Discovery Market Review

31 July 2026

Market background

Global markets split sharply in July, as a reassessment of AI valuations collided with a renewed oil shock. Doubts over AI capex and monetisation weighed heavily on technology and semiconductor stocks, while the collapse of the US-Iran agreement drove oil prices sharply higher, lifting energy, defence, and value-oriented markets. The result was one of the sharpest rotations in market leadership so far this year.

United States

US equities had a mixed month, as renewed hostilities in the Middle East and rising oil prices offset resilient corporate earnings. The S&P 500 ended little changed, while the tech-heavy Nasdaq fared worse, with semiconductors suffering their worst month since the Global Financial Crisis amid doubts about AI valuations and whether capex could be funded from free cash flow. The Dow, less tech-heavy, eked out a fourth straight monthly gain.

Earnings reinforced a more selective AI trade. Cloud leaders won: Microsoft posted its largest-ever single-day market-value gain on exceptional Azure growth, while Amazon surged on accelerating AWS growth, reinforcing that enterprise AI demand is driving real revenue growth. Losers were firms in which rising AI costs and supply-chain pressures overshadowed solid results. Meta slumped as AI depreciation and research spending squeezed margins; Alphabet’s higher capex plans stoked fears that AI spending was outpacing monetisation; and Apple slipped despite beating estimates, as outgoing CEO Tim Cook warned of supply-chain shocks and rising costs from data-centre-driven strain on memory chips.

This divergence showed at the sector level. Information Technology was the weakest, dragged down by hardware and semiconductors, while communication services lagged amid scepticism about AI infrastructure spending. Energy rebounded to become July’s top sector on higher oil prices. Financials also performed well as higher yields and rotation out of AI names supported the sector, while consumer staples benefitted from defensive flows.

South Africa

The FTSE/JSE All Share Index (ALSI) closed July marginally higher, with gains spread across a number of sectors. SA banks were the largest positive contributor on a weighted basis, supported by continued earnings resilience. Sasol was a notable individual stock contributor, delivering a strong return on the back of recovering oil prices and improved refining margins following the Middle East disruption. Diversified miners, including Anglo American and BHP, also added value as commodity prices stabilised, while Richemont contributed positively as the luxury sector showed signs of recovery.

The South African Reserve Bank (SARB) surprised markets by leaving the repo rate unchanged at 7.0%. Markets had largely priced in a 25 basis point rate hike following June’s annual inflation print of 5.0%, with core inflation also rising to 4.1%. The decision highlighted differing views within the Monetary Policy Committee (MPC), with two members voting in favour of a rate hike. Although the SARB revised its short-term inflation forecasts lower, the central bank signalled that inflation is likely to remain above 4% into early next year, still well above its 3% target.

The SARB's interest rate decision and inflation forecast weighed on the rand and prompted a sell-off in longer-dated domestic bonds. The yield curve bear steepened over the month, with the front end remaining relatively anchored, while the belly and long end sold off as markets priced in a more persistent inflation outlook.

The rand weakened following the SARB's surprise announcement, but showed signs of recovery towards the end of the month against a weaker US dollar. The greenback lost ground on the back of a seemingly less transparent US Federal Reserve (Fed) and easing tensions in the Middle East. By the end of July, the rand traded at around R16.54 to the US dollar, down 0.9% for the month.

Europe and the United Kingdom

European equities had a solid July, driven by energy and defence stocks after tankers turned back from the Red Sea amid Houthi threats. Broadly strong corporate earnings also boosted sentiment, along with resilient growth data, with Q2 eurozone GDP coming in at 0.4%, double consensus expectations. It was not all upward, however; the continent's tech stocks were caught in the broader move away from that space amid AI jitters. On the monetary front, eurozone inflation ticked up in July, bolstering the case for the European Central Bank (ECB) to hike rates. The print came days after the ECB held rates unchanged but signalled it would act if fuel and natural gas prices continue to rise.

UK equities had their strongest month since February as investors sought alternatives to chip-heavy indices, and its heavy weighting to oil majors benefited from renewed tensions in the Middle East. The flagship FTSE 100 reached an all-time high and briefly threatened to breach 11,000 for the first time, while a broadly positive earnings season also helped lift the broader FTSE 250, generally seen as a better barometer for the UK economy. The market was also reassured by new Prime Minister Burnham, who promised that the government would stick to the established fiscal rules rather than announce substantial spending commitments. The Bank of England held interest rates at 3.75% for a fifth straight meeting but said it was ready to raise them if the US-Iran war escalates further.

China

China equities showed resilience over the month, even though bifurcation between onshore and offshore persisted – a theme which has defined much of this year. This time, however, it was Hong Kong-listed equities, not mainland shares, that held the upper hand, driven by a rotation into offshore-listed internet, e-commerce, and technology names that benefited from a distinct set of catalysts. Overall, the MSCI China All Shares index returned 1.5% in US dollar terms.

Mainland markets, which had been the steadier and more resilient segment through the first half of 2026, were the main casualty of the global AI trade unwind. Semiconductor and AI hardware (advanced manufacturing, industrial equipment, domestic chip supply chain companies) names that had been a tailwind through the 1H26 were caught directly in the crossfire of a global reassessment of AI valuations during the month, as the Philadelphia Semiconductor Index posted a sharp monthly decline, with contagion spreading into mainland-listed names with any hardware or AI infrastructure links. The macroeconomic backdrop compounded the pressure. China's official PMI surveys slipped back into contraction territory in July, a setback that reinforced concerns about the durability of China's industrial recovery. Consumer confidence remained subdued and domestic demand soft, continuing the pattern of stabilisation without acceleration that has characterised the economic cycle throughout the year. The property sector offered little relief, with construction activity and developer sentiment remaining constrained.

Hong Kong told a strikingly different story, and the catalysts were China-specific rather than global in nature. The month's defining moment was China's regulatory approval of Apple Intelligence, which will run on Alibaba's Qwen model alongside Baidu's technology across iPhone operating systems in China – a development that sent Alibaba sharply higher, part of a broader rally across Chinese AI-exposed platform names, including Tencent and Meituan, during the month.

Global equities

Global equity markets diverged in July as investors rotated away from the AI trade. In the US, semiconductor stocks suffered their worst month since the Global Financial Crisis as concerns over AI valuations and whether elevated capital expenditure could be sustained from free cash flow weighed on sentiment. Earnings season reinforced a more selective approach to AI, with companies facing rising AI costs and supply chain pressures underperforming despite otherwise solid results. Energy, meanwhile, emerged as the month's strongest sector as higher oil prices lifted the outlook for producers. European equities also posted solid gains, supported by stronger energy and defence stocks after renewed Houthi threats disrupted Red Sea shipping. Broadly resilient corporate earnings and stronger-than-expected economic data further buoyed sentiment, with second-quarter eurozone GDP expanding by 0.4%, double consensus expectations. UK equities recorded their strongest month since February as investors rotated towards markets with less exposure to technology, while the index's heavy weighting to oil majors also benefited from renewed tensions in the Middle East.

In emerging markets, South African equities ended the month modestly higher, with gains spread across a number of sectors. SA banks were the largest positive contributor on a weighted basis, supported by continued earnings resilience. Hong Kong-listed shares outperformed their mainland counterparts as investors rotated into offshore-listed internet, e-commerce and technology companies. Meanwhile, South Korea's market bore the brunt of the AI trade unwind, falling by c.23%, although exceptional year-to-date returns place it among the best-performing markets thus far.

Indices	**July 2026 net return (USD)**
S&P 500	-0.1%
Nasdaq Composite	-3.2%
MSCI ACWI	0.1%
Nikkei 225	-8.1%
EuroStoxx 600	1.2%
FTSE 100	3.6%
Hang Seng Index	13.4%
SSE Composite	-6.4%

Indices	**July 2026 net return (ZAR)**
FTSE/JSE All Share Index	1.2%
FTSE/JSE Financials Index	1.2%
FTSE/JSE Industrials Index	0.3%
FTSE/JSE Resources Index	2.1%
FTSE/JSE ALBI	-1.4%
STEFI	0.6%

Source: Bloomberg, as at 31 July 2026.

Global fixed income

US

July saw US Treasury yields rise sharply, as a renewed flare-up in the US-Iran conflict drove oil prices higher and reignited fears of persistent inflation. Tensions had eased towards a ceasefire in late June, but escalated abruptly in July as sustained US strikes and disruption to the Strait of Hormuz drove Brent crude from the low US$70s per barrel to over $100, before easing back to $90 by month-end. Softer-than-expected inflation early in the month provided some respite, with June CPI falling to 3.5% year-on-year on lower gas prices, briefly cooling expectations of a rate hike. But the subsequent oil price surge more than reversed this, lifting both market-based inflation expectations and the probability of near-term hikes. At its late-July meeting, the Federal Open Market Committee (FOMC) held rates at 3.50%-3.75%, but in a hawkish move, three members dissented in favour of a 25bps hike, and Chair Warsh declined to rule out further tightening. In addition, the FOMC meeting created some confusion for markets as Warsh leaned towards tightening policy through the Fed's balance sheet rather than hiking rates. The lack of clarity provided by Warsh over the path of policy from here and the Fed's hawkish stance triggered a sharp steepening of the curve, with the 30-year yield reaching a post-2007 high of 5.28%.

Europe

Sovereign bond yields across Europe also rose significantly in July, hitting fresh multi-year highs given the renewed escalation in the US-Iran conflict and the ensuing oil price spike and inflation fears. Europe's greater reliance on energy imports left it particularly vulnerable, with the 10-year German Bund yield reaching a post-2011 high of 3.21% and the 10-year French bond yield touching a post-2009 high before ending the month at 4.0%. A softer-than-expected June CPI print of 2.8% briefly eased expectations for rate hikes early in the month, but rising energy prices reversed this, prompting a hawkish repricing of the curve. The euro area proved resilient despite the energy shock, however, with a higher-than-expected Q2 GDP print of 0.4%. At its late-July meeting, the ECB held interest rates at 2.25% as expected, but signalled that further hikes remained likely; with a September hike now widely anticipated, European yields ended the month sharply higher across the curve.

UK

UK gilts rose across the curve over July, tracking the broader global sell-off in yields given the renewed escalation in the US-Iran conflict. This lifted gilt yields alongside their US and European counterparts, though the move was tempered somewhat by continued domestic disinflation, with June CPI easing to 2.6%. On the political front, Andy Burnham took office as Prime Minister mid-month, succeeding Sir Keir Starmer. At its late-July meeting, the Bank of England's Monetary Policy Committee held rates at 3.75%, with three of the nine members voting for a 25bps hike. However, the messaging proved more dovish, with Governor Bailey stating the Bank was not "edging towards a rate hike." A combination of falling oil prices toward month-end and dovish commentary led investors to lower expectations of near-term tightening, driving yields down from their mid-month peak, although they finished higher across the curve overall.

Japan

Japanese government bond yields rose over the month, although the rise was smaller in magnitude than in the US and Europe. At its late-July meeting, the Bank of Japan (BoJ) left its policy rate unchanged, following June's hike to 1.0% – the highest level since 1995 – and raised its FY2026 growth outlook to 0.6%. Board member Takata dissented from the decision, advocating a rate hike to 1.25%. Although the BoJ lowered its core inflation forecast to 2.5%, citing government subsidies and falling energy prices, the underlying inflation trend continued to rise: Tokyo core inflation rose to 1.9% in July, and headline inflation reached 2.0%. The standout development, however, was in the yen: after it weakened towards multi-decade lows, intervention by both Japanese and US authorities drove it 3.3% higher against the US dollar over the month.

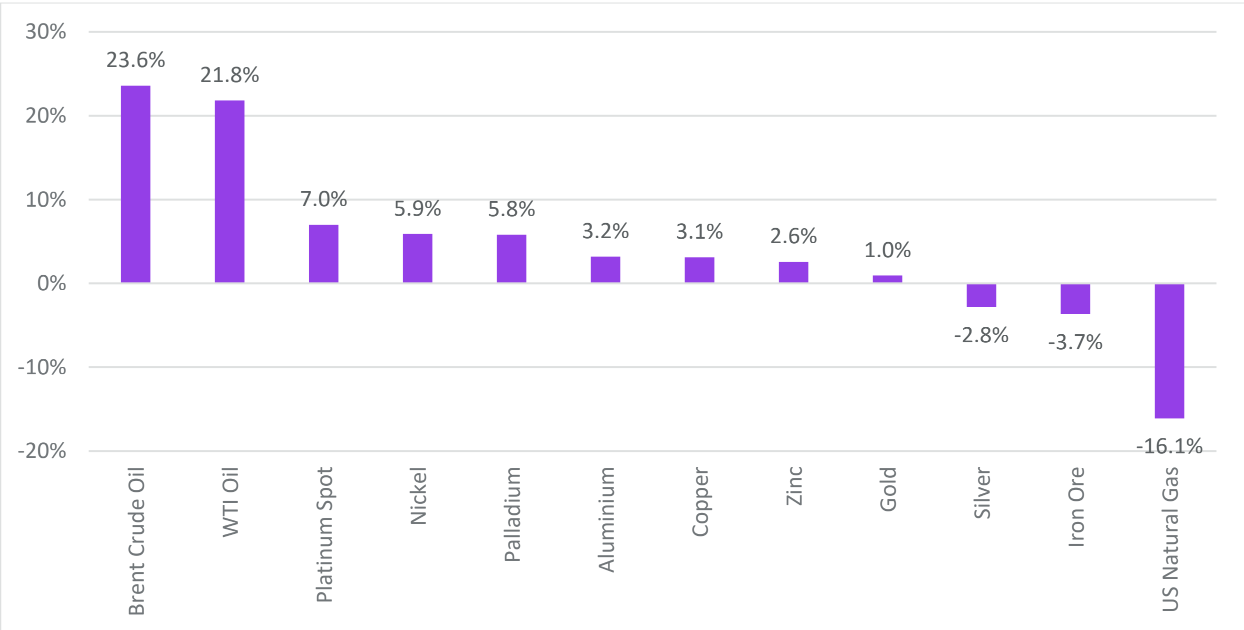
Indices	July 2026 total return in local currency
Bloomberg US Treasury Index	-1.1%
Bloomberg Global-Aggregate Total Return	-0.5%
Bloomberg EuroAgg Index	-1.5%

Source: Bloomberg, as at 31 July 2026.

Commodity markets

Oil prices soared in July, with Brent crude at one point exceeding US$100/barrel as the US and Iran resumed hostilities and Saudi Arabian shipments through the Red Sea came under threat from Yemeni Houthis. Over the full month, Brent gained 24% to close at US$90 per barrel. However, oil prices fell sharply into month-end as the prospect of a diplomatic solution to the conflict improved. While the threats to crude supply appeared to have lessened by the start of the new month, major oil companies warned that refined product markets remained tight, partly due to Ukrainian strikes on Russian refineries, which have brought Russian refined output to a multi-decade low. Meanwhile, European gas prices surged as supply concerns were compounded by strong demand, partly due to heatwaves in Europe that increased electricity consumption and to low water levels that impacted generation from nuclear and hydro plants. Gold was little changed in July, rising 1% to US$4,046 per Troy ounce, while silver fell 3%. The shares of precious metals companies, as represented by the NYSE Arca Gold Miners Index, declined by 1%. Total known holdings of gold by exchange-traded funds, often viewed as a proxy for the desire to hold the precious metal, were unchanged at about 97 million ounces. In industrial metals, copper gained 3% as demand remained robust and storms in Chile disrupted supply from a large mine. In agriculture, global wheat prices rose as Russian attacks on Black Sea ports hampered grain shipments.

Commodity price changes



Source: Bloomberg, as at 31 July 2026.