

China vs. Japan: A Battle for the Sharpest Equity Market Turns of 2024

Published November 5, 2024

Christopher Gannatti, CFA

Global Head of Research

Key Takeaways

- August and September 2024 saw dramatic shifts in Japan and China's equity markets, with Japan's policy communication triggering a market spike up in the yen and down in equities, and China's stimulus leading to a rally—showing how quickly policy can reshape returns.
- The [WisdomTree Japan Hedged Equity Fund \(DXJ\)](#) has demonstrated robust long-term returns despite recent volatility, while the [WisdomTree China ex-State-Owned Enterprises Fund \(CXSE\)](#) has seen high returns largely tied to stimulus-driven rallies.
- [DXJ](#) presents strong valuation appeal with a low P/E ratio of 12.53x, especially when compared to China's [CXSE](#), which carries higher policy risk, reflecting contrasting investment profiles for international investors.

Do you remember August 5, 2024¹?

How about September 24, 2024²?

For investors focused on global equities, these were very important days.

- **August 5, 2024:** Comments from Japanese authorities about a possible path of rising interest rates catalyzed a massive appreciation of the Japanese yen against the U.S. dollar, while at the same time creating a quick crash in Japan's equity market—to the tune of more than 20%.
- **September 24, 2024:** Many investors who had been waiting a long time for a more stimulative shift in China's policy were treated to just that. It kicked off a series of days when many asset classes, including China's equities, delivered highly positive returns.

Days like these remind us how dramatic equity market moves can be, and it's interesting to see the path of returns following these massive moves.

WisdomTree's Version of Japanese vs. Chinese Equities

WisdomTree has strategies that were directly impacted by these moves:

- The [WisdomTree Japan Hedged Equity Fund \(DXJ\)](#) is designed to track the total return performance, before fees, of the [WisdomTree Japan Hedged Equity Index](#). When looking at this strategy, there are three primary details to keep in mind: 1) The focus is on Japan's exporters—companies that derive less than 80% of their revenues from within Japan. 2) The weighting is based on the cash dividends paid, not market capitalization and 3) the currency exposure between the yen and the U.S. dollar is neutralized.
- The [WisdomTree China ex-State-Owned Enterprises Fund \(CXSE\)](#) is designed to track the total return performance, before fees, of the [WisdomTree China ex-State-Owned Enterprises Index](#). The primary selection metric for inclusion in this strategy is to have less than 20% of the company's outstanding shares owned by a government entity.

It is interesting to place the massive aforementioned moves of these markets into better context, which may then allow clearer assessment of the market opportunity offered by each strategy at present.

Figure 1: Standardized Returns

Fund/Index Name	Fund Ticker Symbol	Fund Inception Date	Fund Expense Ratio	Year-to-Date	1-Year	3-Year	5-Year	10-Year
WisdomTree Japan Hedged Equity Fund (NAV)	DXJ	6/16/2006	0.48%	20.47%	22.78%	22.18%	19.41%	11.48%
WisdomTree Japan Hedged Equity Fund (MP)	DXJ	6/16/2006	0.48%	21.45%	23.31%	22.54%	19.30%	11.48%
WisdomTree China ex-State-Owned Enterprises Fund (NAV)	CXSE	9/19/2012	0.32%	23.75%	16.99%	-12.49%	0.32%	4.12%
WisdomTree China ex-State-Owned Enterprises Fund (MP)	CXSE	9/19/2012	0.32%	19.83%	13.99%	-13.47%	-0.24%	3.74%
S&P 500 Index				22.08%	36.35%	11.91%	15.98%	13.38%

Sources: LSEG, FactSet and WisdomTree, specifically data is from the PATH Fund Comparison Tool, as of 9/30/24. NAV denotes total return

performance at net asset value. MP denotes market price performance. You cannot invest directly in an index. **Past performance is not indicative**

of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed,

may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted.

For the most recent month-end and standardized performance, click the relevant ticker: [DXJ](#), [CXSE](#).

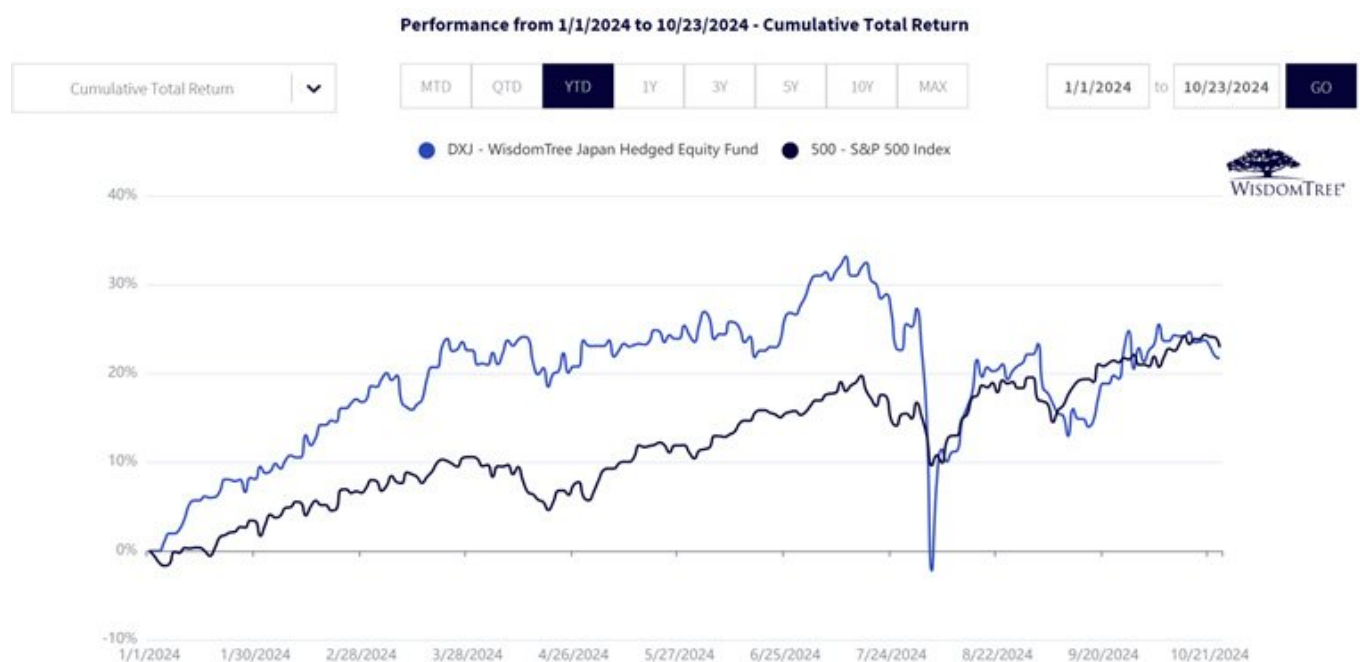
Japan: A Very Bullish Seven Months of 2024

We noticed a lot of investor excitement around Japan during the first seven months of 2024. Then, with one communication regarding the possible path of future policy rate moves at the Bank of Japan, everything changed. August 5, 2024, is a day that any Japan-focused investor will remember.

In figure 2, we see that the NAV return of [DXJ](#) went from above 30% all the way back to being slightly negative because of this downdraft.

Now, Japan's policy makers have retracted the intention behind those statements and it's interesting that the year-to-date 2024 returns, through nearly the end of October, have largely recovered.³

Figure 2: Japan's Equity Market Meltdown (and subsequent recovery)



Sources: LSEG, FactSet and WisdomTree, specifically data is from the PATH Fund Comparison Tool, accessed as of 10/24/24. NAV denotes

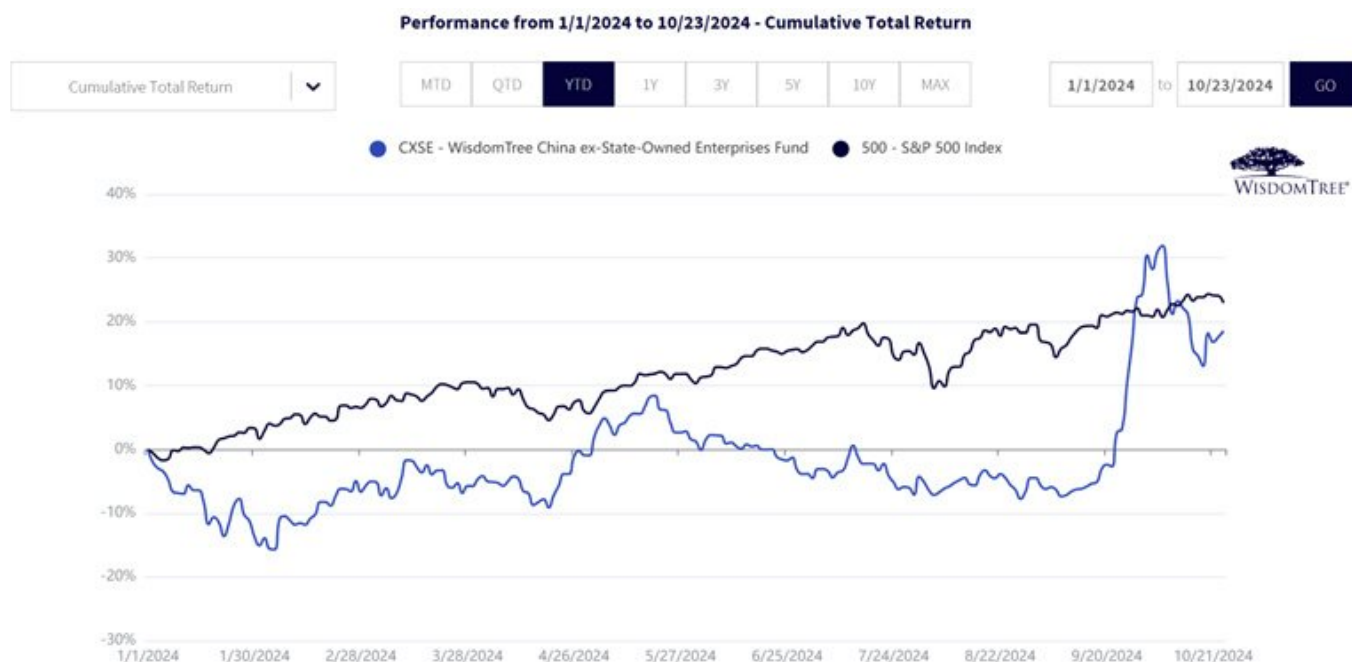
total return performance at net asset value. MP denotes market price performance. You cannot invest directly in an index. **Past performance**

is not indicative of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end and standardized performance click [here](#).

[CXSE's](#) 2024 experience was quite different. For nearly the first three-quarters of 2024, sentiment surrounding China's equity market returns was terrible. We see that [CXSE's](#) year-to-date return was negative for most of this period.

Then, on September 24, 2024, China's government announced a plan for stimulus, and we saw [CXSE](#) enter a period that ultimately led from returns that were negative on a year-to-date 2024 basis all the way to, at a certain point, being better than 30% on a year-to-date basis. Through the end of October, there was some degree of correction, but the year-to-date figure is still close to 20%.

Figure 3: CXSE's Tough 2024 Year until Late September



Sources: LSEG, FactSet and WisdomTree, specifically data is from the PATH Fund Comparison Tool, accessed as of 10/24/24. NAV denotes

total return performance at net asset value. MP denotes market price performance. You cannot invest directly in an index. **Past performance**

is not indicative of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end and standardized performance click [here](#).

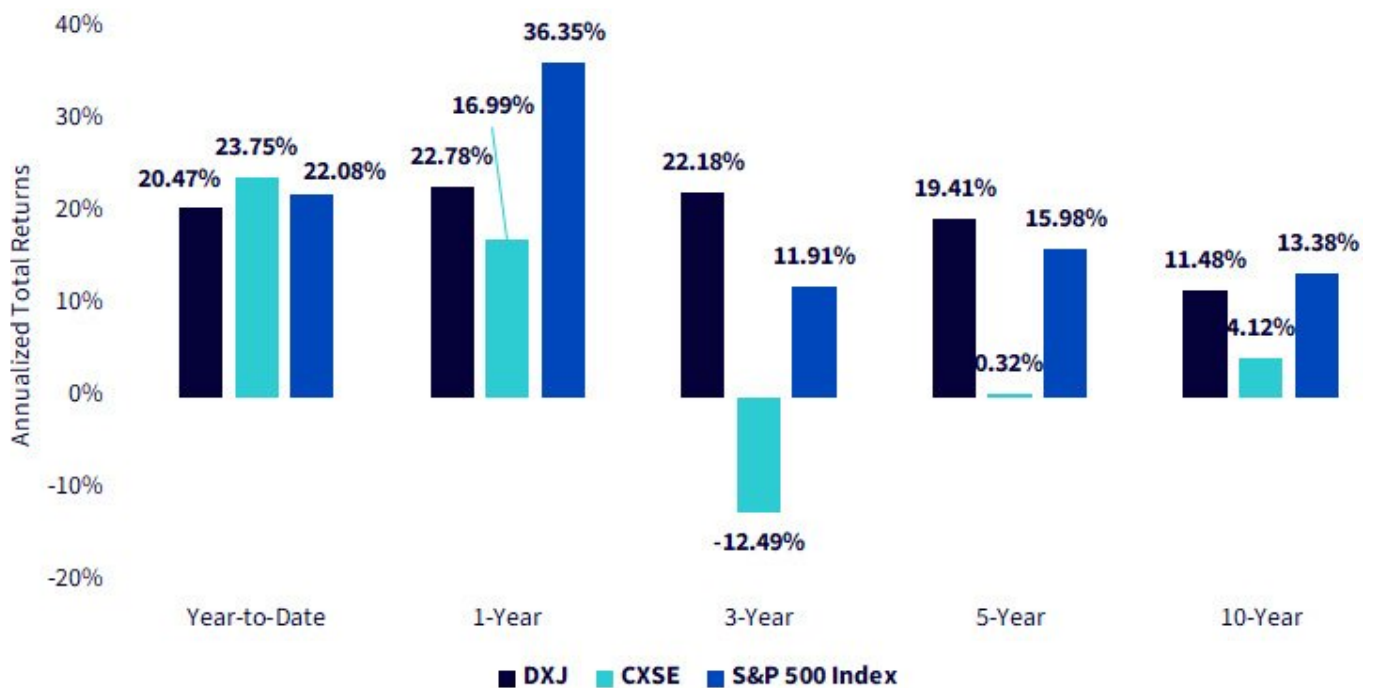
There is a certain familiarity among U.S. investors with the S&P 500 Index benchmark. During 2024, this benchmark has been far more stable, trending mostly in an upward direction, than either [DXJ](#) or [CXSE](#).

But what about over longer, standardized periods?

For us, China conforms to expectations. [CXSE](#) has a pretty good year-to-date and one-year return, but much rougher three-year and five-year figures. People believe that China has been volatile, and that is exactly what we see.

Japan is a bit of a surprise. We believe that few would expect to see the stability of the double-digit returns that [DXJ](#) has delivered on a three-, five- and 10-year basis. [DXJ](#) is certainly not without volatility, but most people are so familiar with the strength of U.S. equities and the S&P 500 Index benchmark returns that they would assume that international markets could not compare—and [DXJ](#) proves them wrong over some of these periods.

Figure 4: DXJ and CXSE vs. S&P 500 Index



Sources: LSEG, FactSet and WisdomTree, specifically data is from the PATH Fund Comparison Tool, as of 9/30/24. NAV denotes total

return performance at net asset value. MP denotes market price performance. You cannot invest directly in an index. **Past performance**

is not indicative of future results. Investment return and principal value of an investment will fluctuate so that an investor's

shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher

than the performance data quoted. For the most recent month-end and standardized performance, click the relevant ticker:

[DXJ](#), [CXSE](#).

Conclusion: DXJ vs. CXSE from a Valuation Perspective

If we think of our understanding of what is happening in these respective markets:

Now, we remind everyone that one of the most critical considerations regards how a market is priced. People intuitively see this with a company like Nvidia all the time. The reason why the share price has

continued to increase is that with each new bit of news, there is a perception that the results are even better and even stronger than what is currently reflected. It is similar for baskets of stocks. When we see the S&P 500 Index at an estimated price-to-earnings (P/E) ratio at about 22.6 times, that's telling us that the market's valuation is high relative to history—but not so high that an immediate correction should be on the horizon. During what we now know of as the Tech Bubble in 2000, this figure was above 30.0 times.⁶

However, for all of [DXJ's](#) performance that we have reviewed in this piece, this group of stocks is still trading at a 12.53-times estimated P/E ratio. Over one, three, five and 10 years, [DXJ](#) outperformed [CXSE](#), and this valuation measure is still lower. Additionally, Japan's equity market does not have the same degree of government policy risk that is currently perceived in China.

Figure 5: DXJ Has a Lower Estimated P/E Ratio than CXSE and the S&P 500 Index



Sources: LSEG, FactSet and WisdomTree, specifically data is from the PATH Fund Comparison Tool, as of 9/30/24. NAV denotes

total return performance at net asset value. MP denotes market price performance. You cannot invest directly in an index.

Past performance is not indicative of future results. Investment return and principal value of an investment will

fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current

performance may be lower or higher than the performance data quoted. For the most recent month-end and

standardized performance, click the relevant ticker: [DXJ](#), [CXSE](#).

1 Source: Amanda Cooper, "Markets Give Off 'Black Monday' Vibes As Stocks Tank," *Reuters*, 8/5/24.

2 Source: Sam Goldfarb & Chelsea Dulaney, "Stock Market News, Sept. 24, 2024: Indexes Climb; Chinese Shares Surge on Stimulus Blitz," *Wall Street Journal*, 9/24/24.

3 Source: Toru Fujioka, "BOJ Board Member Urges Slow Approach to Interest Rate Hikes," *Yahoo Finance*, 10/16/24.

4 Source: Hideyuki Sano & Yasufumi Saito, "Better Corporate Governance in Japan Pays Off for Investors," *Bloomberg*, 5/8/24.

5 Source: Donny Kwok & Scott Murdoch, "Beijing's Regulatory Crackdown Wipes \$1.1 trillion off Chinese Big Tech," *Reuters*, 7/12/23.

6 Source: <https://www.wisdomtree.com/-/media/us-media-files/documents/resource-library/daily-dashboard.pdf>

Important Risks Related to this Article

There are risks associated with investing, including the possible loss of principal. Please read the Fund's prospectus for specific details regarding the Fund's risk profile. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty.

DXJ: The Fund focuses its investments in Japan, thereby increasing the impact of events and developments in Japan that can adversely affect performance. Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations, as well as derivative investments, which can be volatile and may be less liquid than other securities, and more sensitive to the effect of varied economic conditions. As this Fund can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers. Due to the investment strategy of this Fund it may make higher capital gain distributions than other ETFs. Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time.

CXSE: The Fund 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. 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. The Fund's exposure to certain sectors may increase its vulnerability to any single economic or regulatory development related to such sector. As this Fund can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers.