Mainland Chinese stocks join the MSCI index

Important changes affecting Chinese market indices took effect in June 2018, which could affect emerging market funds.

On 1 June 2018, the index provider MSCI added 233 domestic Chinese stocks to its emerging market and global indices. MSCI has some of the most widely used indices for measuring the performance of emerging markets, with the MSCI Emerging Market index suite providing benchmarks for over $1,900 billion of assets. This popularity means that markets can move when any revisions are made to MSCI indexes.

Previously, MSCI's indices had only included Chinese companies with share listings *outside* the Chinese mainland, e.g. in Hong Kong. Although the Chinese mainland stock market is the second largest in the world, MSCI previously considered the market to have too many drawbacks to merit inclusion. The Chinese authorities have worked on the issues that concerned MSCI, such as ownership restrictions and limited liquidity, resulting in MSCI's change of heart.

The inclusion of the 233 Chinese shares will have little initial impact on the MSCI Emerging Market Index as their total weighting will be less than 1%. However, this is likely to grow as MSCI continues to monitor the market, include more Chinese companies and reweight its indices. In theory China could ultimately represent 40% of the Emerging Markets index.

However, before then it might be reclassified as a developed market. Such reclassifications do not happen often, but in September another index provider, FTSE Russell, will transfer Poland from the emerging to the developed category, the first such switch it has made in almost a decade.

These changes are a reminder that emerging markets funds are by no means static, even if they are merely index trackers. If you would like to learn more about the funds in this growth sector, do talk to us.

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.