



Saudi Arabia: the next emerging market

The June 2018 review of constituents for the main Emerging Markets Index has produced a few surprises.

The MSCI Emerging Markets Index is one of the most important global stock market indices. JP Morgan, the US investment bank, estimates that nearly \$1,500 billion is either benchmarked against the index or directly tracks it, so there can be considerable implications for stock markets if the constituent countries of the Index change.

Last year's MSCI review saw Chinese mainland shares promoted to the Index, with that process now starting to take effect.

The 2018 review heralds two potential new arrivals in the MSCI Emerging Markets from May 2019:

- Saudi Arabia should join the Index in a two-stage process (as is now happening with China). The first stage follows the May 2019 half-yearly index review, and the second as part of the August 2019 quarterly review.

Saudi Arabia will initially account for 2.6% of the Index, but it could become more important when Saudi Aramco, the state oil company, is partially floated, probably next year.

- Argentina is set to return to the Index, having been demoted to 'Frontier Market' status in 2009. Ironically, the MSCI announcement almost exactly coincided with confirmation that that IMF had agreed \$50 billion of stand-by credit for the country.

At present Argentina represents almost a fifth of MSCI's Frontier Markets Index, so if it does move across, there will be a significant rebalancing of that index.

Emerging markets have attracted considerable investor attention of late, partly because of China's ascendancy, but also because they appear to offer better value than developed markets.

If you wish to consider the regularly evolving emerging markets investment options, please 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.