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Satrix MSCI World ETF (JSE:STXWDM)

06.04.2023

Fund suitability

This ETF is suitable for investors with a high risk appetite seeking offshore exposure to companies listed on MSCI World Index.

Fees

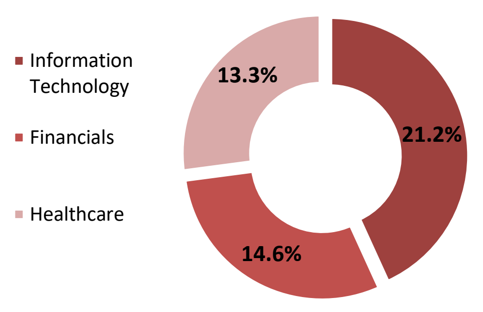
The fund has a total expense ratio of 0.35%.

Alternative funds

1nvest MSCI World ETF (TER:0.40%)

"High interest rates are a challenge for companies as well as households as they increase interest payments, which reduces net profits and disposable incomes respectively."

Sector allocation– top 3 (%)



What's happening in the markets?

Markets began this year on a strong footing, with indices such as the S&P 500 and the MSCI World Index up by more than 6% year-to-date. Positive sentiment on the back of China's re-opening, lower inflation expectations and lower expected interest rates increases, boosted equity market returns.

Investment environment

The IMF increased its global growth forecast for 2023 slightly to 2.9% in late January from a 2.7% forecast made in October last year, citing resilient demand from the US and Europe as well as China's re-opening. While the growth forecast was increased by two basis points, it remains one of the lowest from the institution in about 20 years.

This suggests that diversification will be key this year. As a result, this week we are reviewing the **Satrix MSCI World Index ETF** which offers low-cost exposure to the diversified world index.

The IMF expects inflation to decline to 6.6% this year and to 4.3% in 2023 from 8.8% in 2022 suggesting that it has peaked. The institution asserts that achieving disinflation should be a priority for most economies. Fiscal policy should be targeted at supporting those who are affected by food and energy price increases.

Over two thirds of the fund's assets are invested in the US, whose economic outlook has improved from 2022. Real GDP expanded by an annualised 0.9% last year and the slowdown was broad-based. Personal consumption expenditure fell by 19% in 2022 largely driven by higher interest rates as the US Federal Reserve lifted the federal funds rate by a total of 425 basis points last year. The aggressive interest rate hikes were mainly driven by higher-than-expected inflation.

Inflation accelerated at an average of 6.5% in 2022 from 7% in 2021. Global supply chain disruptions, labour shortages, high energy prices and the Russia-Ukraine war were among the biggest drivers of inflation. While inflation eased to an annualised 6% in February from 6.4% in January, the Fed has signalled to the market that the federal funds rate will likely surpass 5% this year from the current target of 4.75%-5.0%.

High interest rates are a challenge for companies as well as households as they increase interest payments, which reduces net profits and disposable incomes respectively. Moreover, higher rates increase the discount rate that is used in company valuations, which reduces expected cashflows and the expected rate of return.

The Fed has a difficult mandate in that it has to keep unemployment low and inflation close to 2%. These are difficult policy decisions because they have implications for other economies. One of the implications of a higher federal funds rate is that the dollar tends to strengthen on the back of strong capital flows to the US as markets search for higher yield.

A stronger dollar also increases prices of goods priced in dollars, which adds to global inflation. In addition, a strong dollar leads to lower revenues for US companies that have operations around the world as consumers struggle to afford imports.

While inflation might cool this year, it will likely not be within the desired level of policy makers. The Russia-Ukraine war, global supply chain disruptions and energy constraints are some of the key risks to inflation. Monetary tightening may not be enough to contain inflation, according to the IMF. The most likely outcome of further hikes in interest rates is slower global economic growth. This suggests that investors should aim for inflation-beating returns.

This ETF has returned 10% over the last year and 16.5% over the past five years, which is compelling for a diversified fund. It has a low total expense ratio of 0.35% and a massive portfolio size of R6.5bn. The MSCI World Index is considered a gauge for equity markets around the globe as it holds just over 1,500 stocks from 23 developed markets. It is suitable for investors who want to diversify their portfolios away from sectoral themes.

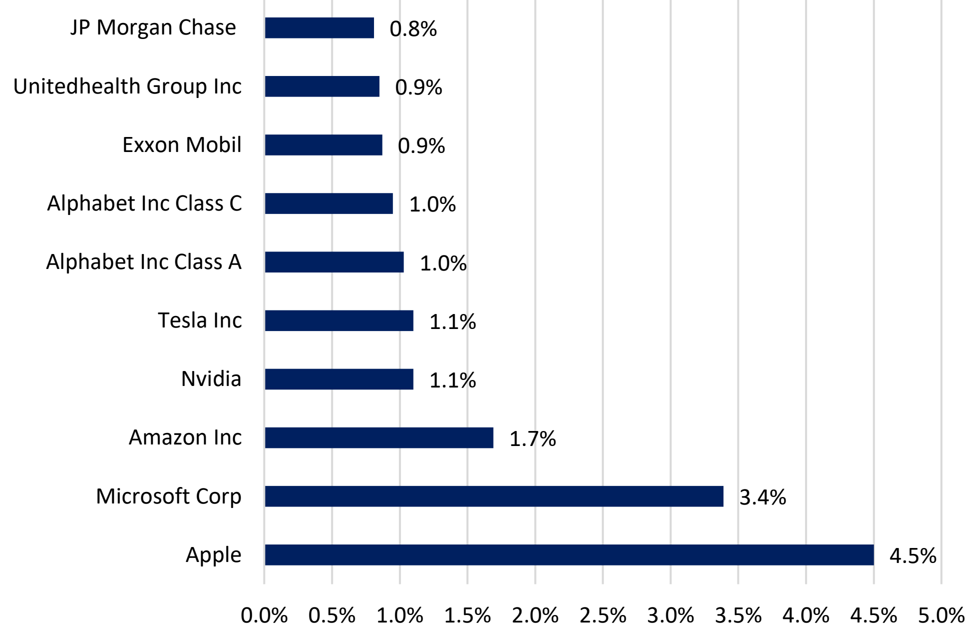
Investment term of the week: Disinflation

Disinflation is a temporary slowing of the pace of price inflation and is used to describe instances when the inflation rate has reduced marginally over the short term. Unlike inflation and deflation, which refer to the direction of prices, disinflation refers to the rate of change in the inflation.

Investment approach and portfolio composition

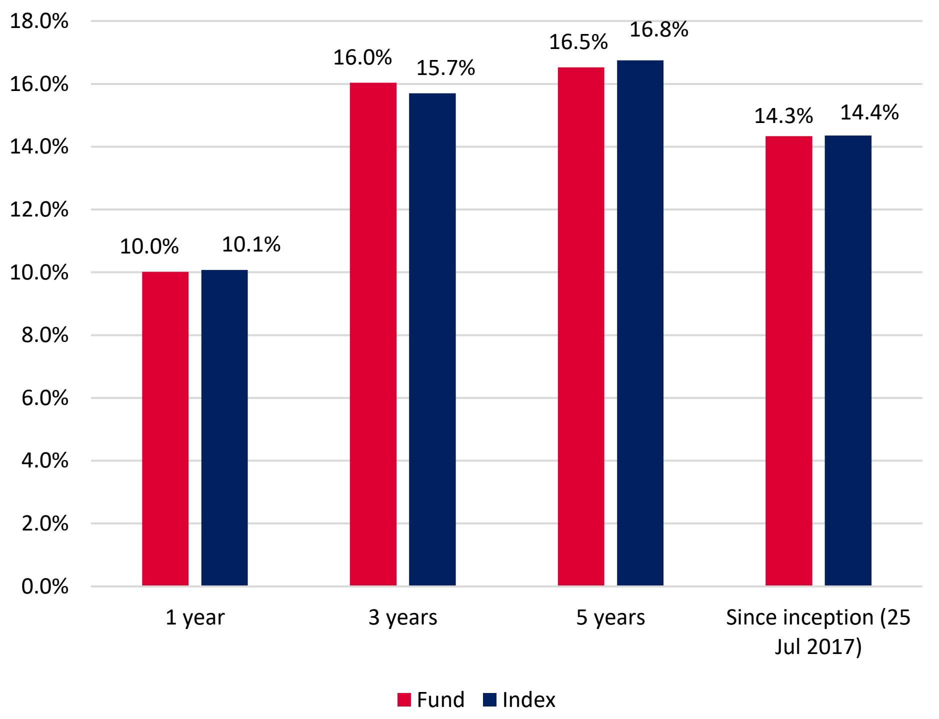
The Satrix MSCI World ETF tracks the value of the MSCI World Index in rands, which includes over 1,500 stocks in 23 developed markets.

Top holdings (%)



Performance

Index performance to end-February 2023 (annualised for periods longer than one year; with dividends reinvested)



Fund information as at 28 February 2023		Market data: 20 December 2022	
Launch date	25 July 2017	Spot price	R71.88
Trading symbol (JSE)	STXWDM	12-month high	R72.47
Weighted average market cap.	R6.5bn	12-month low	R55.39
Total expense ratio	0.35%	Average monthly volume	5,3-million
Risk rating	High	Gross dividend yield	N/A
Benchmark	MSCI World Index		

Source: Infront, yahoo finance