Camissa Islamic High Yield Fund
September 2022

The fund was up 2.2% this quarter, outperforming its benchmark (Short-term Fixed Interest Index) (up 1.4%). It is up 7.4% over the last three years, ahead of the peer group average (up 4.9% pa). Since its inception in 2019, the fund has returned 7.1% pa.

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.

Fund performance and positioning

Negative equity contributions from the fund's 10% allocation to equities overshadowed the positive returns from the fund's exposure to sukuks during the quarter with negative contributions from MTN, Anglo Platinum and Hulamin. The fund has over 80% exposure to South African sukuks / Islamic Term deposits with average income yields in excess of inflation.

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