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Editorial

The media continues to be filled with forecasts about the investment – and societal – implications of AI. Some of these forecasts are moving markets. On Monday the S&P 500 and Nasdaq sold off over 1% which was at least partially attributed to a dystopian vision of the future by Citrini Research.

The report outlined a scenario where heavy white-collar layoffs and a decimated software industry cause a cascading financial contagion hitting credit card companies and private credit lenders. Software, credit card and private credit shares got hit in the sell-off. There is clearly widespread AI anxiety.

Forecasts are notoriously inaccurate and even the most dramatic are quickly forgotten. Chances are the same will happen with this report by Citrini Research.

Most predictions don't lead to bold actions – perhaps a subtle tilt of a portfolio in this way or that.

But not every prediction is forgotten and not everybody avoids bold moves...

The poster child for a bad prediction and terrible outcome

Irving Fisher was a professor of political economy at Yale University and at the forefront of his profession. Given his notoriety Fisher led a busy life, and October 1929 was no different.

In a speech on 15 October Fisher proclaimed, "Stock prices have reached what looks like a permanently high plateau... I expect to see the stock market a good deal higher than it is today within a few months."

In response to some market jitters Fisher declared on 21 October that the market was "only shaking out the lunatic fringe."

According to the NY Times in a speech to a group of bankers on 23 October, Fisher told the audience that prices remained low and hadn't caught up yet with real values.

Black Monday occurred on 28 October with the Dow dropping 13%. The next day the market dropped another 12%. Fisher remained upbeat and rushed to write a book.

The Stock Market Crash — And After was published in February of 1930. Fisher doubled down on his optimistic view of the market. By 1932 the market was 89% below the peak.

Fisher has become infamous based on the inaccuracy of his prediction. But you can't accuse him of not backing his own call. Fisher invested most of his portfolio in Remington Rand.

The company sold office equipment including a visible filing system that Fisher patented in 1913. He was so confident in the company – and presumably his visible filing system – he bought his shares with borrowed money.

Using margin lending wasn't unusual at the time but it didn't help Fisher's situation. Ever the optimist he covered his margin call and bought more shares after the initial market drop. Remington's shares fell from \$59 in 1929 to \$1 in 1933. Fisher had to sell his house and borrow \$750,000 from his sister-in-law to cover his losses.

Lessons from Fisher

Investing is challenging because it requires a balance between optimism and skepticism. Fisher went all in on the optimism. But he forgot that investing is a probabilistic exercise. No single result is certain and there is always a range of potential outcomes.

All investors are using imperfect information to predict what will happen in the future. The market tends to forget that when overly confident about a particular result. The reaction to the report from Citrini Research shows the confidence in the AI trade is breaking and the market is jittery.

I can't tell you what the future is going to look like. I don't know how AI will ultimately impact humanity. But I can give you some advice I first offered after the tariff meltdown in April. If you are feeling anxious about what is next and tempted to act boldly it might be worth considering the work of a Harvard professor.

Proceeding with humility

Amy Edmonson is a professor of leadership management at Harvard Business School. She has created a spectrum of failure. On this spectrum is a classification of failure which Edmonson calls 'task challenge.' Task challenge refers to an activity which is too challenging for reliable, failure-free performance.

Think about American ice skater Ilia Malinin. With the nickname "quad god" he was a heavy favourite at the Olympics. He trained hard for a routine that was too challenging for any of his opponents to replicate.

The problem is that a challenging routine means mistakes happen. And that is what happened to the quad god who finished in 8th place. Often the winner is not perfect - they've just made fewer mistakes.

Failures from task challenge go up when you forget about how difficult an activity is. Perhaps going all in for a gold medal was a good decision for Ilia Malinin. It is rarely a good decision for investors.

Investing is hard and you will make mistakes. That is ok. The goal is to minimise mistakes because that is how you win.

The chances of task challenge failures in investing go up when emotions are at play. Especially after a long bull market when complacency sets in. For many investors now is one of those times.

Approach the market with the humility it deserves. However you are feeling, consider the impact of being wrong. Something that Irving Fisher never did.

Mark Lamonica

Also in this week's edition...

I find many of the housing 'affordability' measures coming out of Canberra bewildering. But I think the [5% deposit scheme is not just counterproductive but actively making things worse](#). Read my thoughts on why the 5% deposit scheme is bad for homeowners and Australia.

Turning against the AI giants last year got **GQG** a good deal of press attention. There are now signs that their thesis is playing out. [Read about why they think defensive shares are an underappreciated opportunity](#).

The RBA has faced criticism from all quarters. **Ashley Owen** [reminds readers of the RBA mandate and drills into the central bank's track record](#).

Yield hungry fixed interest investors are taking on increasing leverage to maintain returns according to **Phil Strano** at Yarra Capital Management. [This can be a double edged sword](#) as both positive and negative performance is amplified.

David Williams argues that a [national longevity strategy](#) is well past due and outlines how greater awareness can benefit individuals and the country.

According to **Brendan Ryan** savvy buyers are taking advantage of more than [50 government schemes](#) to help Australians with housing affordability. He outlines an approach for potential homebuyers.

Steve Bennett and **Sasanka Liyanage** from Charter Hall explore the [recovery in Australian commercial real estate](#). Improving fundamentals have thus far been underappreciated by the market.

Curated by Mark LaMonica and Leisa Bell

The 5% deposit scheme is bad for homeowners and Australia

Mark LaMonica CFA

Australia is in a housing quagmire. Each aimless and counterproductive lurch finds us mired deeper in a morass.

In my eleven years in Australia I've seen multiple attempts at increasing affordability. None of these affordability measures are designed to lower housing prices. Pretending there is a way to make housing more affordable without somebody losing out is intellectually dishonest.

Politically I see the logic. No politician wants to be responsible for lower housing prices. Increasing supply by building more houses would reduce prices. Limiting demand by slowing immigration would

reduce prices. Successive governments have been unwilling or unable to do either despite pledges to the contrary.

Nobel prize winning economist Richard Thaler coined the phrase libertarian paternalism to describe a system where personal autonomy is maintained but choices are guided in a direction that helps individuals and society as a whole.

I think this concept strikes an appropriate balance between personal freedom and nudging people in the right direction. If this is the yardstick to measure housing policy Canberra is falling short.

The 5% deposit scheme is a perfect example. It plays on the emotional pull of homeownership to encourage participants to put themselves in potential financial peril while simultaneously tying the hands of policy makers to respond to economic challenges.

Stimulating demand to make housing ‘more affordable’

The 5% deposit scheme isn’t new but the Labor government removed income limits and increased property price caps. As a result, over 1 in 3 first-time homebuyers and 1 in 10 overall homebuyers used the scheme in 2024-2025.

As part of the program the government takes on the liability that would normally be covered by lender mortgage insurance (“LMI”). This is not an insignificant amount of liability and LMI costs reflect the risk of higher defaults given smaller deposits.

State capital city	Purchase price cap	5% LMI upfront premium
NSW	\$1,500,000	\$73,164
QLD & ACT	\$1,000,000	\$44,349
VIC	\$950,000	\$42,132
WA	\$850,000	\$37,697
SA	\$700,000	\$31,044
NT & TAS	\$600,000	\$26,609

Estimate by Helia and includes GST and excludes stamp duty

There are many reasons people want to own a home and most aren’t financial. However, the near universal view that housing is the best way to build wealth is playing a role.

In a Westpac survey Australians were asked to rank nine different financial strategies to build wealth. Owning your home came in at number one with 92% of respondents selecting the option. Number two was buying an investment property.

This view has been shaped by watching proceeding generations ‘get rich’ by simply

Best ways to build financial security in Australia.
(Rank 1-5)



Base: Total sample (n=2,000), Owner Occupied (n=1,459), Owner Living Outside (n=119), First Time Buyer (n=377), Males (n=928), Females (n=1,072)
B2. In your view, which of the following are the best ways to build financial security in Australia today? (Rank Top 5)

owning a home. Many of the people that have reaped these outsized gains never saw housing as an avenue to accumulate this degree of wealth.

What has happened historically is unlikely to be repeated. It is improbable that historic price appreciation can continue given current property prices. To purchase with a 5% deposit results in higher interest expenses and slower accumulation of equity.

We are doubling down on housing when few experts would argue it is ideal to have 70% of Australian wealth (according to AMP) tied up in an illiquid asset which does little to improve the day-to-day life of the owners or country. Yet this is where we find ourselves.

The folly of the 5% deposit scheme

Problem one: Heavily indebted individuals have lower economic resiliency

One implication of the 5% deposit is the obvious one – bigger loans. According to Finder, the average loan amount for a first-time homebuyer reached \$607,624 in December 2025. That is a 24.60% increase in one year which far outstrips property price gains of approximately 10% nationally. Loan growth outstripping price growth is a symptom of a scheme where 5% deposits can be used on houses costing up to \$1.5 million in certain parts of the country.

This trend of growing mortgage debt is not new. When I moved to Australia in 2015 the average loan amount for a first-time homebuyer was \$333,500. In a little over a decade the loan amount has increased by over 82% while median wages are up 54%.

Servicing these larger loans has not gotten easier. 2015 is an arbitrary point in time but that year the RBA cut the cash rate to 2% on the way to a low of 1.50% in 2016 where it remained through 2019. In 2020 the cash rate was down to 0.10%.

Larger loans and higher rates are putting more Australians in financial distress. According to Roy Morgan 24.50% of owner-occupied mortgage holders are experiencing stress which refers to households spending 30% or more of pre-tax income on a mortgage.

More Australians are vulnerable to any type of economic disruption. This includes job loss, stagnant wage growth, inconsistent earnings, unexpected bills or interest rate increases.

Some assume this problem will solve itself as young homeowners advance in their careers and get pay increases. This was the pattern in previous generations. But the profile of first-time buyers has changed.

Data from Westpac shows the average age of new homeowners is 34 years old with some brokers indicating it is closer to 37. The Westpac data shows one in five first-time homeowners are over 40.

Carrying mortgages later in life while dedicating a larger percentage of income to service a higher amount of debt is not a formula for financial security.

Problem two: Less policy flexibility

There has been ample coverage of Trump's attack on the independence of the Federal Reserve. But we've seen similar – if less dramatic – disagreements in Australia about central bank policies.

The Greens proposal for government intervention to lower interest rates and the largely performative debates over the role of government spending on inflation distract from our economic catch-22.

The heavy debt levels of mortgage holders mean interest rate increases crush household spending and push more homeowners into mortgage stress. The alternative of continued high inflation might not get as much attention but the impact on household finances is similar. With higher inflation the pain is spread to everyone in the economy including vulnerable non-homeowners.

This is creating a no-win situation for policy makers. Larger mortgages increase the costs of interest rate hikes. The higher the cost of interest rate hikes the more calls there will be to curtail RBA independence. That likely means higher inflation.

Problem three: The economy is more vulnerable to declines in housing prices

One way to address affordability is to for housing prices to go down. This is exactly what happened in New Zealand.

Between 2021 and 2025 inflation adjusted housing values fell by 31% due to a combination of aggressive interest rate hikes, an increase in housing supply, new rules targeting investors and a meaningful drop in immigration. This has been economically painful as the Kiwi economy contracted in three of the last five quarters.

Many homeowners in New Zealand who bought in the late stages of the post-Covid surge in property prices have negative equity. Many Australians would find themselves in the same situation with the small buffer of a 5% deposit.

Given that mortgages have recourse in Australia this likely wouldn't trigger the spiraling defaults in the US during the global financial crisis. If defaults do increase the government is on the hook for the portion of the loans covered by the LMI.

Just because people keep paying their mortgage to prevent the bank from seizing their other assets doesn't mean there isn't an impact.

Homeowners with negative equity likely wouldn't be able sell or refinance. This removes one way to mitigate interest rate increases and the lack of mobility can have knock-on economic impacts. Having negative equity has a psychological effect on homeowners and would likely reduce consumption.

This once again puts policy makers in a difficult position. The same policies that led to the drop in New Zealand housing prices are being debated in Australia including in the comments section of Firstlinks.

If these policies are enacted the economic impact of a slump in housing would likely be exacerbated as more people have small equity buffers.

Final thoughts

St Augustine said, 'Lord give me chastity and continence...but not yet.' This paradoxical prayer sums up our housing policy. Everybody admits there is a problem but we keep kicking the can down the street.

I understand the psychological lure of homeownership. The sense of stability, the desire to have a place to call one's own and the signaling mechanism of reaching that milestone are all powerful forces. I feel for the Australians who can't buy a home.

But that doesn't mean the 5% deposit scheme is the answer. It is contributing to the deteriorating financial situation of Australians. It is making the country more vulnerable to economic shocks. It is placing a meaningful liability on the taxpayer books.

Far from helping, the 5% deposit scheme is making things worse.

Mark Lamonica, CFA, is Director of Personal Finance at Morningstar Australia.

Is defensive the new offensive?

GQG Research

If asked to identify a stock that has achieved over a 500% total return, compounded earnings at an annualized growth rate of 10% or greater, traded at an earnings multiple of less than 15x, and maintained or raised its dividend for over 20 consecutive years, what names come to mind?

If you answered Microsoft, Apple, Alphabet, or Nvidia, you would only be partially correct. While each of these gilded tech names met at least one of those criteria, none satisfied all four metrics at the same time.

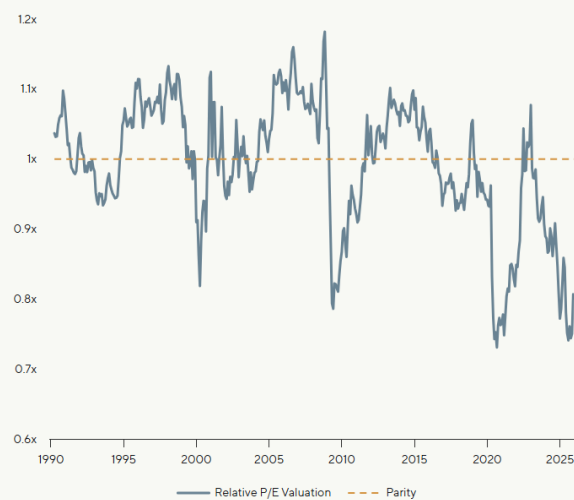
The companies that did were relatively boring, unglamorous staples and insurance names, like Kroger and Allstate. These businesses were not only durable in difficult markets but compounded through them, generating outstanding long-term returns for some investors while others seemed distracted by the market's loudest theme.

Today, that distraction is AI. When one narrative becomes the market's primary engine—with headlines, capital flows, valuations, and index weights all pointing in the same direction—we have found that opportunity often builds quietly where most investors are ignoring. Today, we believe the classically defensive areas within developed markets not only offer the potential for steady returns but also present a true "coiled spring" setup.

An underappreciated opportunity

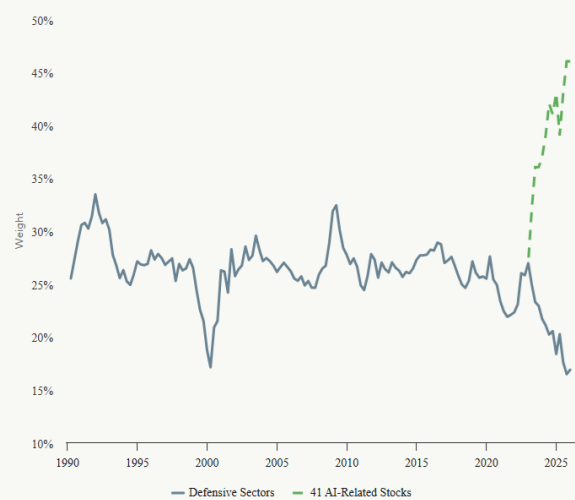
A broad swath of defensive stocks is currently trading near multi-decade lows on key relative measures, notably their relative forward P/E and weight in the S&P 500. Meanwhile, index concentration has surged: today roughly half of the S&P 500's market cap is tied to AI-related exposure, and the "Mag 7" alone represent approximately 35% of the index. This rally, supercharged since ChatGPT's release in November 2022, has reshaped the index and widened the valuation gap versus defensives to create an opportunity we rarely see.

The Great Divergence: Large-Cap Defensives Relative Valuations



Source: GQG Partners LLC (chart); Empirical Research Partners (data). Data for the time period from 30 March 1990 through 31 December 2025. Capitalization-weighted data relative to the largest 750 stocks in the US. Defensives defined as businesses in the healthcare, consumer staples and utilities sectors. You cannot invest directly in an index. PAST PERFORMANCE MAY NOT BE INDICATIVE OF FUTURE RESULTS.

S&P 500 Defensive Sectors vs AI Weight



GQG Partners LLC (chart); Bloomberg (data). Data for the time period from 30 March 1990 through 31 December 2025. Defensives defined as businesses in the healthcare, consumer staples and utilities sectors. You cannot invest directly in an index. PAST PERFORMANCE MAY NOT BE INDICATIVE OF FUTURE RESULTS.

To characterize our view of a coiled spring setup, one helpful theoretical lens grounded in nearly 40 years of history is the relationship between defensives’ share of the S&P 500 and their coincident relative performance. Empirically, every 1% change in defensives’ share in the S&P 500 has tended to align with roughly 10% of relative performance. With defensives today representing about 17% of the S&P 500 versus a long-term average of 26%, that 9% gap implies a potential relative upside of 90% if the composition were to revert to the long-term average. While we do not underwrite that outcome, we view it as optionality on top of returns we believe are already achievable and attractive on fundamentals alone.

To be clear, we never buy anything on the basis of mean reversion. Our process is rooted in assessing business quality, visibility, and durability of earnings, and what we view as a reasonable path for generating high-single-digit to low-double-digit returns. That said, when gaps get this wide, we believe it is impossible to ignore that any normalization has the potential to be additive—and markets rarely normalize “politely.”

While the market is captivated by flashy technology, we are more galvanized than ever about staying true to our philosophy: high-quality businesses with durable earnings power at defensible valuations. In our view, the opportunity today is not chasing what has already been bid up, it is about owning what meets our minimum hurdle rate on fundamentals and can rebound sharply when capital rotates, concentration breaks, and valuations mean-revert. The current dispersion between defensives and the broader market does not just suggest upside; it suggests the potential for a swift, powerful snapback when the story changes, in our opinion.

Consistency beats trendy

Defensive stocks offer steady growth, high visibility, and attractive returns through dividends and buybacks, making them resilient investments often overlooked by the market.

While their growth may not match the rapid revenue or earnings expansion seen in companies like Nvidia or early-stage software businesses, it is consistent and almost formulaic. For instance, utilities like Duke Energy project long-term EPS growth of 5% to 7% through 2029 coupled with a ~4% dividend yield, delivering a total return potential of around 9% to 11% with minimal valuation risk, in our view.¹

But in momentum-heavy markets, steady and visible cash flows do not capture attention the way big promises of future profitability do. This is further underscored by the fact that AI narratives have been driving the market frenzy. Semiconductors, cloud, and data center infrastructure businesses—among the most cyclical industries in the world—have become irresistible magnets for capital, as we have discussed at length in our [Dotcom on Steroids](#) series.² Investors seem to be willfully ignoring their inherent cyclicity, chasing businesses trading at sky-high valuations on peak margins tied to AI trends with little regard for near-term profitability. Many names in these industries are now ‘priced for perfection,’ in our opinion, leaving no margin for error and setting the stage for significant disappointment when the inevitable CapEx spending slowdown arrives. We feel the disregard for these businesses’ historical boom-and-bust cycles is nothing short of reckless. But, as history shows, narrative-driven momentum can keep markets disconnected from fundamentals far longer than logic suggests, as seen in past bubbles including the dotcom era of the 1990s.



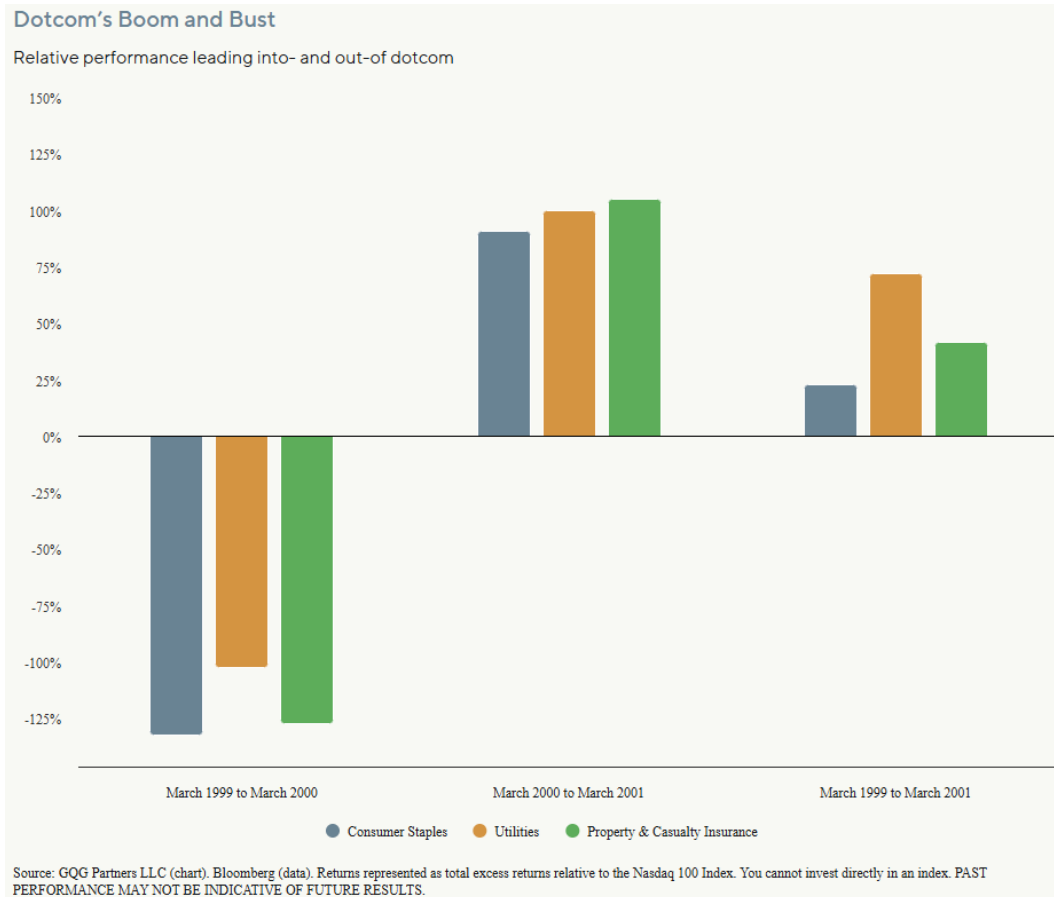
The dotcom bubble reached its height in early 2000, a time when US tech stock valuations were soaring, relying heavily on the promise of profitability rather than hard earnings. These valuations were fueled by a belief in the transformative power of the internet and favorable monetary conditions but overlooked traditional, yet frankly quite basic, fundamentals.

Then came the dotcom crash and bear market aftermath (March 2000 to October 2002), and that is when defensive stocks in the S&P 500 outperformed significantly, with some even gaining in absolute terms despite broader market declines.

While the S&P 500 index took around seven years to recover its peak value (until mid-2007, before another crash) and the tech-heavy Nasdaq took 15 years, defensive stocks experienced minimal losses and, as such, did not have a significant recovery period. For example, during the dotcom crash the S&P 500 plummeted 49% from peak-to-trough, but the consumer staples sector delivered 11.2% annualized returns, “a stunning outperformance of approximately 33 percentage points annually versus the broad market.”³

Companies like Procter & Gamble, Coca-Cola, and Altria Group held their stock prices while businesses tied to the internet craze imploded, with Altria surging over 100% by December 2000 from the March 2000 market peak. Utilities as a basket generated nearly 50% total returns over that same period.

History does not repeat itself, but it rhymes, and so we feel excited about the opportunity to capture outsized absolute returns within defensives given their potential of generating an asymmetric payoff if the AI bubble unwinds.



Conclusion

While the market's center of gravity has shifted towards one story (AI), valuations and index concentration have moved with it, widening the gap between what is "exciting" and what is simply essential. That is precisely when we prefer to own businesses whose returns are driven by durable cash flows rather than perfect expectations.

Defensives today offer that setup in both the US and Europe: reasonable relative and absolute valuations, visible earnings growth, and meaningful capital return, without requiring heroic assumptions. In our view, this is a compelling paid-to-wait profile that can compound on fundamentals alone, with embedded optionality if market leadership broadens, the data center cycle normalizes, or the crowded trade unwinds. We do not buy on mean reversion, but when gaps get this wide, any normalization can become additive to already attractive expected returns.

End notes

¹Duke Energy Third Quarter 2025 Earnings Report. 7 November 2025.

²GQG Research. Dotcom on Steroids Part III. 18 December 2025. Dotcom on Steroids: Part II. 21 November 2025.

Dotcom on Steroids. 11 September 2025.

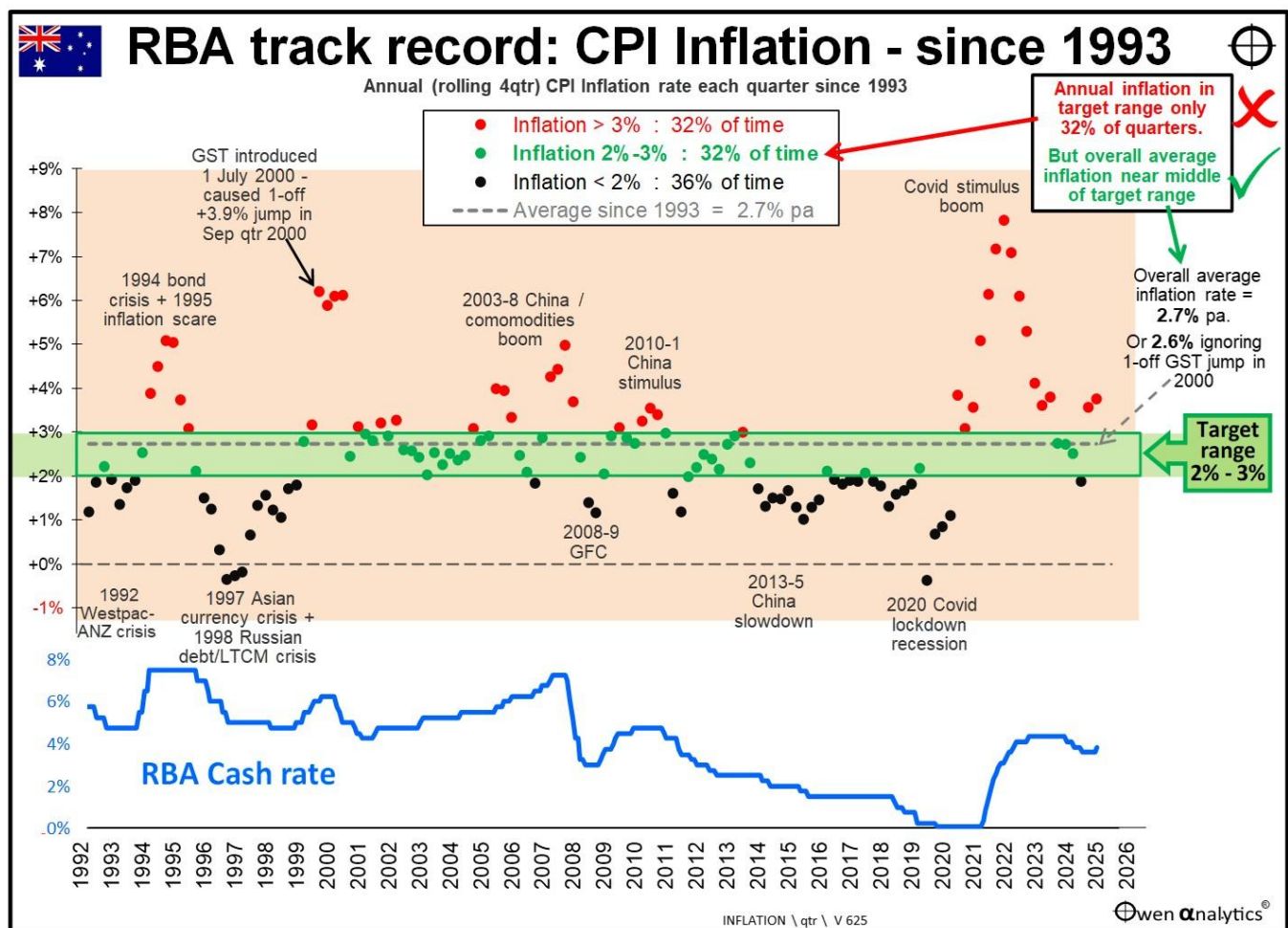
³"Sectors and Stocks That Gained During the Dot-Com Bust." Red Lotus Capital. 2 November 2025.

This is an abridged extract of GQG Partners' recent long-form article "Is Defensive the New Offensive?". You can read the full article [here](#). This article contains general information only, does not contain any personal advice and does not consider any prospective investor's objectives, financial situation or needs. Before making any investment decision, you should seek expert, professional advice.

How the RBA scores on its inflation goal

Ashley Owen

This chart shows the inflation and policy cash rate picture in Australia from 1993. The dots in the upper section represent annual (rolling four-quarter) CPI inflation each quarter (as quarterly has been the main reporting interval for inflation in Australia).



Red dots for inflation above 3%; black dots for inflation below 2%; and green dots for inflation within target 2% to 3% range

Inflation has ranged widely from a high of 7.8% in December 2022 (Covid stimulus boom) to several quarters of negative inflation during the 1997 Asian currency crisis, 1998 Russian debt crisis, as well as 2020 Covid lockdown recession.

The green 2-3% target inflation range through the middle of the spray of inflation dots scattered by a host of global and local macro shocks illustrates how tough it has been to hit a narrow target range.

The lower section of the chart shows the RBA's policy cash rate over the period.

One adjustment - for GST introduction

Just one mechanical note. The 10% Goods and Services Tax was introduced from 1 July 2000 caused a one-off +3.9% jump in the general price index in the September quarter 2000. It also affected the rolling four-quarter annual inflation rates in the subsequent three quarters. We can see these four quarterly red dots in 2000-1 on the chart.

A step change in the general price index due to a one-off tax change is **not** 'inflation', so I adjust for this in measuring average inflation rates.

Brief history of RBA independence and inflation targeting

The Reserve Bank of Australia was established in 1960 (It essentially split out the central banking functions from the government-owned Commonwealth Bank which had been set up in 1911 under the Andrew Fisher Labor government with the intended aim of taking over and eliminating all existing commercial banks, to become one giant, universal, monopoly government-owned peoples' bank).

The newly formed RBA had three legislated goals set out in section 10(2) of the original [Reserve Bank Act 1959](#):

- a. *"the stability of the currency of Australia;*
- b. *the maintenance of full employment in Australia; and*
- c. *the economic prosperity and welfare of the people of Australia."*

These goals remain to this day. Although the Reserve Bank Act has been amended several times since 1959, the three original paramount goals are preserved in sections 9B(1)(a)(i), 9B(1)(a)(ii), and 8AA(1) of the [current \(2025\) legislation](#).

Looking at each of these RBA goals:

Goal 1: 'Stability of the currency'

This currency stability goal is essentially the RBA's inflation goal, which is the subject of this report. I outline below how the inflation target evolved for the RBA, and how its ability to 'independently' pursue this goal evolved. More on these later.

Goal 2: 'Full employment'

The idea of twin goals of inflation and unemployment was based on the Keynesian notion, prevalent from the mid-1930s to the early 1970s, that there was a policy trade-off between inflation and unemployment. This broke down in the 'stagflation' of the 1970s when both inflation and

unemployment ran at high levels simultaneously, and it became clear to all (except Kaleckian-Marxists) that a new policy framework was needed.

‘Full employment’ does not mean zero unemployment. Full employment allows for a small level of unemployment in the economy, so that tight labour markets do not fuel excess wage claims and inflation. There is a level of unemployment below which it becomes inflationary. This optimal level of unemployment is known as ‘NAIRU’ (non-accelerating inflation rate of unemployment).

One major problem is that optimal ‘NAIRU’ unemployment is not a constant number. In Australia, NAIRU (ie lowest non-inflationary unemployment rate) was around 2% in the 1960s, then rose to around 7% in the mid-1970s, but came back down to around 6% by the late 1990s.

When current RBA governor Michelle Bullock commenced her term in 2023, she estimated full employment NAIRU as an unemployment rate of around 4.5% - ie inflation below 4.5% was likely to cause inflationary wage pressures.

Since RBA ‘independence’ in the early-mid-1990s (which I cover below), the unemployment rate has averaged 6.0%, which is about **1% above** the estimated average optimal NAIRU rate over the period.

We cannot blame the RBA for that as there has been a general consensus since the mid-1970s that the ‘Phillips Curve’ trade-off between inflation and unemployment does not work, so the RBA cannot be held accountable for higher than desired unemployment that may or may not have resulted from the RBA’s inflation targeting and inflation outcomes.

Goal 3: ‘Economic prosperity and welfare’

This is a catch-all, over-arching provision intended to guide the RBA in its conduct of monetary policy. It goes beyond the specific inflation and full employment goals, and extends to other policy areas including financial stability, payments systems, and also originally included the prudential regulation of financial institutions (this was shifted from the RBA to APRA in 1998).

There are frequent debates in central banking circles about whether the overall ‘prosperity and welfare’ goal should extend to things like financial market bubbles (perhaps), and to housing (probably should, given the large impact of housing affordability and housing debt on overall economic activity in Australia). (Just my personal views there.)

Inflation targeting and RBA ‘independence’ in Australia

During the first three decades of its operation, the RBA was not free to formulate and execute monetary policy (or exchange rate policy or bank policy, etc) in its own right. It was essentially an adviser to government, and implementer of monetary policies set by the Treasurer and/or Treasury.

The problem was that in these three decades from 1960 to 1990, CPI inflation in Australia averaged a rather high 6.9% per year (including averaging 10.1% in the 1970s, and 8.3% in the 1980s).

The failure of governments to control inflation in the 1970s (not just in Australia but around the world) resulted in governments finally admitting defeat, letting go the reins, and allowing their central banks to manage monetary policy, away from the grubby hands of governments. Australia was a decade late on this, as we see below.

As economist David Ricardo (architect of the ‘Ricardian theory of free trade’, and the notion of ‘comparative advantage’ of nations) had warned in the 1820s, **governments should not be safely entrusted with the power of issuing paper money as they would most certainly abuse it.** (*‘Plan for the Establishment of a National Bank’*, published posthumously in 1824.)

How has the RBA done?

Taken from 1993 as the start of RBA targeting a 2-3% inflation range with substantive policy and operational independence (although you could use 1994 or 1995 or 1996 with the same results), and adjusting for the one-off GST impact in 2000 (as it was not ‘inflation’ but a one-off tax change) we get the following inflation results for the RBA:

Annual inflation outcomes per quarter and per year

Annual (ie rolling four-quarter) inflation has only been within the 2-3% target range just **32% of quarters**, and just **36% of calendar years**. So the RBA scores just 3 out of 10 for short-term inflation targeting. A quick look at the chart shows only around one third of the dots are in the target (green) range.

However, that is actually not bad given the enormity and impacts of the global macro challenges faced by central bankers over the past 30+years.

Decade averages

Quarterly and yearly inflation measures are rather harsh tests given the volatile nature of inflation components and the data lags involved - from measurement, reporting, decisions, and impacts.

Therefore if we view inflation outcomes decade by decade, inflation has been **within the target range each decade**:

- Inflation averaged **2.3%** pa in the 1990s,
- **2.8%** pa in the 2000s,
- **2.1%** pa in the 2010s.
- So far in the 2020s inflation has averaged 3.8% pa to date. This above target but we have some years left to run for this decade, so it is too early to call.
- However, for the 10 years to December 2025, inflation averaged **3.0%**, which is just inside the target range.
- Therefore the RBA gets **full marks** on decade average inflation outcomes.

Overall inflation experience

Overall inflation over the whole period has averaged **2.6%** per year (or 2.7% pa if you don’t adjust for the one-off GST jump in 2000). This is in the middle of target inflation range – so the RBA scores 10 out of 10 for long-term inflation targeting.

Ashley Owen, CFA is Founder and Principal of [OwenAnalytics](#). Ashley is a well-known Australian market commentator with over 40 years’ experience. This article is for general information purposes only and does not consider the circumstances of any individual. You can subscribe to OwenAnalytics Newsletter [here](#).

Levered credit: A late cycle ingredient for drawdown pain

Phil Strano

In 2025, with credit spreads normalising, and in some segments moving below long-term averages, a number of yield hungry credit investors responded by adding risk to meet investment objectives. The approach taken to sustain portfolio yields of 6%+ varied from increasing credit risk, interest/spread duration and/or leverage.

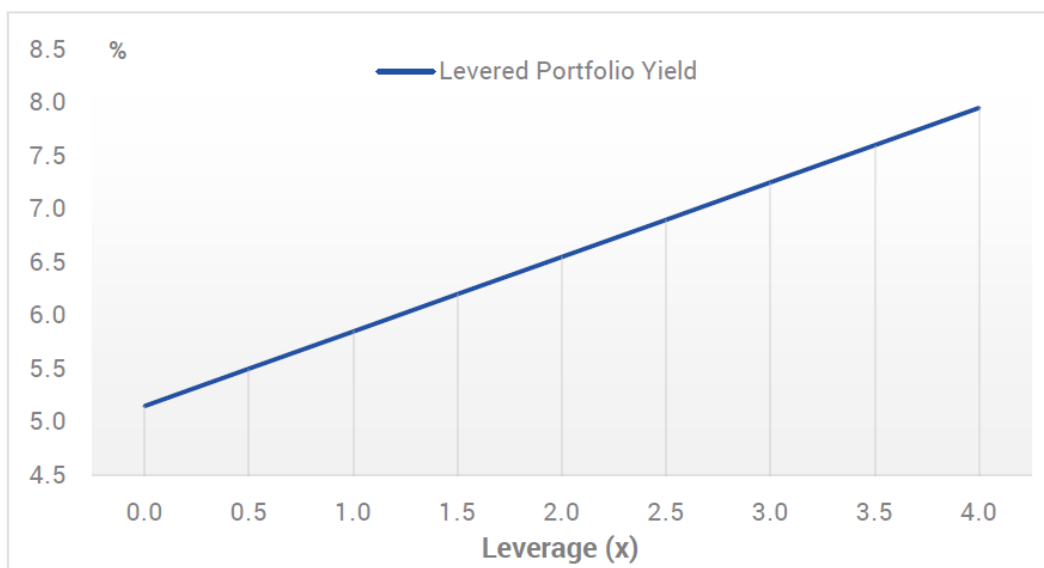
While mostly still at manageable levels, increased debt funding of credit securities is nonetheless a throwback to the heady pre-GFC (Global Financial Crisis) era where synthetic and physical leverage was more commonplace. Indeed, we are now also hearing of less sustainable practices once again creeping into the credit investment lexicon.

From our discussions in the marketplace towards the tail-end of 2025, the use of leverage is principally occurring through the use of repurchase agreements (repo) of eligible collateral up to an eye watering 15-times for AAA rated securities, as well as via placement of senior secured leverage to enhance portfolio yields in both private and public credit portfolios.

New levered investment products that have recently entered the market offer a floating rate running yield from a portfolio likely comprised of major bank T2 hybrids (T2s) and investment grade (IG) corporate bonds. Products such as these typically seek to enhance yield by deploying 3-3.5-times leverage.

Leverage enhances yields and amplifies performance (both positively and negatively) from changes in spreads and any impairments/defaults. Working off current pricing, an IG portfolio yielding ~5.0-5.5% p.a. with ~3-times leverage moves what is an already enhanced yield into a yield in the 7%+ range (refer Chart 1).

Chart 1. YCM estimate: Levered IG portfolio yields

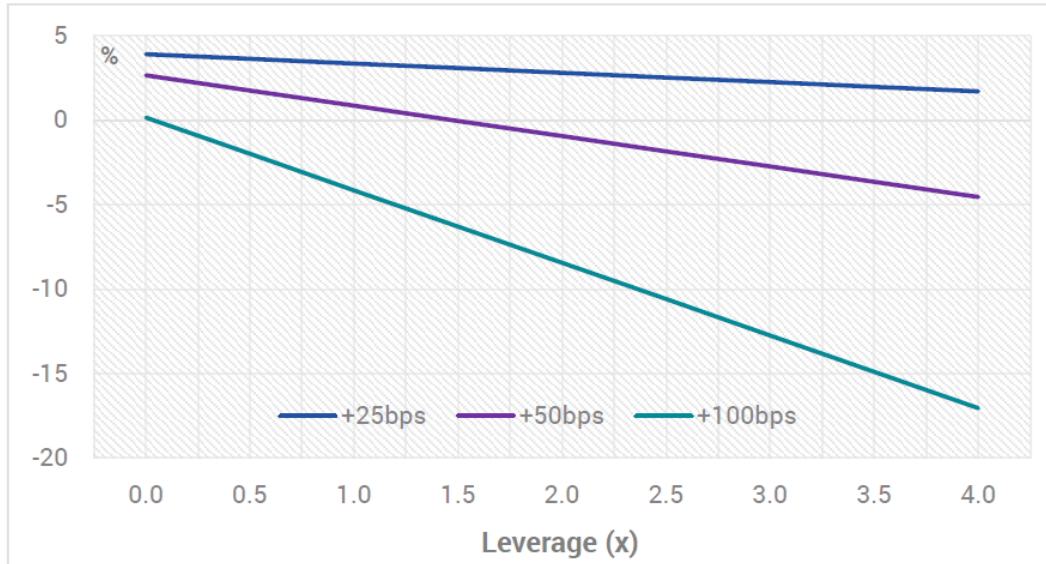


Source: Yarra Capital Management, Feb 2026.

The use of leverage to enhance returns can work very effectively in environments of stable or contracting credit spreads. It is a double-edged sword, however, with the combination of widening credit spreads and leverage usually resulting in significant drawdowns.

For instance, working off an estimated credit spread duration of ~5 years, a widening spread environment would quickly overwhelm underlying yields, with a ~100bp spread expansion on 3-times leverage generating a negative total return in the range of 10-15% from what is an underlying low risk IG credit portfolio (refer Chart 2).

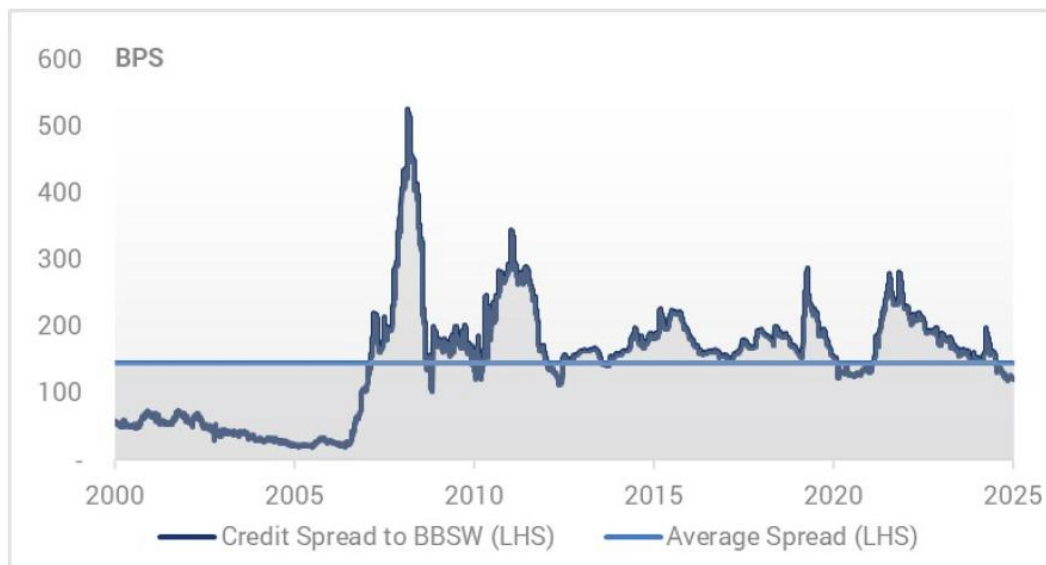
Chart 2. YCM estimate: Levered total returns and widening credit spreads



Source: Yarra Capital Management, Feb 2026.

Given fixed income investors generally have a low tolerance for negative returns over a 12-month period, the use of significant leverage to enhance returns could be somewhat of a dubious exercise, especially when you consider today’s starting point. As evidenced by major bank T2s, credit spreads have performed over the last 2-3 years and now sit around their long-term averages across most segments of Australian credit and significantly below the previous peak in 2022 (refer Chart 3).

Chart 3. Major bank Tier 2 5yr FRNs (credit spreads and yields)



Source: Yarra Capital Management, Feb 2026.

At current spread levels, the probability of a +/-100bp move is weighted to the positive and in the current macroeconomic environment is entirely possible over the near to medium term. In such an

event, which can occur two to three times each decade, the prospect of equity like drawdowns from levered credit funds should give credit investors pause for thought.

Put more simply, credit investors in these levered structures should be thinking hard about whether they are comfortable taking what is effectively equity drawdown risk for a miserly 1-2% in additional yield. We would suggest that this represents incredibly poor compensation for the risk assumed at this point in the cycle.

In contrast to levered credit funds, there are some credit funds still providing attractive 6%+ yields with precisely zero leverage. Moreover, while it is true that a 100bps widening in credit spreads would lead to value diminution for such funds, high unlevered yields combined with active management generally protect against negative returns over any 12-month period. We do not believe the same can be said of most levered credit funds.

Phil Strano is Head of Australian Credit Research at [Yarra Capital Management](#), a sponsor of Firstlinks. This article contains general financial information only. It has been prepared without taking into account your personal objectives, financial situation or particular needs. Both the Yarra [Enhanced Income](#) and [Higher Income](#) Funds are zero leverage funds, providing attractive yields.

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The more things change... longevity just goes on increasing

David Williams

The first publication of Firstlinks (as Cuffelinks) was 13 years ago in Feb 2013. Longevity was an issue back then. [Paul Keating](#) reflected on the growing gap in our retirement incomes system through people living longer. [David Bell](#) wondered if people looked back, would they reflect on the performance of their super fund – or the attainment of goals and desires in life. [Ashley Owen](#) showed the first of many remarkable insights into the behaviour of markets. The very special [Graham Hand](#) outlined challenging times for 2013.

Has anything improved in our collective response to increasing longevity since then?

Superannuation contributions have stalled at 12%. Half our financial advisers have disappeared. Super funds don't know much more about their members and even less about their life partners. Yet the Government expects them to provide lifetime products that consumers don't understand. Annuities still struggle for acceptance. Financial advisers have a declining relationship with their clients. People are living longer, and despite a Royal Commission they are facing a more uncertain future than ever for aged care and many want to stay at home. Fear of the future defers reasonable intergenerational wealth transfer. Retiring at 67 puts productivity growth out of step with ongoing longevity increases.

Over the past 13 years there have been references to the impact of increasing longevity in almost every issue of Firstlinks. Australia has the resources to reap the benefits of longevity. Why haven't we done better?

We need a National Longevity Strategy to make the best of this steadily growing opportunity instead of treating it as a threat. What should the strategy focus on?

1. Raising personal longevity awareness so that each person understands their own longevity better and can act to maximise the personal benefits available
2. Promoting the importance of couples sharing longevity decisions, from midlife (age 45) and using their own longevity outlook to frame health, financial and estate planning decisions with professional advisers
3. Using this awareness to more widely promote the personal and national benefits of preventive health behaviour
4. Promoting the personal and community benefits of staying productive longer
5. Supporting the development of guaranteed income products that complement a greater awareness of the benefits of longevity rather than being sold by promoting 'longevity risk'

How should these outcomes be achieved? Better coordination of services related to longevity would make it better for consumers and more efficient for providers:

1. Super funds should focus on raising longevity awareness in their members and member's partner, preparing them for engagement with professional advisers in health, finance and estate planning. This can be instituted quickly and requires no regulatory oversight (unlike financial advice). It would strongly enhance the member/fund relationship. Longevity awareness raising for non-fund consumers should also be available free and promoted through Health Direct www.healthdirect.gov.au.
2. Professional advisers in health, finance and law should have longevity awareness training to enable them to harmonise their advice with properly prepared consumers.
3. Longevity awareness training and support should be overseen by an independent entity focused on understanding the challenges and opportunities of increasing longevity and providing content for trainers. It should be established by the Federal Government, ideally with the collaboration of service providers.
4. Employers can benefit from raising longevity awareness in employees and staff, underpinning efforts to increase productivity and retain valuable employees.
5. Wider understanding of the importance of longevity awareness will reduce the burden on regulation and encourage a more participatory approach.

None of this is rocket science but it does require national co-ordination. A National Longevity Strategy would provide a model which could be successfully introduced to other countries.

The technology and insights to deliver these outcomes is already available. What is required is the collective will to make them happen rapidly. We can't wait another 13 years!

David Williams is Founder and CEO of [My Longevity](#). Try the [SHAPE Analyser](#) to focus on your own longevity.

The improving outlook of Australian commercial real estate

Steve Bennett, Sasanka Liyanage

Australia’s commercial real estate sector exhibited a recovery through 2025, with property values stabilising and returns moving into positive territory. As we enter 2026, this momentum is expected to continue, supported by strong fundamentals across all core commercial real estate sectors.

Commercial real estate continues to demonstrate compelling risk-adjusted returns, underpinned by a combination of resilient tenant demand, a constrained forward-looking supply pipeline, accelerating rental growth, and high-quality cashflows at property yields that are generally higher than historical averages.

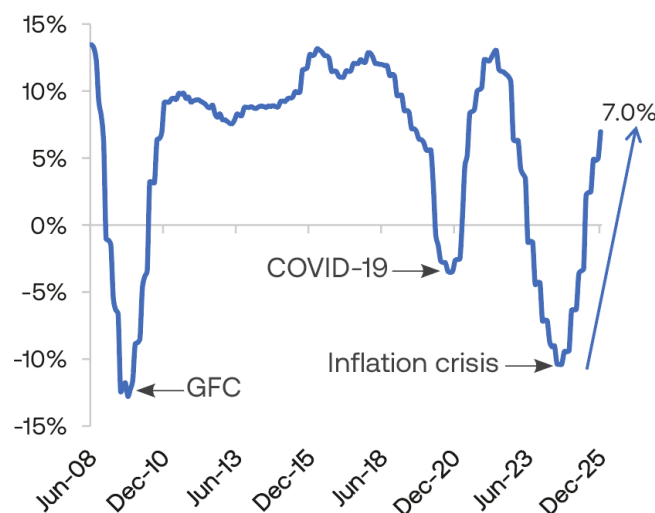
This recovery follows the largest repricing in the Australian commercial real estate sector in approximately 35 years, providing an attractive entry point for investors. Current valuations and earnings multiples for high-quality institutional assets are favourable relative to other asset classes that are now trading at multi-decade highs.

Market conditions and positioning for investors

The comparative outlook for commercial real estate against other investment classes will likely support increased investor demand and capital allocations towards the sector. The pricing of all global financial asset classes have faced increased scrutiny, most recently Software as a Service (SaaS) entities, amid continued volatility and speculation on future interest rate movements and the impact of AI. As markets reassess the investment outlook and challenge traditional certainties, conditions across Australia’s commercial real estate sector have continued to strengthen, offering protection from periodic volatility.

In this environment, the sector is positioned to benefit from defensive and resilient income streams supported by embedded rental escalations. Following a period of valuation adjustment, the forward-looking return profile for commercial real estate has become more compelling when compared with previous cycles (see Figure 1). The current entry point is more affordable when compared to valuations for listed equities (both domestic and international), infrastructure and many renewable strategies. This landscape is conducive to the relative outperformance of commercial real estate and has supported an increase in capital inflows during calendar year 2025.

Figure 1: Annual returns (%)¹ (MSCI Core Wholesale Funds)



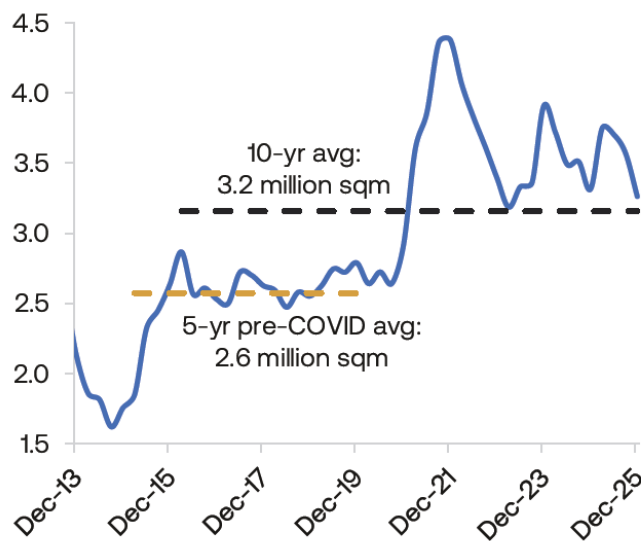
Supportive economic conditions

The commercial real estate sector has continued to benefit from a strengthening economic backdrop and renewed confidence in underlying real estate fundamentals. The unwinding of restrictive policy, despite the recent RBA cash rate increase, has strengthened household and corporate balance sheets. Economic growth and household consumption activity have reached their fastest pace since 2023. Given this momentum, Australia’s economic growth projection for 2026 leads advanced economies globally. Importantly, Australia’s economic GDP, population and employment forecasts are between two to four times higher than the G12 average.²

Beyond cyclical recovery, the sector is entering a structural undersupply phase. Development feasibility remains constrained by elevated construction costs and planning delays, supporting expectations for above-trend rental growth over a prolonged period.

Key real estate indicators are reflecting this momentum. Prime office leasing activity and rental growth over the past year reached the highest levels since 2018. The growth in prime CBD net leased space was 47% above the 10-year average. Similarly, Industrial & Logistics (I&L) leasing volumes are trending at a rate 27% higher compared to pre-COVID levels (see Figure 2) with momentum across the economy and retail spending continuing to support demand. Retail vacancy rates have continued their downward trajectory since peaking in June 2022, with Neighbourhood and CBD prime retail now at their lowest vacancy levels since the onset of the pandemic.

Figure 2: Industrial & Logistics - Gross leasing volumes (12-month rolling million sqm)³



Supply shortfall is happening across the board

Supply remains constrained across the commercial real estate sector, with fewer building completions in 2025 compared with historical averages. Higher construction costs (including labour, materials and land) together with planning approval delays continue to limit new development across all property sectors.

This supply constraint represents a clear inflection from mid-2022 conditions and underpins a market increasingly supportive of income returns. In CY25, completions across the Retail and Office sectors fell to their lowest levels since the early 1990s. Across the I&L sector, groups with scale, development capability and access to high-quality land holdings retain a competitive advantage in this environment.

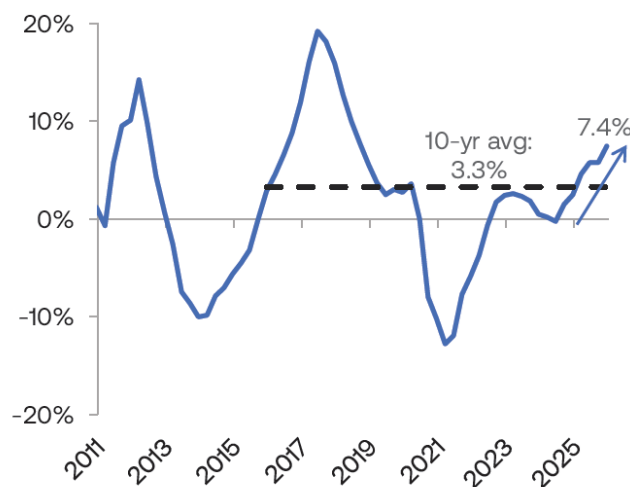
Looking ahead, retail and office space is forecast to reach historically low levels of new supply in the coming years. The labour-intensive nature and long lead times of office development provide clear visibility over future supply, with pipelines indicating a meaningful decline in new property completions through to 2030. In the I&L sector, construction costs have eased from record highs due to projects requiring less labour. However, access to these reduced delivery costs varies by location, land quality, scale and development capabilities. Future I&L supply will largely depend on the availability of zoned land and supporting enabling infrastructure (water, power and roads), and the need for 10-25% rental growth nationally to encourage more construction.

Accelerated tenant demand driving rents – even in the office sector!

Restrictive supply and strong tenant demand have driven accelerated rental growth. Prime office rents have increased at the fastest pace since 2018, and eastern seaboard markets recorded above double-digit growth over the past year. National prime CBD office effective rents grew +7.4% over the past year, well above the 10- year annual average of 3.3%⁴ (see Figure 3).

Retail specialty rents are at their highest levels since 2010, supported by limited new supply. In the I&L sector, rents have also held firm despite higher levels of new completions in recent years. Looking ahead, the combination of declining supply forecasts, structural demand drivers, and strong leasing activity should continue to support income growth across each core property sector.

Figure 3: Office - National prime CBD effective rental growth (rolling annual)⁴

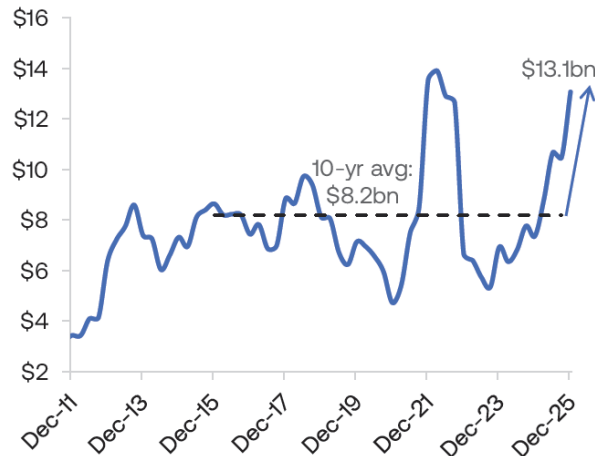


Investment demand is increasing

Against a backdrop of stabilising capitalisation rates and increasing market rents, indicative prime market values and returns have advanced into the next expansionary cycle. Rising transaction evidence and investor demand continue to support stabilisation, or compression, of core capitalisation rates. Quarterly investment volumes reached their highest levels since 4Q21 during 4Q25, totalling \$11.7 billion across the core commercial real estate sectors. This result has been driven by investor appetite for retail property (see Figure 4) and an increase in office transactions.

The next investment paradigm is expected to be defined by income-led growth, where durable cash flows and earnings delivery, rather than multiple expansion, are the primary drivers of returns. In this context, Australian commercial real estate offers predictable income for investors.

Figure 4: Retail - Transaction volumes (\$ billions, rolling annual)⁴



Dispersed outlook

Headline figures continue to mask the divergent nature of the property recovery. As volatility and global themes unfold, capital allocations will increasingly target assets defined by cashflow resilience and the ability to generate income growth. This has been evidenced by the investor demand and valuation premiums for these types of assets. This early stage of recovery presents opportunities for value creation that are unlikely to be available later in the property cycle.

As we enter 2026, the outlook for valuation growth has become increasingly divergent between financial and tangible asset classes. Underlying fundamentals across Australia's commercial real estate markets remain supportive, reinforcing the expectation that the sector will continue to outperform.

The path of future interest rates, both within Australia and throughout the world's leading economies, will be debated; however, the gap between property yields (capitalisation and discount rates) and bond yields is high compared to historical averages. This is despite the recent RBA February 0.25% interest rate increase. The volatility across many 'liquid' asset classes highlights the appeal of risk-adjusted returns in unlisted commercial real estate.

Source: C&W Research, Charter Hall Research, Economist Consensus, JLL Research, MSCI Core Wholesale Monthly Index, Oxford Economics.

¹MSCI Core Monthly Wholesale Fund Index (Dec-25).

²Oxford Economics, Nov-25.

³Source: JLL (4Q25), Charter Hall Research.

⁴JLL (4Q25), Charter Hall Research.

Steven Bennett is Chief Executive of Direct Property and Sasanka Liyanage is Head of Research at [Charter Hall Group](#), a sponsor of Firstlinks. This article is for general information purposes only and does not consider the circumstances of any person, and investors should take professional investment advice before acting. For more articles and papers from Charter Hall, please [click here](#).

Seize hidden opportunities among 50+ home buyer schemes in Australia

Brendan Ryan

While most Australians struggle with housing affordability, savvy buyers are leveraging over 50 government schemes to break into the property market. The difference? They know the rules of the game.

Melbourne's controversial success story

Last week, I encountered a fascinating perspective on Melbourne's property market. What many dismiss as a 'basket case' might be Australia's most successful housing intervention.

Consider the evidence: Government rule changes have successfully disincentivised investors, resulting in:

- Rental cost growth kept in check
- Rising share of new loans to first-home buyers
- Moderated property value growth

This stands in stark contrast to the rest of Australia, where investor-dominated loan growth has driven property prices relentlessly upward. Whether you view this as a disastrous cash grab by a desperate Victorian Government or a successful ownership redistribution depends entirely on your position in the market.

The lesson is clear: government policy fundamentally shapes housing outcomes. Smart buyers, sellers, and owners must pay attention.

The scheme landscape: 50+ opportunities hidden in plain sight

Most Australians know about first-home buyer grants. Few realise there are over 50 different government schemes nationwide - and they're not just for first timers.

The key categories are:

- **First-Home Buyers:** 5% deposit schemes, stamp duty exemptions, First Home Super Saver Scheme
- **Investors:** Off-the-plan stamp duty concessions (Victoria), depreciation benefits
- **Downsizers:** Stamp duty exemptions in select states, super contribution rules
- **Life Circumstances:** ACT's 5-year rule for previous owners, divorce provisions, low-income assistance
- **Regional and Indigenous:** Location-specific grants, Indigenous homeownership programs

The knowledge advantage: Real examples

Success stories consistently feature one element: someone who understood the system. The best property journeys often start with "my parent/accountant/agent helped me navigate the schemes." It's the power of information. (A great alternative when you don't have the cash)

Here are some personal perspectives:

- **As a parent**, I want my children to think strategically about where they begin their housing journey. Geography matters - different states offer different advantages.
- **As someone who hasn't owned property for 10 years post-divorce**, I discovered the ACT considers me a "first-home buyer" again after just 5 years. That's a significant opportunity many wouldn't know exists.
- **As an advisor to retirees**, I'm surprised more states don't offer downsizing stamp duty exemptions - it's a missed opportunity for both governments and citizens.

Navigating the minefield: What to watch for

The marketing trap: See an ad promising "Buy with just 5% deposit!"? That's not lender generosity - it's a government scheme in disguise. Understanding what's really behind these offers helps you cut through marketing spin and focus on actual costs.

The participation problem: Not all banks participate in every scheme. If your lender isn't part of the 5% Deposit Scheme, you could unnecessarily pay thousands in lender's mortgage insurance. *Remember: lenders are paid to write loans, not to ensure you've exhausted every government benefit.*

Your strategic action plan

Perfect execution requires systematic planning:

1. **Map your eligibility:** List every scheme you might qualify for - nationally and in your state
2. **Optimise your approach:** Calculate savings using First Home Super Saver Scheme, check stamp duty thresholds, investigate grants
3. **Verify participation:** Confirm your chosen lender participates in relevant schemes BEFORE committing
4. **Consider geography:** Different states offer different advantages -think beyond your current location
5. **Stay updated:** Schemes change regularly - what's available today might be gone tomorrow

The bottom line: Information is your greatest asset

You can debate endlessly about whether governments should intervene in housing markets. But while you're debating, smart buyers are using these 50+ schemes to secure their future.

The train has left the station. Government intervention in housing is here to stay, and it's reshaping the market in profound ways. Your choice is simple: master the rules or miss the opportunities.

In a market with 50+ schemes, the advantage goes to those who do their homework. The question isn't whether to engage with these programs - it's whether you'll be among the informed few who benefit, or the uninformed many who don't.

Get on board or get left behind. The choice is yours.

Brendan Ryan is a Director of [Later Life Advice](#). He has more than 30 years' experience in financial analysis, modeling, and valuation, starting with his time in Macquarie Bank's research team in the 1990s. He holds a Certified Financial Planner qualification and have spent more than 20 years specialising in financial modeling for moves into residential aged care.

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