

Q1 2026

# MANAGED PORTFOLIO NEWSLETTER



HELPING YOU MAKE INFORMED  
INVESTING DECISIONS





# MARKET UPDATE & VIDEO

## The good, the bad and the ugly all at once

The first quarter of 2026 is best described as a tale of two halves for investors in diversified portfolios.

January began like 2025 ended, with the global economy looking in good shape and earnings produced by listed companies expected to rise. Investors continued to pour money into rising sectors such as materials, gold and emerging stock markets. The Aussie dollar rallied against the U.S. dollar too, making global shares look relatively cheap in comparison to previous quarters.

Come February and the tale turned on its head. The bad news began when almost US\$1 trillion<sup>1</sup> was wiped off U.S. technology shares early in the month, following fears subscription software-as-a-service (SaaS) business models would be disrupted by rapidly evolving artificial intelligence (AI) models. Shares in the Australian tech sector – which is dominated by software developers – fell 40% too. Dubbed the ‘SaaSocalypse’, the software sell-off was sparked when U.S. company Anthropic released new AI tools which allow businesses to use AI agents to assist with functions that traditionally rely on software – such as sales, marketing, finance and human resources.

Then of course, came the U.S.-Israel-Iran conflict and closure of the Strait of Hormuz. A surge in oil prices pushed inflation higher and investment markets lower. Global shares (including Australia) lost more than US\$11.5 trillion<sup>2</sup> in value and bonds declined by US\$2.5 trillion<sup>3</sup> through March.

Two cash rate hikes by the Reserve Bank of Australia, in February and March, in a bid to curb inflation also dampened sentiment among local investors.

However, the overall drop in the local market over the quarter masked a divergence between sectors. The double-digit fall in ASX-listed IT companies was at odds with a close to 30% gain<sup>4</sup> in energy shares, while other sectors landed in between.

Commonwealth Bank was a quiet standout. Its share price jumped 15% in a couple of weeks to \$179.67<sup>5</sup> after the bank announced a 5% rise<sup>6</sup> in net profit for the first half of the financial year. Its gains reflected a flight to quality during market volatility and rewarded investors who took a long-term view when the bank’s share price fell late last year.

There were other positive signs as the first quarter ended. U.S. shares began to gain ground, largely because the country is more insulated from higher oil prices than Europe. Analysts also upgraded their estimates of the likely future earnings of U.S. companies, particularly energy and technology firms.

Meanwhile, there were small pockets of gains in commodities such as copper and listed infrastructure companies.

In this [short video](#) we share insights into investment markets, performance and the outlook for the Russell Investments Managed Portfolios.

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<sup>1</sup> [Selloff wipes out nearly \\$1 trillion from software and services stocks as investors debate AI's existential threat | Reuters](#)

<sup>2</sup> [Bonds Lose \\$2.5 Trillion in Iran War Wipeout That Mirrors 2022 - Bloomberg](#)

<sup>3</sup> [ibid](#)

<sup>4</sup> Source: Market Index, S&P/ASX 200 Energy Sector

<sup>5</sup> Source: Bloomberg

<sup>6</sup> Source: <https://www.commbank.com.au/newsroom/features/financial-results.html>



# OUR STRATEGY

## How your portfolio performed

The flagship Russell Investments balanced portfolio returned -2.15%<sup>7</sup> for the March 2026 quarter as major financial markets weakened – but did not capitulate – in response to the Iran War and closure of the Strait of Hormuz.

This market response was in contrast to the outbreak of the Russia-Ukraine war in 2022 when financial markets were oversold and triggered a bear market.

A prudent approach – in which we do not overreact to daily news headlines – means the portfolio was well positioned to negotiate the volatility caused by the latest conflict.

Investments worth noting include:

### Active positions:

- An allocation to a volatility-focused fund (designed to profit when markets are volatile) run by global asset manager Amundi returned 6%<sup>8</sup> over the March quarter.
- An investment in a futures contract which tracks a commodities index returned 11% because of oil and energy's particularly strong run.
- An options hedging strategy is in place to provide "insurance" if shares fall. The strategy provides protection against a portion of the shares within the "dynamic core" of the managed portfolios, if the index falls below a certain level.
- The "dynamic core" accounts for up to 35% of every Russell Investments managed portfolio and allows the use of active management to modify portfolios according to the movement of investment markets in real-time.

### Direct shares:

- The strongest performers in our parcel of 30 direct Australian stocks included Woodside Energy, which rose more than 50%<sup>9</sup> over the

quarter as oil prices rose. Mining giant BHP, in which we hold a larger position, was also up 12.9%<sup>10</sup>. A significant position in Telstra, up 11.7%<sup>11</sup>, proved a sound investment in an otherwise poor communications sector over the start of 2026.

- Solid earnings growth and strong balance sheets saw an increased investment in TechnologyOne, which also contributed positively to performance in an otherwise lagging IT sector.
- The biggest declines were in gold miners Ramelius Resources, Perseus Mining and Evolution Mining – which suffered as the price of gold fell. A small position in medical imaging firm Pro Medicus also declined during a global selloff of software shares in February.
- Overall, our direct shareholdings underperformed the S&P/ASX 100 by about -0.55%<sup>12</sup> in the first quarter of 2026, returning -1.42%<sup>13</sup>.

### The outlook

Heading into the second quarter of 2026, the portfolio is tilted towards U.S. shares and emerging market shares (or sharemarkets in developing nations). It is a cautiously optimistic position driven by the fact the U.S. is not reliant on the Middle East for oil and has a resilient economy. The strong growth in earnings produced by U.S. companies and continued AI boom means we remain overweight growth assets like shares. These are the same reasons high-yield credit was added to the portfolio over the quarter. Australian bonds also remain attractive relative to global bonds.

Russell Investments cautions the economic impact of the U.S.-Israel-Iran war could easily flow into investments like shares. High oil prices are a tax on growth and this could mean a weaker environment for both global and Australian stocks. It is partly why we've kept European shares at their normal setting and why there is an "underweight" position in Australian shares.

<sup>7</sup> Source: Morningstar, Russell Investments

<sup>8</sup> Source: Bloomberg

<sup>9</sup> Source: Bloomberg

<sup>10</sup> Source: Bloomberg

<sup>11</sup> Source: Bloomberg

<sup>12</sup> Source: Morningstar Direct, Russell Investments

<sup>13</sup> Source: Morningstar Direct, Russell Investments



# MORE THAN OIL PRICES

## How war reshapes portfolio construction

As fiduciaries entrusted with the management of investor capital, Russell Investments believes it is critical to consider the larger consequences of the Middle East conflict rather than react to the fast-moving daily news cycle.

History shows most geopolitical events don't leave a lasting impact on markets. However, on some occasions wars can reshape a region's or the world's economic footprint, directly influencing investment markets.

The impact of the 1973 Yom Kippur War, for example, was stark. It led to an oil embargo, a doubling of West Texas Intermediate oil prices, energy rationing and a severe supply shock that caused a global recession.<sup>14</sup>

Shocks such as these are usually pinpointed to a small number of economic drivers. If, over time, these shocks are repeated, it can change what the economic landscape means for how your investment portfolios are managed.

In Russell Investments' view, the U.S.-Israel-Iran conflict and the global geopolitical landscape prior to this conflict have created two longer-term developments that will greatly impact the way we build portfolios:

### The shift from oil to broad commodities

Crude oil long dominated geopolitics and its impact on investment markets, but the world has shifted. The U.S. is now the largest oil and gas producer and a net energy exporter, giving it less cause for concern over disruption to global supply chains.

Today, metals, rare earths and semiconductors sit at the intersection of artificial intelligence, defence and the energy transition, making them strategically critical. Supply chains are concentrated: China holds nearly 50% of reserves, around 70% of production and

around 90% of separation and refining<sup>15</sup>. This concentration means thinking about how your investments are positioned when it comes to exposures across industry value chains and where sources that supply these industries may be scarce.

### The shift from trade flows to production networks

When you are reading economic data in relation to investing, it's important to understand the shortcomings of simplistic metrics and measurement tools. Some of these tools include phrases often used in financial news – like trade flows, share of gross domestic product (GDP) and index weights.

Take Taiwan as an example: it is responsible for just 2% of global exports and 1% of global GDP.<sup>16</sup> Yet it produces almost all of the world's advanced semiconductors – which are crucial inputs into technology that makes everyday life possible.

The country's rise as an integral player in the global economic supply chain became most evident post COVID-19 with any bottlenecks quickly cascading through the global economy.<sup>17</sup>

### The takeaway

Headlines will keep driving short-term volatility, but the bigger question is how repeated geopolitical shocks can change the long-run rules for investing. In this conflict, two shifts stand out: the world's strategic focus is moving beyond oil to broader commodities critical to AI, defence and the energy transition, and supply chains are increasingly defined by concentrated production networks rather than simple trade flows.

The implication for investors isn't to predict the next flashpoint, but to build portfolios that reflect these realities by balancing growth with resilience.

<sup>14</sup> Source: Russell Investments: From headlines to portfolio impact: Investing through geopolitical risk.

<sup>15</sup> *ibid*

<sup>16</sup> *ibid*

<sup>17</sup> *ibid*



## MEET THE TEAM

How this manager discovers value in companies beyond the balance sheet



### **Elliott Plotkin**

Client Portfolio Manager  
Kopernik Global Investors

#### **Who is Kopernik and what does your role look like day-to-day?**

Kopernik Global Investors manages more than US\$10 billion for investors across public and private markets. In the Russell portfolios we manage a portion of international shares, such as Glencore plc, inside the “dynamic core” which includes the Russell Investments Multi Asset Growth Strategy and Multi Asset Growth Strategy Plus.

We are a long-term active value manager, meaning we invest in publicly listed companies that trade at a lower price relative to what we believe is their fundamental value based on metrics like earnings and cash flow.

My role includes “looking through the noise” to determine what’s driving daily sharemarkets globally. I tend to spend time reading historical analyses of markets and differentiated viewpoints which drive thoughtful discussion. I also keep up with market events to better understand what clients could be worried about in today’s volatile market.

#### **What are the key factors you use to determine how much a company’s shares are worth?**

We don’t believe companies should all be valued the same way, because what drives value differs widely by industry. In some businesses, the earnings matter, while

for others, like businesses with a lot of assets, its net

worth may be a better representation. We focus on owning shares in industry leaders with strong balance sheets and management teams that think long term. We revisit our valuations regularly (exact timing depends on the size of our investment), or any time we know the underlying fundamentals of the industry or company have changed.

#### **Where has your firm’s strategy identified something unique about an industry that’s led to a successful investment?**

Too often we see professional investors misprice infrastructure, natural resources and real estate companies because they penalise those businesses for having a small cash flow. We believe these companies should be valued by the amount of assets they tangibly own, as well as their quality, replacement cost and long-term scarcity, not purely on current cash flow.

Separately, we believe that using industry-specific valuation metrics lends itself to making better investment choices. What drives value in a telecommunications business differs from an industrial business, for example. By focusing on industry fundamentals instead, we’ve been able to buy high-quality companies at cheap prices.

#### **Are there any companies in Australia that you think are particularly good value?**

Three Australian companies that we continue to see value in are uranium producer Paladin Energy, diversified miner BHP Group, and royalty and streaming company Deterra Royalties. All three have long-lived, high-quality assets across the globe and trade significantly below what we estimate them to be worth.

## IMPORTANT INFORMATION

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