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

Jeremy Schwartz — Global Chief Investment Officer
04/20/2017

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

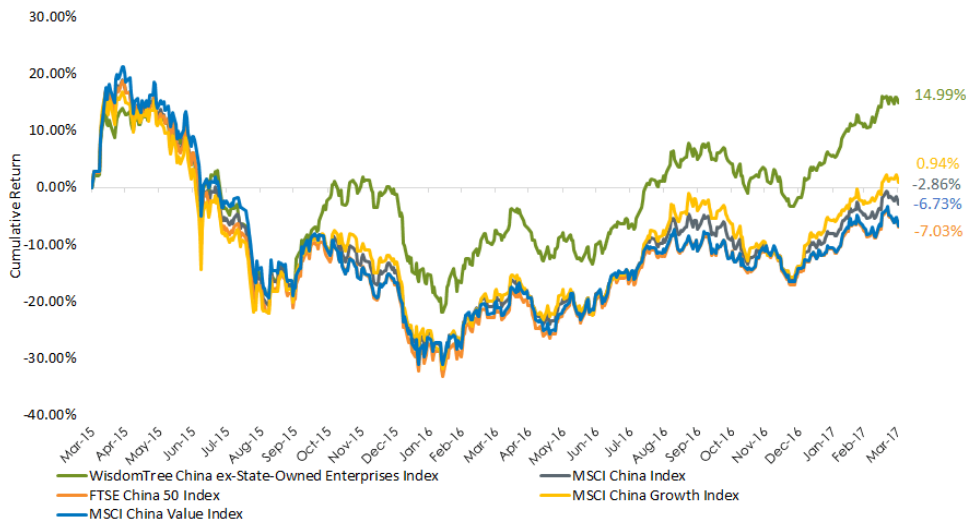
China has been a focal point recently, with [the meeting of U.S. president Donald Trump with China's president Xi Jinping](#). Center stage for those discussions were questions on global trade and whether Trump would be combative about the topic of China's currency in those talks.

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)



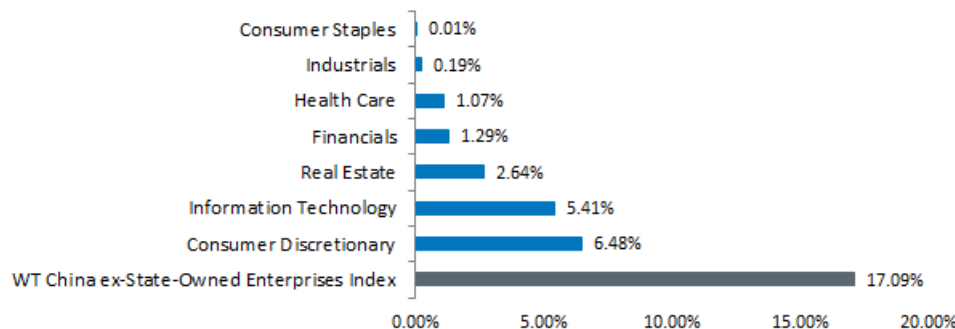
	Cumulative Total Return			Annualized
	MTD	YTD	1-Year	Since 4/1/15
WisdomTree China ex-State-Owned Enterprises Index	3.94%	17.09%	24.37%	7.23%
FTSE China 50 Index	0.57%	9.26%	17.35%	-3.58%
MSCI China Index	2.13%	12.93%	19.69%	-1.44%
MSCI China Growth Index	4.10%	17.19%	23.11%	0.47%
MSCI China Value Index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



Past performance is not indicative of future results. You cannot invest directly in an index.

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.

¹David 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](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Kara Marciscano, Jianing Wu, Brian Manby and Scott Welch are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

DEFINITIONS