Quarterly commentary

Camissa Top 40 Tracker Fund

March 2023

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.

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.

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.

In rand terms, the local equity market was up 5.2% in the period. Industrials outperformed (up 14.5%) with Aspen (up 34.4%), Richemont (up 27.0%) and Spar (up 24.1%) particularly positive. Pick 'n Pay (down 25.6%), Pepkor (down 11.0%) and Dis-Chem (down 9.8%) underperformed.

Financials were marginally positive (up 0.4%), with life insurers up 13.3%, banks down 2.3% and listed property down 5.1%. Sanlam (up 15.7%), Hammerson (up 15.6%) and Santam (up 14.4%) outperformed, while Transaction Capital (down 61.5%), Redefine (down 13.9%) and Resilient (down 13.3%) underperformed.

The fund performed in line with its benchmark, the FTSE/JSE Top 40 Index closing the quarter up 6.2%.