

Discovery Global Equity Feeder

30 September 2026

Market background

Global equities made modest gains in the third quarter, supported by resilient growth and robust earnings, which outweighed concerns around geopolitics and rate hikes. Developed markets outperformed, in particular, US equities. The S&P 500 reached a new record in August, lifted by the Magnificent Seven on the back of a broadly strong earnings season and a rotation from semiconductors towards hyperscalers and software companies. A further re-escalation in the US-Iran conflict in September tempered risk appetite; however, with Brent crude up by 42% from its end-June lows, reviving inflation concerns. US markets were pulled in two directions: continued support from corporate earnings and AI-related investment, against rising oil prices, inflation concerns and bond yields. Semiconductor and memory stocks came under pressure early in the quarter as investors questioned the durability of AI spending, a concern compounded by new developments in Chinese AI. Technology subsequently recovered on robust earnings, helping the Nasdaq regain ground.

European equities lagged. Despite the benchmark Stoxx 600 also hitting a record in August, it ended the quarter in the red, as rising bund yields and energy-driven inflation concerns weighed heavily in September. South Korea was among the weakest markets, falling more than 20% after an extremely strong second quarter, as it bore the brunt of the July unwind in global semiconductor stocks. At the sector level, energy benefited from the spike in oil prices, while strong earnings lifted tech stocks. Utilities and real estate stocks were among the laggards given the surge in bond yields.

Performance review

The portfolio outperformed the benchmark, helped by good stock selection in healthcare.

Illumina, a US genomic sequencing and DNA analysis leader, benefited from better-than-expected results and rising clinical demand, joining the S&P 500 during the quarter. Thermo Fisher Scientific, the world's largest life science tools manufacturer, also contributed to returns as the shares rose on results that showed a re-acceleration in organic growth, prompting management to raise guidance. It continued to benefit from an improving life-sciences tools backdrop, with bioprocessing demand showing increasing signs of improvement and US academic and government end-markets appearing to stabilise. Chinese contract research, development and manufacturing provider WuXi AppTec added meaningfully, supported by strong order book momentum and scalability, improving margins. Japanese human resources and staffing company Recruit Holdings was the largest contributor, as its job search platform continues to benefit from the structural shift towards digital hiring. AI accelerator company NVIDIA supported returns after results showed revenue and earnings both roughly doubling year-on-year.

In contrast, German semiconductor manufacturer Infineon Technologies was the largest detractor, as the shares fell following results where margin progress fell short of expectations despite continued revenue and AI-related growth. We continue to hold the position, as the build-out of Infineon's AI data centre power business remains the key structural driver behind its improving growth and margin profile over the coming years. Contemporary Amperex Technology, the world's largest EV and energy-storage battery maker, detracted following market share and battery profitability concerns. US sports-entertainment rights company TKO Group lagged on profit-taking and insider-sales headlines, despite steady commercial momentum and robust cash generation. Multinational energy company Enel also detracted from returns. Kinross Gold, a Canadian gold producer, was impacted by gold price volatility, despite strong free cash flow generation and an active buyback programme.



Outlook and strategy

The investment environment entering the final quarter of 2026 has been shaped by two forces: the persistence of the Middle East conflict and a central bank response that has proved more aggressive than anticipated. Brent closed Q3 at around US\$104 per barrel, up 42% over the quarter. The Fed delivered its first hike since 2023 in September, and two further hikes are now priced in. The US 10-year Treasury yield has pushed through 5.25% to its highest level in more than two decades. Earnings have so far absorbed the pressure, up around 14% year-to-date. Beneath record highs in the S&P 500, however, the market is telling a different story. Leadership has rarely been narrower, with technology now accounting for around 80% of the index's year-to-date gains.

Outside of AI, the economy is absorbing a sharp tightening in financial conditions, raising the possibility of stagflation or a more pronounced growth slowdown. However, oil prices, bond yields and inflation expectations all look stretched. Should energy prices roll over, falling yields could open up another year-end rally.

Regionally, European earnings revisions continue to improve, but France's fiscal stress is a reminder that the bond vigilantes are rotating from one market to the next. In Japan, rising real wages and governance reform remain supportive, although the yen's behaviour as a funding currency makes it a useful barometer of global risk appetite. Meanwhile, for emerging markets, Asian technology hardware remains the earnings engine.

Overall, we are building a more diversified portfolio, balanced to perform across a wider range of regimes rather than dependent on any single macro outcome. Single-stock dispersion remains elevated, and factor rotation is a permanent feature of the market. The interplay of the rate path, the conflict and the electoral cycle into year-end will sustain that environment, which rewards disciplined, data-driven stock selection through our 4Factor investment process.