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Editorial

One of the less glamorous aspects of working in financial services is the sheer volume of emails you receive. Most promise market insights '*too important to ignore*', which is generally a reliable sign they can be ignored immediately.

I also have a habit of opening ones I probably shouldn't. Outside of phishing attempts and the occasional Nigerian Prince, there exists an endless stream of industry events, media releases and marketing updates that accumulate throughout the week.

It's a wonder any of us have time to eat lunch.

The remaining few are spared from the bin, in the hope they can spark some sort of article inspiration. One such email recently notified me that Australia's ETF industry had reached almost \$400 billion in assets following a record-breaking quarter. Of course, if you've been awake for any part of the last decade, this probably doesn't come as a surprise. ETFs have become one of the default allocations for investors across a broad spectrum of objectives and experience levels.

I should confess that I'm not merely an observer of this trend, as most of my portfolio sits in broad-based ETFs. This arrangement has suited both my investment returns and the preservation of my ego, after several humbling attempts at stock-picking.

Yet I've always had a soft spot for playing devil's advocate, particularly when an idea reaches near-universal acceptance.

To be clear, this isn't an argument against using ETFs. Nor is it a call to abandon them in favour of stock picking. Investors aren't forced to pledge allegiance to a single philosophy. Most of us realistically sit

somewhere in the middle. But when a product becomes the default solution for almost every investing problem, it's worth re-examining a couple assumptions that often sit beneath.

Trading flexibility

ETFs have undoubtedly played a significant role in lowering the barriers to investing. Yet that accessibility without education and a steady temperament can be a double-edged sword.

The ETF Impact Survey by State Street found that the three most commonly cited reasons investors owned ETFs were diversification, lower costs and flexibility in trading. The first two are hardly controversial, but the third is what I find more interesting.

Why Investors Choose ETFs

ETFs deliver diversification and access at a lower cost. Across all four countries surveyed, investors using ETFs are doing so most often for their diversification benefits, flexibility in trading, and low cost/expense ratio.

The Top Reasons Surveyed Investors Choose ETFs for Their Portfolios



Question asked: Why do you have ETFs in your current investment portfolio? Base: Have ETFs in Current Investment Portfolio.

STATE STREET GLOBAL ADVISORS SPDR

A defining feature of ETFs are their ability to trade throughout the day like ordinary shares. This provides a degree of liquidity and flexibility that many traditional managed funds lack. On the surface, investors value control, of which ETFs provide plenty. The problems arise when that control isn't exercised wisely.

A 2016 paper, *Abusing ETFs* by Bhattacharya et al., looked at data from a large German brokerage platform to examine the impact of ETF usage on investor outcomes. Perhaps surprisingly, the study found that ETF investors failed to improve portfolio performance over the period examined. In many cases, the outcomes deteriorated, with further evidence pointing to suboptimal ETF selection. Additionally, those who traded most actively tended to experience the worst outcomes.

In other words, one of the perceived benefits becomes a detriment. Naturally, the temptation to meddle with a portfolio exists wherever liquidity is found. But the irony is that ETFs are often marketed as long-term investment vehicles, while the market structure surrounding them encourages frequent action. It can be incredibly difficult to stay the course while simultaneously being given the ability to abandon it at any moment.

The performance paradox

For decades, Warren Buffett famously proclaimed that a low-cost index fund is the most sensible equity allocation for the majority of people.

One of the most common arguments in favour of using ETFs is that the average person is an incredibly poor stock picker. And the evidence does broadly support this.

Hendrik Bessembinder is best known for his research on long-term wealth creation. Over decades, he has performed a series of studies analysing the lifetime performance of US stocks. The [2026 iteration of his paper](#) found the median stock still delivers a negative lifetime return of roughly -6.9% on a buy-and-hold-basis.

If the median stock is considered a sure-fire path to underperformance, then the appeal of ETFs becomes obvious. But while they remove the risk of missing the next Nvidia or Commonwealth Bank, they don't eliminate the potential for underperformance altogether.

Morningstar's *Mind the Gap* study compares the difference between a fund's overall return and the return that investors actually receive.

The funds themselves delivered an aggregate annual return of 9.9% p.a., while the average investor dollar in US stock funds and ETFs earned 8.7% p.a. over the decade ending December 2025. Investors encountered a familiar problem where they weren't picking the wrong investments, but they were getting in their own way.

This is the centre of the ETF versus stock-picking debate. Replacing single stock risk with an ETF presents its own challenges. An individual share portfolio may overlook a handful of companies that ultimately drive market returns and end up with a portfolio of mediocre performers. ETF investors avoid this problem by owning a larger pool, but they're still prone to underperformance.

Ultimately every approach has a weak point. The more pressing question is whether investors understand the trade-offs associated with whichever path they choose.

Simonelle Mody

Also in this week's edition...

Mark LaMonica shares the key [questions every retiree should be able to answer](#) for themselves.

Amid growing concerns about AI expenditure, **Jason Teh** is back to discuss one key difference that separates [today's boom from the dot-com bubble](#).

Trusts are facing a shake-up, but a complete overhaul may not be necessary. **Anne-Marie Tassoni** walks through [potential restructuring strategies for families](#).

War, inflation and higher rates were expected to derail US equities. **Jared Franz** explains [why the economy is stronger than many believe](#) and what this implies for investors.

As investors have grown sceptical about policy mishaps, **Shaokai Fan** poses the question - [how much trust is in your portfolio?](#)

[Seven months into retirement](#), **Dr Joanne Earl** returns to reflect the surprises she is still uncovering.

Varun Laijawalla explores why [the next chapter of technology](#) may not belong to the companies or business models many expect.

Curated by Simonelle Mody and Leisa Bell

The retirement scorecard: how many of these questions can you answer?

Mark LaMonica CFA

Planning is bringing the future into the present so that you can do something about it.

- Alan Lakein

The [2026 Epic Retirement Tick](#) rated industry and retail super funds against a set of twenty criteria designed to measure how well they supported their members in retirement.

I'm supportive of any effort that helps Australians improve their retirement outcomes. But I also have a different worldview. Advice and support play a key role in outcomes. But ultimately my retirement comes down to me.

A super fund – like any investment – is a tool. My retirement outcome depends on the person wielding the tool. No organisation is going to hand me the life I want.

The agency you have over your outcome is both the promise and challenge of investing. For anyone who wants a great retirement I've come up with my own tick test. I've immodestly named it the 2026 Legendary Self-directed Investor Scorecard.

2026 Legendary Self-directed Investor Scorecard

A legendary retirement doesn't happen by chance. You need a framework to guide your decision making and help you follow the pathway to achieving your goals. Use this scorecard to self-assess where you stand.

Do you understand the maths of retirement?

Financial literacy is the foundation for a great retirement. You don't need advanced maths or to dedicate your life to financial planning. Understanding the high-level mechanics of retirement will do – that starts with the 4% rule.

There are several legitimate criticisms of the 4% rule. I'm an advocate for everyone to create a personalised retirement roadmap. But to do that means understanding the different factors that impact the sustainability of a withdrawal rate.

The baseline goal for every retiree is the same...don't run out of money. How quickly you run out of money depends on the interplay between several factors including your withdrawal rate, inflation and the order and magnitude of returns.

For instance, in a [recent article](#) I ran a Monte Carlo simulation to figure out the probability of not running out of money in retirement. I put in assumptions for withdrawal rates, inflation, returns and asset allocation.

The simulation gave a 78.37% chance of not running out of money in thirty years. But the simulation also showed that starting out with \$1m you have a 10% probability of ending up with more than \$8.5 million in thirty years. The middle 50% of scenarios between the 25th percentile and the 75th percentile shows outcomes between \$248k and \$4.53m. These are meaningfully different outcomes and to have a great retirement you need to understand why.

Gaining this foundational knowledge allows you to incorporate your individual circumstances into a personalised plan. Your plan will help you spend confidently by knowing you're not spending too much or too little.

If you can answer the following questions it is a good sign you understand the maths of retirement:

- What is the most challenging market environment to navigate as a retiree?
- What are the assumptions around spending embedded in the 4% rule?
- What are the assumptions about taxes embedded in the 4% rule?
- How long is the 4% rule designed to last?
- Why can two retirees with the same average return experience very different outcomes?

Give yourself a score between 1 to 5. 5 indicates you can easily answer the questions while 1 means you have some work to do. Scored low? [Start with understanding the assumptions behind the 4% rule.](#)

Do you have an estimate of how much you will spend each year?

Everybody will have a different vision of retirement. But in every case it won't be free so you need to estimate how much you will spend each year.

The precision of your estimate is largely dependent on how long you have until retirement. I still have my estimate from my twenties in a spreadsheet. Looking at it now makes me want to go back in time and shake young, naïve Mark... *don't you know how much nice hotels and flights cost?*

My ambitions and perspective have changed but that doesn't mean it wasn't worth going through the exercise.

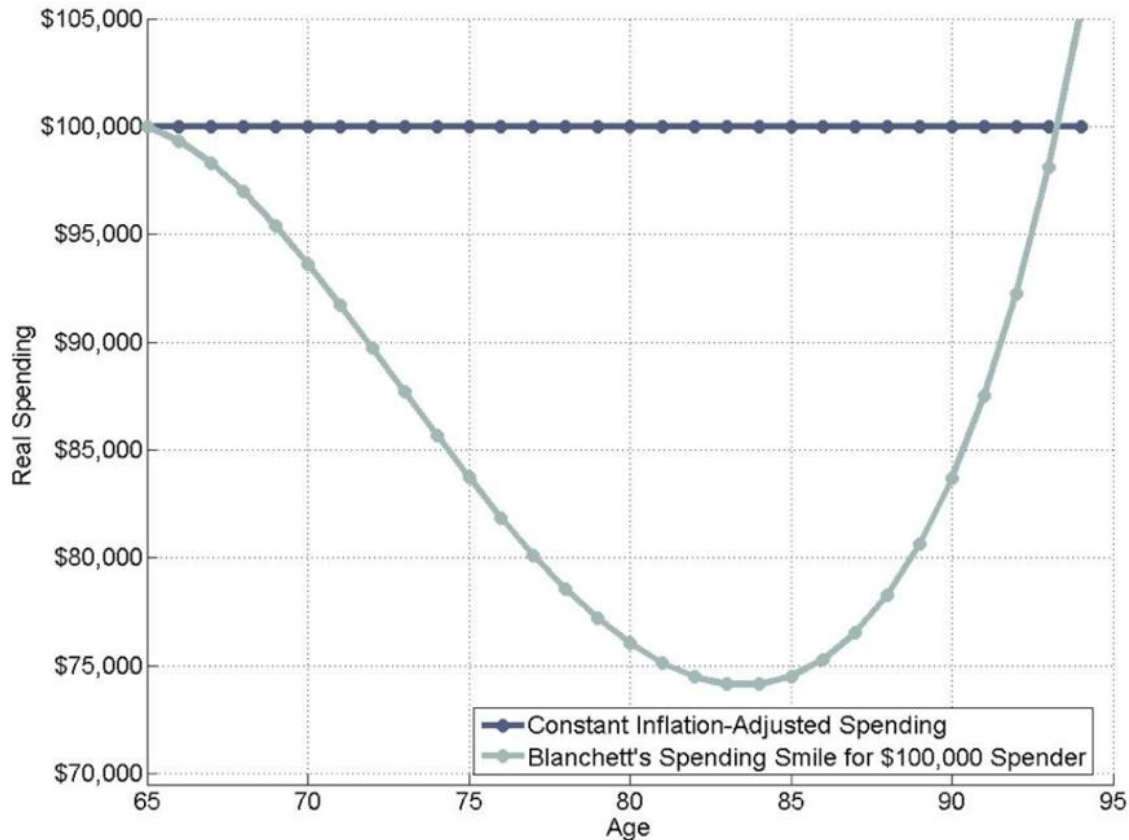
An evolving goal is better than no goal at all.

Start with a goal and then develop a plan. Adjust accordingly. There are several factors to consider when making an informed estimate.

Typically, retirees spend a lot early in retirement when they are active and less once they've grown older. Spending can also spike at the end of life as medical and care costs come into play.

If you put these typical spending patterns on a chart it looks like a smile – hence, it is known as the smile effect. [A study by a former Morningstar researcher](#) found that spending typically drops in real terms by approximately 1% a year for retirees between the ages of 60 and 90.

This may not seem meaningful but it compounds over time. A retiree with \$100,000 in spending at age 60 would hit a spending trough around age 84 when spending is \$74,146 or 26% lower. Not accounting for this tendency may mean underspending early in retirement.



For illustration purposes only. The Estimated Path of Real Retirement Spending for a \$100,000 Initial Budget at 65 vs. Constant Inflation-Adjusted Spending Strategy. Based on data from Blanchett, David. 2014. "Exploring the Retirement Consumption Puzzle." Journal of Financial Planning 27 (5): 34-42

[Source: What is the retirement spending smile?](#)

When coming up with your estimate concentrate your efforts on the big categories of spending. Housing and day-to-day expenses are universal factors. Other categories will be dependent on your individual goals.

When estimating your retirement spending there are several questions to ask:

- Will your expenses change significantly in retirement? Examples include paying off your mortgage, relocating to a cheaper location or a desire for more recreation and travel.
- How vulnerable are your expected expense categories to inflation?
- Given your planned retirement age and / or health how long do you believe you will be active?

Give yourself a score between 1 to 5. 5 indicates you can easily answer the questions while 1 means you have some work to do. Scored low? [My four-step process for estimating retirement spending should help.](#)

Do you know how much money you need to retire?

I'm not a big believer in rules of thumb. You aren't going to be successful without interrogating the conventional wisdom of retirement. Examples include the 4% rule / rule of 25 and the ASFA retirement standard.

A rule of thumb is a rough estimate that broadly applies to most people without precisely applying to any individual.

You are unique – your goals, financial circumstances and philosophy about money are all distinct. Estimating your annual retirement spending is only half the battle. Your withdrawal rate needs to be personalised as well.

The withdrawal rate is the next step in your retirement roadmap as it mathematically transforms your annual spending into the lump sum you need to retire. Small changes make a big difference. Increasing your withdrawal rate from 4% to 4.50% increases annual spending by 12.50%.

One reason hard and fast rules don't work is because everyone's circumstances are different. One example is the flexibility of retirement spending.

If most of your projected spending is on 'needs' there may be little flexibility and a requirement to increase spending by inflation.

If most of your spending is on 'wants' you may be able to adjust your spending based on market conditions and inflation.

Spending flexibility is just one example. Others include the length of your retirement, the return environment, your asset allocation, your investment flexibility. All these factors should influence your personalised withdrawal rate.

Once you've got an estimated withdrawal rate you can calculate the lump sum you need to retire. Just divide your annual spending needs by the withdrawal rate.

Now you have your target for a legendary retirement based on your personal circumstances rather than somebody else's assumptions.

To estimate your personalised withdrawal rate consider the following:

- Do you have flexibility around your spending so you can adjust it based on market conditions?
- What percentage of your total expected spending is 'needs'?
- Do you plan to retire prior to your preservation age and have you factored it into your plan?

Give yourself a score between 1 to 5. 5 indicates you can easily answer the questions while 1 means you have some work to do. Scored low? [Get tips on creating a personalised retirement plan.](#)

Do you have an asset allocation target?

For all the attention that security selection receives from investors, asset allocation plays the biggest role in investor outcomes.

Asset allocation impacts the long-term returns of portfolios. It impacts the volatility of a portfolio and the drawdowns faced by investors in bear markets.

Asset allocation decisions dictate how a portfolio will respond to the twin risks of retirement – sequencing risk and longevity risk. These are the two risks the 4% rule is designed to mitigate.

Sequencing risk refers to how the order – or sequence – of returns impacts how long a portfolio can support your spending in retirement. If you retire into a bear market and need to sell when prices are low to fund spending, you will run out of money faster.

Outliving your retirement savings is the other key risk faced by retirees. This is longevity risk which becomes more of a challenge as life spans increase.

[The order of returns may not seem important](#). But if you retired in the year 2000 with a \$1m portfolio and withdrew \$40,000 annually you would be left with approximately \$330,000 twenty years later if you invested your entire portfolio in the S&P 500.

If you reversed the order of S&P 500 returns over those twenty years you would end up with approximately \$1.564m. The average return is the same but the outcomes are very different.

The simplistic response to sequencing risk is to invest in more defensive assets which will fall less in a bear market. The problem with defensive assets is that they have lower long-term returns.

Those lower returns are a problem because of longevity risk. To avoid outliving your savings means investing in growth assets with higher expected long-term returns.

The seemingly contradictory approaches to addressing these twin risks underpins the dilemma for retirees when choosing the right asset allocation. But this high-level view ignores the nuance involved in crafting a plan for retirement.

Retirees have many tools at their disposal including using cash as part of a bucket approach, holding income generating assets, annuities and positioning within a high-level asset class.

Asset allocation decisions in retirement aren't about perfection. They are about resilience under a variety of scenarios.

Come up with a plan to address the underlying risks of retirement which addresses the following questions:

- How will you respond if the market plunges early in retirement?
- How will you respond if returns are different from your expectations over the course of your retirement?
- How long can your portfolio last in retirement and what medical and care scenarios can it support?

Give yourself a score between 1 to 5. 5 indicates you can easily answer the questions while 1 means you have some work to do. Scored low? [Learn how asset allocation can help you survive the worst year of retirement](#).

Final thoughts

Are you feeling more confident about retirement? Are there areas you need to focus on? Were you so confused by what I wrote that it might as well have been in Latin?

The good news is this wasn't a test. The point of the scorecard was to help you identify areas that might need some further attention.

A legendary retirement doesn't happen by chance. You are in control of your outcomes.

You can develop a baseline of financial literacy.

And you can use your knowledge to make the trade-offs needed to create a plan and adapt as circumstances change.

The future is unknown. That doesn't mean you can't take steps today to make it better.

Questions, comments or restaurant recommendations? I can be reached at mark.lamonica1@morningstar.com

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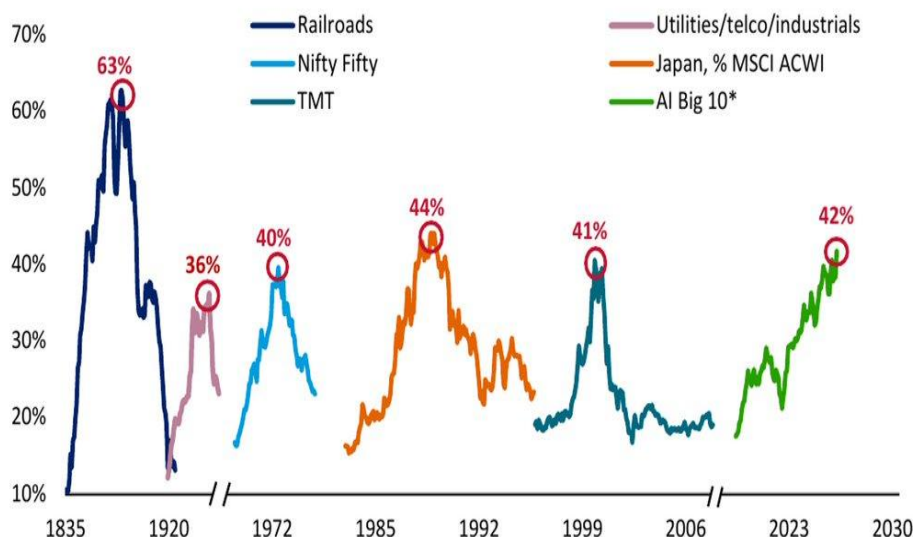
2026 is not 1999

Jason Teh

The US market is extremely concentrated, and the bears say 2026 could be 1999 all over again. As in the dot-com boom, a new technology promises to change everything and capital spending is enormous. The Magnificent 7 plus Broadcom, AMD and Micron, the 'AI Big 10', now account for 42% of US stock market value. At the height of the dot-com bubble in 2000, the technology, media and telecom (TMT) sector peaked at 41%. Most past bubbles peaked at around 40%.

Chart 2: Peak concentration level of major bubbles 40%, except for railroads >60%

Concentration in historic bubbles



Source: BofA Global Investment Strategy, GFD Finaeon, Bloomberg. Note: all US sectors, as % of US market cap, except for Japan (which is as % of MSCI ACWI). *AI Big 10 = Magnificent 7 + Broadcom, AMD, and Micron.

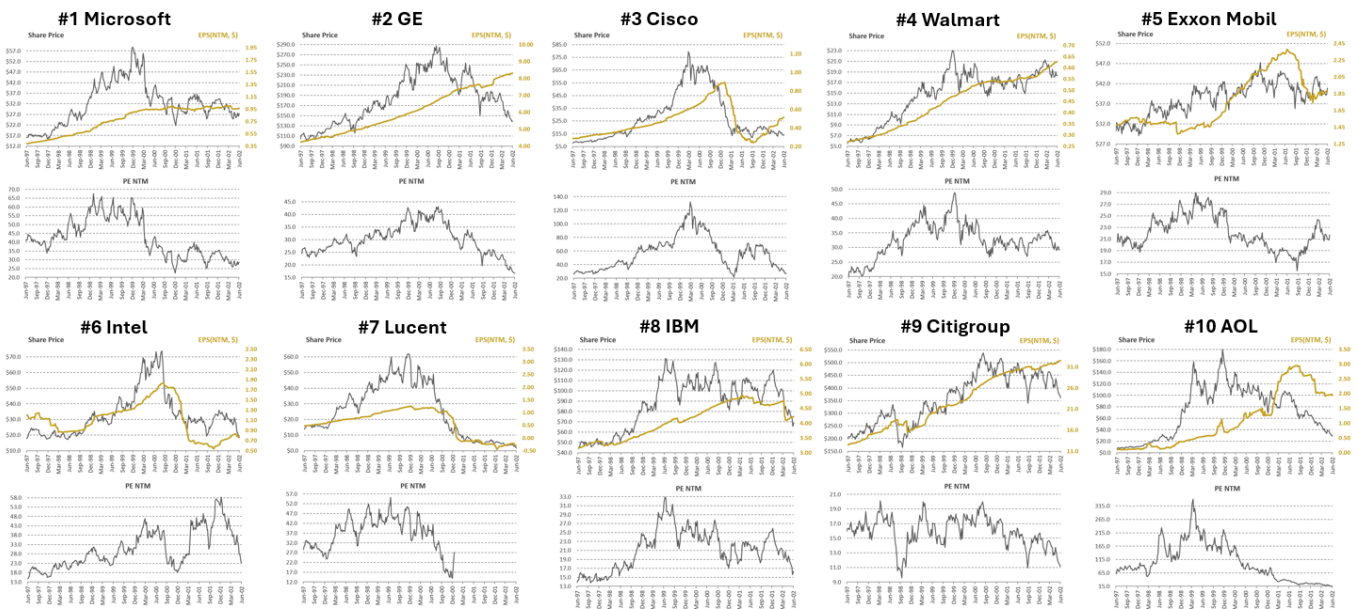
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But concentration alone does not make a bubble. The better test is how the market leaders are priced.

1999: a boom that lifted everything

The 1999 earnings boom reached most of the economy. Nine of the ten largest companies in December 1999 saw their forward PE expand sharply. The biggest re-ratings came from the purest internet plays, Cisco and AOL. Only Citigroup's PE was relatively stable. The charts show each stock's share price, next-twelve-month (NTM) earnings and NTM PE from mid-1997 to mid-2002.

Largest 10 S&P500 companies (Dec 1999)



Source: FactSet, Vanguard; Travelers merged with Citicorp in 1998; AOL acquired Time Warner in 2001

Why it boomed, and why it burst

Four forces drove the TMT boom. Each later reversed and caused the bust.

The first was Y2K. Fear that two-digit dates would crash systems on 1 January 2000 drove an estimated \$300 billion to \$600 billion of IT spending worldwide, pulling forward years of upgrades. Microsoft gained from the surge in PC demand, and most of those PCs ran on Intel chips. IBM's windfall came as companies upgraded their servers. When the date passed, orders dried up and left excess inventory across the technology supply chain.

The second was a debt-fuelled telecom build-out. Hundreds of unproven new carriers raised tens of billions in junk bonds to lay fibre, and equipment makers such as Lucent and Cisco lent them money to buy their gear. As orders boomed, Cisco's forward PE more than quadrupled. Lucent's rose less, because much of its revenue came from slower-growing voice equipment. When credit froze in 2000, the carriers defaulted and hit the lenders hard. Telecoms made up more than half of the roughly \$160 billion of North American high-yield bond defaults in 2001 and 2002. The fibre outlived the companies that laid it. Most of it sat unused for years, and it took over a decade for broadband, streaming and cloud computing to fill it.

The third was the equity-fuelled dot-coms. Soaring valuations made equity cheap to raise, and a wave of loss-making IPOs followed. AOL was the largest and most profitable pure internet company in the index and its forward PE tripled from an already high base. In January 2000 it agreed to pay about \$165 billion

in its inflated stock for Time Warner. When the equity window shut, Pets.com, eToys and Webvan ran out of cash and folded. AOL Time Warner survived but wrote down about \$99 billion in 2002.

The fourth was cheap money. After Russia defaulted and the hedge fund LTCM nearly collapsed, the Fed cut rates three times in late 1998, to 4.75%, into an already strong economy. Asset prices took off, and even non-technology stocks such as GE, Walmart and Exxon Mobil re-rated. By June 1999 the Fed concluded the economy was overheating and raised rates six times, to 6.50% by May 2000.

The turn came in March 2000, when news that Japan had slipped back into recession sparked a global sell-off. The S&P 500 fell 49% by October 2002 and the Nasdaq 78%. For strong companies, the rout was driven largely by collapsing multiples. The S&P 500's forward PE fell from a peak of 26.7x to 14.4x. The highest multiples fell furthest. Cisco's forward PE fell from about 132x to about 30x, and AOL's from about 315x to about 15x. Weaker companies saw their businesses break. Lucent's shares fell 99%. WorldCom, the second-largest US long-distance carrier, filed for bankruptcy in July 2002 after an accounting fraud later put at \$11 billion. It was the largest bankruptcy in US history at the time.

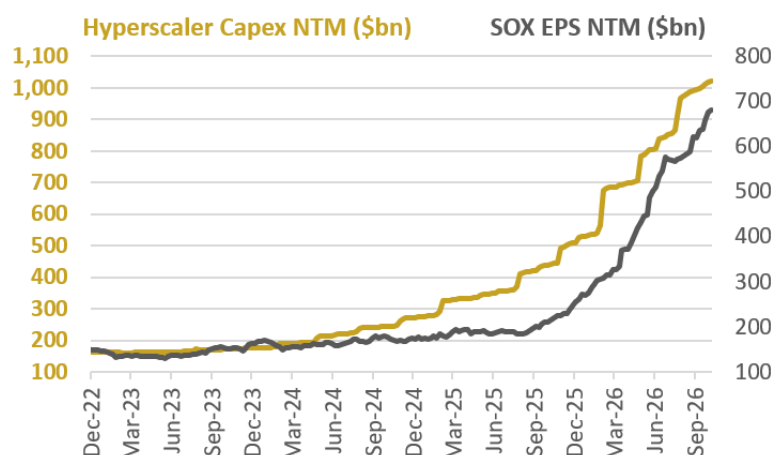
Australia had its own version of the TMT boom and bust. Sausage Software's shares reached A\$40, valuing it at close to \$1 billion. Davnet floated at about 4 cents and traded above \$4 before the crash. One.Tel, backed by the Packer and Murdoch families, was worth \$5.3 billion in November 1999 and collapsed into administration in May 2001. Retail investors bought Telstra's second float at A\$7.40 in October 1999. A month later the shares reached A\$9.16, about 30 times forward earnings. By late 2001 they had fallen to about A\$4.80, and the multiple had halved to about 15 times, with earnings little changed.

2026: a narrow AI boom

The 2026 earnings boom can be traced back to November 2022, when OpenAI launched ChatGPT. It reached an estimated 100 million monthly users within two months, at the time the fastest ramp of any consumer app. Six months later, NVIDIA's GPU sales gave the first hard evidence of the spending under way behind the scenes. On 24 May 2023 it reported record data centre revenue and guided to \$11 billion of sales, roughly 50% above market expectations.

The result revealed an AI arms race among the hyperscalers: Microsoft, Alphabet, Amazon, Meta and Oracle. Each feared that falling behind would cost more than overspending. Their combined capital

spending over the next 12 months is forecast at a little over \$1 trillion, more than six times the \$162 billion forecast when ChatGPT launched. That spending has flowed through the semiconductor supply chain, from equipment makers such as ASML to TSMC, NVIDIA and the memory makers. Forward 12-month earnings for the PHLX Semiconductor Index (SOX) rose 216% in the year to September 2026.



Source: FactSet

Those gains have made the 2026 S&P 500 earnings boom narrower than 1999's. Profits are concentrated in the chipmakers and the hyperscalers. As a result, semiconductor stocks now make up a record 20% of the S&P 500, more than double their weight at the peak of the dot-com bubble.

Four differences from 1999

The boom rests on a large infrastructure build-out, as the TMT boom did. But the four forces that drove 1999 are absent or much weaker.

First, there is no pull-forward of demand. Y2K pulled forward years of upgrades against a fixed deadline. AI demand has no such cliff. Nor is there an overbuild. In the late 1990s, new telecom carriers laid fibre on speculation, with no customers signed. By 2002, only 2% to 5% of US fibre was lit. Today's build is mostly to order. The hyperscalers build for their own cloud services, which are growing fast. In the June 2026 quarter, Google Cloud grew 82% year on year, Azure 43% and AWS 37%. More than 80% of North American data centre capacity under construction is leased before completion, up from 74.3% a year earlier. Overcapacity remains a risk, but nothing like the fibre glut.

Second, funding. The fibre build-out ran on junk debt. The AI build-out is led by the hyperscalers, among the most profitable companies in the world. They have low gearing and have funded most of it from operating cash flow. The exceptions are neoclouds such as CoreWeave and Nebius, which are forecast to carry about \$100 billion of net debt between them, around five times forecast EBITDA.

NVIDIA's vendor financing is the closest parallel to Lucent's and Cisco's. NVIDIA has agreed to buy \$29 billion of unsold cloud capacity and to guarantee up to \$105 billion of OpenAI's data centre leases. It has also taken stakes in builders such as Australia's Firmus. Its guarantees and capacity commitments come to 22% of forecast revenue, against 13% of reported revenue at Cisco and 21% at Lucent in 2000. The difference is the borrower. Lucent and Cisco lent to start-ups with little revenue. OpenAI has large revenue but still loses money. This is the part of the boom that most resembles 1999.

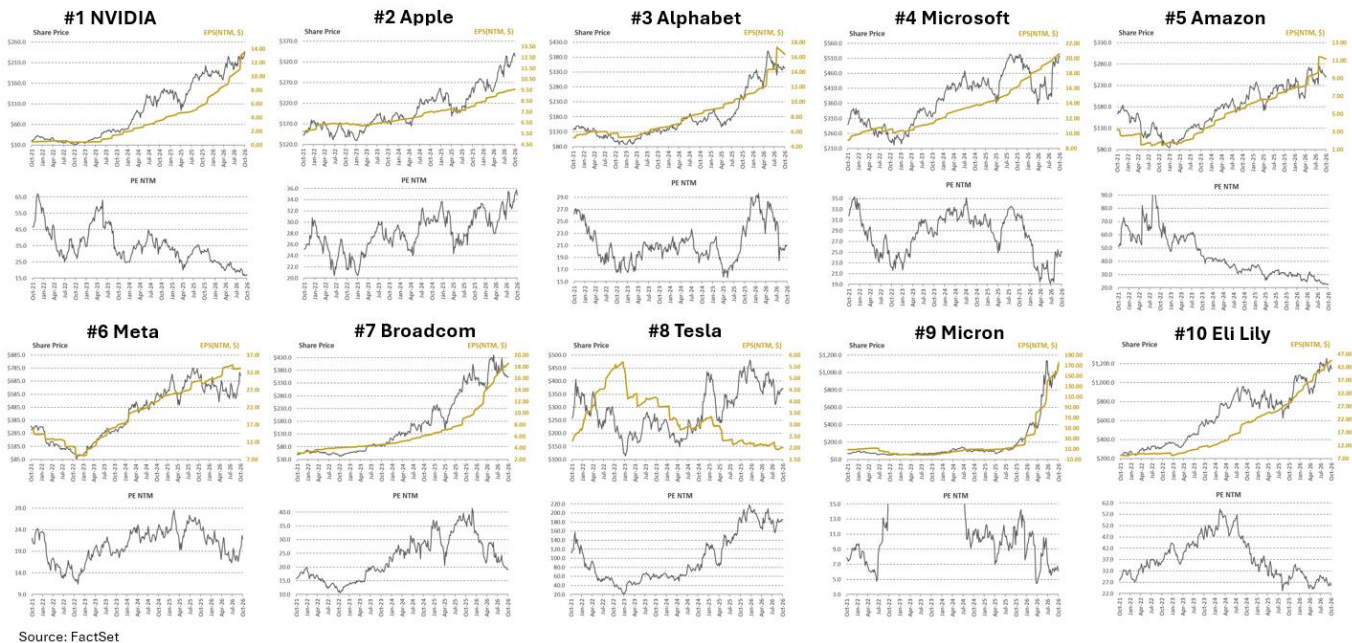
Third, the speculative fringe is far smaller. In 1999, nearly 80% of the 476 US IPOs were technology companies, and three in four were loss-making. In 2026, fewer than 100 companies have listed so far, and the leading AI developers have real revenue. OpenAI's grew 3.5-fold in 2025 to \$13.1 billion, and Anthropic's June-quarter revenue was reportedly \$11.5 billion, 14.6 times a year earlier.

Fourth, money. In 1998, cheap money lifted multiples, and the market shrugged off three rate rises in 1999. In 2026, one rise was enough to rattle the market. After the Fed raised rates to 3.75% to 4.00% in September, the S&P 500 equal-weight index's forward PE fell 8%, from 16.6 to 15.3 times, even as forward earnings kept rising.

How the 2026 leaders are priced

Both periods had an earnings boom. The difference is what investors paid for it. In 1999, nine of the ten largest companies re-rated. In 2026, only two have: Apple and Tesla. The charts show each stock over the five years to October 2026.

Largest 10 S&P500 companies (Sep 2026)



For the other eight, earnings have risen faster than share prices. The market is pricing the chipmakers (NVIDIA, Broadcom and Micron) as cyclical near peak earnings. The hyperscalers (Alphabet, Microsoft, Amazon, and Meta) have de-rated on doubts about the return on their capital spending.

NVIDIA shows the shift in sentiment most clearly. It is the main supplier of the AI build-out, as Cisco was of the internet's. Both enjoyed an earnings boom from a new technology wave. But Cisco's forward PE more than quadrupled, to 132x at the March 2000 peak. NVIDIA's has more than halved over the past two years, to 17x. In 1999 the market priced Cisco's earnings as if they could only go up. Today it prices NVIDIA's as cyclical.

Conclusion

The exuberance of the 1999 bubble reached the very top of the market. Nine of the ten largest companies re-rated in the run-up to the peak. Cisco, the bellwether of the internet boom, saw its multiple more than quadruple.

The market is as concentrated in 2026, but for the opposite reason. In 1999, rising multiples lifted the leaders. In 2026, profits have flowed to a handful of chipmakers and hyperscalers. Eight of the ten largest companies trade on lower multiples than five years ago. NVIDIA's multiple has more than halved, even though it is one of the biggest beneficiaries of the AI boom. Investors are paying for earnings, not for hope.

The 2026 AI earnings boom is real, and it will cool when capital spending slows. Investors are already pricing it as a cycle. Parts of 1999 remain in vendor financing and neocloud debt. What is missing is extreme speculation that defined that bubble.

[Jason Teh](#) is a financial commentator and portfolio manager. This article is general in nature and does not constitute or convey personal financial advice. It has been prepared without consideration of anyone's financial situation, needs, or financial objectives. Before acting on the areas discussed and contained herein, you should consider whether it is appropriate for you and whether you need to seek professional advice.

Taxing time for trusts

Anne-Marie Tassoni

Discretionary trusts have long been a cornerstone of wealth planning. Proposed tax changes may require a rethink, but not necessarily a rebuild.

If your family uses a discretionary trust and a bucket company, the post-Budget headlines have been difficult to ignore: "30% minimum tax", "double taxation", and warnings of effective rates above the top marginal rate. For families that hold investments through a discretionary trust and distribute surplus income to a corporate beneficiary, the natural question is whether a structure built over many years is about to become a liability.

The answer is: not necessarily. The position is more nuanced than the headlines suggest. For many families, the starting point should not be to dismantle the trust, but to understand what assets are affected, and what options may be available once the legislation is clearer.

Before turning to possible responses, it is worth remembering why existing discretionary trust structures were established. They may provide asset protection, support succession planning and allow the trustee to respond to changing family circumstances. Tax efficiency may be one benefit, but it is rarely the only objective. Any review should therefore test whether a tax saving justifies giving up flexibility, control or protection that remains valuable.

What has been announced?

On 12 May 2026, the Government announced that, from 1 July 2028, discretionary trusts would be subject to a 30% minimum tax on taxable income, assessed at the trustee level. That is a significant shift from the current flow-through model, where beneficiaries are generally assessed on trust income at their own rates.

Importantly, this remains draft legislation at this stage, and key design features – including the treatment of franking credits, loss beneficiaries, and the announced rollover relief – are still to be settled through consultation. The proposal is clear enough to justify planning, but not rushing into transactions.

Where the current structure gets difficult

The traditional arrangement is familiar. A trust earns income, distributes it among family members where appropriate, and may distribute surplus income to a corporate beneficiary taxed at 30%. That company then retains profits for reinvestment or pays fully franked dividends later.

The proposed rules challenge that deferral. If the trustee must pay a 30% minimum tax before income is distributed, the outcome for a corporate beneficiary may be poor if the company does not receive credit for tax already paid by the trustee. The same income could be taxed at the trust level and again at the company level. Similar concerns arise where income is distributed to an entity with losses: the minimum tax may be paid before the losses can do any useful work.

Franking credits may soften the position in some cases, but that depends on the final design. A franked dividend received by a trust may interact differently with the minimum tax from ordinary trust income

or capital gains. Until the legislation explains how credits are applied, refunded or wasted, modelling should be treated as indicative only.

In many cases, the issue is not the existence of the trust or the company, but how income flows between them. That distinction is important because it opens the door to a considered review, rather than a blanket conclusion that all trusts should be wound up.

Restructuring options to test

One option to test is a carefully structured reversal of the traditional income pathway. Instead of the trust earning income and distributing surplus to a corporate beneficiary, selected income-producing assets may be held in a company, with the trust retained as shareholder or succession vehicle. The company becomes the first taxing point; profits may be retained for reinvestment or, when appropriate, returned through franked dividends.

This is different from a full unwind. The family group may preserve a role for the trust in ownership, control and succession while changing which entity earns the income. Depending on the final treatment of trustee tax and franking credits, this may reduce the risk of the same income being taxed at both trust and company level. However, the result will depend on the final legislation, the assets involved, the company's capacity to retain or distribute profits and the family's longer-term objectives.

That approach will not suit every asset or family group. It may warrant modelling where profits are intended to be reinvested. It may be less attractive for assets with large unrealised gains, assets subject to transfer duty, assets expected to qualify for concessions unavailable to companies, or assets for which discretionary ownership remains important. Existing loans, unpaid present entitlements, Division 7A arrangements and financing terms also need to be identified before any transfer is considered.

A range of other responses may be available. These include retaining the current structure for some assets, directing future investments to a different entity, using personal ownership where simplicity is more important than protection, considering a fixed trust where the deed and control arrangements support it, or progressively reducing reliance on the bucket company. The appropriate combination may differ across listed investments, property, private business interests and cash reserves.

For existing bucket companies, the review should extend beyond future distributions. Families may need to review retained earnings, prior-year trust entitlements, shareholder or beneficiary loans, the source and use of company cash, and how profits will ultimately be extracted. A structure that appears efficient while profits remain in the company may produce a different outcome when funds are required personally or when the family group is wound up.

Timing is another practical issue. Transferring existing assets may crystallise capital gains, incur duty or require lender consent, whereas directing new savings and reinvested income to a different vehicle may allow the structure to change gradually. Families should compare restructuring costs with expected future tax savings.

Governance and documentation also matter. Trust deeds, company constitutions, shareholder arrangements, succession documents and investment mandates should be checked together so that a tax-driven change does not produce inconsistent control or estate outcomes. Where different family members have different economic interests, the commercial effect of moving assets or changing distribution patterns should be made explicit before implementation.

The announced three-year rollover relief window from 1 July 2027 may be important, but it is not a green light for every transfer. Its scope is unsettled, and stamp duty remains a separate state-based issue, particularly for property. The work now is to have the options mapped so decisions can be made quickly once the rules are confirmed.

Questions to work through

Rather than selecting a replacement structure now, families can use the period before 1 July 2028 to assemble the information needed to compare the available paths.

- Which assets produce regular income, and which are mainly capital growth assets?
- Which assets carry large unrealised gains?
- Would stamp duty arise on a transfer?
- Which beneficiaries are expected to receive income over time?
- What asset protection or succession objectives must be preserved?
- Are there loans, unpaid present entitlements or Division 7A issues that already need attention?
- How long is each asset expected to be held, and how will sale proceeds or retained profits ultimately be used?
- Could future investments be redirected without transferring existing assets?
- What is the eventual exit strategy for retained company profits and existing trust entitlements?

The answers may point in different directions for different assets. Listed shares, investment property, private business interests and cash reserves do not need to be treated the same way. Nor do all families have the same tolerance for tax cost, complexity, control and flexibility. A good review should leave room for the final legislation and should avoid locking in an outcome before the rules are fully known.

The downsides still matter

Each option carries trade-offs. Moving assets may crystallise capital gains tax or duty and create transaction costs. A company may not access the same capital gains tax concessions as individuals or trusts, and extracting retained profits can create a later tax cost. Personal ownership may be simpler but can reduce asset protection. A fixed trust may improve certainty but reduce discretion. Retaining the current structure may avoid immediate costs but leave more income exposed to the proposed minimum tax.

The comparison therefore needs to cover more than the first year's tax result. It should include implementation costs, tax on eventual extraction or sale, administrative burden, control, asset protection, succession flexibility and the consequences if family circumstances change. The most suitable response may be a staged or mixed approach rather than a single replacement structure.

The bottom line

The proposed trust changes are real and may require action for many families with discretionary trusts and corporate beneficiaries. However, the response should be measured. The minimum tax is not due to commence until 1 July 2028, and the rollover window is not expected to open until 1 July 2027. There is time to review structures properly, model the likely outcomes, and preserve the benefits that made the trust valuable in the first place.

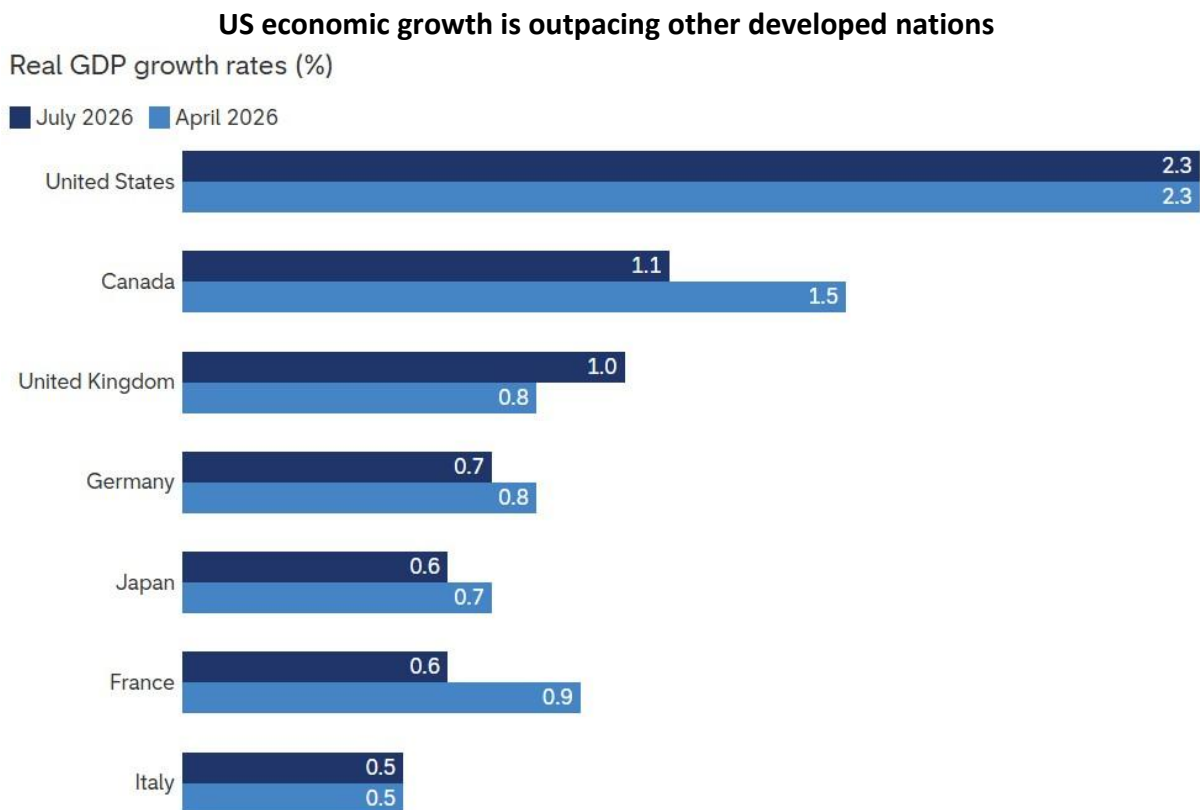
For now, a practical approach is to identify affected structures, map the assets and liabilities, review existing bucket company balances and model the available options on consistent assumptions. That work can distinguish decisions that may be made gradually from those that must wait for draft legislation and the detail of any rollover relief. In many cases, the objective will be adjustment rather than abandonment.

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Why the US economy is stronger than you might think

Jared Franz

If you had told me a year ago that the United States would be waging an intractable war in the Middle East, oil prices would rise to more than \$100 a barrel, interest rates would be moving sharply higher, and inflation would be running well above 3%, my forecast for the US economy would have been gloomy to say the least.



Sources: Capital Group, International Monetary Fund. Real GDP growth estimates for G7 countries from the IMF's July 2026 World Economic Outlook released on 8 July 2026. The Group of Seven (G7) — made up of the US, Canada, the United Kingdom, Germany, Japan, France and Italy — is a group of advanced democracies that meet annually to coordinate global economic policy.

Yet here we are with consensus GDP growth estimates above 2%, significantly higher than developed-market peers around the world. And, in my estimation, the consensus data is too low. Based on my research, I see the US economy growing at a rate of 2.5% to 3% this year and next, thanks to a stronger-than-expected labour market, healthy consumer balance sheets and massive corporate spending on artificial intelligence.

What explains the remarkable resilience of the US economy? There are many reasons but, in my view, these are the three primary drivers:

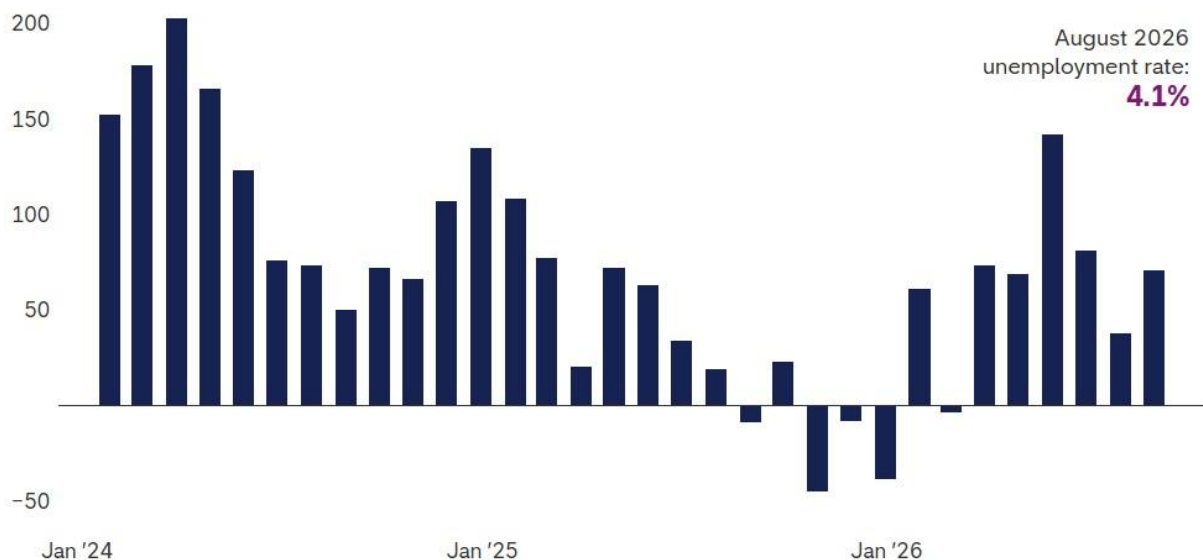
1. The US labour market is defying expectations

The latest US jobs report, released on 4 September, was nothing short of a blockbuster. The US economy added 162,000 jobs in August, three times higher than consensus estimates, with the largest gains coming in leisure and hospitality, government, education and healthcare. The jobs report was so unexpectedly strong that it helped change expectations for US monetary policy. Accelerating job growth and higher inflation were two of the key factors that convinced the US Federal Reserve to raise interest rates on 16 September — the first hike in more than three years.

A healthy labour market is important because, even at a more modest average of 75,000 new jobs a month, the additional income that brings to the US economy is substantial. If you do the maths, it translates into consumer spending growth of roughly 2% on an annualised basis, which is pretty good relative to history, particularly at a time when elevated inflation is straining household budgets.

US job creation is bouncing back after a period of weakness

Rolling three-month average nonfarm payrolls (thousands)



Sources: Capital Group, Bureau of U.S. Labor Statistics. July and August 2026 are preliminary figures and subject to change. Latest data available is to August 2026, as of 25 September 2026.

A growing labour market also reinforces the view that the Fed probably can afford to raise interest rates without hurting employment. It means Fed officials can refocus their attention on fighting inflation, which is now running hot at 3.4%, well above the Fed's 2% target. The US unemployment rate,

meanwhile, remains at 4.1%, which is widely considered full employment. If these trends continue, we should expect a few more Fed rate hikes in the months ahead. The US economy is most likely strong enough to handle it.

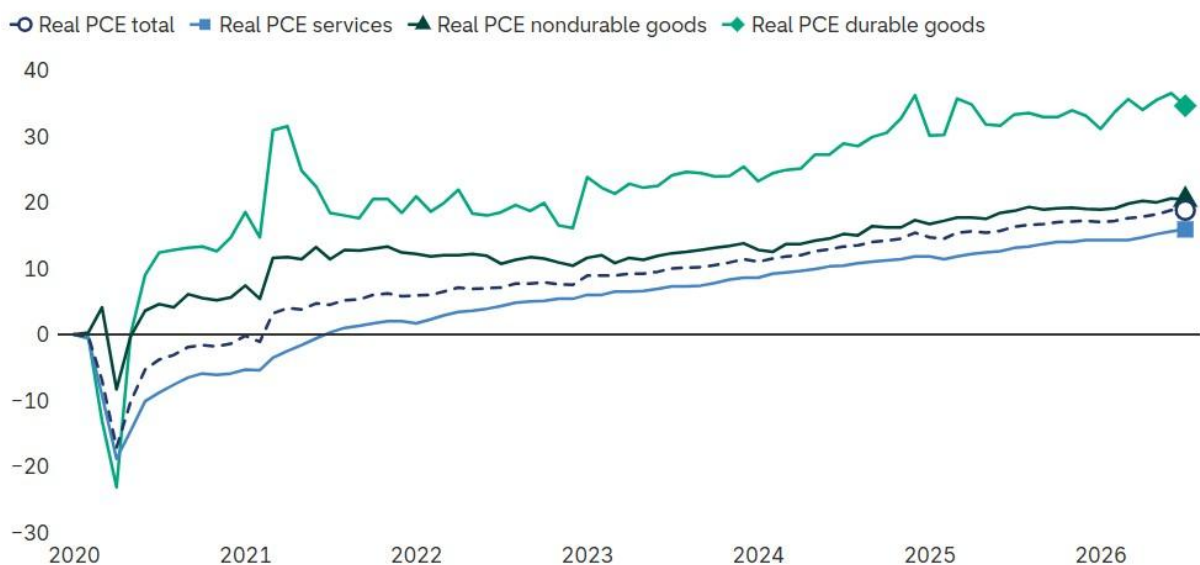
2. Consumer balance sheets are healthy despite higher inflation

US consumer balance sheets are holding up well in the face of mounting inflationary pressures. Wage growth has remained steady at an annualised rate of 3.7% to 4.1% as of August 2026, generally outpacing inflation. So, even with higher-than-usual inflation, American consumers have managed to stay in relatively good shape, and their spending activity shows it. We have seen weakness among low-income households hard hit by rising energy prices, but middle- and high-income groups appear to have adjusted to the shock and made up the difference.

This trend is attributable to several factors, including rising stock market wealth — particularly in 401(k) accounts — appreciating home values, the recovering job market, higher tax refunds and various other government stimulus measures. For most American consumers, they simply do not see a reason to pull back. US consumer spending rose by 0.2% last month to a record high of \$16.8 trillion, exceeding consensus forecasts, according to the Commerce Department.

Consumers are continuing to spend in the face of higher prices

Cumulative change in real personal consumption expenditure (PCE) (%)



Sources: Capital Group, Bureau of Economic Analysis, Federal Reserve Bank of St. Louis. Figures shown are monthly from January 2020 to July 2026, reflecting latest available data as of 11 September 2026.

Consumer sentiment, in contrast, remains negative. That is to be expected when you consider the cumulative price increases that US consumers have absorbed since the COVID-19 pandemic. Prices have soared roughly 30% over the past six years, as measured by the US Consumer Price Index. By comparison, from 2012 to 2019, prices rose about 14%. There is probably no scenario where consumers are going to be happy about such a rapid rise. Beyond that, I tend to give less weight to consumer sentiment surveys than hard economic data.

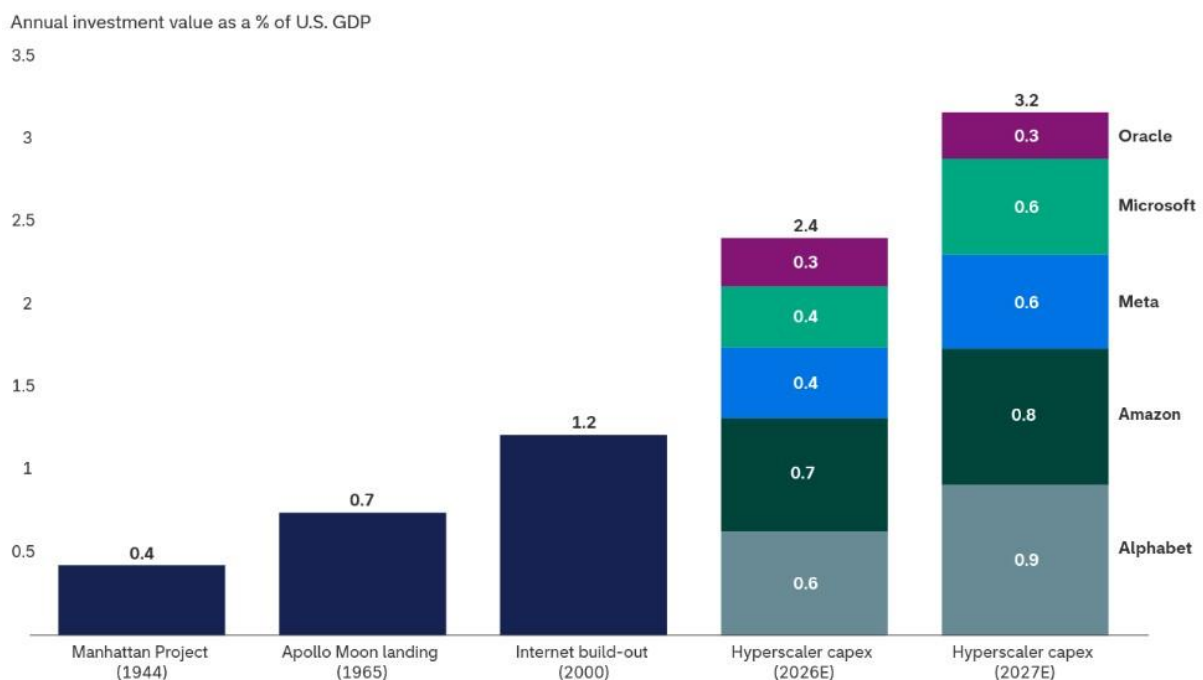
3. The AI-related spending surge is unprecedented

The sheer scale of AI-related spending is like nothing we have seen before. Most of the capital expenditures — an estimated \$800 billion this year — are going toward the construction of massive AI data centres and related projects across the United States. Despite a mounting political backlash, there appears to be no slowdown. On the contrary, AI-related spending estimates have been revised upward on numerous occasions. I expect upward revisions in 2027 and 2028, as well.

That adds a great deal of fuel to the US economy. Moreover, I don't think we are measuring the impact of the AI boom properly. It could take years for economists to devise an accurate way to measure this rapidly growing segment. It is just an educated guess, but I think we may be underestimating GDP growth by 0.5 to 1 full percentage point. How do you measure every instance someone uses an AI token to build a more efficient financial model in a fraction of the time it takes a human to do it? A decade from now, we may find that 4% to 5% growth is a more accurate measurement of what we are experiencing today. Going back to the dot-com era, we have often struggled to measure the economic benefit of bits of data zipping around the world.

In addition, it is clear that the giant technology companies spending most of this money view it as existential. The so-called hyperscalers — Amazon, Alphabet, Meta, Microsoft and Oracle — are among the most profitable companies in the world, and they are engaged in an epic race for AI supremacy. Given how high the stakes are, I do not see any of them slowing down anytime soon.

AI spending spree dwarfs some of the largest endeavors in history



Sources: Capital Group, Brookings, Congressional Budget Office (CBO), FactSet, Federal Reserve Bank of St. Louis, The Planetary Society, U.S. Census Bureau. Project costs for the Manhattan Project, Apollo Moon landing and internet build-out reflect peak annual spending during each project's lifetime. Hyperscalers are large technology firms that operate global data-center networks to provide scalable cloud computing and AI services, represented by Alphabet, Amazon, Meta, Microsoft and Oracle. Estimated 2026 and 2027 hyperscaler capital expenditures (capex) are based on sell-side consensus estimates as of 25 September 2026, expressed as a percentage of GDP using the latest CBO long-term budget projections released on 11 February 2026.

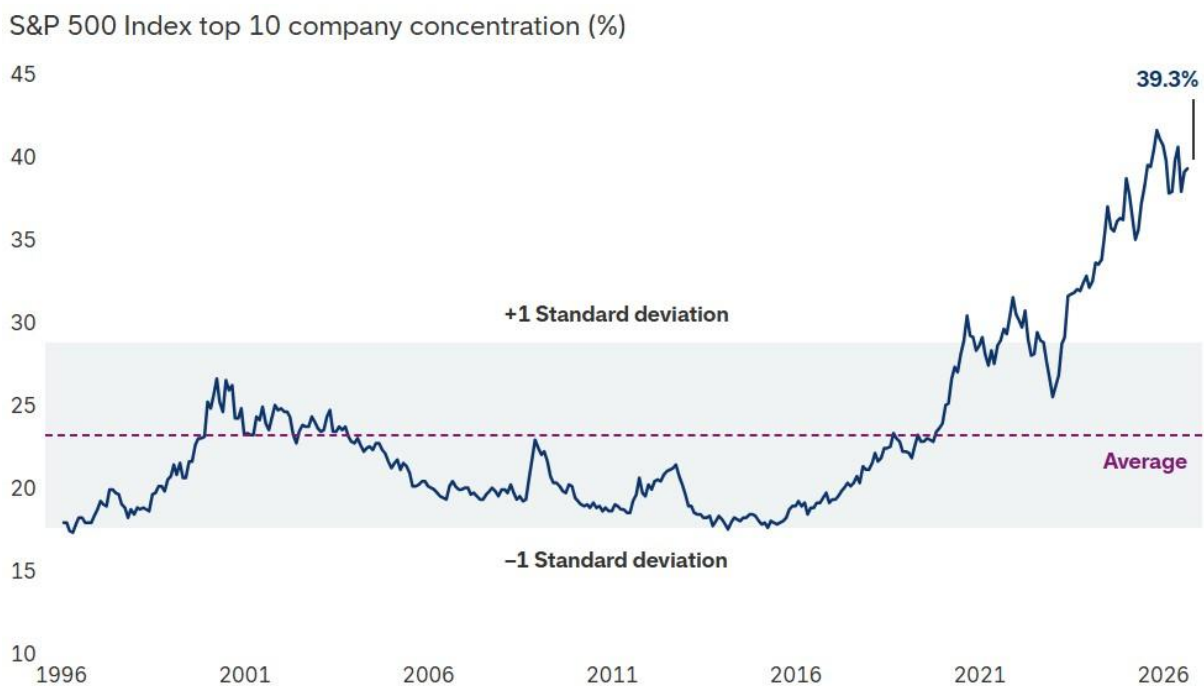
What does this mean for US stock prices?

Over long periods of time, US stocks tend to rise along with a solid, growing economy. There are four economic cycles: early, mid-, late and recession. I believe the US economy is currently at mid-cycle, which generally bodes well for stock prices. Double-digit returns are common in a mid-cycle environment, and that is about where we are right now — with the S&P 500 Index up 14.1% on a year-to-date basis, and up 18.6% over the past 12-month period, as of 25 September. My outlook becomes more cautious as we approach a late cycle economy, which I believe may surface sometime in 2028.

There are certainly risks to this optimistic outlook, including further escalation of the Iran war, additional increases in oil prices, sharply higher interest rates, and the possibility that AI will not produce the return on invested capital companies expect. Any of these could reverse the favourable investment environment of the past few years.

That said, the economy and the markets are not the same thing. Today's high levels of market concentration have embedded risks, which is why it's important to consider a broadly diversified investment approach that goes beyond top-heavy indexes.

A handful of stocks are driving a highly concentrated market



Sources: Capital Group, FactSet, S&P Global. Figures represent the index concentration of the top 10 companies by market capitalisation. Standard deviation is a statistical measure of how much values vary from their average. A higher number indicates greater variation. Data shown is monthly, from 31 January 1996 to 30 June 2026.

For now, I feel comfortable with the view that the US economy will continue to surprise on the upside, thanks to a strong labour market, healthy consumer spending and an AI revolution that could produce significantly higher growth rates in the years ahead.

Jared Franz is a US-based economist at [Capital Group](#), a sponsor of Firstlinks. Statements attributed to an individual represent the opinions of that individual as of the date published and may not necessarily reflect the view of Capital Group or its affiliates. This article contains general information only and does

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How much trust is in your portfolio?

Shaokai Fan

Herbert Hoover knew Western Australia's goldfields long before becoming U.S. President in 1929. As a young mining engineer in the 1890s, he worked around Kalgoorlie, where his footprint remains today in the form of many landmarks, not least a grand mirror standing at the entrance of the iconic Palace Hotel.

His mining experience likely informed his famous remark, "We have gold because we cannot trust governments", made around the time when President Roosevelt's 1933 Emergency Banking Act forced Americans to convert their gold into US dollars during the Great Depression.[1]

Hoover's blunt warning on trust belongs to another era, but the portfolio question it raises is current - while investors can trust the powerful role of governments and central banks, how much margin for error do they need to factor into their investment decisions?

Monetary and fiscal policies have substantial powers to regulate economic temperatures, control liquidity and respond to economic shocks, but in a world where uncertainty is the only certainty, even the best-designed policies may not go to plan. Investors have grown sceptical and more concerned about policy missteps or situations where measures may work less quickly, less completely or take an unexpected turn.

A broader set of possible outcomes is becoming more relevant to portfolio construction.

Only months ago, investors broadly anticipated interest rates falling. Instead, the US Federal Reserve raised the rate in September for the first time since 2023, joining several other central banks responding to renewed inflation pressure, including the Reserve Bank of Australia, which became the sixth G10 country to lift its cash rate in September. While shifting monetary policy can reinforce central bank credibility, the ultimate question is whether it will work.

Today's policy challenges extend beyond inflation. Governments are weighing higher defence spending, industrial investment and the costs of securing supply chains (through friend-shoring and on-shoring), while servicing larger and growing fiscal debt obligations. The knock-on effects are huge. Trade relationships and currency assumptions are shifting. Each policy response may be rational on its own terms, but combined, they make the outlook for capex, growth and asset prices harder to predict – and correlations more nuanced, asset valuations (based on higher costs of capital) more volatile.

Bonds remain essential assets providing liquidity for issuers and income for investors along with protection when growth weakens (a win-win of sorts), but history shows that bonds and equities both come under pressure when inflation rises. Higher yields favour investors with newly purchased bonds

while reducing the value of existing long-duration holdings. And the higher the cash rate, the more issuers need to compensate investors for their invested capital.

Repurchase programs and buybacks can improve liquidity and help the market function more smoothly, but in isolation, they cannot resolve investor fears about inflation, rising borrowing costs or the yield required to hold long-term bonds. Recent weak long-term Treasury note auctions suggest the US Treasury's buybacks have done little to ease investor concerns about holding government debt, with US 30-year bond yields remaining at levels not seen since 2004.[2]

That is not to say that investors have lost faith in US assets. Foreign investors made record net purchases of US equities and investment fund shares in the year to July. Their net purchases of US debt securities, however, slowed from US\$314 billion in the first quarter to US\$188 billion in the second. Capital is still flowing into America, but investors are making distinctions between the risks they are willing to own.[3]

That creates a difficult balancing act for policymakers. Interest rates may need to stay high enough to contain inflation, even as higher yields increase the cost of servicing government debt. In the US, government debt stands at over US\$40 trillion and is rapidly rising.

For investors, this raises a practical question: how can a portfolio diversify the faith and trust placed in policymakers and their ability to deliver expected outcomes in an increasingly chaotic world?

Many central banks, responsible for monetary stability, continue to add gold to their reserves alongside currencies and sovereign bonds. Their buying does not necessarily imply a lack of confidence in currencies or government bonds that remain central to reserve portfolios. It reflects the value of holding assets that respond differently when inflation, cash rates, exchange rates or geopolitical conditions depart from expectations.

Gold has a distinct role in that mix. Physical gold held outright has no issuer and carries no credit risk, giving investors an asset that does not depend on another party meeting a financial obligation. Reserve managers can therefore hold it alongside conventional assets as they plan for a wider range of outcomes.

Trust is a commodity that belongs in the diversification debate

Gold does not provide an income stream, and its price can fall, sometimes correcting sharply. Higher real interest rates and a stronger US dollar can raise the opportunity cost of holding it. Its retreat from its January 2026 peak was a useful reminder that gold does not rise automatically when geopolitical risks increase.

Its strategic role rests on a different proposition. An investor who fully trusts that inflation will return smoothly to target, fiscal pressures will be managed, and traditional portfolio relationships will hold may see little reason to add gold. But a portfolio built around those assumptions leaves little room for error.

Even modest scepticism about how events will unfold can make a case for holding some gold. Why? Because unlike almost all other financial assets, gold essentially sits outside the system as a non-debt-backed asset. Its dual nature as a highly sought-after consumer good as well as an investable asset attracts different buyers and sellers with different objectives. Its scarcity and unique profile underpin its

ability to help protect and preserve long-term wealth. The [case is strongest](#) when gold is considered part of a diversified portfolio rather than as a prediction of events.

Diversifying trust

In today's more global and interconnected market where valuation bubbles, bulging debt levels and inflation blowouts are mainstays, trust has become a critical factor in asset allocation decisions across the entire market spectrum. Lower levels of trust are driving a new 'Fear' acronym: FOMU – the Fear of Messing Up. This 'fear' may be of rates rising too little to bring inflation down, or so high that growth and financial conditions deteriorate. For an investor, it may mean building a portfolio that depends too heavily on policymakers getting every intensely difficult decision correct.

Investing in real assets such as gold can help a portfolio remain resilient when inflation, policy or markets take an unexpected path.

This was a choice denied to everyday US investors from 1933 until late 1974 while gold ownership restrictions were in place.[4] UK holders of certain types of gold were also subject to restrictions from 1947 to 1971. Being excluded from the market is one of the reasons Western investors have been so underinvested in gold.

It's worth highlighting how well-placed Australia is to support gold's role in financial markets. As the world's third-largest producer of gold (behind net importer China and heavily sanctioned Russia), Australia supplies gold to investors and central banks worldwide who value mining safety and provenance. Increased production and sustained demand at elevated prices have lifted gold to Australia's second-largest resource export, trailing only iron ore by a narrowing margin.[5]

Gold is once again an economic pillar for Australia and a trusted global asset at a time when investors are scrutinising the assumptions underpinning asset prices and valuations.

Notes

[1] Forbes, 20 August 2023: [Gold Can't Be Downgraded and It's No One's Liability](#)

[2] ABC News, 27 Sep: [Bond yields at two-decade highs in largest market correction in generations](#)

[3] FT 26 Sep: [Foreign capital flows into US stocks hit record as appetite for debt fades](#)

[4] [Historical Timeline of the U.S. Mint](#)

[5] [June 2026 Resources and Energy Quarterly](#)

Shaokai Fan is Global Head of Central Banks and Head of Asia-Pacific (ex-China), at [World Gold Council](#), a sponsor of Firstlinks. This article is for general informational and educational purposes only and does not amount to direct or indirect investment advice or assistance. You should consult with your professional advisers regarding any such product or service, take into account your individual financial needs and circumstances and carefully consider the risks associated with any investment decision.

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Retirement in reality - 7 months in

Dr Joanne Earl

For those I haven't connected with recently, I retired 7 months ago after being a full-time academic, researching retirement planning for nearly 20 years. Now I am focusing on implementing my findings: for myself, for individuals and for organisations. As I promised when I retired, I am providing a month-by-month account of my findings from the other side. This month I explore the agony of health behaviours, the unrealistic nirvana of allocating set days to work and the role of reconciling retirement guilt.

Health behaviours

Last week someone asked me what the most surprising thing about retirement has been and I did not hesitate to volunteer just how challenging it is to catch up on all the health behaviours ignored while working. I want to acknowledge that I was coming off a pretty low base. I've been building up my exercise routine over the past 18 months but before that my only exercise was walking from the car park to my office (about 150m).

I thought 7 months of going hard on diet and exercise would be enough to see some real changes but in reality change is slow – very slow despite constant effort and attention. If I had the opportunity to go back and change one thing before retiring it would have been to incorporate many more of these activities into my weekly schedule.

Too many short walks and too many lunches spent wolfing down processed food at my desk has taken its toll and my body is taking a long time to catch up even with a strict diet, 8000 steps a day, 2 HIIT classes, 1 Yin yoga. Last week I added in weight training twice a week. It's not just the time but expense – adding in dietitians, personal trainers, class attendance and exercise physiologists begins to add up quickly.

Maintaining work interests

I've totally given up on the nirvana of creating work silos on specific days of the week. If I did that I think I would most certainly be missing the opportunity to do some interesting work and stimulating intellectual activities. The likelihood of opportunities coinciding with the only 2 days I'd set aside to work seems unrealistic now given the range of work I like to do and the different groups of people that I work with. Instead, I've moved more to a project-based approach.

I've always considered myself someone who likes structure and routine, so this felt a bit uncomfortable at first, but I'm becoming more attuned to planning out my week on a Monday around health and social activities. I'm focusing on health behaviours, social events and then work rather than the other way around. It was no surprise to me when the new UniSuper Retire with Purpose report identified 28% of people wanting to work part-time but only 8% do (page 13). I'm not sure if this is a function of people re-evaluating the role of work or there being fewer opportunities available. The Intergenerational report points to 38% of people aged 55-75 having trouble finding work in 2024-2025 (page 187) but at the same time projecting people working for longer with more part timers in the future, so there really is no better time for employers to jump on board. How do we get that movement started?

Retirement guilt

I think it's fair to say that some of my past work behaviours have been driven by a strong work ethic that forced me to prioritise work. On first graduating in Adelaide back in 1987 while my friends were off enjoying gap years I was off applying to every graduate program around the country to get a foothold in the marketplace as soon as possible. During this month I commented on a LinkedIn post by Nigel Bartlett about the topic of retirement guilt and I was amazed at the number of people who viewed it – more than 3000. I wrote:

When you describe retirement guilt it sounds a bit like survivor guilt after redundancies. I've been outside in the sun today and after sitting in a box without any windows for 3 years it feels magnificent. I let the guilt dry up in the sun like a muddy puddle.

Perhaps deciding what work we want to do in retirement starts by reflecting on what drove us there in the first place. What work means then and now may be very different things but applying an autopilot approach might have us literally flying in circles. For me work now is driven by interests, applying knowledge, and intellectual challenge not climbing a corporate ladder or development opportunities. What did work mean to you then and what does it mean to you now?

Joanne Earl is a Psychologist and Honorary Professor of Psychology and Retirement Planning. You can read more about Joanne's retirement journey via [LinkedIn](#) or visit her website: www.retirementdr.com.au.

The new geography of technology leadership

Varun Laijawalla

For much of the past decade, the United States appeared unassailable in technology. Its world-leading universities, deep capital markets and ecosystem of entrepreneurial companies created a durable advantage across software, semiconductors and digital platforms. China, by contrast, was often viewed primarily as a manufacturing power: highly capable, but more dependent on imported technology and foreign intellectual property.

That distinction is becoming increasingly outdated.

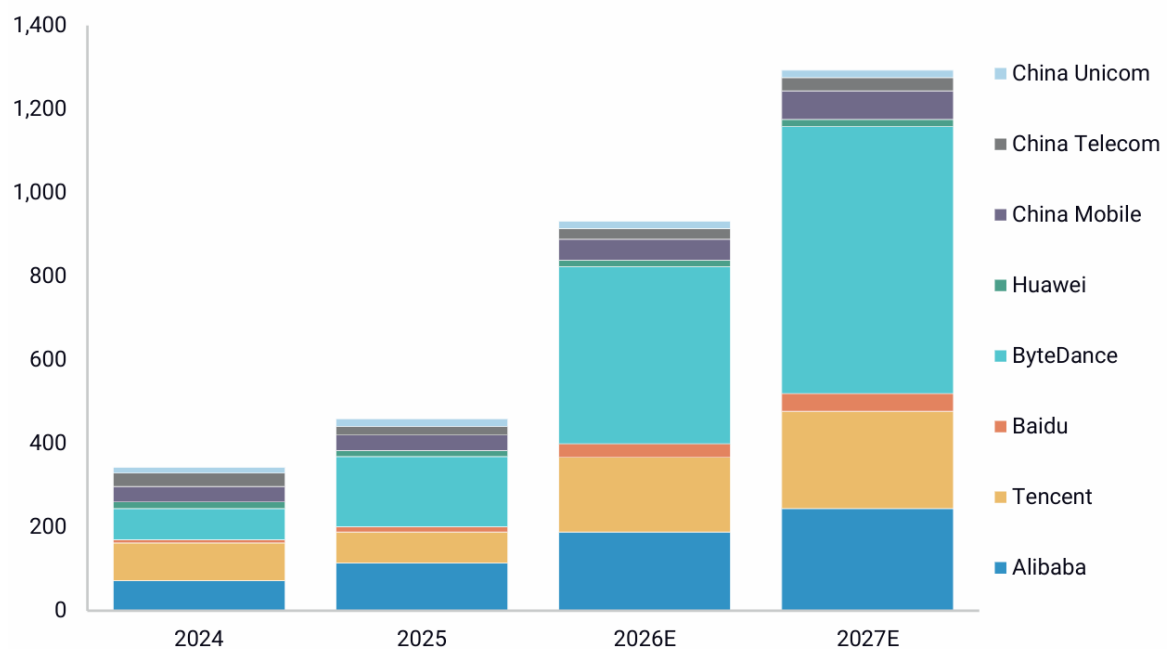
The accelerated development of China's technology sector has not been reflected in its stock market performance, and Chinese tech company valuations continue to lag their US peers, which have soared following an extended bull run. Regulatory uncertainty, geopolitical tensions and intense domestic competition have weighed on valuations and shareholder returns, even as China has significantly strengthened its technological capabilities.

Today, China has developed a technology ecosystem that is broader, deeper and more innovative than many international investors appreciate. From artificial intelligence and advanced manufacturing to electric vehicles, batteries and semiconductors, Chinese companies are increasingly competing at the technological frontier. In some areas, China is not only competing, but is the clear global leader, with the country accounting for 59% of global robotics developments[1] and 75% of global EV manufacturing[2] last year.

What I find particularly interesting is that the US and China are actually moving in a similar direction. Both have decided that technological leadership matters enormously, and both are committing extraordinary amounts of capital and resources to AI, semiconductors and advanced technology. In China, AI infrastructure capex is expected to more than double this year, rising 103% to RMB 932 billion (\$139 billion) following 33% growth in 2025.[3] What differs is how they are going about it. For investors, this matters because the opportunity is no longer simply about choosing between US and Chinese technology. Both markets are producing innovation, but through very different ecosystems, and increasingly with different sources of competitive advantage.

Projected AI infrastructure capex of China's hyperscalers and telecoms, 2024 – 2027

Billion yuan



Source: Capex guidance of firms, Rhodium Group. Note: 2026 and 2027 are estimated values.

The US remains exceptionally strong in areas such as advanced semiconductor design, cloud computing, software and the development of frontier AI models. Its combination of capital, talent and entrepreneurship remains difficult to replicate.

China's strengths are different. Its enormous domestic market, manufacturing depth and highly integrated supply chains allow new technologies to move rapidly from development to commercial deployment. In areas such as electric vehicles, batteries, renewable technology and increasingly AI, Chinese companies can innovate, manufacture and scale at remarkable speed.

The development of AI illustrates the contrast particularly well. The US has led much of the global investment in the most advanced models and computing infrastructure. China, facing tighter access to some leading-edge technologies, has been focusing on efficiency, domestic capability and the practical application of AI across its economy. That focus is helping create a more self-sufficient technology ecosystem, with Chinese companies investing across the semiconductor value chain, data infrastructure, AI models and applications. The result may not mirror the US technology sector, but that is precisely the point: two distinct models of technological development are emerging.

This is also not simply a China story. The same shift is visible elsewhere in emerging markets.

Some of the world's most important technology companies sit in Korea and Taiwan, and they are where much of the AI infrastructure is physically made. Advanced foundry capacity and high bandwidth memory are genuine bottlenecks in the AI build, and the companies that control them have been the principal driver of strong emerging market returns since the start of 2025.

What interests me most is a change in the character of those businesses. Memory has historically been a commodity, priced on the spot market and prone to violent cycles. Increasingly, it is being sold under multi-year supply agreements, at price floors above the peak margins of the last cycle, while new capacity looks likely to remain constrained into 2028. That points to better and more visible earnings through the cycle than investors are used to.

Across these markets, the more interesting question is not which country leads, but which companies do. For a long time, the assumption was that China's largest technology platforms would naturally lead the next phase of innovation. I don't think that is a given anymore. Increasingly, capital and attention are moving towards AI-native companies, semiconductors and the infrastructure underpinning the next wave of technology, rather than automatically towards the large-cap incumbent platforms.

Identifying where innovation is happening is only half the task. The second half is what you are being asked to pay for it. US technology companies offer exposure to some of the world's most profitable and innovative businesses, but in many cases those characteristics are already reflected in valuations. Elsewhere the picture is different. Years of regulatory uncertainty, geopolitical concerns and weak investor sentiment have left parts of the Chinese technology sector trading at lower valuations, while in Korea and Taiwan share prices do not yet obviously reflect the shift in earnings profile.

EPS trends have historically provided a reliable link to equity returns

MSCI Emerging Market Index level and EPS



Consensus estimates predict further increases in emerging market EPS over the next two years.

Source: Bloomberg, Ninety One, September 2026

Lower valuations alone do not make an investment case. The more important question is whether the underlying businesses are improving and whether innovation is translating into sustainable earnings

growth, which has traditionally led to equity returns. Increasingly, in selected areas of emerging market technology, we believe that is happening.

For investors, that changes the question we should be asking. It is no longer simply which companies dominate technology today. It is which companies, and which ecosystems, are best positioned to lead the next wave.

- [1] <https://ifr.org/ifr-press-releases/news/five-million-robots-now-operate-in-factories-globally>
[2] <https://www.iea.org/reports/global-ev-outlook-2026/executive-summary>
[3] <https://rhg.com/research/examining-chinas-ai-financing/>

Varun Laijawalla is an Emerging Markets Equity Co-Portfolio Manager at [Ninety One](#). This article is for general information only and should not be construed as advice. This information is believed to be reliable but may be inaccurate or incomplete. The views are those of the contributor at the time of publication and do not necessarily reflect those of Ninety One. Any opinions stated are honestly held but are not guaranteed and should not be relied upon.

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