

# Discovery Market Review

31 March 2026

## Market background

Global markets took a decisive turn in the first quarter (Q1) of 2026, as early optimism gave way to a geopolitical shock. A strong start to the year was derailed by escalating conflict in the Middle East, triggering a sharp surge in oil prices, reigniting inflation concerns and forcing a rapid re-pricing of interest rate expectations. The result was a broad-based risk-off move across global markets, with macroeconomic factors reasserting themselves as the primary drivers of market performance.

## United States

US equities fell sharply in the first quarter, with the S&P 500 down roughly 4.4% and the Nasdaq about 7%. While headline indices reached highs in February, there were already signs of strain beneath the surface, with software and other high-growth stocks coming under pressure as investors questioned elevated valuations, AI-related capital expenditure and the returns that spending was likely to generate. The Magnificent Seven remained under pressure through the quarter, first on AI- and valuation-related concerns and later on the broader geopolitical sell-off. Trade policy also added uncertainty after the US Supreme Court struck down President Trump's IEEPA-based tariffs, and the administration quickly moved to replace them under a different legal framework.

By quarter-end, the sell-off had taken on a more geopolitical character, as the US-Iran conflict pushed oil prices higher, revived inflation concerns and led markets to scale back expectations for US Federal Reserve (Fed) easing, tightening financial conditions in the process.

## South Africa

South African markets entered 2026 with strong momentum, but the first quarter proved to be a tale of two halves: a strong opening rally followed by a sharp geopolitical shock that unsettled markets in the final weeks.

The JSE All Share Index jumped to record highs in late January and into February, driven once again by the resource sector, with gold and platinum issuers delivering outsized returns. Outside of resources, industrials, financials and selected rand-hedge stocks also contributed to early gains. The quarter's trajectory shifted towards the end of February, when the joint US-Israel military operation targeting Iran triggered retaliatory strikes and renewed threats to close the Strait of Hormuz. Market sentiment deteriorated significantly in the following weeks, with the metals and mining sector giving back much of its earlier gains and weighing heavily on the broader index. By quarter-end, the index remained slightly below its starting level for the year and had retreated meaningfully from its peak.

The rand followed a similar pattern, strengthening to around R15.73/USD in late January before reversing sharply. The quarter closed at R16.94/USD, with the South African Reserve Bank (SARB) noting that higher fuel prices and the weaker currency were expected to push inflation higher in the coming months. The 10-year government bond yield, which had started the quarter on a constructive footing following 2025's S&P upgrade, rose to 9.32% by the end of the quarter as investors reassessed the inflation and monetary policy outlook. The SARB held the repo rate steady at 6.75% at both its January and March meetings, and the market is now pricing in rate hikes. On the positive side, inflation had reached the SARB's 3% target in February, and Finance Minister Godongwana delivered an encouraging



Budget speech, projecting narrowing deficits and stabilising debt. However, the Iran conflict quickly overshadowed these domestic positives, leaving markets in a more cautious mood as the quarter drew to a close.

## Europe and the United Kingdom

European and UK equities began the quarter on a firmer footing, rising through February on improving economic data and resilient earnings. In Europe, expectations that fiscal support, particularly in Germany, would help underpin growth pushed the EuroStoxx to a high. The UK market was also strong early in the quarter, with the FTSE 100 extending its rally, helped by miners, defence names and large financials, while its limited exposure to high-growth technology insulated it from some of the AI-related volatility seen elsewhere.

That backdrop changed sharply after the US strikes on Iran at the end of February. For continental Europe, the key transmission channel was energy. Higher oil and gas prices revived concerns about inflation and the region's fragile growth outlook, particularly for energy-intensive economies. The European Central Bank (ECB) kept rates unchanged in March, but made clear that the war was pushing up inflation and dampening growth, leaving European equities more vulnerable as the quarter progressed. By quarter-end, both the STOXX Europe 600 and MSCI Europe ex UK had fallen.

The UK proved more resilient. Although the economy was not immune to the energy shock, the FTSE's heavier weighting in oil, mining and other commodity-linked sectors helped offset the broader risk-off move. The FTSE 100 delivered a positive return, making it one of the few major developed equity markets to finish Q1 in positive territory.

## China

Chinese equities had a volatile first quarter, starting with gains in January, before weakening through February and March to finish lower overall. As a result, the market lagged the broader emerging market rally, reflecting cautious investor sentiment and fading early optimism.

A defining feature of the quarter was the continued gap between onshore and offshore performance. Mainland A-shares held up relatively well, supported by domestic liquidity, policy anticipation, and strength in selected areas such as industrials and green energy. Segments tied to electrification and advanced manufacturing, including battery producers, benefited from structural demand linked to AI infrastructure and the global energy transition. China's entrenched role in key supply chains also provided a degree of resilience.

By contrast, offshore equities, particularly Hong Kong-listed technology and platform companies, faced sustained headwinds as investors focused on earnings delivery despite valuation discounts. A shift in global market leadership away from long-duration growth and sensitivity to global rates and foreign flows added to volatility.

At the macro level, conditions remained broadly stable. Economic indicators pointed to stabilisation rather than a strong rebound, with manufacturing activity hovering around expansion levels by quarter-end and exports continuing to provide support. However, domestic demand remained subdued, inflation pressures were limited, and corporate earnings expectations stayed restrained.

## Global equities

Global equities fell in Q1 2026, with the MSCI ACWI down 3.2%, as a strong start to the year gave way to a sharp geopolitical shock. Markets rallied through January and early February on resilient growth and continued enthusiasm around AI-led investment, but signs of strain were already emerging in US technology stocks, where elevated valuations and questions around returns began to take hold.

The quarter's decisive inflexion point came at the end of February, when escalating conflict in the Middle East triggered a surge in oil prices. Brent crude rose 94% over the quarter, delivering a stagflationary shock that forced a rapid re-pricing of inflation and interest rate expectations. March marked the most acute phase of the sell-off, as tighter financial conditions and rising macro uncertainty drove a broad-based risk-off move, with growth stocks particularly exposed.



The global shift in sentiment was also felt in South Africa, where strong early-year gains, driven by resources and improved domestic optimism, were reversed as higher oil prices, a weaker rand and rising inflation expectations weighed on markets. While Japan and the UK proved more resilient, supported by cyclical and commodity exposure, most major markets ended the quarter lower, highlighting a shift away from a liquidity-driven environment towards one increasingly shaped by geopolitics and inflation risk.

Indices	Q1 2026 net return (USD)
S&P 500	-4.4%
Nasdaq Composite	-7.0%
MSCI ACWI	-3.2%
Nikkei 225	2.0%
EuroStoxx 600	-1.5%
FTSE 100	3.4%
Hang Seng Index	-3.0%
SSE Composite	-1.9%

Indices	Q1 2026 net return (ZAR)
FTSE JSE All Share Index	-0.6%
FTSE/JSE Financials Index	-0.2%
FTSE/JSE Industrials Index	-8.4%
FTSE/JSE Resources Index	6.5%
FTSE/JSE ALBI	-3.4%
STEFI	1.7%

Source: Bloomberg, as at 31 March 2026.

## Global fixed income

### US

The start of 2026 was marked by significant volatility across financial markets, with the US Treasury market posting a loss over the quarter. The war in the Middle East resulted in a global risk-off move and drove a reversal of expectations about the path of interest rates. Prior to the conflict, stable inflation and an improving jobs market allowed the US Federal Reserve (Fed) to keep rates on hold. Yields then declined as AI-disruption fears sparked volatility in equity markets in February and investors sought safety in bond markets. But the oil price shock seen since the war broke out has caused an abrupt shift, prompting the Fed to adopt a more hawkish tone and revise up its inflation projections. US Treasury yields ended the quarter higher across the curve, with front-end yields rising more than in longer-dated bonds as markets priced out expectations of rate cuts for 2026. Meanwhile, the US dollar rallied sharply as investors turned to the safe-haven asset.

### Europe

European rates started the quarter on a positive note, with inflation falling to below the ECB's 2% target, helping sovereign bond yields to decline. Encouraging macroeconomic data included better-than-expected GDP growth (for Q4), and Germany's domestic fiscal expansion helped Eurozone manufacturing PMI to rise above 50. However, these



positive dynamics reversed after the war broke out in the Middle East. The resulting energy price shock is expected to push up inflation, with the market now pricing in between two and three rate hikes in 2026; previously, no changes were expected. This caused a jump in sovereign bond yields across the region, particularly in the front end of the curve, and at 2.5%, the latest Eurozone inflation print highlighted the impact of higher oil prices.

## UK

The gilt market had a tumultuous quarter, particularly after war broke out. Inflation was higher than expected at the start of the period but eased to 3% by quarter end, which is still above the Bank of England's (BoE) 2% target. The BoE left interest rates unchanged at 3.75% throughout the period. While four of the nine members voted for a cut in February – stoking hopes of a rate cut – the March decision to keep rates on hold was unanimous. Since the war began, expectations have shifted abruptly – markets were pricing in two rate hikes in 2026 as at quarter end, having previously anticipated a rate cut in March. Yields rose sharply, with the two-year gilt yield rising by almost a full percentage point in March.

## Japan

Japan's bond market remained under pressure in Q1, extending the turbulence of late 2025. The 10-year government bond yield climbed to 2.35% by the end of March, as concerns over the fiscal outlook, coupled with the inflation shock stemming from the war in the Middle East, drove yields higher across the curve. The most acute stress emerged in late January, when Prime Minister Takaichi announced a record US\$783 billion budget alongside a sweeping fiscal stimulus package, increasing concerns about Japan's already elevated debt burden and triggering a sell-off in long-dated bonds. The Bank of Japan (BoJ) held its policy rate steady at its March meeting, warning that escalating tensions in the Middle East clouded the outlook. Core inflation remained close to the 2% target, with renewed upward pressure from higher oil prices expected to keep the BoJ on a tightening path heading into Q2.

Indices	Q1 2026 total return in local currency
Bloomberg US Treasury Index	-0.0%
Bloomberg Global-Aggregate Total Return	-1.1%
Bloomberg EuroAgg Index	-0.6%

Source: Bloomberg, as at 31 March 2026.

## Commodity markets

Commodities were volatile in Q1, particularly in March after the US launched military strikes on Iran on the last day of February. Disruption to shipping through the Strait of Hormuz, which carries about 20% of the world's oil and liquefied natural gas, saw Brent crude spike above US\$110 per barrel. The oil price swung sharply as hopes of an end to hostilities waxed and waned. In Q1 overall, Brent crude almost doubled, gaining 63% in March alone to finish at US\$118/barrel.

The near closure of the Strait of Hormuz also drove a surge in fertiliser prices. The sea passage is a crucial trade route for crop nutrients, with about one-third of global urea exports passing through it, as well as fertiliser feedstocks.

Fertiliser production is also heavily dependent on natural gas, both as an input and an energy source. Prices for Urea, a widely used nitrogen fertiliser, had risen by about 50% by month-end, contributing to fears of a global food shock.

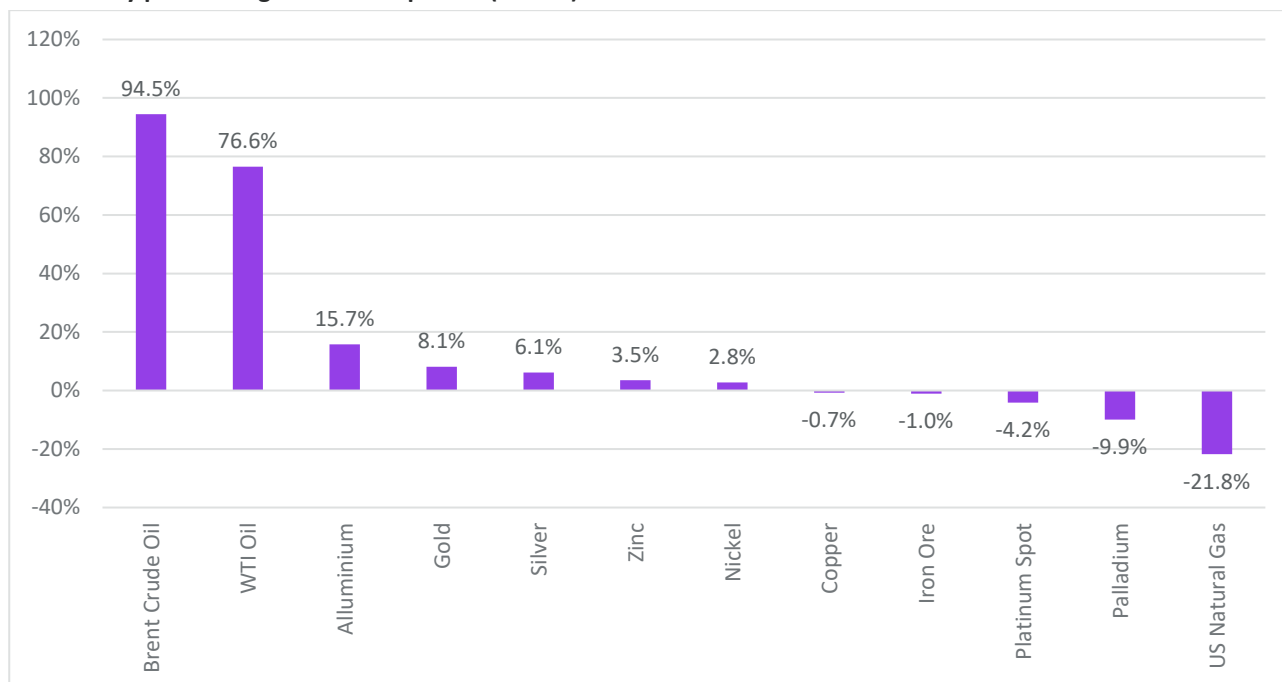
The prices of some major agricultural commodities rose in Q1, partly due to concerns about input costs.

About 10% of the annual supply of aluminium (+16% in Q1) is produced in the Persian Gulf, and the industrial metal's price jumped near four-year highs towards the end of March following Iranian attacks on regional smelters. However, copper fell nearly 8% in March, after a strong end to 2025, on softening Chinese demand, leaving the metal little changed in Q1 overall.



In precious metals, gold ended the quarter 8% higher at US\$4,668 per Troy ounce, even after a 12% decline in March. Towards the end of the quarter, the gold price was impacted by a rebound in the US dollar following the outbreak of hostilities, as well as the potential for inflationary impacts from an energy shock and consequent higher interest rates. Profit-taking after an extended period of gold-price appreciation likely contributed to selling pressure. Total known holdings of gold in exchange-traded funds, a proxy for demand for the precious metal, declined by 1% over the three months. The shares of gold producers, as represented by the NYSE Arca Gold Miners Index (+7% in Q1), approximately matched gold. However, towards quarter-end, the index declined sharply, partly reflecting the gold-price decline as well as worries about the potential impacts on margins and operations from higher energy costs and possible diesel shortages.

#### Commodity price changes over the quarter (in USD)



Source: Bloomberg, as at 31 March 2026.