

Discovery Market Review

30 June 2026

Market background

Risk assets had one of their strongest quarters in years, with easing geopolitical risks in the Middle East backed up by resilient earnings, and continued AI-capex-driven growth. Emerging markets, especially Korea and Taiwan, outperformed the US, while commodities came under pressure after the peace deal and expectations for rate hikes. Global credit markets also delivered a strong rebound over the quarter.

United States

US equities posted their strongest run in years, with all three major indices notching double-digit gains in the quarter - the best since 2020 for the S&P 500 and Nasdaq, and since 2022 for the Dow. Falling oil prices, resilient economic data and continued strength in semiconductors drove the advance, though a handful of mega-cap names - Alphabet, Nvidia, Amazon, Broadcom and Apple - accounted for more than half the S&P's return.

Geopolitics cast a shadow early on, as US-Israel strikes on Iran pushed oil prices sharply higher and disrupted shipping through the Strait of Hormuz. A ceasefire and the prospect of the strait reopening let oil retreat by quarter end. The quarter's standout event was SpaceX's IPO in June, the largest on record, and an initial rally took its valuation within a whisker of US\$3 trillion in its first week. Earnings kept surprising to the upside: the S&P 500's estimated Q2 earnings growth rate rose to 23.1% from the 18.8% estimate at the start of the quarter, with energy and tech leading the upward revisions.

Momentum faded slightly in June as the S&P and Nasdaq slipped back amid a rotation out of mega cap tech into industrials and defensives, a shift that helped the Dow hold up better than the other indices. A late-month selloff in memory and semiconductor names added to the pressure, as did Apple's sizeable price increases on MacBooks and iPads. Even so, breadth improved as the quarter progressed. The small cap Russell 2000 reached a record high in late June, and Fed chair Kevin Warsh, in his first press conference, reaffirmed the central bank's inflation focus after price growth hit a multi-year high in May, prompting markets to price in rate rises rather than the cuts anticipated earlier in the year.

South Africa

South African markets navigated a volatile second quarter, with the Middle East conflict serving as the dominant driver across asset classes. The shock was transmitted primarily through commodity prices, energy prices, and bond yields, with the quarter's final moves looking materially different from those at its peak.

Turning to monetary policy, the SARB raised the repo rate by 25 basis points to 7% at its May meeting. The decision was driven primarily by headline CPI moving toward the upper end of the target band and concerns over second-round inflation effects stemming from the energy shock.

Domestic bonds sold off sharply mid-quarter in response to rising inflation expectations and geopolitical uncertainty, before recovering strongly as ceasefire negotiations progressed, leaving the ALBI in positive territory for the full period. The macro backdrop provided further support: GDP growth in the first quarter came in ahead of expectations, and South Africa received sovereign credit rating upgrades from both Moody's and Fitch during the quarter.



The rand depreciated in response to the terms-of-trade shock, but recovered as conditions stabilised. The fall was relatively well contained, with the local currency managing to retrace much of the selloff by quarter-end as the country's terms-of-trade position continued to improve.

Looking ahead, the key variable is the inflation trajectory. Having demonstrated a willingness to hike pre-emptively, the SARB's next move will be sensitive to incoming inflation data, with the balance of risks dependent on whether the energy price shock proves transitory or embeds more broadly into domestic prices.

Europe and the United Kingdom

European markets performed well during the quarter, posting their strongest quarter since 2020. The weakening oil price helped to ease concerns around inflation – a key driver of sentiment given the continent's exposure to the energy crisis. The ECB delivered its first rate hike since 2023, with a 25bp increase in June that took its deposit rate up to 2.25%. President Lagarde also noted how the inflation shock was becoming broader in nature, but said the decision was based on the bank's projections rather than anything pre-emptive. Looking at individual sectors, tech broadly benefited from positive AI sentiment spilling over from strong US tech earnings. Financials and industrials were also bright spots, while energy was a notable laggard.

The UK equity market had a positive quarter, though the benchmark FTSE 100 posted more modest gains than global markets given its weighting towards oil companies, which came under pressure after the US and Iran agreed to open the Strait of Hormuz. The FTSE 250, however, posted robust gains more in keeping with the broader rally, helped by positive inflation and GDP releases. It wasn't all plain sailing, however. On the political front, there was some significant unrest following poor local election results earlier in May, which triggered the resignation of the Prime Minister and, by extension, speculation about the direction any future administration could take. Another notable piece of news was UK dealmaking, with foreign acquisitions of London-listed businesses on track for their strongest year in almost two decades, helped by depressed valuations and continued international appeal.

China

Chinese equities delivered a modest return in dollar terms over the second quarter, though the headline masked sharp month-to-month swings: the index rose 5.8% in April, slipped 0.9% in May and fell 3.1% in June, as geopolitics, global tech volatility and offshore earnings pressure each took turns setting the tone. The onshore-offshore divergence that defined the quarter only widened as it progressed.

Mainland A-shares maintained a degree of resilience throughout, supported by ample domestic liquidity and steady positioning in policy-aligned sectors such as advanced manufacturing, industrial equipment, electrification and the domestic technology supply chain. Periodic AI and semiconductor optimism added support, notably around Huawei's chip advances in May and a broader tech rotation into June as manufacturing activity posted its strongest quarterly performance since late 2020, with the PMI expanding for a seventh straight month.

Offshore equities told a consistently more difficult story. Hong Kong-listed technology and platform companies entered the quarter with profit growth at multi-year lows and faced sustained scrutiny around margins, monetisation and the durability of their earnings recovery. A meaningful rally in May - driven by renewed optimism following the Trump-Xi summit and a broader thaw in US-China diplomatic relations - illustrated how sensitive offshore markets remained to geopolitical signals, but the recovery was unable to sustain itself amid continued questions around earnings delivery. The quarter's most significant setback came in June, when a global selloff in AI and semiconductor stocks hit Hong Kong with particular severity. By the end of the period, Hong Kong ranked among the worst-performing major markets globally in the first half of 2026, down close to 10% year to date, with technology and platform heavyweights bearing the brunt of the weakness.

The macroeconomic backdrop remained one of stabilisation rather than acceleration. Manufacturing held expansionary, exports offered modest support, and property prices declined at a slower pace, but consumer demand stayed soft as trade-in subsidy effects faded and property continued to weigh on sentiment. Beijing kept liquidity



ample and signalled structural commitment but avoided decisive stimulus. Overall, the MSCI China All Shares Index delivered a +1.6% return for the quarter.

Global equities

Global equities had their strongest quarter since 2020, powered by resilient earnings, easing geopolitical risks in the Middle East, and continued AI-capex-driven growth. There was a sizable relief rally after the US and Iran signed a memorandum of understanding to end the war, which established a 60-day extension of the ceasefire to negotiate the final terms of a deal. This ensured the naval blockade in the Strait of Hormuz was lifted, in theory opening the flow of oil – which was significantly volatile over the quarter – and other goods once again.

First-quarter earnings for the MSCI ACWI constituents grew 24% on the prior year, and the AI-driven capex cycle remained a primary growth driver globally, though it also concentrated returns in a smaller set of AI-linked mega-caps. Emerging markets, especially South Korea and Taiwan – which benefited from their positioning in the AI supply chain and hyperscaler-led investment demand – outperformed the US, even as US indices themselves posted their best quarter since the pandemic recovery in 2020.

Given the backdrop of war and uncertainty, the resilience of global economic data was notable, helping central banks pivot in a hawkish direction. That was particularly clear in the US, where the three jobs reports released during Q2 all surprised on the upside. Meanwhile, the first Fed meeting chaired by Kevin Warsh was more hawkish than expected, leading to some market participants to price in higher rates by the end of 2026.

Indices	Q2 2026 net return (USD)
S&P 500	15.1%
Nasdaq Composite	21.5%
MSCI ACWI	14.9%
Nikkei 225	37.3%
EuroStoxx 600	10.0%
FTSE 100	4.0%
Hang Seng Index	-6.5%
SSE Composite	5.2%

Indices	Q2 2026 net return (ZAR)
FTSE JSE All Share Index	-2.4%
FTSE/JSE Financials Index	7.8%
FTSE/JSE Industrials Index	5.6%
FTSE/JSE Resources Index	-19.8%
FTSE/JSE ALBI	8.3%
STEFI	1.6%

Source: Bloomberg, as at 30 June 2026.



Global fixed income

US

Conflict in the Middle East dominated sentiment over the quarter, with the closure of the Strait of Hormuz and associated oil market disruption stoking fears of a resurgence of inflation. Headline CPI climbed to a three-year high of 4.2%, fuelling expectations of rate hikes and driving a sharp bond market selloff mid-quarter, with the 30-year Treasury yield rising to a level last seen in 2007. An abrupt shift came towards quarter-end as a 60-day ceasefire took hold, sending oil prices sharply lower and easing inflation fears. Against this backdrop, the US Federal Reserve (Fed) kept rates unchanged over the quarter. At the 17 June meeting, the first chaired by Kevin Warsh, the Fed held rates while delivering a more hawkish inflation forecast, with the 'dot plot' showing a 50% likelihood of a hike this year. Robust labour-market data reinforced the hawkish tone, though softer-than-expected May PCE data late in the quarter helped temper inflation fears. Shorter-maturity Treasury yields ended the quarter higher as markets priced in at least one more rate hike by year end, but longer-dated yields were slightly lower, driving a flattening in the yield curve.

Europe

During the quarter, the European Central Bank (ECB) delivered its first rate hike since 2023. Yet the conflict in the Middle East and its impact on oil prices drove the market, with European sovereign bond yields ending the quarter lower. Heightened volatility characterised the start of the quarter as the energy price shock drove the 10-year German Bund yield to close to 3.2% (the highest since 2011) and eurozone inflation rose to 3% in April. At the 11 June ECB meeting, the central bank lifted the deposit rate by 25bps to 2.25%. The ECB also raised its inflation projections, forecasting average headline inflation of 3.0% in 2026, with core inflation expected to remain above 2% to 2028. As oil prices collapsed towards quarter-end, inflation expectations fell sharply and yields declined.

UK

The gilt market remained turbulent through Q2, though yields ultimately fell across the curve as inflation fears and political risks receded into quarter-end. Early in the period, renewed inflation pressure from the Middle East conflict drove the 10-year gilt yield above 5%, at one stage reaching levels last seen in 2008, as CPI climbed and services inflation pushed higher. Domestic politics then became the dominant driver, with Prime Minister Sir Keir Starmer coming under mounting pressure, and ultimately announcing his resignation. The Bank of England kept rates unchanged at its June meeting, a decision made easier by a lower-than-expected CPI print the day before (2.8% vs the +3.0% expected), though sticky services inflation was cause for continued caution. Yields fell across the curve over the quarter, with shorter-maturity parts of the market leading the decline.

Japan

Japanese government bonds remained under pressure through Q2, with yields rising overall. Moves were most pronounced in longer-dated bonds as fiscal concerns, higher inflation expectations and monetary policy tightening by the Bank of Japan (BoJ) weighed on the market. The selloff in longer-dated maturities intensified mid-quarter, with the 30-year yield touching its highest level since its 1999 introduction and the 10-year yield reaching levels last seen in 1997. Political headlines around a possible supplementary budget, rising inflation expectations and stronger-than-expected Q1 GDP all reinforced the case for further tightening. At the 16 June BoJ meeting, it delivered a 25bps hike, taking the policy rate to 1%, the highest since 1995. Despite the hike, the yen hit a fresh 40-year low against the US dollar as the yield differential with the US remains wide.



Indices	Q2 2026 total return in local currency
Bloomberg US Treasury Index	0.3%
Bloomberg Global-Aggregate Total Return	0.9%
Bloomberg EuroAgg Index	2.0%

Source: Bloomberg, as at 30 June 2026.

Commodity markets

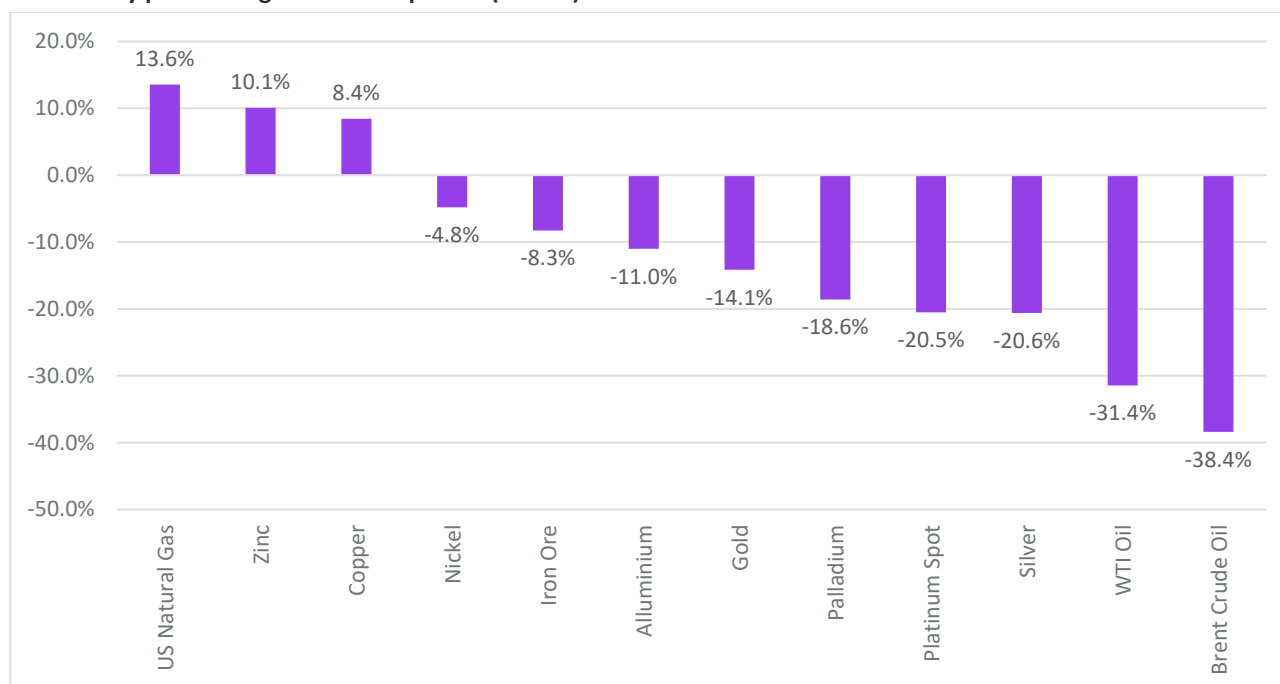
Broad commodity indices fell in Q2. Progress in US-Iran peace negotiations eased concerns over disruption to tanker traffic through the Strait of Hormuz, triggering a steep decline in the oil price. Brent crude fell by 38%, with a 21% decline in June alone, ending the quarter at US\$73 per barrel. Adding to downward pressure on oil, on the supply side Middle Eastern producers signalled an intention to ramp up production; while the prospect of US Federal Reserve rate hikes dampened the demand outlook.

The hawkish shift in the monetary policy outlook also weighed on precious metals, as did a stronger US dollar. Gold ended the quarter at US\$4,008 per Troy ounce, 12% lower over June and 14% lower over Q2 overall, its steepest quarterly decline in more than a decade. Gold has been volatile this year, peaking at a record high of over US\$5,500/oz in January. Total known holdings of gold by exchange-traded funds, a proxy for desire to hold the precious metal, declined by 1.4% in Q2. The shares of precious-metals producers slightly underperformed gold, with the NYSE Arca Gold Miners Index falling 17% over the three months, mostly reflecting a 15% decline in June.

Copper bucked the negative trend in commodity markets, with an 8% rise over the quarter supported by supply constraints, expectations of robust demand from electrification and AI-related infrastructure, and concerns over potential US tariffs, which have encouraged stockpiling. However, prices retreated in the final month of the quarter as investors became more concerned about the global growth outlook, a stronger US dollar and higher interest rates. Among other industrial metals and bulks, aluminium declined 11% and iron ore fell 8%.

Lower fuel and other input prices put downward pressure on the prices of some agricultural commodities, as did good weather in some key producing regions. Corn, wheat and soybean prices all declined in the quarter.

Commodity price changes over the quarter (in USD)



Source: Bloomberg, as at 30 June 2026.