
Analyst: Sabelo Mnisi

# Satrix FINI ETF (JSE:STXFIN)

17.02.2023

## Fund suitability

This ETF is suitable for risk-tolerant investors seeking exposure to emerging market equities.

## Fees

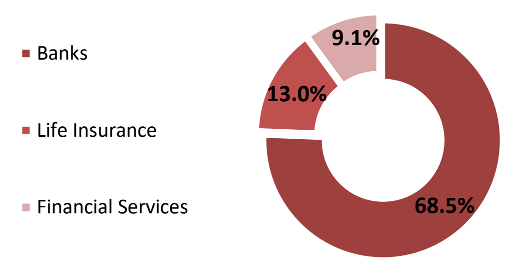
The fund has a total expense ratio of 0.43%.

## Alternative funds

None

**"Higher oil prices imply that inflation will be higher for longer, particularly in SA as a result of the weakening exchange rate."**

## Sector allocation– top 3 (%)




**What's happening in the markets?**

Markets started the year on a positive note following a tumultuous 2022. China's reopening from hard Covid lockdowns was among the key drivers for the optimism. However, economic data suggest that inflation is not abating quickly enough to warrant accommodative monetary policy.

We mentioned in our previous notes that inflation appears to be sticky on the upside – as a result, investors need to diversify their portfolios and not only seek positive returns but inflation-beating returns.

High inflation prompts central banks to increase interest rates in order to discourage households from borrowing money to supplement declining real disposable incomes.

Generally, elevated interest rates are a headwind for stocks because they increase the discount rate, which reduces expected earnings. However, financial companies such as banks tend to benefit from a rising interest rate environment. This is because banks charge higher interest rates on loans. As a result, this week we are reviewing the **Satrix FINI ETF** which invests in financial companies listed on the JSE.

**Investment environment**

Although investors are upbeat on the back of China's reopening, 2023 is a year of profound uncertainty, particularly for SA with ongoing power cuts amplifying concerns about a sustainable economic recovery.

SA's inflation remains relatively high, even though, headline inflation came in at an annualised 6.9% in January, down from 7.2% in December. The food & non-alcoholic beverages category was the biggest contributor to the inflation rate as it expanded 13.4%, followed by transport, which grew 11.1% and housing utilities which ticked up 4.1%. Core inflation, which excludes volatile items such as food and energy, remained flat at an annualised rate of 4.9%.

Inflation will likely remain high as a result of the electricity tariff increase of 18.65% granted to Eskom effective from 1 April 2023. Households who purchase electricity from municipalities will likely face a bigger increase as local governments tend to add their own markup and rates.

Retailers will have to contend with lower revenues coupled with rising operational costs, also caused by loadshedding, with need to invest in generators to keep their stores running. Manufacturers will also suffer from higher operational costs on the back of using diesel to fuel production at their factories. In an effort to recover such costs, both retailers and producers will try to pass on these costs via increased selling prices. However, this will be difficult in the prevailing stagflationary environment with weak consumer demand.

Electricity generation slid 8.3% year on year in December, from -1.7% in November last year. Electricity production in 2022 was 3.9% lower than 2021. By the same token, electricity distributed was 2.8% lower in 2022. This had a material effect on curtailing retail and wholesale trade sales. Retail trade sales contracted 0.6% in December last year when measured in real terms (constant 2019 prices).

China's reopening also tilts the risks of energy prices to the upside. The Organisation of the Petroleum Exporting Countries expects Chinese oil demand to grow 510,000 barrels per day this year. Morgan Stanley forecasts brent crude oil to rise to $107 per barrel from the current level of $80 by end-2023. Higher oil prices imply that inflation will be higher for longer, particularly in SA as a result of the weakening exchange rate.

Higher interest rates typically bode well for banks and financials. The Satrix FINI ETF provides a cost-efficient way to invest in the sector and has returned 9.9% over the past year and 7.6% over 10 years. It has a reasonable total expense ratio of 0.43% and a portfolio size of R1bn, which implies that it can withstand volatility. It is the only JSE-listed ETF that provides exposure to the financial sector and is suitable for risk-tolerant investors who have a medium-term horizon.

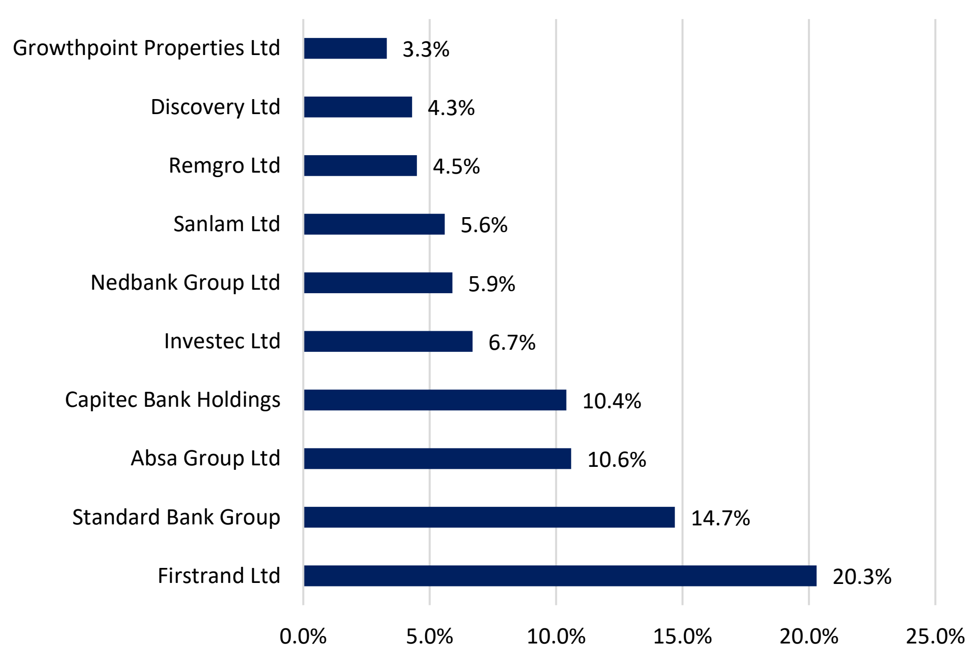
**Investment term of the week: Discount rate**

A discount rate is the rate of return used to discount expected cash flows back to their present value. It is the required rate of return, or the hurdle rate that investors expect to earn relative to the risk of the investment.

## Investment approach and portfolio composition

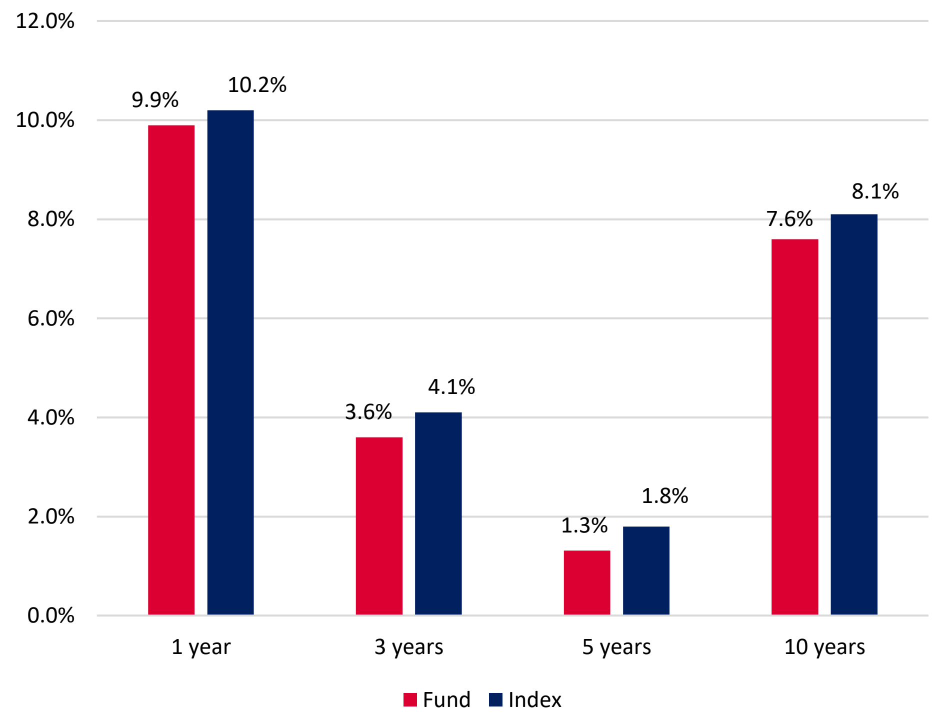
The Satrix FINI tracks the FTS/JSE Financial 15 Index (J212). It is suitable for risk-tolerant investors who seek to benefit from the rising interest rate environment.

**Top holdings (%)**




## Performance

**Index performance to end-December 2022 (annualised for periods longer than one year; with dividends reinvested)**




## Fund information as at 31 December 2022

| | |
|---|---|
| Launch date | 08 February 2002 |
| Trading symbol (JSE) | STXFIN |
| Weighted average market cap. | R1.0bn |
| Total expense ratio | 0.43% |
| Risk rating | High |
| Benchmark | FTSE/JSE Financial 15 Index (J212) |

## Market data: 16 February 2023

| | |
|---|---|
| Spot price | R16.20 |
| 12-month high | R18.05 |
| 12-month low | R13.88 |
| Average monthly volume | 72,015 |
| Gross dividend yield | 4.55% |

*Source: Satrix fund fact sheet, Refinitiv*