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Satrix MSCI Emerging Markets ETF (JSE:STXEMG)

27.01.2023

Fund suitability

This ETF is suitable for investors with a high risk appetite seeking exposure to emerging market equities.

Fees

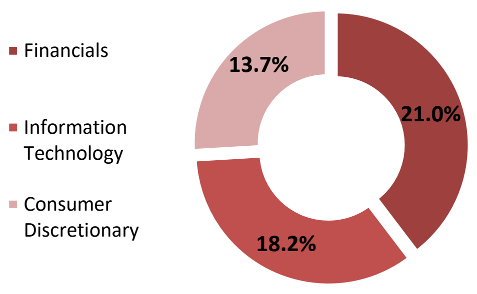
The fund has a total expense ratio of 0.40%.

Alternative funds

Sygnia Itrix Emerging Markets 50 ETF (TER:0.43%)

"China is a major trading partner to virtually all other emerging market economies and accounts for about one-third of market capitalisation in most emerging market indices."

Sector allocation– top 3 (%)



What's happening in the markets?

After a bruising 2022, investors are upbeat about equity returns for 2023 largely as a result of China reopening and lower inflation figures from the US. The Hang Seng Index is up 12.3%, while the MSCI China Index increased 17.8% year-to-date.

While investing in China may be compelling, some investors are uncomfortable with allocating a significant portion of their assets to a country that saw hard regulatory crackdowns about a year ago. For those investors, a broad ETF such as the **Satrix MSCI Emerging Markets ETF** may be suitable. The underlying index of the ETF consists of markets which may benefit from China's reopening.

Investment environment

China's about-face on multiple policies such as Covid and tech has set the tone for the country's economic recovery and a potentially solid equity market performance around the globe.

Emerging markets have seen inflows of $1.1bn a day this week, according to the Institute of International Finance. The speed of these flows comes second to the lifting of Covid lockdowns in early 2021.

China is a major trading partner to virtually all other emerging market economies and accounts for about one-third of market capitalisation in most emerging market indices, according to Morgan Stanley. As a result, investors place great emphasis on the country when allocating capital.

Moreover, Morgan Stanley believes that the market is underestimating the implications of the reopening. The bank is bullish on China and remains optimistic about spillover effects to emerging market economies that are exporters of commodities.

The ETF has a sizeable weighting to the financials, information technology, consumer discretionary, industrials, energy and communication sectors, among others. The consumer discretionary sector will be one of the biggest beneficiaries of China's reopening. Citibank forecasts China's domestic travel industry to recover to at least 85% of pre-Covid levels by the second half of 2023, while outbound travel will likely recover to around 60% of pre-Covid levels.

The recovery in travel also bodes well for both energy and aviation stocks. In addition, the reopening in manufacturing will amplify demand for oil as China relies heavily on the commodity for manufacturing. Manufacturing will also boost demand for precious metals such as gold and platinum, in which emerging markets play a crucial role.

Barclays believes that Europe is another beneficiary of the Chinese reopening because earnings growth of European equities are more sensitive to changes in the economic activity of emerging markets than US equities. The bank sees industrial heavyweight Germany as the biggest beneficiary.

Broadly, the backdrop for emerging and foreign equities is improving as a result of China's reopening, according to JP Morgan. The investment bank expects that economic growth of emerging markets will outpace developed markets this year. The weaker dollar bodes well for emerging market economies as it will reduce import costs and the inflationary pressures that accompany a stronger dollar. JP Morgan sees the recent rampant dollar regime coming to an end in the short to medium term.

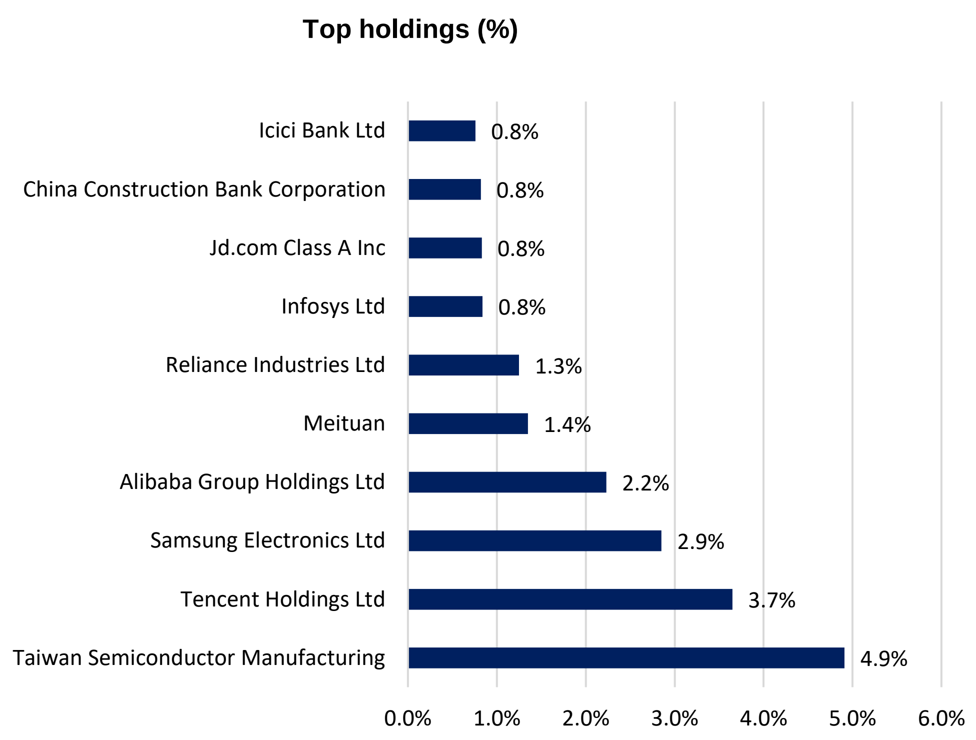
Apart from China, the index has a sizeable exposure to India, Taiwan, South Korea and Brazil. The headwinds faced by these economies are widespread, ranging from simultaneous slowing growth and tighter monetary conditions. Political instability is also among some of the key risks that emerging markets are confronted by, along with minimal liquidity, reliance on commodities and poor infrastructure.

Although inflation is moderating, it remains a key risk as it is not likely to rapidly cool down to the desired targets of monetary policy makers in their respective economies, according to the IMF. If the pace of decline in inflation remains slower for longer, interest rates will remain elevated, which may dampen the demand for emerging market assets. The pent-up demand from China may also lead to demand-pull inflation, which may be a drag on global efforts to tame price increases.

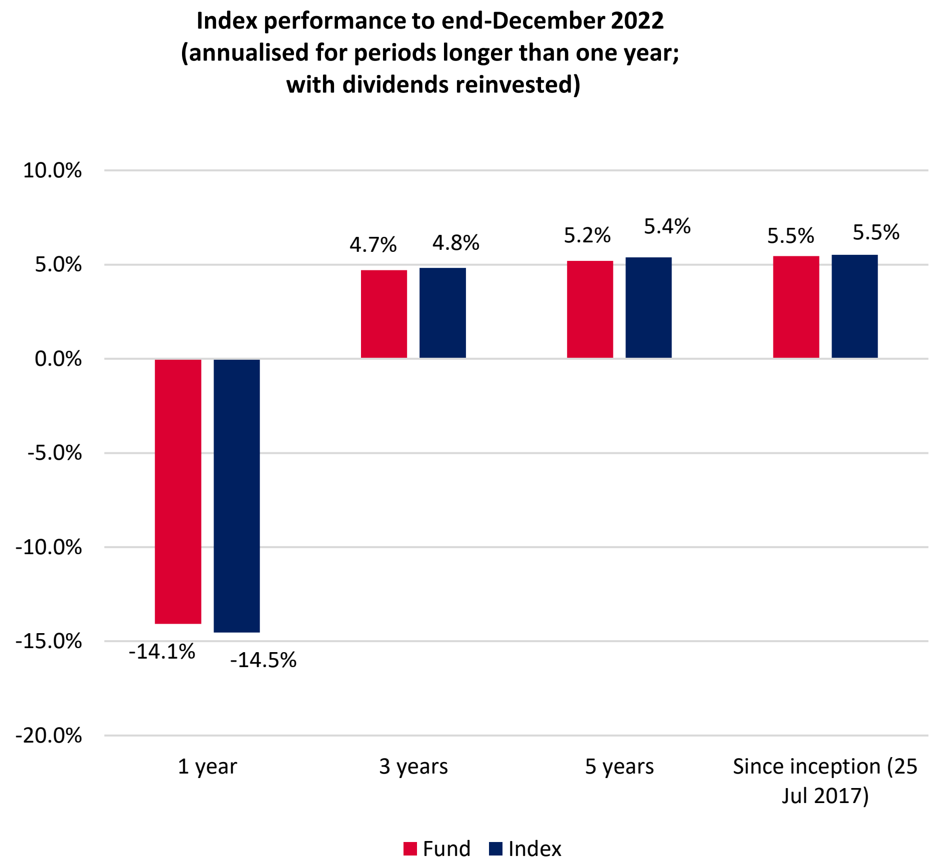
Overall, this ETF is designed for investors looking for diversified exposure in emerging market equities. The ETF has a reasonable total expense ratio of 0.40% compared to Sygnia Itrix MSCI Emerging Markets 50 ETF of 0.43% .

Investment approach and portfolio composition

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



Performance



Fund information as at 31 December 2022		Market data: 26 January 2023	
Launch date	25 July 2017	Spot price	R54.87
Trading symbol (JSE)	STXCEMG	12-month high	R56.62
Weighted average market cap.	R1.8bn	12-month low	R44.65
Total expense ratio	0.40%	Average monthly volume	48,495
Risk rating	High	Gross dividend yield	N/A
Benchmark	MSCI Emerging Markets Index		

Source: Satrix fund fact sheet, Refinitiv