Discovery Global Equity Feeder Fund

30 June 2025

Market context

Global equities overcame tariff turbulence and hostilities between Iran and Israel to end the second quarter of 2025 in positive territory. The MSCI ACWI Index gained 11.5% over the three months in dollar terms, ending the period with a 4.5% rise in June. With the global equity benchmark comprising over 60% US stocks, the performance largely reflected a robust showing by the US market, which was helped by some encouraging economic data releases and the resurgence of some of the 'Big Tech' equities. By the end of the three months, the narrative that a major rotation out of US equities was underway was being challenged in some quarters.

Nevertheless, European and UK shares still delivered positive returns in Q2 overall, recovering in May and June from April's tariff-induced wobble, while emerging markets equities were particularly strong. By sector, information technology was the standout performer in Q2 – the tech-focused Nasdaq index was up about 18% over the period – with communication services and industrial equities also faring well. Energy was among the weakest equity sectors, despite the threat to a crucial oil-supply route in the Middle East. The price of a barrel of Brent crude declined almost 10% over Q2, reflecting sluggish demand growth and the likelihood that oil-producing nations will increase supply.

Performance

For the quarter, the portfolio outperformed the benchmark.

The portfolio continued to benefit significantly from the ongoing rally in semiconductor and tech hardware stocks. Easing trade frictions between the US and China – including deals to expedite exports of critical tech components – helped lift sentiment in the chip industry. Against this backdrop, our overweight positions in several key names proved beneficial. Nvidia outperformed on continued evidence of strong demand for AI infrastructure and ongoing expansion of its Graphics Processing Unit (GPU) leadership. TSMC also rallied on the expansion of its 3nm (nanometer) chip, while Broadcom surged on the back of its hyperscaler investments in custom chips. Additionally, being underweight Apple helped relative performance as the shares underperformed.

Stock selection within communication services proved beneficial, where Japanese video game company Nintendo outperformed following the sell-out launch of its Switch 2 console. Online gaming platform Roblox outperformed due to accelerating engagement trends supporting upside revenue risk, led by the viral success of its 'Grow a Garden' game. However, not holding Meta Platforms was the biggest detractor from relative performance.

In industrials, Rheinmetall delivered strong returns on order growth and defence spending tailwinds. Broader stock selection within industrials also contributed positively, supported by favourable exposure to growth-linked themes.

Stock picking in financials was a drag on performance. Despite strong Q1 growth in data and analytics, the London Stock Exchange lagged due to concerns about US dollar weakness feeding into earnings estimates. Meanwhile, US insurance broker Marsh & McLennan saw its share price pull back on concerns over weakening insurance pricing impacting revenues.

In healthcare, our holding in Thermo Fischer Scientific underperformed as flat revenue, cautious guidance, and reduced biopharma demand offset solid earnings growth. Pharmaceutical giant Johnson & Johnson struggled as litigation risks, regulatory headwinds, and muted revenue growth weighed on sentiment, despite beating Q1 earnings estimates and raising full-year guidance. In the consumer space, Chinese spirit business Kweichow Moutai retreated after the Chinese government implemented further 'anti-extravagance' measures perceived as likely to impact the sales of premium spirits.

Outlook

The global economy has entered Q3 2025 with a modest improvement in sentiment, aided by a recalibration of US trade policy. This easing of trade tensions has improved financial conditions and lowered tail risks, marking a shift from recessionary fears to a more mid-cycle outlook. Nonetheless, the macro environment remains fragile, characterised by elevated policy uncertainty and global growth constraints. Tariff-related headwinds continue to weigh on trade flows and industrial demand, as evidenced by persistent weakness in forward-looking global trade indicators.

In the US, economic activity has softened, partly reflecting the distortionary effects of pre-emptive inventory accumulation and sustained high borrowing costs. Labour market constraints and housing affordability challenges are contributing to persistent inflation, particularly in core services. Despite inflation remaining above target, the Federal Reserve is expected to begin a gradual policy normalisation path in the coming months, with an emphasis on supporting growth amid stagflationary crosscurrents. The evolving policy stance reflects a shift in emphasis from inflation containment toward economic stabilisation.

A defining feature of the current investment cycle is the maturing of the long-term US dollar super-cycle. Historically underpinned by interest rate differentials, safe-haven demand, and geopolitical dominance, the dollar now faces accumulating structural pressures. These include eroding yield advantages, rising global policy coordination away from the dollar, and increasing reserve diversification. Recent shifts in trade settlement and reserve management among key emerging markets, alongside renewed US tariff threats and fiscal expansionism, point toward the early stages of a broader dollar rebalancing. This dynamic has profound implications for global capital allocation.

US equity markets continue to be dominated by a handful of large-cap technology names, in particular the leading semiconductor stocks, which benefit from a build-out of data centre capacity and the AI investment boom. High-quality technology leaders remain compelling on a bottom-up basis, while broader US equities, although facing relative valuation excess, have a number of tailwinds to earnings, not least Trump's 'big beautiful' bill (tax cuts). Outside the US, equity markets in Europe benefit from pro-growth fiscal shifts, while the UK market offers value in accessing certain global cyclical earnings and defensives via its sector composition.

Japan continues to distinguish itself with resilient economic performance, underpinned by accommodative monetary policy and a supportive currency backdrop. Real wage growth and corporate governance reforms are contributing to improving investor sentiment, while the yen's depreciation supports earnings from overseas revenues. In Asia ex-Japan, the long-term investment case remains strong despite near-term geopolitical noise. China may respond to external pressures with additional policy stimulus, while India benefits from cyclical tailwinds in housing and infrastructure. The region is also at the forefront of the AI-driven technology revolution, supported by its dominant role in the global supply chain.

Persistent macro volatility, structural dislocations, and the potential shift in currency leadership create a favourable environment for active investors. Valuation dispersion, geopolitical realignment, and asynchronous policy cycles present both risks and opportunities. In this context, a disciplined investment approach focused on collaborative intelligence, incorporating fundamental insights and machine learning, and the resultant sector positioning, particularly in technology, defence, and financials, will be critical. Increasing exposure to non-US assets and preparing for further shifts in global capital flows are prudent steps toward building long-term portfolio resilience.