Investors' Chronicle
What India's rise means for EM investors
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The fact that different markets can wax and wane in popularity has become especially apparent for those invested in Asian equities over recent years. India is on the rise and investing in China has proved complicated, to say the least. That's clear enough from the numbers: the MSCI China index is down to the tune of nearly 45 per cent over three years in terms of sterling total return, with MSCI India up by almost 60 per cent.

This has already had an effect on the funds universe: some global and emerging market funds have shied away from China after the regulatory crackdown seen in 2021, while India is growing increasingly prominent in some portfolios.

However, this shift is also likely to continue in a more formalised manner, thanks to the fact that India is slowly taking a greater presence in the MSCI Emerging Markets index as it rebalances.

How to invest in India's dazzling economy

This means active fund managers who use the index as a benchmark have to pay greater attention to their India allocation, and also that the country is becoming a bigger deal in passive funds. If we look at the iShares Core MSCI EM IMI ETF (EMIM) featured in our 2023 Top 50 ETFs list, it has a weighting of 23 per cent to China – and an almost-as-sizeable 19 per cent allocation to India.

What does this mean for investors? Firstly, that they should keep carefully looking at how their fund holdings fit together, and whether there's overlap. If emerging market and Asia funds increasingly lean towards India, there's some risk of duplication for investors who like a generalist fund but are also tempted to back one of the high-flying India funds, such as Ashoka India Equity Investment Trust (AIE).

The same thinking applies to those looking for a bargain via some of the beaten-up China funds. Investors might generally want to keep an eye on stocks that are prominent in both generalist emerging market funds and single-country vehicles, including the likes of Tencent.

Turning to some of those single-country funds, some of the differences in valuations are notable. With India riding high, some of the trusts focused there are trading at levels that aren't exactly cheap, with shares in Ashoka India Equity and India Capital Growth Fund (IGC) on a small premium to net asset value (NAV). Turning to China, the four dedicated trusts find their shares trade on discounts of between around 8.5 and 10.5 per cent, although it's notable that several generalist emerging market trusts are on similarly discounted valuations. Some promising countries such as Vietnam are still covered well by dedicated funds but not by emerging market vehicles, thanks to how they are classified. But there's quite a dispersion when it comes to the Vietnam funds, with Vietnam Opportunity (VOF) on a discount of around 21 per cent and VietNam Holding (VNH) on a more modest 4 per cent discount.

It's not just Asia where shifts in fortunes can influence what you might end up holding twice. It's modest, but Japan's chunky rally could see it slowly take up more space in global indices. Currently, it accounts for roughly 6 per cent of an MSCI World tracker. A year dominated by the 'Magnificent Seven', however, means that the US, and US tech, remains the dominant force on that front.