Quarterly commentary

Camissa Bond Fund

March 2025

The fund was up 0.5% during the first quarter underperforming the All Bond Index (up 0.8%). The fund has returned 10.5% pa over the last three years, slightly outperforming the benchmark, and 9.8% pa since inception in 2015, ahead of its benchmark (9.2%).

Economic backdrop

Global economic activity is slowing due to increased US tariffs, elevated levels of uncertainty about suspended tariffs reinstatement, uncertainty about the generally chaotic US interventions and tightening financial conditions. The negative impacts of erratic US government policy on consumer sentiment, consumption, business confidence and investment are causing US economic growth to weaken abruptly from a previously robust rate.

China's nominal economic growth has been weak due to ongoing deflation and the consequences of a severely weakened property market. It is now being further undermined by the escalating trade war with the US, which will negatively impact Chinese exports and manufacturing. On the positive side, however, Chinese consumer confidence and spending may be improving from historically low levels, buoyed by more aggressive monetary and fiscal stimulus and structural state interventions that are now specifically targeted at improving local consumption.

The Japanese and European economies have been particularly negatively affected by the 25% US automotive import tariff on their large automotive export sectors. Europe's economy, which has been stagnating due in part to its export link to a weak manufacturing economy in China, will start to benefit from higher fiscal stimulus. Germany has started to see a boost in business confidence following the decision to lift the debt ceiling and meaningfully increase fiscal spending in infrastructure and defence.

South African economic activity has been boosted by a mild cyclical recovery in real consumption as consumers have benefited from declining inflation and interest rates, together with once-off cash withdrawals from the two-pot retirement dispensation. A more enduring lift to the growth of economic activity is, however, structurally constrained by the acute underperformance of transport infrastructure, poor service delivery from weak and revenue-hungry municipalities, inadequate (albeit improved) electricity supply and low business confidence. These weaknesses are now further exacerbated by slowing global economic activity.

In recent years, there has been material progress made in moving to reform the economy through Operation Vulindlela (acting within the Ministry of the President) and the partnership between government and business leaders (targeting 3 priority areas: energy, transport and crime and corruption). The Government of National Unity has additionally brought about positive leadership changes in key ministries and a government commitment to attempting to address the country's structural problems.

Consequently, following the dramatic economic decline of the last 15 years, there is room for optimism that the economy may stabilise and that the country may now follow a more constructive path. Yet, given the deep structural issues in the economy – most notably the sizable government debt burden and large, unskilled population with high unemployment levels – we believe that a modestly higher growth trajectory will take an extended period of time to engineer and that this path is beset with risks.

Markets review

South African bonds increased by 0.7% in the quarter, underperforming cash (up 1.9%). Foreigners were net buyers of South African government bonds in the period. Globally, bonds weakened amid concerns over a potentially higher inflation trajectory, which may result in short-term interest rates declining more gradually. South African bonds underperformed emerging markets with yields in long-dated fixed-rate instruments moving higher.

At their last meeting in March, the SARB kept the repo rate unchanged at 7.5%. The SARB has taken a cautious stance in its' policy approach due to high levels of uncertainty in both global and local markets. The SARB still forecasts inflation to remain within its inflation target band over the near term. South African government long bond yields are still high in the context of well-contained inflation.

Fund performance and positioning

The fund underperformed the benchmark during the quarter. The funds long duration position detracted from performance as long dated fixed-rate Government issued bonds underperformed shorter duration bonds.

The fund is still long duration vs the benchmark although this has been reduced over the recent period. Real yields on offer in nominal RSA long bonds are still high in the context of a benign inflation outlook. The yield curve remains high in our view and the fund is positioned to take advantage of high carry yields and potential capital gains on offer.

Camissa Asset Management (Pty) Ltd is a licensed financial services provider (FSP No. 784)
Website www.camissa-am.com **Client service** 0800 864 418 **Email** clientservice@camissa-am.com