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Editorial

Think back to when you were 10 years old – what were you like and what did you value? For me, my primary memory is of playing tennis. My life was consumed by the sport. During the school holidays, I played all day, every day at my local club. And I'd just started to play statewide tournaments. There wasn't a lot else that got my attention, including school, back then.

Fast forward to 20 years of age, I was at university and loved learning and education. Earlier, I had a sliding doors moment, deciding that I wanted to pursue education instead of becoming a professional tennis player. I still coached some tennis to earn some money for socializing while attending university but had largely given up playing. My 10-year-old self wouldn't have fathomed what I'd become a decade later.

By 30, I lived in Indonesia as a research analyst at a stockbroker. I'd moved to Asia when I was 29, and had short work rotations in Hong Kong, Shanghai, and Singapore. If you'd told me when I was 20 what I'd be doing when I was 30, I'd have thought you crazy. Going from studying history and politics at university, to five years as a journalist at the ABC, and then crossing over into finance – nuts. And living in Indonesia to boot...

At 40 years of age, I lived in Sydney with a wife and child. I had started my own business, though was probably a bit lost after becoming disillusioned with the corporate world. While at 30 I was focused on succeeding in a finance career, making money, and travelling a lot, that had all turned on its head ten years later.

Turning to today and I am 48, with two kids, and back in the corporate world. I enjoy my work which combines writing and investing. I enjoy my life outside of work which primarily involves kids' activities. Three months after I turned 40, my family bought a motel, which we still own. For health reasons, I turned vegan about seven years ago. Also, for health reasons, I took up meditation and it's changing my life. My 40-year-old self would be scratching his head if you'd told him what I'd be like just eight years later.

Why do we change so much?

How do we become different people at different stages of life? Obviously, the ageing process has a lot to do with it. Our minds and bodies change. For instance, our ability to think abstractly and deal with complex information – called fluid intelligence – peaks at 20 years of age and declines each year after that. Yet, our decision making improves through to our 50s because of experience, and the wisdom that comes from that experience.

Of course, our bodies age too. We can't physically do the things we did in our teens when reach the 40s, 50s, and 60s.

Our environment also shapes us - where we live and work, and who we socialize with. Often, we don't realise how much our environment influences who we are.

Genetics also play a part. Interestingly, different genes can express themselves, or become dominant, at different points in our lives.

Neuroscientists are discovering new things about why we age. They've found that our brains change not just due to mechanical processes such as fluid intelligence, but also because what we focus on each day, and each moment, rewires the brain over time. For example, if you decide to learn a language, your brain will physically change over time and influence thinking and behaviour thereafter. Or, if you decide to re-learn an instrument that you played when you were younger, that will alter your brain circuitry. Put simply, what you focus on changes your brain and your future self.

Implications for life and money

If our priorities, values, and goals constantly shift as we age, it has significant implications for how we should live and think about money.

It's drummed into us from a young age that we should set goals and make plans to achieve them. Later, we're taught that financial planning and goal setting are vital to secure our futures. Yet, if our financial goals and plans change as we get older, not once but numerous times, then the pursuit of both is likely to disappoint.

That's not to say that financial planning and goal setting are a waste of time. It's that both should be lightly held, with an acknowledgement that adjustments will be needed along the way.

An alternative path is along the lines of what the latest neuroscience is suggesting above. If what we pay attention to now shapes our brains and future selves, then it may be best to focus on the thinking and habits that can build a better person and financial future. Put another way, how we spend today ultimately determines both our past and our future.

James Gruber

In this week's edition...

One reason that Australia's retirement system consistently rates highly on international comparisons is that it's mandatory. **Stephen Huppert** thinks it doesn't make sense to have a compulsory retirement system that switches to voluntary at the point of retirement. As an alternative, he suggests a [soft-default retirement product solution](#).

Graham Hand and his wife, **Deborah**, have penned a piece, five months on from Graham's brain cancer diagnosis. Graham describes how [his daily life has dramatically changed](#), yet he's trying to stay positive through arduous and ongoing medical treatments.

Innovate or die is the mantra of most larger companies these days, especially since the rise of AI. But how can we [identify the really innovative companies](#) that will thrive in the long term? **Capital Group's Matt Reynolds** has some suggestions on the best ways to go about it.

While Bitcoin and gold garner the world's attention, the bull market in uranium has received less coverage. The research team at **Platinum Asset Management** drill down into the supply-demand dynamics that's driven the [steep rise in the uranium price](#), and why the price may stay higher for longer.

Speaking of gold, the yellow metal is enjoying a nice time of it, even in the face of a strong US dollar. **Juan Carlos Artigas** explains [what's behind gold's recent run](#), and the key things that will determine whether the rally is sustainable or not.

Fidelity's Maroun Younes ventures back in time to look at how past market leaders have subsequently performed. The short answer is: not particularly well. He says given that history is against the Magnificent Seven continuing to deliver market-beating returns, investors should [look to diversify into other areas of the market](#).

From virtual assistants and transportation to eCommerce and even healthcare, AI is continuing to expand its applications. **Adrian Lu** from **Magellan** says it's vital that investors understand the the new technology, and the [opportunities and risks that it brings](#).

Lastly, in this week's whitepaper, **Capital Group** believes that healthcare stocks present a wealth of opportunity as we [enter a 'golden era' of industry innovation](#).

Redesigning retirement: The case for soft defaults

Stephen Huppert

"The retirement phase of superannuation is underdeveloped and does not meet the risk management needs of many retirees."

Any guesses as to who said this and when?

Could it have been in the [Final report for the Retirement Income Review](#), released in November 2020? Or was it said by the Government when the [Retirement Income Covenant](#) was implemented in 2022? Was it something that APRA and ASIC raised in [their report](#) on the findings from the joint APRA and ASIC thematic review into the implementation of the covenant?

If none of the above, then surely it's from the [discussion paper](#) on the retirement phase of superannuation that the Government released in December.

Wrong again.

This quote is from the July 2014 [Interim Report of the Financial Services Inquiry](#), also known as the Murray Inquiry.

Yes, a decade ago.

Consultation on the retirement phase of superannuation

In the latest December 2023 Treasury Discussion Paper that considers the retirement phase of superannuation, Treasurer Dr Jim Chalmers [said](#) that the Government is looking at how to improve the retirement phase of superannuation so that the system delivers a better retirement for more Australians.

The Discussion Paper points out that one of the highest priorities for older Australians is having a source of income that will last for life and that lifetime income products are a great way to insure against this risk. Yet very few Australians use lifetime income products at retirement. This is a puzzle. Or more precisely – the [annuity puzzle](#).

The Paper invites feedback on the opportunities, barriers and challenges to improve the experience and outcomes of members in the retirement phase with a focus on:

- Supporting members to navigate the retirement income system,
- Supporting funds to deliver better retirement income products and services, and
- Making lifetime income products more accessible.

[Optimum Pensions contributed a submission to this Discussion Paper](#), which sets out a possible solution, how it can be achieved, and how problems and objections can be addressed.

Submission Summary – A soft-default retirement product solution

How many Australians would have a healthy retirement balance today if the Government had not made it compulsory in 1992? One reason Australia's retirement system consistently rates highly on international comparisons is that it is mandatory.

Thinking about retirement income products with a similar form of compulsion could make them more accessible to more Australians.

Why is only half of our retirement income system based on compulsion? From an economic point of view, it simply may not make sense to have a compulsory retirement system that switches to voluntary at the point of retirement. The behavioural and market inefficiencies that required compulsion in the first place persist into the retirement phase.

At Optimum Pensions, we propose extending an element of compulsion beyond retirement. The main difference is that we propose using a soft default, one that members can opt out of if they wish, rather than the hard default used in the accumulation phase.

Many of the submissions raise concerns about introducing a default retirement income product, even a soft default one. They point out that the cash needs of Australian households are likely to be very different to each

other. Our submission acknowledges those concerns and lists some of the reasons for this need for flexibility and personalisation.

However, in our view, once retirees enter their 70s, many of these issues are reduced significantly. So, to address many of the concerns, our solution splits the retirement phase into two parts.

During the first part, from retirement until five years past the Age Pension age, the soft-default product is a fully flexible product. During this period, the member needs greater flexibility and personalisation.

For Australians who are five years beyond the age pension age, which is currently 67, the financial issues they face become more stable, and, as a group, their needs become more homogeneous again.

For members in this second part of retirement, we propose a blended product mix of an account-based pension and a lifetime income product. For all but the most cautious retirees, we suggest using one of the innovative lifetime income product types now available in the Australian market. These allow retirees to benefit from the equity risk premium and don't require providers to set aside high capital reserves.

The modelling included in our submission echoes the original modelling for the Financial System Inquiry—that a blended retirement product can deliver between 15% and 30% more income than a traditional retirement product, with the income continuing for life.

Disclosure, tools and advice

Any product solution must be supported by appropriate disclosure and tools to help members navigate the complexity of retirement planning. Several of the submissions raise the risk of a default mechanism steering a member to an inappropriate product.

The Government introduced the Design and Distribution Obligations to require firms to design financial products that meet the needs of particular groups of consumers and distribute their products in a more targeted manner. That sounds like what we are trying to do with retirement income products, doesn't it?

We recommend ASIC use this existing regulation to require trustees to take a more diligent approach when producing their Target Market Determination (TMD) documents for their retirement income products, including the specific retiree needs that each product addresses and, just as importantly, doesn't address. For example, an account-based pension does not protect against longevity risk. Nor does it allow means-tested retirees to benefit from the Age Pension incentives that can apply to lifetime income products. Rather than being silent on this, we propose the TMD for an account-based pension explicitly call this out.

In addition, a 'red flag' system for new retirement products can help members and advisers identify when a product is unsafe or unsuitable for their circumstances. This will reduce the risk of a member ending up with an inappropriate product for their circumstances. This approach is used with lifetime annuities in the UK.

Superannuation is different

Superannuation is not a typical industry, such as food or consumer goods. The laws of supply and demand work differently in superannuation. The superannuation guarantee system was introduced in 1992 to overcome many of the demand-side issues with saving for retirement.

Similarly, the commencement of the MySuper regime in 2014 was partly an acknowledgement that not all superannuation members have the necessary skills to comprehend complex financial information or are investment experts.

In the same way, we should not expect all superannuation members to have the skills necessary to comprehend complex financial information and be investment experts in retirement. Without defaults in place, each member needs to become their own defined benefit actuary, able to assess all the variables and unknowns and work out how to efficiently and effectively utilise their superannuation savings to fund their retirements, no matter how long they live.

It is now time for the next step in the evolution of Australia's retirement income system.

Stephen Huppert is Head of Engagement at [Optimum Pensions](#). This article is intended to provide information and not advice. It should not be relied upon as advice or take the place of professional advice. It contains generic content and has been prepared without taking into account an individual's personal objectives, financial situation or needs.

Five months on from cancer diagnosis

Graham Hand

Since the first sign of my brain cancer at the end of October 2023, life has been uncertain and changing constantly. The months pass in waves of treatment: chemotherapy, radiotherapy and numerous medications. Until the new year, I thought I would write about markets and products as I had in the past. That has not been possible yet. Life has radically shifted with my brain cancer, and I don't know if it will ever be the same again.

Five months after my cancer treatment started, my days are different to anything I might have expected before it all began. I have accepted, for the moment, a new pace of life. Never in my life have I slept so much - which my doctors encourage. I wake around 8am, have coffee, breakfast and read the newspapers, and try to stay up until 11.30am. I then fall into a deep sleep until about 1.30pm, by which time I am famished. I eat lunch and try not to sleep again until going to bed around 9.30pm. The day goes slowly; I read and write when I can, although those things are more difficult lately. I go for walks a couple of times a day and might see friends or family. It can feel like I'm just waiting for the day to finish. But somehow, time passes.

Some days I find it all incredibly frustrating. Other days I don't have the energy to be irritated. But after a lifetime of working, there is a persistent feeling that I'm now not achieving much. I'm having to redefine what "success" looks like, and accept that I don't have the stamina to do everything I want to do. Each day I'm having to cope with a new normal, facing new limitations. It means approaching life in a completely different way to what I have previously. My focus has become getting through the day.

At the same time, I've been trying to grapple with what people do in retirement. It's a question I've been asking friends lately. People stop working, or they work less, and the gap left by work needs to be filled somehow. Some take up gardening, some look after their grandchildren, others might play golf a couple of times a week. I can't in my wildest dreams imagine that golf would keep me busy.

I just don't know how to fill my time, particularly now with my vision problems making reading difficult. I'm grateful for a lot about my circumstances, cancer aside, but I'm not going to pretend I find it fulfilling in the way that work was. I'm now realising that six months is about to pass, and I have to find ways of occupying my time.

This illness is unpredictable. Doctors might think one thing but then something different happens. Those unexpected blows can be hard to deal with.

My wife, Deborah, has been wonderful. She not only takes me to every appointment, but also arranges catch-ups with friends, buys new equipment such as glasses and hearing aids (it so happens I needed hearing aids anyway and this was not cancer-related).

My family has been an amazing support. They watch the months tick by with love and care. Friends and neighbours have also been fantastic - dropping round with food and providing support and encouragement.

So that's where I stand at the moment. After decades of writing and a dozen years with Firstlinks, I still want to contribute. But exactly how and when I do that is unclear. I may need to accept limitations and adapt to changes more radical than I ever would have imagined. My ability to stay motivated over the coming months is important. I literally do not know how long I will live, and the doctors change their treatments, doses and medicine regularly. As weird as this whole situation is, I'm going to have to keep coping with it for a while yet.

Deborah's perspective

The last place anyone would want to have cancer is in the brain. It is our most complex organ and so much of its function is still being discovered. The particular area that Graham's glioblastoma is inhabiting is the very inaccessible thalamus. As his wife, I'm constantly finding out new information about its function.

Put simply, it is the brain's central hub and all senses (with the exception of smell) are relayed through it. A malfunction here will affect hearing, vision, touch, perceptions of temperature and proprioception as well as sleep, alertness and memory.

Graham's treatment started with a biopsy to discover what type of cancer it was in order to use the best therapy against it. Then came the chemotherapy and radiation, a period of rest from that, and now more chemotherapy for the next six months. It's a really hard slog. He is deeply exhausted and problems with his vision and the fluidity of his thoughts make it hard for him to read and write. So why has he pushed himself to pen this piece for Firstlinks? Largely because Graham *is* a writer. Editor of Firstlinks is the role he created to fit

his talents of research and analysis, particularly about the nuances of superannuation, and his passion for writing with clarity and precision about the subjects he is fascinated by. To not write leaves a gaping hole in his world.

Less than a year ago, in response to a suggestion that we have not four but *five* weeks' holiday in Europe, he stridently declared, "I *work*, you know!" Graham doesn't have a plan for retirement - quite the opposite. His intention, at least prior to this diagnosis, was to write until he's 100, probably still playing football with mates from the Alive n' Kicking football team. Even if he did have some notion of what retirement would look like, it would have been blown sky high by now. Attending to his health is work Graham has never had to do before. Having cancer is a full-time job, and one that leaves little energy for other ambitions in one's life. It requires the strength of more than one person, and we're here with him through it.

Tomorrow's innovation, today's investment opportunity

Matt Reynolds

As share prices in some of the world's biggest technology companies challenge their own highs in early 2024, many investors could justifiably be asking themselves if pricing might be getting overly exuberant?

For the long-term investor however, they are perhaps asking themselves, 'who has the runway for growth?'

As this century has shown, innovation continues to be a driving force for growing businesses and arguably, the culture of innovation especially cultivated by the technology sector in this first quarter of the 21st Century has some companies better equipped and energised to continue to grow.

An innovative company is one that could be described as consistently producing a unique product or service that is not easily replicated by other companies. It also has the ability to drive the product or service towards long-term business growth and profitability.

Unlike inventors, however, innovators are essentially businesses that take existing great ideas and convert them into great products. Apple's late co-founder Steve Jobs once quoted Picasso with the saying "good artists copy, great artists steal". Apple revolutionised the music industry with its hit product iPod, but the company didn't create the first mobile music player. It was Sony's Walkman that first changed the way we listen to music.

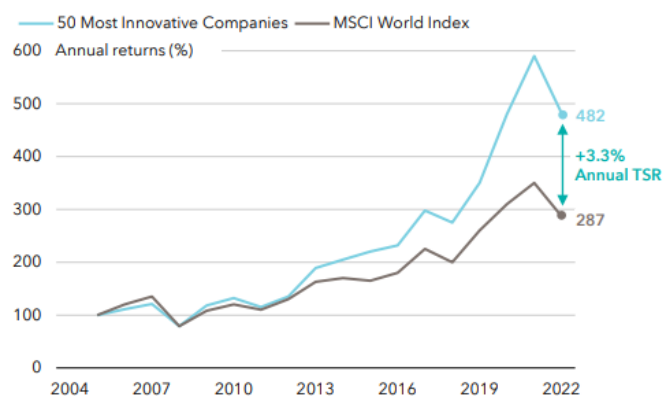
When music piracy and song file-sharing threatened the earnings of record labels, Steve Jobs convinced them to sell music singles through Apple's iTunes store. This was a strategic, innovative move that became an instant hit with consumers who could download music legally for 99 cents per song, and displaced music retailers in the process.

Were patent rules broken along the way? Possibly in some instances as Apple paid out millions to settle patent lawsuits. But the company also holds numerous patents and generated billions in revenue from the music industry in the years that followed.

Innovation and AI

So, with the advent of artificial intelligence emerging and accelerating more recently, a reasonable question to ask is: will the innovators continue to grow and win?

Figure 1: Innovation remains a critical driver for success today
Innovators have outperformed the market through consistent growth and value creation.



Past results are not a guarantee of future results. Source: May 2023, Most Innovative Companies 2023, BCG. Chart compares 50 Most Innovative Companies' one-year total shareholder returns (TSR) for that year against MSCI World. Top 50 companies are reweighted annually to reflect changes to the list.

While artificial intelligence isn't new, what has changed is the advancement in computing power. Together with the huge database of the internet, today we are witnessing the phenomenal capabilities of smart artificial intelligence coming to bear.

ChatGPT is an example of smart AI. It exploded in popularity, reaching 100 million users in just two months, because of its ability to complete tasks that save time. Students were one of the earliest adopters as it's a great learning tool.

In business, there is likely to be a dramatic change in the way we do things. The early adopters of AI will be the initial winners, and among them are the hardware providers that provide the picks and shovels. They include data centres and the producers of graphics processing units, both of which could see a ramp up in investments as the demand for AI technology grows. The speed of investment and adoption has the potential for faster returns, leaving the laggards to play catch-up.

Over time, the power of innovation, regardless of AI, will force the breakup of monopolies. In semiconductors, the rise of TSMC opened the doors for other companies to innovate and grow. In drug discovery, CDMOs² and CROs² enabled smaller biotech companies to thrive. The same will happen as AI advances and new competitors emerge. Despite all the competition, however, the ultimate beneficiary remains the consumers.

Innovation by geography

Taking the innovation theme concept a little further, it is also clear that the geography of innovation continues to evolve.

Countries like the US and China have established innovation ecosystems that are fuelling innovation catalysts and triggering world-changing innovation.

The ingredients of a successful innovation ecosystem are the 5 Cs: connectivity (online communications), capital (money to invest), courage (risk appetite to invest), concentration of expertise, and channels (exit channels like IPO or M&A).

The internet innovation that came out of the US had those 5Cs, while the innovations that happened in emerging markets were an adaptation of models that were working in the West. China was one of them.

During the early days of the internet, we witnessed the birth of Alibaba and Baidu, which were dubbed the eBay and Google of China. What followed was a material platform shift to mobile. At that time, China had already developed an ecosystem with the 5Cs, which underpinned the creation of world-changing innovation in mobile e-commerce, super apps and short videos.

In the US, many companies have been able to navigate regulatory risks in the past decades through a combination of a strong legal team, political gridlock, and luck.

With successful innovation ecosystems in place, we are likely to continue to see future innovation coming from both the US and China.

When looking for the innovators of the future, it will be important to focus on the companies that retain their DNA and the qualities that made them great, as major cost-cutting measures are likely to eventuate from AI. These companies have the potential for a longer growth runway.

And while a higher interest rate environment has indeed caused much financial pain, it has also made some companies more focused, leaner, and focused on ways to generate returns at a faster pace.

In this tough environment, it becomes clearer which companies are improving faster than the others.

Matt Reynolds is an Investment Director for [Capital Group Australia](#), a sponsor of Firstlinks. This article contains general information only and does not consider the circumstances of any investor. Please seek financial advice before acting on any investment as market circumstances can change.

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Uranium and the fear of running out

Platinum Asset Management

The laws of supply and demand have an inevitability to them and recent moves in the uranium market are another reminder of their power. Back in September 2023, uranium was selling at around US\$50 a pound. As we write, that price has moved to \$US91/lb.¹ In this article we look at the supply and demand dynamics underpinning that rise.

Bottomed out

For over a decade, the uranium market has been plagued by excess supply, low prices and negative sentiment around nuclear power. Between 2014 and mid 2021 for example, prices hovered around US\$30/lb. For context, it last peaked at US\$136/lb in 2007.

On the demand side a number of factors kept the main buyers – utility companies - from paying up for the radioactive metal.

- High levels of global inventory and product availability.
- The progressive retirement of Japan's nuclear fleet post the Fukushima tsunami. Before 2011, nuclear accounted for 30% of Japan's energy. By 2019 [Japan's nuclear energy output had fallen by 75%](#).
- Anti-nuclear sentiment in Europe drove a nuclear phase-out in many countries (notably Germany).

Meanwhile, the supply of uranium was increasing, largely thanks to low-cost production from Kazakhstan. With plentiful supply and cratering demand, energy utilities were able to buy uranium at low 'spot' rates rather than contracting for long-term supply. The uranium price fell briefly below US\$20/lb.

At sub US\$30/lb, many uranium mines became uneconomic and were placed into 'care and maintenance'.³ That led to a dramatic fall in mined production.

Something changed

In the early 2020s the supply/demand dynamic changed and the uranium price made two dramatic jumps, leaping from \$US30/pound to \$US50/pound in 2021 and \$US50 to \$US100/lb in 2023. What's behind this shift?

- The emergence of uranium 'trusts'. These vehicles buy physical uranium, thus removing excess global uranium inventory from the system.
- An improving demand outlook driven by a resurgence in nuclear power. China's annual uranium demand is [expected to nearly quadruple](#) to over 40,000 tonnes per year by 2040.
- Japanese reactor restarts, life extensions for ageing plants and development of new technologies (such as small modular reactors). These are all incrementally positive for uranium demand.
- Sustained supply deficits, with long lead times to develop new supply.
- The self-sanctioning of Russian material after its invasion of Ukraine put further strain on an already underprepared nuclear value chain.

Underpinning all these factors is the increasing realisation that nuclear power could be key to decarbonising energy. Nuclear provides reliable baseline power and, unlike fossil-fuel fired power plants, nuclear reactor lifecycle carbon dioxide emissions have a profile on par with renewables.

In essence, there's been a huge supply/demand switch and for the first time in the history of the uranium market as we know it, we may see a sustained shortfall of available supply – and it's beginning to be reflected in the price.

That's why uranium is now a key portfolio theme for the Platinum Global Transition Fund² (Quoted Managed Hedge Fund) (ASX:PGTX) - a fund specifically designed to provide capital growth over the long term by investing in undervalued companies that are seeking to financially benefit from the transition away from fossil-fuel derived energy and goods production and consumption i.e. the carbon transition.



Source: [Trading Economics](#)

In the midst of this major market shift, PGTX added four uranium stocks to the portfolio - Cameco and the Sprott Physical Uranium Trust (SPUT) from Canada, Kazakhstan’s Kazatomprom and Australian developer Paladin Energy.

These four stocks have very different – and somewhat complementary - characteristics.

- The Sprott Physical Uranium Trust owns physical uranium and gives pure exposure to upside in the uranium price.
- Cameco is a large, high-quality producer that provides exposure across the nuclear fuel cycle.
- Kazatomprom is the largest upstream producer of uranium. It’s a dividend paying stock, valued at a discount to its peers.
- Paladin Energy is a late-stage development company that provides exposure to near-term production and so favourable exposure to market pricing.

Buyers who look past the price

Whilst supply and demand fundamentals drive markets, buyer behaviour is also crucial. Indeed, understanding the behavioural element in markets is core to our investment philosophy.

Tellingly, the prospects for further strength in the uranium market are improved by the buyer behaviour of the big energy utilities. Constrained supply means these buyers can no longer look to source uranium in the spot market. They’re now looking for the supply certainty of long-term contracts.

Utilities are now genuinely concerned about lack of supply and that means they could start looking ‘past the price’.

For them, a US\$20/lb move in the uranium price equates to a roughly \$1 per megawatt-hour (MWh) increase in fuel cost for their reactor. That won’t change their behaviour given the importance of keeping the reactor running and especially in the context of the huge capital cost of their plants.

Given the depth of the current supply issues – and the fact it could take until 2030 or beyond for meaningful new supply to come on stream - these conditions could last for years.

Today, we’ve got a market driven by price-inelastic buyers who are motivated almost solely by supply worries - literally by fear of running out. That could see very high prices sustained for a number of years. And that’s good news for companies in the uranium sector.

¹ Source: Factset Commodities as at 08/03/2024

² The Platinum Global Transition Fund invests in undervalued companies from around the world that are seeking to financially benefit from the transition away from fossil fuel-derived energy and goods production and consumption i.e. the carbon transition

³ When mines temporarily stop producing but the infrastructure and machinery is maintained and environmental risks managed.

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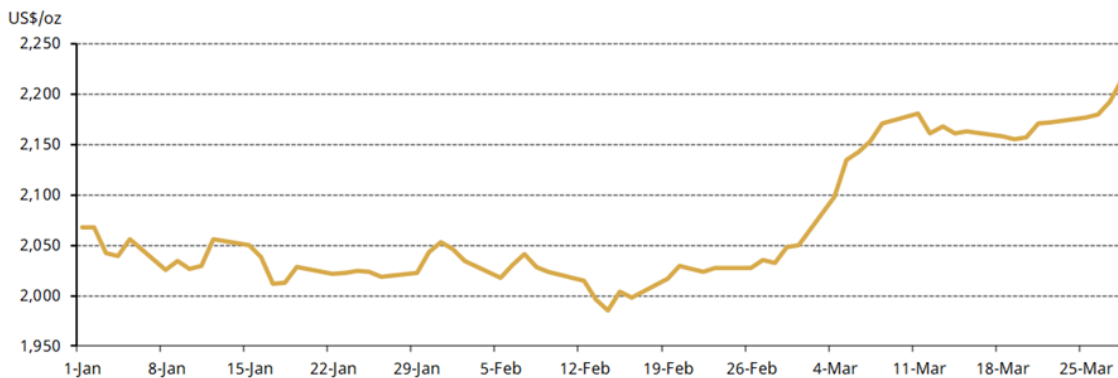
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What's driven the big rally in gold?

Juan Carlos Artigas

The gold price shot up since the end of February, with the LBMA Gold Price PM closing at US\$2,214.35/oz as of 28 March – a 8.1% increase m/m.^[2] Gold broke record highs multiple times during March, trading above US\$2,200/oz intra-day a few times during the month and eventually exceeding that level by the end of the month (**Chart 1**). Gold behaved similarly in Australian dollars where gold reached a new all-time high of AUD\$3,396/oz, an increase of 7.7% m/m (**Table 1**).

Chart 1: Gold reached new highs in early March
LBMA Gold Price PM in USD per ounce*



*As of 28 March 2024.

Source: Bloomberg, ICE Benchmark Administration, World Gold Council

Table 1: Gold had a strong March, reaching new highs in multiple currencies
Gold price and returns in key currencies*

	USD (oz)	EUR (oz)	JPY (g)	GBP (oz)	CA (oz)	CHF (oz)	INR (10g)	RMB (g)	TRY (oz)	AUD (oz)
March price	2,214	2,052	10,775	1,754	2,998	1,996	59,378	514	71,691	3,396
March return	8.1%	8.3%	9.1%	8.1%	7.8%	10.2%	8.8%	8.6%	12.1%	7.7%
Y-T-D return	6.5%	9.0%	14.3%	7.5%	8.9%	14.1%	6.8%	8.4%	16.8%	11.3%

* Data to 29 March 2024. Based on the LBMA Gold Price PM in USD, expressed in local currencies.

Source: Bloomberg, ICE Benchmark Administration, World Gold Council

Gold's sharp increase has since caught the attention of market participants. The initial trigger was linked to a weak ISM print in the US on 1 March,^[3] pushing bond yields down. Gold's positive trend was further cemented following the US Federal Open Market Committee (FOMC) meeting on 20 March. Market participants generally took the Fed statement and Powell's comments as dovish, resulting in strong performance of many asset classes – including gold – on the prospects that the Fed may start cutting rates in June. Lower rates reduce the opportunity cost for holding gold.

But rates speculation can only explain so much, so what's behind gold's move since?

Our analysis, using a weekly version of our [Gold Return Attribution Model \(GRAM\)](#), indicates that gold’s performance can partly be explained by a few factors (**Chart 2**):

- Movements in the US dollar – specifically weakness against both developed and emerging market currencies early in the month.
- An increase in gold’s implied volatility that wasn’t accompanied by a rise in bond implied volatility, suggesting that investors were expecting wider relative price movements in gold but not as much in other assets like bonds.
- More bullish COMEX investor positioning (futures and options for gold) and positive gold ETF investment flows in North America and Asia.

Chart 2: Gold’s recent move can be partly explained by the USD, risk and momentum
Key drivers of gold’s return by week*



*Data to 29 March 2024. Our Gold Return Attribution Model (GRAM) is a multiple regression model of weekly gold price returns, which we group into four key thematic driver categories of gold’s performance: economic expansion, risk & uncertainty, opportunity cost, and momentum. These themes capture motives behind gold demand; most importantly, investment demand, which is considered the marginal driver of gold price returns in the short run. ‘Unexplained’ represents the percentage change in the gold price that is not explained by factors already included. Results shown here are based on analysis covering an estimation period from 2 April 2021 to 29 March 2024.

Source: Bloomberg, World Gold Council

There is, however, a good portion of gold’s recent performance that can’t be explained by GRAM, which – as with any other model – depends on the strength of historical relationships. As such, there are a few other factors that may explain the additional increase.

Firstly, gold’s rapid increase and its surge above a series of technical resistance and psychological levels ranging from US\$2,050 to US\$2,200/oz likely served as a catalyst to cover short option strategies and drove further tactical investor interest. COMEX net long positioning – used by GRAM comes with a lag and may not yet capture this data, although it [could be inferred by more timely information on Open Interest](#).

Secondly, there’s also activity in the less transparent over-the-counter market that may not be reflected in COMEX positioning or gold ETF flows but that likely provided further fuel to the market.

What’s next?

The key question now is how sustainable gold’s rally is.

On the plus side, gold started March aided by [strong Chinese demand during the Spring Festival](#). Data from the Ministry of Commerce shows that gold and jewellery sales in China – dominated by gold products – rose by 24% y/y during the holiday. And in Shanghai, gold consumption exceeded RMB1bn (US\$141mn), a 14% rise y/y. Many other regions also experienced similar, if not stronger, growth in gold jewellery sales, according to the Ministry of Commerce and various news reports. In fact, data indicates that gold consumption during the period would have been stronger had it not been for wallet share competition from travel and other entertainment options.

And [central banks have continued with their buying spree](#) in 2024. Central banks have reported adding 64 tonnes over January and February; while lower than the same period in 2023, this is four-fold their level of buying during the first two months of 2022. We have highlighted in previous reports that [gold’s strong](#)

[performance over the past few years can be partly explained by geopolitical risk as well as robust central bank purchases](#) – which are often reported with a lag.

Finally, investor flows may bring additional support. March already saw [positive flows in physically backed gold ETFs in North America and Asia](#). And positioning in derivatives markets may bring additional investment if the gold price remains above key psychological levels such as US\$2,100/oz or US\$2,200/oz. Overall, we believe that gold's recent rally has happened while gold remains under-owned, which can create positive support if either rates fall or financial conditions deteriorate.

On the flip side, the upcoming US Federal Open Market Committee meeting in late April/early May will shed further light on the Fed's appetite to loosen monetary policy.^[4] And while the market is not currently expecting a rate cut until June, a more hawkish stance by the Fed may create short-term headwinds for gold.

In addition, rapid gold price movements typically discourage gold jewellery consumers, who may choose to wait for volatility to subside. Further, [demand in India is unlikely to see a notable uptick in the next couple of months](#), as the country's upcoming general elections (from April to June), will see the movement of cash, gold, and jewellery face heightened scrutiny. Anecdotal evidence suggests that the various stakeholders in the industry – bullion dealers, manufacturers, and jewellers – tend to limit their transactions during this period. As a result, data suggests that gold consumption has fallen during three of the last four general election periods. However, some improvement in demand could be expected around the time of Akshaya Tritiya (10 May),^[5] as this is traditionally considered to be an auspicious time to buy gold.

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

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[1] As of 11 March 2024, based on the LBMA Gold Price PM USD.

[2] The LBMA Gold Price does not trade on 29 April in observance of Good Friday: [Value Dates | LBMA](#).

[3] [US manufacturing contracts further, rays of light on the horizon | Reuters](#).

[4] [Feb US payrolls show labor market healthy but not overly tight | Reuters](#).

[5] [Aakshaya Tritiya: All about Akshaya Tritiya: Date, Timings & Significance - The Economic Times \(indiatimes.com\)](#).

History isn't on the side of the Magnificent Seven

Maroun Younes

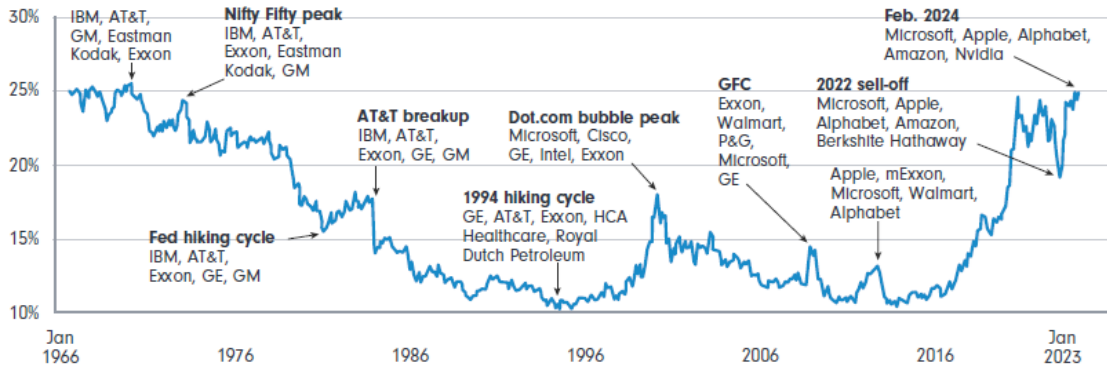
Throughout 2023 and into this year, we have seen the performance of indices such as the MSCI World and the S&P 500 being driven primarily by a handful of mega-cap US names, almost exclusively within the technology space. What are the implications of this, and does it really matter?

Firstly, we need to zoom out a little and look at today's concentration in the context of history to really understand whether what we're witnessing today is really out of the ordinary.

What history says on the matter

As we can see from Figure 1, we're at levels now in the US last seen during the 'Nifty Fifty' era of the early 1970s. For those who were not present during that time (I, for one), the Nifty Fifty was a term used to describe a collection of blue-chip stocks in the US that were touted to be 'one decision' (i.e. you would just buy and hold these stocks, period). These stocks were so well loved that their valuations became quite stretched. However, from around 1973 onwards, these stocks cratered and went on to underperform the broader equity market. Since then, we've never seen the top five companies in the USA command a 25% market share of the US equity market – until now.

Figure 1. Share of top five companies by market cap in S&P 500: 1966 – 2023
 Top five annotated through history



Source: DB Asset Allocation, Deutsche Bank.

Today, we’re seeing similar enthusiasm levels for the top end of the market, the so-called ‘Magnificent Seven’. Granted, the starting point in terms of valuations for the Magnificent Seven today is much less than the Nifty Fifty that preceded them. Time will tell whether this will be enough to spare them a similar fate in terms of underperforming future equity returns.

The table below looks at the top 10 largest stocks in the world, at the start of each decade.

Table 1. The world’s 10 largest companies by market capitalisation (ex Berkshire and Aramco)

1980: Peak oil	1990: Japan will take over the world	2000: TMT bubble	2010: China will take over the world	2020: US tech offers only growth
IBM	NTT	Microsoft	Exxon Mobil	Microsoft
AT&T	Bank of Tokyo-Mitsubishi*	General Electric	PetroChina	Apple
Exxon	Industrial Bank of Japan	NTT DoCoMo	Apple Inc.	Amazon
Standard Oil	Sumitomo Mitsui Banking*	Cisco Systems	BHP Billiton	Google
Schlumberger	Toyota Motors	Wal-Mart	Microsoft	Facebook
Shell	Fuji Bank	Intel	ICBC	Alibaba
Mobil	Dai Ichi Kangyo Bank	NTT	Petrobras	Tencent
Atlantic Richfield	IBM	Exxon Mobil	China Construction Bank	Johnson & Johnson
General Electric	UFJ Bank	Lucent Technologies	Royal Dutch Shell	JP Morgan Chase
Eastman Kodak	Exxon	Deutsche Telekom	Nestlé	Exxon Mobil

*Merged entities. Source: Gavekal Data/Macrobond

The first thing that stands out is how the composition radically changes over time. Each decade tends to be dominated by a big theme, and the stocks at the top of the list tend to reflect that. In the 1980s it was oil, and six of the top 10 were in the broader oil industry. In 1990, it was Japan’s seemingly unstoppable rise, and eight of the largest 10 stocks in the world were Japanese. In 2000, it was the dot.com bubble, and eight of the top 10 were from the TMT sector. A decade later, it was China’s turn to take over the world, and most companies in the top 10 (with perhaps the exception of Microsoft) were companies that were either Chinese, or exported a lot to China, and thereby China was a big source of growth.

Interestingly, each subsequent decade has only seen one or two names in its top 10 that were present in the previous decade’s top 10. This highlights the lack of persistency in being able to remain a top performer for long stretches of time.

What happens if you hold the most dominant stocks?

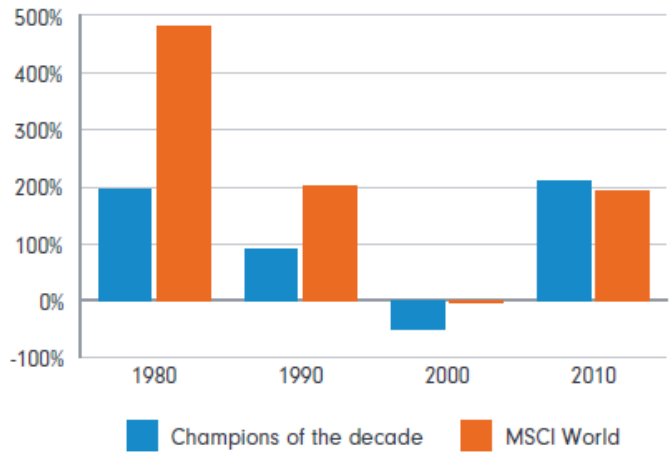
So, what if an investor had, at the start of each decade, created a portfolio for themselves comprised entirely of the most dominant stocks of the time? I went through this hypothetical exercise myself.

I took the 10 largest stocks of each decade from the previous chart, calculated their subsequent returns for the following decade (e.g. the 1980 cohort had its performance calculated from 1 January 1980 to 1 January 1990), and created a simple, equal-weighted portfolio. I then compared this to the returns delivered by the MSCI World Index for the same subsequent time period.

In all but the 2010 vintage, our investor would have underperformed the broader market by investing in the mega-cap names of the time. And if we strip out Apple from the 2010 portfolio it, too, would have significantly underperformed the broader market. Apple delivered a cumulative return of almost 1100% from 2010 to 2020, vs the MSCI World of ~180%. If you missed Apple in 2010, then once again you would have been better off investing in the broader market.

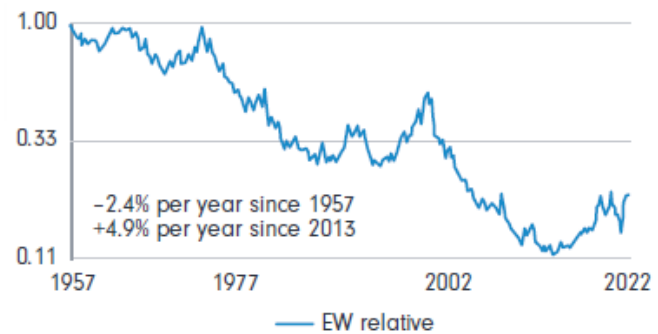
Analysis from GMO, this time comparing investing in the largest 10 US stocks vs the rest of the S&P 500 shows that, on average, since 1957, you would have underperformed. However, since 2013, investing in the mega-caps has been a winning strategy. Whilst unusual, this is not unheard of – we witnessed similar episodes in the late 1960s/early 1970’s (Nifty Fifty era), as well as in the late 1990s (dot.com and internet bubble).

Figure 2. Cumulative returns over the subsequent decade



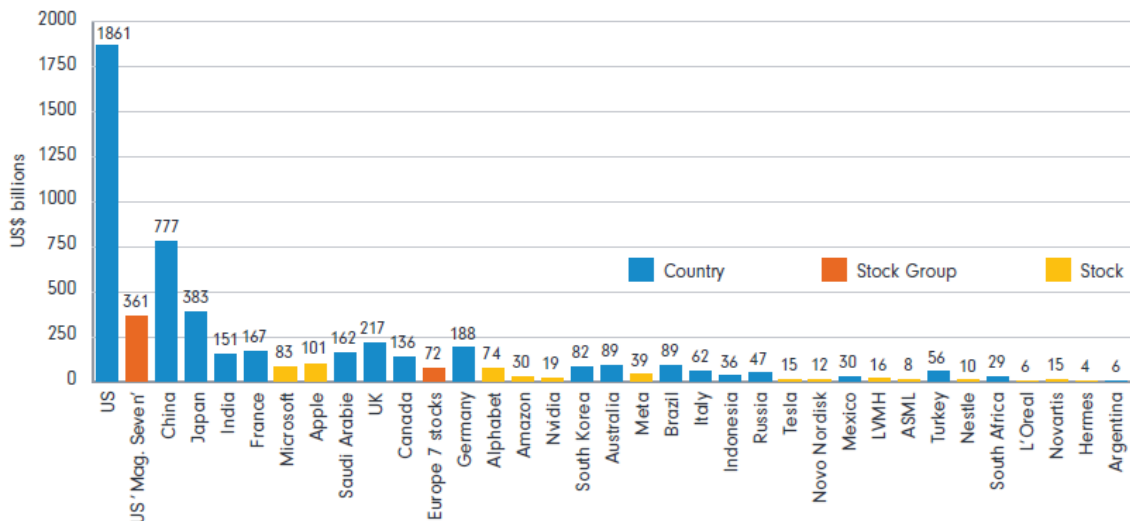
Source: Fidelity International

Figure 3. S&P 500: Top 10 vs 490 equal weighted



Source: Compustat, Standard & Poors

Figure 4. LTM profit (\$US) of listed equities in G20 countries* by domicile, plus the Magnificent Seven and the seven largest stocks in Europe, for comparison



Source: Bloomberg Finance LP, Deutsche Bank. Note: aggregates are a sum of LTM net profit of common and preference stocks domiciled in a particular country, excluding stocks with a market cap below \$200m.

Magnificent Seven: how big is big?

To be fair, most of the outperformance of the Magnificent Seven over the last decade has been driven by earnings. This has meant that, in aggregate, the NASDAQ is trading at cheaper valuations today than it did at the peak of the tech bubble in 1999. Said differently, valuation multiples for US mega-cap tech – whilst high relative to the broader market – can get to even more elevated levels than where they are today. If their amazing run of outperformance is to come to an end, it will need to come from future earnings disappointing the lofty expectations that have been set for them.

It's worth keeping in mind that the Magnificent Seven are now more akin to countries, rather than companies, with respect to their sheer scale (see Figure 4). For example, Apple alone generates annual profits equivalent to over half of all French listed stocks (or German, for that matter), and more than the total profits generated by the entire Australian market. In aggregate, the Magnificent Seven generate profits roughly equal to the entire Japanese stock market, or around half of the entire Chinese market.

So the question now is: Can companies the size of individual developed nations continue to grow at breakneck speed and, if so, for how long?

On top of the sheer element of size (law of large numbers is a headwind here), there's also an element of circularity to this, as well. Nvidia has been by far the standout performer amongst the group in 2024. The revenues it generates in its Data Centre division (which accounts for ~80% of group revenues) is equivalent to ~40% of the cloud capex currently being spent by Amazon, Google, Meta and Microsoft combined.

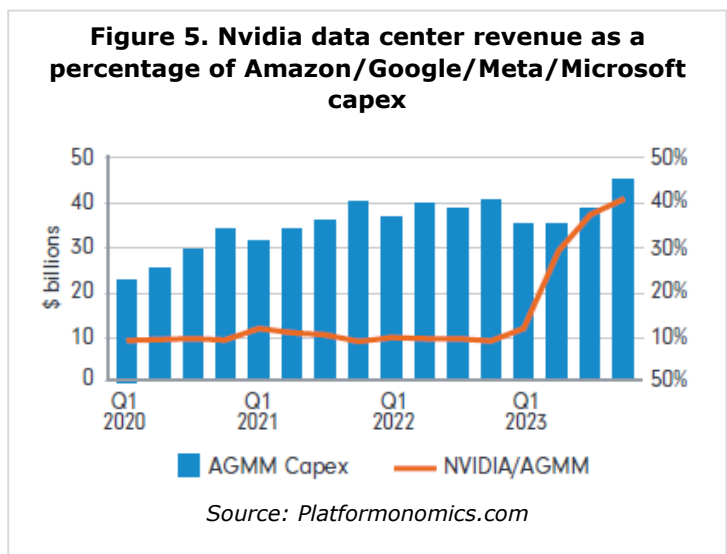
Obviously, Nvidia is selling GPUs to more than just these four customers, and the total capex spend of this cohort of customers is going on not just GPUs, but a whole bunch of other things as well (think of CPUs, DRAM, NAND, network switches, etc.). But it nevertheless does highlight how Nvidia's fortunes are closely tied to its fellow mega-cap brethren – and if one or more of this group of important customers needed to scale back cloud investment for whatever reason, it could have contagious effects.

The end of the reign of US mega-cap tech has been predicted for quite some time now, and to date that has proven to be incorrect. I'm not saying it's game over for these guys from this point on, but I do think it's prudent to think of other areas of the market that can also generate robust investor returns going forward and to diversify into them, given that history isn't on the side of the Magnificent Seven.

Maroun Younes is Co-Portfolio Manager of the [Fidelity Global Future Leaders Fund](#) and Analyst at Fidelity International, a sponsor of Firstlinks. This document is issued by FIL Responsible Entity (Australia) Limited ABN 33 148 059 009, AFSL 409340 ('Fidelity Australia'), a member of the FIL Limited group of companies commonly known as Fidelity International. This document is intended as general information only. You should consider the relevant Product Disclosure Statement available on our website www.fidelity.com.au.

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Beware the risks from AI

Adrian Lu

Artificial intelligence (AI) is no longer an abstract concept; it is quickly evolving as an integrated part of our daily lives. From virtual assistants and transportation to eCommerce and even healthcare, AI is continuing to expand its application. As investors, understanding the risks and opportunities associated with this new technology is vitally important.

Since the release of OpenAI's ChatGPT in November 2022, investors have recognised the large impact generative AI¹ could have on businesses' productivity, growth, and innovation.

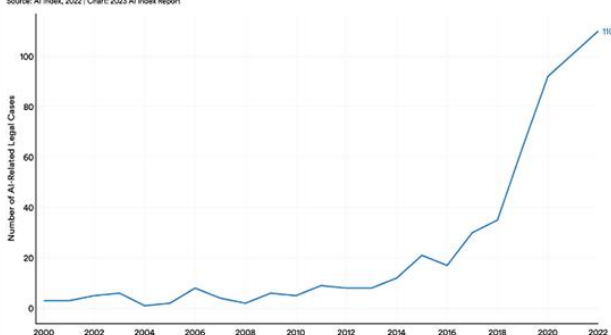
In a [previous article](#), I outlined the AI investment opportunities that we see across chip, software and cloud providers. While we have a high conviction in the structural growth tailwinds of AI, as mentioned, we must also understand the risks associated with this expansive technology. Below we focus on some of the ESG risks associated with AI and the regulatory landscape, which is evolving rapidly.

What are the ESG risks of AI?

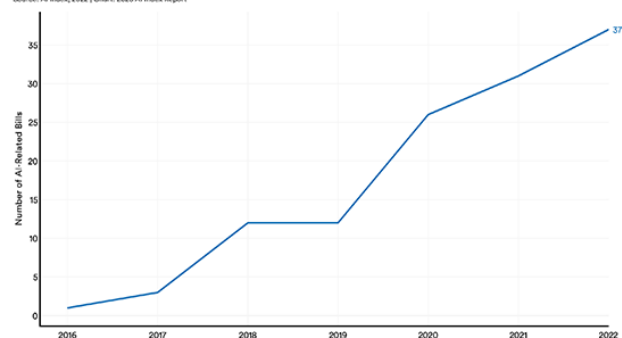
Despite the incredible benefits that AI can bring to businesses, it comes with significant social risks – privacy concerns, bias, discrimination, misinformation, ethical considerations, job displacement, safety and autonomy to name a few.

We're already seeing rising cases of AI-related controversies, litigation and government intervention.

Number of AI-Related Legal Cases in the United States, 2000–22
Source: AI Index, 2022 | Chart: 2023 AI Index Report



Number of AI-Related Bills Passed Into Law in 127 Select Countries, 2016–22
Source: AI Index, 2022 | Chart: 2023 AI Index Report



Source: <https://aiindex.stanford.edu/report/>

However, these risks should be viewed across short-, medium- and long-term horizons for a more detailed understanding of the potential impacts.

Short-term risks (within the next few years): These could include risks of misinformation, bias and inaccuracies, copyright infringement, and data breaches, security, and sovereignty. For example:

- AI has the potential to misdiagnose health issues.
- A technology platform may inadvertently distribute misinformation that could be discriminatory or fraudulent.
- AI data training sets may breach copyright, for example: The New York Times filed a lawsuit against OpenAI and Microsoft in December 2023, claiming “widescale copying” by their AI systems constitutes copyright infringement.² Whether its allegations have merit remain to be seen.

Medium-term risks (Next 5 – 10 years): These could include risks of potential job loss, social manipulation, human rights violations, and company or economic disruptions. For example:

- Automated recruitment systems may have a discriminatory bias against specific groups of people based on the data they are fed and trained on.

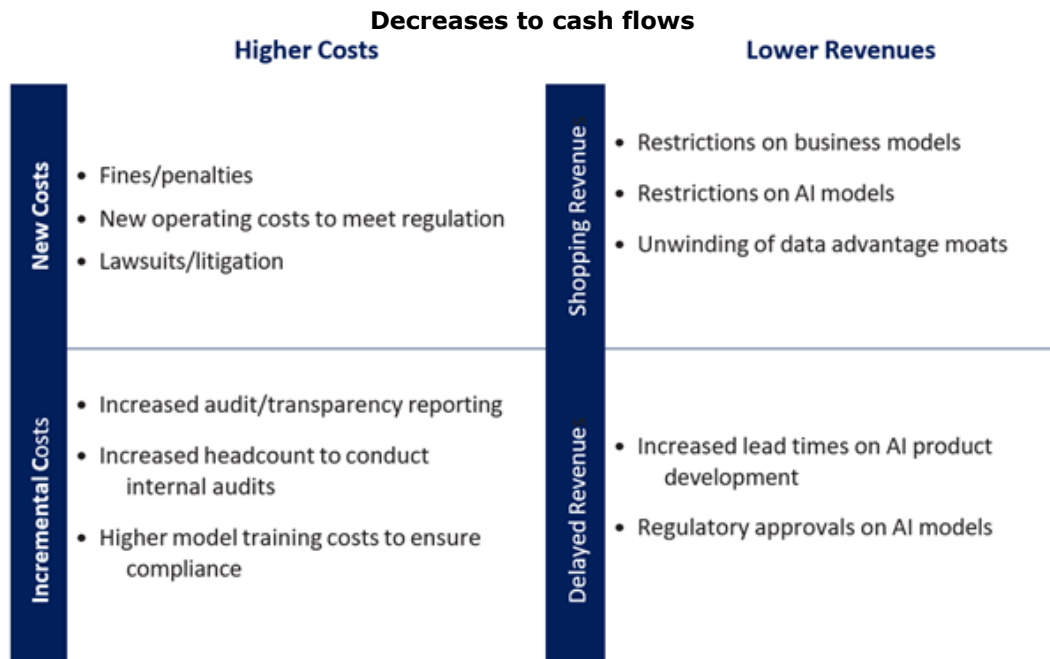
Long-term risks (10 years and beyond): These could include environmental or existential risks. For example:

- The increasing use of AI could lead to significantly higher energy demands, driven by the growing utilisation of computing resources.

To mitigate these risks, we have seen an increase in regulation across many jurisdictions. It's important that both developers and users of AI technology are factoring these regulatory expectations into their intended use cases, to minimise these potential ESG risks and the potential impacts on cash flows as well as regulatory fines.

What impacts could regulatory risks have on companies?

AI regulation, if not managed well, could have a negative impact on cash flows for businesses. This may come in the form of higher costs, including potential fines and litigation or increased operating costs to meet regulatory requirements. Regulation could also lead to lower revenues, with constraints on new product developments as an example.



What will AI regulation look like?

AI regulation has long been discussed but lags developments in technology. Early regulation targeted the short- and medium-term risks – to protect basic data rights, fundamental rights, and democratic freedoms in certain regions. An example of this was seen in New York where AI technology was created and in use for résumé screening long before the AI hiring law (under which employers who use AI in hiring must inform candidates) was implemented in New York.

Each jurisdiction is approaching AI regulation differently, ranging from self-regulation and voluntary standards to strict rules with penalties for breaches.

European Union (EU):

In April 2021, the EU proposed a risk-based framework, the EU AI Act. The use cases of AI are categorised and restricted according to whether they pose an unacceptable, high or low risk to human safety and fundamental rights. The AI Act is progressing through the process of becoming law and will sit alongside the Digital Markets Act, the Digital Services Act, the Data Governance Act and the Data Act.

United Kingdom (UK):

The UK views AI as general-purpose technology. They have proposed a principles-based regulation approach. Industry-based regulators have flexibility in how they define their own regulations with the principles as guidance.

United States (US):

Prior to the recent executive order issued by President Biden in October 2023, the US encouraged companies to follow a set of “voluntary commitments”. The new executive order grants the government greater powers to supervise how AI models are built and tested.

Australia:

Australian ministers [have commented](#) that a new advisory body would work with government, industry and academic experts to legislate AI safeguards.

What's next for AI and regulation?

As we have highlighted, one of the challenges of AI regulation is that the current approach is fragmented across different jurisdictions, making it more complex for companies creating or using AI to remain compliant. A way to overcome this would be the adoption of global AI standards to create consistency in how companies ensure responsible AI practices. We will continue to monitor the evolving AI regulation as well as the use of existing legislation for AI use cases such as the copyright infringement court case with The New York Times.³

What does this mean for investors?

Investors need to carefully consider the ESG risks associated with AI when making investment decisions. These risks, ranging from reputational damage to regulatory non-compliance and workforce impact, may influence the long-term growth and performance of companies. To help mitigate these risks, investors should have a detailed understanding of the companies they are investing in when it comes to their commitment to responsible AI practices. Rigorous due diligence is essential, involving thorough research and analysis of how companies approach and address social risks associated with AI. Companies that prioritise ethical considerations, engage with stakeholders and navigate regulatory landscapes effectively provide investors with greater confidence their investments are aligned with responsible business practices and are better positioned to withstand potential environmental, social and regulatory challenges associated with AI technologies.

Leading cloud and AI vendor Microsoft, a key exposure in our global equity portfolio, has already integrated initiatives to minimise the risk of regulation including implementing a principled approach to AI development, transparent reporting about its responsible AI learnings, an AI assurance program to bridge customer requirements with regulatory compliance, and internal governance teams integrated as part of leadership.

What should AI developers be working towards to minimise risk?

Expectations of companies developing AI can be summarised as:

- Active industry / community engagement on AI development
- Transparent reporting on developments and learnings
- Promote fairness and inclusivity in development of AI models and datasets
- Have adequate disclosures
- Internal governance teams to monitor AI risks (human oversight)
- Policies and processes to prevent AI risks like bias
- Implement AI explainability models to allow for external auditing

While some of the AI opportunities are being priced into stocks, there are still opportunities to be found, especially where companies can exploit the disruptive potential of AI. Our global equity strategies are positioned to benefit from AI growth trends through our exposure to the leading cloud and AI vendors of Microsoft, Alphabet and Amazon. ASML is well-positioned as a monopoly provider of leading-edge manufacturing equipment, while enterprise software vendors like SAP also stand to benefit.

¹ Generative AI refers to algorithms that can be used to create new content based on the data they were trained on. This can include audio, images, code, text and more.

² Boom in A.I. Prompts a Test of Copyright Law - The New York Times (nytimes.com)

³ Boom in A.I. Prompts a Test of Copyright Law - The New York Times (nytimes.com)

Adrian Lu is an Investment Analyst at [Magellan Group](#), a sponsor of Firstlinks. This article has been issued by Magellan Asset Management Limited ABN 31 120 593 946 AFS Licence No. 304 301 ('Magellan') and has been prepared for general information purposes only and must not be construed as investment advice or as an investment recommendation. This material does not take into account your investment objectives, financial situation or particular needs.

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