CHINA LEADING GLOBAL MARKETS IN 2017: A LOOK AT KEY PERFORMANCE DRIVERS

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This year one of the more remarkable performance stories has been China. In the first quarter, along with its emerging market fellow India, China was ranked in the top two of Index strategies that WisdomTree has in its global family of equity Indexes.

Trump and Xi Talk

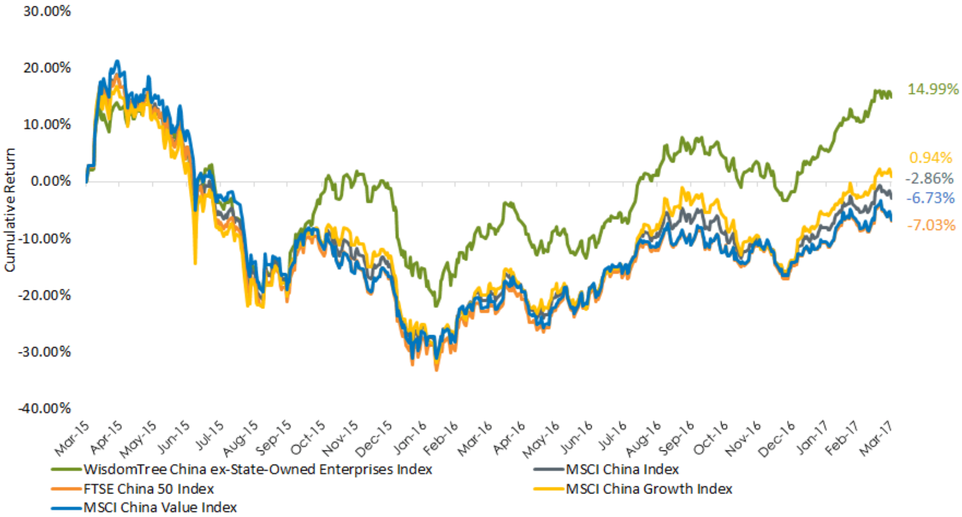
China has been a focal point recently, with the meeting of U.S. president Donald Trump with China's president Xi Jinping. Center stage for those discussions were questions on global trade and whether Trump would be combative about the topic of China's currency in those talks.

David Dollar, a Senior Fellow at the Brookings Institution, wrote, "China's trade-weighted exchange rate has appreciated 17 percent since 2010. The problem for the United States is that the dollar has appreciated even more strongly (24 percent), while the euro and especially the yen have depreciated. […] if the United States is concerned about currencies, it makes sense to have consultations among these four rather than to single out China."[1]

Yet despite all this currency rhetoric, China continues to power on. One of the more interesting elements is how one of the key performance drivers for China in 2017 has nothing to do with its competitive position as a global exporter.

WisdomTree created its China ex-State-Owned Enterprises Index in March of 2015. Since its launch, it has handily outperformed broad China markets—and even different factor indexes such as the MSCI China Large Cap Value Index or MSCI China A Large Cap Growth Index.

WisdomTree China ex-Sate-Owned Enterprise Index vs. MSCI China Index & FTSE China50 Index (4/1/15–3/31/17)



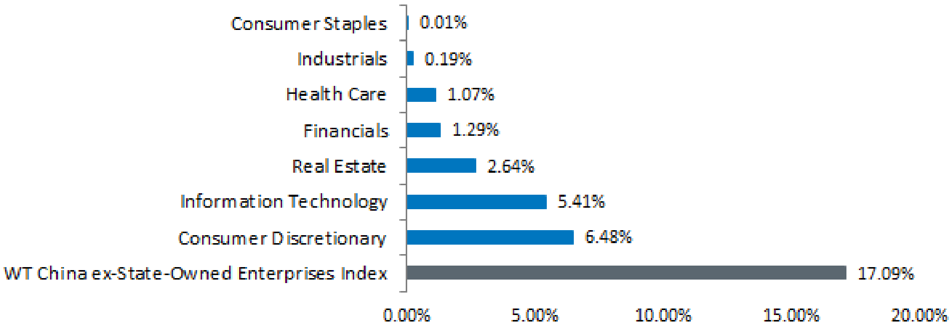
	Cumulative Total Return			Annualized
	MTD	YTD	1-Year	Since 4/1/15
WisdomTree China ex-State-Owned Enterprises Index	3.94%	17.09%	24.37%	7.23%
FTSE China 50 Index	0.57%	9.26%	17.35%	-3.58%
MSCI China Index	2.13%	12.93%	19.69%	-1.44%
MSCI China Growth Index	4.10%	17.19%	23.11%	0.47%
MSCI China Value Index	0.21%	8.90%	16.61%	-3.42%

Sources: WisdomTree, MSCI 3/31/15–3/31/17 Past performance is not indicative of future results. You cannot invest directly in an index.

What Is Driving This Performance in 2017?

The main sectors responsible for driving these returns higher are Technology and Consumer Discretionary stocks—and the stocks in the Consumer Discretionary sector are more like the Chinese versions of Amazon and Expedia rather than companies exporting to the U.S. The two Chinese Consumer Discretionary companies JD.COM and Ctrip have provided the highest contribution to returns to the index in 2017 thus far.

Performance Contribution Year-to-Date



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State Ownership as Factor Exposure

WisdomTree created two unique factor Indexes for the emerging markets—one focused on broad emerging market index strategies, and one focused on China. We believe state ownership is one characteristic of stocks that could be worth minimizing to tilt weights toward firms that—in theory—have a greater focus on profit maximization as part of their central mission, with less government influence. The tilts can also result in meaningful sector differentials—and in the case of China, where the active exposures are very different, perhaps be more representative of the future growth of the economy. In China, it's not banks and energy companies that people are really looking for to drive future growth. It's the tech companies and consumer companies that are largely where people see the future of China. We believe our China ex-State-Owned Enterprises Index currently represents a better China Index, and its performance over the two years since its inception has demonstrated this.

[1]David Dollar, "Trade Is Front and Center as Trump and Xi Meet," The Brookings Institution, 4/3/17.

Important Risks Related to this Article

Investments focused in China increase the impact of events and developments associated with the region, which can adversely affect performance.

Investments in emerging, offshore or frontier markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments.

For standardized performance and the most recent month-end performance click here NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our Economic & Market Outlook

View the online version of this article here.

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