Beyond state ownership: capturing emerging markets' structural transformation

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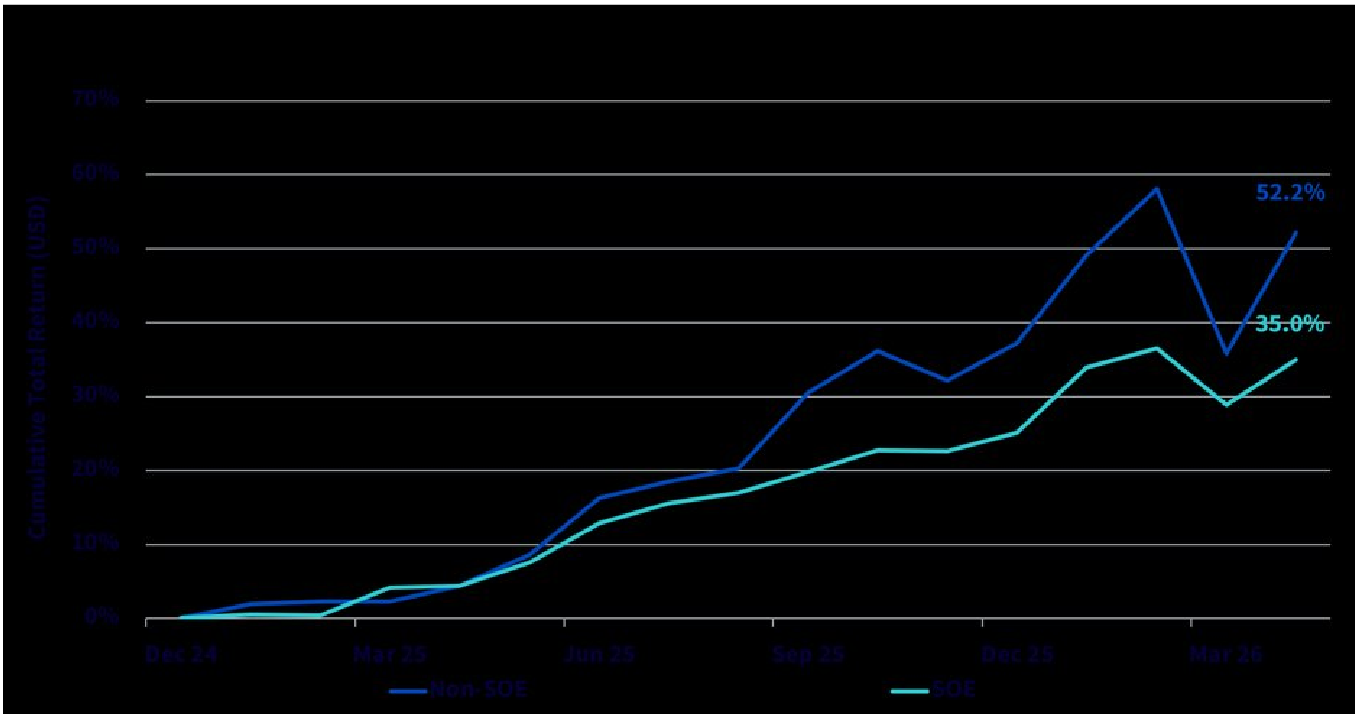
Key Takeaways

- **The SOE discount is structural, not cyclical**: Government mandates, capital misallocation, and shareholder dilution persistently suppress SOE returns relative to private-sector peers.
- **EM's composition has been redrawn**: Taiwan has displaced China as the largest country weight in the MSCI EM index.
- **Macro tailwinds align with the non-SOE thesis**: The artificial intelligence (AI) and semiconductor capex cycle, upward earnings revisions, and the ongoing China-to-Asia rebalancing all reinforce the case for private-sector EM exposure.

The State-Owned Enterprise (SOE) discount is widening

Emerging markets (EM) are in the middle of a structural transformation, and the data makes a strong case. Over the past 18 months, a performance gap has quietly but decisively opened between state-owned enterprises (SOEs) and their private-sector counterparts. Since the end of 2024, non-SOEs have delivered a cumulative total return of approximately 52.2%, compared to 35.0% for the SOE cohort. This marks a 17% spread that encapsulates something deeper than a cyclical rotation. It reflects the growing performance gap between EM's private-sector companies and the state-owned enterprises that continue to lag behind.

Figure 1: Non-SOEs outpacing SOEs: cumulative total return since 31/12/2024



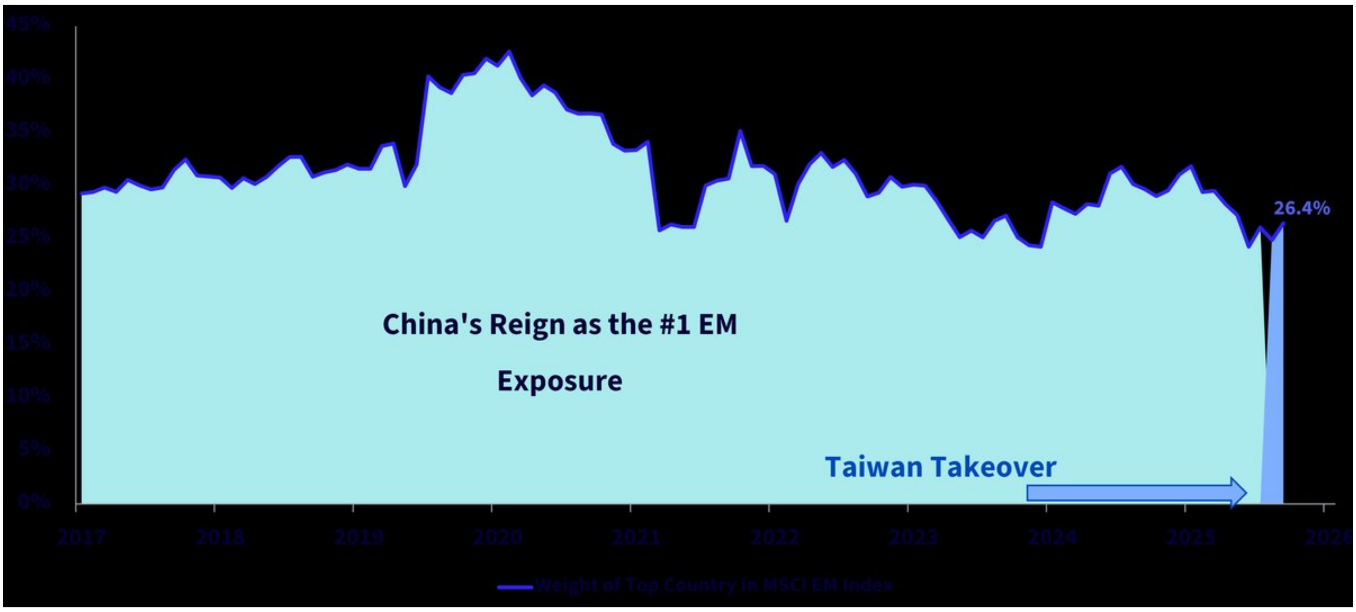
Source: FactSet, MSCI, WisdomTree, Quarterly data from 31 December 2024 to 10 April 2026. **Historical performance is not an indication of future performance and any investments may go down in value.**

The ‘old EM’ vs ‘new EM’ divide

The traditional case against SOEs has always been intuitive: government interference distorts capital allocation, management incentives are misaligned with shareholders, and the mandate to serve policy goals rather than profit objectives tends to erode long-run returns. These arguments are not new. What is new is the force with which the market is pricing in these structural disadvantages.

The defining catalyst in today's environment is the semiconductor boom. Samsung, SK Hynix, and Taiwan Semiconductor have not simply outperformed, they have materially reshaped the composition of emerging markets. For the first time in history, China is no longer the largest country exposure within the MSCI Emerging Markets Index, having been displaced by Taiwan. Currently Taiwan (26.4%), Korea (23%), China (20%), and India (11%) rank as the top four exposures in the index1. This represents a significant structural shift. China dominated EM indices for the entirety of the modern index era. Its demotion is a structural signal, not a blip.

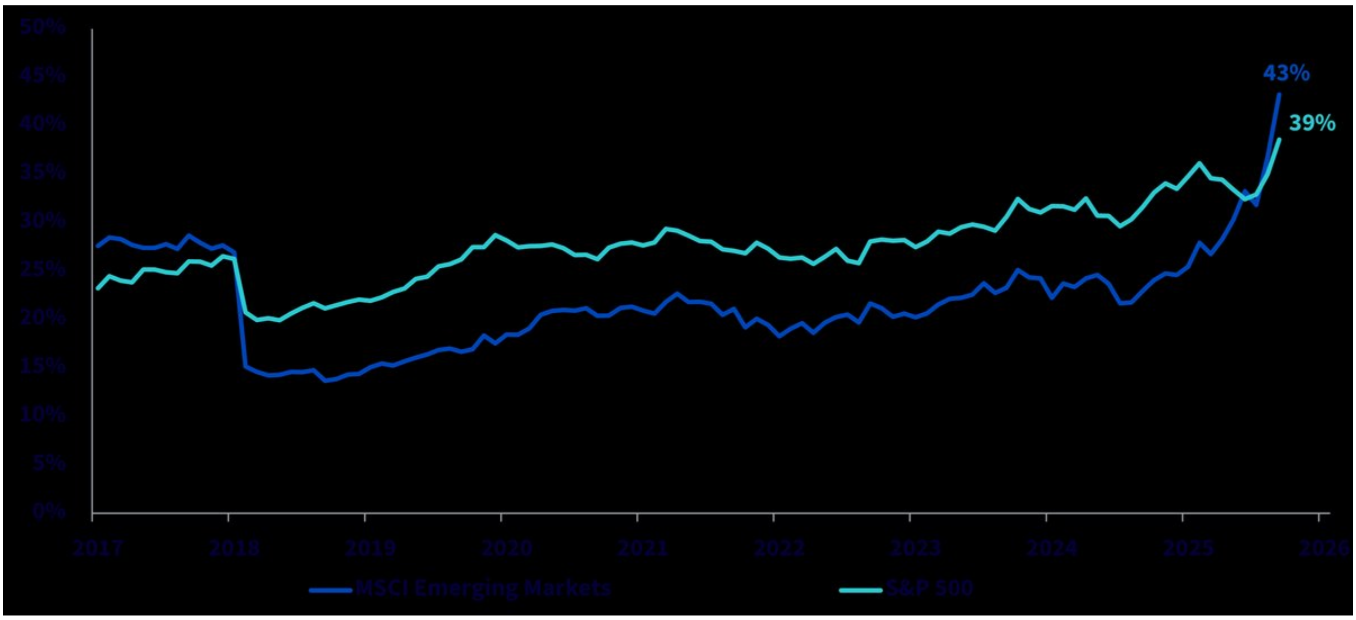
Figure 2: China is no longer the top country exposure in EM



Source: FactSet, MSCI, WisdomTree from 29 December 2017 to 29 May 2026. **Historical performance is not an indication of future performance and any investments may go down in value.**

The knock-on effect for sector composition is equally dramatic. For the first time since 2018, Emerging Markets now carry more Information Technology exposure than the S&P 500, 43% versus 39% as of mid-2026. Over the previous decade, the S&P 500 maintained an average technology sector weighting approximately 7.5 percentage points higher than emerging markets. That gap has now closed. The critical observation is that none of the companies driving this shift: Samsung, SK Hynix, TSMC, are state-owned. They are private-sector, profit-oriented, shareholder-aligned businesses operating in highly competitive global markets. This is precisely the dynamic the ex-SOE investment approach was designed to capture.

Figure 3: Emerging markets now have more technology exposure than the S&P 500 Index



Source: FactSet, MSCI, WisdomTree from 29 December 2017 to 29 May 2026. **Historical performance is not an indication of future performance and any investments may go down in value.**

Why the SOE discount is structural, not cyclical

It is worth being precise about why SOE underperformance tends to persist, because conflating it with a cyclical trade misses the point.

- **Capital misallocation**: State-owned enterprises frequently operate under mandates that prioritise employment levels, strategic national objectives, or commodity price stability over return on invested capital. This depresses Return on Equity (ROE) structurally, not episodically.
- **Shareholder dilution**: SOEs in EM have historically been serial equity issuers. When the government is the majority shareholder and balance sheet concerns are secondary to policy goals, minority shareholders absorb the dilutive cost. Private non-SOE companies, by contrast, have demonstrated meaningful share buyback activity, with net repurchase programmes reflecting genuine capital discipline and confidence in intrinsic value.
- **Governance premium**: Investors increasingly ascribe a governance premium to well-run private enterprises. In an environment of tighter global liquidity and higher cost of capital, companies with transparent governance, strong free cash flow conversion, and disciplined management teams attract incremental flows at the expense of state-backed incumbents. The valuation gap between SOEs and non-SOEs is therefore not merely a sentiment story, it reflects a real and persistent difference in expected future cash flows.
- **The China factor**: The ongoing rebalancing away from China-heavy EM exposure carries an implicit SOE tilt reduction. China's state-owned sectors such as banks, energy, telecoms, historically constituted a large share of the EM index by weight. As Korea and Taiwan displace that weight with private-sector semiconductor and technology champions, the index itself is naturally becoming more non-SOE.

The macro backdrop: a pro-capitalism EM cycle

Broader macroeconomic conditions in 2026 are reinforcing the non-SOE thesis. The global investment cycle is increasingly driven by capital expenditure in AI infrastructure, semiconductors, data centres, and energy transition technology, which are all areas where private-sector EM companies are well-positioned. The earnings growth profile across EM has been materially revised upward, and forward price-to-earnings ratios have compressed accordingly. This is not a market being re-rated on hope; it is a market being re-rated on genuine earnings delivery.

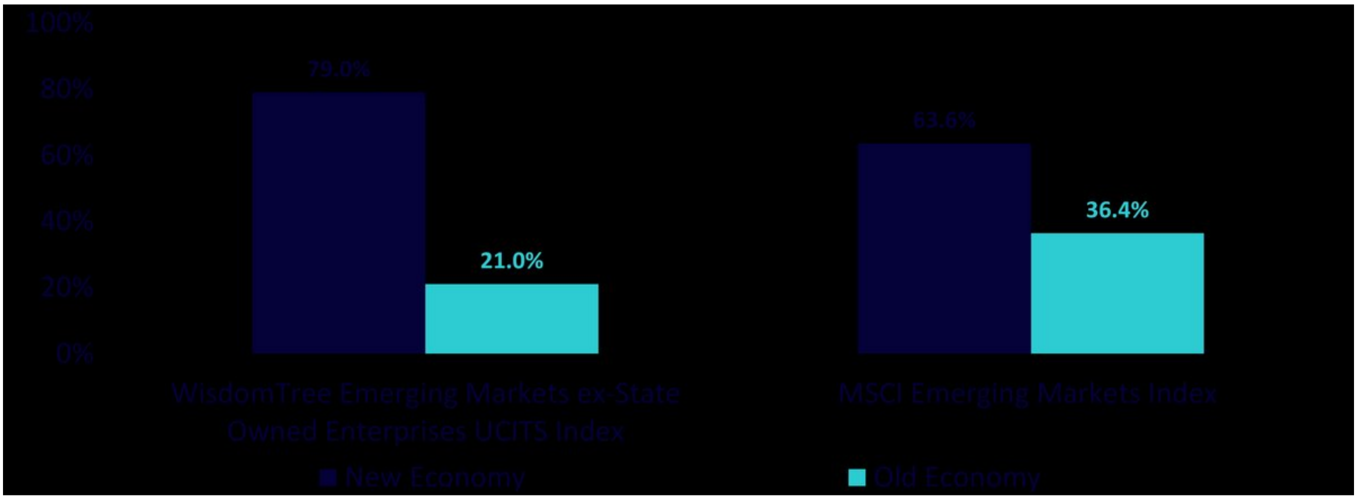
For investors, the current environment offers an alignment of macro tailwinds, structural sector rotation and attractive relative valuation, all of which point in the same direction: away from SOEs, toward the private sector 'New Economy' parts of EM.

WisdomTree Emerging Markets ex-State-Owned Enterprises UCITS ETF: built to embrace the structural change

The WisdomTree Emerging Markets ex-State-Owned Enterprises UCITS ETF (Ticker: XSOE) was constructed around a straightforward but powerful proposition: systematically exclude companies where a government holds more than 20% ownership, thereby providing exposure to private-sector companies, while shedding the drag of state-directed capital. The exchange-traded fund (ETF) is up 22.4% year-to-date in 20262, reflecting the tailwind from non-SOE outperformance.

Sector Alignment: The WisdomTree Emerging Markets ex-State-Owned Enterprises UCITS ETF has consistently leaned into the EM 'New Economy' (technology, communication services, consumer discretionary, healthcare, and financials) relative to the 'Old Economy' of energy, materials, industrials, consumer staples, real estate and utilities that disproportionately populate the SOE universe. This tilt is not simply a sector bet. It is the natural consequence of excluding companies whose ownership structure compromises return objectives.

Figure 4: Comparison of new vs old economy weights



Source: FactSet, MSCI, WisdomTree as of 29 May 2026. **Historical performance is not an indication of future performance and any investments may go down in value.**

Country allocation: The WisdomTree Emerging Markets ex-State-Owned Enterprises UCITS ETF's historically underweight stance toward China (currently approximately 1.5% below the MSCI EM benchmark, consistent with its long-term average underexposure) has been well-timed. Conversely, overweight positions in India and Korea, the two countries with lower proportional SOE exposure within the MSCI EM index, position the portfolio towards growth-oriented sectors of the economy.

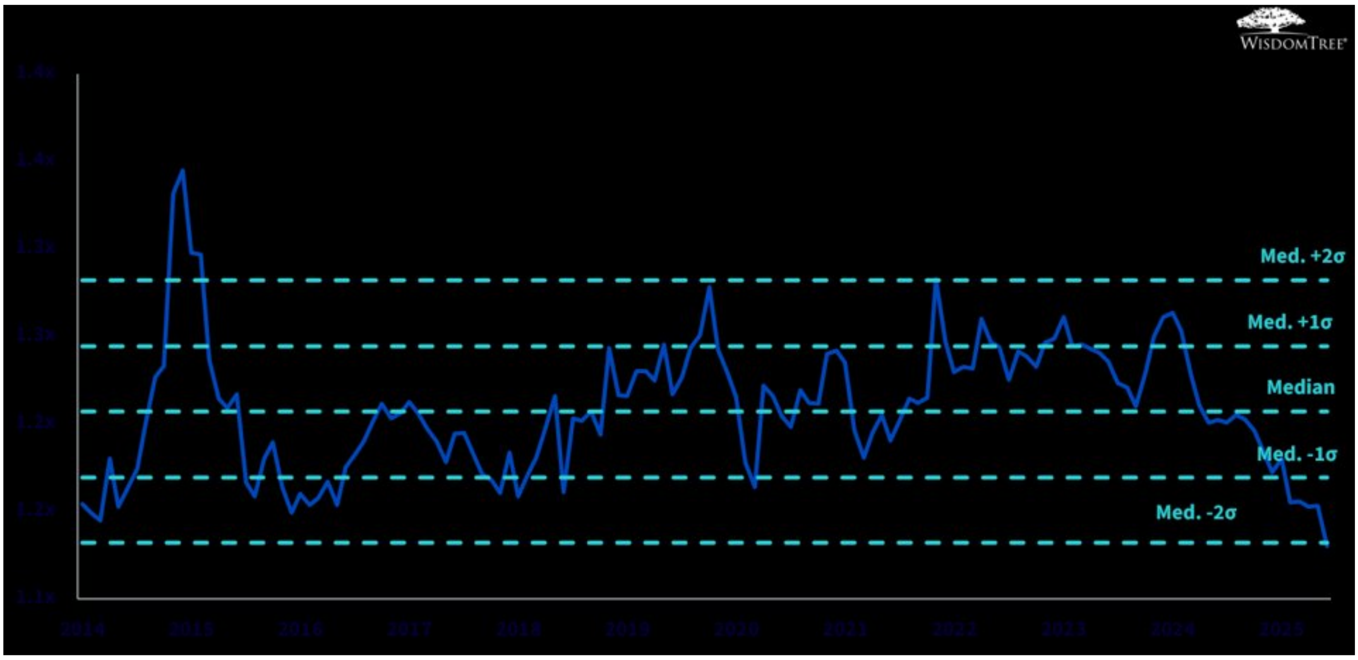
Table 1: Country allocation and attribution

	Allocation	Selection	Interaction	Total	Active Weight
India	-0.7%	0.1%	0.0%	-0.5%	3.9%
Korea	0.6%	-1.3%	-0.1%	-0.7%	1.2%
South Africa	-0.1%	0.2%	0.0%	0.1%	0.7%
Mexico	-0.1%	0.0%	0.0%	-0.1%	0.6%
Thailand	-0.1%	0.0%	0.0%	0.0%	0.5%
Saudi Arabia	-0.1%	-0.1%	0.0%	-0.2%	0.4%
Poland	0.0%	0.0%	0.0%	0.0%	0.2%
Malaysia	0.0%	0.1%	0.0%	0.0%	0.2%
China	0.4%	1.3%	-0.1%	1.6%	-1.5%
Brazil	0.5%	-0.1%	0.0%	0.4%	-1.5%
Taiwan	-0.6%	0.3%	0.0%	-0.3%	-3.0%
Other	0.2%	0.0%	0.0%	0.2%	-1.7%
Total	-0.1%	0.5%	-0.1%	0.3%	

Source: FactSet, MSCI, WisdomTree as of 29 May 2026. **Historical performance is not an indication of future performance and any investments may go down in value.**

Valuation: Perhaps the most striking data point from WisdomTree's analysis is the relative forward price-to-earnings of The WisdomTree Emerging Markets ex-State-Owned Enterprises UCITS ETF versus the MSCI EM index. The fund is currently trading at the cheapest relative valuation versus the broader EM benchmark in its entire history, sitting at or below the median minus 2 standard deviations on this metric, based on forward price-to-earnings ratios. The ETF combines differentiated sector exposure with a relative valuation that is low versus its own historical range.

Figure 5: Relative forward price to earnings ratio - WisdomTree Emerging Markets ex-State-Owned Enterprises UCITS ETF vs MSCI EM index



Source: FactSet, MSCI, WisdomTree as of 29 May 2026. **Historical performance is not an indication of future performance and any investments may go down in value.**

Conclusion

The non-SOE performance advantage is not a recent discovery. This has been periodically observable over many market cycles. What distinguishes the current episode is the structural underpinning. The AI and semiconductor investment cycle has supported the private-sector earnings machine in Asia. The country composition of EM is being redrawn in real time, and the forward earnings revision cycle for non-SOE companies continues to run ahead of the SOE cohort.

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1Source: MSCI as of 29 May 2026.

2Source: Bloomberg as of 29 June 2026.

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