

Discovery Balanced, Moderate Balanced, Cautious Balanced Funds

31 May 2026

Market background

Financial markets were broadly positive in May. Global equities advanced, with the MSCI All Country World Index gaining just over 5% in US dollar terms. Sentiment was supported by hopes of a ceasefire in the Middle East, which eased geopolitical and energy-supply concerns. US equities performed strongly as investors returned to large-cap technology stocks, while South Korea and Taiwan were again standout performers, reflecting their exposure to the semiconductor supply chain.

Bond markets were more volatile, with a sharp mid-month sell-off driven by inflation concerns and geopolitical uncertainty. Sentiment improved later in the month as ceasefire hopes helped calm inflation and energy-supply fears, supporting sovereign bonds and credit markets.

Brent crude fell 19% in May to US\$92 per barrel, its largest monthly decline since 2020, as the risk of disruption to oil supply routes appeared to recede. Gold traded in a narrow range, declining 2% to US\$4,540 per troy ounce, but remained 50% higher than a year earlier.

May was challenging for South African equities, with the FTSE/JSE All Share Index closing in negative territory amid domestic and global headwinds. Inflation rose to 4.0% year on year in April, from 3.1% in March, leading the South African Reserve Bank to raise the repo rate by 25 basis points to 7.0%, citing elevated inflation risks and higher oil price assumptions.

Fixed income was a bright spot. South Africa's 10-year bond yield fell over the month, supported by improved global risk sentiment, hopes of a US-Iran agreement, tighter SARB policy and Moody's revision of South Africa's outlook to positive from stable, while affirming its Ba2 sovereign credit rating. This was the first positive outlook revision since 2007. The rand also strengthened towards month-end, supported by the improved sovereign credit outlook and attractive real yields.

Performance

The portfolio ended the month broadly flat, despite a volatile market backdrop.

Key contributors:

- SA bonds
- SA property
- Resources: Anglo American and Harmony bucked the broader weakness in diversified miners, with Harmony rebounding after delivering ahead of expectations.
- Select South African equities, including MTN, Richemont and local financials such as Discovery, Capitec and FirstRand.
- Globally, AI-related holdings and big tech such as Amazon and Alphabet continued to rise.



Key detractors:

- The gold commodity ETF detracted, as rand strength offset support from the underlying gold price in local-currency terms. Gold Fields also detracted as expectations moderated, partly due to concerns around asset risk in Ghana.
- Naspers/Prosus after management warned that increased competition in iFood would reduce earnings in 2027.
- Local and global energy stocks on profit-taking as oil prices retraced amid improved risk appetite and signs of conflict de-escalation.

Trading activity was limited during the month despite the volatile market backdrop. The portfolio's asset allocation remained unchanged. While we continue to assess whether to moderate exposure to technology after its strong run and broaden participation elsewhere, we remain cautious about taking capital away from high-quality technology holdings that continue to perform, particularly as the portfolio is not materially overweight the sector. For now, we prefer to retain some cash and wait for more compelling opportunities. At the stock level, we trimmed FirstRand into strength and added selectively to Discovery and MTN.

Outlook and strategy

The macro backdrop remains broadly supportive, although expectations are diverging. US data remains resilient, with inflation contained for now and activity indicators holding up well. Europe is less convincing, with weaker data and a greater risk that the US-Iran war weighs on growth before Europe's expected fiscal impulse has come through. Duration is important. A timely resolution would ease pressure on energy prices, inflation expectations and risk appetite, while a prolonged conflict could unsettle supply chains and delay the disinflation path markets are pricing in. For now, we remain cautiously optimistic on risk assets but are not fully allocated. The portfolio retains an overweight equity position, but we are retaining some liquid cash, given the speed and narrowness of the recent rally. The rally continues to climb a wall of worry, but market leadership remains narrow and many fundamental investors appear under-positioned. Recent gains have been supported in part by retail flows, systematic investors and strong liquidity, rather than broad-based conviction. The launch of more speculative retail vehicles, including leveraged ETFs, in South Korea suggests pockets of froth are emerging.

Growth remains better supported in areas linked to the AI investment cycle. AI-related capital expenditure continues to support selected companies and markets, notably Taiwan and South Korea. Outside these areas, however, growth expectations are less robust, with higher inflation expectations also weighing on growth.

June will be an important test for liquidity. The market will need to digest the US\$75 billion SpaceX listing, while Google is also raising capital, with part of the raise going to Berkshire Hathaway and the remainder to be absorbed by the market. Liquidity conditions remain supportive, but weak demand for these transactions would be a concern. Policy remains another key risk. In the US, our base case is that the Federal Reserve (Fed) remains on hold, but markets will be sensitive to any shift in policy communication under new chair Kevin Warsh. He has questioned elements of the Fed's current framework, including forward guidance and the 2% inflation target. Any move that reduces policy clarity or weakens confidence in the inflation anchor could unsettle expectations and create volatility. In South Africa, the monetary policy path looks more supportive. The recent 25bps interest rate hike supported the rand and helped underpin local bonds.

We continue to hold South African and Brazilian government bonds. Both have contributed positively and continue to offer attractive real yields, with the potential for inflation-beating returns over a 12- to 18-month horizon.

Overall, we remain cautiously optimistic. The portfolio is positioned to participate in areas where fundamentals remain strong, particularly AI-linked capex, select equities and emerging market bonds with attractive real yields. At the same time, we are not fully allocated and retain flexibility should volatility create better entry points. A resolution to the conflict would be the clearest positive catalyst, but until there is greater clarity, we expect markets to remain sensitive to inflation, policy and liquidity conditions.