Firstlinks
a Morningstar company

Edition 605, 4 April 2025

Contents

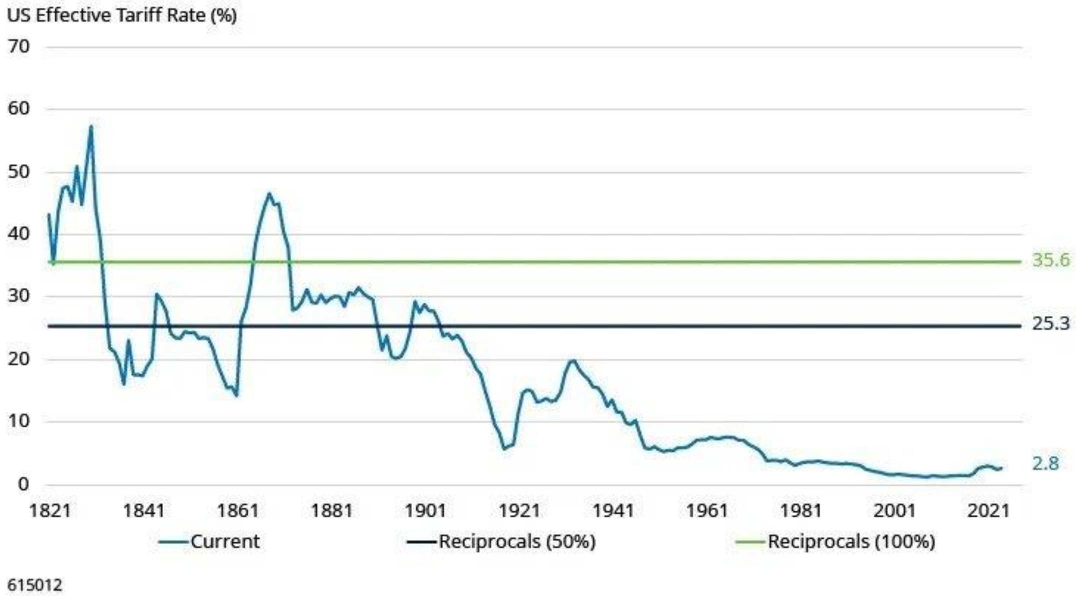
Editorial

The following from one of our sponsors, Schroders, offers a succinct and insightful take on Trump's tariffs and their likely impact. First, there's commentary from senior economist, George Brown, followed by CIO, Johanna Kyrklund:

President Trump's highly anticipated tariffs were more punitive than expected. Rather than match what other countries levy on US exports on a like-for-like basis, the White House has also taken aim at non-tariff barriers.

The proposals would see effective US tariffs rise to 25.3%, which we calculate would push up prices in the US by 2% and cut growth by almost 1%. These estimates take no account of any potential retaliation from other countries.

The US tariff rate will rise to a 120-year high

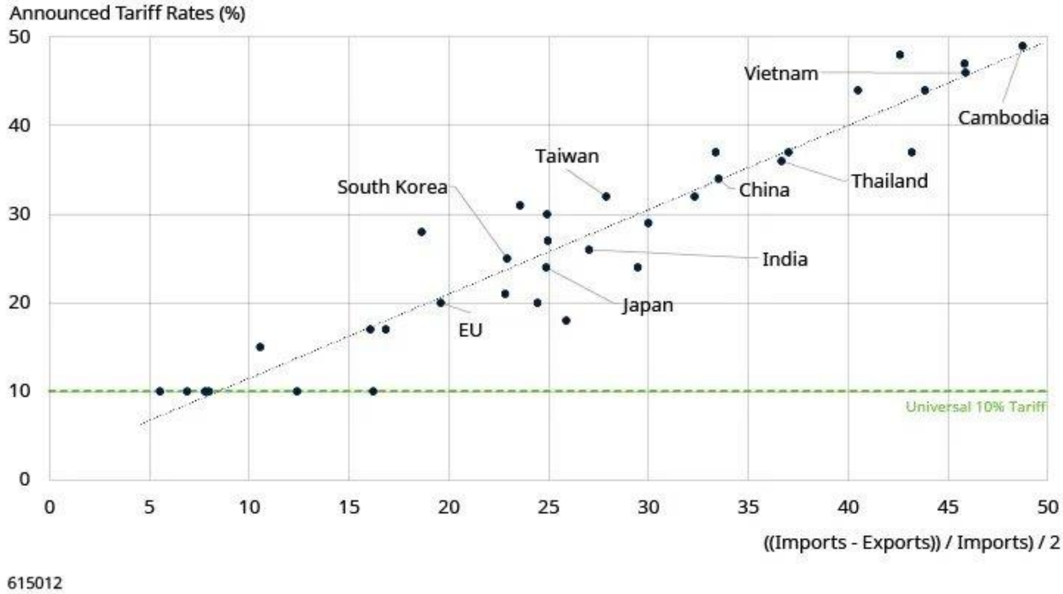


Proposed tariffs and their potential impacts
Source: Schroders Economics Group, April 2025

Tariff overview: how they were calculated, and who gets hit

The tariffs were devised using an unconventional approach based on the US trade deficit with trading partners. Trump claims this is the "true" tariff levied on US exports by each country.

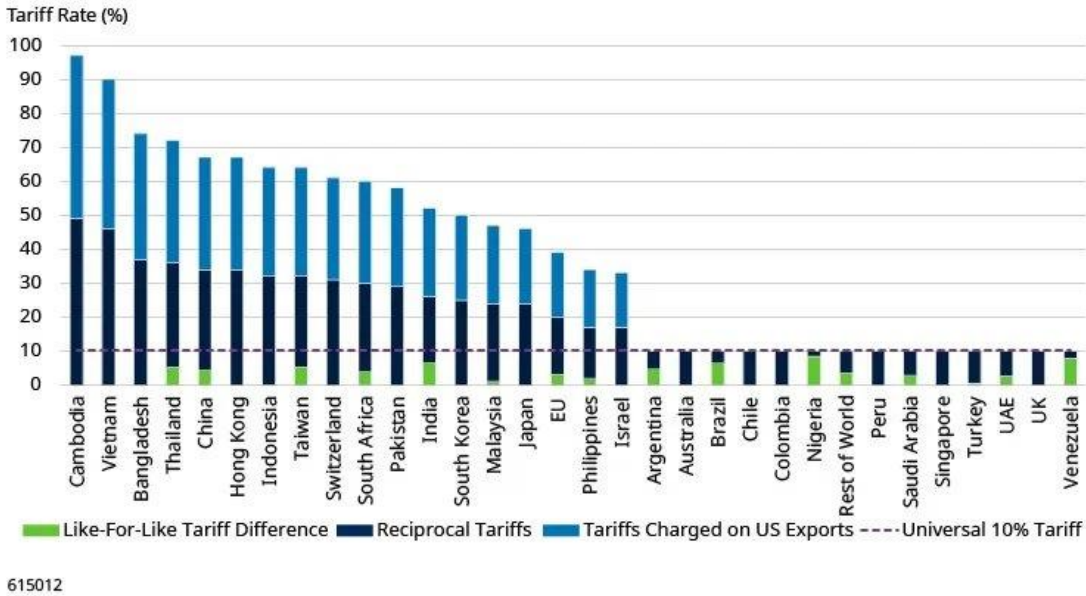
The tariffs are based on trade deficits, rather than rates



Source: Schroders Economics Group April 2025

For countries whose tariff is calculated to be above 10%, the US will impose a reciprocal tariff equal to half of this. As an example, Beijing is estimated by the administration to levy a 67% tariff on US exports and so will face an additional 34% tariff on top of the 20% imposed since Trump's inauguration. For all other countries, except Canada and Mexico, the administration will impose a 10% baseline tariff.

Countries will face higher tariffs than they impose on the US



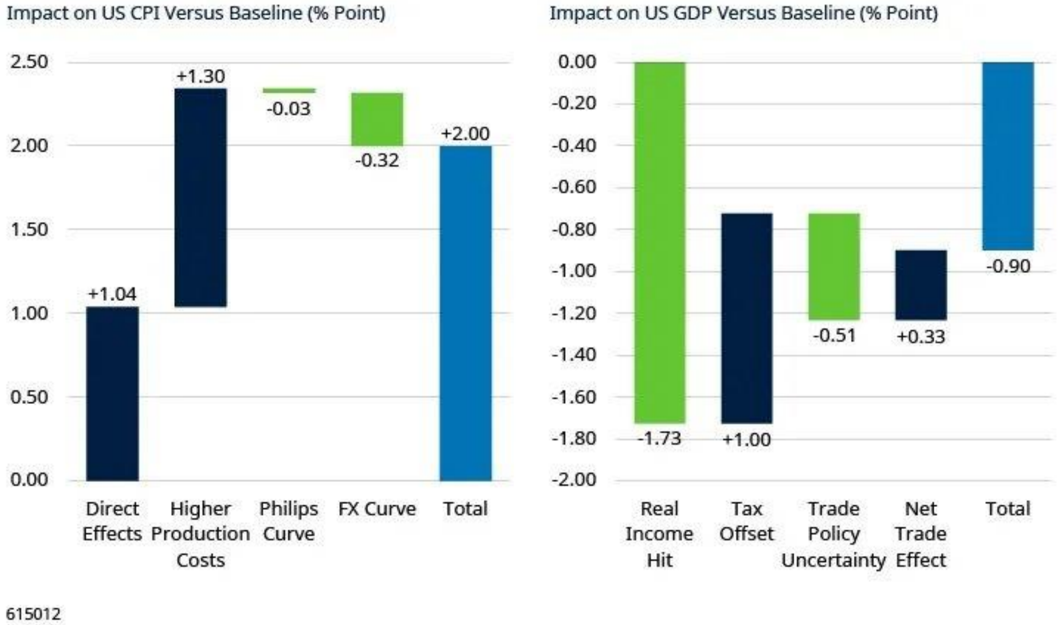
Source: Schroders Economics Group April 2025

Tariffs' potential impact on the US and elsewhere

The administration's actions to-date are estimated to lift the effective US tariff rate by a further 17.6 percentage points to 25.3%. Before accounting for any retaliation, we judge this would roughly push up US prices by 2% and hit growth to the tune of 0.9%.

By comparison, a simple like-for-like retaliation would have added just another 1.3 percentage points to the effective tariff rate and had a marginal economic impact.

Trump's tariffs will be a sharp stagflationary shock for the US economy

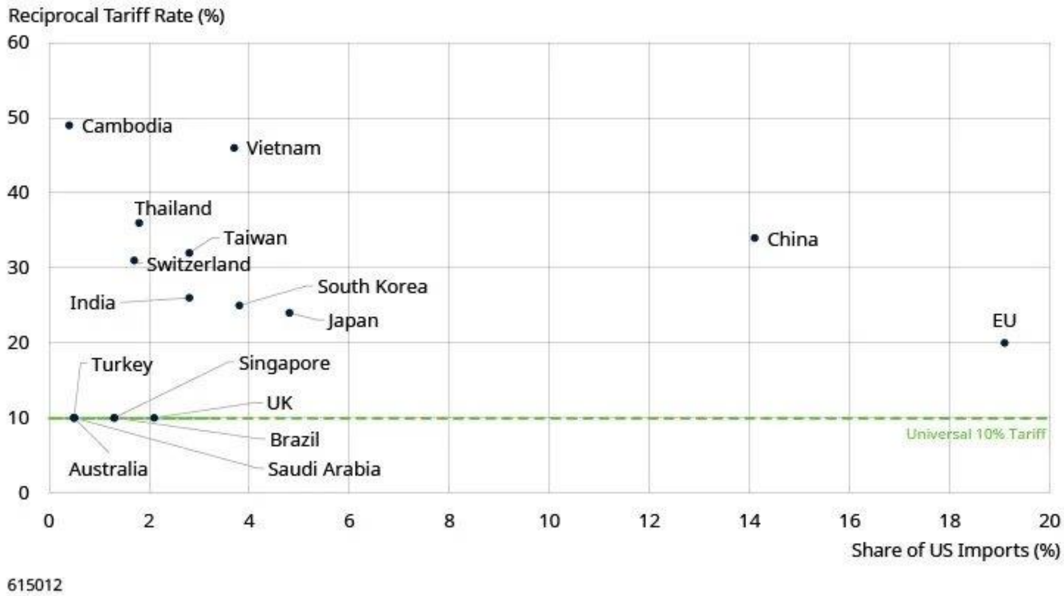


Source: Schroders Economics Group April 2025

Outside of the US, the economic impact of the reciprocal tariffs varies considerably. Canada and Mexico will be breathing a sigh of relief, given that over 2.5% of their GDP is embedded in final US demand for manufactured goods.

On the other end of the scale, Asian economies have generally been hit hard. Both China and Vietnam are likely to experience losses more than 0.5% of GDP. Whereas the EU and Japan are probably somewhere in the middle, as they face a hit of around 0.3% to 0.4% of GDP.

Asian economies will be hit hardest by the reciprocal tariffs



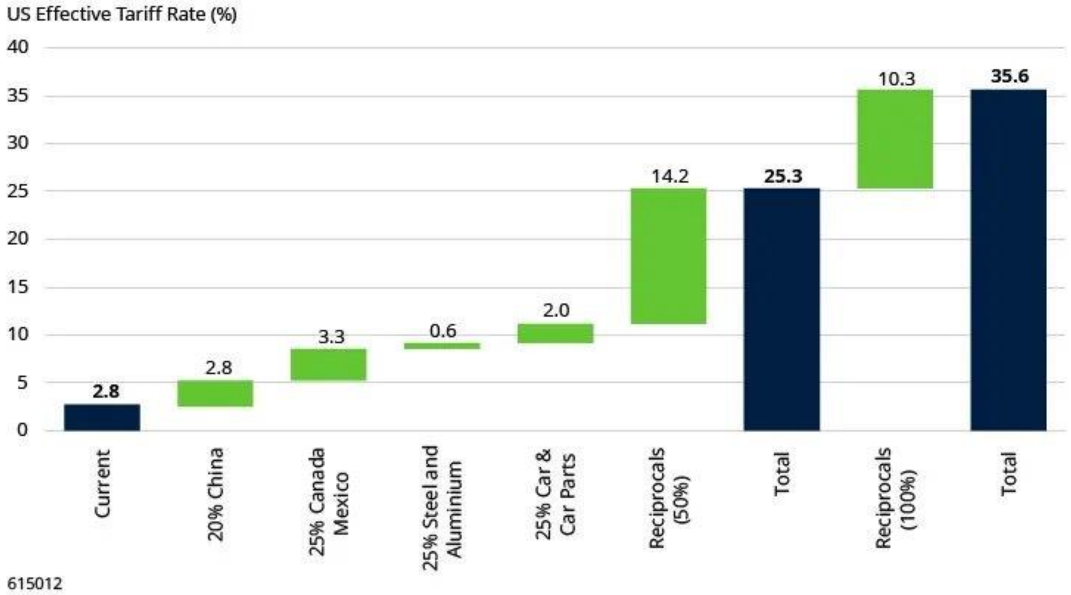
Source: Schroders Economics Group April 2025

The prospect of retaliatory tariffs

Outcomes depend on how countries choose to respond. While the White House has indicated that the reciprocal tariffs could be negotiated down, several countries have instead indicated that they will retaliate with countermeasures. As such, the risk instead appears to be skewed towards higher-still tariffs.

As an illustrative example, if the administration were to impose the full reciprocal tariffs, this would further lift the US effective tariff rate to 35.6%.

Reciprocal tariffs would be another 10% higher if fully applied



Source: Schroders Economics Group April 2025

Fallout for interest rates

The stagflationary impact of the tariffs (growth down, prices up) puts the Federal Reserve between a rock and a hard place. In the near-term, we think the path of least resistance will be inertia, given the elevated uncertainty about what the economic impact of them will be.

Further down the line, the rising risk of a recession does mean that the committee could deliver more than the four cuts currently in the 'dot plot' by the end of 2026.

For other central banks, the mix of countermeasures and fiscal support by their governments will also complicate their job. But broadly we would expect the Bank of England and the European Central Bank to take out insurance against downside risks by cutting rates further, whereas the Bank of Japan is likely to be unable to raise interest rates any further this year.

The investor's view: Johanna Kyrklund, Group CIO

"Certainly, Trump's opening salvo points to higher tariffs than we were expecting, and our economic growth forecasts are being adjusted downwards.

This leads us to reduce our equity exposure, and we see value in government bonds as a hedge against the risk of recession for the first time in this cycle. We continue to like gold as it benefits from both weaker growth and the more structural risk posed by rising debt levels.

Going forward the reaction of the rest of the world will be critical. The countries on the list will have to make their decision either to retaliate and escalate the war – or to contemplate reducing their trade imbalance with the US. How long this will take will also matter for the market.

But let's also try and tease out some positives. Trump's framework, laid out on a physical chart, is clear. One might dispute the approach – of using each country's trade deficit with the US – but by applying the principle of imposing 50% of the calculated rate they have laid out a clear starting point for negotiation. This might feel like a game of snakes and ladders, but at least we are beginning to understand the rules. That gives markets a basis for pricing these risks."

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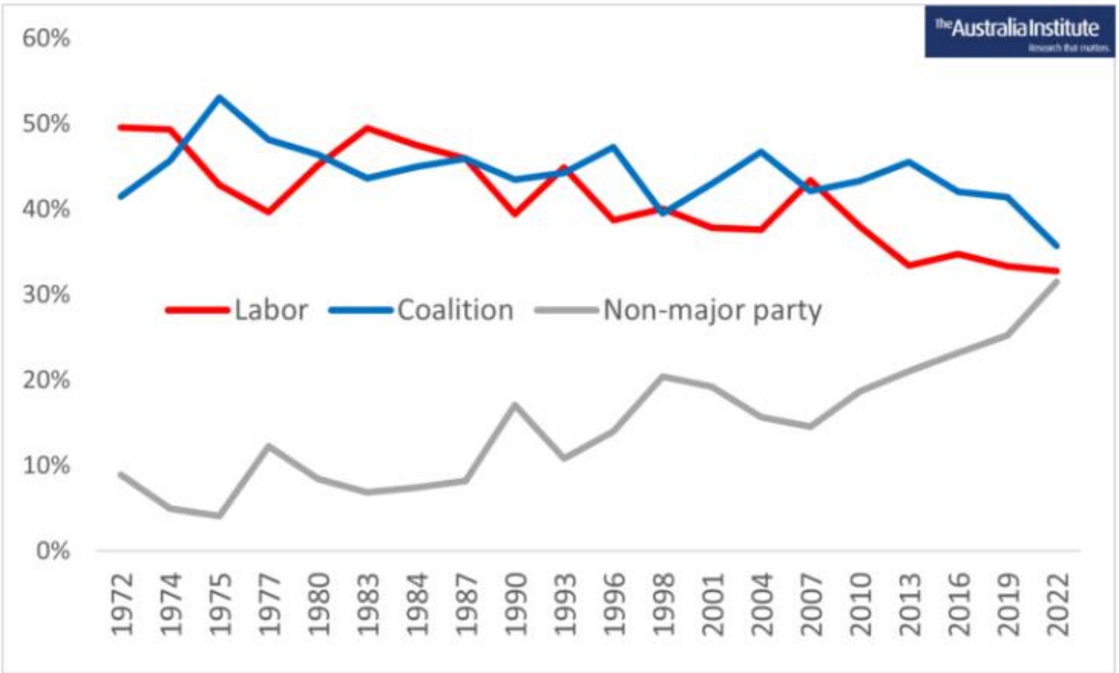
Generational change is coming to this federal election on May 3. Kos Samaras, pollster & director of the Redbridge Group, made the case in a recent interview with Fran Kelly on the ABC Radio National Hour program.

He says that in 2010, Millennials made up 15-18% of the electoral role. In 2025, Millennials and Gen Z combined will account for 42% of voters. That compares to Baby Boomers at 32%.

The change over the past 15 years has fragmented the political vote. In 2010, 80 seats were decided by preferences. At the last election in 2022, the number increased to more than 130 (Tony Dillon does into more detail on how preferences will determine the winner of this election in his piece this week).

Also, in 2010, eight seats were deemed ‘non-classical contests’, where only the major parties were involved. In 2022, that increased to 27 seats, and Samaras says the number is likely to rise to 40 seats at this election.



Samaras went on the outline how Millennials and Gen Zers believe the country has major structural issues and the two major political parties “are just throwing band aids at them.”

Samaras acknowledges that the decline in votes towards the major parties has been happening for some time – at the end of World War Two, votes for the two major parties were in the 90% range, which has since fallen to around 67%.

However, he suggests the voter trend away from Labor and the Coalition is accelerating thanks to the rise of Millennials and Gen Zers.

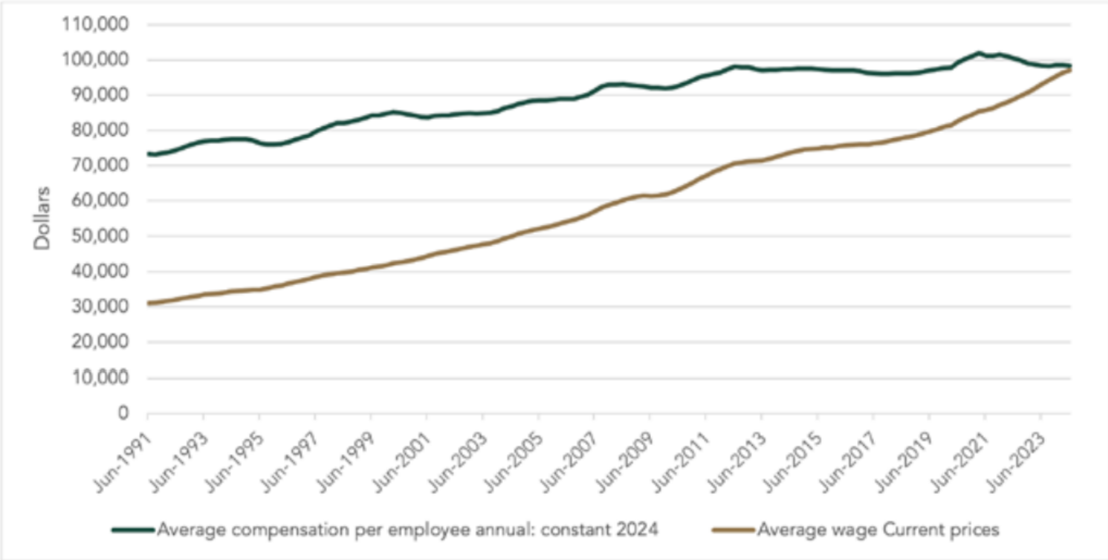
Why are the young angry?

A new report by independent think tank *Per Capita* may help explain why younger generations are turning their backs on the major parties.

The report bluntly critiques a “lost decade during which real wages barely grew” for young Australians.

It says that the purchasing power of workers barely budged from 2012 to 2022, increasing by just 2.6% in total over that decade. On average, nominal wages grew 2.3% per annum (p.a.), but adjusted for inflation, real wages increased just 0.2% p.a. That contrasts with the 20 years prior to that when real wages grew annually by 1.4%.

Nominal and real wage per employee per quarter, 1991 to 2024



Source: AENA: ABS 5206024, CPI ABS 6401, Per Capita calculations

Per Capita says that if wages in the decade between 2012 and 2022 had maintained the growth rate of the previous two decades, the average full-time worker would be earning an extra $11,900 p.a. today. It suggests that the income lost by an average worker between 2012 and 2022 amounts to $54,000 in current dollar terms. And for a young couple, the combined loss is roughly the equivalent to a 20% deposit on a $500,000 first home.

The Coalition to blame?

Per Capita lays the blame for low wages on the introduction of WorkChoices legislation. It says the changes to industrial laws increased a power imbalance between workers and their employers. And the lack of bargaining power for works led to real wage stagnation in the following decade.

This seems simplistic though and ignores other key drivers of wage growth such as productivity.

Less income equals less homeownership

Per Capita argues that the suppression of wages after 2012, when Millennials and Gen Z Australians were in the first decade or so of their working lives, "not only robbed the average younger person of their first home deposit, but reduced their borrowing power".

And, *"while wages kept pace with home prices it was possible to save a deposit on a first home within three to five years, and this required prospective buyers to save diligently towards that goal. Then, at the outset of the mortgage journey, young homebuyers would be required to devote the maximum amount they could afford from their disposable income towards repayments, as assessed by the lending institution…*

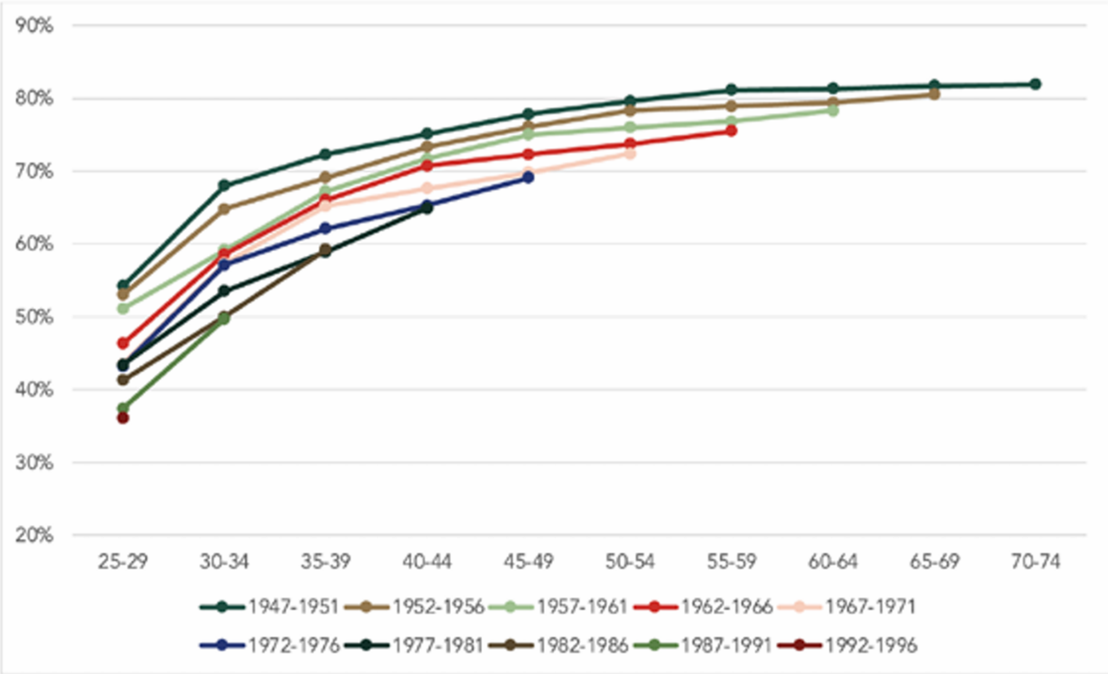
"The journey to home ownership and financial security across the life course clearly relied on a certain social compact: that wage growth would consistently outstrip inflation and keep pace with increases in home prices during a person's working life…

"The collapse in wage growth over the decade from 2012 to 2022 has hit young Australians particularly hard…"

The end result is less homeownership among the younger generations:

"In 1971, Census data showed that 64% of people aged between 30 and 34 owned or were buying their home; by the 2021 Census, this had fallen to just 50%. Similarly, while 50% of those aged 25 to 29 were homeowners in 1971, fifty years later just 36% of people in their late twenties were buying a home".

Home ownership rates by birth year



Source: Census data, Per Capita's analysis.

The political calculus on housing is changing

Per Capita is right to highlight wage growth as an issue for younger people. Yet it ignores the larger problem of ever-rising house prices. Even if wages had grown faster over the past decade, it's highly unlikely that they wouldn't have kept pace with booming housing prices.

That means fixing housing remains the biggest issue.

On that front, the political will to address the problems is weak. That's because around two-thirds of households own homes.

So while Kos Samaras is right to highlight the growing clout of non-homeowning Millennials and Gen Zers, they aren't in a position to be kingmakers at this election.

Though as Bob Dylan said, "The times they are a changin."

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In my article this week, I look at the latest shareholder letter from one of the smartest people in finance, Blackrock CEO Larry Fink. The letter outlines Fink's new quest to become the biggest player in private assets and to upend the traditional 60/40 portfolio.

James Gruber

Also in this week's edition...

Clime's John Abernethy is back, this time with a report card on Australia's economy as we head to the polls. He explores how economic growth of 7% per annum over the past seven years has largely come from fiscal and monetary largesse, and that growth is now slowing. He believes budget forecasts suggesting better times ahead are built on assumptions that lack credibility and neither major party have solutions to kickstart our economy. John offers some potential ways forward.

It's common for people as they age to seek more help in running their SMSF if their capacity declines. An alternate director may be a great solution for someone just planning for short-term help in the meantime, as **Meg Heffron** explains.

Recently, James Gruber sat down to interview **Wilson Asset Management's Matthew Haupt**. In the interview, Haupt reveals his latest views on the local stock market, how he's bullish on REITs though not on the big 4 banks, and why his firm is launching a new income-oriented listed investment company.

Life expectancy isn't just a number - it's a concept that changes with survival rates over time. **Don Ezra** breaks down how age, survival, and societal factors shape our understanding of life expectancy, especially post-Covid.

While many assets are currently on shaky ground, gold is continuing to reach new highs. **VanEck's Arian Neiron** says gold miners have lagged the price rises in physical gold, but that may be about to change.

Two extra reads from **Morningstar** this weekend. **Preston Caldwell** writes on why America's tariffs could usher in a self-inflicted economic catastrophe. Meanwhile, **Joseph Taylor** asks Winky Tan if the worst is over for Australian office building REITs.

Lastly, in this week's whitepaper, **Munro** details how climate-related investment remains one of the most significant investment themes of the 21st century.

World's largest asset manager wants to revolutionise your portfolio

James Gruber

In early and mid-1980s, Larry Fink was a young, up-and-coming mortgage trader at a conservative bank called First Boston in New York. He built the bank's mortgage business from scratch and had his sights set on competing with bigger players in the mortgage space, like Salomon Brothers. His aggressive trading paid off, bringing in US$1 billion in business, turning him into a star at his firm.

Then, disaster struck. Fink loaded up on mortgages just as interest rates unexpectedly started to fall. That led to him losing an astronomical US$100 million in just one quarter.

He went from star to pariah.

Understandably, that loss led to deep introspection, and Fink recognized that he needed to get better at risk management.

A short time later, Fink and seven partners co-founded an asset-management company called Blackstone in 1988. Its main business was investing money from pension funds and other long-term asset holders in bonds.

His first employee built software that gave investors something they'd never had before: a clear, unified view of portfolio risk. Called Aladdin, the software filled a gap in the market and made Blackstone millions.

In 1995, a falling out between Fink and Stephen Schwarzman, Blackstone's cofounder, led to the firm splitting off, and being renamed Blackrock. And fours year on, Blackrock managed US$165 billion and became a public company on the New York Stock Exchange.

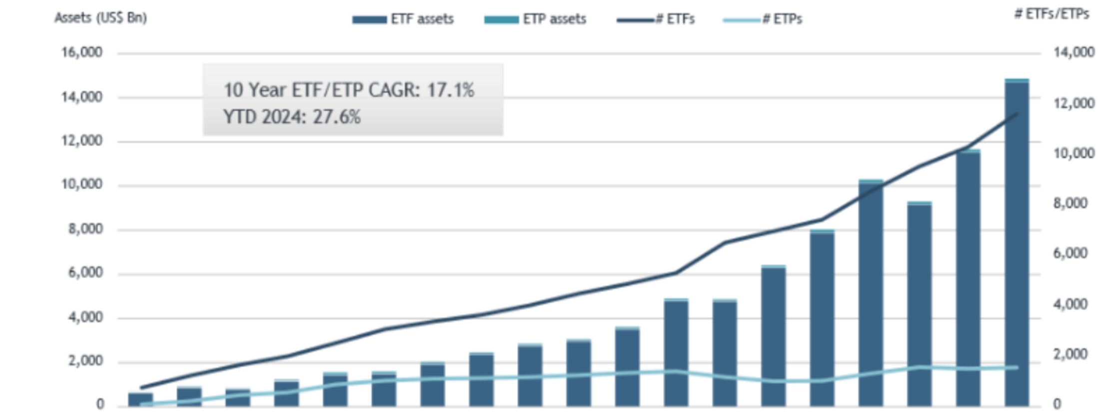
A decade after, Blackrock pivoted. Fink recognized the growing clout of ETFs and how passive investing was democratising markets for the masses. And there was a forced seller, Barclays, which needed to raise capital due to the financial crisis and wanted to offload a business that included its iShares ETF business. So, at the start of 2010, Fink bought this unit for US$13.5 billion, which catapulted Blackrock into being the world's largest asset manager.

It turned out to be perfect timing and the company has since ridden an extraordinary 15-year boom in passive investing.

Fink certainly wasn't the first person to realise the potential of ETFs, but he bought at the right time and built the business into a powerhouse. Blackrock now manages US$11.6 trillion, of which $2 trillion comes from iShares.

Now, however, Fink is pivoting again.

Asset growth in the global ETFs industry as of the end of December



Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Dec-24
# ETFs	738	1,210	1,634	1,987	2,514	3,058	3,371	3,637	4,018	4,488	4,864	5,311	6,520	6,970	7,426	8,563	9,545	10,320	11,645
# ETFs/ETPs	829	1,423	2,087	2,544	3,400	4,087	4,477	4,772	5,191	5,744	6,203	6,706	7,696	7,970	8,445	9,880	11,109	11,834	13,198
ETF assets	594	834	750	1,113	1,411	1,457	1,887	2,344	2,728	2,944	3,482	4,754	4,743	6,271	7,870	10,136	9,143	11,507	14,696
ETF/ETP assets	603	856	774	1,157	1,478	1,526	1,951	2,402	2,787	2,997	3,552	4,838	4,815	6,361	7,986	10,261	9,259	11,633	14,846

Source: ETFGI

What's he up to?

Over the past 14 months, Fink has moved aggressively into private assets.

In January last year, Blackrock agreed to acquire Global Infrastructure Partners (GIP) for US$12.6 billion. Later in 2024, it also snapped up private markets firm Preqin for US$3.2 billion. And last December, it bought HPS – a private debt manager with US$148 billion in funds under management.

In total, Fink has spent US$28 billion.

In his latest shareholder letter, he acknowledges that these purchases have fundamentally changed his company:

"…we've been—first and foremost—a traditional asset manager. That's who we were at the start of 2024. But it's not who we are anymore."

The strategy

The question is: why is one of the smartest people in finance buying into private assets? In the letter, Fink says he sees another gap in the market, or three gaps to be more precise.

First, he thinks we're on the cusp of an explosion in infrastructure investment. He cites data that new infrastructure investment of US$68 trillion is need globally by 2040. Hence, why he purchased GIP, which already manages large infrastructure assets such as Gatwick Airport in the UK.

Total infrastructure investment need (by sector between 2024-2040)

Source: Blackrock's Larry Fink

Second, private asset managers can help finance the infrastructure needs. Funding for infrastructure projects has traditionally come from Governments, banks, and public markets. Yet, most developed market countries are running large budget deficits and can't afford to fund these projects. Meanwhile, banks are stepping back from funding such projects as regulators tighten lending standards. And lastly, public markets are shrinking which means listed companies are less likely to provide capital for infrastructure investments. Private asset managers can fill the breach.

Third, Fink thinks that as ETFs have done with indices, Blackrock can index private markets to make them accessible to the average investor. To do this, he wants to make Preqin the Bloomberg of private markets, providing performance data on managers and offering comparable valuations for private assets.

Barbell strategy

Consultant Huw van Steenis believes Fink is employing a so-called barbell strategy. On the one hand, he's still riding the passive investment wave, with its growing assets and low fees. On the other hand, he wants a piece of the faster growing and more lucrative private assets business.

To put the later into context, alternative investments now make up 4% of Blackrock's total assets but are expected to account for more than 25% of its profits.

If passive investments are one side of the barbell, and private/alternative assets are on the other side, what's in the middle then?

According to van Steenis, it's traditional fund managers, who are stuck between the low fees offered by ETFs, and the higher fee, but potentially better performing alternative asset managers such as hedge funds, private debt funds etc.

From 60/40 to 50/30/20

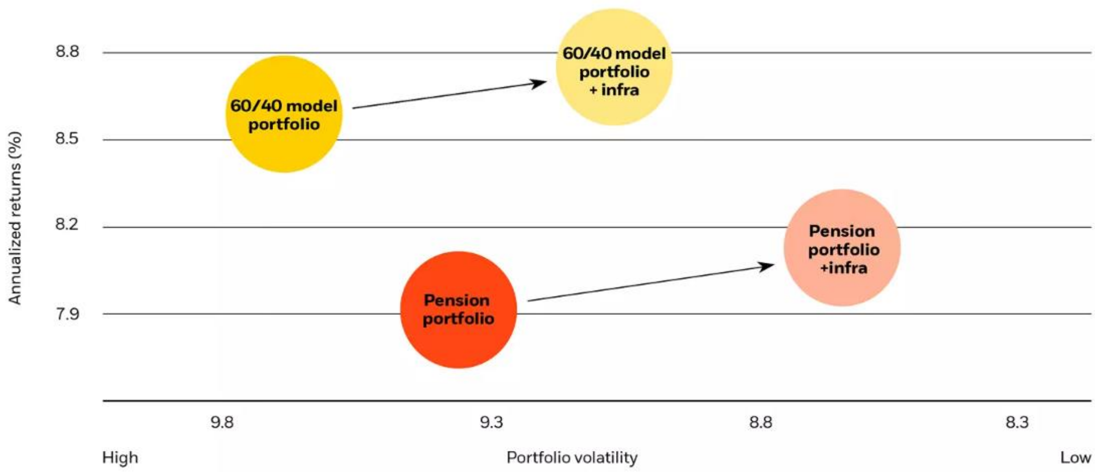
As markets evolve, Fink says the traditional investor portfolio of 60% equities and 40% bonds may not be fit for purpose. That is, it may not bring the diversification that investors need.

He envisions a future where a standard portfolio may look more like 50/30/20 - stocks, bonds, and private assets like real estate, infrastructure, and private credit.

While private assets may carry greater risk, Fink says they also provide great benefits. For instance, infrastructure can offer inflation protection, more stable performance, and help boost overall portfolio returns.

The infrastructure bump

Allocating infrastructure to a portfolio has meant less volatility and enhanced returns



Source: Blackrock's Larry Fink

My take

Will Fink's latest moves pay off?

I think Fink is spreading his bets in private assets and not all of them will bear fruit.

In infrastructure, there are already large, reputable players, like Brookfield Asset Management. Fink will have to fight competition from these players to gain scale in this business.

That said, infrastructure is likely to be a growth area and I can see it playing a large part in investor portfolios, possibly at the expense of bonds, which remain on the nose with investors after a four year bear market.

Like infrastructure, private debt already has big operators, such as KKR, Apollo, and many others. These firms have been in the business for years and have scale. However, private debt is growing fast enough to potentially include newer entrants such as Blackrock.

The area with the greatest potential is in indexing private assets. If investors can view data on private asset managers and their underlying portfolios as they do with LICs and active ETFs now, that would be revolutionary. As would investors being able to invest easily in a much broader range of private assets and managers.

James Gruber is Editor at Firstlinks.

Australia's economic report card heading into the polls

John Abernethy

Australia has one of the best fiscal positions in the developed world. Our national debt is relatively low – and that view is before considering our $4 trillion of superannuation savings.

Our national budget outcomes are consistently better than our peers as noted by the International Monetary Fund and highlighted in the budget papers.

In the recent budget, Treasury economic forecasts, which are the basis of budget outcome predictions, paint a fairly positive outlook. Treasury forecasts (see below) that growth in Australia's real GDP will be higher than the US in each of the next three years. But are they believable?

Australia has one of the strongest fiscal positions amongst peer economies. Australia is one of only nine countries to maintain a AAA credit rating from all three major ratings agencies.

The International Monetary Fund (IMF) projects Australia's general government budget deficit (including all levels of government) to be two per cent of GDP in 2025. This represents an improvement in the budget balance of four percentage points since 2021, a larger improvement than in most comparable economies (Chart 3.1). The deficit in Australia in 2025 is expected to be less than half of the advanced economy average.

A stronger budget position has helped to keep Australia's gross debt levels low by international standards (Chart 3.2). The IMF projects Australia's gross debt-to-GDP to be nearly 40 percentage points below levels in the euro area, more than 50 percentage points below the United Kingdom, and more than 70 percentage points below the United States. Australia is estimated to have the fifth lowest gross debt-to-GDP ratio in the G20 in 2025.

Chart 3.1: Change in fiscal balance to GDP from 2021 to 2025

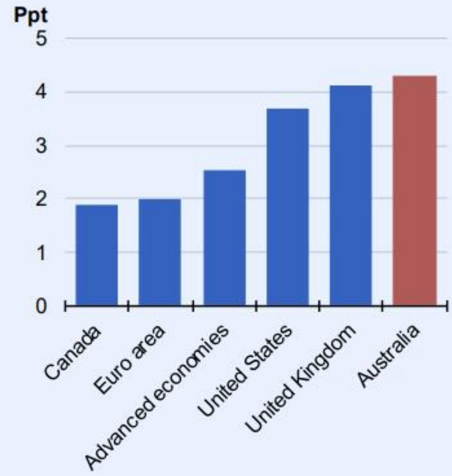
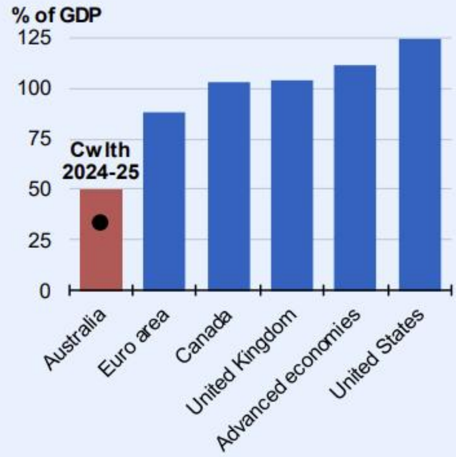


Chart 3.2: Gross debt in 2025



Source: Treasury, International Monetary Fund.
Note: International Monetary Fund fiscal data are produced on a consistent basis across countries. They are produced for calendar years and on a general government basis. They are not directly comparable with fiscal aggregates reported elsewhere in the Budget.

International GDP growth forecasts[a]

	Outcome	Forecasts (Calendar Years)		
	2024	2025	2026	2027
Australia	1.1	2 1/4	2 1/4	2 3/4
China	5.0	4 3/4	4 1/2	4 1/4
India	6.5	6 3/4	6 1/2	6 1/2
Japan	0.1	1 1/4	1	3/4
United States	2.8	2	2	2
Euro area	0.9	1	1 1/4	1 1/4
United Kingdom	0.9	1 1/4	1 1/2	1 1/2
Other East Asia[b][c]	4.2	4	4	4
Major trading partners[b]	3.3	3 1/2	3 1/4	3 1/4
World[b]	3.3	3 1/4	3 1/4	3 1/4

a) Percentage change on previous year. The 2024 outcome for India is reported for the fiscal year ending March 2025.

b) World and Other East Asia growth rates are calculated using GDP weights based on purchasing power parity (PPP). Growth rates for major trading partners are calculated using Australian goods and services export trade weights.

c) Other East Asia comprises Indonesia, Malaysia, the Philippines, Thailand, Vietnam, Singapore, Hong Kong, South Korea and Taiwan.

Source: National statistical agencies, IMF, Refinitiv and Treasury.

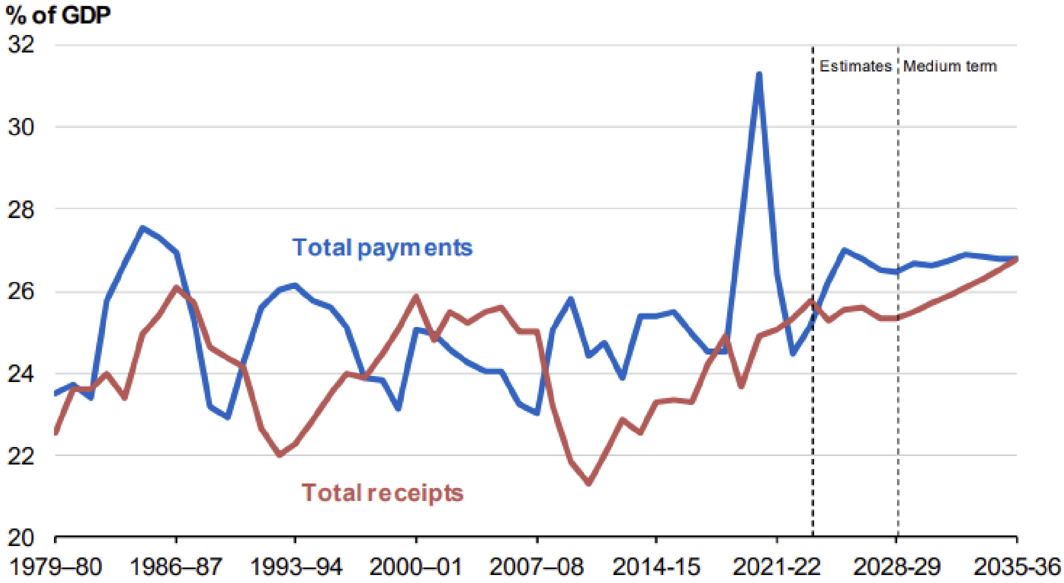
How should we approach the economic forecasts presented in the budget?

There have been too many poor forecasts made in budgets in the years since Covid. The most significant was that Government revenue (or taxation collections) was greatly underestimated in the FY22 budget forward projections. This showed up as surprising large fiscal surpluses in FY23 and FY24.

Normally budgets are delivered in May with greater confidence levels after careful analysis of actual trends. The recent budget for FY26 was unexpected and probably rushed.

Thus, the level of confidence of forecasts regarding FY26 is lower than normal and forecasts that look further out in time must also be approached with great caution. The following chart looks impressive with the budget moving back to balance in around 2035. However, there is no basis for this forecast, and it represents mere speculation at this stage.

Payments and receipts



Source: Treasury.

I suspect that the FY26 budget will be subjected to significant adjustments post election - no matter who forms the next Government.

The budget, the economy, pre and post Covid

We can assess our economic performance as we would for an operating business prior to and after the Covid crisis. Such an analysis considers and compares relative performance in relatively 'stable or normal' periods, unaffected by a "once in a century health crisis".

The next table, found deep in the budget papers, is instructive. From it, we can both draw some important observations and conclusions.

Australian Government general government sector receipts, payments, net Future Fund earnings and underlying cash balance(a) (continued)

	Receipts(b)		Payments(c)			Net Future Fund earnings	Underlying cash balance(d)	
	$m	Per cent of GDP	$m	Per cent real growth(f)	Per cent of GDP	$m	$m	Per cent of GDP
2010-11	302,024	21.3	346,102	-0.4	24.4	3,385	-47,463	-3.3
2011-12	329,874	22.0	371,032	4.8	24.7	2,203	-43,360	-2.9
2012-13	351,052	22.8	367,204	-3.2	23.9	2,682	-18,834	-1.2
2013-14	360,322	22.5	406,430	7.8	25.4	2,348	-48,456	-3.0
2014-15	378,301	23.3	412,079	-0.3	25.4	4,089	-37,867	-2.3
2015-16	386,924	23.3	423,328	1.3	25.5	3,202	-39,606	-2.4
2016-17	409,868	23.3	439,375	2.0	25.0	3,644	-33,151	-1.9
2017-18	446,905	24.3	452,742	1.1	24.6	4,305	-10,141	-0.6
2018-19	485,286	24.9	478,098	3.9	24.6	7,878	-690	0.0
2019-20	469,398	23.7	549,634	13.4	27.7	5,036	-85,272	-4.3
2020-21	519,913	24.9	654,084	17.1	31.4	6,619	-134,171	-6.4
2021-22	584,358	25.1	616,320	-9.8	26.4	7,677	-31,962	-1.4
2022-23	649,477	25.3	627,413	-4.9	24.4	4,960	22,064	0.9
2023-24	688,585	25.8	672,806	2.9	25.2	6,667	15,779	0.6
2024-25 (e)	703,922	25.3	731,527	6.0	26.2	7,231	-27,605	-1.0
2025-26 (e)	**735,353**	**25.5**	**777,475**	**3.0**	**27.0**	**7,367**	**-42,122**	**-1.5**
2026-27 (e)	765,970	25.6	801,676	0.5	26.8	7,797	-35,706	-1.2
2027-28 (e)	797,379	25.3	834,627	1.7	26.5	8,441	-37,247	-1.2
2028-29 (e)	840,840	25.3	877,694	2.6	26.4	9,007	-36,854	-1.1

The important periods to consider and compare are the two budgets of FY18 and FY19 (actual pre-Covid), with the FY25 budget (forecast current year) and the FY26 budget (forecast).

The pre-Covid economy and budget outcomes

From the above table, we can calculate the following:

- FY18 Australian GDP was $1.83 trillion and the budget cash deficit was 0.56% of GDP.
- FY19 Australian GDP was $1.95 trillion with a nominal budget cash deficit measured against GDP. Yes, we had a near balanced budget in FY19.

In the two years commencing 30 June 2017 and ending 30 June 2019, the Australian economy grew by $190 billion representing 10.8% over two years (or by 5.4% per annum).

Inflation was below 2% and **so real annual growth approximated 3% per annum. The economy grew, not greatly stimulated by fiscal policy as budget outcomes were fairly neutral.**

Compared to pre-Covid, how is our economy and the budget projected to perform?

FY25 and FY26 forecasts

Again, from the above table we can calculate the following:

- FY25 Australian GDP is expected to reach $2.78 trillion. The budget cash deficit is forecast at about 1% of GDP.
- FY26 Australian GDP is forecast to be $2.90 trillion (gross GDP growth of 4.3%) with a cash deficit of 1.5% of GDP.

Adjusting for forecast inflation the real growth is 1.8%. Given the rising budget cash deficit, the multiplier of the fiscal deficit (stimulative) to growth is low and is declining.

Australia’s real growth has slowed and will slow further compared to the pre-Covid years.

In the two years ending in June 2026, it is forecast that our economy will grow by $230 billion representing 8.6% over two years (or by 4.3% per annum). With inflation averaging 2.75%, ***Australia’s real growth will slow to 1.6% per annum over this period.***

Our economy has grown by $900 billion in seven years

The actual total growth of the Australian economy, including inflation, has been significant from 2017 to 2024. The economy grew by an extraordinary $900 billion or 51%, suggesting an annual growth rate of 7%!

However, there are clear reasons for this growth.

First, the surge in economic growth was substantially supported by the $250 billion of budget cash deficits recorded over FY20, FY21 and FY22. These deficits (averaging 4% of GDP) were in response to the Covid shutdowns.

Second, the growth surge was also greatly supported by inflation of 8% in FY22.

However, over the period, the AUD has devalued sharply with growth measured in USD not as impressive. We have suffered an annual average currency depreciation of about 2% per annum over the last seven years.

The growth was also supported by extraordinary monetary policies. Remember QE, unlimited funding to banks and near zero interest rates.

It was the largesse of both fiscal and monetary policies that created a ballooning Australian economy. A lot of air with not as much substance.

'A bloated economy'

Australia’s real economic growth has become anemic over the last two years when the effects of both elevated inflation and massive Covid fiscal stimulus are properly considered.

Further, real income growth has slowed dramatically post-Covid. In per capita terms, noting the immigration surge and resultant population growth, real income growth of the average Australian household has declined. Wages growth and household income has not matched inflation. The cost-of-living surge has bitten average Australians. *The legacy of this must be considered in economic forecasting but Treasury assumes that it will be rectified without explanation or based on a clear policy.*

As noted above the size of the Australian economy has ballooned in size. It now presents as a bloated economy, dominated by the excessive prices of residential property and related household debt. The size of the public sector has ballooned.

Considering budget receipts, the Government will collect $735 billion in FY26 or $300 billion more than they did in FY17. The budget has grown faster than the economy – 80% growth in budget outcomes compared to 50% growth in the economy.

This growth in the budget has been excessively funded by personal or direct taxation.

Arguably fiscal waste has developed given that the national economy has grown at a slower rate than budget expenditure. Inefficient public services and a national productivity decline is the result. Australia is now an expensive place to live.

Asset prices and the 'cost of doing business' have also surged at rates well above inflation readings. Without a clearly defined national growth plan, that includes an energy cost solution, business confidence remains weak, and Treasury has no real basis for forecasting the point at which it recovers.

Unfortunately, neither the bureaucracy or our political leaders have plans to address either the cost of living, the unaffordability of housing, the cost of doing business or declining productivity. There is no discussion of a taxation review.

The budget papers struggle to acknowledge that there are even problems to address.

The budget's rosy forecasts

Major economic parameters[a]

	Outcome	Forecasts				
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Real GDP	1.4	1 1/2	2 1/4	2 1/2	2 3/4	2 3/4
Employment	2.2	2 3/4	1	1 1/4	1 1/2	1 1/2
Unemployment rate	4.0	4 1/4	4 1/4	4 1/4	4 1/4	4 1/4
Consumer price index	3.8	2 1/2	3	2 1/2	2 1/2	2 1/2
Wage price index	4.1	3	3 1/4	3 1/4	3 1/2	3 3/4
Nominal GDP	4.1	4 1/4	3 1/4	4	5 1/4	5 1/2

a) Real GDP and Nominal GDP are percentage change on preceding year. Employment, the consumer price index and the wage price index are through-the-year growth to the June quarter. The unemployment rate is the rate for the June quarter. The labour market forecasts do not incorporate the February 2025 release of the ABS Labour Force.

Source: ABS Australian National Accounts: National Income, Expenditure and Product; Labour Force, Australia; Wage Price Index, Australia; Consumer Price Index, Australia; and Treasury.

The forecasts above suggest a fairly solid recovery in the economy in FY26 following the low growth of FY24 and FY25.

More detailed forecasting appears in the next table.

Domestic economy – detailed forecasts[a]

	Outcomes[b]	Forecasts		
	2023–24	2024–25	2025–26	2026–27
Real gross domestic product	1.4	1 1/2	2 1/4	2 1/2
Household consumption	1.0	3/4	2 1/4	2 1/4
Dwelling investment	-1.4	1 1/2	5 1/2	7 1/2
Total business investment[c]	6.0	1	1 1/2	1 1/2
By industry				
Mining investment	7.8	-3 1/2	2 1/2	3
Non-mining investment	5.5	2 1/2	1	1
Private final demand[c]	1.7	1	2 1/2	2 3/4
Public final demand[c]	4.2	5	3	2
Change in inventories[d]	-0.5	0	0	0
Gross national expenditure	1.8	2	2 1/2	2 1/2
Exports of goods and services	3.8	1	2 1/2	2 1/2
Imports of goods and services	6.3	2 1/2	4	2 1/2
Net exports[d]	-0.4	- 1/2	- 1/4	0
Nominal gross domestic product	4.1	4 1/4	3 1/4	4
Prices and wages				
Consumer price index[e]	3.8	2 1/2	3	2 1/2
Wage price index[f]	4.1	3	3 1/4	3 1/4
GDP deflator	2.7	2 3/4	1	1 1/2
Labour market				
Participation rate (per cent)[g]	66.8	67 1/4	67	66 3/4
Employment[f]	2.2	2 3/4	1	1 1/4
Unemployment rate (per cent)[g]	4.0	4 1/4	4 1/4	4 1/4
Balance of payments				
Terms of trade[h]	-6.3	-2 1/2	-6	-3
Current account balance (per cent of GDP)	-1.3	-1 3/4	-3 3/4	-4 1/4
Net overseas migration[i]	435,000	335,000	260,000	225,000

What can we glean from these forecasts?

- Household consumption is forecast to lift dramatically in FY26 over FY25 but for no apparent reason;
- Non mining business investment growth is expected to slow – i.e. a real decline investment, below inflation, is projected.
- It is that private demand will replace public demand to sustain economic activity and growth.

- It is forecast that inflation will drift higher in FY26 before declining again in FY27 to stay inside the RBAs inflation band;
- The unemployment rate will remain steady even as participation rates decline;
- Australia's terms of trade will decline (noting this forecast has been over the last 5 years) which will cause a sharp deterioration in our external capital account; and
- Net migration will fall but there will still be 800,000 immigrants arriving through FY25 to FY27.

Treasury assumptions or predictions regarding economic growth (to improve against our peers), immigration (to moderately decline), inflation (to drift lower), taxation rate adjustments (unknown), currency (remain constant) and commodity prices (to weaken) are created but without conviction.

Budget aggregates

	Actual	Estimates						Projections
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	Total(a)	2035-36
	$b	$b	$b	$b	$b	$b	$b	
Underlying cash balance	**15.8**	**-27.6**	**-42.1**	**-35.7**	**-37.2**	**-36.9**	**-179.5**	
Per cent of GDP	0.6	-1.0	-1.5	-1.2	-1.2	-1.1		0.0
Gross debt(b)	**906.9**	**940.0**	**1,022.0**	**1,092.0**	**1,161.0**	**1,223.0**		
Per cent of GDP	33.9	33.7	35.5	36.5	36.9	36.8		31.9
Net debt(c)	**491.5**	**556.0**	**620.3**	**676.3**	**714.1**	**768.2**		
Per cent of GDP	18.4	19.9	21.5	22.6	22.7	23.1		20.2

The next table tracks taxation receipts, and it discloses a marked and unexplained deterioration in forecast tax collections in FY25 compared to the mid year budget update.

PAYG taxation receipts are forecast to grow at a very low rate (1.4%). With employment growth remaining buoyant and real wage rises flowing, it suggests that the tax cuts of 1 July 2024 have suddenly (and belatedly) had an effect.

Australian Government general government receipts

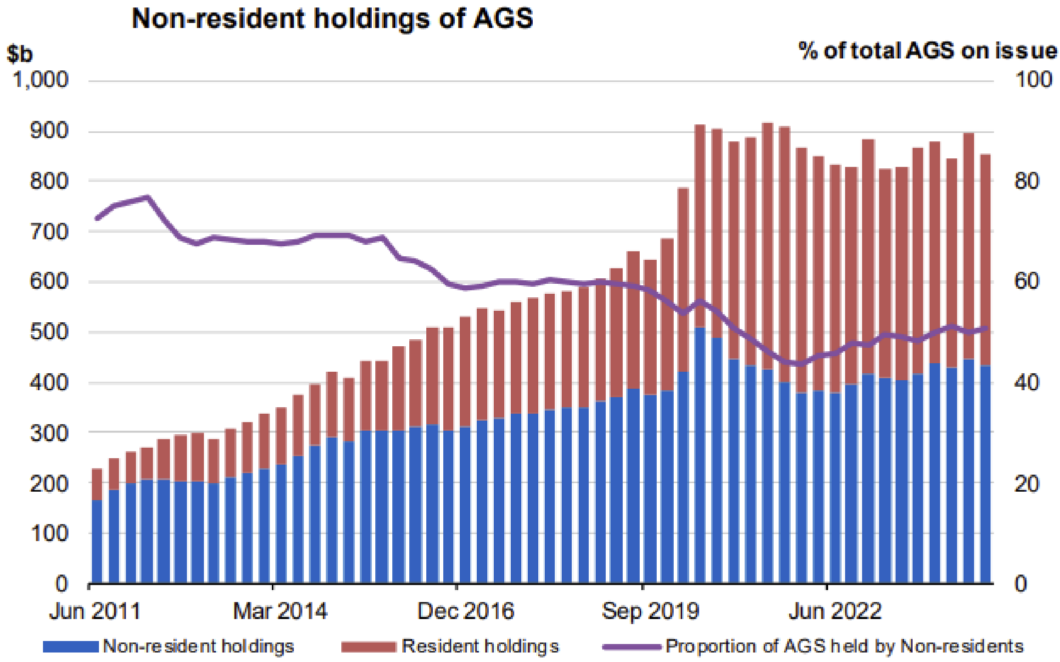
	Actual	Estimates				
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
	$b	$b	$b	$b	$b	$b
Total taxation receipts ($b)	**633.4**	**645.2**	**676.1**	**707.6**	**735.9**	**778.3**
Growth on previous year (%)	5.3	1.9	4.8	4.7	4.0	5.8
Per cent of GDP	23.7	23.1	23.5	23.6	23.4	23.4
Tax receipts excluding GST ($b)	**548.5**	**555.9**	**582.0**	**608.4**	**631.2**	**667.9**
Growth on previous year (%)	5.5	1.4	4.7	4.5	3.7	5.8
Per cent of GDP	20.5	19.9	20.2	20.3	20.0	20.1
Non-taxation receipts ($b)	**55.2**	**58.7**	**59.3**	**58.4**	**61.4**	**62.6**
Growth on previous year (%)	14.5	6.3	1.0	-1.4	5.2	1.8
Per cent of GDP	2.1	2.1	2.1	2.0	2.0	1.9
Total receipts ($b)	**688.6**	**703.9**	**735.4**	**766.0**	**797.4**	**840.8**
Growth on previous year (%)	6.0	2.2	4.5	4.2	4.1	5.5
Per cent of GDP	25.8	25.3	25.5	25.6	25.3	25.3

Australia's Government debt – is it really a concern?

As noted above the IMF and all rating agencies have far less concern with Australia's financial position then the plethora of commentators across our local media.

Australia has far less Government debt then most of our closest peers. Our real problem is with household debt, but from a national perspective this is balanced by our extraordinarily large superannuation assets.

Australia's AAA Government debt is relatively small in size and it remains a highly attractive place for foreigners to invest. The budget revealed that once again over 50% of our government debt is owned by non residents.



Note: Data refer to the repo-adjusted market value of holdings.
Source: ABS Catalogue Number 5203.0 and the Australian Office of Financial Management.

Arguably a more thoughtful policy response, that directs Australian super funds to own Australian bonds, would be greatly beneficial to our capital account and support the AUD. It would also protect Australian in the event of a financial calamity that caused foreigners to flee our bonds. A mere 20% allocation to Australian bonds by Australian super funds would fully cover our government debt.

Australia has abundant capital to fund our growth but will do not have policies that are focussed on growth or on connecting our savings capital with opportunity.

As the next table discloses, the rolling of $160 billion of Commonwealth bonds, some issued during Covid, could be well covered by Australia superannuation funds that are increasingly defaulting into offshore markets.

Treasury Bonds on issue

Coupon Per cent	Maturity	On issue as at 11 March 2025 $m	Timing of interest payments[a]		
3.25	21-Apr-25	41,500	Twice yearly	21-Apr	21-Oct
0.25	21-Nov-25	39,200	Twice yearly	21-Nov	21-May
4.25	21-Apr-26	39,600	Twice yearly	21-Apr	21-Oct
0.50	21-Sep-26	39,400	Twice yearly	21-Sep	21-Mar
4.75	21-Apr-27	39,400	Twice yearly	21-Apr	21-Oct
2.75	21-Nov-27	36,000	Twice yearly	21-Nov	21-May
2.25	21-May-28	35,300	Twice yearly	21-May	21-Nov
2.75	21-Nov-28	40,500	Twice yearly	21-Nov	21-May
3.25	21-Apr-29	40,200	Twice yearly	21-Apr	21-Oct
2.75	21-Nov-29	38,700	Twice yearly	21-Nov	21-May
2.50	21-May-30	40,200	Twice yearly	21-May	21-Nov
1.00	21-Dec-30	40,200	Twice yearly	21-Dec	21-Jun
1.50	21-Jun-31	41,500	Twice yearly	21-Jun	21-Dec
1.00	21-Nov-31	41,800	Twice yearly	21-Nov	21-May
1.25	21-May-32	39,300	Twice yearly	21-May	21-Nov
1.75	21-Nov-32	29,700	Twice yearly	21-Nov	21-May
4.50	21-Apr-33	26,700	Twice yearly	21-Apr	21-Oct
3.00	21-Nov-33	25,400	Twice yearly	21-Nov	21-May
3.75	21-May-34	24,200	Twice yearly	21-May	21-Nov
4.25	21-Jun-34	8,200	Twice yearly	21-Jun	21-Dec
3.50	21-Dec-34	23,200	Twice yearly	21-Dec	21-Jun
2.75	21-Jun-35	22,650	Twice yearly	21-Jun	21-Dec
4.25	21-Dec-35	14,300	Twice yearly	21-Dec	21-Jun
4.25	21-Mar-36	15,800	Twice yearly	21-Mar	21-Sep
3.75	21-Apr-37	17,000	Twice yearly	21-Apr	21-Oct
3.25	21-Jun-39	10,800	Twice yearly	21-Jun	21-Dec
2.75	21-May-41	15,600	Twice yearly	21-May	21-Nov
3.00	21-Mar-47	14,200	Twice yearly	21-Mar	21-Sep
1.75	21-Jun-51	20,200	Twice yearly	21-Jun	21-Dec
4.75	21-Jun-54	8,600	Twice yearly	21-Jun	21-Dec

a) Where the timing of an interest payment falls on a non-business day, the payment will occur on the following business day.

Source: AOFM.

The rolling of bonds, issued at historically low yields, during the Covid crisis, will lead to a solid jump in interest payments flowing through the budget. This is one budget forecast that we can rely upon. The interest bill for the Australian Government will continue to rise but not from excessive debt, but from the resetting of pre-Covid interest rates.

Interest payments, interest receipts and net interest payments[a]

	Estimates				
	2024-25 $m	2025-26 $m	2026-27 $m	2027-28 $m	2028-29 $m
Interest payments on AGS	22,666	26,303	28,628	35,092	36,623
Per cent of GDP	0.8	0.9	1.0	1.1	1.1
Interest payments(b)	24,413	27,885	30,159	36,724	38,224
Per cent of GDP	0.9	1.0	1.0	1.2	1.2
Interest receipts	9,520	9,389	8,939	9,798	10,109
Per cent of GDP	0.3	0.3	0.3	0.3	0.3
Net interest payments(c)	14,893	18,495	21,221	26,926	28,115
Per cent of GDP	0.5	0.6	0.7	0.9	0.8

a) Interest payments and receipts are a cash measure, with the relevant amount recognised in the period in which the interest payment is made or interest is received.

b) Interest payments include interest payments on AGS, loans and other borrowing, as well as interest payments on lease liabilities.

c) Net interest payments are equal to the difference between interest payments and interest receipts.

The FY26 budget – forecast growth that is unprosperous

The FY26 budget is a rushed document full of dubious forecasts. A comparison of Australia's budget and economic outcomes prior to Covid, with those presented in the FY26 budget Papers, exhibits a sharp decline in the quality of the budget forecasting. Further, the economic returns from budget expenditures measured in real economic activity, is on a declining trend along with productivity.

The economy, budget and Government debt were in good shape pre-Covid – but is arguable that we as a nation have lost our way during and straight after Covid. The inability to reset an economic growth agenda since Covid, that covers targets for energy, housing, health, aged care and defence, is starkly on display in the budget papers. There appears to be very limited appetite for any significant tax reform, structural planning, or a reduction of red or green tape. Comprehensive policy addressing the cost of living and the cost of doing business does not exist.

There is no report card as to how we are going against plan because there is no plan. As a nation we should be all be concerned by the lack of a national vision that threatens to continue to deliver more unprosperous economic growth.

John Abernethy is Founder and Chairman of Clime Investment Management Limited, a sponsor of Firstlinks. The information contained in this article is of a general nature only. The author has not taken into account the goals, objectives, or personal circumstances of any person (and is current as at the date of publishing). For more articles and papers from Clime, click here.

Preference votes matter

Tony Dillon

If the recent polls are anything to go by, we are headed for a minority government at the upcoming federal election. So more than ever, Australians need to give serious consideration not only to their first preference vote, but also to their second and subsequent votes on the ballot sheet. Such is the system of preferential voting we have in Australia.

How preferential voting began

It hasn't always been this way. Prior to 1918, we had the first-past-the-post system (FPTP) where a candidate just needed the most votes to win. Then the Commonwealth Electoral Act 1918 replaced FPTP with preferential voting.

This came about because a new party, the Country Party (the National Party predecessor) arrived on the scene, and split the non-Labor Party vote in country areas. So preferential voting was introduced to remove the distortions of vote splitting, and secure the survival of Labor-opposing parties.

Over time, preferential voting ensured fairer representation, with the system requiring majority support for a candidate to win after the distribution of preferences. It favoured broad support for election, and was deemed a fairer system.

The preferential voting system is such that, the least supported first preference candidate is eliminated from counting, with their next preference votes transferred to the remaining candidates. That process continues until a candidate has more than 50% of the votes and is declared the winner.

How it evolved

For many elections after the 1918 Act, preference votes didn't come into play for the majority of electorates. Even nearly sixty years later in the 1975 election for example, just 24 of the 127 federal seats were decided by distributing preferences. The remainder winning on first preference votes. The combined two-major party vote was 84.6%.

So for most seats in 1975, it was still basically a two-party contest, with a smattering of minor parties and independents votes.

Fast forward to the 2022 election, and a whopping 136 of 151 seats were decided by preference votes, with a combined two-party vote of just 68.3%.

The increased significance of preference voting reflects a shifting electoral profile, with a decline in the two-party system, and a rise in minor parties and independents. In 2022, almost a third of the primary vote went to the latter, with the Labor Party securing just 32.6% of the primary vote before going on to form government after preferences.

Strategic preference deals

We now have a political setting that is more fragmented and competitive, with the minor party and independent vote really gaining traction. This in turn means a heavy reliance on the distribution of preferences. It also means that strategic voting and preference deals have become prominent. One such preference-gaming strategy involves the following.

One of the two major parties has an unpopular policy with locals, like say offshore wind farms. An independent candidate opposing the wind farms is otherwise aligned to the major party's policies. Angry voters who would normally vote for that major party instead give their vote to the independent. The independent's how-to-vote card directs preferences back to the major party, and it is elected anyway.

What began as a protest vote, ultimately had no effect. And no-one would be any wiser as to whether the independent ran with the major party's blessings or not.

Preference harvesting is another strategy. This is more prevalent in upper house elections, with group voting tickets 'above the line'. Minor parties collude, exchanging preferences with each other, getting over the top of more popular candidates. This has on occasions, resulted in the election of candidates with a tiny share of first preference votes.

An obvious question today is, have the distortionary effects of preferential voting gone too far? Has our parliament become so fragmented that genuine reform is too difficult to implement? Will majority governments eventually become a thing of the past? Where will it end?

Optional preferential voting may reduce the impact to some extent. Currently used in NSW state elections, it is a system where voters have the choice of not ranking all candidates, and in fact may only give a primary vote if they want. It could be considered a hybrid of FPTP and compulsory preference voting, and where it sits on that spectrum depends on the rate at which preferences are not given. Under this system, a candidate can win with less than a majority of total votes cast.

An optional preference arrangement weakens the influence of minor parties and independents. The more primary votes they receive without trailing preferences, the less impact they can have on major party tallies and the shape of the parliament, lessening the need for major parties to deal with them.

And optional preferencing dampens the effect of preference gaming strategies, because fewer preference votes are on the table, and many voters who intend not to preference all candidates, will not bother with how-to-vote cards.

Make your vote count

In the end, the voter needs to be vigilant if they want to avoid the pitfalls of preference gaming. This can be achieved by researching all candidates.

If considering an independent or minority outfits, check if they have any past affiliations with major parties. How many big issues are they campaigning on? Have they received large donations or campaign funding from sources invested in certain policy areas? In other words, follow the money.

And don't necessarily strictly follow how-to-vote cards. At least check if there are any unusual preference arrangements. Maybe also check cards in neighbouring electorates for preferencing patterns between parties and independents. Alternatively, if the voter has scrutinised candidates, how-to-vote cards may be dispensed with altogether.

Finally. In upper house elections, always vote 'below the line' to prevent group ticket preference flows.

On election day, we celebrate our democratic right to have a say in who governs the country. Let's make our votes count.

Tony Dillon is a freelance writer and former actuary.

Meg on SMSFs: Tips for the last member standing

Meg Heffron

I've written before about what needs to happen when an SMSF member dies, and the remaining member (often the spouse) takes over. But a reader recently asked – what happens next? That is, when the sole member and trustee becomes unwell, elderly or simply less able to look after their SMSF?

An entirely reasonable starting point if this happens to you is to consider whether the fund (in fact superannuation as a whole) is still the right spot for your money. I wrote previously about some of the things that might prompt any of us to wind up our SMSF. Some of those might just trigger winding up the SMSF but leaving the money in super (i.e., transferring it to a public super fund such as an industry fund). But for some people, winding up the SMSF will also be the moment they take all their money out of the super system entirely.

Tax is often a key driver here.

Beneficiaries who aren't considered 'dependants' for tax purposes (for example, financially independent adult children) pay tax on some, if not all, the super they inherit from a parent. The tax rate sounds deceptively low - if the parent is over 65, it's a maximum of 15% plus Medicare. But remember it's a tax on the super *balance* not its *income*. If the balance is large it could be a very substantial sum (for example, 15% of $1 million is $150,000). Some people have part of their super that is classified as a 'tax free component' which avoids this tax. But for many of us, the vast majority of our super is a 'taxable component' (check your last super fund member statement to see yours).

But let's imagine for the time being that you've decided to keep your money in super and in fact want to continue running your SMSF.

What should you do about the management of your SMSF?

First, I'm going to assume someone in this position has already moved across to a corporate trustee and they are the sole director.

It's worth remembering that any SMSF with one member is allowed to have a second director (who is not a member) just because they want someone to help out. If there's an appropriate person, that might be a good first step. If I only had one child and was a lot older, I would certainly consider it.

One challenge is that it can only be one extra person – any more and they will also need to be members. So my challenge would be I have two children. Do I really want to give just one of them a lot of involvement (and therefore power) over one of my largest assets (my SMSF) and effectively leave the other out of it?

Probably not – if I was going to bring one child in to help me, I would include both and they would then need to become members of my SMSF. At this stage, that doesn't appeal to me.

A second challenge is that to actually make a decision, most constitutions require a majority of directors to agree (so in this case, both directors). In other words, having a second person involved just provides support to someone who is still willing and able to be a trustee themselves. It doesn't provide a solution if they're genuinely not up to it for a time.

So this doesn't necessarily solve our reader's problem. Her concern was running the fund in the event of a short / medium term illness rather than permanent decline – say a short stay in hospital followed by an extended recovery. During that time, she might be too unwell to focus on the fund's investments, dealing with her adviser, lodging returns, making pension payments etc. But she may fully expect to return to the director's chair in due course.

Another idea

There's a particular twist that might suit in this case – having ***alternate*** directors of the trustee company.

An enduring power of attorney (which I've written about before) is essential here. It's required any time someone else (let's assume it's the adult children) can take over when necessary - either because they have formally replaced the member as a director or in this case where they are being appointed alternates.

Both my sons have an enduring power of attorney for me so either or both could become directors of my SMSF trustee company if I become unable to look after it myself (and resigned my own directorship). And they could also be alternate directors for me on the board of the trustee company.

An alternate steps in as a director (with all the responsibilities and authority that carries) any time the actual director doesn't feel able to do it or isn't available. (In fact some 'normal' companies have alternates for directors who are not able to attend all the board meetings etc.)

Note that when an alternate steps in, they are temporarily *replacing* their director – they can't make decisions together with them. If our reader wants to bring this person in permanently as part of the team running her fund, she'll need them to become a director in their own right.

She could have two alternates (as long as both held an enduring power of attorney for her). But only one can step in for her at any one time – she couldn't set this up so that if she's unwell, both fill the director responsibilities together.

She would need to make sure they could transact on the fund's investments and bank account, deal with other providers etc. All of this highlights what is perhaps one of the most important steps – introducing them to the key players in your SMSF's life well before they actually need to do anything for you.

Alternate directors aren't used too often with SMSFs because they can create confusion (which name should your accountant put on the tax return, minutes, other key documents? It depends who will be making the decision to sign them!). But in cases like this – where the need is for short term help (albeit from someone who might eventually need long term help) it can be useful. It doesn't require the existing director to resign / retire and surrender control. It just allows them to have someone else sub in from time to time. And while there is paperwork needed to appoint the alternate, they can step in for their director many times without needing formal paperwork to recognise that each time. It's evident by the fact they sign resolutions etc.

Many company constitutions also require alternates to be approved by the existing directors – although even if the SMSF already had more than one director, it's presumably acceptable to them.

Don't forget that the alternate's role is entirely dependent on the existing director remaining a director and having capacity. It's not a permanent solution for someone who may ultimately hand over the reins to (say) their adult child(ren). At that time, the alternate would need to be officially appointed as a director in their own right.

Like every other aspect of life, it's common for people to seek more and more help in running their SMSF as they age if their capacity declines. An alternate director may well be a great solution for someone just planning for short-term help in the meantime.

Meg Heffron is the Managing Director of Heffron SMSF Solutions, a sponsor of Firstlinks. This is general information only and it does not constitute any recommendation or advice. It does not consider any personal circumstances and is based on an understanding of relevant rules and legislation at the time of writing.

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Wilson Asset Management on markets and its new income fund

Matthew Haupt and James Gruber

Here is a lightly edited interview between Firstlinks' James Gruber and Matthew Haupt, Lead Portfolio Manager, Wilson Asset Management.

James Gruber: After the recent dip, what's your view on the ASX?

Matthew Haupt: What we've seen recently is that with tariff uncertainty and inflation expectations going up, there's been a slowdown in growth expectations. This has led to a large unwinding of crowded positions, especially in 'momentum' stocks. This has resulted in big headline falls in indices, but beneath the surface. it's not as bad. Factors such as quality are dominating the boards as investors change their positioning at the expense of momentum.

We think this is a healthy development and one needed for markets to navigate the large range of outcomes that we are facing.

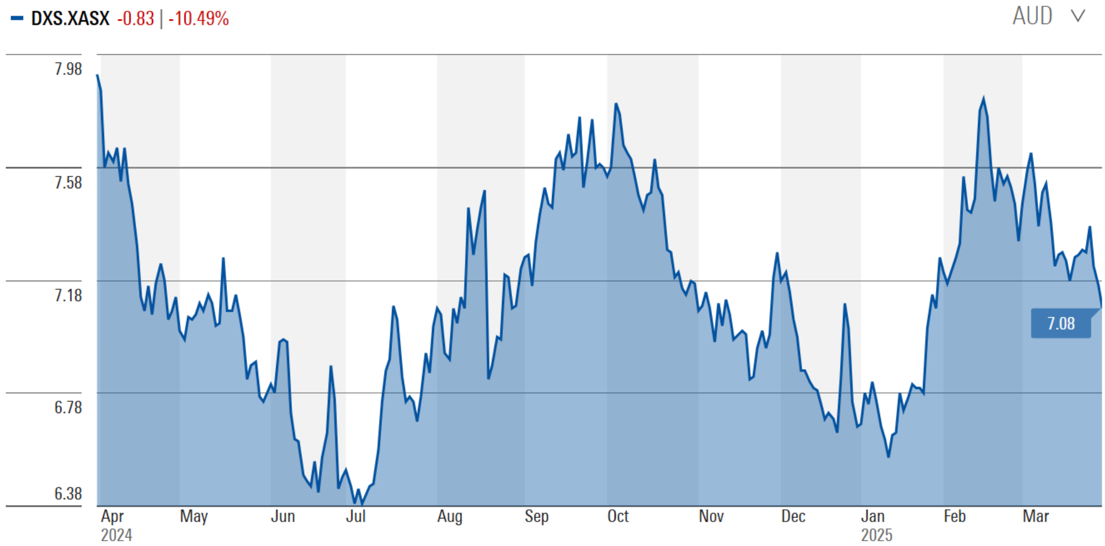
The two issues that need to be resolved are uncertainty and inflation. Until we get valuations low enough or these resolved at an index level, it will be hard for the market to go higher from here, so expect a few more months of volatility.

JG. You've previously suggested that the Big Four banks were overvalued – do you think that's still the case?

MH: From a historical perspective, the big 4 banks are still overvalued but obviously to a lesser extent now. It's just hard to make a fundamental case to be long the banks at the moment. Granted, their residential mortgage books are relatively safe through the cycle, and with a lot of commercial and riskier lending in the private space now, you could argue for the likelihood of a lower loan loss cycle for the banks, if the economy goes south.

JG: You've talked before about opportunities opening up in the ASX REITs – do you think they're through the worst of their downturn?

MH: We really like the REIT space, in particular retail, residential, and office. We think the worst is over for the office post pandemic shocks and with tightness in A-Grade coming back. For office exposure, Dexus (ASX: DXS) is screening attractively and with the risk to cap rates falling, you are getting a company with a big discount to net tangible assets (NTA) and no value ascribed to the funds management business.



Source: Morningstar

In the residential and office space, Mirvac (ASX: MGR) looks like it could emerge as a clear winner. The years of escalating costs and building delays appear over and we think we have seen the lows for margins in this space. Their office exposure will experience the same tailwinds as mentioned for DXS.

Source: Morningstar

For retail, Scentre Group (ASX: SCG) remains our top pick. We believe management is excellent and the assets are world class. And, given no new retail coming online for the foreseeable future, the outlook seems compelling. The ability to exploit air rights over their properties is another interesting angle over the next decade for value to be unlocked for shareholders.

Source: Morningstar

JG: The miners have had a tough few years – are their opportunities here, and if so, which segments are attractive to you?

MH: We like the miners here and think the bottom is in for China, which is the main driver of commodities listed on the ASX. After a five-year program to take the heat out of the property market, China has pivoted and is trying to stabilize and get some growth back in the property market. We have seen multiple stimulus packages and rule changes to get things going again and there's finally seen some tangible changes on the ground in China.

There could be positive surprises this year which would lead to more interest in deploying capital within China and also beats to expectations in the property sector. We suggest the best way to play this is through the diversified miners, with a preference for RIO over BHP, though valuations for both stocks are undemanding. One of the risks to the miners is a slowdown in global growth, which is something that could outweigh the more positive picture from China.

Source: Morningstar

JG: Many of our subscribers are income investors and I know that you're launching the WAM Income Maximiser LIC soon – can you tell us more about it?

MH: Sure, we're launching the LIC (ASX: WMX) after four years of discussions and strong demand from our investor base. WMX will combine equities and bonds in a portfolio with the goal to deliver a high level of fully franked monthly income.

The beauty of combining bonds and equity is the reduction of volatility. This strategy really suits periods of heightened volatility as we are experiencing at the moment.

WMX will be an actively managed strategy and with levers both on the equity, bond and asset allocation side, the goal is to perform strongly in all market environments. The aim of the fund is to take away the risk from equity drawdowns and from interest rate risk from shareholders. We have multiple levers to pull across the cycles from moving within different factor exposures during equity drawdowns to increasing duration before deep interest rate cutting cycles.

With the phasing out of hybrids from the Australian market, we think products like WMX will be sought after, and we're looking forward to the listing on 30th April.

JG: Can you talk about the types of investments that you'll invest in?

MH: Within the equity sleeve, we'll have the ASX 300 as a universe. We've got a seven-factor screen to find companies that generate excess free cash and then have the ability to pay it out or reinvest at a high rate of return internally.

So it's not just a dividend harvesting fund. We've got the flexibility to chase capital growth as well as income in the equity portfolio.

Within the bond sleeve, its core will be subordinated bank debt, so the tier two bank issuances. And then we've got a lot of companies we know over the last couple of decades on the equity side, where we can invest in them on the debt side. Companies like Scentre Group and Ampol (ASX: ALD), and the insurers as well.

JG: Why a LIC rather than an ETF?

MH: Good question. With the LIC structure, you can smooth out dividends. Also, with an ETF, it's really hard to get the market maker to replicate the bond portfolio.

Another advantage of LICs is franked dividends. You can't get that with subordinated bonds.

JG: What returns and dividend yields are you targeting with this LIC?

MH: We are targeting a running yield from the securities of WMX of RBA Cash Rate+ 250bps. The remaining distribution will be from realised capital growth which will vary with market conditions. For example, last year the total amount that could have been distributed was 11.97%

The goal of WMX is to get the majority of the distribution covered by income received by underlying securities with the remainder coming from realised capital gains.

Matthew Haupt is Lead Portfolio Manager at Wilson Asset Management.

'Life expectancy' – and why I don't like the expression

Don Ezra

Let's start with the numbers on life expectancy.

Here's a very simple example to explain the concepts.

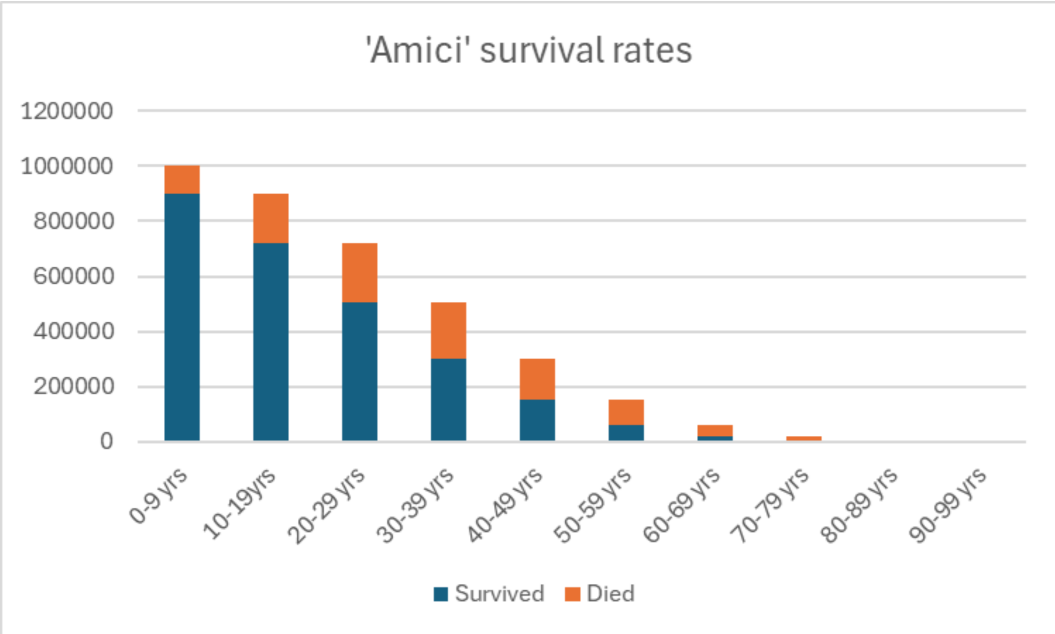
Imagine we arrived a long time ago on a new planet, with a totally different species of life there. We called them Amici, the Latin word for "friends," because they're so nice to us. We notice that they don't live nearly as long as we do on Earth. So we're curious, and start to measure how long they live. And after many years, here's what we find.

For every 100 children born, roughly 90% survive to age 10. Of the survivors, roughly 80% survive to age 20. And of those, roughly 70% survive to age 30. And so on. Eventually, of those who survive to age 80, roughly 10% (hardly any of the original group) survive to age 90. And of those survivors, none survive to age 100.

So let's consider a random group of 1,000,000 new children. In their first ten years, we expect 900,000 of them to survive to age 10, and 100,000 to pass away sometime during the decade. Of those 900,000 we expect 80% of them (making 720,000) to live through to age 20, and the remaining 180,000 will pass away sometime during that decade. And of those 720,000 we expect 70% of them (making 504,000) to survive to age 30, and the remaining 216,000 will pass away sometime during that decade.

And so on. We expect 302,400 to survive to age 40, 151,200 to age 50, 60,480 to age 60, 18,144 to age 70, 3,629 (never mind the decimals, though actuaries invariably use many decimal places) to age 80, 363 to age 90, and none to age 100.

All of that implies 201,600 passing away between ages 30 and 40, 151,200 between 40 and 50, 90,720 between 50 and 60, 42,336 between 60 and 70, 14,515 between 70 and 80, 3,266 between 80 and 90, and 363 between 90 and 100. No need to check the arithmetic: all that's involved is subtraction.



Those are the implications of those survival rates. What does all that mean for life expectancy?

Well, in the first decade 900,000 Amici live 10 full years. The other 100,000 live somewhere between 0 and 10 years. For simplicity, let's assume they live an average of 5 years. What's the total number of years the group has lived? Easy: (900,000 x 10) + (100,000 x 5) = 9,500,000 years.

Similarly, the survivors live 8,100,000 years in their second decade, and in successive decades the survivors notch up 6,120,000, 4,032,000, 2,268,000, 1,058,400, 393,120, 108,864, 19,958 and 1814 years. Again, just multiplication and addition.

The total number of years lived by the original group of 1,000,000 Amici is 31,602,156 years.

And so the average number of years lived by the members of the original group is 31.6 years. (OK, I'm using decimals here.)

That's typically called the 'life expectancy' of the group.

Life expectancy increases as you age

Remember that the group we're talking about is that original group of 1,000,000 Amici. And by 'life expectancy' we're really talking about their life expectancy *at birth*. We don't mean we expect all of them to live exactly 31.6 years. Of course not! In that case, nobody would ever reach age 40! And we know that 302,400 of the original 1,000,000 will survive to age 40.

Now let's consider those survivors to age 40. For those 302,000 they'll live a future 3,850,156 years, for an average of 12.7 more years. So, their average age at death will be 52.7. The reason it's so much higher than the 'at birth' life expectancy is that the other 697,600 have already passed away, most of them long before age 40. It's those earlier deaths that keep the average at birth as low as 31.6. And the group we're considering (the survivors to age 40) aren't the same group as the original 1,000,000 Amici: they're only a subset of the original group, in fact the long-lived survivors of the original group.

You see, in fact, that the longer that individuals survive, the more select their group becomes, and for the more select group, the higher their average age at death.

It's the same on Earth! When you read that the 'life expectancy' of a group is 80 years, typically what this means is that it's their life expectancy *at birth*. The longer they survive, the more select a group they belong to, and the higher their average age at death. For example, considering the survivors to age 60 from that original group as a separate group, it may be that their average age at death would be 85 rather than 80. So their average *future* life expectancy, from age 60, would be 25 years.

That's why the stand-alone phrase 'life expectancy' has no meaning or at least is extremely ambiguous. We might mean 'life expectancy at birth' or 'life expectancy at age 60', in that example – and we should specify which one we mean.

In fact, it would be better if we never used the expression 'life expectancy' at all, for exactly that reason. If we were to say either 'average age at death, for that group' (specifying the group) we'd be quite clear. In the example, the average age at death for newborns would be 80; the average age at death for 60-year-olds would be 85. Or we could refer to 'average future survival years, for that group' (specifying the group). In the example, the average future survival years for newborns would be 80 years; the average future survival years for 60-year-olds would be 25 years.

What about that Covid effect?

Notice that all those calculations implicitly assumed that the one-year-at-a-time survival rates (90%, 80%, 70% and so on) would continue to apply to all the survivors.

What tends to happen, in fact, is that, over time, survival rates tend to get a little bit higher, as we very gradually have our declines in health later. And so the average future survival years tend to go up gradually.

But Covid intervened to upset that gradual trend. Those survival rates suddenly decreased, as some people died from Covid-related complications. And so, if you assume that those lower Covid-related survival rates *stay unchanged forever more*, then the average future survival years go down. That was widely reported in 2021 as "plunging life expectancy", for example in The New York Times.

Well, no, as my post explained. Only if you assume that the higher mortality rates (which is the same thing as lower survival rates) associated with Covid *will last forever* do the average future survival years decrease (by a very noticeable 1.5 years at birth, in that case). With Covid behind us and mortality rates roughly back to where they were before, the average future survival years are back up again. But do you see that reported anywhere, let alone with the same degree of screaming headlines as the previous effect?

Absolutely not. "You can breathe easily again: if you've come through Covid, don't worry about a shorter average lifespan" doesn't make for an exciting headline, even if it's true.

Don Ezra, now retired, is the former Co-Chairman of global consulting for Russell Investments worldwide, and the author of "Life Two: how to get to and enjoy what used to be called retirement". This article is general information and does not consider the circumstances of any investor.

The shine is back on gold, and gold miners

Arian Neiron

Gold and gold miners have been among the better-performing asset classes so far in 2025 and they were among the strongest performers in 2024. The price of gold recently hit another record high, with ICE's LBMA price index surpassing US$3,000 for the first time.

Recent price rises have been attributed to Trump's tariffs and the US Federal Reserve potentially pausing any more rate cuts. While this uncertainty and interest rate environment bodes well for gold, these elements were absent in 2024.

The price movements of gold in 2024 had many analysts scratching their heads, because normally when risky assets such as equities do well, as they did, defensive assets, such as gold, do poorly. In 2024, both 'risky' equities and 'defensive' gold performed well.

Also, when interest rates fall, as they started to in the US in the second half of 2024, gold has historically not done well. It's therefore worthwhile to understand what could have driven the price of gold and understand why demand for the yellow metal could continue. And why gold miners are profiting.

Firstly, central banks have been stockpiling gold. 2024 was a big year of central bank buying. According to the World Gold Council, "central banks continued to hoover up gold at an eye-watering pace: buying exceeded 1,000 tonnes for the third year in a row, accelerating sharply in Q4 to 333 tonnes."

Chart 1: Gold demand at record levels for Q4 and full year, Quarterly gold demand in volume, tonnes, and value, (US$bn*)

Source: ICE Benchmark Administration, Metals Focus, World Gold Council, data to 31 December 2024.

In addition to central bank buying, the other factor driving gold demand has been growing geopolitical uncertainty, the threat of tariffs and US debt. Tariffs lead to inflation. In addition, many investors are staying away from US treasury bonds as the American economy remains embroiled in heavy, seemingly uncontrolled debt.

The rationale is that rising US debt often leads to concerns about inflation. When a government accumulates significant debt, it may resort to measures such as printing more money or increasing government spending, potentially leading to inflationary pressures. With inflation at the forefront of investors' minds, they may be buying gold as a hedge against the return of inflation.

Chart 2: US total public debt

Source: St Louis Federal Reserve, US Department of the Treasury. Fiscal Service. Shaded areas indicate US recessions.

Buying physical gold is not the only way to potentially benefit from a rising gold price. Some investors buy gold miners.

Gold miners

One of our predictions for 2025 was captured in the title of our blog, "Gold stocks seek to reconnect with gold in 2025." We highlighted that the performance of gold miners had been lagging the performance of physical gold over the past few years. This was unusual and we expected the miners to reconnect.

In the past, gold miners tended to outperform gold bullion when the price of gold rose and underperform when the gold price fell. We think the connection may have restarted.

We think, fundamentally, that gold miners also have positive tailwinds. While gold miners were not immune from the recent inflation, and the all-in-sustaining costs for mining gold have risen since 2016, disciplined mining companies can now generate substantial margins with the price of gold so high.

Table 1: Gold industry all-in sustaining costs (AISC) vs. gold price (US$/oz)

	AISC	Gold Price (Avg., $/oz)	Implied Margin
10-Year Average (thru Q4 2023)	$1,053	$1,497	$444
5-Year Average (thru Q4 2023)	$1,156	$1,747	$591
Q1 2024	$1,409	$2,071	$662
Q2 2024	$1,487	$2,336	$849
Q3 2024	$1,532	$2,476	$944
Q4 2024e	**$1,457**	**$2,661**	**$1,204**

Source: Scotiabank, VanEck. Data as of December 2024. *All-in sustaining costs (AISC) reflect the full cost of gold production from current operations, including adjusted operating costs, sustaining capital expenditure, corporate general and administrative expenses and exploration expenses. Past performance is not indicative of future results.

Investors are starting to take note. As mentioned above, GDX rose by 14.02% in January. This could be the beginning of a reversion-to-the-mean trend that sees gold mining equities again displaying their leverage to the gold price and outperforming bullion when gold prices rise. It still has a long way to go. You can see that over six months, the gold price has risen 21.33%, but GDX has only returned 9.23%.

Table 2: GDX performance and the LBMA Gold Price PM

	1 month (%)	3 months (%)	6 months (%)	1 Year (%)	2 Years (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since GDX inception (% p.a.)
VanEck Gold Miners ETF	14.02	2.39	9.23	48.90	19.01	14.98	8.94	11.62
LBMA Gold Price PM	6.98	8.00	21.33	45.15	28.48	20.94	13.75	11.93

Source: Morningstar Direct as at 31 January 2025. GDX inception date is 26 June 2015 and a copy of the factsheet is here. Results are calculated to the last business day of the month and assume immediate reinvestment of distributions. GDX results are net of management fees and costs, but before brokerage fees or bid/ask spreads incurred when investors buy/sell on the ASX. Returns for periods longer than one year are annualised. Past performance is not a reliable indicator of current or future performance which may be lower or higher. GDX invests directly in the underlying securities that comprise the GDX Index. GDX acted as a 'feeder fund' from 9th October 2019 – 11 May 2022 giving investors access to a fund domiciled in the United States. From 26 June 2015 – 8th October 2019, the fund operated as a CDI.

Accessing gold through ETFs

ETFs are an efficient way for investors to access gold investing. There are gold miners ETFs and there are ETFs that invest in physical gold bullion. Below we outline the risks of each type of exposure to gold, owning gold bullion and owning gold miners:

Differences between gold miners and bullion

	Gold bullion	Gold miners
Insurance costs	Gold must be insured as it may be stolen.	None
Storage costs	Gold bullion has to be vaulted in a safe location.	None
Currency risks	High - The value of gold is priced in relation to the US dollar, therefore monetary and fiscal policies are a major contributor to the fluctuation in currencies and therefore gold.	Low to medium as gold miners are able to hedge their cash flows, thus mitigating the risks of currency movements
Supply constrained / exploration	Mine output is dropping and ore grades are getting lower and lower.	Some miners are mining existing deposits. Some also explore and they may find gold, or there may be no gold. It might also be uneconomical to mine the discovered deposit. This is a risk of owning miners. It is worth noting that the rate of finding new gold deposits has been falling, therefore supply of new gold is finite supporting the share price of miners currently mining high grade gold.
Artificial ownership risks	High – There is more 'paper' gold than physical gold and these artificial securities, owned by banks and hedge funds, can distort the price of physical gold.	Low
Income	None	Miners generally pay dividends to investors.
Management risks	Not applicable	Like owning any publicly traded company, the quality of management is a risk of owning gold miners.
Correlation to equity markets	Low	Higher than bullion, especially during an equity market downturn.
Regulatory risks	None	Miners are subject to the rules and regulations of the country of the location of their mines and of the country they are listed in.
Geopolitical risks	The price of gold may rise if investors are uncertain about geopolitical issues affecting global markets.	The price of gold miners may rise if investors are uncertain, however, they may also fall, especially if the geopolitical risk directly affects the gold miner or its mines

While each gold strategy has its merit for portfolio inclusion, you should assess all the risks and consider your investment objectives.

Arian Neiron is CEO & Managing Director of Asia Pacific at Van Eck. VanEck's Gold Bullion ETF (ASX: NUGG) is an investment in Australian sourced gold. Investors can get diversified exposure to gold miners through the Van Eck Gold Miners ETF (ASX: GDX). Past performance is no guarantee of future performance and the above is not a recommendation. Speak to your financial advisor or stockbroker.