Discovery Market Review

28 February 2026

Market background

Financial markets were broadly positive in February. US Treasury yields declined and global equities posted gains on resilient economic data. However, technology stocks had a weaker month, selling off amid concerns about potential disruption from AI. Commodities were again strong: precious metals continued to rally, while oil prices rose, partly on fears of escalating conflict in the Middle East. US-Israeli strikes on Iran took place on the final day of the month after most financial markets had closed. Meanwhile, the US Supreme Court struck down some of the tariffs imposed last year, although new levies were soon introduced via an alternative legal route.

United States

US equities were unsettled in February, as investor jitters around AI, geopolitics and inflation drove sharp rotations. The S&P 500 Index was among the weaker of the major stock indices, while the tech-focused Nasdaq declined amid renewed weakness in parts of the technology sector.

Early in the month, software and other high-growth stocks came under pressure. Hefty capital-expenditure guidance, especially from the hyperscalers, coupled with debate around AI disruption and job displacement, led investors to question valuations. Mega-cap leadership faltered and volatility rose. Market breadth improved, with cyclicals and small- and mid-cap stocks outperforming as sector dispersion widened. Utilities, energy and materials led gains, while communication services, technology, consumer discretionary and financials lagged.

The macro backdrop was mixed. Labour market data remained firm and growth expectations edged higher, but inflation continued to frustrate. While headline CPI eased to 2.4% in January, producer prices and core measures surprised on the upside, and expectations for the US Federal Reserve's preferred PCE gauge remained elevated. Investors adjusted rate-cut expectations accordingly.

South Africa

South African equity markets delivered gains over the month, with the JSE All Share Index rising despite some early volatility. Market performance was driven primarily by strength in the resources sector, as precious-metals producers continued to benefit from supportive gold and platinum prices amid sustained global demand for safe-haven assets. Telecommunications stocks also outperformed, reflecting defensive investor positioning and the sector's stable, cash-generative business models in a still-uncertain global macroeconomic environment.

Finance Minister Enoch Godongwana delivered the 2026 National Budget, signalling a potential turning point in South Africa's public finances. The budget deficit has narrowed, and national debt is projected to have peaked, marking the end of 17 consecutive years of debt accumulation. The Minister highlighted stronger-than-expected revenue collection, ongoing fiscal consolidation efforts, and a commitment to expenditure discipline. These developments support an improving medium-term fiscal outlook and enhance policy credibility as the government continues to deliver a primary surplus. The bond market responded positively to the budget statement, with longer-dated bond yields falling. The rand strengthened and remained relatively resilient on the back of improving fiscal indicators and broader positive sentiment towards South African assets, finishing the month at R15.94 to the US dollar.

Inflation edged slightly lower in January to 3.5%, partly due to reduced transportation costs, which is reflective of a decline in petrol prices. Food inflation, however, ticked higher, driven by elevated meat prices amid persistent supply constraints linked to the ongoing outbreak of foot-and-mouth disease affecting cattle in parts of the country. Overall, inflation remains well behaved, providing policymakers with some flexibility as they balance growth considerations against global inflation risks.

Europe and the United Kingdom

European equities outperformed their US peers in February, with the STOXX Europe 600 registering its eighth consecutive monthly rise to the highest level in over a decade. Markets were supported by improving PMI data, resilient earnings and expectations of continued fiscal expansion, particularly in Germany, as confidence indicators climbed and composite activity remained in expansionary territory. Broader participation across financials and cyclicals helped offset ongoing geopolitical uncertainty and lingering AI valuation concerns. Eurozone inflation remained below the European Central Bank's medium-term target, reinforcing expectations that policy will stay accommodative, even as the bank maintains a data-dependent stance.

Sector performance was mixed but constructive. Financials and industrials led the advance as earnings held up, while energy and materials benefited from firm commodity prices. Technology and other growth sectors lagged amid rotation into more cyclically exposed areas. Divergences across member states persisted, with business sentiment showing variation but overall confidence improving from recent lows.

In the UK, the FTSE 100 Index posted one of its largest monthly gains in over three years, extending its winning run to eight months, driven by mining, defence and large financials. Miners and energy names outperformed as investors favoured 'halo' stocks with tangible assets. The index's limited exposure to high-growth tech also helped relative performance against markets more affected by AI-related volatility.

Monetary conditions remained a focus. The Bank of England signalled further policy easing later in 2026 as inflation trends moderated, although wage and labour dynamics add nuance to the outlook. Sterling's modest recovery reflected reduced tariff uncertainty and some stabilisation in gilt markets.

China

Chinese equities delivered a split performance in February, overall lagging the broader EM rally. Onshore A-shares proved relatively resilient, supported by domestic positioning and expectations regarding the upcoming release of the next 5-year plan. But Hong Kong-listed equities underperformed, particularly large-cap internet and platform companies, as investors focused less on AI ambition and more on near-term monetisation, margins and earnings visibility. The global tech and software sell-off reinforced the rotation away from long-duration growth, amplifying weakness in offshore technology stocks more sensitive to global discount rates and foreign flows.

The domestic macro backdrop remained a constraint on equity markets. Activity data pointed to stabilisation rather than reacceleration, with manufacturing surveys near contraction and inflation subdued. Soft price dynamics highlighted persistent demand weakness, limiting the scope for earnings upgrades. Property-sector fragilities continued to weigh on confidence. While policymakers introduced targeted liquidity measures and housing adjustments to stabilise developer funding, these were seen as a cushion rather than a catalyst.

Geopolitical tensions and commodity price volatility added further uncertainty, contributing to cautious offshore positioning. The MSCI China All Shares Index fell by 2.9% in US dollars in February.

Global equities

Global equities eked out a small gain in February, with the MSCI All Country World Index posting an approximately 1% rise (in USD). But there was wide dispersion in performance. The shares of companies seen as at risk from AI disruption sold off in the month. Software stocks bore the brunt, following the release of new coding tools by AI company Anthropic. But other perceived AI victims, including banks, were also caught up in the 'fobo' (fear of becoming obsolete) downdraft. The market was skittish, with a sharp wave of selling triggered towards month-end by a widely shared blog post that speculated AI could drive up the US jobless rate to >10% by 2028. Seeking businesses seen as less at threat, investors rotated towards the 'physical economy', with utilities, energy and materials stocks among the notable beneficiaries – a trade that quickly spawned another new acronym: 'halo' (heavy-asset, low obsolescence). By region, Japanese equities hit record highs, buoyed partly by confidence in domestic politics, with major European and UK stock-market indices also outperforming global equities. US shares lagged, reflecting the declines in tech stocks. Overall, emerging markets equities outperformed developed market stocks, with South Korea and Thailand among the notable outperformers.

Indices	February 2026 net return (USD)
S&P 500	-0.8%
Nasdaq Composite	-3.3%
MSCI ACWI	1.3%
Nikkei 225	10.4%
EuroStoxx 600	3.7%
FTSE 100	7.0%
Hang Seng Index	-2.8%
SSE Composite	1.1%

Indices	February 2026 net return (ZAR)
FTSE JSE All Share Index	7.0%
FTSE/JSE Financials Index	7.3%
FTSE/JSE Industrials Index	6.4%
FTSE/JSE Resources Index	13.3%
FTSE/JSE ALBI	1.7%
STEFI	0.5%

Source: Bloomberg, as at 28 February 2026.

Global fixed income

US

Amid volatile equity markets, US Treasury yields declined, consistent with their safe-haven characteristics. However, US labour-market and inflation data released during the month was mixed, continuing to reflect the impact of the government shutdown. Earlier in the month, the Job Openings and Labour Turnover Survey (JOLTS) showed that December job openings fell to their lowest level in over five years; but January non-farm payrolls were better than expected. Inflation data was similarly uneven: headline CPI printed lower-than-expected at 2.4% year-on-year, but core PCE inflation (the Federal Reserve's preferred measure) rose, pushing the annual rate to 3.0%. On the growth side, Q4 GDP was weaker than expected as the impact of the government shutdown proved larger than markets had anticipated, but survey data pointed to a near-term recovery. Towards month-end, fiscal uncertainty resurfaced following the US Supreme Court ruling on tariffs. Overall, Treasury yields declined and markets gravitated towards a dovish view on the US economic outlook, pricing in at least two rate cuts by the end of 2026.

Europe

Eurozone inflation fell to 1.7% in January. The European Central Bank kept interest rates on hold at 2%, citing a resilient economy, while reiterating that inflation must stabilise at its 2% target over the medium term. Activity data showed signs of improvement: the eurozone manufacturing PMI rose above 50, indicating expansion, driven primarily by Germany as domestic fiscal expansion began to feed through. Against this backdrop, investors increased their expectations of a rate cut in 2026, supporting a rally in European sovereign bonds.

UK

The Bank of England left interest rates unchanged at 3.75% in February, although the decision was split, with four of the nine Monetary Policy Committee (MPC) members voting to cut. The accompanying guidance struck a dovish tone, signalling scope for further easing. Subsequent data releases strengthened the case for a cut at the next meeting in March: Q4 GDP was softer than anticipated, while the unemployment rate rose to 5.2% and inflation fell sharply to 3.0%. Rising expectations of a March rate cut supported a rally in gilts, with yields falling across the curve. On the political front, questions grew over Prime Minister Starmer's leadership following Labour's defeat in a by-election, raising concerns that a new prime minister could mean increased borrowing.

Japan

Longer-dated Japanese government bond yields moved significantly lower over the month, while the front end of the yield curve was broadly unchanged. Prime Minister Sanae Takaichi's victory in the snap election secured a supermajority for the Liberal Democratic Party. While fiscal expansion remains on the agenda, the tone shifted away from deficit-financed measures, improving investor sentiment towards longer-dated bonds. The rally was further supported by two dovish appointments to the Bank of Japan (BoJ) board. Although BoJ Governor Kazuo Ueda signalled that the central bank would continue to raise interest rates if economic and inflation projections remained on track, the government pushed back on further tightening, which could temper the impact of the planned fiscal expansion. As a result, the Japanese yen weakened against the US dollar.

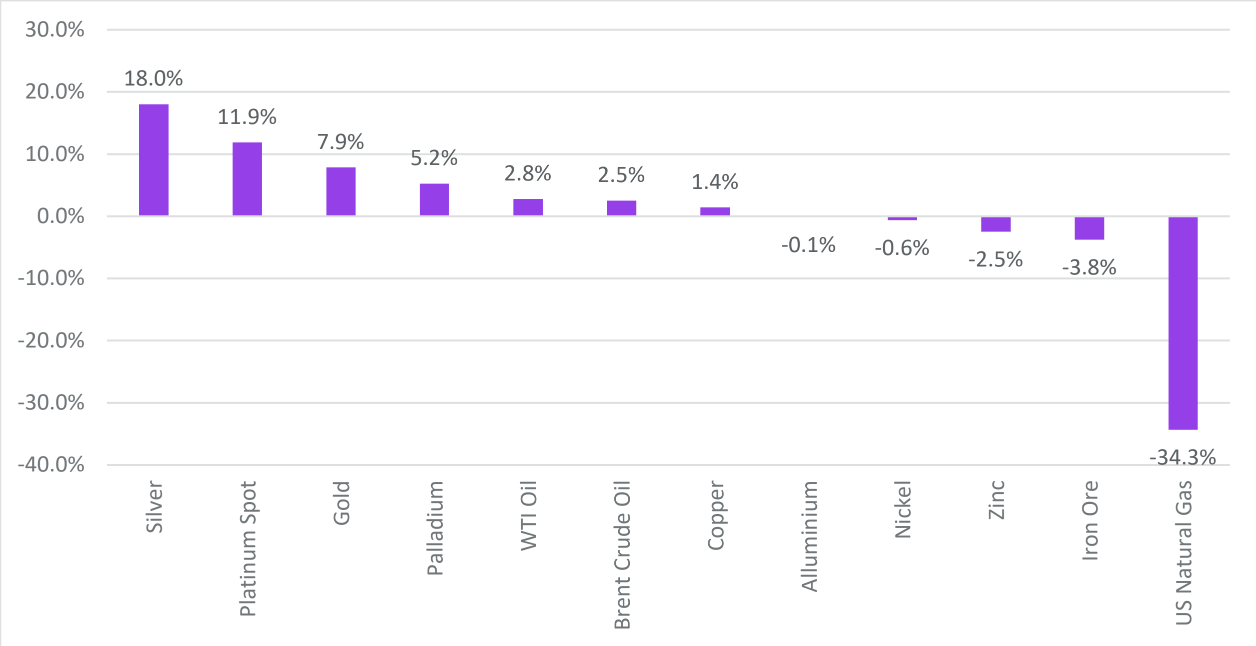
Indices	February 2026 total return in local currency
Bloomberg US Treasury Index	1.8%
Bloomberg Global-Aggregate Total Return	1.1%
Bloomberg EuroAgg Index	1.2%

Source: Bloomberg, as at 28 February 2026.

Commodity markets

Commodity markets were mixed in February. Precious metals maintained their strong momentum, with the price of gold rising almost 8% to US$5,279 per troy ounce. The gains partly reflected a flight to perceived havens, with investors growing more nervous of risks to global trade following the US Supreme Court's tariff ruling. Tensions in the Middle East, which escalated immediately after month-end, added to macro fears. The shares of gold producers outpaced gold, with the NYSE ARCA Gold Miners Index gaining 20%. Silver was also strong, rising about 18% to about US$93 per ounce. Industrial metals were more subdued, with copper gaining about 1%, and nickel and aluminium marginally down. Iron ore lagged, declining about 4% after a strong run last year, in expectation of softer Chinese buying. In energy, Brent crude closed February at about US$72 per barrel, 3% higher than its end-January level. Oil continued to price in a geopolitical premium, estimated at US$10/barrel, reflecting the risk that an escalation of tensions in the Middle East could disrupt supply. After market close at the end of the month, the oil price rose sharply as the US and Israel initiated military strikes on Iran. After steep gains in January, US natural gas prices fell back sharply in February in expectation of warmer weather and as the supply outlook improved – but moved sharply higher at the start of March as the Middle East conflict threatened supply.

Commodity price changes



Source: Bloomberg, as at 28 February 2026.