Emerging Markets: looking beyond the headline index

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Key Takeaways

- Recent semiconductor volatility exposed how strongly traditional emerging market benchmarks can be driven by a small number of Asian technology companies.
- Despite broad constituent counts, country and sector concentration can leave investors with a narrower exposure than the 'emerging markets' label suggests.
- Economic development and market maturity do not always align neatly with established index classifications, making the definition of 'emerging' increasingly important.
- WisdomTree's True Emerging Markets framework uses a holistic country classification framework by including economic, market, and growth indicators to identify truly emerging markets.
- The resulting strategy offers less reliance on dominant technology names and greater exposure to economies and sectors linked to the economic and financial development of the developing countries.

On 13 July 2026, SK Hynix fell more than 15%1 in a single session; its worst one-day decline on record. Samsung Electronics shed over 10%1 over the same stretch. By 20 July, the MSCI Emerging Markets Index was down more than 6% month-to-date2. The episode did not create the benchmark's concentration; it exposed it.

For investors, the episode offers a useful window into a simple question: when you buy 'emerging markets' today, what are you actually buying?

A benchmark built on a handful of names

On the surface, the MSCI Emerging Markets Index appears highly diversified. It contains 1,178 large- and mid-cap companies across 24 countries. Look beneath that headline number, however, and a very different picture emerges.

As of 30 June 2026, TSMC, Samsung and SK Hynix together made up close to 31% of the MSCI Emerging Markets Index. The ten largest constituents collectively represented 40.23%, while large-cap companies

accounted for approximately 90% of the index. Information technology alone represented roughly 45%, leaving an ostensibly broad benchmark heavily tilted toward larger companies, one sector and a narrow group of Asian technology businesses. This is an important consideration for investors seeking broader diversification beyond established large-cap leaders.

Figure 1: MSCI Emerging Market Index is heavily concentrated in large-cap stocks

	Large Cap	Mid Cap	Small Cap	Top 10
MSCI Emerging Markets Index	89.71%	10.23%	0.06%	40.23%

Source: WisdomTree. As of 30 June 2026. Small caps are defined as stocks with a market cap below $2bn, mid caps go up to $10bn and large caps have more than $10bn. **Historical performance is not an indication of future performance, and any investment may go down in value.**

This concentration has increasingly attracted attention beyond index-provider research. In July, the Financial Times reported that large asset managers were reassessing their exposure after the three chip-related companies came to represent close to 30% of MSCI Emerging Markets. The concern was not necessarily that these were poor companies, but that their size could make a broad emerging-markets portfolio unusually dependent on the fortunes of a single global investment theme.

That raises an important question: is a traditional emerging markets allocation still providing broad exposure to economies undergoing development, or has it increasingly become a concentrated allocation to a small number of companies connected to the global artificial intelligence (AI) and semiconductor cycle?

The concentration also runs through countries

The same pattern appears at the country level. As of 30 June 2026, Taiwan (27.3%), South Korea (23.7%) and China (19.0%) together accounted for more than 70% of the MSCI Emerging Markets Index. The issue is not unique to MSCI. FTSE Russell reported in June that Taiwan's share of the FTSE Emerging Index had increased from approximately 19% to around one-third in just 12 months.

This raises a broader question: have widely tracked emerging-market indices evolved in line with changing market conditions?

While there is no single, universally accepted answer, several structural measures suggest that China, Taiwan and South Korea increasingly resemble developed economies, even as established classifications keep them anchored in emerging-market benchmarks.

Figure 2: On income, market depth and credit quality, China, Korea and Taiwan look closer to developed markets than to a typical emerging economy

	China	Korea	Taiwan	True EM Average
GDP per capita (USD)	~$13,000	~$35,000	~$33,000	~$3,000–$8,000
Stock market cap (USD tn)	~$10tn	~$2tn	~$2tn	Much smaller, less liquid
Sovereign credit rating	A+ (S&P)	AA (S&P)	AA+ (Fitch)	BB to BBB range
MSCI market classification	EM (legacy)	EM (legacy)	EM (legacy)	EM / Frontier
Manufacturing PMI (Jan 2026)	49.3	51.2	51.7	India: 55.4, Indonesia: 52.6

Source: International Monetary Fund (IMF), FTSE Emerging Markets, MSCI as of 31 March 2026. Please note: PMI – Purchasing Managers Index. **Historical performance is not an indication of future performance, and any investment may go down in value.**

The more useful question for investors, therefore, may not be whether a classification is technically correct. It may be whether the resulting benchmark delivers the type of economic and portfolio exposure they expected when making an emerging markets allocation.

What should ‘emerging’ actually mean?

If classification is doing so much work, it is worth being deliberate about the definition. A more useful one starts not from index legacy but from where an economy actually sits on its development path: a country that is not yet economically and institutionally comparable to developed markets, that still has real room for development-led growth and capital-market deepening, and that remains practically investable. That framing points toward structural growth, convergence and financial deepening, the features that made emerging-market investing attractive in the first place.

Rethinking emerging markets

This is the thinking behind more selective approaches to the asset class. Rather than relying on traditional country classifications, which can leave a portfolio dominated by a few large, increasingly mature economies, a multi-metric framework can be used to identify countries that the WisdomTree methodology considers to remain more closely aligned with its definition of emerging markets. The WisdomTree True Emerging Markets UCITS Index considers measures such as the IMF’s World Economic Outlook classification, gross domestic product (GDP) per capita, the UN Human Development Index, sovereign credit ratings and GDP growth momentum, which together provide a more forward-looking picture than a static label.

The objective is to identify investable economies in which development-related forces, such as productivity catch-up, rising domestic consumption, digitalisation, institutional change and the deepening of local capital markets may still play an important role. The WisdomTree True Emerging Markets UCITS Index aims for just that.

The resulting exposure looks quite different from a standard EM benchmark. It excludes countries that no longer fit the emerging market definition, such as China, Taiwan and Korea, and leans towards economies such as India, Brazil, South Africa, Indonesia and Mexico, while including other smaller economies that traditional indices could often miss.

Figure 3: Key exclusions and inclusions versus MSCI Emerging Markets Index

Key exclusions vs the MSCI Emerging Markets Index	
Taiwan	27.34%
Korea	23.72%
China	19.00%
Greece	0.51%

Key additions in WisdomTree True Emerging Markets UCITS Index	
Vietnam	1.96%
Argentina	1.12%
Romania	0.80%
Morocco	0.67%
Kazakhstan	0.38%

Source: WisdomTree. As of 30 June 2026. **Historical performance is not an indication of future performance, and any investment may go down in value.**

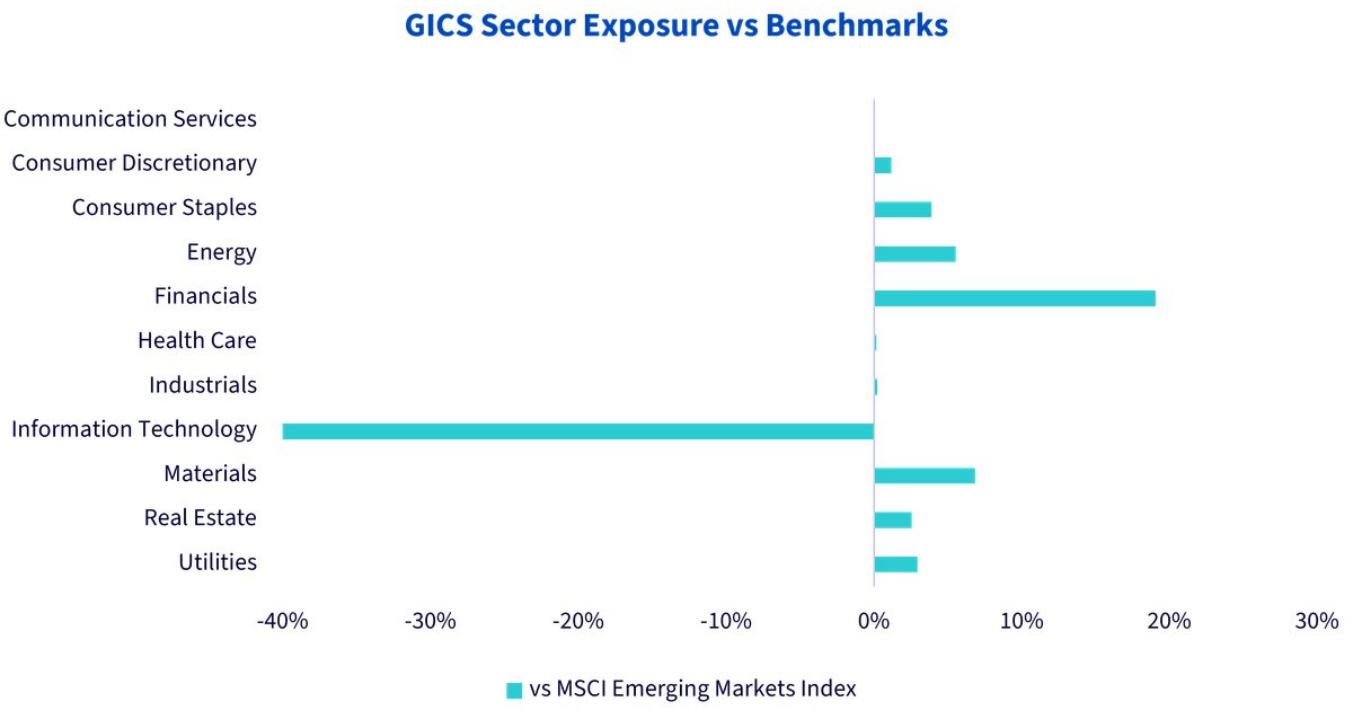
Three consequences follow. First, the portfolio becomes far less top-heavy: on a 'true emerging' basis the top 10 holdings represent only 15.64%, a fraction of what they do in the MSCI EM Index, which means single-stock risk is reduced. Second, the Index provides broader exposure across company sizes, with 76.62% in large caps, 23.05% in mid caps and 0.33% in small caps, helping investors access a wider segment of the emerging market opportunity set within a single allocation. Third, the sector mix shifts, with a large underweight to information technology relative to the MSCI EM Index, and greater weight to financials, materials and consumer names that are more closely tied to domestic development stories.

Figure 4: WisdomTree True Emerging Markets UCITS Index aims to provide diversified exposure

	Large Cap	Mid Cap	Small Cap	Top 10
WisdomTree True Emerging Markets UCITS Index	76.62%	23.05%	0.33%	15.64%

Source: WisdomTree. As of 30 June 2026. Small caps are defined as stocks with a market cap below $2bn, mid caps go up to $10bn and large caps have more than $10bn. **Historical performance is not an indication of future performance, and any investment may go down in value.**

Figure 5: Sector exposure versus the MSCI Emerging Markets Index



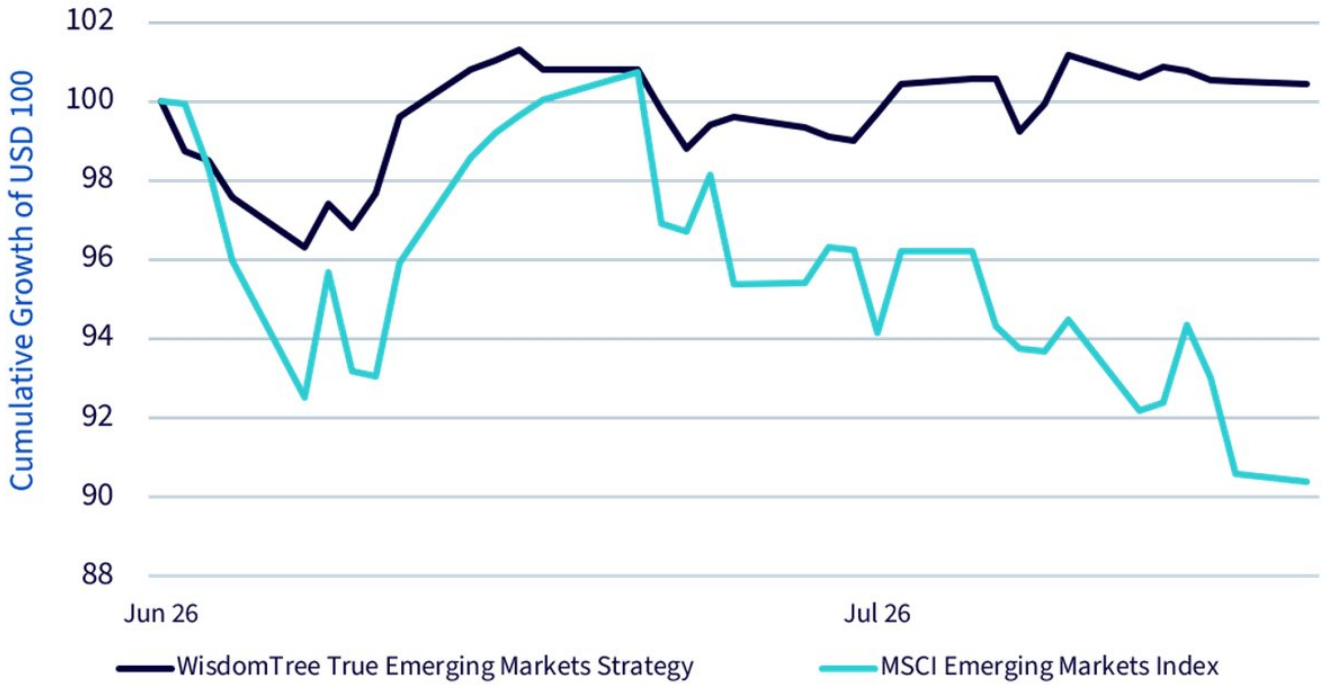
Source: WisdomTree, Factset, MSCI. As of 30 June 2026. GICS – Global Industry Classification Standard. **Historical performance is not an indication of future performance, and any investment may go down in value.**

Why it matters: a recent illustration of concentration risk

July 2026 offered something close to a live experiment. As the AI-semiconductor trade wobbled, the standard benchmark fell with it. A more diversified, development-focused basket, with far less riding on those same three names, declined less over the period shown.

These episodes do not establish that semiconductor companies are unattractive investments. They do, however, demonstrate concentration is not a problem only when it goes wrong; it is a standing risk that determines how a portfolio behaves when a single theme turns out of favour. The July drawdown simply made it visible.

Figure 6: Price levels through the July 2026 semiconductor volatility



Source: WisdomTree. MSCI. Data from 1 June 2026 to 20 July 2026. **Historical performance is not an indication of future performance, and any investment may go down in value.**

A more intentional exposure to Emerging Markets

Not all emerging market indices reflect where economies actually stand today. Many are slow to reclassify countries, leaving investors with exposure that no longer matches the reality on the ground. WisdomTree's True Emerging Markets exchange-traded fund (ETF) is designed to close that gap. Using the multi-metric framework described above, it offers an alternative expression of emerging market exposure based on WisdomTree's classification framework, at a total expense ratio of 0.25%. The aim is not to avoid emerging markets, but to define them more deliberately. It is not intended to suggest that established benchmark providers have classified markets incorrectly. Instead, it starts with a different investment question: where are the forces traditionally associated with emerging-market development still most active, and how can investors access them without allowing a handful of large companies to dominate the allocation

Note that investments in emerging markets are subject to risks, including market volatility, political and economic uncertainty, currency fluctuations and changes in regulation, which may affect performance over time. This makes it vital to tackle idiosyncratic risks and rely on the only free lunch financial markets arguably offer – 'diversification'.

1 Source: The Straits Times, 2026.
2 Source: WisdomTree, 2026.

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