

Discovery Global Equity Feeder

31 March 2026

Market background

Equity markets reached new highs in February but the quarter ended sharply lower as a narrowing of breadth gave way to a genuine de-risking event. The trouble started within technology: software and AI-related disruption and the gap between hyperscaler capital expenditure commitments and the revenue trajectories those investments were likely to produce.

The escalation of the US-Iran conflict in late February transformed an orderly rotation into something broader. Disruption to Middle Eastern energy flows pushed oil prices sharply higher, feeding directly into inflation expectations and forcing markets to reprice the path of monetary policy. By mid-March, rate cut expectations for the remainder of 2026 had been pared back materially across both the US and Europe, removing a key support for equity valuations. The factor rotation was stark: momentum reversed, quality held up and value - led by energy and financials - outperformed meaningfully.

Emerging market equities started the quarter with genuine momentum on the back of a weaker US dollar, but higher energy prices widened current account deficits for oil importers and stalled easing cycles. The MSCI EM Index fell just 0.2% over the quarter in US dollar terms, outperforming developed markets, though a roughly 13% drawdown in March illustrated the severity of the repricing.

In Europe, fiscal stimulus expectations around defence and infrastructure drove markets higher through February. The UK outperformed, supported by miners, defence names and large-cap financials. However, the energy shock threatened the region's fragile growth outlook. The ECB held rates in March, flagging the tension between rising inflation and weakening demand. At the sector level, energy rose significantly while technology and communication services bore the brunt of selling.

Performance review

The portfolio underperformed the index over the three-month period. At the sector level, industrials, communication services and energy weighed on returns.

Underperformance accumulated across the quarter in two distinct phases. In the first two months, a broad sell off in software and AI related businesses weighed heavily on the portfolio, as markets reassessed long term AI economics, hyperscaler capital expenditure and the durability of software pricing models. Technology and communication services stocks retreated on valuation concerns, while the portfolio had limited exposure to the memory and capital equipment names that benefited from the semiconductor rotation. The US-Iran conflict in March then compounded these losses, pushing oil prices higher, reviving inflation concerns and prompting markets to scale back expectations for further monetary easing. Energy stocks rose significantly in this period, where we were underweight, amplifying the shortfall against the benchmark. Among the main detractors, our overweight in Boston Scientific, the US medical device company focused on cardiovascular and interventional products, detracted as investors grew anxious about 2026 growth amid intensifying market share pressure in electrophysiology. Zillow, the online real estate marketplace, underperformed after guiding Q1 profit below expectations due to elevated legal costs, compounding a cautious



housing backdrop. Our position in US videogame publisher Take-Two Interactive Software also detracted over the period as investors fretted over the release timing risk around key franchises, pressuring valuation despite solid bookings commentary into 2026. In addition, our overweight in Tencent, the Chinese technology conglomerate, detracted as regulatory uncertainty in China's gaming sector resurfaced, raising concerns over Chinese technology valuations. Our position in Barclays also detracted as weaker investment banking revenues and concerns over UK consumer credit quality weighed on sentiment.

Among the main contributors, our overweight in TSMC, the world-leading pure-play semiconductor foundry, contributed as the company continued to outperform following a strong Q4 2025 earnings beat; management also raised long-term guidance and reaffirmed that robust AI chip demand was continuing to accelerate into 2026. Our overweight in Exxon Mobil, the US integrated oil and gas major, contributed as continued Permian Basin production growth and synergies from the Pioneer acquisition tracking ahead of schedule supported the earnings outlook; its strong capital return programme and relative cost advantages also reinforced its premium positioning among global energy majors. Our holding in Johnson & Johnson, the US healthcare company, contributed as it was viewed as a defensive safe haven and delivered improved pharmaceutical momentum and results. Not owning Tesla contributed to relative returns over the period. Our position in CATL helped after Q4 2025 results showed strong volume growth and stable unit profitability, with management guiding to a multi-year volume growth trajectory.

Outlook and strategy

The US economy entered 2026 on solid footing, with the IMF projecting 2.4% GDP growth for the year. However, the Iran war has now introduced stagflation risk as shown by US March CPI printing at 3.3% year on year (y/y), driven by gasoline prices surging 21.2% in a single month - the largest monthly increase since 1967. This creates uncertainty for the US Federal Reserve which is likely to look through shorter-term price shocks but the upcoming change in Chairman adds a layer of policy uncertainty. The labour market remains resilient with unemployment at 4.3%, however, the ISM services employment index fell to 45.2 in March, the lowest since December 2023, signalling that white-collar hiring is weakening beneath the headline readings.

Across the Atlantic, the European Central Bank (ECB) held interest rates in March, but the market is now expecting two to three hikes in 2026. Eurozone headline inflation was 1.7% in January but is projected to reach 3.1% in Q2, while growth forecasts have been cut to c.1% for 2026. Structurally, however, Europe's fiscal stimulus will be offset by defence spending rising toward €162 billion by 2029. Some forecasters see UK growth of just 0.1-0.6% if oil prices persist at current levels. Elsewhere, Japan remains vulnerable as a near-total importer of Middle Eastern crude.

In emerging markets, China shows tentative stabilisation. The official manufacturing PMI recorded its strongest reading in 12 months, with January-February exports surging +21.8% y/y, the biggest gain in four years, led by semiconductors and autos. China's large oil stockpiles provide relative insulation from the Hormuz crisis. However, the property sector remains in distress, with new home prices falling for the 32nd consecutive month. India faces the sharpest headwind among major EMs as a massive net oil importer. 2026 GDP growth forecasts have been cut to 5.9% (from 7.0% pre-war).

The AI investment cycle has proven resilient to geopolitical disruption, but the critical investor concern is the deterioration of free cash flow (FCF). Amazon may turn negative FCF in 2026 on its US\$200 billion capex commitment. Capital intensity has reached historically unprecedented levels across the hyperscalers, and significant returns on that investment have yet to be demonstrated.

Value has decisively outperformed growth so far this year. Energy's 34% surge has been the primary driver, echoing the 2022 rotation. Momentum and quality have weakened. Persistent macro volatility, structural dislocations, and potential shifts in currency leadership create a favourable environment for active investors. In this context, a disciplined investment approach focused on collaborative intelligence – combining proprietary data-driven outputs and fundamental insights – is uncovering attractive bottom-up opportunities in technology, healthcare, industrials, and financials. Overweight exposures to non-US assets and preparing for further shifts in global capital flows are prudent steps toward building long-term portfolio resilience, and supports our ability to deliver consistent portfolio outcomes over the long term.



Amid these crosscurrents, our Global 4Factor team continues to emphasise collaborative intelligence and disciplined stock selection. The 4Factor investment process combines machine learning with human judgment to guide our fundamental research and idea generation, ensuring we capture opportunities that quantitative models flag while critically evaluating them through seasoned analyst insight. This blend of data-driven signals and deep fundamental analysis is central to how we identify resilient businesses with attractive valuations. We remain focused on high-quality companies benefiting from secular tailwinds (like AI adoption) and showing strong 4Factor characteristics, while steering clear of crowded trades lacking fundamental support. By harnessing technology in our research and maintaining a long-term perspective, the team aims to deliver repeatable results regardless of market volatility. Our current portfolio positioning reflects this balanced approach – grounded in fundamentals, enhanced by machine learning, and built to be resilient in the face of an ever-evolving macro landscape.