

# Quick Take: A Divergence in Emerging Markets

August 2023

## Divergent Performance within EM

- MSCI's China Index rose more than 6% during the last full week of July. Year-to-date, though, it has significantly underperformed the rest of EM.
- China, which accounted for nearly a third of the MSCI EM Index at the start of the year, has risen only 3.5% through July 28th, while EM ex-China has gained 14.6% (see top chart), on par with the 15.1% gained by ex-U.S. developed markets (MSCI EAFE).

## Drivers

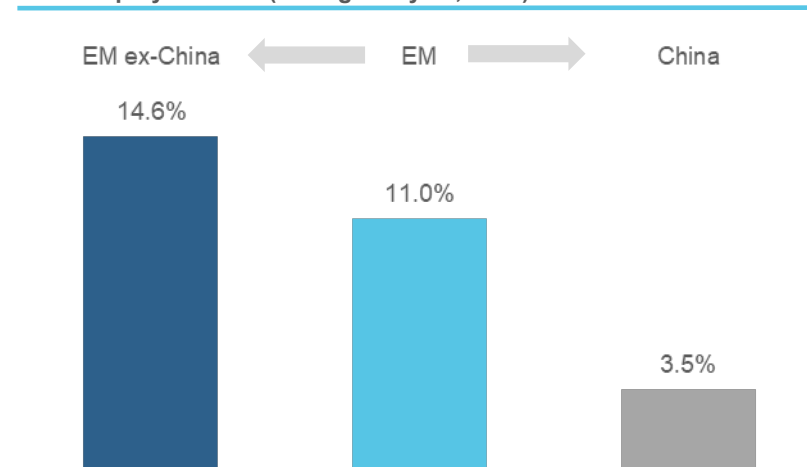
- While EM ex-China has benefited from positive developments globally in managing inflation, China's performance has been dampened by several factors:
  - Low consumer confidence (bottom chart): China's reopening from COVID has not had the impact that many investors had anticipated.
  - Macroeconomic challenges at home, including surging youth unemployment.
  - Geopolitical tensions.

## A Reminder for EM Investors

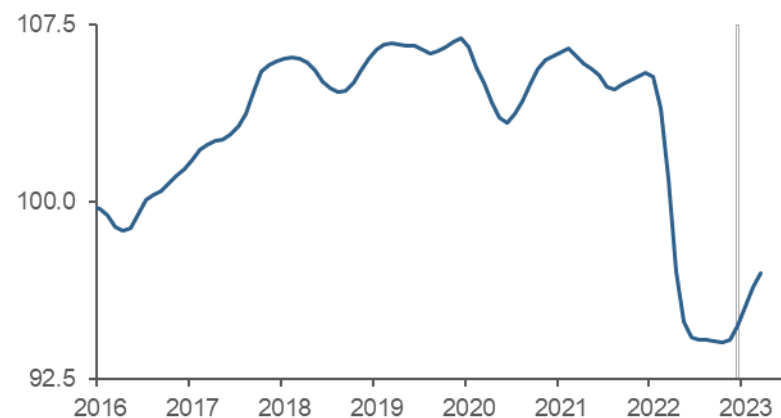
- The China/ex-China performance gap is a reminder that investors should view the EM benchmark as an active construct.\*
- Like any active investing decision, investors should think carefully about whether the benchmark's relative weightings to China and the rest of EM are consistent with their views and objectives. As an alternative, they should consider separating allocations to EM ex-China and China (and, within China, taking a deliberate mix of onshore versus offshore exposure).

\*For more see: [Polarizing Views: China's Impact on EM Investing](#).

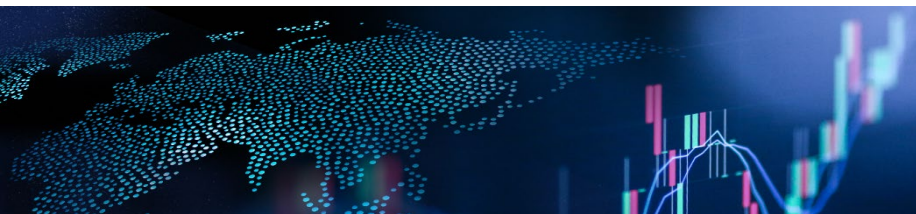
## YTD Equity Returns (through July 28, 2023)



## China Consumer Confidence: A Still-Modest Recovery



Bottom chart: Data through March 2023, normalized to 100 as of Jan 2010. Sources for the two charts: Acadian based on data from OECD (consumer confidence), MSCI (index returns). MSCI data Copyright MSCI 2023. All Rights Reserved. Unpublished. PROPRIETARY TO MSCI. For illustrative purposes only. Investors have the opportunity for losses as well as profits. Past performance is no guarantee of future returns.



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