Firstlinks
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Contents

Editorial

The first half of the year is over and how have markets fared?

The All Ordinaries Index returned 4.2% for the half and 9.5% for the financial year. That's pretty solid given the numbers exclude dividends and compare to total returns of close to 10% per annum over the past century.

However, Aussie stocks again lagged the US. The S&P 500 returned 5.5% for the half, and 13.6% for the fiscal year.

Standout stock markets year-to-date included the DAX which benefited from Germany turning on the debt tap to fund massive spending on defence and infrastructure. Also, Hong Kong did well, due to signs of an economic rebound in China, a revival in the IPO market, and AI sparking renewed interest in Chinese tech stocks.

Meanwhile, bonds underperformed, continuing a wretched run of losses.

Returns to June 2025

Indices (local currency)	Calendar YTD (%)	Financial Year (%)
All Ordinaries	4.2	9.5
S&P 500	5.5	13.6
Nasdaq	5.5	14.9
Nikkei 225	1.5	2.4
FTSE 100	7.2	7.3
DAX 30	20.1	31.1
Shanghai Composite	2.8	16.1
Hang Seng	20.0	35.8
Sensex	7.0	5.8
Bonds		
Australian 10yr	-0.26	-0.20
Commodities		
Gold (US/oz)	25.6	41.8
Oil (US/bbl)	-9.2	-20.1
Iron ore (US$/tonne)	-9.1	-10.8
Copper (US$/lb)	27.1	16.9
Bitcoin (US$)	14.4	73.2
Currencies		
$US/$A	4.8	-3.0
$A/GBP	4.0	10.5
$A/Euro	7.2	11.2

Source: Firstlinks

In commodities, gold, copper, and Bitcoin were all significantly higher in the 6 and 12 months to June. They partly benefited from the US dollar having its worst start to the year since 1973.

Iron ore and oil were the laggards among the commodities. Iron ore suffered from subdued Chinese demand, while oil picked up as the Middle East conflict started, though it quickly retreated when the battle ended.

The Aussie dollar did well as other countries cut interest rates earlier and at a faster pace.

The ASX higher on CBA, Telstra

Now onto the performance of ASX stocks. By sector, financials, communication services and industrials led the way in the first half. Healthcare was the only sector in the red, largely thanks to the 15% drop in CSL's share price. Materials were the other major sector to drag on the index, with falling iron ore and oil prices weighing on heavyweights, BHP, RIO and Woodside.

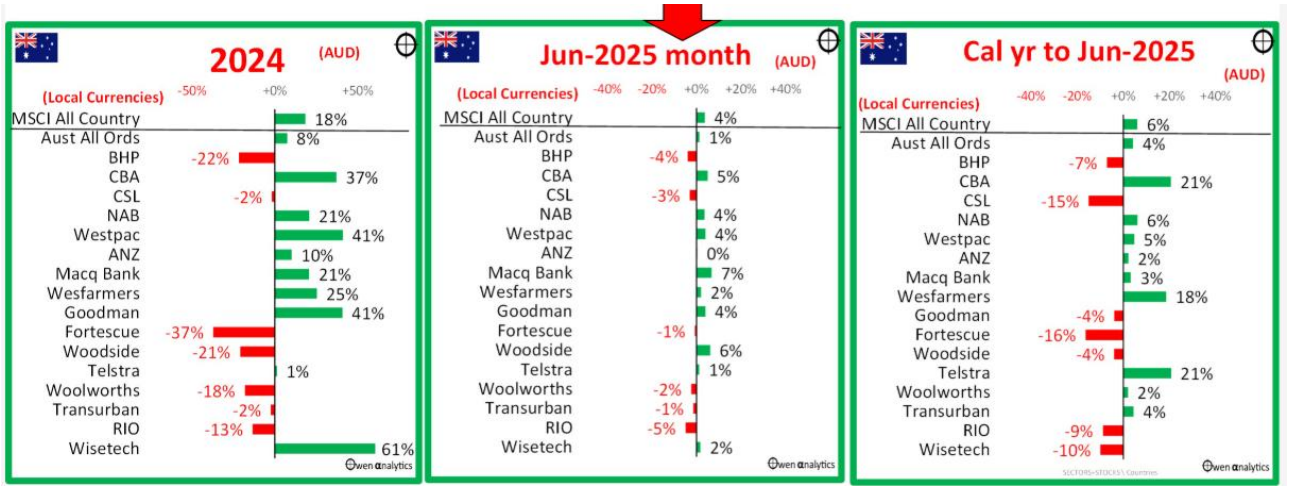
INDEX	Daily	MTD	QTD	YTD
S&P/ASX 200 (AUD)	0.33%	1.41%	9.50%	6.44%
Energy	-0.04%	9.01%	9.26%	3.59%
Financials	0.47%	4.28%	15.76%	12.79%
Real Estate	-0.13%	1.66%	13.10%	5.35%
Communication Services	0.44%	1.62%	14.10%	15.84%
Consumer Discretionary	0.98%	1.51%	10.15%	7.13%
Industrials	1.00%	0.91%	7.79%	10.63%
Information Technology	0.12%	0.72%	28.38%	5.97%
Utilities	-0.29%	-0.21%	2.03%	4.29%
Health Care	1.58%	-1.05%	2.69%	-6.64%
Consumer Staples	0.06%	-2.27%	3.97%	4.67%
Materials	-0.77%	-3.09%	-0.65%	0.02%

Source: S&P Global

Tech performed best on the ASX during the June quarter. This may be a sign that institutional investors aren't finding value in banks, and with mining stocks going nowhere, they're now switching to other sectors, including tech.

Looking at the performance of large cap stocks, CBA was the big winner, up 21% year-to-date. The rise and rise of CBA has perplexed investors, though it seems to have benefited from US market outflows, passive money, and few sellers as long-term holders don't want a large tax bill from selling the stock. At 31x price-to-earnings (PE), CBA trades like a tech stock yet doesn't have much earnings growth to justify the hefty price tag.

Telstra was the other notable large-cap performer, as first half earnings beat expectations.

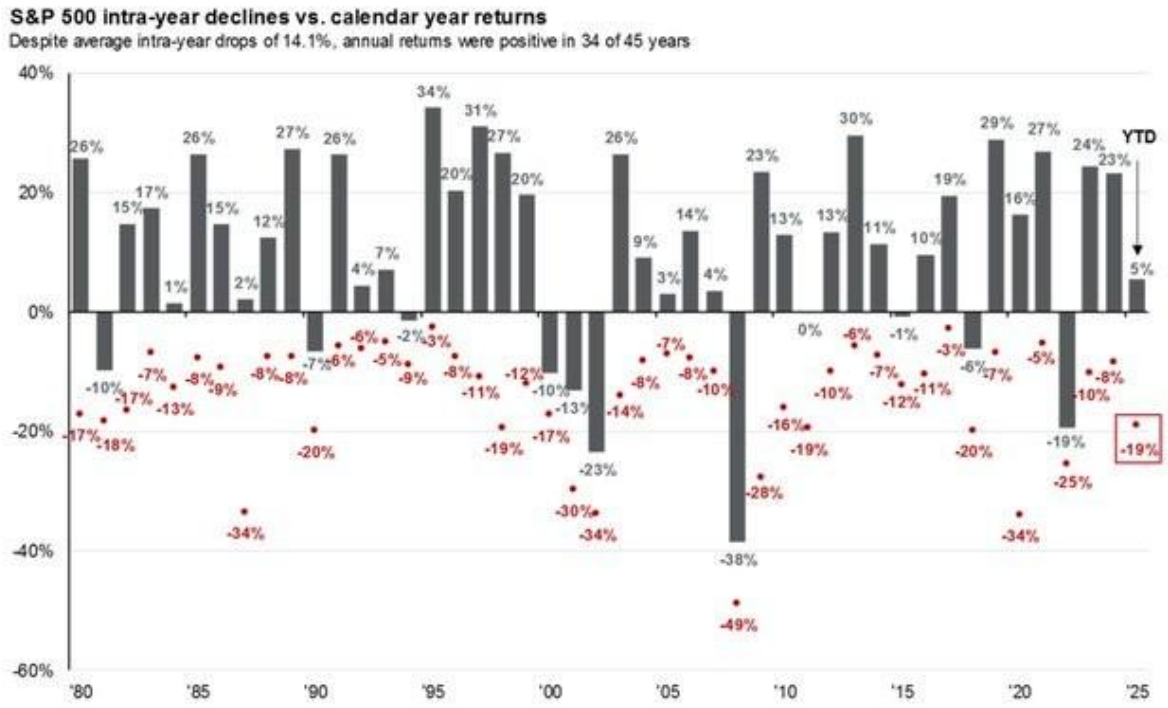


Digging deeper, growth and momentum factors continued to dominate on the ASX in the first half, up 9% and 7% respectively. Yet, low volatility stocks were the other significant outperformer, rising 9%. That seems to suggest that investors are searching for growth in technology and industrials but also looking for defensive exposure in the likes of CBA and Telstra.

US: the comeback king

The S&P 500 closed out the first half at an all-time high — its 5th of the year. A few months ago, that would've seemed impossible.

On April 8, the S&P 500 was down 15% in 2025, the 4th worst start to a year in history. Yet, it managed to finish the first half up 5.5%.



Source: JP Morgan

The Magnificent Seven tech stocks have been big drivers of US performance in recent years, though that was less the case in the first half. They were up 9% in the June half. Performance among the seven were more dispersed with three of them – Apple, Alphabet and Tesla – falling 18%, 7%, and 21%, respectively.

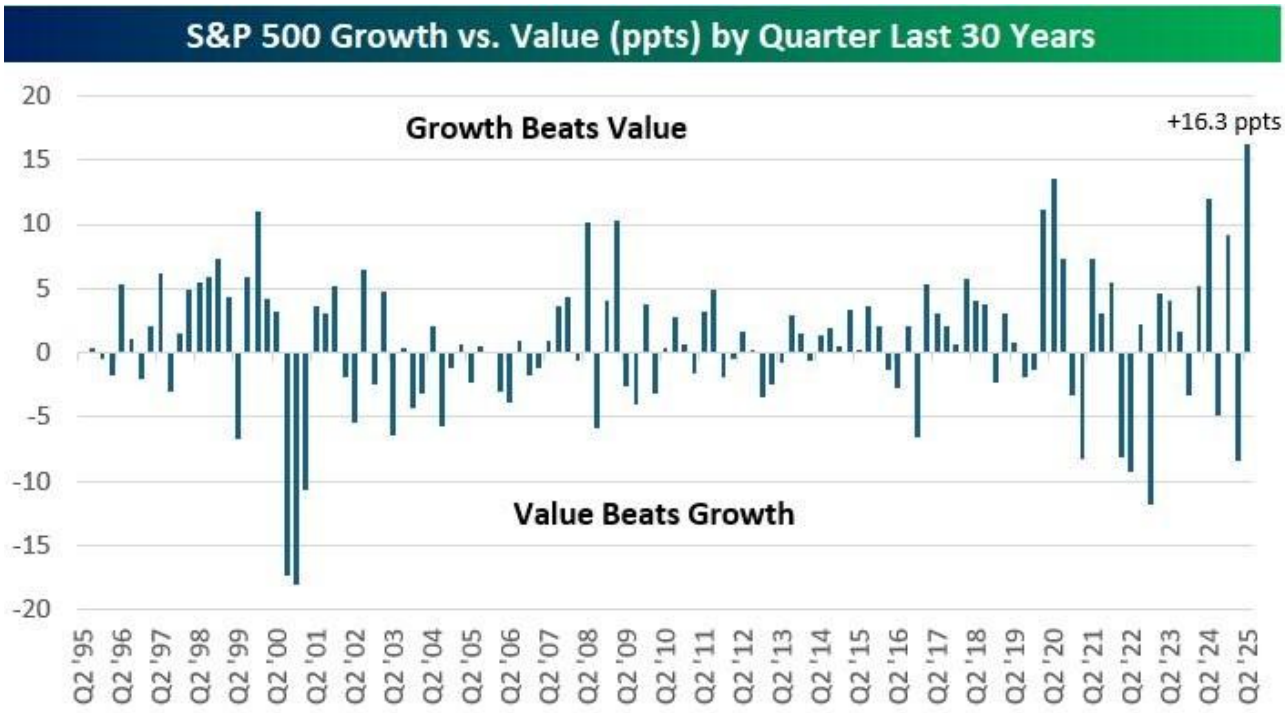
Interestingly, the Magnificent Seven now have a combined market capitalisation of A$27.3 trillion versus Australia's All Ordinaries Index's A$3.2 trillion.

Looking at the market's performance by sector, tech roared back in the second quarter of the year. Other outperformers were industrials, financials, and utilities. Meanwhile, underperforming sectors included consumer discretionary, healthcare, and energy.

INDEX	Daily	MTD	QTD	YTD
S&P 500	**0.52%**	**5.09%**	**10.94%**	**6.20%**
Information Technology	0.98%	9.77%	23.71%	8.05%
Communication Services	0.34%	7.28%	18.49%	11.13%
Energy	-0.66%	4.85%	-8.56%	0.77%
Industrials	0.52%	3.57%	12.94%	12.72%
Financials	0.88%	3.19%	5.52%	9.23%
Materials	0.12%	2.32%	3.13%	6.03%
Consumer Discretionary	-0.86%	2.23%	11.52%	-3.87%
Health Care	0.63%	2.05%	-7.18%	-1.11%
Utilities	0.40%	0.32%	4.26%	9.41%
Real Estate	0.76%	0.16%	-0.07%	3.51%
Consumer Staples	0.47%	-1.89%	1.11%	6.40%

Source: S&P Global

Like in Australia, growth stocks hammered value stocks. The second quarter saw the widest outperformance for S&P 500 Growth Index versus Value Index in the history of the two indices dating back to mid-1990s – the S&P 500 Growth index rallied 18.8% in Q2 versus a gain of 2.5% for S&P 500 Value Index.



Source: Bespoke Investment

The best performing stocks on the S&P 500 in the first half included Palantir, Newmont, Netflix, and Micron Technology.

Best Performing Stocks in the S&P 500 (2025)				
Rank	Symbol	Name	Industry	2025 Total Return
1	NRG	NRG Energy Inc	Electric Utilities	81.8%
2	PLTR	Palantir Technologies Inc	Software	72.9%
3	HWM	Howmet Aerospace Inc	Aerospace & Defense	69.3%
4	STX	Seagate Technology Holdings PLC	Technology Hardware, Storage & Peripherals	66.1%
5	GEV	GE Vernova Inc	Electrical Equipment	58.1%
6	SMCI	Super Micro Computer Inc	Technology Hardware, Storage & Peripherals	56.1%
7	CVS	CVS Health Corp	Health Care Providers & Services	56.0%
8	NEM	Newmont Corp	Metals & Mining	54.1%
9	DG	Dollar General Corp	Consumer Staples Distribution & Retail	53.2%
10	PM	Philip Morris International Inc	Tobacco	52.9%
11	GE	GE Aerospace	Aerospace & Defense	52.9%
12	UBER	Uber Technologies Inc	Ground Transportation	51.7%
13	JBL	Jabil Inc	Electronic Equipment, Instruments & Components	51.2%
14	NFLX	Netflix Inc	Entertainment	48.4%
15	MU	Micron Technology Inc	Semiconductors & Semiconductor Equipment	48.4%
16	CRWD	CrowdStrike Holdings Inc	Software	45.9%
17	MOS	The Mosaic Co	Chemicals	45.8%
18	DASH	DoorDash Inc	Hotels, Restaurants & Leisure	44.5%
19	CEG	Constellation Energy Corp	Electric Utilities	43.6%
20	CAH	Cardinal Health Inc	Health Care Providers & Services	42.5%

Source: Charlie Bilello

Money moving out of US stocks into other markets

After US stock dominance over the past decade, 2025 saw the first signs of money flowing out of America into other markets. While the S&P 500 was up 5.5% in the first half, the world ex-US rose 18%, with Europe leading the way.

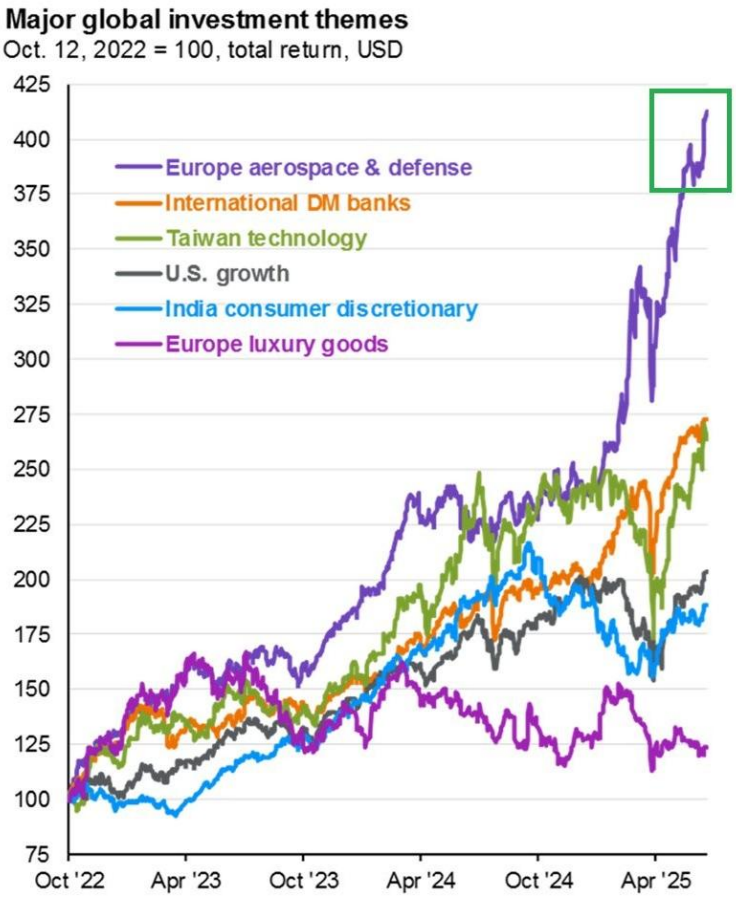
The four best performing markets in US dollar terms were European – Poland +55%, Greece +53%, Austria +43%, and Spain +42%.

Global Equity ETFs: 2025 Total Returns (in US $)								
Country/Region	Ticker	2025 TR	Country/Region	Ticker	2025 TR	Country/Region	Ticker	2025 TR
Poland	EPOL	54.5%	**Europe**	**VGK**	**24.1%**	Canada	EWC	13.9%
Greece	GREK	52.2%	Netherlands	EWN	23.8%	Japan	EWJ	13.1%
Austria	EWO	42.6%	Belgium	EWK	22.2%	Taiwan	EWT	11.8%
Spain	EWP	42.4%	Hong Kong	EWH	22.1%	Australia	EWA	11.0%
South Korea	EWY	39.0%	France	EWQ	21.4%	Philippines	EPHE	10.1%
Italy	EWI	35.4%	Switzerland	EWL	21.1%	**Total World**	**VT**	**9.8%**
Germany	EWG	35.1%	Singapore	EWS	20.7%	Denmark	EDEN	8.5%
Mexico	EWW	31.2%	**EAFE**	**IEFA**	**20.7%**	India	INDA	6.1%
Finland	EFNL	30.5%	Israel	EIS	20.2%	Qatar	QAT	6.1%
Colombia	COLO	29.9%	Vietnam	VNM	19.6%	**US**	**SPY**	**5.5%**
Eurozone	**EZU**	**28.2%**	United Kingdom	EWU	19.6%	Argentina	ARGT	3.3%
Brazil	EWZ	27.3%	China	MCHI	18.9%	New Zealand	ENZL	1.4%
South Africa	EZA	27.1%	**World ex-USA**	**ACWX**	**18.2%**	Malaysia	EWM	0.2%
Norway	NORW	26.7%	Kuwait	KWT	18.1%	Indonesia	EIDO	-2.8%
Chile	ECH	26.7%	UAE	UAE	16.6%	Saudi Arabia	KSA	-4.7%
Sweden	EWD	26.1%	Ireland	EIRL	16.0%	Turkey	TUR	-13.7%
Peru	EPU	24.7%	**Emerging Markets**	**IEMG**	**15.8%**	Thailand	THD	-15.8%

Trump's 'big beautiful bill' and tariffs eroded confidence in US assets and the US dollar, resulting in money flowing into Europe and emerging markets. Europe's commitment to significantly increase spending on defence and infrastructure also helped its cause.

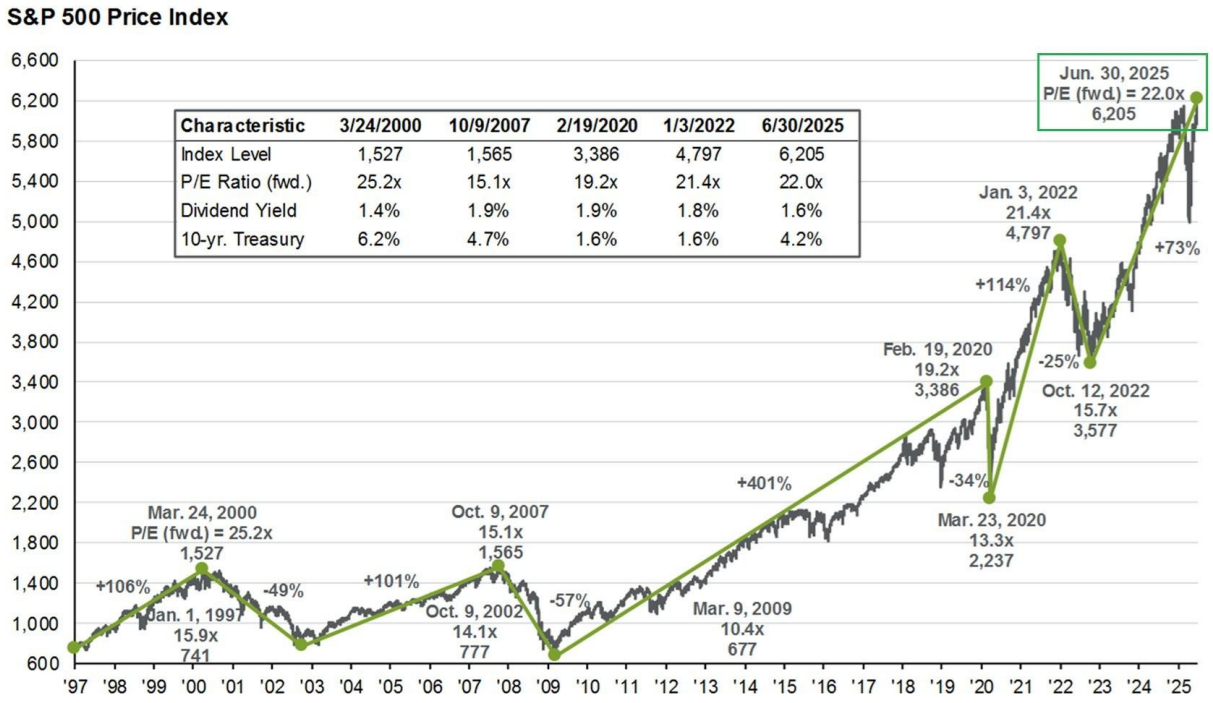
Where to over the next 6-12 months?

There's no shortage of macroeconomic risks that could impact markets. First, the three month deferral on Trump's tariffs expires over the next two weeks. There are also geopolitical risks, especially if Iran retaliates against recent US strikes. And Trump's 'big beautiful bill' should soon become policy, adding around $3 trillion to the US budget deficit, and risking further concerns about America's gargantuan debt load.

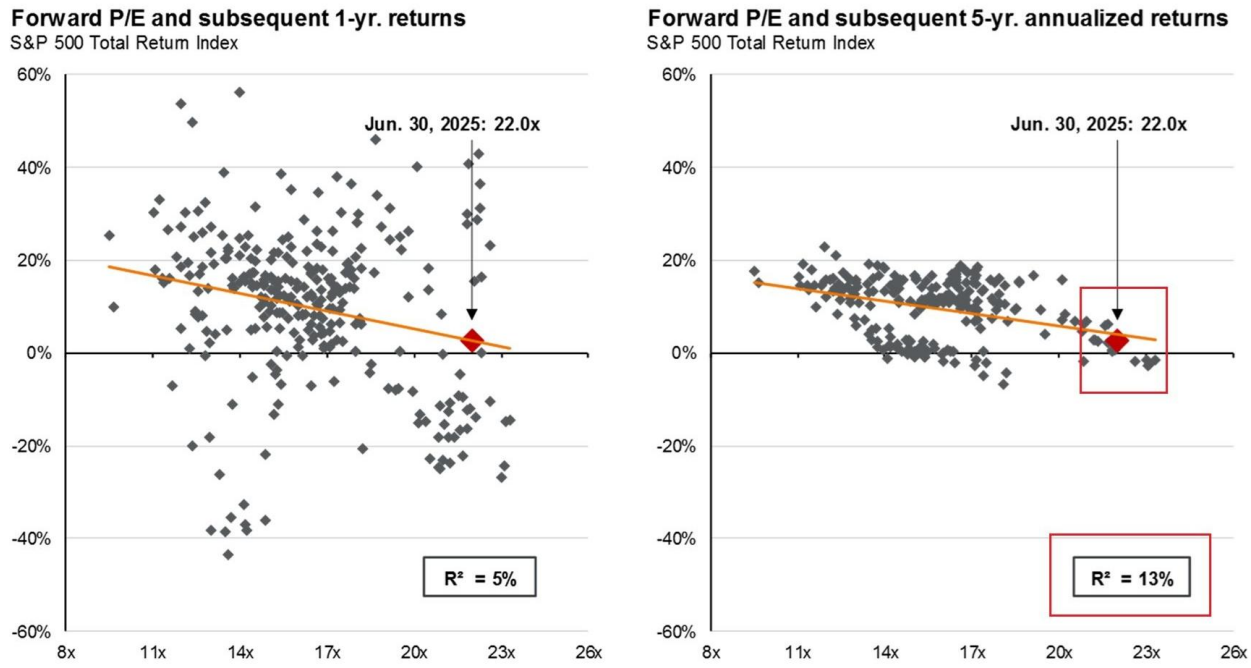


Source: JP Morgan

More fundamentally, valuations in most markets, including the US and Australia, look far from cheap. The US sports a forward P/E ratio of 22x, well above the historical average of 17x. At these levels, it doesn't bode well for future returns.



Source: JP Morgan

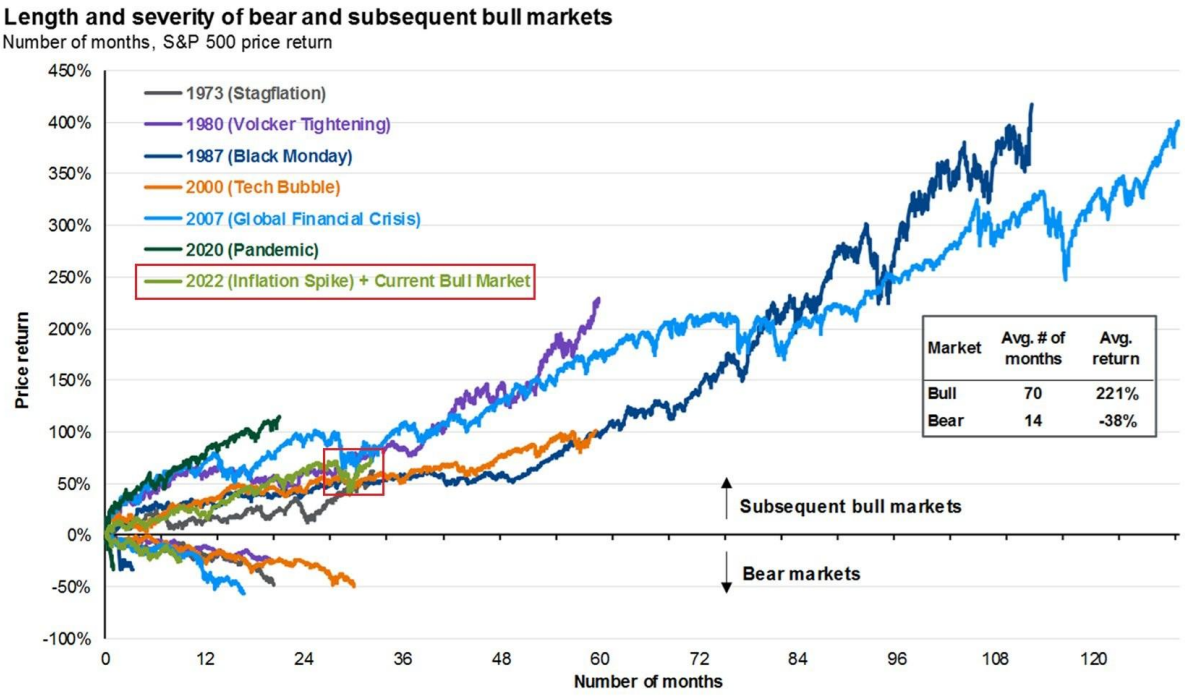


Source: JP Morgan

Australia is expensive at current levels too, with a forward PE of 19x compared to a historical average 15x. And unlike America, earnings growth is modest here.

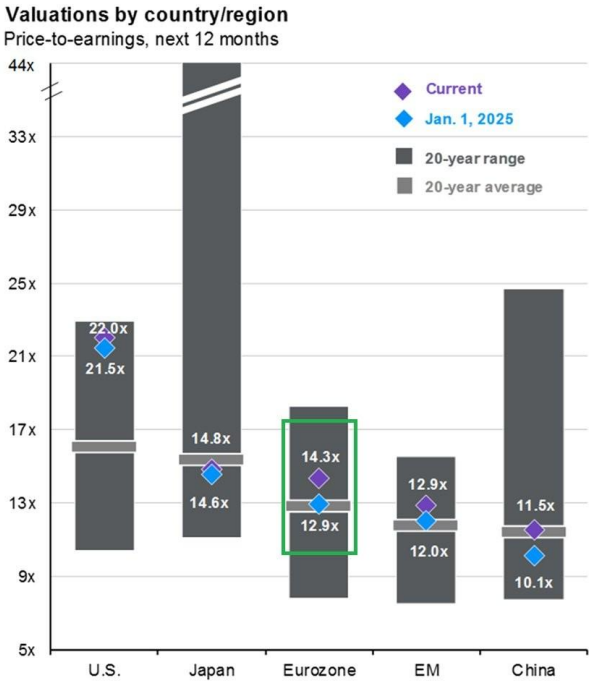
On the flip side, interest rate cuts could boost markets in the second half of the year. And while valuations are steep, earnings, especially in the US, are in decent shape.

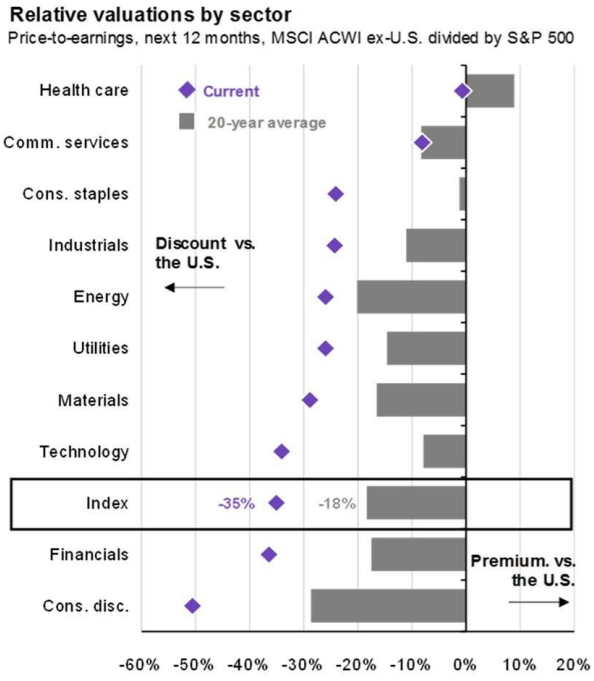
While there are signs of froth in sections of markets (cryptocurrency, AI, private credit), it isn't broad-based and pervasive enough to think a large pullback is imminent. There's also an argument that the current bull market may be in its early days.



Source: JP Morgan

One tentative prediction: the US share of the MSCI World Index may have peaked in December last year, and there's a good chance that money will continue to move out of American markets to the rest of the world. There's also the possibility that the rally in ex-US stocks could broaden to cheaper markets such as Japan and China.





As for Australia, the economic picture is pedestrian and so is the earnings outlook for companies. One thing to keep an eye on is the potential for a switch out of banks into the miners. Interest rate cuts are negative for bank earnings and one wonders if that switch may happen soon. Given the exorbitant valuations of the banks, especially CBA, it could be a sector rotation for the ages.

In my article this week, everyone has heard of Treasury's estimates of 80,000 people with super balances of more than $3 million dollars, yet little more is known of these people. An ANU study has unearthed new data on the income and wealth of these individuals and their capacity to absorb the super tax, including the tax of unrealised capital gains.

Meanwhile, **Tony Dillon** thinks the Division 296 tax is a mess. He says it penalises time and compounding, and is complex and unpredictable at a time when retirees need clarity and certainty of cashflow. Tony makes the case for an alternative, progressive tax model that aligns with income, encourages saving, and avoids harsh retirement penalties.

James Gruber

Also in this week's edition...

SMSFs have managed to match, or even outperform, larger super funds despite adopting more conservative investment strategies. **Tim Toohey** of **Yarra Capital Management** does a deep dive into the key drivers behind their strong performance - and the potential policy implications.

There are lot of different opinions on Australia's housing issues though it's not often that we get to hear from one of the largest property developers and what they're seeing in the market. In an interview with **First Sentier**, **Stockland's** development chief, **Andrew Whitson**, discusses supply constraints, government initiatives and green shoots in Australia's most troubled property market.

As the US debt ceiling looms again, the usual warnings about a potential crash in bond and equity markets have started to appear. **VanEck's Anna Wu** says investors can take confidence from history but should keep an eye on two main indicators.

US mega-cap tech stocks have dominated recent returns - but is familiarity distorting judgement? **Werner du Preez** of **Orbis** says investing success often comes from switching when it feels hardest to do so.

How would you have performed if you'd systemically bought a basket of the market's biggest losers? **Jeffrey Ptak** says you'd have done pretty well. He says that for the enterprising few with a healthy constitution and willingness to go their own way, opportunity beckons.

Lastly, in this week's whitepaper, ETFs that track the MSCI World ex Australia Quality Index are a popular investment for those seeking exposure to global companies with robust financials and stable earnings. Yet, **Pinnacle's Anthony Doyle** says the index has some significant weaknesses and he offers alternative ways to get quality stock exposure.

Curated by James Gruber and Leisa Bell

Here's what should replace the $3 million super tax

Tony Dillon

In my previous article, I derived break-even super tax rates required to allow for the cost of not being able to access super savings for up to decades. These rates increase with marginal income tax rates, yielding tax concessions adjusted for illiquidity, that rise with marginal rates. This analysis comes at a time when the proposed Division 296 superannuation tax is being hotly debated, particularly the unrealised capital gains tax component and non-indexation of the $3 million threshold.

Extrapolating from that article, if we must have an increase in superannuation tax - and more fiscal discipline would be preferable - then rather than introducing a Div 296 style tax for revenue raising purposes, it would seem more logical to implement a progressive scale of super tax rates, linked to marginal income tax rates. That is, replace the flat 15% tax rate on contributions and earnings with a scale of rates.

Such a structure would represent a discount to marginal tax rates, allowing for both the illiquid nature of compulsory super and the smoothing of real tax concessions across income levels.

Here's how it could work

Super tax rates could be determined by extensive data analysis and modelling, but for illustrative purposes, might look like this:

Marginal tax rate	Super tax rate
30%	15%
37%	17.5%
45%	20%

Note: while a super tax rate of 15% might align well with a 30% marginal rate, 15% would also need to apply to marginal rates of 0% and 16% to maintain parity with the current system and to prevent gaming. A 15% floor on the super tax rate would ensure individuals cannot exploit periods of none or low non-super income, deliberate or otherwise, to reduce super tax. And though a super tax rate of the order of 10% might be fair for a 16% marginal rate, the current Low Income Superannuation Tax Offset could remain in place to address that.

A progressive super tax arrangement would essentially be an income-based approach, reflecting the idea that super is really a deferred income stream or deferred salary, taxed consistently with other income.

As opposed to a Div 296 tax that is basically a quasi-wealth tax, taxing amounts above an arbitrary threshold, and not respecting how super balances have been accumulated to date. It would potentially tax compound growth built up over decades under accepted current tax settings and disincentivise longevity in the workforce.

This alternate approach would be administratively possible because infrastructure is already in place to handle the Division 293 tax, being the extra 15% tax on voluntary contributions made on income levels in excess of $250,000. The ATO links personal income tax data with super contributions.

Part of the motivation for Div 296 was for it to deal with ultra-high super balances that use the super system as a tax-preferred environment to shield wealth. A progressive system would therefore need a backstop of some sort, like a hard cap attached such that accounts cannot exceed a certain balance of say, $5 million.

An example

To gain a feel for some numbers, consider the following example.

An individual aged 27 who has just crossed into the 37% marginal tax rate bracket has $50,000 super accumulated to date and has 12% SGC contributions going into super, with no other contributions. Wages growth is 2.5% p.a., and the fund earns 6% p.a. before tax. Assuming ad-hoc government increases in tax thresholds over time, he doesn't push into the next tax bracket until age 47. According to the above scale, his super tax rate on earnings and contributions is 17.5% until age 47, and 20% thereafter.

At age 67, his super will have accumulated to $2.83 million. Had his super tax rate been a constant 15%, the fund would have grown to $3.13 million, and it would have reached the $3 million Div 296 threshold at age 66. Higher super tax rates have cost him $300,000, or about 9.5%, over the 40 years.

Some observations:

- On a tax rate of 15%, the worker would be liable for Div 296 tax before retirement age. That is, even young workers on modest salaries today can eventually be hit with this tax due to the non-indexation of the $3 million threshold.

- Yes, the individual would pay more tax throughout his working life under the progressive super tax scale but it would be consistent and predictable. Crucially, he would avoid the shadow of a Div 296 tax hanging over him in his retirement years, which could potentially erode more savings if his super balance continued to compound post retirement.
- This would be a moderate increase in tax to retirement in exchange for long term certainty and simplicity. There is no logic in placing a back-ended Div 296 tax on retiree funds at a time when unfettered access to savings is needed more than ever in retirement years.
- A progressive super tax system would avoid future shocks, with known rules around tax captured during a working life. It would essentially be pre-retirement reform as opposed to post, and it would align with existing tax structures.
- The system wouldn't penalise individuals who may end up with a balance of more than $3 million through working longer and/or having achieved superior investment returns.
- High income earners would still pay more tax but transparently and proportionally.

As an aside. A system that maintained a flat earnings rate tax of 15% with just the contribution tax rate varying according to marginal tax rate could also be possible. For example, the above case would yield a similar tax take over the 40 years, if the 37% marginal rate mapped to a contribution tax rate of 22%, and 45% to 30%. However, such a system would not be as clean as one with the same tax rate applied to both earnings and contributions.

From a revenue raising perspective, the Div 296 tax is projected to collect around $2 billion in the first year of operation across some 80,000 super accounts with balances in excess of $3 million. Being a more lump sum-based tax, the average tax take per person would be considerably higher from year to year than an income-based tax. But under my proposal, there would be a much broader base, with the extra super tax take commencing at income levels a little over average earnings across potentially millions of workers.

And there would be less chance of any behavioural erosion of the base under my approach as it would be more understandable and palatable to the electorate than the incoherent Div 296 tax.

Again, the ultimate position would be determined by modelling though a progressive tax system should raise moderate and consistent revenue per account over time from not just the wealthy but also average earning workers. A lower burden per person but with a far broader base could still see the required revenue raised.

In summary, the Div 296 tax penalises time and compounding. It is a new tax on existing savings, a retrospective, balance-based tax. And it is complex and unpredictable at a time when retirees need clarity and certainty of cashflow.

However, a progressive tax model, across income levels at a discounted marginal tax rate, wouldn't materially affect the retirement nest egg for middle to high income earners. A fairer, simpler, more ordered system, it would respect the accumulated value of savings built up in good faith under existing rules. And importantly, there would be no ill-considered tax on unrealised capital gains.

Tony Dillon is a freelance writer and former actuary.

Less than 1% of wealthy families will struggle to pay super tax: study

James Gruber

Labor first announced the $3 million super tax way back in February 2023 yet debate about its merits has only started to heat up since the election.

The government wants to increase the rate of tax on earnings from 15% to 30% on the portion of superannuation balances of more than $3 million. Critics have homed in on two areas of the plan. First, the lack of indexation. Second, that the extra tax will also apply to unrealised capital gains.

The latter has proven controversial given it's largely unprecedented globally, it's likely to be messy and complex, and it will undoubtedly lead to unintended consequences when it comes to investment decisions. There have even been suggestions that those holding illiquid assets like farms with limited income or other assets may be unable to cover the additional tax impost on unrealised capital gains.

Ben Phillips and Richard Webster from the ANU's Centre for Social Policy Research wanted to find out more about the income and wealth of those holding more than $3 million in super and whether they could absorb Labor's new tax.

Here are the study's key findings:

1. Around 87,000 individuals have super accounts with +$3 million.

That compares to Treasury's figure of 80,000. The authors concede that at least on this number, Treasury is probably more accurate given it has access to tax data whereas they've relied on ABS survey-based estimates.

At a broader household level, only 1.4% of households have super balances above $3 million. Around 90% of households have super balances of less than $1 million and almost 20% have no super at all. And the average household super balance is $387,000 while the median balance is just $143,000.

Household superannuation balances, 2025

Superannuation Balance (Household)	%
<$100,000	43.4
$100,000-$200,000	19.4
$200,000-$500,000	16.1
$500,000-$1m	11.6
$1m-$2m	6.4
$2m-$3m	1.7
$3m+	1.4

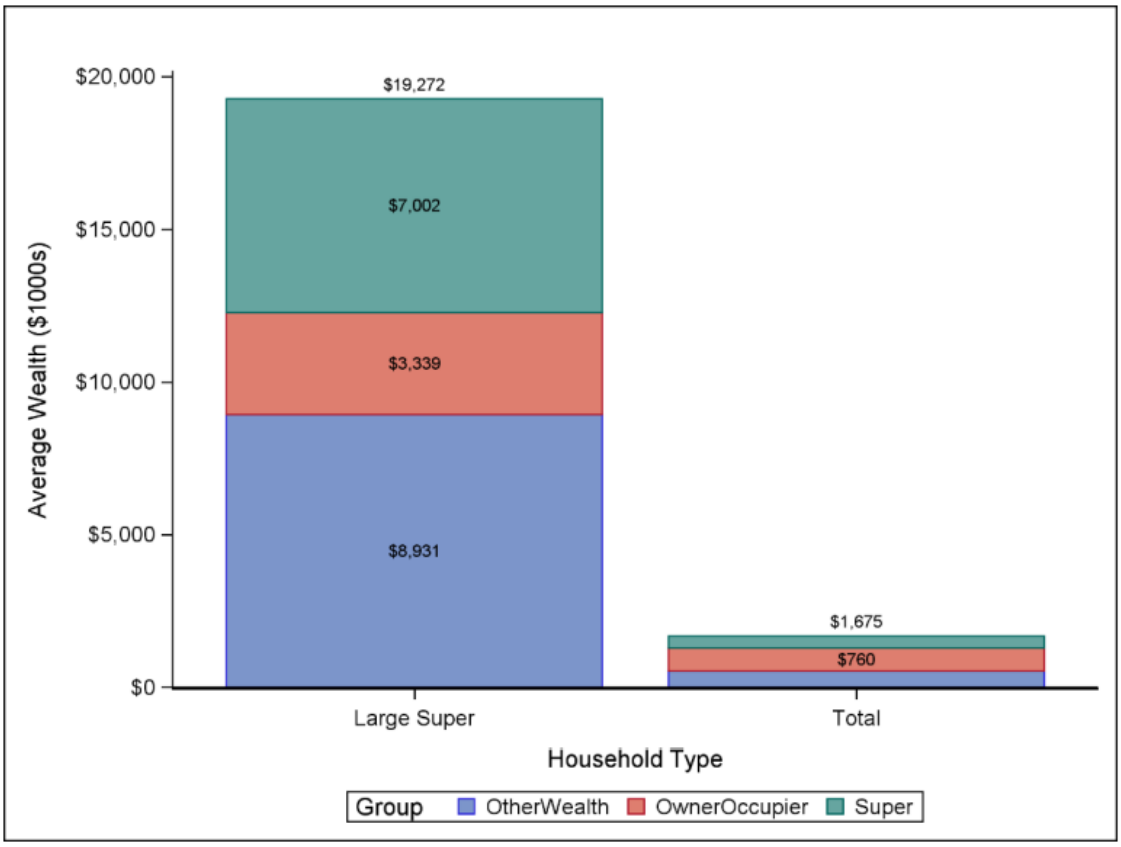
Source: ABS Survey of Income and Housing 2015-16,2017-18,2019-20 (adjusted to 2025)

2. The average wealth of a household with at least one superannuation balance exceeding $3 million is more than $19 million.

Households with large super balances (with at least one member having +$3 million in super) have wealth averaging $19.3 million compared to $1.68 million for all households, or about 11.5x more.

The wealth isn't just tied up in super. Of that $19.3 million, an average of $7 million is in super, $3.34 million is in owner occupied housing, and the rest is in other assets.

Total wealth and asset allocation by household type



Source: ABS Survey of Income and Housing 2015-16,2017-18,2019-20 (adjusted to 2025)

Total wealth and asset allocation by household type (in millions)

Wealth Type	Household Type	Average ($)	Median ($)
Super	Large Super	$7.00	$5.91
	Other Households	$0.34	$0.14
	Total Households	$0.39	$0.14
Owner Occupier	Large Super	$3.34	$2.44
	Other Households	$0.74	$0.62
	Total Households	$0.76	$0.62
Other Wealth	Large Super	$8.93	$3.20
	Other Households	$0.47	$0.17
	Total Households	$0.53	$0.18
Total Wealth	Large Super	$19.27	$11.54
	Other Households	$1.56	$0.93
	Total Households	$1.68	$0.94

Source: ABS Survey of Income and Housing 2015-16,2017-18,2019-20 (adjusted to 2025)

Note: 'Large super' = households where one person has a super balance >$3 million.

3. Most of those with +$3 million super balances are over 65 and own their house outright.

The study breaks down the demographic profiles of those with and without large super balances. For the 87,000 people with super balances of more than $3 million, it reveals:

1. Three in four live in capital cities
2. Two-thirds are over the age of 65

3. More than half don't work
4. Of those who do work, most are in professional occupations
5. Nearly eight in 10 own a house outright
6. The average and median wealth levels are 12-13x that of the general population

Large superannuation and all household demographics

Demographic	Classification	Large Balance (%)	Total Households (%)
Age of household head	<50	4.7%	46.1%
	50-64	37.6%	28.3%
	65+	57.7%	25.6%
Region	Capital City	75.7%	63.4%
	Regional	24.3%	36.6%
Business	Yes	17.2%	12.5%
	No	82.8%	87.5%
Tenure	Own	78.5%	30.6%
	Purchasing	18.9%	36.5%
	Renter	2.2%	30.7%
	Other	0.4%	2.1%
Disposable Income	Mean	$357,000	$116,000
	Median	$246,500	$94,500

Source: ABS Survey of Income and Housing 2015-16,2017-18,2019-20 (adjusted to 2025)

Large superannuation and all household demographics

Demographic	Classification	*Large Balance*	*All Persons*	*Large Balance*	*All Persons*
		%	*%*	*Adults*	*Adults*
Sex	Male	65.1%	49.0%	56,744	10,620,579
	Female	34.9%	51.0%	30,448	11,058,895
Occupation	Business Professional	6.7%	3.6%	5,813	789,701
	CEO, GM, Legislator	2.0%	0.6%	1,786	131,300
	Design, Engineering, Science	3.1%	2.0%	2,730	439,165
	Farmer	2.7%	0.7%	2,368	162,425
	Health Professional	7.1%	2.9%	6,207	635,719
	Specialist Manager	4.8%	4.0%	4,146	868,781
	Other Occupation	19.4%	48.0%	16,943	10,404,617
	Not employed	54.1%	38.0%	47,197	8,247,767
Industry	Agriculture	4.1%	1.2%	3,607	269,449
	Medical	6.2%	2.5%	5,379	544,646
	Professional, Scientific, Tech	8.7%	4.1%	7,619	887,389
	Rental, Real Estate, Hiring	3.3%	1.1%	2,906	244,564
	Other Industry	23.5%	53.1%	20,484	11,512,290
	Not employed	54.1%	37.9%	47,197	8,221,136

Source: ABS Survey of Income and Housing 2015-16,2017-18,2019-20 (adjusted to 2025)

Note: 'Large super' = households where one person has a super balance >$3 million.

4. Less than 1% of those with super balances will struggle to pay the tax on unrealised capital gains.

Using super and wealth data from the ABS, the study applies a crude test to estimate the number of people that may struggle to pay an unrealised capital gain tax liability.

The study models a scenario where an individual with $4 million in super records a 10% gain, and assuming no contributions or withdrawals, incurs an extra tax of about $19,000 (the tax liability would be 0.15 x (($4.4m - $3m) / $4.4m) x $400,000 = $19,091).

If that extra tax is more than 10% of the household's disposable income and other wealth (wealth not in super or in the home), then that household fails the stress test.

In this case, the household could struggle to pay the tax if they are also unable to easily pay the tax from their super savings.

The research finds that only around 500 of the 87,000 individuals with super balances exceeding $3 million, or 0.6%, fail the stress test.

If the model assumes a 20% capital gain, 750 households or 0.9% fail the test.

The study concludes that "the impact of the extra tax would likely be relatively easily absorbed by the vast majority of impacted households."

Taxing unrealised capital gains is still a bad idea

The study deliberately stays away from giving an opinion on whether taxing unrealised gains is good policy or not. I won't be so shy.

Most people that I speak to are at least open to the idea of the super tax.

The lack of indexing is difficult to fathom though I suspect that the government didn't want to include it in government budget forecasts heading into the election and may relent on the issue at some point soon.

The tax on unrealised capital gains is the bigger headscratcher. Why do it? To force people out of SMSFs? To punish farmers? I'm not sure. Whatever its motivations, it is messy, complex, and unnecessary.

It's likely to result in those with super balances of more than $3 million diversifying at least part of their balances into other assets (is it contributing to the recent rise in house prices?). That will mean less revenue from the tax than the government estimates.

More broadly, time will tell whether the new rules improve fairness in the super system or decrease trust in super as a vehicle for retirement savings.

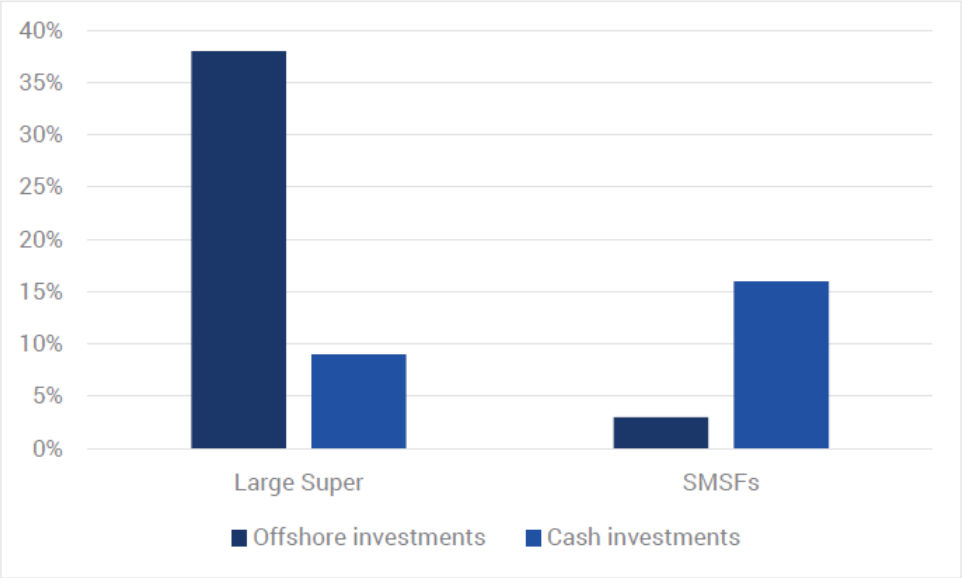
James Gruber is Editor of Firstlinks.

Are SMSFs getting too much of a free ride?

Tim Toohey

Self-managed super funds (SMSFs) in Australia have some peculiar attributes, the most glaring being the almost complete rejection of international assets in their asset allocations and a seemingly unhealthy obsession with relatively low yielding cash deposits. Just 3% of SMSF assets are allocated to offshore investments and a massive 16% of assets are allocated to cash. In comparison, larger super funds allocate 38% of their assets to offshore investments and hold 9% in cash (refer Chart 1).

Chart 1: Large Super and SMSF Asset Allocation



Source: APRA, ATO. Data as at 31 Dec 2024.

Given the strong performance of global equities in recent years, it is reasonable to assume that returns in SMSF would have underperformed the larger – and presumably more professionally run – superannuation runs.

The data, however, tells a different story:

- As at the end of the Dec-2024 quarter (the most recent data available) SMSF net assets totalled $981bn, having risen an impressive 38% over the prior four years.
- Compared to APRA's superannuation statistics for Large Super[1], total net assets stood at $2,986bn as at the end of the December quarter, having also increased 38% (in this case over the prior five years).

Despite their conservative cash holdings and extreme domestic focus, SMSF's have grown just as fast as their larger and more sophisticated cousins and now represent 25% of total superannuation assets. How is this possible?

There are four conventional ways this could happen: (i) attracting a greater share of younger members; (ii) rollovers from Large Super; (iii) higher net contribution flows; or (iv) superior asset allocation decisions. However, in evaluating the evidence it becomes increasingly clear that the primary reason for superior SMSF investment returns comes down to tax.

1. Are more young people joining SMSFs? No.

There is no evidence to suggest that a significant shift has occurred towards younger members in SMSFs. Of the 1.174 million SMSF members, just 3.3% are below the age of 35. This compares with 26% of the members in Large Super being below the age of 35[2], and this share has been stable since 2019.

Given the share of the population between the ages of 15-34 has remained steady at 27% over the past five years, which is virtually identical to the share of Large Super for this age group, it is safe to conclude that the growth in SMSFs is not due to younger people choosing to join SMSFs in greater numbers.

2. Have existing members of Large Super been shifting into SMSFs in large and increasing numbers? Yes, but it's not a big contributor.

The number of member accounts under the Large Super umbrella declined by 2.6% over the past five years, whereas the number of SMSF accounts expanded by 9.0%. While the shift is clear in terms of the number of member accounts, the dollar value shift is somewhat less impressive.

Net rollovers from Large Super into SMSFs totalled $7bn in 2024, up 35% in the past year and 114% over two years. Despite this rapid growth in rollovers, as a share of SMSF's total assets rollovers in 2024 represented just a 0.7% share of the total. Over the past four years rollovers into SMSFs as a share of total SMSF assets represented just 2.2%. That is, of the 38% increase in SMSF net asset growth over the past four years, only 2% can be attributed to a shift from Large Super to SMSFs.

In short, rollovers from Large Super have played more of an ancillary role to SMSF's growth. It is clearly not the main story.

3. Is there an income and age skew to SMSFs that generate above system net inflows? No. SMSFs are actually in large net outflow.

Chart 2 shows that SMSF members are older (52% are over 60, compared to 34% for Large Super) and Chart 3 shows that they also have higher incomes, with a significant proportion earning over $100,000 annually.

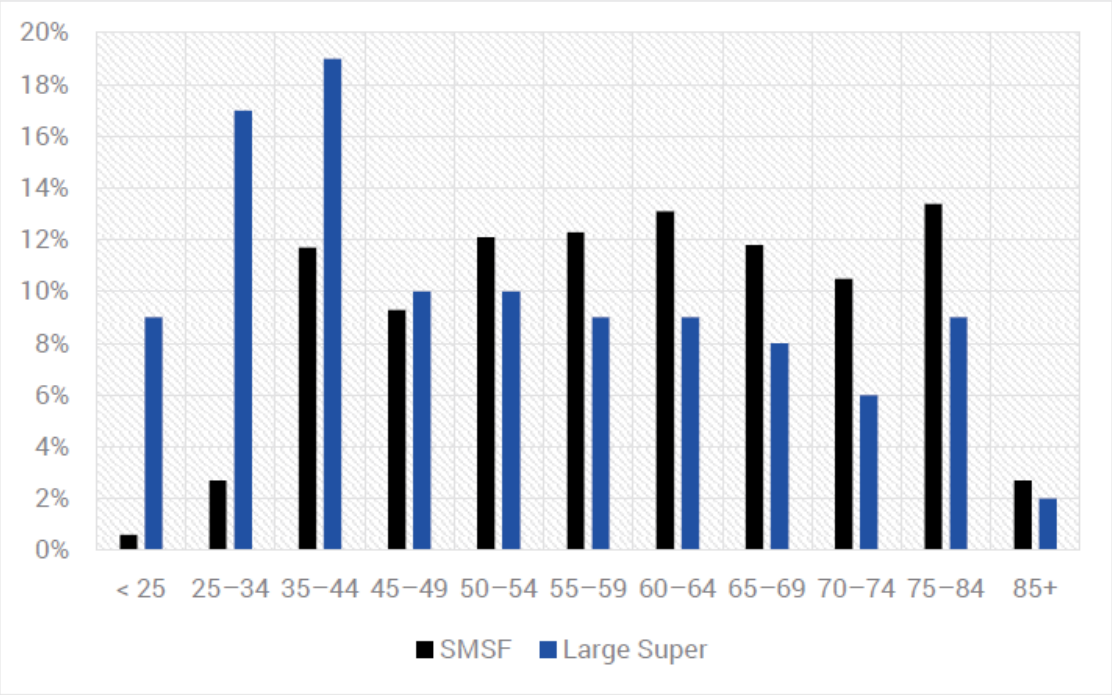
This combination suggests a higher potential for contribution inflows into SMSFs. However, this has not been the case.

Inflows to SMSFs in 2024 were 2.7% of assets, compared to 6.6% for Large Super. Average inflows per member are higher for SMSFs ($22,000 vs. $8,400 for Large Super), but outflows are substantial, with $43.8 billion in benefit payments in 2023–24 against $24.5 billion in inflows, resulting in a net outflow of $19.3 billion (2.2% of assets).

Large Super, by contrast, maintained a net inflow of 2% of assets. Even with rollovers, SMSFs face a net outflow of 1.5% annually, indicating that contribution flows do not drive their asset growth.

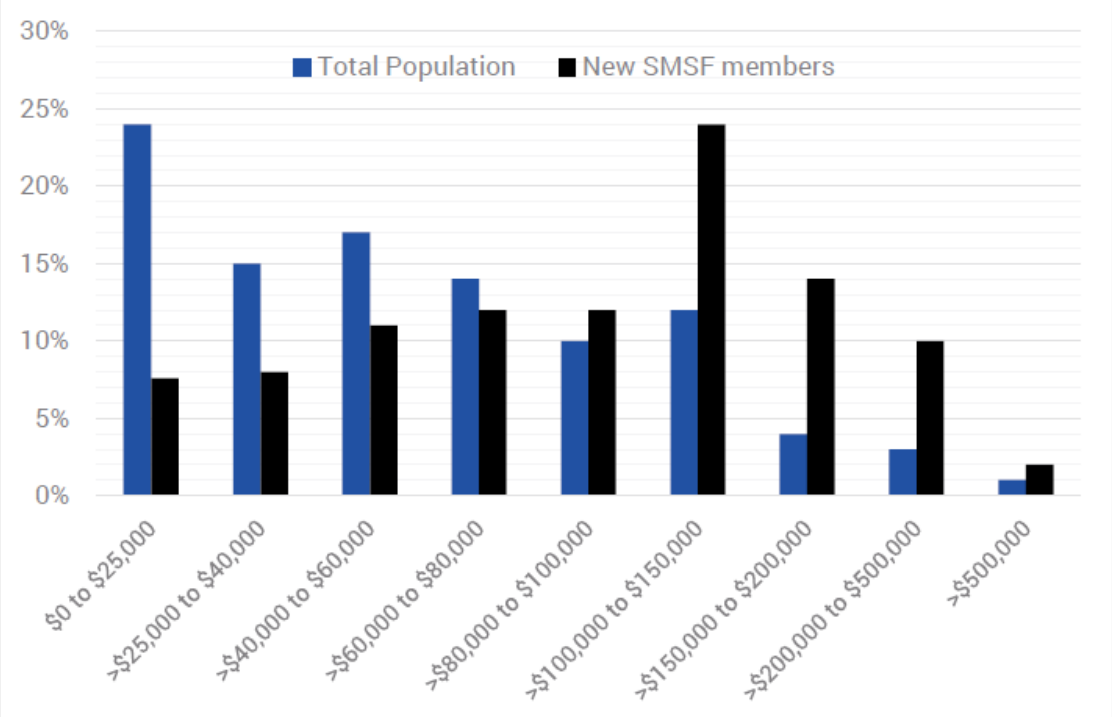
In short, SMSF contribution inflows are larger on average than Large Super, but SMSF outflows greatly exceed contribution inflows and, even after accounting for rollovers from Large Super, there is a significant net outflow each year from SMSFs.

Chart 2: Superannuation members by age cohort



Source: APRA.

Chart 3. Superannuation members by personal income

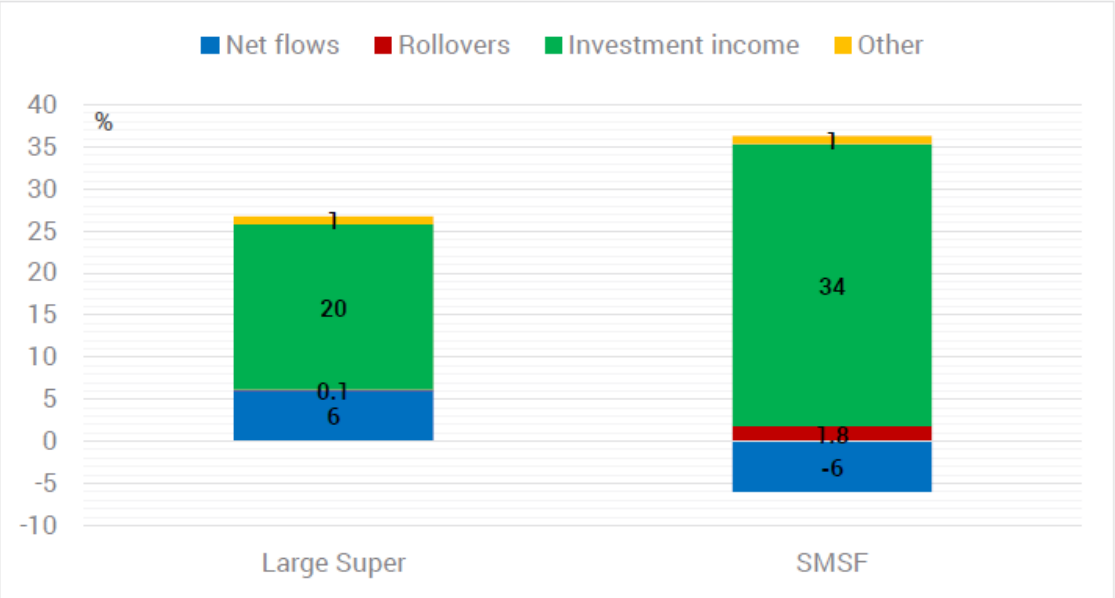


Source: ABS, APRA.

4. Surely, it can't be asset allocation, can it? No, not really.

Bringing this together in a single chart requires us to shift timeframes given the data on SMSF net contribution flows is only provided annually. In Chart 4 we show the growth in net assets for both Large Super and SMSFs over the three years to mid-2023.

Chart 4. Growth in net assets 2019-20 to 2022-23



Source: YarraCM, APRA, ATO.

Over this time-period the growth in SMSFs net assets was 30%, exceeding growth in Large Super by 3.5%. While this is notable, the chart clearly shows that once accounting for the impact of rollovers and contributions, SMSFs achieved a 34% investment return compared to 20% for Large Super – a 14% difference in just three years!

This is remarkable data point. How is it possible that individual or Mum and Dad investors achieved vastly better investment returns than professional Large Super investment teams?

Using the differing asset allocation weights of SMSFs and Large Super and the returns of each asset class (in AUD) we can test how much of this excess investment return by SMSFs is due to asset class selection.

When we apply asset class weights and asset class returns we can ratify the accuracy of the reported 20% return over the three years to 2023 by Large Super. However, when we do the same exercise for SMSF we find the asset allocation choices for SMSF generated a return of 23%, slightly better than Large Super, but well short of the 34% investment returns reported by the Australian Tax Office.

So, what is going on?

Asset allocation provided a modest benefit to SMSFs over this three-year period, despite the lack of exposure to booming international equities.[3] However there remains a very large (11% over three years) residual between the investment returns due to the combination of asset allocation decisions and asset class returns and the returns that the SMSFs reported to the ATO that still need to be explained.

By a process of elimination there really is only one other factor left that can explain this large residual – tax.

Do SMSFs harvest far greater tax benefits than Large Super? YES

There are two possibilities that can explain why SMSFs generate greater post tax returns. The first possibility is that they have a far greater proportion of members in the retirement or pension phase

where no tax is paid and thus boosting total SMSF returns. The second is that they are using more tax advantageous strategies during the accumulation phase.

The generosity of a zero-tax pension phase is an arrangement that is a uniquely Australian construct and given higher income households have higher superannuation balances it is also clearly regressive.

Given we know that 52% of SMSF members are over 60 years of age, compared to 34% for Large Super members, then approximately half of the 11% excess return residual over the past three years can be attributed to a higher proportion of SMSF members being in the pension phase (i.e. the difference in the proportion in the pension phase (52%-34%) x investment return (34%) x Tax rate (1-15%) = 5.2%).

This implies that SMSF members must also be availing themselves of other tax effective strategies during the accumulation phase that have generated approximately 2% p.a. additional return compared to Large Super over the past three years. At first glance this seems like a high figure, but it is plausible when considering some of tactics employed within SMSFs.

For example, a larger weighting to domestic listed equities (27% in SMSFs compared to 22% in Large Super) suggests that SMSF members are likely to be benefiting disproportionately from targeting franked dividends. We estimate that this explains over half the 2% p.a. additional return, a very meaningful contribution particularly when compounded over time. It is important to understand how beneficial dividend franking can be for superannuation planning, particularly for SMSFs where the beneficiary is approaching retirement. In the Appendix we show the impact on returns over time of having a tax rate well below the corporate tax rate, when combined with a growing dividend stream.

Chart 5. Growth in net assets 2019-20 to 2022-23

Source: YarraCM, APRA, ATO.

Other options are also available to SMSFs that are likely being targeted. Currently, 6% of SMSF assets are in residential property. The ability to use leverage to purchase residential property inside a SMSF affords negative gearing strategies that cannot be accessed via Large Super. Moreover, the use of tax effective special investment vehicles – which the Federal Government has championed to direct investment towards high technology startups and smaller businesses – provide another avenue for SMSFs to minimise tax during the accumulation phase which is not possible for Large Super to access in scale.

Chart 5 breaks down SMSF returns further to highlight the significance of these tax advantages relative to the investment returns attributable to asset allocation.

What have we learned?

There are five key lessons from the comparison of SMSFs and Large Super:

1. SMSF net assets have grown as fast or faster than Large Super over recent years and now represent 25% of total superannuation assets.
2. Although SMSF asset growth has been a modest beneficiary of rollovers from Large Super into SMSFs, the drag of assets being in a state of outflow has been a much larger headwind for SMSF asset growth.
3. Investment returns from SMSFs over recent years have been vastly better than those achieved by Large Super. However, investment returns attributed to asset allocation choices are broadly comparable to Large Super.
4. SMSFs have a much higher share of members in the tax-free retirement phase, which we estimate has provided a 1.7% p.a. boost (or 5% over three years) to SMSF growth.
5. SMSFs have a much high share of members approaching retirement and likely to be skewed to highly beneficial franked dividend income streams, negatively geared property and tax friendly investment vehicles. By deduction, we estimate that this benefit to SMSF returns from these investments is also currently approximately 1.7% p.a.

So are SMSF members better investors? No, the asset allocation investment returns are similar to Large Super, but they are older and more tax-wise. SMSF members are enjoying relatively more of the benefit of the tax-free pension phase of retirement and are better able to skew their investment strategy towards tax friendly retirement strategies, which has greatly enhanced both their investment returns and aggregate SMSF asset balances.

The question is will the federal Treasurer now reset his sights on the tax benefits afforded to the superannuation sector in general and the SMSF sector in particular? We think the answer is yes, but with one quarter of superannuation assets now in SMSFs and 1.2 million members it will not be a popular decision.

SMSFs are clearly better for higher income Australians with access to a good tax accountant. But whether this results in a more dynamic and equitable economy is a separate open question altogether.

[1] Denoted in this piece to mean funds with in excess of $50 million in assets.
[2] Note that the data by member age stopped being compiled by APRA in 2022.

[3] Over this timeframe SMSFs benefited by having a low exposure to the worst period of bond market performance since Federation and benefited from having large relative exposure to residential property, private credit and loans which posted strong returns. This might be interpreted as luck or skill depending on one's perspective, yet the salient point is that despite very different asset exposures the returns generated.

Tim Toohey is Head of Macro and Strategy at Yarra Capital Management, a sponsor of Firstlinks. This article contains general financial information only. It has been prepared without taking into account your personal objectives, financial situation or particular needs.

To read the full paper, important disclaimers and appendix, click here.

A developer's take on Australia's housing issues

Andrew Whitson, Stephen Hayes

Stephen Hayes recently welcomed Andrew Whitson, Development CEO at Stockland, onto First Sentier's Curious podcast. What follows is a lightly edited extract of their conversation on Australia's housing market.

Stephen Hayes: Andrew, it's no secret the Australian housing market is immensely challenged. Coming in from the development side, what are some of the big issues you are seeing in bringing new stock to market?

Andrew Whitson: We are at a stage in the housing cycle where commencements are at more than a decade low, and there's some real challenges in bringing new stock to market.

Number one has been some of the regulatory complexity in getting new supply approved through multiple levels of government and multiple government agencies. It's never been more complex to get a planning approval today, and that's limiting the ability for some of the new supply to come to market.

Combined with that, construction costs have gone up, with double digit increases in consecutive years. That effectively means that feasibilities have been under a lot of pressure. A lot of projects that were on the drawing board have been unfeasible and developers won't start releasing stock in that sort of environment.

And then probably the third element that's attributed to it has been housing affordability. This is the ability of customers to afford new product and pay what is economic replacement value. And that's a number of elements – particularly access to finance. People's ability to afford has limited ability to pre-sell, which underpins the release of new stock to market.

SH: What would it take to reduce housing supply barriers? Let's talk to some of the challenges facing developers. To start, how do you navigate the state's planning and regulatory minefield?

AW: Credit where credit is due, all state governments that we deal with now have really recognised that housing affordability is a wicked problem.

They're leaning into and looking at new ways to bring more supply to market because they do recognise the most affordable way to address it, and the biggest lever they've got, is on the supply side.

One example here in New South Wales, the state government have recently established the Housing Delivery Authority. And that is where you can make an application to the state, that will be assessed for eligibility within a four-week period. If deemed appropriate, then the state government make a commitment to make a determination within nine months.

Nine months for a determination on a development approval or rezoning is pretty quick. So, you've seen a number of applications go through that process that was only introduced in January this year. That's a real step forward.

SH: How are you seeing timeframes at the local council and state government levels in getting development approvals through? Have they shortened?

AW: In some local government areas, we've seen a real improvement and you're seeing a number of state governments publishing league tables on development approval timeframes and holding councils to account to drive assessments forward.

In other areas where there's a level of complexity, it can be more challenging and you get this elongation of timeframes. So it's definitely an area that with high quality development applications that proactively address the issues upfront, we think we can drive some improvement.

Self-certification is another area. Developers like Stockland look to deliver high quality communities that are complying with local planning instruments. We think more self-certification should be available to take some of the backlog and pressure and workload from local government.

SH: Do you think examples like in New South Wales, where the state government has taken initiatives to privatise certification is a step forward?

AW: For some of the simplistic, some of the complying and more simple developments? Absolutely. Like all things, there's variability within self-certification and sometimes it can be open to not working as well and we've seen some examples here in New South Wales of that occurring as well. It's definitely an appropriate measure if implemented well and regulated appropriately.

SH: With excessive inflation over the past five years, Andrew, it's put major pressure on development costs. Last year alone, 2,800 builders went insolvent. Can you talk to some of these challenges?

AW: Coming out of COVID, it's well documented that real supply chain disruption – and that's getting access to plant materials, equipment, and then we had together with that a real labour shortage.

From what we are seeing with the builders that we deal with, we are past the worst of it. Most builders have now reset their books so that they've got profitable projects in their forward pipeline.

And we've seen a real bifurcation, particularly in the home builder space. You've got now 5-6 very well capitalised home builders and we've seen a lot of, particularly Japanese money, move into that space. They're the bigger builders that are driving forward with both increasing volumes of delivery but also innovating in that space to drive down the delivery costs.

I think it's an area where we need to continue to focus. Productivity is still not back to levels that we saw pre-COVID. In our case to deliver a stage, we used to deliver it in 24-26 weeks. It's still taking us around

30 weeks to deliver it, so we've lost 10-20% productivity and that's a combination I think of increased regulation, but also just losing some of the experience and capability from the construction sector.

SH: I suppose it's an interesting little-known trend, isn't it, to have these large Japanese housing builders enter into Australia and I think that they own four of the five largest housing builders in Australia.

AW: Yeah, they do. They have come in and I think been very positive for the home construction sector, injecting some significant capital into the home builders.

The Japanese are well known for doing modular, so we're starting to see some real advancements in panelised and modular construction moving into the Australian home building sector. We've built houses the same way for the past 100 years – stick built. Getting more technology into home construction I think is good for the sector, but it's also good for the quality of the homes that are being delivered.

SH: Let's talk to demand. Where are you seeing any green shoots?

AW: The market outside of Victoria we would describe as good to strong from a demand perspective.

The strongest market that we've seen nationally in the past 24 months has been southeast Queensland and that's really been on the back of strong interstate migration, which started to really gather pace post COVID and has continued. And together with that, you're seeing economic growth up there in the lead up to the 2032 Olympics.

They've got a big infrastructure spend that's rolling out and it had a real affordability advantage. Part of that's been eroded over the last two years, but southeast Queensland's performed very strongly. We've seen double digit price growth over the last two years and still seeing demand outstrip supply in that market.

The second market that's been strong has been Western Australia, the Perth market in particular. That market has passed its peak. We're seeing some moderation in demand there but would still describe it as strong.

Going back 12-18 months, almost 40% of our enquiries were from east coast investors. That's pulled back and it's now being driven very much by local buyers, local first home buyers, local investors into that market. But once again, strong double digit price growth over the last two years has eroded some of that affordability and reduced that level of demand, but I still would describe it as a strong market.

New South Wales where we are, this market is chronically unaffordable. We only sell 11% of our product to first home buyers versus 50% in the other states that I mentioned. But this market continues to trade consistently due to a lack of supply and it's very much an asset transfer. So people will sell a home, upgrading, downsizing and buying into our new communities.

The market that's lagged the rest of the country has been the Victorian market. You know, it's well documented, some of the economic and tax headwinds that that market has faced. We are starting to see some improvement in that market.

It now sits and screens as the most affordable capital city market in the country, more affordable median house price now sitting below Adelaide, substantially below Sydney, and below Brisbane and Perth.

We've recently seen a reversion in net interstate migration. It's turned positive for the first time this decade in the last two quarters. So, people are starting to recognise that affordability is returning to Victoria. Resale listings have started to come back and cancellation rates in our communities that were well above 20% are now back to about 15%.

People are seeing valuations hold up better and settling homes and new purchases better. So, we're seeing a gradual improvement in that market, but still, volumes are at very low levels and we would look to see a step change as this market improves.

This was a lightly edited extract from Stephen Hayes' recent conversation with Andrew Whitson on First Sentier's podcast, Curious. You can listen to the full 30 minute conversation on Australia's housing market here.

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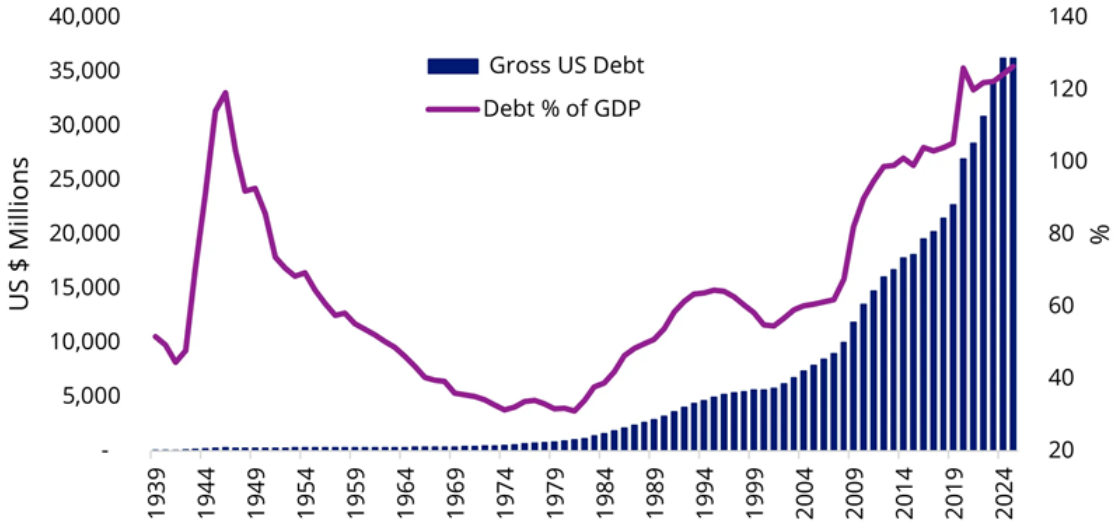
Lessons from 100 years of growing US debt

Anna Wu

From the eve of World War II (WWII) to Trump 2.0 in 2025, US Federal debt has grown 751-fold to about US$36.2 trillion. It's an amount difficult to comprehend, and the pace of debt accumulation, at 7.86% per annum, has exceeded nominal GDP growth (~6% per annum) and the capital-gain pace of US equities (~7.3% per annum).

Chart 1: Accumulation of US debt



Source: VanEck. FRED. Bloomberg. Data in USD.

As the US debt ceiling looms again, increasing headlines warn this could end in bond yields exploding and equities markets capitulating. Those worries have not yet been manifested into reality. Why? The simple answer lies in long-standing US exceptionalism and the US dollar's reserve-currency privilege.

Today, Trump's ambitious fiscal push, the so-called "One Big Beautiful Bill" (OBBB), along with a generational-scale tariff aggression, is putting the US's credit status to the test again. To prepare for what could be a bumpy ride, we revisit the historical lessons of US debt shocks over the past century.

A tale told three ways

1) WWII debt spike (1942-1951)

During WWII, surging government spending sent the US debt-to-GDP ratio from 40% to close to 120% over a short time span.

Such escalation of fiscal stress significantly increased borrowing costs and potentially crowded out private investment critical for war production. To manage this risk, the Treasury-Fed pact (1942) introduced a yield-curve-control (YCC) strategy, which capped the T-bill rate at 0.375% and the 10-year Treasury yield at 2% by having the Fed commit to purchasing unlimited excess bonds.

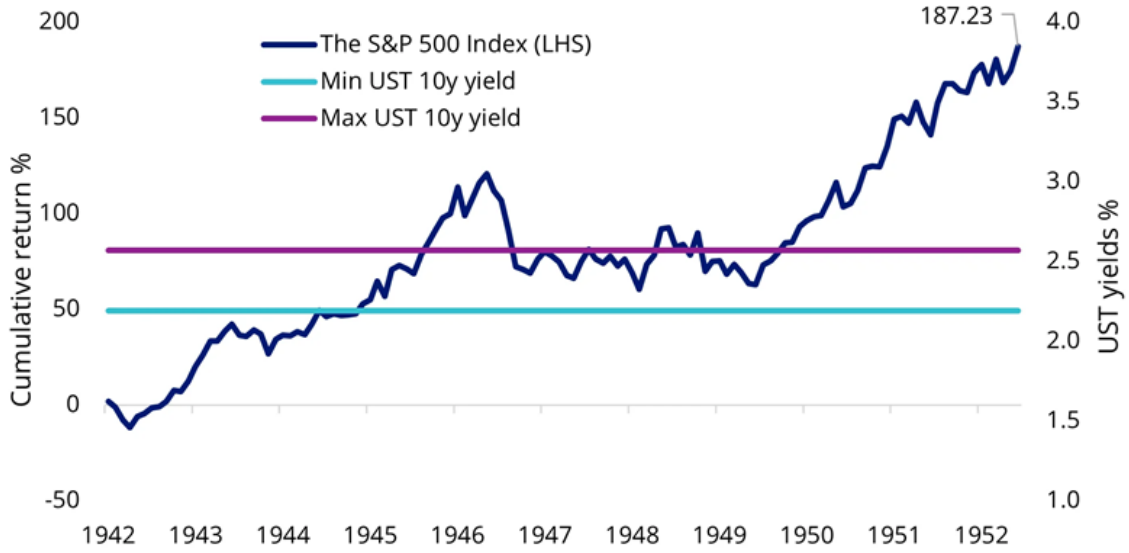
As a result, the Fed ultimately bought over US$20 billion in treasuries, equivalent to 10% of the entire marketable US federal debt at the war's peak. After 1945, post-war economic growth and rapidly expanding nominal GDP allowed the debt-to-GDP ratio to roll back steadily.

Impact on markets

Driven by YCC, Treasury yields were successfully kept at low levels, avoiding extreme bond market volatility. Initially, in early 1942, equities sold off, and volatility spiked. Nevertheless, as real yields turned negative (inflation higher than bond yields), investors switched to equities for a potential return more than inflation (as opposed to the guaranteed return below inflation of bonds and term deposits at the time).

This sparked a rally in the equity market. By the end of this episode, strong nominal growth, resilient corporate earnings and moderate inflation brewed a robust bull market for equities, with the S&P 500 ending 1952 around 187% higher than levels in 1942.

Chart 2: US equities' response to YCC & post-war recovery



Source: VanEck, Robert Shiller online data. Bloomberg. Performance in USD.

Takeaways for today

This scenario describes an ideal outcome pursued by Trump's administration, where the US economy grows out of high debt by keeping real yields negative. However, in the late 1940s and early 50s confidence in "US exceptionalism" was unshaken. The dollar was on the gold standard, the US was on the rise to becoming the world's biggest superpower, and Victory-Bond drives amplified demand for US Treasuries.

We think this is outcome is unlikely to be repeated today given the current mass of debt, structurally lower nominal GDP growth, and limited Fed capacity (and willingness) to absorb excess Treasury issuance.

2) Reagan-era debt piling, stagflation and Volcker's shock (1981-1994)

The 1980s to early 90s in the US were defined by tax cuts under Reagan (Trump's favourite role model), surging defence spending driven by the Cold War, and lingering stagflation pressure from the previous decade.

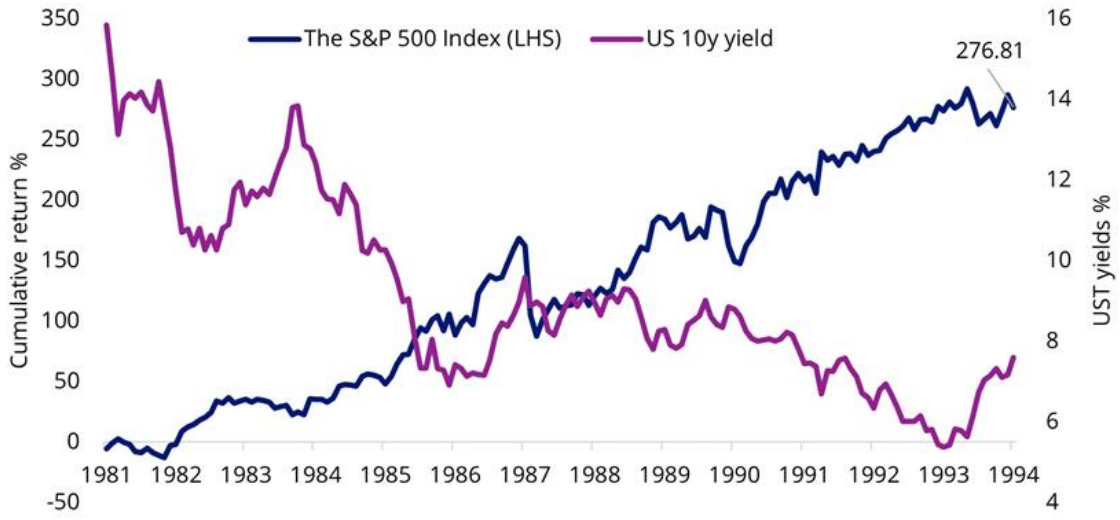
An economy experiencing stagflation has the combination of high inflation, stagnant economic growth, and elevated unemployment. As a result, US borrowing accelerated, leading the debt-to-GDP ratio to rise from 31.2% to 64.4%. In 1981, Cold War-era spending combined with the oil price crisis driven by the Gulf War fuelled inflation, which peaked at 15.7%.

To curb the unsustainable inflation, Fed Chair Paul Volcker hiked interest rates above inflation levels to an unprecedented 20% in 1981. This restored credibility but caused a recession in the short run.

Impact on markets

Bond yields spiked initially due to rising debt levels and intense interest rate hikes by Fed Chair Volcker. They stayed higher until the recession caused them to drop back to around 6-8%. At first, equities also suffered, but quickly entered a decade-long rally. They ended 1994 with a gain of 276.71% compared to the start of 1981, supported by lower real yields, renewed confidence in US dominance, and nominal GDP growth.

Chart 3: Bond yields fall and equities rally in the 1980s



Source: VanEck. Bloomberg. Performance in USD.

Takeaways for today

The stagflation scenario is the most challenging one but is potentially the closest to today's US economy. During that time, investors' confidence in "US exceptionalism" was put to the test, and the Fed had limited capacity to manage down bond yields.

In the early 1980s, that faith was shaken, with bond yields skyrocketing to double-digit levels and equities markets suffering. However, Volcker's "whatever it takes" stance restored confidence. That supported the Fed's "hold-and-watch" mindset today.

The essence of the story today is that while Trump's spending agenda could be considered concerning, the US economy's ability to pass the confidence check is potentially more hinged on whether markets still trust the Fed to prevent yields from escaping the corral. For investors, this means staying invested but watching two gauges daily: breakeven inflation and the 10-year yield.

A firm Fed hand keeps both contained; a break in either one could be the potential red flag.

3) GFC debt spike, QE-driven yields and fiscal stimulus (2007-2014)

To save Wall Street from the storm of the Global Financial Crisis (GFC) in 2008, aggressive fiscal stimulus and bank bailouts caused the debt-to-GDP ratio to grow from 64% to over 100%. Additionally, the Fed introduced Quantitative Easing (QE), buying trillions in treasuries and mortgage-backed securities to manage long-term yields, supporting economic recovery.

Impact on markets

Driven by QE policies, bond yields fell sharply, from around 4.6% to below 2% by the end of 2012. This kept a lid on borrowing costs, while facilitating debt refinancing and encouraging private-sector investment. Low yields acted as an essential stimulus channel, helping the broader economy recover despite elevated public debt levels.

The S&P 500 lost half of its value in one year. However, as the impact of QE started to restore confidence in the US's credibility and growth outlook, it entered a years-long recovery starting in early 2009. By early 2013, US equity markets had returned to their previous highs.

Chart 4: QE policies send bond yields falling, rescuing equities

Source: VanEck. Bloomberg. Performance in USD.

Takeaways for today

Amid a major financial crisis, confidence in "US exceptionalism" is meaningfully dampened, as evidenced by the persistent sell-off of equities. However, while it takes longer to repair, the Fed still seems to have the power to restore trust by keeping long-end yields on a leash.

In today's environment, the 5-year/5-year forward breakeven rate is lingering around 2.2%, slightly below the critical 2.5% level, which hints that QE would be politically toxic. The 10-year and 30-year auctions remain healthy, and the Fed is slowing its balance-sheet runoff. What this all shows, we think, is that today's Fed still has room to move, though narrower than pre-GFC times, to keep long-end yields under control.

Stay invested, watch the Fed

There have been doubts about "US Exceptionalism" throughout the past century, after World War II, through Volcker's stagflation battle, and during the GFC. However, history shows that US financial markets, particularly equities, are resilient. Equities tend to recover from US debt shocks quickly if long-end bond yields remain under control, with the Fed holding the leash.

In today's world, while the Fed has shown reluctance to ease prematurely given the tariff overhang and geopolitical uncertainty, it still has the tools and capacity to implement another round of yield-curve control (YCC) or quantitative easing (QE). The key question is when it will need to act.

Indeed, smart investors have started to reconsider the right allocation to the US, but that number should not be zero. In fact, it is most likely to be just a touch lower than in the past, just as long as the Fed holds the leash.

Anna Wu is a Senior Associate, Cross-Asset Investment Research at VanEck, a sponsor of Firstlinks.

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Investors might be paying too much for familiarity

Werner du Preez

In today's investment landscape, the dominance of the US—especially a handful of mega-cap technology companies—is hard to ignore. These firms have powered a disproportionate share of global equity market returns in recent years, and the US now accounts for around 75% of the MSCI World Index. The so-called 'Magnificent Seven' have captured investor imagination and capital alike. But when

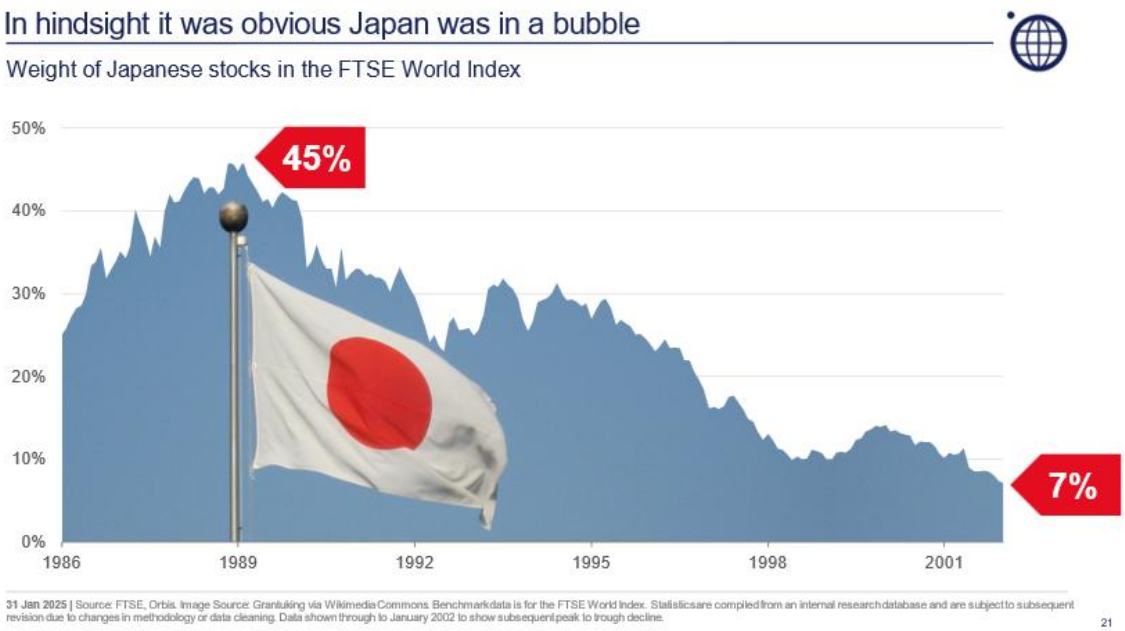
nearly everyone is crowded around the same trade, it's worth asking: what if we're all looking behind the wrong door?

Enter the Monty Hall problem. This classic probability puzzle, loosely based on a 1970s game show, involves a contestant picking one of three doors—behind one is a car, behind the others, goats. After the contestant picks, the host (who knows what's behind each door) opens one of the remaining doors to reveal a goat. The contestant is then given the option to switch. While most stick with their initial choice, switching actually doubles the contestant's odds of winning the car!

The puzzle is a compelling metaphor for today's markets: just because something feels obvious—or has worked recently—that doesn't make it the right choice in future.

Lesson 1: The obvious choice isn't always the best one

On the surface, staying heavily invested in US equities looks sensible. It's the world's largest economy, home to dominant companies, and it has outperformed for over a decade. But history reminds us that market leadership shifts. In the late 1980s, Japan made up more than 40% of the global index—before its bubble burst. Similarly, the dot-com crash of 2000 exposed the perils of speculative excess in the technology, media and telecoms sectors. Both events were obvious in hindsight, but herd mentality and a fear of missing out clouded judgements at the time.



Today's US equity market shows signs of similar concentration and froth. President Trump's renewed tariff threats have unsettled markets as well as global supply chains, and fresh US export restrictions on chips to China prompted warnings from NVIDIA about billions in lost revenue. Meanwhile, valuations remain stretched.

For a generation of investors raised on uninterrupted American outperformance, it may be time to reassess where the real risks—and opportunities—now lie.

Lesson 2: Insight matters—but only if you act on it

Spotting market dislocations is one thing, acting on them is another. Investors may sense that sentiment is frothy but going against the crowd is always difficult. It's particularly hard when the prevailing narrative is that "*AI is the tide that will lift all boats*" and investors are surrounded by highly speculative activity being wildly profitable.

At the end of 2024, cryptocurrencies and digital tokens were valued at $3.3 trillion—up 96% in a year. In a sign of the times, 'Fartcoin' which was launched in October ended 2024 with a market cap just shy of $1 billion. That's more than three times the peak valuation of Pets.com, the dot-com bubble's poster child, which managed to go public and go bankrupt in the same year back in 2000.

Meanwhile, US hyperscalers have been ramping up capital expenditures to chase AI dreams—with no clear line of sight to monetisation. Their ratios of capex to sales are rising sharply, and it's not clear that returns will justify the outlays.

And that's the crux of it: markets aren't always efficient—especially when investors are chasing hype over substance. As the Monty Hall problem teaches us, knowing the odds isn't enough. You need to tune out the noise and have the conviction to switch, even when it feels uncomfortable.

Lesson 3: Nothing is certain—apart from death and taxes

Even with the optimal Monty Hall strategy, contestants only win two-thirds of the time. In investing, research shows that even top-tier managers only get it right about 60% of the time. That's why broad and thoughtful diversification—across sectors, geographies, and styles—is so valuable.

Many investors today believe they're diversified because they hold global index trackers. But with US stocks now making up nearly 75% of global benchmarks like the MSCI World Index, many portfolios are far more concentrated than they appear. That concentration is made more problematic by valuation levels. The S&P 500 trades at around 23 times forward earnings—well above its historical average and significantly more expensive than global markets, which average closer to 14 times. This discrepancy suggests that investors might be paying too much for the comfort of familiarity.

Meaningful diversification is about holding assets that behave differently—and the benefits are felt most when the prevailing market trends reverse. Investors need to ask whether their portfolios are truly positioned to weather regime changes. And if they aren't, what's stopping them from switching?

Reframing comfort zones

The Monty Hall problem teaches us that the obvious answer isn't always the correct one. The same holds true in investing. Sticking with the US and big tech may have felt safe, until very recently at least, but sticking with what's familiar can offer false comfort. In today's environment, defined as it is by extreme market concentration and investor herding, the real edge lies in having the conviction to take a different path.

Ultimately, investors must always be sceptical about simply following the prevailing market consensus, as current prices already reflect those views. Proper diversification today also requires going beyond simply mirroring global benchmarks.

Just as switching doors improves your chances in the Monty Hall problem, being willing to look beyond the obvious and focus on where value is being overlooked is the key to long-term success in investing.

Werner (Vern) du Preez is an Investment Specialist at Orbis Investments, a sponsor of Firstlinks. This article contains general information at a point in time and not personal financial or investment advice. It should not be used as a guide to invest or trade and does not take into account the specific investment objectives or financial situation of any particular person. The Orbis Funds may take a different view depending on facts and circumstances.

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A winning investment strategy sitting right under your nose

Jeffrey Ptak CFA

Michael Mauboussin and Dan Callahan of Morgan Stanley Counterpoint Global recently published a terrific study that looked at how often individual stocks suffered deep losses. To sum up their findings – even the best performing stocks had to overcome painful drawdowns along the way. Or as they put it:

"The best stocks and investors suffer through large drawdowns, which can be considered a cost of doing business over the long haul."

A dumpster-diving strategy

That made me wonder: How would a strategy built around systematically buying-and-holding stocks after they'd gotten crushed have done? After all, it stands to reason that if you focus on stocks that get pummeled, you're bound to pick up a few 'super-compounders', kind of like panning for gold.

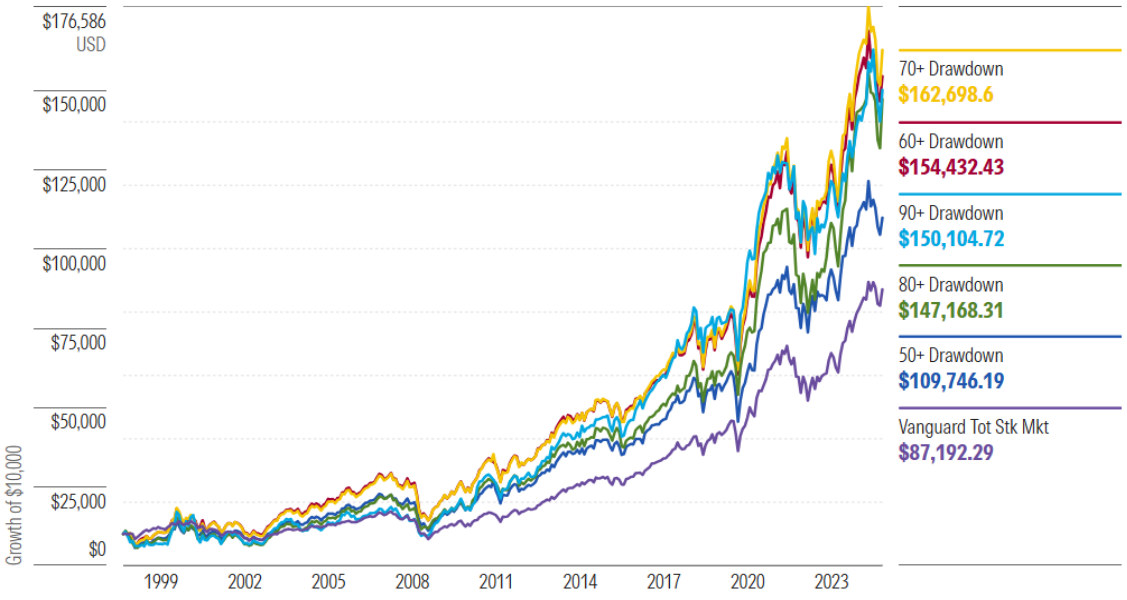
With that in mind, I built five hypothetical strategies that did variations of that very thing – they bought stocks right after they'd experienced a loss of at least 50% and then left them more-or-less untouched from there. (For a fuller explanation of how I built these hypotheticals, see the Appendix section.) Those strategies include the following:

Strategy	Approach
50%+ Drawdown	Buy after 50% or deeper drawdown
60%+ Drawdown	Buy after 60% or deeper drawdown
70%+ Drawdown	Buy after 70% of deeper drawdown
80%+ Drawdown	Buy after 80% or deeper drawdown
90%+ Drawdown	Buy after 90% or deeper drawdown

Encouraging results

How'd these strategies do? Quite well. All five would have delivered higher returns than the broad US stock market (proxy being Vanguard Total Stock Market Index Fund) since March 1998. The 70%+ Drawdown portfolio, for instance, would have gained around 10.8% a year from April 1, 2008, through May 31, 2025, versus 8.3% annually for the Vanguard fund.

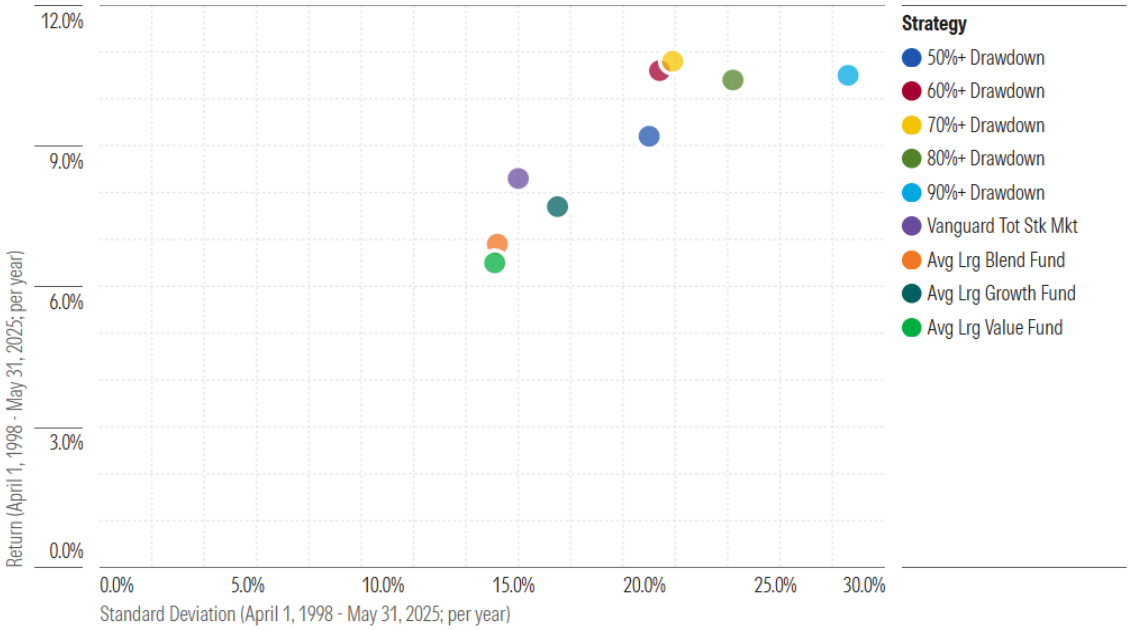
Growth of $10,000: Hypothetical Drawdown Strategies vs. Vanguard Total Stock Market Index Fund



Source: Morningstar Direct; author's calculations. Data as of 05/31/2025.

What was the catch? Volatility. These hypothetical portfolios had a higher standard deviation of returns than the broad market did. (Also, it's not exactly fun to be buying the market's dregs, knowing a number of these stocks won't be able to reverse their decline.)

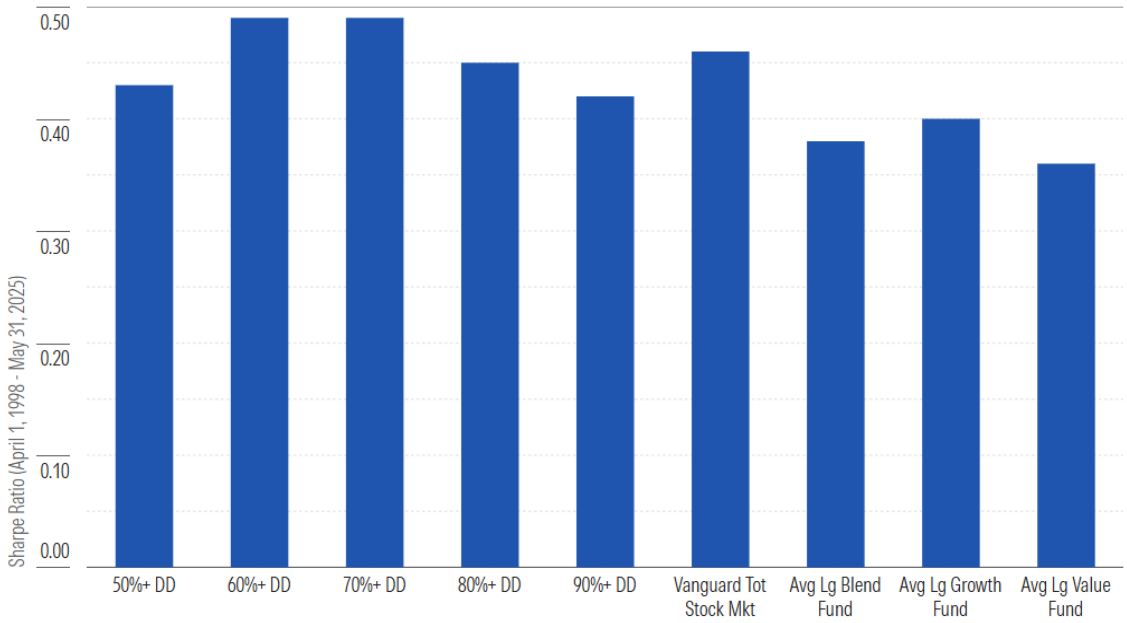
Risk vs. Return: Hypothetical Drawdown Portfolios vs. Vanguard Total Stock Market Index Fund



Source: Morningstar Direct; author's calculations. Data as of May 31, 2025.

Nevertheless, two of the five generated returns more than compensated for that extra volatility, as evidenced by their higher Sharpe ratios compared with the Vanguard fund. In addition, all five portfolios' risk-adjusted returns would have trounced the average large-cap mutual fund's. In fact, the strategies' returns would have ranked in the top 5% of all funds that survived this multi-decade period.

Risk-Adjusted Returns: Hypothetical Drawdown Portfolios vs. Vanguard Total Stock Market Index Fund



Source: Morningstar Direct; author's calculations. Data as of May 31, 2025.

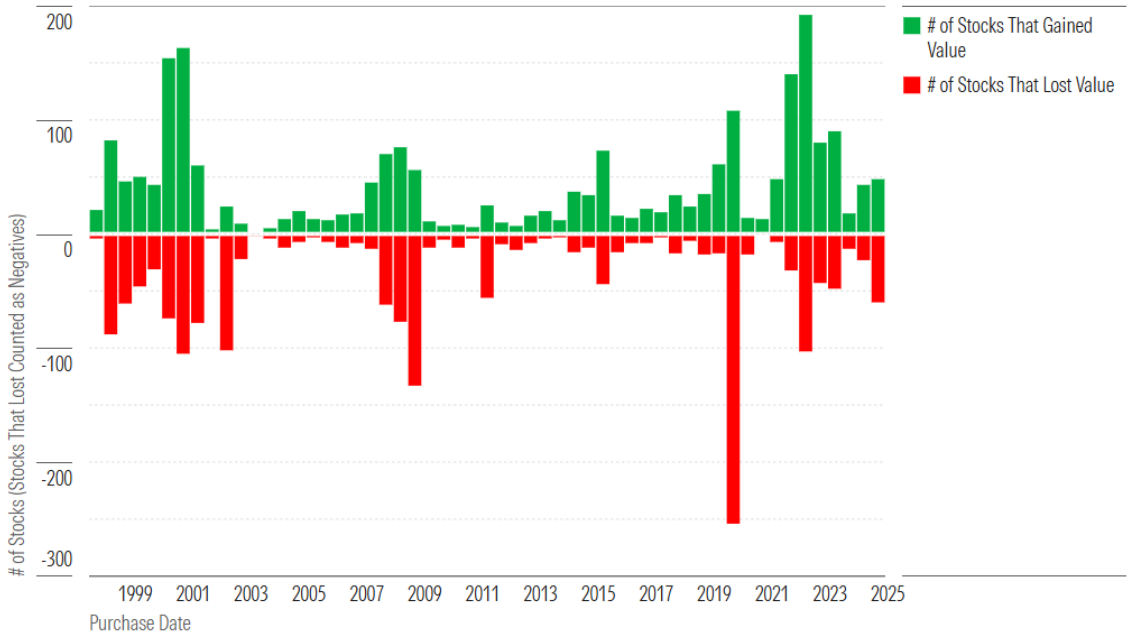
Why It worked

This is not an easy strategy to live with. When stocks enter the portfolio, they've already gotten smoked. Many don't or won't recover. The data bears this out vividly.

For example, the 70%+ Drawdown portfolio held more than 4,100 stocks from April 1998 through May 2025. Of those stocks, 401 subsequently lost all their value, 1,117 lost 90% or more of their value, and 1,718 were at least cut in half. All told, 2,288 of the holdings lost money.

Here's a breakdown of how many stocks gained value after the portfolio bought them and how many lost, broken down by purchase date. Note the lumpiness of purchase activity, which reflects the reality that drawdowns cluster amid bear markets like 2000-02 and the global financial crisis from 2007-09.

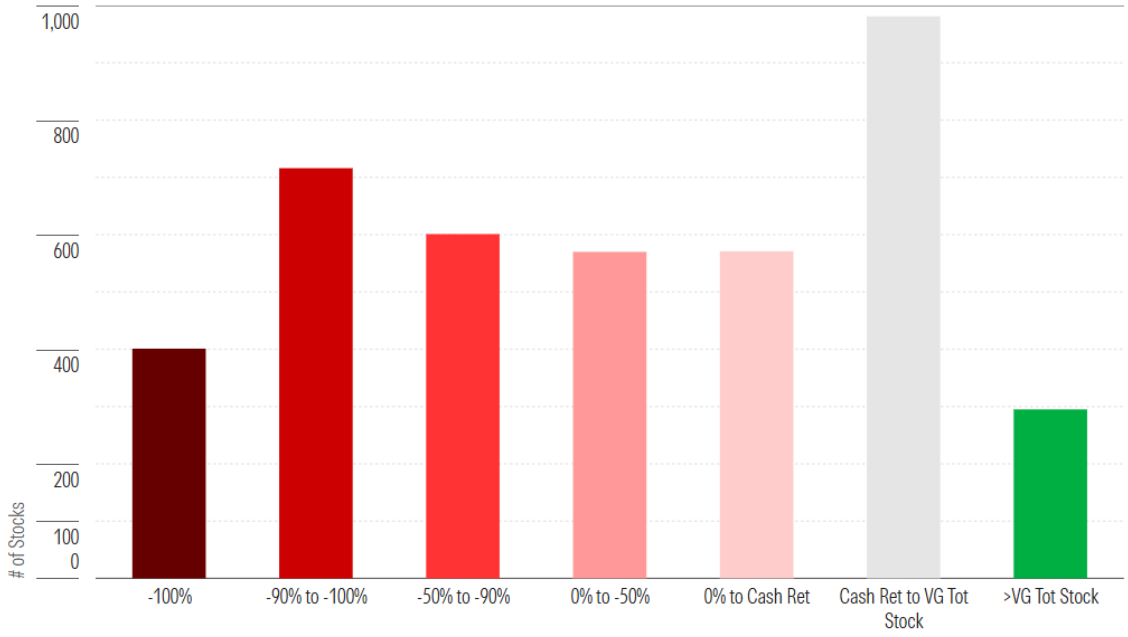
70%+ Drawdown Portfolio: Breakdown of Stocks That Lost or Gained Value, by Purchase Date



Source: Morningstar Direct; author's calculations. Data as of May 31, 2025. Stocks would have been bought on April 1 and Oct. 1 of each calendar year shown.

With respect to the 1,800 or so stocks that earned a positive return, 571 gained no more than cash and another 981 outearned T-bills but lagged the Vanguard fund. That left a pool of fewer than 300 stocks that outperformed the Vanguard fund. It was these stocks that drove the portfolio's excess returns, with the distribution of stock returns shown below.

70%+ Drawdown Portfolio: Distribution of Cumulative Stock Returns (April 1, 1998 - May 31, 2025)



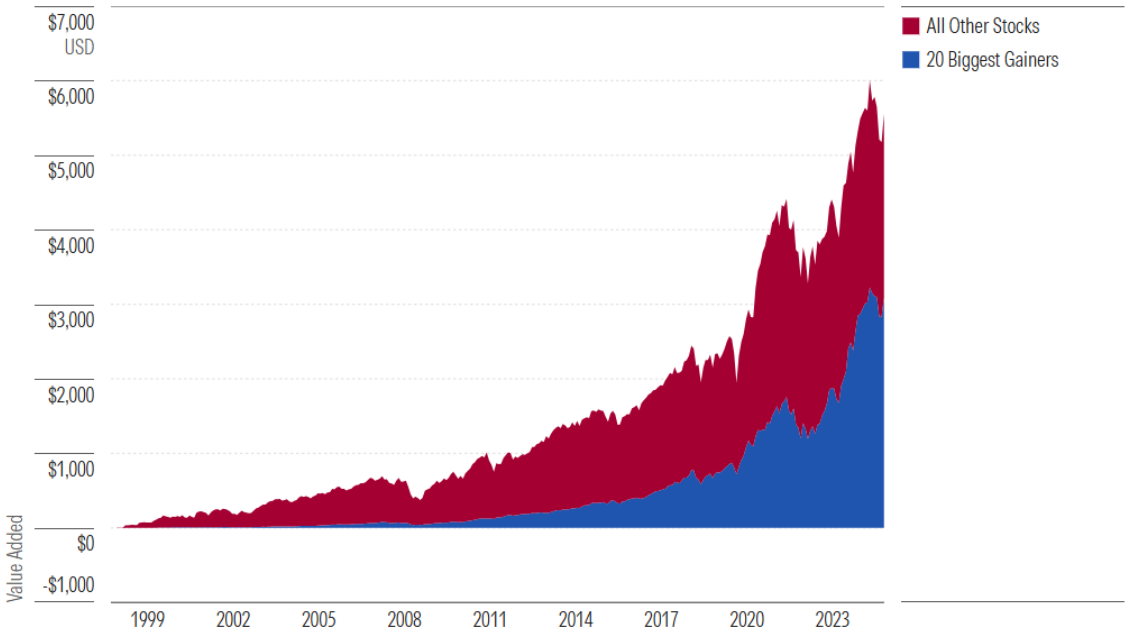
Source: Morningstar Direct; author's calculations. Data as of May 31, 2025.

Which stocks were those? Here are the five biggest gainers in the 70%+ Drawdown portfolio, including when each saw its big drawdown, when it entered the portfolio, and how much it subsequently rose.

Stock	Drawdown (Valley Date)	Purchase Date	Subsequent Cumulative Gain
Nvidia	-87% (Sept. 30, 2002)	Oct. 1, 2002	206,293%
Apple	-79% (Sept. 30, 2002)	Oct. 1, 2002	91,807%
Amazon.com	-93% (Sept. 30, 2001)	Oct. 1, 2001	68,580%
Intuitive Surgical	-74% (March 31, 2001)	April 1, 2001	50,885%
Tyler Technologies	-81% (Sept. 30, 2000)	Oct. 1, 2000	28,750%

The average stock gained about 314% cumulatively, while the 70%+ Drawdown portfolio held it, but the median stock lost 20% of its value. In other words, the biggest winners carried the strategy, with the top-20 gainers alone adding as much value as all the other holdings combined.

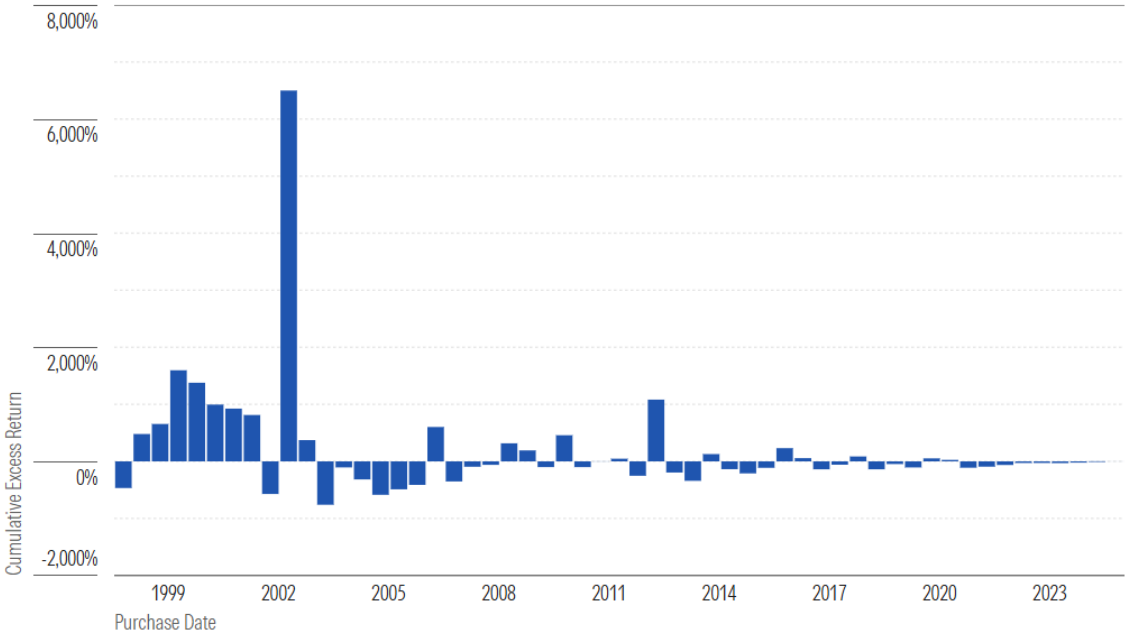
70%+ Drawdown Portfolio: Value Added by 20 Biggest Gainers vs. All Other Stocks



Source: Morningstar Direct; author's calculations. Data as of May 31, 2025. Change in value also reflects proceeds from stocks acquired during the study period. These proceeds were distributed pro rata to remaining stocks based on their value. See the Appendix section for further details.

It was also instructive to look at how each batch of stocks performed compared with the Vanguard fund – for instance, how the stocks that had a 70% or deeper drawdown as of, say, Sept. 30, 2012, did versus the Vanguard fund from that date through May 31, 2025, and so forth for the stocks added at other times after they troughed.

70%+ Drawdown Portfolio: Cumul. Excess Return by Purchase Date (vs. Vanguard Tot Stk Mkt Idx Fd)



Source: Morningstar Direct; author's calculations. Data as of May 31, 2025. Each bar represents the aggregate excess return of stocks purchased on April 1 or Sept. 1 of a given calendar year through May 31, 2025, versus Vanguard Total Stock Market Index Fund.

A few things become apparent. First, the 70%+ Drawdown strategy hit pay dirt in October 2002, which is when it scooped up Nvidia and Apple, which massively outperformed the market in the years since. The

strategy's excess returns moderated since then (especially in more recent years, as too little time elapsed for the stocks in those cohorts to work off losses they saw in 2020 and 2022), but subsequent batches also handily outperformed the Vanguard fund.

In addition, it's evident that the strategy was likelier to succeed when it bought many stocks that had hit their lows as of that date. For example, 228 stocks had a maximum drawdown of 70% or more as of Sept. 30, 2000. In aggregate, those stocks posted a 1,545% cumulative gain from Oct. 1, 2000, through May 31, 2025. That surpassed the Vanguard fund's 550% cumulative return over that span by nearly 1,000 basis points.

Conversely, when there were fewer stocks with maximum drawdowns as of a certain date, the strategy didn't fare as well. That was true of the nine stocks that had a maximum drawdown of 70% or more as of March 31, 2004. In aggregate, those stocks proceeded to rise 557% in value through May 31, 2025, but that was more than 100 percentage points less than the Vanguard fund's 663% cumulative gain over that period.

Why you won't see fund companies offer it

Stranger things have happened, but despite the strategy's success, you're probably not going to see a fund manager rush to offer it. Why? Let me count the reasons.

Reason 1: Tough sell

As I mentioned, this is a hard strategy to love. It buys the market's rejects at their (almost literal) nadir. Also, it's go-anywhere, meaning it invests in stocks of any size or style, defying easy classification, and lets its biggest winners run, leaving the portfolio top-heavy (Nvidia was a 13% weight in the 70%+ Drawdown portfolio by the end). All that would make it a tough sell – one that most fund companies wouldn't bother to pursue.

Reason 2: Tests patience

This is not an instant-gratification approach. It takes nerve and the resolve to look past all the losing stocks it inevitably entails owning, as you can't get the good without the bad. The typical fund company lacks the patience for this, preferring a quicker return.

Reason 3: Not enough headroom

Because these stocks have been pounded down, they tended to be on the smaller side when they entered the portfolio. That was true of Nvidia, for instance, which had a scant $1.6 billion market cap in October 2002, when it would have been bought. That could make the stocks tougher to own at scale without running into capacity challenges. Fund companies don't like capping their upside asset growth, so they'd likely see this as a deterrent.

Reason 4: Unpredictability

While the strategies generally succeeded in beating the broad US stock market, that success wasn't linear. There were fertile periods, when large numbers of stocks saw deep drawdowns, among them some names that went on to be hyper-winners. But there were also fallow periods when relatively few stocks surfaced and those that did were mainly stinkers. That could lead to streakiness or, in modern

investment management parlance, 'tracking error' that invites unwanted questions from allocator and gatekeeper types.

The lesson in that

There's a lesson in professional investors' likely reluctance to launch strategies like these. What they might see as a limit or encumbrance on their business objectives can present an opportunity to individual investors who face no such trade-offs.

For instance, you or I don't have to hawk the strategy to the public. The only question is whether it's right for us, given our goals. We also don't answer to other shareholders or an investment committee, like a portfolio manager might, and so can exercise whatever patience the investment approach demands. Likewise, we're in a far better position to invest in smaller stocks, as we don't face the capacity constraints an institution might.

To be sure, this is not a painless approach. You're bellying up to buy stocks, sometimes *numerous* stocks, beset by doubts about their prospects, knowing full well that many will have dismal results. Also, the strategy does require some maintenance—because so many of the stocks end up being acquired, an investor would want to redirect the proceeds to existing holdings, essentially feeding the relatively few big winners to ensure they more-than-offset the many losers.

But to the enterprising few with a healthy constitution and willingness to go their own way, opportunity beckons.

Appendix

I constructed each hypothetical strategy as follows:

1. I compiled the March and September portfolios of Vanguard Total Stock Market Index Fund for the years 1998 through March 2025.
2. For each portfolio, I calculated every stock holding's maximum drawdown—that is, peak-to-valley loss—over the 10-year period ended on the portfolio date. So, for instance, if the portfolio was dated Sept. 30, 2014, I calculated each stock's deepest month-end-to-month-end loss over the decade ended that date.
3. Within each portfolio, I focused on the stocks that were at their lows as of the portfolio date. In other words, I focused on the stocks in the Sept. 30, 2014, portfolio whose 'maximum drawdown valley date' was Sept. 30, 2014, and so forth for the other portfolios.
4. Among those stocks, I threw out any that had lost less than 50% as well as those that by then had already had a 95% or deeper drawdown. That kept the list to stocks that had at least gotten cut in half but hadn't yet lost almost their entire value.
5. I assumed the strategy bought each eligible stock on the first day of the month immediately following the date of their maximum drawdown valley date. So if the stock troughed on Sept. 30, 2014, I assumed it was bought on Oct. 1, 2014, and so forth. The strategy bought equal amounts of all new stocks on the dates they were added, with the funding for those purchases assumed to come from an external funding source. Stocks were purchased just once, not successively. In other words,

if a stock had a 60%-plus drawdown, recovered, and then experienced another 60%-plus drawdown, it wasn't purchased again upon the second drawdown.

6. Once the strategy bought a stock, I assumed it was left untouched, with two exceptions. First, I assumed stocks that lost 98% of their value were sold, with the proceeds remaining in cash. Second, I assumed the proceeds of stocks that were obsoleted (that is, where the monthly return stream stopped before May 31, 2025) were recycled pro rata into existing holdings based on those stocks' relative weights in the month that immediately followed the month in which those stocks went obsolete.

Jeffrey Ptak, CFA, is managing director for Morningstar Research Services LLC. The opinions expressed here are the author's. The author does not own shares in any securities mentioned in this article. This article is general information and does not consider the circumstances of any investor. Originally published by Morningstar and edited slightly to suit an Australian audience.

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