Firstlinks
a Morningstar company

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Editorial

I'm pleased to announce that Simonelle Mody will be taking over as the new Firstlinks' editor.

Throughout the process of finding a new editor I've been thinking a lot about Graham and James. I wanted to find an editor who respected what they built and who was bold enough to ensure that Firstlinks continues to support the evolving needs of investors in Australia.

I've been working closely with Simonelle over the past several years and after a wide-ranging search for a new editor it was clear that she is the right person to take charge of Firstlinks.

I'm a big fan of Simonelle and over time I'm confident the Firstlinks community will feel the same way.

I wanted to thank everyone for their support over the last six months during my temporary stewardship of this publication. As always, I can be reached at mark.lamonica1@morningstar.com and will continue to try and do my part to help people build a better future at Morningstar. I'm looking forward to seeing where Simonelle will take Firstlinks.

Mark LaMonica

Simonelle Mody:

I'd like to begin by saying that I am incredibly excited to step into this role.

Many of you have been with this publication since the days of thoughtful stewardship under Graham Hand and Chris Cuffe, James Gruber and more recently, Mark LaMonica. I take seriously the responsibility of carrying that legacy forward. I'm deeply aware that I'm joining a community with a long memory, strong views, and a shared commitment to understanding the forces that shape our financial lives.

A little about me

I've worked at Morningstar for almost two years now, and while I'm younger than the typical Firstlinks reader, I've always thought that good investing and good thinking are ageless. What I love most about this work is the chance to explore the intersection of investing and human behaviour.

Over two decades ago, my parents came to Australia with the same hopes many of you likely have for your own families. The idea that if you work hard, play fair and contribute to your community, this country gives you a fighting chance to build a good life. And indeed, it has.

Australia has given us stability, opportunity and the kind of environment where effort translates into progress. I'm acutely aware that very few countries work this way. This indebtedness and gratitude informs everything I do. And it is why I care so deeply about the long-term decisions we make as a nation, especially the ones that affect our economic resilience and the opportunities available to future generations.

We're living in a time when public debate is increasingly polarised. Politics touches everything from superannuation settings to tax policy to global markets. In stepping into this role, I want to acknowledge something many of you have been thinking about – the Federal Budget.

I tend to look at Budgets with a mix of curiosity and healthy scepticism. While governments of all stripes like to frame their decisions as win-wins, investors know better than most that every choice has an opportunity cost. I think what matters is that we discuss these issues with a focus on long-term implications, rather than give in to the allure of shock value headlines. That is something this community has always valued, and it's a perspective I share.

The direction of Firstlinks

My aim is to keep this a place where ideas are examined on their merit. A quote I often return to is "Strong opinions, loosely held." Most of us form views based on experience, instinct and the patterns we've seen over time. But I believe the real strength is a willingness to update those views when the facts change. I'd like to think many readers already live by this principle. You've seen enough cycles to know that certainty is merely an illusion, that markets punish dogma, and good decisions come from testing ideas rather than defending them at all costs.

Firstlinks has always been a forum for thoughtful and intelligent discussion and that won't change. You'll see a mix of familiar contributors and perhaps some new voices, but the principles remain the same. I look forward to learning from readers, hearing your perspectives and continuing the conversation that makes Firstlinks what it is.

Also in this week's edition...

Sebastian Mullins from **Schroders** shares why the new market regime means investors should choose their hedges wisely and often.

Income is re-emerging as a dominant driver of returns as the Australian credit landscape shifts. **Phil Strano** from **Yarra Capital Management** discusses yields taking centre stage again.

It's been a rough time for Aussie equities relative to global peers. **Jamie Wickham** explores whether investors need to rethink their international equity allocations.

Bubble talk is rampant following the eye-watering launch of SpaceX, but **Damien Klassen** believes investors may be focusing on the wrong thing.

Isaac Gross models why raising the GST to combat inflation can lead to a sharp turn in the wrong direction.

Tyger Fitzpatrick looks at why most Australians will end up owning SpaceX whether they like it or not.

Following several budget backdowns, **Lauchlan Mackinnon** examines whether the government is being honest about its business CGT changes.

This week's white paper is from **Neuberger** on the growth of asset-based finance as an income investment.

Curated by Simonelle Mody and Leisa Bell

Choose your hedges wisely… and often

Sebastian Mullins

For decades, the investment community operated under a comfortable assumption. By blending a dominant share of growth assets with a fixed sleeve of government bonds, diversification was expected to automatically smooth out market turbulence. It was a beautifully simple framework, rooted in the predictable inverse relationship between corporate profitability and sovereign debt.

That framework rested on negligible inflation, low rates and predictable central bank liquidity. Those pillars have cracked. We now face a more volatile regime of persistent price pressures, aggressive fiscal spending and geopolitical flare-ups. Markets were used to worrying about demand shocks; today's world is filled with supply shocks, which is an entirely different regime.

In this environment, traditional asset correlations can break down precisely when market stress peaks. Nowhere is this vulnerability more apparent than in the rigid implementation of portfolio hedges.

Many investors still treat risk mitigation as a set-and-forget defensive bucket. They allocate to a safe haven – whether long-duration treasuries, defensive currencies or gold – and trust it will work whenever equities fall. But when macro regimes shift, yesterday's reliable hedge can quickly become tomorrow's concentrated risk asset. Managing downside risk must be treated as an active process that moves with markets.

The trap of the static hedge

The danger of passive risk mitigation becomes clear when analysing how different geopolitical disruptions reverberate through markets. Investors who blindly apply the lessons of one crisis to the next can face severe capital impairment. The contrast between Liberation Day in 2025 and the Iran Conflict of 2026 is instructive.

Liberation Day 2025: The sell America trade

In 2025, asset prices moved with the belief that the uncertainty of a Trump presidency would lead to a wholesale reduction in US assets. The US dollar weakened, the euro and yen rallied, gold outperformed as a store of value, capital rotated into international equities, and the US Treasury yield curve steepened.

This rewarded portfolios that relied on precious metals and unhedged global currency allocations for protection. Long-duration bonds, however, became the risk asset.

Iran Conflict 2026: The playbook flips

When geopolitical tensions escalated into open conflict in Iran the following year, the same playbook hurt portfolios. The US dollar rallied, the euro and yen weakened, gold sold off, liquidity rotated back into US large-caps, and the Treasury curve flattened rather than steepened.

This divergence shows that a defensive position is only effective if it matches the structural drivers of the current crisis. Gold behaves well in a monetary debasement environment. Broad commodity baskets excel during acute supply-side shocks. Maintaining a static hedge out of habit means accepting uncompensated exposure.

Market signal	Liberation Day 2025	Iran Conflict 2026
US dollar	Weakened	Rallied as a safe haven
Euro and yen	Caught strong bids	Weakened
Gold	Outperformed as a store of value	Failed to buffer and sold off
Equity rotation	Moved away from US assets	Rotated back into US large-caps
US Treasury curve	Steepened	Flattened

Navigating bonds, commodities and FX

Portfolios cannot be managed in isolated, rigid sleeves. A more useful approach is to assess how the whole portfolio behaves when confronted by shifting liquidity, changing yields and geopolitical events.

The gold-to-commodity pivot

Consider the gold-to-commodity pivot. Early in the year, enthusiasm for precious metals had become immense as gold prices surged toward historic highs. Recognising that the asset was approaching a near-term ceiling, an active portfolio could crystallise gains, reduce gold exposure and reallocate into broad commodities, particularly energy and agriculture.

When the Strait of Hormuz was shut down, that pivot made sense because a supply-chain blockade is a direct supply shock that feeds commodity prices while placing short-term liquidity pressure on gold.

As immediate constraints ease, the logic can shift again. Gold may face short-term headwinds while shipping routes are under pressure, but its long-term structural tailwinds remain strong. Navigating these waves demands agility, not a passive buy-and-hold mentality.

Dynamic hedging in practice

Regime or shock	Potential portfolio response	Strategic role
Monetary debasement	Increase exposure to gold	Store of value and currency hedge
Supply-side shock	Shift toward broad commodities, particularly energy and agriculture	Inflation and supply disruption protection
Energy-driven inflation risk	Trim vulnerable front-end duration	Reduce sensitivity to yield spikes
Geopolitical escalation	Add US dollar exposure where carry and liquidity are attractive	Safe-haven and liquidity hedge

Tactical duration and curve steepening

Government bonds are the ultimate casualty of a set-and-forget mindset. Treating duration as a permanent defensive anchor is dangerous when supply shocks pull yields and equity risks in the same direction. Since COVID-19, bonds have often failed to diversify equity risk.

That does not render bonds obsolete. Actively managed, they still provide carry, capital gain and diversification. The fixed income playbook needs to shift from broad macro bets toward more localised curve positioning.

When an energy shock breaks out, bonds may initially rally as markets move risk-off. That rally can be used to readjust positioning, particularly where oil supply shocks are likely to push inflation higher. Trimming front-end duration can be defensive, not merely return seeking. The key is not to abandon duration, but to recognise that its role changes as inflation, central bank pricing and geopolitical risk change.

The US dollar as a positive carry hedge

Front-end bonds also affect currencies. If a geopolitical crisis escalates, long US dollar exposure can benefit from safe-haven flows and oil-exporter dynamics, helping offset fixed-income drawdowns. Pairing curve exposure with an FX overlay can create a more coordinated defensive shield.

Despite last year's 'Sell America' narrative, the US dollar provided its traditional safe-haven properties during the Iran crisis. When trade breaks down or goods and commodities must be purchased urgently, the dollar is one of the few currencies that can handle it.

Expanding the toolkit

Dynamic risk management also requires looking beyond standard sovereign bonds and currencies. Relying on high-yield credit or convertible bonds to lift income can expose investors to drawdowns when growth slows or corporate balance sheets weaken.

Insurance-linked securities, or catastrophe bonds, are one example of a less conventional diversifier. Their performance is tied to natural catastrophe metrics rather than corporate cash flows, interest rates or equity benchmarks.

Assets that offer an insulated income stream while decoupling from equity beta are examples of how modern diversified portfolios should be built.

Broadening the diversification toolkit

Asset type	Main risk driver	Potential portfolio benefit
Government bonds	Inflation, central bank policy and yield-curve pricing	Carry, capital gain and diversification when actively managed
Foreign currency	Liquidity demand, safe-haven flows and rate differentials	Protect portfolio as large scale capital flows shift, but country selection matters
Broad commodities	Supply disruption and real-asset scarcity	Protection during acute supply-side shocks
Insurance-linked securities	Natural catastrophe metrics	Income stream less tied to equity beta or corporate earnings
Gold	Currency levels, real yields, geopolitical risk	Diversifier as currency debases, central banks lose independence
Inflation-linked bonds	Inflation	Real return protection, diversification
Curve trades	Steepening or flatting yield curves	Duration-neutral return

Portfolios must adapt

Expecting a single static asset class to perform an unvarying task - relying on equities for returns and standard bonds or gold for permanent cover - is an outdated luxury. The post-GFC period of zero inflation and unconditional central bank support was a historical anomaly, not the default setting.

Portfolio construction must be engineered around this reality: preserving purchasing power and growing real wealth by dynamically shifting exposure across growth, defensive and alternative roles. Investors should not trade for the sake of turnover. They should adjust because the distribution of macro risks changes rapidly, with even faster shifts in market pricing. To protect capital in this regime, staying static is no longer viable. Investors need the flexibility to scour the full asset horizon, and the conviction to choose their hedges wisely.

*Sebastian is Head of Multi-Asset & Fixed Income at Schroders Australia, a sponsor of Firstlinks. This document is issued by Schroder Investment Management Australia Limited (ABN 22 000 443 274, AFSL 226473) (**Schroders**). This document does not contain and should not be taken as containing any financial product advice or financial product recommendations. It does not take into consideration your objectives, financial situation or needs.*

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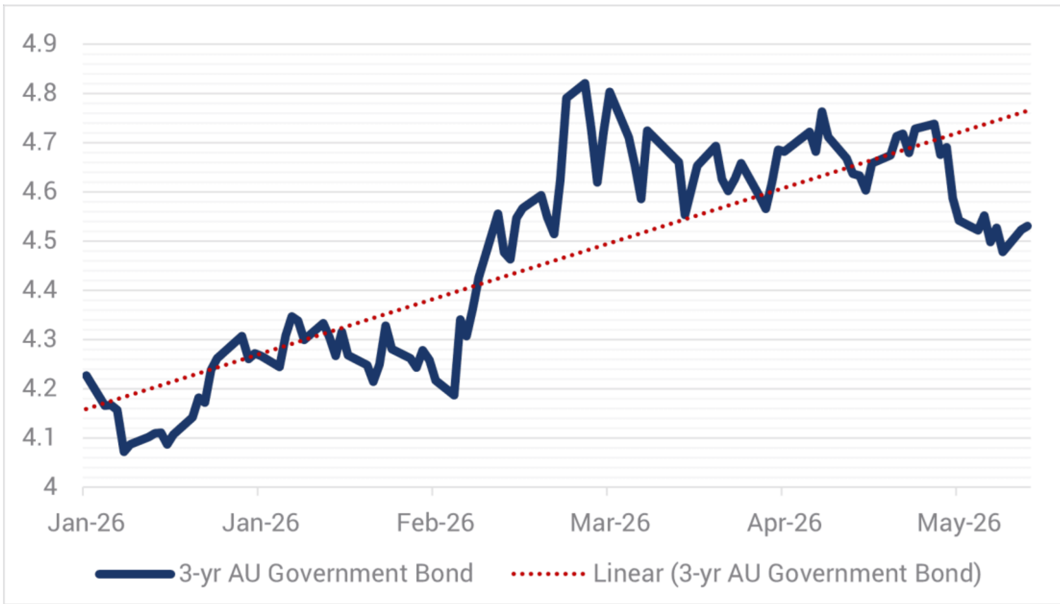
Yields take centre stage again

Phil Strano

If we stop the clock on 2026, the fixed income story of the year is undoubtedly higher yields. Government bond yields in Australia and around the world have been moving upwards in response to higher inflation, with the mid-east war and higher oil prices adding fresh momentum. In Australia, the 3-year government bond yield has pushed out ~30bps since the start of the year (refer Chart 1).

Chart 1. Australian 3-year government bonds (%)

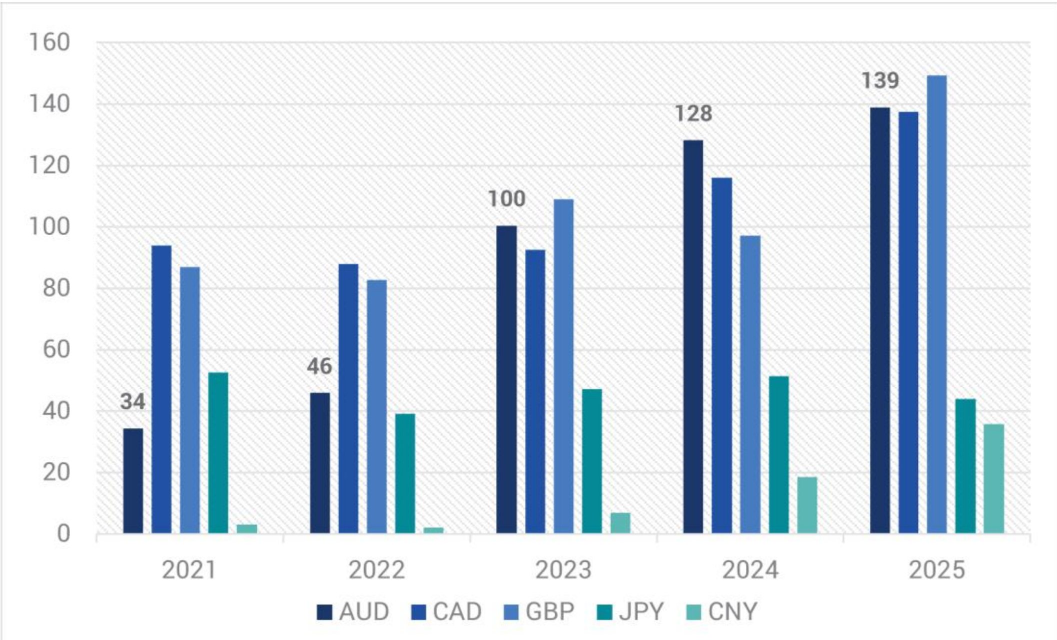


Source: YCM, Bloomberg, Jun 2026.

Despite increased volatility, the Australian primary issuance market has remained buoyant, with primary issuance for the first five months of 2026 to the end of May up 29% to $186 billion, another sign of the Australian credit market's maturity given previous periods of similar volatility usually resulted in diminished market activity.

The Australian primary credit market has grown significantly since 2021 with issuance up 3-4x (refer Chart 2). The $A primary market is now on par with CAD and GBP behind only the $US and EUR markets. Much of this growth has emanated from renewed foreign investor interest, who routinely make up ~40-50% of new bond subscriptions, attracted to one of the few remaining AAA rated economies offering higher yields.

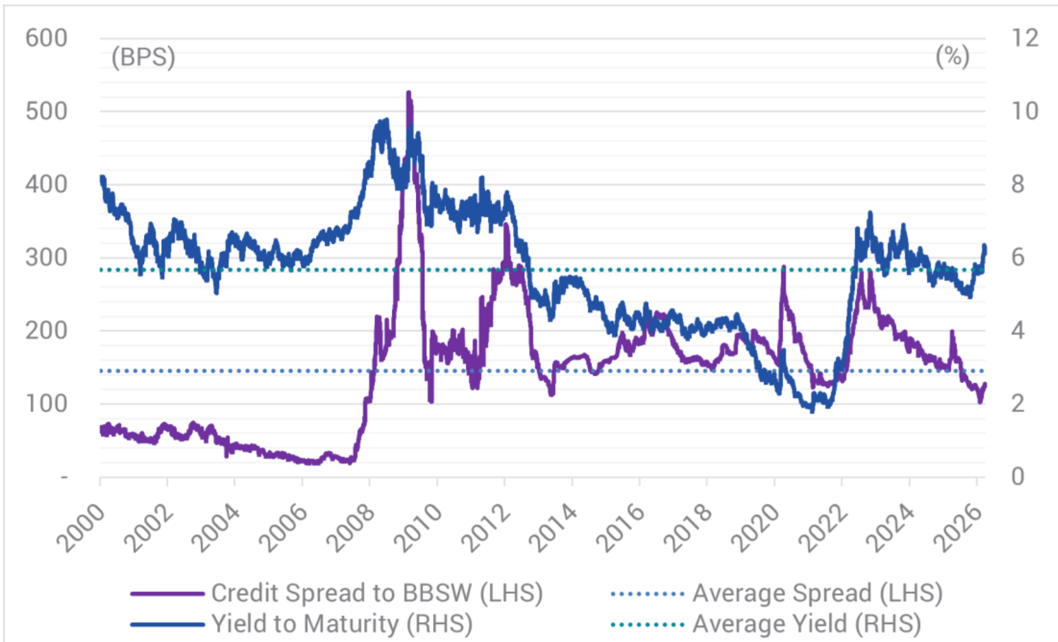
Chart 2. Investment grade senior and sub debt issuance ($A bn equivalent)



Source: Bloomberg & Deutsche Bank – 31 Dec 2025.

In relation to credit spreads, the combination of a supportive growth environment and higher government bond yields generally coincides with tighter spreads, especially for investment grade (IG) credit. Investors tend to focus on outright yield in their fixed income asset allocation decisions and with high quality IG yields currently above 6%, credit spreads are playing a more minor income generating role. Looking at Australia's high quality major bank T2 and triple B corporate segments, the push-up in yields above 6% (higher than long-term averages) has coincided with credit spreads contracting below long-term averages (refer Charts 3 and 4). Important to note however, credit spreads remain well above pre-GFC tights, which was the last combined period of high outright yields and low credit spreads.

Chart 3. Major bank tier 2, 5-year FRNs: Credit spreads and yields



Source: YCM & NAB – 30 Apr 2026.

Chart 4. Triple B corporates: Credit spreads and yields

Source: YCM & NAB – 30 Apr 2026.

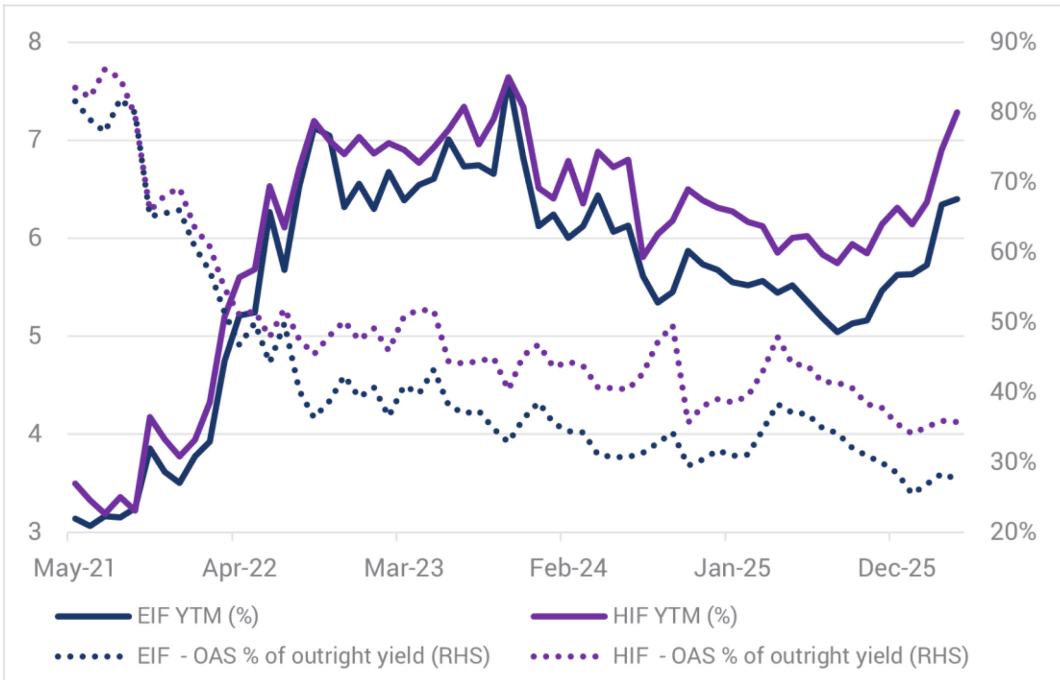
In return composition terms, Australian BBB corporate credit spreads make up a low 20% of outright yields currently, a level last seen in 2007 (refer Chart 5).

Chart 5. Australian BBB yields – Return composition

Source: YCM & NAB – 30 Apr 2026.

This combination of yield and spread is also consistent across our own credit funds (refer Chart 6) with the potential for this thematic to be prolonged.

Chart 6. EIF/HIF – Return composition – Outright yield and credit spread (%)



Source: YCM, 30 Apr 2026.

Actively managing to a prolonged period of lower credit spreads relative to higher outright yields has implications for funds managing to a return hurdle above a Cash/BBSW benchmark. In this instance, generating attractive, higher-than-average income for investors may also be associated with periods of underperformance due to underlying lower credit spreads. This brings an obvious conundrum, where what's appealing to investors' in maximising high IG portfolio income may result in intermittent periods of lower excess returns compared to return hurdles. For us, we are motivated to maximise income and performance through-the-cycle and preserve portfolio quality at all times.

As for its duration, while no two eras are directly comparable, there are both some similarities and key differences today with the pre-GFC period. In our opinion, the current artificial intelligence (AI) capital expenditure boom is the predominant driver for maintaining the necessary supportive pro-growth backdrop despite the obvious headwinds from inflation, higher interest rates and oil prices.

While the 2002-07 period was blessed with numerous structural and cyclical tailwinds such as more favourable demographics and geopolitics, the rise of China, lower government/household debt levels and progressively lower interest rates, the same cannot be said about the current environment. Economies are generally more indebted and compelled to invest more in non-productive sectors to meet the needs of ageing populations and rising geopolitical risks, which is adding to inflationary pressures and higher interest rates.

Following a weakening in economic conditions, we suspect this return composition is likely to recalibrate in the second half of 2026, with government bond yields declining and credit spreads rebasing wider to maintain outright yields at attractive levels. This is similar to what occurred during April 2025 where that brief risk-off period was characterised by lower government bond yields, wider credit spreads and almost constant outright IG yields. Therefore, we believe it's currently prudent to maintain some interest rate duration in portfolios, with the usual negative correlation between government bonds and credit spreads to be re-established in a meaningful risk-off and once again offer drawdown protection in weaker economic times. Further, with interest rate markets continuing to price in further increases in interest rates, the downside from owning some duration protection seems relatively limited.

Currently, attractive income of 6-7% for IG portfolios combined with the use of modest interest rate duration when required, supports the generation of attractive positive returns in most theoretical scenarios over a 12-month period (refer Table 1).

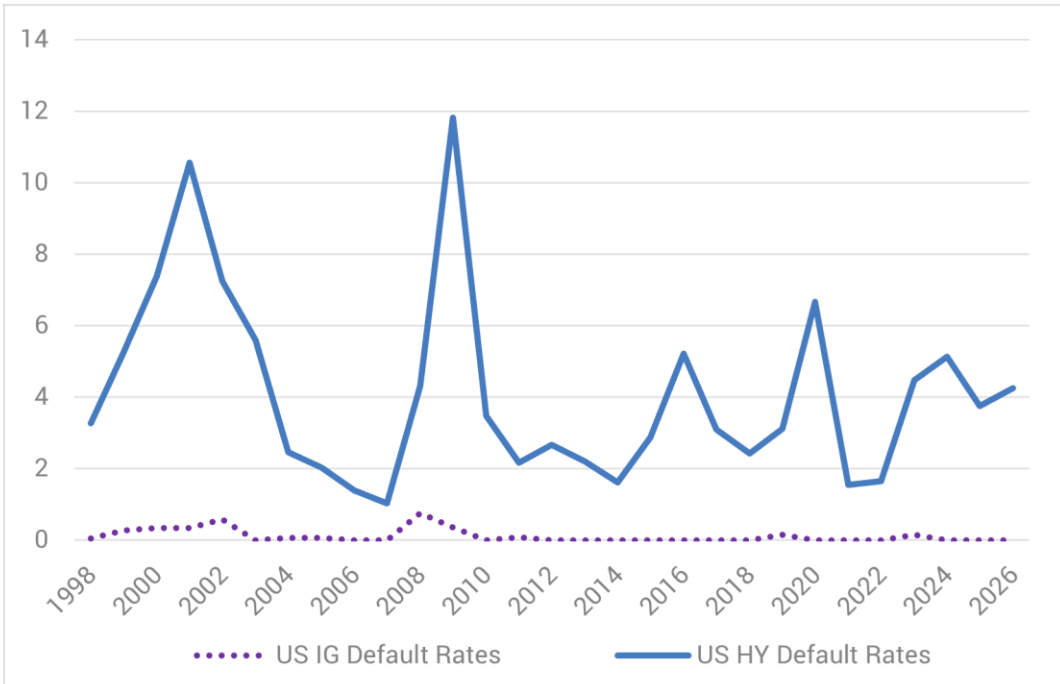
Table 1. Australian BBB yields – Return composition

	Severe recession	Mild recession	Soft landing	Trend growth
Running yield	7.00%	7.00%	7.00%	7.00%
Spread duration	3.00	3.00	3.00	3.00
Credit spreads	+1%	+0.5%	No Change	-0.30%
Interest rate duration	1.50	1.50	1.50	1.50
Interest rates	-1%	-0.5%	No Change	+0.30%
Estimated return	**5.50%**	**6.25%**	**7.00%**	**7.45%**

Source: YCM – 31 May 2026.

While these scenarios may vary and the correlations between government bonds and credit spreads can be disrupted for a period, the road to positive returns in most scenarios is paved by the almost non-existent IG defaults compared to high yield. Historically, this has meant minimal permanent loss of capital across different economic circumstances. As with the US data presented in Chart 7, Australian IG defaults are also virtually non-existent.

Chart 7. US IG and HY default rates (%)



Source: YarraCM/S&P Global, 14 Jan 2026.

Despite the ongoing volatility, higher yields reign supreme today in providing investors with both attractive and defensive income of ~7%. However, we remain cognisant of underlying risks and managing portfolios accordingly to provide drawdown protection while continuing to maximise through-the-cycle returns.

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.

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The grass is always greener: Rethinking Australian vs global equities

Jamie Wickham

Australia not long ago was a world-beater on global stock markets. Now it's lagging other nations, with even once steadfast names on the slide. Meanwhile, the US economy and markets look attractive and dynamic. Is it time to revisit your global equity allocation?

This is a question many investors have been asking as sentiment around the Australian market sours. Faltering local share prices, rising interest rates, and bitter policy debates about tax now prompt thoughts of reweighting away from Australia.

It's a contrast to the 'miracle economy' days of two decades ago after China's entry to the World Trade Organisation set off a resource boom that fired up local stocks and made this country one of the few to avoid a recession after the GFC.

Now there are worries that the twin forces that buttressed Australia during those years – its resource sector plugged into China and its banks leveraged to a relentless housing boom – are leaving it sidelined in a world in transformation.

As we approached the end of the 2026 financial year, the Australian equity market was badly lagging, up 7% in 12 months to the end of May, compared with gains of close to 30% in the US. Global developed markets as represented by the MSCI World ex Australia index were up 14% unhedged and 27% hedged over the same period. The technology-heavy NASDAQ index was up over 40%.

Cornerstone stocks like Cochlear (-62%), CSL (-60%), and Brambles (-27%) took a shellacking for the 12 months to the end of May. Even CBA was down 3.5%.

But for the performance of the miners and energy stocks (as the industry sector performance table below demonstrates), the picture would be even worse.

Industry sector	Index weight	12-month return
Communication Services	4%	-6%
Consumer Discretionary	6%	-11%
Consumer Staples	4%	-2%
Energy	5%	37%
Financials	34%	4%
Health Care	6%	-44%
Industrials	7%	2%
Information Technology	2%	-38%
Materials	24%	58%
Utilities	2%	10%
S&P/ASX 200 Accumulation Index		**7%**

** Source: IRESS Performance as of 31 May 2026*

Added to market underperformance is gloom about prospects for the Australian economy. The RBA has raised interest rates three times already this year, citing a material pick-up in inflation and heightened uncertainty about the domestic outlook.

Increasingly, there is envy about the US market, which has been outperforming the world for years thanks to the dominance of a handful of high-growth tech companies, the AI boom, an entrepreneurial culture and a favourable low-tax environment.

Against that background, some clients are asking whether it is time to revisit their Australia versus global allocation.

A case for home bias

While debates can be had about certain issues at a policy or political level, investors should not allow 'recency bias' (a tendency to give undue weight to recent events or performance that dominate headlines) to overly influence a decision to reweight away from Australia. Reactive decisions usually result in errors of judgement.

There is clearly a case for global equities given the depth and breadth of international markets beyond our banks and miners, the exposure to industries that don't exist here and to emerging names that may lead the next wave of innovation.

And, of course, diversification is also a benefit on its own, in offering exposure to uncorrelated stocks, industries and economic forces that reduce portfolio volatility. With one sector always doing better than another, diversification reduces the temptation to chase whatever just performed the best.

But there is more to this story. While Australia has always been a concentrated market, dominated by two sectors and by a small number of names, the US market is now highly concentrated itself. At time of writing, the so-called 'Magnificent Seven' accounted for more than a third of the S&P 500's market capitalisation.

There also remain significant advantages for Australian investors in retaining a significant domestic allocation beyond this country's 2% footprint in global markets.

Broadly, these include Australia's historically high dividend yields, franking credits for local investors, familiarity with domestic names, transactional simplicity, and reduced currency risk. For those in retirement, there is also a better match between investing in assets and funding their liabilities (i.e. future spending needs) in Australian dollars.

Australia's big banks, miners, REITs and infrastructure stocks tend to generate high, stable cashflows and pay higher dividends. Traditionally higher cash dividend yields, together with the benefits of franking credits, add up to a total effective yield of about 4.5% including franking, compared with about 1.5% from global equities.

Familiarity with household local names (Woolworths, CBA, Telstra, AGL etc) also can be advantages for local investors. After all, one of the core tenets of investing is understanding what you are investing in.

All other things being equal, holding securities directly - which is more manageable with Australian shares - offers benefits over managed investments. It gives holders more control and flexibility, is closer to the source of income, and costs less. As well, pooled investments carry tax implications that are beyond the individual's control.

The long-term view

While not seeking to downplay Australia's recent relative underperformance, we don't believe those advantages have gone away.

History tells us that performance trends come and go and that the smart strategy always is to focus on the long-term, while staying diversified and remaining true to the asset allocation that is best aligned with your own objectives.

Over 30 years or more, the returns from Australian versus international shares are similar. Reacting to short-term outperformance, as we saw in the late 1990s dot-com boom in the US, is usually a mistake. In that case, after the US boom ended in early 2000, Australia outperformed for the ensuing decade.

Decisions about relative domestic vs global exposure, in any case, should be driven by individual circumstance. For instance, those in retirement may benefit from a higher allocation to Australian equities given the importance of income and franking. On the other hand, those actively growing their capital, where compounding is the focus, may be justified in directing a greater weight to global equities.

Ultimately the right portfolio settings are those that are appropriate for your age, circumstances, goals and risk appetite. That doesn't change regardless of what is happening in the outside world or what is dominating the news cycle.

And remember that systematic rebalancing offers a disciplined approach to taking profits during periods higher relative returns and topping up weaker performers.

Changing investment strategy because the grass looks greener elsewhere rarely works. Markets are cyclical, leaders are forever shifting place, and by the time you switch, the best gains may already have occurred anyway.

Before acting, we recommend asking yourself three questions:

- "Am I reacting to recent performance?"
- "Would I still do this if markets were flat?"
- "Does this fit my long-term plan?

If the answers to any of these questions is yes, the risk is you are over-reacting. Ultimately, like good gardeners, the most successful investors don't long for their neighbour's greener grass - they water their own lawns consistently.

Jamie Wickham, CFA is a Partner at Minchin Moore Private Wealth and former managing director, Morningstar Australia.

Stop asking if there's a stock market bubble. Ask this instead.

Damien Klassen

Every week, investors ask some version of the same question: **Are we in a bubble?**

It's a reasonable question. Stock markets have been at elevated valuations. Geopolitical tension is real. Interest rates remain high by recent historical standards. There's plenty to feel nervous about.

But that question – **is there a stock market bubble?** – may be the wrong one to ask.

The more important question is this: **Is there an earnings bubble?**

That distinction matters more than almost anything else right now, because the data tells a story that runs counter to most of the market commentary you'll hear.

Company earnings aren't just holding up – they're accelerating. And in many sectors, earnings growth has actually been *outpacing* price growth. That's not what you'd expect from a market in irrational bubble territory. Here's what the numbers are telling us, and what it means for how you should be thinking about your investments.

The earnings story most investors are missing

Over the past couple of years, something unusual has happened. Global earnings have risen sharply, with forward earnings growth estimates now sitting at close to **25% for 2026** and nearly **18% for 2027**. To put that in context: these are not slow, steady gains. This is an earnings acceleration that exceeds what we saw following both the financial crisis and the COVID-era recovery.

What's driving it? Look at what's happening across sectors:

- **Technology** forecasts have been upgraded by 30%+ this year alone.
- **Communication services** have seen earnings upgrades of 20% or more.
- **Energy** has seen even larger moves - but for different, more complicated reasons.
- Crucially, **earnings upgrades are now broadening across sectors** - not just confined to a handful of mega-cap tech names.

And here's the thing that should make long-term investors sit up: in most of these sectors, the *forward price-to-earnings ratio has actually declined*. In other words, stocks have gotten cheaper relative to their earnings – even as prices have risen in absolute terms.

That's not how a speculative bubble typically behaves.

Why the tech sector warrants a closer look

None of this means everything is straightforward.

Technology – and particularly semiconductors – demands careful scrutiny.

The semiconductor industry is notoriously cyclical. Companies like Micron have, at various points in past cycles, traded at just three or four times earnings at peak – precisely because investors knew a supply glut was around the corner. When new factories come online, supply swamps demand, prices collapse, and earnings follow.

That same dynamic is playing out today, in slow motion. TSMC has flagged roughly a 40% increase in capital expenditure. Samsung is spending 70–80 billion dollars on capex and R&D. SK Hynix and Micron have similar timelines. The supply is coming.

But – and this is the crucial point – most of that new capacity isn't coming online until **2027 or 2028**. Which means the supply constraints that are driving extraordinary semiconductor earnings right now are likely to persist for at least the next 12 to 18 months, possibly longer.

The memory sector alone is a striking illustration: revenues were roughly $200 billion in 2025, are forecast at $600 billion in 2026, and projected to approach $800 billion in 2027. Much of the 2026 number is already contracted. This isn't speculation – it's supply chain reality.

That said, long-term analyst forecasts are starting to look crazy. No sector sustains that pace forever.

Analyst forecasts at cycle peaks tend to reflect euphoria, not fundamentals. When the cycle turns, the revision will be sharp.

Some stocks, NVIDIA, for example, have an argument for a sustained period of higher margins due to a mix of technological leadership and growing AI demand. For most of the sector, though, that argument does not stack up. There is enough competition and technological parity among the leading stocks that margins will eventually return to trend. It is just a question of when the supply arrives.

The multiplier effect: Why this is bigger than just tech

Here’s where the narrative gets more interesting.

For most of the past several years, major tech companies – think Google, Meta, Microsoft – were sitting on vast cash reserves. They were generating enormous profits but not deploying them into the real economy. Share buybacks, debt reduction, cash accumulation.

Economically, that’s a drag: money being pulled out of productive circulation.

That’s now changing, rapidly.

These same companies are raising capital, taking on debt, and spending heavily on data centres – infrastructure that represents **more than 2% of US GDP** in new capital expenditure. And capital expenditure has multiplier effects. The data centre needs electricians, construction workers, logistics, and materials. Those workers spend their wages. Those wages flow through local economies. Other sectors are beginning to see the benefits.

This is what's driving the earnings broadening we're now observing. The consumer sector remains under pressure – household budgets are squeezed by higher prices and interest rates. But company earnings across a broader range of sectors are growing, because AI infrastructure spend is flowing outward into the wider economy.

The result is a curious disconnect: a consumer sector that's struggling, alongside corporate earnings that are accelerating. Both can be simultaneously true when capex-driven multiplier effects are at work.

Now the multiplier will one day go into reverse – but for now the effects are positive.

Three things that could derail this

Being invested in a rising earnings environment makes sense. But "the earnings are strong right now" is not the same as "nothing can go wrong."

There are three macro risks that deserve close monitoring:

1. Inflation and interest rates
If inflation re-accelerates – driven by supply chain pressures, wage growth, or fiscal stimulus – central banks will respond. Higher rates compress consumer spending and increase borrowing costs for the very companies now spending heavily on infrastructure. This is the most obvious risk.

2. Oil prices
The energy sector's earnings surge looks impressive on a chart, but rising oil is a cost for nearly every other sector and every consumer. If geopolitical tensions in the Middle East escalate and oil approaches $200 a barrel, that's not a sign of economic health – it's a warning of potential recession and demand destruction.

3. The earnings cycle turning
The most important risk is internal to the market itself. Right now, markets are pricing in strong earnings growth – and getting it. But the valuation math is unforgiving when the cycle turns.

Here's a simple illustration: if earnings growth this year comes in at 25% as expected, but next year's growth slows from an expected 18% down to 8%, you face a double compression. Earnings expectations fall by 10%. And investors, no longer willing to pay a premium multiple for high growth, reprice the market down. You can easily construct a scenario where that combination produces a 20% drawdown – 10% from earnings downgrades and 10% from valuation compression.

The good news? We're not seeing signs of that turn yet. The earnings growth looks durable for now. But it bears watching carefully.

What this means for you as an investor

There's a clear takeaway here, and it runs counter to the instinct to "wait for a pullback" or stay on the sidelines while markets feel elevated.

When earnings are growing at the 99th percentile of historical rates, it's reasonable – arguably rational – to accept valuations at the 80th percentile. You're paying a premium for genuinely exceptional growth. That's not a bubble; that's a defensible price for real earnings power.

The risk is not that prices are high today. The risk is being slow to identify when earnings begin to roll over – and being caught holding high-multiple stocks at precisely the moment the growth justification disappears.

That's why the focus needs to be less on price levels and more on earnings sustainability. Watch the data. Watch semiconductor capex timelines. Watch whether the broadening of earnings beyond tech continues. Watch oil and rates.

The investors who will do best through this period are not those who predicted a correction at every high, but those who stayed invested through strong earnings periods and had a clear, evidence-based framework for when to reduce risk.

The bottom line

Stop asking whether there's a stock market bubble. Start asking whether there's an earnings bubble.

Right now, the honest answer is: not obviously. Earnings are strong, growing, and broadening. Valuations, while elevated in absolute terms, are not extreme relative to those earnings. Supply constraints in semiconductors will persist for 12 to 24 months. AI capex is generating real multiplier effects across the economy.

There are warning signs – particularly in analyst euphoria around long-term tech growth projections and the cyclical risks in semiconductors. But the near-term picture is more solid than the bear case would suggest.

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

The GST cannot stop inflation

Isaac Gross

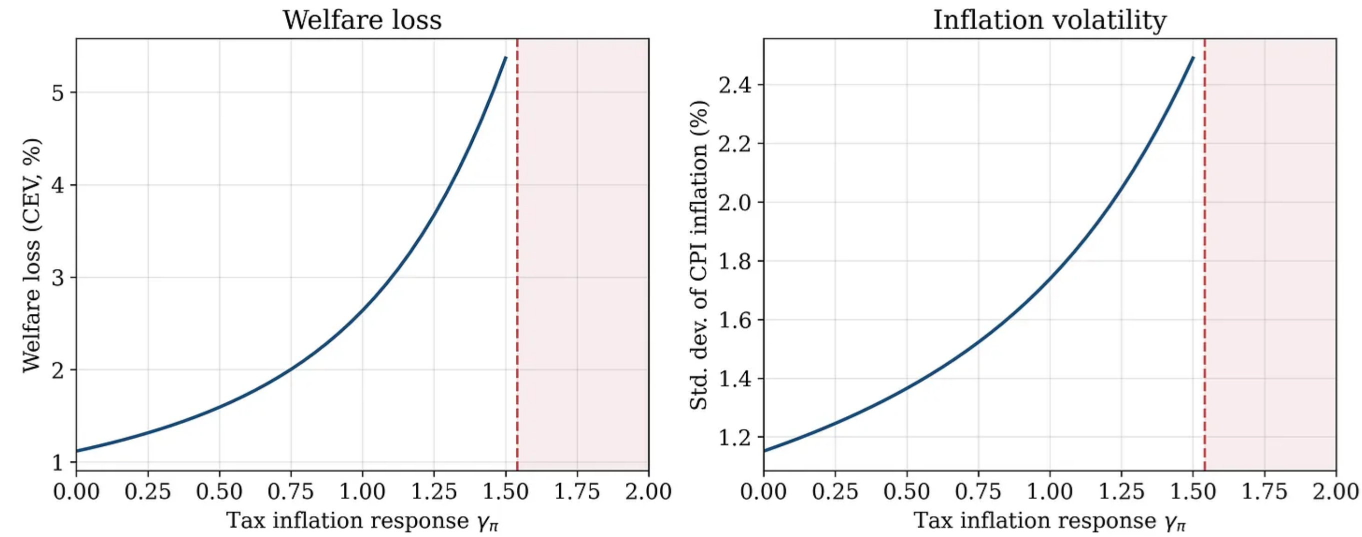
The ABC recently ran a series asking what, if anything, governments can do about high inflation beyond simply relying on the Reserve Bank to raise interest rates (a policy tool that every knows is cruel and unusual).

One idea that gets floated is using the GST as an active stabilisation tool, automatically increasing the GST when inflation rises, and cutting it when inflation falls.

At first glance, this sounds sensible. If inflation is too high, why not temporarily raise consumption taxes to dampen spending?

But when you actually model the idea formally, the results are surprisingly bad. Terrible in fact!

The charts below show the welfare loss and inflation volatility in an economy as a function of a single parameter: how aggressively the GST responds to inflation. At zero the GST rate never changes (the economy today). As the parameter becomes positive the GST rises automatically whenever inflation rises with greater degrees of responsiveness.



Perhaps surprisingly, welfare falls sharply (ie welfare losses increase) the more aggressively the GST responds to inflation. Inflation itself also becomes substantially more volatile. What explains this counter intuitive result!?

Downward dog inflation

Imagine we lived in a world where the GST automatically increased whenever inflation rose. If inflation jumped by 3 percentage points the GST would mechanically rise from 10% to 15%.

Now consider the sort of shock Australia has recently experienced: turmoil in the Middle East pushing up global oil prices.

To keep things simple imagine you run a yoga studio. Your business barely uses petrol directly, so the oil shock itself is not especially important for your costs.

But the GST is.

In Australia, firms typically advertise and set prices inclusive of GST. And because many firms only adjust prices infrequently — perhaps once or twice a year — they have to think carefully about where taxes and costs are likely to be over the coming year when they decide on prices today.

So what happens when news breaks of a major geopolitical conflict likely to push inflation higher?

In a world with a varying GST policy, the answer is obvious: businesses immediately expect the GST rate to rise in the near future. War today, means high oil prices in the coming weeks, which means higher inflation prints in the coming months and thus a higher rate of GST for the next year or so.

As a yoga studio owner, this matters enormously. If the GST rises from 10% to 15% while your advertised prices stay fixed, your after-tax revenue falls and your profit margins get squeezed.

So what is the rational response?

You raise prices today.

Even though the oil shock barely affects your own business directly, the expectation of higher future GST causes you to increase prices immediately in anticipation.

And once every firm in the economy starts thinking this way, the policy becomes self-reinforcing.

The initial inflation shock causes firms to expect higher GST rates in future. Firms then raise prices more aggressively today to pay for those future taxes. That additional price-setting behaviour pushes inflation even higher, which in turn triggers even larger GST increases.

Rather than stabilising inflation, the policy amplifies it increasing volatility. In fact if the GST-responsiveness-to-inflation parameter gets too high (about 1.5 in the plots above) the economy becomes "indeterminate" which is economist speak for double plus bad.

Under a constant GST regime, many firms — like the yoga studio — might barely respond to an oil shock at all. But once GST becomes an active "counter-cyclical" tool, even firms with little direct exposure to the original shock have an incentive to raise prices preemptively.

The result is higher inflation volatility, more distorted price-setting behaviour, and ultimately lower welfare across the economy.

The irony is that while counter-cyclical GST policy sounds stabilising in theory, once you account for forward-looking firms and sticky prices, it can end up making inflation dynamics substantially worse.

Dr Isaac (Zac) Gross is a lecturer in economics at Monash University. This article was first published via Zac's blog, Gross National Product, and is reproduced with permission.

Why SpaceX is coming to your super fund

Tyger Fitzpatrick

SpaceX's long anticipated IPO went smoothly. The shares opened above the offering price before finishing its debut knock 19% higher. Heavy subscription by institutions and retail investors meant allocations were slim, leading to strong demand once shares began trading.

SpaceX (SPCX.NAS) is now the 6th-largest US listed company, exceeding Tesla in terms of market capitalisation. The initial public offering price valued SpaceX at US$135 per share. Morningstar's fair value sits at US$63, less than half the offer price. SpaceX investors are being asked to cough up today for a set of future possibilities that may or may not ever materialise.

So why does this impact the everyday Aussie? When a behemoth of a company like SpaceX lists, it becomes part of the global index ecosystem. This involves a complex web of index inclusion rules that flow through to superannuation funds and passive ETFs. For Australians, that process is where the IPO starts to impact your future, whether you like the company or not.

Firstly, understanding the valuation allows investors to get a better grasp on why the index implications really matter.

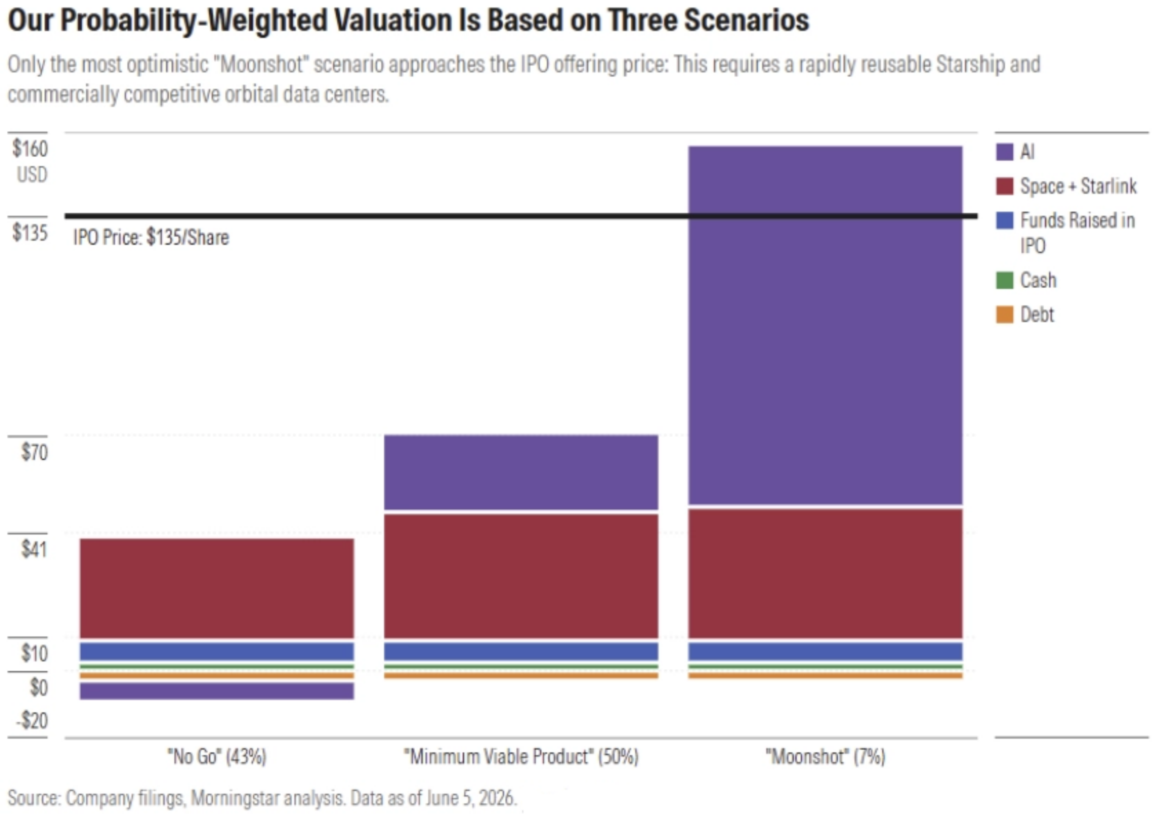
Why we think SpaceX is overvalued

Morningstar analyst Nicolas Owens highlights a significant gap between the IPO price and the intrinsic value for SpaceX. SpaceX's future depends on the successful execution of technologies that are not yet proven at scale, particularly around rapidly reusable rockets and the commercialisation of launching data centres into space. To address this, our analyst created three scenarios for SpaceX and weighted them on probability.

Nicolas noted that even at US$63 per share, a significant amount of leeway was given in two of the three scenarios. In these two scenarios, Nicolas assumes the company can achieve a rapidly reusable Starship rocket enabling multiple launches per week *and* successfully commercializes data centres in space. Neither problem has been solved and both remain years away from fruition.

In the most optimistic 'moonshot' scenario, the company would be worth $1.97 trillion or $154 a share which is 3% below the closing price on Friday. However, Nicolas assigns this scenario, in which both Starship is reusable and scaled orbital data centres are highly successful, a 7% chance of happening.

The core space and connectivity businesses (think Starlink) adds around US$40 per share and is the key driver in two of the three scenarios. The three scenarios for the AI segment add $16.50 to our overall valuation estimate. The AI segment drives upside in the best case however contributes no value in the worst.



Based on the three scenarios, the most likely scenario according to this model is that orbital data centres are viable and benefit from SpaceX's decreasing cost to launch from Starship. While the technology is not yet proven, SpaceX is best positioned in the industry to capitalise on the endeavour. This scenario models space data centres generating US$47 billion in revenue by 2035.

Why index inclusion matters

The path from IPO to widespread ownership is governed by index providers. Typically, a newly listed company doesn't go straight into the S&P 500 or the Nasdaq 100. It needs to establish a trading history, demonstrate sufficient liquidity and meet minimum free float requirements.

For flagship benchmarks like the S&P 500, profitability is also a key hurdle. These rules exist to ensure indexes can avoid illiquid or highly speculative companies. This also helps index funds replicate index performance with minimal tracking errors.

Index inclusion triggers forced buying, as index funds must replicate benchmark weights. The result is a synchronized wave of buying that has little to do with valuation and everything to do with rules. Interestingly, despite the size of SpaceX, its float-adjusted market cap is only US$90 billion. This means SpaceX will not immediately be one of the largest holdings in broad index funds. Its small initial float limits the immediate size in many index funds. For example, the SpaceX weighting is expected to initially collect less than 0.20% of Vanguard Total Stock Market ETF VTI once added.

As locked-up shares from insiders become available to sell, the float-adjusted market capitalisation will increase. This will also increase the weighting in index funds and ETFs which will trigger ongoing buying as funds rebalance. Most Australian superannuation portfolios have substantial exposure to global equities, either through passive vehicles or mandates that closely track major indices.

The index timeline

SpaceX is expected to be added to several indices over the next month, while inclusion in the S&P 500 will likely take at least 12 months due to additional profitability requirements. Once included, exposure flows quickly into superannuation portfolios through routine rebalancing.

Current Entry Requirements for Large IPOs

Index Family	Assets Indexed	Waiting Period	Minimum Size Estimate	Float Requirement
S&P	$7.05 Trillion	12 Months	$12.8 Billion [2]	No minimum
CRSP	$3.53 Trillion	5 Days	$3.3 Billion [2]	No minimum
Russell	$2.66 Trillion	5 Days	$17.5 Billion [2]	No minimum
MSCI	$1.86 Trillion	10 Days	$23.4 Billion [2]	No minimum
Nasdaq	$842 Billion	15 Days	$149.4 Billion [1]	No minimum

Source: Index provider documents, Morningstar Direct. Data as of May 31, 2026. Assets indexed represent only US open-end and exchange-traded funds tagged in Morningstar's database as Passive-Index Tracking. [1] Total market capitalization. [2] Float-adjusted market capitalization.

In practical terms, many Australian investors will own SpaceX indirectly within one to two years of its IPO, regardless of whether they actively follow the stock. The weighting is expected to increase over time as insiders sell shares and expand the free float. As a result, the short-term impact is minimal but weightings in portfolios are likely to rise steadily over time.

The big picture for Aussie investors

For Australian investors, the key takeaway is straightforward: you don't need to own SpaceX intentionally for it to influence your portfolio. As the company moves through index inclusion, it will be absorbed into superannuation funds via passive allocations and benchmark linked mandates.

Crucially, that exposure reflects index mechanics rather than valuation discipline. In a market where probabilities are being priced aggressively, it's important to understand both the index mechanics and the valuation fundamentals. This will help investors shape their own assessment of SpaceX and the market implications from the recent IPO.

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Is the government being honest with us about its business CGT changes?

Dr Lauchlan Mackinnon

The government has consistently sought to minimise the impacts of the CGT changes on small businesses.

The Small Business Minister Anne Aly has stated that about 90% of small businesses would experience "absolutely no impact"[1] from the CGT changes.

The Prime Minister asserted that "Now, 90% of small businesses in Australia are eligible for these concessions, and they'll continue to remain eligible."

In response to pushback on these changes, the government has announced a reprieve: an expansion of one of the key eligibility criteria for one of the concessional CGT programs for small businesses. Under the change, the maximum revenue threshold for the 50% Active Asset Reduction program will be lifted from $2 million to $10 million, enabling more businesses to access this program. The government has stated that following this change, all 2.7 million active small businesses and 98% of all active businesses will be eligible for this concession.

This sounds pretty good. But is the government being honest with us?

Let's assess their claims.

The government's first claim: 90% of small businesses would experience "absolutely no impact" from the CGT changes to business

The Small Business Minister's claim is difficult to accept.

This follows from two considerations:

1. **Eligibility**: the "90%" eligibility claim is questionable and misleading.
   It is not at all clear that 90% of businesses actually will be eligible for one or more of the concessional CGT programs.
2. **Impact**: the "no impact" claim is incorrect in three out of four of the concessional CGT scenarios.
   It is straightforward to see that in many, if not most cases, businesses will still be significantly impacted by the CGT changes *even if* they are eligible for one of the four concessional CGT programs.

The "90%" eligibility claim is questionable and misleading

Where did the government derive the "90% of businesses" figure from?

Over 90% of businesses in Australia have a revenue of under $2 million. Therefore, if businesses were to be assessed solely against the maximum revenue threshold - whether or not it had a revenue of under $2 million - then 90% of businesses *would* be eligible. This statistic is where the government's 90% claim derives from.

The problem with this approach, though, is that the $2 million maximum revenue threshold is not, in fact, the only eligibility criteria for the concessional CGT programs. To see how many businesses are in fact eligible for one or more of these concessional CGT programs, we would need to assess businesses against the complete set of eligibility criteria for the concessional CGT programs.

The following table summarises the eligibility criteria for each of the four concessional CGT programs.

Gateway condition (applies to all four programs): the seller must pass either the **aggregated annual turnover <$2M test** OR the **maximum net asset value <$6M test** (excluding primary residence and superannuation). Passing the gateway is necessary but not sufficient — each program has additional conditions below.

PROGRAM	ADDITIONAL ELIGIBILITY CONDITIONS
15-year exemption ATO: 15-year exemption →	• Asset must have been an active business asset held continuously for 15 years or more • Seller must be aged 55 or over, OR permanently incapacitated at time of sale • Seller must be retiring and not starting another business of the same kind • Where asset held via company or trust: a "significant individual" (20%+ interest holder) must meet the age or incapacity condition
50% active asset reduction ATO: active asset reduction →	• Asset sold must be an "active asset" — used in carrying on a business for more than 50% of the ownership period, or more than 7.5 years if held for more than 15 years • Passive assets held by the business (investment property, cash, financial investments) do not qualify as active assets • No age requirement and no retirement requirement — this is the broadest of the four programs
Retirement exemption ATO: retirement exemption →	• Asset sold must be an active asset • Seller must have a genuine retirement connection — not starting another business of the same kind (note: starting a different kind of business after sale does not necessarily disqualify) • Seller aged under 55: exempt amount must be paid directly into a complying superannuation fund • Seller aged 55 or over: exempt amount may be received as cash • Lifetime cap of $500,000 per individual — not per business sale. This cap has not been indexed since it was set
Small business rollover ATO: small business rollover →	• Asset sold must be an active asset • Seller must acquire a replacement active asset, or make a capital improvement to an existing active asset, within the replacement asset period • Replacement asset period: generally 2 years after the CGT event (or 6 months after an earnout payment, if later) • No age requirement and no retirement requirement • This is a deferral only — not an exemption. The gain crystallises and becomes assessable when the replacement asset is eventually sold, unless a further concession applies at that time

The $2M aggregated annual turnover gateway threshold has not been indexed since it was introduced in 2007. At 2.5% annual CPI, it would be approximately $3.2M in today's dollars. The ATO defines a small business as having turnover under $10M for most other tax purposes — the CGT gateway threshold is one-fifth of that definition. Businesses above both the $2M turnover and $6M net assets tests receive no concessions under either the current or proposed CGT rules.

As we can see from the table, the $2 million maximum revenue threshold is not the only eligibility criteria for the four concessional programs. The actual "gateway condition" – the eligibility criterion that *must* be met if they are to be eligible for *any* of the four CGT concessional programs – is *either*:

1. The revenue for the business is less than $2 million *or*
2. The net asset value for the business is less than $6 million

The "net asset value" is a technical term that reduces, for practical purposes, to the actual sale price for the business (assuming that the business is sold at fair market value).

A business with revenue of *over* $2 million could still be eligible for the CGT concessional programs – if its net asset value falls under the maximum net asset value threshold. For example, a business with revenue of $12 million a year that sells for $5.5 million would still likely meet the gateway condition, because its net asset value would be less than $6 million.

But even if a business passes the gateway condition, then that is not the end of the story. There are additional eligibility requirements, unique to each concessional program, that a business *must* meet in order to qualify for a concessional program.

The concessional program with the most restrictive eligibility requirements is the 15-year Exemption program. To qualify for this program, the eligibility requirements also include that:

- The business must have been running (be an "active business asset") for 15 years or longer
- The owner of the business must be over the age of 55 (or incapacitated)
- The seller intends at the time of sale to retire (and not start another business).

It is simply not correct to claim that 90% of businesses would be eligible for this program. They would have to meet the gateway condition - *and* satisfy the other eligibility conditions such as the age of the owner and the age of the business.

The Retirement Exemption program similarly requires that the business owner is intending to retire.

The program with the broadest eligibility is the 50% Active Asset Reduction program. This simply requires that the asset be an "active asset" for at least half of the ownership period.

The Prime Minister said that "90% of small businesses in Australia are eligible for these concessions, and they'll continue to remain eligible." This one program, the 50% Active Asset Reduction program, comes closest to fulfilling the Prime Minister's claim, due to its broader eligibility conditions.

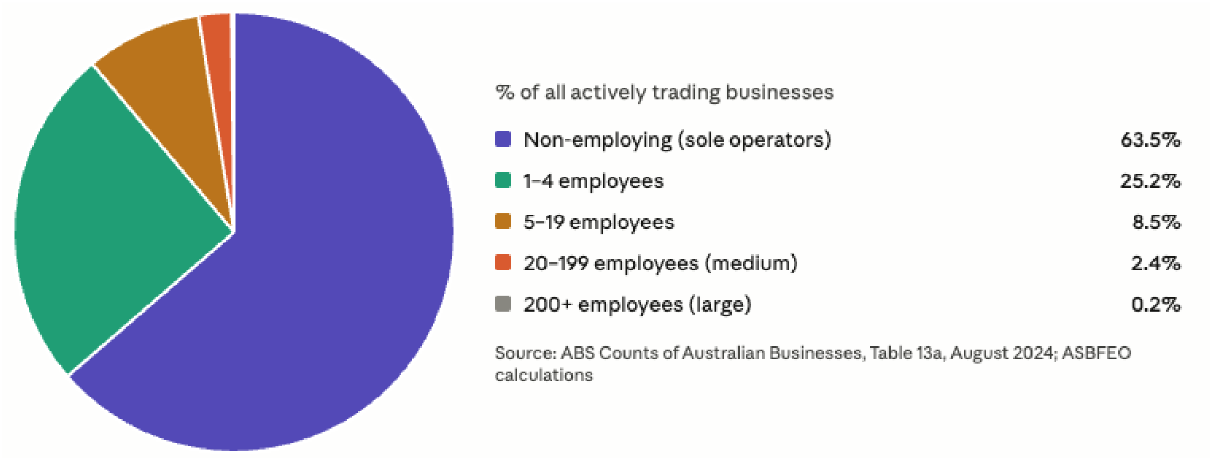
But it's still not correct for the government to claim that *90% of all businesses* would be eligible for these concessions - because *not all businesses are saleable*. A business that cannot be sold cannot create a capital gain, and a business that doesn't produce a capital gain will clearly never qualify for a capital gains tax exemption.

Let's unpack this further.

The number of businesses we are discussing comes from the ABS dataset on Counts of Australian Businesses. This data is based on counting the number of ABNs that are registered.

But the fact that a business has an ABN does not mean that the "business" has any employees. The business could be a sole contractor, like an uber driver or a solo carpenter or a solo law practice – people who work for themselves but could not "sell" their business to anyone else because they have not built up any substantial business value independent of their own work labour. Their business depends on them.

In fact, around 63.5% of those "businesses" have zero employees. This is illustrated in the following pie chart:



The number of saleable businesses that could qualify for CGT concessional programs is likely to be predominantly made up of the 36.5% of businesses that have employees -particularly the 33.7% of businesses that hire 1-4 or 5-19 employees.

If the government is referring to a percentage of businesses that are eligible for the concessional CGT programs, the denominator for that assessment must be saleable businesses. Businesses that cannot be sold are not relevant to that calculation.

The "no impact" claim appears to be false in three out of four of the possible scenarios

If a business remains eligible for one or more of the four CGT concessional programs, is it true that there will be no impact on them under the government's new approach?

In three out of the four cases, the answer is "no."

To illustrate, the following table shows the four concessional programs, their eligibility requirements, and the CGT payable under old and new systems for a founder selling their business for $2 million.

Australian Small Business CGT Concessions: Impacts of Proposed Changes

Worked example: $2M business sale, cost base ~$0 (founder scenario), seller at top marginal rate (45% + 2% Medicare = 47%). Before 1 July 2027: 50% CGT discount applied first, then concession program. After 1 July 2027: full real gain taxed at 47%, then concession program. Gateway condition for all programs: aggregated annual turnover <$2M OR net assets <$6M.

Program	Key Eligibility Conditions (all require gateway: turnover <$2M OR net assets <$6M)	Before 1 July 2027 — CGT payable 50% discount first, then program	After 1 July 2027 — CGT payable Real gain × 47%, then program	Impact on Eligible Sellers
15-Year Exemption ATO: 15-year exemption	• Active asset held continuously ≥15 years • Seller aged 55+ OR permanently incapacitated • Seller retiring (not starting another business) • Company/trust: significant individual (≥20% interest) must meet age test	**CGT = $0** 50% discount → taxable gain: $1M 15-year exemption → 100% exempt Effective rate: 0% of $2M sale	**CGT = $0** Real gain: $2M 15-year exemption → 100% exempt Effective rate: 0% of $2M sale	**No change — $0 either way** Only program unaffected by removal of 50% discount — full exemption applies regardless. But eligibility is the most restrictive: 15 yrs, age 55+, retiring.
50% Active Asset Reduction ATO: 50% active asset reduction	• Asset must be an 'active asset' (used in business >50% of ownership period, or >7.5 yrs if held >15 yrs) • Passive assets (investment property, cash, financial investments) do not qualify • No age requirement, no retirement requirement — broadest program	**CGT = $235k (11.75%)** 50% discount → $1M taxable 50% active asset reduction → $500k taxable $500k × 47% = $235k Effective rate: 11.75% of $2M sale	**CGT = $470k (23.5%)** Real gain: $2M 50% active asset reduction → $1M taxable $1M × 47% = $470k Effective rate: 23.5% of $2M sale	**CGT doubles: $235k → $470k** Old: paid CGT on 25% of gain New: pays CGT on 50% of gain Concession exists but its value is halved. Government claim of 'no change' is technically true, substantively misleading.
Retirement Exemption ATO: retirement exemption	• Active asset; genuine retirement connection • Age <55: exempt amount must go into super • Age ≥55: exempt amount can be taken as cash • Lifetime cap: $500k per individual (not per business) • No size cap on the sale itself	**CGT = $235k (11.75%)** 50% discount → $1M taxable Retirement exemption: exempt $500k Remaining: $500k × 47% = $235k Effective rate: 11.75% of $2M sale	**CGT = $705k (35.25%)** Real gain: $2M Retirement exemption: exempt $500k Remaining: $1.5M × 47% = $705k Effective rate: 35.25% of $2M sale	**CGT triples: $235k → $705k** $500k cap is fixed — not indexed. Old: cap sheltered 50% of taxable gain New: cap shelters only 25% of real gain The larger the sale, the smaller the relative benefit of the $500k cap.
50% Reduction + Retirement Exemption (stacked) See both programs above	• Must meet eligibility for BOTH programs above • ATO mandates order: active asset reduction applied first, then retirement exemption on remainder • Serial entrepreneurs excluded (retirement condition); passive assets excluded	**CGT = $0–$117k** 50% discount → $1M taxable 50% active asset reduction → $500k taxable Retirement exemption: exempt up to $500k If $500k cap covers remainder: CGT = $0 Effective rate: 0%–5.9% of $2M sale	**CGT = $235k (11.75%)** Real gain: $2M 50% active asset reduction → $1M taxable Retirement exemption: exempt $500k Remaining: $500k × 47% = $235k Effective rate: 11.75% of $2M sale	**Best case now = old standard case** Old: stacking could eliminate CGT entirely New: stacking best case = $235k New best case = old single-program case The most favourable outcome under the new regime equals the baseline old regime.
Small Business Rollover ATO: small business roll-over	• Active asset; must acquire a replacement active asset within 2 years (or 6 months after earnout payment) • No age or retirement requirement • Deferral only — not an exemption. Gain crystallises on disposal of replacement asset • Strategic use: buy time to qualify for another concession (e.g. reach age 55 for 15-year exemption)	**$0 now / $470k deferred** 50% discount → $1M taxable Rollover: defer $1M for up to 2 years Future liability: $1M × 47% = $470k (or less if further concession applies)	**$0 now / $940k deferred** Real gain: $2M Rollover: defer $2M for up to 2 years Future liability: $2M × 47% = $940k (or less if further concession applies)	**Deferred liability doubles: $470k → $940k** No permanent concession either way. Strategic logic unchanged — buy time to qualify for another program. But if no concession ultimately applies, the crystallised liability is doubled.

Notes: $2M turnover threshold not indexed since 2007 (would be ~$3.2M in today's dollars at 2.5% CPI). Businesses above both the $2M turnover and $6M net assets thresholds receive no concessions: full CGT of ~22.5% (before) or 47% (after) applies. ATO mandated order: (1) 50% active asset reduction, (2) retirement exemption, (3) 15-year exemption, (4) rollover. Stacked row shows (1) and (2) combined — the most favourable outcome for qualifying sellers who cannot use the 15-year exemption.

Under these four concessional programs, the *only* case where the small business owner is as well-off under the new CGT calculation method as they were under the old CGT calculation method is when the business is eligible for the 15-year Exemption program. This is because if they are eligible, then the CGT is reduced to *zero*. Under either the new or old CGT arrangements, they are equally well-off with this very generous CGT exemption.

But, as we noted, this is the concessional program with the steepest eligibility requirements.

For example, if a business owner is now 40 and has been operating their business for 10 years, they are not eligible for the 15-year exemption for two reasons: their age, and the age of the business. By the time they wait a further 15 years until they are over the age of 55 and satisfy the age eligibility criterion, their business may have grown to, say, an annual revenue of $8 million a year and a net asset value of $9 million. At that point they fail the gateway condition – both revenue and net asset value thresholds – even though they and the business are now old enough.

If the business owner qualifies for the 50% Active Asset Reduction program, there is one key fact to be aware of if we are to understand it properly: *the 50% Active Asset Reduction program does not replace the 50% CGT discount, it works together with it.*

Therefore, under the new CGT arrangements, a business owner will pay twice as much CGT under the 50% Active Asset Reduction program *even if* they are eligible for this concessional CGT program.

The reason why is summarised in the following table.

Arrangement	Applicable concessions	Taxable capital gain
Current arrangements	1. Apply the CGT 50% discount 2. Apply the 50% active asset reduction concession	25% of sale price e.g. $250K on a $1M sale
New arrangements	1. Apply the 50% active asset reduction concession (CGT 50% discount no longer available)	50% of sale price e.g. $500K on a $1M sale

Assumes business started from nothing (cost base = zero). Same concession, twice the tax.

In the current system, if someone sells a business for $1 million, and they are eligible for the 50% Active Asset Reduction program, they would

1. Apply the 50% CGT discount, to reduce their taxable capital gains to $500,000
2. Apply the 50% Active Asset Reduction, to reduce their taxable capital gains to $250,000

The remaining 25% of their sale value - $250,000 - would then be taxed at their marginal tax rate.

Under the new CGT arrangement, step one would no longer apply.

Instead, they would calculate the real capital gain. Since the starting value for a business started from nothing is zero, they would index zero to adjust it for inflation, which would still be zero. The real capital gain (and the nominal capital gain) would be the sale price.

Then, if they qualify for the 50% Active Asset Reduction program, they can reduce the capital gain of $1 million by 50% to $500,000. They then pay tax on the $500,000 taxable capital gain at their marginal tax rate.

If they are eligible for the 50% Active Asset Reduction concession, then they *still* pay twice as much capital gains tax under the new CGT arrangements.

Businesses are clearly impacted by the changes. *They pay twice as much tax.*

For the other two programs, the Retirement Exemption program and the Small Business Rollover program, similar considerations apply. For the Small Business Rollover program, they can only roll over half as much. For the Retirement Exemption program the value of the concession varies depending on the amount of the sale, but for business sales of over $500,000 they will pay more tax.

The government's current claim: 98% of all active businesses will be eligible for the 50% Active Asset Reduction concession

In relation to CGT for business owners, the key change on June 18th was raising the maximum revenue threshold from $2 million to $10 million for the 50% Active Asset Reduction program, so that more businesses would be eligible for this concession.

This is *only* changing the maximum revenue threshold, not the net asset value threshold, and it is *only* making this change in relation to one of the four concessional CGT programs – not to all of them.

It is a very specific, tightly focused change.

What are the impacts of that change?

Its impacts on eligibility are unclear

It's not entirely clear that raising the maximum revenue threshold from $2 million to $10 million would make many more businesses eligible for the concession.

This uncertainty arises because the maximum revenue threshold is not the whole of the gateway condition – the updated gateway condition is now a revenue of less than $10 million *or* a net asset value (the sale price for the business) of less than $6 million.

To see why this is so, consider how a business is sold.

Around 80% of Australia's economy is a service economy. Most businesses are service businesses, such as consulting, marketing, and software service businesses, or running a café or restaurant.

When the owner of a service business sells their business, they tend to sell it at a multiple of annual profits. For example, a business that has revenue of say $5 million a year with a profit of $1 million a year might sell the business for a multiple of 3X or 5X the profit, or in other words a $3 million or $5 million sale respectively.

In either case, in this example, the sale price would be under the $6 million net asset value threshold. *Raising the revenue threshold from $2 million to $10 million would not have made that business any more eligible for the concession* – it was already eligible under the maximum net asset value threshold.

The maximum net asset value is arguably the more important gateway threshold, since it is directly related to the price the business sells for.

If the government is interested in providing a genuine carve out to extend eligibility for CGT concessional programs, they clearly have superior options available. For example, they could double the threshold for the net asset value test from $6 million to $12 million, and index it to inflation - and then apply this change for *all four* of the concessional CGT programs, rather than just to one of them.

The changes still lead to a business owner paying twice as much tax

The changes to the maximum revenue threshold, lifting it from $2 million to $10 million, do not change the impacts. Businesses owners eligible for the 50% Active Asset Reduction program will still pay *twice as much CGT* as they would under the current arrangements.

Yes, the business owner will get a 50% reduction on their capital gain. *But that's instead of a 75% reduction.*

It's hard to sell that as a positive for a business owner, or to see it as an incentive for starting and growing successful, saleable businesses.

It's not much of a "back down"

The government is only increasing the maximum revenue threshold, not the maximum net asset value threshold, so it is unclear to what extent it is actually extending eligibility. It is only making this change for one of the four concessional CGT programs (the 50% Active Asset Reduction program), and not for the other three CGT concessional programs. And it is not tackling the impacts of their CGT changes: for eligible businesses, business owners will *still* pay twice as much CGT as before the changes announced in the budget as they would have under the current system.

If the government wanted to design what looked like a substantial concession to address community concerns, without actually conceding much at all, it would have crafted a program very similar to this "carve out." This is a "Clayton's carve-out."

This is reflected in the numbers. The government projects a cost of $475 million a year for these changes to eligibility conditions, out of the extra $7 billion a year expected to be raised from the broad changes to CGT and negative gearing.

Has the government been honest with us?

It is not clear that the government has been transparent with us. Key claims they have made, such as that 90% or 98% of businesses will still be eligible for the existing concessional programs, are questionable at best. They have been less than forthcoming about the actual impacts of these changes for small business owners. Their "carve out" is minimal, only applying to one of the four programs – and only to the less significant threshold.

The CGT changes for business sales send exactly the wrong signal to Australia's founders and entrepreneurs: that the government will now take a larger share of the value that they spent years creating. A government serious about economic growth would not do that without first giving a clear explanation of why the change is justified to help grow the overall economy. No credible explanation has yet been offered.

[1] https://www.abc.net.au/news/2026-05-20/labor-albanese-tax-overhaul-alarms-startups-investors/106698988; Anne Aly, Minister for Small Business, interview with Patricia Karvelas, ABC Afternoon Briefing, 19th May 2026. https://iview.abc.net.au/video/NU2622C077S00

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