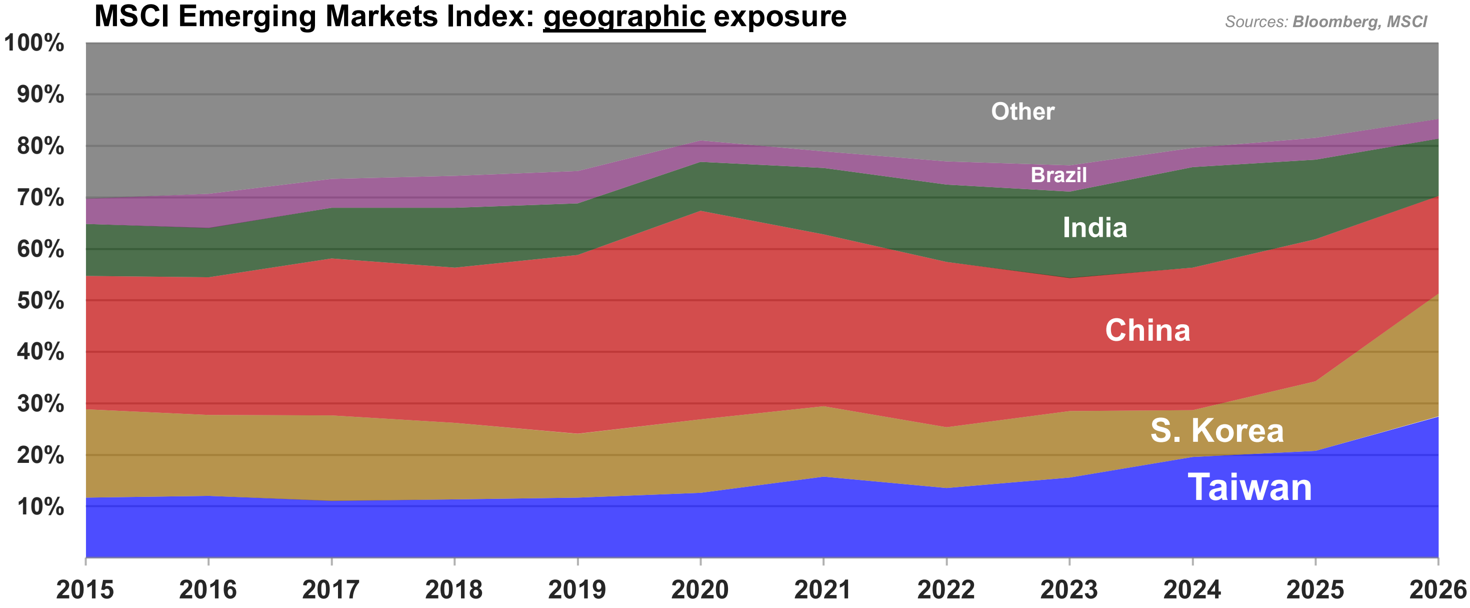
Passive funds tracking emerging market (EM) indices have long promised geographic and sectoral diversification. In practice, however, EM indices have become increasingly concentrated bets on a handful of high-flying Taiwanese and Korean tech stocks.

EM indices no longer provide diversification

EM indices are now concentrated Taiwan/Korea bets

Approximately $1.6 trillion is invested in ETFs and mutual funds tracking the **MSCI Emerging Markets Index**, MSCI Emerging Markets Investable Market Index, and other emerging markets (**EM**) indices compiled by New York-based **MSCI Inc.** (NYSE: **MSCI**). These include the world's largest EM fund, the iShares Core MSCI Emerging Markets ETF (**IEMG**), as well as its smaller cousin the iShares MSCI Emerging Markets ETF (**EEM**), which promise investors broad diversification in the form of exposure to more than a thousand companies spanning 24 countries. As of 2026, however, the MSCI Emerging Markets Index is increasingly a concentrated bet on just two markets: Taiwan and South Korea, which in recent months have accounted for half or more of the entire index.[1]

MSCI Emerging Markets Index: geographic exposure



[1] Per a September 2026 analysis of Bloomberg and MSCI data.

The causes of this increasing geographic concentration have been the AI-driven rallies in Taiwanese and Korean semiconductor stocks. As discussed in our recent blog post India bears: missing the AI forest for the trees, both countries' equity booms have been driven by a handful of firms' swelling exports of semiconductors to a highly concentrated set of mainly American and Chinese customers.

The FTSE Emerging Markets All Cap China A Inclusion Index (for brevity's sake, hereafter referred to as "**the FTSE EM index**") and other FTSE EM indices are tracked by funds holding another ~$0.2 trillion in assets, most notably the Vanguard FTSE Emerging Markets ETF (**VWO**). The FTSE EM index is marginally less geographically distorted thanks to FTSE having classified South Korea as a developed market since 2009. Even so, over the past decade the VWO ETF's exposure to Taiwan more than doubled (from ~15% to ~34% today), while its allocation to markets other than Taiwan and mainland China shriveled from ~60% a decade ago to just ~41% as of this writing.[2]

MSCI's corporate HQ at 7 WTC in New York.

EM indices are now concentrated tech/AI bets

The MSCI Emerging Markets Index's exposure to the **technology** sector has tripled over the past decade, from ~15% in 2016 to ~45% today.[3] **Nearly one-third of this index is now attributable to just three high-flying chip giants** – Taiwan Semiconductor Manufacturing Co. (a.k.a. TSMC – NYSE: **TSM**), Samsung Electronics (KRX: **005930**), and SK Hynix (KRX: **000660**) – a concentration analogous to the combined weight of America's "Magnificent 7" tech titans in the S&P 500. Furthermore, the MSCI EM index's next-biggest sector weighting after tech

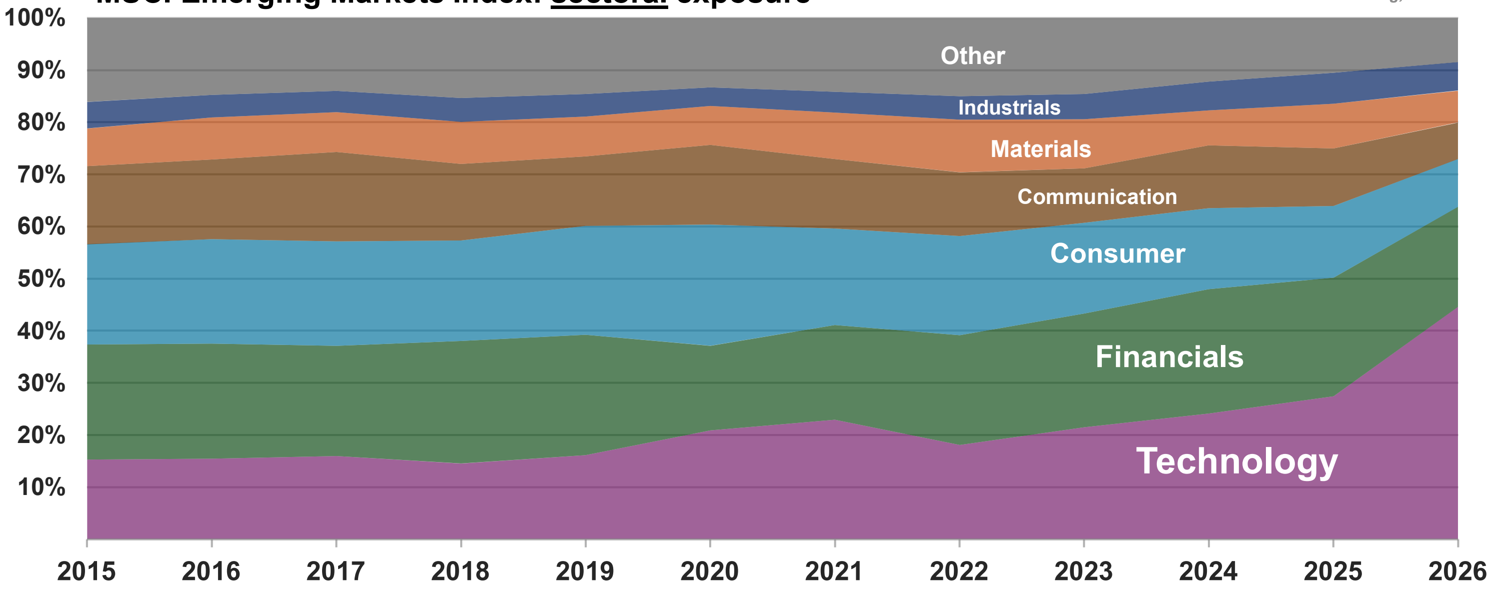
[2] Per a September 2026 analysis of Bloomberg and FTSE data.

[3] The FTSE EM index's exposure to the technology sector also tripled over this period, from ~11% in 2016 to ~33% today.

includes financial firms deeply intertwined with the global semiconductor boom such as Taiwan's Fubon Financial Holdings (TPE: **2881**), as well as lenders such as South Korea's KB Financial Group (NYSE: **KB**) that are heavily exposed to retail investors' leveraged positions in chipmakers.

MSCI Emerging Markets Index: sectoral exposure

Sources: Bloomberg, MSCI



Due to this rapid increase in the MSCI Emerging Markets Index's concentration, passive EM allocations tracking this and other EM indices no longer benefit from the diversification that ostensibly is among the key reasons investors seek exposure to international markets in the first place. Because the earnings of TSMC, Samsung, and SK Hynix are largely reliant on continued growth in their exports of AI-related goods to a small group of mainly American and Chinese customers, the MSCI Emerging Markets Index is now less a bet on the continued development of domestic Asian economies and more a bet *against* the prospect of a slowdown in global demand for semiconductors – an industry that has historically been highly cyclical, and whose current boom depends on aggressive growth in the capital expenditures of a handful of U.S. "hyperscaler" tech giants.

A pullback in the hyperscalers' eye-watering CapEx plans could plausibly be triggered by any breakthrough allowing for more resource-efficient AI models, any disruptions to supplies of imported input materials essential to chip manufacturing, any intensification of competition from mainland Chinese chipmakers such as the recently-listed ChangXin Memory Technologies (a.k.a. CXMT – SSE: **688825**), and/or any run-of-the-mill, credit crunch-induced developed-world recession.

Passive is no longer neutral

Passive EM indices embed a huge implicit bet on the AI boom

Passive strategies based on leading EM indices increasingly expose investors to a concentrated bet on a few mainly Taiwanese and Korean semiconductor companies dependent on continued growth in demand for AI hardware – demand that is ultimately largely driven by a handful of U.S. tech hyperscalers. As a result, such strategies not only fail to provide geographic or sectoral diversification, but also exhibit high and rising correlation with tech-heavy U.S. equity indices.

By contrast, India's economy and equity market are highly diversified and driven primarily by domestic consumption. No single firm accounts for more than ~6% of the MSCI India index, and the share of GDP attributable to private consumption is close to 60% – nearly 20 percentage points higher than in Taiwan.

Give your local India active manager a call

Investors seeking to allocate capital to dynamic emerging market economies should reconsider the value of active strategies designed specifically to provide exposure to high-quality, well-managed earnings compounders benefiting directly from the ongoing development of EM markets' domestic economies. In our view, within the EM universe the most exciting opportunities by far can be found in India – an economy whose world-leading growth is underpinned by durable, long-term forces including youthful demographics, accelerating urbanization, savings financialization, and prudent macroeconomic governance.

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September 14, 2026

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