

# Discovery Balanced, Moderate and Cautious Balanced Funds

31 March 2026

## Market context

Global markets were unsettled in the first quarter of 2026. Early optimism, supported by resilient growth and continued enthusiasm around artificial intelligence-related investment, gave way to a sharp rise in geopolitical risk late in the quarter. Escalating conflict in the Middle East pushed oil prices sharply higher, reigniting inflation concerns and prompting investors to scale back expectations for interest rate cuts. That shift weighed on risk assets globally and left investors more cautious by quarter-end.

Equity market weakness in the US was led by expensive technology shares, which were already showing signs of strain before the geopolitical shock triggered a broader sell-off. The UK was a notable exception, supported by its heavier exposure to commodity-linked sectors, while most other major developed markets ended the quarter lower. Emerging markets were mixed, with oil-importing countries generally under greater pressure than exporters amid surging energy prices.

Against this backdrop, South African markets experienced a quarter of two halves. Local assets started the year strongly, supported by firmer sentiment, gains in resource shares and some encouraging domestic developments. Inflation briefly reached the South African Reserve Bank's 3% target, while the national Budget offered reassurance on the fiscal outlook. However, those positives were overtaken by global events as the oil shock weakened the rand, lifted inflation expectations and made the local interest-rate outlook less supportive.

The JSE ended the quarter slightly weaker overall, although sector returns were mixed. Resources were the standout, supported by gains in gold and platinum shares, while industrials came under pressure as global risk appetite faded. South African bonds also weakened as higher oil prices and a softer currency complicated the inflation picture, while cash delivered a modest positive return.

The rand captured that change in sentiment over the quarter. After strengthening early in the year, it reversed sharply as geopolitical risks intensified and oil prices surged, ending the quarter materially weaker against the US dollar. That added to concerns about imported inflation and triggered a shift in local market mood from optimism to caution by quarter-end.

## Performance

Over the quarter and the month, the portfolio delivered a negative absolute return. All asset classes delivered negative returns over the quarter, outside of gold.

**Key contributors:**

- Gold stocks, the gold ETF, diversified miners and energy holdings benefitted from a supportive commodity backdrop.
- Select equity holdings: British American Tobacco, MTN and Discovery.

**Key detractors:**

- Amid the risk-off trade, cyclical stocks were the worst hit: negative performance in March erased year-to-date gains.
- Naspers, Prosus and asset-light stocks: underperformed amid broader weakness in communication services, platform stocks and software, as markets reassessed the durability of asset-light business models amid advancements in AI.

Early in the quarter, the portfolio recycled capital from areas of strong performance and from holdings where the investment case had become less compelling. Positions in gold and other precious metals were trimmed, while selected South African equity holdings, including Capitec and Anglo American, were reduced following periods of outperformance. The portfolio also trimmed asset-light platform businesses earlier in the quarter, as the market narrative evolved and the team reassessed which competitive advantages were most likely to hold up in a changing environment.

As geopolitical risks escalated in March and the conflict appeared likely to persist, the portfolio was partially de-risked. Equity exposure was reduced, including further trims to precious metals and consumer-facing holdings. A more inflationary, slower-growth backdrop could put greater pressure on consumers over time. We sold General Motors to zero while TKO was reduced, with proceeds held in cash.

Exposure to the long end of the South African government bond curve was also reduced as yields fell earlier in the quarter, which proved timely as local bonds later sold off.

We increased exposure to areas expected to be more resilient in the changing environment. Energy holdings were added earlier in the quarter, including Chevron, ConocoPhillips and, in March, Sasol. Currency hedges were also increased, with long US dollar positions against the euro and rand helping to provide protection at a time when bonds were offering less effective diversification.

## Outlook and strategy

Looking six to 12 months ahead, the key question is whether the war in the Middle East proves to be a short-lived shock or a more prolonged disruption. So far, the market drawdown has been broadly in line with expectations for an event of this nature, and risk assets have shown some resilience. While uncertainty remains high, we are not inclined to step away from markets altogether. Time in the market matters, and periods of weakness can create opportunities where long-term fundamentals remain intact.

Before the conflict escalated, the macro backdrop had been constructive. Growth was reaccelerating, momentum was firm, and the reflationary environment was supportive for a range of risk assets. The war has dimmed that backdrop, but it has not erased it. The duration of the conflict will matter greatly. A prolonged disruption, particularly one that affects shipping routes and supply chains more meaningfully, would have clearer negative implications for inflation, growth and market sentiment.

Our positioning continues to be guided by our Compelling Forces framework, which balances fundamentals, valuations and price behaviour. From a fundamental perspective, the starting point was reasonably strong. Valuations have also improved following the sell-off, while market positioning now appears more cautious, creating scope to deploy cash into assets we favour if they weaken further. We are keeping a close watch on holdings and remain disciplined about reassessing the investment case as conditions evolve.

Equity exposure remains broadly neutral, with some cash held in reserve. That gives us flexibility to add selectively during pullbacks, particularly where market moves create a disconnect between price and underlying value. We continue to favour areas such as commodities and precious metals, while remaining more cautious on consumer-facing exposures, where a more inflationary, slower-growth backdrop could place pressure on demand.



We remain unenthusiastic about developed market sovereign bonds for now. They have offered less effective diversification in an environment where inflation risk remains elevated and bond-equity correlations have been less supportive. A more attractive opportunity may emerge if recession risk rises more materially, but for now, we are staying selective. Elsewhere, we continue to see value in Brazilian government bonds, where real yields remain high. Volatility is likely to remain elevated until there is greater clarity on the path of the conflict. In that environment, our focus remains on staying disciplined, holding cash where appropriate, and acting selectively when assets we like reprice to more attractive levels.