intellidex
Researching Capital Markets and Financial Services

ETF Insights.

Prepared for clients of EasyEquities

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Satrix ILBI (JSE:STXILB)

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Fund suitability

This ETF is suitable for investors with a low risk appetite seeking exposure to SA government bonds.

Fees

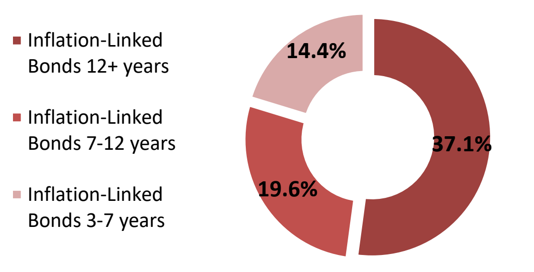
The fund has a total expense ratio of 0.25%.

Alternative funds

ABSA NewFunds ILBI ETF (TER:0.35%)
FNB ILBI ETF (TER:0.41%)

"The Bureau of Economic Research believes that the power crisis is unlikely to fade in the short term, ranking Eskom as SA's biggest downside risk which will drag down growth prospects."

Sector allocation– top 3 (%)



What's happening in the markets?

After a bruising 2022, markets have begun 2023 on a stronger footing, with the S&P 500 and the JSE All Share Index starting the year in positive territory.

While inflation may have peaked, it is likely to remain elevated over the short to medium term on the back of energy costs and lingering supply chain disruptions. This week we are reviewing the **Satrix Inflation Linked Bond (ILBI) ETF** as we believe investors should not turn a blind eye to inflationary risks just yet.

Investment environment

Firstly, the International Energy Agency stated that China's reopening will boost global oil demand this year to a new record high. The higher demand, coupled with sanctions on Russia, could outweigh supply and send prices higher. Morgan Stanley forecasts Brent crude oil to rise to $107/bbl from the current level of $84/bbl by 2023-end. A small economy such as SA is vulnerable to oil price shocks due to the volatile exchange rate and reliance on the commodity. If Morgan Stanley's forecasts on oil prices are correct, SA's economy will come under pressure from surging prices, implying elevated interest rates for longer.

Secondly, although goods are expected to move more freely in 2023 than in 2022 and 2021, the global supply chain remains fragile. General Motors expects disruptions to continue over the short term. In addition, the automotive manufacturer stated that it will take concrete steps to minimise the disruptions while building resilience. Similarly, while semiconductor suppliers are taking proactive measures to mitigate supply chain challenges, however, they do not expect the disruptions to come to an abrupt end in 2023. This implies that inflation may not cool off as quickly as markets anticipate.

Pent up demand from China might spur inflation not only within the country but also across the globe. Morgan Stanley does not expect inflation to decline sharply by year-end. The investment bank believes that investors' optimism may be premature mainly because core inflation is sticky on the upside.

In SA headline inflation came in at an annualised rate of 7.2% in December 2022 down from 7.4% in November - with an average annual rate of 6.9% for 2022. The main contributors were food and non-alcoholic drinks as well as transport and housing utilities, which contributed 2.1, 2 and 1 percentage points, respectively.

Several other categories recorded double-digit inflation growth such as fuel (22.8%), oils and fats (22.4%), breads and cereals (20.7%) and public transport (16.7%). Intellidex expects headline inflation to return to SARB's target range by end 2023. However, inflationary risks remain on the upside given the electricity tariff increase of 18.65% granted to Eskom effective from 1 April 2023. Households and businesses that purchase electricity from municipalities will likely suffer a bigger increase as local governments tend to add their own markup and rates. As a result, profit margins for companies will be squeezed on the back of higher operating costs coupled with subdued revenues.

SA faces a 45% probability of entering a recession this year mainly due to power outages, according to a survey of economists by Bloomberg. The Bureau of Economic Research believes that the power crisis is unlikely to fade in the short term, ranking Eskom as SA's biggest downside risk which will drag down growth prospects.

Intellidex forecasts GDP growth of 1.7% for 2023 from an estimate of 2.4% in 2022. Therefore, it is essential for investors to diversify their portfolios to address inflation and growth risks.

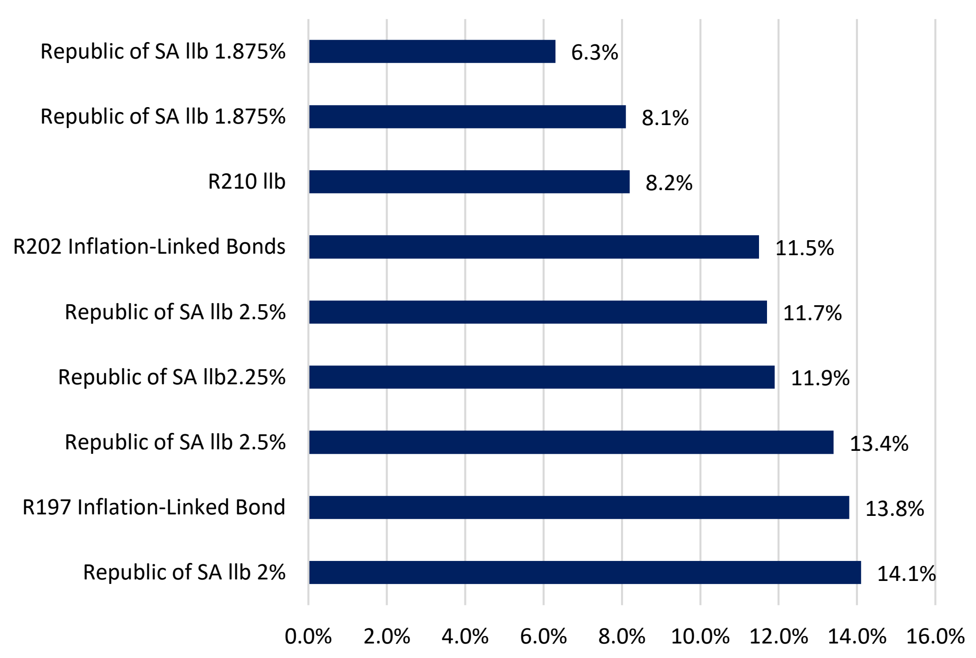
The Satrix ILBI tracks the S&P SA Sovereign Inflation-Linked Bond 1+ Year Index. Generally, returns on government bonds depend on multiple factors such as the current account balance, economic growth, political stability, government indebtedness and sovereign credit ratings by S&P Global, Fitch and Moody's. Any negative effect on one of these factors increases interest payments to be made by the government and therefore increases bond yields to compensate for higher risk.

The Satrix ILBI has returned 6.47% over the past year and 5.44% over the last five years. It has a low total expense ratio of 0.25% and a portfolio size of R520m. Distribution is twice a year with a distribution yield of 1.98%. It is suitable for risk averse investors who want to diversify their portfolios.

Investment approach and portfolio composition

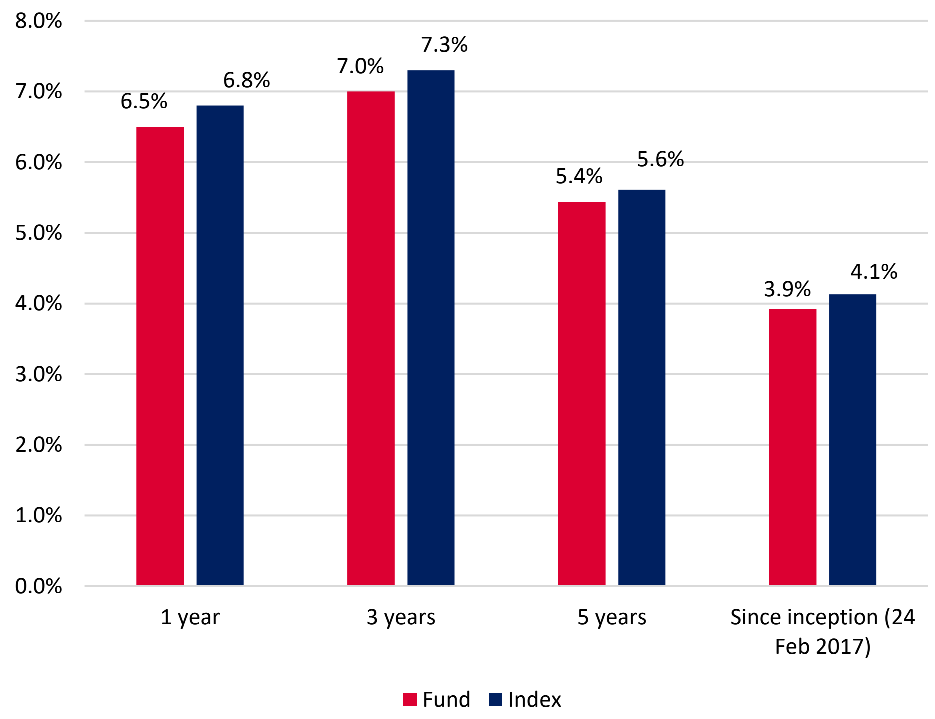
The Satrix ILBI tracks the S&P SA Sovereign Inflation-Linked Bond 1+ Year Index which consists of bonds issued by the SA government. The ETF is suitable for risk averse investors who want to diversify their portfolios against inflation.

Top holdings (%)



Performance

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



Fund information as at 30 November 2022

Launch date	24 February 2017
Trading symbol (JSE)	STXILB
Weighted average market cap.	R520m
Total expense ratio	0.25%
Risk rating	Medium
Benchmark	S&P SA Sovereign Inflation-Linked Bond 1+ Year Index

Market data: 19 January 2023

Spot price	R7.25
12-month high	R7.39
12-month low	R6.50
Average monthly volume	358,465
Gross dividend yield	1.98%

Source: Satrix fund fact sheet, Refinitiv