Discovery Invest

Discovery Balanced, Moderate Balanced, Cautious Balanced Funds

31 August 2026

Market background

Robust economic data drove a broadly risk-on tone through August, with composite PMI readings hitting multi-year highs in the US and eurozone. Globally, equities extended their advance on strong earnings, with fresh S&P 500 records and standout technology performance, while European and UK equities lagged. Emerging market and Asian equities outperformed, though Hong Kong-listed shares lagged.

South African equities delivered a strong month in August, with the FTSE/JSE All Share Index climbing 4.6%, a headline gain carried almost entirely by a resurgent resources sector, even as the rest of the market traded considerably softer. Precious metals and mining shares lifted the resources sector to a robust 23.5% gain.

Commodities stood out, as agricultural prices surged on Hormuz-related supply fears alongside a firmer month for oil and industrial metals.

The rand strengthened through most of August, trading below R16.00 against the US dollar, its strongest level since late February, as broad dollar weakness and rising gold prices (a tailwind for a major gold-producing economy) supported the currency, before US Federal Reserve Chair, Kevin Warsh's hawkish Jackson Hole remarks introduced some late-month volatility.

Performance

Over the month, the portfolio delivered a positive absolute return.

Key contributors:

- Precious metals and general mining – dollar debasement concerns drove flows into gold, platinum group metals and other real assets, benefitting Glencore, Anglo American and precious metal mining holdings.
- Energy holdings - given rising Middle East uncertainty over the month.
- Software stocks – holdings such as Microsoft rebounded strongly, posting their second-best month since 2002.
- Global equity – the continued sector rotation benefitted healthcare, utilities and consumer staples as investors moved away from more concentrated AI-related stocks.

Key detractors:

- Naspers and Prosus – the shares were pulled lower as investors grew concerned about the surge in Tencent's reported capex intentions.
- SA property – stocks declined amid the global bond sell-off and profit-taking.
- Semiconductors – holdings were a slight drag. Despite the portfolio's reduced exposure, physical AI chip holdings suffered as investors rotated away from the "bottleneck" trade.
- Rand strength - detracted from global holdings

We took profits on diversified miners after a strong run and recycled the proceeds into British American Tobacco, which had underperformed, and our earnings expectations are ahead of the market. Within financials, we trimmed positions that had performed well and added to laggards with stronger fundamentals. We also took profit on Philip Morris, using the proceeds to top up Japanese equities, and sold Goldman Sachs to zero. Offshore, we sought to take advantage of elevated volatility but remained disciplined, given how sharp the swings have become, trading only at our own pre-set levels rather than chasing market moves.

Outlook and strategy

The underlying growth backdrop remains supportive. Our macro models continue to point to solid growth, with the data broadly confirming this. However, growth is increasingly being driven by capital-intensive sectors of the economy, with capex supporting activity without a corresponding increase in employment. This is worth monitoring, but for now, the broader picture remains constructive.

Inflation remains the key question. The rise in oil prices and the escalation of the war increase the risk of second-round effects (which are currently not the case), and the longer the conflict persists, the greater that risk becomes. If these effects remain contained, policymakers can look through the initial oil-price shock. We expect any resulting hiking cycle to be shallow and believe markets can digest this outcome. The more significant risk is that higher energy prices become embedded in broader inflation, requiring a more forceful monetary policy response. Fiscal support alongside ongoing AI capex should provide an important offset on the policy side and help sustain growth.

August also highlighted the willingness of policymakers to respond to market stress through channels beyond traditional monetary policy. The US Treasury and the Japanese authorities intervened in the yen, while the Treasury flagged the potential use of its toolkit to support the functioning of the bond market.

Against this backdrop, we continue to straddle between a Goldilocks and Reflation environment and continue to favour equities. We expect markets to grind higher at an index level but believe the greater opportunities will be beneath the surface.

We retain some cash to deploy should volatility create more attractive entry points. We continue to favour areas where we expect growth to be strongest, including precious metals, selective technology, healthcare and industrials, while retaining smaller positions in utilities and property, including South African property. Given the speed of recent market moves, our focus is on sticking to our process and rotating into opportunities as they emerge rather than chasing the market.