

Discovery Equity Fund

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.

In 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 disruption in the Middle East. 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%. 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 prompted a sell-off in longer-dated domestic bonds. The rand also weakened, but showed signs of recovery towards the end of the month against a weaker US dollar. By the end of July, the rand traded at around R16.54 to the US dollar, down 0.9% for the month.

Performance review

For the month, the portfolio underperformed the benchmark.

Detracting from relative performance were overweight positions in Micron Technology and Astral Foods.

Our overweight exposure to Micron was driven by strong signals in earnings expectations, quality, momentum and value. Analyst sentiment was the key contributor in the earnings expectations category, while profitability, growth and safety were prominent within the quality category.

In terms of Astral, our positioning was driven by strong signals in value, momentum, earnings expectations and quality. In terms of value factors, key contributors included earnings yield, dividend yield and total enterprise value, while mid-term and short-term were prominent in the momentum category.

Among the largest contributors to relative performance were overweight positions in Mastercard and Microsoft.

Our overweight exposure to Mastercard was driven by strong quality factors, with growth, safety and profitability the key contributors.

Our exposure to Microsoft, meanwhile, was driven by strong signals in quality, value and earnings expectations. The key quality factors included profitability, growth and safety, while cash flow yield, dividend yield and book yield were the prominent value factors.



Outlook and strategy

The portfolio's investment philosophy and process aim to deliver consistent returns for investors. We follow a multi-style investment approach that is dynamically adjusted to ensure relative risk is actively managed throughout the business cycle.

We prefer shares trading at a discount to the market, with positive momentum, strong earnings expectations, and low downside risk.

Positive quality refers to good financial health, low volatility and downside risk, while positive value indicates that the stock is trading at an attractive valuation.

Some of the portfolio's largest overweight positions include Astral Foods and Netcare, while significant underweights include FirstRand and Naspers.

Our overweight position in Astral Foods is driven by attractive value, positive momentum, positive earnings expectations, and strong quality. The key contributors in the value category include earnings yield, dividend yield and total enterprise value, while mid-term and short-term are prominent momentum factors.

Our positioning in Netcare, meanwhile, is driven by positive earnings expectations, positive momentum and strong quality. In terms of quality factors, low volatility, forecast growth and historical profitability are the key contributors.

Turning to the portfolio's underweights, FirstRand, in our view, displays poor value and negative earnings expectations. The standout factors in the value category include earnings yield, cash flow yield, and total enterprise value, while analyst sentiment and news sentiment are the prominent factors in terms of earnings expectations.

Naspers, meanwhile, displays negative momentum, negative earnings expectations, poor value and weak quality. The key contributors in the momentum category include mid-term and short-term, while analyst sentiment is the prominent factor in the earnings expectations category.