Q4 2025

MANAGED PORTFOLIO NEWSLETTER

HELPING YOU MAKE INFORMED INVESTING DECISIONS

MARKET UPDATE & VIDEO

Gold and non-U.S. shares top podium in 2025

Gold delivered an Olympic-like performance over the final months of 2025 to complement strong gains from shares in a range of global stockmarkets. The bumper gains helped underpin another good year for investors with diversified portfolios.

The price of gold rose by 64.7% over the course of 2025 to outperform other asset classes by a large margin. Gold is considered a safe haven by investors and its price rise really kicked into gear in September as fears of overpriced sharemarkets, a weaker U.S. dollar and geopolitics drove more people to buy the precious metal.

Queues outside gold exchanges, like ABC Bullion in Sydney's Martin Place, grew ever longer as the price of gold peaked at A$6810[1] before finishing December at A$6417[2] per ounce.

The downturn in the greenback favoured both emerging sharemarkets and major sharemarkets outside the U.S. – they finished as the second and third best performing asset classes for the year by returning 24.01%[3] and 18.65%[4] respectively.

Artificial intelligence (AI) chip makers, like Taiwan Semiconductor Manufacturing Company and Samsung and SK Hynix out of Korea, led the gains in emerging sharemarkets.

The bumper gains for AI shares everywhere came despite concerns early in 2025 that Chinese AI company DeepSeek and U.S. tariffs would at least temporarily derail their performance.

The gains from global shares slowed to 3.5%[5] in the final quarter as investors took profits from big technology companies off the table. This was especially true for Nvidia as shareholders got the jitters before the company's December earnings update.

Closer to home

The top 300 Australian shares (as measured by the S&P/ASX 300 index) posted a resilient 10.66%[6] gain in 2025, despite lagging the growth in offshore markets.

Investors who rotated out of U.S. technology stocks and moved into local materials stocks such as miners found a nice tailwind on the Australian bourse as the year came to a close. Increases in lithium and gold prices meant that shares like IGO and Pilbara Minerals (lithium) and Northern Star Resources and Evolution Mining (gold) recorded impressive gains.

Australian smaller companies extended their run in the final quarter to cap a strong year for the S&P/ASX Small Ordinaries index – outstripping the S&P/ASX 300 in 2025 with a double-digit gain of 24.96%.[7]

Meanwhile, fixed income holdings in the typical diversified portfolio lost value in the December quarter. Bond yields rose in both Australia and the U.S. – which meant the capital value of bonds fell. However, the decline was not sufficient to fully unwind the annual gain of 3.17%[8] for local bonds and 4.42%[9] for global bonds in 2025.

In this **short video** we share insights into investment markets, performance and the outlook for the Russell Investments Managed Portfolios.

[1] Live Gold Price Australia | ABC Bullion
[2] Live Gold Price Australia | ABC Bullion
[3] MSCI EM NR AUD for the 2025 period
[4] MSCI World ex-Aus NR Hedge AUD (hedged) for the 2025 period
[5] MSCI World ex-Aus hedged for Q4 period
[6] S&P/ASX300 for the 2025 period
[7] S&P/ASX Small Ordinaries Index for the 2025 period
[8] Bloomberg AusBond Composite 0+Y TR AUD for 2025
[9] Bloomberg Global Aggregate TR Hdg AUD for 2025

OUR STRATEGY

How your portfolio performed

The flagship Russell Investments balanced portfolio returned 1.06%[10] for the December quarter and 10.74%[11] for calendar year 2025. The diversified portfolio, which holds 70% growth assets and 30% defensive assets, benefits from an actively managed approach which recognises when to add and reduce risk in moments that matter across markets.

Those moments in 2025 included the announcements of U.S. tariffs on President Trump's "Liberation Day" in April. As the greenback weakened and U.S. shares fell around 20%, the portfolio's global shareholdings hedged for currency movements were increased by 3%. This decision to buy when others were fearful added meaningfully to the overall return for the year.

Other positions that worked well in 2025 included:

Gold: The precious metal's spot price had an incredible run in late 2025. The portfolio's exposure – either through direct Australian shares, via the fund managers in our holdings or via a small exposure to gold futures contracts – made a difference to returns.

Australian shares: Our direct shares portfolio of 30 companies consistently outperformed the S&P/ASX 100 index. Early in the year, the Australian market rode the technology success story with our portfolio holding overweight positions in top performers like tracking app Life360, TechnologyOne and logistics software company WiseTech Global. In the second half of the year, overweight positions to Northern Star Resources and Evolution Mining paid off as the resources sector had a resurgence.

Meanwhile, a decision to lower our holdings in healthcare companies paid off as the sector fell around 10.22%[12] in the final quarter.

Managing risk over the next quarter

One of the larger global macroeconomic risks we're watching is whether artificial intelligence companies and their capital expenditure create unnecessary largesse. Hyperscalers (or large cloud service providers) have to produce strong revenue to back this capex. If revenue doesn't justify the spending, there could be a sharp sell-off in technology stocks.

An event such as this would create a large buying opportunity, just as "Liberation Day" did in 2025 (though we do not intend to take large risks in the foreseeable future).

We favour global stocks outside the U.S. and prefer Australian government bonds over U.S. treasuries at this juncture.

New fund manager in the mix

We continually assess the make-up of our portfolios to ensure it is fit for purpose. Kopernik Global Investors – a deep value manager with significant exposure to commodities - has replaced Berenberg Asset Management following personnel changes at the latter.

[10] Russell Investments
[11] Russell Investments
[12] S&P Dow Jones Indicies

AI RESHAPES INVESTMENT STRATEGIES

The winners of AI are changing fast

The world's largest companies are racing into a new phase of artificial intelligence adoption and investors must now look beyond the major technology stocks to pick winners.

Once only the domain of chip makers and software developers, generative AI has moved from its builders into the hands of everyday users. Its impact is now felt across financial markets, from social media to corporate boardrooms, and from home fridges to underground construction sites.

The story is increasingly consequential for investors. The global AI infrastructure buildout, from data centres to specialised chips, is on track to exceed U.S.$5 trillion over several years. About U.S.$1.5 trillion of that is expected to be raised in high-grade bond markets, creating one of the largest financing waves in corporate debt history. The early signs are striking: AI-related bond issuances have been oversubscribed and high-quality tech firms such as hyperscalers are poised to become even more dominant within major sharemarket indices.

On the flip side, risks are mounting. The rapid depreciation of cutting-edge chips raises difficult questions about the longevity of data centre assets. At the same time, the sheer scale of capital needed by 2030 makes it harder for some companies to obtain financing.

As U.S. markets hover near all-time highs, fund managers are reducing exposure to mega-cap tech names and rotating into other stocks like semiconductor companies, data centres and high-quality software makers, while looking abroad to Europe, Japan, China, and Brazil for opportunities.

After years of experimentation, the world's largest companies are now beginning to report positive returns on generative AI deployments, marking what many analysts describe as the early upswing of a classic J-curve: an initial period of heavy investment followed by accelerating productivity and profitability. That shift is already influencing expectations for economic growth. Firms are doing "more with the same," boosting workforce output rather than replacing workers, though early-career hiring in fields like software engineering and customer service is beginning to shift as automation takes hold.

The AI boom may be accelerating but for investors it is important to understand the winners and the risks, which now requires a far broader lens than the technology sector alone.

IMPORTANT INFORMATION

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