Chinese shares almost in from the cold

An important decision on the leading emerging markets index has been announced.

Which country has the second largest set of stock markets after the US? Is it:

A. UK
B. Japan
C. Germany
D. China

The answer is that China ranks number two, which might come as a surprise. However, at present the shares listed on China's mainland stock exchanges – so-called A Shares – are subject to various constraints on foreign ownership. As a result, China's onshore market has not figured in many stock market indices, including the all-important MSCI Emerging Markets Index.

Last year MSCI examined the rules and practices in China and decided it was not yet time to add A-Shares to its leading index. Twelve months on there has been another review and, despite some progress by the Chinese authorities, MSCI again said no, not yet. MSCI's next review will be in June 2017, but the index provider gave itself some wriggle room by saying that it did not rule out an earlier introduction of China to its indices if significant positive developments occurred earlier.

The general feeling remains that it is just a matter of time before Chinese A-Shares come in from the unindexed cold. When they do, the move will be gradual because to give full weight to China immediately would be too disruptive. The current estimate is that China could eventually account for about 40% of the MSCI Emerging Markets Index.

Although Chinese A-shares are outside the MSCI indices for now, it is still possible to gain investment exposure to the world's second largest equity market by a variety of funds. To learn more about the ways to enter the world's second largest stock market, talk to us.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.