CAPITAL BRIEF

NEWSLETTER CAPITAL GAINS

Are Australian banks truly exceptional?

A long-expected shift from banks to resources may be here. But we’ve seen this story before, and each time the banks have bounced back stronger.

ANDREW CORNELL
12:11pm yesterday

Commonwealth Bank, under Matt Comyn, continues to raise questions about its exceptionalism. AAP Image/Matt Turner.

Here we are again, talking about the "great rotation" from banks into resources — and, more specifically, from **Commonwealth Bank** into **BHP.**

Last week saw a significant sell-off in CBA, down more than 4%, and a rise in BHP by 8%. It also marked the most significant narrowing of the gap between the banks and resources indices since mid-May.

The *Financial Review* reported that Australia's biggest super fund, **AustralianSuper**, was three months into the trade, with chief investment officer **Mark Delaney** telling the paper, "We've rotated back into resources, which might be too early, but ... that's sort of what you want to do".

Buying from super funds has been a major driver of the fundamental-defying run in the banks and CBA, with funds now owning nearly a third of the sector. As we have been reporting, they have effectively hit their ceilings on holdings.
For our *Past Performance* series this morning, **SG Hiscock**'s **Hamish Tadgell** explained the technical element: "This has been particularly the case for CBA, which has benefited from increased flows and a liquidity squeeze as industry funds have reduced business risk under the MySuper performance test requirements, passive and ETF flows have grown, quant buying and long-only investors have consequently been forced to reduce their underweights due to mandate requirements."

But we have seen this story play out several times. May showed early signs of a rotation, and there was an even more significant swing in February, but both unravelled. The rotation narrative faces its own internal tensions.

As **ECP Asset Management**'s **Andrew Dale** told me, banks are relatively simple and largely act as a proxy for the Australian economy. Resources, on the other hand, are far more complex and leveraged to a vastly more uncertain world.

"What's your view on lithium? What's your view on coal, iron or gold? Geopolitics? It's way more complex than banking," he said. "It comes back to simplicity and that's why it's not a simple rotation."

That doesn't mean bank valuations have firm foundations. At current levels, investors should expect lower future returns given current valuations and earnings growth expectations.

Bank analysts can't identify anything to justify the current valuations and even the cost reduction programs the banks are committed to are not that significant.

"Real value creation is generally driven by superior revenue," **Jarden**'s **Matt Wilson** told clients. "Revenue is higher multiple and good costs drive revenue growth." But revenue growth is scant.

Meanwhile, falling interest rates are bad for bank margins. "Over the prior hiking cycle, large spreads between at-call deposits and the cash rate have been a major tailwind for bank earnings, particularly CBA," **Macquarie** Research said, and that will reverse.

So are Australian banks exceptional? Not according to **João Soares** of **Bain & Company**'s global banking team.

"There are a number of other countries that also have exceptionalism, if by exceptionalism we mean the ones where investors believe there's a very bright future ahead versus other countries where the investors don't believe there's a bright future ahead for the banking sector," he told me.

The latter are economies where growth prospects are not great. Banks are essentially transmission mechanisms for the economy.

"You do have Australia shining brightly, but you also have Canada, South Africa, India. Common traits are perspectives of growth," Soares said. Another major supporting factor is the stability of expectations.

"If I look at Australia, Canada or South Africa, there is the stability of pillar systems and that may also be being rewarded by investors," he said. "And there's no big surprises. If I look at German banks over the last 15 years, there was a German bank that every single year they had surprises, meaningful surprises, on the P&L with impact on the balance sheet. They were different, but every year they would have the same level of surprises. And so that becomes a perennial discount on the stock."

That's not the case in Australia — and it's another area where the rotation thesis is challenged. The outlook for Australian banks may not justify current prices, but nor are there expectations of major corrections or a collapse in the economy.

For resources, leveraged to volatile markets like China and commodities, surprises are common and unpredictable.

Reporter's notebook

- **Bendigo and Adelaide Bank**'s decision to close 10 branches — including five in regional areas where they are the last remaining bank — has sparked understandable anguish in those communities. None of the branches to be shuttered are community banks — that is, banks Bendigo operates in partnership with local communities. However, the move brings the focus back to the proposed regional bank levy, which was staved off by a commitment from major banks to a moratorium on branch closures. Bendigo, which according to **Morgan Stanley** trails only CBA in total and regional branch numbers, is not part of this moratorium. It would, though, be hit hardest by a regional levy. According to Morgan Stanley, one mooted levy could cost Bendigo 25% of its profit. Once again, the issue of branch numbers is likely to become political. But to be clear, the relative cost of branches — like cash — is only going up. Fewer and fewer customers use them, so they are increasingly cross-subsidised by other customers and shareholders. It is a similar issue for post office branches. Moreover, as CBA's **Matt Comyn** has pointed out, there is not even a loyalty benefit to keeping branches open. After the latest announcement, Bendigo CEO **Richard Fennell** said, "To preserve what makes our bank unique, we must balance our physical network presence with the need to continue investing in the changing preferences of our 2.7 million customers."

- The deregulatory zeal of the **Trump** administration — with seemingly little corporate memory or interest in the near-death experience of the 2008 global financial crisis — has drawn a sharp rebuke from the global banking standard-setter, the Bank for International Settlements. In a speech last week titled "Resilient by design: why strong rules still matter", **Erik Thedéen**, chair of the Basel Committee on Banking Supervision and Governor of **Sveriges Riksbank**, said his remarks "could not be timelier". The US was not specifically named, but the whole tenor of the address was squarely aimed at Trump risk and implicitly at the views of new Trump-appointed head of supervision, **Michelle Bowman**. Earlier in June, Bowman had laid out her thinking in a speech focused on whether the current system was fit for purpose. "We must be proactive and responsive in the face of emerging risks and ensure that the framework operates in an efficient and effective manner," she said, announcing a review that would allow more risk and eliminate what she described as outdated or burdensome rules. She also cited "distorted capital requirements". Thedéen countered: "History suggests that 'fit-for-purpose' has often been a euphemism to trim, loosen and 'modernise' regulation. For rolling back hard-won safeguards under the banner of efficiency or innovation. For favouring short-term gains at the expense of medium-term prosperity. I do not think that we should pursue such a path."

- As we've been reporting — most recently with banking platform **Constantinople**'s ambitious plans — the focus for smaller banks is the inexorable shift to digital banking and the need to achieve economies of scale. **Bank of Sydney** has chosen the **Infosys Finacle** Digital Banking Suite as a banking-as-a-service (BaaS) solution on AWS to transform its platform. It won't be the last. I asked Infosys **Finacle**'s global head, **Sajit Vijayakumar**, for his view on the digital transformation landscape. "Firstly, AI is becoming a central part of banking operations, transforming everything from customer engagement to risk assessment," he said. Banks will move to an "AI-native state" where self-learning systems autonomously manage large-scale operations — such as AI-driven personalisation, real-time financial insights and automated investments — which will become standard. Vijayakumar said Australia's banking sector ranks among the most digitally mature globally, but that maturity was beginning to plateau. "Many core banking systems remain only partially modernised, limiting flexibility and speed," he said. "While the consumer data right offers immense promise, the actual adoption and monetisation of open data remains sluggish."

Best from Capital Brief

As we quoted above, SG Hiscock is resisting the temptation of CBA, but portfolio manager Hamish Tadgell walked us through what the fund is looking for and how he sees the active vs passive debate.

The payments industry and banks are fixated on the looming decision from the **Reserve Bank** and ACCC on the vexed issue of surcharging. **Block**-owned Square has been a major disruptor, and executive director **Marco Lamantia** argues that surcharging is good for competition.

Fashion brands, religious groups, pie shops and charities are parking millions of dollars in private credit vehicles run by the market's biggest managers, Jassmyn Goh and Jack Derwin reported.

On our radar

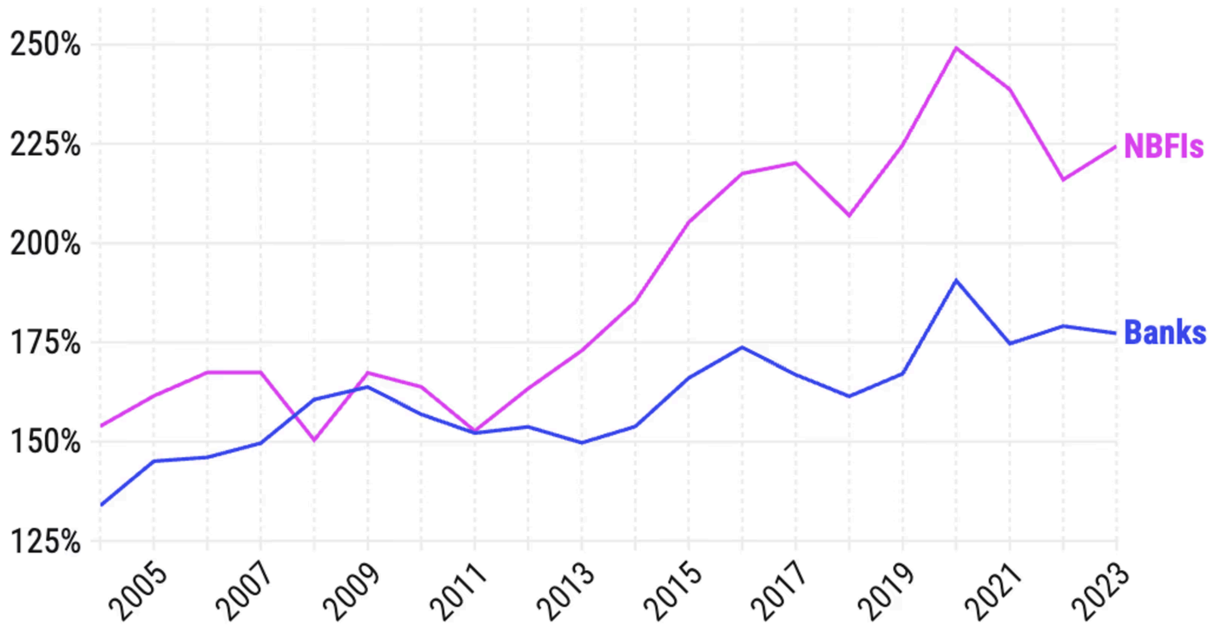
- The second World Economic Forum Global Fintech Report has just been released, finding that the industry continues to post positive performance metrics, albeit at more moderate rates than during the Covid pandemic surge. Average customer growth from 2022 to 2023 was 37%, down from 55% in 2020 to 2021, "reflecting natural market normalisation as the industry matures beyond pandemic-driven digital acceleration". Revenue growth remains strong at 40%, while profit growth is also promising at 39%. Looking ahead, the WEF said fintechs have identified AI, regional interoperability, open banking and open finance as the most important areas for development over the next five years. "This points to a strategic focus on sustainable growth, cross-border expansion and deeper integration with traditional financial infrastructure. The industry may be moving beyond pure disruption towards collaborative transformation of digital financial services." FinTech Australia contributed to the research.

- AusPayNet and Australian Payments Plus (AP+), in cahoots with the RBA and Treasury, are seeking submissions to help shape the future of account-to-account (A2A) payments in Australia. Central to the process is the proposed replacement of the decades-old, batch-based direct payments system, BECS, with the real-time New Payments Platform (NPP). "Considering the long-term structural forces affecting payments — that is, those likely to have an impact beyond 2030, when BECS is shut — in the work to determine a vision will be important for 'future proofing' the A2A payment system as much as possible," the RBA said. A2A payment systems support payroll, superannuation, welfare, dividends, disbursements, taxes, supplier payments and direct debits, among other consumer, business and government payments. AP+ CEO **Lynn Kraus** said, "The insights and feedback we gather will inform the industry's strategic approach to A2A payments and ensure we're addressing the priorities and needs of all stakeholders." AusPayNet is the self-regulatory body for the payments industry, while AP+ is the domestic payments provider. Submissions may address all or selected parts of the consultation and are due by 31 July 2025.

Off the charts

Financial intermediation has shifted from banks to NBFIs

Total global financial assets as a percentage of global GDP



Source: FSB (2024); IMF; BIS

Although, as noted above, the US seems intent on unlearning some of the lessons of the 2008 financial crisis, it is evident that stricter regulation and higher capital requirements introduced since the crisis have contributed to a shift away from banks as custodians of financial assets to far less transparent sectors. As this chart from the Bank for International Settlements' annual report shows, as regulation took effect, more and more assets were mediated through the non-bank financial institution (NBFI) sector — which used to be, and perhaps still should be, known as the shadow banking system. A large part of this shift has been driven by the boom in private credit, which by definition operates outside the regulated sector and is far more opaque. Private credit funds' assets under management have surged from US$200 million ($306 million) in the early 2000s to over US$2.5 trillion in 2024, according to the BIS. The regulator notes that the NBFI universe is vast and varied, encompassing a diverse set of players with a wide range of business models and subject to very different regulatory regimes — if regulated at all. "While most NBFIs expanded post-GFC, the growth of investment funds and hedge funds has been particularly striking," the BIS said. However, banks remain critical, having vastly increased their on- and off-balance sheet exposures to NBFIs. This raises concerns about systemic risk: just how interconnected is the new financial system, and is now the right time to be laissez-faire on regulation?

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IDEAS

A ban on debit surcharges is a win for big banks, not consumers

A ban on debit card surcharges may sound consumer-friendly, but it risks stifling competition, hurting small business and handing power to the big banks.

MARCO LAMANTIA · 5:00am yesterday

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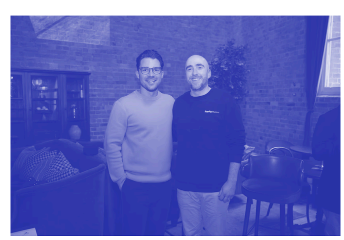

Describing themselves as "two idiots who had no idea what they were doing", Alec Renehan and Bryce Leske just closed one of

Australia's first big podcast sales.

JACK DERWIN · 4 July 2025

Treasury locks away Assistant Treasurer Daniel Mulino's briefing documents

Treasury has blocked access to Mulino's briefing documents, citing their sensitive content and volume, as Labor prepares to restart key tech and super reforms.

JOHN BUCKLEY and ANTHONY GALLOWAY · 4 July 2025

- **Platinum shares jump after L1 Capital merger terms confirmed**
  9:49am today
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  9:17am today
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- **Soul Patts-Brickworks merger fully funded after extra $220m equity commitments**
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- **Hub24 shares gain as Citi and Bell Potter lift forecasts**
  4 July 2025