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A Tailored Measurement of Emerging Markets: The S&P Emerging Ex- China BMI

Executive Summary

The [S&P Emerging Ex-China BMI \(Broad Market Index\)](#) offers a unique measurement of emerging markets by excluding Chinese equities, which tend to dominate many market-capitalization-weighted indices. Since its inception in 1989, the [S&P Global BMI Series](#)¹ has provided benchmarks for performance measurement, asset allocation and index replication. This paper explores the unique characteristics of the S&P Emerging Ex-China BMI and its distinct risk/return profile.

The [S&P Emerging BMI](#), a member of the S&P Global BMI Series, provides a reliable benchmark for emerging market equities. The predominance of Chinese equities in emerging markets translates into a sizable weight in most float-adjusted market-cap-weighted indices, so the S&P Emerging Ex-China BMI was launched to meet the need for a benchmark for emerging market equities that excludes China. In this paper, we will learn more about the index's distinct risk/return profile and delve into how its characteristics provide a unique perspective on emerging market equities.

¹ Characteristics of the S&P Global BMI Series are explored in more detail in our paper, "[The S&P Global BMI: Providing Consistent Insights into Global Equity Markets since 1989.](#)"

Index Characteristics

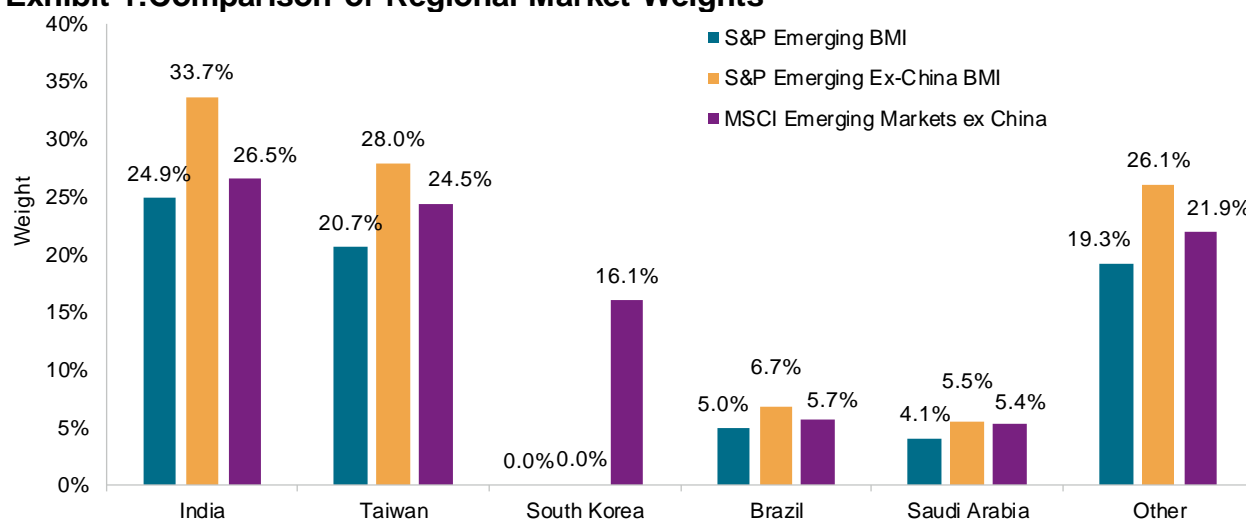
The S&P Emerging Ex-China BMI spans 22 markets² and over 3,000 large-, mid- and small-cap constituents. It follows the same methodology as its benchmark, the S&P Emerging BMI, with the added exclusion of companies domiciled in China, which has the largest market weight and constituent count in the benchmark. Additionally, due to the regional market classification framework used by S&P Dow Jones Indices (S&P DJI), our emerging market benchmarks exclude constituents domiciled in South Korea as this market is classified as developed, a status it has held since 2001. This is an important characteristic, as a comparable competitor index—the MSCI Emerging Markets ex China—classifies South Korea as an emerging market. It is worth noting that every year S&P DJI conducts a complete review of all regional markets included in its global equity benchmarks to determine if current classifications are accurate or if a market consultation is appropriate to reevaluate their status. Quantitative and qualitative criteria are employed alongside global investor feedback when evaluating market status, and final decisions are made by the S&P Dow Jones Indices Committee based on criteria and conditions, feedback from clients ahead of formal consultations and, finally, the results of the consultations.³

Regional Market Weights

The unique construction of the S&P Emerging Ex-China BMI has notable effects on its composition and performance, as compared with both its benchmark the competitor index. The first difference we analyzed relates to regional exposure. Exhibit 1 compares the top regional allocations by index weight.

² Markets included are Brazil, Chile, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Kuwait, Malaysia, Mexico, the Philippines, Poland, Peru, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and the U.A.E.

³ Specific basic quantitative criteria for eligibility into developed, emerging and frontier markets as well as a complete overview of the process can be found in the S&P Dow Jones Indices [Country Classification Methodology](#). A larger exploration on the effects of South Korea being classified as a developed market can be found in [Is South Korea Crowding Your Emerging Markets Allocation?](#)

Exhibit 1: Comparison of Regional Market Weights

Source: S&P Dow Jones Indices LLC, MSCI. Data as of July 31, 2024. Chart is provided for illustrative purposes.

The exclusion of Chinese equities results in increased weight for all remaining markets within the S&P Emerging Ex-China BMI compared with the other indices. Notably, India and Taiwan, the largest markets in the index, represent 33.7% and 28.0% of the index weight, respectively, and together account for approximately 62% of the weight reallocated from China. Including Brazil, Saudi Arabia and South Africa, the top five markets account for 78% of the weight previously occupied by Chinese equities.

The regional market weights of the S&P Emerging Ex-China BMI are different from the MSCI Emerging Markets ex China, which also includes South Korea. This inclusion shifts weight away from all other markets, causing a crowding out effect. Exhibit 2 shows a comparison of the top five regional market weights in each index.

Exhibit 2: Top 5 Regional Market Weights

Market	S&P Emerging Ex-China BMI (%)	MSCI Emerging Markets ex China (%)	Difference (%)
India	33.7	26.5	7.2
Taiwan	28.0	24.5	3.5
South Korea	0.0	16.1	-16.1
Brazil	6.7	5.7	1.0
Saudi Arabia	5.5	5.4	0.2
Other	26.1	21.9	4.2
Total	100.0	100.0	-

Source: S&P Dow Jones Indices LLC, MSCI. Data as of July 31, 2024. Chart is provided for illustrative purposes.

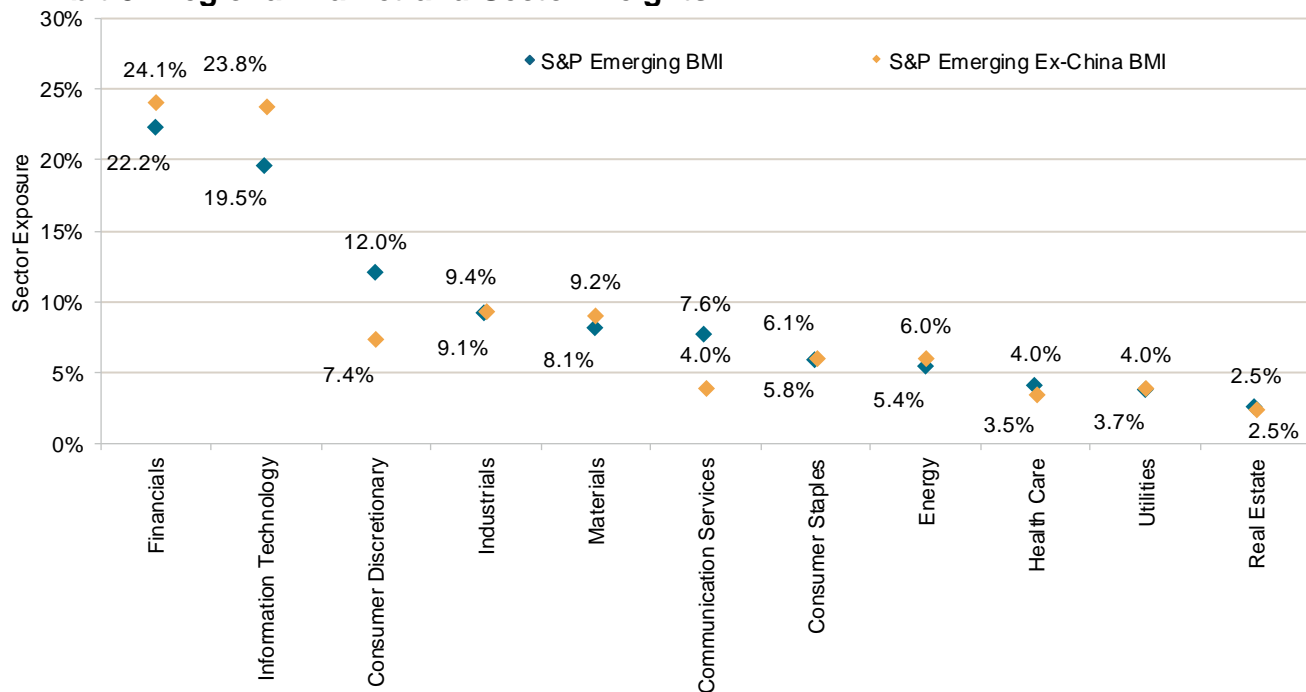
While both indices measure emerging markets excluding China, the S&P Emerging Ex-China BMI has a significantly higher exposure to Indian and Taiwanese stocks and therefore will have a different risk/return profile compared to the competitor index.

Sector Weights

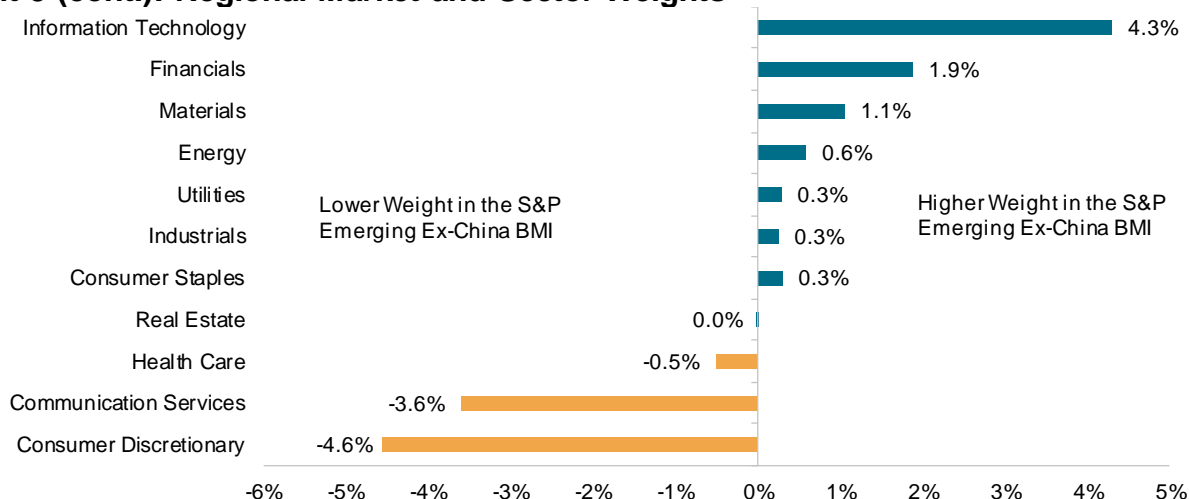
Next, we analyzed the differences in sector weights. The Global Industry Classification Standard (GICS®) sector breakdown and the differences in sector weights between the index and its benchmark are presented in Exhibit 3.

The Financials and Information Technology sectors represent the largest sectors in both indices, accounting for 47.9% and 41.7% of total index weight for the S&P Emerging Ex-China BMI and S&P Emerging BMI, respectively. However, there are significant differences in sector makeup for each index: Consumer Discretionary is the third-largest sector in the S&P Emerging BMI with 12.0% of the total index weight, while it reaches the fifth position in the S&P Emerging Ex-China BMI with a weight of 7.4%. Communication Services is also underweighted in the latter index, with 3.6% lower weight than in the former index (4.0% and 7.6%, respectively). The weight shifted away from these sectors is concentrated in Information Technology (4.3%), Financials (1.9%) and Materials (1.1%). This is one of the reasons the S&P Emerging Ex-China BMI has outperformed its benchmark.

Exhibit 3: Regional Market and Sector Weights



Source: S&P Dow Jones Indices LLC. Data as of July 31, 2024. Charts are provided for illustrative purposes.

Exhibit 3 (cont.): Regional Market and Sector Weights

Source: S&P Dow Jones Indices LLC. Data as of July 31, 2024. Charts are provided for illustrative purposes.

Market Cap

Another significant aspect we analyzed is the differences in constituent size. The S&P Emerging Ex-China BMI includes small-, mid- and large-cap equities, which is a key differentiator with respect to the MSCI Emerging Markets ex China, which excludes small caps. Exhibit 4a shows the weight of small caps in the S&P Emerging Ex-China BMI and its benchmark classified by market of domicile, and Exhibit 4b illustrates the percent of constituents classified into each size range for the index and its MSCI competitor.

Exhibit 4a: Weight of Small Caps by Regional Market

Weight of Small Caps by Regional Market	S&P Emerging BMI (%)	S&P Emerging Ex-China BMI (%)	Difference (%)
China	3.2	-	-3.2
India	4.0	5.4	1.4
Taiwan	3.1	4.2	1.1
Brazil	0.6	0.8	0.2
Saudi Arabia	0.7	0.9	0.2
South Africa	0.6	0.8	0.2
Other	2.6	3.5	0.9
Total	14.8	15.7	0.8

Source: S&P Dow Jones Indices LLC, MSCI. Data as of July 31, 2024. Table is provided for illustrative purposes.

Exhibit 4b: Constituents across Size Range

Size Range	S&P Emerging Ex-China BMI (%)	MSCI Emerging Markets ex China (%)
Small	71.5	0.0
Mid	15.5	57.8
Large	13.0	42.2

Source: S&P Dow Jones Indices LLC, MSCI. Data as of July 31, 2024. Table is provided for illustrative purposes.

The weight of small caps in the S&P Emerging Ex-China BMI changes marginally with the exclusion of China, rising 0.8 percentage points. However, the weight of Indian and Taiwanese small-cap stocks accounts for most of the increase: Indian small caps represent 5.4% of total index weight, while their Taiwanese counterparts represent 4.2%. This shift in composition compared to the benchmark gives greater weight to small caps and, due to this increase, it has provided more diversification across size ranges compared to the other emerging market benchmarks.

Performance

How do these characteristics affect the performance of the S&P Emerging Ex-China BMI? Exhibit 5 compares index risk/return profiles.

Exhibit 5: Risk/Return Profiles

Period	S&P Emerging Ex-China BMI	S&P Emerging BMI	S&P India BMI	S&P Taiwan BMI	S&P India SmallCap	S&P Taiwan SmallCap
Annualized Returns (%)						
1-Year	19.14	8.50	39.92	29.86	55.02	16.52
3-Year	6.24	-0.71	16.92	8.11	23.48	4.98
5-Year	9.12	4.51	18.76	19.14	28.27	16.61
10-Year	5.58	3.73	12.40	12.38	16.53	10.71
Standard Deviation (%)						
3-Year	14.70	15.46	15.23	23.70	18.50	21.24
5-Year	19.52	17.56	21.14	23.11	25.17	23.07
10-Year	17.06	16.41	19.35	19.16	23.18	20.14
Risk/Return Ratio						
3-Year	0.42	-0.05	1.11	0.34	1.27	0.23
5-Year	0.47	0.26	0.89	0.83	1.12	0.72
10-Year	0.33	0.23	0.64	0.65	0.71	0.53

Source: S&P Dow Jones Indices LLC, MSCI. Data as of July 31, 2024. Index performance based on total returns in USD. The S&P Emerging Ex-China BMI was launched May 4, 2018. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

The S&P Emerging Ex-China BMI outperformed its benchmark across all analyzed periods, while maintaining comparable volatility levels. This outperformance can be attributed to the three factors previously outlined: increased weights of Indian and Taiwanese equities, exclusion of Chinese equities and greater exposure to Indian and Taiwanese small-cap stocks. The [S&P India BMI](#) and [S&P Taiwan BMI](#) had notably higher annualized returns over a 10-year period, outperforming the S&P Emerging BMI by 8.67 percentage points and 8.65 percentage points, respectively. The increased weight toward these high-performing markets meaningfully enhanced the index's overall return profile. Furthermore, the exclusion of Chinese equities boosted the performance of the index: the [S&P China BMI](#) significantly underperformed the broad emerging market benchmark, posting an annualized return of 0.49% over the 10-year period versus the 3.73% increase posted by the S&P Emerging BMI and 5.58% posted by the S&P Emerging Ex-China BMI.

Finally, the small-cap segments of the Indian and Taiwanese indices outperformed both the S&P Emerging SmallCap, as well as the emerging and emerging ex-China benchmarks, as the S&P India SmallCap had an annualized return of 16.53% over a 10-year period, while the S&P Taiwan SmallCap Index had an annualized return of 10.71% over the same period.

As an additional comparison, the [S&P Korea BMI](#) posted a 2.98% annualized return over the 10-year period, with a volatility higher than that of the emerging market and emerging market ex-China benchmarks. From this information, we can conclude that the inclusion of China in the broader emerging benchmark caused it to underperform due to the lower weight in better-performing markets.

While the S&P Emerging Ex-China BMI and its benchmark measure emerging markets and share many sector and regional market weights, the correlations of their returns indicate that their performance drivers are different, and the same can be seen for the MSCI Emerging Markets ex China. Exhibit 6 shows the risk/return profiles and correlations between these indices for 3-, 5- and 10-year periods.

Exhibit 6: Performance Comparison

Period	S&P Emerging Ex-China BMI	MSCI Emerging Markets ex China
Annualized Returns (%)		
1-Year	19.14	15.01
3-Year	6.24	3.01
5-Year	9.12	7.69
10-Year	5.58	4.44
Standard Deviation (%)		
3-Year	14.70	17.21
5-Year	19.52	20.36
10-Year	17.06	17.78
Risk/Return Ratio		
3-Year	0.42	0.17
5-Year	0.47	0.38
10-Year	0.33	0.25

Source: S&P Dow Jones Indices LLC, MSCI. Data as of July 31, 2024. Index performance based on total returns in USD. The S&P Emerging Ex-China BMI was launched May 4, 2018. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Exhibit 6 shows that the S&P Emerging Ex-China BMI had a higher annualized return and lower volatility over the periods analyzed compared to the MSCI Emerging Markets ex China. While the MSCI Emerging Markets ex China also measures emerging markets while excluding China, the differences in its construction compared with the S&P Emerging Ex-China BMI, such as the distribution across size segments and regional markets, have created a clear performance differential. However, it is also true that the indices' returns have been highly correlated. This shows that the S&P Emerging Ex-China BMI provides a unique emerging market measure that has maintained high correlations with similar indices but more diversified market coverage.

Conclusion

As part of the S&P Global BMI Series, the S&P Emerging Ex-China BMI, is a robust and rules-based benchmark for measuring emerging market equities while excluding China. The index includes comprehensive coverage across large-, mid- and small-cap segments within the emerging market universe. Compared to the S&P Emerging BMI, it allocates greater weight to India and Taiwan and includes a higher proportion of small-cap stocks from these regions. Additionally, the index has increased weight in the Information Technology and Financials sectors, offering a differentiated sector profile when compared to other benchmarks.

The S&P Emerging Ex-China BMI has significantly outperformed both its benchmark and the MSCI Emerging Markets ex China over the analyzed periods. This outperformance is driven by the strong performance of Indian and Taiwanese equities, particularly within their small-cap segments, and the exclusion of underperforming markets such as South Korea. Overall, the S&P Emerging Ex-China BMI is a unique measurement of emerging markets that has shown strong historical performance.

Performance Disclosure/Back-Tested Data

The S&P Emerging Ex-China BMI was launched May 4, 2018. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance. The back-test calculations are based on the same methodology that was in effect on the index Launch Date. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. Complete index methodology details are available at www.spglobal.com/spdji. Past performance of the Index is not an indication of future results. Back-tested performance reflects application of an index methodology and selection of index constituents with the benefit of hindsight and knowledge of factors that may have positively affected its performance, cannot account for all financial risk that may affect results and may be considered to reflect survivor/look ahead bias. Actual returns may differ significantly from, and be lower than, back-tested returns. Past performance is not an indication or guarantee of future results. Please refer to the methodology for the Index for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations. Back-tested performance is for use with institutions only; not for use with retail investors.

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