



Global markets, investment styles and your ETF portfolio

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Topics covered

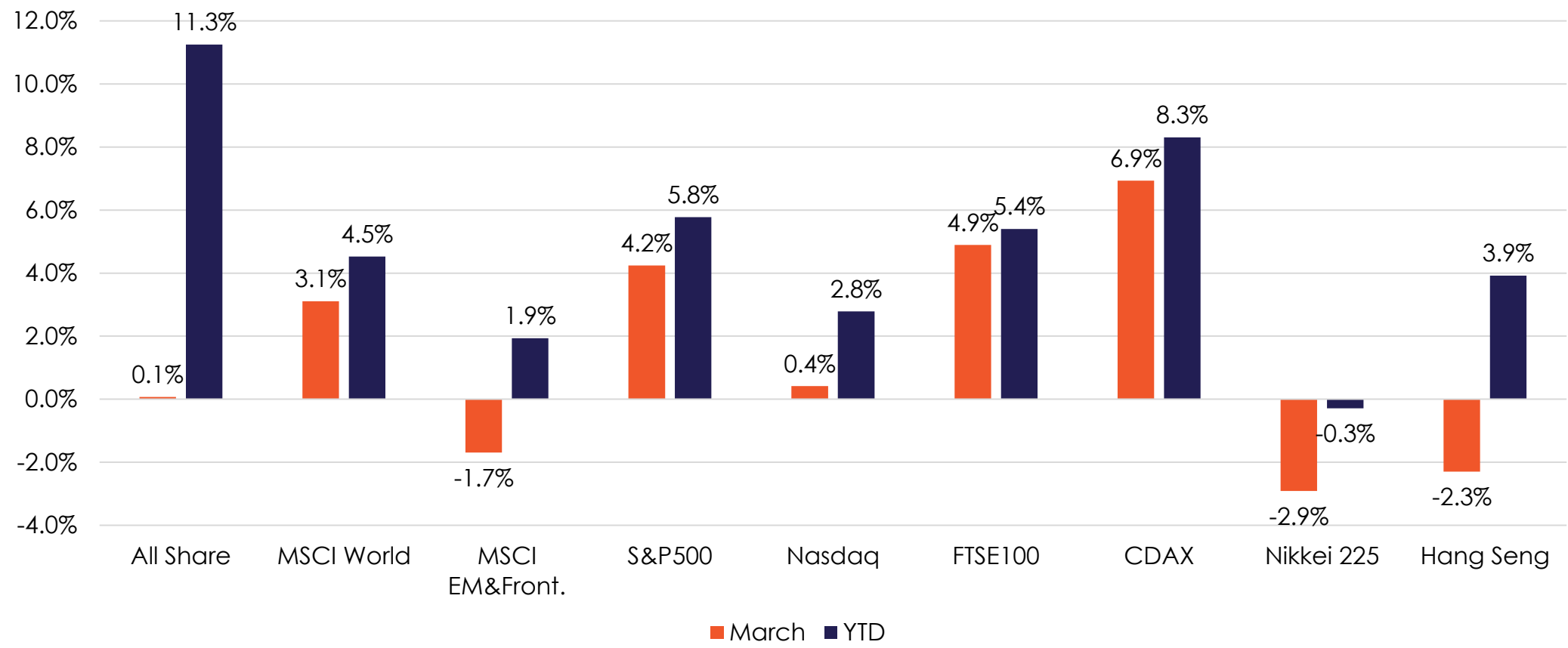
- Quarter one summary
- Investment styles
- Value vs growth trend
- Global and local ETF picks



What happened? Quarter one summary

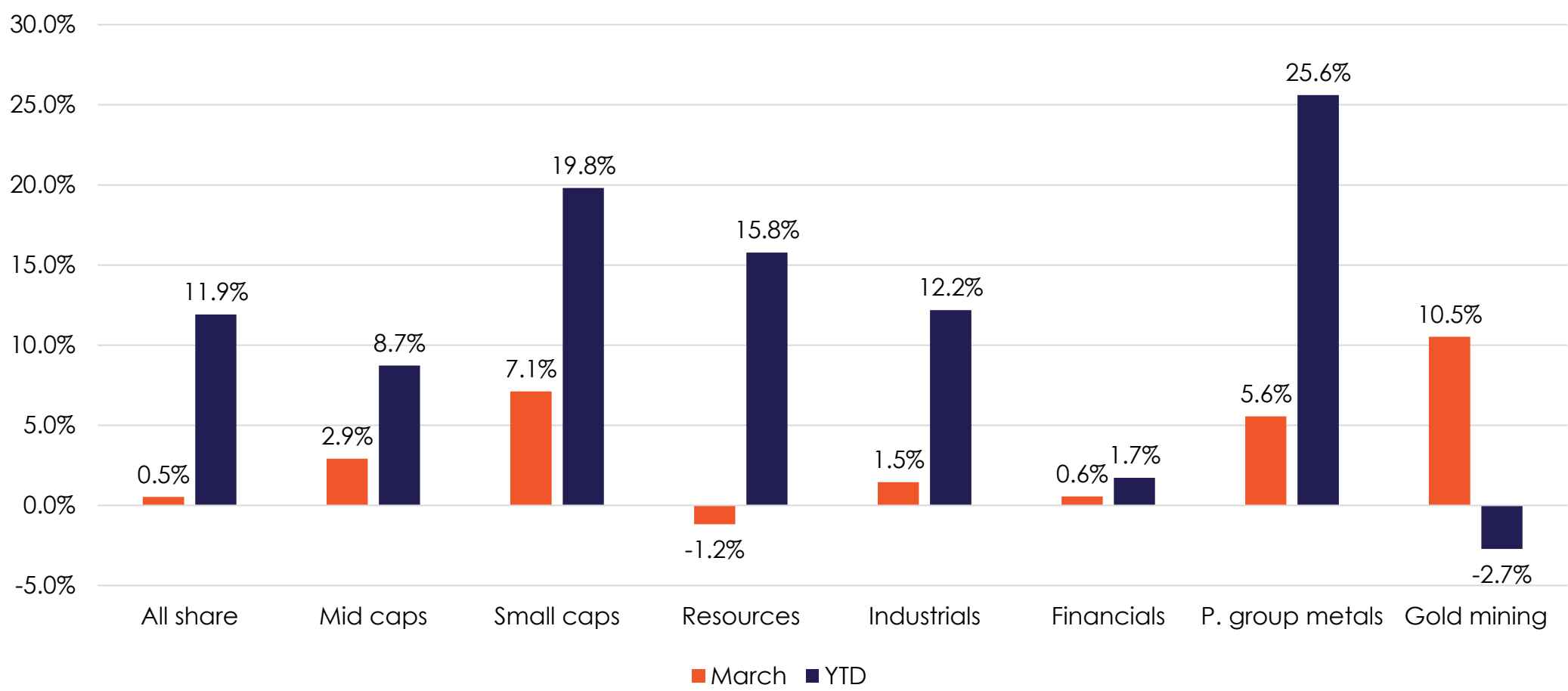
- Strong performance in equity and commodity markets
- Vaccination gained momentum – albeit at a different pace worldwide
- US \$1.9trn rescue plan passed with plans for a \$3trn economic package
- “Reflation” trade due to concerns about the pace of growth and inflation
- ***Suggestion of a rotation out of “growth” and into “value” shares (discussed later)***

What happened? Global equities



Source: IRESS

What happened? South African equities

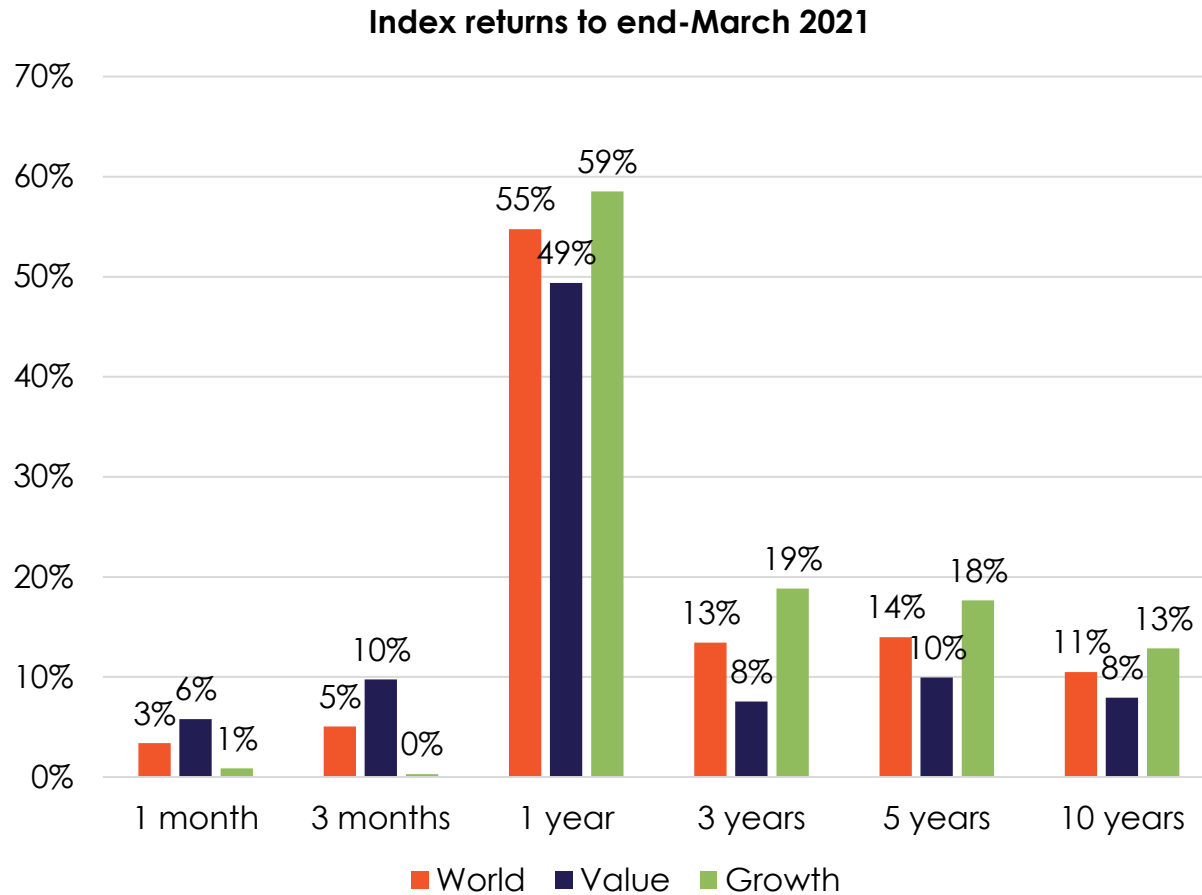


Source: IRESS

What are investment styles?

- **Equity investing based on company traits that are academically proven to affect share prices**
- **Value** – Investing in “unloved”, cheaply priced shares based on fundamental analysis (low P/E and P/B ratios)
- **Growth** – Companies that display above market/sector or economic growth characteristics
- **Quality** – Firms with good business models and strong fundamentals (high profitability, good capital structures and strong cash flow)
- **Momentum** – Buy shares that display a continuation in upward trends (“winners”) and sell in downward trends (“losers”)

How has the style rotation played out?



- Global equity investors have favoured “growth” due to cheap liquidity conditions
- Growth shares rallied further during the pandemic (big technology component)
- Value has made a comeback since initial lockdowns ended
- Recovery expected in traditional sectors of the economy (banks, retailers, hospitality-type companies)

Source: MSCI indices

What the research into styles concludes

Index of indices

- Styles outperform the overall market over the long term
- However, different market conditions (cycles) can mean long periods of underperformance
- **Index of indices** – combining styles - can reduce cyclicalities as some styles can offset poor performance of others

Multi-style approach

- Major problem with index of indices: **Dilution of style exposure**
- Diluted style exposure can negatively affect performance
- This can be mitigated by a multi-style approach that maximises exposure (“sweet spot”)
- Reduces both cyclicalities and diluted style exposure

Multi-style investing

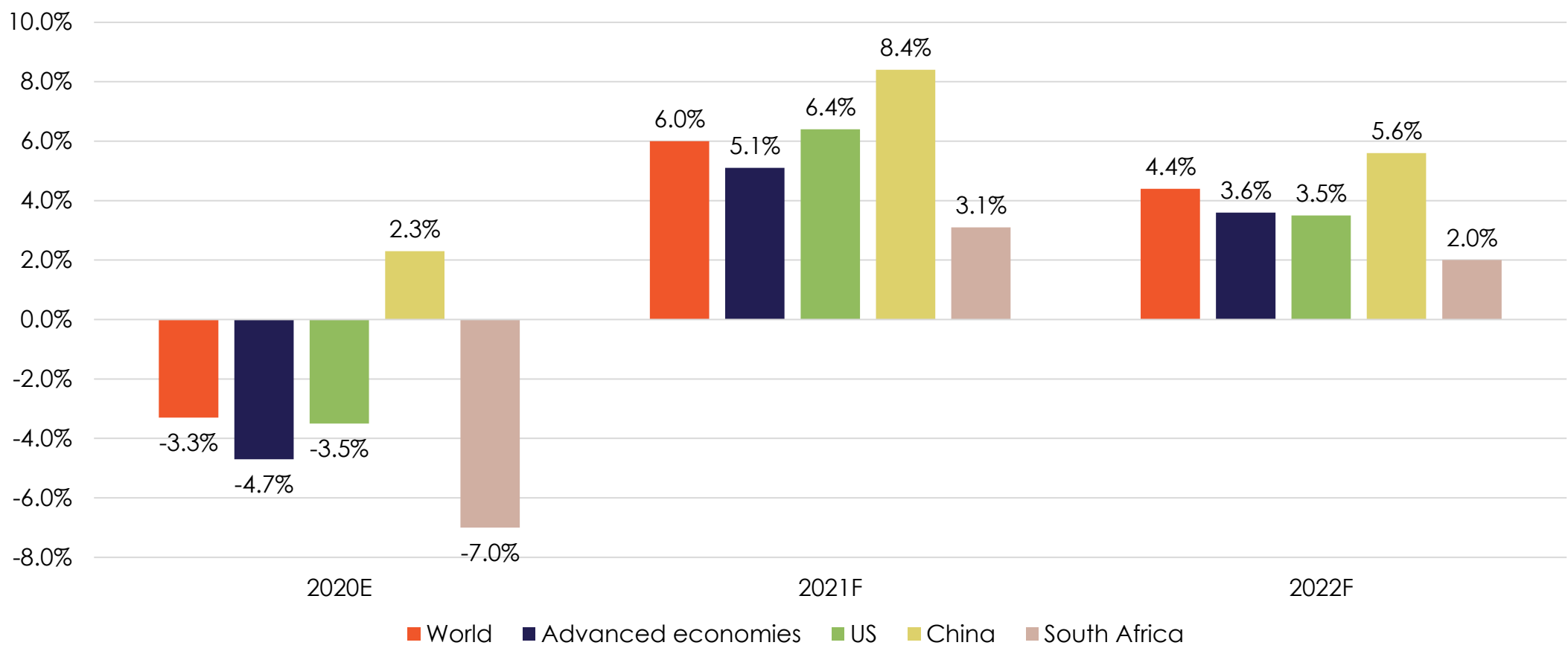
- **Advantages**

- Reduces cyclicalities and boosts style exposure that can enhance returns
- Accessible at a low cost in multi-style ETFs

- **Disadvantages**

- Correlation is key, styles can still underperform when correlations deviate from normal levels
- Low penetration of multi-style ETFs in SA market

Revised economic outlook for 2021



Source: International Monetary Fund

Equity market conditions

Global equities

- US equity market currently expensive
- However, US economy needs to recover lost output hence a neutral allocation to US equity
- Non-US equity allocation beneficial as these markets are cheaper; cyclical in nature
- Emerging markets an opportunity as cyclical industries recover

Local equities

- Consumer-led recovery and exports boosted retail and mining sectors
- High savings may boost demand in the services sector (leisure; tourism)
- However, vaccine rollout slow – could lead to volatility
- Structural issues stalling the momentum in recovery from the pandemic

ETFs to consider for your portfolio

Global

- Invest MSCI World Index Feeder
- Satrix MSCI Emerging Markets ESG
- Sygnia Itrix Euro Stoxx 50
- Sygnia Itrix FTSE 100 ETF

Local

- **CoreShares Scientific Beta Multi Factor** (TIC - 0.75%)
- Satrix Momentum (TIC - 0.83%)
- NewFunds Value (TIC - 0.50%)
- Satrix Quality (TIC - 0.89%)
- NewFunds Low Volatility (TIC - 0.50%)

Core & Tactical

- Satrix Top 40
- Invest SA Bond ETF
- Satrix Fini

Any questions?

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