Camissa Islamic Global Equity Feeder Fund
Quarterly commentary
March 2023

Camissa
Asset Management

The fund was up 12.1% in the first quarter of 2023, outperforming its benchmark of FTSE World Index (up 11.1%). The fund outperformed its benchmark over the past year, up 11.1% (versus the benchmark up 10.7%).

Economic backdrop

US economic growth is moderating from healthy levels due to headwinds from sharply rising interest rates, waning fiscal stimulus, less buoyant residential investment, notably higher consumer inflation and subdued business sentiment given geopolitical concerns. The US labour market remains resilient with household balance sheets robust, although consumer confidence is low.

Europe's economy is weak, with high inflation (although down significantly from the peak, European energy prices are still very elevated) and low consumer confidence. Although the war in Ukraine continues to impact, success in reducing gas consumption, securing alternative energy sources and warm winter weather has helped to prevent a deeper contraction. Manufacturing and exports, particularly German automotive production, are benefiting from easing global supply chain frictions and production recovery in the semi-conductor sector.

Recent banking sector stress in the USA (caused by grossly inadequate balance sheet management within regional banks) and Europe (following the collapse of Credit Suisse, due to years of large and costly investment banking mishaps) appears to have been contained, however a potential tightening in bank lending conditions may negatively affect economic activity.

Japanese economic activity has seen solid recovery following the 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. Recent wage settlements in Japan, which have been consistently higher than expected, may be a harbinger of structurally stronger domestic consumption. As with Germany, Japanese manufacturing and exports are benefiting from easing global supply chain frictions and reduced semi-conductor lead times.

Chinese economic activity, particularly consumption, is recovering strongly from the self-enforced slowdown caused by prolonged urban pandemic lockdowns and is being aided by more accommodative financial conditions. While still weak, property market activity may be stabilizing following policy easing. Chinese government policy has shifted towards prioritising economic growth after the economy, in 2022, marked the lowest annual growth rate since the 1970's.

The outlook for other developing economies differs widely, with varied exposures to volatile and generally (still) high commodity prices (energy, metals and agricultural), recovering tourism activity and the re-opening of Chinese borders. Some poorer economies are facing extremely high food and energy inflation, which is leading to increased socio-economic and fiscal instability.

After a moderate economic rebound from the COVID lows of 2021, the outlook for the South African economy has weakened due to sharply worsening electricity and transport logistics constraints. This is despite continued strength in the primary sectors (mining and agriculture). With a large and unskilled population, South Africa continues to grapple with excessively high unemployment levels. This exacerbates social instability, particularly in the face of currently rising food and transport prices.

Growth is also severely constrained by an inadequate and acutely unstable electricity supply, underperformance of transport infrastructure, poor service delivery from weak 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 export commodity prices (particularly platinum group metals, iron ore and coal) will result in even weaker prospects.

Market review

Global markets were positive in the first quarter (up 7.9% in US dollars), with France (up 15.1%) and Germany (up 13.9%) outperforming. Emerging markets were also positive in the period (up 4.0%), albeit weaker than developed markets, with outperformance from South Korea (up 7.2%) and China (up 4.7%). Turkey (down 9.2%), India (down 6.3%) and Brazil (down 4.6%), however, underperformed.

Fund performance and positioning

Key positive contributors were Hochtief, Bayer and SKF. Global equity detractors included Pfizer, Johnson Electric and Roche. We remain overweight European equities and substantially underweight US equities relative to our benchmark.

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