

Discovery Diversified Income

30 April 2026

Market background

US Treasury yields ended the month slightly higher across the curve, reflecting a combination of ongoing geopolitical uncertainty, persistent inflationary pressure and a more hawkish Federal Reserve (Fed). Signs of strength in the US economy contrasted with troubling inflation dynamics. The headline CPI rose 3.3% year-on-year in March, driven primarily by surging energy prices, while the Fed's preferred measure (core PCE) rose to 3.2%, well above the Fed's 2% target. At its late-April meeting, the Federal Open Market Committee held rates at 3.50% to 3.75%, with three members refusing to support an easing bias in the statement. This dashed hopes of rate cuts in 2026.

South African government bond yields rallied at the start of the month, with the curve bull flattening as longer-end yields led the move lower on improved prospects for a ceasefire in Iran, which pushed oil prices lower and eased inflation risks, but this was largely reversed toward month-end as tensions began to rise again. The 10-year bond yield ended the month at 8.94%

April brought the largest fuel price increases in South Africa's history. Petrol prices rose by over R3 per liter, net of a temporary general fuel levy reduction introduced by National Treasury. The month also saw Eskom's new 8.76% electricity tariff hike take effect, creating a simultaneous energy cost shock for households and businesses. These twin pressures prompted widespread warnings of significant second-order inflation effects.

South Africa's annual inflation rate edged up to 3.1% in March. Food inflation eased for a second consecutive month to 3.6%, with meat prices beginning to moderate after months of elevated pressure linked to persistent foot-and-mouth disease supply constraints. Economists cautioned that the March print did not capture the full impact of April's fuel and electricity increases, with materially higher inflation readings expected in the months ahead. The rand remained under pressure throughout the month, finishing April at approximately R16.67 to the US dollar, reflecting the cumulative effect of global risk aversion and South Africa's vulnerability as a net oil importer.

Performance review

The portfolio outperformed its benchmark over the month.

We bought back into listed property and South African government bonds which supported performance following an announcement of a ceasefire in hostilities. We will continue to be active in the market but maintain a defensive approach in the short-term.



Outlook and strategy

The ceasefire agreed in early April has effectively collapsed, with hostilities resuming and the Strait of Hormuz closing in early May. This development shifts the risk profile materially to the downside. Oil prices, already elevated relative to year-start levels, face renewed upward pressure, and the pass-through effects into fuel and food inflation are likely to be swift and significant. Markets have already begun pricing in rate hikes in response, and should oil prices remain elevated or escalate further, the broader inflationary impulse would weigh on consumer spending and slow growth — a stagflationary dynamic that leaves policymakers with limited room to manoeuvre. The situation remains highly fluid and visibility beyond the near term is low, with the long-term picture dependent on how the conflict evolves and whether the Strait reopens. We continue to monitor developments closely, as this remains the dominant variable shaping both the inflation and growth outlook for the period ahead.

Duration

We maintained our duration position and added to some positions in South African government bonds.

Curve positioning

We continue to hold an overweight position in the long end of the yield curve.

Currency

We are looking for opportunities to add to our US dollar exposure.

Property

Our overall outlook on the sector is still below neutral and we are taking a more cautious approach.

Inflation-linked Bonds

We added short-dated linkers and see potential for the asset class on higher inflation expectations.

Credit

We have selectively been adding negotiable certificate of deposits (NCDs) amid the geopolitical uncertainty and will continue to look for opportunities to maximise yield in the portfolio.