

Discovery Global Equity Feeder

31 December 2025

Market background

Global equities maintained their positive momentum as 2025 drew to a close, with the MSCI All Country World Index rising about 3% over Q4 (in USD). The benchmark finished the year 22% higher than at the start of January. Stock markets shrugged off a wobble in November on AI-bubble fears and sticky inflation data, continuing their ascent in December as the US Federal Reserve (Fed) delivered another cut in policy rates and Chair Jerome Powell struck a more dovish tone. Solid earnings, a revival of the AI trade and some positive economic updates, including official data that showed the US economy grew significantly faster than expected in Q3, also supported equities in the last three months of 2025.

By region, emerging markets led advanced-economy equity benchmarks for the year, with a c.5% rise over Q4 helping the MSCI EM Index to a c.34% annual gain. Though US stocks modestly trailed the global index in the final quarter of 2025, over the full year, they lagged by the largest margin since the Global Financial Crisis. Nevertheless, while US trade policy and concern about the high valuations of technology stocks hindered US equities in relative terms – as did China's AI breakthroughs, which lifted Asian stocks – the S&P 500 Index still ended the year close to its all-time highs.

Other developed market equity benchmarks also finished 2025 positively, including the UK's FTSE All-Share Index, Germany's Dax and Japan's Topix, the latter reaching its highest ever year-end level on AI expectations and a better-than-feared outcome to trade negotiations with the US.

Performance review

For the quarter, the portfolio outperformed the benchmark.

Stock selection in materials and financials added meaningfully to performance. Barrick Gold was a notable contributor, helped by record free cash flow, a higher dividend and an expanded buyback programme, while gold remained well supported by expectations of monetary policy easing and ongoing demand for perceived 'defensive' real assets. Leading copper miner Freeport-McMoRan also contributed positively as copper prices remained robust amid supply uncertainty.

Financials helped, driven by select banks and insurers. Barclays benefitted from a better-than-expected UK Budget and expectations of higher return targets being announced at the company's strategy presentation in February 2026. Spanish bank Santander outperformed as buyback execution and capital-return visibility supported sentiment, benefitting from a broader European banks rally and expectations for continued distributions to shareholders. Swiss universal bank UBS also added to relative gains on expectations that Swiss regulatory changes would be less punitive. In consumer discretionary, General Motors outperformed, supported by a rotation towards value, separately helped by investors becoming increasingly comfortable that tariff-related headwinds will moderate. However, Ferrari lagged after its investor-day 2030 profit guidance and EV mix targets disappointed.

The communication services sector was the biggest drag on performance at the sector level, with Japanese video game company Nintendo a key detractor. The shares have underperformed due to concerns regarding increasing memory costs reducing earnings power, as well as mixed reads on the strength of Switch 2 demand. Chinese games and social-media giant Tencent gave back some of its year-to-date performance amid a wider Chinese technology pull-back.



Stock selection within industrials was an area of weakness. German defence company Rheinmetall lagged amid order-timing and European budget-cycle noise, which prompted a pause after a strong year-to-date run. Meanwhile, US engineering and consulting group Jacobs Solutions got caught up in wider concerns about the ability of AI to replace traditional white-collar roles.

Our positioning in information technology detracted amid a quarter defined by 'AI trade' volatility; with an early-quarter push, a November wobble, and a late-quarter stabilisation. Microsoft underperformed due to concerns that its business model is transitioning from being capital-light to one involving more AI infrastructure costs, and hence, higher capital intensity. Additionally, its link to OpenAI hurt sentiment as ChatGPT lost market share following Alphabet's successful Gemini 3 launch. Meanwhile, TSMC delivered strong performance as an agnostic beneficiary of AI accelerator growth. Furthermore, Alphabet's tensor processing unit (TPU) emerging as a credible competitor to graphics processing units (GPUs) supports expectations of revenue growth upside for the company in 2026. Not owning Oracle was also a positive for relative performance.

Outlook and strategy

A key tension in early 2026 is the contrast between frothy optimism in market valuations and the solid macroeconomic underpinnings provided by monetary and fiscal stimulus. On the one hand, the AI boom has boosted equity valuations and raised concerns of a tech bubble, with some investors questioning the return on investment from spending on AI infrastructure. On the other hand, US economic fundamentals are getting a tailwind from President Trump's expansive fiscal policies – notably tax cuts and incentives that are lifting growth and corporate investment. These tax reforms (the 'One Big Beautiful Bill') are spurring consumer spending and capital expenditures beyond just technology, helping to bolster 2026 earnings after a seesaw 2025. Thus, while speculative excess is evident in parts of the market, it is partly counterbalanced by strong corporate earnings and the potential for broader economic momentum.

The US Federal Reserve cut rates three times in 2025 and is expected to ease further in 2026. Crucially, the Fed has also halted quantitative tightening – even launching modest bond purchases to inject liquidity. Other central banks are on divergent paths (the ECB is on hold while a couple of others may tighten slightly), but overall, the era of synchronous post-pandemic tightening appears to have ended for now in the face of unemployment rising. This shift to rate cuts and an end of balance-sheet runoff is improving financial conditions globally, reducing borrowing costs and supporting asset prices. Some caution is warranted – as political pressure for aggressive rate cuts in the US could risk reigniting inflation if taken too far – but for now the liquidity tide is rising, not receding, which historically aids equities. Gold prices rose over 70% in 2025 – the metal's best year since 1979 – reflecting a debasement trade and unchecked fiscal deficit spending. Despite numerous global risks, corporate earnings are proving remarkably resilient.

US midterm elections in November 2026 will be another factor to consider for the year, which could alter the balance of power in Congress and, with it, the trajectory of fiscal policy, trade stances, and regulatory priorities. Any significant shift may prompt investors to reprice sectors exposed to policy changes. Moreover, a pending Supreme Court ruling on the legality of Trump's emergency tariffs and an assertive US foreign policy (illustrated by recent moves in Venezuela) add further uncertainty. Overall, political events will be an important driver to monitor alongside economic data in the coming quarters.

The rapid diffusion of AI is creating clear sectoral divergences. Unsurprisingly, the most direct beneficiaries are in the technology realm: semiconductor and hardware firms supplying AI chips (for example, Taiwan's leading foundries), cloud and data centre providers, and software companies either being disrupted or enabling AI applications. The investment boom in AI extends across supply chains – not only boosting chip stocks, but also firms in electronic manufacturing, power equipment and other niches that support the infrastructure build-out. Emerging markets industries are particularly leveraged to this trend. As users of AI, industries with labour-intensive processes and business models may start to see AI-driven productivity gains. On the flipside, those that fail to adapt may see new entrants erode their market share and also much of the AI ecosystem may ultimately become commoditised. This dynamic underscores the importance of discrimination at the stock level: even as 'AI fever' lifts the market tide, investors must be mindful of who in each sector is riding the wave versus who might be swamped by it.

Amid these cross-currents, our Global 4Factor team continues to emphasise collaborative intelligence and disciplined stock selection. The 4Factor investment process combines machine learning with human judgment to guide our

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fundamental research and idea generation, ensuring we capture opportunities that quantitative models flag while critically evaluating them through seasoned analyst insight. This blend of data-driven signals and deep fundamental analysis is central to how we identify resilient businesses with attractive valuations. We remain focused on high-quality companies benefitting from secular tailwinds (like AI adoption) and showing strong 4Factor characteristics, while steering clear of crowded trades lacking fundamental support. By harnessing technology in our research and maintaining a long-term perspective, the team aims to deliver repeatable results regardless of market volatility. Our current portfolio positioning reflects this balanced approach – grounded in fundamentals, enhanced by machine learning, and built to be resilient in the face of an ever-evolving macro landscape.