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Editorial

It seems a long time ago but it was only in April that markets had a sharp correction thanks to Trump's threats of tariffs. As concerns about these tariffs have eased, stocks have come roaring back.

It hasn't just been a tariffs story. Economies have held up ok and inflation has continued to trend down. There's also been significant stimulus announced in Europe, and to a lesser degree, in China.

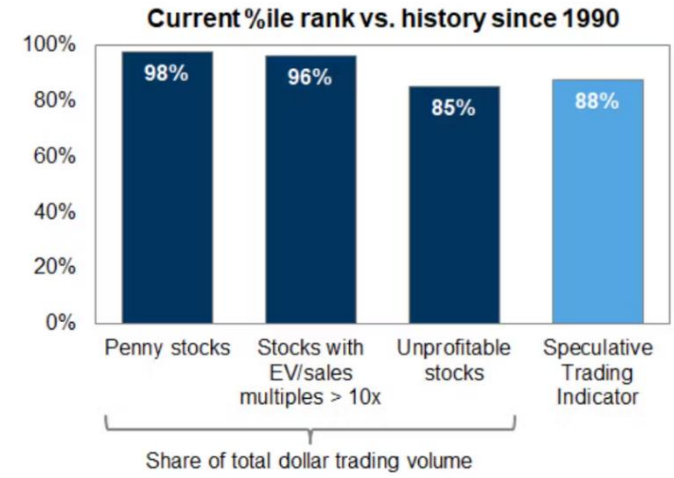
Yet, one of the biggest drivers behind the recovery in stocks has been the expectation that interest rates will fall further and faster. That's because Trump wants rates in the US much lower, and once he gets his own Federal Reserve Chairman appointed (by May next year at the latest), that will undoubtedly happen.

In essence, markets are frontrunning lower US rates and possible quantitative easing. Cheap and easy money is coming, and they can't get enough of it.

13 charts highlighting the speculative frenzy

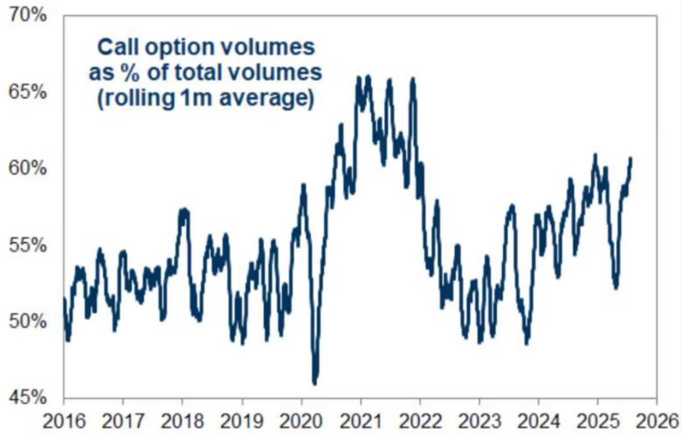
Here are some indicators of the recent exuberant risk-seeking behavior in markets:

1. Trading in expensive and penny US stocks is near record highs



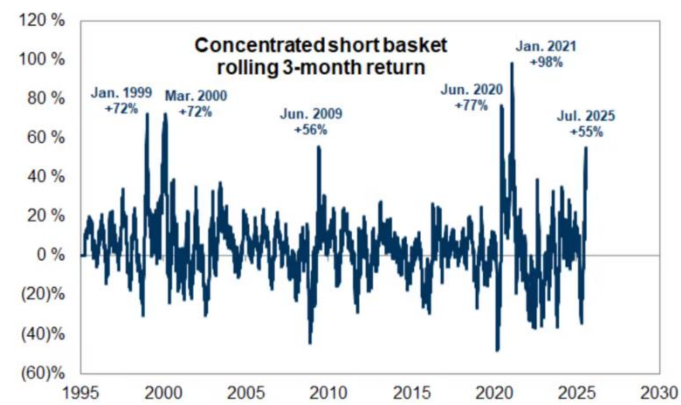
Source: Goldman Sachs Global Investment Research

2. Leveraged bets on markets going up have soared



Source: Bloomberg, Goldman Sachs Global Investment Research

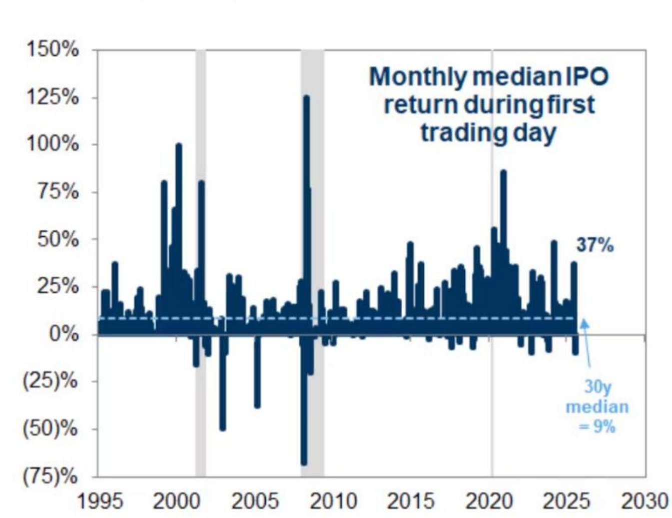
3. US stocks with elevated short interest have surged



GSCBMSAL basket developed by GBM.
Source: Goldman Sachs Global Investment Research. Goldman Sachs FICC and Equities

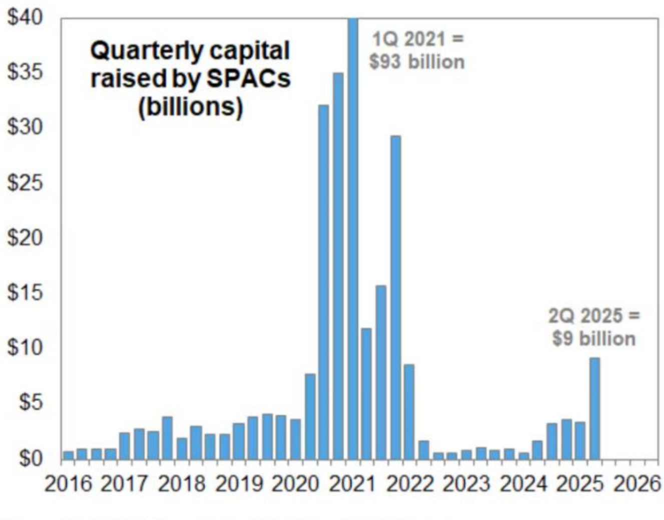
4. Recent IPOs have generated strong first-day returns

IPOs on US exchanges with gross proceeds greater than $25 million



Source: FactSet, Goldman Sachs Global Investment Research

5. Special purpose acquisitive vehicles (SPACs) are back in vogue



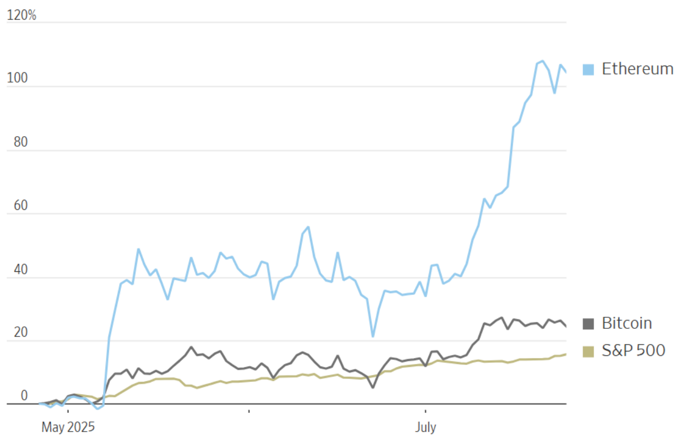
Source: Dealogic, Goldman Sachs Global Investment Research

These vehicles raise capital to acquire existing operating companies. Investors essentially give black cheques to SPACs to make acquisitions.

SPACs have raised US$12 billion this year. That's nowhere near the heady days of 2021, though it's still a lot of money.

6. Cryptocurrency prices are flying

Price performance

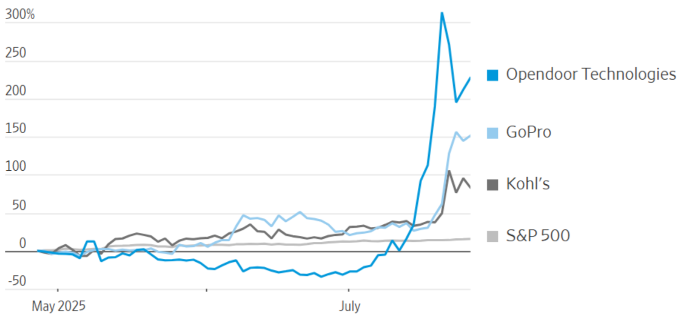


Sources: CoinDesk (BTCUSD); FactSet (indexes); Kraken (ETHUSD)

Prices of Ethereum and bitcoin have catapulted higher, helped by the Trump administration's pro-crypto policies and growing acceptance by mainstream financial institutions.

7. Meme stocks are again a thing

Share-price and index performance, past three months



Source: FactSet

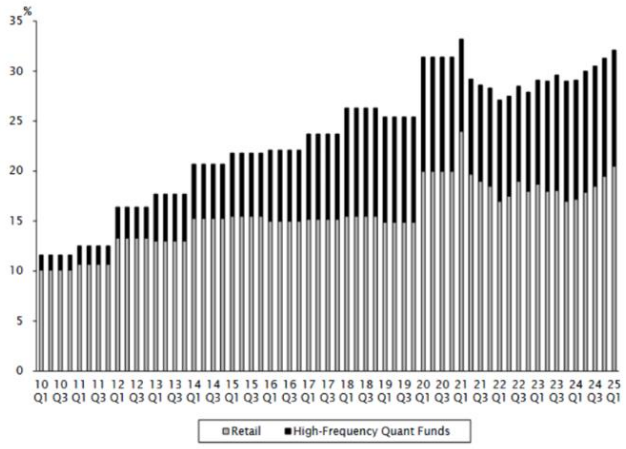
You might remember that in 2021, retail day traders drove US mall retailer GameStop and other so-called meme stocks to ridiculous prices.

Well, meme stocks are back. This time it's in companies such as Kohl's and Opendoor. The latter is an online house flipper and its stock is up 377% in the past month.

8. Retail investors have been big buyers of the rally, while institutions have been sellers

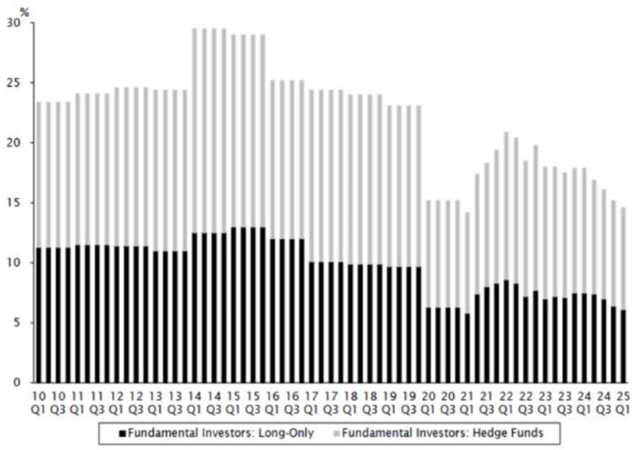
There was a similar rise in US retail investor money in 2021.

U.S. Stocks
Estimated Share of Trading Volume Attributable to Retail Investors and High-Frequency Quants
2010 Through Q1 2025



Source: Bloomberg L.P., Empirical Research Partners Analysis.

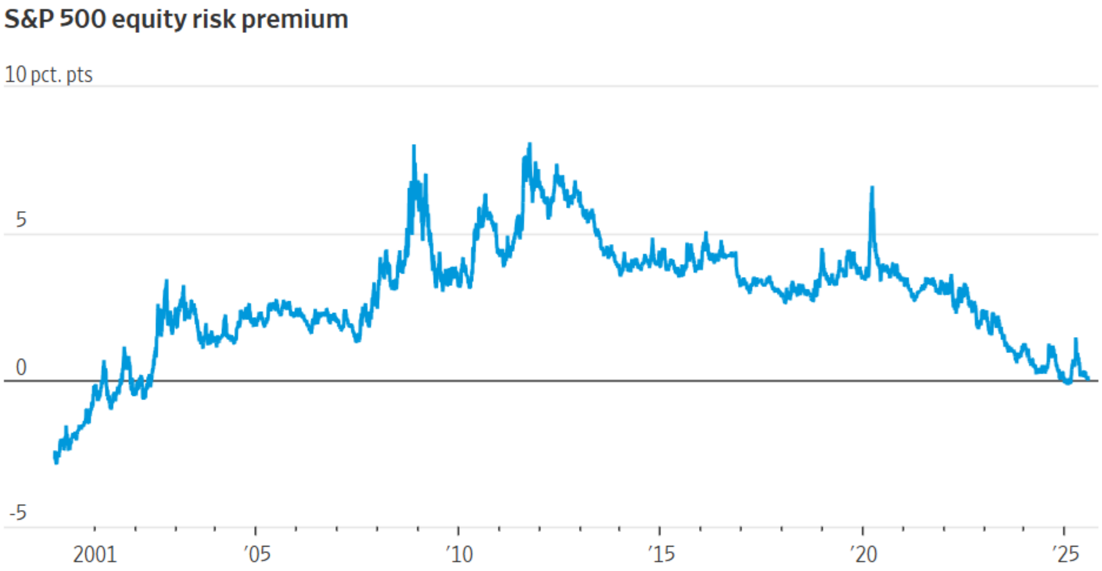
U.S. Stocks
Estimated Share of Trading Volume Attributable to Fundamental Investors: Long-Only and Hedge Fund
2010 Through Q1 2025



Source: Bloomberg L.P., Empirical Research Partners Analysis.

9. The equity risk premium for the S&P 500 is near zero, the lowest since 2001

The equity risk premium measures the S&P 500's earnings yield (earnings divided by price) versus the US 10-year bond yield. It's an indicator of valuations of stocks compared to risk-free bonds.

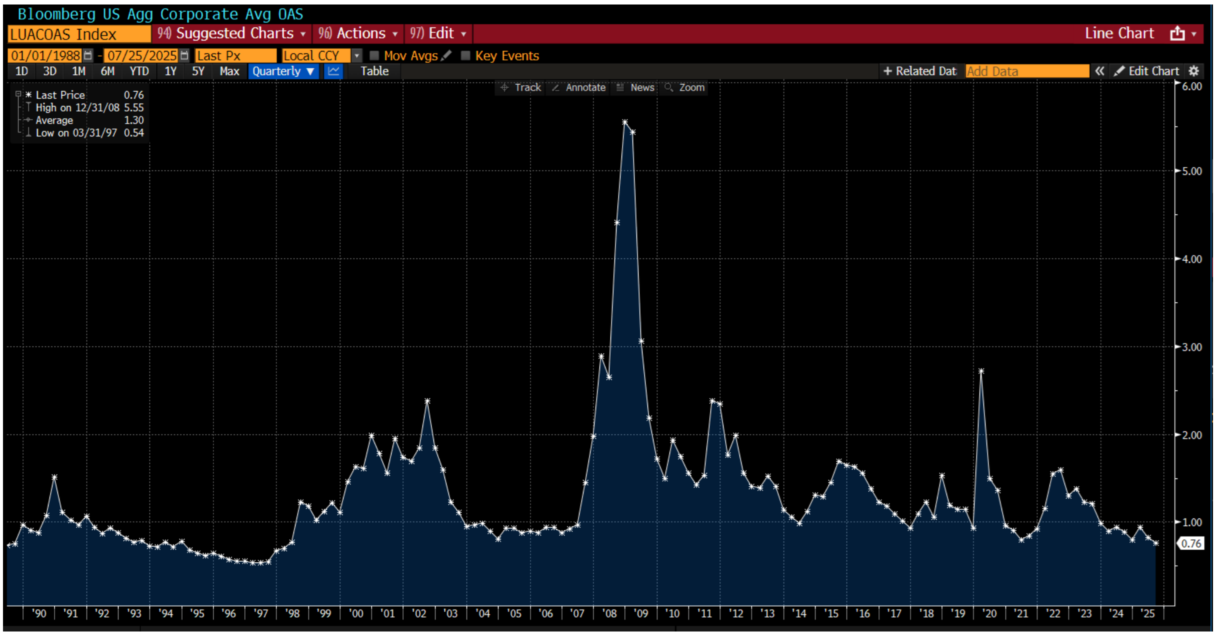


Source: FactSet; TradeWeb ICE; Dow Jones Market Data

10. It's not just stocks – credit has also found favour

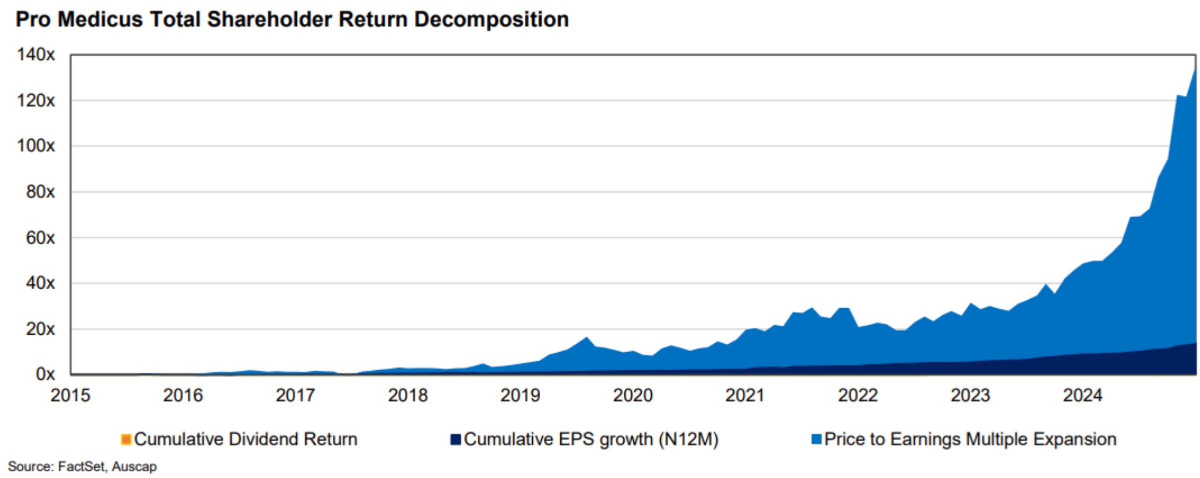
Spreads on US investment-grade corporate bonds are near the tightest levels since the late 1990s.

"The theoretical minimum spread is lower today. High-quality corporate credit can now trade closer to, or in some cases even through, US Treasuries in a way that was not previously conceivable", says Citigroup.

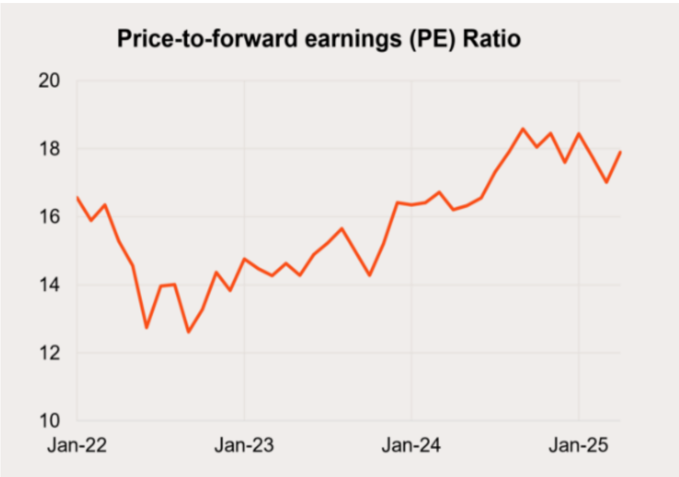


11. There's been some speculation in ASX stocks too

It hasn't been to the same degree as in the US, but the likes of CBA and Pro Medicus saw extraordinary gains in the first half of the year.

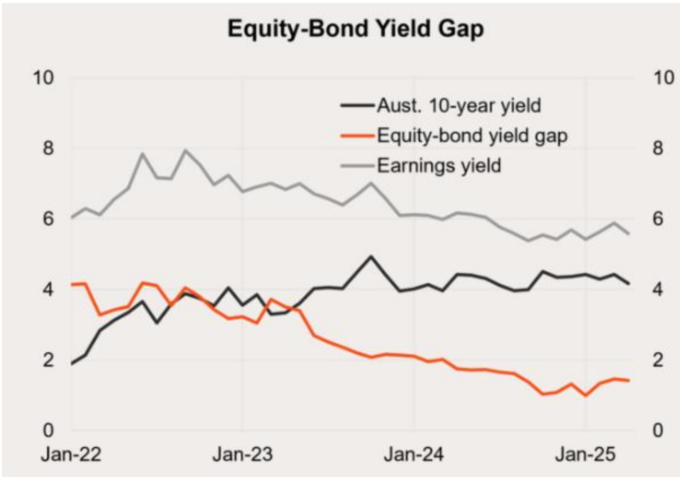


12. Valuations on the ASX 200 are now punchier than 2021



Source: Betashares

13. The equity risk premium for the ASX 200 also implies expensive valuations for stocks



Source: Betashares

Are we headed for a fall?

Are we careering towards another 2022 market reality check?

Extrapolation from recent history is a dangerous business because no two periods are ever the same. For instance, back then, the world and Australia had a serious inflation problem. Our inflation rate went from -0.3% in June 2020 to peak at 7.8% in the December quarter of 2022. That led interest rates to rise from 0.1% in April 2022 to 4.35% in November 2023.

Now it's different because inflation is falling here and in the US. And interest rates are on the way down, not up.

We also have a US President that is committed to getting rates lower and keeping them there.

There are other differences between today and 2021-2022 too. Back then, China was still locked down. Now, China's economy remains in the doldrums though there are at least some tentative signs that the worst of its property-led slowdown may be behind it.

And Europe has dramatically changed since Trump came into power earlier this year. Germany has reversed decades-long government debt restrictions with plans to spend tens of billions on infrastructure and defence. If EU members increase their defence budgets by 1.5% of GDP as suggested, Joachim Klement estimates that those measures in aggregate could raise the EU's annual trend growth rate over the next 10 years from 1.6%, the current OECD estimate, to levels like the 2.1% projected for the U.S.

We also have this new thing called AI that is already leading to massive spending from US tech giants and could spur economic productivity gains in the US and elsewhere.

All of this suggests that the current rally could run further. The risk is that Trump overheats the US economy, resulting in a rebound in inflation and rates heading back up.

Markets aren't looking that far ahead, and for now, it's risk-on.

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On the subject of investor exuberance, what does history tell us about the performance of markets once they reach record highs? **Schroders' Duncan Lamont** combs through 100 years of data to give us the answer.

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In my article this week, as interest rates fall, it's becoming harder to find decent, sustainable sources of income. I look at the best places to hunt for yield.

James Gruber

Also in this week's edition...

Recently, the UK's Chancellor of the Exchequer, Rachel Reeves, was in tears in Parliament after her Prime Minister shelved a plan to cut disability payments. The bond market erupted as it raised the prospect of the government hiking taxes or issuing more debt to fund its welfare system. **Clime's Paul Zwi** recounts these events and asks if Australia risks a similar backlash if it doesn't soon address ballooning NDIS spending?

Ashley Owen is back with a fantastic piece on Chinese steel production - both its incredible feats and how much it has contributed to Australian incomes and wealth. The big question for us is whether that steel production is in danger of falling both in the short and longer terms. Ashley offers a positive take on the issue.

There's a lot of hype in the tech world about stablecoins and their potential to provide an easy and cheap way to make cross-border payments. If right, it would be bearish for payment processing giants like Visa and Mastercard. However, **Magellan's Elisa Di Marco** believes stablecoins have a long way to go before they can be considered as a genuine disruptor.

Is there a theme that offers assured growth for the next 30 years? It's a tough question to answer, though **Sarah Shaw** thinks infrastructure comes close. She outlines five tailwinds for infrastructure that make it a compelling investment.

The markets have had a volatile six months, gyrating around news about Trump, tariffs, debt ceilings, wars, bond market ructions, and the list goes on. How do you keep your head in times like this? **Michael Bogoevski** has taken a step back to write a note he wished he'd received earlier in his investing journey - a guide for navigating the narratives and noise.

Finally, in this week's whitepaper, **Vanguard** says too few people are putting their savings to work in the financial markets, potentially reducing their long-term returns. It suggests redesigning retail investment systems to encourage more people to invest.

Curated by James Gruber and Leisa Bell

Finding income in an income-starved world

James Gruber

Interest rates are falling, which means the cost of money is getting cheaper. It's a big reason most asset classes are flying this year. However, those declining rates aren't so good for savers and those after income.

So, where can investors find income in an increasingly income-starved world? Here are some of the places to hunt for yield.

Savings deposits

There are banks that offer ok deals in this space. For instance, ING has a savings maximiser account that has a 5.0% variable interest rate.

That sounds great, though the key word in the previous sentence is 'variable'. Markets are predicting three rate cuts of 25 basis points over the next 18 months. In my view, that's conservative. And that means savings deposit rates are only going one way in the near and medium term: down.

Another thing to be aware of with banks offering 'savings maximiser' or 'savings plus' accounts is that the offers normally come with conditions attached, like having to make a certain number of deposits and card transactions per month.

The other downside to savings deposits is that they're taxed as income and that isn't great if you're in a high income tax bracket.

So while bank savings deposits offer an easy and convenient place to park money, they may not be the best option for those after decent, sustainable income.

Cash ETFs/money market funds

'Cash' ETFs are an alternative to bank saving deposits. They're listed on the ASX and invest in a range of bank savings deposits across Australia.

ASX Code	12-month distribution yield	Base fee
AAA (Betashares)	4.40%	0.18%
BILL (iShares)	4.30%	0.07%
ISEC (iShares)	4.48%	0.12%

Source: Companies, Firstlinks

Like bank savings deposits, they offer ease and convenience. They're also susceptible to lower interest rates. The 12-month distribution yields quoted in the table above should be ignored as they're backward looking.

As a guide, the largest of the cash ETFs, AAA, says the current yield based on its holdings is 3.93% net of fees. With falling rates, that yield is likely to head further south.

Term deposits

Fixed term deposits are another cash-like option. Unfortunately, the yields on term deposits have dropped quite a bit over the past year.

Here are the current "special offers" from the big banks on term deposits now:

- CBA has a 3.8%, 12 month term deposit.
- Westpac has 4%, 11 month term deposit.
- ANZ has a 3.8%, 8 month term deposit.
- NAB has a 3.7%, 12 month term deposit.

Of the other banks, some of the better offers include:

- Macquarie Bank has term deposit rates of 4.2% for 3 months and 4.1% for 6 months.
- ING has a 4.3%, 3 month term deposit.
- Judobank offers a 4.35%, 6 month term deposit.

Rates on term deposits will drop so if you want to take up any of these offers, you'd better be quick.

Bonds

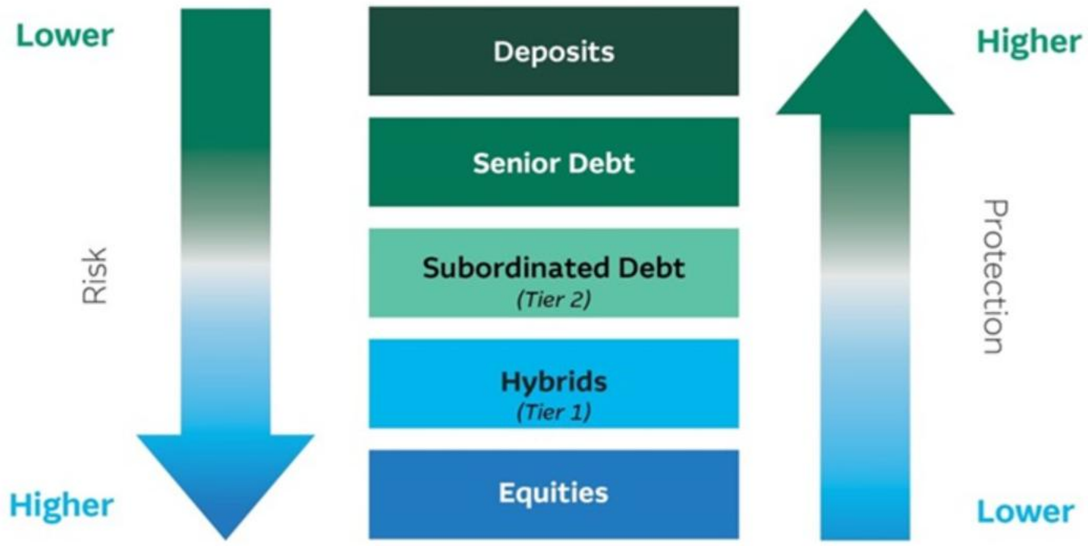
Bonds have had a torrid time over the past five years. As interest rates hit multi-century lows in 2020, they've since leaped higher. As rates rise, the price of bonds fall. Hence, why they've been the poorest performing major asset class this decade.

With higher starting yields today, bonds look in better shape. And with interest rates falling, that should also be bullish for bond prices.

At the time of writing, the 10-year Australian government bond yield is 4.30%. You can invest directly in government bonds though an easier route is via various ETFs. For example, Betashares Australian Government Bond ETF (ASX:AGVT) invests in Commonwealth and state government entities and has a yield to maturity of 4.6%.

You can get more yield with corporate bonds though it comes with greater risk too (corporates are more likely to default vs governments). There are plenty of low-cost ETFs that invest in corporate bonds. For example, VanEck's Australian Corporate Bond Plus ETF offers a portfolio with an A- credit rating (reasonably high) with a yield to maturity of 4.9%.

Another option that is becoming more popular is subordinated debt. Also known as Tier 2 capital, subordinated debt is debt owed to an unsecured creditor. The securities rank below senior debt in terms of repayment priority in the event of insolvency of a company.



Source: Macquarie Asset Management

Naturally, there are ETFs for subordinated debt too. For instance, VanEck's subordinated debt ETF (ASX:SUBD) invests mostly in Australian bank tier 2 debt and currently has a yield to maturity of 4.82%.

When investing in any bonds, it's important to check their characteristics including their duration, average maturity and credit quality.

The risk for bonds is if inflation and interest rates reverse course and start going up. That shouldn't be discounted given governments, especially in the developed world, are complacent about running ever higher budget deficits and debt levels.

Stocks

Historically, Australian stocks have been great sources of yield, though that's not so much the case today. Dividend yields have plummeted as the ASX has soared. The ASX 200 dividend yield stands at just 3.3% or 4.7% when grossed up.

The largest weight in the ASX 200, CBA, has a yield of 2.6%. The other banks offer better potential income, with NAB, Westpac, and ANZ, having dividend yields of 4.5%. 4.6%, and 5.5% respectively. Unfortunately, these banks aren't growing earnings much, so there's little prospect of growing dividends going forward.

The other index heavyweights, the miners, have reasonable dividend yields. However, I'm of the view that investors should never buy resource companies for their dividends. That's because they're highly exposed to the swings in commodity prices and that makes future earnings and dividends hard to gauge.

Minus miners, you may have to dig deeper to find ASX companies with decent, sustainable yields. The following are four stocks that I like for income:

1. Chorus (ASX:CNU)

Chorus is the owner of New Zealand fibre network. New Zealand's economy has been in the dumps and that's hit the company's revenue and earnings. At its half-year results, EBITDA (Earnings before interest, tax, depreciation and amortization) fell 1%, however it was still able to raise its interim dividend because capital expenditure declined. The full year dividend should come in around 57 cents, which equates to a 7.15% yield. And that yield seems assured, without much risk attached.

2. Dalrymple Bay (ASX:DBI)

The company owns the Dalrymple Bay Coal Terminal which is the largest exporter of metallurgical coal in the world, with the capacity to move over 80 million tonnes of coal every year. It's a monopoly asset that's regulated though the regulators apply a light touch.

The current agreement on prices runs to 2031 and gives certainty to future revenue and returns. Current distributions of 5.9% should rise in the years ahead.

3. Charter Hall Retail REIT (ASX:CQR)

This REIT owns $4.5 billion in neighbourhood retail assets. Typically, these assets have a big supermarket with 5-10 tenancies surrounding it, like pharmacies, butchers, bakers, and cafes.

These are secure tenancies. And that's evidenced by CQR's occupancy rates, which have averaged close to 98% over the past 20 years.

The company has a current dividend yield of 6.5%.

4. Woolworths (ASX:WOW)

Woolies has been in the doghouse for a while. It had the disastrous Masters misadventure, then lost market share as competition heated up from Coles and Aldi. The worst is likely behind it and market consensus has earnings growing by 15% p.a. over the next three years.

While the dividend yield is low at 3.1%, the dividend has the potential to increase moving forward.

Dividend ETFs

Rather than directly investing in stocks, you can also buy dividend ETFs. Vanguard's Australian Shares High Yield ETF (ASX:VHY) is the granddaddy of the dividend ETFs. It currently sports a dividend yield of 4.3% - quite a bit higher than the ASX 200 yield.

The risk with this ETF is its heavy exposure to banks and miners. Financials are 40% of the portfolio and materials and energy are 30%. Given financials have limited growth prospects and commodity companies are inherently volatile, there are question marks about whether VHY's dividends can rise much from here.

Listed investment companies (LICs)

There are three primary listed investment companies that offer investors exposure to income. The Plato Income Maximiser (ASX:PL8) and Whitefield Income (ASX:WHI) invest in ASX companies have dividend yields of 4.7% and 5.1% respectively.

ETF newcomer, WAM Income Maximiser (ASX:WMX), provides an equity/bond portfolio, with a current 66%, 34% split between the two. And it has a 5.2% yield including franking credits.

The three LICs have merits, however all trade at premiums to their net asset values. Plato is at a chunky 20% premium, while Whitefield and WAM are at 8% and 7% premiums.

Given this, it might be wise to wait for the popularity of these income-type LICs to simmer before taking the plunge.

Summing up

I've tried to go through the various options for income, assessing the pros and cons for each of them.

Let me know of any alternative income sources I may have missed.

James Gruber is Editor of Firstlinks.
Charter Hall, Vanguard and VanEck are sponsors of Firstlinks.

Fearful politicians put finances at risk

Paul Zwi

Recently, the UK media was filled with pictures of the Chancellor of the Exchequer (same role as our Treasurer) Rachel Reeves in tears on the floor of the Parliament. Why was she crying? No one was saying, but the tears rolled down her cheeks as PM Keir Starmer was delivering a massive U-turn in his Labour government policy.

PM Starmer shelved a plan to cut disability payments following a rebellion by Labour's backbenchers. The U-turn raised the prospect of the government hiking taxes or issuing more debt to fund its welfare system. It also cast doubt over the future of Rachel Reeves, who took the job a year ago promising a return to economic stability in Britain by sticking to strict spending rules.

Markets reacted savagely: investors sold off British government bonds and the pound fell sharply. UK government bonds tumbled in price, sending the yield on 10-year gilts up 0.12% to 4.58%. Markets are fearful that the Labour government has abandoned plans to cut ballooning and unsustainable welfare costs.

The UK government's climbdown points to a broader truth for governments across the developed economies, where weak economic growth means countries are struggling to raise enough revenue to pay for rising costs from an ageing population. With voters largely wary of spending cuts, that leaves higher taxes as the most likely outcome.

Britain is already on course to register the highest tax burden since World War II thanks to big spending during the pandemic and paying out for energy subsidies after Russia's invasion of Ukraine. Meanwhile growth prospects remain soft. The country's Office for Budget Responsibility says growth could be 1% in 2025 and economists say even this looks optimistic.

The UK's Labour Party was elected last July with a historically large majority and a mandate to fix the nation's public finances. Reeves came into office saying her aim was to repair investor trust in Britain's establishment after former Conservative PM Liz Truss caused a market panic by unveiling unfunded tax cuts in 2022. Truss quickly resigned and her tax cuts reversed. The aftershocks of this policy continued to push up government borrowing costs. But in the ensuing 12 months since its election victory, Labour's standing in the polls has slumped and it has had to reverse several unpopular benefits cuts to appease left-wing lawmakers who have urged higher taxation instead.

Reeves had said that she will stick by strict fiscal rules, which stipulate that day-to-day spending is matched by tax revenue and that government debt as a percentage of the economy will fall. In March, the cuts to disability payments were hurriedly introduced by the Treasury just before a review of departmental spending was scored by a budget watchdog.

In Britain, the number of people claiming disability or incapacity benefits has risen from 2.8 million in 2019 to 4 million in 2025. Currently around 1 in 10 working age people in Britain are on such benefits. The government aimed to tighten eligibility to bring these numbers down, get more people back into work and save billions of pounds.

But when the government released guidance stating that the cuts to disability payments would push some people into poverty, its backbenchers rebelled.

Will Australia face a similar fate?

PM Albanese's Labor government was triumphant against a hapless Opposition campaign in the last election, and was not forced to confront serious scrutiny of its fiscal planning. The NDIS is a case in point, similar in many aspects to the UK experience related above.

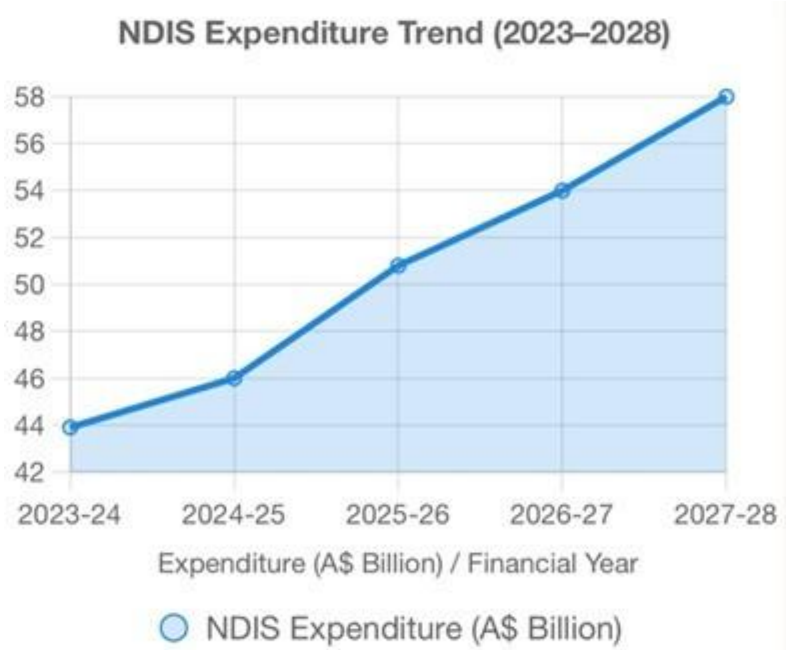
The National Disability Insurance Scheme (NDIS), launched in 2013, represented a landmark in Australia's social policy, providing tailored support to individuals with significant and permanent disabilities. However, its escalating costs, structural complexities, and vulnerabilities to fraud raise serious questions about its sustainability and efficacy.

NDIS cost and projected expenditure

In the 2023–24 financial year, the NDIS cost Australia $43.9 billion, a figure that underscores its position as one of the fastest-growing components of the federal budget. Projections indicate this will rise sharply, with estimates suggesting the scheme could reach $50.8 billion in 2025–26 and potentially $58 billion by 2028, assuming the government meets its target of moderating annual growth to 8%. Over the next decade, cumulative expenditure could approach $600 billion if growth trends persist. The scheme's cost has already surpassed initial projections, which estimated $22 billion annually by 2018, reflecting higher-than-expected participant numbers and service demands.

The following chart illustrates the NDIS's cost trajectory from 2023–24 to 2028, highlighting the challenge of balancing growth with sustainability.

As of December 2024, approximately 646,000 individuals accessed the NDIS, a significant increase from 36,000 in 2016, reflecting an 18-fold growth in participation. This surge, averaging $71,000 per participant annually, has driven costs ever upward.



Source: Grok

The NDIS faces structural issues that threaten its long-term viability:

1. Cost escalation and sustainability: the NDIS is financially unsustainable, with costs projected to overtake Medicare and defence spending by 2025. The scheme’s demand-driven nature and higher-than-forecast participant numbers have strained budgets, prompting calls for tighter eligibility criteria.

2. Inadequate design: the disability community has voiced concerns over insufficient co-design, with changes often implemented without adequate consultation. The 2022 NDIS Act amendments aimed to address this, embedding co-design principles, but critics argue implementation lags.

3. Bureaucratic complexity and access barriers: the NDIS’s focus on diagnostics over functional needs creates access challenges, particularly for those with less-defined disabilities. Lengthy delays in plan approvals and reviews further exacerbate participant frustration.

4. Retreat of mainstream services: States and territories have reduced funding for non-NDIS disability programs, forcing individuals to rely on the NDIS, which was not designed to cover all disability support needs. This has inflated costs and strained the scheme’s scope. Fraud is a significant challenge, with estimates suggesting up to $2 billion annually, or nearly 5% of the NDIS budget, is misused, including by organized crime syndicates. Unregistered providers have exploited vague guidelines, claiming up to $20,000 per participant for non-essential services like luxury travel, misusing short-term respite funding. Overcharging is rampant, with providers inflating prices for NDIS participants, a practice dubbed the “disability mark-up.”

Look at the case with autism, a difficult condition to diagnose and one open to “interpretation”. Autism is the most common primary disability for NDIS participants, accounting for 35% of all participants. A significant portion of NDIS participants with autism are children, with a majority being male. The NDIS provides funding for a wide range of supports and services for individuals with autism, including therapies, assistive technology, and support workers. There has been a notable increase in the number of boys aged 5-7 accessing the NDIS, with 11.5% of this age group currently receiving funding. In the opinion of critics, this rate of disability cannot be legitimate.

The government has responded with some legislative reforms, but does the government have the courage to implement the major structural reforms required?

The NDIS remains a cornerstone of Australia's disability support framework, delivering independence and dignity to hundreds of thousands. However, its financial trajectory, structural inefficiencies, and susceptibility to fraud demand urgent reform. The government's 2024–25 budget allocates $468 million to bolster evidence-based supports, combat fraud, and improve transparency, but success hinges on effective co-design and robust enforcement. As the NDIS navigates its second decade, balancing fiscal discipline with its foundational promise of empowerment will be critical to its survival.

We would rather not see the Treasurer of Australia in tears on the floor of Parliament as promises are broken, the currency tanks and bond rates surge.

Paul Zwi is a Portfolio Strategist at Clime Investment Management Limited, a sponsor of Firstlinks. The information contained in this article is of a general nature only. The author has not taken into account the goals, objectives, or personal circumstances of any person (and is current as at the date of publishing).

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Investing at market peaks: The surprising truth

Duncan Lamont

After crashing hard in April, the US stock market rebounded even harder, recently hitting a new all-time high. This has left many investors feeling nervous about the potential for a fall.

Many others have parked savings in cash, attracted by the high rates on offer. The thought of investing that cash-on-the-sidelines when the stock market is at an all-time high feels uncomfortable. But should it?

The conclusion from our analysis of stock market returns since 1926 is unequivocal: no.

The market is actually at an all-time high more often than you might think. Of the 1,187 months since January 1926, the market was at an all-time high in 363 of them, 31% of the time.

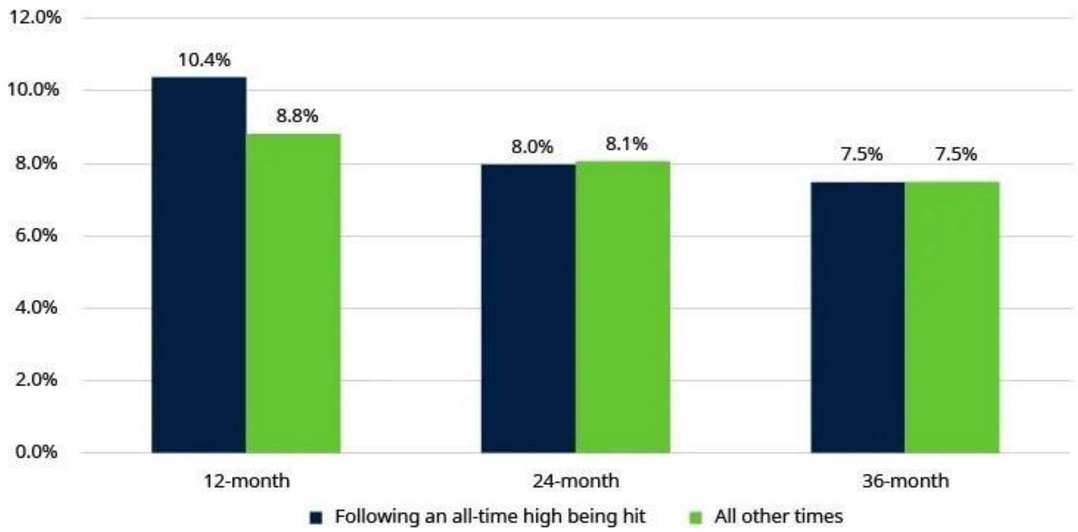
And, on average, 12-month returns following an all-time high being hit have been better than at other times: 10.4% ahead of inflation compared with 8.8% when the market wasn't at a high. Returns on a two or three-year horizon have been similar regardless of whether the market was at an all-time high or not (Figure 1).

Differences compound over time

$100 invested in the US stock market in January 1926 would be worth $103,294 at the end of 2024 in inflation-adjusted terms, growth of 7.3% a year. In contrast, a strategy which switched out of the market and into cash for the next month whenever the market hit an all-time high (and went back in again whenever it wasn't at one) would only be worth $9,922 (Figure 2). This is 90% lower! The return on this portfolio would have been 4.8% in inflation-adjusted terms. Over long time horizons, differences in returns can seriously add up.

Figure 1: Returns have been higher if you invested when the stock market was at an all-time high than when it wasn't

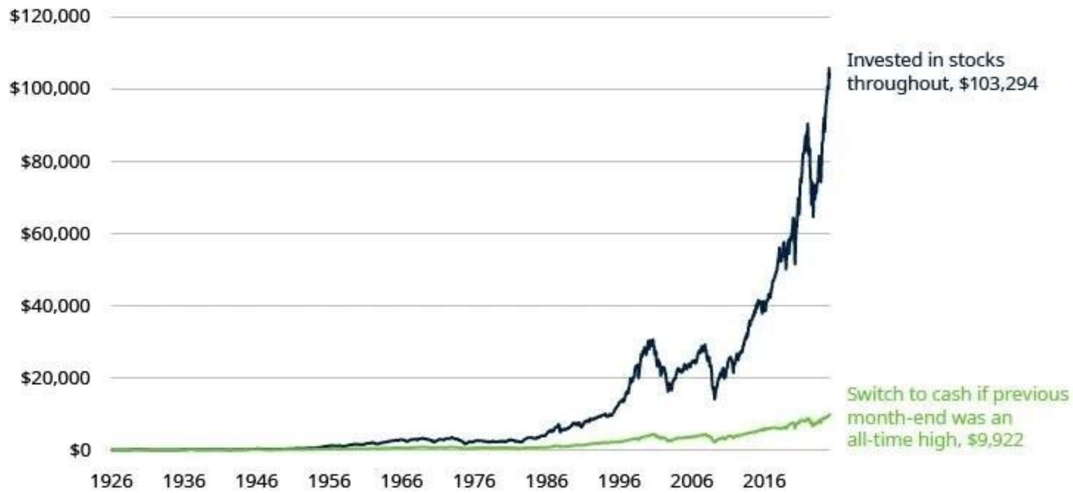
Average inflation-adjusted returns for US large cap equities, p.a.



Past performance is not a guide to future performance and may not be repeated.
Data January 1926–December 2024. Stocks represented by Ibbotson® SBBI® US Large-Cap Stocks, Cash by Ibbotson® US (30-day) Treasury Bills.
Source: Morningstar Direct, accessed via CFA Institute and Schroders. 615697

Figure 2: Selling stocks whenever the market was at an all-time high would have destroyed 90% of your wealth in the very long-run

Growth of $100, inflation-adjusted terms



Past performance is not a guide to future performance and may not be repeated.
Data January 1926–December 2024. Y-axis is a logarithmic scale. Switching strategy moves into cash for the next month whenever the previous month-end was an all-time high, and is invested in stocks whenever it wasn't. Results exclude transaction costs. Stocks represented by Ibbotson® SBBI® US Large-Cap Stocks, Cash by Ibbotson® US (30-day) Treasury Bills.
Source: Morningstar Direct, accessed via CFA Institute and Schroders. 615697

This analysis covers a nearly 100-year time horizon, longer than most people plan for. But, even over shorter horizons, investors would have missed out on a lot of potential wealth if they had taken fright whenever the market was riding high (Figure 3).

Figure 3: Selling stocks whenever the market was at an all-time high would have destroyed 90% of your wealth in the very long-run

Growth of $100, inflation-adjusted terms

Growth of $100 invested x years ago	Invested in stocks throughout	Switch to cash if previous month-end was an all-time high	Wealth destroyed by switching
10 years	255	185	-27%
20 years	433	268	-38%
30 years	1,064	449	-58%
50 years	5,627	2,035	-64%
Since 1926	103,294	9,922	-90%

Past performance is not a guide to future performance and may not be repeated.
Data January 1926-December 2024. Y-axis is a logarithmic scale. Switching strategy moves into cash for the next month whenever the previous month-end was an all-time high, and is invested in stocks whenever it wasn't. Results exclude transaction costs. Stocks represented by Ibbotson® SBBI® US Large-Cap Stocks, Cash by Ibbotson® US (30-day) Treasury Bills. Source: Morningstar Direct, accessed via CFA Institute and Schroders.

Conclusion? Don't fret over all-time highs

It is normal to feel nervous about investing when the stock market is at an all-time high, but history suggests that giving in to that feeling would have been very damaging for your wealth. There may be valid reasons for you to dislike stocks. But the market being at an all-time high should not be one of them.

Duncan Lamont, CFA is Head of Strategic Research at Schroder Investment Management Australia. This material is general information only and does not take into account your objectives, financial situation or needs. Schroders does not give any warranty as to the accuracy, reliability or completeness of information which is contained in this material. Read the full report and important disclaimers here.

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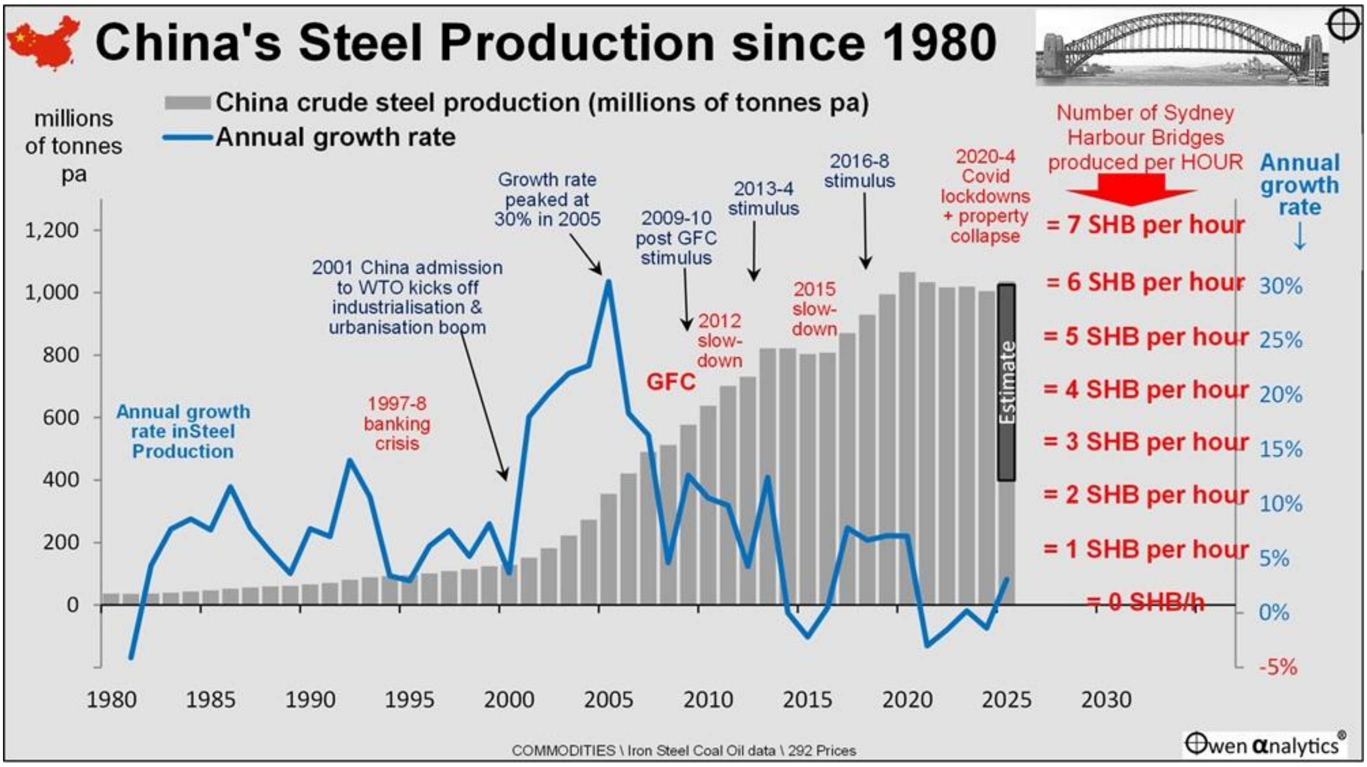
Chinese steel - building a Sydney Harbour Bridge every 10 minutes

Ashley Owen

In today's chart, the grey bars show China's steel production in millions of tonnes per year, and the blue line shows the annual growth rate. The red numbers to the right indicate the equivalent number of Sydney Harbour Bridges worth of steel China builds PER HOUR!



Chinese steel production and why it matters for Australia

This year, Chinese steel mills will produce a little over 1 billion tonnes of steel, with iron ore and coal mainly imported from Australia.

How much steel is that? 1 billion tons of steel is 26,000 'Sydney Harbour Bridges' worth of steel.

In the 10 minutes it will take you to read this story, China will have built the equivalent of one new 'Sydney Harbour Bridge' worth of steel. That is a lot of steel!

The Sydney Harbour Bridge is made from 38,000 tons of steel (70% of which was imported from England because BHP could not produce enough). The bridge took eight years to build and was opened in 1932 in the depths of the 1930s Great Depression.

(As an aside, the huge cost of building the bridge was one of the main reasons the New South Wales government defaulted on its State debts in 1931, and then the Commonwealth also defaulted on its national debt in 1931 after it took over the NSW debt).

Since 2019, China has been building the equivalent of one Sydney Harbour Bridge worth of steel every 10 minutes. That is the equivalent of building six Sydney Harbour Bridges every hour, 12 hours per day, 365 days per year.

With that much steel, China is building a lot of bridges, factories, apartment blocks, cars, office towers, airports, military islands, war ships, tanks, bombs, etc (we will get to the military aspects below).

Why is steel so important?

Chinese steel production has been the single most important ingredient in China's incredible urbanisation and industrialisation that has driven its overall economic growth, which has been by far the single largest contributor to world economic growth this century.

It has especially benefited Australia's growth in incomes, wealth, and living standards, because most of the iron ore and coal that China uses to make steel is imported from Australia.

The wealth has come not only via dividends to Australian shareholders - which they distribute across the economy by spending it, or they deposit it in banks which then lend it out (on home loans that boost house prices, and business loans that boost investment and jobs), but it has also been the largest external source of federal and state government tax revenues.

Australia's export revenues of iron ore have been worth an average of A$125 billion per year over the past six years (to June 2025) - during the period of flat-lined steel production in the chart.

This raises two main issues for Australian investors - 1) China's future steel production; and 2) Australia's share.

1) China's steel production levels – much more important than 'GDP'

China's steel production is much more important to Australia than Chinese overall 'GDP' growth or any other number. Why?

Because even when Chinese growth slows or even stops dead, it doesn't really matter because the main policy tool the Chinese government uses to stimulate activity and employment has been, and still is, infrastructure spending. That means construction, where the core ingredient is steel, made mainly from iron ore and coal from Australia.

Japan – on repeat

It was the same with Japan in the second half of the 20th century. In the post-WW2 era, Japan was the great 'emerging market' that powered global growth and drove Australia's prosperity (just like China in the 21st century). Japan's incredible construction and industrialisation boom was built with our exports, and Japan was Australia's largest export customer from 1965 onward.

But, when Japanese growth hit the wall, literally stopped dead in 1990, and flat-lined ever since, Japan still remained Australia's largest export customer for the next 20 years, until it was finally overtaken by China in 2010.

Japan remains our second largest export customer even now, despite its flat-lined economic growth over the past 35 years, and its declining population.

What matters most is not some theoretical 'GDP' growth number. What matters to Australia is how much rock, dirt, and gas they buy from us.

What happened to Japan since 1990 is now happening to China. The property construction/finance bubble has burst, the population is aging and declining, and its GDP growth has collapsed, but the government will probably still resort to infrastructure and construction to keep the workers employed, quiet, and compliant, just like they have done for the past 20 years.

China's steel production growth pattern

The blue line on the chart shows the steel production growth rate over time. Chinese steel production grew by an average of 7% per year during the 1980s and 1990s, but then surged to 20% growth per year between 2001 and 2007 following China's entry into the World Trade Organisation in 2001, which accelerated its booms in manufacturing, exports, and urbanisation.

After the 2008-09 global financial crisis, growth rates in steel production then fell back to around 5% per year, and that includes the massive infrastructure spending boom funded by the post-GFC stimulus program.

China's number one policy tool to stimulate economic activity

Every time there is a slowdown, the government has in the past, and probably will in the future, resort to ramping up construction to boost activity and employment. For example, China's infrastructure boost in the GFC was what saved Australia's economy from a deep 'recession' (although our local share market and currency fell by more than almost every other country in the GFC).

Chinese growth, and commodities prices, peaked in 2011, but slowed in 2012, so stimulus was ramped up in 2013-14.

Growth slowed again in 2015 (and the commodities prices slump on that occasion triggered a string of losses and bankruptcies in oil/gas and mining companies everywhere, resulting in share price falls around the world and a global 'earnings recession'), so Chinese stimulus was ramped up again from early 2016.

Then in 2018-19, signs emerged of another slowdown in China's growth (thanks, in part, to Trump's trade wars) and this showed up in slower growth in steel production.

In the 2020 Covid scare, China once again ramped up infrastructure spending, and with it, steel production and iron ore imports from Australia.

2020 Covid stimulus peak

China's steel production peaked at 1.065 billion tonnes in 2020. The government cut production in 2021, partly to reduce carbon emissions, but also because domestic construction activity was already slowing and the government was wary of allowing the smaller, loss-making steel mills to continue to over-produce and rack up more debts.

Production also slowed in 2022 with the collapse of the residential construction sector and the crisis with several major construction groups (Evergrande, followed by dozens of others), and the Chinese economy virtually stagnated.

Iron ore to the rescue, again!

But it didn't matter to us in Australia because China still produced 1 billion tonnes of steel, and our miners posted record profits and paid record dividends.

More than half of the combined profits and dividends from the entire 2,200+ companies listed on the ASX came from just three companies – BHP, RIO, and FMG, almost entirely from iron ore exports to China.

While the rest of the world posts massive government deficits, Australia was in a miraculous surplus! All thanks to China building another Sydney Harbour Bridge of steel – every 10 minutes.

In early 2023 China announced a grand, but belated 're-opening' after their extended Covid lockdowns. This stalled, so the government once again had to crank up the infrastructure construction engine.

From April 2023, the government capped steel production at 1.018 billion tonnes per year to prevent over-production and glut. It may be a cap but that is still a lot of steel.

Struggling to shift from construction to consumer consumption

Over the past decade, the Chinese government has been trying to shift the engine of Chinese economic growth away from construction and toward consumer consumption, like in western economies.

This has never worked in China, for a variety of reasons, including declining consumer confidence, caused by a range of factors including declining housing prices (the main store of household wealth), millions of people losing their housing deposits in abandoned, partially-completed apartment blocks, declining share prices, high youth unemployment, a rapidly aging population with few government services and safety nets, harsh government crackdowns on high profile business tycoons, and also crackdowns on public dissent, in building Xi's surveillance state.

With consumer spending remaining chronically weak, the government just reverts to plan A: ramping up construction again. Much easier and quicker, and better for Australia's rock diggers!

Longer term outlook

Aside from the regular cyclical rises and falls in construction cycles, on a broader level, China's tremendous boom in industrialisation and urbanisation has slowed because more than half of its population has already been urbanised.

On top of that, the West is 'de-coupling' or 'de-risking' their supply chains to reduce reliance on imports from China. China's glory days of high overall GDP growth rates driven by globalisation are well and truly behind it.

Even after thousands of empty apartment blocks have been bulldozed across China, there are still countless thousands of empty buildings, and probably dozens of 'ghost cities' – all built with our rocks.

But it doesn't really matter. The government has little choice but to keep on building stuff (and even exporting surplus steel it doesn't use domestically), rather than cut production and risk even higher levels of unemployment and unrest.

Shift to military spending

This time, rather than yet another round of large-scale domestic stimulus, which Xi Jinping knows will just result in even higher debts, and bail-outs for recalcitrant billionaires he wants to silence, Xi is instead focusing on extending China's military and territorial reach via is military/trade 'Belt & Road' program across Asia, the Pacific, into Africa, and even Europe and Russia.

China's accelerating military build-up, plus its Belt & Road expansion program, are boosting demand for our rocks not only within China, but also in Belt & Road vassal states, plus other countries that are building up their defences against an expansionist China. This includes our likely next big export market - India.

For these reasons – domestic infrastructure spending plus military/Belt & Road spending – China's steel production is likely to be supported at or around current levels for a while yet, despite headline GDP growth numbers stagnating.

Just as Australia's exports to Japan continue to thrive more than 30 years after Japan's economy flat-lined, Australia's exports to China will also not necessarily automatically decline if and when China's economic growth flat-lines permanently.

2) Australia's dominance

The second big question for Aussie investors (and policy makers), is: 'Can Australia retain its share of China's raw commodity imports?'

China has been trying desperately to reduce its reliance on our rocks in recent years, but there are few alternative sources of cheap, high-grade rocks, and this will probably be the case for some years to come.

In fact, in the five years since Covid, Australia has increased its share of Chinese imports at the expense of our main competitors - Brazil's iron ore, and South Africa's coal.

Supply of iron ore will increase due to major new mines, especially in Guinea (Simandou, developed by RIO and China), but there are also huge new mines being developed in the Pilbara (eg the Wright/Bennet family's Rhodes Ridge, also with RIO), probably with greater reserves, higher grades, and lower cost than Guinea. These new Pilbara sources may be enough to make up for the lower grades coming out of the older Pilbara mines as they are becoming depleted.

China is hedging its bets on suppliers – it has large stakes in each of the major 'Australian' producers, and it is also the main foreign investor in countries developing new supplies.

(The same is true for other metals exported by Australia, like nickel, crippled by Chinese-backed mines and plants in Indonesia. The difference is that with iron ore, unlike nickel, Australia still has a significant cost advantage).

'Green' iron ore?

To date, the standard method of steel production uses high-grade coking coal (also mainly from Australia) to extract the iron from iron ore (Pilbara iron ore has around 55-60% iron content). In recent years, there have been numerous attempts to reduce or remove the carbon footprint of steel production by using alternate methods instead of coking coal – notably hydrogen, and electric furnaces powered by renewable sources (hydro, wind, solar).

None of these alternative methods have been economic thus far, hence the Federal Government's various efforts to subsidise local projects using taxpayers' money and debt.

Probably the most likely outcome is that local subsidised efforts will fail to compete with the Chinese state-run regime, and Australia will focus on just exporting the raw materials – as this is our comparative advantage.

Australia did once have thriving local manufacturing industries that added value to our commodities and actually made things here, but these local manufacturing industries only survived behind high protection barriers. Protection supported local jobs and industries, but came at the cost of higher domestic prices, and required high tax rates to fund the subsidies.

When Australia's protection barriers were removed after the reforms of the 1980s and 1990s, Australia returned to being mainly just an exporter of raw commodities, with the value-adding and manufacturing done more efficiently in other countries with lower costs and huge scale efficiencies.

Geo-politics

Probably the greatest perceived risk to our iron ore exports to China will be Australia's response if China invades Taiwan. Our response will depend largely on who is in the White House at the time.

I call this a 'perceived' risk because the reality may turn out to be very different to what people fear, even if all Australian exports to China cease suddenly.

Meanwhile, in the time you took to read this story today – China produced another Sydney Harbour Bridge worth of steel – with our rocks!

Ashley Owen, CFA is Founder and Principal of OwenAnalytics. Ashley is a well-known Australian market commentator with over 40 years' experience. This article is for general information purposes only and does not consider the circumstances of any individual. You can subscribe to OwenAnalytics Newsletter here.

Will stablecoins change the way we pay for things?

Elisa Di Marco

Is stablecoin[1] the next big thing or is it overhyped? When it comes to our key holdings Visa and Mastercard (V/MA), we believe much of the excitement around stablecoin being the next big disruptor in consumer payments is misplaced.

Stablecoins still face fundamental challenges, including, regulatory uncertainty, limited trust and acceptance by payment participants, and a lack of compelling use cases in developed markets. While they may have niche applications, particularly in cross-border or underbanked contexts, the idea that they will upend global consumer payments infrastructure in developed markets remains more noise than substance.

It's important to remember that whilst consumer payments in developed markets have consolidated around the V/MA networks over the last several decades, it's not been from a lack of competitive threats or innovation. Globally there are more than 70 real-time payment networks, hundreds of digital wallets and thousands of cryptocurrencies (including stablecoins). V/MA have been able to withstand competition because of their quality[2] and reinvestment into their businesses to drive innovation. This investment improved the payments experience for all participants (existing and emerging), bolstering business quality and delivering ~17% compounded annual returns to shareholders over the past decade.

We see two scenarios, albeit both are low probabilities, that could disrupt V/MA's grip on consumer payments in developed countries. First, a new technology, like stablecoins, could be disruptive if it could replicate and exceed the networks' capabilities. Second is regulation seeking to increase competition or decrease profitability of V/MA. Let's discuss each in turn.

New technology; for example, stablecoins

To compete effectively, every feature and network rule in the current payment's ecosystem needs an equivalent. As a reminder, V/MA provide a seamless, secure, ubiquitous and trusted global payment network, connecting over 4.7 billion cardholders with more than 150 million merchants and 14,500 financial institutions.

For stablecoins to take share, the needs of all network participants must be considered. These participants will be unwilling to accept more risk or fewer rewards. This is no easy feat, as the current V/MA networks are incredibly efficient. Visa, for example, is capable of processing ~65,000 transactions per second instore and online, across more than 200 countries and more than 180 currencies while complying with global and domestic regulations, with high conversion rates, in a frictionless, trusted and safe manner. In addition, consumers are incredibly loyal to debit and credit, not only because of the rewards but also due to the consumer protections. At present, the stablecoin ecosystem, while it can transact at a high speed (in some instances), offer instant settlement, and a lower headline cost, it can't match the features of V/MA. Significant, coordinated investment across the fintech sector will be required to scale and compete. Within consumer payments, stablecoins are more likely to be used as an alternative currency and leverage the V/MA networks, just as other new payment forms have (e.g. Buy Now Pay Later, gig economy or Bitcoin).

We do, however, see stablecoin as more likely to take share in other payment flows; for example, remittances, business-to-business payments, smart contracts or institutional payments. These flows can take multiple days to settle and, in the case of remittances, are very expensive. Stablecoins can, for these use cases, improve the experience for participants. Stablecoins can also be used as a store of wealth for those in countries with high inflation and volatile exchange rates. These are non-core payment flows for V/MA and do not have a material impact on profits.

Regulation seeking to increase competition

At Magellan, the companies we invest in, including V/MA, typically hold dominant market positions. So dominant, in fact, that their primary risk lies not in competitive disruption, but in regulatory intervention. As such, government policy decisions play a critical role in shaping their long-term prospects. The motive for these decisions is typically to improve consumer outcomes, most notably through lower prices. For V/MA this risk may unfold via capping the headline interchange rate – which funds network, fraud, bank and reward services – as we've seen in the EU and in Australia; or through judicial oversight that seeks to reduce scale advantages and encourage competition. We are confident V/MA will be able to navigate the regulatory risks they are facing, given their diversified earnings across geography, payment type and value-added-services. It is however, essential for investors to take a step back and assess the underlying reasons behind these regulatory pressures, and evaluate whether governments have any real incentive to significantly alter the existing regulatory framework.

In our view, while there is significant hype around the potential disruption of V/MA networks from stablecoins, we remain confident in their long-term earnings capabilities. We have confidence given the quality of both companies, and management's persistent investment in innovation, enabling the networks to continue to be the payment rails that connect all existing and new participants. Enabling participants to pay with any currency, be it fiat or cryptocurrency, in store, online or via an agent. As active investors, we will continue to monitor emerging technologies and regulatory developments that may have an impact on V/MA's integral role in consumer commerce in developed markets.

[1] Stablecoin, a coin whose value is pegged to fiat currency, is an alternative currency that runs on distributed ledger technology (blockchain). Historically, stablecoins were put into the cryptocurrency basket, not regulated and offered limited optionality in commerce. The Genius Act seeks to regulate stablecoin, requiring Anti-Money Laundering and Know Your Customer compliance and governance (how reserves are managed and audited). These guardrails are a step in the right direction for stablecoins to be considered as an 'alternative payment' mechanism.

[2] A company's competitive advantages that enable them to protect and grow earnings into the future. The most powerful attribute of V/MA's quality assessment is the network effect. Network effects mean that every user of the network benefits as the network grows.

Elisa Di Marco is an Investment Director, Portfolio Manager and Analyst at [Magellan Group], a sponsor of Firstlinks. This article has been issued by Magellan Asset Management Limited ABN 31 120 593 946 AFS Licence No. 304 301 ('Magellan') and has been prepared for general information purposes only and must not be construed as investment advice or as an investment recommendation. This material does not take into account your investment objectives, financial situation or particular needs.

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An investing theme you can bet on for the next 30 years

Sarah Shaw

To most investors, infrastructure is viewed as a defensive asset class with characteristics that support long-term, visible and resilient earning streams. However, it offers much more than a defensive allocation. What many investors do not appreciate is the huge and growing investment need underpinning the asset class. This growth makes infrastructure a really exciting opportunity.

Infrastructure may well be the best fundamental growth thematic for the next twenty to thirty years, if not longer.

There are five integrated dynamics driving growth in the infrastructure space that are long term, significant, and completely immune to short-term economic or geopolitical events. That is, they must happen regardless of who is running America, regardless of the interest rate trajectory around the world, and regardless of equity market noise.

Some of these themes may seem obvious, and even boring. But, put simply, if we don't support investment in them, then society will go backwards. Socially, economically and environmentally.

1. Developed market replacement spend

A significant portion of infrastructure in the developed world is in dire need of replacement. It is old and inefficient, and failures to upgrade it is having social and economic consequences in terms of health, safety and efficiency. For example, in the UK, over 50% of London's watermains are over 100 years old.

In the US, the average age of a bridge is over 45 years old and 75,000 are past their 'useful life', including the recently collapsed Baltimore Bridge. Also in the US, 80% of water pipes are over 30 years old and some are over 100 years old – there are still towns being serviced by 100-year-old wooden pipes.

The market replacement of all these 'essential services' is a multi-decade investment thematic, and Australia is not immune. For example, the train from Sydney to Newcastle is currently slower than it was in 1929, and the distance is shorter.

2. Population growth

The global population currently sits at just over 8 billion, while some of the infrastructure we are still using today was built to service less than a quarter of that. The world's population is expected to peak at 10.4 billion by around 2084, underpinning yet more spend to replace the old while investing to support future generations.

As the developed world gets older, the majority of the growth will come from the emerging world, where 85% of the global population currently reside and where demographic trends are very supportive of economic evolution and infrastructure investment.

3. The emergence of the middle class in developing economies

The emergence of the middle class in developing economies offers huge opportunity for the sector, as infrastructure is both a driver and a first beneficiary of middle-class evolution.

It should come as no surprise that people everywhere want a better life and, given the potential size of the middle class in emerging markets, this will have significant implications for infrastructure needs both in country and globally (e.g. airports). Let's look at it from an individual's perspective.

As personal wealth increases, consumption patterns inevitably change. This starts with a desire for three meals a day and moves to a demand for basic essential services – like clean water, indoor plumbing, gas for cooking/heating, and power – that all require infrastructure.

With power comes demand for a fridge or a TV, which increases the usage as well as the need for port capacity and logistics chains. Over time, this progresses to include services that support efficiency and a better quality of life, such as travel, with an increasing demand for quality roads (to drive that new scooter and then car on) and airports (to expand horizons).

Infrastructure is the clear and early winner of this growth in the middle class, as it is needed to support the evolution outlined above.

4. Energy transition and decarbonisation

The world has accepted the challenge of working towards a cleaner, sustainable future. While the speed of ultimate decarbonisation remains unclear, there appears to be a real opportunity for multi-decade investment in infrastructure as every country moves towards a cleaner environment.

Energy transition and decarbonisation of the power sector is an obvious thematic and will have the greatest impact on countries looking for Net Zero. However, it is not just the energy sector. Other forms of infrastructure - namely transportation and technology - also have a key role to play.

There will be no Net Zero without significant new infrastructure spend. Importantly, there will also be no Net Zero if the emerging world is not involved in the goal, with over 50% of investment needs in these economies and growing.

5. Technology

The rapid growth in AI and particularly GenAI has resulted in a seismic shift in the outlook for the electricity industry.

Data centres consume huge amounts of electricity and for the technology to be a success, it is essential that it is powered by secure base load, green supply and supported by continuous data bandwidth. Incredible amounts of infrastructure investment are required across communication towers, green generation and most importantly in networks to support the load growth.

Not only are these five themes important individually, but they are also interrelated in ways that can cause disaster if they are not managed correctly.

A prime example is the collapse of the Baltimore bridge last year. The bridge collapsed because it was past its useful life or, in other words, because it was old and needed to be replaced. But the ship hit the bridge because it was under automation, and it briefly lost power. That single incident encompasses the three themes of replacement, technology and the energy transition.

Infrastructure also offers truly global exposure with assets across developed Asia, Europe and North America as well as emerging markets. This allows investors to capitalise on in-country economic cycles and gain exposure to domestic demand and investment thematics as they evolve.

With active management, an infrastructure portfolio can be positioned to take advantage of the long-term structural opportunity set discussed above, as well as whatever cyclical events the future throws at us whether they be economic, political or environmental. As long as people need transport, power and technology, I can think of no more compelling or enduring global investment thematic for the coming 30 years.

Sarah Shaw is CIO and global portfolio manager at 4D Infrastructure. This article provides general information only and does not consider the circumstances of any individual.

A letter to my younger self: investing through today's chaos

Michael Bogoevski

As another US earnings season looms, it is easy to feel like markets are caught in a constant state of contradiction. One day, the headlines warn of doomsday scenarios; the next, they celebrate a new golden age. One could be forgiven for feeling that we are trading through one of the most complex and confounding periods in market history.

In moments like this, perspective matters. So I've taken a step back to write a note I wish I'd received earlier in my trading journey - a guide for navigating the volatility, narratives and noise of the next 12 months.

Experts talk; markets move

Markets possess an uncanny ability to price in realities far more effectively than any single expert. Be aware of market sages, there aren't any! And yet, when markets begin to rise, many of us remain stubbornly sceptical, perpetually waiting for the next crisis to justify our pessimism.

Since the bottom during the tariff-induced downturn and the swift V-shaped recovery, I've watched seasoned strategists talk against the prevailing trend. Fear was sown at every peak, even as markets marched to record highs.

Why do we do this? Perhaps as humans, we are uncomfortable with outcomes that seem too good to be true. We struggle with simplicity and, worse still, with success. The most complex challenge for any trader — myself included, even after 25 years in the markets — is the willingness to pivot quickly from biases and confront our egos. Recognising when we're wrong is difficult; acting on it is even harder.

Forget the noise

One theme I noticed — perhaps more acutely than in previous cycles — was the persistent narrative ridiculing so-called "dumb money". In early April, as high-quality names like Nvidia traded at what now look like fire-sale prices (sub-$90 per share), retail traders were mocked for "chasing the rally".

Yet just a few months later, that same "dumb money" is sitting on significant gains, while institutional traders scramble to catch up, underweight and underperforming relative to their mandates and benchmarks. We call it FOMO, but let's be honest: this is institutional underperformance, plain and simple, as they chase peak boom before the bust.

As a retail trader, your greatest edge is ***time*** — an advantage most institutions do not have. Today, with an abundance of real-time information and analytical tools at your fingertips, you are well-equipped to make informed trading decisions. Don't let legacy voices tell you otherwise. The advent of active ETFs has widened the scope of easily accessible and liquid vehicles of global investment experts, offering a fantastic overlay to self-directed portfolios.

The machines are in control

Since the Global Financial Crisis, markets have increasingly become the domain of mechanics and liquidity, not fundamentals. Central banks, in their quest to avoid recessions at all costs, have engineered smoother cycles and compressed volatility. In doing so, they have handed over the reins to a new set of rulers: the market makers behind options, structured products, and passive flows. The rise of yield-generating ETFs has been the *new* play of the last few years led by funds such as JEPI.NYSE which has USD $41.08 billion in assets under management as of 24 July 2025. This is an impressive rise since it's 20 May 2020 launch.

Today, price action is often dictated less by economic narratives and more by positioning — the supply and demand dynamics of derivatives, structured products and fund flows. Fundamentals still matter, but they operate on a lag. In the short- to medium-term, they're frequently overpowered by the gravitational pull of volatility hedges, unwinds, and systematic rebalancing.

Take the Commonwealth Bank of Australia (CBA) as an example, trading well above consensus valuation models. Traditional frameworks struggle to explain such moves, leaving strategists perplexed. The uncomfortable truth is that many daily market swings are driven by technical flows, such as options market makers adjusting hedges. These are difficult to articulate to clients or in the press, but they are increasingly the most accurate explanation for sudden dislocations.

Most large selloffs in recent years have coincided with options expiry events. The COVID crash in early 2020 is a textbook example, commencing after the weekend of a large options expiry.

Next stop: uncertainty

The market's reaction to geopolitical turmoil is often far more muted than headlines and images would suggest. Unless the event directly affects oil supply, inflation expectations, or interest rate policy, markets tend to price in geopolitical shocks swiftly and move on. Tariffs are a prime example — what once seemed like seismic risk was priced, as markets learned to interpret the cadence of U.S. political posturing.

We now find ourselves in the late stages of the current business cycle — a phase I've often found to be the most difficult to navigate. The final leg arguably began after the 2022 equity correction. As in prior cycles, we're inching toward a peak, not with a crash, but with a slow, euphoric stretch of valuations to their limits and a slow grind down. Not the crash scenario that bearish analysts seek. In hindsight, this often reveals itself as the "blow-off top" — a familiar signal in technical analysis.

This is a time for vigilance. Sentiment can push markets well beyond what's rational. When optimism becomes the prevailing mood and narratives turn one-directional, that's the moment to begin **de-risking gradually and purposefully**.

Yet this cycle presents a unique wrinkle: **fiscal dominance over monetary support**. In a typical cycle, central banks would now be stepping in, providing liquidity to counter weakening GDP and PMI prints. Instead, they're holding back, waiting for the US administration to finalise its multi-legged bilateral tariff agreements and for lagging indicators to confirm what markets have already priced. This timing mismatch — where markets look six months ahead, and central banks act on six-month-old data — creates opportunities and frustrations for traders.

Final reflections

Markets speak in many tones - sometimes in whispers, sometimes in screams. Right now, some signals are hard to ignore. The rally feels one-sided. Price action is accelerating. And one of the more telling indicators is flashing amber: the VIX is edging higher, even as equities push upward. That's not typical.

These are the moments that make me uneasy. As the saying goes, *"I get scared when everyone else is greedy."*

Yes, *buying the dip* worked in April, but one day, it won't. And when that day comes, it is unlikely to be a sudden crash. It will be a slow, grinding decline that wears investors down through fatigue, not fear.

One of my most valuable lessons from markets is how the most successful investors protect their wealth: they stay calm, keep a buy list ready, and hold capital reserves for when everyone else is panicking. Every major sell-off feels existential in the moment. And yet, history shows that these moments reward those who act with calm conviction.

Right now, AI-driven investment enthusiasm is pushing valuations into uncharted territory. The momentum may persist, fuelled by global tech giants and the corporate arms race to keep up. But we're likely in the final leg of this cycle - one that could stretch further than logic allows, before it inevitably gives way.

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