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ETF Insights.

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CoreShares Total World Stock Feeder ETF (JSE:GLOBAL)

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Fund suitability

This ETF suits investors with a high risk appetite seeking exposure to global equities over a long-term investment horizon.

Fees

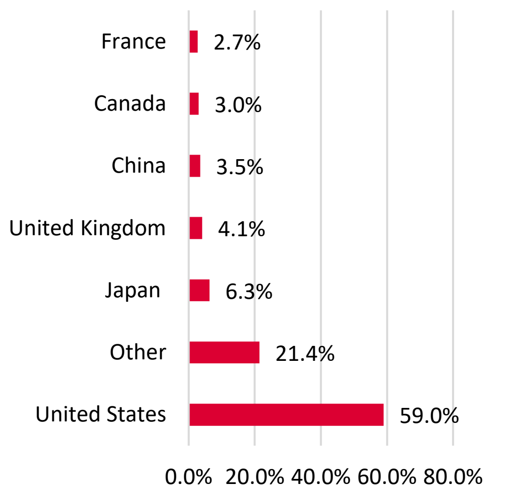
The fund has a total expense ratio of 0.28%.

Alternative funds

Sygnia Itrix MSCI World Index ETF (0.69%)
1nvest MSCI World Index Feeder (0.40%)
Satrix MSCI World Feeder ETF (0.35%)

"Global equities had a strong start to 2023 as moderating inflation and the prospect of lower interest rate hikes supported positive investor sentiment."

Top countries (%)



There was little of a "Janu-worry" within global equities this past month as various major indices rallied, bucking 2022's bearish trend.

The MSCI World rose 6.1% (in USD), buoyed by US equities that increased 5% (MSCI USA index). In other markets, the MSCI Emerging Markets index rallied 9.2% while its MSCI Asia ex-Japan and Europe ex-UK counterparts were up 9.8% and 8.1%. The Japanese Topix and UK FTSE All Share indices gained 4.8% and 4.7%.

Global equities rallied higher due to a range of factors including moderating inflation which quelled fears of a deep recession in 2023, the reopening of China's economy and the easing of supply chain blockages. This boosted investor sentiment. Regarding inflation, the US Federal Reserve (US Fed) raised interest rates by a widely-expected 25 basis points to between 4.5% and 4.75% at the beginning of February.

The smaller rate hike of 25 basis points compared to steeper rate hikes in 2022 came as a result of moderating inflation. In the US, annual consumer prices slowed to 6.5% in December from 7.1% in November. Consequently, we think markets are expecting a peak in interest rates before the US Fed and perhaps other central banks, start to lower interest rates. Declining rates would reduce credit costs for businesses and consumers, would support economic activity and boost equity markets.

As such, dovish comments from the Fed which point to a slowdown in the pace of rate hikes were welcomed by the markets. However, the Fed balanced these out by pointing to the fact that while inflation is decreasing, it still remains elevated.

Overall, the above-mentioned positive developments supported growth-stocks which rose 8.6%, in January, outperforming value-stocks which gained 3.8%, according to JP Morgan. As such, markets may be pricing-in more favourable conditions towards year-end, which includes a pause followed by a decrease in interest rates by the US Fed. This supports a move from value equities to growth equities.

However, we are cautious about a reallocation from value to growth. Value, which includes companies that have solid financial fundamentals but are oversold due to negative market sentiment, dominated markets in 2022. These companies often have established or traditional business models, which generally leads to solid financial fundamentals.

Companies in the energy sector usually fit such criteria. Accordingly, the S&P 500 energy sector index returned 65.4% in 2022, supported by rising oil and gas prices, especially after Russia's invasion of Ukraine.

On the other hand, growth, which includes companies investors believe have above-average prospects relative to the market (often because of new products or differentiated business models), suffered in 2022. As a result, the S&P 500 communications sector index slumped 39.9% in 2022 as information technology, communications and the broader technology sector fell out of favour.

Broadly, most major central banks lifted interest rates due to rising inflation which negatively affected the cost of debt of all companies. However, some growth companies, which are more responsive to rising interest rates, experienced sharper share price declines.

Given the market's expectations, we believe that diversification, with a well-adjusted weighting between both growth and value stocks should be considered by investors in their portfolios. Elevated inflation for longer than expected or any escalation of the Russia-Ukraine conflict may increase inflation risks. On the other hand, a sharper drop in inflation may lead to a stronger rally in equities. As such, diversification enables investors to participate in more market outcomes with relatively lower risk.

Accordingly, the CoreShares Total World Stock Feeder is this week's ETF pick. As its name suggests, the ETF provides exposure to global equities by tracking the performance of the FTSE Global All Cap Index. It tracks the index by investing in the Vanguard Total World Stock ETF, making it a feeder ETF. It covers large, mid and small cap equities across developed and emerging markets, thereby maximising local ETF investors' exposure to global equities. We believe this is good for diversification purposes.

One of the fund's strongest points is its relatively low total expense ratio of 0.28%, which compares well to the Sygnia Itrix MSCI World Index (0.69%), 1nvest MSCI World Index Feeder (0.40%) and Satrix MSCI World Feeder (0.35%) ETFs.

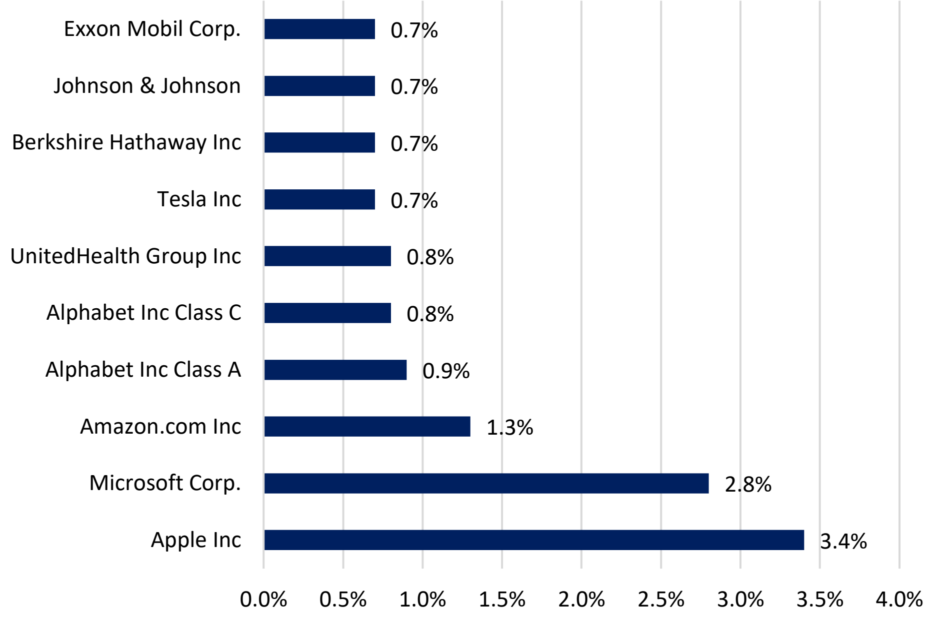
Investment term of the week: Dovish

"Dovish" is a term used by market participants when communication from a central bank points to supportive monetary policy (like interest rate cuts) in the future. "Hawkish", which is a great way to describe monetary policy in 2022, points to more restrictive monetary policy actions (like interest rate hikes) ahead.

Investment approach and portfolio composition

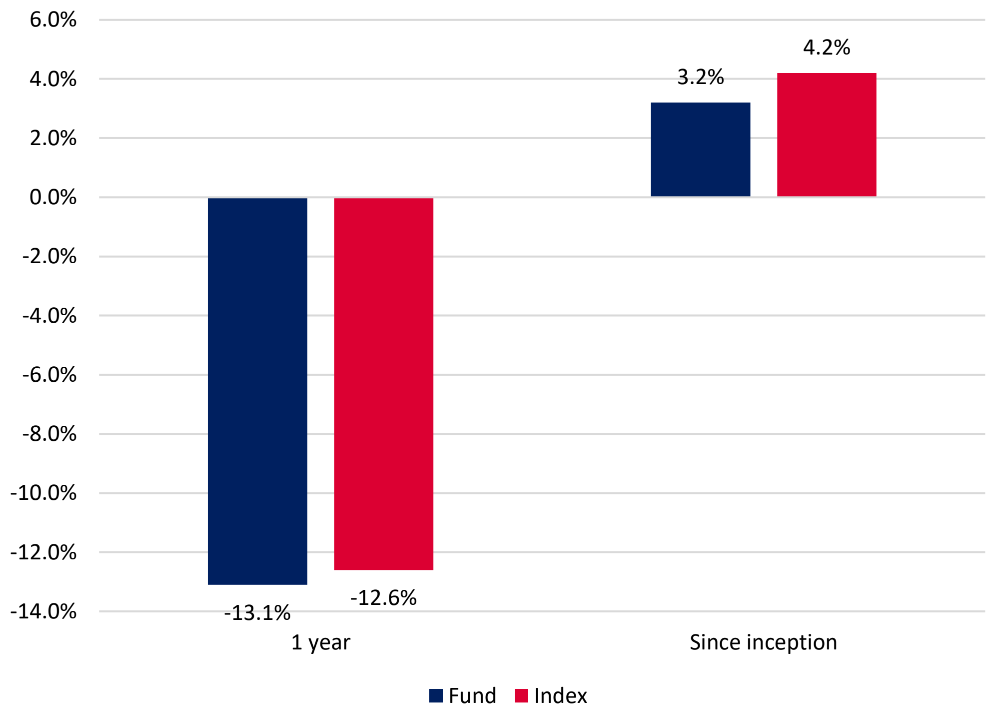
The CoreShares Total World Stock Feeder ETF tracks the performance of the FTSE Global All Cap Index (before fees and expenses) by investing Vanguard Total World Stock ETF.

Top holdings (%)



Performance

Fund and index performance to end-December 2022 (annualised for periods longer than one year; with dividends reinvested).



Fund information: 31 December 2022

Launched on	17 May 2021
Trading symbol (JSE)	GLOBAL
Total assets	R368m
Total investment cost	0.28%
Risk rating	High
Benchmark	FTSE Global All Cap Index

Market data: 3 February 2023

Spot price	R11.61
One-year high	R12.07
One-year low	R9.59
Average monthly volume	1,540,865
Estimated dividend yield	1.3%

Source: Infront, yahoo finance