Camissa Islamic Balanced Fund
September 2022

The fund was flat in the third quarter (up 0.1%), outperforming competitor funds (down 0.1% on average). However, it is up 10.7% over the last three years, materially ahead of the peer group average (up 6.5% pa) and has delivered 7.7% pa since its inception in 2011.

Economic backdrop

The level of US economic activity remains healthy despite strong headwinds from sharply rising interest rates, waning fiscal stimulus, notably higher consumer inflation and concerning geopolitical tensions. The US labour market has been resilient thus far and household balance sheets remain robust, although consumer confidence has declined. The US dollar has strengthened considerably this year as the Federal Reserve Bank has lead globally with interest rate hikes to tackle high inflation.

Europe’s economy has been weakening, with higher inflation (exacerbated by a weakening currency), spiking energy prices and very low consumer confidence. The war in Ukraine continues to impact directly given its proximity to Europe, but also indirectly via the sanctions on Russia raising energy and agricultural product prices.

Japanese economic activity has seen solid recent recovery due to the complete lifting of COVID restrictions (improving business sentiment and private consumption) and continued strong export activity - all against a backdrop of an extremely loose monetary policy and very weak yen.

Chinese economic activity has been very slow to recover as the self-enforced slowdown resulting from targeted urban pandemic lockdowns has extended, aided by increased fiscal and monetary stimulus. Property market activity, while still very weak, is slowly benefitting from some policy easing. Chinese government interventions in many areas of the economy - aligned with longer-term planning (and congruent with sustainably high longer-term growth) - are proving disruptive in the short term.

The outlook for other emerging economies differs widely, with varied exposures to high commodity prices (energy, metals and agricultural prices) and persistently weak tourism activity. Some poorer economies in particular are facing extremely high food and energy inflation, which is leading to increased socio-economic and fiscal instability.

Although the South African economy has rebounded, it will most likely grow slowly from here - despite continued strength in the primary sectors (mining and agriculture). South Africa continues to have excessively high unemployment and a large unskilled population. This exacerbates social instability, particularly in the face of rising food and transport prices. Growth is also constrained by an inadequate and acutely unstable electricity supply, underperformance of transport infrastructure, weakened and revenue-hungry municipalities and chronically low business confidence. For these reasons, coupled with the very large government debt burden, we remain pessimistic regarding the structural growth rate for the local economy, despite signs of some incremental government moves towards economic reforms. Additionally, there is a risk that lower future commodity prices (particularly platinum group metals, iron ore and coal) will result in an even weaker outlook.

Market review

Global markets were weak in the third quarter (down 6.1% in US dollars), with the Hang Seng (down 20.2%) and Germany (down 11.5%) underperforming. Emerging markets were also weak in the quarter (down 11.4%), with underperformance from China (down 22.4%), South Korea (down 17.9%) and South Africa (down 12.0%), while Turkey (up 16.3%) and India (up 6.8%) outperformed.

In rand terms, the local equity market was down 1.9% in the period. Industrials outperformed (down 1.3%) driven by strong performances by Tiger Brands (up 19.3%) and Woolworths (up 15.3%). Other standout positive performers included Shoprite (up 11.5%), AVI (up 10.8%) and Mediclinic (up 9.9%). Weak performances were delivered by Prosus (down 9.9%), MTN (down 9.2%), Bidcorp (down 7.8%) and Vodacom (down 6.9%).

Resources were weak (down 1.9%), including Kumba Iron Ore (down 20.8%), Harmony (down 17.8%) and Northam (down 8.4%). African Rainbow Minerals (up 23.8%), Glencore (up 13.9%) and Exxaro (up 10.2%) outperformed.

Financials underperformed (down 4.6%), with life insurers down 6.9%, banks down 4.4% and listed property down 3.4%. Capital and Counties (down 23.6%), Capitec (down 21.6%) and Sirius (down 19.9%) underperformed, while Absa (up 18.5%), Momentum (up 17.7%) and Fortress B (up 15.2%) performed positively.

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Camissa Asset Management

Fund performance and positioning

A positive performance from our local equities and sukuks were the key contributors in the quarter. Key positive contributors within local equities in the quarter included Telkom, Datatec, African Rainbow Minerals and Libstar. MTN, Cashbuild, Northam Platinum, PPC and Sea Harvest all detracted.

Global equity detractors included Bayer, Persimmon, Siemens Energy, Intel and Continental. Boston Scientific, Nutrien, BP and Bridgestone all contributed positively.

Our portfolios currently have high exposure to MTN, PGM miners, Datatec and a diverse range of other mispriced stocks, including an array of deeply discounted local mid-cap stocks.

Anglo American (Anglo) is a leading global mining and processing company, operating in 15 countries with a world-class, diversified commodity portfolio. The company is dedicated to ‘reimagining mining’ to best position itself to provide essential commodities that will fundamentally aid the transition to a low carbon economy, while meeting the growing consumer-driven demands of the world’s developed and maturing economies. Although supply at present is lower than the required demand for the future, these commodities are expected to have significantly higher demand down the line as the world transitions to a low carbon economy. Anglo has reduced its operating footprint by selling off assets or closing operations that did not fit a low cost, low risk format - specifically focused on benefitting from emerging long-term trends such as decarbonisation. We believe that Anglo is well positioned, with a strong balance sheet, with a portfolio of assets that is low cost and can withstand severe market downturns and expected growth in demand for its commodities.

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