. Key trends include:

- Strong demand for income-focused investments
- Greater participation from non-bank issuers
- Increasing sophistication in portfolio construction
- A shift and diversification of portfolios from equity to fixed income

For advisors and investors, the focus is not simply on replacing what has been lost, but on adapting to a more diverse opportunity set.

Ultimately, the phase-out of hybrids does not mark the end of fixed income investing in Australia, it signals the beginning of a new era defined by greater choice, evolving structures, and a renewed focus on aligning income strategies with investor needs.

For more information on Perpetual's Fixed Income Intelligence solution please contact Emily Boden at emily.boden@perpetual.com.au

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