
THE OUTLOOK FOR CHINA

Jeremy Schwartz — Global Chief Investment Officer
02/23/2018

China's financial reforms could lead to the increasing prominence of China in emerging market indexes as well as global investor portfolios. But does your benchmark provide a broad coverage of Chinese equities? We recently worked with S&P to license the [S&P China 500 Index](#), which provides exposure to all flavors of Chinese equities. Our Director of Research, Jeremy Schwartz, sat down with Michael Orzano, S&P's senior director of global equity indexes, to take a closer look at the S&P China 500 Index. Here is a quick excerpt from their conversation, with the full video below.

Q: What is the macro outlook of some of the key factors driving the Chinese economy, and then, with those factors, what's your outlook given the current dynamics?

Jeremy Schwartz: China is really the epicenter of global growth, both long run and short run. You saw a lot of optimism in 2017—emerging markets performing well. A lot of it's on the back of Chinese investment in infrastructure ahead of their 19th Party Congress that they just had in October. Now, China is generally trying to transition long run from an investment-led economy to a consumer-led economy.

You can see the investment buildup, massive construction over the years, big buildings everywhere. You could see an example just through high-speed rail. They have more high-speed railways than the rest of the world combined. But they really do want to emphasize a sort of new China and a consumer-driven China. And you can see remarkable progress.

You already see China is the largest auto market in the world. About 20 million cars every year. They're the largest purchaser of luxury goods. They have the most cellphone users, the most internet users. China really is a big player on global growth. And when you say, "What's happening in the global economy?," "What's happening in China?" is the most important question.

In the long run, when investors think about their portfolios, one of the big questions is whether they have enough representation of exposure to China. It's been hard to access before. But they're opening up to foreigners. And that hopefully should give people more of a reason to look at China as part of their global portfolio.

Q: What are some of the unique challenges that people trying to access Chinese markets need to confront? And how does the S&P China 500 Index help alleviate some of those challenges?

Michael Orzano: Given its legacy of capital controls in China, what I call a segmented-equity market developed where companies, a lot of companies, decided to list their shares offshore in order to have access to global capital markets. And then there are also companies listed onshore known as A-shares that are accessible to mainland Chinese investors.

Now, over the years, that's changed a bit. There's been a relaxation of those foreign investment restrictions. So, sitting there today, it's more sensible to look at China from a total China framework. Now, a lot of existing indexes that are widely used continue to look specifically at either offshore listings or onshore listings.

With the S&P China 500, the main goal was to create an index that would be representative of the complete Chinese equity market. First of all, from a completeness standpoint, that's important. But possibly even more important is that

there are material differences in the types of companies that are listed in different locations.

For example, onshore markets are heavily concentrated in banks and financial institutions. And then offshore, particularly in New York, most of the large technology companies are listed. So, it's really important to have that total comprehensive look at China.

Q: How do you view market participants who want to access China? Where does China fit within global allocation strategies, in your view?

Jeremy Schwartz: What Michael talked about there, getting the representative portfolio, you have new China and old China, and you want to get all China. I think making sure you get part of that new China as part of the portfolio is important. When we think about where the global market cap is today, a global market portfolio is roughly 50% U.S., 40% developed world and 10% emerging markets.

That's partly because of the float restrictions, and China is only about 3% of that total global pie. When you think about China's total size if you included all the state ownership, if they opened access to foreign investors, you could see a global portfolio that was really 15% China and had twice as much weight as in Japan, which is right now one of the biggest countries outside of the U.S.

You probably should have more China than 3% in terms of a global market portfolio. Getting that total representative China exposure with new China in addition to old China is really an important part of how to get access to that part of the market.

See the full video here.

Important Risks Related to this Article

Investments focused in China increase the impact of events and developments associated with the region, which can adversely affect performance.

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.

For more investing insights, check out our [Economic & Market Outlook](#)

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

S&P China 500 Index : Comprises 500 of the largest, most liquid Chinese companies while approximating the sector composition of the broader Chinese equity market. All Chinese share classes including A-shares and offshore listings are eligible for inclusion.