

# Index Performance Recap

- US led the DM universe with 20.8% YTD and 15.3% annualized in the past 5yrs. Taiwan led EM universe in both YTD and 5yr horizon
- Momentum continues to be the best performing factor YTD and also led in 5yr horizon in EM, EMU and APAC universe; while growth and quality led in USA and World universe respectively
- For sectors, utilities became the best performing sector in the US, given recent sell-off in tech; although tech dominates in last 5yrs globally
- Blockchain economy theme delivered the best 5yr annual return among all thematic indexes

## Market Cap, Sector and Factor Indexes Performance – Monthly Performance Report

	Benchmark performance (%)		Best performing factor (%)		Best performing sector (%)	
	YTD	5Yr annualized	YTD perf.	5Yr annualized perf.	YTD perf.	5Yr annualized perf.
<b>USA</b>	20.8	15.3	Momentum 30.1	Growth 15.3	Utilities 30.7	Info Tech 24.3
<b>World</b>	16.9	12.6	Momentum 28.7	Quality 15.6	Consumer Service 27.5	Info Tech 22.5
<b>EAFE</b>	7.3	6.8	Momentum 14.6	Enhanced Value 8.5	Financials 20.9	Financials 10.5
<b>Emerging Market</b>	12.2	4.3	Momentum 19.0	Momentum 6.2	Info Tech 22.0	Info Tech 16.5
<b>EMU</b>	6.8	7.2	Momentum 17.9	Momentum 9.3	Financials 22.4	Financials/Info Tech 11.8
<b>AC Asia Pacific</b>	12.5	5.4	Momentum 19.7	Momentum 9.8	Financials 23.0	Info Tech 14.5
<b>LatAm.</b>	-16.7	0.6	Min. Volatility -11.7	Value 6.2	Consumer Discretion -10.7	Energy 13.7

## Thematic Indexes Performance

	Best performing index (%)	
	YTD perf.	5Yr annualized perf.
<b>Thematics - technology</b>	USA Tech 125 29.2	Blockchain Economy 27.5
<b>Thematics - other</b>	Smart Cities 25.7	Smart Cities 17.9

## Best Performing Country – Country Index Report

YTD perf. (%)	5-year perf. (annualised, %)
<b>DM: USA</b> 20.8	<b>DM: USA</b> 15.3
<b>EM: Taiwan</b> 35.5	<b>EM: Taiwan</b> 19.9

# Structured Products: Index Trends in 2024

Interest in equity indexes for structured products increased significantly in 2024, after fixed-income-focused 2023

## Focus on Indexes Launches for Structured Products

Technology, innovation, alternative data sets, local exposures and risk control take center stage.

- **Thematic rotation** remains one of the most widely-interesting index constructs for structured products markets: there are MSCI thematic rotation indexes used for delta-one, structured products and ETNs. Some versions are global and others country-specific and they are used across all three global regions.
- **Industry champion approach for global investing** concept is an application of British economist David Ricardo's theory of Comparative Advantage has proved quite popular during 2024 – we have launched indexes based on this concept for clients globally, including risk controls and decrement, as well as fixed-basket version, for both structured notes and ETFs.
- **Innovation** is at the centre of many discussions – innovation / quality indexes we launched in the past are getting increased attention and “upcoming innovators” concept from the September newsletter is being customised by a few clients in index format.
- **AI is present globally** – our robotics and AI index and its regional and subset variations have been licensed for structured products.
- **Leveraging daily macro data estimate enabled by AI technology** is getting significant traction. MSCI Indexes using daily GDP and inflation estimates from our data partner are now used for both US FIA market and structured notes in APAC.
- In Europe, **sustainability** indexes remain a very popular topic – from general exposure, including the newly launched ESG Selection P-series indexes (which have higher volatility and therefore may price better in certain structured product types) to specific topics, like firms with sustainable investments, social or inclusive growth
- **Regional / country** indexes have been gaining traction over the year, for example:
  - India has been the centre of many discussions – we have licensed India excess return indexes, India decrement indexes, India risk control indexes, but also discussed with many clients about potential versions of Emerging Market index which have India capping, due to access constraints.
  - China indexes also get attention – EM ex China seems to be preferred exposure for some structured products, but interest in China indexes as the marked bounced back has returned
- **FX-hedged indexes** are in discussion more than usual, potentially given currency fluctuations
- Other thematic launches in the SP space included **smart security (with ESG filters), hydrogen-themed indexes, private equity proxies in public market and global big brands**
- In addition to the suite of **rolling futures indexes** launch, mentioned in the last newsletter, which have already been licensed to some of our global clients, we have also improved our **risk control** methodology to be a lot more flexible as we are seeing significantly increased demand in risk control mechanism

# Index Launches and Research Insights

## Improved Capabilities for Structured Product Launches

- We have significantly improved our risk control methodologies, incorporating many new features, given client demand. We are additionally working on our intraday capabilities in the space.
- Based on increased demand, we can now accommodate indexes based on fixed baskets, with significantly shortened launch time.

## MSCI Thematic Rotation Indexes

- Technological advancements, scientific breakthroughs, demographic shifts, and climate change are transforming our daily lives. MSCI's suite of Thematic Indexes aims to represent the performance of companies affected by various themes and are designed to help investors identify and capitalize on them.
- MSCI Thematic Rotation Indexes take thematic investing a step further by rotating among thematic indexes based on analysis of market sentiment. Visit our webpage with informational video on the strategy: <https://www.msci.com/our-solutions/indexes/thematic-investment/thematic-rotation-indexes>

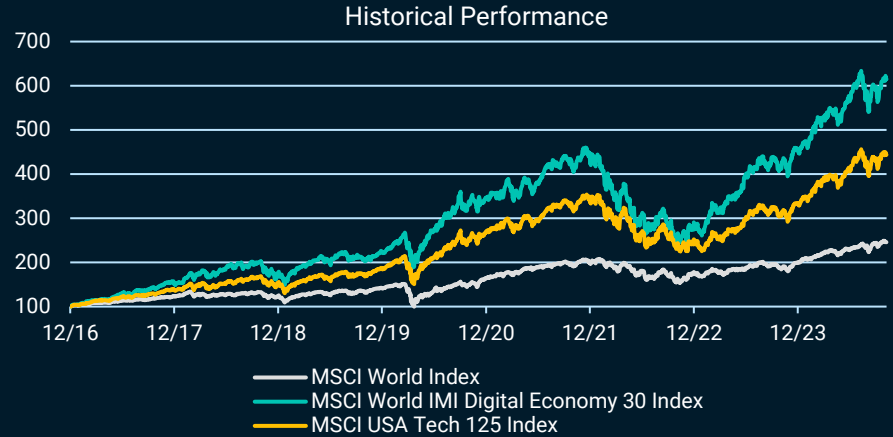
## Recent Research Publications overview

- [Unpacking Active ETFs](#): With active ETFs in focus, we present a transparent, risk-based framework, to use in evaluating the active-ETF market, an emerging yet rapidly expanding market segment, particularly in the U.S. Our framework can help distinguish genuinely active strategies from enhanced indexing.
- [Renewed Optimism for Small-Cap Funds?](#): With some attention on small cap investing we observe that as of June 2024, assets under management (AUM) in small-cap funds across all domiciles stood at USD 1.33 trillion, a 50% increase over Dec. 31, 2018 and analyse where the performance came from.
- [Regional Index Options Could Cushion Equity Drawdowns](#): As global markets continue to face risks, understanding regional perceptions of near-term risks and the historical performance of options strategies during volatile periods can offer valuable insights for managing market uncertainty.
- [The Fund-Name Challenge: Matching Investor Needs and Supervisory Expectations](#) – Funds that use sustainability-related language in their names may soon have to determine how to exclude specific investments to adhere to the ESMA Guidelines. Fund managers will have to make trade-offs – our ESMA PAB screen excludes nearly 11% of MSCI ACWI IMI constituents by weight, with half of these from the energy sector.
- [Understanding MSCI Climate Indexes](#): MSCI has developed several categories of climate indexes to address the different priorities investors have in mitigating climate-related risks, leveraging climate-solutions investment opportunities and promoting positive social impact.

# Index Idea Spotlight # 1

## Spotlight on Digital Economy

- The Digital Economy Index aim to represent the performance of a set of companies that are associated with the development of new products and services focused on the digital economy value chain.
- The Index selects companies which are assessed to have high exposure to business activities such as Metaverse Ecosystem, Digital Payments, Social Media, E-commerce, Blockchain, Artificial Intelligence, Robotics and Automation, Cybersecurity, Sharing Economy and Cloud Computing.
- MSCI World IMI Digital Economy 30 Index contains top 30 developed market stocks belonging to Digital Economy theme
- It historically outperformed the MSCI USA Tech 125, which is taken as a benchmark of high performance by many investors recently.



Performance Stats			
	Digital Economy	USA Tech 125	MSCI World
Annualized Return (%)	26.1	21.1	12.1
Total Risk* (%)	22.3	19.3	15.7
Return / Risk	1.17	1.09	0.77

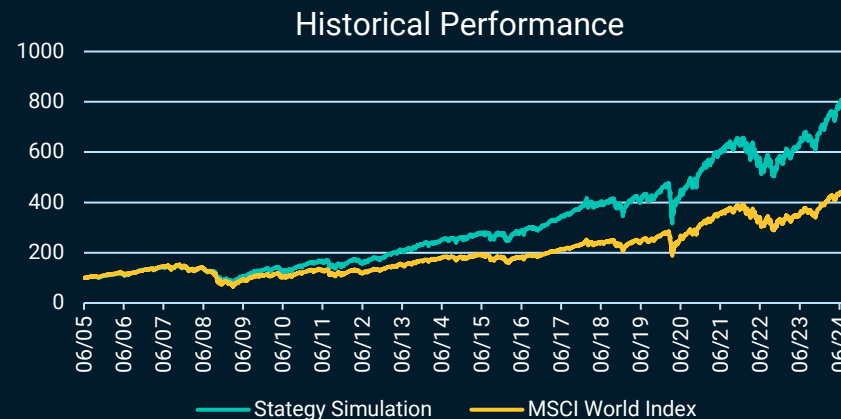
\*Monthly returns is used to calculate the realized volatility

Source: MSCI. Data from December 2016 to October 2024. Net total return variant is used, in USD. Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results. Not investment advice.

## Index Idea Spotlight # 2

### Mean Reversion Alternative to MSCI World

- Pair trading based on mean-reverting properties is well documented by academics.\* MSCI has looked at this, using country indexes, and identified an historical Mean Reversion pattern within a few groups of countries.
- Starting with countries within MSCI EAFE index, we note that their index performances have shown certain mean-reversion properties historically. Specifically, looking at 20-year history up to 2024, of MSCI EMU, UK, Japan and Switzerland Indexes (in USD), on average, the worst country performer over a one-month period outperformed the other countries in the following day (and vice-versa).
- Based on this, we looked at a simulation allocating to the past one-month worst performer (based on a 5-day average). Exposure change can happen daily but on average happens once every two weeks.
- Based on the same concept, we examined alternative universe: MSCI Singapore, Korea, Taiwan, and Hong Kong (the "Four Asian Dragons"), simulating the allocation to the past 30-day worst performer (based on a 10-day average).
- Investors who look for global exposure but would like to have the US exposure anchored could consider a core + satellite approach using this concept. We illustrate this on 70% MSCI USA + 20% EAFE Mean Reversion + 10% Asia Mean Reversion.



Performance Stats		
	Strategy Simulation	MSCI World
Annualized Return (%)	11.0	7.9
Total Risk (%)	16.7	16.4
Return / Risk	0.66	0.48

\* [https://www.researchgate.net/publication/323348513\\_Pairs\\_trading\\_with\\_a\\_mean-reverting\\_jump-diffusion\\_model\\_on\\_high-frequency\\_data](https://www.researchgate.net/publication/323348513_Pairs_trading_with_a_mean-reverting_jump-diffusion_model_on_high-frequency_data)

Source: MSCI. Period: June 2005 to September 2024. Net Total returns in USD are used. Simulations are indicative illustrations of the concept only and have been prepared solely for informational purposes. Any MSCI production index may differ. The strategies in the simulations have not been adopted or endorsed by MSCI, and it may or may not be adopted, in whole or in part, by MSCI. Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Not investment advice.

## About MSCI

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