
EMERGING MARKETS PROCRASTINATORS

Jeff Weniger – Head of Equity Strategy
04/15/2019

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%).

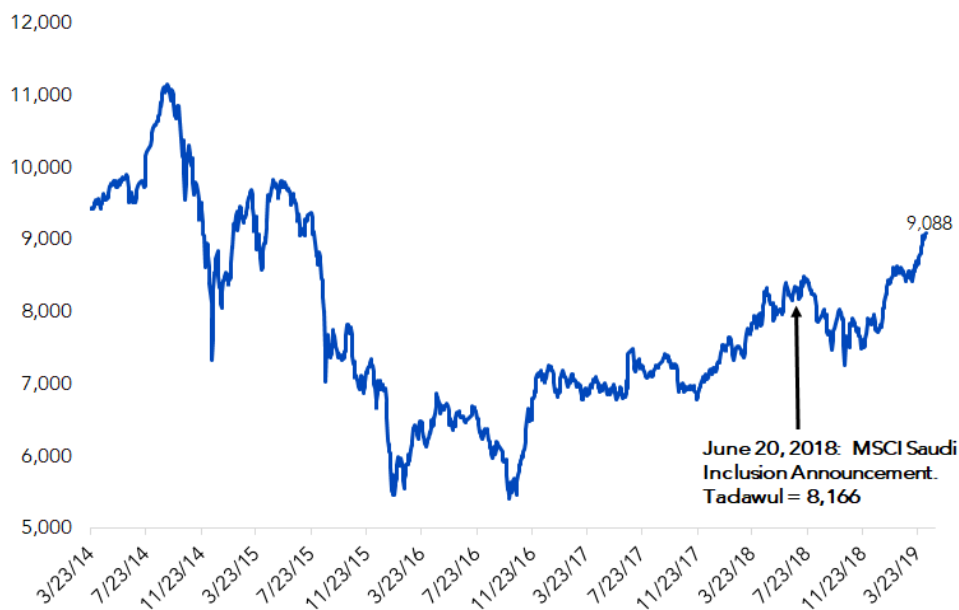
Now digest this, and I mean really digest this bit from the same article:

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-bbc>

[9-6917dce3dc62](#).

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. This Fund focuses its investments in the Middle East, thereby increasing the impact of events and developments associated with the region which can adversely affect performance. Investments in emerging, offshore or frontier markets such as the Middle East are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments. As this Fund has a high concentration in some sectors, the Fund can be adversely affected by changes in those sectors. Due to the investment strategy of this Fund it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only. 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.