

# What's Working in 2017? Surprisingly, China

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If January was any indication, we are all going to be in for a year of news flow and media frenzy like few we have ever seen. Nearly every day, we are hearing different announcements coming from policy makers, all of which have potential importance for markets.

## 2016 Ended Strongly

As 2016 ended, people had seen a few big-picture events impacting asset-class performance and investor portfolios in a significant manner:

- **Small-Cap Stocks Ripped:** U.S. small caps<sup>1</sup> went on a major tear after the surprise election victory of Donald Trump. Investors readjusted their expectations for higher potential growth and higher potential inflation. The cyclical nature of small caps can be a major beneficiary, not to mention the fact that small-cap companies tend to do the majority of their business inside the U.S. This typically results in 1) insulation from a stronger dollar and 2) greater potential impact from any corporate tax cut.
- **The 10-Year Treasury Note Yield Spiked:** This was another impact of changing expectations of future economic growth and inflation. Since many yields tend to trade at a spread to this level and rising yields mean falling prices in the world of bonds, bond portfolios were notably running into the wind at the end of 2016.
- **U.S. Dollar Strengthened:** Dollar strength was the clear trend against almost all other world currencies throughout the period from 2013 to 2015, but the first 11 months of 2016 saw a distinct change in trend. Post-U.S. presidential election, the U.S. dollar began to strengthen again, most notably against the yen, which had strengthened all the way to 100 over the summer but ended 2016 at 117.2

Would any of these trends continue, or did they simply represent deflation “blips” that would quickly reverse once the world transitioned from a President-elect Trump to a Trump presidential administration? While the exact answer is something we'll only know in hindsight, we believe this is a question on nearly every investor's mind as we start 2017 and look at the new presidential administration.

**Surprising leaders in the current environment are emerging markets, the Middle East and China in particular.**

Despite all the trade rhetoric and fears Trump is going to instigate a trade war with China, it is interesting that China is the top standout in early 2017, particularly companies led by the Chinese consumer. If this

trend continues and China's growth can stay positive, that would be very supportive for global asset prices and market sentiment.

## WisdomTree's Five Top Performing Exchange-Traded Funds (ETFs) for January 2017

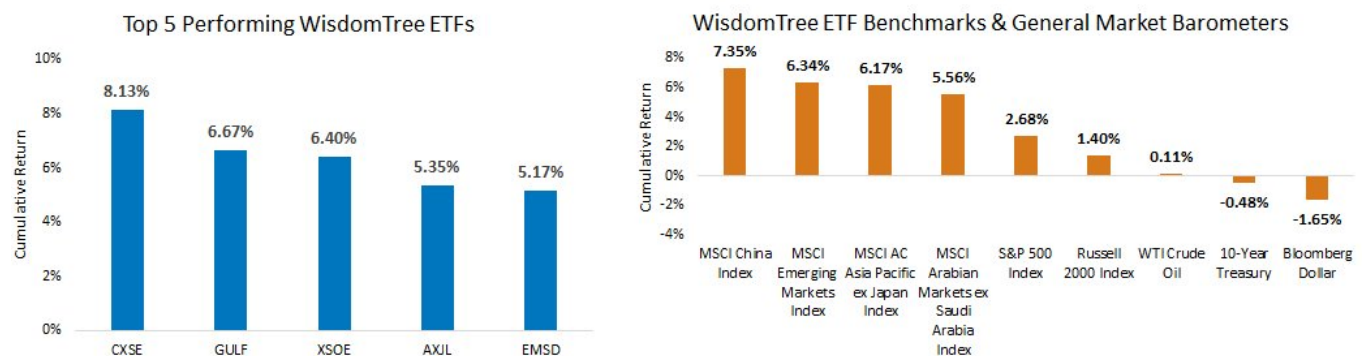
WisdomTree had 94 U.S.-listed ETFs as of January 31, 2017, and these covered almost all the major markets around the world. Knowing the top performers (we showcase the top five below) over any period says a lot about which global markets are doing particularly well at that time.

### Average Annual Total Returns as of December 31, 2016

| Fund/Index Name                                             | Fund Information |            |                | NAV Returns (%) |         |         |         |                      | Market Price Returns (%) |         |         |         |                      |
|-------------------------------------------------------------|------------------|------------|----------------|-----------------|---------|---------|---------|----------------------|--------------------------|---------|---------|---------|----------------------|
|                                                             | Ticker           | Exp. Ratio | Inception Date | 1-Year          | 3-Year  | 5-Year  | 10-Year | Since Fund Inception | 1-Year                   | 3-Year  | 5-Year  | 10-Year | Since Fund Inception |
| WisdomTree China ex-State-Owned Enterprises Fund            | CXSE             | 0.53%      | 9/19/2012      | -1.20%          | -0.34%  | N/A     | N/A     | 1.56%                | -0.72%                   | -1.06%  | N/A     | N/A     | 1.01%                |
| WisdomTree Middle East Dividend Fund                        | GULF             | 0.88%      | 7/16/2008      | 5.26%           | -0.55%  | 7.42%   | N/A     | -0.32%               | 5.39%                    | -1.45%  | 7.04%   | N/A     | -0.71%               |
| WisdomTree Emerging Markets ex-State-Owned Enterprises Fund | XSOE             | 0.58%      | 12/10/2014     | 7.37%           | N/A     | N/A     | N/A     | -3.17%               | 6.83%                    | N/A     | N/A     | N/A     | -3.47%               |
| WisdomTree Asia Pacific ex-Japan Fund                       | AXIL             | 0.48%      | 6/16/2006      | 8.50%           | -1.06%  | 3.48%   | 3.46%   | 5.66%                | 8.59%                    | -1.58%  | 3.23%   | 3.28%   | 5.57%                |
| WisdomTree Strong Dollar Emerging Markets Equity Fund       | EMSD             | 0.58%      | 10/29/2015     | 1.23%           | N/A     | N/A     | N/A     | -2.22%               | 1.68%                    | N/A     | N/A     | N/A     | -2.50%               |
| MSCI China Index                                            | N/A              | N/A        | N/A            | 0.90%           | 0.14%   | 5.02%   | 3.76%   | N/A                  | 0.90%                    | 0.14%   | 5.02%   | 3.76%   | N/A                  |
| MSCI Emerging Markets Index                                 | N/A              | N/A        | N/A            | 11.19%          | -2.55%  | 1.28%   | 1.84%   | N/A                  | 11.19%                   | -2.55%  | 1.28%   | 1.84%   | N/A                  |
| MSCI AC Asia Pacific ex Japan Index                         | N/A              | N/A        | N/A            | 6.75%           | -0.17%  | 4.70%   | 3.61%   | N/A                  | 6.75%                    | -0.17%  | 4.70%   | 3.61%   | N/A                  |
| MSCI Arabian Markets ex Saudi Arabia Index                  | N/A              | N/A        | N/A            | 8.36%           | -0.89%  | 4.82%   | 0.24%   | N/A                  | 8.36%                    | -0.89%  | 4.82%   | 0.24%   | N/A                  |
| S&P 500 Index                                               | N/A              | N/A        | N/A            | 11.96%          | 8.87%   | 14.66%  | 6.95%   | N/A                  | 11.96%                   | 8.87%   | 14.66%  | 6.95%   | N/A                  |
| Russell 2000 Index                                          | N/A              | N/A        | N/A            | 21.31%          | 6.74%   | 14.46%  | 7.07%   | N/A                  | 21.31%                   | 6.74%   | 14.46%  | 7.07%   | N/A                  |
| WTI Crude Oil                                               | N/A              | N/A        | N/A            | 45.03%          | -18.28% | -11.48% | -1.27%  | N/A                  | 45.03%                   | -18.28% | -11.48% | -1.27%  | N/A                  |
| 10-Year Treasury Return                                     | N/A              | N/A        | N/A            | -0.17%          | 3.56%   | 1.32%   | 5.03%   | N/A                  | -0.17%                   | 3.56%   | 1.32%   | 5.03%   | N/A                  |
| Bloomberg Dollar Index                                      | N/A              | N/A        | N/A            | 2.82%           | 7.53%   | N/A     | N/A     | N/A                  | 2.82%                    | 7.53%   | N/A     | N/A     | N/A                  |

Source: WisdomTree.

## WisdomTree's Top Five ETFs by NAV Cumulative Return (& Market Benchmarks to Provide Context)



Sources: WisdomTree, Bloomberg, with period from 12/31/16 to 1/26/17. A fund's performance, especially for very short periods, should not be the sole factor in making your investment decision. You cannot invest directly in an index.

**Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns 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. Performance data for the most recent month-end is available at [www.wisdomtree.com](http://www.wisdomtree.com).**

WisdomTree shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Total returns are calculated using the daily 4:00 p.m. EST net asset value (NAV). Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns you would receive if you traded shares at other times.

For definitions of indexes in the chart, visit our [glossary](#).

•**CXSE Was the Top Performer:** Over this period, Consumer Discretionary and Information Technology stocks in CXSE did particularly well. The Index that CXSE tracks before fees, the [WisdomTree China ex-State-Owned Enterprises Index](#), emphasizes Consumer Discretionary and Information Technology and tilts away from Financials, Energy, Materials and Telecommunication Services. Some standout performers at the individual firm level in CXSE's top 10 holdings over this period: Baidu (+6.41%), JD.com (+11.32%), Tencent Holdings (+8.00%), Alibaba (+17.01%), Delphi Automotive (+6.70%), CTrip.com International (+8.45%) and NetEase (+17.00%).<sup>3</sup>

•**GULF:** Approximately 50% of this Fund is in the Financials sector, which did well over this period. These markets have typically been influenced by the price of oil. Compared to the beginning of 2016, oil prices have been relatively stable, thereby lending support to equities in this region.

•**XSOE:** This Fund tracks the performance of the [WisdomTree Emerging Markets ex-State-Owned Enterprises Index](#), an approach that removes exposure to firms with greater than 20% ownership by sovereign entities. A major result—similar to what we mentioned with CXSE—is a tilt toward Consumer Discretionary and Information Technology. Now, it's worth mentioning that all 11 sectors in emerging markets—whether in XSOE or the MSCI Emerging Markets Index—were positive over this period.<sup>4</sup>

•**AXJL:** In this Fund, there were double-digit exposures to Australia, Taiwan, Hong Kong, China and South Korea over the period from December 31, 2016, to January 26, 2017. Of these, Hong Kong and South Korea were the strongest—generating approximately 7% returns. All of these markets were positive over this period.<sup>5</sup>

•**EMSD:** This unique approach to emerging market equities did not have exposure to the Energy, Materials, Financials, Telecommunication Services or Utilities sectors, instead placing heavy emphasis on Information Technology and Consumer Discretionary—similar to XSOE. Taiwan and South Korea were also the two largest market exposures—both of which also did quite well.

In short, we have been surprised thus far in 2017 by these results, which compare to an [S&P 500 Index](#) below 3% over this period and a Russell 2000 Index below 1.5% over this period. China was the standout, and we look forward to seeing if this trend can sustain further into 2017.

<sup>1</sup>Refers to the Russell 2000 Index from 11/8/16 to 12/31/16.

<sup>2</sup>Source: Bloomberg.

<sup>3</sup>Sources: WisdomTree, Bloomberg, with holdings depicted performing above 5.00% from 12/31/16 to 1/26/17 and being within the top 10 holdings for CXSE. Average weights over this period for mentioned securities: Baidu, 6.92%; JD.com, 6.53%; Tencent Holdings, 6.50%; Alibaba, 6.49%; Delphi Automotive, 5.27%; CTrip.com International, 4.15%; and NetEase, 2.91%. Holdings subject to change.

<sup>4</sup>Source: Bloomberg.

5Source: Bloomberg.

## Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty.

The Funds focus their investments in Middle East, Asia Pacific and emerging markets thereby increasing the impact of events and developments associated with the regions, 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 Funds exposure to certain sectors may increase its vulnerability to any single economic or regulatory development related to such sector.

Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations.

As these Funds can have a high concentration in some issuers, the Funds can be adversely impacted by changes affecting those issuers.

Due to the investment strategy of some of these Funds they may make higher capital gain distributions than other ETFs.

Some of the Funds invest in the securities included in, or representative of, their Index regardless of their investment merit and the Funds do not attempt to outperform their Index or take defensive positions in declining markets.

Please read each Fund's prospectus for specific details regarding each Fund's risk profile.