

Quick Take: A historic year for emerging markets mega caps

Jan 2021

Unusually concentrated EM benchmarks

- In 2020, the top-four stocks in the MSCI EM Index accounted for nearly half of its return, the highest proportion in the last 20+ years. (Top chart.) Taiwan Semiconductor, Tencent Holdings, and Samsung *each gained over 50%*.
- As a result, already concentrated EM benchmark indexes became even more so. Although the MSCI EM index includes close to 1,400 constituents, it has recently been behaving as if it contains only 60-70. (Bottom chart.)

Implications for investors

- Narrow factor positioning: As we discussed in our October paper, [Reassessing Emerging Markets Equities](#), the EM benchmark has become highly geared to the performance of large-cap growth stocks. 2020's top-heavy index performance has intensified that exposure. Although that positioning has paid off over the past few years, the benchmark has become particularly vulnerable should large-cap growth fail to meet lofty profitability expectations that already are priced in.
- Material idiosyncratic risk: Concentrated indexes entail material exposure to company-specific risk. The fortunes of Alibaba Group in 2020 offer a salient example. Since October 2020, when the stock was the largest holding in the EM benchmark, it has *lost close to 25%* due to tensions with regulators.

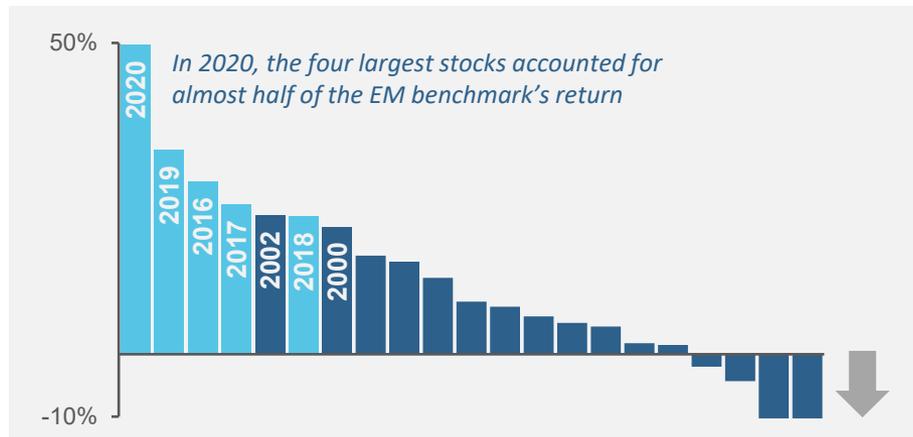
Recommit to diversified approaches

- Looking ahead, we would encourage EM investors to recommit to strategies that provide exposure to a diverse set of returns drivers, geographies, and industries rather than to chase performance trends that were exacerbated by the pandemic. In particular, EM investors with passive allocations should be mindful of their unusually concentrated factor positioning and elevated company-specific risk.

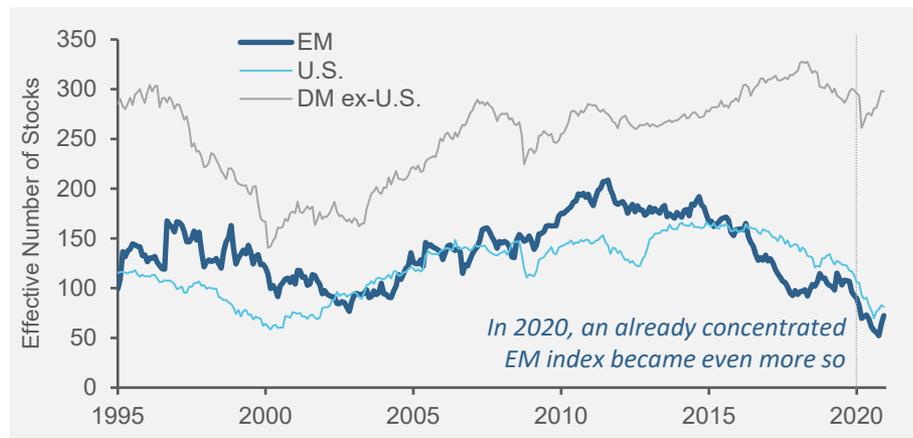
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EM Benchmark Return Contribution: Top-Four Stocks



Effective Benchmark Concentration



Top chart: Proportion of annual USD total returns attributable to the four highest-weighted stocks in the MSCI EM Index. Negative contributions are bounded at -10% for clarity. Bottom chart: Index concentration based on a Herfindahl-Hirschman methodology applied to MSCI's USA, EM, and Developed Markets ex-U.S. Indexes. Sources: Acadian, MSCI Copyright MSCI 2021, All Rights Reserved. Unpublished. PROPRIETARY TO MSCI. For illustrative purposes only. It is not possible to invest directly in an index. Every investment program has the opportunity for losses as well as profits. Past results are not indicative of future results.



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