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Satrix S&P 500 Feeder ETF (JSE:STX500)

07.07.2023

Fund suitability

This ETF is suitable for investors with a high-risk appetite seeking exposure to offshore-listed companies.

Fees

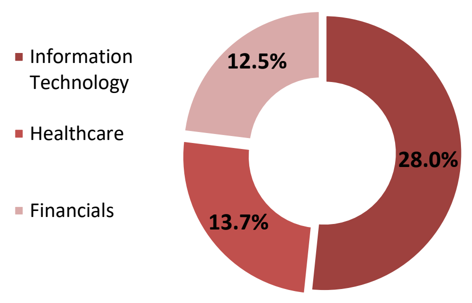
The fund has a total expense ratio of 0.25%.

Alternative funds

CoreShares S&P 500 ETF (TER:0.38%)

"Overall, the US tech sector appears to be in favour this year. About 85% of analysts sampled by Bloomberg in June 2023 are bullish on Microsoft, Alphabet and Amazon"

Sector allocation– top 3 (%)



While the Federal Reserve expects a mild recession in the US later this year, the S&P 500 index continues to rise – it is up about 16.5% year-to-date. The index is widely considered to be a proxy of wider stock market performance in the US.

Macroeconomic indicators such as unemployment rate and household spending point to a resilient consumer market. The unemployment rate came in at a relatively low 3.7% in May, while household consumption spending grew an annualised 4.2% in Q1 2023.

The Satrix S&P 500 Feeder ETF aims to provide investors with exposure to companies listed on the S&P 500. The fund invests in sectors such as information technology (28%), healthcare (13.7%), financials (12.5%), consumer discretionary (10.1%) and industrials (8.2%). It is dominated by tech giants such as Apple (7.5%), Microsoft (7%) Amazon (3.1%) and Nvidia (2.7%).

The tech sector has performed impressively this year, as reflected by the S&P 500 Information Technology Index, which has gained 41.6% this year. Apple and chip manufacturer Nvidia are among the companies driving the gains, having risen 54% and 200% respectively year-to-date.

This year's surge of Apple's stock price has made the company the first to reach a $3tn market value. Last year was a difficult one for households and businesses mainly because of high inflation and high interest rates. Despite this, Apple increased the average selling price of iPhones by 12% to $988 in 1H23 from $882 in 1H22. Apple's shipments were down 2% due to global supply chain disruptions, which have now subsided, according to CEO Tim Cook.

The surge in Apple's stock comes on the back of higher expected iPhone sales volumes and prices, which bodes well for the company as it derived about 55% of revenue from iPhones in 1H23. Apple has taken measures to ensure that volumes for the upcoming iPhone 15 are not affected by supply shortages. To this end, the company partnered with Broadcom, a US-based manufacturer of a wide range of semiconductor and infrastructure software products. In addition, Apple sales stand to rise on the back of the upcoming Vision Pro mixed-reality headset, whose market price will be from $3,499. Apple is expected to sell about 200,000 units which could translate to about $700m in additional revenue, according to TrendForce – a market research firm.

Optimism about Nvidia began in late 2022 when OpenAI launched ChatGPT, an artificial intelligence (AI) chatbot which enables human-like conversations. Various companies such as Google, Microsoft Bing, DeepMind Sparrow and Baidu stepped up competition in the AI space to launch their own chatbots to compete with ChatGPT.

Nvidia's core business is designing high-performance chips that are used by AI companies. The company holds over 80% market share in specialist AI chips, according to The Economist. However, this dominance and rosy outlook may invite competition from startups as well as big tech companies and chipmakers such as Intel and Amazon. Although governments pose regulatory risks to the AI industry, AI provides a platform for technological innovation and is not likely to constrain growth in this fast-developing technology.

Overall, the US tech sector appears to be in favour this year. About 85% of analysts sampled by Bloomberg in June 2023 are bullish on Microsoft, Alphabet and Amazon. In a report released in late June, Citigroup notes that Apple's stock could rise an additional 30% this year underpinned by increased sales volumes. Macro factors supporting the rally in tech stocks include the weaker dollar and lower inflation.

This ETF has a fund size of R4bn, which suggests it can contend with market volatility. It comes a total expense ratio of 0.25%, which is lower than CoreShares S&P 500 ETF's 0.38%.

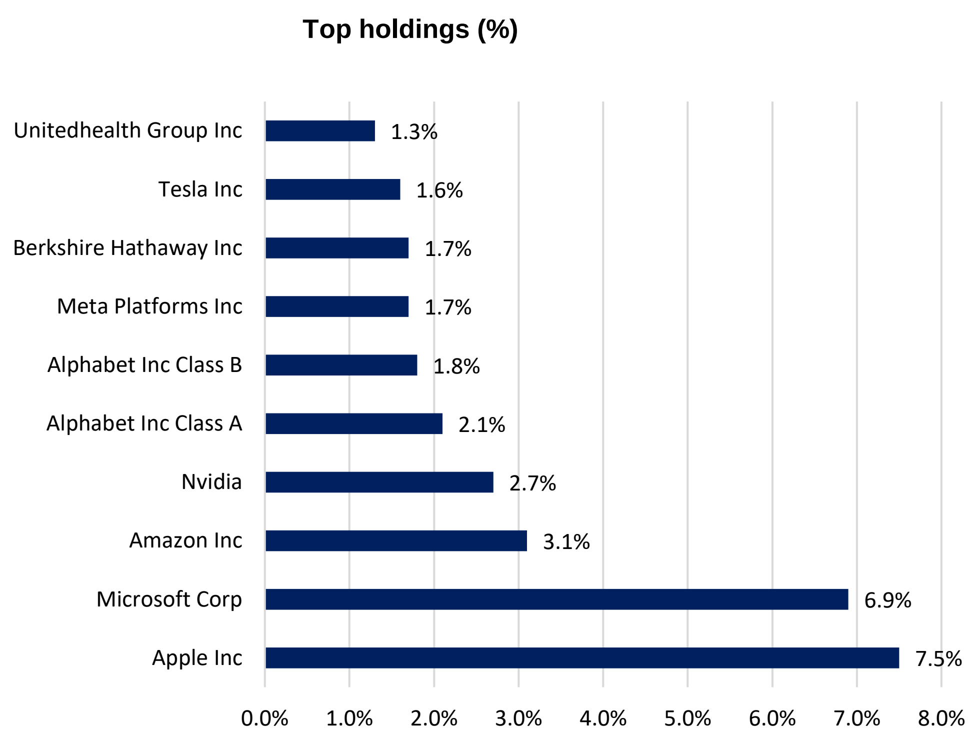
The fund has returned 30.3% over the last year and 20.8% over the last five years. It does not distribute but reinvests dividends, which means that it is particularly suitable for risk-tolerant investors who have a long-term investment horizon

Investment term of the week: Artificial intelligence

AI refers to the simulation or approximation of human intelligence in machines. Researchers and developers in the field are making surprisingly rapid strides in mimicking activities such as learning, reasoning, and perception, to the extent that these can be concretely defined

Investment approach and portfolio composition

The Satrix S&P 500 Feeder ETF aims to provide investors with exposure to companies listed on the S&P 500 Index.



Performance

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

Fund information as at 31 May 2023

Launch date	25 July 2017
Trading symbol (JSE)	STX500
Weighted average market cap.	R4bn
Total expense ratio	0.25%
Risk rating	High
Benchmark	S&P 500 Index

Market data: 06 July 2023

Spot price	R87.50
12-month high	R87.60
12-month low	R65.12
Average monthly volume	66,565
Gross dividend yield	N/A

Source: Infront, yahoo finance