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Australian Active Insights Strategy

Matthew Davison
Managing Director,
Portfolio Manager

Sam Li, PHD, CFA
Managing Director,
Portfolio Manager

Key Takeaways

- The domestic Australian equities backdrop remained mixed, with subdued sentiment offset by resilient business conditions, while inflation concerns continued to shape interest rate expectations.
- The Strategy outperformed its benchmark, primarily due to strong stock selection in metals & mining (underweight) and non-bank financials, which offset underweights in strongly performing health care and industrials sectors.
- The ClearBridge Active Insights strategy is well-positioned to benefit given its emphasis on using a range of fundamental and quantitative lenses to drive its portfolio positioning. The risk factor–controlled approach followed by the strategy aims to maintain a balanced exposure to genuine fundamental value opportunities, while avoiding unnecessary factor and sector risk.

Market Overview

The Australian equity market, as measured by the S&P/ASX 200 Accumulation Index, rose 4.0% during the June quarter.

The domestic economic backdrop remained mixed, with subdued consumer and business sentiment contrasting with relatively resilient underlying business conditions. Housing affordability challenges, the Federal Budget and strong wage outcomes through Enterprise Bargaining Agreements reinforced concerns that inflation could prove more persistent, contributing to evolving interest rate expectations. While Australian short-term bond yields moved higher during the quarter, longer-dated yields declined, reflecting a more nuanced outlook for growth and inflation.

Corporate earnings continued the re-acceleration that began in the second half of last year, although much of the improvement remained concentrated in commodity-related sectors, highlighting the relatively narrow nature of earnings growth. Continued investment in AI infrastructure remained an important market theme, supporting earnings growth and investor sentiment despite emerging concerns around elevated valuations.

Other materials and consumer discretionary were the strongest performing sectors during the quarter, while energy was the weakest as easing geopolitical tensions weighed on oil prices. Beyond sector performance, investors favoured Value, Quality and lower-volatility stocks, while Momentum lagged, reflecting a more defensive market backdrop. Softer-than-expected Chinese economic activity tempered demand expectations for commodities, while the restart of a major Chinese lithium mine reinforced concerns around ongoing lithium oversupply. Although valuation dispersion narrowed over the quarter, it remains elevated, continuing to provide opportunities for active stock selection.

Performance Overview

The ClearBridge Australian Active Insights Strategy[1] outperformed its benchmark, the S&P/ASX 200 Accumulation Index, in the second quarter of 2026.

At the sector level, metals & mining (underweight) and non-bank financials were the largest positive contributing sectors to the relative performance of the portfolio, while health care (underweight) and industrials (underweight) were the biggest detractors.

Investment bank and financial services company Macquarie Group benefited from improved capital markets sentiment, strength across its market-facing businesses and a stronger-than-expected FY26 result, reinforcing confidence in the resilience of its diversified earnings profile.

Fintech company Block benefited from a stronger-than-expected first-quarter result, supported by robust growth across Cash App and Square. Improved operating margins and higher earnings guidance further reinforced confidence in the company's growth outlook, while positive sentiment towards AI-related growth stocks also appeared to support the share price.

Steel building products producer BlueScope Steel outperformed following a strong first-half result, supported by favourable US steel spreads, resilient demand for its North American business and ongoing takeover speculation.

Biopharmaceutical company CSL detracted over the quarter following FY26 guidance downgrades and additional non-cash impairments related to the CSL Vifor acquisition, which weighed on investor sentiment. While the stock rerated in June as investors rotated back into defensive healthcare stocks and concerns around US plasma margins eased, the recovery was insufficient to offset earlier weakness.

Not holding a position in share registry services company Computershare detracted from relative performance as the higher-for-longer interest rate outlook reinforced confidence in the durability of earnings generated from client balances and other rate-sensitive businesses.

Oil and gas producer Santos detracted over the quarter as oil prices normalised following the de-escalation of tensions between the US and Iran, easing concerns over potential supply disruptions. This weighed on energy stocks and offset continued operational progress at its Barossa LNG and Pikka projects.

[1] Data calculated for a ClearBridge Australian Active Insights representative account in A$, gross of management fees.

Portfolio Positioning

We initiated positions in gold miners Northern Star Resources, Newmont and Evolution Mining taking advantage of compelling valuations.

We also initiated a position in diversified mining company, Mineral Resources, reflecting our constructive near-term outlook.

We exited the positions in gaming operator Tabcorp Holdings, following the commencement of an AUSTRAC investigation, and automotive retailer Eagers Automotive, after the share price reached a level that we no longer considered attractive relative to our assessment of fair value.

We also exited the position in global toll road operator Atlas Arteria Group into share price strength following IFM's move to gain control, given the prospect of lower liquidity and increased uncertainty around possible changes to management and strategy.

Outlook

Australian equity market valuations and valuation dispersion remain elevated, continuing to provide attractive opportunities for active stock selection despite some moderation from the extremes seen a year ago. While macroeconomic uncertainty persists, we believe companies with resilient earnings, pricing power and strong market positions are best placed to navigate the current environment. Ongoing market volatility and valuation dislocations reinforce the importance of a disciplined, valuation-driven investment approach.

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- Investing in foreign markets introduces a risk where adverse movements in currency exchange rates could result in a decrease in the value of your investment.
- This strategy may hold a limited number of investments. If one of these investments falls in value this can have a greater impact on the strategy's value than if it held a larger number of investments.
- Smaller companies may be riskier and their shares may be less liquid than larger companies, meaning that their share price may be more volatile.
- The strategy may invest in derivatives (index futures) to obtain, increase or reduce exposure to underlying assets. The use of derivatives may restrict potential gains and may result in greater fluctuations of returns for the portfolio. Certain types of derivatives may become difficult to purchase or sell in such market conditions.