
EMERGING MARKETS PROCRASTINATORS

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There is a chance that, come this autumn, many fund managers will have zero exposure to the eighth-largest country in the [MSCI Emerging Markets Index](#). It's one thing to avoid a country because of a [bearish](#) thesis; it's quite another to be caught flat-footed when a "frontier" market gets upgraded to "emerging."

While our industry has been focused on the inclusion of mainland-listed Chinese [A-shares](#) in the MSCI EM Index, there are two frontier markets that MSCI is graduating to emerging market status this year that have been scarcely mentioned.

Consider this nugget from the Financial Times in March: a country that I'll keep under my hat for a few paragraphs will this year be included and comprise about 2.7% of the MSCI EM.¹ For comparison, others with similar weights are Mexico (2.7%), Thailand (2.3%), Indonesia (2.2%) and Malaysia (2.2%).

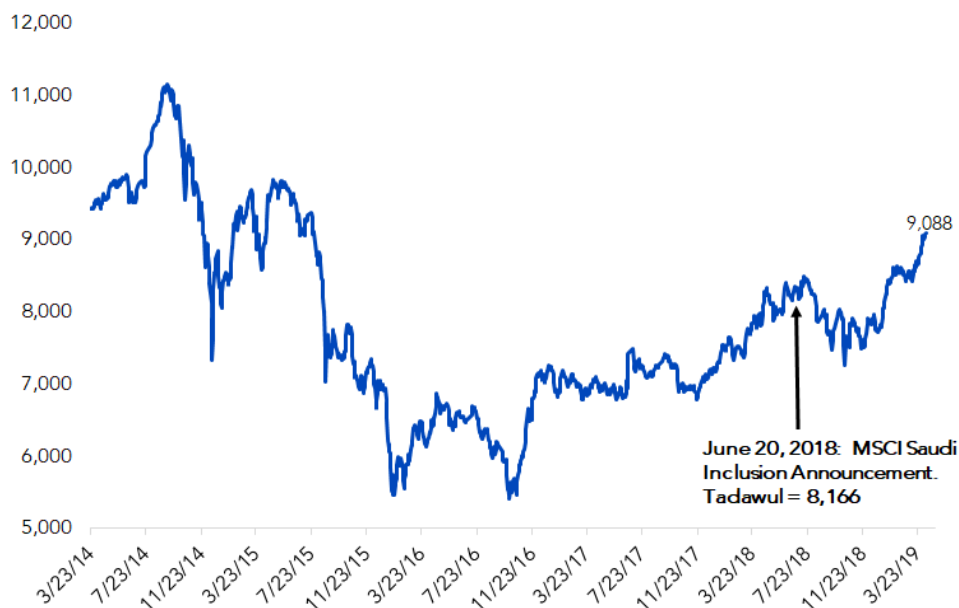
Now digest this, and I mean really digest this bit from the same article:

Emerging market funds have an average exposure of just 0.08 per cent to the country's stocks, according to analysis of 180 funds with \$350bn of assets by Copley Fund Research, and more than 90 per cent have no exposure at all.

Hold the phone. MSCI announced this last summer, not yesterday. [FTSE Russell](#) and Standard & Poor's are following suit. Everyone knows the index providers are the big gorillas. What, pray tell, have those 180 managers been doing all day?

The mystery country is Saudi Arabia (the other graduate is Argentina). Only now is the [Tadawul All Share Index](#) of Saudi stocks breaking out. June's MSCI index inclusion won't be wished away.

Figure 1: Tadawul All Share Index



Sources: WisdomTree, Bloomberg, 4/11/19. Past performance is not indicative of future results. You cannot invest directly in an index.

Here's a way in which WisdomTree is unique: we have a pure play ETF for the Middle East. [GULF, the WisdomTree Middle East Dividend Fund](#), has been around for over a decade. It has been our top performer over the last year, and readers of last spring's [GULF: The Global Power Chess Game's Critical Piece](#), know my positive structural thesis for the region. Saudi Arabia is currently GULF's largest component nation, at approximately 28%. June inclusion, complete by September. The procrastinators need to get busy if they want to avoid awkward diligence meetings.

Figure 2: Weights Comparison

Country	MSCI Emerging Markets Index				GULF
	Current MSCI Classification	June 2019 MSCI Classification	Current Weight	Approx. Weight ~ September 2019	Current Weight
Saudi Arabia	Frontier	Emerging	--	2.70%	27.55%
Qatar	Emerging	Emerging	0.92%	0.90%	23.42%
United Arab Emirates	Emerging	Emerging	0.72%	0.70%	23.34%
Kuwait	Frontier	Frontier	--	--	11.92%
Egypt	Emerging	Emerging	0.13%	0.13%	3.50%
Morocco	Frontier	Frontier	--	--	3.08%
Jordan	Frontier	Frontier	--	--	3.06%
Bahrain	Frontier	Frontier	--	--	2.82%
Oman	Frontier	Frontier	--	--	1.32%

Sources: WisdomTree, Bloomberg, 3/21/2019. Weights subject to change.

¹Steve Johnson and Simeon Kerr, "Landmark for Saudi Stocks as Index Providers Become Kingmakers," Financial Times, 3/21/19, <https://www.ft.com/content/69f5a8ec-4a3a-11e9-bbc9-6917dce3dc62>.

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You cannot invest directly in an index.

DEFINITIONS

MSCI Emerging Market Index : The MSCI Em (Emerging Markets) Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Markets (EM) countries.

Bear market : A sustained downturn in market prices, increasing the chances of negative portfolio returns.

A-share : shares traded on the Shanghai and Shenzhen stock exchanges. This is contrast to Renminbi B shares which are owned by foreigners who cannot purchase A-shares due to Chinese government restrictions.

FTSE Russell : The trading name of London Stock Exchange Group (LSEG) subsidiaries FTSE International Limited (or known as FTSE Group) and Frank Russell Company. The division is notable for FTSE 100 Index, Russell 2000 Index as well as other indexes.

Tadawul All Share Index (TASI) : The major stock market index which tracks the performance of all companies listed on the Saudi Stock Exchange.