Edition 603, 21 March 2025

Contents

Finding the best income-yielding assets *James Gruber*

What history reveals about market corrections and crashes *Andrew Mitchell, Steven Ng*

The ASX is full of old, stodgy, low-growth companies *Ashley Owen*

Time to review the family home's exemption from Age Pension test *Andrew Barker, Aaron Korczak-Krzeczowski*

Death benefits from super don't need to be this complicated *David Knox, Nick Callil*

The RBA deserves kudos for a job well done *Tim Farrelly*

Asia deserves a closer look from investors *Cameron Robertson*

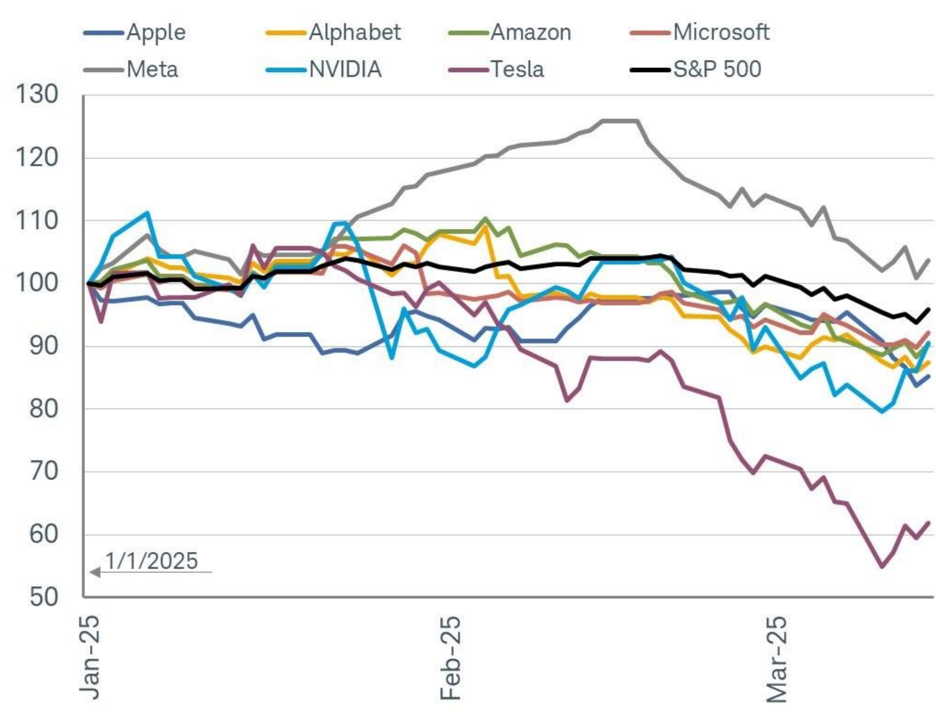
Editorial

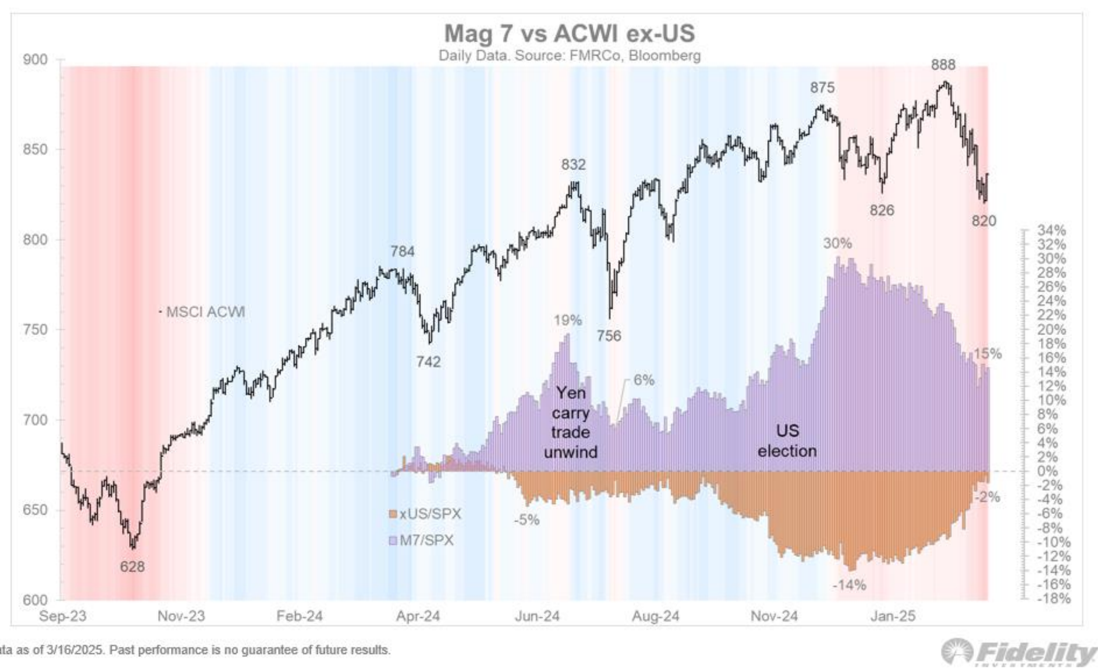
Donald Trump campaigned to Make America Great Again (MAGA) but he's only succeeded in making the rest of the world great again.

At the time of writing, the S&P 500 is down 4% year-to-date, and has fallen 10% from its highs. Meanwhile, the Nasdaq and Russell 200 have fared worse, having both fallen 8% this year and 14% from their highs.

That doesn't quite reflect the degree of carnage in American markets. The average member of the Nasdaq index has dropped 32% from their highs, while for the Russell 2000, they've declined 26%.

Even the once-beloved Magnificent Seven are copping it. Six of the seven are down in 2025, with only Meta in positive territory (update: Meta also went negative as of Wednesday morning). Tesla has trailed the rest, getting whacked 38% this year, to lag every other company in the S&P 500.





Data as of 3/16/2025. Past performance is no guarantee of future results.

The rest of the world is having a better time of it. Developed European markets have risen 13% in USD terms in 2025, with Germany and France leading the way, up 20% and 14% respectively.

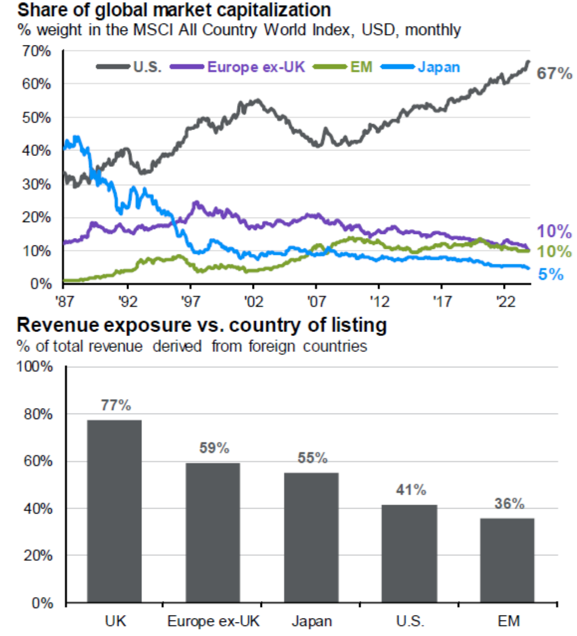
China has also found investor favour. It's jumped 19% in USD terms year-to-date, helping Emerging Markets to a 4% gain this year (tech-laden Taiwan has lagged, as has India).

Reasons for the turnaround

Though Trump is getting the blame for the correction in US stocks, the truth is that he's just been the trigger for an over-hyped and overpriced US market.

Until recently, America had crushed the rest of the world for 15 years. The S&P 500 returned 14% per annum between 2010 and 2024, compared to the world ex-US return of 5%.

Returns	2024		2023		15-years	
	Local	USD	Local	USD	Ann.	Beta
Regions						
U.S. (S&P 500)	-	25.0	-	26.3	13.9	1.0
AC World ex-U.S.	13.2	6.1	14.7	16.2	5.2	1.0
EAFE	11.8	4.3	16.8	18.9	5.7	1.0
Europe ex-UK	8.1	1.0	17.3	22.7	6.0	1.1
Emerging markets	13.7	8.1	10.3	10.3	3.4	1.0
Selected Countries						
Japan	21.2	8.7	29.0	20.8	6.3	0.8
United Kingdom	9.5	7.5	7.7	14.1	4.9	1.0
France	1.8	-4.6	18.1	22.3	5.8	1.2
Canada	23.0	12.7	13.3	16.4	5.9	1.1
Germany	18.4	11.0	19.8	24.0	5.7	1.3
China	19.8	19.7	-10.6	-11.0	2.5	0.9
Taiwan	44.3	35.1	31.1	31.3	12.0	1.0
India	15.7	12.4	22.0	21.3	6.9	0.9
Brazil	-11.4	-29.5	22.7	33.4	-2.5	1.3



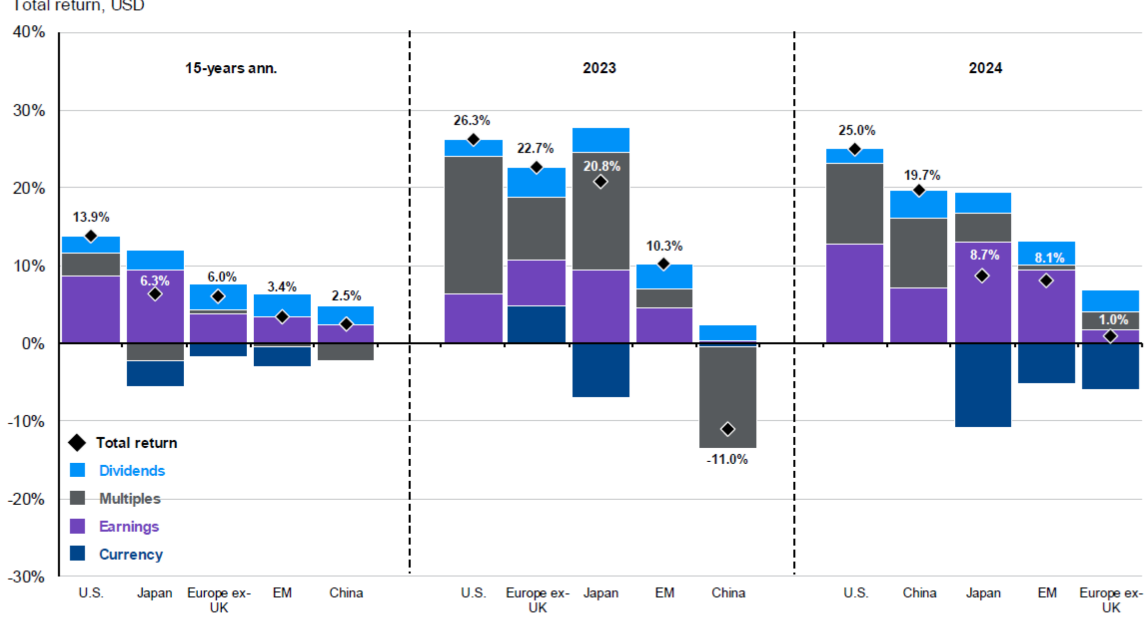
Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. (Left) All return values are MSCI Total Return Index (Gross) data. 15-year history based on USD returns. 15-year return and beta figures are calculated using a rolling 12-month time period ending with the previous month-end. Beta is for monthly returns relative to the MSCI All Country World Index. Annualized volatility is calculated as the standard deviation of quarterly returns multiplied by the square root of four. Chart is for illustrative purposes only. Please see disclosure page for index definitions. Past performance is not a reliable indicator of current and future results. (Bottom right) Revenue exposure data are as of the previous quarter-end. *Guide to the Markets – U.S.* Data are as of December 31, 2024.

J.P.Morgan ASSET MANAGEMENT

That extraordinary run prompted talk of 'US market exceptionalism'. The idea being that American companies were far superior to those of other countries, and that would remain the case for a long time.

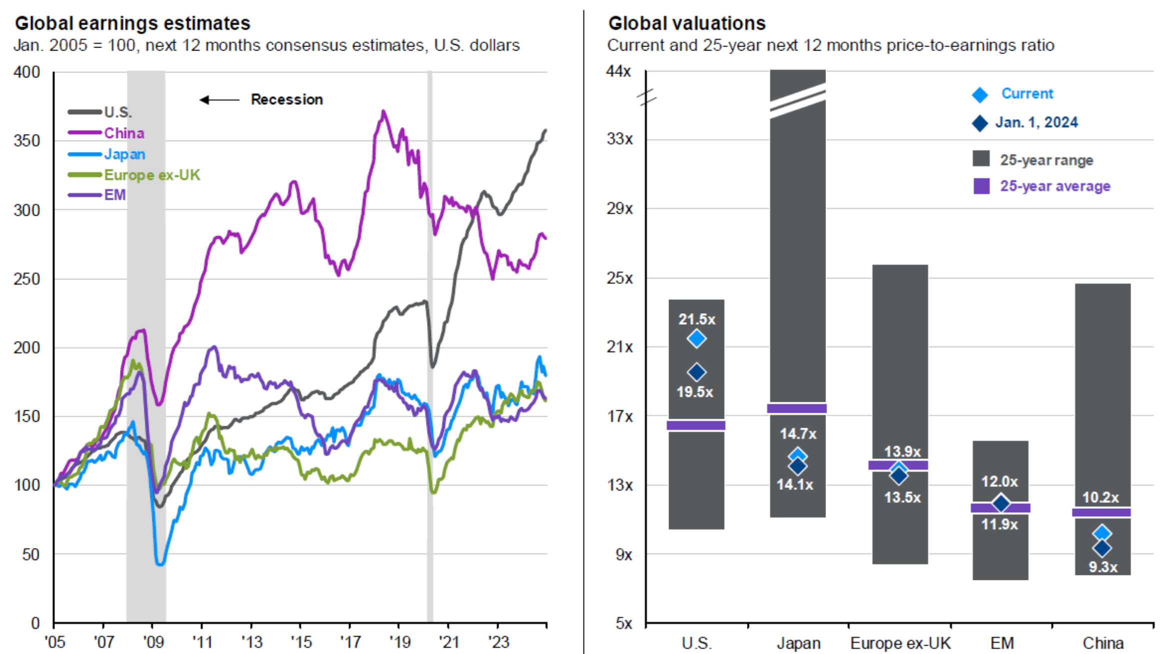
Some of this talk was justified, given the superior earnings growth of US companies, especially the Magnificent Seven.

However, some wasn't, as the earnings growth was accompanied by aggressive valuation re-ratings, particularly for the US tech stocks.



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.
15-years ann. is a rolling 15-year period ending with the previous month-end. All return values are MSCI Gross Index data, except the U.S., which is the S&P 500. *Multiple expansion is based on the forward P/E ratio, and EPS growth outlook is based on NTMA earnings estimates. Chart is for illustrative purposes only. Past performance is not indicative of future results.
Guide to the Markets – U.S. Data are as of December 31, 2024.

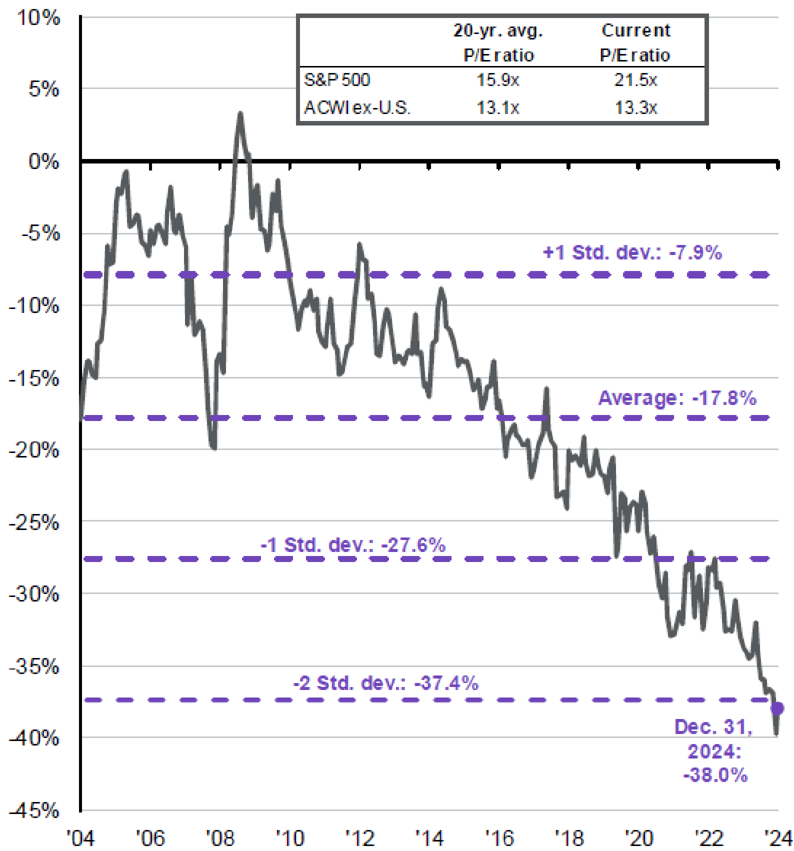
J.P.Morgan
ASSET MANAGEMENT



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. (Left) Next 12 months consensus estimates are based on pro-forma earnings and are in U.S. dollars. (Right) The purple bars for EM and China show 20-year averages due to a lack of available data. Past performance is not a reliable indicator of current and future results.
Guide to the Markets – U.S. Data are as of December 31, 2024.

J.P.Morgan
ASSET MANAGEMENT

It resulted in the US trading at far higher valuations versus international stocks than historical norms.



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. *Guide to the Markets – U.S.* Data are as of December 31, 2024.

Given the momentum in US stocks, both institutional and retail investors had piled into the market by the end of last year. US households had their highest exposure to American stocks in decades.

Similarly, institutional investors were 'all-in' on America. They effectively had to be by default because any institution that had been underweight the US had been demolished during the previous two years.

Seen through this lens, Trump has been the trigger for the correction, but any number of things could have led to a pullback in US markets.

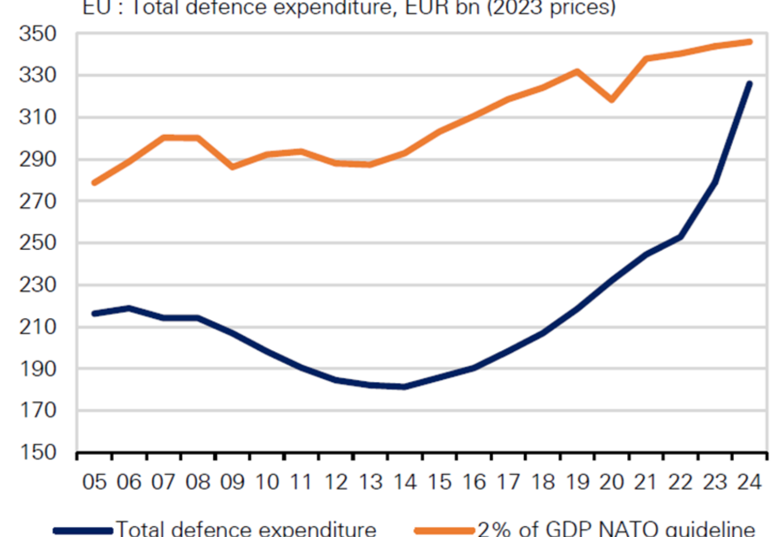
Trump has poked the European bear

Inadvertently, Trump's policies could be the catalyst for an economic turnaround in Europe.

From Australia, it's hard to appreciate the shock that Trump's protectionist policies have caused in Europe. In early February, the US Vice President JD Vance gave an extraordinary speech to a Munich security conference where he said that the greatest threat to Europe didn't come from a nuclear-armed Russia currently waging war in Europe, but "from within Europe – the retreat of Europe from some of its most fundamental values, values shared with the United States of America."

Former UK Prime Minister John Major, a Conservative euro-skeptic, said this after the speech:

"It's extremely odd to lecture Europe on the subject of free speech and democracy at the same time as they're cuddling Putin. In Mr. Putin's Russia, people who disagree with him disappear, or die, or flee the country, or — on a statistically unlikely level — fall out of high windows somewhere in Moscow."



The Vance speech solidified Europe's suspicions that the trans-Atlantic alliance, in effect since the end of World War Two, was dead, and even NATO was in trouble.

That meant they needed to rearm to protect themselves, without US help, and fast.

To be fair, they'd already started been doing this since Trump's first term.

To deter Russia, experts believe that Europe will no need to lift spending on defence from under 2% to 3.5%.

It hasn't taken long for countries to react. After decades of economic conservatism, Germany is seeking to introduce fiscal stimulus to pay for billions in spending on defence and infrastructure.

The planned infrastructure fund would spend 500 billion euros, or 12% of German GDP, on infrastructure, energy grids, and housing over the next 12 years. This fund alone would lift German and European real GDP growth by about 1% and 0.3% per year, respectively, over the coming decade.

In addition, if EU countries increase their defence budgets by 1.5% of GDP, as has been suggested, this would mean an additional 800 billion euros, or 4.3% of the EU's GDP. If that's implemented over the next 10 years, it could lift EU real GDP growth by further 0.3% per year.

All up, the measures could raise the EU's GDP growth rate from the current 1.6% to 2.1% during the next decade – or towards similar levels to those estimated for the US over the same period.

It's a gift for China

Meanwhile, China can hardly believe its luck. Trump has upended NATO, put massive tariffs on the supply chains of America's largest industrial firms, created policy upheaval that's sent US markets reeling, and frightening consumers into spending less – all of which could quickly send the US economy into recession.

China isn't too concerned with the American tariffs against it either. Exports are only 20% of its GDP, and exports to America are less than 15% of these exports. Plus, China can find alternative destinations for its goods in Europe, Asia, and Africa.

Meanwhile, its 'Belt and Road' strategy may get a second wind as countries would prefer the 'certainty' of trade and business deals with China to the uncertainty of dealing with Trump and the US.

The big question for markets is around earnings

Will fiscal stimulus and better economic prospects lead to improved earnings from countries outside the US?

Fund manager, Joachim Klement, thinks they can. He estimates fiscal stimulus could translate to earnings growth of 7% in Europe compared to 6% growth in the US over the next decade.

Projected annual earnings growth over the next 10 years

Building block analysis of future growth in earnings per share

per annum	S&P 500	MSCI Europe
Real GDP growth	2.1%	1.6%
Defence spending		0.3%
Infrastructure		0.3%
Inflation	3.0%	3.0%
Margin change	–1.0%	0.0%
Share buybacks	1.8%	1.8%
Total	**5.9%**	**7.0%**
Average since 2010	9.9%	5.8%

Panmure Liberum estimates

If right, it would signal a major change in market and earnings leadership away from the US. And, Trump may have just kicked a massive own goal.

****

In my article this week, a common question that I'm getting from income investors is: with fixed term deposit rates falling and hybrids being phased out, where can I find yield? I run through the options, and the opportunities and risks involved.

James Gruber

Also in this week's edition...

Both experienced and novice investors are wondering why markets have corrected and what happens next. **Ophir's Andrew Mitchell** and **Steven Ng** guide us through the history of corrections and bear markets, and their underlying causes. What they find should give investors cause for optimism.

Ashley Owen's latest is provocative, suggesting that our large ASX companies are mostly century-old relics from the horse & buggy era, relying on domestic population growth, oligopoly pricing power, and gobbling up competitors for growth. By contrast, the US has had a continual process of innovation and renewal. Ashley looks at what that means for returns from both countries going forward.

Housing mobility is important for individuals and the broader economy. **Andrew Barker** and **Aaron Korchak-Krzeczowski** believe there are obstacles to greater mobility in Australia, and they propose several reforms to improve it, including policies to ensure greater rental security and encourage downsizing among retiree homeowners.

In recent months, there has been increasing concern and media coverage about delays in paying death benefits from superannuation funds. One of the fundamental issues is that under the law, super death benefits do not automatically form part of the deceased person's estate. **Nick Callil** and **David Knox** think that needs to change.

Over the past few years, the Reserve Bank of Australia has copped its fair share of criticism. Yet, despite its flaws, **Tim Farrelly** reckons that it may just have engineered the rarest of beasts: the fabled soft economic landing. And for that, it deserves praise.

As part of their global exposure, Australian investors typically allocate mostly to Developed Markets equities, and a smaller portion to Emerging Markets. **Platinum Asset's Cameron Robertson** looks at the latter position and whether there might be a better way.

Lastly, in this week's whitepaper, **Alantra** - a **GSFM** affiliate - run through their approach to finding the best global small cap opportunities.

Curated by James Gruber and Leisa Bell

Finding the best income-yielding assets

James Gruber

I've been getting many questions from income investors about what to do with their money now that term deposit rates are falling, and bank hybrids are being phased out.

Here I'm going to run through the various options, and their pluses and minuses.

Term deposits

With the RBA cutting interest rates last month and potentially more cuts on the way, it seems the days of +5% fixed term deposit rates are largely behind us.

The biggest bank, CBA, has 12-month deposit rates of 4.2%, with 6- and 3-month rates at up to 3.4% and 3% respectively. It has a current 'special offer' of 4.6% for a 10-month deposit.

My favoured term deposit institution, Judo Bank, offers higher rates than CBA, at up to 4.85% for 3 months, and 4.7% for 12 months.

There are others that are also more competitive than CBA, such as UBank, ING, and Macquarie, though all come with conditions attached ie. spending and saving certain amounts to qualify for higher rates.

The current term deposit rates still seem a reasonable proposition given they remain well above the official inflation rate of 2.4%.

Cash ETFs are an alternative for those investors who don't want to be locked into three-month plus term deposits. These ETFs invest in cash products and deposit accounts that are offered by reputable banks with distributions (ie. interest payments) that are typically paid out on a monthly basis.

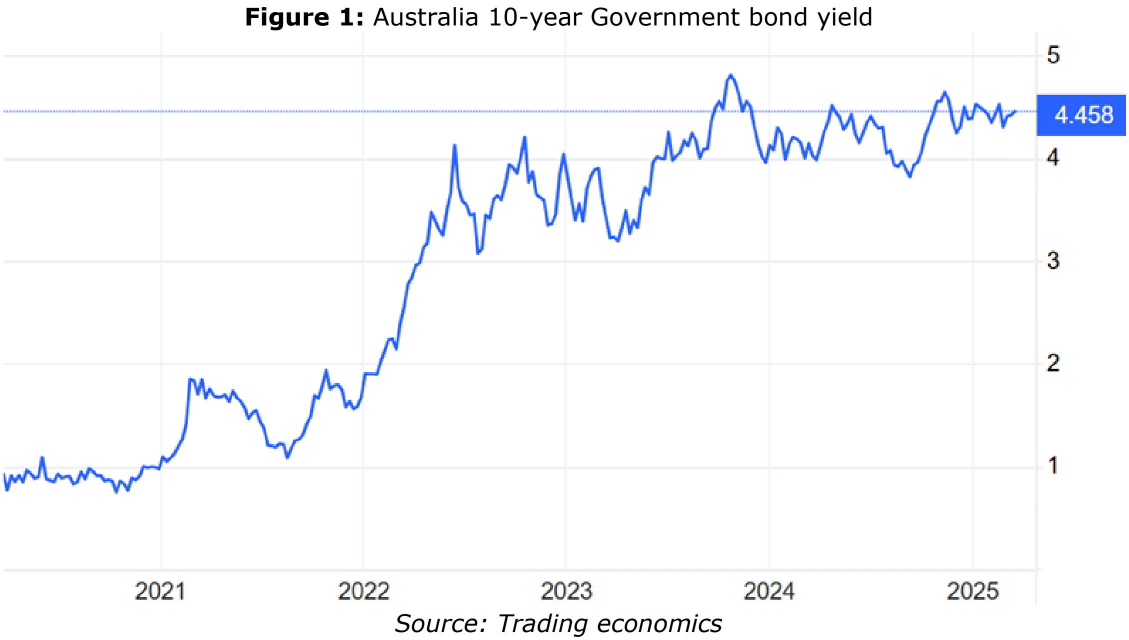
The most popular cash ETF is Betashares Australian High Interest Cash ETF (ASX:AAA). It offers a current interest rate of 4.18%.

Government bonds

Government bonds have been in the doghouse for four years now. Despite the more attractive yields on offer, both institutional and retail investors have been reluctant to wade back into bonds.

Australian 10-year Government bond yields peaked above 4.8% in October last year and now sit at 4.46%.

Figure 1: Australia 10-year Government bond yield



Source: Trading economics

That yield seems ok given the circumstances. Unlike cash and term deposits, bonds offer protection for investors in the event of a slowing economy or recession.

The risk with bonds is if inflation ticks up again.

I've previously been vocal in suggesting that bond cycles usually last decades not years, and that the current bear market in bonds is likely to continue for some time. That said, Government bonds do still have a role to play in income portfolios.

You can buy Government bonds directly or via ETFs, the most popular being iShares Core Composite Bond (ASX:IAF) and Vanguard's Australian Fixed Interest ETF (ASX:VAF).

Subordinated bonds

With hybrids being phased out from 2027, banks and issuers are likely to replace hybrids with other forms of capital like subordinated debt.

For context, there are different levels of debt in companies. The lowest risk is senior secured bonds, followed by senior unsecured bonds, and then subordinated bonds, otherwise known as junior bonds or lower Tier 2 debt.

Banks and insurance companies issue subordinated debt and Tier 1 hybrids as regulatory capital instruments. Their principal purpose is not as a source of funding but rather to add to the capital position of a bank or insurance company which can be used to absorb losses in a crisis scenario. These securities add to capital ratios that are monitored by regulators as an indication of risk.

Figure 2: Simplified capital structure of a financial institution

Investment risk/return	Capital structure		Priority on Insolvency
Low	Senior debt	Secured debts	High
		Deposits	
		Unsecured debts	
	Hybrids#	Tier 2 Capital (Subordinated debt)	
		Additional Tier 1 Capital ("Hybrids"*)	
High	Common Equity Tier 1 Capital (Ordinary shares)		Low

Source: ASIC

Betashares offers an Australian Major Bank Subordinated Debt ETF (ASX:BSUB) that has a current running yield above 6%. And Macquarie has just launched a Subordinated Debt Active ETF (ASX:MQSD).

The yields on subordinated debt are very reasonable, particularly given the quality of the major banks and insurers issuing the debt.

Hybrids

Hybrids are part equity and part debt instruments. They've been exceedingly popular with both banks and investors.

But with hybrids slowing disappearing, it will mean billions of additional subordinated bond issuance and potentially some widening margin pressure for new issues if demand growth doesn't match supply growth.

That could result in tighter margins for hybrids, and higher prices. So, there may still be an opportunity for 6-7% returns in this space.

The easiest way to get hybrids exposure is via Betashares Australian Major Bank Hybrids Index ETF (ASX:BHYB).

If you want an expert in this area, Elstree Investment Management is well regarded and has a listed ETF, The Elstree Hybrid Fund Active ETF (Cboe:EHF1).

Dividend ETFs

If cash is the least risky investment, and bonds are second, then equities are riskier still, but they offer higher potential returns in the form or capital gain and income. An advantage for the income investor is that dividends offer tax advantages that cash and bonds don't, through franking credits.

The largest ASX dividend ETF is Vanguard's Australian Share High Yield ETF (ASX:VHY). It sports a current dividend yield of 5%, or a grossed up yield close to 6.5%.

It's worth noting that VHY has struggled to grow its dividend over the past decade because of its heavy exposure to financial and commodity stocks (73% of the portfolio). Financials, especially banks, haven't been able to lift dividends much given limited earnings growth, while mining company earnings and dividends have suffered given the recent falls in many commodity prices.

Listed investment companies

Listed investment companies or LICs may be an option for those seeking high and growing dividend income.

Australian Foundation Investment Company (ASX:AFI) is one of the oldest and most reputable LICs. It currently offers a yield of 3.7%, or 5.3% grossed up.

A good alternative is Plato Income Maximiser (ASX:PL8) which has a current yield of 5.2% fully franked and has achieved 9.8% total returns including franking credits since it was launched in 2017.

The recently listed Whitefield Income (ASX:WHI) is also worth a look, as is Wilson Asset Management's WAM Income Maximiser Limited (ASX:WMX), which is raising money for the fund to invest in both equity and debt, with the aim of delivering gross income returns of 6% per annum.

Equities

With the recent dip in share prices, it potentially offers more opportunities to buy companies at cheaper prices and better yields.

For steady, high dividend yielding stocks, here are three ideas:

Charter Hall Retail REIT (ASX:CQR). With rates more likely to dip than climb, property asset values are starting to stabilize after a rocky 24 months. CQR has $4.5 billion in neighbourhood retail assets plus some petrol stations. A lot of the assets are suburban sites with a supermarket and 5-10 retailers around that supermarket. Property occupancy remains high at almost 99%, and the average tenancy expires in seven years. CQR offers a healthy 7.3% net yield and trades well below its net asset value.

NIB Holdings (ASX:NIB) With an ageing population and increasing need for medical care, the long-term prospects for health insurers are favourable. NIB is the fourth largest health insurer behind Medibank Private, BUPA and HCF. While pricing is set by government, growing demand for private healthcare should ensure increasing earnings and dividends for many years. NIB offers a forecast net dividend yield of 4%.

Origin Energy (ASX:ORG) Origin is Australia's largest electricity and gas supplier. Low wholesale electricity and carbon credit prices are going to make it tough for them to grow earnings over the next few years, though the company has defensive qualities that should make its dividend safe. Origin offers investors a 5.1% yield with reasonable valuations.

If you're after growing dividends, then here are two stocks to consider:

Woolworths (ASX:WOW). I think it might be time to buy this supermarket giant. It's had a terrible time of it lately – being trounced by Coles, having a change in management, plus the Government breathing down its neck, effectively capping grocery pricing. It's left Woolies at less than a 20x price-to-earnings ratio, with earnings depressed because of the recent events. With a 3.4% forecast yield, I expect a comeback for this blue-chip stock.

Washington H. Soul Pattinson (ASX:SOL). A personal favourite of mine. The company has raised dividends in each of the past 24 years, by 10% per annum. A great track record and though the boss, Rob Millner, isn't getting younger, the future still appears bright for the conglomerate. Soul Patts has a forecast 2.9% dividend yield.

** Note that Vanguard, Charter Hall and Macquarie Asset Management are sponsors of Firstlinks.*

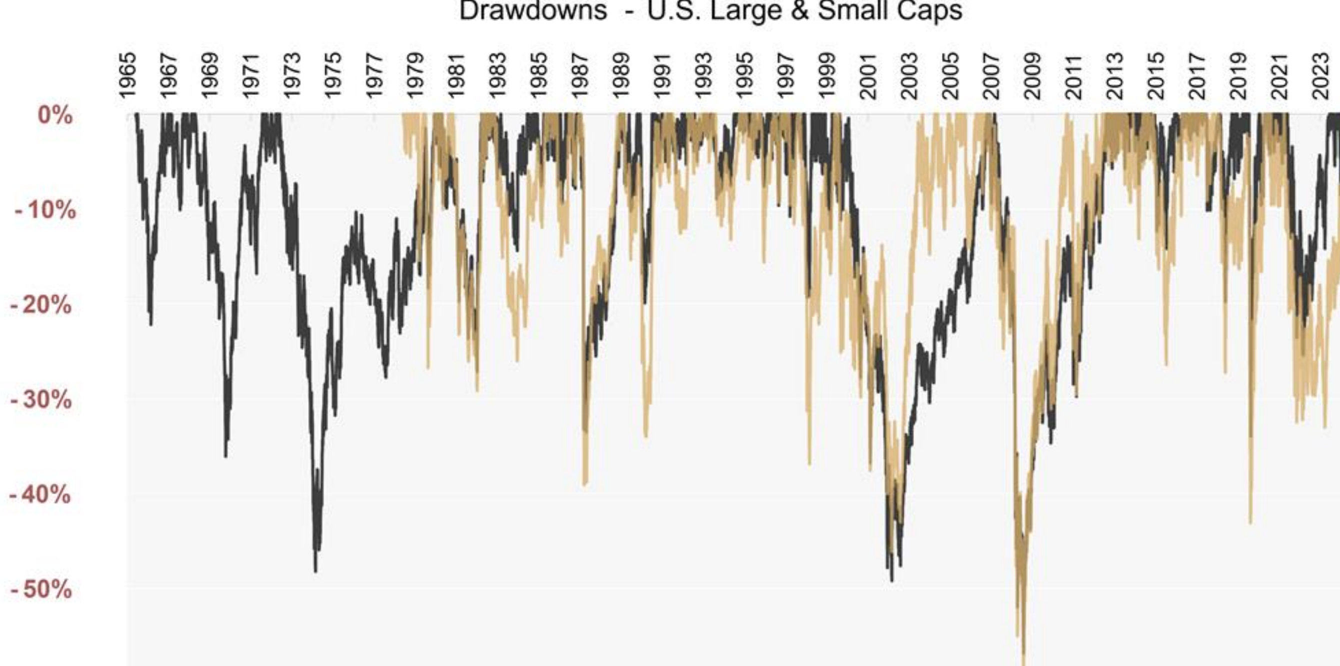
James Gruber is Editor at Firstlinks.

What history reveals about market corrections and crashes

Andrew Mitchell, Steven Ng

With the S&P 500 entering correction territory last week (a >10% fall), many investors are asking whether this will turn into something worse, such as a bear market (a >20% fall)? And given the U.S.'s dominance, perhaps a bear market for global shares?

As we show below for the S&P 500 (since the mid-1960s) and the Russell 2000 (since the late 1970s), there have been plenty of falls greater than 10% and 20%, with even the odd fall of more than 30% or 40%. The only fall greater than 50% during this period was the gut-wrenching GFC.



Source: Ophir. Bloomberg.

Many of the biggest drawdowns (peak-to-trough falls) were associated with U.S. recessions, including those in the early and mid-70s, the ‘81/82 recession, the ‘90/91 recession, the Dot.com Bubble with its early 2000s recession, and of course the 2008/09 GFC, as well as the brief Covid-19 recession in 2020.

The benefits of understanding corrections

Why care about understanding market corrections in the first place?

One obvious answer is: knowing what tends to cause corrections might help you avoid them. But, despite thousands of studies and books trying, it is very difficult, or perhaps even impossible, to identify corrections ahead of time with sufficient accuracy to be useful.

While you may not be able to time a correction by going into or out of cash, if you understand what causes corrections you can identify when you are in the ‘danger zone’; where a correction is more probable. You then may be able to mitigate some of the fall by skewing your portfolio to companies with stronger fundamentals and less risk.

Knowing what caused a correction can also help you can understand what will likely stabilise it and trigger a market rebound.

The three causes of corrections

In the table below our friends at Piper Sandler have categorised every U.S. share market correction greater than 10% going back to 1964. There have been 27 of them! Or about one every 2.2 years. (Get used to them long term investors!)

Every 10%+ Market Correction Since 1964 (S&P 500)

	Start	End	Drawdown	% Chge P/E	Duration (Wks)	Catalyst			
						Higher Rates	Job Losses	Global	
1	1966	1966	-22.2%	NA	34	×			
2	1968	1970	-36.1%	NA	78	×	×		Recession
3	1971	1971	-13.9%	NA	30	×			
4	1973	1974	-48.2%	NA	90	×	×		Recession
5	1975	1975	-14.1%	NA	9	×			
6	1976	1978	-19.1%	NA	61	×			
7	1978	1978	-13.6%	NA	9	×			
8	1979	1979	-10.2%	NA	5	×			
9	1980	1980	-17.1%	NA	6	×	×		Recession
10	1980	1982	-27.1%	NA	89	×	×		Recession
11	1983	1984	-14.4%	NA	41	×			
12	1987	1987	-33.5%	-38.1%	14	×			1987 Crash
13	1990	1990	-10.2%	-10.2%	4	×			
14	1990	1990	-19.9%	-20.0%	12	×	×		Recession/ Persian Gulf
15	1997	1997	-10.8%	-10.8%	3			×	Asia Financial Crisis
16	1998	1998	-19.3%	-20.0%	6			×	Russia/ LTCM Crisis
17	1999	1999	-12.1%	-15.0%	13	×			
18	2000	2002	-49.1%	-44.8%	133		×		Recession
19	2007	2009	-56.8%	-32.6%	74		×		Recession
20	2010	2010	-16.0%	-22.2%	10			×	Euro Debt Crisis
21	2011	2011	-19.4%	-23.2%	22			×	U.S. Debt Downgrade
22	2015	2016	-14.1%	-14.2%	29			×	China, Oil Collapse
23	2018	2018	-10.2%	-14.3%	2	×			
24	2018	2018	-19.6%	-20.2%	12	×			
25	2020	2020	-33.9%	-34.1%	5		×		Recession/ COVID-19
26	2022	2022	-25.4%	-30.1%	40	×			
27	2023	2023	-10.3%	-13.2%	13	×			

Source: Piper Sandler.

As you can see, most of the deepest falls are associated with recessions. The 1987 Crash, and the 2022 fall courtesy of the rapid hiking of interest rates by the U.S. Fed, are key exceptions.

Importantly, most corrections are driven overwhelmingly by valuations (price to earnings ratios) shrinking as risk aversion increases, rather than corporate earnings falling off a cliff.

Each correction can be grouped into three main causes:

1. High interest rates
2. Higher unemployment
3. Exogenous global shocks (such as the Asian Financial Crisis or Euro Debt Crisis)

Of course, some of these can overlap and have other intertwined causes, but there is usually one of these three causes that stands out as the major reason the correction starts and ends.

History shows that not all correction causes are created equal

The most important insight history tells us is that the cause of the correction will go a long way to explaining how deep and long it is.

The six charts below are great ones to commit to any investor's memory bank.

S&P 500 Drawdowns Duration (Weeks)

Source: Piper Sandler.

They tell us that:

1. Higher rates have historically caused, and lower rates ended, the most corrections (52% of them), followed by higher unemployment (30%) and global shocks (18%). However, since inflation targeting was introduced in the U.S. in the 1990s, inflation and hence interest rates have been less volatile and caused fewer market corrections.
2. Those corrections associated with job losses should be the most feared because they typically see the largest falls (-36% on average) and last the longest. This is probably because they are the most likely to see corporate earnings fall the most, alongside valuation falls.
3. Those corrections based on exogenous global shocks tend to be the 'best', with similar average falls to those caused by higher rates (around -16%), but global shock corrections tend to be shorter lived.

While rising interest rates or unemployment might indicate a correction is ahead, getting the timing right is always difficult because markets are forward looking and the correction may begin when market participants EXPECT rates or unemployment to increase, before they actually do. It can still be useful though to understand the cause, because when rates or unemployment stabilise that can signal that the correction may be coming to an end, with a rebound to follow.

Almost by their very definition, exogenous global shocks are unpredictable, but at least their resolution can provide some guidance on what the market needs to see before it recovers.

How different sectors perform in corrections

Perhaps the most useful part of this history lesson is understanding which parts of the market do better when staying invested during a market correction. (And staying invested will be the best outcome for most investors.)

Here the evidence is pretty clear, though not infallible. First, at a sector level, during a market correction the sectors that tend to perform better provide more stable, reliable and defensive revenue and earnings.

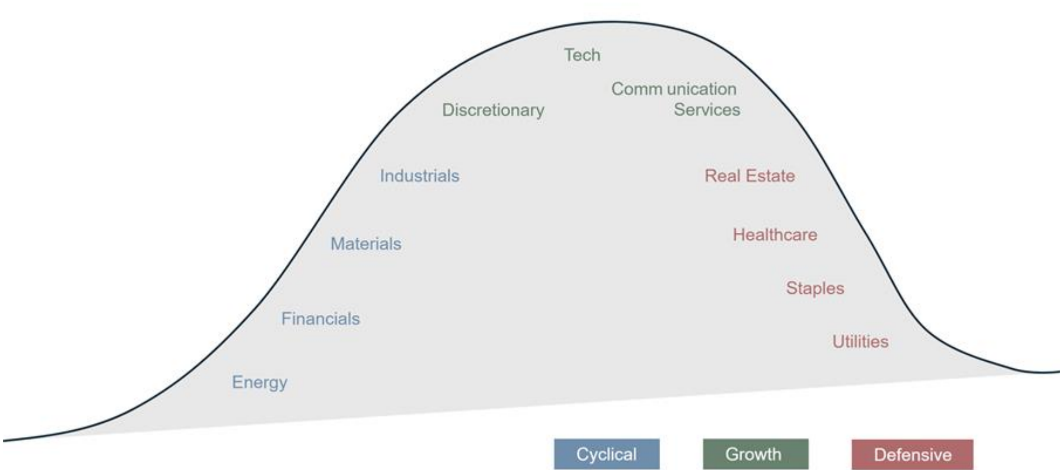
Which ones are they?

Typically, Real Estate, Health Care, Consumer Staples and Utilities. Each has, on average, outperformed the U.S. share market as a whole during the 15 market corrections that we have data for going back to 1990. Each also has an 80% or better 'Hit Rate' – that is, they have outperformed the market in at least 4 out of every 5 corrections.

What do these sectors have in common?

Their revenues and earnings tends to fluctuate less, generally because consumers don't cut spending on them easily (everyone has to pay their utilities, grocery or doctors bills). They can therefore provide something that is prized in market uncertainty: more certain returns to their shareholders.

Sector Rotation Guide – The Business Cycle



Source: Piper Sandler.

The type of stocks ('factors') that outperform in sell-offs

But investment 'factors' are better guideposts for investing during corrections than Sectors. (Factors is just a fancy investment term for common characteristics of different stocks.)

So, what are the best and worst factors during market corrections?

S&P 500 Factor Returns (High Relative to Low, Sector Neutral)

			Risk	Variance	Deep Value	Size	Quality Value	Coverage	Profitability	Stability
Peak	Trough	S&P 500 Decline	Beta	Sales Variance	Sales Yield	(Small to Large)	FCF Yield	Interest Coverage	ROE	Low Volatility
1987	1987	-34%	-10.3%	-10.1%	-3.4%	-6.0%	5.0%	1.6%	4.8%	8.9%
1990	1990	-10%	-1.7%	-1.2%	-0.3%	-1.8%	0.7%	1.6%	2.6%	2.4%
1990	1990	-20%	-17.5%	-10.3%	-10.5%	-8.3%	3.9%	3.0%	8.3%	15.1%
1997	1997	-11%	-3.0%	-2.2%	0.1%	-0.6%	0.3%	1.7%	1.0%	4.2%
1998	1998	-19%	-3.1%	-5.5%	-4.2%	-5.5%	9.5%	0.8%	4.7%	9.0%
1999	1999	-12%	-0.9%	-0.6%	-9.3%	-2.3%	-3.6%	2.7%	3.0%	1.1%
2000	2002	-49%	-54.0%	-59.3%	24.2%	25.8%	87.0%	54.5%	25.9%	91.8%
2007	2009	-57%	-32.3%	-30.6%	-31.7%	-22.5%	6.0%	30.4%	45.7%	42.1%
2010	2010	-16%	-11.2%	-6.7%	-6.6%	-4.4%	-3.1%	8.3%	8.8%	12.3%
2011	2011	-19%	-21.4%	-15.8%	-16.0%	-13.0%	2.3%	15.2%	18.8%	24.0%
2015	2016	-14%	-17.2%	-14.0%	-9.5%	-7.7%	0.0%	4.9%	8.2%	18.2%
2018	2018	-10%	-3.2%	0.0%	-0.5%	-0.8%	1.0%	0.1%	-0.1%	1.5%
2018	2018	-20%	-10.6%	-5.7%	-1.9%	-1.2%	0.4%	1.0%	1.9%	8.6%
2020	2020	-34%	-15.0%	-3.3%	-17.7%	-15.4%	-3.4%	11.1%	14.1%	17.9%
2022	2022	-25%	-13.7%	-6.0%	12.0%	4.7%	5.2%	-2.8%	-1.8%	10.6%
2023	2023	-10%	-12.2%	-9.8%	1.0%	-5.5%	5.5%	4.2%	5.0%	14.5%
		Average	-14.2%	-11.3%	-4.6%	-4.0%	7.3%	8.6%	9.4%	17.6%
		Hit Rate	0.0%	6.3%	25.0%	12.5%	81.3%	93.8%	87.5%	100.0%

(Q1 vs Q5 Factor Returns, Sector Neutral)

Most Consistent Underperforming Factors — Most Consistent Outperforming Factors

Source: Piper Sandler.

The table above shows that during corrections there are a few types of stocks that tend to underperform:

- Those with more volatile share prices compared to the market (so called higher Beta)
- Those with volatile revenues; and
- Smaller stocks.

By contrast, stocks with higher-quality cash flows, less debt and less volatile prices outperform.

It's perhaps unsurprising that when markets are falling a lot, investors favour those businesses they can be more certain of their fundamentals and their share prices.

Important Point: *While smaller companies tend to fall more during market corrections, the key exception to this in the table above is the 2000 to 2002 Dot.com-related market falls, where smaller companies significantly outperformed. This period shares some similarities to today where U.S. small caps have been the cheapest compared to large caps since the Dot.com Bubble. This was a key reason 25 years ago U.S. small caps fell less – they started from much cheaper valuations.*

Where does that leave us today?

With the U.S. share market having already entered correction territory, it seems U.S. tariffs are the most likely cause of the drop and would fall in the 'global exogenous shock' bucket.

Neither interest rates nor unemployment has moved higher in the last few weeks to cause the sell-off. In fact, the most recent move in both short and long-term interest rates in the U.S. has been down.

It remains a risk, though, as tariffs are inflationary. So, it can't yet be ruled out that the Fed may need to reverse course and hike rates as a result.

The U.S. unemployment rate has been moving up from its low in 2023, but this isn't a new occurrence, and it is still near multi-decade lows.

If history is any guide this is good news because, as we've seen, exogenous shocks tend to see smaller market falls that recover more quickly.

Investors need to watch, however, that tariffs and policy uncertainty in general in the U.S. don't morph into something more sinister like a recession, which would see job losses and a likely further fall in the share market. For now, though, this doesn't seem the most likely outcome as the typical recession precursors like rising interest rates and lax credit conditions are absent.

Andrew Mitchell and Steven Ng are co-founders and Senior Portfolio Managers at Ophir Asset Management, a sponsor of Firstlinks. This article is general information and does not consider the circumstances of any investor.

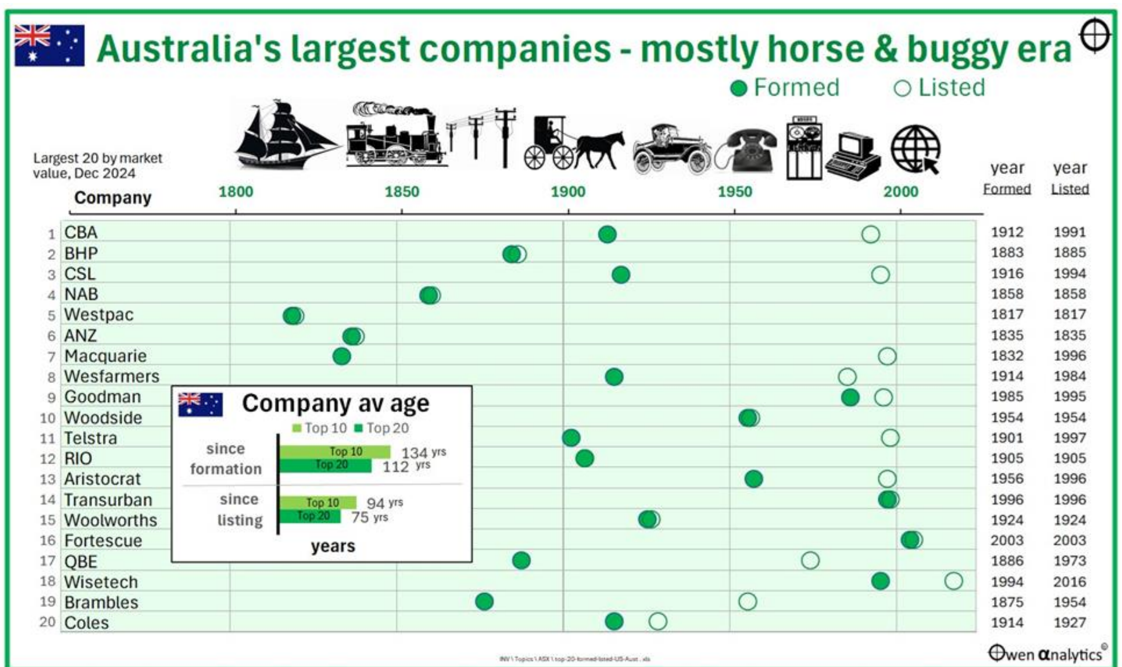
Read more articles and papers from Ophir here.

The ASX is full of old, stodgy, low-growth companies

Ashley Owen

Most of America's largest companies grew explosively from small minnows into global giants in just a couple of decades or so. In Australia, this small-cap to large-cap experience is relatively rare. Our stock market has been dominated by the same old low-growth giants for more than a century.

Here are Australia's 20 largest listed companies (as at start of 2025) – showing the year of their formation (filled circles) and stock exchange listing (hollow circles). Most of them are from the horse and buggy era.



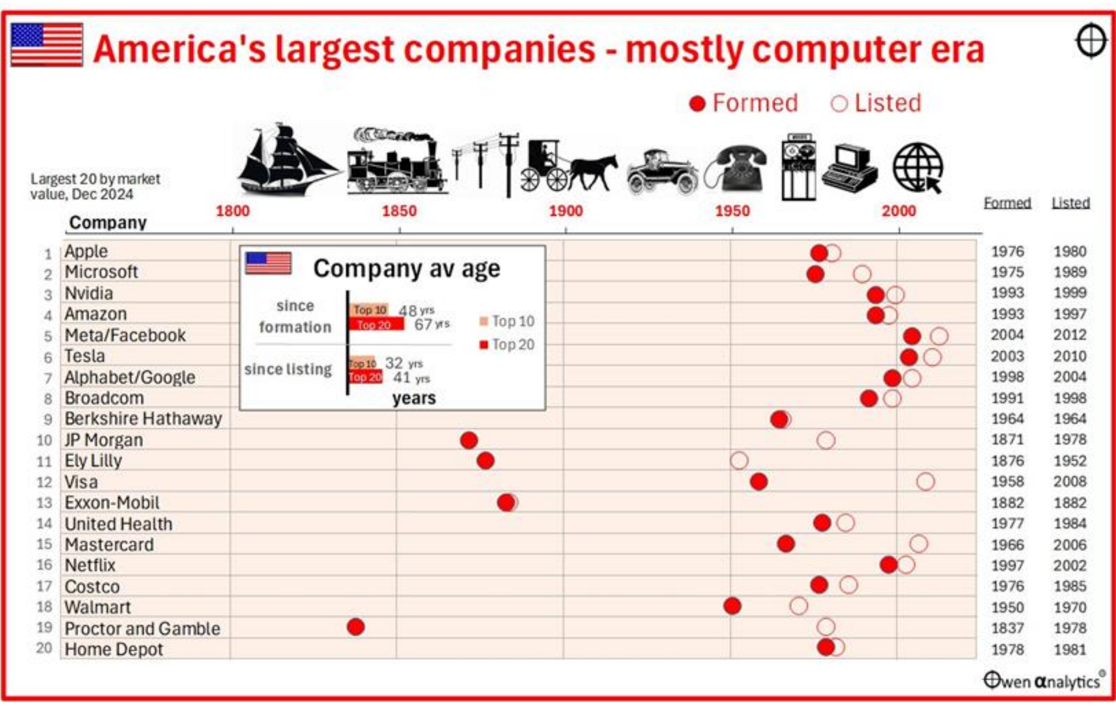
Only one company is from the current century – Fortescue (the company was actually listed in 1987 as Lake Raeside NL, but Andrew Forrest took over the tiny shell in 2003, changed its name to Fortescue Metals, and embarked on his grand iron ore adventure, so I credit its 'formation' as 2003).

Macquarie Bank is a re-named and spun off branch of London parent company Hill Samual, originally formed in 1832 in the same banking boom that spawned the three forerunners of ANZ, which were also formed and headquartered in London.

Only four are from the computer era, but only one of those – Wisetech – is actually a computer era business. Fortescue digs rocks, Goodman builds and manages warehouses, and Transurban builds and operates toll-roads. Nothing wrong with that, but hardly high-tech or globally scalable.

The rest are mostly from the first half of the last century or relics from the century before that.

Now let's take a look at the same picture for the largest 20 listed companies in the US. Most are the product of the modern computer age. In fact, these are the companies that created, shaped, and defined the modern global computer age:



Here is how they shape up:

	Australia	USA
More than **100** years old:	**8** out of 10 largest, **14** out of 20 largest	**1** out of 10 largest (JP Morgan), **4** out of 20 largest 20
Average **age** of company:	**134** years for largest 10, **112** years for largest 20	**48** years for largest 10, **67** years for largest 20
Founders still have significant stake in company	**1** out of 10 largest (Goodman), **3** out of 20 largest (Goodman, Fortescue, Wisetech)	**7** out of 10 largest, **10** out of 20 largest

Mature (aging, decaying), low-growth dinosaurs

In Australia, eight of the largest 10 companies, and 14 of the largest 20, are more than 100 years old.

They potter along, relying on domestic population growth as their main source of growth. They entrench their dominant positions by gobbling up younger, innovative challengers, and use their oligopoly pricing power to extract profits by punishing suppliers and crushing remaining competitors.

For a bit of excitement (and 'free' overseas trips for execs and directors), nearly all of these Aussie giants have embarked on grand, ego-boosting overseas adventures from time to time, with almost universally disastrous results, so they inevitably retreated back home to Australia. The only rare exceptions to this overseas failure rule have been Macquarie, Aristocrat, Brambles, and CSL (although the jury is out on Vifor, its largest overseas adventure).

To have survived from the horse and buggy era to today, they have stood the test of time, through world wars, economic depressions, inflation spikes, deflation, enormous upheavals in global trade patterns, geo-political shifts, local political crises, countless recessions and boom/bust cycles along the way.

Long-term survival through all of these changes and crises required fairly conservative, unimaginative management most of the time, low or moderate debt levels, not 'betting the house' on rash projects or expansion plans, and more than a little political lobbying to protect their cozy domestic positions.

Founders' vision and drive

Unlike the centuries-old Aussie dinosaurs, most of the US giants are still largely driven by their founders' vision and drive. seven out of largest 10, and 10 out of largest 20 US companies are still founder-led, or their founders still have sizable/influential stakes.

In Australia it is just one out of the largest 10 (Goodman), and three out of the largest 20 (Goodman, Fortescue, Wisetech).

In the Aussie dinosaurs, the CEOs are hired help with no skin in the game (they are gifted truckloads of free shares and options, they did not sell their houses and put up everything they own). Then they are given just five years (at best) before they are turned over, so there is no time or patience for long-term visions or plans.

Their boards are stacked full of well-meaning accountants, lawyers, and other independent directors where 'governance' rules deliberately prevent them from having any actual experience or interest in the company, suppliers, customers, or competitors.

'Founder problem' -v- 'Agency problem'

We have a few examples of the 'founder problem' – (eg Wisetech, MinRes, FMG), because visionary, laser-focused founders are often mad, flawed geniuses. That usually comes with the territory.

But we have a much larger 'agency problem' – where the lack of visionary, driven founders results in a situation where short-term, manager-CEOs and independent boards with no deep knowledge and no real skin in the game are not aligned with the interests of the owners of the business.

Personally, I would back a diversified bunch of visionary founders with real skin in the game and everything they own at stake, over decaying dinosaur companies with short-term, visionless, ridiculously over-paid, revolving-door, manager-CEOs, supervised by well-meaning but ineffective, 'professional' directors who sit on the boards of half a dozen companies from unrelated industries, with deep expertise in none.

What about returns?

The remarkable thing is that the overall stock markets in Australia and the US have delivered almost exactly the same overall returns to shareholders over the past century – total returns averaging 6.5% per year above inflation in each market. See: [Australia v US share markets – it's our turn next!](#)

In Australia it has been the same dominant banks and miners for the past 100+ years (with a fair bit of consolidation within both industries culminating in the companies we see today).

However, in the US it has been a continual process of innovation, change, and renewal. Some of the leaders of a hundred years ago are still around today but are relatively small now (eg General Electric, US Steel) and/or have been chopped up (eg. Standard Oil, and the Baby Bells). In between, there has been a succession of RCAs, Fords, GMs, Kodaks, DuPonts, Hewlett-Packards, Dells, and IBMs, etc that have grown, dominated, but then been overtaken and replaced by the next wave of newer, better ideas and companies within a few decades.

Returns on equity, re-investing for growth

In this endless process of innovation, growth, and renewal, the US market has delivered double the average returns on shareholders' equity than the Australian listed company market. In the US market, aggregate returns on equity have averaged 14% pa this century, and is currently running at 17%. That is well above the cost of equity capital (around 10%), so they have created value for their owners.

Returns on equity for the Australian market have averaged just 8% pa this century, and is currently running at 7%, less than half that of the US market. This should be a national scandal. Any company that has a return on equity consistently below its cost of equity is destroying value and should simply be closed down and the money handed back to shareholders.

Earnings per share growth comes from investing in the future. US companies, on average, retain more than 50% of their profits to invest for future growth (and buying back shares, which reduces the number of shares and boosts earnings per share), but Australian companies retain less than one third for growth, and pay out the rest in dividends.

The next 100 years?

If we were to fast-forward one hundred years into the future – I reckon many or most of today's ASX top 10 will probably still be in the top 10 in 100 years' time (just as they were 100 years ago).

But I reckon it's a pretty sure bet that the US top 10 companies will look completely different to the current set, not just in the next 100 years, but probably in just 20 years. Then change again in the 20 years after that, then change again in the 20 years after that.

The current US top 10 will probably be overtaken by a whole new set of global leaders, just as the Apples, Microsofts, Nvidias, Amazons, Googles, Facebooks, and Teslas of today grew rapidly from small caps into global giants by replacing the previous incumbents that dominated only a couple of decades before them.

I would rather invest in innovation, growth, and renewal any day. Bring on the future and let's see!

Ashley Owen, CFA is Founder and Principal of OwenAnalytics. Ashley is a well-known Australian market commentator with over 40 years' experience. This article is for general information purposes only and does not consider the circumstances of any individual. You can subscribe to OwenAnalytics Newsletter here. Original article is here: Australia – land of horse & buggy era dinosaur companies. Where is the innovation, growth, renewal?.

Time to review the family home's exemption from Age Pension test

Andrew Barker, Aaron Korczak-Krzeczowski

Improving housing mobility in Australia is crucial for enhancing both individual well-being and broader economic benefits. It can address challenges in housing affordability and ensure that people can move for personal, work, family or other reasons, while also improving long-term societal outcomes.

Housing mobility offers important economic advantages. It enables individuals to pursue better job opportunities, improving productivity. In addition, moving to a more suitable neighbourhood can have lasting positive effects on children's education and overall quality of life. On the other hand, the lack of housing mobility can exacerbate housing affordability issues. When people are unable to move freely, it can result in mismatched living arrangements, where the number of residents in a home doesn't align with the number of available bedrooms, thus reducing the overall supply of appropriate housing.

That said, not all housing mobility is desirable. Frequent moves can negatively impact renters, particularly when they are forced to relocate by their landlords. The direct costs of moving, along with the disruption of social networks, can undermine personal well-being. Moreover, frequent school changes for children can hinder their educational progress.

In Australia, the most significant driver of housing mobility is high turnover among private renters. Around one-third of Australian households are private renters, and they move about four times more often than owner-occupiers and more than twice as frequently as social housing tenants. Compared with 26 other OECD countries, Australian renters exhibit the highest mobility, with only Iceland recording higher rates of renter movement.

The primary factor behind this high level of mobility is the lack of security of tenure for private renters. More renters are forced to move by their landlords than move voluntarily for reasons like work or study, highlighting the need for reforms that provide greater stability and security in rental agreements.

Renting needs to be a more viable long-term option

In recent decades, Australian homeownership rates have declined, and young people today are less likely to own a home compared with older generations at a similar age. While the decline in homeownership isn't inherently negative – since homeownership does not automatically equate to societal improvement and renting can often be a more attractive and flexible option – it does highlight that the rental market is not currently structured to support long-term tenancy in a way that benefits renters.

Currently, renting carries several drawbacks, such as restrictions on making minor alterations to properties and a lack of tenure security. This lack of stability creates unnecessary challenges for renters, affecting their sense of security and well-being. Research shows that stable and secure rental tenure can improve mental health. However, long-term leases are rare in Australia, and renters often live with constant uncertainty, unsure if or when they will be forced to move due to factors beyond their control, such as landlord terminations.

Improving rental security

One key reform to enhance rental stability is removing the landlord's ability to evict tenants without due cause. Tenants should only be evicted for prescribed reasons, ensuring greater security of tenure. Currently, in some states, tenants can be evicted with as little as 30 days' notice at the end of a fixed-term lease or through substantial rent increases. Although rent increases can be challenged, the process is often difficult, leaving tenants in a vulnerable position.

Policies aimed at regulating rent increases, while avoiding blanket rent controls that could distort the market, could also improve stability. For example, a solution could involve capping rent increases for existing tenants in line with local rent price indicators, allowing larger increases only when necessary to recoup renovation costs. This approach, similar to measures implemented in Germany, would maintain a connection to market rents while preventing significant disruption to renters and encouraging investment in property.

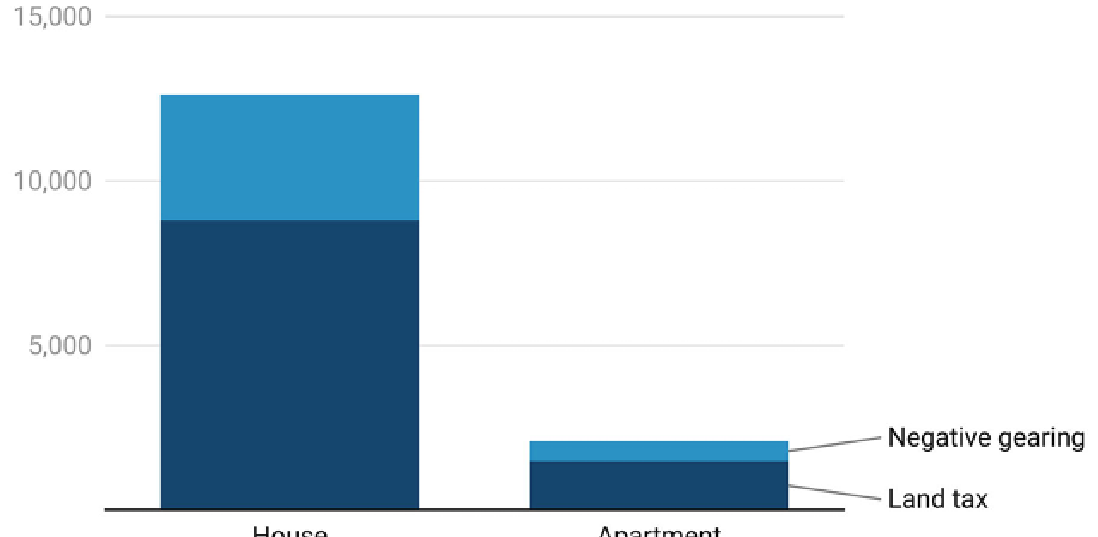
Fostering a stronger market for institutional investors

Another approach to improving tenancy security is fostering a stronger market for institutional investors. A shift from individual to institutional property ownership could reduce the frequency of evictions caused by personal circumstances of landlords – such as a landlord deciding to move into the property themselves. Institutional

investors are also more likely to maintain properties at acceptable standards to protect their reputations and avoid negative publicity.

To encourage institutional investment, policies like build-to-rent schemes and addressing tax imbalances between individual and institutional investors should be prioritised. According to our calculations, an individual landlord who pays the 47% top marginal income tax rate can still enjoy tax advantages over an institutional investor due to negative gearing and the progressive nature of land tax, which favours holders of fewer properties (Figure 1). This tax advantage increases demand from individual investors, pushing up prices and reducing yields for institutional investors.

Figure 1: Annual financial advantage to an individual landlord over an institutional investor



Note: Based on data for Sydney, as described in Barker and Korczak-Krzeczowski (2024).
Source: Authors' calculations based on data from CoreLogic, SQM Research, and the NSW Valuer General.

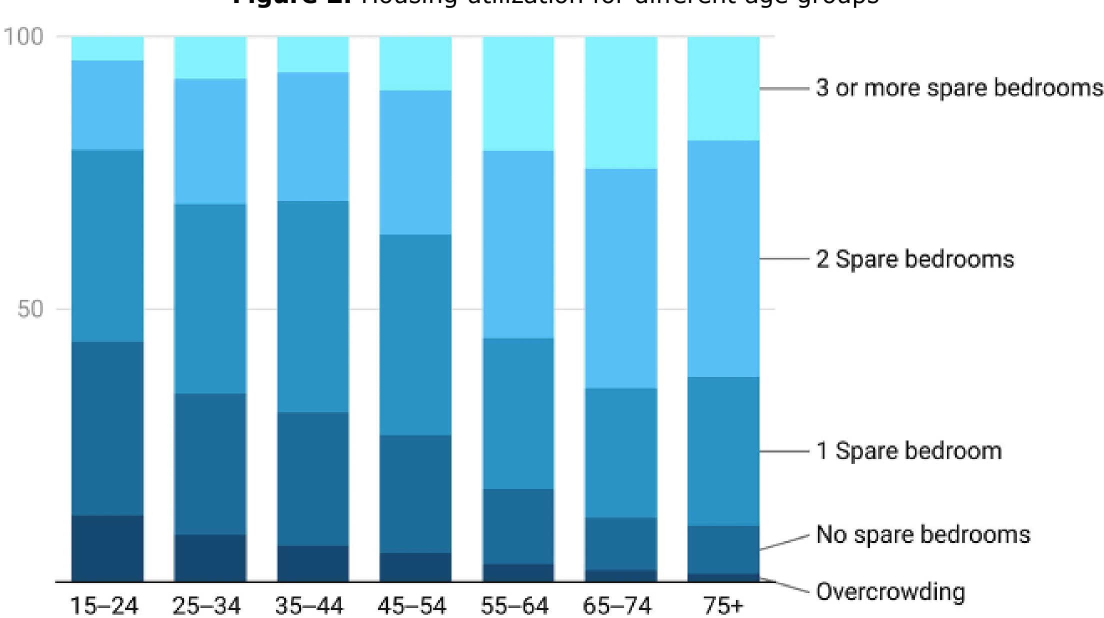
Existing policies reduce housing mobility among homeowners

Several existing policies in Australia contribute to reduced housing mobility, particularly among homeowners. One of the most significant factors is stamp duty, a transaction tax levied as a percentage of the purchase price of real estate. Stamp duty has been shown to discourage people from moving, as it represents a substantial financial barrier. In the United Kingdom, surveys have indicated that stamp duty is one of the top reasons people hesitate to downsize, making it a key factor in housing mobility decisions.

Another policy that limits housing mobility is the exclusion of the family home from the asset test for eligibility for the Age Pension. This exclusion creates an incentive for retirees to remain in their larger homes to preserve their wealth and retain access to the pension, rather than downsizing to more suitable properties. As a result, older Australians often hold onto homes that are no longer necessary for their needs.

In fact, older households typically have more spare bedrooms (Figure 2), indicating that many have homes that are larger than required. As children move out or after the death of a spouse, these households often face a reduced need for the space. However, the combination of stamp duty and the asset test creates friction that discourages downsizing, leading to underutilised housing. This mismatch between housing needs and housing supply is a key issue for both individual homeowners and the broader housing market.

Figure 2: Housing utilization for different age groups



Source: ABS 2021 Census of population and housing

According to our recent research investigating the distortive effects of the asset test, we found that individuals receiving Age Pension payments are statistically significantly less likely to have moved in the past year compared to those who do not receive the payment. Additionally, we discovered that receiving the Age Pension is correlated with a lower rate of both house moves and financial downsizing within five years of starting Age Pension payments.

Policy discussion

In this article, we have highlighted the importance of policy changes to reduce barriers to housing mobility. Enhancing housing mobility not only improves individual's quality of life but also supports labour mobility, which in turn can boost productivity across the economy.

For renters, ensuring greater security of tenure is crucial. It helps prevent costly evictions and supports more beneficial mobility by making renting a viable long-term option. Policies that support the availability of longer-term leases and remove landlords' ability to evict tenants without due cause will create a more stable rental market. Moreover, lowering barriers to institutional investment in the rental housing market would help reduce evictions driven by personal circumstances of landlords. To complement these measures and prevent evictions through unreasonable rent hikes, we recommend using simple, locally calibrated metrics to cap rent increases for existing tenants. International evidence suggests that such an approach can avoid the negative impacts on rental housing investment often seen with more stringent rent controls.

For owner-occupiers, the barriers to housing mobility are contributing to a mismatch in housing needs. As people age, it's common for them to have more spare rooms, which, while sometimes a personal choice, is often influenced by policies that discourage downsizing. Stamp duty and the exclusion of the family home from the Age Pension asset test are key factors in this trend. These policies should be reviewed, as they discourage retirees from downsizing, leading to the inefficient use of housing space and contributing to housing affordability issues.

Citation:
Barker, Andrew & Korczak-Krzeczowski, Aaron, (2025), **Reforms to Improve Housing Mobility in Australia**, Austaxpolicy: Tax and Transfer Policy Blog, 16 February 2025, Available from: https://www.austaxpolicy.com/reforms-to-improve-housing-mobility-in-australia/

Andrew Barker is Head of Research at CEDA, where he has led economic research on the energy transition, labour markets, housing and migration. Aaron Korczak-Krzeczowski is an economist at the Productivity Commission, contributing to research and policy analysis on economic and social issues for the Australian Government.

Death benefits from super don't need to be this complicated

David Knox, Nick Callil

In recent months, there has been increasing concern and media coverage about delays in paying death benefits from superannuation funds. In fact, in January 2025, the government announced it would introduce mandatory and enforceable service standards for all large APRA-regulated superannuation funds. In particular, the media release highlighted the need to improve the timely and compassionate handling of death benefits.

While prescribed standards – such as a maximum time period for super funds to pay death benefits – may appear attractive, it is not that simple. In March 2019, following the Hayne Royal Commission, Treasury noted:

"The distribution of superannuation following a member's death benefit is a relatively complex area of the superannuation system."[1]

More recently, ASIC has commented

"The legislative regime governing death benefit claims and beneficiary nominations is complex and the process that must be followed will vary depending on the fund's governing rules and relevant legislation."[2]

One of the fundamental issues causing this complexity is that under the law, superannuation death benefits do not automatically form part of the deceased person's estate. Instead, the superannuation fund trustee decides who receives the benefit based on each fund's rules and relevant legislation. Most fund's rules require the trustee to pay the death benefit to dependants in proportions that the trustee determines to be appropriate.

This situation would likely be a surprise to most Australians as all other financial assets normally form part of the estate. Our understanding is supported by legal practitioners.[3]

As noted above, the super fund trustee is required to determine who receives the death benefit, unless the deceased has completed a Binding Death Benefit Nomination (BDBN). However, a minority of fund members have normally completed such a nomination.

Feedback from some of Australia's leading super funds suggests that few have more than 10% of members with BDBNs.

The proposal

So how could the superannuation death benefit process be improved?

First, we note that unlike BDNBs, most Australians with superannuation have a Will. The Australian Law Reform Commission noted in 2017 that 93% of people aged over 70 have a Will.[4] This finding was based on research which showed that 62% of people aged 40-49 and 77% of people aged 50-59 have a Will[5]. Given that mortality rates increase with age, it is reasonable to conclude that the majority of deceased super fund members have a Will. Certainly, it is likely to be many times more prevalent among members than those with a BDBN.

We therefore offer a straightforward proposal: amend the *SIS Act* to mandate that all superannuation death benefits form part of the estate of a deceased person. (This approach is already adopted by some platform providers.) The only possible exception would be where a member has made a valid BDBN, which in this case would continue to apply for a transition period, say 5 years.

The advantages of this reform are many, and include:

- the treatment of super would be consistent with that of other financial assets held by the deceased
- it would be consistent with the expectations of most Australians
- it provides greater certainty to all members of super funds in their estate planning
- it would significantly reduce the delays in payment of many superannuation death benefits as the super fund trustee would no longer be required to decide who receives the benefit
- it should reduce the costs of superannuation funds as the often-lengthy task of determining who should receive the death benefit would be removed from the trustee's responsibility. This could lead to reduced superannuation fees paid by all fund members.

The superannuation death benefit would be 'ring-fenced' within the estate to avoid it being subject to estate debts, thereby making it consistent with current arrangements. This ring-fencing would also allow for any tax that may be payable in respect of the superannuation death benefit.

We acknowledge that there will be some cases where this proposal would delay the overall time for superannuation monies to be delivered to the member's intended beneficiaries – for example in a 'simple' case where there is clearly only one dependant but where the estate takes time to settle due to (for example) a delay in obtaining probate. However, we believe such cases are likely to be overwhelmingly less frequent than those where payment is accelerated for the reasons outlined above.

Finally, it must be asked whether this simplification is legally feasible. Interestingly, the Law Council of Australia made a similar recommendation in early 2024[6], so the answer to this question must be yes.

Hence, while legislative change would be needed, it is legally feasible. The proposal would be a positive step by the new Australian Government to indicate that they are serious in removing the current complexity and improving the timely payment of death benefits from superannuation funds.

Nick Callil and David Knox have combined experience of over 75 years as actuaries and advisors to a range of leading superannuation funds.

---

[1] Treasury, Superannuation binding death benefit nominations and kinship structures, March 2019.
[2] ASIC, Improving superannuation member services — Dealing with death benefit claims, 1 May 2024.
[3] Law Council of Australia, Submission to the Treasurer and Assistant Treasurer, 12 January 2024.
[4] Australian Law Reform Commission, Elder Abuse – A National Legal Response, 2017, p267.
[5] Tilse, Cheryl, Wilson, Jill, White, Ben, Rosenman, Linda, & Feeney, Rachel (2015) Will-making prevalence and patterns in Australia: Keeping it in the family. Australian Journal of Social Issues, 50(3), pp. 319-338.
[6] Law Council of Australia, Letter to the Treasurer, 12 January 2024.

The RBA deserves kudos for a job well done

Tim Farrelly

Over the past few years, the Reserve Bank of Australia (RBA) has been subjected to a blizzard of criticism from all corners for being too slow to react, not lifting rates enough, being too slow to cut rates and being economic troglodytes in general, clinging to discredited, outdated theories of how the economy really works.

The 2023 Government Review into the RBA found that:

- Between 2016 and 2019 interest rates at 1.5% p.a. were too HIGH
- While the actions during the pandemic were decisive, the board had too many generalists and not enough specialists who truly understood how the economy worked
- They responded too slowly to rising inflation in 2022 due to limitations in their modelling and data sources

Governor Philip Lowe was duly made to walk the plank. His replacement, Michelle Bullock, seems to have much of the same DNA as Lowe and, from the outside at least, RBA decision-making has continued much as before.

Private sector economists were, if anything, even more damning about the RBA than was the Government Review:

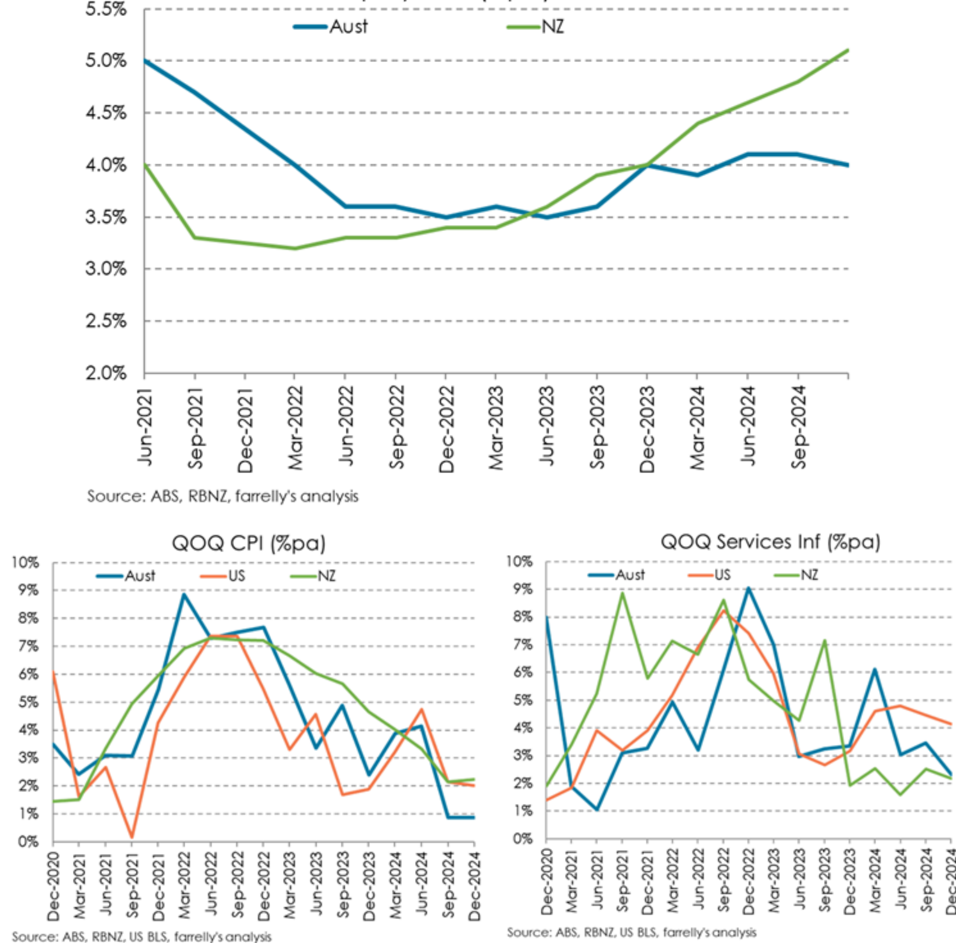
- Between 2016 and 2019 interest rates were kept artificially LOW and sowed the seeds for the dysfunctional resource allocation in the Australian economy that is behind our appalling productivity data
- It was obvious that the growth in the money supply from JobKeeper and other support programs were going to cause a surge in inflation – where was this in their models?
- Not only were rate rises too slow, but they didn't go nearly far enough
- All classical economic modelling is useless in any event

Many from the private sector highlighted the Reserve Bank of New Zealand (RBNZ) as the very model of a modern, fast-moving, pro-active central bank. Under the muscular leadership of Adrian Orr, the RBNZ moved earlier than the RBA, lifted rates further and openly indicated that they expected a recession to result.

They were correct. The NZ economy has been in recession since 2023, the unemployment rate has increased from 3.2% to 5.1% at present and residential property prices have fallen by around 20%.

To put the unemployment data in context, the chart below shows the unemployment rate in New Zealand and Australia. If the RBA had followed the muscular example of the RBNZ, as so many had urged, perhaps Australia too could have unemployment at 5.1% and rising. The human cost of that would not be insignificant; an extra 166,000 Australians without work, probably an extra 150,000 Australian families desperately struggling to make ends meet.

And to what end? The second chart shows the annualised quarter-on-quarter inflation rate in New Zealand against those of Australia and the US. The third chart shows rate of services inflation, perhaps a better indicator of underlying inflation. For all the pain, New Zealand does not appear to have achieved better inflation outcomes than Australia.



In early March, Adrian Orr unexpectedly resigned his role as Governor of the RBNZ without warning or explanation. Perhaps none was needed.

And what of the US Federal Reserve? Like the RBA, they appear have avoided a hard landing while bringing inflation down. Nonetheless, the jury is still well and truly out as to whether they have actually tamed inflation. In the chart above, we see US services inflation is still running at above 4% (compared to 2.3% in Australia) and that is without any impact to date of Trump's tariff and immigration policies. The Fed still has an enormous amount of work to do.

It may well be too early to declare the RBA's battle with inflation won. Nonetheless, at this point, despite their flawed forecasting approaches, potentially destabilising changes in leadership and seemingly ponderous decision-making, perhaps the RBA has engineered that rarest of beasts, the fabled soft landing.

It's time to give the RBA some credit for a job well done.

Tim Farrelly is the founder of [farrelly's Investment Strategy](), an independent, specialist asset allocation research service for investment advisory firms in Australia and New Zealand. Tim is also a member of Portfolio Construction Forum's core faculty of leading investment professionals, contributing to the Conference, Markets Summit, and Academy programs.

Asia deserves a closer look from investors

Cameron Robertson

For many Australian investors, the preferred equity allocation is up to 50% in local shares, a large allocation to Developed Markets (DM) equities and a much smaller position in Emerging Market (EM) shares.

That global equity allocation gives Australian investors access to more economic growth and attractive sector returns (e.g. from high performing areas like technology). It also offers the upside of the widest possible security selection – the chance, simply put, to own the world's best, most attractively-priced companies.

In this article we look at Australian investors' EM allocation. Allocating some funds to EM has a number of potential benefits.[1]

- It offers effective diversification – between 2015-2024, the correlation between Emerging and Developed markets was just 0.46[2] SCI – MSCI World and MSCI Emerging
- EM economies are forecast to grow faster. According to January's World Economic Outlook from the IMF, they will grow at 4.3% in 2025-26. DM markets will grow at half that rate (1.9%).
- EM markets reward stock-picking. In Developed Markets there's an average of 11 analysts covering individual stocks worth over USD1 billion. In EMs there's only seven analysts for each of those companies. That potentially gives fund managers more space to exploit mispricings.[3]

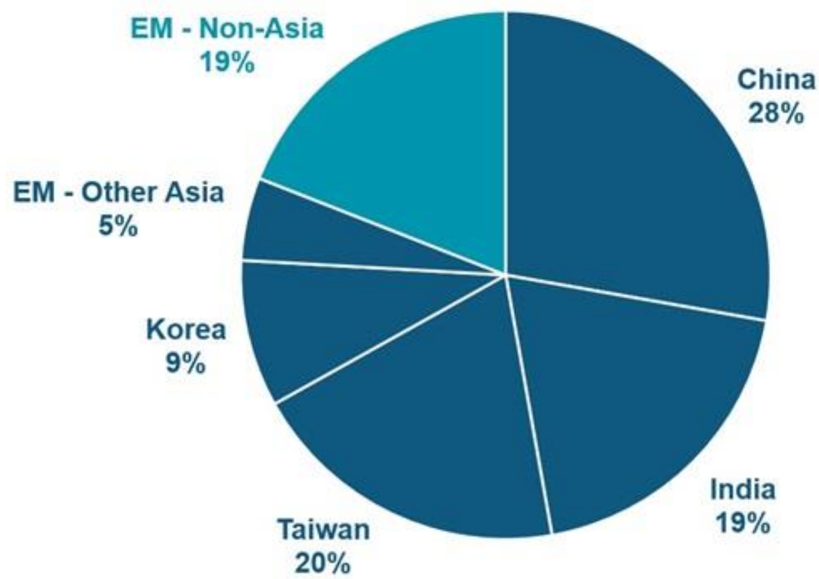
The key question – what's the best way to invest in EM?

At Platinum, we've been asking ourselves whether Australian investors are getting maximum benefit from EM investing. We believe there's a better, more efficient way to add EM diversification – and EM-style returns – to portfolios. Our conclusion is that Australian investors may achieve better outcomes if they invest in Asian shares rather than EM share funds.

Let's look at what you get from a typical EM investment.

Some 80% of the MSCI Emerging Markets Index – both by market value and number of companies – is in Asian securities. The main non-Asian countries in the EM index are Brazil, South Africa, Saudi Arabia, Mexico and UAE. Those 5 countries account for 75% of the non-Asia component of the MSCI EM Index.

Figure 1. Where EM money goes



Source: MSCI Emerging Markets Index (AUD) 31 December 2024

Interestingly, these markets are dominated by financials and resources – think Saudi Arabia's Aramco and Brazil's Vale. For Australian EM investors that could be suboptimal. It means 20% of their EM exposure is in stocks that are sensitive to interest rates moves and macroeconomic trends. And Australian investors already have a significant exposure to those areas.

By taking the traditional EM route, Australian investors are *adding* to an already high exposure in miners and financials – and via markets with higher sovereign risk and weaker corporate governance.

Figure 2. Too close to home?

Sector Exposure Analysis (%)	Australia	Emerging Markets Non-Asia	Emerging Markets Asia	USA
'Financials' (Financials, Real Estate, Utilities)	47	51	23	18
'Resources' (Materials, Energy)	22	22	8	5
'Other' (Consumer, Industrial, IT & Healthcare)	31	27	69	77
	Non-Asian Emerging Markets add little: the opportunity set is too similar, but with additional sovereign risk.		Emerging Markets - Asia, like the US market, offers significant diversification.	

Source: MSCI Emerging Markets Index, MSCI EM ex Asia Index, MSCI USA Index, MSCI Australia Index, MSCI World Index and MSCI EM Asia Fact Sheets – 31 December 2024.

The Asian alternative – 'TICKing the box?

As we saw above, Asian assets already make up 80% of the emerging market index. The composition of that Asian element is revealing. By value, 95% of that Asian component comes from four markets: Taiwan, India, China and Korea. The good news is that those 'TICK' markets offer an attractive diversification from Australia.

Across those four markets the largest sectors include technology, the consumer, health care and industrials. That's a US-like sector mix with little overlap to the Australian market.

These four markets also span a wide range of economic development.

- India is a low-income, high-growth economy. It has exceptional long-term potential, but monitoring governance and quality is important.
- China's income per capita (USD14000) is around the global average, but the average masks significant variations. Many rural areas are poor while China's coastal cities have much higher per-capita income. As we saw with the recent launch of DeepSeek, these cities are centres of technological innovation.
- Korea and Taiwan are classed as emerging markets but their economic infrastructure and technology sectors are at Western levels. Corporate governance is not – but it is improving.

Figure 3. The full spectrum of development (GDP/capita, USD thousands)

	Asia		Non-Asia	
Emerging Markets	India Philippines Indonesia	3 4 5	South Africa	7
Emerging Markets	Thailand Malaysia China	8 14 14	Brazil Mexico	11 14
Emerging Markets	Korea Taiwan	35 38	Saudi Arabia	33
Developed Markets	Japan Hong Kong Singapore	36 56 94		

Source: IMF, February 2025

Underlying growth

The attraction of Asia as a replacement for broader EM exposure is underpinned by the region's superior economic and demographic fundamentals.

Asia hosts 59% of the world population and produces 55% of global GDP. Over the past decade it has been the engine of the world economy, generating 70% of global GDP growth. GDP per capita is growing much faster in Asia than other regions.[4]

Figure 4. The full spectrum of growth (Forecast GDP growth rates (%) 2025/26 average)

	Asia		Non-Asia	
Emerging Markets	India Philippines Indonesia	6.5 6.2 5.1	South Africa	1.6
	Thailand Malaysia China	2.8 4.6 4.6	Brazil Mexico	2.2 1.7
	Korea Taiwan	2.1 2.7	Saudi Arabia	3.7
Developed Markets	Japan Hong Kong Singapore	1.0 3.2 2.5		

Source: IMF WEO January 2025

Historic outperformance

As you can see below, Asian Emerging Markets have easily outperformed Non-Asia Emerging Markets over the past ten years.

Figure 5. Is Asian EM simply better EM?

Source: MSCI Emerging Markets Index, MSCI EM ex Asia Index, MSCI EM Asia Fact Sheets – 31 December 2024.

The bottom line - does Asia offer a more efficient EM allocation?

As we've shown above, Asia offers attractive demographic and economic fundamentals and good diversification from Australia.[5] Crucially, the dominance of the TICK markets – Taiwan, India, China, and Korea – also make it a more efficient source of EM returns.

Typically, investing in Emerging Markets is seen as adding complexity and risk to a portfolio. The trade-off for the growth potential of EM economies is higher sovereign risk and generally weaker governance. For fund managers, managing this risk requires additional effort – and cost.

The dominance of the TICKs, however, means Australian EM investors can benefit from the Pareto Principle (the 80/20 rule). By investing in Asia – where some 80% of market value spans just four markets - fund managers can accumulate deep institutional knowledge, concentrate research resources, capture economies of scale and reduce trading costs.

That may make their EM investing more efficient – and that can mean better outcomes for their investors.

[1] *Obviously all investment decisions are highly personal and should be discussed with an adviser*
[2] *Source: MSCI – MSCI World/Emerging Markets Indices A$ monthly returns.*
[3] *Source: Factset.*
[4] *Source: worldeconomics*
[5] *There is only a 0.35 correlation between Australian markets and the MSCI EM Asia index. Source: MSCI*

Cameron Robertson is a Portfolio Manager – Asia strategies, at Platinum Asset Management, a sponsor of Firstlinks. This information is commentary only (i.e. our general thoughts). It is not intended to be, nor should it be construed as, investment advice. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Before making any investment decision you need to consider (with your financial adviser) your particular investment needs, objectives and circumstances.

For more articles and papers by Platinum click here.

Disclaimer

This message is from Morningstar Australasia Pty Ltd, ABN 95 090 665 544, AFSL 240892, Level 3, International Tower 1, 100 Barangaroo Avenue, Barangaroo NSW 2000, Australia.

Any general advice has been prepared by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544, AFSL: 240892) without reference to your financial objectives, situation or needs. For more information refer to our Financial Services Guide at www.morningstar.com.au/s/fsg.pdf. You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement before making any decision to invest. Past performance does not necessarily indicate a financial product's future performance.

For complete details of this Disclaimer, see www.firstlinks.com.au/terms-and-conditions. All readers of this Newsletter are subject to these Terms and Conditions.