

GLOBAL X ETFs RESEARCH

# China Sector Report: Q2 2021

The Q2 2021 Global X China Sector Report can be viewed [here](#). The report provides macro-level and sector-specific insights across the eleven major economic sectors in China's equity market. For a broader look at Global X's international funds, please see the latest [International Report: Q2 2021](#).

## Summary

In the second quarter of 2021, China's economy grew at a pace of 7.9% year-on-year. Most forecasts put China's expected rate of growth for the whole year of 2021 at somewhere between 8.0% and 9.0%. Despite an overall optimistic outlook for 2021, Chinese officials recognize the unbalanced nature of China's recovery as consumer demand lags behind target levels. Growth in retail sales slightly decreased from 12.4% in Q1 to 12.1% in Q2, while fixed asset investment (FAI) undershot expectations at 12.6%.<sup>1</sup> China notably cut its required reserve ratio by 0.5% in July, in a move that has prompted speculation over whether China will shift towards more monetary easing.

The rapid increase in vaccinations abroad is changing the external environment that defined much of China's economic growth over the past year. As developed countries move into the post-pandemic New Normal Economy, demand for Chinese exports of products like electronics and masks could fall. On the domestic side, China's rollout of the vaccine is moving at a rapid pace, but it still seems unlikely that borders will fully reopen in 2021.

Eight of the eleven major economic sectors in China generated positive returns in Q2. Health Care took the lead with returns of 19.66%, possibly supported by a surge in birth and fertility company stocks after the release of census population numbers and the subsequent announcement of the three-child policy.<sup>2</sup> Communication Services, Financials and Real Estate produced negative returns.

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Topic: [International](#)



## Related ETFs

Please click below for fund holdings and important performance information.

[CHIC – Global X MSCI China Communication Services ETF](#)

[CHIQ – Global X MSCI China Consumer Discretionary ETF](#)

[CHIS – Global X MSCI China Consumer Staples ETF](#)

[CHIH – Global X MSCI China Health Care ETF](#)

[CHIE – The Global X MSCI China Energy ETF](#)

[CHIX – Global X FTSE China Financials ETF](#)

[CHII – Global X MSCI China Industrials ETF](#)

[CHIK – Global X MSCI China Information Technology ETF](#)

[CHIM – Global X MSCI China Materials ETF](#)

[CHIR – Global X MSCI China Real Estate ETF](#)

[CHIU – Global X MSCI China Utilities ETF](#)



Sector (ETF Ticker)	1 Month Return (%)	3 Month Return (%)
MSCI China Index (MXCN)	1.55	2.27
Communication Services (CHIC)	-0.82	-2.34
Consumer Discretionary (CHIQ)	6.93	6.35
Consumer Staples (CHIS)	-5.32	3.21
Energy (CHIE)	4.99	11.48
Financials (CHIX)	-6.03	-4.01
Health Care (CHIH)	3.72	19.66
Industrials (CHII)	1.49	7.70
Information Technology (CHIK)	5.31	10.99
Materials (CHIM)	-5.26	5.11
Real Estate (CHIR)	-6.25	-9.70
Utilities (CHIU)	0.65	1.84

*Source: Bloomberg, as of Jun 30, 2021*

*Performance shown is based on the NAVs of the underlying sector ETFs and does not guarantee future results. To view standard and most recent month-end performance of each of the funds, please click on the links available under “Related ETFs”.*

***The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. Returns for periods greater than one year are annualized.***



All Data as of 6/30/2021	Fund Information		Performance				
	Expense Ratio		1 Year	3 Year	5 Year	10 Year	Annualized since Fund Inception
Global X MSCI China Communication Services ETF (CHIC) <i>Inception date: 12/08/09</i>	0.65%	NAV	7.22%	-2.49%	8.01%	5.76%	6.33%
		Market Price	7.41%	-2.63%	7.97%	5.76%	6.31%
		NU722121 Index	7.11%	-1.98%	8.80%	6.48%	7.10%
Global X MSCI China Energy ETF (CHIE) <i>Inception date: 12/15/09</i>	0.66%	NAV	34.56%	-2.50%	3.60%	-1.85%	-0.71%
		Market Price	36.13%	-2.10%	3.50%	-1.80%	-0.61%
		NU722195 Index	36.72%	-1.33%	4.65%	-0.97%	0.19%
Global X MSCI China Health Care ETF (CHIH) <i>Inception date: 12/07/18</i>	0.65%	NAV	41.18%				36.34%
		Market Price	39.40%				36.21%
		NU722071 Index	42.28%				37.39%
Global X MSCI China Information Technology ETF (CHIK) <i>Inception date: 12/07/18</i>	0.65%	NAV	39.21%				37.87%
		Market Price	38.48%				37.60%
		NU722094 Index	41.58%				39.31%
Global X MSCI China Industrials ETF (CHII) <i>Inception date: 11/30/09</i>	0.66%	NAV	38.62%	9.23%	10.39%	2.94%	2.49%
		Market Price	40.36%	9.74%	10.80%	2.91%	2.54%
		NU722886 Index	39.86%	8.63%	9.61%	3.46%	3.02%
Global X MSCI China Materials ETF (CHIM) <i>Inception date: 01/12/10</i>	0.66%	NAV	65.49%	12.65%	17.93%	1.86%	0.36%
		Market Price	67.15%	13.29%	17.62%	1.77%	0.35%
		NU721934 Index	66.81%	13.55%	16.96%	2.11%	0.75%

All Data as of 6/30/2021	Fund Information		Performance				
	Expense Ratio		1 Year	3 Year	5 Year	10 Year	Annualized since Fund Inception
Global X MSCI China Consumer Discretionary (CHIQ) <i>Inception date: 11/30/09</i>	0.65%	NAV	68.54%	26.94%	28.29%	8.52%	8.80%
		Market Price	69.50%	27.33%	28.27%	8.41%	8.82%
		NU722069 Index	68.25%	27.41%	28.93%	9.12%	9.38%
Global X MSCI China Real Estate ETF (CHIR) <i>Inception date: 12/07/18</i>	0.66%	NAV	-1.81%				5.10%
		Market Price	-1.24%				4.64%
		NU721936 Index	-1.20%				5.75%
Global X MSCI China Consumer Staples ETF (CHIS) <i>Inception date: 12/07/18</i>	0.65%	NAV	30.25%				37.37%
		Market Price	31.31%				37.00%
		NU722070 Index	31.36%				38.23%
Global X MSCI China Utilities ETF (CHIU) <i>Inception date: 12/07/18</i>	0.66%	NAV	32.56%				7.58%
		Market Price	32.05%				7.57%
		NU722095 Index	33.96%				8.52%
Global X MSCI China Industrials ETF (CHIX) <i>Inception date: 12/10/09</i>	0.65%	NAV	14.73%	0.67%	7.80%	4.13%	2.74%
		Market Price	15.26%	1.03%	7.70%	4.02%	2.72%
		NU721887 Index	15.01%	1.27%	8.52%	4.66%	3.31%



## Dispersion between China Sectors Widen, While US Sectors Narrow

Both the MSCI China Index (MXCN) and the S&P 500 Index (SPX) trended upwards in Q2, with MXCN rising moderately by 2.20% and SPX rallying by 8.55%.

Sector dispersion is the difference between the best and worst performing sectors in each country. Chinese sector dispersion in Q2 was 29.55%, versus 13.53% in the US. Part of this can be attributed to policy decisions; the Three-Child Policy boosted Health Care stocks while the Three-Red Lines Policy threw a bucket of cold water on Real Estate (both of which are discussed in greater detail later in this piece).

### Sector Dispersion (Q2 Total Return %)

Source: Bloomberg as of Jun 30, 2021

Data	Average Sector Returns Q2	Dispersion of Sector Returns Q2	Benchmark Returns Q2 MSCI China vs S&P
China	4.63	29.55	2.20
United States	7.46	13.53	8.55

Data points represent the returns of the indexes tracked by market price returns of the sector ETFs and the benchmark indexes, MSCI China (MXCN) and S&P 500. Average refers to a simple average of the individual sector returns of the MSCI China and MSCI China Sector Indexes, as well as the S&P 500 and S&P U.S. Select Sector Indexes.

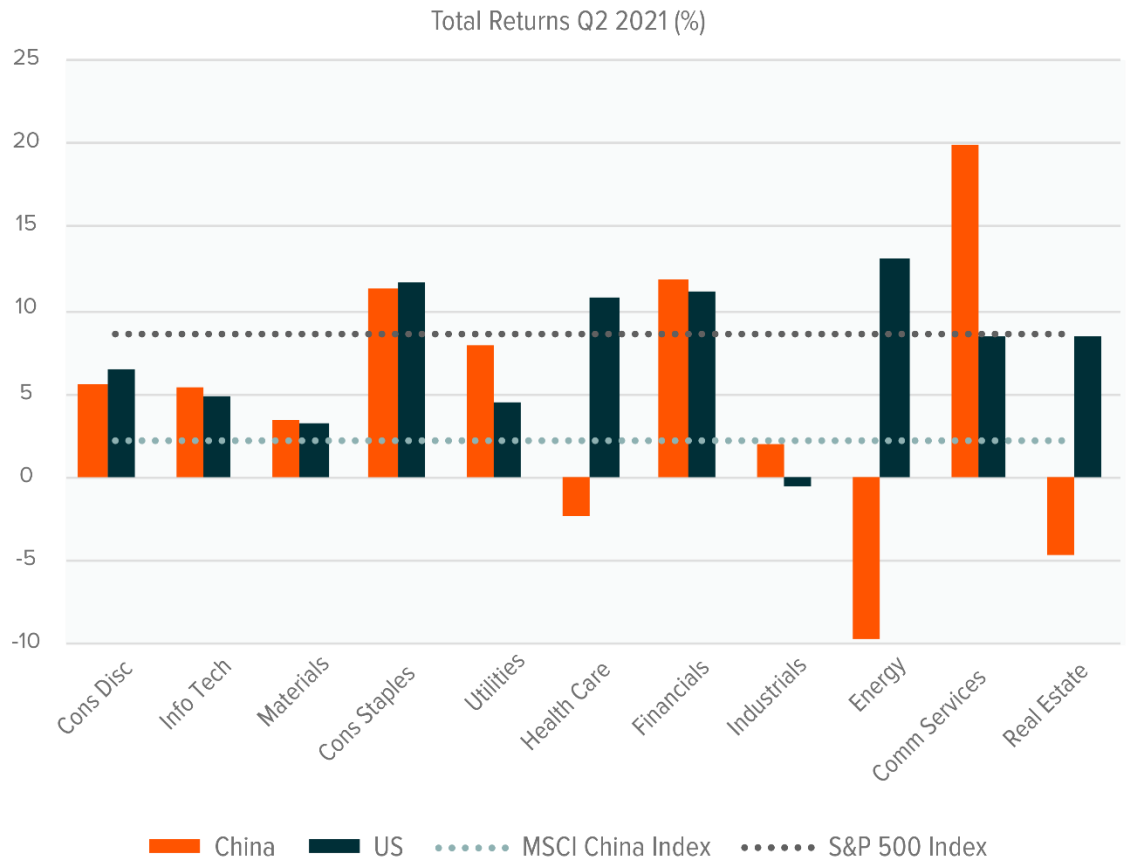


## How China Sector Performance Measured Up Against US Counterparts

In the chart below, we show performance of indexes that track China's 11 GICS sectors, as well as their US sector index counterparts.

### CHINA VS US SECTOR PERFORMANCE Q2 2021

Source: Bloomberg as of June 30, 2021. Data points represent the returns of the indexes tracked by the sector ETFs and the broad market indices (MXCN and SPX).



*Performance shown is past performance and do not guarantee future results. Index returns are for illustrative purposes only and do not represent actual fund performance.*

### Population Data Contributed to Health Care Returns

China's Health Care sector continued its ascent in Q2, posting gains of 19.66%. Both Health Care and **Biotech** have been riding tailwinds from COVID, which spurred a race to find innovative solutions to a once-in-a-century crisis. The long-term trends for Health Care look favorable as an aging population structurally increases demand for pharmaceuticals, medical devices, and care. Investors were reminded of that trend when the 2020 Census numbers were released in May, which indicated that China's looming population decline, due to its top-heavy population by age, is coming earlier than expected.<sup>3</sup> While attempting to smooth out the demographic challenges

faced in the country, Beijing's announcement of the Three-Child Policy reinforces the country's concerns around aging.

Information Technology bounced back from negative returns of -10.76% in Q1 to positive returns of 10.99% in Q2. Jittery market sentiments prevailed in Q1 as tech giants became the target of a regulatory crackdown. In Q2, markets had time to digest and act upon the plans outlined in the 14<sup>th</sup> Five-Year Plan (FYP), which included plans to pour money into key industries like semiconductors.

Meanwhile, Energy kept up its momentum from Q1, with returns of 11.75% in Q2. Coal companies saw their prices rally over the past few months, possibly because of a trade dispute between Australia and China that resulted in an informal ban on Australian coal. The lack of Australian coal has opened up an opportunity for domestic and non-Australian foreign companies to step in and fill the void. The shortage of coal has even prompted China to release coal from its strategic reserves.

### **China Sector Underperformers**

Financials, Real Estate, Utilities and Communication Services all underperformed the broader market.

The Real Estate sector saw negative returns of -9.70%. Fearing a build-up of debt and unsustainable growth, Chinese regulators cooled down the real estate market by introducing the Three Red Lines policy towards the end of 2020. In order to be compliant, real estate companies will have to ensure they maintain a liability to asset ratio below 70%, a net gearing ratio of less than 100% and a cash to short-term debt ratio above 1x by 2023.<sup>4</sup> The effects of this policy will continue to manifest over the next few quarters as companies move towards a state of compliance. Property developer Evergrande's financial plight in Q2 has become a cautionary tale against the dangers of excessive leverage in the Real Estate sector.

Financials delivered returns of -4.46%. Major foreign institutions like Goldman Sachs and Blackrock continued their push into the Chinese Financials space, introducing formidable competition. Meanwhile, state-owned bad debt manager Huarong made headlines throughout Q2 and ignited a debate over China's willingness to bail out irresponsible state-owned entities.

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1. SCMP, "China GDP: economic growth slows to 7.9 per cent in second quarter, 12.7 per cent in first half of 2021," Jul 15, 2021.

2. Reuters, "Three-child policy: China lifts cap on births in major policy shift," Jun 1, 2021.

3. China National Bureau of Statistics, "Main Data of the Seventh National Population Census," May 11, 2021.

4. UBS, "China's Three Red lines," Jan 2021.



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