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# Australian Equity Outlook: Finding Value Opportunities Beneath the Headlines

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## Key Takeaways

- ▶ Valuation dispersion across the Australian market remains historically elevated, continuing to create a compelling backdrop for disciplined value investing and active stock selection.
- ▶ Inflationary pressures, rising oil prices and supply chain disruption are reinforcing the importance of real assets, pricing power and earnings resilience, particularly in sectors such as energy, infrastructure and resources.
- ▶ AI is reshaping the investment landscape, but not all businesses will benefit equally. While some high-multiple software companies face increasing competitive pressure, dominant Australian businesses with scale, hard assets and strong market positions may be better placed to harness productivity gains.
- ▶ Market volatility and factor-driven trading are creating more frequent pricing dislocations, allowing valuation-focused investors to identify attractive opportunities in both traditional value sectors and selected growth companies.
- ▶ Despite recent market performance, the valuation upside for Australian stocks remains materially above long-term averages, supporting the team's conviction that the opportunity set for value investors remains strong.

## Introduction

The Australian market has seen a strong rebound in value stocks in 2026. We sat down with Portfolio Manager and Head of Australian Equities, Reece Birtles, to discuss how geopolitical tensions, rising oil prices, artificial intelligence (AI), market dynamics, inflation and the recent Federal Budget are shaping the Australian equity market, and where the ClearBridge Australian Equities team is finding value and income opportunities across the Select Opportunities / Australian Value Equity portfolios.

**Since the outlook released in January, we've seen heightened geopolitical tensions in the Strait of Hormuz, expectations for higher mortgage rates for longer, and a return to 1990s-style policy discussion around capital gains tax. Which areas of the Australian economy and market have been most impacted?**

**Reece Birtles:** Coming out of reporting season, one of the key themes we discussed was just how 'hot' the economy was; demand was running ahead of supply, and credit growth was close to 8%. We felt we were entering quite an inflationary environment, which can support earnings growth, but also increases pressure on inflation and, ultimately, interest rates.

The situation in Iran has only amplified that dynamic. Oil has become a rising cost input, but because demand remains strong, companies have generally been able to pass those costs through to consumers rather than absorb them themselves. That is extending inflationary pressures and reinforcing the case for higher interest rates. That creates significant pressure for consumers, and we believe consumer-facing and banking stocks are among the areas most exposed to the downside.

At the same time, it has highlighted the importance of fuel supply chain resilience. Across our portfolios, we hold positions in companies such as Ampol, Santos, AGL Energy, Aurizon Holdings and Orica; businesses we view as 'fuel security' plays. These companies have demonstrated resilience and pricing power in sectors that have arguably been underinvested in for the past 20 years. With demand now spiking, those businesses are benefiting materially.

### **Rather than gold, the standout theme in 2026 has been Artificial Intelligence (AI). Where is AI having the biggest positive or negative impact across the Australian economy and market?**

**Reece Birtles:** Australia is not the centre of large language models, semiconductor manufacturing or AI infrastructure. So, for us, the focus is really on how AI impacts Australian companies. We have previously discussed our view that AI could be disruptive for SaaS (Sales as a Service) businesses. Over the past 15 years, 'quality growth' has largely been defined by low capital intensity and the ability to continually raise prices. AI challenges that model because it dramatically lowers the cost of producing new products and services.

As pricing power declines, competitive advantages can erode more quickly. That potentially impacts companies such as **WiseTech** and **Xero** by shortening their competitive advantage period and increasing the level of investment required to remain competitive.

In contrast, we think Australian oligopolies are relatively well positioned. Take **Telstra** as an example; AI could help deliver productivity gains of 2–3% per annum, which has historically been difficult to achieve in the Australian economy. Importantly, this doesn't necessarily require significant job losses. It is more about improving efficiency and reducing costs faster than revenue growth slows. Because Telstra operates from a dominant market position as the low-cost provider, competitors are unlikely to aggressively undercut pricing. That means the company can retain pricing power while simultaneously becoming more productive, and this is a very different dynamic to what we see in many software businesses.

The other major area is Australian resources. **BHP** now generates more than half of its earnings from copper. **Lynas** is arguably the leading rare earths producer globally and plays an important role in Western supply chains. **Independence Group** owns the world's highest-grade hard rock lithium mine. These commodities will be critical in powering electrification and AI infrastructure over the coming years.

### **Earlier this year, we discussed the impact that sudden news announcements were having on large stock price moves. That trend has continued throughout 2026. What's driving it, and is it making investing more difficult?**

**Reece Birtles:** Initially, much of it was driven by what we describe as the 'pacification' of markets. Trading volumes in companies like **Wesfarmers** and **Commonwealth** Bank have fallen around 40% since Covid, meaning their liquidity weighting is now well below their market capitalisation weighting. As money flows into the market each day, prices are effectively drifting higher without much underlying news. Then, when a meaningful announcement does occur and active investors re-engage, you see very sharp price corrections on relatively limited information.

Factor investing is also playing a role. If a stock is heavily favoured by momentum strategies, prices can move a long way. Then, when new information arrives and fundamental investors reassess valuations, those moves can reverse very quickly. We actually think this environment suits our investment process. We are highly valuation-conscious and very aware of factor risks within portfolios. In this market, you can clearly see Mispricing emerge.

For example, only a few weeks ago, **Light & Wonder** released a quarterly result that was slightly soft but largely in line with expectations and with no change to full-year guidance. The stock fell 9% on the day, only to rebound 13% the following session. Those types of trading opportunities simply did not exist to the same extent in previous market environments. It has materially changed the time horizon over which Mispricing can emerge.

## Have these inflationary pressures, AI developments and market dynamics reshaped the investment landscape and your portfolio positioning this year?

**Reece Birtles:** When we look for undervalued opportunities, AI is clearly having an impact on SaaS businesses, and we are monitoring for points where valuations become more attractive.

On oil and supply chains, every additional day that the Strait of Hormuz remains disrupted increases pressure on global oil markets. Despite market optimism around geopolitical developments, if peace does not eventuate quickly, oil inventories will continue to tighten. We therefore still see rising oil prices as a likely forward-looking scenario.

We are also finding opportunities emerging because of factor-driven market behaviour. For example, global healthcare stocks have been sold off as part of broader 'anti-inflationary' positioning. That has created opportunities in businesses such as **ResMed**, which is delivering double-digit earnings per share growth while trading on around 16x earnings. Compare that to **Commonwealth Bank** trading on approximately 25x earnings with very limited earnings growth.

It highlights that attractive valuation opportunities are not confined to traditional value sectors. They can also emerge within growth businesses when markets become overly thematic.

## In January, you described the market as presenting a 'once in a decade' valuation opportunity. How has that played out, and how has the recent Federal Budget influenced the outlook?

**Reece Birtles:** We define the 'once in a decade' opportunity by comparing how inexpensive the stocks in our Select Opportunities / Australian Value Equity portfolio are relative to the broader market; essentially measuring the valuation upside within the portfolio versus the market overall. Historically, we have only seen valuation dislocations of this magnitude during periods such as the Tech Bubble, the Global Financial Crisis, Covid, and now today.

When valuation spreads exceed 40%, we view that as a particularly compelling opportunity for expected alpha generation. As those spreads normalise toward more typical levels of around 20–25%, we still see strong expected alpha potential. Today, portfolio upside remains around 38%, which suggests we are still operating in a materially attractive valuation environment.

Importantly, this is not just a short-term opportunity. The portfolio has delivered top-decile performance over 10 years relative to Australian equity peers<sup>1</sup>, which we believe reflects both the valuation opportunity and the strength of our investment process over time.

In terms of the recent Federal Budget, we believe it further incentivises investing for profits and income rather than relying on future capital gains. Value and income-focused strategies are fundamentally centred on companies generating enduring profits and distributing income to shareholders each year, which aligns closely with our definition of value investing. Under the proposed regime, franked Australian dividends are likely to become an increasingly attractive way for investors to receive income and returns relative to capital gains.

## Conclusion

While markets continue to navigate inflation pressures, geopolitical uncertainty and rapid technological change, the ClearBridge Australian Equity investment team believes the current environment increasingly favours a disciplined value-based investment approach.

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<sup>1</sup> Source: ClearBridge, Morningstar Direct; as of March 31, 2026. Data calculated for the ClearBridge Select Opportunities Fund in AUD. Universe of managers based on Funds and ETFs within the Morningstar Australia Fund Equity Australia "large" categories with AUM and net of fees returns available for March 31, 2026.

## OUTLOOK

The combination of elevated valuation dispersion, improving earnings momentum and heightened market volatility is creating opportunities to invest in quality businesses at attractive prices. At the same time, the team continues to focus on companies with resilient earnings, strong balance sheets, pricing power and sustainable income generation.

Importantly, the recent Federal Budget and changing macroeconomic backdrop may further reinforce the appeal of profitable, income-generating businesses relative to highly valued growth exposures reliant on future capital gains.

The current market, and specifically our [Australian Value Equity Strategy](#), continue to present the most compelling environment for active value investing seen in more than a decade.

### About the Author



#### **Reece Birtles, CFA**

Managing Director, Portfolio Manager, Head of Australian Equities

- 33 years of investment industry experience
- Joined the firm in 1995
- Master of Finance from RMIT University
- Bachelor of Business in economics and finance from RMIT University
- Graduate of the Australian Institute of Company Directors

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