Quarterly commentary

Camissa Top 40 Tracker Fund
June 2022

Camissa Asset Management

US economic activity is now well ahead of pre-COVID levels despite strong headwinds from sharply waning fiscal stimulus, much higher consumer inflation and rising short-term interest rates. Consumer resilience is very much evident, stemming from robust labour markets, the buffer from accumulated savings from lockdown periods and higher wealth levels stemming from high house prices and equity markets. Europe's economy, while performing reasonably, has been weakening at a time of higher inflation due to energy prices spiking and consumer confidence weakening. The war in Ukraine is impacting directly given its proximity to Europe, but also indirectly via the sanctions on Russia raising energy and agricultural product prices.

In contrast, Chinese economic activity is recovering from a self-enforced slowdown due to targeted urban COVID-19 lockdowns, aided by increased fiscal and monetary stimulus. Property market activity is starting to benefit from some policy easing. The outlook for other emerging economies differs widely, with varied exposures to global supply chain bottlenecks, high energy and agricultural prices, strong mining commodity prices and a moribund tourism industry.

Although South African economic growth has rebounded (slightly faster than expected), the local economy will likely continue to produce low expansion from here, despite continued strength in the primary sectors (mining and agriculture). South Africa continues to battle with excessively high unemployment and a large unskilled population, which increases social instability risks - particularly in the face of rising food and transport prices.

Against this backdrop, global markets were very weak in the second quarter (down 16.1% in US dollars), with the Hong Kong (up 0.7%) outperforming and Germany and the USA (both down 16.1%) underperforming. Emerging markets were also weak in the quarter (down 11.3%): Brazil (down 25.7%), South Africa (down 22.9%) and South Korea (down 20.8%) underperformed, while China (up 3.5%) outperformed.

In rand terms, the local equity market was down 11.7% in the period. Industrials outperformed (down 2.6%), driven primarily by a strong rebound in Naspers (up 42.3%) and Prosus (up 32.6%). Other standout positive performers included Mediclinic (up 30.4%), British American Tobacco (up 13.6%) and Pick n Pay (up 8.0%). Very weak performances were delivered by MTN (down 30.5%), Aspen (down 30.0%), Life Healthcare (down 22.5%) and Barloworld (down 21.5%).

Financials were weak (down 15.6%), with life insurers down 23.1%, banks down 14.5% and listed property down 11.5%. Hammerson (down 29.7%), Sirius (down 22.5%) and Sanlam (down 21.6%) underperformed, while Resilient (down 2.0%), RMI Holdings (down 3.1%) and Fortress B (down 4.8%) outperformed.

Resources underperformed (down 21.9%) including Goldfields (down 32.9%), Sibanye Stillwater (down 32%) and Anglo Platinum (down 29.0%). Despite being down, Exxaro (down 5.2%), Glencore (down 7.0%) and Royal Bafokeng Platinum (down 9.3%%) outperformed.

Higher trading costs and fees saw the fund slightly underperform its benchmark, the FTSE/JSE Top 40 Index, which closed the quarter down 11.8%.