Insights
Systematic Equity — Active

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Ripples From China

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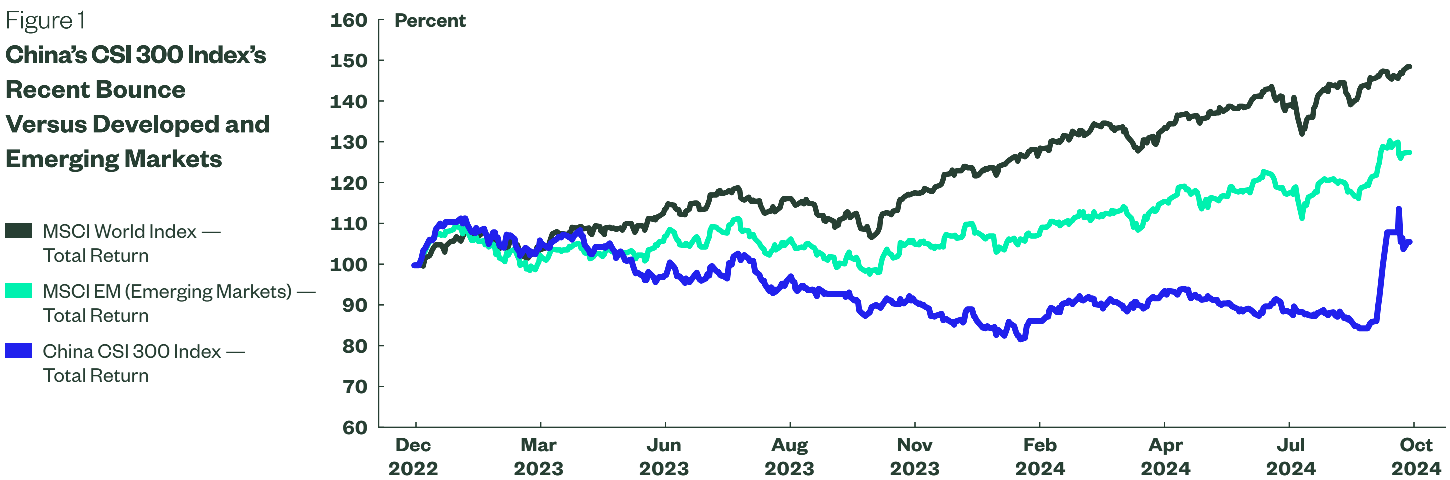
The response to the Chinese government's stimulus package, designed to reinvigorate the economy and drive growth back towards the 5% target, has increased equity market volatility. The ripple effects from these actions as well as market participants' reactions have been felt far beyond Chinese shores.

China's Equity Market Stirs

Over the past few years, the Chinese equity market has significantly lagged its counterparts, across both developed and emerging markets. Stimulus measures announced at the end of September resulted in a sizable re-rating of the Chinese equity markets, soon followed by a subsequent dip in early October.

While the jury is out on the economic and corporate effects of the stimulus, equity investors have reacted very quickly to the monetary and fiscal stimulus influx. Time will tell whether the Chinese market continues to rally, or whether investors take a more cautious approach and in turn wait to see how the economic effects of the stimulus flow through to companies and the real economy before continuing China's re-rating.

Figure 1
China's CSI 300 Index's Recent Bounce Versus Developed and Emerging Markets



Source: State Street Global Advisors, FactSet, MSCI, China Securities Index Company. Data as of October 14, 2024.
Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

This recent price action provides insight into the market exposure of foreign companies to China's economy and stock market, and how the effect of local policy flows through global channels.

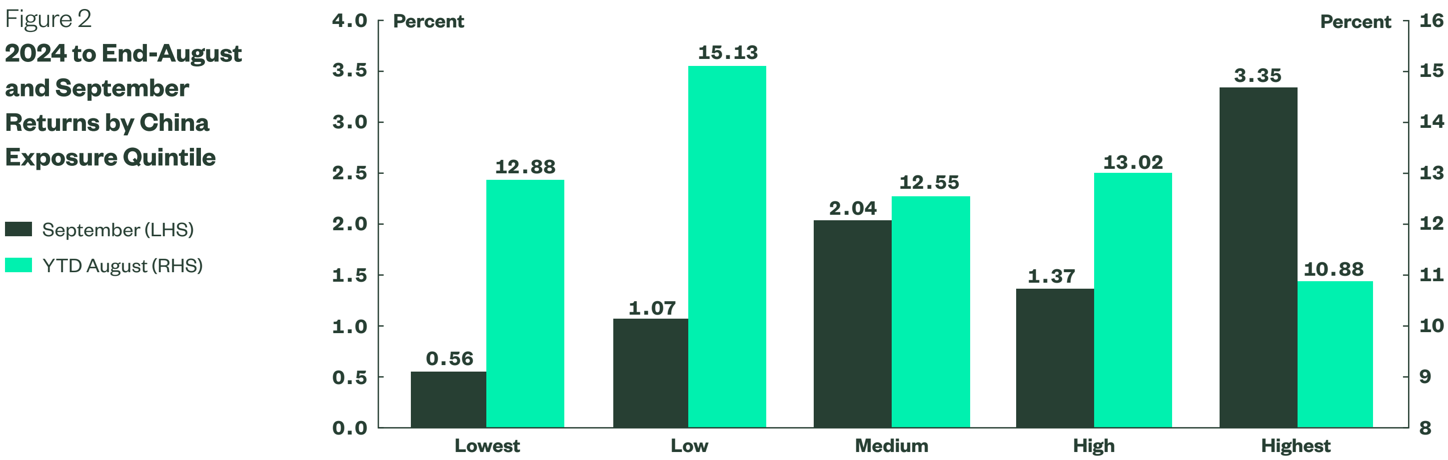
China-Exposed Corporate Performance

To understand the global effect of China stimulus on stocks, we looked to build a measure of China exposure for stocks in the MSCI World Index. A direct way of assessing this exposure is through their reported geographic revenues. We would expect companies with a greater proportion of revenues coming from China to have a higher economic exposure to recent stimulus, on average.

We can also construct a market-based proxy of exposure to the Chinese equity market by calculating the beta of developed market stocks to the CSI 300 Index returns, through the end of August.[1] We combined the revenue-based measure with the market-based measure to create a China exposure metric, which enables a more nuanced view into how economic effects in China can propagate through developed markets.

To understand if China exposure is being priced into developed markets, we first bucketed our China exposure metrics into quintiles to enable a look through at average returns over the first eight months of 2024. We reassessed returns again in September, when the Chinese market rebounded suddenly. Notably, the highest quintile of China exposure has underperformed the broader market over 2024 until the end of August, when it then rebounded strongly, outperforming less exposed stocks.

Figure 2
2024 to End-August and September Returns by China Exposure Quintile



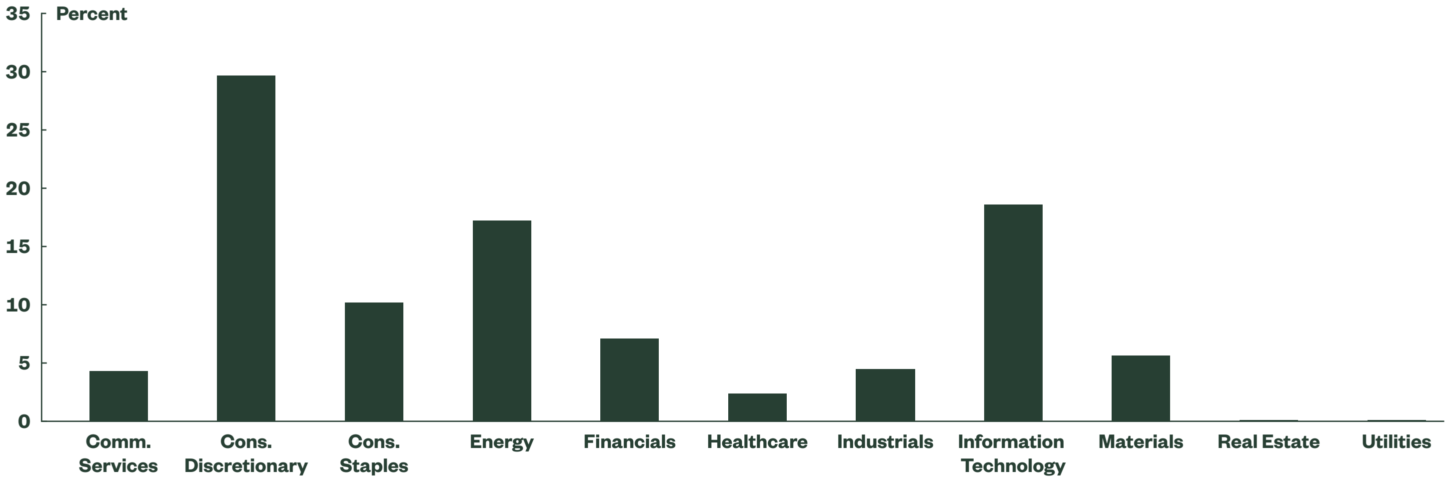
Source: State Street Global Advisors, FactSet. Data as of October 16, 2024. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

Sector and Geographic Exposure

At a sector level, revenue sourced from China is highly skewed and concentrated in Consumer Discretionary (mostly automobiles and components), Information Technology, and Energy sectors. However, on a relative basis, nearly 50% of the revenues for the autos industry group is sourced from the highest quintile of China Exposure, while Energy has no exposure in the highest quintile with revenues more broadly diversified. Within Technology, the exposure is concentrated in a few large manufacturers sitting in the highest quintile of China exposure.

Figure 3

China Skew in Consumer Discretionary and IT Sectors

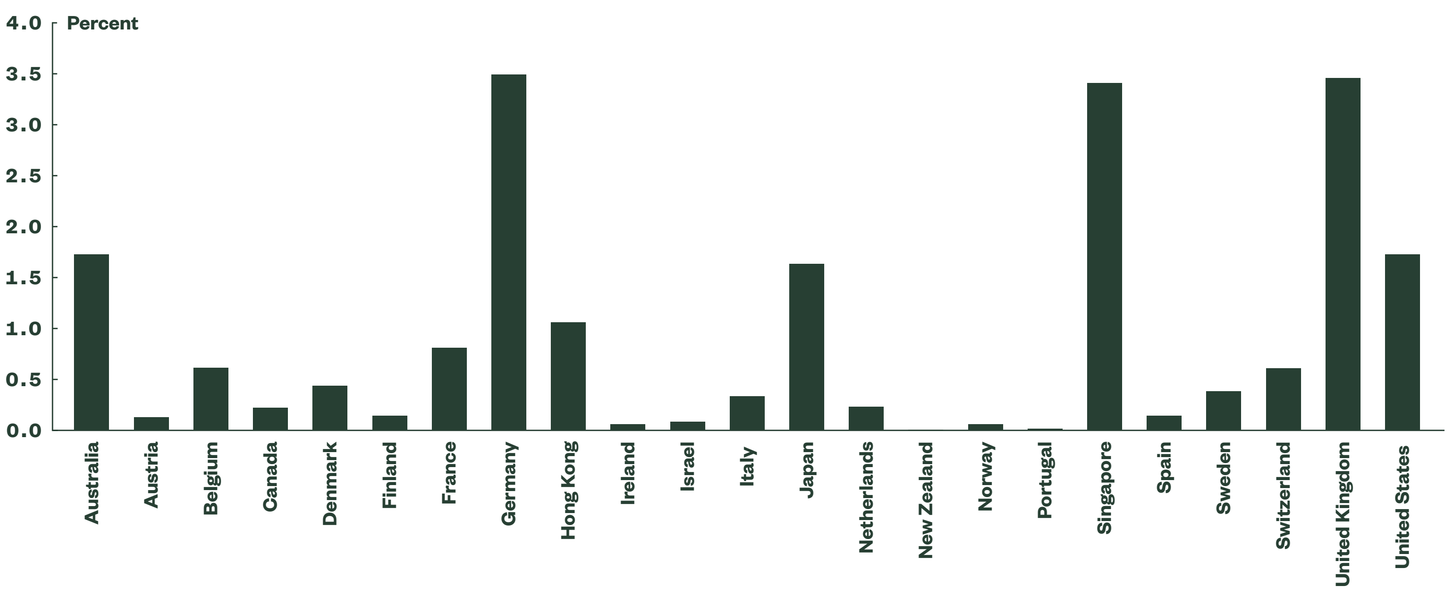


Source: State Street Global Advisors, FactSet, MSCI. Data as of October 16, 2024. Sector are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.

Through a country lens, the most-exposed countries are pockets of Europe, such as Germany through the auto sector, the UK through listed mining companies, and in the geographically proximate Asia-Pacific region. In Singapore, for example, an eclectic mix of Consumer Staples, Real Estate and Financial companies have significant Chinese links.

Figure 4

Proportion of Global Revenues Sourced from China by Country



Source: State Street Global Advisors, FactSet, MSCI. Data as of October 16, 2024.

The Bottom Line

In the interconnected world in which we live, information shocks can ripple through the global economy and impact companies and economies far from an epicenter. The recently-announced Chinese stimulus has reignited animal spirits, not only for the Chinese equity markets, but also for companies and countries that stand to profit from any potential economic benefits.

This transmission mechanism does not only matter for headline-grabbing innovations such as the China stimulus. Our analysis above demonstrates the power of linkages and data flows to drive company returns and equity markets. Our research has shown that information travels more broadly through company supply chains, for example, from customers to suppliers and through companies, with innovation linkages. We explicitly take advantage of these features within our stock returns forecasting models to capture an edge. That information advantage comes from analyzing beyond the headlines and drilling into the nuanced ripples that flow between economies and companies.

Endnote

1 Calculated as the 36-month beta, to the end of August 2024, of returns to the current constituents of the MSCI World Index to the CSI 300 Index returns over the same period.

About State Street Global Advisors

For over four decades, State Street Global Advisors has served the world's governments, institutions, and financial advisors. With a rigorous, risk-aware approach built on research, analysis, and market-tested experience, and as pioneers in index and ETF investing, we are always inventing new ways to invest. As a result, we have become the world's fourth-largest asset manager* with US $4.73 trillion† under our care.

* Pensions & Investments Research Center, as of December 31, 2023.
†This figure is presented as of September 30, 2024 and includes ETF AUM of $1,515.67 billion USD of which approximately $82.59 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.