Firstlinks

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Editorial

The Federal Election heard the concerns of many younger people that they're being disadvantaged by Government policies that favour older people over them. A new report suggests they might be right.

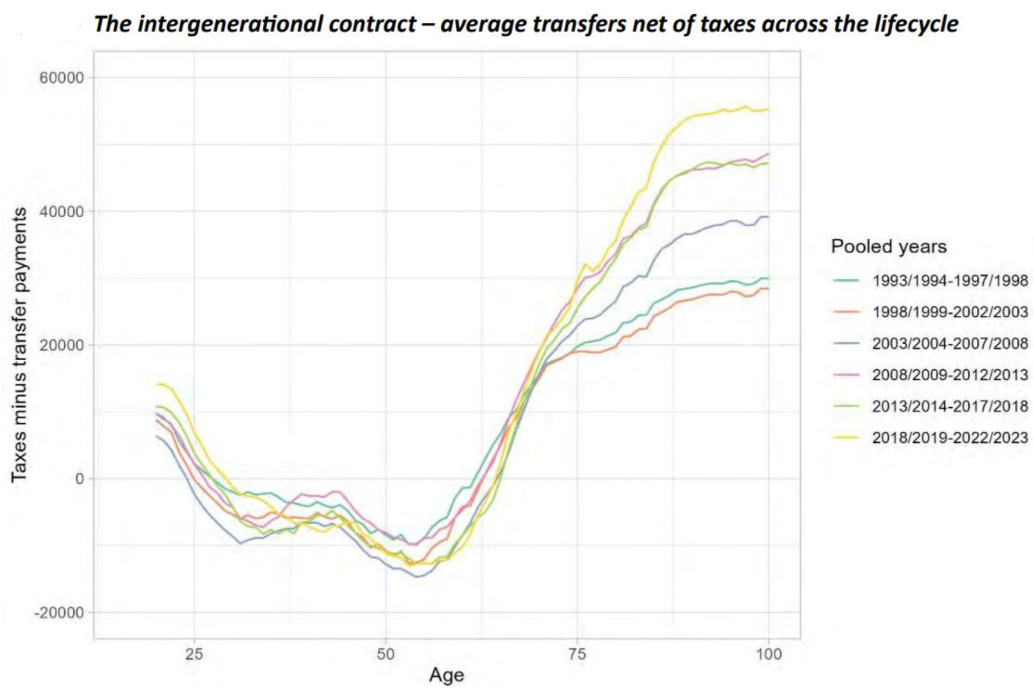
Academics from the ANU's Crawford School of Public Policy have released a paper measuring the way that the tax and transfer system redistributes income between Australians of different ages and how that's changed in the past three decades.

The paper, '*Measuring the changing size of intergenerational transfers in the Australian tax and transfer system*', has found that the system has been more generous to older Australians than younger ones.

It says government spending on older people, including the age pension, aged care and health care, has increased significantly in real, per-person terms over time. By contrast, net spending on younger households has remained relatively constant.

And the figures aren't distorted by an ageing population as they're measured on a per capita basis.

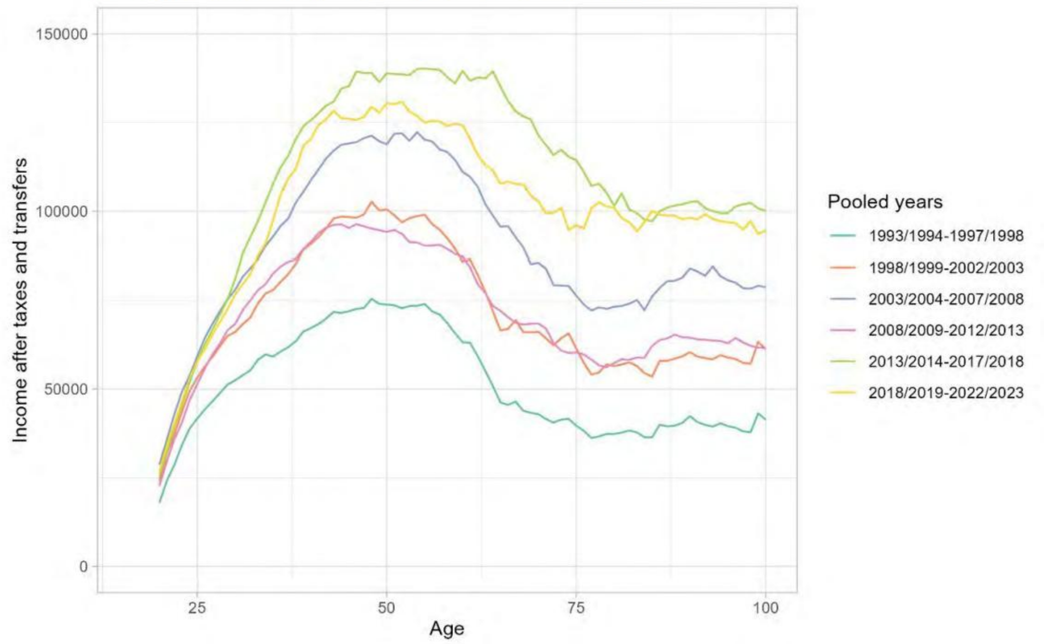
The paper says the increase in transfers to older Australians has happened in a period where older people have also earned significantly more private income, primarily from higher capital income from real estate and superannuation.



It says these two trends have had a significant impact on the nature of our tax and transfer system and income distribution by age. For instance, from 1993/94 to 2002/03, Australians aged over 60 had private income equal to 41% of the income of Australians aged 18 to 60 and average final income (after taxes and transfers) equal to 61% of the income of Australians aged 18 to 60. Yet, in the final ten years of the study, the pre-tax income of Australians aged over 60 was 65% of the population aged 18 to 60, and post-tax income was equal to 95% of their income.

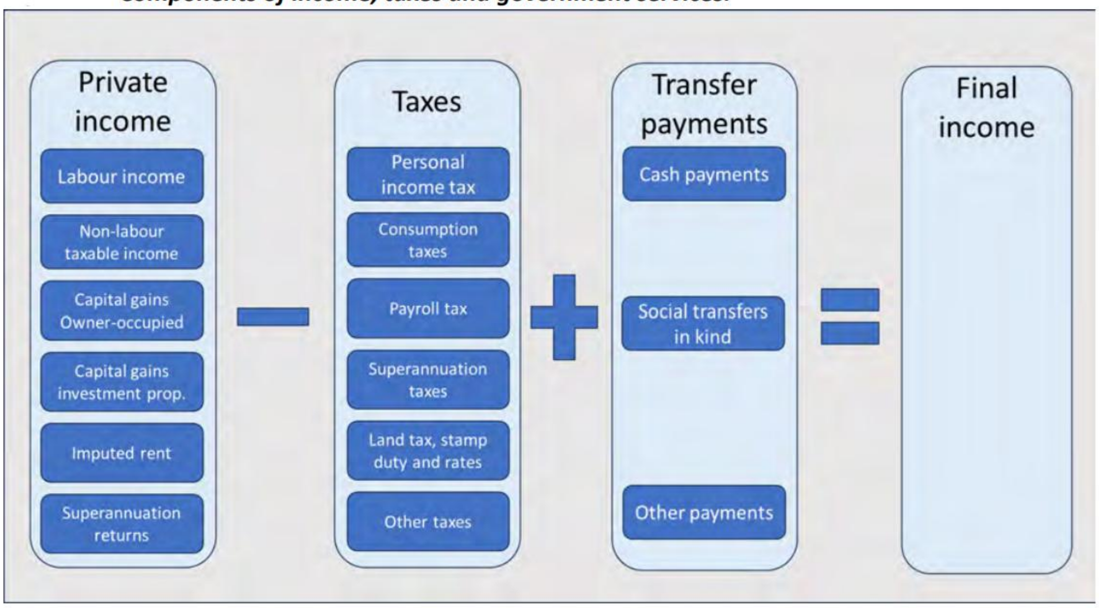
It goes on to suggest that the trend is even more notable when Australians over the age of 60 are compared to those aged 18 to 30. In the past decade, the older cohort has earned an income around 11% higher ($72,000 compared to $64,000 in 2022 dollars). However, the tax and transfer system means that the older group has an average after-tax income 60% higher than the younger group.

Average real income per person after taxes and transfers



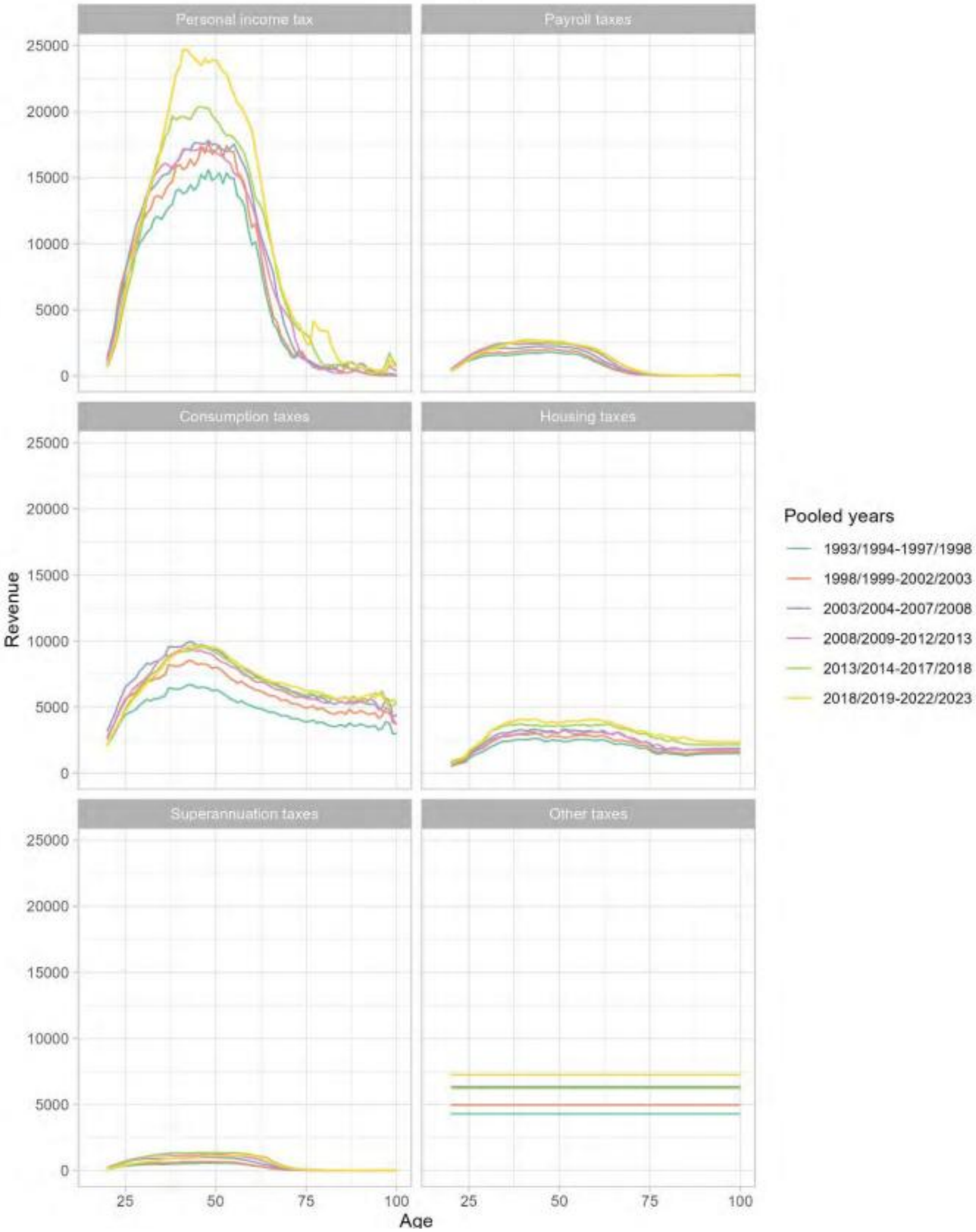
What's behind the trends?

Components of income, taxes and government services.



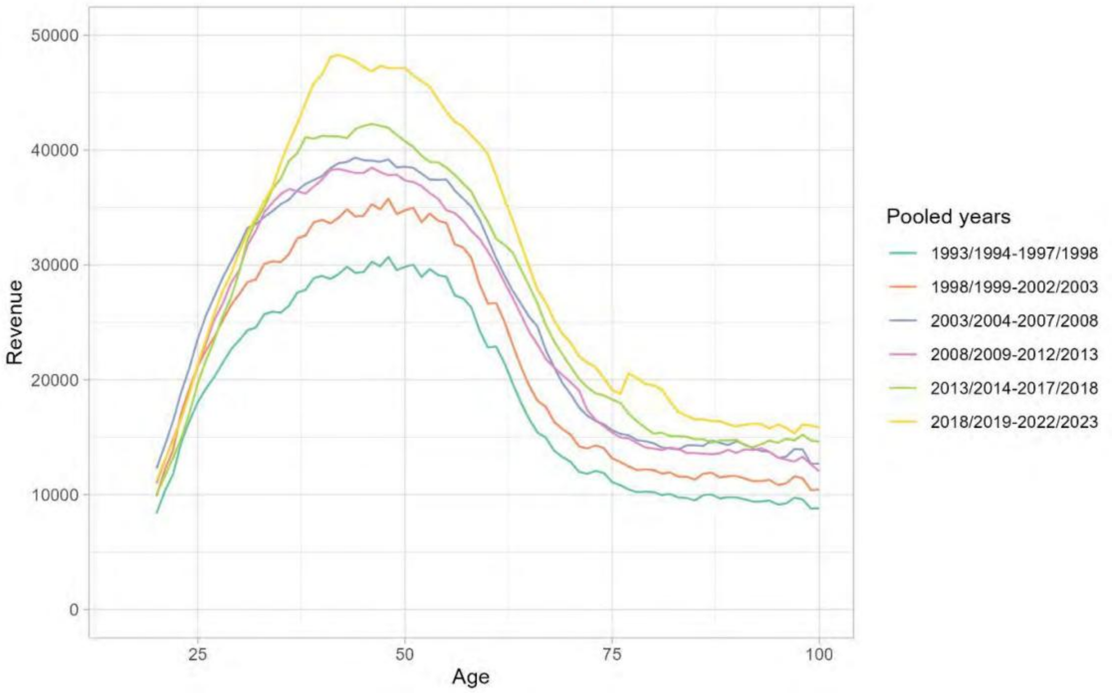
The chart above shows the six main levels of taxes and it's primarily been personal income tax which has been a key contributor to the growing divide between old and young. The growth in personal income tax has been driven by an increase in real incomes along with the average tax rate on income remaining relatively stable during the period. Numbers for the other taxes haven't changed as much.

Trends in the Taxes paid across the age distribution (in 2022 dollars)



The next chart shows the change in aggregate taxes for different age groups. It reveals that total taxes paid have increased meaningfully for those in the highest earning years. Meanwhile, taxes have also increased for older people but remain low in absolute terms. And taxes paid haven't risen for the young reflecting the low growth rate in earnings for this group.

Trends in the total taxes paid across the age distribution

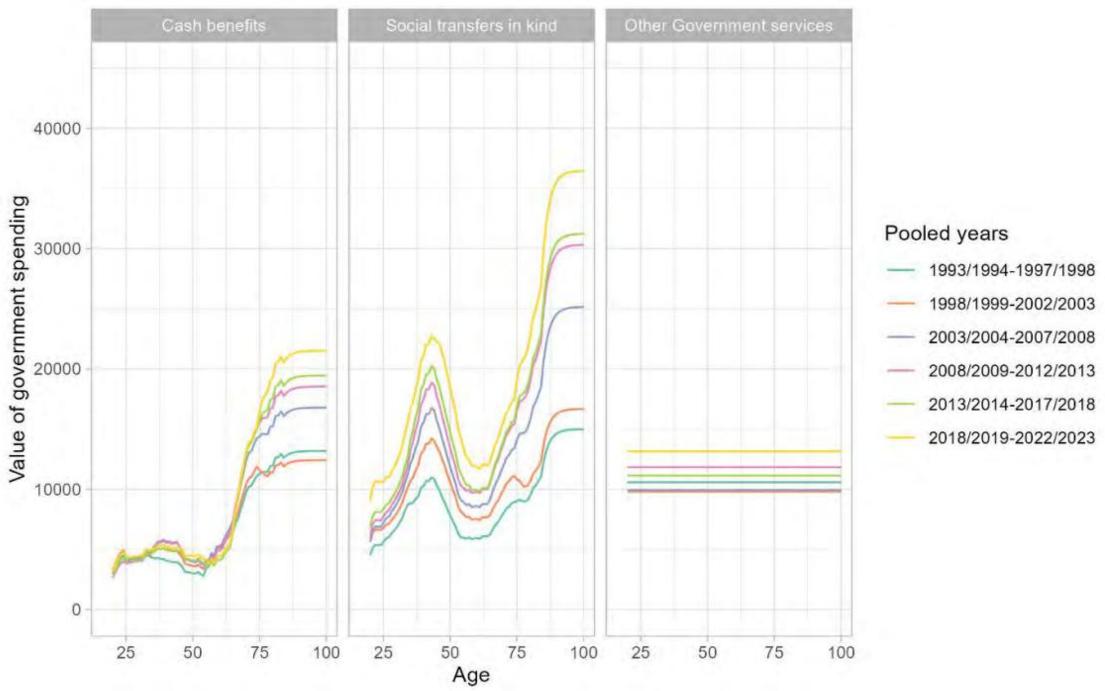


The other change has been in Government spending on different age groups.

The paper breaks down Government expenses into three categories:

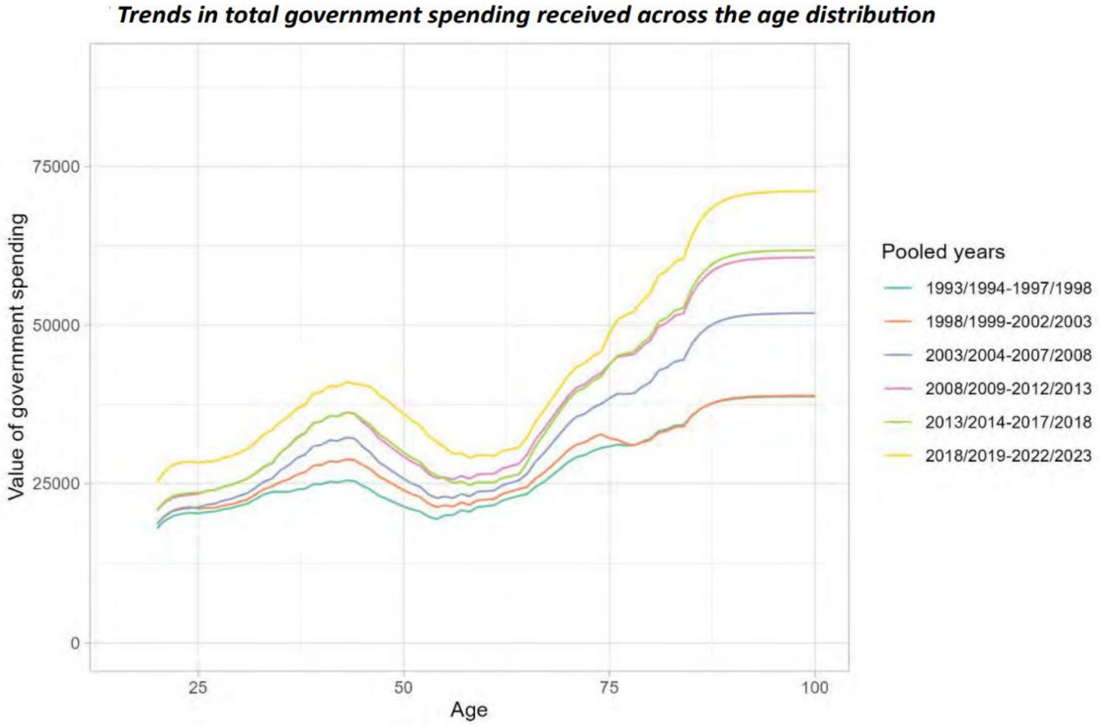
- Pensions and other cash benefits
- Social transfers in kind, such as health and education, where the spending has a clear recipient.
- All other government spending such as infrastructure costs or defence is assumed to be spread equally across all people above the age of 15.

Trends in government services received across the age distribution



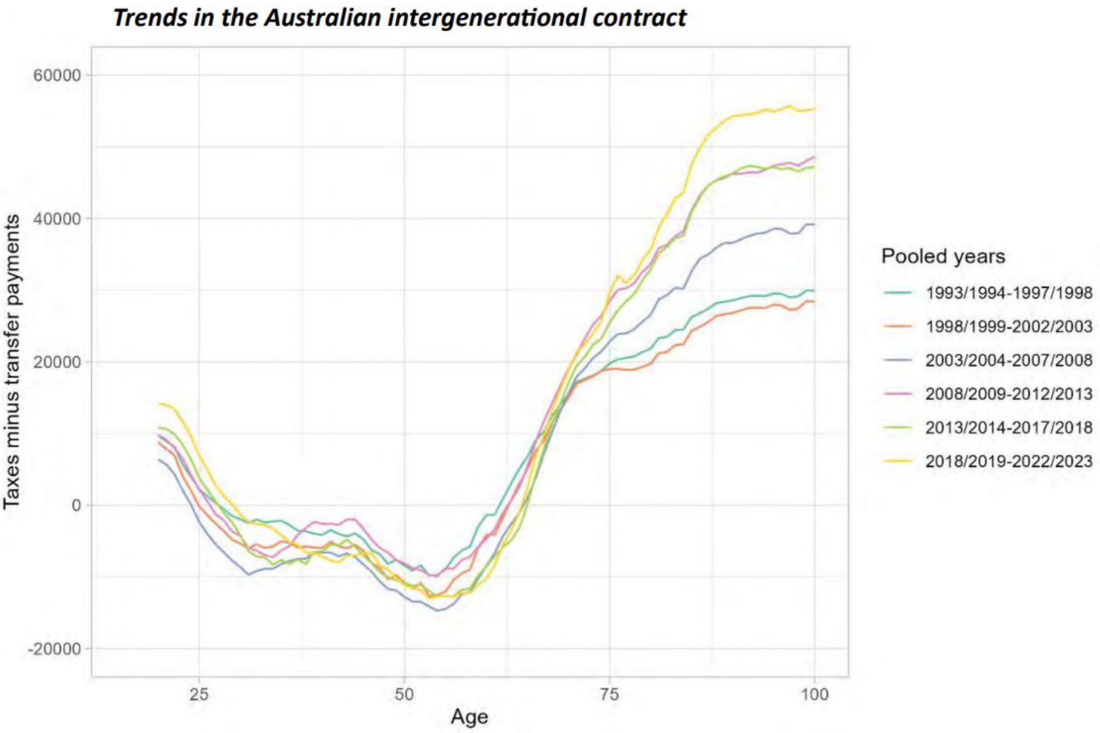
The chart suggests that older people have benefited disproportionately across cash benefits and social transfers when measured on a real, per-person basis.

The next chart aggregates all Government spending across age groups.



Adding it up

So what does this all add up too? The paper says that by combined the net impact of taxes less transfers, you can gauge the impact of the tax and transfer system on different ages over time. And here's the result:



This shows that the system has transferred money from people of working age to those of older ages in every period. But the net transfer to older Australians has increased most in real terms in recent years. And transfers to younger cohorts have not increased to the same degree.

Key findings

From the data, the paper reaches several conclusions:

1. The tax and transfer system has not adjusted to the changing age profile of income in Australia. It increasingly favour older Australians at the expense of the young. Unless we want to explicitly favour older Australians, policies should be considered that reduce payments to older people and shift the tax burden away from the young towards the old. Policy rules around means testing could be an important part of such a shift.
2. The personal income tax system captures only around two-thirds of household income, leaving income generated from owner-occupied housing and superannuation lightly taxed. This has important implications for efficiency and equity.
3. Growth in land prices has created large transfers of wealth between generations. This price growth is driven to some extent by government policies, such as restrictive zoning and planning practices. Removing these barriers makes sense.
4. To achieve a fiscally sustainable budget over the coming decades, Australia must choose between increasing taxes and reducing government expenses. The consequences of this adjustment should be borne, at least in part, by older Australians. Achieving budget sustainability solely by increasing taxes on Australians of working age (mostly by growing personal income tax revenue through bracket creep) will worsen generational inequities.

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On the topic of Government expenses, **Peter Swan** and **Dimitri Burshtein** say Labor should make spending cuts a top priority. Reining in spending wouldn't just address our budget concerns but they say it would also clear the way for the meaningful tax reforms that are needed to boost Australia's ailing productivity.

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In my article for this edition, I look at Buffett's shock announcement to depart as Berkshire Hathaway CEO and reflect on his extraordinary legacy as an investor and teacher. I also address some of his concerns about America's future, as he warns of unsustainable deficits and a fragile US currency.

James Gruber

Also in this week's edition...

Former Liberal Party minister, **Arthur Sinodinos**, breaks down what went wrong for his party in the election. He says the Liberals pursued ideology over the values and needs of mainstream Australia. He believes the party needs to return to its Menzian, pragmatic roots and integrate those values with those of the broader community. And it wouldn't hurt to get some senior party elders to lead this so it happens well before the next election, he says.

For the fist time in more than a decade, gold is getting news headlines and retail investor interest. And, predictably, we're starting to get outlandish forecasts for the gold price. US$5,000 an ounce? There's even been a US$20,000 prediction of late. Research Affiliate's **Campbell Harvey** digs deep into the key drivers for gold and gives a balanced assessment of what may be in store for the yellow metal.

Pelin Akyol and **Kadir Atalay** says Australia’s push to delay retirement has boosted workforce participation - but at a cost. Their research reveals the measures have unintentionally impacted fertility rates, and the trend will be hard to reverse.

Contrarian investing lost its lustre in recent years as momentum driven markets reached new highs. This year's market volatility though has brought more opportunities for the contrarians. Among the tribe is **MFS Portfolio Manager Zahid Kassam** who details his views on the benefits and potential pitfalls of contrarianism as well as his favourite global stock picks.

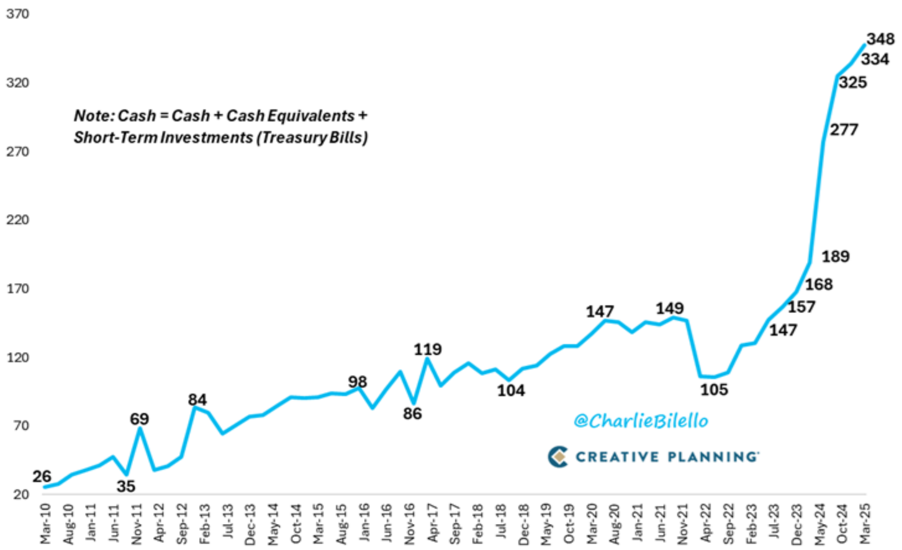
The wheels are falling off the green transition in America, according to **Peter Zeihan**. He says it's largely due to economic pressures, lack of financing, and the new tariffs instituted by Donald Trump.

This week's whitepaper is **Neuberger Berman**'s latest Fixed Income Investment Outlook looking at ways to ride out the Trump administration’s tariff storm.

Does Buffett's farewell represent peak America?

James Gruber

Berkshire Hathaway's Cash Pile (Billions)



When Warren Buffett stepped onto the podium at the Berkshire Hathaway shareholder meeting in Omaha last weekend, only two people knew of the statement he would soon make that would shake the investment world. They were his children, Howard and Susan, who were also company board directors. The rest of the board was kept in the dark. As was his anointed successor, Greg Abel.

When Buffett announced that he would step down as CEO of Berkshire Hathaway by year-end, the initial shock quickly turned to gratitude as the tens of thousands in attendance at the meeting stood and applauded for several minutes. It was moving and seemed an appropriate end, albeit without Buffett's long-time sidekick, Charlie Munger.

Buffett is leaving Berkshire Hathaway in terrific shape. This year, Berkshire's stock is up 13%, easily topping the S&P 500's 4% rise. And over the past year, the stock has returned 28% against the index's 10%. That's while carrying a record amount of cash on the company's balance sheet.

Meanwhile, Buffett's long-term track record is unparalleled. Since Buffett became CEO in 1965, Berkshire Hathaway shares have returned 20% per year compared to the S&P 500's 10%. That represents a cumulative return for Berkshire of 5,500,000%. Put another way, a US$10,000 investment in Berkshire in 1965 would be worth US$550 million today.

Berkshire's performance vs. the S&P 500

Year	Annual Percentage Change: in Per-Share Market Value of Berkshire	Annual Percentage Change: in S&P 500 with Dividends Included
1965	49.5%	10.0%
1966	(3.4)	(11.7)
1967	13.3	30.9
2005	0.8	4.9
2006	24.1	15.8
2007	28.7	5.5
2008	(31.8)	(37.0)
2009	2.7	26.5
2010	21.4	15.1
2011	(4.7)	2.1
2012	16.8	16.0
2013	32.7	32.4
2014	27.0	13.7
2015	(12.5)	1.4
2016	23.4	12.0
2017	21.9	21.8
2018	2.8	(4.4)
2019	11.0	31.5
2020	2.4	18.4
2021	29.6	28.7
2022	4.0	(18.1)
2023	15.8	26.3
2024	25.5	25.0
Compounded Annual Gain – 1965-2024	19.9%	10.4%
Overall Gain – 1964-2024	5,502,284%	39,054%

Source: Berkshire Hathaway

Buffett's announcement had me reflecting not only on this remarkable record but also how the arc of Buffett's career had mirrored the rise of the US as a superpower.

Buffett's formative years were at the University of Pennsylvania and Columbia University in the late 1940s and early 1950s before he set up a fund in 1956. The fund achieved incredible returns of 32% per annum over 11 years and it was in the latter stages of the fund's life that Buffett took over a then small company called Berkshire Hathaway.

He turned the business into an investment machine, buying since storied companies such as See's Candies and Washington Post in the 1970s. His investment performance started to gain national media attention then, though it was his shareholder letters from 1977 that turned him into a cult hero.

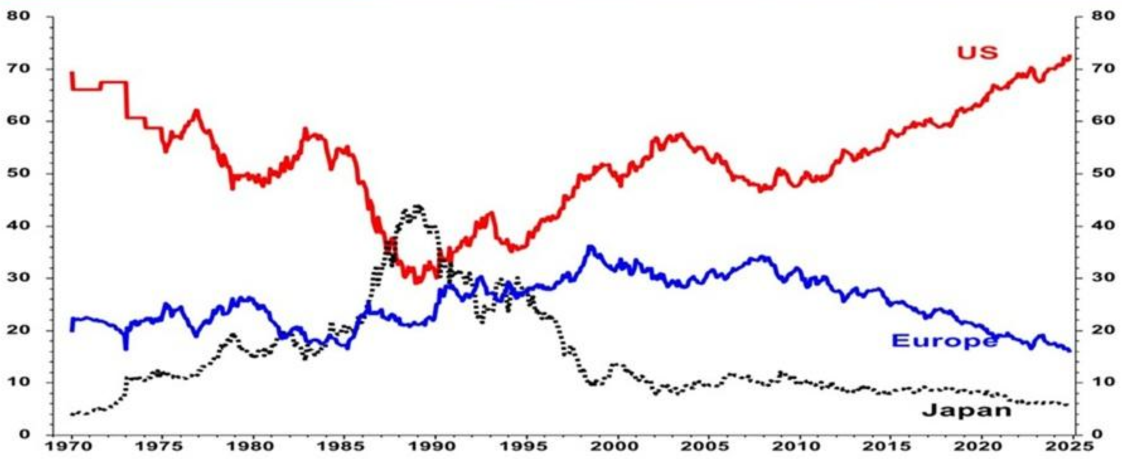
These letters showed that Buffett wasn't just a great investor but a great teacher too. His folksy stories, humility and ability to simplify complex financial jargon endeared him to shareholders and investors alike.

The trajectory of Buffett's rise mirrored America's advance as the world's superpower. With World War Two decimating Europe and Asia, the US became all powerful in the 1950s. US share of global GDP went from 16% in 1900 to a peak of 40% in 1960, just as Buffett's career was taking off. That economic might took a hit in the inflationary 1970s, though since 1980, US share of GDP has stabilized at close to 26%.

From the 1960s, America became a cultural power too. It exported cars, movies, music, books, advertising, and language to the world.

And from the 1990s, the US also became the dominant stock market globally. From then, whatever happened on American markets on any day impacted every other market.

US now comprises c.75% of the MSCI world Index, exceeding the early 70s Nifty-50 era



Source: Datastream

It's funny how Buffett is departing soon after the phrase 'American exceptionalism' became commonplace in markets. In many ways, Buffett represented American exceptionalism over his 60-years as CEO of Berkshire Hathaway. And I wonder if Buffett may be bowing out on top as some of America's problems come into focus under the Presidency of Donald Trump.

Buffett says don't worry but …

Buffett has always been an optmist on America, sometimes sqeamishly so. Though at this shareholder meeting, some concerns also became apparent.

Previously, Buffett has acknowledged how luck played a role in his career. He's called it winning the 'ovarian lottery', having been born in the United States at the time he was.

He again reiterated this at this meeting:

"*The luckiest day in my life is the day I was born, you know, 'cause I was born in the United States.*"

And he was seemingly still bullish on America's prospects:

"I was lucky … We've gone through all kinds of things … If I were born today, you know, I would just keep negotiating in the womb until (they) said you can be in the United States…

The United States has changed since I was born in 1930. We've gone through all kinds of things, and we've gone through great recessions, we've gone through World Wars. We've gone through the development of an atomic bomb that we never dreamt of (at the) time I was born. So I would not get discouraged."

Yet, Buffett was discouraged by several things. He indicated that he wasn't in favour of higher tariffs as "trade can be an act of war" and the US "should be looking to trade with the rest of the world. We want a prosperous world".

His views were even more pointed on the prospects of the US dollar:

"Things happen in the United States that … make us want to own a lot of other currencies. I suppose if we made some very large investment [in a] European country … there might be a situation where we would do a lot of financing in their currency."

And Buffett was especially negative on the growing US budget deficit:

"Fiscal policy is what scares me in the United States…

We're operating a fiscal deficit now that is unsustainable over a very long period of time. We don't know whether that means two years or 20 years … because there's never been a country like the United States, but you know, this is something that can't go on forever…

We've got a lot of problems always as a country, but this is one we bring on ourselves … If you picked a way to screw it up, it would involve the currency … That's happened in a lot of places."

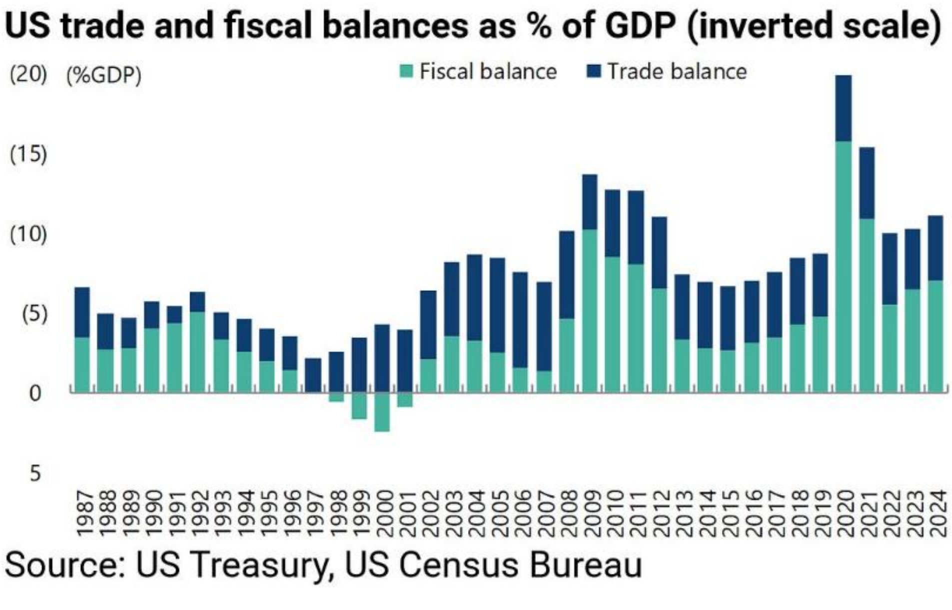
Is Buffett right to be concerned?

Buffett's views on tariffs align with almost every economist: that they're bad for global trade and are effectively a consumption tax.

And his comments on the trade deficit aren't new – he first expressed concerns more than two decades ago. However, he did spend more time on the issue at his meeting and the impact that deficits may have on the US dollar.

Are Buffett's worries valid? On tariffs, no doubt. On trade deficits, stock and bond markets have been remarkably sanguine about them for a long time, however recent turbulence suggests that's no longer the case.

The markets and Buffett are right to be concerned. After all, the trade deficit has rarely been his high, aside from the Covid period.

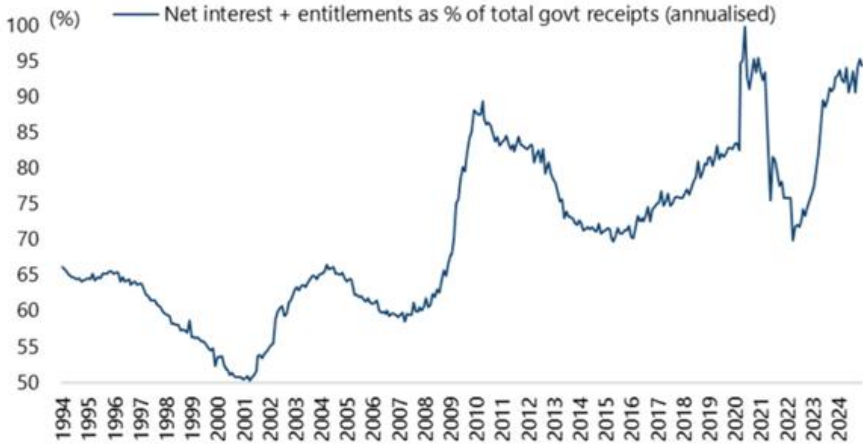


The scariest chart that you'll see is this one, which shows that net interest payments and entitlements accounted for 94% of total government receipts in the 12 months to December 2024.

As Buffett says, this is clearly unsustainable and could impact confidence in US bond and currency markets, as we've already started to see this year.

There was initial optimism that Elon Musk and the 'Doge' department might address the deficit by savagely cutting Government spending. Musk promised US$2 trillion in cuts, though that's since been scaled back to US$150 billion, and even that amount is probably overcooking it.

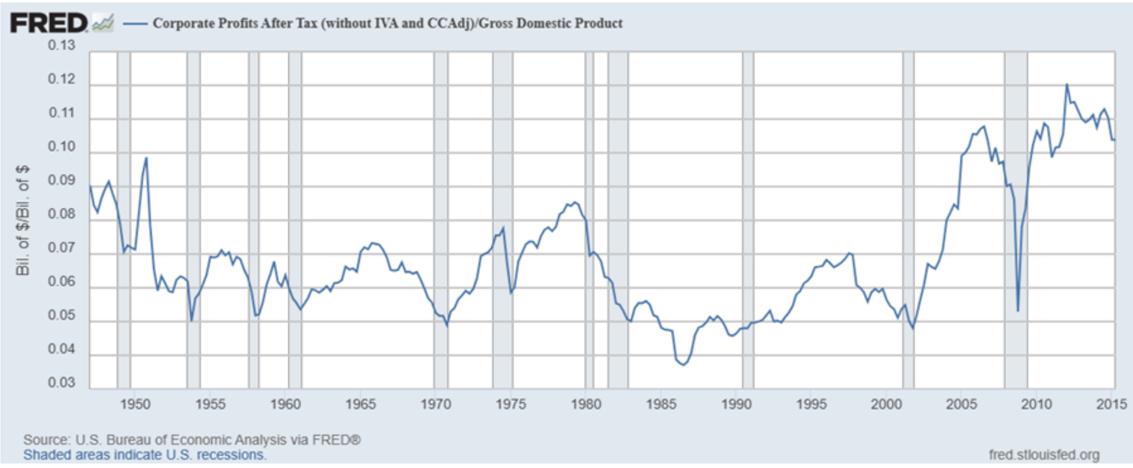
US net interest payments and entitlements as % of total government receipts (annualised)



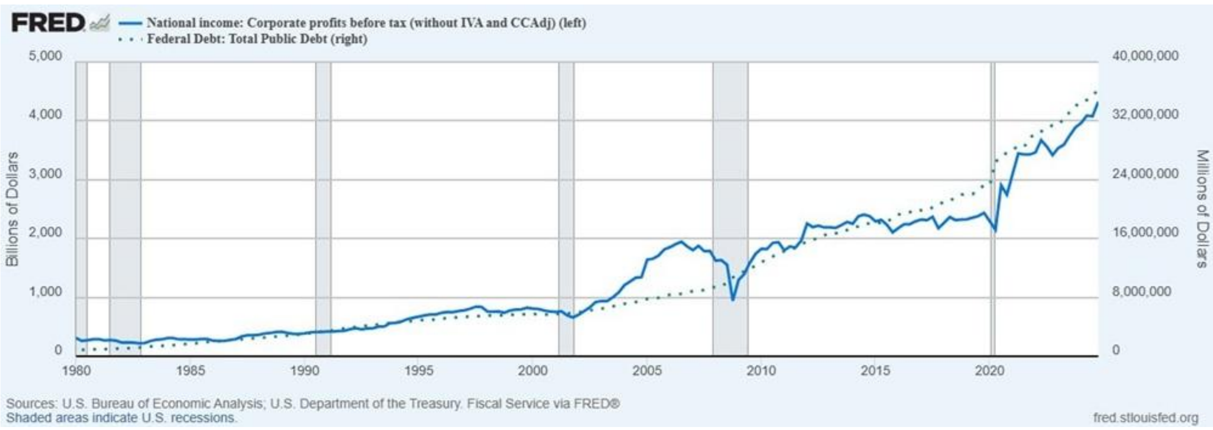
Note: Entitlements = Social security, Medicare and other health spending and veterans' benefits. Source: US Treasury

The issue for the stock market is that a loss of confidence in the US bond market can lead to higher bond yields, which results in tighter money supply and lower terminal multiples for stocks. And waning confidence can also lead to foreigners selling out of US assets, including shares. We've seen bouts of these things in 2025.

The bigger issue for the stock market is one less spoken of. And that's how Government spending has turbocharged demand in the economy and fuelled record high profit margins and profits for US listed companies.



There's a correlation between growing US debt, via the rising trade deficit, and the record profit margins.



Therefore, the growing US trade deficit has been a boon for corporate profit margins and S&P 500 earnings. If further action to reduce the deficits seems inevitable, that would be negative for corporate earnings as well as the steep valuation multiples currently attached to those earnings.

A more optimistic take

Going back to the question posed in the title: does Buffett's farewell represent peak America? From a stock market perspective, I suspect the answer may be yes. Though commanding a 26% share of the global economy, the US has managed to garner 75% of the MSCI world market index. That's unprecedented and given the current record high profit margins and near record company valuations, that could well represent a peak both in the short and long terms.

From an economic viewpoint, I'm a little more optimistic than Buffett. For all of Trump's faults, he's brought Government spending and the deficit into the spotlight and now politicians and the public are aware of the reckless path that the country is on. That spotlight should ensure more action to address the deficit.

This, plus US global leadership in technology, access to cheap energy, and positive demographics, should ensure a prosperous America well beyond Buffett.

James Gruber is Editor of Firstlinks.

Labor should focus on cutting Government spending

Peter Swan, Dimitri Burshtein

Writing recently in the Australian Financial Review, Associate Professor Steven Hamilton argued that, "*There is one clear solution that public finance experts agree on, and that is the 'dual income tax' as implemented in the Nordic countries, which taxes all investment income and expenses (including trusts) independently of earned income at a flat rate and without a tax-free threshold*."

Achieving policy consensus among public finance experts, economists by another name, is no small feat. After all, if you ask three economists for their views, you'll likely receive five different opinions. Nonetheless, after decades of studying, practicing, and observing public finance, this is the first time we have encountered such a claim of consensus.

It is true that investment income and capital gains are generally taxed at flat rates in Nordic countries: 30% in Sweden, 35% in Norway, and 42% in Denmark. However, it's important to note that personal income taxes in these countries are so high and broad-based that there is little effective progressivity.

For example, in Denmark, the top marginal tax rate is 55.9%, and it applies to all individuals earning just slightly above the average income. In an Australian context, this would be akin to the top marginal tax rate of 47% kicking in at an annual income level of $100,000, rather than the current $190,000 threshold. In Sweden, all taxpayers pay a municipal income tax of 32% with no tax-free threshold, and a further national tax of 20% applies to incomes over SEK625,000 (approximately $100,000).

Hamilton is correct that Nordic countries tax trust income at a flat rate, but this is because trusts, as they are known in common law jurisdictions like Australia, do not exist in Nordic legal systems.

Most economists would accept that investment income should be taxed in proportion to the consumption it funds. Since income comprises savings as well as consumption, the tax on investment income either needs to be lower than that on labour income to more approximate consumption, or the tax shifted to cashflow (that is, consumption itself).

The appropriate lesson to be drawn from the experience of the tax regimes in Nordic countries, Australia, and the USA, is that to provide an adequate level of investment, the tax rate on investment income needs to discounted relative to labour income. One would hope that this is the duality that Hamilton had in mind.

Seemingly missed however is that Australia already has a dual income tax within the superannuation system, with most income taxed at 15% and capital gains on assets held over a year at 10%. By inference then, Hamilton's dual tax proposal would need to extend beyond the superannuation system. This would likely impact dividend imputation, negative gearing, and accounting for inflation in capital gains (the so called 'discount').

Unclear is how a dual income system sits alongside the government's proposed 30% tax on higher super balances, including on unrealised capital gains. Particularly given the risk that once established, this model could leech beyond superannuation and become a broad-based wealth tax, including on the primary home. Such a ‘wealth’ tax would compromise the simplicity and efficiency of the current superannuation tax regime and significantly weaken Australia’s capital and investment markets.

These issues reflect the complexity of reforming Australia’s tax system. Thus, in contrast, we believe the Government's top reform priority should instead be tackling Australia’s persistently weak productivity growth.

Australia’s high tax rates and complex tax system undoubtedly contribute to its productivity challenges. However, an even greater barrier is the size, scope, and overactivity of the country’s bureaucratic and regulatory apparatus. This vast system, greatly expanded over the past 25 years, offers substantial opportunities for reform.

Scaling back Government would not only ease the fiscal burden but also create the political space needed to advance meaningful tax reform. Fundamentally, reversing the rapid growth in Government spending must be a top priority.

Major reformers of the past understood this sequence well. Hawke, Keating, and Walsh addressed Government spending before turning to tax reform, just as Howard, Costello, and Fahey did in their time.

Based on the 2025 budget and before election commitments are accounted for, approximately $300 billion or 40% of Commonwealth government spending will be on welfare and housing. The NDIS will cost 50% more than Medicare. Interest payments, which were essentially nil some 18 years ago, will be $30 billion. And by the end of the forward estimates, interest payments will be the Commonwealth’s 5th largest spending program; more than that budgeted for Medicare, defence, or aged care.

Real economic reform starts not with improving the efficiency of revenue raising, but rather with restoring discipline in how revenue is spent. Until the government reins in its own appetite, any attempt at tax reform, is simply rearranging deck chairs on the Titanic.

Peter Swan AO is emeritus professor of finance at the UNSW Sydney Business School. Dimitri Burshtein is a principal at Eminence Advisory.

The Liberals need to return to Menzies’ values

Arthur Sinodinos

This is a lightly edited interview between Arthur Sinodinos, a former Liberal Minister and Chief of Staff to Prime Minister, John Howard, and ABC Radio National’s Sally Sara.

Sally Sara: You know from many levels how campaigns work. Where do you think this Liberal campaign has gone wrong? Is it from the leadership, the campaign manager? What's your assessment of what's happened?

Arthur Sinodinos: The easy answer is, all of the above. Clearly, there were issues between the leaders’ office and the campaign headquarters. There were clearly issues with the polling, of the veracity of some of the polling from the stories now coming out and from other stuff that I've heard.

But look more fundamentally, this is a structural issue for the Liberal Party. We've shown a tendency not to … reform or pick up the vibes over a long period of time, and often success has meant that you don't have to do that. You feel, well, we're going ok, what do we need to change? The reality is that you need to change because the world is changing around you.

And that doesn't mean ditching liberal values as they're no longer relevant. They're very relevant, but it's how you apply them to a changing world, and it also goes to how you engage with the community around you, and that means being representative of the community as much as possible. And there are clearly still some issues in that regard.

In New South Wales, I thought we always at the state level had a very good understanding and relationship with the ethnic communities, both from my own experience and what I saw in New South Wales - that's important.

Gender issues are important. This is not about wokeness or political correctness. It's about when we look in the mirror, do we represent the community that we aspire to represent, and that is the challenge going forward.

And Liberal values, the Menzian sort of values, many of those values are as relevant today as they ever were, and they go to things like the tolerance for each other, the respect for difference, how we approach actually solving problems.

It's not about culture wars. Culture wars are an artifact of a very fragmented social media landscape that we face now, but the culture wars will not win you government alone.

Yes, you have to stand up for values, but you have to do it in a way that relates to people and their needs now, and what the Labor Party did was to put together a policy offering that came good at the right time towards the end of the term, that clearly was better pitched at some of the needs of Australians. And we looked as if we were doing this in an ad hoc and reactive way. The grievance politics was not enough. We had to have our own coherent plan, and we didn't.

SS: What's driving this inertia? If there have been lessons there to be learned in the past, and there are certainly plenty from this election as well, why is that not happening in your view?

AS: I think part of it is because there are too many people in the Liberal Party who have fiefdoms that they want to protect. And so we have this old issue that the faction or the fiefdom comes first, rather than what is the central party interest.

We don't also have, as we did in the so-called old days, party grandees. These were the sort of people behind the scenes who could knock heads together, get people to be sensible, but who were taking a corporate view, a whole of party view of situations, rather than the situation today, where too often between factions, it's been winner take all.

I hear people today saying we should have gone more to the right, or we should have done this or done that. The reality is Australian politics is firmly grounded because of compulsory voting and preferential voting in the centre. So you have to pitch a broad tent, and that means you have to go to people where they are, rather than shove your own ideology down their neck. And Menzian Liberals are not ideologists. They're practical. They're pragmatic.

SS: How do you manage that, meeting voters where they are and going to the centre when in some cases, it's those who are closer to the centre who've been defeated in this election because the policies weren't right for that?

AS: Well, that tells you there's a disjunction between the policies and where people are, and the way to fix that is to actually listen to the voters - that's part of it - and then sit down and say, well, in accordance with our values, how do we address the issues people have got.

Housing is an example that is now a generational crisis in Australia. Young people facing the prospect of never being able to own their own home, that has to be a number one priority of any government. Clearly, we've got to do more than is being done now because we're not creating sufficient momentum to solve the problem, and young people are very concerned about that. At the moment, if you come out of university, you've got a HECS debt, you have a superannuation guarantee of at least 10% plus you want to try and save for a home - how's that going to work? So these are the challenges.

We've got to treat some of these things as crises, as urgent crises, just as we've got to treat defence and national security as a geopolitical issue that needs a lot more attention in Australia. Yes, there will be debates about how much we spend on defence, but the world around us is changing very quickly and in ways which are not necessarily in Australia's interests, and we have to address that.

There's a whole slew of these issues, economic reform, all of that has to be accelerated, and these are all things that can be done in accordance with long standing Liberal values. But we have to argue the case.

And we can't fatten the pig on market day. You've got to put in the work beforehand, and that requires, ultimately, leadership. It is leadership that will drive the party to do this, the Liberal Party group of individualists. You have to have people at the top who can herd the cats and basically set that direction. We've had those leaders in the past. We can have them again.

I mean, the situation the Liberal Party is dire, but it is not terminal. The Liberal party is one of the great election winning machines in Australia, and it can win again, but only if we do the hard work because that's how we've done it in the past.

SS: Arthur, what sort of role do you think Donald Trump's second presidency, tariffs and culture wars and the language of the Trump presidency has played in this election for the Liberal Party.

AS: To the extent that the world is now more uncertain place, if there are questions around our relationship with the US in economic terms, as other countries are questioning, and one of the most effective lines in the campaign, I thought, was Americanization of policies. That was clearly code for some of what is going on in the US and in Australia. I think in the end, they [the Australian voters] opted for a version of relaxed and comfortable over a leap into the unknown.

Arthur Sinodinos is a former Liberal Minister, Chief of Staff to Prime Minister, John Howard, and Australian Ambassador to the US.

Gold $5,000?

Campbell Harvey

"What motivates most gold purchasers is their belief that the ranks of the fearful will grow…. Beyond that, the rising price has on its own generated additional buying enthusiasm, attracting purchasers who see the rise as validating an investment thesis. As 'bandwagon' investors join any party, they create their own truth — for a while."
—Warren Buffett [Letter to Shareholders, 2011]

The price of gold was on a historic ascent before the April 2, 2025 tariffs announcement. In March, gold had eclipsed a significant milestone, surpassing $3,000 an ounce for the first time ever. Even on an inflation-adjusted basis, gold achieved an all-time high.

Then the new tariffs sent equity markets plunging. Market sentiment turned decidedly bearish and the benchmark S&P 500, which had already fallen into correction territory earlier in the year, declined even further in the trading days that followed, before recovering.

Given this backdrop, is gold poised to go even higher in the months and years ahead? After all, in the flight to safety that accompanies equity market swoons, with its low correlation to stocks and reputation as an inflation hedge, gold is regarded as the quintessential safe haven asset. Indeed, unlike few other investments, gold has proven its mettle as a store of value for much of human history, with a track record of millennia rather than decades or centuries. Might that make it especially appealing in times like these?

To answer these questions, we first need to explore the traditional and non-traditional tailwinds that may be behind gold's recent trajectory. Two potential drivers, in particular, stand out: economic uncertainty and increased atypical gold investment, particularly the process of de-dollarization.

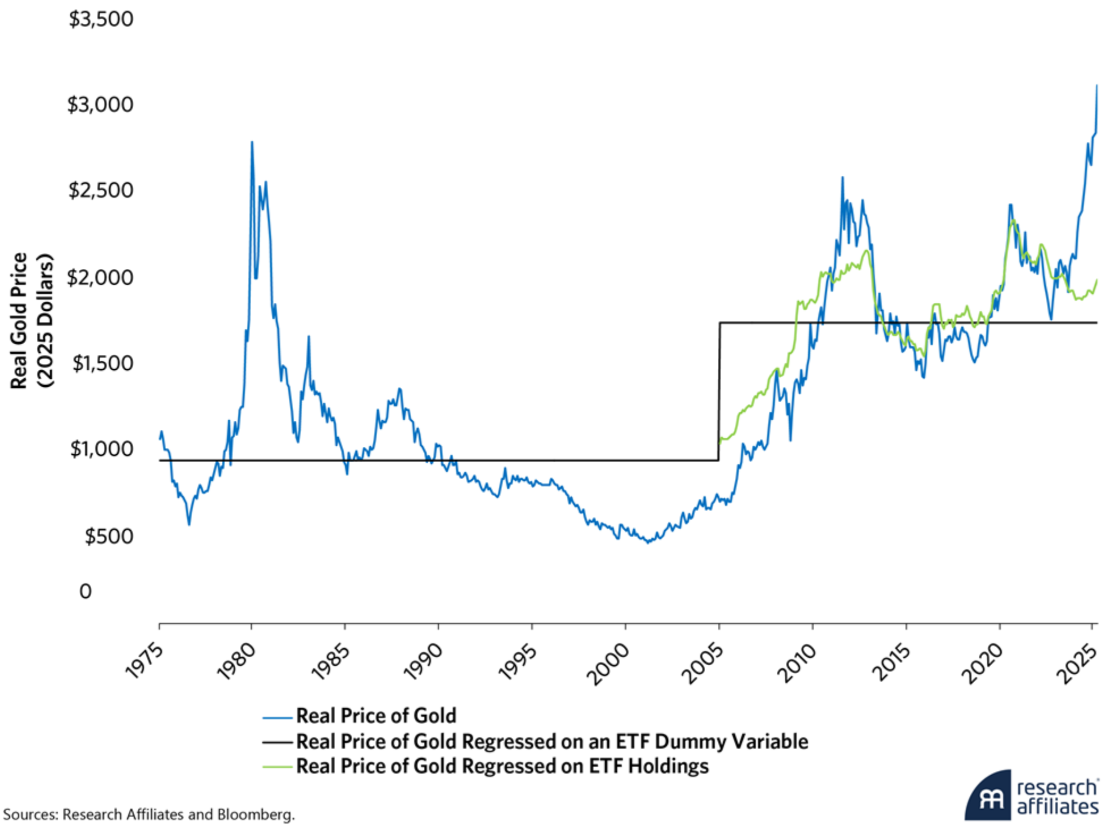
The long- and medium-term forces impacting gold prices

Over the past 15 years, the financialization of gold, with the introduction of gold exchange-traded funds (ETFs) and gold-backed stablecoins, for example, has reshaped the gold market. While gold-based futures and derivatives have existed for some time, gold ETFs gave retail and institutional investors alike the ability to add gold to their portfolios in a simple way. Though some investors hold gold coins or even bullion, physical gold has two big risks: It can be stolen, which makes security expensive, and has an illiquid physical market. As easy as it is to buy gold at Costco, it may not be so easy to sell. Financialization removes these impediments.

Figure 1 shows the relation between the real price of gold and the amount of gold held by SPDR Gold Shares (GLD) and iShares Gold Trust (IAU), the two top gold-owning ETFs, as measured in troy ounces, which are about 10% heavier than traditional ounces. The real gold price is the nominal price of gold divided by the CPI. This represents the price of gold in 2025 dollars.

The green line in the graph shows a significant relationship between ETF holdings and the real price of gold. Indeed, the average price of gold shifted upwards (black line) after financialization. This indicates a long-term impact on the price of gold.

Figure 1. Gold ETF Holdings May Have Impacted the Real Price of Gold (January 1975 – March 2025)



Sources: Research Affiliates and Bloomberg.

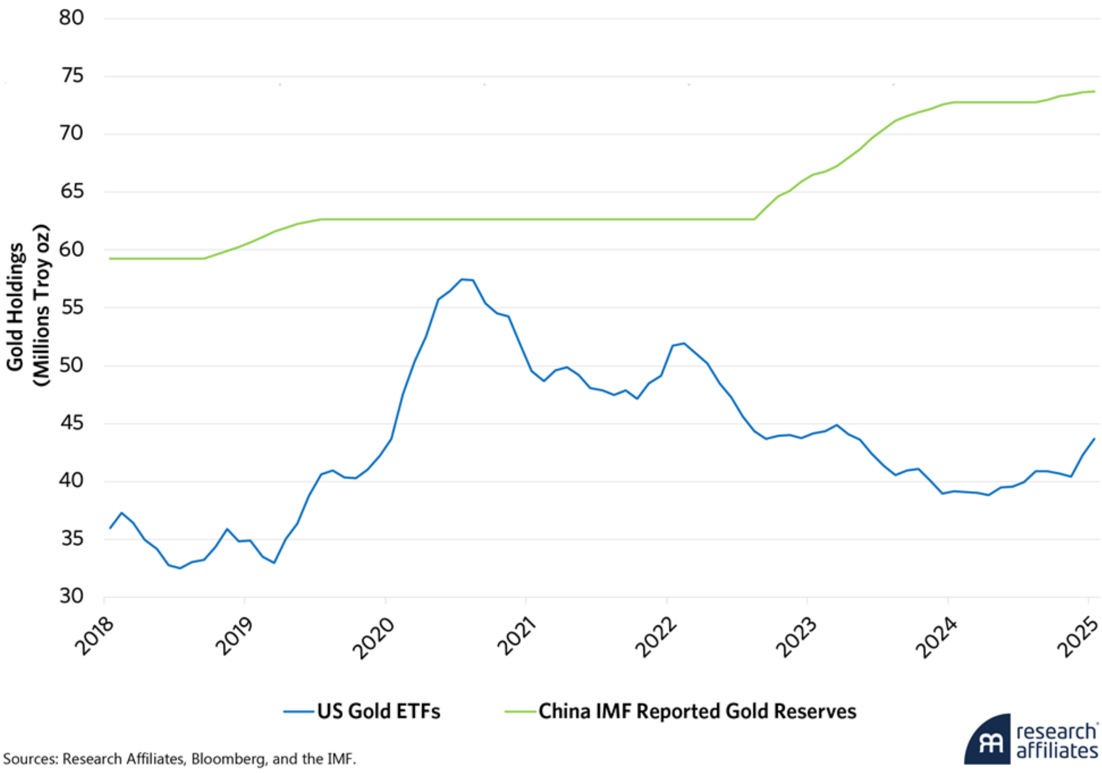
The medium-term influence is the trend towards de-dollarization. While this likely began in 2022, it is highly relevant even today. De-dollarization accelerated after the Russian invasion of Ukraine in February 2022. In retaliation for the Russian attack, the United States weaponized the U.S. dollar and imposed severe economic sanctions, cutting Russia off from the SWIFT global banking system, among other measures.

China took note. Since the 1944 Bretton Woods agreement, the U.S. dollar has served as the global reserve currency. This has given the U.S. outsized influence in world trade even if, since 1971, the dollar is no longer backed by gold. If the U.S. could deploy the dollar to isolate Russia, it could do the same to China. To mitigate this risk, China needs to wean itself from the U.S. dollar.

In order to accomplish that, China had to increase its own currency's credibility on the global stage. Buying more gold helps. China's official holdings have risen 15%, or by 336.2 metric tons, since November 2022.

Figure 2 shows China's gold holdings next to those of gold ETFs. As the gold holdings of ETFs have stalled or declined since their peak during the COVID-19 pandemic, China's de-dollarization-related purchases have picked up the slack. Importantly, Figure 2 reports the 'official' holdings. Many believe that China has conducted significant non-official accumulation of gold as well. Indeed, it is in China's best interest not to pre-announce a significant buying program—which would immediately increase the price of gold.

Figure 2. China's Official Gold Holdings Compared to ETFs
(March 2018 – March 2025)



Sources: Research Affiliates, Bloomberg, and the IMF.

Obviously, gold is not like paper currency. Central banks cannot simply turn on the printing presses and churn out a fresh supply. Gold production is expensive and not easily ramped up in response to rising demand. In 2024, 3,330 metric tons were produced according to the World Gold Council, and the 2025 figures are not likely to be much higher (or lower). So, with few if any levers to pull on the supply side of the equation, the principal mechanism to address increased gold demand is higher prices, in other words, $3,000-plus an ounce.

While de-dollarization has been ongoing for quite a while, it has accelerated during recent tariff uncertainty. Tariffs mean less global trade. Since the dollar is the world's reserve currency, less trade means less demand for the dollar to finance that trade. As such, countries sell U.S. bonds and invest in gold and other assets.

Gold imports

There has been a surge in gold imports over the past four months. Given the uncertainty about the final form of the tariffs, it is likely that some of the imports of gold (and other goods) are designed to get ahead of the tariffs. The Federal Reserve Bank of Atlanta, in its GDPNow forecast, suggests that the surge in gold imports accounts for 2% of GDP. Indeed, they are forecasting approximately -2% real growth in GDP, largely driven by gold imports. Importantly, gold is classified as a financial asset by the Bureau of Economic Analysis (BEA) – gold is not a 'good'. It is unclear whether the initial GDP release will confusingly include the gold imports or exclude gold. However, the point is not the treatment of gold in GDP calculations but the magnitude of the imports. Some of the imports represent the movement of gold from offshore vaults. The other part of the imports is likely due to fresh demand. Again, given the limited supply of gold, extra demand immediately impacts prices.

The Golden Constant and The Golden Dilemma

So, given these forces and their role in gold's current elevated price, how safe is gold as a safe haven asset? That's the critical question in navigating current markets and requires an examination of history.

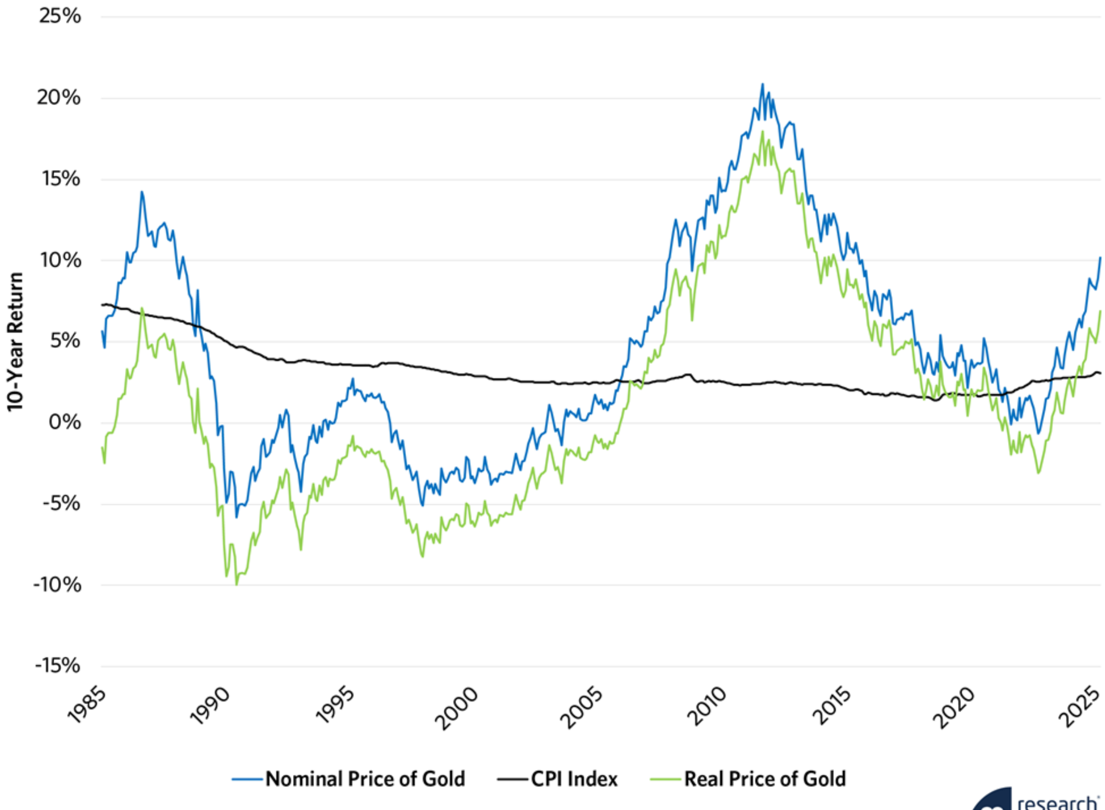
An important point to remember: Gold's reputation does not always align with reality. The notion of gold as an inflation hedge, for example, may not be as ironclad as some believe. With his concept of the "Golden Constant," Roy W. Jastram (1978) sought to demonstrate that gold's purchasing power, its "operational wealth," as he put it, was more or less unchanging over time, in a sense, immune to inflation. Whatever a particular amount of gold could buy 2,000 years ago was about as much as the same amount could buy today.

I revisited Jastram's work in "The Golden Dilemma" (2013) with Claude B. Erb. We validated Jastram's thesis that the real price of gold was approximately constant over millennia. We calculated how much Roman centurions were paid in gold 2,000 years ago. Their wage in gold, when converted into dollars, closely matched that of a U.S. Army captain today.

However, investors don't have horizons of millennia or even centuries. Erb and I show that over shorter horizons gold is a highly unreliable inflation hedge. The reason is simple: Gold is volatile and has about as much return volatility as the S&P 500. Inflation rates are not so volatile; inflation's volatility is less than 2% on an annualized basis.

The difference in the volatility of gold and inflation is starkly represented in **Figure 3,** which compares 10-year gold returns with the 10-year inflation rate. The sample starts in 1975, when U.S. investors were once again permitted to own and trade gold following the enactment of Public Law 93-373.[1] The blue line represents the inflation rate, the CPI, which the real and nominal prices of gold should have tracked—assuming gold is a perfect inflation hedge. But, in fact, gold prices indicate little if any correlation to the 10-year inflation rate.

Figure 3. 10-Year Inflation Does Not Drive the 10-Year Real or Nominal Return on Gold (January 1975 – March 2025)



Sources: Research Affiliates and Bloomberg.

In the recent 20-year period, gold generally outperformed inflation and was thus a good hedge. But in the 20 years before, gold underperformed inflation and so was a poor hedge. This is exactly what we would expect when an asset with 15% volatility is used to hedge an asset with less than 2% volatility. It is an unreliable hedge.

So, if the new tariffs usher in a period of resurgent inflation, gold may not be an effective antidote.

Bear markets: Has the golden hedge held?

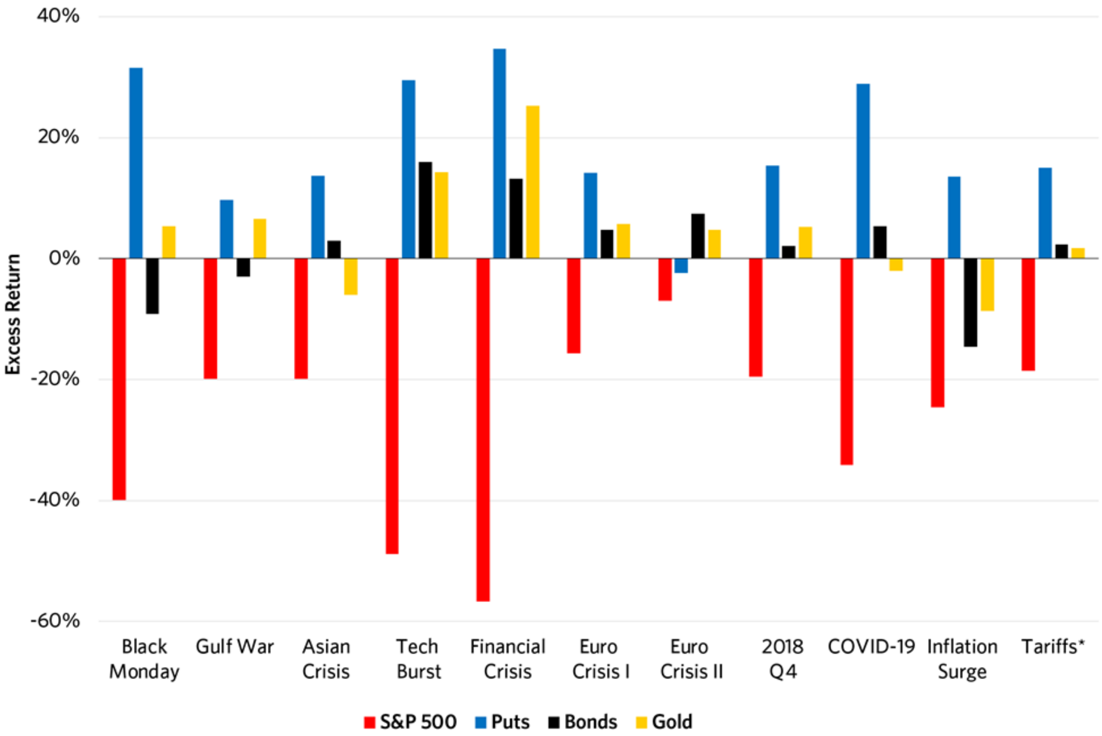
But what about the price of gold in market drawdowns? If gold is not always and everywhere an inflation hedge, might it still offer a reliable safe haven in market downturns?

To find out, we consider gold's performance in the 11 major stock market drawdowns.[2] For comparison, we also include two additional hedging candidates: Treasury bonds and S&P 500 puts taken 5% out of the money. **Figure 4** shows that the price of gold went up in eight of the 11 S&P 500 drawdowns. In the remaining three, the price fell but the drop was far smaller than the S&P 500's. Thus, gold provided some diversification benefit and could indeed be a valuable hedge against stock market volatility in the current environment.

Figure 5 shows a similar pattern during recessions. In three of the four recessions when the S&P 500 declined, the gold return was positive. In the 1990–1991 recession, when the S&P 500 rose, gold registered a small decline, which is consistent with its low or negative correlation to stocks.

Hedging performance must always be weighed against the cost of hedging. As Figure 4 and Figure 5 show, long puts work. But they work for a reason—they are very costly to implement.

Figure 4: Gold's Performance in 11 Major Stock Market Drawdowns



Note: S&P 500 represented by continuous full-sized S&P 500 futures contract (SP1 Comdty) switching to the more liquid S&P 500 E-mini futures (ES1 Index) 9/1997, Puts by the inverse of the CBOE S&P 500 PutWrite Index, Bonds by 10-Year U.S. Treasury Futures (TY1 Comdty), and Gold by Generic 1st Gold Futures (GC1 Comdty). The figures reflect local market peaks to troughs. *Tariffs run to a local trough on 4/8/2025. Dates follow Harvey et al. (2019).

Sources: Research Affiliates and Bloomberg. Performance shown is simulated. Please see our disclosures for more information.

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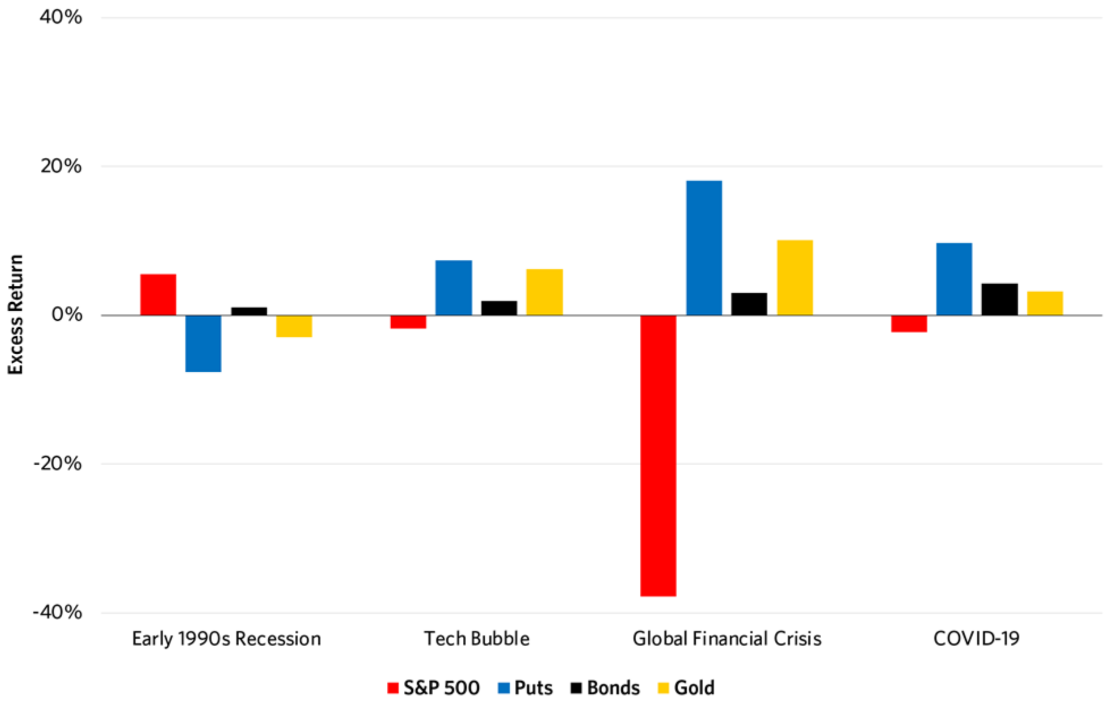
Figure 5. Gold's Performance During Recessions



Notes: S&P 500 represented by continuous full-sized S&P 500 futures contract (SP1 Comdty) switching to the more liquid S&P 500 E-mini futures (ES1 Index) 9/1997, Puts are represented by the inverse of the CBOE S&P 500 PutWrite Index, Long Bonds by 10-Year US Treasury Futures (TY1 Comdty), and Long Gold by Generic 1st Gold Futures (GC1 Comdty). Futures returns are in excess returns form. Recessions are as defined by NBER. Early 1990s Recession: July 1990–March 1991; Tech Bubble: March 2021–November 2021; Global Financial Crisis: December 2007–June 2009; COVID: February 2020–April 2020.

Sources: Research Affiliates and Bloomberg. Performance shown is simulated. Please see our disclosures for more information.

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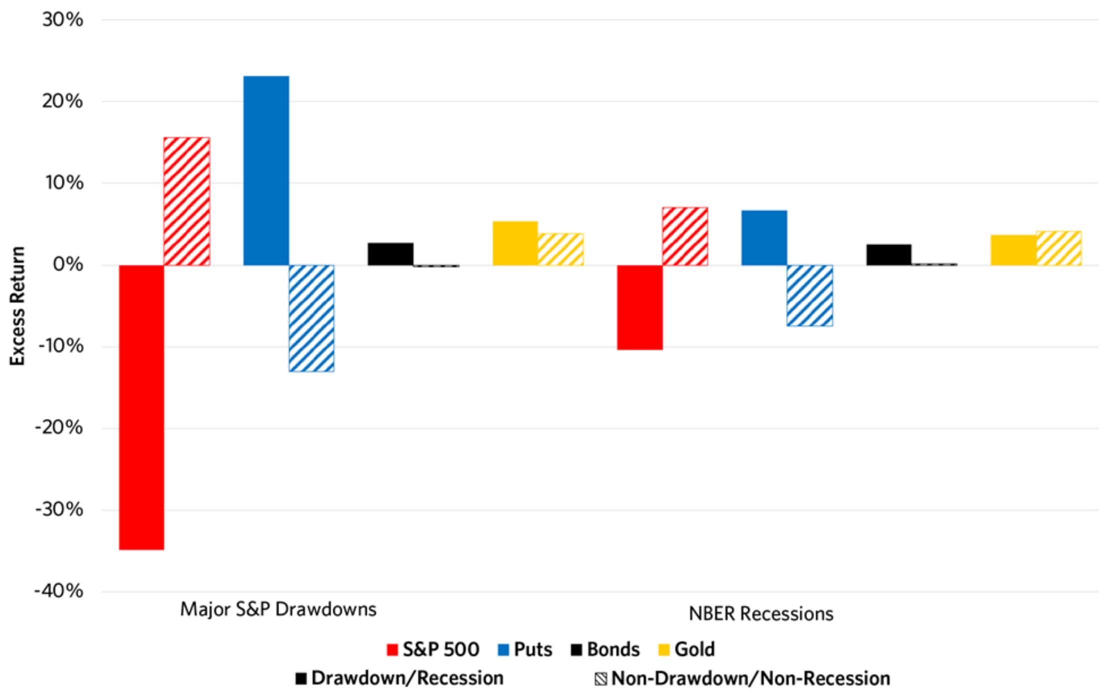
Figure 6. Annualized Performance in Crisis and Non-Crisis Periods



Notes: S&P 500 represented by continuous full-sized S&P 500 futures contract (SP1 Comdty) switching to the more liquid S&P 500 E-mini futures (ES1 Index) 9/1997, Puts are represented by the inverse of the CBOE S&P 500 PutWrite Index, Long Bonds by 10-Year US Treasury Futures (TY1 Comdty), and Long Gold by Generic 1st Gold Futures (GC1 Comdty). Futures returns are in excess returns form. Major S&P Drawdowns as defined are from peak to trough. Recessions are as defined by NBER. Dates follow Harvey et al. (2019).

Sources: Research Affiliates and Bloomberg. Performance shown is simulated. Please see our disclosures for more information.

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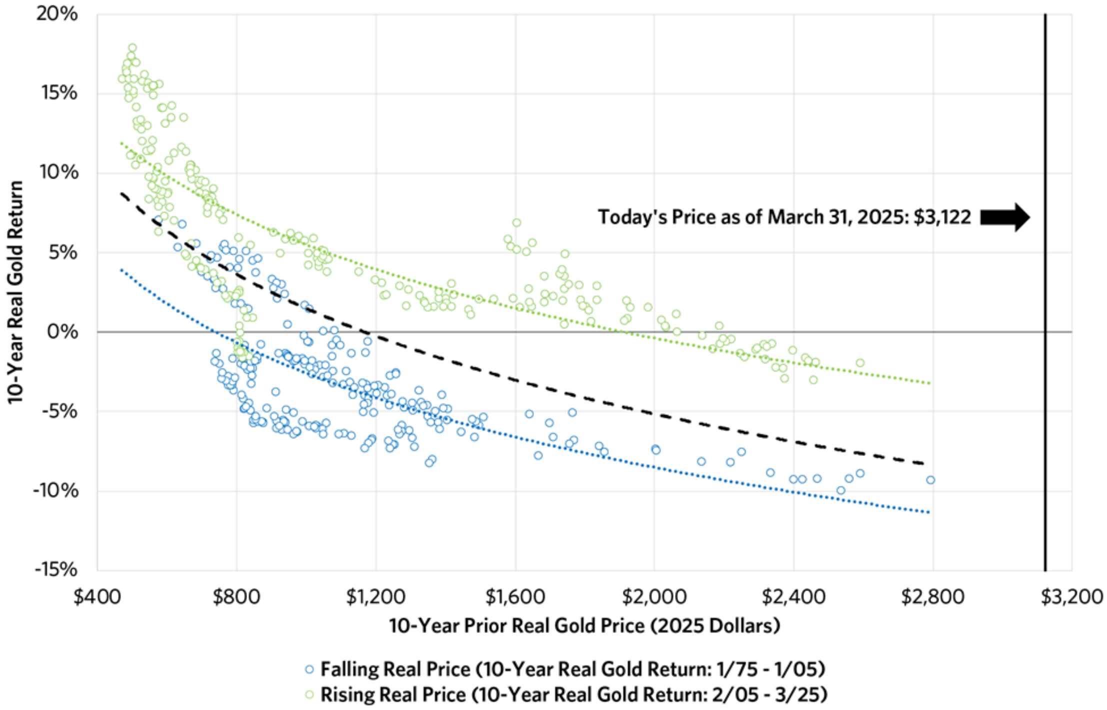
High real gold prices: What comes after?

Currently, gold prices are at or near all-time highs. If gold prices revert towards the mean, they may not offer much in the way of protection. Looking back, gold's performance in the years following price peaks has tended to be low or even negative. **Figure 7** shows that 10-year real gold returns are low following highs.

Figure 7. High Real Gold Prices are Associated with Low Future Gold Returns (January 1975 – March 2025)



Notes: Blue represents falling gold prices from January 1975 through January 2005. Green represents rising gold prices from February 2005 to March 2025. Breakpoint reflects the launch of U.S. gold ETFs. The dotted green and blue lines reflect the line of best fit for sub-periods. The black line reflects fit for full period.

Sources: Research Affiliates and Bloomberg.

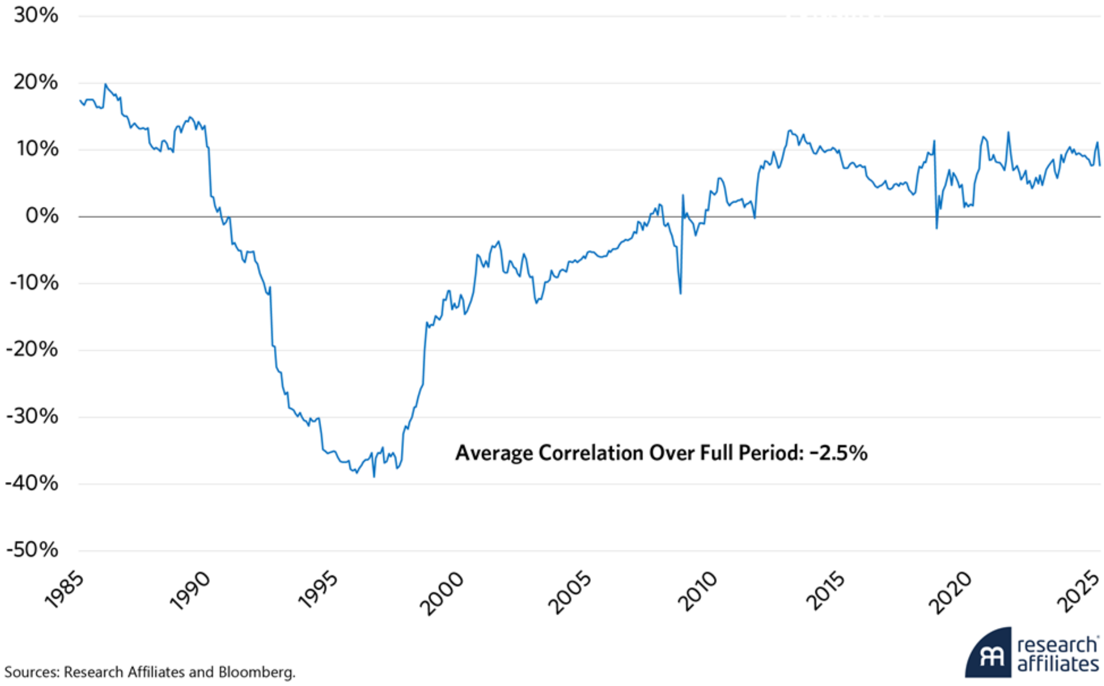
Addressing the Golden Dilemma

The golden dilemma that Erb and I first proposed more than a decade ago remains unresolved: Either this time really is different and recent trends in gold prices represent a new normal and a perhaps permanent structural change, or gold prices will revert towards their historical mean.

Certain key points are worth remembering. The first and most obvious: Gold is volatile—as volatile as the S&P 500. But while it may not offer reliable protection against inflation, gold is relatively uncorrelated to the stock market. **Figure 8** shows the average correlation is near zero. While the correlation has increased over the past 25 years, it is less than 10% today.

This low correlation qualifies gold as one among a class of assets and strategies that provide protection in market drawdowns, inflationary episodes, and recessions. But gold should *not* be the only asset in this sleeve. Diversified commodity portfolios, inflation-protected bonds, and such positive convexity strategies as long put options and trend-following strategies may offer similar downside protection.

Figure 8. Rolling 10-Year Correlation S&P and Gold Futures (February 1975 – March 2025)



Sources: Research Affiliates and Bloomberg.

Warren Buffett's admonition about gold's potential flaws as an investment is worth keeping in mind. "Gold," he opined, "has two significant shortcomings, being neither of much use nor procreative. True, gold has some industrial and decorative utility, but the demand for these purposes is both limited and incapable of soaking up new production. Meanwhile, if you own one ounce of gold for an eternity, you will still own one ounce at its end."[3]

In the end, gold has a long history as a hedging asset with consistently low correlation to the stock market. But expectations must be tempered. Gold is as volatile as the stock market. That means that we cannot always count on gold to do the job.

Further, the golden dilemma still exists. The real price of gold resembles a price-to-earnings ratio for equities. Very high P/Es are often followed by low expected returns. Gold's historical record suggests a similar pattern. The dilemma is that this time *might* be different. A collapse in confidence in the U.S. dollar as the world's reserve currency could thrust gold into a new regime.

Campbell Harvey, PhD is a Partner, Senior Advisor and Director of Research at [Research Affiliates, LLC](). This article is general information and does not consider the circumstances of any person. Please read our disclosures concurrent with this publication: https://www.researchaffiliates.com/legal/disclosures#investment-adviser-disclosure-and-disclaimers.

End notes

1. This law was effective December 31, 1974 and repealed parts of the Gold Reserve Act of 1934.
2. This is an update of the analysis in Harvey et al. (2019).
3. Buffett, Warren. Ibid.

Are pension rules impacting fertility?

Pelin Akyol, Kadir Atalay

Australia's fertility rate has dropped to a historic low level of 1.5 births per woman, well below the replacement rate of 2.1 required to maintain a stable population. One factor affecting fertility decisions may be the availability of childcare, as it helps reduce financial and logistical barriers to child-rearing. Grandmothers are a vital source of informal childcare support for many families. However, policies that increase the labour market participation of older women, such as raising the Age Pension eligibility age from 60 to 67, may reduce grandmothers' availability to provide childcare.

This note investigates an underexplored trade-off in policy design: how measures encouraging work among the older population can unintentionally impact their offspring's fertility rates. Specifically, it investigates how changes to Age Pension eligibility age may have reduced grandmothers' availability for childcare, subsequently influencing their daughters' fertility decisions. Given Australia's low fertility rates and aging population, this note highlights the trade-offs in designing policies that encourage labour force participation among older people without negatively affecting fertility.

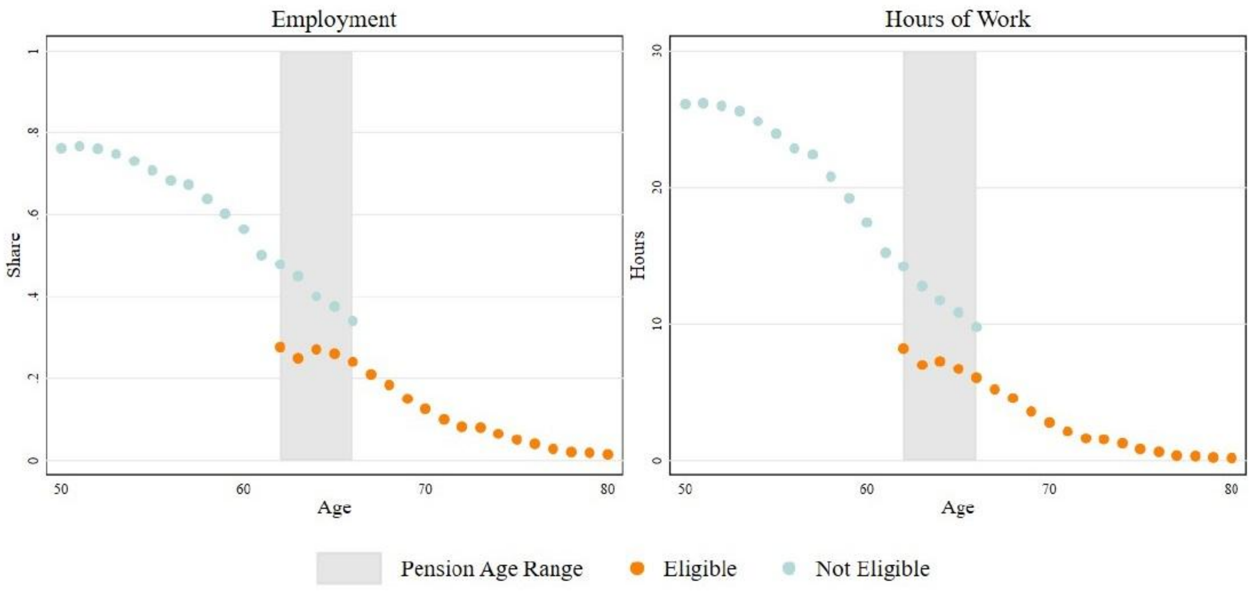
Our results show:

- The increase in the pension eligibility age delayed grandmothers' retirement, increasing their employment rate from 25% to 36%, and hours of work by 3.9 hours per week.
- Having a grandmother who qualifies for the pension based on her age increases the likelihood that her daughter will have a child, from 69% to 73.5%, and increases the average number of children per woman from 1.47 to 1.56. This effect on the average number of children per woman is comparable to the impact observed with the introduction of paid parental leave policies.
- Among daughters in lower-wealth households and those with lower educational attainment, grandmother's pension eligibility had a larger effect on fertility, suggesting that access to grandparental childcare may play a greater role in fertility decisions for these groups.
- The increase in pension eligibility age reduces grandmothers' ability to provide childcare by keeping them in the labour market longer. Grandmothers who are age-qualified for the pension are more likely to provide childcare, whereas those who work longer hours are less available for caregiving.

Fertility decisions are shaped by a range of factors, often reflecting a trade-off between career prospects and family planning. Support systems/arrangements, such as free or grandparental childcare, play a crucial role in easing the financial burden of child-rearing. The recent Productivity Commission report on early childhood education and care underscores the importance of grandparental childcare, highlighting its spillover effects: caring for grandchildren can act as a barrier to working for grandparents and lead them to reduce their working hours to provide this support. However, less attention has been paid to the reverse dynamic: policies aimed at increasing labour market participation among older individuals may reduce the availability of grandparental childcare, potentially impacting fertility choices among their offspring.

Census data reveal that grandparental care is predominantly provided by women, with the share of women caring for other children — likely their grandchildren — peaking around their age pension (AP) eligibility age. This pattern underscores the trade-offs they face between caregiving and labour market participation.

Figure 1: Effect of age pension eligibility on women's labour market outcomes by age pension eligibility



Sources: e61 Institute; HILDA Survey Release 22.0

What is the effect of pension reform on the labour supply of older women?

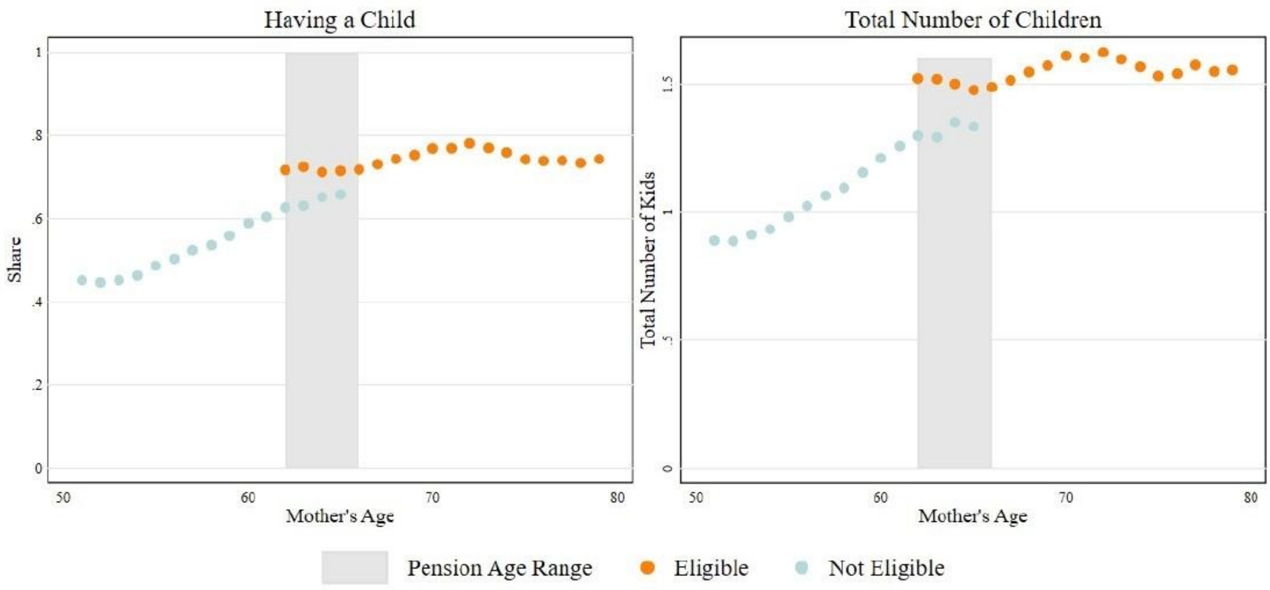
The Australian AP reform has gradually raised the minimum age for AP eligibility for women from 60 to 67, increasing by six months every two years since July 1, 1995, to decrease the fiscal cost of the aging population. Using data from the Household, Income, and Labour Dynamics in Australia (HILDA) survey, Figure 1 illustrates that women eligible for the pension based on their age[1] have lower employment rates and work fewer hours per week compared to those who are not eligible. However, this raw comparison does not account for the differences between cohorts, which are influenced by the gradual implementation of the reform. For example, consider two women born in June 1952 and June 1954, respectively. The woman born in 1952 would qualify for the pension at age 65, while the woman born in 1954 would qualify at age 66. As a result, when these women are 65 years old, one becomes eligible for the pension based on age, while the other would still be ineligible. These differences in outcomes by pension eligibility reflect not only the staggered rollout of the policy, but also the varying social and economic contexts experienced by different birth cohorts. As a result, women from different cohorts may have been influenced by varying economic, social, and labour market conditions, potentially confounding the observed relationship between pension eligibility and employment outcomes. Therefore, it is important to control for these differences.

To address this, we control for observed and unobserved, time-invariant factors affecting labour market outcomes, such as cohort-specific differences.[2] After accounting for individual differences, our analysis shows that the employment rate among grandmothers eligible for the pension is 25%, compared to 36% for those who are ineligible. Additionally, eligible grandmothers worked 3.9 fewer hours per week. These results suggest that the Australian pension reform was effective in keeping older women in the labour market, achieving its intended policy goal.

What is the effect of mother's age pension eligibility on the fertility of daughters?

Women whose mothers are eligible for the AP based on their age are more likely to have children and have more children on average, compared to women whose mothers are of similar age but ineligible (Figure 2). However, this association may also reflect cohort differences, as women whose mothers qualified for AP earlier belong to older cohorts that may have different norms, socioeconomic conditions, and characteristics.

Figure 2: Effect of mother's age pension eligibility on fertility of daughters by age pension eligibility



Sources: e61 Institute; HILDA Survey Release 22.0

After taking into account individual, age- and year-specific factors, we find that having a mother eligible for AP increases the probability of having a child from 69% to 73.5% and increases the average number of children from 1.47 to 1.56. These effects are more pronounced for women in lower-income households and those without a university degree, suggesting that grandparent support is likely more important for women facing greater financial or social constraints.

The observed impact of grandmother's AP eligibility on the average number of births is around 4.5%, comparable to the effect of introducing paid parental leave policies, which increased the average number of births by 5% through improved childcare support and reduced financial burdens.

How does grandmothers' pension eligibility affect their childcare provision?

The most plausible mechanism linking grandmothers' AP eligibility to their daughters' fertility is the availability of informal childcare. Pension reform delayed grandmothers' retirement, which could have reduced their ability to provide childcare to their grandchildren. Our results confirm this, showing that grandmothers eligible for pension based on their age are more likely to provide childcare, with the proportion increasing from 59.4% to 63.4%. Additionally, the frequency of care increases with their pension eligibility.

We examine grandmothers' hours of work to understand whether this increase in childcare provision is driven by the reform's effect on grandmothers' labour market participation. Our analysis shows that once we account for the hours worked by grandmothers, the effects of pension eligibility on the provision and frequency of childcare become smaller and less pronounced. Moreover, grandmothers who work longer hours are less likely to provide care for their grandchildren and tend to do so less frequently. Overall, our findings suggest that pension eligibility increases grandmothers' availability for childcare by reducing their labour market participation.

These findings suggest that pension reforms that increase the eligibility age can have unintended intergenerational consequences on fertility. While such policies aim to improve fiscal sustainability and labour market outcomes, they may inadvertently reduce the availability of grandparental childcare, influencing daughters' fertility decisions. This highlights the importance of designing policies that balance the needs of an aging population with support for young families.

[1] Throughout this note, pension eligibility refers only to age-based eligibility, excluding income, assets, or residency criteria.
[2] We also include year-fixed effects and potentially time-varying characteristics such as education, region, etc.

Dr. Pelin Akyol is an Economist and Research Manager at e61 Institute. Professor Kadir Atalay is a Postgraduate Research Coordinator (Economics) at the University of Sydney. The the full report, including references, appendices and disclaimers can be accessed here.

Profiting from panic: inside the mind of a contrarian investor

James Gruber, Zahid Kassam

This is an interview between Firstlinks' James Gruber and Zahid Kassam, Portfolio Manager at MFS Investment Management. Kassam co-manages MFS' Contrarian Capital Strategy, a global long-only equities fund, and he recently visisted Australia.

James Gruber: How would you define contrarian investing?

Zahid Kassam: I think it's recognizing that human nature is enduring, first and foremost. It's the classic fear and greed cycle, and Mr. Market going into bouts of excessive optimism and pessimism. And it's the classic Warren Buffett: you want to be greedy when others are fearful and vice versa. Philosophically, I would say that's where we start.

In practice, we're looking for areas of controversy in the market, companies that are having a tough time, tough end markets. Maybe management has stubbed their toes on the way, and they've put the business in a tough spot, and then we dig under the hood to see if there's an asymmetric upside/downside opportunity.

We're trying to build in a margin of safety by paying a low enough price relative to the intrinsic value of the business. And that's really how we think about the process of contrarian investing.

We think probabilistically as well. I think that's an important part of being a contrarian and the simple way is: when something is out of favor, the odds might be in our favor.

JG: In other words, when it's out of favor, the pricing might be such that you can get above average returns…

ZK: That's right. The other thing is that the lower the price we pay, the less certain we have to be about the future as well. So a lot more upside and optionality in a good outcome and hopefully the downside is already in the price.

JG: Contrarianism could open you up to catching so-called falling knives. How do you avoid this?

ZK: Lessons learned the hard way, multiple times, and then hopefully we avoid making the same mistakes and learn from them.

But I think there are some key enemies of the contrarian and value investor. Balance sheet leverage is first: you want a good balance sheet position so that you have the duration to see a crisis through with the company. Turnaround plans often take longer than you would think. My rule of thumb is, if you think it's going to take two years, double it, it's going to take four years.

You want to avoid the debt spiral. Imagine a company undergoing a turnaround, a tough part of the cycle hits, and they have to sell their best asset at a fire sale price at the wrong time. That is the enemy of a value investor.

Then, highly complex businesses as well. Complicated business models, a lot of policy sensitivity, those types of things - it's hard to underwrite. We've found over time, a lot of those end up in the value trap category as well.

JG: You are a bottom-up investor – does that mean ignoring macro news altogether or does it still play a role in your stock picking?

ZK: We don't forecast, but I'd say we are macro aware.

We do think about a very wide range of outcomes for each company. What does the blue sky scenario say as opposed to running into a recession on the downside? What do trough conditions with trough valuations look like for a company? And then we try to figure out, what is that individual security pricing in within that macro range of outcomes as well, and so we use macro in terms of what's in the price and when bad news is already discounted in the price.

Does that give us an opportunity to step in, do more work, and buy the security? That's when we're more likely to be interested.

JG: Value funds have had a tough few years – do you think the tide has finally turned for value?

ZK: It's always tough to make that prediction. Over the course of the last 100 years, value investing has worked, and humans haven't changed. So hopefully yes, but it's hard to say.

A couple different things we're looking at around that question. Valuation dispersions in the market have stepped up a little bit relative to the recent past. They're not as high as prior peaks - for example, during the COVID pandemic - but they have stepped up a little bit, and that's usually a decent sign for value.

Interest rates are higher and valuations are elevated. And if you want to look elsewhere for value, maybe prospective returns going forward might be better for those types of value opportunities.

In the meantime, we focus on individual stocks in the portfolio. So we're not just a value factor or value bet.

There are three areas of opportunity that we look at. There are the deep value ideas - capital cycle investing I mentioned, the restructurings, which I've referenced as well, and then compounders with controversy. We'll call them distrusted quality. These are not your classic kind of value types of opportunities, but they're great businesses that come at value prices every once in a while.

That’s a long-winded way to answer your question. Is this the moment for value? We try to make the portfolio asymmetric regardless, and then hope the market comes our way.

JG: Your fund is significantly underweight the US. Does that simply mean that you're finding a lot of other opportunities elsewhere?

ZK: That's right. Bottom-up stock picking, stock by stock, more asymmetric opportunities in Europe, for sure, a little bit in Asia as well.

An interesting thing is when you look at long run valuation, US markets have traded at a 15% premium to Europe, but it peaked at something like 40% premium. That was probably the day Trump was elected. The phrase, US exceptionalism, it was the first time I had heard that phrase – it was probably that day that it was a 40% premium for the US market versus Europe.

I think in the US, there are a lot of companies with peak multiples on peak earnings. Europe, on the other hand, great bottom up valuations, and not a lot has to go right in Europe. Peace with Russia and Ukraine, lower energy prices, room to cut interest rates, trade deals, fiscal stimulus in Germany - not a lot of this is in the price for a lot of these securities, and that gives you an insight into the shape of the portfolio.

JG: One of the larger holdings in your portfolio is the Irish low-cost airline, Ryanair – tell us why you've invested in that company?

ZK: In terms of the opportunity to buy airlines, you get lots of shots on goal anytime there are worries about the consumer. There was Brexit, then COVID, of course. Lots of opportunities to buy airlines in a value-oriented portfolio.

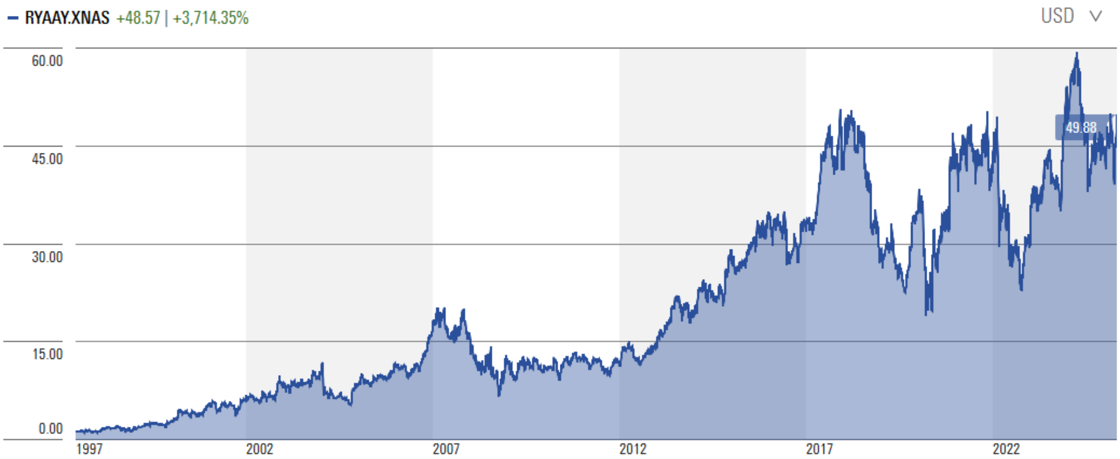
The reason why we like Ryanair is they have a structural low cost advantage over all the other airlines, which results in a virtuous cycle - the lower their costs are, the cheaper they can make fares for passengers, the more revenues they generate because they have more passengers, the more they can scale their costs over a larger base, which means lower costs. And you can pass it back to passengers again. And so that cycle continues.

The other thing what they do in a down cycle, they buy planes when no one else wants to buy planes because everyone is worried about the world. So they're acting counter cyclically, which is great for economics.

Then, they also buy back shares and return capital again at times of the cycle when you would want.

That makes them a well-positioned business in a tough neighborhood. They will be the ones that will last, and that's really the thesis.

Ryanair Holdings ADR



Source: Morningstar

JG: Digressing from markets. You're based in Canada – what are your thoughts on the results of the recent election there and the changing dynamics between Canada and the US?

ZK: The dynamics are definitely more challenging. We have the term 'elbows up' now on the Canadian side. So that tells you where things are going.

There are a couple of silver linings I would point out, though. First, the political drama and attention has led to really high voter turnout and civic engagement. And that's a good thing in the long run.

The other thing is, if you think of Canada as if it's a company, it had a very concentrated customer base, ie, the US. Maybe this is a wakeup call to say, let's think about our economic model. Maybe we should diversify our revenue base and lower the risk.

Not an ideal situation, but as they say, you should never let a good crisis go to waste.

Zahid Kassam is Portfolio Manager at [MFS Investment Management](), a sponsor of Firstlinks. Kassam co-manages MFS' Contrarian Capital Strategy, a global long-only equities fund. Recently, MFS launched its Global Contrarian Equity Trust for Australian institutional and wholesale investors. This article is for general informational purposes only and should not be considered investment advice or a recommendation to invest in any security or to adopt any investment strategy. It has been prepared without taking into account any personal objectives, financial situation or needs of any specific person. Comments, opinions and analysis are rendered as of the date given and may change without notice due to market conditions and other factors.

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America's green transition is taking a beating

Peter Zeihan

This is an edited transcript of a video talk given by geopolitical strategist, Peter Zeihan, on the green transition in the US.

Today we are going to talk about the end of the green revolution in its current form - at least in the United States. There are three things that have come together to basically destroy the economics of the green transition. And then, a couple of things on the side that are making it more difficult anyway.

The first has to do with the baby boomers. Two-thirds of them have retired, which means that all of the money they were saving for retirement has been liquidated and gone into less exciting financial instruments such as Treasury bills and cash. That means there's less capital available for everything. So, we've roughly seen the cost of capital in the United States increase by a factor of four in the last five years, which has nothing to do or very little to do with Government policy. It's just that there's less money available in the system overall. So, mortgage rates go up, car loan rates go up. Anything that needs to be financed goes up. And that's a real problem for green tech.

When you're looking at, say, a conventional thermal power plant, coal, natural gas, that sort of thing, you only pay for about one-fifth of the cost of the life of the plant at the front end. That's your upfront construction. Then about two-thirds of the expense over the full life of that power plant is the fuel coal or natural gas, and you buy that as you go.

That's not how it works with wind and solar. With wind and solar, about two-thirds of the cost has to be paid up front. And that means it has to be financed. Well, if you increase the cost of financing by a factor of four, all of a sudden you're talking about a financial commitment that's huge compared to what it would have been just five years ago. And that is now happening across the entire space. That alone would have probably ended 70% of the power plants that are solar and wind just off the top.

The second problem, of course, is that because you have to finance everything up front in the first place, anyone who wanted to do the green transition really needed a helping hand from Government, typically at the Federal level. The Biden administration, through things like the Inflation Reduction Act (IRA), was very big in providing that financing. Well, that's basically gone to zero under the Trump administration. So your financing costs have gone up by a factor of four, and you don't have any outside help. But the real killer, especially for solar, has now been the tariffs.

Almost all of the photovoltaic (PV) cells that are used in solar systems are produced in China, oftentimes with slave labor. While most of the folks in the green transition were willing to overlook the slave labor thing in order to get the panels that they needed, you can't really overlook a 145% tariff. So, if the PV sales cost you 2.5 times as much and your financing cost has quadrupled, that's just not going to fly.

Now it's not quite as bad for wind because there are some non-Chinese providers of wind turbines, most notably in Northern Europe. There, we have a tariff at the moment of 10%. It was 20% a week ago, and that just introduces a lot of uncertainty into the system. So both of those things are gone. Wind, little on the edges maybe, and solar is absolutely out of the question for most people now.

The only other remaining piece is batteries. When the Biden administration slapped a lot of tariffs in early-2024 on Chinese electric vehicles to keep them out of the US market, what happened is the Chinese repackaged all of the EV batteries into container units to be sold as grid storage. And so in calendar year 2024, adding battery storage was the cheapest form of power that you could add to your system.

The Texans, in particular, boned up on that hugely. Because if you can have a battery grid system, it's better economics than having a natural gas peaker plant because peaker plants would normally only run a few days of the year. Instead, the batteries can take that load. As a result, Texas was the number one green energy state, using their solar system to generate power during the day, store the extra in the batteries, and then use that during peak demand and evening hours when the sun's going down. It worked really well and shaved 4-8% off power costs.

But now we have 145% tariff on all of those batteries as well. I don't want to say that that's going to stop cold, but the pace of the application is going to slow considerably because the Chinese dominate that space and we haven't built the industrial plant yet to fill the gap for ourselves. So for the moment, it’s likely to be a minimum of two years, probably, until we have a better battery chemistry, probably until we have better PVs, certainly until we have a more diversified manufacturing base, which is a ten-year process.

We're looking at the green transition taking a beating.

Peter Zeihan, founder of Zeihan on Geopolitics, is a geopolitical strategist, speaker and author. This article is general information and does not consider the circumstances of any investor. This is an edited transcript of Peter's video, The Fire Hose of Chaos: The Green Transition Is Over, posted on 1 May 2025.