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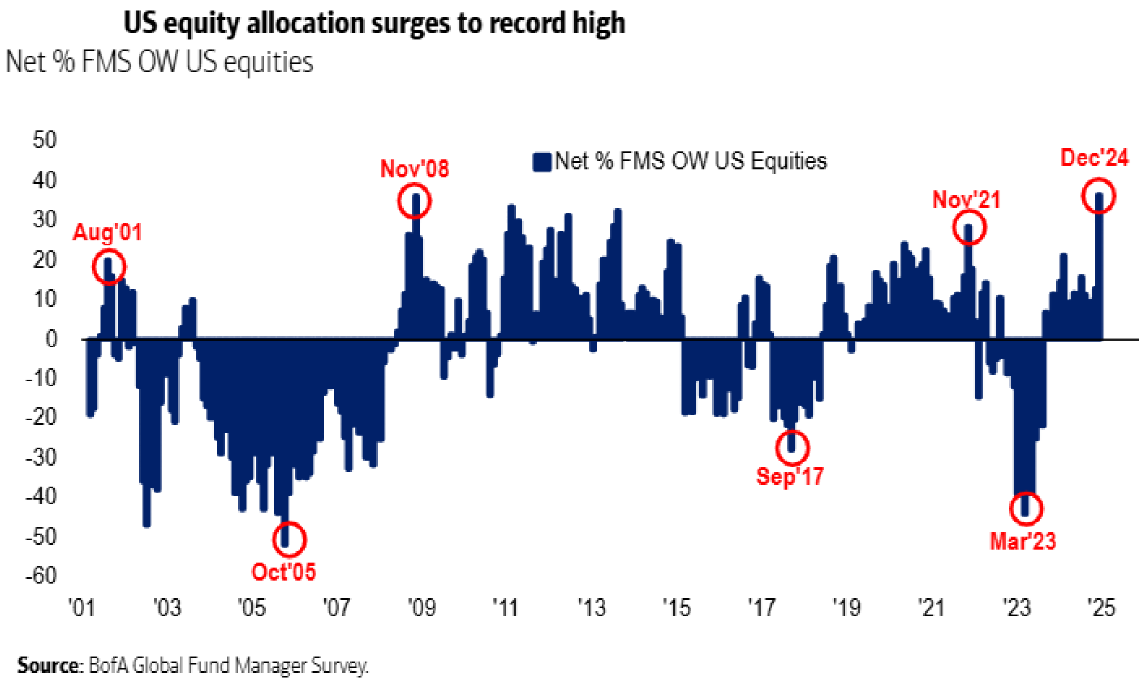
Editorial

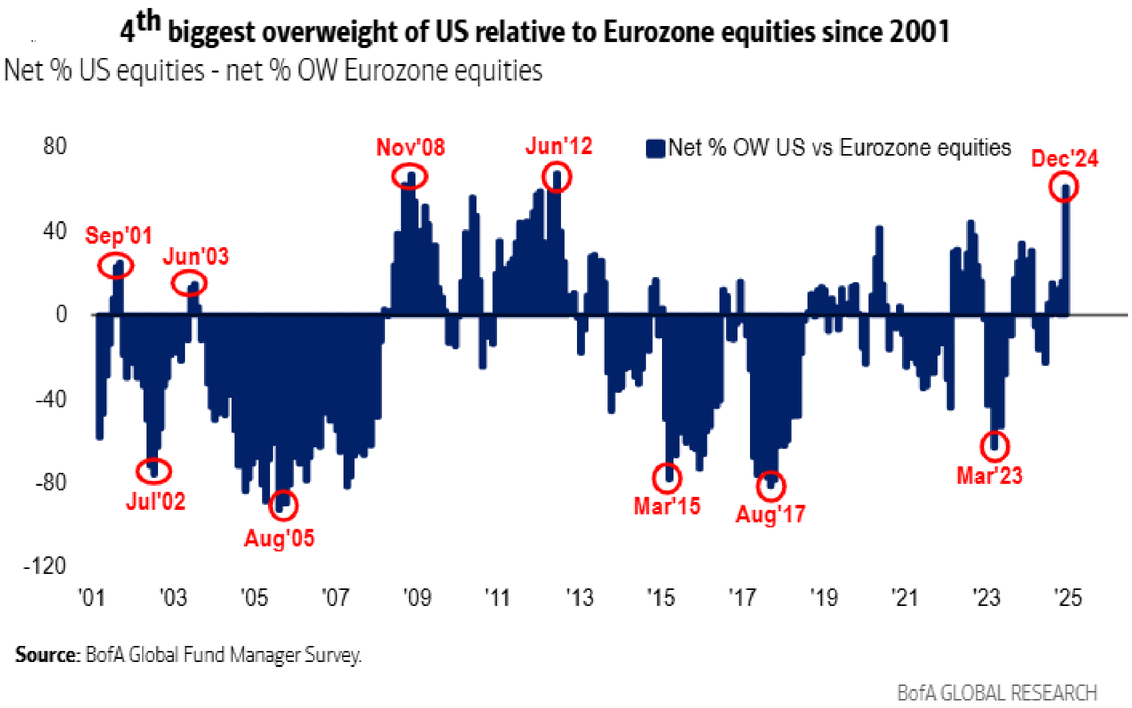
Looking back on the first half of this year, it's amazing how the dominant market narrative – of being long US assets – quickly changed.

In January, investors were in love with American 'exceptionalism'. Most of the major super funds were quoted in the media as being happily overweight US equities. They were joined by many of the world's biggest fund managers.

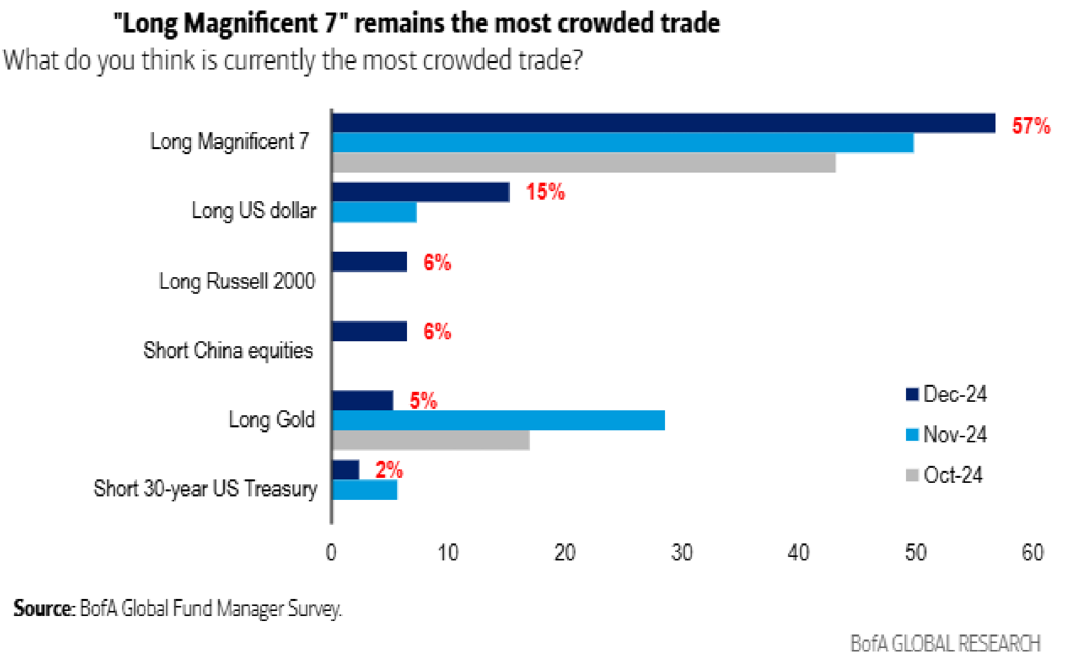
Bank of America's Global Fund Manager Survey noted that US equity allocations surged to a record high at the end of last year.



And fund managers had their fourth largest overweight to US equities versus European stock since 2001.



In the survey, fund managers themselves suggested that the most crowded trades were long the 'Magnificent 7', long the US dollar, and long US stocks.

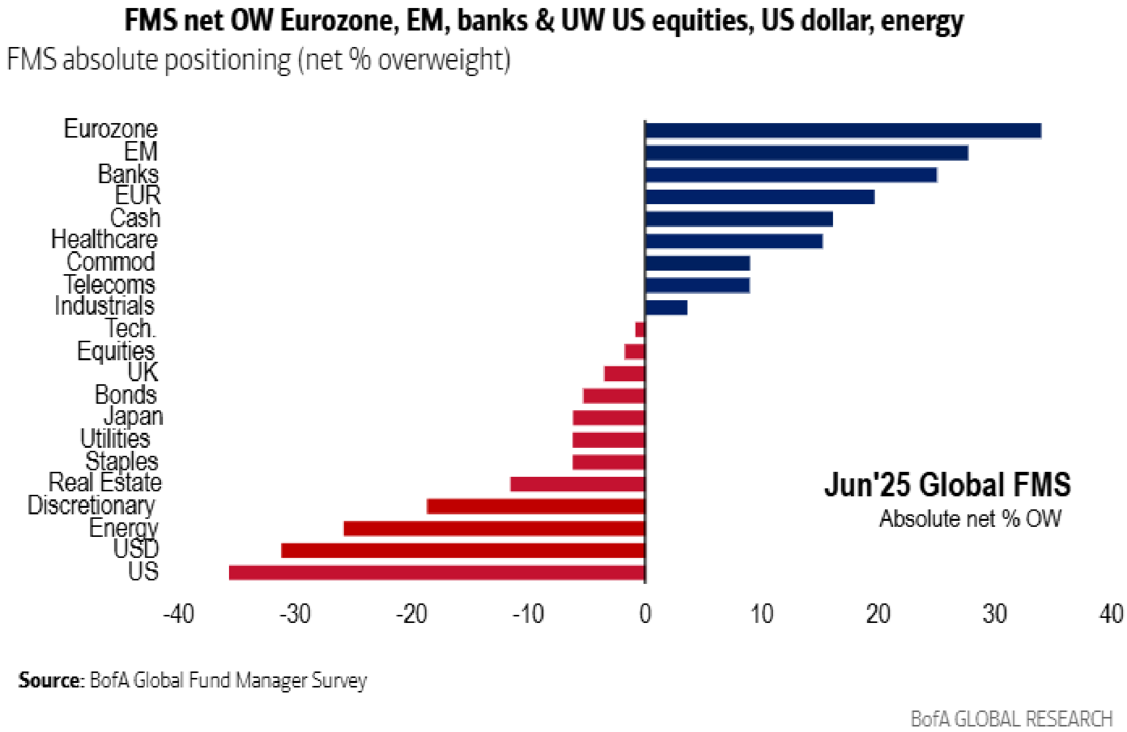


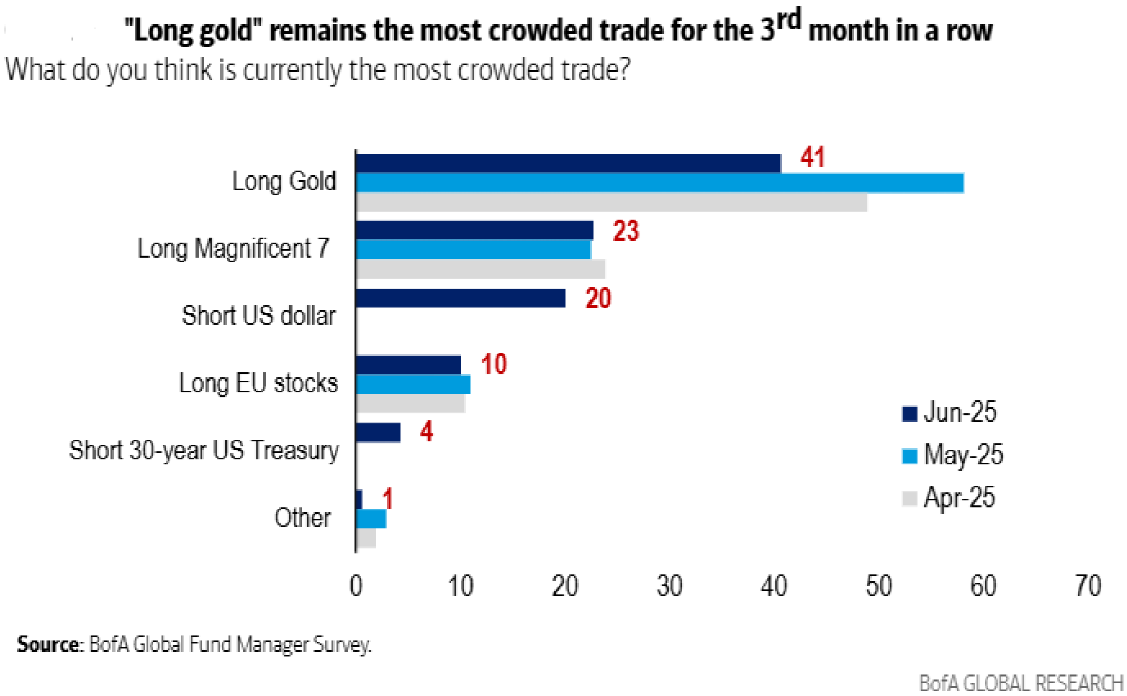
The bullishness towards US assets didn't fare so well in the first half. The S&P 500, after being down 15% for the year in April, finished 6% in the black. And the 'Magnificent 7' returned 9%.

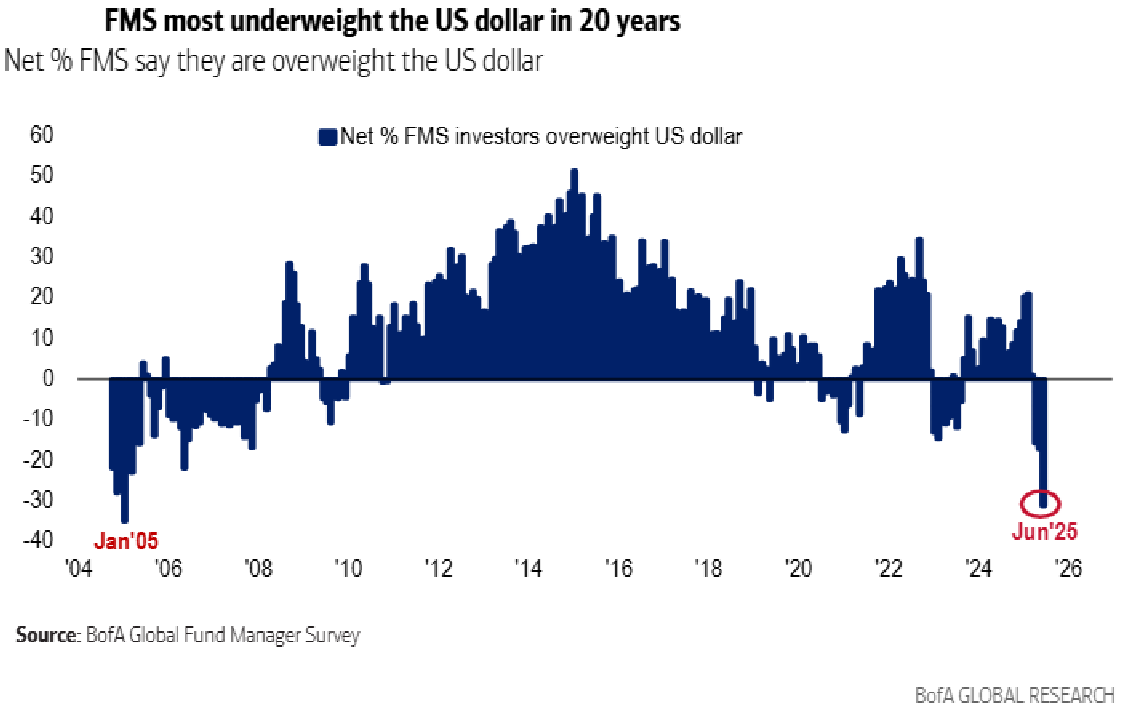
Yet, they badly lagged Europe, which was up 21% in US dollar terms, and Emerging Markets, which jumped 13%.

The US dollar was a key culprit, plummeting 11% against a basket of the world's currencies in the first half.

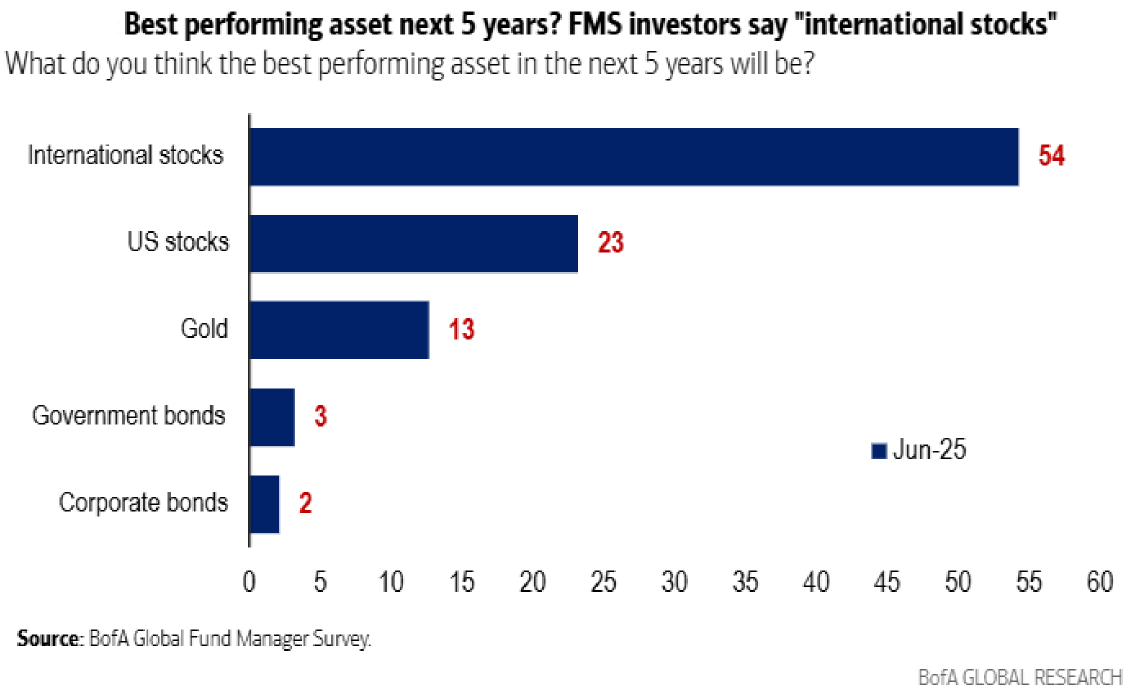
So, what are global fund managers doing now? They've flipped the script: they're long European and Emerging Market stocks at the expense of US equities, short the US dollar, and long gold.







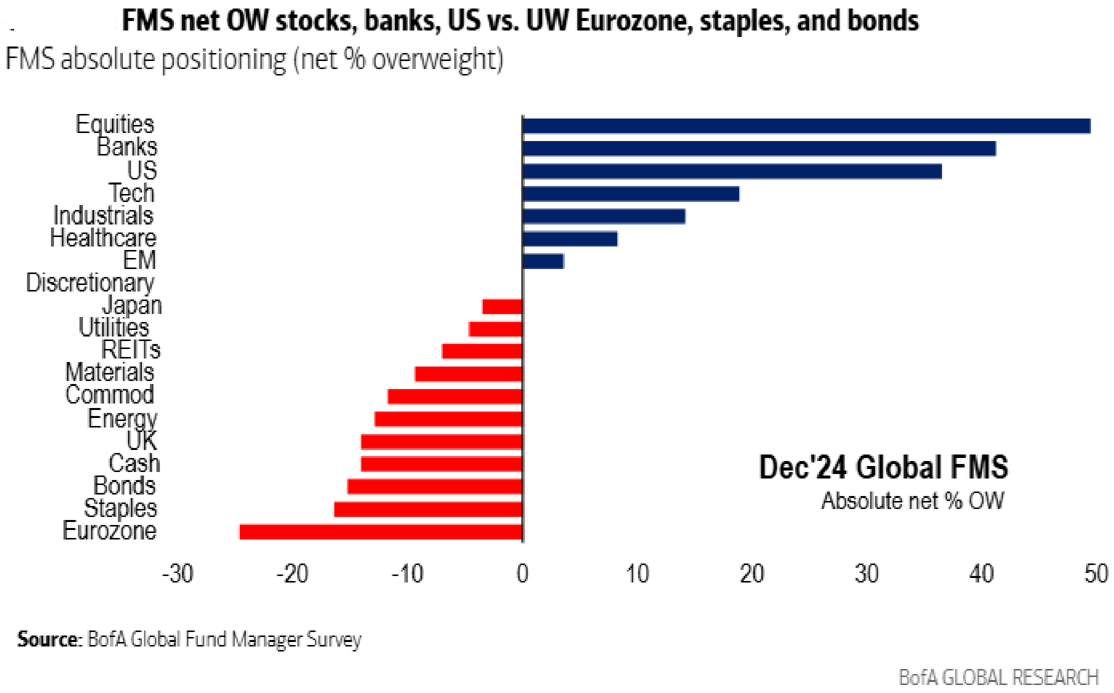
As for what they think will be the best performing asset over the next five years, fund managers have overwhelmingly nominated international stocks.



Now, that's a 180!

All of this isn't to belittle these fund managers – far from it. It's to say that often the dominant trend of the day doesn't always pan out.

Sometimes it does, though. What I didn't mention above is that the same global fund managers who were bullish on US assets in January were also positive on global banks and broader equities, and less enthused with cash, bonds, and consumer staples. All of these turned out to be pretty good bets.



Also, the fund managers had been optimist on US tech and the US dollar over much of the past decade and that paid off handsomely too. [see image, next page]

What this shows is that some trends can be long running yet turn on a dime. Meanwhile, other trends can prove short-lived.

Distinguishing between short and long-term trends

How can investors tell if a market trend will be enduring?

Nobel Prize-winning economist Robert Shiller has some ideas on this. In his book, *Narrative Economics*, he suggests that the stories that people tell can have a large influence on economic events and markets.

Shiller cites the example of the US housing boom and bust of 2007-2008. He asks: why did house prices go up in an unprecedented fashion? It wasn't because of low interest rates because rates weren't that low, it wasn't from building costs going up, and it wasn't from a population surge.

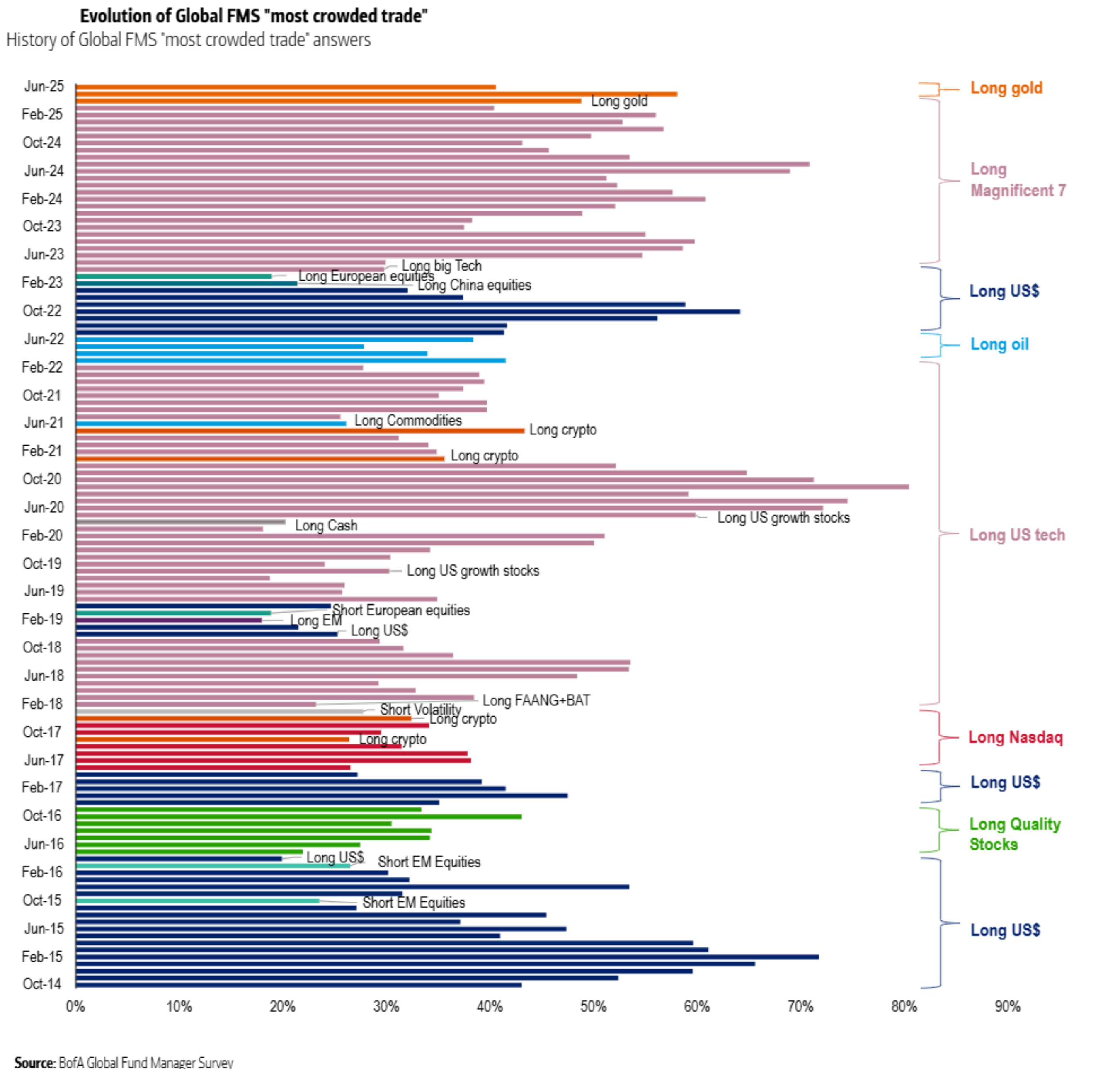
He thinks the boom was the result of the narrative that built around home purchases and 'the American dream'. And the narrative included the idea that house prices always go up.

How did the bubble burst? In a later interview, Shiller says:

> *"…it collapsed when the narrative changed - when people started talking about a housing bubble and started talking about the foolishness of the investors in it. Suddenly it became embarrassing to have invested in homes, and the narrative changed. The Great Recession that followed was substantially caused by a changing narrative about housing."*

Shiller believes that it's important to understand the stories driving trends as they can often influence human behaviour and economic events as well as markets:

> *"I believe that human thinking has to be studied if we are going to understand economic fluctuations. We have to understand how people change their thinking through time. People live*



their lives as fulfilling a story and that's what matters after one has banished starvation and cold and illness. It becomes the meaning of life—how I fit in to some story of our time. That thinking changes. And it changes motivation in fundamental ways."

How can investors use Shiller's theories? Let's take the topical example of CBA. The overwhelming consensus is that CBA is the best bank in Australia by a long way. It has the best leaders, technology, loan book, risk management and capital allocation.

Despite this, CBA's price has dropped in recent weeks. Has the narrative changed, however? I'd suggest that it hasn't changed at all and the recent price movements indicate a rotation out of what is deemed an expensive bank into cheaper, underperforming mining stocks. If Shiller is right, a more sustained fall in CBA's share price will only happen when the narrative built around it starts to fray. Maybe bad debts tick up? Or they have a tech failure of some sort? Or their risk managements systems are found wanting?

Hedge fund billionaire George Soros would have something else to say on this matter. He thinks there is a 'reflexivity' in markets, where investor expectations influence prices, and those prices then further shape their expectations, leading to booms and busts. It's a different angle to Shiller's theory.

In CBA's case, Soros might suggest that if bad debts ticked up, that would influence the share price, which would then shape investor expectations for CBA's price going forward.

What will be the next big story that drives markets?

One potential question is how investors can tell what will become a narrative in the first place. Put another way, what will be the big stories making headlines tomorrow?

Louis-Vincent Gave of Gavekal Research has a thoughtful take in a recent article, *What Will 2025 Be Remembered For?*

Gave says that big, market-changing events often don't make the headlines right away. For instance, 2001 is best known for the September 11 attacks and the continued drop in US tech stocks. Yet, a bigger event happened from a market point of view that year and it didn't feature as prominently: China's admission to the World Trade Organisation.

Similarly, 2008 is best known for the Great Financial Crisis. However, the birth of the smartphone and US shale oil revolution happened at the same time and these events have had a huge influence on markets since that time.

Gave goes through a laundry list of possible events that may qualify as the next 'big thing' today, from the breakout in Japanese government bond yields, to China embracing the biggest budget deficits in its modern history, Europe abandoning any pretense of fiscal austerity, and the shift in US fiscal policy from 'DOGE cuts' to 'running it hot'.

However, he nominates three recent speeches as marking a key shift in the macro-economic environment:

- US Vice President JD Vance's speech at the Munich Security Conference
- President Donald Trump's speech in Riyadh
- Erik Prince's speech to Hillsdale College in February 2025

Collectively, Gave says these speeches indicate that the US is turning its back on providing its allies with two essential services: a security umbrella and safety of the global oceans.

The former is well understood. It's why international stocks have started to fly in recent months.

Gave says the latter isn't understood as well. Without the US providing safety for global oceans, it will make it harder for commodities to move from one location to another. That may result in supply chains moving from the 'just in time' era of the past 30 years to a new period of 'just in case'. What he means by this is that, "all economic actors will have to build up bigger inventories: countries will have to accumulate inventories of key resources; companies will need to maintain higher inventories of spare parts and consumer goods; even individuals may wish to have better stacked pantries, spare electronics, and perhaps even spare vehicles."

Gave suggests that commodities will be one of the largest beneficiaries, especially those that are easy to store, like precious and industrial metals. And that's positive for commodity-producing countries such as Australia.

Whether Gave's ideas turn into the next big market story remains to be seen, though for our sake, let's hope so.

There are many ways to invest in stocks, but some strategies are more effective than others. In this week's article, I explore nine tried and tested investment approaches. Choosing one of these can improve your chances of reaching your financial goals.

James Gruber

Also in this week's edition...

The $3 million super tax has dominated financial headlines of late, though it appears a done deal. **Julie Steed** has many clients who are rethinking their super strategies, especially about wealth transfer on death. She runs through the key points to consider and offers potential investment alternatives.

The Labor Government has a plethora of reviews into productivity and tax reform coming up. Of course, we've had these types of reviews before and many of the recommendations have proven too politically sensitive to implement. **Noel Whittaker** thinks the most feasible option is to raise the GST to 15%.

Initial euphoria for artificial intelligence has turned to scepticism about its merits and when its impact will be felt on company profit and loss statements. That's been reflected in the share prices of ASX companies most exposed to AI, including Goodman Group and DigiCo Infrastructure REIT. **Rudi Filapek-Vandyck** says it provides a significant opportunity for astute investors.

Gold has been one of the best performing assets in recent times - is it too late to get in? **Jeremy De Pessemier** thinks not, explaining how the US debt crisis, geopolitics, and interest rates are providing powerful tailwinds for gold prices.

The RBA surprised by not cutting rates this week, though further cuts seem inevitable this year. If right, that should be bullish for small caps, which have lagged large caps for some time. Of course, you can invest in ETFs with small cap exposure, however **Claire Aitchison** says listed investment companies with small cap mandates could be better options given many of them trade at discounts to their net assets.

Forget speculation about a future US-China conflict - **John West** suggests it's already happening. Through cyberwarfare, propaganda, and tech infrastructure, China is waging a grey war designed to weaken democracies without firing a single shot.

Lastly, in this week's whitepaper, tariff changes, central bank action, geopolitics, and social media messages have all shifted markets. Despite these uncertainties, **VanEck** says there remain pockets of opportunity in markets.

Curated by James Gruber and Leisa Bell

9 winning investment strategies

James Gruber

Investors are bombarded with tips on how to win in the stock market. Pick this stock; choose that stock. Follow this expert; follow that expert. Ride this new theme; ride that new theme.

There's so much information out there that it can be confusing even for seasoned investors.

What often happens is that many investors don't have a specific investment strategy or style for achieving their goals. That makes them vulnerable to following the latest stock fad or listening to the new hot tip from their local stockbroker.

And some investors do have a strategy, though not one that suits them. They may be a short-term trader who gets stressed out and that stress takes a toll on their investment results. Or they may be an investor in growth stocks but get queasy paying higher prices for these types of companies.

In my experience, it's often best for investors to employ one strategy that suits them – and to stick to it. Doing this filters out a lot of market noise. It can make you focused and disciplined, and over time, more of an expert in your given strategy.

What are the best stock strategies to choose from? The following is a list of nine strategies that are tried and tested. And I've broken them down to those that will suit beginner, intermediate, and advanced investors.

Novice investors

1. A broad stock market ETF

I've started off with the simplest method. Broad market ETFs give investors exposure to large swaths of stock markets. They provide access to the best companies and a slice of the growing profits and dividends that they earn.

The strategy has proven itself over time. Equities have consistently outperformed other asset classes in the long term. And broad market ETFs have captured the gains in equities at minimal cost.

Industry titans including John Bogle and Warren Buffett have endorsed buying broad market ETFs.

This method suits beginner investors and those that don't have the time or inclination to follow markets.

For the Australian market, the largest broad market ETFs include Vanguard's Australian Shares ETF (ASX: VAS), Betashares' Australia 200 ETF (ASX: A200), and iShares' Core S&P/ASX 200 ETF (ASX: IOZ). For international markets, the best known ones are Vanguard's MSCI Index International Shares ETF (ASX: VGS) and iShares' S&P Global 100 ETF (ASX: IOO).

2. Growth at a reasonable price

Growth at a reasonable price, or GARP in industry parlance, encompasses many different investment strategies. For simplicity's sake, I'm going to endorse one particular strategy: buying blue chips with growing earnings and dividends at a reasonable price.

Why this strategy? First, buying blue chips is less risky than purchasing mid- or small-cap stocks. Second, those with growing earnings and dividends generally have better prospects than those that aren't growing earnings or don't have any earnings. Third, buying at a reasonable price ensures you don't pay too much for companies and have a margin of safety if things go wrong.

The trick with GARP is to purchase companies that not only have historically grown earnings and dividends but will continue to do so. That can require research into both the business and the industry it operates in.

The other trick is to pay a reasonable price for the company. There are many ways to value stocks. For beginner investors, checking the price-to-earnings (PE) ratio of a company versus both the market and its industry is a good start.

For example, let's take a well-known company such as Wesfarmers (ASX: WES). It owns well-love brands such as Bunnings, K-Mart, and Officeworks. It's consistently grown earnings over time and the prospects look reasonable given its dominant market share in the hardware, discount department store, and office supply categories.

It's priced at a 34x forward PE ratio, compared to the ASX 200's forward PE ratio of 19x. That's a steep premium and while it's a quality company, the question is whether it warrants such a big premium.

You'll also want to compare its price to other blue chip retailers such as Woolworths (ASX: WOW), Coles ASX: COL), and JB Hi-Fi (ASX: JBH), and see how it stacks up.

This type of exercise can at least give you an initial feeling about whether the price for Wesfarmers is reasonable or not.

The GARP method will suit investors who want to be more involved with their investing and the stocks they choose.

Intermediate investors

3. Founder-led companies

Research both in Australia and overseas shows that companies led by their founders generally outperform indices.

In Australia, fund manager, Blackwattle, did recent studies into the issue. They found that an equal-weighted portfolio of 50 founder-led companies on the ASX outperformed the ASX 300 by a whopping 18% a year in the decade to October 2024. The founder-led stocks included WiseTech, ResMed, Fortescue, Goodman Group, and Block/Square.

What explains the superior performance? Blackwattle believes founder-led companies have long-term thinking, higher investment in innovation, risk tolerance, strategic decision-making, and alignment.

Recent ructions with Mineral Resources and WiseTech show the risks with investing in founder-led companies. Founders in businesses can sometimes have unchecked power and that can lead to some of the problems that we've witnessed of late.

It's a fine balance between having a leader who is driven, entrepreneurial, willing to lean into risk at the right times, and one who goes off the deep end!

4. Dogs of the Dow

Michael O'Higgins popularised an investment strategy of investing in underperforming companies named "Dogs of the Dow" in his 1991 book, Beating the Dow.

This approach is a deep value style of investing.

O'Higgins advocated buying the ten worst-performing stocks from the Dow Jones Industrial Average (DJIA) over the past 12 months at the beginning of the year but restricting the selection to those still paying a dividend.

The strategy has a long-term track record of beating the Dow index and it's shown to work in Australia too.

However, this method is only suited to those with a certain psychological makeup – one that isn't afraid to buy deeply unloved companies that have gone down significantly in price.

5. Low price-to-earnings/cashflow

US investment legends David Dreman and John Neff employed this strategy.

Neff managed Vanguard's Windsor Fund for almost 30 years up to 1995. He achieved returns of 13.7% per annum, beating the S&P 500 by more than 3% a year.

He did it by buying beaten down stocks with low P/E ratios. He believed that as long as companies were fundamentally sound, a low P/E ratio meant they might be oversold and due for a rebound.

For example, Neff might look at a stock that was fundamentally sound and growing, and on a P/E of 10x versus a market P/E of 18. He might expect that company to grow earnings by 4% a year over the next four years, and for the stock's P/E to rise toward the market multiple – let's assume it gets to 15x by year four. If right, that would produce a gross return of 15% per annum over those four years.

It's a conservative and even dull strategy that has proven itself over time.

It suits those investors who like a bargain, especially in the market.

6. Moats/compounders

A moat strategy involves buying great businesses at discounts to what they're worth. This sounds like the GARP method mentioned above, though there are some different attributes.

Warren Buffett popularized the concept of buying moats. A moat is a sustainable competitive advantage. In capitalist societies, competition is the biggest threat to a company's profits and returns. If a business has a competitive edge over industry rivals, it has the potential to earn excess returns.

Firstlinks' parent, Morningstar, took Buffett's concept and expanded it into an entire industry. Morningstar now has a moat rating for each of the 1,600 stocks that it covers globally.

What types of moats are there? Morningstar categorises five sources of moats:

1. **Network effect.** A network effect occurs when the value of a company's goods or services increase for both new and existing users as more people use them. It's often found in technology enabled services such as social media, payment platforms, communications platforms, and e-commerce.

2. **Intangible assets.** Investors often focus on tangible assets that are reflected on the balance sheet. However, just because something can't be seen and quantified doesn't mean it isn't valuable. Patents, brands, regulatory licenses, and other intangible assets can prevent competitors from duplicating a company's products or allow the company to charge higher prices.
3. **Cost advantage.** Firms with a structural cost advantage can either undercut competitors on price while earning similar margins, or they can charge market-level prices while earning relatively high margins. In general, cost advantages stem from scale from firms that can spread their fixed costs over huge customer bases.
4. **Switching costs.** When it would be too expensive or troublesome to stop using a company's products or services, that indicates pricing power. For some goods and services, it is easy to switch to a competing product. For commonly purchased items competing products may simply be a shelf away.
5. **Efficient scale.** When a niche market is effectively served by one or a handful of companies, efficient scale may be present because it is not worth it for competitors to enter the market given the small number of customers.

This can be a case where a pharmaceutical company has developed an effective treatment for a relatively small number of patients afflicted with a disease or where an expensive piece of infrastructure supports a targeted market like a railroad.

The moat strategy is suited to those investors who are willing to dig deep into industry and stock research.

Advanced investors

7. Dumpster diving

This strategy is like Dogs of the Dow though it requires even more fortitude and is therefore best used by advanced investors.

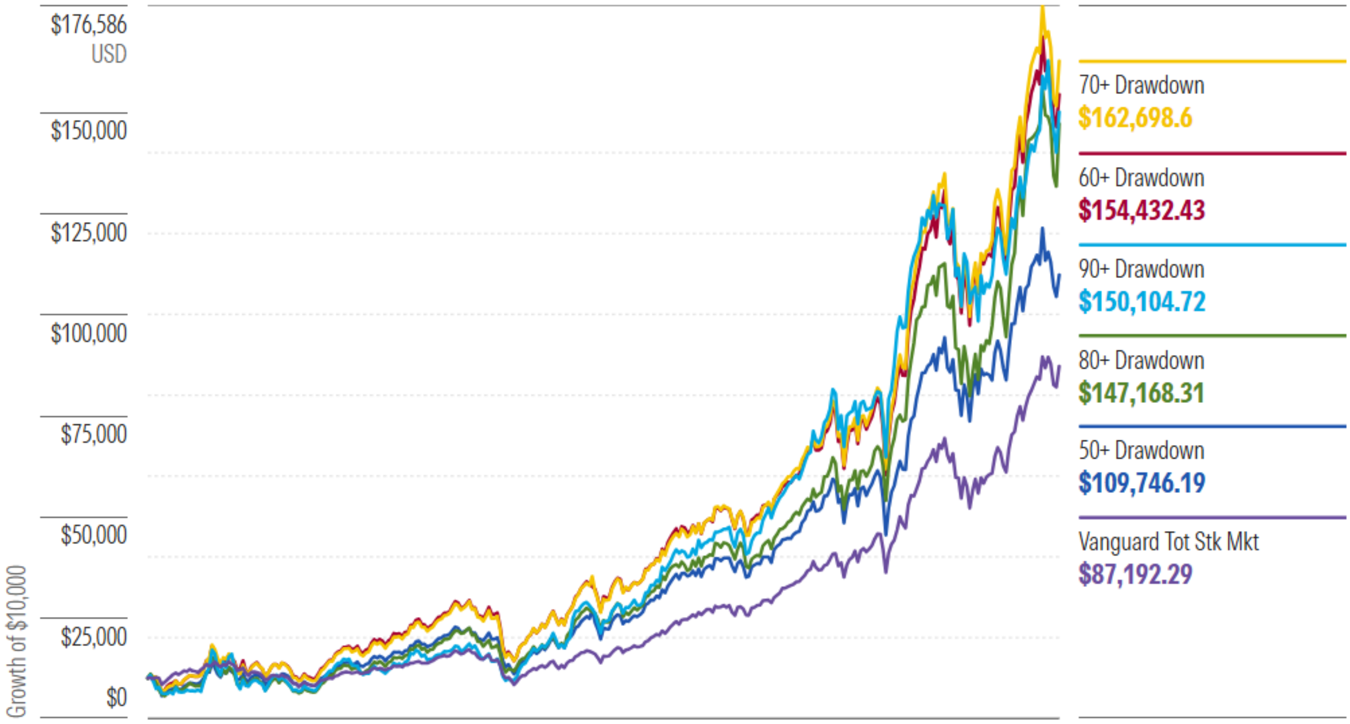
In an article in Firstlinks last week, Jeffrey Ptak investigated the strategy of buying and holding stocks after they'd gotten crushed. He tracked buying companies after:

50% or deeper drawdowns
60% or deeper drawdowns
70% or deeper drawdowns
80% or deeper drawdowns
90% or deeper drawdowns

Ptak found that all five strategies handily beat a broad market index fund in the US.

The catch is the strategy comes with higher volatility. That volatility will turn many off, though it's an opportunity for an enterprising investor.

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.

8. Factors

There are lots of quantitative shops that employ strategies based around ‘factors’. The factors include things such as momentum, quality, value and size.

For instance, momentum has shown to consistently outperform over time. It capitalises on the tendency of stocks that have recently performed well to continue outperforming. Put simply, “winners keep on winning” for a certain period.

Suffice to say, this is a sophisticated method only suited to highly advanced investors. However, there are ways to get exposure to factor investing via ETFs such as Betashares’ Australian Momentum ETF (ASX: MTUM) and VanEck’s MSCI International Quality ETF (ASX: QUAL).

9. Arbitrage

Arbitrage is a strategy that involves exploiting price differences for the same asset in different markets or locations to generate a risk-free profit. It works by simultaneously buying an asset in one market where it's priced lower and selling it in another where the price is higher.

There are simpler ways to use arbitrage too. For instance, buying a Listed Investment Company (LIC) at a 20% discount to its net assets is a form of arbitrage.

So is buying a company with net assets at a premium above the current share price.

Warren Buffett used arbitrage to great effect early in his career before taking over Berkshire Hathaway.

Summing up

Obviously, this isn't a complete list of strategies. I've tried to cover the main ones which have been consistently successful.

The best investment strategy for you will depend on your age, background, experience, and risk tolerance. Please get advice if you need it.

Disclosure: Vanguard and VanEck are Firstlinks sponsors.
James Gruber is Editor of Firstlinks.

Super, death and taxes – time to rethink your estate plans?

Julie Steed

In 1789 Benjamin Franklin wrote in a letter that "nothing is certain except for death and taxes". Over 200 years later, the certainty of death and taxes remains true, and in superannuation, the connection between death and taxes is significant. Many individuals are rethinking their superannuation strategies in light of proposed changes to the taxation of large balances, prompting renewed focus on estate planning. This has been a catalyst for many super fund members to bring to the forefront the issues of wealth transfer on death.

In this article we will review the taxes payable on superannuation death benefits and consider investment alternatives.

Taxation of death benefits

Where a member has tax dependants, such as a spouse or minor children, any death benefit will be tax free. However, if a benefit is expected to be received by adult children, the tax consequences can be significant. A non-tax dependant adult child is not eligible to receive a death benefit as a pension and any benefit must be paid as soon as practicable as a lump sum.

Taxation of lump sum benefits

The taxation of lump sum benefits is summarised as follows:

Benefit recipient	Tax-free component	Taxable component	
		Taxed element	Untaxed element
Tax dependant	Tax free		
Non-tax dependant	Tax free	Up to 17%	Up to 32%

The above rates are maximum tax rates and include the Medicare levy.

An untaxed element arises if a benefit is paid from a constitutionally protected fund (typically state Government funds) or if a tax deduction has been claimed for death benefit insurance premiums for members who are under 65. Most mature fund members don't have an untaxed element and 17% is the most common tax rate on the taxable component.

Taxation of lump sum benefits paid to non-tax dependants

Where a fund pays a death benefit directly to a non-tax dependant, the fund must withhold tax at 17% of the taxable component - taxed element and 32% of the taxable component – untaxed element. The taxable component is added to the non-tax dependant's assessable income and a credit is applied for the tax withheld by the super fund. Whilst the tax rates cannot exceed the relevant 17% or 32%, if the benefit recipient's tax liability is below 17% / 32% they may receive a tax refund.

Other impacts on income

The additional income may cause a non-tax dependant to lose some Government benefits or concessions that are based on assessable or taxable income, as the death benefit increases their income (even though maximum rates of tax applies). Examples include Family Tax Benefit, Government co-contributions, HECS-HELP student debt or the low-income tax offset. In addition, the taxable component is added to income for the purpose of Division 293 tax, the additional 15% tax on super contributions.

Re-contribution strategies

Individuals can use a withdrawal and recontribution strategy to maximise the tax-free component which may minimise the tax payable if a death benefit is paid to an adult child. This involves clients over age 60 making a tax-free withdrawal and recontributing amounts. The strategy reduces the taxable component of a benefit and increases the tax-free component.

However, for members who have a total super balance at 30 June 2025 which is above $2 million, their non-concessional contribution cap is zero meaning they can't take advantage of a recontribution strategy.

Superannuation alternatives

Taking money out of super may come at the cost of giving up the tax concessions available in super, even if additional taxes are levied on higher balances.

The main alternatives to superannuation for wealth accumulation and transfer of wealth on death include:

- Investment bonds
- Family trusts
- Companies
- Personally held investments

One of the things that many financial professionals and individuals appreciate about these four structures over superannuation is that the tax treatment and legislative framework governing them changes infrequently. This provides greater certainty in future financial planning. A brief summary of each option is provided below.

Investment bonds

Investment bonds provide fully tax paid investments after 10 years, or upon earlier death.

A beneficiary can be nominated to receive the proceeds upon the bond owner's death. They have the advantage over super that they are not subject to death benefit nominations and can't be disputed as these are insurance contracts and therefore have certainty over the nominated beneficiary.

One downside is that there is no 50% CGT discount on asset sales by the life insurance company but for many who have more conservative investment strategies, this may not make a material difference.

Bonds are not complex in their ownership structure and unlike family trusts, companies and personally held investments, they don't require additional accounting and tax administration.

Family trusts

Family trusts can be an effective alternative to super as they can offer wealth transfer that may provide additional tax efficiencies, for example splitting income between ultimate beneficiaries and their family members.

They can also offer asset protection from potential bankruptcy and relationship breakdown.

Companies

Companies offer a flat tax structure of 25% to 30% depending on the size and structure of the company. They also have the advantage of being able to retain and reinvest earnings.

Personally held investments

The investment returns on personally held investments will be taxed at the individual's marginal tax rate which may be higher than the concessional superannuation tax rate. The capital gains tax discount of 50% applies to assets held for at least 12 months. However, assets can be transferred to non-tax dependants with the option of the individual and the beneficiaries managing capital gains tax.

Case study – Andrea

Andrea is age 72, single and has one adult son. Andrea has $5.5 million in super, $3 million in pension phase and $2.5 million in an accumulation account. Both of her accounts are 40% tax free component and 60% taxable component.

If Andrea dies, her son will pay the following tax if he receives the benefits directly from her super fund:

	Pension account	Accumulation account
Tax-free component	$1,200,000	$1,000,000
Taxable component	$1,800,000	$1,500,000
Total benefit	$3,000,000	$2,500,000
Tax payable	$306,000	$255,000
Net death benefit	$2,694,000	$2,245,000

This results in total death benefit tax of $561,000, a net death benefit of $4,939,000.

If Andrea withdrew her superannuation and invested in an insurance bond, her son would not pay any super death tax. Andrea would have a lower tax concession on her investment income but may be prepared to forego this in order to save her son $561,000 in tax.

Conclusion

Potential changes to superannuation law may be a timely reminder to review superannuation estate planning objectives. Speak to your financial adviser to explore whether alternatives such as investment bonds or family trusts could provide a more tax effective outcome for your family unit.

Julie Steed is a Senior Technical Services Manager at MLC TechConnect. This article provides general information only and does not consider the circumstances of any individual.

Raising the GST to 15%

Noel Whittaker

For the umpteenth time, tax reform is back on the agenda—this time as the centrepiece of Treasurer Jim Chalmers' latest economic summit aimed at lifting productivity. He's now positioning himself as a champion of efficiency and a warrior against red tape. But it's hard to take that seriously when, according to recent reports, the Albanese government has added more than 5,000 new regulations in its first term alone. It's a familiar pattern: a flurry of committees, consultations and reviews, with little real appetite for structural change.

We've been here before. The Henry Tax Review, delivered in 2009 and chaired by Treasury Secretary Ken Henry, was promoted as a once-in-a-generation opportunity to overhaul Australia's tax system. The goal was to build a fairer, simpler, more sustainable framework for an ageing population and a globally competitive economy. But from the outset, its hands were tied. The GST was off-limits, as were tax-free super withdrawals after 60, and the politically sensitive excise duties on alcohol and tobacco – three of the most significant and contentious levers in the tax mix. That exclusion crippled its ability to deliver truly comprehensive reform.

Of its 138 recommendations, only a handful survived. The super guarantee was locked in to hit 12%. A mining tax limped through, so diluted it sparked industry fury and helped topple a PM. Small and medium businesses got a company tax cut, but the rest – think income tax tweaks, stamp duty reform, and family payment overhauls – were swept under the rug.

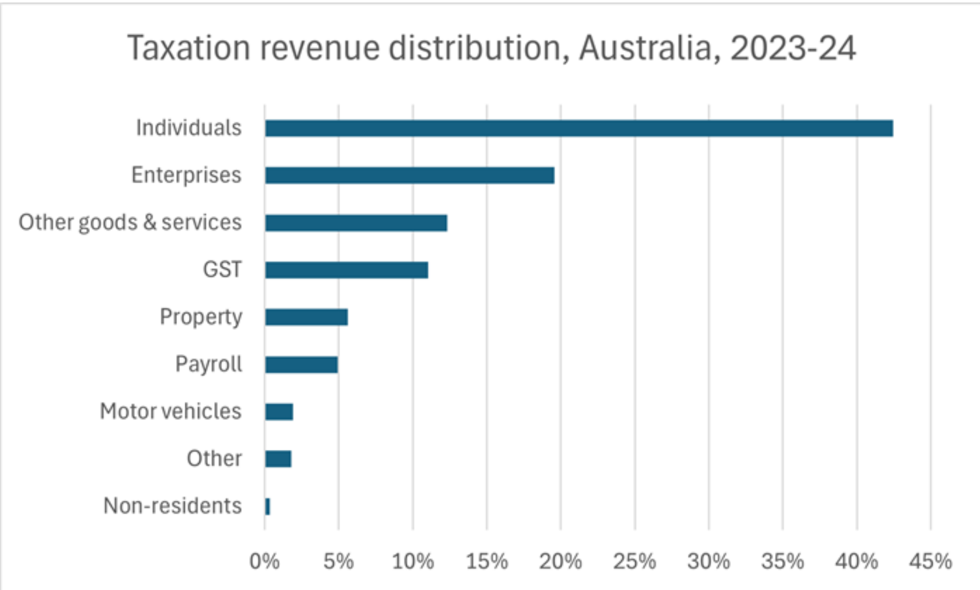
The problem is that any real tax changes are politically toxic. Just look at the current system. Once a person earns $135,000, they lose 39% of every extra dollar. That jumps to 47% after $190,000. These are hardly extravagant incomes by today's standards, yet we've created a structure where effort is punished at the margin. It discourages productivity and encourages people to find ways to minimise tax – hardly a recipe for economic growth.

There's been talk for years about eliminating the capital gains tax exemption on the family home, but that's a practical impossibility. No government would dare touch it – and even if they tried, the wide disparity in house prices across Australia would make it unworkable.

Reducing the 50% capital gains tax discount is another idea that's often floated, but implementing it is far from simple. Any change would have to start from a set date – but even before then, markets would be distorted. A rush of purchases would likely be followed by a slump, throwing long-term planning into chaos. And unless inflation is factored in, removing the discount would breach a fundamental tax principle: you shouldn't tax inflationary gains.

Super is always in the firing line. There's talk the government might impose a 15% tax on pension-phase accounts that are currently tax-free. But that would defeat the entire purpose of super: to provide a low- or zero-tax environment in retirement. A couple with $800,000 invested in their own names would pay no tax anyway, thanks to offsets and franking credits. If you tax their super, they'll just pull the money out and invest it outside the system.

Then there are the perennial rumours about family trusts. Many small business owners—who are also among the country's main wealth creators—rely on trusts for asset protection. If you're a sole trader or in a partnership, your personal assets are on the line if things go bad. That's why most use trusts or companies. A trust doesn't pay tax—it distributes income to beneficiaries, who then pay at their marginal rates. Yes, trusts can offer tax advantages, but they're modest. Distributions to minors are taxed at the top marginal rate above $416 a year. And with the 30% bracket now stretching to $135,000, there's little point targeting trusts with new taxes—owners will simply shift distributions to wages.



Source: Firstlinks, Australian Bureau of Statistics [www.abs.gov.au/statistics/economy/government/taxation-revenue-australia/2023-24]

If we're serious about reform, the only practical solution is to lift the GST to 15% with no exemptions. That would hit the black economy hard and ensure retirees – who currently contribute very little – help cover the rising cost of services.

Of course, any GST increase will be slammed as regressive. But so are petrol taxes, liquor excise and cigarette duties – and no one seems to object to them. The strength of the GST is its efficiency. It's almost impossible to avoid. It captures a broad slice of the cash economy, and while it does affect low-income earners, it hits big spenders hardest – those with the most disposable income.

Noel Whittaker is the author of Making Money Made Simple and numerous other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. Email: noel@noelwhittaker.com.au.

The megatrend you simply cannot ignore

Rudi Filapek-Vandyck

Two and a half years have passed since financial markets, and the world at large, woke up to a new technological break-through labeled Generative Artificial Intelligence.

By now, it seems initial investor euphoria has been replaced with scepticism about the importance of the new technology promise. It's reflected in share prices dipping lower and not necessarily revisiting the levels that featured at the start of 2025.

Look no further than HMC Capital's DigiCo Infrastructure REIT (ASX: DGT) spin-off which made its ASX debut on 13 December last year on a minor discount to the $5 per share IPO pricing. It's share price is now trading closer to $3 - a concrete example of how sentiment has turned for what seemed the no-brainer momentum trend to jump on over the past two years.

From where I am sitting and observing, it seems many investors would rather buy into Aurizon Holdings [AZJ], Iluka Resources [ILU], Lendlease [LLC] or Monash IVF [MVF], and wait for better times to arrive for such market laggards, than grab the opportunity in less ebullient share prices from obvious AI beneficiaries.

Ironically, today's wait-and-see approach in Australia contravenes the rush by astute investors globally, including private equity and large pension funds, to grab their slice of what is promised to deliver the next economic and societal transformation.

So why isn't there a lot more local enthusiasm for owning shares in Goodman Group (ASX: GMG) and other AI beneficiaries on the ASX?

Reasons to be sceptical

It's not as if the promise of a different world tomorrow hasn't arrived previously on Australian shores, and on most occasions the initial hype has quickly turned to dust, or the true winners are mostly listed overseas. Think 3D printing and legalised cannabis as examples of the former and smartphones and social media platforms for the latter.

Online shopping and retailing has delivered on their promise of transformative migration, but for investors there are at least as many success stories as disappointments.

Those old enough might still have nightmares about that Great Promise of the late 90s: the Internet.

In between, of course, we also witnessed the emergence and implosion of the Commodities Super Cycle thesis, which got interrupted by the Global Financial Crisis (late 2007-March 2009) but then died a silent death in 2012.

GenAI, carried by chip manufacturers and megacap companies in the US and mostly by data centre builders and operators on the ASX, is now in its third year, which already is a long time in share market terms. Share prices in Goodman and the like more than doubled from the lows in late 2022 into late-2024/at the start of this calendar year.

So with share prices not the cheapest in an expensively priced market and with critics reminding us many hundreds of billions of investments into GenAI have yet to deliver the killer app everybody wants to purchase, maybe common sense dictates the time to chase this trend has now well and truly passed?

As per always, it all depends on how best to assess this new phenomenon.

GenAI is developing a brave new world

According to former Google CEO and Executive Chairman, Eric Schmidt, the development of GenAI is still only embryonic, with many more stages of development on the horizon, and truly transformative outcomes along the way.

In a recent TED Talk interview (link below) released in April, Schmidt argued the advent of AI is, contrary to investor hesitance, still "wildly underhyped" as general understanding is not yet fully appreciative of what is yet to be achieved through this new technology.

The emergence of non-human intelligence, which is what AI essentially embodies, is likely to turn into the most significant development for the last 500 or even 1000 years, he boldly suggests, leaving all other technological revolutions throughout that period in its shadow.

I encourage investors to watch the interview. Technologist turned AI evangelist Schmidt is far from a lonely voice on this matter. In October last year, FNArena interviewed Nilesh Jasani, who runs his own global innovation fund (link included below). The following paragraphs are from Jasani's latest update for investors:

> *"Generative AI now orchestrates half the product recommendations on the internet, and a quarter of travel bookings start with a chatbot. Governments, not just hyperscalers, are pouring hundreds of billions of dollars into data-center infrastructure. Money that once paved highways now paves inference lanes.*
>
> *"As consumers, what we buy, how we buy it, and even why we buy it is being rewritten. A decade from now, 10-20% of global consumption could be in products and services that barely exist today. The world around us is changing at a speed that is difficult to comprehend. It is not our intention here to repeat the refrains sung in every journal and presentation. But there are shifts occurring that are often under-discussed in their magnitude. Every major number hinted at in this section would have been a revolution on its own. Here, they are happening simultaneously and building on each other.*
>
> *"Not just the Internet is in flux or collectively global consumers, corporates, and governments are spending on a new sector like nothing ever seen, but the capabilities and use cases continue to explode in a way unimaginable even a few months prior. Cars are delivering themselves. The skies are witnessing the first flying taxis. Machines can talk in human languages and process vision perfectly: these feats are so staggering that after Elon Musk, Jensen Huang has also felt the need to state that Robotics could become the biggest industry humanity has ever built.*
>
> *"One can keep going breathless about the potential in diagnostics, or drug discovery, or in climate management, or in material sciences, or in finance. The opera approaches its crescendo. The world is forging tools so powerful they change the ask of humanity itself.*

> *"We can chase every candlewisp of price volatility, or we can learn to breathe through it. The real risks are not recurring double-digit market corrections every few quarters. The real risk is dedicating one's attention to managing them and, in the process, straying away from truly historic real-world transformation."*

The message from both Schmidt and Jasani, and from many others, is those investors who keep thinking this boat has sailed, or share prices are too expensive, or there's risk for another sell-off, are likely to miss out on a once-in-a-lifetime opportunity to be on the right side of history in the making.

Of course, there will be winners and losers, as well as many grand successes and failures. But no matter what type of investor you are, or what horizon your portfolio is set-up for, if GenAI reaches only a quarter of the size predicted by these experts, it will be impossible to escape its impacts on life, societies, economies, businesses, and financial markets.

From this perspective, achieving a better understanding of what is this new technology, and what is its promise, is no longer a choice for active investors.

It's a necessity.

GenAI is electrifying global efficiency

As developments accumulate in quick succession, it is increasingly dawning upon AI afficionados any comparison with the smart phone, the Internet, or even personal computers is a sign of not genuinely appreciating the transformation that has already started.

GenAI's transformative powers are so broad-based across segments, sections and sectors, a more apposite comparison is with the advent of electricity in the early 1900s. By 1920 about 35% of US homes were electrified, giving birth to new industries manufacturing refrigerators, vacuum cleaners, washing machines and radios.

By the end of that decade, that percentage had risen to 68% (90% for the major cities), fueling a consumer spending boom that supported a golden era for equities. Yes, that ultimately ended with an historic disaster at the turn of that decade, but should one worry about such an outcome already?

More than one hundred years later, the development and adoption of GenAI is occurring at much faster, break-neck pace. Its impact on businesses and the economy will be equally broad-based, but profoundly different.

My personal LinkedIn feed suggests people are embracing new AI tools with seldom witnessed gusto. HR departments are receiving perfect job applications. Complaints are drafted in perfect legal lingo. AI is creating high-quality presentation slides, writing standard emails and advising on where to holiday and which recipe or daily exercise seems best.

Investment banking and consultancies are lauding the rapid execution time, without the need for hiring more staff. Fund managers are stunned by the quick execution and the detailed information gathering to support their research.

My prediction is GenAI will be a lot more mentioned throughout the upcoming August reporting season. Critics waiting for the next killer app are missing the point; large corporations like CommBank (ASX: CBA) and Telstra ASX: TLS) await the opportunity to become a whole lot leaner and more efficient, which means higher margins, higher profits and (potentially) higher dividends for shareholders.

If investors can be convinced such margin increases are sustainable, this also translates into structurally higher valuations for companies that successfully integrate this new technology throughout their operations. Others will still be forced to make the investment, lest they be sidelined by a successful competitor or new market disruptor.

Nothing in history ever moves in an uninterrupted, straight trajectory, and it is most likely GenAI won't do it either. This is a positive, as it gives investors time and opportunity to read up and to study, and to get truly acquainted with what tomorrow's world might look like, starting from today's likely winners and opportunities.

Time to get crackin', or to repeat the advice by Eric Schmidt: don't waste this unique opportunity.

In the same vein, if GenAI truly is a once-in-a-lifetime phenomenon that is changing the world as profoundly as now is believed, there will be an ongoing conga line of opportunities (and misses) for many years to follow.

This still is not an excuse to risk missing out altogether.

Rudi Filapek-Vandyck is Editor at the FNArena newsletter, see www.fnarena.com. This article has been prepared for educational purposes and is not meant to be a substitute for tailored financial advice.

Is this the real reason for gold's surge past $3,000?

Jeremy De Pessemier

For about a decade, real interest rates were a prominent factor driving the gold price (**Chart 1**), i.e. gold was inversely correlated with real rates, with gold becoming less attractive as real interest rates rose. Since 2022, however, this inverse correlation has again been counterbalanced by other factors. As real rates rose – currently sitting above 2% – gold prices also generally rose, supported this time by investors seeking to mitigate a variety of risks and by central bank buying.

Chart 1: Higher opportunity costs counterbalanced by other factors

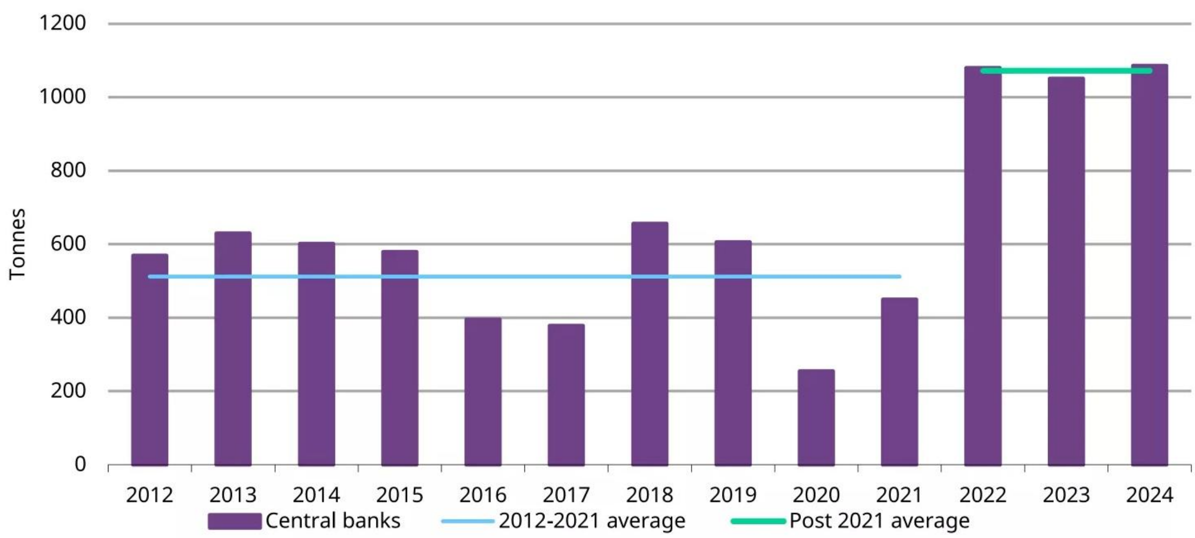
US 10yr Real Yield and Gold (USD/oz)*

**Data from 31 December 2003 to 30 May 2025. Source: Bloomberg, World Gold Council.*

Indeed, the central bank buying we have witnessed since 2022 and the acceleration of those purchases has been a big factor in gold's strength (**Chart 2**). The reasons for this increased appetite from emerging market central banks for greater gold reserves are multiple, e.g. diversification, geopolitical risks, and gold's performance in periods of crisis.

Chart 2: Central banks coming into the market in unprecedented levels

Annual central bank net purchases, tonnes*

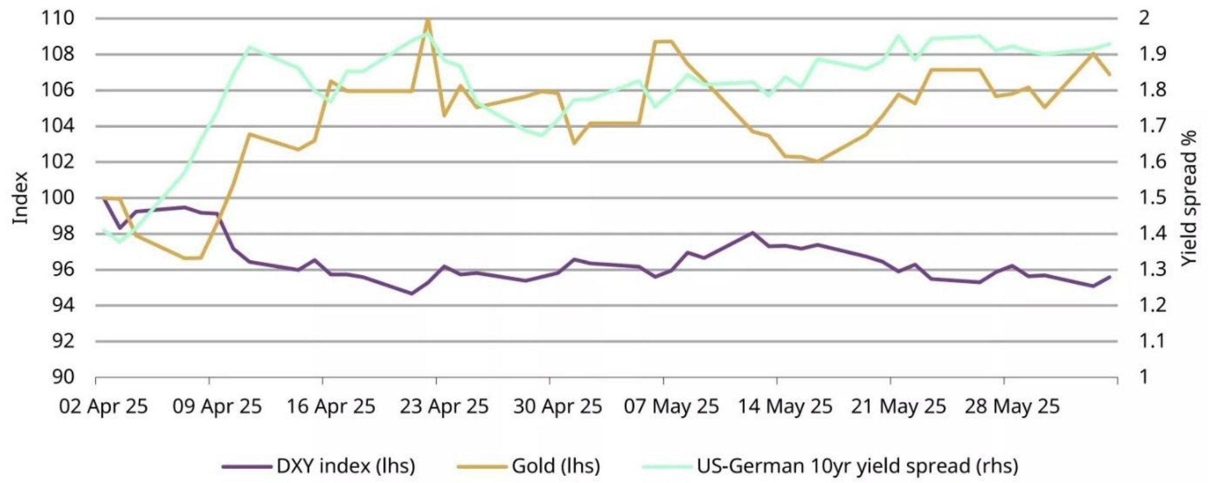


**Data from 2012 to 2024. Source: Metals Focus, World Gold Council.*

More recently, consumer confidence and business investment intentions have been affected by economic and trade policy uncertainty. This has triggered a reallocation of global capital out of the US, with global investors seeking out alternative safe-haven assets to US Treasuries. The consequences have been a weaker dollar, rising gold prices, and US bond yields widening versus other high-grade sovereigns, e.g. Germany (**Chart 3**).

Chart 3: 'Liberation day'!

Gold, DXY and US-German 10yr yield spread

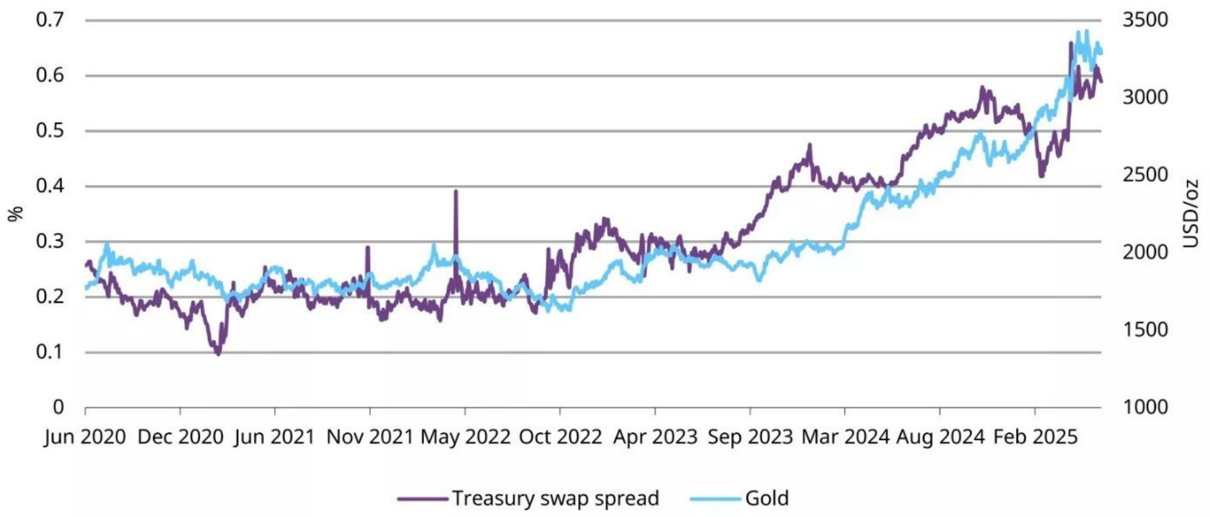


**Data from 2 April 2025 to 3 June 2025. Source: Bloomberg, World Gold Council.*

More broadly, we believe fiscal concerns have been one of the factors supporting the gold market (**Chart 4**). For example, the difference between the yield on a US government bond and the fixed rate of an interest rate swap has been pushed up – a potential sign of fiscal concerns. In other words, we are witnessing investors' inability or unwillingness to absorb debt issuance or sales by other bond holders at prevailing prices, in turn exerting upward pressure on bond yields, pushing the US Treasury swap spread higher.

Chart 4: Gold rising alongside US fiscal concerns

US 10yr Treasury swap spread and gold (USD/oz)*



**Data from 30 June 2020 to 30 May 2025. Source: Bloomberg, World Gold Council.*

Our simplified analysis points out that the differential between US Treasuries and swap rates, which we believe is at least partly linked to US fiscal concerns, is statistically significant in explaining movements in the gold price (**Table 1**). In practical terms, when fiscal concerns increase – reflecting worries over US government debt sustainability or deficits – investors may seek the relative safety of gold, driving its price higher.[1]

Table 1: As US fiscal stress has increased, investors have sought out gold
Regression of gold returns on fiscal stress, DXY index and 10yr real yields*

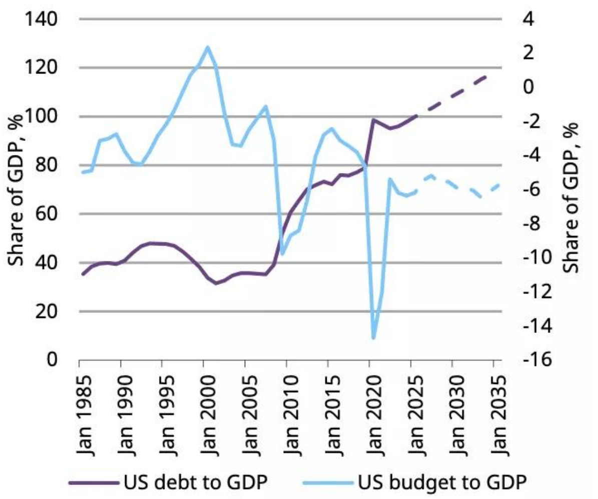
Variables	Coefficient	T-stat	P-value
US fiscal concerns	0.02	2.1	0.025
DXY index	-0.74	-11.5	0.000
10yr real yield	-0.01	-1.8	0.036
Constant	0.00	2.4	0.007

** Data from 15 June 2022 to 15 June 2025. Regression analysis using log daily gold price returns as dependent variable. Independent variables are: fiscal stress (US 10yr Treasury swap spread), DXY index and US 10yr real yields. Source: Bloomberg, World Gold Council.*

The US's precarious fiscal position

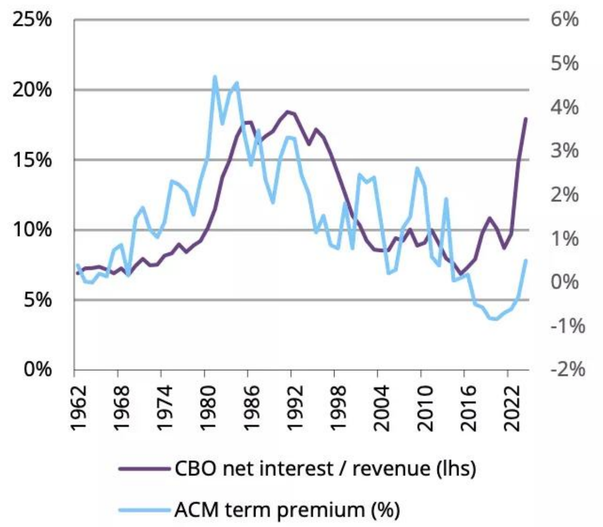
The gold market is likely to continue to be supported by US fiscal issues as the bond market will remain sensitive to US debt sustainability considerations. Indeed, the last two decades of relaxed fiscal policies (**Charts 5 & 6**) and shifts in the demand structure have now put the US in a precarious position.

Chart 5: Fiscal loosening started in 2001
US debt to GDP, US budget to GDP, and respective forecasts from the CBO*



**Data from 1985 to 2024, projections thereafter. Source: Congressional Budget Office, Bloomberg, World Gold Council.*

Chart 6: Is the only way up?
US govt interest payments vs. 10yr term premia*

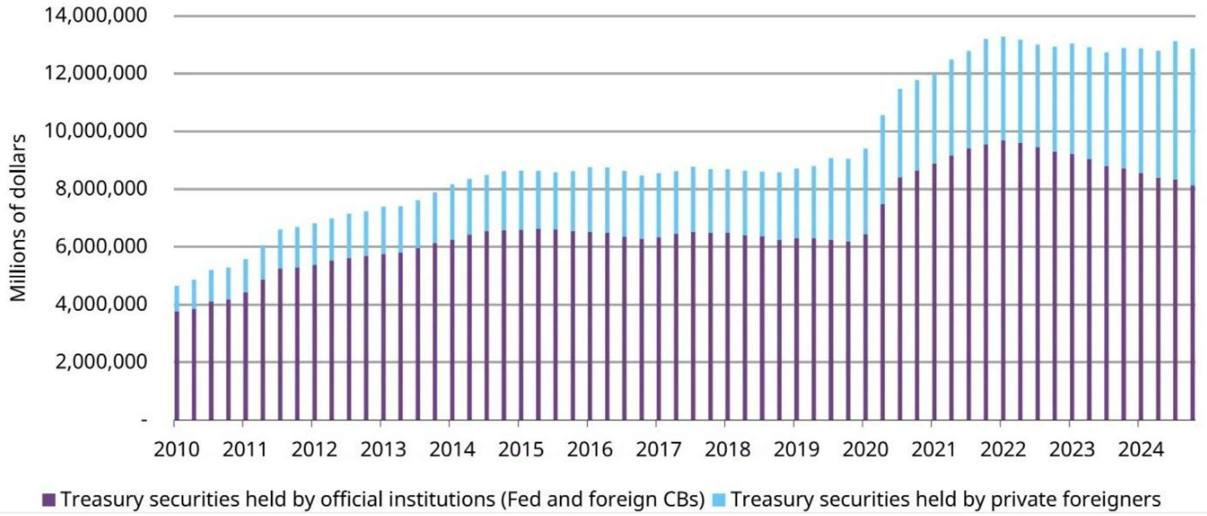


**Data from 1962 to 2024. Source: Congressional Budget Office, Bloomberg, World Gold Council.*

Demand for Treasuries from the Fed and foreign official institutions, which are least return sensitive, is falling (**Chart 7**). By contrast, foreign private investors are now the largest non-official holders of Treasuries. These investors are likely to be the most price-sensitive category of investors as they are likely to have global mandates and therefore compare Treasuries with government bonds in multiple jurisdictions.

Chart 7: Treasury demand is becoming more price sensitive

Treasury securities held by official institutions and private foreigners*



**Data from 01 Jan 2010 to 31 Dec 2024. Source: Board of Governors of the Federal Reserve System, WGC.*

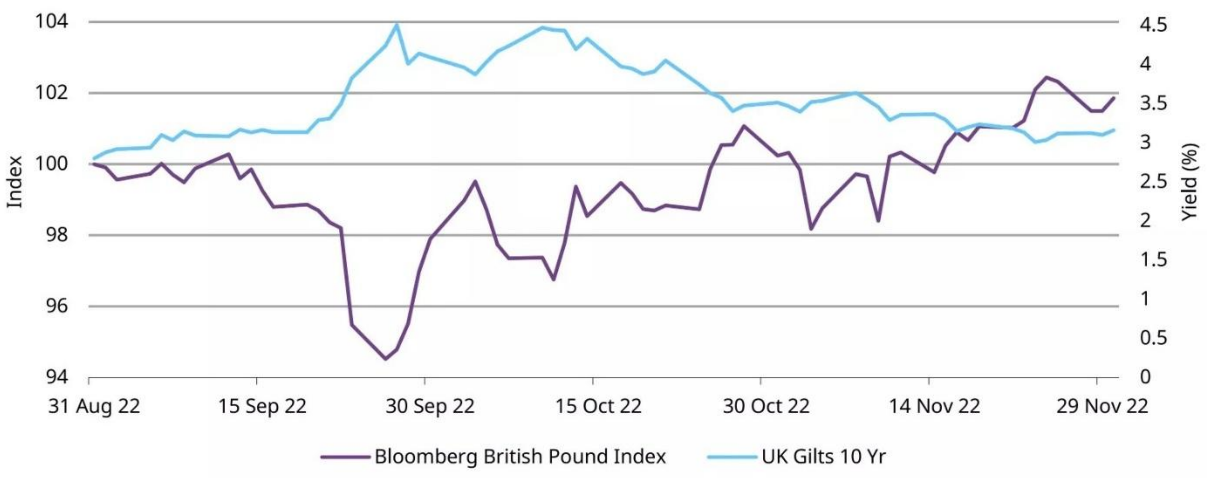
Full-blown fiscal crisis unlikely and unnecessary for gold support

All of this does not mean a full-blown crisis is imminent. Such a crisis would require a short-term trigger – such as a debt-ceiling miscalculation resulting in a technical default – that exacerbates the existing long-term destabilising trends. Rather, the more likely outcome is a series of rolling mini-crises as political objectives and bond market expectations collide. In fact, when it comes to fiscal sustainability, perceptions matter as much as policy. If leaders give the impression that their commitment to long-term fiscal discipline is weakening – or that they are determined to force through policies that will weaken the fiscal position – then the reaction in bond markets is usually quick and severe.

This, however, is generally short-lived as the government backs down in the face of market pressure. Central banks can also step in to prevent yields rising too quickly – and they will always do so if those moves in yields threaten financial stability, as we witnessed in the UK 2022 mini-crisis (**Chart 8**). As fiscal concerns come to the fore, gold – an alternative safe-haven asset – should remain supported.

Chart 8: UK 2022 mini-crisis

Bloomberg British Pound index and 10yr UK Gilt yield*



**Data from 31 August 2022 to 30 November 2022. Source: Bloomberg, World Gold Council.*

Conclusion

The interest rate environment and geopolitical tensions undoubtedly play a significant role in driving the gold price but they are not the sole factors. Recently, we believe that fiscal concerns have also had a say. And while there is a strong belief that the US Treasury market will never lose its safe-haven status, a major crisis, while unlikely, is not impossible. However, the more likely outcome is a series of rolling mini-crises as highly indebted sovereigns like the US are confronted with market-imposed limits on fiscal largesse. This uncertainty and resulting market volatility are likely to give additional support to the gold market.

Footnote

[1]A more detailed analysis would be needed to better assess the accuracy of the US Treasury swap spread as a direct proxy for fiscal issues, as well as its direct impact on the gold market. For example, we would need to test how this factor fits into our more comprehensive Gold Return Attribution Model – whether directly or indirectly – and if its effect persists once we have controlled for other factors.

Jeremy De Pessemier is an Asset Allocation Strategist at World Gold Council, a sponsor of Firstlinks. This article is for general informational and educational purposes only and does not amount to direct or indirect investment advice or assistance. You should consult with your professional advisers regarding any such product or service, take into account your individual financial needs and circumstances and carefully consider the risks associated with any investment decision.

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Is now the time to invest in small caps?

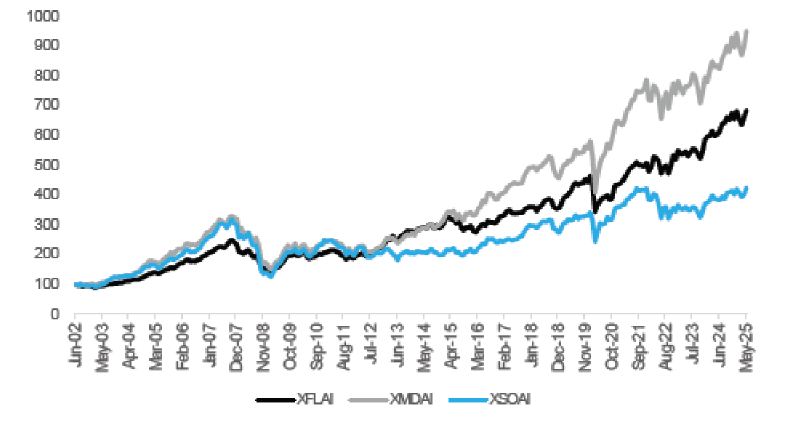
Claire Aitchison

With the RBA cutting the cash rate for a second time this year in May and the expectation for further rate cuts to come, is now the time to be investing in small caps?

The rate cut in May combined with the pause on tariffs by the Trump administration saw markets rally in May with the S&P/ASX Small Ordinaries Accumulation Index outperforming large caps. The index increased 5.8% in May with a number of small and mid-cap managers outperforming the market. While Small Industrials were up in May, it was Small Resources that drove the performance of the Small Ordinaries Index with the S&P/ASX Small Resources Accumulation Index up 10.1%.

Small caps have lagged large and mid-caps for quite some time now as is highlighted by the chart (right). If we were to take a look at the period since May 2022, which is when the RBA started its rate increase cycle, large caps have been the best performers followed by mid-caps, and small caps have lagged.

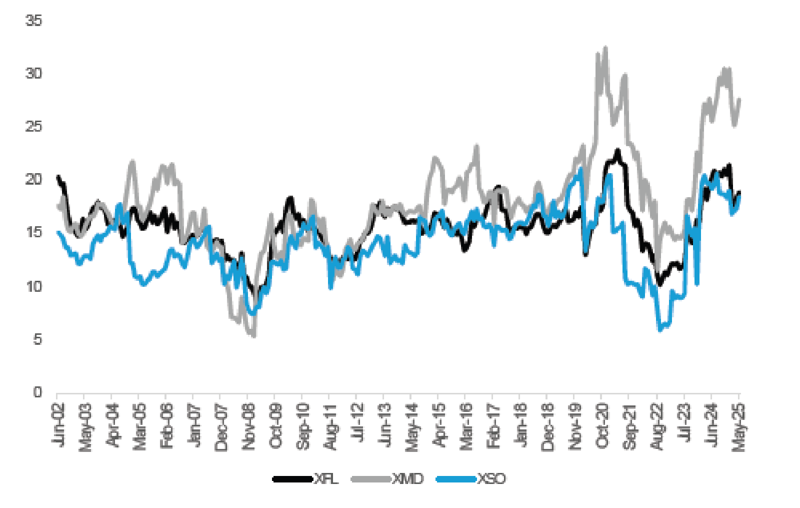
ASX Large, Mid and Small Cap Performance



XFLAI = S&P/ASX 50 Accumulation Index
XMDAI = S&P/ASX Midcap 50 Accumulation Index
XSOAI = S&P/ASX Small Ordinaries Accumulation Index

Small caps have been trading at lower multiples for much of this period as is shown by the historical P/E ratios for large, mid and small caps. However, the P/E ratio of small caps has recovered and was only slightly below large caps as at 31 May 2025. We note that there is significant dispersion in the P/E ratios amongst both large and small cap stocks. Mid Cap multiples have expanded the most since 2022, contributing to the outperformance of this segment of the market.

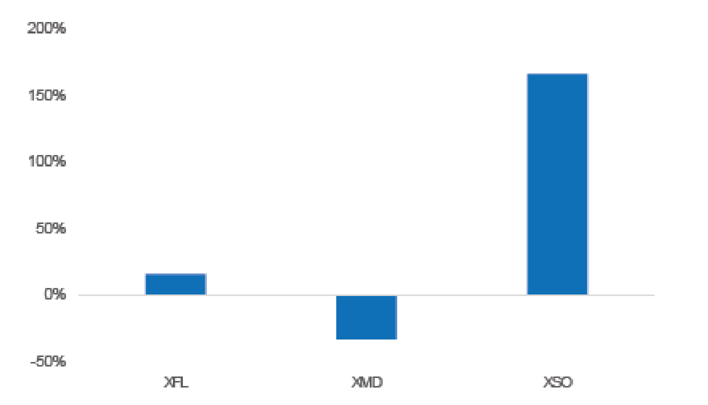
Historical P/E Ratios



Source: Iress

When looking at the EPS trends for each of the market segments, small cap EPS has improved the most over the last 12 months after being hit the hardest in 2023. This compares to mid-caps, the EPS of which has declined over the last 12 months. Further interest rate cuts may see this trend continue which may propel the performance of small caps.

EPS Growth Over 12-months to 31 May 2025



Source: Iress

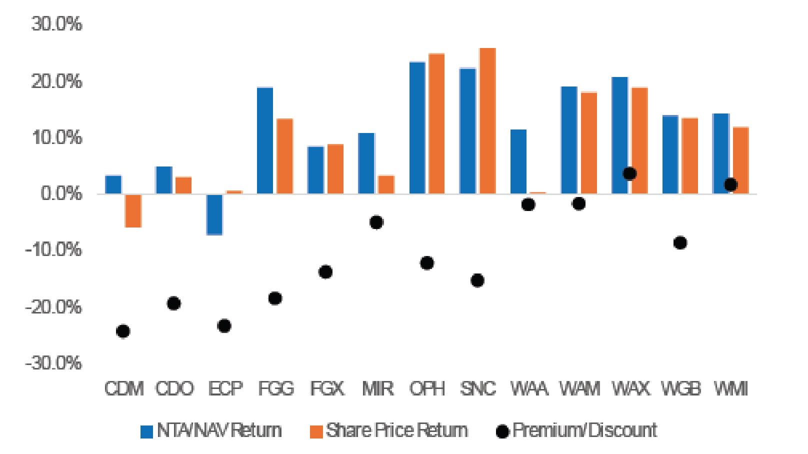
Trade ideas

Below we take a look at LICs and LITs rated by our firm that provide exposure to small caps and may be worth further consideration from investors. We would expect relative outperformance of small caps to have a positive impact on discounts as demand for this segment of the market increases.

The below does not constitute investment advice. We are simply providing ideas for further consideration by investors. Investors should consult with their investment adviser when considering investments to ensure they fit the risk and return requirements to meet the needs and objectives of individual investors.

The next chart shows the performance of the IIR rated LICs and LITs that provide exposure to small caps over the 12 months to 31 May 2025 and the premium/discount as at 31 May 2025. We have included LICs and LITs that provide exposure to domestic and global small caps with small caps underperforming large caps globally in recent years.

Performance of LICs & LITs Providing Small Cap Exposure over 12-months to 31 May 2025



Note: NTA returns are based on the pre-tax NTAs provided by companies. Some NTA's are before tax and some include tax paid on realised gains.

There have been some standout performers over the 12 month to 31 May 2025 from the LICs and LITs included in the above chart. The NTA/ NAV return of 7 of the 13 LICs and LITs outperformed the S&P/ASX 200 Accumulation Index over the period and 9 of the 13 LICs and LITs outperformed the S&P/ASX Small Ordinaries Accumulation Index. We take a look at some of the LICs and LITs in more detail below.

Future Generation Global Limited (ASX: FGG)

FGG provides exposure to a portfolio of global funds managed by a range of asset managers. The Managers have a range of investments styles including long only, absolute return and quantitative. While FGG is exposed to an all-cap portfolio, the portfolio has historically been overweight mid and small caps.

FGG is a philanthropic vehicle whereby the managers forego management and performance fees and FGG donates 1% of the average NTA in a financial year to a selection of charitable causes. In addition to donating to charity, investors reap the benefits of any fee savings in excess 1%.

FGG's NTA performed strongly over the 12 months to 31 May 2025 returning 19.0%. While shareholder returns also increased, they lagged the NTA over the period. This has resulted in FGG trading at a material discount as at 31 May 2025.

The discount provides exposure to a portfolio that has an overweight exposure to global mid and small caps. The underweight exposure to large and mega cap stocks has been a drag on the relative performance of the portfolio in recent years, however the relative returns are expected to improve in the event mid and small caps outperform. The diversified exposure by manager and investment style has resulted in the portfolio having lower volatility than the broader global equity market. This may appeal to those investors seeking some capital preservation given the expectation of market volatility to continue in the second half of this year.

Future Generation Australia Limited (ASX: FGX)

Like FGG, FGX is also a philanthropic vehicle whereby the managers forego management and performance fees and FGG donates 1% of the average NTA in a financial year to a selection of charitable causes. In addition to donating to charity, investors reap the benefits of any fee savings in excess 1%.

FGG provides exposure to a portfolio of managers focused on the domestic market. FGX has also historically had an overweight exposure to mid and small caps which has been a contributor to the underperformance to the broader domestic market over the 12 months to 31 May 2025, however since inception the NTA has had periods of strong returns relative to the broader market.

FGX is trading at an elevated discount providing attractive opportunities for investors to take advantage of improved relative performance in the event mid and small cap stocks outperform with the portfolio historically delivering returns with a lower volatility than the broader market.

Mirrabooka Investments Limited (ASX: MIR)

MIR provides exposure to a portfolio of ASX ex-50 stocks. The Company completed a 1-for-7 Entitlement Offer in June, raising ~$85 million. The Offer was oversubscribed with shares under the Offer issued at $3.06. The Offer price represented the average pre-tax NTA from 4 April to 2 May 2025. The rebound by the market in May saw the Offer price become very attractive, providing shareholders the ability to acquire shares at a discount to the share price and NTA.

MIR is currently trading at levels around NTA and at times at a slight discount providing investors the opportunity to gain exposure to a portfolio that has outperformed its benchmark over the long term and consistently performed strongly relative to its peers. There have been limited opportunities in the last decade to invest around par with the Company trading at material premiums for prolonged periods of time.

Ophir High Conviction Fund (ASX: OPH)

OPH delivered the best NAV/NTA performance over the 12-months to 31 May 2025 with NAV increasing 23.5%. Unitholder returns were also strong, slightly outperforming the NAV return, increasing 25%. The portfolio has been volatile to start the year which is often the case with concentrated portfolios. The portfolio delivered an uplift in May 2025 of 11.5%, contributing to the strong 12 month figure.

Despite the unit price increasing more than the NAV over the 12-month period, the Trust continues to trade at an elevated discount. We view discounts as attractive investment opportunities for investors seeking exposure to a Manager that has outperformed the market over the long-term.

Sandon Capital Limited (ASX: SNC)

The SNC portfolio performed strongly in the 12 months to 31 May 2025, being the second best performer of the LICs and LITs in the above chart.

SNC provides a highly differentiated exposure to the market with a deep value focus and activist approach. SNC's portfolio has a low beta compared to the domestic market and has historically delivered the capital preservation in down markets you would expect from a deep value strategy. Given the nature of the strategy, an investment in SNC is for patient, long-term investors.

Buying at elevated discounts has been fruitful for some investors with investors taking advantage of the extreme discounts during the COVID market benefiting from a narrowing of the discount. The Company does have limited liquidity and this is a consideration for investors, however is an investment worth considering for those looking to diversify their portfolio from the potential heightened market volatility.

WAM Global Limited (ASX: WGB)

WGB provides exposure to a portfolio of global undervalued growth stocks. While the Company invests in large caps, the portfolio is typically overweight mid and small caps. This overweight exposure has been a contributor to the portfolio lagging the broader global market.

Given the overweight exposure to mid and small caps, the rotation into this segment of the market is expected to bode well for the WGB portfolio. Improved relative performance is expected to have a positive impact on the discount, which has narrowed in 2025 to date and as such may be worth further consideration for those investors with a bullish outlook for the smaller-end of the global market.

Concluding Remarks

The RBA already cutting rates twice in 2025 and further rate cuts forecast on the back of moderating inflation is expected to be a catalyst for small cap stocks. Improved relative performance may see increased demand for this market segment which is expected to have a positive impact on discounts and presents an opportunity for investors to enhance their returns through a narrowing of discounts.

Investors should make sure to do their due diligence and make sure a manager's investment style and mandate fits within their risk and return requirements. While small cap stocks may be a beneficiary of rate cuts, there is also expected to be heightened market volatility as growth in the global economy slows and uncertainty surrounds policies implemented by the Trump administration.

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Welcome to the grey war

John West

There is lots of speculation about the risks of China and the United States going to a hot war. But a close examination suggests that China has already been in a 'grey war', a cyberwar, with the United States for several years now.

What is the grey war? It is obviously between black and white. We should not think of war and peace in binary terms, but along a spectrum where there are degrees of war and peace.

Propaganda and disinformation, the key instruments of the grey war, have always been features of international relations. But China and other authoritarian regimes also buckled down on efforts to destabilize the United States and other democracies by propaganda disseminated through social and other media.

China's narrative of dominance

China's grey war narrative is that it is on an unstoppable path to overtaking the United States. It is trying to demoralize the United States and the West. The Chinese want the United States to believe it is in irreversible decline, and the United States should not even try to contain China. It should just accommodate China.

China is highly motivated because it sees the very ideas of democracy and freedom as a regime threat. China is keen to create a world that is safe for the Chinese Communist Party.

It is of course deeply ironic that China and other authoritarian governments are often using U.S. technology to defend and export autocracy around the world.

The grey war is fundamentally different from the Cold War in that there are deep economic, technological and person-to-person connections between the United States and China, which was not the case between the United States and the Soviet Union.

The Arab Spring as a turning point

An important trigger for the grey war was the Arab Spring. Indeed, it was a super-wakeup call for China and other authoritarian states. They saw Egyptian protesters in Tahrir Square who were organizing their protests and communicating to the world using social media.

So, China began working hard to use the Internet and other technologies as vehicles for social and political control at home, especially for China's Uyghur population. It began centralizing political control over the Internet such as through China's Great Firewall and its banning U.S. tech companies like Google and Facebook from the Chinese market.

There is both a 'front end' and the 'back end' of the grey war. The front end refers to information operations through applications, news information and social media platforms. China now leads the way as state-sponsored news outlets push very aggressively narratives to discredit democracy and the US government.

Hardware as a weapon

The back end refers to the physical infrastructure of the Internet, namely cellular phones, satellites, fiber-optic cables, 5G networks, wires and antennas.

And in this space, there are only two countries — the United States and China — which have the hardware companies and expertise to be major players. Through the technology company, Huawei, China's authoritarian government has access to everything that runs across its network.

In a way, the United States is at a disadvantage to China's state capitalism in the grey war. China's civil/military doctrine basically fuses its private companies with the government. Thus backend infrastructure produced by Huawei or ZTE can be used as instruments of the Chinese state for accessing and censoring information.

Censorship, surveillance and exporting control

For example, the Chinese government requires Chinese Internet companies to do things like censoring Winnie the Pooh (who resembles Chinese leader Xi Jinping!) or maps showing Taiwan as an independent territory or content that paints democracy in a flattering light.

China has over between two and three million employees, known as the 50 Cent Party, whose job is to monitor and censor the Chinese online information environment.

Moreover, China is creating a "techno-block" with countries (especially in Africa) to which it is supplying back-end information infrastructure. It is also exporting closed-circuit television (CCTV) surveillance technology for monitoring and controlling their societies.

China's authoritarian Internet model is part of its strategy to promote autocracy around the world with the ultimate objective of making the world safer for the Chinese Communist Party.

The U.S.'s structural disadvantage

In sharp contrast to China, the US Internet environment is mostly decentralized with no control. People can basically say whatever they want online, unless it is illegal. But the US government does not have the nation's tech industry at its beck and call like China does — although it does have the advantage of an open, more innovative system.

Looking ahead, the United States faces many challenges in the grey war zone. Donald Trump's anti-migration narrative will undermine Silicon Valley, whose innovation has depended greatly on US-educated migrants.

Another important issue is deindustrialization and outsourcing of tech production to China have left the United States strategically vulnerable. In this new gray war, a deindustrialized United States can be a disarmed United States. COVID-19 highlighted the risk of being vulnerable to coercion.

Bridging the Silicon Valley-Washington divide

But reshoring all of outsourced manufacturing is not feasible, as the United States has very limited manufacturing capacities — despite Trump's exhortations to bring manufacturing back to the United States.

One option is some reshoring of products which are critical to national security, along with 'friend-shoring' of some production to close and trusted allies.

Unfortunately, the United States has suffered in recent years from a rift between Capitol Hill and Silicon Valley. But today, the United States' tech and policy-making communities need to work much more collaboratively to address the important challenges of technological competition with China. After all, Silicon Valley was born from contracts and close cooperation with the US government.

Part of the problem is the immense size of US tech companies which enables them to do their thing. Other factors are generational and cultural. The average age of an employee at Google and Apple is in the early 30s, whereas the average age of Senators is 63.

These people came of age at very different times, have had very different life experiences and view technology very differently.

The stakes: A divided world order

This tech-fuelled political warfare will shape the world's balance of power for the coming century as autocracies exploit 21st-century methods to redivide the world into 20th-century-style spheres of influence.

The United States has all the ingredients to confront this. Perhaps the greatest challenge that the United States faces in this grey war is domestic politics, especially Donald Trump and the MAGA movement.

The United States needs well-managed immigration, strong investments in education and technology, an open trade system and positive relations with allies.

Above all, it needs to resist cronyism. However, at the present moment, all of these are risks.

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