Edition 679, 11 September 2026

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Editorial

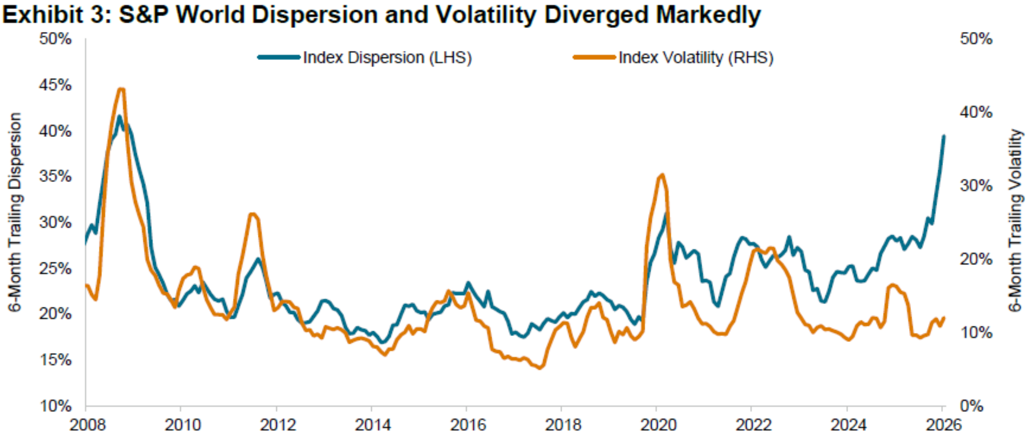
For years, active fund managers have offered a plausible defence against the rise of passive investing.

The traditional argument for active management is that when volatility rises, stock returns diverge and uncertainty increases, skilled managers should be able to exploit inefficiencies and outperform. On the other hand, passive funds simply buy the market.

If active management was ever going to justify its fees, the first half of 2026 seemed tailor-made for that proposition. According to the latest [SPIVA Australia Scorecard for H1 2026](), stock dispersion rose sharply, both globally and in Australia, to levels not seen since the Global Financial Crisis.

The ongoing war in the Middle East elevated uncertainty surrounding oil prices, while AI-related growth expectations and rising long-term yields contributed to substantial performance differences across sectors and companies.

Exhibit 3: S&P World Dispersion and Volatility Diverged Markedly

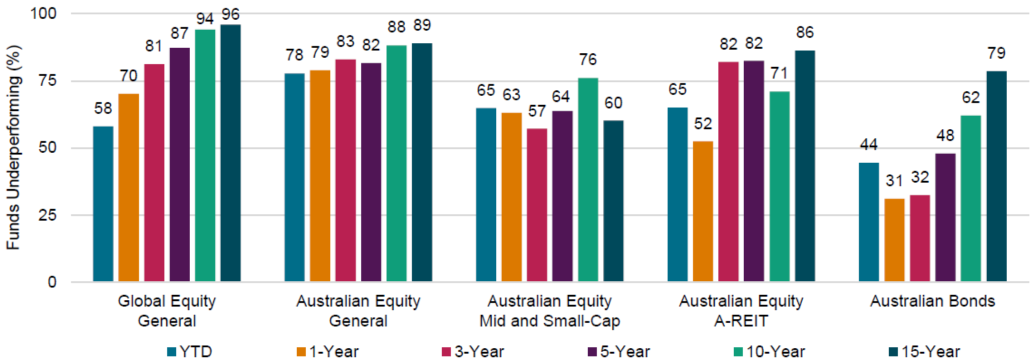


Source: S&P Dow Jones Indices LLC. Data as of June 30, 2026. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Even on the domestic front, Australian shares provided plenty of opportunities for active managers to prove their worth, with both sector and stock dispersion at decade highs. In plain terms, there was a much bigger gap between the best and worst-performing stocks. The market environment provided a ripe hunting ground for stockpickers.

Do the results tell the same story?

Exhibit 1: Percentage of Underperforming Active Australian Funds



Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2026. The S&P World Index (AUD) was launched May 28, 2020. The S&P/ASX Mid-Small was launched July 29, 2011. The S&P/ASX Australian Fixed Interest 0+ Index (Legacy) was launched Feb. 13, 2025. See the Appendix for more details on benchmarks used. All data prior to such date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

The short answer is *not quite*.

Despite these seemingly ideal conditions, a firm majority (78%) of Australian Equity General funds underperformed the ASX 200 in the first six months of the year. Notably, this is the second-highest underperformance rate seen since the launch of the scorecard in 2013.

Tougher conditions for bond managers

Fixed income was the one area where active managers found a better story to tell, despite facing less favourable market conditions during the first half of this year.

Australian corporate bond spreads remained near historically tight levels, which limited opportunities to add value by taking extra credit risk. A flatter yield curve also reduced the scope for managers to profit from interest rate bets. In short, many of the traditional levers active bond managers use to outperform were less effective than in recent years.

Despite these headwinds, Australian bond funds were the only category where a majority of managers outperformed their benchmark, although by a narrow margin.

The benchmark returned 2.3% in the first half of 2026, while active funds marginally exceeded that result, with average returns of 2.4%. However, the victory was hardly emphatic. The proportion of bond managers failing to beat the benchmark rose from 27% in 2025 to 44% in the first half of 2026.

The concentration conundrum

It is clear that rising dispersion alone may not be enough of a tailwind for active managers. If gains are concentrated in a shrinking number of companies, identifying winners becomes increasingly difficult, even when opportunities appear plentiful.

A potential explanation for the lacklustre results lies in the all-too-familiar concentration problem. While sector and stock dispersion widened, relatively few companies were responsible for driving overall market returns. SPIVA found that only 35% of ASX 200 stocks outperformed the index in the first six months of 2026.

Meanwhile, the combined weight of the largest 20 companies in the index increased from 61.0% to 63.4%. Naturally, as the pool of outperforming stocks narrows, the likelihood of identifying them successfully declines, which makes active stock selection more difficult.

Concluding thoughts

I don't view these results as a call to abandon active management. However, it does suggest we should be realistic about how difficult manager selection is.

SPIVA observed that among global equity funds, the rewards for choosing a winning manager were modest, while the penalties for choosing a losing manager were severe. The best-performing active funds only beat the benchmark by small margins, whereas the weakest funds lagged by much larger amounts.

The challenge is also compounded by survivorship. SPIVA found that after 15 years, more than half of funds had either merged or liquidated, meaning investors face not only the risk of selecting an underperforming manager, but also one that may not survive.

Many people approach the active versus passive debate rather plainly, by asking whether active managers can outperform. We know that some clearly can. The harder question is whether we can identify those managers beforehand.

Simonelle Mody

Also in this week's edition...

Thinking about an SMSF? **Liam Shorte** discusses red flags to watch out for before you sign anything.

For generations, Australian investors have backed banks, miners and dividends. **Marcus Padley** argues it's time to start looking elsewhere for growth

The housing debate tends to focus on prices, interest rates and deposits but **Jade Xie** thinks a 40 year mortgage might be the answer.

Zara Lyons believes the market has sent a clear message after earnings: it is no longer paying simply for quality, resilience or an earnings beat.

Helen Mason shares why she thinks Australian public credit may be the most compelling source of income in today's market.

August reporting season delivered strong earnings and larger-than-expected dividends, **David Wilson** and **Christian Guerra** unpack the key trends

Some of history's most important innovations changed the world while leaving investors much poorer. **Roger Montgomery** hypothesizes whether AI will destroy investor capital.

White paper of the week: How Australia Retires 2026 (Vanguard).

Red flags to watch out for when considering an SMSF

Liam Shorte

As a Financial Planner and SMSF Specialist Advisor with over two decades helping families take control of their super, I've seen it all. Every week I speak to people who've been approached about setting up a Self-Managed Super Fund (SMSF). Some of those approaches are genuine, but many are not.

Too often, what looks like helpful advice is really a cleverly disguised sales pitch — designed to get you to move your super so the promoter can sell you their product, charge high fees, or worse, put your retirement savings at risk. The ATO is watching this space more closely than ever, and the consequences for getting it wrong as a trustee are serious and personal.

Consider this your no-nonsense guide before you sign anything.

How are you being approached? Sales pitch or genuine advice?

Legitimate SMSF advice starts with your situation — not the adviser's product. A proper adviser asks about your retirement goals, risk tolerance, existing super balance, insurance needs, available time, and whether an SMSF even makes sense for your circumstances before making a recommendation.

The product-led approach works the other way around. The SMSF is not the goal; it is simply the vehicle. Someone wants to sell you a property, a managed fund, an unlisted investment, or a crypto platform. The SMSF is simply how they access your superannuation balance.

Warning signs

- Unsolicited contact — cold calls, emails, social media ads, or "free seminars" promising to "unlock the power of your super".
- Pressure to act fast — "limited time offer", "EOFY special", or "get your money out before the rules change".
- Focus on a single product — a specific property deal, crypto scheme, or investment the promoter (or their related parties) controls.

If the conversation quickly moves to rolling your super into a new SMSF so they can "invest it for you" or "help you buy that investment property" — stop. That is usually the gateway to selling their product, not acting in your best interests.

Do they provide genuine education — or just hype?

Real SMSF education explains the responsibilities, not just the glamour. Any adviser worth trusting will make sure you understand what you are signing up for before you commit to anything.

Any adviser recommending an SMSF should explain your ongoing responsibilities as trustee, including compliance obligations, annual audits, record-keeping requirements and your personal liability for breaches. If those issues are glossed over, you're not receiving balanced advice. You're being sold the benefits while the obligations and risks are quietly ignored.

The true costs of running an SMSF

The cost of running an SMSF is one of the most consistently misrepresented aspects of the whole conversation — and for many people at lower balances, it is the deciding factor.

What you should expect to pay

Setup costs: Expect $1,400–$2,000 for a proper trust deed, corporate trustee structure, ATO registration, and an initial investment strategy. Cheap setups often cut corners on documentation that you may regret later.

Ongoing costs: Based on the latest ATO statistical data, median annual operating expenses range from approximately $4,139–$4,628 per year. This includes auditor fees, accounting, administration, and the supervisory levy.

Many people are shocked to learn the real annual cost often lands between $3,500 and $6,000 once everything is factored in — before investment fees, platform costs, or adviser fees.

Cost Item	Typical Range	Notes
Trust deed & company setup	$500 – $1,500	Higher for corporate trustee structure
Accounting & tax return	$1,200 – $3,000+	Increases with complexity
Independent audit	$300 – $900	Mandatory every year
ATO supervisory levy	$259	Netted in annual return
Financial advice fees	$2,000 – $5,000+	If you engage an adviser
ASIC company annual fee	$67 / year	Corporate trustee only
LRBA / bare trust setup	$1,500 – $3,000+	Required if borrowing for property
Actuarial certificate	$300 – $600	If fund has pension-phase members
Investment & platform costs	Varies widely	Brokerage, managed fund fees, platform access
Insurance review	Varies	Critical — existing cover is often lost on rollover

The old ASIC figure of $13,900 per year was significantly overstated, but the ATO's median numbers are the ones you should use as your benchmark. If your balance is under $500,000–$750,000, those fixed costs can seriously erode your returns when expressed as a percentage of your balance.

Another red flag is if costs have not been fully and transparently disclosed. Say you have only been quoted setup costs, not ongoing annual running costs. No comparison has been provided between the SMSF and your current fund as a percentage of your balance. No one has mentioned that ATO administrative penalties are personally payable by trustees — not from the fund. Insurance implications of rolling out of your current fund have not been raised.

My tip: Before you proceed, demand written fee disclosure.

- Total fees expressed in dollars AND as a percentage of your fund balance.
- A side-by-side comparison between the SMSF and your current super fund, after all fees and tax.
- Full disclosure of any referral fees, commissions or benefits the adviser or their network receives.
- Confirmation that ATO administrative penalties are your personal liability — not payable from fund assets.

The most common mistakes — and what the ATO does about them

The ATO regulates more than 630,000 SMSFs and its compliance data makes uncomfortable reading. Contraventions increased by 10% in the 2024 income year, and by a further 13% in the first half of the following year. Here are the traps that catch trustees out most often.

- **Illegal early access** — setting up an SMSF specifically to withdraw funds before you meet a condition of release (generally age 60 upon retirement, or age 65 regardless). This is the ATO's single biggest compliance focus.
- **Lending to yourself or related parties** — or using SMSF assets to support a struggling business. The ATO's estimate of prohibited loans this year is $231.7 million.
- **In-house asset breaches** — investing more than 5% of the fund's assets in related-party assets or loans.
- **Poor record-keeping and valuations** — no market-value asset valuations at 30 June, missing trustee minutes, or unsigned trustee declarations.
- **No investment strategy** — or a strategy that does not match your actual investments.
- **Mixing personal and fund money** — paying private bills from the SMSF bank account, or depositing SMSF income into a personal account.
- **Contribution cap breaches and NALI** — non-arm's length transactions that trigger punitive tax at the highest marginal rate.
- **Ignoring ATO authority notices** — including excess contribution determinations and commutation authorities. Not responding does not make them disappear.
- **Non-lodgement of annual returns** — approximately 85,000 SMSFs had not lodged their 2023 return as at early 2025. Non-lodgement removes your complying status from Super Fund Lookup, cutting off employer contributions and rollovers.

The cost of getting it wrong

Administrative penalties can reach 60 penalty units — currently around $18,780 per breach, per trustee. Loss of complying fund status can result in severe tax consequences, including taxation at the highest marginal tax rate instead of 15%. Trustee disqualification goes on the public record and applies to all future SMSF roles. These penalties are paid personally by trustees — not from the fund.

An ATO case that should make you think twice

The ATO does not just issue warnings — it acts. The following court and tribunal decisions illustrate what happens when things go wrong.

NSW Promoter — Federal Court Penalty
One of the most striking enforcement actions involved a NSW promoter who set up (or attempted to set up) 35 SMSFs for 68 individuals. She charged fees to help people who were not eligible to access their super to roll it into a new SMSF and withdraw it immediately — often the same day — for home renovations, stamp duty and personal expenses. The Federal Court imposed a $220,000 penalty and banned her from setting up SMSFs for seven years. The individuals involved were also exposed to back-taxes, penalties and trustee disqualification.

My final coaching advice

An SMSF is a genuinely powerful tool but only when it is the right fit and set up properly. The key question is always: who is this arrangement actually serving?

Before you say yes: your pre-commitment checklist

- Ask yourself honestly: is this person acting in my best interests, or theirs?
- Demand clear, written disclosure of all fees and ongoing costs — in dollars, not just percentages.
- Insist on a Statement of Advice (SOA) that documents why an SMSF is recommended for your specific situation.
- Insist on proper education about your trustee responsibilities before you sign anything.
- Check every licence on the ASIC Financial Advisers Register and the Tax Practitioners Board.
- Get a second opinion from an independent SMSF Specialist Adviser who has no connection to the product being recommended.
- Confirm your existing insurance coverage position before rolling out of your current fund.
- If anyone promises access to your super now for a non-retirement purpose — stop. It is illegal and a major ATO compliance focus.

An SMSF done right is one of the best structures available for building retirement wealth. An SMSF done wrong — for the wrong reasons, promoted by the wrong people — can cost you your retirement savings, your trustee status, and years of financial recovery.

Key takeaways

- An SMSF is right for the right person — but the approach, the advice, and the cost disclosure must all check out first.
- If someone approached you unsolicited and led with a product, the starting position is one of conflict of interest.
- Understand the full annual cost (typically $3,500–$6,000+) and compare it to your current fund before deciding.
- Always verify licences, demand a written SOA, and get an independent second opinion.
- The ATO will find non-compliance. Trustees cannot hide behind their accountant or adviser. They remain legally responsible for their SMSF, regardless of who recommended the strategy, completed the paperwork, or manages the administration.

This article is an adapted version of an original blog post that can be found here.

Liam Shorte is a specialist SMSF adviser and Director of SONAS Wealth. He is also a Director of the SMSF Association and he writes under the social media identity of 'The SMSF Coach'. If you'd like a no-obligation conversation about whether an SMSF is right for your situation — or you want a straight-talking second opinion on an offer you've received — reach out.

General Advice Disclaimer: *This article is general information only and does not constitute personal financial, legal or tax advice. The rules governing SMSFs are complex and individual circumstances vary significantly. You should obtain advice from a licensed financial adviser before acting on anything in this article. The author holds AFSL authorisation through Sonas Wealth Pty Ltd, corporate authorised representative of Viridian Advisory 476223.*

Is it time to bail on Australian stocks?

Marcus Padley

Many Australian investors continue to maintain portfolios heavily concentrated in domestic blue-chip stocks. Historically, that approach has come at a significant cost.

Over the 12 months, the Australian market has returned less than 1% whilst the US market has returned ~20%. And over the last 20 years, the Australian market has produced a compound return of 7.2% whilst the US market has returned 11.8% (Vanguard).

Is it time to bail on the Australian market?

Below is a chart of the ASX 200 index against the S&P 500 index over the last 20-plus years. The chart highlights the extent to which the Australian market has relentlessly underperformed the US market. In fact, the only sustained period of Australian outperformance came during the resources boom between 2000 and 2007.

Source: Marcus Today

Following the growth

US investors generally view the stock market as a growth investment, rather than for income generation. They look to the bond market for that. Australia's market is dominated by financial institutions that have traditionally offered attractive dividend yields. As a result, many investors view domestic equities primarily as an income source.

Growth stocks in Australia are hard to come by. Outside of resources, the market is dominated by the banks, which are mature, low-growth stocks, and a collection of industrials.

Over the last 20 years, the S&P 500 is up 502%. The ASX 200 is up 76%. That's without dividends. We'd only be a little bit more competitive if you included them. Over the last 10 years, the S&P 500 is up 253%, the ASX 200 is up 66%. Over the last five years, the S&P 500 is up 75%, the ASX 200 is up 19%, and over the last year the ASX 200 is up less than 1% whilst the US market is up 22%. And that's just looking at the S&P 500 not the NASDAQ.

So why has Australia lagged so badly, and under what circumstances can it outperform?

The Australian challenge

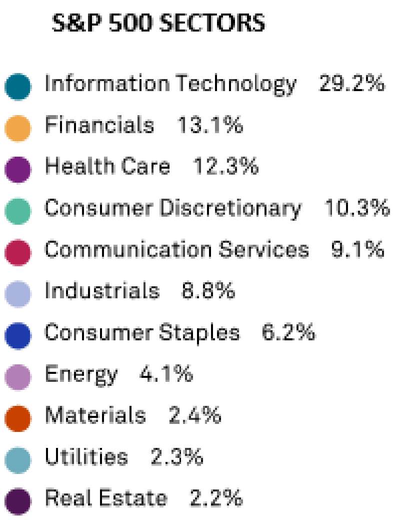
This is a chart of the performance of the Australian market (All Ordinaries index) relative to the US market (S&P 500 index) since 1980 to 2024.

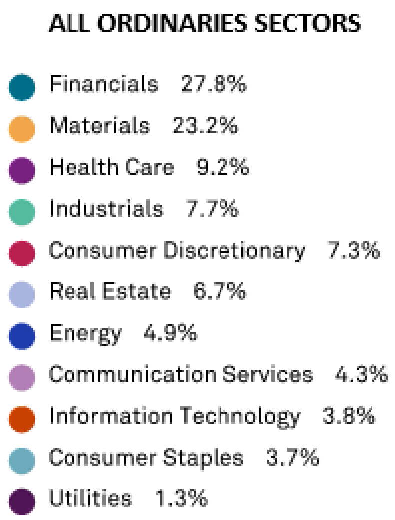
It highlights a few things:

- **Australia outperforms when the US falls**. The Australian market is generally more defensive than the US. That said, nobody buys Australia simply because it might fall less during a sell-off. So when the US stumbles, the answer isn't necessarily to buy Australia. Often, the better option is to reduce equity exposure altogether.
- **Australia outperforms if there is a resources boom**. It remains Australia's only competitive advantage in global equity markets. When the world becomes focused on resources (2000-2008), Australia and Canada suddenly become globally significant stock markets. Australia was all the rage in asset allocation meetings in every skyscraper from New York to Beijing in 2000-2008, as China's rapid development drove exceptional demand. Resource booms are fantastic for international investors because not only are they buying BHP and RIO and FMG, and not only are the share prices

are going up, but when resources go up, because commodity prices are going up, the Aussie dollar also goes up. That delivers international investors the ‘Double Bubble’. They gain on the stocks and they gain on the currency. In 2005 every Wall St broker knew who Andrew Forrest was. I spoke to my Wall St broker mate in 2012 (after the resources boom) and asked if he was still interested in FMG and Forrest. He said - "Who? Oh yeah. No. That's all so 2000s". They'd moved on. About the only time Australia becomes interesting to the world is when commodity prices are rising sharply.

- **Australia underperforms and outperforms depending on the US Tech sector**. The US Technology sector now accounts for 29.2% of the S&P 500 with Communication Services (also Tech) accounting for another 9.1%. The US is very tech-heavy. Our market has a tiny Technology sector (3.8% of the All Ords). The *relative* performance of Australia is related to the US Technology sector which is why one of the few times Australia outperformed the US was during the Tech Wreck. If Big Tech falls over, then Australia will outperform again (but again, relative defensiveness alone is rarely a compelling long-term investment thesis).





Australia's competitive advantage

One factor that could quickly restore international interest in Australian equities is another resources boom. Australia remains a commodity-driven economy, and the Australian dollar has historically been closely linked to commodity prices and resource sector strength.

During the last major resources boom, the Australian dollar surged to more than US$1.10. That currency appreciation created a powerful incentive for overseas investors to allocate capital to Australia.

The attraction was what investors often call a "double bubble". Not only were resource stocks such as BHP and Rio Tinto generating strong share price gains as commodity demand surged, but foreign investors were also benefiting from a rising Australian dollar.

Given that the resources sector accounts for roughly 25% of the Australian sharemarket, global investors seeking exposure to commodities had little choice but to look at Australia. As they bought Australian resource companies, they gained exposure to both rising commodity prices and a strengthening currency.

For a US investor, for example, returns were driven by two separate sources: capital growth from Australian mining stocks and the currency gain from holding assets denominated in Australian dollars. The combination proved highly lucrative and led to significant international capital inflows into the Australian market. During this time, the share price of many stocks were becoming overinflated.

The ETF revolution and international investing

Fortunately, investing internationally has become significantly more accessible over the past two decades thanks to the exchange-traded fund (ETF) market. The ASX now hosts over 400 ETFs, meaning investors can access overseas markets as easily as you would click and buy CBA.

International investing also offers another potential benefit that many investors overlook: currency exposure. If US stocks go up and the Australian dollar goes down, investors benefit from something referred to as a "double bubble", benefitting from both equity returns and favourable currency movements.

Australian investors with unhedged exposure to international equities can benefit when overseas markets rise and the Australian dollar weakens. As the Chinese economy stagnates, the Aussie dollar is facing relentless pressure against several major currencies and may not recover until there is another commodity boom. Investors heavily concentrated in Australian assets risk missing opportunities that take advantage of international currency strength and international stock markets.

For many Australian investors, this may not be a concern. The banks have historically provided attractive dividend income and remain a core holding for many portfolios. But there is opportunity to take advantage of growth stories that don't exist in Australia. The most obvious example is the technology sector, which has been a major contributor to the US market's outperformance of the Australian market.

Investors focused primarily on domestic blue-chip stocks may have benefited from dividends and stability, but at the cost of access to many of the global growth opportunities available through international markets. Today, ETFs provide a simple way to broaden that exposure beyond Australia.

Outside periods of resource-led outperformance, Australia's market has struggled to match the returns available in larger and more diversified global markets. Unless investors expect another sustained commodity boom, the case to broaden your investment universe beyond Australia remains compelling.

The bottom line is that Australia probably needs either a resources boom or a US Big Tech collapse to outperform again. For now, the trend is set - Big Tech, helped by AI prospects, is seeing tremendous earnings growth relative to any other section of the economy and relative to any Australian sector.

This is an adapted version of a transcript from the Marcus Today YouTube channel. The full video can be found here.

Marcus Padley is the author of the daily stock market newsletter Marcus Today, see marcustoday.com.au. This content is general information only and does not consider your personal circumstances. It is not personal financial advice. Please consider whether it is appropriate for you or seek professional advice before making investment decisions.

Making a case for the 40 year mortgage

Jade Xie

Australia's housing-affordability debate usually centres on prices, deposits and interest rates. Less attention is paid to mortgage terms.

Thirty years has become the conventional Australian home-loan term, but there is nothing sacrosanct about that number. If the price of housing has structurally increased relative to household income, it is reasonable to ask whether the repayment structure should also change.

Australia already has a real-world example. Great Southern Bank offers eligible first-home buyers terms of up to 40 years. The structure is limited to owner-occupiers, requires at least one first-home buyer, and is available only to applicants aged 40 or under. Investment property is excluded.

The appeal is evident in the numbers. Consider a $600,000 principal-and-interest loan at a constant 6% interest rate. Over 30 years the monthly repayment is about $3,597. Over 40 years it falls to about $3,301, a reduction of $296 a month, or 8.2%.

A borrower able to service $3,597 each month could theoretically support a loan of around $654,000 over 40 years instead of $600,000 over 30 years.

Metric	Scenario A: Standard 30-Year	Scenario B: Lower Payments (40-Year)	Scenario C: Max Capacity (40-Year)
Loan Principal	$600,000	$600,000	**$653,801**
Loan Term	30 Years	40 Years	40 Years
Monthly Repayment	**$3,597**	**$3,301**	**$3,597**
Total Interest Paid	**$694,920**	**$984,480**	**$1,072,759**
Total Lifetime Cost	$1,294,920	$1,584,480	$1,726,560

That does not mean a bank would automatically approve 9% more debt. APRA-regulated banks still assess borrowers using a mortgage serviceability buffer of 3 percentage points, along with living expenses, liabilities and other credit criteria. High debt-to-income lending is also subject to macroprudential limits.

The key point is simpler: loan maturity changes the minimum required repayment and therefore forms part of affordability.

Mortgage maturity is widely recognised as part of the affordability question. IMF economists Nina Biljanovska, Chen Fu and Deniz Igan developed a cross-country affordability measure that includes house prices, income, mortgage rates, loan-to-value ratios and mortgage maturity. Their framework recognises that the same house price can have very different repayment consequences depending on how the mortgage is structured.

The trade-off is that lower monthly payments come at a high lifetime cost.

If the $600,000 loan remained at 6% until maturity, total interest would be about $695,000 over 30 years and $985,000 over 40 years. A 50-year mortgage would reduce the monthly payment further to about $3,158, but total interest would rise to about $1.295 million.

The extra decade from 40 to 50 years saves only around $143 a month while adding more than $310,000 in lifetime interest under the constant-rate assumption.

On these assumptions, a 40-year mortgage appears a more defensible compromise than a 50-year term.

The case for a longer term is strongest when viewed through the life cycle of a first-home buyer. RBA research has found first-home buyers tend to be younger, have higher loan-to-value ratios and smaller liquidity buffers when they enter the market. Yet they have historically experienced relatively strong income growth around the years of home purchase and have not been more likely than other owner-occupiers to experience mortgage arrears.

A younger borrower may therefore have the weakest income at precisely the stage when housing needs are greatest. A longer contractual term can reduce the compulsory repayment early in the borrower's career while preserving the option to pay faster later through additional repayments, offset savings or refinancing.

Importantly, a 40-year mortgage need not be a 40-year repayment plan. Instead it can operate as a lower repayment floor rather than a target repayment horizon, allowing borrowers to accelerate repayments as incomes rise.

Sweden provides an instructive international comparison.

It is sometimes described as having 100-year or even "generational" mortgages, but that is an oversimplification. In 2013, Swedish regulator Finansinspektionen reported that among first mortgages that were being amortised, the average actual repayment period implied by the repayment rate exceeded 140 years. The issue was not a standard 140-year loan contract. Principal was simply being reduced extraordinarily slowly.

Sweden later strengthened amortisation requirements. Under rules effective from April 2026, mortgages with an LVR above 70% generally require annual principal reduction of at least 2%, while mortgages above 50% and up to 70% require at least 1%. At the same time, Sweden raised the maximum LVR for a home purchase to 90% and removed an extra amortisation requirement previously applied to borrowers with very high housing debt relative to income.

The Swedish lesson is therefore balanced. Lower entry barriers can support ownership, but principal repayment still matters.

For similar reasons, I would be cautious about long interest-only periods for first-home buyers. Interest-only repayments on $600,000 at 6% are $3,000 a month, but after 10 years the borrower still owes the original $600,000 principal. Eventually converting to principal-and-interest repayments can create a significant repayment shock.

A 40-year P&I loan lowers the minimum payment but still reduces principal from day one.

There is also a broader policy risk. Making it easier for everyone to borrow more does not necessarily make housing more affordable. In a supply-constrained market, increased purchasing power can be capitalised into higher prices. In that case, some of the benefit accrues to existing homeowners rather than first-home buyers.

The IMF's latest assessment of Australia has warned that demand-side home-buyer assistance can add to near-term price pressure when housing supply is constrained.

For that reason, any extension of 40-year mortgages should be confined to owner-occupiers rather than investors.

A targeted approach would be more defensible: younger first-home buyers, owner-occupied property, normal serviceability rules, principal-and-interest repayments, and the ability to repay faster without material penalty.

The purpose should not be to maximise debt. It should be to recognise a life-cycle mismatch between when younger households need housing and when their earning capacity is strongest.

Longer mortgages will not solve Australia's housing shortage. They cannot substitute for planning reform, infrastructure and new construction.

Yet mortgage structure remains one component of affordability. A carefully targeted 40-year P&I loan could modestly improve early cash flow for younger first-home buyers while retaining prudent repayment discipline.

The main long-term risk is that borrowers carry mortgage debt further into middle age and potentially into retirement. For that reason, longer loan terms should be accompanied by flexibility to accelerate repayments as incomes rise, rather than becoming a mechanism for permanently higher household leverage.

As with most housing policies, the key is targeting. If longer terms are used to help first-home owner-occupiers rather than to expand investment leverage, and if housing supply rises alongside them, they may deserve a larger place in Australia's affordability toolkit.

Jade Xie is an MFAA accredited Mortgage Broker and Managing Director of Easyhome Mortgage. She has approximately 25 years of experience in finance, banking and credit in Australia and New Zealand. Her interests include housing finance, mortgage credit, household financial capacity and property-market policy. The views are personal and are general information only.

The market paid for change, not comfort

Zara Lyons

Reporting season has delivered a clear message: the market is no longer paying simply for quality, resilience or an earnings beat. It is paying for change in earnings expectations.

The largest share price reactions occurred where results materially altered the market's view of a company's earnings trajectory. Companies demonstrating an earnings inflection, accelerating operating leverage or a credible path to higher margins were aggressively rewarded. Conversely, companies reporting solid results but signalling weaker outlooks through softer volumes, higher costs or limited incremental earnings growth were punished.

That distinction helps explain why this has been one of the most volatile reporting seasons in recent memory. For investors, understanding where earnings expectations are changing has become more important than identifying companies that simply look inexpensive or defensive.

During August, **CSL** rose over 40%, closely followed by gold miners **Newmont** (39%) and **Evolution Mining** (35%), and **Pilbara Minerals** (30%). Meanwhile, **Charter Hall** fell 16.5%, **QBE Insurance** 15%, **CBA**

13% and **Wesfarmers** 13%. The common thread was not "beats versus misses". Although 31% beat consensus and 24% missed, FY27 earnings forecasts still fell around 1-2%, while 51% of stocks moved more than 5% on result days.

Resources companies supplied the clearest leadership. **BHP** gained 12% and **Rio Tinto** 9%, while gold and critical-mineral exposures outperformed the broader market. BHP's underlying EBITDA (earnings before interest, taxes, depreciation, and amortisation) approached US$33bn, with copper contributing more than half of earnings, and its final dividend rose 65%. Evolution lifted its final dividend 62% and raised its payout target. **Northern Star** delivered record profit and a solid dividend, although elevated FY27 costs and capital expenditure may temper some of that leverage.

The portfolio lesson is to own structural scarcity assets such as copper, gold and rare earths, while distinguishing between commodity-price leverage and management execution. In an environment shaped by electrification, AI infrastructure demand and energy transition themes, scarcity remains valuable, but quality execution still matters.

The second winning factor was earnings rehabilitation: high-quality franchises where margins and earnings growth are inflecting upwards. CSL's spectacular rally followed what appeared to be a disappointing result on headline numbers, with underlying NPATA (net profit after tax adjusted) down 2% and US$7.1bn of impairments. Investors instead focused on management's FY27 profit growth guidance of around 5%, alongside maintained dividends and buybacks. The market rewarded future earnings potential rather than historical earnings pressure.

Another winning factor was pricing power, recurring revenues and operating leverage. Investors gravitated towards digital marketplaces, mission-critical software and installed-base service businesses capable of compounding earnings independently of underlying transaction volumes.

REA and **CAR** demonstrated why dominant marketplaces remain attractive. Their scale allows revenue and average revenue per user to grow faster than transaction volumes through premium listings, advertising, finance and data products. In a modest-growth economy, pricing power and network effects are becoming increasingly valuable.

WiseTech and **Pro Medicus** reinforced the premium attached to recurring revenue, margin expansion and productivity. WiseTech guided to FY27 revenue growth of 6-10% and underlying EBITDA growth of 12-21%, while Pro Medicus delivered 28% constant-currency revenue growth and a 75% EBIT margin. The AI trade is increasingly moving from narrative to measurable revenue growth, productivity gains and free cash flow generation.

The losers exposed three crowded assumptions: ever-rising bank returns, defensive certainty and cheap capital. Major banks including **CBA**, **Westpac** and **NAB** sold off despite strong profitability as investors focused on weaker outlooks for housing credit growth and margins. **Wesfarmers** fell despite underlying NPAT growth and dividend growth of 8%, as weaker Officeworks earnings and higher capital expenditure expectations mattered more. REITs including **Charter Hall** and **Goodman** reinforced the market's sensitivity to funding costs and long-duration valuations.

There is no single "consumer" trade. Stock selection matters. Consumer outcomes remain highly fragmented, driven by brand positioning, customer demographics and pricing power rather than broad economic trends alone. **JB Hi-Fi**'s slowing sales momentum triggered a de-rating, while **Universal Store** continued to benefit from differentiated merchandise and stronger engagement with younger consumers. **Woolworths** represents another cohort, combining essential spending with loyalty, retail media and digital services.

By late August, market dividend forecasts had risen around 0.4% despite falling earnings estimates. Outliers included **BHP** and **Evolution Mining** on the upside, **Fortescue**'s 2% lower full-year dividend, and an 11% cut to one published **Woodside Energy** 2026 EPS (earnings per share) forecast following higher tax and cost assumptions.

Takeover activity also created alpha during August. **Steadfast** signed a $6.00 scheme with **KKR**, **Dragoneer** and Amwins; **EQT** proposed $3.13 per share for **Cleanaway**; and Brookfield proposed $4.75 for **Reliance Worldwide**. The pattern suggests private capital continues to identify value where public markets remain sceptical, particularly among high-quality strategic assets experiencing cyclical weakness.

The outlook remains a barbell: structural resources and positive-revision growth on one side, and cash-generative recurring-revenue franchises on the other. The vulnerable middle remains expensive domestic duration, peak-margin financials, capital-intensive property and retailers dependent on broad consumption growth.

In our view, the opportunity set remains strongest where earnings expectations are improving, balance sheets are robust, and companies retain pricing power. Reporting season reinforced a simple but important lesson: markets are rewarding future earnings potential, not merely celebrating past performance.

Key takeaways

- **Markets are rewarding future earnings, not past results:** Share price moves were driven by changing earnings expectations rather than earnings beats or misses.
- **Structural growth and pricing power are winning:** Investors favoured scarce resource assets and businesses with recurring revenues, strong margins and pricing power.
- **Stock selection matters more than ever:** Winners are improving earnings outlooks; losers are facing weaker growth, higher costs or stretched valuations.

Zara Lyons is an Australian High Conviction Strategies portfolio manager at Fidelity International, a sponsor of Firstlinks. The views are their own. This content is issued by FIL Responsible Entity (Australia) Limited ABN 33 148 059 009, AFSL 409340 ('Fidelity Australia'), a member of the FIL Limited group of companies commonly known as Fidelity and Fidelity International. This content is intended as general information only. You should consider the relevant Product Disclosure Statement available on our website www.fidelity.com.au.

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Not all income is created equal

Helen Mason

Australian investors have traditionally relied on two primary sources of income: dividend-paying shares and bank hybrids. More recently, private credit supplemented these income sources.

Each offered a compelling proposition. Equities and bank hybrids delivered attractive post-tax income and private credit offered an illiquidity premium in exchange for locking capital away.

However, the market has changed.

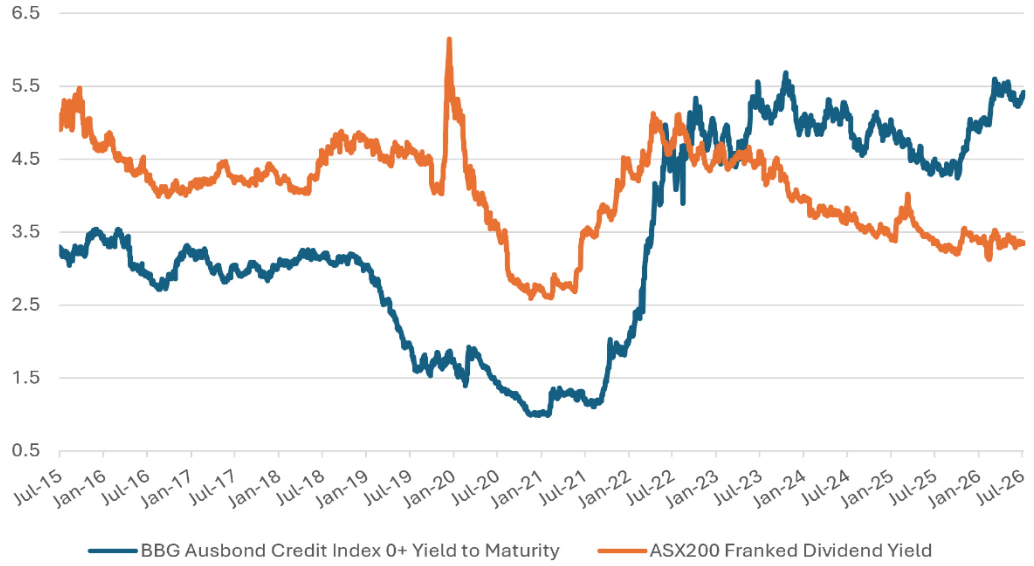
Investors can now access yield from high-quality Australian public credit that in many cases exceeds yields available from fully franked Australian equities. Public credit also sits higher in the capital structure, benefits from contractual income streams, and can be accessed through vehicles offering daily liquidity. Yields on private credit, by contrast, have steadily declined as demand for the asset class has increased.

Yields exceeding 6% are currently available to investors from a broad range of high-quality companies in public credit, an asset class that is liquid, highly regulated and has daily independent pricing transparency. Investors no longer need to accept the additional risks embedded in private credit, or the lower income yield now on offer from equities.

The decline of franked dividend income

Since 2010, the ASX200 has provided investors with a grossed-up dividend yield of between 4%-5% along with capital appreciation, with the exception of 2021 (2.75%), when COVID highlighted the discretionary nature of dividends (see chart 1). However, since 2022, the rally in equity markets has outpaced dividend growth, which has resulted in the dividend yield dropping to 3.3%. Up to this point, investors have been rewarded through capital gains, but for the incremental investment dollar, the ASX200 is offering a lower income yield and/or a greater risk of capital loss if the index yield returns to the 4-5% range.

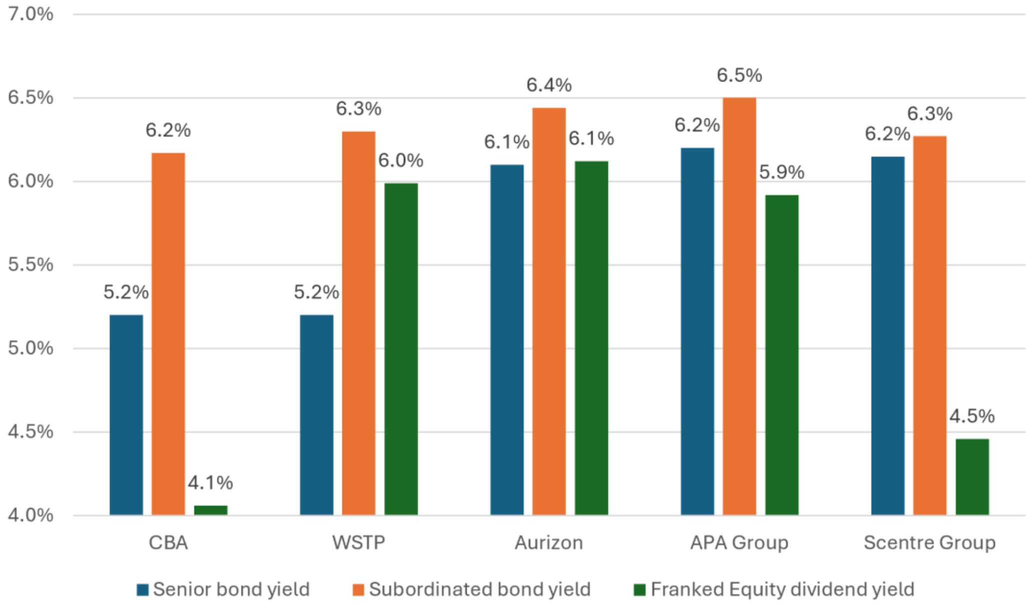
Chart 1: Australian Credit versus Equity Income



Source: Bloomberg, July 2026

More recently, public credit and equity income yields have diverged. Higher underlying interest rates, together with wider credit spreads, have pushed yields higher, creating a situation where investors can access income streams that often exceed fully franked dividend yields. The chart below shows just a few examples where senior and subordinated yields on listed companies exceed the franked equity dividend yield.

Chart 2: Comparing yields across the capital structure



Source: Bloomberg, July 2026

This matters because dividends are discretionary, whereas bond coupon payments are a legally binding obligation, subject to the terms of the security and the issuer remaining solvent. Dividends can be increased, reduced or cancelled altogether depending on company profitability, economic conditions, capital requirements, and/or management decisions. This is not the case for bonds.

Furthermore, bondholders must be paid before shareholders. They sit higher in the capital structure and enjoy a priority claim on a company's cash flow.

Whilst equities remain a good source of long-term capital growth, high-quality public credit can offer income-focused investors greater contractual certainty and a higher position in the capital structure, with yields that in many cases now exceed grossed-up dividend yields.

The value of liquidity

Over the past decade, achieving higher yields has often meant investors have accepted lower liquidity and lower quality by investing in Australian private credit funds. Post the Global Financial Crisis (GFC), when interest rates were near zero and income was scarce, that trade-off looked attractive.

Today, it is less compelling.

Public credit yields are now comparable with private credit, but without the lock-ups, high fees, valuation opacity and constrained liquidity that define many private market investments. This is particularly important because liquidity is often underestimated until it is needed. Opportunities emerge. Personal circumstances change. Markets move.

As a regulated, liquid asset class, public credit gives investors the ability to respond, private credit does not.

At the same time, investors should be cautious about equating smoother returns with lower risk. The apparent stability of private credit is partly a function of infrequent pricing. Assets that are not regularly traded naturally experience less visible volatility. That does not mean the underlying risks have disappeared. In fact, risk can be exacerbated by the lack of transparency inherent in these markets.

Income should be contractual, not conditional

Perhaps the strongest argument for public credit is the nature of the income itself.

Income investors are often seeking reliability as much as yield. The ability to plan around regular, predictable cash flows is a central part of the investment objective.

Public credit is built around contractual income payments. The amount, timing and frequency of coupon payments are established when the bond is issued.

That certainty stands in contrast to both equities and parts of the private credit market.

Dividend payments depend on company performance and board decisions.

Private credit investments can also include complex documentation features that allow borrowers to defer cash interest payments under certain conditions.

Public investment grade bonds generally offer a much simpler proposition: the borrower is expected to pay investors in cash and on time.

In an environment characterised by greater economic uncertainty, that certainty has value.

Why quality matters

Income should not be evaluated solely on yield. The quality of the borrower matters.

The strength of the Australian public credit market is that it remains dominated by investment-grade issuers, including major financial institutions, infrastructure businesses, utilities and other established corporate borrowers like Woolworths and Wesfarmers.

In Australia, these companies operate in a favourable competitive environment, often enjoying a monopoly or duopolistic position. Many operate essential services, generating resilient CPI-linked cash flows and are also required to maintain regulated and transparent reporting standards.

The combination of high yields, quality and seniority within the capital structure is difficult to replicate elsewhere.

A better income proposition

For much of the past decade, income investors faced an uncomfortable choice: accept lower yields from defensive assets, or chase higher yields by sacrificing liquidity, transparency or credit quality.

Today, investors no longer need to accept that trade-off.

Australian public credit offers a competitive income solution with the benefit of high-quality exposures, contractual cash flows, transparent pricing and daily liquidity.

In our view, public credit is no longer just the defensive option. For investors focused on income, it now stands out as one of the more compelling opportunities available.

Helen Mason is Head of Credit, Australia at Schroders Investment Management Australia, a sponsor of Firstlinks. Issued by Schroder Investment Management Australia Limited (ABN 22 000 443 274, AFSL 226473). This article does not contain and should not be taken as containing any financial product advice or financial product recommendations. This article does not take into consideration any recipient's objectives, financial situation or needs. Schroders does not give any warranty as to the accuracy, reliability or completeness of information which is contained in this material.

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Will AI destroy investor capital?

Roger Montgomery

The inventors of artificial intelligence (AI) have variously promised the transformation of civilisation, a cure for cancer, the code to ageing, limitless clean energy, economic abundance, personalised medicine, and the ability to compress decades of scientific research into weeks by automating complex discovery.

All that might eventually be true – although I have serious doubts – and yet it could still end in financial catastrophe. Indeed, history demonstrates these two outcomes are not mutually exclusive.

The history of technological breakthroughs is littered with revolutionary innovations that transformed society while simultaneously destroying the capital of the investors who overpaid to build them.

Britain's 1840s railway mania built essential national infrastructure, but ruined the original shareholders. The late-1990s fibre-optic and dot-com boom altered global communications forever, but that was followed by a devastating market crash. Today, AI appears to be following the same historical script, with excitement beginning to give way to financial accountability.

In the first stage of the boom, equity markets reward technology companies almost indiscriminately – in today's market, for attaching themselves to the AI narrative. But markets eventually shift from asking what a technology can do to demanding a concrete answer to the question of who's actually going to make an adequate return on the capital deployed.

The US$750 billion dream

The spending underway is no longer merely a sector-specific phenomenon; it's morphed into a proper macroeconomic event. A common misconception suggests that US$3.7 trillion has already been spent on AI. That figure originates from a projection by global consulting firm McKinsey, estimating that total data-centre capital expenditure could require between US$3.7 trillion and US$7.9 trillion (with a central scenario of US$5.2 trillion) between 2025 and 2030.

Despite that confusion, the actual current numbers are equally staggering.

In calendar 2026 alone, the four major cloud hyperscalers - Microsoft, Amazon, Alphabet, and Meta - are contemplating approximately US$735 billion to US$760 billion in capital expenditure. Microsoft expects roughly US$190 billion in capital spending, Amazon has lifted its forecast to US$220 billion, Alphabet anticipates US$195 to US$205 billion, and Meta projects US$130 to US$145 billion. While not exclusively dedicated to AI, each company explicitly cites AI and cloud infrastructure as the primary driver.

Worryingly, this race to spend is now testing the limits of their balance sheets. For two decades, Big Tech operated as an extraordinarily cash-generative, asset-light industry enjoying high-margin monopoly returns. Indeed, I remember writing years ago about how these companies' returns on equity actually increased as their equity grew. They were like bank accounts where interest rates would rise as the bank balance grew.

But today, those same companies are becoming capital-intensive, requiring endless ongoing reinvestment. Far from being a 30-year toll road, AI hardware suffers from severe obsolescence. Servers and networking equipment are depreciated rapidly: Microsoft depreciates equipment over two to six years, Meta over five to 5.5 years, and Amazon over five to six years.

This reality is now showing up on income statements. Microsoft's depreciation expense surged 56 per cent year-on-year from US$22.0 billion in FY25 to US$34.3 billion in FY26. In the first half of 2026, Alphabet's property-and-equipment depreciation rose from US$9.5 billion to US$13.6 billion, Meta's climbed from US$8.1 billion to US$11.7 billion, and Amazon Web Services (AWS)-allocated depreciation at Amazon jumped from US$9.2 billion to US$15.4 billion.

Companies have to generate sufficient incremental profit not merely to pay electricity bills, but also to recover hundreds of billions of dollars tied to rapidly depreciating assets.

Collapsing costs and drained moats

And while costs are exploding, the unit price of intelligence is collapsing. Stanford University's AI Index, which tracks the development and use of AI, revealed that the inference cost for a model performing at the GPT-3.5 level collapsed from US$20 per million tokens in November 2022 to just 7 cents by October 2024 - a 280-fold decline. Prices continue to plunge, driven by aggressive discounts from model developers, including Chinese firm DeepSeek, which introduced application programming interface (API) discounts of up to 75 per cent in 2025.

Furthermore, open-source and open-weight models (such as those from American and Chinese developers) are becoming 'good enough' for most corporate applications. Enterprise users, like Uber - which expanded its internal AI-agent usage ninefold while keeping overall AI costs flat through efficiency gains and open-weight models - can run workloads on local hardware or cheaper alternatives rather than paying premium prices for frontier cloud models.

This creates a problem: demand for intelligence is exploding, but falling prices mean consumers and enterprise users capture the economic value while frontier providers absorb the massive costs.

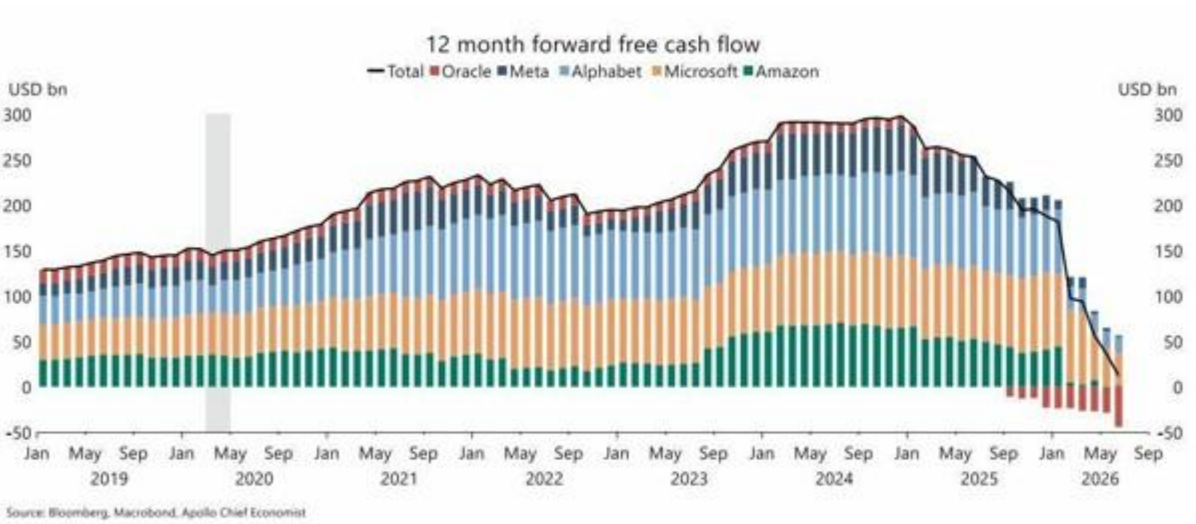
And that's one lesson the history of technology booms has taught me. More often it's the consumer that wins – and society lunges forward – but investors lose.

The biggest problem for big tech valuations, however, is they are no longer companies with unassailable competitive moats. Alphabet, Meta, Microsoft, and Amazon once enjoyed distinct, quasi-monopolies protected by massive network effects and switching costs. Together they were a polite oligopoly. Now, triggered by the launch of ChatGPT - which temporarily delayed US recession fears by igniting an artificial capital boom - these giants have entered what veteran investor Jeremy Grantham has described as an aggressive "cage fight." They're now invading each other's territories in search, software, social media, and cloud, and in so doing, they are setting fire to their own capital merely to build overlapping platforms.

The cash flow crunch

Meanwhile, the arms race is burning through cash at an alarming rate. Apollo Global Management's Chief Economist, Torsten Slok, has highlighted a severe downward trend in 12-month forward free cash flows across hyperscalers.

Figure 1. Hyperscaler Cash Burn



Amazon generated US$161 billion in operating cash flow to June 2026, but US$169 billion in net property expenditure drove its reported free cash flow to negative US$7.6 billion. Alphabet spent US$44.9 billion on capital expenditure in the June quarter alone and raised fresh equity, while Meta issued US$25 billion in bonds in May 2026, bringing long-term debt to nearly US$84 billion.

With borrowing surging and cash reserves dwindling, credit markets are already flagging early distress. Credit default swap (CDS) spreads, which are insurance for the buyers of hyperscalers and AI infrastructure provider debt, have widened significantly, reaching record levels as traders react to the changing picture for these companies.

Finally, these financial pressures are occuring at the same time that broader macroeconomic vulnerabilities are emerging. Heavy AI capital funding is competing directly for global capital with the US Government, which faces a US$1.9 trillion federal deficit in 2026 and public debt at 101 per cent of gross domestic product (GDP). The result is higher bond yields, which act like gravity on equity valuations.

Consequences

The AI rollover may already have begun.

Leveraged momentum trading that previously drove the AI stock rally is now fuelling a sharp unwind. This is exemplified by the collapse of former OpenAI researcher Leopold Aschenbrenner's Situational Awareness Fund and the severe pullbacks in the share prices of semiconductor stocks.

Table 1. AI and semiconductor stocks – falls from June 2026 highs

Slides from June Highs		
Name	**Code**	**Change**
Alphabet	GOOG	-14.00%
Advanced Mico Devices	AMD	-19.85%
Micron Technology Inc	MU	-23.13%
Broadcom Inc	AVGO	-23.42%
Space X	SPCX	-29.90%
Samsung Electronics	005930	-30.00%
Qualcomm Inc	QCOM	-34.33%
Applied Materials Inc	AMAT	-36.15%
San Disk Corp	SNDK	-36.40%
Intel Corp	INTC	-36.52%
SK Hynix	000660	-44.33%

**As at 1 Sept 26. Source: Montgomery Investment Management.*

Rather than a sudden single crash, markets could now face a prolonged, painful bear market.

Enterprise demand for AI tools is real. Google Cloud revenue surged 82 per cent to US$24.8 billion in Q2 2026, Azure surpassed a US$100 billion run-rate, and AWS reached US$42.2 billion with a US$496 billion backlog. But finding customers isn't the issue.

The question is whether enterprise demand will expand enough to justify the trillions spent on infrastructure. Until you see corporations announcing broad-scale labour substitution and measurable productivity gains, and not just AI experimentation, the underlying capital the hyperscalers have invested remains exposed.

I fear the consequences of the first hyperscaler who blinks and cuts or slows its build-out. That will prompt the market to question the boom, their investment in it, and how close to the door they should be dancing.

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ASX reporting season: Signals, surprises, stock stories

Christian Guerra, David Wilson

Strong earnings, higher dividends and plenty of surprises featured in this year's August reporting season, but the headline numbers only tell part of the story.

While resources and healthcare emerged as clear winners, banks faced a tougher outlook and consumer-facing businesses continued to feel the effects of a more cautious economy. The result is an increasingly selective market, where company fundamentals are increasingly separating winners and losers rather than broad market trends.

Strong results, softer outlook

At first glance, reporting season was impressive. Earnings exceeded expectations by around 15%, while dividends came in more than 20% ahead of forecasts, supported by healthy cash generation.

However, many companies had already lowered the bar through trading updates earlier in the year. More importantly, around 30% of companies downgraded their outlooks, leaving earnings growth expectations for FY27 at a modest 4%.

The message is clear: the recent results were strong, but companies are becoming more cautious about what lies ahead.

Resources lead the charge

Resources were the standout sector, driving much of the market's earnings growth.

Strong prices for copper, iron ore, oil, gas and gold, boosted profits across the sector, with companies such as BHP, Rio Tinto, Santos and Woodside delivering strong results and generating significant cash flow.

Copper was a particular highlight, reflecting growing demand linked to electrification and the energy transition, while elevated gold prices continued to support both major and mid-cap gold miners.

Banks lose momentum

The picture was less positive for banks.

While margins continued to benefit from higher interest rates, profit growth came in below expectations. More concerning was a sharp decline in mortgage applications, with major banks reporting falls of between 12% and 20%, and even larger declines among investors.

Banks remain well capitalised and bad debts remain low, but slower lending growth points to a more challenging earnings environment ahead.

Healthcare shines

Healthcare delivered one of its strongest reporting seasons in years.

ResMed, Fisher & Paykel Healthcare and Pro Medicus all reported strong growth, while CSL enjoyed a significant share price recovery as investors gained confidence that its earnings outlook is improving.

What stood out was the breadth of strong results across the sector, reinforcing the resilience of high-quality healthcare businesses.

Winners and losers in technology and retail

Technology remained a stock-picker's market. Leaders such as REA Group, CAR Group, Pro Medicus and NEXTDC continued to perform strongly, while companies that fell short of expectations were quickly punished.

Retail painted a mixed picture. Coles and Woolworths delivered solid growth as consumers continued spending on essentials. In contrast, discretionary retailers such as JB Hi-Fi and Harvey Norman reported softer trading conditions, reflecting more cautious consumer spending and a slowing housing market.

The key takeaway

August reporting season reinforced an important lesson for investors: not all sectors, or companies, are moving in the same direction.

Resources and healthcare continue to benefit from powerful tailwinds, while banks and consumer-facing businesses face growing challenges. In a market where performance is increasingly driven by company-specific factors, identifying quality businesses with resilient earnings and strong competitive positions remains critical.

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