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NewFunds Equity Momentum ETF (JSE: NFEMOM)

13.04.2022

Fund suitability

This ETF is suitable for investors who would like to gain exposure to local equities through the momentum investment style.

Fees

The fund's estimated total investment charge is 1.59%.

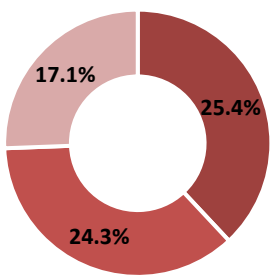
Alternative funds

Satrix Momentum ETF (TER:0.40%) (TIC:0.64%).

“Momentum, which MSCI ranks as a persistence style, is expected to perform best in stable market conditions”

Sector allocation – top 5 (%)

- Consumer services
- Financials
- Basic materials



Factors or investment styles within equities are well-researched characteristics that have been proven to influence the risk and return of stock prices. These include quality and dividend yield, which we've discussed in previous notes.

This week our focus is on the momentum investing style. It rose to prominence when authors Jegadeesh and Titman published a 1993 study indicating strategies that buy stocks that have performed well in the past and sell stocks that have performed poorly generate significant positive returns over three- and 12-month periods. Global index provider MSCI breaks down the times in which different styles perform best by ranking them as *defensive*, *persistence* and *pro-cyclical* styles.

Defensive styles perform best under tough market conditions or when the business cycle (or economy) is experiencing a downturn. MSCI defines dividend yield, quality and volatility as defensive investment styles. Pro-cyclical styles are the exact opposite and are expected to outperform when economic conditions are strong and equity markets are on an upward trend. Styles in this category are value and size.

Momentum is ranked in a category of its own, being persistence – MSCI accordingly defines persistence as a period in which market conditions are stable. This is indeed the case according to MSCI's analysis which indicates the MSCI World Momentum index was one of the top three performing styles in eight of the 10 years over the 2011-2020 period.

This period was marked by a bull-market in global equities during 2011-2019 in

which central banks in developed economies slashed interest rates to near zero, thus decreasing borrowing costs and boosting global equities, with the high-growth technology sector being a favourite in these conditions.

Interestingly, investors could argue that the post-lockdown spike in equities that favoured momentum in mid-2020 and provided a further boost when news of effective vaccines against Covid-19 was announced ranks momentum as pro-cyclical. However, the strong performance of equities and momentum over 2011-2019, a period in which value lagged momentum, proves that it is more of a persistence factor.

Importantly, current global market conditions are uncertain, a time in which momentum is not expected to outperform. The global economy is showing signs of stagflation in which economic growth is expected to decline while inflation continues to increase. The effect on growth will be exacerbated by hawkish monetary policy, as central banks look to subdue price increases that have reached all time highs in some developed nations. Against this backdrop, we expect the International Monetary Fund to downgrade its real GDP growth forecast of 4.4% for 2022 in its next update.

However, the momentum factor may be able to perform strongly should global economic prospects improve. This of course relies on a diplomatic solution to the war in Ukraine. In addition, Russia's economic future given its exports (oil, gas and agriculture-related goods) may dent global trade if economic sanctions are enforced over a prolonged period.

Given momentum's leading performance

in 2020, we believe a diplomatic solution combined with subsiding inflation (due to an improvement in supply chain conditions) and an overall improvement in the global economy over the medium term may spark a pro-cyclical rally in the momentum style before its performance may be further augmented by stable market conditions.

The NewFunds Equity Momentum ETF, this week's pick, tracks the performance of the Absa Wits Risk-Controlled SA-Momentum Index. The fund provides investors with diversified exposure to 20 shares that exhibited the largest price increases over the past 12 months.

It has a decent gross dividend yield of 4.5% and distributes quarterly but has one major drawback – its total investment charges are an eye-watering 1.59%. This does not compare favourably with its peer, Satrix Momentum, which charges a better but also slightly steep 0.64%. Satrix Momentum also distributes quarterly but has a lower dividend yield of 2.3% which might be a net version of the yield measure.

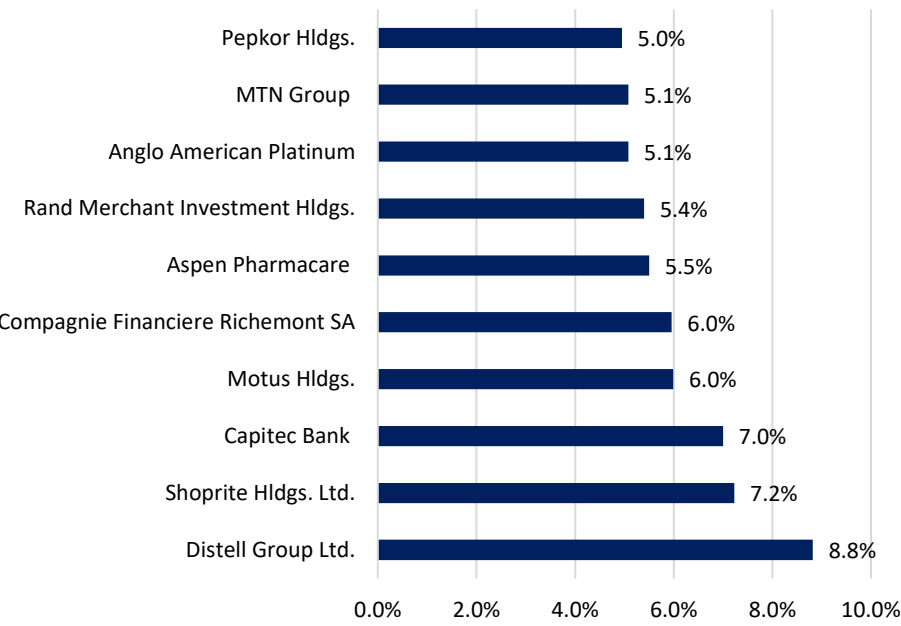
Locally, momentum's performance was driven by the strong performance of the basic materials and financials sectors – the JSE-listed Financial 15 and Resources indices rose 19.5% and 15.9% in Q1 2022, respectively.

However, SA's economy, which relies heavily on consumer spending, may take a hit from the spike in inflation, high interest rates and tough economic conditions. As such, pure momentum investors may have wait patiently for improved conditions, especially after the current commodity price boom.

Investment approach and portfolio composition

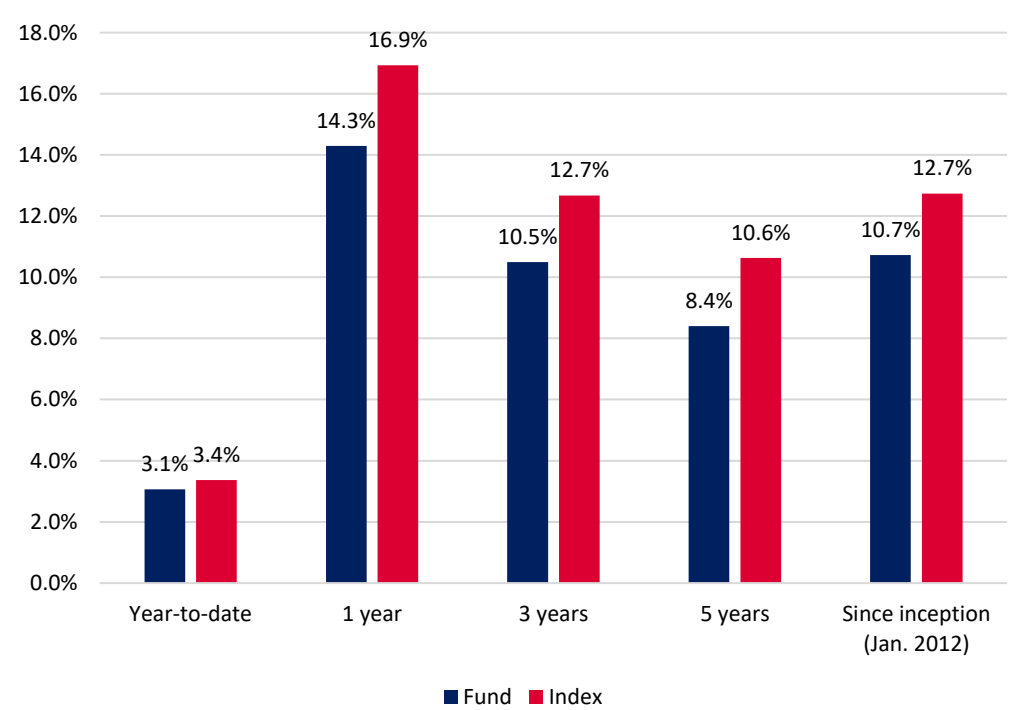
The NewFunds Equity Momentum ETF tracks the performance of the Absa Wits Risk-Controlled SA-Momentum Index before fees and expenses.

Top holdings (%)



Performance

ETF and index performance to end-February 2022 (annualised for periods longer than one year; with dividends reinvested).



Fund information: 28 February 2022

Launched on	26 January 2012
Trading symbol (JSE)	NFEMOM
Weighted average market cap.	R370m
Total expense ratio (total investment charge)	0.52% (1.59%)
Risk rating	High
Benchmark	Absa Wits Risk-Controlled SA-Momentum Index

Market data: 12 April 2022

Spot price	R44.16
One-year high	R45.11
One-year low	R38.00
Average monthly volume	495,284
Gross dividend yield	4.5%

Source: Infront, yahoo finance

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