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%).

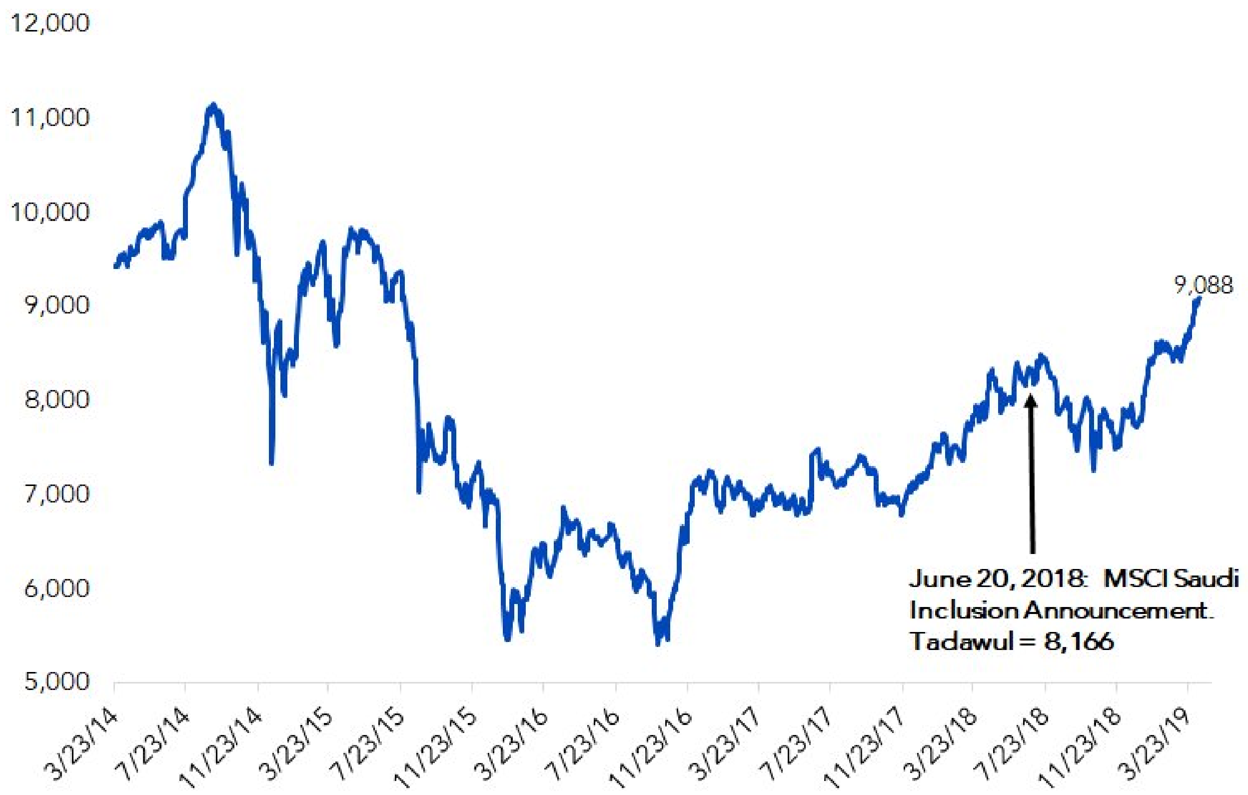
Now digest this, and I mean really digest this bit from the same article:

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.

NAVMarket PriceTopBottomDLYMTDQTDYTD3M1Y3Y5Y10YAll Asset ClassAll Sub Asset ClassAs of 4/17/2026

Ticker

Fund

Category

Inception Date

Cumulative
Returns

*The standardized performance of each Fund, can be found by clicking on the Fund's ticker symbol.Performance is historical and does not guarantee future results. Current performance may be lower or higher than quoted. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Returns less than one year are not annualized. Performance data for the most recent month-end is available on the respective fund pages.

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.

Important Risks Related to this Article

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