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### Editorial

As many Firstlinks' readers are aware James Gruber departed for a new opportunity at CommSec. I'm extremely grateful for everything James has done and his stewardship of Firstlinks.

It is never easy to follow a founder and I'm proud of how James continued and expanded upon Graham's legacy. That legacy is front of mind for me as the temporary custodian of Firstlinks.

My goal is to continue to provide a unique and valuable resource to Australian investors. I'm always available for your suggestions and feedback and can be reached at [mark.lamonica1@morningstar.com](mailto:mark.lamonica1@morningstar.com).

#### Investor worries about AI

It has been dubbed the SaaS-pocalypse. Software shares are plunging as investors fret over their future in an AI centric world. This dovetails with the narrative coming out of Silicon Valley that this is the last chance to build 'generational' wealth.

This worldview anticipates a future where society bifurcates between tech overlords and people made redundant by AI. The race is on to be one of the few that control the machines while avoiding the fate of those supplanted by them.

Frenetically trying to make money in Silicon Valley is nothing new. Yet this scenario taps into anxiety about an emerging technology and fears that AI will further dismantle a middle-class lifestyle that already seems increasingly out of reach in an affordability crisis.

Lest the soon to be displaced rise in opposition there is a convenient solution – the universal basic wage. This concept is nothing new. Thomas Paine an English born fomenter of the American Revolution first proposed a universal basic wage in the early 1800s.

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## What the universal basic wage can and can't do

What separates the universal basic wage from traditional forms of welfare is the universality of the payment. Everyone gets it and nobody is required to do any work to receive the payment. A chicken in every pot.

In a small town in Canada located outside of Winnipeg called Dauphin a similar but less extreme concept was tested between 1974 and 1979. A family of four received the 2026 equivalent of approximately 33,000 AUD each year.

For every dollar earned through work 50 cents was taken away from the universal basic wage. This maintained an incentive to work as a family would always be better off with money coming in.

However, it also provided the working poor with money they would not be eligible for under traditional welfare programs. There were no restrictions on how the money was spent and no eligibility criteria to continue receiving payments.

For the most part people continued to work although new mothers chose to stay out of the workforce longer and teenagers stayed in high school at a higher rate rather than dropping out to make money.

During the years of the experiment domestic violence rates dropped and mental health issues decreased. These positive outcomes correlated with the experiment even if direct causation couldn't be demonstrated.

The Canadian experiment is often cited by proponents of the universal basic wage. But other studies point to the limits of the policy. University of Chicago sociologist Susan E. Mayer questioned the impact of direct payments in isolation of other influences on societal outcomes including values and culture.

Mayer's research showed that increasing family income alone wasn't enough to improve outcomes. Much of the increased spending went to consumer goods that did not directly impact children's development.

Conversely, many of the things that lead to better outcomes for children were either inexpensive or free. This includes more books or simply providing love and emotional support.

Mayer found that it was values that drove better outcomes and not money. These values may be correlated with higher family income, but the income alone was not the cause of the better outcomes.

Mayer's research is not without critics and is caught up in the often-virulent debate on the source of poverty – structural factors or cultural factors.

But the Silicon Valley iteration of universal basic income is far from utopian. It seems like an easy solution to the complexity of the economic disruption expected from AI. The primary focus is not on the poor but instead on the white-collar middle-class workers most likely to be displaced.

Throughout history there have been waves of economic disruption. New jobs have sprouted to replace those that are innovated away and society continues to advance. That doesn't mean that individuals or segments of the population haven't suffered.

If there are any common takeaways from the Canadian experiment and Mayer's research, it is the importance of having purpose. This often comes from a job. Universal basic wages can supplement employment but not replace it.

It is the very traits that employment fosters like dependability, hard work, teamwork and a sense of accomplishment that improve life outcomes. The universal basic wage may assuage the guilt of the creators and promoters of AI but it can't fix every issue the new technology will cause.

**Mark Lamonica**

**In this week's edition...**

The capital gains tax discount is under review. **Matthew Maltman** and **Matt Nolan** size up the debate and propose a [better, more targeted approach](#).

A common assumption is that falling house prices are electorally fatal. **Manning Clifford** suggests there is evidence from upzoning which may indicate [affordability can improve](#) without reducing overall housing wealth.

Investors are jumpy as valuations continue to rise and income investing may provide a respite. In a challenging market for [income investing](#) AML's **Michael O'Neil** offers their top picks.

**Brooke Logan** explores the [benefits of investment bonds](#). Often overlooked they can be a versatile and tax-effective option for building wealth for retirement, children's education and other longer-term goals.

Schroders' CEO **Simon Doyle** is retiring after 38 years in the finance industry. In James Gruber's final interview, he sits down with Simon to explore [opportunities and risks](#) in markets today.

Market volatility often creeps higher in US midterm election years. **Matt Miller** and **Chris Buchbinder** look to market history to see if there are any lessons for investors [before November's election](#).

Every day seemingly brings more worrisome headlines. Increasing geopolitical tensions has investors on edge but **Joe Wiggins** outlines how one study shows [evidence of a war premium](#) for equity markets.

Lastly, in this week's whitepaper, **Heffron** outlines [everything you need to know about super contributions in 2025/26](#).

**Curated by James Gruber, Mark Lamonica and Leisa Bell**

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## Is there a better way to reform the CGT discount?

**Matthew Maltman, Matt Nolan**

One of the more controversial parts of our tax system – the capital gains tax discount – is currently under review in Canberra as part of a Greens-run Senate inquiry. The discount means that taxpayers who hold an asset for more than one year pay tax on only half of their gains.

Most submissions to the Senate inquiry have focused on the level of the discount. Arguments range from reducing it to zero to keeping it at 50%, though there is a loose consensus that the current settings are overly generous, and that the discount should fall to somewhere around 20–30%.

But rather than just debating the level of the discount, perhaps we should consider the reasons why we have such a discount in the first place and if there is now a better way to deal with these concerns?

Let's start from first principles. **Why shouldn't capital gains just be taxed like other forms of income?**

There are two good reasons why a realised capital gain shouldn't be treated in line with other forms of income.

First, **part of any capital gain is inflation**. If you purchased some shares and they went up in price, but at the same time the price of the goods and services you would have purchased increased by the same amount, then this gain would not be "income" as you can't buy anything extra with it.

Second, **capital gains are lumpy**: they don't arrive in regular instalments like wages. Shares are typically held for four years before sale, houses for ten.

And because our tax system is progressive, cramming several years' worth of gains into a single year pushes many taxpayers into a higher tax bracket.

To take a stylised example, an entrepreneur with lumpy income – earning the average full-time income as a capital gain once every 10 years – would pay 75% more tax than a wage earner receiving the same total lifetime income steadily over time.

The current capital gains discount was introduced as a simple way to mitigate these two justifiable concerns. However, it also has two important design flaws.

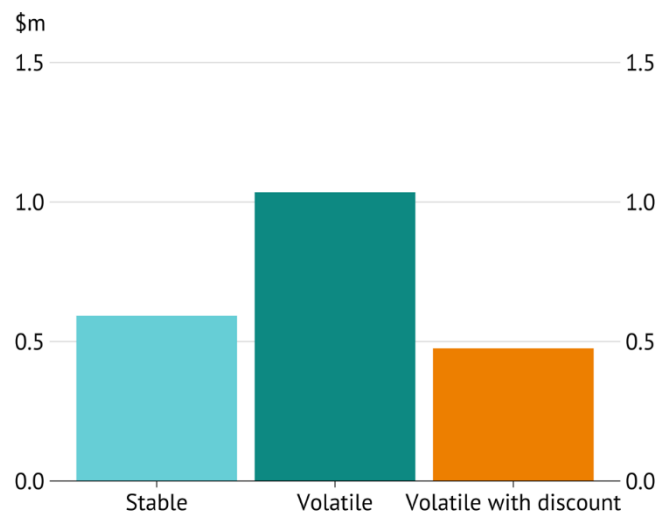
**The first flaw is that it overcompensates high-income earners and undercompensates low-income earners for these issues.**

Our analysis of tax records suggests that the current 50% discount overtaxes gains for individuals with incomes below \$50,000, relative to a comparable wage earner. The discount then becomes increasingly concessional for higher-income individuals.

**The second design flaw is that the capital gains tax discount provides an incentive for investors to shift towards capital gains generating assets and increase leverage.**

While part of any capital gain is inflation and thus not real income, this is also true for other forms of capital income. Interest earnings, for instance, also contain an inflationary component, which means they are often taxed too heavily.

### Tax paid by way earned



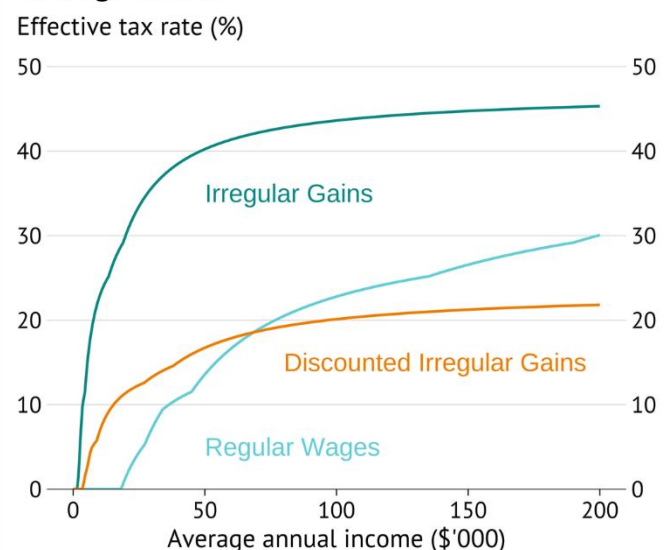
\* PV over 60 years of tax payments.

\*\* Present Value of Tax Paid (discount rate = 3%)

\*\*\* Volatile earner receives \$1m every 10 years. Stable earner receives \$100,000 each year.

Source: e61

### Overall effective tax rate by average income



\* ETR is total tax over 60 years divided by total income over 60 years.

\*\* Capital gain is realised every 10 years. No real income growth occurs.

Source: e61

Applying an allowance for inflation only to capital gains distorts investment towards assets that generate gains as an inflation hedge. Furthermore, not taxing inflationary gains while allowing expensing for the inflationary component of debt incentivises individuals to leverage up.

These effects can be illustrated by looking at an asset which only increases in value with inflation. Pre-tax the real rate of return is 0%, which means that a tax system that leads to a negative post-tax return is one that penalises such investments while a tax system that generates a positive return encourages them.

If we assume inflation and interest is 5% per annum and there is a flat 30% tax rate, then taxing nominal gains without a discount would lead to a –1.4% return on equity.

The capital gains discount would halve this loss to –0.7% if the asset was purchased without debt, seemingly reducing the distortion associated with taxing inflation. However, it also biases investments towards capital gains generating assets as the return on other capital income with the same real rate of return (e.g. interest) would remain –1.4%.

Leverage changes the story significantly when capital gains are discounted. If the individual borrows 90% of the capital necessary for the purchase, and has other taxable income, the return on equity becomes 5.7%. The investor generates a positive post-tax rate of return even though the asset price only increased by inflation!

This benefit for leverage would not happen without a capital gains discount – as income and expenses would be treated consistently by the tax system. In this case, the return would be –1.4% irrespective of the amount borrowed.

**For this reason, individuals will borrow too much to purchase assets which act as an inflation hedge if there is a capital gains tax discount.**

Income type	Gross income	Net income before tax	Taxable income	Net tax	After-tax income	Nominal ROE (equity)	Real ROE (equity)
Interest/dividend (no disc.)	\$5.00	\$5.00	\$5.00	\$1.50	\$3.50	3.5%	–1.4%
Capital gain, unlev. (no disc.)	\$5.00	\$5.00	\$5.00	\$1.50	\$3.50	3.5%	–1.4%
Capital gain, unlev. (50% disc.)	\$5.00	\$5.00	\$2.50	\$0.75	\$4.25	4.25%	–0.7%
Capital gain, 9x lev. (no disc.)	\$5.00	\$0.50	\$5.00	\$0.15	\$0.35	3.5%	–1.4%
Capital gain, 9x lev. (50% disc.)	\$5.00	\$0.50	–\$2.00	–\$0.60	\$1.10	11.0%	5.7%

**Table 1: Tax treatment of nominal capital gains and capital income under different regimes, with and without leverage.**

So, what's the alternative?

Prior to 1999, Australia's tax system offered income averaging for lumpy gains and reduced taxable capital gains by inflation.

As discussed in the [e61 submission](#) to the Senate inquiry, this prior system highlights a way forward. With modern administrative data collection, such income averaging and inflation allowances could be incorporated into the taxation of all capital income in Australia – with appropriate adjustments to allowable expenses.

Rather than picking an arbitrary discount rate, these mechanisms would directly target the issues with taxing capital income at full rates. Simplified approaches – such as the dual income tax recommended by the [Tax and Transfer Policy Institute](#) – would also address many of these concerns.

In 1999, there was an argument that the trade-off between precision and compliance costs justified a broad 50% capital gains tax discount – leading to reasonable debate about whether this number is still appropriate. In 2025, it's worth stepping back and asking whether we can do better than just picking a new number between 0 and 50.

*Matthew Maltman is a Senior Research Economist and Matt Nolan is a Senior Research Manager at the [e61 Institute](#).*

## It's okay if house prices drop

Manning Clifford

Australia enters 2026 [with its three largest cities](#) each having an average house price of over \$1 million. It's frustrating for young Aussies like me looking to buy their first home. But it's also the unsurprising outcome of a persistent, decades-long myth: *that falling house prices are electorally fatal*.

Prime Minister John Howard set the tone in [2003](#), when he dismissed rapidly rising prices, quipping that *no one complained to him about their home gaining value*. Housing Minister Clare O'Neill [repeated the same sentiment](#) before the last election, promising “sustainable growth” in house prices.

Both parties have, as a result, repeatedly put their faith in announcement-friendly demand-side subsidies, like [first home-owner grants](#) and [shared equity schemes](#). These counterproductive schemes are the result of a political straightjacket that's shackled housing policy for most of my life: [record high prices](#) are locking out young people, but any hint of falling values seemingly terrifies homeowners.

That fear, though understandable, is misplaced.

The economics of property have quietly shifted over the last year. Thanks to [mass-upzoning by state governments](#), our housing market is no longer limited to allocating quarter-acre blocks. Now, it's about considering the new value that can be created on each block. This may [frustrate some NIMBYs](#) who fret about preserving their suburbs' “unique character”, but it's the emerging paradigm that's, thankfully, taken over Australian urban policy.

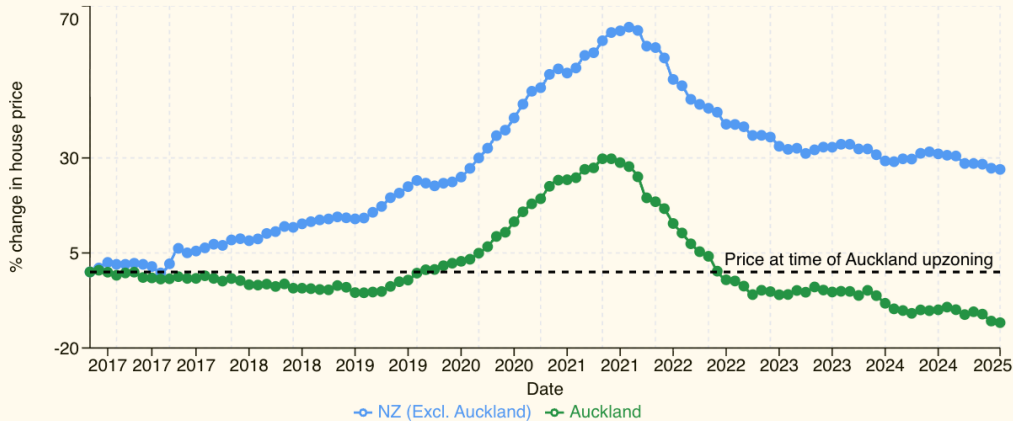
This new paradigm enables increasing prosperity to exist alongside falling prices. When one \$3 million house is replaced by four \$1 million apartments, the average price on that lot drops by two-thirds. But, the total value of housing rises by a million. The seller walks away with a windfall gain, and three new families gain a foothold in the market. Put simply: existing land being used more efficiently delivers us more affordability.

Scaled across a city, that delivers more homes, lowers prices and increases aggregate wealth. We've seen that [very dynamic play out](#) in Auckland, whose prices fell 13% relative to other kiwi cities as new construction boomed. Replacing just a small fraction of Australia's detached houses with apartments could unlock billions in housing wealth.



## Median house prices have fallen in Auckland since upzoning, while they're up 30% in the rest of New Zealand

Change in real median house prices since Auckland's upzoning



Source: NZ Stats

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Of course, part of this value will be captured by developers, and there are genuine constraints on how rapidly we can expand supply (like, for example, construction sector capacity). While there will be some spillover that will lower the prices of existing homes, this could be more than offset by more dwellings.

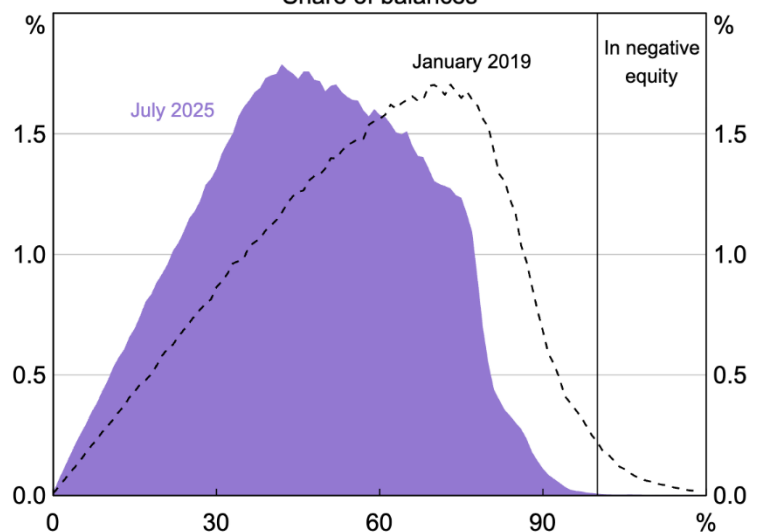
Importantly, these falling prices shouldn't be as daunting as they seem. Housing wealth largely stays within a closed system: when someone sells their home, the proceeds are typically spent on buying another. When one home sells for less, the next one they buy also costs less. While seniors downsizing into cheaper homes will take a hit, our [generous superannuation system](#) should be more than enough for their retirement.

In the end, most owner-occupiers never realise their illusory paper gains. Instead, they hold onto their homes until they die, leaving the proceeds to their estate. That might be a trade-off that some parents are willing to make for their children. But it's a decision that all too often drives those very same kids out of their home cities and delays grandchildren.

The bigger concern is the financial system, as banks' balance sheets are built on property. But, because [most loans are well above water](#) a moderate correction wouldn't sink the system. That's because of our steel-clad financial regulations, which ensure banks have large serviceability buffers and strong balance sheets.

## Outstanding LVR Distribution\*

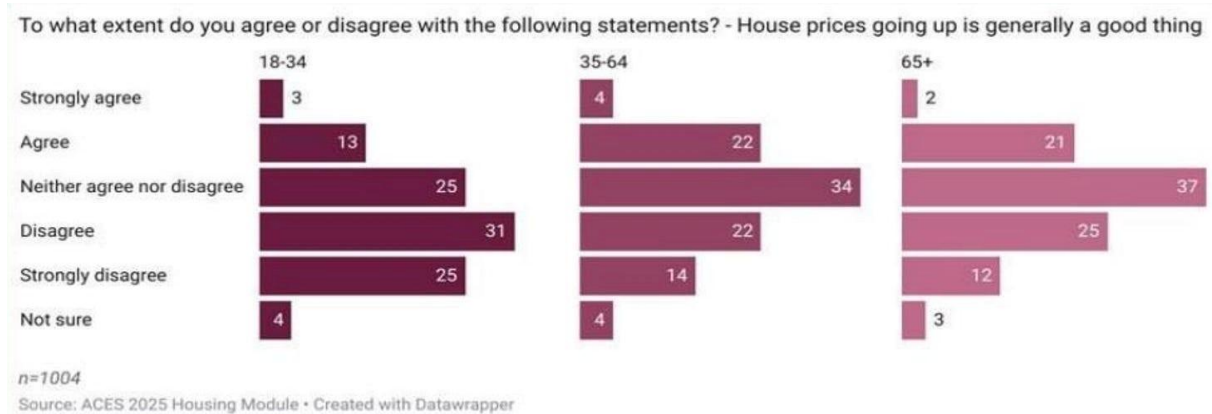
Share of balances



\* Loan balances adjusted for redraw and offset account balances; property prices grown forwards using SA3 price indices.

Sources: ABS; Cotality; RBA; Securitisation System.

But I'm optimistic. In what might shock nervous political staffers, [less than a quarter](#) of boomers believe that rising house prices are a good thing. Andrew Bragg's recent call for the '[Death of NIMBYism](#)' has departed from the historical script. And Grattan Institute [modelling](#) shows that, with the right policies, we could shave \$100,000 off the average home.



While state and federal governments have taken steps in the right direction, more can be done. They should scrap minimum floor-space ratios, which make it uneconomical to densify smaller plots of land. They should follow New Zealand's lead by more aggressively upzoning parts of our cities. They should stop delivering counterproductive demand-side schemes. And they should help consolidate our [fragmented construction sector](#) to boost its productivity, which has gone backwards since the 1990s.

Few people stopped to talk about housing with John Howard as he strolled around Kirribilli in his [green and gold tracksuit](#) in the early 2000s. Back then, our housing crisis felt manageable. Today, as Sydney edges toward becoming a city without grandchildren, these same neighbors might have a few choice words.

Australia's housing market can be both fair and prosperous, but only if we stop treating housing affordability as a zero-sum game. The real political poison would be pretending, for yet another generation, that we can have affordable homes without prices falling.

*Manning Clifford is the editor of [Inflection Points](#), home of long-form Australian policy writing, focusing on housing policy, financial regulation, institutional reform and community building. This article is reproduced with permission from Manning's Substack blog [Inflection Points](#).*

## Investment bonds for intergenerational wealth transfer

Brooke Logan

### What is an investment bond?

Investment bonds are pooled investments, like managed funds, which can be invested across a variety of asset classes to create diversification. One of the important differences between an investment bond and a managed fund, is that investment bonds are tax-paid. That means tax is paid on the earnings of the underlying investments by a life insurance company (or friendly society) and not by you.



Tax on earnings within the bond is paid at the company tax rate of 30%, and any realised capital gains are not discounted. If held for 10 years – and the 125% rule is not breached - no further tax is payable when the funds are withdrawn. The 125% rule requires that contributions in a year do not exceed 125% of the previous year's contributions. If the 125% rule is breached, the 10-year period is restarted.

Whilst withdrawals can be made at any time, those within the first 10 years result in some or all of the growth being assessable, the taxpayer must include this in their tax return. A 30% offset is available to reflect tax paid in the bond.

### **Financial advice and investment bonds**

Whether an investment bond is a suitable investment depends on a person's objectives and their personal circumstances.

Here are two examples of where an investment bond could provide benefits:

*Grant, age 50, is a high-income earner with surplus cash to invest. He has more than \$2.5 million in super and therefore cannot contribute further. An investment bond allows him to invest with earnings taxed at 30%, rather than his marginal rate of 47%.*

*Meg and Ollie want to save funds for the secondary education of their two young children. An investment bond enables them to accumulate returns taxed at a maximum of 30%, and funds can be withdrawn tax free after 10 years. The investment earnings are not added to their personal taxable income which may also assist with Government benefits, such as the Child Care Subsidy.*

### **The benefits of investment bonds for estate planning**

Investment bonds are classified as life policies. Upon the death of the life insured, the proceeds are paid to the nominated beneficiary or the policy owner if no beneficiary has been chosen. If the life insured is the policy owner and there is no beneficiary, then the proceeds are paid to their estate. Unlike super, there is no restriction on who is an eligible beneficiary; individuals, companies, trusts or charities can be nominated.

Investment bonds can therefore be a powerful tool for intergenerational wealth transfer, as they can be set up to directly transfer to a named beneficiary upon the investor's death. This transfer is outside of the will, bypassing probate and estate administration. This means the bond proceeds are generally not subject to estate challenges, as they will not form part of the estate assets (except possibly in NSW where they may be considered part of a 'notional estate'). The tax-paid status of the bond also means that beneficiaries receive the proceeds tax-free, even if the 10-year period has not been completed.

Some examples of using of an investment bond as an estate planning tool are:

- providing for children from previous relationships or blended families
- addressing potential conflicts and inequities between beneficiaries that might be complex and difficult to handle under a will
- making charitable bequests
- gifting for milestones, for example, a grandparent may want to provide funds to their grandchild upon turning 21 to assist with a housing deposit.

## Examples

*Nico, a widower, age 78, has two adult non-financially dependent children. He has surplus cash and wants to ensure on his death, the funds pass equally to his two children whilst avoiding possible disputes over his estate. His financial adviser recommends establishing an investment bond and nominating his two children as equal beneficiaries. This allows him to pass his savings to his children tax-free and bypassing his estate. Additionally, provided he doesn't withdraw from the investment bond, he doesn't need to include it in his tax return nor declare it for the Commonwealth Seniors Health Care Card.*

*Lucie, age 80, would like to ensure \$100,000 of her estate is passed to her six-year-old granddaughter Zoe to help with future expenses such as university fees or a home deposit. Her financial adviser recommends an investment bond with Lucie as the owner and Zoe as the beneficiary. Upon Lucie's death, the bond passes tax-free to Zoe.*

*Alternatively, a child advancement policy could be used. A child advancement policy is an investment bond arrangement where the life insured is a child, the policy is set up before the child has reached 16 years and the policy provides for the payment of the proceeds to the child when they reach a specified vesting age (from age 10 to 25). Once the child reaches the specified age, the policy becomes the property of the child.*

*In this example, Lucie can stipulate in her will that, should she die before the policy has vested to Zoe, the policy is to be held on trust for her until she reaches the vesting age.*

## Get the right advice

Investment bonds are a well-established, yet sometimes overlooked, investment and estate planning tool. They can offer:

- tax efficiency for high-income earners and persons ineligible to contribute to superannuation
- flexibility and accessibility of funds, although withdrawals within the first ten years reduce the tax benefits
- certainty and speed in transferring wealth to future generations.

Like any investment vehicle, they have their drawbacks including:

- investment bonds can carry a variety of fees, and depending on the type and provider, those fees may be high compared to other investment options
- complexity in tax rules around 10-year periods and 125% contributions limits, which if misunderstood can lead to poor outcomes
- potential lower returns than alternative structures, due to higher internal tax, fees and often more limited investment choice.

Like any investment, investment bonds won't suit every person, such as individuals on lower marginal tax rates, those needing regular income and short-term investors. For tailored advice, talk to a qualified financial adviser to determine whether they align with your financial and estate planning objectives.

*Brooke Logan is a technical and strategy lead in UniSuper's advice team. [UniSuper](#) is a sponsor of Firstlinks. Please note that past performance isn't an indicator of future performance. The information in this article is of a general nature and may include general advice. It doesn't take into account your*

personal financial situation, needs or objectives. Before making any investment decision, you should consider your circumstances, the PDS and TMD relevant to you, and whether to consult a qualified financial adviser.

For more articles and papers from UniSuper, [click here](#).

## Why switching to income may make sense in 2026

Michael O'Neill

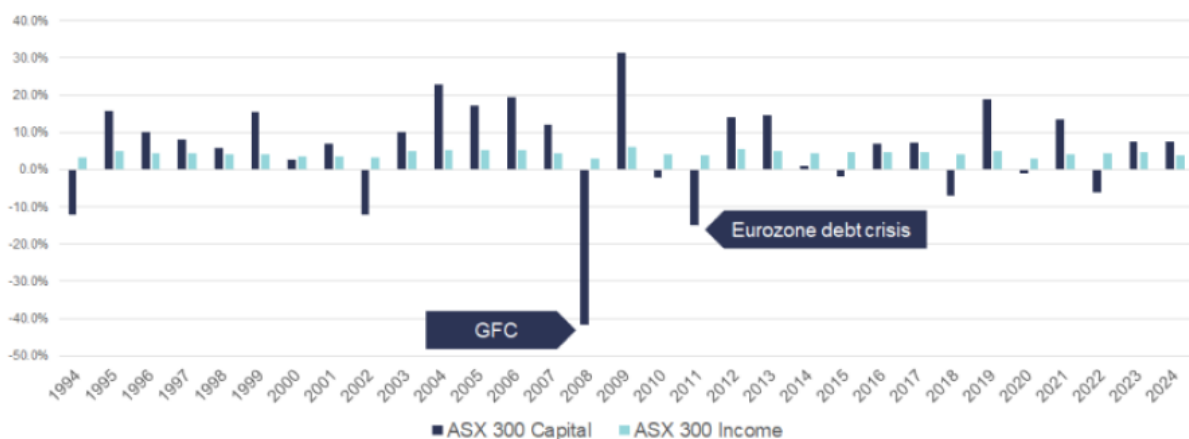
2025 was another great year for equity investors, the third year in a row where the ASX 300 returned more than 10%<sup>1</sup>. All investors want the good times to keep rolling, but the longer they do and the higher valuations creep the closer we are to an inevitable market correction. Investors that want to de-risk their portfolios might be tempted to sell out. However just like a great party, you don't want to leave too early. Time in the market is more important than timing the market, and very few investors can pick the turning points.

We think there's another option for investors wary of valuations – consider switching part of a portfolio to income-focused stocks. Long-term returns are similar, but while capital appreciation from stocks fluctuates significantly, dividends are much more resilient through the cycle.

### Income is more consistent than share prices

Around half of the returns from the ASX300 over the past 30 years have come from dividend income and around half from share price appreciation<sup>2</sup>. However, the way these returns have been delivered is very different as can be seen in the graph below.

**Figure 1: Calendar year returns of the ASX 300 – capital vs income**



Source: Factset, as of January 1, 2026. Past performance is not a reliable indicator of future performance

While capital returns have yo-yoed over the past 30 years, dividend yields have quietly motored along at around 4-5% almost every year. Dividends are inherently less volatile than share prices as dividends are paid based on the underlying profitability of the company, whereas share prices fluctuate depending on the whims of the market. Investors can also further reduce the volatility of equities by focusing on higher-quality companies, and increase the income they receive by investing in companies that pay consistent dividends.

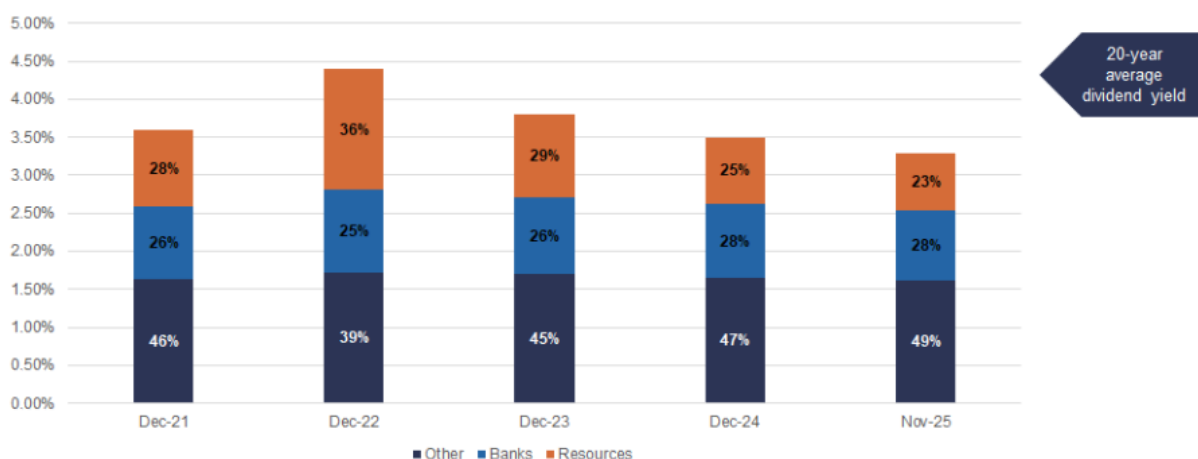
## But getting income from dividends is harder these days

Dividends remain more reliable than capital returns, but unfortunately dividend yields have been steadily declining over the past 5 years. The dividend yield from the ASX300 is around 3.2% right now, which is down from the long-term average of 4.4%<sup>3</sup>.

The lower yields are simply a case of valuations increasing which send dividend yields lower. Financials and materials stocks make up around 50% of the index and yields for both sectors have fallen. Financial stocks have risen significantly this year and outpaced growth in earnings and dividends which means lower yields. The dividends for materials stocks have fallen even further, particularly for the big iron ore miners.

The graph below shows the drop in dividend yields from 4.5% in December 2022 (around the long-term average) to 3.2% at the end of 2025. In the past 3 years yields from financial stocks have dropped from around 5.1% to 3.8% and dividend yields from Resources stocks have fallen from around 5.5% to 2.9%<sup>iv</sup>. While the yield from banks and resources has dropped, other sectors have remained relatively consistent, and now make up a greater percentage of the overall yield.

**Figure 2: ASX 300 forward dividend yield contribution**



Source: Factset, as of 30 November, 2025. Past performance is not a reliable indicator of future performance

While dividend yields from resources and bank stocks have dropped, and yields in Consumer Discretionary and IT stocks are also low, it's not the same story in other sectors. Utilities stocks are paying yields of 5.6% on average<sup>5</sup> and there are also healthy dividends available in the Industrials sector. Many of these stocks also have steadier earnings which leads to more consistent dividends, have lower macro-sensitivity and are still trading at reasonable valuations. We like select holdings in Infrastructure and Real Estate as well while remaining cautious of anything with high debt or rate-sensitive valuations. We favour holdings with inflation protection – for example inflation-linked price rises.

## Our top three income stocks for 2026 and beyond

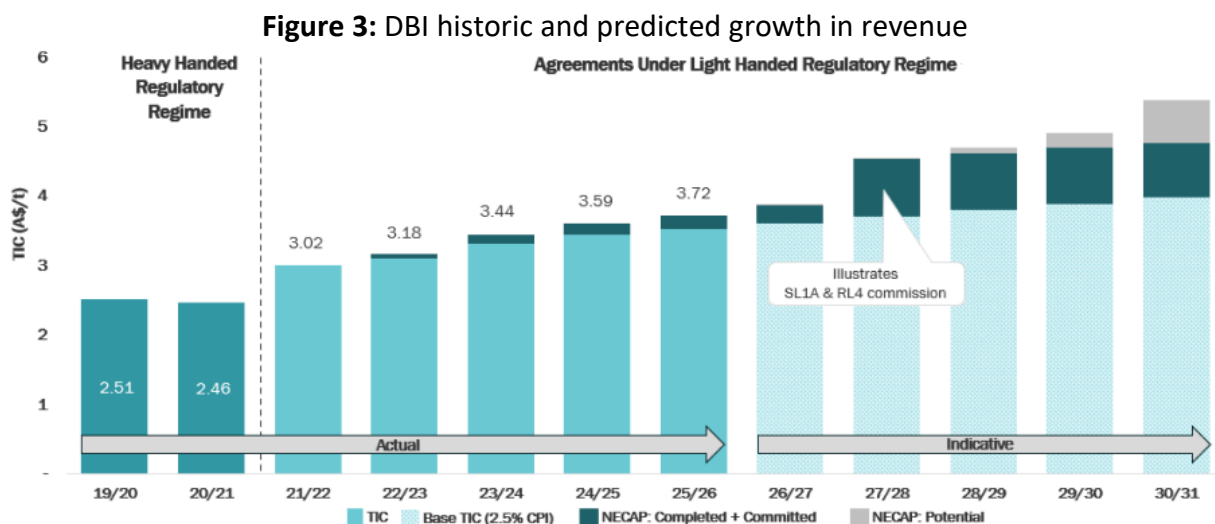
At IML we focus on quality and value stocks and have a strong focus on lower volatility to protect capital when markets fall. We think a great income stock is one that is low risk with highly recurrent revenue to support dividend stability and growth. In this stage of the economic cycle, with inflationary pressures again threatening, we also favour businesses that are resilient through the economic cycle, have low debt, valuations that are less sensitive to interest rates and some kind of inflation protection.

In short we want to avoid dividend traps and hold businesses where we have a high degree of confidence they will pay the dividends we expect - not just this year but also in years to come.

Here are our top 3 income stocks:

**1. Dalrymple Bay Infrastructure (ASX:DBI)** is one of the best assets listed on the ASX. It operates the port at Dalrymple Bay, south of Mackay in Queensland, which is a major coal export facility. It has contracts which stipulate 100% take-or-pay for the coal that runs through its ports (which means that it gets paid the same amount even if it doesn't ship any coal). It has a long-term lease on the port to 2051 with an option to extend until 2100. The company is able to increase its prices by CPI every year and in 2031 there is a further opportunity to lift prices. The business takes very little operational or capital expenditure risk. We think this chart best exemplifies the case for DBI as it shows how steadily and consistently revenue has grown since the new, lighter touch regulatory regime. The chart also includes predicted growth in revenue until 2031, split up into three different levels of certainty:

- The light blue is relatively certain
- Green is completed and committed, so also nearly certain
- Grey is contingent on DBI being able to follow with its intended capex spend.



Source: Dalrymple Bay Infrastructure, August 2025, [Half year financial results investor presentation](#).

Chart is indicative only and does not represent a forecast or future outlook.

DBI was up nearly 50% in 2025 but we think it has room to keep going up and is paying an attractive and growing dividend.

**2. Charter Hall Retail REIT (ASX:CQR)** is our pick from the real estate sector. It operates neighbourhood centres around Australia which have very low vacancies through the economic cycle. These centres have great anchor tenants like Coles or Woolworths, and they don't require a lot of capital to maintain their centres from year to year. The rent for many of CQR's tenants is linked to CPI, and rents without CPI protection have increased by more than 3% in 2025, showing strong pricing power. Reduced debt levels puts CQR in a good place if interest rates continue to rise. The table below highlights the investment thesis for CQR as it shows the stability of vacancy rates throughout the economic cycle.

**Figure 4: QR convenience shopping centre retail portfolio – occupancy rates**

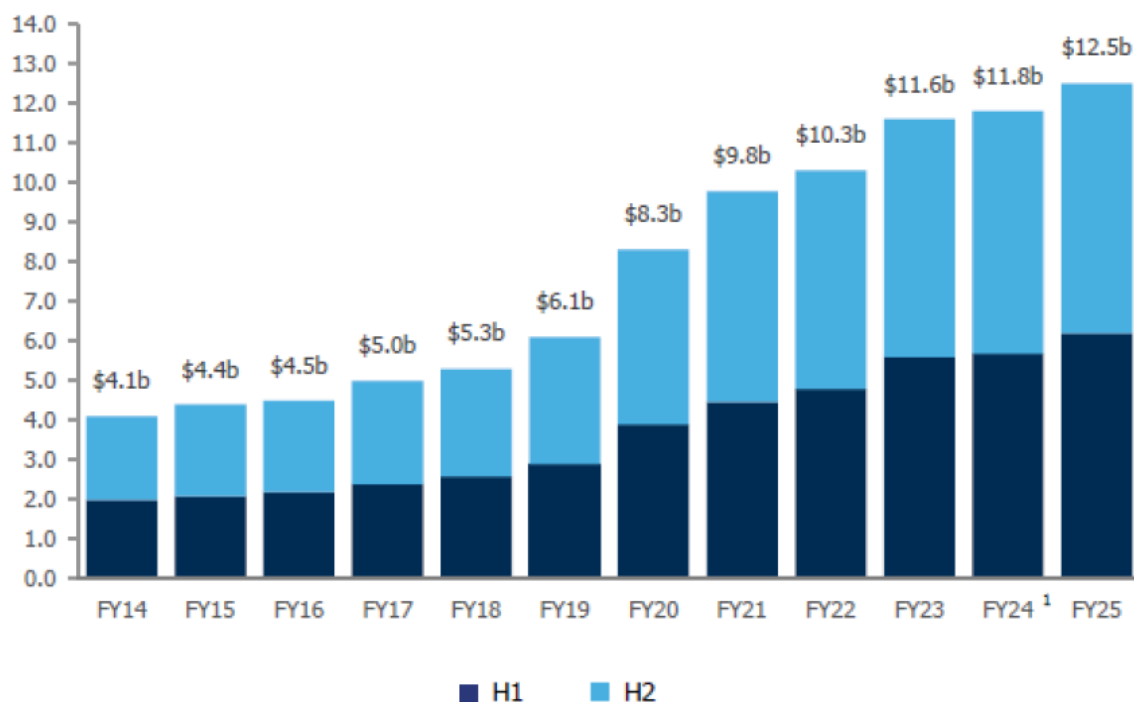
Date	June 2016	June 2017	June 2018	June 2019	June 2020	June 2021	June 2022	June 2023	June 2024	June 2025
Occupancy	98.00%	98.00%	98.10%	98.10%	97.30%	98.30%	98.50%	98.60%	98.80%	98.40%

Source: Charter Hall Retail REIT 2025 Full Year Results, 18 August, 2025

CQR was up ~40% for 2025 but is still trading at a 14% discount to net tangible assets with a dividend yield of 6.2%.<sup>6</sup> We think it still looks reasonably priced.

**3. Steadfast (ASX:SDF)** is our final income pick and one of our favourite stocks at the moment. It's the largest insurance broker and underwriting agency in Australia and NZ, but doesn't take any insurance risk itself. Think of your neighbourhood broker that has been in your community for 20 years, but backed by an ASX100 listed company. We think insurance broking is a great industry. It's very reliable with consistent margins and recurrent revenue through the cycle. With an enviable 95% client retention rate insurance broking has been one of the only financial sub-sectors globally to grow in the aftermath of the GFC. SDF is winning share in distribution from insurers (like mortgage broking did decades ago) and is growing organically and through roll-up acquisitions. This increase in scale translates to improved bargaining power which allows SDF to grow its margins and earnings. The following chart shows the incredibly consistent growth in insurance premiums through the proprietary Steadfast Client Trading platform, which is gaining share of insurance premiums in the small-to-medium enterprise sector.

**Figure 5: Steadfast historical growth in gross written premiums**



Source: Steadfast, FY 2025 Results Investor Presentation, 28 August 2025. Note 1: FY24 restated for comparison purposes, with GWP from PSC, Honan and Envestbrokers excluded from 1 July 2023.

You can buy Steadfast today at an attractive PE ratio of ~15x, as the stock has been sold off with the insurance cycle. It has a yield of more than 4% and has been growing its dividends 13.5% pa on average since 2013<sup>7</sup>. We think it still has a long runway ahead.



## We think income is a good place to be this year

Many investors reassess their portfolios for the year ahead in January. It makes sense to reflect on your investments after three years of double-digit returns on the ASX 300. If you're looking to derisk your portfolio, we think it's worth considering a greater allocation to equity income. While earning good dividends from the ASX is harder than it used to be, there's still plenty of high-quality stocks available to buy at reasonable prices that also offer good opportunities for capital growth. Stocks with reasonable valuations and good dividend yields tend to hold up better in a market correction. Focusing on income helps you to manage the pressure of trying to time the market while staying invested.

1. Source : ASX.com.au, as of January 1, 2026
2. Source: Factset, as of 31 December 2025 ASX 300 30yr Total Return is 9.1%, Income return = 4.3%, Capital return = 4.8%.
3. Factset, as of 31 December, 2025
4. Source: Factset, from 31 December, 2022, to 31 December 2025
5. Source: Factset, As of 31 December, 2025
6. Source: Factset, as of 16 January, 2026, both P/E and Dividend forward 12 months.
7. Source: IML estimates as at 31 December, 2025. Past performance is not a reliable indicator of future performance.

*Michael O'Neill is a Portfolio Manager at Australian equities fund manager [Investors Mutual Limited](#). Michael jointly manages the [IML Equity Income Fund](#) with Portfolio Manager, Tuan Luu. This information is general in nature and has been prepared without taking account of your objectives, financial situation or needs. The fact that shares in a particular company may have been mentioned should not be interpreted as a recommendation to buy, sell, or hold that stock. Past performance is not a reliable indicator of future performance.*

## Retiring Schroders boss on lessons learned, industry changes, and the market outlook

James Gruber

*Simon Doyle is outgoing CEO and CIO, Schroders Australia.*

**James Gruber:** 22 years at Schroders, most of it as Head of Fixed Income and Multi-Asset and more recently as CEO and CIO, and 38 years in the finance industry – firstly, congratulations on a great career.

**Simon Doyle:** Thank you.

**JG:** What are the biggest changes that you've seen in the finance industry over the past four decades?

**SD:** There are some things that haven't changed. When I started, a large proportion of the organised savings pool was with institutions like AMP and National Mutual. Then the industry went through a period of change with more players like asset consultants and global fund managers helping to break portfolio down, make them more global and encourage the evolution and introduction of more alternatives. 30-odd years later, we now have small number of very large superannuation funds

managing large pools of assets. In some ways, we've gone full circle. The same thing is being done, but just different players are doing them.

One of the things that I've observed as an investor that has changed, is the nature of the business cycle. We've gone from a relatively normal four-year cycle - economies grew, overheated, contracted, got stimulated by policy (both monetary and fiscal) and grew again. Today, with more service-based economies and the rapid development of technology, it's had a profound impact on the nature of the business cycle. Coupled with that, policy makers, both on the monetary and the fiscal side, working hard to continue to support growth in economies. Fiscal policy settings in key economies are almost always now pro-cyclical.

The traditional business cycle is very different to what it was in the past and that's having quite a significant impact on how investors think about investing.

Outside that, private markets have come to the fore recently. There's always been private markets and direct assets in investor portfolios but a lot narrower in terms of assets and the access for investors has been quite constricted as well. We've seen a broadening out of types of private and non-traditional exposures that investors can access, and also how they can get access those investments as well.

The other thing I'd call out is just ease of access – we've gone from an environment of contractual mandates and unitised trusts which to the evolution of ETFs which has opened up alternative access and for improved ease of access. Technology has enabled small investors and young investors to access markets in smaller size introducing them to investing quite early.

**JG:** I want to drill into a couple of your points there. In terms of the business cycle, is it now dead, as some suggest?

**SD:** I think it's dead, or if not severely wounded, in the traditional, policy driven context that we used to have. Economies would slow down, central banks would stimulate, governments would spend money, economies would grow, then you'd see fiscal contraction as they'd look to keep budgets in balance, and monetary policy would tighten to reign in inflation and so on.

Fiscal policy has is now more structurally pro cyclical, and a lot of pressure has been placed on monetary policy to manage inflation. That's one side of it.

The other side is economies have shifted from being production and commodity based to much more service based. And the services sector is a lot less cyclical.

And then technological innovation has changed the nature of what people spend money on, and how they spend.

So I think it's permanently changed.

**JG:** Private credit has been in the headlines a lot over the past few weeks. What's your view on its rise?

**SD:** I don't think there's anything wrong with private credit per se. We've been involved in private credit and are involved in private credit in different capacities, locally and globally.

It's like anything - once too much money flows into a segment of the market, lending standards loosen, and some of this lending will flow to activities that will struggle to pay investors back. And that's just a consequence of the growth of that segment.

Quality always matters, and high-quality private credit businesses, that have strong credit process and lending discipline, should be structurally fine. You have just got to make sure you do your homework and the underlying assets and the credit frameworks are sound.

A broader debate is the role of private credit and private assets in portfolios. I've always thought portfolio construction needed to be thought about differently to the mainstream 70/30 or 80/20 equity-bond portfolio.

It's why we went down the path of developing a Real Return fund to play what's ahead of us, not play what's behind us. I always think about asset classes as a fresh set of opportunities and asking questions about which assets will deliver for me going forward, rather than just extrapolating from the past.

There are times where you want to own lots of equities, but they'll also be times where you don't.

Getting true diversification in portfolios is a lot harder than just simply adding bonds to a portfolio.

**JG:** What do you consider your main achievements at Schroders?

There are two things I look back on with the most pride. One is the development of our objective-based Multi-Asset Investment Framework back in 2006-07 that led to the Schroder Real Return strategy and other strategies that utilize this investment framework like the Schroder Global Target Return strategy – a USD version of the approach.

Why am I most proud of that? That type of investment approach didn't really exist in Australia at the time. We unpicked the rules of multi-asset portfolio construction, built an investment framework, and started constructing portfolios in a different way, helping clients at the time to solve a problem, which is: how do you generate positive absolute returns, irrespective of the performance of equity markets?

We launched that strategy in the middle of the Global Financial Crisis and it's been a hugely successful strategy for us and is still resonating with clients 18-years later under Sebastian Mullins very capable leadership.

The second thing is that I didn't really expect to be CEO of Schroders Australia. When I took the role, we were trying to do a lot of things, and probably not doing some of those things as well as we really wanted to be doing them. And so taking the business on at that point in time, narrowing our focus, working out what we were good at as a firm, as an active investment manager, having much more focused conversations with our clients about those things, and seeing that translate into strong business outcomes has been an achievement that I'm proud of.

In 2025, we had our best year in fund flow terms since 2013 and for investment performance, most of our focus strategies have been performing really well.

**JG:** What are some of the key lessons you've learned about markets and investing along the way?

**SD:** I've learned plenty. First is that when you think you've got to it all sorted out, markets will come along and teach you a lesson.

Second, while I hugely respect contrarian thinking and the discipline of searching for what can go wrong (it's a large part of our business here and overseas), I've learned - and I think we've learned as a firm - that being perpetually bearish can be as costly as being blindly optimistic. The key is knowing when skepticism is warranted versus when it becomes an anchor on performance. Markets reward patience

and the conviction to act when others won't - but sustained success requires balancing that vigilance with the willingness to recognize opportunity.

From a personal perspective, and linked to the above, I believe resilience is key. You're not always going to be right. If you're right more than you're wrong, you're doing well in this business.

If you have a set of beliefs about how markets work, you construct a framework for thinking about investing that aligns with those beliefs, and you consistently apply that, at least you have a reference point for decision making and your clients know what is driving your thought processes.

That, if nothing else, leads to consistency. Process, aligned to beliefs and consistently applied, is critical.

**JG:** How do you see markets today and what investors should be paying attention to?

**SD:** There's a lot of focus on inflation. I draw a distinction between inflation being structurally higher than where it has been versus structurally high inflation that derails market valuations.

I think we're in an environment where inflation is structurally higher at 3-4% as opposed to what people have been accustomed to, at 2-3%.

We've seen the Reserve Bank raise rates, and there's been a lot of angst about that in the media. But the reality is at 3.85% rates against an economy that's growing in nominal terms at perhaps 5%, rates are still pretty low. We're just seeing rates normalise from exceptionally low levels and they'll likely push a bit higher.

For markets overall, I think there's plenty of optimism in current valuations. They are being supported by growing economies and a pro-growth policy environment, but it wouldn't take a lot to go wrong.

So that leads me to be quite cautious. While there's a lot of talk about the risks, they're certainly not factoring that into market pricing.

**JG:** Let's talk about Australia. There's a fair amount of pessimism about Australian markets, especially in a global context. Do you share that pessimism?

**SD:** Not really. There are certainly some challenges.

When you look at Australia, it's a relatively narrow market – primarily commodities and financials - and you have a lot of money flowing into the market through passive investments, and the large, organised savings pools looking to own Australia. That's probably inflated valuations in some segments.

If you compare that to offshore, you've still got valuation challenges in a lot of markets but there's a broader set of opportunities.

Investors here are typically overweight Australian assets in their portfolios, and need to look at broader diversification, including more exposure offshore. But that's different to being pessimistic about Australia.

Australia is still a high-quality economy with an independent central bank, and good fiscal governance compared to much of the rest of the world. There's a lot to be positive about.

*Simon Doyle is outgoing CEO and CIO, [Schroders Australia](#), a sponsor of Firstlinks.  
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## How US midterm elections affect the markets

Matt Miller, Chris Buchbinder

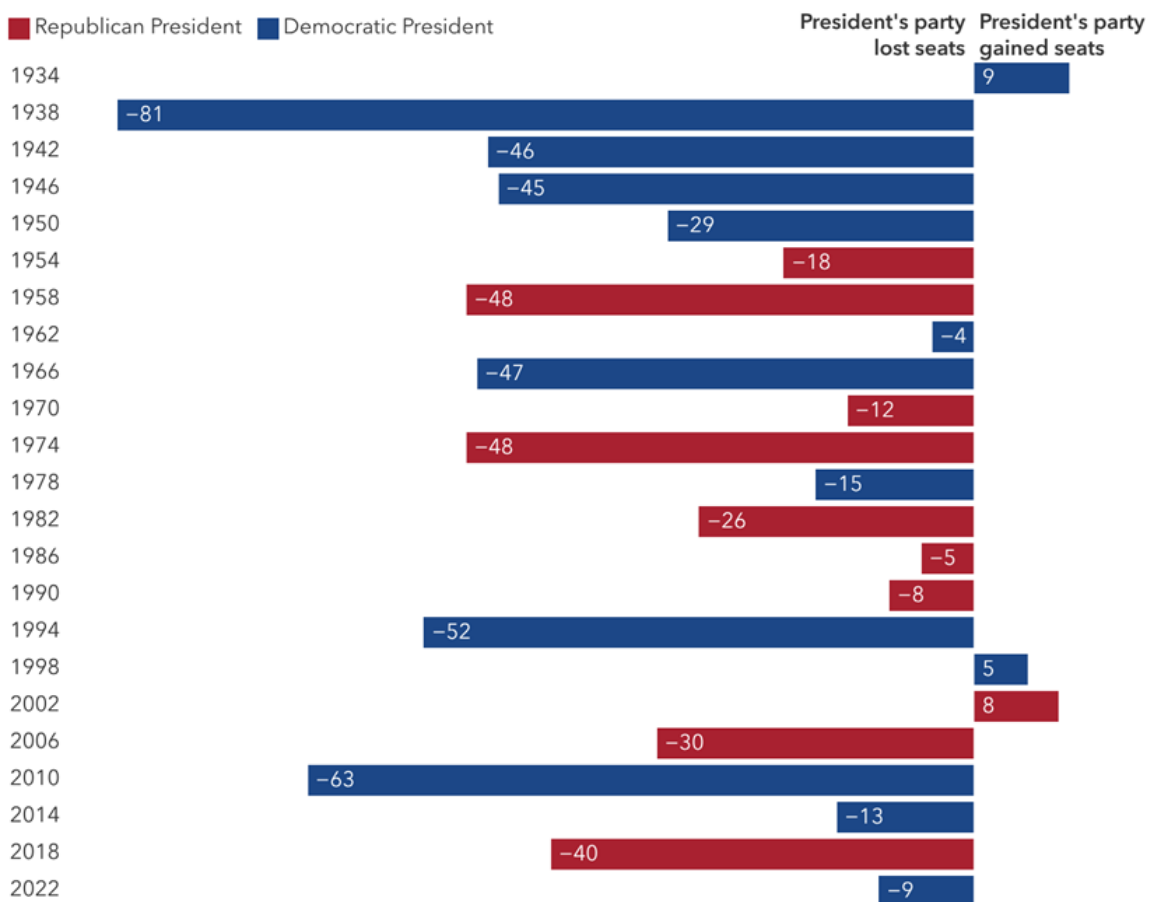
With everything happening in the world — from the US push to annex Greenland, to new tariffs against Europe, to military intervention in Venezuela — investors may not be focused on the US midterm elections just yet. But this pivotal contest is just 10 months away, and the campaign starts in earnest next month when President Donald Trump delivers the State of the Union Address.

“Trump will use the State of the Union, where he commands a massive audience, to kick off the 2026 campaign,” says Capital Group political economist Matt Miller. “He will lay out a narrative and policy agenda designed to help the Republican Party defy the normal setback that we would expect to see for a president in the midterm elections.”

The key question for investors is: How might the midterms influence the stock market?

**Figure 1: The president’s party typically loses seats in Congress**

Net change in House of Representatives seats controlled by president’s party after midterm elections



Sources: Capital Group, UCSB: The American Presidency Project. As of 15 January 2026.

Midterm elections occur at the midpoint of a presidential term in November, and usually result in the president’s party losing ground in Congress. Over the past 23 midterm elections, the president’s party has lost an average 27 seats in the House of Representatives and three in the Senate. Only twice has the president’s party gained seats in both chambers.

This tends to happen for two reasons. First, supporters of the party not in power — in this case, the Democratic Party — usually are more motivated to boost voter turnout. Second, the president's approval rating typically dips during the first two years in office, as it has with Trump, which can influence swing voters and frustrated constituents.

Republicans currently control both the Senate and House by slim margins. Losing either chamber would effectively end any chance to pass ambitious Republican-sponsored legislation over the next two years, and it would put Trump on the defensive for the remainder of his term in office, Miller explains.

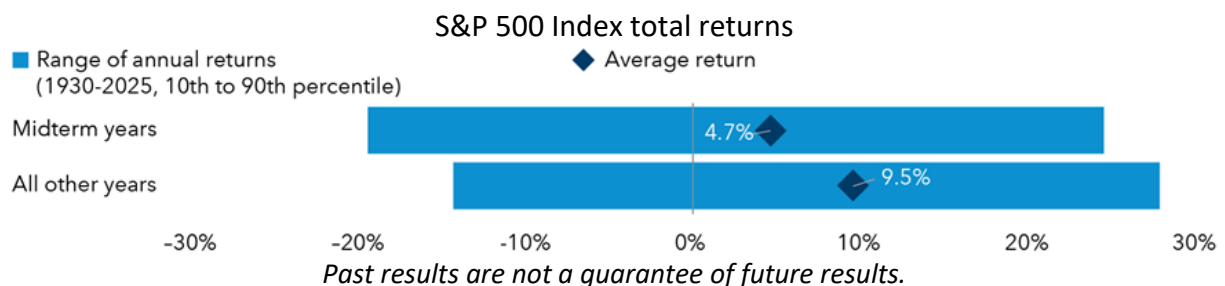
Since losing seats is so common, it is usually priced into the markets early in the year. But the extent of a political power shift and resulting policy impacts remain unclear until later in the year, which can explain other interesting trends.

### History suggests lower returns and higher volatility

Capital Group examined more than 90 years of data and found that markets tend to behave differently during midterm election years. Our analysis of returns for the S&P 500 Index since 1930 revealed that the path of stocks during midterm election years differs noticeably compared to other years.

Since markets have typically gone up over long periods of time, the average stock movement during an average year should steadily increase. But we found that in the initial months of midterm election years, stocks have tended to generate lower average returns and often gained little ground until shortly before the election.

**Figure 2: Market returns have lagged in midterm election years**



Sources: Capital Group, RIMES, Standard & Poor's. As of 15 January 2026.

Markets do not like uncertainty — and that adage seems to apply here. Earlier in the year, there is less certainty about the election's outcome and impact. But markets have tended to rally in the weeks before an election, and they have continued to rise after the polls close.

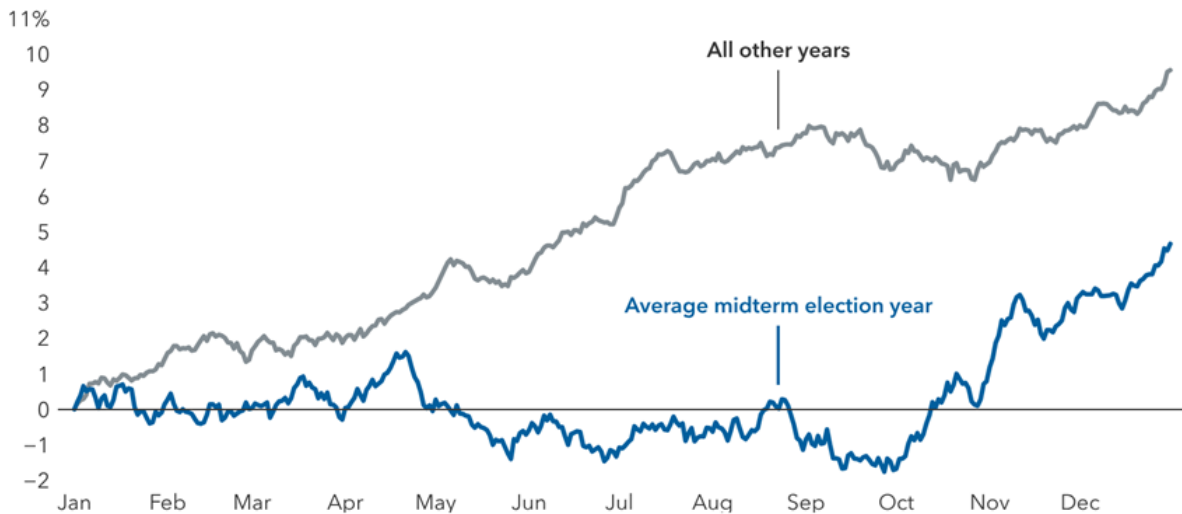
In 2025, the S&P 500 Index enjoyed a solid return of nearly 18%; however, it significantly lagged other major markets around the world. The MSCI Europe Index returned more than 35%. The MSCI Japan Index gained 24%. And the MSCI Emerging Markets Index was up nearly 34%.

Despite election-related uncertainty, investors should consider the cost of sitting on the sidelines or trying to time the market. Historically speaking, staying invested has been the smartest move. The path of stocks varies greatly each election cycle, but the overall long-term trend of markets has been positive.



**Figure 3: Political uncertainty has dampened returns in midterm years**

S&P 500 Index average returns since 1931

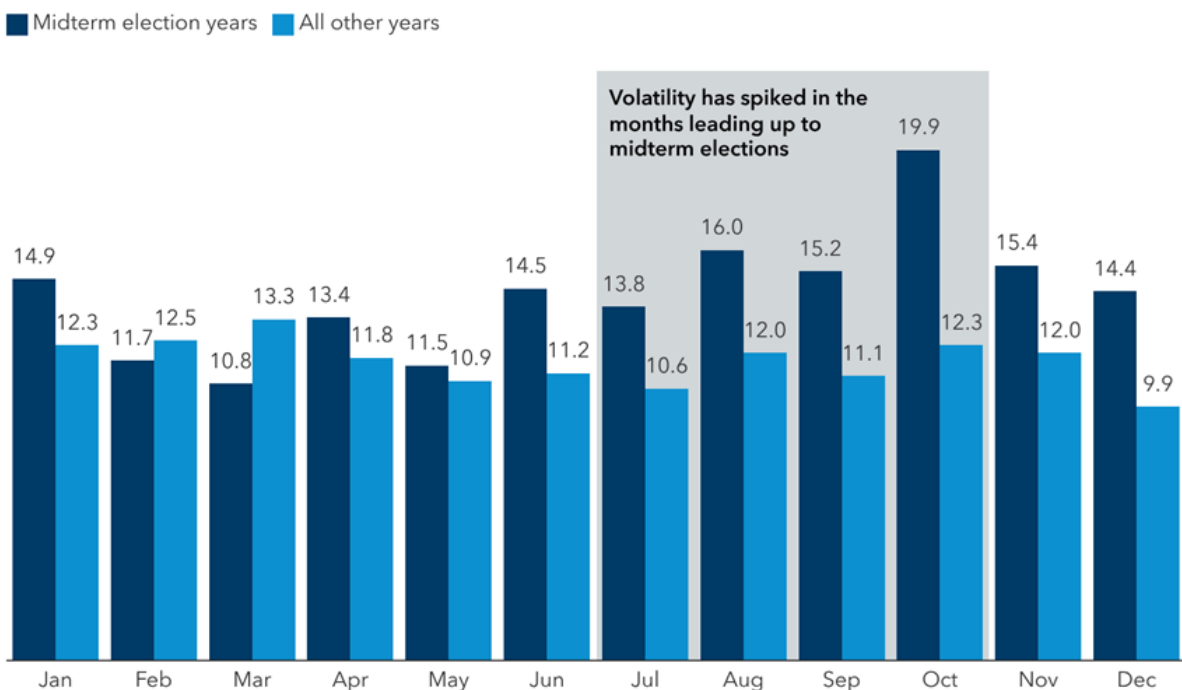


Past results are not a guarantee of future results. Sources: Capital Group, RIMES, Standard & Poor's. Chart shows the average trajectory of cumulative price returns for the S&P 500 Index throughout midterm election years compared to non-midterm election years. Each point on the lines represents the average year-to-date return as of that particular month and day, and is calculated using daily price returns from 1 Jan 1931 to 31 Dec 2025.

That said, there is no question that election season can be tough on the nerves. Candidates often draw attention to the country's problems, and campaigns regularly amplify negative messages. Policy proposals may be unclear and often target specific industries or companies.

It may come as no surprise then that market volatility is higher in midterm years, especially in the weeks leading up to the election. Since 1970, midterm years have a median standard deviation of returns of nearly 16%, compared with 13% in all other years.

**Figure 4: Midterm election years have come with higher volatility**



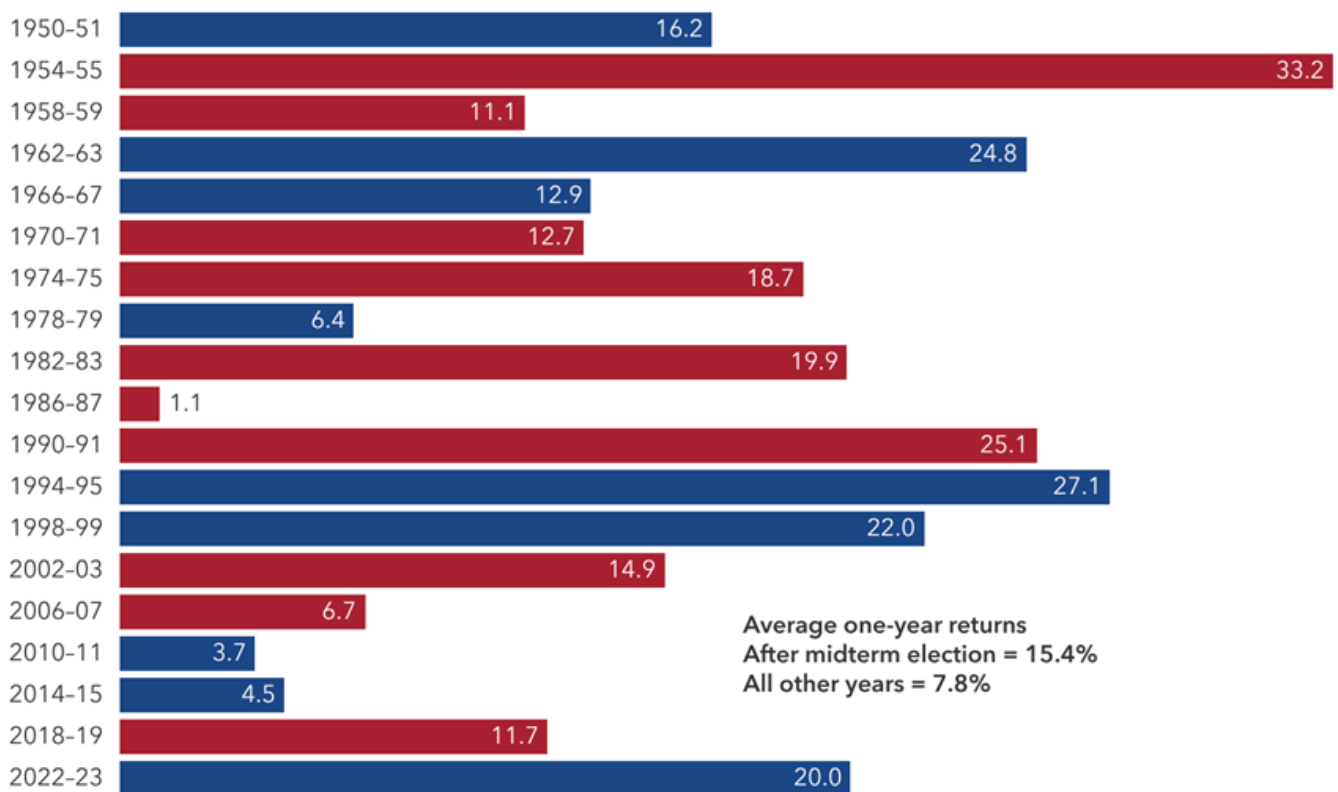
Sources: Capital Group, RIMES, Standard & Poor's. Volatility is calculated using the standard deviation (SD) of daily returns for each individual month. The median volatility for each month is then displayed in the chart on an annualised basis. SD is a measure of how returns over time have varied from the average. As of 31 Dec 2025.

"I don't think this election will be any different," says Chris Buchbinder, an equity portfolio manager. "There may be bumps in the road, and investors should brace for short-term volatility, but I don't expect the election results to be a huge driver of investment outcomes one way or the other."

### Post-midterm market returns have been strong

The silver lining for investors is that markets have tended to rebound strongly after Election Day. Above-average returns have been typical for the full year following an election cycle. Since 1950, the average one-year return following a midterm election was 15.4%. That is nearly twice the return of all other years during a similar period.

**Figure 5: S&P 500 Index price return one year after midterm election**



Past results are not a guarantee of future results. Sources: Capital Group, RIMES, Standard & Poor's. Calculations use Election Day as the starting date in all election years and November 5th as a proxy for the starting date in other years. Only midterm election years are shown in the chart. As of 15 January 2026.

Every cycle is different though, and elections are just one of many factors influencing market returns. For example, investors will need to weigh the potential impacts of tariffs, inflation, and interest rates, as well as global economic growth and geopolitical conflicts.

### The bottom line for investors

There is certainly nothing wrong with wanting your preferred candidate to win, but investors can run into trouble if they place too much importance on election results. That's because, historically, elections have had little impact on long-term investment returns. Going back to 1933, markets have averaged

double-digit returns during various government-control scenarios, including when a single party controlled the White House and both chambers of Congress, a split Congress, and when the president's opposing party controls Congress.

Midterm elections — and politics as a whole — generate a lot of noise and uncertainty.

Even if elections spur higher volatility, there is no need to fear them. The reality is that long-term equity returns are driven by the earnings and perceived value of individual companies over time. Investors would be wise to look past the short-term highs and lows and maintain a long-term focus, regardless of which way the political winds may shift in any given year.

*Matt Miller is a political economist, and Chris Buchbinder is an equity portfolio manager at [Capital Group](#), a sponsor of Firstlinks. This article contains general information only and does not consider the circumstances of any investor. Please seek financial advice before acting on any investment as market circumstances can change.*

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## Does increasing geopolitical risk lead to higher equity market returns?

Joe Wiggins

It is hard to argue against the idea that geopolitical tensions are rising. This type of backdrop can be incredibly difficult to navigate for investors. When the news is filled with discussions of war and conflict, it is natural to lose sight of our long-term investment objectives, and instead become focused on short-term market movements. Yet, contrary to how investors feel, a 2024 study showed that future equity market returns tend to be higher when coverage of war is more prominent in the media.

In a paper titled: "[War Discourse and Disaster Premium: 160 Years of Evidence from the Stock Market](#)", a group of academics analysed 7 million New York Times articles spanning nearly 160 years and identified how much coverage was dedicated to a set of specific topics each month. The topics covered were linked to subsequent equity market returns from periods of one month to 36 months.

They found that of all the topics considered, 'war' was the strongest predictor of positive returns. Between 1871 and 2019, a 1-standard-deviation increase in the intensity of war coverage in the New York Times predicts a 3.8% increase in annualised monthly returns. Over three years, the same rise in war coverage predicts 2.3% higher returns over the next 36 months.

In simple terms, the more that war was a focus of the articles in the New York Times, the higher subsequent returns were all the way up to three years out.

### Why might war be good for equity market returns?

Although these results run counter to our behavioural instincts – not many of us treat war or rising geopolitical risk as a buy signal – that is probably the exact reason why this relationship appears to exist. I believe there are two plausible explanations for the phenomenon described in the paper:

- Heightened coverage of war and geopolitical risk leads investors to overstate the potential impact on financial markets and unduly mark down equity prices. This leads to lower valuations and higher future returns.
- Increased war coverage is an indicator of rising risk of economic and market catastrophe (what we might call disaster risk) and therefore equities are prudently priced lower. The expected return is greater because risks are also now more pronounced.

We can think of these explanations as being irrational (in the first case) and rational (in the second case). The consequences of both are the same – higher expected returns because equity markets have sold off and valuations are lower. In truth, both factors are probably at play.

### **Does geopolitical risk create buying opportunities?**

Not so fast. There are some significant limitations with the study.

The first is the spectre of survivorship bias. While the data may show that future equity market returns rise alongside war coverage because investors overstate the risk of economic disaster, this is only true because there has been no such catastrophe. The world has to survive for us to see the results – so we cannot easily tell whether a pricing anomaly actually exists.

Equity market returns are predicted to be higher following periods of increased war coverage, provided the world doesn't end!

The paper also does not advocate investing in specific countries that are the focus of increased geopolitical risks. It deliberately looks at general coverage of war and its impact on US equity markets. If instead it observed the impact on equity market returns of a country directly involved in a conflict, the results might be somewhat different.

### **Don't compound geopolitical risks**

The authors refer to the results of their study as a 'war return premium', which suggests it is something to exploit and potentially benefit from. However, I would frame the findings somewhat differently. When risks are prominent and emotive, we are liable to allow them to overwhelm our judgement and become prone to overstate the likelihood of worst-case scenarios. We should guard against this.

If a 'war return premium' exists, it does so because of how investors react to the increased intensity of war coverage in the media. I think we should be less concerned about collecting the premium and more focused on not being the investor who pays it by making poor decisions in stressed geopolitical environments. The evidence suggests that our instincts during such times are likely to serve us poorly.

**Note:** *All opinions are my own, not that of my employer or anybody else. I am often wrong, and my future self will disagree with my present self at some point. Not investment advice.*

Joe Wiggins is Director of Research at UK wealth manager, [St James's Place](#) and publisher of investment insights through a behavioural science lens at [www.behaviouralinvestment.com](http://www.behaviouralinvestment.com). His book [The Intelligent Fund Investor](#) explores the beliefs and behaviours that lead investors astray, and shows how we can make better decisions.

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