China becomes an emerging market as MSCI finally opens up

China-listed shares are finally to be included in the leading emerging markets index.

As we as highlighted in May, China has the world's second largest equity market, but at present shares listed on the Chinese stock exchanges don't figure in the MSCI Emerging Markets Index. The MSCI index is the most important equity index for emerging markets, with an estimated $1,600 billion of funds using it as a benchmark. While the index already has a 28% China weighting, this relates to Chinese companies listed on stock exchanges *outside* China, notably Hong Kong and in the United States.

For each of the last three years, MSCI has reviewed whether conditions in the Chinese stock markets were appropriate to warrant including shares listed on them in the emerging markets index. In 2014, 2015 and 2016 the answer was no. Various technical reasons were given and each time the Chinese authorities made adjustments in the hope that next year MSCI would change its mind. Last month, the answer finally switched to yes.

Look out for May 2018

The change will not happen overnight: adding such a large market to an index in a single move would be too disruptive. Instead, MSCI has set out a gradual approach. In May next year, MSCI will add shares in the largest 222 listed Chinese companies to its index, with an initial 5% weighting. The weighting is expected to rise over time until it reaches the full 100%, at which point Chinese-listed shares will represent about 15% of the MSCI Emerging Markets Index and total Chinese content, including the existing non-China listings, will approach 45%. Other smaller Chinese listed companies may also be added in the future, further raising the Chinese exposure of the index.

MSCI's decision has been widely seen as a coming of age for investment in China and, on some estimates, could produce $500 billion of inflows over the next five to ten years. If you want to increase your exposure to China ahead of that predicted rush, there are a variety of options available which we would be happy to discuss.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.