

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

### What drove markets during the first quarter of 2026?

The March quarter was volatile for both growth and defensive assets. Several events helped shape market movements over the period:

#### 1. The conflict in the Middle East upended markets.

Global markets experienced extreme volatility in the March quarter, starting strong – particularly in Emerging Markets, Asia and Europe – followed by a sharp drawdown following the commencement of a joint Israel/US attack on Iran. By the end of March, global equities had suffered significant losses with an estimated US\$10 trillion in value wiped out. Brent crude futures are up almost 90%, the biggest Q1 jump on record and the second-largest quarterly rise in history. Petrol prices are up globally, and inflation projections are up significantly as the flow-on effect of limited access to oil as well as fertiliser and LNG that pass through the Strait of Hormuz. This has led to a belief that central banks will be required to raise interest rates where many had been in a position where they were considering easing. There is also renewed concern about stagflation, or a period where high inflation is combined with stagnant economic growth and elevated unemployment.

March was the worst month on the ASX since 2022, falling significantly on surging inflation expectations and more tightening measures from the RBA. Tech shares continued to fall with around \$7 billion in value erased from the sector in March – the S&P/ASX 200 tech index dropped 12.6% in the month. Mining also took a beating as there was a sell-off in gold and concerns that a diesel shortage could cause operations to be suspended.

#### 2. Australia raises interest rates while other central banks pause.

The Reserve Bank of Australia (RBA) raised interest rates twice in the quarter; the first was widely expected after high inflation figures and strong employment figures at the close of 2025 called for proactive moves to limit spending.

While most observers initially expected the RBA to take some time to review the efficacy of the rate increase and pause at its March meeting, economic indicators and uncertainty from the joint Israeli/US attack on Iran caused the bank to raise rates another 0.25% to 4.10%. The action was not unique to the RBA; while Australia's inflation figures remained higher than global peers, the onset of the war shifted central banks such as the US Federal Reserve (Fed) and Bank of England (BoE) away from expected cuts to holding figures stable and considering potential increases. Toward the end of March, Fed Chair Jerome Powell said the central bank has little control over supply shocks which eased concerns that the Fed would tighten monetary policy.

In US property, home sales plunged in January while foreclosures rose for the 11th straight month. Commercial real estate lending surged at the end of 2025, which signals renewed momentum. Commercial and multifamily mortgage originations rose 30% in the fourth quarter of 2025; retail and hotel assets went against the trend, however, seeing lower volume compared to 2024.

Property prices in regions close to the Iran war are being directly impacted by the conflict. Dubai, which has positioned itself as somehow immune to regional conflict, has seen property transactions drop 25% in the first weeks of the war. Prices have been softer as well, by around 4-5%.

The value of the Australian dollar rose significantly over the quarter and was sharply higher through January, hovering between \$0.68-\$0.71 in February and March. The value fell through March as Iran war pressures caused investors to retreat to the US dollar, which is considered a safe haven. Despite retreating roughly 3.6% against the USD in March, the Aussie dollar was still up more than 2.6% over the quarter. The broader Australian Trade-Weighted Index closed the quarter 3.4% higher; it rose against the euro, British pound and Japanese yen.

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## How did Russell Investments' active multi-asset portfolios perform in the March quarter? What was rewarded by the market and what wasn't?

**Absolute returns.** The Russell Investments Balanced Fund returned -3.05%<sup>1</sup> 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 listed infrastructure was a positive while Australian bonds and shares were negatives.

**Returns relative to fund benchmark.** The Russell Investments Balanced Fund underperformed its strategic benchmark on a net of fees and tax basis.

### Positive contributors included:

- Stock selection by Numeric's Global Active Low Volatility strategy.
- Global chipmaker holdings including Samsung and Taiwan Semiconductor.

### Negative contributors included:

- Stock selection from some of our Australian equity managers; notably aggressive growth manager Platypus.

## What is Russell Investments' outlook for 2026? How is it impacting your active multi-asset positioning?

The biggest market drivers over the past 12 months has been related to uncertainty from Trump's policy and geopolitical agenda; whilst his trade policy agenda created significant volatility during 2025, we believe the headwinds from tariffs, immigration and uncertainty are more than offset by financial conditions, fiscal policy and deregulation. As a result, our expectation coming into 2026 was that this may lead to above trend economic growth in the US in 2026.

The impact of the joint US-Israeli strikes in Iran and reciprocal attacks from proxies will depend largely on the duration of the conflict, something we are watching closely. Whilst the escalation and de-escalation of the conflict is fast moving, and markets are more volatile as a result, the forward-looking concerns surround the impact on energy prices and how this flows into both inflation and growth. Whilst volatility has increased, asset prices outside of commodities, whilst have moved lower, have been somewhat resilient given the potential impact of the conflict, and markets are not currently pricing significantly higher oil prices into the medium term. Our composite contrarian indicator, which measures pessimism and euphoria in markets, moved from overbought to oversold levels, but has not reached what we consider to be an unsustainable extreme. We see the cycle as still relatively positive going forward, albeit the uncertainty of the conflict reduces

conviction. Across valuations, whilst they are not cheap per se, they have reduced, an incremental positive.

Our exposure to growth is modestly above benchmark, paired with exposure to diversifying assets such as hedge funds and unlisted growth, plus a moderate overweight to government bonds. 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. We're yet to see how large global themes like artificial intelligence play out, with US markets likely to benefit from improved productivity. 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, which appears more fully valued, albeit the US has re-rated moderately as inflation concerns have taken a more centre stage as a result of the 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 offer compelling alternative investment opportunities, with these assets benefiting from their 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.

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<sup>1</sup> Source: Russell Investments. Past performance is not a reliable indicator of future performance.

## QUESTIONS?

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