

Discovery Balanced, Moderate Balanced, Cautious Balanced Funds

31 July 2025

Market background

Global markets remained upbeat in July, buoyed by easing trade tensions, robust economic data and strong corporate earnings. US equities, benchmarked by the S&P500, rose for a third month, led by tech on strong earnings and easing tariff concerns. European markets gained as banks, exporters, and hopes of a benign US–EU trade deal supported sentiment. Japanese equities rebounded mid-month on lower auto tariffs and renewed risk appetite. Chinese equities rallied on policy support, earnings momentum and improving sentiment. Global high yield credit was resilient, aided by firm technicals and modest spread compression. Emerging market hard currency debt gained, but local debt lagged on US dollar strength and modest outflows. Commodities were mixed: oil rose on sanctions threats and firmer growth signals, while copper fell after a US tariff exemption on refined metal.

In South Africa, equity markets ended the month in positive territory, supported by strong performance from precious metals. On the monetary policy front, the South African Reserve Bank (SARB) cut its key interest rate by 25 basis points to 7%, as expected. However, a surprise announcement from Governor Lesetja Kganyago, indicating that the SARB would lower its inflation target to 3%, sparked controversy. The timing appeared to catch National Treasury off guard, prompting Finance Minister Enoch Godongwana to release a statement rejecting the validity of the move, stating that such changes require Treasury's approval. Despite the political tension, bond markets responded positively: the 10-year government bond yield fell to around 9.6%, its lowest level since January.

Globally, defensive assets came under pressure as stronger economic data pushed yields higher across major markets. UK yields rose on continued political uncertainty and welfare spending reversals. The Japanese yen weakened further on widening rate differentials and mounting fiscal concerns. Meanwhile, gold sold off as real yields rose and the dollar regained ground.

Performance review

The portfolio delivered a positive return in July.

Key contributors:

- South African government bonds, which reacted positively to the proposed lowering of the inflation target
- Local property holdings, which benefitted from the bond rally and are becoming less directly exposed to domestic growth expectations
- Offshore equity exposure, which gained from both underlying market performance and rand weakness.
- Global technology holdings, including Nvidia, Alphabet (Google) and TSMC, boosted by robust earnings results and renewed investor optimism.



- BTI, MTN and gold equities, which benefitted from firming company fundamentals and positive earnings momentum.

Key detractors:

- Richemont and Mondi, following disappointing trading updates
- Global defensive stocks: Iberdrola, London Stock Exchange, retreated as rising yields and a shift to cyclical demand
- Philip Morris International pulled back after strong results, with investors taking profits following a solid run.

We added to fundamentally strong, reasonably valued positions, increased gold after consolidation, topped up MTN and added to precious metals, including PGMs where we see long-term value.

In global equities, we took profits in Rheinmetall after a strong run, redeploying to global industrials expected to benefit from ongoing capex.

A pullback in utilities and other defensives let us add selectively where the investment case remains intact.

Outlook and strategy

While headline volatility remains elevated, the macro backdrop continues to evolve in a more constructive direction. Our base case remains intact: global growth is slowing, but not collapsing. We see clear evidence of a broadening capex cycle, particularly in areas such as AI infrastructure, energy systems and industrial utilities. These structural tailwinds are supporting pockets of growth even as overall GDP moderates into the second half of the year.

In the US, labour market data has begun to soften, bringing the prospect of rate cuts, potentially as early as September, back onto the table. These cuts are important. While growth is slowing, activity is accelerating in areas tied to fiscal spending. Should the Fed ease policy, we expect this strength to broaden, particularly in sectors linked to housing. Other parts of the economy, especially manufacturing and lower-income consumers, need lower rates to reignite momentum and support a more durable recovery.

Inflation remains the key uncertainty. It remains benign, but markets are beginning to price a potential reacceleration. This concern may be overdone, particularly if inflationary pressures remain upstream in the supply chain. However, if these pressures feed through to end consumers, the picture could shift.

Europe's fiscal impulse has yet to come through fully. We expect this to gather pace in Q4, though for now, growth support remains uneven. In China, the recovery also remains patchy. While the corporate sector is highly competitive, this has in some cases led to 'involution' — a self-defeating race to the bottom that suppresses margins and undermines sustainable growth. We expect a slower second half without stronger policy support or a shift in consumer behaviour.

Against this backdrop, we retain a selective stance in equities, favouring price-makers with strong fundamentals and order book momentum. In industrials, for example, we are seeing robust growth despite broader PMI weakness, reflecting targeted tailwinds rather than broad-based expansion.

We maintain no exposure to global sovereign bonds, given unattractive real yields and deteriorating fiscal dynamics. Aggressive government spending drives a sustained increase in bond supply, creating a poor risk/reward trade-off. By contrast, South African government bonds offer attractive real yields and scope for structural re-rating over time. We also maintain positions in gold exchange-traded funds (ETFs). In an environment of loose fiscal policy and persistent inflation risk, gold remains an important portfolio hedge and store of value.

Volatility will likely persist, but our investment process remains anchored in fundamentals, valuations and price behaviour. The Compelling Forces framework ensures we stay nimble - not reactive – and focused on genuine dislocations rather than market noise.