Asset Management Industry Outlook 2025

Navigating the Industry's Economic and Operational Opportunities

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How are U.S. asset managers viewing the market, investment opportunities, and their strategies for 2025, in light of an evolving political landscape, the fed funds rate and long-term interest rates, continuing inflationary pressures, enduring global conflicts, and growing adoption of generative artificial intelligence (GenAI)?

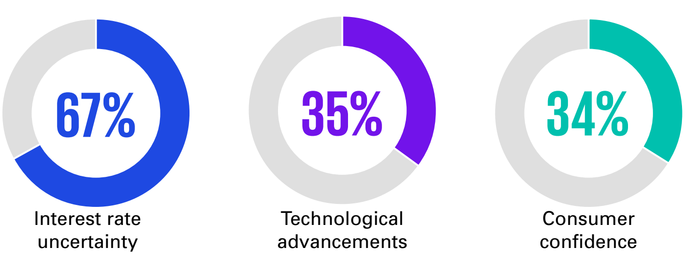
KPMG LLP (KPMG) conducted a new survey following the December 17–18 Federal Open Market Committee (FOMC) meetings, to explore how firms are adapting to the current environment and planning for the future. Where appropriate, we also compared their outlook with the findings from our previous KPMG surveys (2024 outlook and July 2024 pulse survey). Responses were collected from more than 100 asset management professionals in the U.S., representing private fund managers, traditional fund managers, publicly traded entities, and institutional investors, investing across various asset classes including real estate, hedge funds, private debt, private equity, and public securities. More than a third (36 percent) were in the C-suite or managing partners, with the remainder holding other executive and senior management positions. Nearly 45 percent manage assets totaling $5 billion or more in assets under management.

Interest rate fluctuations and economic shifts drive focus to long-term strategy and stability

After a series of interest rate hikes starting in 2022 to tame inflation, the Federal Reserve began to cut rates starting in September 2024, believing that it had made significant progress in its objective. According to our survey, 46 percent of respondents expected the effective fed funds rate, currently at the upper bound of 4.5%, to be lowered to an upper bound of 3.75%-4.00% by the end of 2025; 39 percent felt it would be between 4.25%-4.50%. Time will tell, as inflationary pressures remain to the upside.

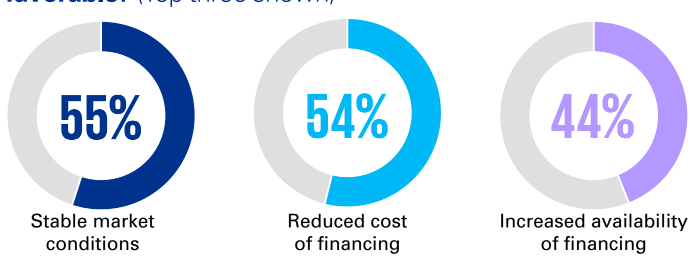
Notably, as the Fed began cutting in September of 2024, long-term interest rates, specifically the 10-year Treasury bond yield, rose. Asset managers should pay close attention to trends in long bond yields, which will be crucial to adapting strategies beyond short-term rate movements.

What factors will have the greatest impact to your investment performance over the next 24 months? (Top three shown)



The Fed is acutely aware of the risks associated with either overheating or overcooling an economy that has shown quite a lot of resilience thus far. It would rather slow or stop the pace of rate cuts than have to reverse course and raise rates if inflation reignites. Hopes of achieving a soft landing are still in place.

Which of the following conditions will signal to you that the environment for transactions is becoming more favorable? (Top three shown)



When considering the factors that would have the greatest impact on investment performance over the next 24 months, interest rate uncertainty (67 percent) is seen as the most significant factor, followed by technological advancements (35 percent) and consumer confidence (34 percent). Mirroring the sentiment in previous surveys, stable market conditions (55 percent) and reduced financing costs (54 percent) are the key signals asset managers are looking for to determine if the environment for transactions is becoming more favorable.

The point here is that, for most asset managers, stable market conditions, specifically interest rate certainty (as opposed to the interest rate level itself), are the most important factor in providing a favorable environment for business transactions.

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Private debt and private equity continue to lead as top ROI picks

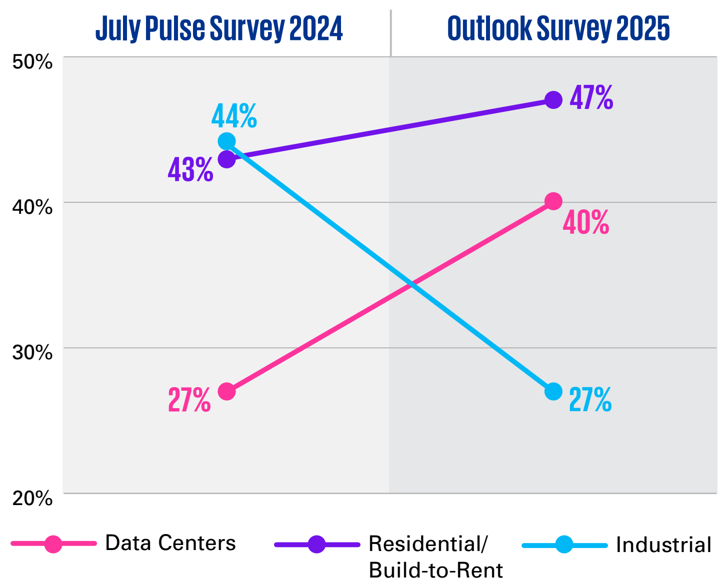
Which asset class do you anticipate offering the most meaningful returns within the next 3 years?
(Top 2 answers shown)

Private debt and private equity are anticipated to offer the greatest return on investment (ROI) over the next three years (36 percent and 31 percent, respectively), echoing the results of our last surveys as the top selections. They were followed by real estate (public and private) and infrastructure (29 percent and 25 percent, respectively).

Private equity has witnessed a significant swell in reserves of unutilized capital (a.k.a., "dry powder"). The aggregate amount of dry powder available to global private equity and venture capital funds is a staggering $2.62 trillion.[1] Private equity enters 2025 with a high degree of optimism as conditions are expected to be favorable for deal making.

Within the real estate sector and asset classes anticipated to offer the most meaningful returns, data centers have drawn considerable interest, climbing from 27 percent since our last survey to 40 percent in the 2025 outlook; that's second to residential/build-to-rent property at 47 percent, which remains the top asset class from our last survey. Although the use of artificial intelligence (AI) and GenAI has not yet fully blossomed, there is rising interest in data center investments due to property needs associated with housing the infrastructure and equipment to support advancements in AI and integration. The robust development of industrial product over recent years to meet increasing demand resulted in an oversupply of inventory. That is the primary reason for the dip in industrial since our last survey. The industry has quickly reduced construction starts, and supply and demand is working it's way back to equilibrium.

Which real estate asset class do you anticipate offering the most meaningful returns within the next 24 months?
(Top 3 answers shown)



AI maturity is rising

Organizational maturity with AI and GenAI is growing as asset management firms focus on change and knowledge management. When asked about their organization's priority initiatives in this regard, 61 percent responded with broader awareness and education, followed by empowering employees to experiment in using AI with enterprise guardrails, at 49 percent.

These priorities are helping drive the shift in AI maturity, from the conceptual stage (39 percent in our July pulse survey; 33 percent in this survey) to the developmental stage (26 percent in our July pulse survey; 39 percent in this survey), indicating progress is being made to advance their AI capabilities and coordinate efforts across the organization. Despite this progress, asset managers are still struggling to achieve full maturity due to a lack of clear vision, as the tactical approach of focusing on specific use cases rather than end-to-end processes hinders capabilities being fully integrated into business operations across the enterprise.

This survey also revealed that GenAI is still primarily being used for back-office functions, including information technology (44 percent), routine communications (36 percent), and finance and accounting (24 percent). It has yet to make significant headway into front-office functions.

1 Finex, *Dry powder pile-up: private equity's cash reserves hit new heights* (Sept. 4, 2024)

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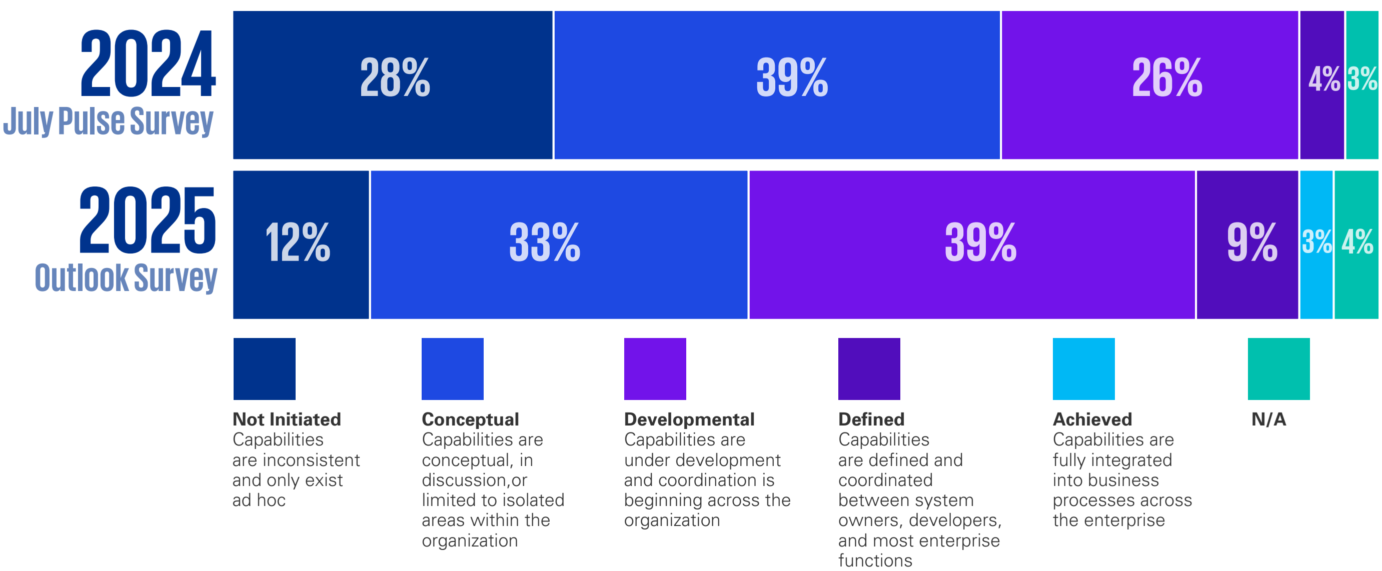
AI maturity is rising *(continued)*

The same perceived challenges continue to prevent organizations from embracing AI, including the risk of data integrity, statistical validity, and model accuracy (53 percent), lack of awareness and training on AI (45 percent), and risk of security vulnerabilities (35 percent).

To address these challenges and accelerate "time to value," 63 percent of organizations are increasingly leveraging third-party platforms and their built-in capabilities, while another 20 percent use third-party platforms with added modifications. This could be due to factors such as rapid acceleration of new technologies, high development and maintenance costs, and resource and talent shortages. On the other hand, only 21 percent are building their AI capabilities in-house. Organizations are choosing to adopt models that align with their unique organizational cultures, similar to their approach to data management.

How would you rate your organization's AI maturity? (select one)



Finding the balance between risk and competitive advantage with GenAI

Given the limited understanding and resources within many asset management firms, a strategic approach to GenAI adoption is critical.

Asset managers should be asking themselves, "In order to gain a competitive advantage with GenAI technology, how do I balance risk against opportunity?"

Firms that can effectively integrate GenAI across their entire operation, from back-office functions to front- and middle-office departments such as customer service, portfolio optimization, and fund management, are poised to outperform their competition.

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Shift in work arrangements post-pandemic

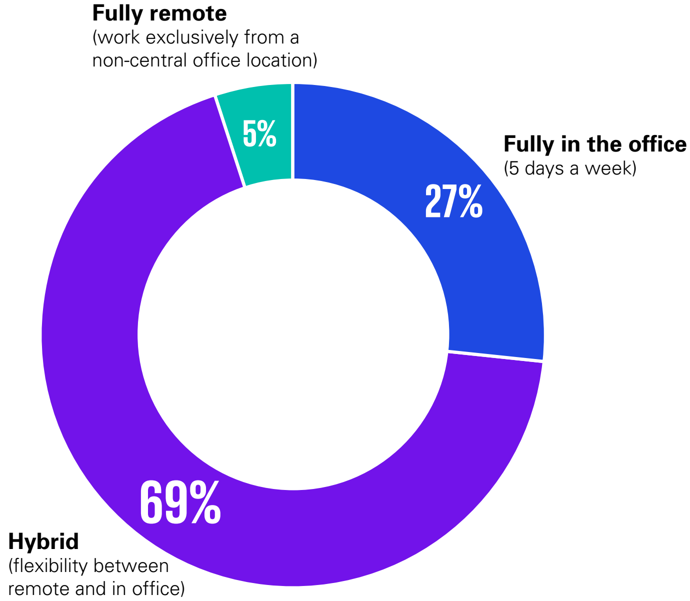
The COVID-19 pandemic saw a major shift in how, or more specifically, where many Americans worked. Fully remote work became commonplace for industries that were able to operate in that manner. But that era appears to be coming to a close; over the past year, fully remote work has become an uncommon practice in the asset management industry, with only five percent of organizations allowing it.

The vast majority of asset management firms have adopted hybrid work arrangements, with 69 percent of respondents permitting a mix of office and remote work.

However, while hybrid work is likely here to stay in some capacity, the pendulum appears to be swinging back towards more full-time, in-office work. An increasing percentage of companies are requiring their employees to come back to the office full-time (27 percent in this survey versus 19 percent in our last survey). We expect this trend to continue as employers feel that having employees back in the office facilitates employee engagement, team building, and a mentoring culture, along with boosting productivity.

Where do employees work?

For employees whose roles were traditionally office-based prior to the onset of the COVID-19 pandemic, what best describes your organization's current approach to "Return to Office" for those same employees? (select one)



Percentages do not sum to 100% due to rounding. (n=105).

Get ready for an active 2025

In 2025, the asset management landscape is poised for a significant surge in deal activity across various markets and sectors. Improved market conditions and perceived monetary stability are expected to drive larger deals.

With nearly $3 trillion in dry powder held by private equity and venture capital firms, hundreds of billions more in commercial real estate[2], hedge funds, and other alternative investments, we anticipate higher capital deployment activity as asset managers seek to take advantage of growth opportunities.

As AI maturity continues to rise, asset managers can gain a competitive edge by evolving their use of AI and GenAI capabilities from back-office to front-office functions as well.

For 2025, the ability to navigate the dynamic market environment will be key to success in the asset management sector.

2 JLL Research, *Dry powder for investment* (2024)

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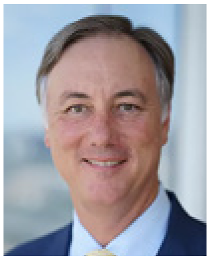
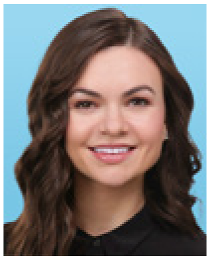


Greg Williams
US Sector Leader
Asset Management
KPMG LLP

gregorylwilliams@kpmg.com



Yelena Maleyev
Senior Economist
KPMG LLP

ymaleyev@kpmg.com

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