

Discovery Diversified Income

30 September 2026

Market background

The defining event of the quarter was the South African Reserve Bank's (SARB) Monetary Policy Committee decision on 23 September to raise the repo rate by 25bp to 7.25%, in a unanimous vote that resumed the tightening cycle after the Monetary Policy Committee (MPC) had unexpectedly held rates at its 23 July meeting in a split 4-2 vote. July's headline inflation print, released three weeks after the hold, slowed sharply to 4.3% year on year (y/y) in July from 5.0% in June, below consensus expectations of 4.4–4.5%, as fuel prices and food inflation eased. The August print inched higher to 4.4% y/y, although still undershooting consensus expectations. Rising oil prices stemming from the Middle East conflict threaten to push inflation higher in the months ahead. In its decision to hike in September, the SARB struck a relatively hawkish tone, citing the need to bring inflation back toward its 3% target in order to prevent inflation becoming entrenched.

In the South African Bond market, the 10-year yield rose above 9% towards the end of the quarter, its highest levels since April. The move was driven by the combination of rising developed market yields and the renewed flare up in geopolitical tensions in the Middle East as the US rejected an Iranian proposal to reopen the Strait of Hormuz resurfacing oil supply concerns and the knock-on impact on energy prices and inflation globally.

The currency performance over the quarter tracked the same oil narrative as bonds. The Rand traded strongly, to levels below R16.00/USD in August, supported by a softer US dollar, strong gold and platinum prices, and the favourable carry trade. That strength unwound in September, however, as the Iran-conflict oil shock, Fed tightening, and SARB hike expectations weighed on sentiment, with the currency ending largely unchanged at 16.40.

Performance review

The portfolio underperformed its benchmark over the quarter.

Duration positioning detracted from the portfolio's performance over the third quarter. Global bond markets were on the back foot in response to renewed pressure in global energy markets, higher inflation expectations and the start of global rate-hiking cycles. The short-dated exposure in inflation-linked bonds helped performance, while the credit allocation continued to perform well and enhanced yield over the quarter. The property sector delivered modest gains which added value. Currency exposure in those portfolios with FX, also helped offset some of the downward pressure on performance, and volatility for the portfolio.

Outlook and strategy

Global geopolitical risk in the Gulf, continues to outweigh supportive local fundamentals and is expected to remain the primary driver of markets. Oil supply remains tight and prices elevated, which has exacerbated weak US Treasury



markets, with yields hitting multi-decade highs. While South Africa and emerging markets have slightly outperformed developed markets, they have not been spared. Over the coming weeks, market focus is expected to shift from oil towards politics, as local government elections in South Africa and the US midterms take centre stage. Locally, the fiscal position remains sound: commodity prices are holding up, revenue collection continues to surprise to the upside, and a fiscal rule is expected to be announced at the midterm budget - which would be very positive. With the country on positive outlook, the -rating agencies have indicated they favour South Africa's direction of travel. However, given the broader uncertainty, the portfolio maintains a relatively conservative stance.

That said, the next two to three months will be supportive from a coupon-flow perspective. The reinvestment of these coupons should provide some support to the South African government bond market.

Duration

We added back duration towards the end of the quarter, bringing our position to marginally above neutral.

Curve positioning

Hedges in the front end of the curve are maintained. The portfolio has reduced exposure to the short end of the yield curve and moved more into the belly, in response to a more hawkish SARB with South Africa pricing in less of a hiking cycle than the Fed and ECB, thus offering good risk-reward against higher global yields.

Currency

With the Fed hiking and sounding more hawkish, and the rand having outperformed its terms of trade, US dollar exposure and protection have been increased.

Property

Listed property remains very attractive. The overweight is maintained, supported by strong global growth, attractive yields and double-digit dividend growth across much of the sector.

Linkers

We maintain a neutral view on inflation-linked bonds, although we hold some short-dated exposure to hedge against upside risks to inflation.

Credit

Our view remains positive on corporate bonds, with short-duration offshore investment-grade credit offering attractive yields relative to South Africa.