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Editorial

Technology was supposed to bring costs down but it doesn't seem to be doing a very good job of it.

I just found out about another price rise for Kayo's streaming services with its premium plan increasing from $40 to $45 a month.

It's not the only one though. Last August, Netflix hiked prices for all its plans, with the basic ad-free plan increasing from $18.99 to $20.99 a month. In September, Disney raised the subscription price for the Disney+ ad-free plan from $15.99 to $18.99 a month. And in October, Apple TV+ monthly plan increased from $12.99 to $15.99 a month.

The streamers have relentlessly raised prices since launching in Australia. The Netflix basic ad-free plan cost $8.99 a month when first launched in 2015. That means the price of the plan has risen 133% over 11 years at a compound annual growth rate of 8%.

The increases are gathering pace too, as Netflix subscribers have seen two price hikes over the past 21 months, with the basic ad-free plan up 26% over that time.

So, how are they getting away with it?

Back in the (good?) old days

I remember it being vastly different to when I grew up in the 1980s and early 90s. Back then, we had free-to-air television and that was it. The TV then had more local content, less from overseas, an abundance of ads, and wasn't very good. You had to watch shows at fixed times, unlike most of the time today when you can watch them when you want – though that's changing too.

The TVs cost between $500 to a bit north of $1,000, which was quite a lot of money then. But while the TV sets weren't cheap, the content was.

Today, it's very different. We have an abundance of choices. More shows, more from overseas, ad-free if we pay up, and the convenience of all of it being on the one device (or a few devices if you wish).

It's the content that's much more expensive. Including the cost of Wi-fi, I am paying more than $2,000 a year for my streaming services – which is a lot of money.

From one oligopoly to another

When I grew up, the major TV networks – Nine, Seven, and Ten – made a mint off all the ads they showed. They had an oligopoly over TV services and made the most of it. That was around the peak for these operators.

Today, streaming is also dominated by a few companies, though they're primarily tech giants based in the US. They have immense power like Nine, Seven, and Ten once did.

We seem to have swapped one oligopoly for another. Where TV networks used to rake it in based solely on ads, the streamers use a mix of ads and subscriptions to make their revenue.

Wasn't technology supposed to reduce prices?

Improving technology was supposed to drive down prices, but that doesn't seem to have happened with television.

The streaming companies will tell you that the content they provide doesn't come cheap. Costs for sports have skyrocketed, and those for movies and TV series budgets have also ballooned.

Yet, these cost increases don't fully explain the price hikes for streaming services. The power of the streamers is a significant factor too.

It's not just streaming

It's not just streaming where costs are going up. It seems to be happening with technology across the board, both for individuals and businesses.

Just ask Microsoft users about costs for Office and storage products of late. In early 2025, the cost for a 365 personal plan went from $109 to $159 a year. The company is planning to increase 365 prices for business and government users mid this year, citing improved AI capabilities.

You're going to hear more about AI-related price increases from the tech giants because they need to recoup the hundreds of billions of dollars that they're pouring into the new technology.

Competition is the answer

Back in the 80s, the TV networks had an entrenched oligopoly and ruthlessly protected it. Today, the tech giants have a stranglehold on the industry and pay billions to governments ("donations") to take out competitors to make sure it stays that way.

It makes Netflix's proposed takeover of Warner Bros Discover a fascinating test case. A takeover would undoubtedly increase the power of Netflix and reduce competition in streaming services. But the US has been weak in preventing monopolies/oligopolies in the tech industry in the past, and Trump himself has plenty of conflicts of interest, with his own media platforms and personal relationships with some of the main players.

If the takeover is successful, it will further consolidate the streaming industry and lead to higher prices for services in the long term.

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Canadian Prime Minister Mark Carney's speech in Davos caused quite a stir, arguing the longstanding rules-based international order has effectively ended and that middle powers like Canada must band together and pursue strategic autonomy rather than relying on old assumptions about global stability. In my piece this week, I suggest that Carney is onto something and the speech helps explain recent geopolitical events and some of the wild swings in markets, especially in currencies and commodities. I also contend that the regime shift will have significant implications for markets and portfolios over the long-term.

Meanwhile, **Ben Walsh** believes Carney's speech means much higher defence spending is needed by "middle powers" including Australia. With our budget deficit, more spending on defence likely means less spending on other things, including housing subsidies. He thinks housing reform is now becoming a strategic necessity rather than political suicide.

James Gruber

Also in this week's edition...

Clime's Steve Lambeth says the ASX’s traditional yield advantage has flipped, with dividend yields now sitting below risk-free government bond yields despite little to no dividend growth, creating an 'upside-down' market where equities no longer compensate investors for their higher risk. In this environment, he thinks investors need to be more selective about finding income stocks.

Commodities are flying and the big question is: is it too late to buy in, or are there still opportunities? **Airlie's Emma Fisher** gives an overview of the sector and where she's finding value on the ASX.

Meanwhile, gold’s surge into 2026 has prompted fears of having “missed out”, but **John Reade** says that misunderstands why gold has been rising and the role it plays in portfolios. He suggests its strength reflects deeper, structural shifts in inflation, policy and diversification - making gold less a trade and more a strategic anchor for portfolio resilience.

Did you know that South Korea's market went up 75% in US dollar terms last year? Or that Asia more broadly easily outperformed the US in 2025? **Fidelity International's Matthew Quaife** and **Peiqian Liu** believe it's no fluke and the outlook for Asia remains bright.

New research shows that after strong bull runs, markets need near-perfect conditions to keep delivering outsized returns - and history says that almost never happens. **Larry Swedroe** explains why today’s exuberance may be setting investors up for a decade of disappointment.

Lastly, in this week's whitepaper, **MFS** highlights key themes and growth opportunities for investors to consider in 2026.

Curated by James Gruber and Leisa Bell

Making sense of record high markets as the world catches fire

James Gruber

It's been a crazy start to the year. We've had the US break international law by seizing the Venezuelan leader, Nicolas Maduro. We've had Trump threaten the takeover of Greenland. We've had the US Justice Department open a criminal investigation into the Federal Reserve Chairman Jerome Powell over the Fed's building renovation project. We've had internal turmoil in Iran. We've also had Japan bond yields lurch higher over concerns about fiscal stimulus and debt. And it's not even one month into the year…

All this news has unsettled currency, bond, and commodity markets. The US dollar has tanked as a result of geopolitical tensions and rate cut expectations. Meanwhile, the Japanese yen fell to an 18-month low in the first half of the month before rebounding on suggestions that the government may intervene to halt the flagging currency.

In bond markets, developed market bond yields rose following the jump in yields in Japan, with concerns that Japanese may switch money from overseas bond markets back home as domestic yields become more attractive.

Meanwhile, precious metals have taken centre stage. The silver price has gone ballistic, up 66% in January and 273% over the past year. Gold has also surged this month, after being the best performing asset class in 2025.

Yet, stock markets have been unfazed by the negative headlines. They've continued to climb, oblivious to the turmoil around them.

How to make sense of it all? I think we've witnessing the unravelling of the global system created by the US post World War Two. That system led to an extraordinary period of relative stability and free markets, which propelled many assets, especially stocks.

While we don't know what will replace that system, it's unlikely to be as market-friendly, and there's a decent chance of increased turmoil as the old order is replaced by something new.

That may mean the easy gains for stocks and assets, particularly since 1980, are over, and a trickier environment awaits.

How we got here

The recent global chaos hasn't happened in a vacuum. As I mentioned, we've been living in a rule-based, international system since 1945. That system didn't just come about naturally. It followed a period of extraordinary instability, with two world wars, and a Great Depression in between.

After World War Two, the US became a global superpower, replacing the British. America and its allies then built an international system designed to promote stability, prosperity and peace through shared rules rather than constant coercion.

Its core pillars were:

1. Collective security and sovereignty

- The United Nations was created to prevent unilateral aggression and provide a forum for diplomacy.
- Borders were treated as inviolable; wars of conquest were delegitimised.
- Major powers committed, at least formally, to resolving disputes through institutions rather than force.

2. Open trade and economic integration

- The Bretton Woods institutions — the IMF and World Bank — were established to stabilise currencies, provide development finance, and prevent destructive financial crises.
- The GATT, later the WTO, reduced tariffs and promoted predictable trade rules.
- Economic interdependence was meant to raise the cost of conflict and support shared growth.

3. Monetary and financial stability

- The Bretton Woods system initially anchored currencies to the U.S. dollar (and gold), reducing volatility.
- Even after the system collapsed in the 1970s, the norm of open capital markets and dollar-centric finance persisted.
- Central bank independence and macroeconomic coordination became accepted norms.

4. U.S. security guarantees and leadership

- The system was underwritten by American military power, including alliances like NATO and bilateral security treaties in Asia.
- In exchange for U.S. protection, allies aligned economically and politically with the system.
- The U.S. accepted persistent trade deficits and acted as the system's consumer and financial backstop.

5. Norms, not just power

- International law, treaties and multilateral institutions constrained behaviour.
- Even powerful states generally felt the need to justify actions in legal or moral terms.

The global rules based order started to break down from 2008. Europeans felt that the system was no longer helping them, and politics fragmented with extreme left and right parties gaining ground. The US followed, with a hollowing out of the manufacturing base and outsourcing of industries to China and others leading to the election of a two-term Trump. Trump has functioned as an accelerant rather than a cause for the unravelling of the international system.

What's happening now?

This unravelling means a once-connected world has become disconnected. A rules-based, cooperate system has turned into a power-based order where countries must fight for themselves.

That's had several consequences:

- It's led to the Ukraine War, where Russia saw an opportunity and allies haven't been united in supporting Ukraine.
- It's resulted in supply chains breaking down between countries, increasing the costs of goods and services (the 'affordability crisis').
- An erosion of trust. With countries, money (currency debasement trades including gold, silver, and bitcoin), institutions including NATO, the UN, central banks, and governments.
- Politics becoming more extreme, with parties moving away from the middle to the far left and right.
- Many people being confused by what's going on and looking for someone to blame. Politicians fit the bill, but Baby Boomers and others have copped it too.

How the great unravelling translates to markets

The breakdown of the rules-based international system has filtered its way through markets.

It's hit the US dollar, as countries lose faith in America to maintain global stability and order.

It's hit bond markets, with higher yields in developed markets as investors lose faith in governments to deal with massive debt loads.

It's hit commodity markets, as gold and silver are turbocharged with investors seeing them as currency alternatives.

It's yet to hit stock markets, as investors continue to front run lower interest rates from the US Federal Reserve and the prospects of Trump running the economy hot.

What happens next?

Renowned investor Ray Dalio likens today to the 1930s with a collapsing international order that threatens to lead to conflict and war.

Demographer Neil Howe thinks similarly, suggesting we're in a 'Fourth Turning' where institutions are torn down and replaced. This eventually leads to future prosperity, though mayhem and chaos ensue before we reach that point.

I'm not convinced either have exact analogies, though both are right when saying that history shows few instances of smooth transitions from one global order to the next.

How to position portfolios

Since 1980, it's been a golden period for assets. If you've owned property, shares, bonds, art, and just about anything else, you're a lot wealthier for it.

In my view, that recent period of free trade, deregulation, peace, security, and stability, is finished. So are the easy gains in assets that came with it.

If right, it means the things that worked for investors in the past may not work in future. Growth stocks and US equities have produced fantastic returns for a long time, though it's notable that they've started to underperform over the past 12 months. Conversely, things that haven't worked for a long time, such as commodities, value stocks, international ex-US equities, non-US currencies, have caught investors' attention.

It also means diversification may matter more than ever. Concentration in a number band of growth stocks won't cut it.

And above all, a regime shift as I am describing it, will mean being open minded and humble about markets and what comes next.

James Gruber is editor of Firstlinks.

Australia's generous housing subsidies face mounting political risk

Ben Walsh

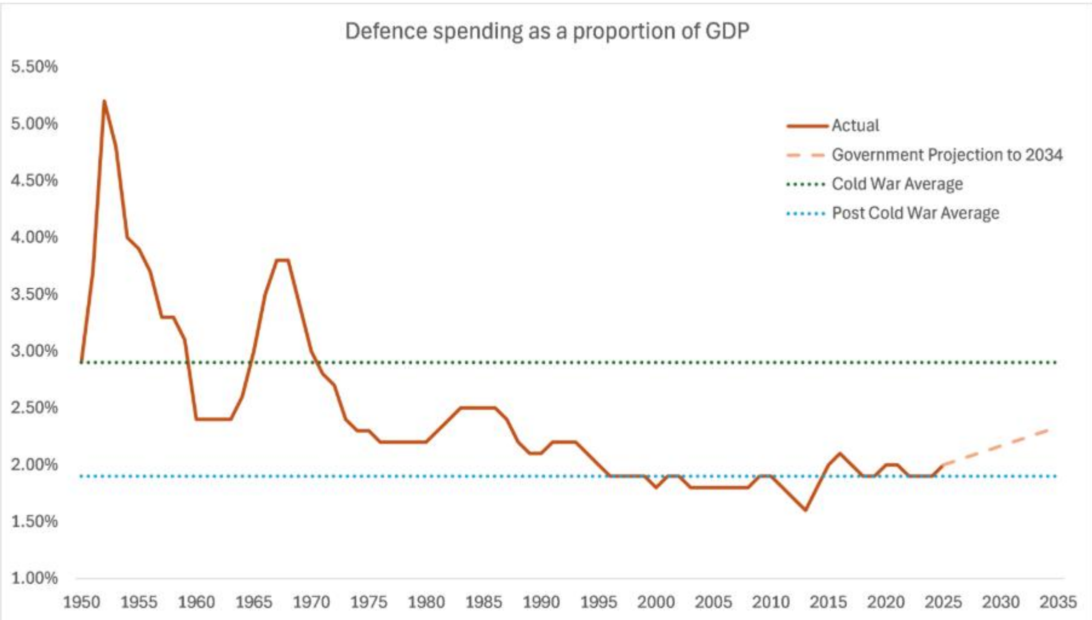
Canadian Prime Minister Mark Carney's Davos speech dramatically amplifies the political risk embedded in Australian housing policy and accelerates the timeline for when those chickens come home to roost.

His central thesis, that we are witnessing "a rupture, not a transition" in the global order, means the comfortable policy assumptions that have underpinned Australian household wealth accumulation for three decades are now exposed as contingent, not permanent. And for Australia as a middle power, the fiscal and strategic implications directly threaten the sustainability of generous housing subsidies.

The fiscal capacity problem

Carney explicitly called for middle powers to build strategic autonomy in energy, food, critical minerals, finance and supply chains, emphasising the need to rely not just on values but on strength. He noted Canada is doubling defence spending by decade's end.

Australia is on a parallel track. Defence spending is projected to grow from $44.6 billion in 2026 to $56.2 billion by 2030—a compound annual growth rate of 5.9%. As a percentage of GDP, this rises from 2.05% currently to 2.34% by 2032-33 under current government plans, with the opposition Coalition committed to reaching 3% of GDP within a decade. The US is pushing allies toward 3.5% of GDP.



Sources: SIPRI Military Expenditure Index and Australian government projections

This is not optional. Carney's framing makes clear that in a world where great powers use economic integration as weapons and supply chains as vulnerabilities to exploit, middle powers that cannot feed, fuel, or defend themselves have few options.

Now overlay Australia's fiscal position: a budget deficit of $36.8 billion in 2025/26, net debt at 20.1% of GDP ($587.5 billion), and structural spending pressures from aged care and the NDIS. While the treasurer has reduced projected deficits, gross debt is expected to remain at $1.16 trillion through 2027-28, with savings not materially improving the balance sheet.

Here's the collision: Australia needs to find an additional $10-15 billion per year in defence spending over the next decade while managing structural deficits and rising debt. At the same time, it is foregoing an estimated $50-70 billion annually in CGT revenue by exempting principal residences from capital gains tax, and subsidising Age Pension eligibility for homeowners with millions of dollars in exempt housing wealth.

In Carney's framework, **that arithmetic no longer adds up**. When a middle power must build domestic resilience, invest in critical infrastructure, and double defence spending, subsidising tax-free capital accumulation in oversized family homes becomes a luxury it can't afford.

But why would subsidies actually end?

The political economy cuts both ways. Homeowners still outnumber renters electorally. Housing wealth effects support consumption and confidence. And governments facing economic uncertainty might hesitate to crystallise paper losses for millions of households.

The answer lies in *relative priority*, not absolute necessity, and in a fundamental shift in the electoral coalition that opposes housing subsidies.

Defence spending increases are non-negotiable treaty commitments and strategic imperatives. Aged care and NDIS are legally mandated programs. When fiscal space is finite, discretionary tax expenditures, which are what housing concessions are, structurally become the release valve. The question isn't whether housing subsidies are politically popular (they are), but whether they're defensible when the alternative is cutting defence capability or breaking international commitments. Carney's rupture framing shifts that trade-off from theoretical to immediate.

But there's a second, equally important dynamic: **the electoral math on housing subsidies has already shifted, and most politicians haven't noticed yet**. Gen Z and Millennials, who are locked out of homeownership, obviously oppose subsidies that inflate prices. But they're now joined by Gen X and Boomers with adult children who see the direct cost of these policies in their kids' lives. A 58-year-old homeowner in Western Sydney who owns their home outright may personally benefit from CGT exemptions, but when their 28-year-old daughter is paying $650/week in rent with no path to ownership, the political calculus changes.

This coalition, renters, prospective first-home buyers, and homeowners with children struggling to enter the market, now represents the majority in nearly all electorates except wealthy inner-city enclaves and retirement-heavy areas. The beneficiaries of maximum housing subsidies are increasingly concentrated in a narrow band: older homeowners in premium suburbs without children affected by affordability, and property investors. That's not a winning electoral coalition nationally, even if it's overrepresented in safe seats and marginal electorates that happen to be wealthy.

When you combine this shifted electoral math with fiscal necessity and strategic imperative, the political path to reform becomes clearer. A government can credibly argue: "We're not punishing homeowners; we're redirecting resources from untargeted subsidies that hurt your children toward defence spending that protects your grandchildren." That narrative threads the needle in a way that pure fiscal sustainability arguments never could.

The rupture framing amplifies this by adding urgency. It's not "we should reform housing subsidies eventually", it's "we must choose between subsidising $2 million tax-free homes for empty-nesters and funding the submarines that ensure our sovereignty."

The capital flow question

Carney emphasised that middle powers must pursue international diversification as both economic prudence and the material foundation for principled foreign policy, since countries earn the right to principle by reducing vulnerability to retaliation.

For Australia, this means reducing dependence on any single trade or capital partner. Recent research notes that while China remains Australia's largest trading partner, efforts have diversified trade relations with India, Japan, and ASEAN. But it also warns that reliance on foreign investment increases susceptibility to external shocks and that real estate-driven growth poses financial stability concerns.

Would fortress economics actually involve capital controls? The mechanism deserves scrutiny. Research on capital controls shows they can be effective during crises for preventing destabilising outflows, but they impose costs: reduced growth during expansions and implementation challenges.

The more plausible pathway is **selective restriction rather than comprehensive controls**. Australia has already implemented targeted foreign investment restrictions on residential property through FIRB. In a rupture environment, these would likely tighten further—not through capital controls per se, but through:

- Stricter FIRB approval criteria prioritising strategic sectors over residential property
- Tax disincentives for foreign residential investment (building on existing surcharges)
- Regulatory preference for capital flows into defence-related industries, critical minerals, and energy infrastructure
- Reduced tolerance for property speculation that doesn't build productive capacity

The effect is similar to controls without the implementation complexity: foreign capital inflows into residential property face higher barriers, while domestic capital is incentivised (through tax settings and regulatory signals) toward strategic sectors rather than housing speculation. A government mobilising investment for national resilience has little reason to maintain tax settings that channel household savings into ever-larger homes rather than productive infrastructure.

This is policy redirection, not financial autarky. But the directional pressure on housing demand is the same.

The intergenerational equity accelerant

Carney's thesis makes intergenerational equity, already a political flashpoint in Australian housing, an issue of **national strategic importance**, not just domestic fairness.

Younger Australians are, to put it mildly, noticing housing unaffordability, with record numbers abandoning major parties and housing policy as a primary driver. Australia is projected to fall 50,000 homes short of annual targets in 2026, with established house prices rising 9% in 2025. The generational wealth gap is widening.

In Carney's framework, this is not just a social policy problem, it's a **strategic vulnerability**. A middle power facing an uncertain, competitive international environment cannot afford a generation locked out of wealth accumulation and therefore less financially resilient to shocks, or declining social cohesion when a foundational element like shelter is unavailable to median households.

The strategic argument is strongest when focused narrowly: generational lockout weakens the institutional trust and financial resilience needed for national cohesion during a crisis. When young professionals see no path to housing security, they optimise for individual survival, emigrating to more affordable allied countries or withdrawing from civic participation. This matters because middle powers facing great power competition need maximum social solidarity and minimal brain drain.

Carney's language about middle powers needing to build something stronger and more just, with emphasis on reducing vulnerability, reads almost like a direct rebuke to current Australian housing policy settings. You cannot build national resilience on a foundation of intergenerational inequity, extreme household leverage, and fiscal subsidies that channel resources away from strategic priorities.

The Three Political Risk Amplifiers

Carney's speech doesn't just add to political risk; it acts as a **catalyst** that makes previously gradual pressures acute:

1. Fiscal urgency

What was a slow-burn sustainability problem (how long can we afford housing CGT exemptions?) becomes an immediate trade-off. Every dollar of foregone CGT revenue is now a dollar not spent on defence, critical infrastructure, or strategic autonomy. The NSW Government's submission arguing that the CGT discount on investment properties places pressure on house prices upward will now be joined by the Treasury arguing that *all* housing tax concessions are unaffordable in a rupture environment.

The fiscal math creates a forcing function: when defence spending must rise from 2.05% to 3% of GDP, that's roughly $25 billion annually in additional spending by 2030. Housing tax expenditures of $50-70 billion per year represent the single largest pool of discretionary fiscal capacity available without cutting essential services or raising broad-based taxes.

2. Policy legitimacy

Carney emphasised that when middle powers negotiate bilaterally with hegemons, they negotiate from weakness and accept what's offered. The same logic applies domestically: when a government negotiates with entrenched interests defending their subsidies, it negotiates from weakness unless it has a compelling national narrative.

Carney's rupture framing *provides that narrative*: "We can no longer afford policies designed for a stable, rules-based world that no longer exists." This makes previously politically untouchable reforms, partial inclusion of the home in the Age Pension assets test, CGT exemption caps, and aged care means-testing integration suddenly defensible as *necessary for national security*.

This isn't about whether such reforms are actually required for security in a technical sense. It's about whether a government can construct a politically sustainable narrative for unwinding popular subsidies. The rupture frame provides that narrative in a way that "fiscal sustainability" or "intergenerational equity" alone do not.

3. International precedent

Carney called for middle powers to form coalitions on a topic-by-topic basis. Could housing subsidy reform become one such topic?

The precedent for coordinated domestic tax policy reform is admittedly thin. The OECD's BEPS framework on corporate taxation shows it's possible, but housing subsidies are far more politically sensitive than corporate tax avoidance. Free-rider problems loom: each country might prefer others to reform while keeping its own subsidies to attract capital and talent.

But the politics shift if the reform is framed as a strategic necessity rather than economic optimisation. If Canada, Australia, and comparable middle powers face similar fiscal pressures, defence increases, aging populations, infrastructure needs, then near-simultaneous housing policy reforms become more politically feasible. Not because of formal coordination, but because each country can point to others facing identical constraints and making similar choices.

The fact that Mark Carney has signalled this shift makes near-term action more plausible. If Canada moves first on housing subsidy reform explicitly tied to defence funding, it provides political cover for Australia to follow. This isn't a 2028 treaty commitment, but rather a demonstration that such reforms are both possible and defensible.

The portfolio implication

For investors: the Carney thesis reinforces that Australian households holding $1.8 million in their home and $700,000 in super are now explicitly **long two massive, correlated risks**:

1. **Property market risk** (double-digit volatility, concentration, and liquidity constraints)
2. **Policy rupture risk** (fundamental reordering of national priorities in response to geopolitical change)

The scenarios previously modelled as edge cases, partial assets test inclusion, CGT exemption caps, aged care integration, are no longer speculative. They are **probable policy responses** to the fiscal and strategic imperatives Carney described. And because the rupture framing delegitimizes old assumptions, these reforms could happen faster and with less warning than traditional political cycles would suggest.

The correlation matters. In a scenario where housing subsidies are curtailed to fund defense:

- Property prices face downward pressure (reduced tax advantage)
- Household balance sheets weaken (lower home values, possible CGT on future gains)
- Retirement plans built on downsizing or equity release become less viable
- Aged care funding strategies assuming exempt housing wealth fail

This isn't two independent risks that might offset. It's a single regime shift that amplifies both simultaneously.

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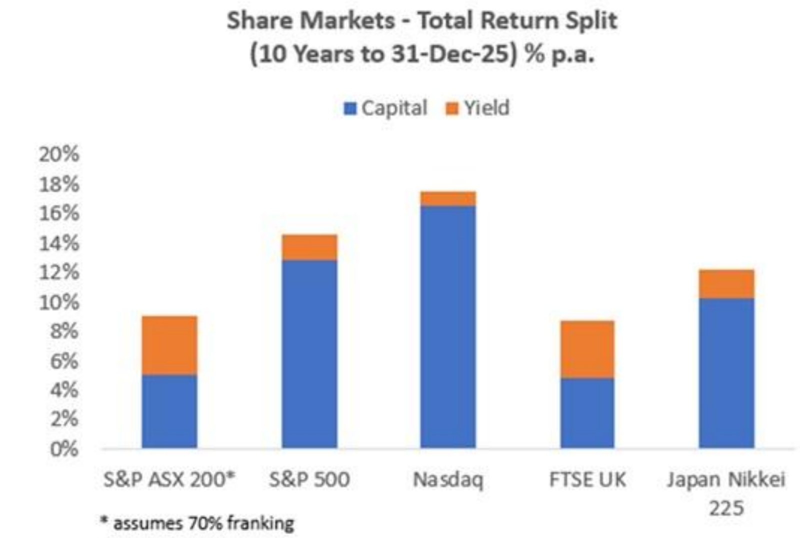
Finding yield on the ASX

Steve Lambeth

Like the track *Upside Down* by Diana Ross in the final series of *Stranger Things*, the ASX has become an upside-down world in which riskier dividend yields sit below risk-free government bond yields. Now is as important a time as ever for investors to think carefully about what bond-like stocks to hold in their portfolios.

The Australian share market is known for its yield appeal. As shown in the below chart, yield comprises a more meaningful portion of total return than for a number of other offshore share markets, and especially so after allowing for Australia's unique dividend imputation system.



* assumes 70% franking
Source: Factset

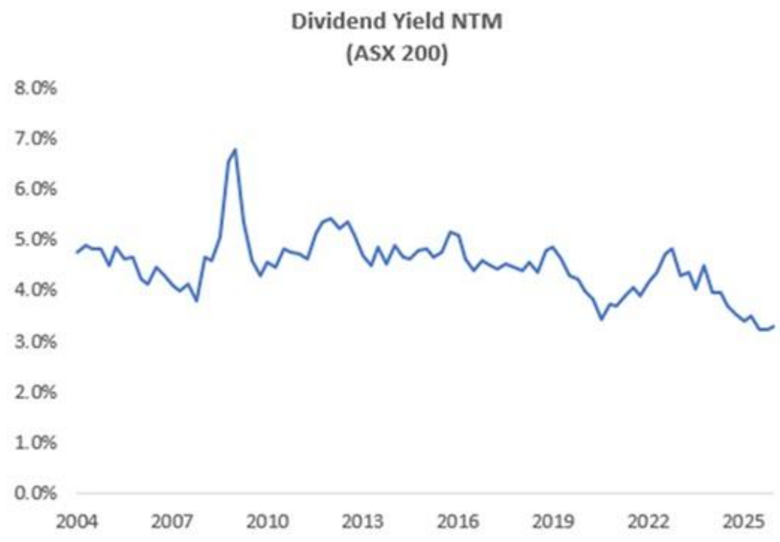
Our yield status in Australia reflects, among other things, the following:

- Many companies are domestic only (ie only operate in Australia), a constraint on growth (vs major offshore markets which serve much larger addressable markets);
- Many are mature and incumbent, again limiting reinvestment opportunities (eg major banks, telcos, health insurers, and most REITs and consumer staples);
- High payout ratios (which iterates with the above two factors), limiting capital available for reinvestment to grow; and
- Taxation – Australia's unique imputation system makes dividends a more efficient way to return capital to shareholders than other methods (eg share buybacks).

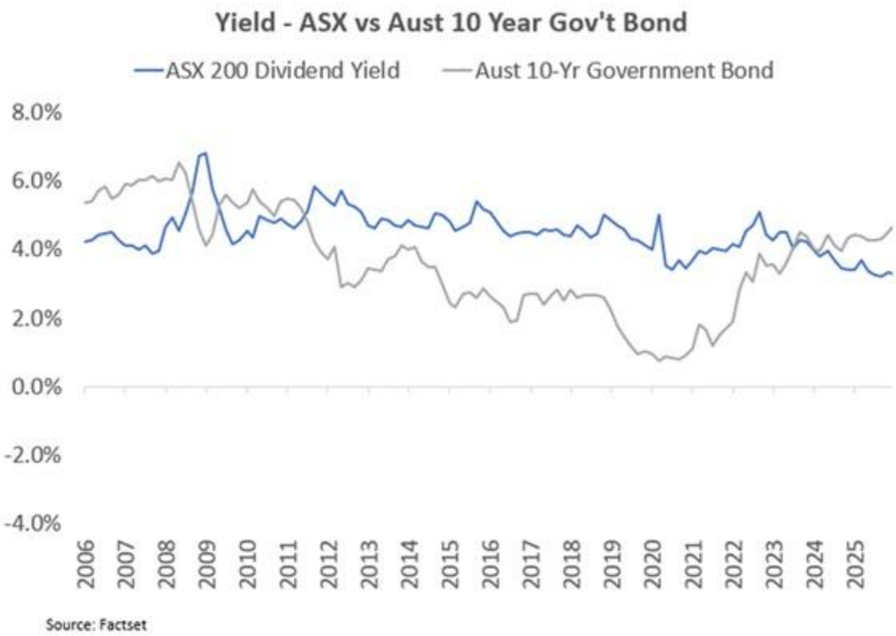
What is the yield of the ASX at present?

The yield on the ASX200 is currently ~3.4%. This is its lowest level in 20 years.

The low yield of the ASX is even more revealing when overlaying the yield of Australian 10-year government bonds. Notice in the next chart that the yield of the ASX has mainly exceeded the yield of 10-year government bonds – a sensical outcome given equities are riskier than bonds. However, since mid-2023 equity yields have tracked below government bond yields.



Source: Factset



Is lack of yield made up for in higher growth?

Bond yields are fixed; dividends are not. One therefore might ask whether stronger dividend growth has compensated for today's lower dividend yields.

Unfortunately, the answer is no. The next chart plots the rolling 12m-forward dividend per share of the ASX 200. After a collapse then spike during the COVID-19 period, dividends have since retreated to be around 2019 levels. Also note the cyclical nature of the time series, which reflects dividend volatility from the two largest sectors of the ASX – banks and resources. Overall, unlike in the pre-GFC period when low yield sat alongside strong dividend growth, today it's low yield and low-to-no-growth.

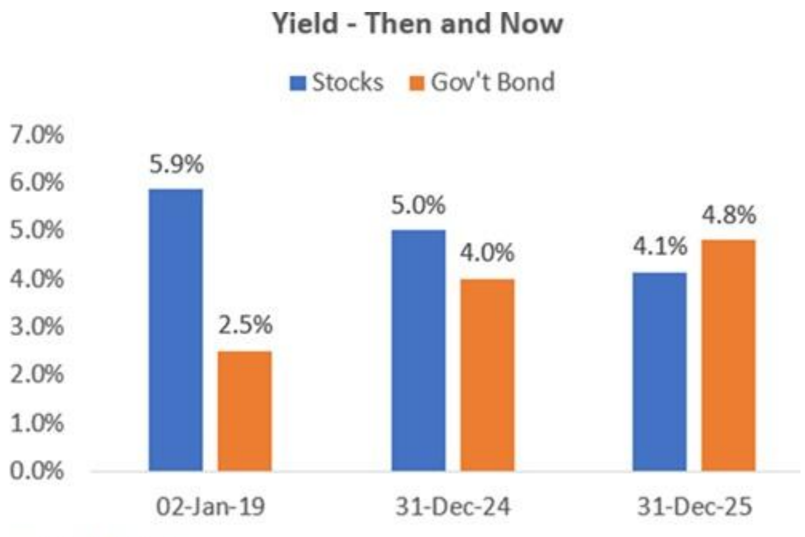
Where is the low yield of the ASX coming from?

In the main, the decline in yield for the ASX comes from the big end of town being rated differently to a time ago. The table below lists 17 large cap companies known as reliable dividend payers. This group collectively accounts for 45% of the ASX 200. Note at the bottom of the table the weighted average yield of the basket (using today's index weightings). Back in 2019, this basket yielded 5.9% (before grossing up for franking) vs the Aussie 10-year government bond yield at 2.5%. Fast forward to today and you get 4.1% dividend yield vs 4.8% for the 10-year bond. Upside down.

Also observe that the long-term growth rate in dividends from these stocks overall is 0%. This further validates why we have compared ASX yield stocks with government bonds given their fixed income nature.

Stock	Name	DPS Yield as at 02-Jan-19	31-Dec-24	31-Dec-25	Index Weight	DPS Growth 10 Yrs
CBA-AU	Commonwealth Bank of	6.1%	3.1%	3.1%	9.8%	2%
WBC-AU	Westpac Bank	7.7%	5.0%	4.1%	4.9%	-1%
NAB-AU	National Aust Bank	8.2%	4.6%	4.0%	4.7%	-1%
ANZ-AU	ANZ Group	6.8%	5.9%	4.6%	4.0%	1%
BHP-AU	BHP Group Ltd	5.8%	5.0%	3.8%	8.1%	0%
WDS-AU	Woodside Energy	7.3%	5.6%	4.0%	1.8%	0%
TLS-AU	Telstra	6.2%	4.9%	4.2%	2.1%	0%
WES-AU	Wesfarmers	5.4%	3.0%	3.0%	3.6%	1%
WOW-AU	Woolworths	3.0%	3.3%	3.4%	1.4%	2%
TCL-AU	Transurban	5.2%	5.0%	5.0%	1.8%	3%
SCG-AU	Scentre Group	5.9%	5.3%	4.5%	0.8%	-1%
VCX-AU	Vicinity Centres	6.5%	5.9%	5.0%	0.4%	-1%
GPT-AU	GPT Group	5.0%	5.7%	4.7%	0.4%	1%
SGP-AU	Stockland	8.1%	5.6%	4.5%	0.6%	0%
MPL-AU	Medibank Private	5.0%	4.7%	4.0%	0.5%	5%
ASX-AU	ASX Limited	3.8%	3.3%	4.0%	0.4%	0%
AZJ-AU	Aurizon Holdings	5.4%	6.1%	5.7%	0.2%	-3%
Median / Total		**5.9%**	**5.0%**	**4.1%**	**45%**	**0%**
10 Year Bond		**2.5%**	**4.0%**	**4.8%**		

Source: Factset



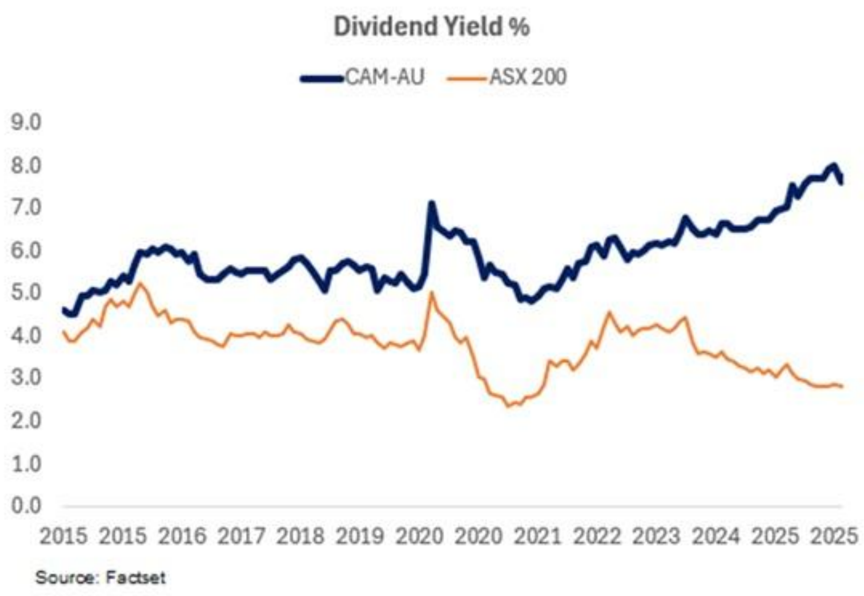
Source: Factset

Why is it so? What will it take for value to return?

We don't have good answers on this. On fundamentals, none of the above names have changed to offer either more growth or less risk than a time ago (same for the broader market). Thus, explaining the grind down in yield has us resort to the vagaries of liquidity and sentiment. The rise of passive investing, smart beta ETFs (eg VHY.ASX), and super funds seemingly having more money than there are assets to invest in, has contributed to today's picture. It begs the question: what is it going to take for conditions to return normal – i.e. a world not upside down? Or, more practically, how can investors find value in this environment?

What should investors do? Is it time to buy a LIC?

The backdrop of higher bond yields and pausing policy rate cuts in Australia represents a challenge to ASX investors focused on yield. Not only has yield meaningfully declined, but it's also not growing. It is self-evident that as demand for high yield ETFs and passive products has grown over time, return prospects have diminished. A well-known casualty of this trend has been reduced demand for listed investment companies (LICs), resulting in many trading at meaningful discounts to book value and yields well above the ASX. Clime's own LIC, Clime Capital (CAM.ASX) is a prime example of this, trading at a 15% discount to NTA and yielding 7.7% with 50% franking.



Steve Lambeth is Portfolio Manager for Australian Equities at [Clime Investment Management Limited], a sponsor of Firstlinks. The information contained in this article is of a general nature only. The author has not taken into account the goals, objectives, or personal circumstances of any person (and is current as at the date of publishing).

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Digging for value among ASX miners

Emma Fisher

Our playbook for investing in commodities has historically been to identify high-quality assets that sit at attractive points on their commodity cost curve, and to establish a position when the balance sheet is solid and the commodity price has cost curve support (i.e. some producers are losing money at spot pricing). Management also matters in mining: poor management plus windfall commodity prices are a recipe for the cheque-books-out-at-the-top dynamic that has sadly been a feature of most commodity cycles. Further, good managers and good company cultures render it easier to attract talent in competitive markets. This combination of factors is pretty rare, we have only made a handful of such investments since the fund's inception, including:

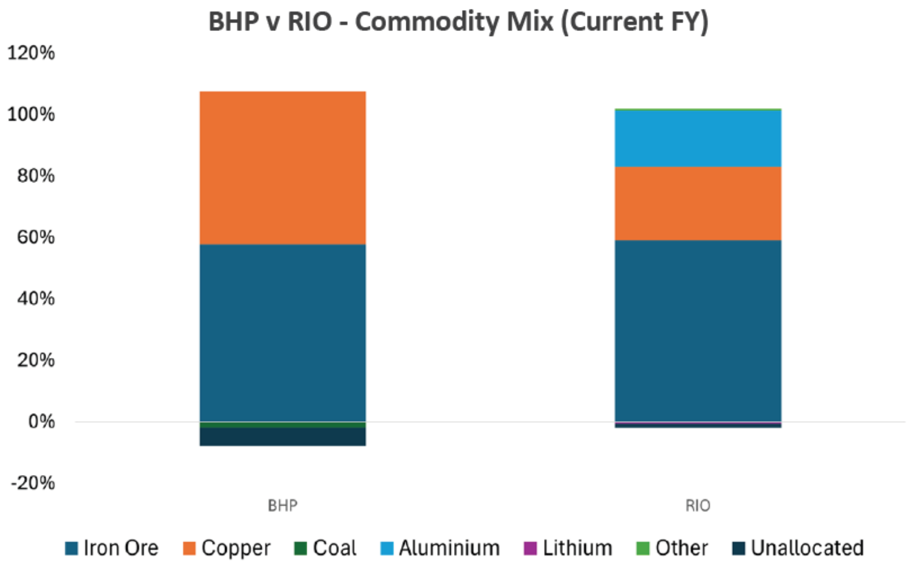
- **BHP:** We have held a position in BHP since the fund's inception, which we added to meaningfully as the stock fell below $40.

- **MinRes:** We invested in Mineral Resources in 2018 when it was bringing online a quality asset in Wodgina at a time when lithium was on the nose. When we first invested, MinRes was a net cash business (how times have changed). We exited our position in 2024 as the balance sheet had deteriorated.
- **IGO:** Exiting MinRes on balance sheet concerns, we purchased IGO, which had a net cash balance sheet and owns a quarter of the highest-quality hard rock lithium asset in the world, Greenbushes in WA.
- **Santos:** We held Santos for a number of years, exiting the position this year when the Adnoc bid emerged. The stock has subsequently fallen from $8 to $6 as the bid fell over and oil prices have languished around US$60/bbl. We have since re-entered the stock.

Of course, there have been many missed opportunities along the way as various commodities and their ASX-listed exposures have rallied. However, broadly we have found it very lucrative to remain disciplined and only add commodity businesses when these four preconditions are met: quality assets, good balance sheet, commodity out of favour, and solid management.

We have added a new position in the fund this quarter that we believe meets these criteria, adding Rio Tinto as new CEO Simon Trott outlined a credible path to a simpler, higher-value business at its Capital Markets Day. The outlook includes significant cost-out, asset sales and production growth in key commodities of iron ore, copper and lithium to drive value to 2030. Rio has quality, tier 1 assets in its key commodities, net debt to ebitda <1x, and exposure to commodities with attractive supply/demand dynamics. This is in addition to our core portfolio holding in BHP.

While both BHP and RIO had a solid year of returns, up 25% and 14% respectively, in 2025 they lagged pure-play peers; for example, ASX-listed pure-play copper exposures Sandfire Resources and Capstone Copper were up 53% and 87%, respectively. This is despite the significant copper exposure of both companies, with 40% of BHP’s current earnings from copper, and 20% for RIO. It is also worth noting that out to 2030, BHP’s production mix will hold relatively stable, while RIO’s incrementally shifts towards copper as Oyu Tolgoi ramps up.

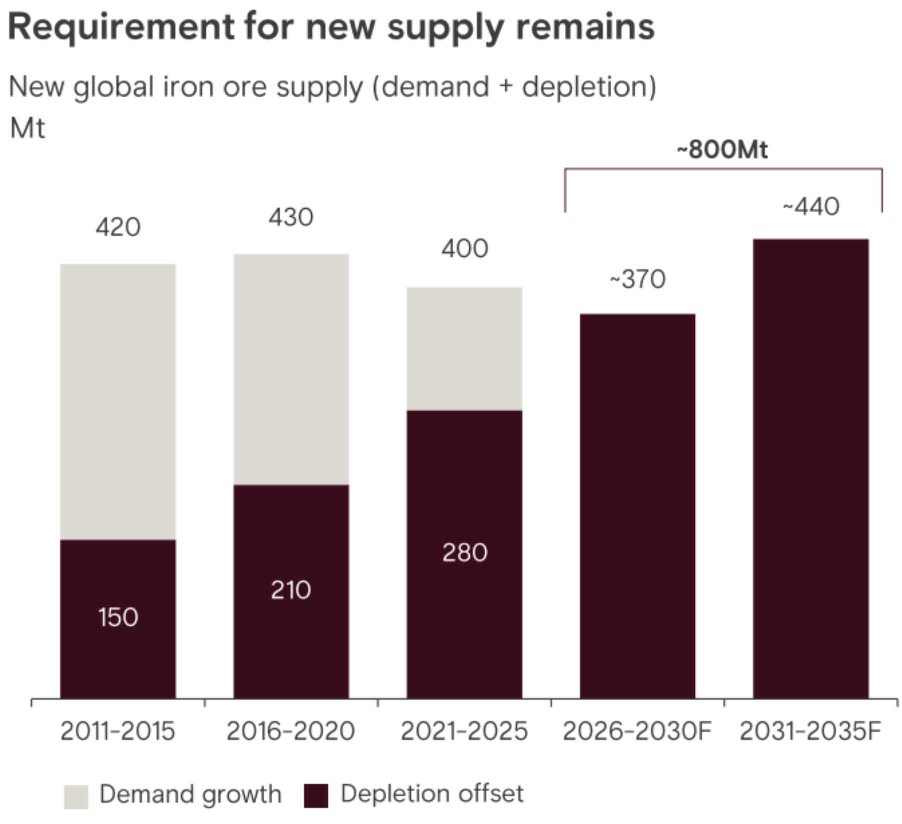


Source: Company data, Airlie Research

We believe the valuation opportunity for both diversified miners comes as the market is unwilling to "pay up" for the 50-60% of both businesses that currently comes from iron ore. This is largely because of the future supply coming from the Chinese/Rio-owned Simandou project in Guinea, considered to be a "Pilbara-killer".

However, there are a few reasons why we believe iron ore prices may stay resilient in the face of new capacity. Firstly, we note the operational complexity of Simandou, which may make operating at nameplate difficult. The project relies on a 650-kilometre railway corridor that runs through varied topography and crosses multiple river systems. The rock formations at Simandou exhibit characteristics that create instability in open-pit walls, thus posing technical challenges that require specialised stabilisation techniques and specialised workforces, which may be hard to come by in remote Guinea, and in the middle of a broader resources rally that draws on a limited pool of such workers. Simandou ramp is already disappointing, with Rio's maiden 2026 guidance of 5-10mt sales sitting 30% below consensus expectations.

Second, "good" ore is getting harder to maintain at scale. This is reflected in Rio's recent move to lower the Fe content of its flagship Pilbara Blend Fines. The effect of this is twofold: as grades drift, mills will need to either pay a higher price for higher-grade units or consume more tonnes of Fe per tonne of steel, both paths are supportive of resilience in the benchmark price. Further, ageing tenements will drive the need for further investment to replace ore depletion. The chart below from the Rio investor day highlights the size of the issue, forecasting 370mt of additional supply needed over the next four years simply to replace what is depleted (i.e. assuming flat demand). Even if Simandou were to ramp perfectly and on time, we would be looking at an incremental 120mt (albeit very high-grade ore) by 2029. This increase may not be enough to close the gap.



Source: Rio Tinto Capital Markets Day 2025 presentation.

Thirdly, declining iron ore prices are the consensus expectation, and this is creating the valuation opportunity. Medium-term consensus forecasts for iron ore are in backwardation over the next four years, falling to US$80/t (62% Fe, FOB). Rio and BHP trade on forward price to earnings multiples of c13-14x, with consensus below spot for both iron ore and copper. At spot commodity prices, the FCF yields for BHP and RIO are 6% and 9%, respectively. If we run long term real prices of US$80/t for iron ore and US$4.60/lb for copper, we get 5-13% upside for BHP/RIO. While this doesn't sound too compelling, for the reasons articulated above we believe the iron ore market may in fact anchor around prices higher than US$80/t over the medium term, with periods of supply tightness causing periodic price spikes that generate free cash windfalls in excess of the above valuation base case.

Further, from a portfolio construction perspective, it is worth noting that BHP (to which we are overweight) is trading at almost a record low price to book (P/B) relative to CBA (to which we are underweight).

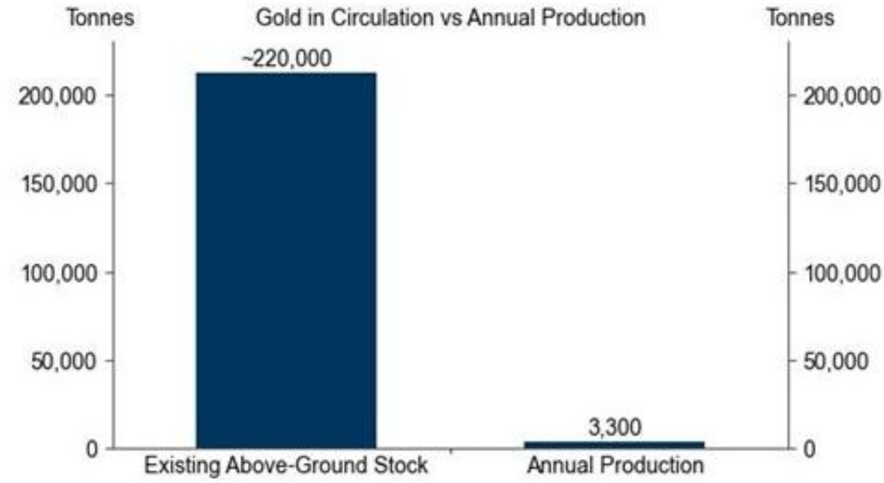
Source: Airlie Funds Management

All that glitters? Airlie views on the gold price and ASX gold sector

It is also worth touching on the part of the resources sector that has had the strongest performance over 2025: the gold sector. We do not currently own any gold stocks in the portfolio, and this has been costly for us this year, as the gold sector has doubled as a proportion of the ASX 200. We have historically treated gold in the same manner as any other commodity investment, seeking opportunities that meet our four criteria: quality assets at attractive positions on the cost curve, solid management, strong balance sheet, and a commodity price with cost curve support. That latter criterion is a shorthand for the 'valuation' part of our investment process- our thinking is that commodities where some producers aren't making money at the current spot price is a sign that the commodity may be out of favour, a hunting ground for equities that may be mispriced.

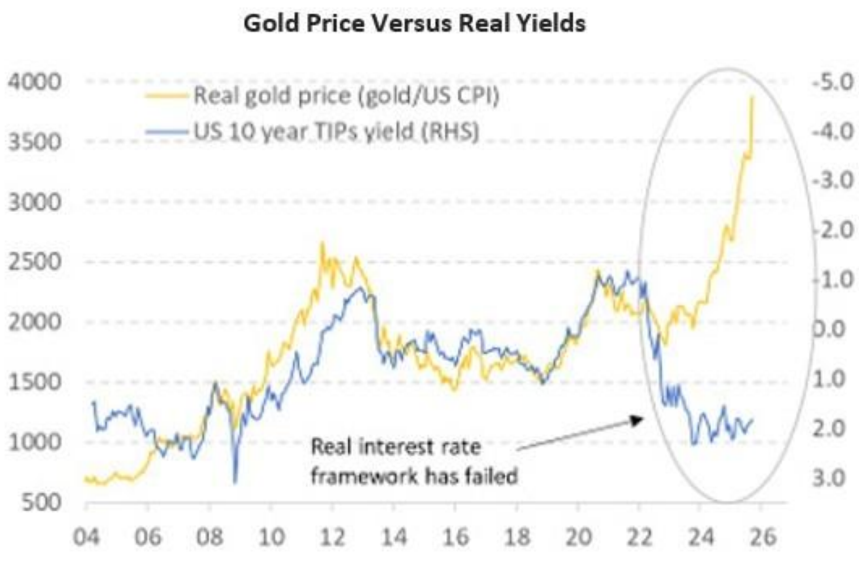
It is this valuation criterion that was not met by the ASX gold sector- all miners, no matter how marginal, should be making money hand-over-fist at current gold prices. However, a deep dive on the gold sector has led us to the conclusion that we were wrong in applying that criterion of cost-curve support to the gold sector. It has unique qualities such that waiting for cost curve support is the wrong signal- in fact that may lead you to purchase gold equities early into a long bear market. However, these unique qualities make forecasting price very difficult, and we step through them below.

There is an argument that gold should not be thought of as a commodity, but rather as a currency, or store of value. Gold doesn't get used, it simply changes hands, and in doing so it is repriced. Unlike normal commodity businesses, where high prices cure high prices by incentivising more supply, the gold price can't be punctured by a wave of supply. (That's what makes gold, gold). As the below chart shows, nearly all gold that has been mined still exists, and its stock dwarfs the sum of annual production, which adds just 1% to the total supply each year.



End-2024 data.
Source: USGS, Goldman Sachs Global Investment Research

This makes forecasting the gold price very difficult. One can turn to normal historic correlations to predict conditions in which the gold price might "work"; however, these historical correlations are now breaking down. Gold typically moves inversely with real yields (i.e. nominal yields less inflation). This is because gold is a non-yielding asset- when real yields rise, investors can earn a higher inflation-adjusted return in safe bonds, which raises the opportunity cost of holding gold. As per the chart below, this historic correlation has not held over the past three years; as real interest rates have risen, so too has the gold price.



Source: MST Marquee

The gold price also typically performs strongly in years when equities falter – see below. The only years prior to this when gold outperformed equities to this degree were during the deep market drawdowns of 2001/02 and 2008. Gold has outperformed equities by over 30% this year, despite the S&P 500 posting a strong return of nearly 18%.

Source: MST Marquee

So what's going on with the gold price? In our view, a combination of central bank purchasing and persistent fiscal deficits is driving the strength. The G7 decision to freeze cUS$300 billion of Russian assets following the 2022 invasion of Ukraine has created a deep distrust of the USD for many central banks. China, India and others have increased their purchasing of gold to reduce their reliance on the US dollar, likely fearing similar sanctions against their reserves. As difficult as it was to foresee this dynamic (it certainly caught the US off guard), so too is it difficult to predict the degree of marginal demand for gold in the future. In this sense, gold is unlike other commodities, and more like a collective idea.

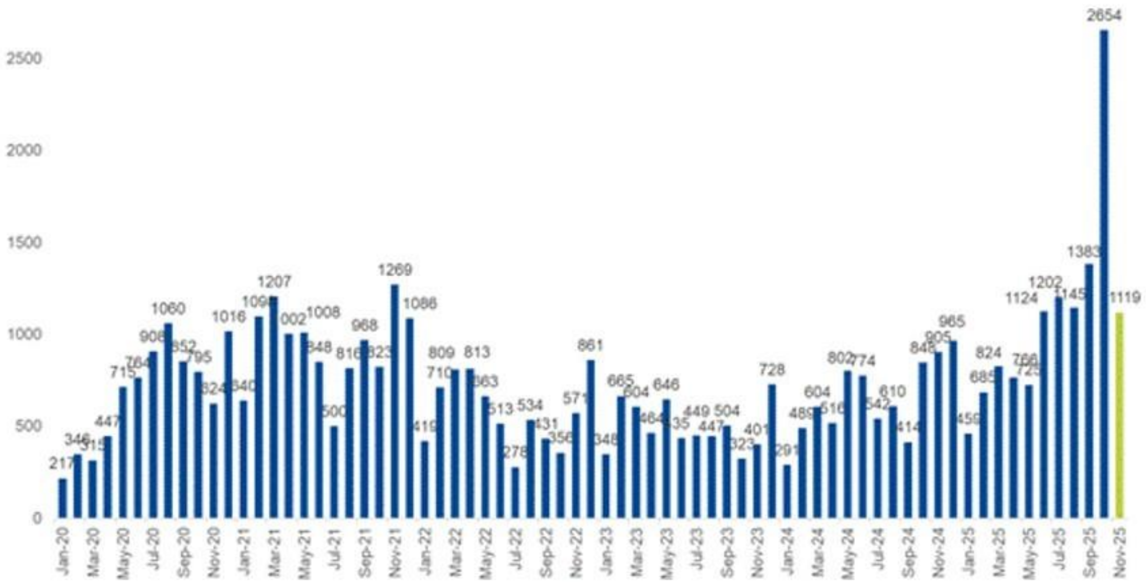
Meanwhile, gold miners remain imperfect vehicles through which to express a positive view on a gold price at all-time highs. While we are only guessing what the gold price may do, we have a higher degree of certainty as to what miner cost bases will do (rise as they draw on the same limited pool of skilled workers and grades fall), and what production may do versus expectations (disappoint!). Gold mining is tough- gold deposits have high short-range variability, which means you can hit a great patch and then nothing a few metres away. This makes it difficult to build an accurate resource model and design a mine plan that delivers steady head grades. Grade variability and orebody complexity drive frequent production guidance misses. This is fundamentally the reason why gold is a fantastic store of value- it's production can't be easily toggled up to meet the signal of higher prices.

So if the key driver of gold equities (the gold price) is something that is very difficult to predict, and if gold miners tend to cost overruns and production misses, does that render gold equities uninvestible to us? The answer is no, but it makes us cautious. In many ways, the above dynamics sound like the perfect set up for ever-rising prices: inelastic demand from price-insensitive central banks, a structural geopolitical overlay, supply that simply cannot respond to higher prices in a way that spoils the party. However, this dynamic works in reverse as well. In a normal commodity cycle, prices fall to a point where a portion of higher-cost producers aren't making money- they eventually reach a point where they can't sustain losses and mines close, sewing the seeds of an eventual price recovery. In this way, the responsiveness of supply to pricing acts as a handbrake on price at the top, and a cushion to price at the bottom. This cushion doesn't exist for gold producers, and for this reason, bull and bear markets in gold equities tend to last many years, on average.

There seem to be two noisy ideological camps with respect to gold investing: those who refuse to invest in gold because of the difficulty of predicting the gold price (famously typified by Warren Buffett), and 'gold bugs' who think every portfolio should have a significant portion allocated to gold (e.g. Ray Dalio). We do not ascribe to either camp, and remain open-minded. We are keeping a close eye on the sector as these historic correlations between the gold price, equities and interest rates break down. Uncharted territory in investing typically drives volatility, and the challenges of gold mining will definitely drive volatility for mining equities- we expect opportunities may emerge in sharp sell-offs.

To date, the portfolio has had second-order exposure to a rising gold price via our investment this year in ALS Limited, a global lab-testing company. ALS's Commodities business, which comprises roughly half its earnings, has a market leading Geochemistry business with strong market share and excellent returns on capital (c30% through the cycle). 75% of ALS' Commodities revenue comes from testing services directly linked to exploration spend. Global exploration spend is dominated by gold and copper miners, who account for 70% of total spend. We believe the recent strength in gold and copper prices puts the Commodities business on the cusp of a material earnings upcycle, driven by an acceleration in capital raised by junior miners (as shown below).

Monthly junior mining raisings



Source: Morgans, Factset

This is beginning to show up in ALS' testing volumes. During exploration upcycles, there is very little capital investment required for ALS to handle additional volume. These periods are also accompanied by pricing power, all of which can lead to significant incremental margin on sales, and returns on capital that approach 40%. In our view, this business provides exposure to higher gold (and copper) prices without the accompanied cost base inflation that gold miners experience during such periods.

Emma Fisher is a Portfolio Manager and Deputy Head of Australian Equities at Magellan-owned, Airlie Funds Management. Magellan Investment Partners is a sponsor of Firstlinks. This article has been prepared for general information purposes only and must not be construed as investment advice or as an investment recommendation. This material does not consider your investment objectives, financial situation or particular needs.

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Gold: Is it time to be greedy or fearful?

John Reade

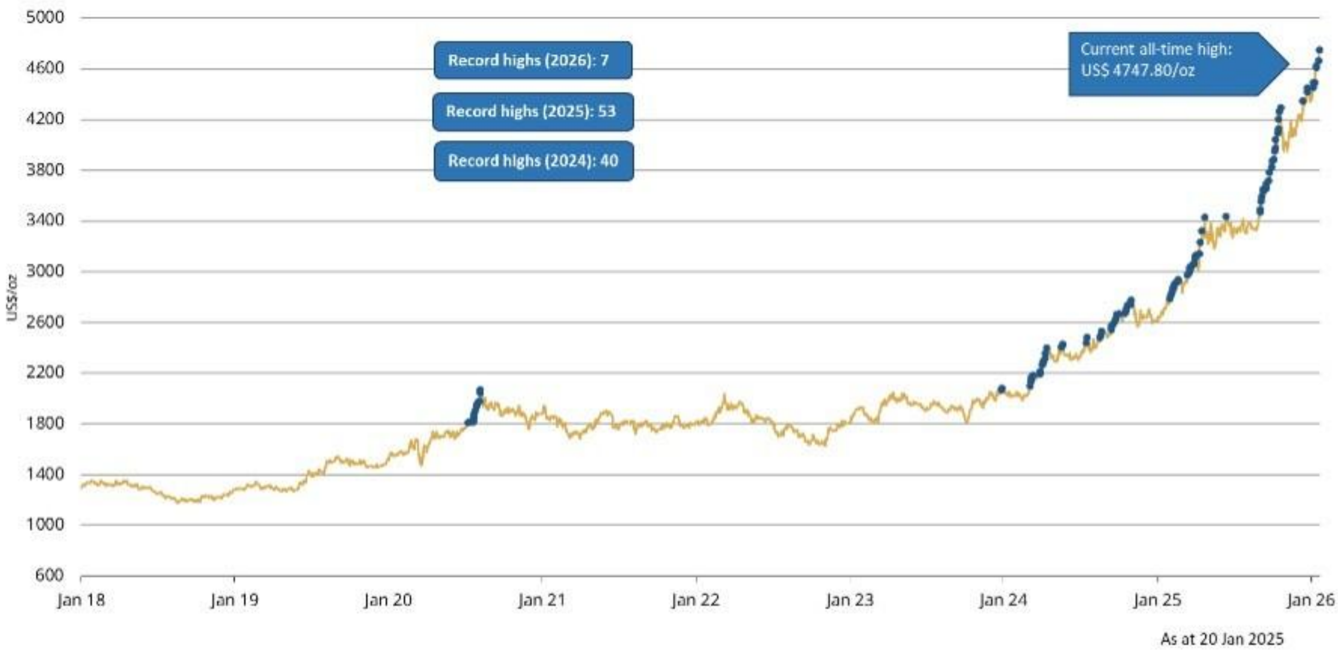
Gold entered 2026 the same way it exited 2025: at record highs. To date, the gold price has already notched seven all-time highs this year, extending a run that saw more than 53 new records in 2025 alone, totalling 95 all-time highs since 2024. For some investors, this raises an uncomfortable question: have we missed it?

In my experience, that question often reflects a misunderstanding of why gold has been performing so strongly, and what role it is designed to play in a portfolio.

Gold's continued rally into 2026 is not being driven purely by fear, crisis headlines or short-term speculation. Its strength increasingly reflects deeper, more structural shifts in how asset classes behave, how policy is evolving, and how risk is being priced across markets – all of which shape portfolio construction and resilience.

Figure 1: Gold has reached 95 all-time-highs since 2024

All-time-highs in the LBMA PM benchmark price (US$/oz)



Momentum matters — but it's not the whole story

There is no doubt that momentum and uncertainty have played a role in gold's recent price. And while geopolitical tensions have further flared since the start of the year, economic events trump momentum in driving gold's continued rally. These include expectations of US Federal Reserve rate cuts, declining real yields, and historically high levels of correlation between fixed income and equity markets.

So, while momentum-oriented investors seeking refuge have played a part, momentum alone can ignite and amplify trends but not sustain a multi-year trend – for any asset for that matter.

What underpins gold's appeal today is a convergence of macroeconomic forces that are proving far more persistent than many investors expected: sticky inflation risks, rising sovereign debt burdens, and growing uncertainty around the effectiveness of traditional portfolio diversifiers.

These forces are further complicated by the expected change in US Federal Reserve leadership this year, an event that could materially reshape the policy reaction function and inject greater uncertainty into inflation expectations, real yields and broader market pricing.

Importantly, these are not short-lived shocks. They are slow-burn dynamics reshaping the investment landscape, and portfolios are responding accordingly.

The safe-haven trap

Geopolitical events inevitably push gold into headlines. But it's worth being clear: while gold often responds positively to sudden shocks, those moments are rarely the best time to initiate an allocation.

The protection gold provides frequently shows up before the event, not after it. That is why we consistently caution against treating gold as a tactical trade triggered by breaking news.

Gold's value lies less in reacting to crises and more in quietly improving portfolio resilience before correlations change and volatility rises.

Bonds lose ballast

Perhaps the most important shift for investors, particularly those managing balanced portfolios, is the changing behaviour of bonds.

For decades, government bonds offered reliable diversification against equity risk. That relationship has weakened, and in some periods broken down altogether. Rising inflation volatility, fiscal expansion and supply-heavy bond markets have altered how fixed income behaves under stress.

Many investors experienced this first-hand in recent years, when both equities and bonds declined together.

This matters because diversification is not about owning different assets - it's about owning assets that behave differently when it matters most and shore up portfolio resilience.

Gold has historically exhibited low to negative correlation with equities over long horizons, and unlike bonds, it does not rely on a government's ability to manage inflation, debt or deficits. Nor does gold, as a real asset, carry any counterparty risks. In a world where the interconnectedness of risks is increasingly questioned, gold's independence matters.

Strategic allocation, not tactical timing

Aside from have we missed our chance?, another very common question we hear is: what's the right price to buy gold?

The more useful question is: what role should gold play in my portfolio? - as you would ask of any potential portfolio asset.

Trying to time entry points after a strong rally can be counterproductive, particularly for an asset held for diversification benefits. Like any long-term asset, gold's contribution should be assessed across market cycles, not month-to-month price moves.

This is why the World Gold Council's research consistently frames gold as a strategic allocation, not a short-term hedge.

Across a wide range of portfolio simulations, allocations in the region of 3 to 10% have historically improved risk-adjusted returns - not because gold always rises, but because it behaves differently when other assets struggle.

Debt, deficits and the long game

While the world enters a period of geopolitical realignment - a backdrop likely to add to market volatility - a major and enduring feature of the global economy remains the scale of sovereign debt accumulation.

Major economies are running persistent deficits with limited political appetite, or ability, to materially reverse course. At some point, investors may begin to question whether bond markets are adequately compensating them for duration, inflation and fiscal risk.

Will 2026 be the year that concern becomes acute? That is impossible to forecast. But the underlying conditions are unlikely to disappear.

Gold's role here is subtle but important. It is not a bet against any single currency or government. Rather, it acts as a portfolio anchor in environments where confidence in long-term policy outcomes is eroding.

Have investors missed the move — or missed the point?

For many investors, particularly in Western markets, the more pressing risk today may not be over-exposure to gold as a safe-haven, but persisting under-allocation as a strategic diversifier.

While we have seen Western investors reallocate to gold after decades on the sidelines - with Eastern markets continuing to play a far greater role in shaping prices - gold ownership remains modest relative to the size of global capital markets. And many portfolios still rely heavily on asset relationships that no longer behave as reliably as they once did.

Some large institutional investors, including the Future Fund have shifted course in anticipation of a new investment order, selecting assets for long-term resilience.

Seen through that lens, gold's recent performance is less about a crowded trade, and more about a gradual reassessment of what diversification really means in a changing macro environment.

Gold does not need perfect timing to be effective

Investors who treat gold as a permanent component of their portfolio, building positions over time and rebalancing as conditions evolve, are more likely to capture its benefits than those attempting to trade short-term price movements.

That discipline matters even more after strong performance. Gold's role is not to predict the next shock, but to help portfolios endure whatever comes next.

In an environment defined by policy uncertainty, rising debt and fragile diversification, gold's value increasingly lies in disciplined portfolio construction rather than reactive positioning.

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

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Asia in 2026: Riding AI, reform and a shifting global order

Matthew Quaife & Peiqian Liu

Top convictions

- The evolving artificial intelligence (AI) story will unlock more value in **Asia's technology stocks**
- Reforms to improve returns will bolster the appeal of **Korean** and **Japanese equities**
- The diversification trade will benefit Asia's **local currency bonds,** and a structural shift makes **Asia high yield** compelling in 2026

The whirl of tariff announcements from the US in April clouded the outlook for export-reliant Asia. But in the months that followed, front-loading and incremental policy support helped countries in the region withstand the stream of tariff shocks. In the meantime, a diversification trend has pushed global investors to seek alternatives to dollar assets. The weaker US dollar, a ballooning fiscal deficit in the US, and Asia's surprising domestic strength all sharpened the appeal of the region to investors in 2025.

While Asia is set to benefit from the diversification trade in the years to come, a series of structural themes are likely to stand out in 2026.

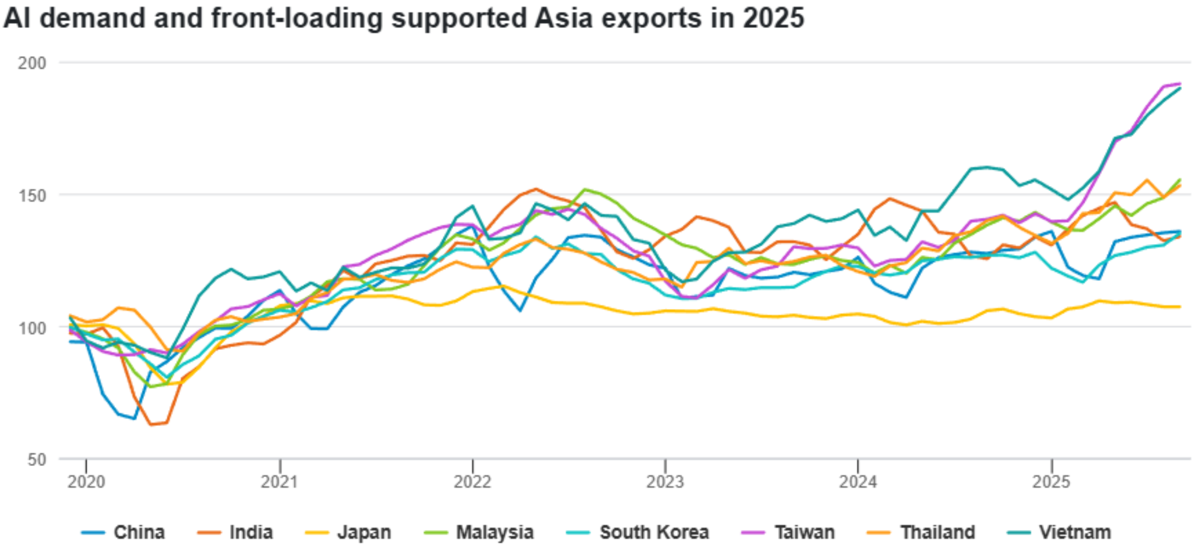
Riding the AI wave

From China's DeepSeek and autonomous driving to South Korea's memory chips, Asia has proved itself a leader in the AI race. Technological prowess will become an even more important driver of revenues in 2026 after the boost provided by the front-loading of exports fades. Continued strong appetite for AI servers, chips, and datacentre equipment should partially offset the downward pressure on exports.

The excitement over China's rapid catchup in AI capabilities has seen Chinese tech stocks shine in 2025 – not just offshore internet names but also domestic shares. The country has developed its own AI ecosystem in response to trade restrictions, making it less dependent on the West. China's vast domestic market, policy tailwinds, and increasingly tech-savvy consumers will drive broader and faster AI adoption, supporting tech stocks in 2026 and beyond.

Markets backed by a critical position in the semiconductor supply chain are having their moment too. Taiwanese and Korean chip makers, for example, should do well in 2026 thanks to a strong upcycle evidenced by the sector's rising prices and sales volumes, driven by the AI boom.

Fidelity International's China and Japan analysts are the most confident in the world about AI's positive impact on corporate profitability over the next 12 months, according to the October survey of Fidelity's research team.[1]



Source: Macrobond, Fidelity International November 2025. Note: Data are three-month moving averages of exports as of September 2025. Rebased to December 2019.

More accommodative

The overall policy stance in the region is likely to ease as higher effective tariffs and the fading momentum of front-loading weigh on growth. For most of Asia, inflation remains a non-issue supported by low energy prices. The resumption of cuts by the US Federal Reserve should soften concerns about interest rate differentials with the US, prompting some Asian central banks to loosen monetary policy further.

As a result, Asia's local currency government bonds are likely to see a rise in demand, particularly high-quality sovereigns such as South Korea. They show low to moderate correlations with major global peers, making the asset class a good diversification tool.

Ongoing fiscal stimulus is expected to be rolled out across the region, as well.

Japan's transition to higher nominal GDP growth is further reinforced by the country's recent change of leadership. Fiscal policy is set to be pro-growth with more measures to boost domestic consumption, while the uplift in defence spending will be accelerated. We expect the Bank of Japan to continue its gradual rate hikes given inflation will be supported by both fiscal easing and a virtuous cycle of wages and prices.

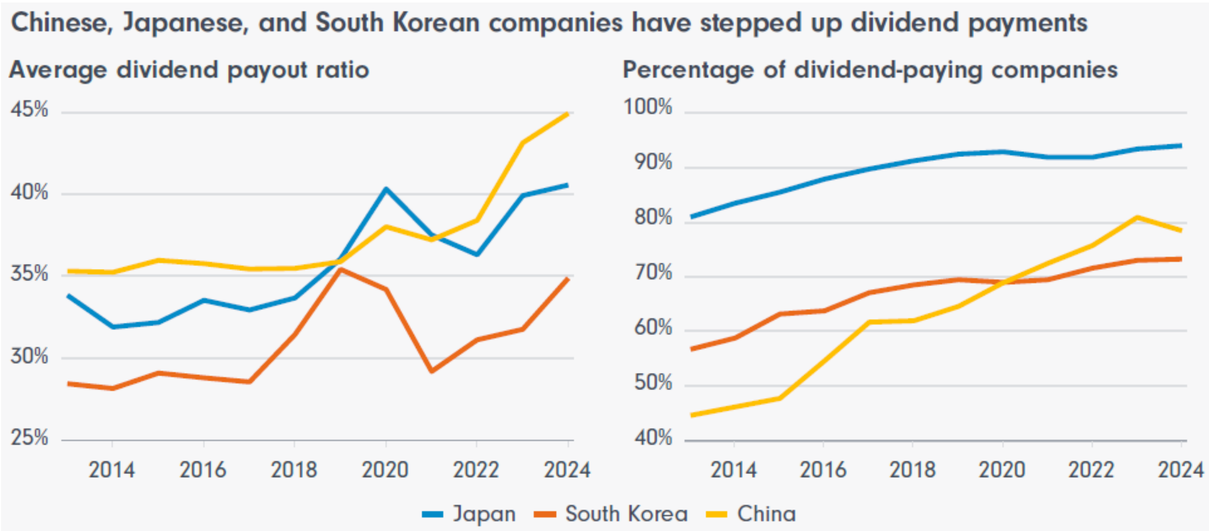
The fiscal stimulus will benefit small- and mid-caps, which have a greater domestic focus than large caps and are relatively insulated from external shocks. Smaller companies, with valuations at historical lows, provide compelling opportunities to capitalise on Japan's economic growth.

China's campaign to rein in ferocious price competition is starting to bear fruit with deflationary pressures having eased off slightly. But without more aggressive demand-side policies, it will be hard for China to pull the economy out of deflation fully. Beijing may roll out additional measures next year, such as direct subsidies, to persuade cautious consumers to open their wallets.

India will continue with its own pro-growth plans in 2026. Despite high US tariffs on its goods, which are likely to be negotiated down, the Indian economy remains underpinned by robust domestic growth supported by its demographic dividend, as well as recent tax cuts. Benign inflation strengthens the case for further interest-rate cuts by its central bank. While the country has been eclipsed by other markets in 2025, 2026 could be a different story, especially for equities.

Evolving corporate reforms

From China to South Korea and Japan, where companies have long been criticised for poor corporate governance, we expect an increasing focus on shareholder returns in 2026.



Source: Bloomberg, Wind, Fidelity International, November 2025. Note: Covering 2,124 companies in the TOPIX index from 2013 to 2024, 827 companies in the KOSPI index from 2013 to 2024, and China

A-share and H-share listed Chinese companies with a market cap over 5 billion renminbi.

In Japan, ongoing regulatory reforms and the streamlining of business practices such as cross-shareholdings are further enhancing capital efficiency and investor gains.

Meanwhile, corporate fundamentals have improved, supported by de-escalating trade tensions and moderate inflation. Exporters are taking advantage of cost pass-throughs and a softer yen, while domestic sectors, particularly banks, communications, and construction, continue to deliver steady profit growth.

All eyes will be on whether South Korea can emulate Japan's success story after the new government renewed the country's 'Value Up' program. Political stability should lead to further progress in corporate governance and an improvement in Korean stocks' valuations, which are cheaper than global and emerging market peers.

Last but not least, Asia's high yield bonds are set to draw wider attention. The asset class appears healthier than before, with a more balanced and diversified pool of issuers. It offers attractive risk-adjusted returns, supported by low default rates, advantageous monetary and fiscal policies, and investor demand for stable carry.

Keeping watch

The region has its fair share of challenges for 2026 too. The full impact of tariffs has not been felt yet and could surface slower than many expected. "The current tariff situation is leading to depressed earnings. This could be a challenge if the final outcome is not favourable," says Priyadarshee Dasmohapatra, an equities analyst covering textile companies in India. It's uncertain whether the massive AI capex is built on a sound commercial footing. If we do end up in bubble territory here, capex could slow down, weighing on both Asian stocks and economic growth.

In some parts of Asia, young workers are battling stubbornly high rates of unemployment, which could threaten future growth and stability. Domestic demand is still below pre-pandemic levels in many countries.

The global economic and trade landscape is shifting rapidly. Investors will need to be nimble and attuned to further volatility or geopolitical surprises. But supportive policy measures, technological advantages, and favourable macro conditions should hold Asia in good stead for 2026.

[1] 82% of China analysts and 71% of Japan analysts say AI will have a positive impact on companies' profitability over the next 12 months. The percentages are 48% for North America, 33% for EMEA/Latin America, and 44% for Asia Pacific (ex China, ex Japan).

Matthew Quaife is Global Head of Multi Asset Investment Management; and Peiqian Liu is an Economist (Asia) at [Fidelity International](), a sponsor of Firstlinks. The views are their own. This document is issued by FIL Responsible Entity (Australia) Limited ABN 33 148 059 009, AFSL 409340 ('Fidelity Australia'), a member of the FIL Limited group of companies commonly known as Fidelity and Fidelity International. This document is intended as general information only. You should consider the relevant Product Disclosure Statement available on our website www.fidelity.com.au.

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Investors beware: Bull markets don't last forever

Larry Swedroe

Javier Estrada's latest research, "*Expected Stock Returns in Bullish Times*," shines a spotlight on the mathematical drivers of stock returns – and why today's market exuberance should be met with caution. By analyzing more than 150 years (1872–2024) of US market data, Estrada decomposed annual returns into their primary sources: dividend yield, earnings growth, and price/earnings (P/E) ratio movements. His findings reveal why the conditions for continued outsized gains rarely persist for long, especially after strong bull market runs.

Lessons from history's bull market runs

Estrada's review shows that periods of rapid earnings growth rarely coincide with the simultaneous expansion of P/E multiples. In fact, these two have been negatively correlated over decade-long periods (negative 0.5 correlation) – meaning that when profits grow quickly, investors don't also bid up valuations, and vice versa. This relationship becomes critical when markets reach extreme valuations, as seen in both the late 1990s and today's environment.

His analysis highlights that the market's current setup – high P/E ratios, low dividend yields, and optimism driven by recent returns – has some similarities with what occurred in 1999. Back then, the S&P 500 delivered impressive price appreciation, but valuations reached unsustainable levels. When mean reversion finally kicked in, returns over the following decade were disappointingly low (just 0.1% annualized before inflation).

Why high returns are harder to sustain

Estrada's modeling demonstrates that expecting high future returns when markets are exuberant demands at least one of two things: extremely rapid earnings growth or a large expansion in P/E ratios, or both. History shows these conditions are rarely achieved together – expecting them now is increasingly unrealistic. When fundamentals like earnings and dividends revert toward long-term averages, forward returns plunge. Estrada estimates that if fundamentals normalize, the next decade could produce annualized returns near 0.4%.

Investor takeaways: Valuation over extrapolation

What's the actionable advice for retail investors? Estrada's work urges a reset in expectations:

- Prepare for lower stock market returns over the next decade, especially if mean reversion takes hold.
- Resist recency bias – the urge to believe recent strong performance will persist indefinitely.
- Prioritize fundamental valuations (dividend yield, earnings-growth rate, P/E ratios) over chasing performance.
- Consider more conservative allocations to equities, diversifying exposures to other risk assets such as reinsurance, private credit, infrastructure, real estate, and long-short market-neutral strategies, such as the one used by AQR Style Premia Alternative QSPRX.

Estrada's decomposition of stock returns over 150 years sends a clear message: The higher markets climb, the less plausible it becomes for all the forces driving returns to remain positive. The negative correlation between earnings growth and P/E expansion means both rarely propel returns at the same time over long periods. Today's market environment, with expensive stocks and low yields, sets a daunting bar for sustaining recent gains. Justifying bullish forecasts would require a perfect (and historically rare) combination of soaring earnings and multiplying valuations.

Rather than speculate on timing, Estrada recommends paying close attention to valuations and preparing portfolios for more muted returns. Mean reversion – the tendency for markets to drift back toward historical averages – is one of the stock market's most persistent features. Investors who heed these lessons are far better positioned to weather the eventual turn in the cycle.

For investors, the message is simple: Anchor expectations to history, not hope. Strong bull markets eventually give way to periods of modest or even negative returns—and preparing for that shift is a hallmark of discipline.

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