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Nathan Hughes: How rising volatility is creating opportunity

By Perpetual Asset Management

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Sharp swings in markets are creating attractive opportunities for patient investors willing to act decisively. Portfolio manager Nathan Hughes explains where.

- Market cycles becoming shorter
- Opportunity for disciplined investors
- Find out about Perpetual ESG Australian Share Active ETF (ASX:GIVE)

Market volatility can be a valuable ally for investors prepared to act decisively during periods of sharp price movements, says Perpetual's Nathan Hughes.

The increasing popularity of passive investing and programmatic trading seems to have intensified market swings in recent years, creating more extreme market movements that are often disconnected from fundamentals.

The recent sharp tariff sell-off – and subsequent recovery – in global markets created some compelling opportunities to upgrade portfolio quality by buying high-quality companies at attractive valuations, says Hughes.

"Our job is to be unemotional and just be businesslike," says Hughes, who manages both Perpetual's ESG Australian Share Active ETF (ASX:GIVE) and its unquoted unit class (managed fund).

"When markets are tanking, we should be buying. That's what we're paid to do. And I'm fairly confident we did that over the last six weeks or so, which hopefully sets us up well for returns for the next little while.

Rapid market swings

Hughes says there is evidence that market cycles are becoming shorter amid the rise of index funds and programmatic trading firms. That shift is creating opportunities for active managers to exploit mispricing.

"I'm not saying a long, drawn-out bear market will never happen, but these moves are big and they're fast, and you blink and it's over. We saw that in COVID, and we've just done a round trip from February to May, in broad terms.

“We love these kinds of opportunities. We don’t get everything right, but there’s more liquidity, there’s volatility in prices, and there’s the ability to stock pick because correlations break down.

“The test for an investor is being patient and then acting decisively.

ASX shares well placed

Hughes says Australian shares look well placed for the remainder of 2025, underpinned by the prospect of rate cuts and healthy domestic demand.

But while markets are pricing in multiple rate cuts over the next 12 months, Hughes says investors should be cautious.

“I would say there’s probably some debate over whether we get the full extent of the rate cuts that the market’s pricing in. I think we’ll get some, but perhaps not all of them,” he says.

“Inflation has come down, but there is still some inflation. There are still going to be some tariffs, which is obviously inflationary, and the Australian economy itself isn’t in an environment where you cut rates hard.”

The return of the Albanese government with an improved majority has removed lingering concerns about political instability.

“There was some concern that we might end up with a hung parliament, which would have created uncertainty – government spending slows down, policy is a bit more difficult.

“On balance, the resounding victory provides bit of certainty for markets.”
Reform agenda

Still, Hughes says investors should pay close attention to Labor’s policy agenda.

Plans to tax unrealised gains in super are creating uncertainty in retirement planning and policies to address housing affordability look likely to lift prices.

“Government spending, rightly or wrongly, has been a big impulse in the economy – and that will continue.

“It seems policy is designed to keep house prices going up. That doesn’t fix the affordability problem – but it’s supportive of the wealth effect and broader consumption, and supportive for the broader economy.”

Cyclical stocks attractive

Hughes says mid-cap stocks with strong domestic demand drivers are particularly attractive.

“Some of the large caps are expensive, but there’s still plenty of opportunity across the broad market. There are a lot of stocks that are on pretty attractive valuations as you come down the smaller mid cap curve.

“Naturally, that’s where we’re positioned and we were able to add to them in the last six weeks.

“We’ve got building products at various stages of the cycle – early with bricks, later with taps, showers and toilets. They benefit as approvals and completions pick up and renovations start coming back with rate cuts.

“Retailers like department stores, apparel, couches will also do well.

“And outdoor media looks like a category where there’s still some structural growth.”

About Nathan Hughes and Perpetual ESG Australian Share Active ETF (ASX:GIVE)

Nathan Hughes is a portfolio manager with Perpetual’s Australian equities team. He joined Perpetual in 2010 and has more than 20 years of investing experience.

Nathan manages the Perpetual ESG Australian Share Active ETF (ASX:GIVE), including its unlisted share class, as well as the Perpetual Income Share Fund.

Find out about Perpetual ESG Australian Share Active ETF (ASX:GIVE)
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