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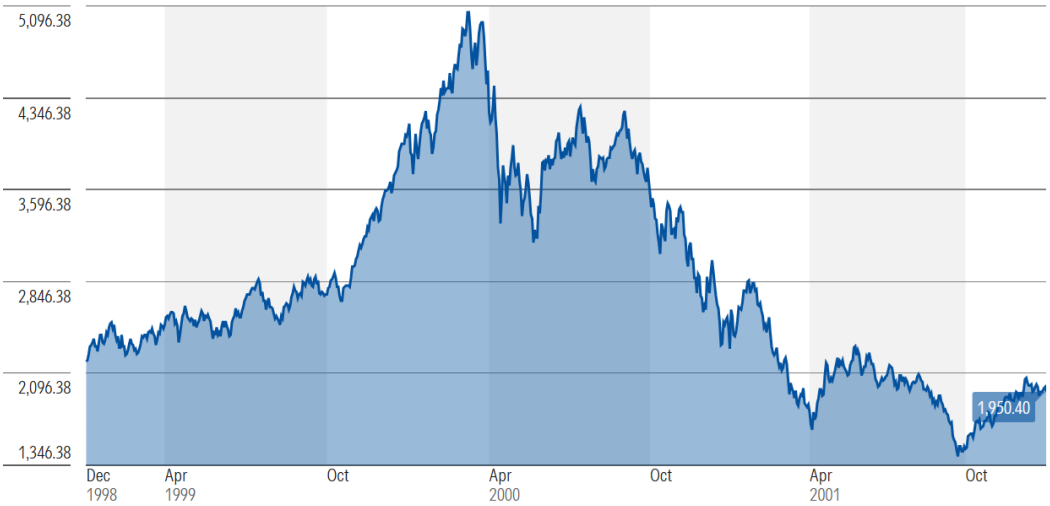
Editorial

Markets are starting to party like it's 1999. We're not quite there yet, though. Between October 1999 and March 2000, the Nasdaq almost doubled. That makes today's markets look tame, but perhaps another blowoff top is around the corner.

Nasdaq Index



Source: Morningstar

That's especially the case as markets start to front-run the appointment of a new Trump-friendly Federal Reserve Chairman, who will undoubtedly cut rates – potentially a lot - by mid next year.

The parallels

The similarities between today's markets and 1999 are becoming eerie:

1. Market (over?) exuberance for anything tech. Just ten firms – including Amazon and Nvidia - have accounted for 55% of the rise in the S&P 500 since ChatGPT launched in 2022. Today, Nvidia is tech's golden child, as CISCO was back in 1999.

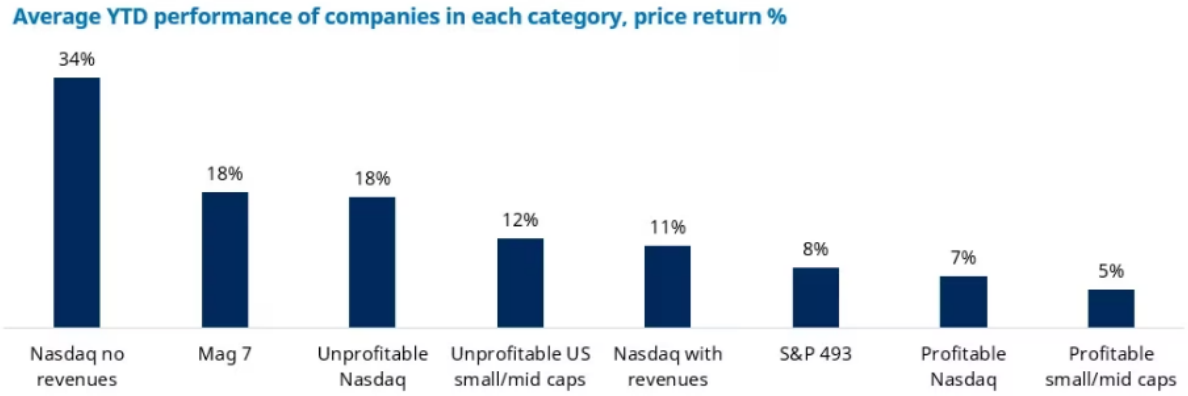
Source: Morningstar

2. Bulging non-listed tech deals. In July, an AI start-up called Thinking Machines Labs raised $US2 billion in funding at a valuation of $US10 billion. Leading Silicon Valley venture capital firms led the deal, and the likes of Nvidia and, funnily enough, CISCO, also chipped in. The kicker? Thinking Machines doesn't have a product or any revenue.

These types are deals are making the 90s look lame.

3. Lossmaking listed tech firms are booming again. In 2000, online retailer Pets.com listed at a valuation of $US1.2 billion despite generating only $US5.8 million in revenue.

Today, meme stocks are leading the charge, outperforming the index and even the Magnificent 7.

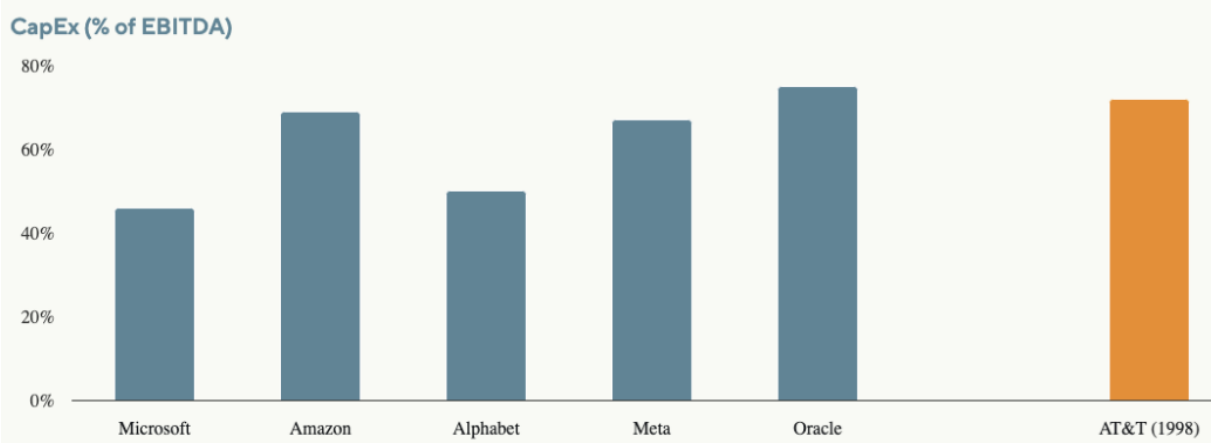


Source: Schroders

4. AI-related news is greeted with market exuberance, like tech/telecoms was in the 90s. In September, Larry Ellison briefly became the world's richest man after AI enthusiasm prompted the share price of Oracle, his firm, to pop.

5. Spending on AI is skyrocketing, like it did with telecoms in the 90s. Morgan Stanley estimates that cumulative investment in new data centres will reach $3 trillion by 2028. That dwarfs current AI

revenues of about $US50 billion and raises questions about the return on investment from AI spend and whether we'll be left with 'ghost' data centres akin to what happened with telecommunications equipment in the dotcom period.



6. Funny 'vendor financing deals' are back in vogue. The largest of these deals is Nvidia's US$100 billion investment in OpenAI. Under the terms of the deal, OpenAI pays for Nvidia's powerful chips in cash, while Nvidia will reinvest that amount in OpenAI through non-controlling shares.

This has similarities to 'vendor financing', a 1990s tactic where companies lent money to clients to facilitate the purchase of their products.

7. Accounting gimmickry has resurfaced. Bookkeeping gimmickry is a telltale sign of a speculative boom. It might be happening again today.

Many of the tech giants have lengthened the depreciation schedule for their AI servers, which seems odd given the recent advances in chipmaking. Microsoft increased it from four to six years in 2022. Alphabet did likewise in 2023. Oracle altered it from five to six in 2024. And Meta moved from five to five and a half years in January this year.

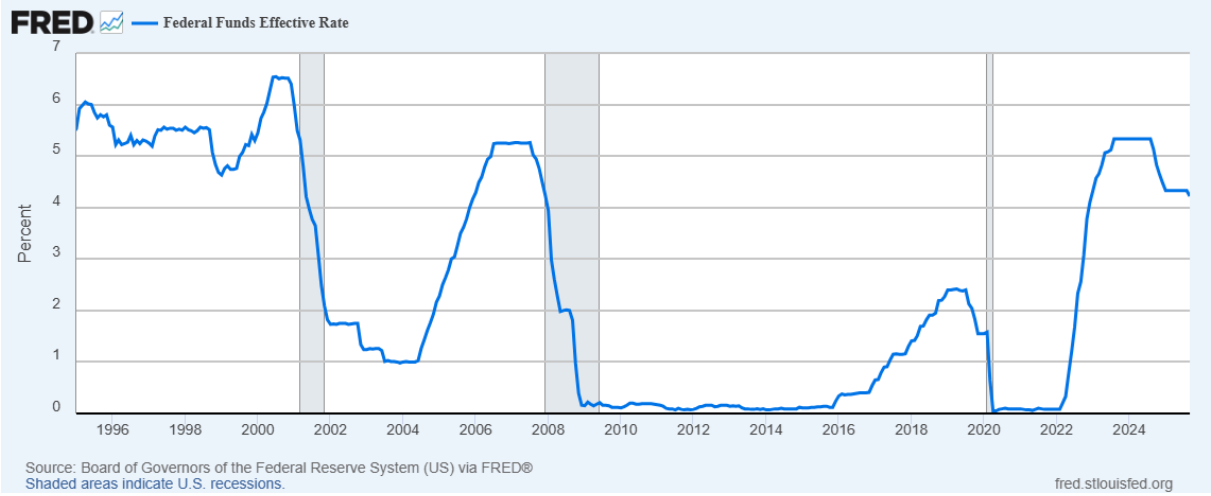
Lengthening the lifetimes for servers decreases depreciation charges and boosts short-term profits.

Barclays estimates that using more realistic server depreciations schedules of three years would reduce earnings of Meta, Amazon, and Alphabet by up to 10%.

The differences

While there are undoubtedly similarities between today's markets and those of the dotcom era, there are also some important differences:

1. Rates are going down, not up. In 1999, the US raised interest rates three times to try to cool an overheated economy. Now, the Federal Reserve is cutting rates, with more to come.



2. Gold is at record highs. The contrast between the gold price in the late 90s and now is striking. Back then, as the stock market boomed, the gold price was in the process of bottoming after a 20-year bear market. Today, gold is surging to record highs along with markets.

Gold price (US$/oz)

3. Fiscal deficits and debt are exploding. This may have something to do with gold's bull market. Western governments have been happy to rack up fiscal deficits and debt to prop up their economies over the past decade.

With the rise in interest rates from historic lows in 2021-2022, that's become increasingly problematic. For instance, the US government now spends more on servicing its debts than it does on the military.

There are legitimate concerns that the US is now caught in a debt trap – a vicious circle of higher borrowing costs and larger deficits sending the stock of debt on an uncontrolled upward spiral.

It's no wonder investors are turning to gold as a safe haven.

And it's quite a different situation to the 1990s, when government debts were much lower.

4. Economies are more exposed to tech today. When the dotcom bubble burst, it led to a short, sharp US recession in 2001.

Today, the US economy and perhaps many other economies are even more exposed to the tech boom. AI contributed almost 40% of America's GDP growth over the past 12 months - an incredible number given the sector only accounts for about 2% of US output.

5. AI is producing extraordinary winners though 'quiet' losers too. The rise of the Internet transformed industries, though it feels like AI is creating even greater structural change.

We've all heard about the winners from AI, yet there has been little spoken of the losers.

I've been tracking data-related companies, some of which have been stellar stocks for decades. Lately, they've been getting hammered over concerns from the impact of AI.

FactSet, a prominent financial data and analytics company, is one of them, down 42% year-to-date.

FactSet share price (NYSE: FDS)

Source: Morningstar

Gartner, a leading ratings firm for tech products, has fallen 52% over the past year.

Gartner share price (NYSE: IT)

Source: Morningstar

The upshot

No two periods are the same, though today's markets have a lot more similarities to the 1990s than differences.

Further rate cuts have the potential to provide further fuel for surging markets.

The concern is how dependent US economic growth has become on AI spending. Should that spending falter, the blowback for US and global GDP could be severe.

Buckle up, it could be a wild ride.

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In my article this week, I commit heresy by suggesting that dividend stocks aren't a great means to build wealth, and offer an alternative strategy instead.

Meanwhile, **Ausbil's Michael Price** isn't as negative on dividend stocks and believes forecasts for lowly ASX dividends over the next 12 months may be too pessimistic.

James Gruber

Also in this week's edition...

Meg Heffron is back with an update on the $3 million super tax. Labor is reviewing the most contentious aspects of its proposed changes - namely, the lack of indexation and taxing unrealised gains. Meg says the former is small fry compared to the latter, and opponents to the tax should fight for comprehensive reform.

Damien Klassen says that while global share markets appear pricey on the surface, they're skewed by the hefty prices attached to mega stocks. Outside of these stocks, markets aren't expensive versus history and some sectors are even cheap.

The US dollar has bounced after a large fall in the first half of the year, though MFS' **Benoit Anne** thinks it may be shortlived. He outlines why he's bearish on the buck and which assets could benefit from further dollar declines.

Jet James reckons floating rate notes warrant greater investor attention. He explains how their stability, income, and protection against interest rate risk make them a valuable investment option.

The NRL and AFL footy finals are over with Brisbane proving triumphant and the minor premiers for both codes going out in straight sets. **Tony Dillon** casts his actuarial eye over the finals to reveal some fascinating numerical trends.

Lastly, in this week's whitepaper, the market is always right, isn't it? Not necessarily, says **VanEck**, as it peruses the globe's asset classes for opportunities and risks.

Curated by James Gruber and Leisa Bell

Why I dislike dividend stocks

James Gruber

Recently, I listened to a podcast interview with a guy who's owned seven, 100-baggers. For those unfamiliar with the term 'baggers', it means how many times an investment has multiplied in value relative to its original purchase price. In this case, the investor bought shares which had increased by 100x or more.

That's an extraordinary feat. Owning a single 100 bagger can change your life; owning several of them would transform your life.

He bought Amazon in 1997 and Nvidia in 2005, both at a cost-adjusted price of 16 cents. He still owns them and they're up 1,380x and 1,159x respectively. In other words, US$10,000 invested at that original price would have turned into $13.8 million in Amazon stock and $11.6 million in Nvidia.

His other 100 baggers include Netflix, Booking Holdings, Intuitive Surgery, Mercado Libre, and Telsa.

The man who did this is David Gardner, the cofounder of the Motley Fool investment newsletter. Recently, he appeared on the 'We Study Billionaires' podcast to promote his new book, *Rule Breaker Investing*.

So, how did he manage to buy and hold so many high-flying stocks? As the name of his book implies, he did it by breaking conventional investment rules.

For instance, one of Warren Buffett's famous quotes is: "The first rule of an investment is don't lose [money]. And the second rule of an investment is don't forget the first rule."

Gardner junked that rule. He's not afraid to lose money; in fact, he says it's part of playing the investing game.

Gardner views investing like venture capital: if you invest in 10 stocks, there are bound to be some losers, but if you own big winners and hold onto them, the winners can lead to solid, if not spectacular returns.

"One of my big themes is losing to win. I think you have to lose to win in this world," he says.

Gardner strayed from another conventional investment rule – don't buy stocks that have gone up a lot in price. Instead, one of his tenets is to only buy companies which have had "stellar price appreciation."

Gardner also ignored the commonly held maxim to not overpay for stocks. Conversely, he looks for companies which are broadly perceived to be overvalued.

The secret sauce to his investing though is to buy stocks that are first movers and leaders in important emerging industries. Gardner doesn't want to own the second biggest player; he only wants the largest. In fact, he wants a leader that has little to no competition, and where it's likely to remain that way.

He cites the example of Coke and Pepsi. Gardner steers clear of companies which have Pepsi-like rivals. He prefers owning businesses where there's "blue ocean" ahead and no other companies around to crimp returns.

It isn't for everyone

Gardner's strategy means correctly identifying an important emerging industry. It means identifying the biggest player in that industry, and that they'll remain the biggest player. It means being unafraid to pay up for a stock, say at a 50x or 100x price-to-earnings ratio. It also means being unafraid of purchasing a company that may have gone up 500% in the past year.

I'm not sure about you but I can't bring myself to pay up for stocks, even high growth ones. And significant recent price appreciation is more of a red flag than a green one for me.

You'd also have to have a lot of fortitude to hold onto stocks as long as Gardner has. Think about how large Amazon and Nvidia have become as part of his portfolio. 99% perhaps? There aren't many investors that could handle this amount of portfolio concentration and not be tempted to sell some stock along the way.

In other words, Gardner's strategy is unique and isn't for everyone.

Another approach

There are lots of different ways to make money. One approach that I like is to buy stocks that are consolidators of fragmented industries.

Say there are 100 companies that each have 1% share in an industry, and three of those companies manage to grab 75% share between them - that can prove enormously profitable for the consolidators. Increased scale can bring brand recognition and significant revenue and cost synergies via acquisitions.

There are many examples of this strategy being successfully applied both in Australia and overseas.

Here, the consolidation of the funeral industry is one example. Funerals leader, InvoCare, had stellar returns until it was taken private by Bain in 2023. The other key consolidator, Propel Funerals, remains listed.

Another example of consolidating a fragmented industry is insurance brokerage. There are many things to like about these brokers. Insurance is a relatively low-growth industry which limits competition. The insurance needs for a business can be complex and bespoke, and that makes relationships important and customers sticky. And since every business needs insurance, the brokerage business is resilient even in times of economic distress.

The kicker is that insurance brokerage both in Australia and the US was highly fragmented 20 years ago. That's gradually changed though there is still more consolidation to go.

So far, it's been enormously fruitful for those companies doing the consolidating. In the US, Marsh and McLennan, Arthur J. Gallagher, and Brown & Brown have achieved brilliant returns over decades. In Australia, AUB has crushed the index over the past decade.

Recently, I was doing a deep drive into these brokers in the US and here; specifically looking at Brown & Brown and AUB as investment opportunities. Brown & Brown had piqued my interest as it's share price had dipped and it's now priced at less than 20 forward earnings – not cheap but it hasn't traded at these levels for a long time.

Brown & Brown. Source: Morningstar

The company's return on equity (ROE) has declined to 11% over the past year, though has averaged 14% over five years, and I expect it to get back towards that level in future. It pays out little in dividends so if it can hit that ROE and maintain it, I think total returns of 13-15% per annum are possible.

AUB also has an ROE of 11% and I don't expect it to deviate much from that in future. The big difference between Brown & Brown and AUB is that the latter has a much higher dividend payout ratio, at about 55% of earnings.

AUB. Source: Morningstar

Most investors, at least in Australia, would prefer a dividend paying stock like AUB to one that doesn't pay dividends, like Brown & Brown - but I don't. The reason is that my investment goal isn't immediate income; it's to achieve the highest, risk-adjusted return possible.

If that's the goal, then buying the non-dividend paying stock makes more sense. If Brown & Brown can achieve an average ROE of 14% per annum (p.a.) over the next decade, then all else being equal, total returns should be close to 14% p.a.

AUB's returns aren't likely to get near that, not only because of a lower assumed future ROE (11%) but principally because it pays out over half its earnings as dividends. Doing this limits the compounding of its equity and caps total returns. Because of this, my forecasts for total returns for AUB are 8-10% p.a. over the next 10 years. That's not shabby, though I think Brown & Brown offers better prospects.

Steering clear of dividend stocks

It struck me while investigating the insurance brokers that I actively look for stocks which pay little or no dividends. That's because the maths suggests that dividends can limit long-term wealth creation.

In this regard, David Gardner and I are alike: we're both long-term investors who pursue capital appreciation rather than income.

Don't get me wrong - dividends have a place, especially for those who need income to live off, or to supplement their wages.

But if you're searching for 'muti-baggers' like Gardner and I, then it's best to pass on dividend stocks.

James Gruber is Editor of Firstlinks.

Meg on SMSFs: Indexation of Division 296 tax isn't enough

Meg Heffron

Only a few months ago, it seemed this new tax was almost certain to become law ("this new tax" being the highly controversial extra 15% tax on super earnings for those with more than $3 million in super – aka Division 296 tax). At the time, a newly re-elected and confident government was firmly sticking with its intention to reintroduce the bill and get it passed. It seems amazing that we're now speculating about changes. But here we are.

In recent weeks it seems even the Treasurer's resolve has wobbled and there is a quiet murmuring of potential change. If the rumours are to be believed, the two aspects of this legislation being reviewed are the two most contentious: the lack of indexation of the $3 million threshold and the taxation of unrealised capital gains.

It's likely the Treasurer hopes throwing a bone like indexation will take our eyes off the bigger issue of taxing unrealised gains.

It shouldn't.

Indexation would be nice – and definitely better than nothing - but nowhere near as powerful as we might like to think.

Firstly, indexation would largely benefit those not yet caught by Division 296 tax. For example, if the threshold is indexed to inflation and this is around 3% pa, the threshold would reach $4 million in around 10 years, $5 million in around 18 years and $6 million in around 24 years. This is excellent for someone starting with $1 million today and maximising their super over the next 20 years. Whereas they might be likely to exceed $3 million, the chance of exceeding $5 million - $6 million in that timeframe is far lower. This is because the contribution caps we already have will quickly limit their ability to boost their super with their own money.

For those already in Division 296 tax territory, indexation would definitely result in less tax but is unlikely to have the enormous impact many would assume.

Consider the following example:

- Bob has $7 million in super initially (including a $2 million pension) – minimum pension payments are drawn each year
- The $3 million Division 296 tax threshold increases in line with inflation (and let's say that's 3% pa)
- The Fund's investment return is 8% pa before tax (5% growth, 3% income)

After 10 years, Bob would be around $40,000 wealthier if the $3 million threshold is indexed vs if it remains fixed at $3 million (this has been adjusted for inflation – so it's $40,000 in "today's dollars").

That is certainly a valuable saving. But over that time, how much Division 296 tax has he paid? In this example, he's paid around $670,000 in Division 296 tax in total *even if the threshold has been indexed*.

Repeating the same exercise with someone who started with $10 million in super, the saving thanks to indexation is roughly the same (around $40,000). But this time, the Division 296 tax paid during that time is over $1.1 million even if the threshold is indexed.

Why is it having so little impact?

This isn't the right maths but *conceptually*, a $100,000 increase in the threshold means the member avoids 15% tax on earnings on an extra $100,000. If earnings (both income and growth) equate to 8% pa (for example), all this person is really saving is 15% x 8% x $100,000 (around $1,200). Of course this compounds over several years and the difference grows each year (ie, the gap between the indexed threshold and $3 million gets bigger) – so after 10 years, it's a meaningful amount. But it's around the same saving for everyone (no matter how big their starting balance) and it's therefore dwarfed by the amount of Division 296 tax the member has actually paid for larger balances.

What does this mean?

Those fighting for change when it comes to Division 296 shouldn't settle for indexation of the threshold. It's better than nothing but doesn't really change the equation for larger balances. And it doesn't solve the fundamental issue of taxing unrealised gains.

That problem has been well articulated by many people in this debate in that the current structure results in:

- highly unpredictable tax bills for those with volatile assets – and therefore a tax cost that simply cannot be planned for,
- tax being imposed at a time when there is no guarantee there will be money available to pay it, and
- tax being paid on asset growth that subsequently disappears.

Interestingly, my modelling suggests that if the Government found a way to tax *actual* capital gains when realised (ie the usual approach when it comes to taxing things), they might even raise more revenue.

In particular, without some form of grandfathering, this approach would effectively result in an additional tax being applied to gains that have already accrued (before the introduction of the new tax).

For example, let's imagine Bob's $7 million super fund has already built up $2 million in accrued (so far unrealised) capital gains at 30 June 2025.

Under the current approach, the 'earnings' taken into account for Division 296 tax would be his fund's income (3% less tax) plus its growth (5%). Let's say that amounts to around $540,000. So if Division 296 tax was introduced exactly as planned, he would pay 15% tax on a proportion of this amount (in his case, the proportion happens to be around 60%).

But what if the method switched to a proportion of 'actual taxable income' (rather than the earnings amount above). If Bob's SMSF didn't sell any assets during the year, his earnings would only be around $210,000 (3% of $7 million).

However, if his fund sold some of its assets and realised (say) $900,000 in capital gains, the Division 296 earnings (on an 'actual taxable income' method) might be more like $810,000. This is the fund's income of $210,000 plus his fund's capital gains, discounted by one-third (this is the discount super funds normally get for assets held for more than 12 months) - ie $600,000. Again, we can assume Bob would only pay Division 296 tax on a proportion of this amount (to reflect the fact that not all of his super is over $3 million).

This is because **if the method was changed and no grandfathering was provided**, even the gains Bob's SMSF has built up before Division 296 tax would be caught. In contrast, Division 296 tax as it stands right now only looks forward – only growth post its introduction is taxed.

Of course, any change in method would need to consider:

- whether it's appropriate to consider grandfathering to avoid retrospectively taxing gains that have already built up over many years,
- how to allow for discounting of capital gains (Division 296 tax as it stands effectively ignores discounting – it simply captures 'growth'),
- how to deal with pension accounts (in my examples above I've assumed the tax would be applied to a *proportion* of income ignoring any reduction due to the fact that some of the fund's normal taxable income is entirely tax exempt because of its pension).

The key, however, is that the government probably ***could*** find a way of capturing just as much tax revenue even if it changed the tax. The problem is it would have to wait longer for it to arrive. If Division 296 tax is aligned to actual taxable income, the big tax bills would only really emerge when capital gains were realised.

But at least the people subject to the tax could be guaranteed to have the cash when it happened.

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.*

For more articles and papers from Heffron, please click here.

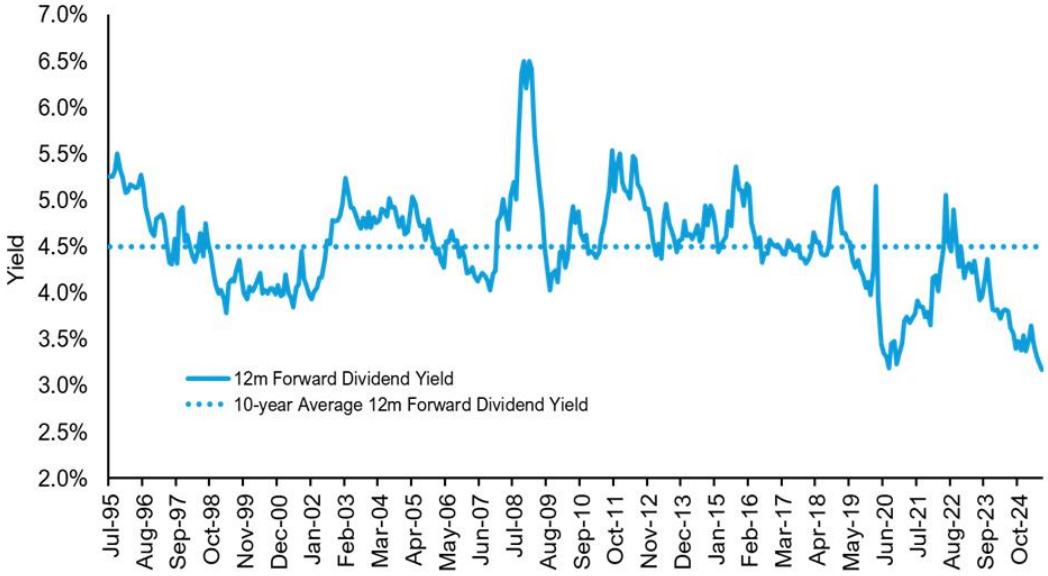
Will ASX dividends rise over the next 12 months?

Michael Price

If forward expectations are anything to go by, dividend yields in the year ahead are expected to hit a 30-year low based on the consensus view of markets, as shown by the chart below.

While this low dividend yield could seem alarming to investors, there may be reasons for a more constructive outlook for equity income investors.

Forward dividend yield for the S&P/ASX 300 is at a 30-year low



Source: Bloomberg, Ausbil as at 31 July 2025.

This reporting season, FY25 saw dividends still at weak levels relative to history but doing better than the market expected.

FY25 dividends exceeded consensus expectations three times as often as they disappointed.

Highlights included special dividends from a number of consumer-facing companies, including JB Hi-Fi (ASX: JBH), Super Retail Group (ASX: SUL), ARB Corporation (ASX: ARB), Nine Entertainment Co (ASX: NEC), Qantas (ASX: QAN) and Helia Group (ASX: HLI).

Although dividend expectations for the year ahead were upgraded at around the same frequency as they were downgraded, according to consensus analyst forecasts, this was better than the outcome for revenue and earnings, which both had a downgrade bias.

Earnings growth for FY26 was downgraded by 1% by consensus (to under 5%), but in our view, an improving macro environment could support better earnings growth than expected by the consensus view.

Low expectations reflect dividend risks

The market currently has low expectations for dividends, based on consensus forecasts, because of limited prospects for dividend growth from banks and resources, which pay the majority of the dividends in the Australian market.

However, consensus expectations may be underestimating potential dividend outcomes. Ausbil sees two major things at play that it believes can see dividends exceed market expectations in the year ahead.

First, the market is underestimating the potential for the economy to rebound in Australia and the US following the US tariff shock of April 2025. Consequently, the consensus view underestimates earnings growth, and dividends as a function of that, in Australia.

Second, businesses have been hedging their balance sheets against the unknowns of interest rates, inflation and tariffs, and so have announced lower dividends on average than past years. The good news for investors is that the low in dividends may be nearing a turning point, albeit a slow one.

The consensus view has been bearish on the US, global and Australian economies, contrary to our view that economic growth will improve.

Impact of lower rates

On monetary policy, we expect more rate cuts from global central banks this year, including the US and Australia, further adding support for our outlook for improving economic growth, which may also increase the relative attractiveness of dividend income strategies to other sources of income like term deposits and annuities.

This brings us back to the growth outlook for dividends in FY26 and where equity investors could potentially find income.

The market's lower outlook for dividends is a challenge for dividend investors looking for extra income, but it is potentially an opportunity for active dividend income strategies that seek to maximise yield through dividend harvesting and optimised franking credits, especially as we may have to look beyond the traditional dividend payers in banks and resources for dividends that are growing.

Conclusion

Earnings and dividends have declined for a number of years, but they could start to climb again in 2026.

For FY26, health care, financial services, consumer discretionary and some select industrials sectors may provide better dividends.

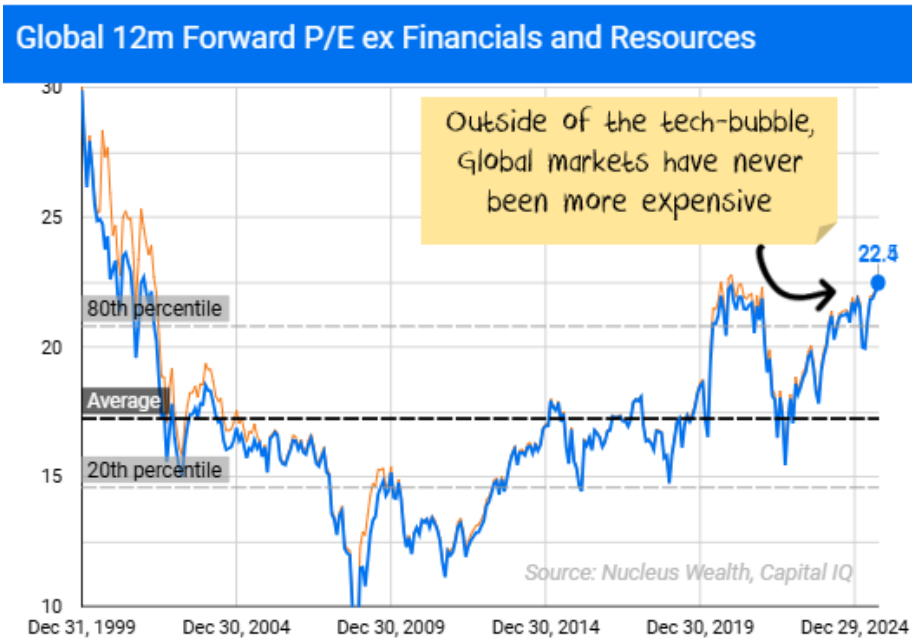
And while we expect resource dividends will fall over the year ahead, they're likely to be higher than the current market consensus forecast.

Michael Price is a Portfolio Manager at Ausbil Investment Management. This article contains factual, general information only and does not constitute financial product advice. It does not take account of your individual objectives, financial situation or needs.

Expensive market valuations may make sense

Damien Klassen

The global stock market looks stretched at first glance—but the story is more nuanced once you dig beneath the surface. The perception of lofty valuations is being driven almost entirely by the very largest companies, while much of the rest of the market is priced closer to historical norms.

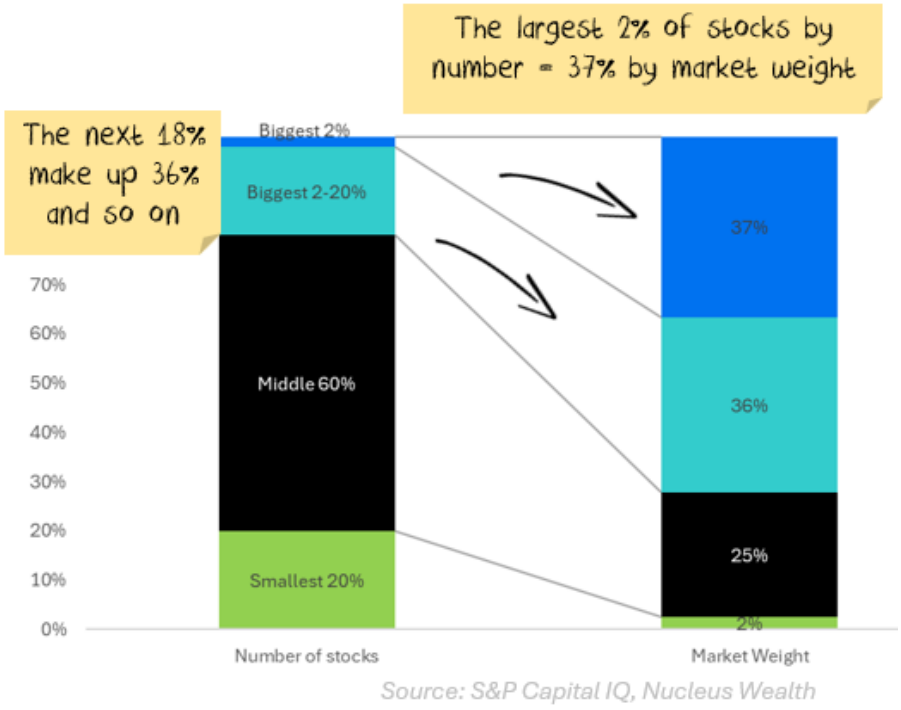


Why the market looks expensive

Headline market valuations, particularly when measured by forward price-to-earnings (P/E) ratios, suggest that stocks are expensive. However, when we separate companies into groups based on their size, it becomes clear that the top names—typically high-growth, mega-cap technology and consumer firms—are disproportionately pulling averages higher.

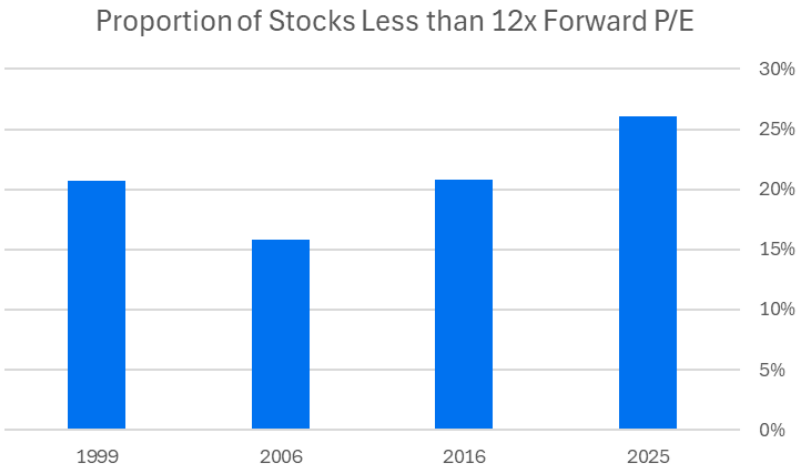
These giants command premium multiples that skew weighted averages upward, making the entire market look pricier than it really is.

First, a quick definition. I'm looking at the top 1,500 developed market stocks globally - about 80% of the market capitalisation of all stock markets. Then, I've created 4 buckets of stocks:



When you look at it this way, the problem seems like it is limited to just a handful of stocks:

And if you want to get fancy with stats, you can see that there are more stocks with a low ratio (12x forward price/earnings) today than there were in a more moderately priced 2016, or before bubbles burst in 1999 or 2006:



Could there be an alternative narrative?

Even in a rational world, the stocks that are expected to grow faster should have a higher price/earnings ratio.

What would a world look like if it just happened that the largest stocks also came from higher price/earnings sectors, and had the best growth outlook?

The answer: a lot like it does today...

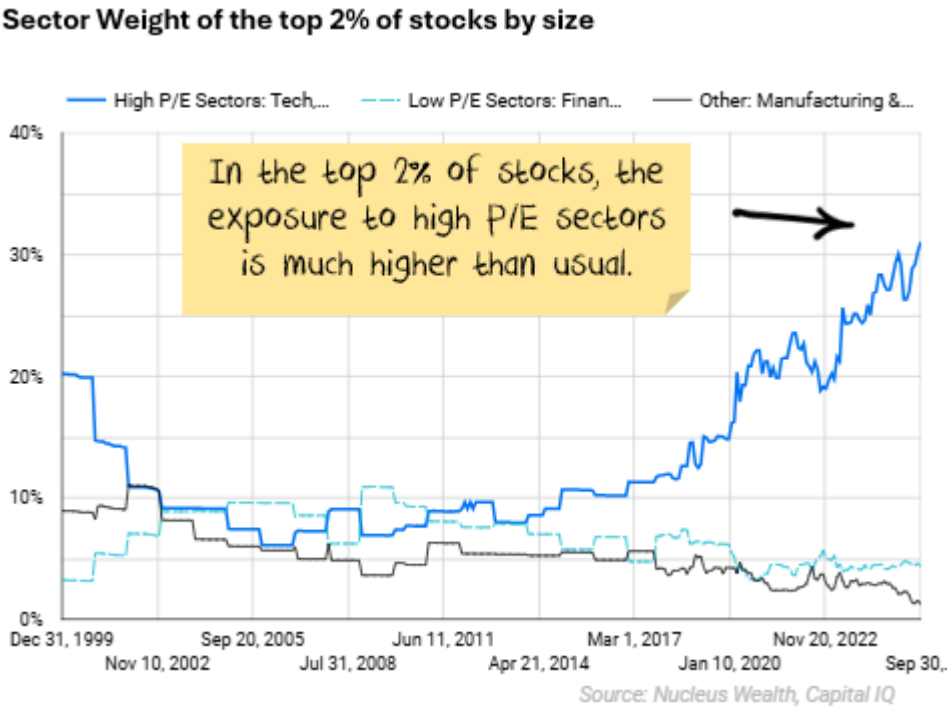
Which doesn't say the valuations are right, but it does colour the lens through which we should be looking at them.

Sector composition matters

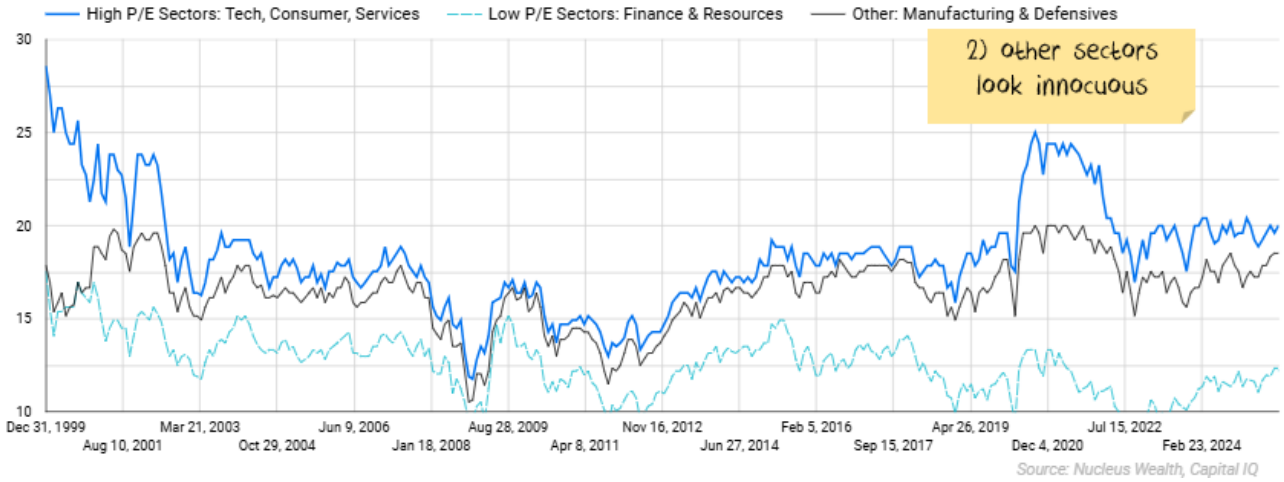
Some of the difference is just the sectors. There are some sectors which are traditionally low price/earnings because the earnings are riskier, or the leverage is much higher. Banks and resources usually fall into that camp.

Some sectors are traditionally higher price/earnings. Usually because of more stable earnings, lower capital expenditure or lower leverage. Consumer, services or technology stocks often fall into this category.

To put it another way, if the top 2% of stocks (by size) had lots of financials, then you would expect a lower P/E than if they were all services or tech stocks. Which largely correlates with valuation moves.



If you ignore size and just look at medians, most sectors do not look expensive:



Growth expectations: Reality vs. hype

So, is the difference just that the largest stocks also happen to be the highest growth?

Certainly, on forecasts, that is the case. But not by that much:

A rational case for today's valuations

Say the US goes into a reasonably sized economic slowdown:

- Stocks exposed to the consumer get hit, and most 'moderately priced' sectors that are not tech see earnings downgrades. Stock prices also fall.
- The Fed cuts interest rates
- The tech sector keeps spending on AI and data centers, funded by lower interest rates and fear of falling behind competitors. The slow down in other sectors reduces the competition for construction resources.
- Capital markets stay open, we see a rash of AI IPOs, most of which gets plowed back into buying stuff from other tech companies
- Under Trump there is little anti-trust activity in the AI sector, most of the benefits accrue to the largest companies
- Large tech sector earnings increase

Let us talk valuation. What would the growth differential need to be to justify paying 28x today for a large tech stock vs 16x for other companies?

Say we are talking net present value in broad terms. A discount rate of 11%, ten years of tech stocks growing faster than other stocks, then long term earnings growth of 5% for all stocks.

The answer? About 9%. i.e. if tech stocks can grow at say 12% p.a. while the rest of the market does 3% for 10 years then it would be rational to pay 28x for large tech stocks vs 16x for other stocks.

Maybe you value the low debt levels, high and stable margins that the tech sector brings. Then, you could easily argue that a 5-6% difference in growth would be enough.

Net effect

Stock markets are not cheap at an aggregate level. But, within the sectors and growth profiles there might be more rationality in the pricing than might first appear.

It might look safer in the lower-priced sectors, but there is a lot more earnings risk in those stocks from tariffs and general Trump driven-disruption.

Tech stocks are not cheap. But for most of the largest ones, the earnings are high quality, not volatile and margins are wide.

I'm not entirely convinced. But I'm enough convinced to be mostly invested at the moment. And I am convinced that the right lens is to consider how much AI stock earnings will exceed non-AI stocks, and then work out how much more should you pay for that growth.

Damien Klassen is the Chief Investment Officer at Nucleus Wealth. This article is general information and does not consider the circumstances of any investor.

The end of the strong US dollar cycle

Benoit Anne

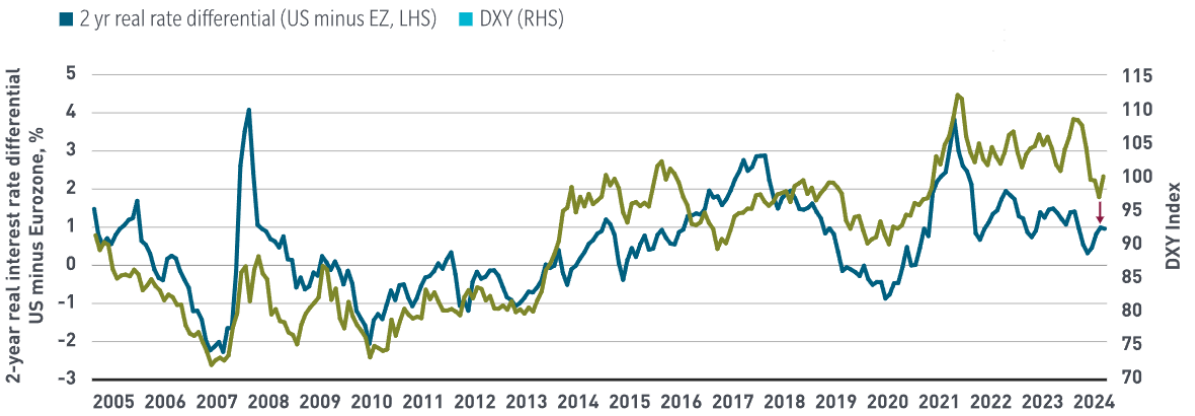
The dollar appears to be under significant pressure, in our view. Not only in the near term, but also in the context of global investors' strategic asset allocations. The only silver lining is that we do not believe that the dollar will lose its status as the primary reserve currency in the foreseeable future. Against this backdrop, we believe that the case for global diversification is as strong as it has ever been. Looking ahead, asset classes in the rest of the world — including non-US equities, European fixed income and emerging market debt — may stand to benefit from the ongoing pressures on the USD.

The tactical view: Further risks for the USD in the near term

The current macro and market backdrop points to further downside risks to the USD, in our view. First, looking at growth fundamentals, we believe that the risks of slowdown are more pronounced in the US than for most of its major partners. To a large extent, this reflects the uncertainty surrounding the growth impact of the immigration freeze and trade tariffs, two major policy initiatives undertaken by US authorities over the past few months. While we do not foresee a major risk of US recession, the outlook does nonetheless point to a growth slowdown. In contrast, other regions such as the eurozone are now enjoying a growth recovery phase. This diverging growth outlook between the US and the rest of the world is one of the key negative drivers for the USD.

The outlook for relative interest rates also suggests that the USD may weaken in the period ahead. At this juncture, it is highly likely that over the next few quarters, the US Federal Reserve will lower its policy rate by more than most of the other major central banks. In contrast, the European Central Bank is near the end of its easing cycle, while at the same time, the Bank of Japan is likely to consider further tightening in the period ahead. It strikes us that the global monetary policy cycle is much less synchronized than a few quarters ago. This all means that the interest rate differential between the US and its partners is likely to compress further, thereby applying additional downward pressure on the USD. As illustrated by Exhibit 1, the dollar has recently been trading against the euro at stronger levels than what would be implied by the real interest rate differential with the eurozone. But this may course correct going forward with the Fed resuming its policy rate cuts.

Exhibit 1: The interest rate differential between the US and the eurozone points to further USD downside risks

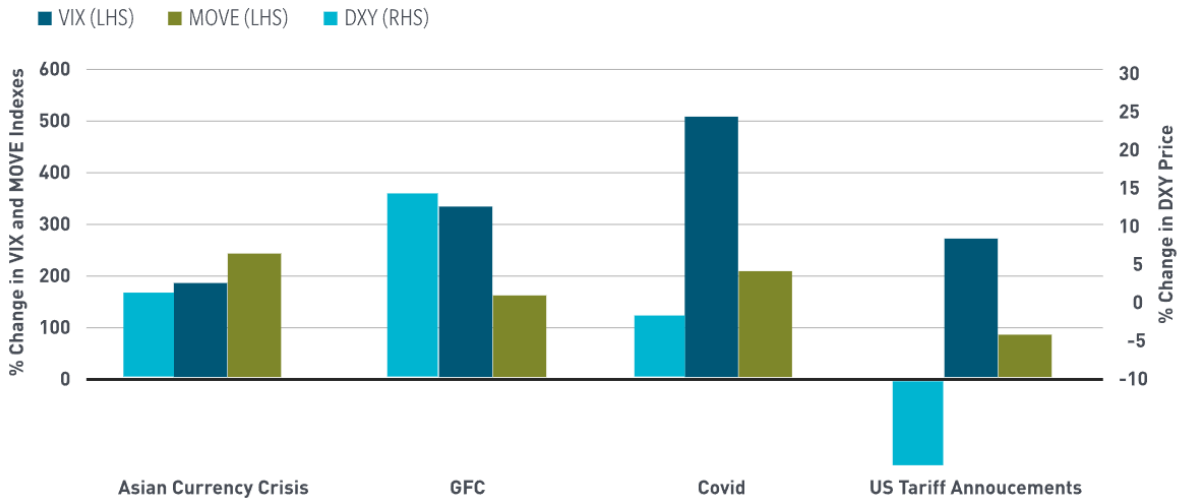


Sources: Bloomberg. Real rate differential is estimated as the difference between the US 2y real rates (nominal minus breakeven inflation) and the EUR swap (nominal minus inflation swap). Monthly data. Up to July 2025.

We believe that the current policy backdrop in the US represents an additional risk. For a start, concerns over excessive fiscal largesse may undermine the global investor's appetite for USD-denominated assets, as this may cause long-end rates to rise, triggering a correction in both US fixed income and equities. The credibility of the broader US macro policy framework also appears to be challenged amid a significant increase in political pressure on the Fed. We view central bank independence as one of the foundational principles of a credible macro-policy system. In fact, a number of emerging market countries have learned that lesson the hard way in the past, with the subordination of central bank policy to political concerns strongly correlated with poor inflation-fighting records and elevated capital outflow risks.

Against this backdrop, the dollar has recently experienced some erosion of its safe-haven attributes. This was particularly evident in early April when the trade war escalated. At the time, the resulting severe aversion shock was associated with a large downward dollar move (Exhibit 2). Likewise, the dollar weakened in tandem with US equities in early August following the release of the poor July nonfarm payroll data, signaling that it was behaving more like a risk-on currency. It is worth stressing that historically, the dollar has benefited from shocks to risk appetite, with US Treasuries typically acting as the ultimate safe-haven asset.

Exhibit 2: Deteriorating US fundamentals have eroded USD's safe-haven status



Source: Bloomberg. Daily Data for each episode. Safe haven reactions for each asset class represent the max upturn or drawdown that occurred in the following respective periods: Asian Currency Crisis = 01 July 1997 through 31 December 1998; GFC = 01 July 2008 through 31 March 2009; Covid = 01 February 2020 through 30 April 2020; Liberation Day = 01 January 2025 through 11 April 2025.

Our quant investment team model does not point to near-term USD appreciation. Our quant process relies on a diverse set of indicators to allocate across developed currencies. The model includes value and carry factors, which are more persistent in nature, as well as shorter horizon signals like momentum and sentiment. The USD screens as overvalued, but carry remains attractive. The short horizon signals are mixed but have been leaning short, although it should be noted that these factors experience higher turnover. In all, the tactical factors are neutral to slightly short USD and not strongly supportive of near-term USD appreciation.

The only factor supportive of the USD in the near term are technicals. Specifically, being short the USD is amongst the most crowded trades at this juncture. The market is as net short the USD as it has been since 2021 (Exhibit 3). While this favorable technical backdrop may trigger some volatility and even

possibly a temporary USD bounce, we believe that going forward, unsupportive macro fundamentals will likely prevail as the primary driver of the dollar.

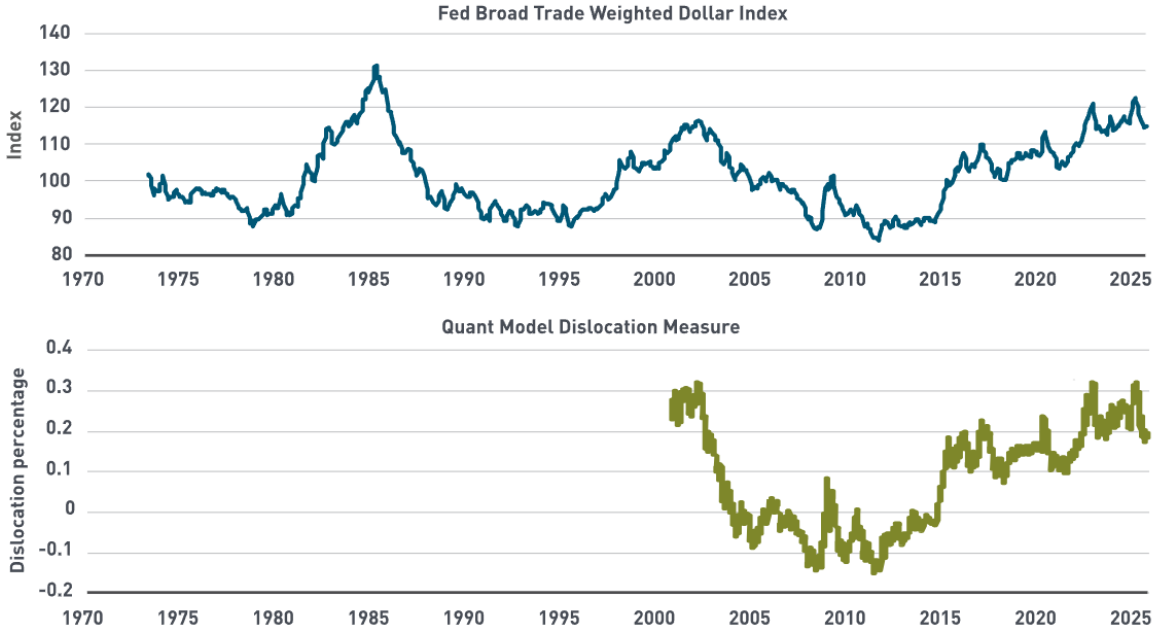
Exhibit 3: The market is short USD

Source: Bloomberg CFTC. NYCE US Dollar Index Net Non-Commercial Combined Positions

The strategic view: Valuation and global investor behavior are not USD supportive beyond the near term

By historical standards, most currency valuation metrics point to the dollar being overvalued by at least 10%. For instance, measured since the 1970s, the Fed's real dollar index currently stands some 13% above its long-term average. Looking back, it appears that the strong dollar cycle peaked in January 2025. The combination of an expensive dollar and the fact that the currency has started to demonstrate signs of weakening may exert significant influence on global investor behavior.

Exhibit 4: USD value and quant model dislocation



Sources: Datastream, Fed. Monthly data for the Fed broad trade weighted index. Up to Aug 2025. Daily data for our quant model, up to 12 Sept. 2025.

The quant behavioral equilibrium exchange rate (BEER) model generates a similar result. The BEER model calculates currency fair value, starting with long-term real exchange rates. These rates are adjusted for current differentials in productivity and terms of trade, which helps account for deviations

from long-term averages. An overvalued currency may be supported by relatively strong economic fundamentals. Using a narrow trade-weighted index of G10 countries, the BEER model suggests an 18.7% dollar overvaluation, implying that even after accounting for economic differentials, the dollar is expected to continue to weaken (Exhibit 4). Furthermore, currency value plays a role in future equity returns — and the forecasted cheapening of the dollar may act as a headwind for US equities.[1]

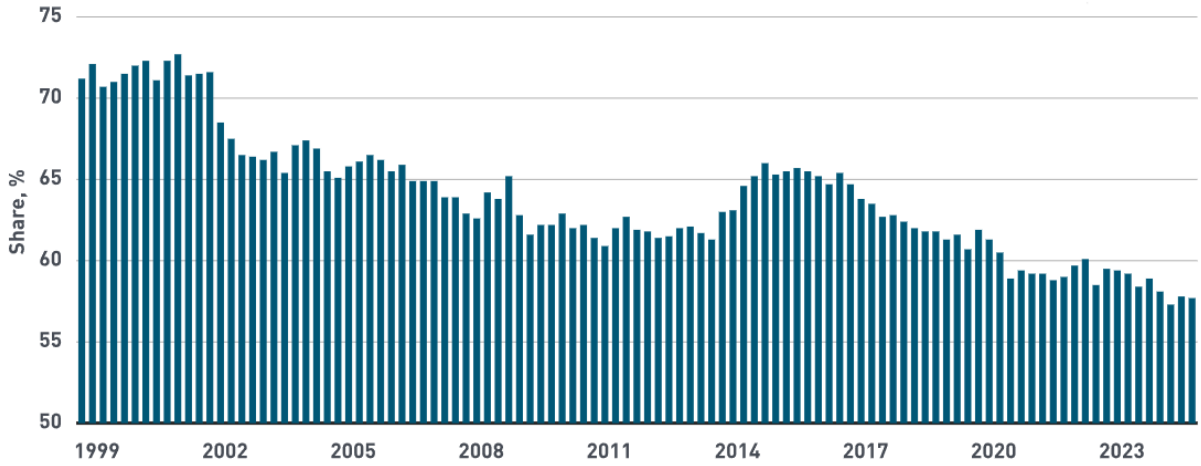
Two key investor behaviors may drive further dollar weakness in the near term. These behaviors relate to global allocation and currency hedging. In terms of global allocation, there is a risk that investors in their strategic asset allocation may elect to diversify away from USD-denominated assets. That rebalancing would in turn trigger a reduction to USD exposure, benefitting the rest of the world. To a large extent, this phenomenon has already been observed over the past few months, but it may well persist if the macro and market backdrop — as discussed above — remains unsupportive. We believe that global investors have been substantially over-indexed to US markets, so this rebalancing may take some time, given the investment processes of large institutional investors.

Currency hedging may put additional pressure on the dollar. Between 2022 and 2024, the high cost of hedging dollar exposure — due to the rise in US interest rates from 2022 onward — led some Asian and European institutional investors to lower their hedge ratios. Specifically, the Bank of Japan indicated that the hedge ratio for major Japanese life insurers declined from about 60% in 2021 to 40% in 2024.[2] Looking ahead, this behavior is now likely to reverse. As highlighted by the Bank for International Settlements (BIS) in a June 2025 report, currency hedging by non-US investors holding US assets appears to have contributed to dollar weakness over the past couple of months.[3] Technically, it is the adjustment in the dollar hedge ratio that creates the biggest risk to the dollar, as opposed to the purchase of a USD asset on an FX-hedged basis. Against this backdrop, monitoring the FX hedging strategy of the large global investors is going to be critical going forward.

The structural view: The role of the USD as a reserve currency

Looking at the longer term, particularly the status of the US dollar in the international financial system, the prospects are considerably more positive. We do not believe that the USD will face a severe challenge to its role as the primary reserve currency. It is true that the share of the dollar in global reserves has gone down over time. According to the latest IMF data, the USD accounts for about 58% of global official reserves,[4] down from about 70% 20 years ago (Exhibit 5). We do not foresee any major competition to the dollar's status, however. With a share of about 20% of global official reserves, the euro is a distant second, followed by the Japanese yen with 5.8%. It is probable that the share of the US dollar will continue to fall in the period ahead, but this is likely to be a slow, gradual process. The main obstacle for potential competitors is market size and liquidity. Whatever your view on US Treasuries is these days, the reality is that the market is more than 10 times bigger than that for German bunds. In terms of the average daily volume — a useful measure of liquidity — the US Treasury market's liquidity is 30 times as large as its European peer. In other words, the dollar and the US Treasury market are here to stay as critical global investment vehicles.

Exhibit 5: The share of the dollar in global reserves remains significant, but it has gradually declined



Sources: IMF, Cofer dataset. Quarterly data up to March 2025.

Investment implications: The case for global diversification

The case for global diversification has been reinforced by the negative outlook for the US dollar. One of the key lessons we have learned so far in 2025 is the importance of global diversification. Due to perceived US exceptionalism in recent years, global investors were perhaps over-allocated to the US, but that narrative is now facing significant challenges, which is likely to be reflected in some rotation away from the US. Looking ahead, asset classes in the rest of the world such as non-US equities, European fixed income and emerging market (EM) debt may stand to benefit from ongoing pressures on the USD. In particular, we believe that the stars are aligned for EM local currency debt. By construct, EM local debt offers substantial country diversification. Indeed, the main reference index — the J.P. Morgan GBI EM Diversified — includes 19 countries across Asia, EMEA and Latin America. More importantly, while the global macro environment remains critical for the asset class, local macro drivers, especially central bank policy and domestic inflation, tend to have a major influence on local market performance.

1 Our quant developed equity allocation model uses currency value as one of its factors. With the dollar overvaluation, the factor is currently recommending non-US equities.
2 Source: Bank of Japan, Financial System Report (April 2025)
3 Source: The Bank for International Settlements (BIS), BIS Bulletin, No 105, 20 June 2025.
4 Source: IMF, IMF data brief: Currency Composition of Official Foreign Exchange Reserves, 17 July 2025

Benoit Anne is Senior Managing Director, Strategy and Insights Group at MFS Investment Management.

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Today's case for floating rate notes

Jet James

If anything has been proven over the past several years, it's that market turbulence and unexpected events can arrive at any time. 2025 has been another volatile year with periods of uncertainty arising both domestically and globally resulting in large market moves and now more than ever, investors need to recognise the importance of a well-diversified portfolio.

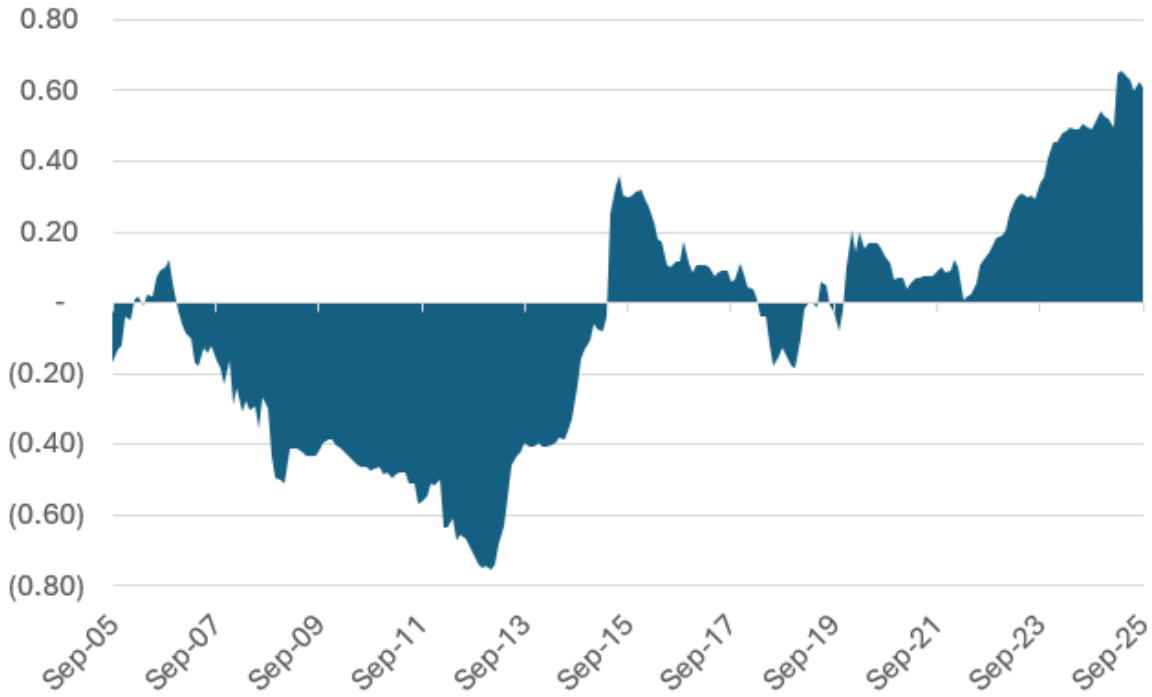
A portfolio that blends growth with income – and flexibility with stability – can help investors navigate that next phase. Trying to time markets and volatility is difficult – and usually reactive. That's why it makes sense to build a portfolio that can handle various scenarios by adding protection before markets move, rather than after. Allocating to Floating Rate Notes (FRNs) can help hedge against portfolio volatility, offer potentially stable returns and provide an attractive level of income, making them a versatile investment option during all market conditions.

FRNs pay interest that moves with the market. FRN coupons generally reset each quarter, ensuring income remains competitive while avoiding mark-to-market price changes from interest rate changes. Because the coupon resets regularly, the note's price doesn't need to adjust much when interest rates change. That's why FRNs typically experience relatively smaller price swings than fixed-rate bonds, which lock in a single coupon and can rise or fall sharply as rates move.

Why adding Floating Rate Notes now makes sense

For much of the past two decades, bonds and equities tended to move in opposite directions – when equities fell, bond prices rose, helping to stabilise portfolios. That changed in 2022, when correlations turned positive and have largely remained so. The key driver was the shift in the dominant macro risk where inflation replaced growth. In response, central banks delivered aggressive rate hikes, leading to simultaneous declines in both bond and equity markets. This positive correlation weakens traditional diversification and reinforces the case for alternative sources of returns, like credit and floating rate strategies, that are less tied to interest rate risks given the additional income earned.

Figure 1: Correlation Between Australian Equities and Australian Bonds



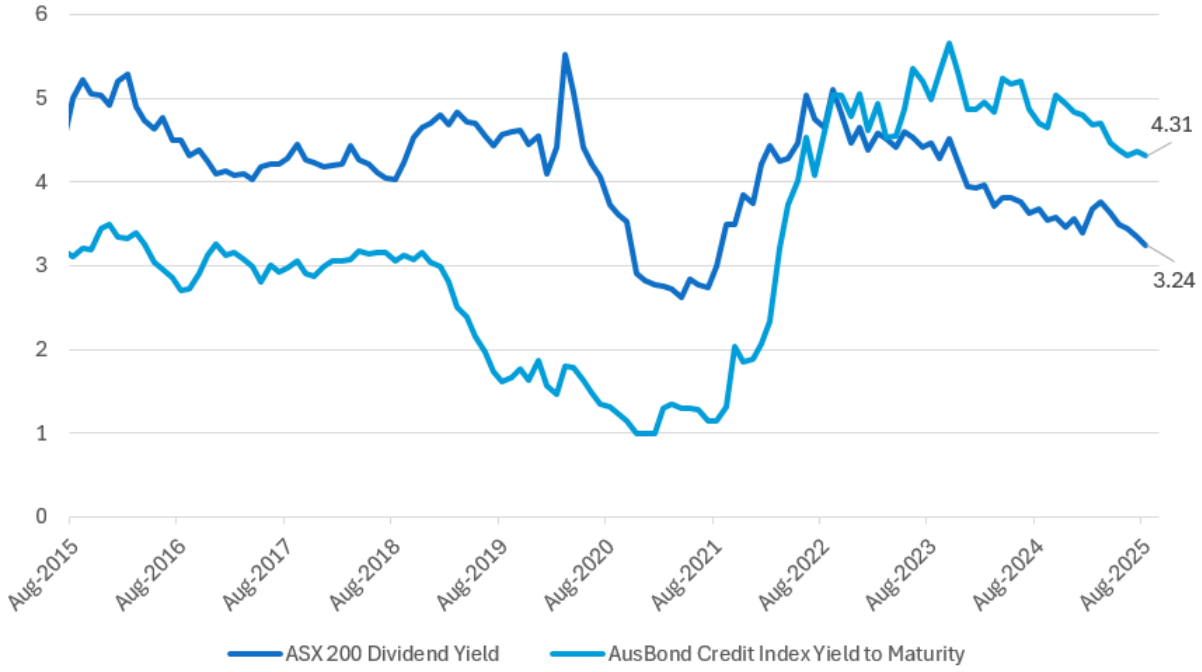
Source: Bloomberg Finance L.P., State Street Global Advisors, as of 29 August 2025. Australian Equities = S&P/ASX 200 Index and Australian Bonds= Bloomberg AusBond Comp 0+ Yr Index are used to represent equity and bond markets, respectively. Correlations data used is monthly and have no unit.

Floating Rate Notes have generally lower levels of risks than Fixed Rate bonds

With bond-equity correlations no longer providing the same offsetting effect, credit – particularly FRNs – offers a compelling allocation. Unlike fixed-rate bonds, FRNs are less sensitive to changes in interest rates and may continue to deliver attractive income via their credit margin.

The case for credit is further strengthened by relative value. The yield to maturity on Australian Investment Grade credit is currently around ~4.4%, notably higher than the ASX 200 dividend yield of ~3.3% (see Figure 2). This relationship became inverted in second half of 2022, marking a structural shift in income leadership where credit now offers a yield advantage with different risk characteristics than equity market risk.

Figure 2: S&P ASX 200 Dividend Yield vs. Australian IG Corp Yield



Source: Bloomberg Finance L.P., as of 29 August 2025.

Capital stability in action – the resilience of Floating Rate Notes

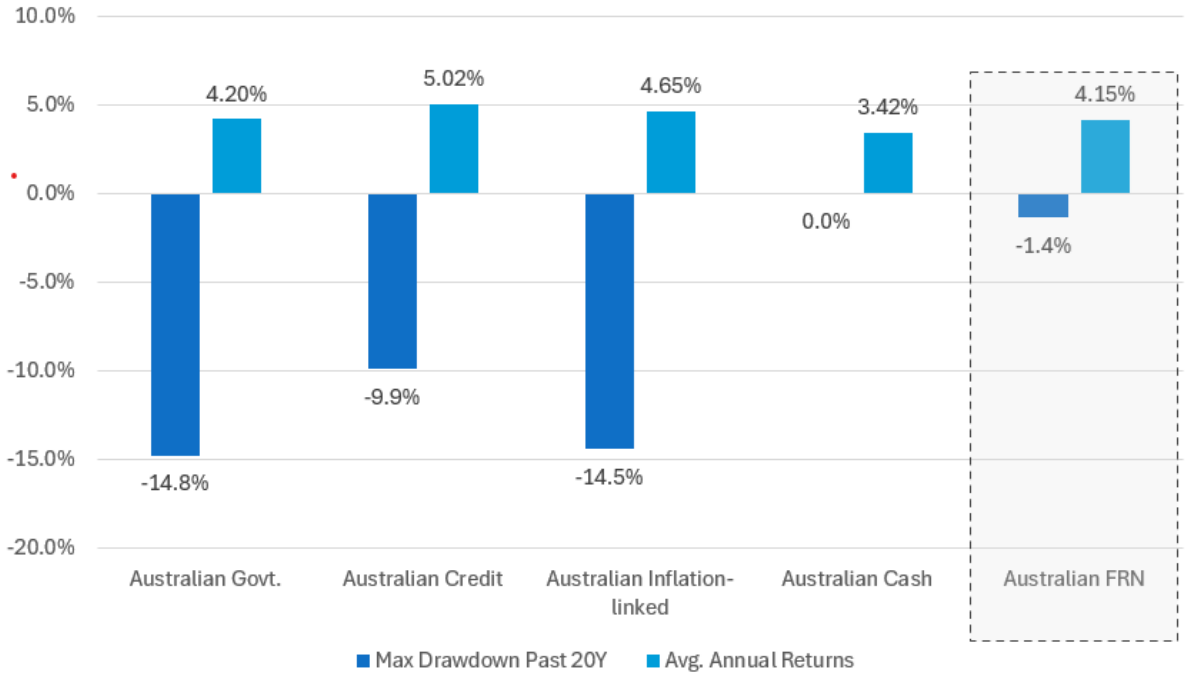
A feature of FRNs is their resilience during periods of market stress. Unlike fixed-rate bonds, FRNs exhibit very low duration, which significantly reduces their sensitivity to interest rate movements. While FRNs are still mark-to-market instruments, their price fluctuations tend to be modest, helping shield portfolios from broader market volatility.

Over the past two decades, the AusBond Credit FRN 0+ index has experienced a maximum drawdown of just -1.4%, far below that of traditional government bonds (-14.8%) and inflation linked bonds (-14.5%). Despite this resilience, FRNs have historically delivered an average annual return of 4.15%, comparable to many higher volatility fixed income sectors.

This risk return balance is reflected in the following chart (Figure 3), which shows the trade-off between average return and maximum downside experienced across the main fixed income sectors since 2005.

FRNs have exhibited shallow drawdowns over time, especially during major market stress events, highlighting their capital stability compared to other fixed income sectors.

Figure 3: Average Annual Return vs. Max Drawdown from 2005–2025 (20Y)



Source: Bloomberg Finance L.P., as of 29 August 2025. Australian Govt= Ausbond Govt 0+ Index, Australian Credit = Ausbond Credit 0+ Index, Australian Inflation-linked= Bloomberg AusBond Infl 0+ Index, Australian Cash= Bloomberg AusBond Bank Bill Index, Australian FRN= Bloomberg AusBond Credit FRN 0+ Index. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable. All the index performance results referred to are provided exclusively for comparison purposes only. It should not be assumed that they represent the performance of any particular investment.

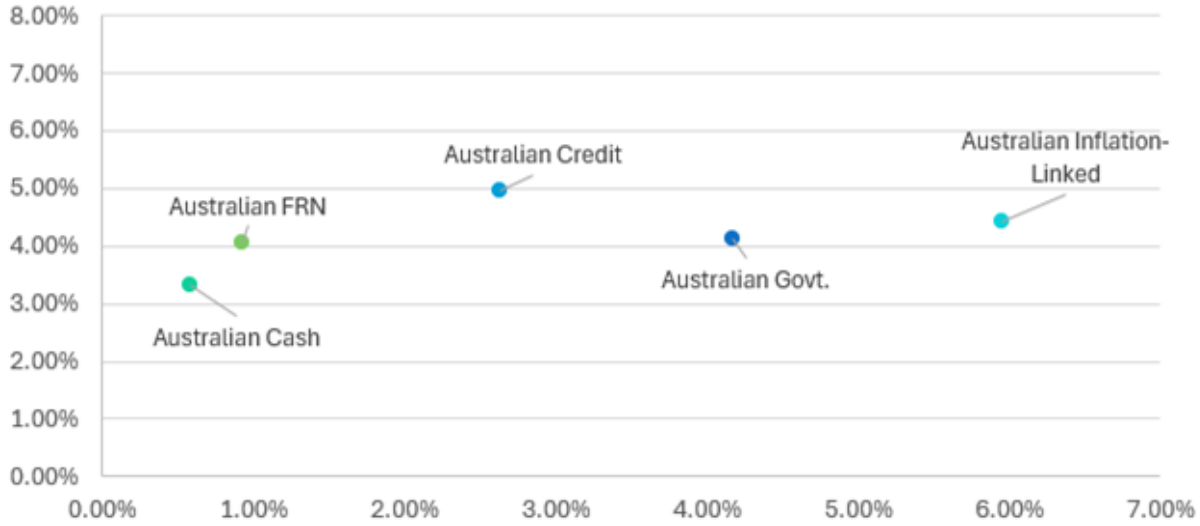
Return vs. risk: The quiet power of Floating Rate Notes

When constructing long-term portfolios, investors seek assets that deliver reliable income with minimal risk. FRNs stand out as one of the most efficient income sources in today's market, offering a higher yield per unit of risk than many other fixed income sectors, delivering a rare combination of capital stability and income in a volatile interest rate environment.

Floating Rate Notes have historically delivered a strong balance of income and capital stability. The AusBond FRN Credit 0+ Index has produced an average annual return of 4.15% over the past 20yrs, with volatility and drawdowns far below those of traditional credit or government bonds and with just a fraction of fixed-rate bond market risk.

When comparing long-term returns against volatility, Figure 4 illustrates that FRNs are a viable option for investors seeking income without having to take excessive risk.

Figure 4: 20 Year Risk/Return of Australian Asset



Source: Bloomberg Finance L.P., as of 29 August 2025. Australian Govt= Ausbond Govt 0+ Index, Australian Credit = Ausbond Credit 0+ Index, Australian Inflation-linked= Bloomberg AusBond Infl 0+ Index, Australian Cash= Bloomberg AusBond Bank Bill Index, Australian FRN= Bloomberg AusBond Credit FRN 0+ Index. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable. All the index performance results referred to are provided exclusively for comparison purposes only. It should not be assumed that they represent the performance of any particular investment.

This balance of return and resilience makes FRNs one of the most efficient building blocks in today's fixed income landscape. In fact, when measuring yield against volatility/risk, FRNs offer one of the higher income-per-unit-of-risk profiles across many other fixed income sectors. This underscores their value not only as a defensive holding, but as a core income generator in a diversified portfolio.

FRNs are particularly well suited to the current environment because they offer:

- Protection against interest-rate volatility, as coupons reset with benchmark rates
- Capital stability, with minimal duration risk if rate markets are volatile or rise unexpectedly
- Offer attractive income, especially through high-quality Australian dollar issuers

In short, FRNs can provide a stable, yield-focused core for portfolios and offer an anchor in uncertain times.

Jet James is a Client Portfolio Manager at State Street Investment Management. This material is general information only and does not take into account your individual objectives, financial situation or needs and you should consider whether it is appropriate for you.

Breaking down recent footy finals by the numbers

Tony Dillon

The 2025 footy season has been run and won across the codes, with the Brisbane Lions going back-to-back in a quirky AFL finals series, and the Brisbane Broncos finally ending Penrith's four-year stranglehold in the NRL. Clearly it was Brisbane's year.

Last year I looked at how the pre-finals bye in the AFL was disrupting top-4 sides, and this year I take a deeper dive into the numbers to reveal an even clearer trend.

But first. This year's AFL finals saw for the first time ever, the eighth-placed team knock out the minor premiers. And in the process of losing to Hawthorn in a semi-final, Adelaide became the first minor-premier since 1983 to be eliminated from the finals in straight sets.

Incredibly, the NRL minor premiers Canberra, also went out in straight sets. The first time ever that both AFL and NRL minor premiers suffered this fate in the same year.

And for the sixth time since the current AFL final-eight format commenced in 2000, the grand final featured teams that had played off against each other in a week one qualifying final. On five of those six occasions, including this year, the loser of the qualifying final flipped the result to win the grand final. This year, Geelong beat Brisbane in the second qualifying final, only to have that result reversed three weeks later in the final decider.

In my article last year, I argued that the momentum sapping pre-finals bye introduced in 2016 had tilted the finals balance away from teams 1-to-4, evidenced by the increased frequency of so-called 'straight-sets' finals exits among the top-4 teams, and their increased frequency of preliminary final losses after winning the week-1 qualifying final.

This year, I've taken the analysis beyond exit outcomes to more tangible measures such as win counts, win ratios, and end results for teams 1-to-4 versus 5-to-8. I've also quantified the structural advantage built into the finals system for top-4 teams, providing a baseline against which actual finals wins can be measured.

This baseline measure compares average expected wins for the top-4 in a finals series, compared to expected wins for teams 5-to-8 (see the footnote for the calculations).

The baseline calculation assumes a probability of winning any final by any team of 50%. An assumed 50:50 proposition in each game removes all real-world characteristics such as team form, injuries, and home ground advantage, thereby neutralising the chances of any team winning an individual final. Across a complete finals series however, a winning buffer still emerges for top-4 sides, solely due to the finals structure that affords a double chance to those sides.

The calculation reveals that a top-4 team can expect to win 1.40 times more finals than 5-to-8 teams. This baseline, structural win ratio can then be compared to observed win ratios.

In the pre-bye period of 2000-2015, top-4 teams recorded 107 finals wins across the 16 seasons, against 37 wins for 5-to-8 teams. That is, an observed top-4 to lower-4 win ratio of 2.89.

And for the bye period 2016-2025, the ratio was 55 top-4 wins to 35 lower-4 wins = 1.57.

A win ratio of 2.89 compared to the structural advantage only ratio of 1.40, suggests that top-4 teams won far more games in the pre-bye period, than the finals format alone would predict. This represents significant non-structural advantages at play for the top-4 sides, in addition to the advantage reflected in the double chance.

The bye period ratio of 1.57 is however, close to the 1.40 baseline and is surprisingly low, reflecting a far reduced non-structural edge in the era of a pre-finals bye.

The difference in observed win ratios is stark. A drop from 2.89 to 1.57, is about a two-thirds fall in the buffer the top-4 teams had over 5-to-8. A caveat: the differing sample sizes (144 finals pre-bye vs 90 bye) mean random variation plays a role, but it can't fully explain the large gap.

While the introduction of the pre-finals bye aligns with the drop in the top-4 winning ratio, it's unlikely the bye alone explains such a sharp fall. But it may have accelerated the trend in levelling the playing field along with evolving equalisation factors in player drafts, salary caps, player academies and the like.

And while a winning ratio of 2.89 pre-bye seems high for the top teams, 1.57 now seems low, such that maybe the bye has swung the pendulum too far. It is a situation left for the AFL to ponder.

In probability terms, a 50% chance of any team beating another yields the baseline win ratio of 1.40. Working backwards, the pre-bye ratio of 2.89 implies an effective win probability of about 80% for top-4 teams over lower-4, while the bye ratio of 1.57 implies about 55%. Note, the calculation involves multiple conditional probability paths, and the maths isn't shown here.

So again, 80% seems high and 55% low. With 55% barely above the baseline, the top teams' non-structural winning buffer has almost all been eroded in the bye period.

Note that these probabilities are useful for looking at relativities, but in reality, probabilities within individual games will jump around considerably. However with these relativities, the overall conclusion remains the same.

Other observations out of the win counts over the two periods include:

- The win rate for teams 5-to-8 jumped from 36.7% in the pre-bye era (37 wins from 101 finals) to 48.0% in the bye era (35 wins from 73 finals).
- Top-4 teams in the pre-bye era won all 16 premierships, filled all 32 grand final slots, and 59 of the 64 preliminary final slots (there are two preliminary finals per year).
- In the era of the bye, top-4 teams won eight of the ten premierships, filled 16 of the 20 grand final slots, and 31 of the 40 preliminary final slots.

Clearly, teams 5-to-8 have gone from just making up finals numbers in the pre-bye era, to now winning nearly half their finals, including making the grand final and occasionally winning it. And if the bottom-half teams have now become a reasonable premiership threat, the question remains is that a good thing, or has the reward for making the top-4 in a tough competition been eroded too much? It's all about getting the balance right.

Tony Dillon is a freelance writer and former actuary. This article is general information and does not consider the circumstances of any investor.

Footnote

We can show the mathematical advantage the top-4 finalists (teams 1-to-4) have over the lower-4 (teams 5-to-8), with the top-4 able to lose in week 1 and not be eliminated, while every game is sudden death for the lower-4.

Assume each of the 8 teams has a 50% chance of winning a final across the nine games in a given finals series. With this assumption, we will derive the advantage for the top-4 sides purely from the finals structure, reflecting the double chance that the top-4 sides enjoy.

Consider a top-4 team on the ladder. On average, it wins 1.3125 games per finals series, being:

0.5 week 1 wins (=50%) +
0.25 week 2 wins (=50% x 0.5 week 1 losses, noting week 1 losers survive) +
0.375 week 3 wins (=50% x 0.75 week 1 + week 2 wins) +
0.1875 week 4 wins (=50% x 0.375 Week 3 wins)

Now consider a lower-4 team on the ladder. On average, it wins 0.9375 games per finals series, being:

0.5 week 1 wins (=50%) +
0.25 week 2 wins (=50% x 0.5 week 1 wins) +
0.125 week 3 wins (=50% x 0.25 week 2 wins) +
0.0625 week 4 wins (=50% x 0.125 week 3 wins)

(Check: total wins = 1.3125 + 0.9375 = 2.25 for two teams. For eight teams: 4 x 2.25 = 9, as expected with 9 games per finals series).

Ratio of wins: top-4 team to a lower-4 team = 1.3125 / 0.9375 = 1.40

That is, a top-4 side can expect to win 1.40 times more than a lower-4 side. This reflects the structural advantage the finals system affords the top-4 teams. When external factors other than the finals structure are considered, winning probabilities other than 50% would exist, and the advantage would be expected to widen.