

GLOBAL X ETFs RESEARCH

China Sector Report: Q4 2020

The Global X China Sector Report: Q4 2020 can be viewed [here](#). The report provides macro-level and sector-specific insights across the eleven major economic sectors in China's equity markets.

In the fourth quarter of 2020, China's economy continues to show strong resilience with economic activity continuing to build momentum after three quarters of expansion. Consumption, industrial output, and investment continued to grow with more factories coming back online and consumers continuing to spend more with a gradual reopening. Industrial production recovered early in 2020 but continued to rise throughout the year and by November reached its highest level in over two years. Fixed asset investment improved throughout Q4, while the urban jobless rate also fell for the fourth straight month in November, suggesting a protracted recovery across the economy going into 2021.

Within China, ten of the eleven major economic sectors in China generated positive equity returns in Q4 2020, with Real Estate as the lone negative performer. This is consistent with Q2 and Q3 performance, where ten of eleven sectors were positive as well, but with the Energy and Financials sectors turning negative quarterly performance, respectively. Only in the first quarter of 2020 did China experience a contraction, when all 11 sectors plunged amid the initial COVID-19 outbreak. In terms of contributions to overall returns in the MSCI China Index, the Communication Services sector played the greatest role, as China's economic recovery continued to be helped by companies allowing people at home to stay connected.

Sector (ETF Ticker)	1 month return (%)	3 month return (%)	-10	0	10	20	30	40
MSCI China Index (MXCN)	2.77	11.20						
Communication Services (CHIC)	3.80	4.19						
Consumer Discretionary (CHIQ)	5.83	31.30						
Consumer Staples (CHIS)	15.06	21.48						
Energy (CHIE)	-2.69	7.51						
Financials (CHIX)	-0.33	14.53						
Health Care (CHIH)	13.13	14.62						
Industrials (CHII)	6.07	13.06						
Information Technology (CHIK)	12.59	27.63						
Materials (CHIM)	4.92	23.90						
Real Estate (CHIR)	-5.07	-1.12						
Utilities (CHIU)	3.99	15.81						

Source: Bloomberg as of Dec 31, 2020

Performance shown is past performance, based on the NAVs of the underlying sector ETFs and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when sold, may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. To view standard performance each of the funds, please click on the links available under "Related ETFs" below this post.

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China



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 – Global X MSCI China Energy ETF](#)

[CHIX – The Global X MSCI 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](#)



All data as of 12/31/2020	Fund Information			Performance		
	Expense Ratio		1 Year	3 Year	5 Year	Annualized since Fund Inception
Global X MSCI China Communication Services ETF (CHIC)	0.66%	NAV	12.56%	-3.53%	5.12%	6.75%
		Market Price	12.80%	-3.80%	5.23%	6.71%
		NU722121 Index	13.34%	-2.89%	6.07%	7.59%
Global X MSCI China Energy ETF (CHIE)	0.66%	NAV	-18.64%	-5.92%	-0.19%	-2.54%
		Market Price	-18.39%	-5.79%	0.02%	-2.51%
		NU722195 Index	-18.02%	-5.07%	0.69%	-1.71%
Global X MSCI China Health Care ETF (CHIH)	0.66%	NAV	52.76%	-	-	33.33%
		Market Price	51.23%	-	-	32.68%
		NU722071 Index	54.03%	-	-	34.32%
Global X MSCI China Information Technology ETF (CHIK)	0.66%	NAV	69.70%	-	-	49.71%
		Market Price	66.78%	-	-	49.70%
		NU722094 Index	70.82%	-	-	50.56%
Global X MSCI China Industrials ETF (CHII)	0.66%	NAV	11.58%	1.84%	5.59%	1.38%
		Market Price	11.90%	1.80%	5.54%	1.27%
		NU721886 Index	12.52%	1.27%	5.01%	1.88%
Global X MSCI China Materials ETF (CHIM)	0.66%	NAV	32.32%	5.16%	15.34%	-0.63%
		Market Price	30.50%	5.15%	15.63%	-0.68%
		NU721934 Index	33.27%	6.04%	14.21%	-0.26%
Global X MSCI China Consumer Discretionary ETF (CHIQ)	0.65%	NAV	93.43%	25.99%	25.48%	9.35%
		Market Price	92.19%	25.59%	25.52%	9.29%
		NU722069 Index	94.55%	26.79%	26.32%	10.00%
Global X MSCI China Real Estate ETF (CHIR)	0.65%	NAV	-13.98%	-	-	7.73%
		Market Price	-16.29%	-	-	6.69%
		NU721936 Index	-13.74%	-	-	8.37%
Global X MSCI China Consumer Staples ETF (CHIS)	0.67%	NAV	61.63%	-	-	53.28%
		Market Price	60.17%	-	-	52.74%
		NU722070 Index	63.05%	-	-	54.03%
Global X MSCI China Utilities ETF (CHIU)	0.66%	NAV	3.04%	-	-	3.65%
		Market Price	2.03%	-	-	3.48%
		NU722095 Index	3.85%	-	-	4.47%
Global X MSCI China Financials (CHIX)	0.66%	NAV	-3.56%	-1.27%	5.29%	2.80%
		Market Price	-3.59%	-1.60%	5.45%	2.74%
		NU721887 Index	-2.24%	-0.49%	6.15%	3.42%

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. High short-term performance of the fund is unusual, and investors should not expect such performance to be repeated. Returns for periods greater than one year are annualized. For performance data current to the most recent month end, please call 1-888-493-8631, or visit www.globalxetfs.com.

Dispersion between China and US Sectors Normalizes

In Q4, the MSCI China Index (MXCN) and the S&P 500 Index (SPX) continued to rally, ending the quarter up 11.31% and 11.50%, respectively.

During Q4, Chinese sectors for the second time this year exhibited greater dispersion of returns compared to US sectors, which is consistent with historical patterns. Sector dispersion is the difference between the best and worst performing sectors in each country. In China, this dispersion was 32.01% in Q4, whereas in



the US it was 29.13%. While sector dispersion is typically higher in China than in the US, dispersion is usually much wider in China than the 32.01% observed in Q4.

SECTOR DISPERSION (Q4 TOTAL RETURN %)

Source: Global X ETFs. Bloomberg as of Dec 31, 2020.

	Average Sector Returns Q4	Dispersion of Sector Returns Q4	Benchmark Returns Q4 China Large-Cap vs. S&P 500
China	15.60	32.01	11.31
US	12.89	29.13	11.55

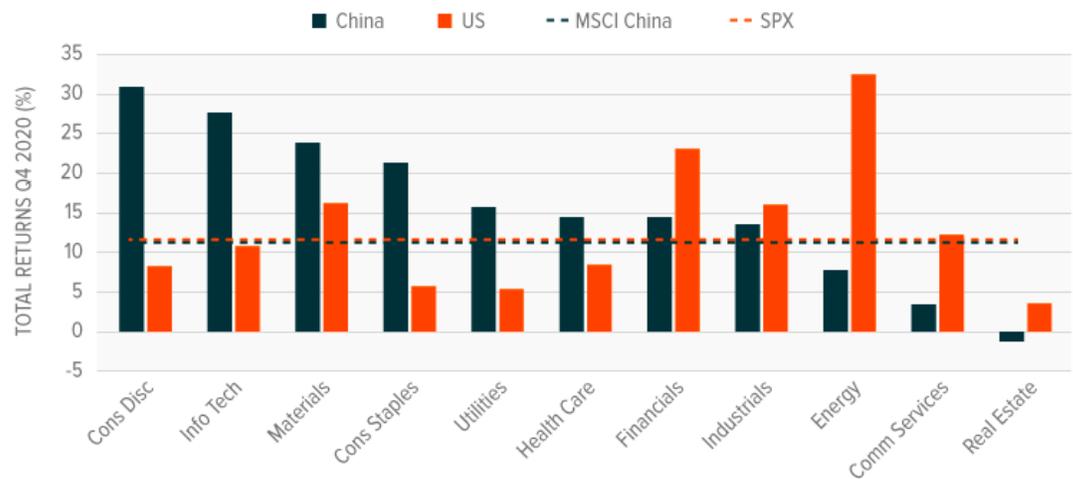
Note: Data points represent the difference in returns between top and bottom performing sector in China and the US. Average refers to a simple average of the individual sector returns of the MSCI China Sector and MSCI China Large Cap indexes, as well as the S&P 500 and S&P U.S. Select Sector indexes.

Comparing and Contrasting US and China Sector Performance

In the chart below, we show performance of Global X ETFs that are designed to track China’s 11 GICS sectors, as well as their US sector index counterparts.

CHINA VS. US SECTOR PERFORMANCE Q4 2020

Source: Bloomberg as of Dec 31, 2020. Data points represent the returns of the indexes tracked by the sector ETFs and the benchmark indexes, MSCI China (MXCN) and S&P 500 (SPX).



Performance shown is past performance, based on the returns of the indexes that the sector ETFs track and do not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor’s shares, when sold, may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted.

Consumer Sectors Drive Performance

During Q4, the Consumer Discretionary, Info Tech, Materials and Consumer Staples sectors outperformed the MSCI China Index as Chinese consumers were reassured by a persistent economic recovery reflected in the improving employment data. Within consumer sectors in China, e-commerce companies contributed

positively as consumers continued to increase their reliance on online platforms to make purchases and order home food delivery amid tenuous reopening efforts.

Yet the largest contributions to returns in the Consumer Discretionary sector in both the US and in China was in automobile retail, which enjoyed a recovery after a particularly difficult first half of the year with a slowdown in big-item purchases because of consumer hesitancy. And whereas the performance of the Consumer Discretionary in the US was also led by restaurant sub-segment, the Chinese sector benefitted from a growth in apparel and luxury good sales, with re-opening efforts bringing people back into contact with others.

Despite the positive performance in both countries, China's Consumer Discretionary sector more than tripled the returns of its US counterpart and outperformed its benchmark by more than 10% while the US sector underperformed its benchmark by more than 3%.

China Sector Underperformers

Sectors that underperformed the broader markets in both the US and China include Utilities, Health Care, and Real Estate.

China's Real Estate sector experienced slightly negative growth in Q4, underperforming the MSCI China Index by roughly 20% amid fears of the sector having overheated and the reemergence of a real estate bubble.

While the Utilities sector underperformed its benchmark, the sector still achieved returns of over 15% for the quarter in China, suggesting that outperformance in Consumer Discretionary and Info Tech were exceptionally high and led to higher overall returns for the market versus more defensive sectors.

Lastly, Health Care's recent slowdown – albeit with still positive returns – may be attributed to its strong performance during earlier quarters this year, as the sector was up 57.30% in 2020 – boasting more than 15% higher returns than the MSCI China Index's returns over the same period.

Conclusion

After a long year of the pandemic battering different areas of the global economy, COVID-19 continues to reshape the global economic outlook with performance across global markets, including major economies like the US and China. Sectors across these markets are impacted by a bumpy recovery in uneven ways and over the past several quarters, have diverged significantly from their historical performance. As we saw throughout 2020, mixed economic responses to and recoveries from COVID-19 are difficult to navigate and manage without monitoring closely and adjusting sector exposures appropriately.



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