

Chris Burrell's Market View Blog

Budget Night, Banks and the Big Picture 15 May 2026

Budget night plus a dramatic morning in markets makes for a packed week. Jim Chalmers has handed down what he is calling the most ambitious Federal Budget in more than two decades. On the morning after, CBA fell more than 10% in a single session — its worst day in 34 years of being listed. There is a lot to unpack.

I want to give you my honest read on what actually happened on Tuesday night, what I think it means for investors, and where I see the opportunities and risks from here.

The Budget - More political Document Than Reform

I was at a briefing by Jonathan Kearns, the senior economist with Challenger and a former Reserve Bank executive, two days after the budget. The context is important: this is the first budget after an election win. The government believes it has political capital and that it cannot lose the next election, which has emboldened it to take some moves it would not have risked before.

The macro backdrop is genuinely difficult. CPI is expected to hit 5% mid-2026. The RBA is likely to keep rates high and the consensus is that they may go higher still. The Iran conflict is driving energy costs and feeding that inflation. Against that backdrop, the budget is trying to do several things at once — provide some short-term cost-of-living relief while also pursuing structural reform. There is real tension between those goals, and you can feel it throughout the document.

There are demands for increased defence spending, an out-of-control NDIS, a burgeoning public service, and then on top of all of that, the most wide-ranging personal tax changes in a generation. Overall, I would call this more of a political document than a serious reform agenda — with the notable exception of the trust changes, which I will get to.

The NDIS - Stunned Silence at the Incompetence

We all understand there is a need to support people who qualify for the NDIS. The debate is not about whether to provide that support — it is about how much and who genuinely qualifies. What was extraordinary was when the Minister admitted earlier this year that there was no proper cost control in the department, no proper tendering of invoices. Anyone in business would have been absolutely stunned by that level of incompetence.

NDIS was supposed to cost \$19 billion. Then \$29 billion. Then \$39 billion. Now in the forward estimates, it is heading to \$50 billion. There is a sleight of hand in then saying “we are going to cut it back” and claiming a large saving — when the saving is really just against an inflated projection that was already out of control. I would not give the government many marks for the mathematics around all of that.

That said, the NDIS does need to be pared back. I am a little surprised there has been no means testing and no better qualification criteria for some of these expenditures. \$50B is an awful lot of money.

Negative Gearing - We Have Been Here Before

Properties held at 7:30pm on budget night are grandfathered — existing investors keep full negative gearing until they sell. For properties acquired after Tuesday night, from 1 July 2027, negative gearing will only be available on new builds. There is no change to negative gearing on shares or commercial property — this is specifically targeted at established residential property.

“What’s the definition of doing the same thing repeatedly and expecting a different outcome?”

In 1985, Keating brought in similar restrictions. They lasted just over two years. By September 1987, they were reversed — because investors stopped buying rental properties, supply of rental housing contracted, and rents surged. The government ultimately had to concede the point. Despite the rhetoric on Tuesday night, the fundamental economics have not changed. If investors are not prepared to buy properties and put them up for rent, the supply of rental housing falls. And with rents in Australia only yielding a 2% yield — compared to 5% in the UK and Hong Kong, investors will not be slow to push rents higher if the supply dries up.

CBA fell more than 10% the morning after the budget, because roughly 83% of new investor loans in 2025 were for established property. If that demand drops significantly, mortgage credit growth slows, and that flows directly to bank earnings. We have been saying for some time that the banks were overvalued. CBA was trading at 24 times earnings when their historical norm is closer to 14 — but the catalyst here has come from an unexpected direction.

Capital Gains Tax - The Biggest Change in 26 Years

This is the centrepiece of the budget’s tax agenda. The 50% CGT discount in place since 1999 is being replaced with cost base indexation from 1 July 2027. You take the CPI at the quarter you bought the asset, index it forward to the quarter you sold, and pay tax on the real gain rather than the nominal gain. In addition, the minimum tax on a capital gain is now 30%.

The government says capital gains and income should be treated the same. Most investors would disagree with that premise. Capital gains are much riskier than income — they can take 10 or 20 years to emerge, and when they do, they all come at once. Under the Keating 1995 legislation, you could average a gain over five years. That provision is not in the 2026 budget announcements. So you can end up paying top marginal rates on a large gain that has been accumulating for decades, all in a single income year.

The 30% minimum is specifically aimed at baby boomers who wait until retirement, sell a property they have held for their entire working life, and have low taxable income in that year. I would have thought that will be extraordinarily unpopular in certain circles.

My message to clients: the situation with shares is more complicated than simple grandfathering. What happens is that a valuation is taken at 1 July 2027, and any gain up to that date is still subject to the 50% discount. Any gain after that date is on the new indexation system. So if you have held shares for 10 years and keep them for another 10, you end up with a blend of two systems. That is not grandfathering in the traditional sense. It is also a major problem for small business owners, where capital gains tend to be accumulated in the last few years prior to business sale. If you have spent 20 or 30 years building a business, a large part of the accumulated gain may now be taxable at the new rates, even though you held the business for most of that period under the old rules.

They have also brought pre-1985 assets into scope. As at 1 July 2027, all assets — including those that were previously fully exempt — will have a cost base reset. Effectively, the majority of assets will now have a 1 July 2027 cost base that is indexed forward from that date.

The Trust Changes - The Most Wide-Ranging Change in My Career

Trusts are everywhere in the Australian economy. Wills are trusts. Superannuation funds are trusts. A large proportion of family businesses run through discretionary trusts. Many farms are held in trusts. The government is essentially saying it wants companies instead, and the mechanism is a 30% minimum tax at the trustee level on discretionary trust income from 1 July 2028.

The way it works: the trust pays 30% upfront before distribution, and beneficiaries receive a non-refundable credit. Currently, if beneficiaries are on lower tax rates than 30%, they receive a refund of the difference. Under the new system, there is no refund. Everyone effectively pays at least 30%. For a family with lower-income beneficiaries — a spouse who does not work, adult children at university — the concession that made the trust structure attractive largely disappears.

There is also a significant double taxation trap around corporate beneficiaries. Under the announcement, if you distribute trust income to a company, the company will not receive any credit for the 30% tax paid by the trustee. People ought to be able to conduct their affairs without feeling they are being caught in a trap by the government.

“People should be able to go about their affairs without feeling they’re being trapped by the government.”

There is no legislation yet — which itself is an issue. Some budgets come with detailed legislation and an explanatory memorandum. This one does not. The accountants and advisers are working through the announcements, but the design questions are still open. It is going to take people some time to understand this properly and work out what the best strategy is going forward.

There is one silver lining in all of this: superannuation concessions have not materially changed in this budget. Division 296 being the tax on superannuation balances on \$3M affects a smaller subset of people. But by and large, you still have a broadly tax-free environment in super in retirement. Now, with trusts taxed at 30%, structures taxed harder and CGT “reform” biting, super becomes more attractive again by comparison.

Markets - A Trade of Two Countries

The US story is driven by earnings — specifically, earnings in the technology sector. The AI-driven capital expenditure boom is real. The hyperscalers — Microsoft, Alphabet, Amazon and Meta — are committing some \$650 billion in AI infrastructure spending in 2026 alone. And it is generating revenue. Alphabet’s cloud business grew 62% in the last quarter. Microsoft is converting AI investment into recurring subscription revenue. Those companies are seeing genuine earnings growth, and that has allowed the US market to recover from the early stages of the Iran conflict.

Australia has far fewer technology stocks, and a number of the ones we do have were trading at valuations that could not be sustained. The Australian technology ETF has fallen around 35% over the past year. The software sector here and overseas is under particular pressure because markets are increasingly concerned that AI will commoditise software, making it harder for those businesses to maintain their SaaS pricing models.

It is worth noting that if you look beyond the leading technology names, the rest of the US market is not universally performing either. Home Depot, the Bunnings of America, has fallen from \$US400 to around \$US300. There are reasonable opportunities in that broader market that the headlines do not capture.

The Banks — We Were Underweight for a Reason

We talked in previous podcasts and blogs about the banks being overvalued. CBA was trading at 24 times earnings when its long-run historical norm is closer to 14. We have been underweight banks. The correction, while dramatic, is not surprising in that context.

Two things hit at the same time on Wednesday morning. First, CBA delivered a quarterly update cash profit of around \$2.7 billion, up 4% year on year but below analyst expectations, with a \$316 million provision top-up citing geopolitical risk and a more conservative economic outlook. Personal loan arrears hit 1.71%, the highest since before the pandemic. Then the budget overlay landed: negative gearing limited to new builds means fewer people borrowing to buy investment properties, and existing investors with negative gearing not selling. Mortgage credit growth is a core driver of bank earnings.

NAB is down around \$13. CBA is down around \$25. They are quite material moves. All four major banks have now gone ex-dividend, which removes one of the near-term technical supports. The question is where the floor is. They are coming back into what Burrell would regard as reasonable valuation territory. We are not unhappy about where ANZ is sitting at current levels — it looks fairly priced. What we do not know is whether there is further selling to come from overseas investors, given Australia has now positioned itself as having one of the highest CGT regimes in the world. CBA is 10% of the index. If foreign investors are reassessing their allocation to Australian equities, that matters.

Our current approach is to average into the sector over time — not to buy all at once, but to top up selectively as we get more clarity on where support levels settle. That is always a sensible strategy in uncertain conditions.

AI and Data Centres — Be Selective

Within the AI theme, selectivity is everything. Anyone can raise a cash box and promise to build a data centre. What you actually need is contracts with the hyperscalers, access to power, and a purpose-built facility with the right specifications. Those requirements are becoming increasingly demanding - the buildings are highly specialised, require reliable power infrastructure, sophisticated cooling and fire systems, and increasingly, you need contracted demand before you start.

We have preferred Goodman Group in Australia for this reason. Building a data centre is not the same as constructing an industrial shed. Goodman has the relationships, the sites, the power connections and the track record. There are other operators seeking to follow the theme, and we would be cautious about moving away from the established players.

Internationally, we have maintained our positions in global technology through both direct international shares, managed funds and ETFs. That exposure has been a meaningful contributor to keeping portfolios in reasonable shape through a difficult period.

Consumer Discretionary — Caution Until the Numbers Tell Us

Consumer confidence is at low levels not seen since the oil shock of the 1970s, according to recognised economists like Jonathan Kearns. And yet, so far, the consumer has continued to spend. People have complained loudly and then kept going out. It has not fully shown up in the official figures yet.

My own informal indicator: whenever I buy anything, I ask the business owner how trading is going. Since the end of February, roughly two-thirds of them are telling me things have slowed. So the softness is there on the ground - it just has not made it into the published data yet.

We are expecting it to become clearer in the June 30 financials, which we will see in the second week of August. We think the outlook statements from that reporting season will reflect some weakness in consumer discretionary spending. Until then, we are reluctant to move into the sector. Some of the stock prices have already fallen materially. Myer is trading at less than half what it was not long ago. But we do not yet know whether there is more to come.

The arithmetic is not encouraging. By end CY25 Australia may have the equivalent of six interest rate increases since this cycle began — including the most recent one. People are spending more on mortgages and more on fuel. Everyone is talking about food inflation. That simply means there is less money left over for everything else. In that environment, it is hard to make a strong case for consumer discretionary.

The one sector within discretionary that has surprised is travel. People are still travelling, though many are adjusting routes away from the Middle East and going through Singapore or into Europe by other means. Plans made before February are being adapted rather than cancelled. That tells you something about the underlying resilience of the consumer — but it does not change the fundamental squeeze on disposable income.

Three Things to Focus On

First, get across the trust and CGT changes with your adviser sooner rather than later. There is a transition window. The planning needs to start now, not when the changes come into effect. The accountants and our wealth management team are going to be busy.

Second, the bank sell-off is not a time to sell. That moment has passed, other than perhaps CBA. The question for most clients is that they are underweight banks, and what we are looking to do is top up selectively over the balance of the year — not all at once, but thoughtfully.

Third, the Iran oil situation remains the wildcard. The fact that the United States, now producing around 20 million barrels per day — more than Russia and Saudi Arabia combined — does not have the same economic compulsion to resolve the Strait situation is a considerable concern for Australia. The budget is still based on the Strait being open by June. Even if that happens, the oil price is unlikely to return to pre-February levels for 12 to 18 months, as countries across Asia move to build strategic reserves. The Reserve Bank's room to move depends heavily on how this plays out.

Overall, this is not a market to buy indices and walk away. We need to be selective, active and thoughtful — across both investment positions and the structural decisions around how assets are held.

Happy Investing



Chris Burrell

CHRIS BURRELL

MANAGING DIRECTOR

MFM, BCOM(HONS), LLB(HONS), FCA, SF FIN, MSAFAA

BURRELL

stockbroking & wealth management

CONTACT US

To find out more about us and the ways in which we can help you, contact us

P 1300 4 2877 355

W www.burrell.com.au

E clientcare@burrell.com.au

B www.burrell.com.au/news-and-events/the-burrell-blog

OUR OFFICES

Brisbane

P 07 3006 7200

Bundaberg

P 07 4153 4499

Gold Coast

P 07 5583 7800

Ipswich

P 07 3884 5700

Sunshine Coast

P 07 5353 5224

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Participant of ASX Group and NSX
ABN 82 088 958 481
AFSL No 247431