

Discovery Global Multi-Asset Fund

31 March 2026

Market background

The first quarter of 2026 began on a positive note but ended in a sharp retreat. In January and February, supportive data helped lift risk assets, with both US and European equities reaching record highs. The picture changed dramatically on 28 February, when US strikes on Iran triggered a surge in oil prices. Through March, hopes of a swift resolution gave way to fears of a prolonged conflict, with Iran's selection of a hardline Supreme Leader and late-quarter Houthi strikes on Israel adding to the unease. All four major central banks held rates steady over the quarter, but the tone shifted to hawkish as higher energy prices fed into inflation expectations. By quarter-end, markets had almost entirely priced out US Federal Reserve (Fed) cuts for 2026 and were instead pricing in European Central Bank (ECB) rate hikes, a dramatic reversal from the start of the year. The episode drew clear comparisons with the stagflation backdrop of 2022.

Despite a strong start to the year, growth assets ended the quarter in negative territory. Global equities fell, with developed markets underperforming emerging markets. US equities lost more than 4% in total return terms, their worst quarterly performance since the third quarter of 2022, while European equities were mixed, with UK equities bucking the trend, helped by exposure to the energy sector. Emerging market equities were broadly flat over the quarter, masking a sharp sell-off in March. High-yield credit declined in both the US and Europe, with European high-yield particularly hard hit in local currency terms. Emerging market debt fell across both hard and local currencies, partly due to US dollar strength. Commodities surged by more than 23% as the oil shock dominated, although copper and silver fell on growth concerns.

Defensive assets offered only limited protection. Global government bonds declined as rising inflation expectations pushed yields higher. Gilts fell by nearly 2%, US Treasuries were broadly flat and global investment-grade credit posted modest losses. The yen weakened against the dollar over the quarter as early safe-haven demand faded and the dollar recovered more broadly, while sterling and the euro also lost ground.

Gold was one of the few bright spots, rising just over 8% for its fifth consecutive quarterly gain, supported by geopolitical stress and volatility in real yields. A sharp 11% reversal in March, its worst monthly decline since October 2008, was not enough to wipe out the gains made earlier in the quarter.

Performance

The Fund delivered a negative absolute return and underperformed its benchmark by 1.5% over the quarter (60% MSCI AC World NR 40% Citigroup WGB).

Relative performance was driven primarily by weak security selection, particularly within equities, while asset allocation returns were supported by exposure to the US dollar.



Earlier in the quarter, the portfolio benefitted from its risk seeking stance and overweight position in equities, with positions in broad index exposure in European equities and US small caps supported by the markets broad rotation towards more cyclical areas. However, February saw a pullback in US mega-cap technology stocks, including Nvidia, Amazon, Microsoft and Alphabet, amid growing concern over the sustainability of the AI investment cycle which started to weigh on performance. This was followed by a broader sell-off in March, as sentiment deteriorated as markets priced the stagflationary effects of conflict in the Middle East, driving cyclical areas to give back much of their gains with US small caps and Indian equities leading the losses in the Strategy. Specific holdings in Boston Scientific and Tencent also detracted on disappointing earnings and concerns over the sustainability of their business models as AI adoption spreads across sectors. Companies in defensive sectors such as Johnson and Johnson provided some offset, however.

Asset allocation added modestly to relative returns over the quarter. The portfolio's US dollar exposure provided diversification as stagflation risks rose in March and the currency returned to its defensive characteristics. Within fixed income, earlier gains from developed-market government bonds were reversed later in the quarter as bond yields rose in response to the oil shock and higher inflation concerns. Positions in UK Gilts in particular faced headwinds as they reacted strongly to the rising inflation risks.

The portfolio entered the year with a constructive risk stance, on the view that reflationary conditions were becoming increasingly likely globally as previous policy easing alongside fiscal expansion was expected to feed through into demand. As a result, the portfolio maintained an overweight position in equities relative to its benchmark over the first two months. Within the risk asset exposure, there was an increasing bias towards US small caps and areas that would benefit from a potential broadening in growth and market drivers.

During February, the overweight position was reduced and rotated amid concerns about a possible peak in the AI investment cycle, and market leadership broadened. By March, overall equity exposure was reduced further, though it remained overweight relative to the benchmark, as the outbreak of war involving the US, Israel and Iran drove a sharp rise in oil prices and heightened stagflation risks.

As the energy shock in the Middle East introduced further volatility risk, overall risk asset exposure was reduced further, reflecting the relative outperformance of equities versus bonds in pricing economic risk. As the conflict progressed and concessions emerged, we used the market volatility to rotate further into reflation beneficiaries such as European Basic Resources. Within the direct equity holdings, positions in Meta and Rheinmetall were reduced, with capital rotated into Contemporary Amperex Technology and L'Oréal. The portfolio also continued to add to a position in broad commodities, reflecting a more reflationary backdrop that was already emerging prior to the rise in geopolitical risk.

No changes were made to the portfolio's duration positions.

Outlook

The US economy continues to demonstrate resilience, with economic data remaining buoyant and showing increasing signs of broadening. There are already initial signs of this broadening within the credit cycle, where momentum is no longer confined to areas that previously dominated, such as private credit.

As we continue through 2026, growth is expected to remain robust and broaden, supported by the lagged impact of monetary easing, improving liquidity conditions as the Fed returns to balance sheet expansion and front-loaded fiscal spending that supports consumers.

Disinflationary forces in shelter and other key components are likely to be offset by inflationary pressures arising from challenging base effects and an improving demand backdrop, with further upside risks from energy and commodity prices as the implications of the Iran war continue to weigh on global supply chains.



As a result of these dynamics, we expect US risk assets to remain supported, with the potential for a broadening of performance drivers as liquidity conditions ease and demand recovers. The labour market, however, remains a key risk to monitor.

In Europe, there is evidence of an emerging economic recovery supported by previous policy easing, a new credit cycle and expanding fiscal budgets in Germany and across Europe. However, the strength of this recovery remains uncertain, with headwinds from the reflexivity of recent euro strength, higher interest rates, rising energy prices and uncertainty over the timing of fiscal support. The latest Iran war is likely to have a more significant impact on the European economy, given its reliance on imported energy, and poses key upside risks to inflation. The ECB has shifted to a more proactive reaction function, making it increasingly sensitive to inflation surprises and increasing the probability of rate hikes and a subsequent policy mistake. The higher level of uncertainty over the European growth outlook suggests more caution is warranted for European currencies moving forward, in our view, particularly given recent outperformance.

In China, easing measures have become less forceful in the near term, with the credit impulse once more rolling over. The Chinese authorities continue to prioritise domestic consumption as a driver of growth. In particular, the “special action plan” outlines a broad set of measures that will be implemented to support a transition away from the recent driver of growth, namely high-value-added industry and exports, towards domestic consumption. The step was driven by the escalation in trade conflict, but their ability to materially ease is constrained by weak domestic confidence and elevated debt levels. Recent growth data show some signs of a recovery in economic momentum from a weak base, with consumer confidence improving and the property market potentially nearing a bottom. The introduction of “anti-involution” policies and supportive base effects have supported a recovery in inflation, which has key implications for the rest of the world given the degree to which China has been an exporter of deflation over the last few years.

The conflict in the Middle East remains ongoing and uncertain, adding to the uncertainty around economic outlooks and policy actions at this juncture. Overall, we are inclined to believe that the shock stemming from the conflict is likely to be temporary and limited in its impact on the macro trends already in place at the start of this period, namely the global reflationary environment discussed above. However, we continue to monitor alternative scenarios around this, should conditions change.

As a result of our central investment roadmap, as discussed above, we continue to believe that risk assets will remain supported by easing fiscal and monetary conditions. Improving credit cycles and accelerating economic momentum suggest the potential for a broadening in market drivers, although geopolitical tensions are likely to continue to add to volatility. We prefer areas of the market that will benefit from reflationary conditions, such as small caps and basic resources. In fixed income, valuations have notably reset in defensive government bonds in the near term, reflecting elevated inflation risks. As a result, the longer end of curves continues to offer attractive diversifying qualities, in our view. In currency, while we continue to believe the medium-term path for the US dollar is weaker, the recovering economic backdrop and inflation risks create near-term upside risks to the currency, at a time when European peers are facing headwinds from the latest geopolitical events.