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Editorial

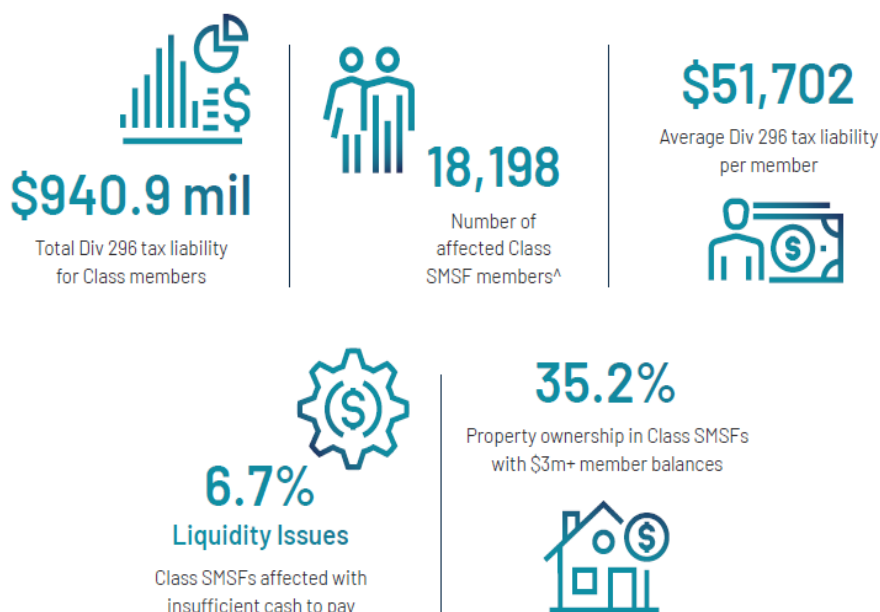
A new report on SMSFs indicates the Division 296 tax will have far greater tax implications than expected.

When the tax was first announced in 2023, Treasury predicted that the tax would generate \$2.3 billion in its first year.

However, SMSF administration software provider Class' [2025 Annual Benchmark Report](#) suggests that this may be a lowball figure.

The report finds that if Division 296 had been enacted in the 2024 financial year, Class members would have received a total tax bill of \$941 million. About 18,200 Class members would have been impacted, with an average tax liability of \$51,702.

Division 296 tax modelling at 30 June 2024*



*Division 296 tax modelling is based on Class tax return data – latest available information is FY24

[^]Total affected members subject to Division 296 is 19,510. After reducing for negative returns affected members is 18,198 or 93.3% of members with balance >\$3m at 30 June 2024.

Given Class administers about 35% of SMSF assets, extrapolating those figures indicates that SMSFs alone would have had a tax burden of \$2.7 billion. That's \$400,000 more than Treasury's estimate from the entire super sector.

And, if you assume SMSF values grew by 10% in the 2025 financial year, the tax raised from SMSFs alone would rise to \$3 billion.

Some SMSFs don't have the liquidity to pay the tax

The report estimates that 6.7% of affected Class SMSFs have insufficient liquid assets to pay the Div 296 tax.

That's because more than one in three SMSFs hold direct property, making the tax particularly problematic given the illiquid nature of these assets.

A lot of the SMSF holdings in property are in commercial real estate rather than residential real estate. The former accounts for 12% of total SMSF assets, while the latter is just 5%.

The report says the potential liquidity issues are worrying given that without indexation of the \$3 million cap, more SMSFs are likely to be captured over time and liabilities will rise.

SMSFs continuing to thrive

If the intent of Division 296 was to drive people out of SMSFs, it clearly isn't working.

The report indicates the number of SMSFs grew at their fastest pace in eight years in the year to June 30. The total balance in SMSFs rose to \$1.05 trillion and the average member size of an SMSF increased to \$1.9 million.

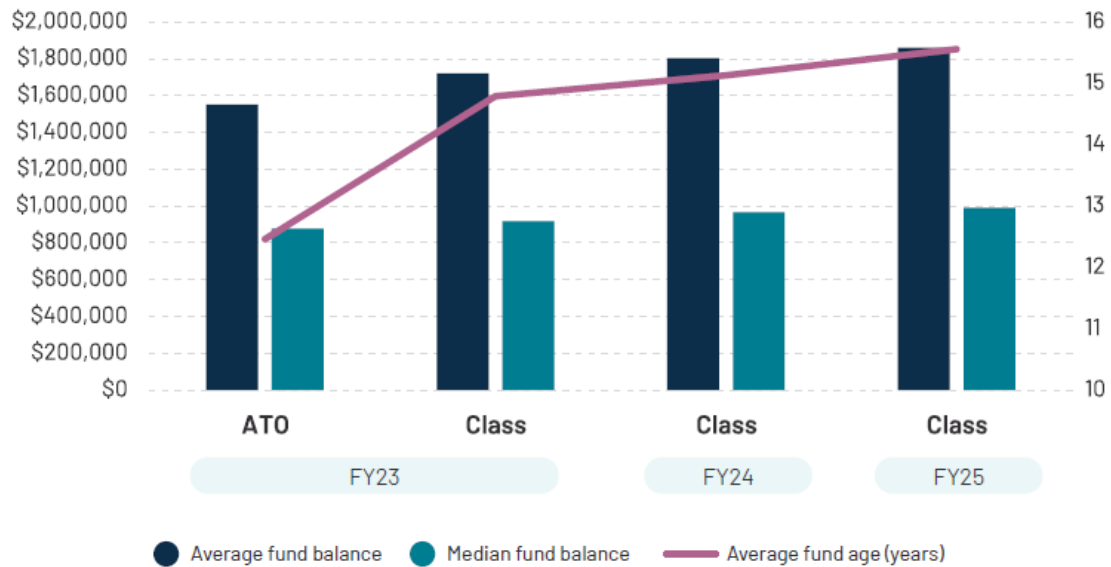
Key statistics for the superannuation industry as at 30 June 2025

(Source: APRA Quarterly Superannuation Statistics)

	Jun-24	Jun-25	Change
	(\$ billion)	(\$ billion)	
Total superannuation assets	\$3,943.0	\$4,330.1	9.8%
Total APRA-regulated assets	\$2,721.4	\$3,039.5	11.7%
Other	\$224.6	\$238.8	6.3%
Total self-managed super fund assets	\$997.0	\$1,051.8	5.5%
No. of SMSFs	614,613	653,062	6.3%

Average age and balance distribution of Class SMSFs

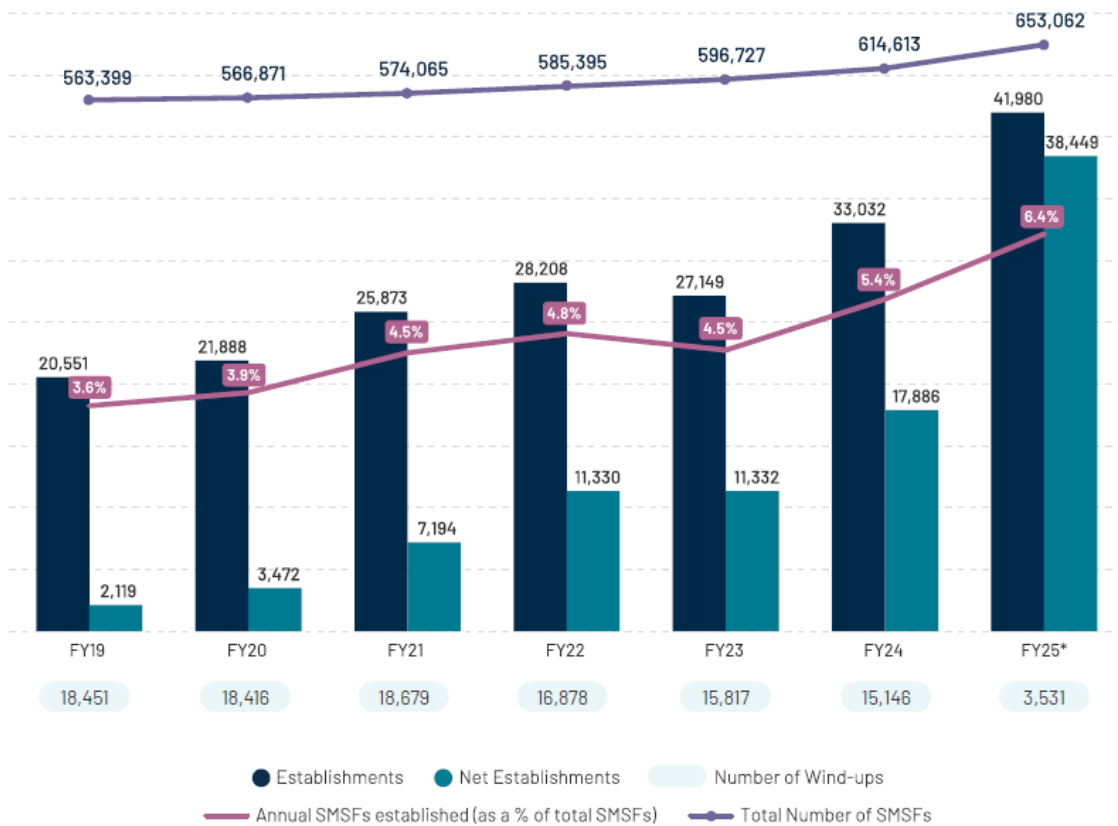
(compared with ATO)



About 42,000 SMSFs were established last financial year, up from 33,000 the year prior. Net new establishments were 17,886 in FY24, an increase of 5.4% on the year before.

Number of SMSFs established

(Source: ATO SMSF Quarterly Statistical Report)



*In FY25, the net establishment figure is significantly inflated because many funds wound up by 30 June 2025 have not yet lodged their final return with the ATO.

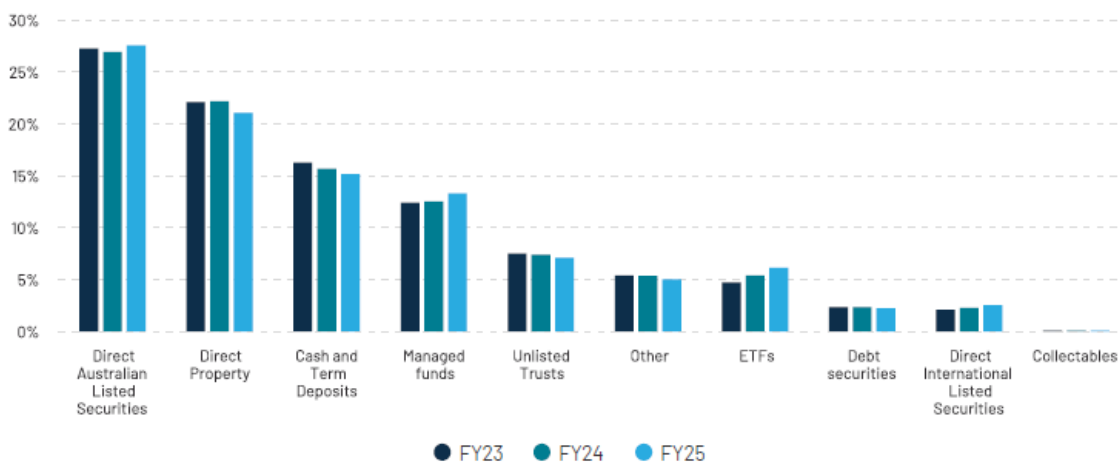
The growth in new SMSFs principally came from people aged 45 to 59 (49%), followed by those aged 30 to 44 (37%).

Popular shares, managed funds and LICs in SMSFs

Some of the more intriguing data from the report comes from the asset allocation of SMSFs.

Listed Australian shares remain the most popular asset, accounting for around 27% of SMSF assets, following by direct property at 21%.

Class SMSF asset allocation by percentage



Direct property saw a slight decrease in the year to June, likely because of people preparing for the Division 296 tax.

Cash and term deposits saw a second year of declining exposure from SMSFs.

Managed funds picked up some of that money, as did ETFs.

Meanwhile, direct international-listed stocks remain a small percentage of assets in SMSFs. Even if some of that exposure is through ETFs, it remains a tiny proportion.

Of equity exposure, BHP is the most popular stock, with 49% of SMSFs holding it, followed by Woodside at 42% and Westpac at 37%.

In terms of the weights of individual stocks in domestic equities allocations, SMSFs are generally underweight most of the leading stocks. For instance, they have an 8% exposure to CBA, compared to the 10.6% weighting of the stock in the ASX 200 index. From this, it seems that SMSFs have greater exposure to ASX stocks outside of the top 20.

Rank	Security code	Description	% of Funds with Domestic Shares that hold this Security	% of total SMSF Domestic Share investments
1	BHP	BHP Group Limited	49.0%	3.9%
2	WDS	Woodside Energy Group LTD	41.8%	1.6%
3	WBC	Westpac Banking Corporation	36.7%	4.0%
4	NAB	National Australia Bank Limited	36.2%	4.1%
5	ANZ	Australia And New Zealand Banking Group Limited	36.1%	3.0%
6	TLS	Telstra Corporation Limited.	35.7%	2.2%
7	CBA	Commonwealth Bank Of Australia.	34.3%	8.0%
8	CSL	CSL Limited	33.2%	3.0%
9	WES	Wesfarmers Limited	30.7%	3.3%
10	MQG	Macquarie Group Limited	29.4%	3.1%
11	WOW	Woolworths Group Limited	25.0%	1.1%
12	RIO	Rio Tinto Limited	21.2%	1.3%
13	COL	Coles Group Ltd	19.0%	0.8%
14	TCL	Transurban Group - Ordinary Shares/Units Fully Paid Triple Stapled	17.6%	1.0%
15	RMD	Resmed Inc - Cdi 10:1 Foreign Exempt Nyse	17.2%	0.9%
16	SHL	Sonic Healthcare Limited	14.6%	0.6%
17	STO	Santos Limited	14.2%	0.6%
18	S32	South32 Limited	13.5%	0.3%
19	EDV	Endeavour Group Ltd	13.5%	0.2%
20	GMG	Goodman Group - Fully Paid Ordinary/Units Stapled Securities	12.2%	0.7%
Total (Percentage that the top 20 make up of total SMSF investments in Direct Domestic Shares)				43.5%

Of direct international share holdings, technology stocks account for 77% of the top 20 international shares by market value. Microsoft is the most popular international share followed by Alphabet. From the data, it appears SMSFs like international tech exposure, albeit it remains small versus their domestic stock holdings.

Rank	Security code	Exchange	Description	% of funds with international shares that hold this security	% of total SMSF international share investments
1	MSFT	NASDAQ	Microsoft Corp	30.0%	6.3%
2	GOOG(L)	NASDAQ	Alphabet Inc - Class C (A) Shares combined	26.1%	5.2%
3	AMZN	NASDAQ	Amazon.com Inc	23.5%	4.0%
4	AAPL	NASDAQ	Apple Inc	18.8%	5.6%
5	NVDA	NASDAQ	NVIDIA Corporation	13.1%	4.6%
6	V	NYSE	Visa Inc	10.8%	1.8%
7	TSLA	NASDAQ	Tesla Inc	10.4%	3.5%
8	BRK.A/B	NYSE	Berkshire Hathaway Inc. Classes A & B combined	9.1%	3.2%
9	JPM	NYSE	JPMorgan Chase & Co	8.7%	1.1%
10	META	NASDAQ	META (Formerly known as Facebook)	8.6%	1.3%
11	ASML	NASDAQ	ASML Holding NV	8.4%	0.6%
12	TSM	NYSE	Taiwan Semiconductor Mfg. Co. Ltd.	7.0%	0.8%
13	MA	NYSE	MasterCard Inc	5.6%	0.9%
14	MC	NYSE	Moelis & Co	5.4%	0.3%
15	BAC	NYSE	Bank of America Corp	5.1%	0.5%
16	COST	NASDAQ	Costco Wholesale Corporation	5.0%	0.5%
17	DIS	NYSE	Walt Disney Company	4.9%	0.6%
18	LLY	NYSE	Eli Lilly And Co	4.8%	0.5%
19	AVGO	NASDAQ	Broadcom Inc	4.6%	0.2%
20	JNJ	NYSE	Johnson & Johnson	4.5%	0.3%
Total (Percentage that the top 20 make up of total SMSF investments in direct international shares)					41.8%

Of managed funds, income funds such as Janus Henderson's Tactical Income Fund and the Bentham Global Income Fund remain popular. SMSFs also seem to be looking for more exposure to private assets, through vehicles such as the Partners Group Global Value strategy.

Rank	Security code	Description	% of funds with managed funds that hold this security	% of total SMSF managed fund investments
1	IOF0145AU	Janus Henderson Tactical Income Fund	8.0%	0.9%
2	ETL0276AU	Partners Group Global Value Wholesale	7.6%	1.1%
3	ETL0018AU	PIMCO Global Bond Fund - Wholesale Class	7.4%	0.8%
4	CSA0038AU	Bentham Global Income Fund	7.0%	0.6%
5	PLA0002AU	Platinum International Fund	6.3%	0.9%
6	VAN0003AU	Vanguard W'sale International Shares Index Fund	5.5%	1.5%
7	VAN0002AU	Vanguard Australian Shares Index Fund	5.0%	1.4%
8	EV02608AU	Metrics Direct Income Fund	4.9%	0.6%
9	MGE0001AU	Magellan Global Fund	4.7%	0.7%
10	LAZ0014AU	Lazard Global Listed Infrastructure Active ETF	4.7%	0.4%
11	VAN0105AU	Vanguard International Shares Index Fund (Hedged)	4.6%	1.1%
12	AUS0112AU	Aus Unity Healthcare Property Wholesale	4.5%	0.5%
13	MAQ0277AU	Macquarie Income Opportunities Fund	4.5%	0.4%
14	FID0008AU	Fidelity Australian Equities Fund	4.5%	0.6%
15	ETL7377AU	GQG Partners Global Equity Fund - A Class	4.4%	0.4%
16	LTC0002AU	La Trobe Australian Credit Fund - 12 Month Term Account	4.4%	0.8%
17	VAN0004AU	Vanguard Australian Property Securities Index Fund	4.3%	0.4%
18	WHT0015AU	Resolution Capital Global Property Securities Fund (Managed Fund)	4.1%	0.3%
19	ETL0071AU	T. Rowe Price Global Equity Fund	4.1%	0.6%
20	OMF3725AU	Realm Short Term Income Fund - Ordinary Units	4.0%	0.4%
Total (Percentage that the top 20 make up of total SMSF investments in managed funds)				14.17%

When it comes to ETFs, Vanguard, iShares, and VanEck occupy the top five holdings for domestic and international ETFs.

Rank	Security code	Description	International / domestic	% of funds with ETFs that hold this security	% of total SMSF ETF investments
1	VAS	Vanguard Australian Shares Index ETF - Exchange Traded Fund Units Fully Paid	D	13.5%	6.3%
2	QUAL	VanEck Vectors MSCI World ex Australia Quality ETF - Exchange Traded Fund Units Fully Paid	I	12.8%	3.3%
3	IVV	Ishares S&P 500 ETF - Exchange Traded Fund Units Fully Paid	I	12.8%	5.0%
4	VGS	Vanguard MSCI Index International Shares ETF - Exchange Traded Fund Units Fully Paid	I	10.8%	4.0%
5	VAP	Vanguard Australian Property Securities Index ETF - Exchange Traded Fund Units Fully Paid	D	10.6%	1.9%
6	VEU	Vanguard All-World Ex-Us Shares Index ETF - Chess Depository Interests 1:1	I	10.1%	2.0%
7	NDQ	Betashares Nasdaq 100 ETF - Exchange Traded Fund Units Fully Paid	I	8.8%	2.2%
8	IOO	Ishares Global 100 ETF - Exchange Traded Fund Units Fully Paid	I	8.3%	2.9%
9	VHY	Vanguard Australian Shares High Yield ETF - Exchange Traded Fund Units Fully Paid	D	8.1%	2.4%
10	VTS	Vanguard Us Total Market Shares Index ETF - Chess Depository Interests 1:1	I	7.9%	2.6%
11	A200	BetaShares Australia 200 ETF	D	7.7%	2.1%
12	MGOC	Magellan Global Fund (Open Class)	I	7.3%	1.9%
13	VGAD	Vanguard MSCI Index International Shares (Hedged)	I	7.0%	2.4%
14	MVW	VanEck Vectors Australian Equal Weight ETF - Exchange Traded Fund Units Fully Paid	D	6.8%	1.7%
15	HBRD	Betashares Active Australian Hybrids Fund (Managed Funds)	D	6.4%	1.7%
16	STW	SPDR S&P/ASX 200 Fund - Exchange Traded Fund Units Fully Paid	D	6.4%	2.7%
17	AAA	Betashares Australian High Interest Cash ETF - Exchange Traded Fund Units Fully Paid	D	6.3%	1.3%
18	IAF	iShares Core Composite Bond ETF	D	5.8%	1.0%
19	IOZ	iShares CORE S&P/ASX 200 ETF	D	5.8%	1.9%
20	QPON	Betashares Australian Bank Senior Floating Rate Bond ETF	D	5.6%	1.3%

Total (Percentage that the top 20 make up of total SMSF investments in exchange-traded funds)

50.8%

Finally, of listed investment companies, AFIC, ARGO and Wilson Asset Management are most popular with SMSFs.

Rank	Security code	Description	% of funds with LIC/LITs that hold this security	% of total SMSF LIC/LIT investments
1	AFI	Australian Foundation Investment Company Limited (AFIC)	19.0%	11.9%
2	MXT	MCP Master Income Trust	16.2%	6.2%
3	ARG	Argo Investments Limited	15.1%	9.8%
4	WAM	WAM Capital	10.7%	3.9%
5	WLE	WAM Leaders Limited	9.3%	4.3%
6	LSF	L1 Long Short Fund	9.2%	4.1%
7	MFF	MFF Capital Investments Limited	7.0%	6.1%
8	WGB	WAM Global Limited	6.2%	2.4%
9	PGF	PM Capital Global Opportunities Fund Limited	6.0%	3.6%
10	PL8	Plato Income Maximiser Limited	6.0%	3.6%
11	MOT	MCP Income Opportunities Trust	5.4%	1.9%
12	GCI	Gryphon Capital Income Trust	5.4%	2.0%
13	KKC	KKR Credit Income Fund	5.1%	1.6%
14	DJW	Djerriwarrh Investments Limited	4.5%	1.9%
15	QRI	Qualitas Real Estate Income Fund	4.4%	1.6%
16	BKI	BKI Investment Company Limited	4.2%	2.6%
17	PIC	Perpetual Investment Company	4.0%	1.6%
18	PCI	Perpetual Credit Income Trust	4.0%	1.3%
19	WQG	WCM Global Growth Limited	3.9%	1.8%
20	ALI	Argo Global Listed Infrastructure Limited	3.5%	1.2%
Total (Percentage that the top 20 make up of total SMSF investments in LIC/LITs)				73.4%

James Gruber

Also in this week's edition...

On every valuation metric, the US appears significantly more pricey than Australia. However, **Ashley Owen** notes that American companies are also much more profitable than ours, which means the ASX may be [more overvalued than most think](#). As usual, Ashley provides plenty of charts and detail to illustrate his case.

Outside of the pandemic, government spending as a proportion of GDP is at multi-decade highs. What is Labor doing about it? It doesn't seem a whole lot. **Julian Pearce** and **Ross Guest** argue governments of all persuasions need to be [held accountable on public spending](#) and an empowered budget office may be one way to do it.

Dan Haylett believes that [traditional retirement is an outdated concept](#) rooted in the industrial era and no longer suits a modern, knowledge-based society where people can and should continue working in ways that bring purpose and freedom. He suggests 'retirement' should be redefined as a later-life phase of reflection, with earlier years focused on exploration, contribution, and leveraging accumulated wisdom.

Markets have rewarded the AI front-runners, but the risks of rising capital intensity and fierce competition are mounting, according to **Orbis' Eric Marais**. He says the more compelling investment opportunity may be in the overlooked [manufacturers quietly enabling the AI revolution](#).

With major changes to aged care rules coming on November 1 2025, it's more important than ever to plan ahead — both financially and emotionally. **UniSuper's Brooke Logan** says early planning can ease the transition, minimise costs, and help secure the [right care at the right time](#).

Vanguard founder John Bogle is one of our favourite investment thinkers and writers. It's apt that **Vanguard** has penned a piece on [five of his most famous quotes](#) and how they may be more applicable now than ever.

ESG investing has fallen out of favour with many investors, and Trump's anti-green policies haven't helped. Yet, renewables investment is still surging, and **Magellan** thinks that could prove a [boon for infrastructure companies](#).

Lastly, in this week's whitepaper, **Vanguard** explores how Australians are [preparing for and experiencing retirement](#).

Curated by James Gruber and Leisa Bell

Why the ASX may be more expensive than the US market

Ashley Owen

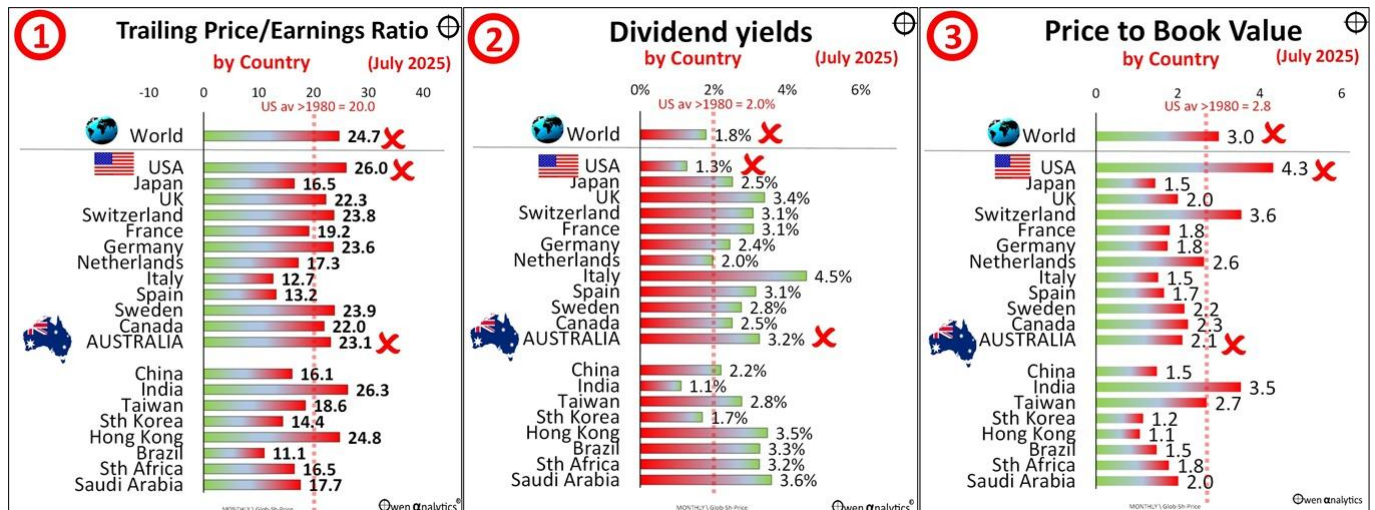
This article is Part 4 in my 6-part series on world share market pricing:

- [Part 1: Share market Pricing per country – How does your country rate?](#)
- [Part 2: P/E ratios, Dividend Yields, Price-to-Book value](#)
- [Part 3: Forward P/E ratios and Earnings growth assumptions](#)
- [Part 4: Profit Margins and Returns on Equity](#) (today's article)
- [Part 5: Growth rates for Profits and Dividends](#)
- [Part 6: What's a fair price for growth? – 'PEG' ratios and Buffett/Graham's '8.5 rule'](#)

This series is designed to be read in sequential order, so readers may get more out of this article if they have already read the prior articles via the links above.

Also take a look at my explanation in Part 2 of why I do this stuff, and why it is important for long-term investors like me to understand pricing and how it affects subsequent returns and wealth.

Before going to today's charts, first let's re-cap on why we are talking about share market pricing in the first place. Here are charts 1, 2, and 3 from the '[Part 2](#)' article in this series, highlighting the apparent expensive pricing of most world share markets on three key measures – trailing price/earnings, dividend yields, and price-to-book values:

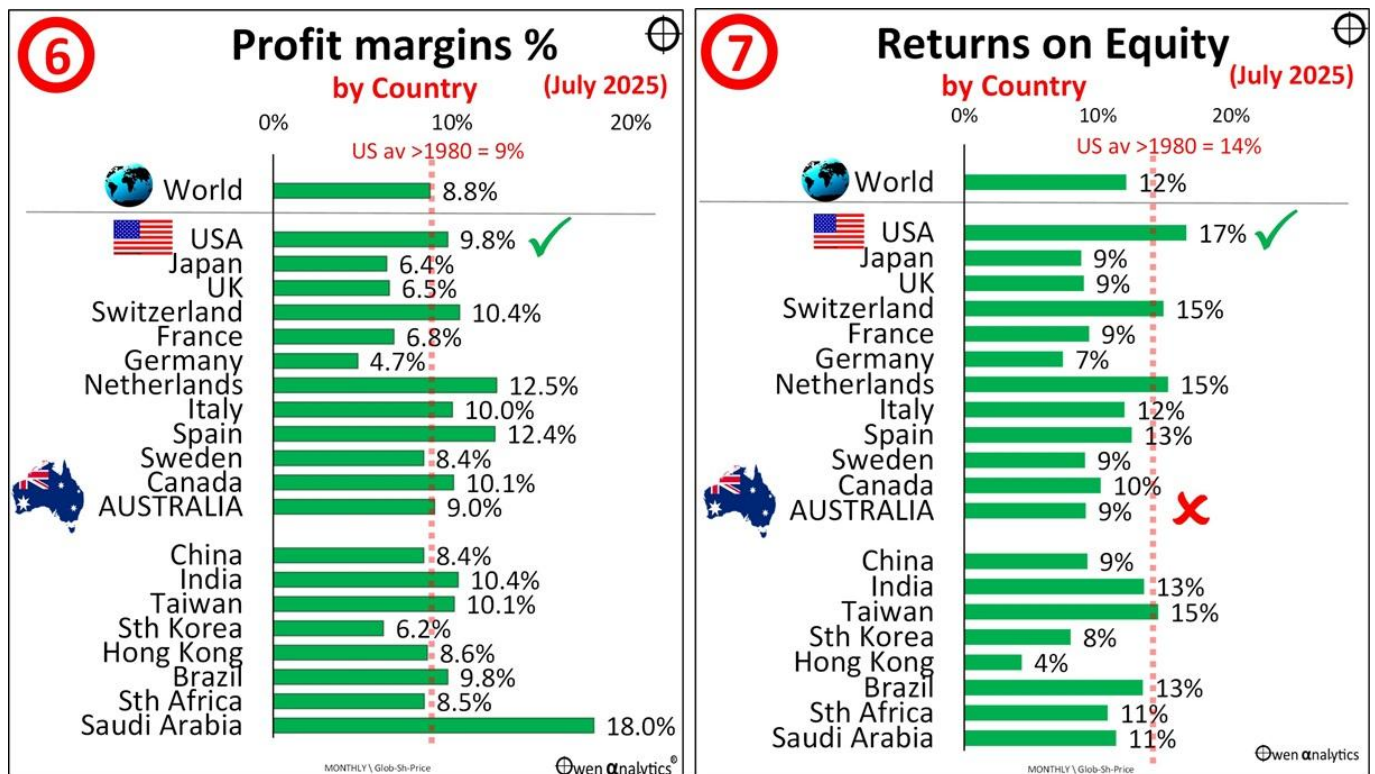


Then in [Part 3](#), we looked at two further aspects of pricing - 'Forward' price/earnings ratios, and forward earnings growth assumptions.

There we saw that, although the US market appeared to be the most expensive market on the first three metrics (trailing P/E, dividend yields and price-to-book values), when we look at forward P/Es and earnings growth outlooks, the US market starts to look a lot less stretched than several other markets.

Charts 6 and 7 – Profit Margins and Returns on Equity

Today's charts show two further important aspects I consider when assessing share market pricing - Profit Margins and Returns on Equity. The charts show the same 20 largest share markets in the world covered in the other articles in this series. (All data is to end of July 2025 for consistency):



These are two important measures of corporate profitability.

Profit margins

A company's profit margin is a function of many variables, but of most interest to investors is its competitive positioning and pricing power. Investors want to find companies with strong pricing power, and are 'price-makers', not 'price-takers'. Pricing power can come from a number of sources, including:

- Differentiated, value-adding products where customers are willing to pay premium prices well above cost
- Few or preferably no competitors (monopoly or oligopoly cartel), or patent protection
- Many suppliers, where the company can force suppliers to cut prices and/or supply at a loss
- Few or no regulations limiting its pricing power

Monopolies and 'wide moats'

A company with strong pricing power is said to have a 'wide moat'. Companies with relatively high pricing power and margins tend to be in a better position to cope with adverse developments from competition, suppliers, interest rates, taxes, etc, and they can invest more in new products and/or acquisitions to grow and/or retain their dominant position.

This is how legendary fund manager Peter Lynch described Warren Buffett's strategy of trying to find companies with monopolies or dominant positions in their niche markets:

"Once you've got an exclusive franchise in anything you can raise prices ... Always look for niches"
(Peter Lynch, 'One Upon Wall Street', 1989, 2000 edition, page 141).

Country differences

Much of the difference in profit margins per country is due to differences in their industry mix.

For example, the Australian share market is dominated by two low-margin sectors (banks and miners) where companies are selling un-differentiated, 'commodity' products, with no value-add, no 'brand' value, and no pricing power. They are price-takers, not price-makers.

One truck-load of iron ore is indistinguishable from the next, with pricing based purely in its iron content. One bank term deposit or home loan is indistinguishable from the next, with pricing based purely on the term and features that are offered by all competitors. Customers shop around primarily on price and have little or no brand loyalty. The UK share market has a similar industry mix.

In contrast, the US market is the home of a host of global giants that dominate their respective niches, with highly differentiated products, virtually no strong competitors, enormous consumer brand power and pricing power.

They are 'price-makers', not 'price-takers'. They have long been virtual monopolies in their respective markets, having gobbled up and/or destroyed budding competitors with predatory pricing and/or anti-competitive acquisitions.

Chart 6 shows that overall average profit margins from the US share market are currently running at a little above their long-term average since 1980. Average profit margins vary over time of course (for example through economic cycles, tax changes, etc), and we explore this further with returns on equity below.

Returns on equity

This is the ultimate measure of corporate profitability – how many dollars of profit does a company, sector, or entire country index of companies generate per dollar of equity capital invested. Investors buy shares in companies primarily because they believe the share price will rise, but why should we believe it will rise?

In the short term, share prices of every company in every country jump around literally every second of every minute of every trading day in response to all sorts of unrelated and irrelevant ‘news’ often on the other side of the planet. This constant noise and volatility may be of interest to day traders, but long-term investors ignore this and instead focus on the profit-generating ability of the company or sector or market they are assessing.

‘Return on Equity’ must exceed the ‘Cost of Equity’

Every company needs to be able generate a higher return on its long-term equity capital than the cost of long-term equity capital (called ‘ordinary’ equity in Australia, and ‘common’ equity in the US).

What is the cost of long-term equity for a company? It is the rate of return required to compensate an investor for investing in the business instead of a risk-free (or lower risk) long-term asset.

For example, today I can get a certain return of 4.3% pa for the next 10 years, with the interest payments every six months, plus the principal payment in 10 years’ time guaranteed by the Australian government (the current yield to maturity on a 10-year Commonwealth Government bond). I would be (almost) 100% confident that, whatever government is in power on 22nd August 2035, and whatever political and economic conditions are like, I would receive my interest payments every six months, and my principal repaid in full on a particular day in ten years’ time.

Knowing I could get ‘guaranteed’ risk-free 4.3% pa for ten years, in order to get me to instead buy shares in a company (or Australian share market ETF), I would require a much higher return than the risk-free 4.3%. For a diversified group of companies in a broad share market ETF, I would want a return something in the order of say 10%. Therefore, the ‘equity risk premium’ I would require from the broad share market would be the difference: around 5% to 6% pa.

My ‘cost of equity’ becomes the ‘discount rate’ I would apply to expected future cash flows to calculate a ‘fair’ present value of those cashflows, and it is also my ‘required return’ from the asset.

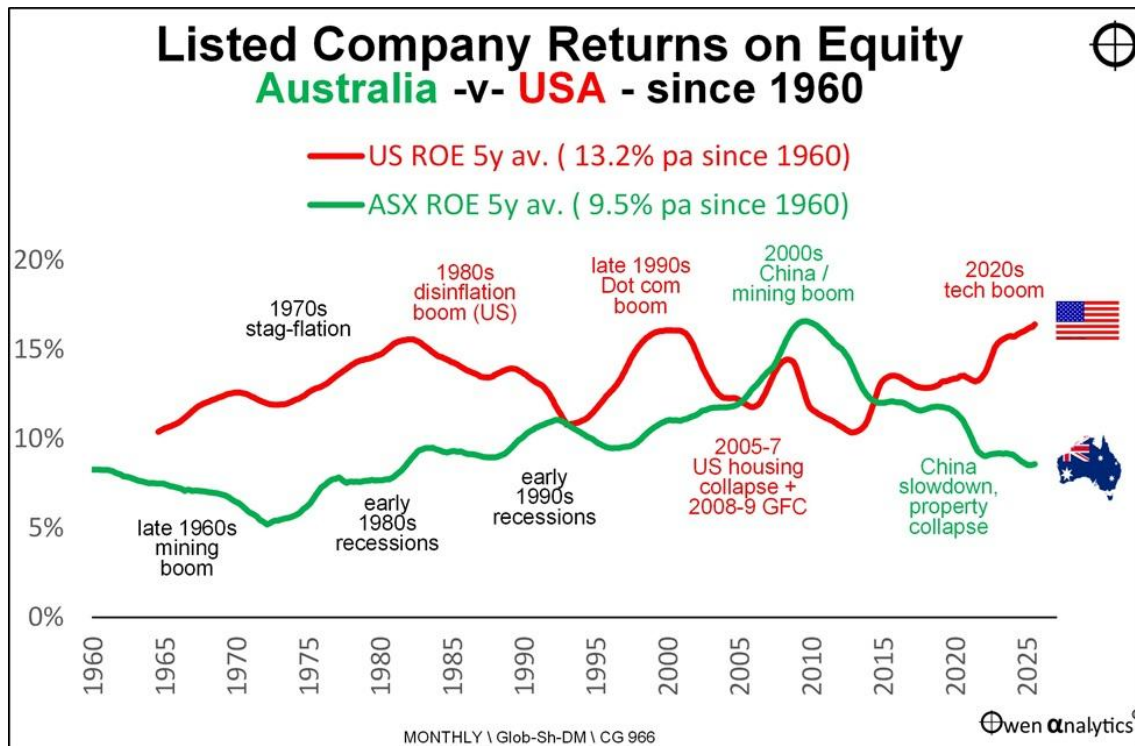
The cost of equity (and discount rates, and required returns) vary in each country, and also vary in different eras (eg high inflation, low inflation, etc). However, for the current purpose today, I will assume the cost of equity capital for domestic investors in the broad share markets of major countries is around 10% pa.

Current ROEs

Chart 7 shows that the average return on equity across the US share market is not only higher than every other country at the moment, but is it also above the US long-term average return on equity of 14% since 1980 (horizontal red dotted line on Chart 7).

For the Australian share market, the average ROE currently running at 9%, which is much lower than the US ROE, and probably below the cost of equity.

Here is a chart of the overall average returns on equity from the Australian and US share markets since 1960. Here I have used rolling five-year average ROEs in order to smooth out short-term cyclical volatility:



Over the whole period, average returns on equity from US listed companies have been significantly higher than from Australian listed companies – an average of 13.2% from US companies, compared to just 9.5% from Australian companies.

Even allowing for some legitimate differences between the markets (eg different accounting treatment of depreciation, amortisation, write-offs, etc) this is still a huge difference in ROEs.

The only time when Australian companies were more profitable than US companies was in the early-2000s China / mining / commodities boom that peaked in 2011 with the Chinese post-GFC stimulus boom, and ended with the 2012-15 Chinese slowdown and commodities collapse.

During that same period, corporate profitability in the US market was hit hard by the 2007-11 housing collapse, sub-prime crisis, and resultant 2008-09 GFC recession. Aside from that brief period, US corporate returns on equity have been higher than Australia for the rest of the 60+ year period since 1960.

Current US average ROE

US corporate returns on equity are currently running near all-time high levels (five-year average of 16.4% pa, and 18% this year), thanks to the recent Covid stimulus boom and current tech boom. These are above the long-term average ROE of 13% from American companies.

Here are the current ROEs for the big US stocks: 150% for Apple, 115% for Nvidia, 41% for Meta/Facebook, 44% for Netflix, 35% for Alphabet/Google, 33% for Microsoft, 25% for Amazon. The laggard is Tesla on 8%.

Apart from Tesla, which is just another low-margin car maker, the ROEs for the other US giants are extraordinarily high. Their pricing power is high, competition is weak, and they have very little in the way of 'hard assets' on balance sheet – see [Part 2: P/E ratios, Dividend Yields, Price-to-Book value \(17 Aug 2025\)](#).

Current Australian average ROE

In contrast, Australian companies are currently running at a five-year average return on equity of just 8.6%, and 9% this year. These are around half the ROE rates achieved in the 2000s China boom, when Australian ROEs peaked.

In recent years, mining profitability has been down since the post-2011 China slowdown, and the post-2021 Chinese property / construction collapse. Bank profitability has been flat since peaking in 2015, and is being crippled by declining margins, and soaring compliance costs, and penalties and reparations for their illegal activities (Hayne, etc).

The current average ROE for the Australian share market may look dismal, but it is actually not far below the Australian long-term average of 9.5% pa ROE since 1960.

Here are current ROEs for the ASX leaders:

- The big banks: 13% for CBA, 10% for WBC, 11% for NAB, 10% for ANZ 13% for Macq Bank.
- Big miners: 18% for BHP, 20% for FMG, 21% for RIO, 8% for Woodside.
- The others: 14% for Telstra, 27% for Woolworths, 15% for CSL, 5% for Goodman, 29% for Wesfarmers, 13% for WiseTech, 2% for Transurban, 51% for Pro Medicus.

The iron ore majors, Wesfarmers, Woollies, and Pro Medicus are the only major companies beating their cost of capital by a decent margin to compensate for risk.

Current high US ROEs probably a warning sign

On the above chart we can see that ROEs in the US market soared to above-average levels at the peaks of booms right before those booms collapsed. Likewise, Australia's peak ROE in the 2000s China / mining boom also ended when the boom collapsed.

The current US tech boom is once again generating above-average ROEs for US companies at similar levels to the height of the late-1990s 'dot-com' boom, right before that boom collapsed in the 2000-02 'tech wreck'.

It is difficult to see how the trillions of dollars being spent on 'ai' software and infrastructure hardware (eg data centres) can continue to generate these lofty returns on equity in the coming years. My guess is that the current manic 'ai' boom will turn out to be just another episode in a long line of manic over-investment booms that have ended in busts.

ROE for companies, not ROE for investors

Here we are talking about the returns on equity from the companies themselves, ie what profits they generate from their assets, and businesses, and staff. We are not talking here about the returns to a company's minority shareholders (you and me) who buy shares in those companies.

These two types of 'returns' can be quite different because different shareholders at different times are prepared to pay different amounts per dollar of company profits.

Shareholder returns from the US and Australian share markets over the whole period have actually been quite similar (both have generated returns to shareholders averaging around 6.5% above inflation in each country).

The phenomenon of shareholders achieving higher returns on their investments than the underlying ROEs achieved by those very same companies on their own books, is due to the fact that shareholders on the whole have bid up company share prices well beyond the underlying profits generated by those companies.

Hence my conclusion that, although the Australian share market is trading at a lower Price/Earnings ratio and price to book value ratios than the US market (Part 2), the Australian market is probably more over-priced than the US market because US companies are inherently much more profitable than Australian companies, and have been for many decades.

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](#).

No one holds the government to account on spending

Julian Pearce, Ross Guest

Treasurer Jim Chalmers made budget sustainability one of the [key pillars](#) of the reform roundtable.

[Concern that budget spending](#) is on an unsustainable trend has been caused by rising government spending as a share of the economy. The spending has not been matched by an increase in tax revenue.

Government spending is forecast to [increase further](#) due to very high growth in National Disability Insurance Scheme (NDIS) spending, health and aged care, and a need for higher defence spending over time.

Budget, or fiscal, sustainability means that government debt [as a share of the economy](#) does not consistently increase. This is measured by the debt-to-gross domestic product (GDP) ratio.

Budget discipline improves the wellbeing of Australians by giving the government room to respond to economic shocks and ensures sustained provision of government services.

To keep government spending in check, stronger budget rules with numerical targets are needed. The treasurer's roundtable is a good opportunity to consider such rules.

Why targets matter

Fiscal rules usually specify targets for ratios of government spending to GDP, and debt and deficits to GDP. All [advanced economies](#) have fiscal rules, as do [105 countries globally](#).

They were first used in Australia by then Treasurer Paul Keating in the 1985 ["trilogy" commitments](#): that tax revenue to GDP would not increase; government expenditure to GDP would fall; and the size of the deficit would fall.

Australian government net debt as share of GDP (%)

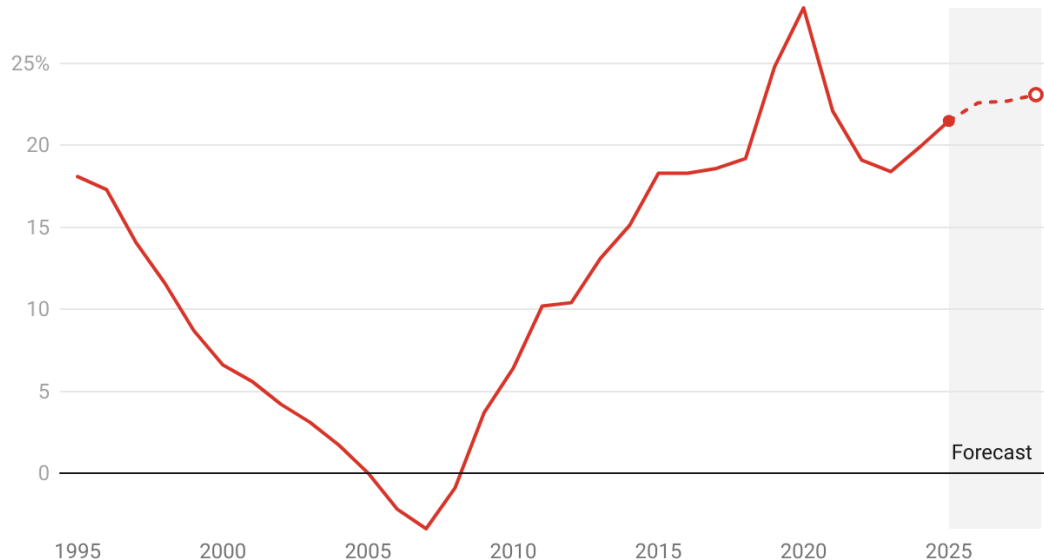


Chart: The Conversation • Source: Budget 2025-26, Budget Statement 10: Historical Australian Government Data, pp 340-341 • Created with Datawrapper

A legislative requirement for the government to specify fiscal targets was introduced by then treasurer Peter Costello in 1998 in the [Charter of Budget Honesty](#).

Both Liberal and Labor governments since then have committed to several rules with numerical targets, such as spending to GDP, debt to GDP, or a commitment to balance the budget “over the (economic) cycle”.

The [four budgets since October 2022](#) delivered by Chalmers have contained many general statements with good intentions, such as building fiscal buffers. But these are not targets that can be numerically tested and used to ensure the government keeps its promises.

The [two numerically testable](#) commitments in these four budgets are:

1. “directing the majority of improvements in tax receipts to budget repair” (which has been met)
2. “limiting growth in spending until gross debt as a share of GDP is on a downwards trajectory, while growth prospects are sound and unemployment is low” (which has not been met).

It's time to test the treasurer's claims

As the treasurer renews his focus on budget sustainability, now is the time to commit to precise rules that require the government to meet measurable targets and clear time frames (such as within the next three years) for:

- spending to GDP
- deficit and debt to GDP
- and, desirably, a cap on tax revenue to GDP.

These rules can play an important role in helping Chalmers and Finance Minister Katy Gallagher to argue against new spending proposals from their cabinet colleagues.

Having fiscal rules in place can also help show a government's resolve and credibility in the event of a crisis in financial markets. This happened following the [bond market crisis](#) in the United Kingdom in 2022.

For the opposition, committing to these rules can show its capacity as an economic manager. They may be required by independents as one of the conditions to work with a [minority government](#).

The role of the Parliamentary Budget Office

As it currently stands, there is no organisation that systematically holds the government to account against any fiscal targets.

The [Parliamentary Budget Office](#) (PBO) provides independent and nonpartisan analysis of fiscal policy. But it does not assess compliance.

Its remit should be expanded to include assessing the government's compliance with fiscal rules. This occurs for many similar organisations internationally. Overseas research suggests that [well-designed PBOs](#) and similar bodies improve compliance with fiscal rules, and thus improve budget outcomes.

A stronger PBO could also make policy recommendations. There are many other examples of Australian independent government entities that make recommendations or decide on economic policy – notably the [Productivity Commission](#), the [Reserve Bank of Australia](#) and the [Net Zero Economy Authority](#).

A policy remit for the PBO therefore has several precedents and would allow the office to become an advocate for sound fiscal policy, just as the Productivity Commission advocates for microeconomic efficiency.

Put simply, a [fiscal watchdog](#) with real teeth would assist the treasurer in meeting the goal of fiscal sustainability.

[Julian Pearce](#), Adjunct Lecturer in public finance, [Griffith University](#) and [Ross Guest](#), Emeritus Professor of Economics (Griffith University) and Teaching Associate (University of Queensland), [Griffith University](#)

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Why a traditional retirement may be pushed back 25 years

Bec Wilson with Dan Haylett

What follows is a lightly edited transcript of an interview between Bec Wilson and Dan Haylett on Bec Wilson's Prime Time Podcast.

Dan Haylett: I think work should be part of everyone's retirement plan. In the book I talk about purpose and identity. If we sit down and be true to ourselves and take away any financial reward that work gives

us, there's a long list of other things that work gives us. It's quite dangerous to feel like you can just stop that.

For a lot of people, particularly in a modern society where knowledge work is the predominant way, we don't need to retire. Retirement is a man-made thing designed for people that couldn't work in the factories anymore. They physically were unable to do the job - the only job - that they were able to do.

Bec Wilson: It was an industrial revolution, right? It was, it was designed to drive more productivity out of the industrial revolution?

Dan Haylett: And we still kind of subscribe to that, which is mad in a modern-day world where knowledge work [dominates] and you can work from anywhere.

I think about that accumulated load of wisdom that people have the ability to give back to mentor, to continue to work, to be able to do things that they love doing. I see this part of life as you do more of the things that you love doing and less of the things that you don't. And you've got the ultimate freedom to choose what that looks like.

Personally, I think "retirement" as [it is usually] defined should be pushed all the way back. Retirement, to me, is if you're lucky enough to make it into your early 80s, or something like that.

Where you've got that last bit of life and you're going "great, I'm now in my reflecting mode. I'm definitely not working, I'm not spending a huge amount of money, and I'm just kind of reflecting on my life and spending some time with people".

That part is probably the time [to call it retirement]. This first bit of it I would define as your exploring years and those years where you really want to start doing stuff and spend time with people intentionally. I don't know how we define it. I think I'd love to ban the word [retirement] but it is so ingrained.

Bec Wilson: Oh I love the word and think it plays a role, but I don't think it plays a role until much later in life. The IMF found that in the Western world, people who are 70 have the same cognitive capability as someone who is 53 in the year 2000. It's boggling that we are still behaving like 53 is the end of our life, and that we can't work until we're 70. We gained 17 years of cognitive capacity.

Dan Haylett: It's mental, isn't it? People need to get to a point where they feel financially and emotionally free enough and psychologically free enough, whatever that means, to decide their own fate.

I think the trouble with corporate careers that we are conditioned and wired and told what to do and constrained to a degree, and we need that ability to be able to go "right, now we've got control. If I want to work two or three days a week, work two or three days if I don't want to, if I want to go away for six weeks, I can go away for six."

Arthur Brooks talks about this in his brilliant book, *From Strength to Strength*. He talks about two lines. When we hit our mid 50s, we go into this knowledge line of our career. And actually that line, as you rightly said, continues to go up. We continue to absorb knowledge and learn and do things.

Bec Wilson: If we stay curious.

Dan Haylett: If we stay curious. If you decide to retire and step back, I think there's a lot of stats out there that suggest that cognitive decline can happen pretty rapidly. So, yeah, I think that to me, is the big thing. It's not the goal. It's not the end.

It's a transition and a next phase of taking more control, using your wisdom, using your accumulated knowledge, to give back to maybe earn a bit more money, to allow you that time to be able to go and do things that you want to do. Then maybe we get to our point where maybe the traditional retirement has been pushed back 25 years.

This was a lightly edited transcript of an exchange between Bec Wilson and Dan Haylett on Bec Wilson's Prime Time Podcast. You can listen to the episode [here](#).

The quiet winners of AI competition

Eric Marais

Nvidia closed out the earnings season for big tech with a bang. Revenues grew 56% from a year ago, and net profit by 59%. Those are phenomenal results for a company of any size, let alone the world's first \$4 trillion business. Yet the shares are down since then. When expectations are high, even great results aren't good enough to produce a positive surprise and drive prices higher. The flip side of that is more worrying: when expectations are high, so is risk.

Many of the technology giants are in a similar boat. Expectations are high, but competitive intensity and capital intensity are heating up. What were once monopolies are now fierce competitors. What were once capital-light businesses are now investing more capital than all the oil majors combined. As intensity rises, profitability usually falls.

Meta is an instructive case in capital intensity. Since the end of 2019, net income has grown by about 25% per annum, but so have capital investment and share-based compensation. Stripping out share-based compensation, Meta's growth in free cash flow has been zero since 2019. The company is now depreciating AI servers over five years, yet those servers are stuffed with chips that lose their edge in a single year. When depreciation schedules become interesting, you're talking about a capital-intensive business.

But competition is the scarier of the two intensities. Nvidia faces aspiring competition from AMD, Broadcom, and custom chip designs from its tech giant customers. The giants are in a money-throwing contest to win in offering AI services. OpenAI, Anthropic, xAI, and others are likewise in a money-throwing contest to win in building AI models. All while some of their competitors, including upstarts like DeepSeek, give their models away. Each company believes the battle will be winner-take-most, and each worries that the threat to their golden goose could be existential. Under the circumstances, AI competitors will find it very difficult to stop spending on chips.

This makes Taiwan Semiconductor Manufacturing Company (TSMC) a compelling way to participate in AI adoption. The company makes all of Nvidia's leading-edge chips, as well as all the leading-edge chips for Nvidia's competitors and Apple. No matter who wins in AI chip design, TSMC wins. No matter who wins in AI services, TSMC wins. No matter who wins in AI model building, TSMC wins. In our view, TSMC is the

only big tech company that deserves to trade at a monopoly multiple. Yet it trades at less than 20 times forward earnings, while Nvidia trades at 40 times. The market undervalues TSMC because Taiwan is in the name, but what happens to Nvidia or Apple if something bad happens to TSMC? Risks to TSMC are also risks to its customers.

TSMC is not alone among chip manufacturers. AI chips run zillions of similar calculations all at once, and to do that well, the processor needs vast amounts of data available instantly. Think of trying to hold thousands of phone numbers in your head at once. As a result, AI chips are much more memory intensive than conventional chips. A single Nvidia Blackwell processor has more gigabytes of short-term memory on the chip than most iPhones have in total storage.

That on-chip memory is also more specialised than traditional memory. To simplify a little, imagine some playing cards (the memory) and a book (the processor) on a table. They used to sit side-by-side, communicating only through the edges. The cards are now stacked 8- or 12-high on top of the book, allowing more surface area for faster communication. For memory makers, this high-bandwidth memory (HBM) is more profitable and less commoditised than their traditional products.

That bodes well for the HBM leader, Korean memory maker SK Hynix, which is seeing rapid growth yet trades at less than 10 times earnings. A fifth of SK Hynix is owned by SK Square, and that stake accounts for most of Square's value. Though holding company discounts are not always quick to close, Square effectively lets us access Hynix at a lower price. American manufacturer Micron Technology is just behind Hynix in HBM, and is seeing similar fundamental improvement. But the real beauty for the memory makers can be seen in the laggard, Samsung Electronics. Historically the leader in memory, Samsung has fallen behind in selling HBM chips to Nvidia. That hardly spells doom for its fundamentals, however, because HBM takes manufacturing capacity away from traditional memory. Less capacity leads to a tighter supply-demand balance and better pricing for those chips. Spot prices for 16GB of memory are up by more than 50% over the past two years.

Memory remains a capital-intensive business, and competitive intensity in the industry used to be brutal. Yet the difficulty of keeping up with new manufacturing technology has winnowed the field from a dozen makers to three, allowing for a more rational competitive environment.

AI adoption will create growth opportunities for many companies. Investors have great expectations for today's leaders in AI chip design, AI services, and AI models, even as those companies see rising competitive and capital intensity. With the chip manufacturers, we believe we've found an appealing combination of lower expectations and lower competitive intensity. In a money-throwing contest, the winners are the catchers, not the throwers.

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

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Preparing for aged care

Brooke Logan

Whether for yourself or a family member, it's never too early to start thinking about aged care. Planning ahead can help manage the transition from one life stage to the next and provide for an appropriate standard of living as well as a contingency for the unexpected.

The Australian Government subsidises a range of aged care services in Australia. One of the first steps in preparing for aged care is to determine if the person is eligible for subsidised care and what services they need. This process takes time so it's best not to wait until the need is urgent.

After the assessment, if the individual is eligible, they will receive a support plan which outlines what services they can receive. This may include:

- Care at home – allows you to stay at home for as long as possible and maintain independence
- Residential care – provides continuous supported care ranging from help with daily tasks and personal care to 24-hour nursing care.

Changes coming to aged care from 1 November 2025

Between 2024 and 2044, there is expected to be a 68% increase in Australians aged 70 years. This will lead to an increased demand for both residential care and care at home^[1].

With an increased reliance on aged care forecasted, the new Aged Care Act, which will be implemented from 1 November 2025, aims to address aged care funding issues and improve the viability and quality of residential care. The legislation focuses on older people accessing safe and high-quality care that meets their needs. The government will continue to heavily subsidise the cost of care, however there may be an increase in contributions for individuals with means above a certain level.

Let's have a brief look at government subsidised aged care from 1 November 2025.

Care at home

From 1 November 2025, the Support at Home program will replace Home Care. The Support at Home system is designed to help older Australians live longer in their homes.

How much the individual contributes will depend on the services used and their assessable assets and income as determined by Services Australia.

The services available are classified into 3 categories:

- Clinical care, such as nursing and allied health. This will be funded by the government.
- Independence support, such as personal care, transport and social support. Individual contributions will be between 5% and 50%, depending on means.
- Everyday living, which includes services such as cleaning, meals delivery and gardening. Individual contributions will be between 17.5% and 80%, depending on means.

Transitional arrangements apply for Home Care recipients, or those in the queue or approved for a package at 12 September 2024. A no worse off principle will apply, with contributions set to ensure these people do not pay higher contributions than they were paying with Home Care.

Individuals who only need a low level of support to keep living independently may receive the Commonwealth Home Support Program. This program will eventually be merged into Support at Home.

Residential care

It is expected the older person will contribute towards the cost of their residential care if they can afford to do so. However, there are strong protections in place to make sure that care is affordable for everyone. The Australian Government sets the maximum fees for care and daily living expenses, and there are also rules about how much you can be asked to pay for your accommodation.

Contributions for everyday living costs

All residents pay a basic daily care fee, set at 85% of the basic rate single pension or currently \$65.55 per day. Residents entering care from 1 November 2025 may also be asked to pay a hoteling contribution of up to \$22.15 per day (indexed) which covers services such as catering, cleaning and laundry, depending on their means.

Contributions for non-clinical care

The legislation introduces a means-tested Non-Clinical Care Contribution (NCCC) which covers non-clinical care costs such as bathing, mobility assistance and provision of lifestyle activities. Residents with sufficient means, based on their assets and income, contribute until reaching a lifetime cap (\$130,000 in total contributions, or after four years, whichever comes first). Clinical care costs in residential aged care will be fully funded by the Government.

Service providers may also offer access to higher quality services through an additional Higher Everyday Living Fee.

Accommodation costs

Once the cost for accommodation is agreed, the resident chooses how to pay. The choice between paying a lump sum refundable accommodation deposit (RAD) or a daily accommodation payment (DAP), or combination, is unchanged by the new legislation. However, there are some changes which impact RADs and DAPs.

In Australia, the average RAD payable is \$470,000 but can be much higher for in demand locations. The RAD has its advantages, being government guaranteed and Centrelink assets test exempt. The balance (less applicable fees) is returned upon leaving the residence. For those entering aged care from 1 November 2025, the facility must retain 2% pa of the RAD, up to 10% over five years. Concessions may apply for a person assessed by the Government to be low-means.

The DAP is like rent or paying interest on a loan. It is calculated by applying the maximum permissible interest rate, set by the Government, to the applicable RAD. For those entering aged care from 1 November 2025, this interest rate is indexed to CPI twice yearly, which could mean an increasing cost.

The new rules don't apply to everyone

Existing aged care residents in residential care at 31 October 2025 can continue to be assessed under the previous rules.

In addition, individuals who were receiving a Home Care package (or approved, or in the queue) as at 12 September 2024 who move into residential care after 1 November 2025 have their care fees assessed under the previous rules, unless they choose to opt in to the new rules. Their accommodation fees are assessed under the new rules from 1 November 2025.

The value of advice

Depending on your circumstances, there may be real value in seeking comprehensive financial advice when weighing up aged care options. A financial adviser can provide advice, including:

- Outlining the range of fees, determining which apply, and how they are calculated to estimate what you might need to pay
- Evaluating options and strategies for funding the accommodation payment
- Considering strategies to maximise age pension, generate sufficient cash-flow and minimise aged care fees
- Discussing the importance of estate planning.

Example

Betty, a widow, is moving into a residential care in November 2025. In addition to her home valued at \$800,000, she has home contents (\$10,000), \$350,000 cash and receives Age Pension of \$26,871 per annum.

She has been asked to pay a RAD of \$600,000.

The table below compares two potential strategies and the impact on Betty's fees and cash-flow in the first year:

	Sell home and pay full RAD	Keep and rent out home. Pay RAD of \$200k, and remainder as DAP
Investment income (3%)	\$16,500	\$4,500
Rental income (net)	\$0	\$20,000
Age pension	\$26,560	\$22,060
Total income	\$43,060	\$46,560
Less: basic daily fee	\$23,926	\$23,926
Hotelling contribution	\$8,085	\$8,085
Non-clinical care contribution	\$36,923	\$7,315
Less: DAP for accommodation (7.61%, indexed)	\$0	\$30,668
Cashflow shortfall (to be met from cash)	(\$25,874)	(\$23,434)

Based on rates as of 20 September 2025

To determine which option is better, the adviser would need to look beyond one year and consider the knock-on effects of these strategies on Betty's Age Pension, cash-flow, assets and ongoing fees. For example:

- If she sells her home, Betty's Age Pension is higher and she doesn't have to pay a DAP but she pays the full non-clinical care contribution.
- If she retains the home, it becomes assessable for Age Pension after 2 years, which may reduce her benefit. The DAP may also increase from inflation.
- Betty's goals are important. Does she want to retain her home for emotional reasons? What about her estate planning goals?

Only by considering the full picture and comparing results can a decision be reached.

And don't forget If Betty was receiving a Home Care package (or approved, or in the queue) as at 12 September 2024, her ongoing fees will be assessed under the previous rules.

Confusion, concern, and complexity are a common thread with aged care, so it is important to consider obtaining professional, financial advice. Planning ahead, including both estate planning and aged care planning, can make a difference.

The content of this article is based on information available as at 22 September 2025, which may be subject to change.

[1] <https://www.health.gov.au/sites/default/files/2025-07/financial-report-on-the-australian-aged-care-sector-2023-24.pdf>

Brooke Logan is a technical and strategy lead in UniSuper's advice team. [UniSuper](#) is a sponsor of Firstlinks. This information is of a general nature and doesn't consider your personal circumstances. Before making decisions, you should consider whether the information is appropriate for your circumstances otherwise seek financial advice.

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Renewable energy investment: gloom or boom?

Magellan Infrastructure Investment Team

A unique characteristic of high-quality, defensive listed infrastructure companies is their sustained investment profile through the economic cycle. With this in mind, we look to secular trends for opportunities to enhance real growth. One such trend is investment in renewable energy, which is sustaining robust growth despite political headwinds and appears positioned for strong ongoing gains.

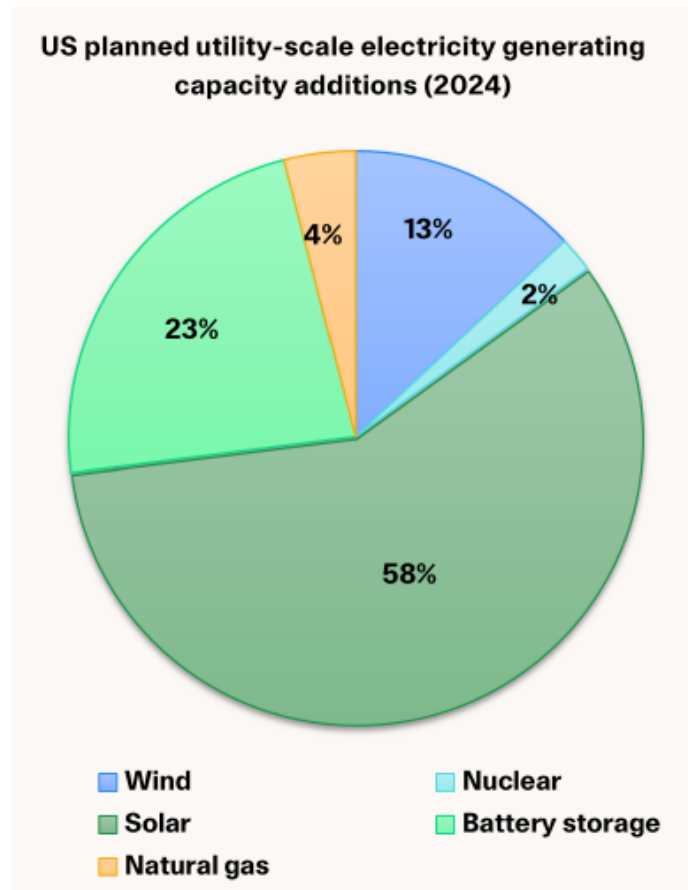
Prior to the Russian invasion of Ukraine in 2022, markets were focused on energy transition, with decarbonisation of the energy supply a hot topic and growth in renewables investment booming. With the conflict, there was a pivot point in the narrative, with security of supply, energy independence and cost concerns seemingly shifting the pendulum back towards hydrocarbons. The second Trump presidency has deepened this apparent shift by expanding support for US oil and gas while rolling back large-scale tax concessions for renewable projects.

We take a contrary view

This is a compelling narrative but is not borne out in the data. In fact, what we see is renewable energy investment is growing apace. Even given the headwinds from changes in policy, and greater appetite for fossil fuels in market and political rhetoric, renewables investment growth has remained robust in recent years. For advanced economies, the clean energy investment share of total energy investment rose from an already-firm 58.6% in 2016- 2020 to 70.3% in 2021-2025¹.

This strength is clear when looking at planned new additions to US electricity-generating capacity in 2024: 81% of this new, 62.8 GW of capacity was solar and battery storage, as shown in the following chart.

In 2025, momentum remains remarkably strong, with the June 2025 outlook from the International Energy Agency indicating that global clean energy investment is expected to reach US\$2.2 trillion in 2025 (with solar predominant), double the US\$1.1 trillion projected for fossil fuel investment. In the US, the US FERC estimates² that of 133 GW of “high probability” additions expected to come online by 2028, 84% will be from solar (90 GW) and wind (23 GW). Gas is projected to make up about 15% of new-generation capacity (20 GW). Importantly, while there may be a perception from key events such as the recent rollback in the US Inflation Reduction Act (IRA) provisions for renewable energy investment that renewables growth is slowing or reversing, there is clear momentum in investment.



Three key factors have allowed for continued robust renewables growth in the face of a hostile US administration, which has reduced renewable incentives and promoted fossil fuels.

The first is the increasingly attractive economics of renewable energy investments; in particular, for solar. For example, even if we exclude any tax credits, the levelised cost of solar in the US is US\$19.60-US\$38.80 per MWh, which compares to US\$54.40-US\$83.40 per MWh³ for combined cycle natural gas. Furthermore, the cost of componentry for renewables is on a firm downward trend while equipment and material cost pressures are rising for natural gas. The IEA estimates that the price to manufacture solar panels is down as much as 60% from 2022-2025, while oil and gas input prices are set to increase this year. Supply is also a compounding issue, with lead times for gas turbines currently estimated at around three to four years, extending to as long as seven years⁴.

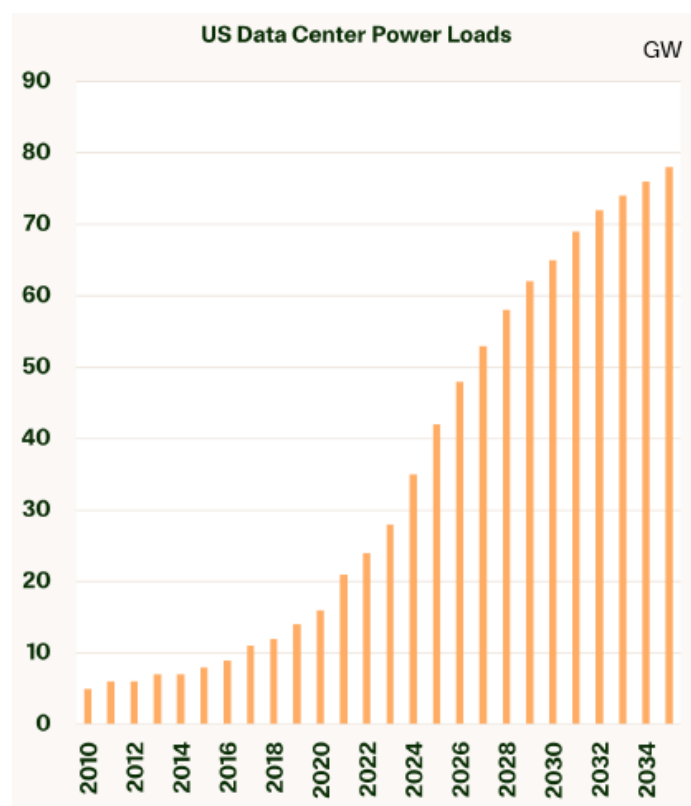
The second key factor is that policy support to expand renewable energy investment remains significant. While the end to the IRA withdrew substantial support from the US market, some specific interventions

are still intact. We note that in the US, Battery Electric Storage Systems retain tax credits under the One Big Beautiful Bill Act (OBBBA). The Act also extends tax credits for fuel cells, geothermal energy and linear generators, and nuclear. While a net negative, tax credit rules for clean energy investment under the OBBBA continue to honour credits for projects that can demonstrate they have started construction by July 2026 or are fast-tracked for completion by the end of 2027. In Australia, there is a prospect of further support for renewable energy investment through

reported plans for the government to overhaul the National Electricity Market (NEM). An advisory panel recommended the creation of an independent agency to enter into long-term offtake agreements, which would give investors revenue certainty and enable the project to be financed. The agency would then on-sell the agreements to electricity retailers. Such policy settings can provide support to take a competitive technology and turn it into grid-scale investment.

The third key factor is overall strong forecast growth in demand for power. In particular, this reflects surging data centre demand, which is expected to more than double from 2025 to 2030. Meeting such strong demand suggests more capex across the energy mix. Renewable energy is an especially attractive option for meeting some of this demand as it is relatively quick to bring online, while long lead times on new gas make it a less-ready option.

As a result, while the optics may be that investment in renewable energy has slowed, an important structural story is in play. This suggests that ongoing, solid growth in renewable energy capex should continue at regulated utilities over the coming years. This outlook is important to our thesis as it provides one clear plank for capital expenditure, which in turn drives growth in the rate base, and therefore earnings. For companies such as WEC Energy (US), Sempra (US), Alliant (US) and Redeia (ES), such investment is supportive for performance.



Source: Bloomberg

The risks appear manageable

This is not all blue skies and sun. Achieving delivery of renewable energy infrastructure at scale is a headwind to deployment. Fabrication and construction challenges are a barrier, with reported shortages of skilled labour, and some componentry. These obstacles can be expected to take some time to resolve; for example, in retraining or in securing a sufficient workforce. These headwinds can put a cap on the pace of renewables deployment. Furthermore, near term there are also administrative hurdles, with the imposition of more red tape for renewables projects in the US; for example, potentially slowing deployment.

Sufficient investment in firming capacity and grid infrastructure is also crucial. This is important because, as we noted in our recent report [You can't predict the weather](#), investment in the grid needs to “keep up” with renewable energy generation – through grid modernisation and expansion, and the ability to manage the energy system effectively, with the integration of volatile sources such as wind and solar. The ratio of grid investment to that in renewables needs to be commensurate.

This will be an important balance to strike, so service delivery remains reliable and the tide does not roll back from renewable energy.

Overall, for our investment thesis we see positive drivers in place for ongoing, solid investment in renewable energy across regulated utilities. Solid investment is critical to our strategy as it provides a catalyst for sustained capex. For regulated utilities, more capex increases their rate base, enabling them to earn an agreed rate of return on a larger set of assets. Ultimately, the allocation of this capex does not matter; it is increasing the rate base that is important. Expansion in renewable energy looks like one key contributor to returns this cycle.

Conditions are never static, however. Should there be some shocks to the system, including major outages or incidents or major shortages of componentry, for example, we could see a reallocation of future capex away from renewables and towards other investments such as gas-fired generation, for which there are also robust pipelines of potential projects. Such a rebalance would not mean worse outcomes for regulated utilities, given how they are compensated. Nonetheless, any such move would be important to watch, as it would mean a shift in our focus on indicators and policy signals for future capex growth.

1 International Energy Agency (IEA)

2 Federal Energy Regulatory Commission, August 2025

3 US Energy Information Administration, 2025 reference case for new resources entering service 2030.

4 S&P Global

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The enduring wisdom of John Bogle in five quotes

Vanguard Investments Australia

Vanguard founder John C. Bogle had many famous quotes relating to investing that still hold true in today's context. In this article, we revisit some of them in the hopes that they can inspire and guide you no matter where you are in your investment journey.



"Don't look for the needle in the haystack. Just buy the haystack!"

This quote is probably the most famous of all Bogle quotes. The haystack refers to a broadly diversified index fund and is the basis on which one of the largest index funds — the Vanguard 500 Index Fund¹ — was created nearly 50 years ago in 1976.

Bogle's belief was that rather than try to pick winning stocks, market returns could be captured through a low-cost index fund. This approach not only offers exposure to potential growth across multiple sectors, but also provides the diversification benefits inherent in index investing. Today, millions of investors around the world benefit from the broad diversification and low costs of index investing.

However, index funds won't suit everyone. Whether they fit your circumstances depends on your goals, time horizon and risk tolerance.

"Where returns are concerned, time is your friend. But where costs are concerned, time is your enemy."

Albert Einstein is often credited with calling compound interest the eighth wonder of the world. Whether or not he actually said it, the sentiment rings true. But even small differences in fees and costs can erode returns over time, which is why Bogle was so focused on reducing them.

As investments generate returns, these returns can be reinvested and over the long term, that can lead to exponential growth over time. On the other hand, every dollar that goes towards investment costs is a dollar less in investment returns. And over time, these costs can add up and have a significant impact on your portfolio balance.

"If you have trouble imagining a 20% loss in the stock market, you shouldn't be in stocks."

Market ups and downs are a reality for every investor. But while bear markets (defined as a 20% or more drop in share prices from their high) can be unsettling, history has shown us that [staying invested during volatile periods](#) can improve an investor's chances of investment success over the long-term.

However, Bogle's quote not only emphasises the importance of staying focused on your long-term investment goals but also highlights the value of understanding your own risk appetite.

It is natural to feel confident when markets are doing well and to feel concerned when they are not. But if short-term volatility is causing you extreme anxiety, perhaps consider if your asset allocation is aligned to your personal risk tolerance, and if it is sufficiently well diversified for you to weather difficult market environments.

"Speculation leads you the wrong way. It allows you to put your emotions first, whereas investment gets emotions out of the picture."

Speculation and investing both mean putting your money into things you hope will grow, but the way you go about it is vastly different. Speculation is about chasing quick wins — trying to catch the next big jump by following market trends or timing. It can be risky and come with big losses, as well as occasional big wins. Investing, on the flip side, is about playing the long game: picking things based on real value, steady growth and patience. Knowing the difference will help you choose what fits your goals and risk appetite.

"Don't do something — just stand there."

In times of market volatility or severe market disruption, it can be tempting to “do something” instead of just watching the market indices go down and further down.

However, it is important to recognise that choosing not to act in response to a volatile period in the markets demonstrates intentional decision-making. Perhaps it was a conscious decision in consultation with your financial adviser, or willing yourself to stop checking your investment balance too often.

History shows that [those who remain invested](#) are often the ones who benefit the most in the long run.

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All investing is subject to risk, including the possible loss of principal. Be aware that fluctuations in the financial markets and other factors may cause declines in the value of your account. There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income. Diversification does not ensure profit or protection against a loss.

¹ *The Vanguard 500 Index Fund is a US domiciled fund and is not offered in Australia. This reference is for historical context only and does not constitute an offer or recommendation. Australian investors should refer to locally available products and read the relevant Product Disclosure Statement (PDS) and Target Market Determination (TMD) before making any investment decision.*

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