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Satrix MSCI World ETF (JSE:STXWDM)

21.12.2022

Fund suitability

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

Fees

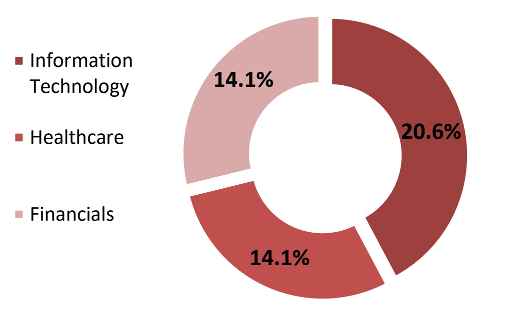
The fund has a total expense ratio of 0.35%.

Alternative funds

1nvest MSCI World ETF (TER:0.40%)

"Markets are sensitive to higher interest rates as they increase the cost of equity and the cost of borrowing while reducing the expected returns."

Sector allocation– top 3 (%)



What's happening in the markets?

Markets have been on a rollercoaster ride this year, with indices such as the S&P 500 and the Nasdaq 100 down by more than 20% - a technical bear market category.

Surging inflation on the back of energy constraints has arguably been the single biggest risk factor to market returns. The higher prices were accompanied by increases in interest rates, restraining returns even further.

Investment environment

While the MSCI World Index is down 20.1% year-to-date, it is more diversified than other indices such as the Nasdaq which shed 33% this year alone. The **Satrix MSCI World Index ETF** offers a low-cost exposure to the world index.

Just over two thirds of the fund's assets are invested in the US, a market which had shortcomings such as a slow economic growth. The US economy grew an annualised 2.9% in Q3 from -0.6% in Q2.

While inflation in the US eased at an annualised rate of 7.1% in November from 7.7% October, it remains elevated. The Federal Reserve said that it would like to see significant and sustained decreases in the inflation rate. The good news is that this is the lowest inflation print this year. While low inflation was welcomed, it did not stop the Fed from hiking rates in early December, a move which saw the Fed funds rate increase by 50 basis points to 4.25%-4.5%.

Earlier this year the Fed signalled that it "will do whatever it takes" to bring down inflation and admitted that this will bring some pain to the economy. The Fed has a dual mandate in that it targets unemployment while also promoting price stability. Hence, its policy decisions have implications for the global economy and financial markets.

The aggressive interest rate hikes saw a steady inflow of funds to the US as investors were seeking a "safe haven". This increased demand for the US dollar which reached its strongest levels in over 20 years, leading to lower revenues for US companies that have operations around the world and amplifying inflation for European and emerging markets.

Markets are sensitive to higher interest rates as they increase the cost of equity and the cost of borrowing while reducing expected returns. This leads to increased volatility as market participants modify their portfolio positions and outlook.

The fund's largest exposure is to Information Technology (20.96%). Tech stocks have been one of the hardest hit this year as evidenced by the S&P Info Tech Index which has returned -28.2% year-to-date. This sector is dominated by companies such as Apple, Amazon, Microsoft and Alphabet.

Apple reported better-than-expected top and bottom line results in its latest quarterly earnings. Revenue was up 8.1% compared to the same period last year. The company stated that revenue would have increased by double-digits if it wasn't for the stronger dollar. It did not provide guidance about the next quarter earnings due to uncertainty.

While inflation might cool in 2023, it will likely not be within the desired level of policy makers. The Russia-Ukraine war, global supply chain disruptions and energy constraints are some of the key risks to inflation and monetary tightening will not be enough to contain it. The most likely outcome of further hikes in interest rates is slower global economic growth.

The IMF expects global growth to slow to 3.2% and 2.7% in 2022 and 2023 respectively amid higher-than-expected inflation. In its latest economic outlook, the organisation advised central bankers to hold the line of monetary policy and fight inflation without threatening global economic growth while fiscal policy should aim to minimise the effects of rising costs.

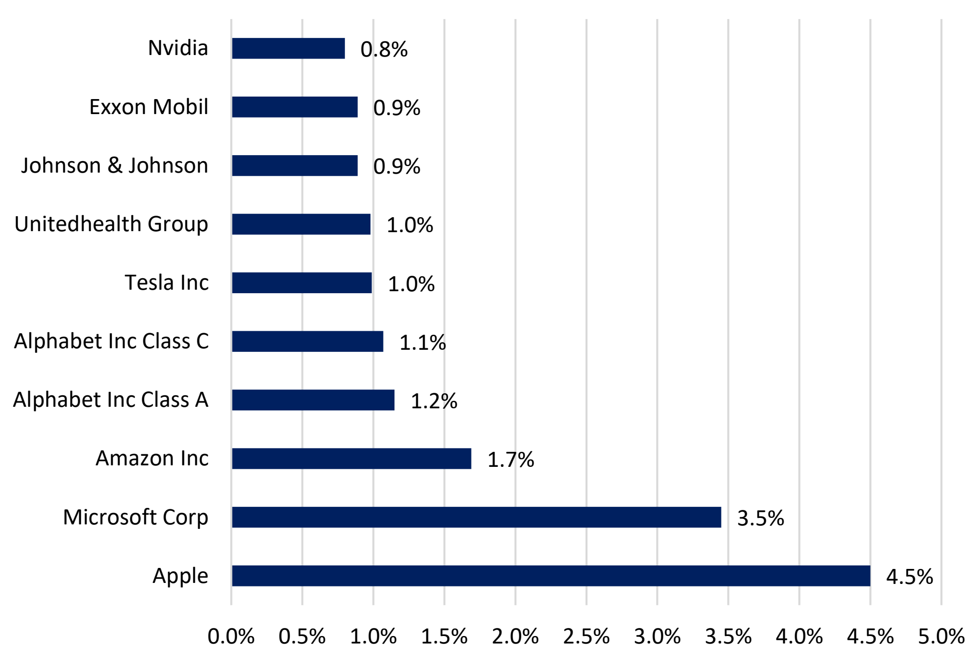
The institution also stated that interest rate increases might induce a debt crisis particularly for economies that have a sizeable portion of dollar denominated debt. While the IMF does not foresee a recession, 2023 will feel like a recession for most economies mainly due to soaring prices.

Coming back to the ETF, the fund has a low total expense ratio of 0.35%. It has a portfolio size of R5.9bn and has returned 12.1% over the last five years. The MSCI World Index is considered a gauge for equity markets around the globe as it holds just over 1,500 stocks from 23 developed markets. It is suitable for investors who want to diversify their portfolios away from sectoral themes.

Investment approach and portfolio composition

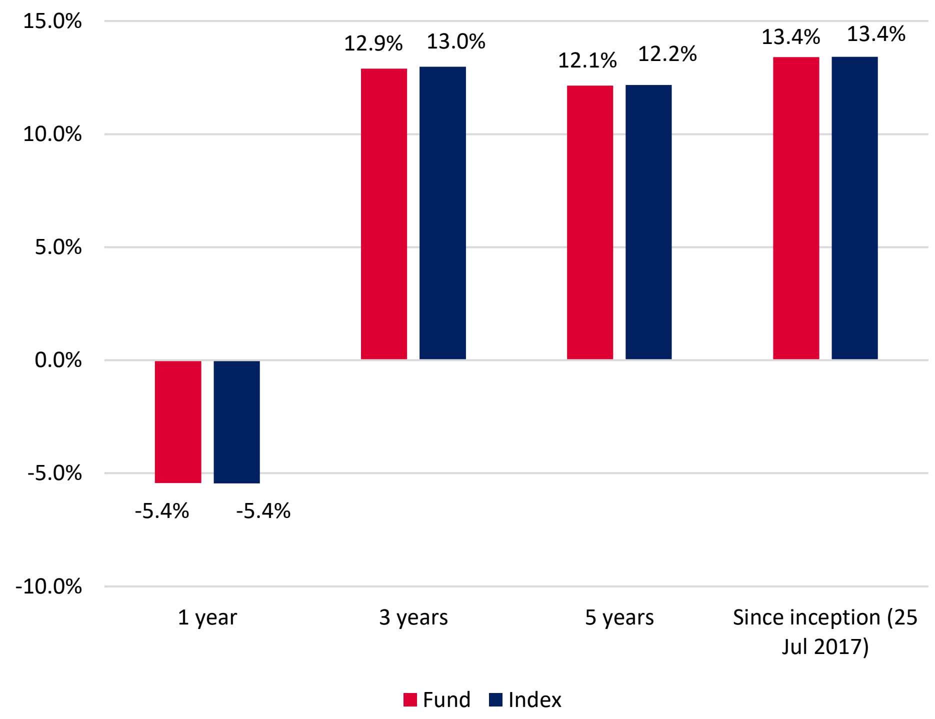
The Satrix MSCI World ETF tracks the value of the MSCI World Index in ZAR, which includes over 1,500 stocks in 23 developed markets.

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	25 July 2017
Trading symbol (JSE)	STXWDM
Weighted average market cap.	R5.9bn
Total expense ratio	0.35%
Risk rating	High
Benchmark	MSCI World Index

Market data: 20 December 2022

Spot price	R63.79
12-month high	R76.30
12-month low	R55.39
Average monthly volume	5,3-million
Gross dividend yield	N/A

Source: Infront, yahoo finance