Discovery Global Multi-Asset Fund

30 June 2026

Market background

The second quarter was shaped by the ongoing US-Iran conflict and its resolution. Early weeks in the period brought geopolitical escalation, rising oil prices and knock-on fears of rising inflation and weak growth, which impacted central bank reaction functions. As both sides made concessions, energy prices reversed, easing stagflation fears and allowing risk assets to recover strongly from March's losses. Economic data proved resilient throughout, with US payroll growth surprising consistently to the upside. This backdrop led to the European Central Bank (ECB) hiking for the first time since 2023, the Bank of Japan (BoJ) raising rates to 1%, and new US Federal Reserve (Fed) chair Kevin Warsh striking a more hawkish tone. AI enthusiasm returned as a further tailwind, with chip stocks posting exceptional gains on strong semiconductor demand.

Growth assets delivered an exceptional quarter. The S&P 500 posted its strongest quarterly return since the post-pandemic rebound of Q2 2020, gaining over 15%. Emerging markets were the standout: the MSCI EM returned close to 25%, led by Asia ex-Japan, though China declined slightly, the exception to an otherwise broad rally. European equities advanced solidly. High yield and emerging market debt delivered mid-single-digit gains despite the early quarter sell-off.

Defensive assets provided modest but positive returns. Government bonds recovered from March's sell-off as inflation fears receded, with European sovereigns and gilts outperforming Treasuries. The US dollar strengthened modestly over the period, with its safe-haven status and the Fed's hawkish pivot in June contributing. The yen was the weakest major currency despite the BoJ rate rise, weakening to its lowest level against the dollar since 1986. Sterling saw some volatility in response to the evolving political backdrop in the UK.

Gold was a significant detractor, falling over 14% (its largest quarterly decline since 2013) as easing geopolitical risk premia, rising real yields and dollar strength unwound a substantial portion of the safe-haven premium built up since the conflict began.

Performance

The Fund delivered a positive absolute return, performing in line with its benchmark over the quarter (60% MSCI ACWI, 40% FTSE WGBI).

Positive returns were driven primarily by the portfolio's overweight exposure to equities and positions in select equity index futures which benefitted from improving risk sentiment and robust economic activity. Relative performance, however, was held back by equity security selection as market leadership became increasingly concentrated in companies linked to the AI supply chain.

While the Fund maintained exposure to the AI theme through holdings including Taiwan Semiconductor Manufacturing Company, Infineon Technologies and ASML, it was not materially overweight the strongest-performing Asian and US technology names. Select holdings such as Planet Fitness faced headwinds after disappointing results.

The Fund's fixed income allocation also added to returns as bond yields fell with the improvement in the inflation backdrop. An overweight position to UK duration also benefitted relative returns as the gilt markets outperformed, supported by falling political premium. This was partly offset by commodities and gold, which gave back earlier gains as the Middle East ceasefire and a stronger dollar reduced the appeal of defensive, non-yielding assets.

Positioning

The Fund maintains a risk-seeking stance over the quarter with an overweight position to equities relative to its benchmark. Additions were made to MSCI Emerging Markets futures, China A-shares and developed market opportunities including Stoxx 600 Basic Resources and Euro Stoxx Banks futures, which were expected to benefit from the broad reflationary backdrop. As market leadership broadened and valuations in parts of the AI complex became increasingly stretched, the Fund diversified this exposure, reducing Euro Stoxx Banks, Stoxx 600, Russell 2000 and China A50 futures in favour of healthcare index futures and S&P 500 equal-weighted futures. Within physical holdings, UBS and Barclays were rotated into Standard Chartered, reflecting its wealth solutions growth opportunity and capital return potential. Infineon was switched into ASML, reflecting a preference for stronger earnings visibility within semiconductors. Exposure was also added to Hon Precision, Chevron, and Interactive Brokers, supported by AI-related demand, a higher assumed mid-cycle oil price, and a robust US growth backdrop.

In fixed income, the Fund maintained its modest duration exposure as yields rallied from their peak. Additions were also made to emerging market local-currency debt, including Brazil and Colombia, where real yields remained elevated and offered attractive carry.

Gold and commodities remained key diversifying assets within the portfolio over the quarter. Gold exposure was increased after a moderation in price and as a hedge against ongoing geopolitical uncertainty. Broad commodity exposure was reduced following an easing in geopolitical tensions and inflationary pressures.

Outlook

The US economy continues to demonstrate resilience, with economic data remaining buoyant and showing increasing signs of broadening. There are already initial signs of this broadening within the credit cycle, where momentum is no longer confined to areas that previously dominated, such as private credit.

As we continue through 2026, growth is expected to remain robust and broaden, supported by the lagged impact of monetary easing, improving liquidity conditions as the Fed returns to balance sheet expansion and front-loaded fiscal spending that supports consumers.

Disinflationary forces in shelter and other key components are likely to be offset by inflationary pressures arising from challenging base effects and an improving demand backdrop, with further upside risks from energy and commodity prices as the implications of the Iran war continue to weigh on global supply chains.

As a result of these dynamics, we expect US risk assets to remain supported, with the potential for a broadening of performance drivers as liquidity conditions ease and demand recovers. The labour market, however, remains a key risk to monitor.

In Europe, there is evidence of an emerging economic recovery supported by previous policy easing, a new credit cycle and expanding fiscal budgets in Germany and across Europe. However, the strength of this recovery remains uncertain, with headwinds from the reflexivity of recent euro strength, higher interest rates, rising energy prices and uncertainty over the timing of fiscal support. The Iran war is likely to have a more significant impact on the European economy, given its reliance on imported energy, and poses key upside risks to inflation. The ECB has shifted to a more proactive reaction function, making it increasingly sensitive to inflation surprises and increasing the probability of rate hikes and a subsequent policy mistake.

The higher level of uncertainty over the European growth outlook suggests more caution is warranted for European currencies moving forward, in our view, particularly given recent outperformance.

In China, easing measures have become less forceful in the near term, with the credit impulse once more rolling over. The Chinese authorities continue to prioritise domestic consumption as a driver of growth. In particular, the "special action plan" outlines a broad set of measures that will be implemented to support a transition away from the recent driver of growth, namely high-value-added industry and exports, towards domestic consumption. The step was driven by the escalation in trade conflict, but their ability to materially ease is constrained by weak domestic confidence and elevated debt levels. Recent growth data show some signs of a recovery in economic momentum from a weak base, with consumer confidence improving and the property market potentially nearing a bottom. The introduction of "anti-involution" policies and supportive base effects have supported a recovery in inflation, which has key implications for the rest of the world given the degree to which China has been an exporter of deflation over the last few years.

The conflict in the Middle East remains ongoing and uncertain, adding to the uncertainty around economic outlooks and policy actions at this juncture. Overall, we are inclined to believe that the shock stemming from the conflict is likely to be temporary and limited in its impact on the macro trends already in place at the start of this period, namely the global reflationary environment discussed above. However, we continue to monitor alternative scenarios around this, should conditions change.

As a result of our central investment roadmap, as discussed above, we continue to believe that risk assets will remain supported by easing fiscal and monetary conditions. Improving credit cycles and accelerating economic momentum suggest the potential for a broadening in market drivers, although geopolitical tensions are likely to continue to add to volatility. We prefer areas of the market that will benefit from reflationary conditions, such as small caps and basic resources. In fixed income, valuations have notably reset in defensive government bonds in the near term, reflecting elevated inflation risks. As a result, the longer end of curves continues to offer attractive diversifying qualities, in our view. In currency, while we continue to believe the medium-term path for the US dollar is weaker, the recovering economic backdrop and inflation risks create near-term upside risks to the currency, at a time when European peers are facing headwinds from the latest geopolitical events.