Camissa Bond Fund

June 2025

The fund was up 7.3% in the second quarter, outperforming the All Bond Index (up 5.9%). It has returned 14.8% pa over the last three years, outperforming the benchmark, and 9.3% pa since inception in 2015 - ahead of its benchmark (8.8%).

Economic backdrop

Global economic activity is slowing due to increased US tariffs and uncertainty surrounding generally chaotic and aggressive US foreign policy. Financial conditions, which tightened meaningfully in the immediate aftermath of the April US tariff announcements, have moderated due to a sharp rise in asset prices. Erratic US government policy has negatively impacted consumer sentiment, consumption, business confidence and investment (though the decline in business investment has been less severe than expected due to resilient AI-driven spending). Consequently, US economic growth is beginning to weaken from a previously robust rate.

China's nominal economic growth has been weak due to ongoing deflation and the consequences of a weak property market. The economy is now being further undermined by the escalating trade war with the US, which is expected to negatively impact Chinese exports and manufacturing. Positively, however, Chinese consumer confidence and spending may be improving from historically low levels, buoyed by more aggressive monetary and fiscal stimulus and targeted structural state interventions that have had some success in improving local consumption.

The Japanese and European economies are being negatively affected by elevated uncertainty regarding US tariff threats. Europe's economy, which has been stagnating due in part to its export link to a weak manufacturing sector in China, will start to benefit from higher fiscal stimulus. Business confidence in Germany has started to improve following the decision to lift the debt ceiling and meaningfully increase fiscal spending on infrastructure and defence.

South African economic activity has been supported by higher export receipts (due to higher precious metal prices) and a mild cyclical recovery in real consumption as consumers benefit from falling inflation and interest rates. 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. Disappointingly, the recent moderate increase in investment off very low levels has not yet been accompanied by any notable job creation. 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 key priority areas needing reform). Additionally, the Government of National Unity has brought about positive leadership changes in key ministries and a renewed commitment by government to accelerate initiatives that 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 5.9% in the quarter, outperforming cash (up 1.9%). Foreigners were net buyers of South African government bonds in the period. With the exception of the US, global bonds strengthened over the quarter. The US government's fiscal policy stance increased market uncertainty on the inflation and growth outlook. South African bonds outperformed emerging markets, with yields in long-dated fixed-rate instruments moving relatively lower.

At their last meeting in May, the SARB reduced the repo rate by 0.25% to 7.25%. It has taken a cautious stance in its policy approach due to high levels of uncertainty in global and local markets. The SARB still forecasts inflation to remain within its inflation target band over the near term.

Notably, the SARB has introduced a scenario into its data release, which targets inflation at 3%. Discussions between National Treasury and the SARB are ongoing.

South African government long bond yields remain high in the context of well-contained inflation.

Fund performance and positioning

The fund outperformed the benchmark during the quarter. Its long duration position contributed to performance as long dated fixed-rate government issued bonds outperformed shorter duration bonds.

The fund remains 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.