

### Contents

- The 'priced out generation' and what they should do about it *James Gruber*
- Maybe it's time to consider taxing the family home *Peter Siminski, Roger Wilkins*
- Meg on SMSFs: Ageing and its financial challenges *Meg Heffron*
- US earnings season was almost too good to be true *Anna Wu*
- Does gold still deserve a place in a diversified portfolio? *Werner du Preez*
- Checking in on the equity market's silent engine *Ross Cartwright*
- 6 key themes driving bond markets *Neuberger Berman*
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### Editorial

Recently, I attended the 50th birthday party of a good friend and amid the celebrations, the conversations took an unexpected detour.

Naturally at these events, there's talk of what people are up to, how their children are and what commonly held friends are up to.

However, the conversation quickly turned to parents and their various ailments. Given most of the crowd were Gen-Xers, their parents were well into their 70s and 80s.

One had a mother who's had multiple, unsuccessful back surgeries and must take a barrage of pills to cope with everyday pain. Another complained of how his parents were slowing down markedly though refused to move out of their mammoth house by a waterfront. And I relayed the story of how my father had been diagnosed with dementia just days earlier.

What happened next surprised me. One friend said, "Well, now is the time to get the most out of life because by the time you retire, it's too late." Half a dozen others nodded in agreement.

It wasn't just talk, either. One friend was selling his business and retiring at age 48. A decade ago, he had a serious car accident and since then he'd changed from being extremely ambitious and money-focused, to being more interested in experiences, especially overseas holidays. His parents' slow decline had accelerated this shift.

Another spoke of starting a new business. This guy had been a serial entrepreneur since his teens and reasonably successful at it, though had dreams of creating something bigger. Seeing his parents slow down had made him realise that given he's in his late 40s, that it might be a case of now or never.

A third friend who loves hiking and the outdoors had booked a holiday to the US to fulfill his goal of hiking in Yellowstone National Park. He'd realized that he might not be able to do it in 10 or 20 years' time, and certainly not by the time he'd reached his parents' age.

The common theme for all of them was that seeing their parents' decline had given them an increased urgency to make the most of their lives before it was too late.

### **Die with zero?**

My surprise with these stories was that they ran counter to many of the traditional narratives that we grew up with. Most of us were told by our parents and in schools that we should work hard, save money, and look forward to financial freedom when we retire.

My friends at this party were saying that type of thinking no longer worked for them. That they were more concerned with living in the now than saving money for the future.

This attitude reminded me of a book that I reviewed in *Firstlinks* a few years ago called [\*Die with Zero\*](#).

The author, Bill Perkins, thinks all of us should aim to die with nothing in our bank accounts because life is about having experiences rather than accumulating money:

*"Those are two very different goals. Money is just a means to an end: Having money helps you to achieve the more important goal of enjoying your life. But trying to maximize money actually gets in the way of achieving the more important goal."*

And:

*"Why wait until your health and life energy have begun to wane? Rather than just focusing on saving up for a big pot full of money that you will most likely not be able to spend in your lifetime, live your life to the fullest now: Chase memorable life experiences, give money to your kids when they can best use it, donate money to charity while you're still alive. That's the way to live life."*

Perkins outlines nine rules for achieving the aim of dying with zero:

1. Maximise your positive life experiences
2. Start investing in life experiences early
3. Aim to die with zero
4. Use all available tools to help you die with zero
5. Give money to your children or to charity when it has the most impact
6. Don't live your life on autopilot
7. Think of your life as distinct seasons
8. Know when to stop growing your wealth
9. Take your biggest risks when you have nothing to lose

Rules 5 and 6 deserve further explanation.

Rule 5 is especially relevant given debate around the \$4.5 trillion intergenerational wealth transfer that's set to happen in Australia over the next 20 years. Perkins says the peak utility for money – the time when it can bring optimal usefulness or enjoyment – is around 30 years of age. However, the average age for inheriting money is close to 50 in Australia.

On rule 6, Perkins isn't saying that you should just spend money as soon as possible. Rather, he suggests that there needs to be a better balance beyond just defaulting to saving and investing.

### **Are attitudes changing more broadly?**

Perkins' book offers a compelling counterpoint to the usual narrative around preserving wealth for future generations.

Conversations at the party left me wondering whether Gen X and younger cohorts are beginning to embrace his ideas about using money to live fully now.

Of course, these are just anecdotal impressions - I don't have hard data to support a broader shift in mindset.

I'd love to hear your thoughts and any stories that you may have on the topic.

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In my article this week, I explore the growing sense of despair among young people about their future living standards and their increasing frustration with both the government and Baby Boomers. I examine whether this frustration is justified, its implications, and how the younger generation can [reclaim some control over their future](#).

**James Gruber**

### **Also in this week's edition...**

It's telling that the government's productivity summit has focused heavily on taxes. **Peter Siminski** and **Roger Wilkins** suggest it may be time to [consider taxing the family home](#) - a controversial idea, but one they argue has merit.

**Meg Heffron** examines the [challenges ageing SMSF members face](#), especially as cash reserves run low. She shares a case study and offers practical strategies for managing pension income.

In the US, Q2 earnings surprised to the upside. **VanEck's Anna Wu** highlights the [sectors that outperformed and those that struggled](#), while warning that the impact of tariffs is likely to show up more clearly in Q3.

After roaring higher, some are beginning to question [whether gold should still play a role](#) in a diversified portfolio. **Orbis' Werner du Preez** remains a believer and details why.

**MFS' Ross Cartwright** describes consumer spending as the 'silent engine' that motors equity markets. He checks in on the [health of consumer spending](#) across different regions, and identifies where the best opportunities may lie.

The US Federal Reserve could soon join other central banks in cutting interest rates. This would have ripple effects across global fixed income markets and **Neuberger Berman** thinks it would provide an especially [attractive backdrop for emerging market bonds](#).

This week's whitepaper from **UniSuper** explores how our views on [what makes retirement fulfilling](#) are shifting in profound ways.

**Curated by James Gruber and Leisa Bell**

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## The ‘priced out generation’ and what they should do about it

James Gruber

Interviews with politicians are normally bland affairs though this one was anything but.

In late November last year, as politicians were preparing for a coming election campaign, Dave Marchese of Triple-J’s youth-oriented Hack program interviewed the Housing Minister, Clare O’Neil.

The interview came soon after the government had rolled out policies to try to improve the housing market, especially the supply of homes. The Minister was at pains to emphasise that the main problem was that Australia wasn’t building enough houses.

And then the interview went off script:

**Marchese:** *What is the goal here in terms of these policies – is it to bring down house prices? Is that what the government wants to do?*

**O’Neil:** *We want to bring house price growth into something sustainable, so we’re not trying to bring down house prices but we don’t want to see some of the growth that we’ve seen in some parts of the country, where you’re getting double digit increases in house prices year-on-year.*

**Marchese:** *Why don’t you want to see house prices drop? Because if you’re looking to get into the market, if you’re a young person looking at what’s ahead of you, you definitely want to see house prices come down.*

**O’Neil:** *Well, that may be the view of young people, it’s not the view of our government. We want to see sustainable house growth, we want to see more houses come on line, we want to see the rental vacancy rate go up a bit because that will relieve pressure on renters and we certainly want to see more homeowners and the government has taken action on all of those pieces this week.*

**Marchese:** *But Minister, if house prices don’t come down, doesn’t that mean the system is stacked against young people - it’s just not going to work for them?*

**O’Neil:** *Sure, Dave, we may have a difference of view about this. I have a strong view; our government’s policies are not going to reduce house prices. We want house prices to grow sustainably. That will, I understand that you can have a different view to me but that is the view of our government. We want to make sure that house prices are growing sustainably, that we’ve got renters who can get into the market and that we’ve got more homeowners in our country.*

The Minister knew the interview had gone down a path that she didn’t want to go, and she couldn’t escape it quickly enough.

After, the Triple-J phone lines blew up as younger people expressed their outrage at the comments by the Minister. The government had banged on for months about “affordable housing” and now it was as if a lightbulb had gone off with Triple-J listeners: that by “affordable housing”, the government meant building cheap homes for those on lower incomes, not making existing property prices cheaper.

They lamented that, as Marchese alluded to, the “system is stacked against young people” and the government and Opposition were part of that system.

Months later, these younger people moved away in record numbers from the major political parties to cast their votes with Independents.

### The outrage has been a long time coming

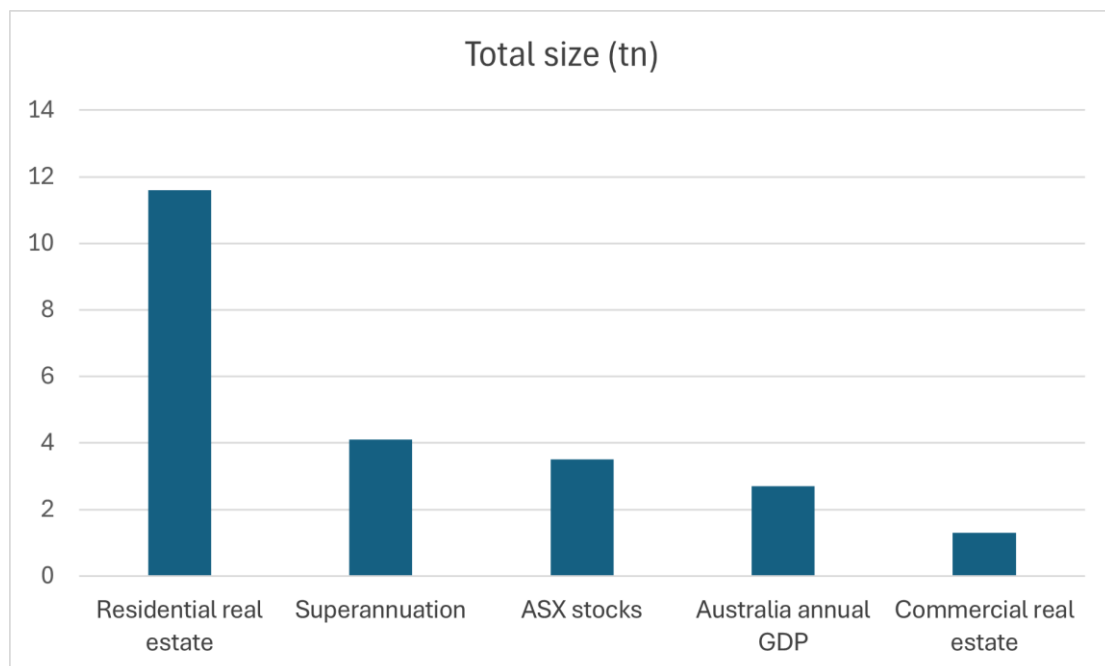
What's surprising is that it's taken until now for the anger to surface. Because the truth is that the system has been stacked against young people for a long time.

In a [recent article](#), I outlined how economic growth and wages have stagnated while asset prices have boomed since the GFC in 2008. And those who've owned assets have benefited while those who haven't have missed out.

The key reason why this has happened is that both Labor and Liberal governments have been unwilling to address the main drivers for the economic slowdown. Instead, they've been happy to pump up assets prices to give the *appearance* of increasing wealth.

Successive governments have piled on more and more debt to keep asset prices inflated. And any economic downturn that's threatened ever-rising asset prices has been met with more government stimulus and debt.

It's resulted in assets like housing growing to gargantuan proportions versus the size of the economy. That's impacted our living standards because investment that should have been going into growth areas has been channelled into unproductive assets such as housing.



Source: Cotality, Firstlinks

Young people have been the big losers in all this. Belatedly, they've realised the system *is* stacked against them and they may never be able to buy a house of their own.

### The generational clash

Anger from the young has not only been directed at government. Baby Boomers have copped it too. Younger people view Boomers as part of the system that's working against them. They see Boomers in

cahoots with the government to keep house prices high and ignore the hard policies needed to revive the economy.

Is this fair? It seems overdone. Yes, Boomers have been major beneficiaries of the asset boom of the past three decades. And, yes, some members of that generation (Albanese included) have contributed to an expansion of that boom while failing to address key weaknesses in the economy.

However, the anger at Boomers seems a sideshow to the real issue: young people have lost hope in their living standards improving any time soon.

They see an economic pie that isn't growing and they want a larger piece of that pie. It means increasing pressure on Boomers to share their slice of the pie with younger generations.

### **We've been here before**

Clashes between generations aren't unique.

In the 1960s, there was the countercultural revolution, which rebelled against the mainstream values and social norms of the time, especially traditional authority and conformity.

Today feels more akin to another period, though: the 1930s.

In the late 1800s/early 1900s, we had the Gilded Age which culminated in the roaring 1920s. It was an era of technological breakthroughs (railroads, cars, electricity etc), extravagant wealth and increasing inequality. That was shattered by the Great Depression and World War Two.

It led to an overhaul of systems and societies. Institutions were strengthened. In the US, Franklin Roosevelt's New Deal policies expanded the role of government to revive economic growth and laid the groundwork for future social security and welfare programs. In Australia, it came later with Ben Chifley's efforts at post-war reconstruction, which included nationalizing private banks, expanding social welfare benefits, and building mass infrastructure such as the Snowy Mountains Hydro-Electric Scheme.

Today, it seems like another major reset may be coming, though let's hope it doesn't entail an economic depression and war to get there.

### **How the young can respond**

The younger generations can get angry about their situation though it's unlikely to help them.

There are two alternative ways that they can respond:

#### **1. Reform the system.**

If they young want the system to change, they need to drive the change. Governments don't respond to Triple-J; they only yield to sustained pressure. If the younger generations want reform, they need to increase pressure on Labor.

One thing that baffles me a little is the protests about Palestine. I have nothing against these protests, but where are the protests about housing? Why aren't young people on the streets day and night demanding changes with housing? For example, why aren't they demanding that the current government pledge to maintain current house prices, or make them fall, over the next decade?

The other way to change the system is from within. To get into positions of power to enact real change. To become the *face* of change.

## **2. Accept the system and get on with life.**

The other option is for young people to accept the current system and make the best of it. To accept that the government may not be in their corner. To accept that older generations don't want the system to change. To accept that they may never own a house, for instance.

This last point needs further explanation. The young may need to move past the obsession of previous generations with owning a home. After all, if the goal of most people is to have a happy life, then they should prioritise many other things before home ownership: family, friends, health, spirituality/contentedness, and so on. A realignment of values may be needed.

I suspect the young will respond to their current plight in one of these two ways, or a mix of both. The route they take will shape our country in coming decades.

*James Gruber is Editor of Firstlinks.*

## **Maybe it's time to consider taxing the family home**

Peter Siminski, Roger Wilkins

The Australian government has "[an appetite to be bold and ambitious](#)" in its economic reform agenda. Here, we serve some food for thought – the taxation of owner-occupied housing. This may seem distasteful, but there are some strong arguments for doing so.

### **Tax breaks for owner-occupied housing are very large**

The size of tax concessions for owner-occupied housing is similar to that of superannuation, and much larger than for investment property. Treasury [estimates](#) it forgoes more than A\$50 billion per year by exempting owner-occupied housing from capital gains tax (CGT).

There is also no tax on the rental value of owner-occupied housing, although we [did tax](#) such "imputed rental income" (what a homeowner would pay in rent) briefly between 1915 and 1923.

### **Owner-occupied housing exacerbates inequality**

Australia prides itself on being a fair society. In reality, we are [near the middle](#) among developed countries on standard measures of income inequality. But such statistics ignore the income that owner-occupiers derive from their homes.

In a , we see what happens to income inequality if owner-occupied housing income is included. This non-cash housing income refers to the imputed rent and unrealised capital gains on the property.

When these are included in the income measure, inequality is higher, and it increases more strongly over time. The effect is large enough to shift Australia's inequality from 16th to tenth highest amongst OECD countries (though we haven't conducted the same exercise for other countries).



Unsurprisingly, outright home owners are much better off than renters when income from the home is counted. They have an average income 86% higher than the average income of renters – compared with 34% higher if housing income is ignored, as it usually is.

### **Australia's progressive tax system is largely a mirage**

Income taxes reduce inequality because the tax rate is higher for people with higher incomes. That is what is meant by a "[progressive](#)" tax system.

Our paper finds that this changes greatly when income from owner-occupied housing is included. The income tax system reduces inequality by a lot less (about 40.5% less) if we include such housing income. Because this income is tax-free, the average tax rate for the rich is much lower than it seems. So the tax system is less progressive than it appears to be.

The same is true for government pensions and benefits. They also reduce inequality, since they are targeted to people with limited means.

But housing wealth is excluded from the pension assets test, so pensions are not as targeted as they appear to be. Repeating the exercise above, we find the effect of pensions and benefits on inequality is 18.9% smaller when housing income is included.

Overall, the combined impact of income taxes and pensions/benefits on inequality is 26.7% lower when we include income from the family home.

### **Favourable tax treatment is built into house prices**

These tax concessions may also increase house prices and encourage inefficient allocation of resources. Income from investing in owner-occupied housing is tax-free, while all other investments attract tax. So Australians plough their money into their home instead of other, more economically productive, investments. These funds could instead be invested into private firms (directly or through the stock market), stimulating entrepreneurial activity and lifting productivity, wages and profits.

While stamp duty is typically payable on home purchases, the value of the income tax exemption is much larger. That lifts demand for housing, and hence housing prices. We know of [no recent studies](#) that have estimated the size of this effect, but it is likely to be large and therefore make the move into home ownership more difficult.

The absence of recent studies may be because taxing owner-occupied housing is not seen as a politically viable option. Much [more attention](#) has been placed on the much smaller tax concessions for investment property income.

### **Most people would be better off**

The Australian community as a whole would benefit from a reduced incentive to invest in housing because it would lead to increased investment in productive activities.

In terms of who would benefit most, renters stand out as obvious beneficiaries, since the tax burden would shift towards homeowners. But a progressive tax on housing could also benefit owners of modest homes, as part of a broader redesign of the tax system.



There is a temptation to equate a new tax with more total tax. This depends on the design. But it is certainly possible to implement a progressive tax on housing wealth, perhaps combined with an income tax cut, which could leave most people better off.

### **How would this look in practice?**

There are many policy options for more fairly incorporating owner-occupied housing in the tax system. We do not make a specific proposal here, but options include:

- a broad-based land tax would go a long way to addressing the issue, and should be on the government's agenda. This is an economically efficient tax that is advocated by [many economists](#)
- an explicit tax on owner-occupied housing wealth is also justifiable, since it is the only large asset that generates income that is not taxed
- a broader wealth tax could also be considered.

We also believe there is a strong case for reconsidering the exemption of housing from the pension assets test. Many [wealthy retirees benefit](#) from public pensions, which are funded by taxes on the incomes of younger workers and renters.

### **Too important to be squeamish**

We should have a national conversation on whether the current tax treatment of owner-occupied housing is sensible. Moving away from complete exemption would open up opportunities for reduced reliance on income taxes and more food on the table for renters, and owners of modest homes.

[Peter Siminski](#), Professor of Economics, [University of Technology Sydney](#) and [Roger Wilkins](#), Professorial Fellow and Co-Director, HILDA Survey, Melbourne Institute of Applied Economic and Social Research, [The University of Melbourne](#)

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## **Meg on SMSFs: Ageing and its financial challenges**

### **Meg Heffron**

Our clients are getting older. I guess we all are. But in an SMSF, older clients face different challenges. One we're being asked about a lot at the moment in particular goes something like this:

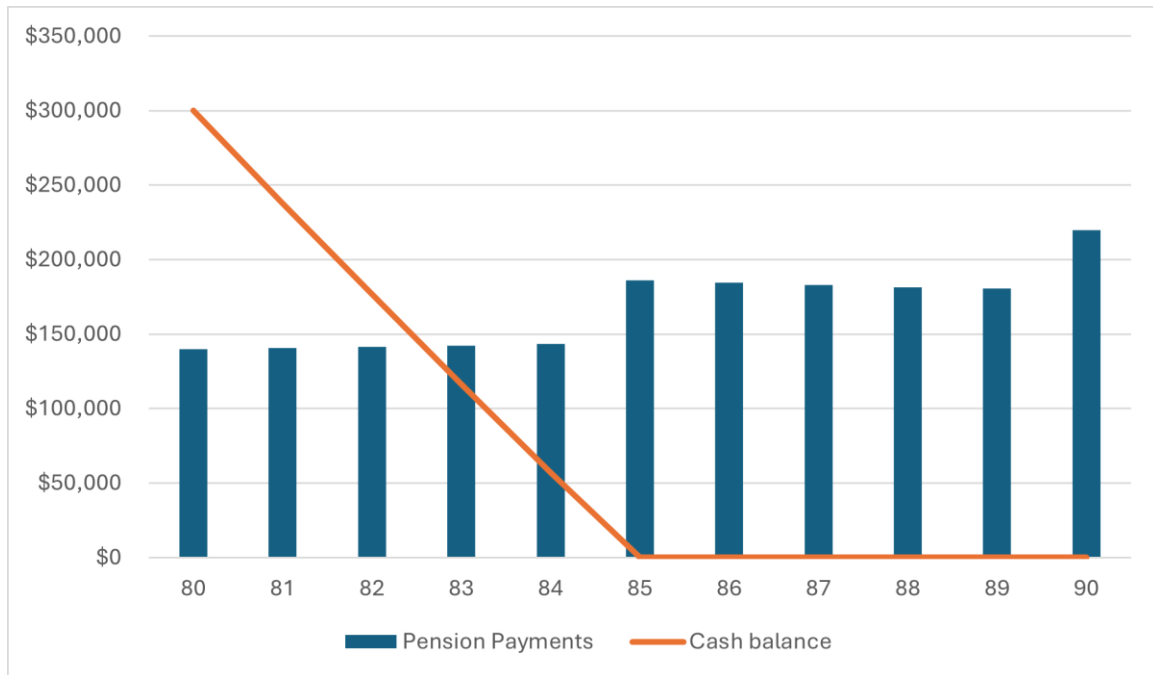
#### **An example**

Ted is 80, a widower. He's the only member of his SMSF and it owns a property worth \$2.4m (the fund bought it a while ago for \$1.7m). It has been a strong performer for him in terms of growth (around 5% pa over the long term) and income has typically been around 3% pa (after costs).

He's in pension phase (his pension balance is \$2m) and until now, he's been able to fund his pension payments from existing cash reserves (the income from the property alone isn't enough). But now the

fund only has \$300,000 in cash (earning 3% pa) and he can see that approach won't last for much longer.

A simple projection looks like this:



Ted's fund won't have enough cash in a few years to keep paying his pension.

Note – in this graph, and all the subsequent ones, I have completely ignored the impact of inflation (ie, \$1 in 10 years is not comparable to \$1 today). Normally I would present all these figures adjusted for inflation so they are directly comparable to amounts “today”. But the key issues I'm considering in this article are things like cash flow and the size of Ted's balance relative to the property. This is something it's probably easier to see without allowing for inflation.

### What other problems does Ted have?

He's 80 and would ideally like to start running down his super a little bit to avoid death benefit taxes for his two children (sole beneficiaries).

In particular, he'd like to take his accumulation balance out of super – it's quite large. While his pension is \$2m, his super fund has \$2.7m overall (\$2.4m property plus \$300,000 in cash). So his accumulation account is around \$700,000.

But drawing down his accumulation account would make things even worse – even if he did it in a complicated way and transferred a 'partial' share of the property to himself.

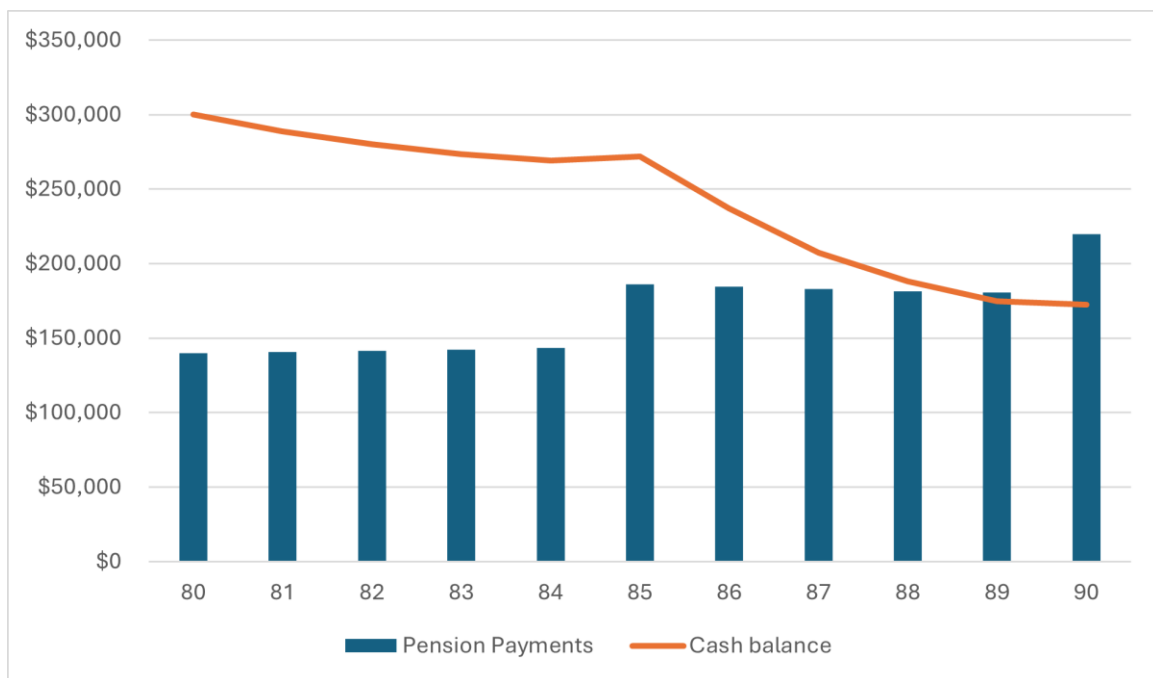
At the moment, he's taking advantage of a unique feature of SMSFs : the rental income for the *whole property* is available to provide cash flow for his pension even though his pension account only “owns” part of it.

As soon as he transfers some of the asset out of super, he will have to split the income between the SMSF and the new owner of 'part' of the property. His fund's cash inflows will be even lower.

## Could his kids help?

The good thing about Ted's kids is that they're both in their mid 50s and ready to really double down on their super contributions. They expect to maximise their concessional contributions for the next few years.

If they were to re-direct the contributions to Ted's SMSF, would they be able to provide the additional cash flow needed to continue Ted's pension?



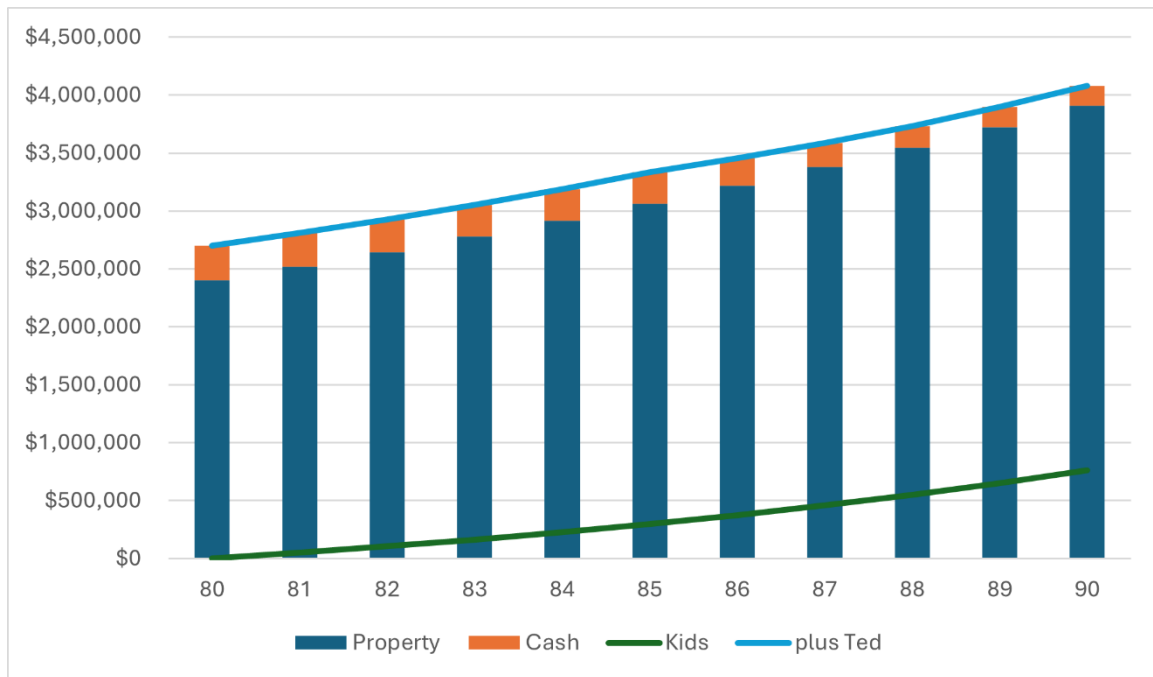
That looks a bit better.

That said, it's creating another issue. Now the property is shared between the children's balances and Ted's.

What will happen when he dies? The Fund will need to pay a death benefit to his beneficiaries and won't have the cash to do so. Either the property will need to be sold or transferred out of the fund as an in specie death benefit. But that probably won't quite work either – the kids' growing balances mean they sort of "own a bit" of the property too now.

In fact, how do things look over time?

Again – a vastly oversimplified projection is below. The bars show how the fund is divided up (the property in blue and the cash in orange). The lines show how this is divided between Ted and "the kids". The two sons' super is represented by the green line and the blue line adds on Ted's balance (ie, the blue line is the total of everyone's balances – which is why it matches the top of the bars).



By contributing to the fund, and using that cash flow to fund Ted's pension, the family has effectively started transitioning the property from Ted to the next generation within the SMSF. But over Ted's likely timeframe, this hasn't helped much. It's allowed the property to remain in super for longer (by providing cash flow) but now we have a bigger problem – how to deal with Ted's eventual death and pay out his death benefit. The sons' balances (green line) are nowhere near large enough to absorb the property (blue bar).

Of course, all of this is solved at any time by selling the property but let's assume that's unattractive to the family.

### What else could we do?

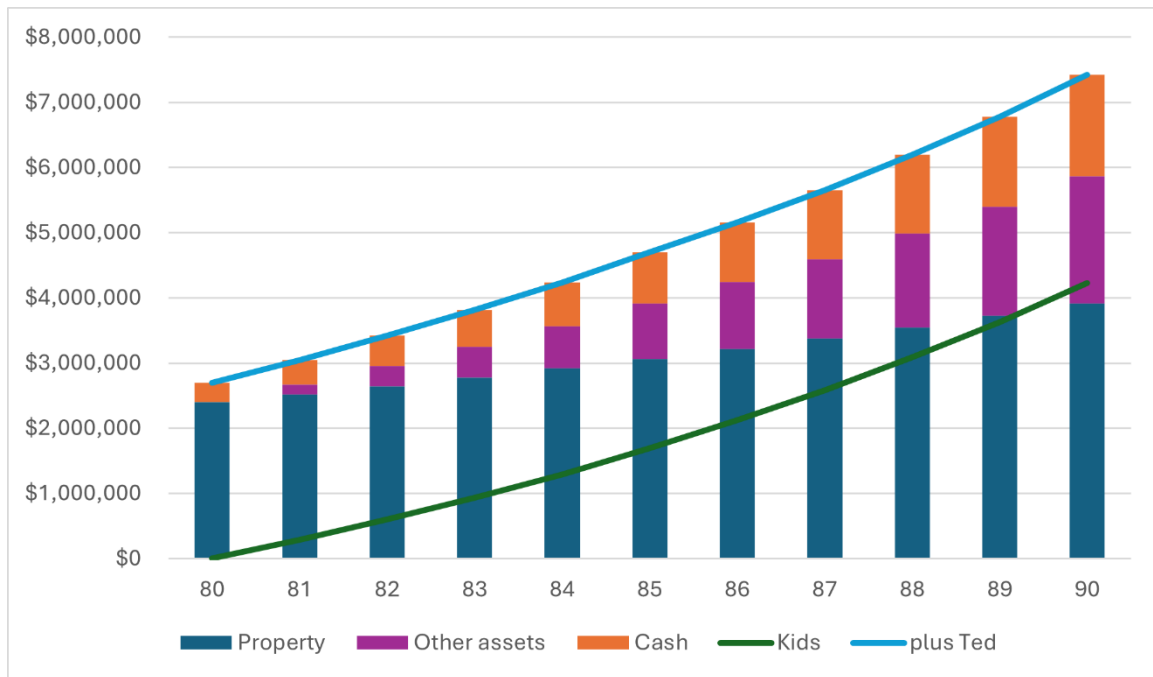
What if Ted's sons were willing to *also* make non-concessional contributions?

For starters, let's imagine they make non-concessional contributions at the level permitted each year (ignoring the complexity of using the special rules to bring forward future years' contribution caps for the moment).

(We'll assume they can make these contributions throughout the 10 years – of course if they have a lot of super already they may be prevented from doing this).

Now, there's a lot more money in the fund. So we'll assume it's not all kept in cash – some is invested. But rather than illiquid assets such as a property, it will be used to buy assets that can be sold relatively easily to pay out a death benefit when the time comes. For simplicity, we'll assume for the moment that this new investment achieves similar returns to the property (3% income, 5% growth).

Since there's a lot more money in the fund, the scale on this graph is also different to the previous one (see it goes all the way up to \$8m).



Now, the sons' balances after 10 years (green line) are worth roughly the same as the property (blue bar).

But it took a lot! 10 years' worth of maximised concessional and non-concessional contributions.

### What about the sons' existing super?

Of course, two children aged in their mid 50s would have existing super. They could have reduced their non-concessional contributions if they had added some or all of their existing super to the fund.

That may well be attractive to all concerned, it will depend on their circumstances. For example : are Ted's sons partnered? And are they already building up super with their partners that they don't want to disrupt? Does one have more super than the other? (which might make them less keen to bring all their existing super into the fund because one would end up notionally "owning" more of the property than the other).

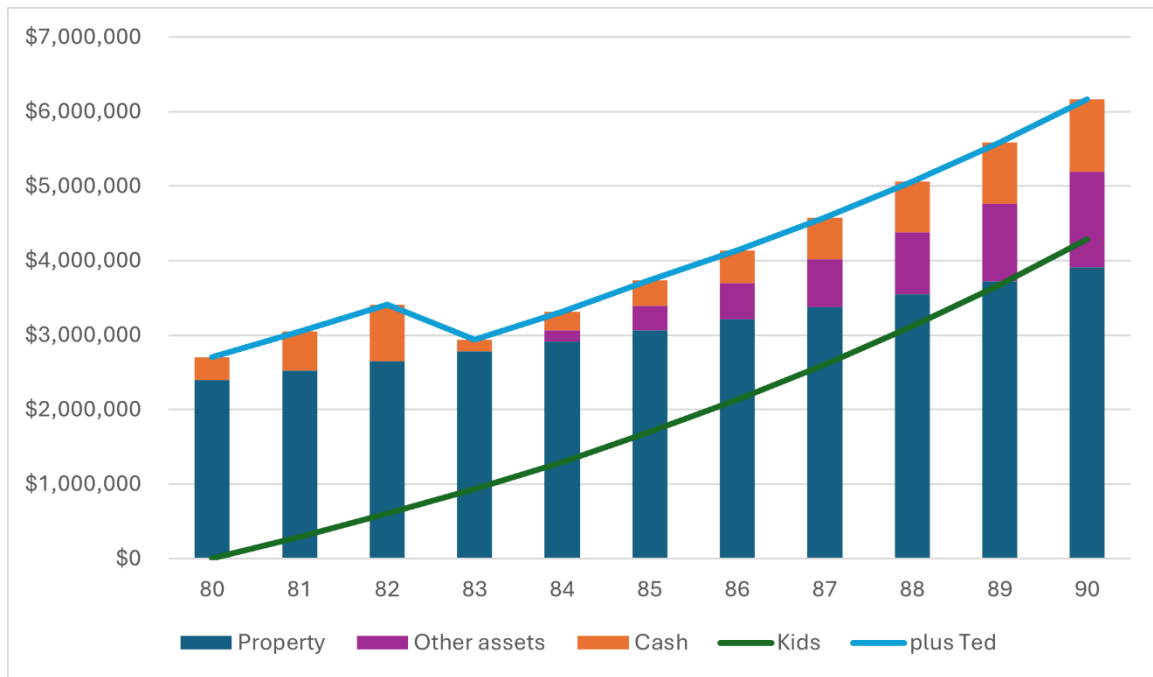
In some cases, it is "neater" for the family if the transition of the property is managed without touching the sons' existing super.

In some families, the cash for the non-concessional contributions would even be provided by Ted. In other words, he effectively finances the transition of the property by building up his sons' super balances.

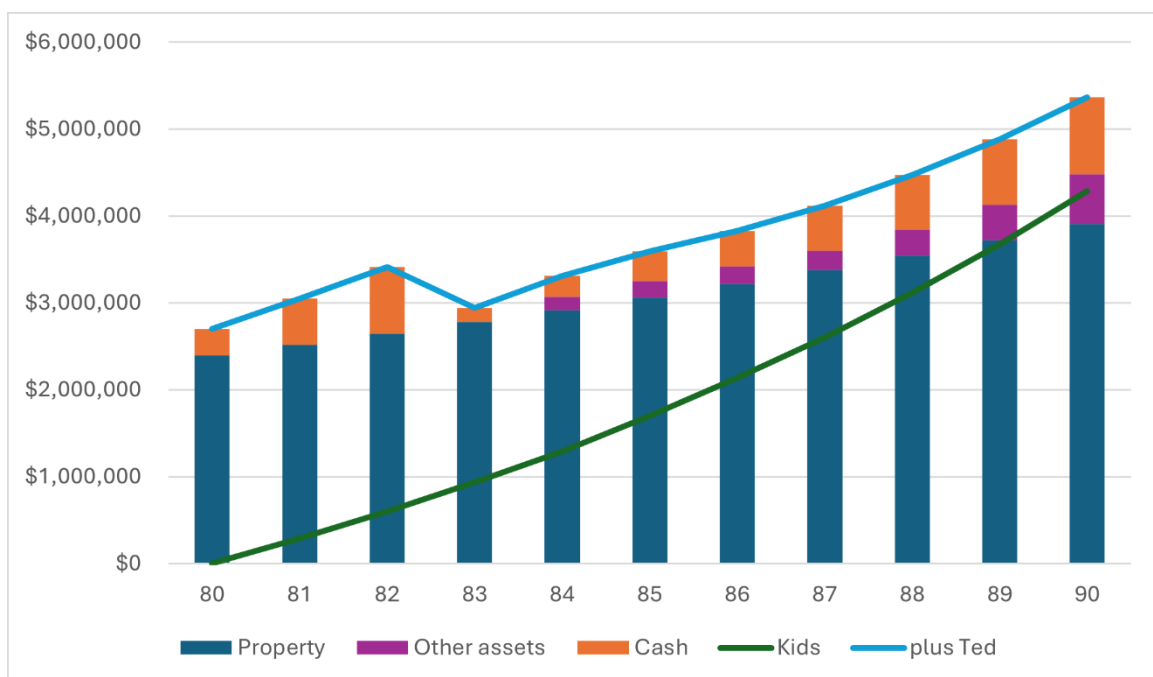
### What about Ted's plans to wind down his super before death?

So far none of this has helped Ted take money out before death – but perhaps we've at least created the environment where he can withdraw his *accumulation* balance.

Let's imagine Ted withdraws his accumulation balance as soon as the fund has enough cash to do so. That's around the 3<sup>rd</sup> year. See what happens below.



And perhaps we could be even a little more focussed on these withdrawals as the cash starts building up again – taking higher than necessary pension payments from around 83. The graph below assumes normal pension payments for the first 3 years and then doubling them from that point onwards. This is a very deliberate approach to drawing down Ted’s super quickly but not suddenly. It’s risky – what if he dies in the meantime? But at least it allows him to reduce his balance quite a bit and importantly we still reach the point where his balance can be covered by the “non property” assets.



### And what happens at the end?

In 10 years’ time, Ted’s sons will be in their mid 60s and presumably looking to start pensions themselves. They would face the same challenges as Ted in that the income from the property won’t be enough to support their pensions over the long term. Of course, they would have the luxury of a bit

more time while their pension payments remained low but they would quickly face the same challenges as Ted. Perhaps all we've done by moving the problem to the next generation is:

- buy some time, and
- create the environment where the children's balances (in the SMSF) would be low enough to commence pensions with the full balance (as long as they didn't have pensions elsewhere) – allowing a tax free sale.

### **And so?**

Of course, the modelling here presents a single fact set with a single set of assumptions. Everyone is different. But perhaps some broad conclusions can be drawn anyway.

For many years, our focus has been on getting as much money into super as possible – knowing it would have to come out eventually. For some people, that strategy has been so successful that we've created an entirely different problem – 'eventually' has arrived and we need to be prepared for it. Given how difficult it will be for future generations to build up large super balances, and the extraordinary growth in many SMSF assets (particularly property), it is likely that even those with existing plans for intergenerational transfer will need to act early to provide enough time to execute their plans.

*Meg Heffron is the Managing Director of [Heffron SMSF Solutions](#), a sponsor of Firstlinks. This is general information only and it does not constitute any recommendation or advice. It does not consider any personal circumstances and is based on an understanding of relevant rules and legislation at the time of writing.*

**New:** The [Heffron SMSF 2025/26 Facts and Figures](#) document has been finalised and is available as a free download. Keep it on-hand to access the most recent information to stay up to date.

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## **US earnings season was almost too good to be true**

Anna Wu

Despite tariff-driven growth concerns and inflation fears, strong results from the latest US earnings season have taken markets by surprise, with over 80% of companies on the S&P 500 beating street estimates. This has further insulated the already-upbeat risk sentiment that has driven the S&P 500 to an all-time high in July.

Coming to the end of this earnings season, what are the key themes, company highlights, and emerging warning signs?

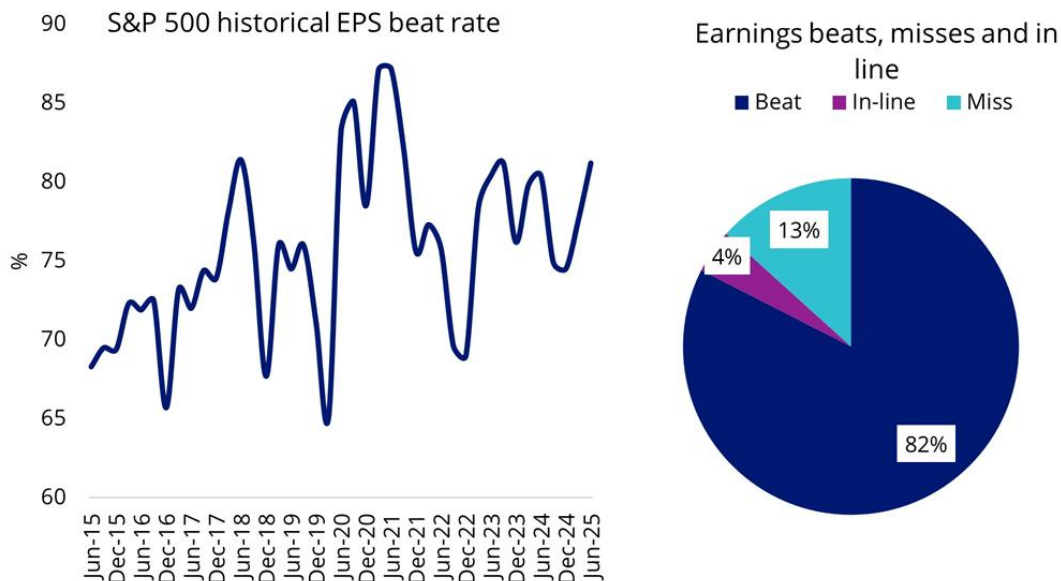
### **Almost too good to be true: a record run of beats**

On an index level, markets have not seen this rate of earnings beats since December 2021. As of 1 August, ~82% of S&P 500 companies had delivered positive earnings surprises. Worth noting was the



blended year-on-year EPS growth exceeding 9%, which is more than triple the pre-season sell-side consensus of 2.8%.

### Charts 1 & 2: Q2 2025 saw the highest earnings beat since 2021



Source: VanEck. Bloomberg Intelligence. Date as of 31 July 2025.

This almost seems too good to be true: an upbeat earnings season unfolding against the backdrop of the most aggressive US tariff policy in nearly 100 years. Three main factors have softened the initial blow of US tariff aggression:

- [A weaker US dollar](#) has increased US exports' margins and boosted overseas revenue (in USD terms) for US companies.
- Inventory frontloading ahead of the Tariff Liberation Day has provided a supply buffer for US companies to stabilise their input cost; and
- The global AI race has kept AI-related capex growing, boosting demand for high-margin tech goods and services.

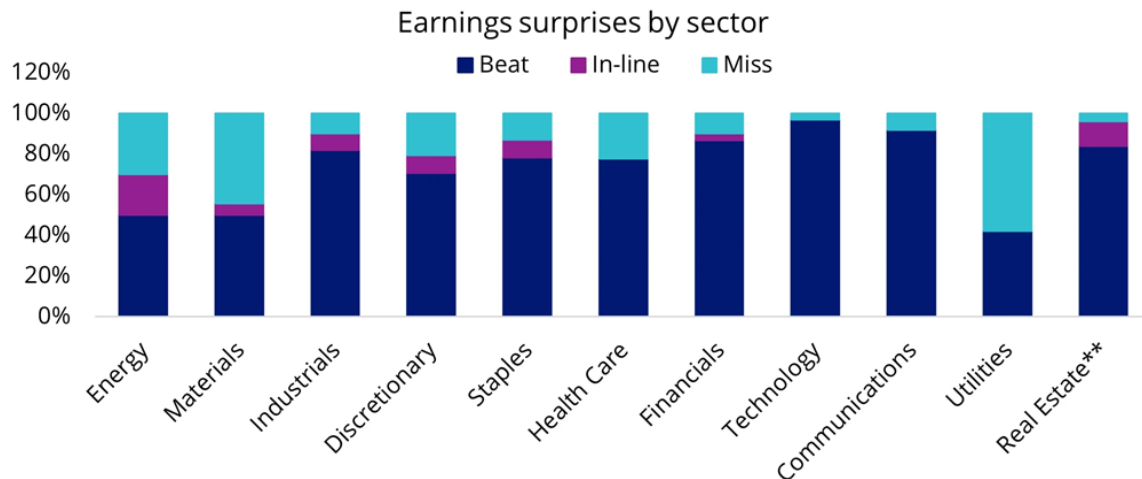
However, with most trade negotiations complete, the terminal US tariff rate (15-17%) is set to linger at a level that offers almost no relief on inflationary pressure. As the three factors mentioned above fade over the coming months, US companies could feel increasing stress. This drag is partly mitigated by the government injecting fresh growth stimulus into the US economy, particularly in strategic sectors like technology and infrastructure.

The coming months will be a balancing act between these two competing forces. Smart investors should stay close to price target revisions, as Q3 earnings are likely to reveal a more complete picture of how well US corporates are digesting tariff challenges.

### AI capex translates to strong earnings growth

On a sector level, technology (97%) and communications service (92%) companies, which are closely linked to the global AI race, have delivered the highest beat percentage.

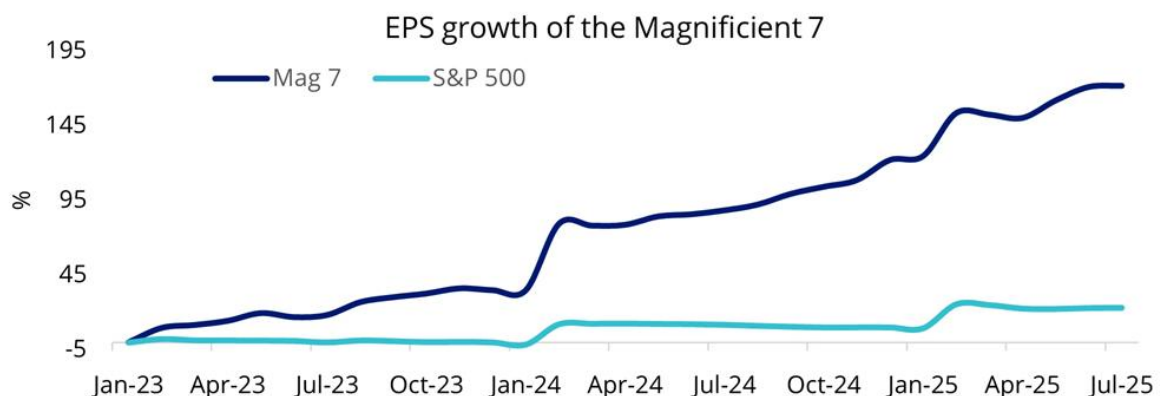
**Chart 3: Tech sectors led earnings beat**



Source: VanEck. Bloomberg. Data as of 31 July 2025, in AUD. \*\* Beat, Hit, Miss counts are relative to FFO.

Within the 'Magnificent 7' group, (excluding Tesla, whose shares have plunged due to significant revenue decline (~12%) and margin compression (~17%)), the tech mega caps have delivered an average positive surprise of 12.4% <sup>[1]</sup>, far exceeding the other 493 names (4.8%) in the benchmark, thereby maintaining their hyper-growth trajectory.

**Chart 4: Magnificent 7's EPS outgrows the broader market**

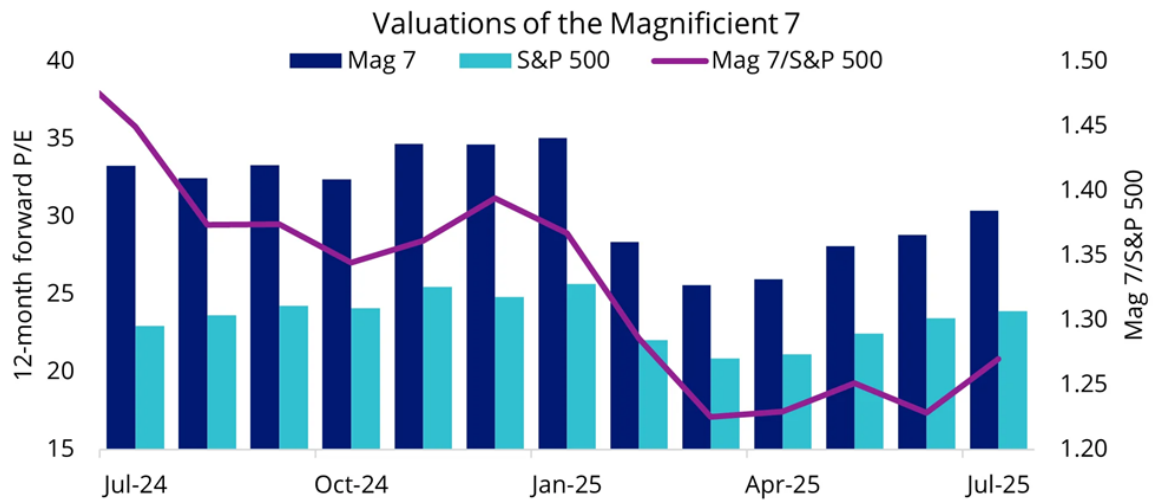


Source: Bloomberg. Mag 7 is Bloomberg Magnificent 7 Total Return Index. Date as of 31 July 2025.

Another highlight is the boost to AI-related capex projection: Alphabet (Google) has increased its AI budget to US\$85 billion, up from US\$75 billion. Microsoft is targeting US\$80 billion. Meta is doubling its budget from FY24 to US\$66-72 billion in FY25. Amazon is sticking to its US\$105 billion target, and Apple, which currently lags its peers, is committing an additional US\$100 billion toward US production and on-device AI initiatives. This scale of investment reflects the fierce pace of AI development and is interpreted by analysts as a structural tailwind for the broader tech sector.

From a valuation standpoint, while these companies remain richly priced, recent data shows that after the tech correction earlier this year, the gap between the Magnificent 7 and the broader market has narrowed meaningfully.

**Chart 5: Magnificent 7 valuations revised closer to S&P 500**



Source: Bloomberg. Mag 7 is Bloomberg Magnificent 7 Total Return Index. Data as of 31 July 2025.

### Commodity-linked sectors starting to feel tariff damage

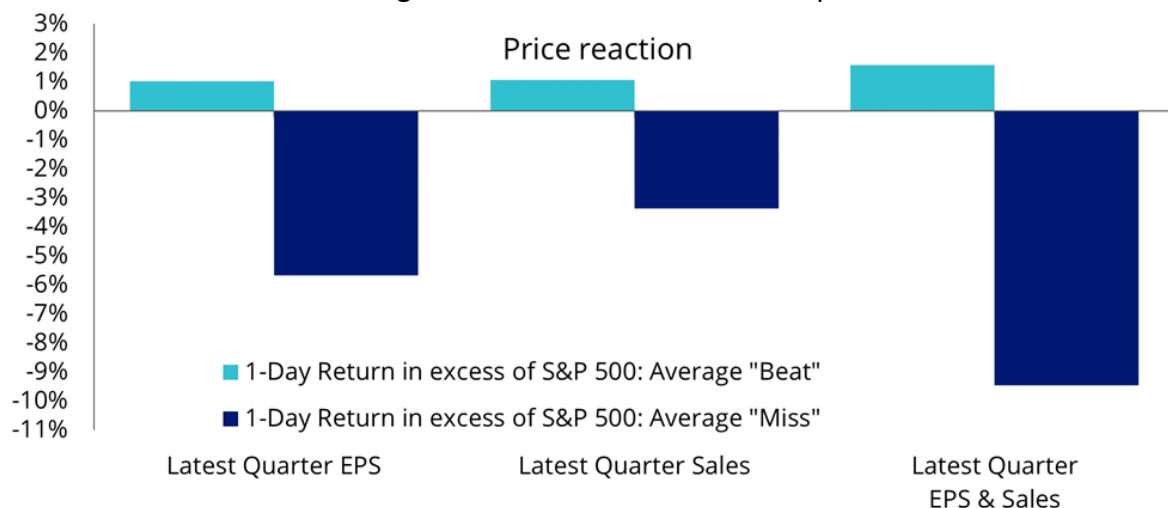
Contrasting with the success seen in the tech sectors, commodity-linked sectors (materials, utilities and energy) have seen over a third of reporting companies miss their estimates.

Companies in these sectors have limited ability to pass on tariff-driven input cost inflation, as materials and energy prices are typically determined by global spot market rates and are often subject to regulatory price ceilings.

### Earnings misses punished harshly

While the June quarter earnings have generally exceeded expectations, there's a sense of caution hidden in price reactions. As shown in the chart below, one-day share price gains following an earnings beat have ranged less than 2% relative to the broader index, whereas a single earnings miss could trigger a decline of 5–9%. This suggests that investors are disproportionately punishing earnings misses – a sign that expensive valuations at companies must be justified.

**Chart 6: Earnings misses are met with outsized price declines**



Source: VanEck. Bloomberg Intelligence. Date as of 31 July. Performance in USD.

## Final thoughts

The second quarter of 2025 saw US tariff aggression shake up the world's trade system. It's too early to assess the full impact of these tariffs, but it feels unsettling. While robust corporate fundamentals, the AI boom and record foreign investment have kept this earnings season warm, a sense of caution can be seen in price reactions.

US companies could face a tougher test in the coming months as economic growth slows, flagged by the Fed and reflected in recent weaker economic data prints. While investors should welcome the AI-driven growth momentum, it is important to be selective.

[1] Based on blended sell side analysts estimates on Bloomberg.

*Anna Wu is a Senior Associate, Cross-Asset Investment Research at [VanEck](#), a sponsor of Firstlinks. This is general information only and does not take into account any person's financial objectives, situation or needs. Any views expressed are opinions of the author at the time of writing and is not a recommendation to act. The VanEck MSCI International Quality ETF ([QUAL](#)) tracks the MSCI World ex Australia Quality Index and invests in around 300 of the world's highest quality companies. [A hedged version of QUAL](#) is also available for investors.*

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## Does gold still deserve a place in a diversified portfolio?

Werner du Preez

Given the recent bout of geopolitical uncertainty, gold – long regarded by many investors as a safe haven asset – has had a strong run. However, as tensions have started to ease (at least for the moment), some have begun to question whether the commodity can still play a role in a diversified portfolio. We believe the answer is yes.

### Why we turned to gold in 2019

At Orbis, we built up the gold exposure in our multi-asset portfolios in 2019. This change was driven by increasing concerns about deficit and debt levels in the US and developed world. Governments were spending far too much money, which in our view put their currencies at risk. The US alone is currently over \$36 trillion in debt – the highest national debt in the world – and President Trump's "big, beautiful bill" threatens to add another \$3 trillion to that figure.<sup>[1]</sup>

The market's reaction has been swift, with the US dollar suffering its worst first-half performance since 1973.<sup>[2]</sup> Rising debt erodes confidence that a government can repay without resorting to money printing or inflation, so investors demand more compensation or sell the currency, driving its value down.

Gold, however, can be considered a 9,000-year-old currency that's never been devalued, never gone broke. From that perspective, it is the world's most enduring store of value, especially when the US dollar (or any fiat currency) looks expensive relative to fundamentals.

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## **Supply is predictable; demand is the wild card**

From an investors point of view, there are two ways to look at gold. One is strictly as a commodity, so supply and demand. Recently, demand has been outstripping supply, so the price has been going up. We know roughly what the supply of gold is going to be each year, although that is declining over time because the metal is getting harder to find.

Demand, by contrast, is far less predictable. In recent years it has been propelled mainly by aggressive central-bank purchases and steady buying from China and India. However, demand from Western markets has been relatively subdued, as their focus has been more on AI and big tech, the areas where momentum has been strong over the last few years.

But, when that momentum rolls over and fades out, the retail investors of the world will likely try and shift into where there's still momentum and that includes gold. Evidence is emerging to support this thesis: gold ETFs saw net inflows in the first half of this year after 18 straight months of outflows, driven largely by U.S. investors.<sup>[3]</sup> That renewed interest is spilling over from bullion to the often-overlooked gold-mining equities. Because central banks buy the metal, not the miners, the latter remain mispriced and overlooked, offering a fertile hunting ground.

## **Rotating from bullion into miners – without abandoning the hedge**

As bullion climbed, gold-mining shares lagged, so we've gradually been trimming our direct gold exposure and shifting that capital into miners. This year, that lag has flipped and the miners have started outpacing the commodity for the first time in a long time. So every time gold hits a new level we've been top slicing the commodity weighting and recycling it into either gold miners, or other areas we find interesting such as inflation protected bonds.

That said, it doesn't mean we think that gold's rolling over and going down. We're just being conscious of risk – the higher something goes, the more risk there is that it will fall sharply.

In theory gold can continue to go higher, especially if major currencies such as the US dollar devalue. If macro, geopolitical or regional events cause fiat currencies or paper currencies to fall, then gold could rise as a so-called "safe haven". In our view, we think some currencies will go down relative to gold, because governments are still spending too much money – deficits are too high and debt levels are going up and up and up. That makes paper currencies worth less against all material items, of which gold is the best representation.

With that in mind, gold should in our view go up over time, and we think it still has a decent place in a diversified portfolio. And while we have been trimming it in favour of inflation protected bonds, we still hold a significant position in the Orbis multi-asset portfolios.

[1] Source: <https://fiscaldata.treasury.gov/datasets/debt-to-the-penny/debt-to-the-penny>

[2] Source: <https://www.theguardian.com/business/2025/jun/30/us-dollar-first-half-trump-tariffs#:~:text=Investors%20have%20been%20selling%20the,US%20national%20debt%20even%20higher>.

[3] Source: <https://www.reuters.com/markets/commodities/gold-etfs-drew-largest-inflow-three-years-q1-says-wgc-2025-04-08/>

*Werner (Vern) du Preez is an Investment Specialist at [Orbis Investments](#), a sponsor of Firstlinks. This article is for general informational purposes only and does not constitute financial, investment, or other professional advice. The content is not tailored to the specific investment objectives, financial situation, or needs of any individual. Investors should not rely solely on this information in making investment decisions. We do not accept liability for any loss or damage, including without limitation to, any loss of profit, which may arise directly or indirectly from the use of or reliance on such information. This information is at a point in time and the Orbis Funds may take a different view depending on changing facts and circumstances. The value of investments in the Orbis Funds may fall as well as rise and you may get back less than you originally invested.*

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## Checking in on the equity market's silent engine

Ross Cartwright

The health of the consumer is arguably the single most important factor driving equity market performance in developed economies today. From retail giants like Walmart and Amazon to tech innovators like Apple and Tesla, consumer spending directly impacts corporate earnings, sector performance and overall market sentiment. For sophisticated investors, understanding the consumer's role is essential — not just for identifying risks, but also for uncovering opportunities in an evolving economic landscape.

### Why consumer health matters to equity markets

#### 1. A key pillar for economic growth

In the US, personal consumption constitutes over two-thirds of GDP<sup>1</sup>, making it the lifeblood of the economy. With the US accounting for 70% of the MSCI World Index<sup>2</sup>, the health of US consumers has global consequences for equity markets. While other developed economies like Europe and Japan may rely more heavily on industrial production or trade, consumption remains comfortably more than half of economic activity.

#### 2. Consumer spending drives corporate revenues

Consumer-facing companies, particularly in discretionary sectors, are directly impacted by changes in spending patterns. A slowdown in spending disproportionately affects cyclical exposures — new cars, patio furniture, travel and leisure or other “nice-to-have” items — while staples or essentials have typically held up better and outperformed these other sectors.

Lower consumer spending can trigger ripple effects across industries, from manufacturers to transport companies, and even lead to cuts in advertising budgets, compounding the pressure on revenues across the market.

### Regional perspectives: Consumer health across the globe

#### United States: Resilience amid complexity

US consumers have shown remarkable resilience, supported by robust labor markets, healthy household balance sheets and favorable debt positions. Fiscal stimulus continues to support corporate margins,



reducing the likelihood of layoffs — a key factor in sustaining consumer spending. The US consumer is not a homogeneous group, and approximately 40% of consumption is driven by the top 25% of wage earners<sup>3</sup>, who remain healthy.

However, there are emerging signs of pressure. Higher interest rates are starting to erode disposable income for lower-income cohorts reliant on credit cards and personal loans. Additionally, house prices may be beginning to soften in certain regions, which could weigh on consumer confidence. At the same time, however, lower energy prices provide a reprieve for households, while ongoing fiscal stimulus indirectly supports consumer spending by maintaining corporate profitability. Profitable companies tend not to lay off workers.

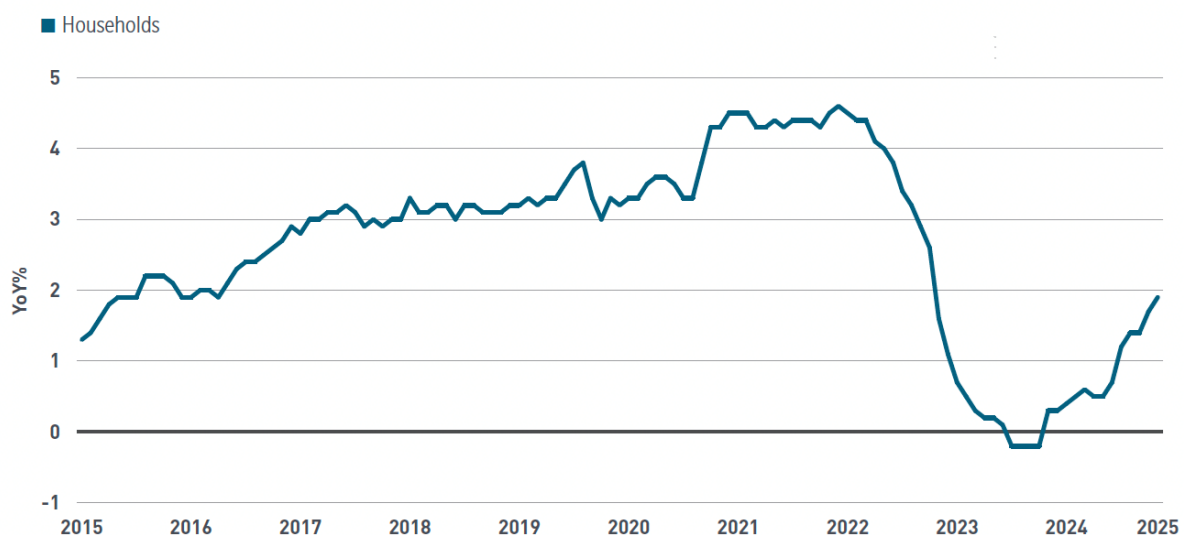
The current slowdown in immigration may also act as a hidden support for real wage growth, keeping the US consumer in relatively good shape despite near-term challenges.

### Europe: A consumer recovery

European consumers have faced stagnant economic growth, inflationary pressures and an energy crisis, exacerbated by the abrupt halt of Russian gas supplies after the invasion of Ukraine. Unlike the US, Europeans are more sensitive to interest rate changes because they don't have access to long-dated fixed-rate mortgages.

Despite these challenges, improving house prices, strong equity markets, stronger loan growth and recovering consumer confidence could see European consumers surprise on the upside, offering a potential catalyst for non-US equity markets.

**Exhibit 1: Eurozone Loan Growth**



Source: Bloomberg, European Central Bank. Monthly data from 31 July 2015 to 31 May 2025 (latest available).

### Japan: A turning point

Japan's stock of savings is high, but savings rates remain low. Low Japanese savings rates have been a function of an aging population, shrinking labor force and stagnant real wage growth for many years. Despite soft real wage data, the job market remains tight, and the spring Shuntō wage negotiations have seen large Japanese companies raise wages by over 5.25% this year — the largest increase in 34 years. The result of this has been a recent uptick in savings (Exhibit 5).



Inflation has picked up over the last year, and though rising, wages remain negative in real terms despite the Japanese government seeking 1% annual real wage growth to drive consumption and boost economic growth. Ongoing labor shortages are likely to keep upward pressure on wages, which is positive for consumption. However, the increasingly aging population continues to be a drag on consumption growth. Since the Fukushima nuclear disaster, Japan has become increasingly reliant on imported energy and while they remain susceptible to energy shocks, low energy prices are currently working in their favor.

**Exhibit 2: Spring Shuntō Wage Negotiation**



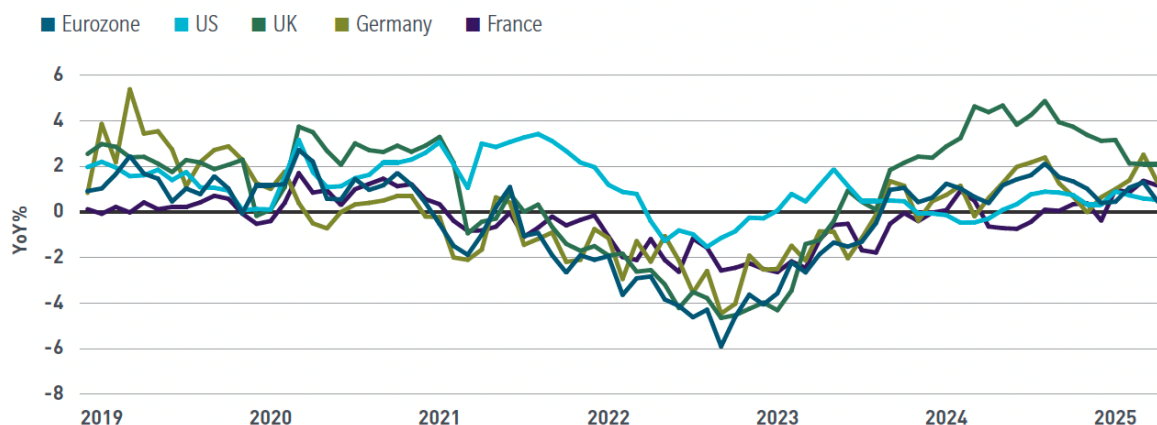
Sources: Bloomberg, Eurostat, monthly data up to May 2025.

## Tracking consumer health

For investors, monitoring a few key indicators is critical to understanding consumer health and its impact on equity markets.

- **Real wage growth:** Positive wage trends, as seen in Europe and the US, support spending.

**Exhibit 3: Real Wage Growth YoY%**

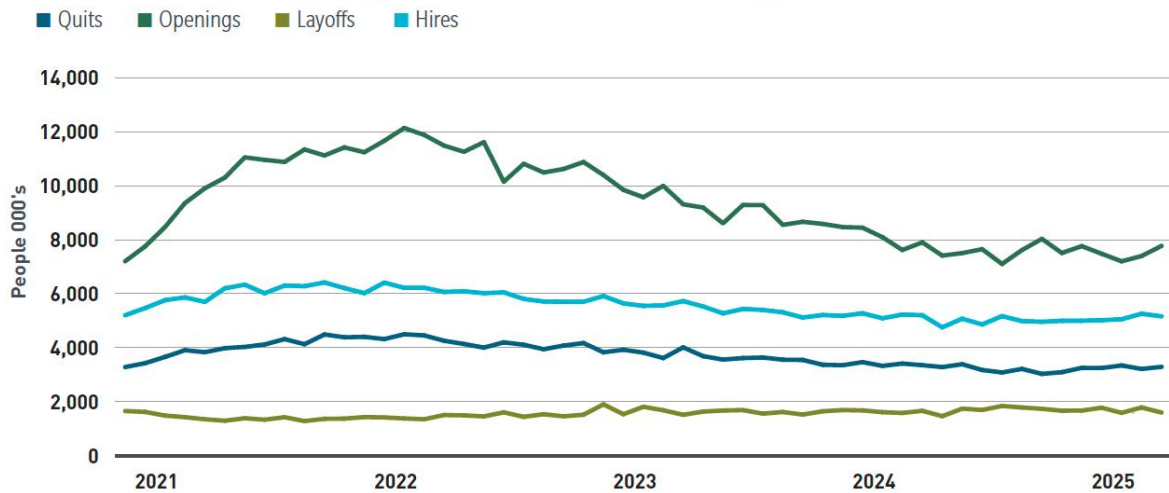


Source: Indeed, Bloomberg. Monthly data from 31 December 2020 through 30 April 2025 (latest available). Real Wage Growth YoY% is calculated by subtracting CPI YoY% from Indeed Wage Growth YoY%.

- **Unemployment metrics:** While unemployment is a lagging indicator, other metrics like job openings and quit rates provide a clearer and more reactive picture of labor market stability. Based on these metrics, the US consumer looks stable. Openings may be down, but layoffs remain stable, as does

hiring, while people are less comfortable quitting to find new roles. Across both Europe and Japan, labor markets remain tight.

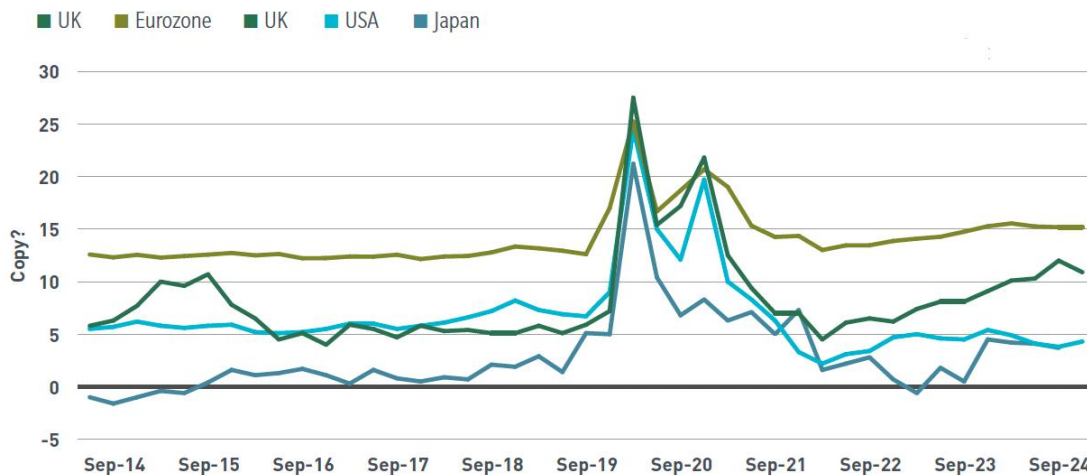
**Exhibit 4: US Job Openings and Labor Turnover Survey**



Source: Bloomberg Monthly data 1 January 2021 to 31 May 2025.

- **Disposable Income:** Higher-for-longer interest rates and cuts to programs like Medicaid and SNAP could reduce spending power for vulnerable, lower income cohorts. Mitigating this is the wealthier cohorts driving the largest slice of discretionary spending.
- **Household savings rates:** Shifts in savings behavior, particularly in Europe, could signal changes in spending patterns. Europe is exhibiting signs of lower savings.

**Exhibit 5: Household Savings Rate**



Source: Bloomberg. Monthly data from 31 December 2020 through 31 March 2025 (latest available, Japan to 31 December 2024).

## Why should investors care?

Our base case is a softer US consumer, but with ongoing resilience. That said, the impact of tariffs has yet to be fully felt and remains a concern. A slowdown in consumer spending typically impacts cyclical sectors the most. Staples and other defensive sectors such as essential services — including health care and utilities — typically perform well, whereas sectors that are not exposed to consumer whims, such as defense, are usually unaffected.

However, there will be shifts in behavior and differences to consider within all sectors. For example, during slowdowns some consumers trade down from premium to affordable brands, or postpone elective surgery. The second-order effects on industrials, energy and other sectors also need to be considered as they will ultimately be impacted if end demand softens.

As such, it pays to be selective in the face of a consumer slowdown. We believe better-managed companies with strong balance sheets are likely to outperform in a deteriorating consumer environment as investors seek higher quality stocks.

### **Global opportunities**

Outside the US, consumer spending has been weaker, but there is potential upside in Europe and Japan as conditions improve, which could in turn improve consumer confidence and consumption. That should support an earnings recovery in non-US consumer discretionary companies for things like travel and leisure and apparel, as well as industries like alcoholic beverages and beauty. This would also be supportive of premium brands as consumers trade up.

In our view, investors should be selective, as many European consumer companies are global with large US footprints. Tariffs add another layer of complexity, and investors need to understand where consumer goods sold in the US are sourced from. Similarly for Japan, the key is understanding how the demographics and acute labor shortages impact consumer behavior alongside ongoing corporate governance and balance sheet rationalisation considerations.

### **Navigating consumer trends for equity market success**

The health of the consumer is a silent, yet powerful, engine driving equity markets. While US consumers remain resilient, regional differences in consumer behavior highlight opportunities and risks for investors. By focusing on leading indicators like wage growth, unemployment trends and disposable income, sophisticated investors can position themselves to capitalise on consumer-driven market dynamics.

1 US Bureau of Economic Analysis via FRED® (68.3%)

2 Bloomberg: US represents 70.5% of MSCI World Index

3 Bureau of Labor Statistics

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## 6 key themes driving bond markets

### Neuberger Berman

The last few months have been eventful to say the least, from tariffs to Middle East conflict to the passage of U.S. budget legislation, but ultimately impacts on fixed income have been fairly muted.

The Trump administration's announcement of the tariff "Liberation Day" on April 2 inaugurated a period of extreme volatility in financial markets trying to assess the potential levels and impacts of proposed U.S. levies on imports. Postponement until July (and then August) of more severe tariffs helped risk assets reverse course, although the dollar continued its sharp decline amid foreign skepticism over U.S. deficit spending. In geopolitics, the sharp escalation—and swift apparent conclusion—of the Iranian conflict created a temporary spike in oil prices but otherwise had little effect on global markets. Meanwhile, the July 4th enactment of the U.S. President's "Big, Beautiful" budget law was greeted with a mixture of relief and worry over fiscal strains, only to be overshadowed within days by new tariff threats, perceived by some as a negotiation tactic.

As is often the case, bond investors had their eye less on the commotion and more on the ultimate drivers of returns—growth and inflation. There, the overall backdrop was relatively benign, with "hard" U.S. growth data coming in better than "soft" sentiment-driven data, and inflation continuing to recede even amid worries about the impact of tariffs on prices. In Europe, inflation is also fading, but growth weakness is being tempered by new spending, particularly in Germany given its new commitment to infrastructure and defense. Japan is in solid condition and China may be on the mend, aided by policy initiatives.

Looking ahead, we see broad potential for rate cuts, particularly in the U.S., where softer near-term growth, encouraging disinflation and more labor market ambiguity could curtail the central bank's wait-and-see stance on tariff impacts. (Current pressure on Fed leadership could conceivably prove a risk, which we are watching closely.) Easing could prove beneficial to short- to intermediate-term bonds, although longer-dated U.S. issues still face questions over deficit spending. While tariff noise may continue, the world appears likely to avoid recession, reinforcing the justification for tight corporate credit spreads. Among sectors, we think high yield bonds offer relative advantage, while emerging markets debt issued in local currencies could prove a bright spot given dollar weakness, moderate inflation and resilient growth.

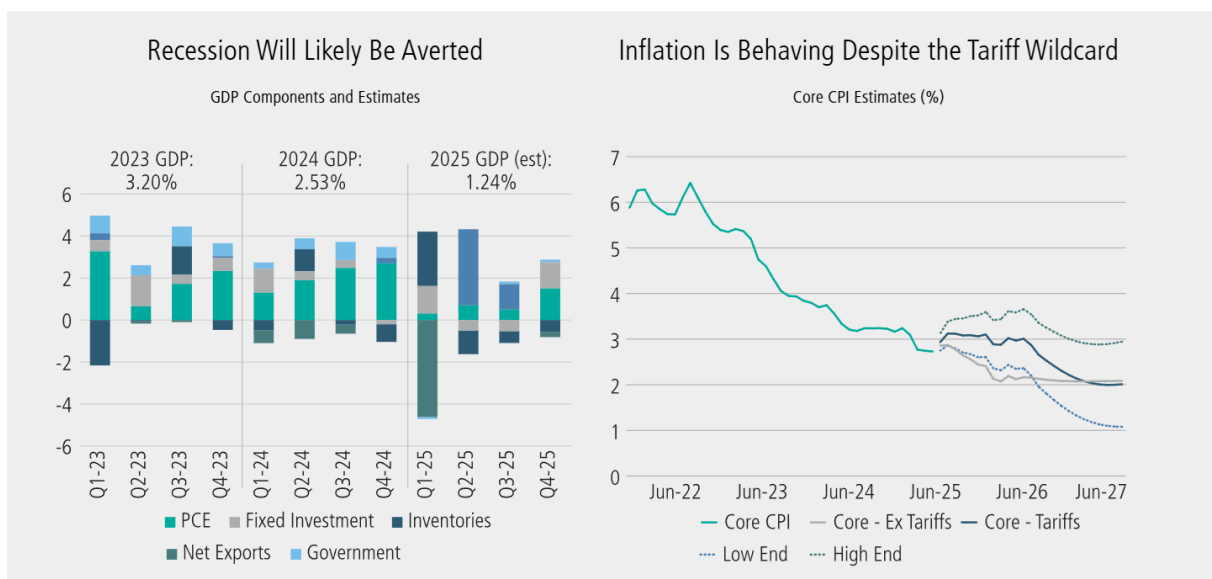
Here are the key investment trends that we see:

#### **U.S. growth and inflation are easing, but questions remain**

Tariffs have been a key stumbling block for corporate managements and investors this year, given the relatively extreme "opening bids" by the Trump administration and the wide range of potential outcomes for tariff levels and impacts, depending on results from negotiations across much of the globe. However, in the midst of this uncertainty, the U.S. economy has remained resilient, in part due to an acceleration of buying to front-run tariff impacts, even as sentiment has remained more negative. In our view, effects on growth are likely to show up more obviously over the next few months in inventories, consumption and investment.

That said, although friction around tariffs appears to ebb and flow (with August serving as the next hard deadline for dealmaking), we believe that uncertainty around trade could ebb toward the end of the year, providing more of a tailwind for growth in the second half of 2025 and into 2026. Supporting a reacceleration could be the ongoing deregulatory efforts of the Trump administration, combined with the passage of the tax and spending law, which took a major U.S. tax hike off the table and provided new incentives for corporate investment.

Inflation has been gradually easing, supported by declining shelter prices, with little impact from tariffs so far. One notable trend for pricing is the concentration of payroll growth in health and education, underscoring the muted condition of the broader labor market. Limits on immigration have helped keep the unemployment rate steady by dampening the overall supply of workers while muddying the broader labor picture. Tariffs could further drive consumer prices, but we believe that, even with worst-case levies, the inflation impact could be muted.



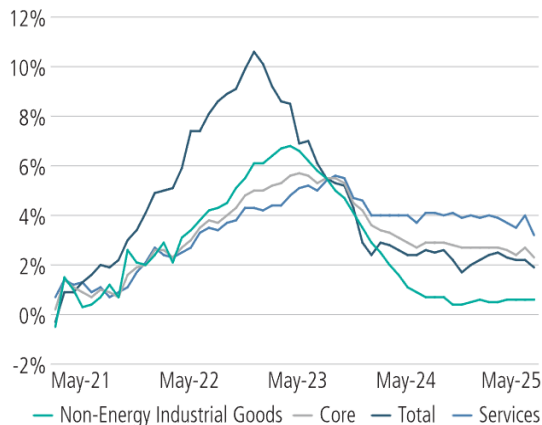
### Even as Europe stabilizes, stagnation remains an issue

Despite still-sluggish growth, a key source of Europe's recent economic optimism is the current fiscal plan by the German government, moving past previous spending limits to help jumpstart infrastructure and defense. That said, the impacts appear to be largely stabilizing rather than inflationary given broader issues with economic weakness. For the bond market, a major issue is the absorption of new Bund supply, estimated at around €15 billion of additional issuance in the third quarter and around €10 billion for the fourth.

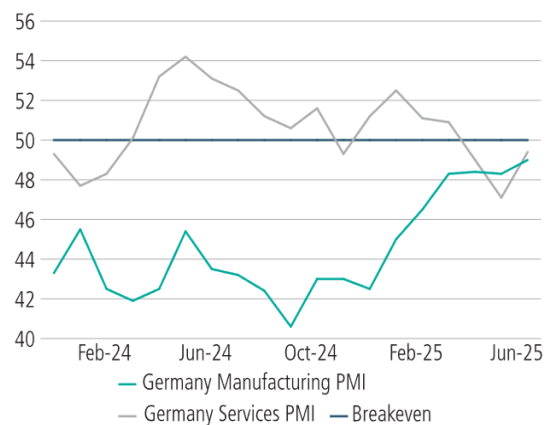
Meanwhile, U.S. tariffs remain an ongoing concern. The Trump administration's "90-day pause" followed by another month-long extension failed to remove uncertainty, which has weighed on capital expenditures and household spending, thereby contributing to persistently subpar growth. A strong tourist season should benefit the south of Europe, but the benefits will largely end by the fall.



### Eurozone Inflation Is Moderating



### German PMIs Are Showing Improvement








Source: EuroStat, Bloomberg, as of June 30, 2025

## The U.S. is poised to join global easing trend

Despite favorable U.S. inflation trends, the “known unknown” of tariff impacts has kept the Fed on hold for the past few months. Given a benign labor picture (and pressure to introduce rate cuts) we believe that U.S. central bankers will become more comfortable with further easing, likely reducing rates by a full percentage point within the next 12 months—and potentially sooner than the market expects. In Europe, German spending plans are helping the overall economic picture, but not enough to discourage further ECB rate cuts, of which two more appear likely this year. Although Britain continues to face inflationary pressure, the Bank of England may maintain its current quarterly rate-cutting pace. Often the outlier, Japan is likely to introduce another two rate hikes through 2026.

### Central Bank Policy Rate Outlook (Developed Markets)

Central Bank	Neuberger Berman Expectations	Neuberger Berman Outlook
<b>Fed</b> 	<ul style="list-style-type: none"> <li>• 2025: 2 Cuts</li> <li>• 2026: 2 Cuts</li> <li>• 2027: 0 Cuts</li> <li>• NR<sup>1</sup>: 3.50%</li> </ul>	<ul style="list-style-type: none"> <li>• The Fed remains firmly in an easing cycle, although uncertainty around tariff-driven inflation is keeping further rate cuts on hold for now.</li> <li>• That said, we think the Fed will soon resume rate adjustments, delivering four cuts from late 2025 to early 2026, with the neutral rate settling at around 3.25 – 3.75%. The timing of reaching that neutral rate remains uncertain due to the tariff issue.</li> </ul>
<b>ECB</b> 	<ul style="list-style-type: none"> <li>• 2025: 2 Cuts</li> <li>• 2026: 0 Cuts</li> <li>• 2027: 1 Hike</li> <li>• NR<sup>1</sup>: 2.00%</li> </ul>	<ul style="list-style-type: none"> <li>• The new German public plan has only slightly improved currently anemic European growth potential. Increased imports from Asia due to the trade war and core inflation close to the 2% target should lead the ECB to tiptoe toward a more accommodative monetary policy.</li> <li>• We expect the ECB to cut its key rate two more times this year to 1.5%, or below its 2% neutral rate.</li> </ul>
<b>BoE</b> 	<ul style="list-style-type: none"> <li>• 2025: 2 Cuts</li> <li>• 2026: 2 Cuts</li> <li>• 2027: 0 Cuts</li> <li>• NR<sup>1</sup>: 3.25%</li> </ul>	<ul style="list-style-type: none"> <li>• BoE commentary has pointed to more willingness to ease—even with persistent inflation pressures—given slow economic growth. Concerns about stagflation due to fiscal policies are an ongoing risk to this outlook.</li> <li>• We now expect easing to continue at a quarterly pace into 2026, with the policy rate landing at around 3 – 3.5%.</li> </ul>
<b>BoJ</b> 	<ul style="list-style-type: none"> <li>• 2025: 1 Hike</li> <li>• 2026: 1 Hike</li> <li>• 2027: 0 Hikes</li> <li>• NR<sup>1</sup>: 1.00%</li> </ul>	<ul style="list-style-type: none"> <li>• The BoJ raised rates by 25bps in January, in line with its stated goal of gradually moving policy to a neutral level.</li> <li>• Due to uncertainty around U.S. tariff negotiations, we expect the BoJ to raise rates only once more in 2025 (in Q4) and once in 2026 to reach a neutral rate of around 1%.</li> </ul>
<b>RBA</b> 	<ul style="list-style-type: none"> <li>• 2025: 3 Cuts</li> <li>• 2026: 1 Cut</li> <li>• 2027: 0 Cuts</li> <li>• NR<sup>1</sup>: 3.00%</li> </ul>	<ul style="list-style-type: none"> <li>• The RBA is now on hold. Uncertainty around the timing of impacts from U.S. tariffs should maintain its current caution. However, we think the RBA could deliver three more cuts this year and ultimately place its policy rate at around its 2.75% – 3% estimate of the neutral rate.</li> </ul>

<sup>1</sup> NR = Neutral Rate

Source: Bloomberg, Neuberger Berman. As of July 7, 2025. Our expectations for 2025 reflect the remaining number of expected rate cuts/hikes in 2025.

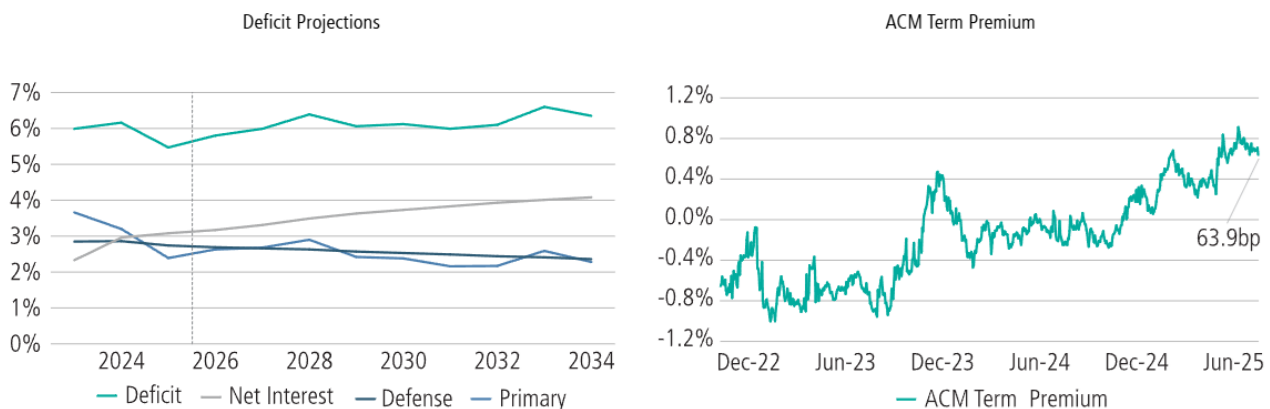
## Term premium and foreign sentiment remain key variables for U.S. fixed income

The passage of the U.S. tax and spending package reduced domestic economic uncertainty but reinforced the growing concern among global investors about the size of the U.S. budget deficit, which has helped drive up the term premium for U.S. bonds even as shorter bonds seem likely to benefit from the Fed's rate reductions.

Complicating matters is the role of non-U.S. investors in absorbing the debt needed to fund the deficit. Increased skepticism about the U.S. fiscal environment, coupled with a weakened dollar, has softened the appetite for U.S. securities, while decreasing U.S. trade deficits suggest that the Treasury could be forced to become more reliant on domestic sources. Overall, we do not anticipate any abandonment of U.S. assets, but see a reduced proportion of foreign investors (still the largest buyers of U.S. Treasuries) absorbing the new supply, while some may potentially limit their dollar exposure through hedging.

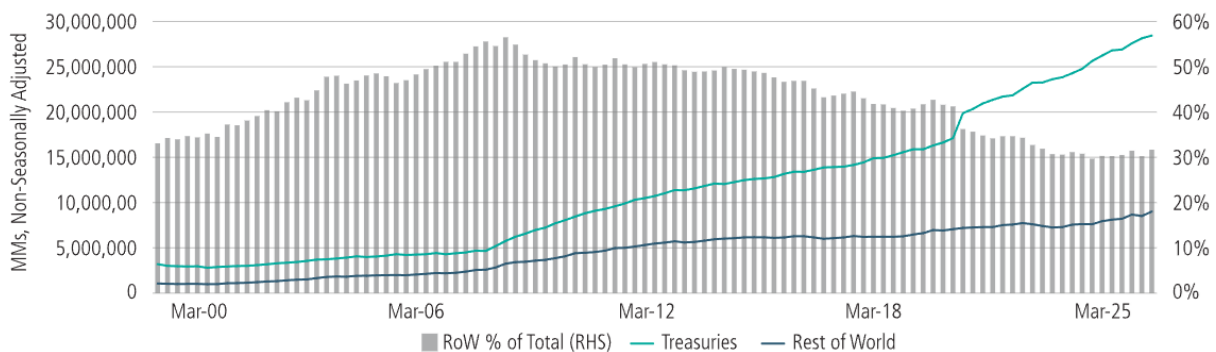
From an investment perspective, we see opportunity in the shorter end of the Treasury yield curve given likely moves by the Fed over the coming year, but we remain cautious on the long end due to debt sustainability and demand issues. While scope for additional European rate cuts remains in place, the opportunity may be more limited given the progress that has already occurred.

### Fiscal Worries Drive Up Perceived Term Premium



Source: U.S. Treasury, CBO, Bloomberg, as of July 1, 2025;

### As Issuance Has Increased, Foreign Owners Haven't Kept Pace

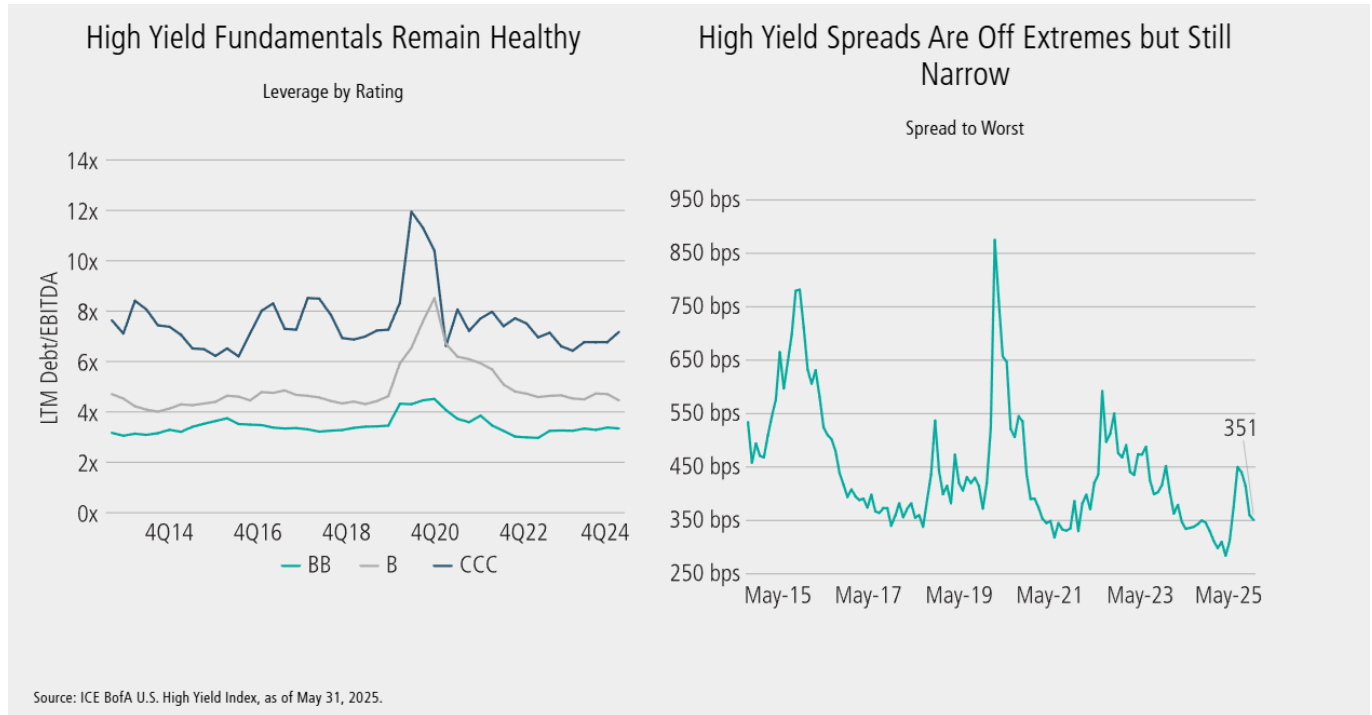


Source: Federal Reserve, as of 1Q25.



## Credit selection remains key

Credit spreads remain historically tight, limiting obvious opportunities in the market and lending support to a focus on carry and individual sector and credit selection. In this environment, we believe that high yield provides relative potential given sustained fundamental strength as reflected in moderate debt and default levels. And although much of the spread advantage generated after April's tariff-related volatility has dissipated, we view relative and absolute yield levels as attractive.

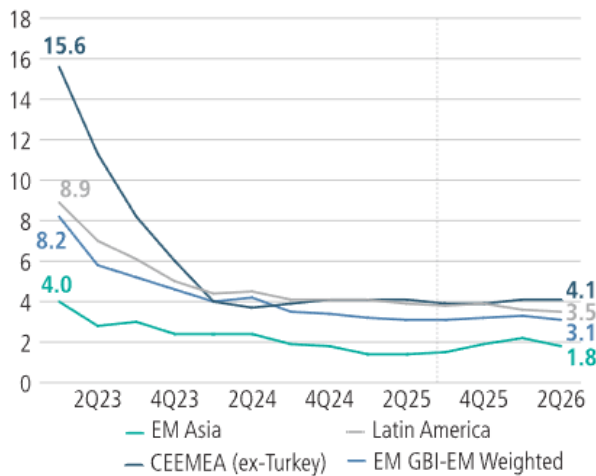


## Local emerging market debt stands out

Despite the potential for market turbulence around the U.S. trade picture, we believe the risks for emerging market assets are mitigated by a continued healthy growth pick-up over developed markets. Subdued inflation, growth pressures from trade war escalation and expected rate cuts by the Fed should provide room for most emerging market central banks to maintain a bias toward easing monetary policy. Combined with emerging market real yields that are near decade highs, this should provide an attractive backdrop for local bonds.

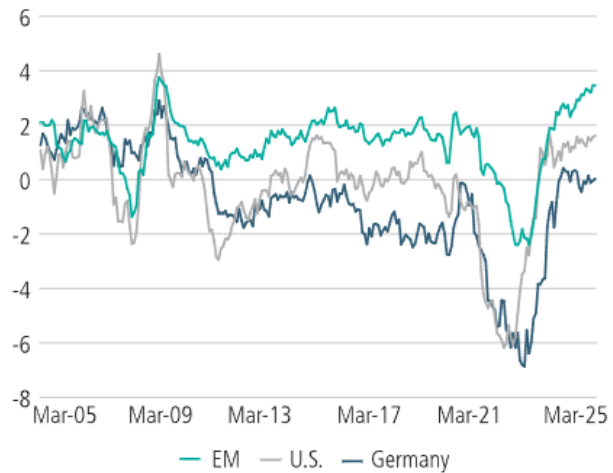
## Emerging Market Inflation Remains Benign

Headline Inflation (YoY%)



## Local Currency Real Yields Offer a Meaningful Premium

EM Real Yield vs. U.S. and Europe



Source: (left) Bloomberg, EMD team forecasts from 1Q25, as of April 30, 2025. EM aggregate includes China, India, South Korea, Taiwan, Singapore, Indonesia, Malaysia, Philippines, Thailand, Czech Republic, Hungary, Poland, Romania, South Africa, Turkey, Brazil, Mexico, Colombia, Chile and Peru. Regional aggregates are equally weighted averages of corresponding countries. (Right) Bloomberg, JPMorgan, as of May 30, 2025. EM real yields based on the current GBI-EM Global country universe, excluding Dominican Republic, Serbia, Turkey and Uruguay; based on GBI-EM yields minus historical CPI for each country, and their current normalized GBI-EM GD Index weight fixed through time.

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