Discovery Target Retirement Date 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 to halt hostilities 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.

UK equities were the standout, outperforming as investors priced out political risk that had built up ahead of the change in prime minister; continental Europe was closer to flat, still supported by a solid regional GDP print. Emerging markets and Asia ex-Japan lagged as the tech reversal hit Korea hard, though Hong-Kong listed shares bucked the trend even as China A-shares slipped. US equities were roughly flat, as rotation out of mega-cap tech offset broader resilience.

In SA the FTSE/JSE All Share Index (ALSI) closed 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. Diversified miners, including Anglo American and BHP, also added value as commodity prices stabilised.

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%.

Gold posted only a modest gain, a calmer month than the sharp swings seen earlier in the year, with haven demand from the Iran escalation tempered by higher real yields.

Performance

Over the month, the portfolio delivered a positive absolute return.

Key contributors:

- Select SA resource stocks - Anglo American, Harmony, Valterra rose following strong updates
- SA property - as strong income growth and solid core earnings decoupled the sector from a falling bond market
- Global equity as well as Naspers/Prosus - benefitted from the rotation out of more concentrated AI-related stocks. Within equities, Amazon, Apple and Microsoft were among the winners as investors broadened their exposure beyond the AI leaders.
- Our energy holdings given rising Middle East uncertainty over the month
- Sector winners include software, healthcare, utilities and consumer staples.

Key detractors:

- SA bonds - yields rose after the SARB elected to hold rates unchanged; but remain positive year-to-date
- Infineon Technologies and MediaTek faced downward pressure following rotation out of AI stocks.

In terms of trading activity, we continued to add selectively to equities in July, taking advantage of weakness in the South African market following its difficult start to the year. We topped up diversified miners on weakness and increased our gold exposure after a period of consolidation. The structural case for gold remained intact, but we had been waiting for market price behaviour to provide greater conviction. The correction in gold shares provided an opportunity to add.

Offshore, we made no material changes to the portfolio. We had reduced some of our AI winners earlier in the year as market price behaviour suggested that excess leverage and positioning in the system needed to clear. While this proved somewhat early, July saw some of these AI winners come under pressure as investors used them to fund other parts of the market. We continue to believe the underlying fundamentals remain strong and that the AI capex cycle is intact. We therefore remain constructive on the theme, while waiting for clearer opportunities to redeploy the cash we have retained.

We also took profits on Richemont following its strong performance.

Outlook and strategy

The backdrop has become more supportive for equities. Global growth is surprising to the upside, including in Europe, while inflation continues to roll over. This combination, alongside more attractive valuations following the recent market derating, has increased our conviction in equities and led us to add to positions, although we still see pockets where valuations have further to fall.

Beneath the surface, however, markets remain in a process of rotation and consolidation. Liquidity is not abundant and the headline indices can mask significant shifts between different parts of the market. That said, we continue to believe in the fundamentals of the AI investment cycle and the strength of the associated capex spend. The AI "winners" have seen some froth removed from valuations, while there has been less excess on the other side of the market. This has created opportunities beyond the recent winners, while the broader market remains reasonably valued and fundamental investors are not positioned at maximum weights.

We remain constructive on precious metals. The recent yen intervention highlighted the pressure policymakers face in managing currency weakness and bond markets, reinforcing our longer-term concerns around currency debasement. We had been waiting for market price behaviour to provide a clearer signal before adding to precious metals exposure, and we believe that signal has now emerged.

The underlying fundamental backdrop remains supportive. Fiscal spending and the continued AI capex cycle should be sufficient to keep growth going across the major economies, although the war is likely to slow momentum in some regions. The challenge is that markets are having to absorb these fundamentals in an environment of constrained liquidity and elevated geopolitical uncertainty.

We remain willing to deploy cash as market price behaviour clears and better entry points emerge. The portfolio is positioned to benefit from improving fundamentals while retaining the flexibility to respond if the market presents more attractive opportunities.