

Discovery Money Market

31 March 2026

Market background

The start of 2026 was marked by significant volatility across financial markets, with the US Treasury market posting a loss over the quarter. War in the Middle East resulted in a global risk-off move and drove a reversal of expectations around the path of interest rates. Prior to the conflict, stable inflation and an improving jobs market allowed the Federal Reserve (Fed) to keep rates on hold. Yields then declined as AI-disruption fears sparked volatility in equity markets in February and investors sought safety in bond markets. But the oil price shock seen since war broke out has caused an abrupt shift, prompting the Fed to adopt a more hawkish tone and revise up its inflation projections. US Treasury yields ended the quarter higher across the curve, with front-end yields rising more than in longer-dated bonds as markets priced out expectations of rate cuts for 2026.

South Africa entered 2026 on a genuinely positive footing. Local assets were performing well, supported by strong commodity prices, improving fiscal fundamentals, and expectations of further gradual monetary easing. Inflation reached the SARB's new 3% target in February and Finance Minister Godongwana delivered an encouraging budget, projecting narrowing deficits and stabilising debt.

The Iran conflict changed the picture materially. The outbreak of hostilities disrupted global energy markets, which sent oil prices surging. The 10-year government bond yield rose to 9.32% by quarter-end, and the rand closed at R16.94/USD having briefly touched R15.73 in January. The SARB held the repo rate at 6.75% at both its January and March meetings, with the market now pricing in rate hikes on the expectation that the conflict persists.

Performance review

The Fund outperformed the benchmark over the quarter.

The one-year fixed-rate negotiable certificates of deposit (NCDs) ticked higher over the quarter, with rates increasing by 63bps to 7.73% at the end of March from 7.10% in December following the conflict in Iran and concerns around the inflationary impact of higher energy prices. The market is now pricing in potential rate hikes, compared to the cuts expected at the beginning of the year.



Outlook and strategy

The Iran conflict, now entering its second month, has shifted from an emerging risk to an active constraint on the inflation outlook. While a fragile ceasefire agreed in early April has offered some near-term relief, its durability remains uncertain, and oil prices are materially elevated relative to where they began the year.

Should hostilities resume or the Strait of Hormuz face renewed disruption, a further energy shock would place significant upward pressure on fuel and food prices, complicating the SARB's path toward reaching its 3% inflation target. We continue to monitor developments closely, as the trajectory of the conflict remains the single most important variable shaping both the domestic inflation outlook and the extent to which the SARB is able to look through the effects of the shock.