This Is Why A Billion Dollar Flood Will Hit The Chinese Market

The MSCI will include 234 Chinese companies in its indices starting June 2018 and will spark a billion dollar flood into the Chinese market.

The MSCI Will Include Chinese Stocks In Its Indices

MSCI, formerly Morgan Stanley Capital International, will include 234 Chinese companies in its indices starting June of 2018. MSCI is the industry leading source of index-based financial market tools. The inclusion of China into its indices is a landmark event and the culmination of years of work on the part of China. MSCI has considered the inclusion of mainland Chinese A-shares into its emerging market indices for many years but held off on lingering concerns (transparency, shadow banking, etc). The decision, long awaited, opens the door to new opportunities for investing in mainland China and will likely result in billions of dollars flooding the market.

The first indices to be affected will be the MSCI Emerging Market Index and MSCI China Index. The 234 companies will have a 0.39% and 1.30% weighting respectively. Because many ETFs, closed-end funds and mutual funds are benchmarked to these indices (the EEM and MCHI for starters), they will have to buy into these stocks in order to maintain proper allocation. The opportunity for investors is to get in ahead of the flood and ride it out over the long term.

Meanwhile, Chinese economic data continues to show expansion in the world's 2nd largest economy. Factory output expanded by 7% in April while fixed income investment grew 8.4% and retail sales rose 9.4%. While some will point out the data shows deceleration in the economy, they remain strong and consistent with the long-term outlook. China's economy is expected to expand at a rate of between 6% and 7% over the next 5 to 10 years, a rate that would make most nations envious.

The cloud hanging over Asian, US and global markets is trade. The US-China trade dispute has yet to be worked out; the latest news is that the US has moved forward with the tariffs, a move contrary to Secretary of the Treasury Steve Mnuchin's claim the trade war was on hold. The US is imposing 25% tariffs on $50 billion worth of Chinese goods as well as limits on Chinese investment into the US.

"This statement is obviously in violation of the consensus reached in Washington recently by both China and the U.S," China's Commerce Ministry said.

Philip Li and Norman Ho, fund managers at Value Partners Asia Pacific Fund Inc., are optimistic a trade deal will get worked out. Both countries are reliant on the other in many ways; a satisfactory resolution is in both of their interests.

From the April Fact Sheet

Looking ahead, we believe China and the US are both keen to reach an agreement in trade negotiations. By then, the overhang of the current conflict will dissipate, which will be beneficial to the market. Furthermore, we are pleased to see peace dividends coming to fruition as the North Korean nuclear disarmament negotiation kick started the opening up of North Korea's trade and tourism. Although North Korea is not a major driver for Asian markets, prolonged peace should help to lower the discount on South Korean stocks in the medium term.

The Asia Pacific Fund Inc. is a diversified closed-end fund focused on the Asia ex-Japan markets. It targets small- to mid-cap companies with stable earnings and positive growth outlook based on market conditions. The fund trades on the New York Stock Exchange under the ticker (NYSE:APB)