Anthony Aboud: Where active investors are finding opportunities right now

By Perpetual Asset Management

2 April 2026

A rare combination of government policy and global market volatility is creating attractive opportunities for investors willing to take a long-term view. ANTHONY ABOUD explains.

- War amplifies passive distortions

- Bank concentration raises risk
- Find out more about Perpetual's Australian equities capabilities

Conflict in the Middle East and an ongoing structural shift towards passive investing are combining to create rare opportunities for active investors in Australian equities, says Perpetual's Anthony Aboud.

The US-Iran oil shock is putting renewed upwards pressure on inflation, lifting interest-rate expectations and sending markets sharply lower. At the same time, pressure from the Australian government's superannuation benchmarking policy is pushing more money into passive strategies that buy and sell shares without regard to valuation.

The combination is driving selling across attractive parts of the market, leaving some high-quality companies trading at rarely seen valuations, says Aboud.

"We're finding companies that I have never owned because they've been too expensive coming down to attractive valuations because there's forced selling in an illiquid market – and we're taking the other side," he says.

"My job is to find those forced sales of quality companies at fundamentally low prices, because they're being sold for non-fundamental reasons."

Your future, your super

The federal government's *Your Future, Your Super* regulations require super funds to pass an annual performance test against their benchmark – or face restrictions on taking new members.

This has created an incentive for super funds to stick closely to the index and is driving money away from active managers and towards passive funds.

"Passive means mimicking the index – buying what's already gone up and selling what's already gone down," says Aboud.

"That's fine in a momentum market. But it means you're buying not because something's cheap or because management is doing a good job but because it's a big part of the index.

"So, you end up selling active positions and buying expensive, passive positions."

Active opportunity

Aboud says this regulatory pressure is combining with the current global market volatility to leave high-quality companies trading 30 to 40 per cent lower without fundamental changes to their businesses.

“I’d probably do the same thing if I was a super fund – why stick your neck out? You’re not getting paid more if you’re first quartile, but you lose a lot if you’re fourth quartile. So why not track the index?

“But the advantage I’ve got is time arbitrage – I’m not interested in the next quarter or next half. I’m prepared to underperform for a period of time if I’m buying something cheap, and I feel that over time I’ll be proven right.”

Bank concentration matters

For many super fund investors, the shift to passive means taking on a higher exposure to Australia’s banks.

But Aboud says many investors are missing an underlying shift in the banks’ operations since the Banking Royal Commission uncovered widespread misconduct in the sector.

The big banks have shed their non-core international operations and businesses like insurance and financial planning and are now narrowly focused on mortgage lending to Australian homeowners.

That means passive investors are taking on higher exposure to banks at the same time as their core lending business is becoming vulnerable to both cyclical and structural shifts.

Oil-driven inflation and rising interest rates are pushing up costs for borrowers just as the rapid roll-out of artificial intelligence is cutting into their employment prospects. Big employers like Atlassian, WiseTech and Block have already shed up to 40 per cent of their workforces due to AI.

“As we saw with the software selloff, you don’t even need the earnings to be hit – you just need the narrative to become believable for bank shares to fall,” he says.

Stay invested

Aboud says every major market downturn feels convincing while it is underway.

“Investing’s not natural,” he says.

“When you feel like you want to buy something, it’s probably the worst time to buy. When you feel like you want to sell something, it’s the worst time to sell.”

He says there are opportunities for investors willing to look through the short-term inflationary impact of war as an AI-driven productivity boom starts to deliver economic growth and deflationary pressure.

He says financial planners often report they know markets are getting closer to a bottom when clients start asking to move their investments to cash.

“And we’re hearing that a bit at the moment,” he says.

About Anthony Aboud and Perpetual equities

Anthony is the deputy head of equities and portfolio manager – Perpetual Industrial Share Fund, Perpetual SHARE-PLUS Long-Short Fund and Perpetual Pure Equity Alpha Fund.

Perpetual is a pioneer in Australian quality and value investing, with a heritage dating back to 1886.

We have a track record of contributing value through “active ownership” and deep research.

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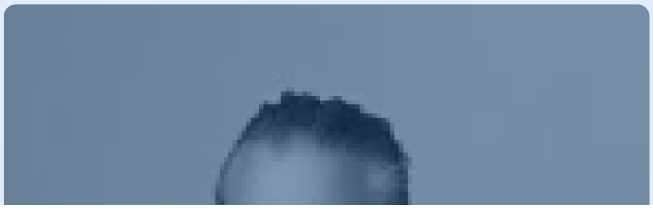
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