

Discovery Market Review

30 September 2026

Market background

Markets diverged in the third quarter, with equities holding firm while bonds sold off as yields rose. A renewed US-Iran escalation lifted Brent crude sharply, reviving inflation concerns and prompting central banks in the US, Eurozone and Japan to raise rates in September. Equities still made modest gains, led by the US and supported by resilient growth and robust earnings, while gold and copper also rose.

United States

US equities ended a volatile third quarter higher, with several indices hitting records. Performance diverged beneath the surface, however: the S&P 500 and Nasdaq gained, while the Dow Jones and the equal-weighted S&P 500 slipped as rising borrowing costs and weaker consumer sentiment weighed on more interest rate- and economically sensitive companies. Weakness in small caps pointed to broader pressure beyond the largest listed companies.

Markets were pulled in two directions: continued support from corporate earnings and AI-related investment, against rising oil prices, inflation concerns and bond yields. Semiconductor and memory stocks came under pressure early in the quarter as investors questioned the durability of AI spending, a concern compounded by new developments in Chinese AI. Technology subsequently recovered on robust earnings, helping the Nasdaq regain ground.

The breakdown of the US-Iran ceasefire disrupted shipping through the Strait of Hormuz and pushed oil prices higher, adding to energy costs and inflation concerns. US Treasury yields rose sharply, tightening financial conditions and adding to pressure on rate-sensitive parts of the equity market. Energy was the clear standout among sectors, followed at some distance by information technology, communication services, health care and financials. Consumer discretionary and consumer staples declined.

South Africa

South African equities ended the quarter marginally lower, with early gains unwinding in September. The FTSE/JSE All Share Index fell 0.3%: a rotation into precious metals lifted resources 12.8% over the quarter, but a rate hike by the South African Reserve Bank (SARB), surging oil prices and rising global yields weighed on markets in September.

The SARB raised the repo rate by 25bps to 7.25% (prime 10.75%) on 23 September in a unanimous vote, resuming the tightening cycle after an unexpected hold in July. Headline inflation then slowed sharply to 4.3% year-on-year in July, from 5.0% in June and below consensus expectations of 4.4–4.5% as fuel and food prices eased. The August print edged up to 4.4% year-on-year, again below consensus, but rising oil prices stemming from the Middle East conflict threaten to push inflation higher in the months ahead. In September, the SARB struck a hawkish tone, citing the need to bring inflation back toward its 3% target and prevent higher levels from becoming entrenched.

In fixed income, the 10-year government bond yield rose above 9% towards quarter-end, its highest since April, as oil prices surged after the US rejected Iran's proposal to reopen the Strait of Hormuz – intensifying concerns over inflation and interest rates. The rand followed a similar path. It traded below R16.00/USD in August, supported by a softer US dollar, strong gold and platinum prices, and favourable carry, but much of that strength unwound in September as the oil shock, Federal Reserve (Fed) tightening and expectations of a SARB hike weighed on sentiment.



South Africa's growth backdrop also softened. GDP data released in September showed the economy contracted 0.2% quarter-on-quarter, ending six consecutive quarters of expansion and adding a growth headwind to the rate shock.

Europe and the United Kingdom

European equities lagged global peers as a weak September dragged the Stoxx 600 benchmark into negative territory for the quarter. A fresh surge in energy prices, with Brent crude and European natural gas prices jumping markedly, led to mounting fears of stagflation, along with concerns that the ECB would raise rates more aggressively than previously anticipated. French assets came under particular pressure along with German equities, with sovereign yields in both countries the highest in more than 15 years. Most sectors fell over the month, with energy the main bright spot.

UK equities outperformed, benefiting from their greater exposure to financials, energy and commodity-related sectors, as well as more attractive valuations and stronger dividend support. The FTSE 100's seventh consecutive quarterly gain is the longest run in more than 20 years. The FTSE 250, which is more domestically focused and has much less energy exposure, also had a strong quarter, supported by earnings momentum, and broke above 24,000 for the first time since 2021. On monetary policy, the Bank of England held rates at 3.75%, though its tone was more hawkish in prior meetings given the energy backdrop.

China

Chinese equities endured a challenging and volatile quarter, with the onshore-offshore pattern that defined much of 2026 suddenly inverting in July. Mainland A-shares, which had been the steadier segment in the first half, bore the brunt of the global AI trade unwind as semiconductor and hardware names were caught in a broader reassessment of AI valuations. Hong Kong, by contrast, had its strongest month of the year after China approved Apple Intelligence running on Alibaba's Qwen model.

August partly restored the familiar dynamic, as mainland markets recovered modestly on domestic liquidity, renewed interest in AI-adjacent and technology names, and a more supportive export backdrop, while offshore markets consolidated July's gains, as the Qwen catalyst faded. September brought the sharpest reversal, as surging oil prices, US Treasury yields and a firmer dollar weighed on both markets, given China's position as the world's largest oil importer.

Activity data improved, with the official PMI rising to 50.1 in September from 49.8 in August, in line with consensus, with foreign sales growing at their fastest pace in seven months. This offers some grounds for optimism heading into the fourth quarter, although property weakness, subdued consumer confidence and a more challenging global monetary environment remain.

Global equities

Global equities made modest gains in the third quarter, supported by resilient growth and robust earnings, which outweighed concerns around geopolitics and rate hikes. Developed markets outperformed, in particular, US equities. The S&P 500 reached a new record in August, lifted by the Magnificent Seven on the back of a broadly strong earnings season and a rotation from semiconductors towards hyperscalers and software companies. A further re-escalation in the US-Iran conflict in September tempered risk appetite, however, with Brent crude up by 42% from its end-June lows, reviving inflation concerns.

European equities lagged. Despite the benchmark Stoxx 600 also hitting a record in August, it ended the quarter in the red, as rising bund yields and energy-driven inflation concerns weighed heavily in September. South Korea was among the weakest markets, falling more than 20% after an extremely strong second quarter, as it bore the brunt of the July unwind in global semiconductor stocks. At the sector level, energy benefited from the spike in oil prices, while strong earnings lifted tech stocks. Utilities and real estate stocks were among the laggards given the surge in bond yields.



Indices	Q3 2026 net return (USD)
S&P 500	2.2%
Nasdaq Composite	2.6%
MSCI ACWI	1.6%
Nikkei 225	-4.2%
EuroStoxx 600	-1.1%
FTSE 100	1.8%
Hang Seng Index	8.6%
SSE Composite	-6.2%

Indices	Q3 2026 net return (ZAR)
FTSE/JSE All Share Index	-0.3%
FTSE/JSE Financials Index	-5.0%
FTSE/JSE Industrials Index	-1.7%
FTSE/JSE Resources Index	12.8%
FTSE/JSE ALBI	-0.7%
STEFI	1.7%

Source: Bloomberg, as at 30 September 2026.

Global fixed income

US

US Treasury yields rose sharply over the quarter as oil-driven inflation concerns and resilient data led the US Federal Reserve (Fed) to its first rate hike since 2023; the 10-year closed the quarter at 5.28% (its highest since 2007), and the 30-year at 5.63% (its highest since 2002). Renewed escalation in the US-Iran conflict in July sent Brent crude from around US\$70 to over US\$100 a barrel and lifted inflation expectations, despite a softer June CPI print. In tandem, heavy Treasury issuance and fiscal deficit concerns drove a sell-off in longer-dated bonds, which an expanded long-bond buyback programme only briefly steadied.

The Fed turned more hawkish as the quarter progressed: three members dissented in favour of a hike in July, and Chair Warsh signalled at Jackson Hole that further tightening may be needed, lifting front-end yields. In September, the Federal Open Market Committee raised rates by 25bps to 3.75%-4.00% in a unanimous vote, alongside a more hawkish dot plot. Economic data remained strong, with August core CPI and payrolls both beating expectations and fuelling bets on a Q4 hike. Markets are pricing in three further hikes by mid-2027, despite a downward revision to inflation announced at the end of September.

Europe

European sovereign bond yields rose markedly over the quarter, driven by a renewed energy price shock, a hawkish European Central Bank (ECB) and rising political risk. The 10-year bund yield closed the quarter at 3.60%, its highest level since 2009. The escalation of the US-Iran conflict in July sent oil prices sharply higher, leaving energy-dependent Europe particularly exposed after a softer June inflation print had briefly eased concerns.



The ECB held rates at 2.25% in July but maintained a firmly hawkish tone, with Executive Board member Isabel Schnabel arguing in August that further tightening would be needed. In September, the ECB lifted the deposit rate by 25bps to 2.50%, warning of an extended period of inflation well above target and upgrading its growth forecasts. Resilient data, including a stronger-than-expected Q2 GDP print and a three-year high in the September composite PMI, reinforced expectations of a hike. Fiscal and political uncertainty added further pressure, with concerns over France's fiscal deficit and its 2027 presidential election pushing the Franco-German 10-year spread to 127bps, its widest since the 2012 euro crisis. Markets ended the quarter pricing in three hikes by mid-2027.

UK

UK gilt yields rose across the curve over Q3, with the 10-year and 30-year touching multi-year highs in September. Tensions between the US and Iran escalated in July, pushing oil back above US\$100 per barrel and fuelling a global bond sell-off, with long-dated gilts under further pressure from fiscal deficit and issuance concerns. Inflation reaccelerated, with CPI climbing from 2.6% to 3.1% over the quarter. The fiscal outlook remained in focus for investors as Andy Burnham succeeded Sir Keir Starmer as Prime Minister in July. The Bank of England (BoE) held rates at 3.75% at both its July and September meetings, although in September it signalled that inflation risks were skewed to the upside and monetary policy may have to tighten. Markets ended the quarter pricing in a likely rate hike in November.

Japan

Japanese government bond yields rose in Q3 on growing expectations of a Bank of Japan (BoJ) rate hike and the broader global bond sell-off, with the 2-year and 10-year yields ending the quarter at or near their highest levels since the mid-1990s. The Bank of Japan (BoJ) held rates in July before hiking by 25bps in September, taking the policy rate to 1.25%, its highest since 1995. However, the decision struck a more dovish tone than expected, with two dissents in favour of holding rates. Markets nonetheless continued to price further tightening, despite slower Q2 GDP growth, as rising energy costs and a weak yen raised inflation concerns. The yen was a key focus throughout the quarter, after coordinated intervention by Japan and the US lifted it from its weakest level in around four decades against the US dollar, before it drifted back to 157.

Indices	Q3 2026 total return in local currency
Bloomberg US Treasury Index	-3.0%
Bloomberg Global-Aggregate Total Return	-2.5%
Bloomberg EuroAgg Index	-3.8%

Source: Bloomberg, as at 30 September 2026.

Commodity markets

Broad commodity indices rose in Q3, reversing the prior quarter's declines, as conflict re-escalated in the Middle East. Brent crude rose 42%, ending the quarter at US\$104 per barrel, as renewed strikes on shipping and energy infrastructure further disrupted flows through the Strait of Hormuz, a route that previously carried around a fifth of the world's oil and liquefied natural gas. Iran's proposal to reopen the strait was rejected by the US late in the quarter, driving another spike in Brent prices.

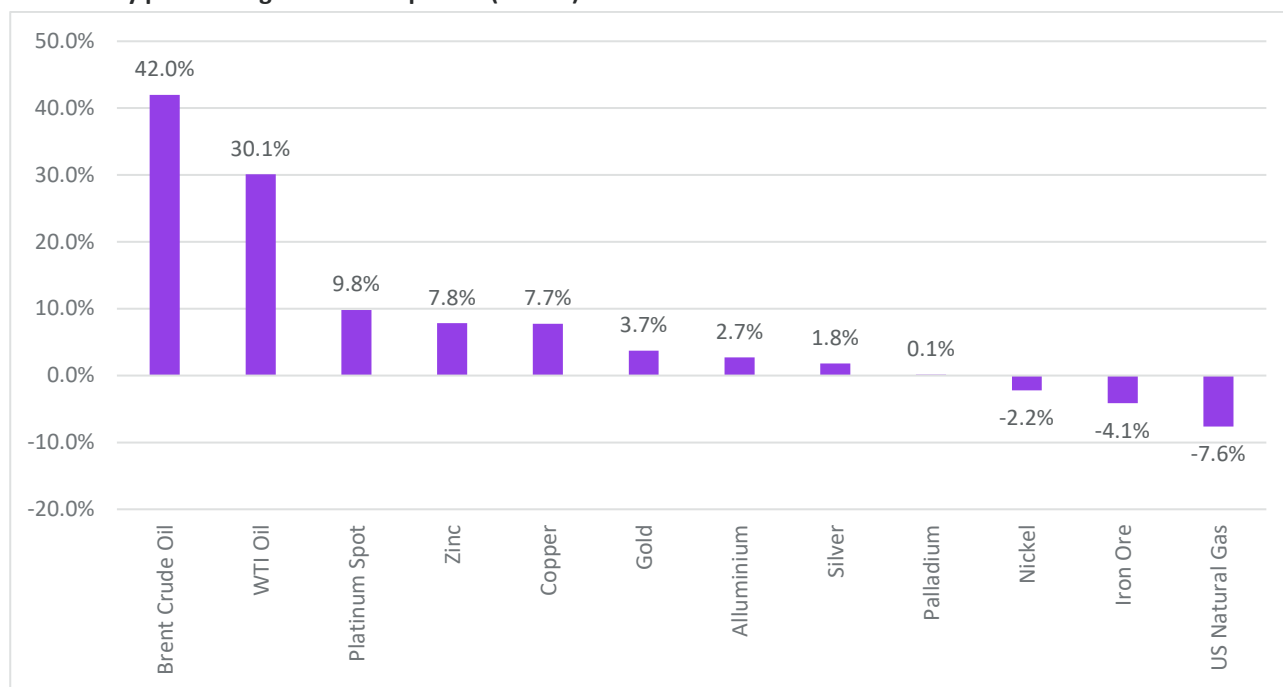
Gold rose 4% over the quarter to end at US\$4,157 per Troy ounce, as central banks kept up an elevated pace of buying after a record Q2. Total known holdings of gold by exchange-traded funds – a proxy for investor appetite for the precious metal – rose 4%, reversing the decline seen over the previous quarter. Gold-mining equities outperformed the metal itself, with the NYSE Arca Gold Miners Index up 17%. Among other precious metals, platinum gained 10%, silver was up 2% and palladium was unchanged.

Copper extended its 2026 rally, rising 8% and hitting new record highs during the quarter, amid continued US stockpiling ahead of a pending tariff decision on refined copper imports. Weather-related disruption to copper mines in Chile, which produces about a fifth of the world's copper, added to upward price pressure. Among other industrial metals and bulks, zinc and aluminium rose 8% and 3% respectively, while iron ore fell 4%.



Agricultural commodities rebounded from Q2's declines. Corn, wheat and soybean prices all rose sharply (up 21%, 16% and 16% respectively) as drought conditions across parts of Europe and the US eroded hopes for a strong harvest, while renewed Chinese demand for US soybeans and unsettled South American planting weather added further support later in the quarter.

Commodity price changes over the quarter (in USD)



Source: Bloomberg, as at 30 September 2026.