Discovery Invest

Discovery Balanced, Moderate Balanced, Cautious Balanced Funds

28 February 2026

Market background

Financial markets were broadly positive in February, although underlying price behaviour became more fragile as the month progressed. US Treasury yields declined and global equities posted gains, supported by resilient economic data. However, leadership continued to rotate beneath the surface.

Technology stocks were mixed. While semiconductor and industrial beneficiaries of higher capital expenditure guidance performed well, parts of the 'platform' and communication services complex came under pressure as investors reassessed the durability of competitive moats amid AI disruption concerns. This reassessment extended into areas such as gaming and asset-light digital businesses.

Commodities remained a key area of strength. Precious metals continued to rally and 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 major financial markets had closed. Elsewhere, the US Supreme Court struck down some of the tariffs imposed last year, although new levies were subsequently introduced via an alternative legal route.

In South Africa, the JSE All Share Index delivered gains despite early volatility. Resource stocks led performance, supported by firm precious metal prices amid sustained global demand for safe-haven assets. The 2026 National Budget signalled improving fiscal dynamics, with the deficit narrowing and debt projected to have peaked, marking the end of 17 consecutive years of debt accumulation.

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.

Performance

The portfolio delivered a positive absolute return over the month.

SA property and equities were the largest contributors, followed by bonds and commodities. Offshore equities were broadly flat, as muted dollar gains were largely offset by rand strength.

Key contributors:

- Gold and platinum-group metals stocks, diversified miners and energy holdings benefited from a supportive commodity backdrop
- SA property
- SA banks
- Select global equities: TKO Group continued its positive returns, while MediaTek and TSMC benefitted from continued strength in capex-related demand
- South African and Brazilian government bonds held up.

Key detractors:

- Naspers, Prosus and our gaming exposure: underperformed amid broader weakness in communication services and gaming-related exposures, as markets reassessed the durability of asset-light business models due to advancements in AI.
- 'Magnificent 7' stocks: Higher capex guidance supported semiconductor and industrial companies, but the mega-cap platform businesses faced valuation pressures.
- Offshore equities detracted in rand terms, as a stronger rand muted US dollar returns.

We trimmed Capitec and selected diversified miners later in the month, following strong performance.
We reduced exposure to the long end of the South African government bond curve as yields fell around 8%, recycling capital into cash and increasing offshore exposure. We added to Brazilian government bonds, where high real yields and the risk-reward profile remain compelling.
Offshore, we took some profits in semiconductor holdings after a strong run. Given the pace of AI-driven disruption, the team undertook detailed fundamental work to reassess areas of strength and vulnerability across the portfolio. We reduced exposure where moats appeared more at risk, particularly in gaming and certain industrial and services exposures, and redeployed capital into businesses with stronger competitive advantages and greater ability to navigate a shifting landscape.
We increased exposure to India, trimmed Barclays as the position grew to an outsized weight, and added to utilities, including Enel, to improve balance and resilience within the offshore allocation.

Outlook and strategy

The macro backdrop had remained constructive, characterised by resilient US growth, moderating inflation and a gradual broadening of equity market participation. That base case has not disappeared, but it is now being tested by the outbreak of war in the Middle East.
At this stage, the critical variable is duration. A short-lived conflict would likely represent a volatility event rather than a fundamental turning point. However, a prolonged disruption — particularly one that materially impairs oil and gas flows through key shipping routes — would have more significant implications for global growth, inflation expectations and risk appetite, especially in energy-importing regions such as Europe and parts of Asia.
Near-term energy inventories provide some buffer, but that cushion will erode if supply constraints persist. We are monitoring developments closely and have not made material allocation changes at this stage. Equity exposure remains moderate at approximately 70%, reflecting that we trimmed select exposures earlier in the year, as market price behaviour began to show vulnerability. While macro and earnings fundamentals remain broadly supportive, technical conditions suggest reduced resilience to external shocks, meaning any exogenous event could trigger indiscriminate selling — particularly in areas that have performed strongly year to date.
Beyond geopolitics, several crosscurrents remain in play. AI-driven disruption continues to reshape competitive dynamics across sectors, and stress emerging in parts of the private credit market is a warning flag. We are monitoring financial conditions carefully. Policymakers are unlikely to tolerate systemic stress and may respond with liquidity support if required.
Our broader themes remain intact for now. Capital expenditure intentions remain firm, supporting select industrial and commodity exposures, while markets continue to differentiate more sharply between businesses with durable moats and those whose economics are being eroded. However, these constructive dynamics may need to be reassessed if the conflict impairs energy supply or financial stability in a sustained way.
Our Compelling Forces framework continues to anchor positioning, balancing fundamentals, valuations and price behaviour. We are clear on where the risks lie and comfortable with the resilience of the businesses we own. Should the conflict endure and begin to alter the growth or liquidity backdrop more meaningfully, we are prepared to reduce risk. Until then, we remain measured, selective and ready to act as clarity improves.

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