ETF Insights.

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intellidex
Researching Capital Markets and Financial Services

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Satrix MSCI China ETF (JSE:STXCHN)

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Fund suitability

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

Fees

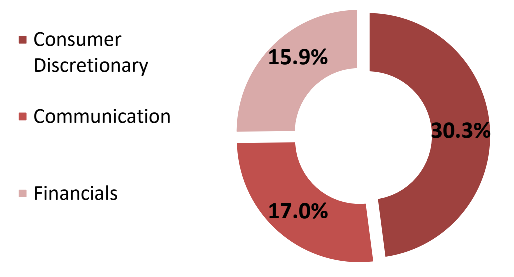
The fund has a total expense ratio of 0.63%.

Alternative funds

None

"The MSCI China Index is currently trading at 45.5% below its February 2021 peak, implying that there is some room for a rally during 2023."

Sector allocation– top 3 (%)



What's happening in the markets?

For equity markets, 2022 was a challenging year, with indices such as the S&P 500 losing 19.4% – its worst year since 2008's -38.5%. The energy sector was an outlier as it gained 59.1% as a result of oil and gas supply shortages caused by Russia's invasion of Ukraine.

Most economies observed record high inflation in 2022, partly as a result of global supply chain disruptions, which led to fears of a recession among investors. China was one of the few markets that had a relatively low inflation rate – with an annual average rate of 1.97% from January to November 2022. Most of the challenges faced by the Chinese economy emanated from its zero-covid policy, clampdowns on tech companies as well as the country's property market crisis.

Investment environment

Investors are upbeat about the world's second-largest economy as its government dismantled the zero-covid policy and removed quarantine requirements for tourists. This move will encourage travellers to view China as a tourist destination, which will improve the country's economic growth. The first day of the reopening saw as many as 45,000 people crossing the Hong Kong-mainland China border in either direction, according to the South China Morning Post.

It is against this backdrop that we are reviewing the **Satrix MSCI China Feeder ETF** this week, which featured in our December newsletter as one of our top picks for 2023. We believe that the country's policies will have a significant effect on the world economy and equity market returns. The China Banking and Insurance Regulatory Commission stated that it will normalise regulations and encourage platform operators to display their capabilities of job creation and competitiveness. This lifted investor sentiment because Chinese regulators have been cracking down on tech companies over the past couple of years.

The MSCI China Index is off to a good start as it gained 7.7% since trading began this year, marking its best start since 2009, according to Bloomberg. The Hang Seng Index is also up 6.4% this year. Beneficiaries of this euphoria include Alibaba (+27.4%), in which this ETF has its second-largest exposure, and the yuan, which moved to 6.77/$ from 6.90/$ at the beginning of the year.

China's central bank announced that it plans to focus on expanding demand, particularly personal consumption, while strengthening supply-side structural reforms. Furthermore, government intends to bail out major property developers which were distressed in 2022. A total collapse of the Chinese property market would have undermined the economy and potentially the world financial system.

Morgan Stanley is bullish on Chinese assets and expects the yuan to appreciate to 6.65/$ by the end of 2023. In addition, the bank anticipates Chinese shares to outperform global equities with an expected double-digit rise in the MSCI China Index. The bank believes that the market is underestimating the implications of the reopening. Morgan Stanley expects China's economy to grow 5.7% year on year compared to a consensus forecast of 4.8%.

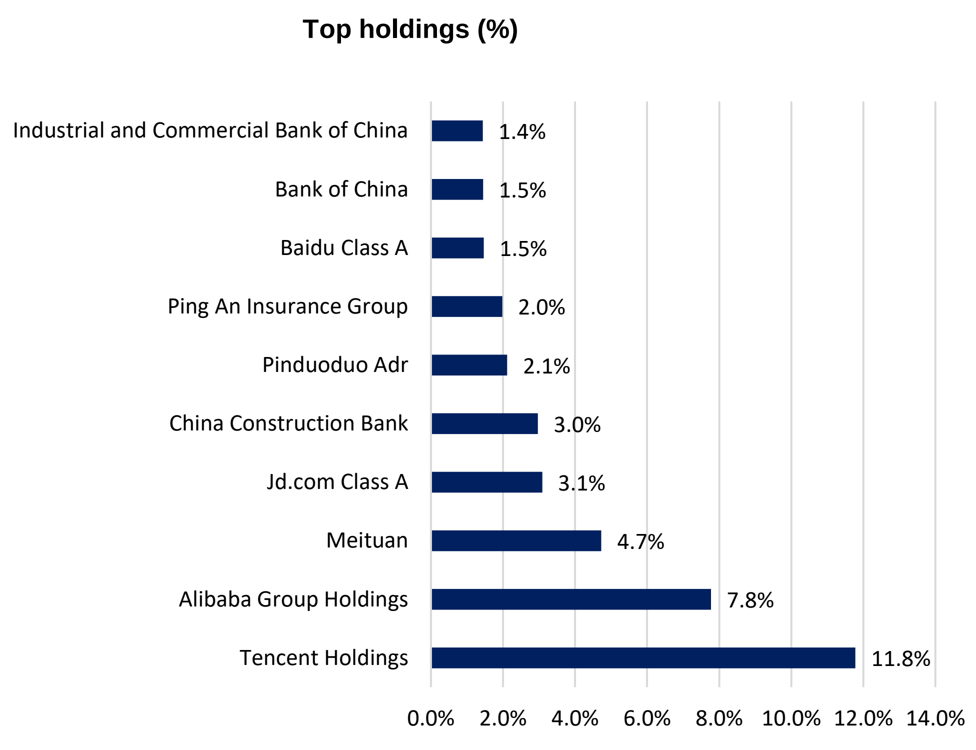
Goldman Sachs shares the same sentiments with Morgan Stanley in terms of being bullish on Chinese equities. It expects the MSCI China Index to expand 14% in 2023 as well as a surge in commodity prices, particularly in the energy sector. It expects economic growth of 5.2%, slightly higher than the consensus. The MSCI China Index is currently trading at 45.5% below its February 2021 peak, implying that there is some room for a rally during 2023.

However, covid remains one of the downside risks as the new variant appears to be more infectious although its severity and symptoms remain uncertain. Elevated global inflation, particularly in the US, will be a key risk as it may lead to higher interest rates and low risk appetite for assets such as Chinese equities. Investors should also be wary of demand-pull inflation in China which could result from consumer demand outweighing supply.

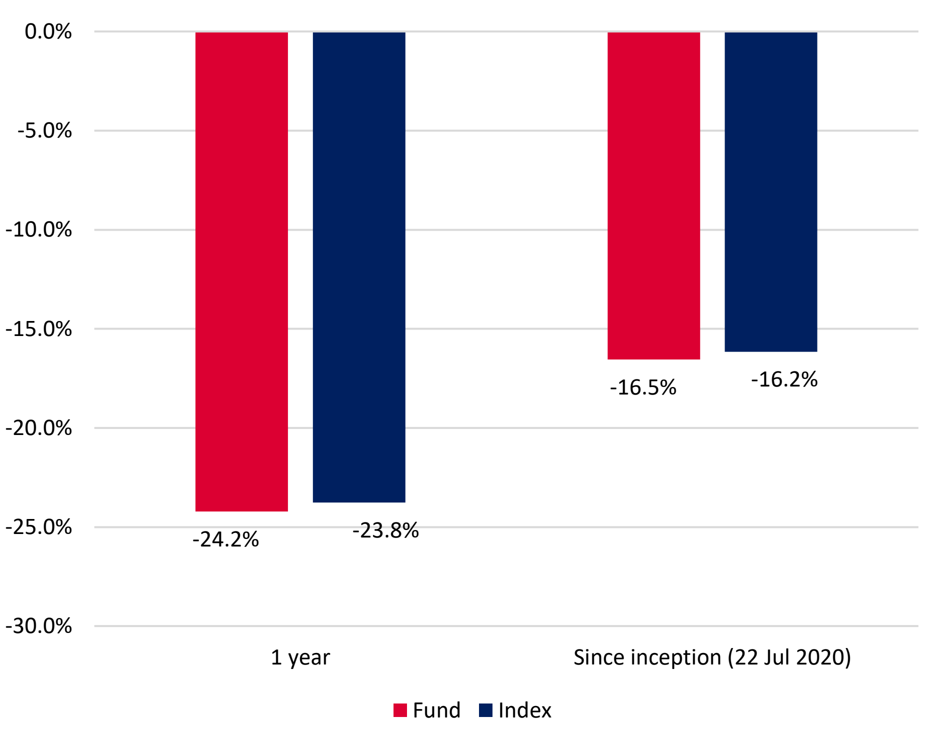
Broadly, this ETF is designed for investors looking for offshore exposure in Chinese stocks. The ETF has a steep total expense ratio of 0.63% and is the only JSE-listed ETF that tracks the MSCI China Index. Its largest weighting is the consumer discretionary sector (30.4%), which will be one of the key beneficiaries of the Chinese reopening.

Investment approach and portfolio composition

The Satrix MSCI China Feeder ETF tracks the value of the MSCI China Index in ZAR, which includes large and midcap stocks.



Performance



Fund information as at 30 November 2022

Launch date	22 July 2020
Trading symbol (JSE)	STXCHN
Weighted average market cap.	R984m
Total expense ratio	0.63%
Risk rating	High
Benchmark	MSCI China Index

Market data: 10 January 2023

Spot price	R42.10
12-month high	R46.69
12-month low	R29.77
Average monthly volume	5.2-million
Gross dividend yield	N/A

Source: Satrix fund fact sheet, Refinitiv

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