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Changes in the MSCI Emerging Markets Index

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In 1988, MSCI launched the Emerging Markets Index, which consisted of just 10 countries representing less than 1% of world market capitalization. Today the MSCI Emerging Markets Index consists of 24 countries representing 10% of world market capitalization. Until June 2020 several important changes to one of the most important global emerging markets equities indices are on the agenda. Read [here](#) which changes can be expected.

What is a stock index?

Stock indices play a very important role in the stock market. They summarize the performance of stocks from a specific country, industry or region. For example, professional investors such as pension funds or fund companies use the indices to assess the attractiveness of a stock exchange by taking into account additional key figures such as dividends or profits. Some financial services providers offer products for private and institutional investors that track the performance of certain indices. There are different types of indices. More information on the stock index [here](#).

The creation of a new GICS sector in the MSCI Emerging Markets Index – Communication Services

There will be a new GICS sector – Communications Services – which will be made out of the current Telecommunication sector (e.g. China Mobile, China Telecom, Telekomunikasi Indonesia) and part of the Information Technology sector (e.g. Tencent, Baidu, Naspers). The new Communication Services sector will represent around 14% of the MSCI Emerging Markets Index. This change will be implemented on December 3rd 2018.

Saudi Arabia will become a new member of the MSCI Emerging Markets Index

Saudi Arabia will have a weight of approximately 2.6%. The inclusion will be implemented in two phases: 1) on June 3rd 2019, 50% of the free float-adjusted market cap of Saudi Arabia stock market will be included; 2) on September 2nd 2019, 100% of market cap will be included.

Argentina will be reclassified

Argentina will be reclassified from Frontier Markets to Emerging Markets status with a weight of circa 0.3%. The inclusion will be implemented on June 3rd 2019. However, given the recent sharp depreciation of Argentine Peso and potential restrictions on market accessibility, MSCI would review this reclassification decision.

Increase of China A shares

In addition, after the successful effective implementation of the 5% inclusion of China A shares in MSCI EMs Index, MSCI has proposed to lift the inclusion factor to 20% of the free-float-adjusted market value of yuan-denominated stocks. The changes would mean that China A shares will make up around 2.8% of the MSCI Emerging Markets Index by September 2019, and further increase to circa 3.3% when mid-cap stocks are added in June 2020. The result of this consultation will be announced at the end of February 2019.

What kinds of consequences will the changes bring?

The region Emerging Europe & Africa (EMEA) will gain in importance

Changes in regional weights: due to the inclusion of Saudi Arabia, the weight of EMEA will rise to circa 15.9% from 14.1% currently. The weights of Asia and LATAM will decline to around 72.7% and 11.4% respectively from 74.2% and 11.7%.

Communications Services will become the third largest sector

Changes of sector structure: with a weight of 14% the new Communication Services sector will become the third largest sector behind Financial sector and Information Technology sector. The weight of Information Technology sector will fall from 26,7% currently to circa 15,7%. The weight of Consumer Discretionary will rise to around 10,4% from 9%. Telecommunication sector will be completely deleted.

Sector weight shifts

MSCI Emerging Markets Index:: sector weight shifts

China becomes more important

If the potential broadened coverage of China A shares is implemented, the number of China A shares in the MSCI Emerging Markets Index will rise to 434 from 235. International investors will be able to trade these A shares through Shanghai- and Shenzhen- Hong Kong Stock Connect, a cross-boundary investment channel, which connects the mainland China stock exchanges to the Hong Kong Stock Exchange. By June 2020 the weight of China in the MSCI Emerging Markets Index, including China A shares listed in Shanghai and Shenzhen, H shares listed in Hong Kong and ADRs listed in the USA, could reach 31,5% .

Country weight shifts

MSCI Emerging Markets Index:: country weight shifts

Data as of September 2018

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