Why Did This Chinese ETF (NYSEARCA:KWEB) Jump 40% Yesterday?

Description

KraneShares CSI China Internet ETF (NYSEARCA:KWEB) "consists of China-based companies whose primary business or businesses are focused on internet and internet-related technology," as explained on its website. Its top holdings are **Tencent**, **Alibaba**, **JD.com**, **Meituan**, and **Pinduoduo**. These top five China internet stocks make up about 42% of the exchange-traded fund (ETF).

What happened?

The KWEB ETF jumped almost 40% yesterday. Multiple industries in China, including internet stocks, had been hit by Chinese government regulation without warning, which triggered a market crash of approximately 80% in KWEB ETF from the peak of US$95 in early 2021 to the trough of US$20 this month.

The weight on China's internet stocks also came from the potential of Chinese ADRs being delisted from the American stock exchanges. Furthermore, economic shutdowns in China are still happening to help contain COVID — the downside is impacting near-term economic growth.

Some of these uncertainties were addressed that triggered a surge in the cheap Chinese stock market. [Yahoo Finance] explained it well in a video. Here's a snippet of the dialogue:

> "China's top financial body was saying it would ensure stability in capital markets, support overseas stock listings, resolve risks around property developers and this crackdown on big tech as soon as possible … The banking regulator said they were going to support insurance companies to increase investment in stock markets. They're going outright start buying stocks hand over fist, and they should, because they're cheaper than ever."
> *China internet names surge after Beijing signals support, Yahoo Finance video*

So what?

If you look under the hood in the individual KWEB stocks, many are still at dirt-cheap valuations to their intrinsic values and long-term growth. Therefore, this is probably one of the best times to buy China stocks and ETFs.

Those looking for greater diversification can consider **BMO China Equity Index ETF** with the ticker TSX:ZCH. ZCH ETF's stock mix led to a smaller one-day gain of 23% versus KWEB ETF, but it provides "exposure to the broad Chinese equity market by holding a basket of American Depository Receipts," as introduced here.

It's much easier to build diversified positions by accumulating shares in these ETFs compared to buying underlying stocks individually.

Now what?

Chinese stocks and ETFs are still very cheap from the latest market crash. Now and likely over the next months is likely the best time to back up the truck to gain exposure to the second-largest economy in the world for long-term growth. Notably, it's not for the faint of heart, as volatility is sure to ensue. So, make sure you have a long-term investment horizon to aim for substantial price gains.

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