Discovery Target Retirement Date Fund

30 June 2026

Market context

Global equities had their strongest quarter since 2020, powered by resilient earnings, easing Middle East risk and continued AI-capex-driven growth. The relief rally followed a US-Iran memorandum that paused the war, which sent oil prices sharply lower. Earlier energy-driven inflation had already put central banks on a tightening path: the European Central Bank delivered its first rate hike since 2023, the Bank of Japan raised rates to 1% and new Federal Reserve (Fed) chair Kevin Warsh struck a more hawkish tone.

Growth assets gave a mixed picture. European equities stood out, posting low- to mid-single-digit gains as the peace deal and falling oil prices removed sentiment headwinds. US equities and emerging markets edged modestly lower as AI-driven gains stalled, with China a notable drag. Credit was broadly flat to slightly negative.

South African markets had a volatile quarter, with the Middle East conflict the dominant driver across asset classes. The shock was transmitted mainly through commodity prices, safe-haven dollar demand and bond yields, and the quarter’s final moves looked materially different from those at its peak.

Domestic equities ended modestly lower, masking sharp sector dispersion. Resources sold off heavily as gold, platinum group metals and broader commodities reversed after an initial safe-haven spike. Financials, particularly banks, offset this with solid gains, and industrials added further support.

The South African Reserve Bank raised the repo rate by 25 basis points to 7% at its May meeting, driven by the headline CPI figure moving toward the upper end of the target band and concern over second-round effects from the energy shock.

The rand weakened sharply at the height of the conflict before recovering as conditions stabilised, ending the quarter net stronger against the dollar. The round-trip reflected the geopolitical risk premium rather than any change in South Africa's external position.

Gold suffered its steepest quarterly decline in more than a decade, falling close to 14%, as easing geopolitical risk, rising real yields and a stronger dollar unwound its earlier safe-haven premium.

Performance

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

Key contributors:

- SA property - benefitted from the rand's recovery and lower local bond yields.
- SA bonds - rallied as inflation risk eased and the rand stabilised.
- 'SA Inc.' stocks (banks and insurance stocks) gained on rand strength and easing risk premium. MTN, Anglo American and Bidcorp also added to returns.
- Global equity, including big tech, semiconductors, AI names and global banks, continued to benefit from AI capex and resilient earnings.

Key detractors:

- SA equity – weighed down by the resources sell-off.
- Gold ETF - fell in line with the gold price unwind, impacting gold and platinum group metal (PGM) equities.
- Energy stocks – fell as the oil price receded after the Middle East de-escalation.
- Microsoft - one of the few Magnificent Seven names lower, as markets recast it as an AI loser.

The portfolio maintained its positioning through April and May as the war progressed and markets endured volatility, with most activity concentrated in June once conditions began to stabilise.

Profit-taking dominated the quarter's trims, and the proceeds were recycled into new opportunities. Global diversified miners were reduced as gains from the earlier commodity rally were locked in, alongside further profit-taking in Anglo American and Glencore. British American Tobacco was exited, its margin of safety closed after the position had done its job in the portfolio. Discovery was trimmed following a strong run. The gold ETF holding was also sold as the portfolio continued managing down its precious metals exposure.

Some of this cash generated was deployed offshore, topping up select preferred names in healthcare, banks and consumer staples that had lagged. MTN and AB InBev were topped up on weakness. Alphabet, Amazon, MediaTek and Infineon were trimmed after strong performance.

The long US dollar position against the euro was closed, taking profits as much of the growth and interest-rate differentials had played out.

Outlook and strategy

Markets continue to rotate among three groups of stocks: AI winners, AI losers and companies that are more "neutral" AI. AI winners dominated the second quarter returns. Getting this rotation right going forward is the central challenge for positioning today. AI winners have already done much of the work, re-rating on the strength of the capex cycle and resultant positive earnings revisions. The harder question is what to do with AI losers. Some may well be cheap rather than value traps; others, including a position like Tencent, require a judgment call on whether to hold through the rotation or exit.

New Fed chair Kevin Warsh has been read by markets as more hawkish, arriving just as inflation appears to be peaking and oil prices have rolled over. We think this combination of peak hawkishness and peak rates is more likely to unwind than persist, which would benefit areas that have struggled recently, including precious metals.

The geopolitical picture has also eased. Shipping through the Strait of Hormuz has resumed to some extent, reducing the tail risk to inflation that dominated market pricing earlier in the year.

The bigger debate is where the economy goes from here. The year began in a goldilocks-to-reflation regime before the war introduced stagflation risk. With inflation appearing to have peaked and expected to fall further next quarter, the question is whether growth slows as the war's effects linger or holds up on the back of fiscal support and continued AI capex buildout. Falling inflation is constructive for bonds and, by extension, risk assets. Growth may be more volatile, but fiscal spending and capex through the second half of the year could support the fundamental backdrop.

Monetary policy will not provide much help either way. Having moved from a cutting cycle in the first quarter to tightening in the second across various regions, including South Africa, central banks are offering no easing support, and we expect the Fed to hold at best. The offset is fiscal: stimulus measures could still underpin growth even without monetary accommodation.

We expect markets to keep climbing a wall of worry rather than moving into euphoria, which leaves room to deploy cash on pullbacks. One risk to watch is an AI capex bottleneck, as industrial suppliers approach capacity constraints that could make headline capex numbers harder to deliver. We see this as a wobble to buy into rather than a structural problem. With the portfolio not fully allocated, we retain the flexibility to respond if policy dynamics shift or better entry points emerge.