Multi-Asset Review

Q2 2026

Russell Investments

Our Multi-Asset team discuss Russell Investments' performance in the June quarter and their outlook for 2026.

What drove markets during the second quarter of 2026?

The June quarter was relatively positive for both growth and defensive assets, though there were periods of volatility. Several events helped shape market movements over the period:

Markets retain momentum on AI optimism

Global shares ended the quarter with their largest percentage increase since 2020. Equities were driven in large part by AI-connected tech shares though experienced volatility on developments in the conflict in the Middle East. Global growth was better than feared during the quarter; US activity remained resilient while Asian factory activity was up on AI-linked export demand.

Emerging markets connected with AI, including chipmaking hubs in South Korea and Taiwan, were significant outperformers, with the South Korean KOSPI up 68% and Taiwan's benchmark ahead 45%. In the US, tech-heavy NASDAQ Composite index added more than 21%. For comparison, indices without heavy exposure to AI hardware, such as Europe's STOXX 600, were still positive but underperformers, up 10% in the quarter. The period was not without volatility, however, as in late June the KOSPI fell more than 10% in a single day, with chipmakers SK Hynix and Samsung hit particularly hard. Strong corporate earnings drove performance in the United States. The Dow Jones Industrial Average rose on the final day of trading to close at a record high.

Australian shares underperformed international equities due in part to persistently high inflation leading to the spectre of rate rises by the Reserve Bank of Australia weighing on growth. AI-driven tech shares have been the biggest gainers globally; the lack of AI-driven domestic companies and a concentration of software companies whose business model is threatened by AI-led disruption has led to significant sector underperformance.

Central banks shift expectations to tame inflation

International bond performance was volatile during the quarter, influenced by developments in the Middle East conflict and shifting central bank policy expectations, particularly as inflation remained high through most of the world. Heightened global inflation expectations due to oil price spikes and disruptions across commodity markets filtered through to central banks and shifted both expectations and messaging about potential rate increases.

Inflation did not cool fast enough across developed economies, pushing the market to increasingly accept a higher-for-longer interest rate environment. This pushed nominal yields higher and prices down.

At the first meeting of the US Federal Reserve under new chair Kevin Warsh, the bank took a more hawkish perspective that many observers expected, removing monetary policy easing bias and signalling that the Fed's next move could be a rate rise. The European Central Bank and Bank of Japan both raised rates in June. Japan's 1.0% interest rate is its highest level since September 1995.

Reports at the end of June indicate that the combination of high rates, inflation pressures and proposed tax changes has shifted the Australian property market into its ninth downturn in the last 30 years. In the first half of 2026, house prices in Melbourne have fallen 8% while prices in Sydney are off by 7%; 3.2% in the quarter. Historically, downturns have been short and contained, with an average decline of around 3% over eight months. Upswings can last much longer and lead to price rises of 30% or more. Nationally, Australian home values fell 0.4% in June which is the biggest monthly decline since December 2022. While prices have fallen in capital cities over the last month and quarter, prices are still more than 6% higher for the year to 30 June.

The Australian dollar rose significantly early in the quarter and gave back value in June, ending at US$0.6917, a depreciation of around 0.8%. The value peaked at US0.7258 on 13 May. The value of the dollar fell to three-month lows on a stronger US dollar and expectations that the US Federal Reserve would hold rates higher for longer, as well as a moderating RBA. Despite the retreat, the Aussie dollar is up around 4.4% for the year.

How did Russell Investments' active multi-asset portfolios perform in the June quarter?

Absolute returns

The Russell Investments Balanced Fund returned 6.65%[1] for the quarter on a net of fees and tax basis. Absolute returns were driven primarily by the Fund's global equities exposures. Exposure to global and Australian shares were positive, as were holdings of global infrastructure.

Returns relative to fund benchmark

The Russell Investments Balanced Fund outperformed its strategic benchmark on a net of fees and tax basis.

Positive contributors included:

- Strong outperformance of the Australian Shares Fund, led by strong selections across materials – which was the best performing sector in the quarter.
- Manager outperformance in Australian shares including Platypus and Ausbil.
- A general overweight to global equities, rallied during the quarter, particularly Information Technology in the US and Emerging Markets.

Negative contributors included:

- Tax Effective Global Shares underperformed, with managers Redwheel and Oaktree Capital Management significantly underperforming their benchmarks due primarily to underweight positions to chipmaker SK Hynix.

[1] Source: Russell Investments. Past performance is not a reliable indicator of future performance.

Russell Investments outlook

Market drivers continue to be a mix of the geopolitical agenda coming out of the United States and investor interest in AI. The impact of the conflict in the Middle East will depend on its duration and how long transit through the strait of Hormuz remains severely subdued, something we continue to watch closely. Even after the conflict is resolved, there will likely be ramifications of the disruption in the global oil supply that will take time to even out.

Despite volatility, asset prices outside of commodities – mainly oil and gold – have proven resilient in both US and some emerging market countries, which has led global equity markets higher driven by a resilient global economy and AI capital expenditure. Our composite contrarian indicator, which measures pessimism and euphoria in markets, moved from overbought to oversold levels, but has since reverted to be modestly overbought. We see the cycle as still relatively positive going forward, albeit the uncertainty of the conflict and AI/earnings expectations reduces conviction. Whilst asset valuations are not cheap, they have reduced, which is an incremental positive.

Our exposure to growth is modestly above benchmark, paired with exposure to diversifying assets such as hedge funds and unlisted growth. We also hold a moderate overweight to duration. We are looking to increase risk if the opportunity arises and retain an overweight to US and Emerging Market equities, and a smaller overweight to Developed Markets excluding the US. Whilst we're yet to see how large global thematics like artificial intelligence play out over the medium term, we have seen very strong earnings growth from the US hyper scalers in 2026, as well as the rest of the US market as well. Total capex on AI is continuing to rise, adding to US GDP. In emerging markets, investors have become more optimistic on AI-linked producers including chipmakers in Taiwan and South Korea.

For fixed income assets, we believe Australian government bonds offer reasonable value versus the US; we hold an overweight to duration and favour Australian duration over global. US bonds have re-rated moderately as inflation concerns reemerged due to higher energy prices – leading to rate cuts from the Federal Reserve being priced out for 2026. We expect that government bonds should act as portfolio diversifiers if the growth outlook deteriorates.

Private credit and infrastructure markets are alternative investment opportunities that may benefit from resilience in a higher interest rate environment.

In the currency space, we increased our hedging exposure when the Australian dollar was weak in mid-2025; we have begun reducing this exposure to capitalise on the strength of the AUD.

Where to next?

Meet the team
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About Russell Investments

Russell Investments is a leading global investment solutions partner providing a wide range of investment capabilities to institutional investors, financial intermediaries, and individual investors around the world. Since 1936, Russell Investments has been building a legacy of continuous innovation to deliver exceptional value to clients, working every day to improve people's financial security. Headquartered in Seattle, Washington, Russell Investments has offices worldwide, including: Dubai, London, Mumbai, New York, Paris, Shanghai, Sydney, Tokyo, and Toronto.