

IS CHINA A BUY?

Jeff Weniger — Head of Equity Strategy

09/20/2021

This year's sharp declines in China-dominated emerging markets equity funds have forced a considerable [valuation](#) rerating—while markets in the U.S., Europe, Japan and other developed regions have largely witnessed static or rising multiples.

Amid the [S&P 500](#)'s flirtation with the 4,500 level, up from 3,756 at year-end, the [MSCI China Index](#) has witnessed acute trouble, with an ugly downtrend persisting since February. You could be forgiven for not fully appreciating the damage, what with stock markets in other emerging nations such as India working on new highs.

China's plunges happened across industries and business lines, and at the "top of the house" too (figure 1).

Figure 1: MSCI China: Top 10 Components

Company	52 Week Low	52 Week High	Last	Decline from 52 Week High	Currency	% Weight in MSCI China Index
Tencent	412.20	775.50	490.00	-36.8%	HKD	12.47%
Alibaba Group	151.20	309.40	167.90	-45.7%	HKD	11.03%
Meituan	183.20	460.00	259.40	-43.6%	HKD	4.51%
China Construction Bank	4.93	6.74	5.77	-14.4%	HKD	2.46%
JD.com	236.40	422.80	321.20	-24.0%	HKD	2.45%
WuXi Biologics	57.93	148.00	118.60	-19.9%	HKD	1.94%
NIO	16.75	66.99	39.23	-41.4%	USD	1.84%
Ping An Insurance Co. of China	57.65	103.60	60.00	-42.1%	HKD	1.69%
Pinduoduo	69.89	212.60	105.90	-50.2%	USD	1.60%
Baidu	133.00	256.66	162.10	-36.8%	HKD	1.59%

Source: WisdomTree, MSCI as of 9/10/2021. HKD = Hong Kong dollar.

China's Declines Had No Shortage of Catalysts

There have been several drivers of China's stock market pain. For one, the country's geopolitical risk premium has risen with each incursion into Taiwan's Air Defense Identification Zone. Additionally, the mess in Kabul emboldens China's more hawkish generals, who may be recalculating the odds of U.S. engagement in a Taiwanese military venture. At the very least, the Afghanistan debacle gives China's social media-savvy "wolf warrior" diplomats a chance to stir the pot with antagonistic Twitter rhetoric.

Meanwhile, notable billionaires Bernard Arnault (LVMH, Moët, Hennessy and Louis Vuitton) and Jeff Bezos (Amazon)¹ have nary a fear of sequestration. Yet that is exactly the fate that befell Alibaba's Jack Ma, who disappeared for several months after criticizing China's state-owned banks.

Additionally, questions abound about the profitability of China's largest company, Tencent, owing to Beijing's crackdowns on social media and gaming, which it calls "spiritual opium." Tencent has a double-digit [weight](#) in many Chinese indexes.

Adding to the murky water, the global supply chain is in such disarray that the Drewry World Container Index, the gauge of ocean freight costs, is up more than fivefold from where it stood at this time in 2019. It remains anyone's guess when the COVID-19-inspired clog-up clears a path toward greater profitability for the country's export machine.

It's very grim. Decidedly grim.

But here's the thing: all of this is already on the table. It has been well covered by the financial press. The question is whether the sheer size of the country's market declines this year offers up a buying opportunity.

The answer may be yes.

One of our growth-oriented mandates, the China-heavy [WisdomTree Emerging Markets ex-State-Owned Enterprises Fund \(XSOE\)](#), has estimated three-year sales growth of 13.8%, whereas the pricey S&P 500's projection is 9.3%, according to WisdomTree's Digital Portfolio Developer software.

Despite headier growth prospects, the WisdomTree Fund trades for 21.1 times trailing earnings and 16.5 times forward earnings—a sharp discount to the 29.5 trailing and 22.2 multiples accorded the U.S. market. Meantime, the [MSCI EAFE Index](#) of developed equities is expected to have just 2.8% annual sales growth, yet its [P/Es](#) are 22.0 on trailing earnings and 16.1 on forward earnings.

Our pure play on China Fund is called the [WisdomTree China ex-State-Owned Enterprises Fund \(CXSE\)](#). Because of its nearly 20% weight to the Communication Services sector, its trailing P/E is 21.7 and its forward multiple is 20.8. Its approach has a very “future of China” feel to it, with top holdings including firms like Tencent (gaming, social media), Alibaba (e-commerce and fintech), Meituan (DoorDash-style delivery), JD.com (e-commerce), Wuxi Biologics (drugs), Baidu (Internet search) and Nio (electric vehicles).²

¹ LVMH Moët, Hennessy and Louis Vuitton Amazon have 0% weight in CXSE and XSOE.

² For all current holdings of CXSE, please click [here](#).

Important Risks Related to this Article

There are risks associated with investing, including the possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Investments in emerging or offshore 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. Funds focusing their investments on certain sectors and/or regions increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. XSOE invests in the securities included in, or representative of, its Index regardless of their investment merit and the Fund does not attempt to outperform its Index or take defensive positions in declining markets. CXSE focuses its investments in China, including A-shares, which include the risk of the Stock Connect program, thereby increasing the impact of events and developments associated with the region which can adversely affect performance. As CXSE can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers. Please read each Fund's prospectus for specific details regarding the Fund's risk profile.

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.

Related Blogs

- + [How Many China A-shares Are in Your China Portfolio?](#)
- + [Loss Prevention Ideas if Autumn Brings Cold Winds](#)
- + [Assessing Variable Interest Entity Risk in Your China Portfolio](#)

Related Funds

- + [WisdomTree China ex-State-Owned Enterprises Fund](#)
- + [WisdomTree Emerging Markets ex-State-Owned Enterprises Fund](#)

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, Jianing Wu, and Brian Manby 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

Valuation : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

S&P 500 Index : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

MSCI China Index : A free float-adjusted, market capitalization-weighted equity index designed to measure the performance of the Chinese equity market.

Equal weight : A type of proportional measuring method that gives the same importance to each stock in a portfolio, index, or index fund.

MSCI EAFE Index : is a market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan.

Price-to-earnings (P/E) ratio : Share price divided by earnings per share. Lower numbers indicate an ability to access greater amounts of earnings per dollar invested.