China’s 2025 Rebound: Why Selectivity Has Mattered

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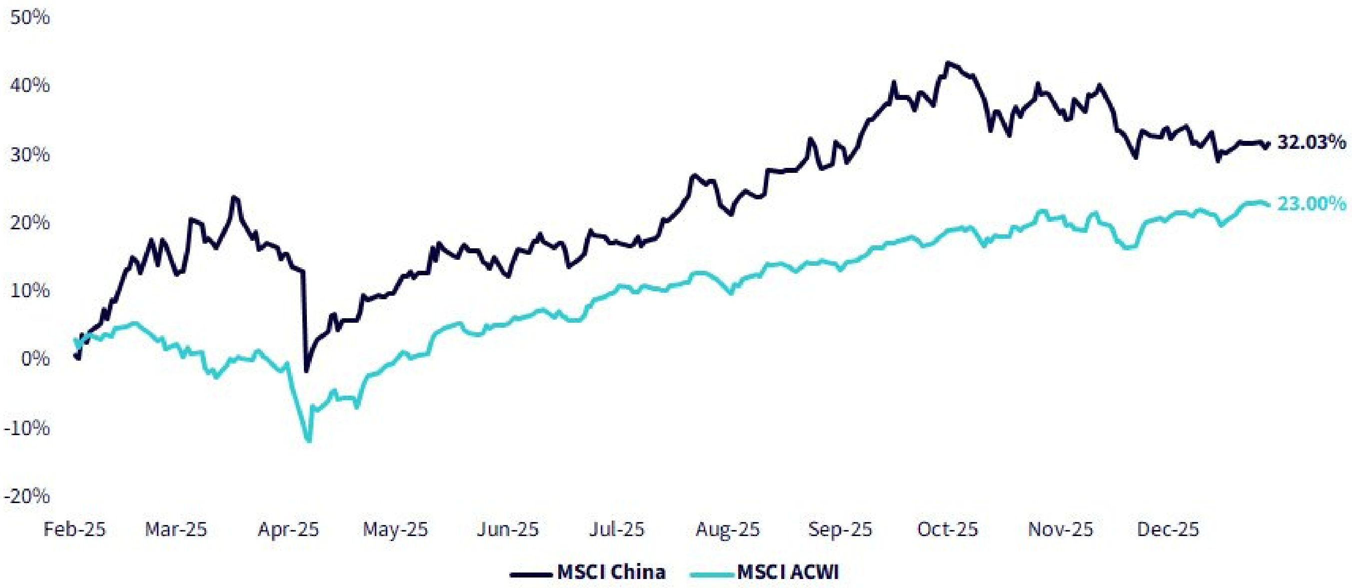
Key Takeaways

- Chinese equities surged in 2025, with the MSCI China Index hitting decade highs amid improving sentiment and tech sector resilience, highlighting renewed investor confidence beyond just policy support.
- The WisdomTree China ex-State-Owned Enterprises Fund's (CXSE) emphasis on non-state-owned companies aligned well with areas of the market that showed resilience during China’s 2025 rebound.
- As China’s recovery remains uneven and governance remains a key differentiator, CXSE offers a targeted way to access China’s growth while avoiding the risks associated with state ownership.

After years of uncertainty and underperformance, Chinese equities delivered a strong rebound in 2025. Improvements in investor sentiment—supported in part by advances in AI and semiconductor technology—helped rebuild confidence, while the MSCI China Index reached decade-high levels late in the year.

MSCI China Index and MSCI ACWI Index Year-to-Date Total Local Returns



Source: WisdomTree, MSCI, FactSet. Returns from 12/31/2024-12/31/2025. Past performance is not indicative of future results. You cannot invest directly in an index.

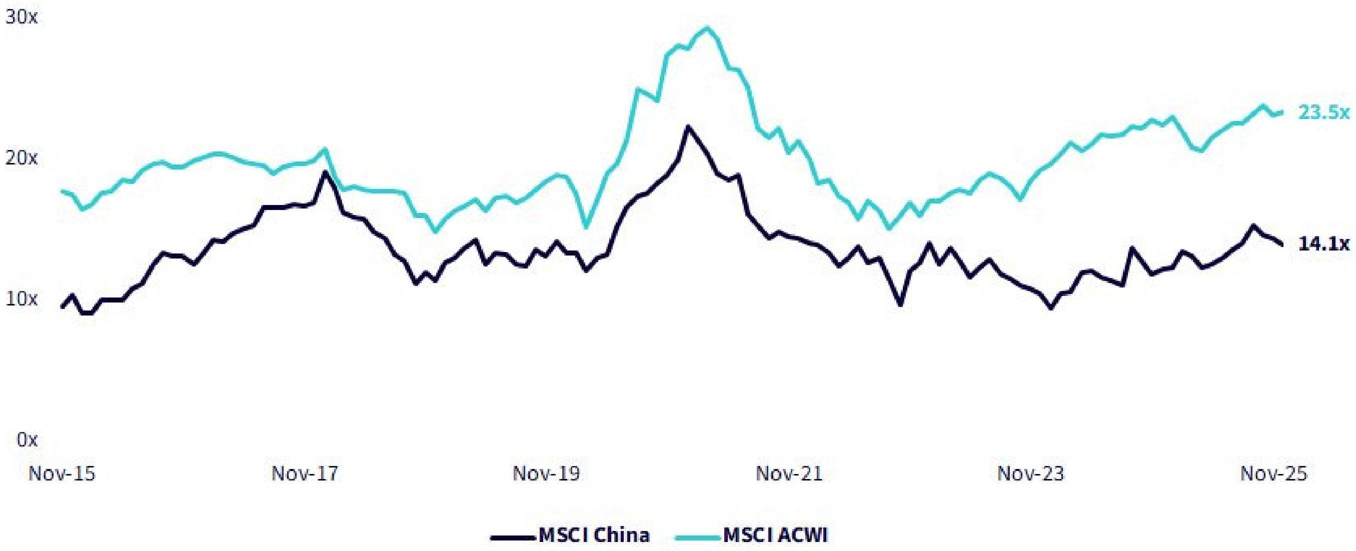
Policymakers implemented a series of targeted monetary, fiscal, and capital-market measures aimed at stabilizing growth and restoring confidence. Unlike past cycles, these actions were incremental and focused on risk containment rather than broad-based reflation.

Even so, China's equity gains in 2025 were not merely a policy-driven rally. Valuations began the year at deeply discounted levels, and as investor confidence improved, equities were repriced higher, narrowing the gap versus global markets.

Beyond policy support, investor sentiment has also been lifted by the resilience of China's technology sector and a faster-than-expected easing of U.S.-China tariff frictions. Plans for multiple high-level meetings between the two countries' leaders in 2026—potentially as many as four—have added to a sense of improving dialogue. A modest appreciation of the renminbi may also provide a tailwind for Chinese equities.

Even after this repricing, Chinese equities continue to trade at meaningful discounts relative to global equities, as measured by the MSCI ACWI Index. While valuation remains supportive, the renewed interest in China has been driven less by absolute cheapness and more by confidence in the resilience of its technology sector and supply-chain positioning.

Historical Price to Earnings



Source: WisdomTree, MSCI, FactSet. Data from 11/30/2015-12/31/2025. Past performance is not indicative of future results. You cannot invest directly in an index.

At the company level, Chinese equities continue to trade at marked valuation discounts, most notably relative to U.S. equities. The largest constituents of the MSCI China Index trade at substantially lower forward multiples than those of the S&P 500, despite stronger forward earnings growth expectations.

Forward Valuation and Earnings Growth: S&P 500 vs. MSCI China Top Constituents

S&P 500 Top 10 Constituents			MSCI China Top 10 Constituents		
Company	**Fwd. P/E**	**Fwd. 3-Year Earnings Growth**	**Company**	**Fwd. P/E**	**Fwd. 3-Year Earnings Growth**
NVIDIA	27.2x	44.0%	Tencent Holdings	17.4x	12.0%
Apple	33.4x	11.3%	Alibaba Group Holding	19.5x	34.6%
Microsoft	29.0x	17.5%	China Construction Bank	5.4x	2.7%
Alphabet	29.4x	10.6%	Xiaomi Corp	21.5x	17.2%
Amazon	31.0x	16.0%	PDD Holdings	9.4x	16.6%
Broadcom	35.0x	31.7%	Meituan	-26.1x	N/A
Meta Platforms	22.9x	21.0%	Ping An Insurance Group	7.4x	7.5%
Tesla	224.3x	37.9%	ICBC	5.7x	3.9%
Berkshire Hathaway	23.8x	2.7%	BYD	19.6x	28.6%
JPMorgan Chase	15.5x	6.0%	NetEase	16.2x	7.7%
Index Aggregate	***23.2x***	***17.5%***	***Index Aggregate***	***12.8x***	***18.3%***

Source: WisdomTree, S&P, MSCI, FactSet. Data as of 12/31/2025. Past performance is not indicative of future results. You cannot invest directly in an index.

Importantly, China's rebound has not been uniform across ownership structures. Government ownership can meaningfully influence corporate priorities, often creating trade-offs between policy objectives and shareholder outcomes.

WisdomTree's ex-State-Owned Enterprises approach focuses on companies with limited government ownership, where firms tend to operate with greater autonomy and stronger alignment with market incentives. By excluding state-owned enterprises (SOEs), this framework seeks to reduce governance and capital-allocation risks.

The WisdomTree China ex-State-Owned Enterprises Index, tracked by the WisdomTree China ex-State-Owned Enterprises Fund (CXSE), has had a very strong year in 2025, outperforming its benchmark, the MSCI China Index, by 574 basis points year-to-date. Most of this outperformance can be attributed to its overweight to non-SOEs (ex-SOEs) and underweight to SOEs, with 328 basis points of attribution driven by allocation effects.

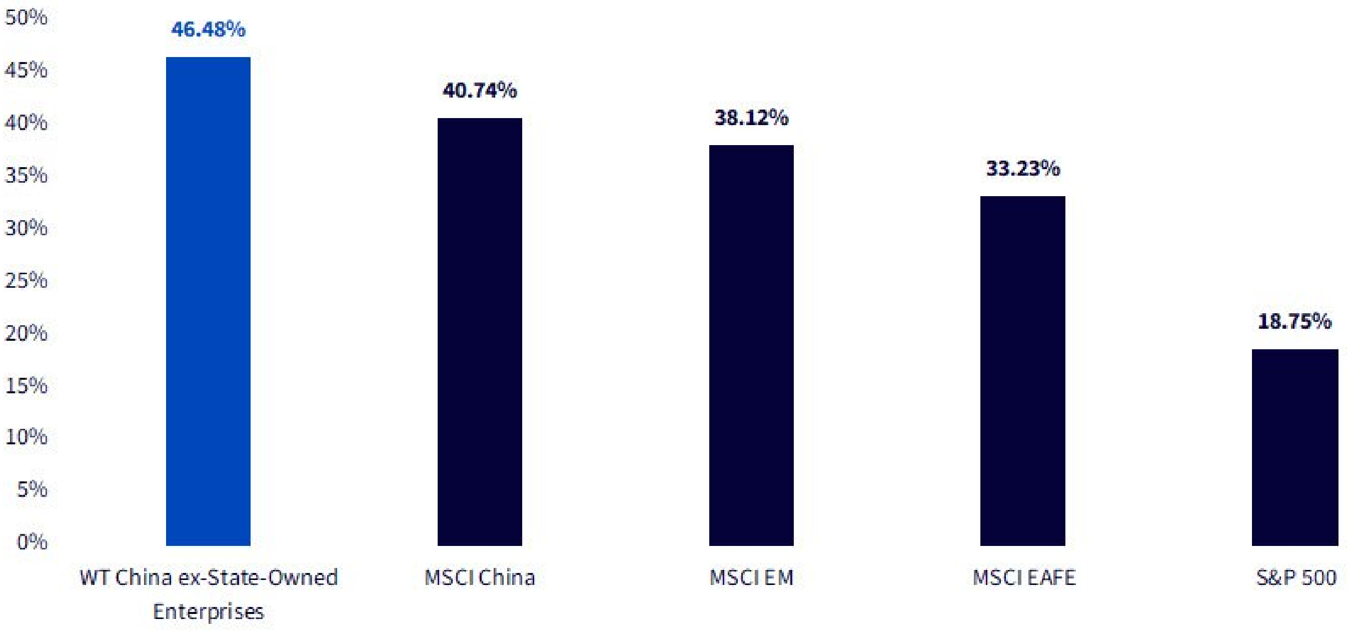
Year-to-Date Index Performance Attribution

	Attribution Component				Average Category Weight			Category Performance	
Category^	Allocation	Stock Selection	Interaction	Total Attribution	Index Weight	Benchmark Weight	+/- Weight	WT Index Return	Benchmark Return
SOE	1.92%	0.00%	0.00%	1.92%	0.00%	28.84%	-28.84%	0.00%	30.57%
ex-SOE	1.37%	1.58%	0.88%	3.83%	100.00%	71.12%	28.88%	36.91%	33.40%
N/A	-0.01%	0.00%	0.00%	-0.01%	0.00%	0.04%	-0.04%	0.00%	28.61%
Total	3.28%	1.58%	0.88%	5.74%	-	-	-	36.91%	31.17%

Source: WisdomTree, MSCI, FactSet. Returns from 12/31/2024-12/31/2025. Past performance is not indicative of future results. You cannot invest directly in an index.

CXSE's outperformance has not been limited to China benchmarks alone. In 2025, the strategy also outperformed developed and emerging market peers, underscoring that its results were not simply a byproduct of China's rebound, but of how exposure was constructed.

Year-to-Date Cumulative Performance



Source: WisdomTree, S&P, MSCI, FactSet. Returns from 12/31/2024-12/31/2025. 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.**

China's experience in 2025 underscores that how investors gain exposure matters as much as whether they do. As valuations reset and confidence improved, performance dispersion reflected ownership structure and governance differences. CXSE's construction—tilting away from state ownership and toward market-oriented companies—has been well aligned with those dynamics.

Conclusion

Looking ahead, the U.S.–China relationship does not appear to be deteriorating, and China's technology sector has remained resilient. China's equity market is likely to continue to be defined by uneven macro-economic recovery and meaningful dispersion. Investing in Chinese equities therefore requires a long-term view on China's technology sector, which is largely non-state owned. In that environment, strategies that emphasize governance, capital discipline, and market incentives may be better positioned to navigate ongoing uncertainty. CXSE offers one such approach for investors seeking a more selective way to access China's equity opportunity.

Important Risks Related to this Article

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