Discovery Global Equity Feeder

30 June 2026

Market background

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. Political uncertainty and weakness in commodity prices held back the UK market.

Given the backdrop of war and uncertainty, the resilience of global economic data was notable, helping central banks pivot toward a more hawkish stance. 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 some market participants to price in higher rates by the end of 2026. The technology sector far outstripped the rest of the market, while energy stocks suffered significant declines.

Performance review

The portfolio underperformed the comparison index over the three-month period, with the shortfall driven almost entirely by the AI hardware rally's concentration in a handful of names not held in the portfolio, which proved a headwind for relative performance.

Not holding Micron Technology, a leading US memory chip maker, detracted as the stock rose sharply. Advanced Micro Devices, which designs CPUs and GPUs, further detracted over the period as it was not held in the portfolio. Being underweight South Korean semiconductor giant SK Hynix likewise detracted from relative performance. In addition, our position in German defence contractor Rheinmetall suffered after weaker full-year results and softer guidance, as disruption in its Weapons and Ammunition business weighed on margins and the German government scrapped a major warship programme in which the company had been expected to be the lead contractor, raising doubts about how much promised defence spending will translate into orders. US medical device company Boston Scientific also detracted amid widespread concern over 2026 growth and its Long-Range Plan targets, given intensifying market-share competition in electrophysiology, with continued downgrades to the WATCHMAN growth cadence adding uncertainty about whether guidance was sufficiently de-risked.

Turning to the main contributors, our semiconductor holdings within the portfolio helped offset some of the underperformance within the technology sector. Our position in Infineon Technologies boosted returns, as it rallied with the sector and TSMC. IT distributor TD SYNNEX contributed as enterprise IT spending remained healthy, and the company benefited from strong demand for AI server infrastructure flowing through the distribution channel. Elsewhere, Recruit Holdings, a Japanese human resources and staffing company, rose as the resilient US labour market supported demand for online recruitment services, with its job search platform continuing to benefit from the structural shift towards digital hiring. Swiss financial group UBS delivered strong first-quarter results, with continued momentum in US wealth management and investment banking. Improving profitability, disciplined cost control and greater clarity on capital all supported a re-rating. The portfolio was also helped by German industrial conglomerate Siemens AG as it recovered from prior weakness.

Outlook and strategy

With the ceasefire in Iran in place, the conflict premium continues to be priced out. Oil, inflation expectations, and bond yields are reversing their second-quarter up moves, and our read of the conflict as a tactical interruption rather than a thesis break has thus far proved directionally correct.

Beneath the noise, a genuinely reflationary tape has taken hold. Global growth momentum is improving, the credit impulse has turned positive, bank lending is picking up, and MSCI ACWI forward earnings expectations have risen by around 14% year-to-date. US jobs reports are surprising to the upside. Against this, Kevin Warsh's debut as US Fed Chair was materially more hawkish than markets had expected, with nine of the eighteen Federal Open Market Committee members now expecting at least one hike this year.

Regionally, we believe Europe remains cheap, under-owned and increasingly supported by the German fiscal multiplier, worth around 1% of German GDP in each of 2026 and 2027, while EPS revisions are moving up as positioning and sentiment lag. The UK broadly mirrors Europe, with global franchises offering internationally diversified earnings at reasonable multiples. Japan continues to combine rising real wages with governance reform and additional fiscal stimulus. China has meaningful insulation from the oil shock via its stockpiles, a stabilising Sino-US relationship and a credible domestic AI-cloud story that has roughly doubled leading digital platforms over the past year, although property remains an overhang, with new home prices down for a 35th consecutive month. Emerging markets more broadly benefit from a weaker dollar and high real rates.

On the AI front, the character of the trade is changing. Combined 2026 hyperscaler capex now sits around US$700–725bn, up roughly 70% year-on-year, with cash capex on track to overtake operating cash flow. This does not break the AI thesis, but it does change the free cash flow profile and shifts the risk toward names most dependent on external financing.

At the factor level, momentum has had a historic run, but is now supported almost entirely by AI. Consistent with the 4Factor process, we have been taking profit in momentum and redeploying into a broader set of quality, value and low-volatility names. Sector-wise, we retain structural longs in banks, infrastructure and capex beneficiaries, and are finding more opportunity in reasonably priced quality and value across rate-sensitive healthcare, industrials, materials, gold and gold miners (a structural bull market despite the recent correction), and copper (tight supply, direct AI-and-electrification play).

Overall, we see rising breadth, increasing single-stock dispersion and ongoing factor rotation. This is a market where dispersion will keep increasing, and style rotation will remain a permanent feature – a favourable set-up for stock-pickers and for following our 4Factor investment process.