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### Editorial

When I was teenager and living outside of New York I used to listen to a radio station called WFAN. For 24 hours a day the station was dedicated to sport. Most of the programming involved a host arguing with callers about some esoteric sporting topic – player A was better than player B, etc.

This was one of my less harmful teenage vices but it is hard not to look back on it as a giant waste of time. The programming was repetitive and largely consisted of callers citing different stats to make their case. In a sport like baseball where a season lasts 162 games there was a large sample size of statistical measures of performance to draw from.

Investing can sometimes feel a little like my teenage obsession with WFAN.

There was a lively debate in the comments section of [Emma Davidson's article](#) on the relative merits of LICs last week. These types of debates are interesting and - depending upon your proclivities - may even be fun.

Yet these debates can also be harmful to some investors. I'm not worried about the Firstlinks' audience who are thoughtful and informed. Investors in this mold can determine the relevance of a particular point to their personal situation.

Yet I'm also mindful that similar debates occur across social media with a decidedly uninformed audience. Many of these investors are crowd sourcing opinions or asking AI for answers without providing enough input to make an informed recommendation.

An investor without the knowledge required for self-reflection can start to seize on certain rationale for buying an investment which isn't applicable to their personal circumstances.

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I can use myself as an example – when I hear risk adjusted returns, I stop listening. That doesn't mean risk adjusted returns are useless. They just happen to be useless to me given my time horizon, cash safety net and goals.

Adjusting a return using volatility as a proxy for risk means nothing to me as volatility isn't a risk I face. I've set myself up with the foundation needed to be a long-term investor. Consequently, I'm just worried about not earning a high enough return over the long-term to meet my goal and trying to avoid catastrophic losses.

To understand what matters for you, and what doesn't, requires some foundational knowledge to know what a term like "risk adjusted returns" means. But it also requires a good deal of reflection which is difficult when you are constantly bombarded by news and opinions.

I'm writing this in Japan. One of the core components of Japanese culture is the concept of honne and tatemae. Honne is your true feelings while tatemae is the public façade you maintain to keep social cohesion.

Many investors have reversed this concept. In public debates about the 'best' investments they come across as confident and, in some cases, arrogant. In private their doubts manifest themselves in a constant churning of their portfolio as they rashly chase each compelling sounding opportunity. The results are the low returns many individuals generate.

The truth is there isn't a perfect investment. Each structure and specific opportunity has flaws. All each of us can hope to do is find investments where the trade-offs make sense given the problem we are trying to solve.

If you started to doubt your own choices after the 102 comments on the relative merits of ETFs and LICs I wouldn't worry too much about it. If you learned more about how LICs worked the article served its purpose. Start with what you are trying to accomplish and your own unique circumstances – that is the secret to figuring out what is right for you.

## Mark LaMonica

### Also in this week's edition...

**Roger Montgomery** is back, taking a look at the [historic impact of war](#) on the equity markets and doubles down on his call that 2026 is the year where diversification will pay off for investors.

As we get closer to the budget the debate continues about intergenerational equity. **Tony Dillon** takes a look at the [origins of the CGT 'discount'](#) and what he considers a mis-framing of the debate.

While much of the focus of Div 296 is on the immediate impacts of the new tax, **Rachael Rofe** looks at [what happens after death](#) and the considerations for estate planning.

The indiscriminate sell-off of software shares is overshadowing the more [nuanced impact of AI](#) on different companies. **Damon Callaghan** takes a look at opportunities for investors.

The rift between Trump and the EU continues and is driving an [unappreciated transformation](#) according to **Matt Reynolds**.

Are AI data centres going to space? According to **Evelyn Chow** and **Paul Martinez** this might just be the answer to the [resource burden of AI](#).

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**Katja Hanewald** looks at a way that retirees can tap into [their housing wealth](#) using a little known and misperceived government program.

This week's white paper is VanEck's latest [Viewpoint quarterly](#), focusing on global instability and where patient investors can position themselves.

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## War can't be good, can it?

Roger Montgomery

What's war good for? With apologies to Motown songwriters Norman Whitfield and Barrett Strong, absolutely nothing from humanity's point of view.

While the human cost of conflict - measured in lives lost, families displaced, and immense suffering - is profound and undeniable, the historical relationship between geopolitical chaos and long-term equity market valuations is remarkably detached.

This is perhaps because markets grind on, focused on profits and with what appears to be indifference to the tragedies that dominate the headlines.

Historically, at least, equity markets decline ahead of conflict as investors brace for the unknown, but rally during it, often led by rotations into sectors or industries that profit from the chaos.

Today, many investors are asking whether the current Middle East conflict will reveal markets to be equally resilient (and indifferent).

Before we dive in, it's worth making a few observations about the current conflict in the Middle East.

The first is the resulting oil supply shock is likely to trigger price rises across many goods. It is already increasing the price of money as interest rates rise, and in so doing, causing the cost of capital to rise.

This can have consequences for merger financing, which in turn will hurt deals, hurt the prospects for bailouts, and, through the impact on the very wealthy, challenge confidence in political leaders worldwide, especially those aligned with Trump.

In fact, it's reasonable to conclude that many of the follow-on effects of this supply shock are adverse, including the impact on living standards across the world.

### **The World Wars' impact on markets**

During the two World Wars, the US stock markets generally performed positively despite initial panic. In World War I (1914–1918), following a 30% drop when markets reopened after the war broke out, the Dow Jones rebounded significantly, rising 88% in 1915 alone and finishing the period with a 43% gain (8.7% annualised).

In World War II, despite a 4.37% drop after Pearl Harbour and volatile periods like the fall of France, the Dow gained 50% (7% per year) by the end of the conflict.

Importantly, the United States' entry into World War II saw equity markets reach their low point in 143 days and return to higher ground within a year.

Combined, equity markets displayed resilience through high volatility, often turning early losses into long-term gains.

Despite these encouraging stats for investors, I think it's reasonable to ask whether a world war in 2026 or 2027 would result in equally resilient stock markets. Drones, autonomous soldiers, artificial intelligence (AI) and the ever-present threat of nuclear 'solutions' make World War III a far less palatable prospect, even for investors.

But the current conflict in the Middle East is not a world war and doesn't appear to bear the essential ingredients for one to start. Yet. A defining feature of world wars is the formal commitment of multiple global superpowers to fight on behalf of their allies. And unlike the pre-nuclear era of 1914 or 1939, the presence of nuclear weapons among major powers (the U.S., Israel, Russia, and China) acts as a catastrophic deterrent.

### 2026: the year of diversification

I've written extensively about the current Middle East conflict, oil, US inflation, AI, the associated SaaSocalypse, US debt, Gold and the de-dollarisation trade, and long bond yields. And while many of those topics allude to the need for diversification, we were also much more specific. [Earlier this year, I explained](#) that 2026 would be the year when investors would benefit from some earlier tactical diversification into investments uncorrelated with public markets – such as private markets and alternative investments.

The arguments were relatively straightforward: an unpredictable US president, mid-term election years tending to be tougher for equities - especially between May and September, weaker equity markets and larger drawdowns during Republican presidencies going back 125 years, a fourth consecutive strong year in equity markets being an exception and very stretched stock market valuations.

With the S&P 500 down 7.14% and the ASX 200 down 3.23% year to date, there's not much in returns, so far, worth writing home about. But the S&P 500 is now down 8.7% from its 2025 high and the ASX 200 is 8.2% lower.

### Quality suffers

Perhaps that, and the palpable investor anxiety, as well as the poor showing by quality-biased active equity managers (Table 1), especially over the six and 12 months to the end of February 2026, is worth writing about.

**Table 1.** Australian quality-biased active manager performance

Fund / Manager	3-Month Return	6-Month Return	12-Month Return
Aus Quality ETF	3.47%	0.39%	16.84%
Australian Equities Quality Manager #1	7.09%	2.77%	13.15%
Australian Equities Quality Manager #2	3.82%	-1.31%	8.95%
Australian Equities Quality Manager #3	6.44%	-0.48%	5.02%
Australian Equities Quality Manager #4	-3.75%	-17.87%	-15.51%
Australian Equities Quality Manager #5	-16.93%	-28.09%	-23.16%
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S&P/ASX 200 Accumulation Index	7.34%	4.07%	16.19%

\*Returns to 28 February 2026

Table 1 highlights the recent challenges faced by quality-based managers in Australia. Over three months and six months, the ASX-listed domestic quality-based exchange traded fund (ETF) has materially underperformed the S&P/ASX 200 Accumulation Index. Over three, six and twelve months, all active quality-based active managers have underperformed the broader index.

Keen observers will note the Aus Quality ETF actually outperformed the broad index over 12 months (16.84% vs 16.19%), suggesting that while active managers might have struggled with idiosyncratic factors, the broader 'quality' factor held up slightly better over the full year before deteriorating in the more recent 3-to-6-month window.

The recent performance of active managers is driven by three specific market dynamics that typically disadvantage the 'quality' investment style.

The first is that the ASX 200 is heavily weighted toward Financials and Materials (Mining).

If the broader market is driven by a surge in cyclical sectors - such as a spike in iron ore prices or a recovery in banks - the Index will climb rapidly, and with quality managers typically avoiding highly cyclical or capital-intensive companies, their portfolios will naturally fall behind.

Secondly, 'quality' stocks - those, for example, with high Return on Equity (ROE) and stable earnings - often trade at a premium, and in periods where the market favours value or questions growth, those premiums will contract, as they have done recently.

Table 1., reveals a particularly harsh 6-month period for managers, which suggests a questioning of, and sharp rotation away from, quality earnings toward other market segments, in this case energy, materials and businesses less likely to be disrupted by AI.

Finally, there's interest-rate sensitivity for quality companies because their growth premium is vulnerable to rapid rises in interest rates or bond yields. The present value of their future cash flows is discounted more heavily, which leads to a "de-rating" of quality stocks even if the underlying companies are performing well operationally.

### **Recent conflicts and returns**

In February 2022, when Russian tanks rolled into Ukraine, the S&P 500 subsequently sold off 16%, bottoming in June 2022 before rallying 16.5% and then beginning a more significant decline into October 2022 as interest rates were raised to fight the inflation after-effects of COVID-19.

During that period, the domestic ASX 200 fell 3% between 18 and 25 of February, rallied 7.5% over the next two weeks, and then declined 14% to the end of September 2022 in sympathy with overseas markets and in reaction to rising interest rates.

Given persistent inflation and the central bank responses globally, we cannot say with certainty how much of the moves were related to the war in Ukraine.

What we can say, however, is that interest rates were also a factor in many other past geopolitical conflicts, and despite this, a pattern emerges that might give investors some encouragement. We can also say that rising or high rates are a familiar factor today as the Middle East conflict devolves.

**Table 2. S&P500 response to geopolitical events**

	Year	Change in S&P 500 at trough	Days to recovery
Attack on Pearl Harbor	1941	-19.8%	307
Iraq invades Kuwait	1990	-16.9	189
N. Korea invades S. Korea	1950	-12.9	82
Tet Offensive	1968	-6.0	65
Munich Olympics	1972	-4.3	57
Gulf of Tonkin incident	1964	-2.2	41
Saudi Aramco drone strike	2019	-4.0	41
North Korea missile crisis	2017	-1.5	36
Terrorist attacks on U.S.	2001	-11.6	31
Madrid bombing	2004	-2.9	20
Bombing of Syria	2017	-1.2	18
Cuban missile crisis	1962	-6.6	18
Boston Marathon bombing	2013	-3.0	15
Yom Kippur War	1973	-0.6	6
Iranian general killed in airstrike	2020	-0.7	5
London subway bombing	2005	0	4
Hungarian Uprising	1956	-0.8	4
Suez Crisis	1956	-1.5	4
U.S. pulls out of Afghanistan	2021	-0.1	3
Attempted assassination of Reagan	1981	-0.3	2
Six-Day War	1967	-1.5	2
Kennedy assassination	1963	-2.8	1

Source: LPL Research, S&P Dow Jones Indices, CFRA

As Table 2, reveals, data provided by market strategist Ryan Detrick at LPL Financial, a leading US wealth management firm, highlight the resilience of equity markets across decades of volatility. In his 2022 analysis of 22 major non-financial shocks dating back to the attack on Pearl Harbour, Detrick found that the immediate market reaction was often a brief, sharp dip followed by a swift recovery.

On average, these events triggered a one-day loss of just over 1%, with total drawdowns bottoming out at less than 5%. Of course, that's already been exceeded in this 2026 conflict, revealing the limitations of averages. Perhaps most surprising, however, is the speed of past rebounds; it typically took fewer than twenty days to hit the floor and only about six weeks to bounce back entirely.

This pattern of resilience is heavily influenced by geography and economic scale. The United States enjoys a unique position as an isolated superpower, making existential threats to its currency or markets relatively low compared with those of more vulnerable nations.

The historical record for smaller or more centrally located countries is grimmer; investors in Poland in 1939 or Russia in 1906 faced catastrophic losses that were not easily erased by a quick market bounce. Furthermore, while a country like Russia has a gross domestic product (GDP) comparable to Canada's - a

relatively small piece of the global pie - the danger lies in how a localised conflict might escalate or disrupt broader supply chains.

It's worth acknowledging a small economic engine like Iran can still throw a massive spanner into the global works if the war expands beyond its initial borders, adversely impacting supply chains, which the current conflict has already done.

Ultimately, the takeaway for today's equity investor is not to become callous or complacent, but to recognise the danger of making emotional trades based on the morning's headlines. Drawing a straight line from a tragic news event to a portfolio strategy is a path fraught with error, as markets have a storied habit of stumbling over the immediate headline only to return to focusing on profit growth and thematics a few weeks later.

Despite the constant hum of geopolitical commentary in our news feeds, successfully trading on these forecasts remains notoriously difficult. Markets are inherently forward-looking, and they tend to prioritise commerce over the temporary, albeit terrifying, noise of conflict.

And history seems to favour investors who consider a five-or ten-year view and take advantage of the chaos, rather than those who react emotionally.

### **Further encouragement**

For committed share market investors and those for whom a 'tactical' response is anathema, it's still worth knowing the pattern of historic returns, particularly what tends to happen after a very weak year.

As Table 3 (next page), shows, very weak years in markets are usually followed by very good years. In fact, since 1950, there have been sixty years that produced returns of greater than -5%. Notably, however, there have been sixteen years in which the S&P500 has fallen by more than 5%.

Of those 16 years in which the S&P500 fell by more than 5%, only three were followed by another negative year. Of all negative years greater than 5%, 81% were followed by a positive year and all but two produced a return greater than 15%.

### **Conclusion**

If the Middle East conflict proves to be as temporary as weak stock market years, investors could be cheering - as history suggests markets may recover more quickly than expected.

At the same time, markets often detach from the human reality of these events, making emotional reactions costly.

For investors, the lesson is to remain disciplined, avoid emotional decisions, and ensure their portfolios are thoughtfully diversified.

## S&P 500 Performance (1950-2025)



\*2025 price gain for the S&P 500 is year to date through 11/24/25. Data series: 1950-Present.

Source: LPL Research, Montgomery

Roger Montgomery is the Founder and Chairman of [Montgomery Investment Management](https://www.montinvest.com), a leading Australian boutique investment manager, which offers investors access to high-quality investment strategies in Australian equities, private credit, and digital assets. Roger is widely regarded as one of Australia's most insightful professional investors and thought leaders. He is the author of the best-selling investment guide *Value.able* and is a well-known media personality in Australia.

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This article is for general information only and does not consider the circumstances of any individual.

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## Origins of the mislabeled capital gains tax ‘discount’

Tony Dillon

The debate around the capital gains tax (CGT) ‘discount’ is really heating up due to budgetary pressures, and arguments around ‘intergenerational equity’ and housing affordability. But the so-called ‘discount’ is not a concession, rather it is an ‘adjustment’ to approximate gains arising from inflation that should not be taxed.

Prior to 1999, the cost base of an asset was indexed to inflation, such that only real gains were taxed. Post-1999, a 50% CGT ‘discount’ applied to nominal gains as a blunt approximation to allow for inflation.

Rhetoric in the media amid calls for a reduction in the CGT discount, centres on the supposed advantage it gives to property investors. So I have dug deeper with some numbers, to work through what it all really means and hopefully dispel a few myths along the way.

Many argue that the current level of discount at 50% applied to assets held for more than twelve months is too generous if the asset is sold after only a short period, say a year. But consider a property purchased a year ago that grew in value by 5%, with 2.5% inflation over that period.

Under the pre-1999 approach, setting buy/sell costs aside, the real gain would be calculated as:

$$(1.05 \times \text{purchase price}) - (1.025 \times \text{purchase price}) = 2.5\% \text{ of the purchase price.}$$

The same result as a 50% discount applied to the nominal gain of 5%. So that’s not generous.

The argument also goes that the 50% discount is however, more justifiable if assets are held for longer durations. Using the same assumptions, but suppose the property is held for ten years before disposal.

$$\text{Pre-1999 real gain} = (1.05^{10} - 1.025^{10}) \times \text{purchase price} = 34.9\%.$$

$$\text{Total nominal gain} = (1.05^{10} - 1) \times \text{purchase price} = 62.9\%.$$

$$\text{Inflationary gain proportion} = 1 - (34.9\% / 62.9\%) = 44.5\%.$$

That is, full indexation implies a discount of 44.5% required to remove the inflationary component of the nominal gain, leaving the real gain of 34.9%.

However, applying the current 50% discount would pare the net gain back to  $50\% \times 62.9\% = 31.5\%$ . Which in this instance would be more generous.

In fact, as long as the nominal growth rate is greater than the inflation rate, the real gain proportion of total gains grows over time and the inflation share falls, such that the required discount rate falls. That is, a fixed 50% discount becomes progressively more favourable with duration.

This contradicts the ‘property flipper’ argument that says short-term sellers benefit unfairly because they get the same 50% discount as long-term investors. It is at odds with peoples’ intuition because they conflate the dollar gain with the composition of that gain (inflation vs real).

The example also reveals that from end year 1 to end year 10, the actual discount rate required such that only actual gains are taxed, has moved barely five percentage points from 50% to 44.5%.

If the inflation assumption was instead 2% with 5% asset growth, the corresponding implied discounts required at end year 1, and end year 10 would be 40% and 34.8% respectively.

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And for an inflation rate of 3%, those discounts come in at 60% and 54.7%.

Some more observations:

- Whether the property is held for one year or ten years while holding inflation constant, the real versus nominal splits change slowly over time, leading to a gradual decline in the discount rate from year to year. Duration matters unintuitively little.
- It is the inflation rate that shifts the dial. A change in inflation from 2% to 3% moves the implied discount from 35% to 55% when sold after ten years. That is, the proportion of real gains to total gains is the more significant driver of the discount rate required to remove inflation gains.
- A 50% discount assumption is an attempt to balance out actual inflation outcomes. It implies that inflation accounts for about half of total nominal growth over the long-term. An assumption broadly in line with headline inflation of around 2-4% since the late 1990s, and nominal asset growth of 6-8%.
- If however, inflation is persistently lower such that the real gain proportion is greater than 50%, the discount over-adjusts (is generous) because a smaller discount is actually required to counter the inflationary gains. The converse holds if inflation is higher.

Advocates who call for a reduction in the CGT discount on the grounds of 'intergenerational equity', argue that lowering it increases fairness, when it really moves in the direction of taxing inflation.

Those people ignore the notion that the discount is a crude inflation assumption. And that such an adjustment by design will sometimes result in under-taxing real gains, and sometimes over-taxing.

The discount is not generosity favouring long-term holdings, but rather is a consequence of accounting for actual inflation with a fixed proxy.

And often overlooked is that a CGT discount also partially offsets distortions implicit when tax is triggered by a one-off event: the accumulation of multi-year gains into a single tax year, and the 'lock-in effect', or choice not to sell, that arises because gains are taxed only on sale.

Therefore changing the discount is not correcting for 'intergenerational equity'.

Similar, is the housing speculation argument that says that reducing the discount will deter investors. But the discount is not rewarding speculation, it is not a behavioural concession. Its purpose is to avoid taxing inflation.

Changing the discount rate to address housing affordability would be misplaced policy, when addressing the supply side of housing would be the way to tackle housing affordability. Surely the 'wisdom' of increasing tax on something you need more of, is counter-intuitive.

Finally, proponents of a CGT discount reduction will point to Treasury's Tax Expenditures and Insights Statement (TEIS) for justification, citing claims like the 50% discount cost the budget around \$19.7 billion in 2024-25.

Such claims however, are misleading because the TEIS uses a benchmark where nominal capital gains are fully taxable when realised. Meaning the 'revenue foregone' makes no allowance for inflation, such

that calculated 'costs' are significantly overstated. In any case, not taking more of taxpayers' money, is not a 'cost' to the budget.

This whole debate really gets back to terminology. Call something a 'discount' and people will assume that recipients of such are getting a leg up. Why not remove that perception with the simple remedy of returning to explicit CPI indexation of the cost base? That would remove both the 'discount' rhetoric, and any ambiguity around what is being adjusted.

*[Tony Dillon](#) is a freelance writer and former actuary. This article is general information and does not consider the circumstances of any investor.*

## **Div 296 may mean your estate pays tax on assets your beneficiaries never receive**

Rachael Rofe

For members with balances above \$3 million, Division 296 imposes an additional 15% tax on realised earnings attributable to the excess, rising to 30% for that portion of the balance above \$10 million. Much of the early planning response has focused on the obvious levers: investment strategy, balance management, and whether to elect a CGT cost base reset within an SMSF.

Far less attention has been given to what happens on death.

In certain circumstances, the Division 296 liability sits in the estate, while the super that generated it passes directly to beneficiaries. The result is simple but potentially fraught: one group can receive the asset, while another inherits the tax bill.

That is not a fringe case. It is the ordinary outcome where binding death benefit nominations and wills have not been considered together, which is to say, in a large number of Australian estates.

### **When the tax and the asset decouple**

Death is not an exemption from Division 296. In the year a member dies with a balance above \$3 million, a liability is assessed on realised earnings from 1 July to the date of death. That liability is personal to the deceased, meaning it becomes a debt of the estate.

The complication is that superannuation does not automatically pass under a will. It sits outside the estate, directed instead by a separate document, often signed years earlier and rarely revisited.

A binding death benefit nomination directs the trustee where to pay the member's benefits on death, to a spouse, child, dependant, or back into the estate. Without one, the trustee decides, which may not reflect the member's intent. It is worth checking.

Where there is a valid nomination, super can pass directly to beneficiaries from the fund, bypassing the estate entirely. When the super beneficiaries and the estate beneficiaries are different people, the tax and the assets decouple. The Division 296 liability stays with the estate. The super goes elsewhere.

The system has not changed who receives the wealth. It has changed who pays the tax.

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## **When the mismatch becomes real**

Consider Robert, 71, with \$4.2 million in super and an estate, primarily an investment portfolio, worth \$2.3 million. He remarried a decade ago. His binding death benefit nomination, never updated, directs his super to his two adult children from his first marriage. Linda, his current wife, inherits their jointly held assets, including the family home, and is the sole beneficiary of his estate under the will.

Robert dies in November. A Division 296 assessment, say \$35,000, is raised against the estate.

His super passes directly to his adult children. Linda inherits the estate and effectively the Division 296 tax bill, which is deducted before the assets pass to her. Before the executor can finalise the estate and distribute assets to Linda, the ATO must first calculate and issue the Division 296 assessment. That process can take months.

So Linda waits. Meanwhile, Robert's children have already received their superannuation. The wealth has already moved.

The cost is not just the \$35,000. It is the perception that one set of beneficiaries received their inheritance promptly and in full, while another waited and paid a tax bill on assets they never received.

In estates where relationships are already complex, or where fairness was assumed, that perception can do lasting damage. What appears to be a technical misalignment on paper can feel like a deliberate decision in practice. Impatience and inequity are a reliable recipe for dispute. The dollar amount almost does not matter.

This is not unusual. Blended families, outdated nominations, and wills that do not align with structures are common. Division 296 has simply made the cost of that misalignment harder to ignore.

## **What was always there, now amplified**

It is worth addressing a misconception that has attached itself to Division 296. Some commentary has described it as introducing a death tax on superannuation. It has not. Australia has had a death tax regime on super for decades.

Death benefits tax of up to 17% applies to the taxable component of super passing to a non-dependant, typically adult children. The untaxed element, often including life insurance proceeds, is taxed at 32%.

Division 296 adds another layer. The issue is how that tax is applied. In most cases, death benefits tax is withheld by the fund before payment, so the beneficiary receives the net amount - though in SMSFs the tax is often assessed to the beneficiary directly rather than withheld by the fund. Division 296 does not work that way: it is assessed to the deceased member and becomes a liability of the estate. The assets and the tax bill can end up in different hands. That is the problem.

Once that distinction is understood, the real question is not just how the tax applies, but how different nomination choices shift both the tax outcome and who ultimately bears it.

## **Spouses, children and trade-offs**

These trade-offs sit primarily in the death benefits tax regime.

Where super is paid to a surviving spouse, death benefits tax is not payable and the benefits can generally remain within the super system as a pension. Earnings on those assets underlying the pension are tax free, and the capital continues to benefit from the concessional environment.

A secondary consideration is that the death of one spouse may push the survivor's balance above \$3 million, bringing them into the Division 296 regime. That is not a reason to avoid spousal nomination, but it does require modelling.

For non-dependants such as adult children, the position is different. The taxable component is generally taxed at 17%, and any untaxed element at 32%. On multi-million dollar balances, the impost is material.

This is where strategies such as withdrawal and recontribution remain relevant. By progressively converting taxable components to tax free, the eventual tax burden on beneficiaries can be reduced. It requires time, planning, and careful use of contribution caps, but it remains one of the most effective levers available.

A full withdrawal strategy, removing all funds from super before death, eliminates death benefits tax entirely, but replaces it with the delicate question of timing. Withdraw too early and the concessional tax environment is surrendered for no reason. Too late, and the opportunity is gone.

It is a strategy that works best if you know when you are going to die, which is not information most people have access to. Outside limited circumstances, such as terminal illness, it is difficult to rely on.

### **The case for the estate: testamentary trusts**

When super flows into the estate, it can be distributed through a testamentary trust, a discretionary trust created by the will that comes into effect on death. This structure offers both tax and asset protection advantages.

The key feature is flexibility. The trustee, often your adult child, can distribute income each year across a defined group of beneficiaries, including their spouse and children.

If your adult children have children of their own, income can be streamed to those grandchildren. Unlike ordinary trusts, income distributed from a testamentary trust to minors is taxed at adult marginal rates, rather than punitive rates of up to 47%.

A child with no other income can receive up to \$18,200 tax free. Four grandchildren in that position means \$72,800 of income distributed annually without tax.

Over a decade, that is more than \$700,000 distributed tax free across a family group, a result rarely achieved through other structures available at death.

There is also an asset protection dimension. Assets held within a testamentary trust enjoy an additional layer of asset protection from creditors and, in some cases, family law claims, a meaningful consideration for adult children.

There is a trade-off. Assets passing through the estate may be subject to family provision claims, whereas super paid directly to beneficiaries typically is not.

There is no universal answer. For a surviving spouse, direct nomination is often appropriate. For adult children, particularly where flexibility, tax efficiency and asset protection are priorities, the estate and testamentary trust structure may deliver a better outcome.

With all of this in mind, it is worth returning to Robert.

### **Returning to Robert**

Had Robert updated his nomination to direct his super to Linda, the death benefits tax position would have improved significantly. Linda would have received the super tax free, with the capital remaining in the super system. The Division 296 liability would still be borne by the estate, and therefore by his adult children as beneficiaries of the will. But that is a conversation worth having directly: yes, the estate will bear the Division 296 liability, which will reduce what you receive, but we have structured this to maximise what you ultimately receive by avoiding death benefits tax on the super. A clear explanation of why the outcome is fair is considerably easier to have before death than after it.

The families most affected do not need more information. They need a plan, and they need that conversation to happen while there is still time to have it.

### **A system, not a set of documents**

Division 296 has made the consequences of misalignment more visible, and more expensive to ignore. But the deeper point is this: estate planning is not a will. It is asset planning on death. If the underlying assets - how they are held, who they are nominated to, what tax attaches to them on the way out - do not reflect the intended plan, the will is almost beside the point. Division 296 is simply the latest development to make that misalignment cost something. It will not be the last.

*[Rachael Rofe](#) is a giving expert and estate planning lawyer. She advises families on intergenerational wealth transfer.*

## **There's more to software than just code**

### **Damon Callaghan**

Software companies, long regarded as some of the most durable and profitable businesses, faced an indiscriminate sell-off in early 2026, with investors referring to the moment as the "SaaSocalypse."

Behind this sell-off was the rapid emergence of powerful AI coding agents, such as Claude Code and Openclaw, which made headlines by demonstrating that AI agents can build, fix, and integrate complex software. This raised concerns that such powerful tools would create more competition in the software space, ultimately threatening the traditional SaaS business model. Investors started to question whether software moats were dead.

The market reaction revealed a deep misunderstanding about the software space. The market treated the entire software universe as a single, undifferentiated risk and failed to distinguish between companies that sell software, and those whose competitive advantages happen to be delivered via software. But where there is fear, there is also opportunity for those looking deeper into the sector.

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## **Not a moat – software models and structural advantages**

Being a revenue-generating software company does not constitute a high-quality business. Software is a gateway to a capital-light economic model that can deliver sustained high returns on invested capital, but only where specific conditions are met. These conditions include durable competitive advantages such as network effects, unique and hard-to-replicate data assets, or a proven enterprise-grade capability in implementation, customer support, and ongoing R&D to solve complex, industry-specific workflows.

What has determined the success of software has not been the model itself, but the structure of the industry. Most industries in which software companies operate exhibit an 'oligopoly' landscape, where there is one dominant market leader and smaller competitors that lack the resources to compete. The emergence of tools such as Claude Code and other LLMs does not materially alter this dynamic for these leading software companies. What it does is accelerate the commoditisation of many SAAS workflow applications.

The market was right to reprice the weakly differentiated software companies, but wrong to reprice those structurally advantaged. The fear that set the sell-off in motion was largely based upon the idea that software businesses are primarily constrained by development hours, and that removing this constraint via AI levels the playing field.

However, the reality is somewhat different. Development hours are not the constraint for competitive differentiation and market leadership. A well-established software leader has built layers of complexity over years, and sometimes even decades, that an AI code cannot shortcut.

### **Unravelling the layers of software**

WiseTech Global (ASX:WTC) is a clear example of the layers of complexity that have been built into software. Its cloud-based logistics executive platform, CargoWise, has been designed to manage the complexities of global supply chains, including freight forwarding, customs clearance, warehousing, and transportation. The fear that AI agents could enable a well-funded startup or ambitious competitor to replicate CargoWise's functionality is understandable, however from a fundamental standpoint, there is a misunderstanding of what makes CargoWise's competitive advantage a tough moat to bridge.

The platform operates across 170+ countries and must maintain live, certified integrations with the customs authorities, trade compliance databases, and tariff systems of each jurisdiction. These integrations are created through an Application Programming Interface (API), which is a set of rules and protocols allowing different software applications to communicate and exchange data securely. These APIs are not static and are subject to regulatory change, bilateral trade agreements, and local government IT modernisation cycles.

Achieving and maintaining certified integrations requires years of relationship building, in-country expertise, and a track record of audit-grade reliability. Can an AI agent write an API? The simple answer is yes. But can it negotiate a certification pathway with the Australian Border Force or anticipate the downstream impact of a reclassification in EU harmonised tariff codes? The answer to both is no. Each connection is a bespoke integration requiring government certification as an approved technology provider and must be continuously maintained as regulations change. This capability requires not just

code, but institutional knowledge, government relationships, and domain expertise accumulated since the 1990s.

Today, WiseTech processes approximately 74 million compliance updates annually and maintains 5.6 million product classification records. A startup could build one of these country connections, but building and maintaining thirty or more simultaneously, in real-time, is a multi-year and very expensive effort that requires customer scale to fund and validate.

Another layer of complexity with software lies with enterprise data. Software companies that have been operational for many years have accumulated decades of customer-generated data, such as transaction histories, workflow configurations and industry benchmarks. This data becomes deeply embedded within the software product and improves its functionality over time, which is impossible for entrants to replicate no matter the amount of engineering resources and sophisticated AI models put to use. The absence of historical production data creates a significant 'cold start' problem for new entrants.

Software switching costs are another barrier to entry. Enterprise software implemented within regulated industries such as financial services, logistics, mining, utilities and government, are rarely off-the-shelf products. Implementation of software encompasses deep integration with other systems and software as well as customisation to support the customer's operational workflows. On top of this, software users often have internal teams deployed to provide support that have deep domain expertise. Switching costs are not merely contractual, they are operational. The implementation of a new software often requires retraining staff, reconfiguring workflows, reintegrating with other systems and securely transferring historical data.

What these layers highlight is not the irrelevance of AI coding tools, but the market's ability to price in the destruction of structural moats on the basis that code can now be written faster without taking into account the other barriers to entry.

### **What lies ahead for software?**

AI coding tools will meaningfully reduce development costs and timeframes for all players. Even for market leaders, AI solutions will be a tailwind for software companies using them to reduce customer labour costs and monetise the value creation effectively. Software companies with structural differentiation such as proprietary data, deep customer integrations, and domain expertise are best positioned to build and deliver these solutions. Meanwhile, software companies without structural differentiation will find that faster code merely accelerates price competition.

What the sell-off of software earlier in the year showed was the clear misunderstanding by investors of what makes a software business great.

Investors who can look at the software universe and differentiate between companies that sell software, and those whose competitive advantages happen to be delivered via software, will be able to find and invest in good opportunities at discounted valuations.

AI is an accelerant, not a threat, and where there is fear, there is opportunity. But it is about knowing where to look.

*Damon Callaghan, Partner, Investments at [ECP Asset Management](#).*

*This article has been prepared by ECP Asset Management Pty Ltd (ECP). ECP is a funds management firm based in Sydney, Australia. This material has been prepared for informational purposes only and is not intended to provide and should not be relied on for financial advice. ABN 26 158 827 582, AFSL 421704, CAR 44198.*

## **Europe: A new growth trajectory powered by reform and investment**

**Matt Reynolds**

Europe has been propelled into a profound transformation. Ongoing security threats and pressure from the US administration have prompted greater resolve from EU (European Union) member states to take more control over their future. This is a transformational change for Europe and forms part of a larger trend we refer to as the Great Global Restructuring.

The steps being taken are EU-wide as well as at a country level.

The emerging picture of Europe is one of a continent moving away from the constraints of past austerity and towards a more proactive strategy grounded in investment, industrial renewal and enhanced economic security.

This 'pivot' from austerity to expansion is evident in EU-wide initiatives such as the Clean Industrial Deal and fiscal flexibility measures, alongside country-level programs like Germany's trillion-euro investment plan. These changes aim to enhance competitiveness, energy security, and resilience amid geopolitical uncertainty.

While execution risks remain, some estimates suggest the combined effect of these measures could add between 0.25% to 1% p.a. to EU GDP (gross domestic product) over the medium term.

### **EU-wide initiatives and structural shifts**

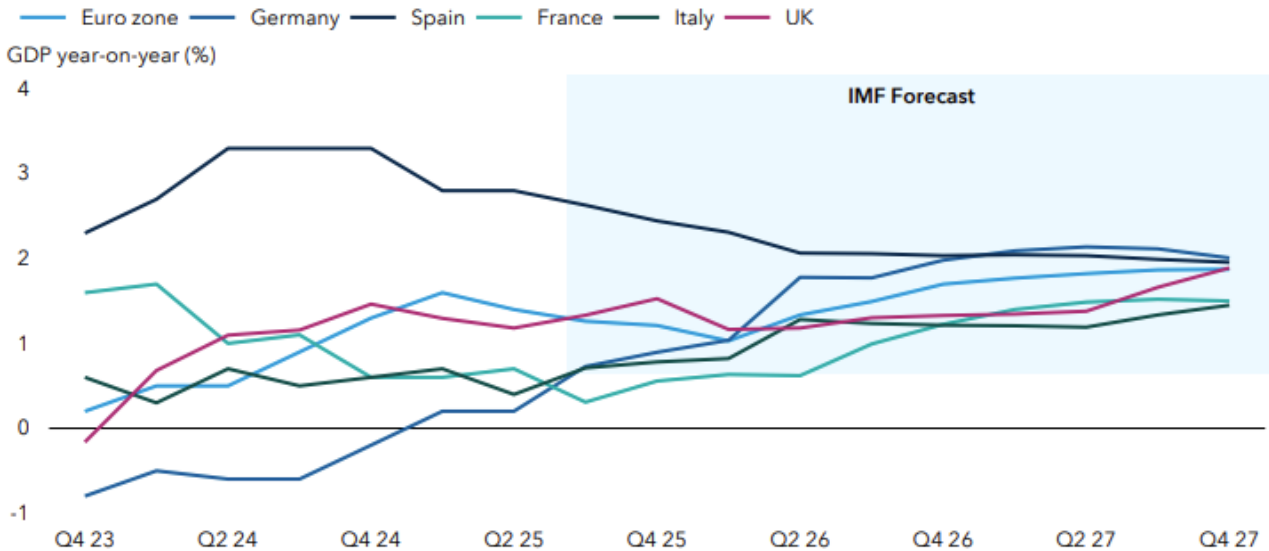
The European Commission's transition from the Green Deal to a Clean Industrial Deal signals a pragmatic shift toward competitiveness and energy security. This evolution reflects Europe's entry into an era of geoeconomics, where trade, defence and energy policies are deeply interconnected.

The Commission's proposal to integrate international carbon credits under Article 6 of the Paris Agreement could reduce decarbonisation costs for heavy industry. With CO<sub>2</sub> prices projected to rise from €70/t today to €100 – €130/t by 2030<sup>[1]</sup>, incentives for green capital expenditure are strengthening, particularly in carbon capture and hydrogen technologies. These changes could mean climate policy becomes a central growth driver.

Fiscal governance has also adapted. While the NextGenerationEU (NGEU) Recovery Fund (launched in 2020 to repair the damage from the COVID pandemic) remains a cornerstone, new fiscal flexibility rules allow member states to increase defence spending and strategic investments without triggering excessive deficit procedures. Examples include carve-outs that permit defence spending of up to 1.5% of GDP over four years starting in 2025<sup>[2]</sup>. This structural shift underscores the EU's commitment to balancing fiscal prudence with strategic imperatives.

Next year, Spain and Italy are likely to see expenditure under the NGEU Recovery Fund rise to its highest level since 2021. Current plans suggest spending will rise to 1.5% to 2% of GDP. In fact, looser fiscal policy (example measures include lowering interest rates and purchasing securities to boost the economy) across EU member states is expected to support higher growth in 2026.

### GDP growth picking up across the region



Forecasts are for illustrative purposes only.

As at September 2026. Sources: Capital Strategy Research, International Monetary Fund, LSEG Datastream

1. Source: BloombergNEF, September 2025
2. Source: Council of the European Union, July 2025

## Country-level reforms and stimulus

While fifteen countries submitted draft budgets in October 2025 that indicated a net loosening of policy, Germany accounts for the bulk of the fiscal expansion.

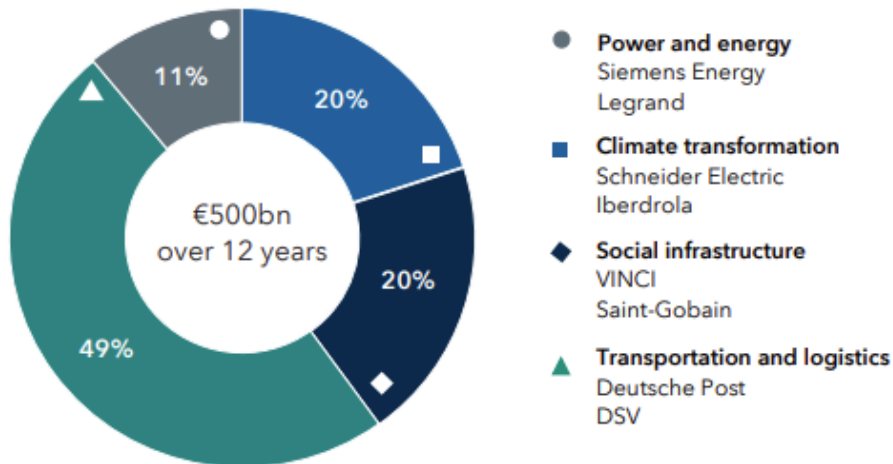
Germany's pivot is the most striking example of this new paradigm. Abandoning its traditional austerity stance, Germany's €900 billion to €1 trillion investment program<sup>[3]</sup> marks a strategic effort to reshape its economic foundations and boost long-term competitiveness.

Among the investment areas earmarked are €107 billion to rail and €52 billion to roads to address critical infrastructure bottlenecks that have constrained productivity and trade efficiency. The €38 billion allocated to digitalisation signals a push to modernise industry and accelerate technological adoption, while the €100 billion climate and transformation fund underscores Germany's commitment to sustainability and energy transition.<sup>[4]</sup>

Complementary measures such as corporate tax breaks worth €48 billion (2025–2029) and annual energy price reductions of €14 billion aim to bolster household consumption and industrial margins.<sup>[5]</sup> The anticipated impact is significant. Together, these investments are likely to generate significant multiplier effects, stimulating domestic demand, attracting private capital and reinforcing Germany's role as a growth engine with spillover effects across the EU.

However, execution risks, including inflationary pressures and political hurdles, must be monitored closely.

**Germany's stimulus has the potential to unlock significant growth**



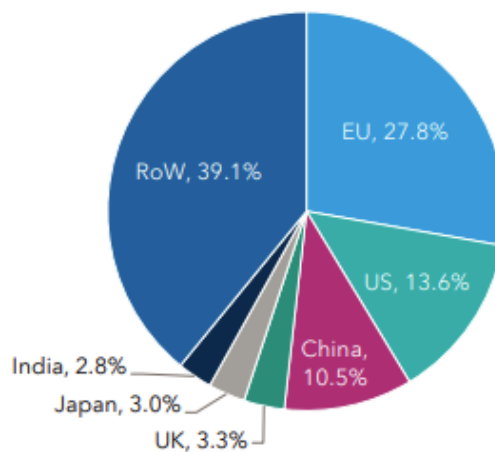
Sources: Capital Group, German Bundestag proposed federal budget 2025, German Economic Institute, Federation of German Industries (BDI), Germany's Federal Office for Economic Affairs. Companies listed are meant to serve as examples only.

**Geopolitics and trade dynamics**

Europe's economic strategy is unfolding against a backdrop of global fragmentation and strategic competition – key drivers of the Great Global Restructuring. The EU faces tariff uncertainty and supply chain vulnerabilities amid US-China rivalry. In response, Brussels is pursuing 'de-risking' strategies such as onshoring (the practice of relocating a company's business back to its home country) and diversifying their production facilities, while negotiating trade deals to mitigate shocks. Greater strategic focus from the European region shows renewed dynamism and indicates a shift to a new growth model - one that focuses more on internal demand instead of export-led growth.

And internal demand in Europe is not insignificant. In fact, it is the largest single market importer globally, accounting for more than twice the proportion of imports as the US. This puts it in a relatively strong position to not only stimulate domestic demand and strengthen the businesses that serve it, but also to enhance its leverage in negotiating trade agreements with other countries.

**Share of world import of goods**



As at December 2024. Source: IMF World Economic Outlook Database

*RoW: rest of world*

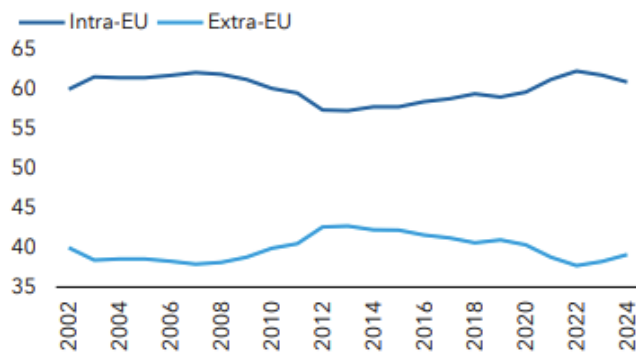
There is no doubt that tariffs imposed by the US have created a negative supply shock, however our analysis suggests the impact on the EU could be relatively modest in comparison with the effects on the US, China and their closest trading partners, e.g. Mexico and Canada.

There are three key reasons why Europe’s output may hold up even under the current tariff framework.

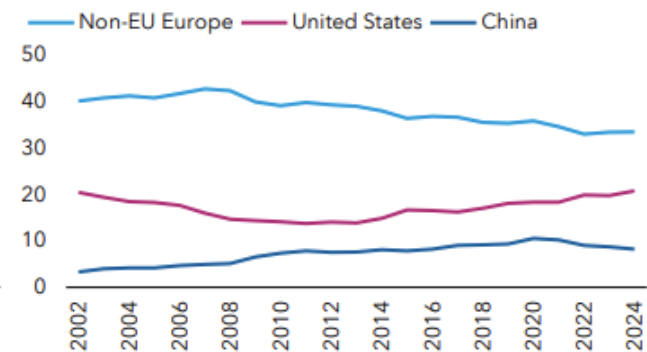
### 1. Goods trade with US is lower than widely assumed

A figure often cited is that the US accounts for 20% of EU goods exports. What is less publicised is that trade within the EU is substantially higher than trade flows with non-EU countries.

**EU exports (% of total exports)**



**EU exports (% of extra-EU exports)**



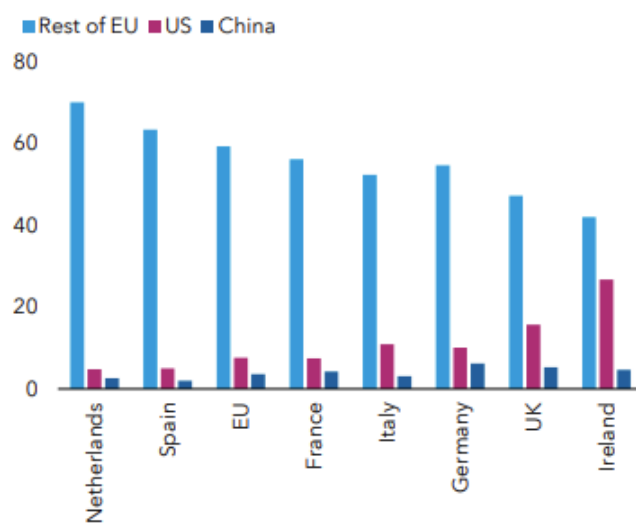
**Past results are not a guarantee of future results.**

As at 31 December 2024. Source: Eurostat, Statista, IMF Direction of Trade Statistics (DOTS)

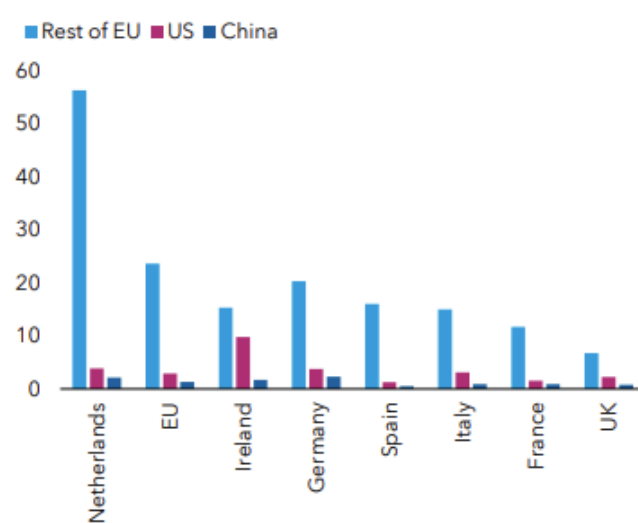
When total trade flows are considered, the US accounts for less than 10% of goods exports and less than 3% of GDP on average across EU countries.

Ireland is a relative outlier. However, its US exports are mostly concentrated in medical and pharmaceutical products and even this has fallen significantly since Trump’s first trade war in 2019.

**Goods exports (% of total)**



**Goods exports (% of GDP)**



**Past results are not a guarantee of future results.**

2023 annual data. Source: IMF Direction of Trade Statistics (DOTS), World Bank

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## 2. Loss of market share could be limited

US tariff policy is yet to reach a steady state. Even so, the potential loss of EU market share may be less severe than feared.

The current tariff structure – a 15% tariff ceiling on most goods, with higher rates on steel and cars – is unlikely to prompt a large-scale reshoring of production away from Europe. Some US importers will absorb higher prices or pass them onto consumers. Some goods could be redirected to third markets, and certain lower value-added or energy-intensive industries may experience modest declines in output. But the overall impact on European producers should remain contained.

A key determinant here is how price-sensitive buyers are. There are different calculations for short-term and longer-term, with some estimates from the Federal Reserve suggesting that an effective tariff of 8.8% would decrease demand for EU goods by 1% in the short term, rising to 4% after six years. Yet even these figures could overstate the effect.

As European Central Bank Governing Council member Isabel Schnabel has noted, the bulk of EU goods imported into the US are in categories like pharmaceuticals, machinery and vehicles, which tend to be highly differentiated. This means the price sensitivity would be lower still, as buyers view them as difficult to substitute.

Several factors underpin this low elasticity:

- **Highly specialised goods** – A significant share of European exports consists of complex or bespoke products, such as pharmaceuticals, advanced machinery and high-end vehicles.
- **Brand reputation** – For instance, German automotive engineering or Swiss precision machinery carry strong consumer and business loyalty.
- **Regulatory compliance** – Pharmaceutical imports often rely on strict, long established regulatory approvals, making substitution costly and time consuming.
- **Technical specifications** – Many European machines are tailored to specific production processes, reducing the feasibility of swapping suppliers quickly.

Even where goods are perceived to be substitutable, in practice, switching takes time. Consumers typically maintain brand preferences, especially when price increases are modest. Businesses face entrenched supply chains, fixed contracts and high switching costs; reconfiguring procurement takes time and coordination.

In addition, some EU products entering the US market face reduced tariffs or exemptions. These often relate to:

- Public health needs, where many pharmaceuticals are exempt
- Critical infrastructure, such as specialist machinery
- Negotiated carve-outs, designed to avoid supply chain disruptions.

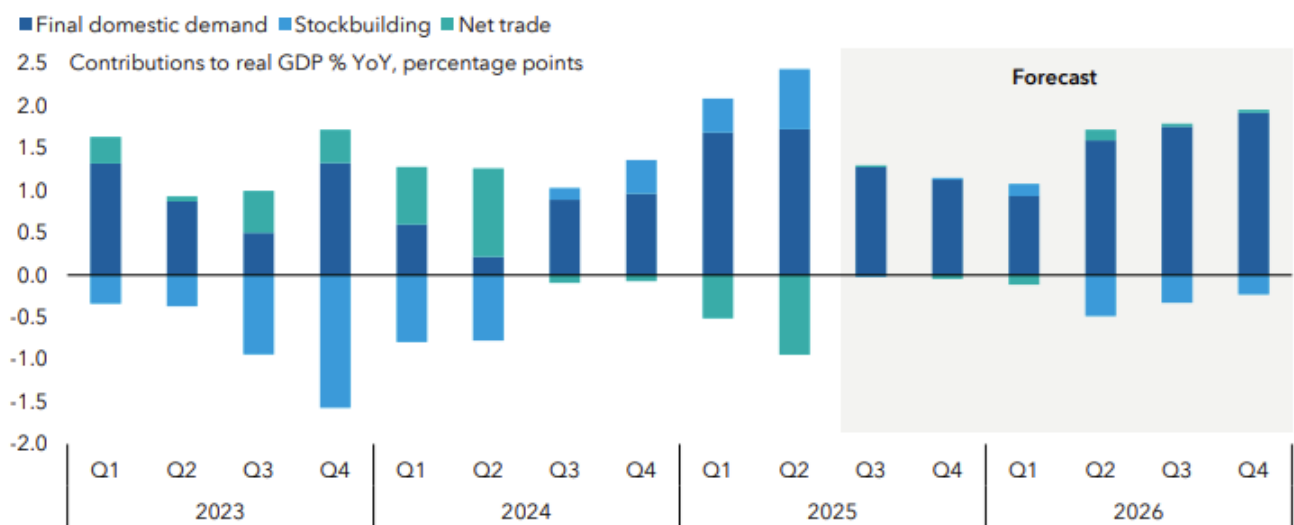
Taken together, these dynamics suggest the erosion of EU market share loss could be limited. In fact, if higher tariffs on China persist, European firms may even gain share in certain US market segments.

### 3. Increase in regional trade within Europe

There is considerable scope for the EU to trade more intensively with one another. Germany’s substantial fiscal policy loosening could support higher domestic demand both in Germany and across Europe. As outlined, the multiplier effect of the package could add 0.25% to 0.5% to EU GDP in the coming years and an additional boost could come from deepening the single market.

Forecasts suggest that domestic demand within the EU may become a more meaningful contributor to GDP going forward.

**Eurozone growth contributions**



**Forecasts are for illustrative purposes only.**  
Forecasts as at June 2025. Sources: Eurostat, Capital Group forecasts

Another avenue for growth is to build closer trading relationships with non-EU countries. Two particularly strong candidates are the UK and India. Progress is already being made in the UK’s case. While the EU-UK trade deal struck in May 2025 was limited in scope, it laid the groundwork for future cooperation.

#### Cyclical backdrop

Encouragingly, we are beginning to see the effects of both Europe’s structural reset and its resilience to tariffs come through in economic figures.

Despite higher US tariffs and uncertainty, recent data releases have surprised to the upside. The eurozone grew by 0.2% (quarter-on-quarter) in Q3 2025, with France expanding by 0.5% (quarter-on-quarter) amid stronger business investment. Unemployment in the eurozone remained near its record low in September 2025 and interest rate cuts the European Central Bank (ECB) has made since June 2024 are increasingly feeding through to strong borrowing demand. Manufacturing and sentiment surveys also indicate encouraging results for the fourth quarter of 2025.<sup>[6]</sup>

The draft budgets for 2026 submitted to the European Commission imply a net fiscal loosening across five major eurozone economies of around 0.5% of GDP, mostly driven by the substantial expansion in Germany. This marks a significant shift in policy setting, where fiscal policy will flip from being a drag of 0.25% of GDP in 2025 to a boost. It marks the first net loosening since 2021.<sup>[7]</sup>

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## Investment implications

Given the foundations of change taking place in Europe, how could investors position themselves to capture compelling opportunities?

Despite a strong year for European equities in 2025, there are long-term trends that continue to play out. It is important to note that while the European equity universe is smaller than that of the US, it is more diversified. As a result, there is a wide range of sectors and companies likely to benefit from a pick-up in GDP. Adopting a core approach while retaining the ability to invest across a broad investment universe could help increase exposure to both cyclical and growth opportunities.

As such, the key themes for investors to monitor across Europe include:

- **Utilities and grid capex**  
Electrification of the grid and an industrial recovery are expected to drive an increase in electricity demand in Europe by 1.5% to 2% annually through to 2030.<sup>[8]</sup> Grid investments, projected at €14bn annually in Germany by the late 2020s,<sup>[9]</sup> will help underpin regulated asset base expansion. Utilities that offer strong visibility on earnings growth and dividend yields appear particularly attractive.
- **Construction and infrastructure**  
Germany's infrastructure fund is a game-changer for contractors, cement producers and original equipment manufacturers (OEMs) in the energy value chain. Rail modernisation (€107bn earmarked)<sup>4</sup> and housing renovation programs will help create sustained demand for construction services and materials.
- **Financials**  
The sector offers a combination of strong fundamentals, improving profitability and compelling valuations. Banks' earning momentum is supported by strong financial positions and still-elevated lending margins. Valuations look attractive versus US peers, particularly in periphery markets like Spain, Italy, and Greece.
- **Defence and security**  
Defence spending is set to surge in response to ongoing security threats. However, the push for security extends beyond military defence to reliable energy sources, stable infrastructure and secure supply chains. Cyber security is also a growth area as AI has enabled more efficient and effective cyber-attacks.
- **Green technologies and heavy industry**  
Rising carbon prices and policy incentives favour companies investing in carbon capture, hydrogen, and energy efficiency. These technologies will be critical for meeting decarbonisation targets while maintaining industrial competitiveness.

Europe's structural reforms and fiscal stimulus represent a decisive shift toward resilience and competitiveness. While geopolitical risks and execution challenges persist, the policy mix of EU-wide initiatives and national programs, anchored by Germany's fiscal pivot, create a robust foundation for growth.

For investors and financial advisers, the implications are clear: sectors aligned with infrastructure, energy transition, defence, and industrial modernisation offer attractive opportunities over the medium to long term.

[1] Source: Bloomberg NEF, September 2025

[2] Source: Council of the European Union, July 2025

[3] Source: Deepnewz, March 2025, Die Bundesregierung, October 2025

[4] Sources: European Commission, Bundesfinanzministerium, GMK Center, Capital Group

[5] Source: Bundesministerium de Finanzen, June 2025

[6] Source: Tradingeconomics.com, November 2025, Eurostat

[7] Source: Capital Group, November 2025

[8] Source: IEA, Electricity Report 2025

[9] Sources: Berenberg, Capital Group, October 2025

*Matt Reynolds is an Investment Director for [Capital Group Australia](#), 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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## Orbital AI data centres prepare for launch

Evelyn Chow, Paul Martinez

Welcome to the new space race, brought to you by AI.

Data centers built to deliver artificial intelligence (AI) services are springing up as fast as Wall Street can finance them. Meanwhile, these sprawling digital workhorses are inhaling electricity (putting pressure on already stretched grids) and consuming massive amounts of water for cooling. Earthly limits loom.

Not so in space: Up there, data centers can feed on continuous solar power and simply radiate heat into the void; furthermore, orbital centers could allow high-performance computers to sit right next to the satellites that collect the raw information, helping reduce data-processing time. Hence Elon Musk's decision in early February to combine SpaceX, his spaceflight company, with xAI, his AI startup—a tie-up, Musk says, primarily driven by the growing pressure to put data centers in space.<sup>1</sup>

In our view, space may well be the next AI frontier (if not the *final* one). Here's a quick look at the burgeoning orbital-AI sector, including key drivers, players and investment risks.

### The next frontier

Orbital AI aims to solve a few pressing structural needs, starting with the relentless demand for data-processing speed.

Modern spacecraft now collect torrents of data—radar, hyperspectral, optical—but sending all that raw information back to Earth has become a significant choke point. Orbital data centers aim to relieve that

pressure by co-locating data collection and computation: Letting the ‘eyes’ sit next to the ‘brains’ allows data to be filtered, compressed and interpreted before it reaches the ground, saving precious seconds when tracking troop movements, flood lines and supply-chain disruptions.

The need for speed is one driver. Easing pressure on our planet’s increasingly taxed power and water supplies is another:

- **Power:** In the U.S. alone, terrestrial data centers (not including cryptocurrency mining) consumed approximately 4.4% of total electricity consumption in 2023; some projections have that figure shooting to 12% by 2028 as AI demand continues to escalate.<sup>2</sup>
- **Water:** Cooling a typical data center requires 300,000 gallons of water per day (about 1,000 households worth),<sup>3</sup> but large centers may need 5 million gallons, equivalent to a 50,000-person town.<sup>4</sup> Those demands will only rise as more centers come online.

We believe orbital systems have potential to address both of these challenges by tapping near-continuous solar power and radiating heat into space, so that even a single 40-megawatt cluster (enough to power a mid-size city for a day) in orbit could be meaningfully cheaper to run over a decade than an equivalent facility on Earth.<sup>5</sup>

### Meet some of the players

Orbital data centers may be a small slice of the AI pie for now, yet we expect them to add a new layer of infrastructure spending to complement the buildout on the ground.

For investors, we believe the emerging orbital-AI stack breaks into three buckets:

1. **Launch Specialists** – These companies do the heavy lifting by hoisting data-center modules into space. Other launch specialists are more vertically integrated: Rocket Lab, for one, designs and produces satellites; builds key subsystems like solar panels and laser communication terminals; and plans to launch them into low Earth orbit. The company claims that its reusable Neutron rocket is designed to carry loads of up to 13,000 kilograms.<sup>6</sup>
2. **Software / Hardware Makers** – These companies build and operate orbital data centers, applying trained AI models to live data streams so that only the most useful information gets transmitted. Starcloud, part of Nvidia’s Inception program, has already trained an AI model in space, moving the idea from concept to early pilot.<sup>7</sup> Planet Labs, another key player, in our view, is teaming with Google to develop orbital hardware that can deliver processed images with single-meter resolution.<sup>8</sup>
3. **Chipmakers** – These companies supply the computational horsepower, with Nvidia firmly at the head of the pack. The AI-chip juggernaut is already embedding its GPUs across various orbital pilot programs, and we believe any sustained shift toward orbital AI would only expand the company’s broader addressable market.

### Reaching escape velocity

While the new space race is on, we believe the transition to orbital AI still faces some formidable challenges, both technical and regulatory.

On the technical side, start with the fact that radiation from the sun and deep space can scramble or degrade chips over time. ‘Hardening’ orbital-AI systems — be it through shielding, circuit design or more

robust materials — remains mission-critical, and the industry still needs to prove that high-end AI chips can operate reliably for years under these harsh conditions.

Thermal management is another engineering challenge. (While GPUs generate a lot of heat, satellites can move from sunlight to darkness in minutes.) Ensuring long-term system performance means finding a way to stabilize temperatures and avoid sudden thermal swings.

Achieving scale is a third technical hurdle, given the sheer weight of hardware needed for optimal data-center ‘clustering’ — that is, linking multiple computational nodes so they work together as a single unit. And finally, servicing all that hardware once it’s in orbit is not as easy as merely driving over to a center, rolling up shirt sleeves and getting to work.

On the regulatory front, we believe changes in spectrum policy could hamper orbital data-center deployment. Orbital centers will rely on radio frequencies and optical links to communicate with ground stations and other satellites, but those frequencies are regulated and often crowded. Securing and coordinating enough spectrum — and maintaining high-bandwidth optical links to major cloud-computing regions — is a non-trivial challenge, in our view.

### **Countdown to launch**

While the industry clearly has its work cut out — hardening radiation-rugged GPUs, launching scalable (and serviceable) computing clusters, securing reliable high-speed data links and solid partnerships with hyper-scalers, among other challenges — we believe orbital AI has the potential to ease significant terrestrial bottlenecks, extend the AI infrastructure stack and give investors a fresh way to participate in the long-term AI theme.

The countdown to launch, in our view, has clearly begun.

[1] “XAI Joins SpaceX to Accelerate Humanity’s Future”, SpaceX, February 2, 2026;

[2] “Data Centers and Their Energy Consumption: Frequently Asked Questions,” Congressional Research Service, August 26, 2025;

[3] “Data centers, backbone of the digital economy, face water scarcity and climate risk,” NPR, August 30, 2022;

[4] “Data Centers and Water Consumption,” Environmental and Energy Study Institute, June 25, 2025;

[5] “Why we should train AI in Space,” Lumen Orbit, September 2024;

[6] Neutron | Rocket Lab;

[7] Starcloud;

[8] Planet Labs.

*Evelyn Chow is a Senior Research Analyst, and Paul Martinez is an Associate Portfolio Manager at [Neuberger Berman](#), a sponsor of Firstlinks. This material is provided for general informational purposes only and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. You should consult your accountant, tax adviser and/or attorney for advice concerning your own circumstances.*

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## Little-known government scheme can help retirees tap into \$3 trillion of housing wealth

Katja Hanewald

For many Australians, most of their retirement wealth is tied up in their home. A simple, well-designed program to tap into those trillions in home equity could help boost their retirement incomes.

Such a program exists. However, it remains little known and underused.

The federal government's [Home Equity Access Scheme](#) (HEAS) allows older Australians to access their housing wealth. It is open to Australian residents aged [67 or older](#) who own real estate in Australia, regardless of whether they receive the age pension.

Similar to a reverse mortgage with a bank or specialist lender, the scheme lets older Australians supplement their retirement income through a federal government loan, secured against the equity in their home or other Australian real estate.

Yet [government data](#) shows just 18,691 people are currently taking part in the scheme, a relatively low take-up.

A recent [report from Deloitte](#) estimates reverse mortgages are used to access only about 1% of the A\$3 trillion value of housing wealth owned by Australians aged 60 and over.

So, why isn't the government scheme more popular?

### How does the scheme work?

Retirees can 'top up' any pension payment they receive up to a maximum of 150% of the maximum pension rate. People who do not receive the age pension (self-funded retirees) can receive up to the same maximum.

Participants can choose to receive:

- fortnightly payments, or
- a lump sum advance.

Compound interest is charged on the loan and accumulates over the life of the loan. This is the key difference from standard mortgage loans: people are not required to make regular repayments or interest payments (voluntary repayments can be made at any time).

The interest rate on the scheme is currently 3.95% and has been unchanged since January 2022. This is below the Reserve Bank's official cash rate of 4.1% and well below commercial reverse mortgages, making it relatively cheap compared with other options.

It was previously known as the [Pension Loans Scheme](#) and was introduced in 1985 alongside the pension assets test.

Since 2019, the government has made [several changes](#) to the scheme to make it more attractive and expand eligibility. In 2022, [lump sum advances](#) were introduced.

A “no negative equity guarantee” was also introduced, meaning participants will never have to repay more than their home is worth, even if house prices fall.

### How the scheme stacks up against private lenders

The government scheme shares many similarities with reverse mortgages offered by some banks and specialist lenders.

In both cases, the payments received are added to a loan that increases over time with interest. The loan is usually repaid when the home is sold, or from the estate after the borrower dies.

Voluntary repayments can be made at any time, but are not required.

Both commercial reverse mortgages and the government scheme offer regular or lump-sum payments, and include protections such as the no negative equity guarantee.

The payments have no impact on age pension payments if the loan is taken as a regular income stream to spend on living expenses or non-assessable assets.

The main differences are:

- under the government scheme, the payments are capped at 150% of the maximum age pension rate, whereas the commercial reverse mortgages can offer higher borrowing amounts.
- but banks and specialist lenders charge a higher interest rate on reverse mortgages, currently [8–9% per year](#), due to higher risks and market-based pricing.

### Why such a low take-up rate?

Government data on its scheme shows the average loan amount was about \$35,700 in December 2025. Of those taking part, 74% received the full age pension, 17% received a part pension, and 5% were self-funded retirees.

## Home Equity Access Scheme

Number of participants, average loan amounts (A\$) and total loan balances (A\$) between 2019 and 2025.

Year	Participants	Average loan amount	Total loan balance
2019	1,646	\$22,515	\$37.1M
2020	3,771	\$18,423	\$69.5M
2021	5,434	\$20,385	\$110.8M
2022	7,607	\$24,180	\$183.9M
2023	11,148	\$27,244	\$303.7M
2024	15,351	\$30,655	\$470.6M
2025	18,691	\$35,691	\$667.1M

*Number of participants and loan values as at December 31 in each year.*

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But with only 18,691 people taking part, take-up is still low.

As a government program, the scheme is not widely advertised. So it is good to see more [superannuation funds](#) providing their members [with information](#) about the scheme.

Some financial advisers may be unsure whether they can advise on the scheme. In [January 2023](#), the Australian Securities and Investments Commission (ASIC) clarified that financial advisers can provide advice on the government scheme without needing an Australian Credit Licence.

Behavioural factors, such as debt aversion and a preference to leave the home as an inheritance, may also explain the low take-up rate. The loan will be repaid out of the sale of the home, meaning proceeds from the sale will be reduced.

However, [in our research](#), we argue that accessing housing wealth can allow families to bring forward bequests and reduce the uncertainty around the timing of inheritances.

Another barrier may be the perceived complexity of the scheme, particularly for retirees with limited financial literacy.

While the rules can seem complex, applications are handled through Services Australia and can be completed online [via the MyGov portal](#), using a standard Centrelink claim process.

The home equity access scheme allows older Australians to access an affordable government loan to supplement their retirement income. It can help retirees who are “asset rich, but income poor” to improve their financial wellbeing, while allowing them to remain at home and in their communities.

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