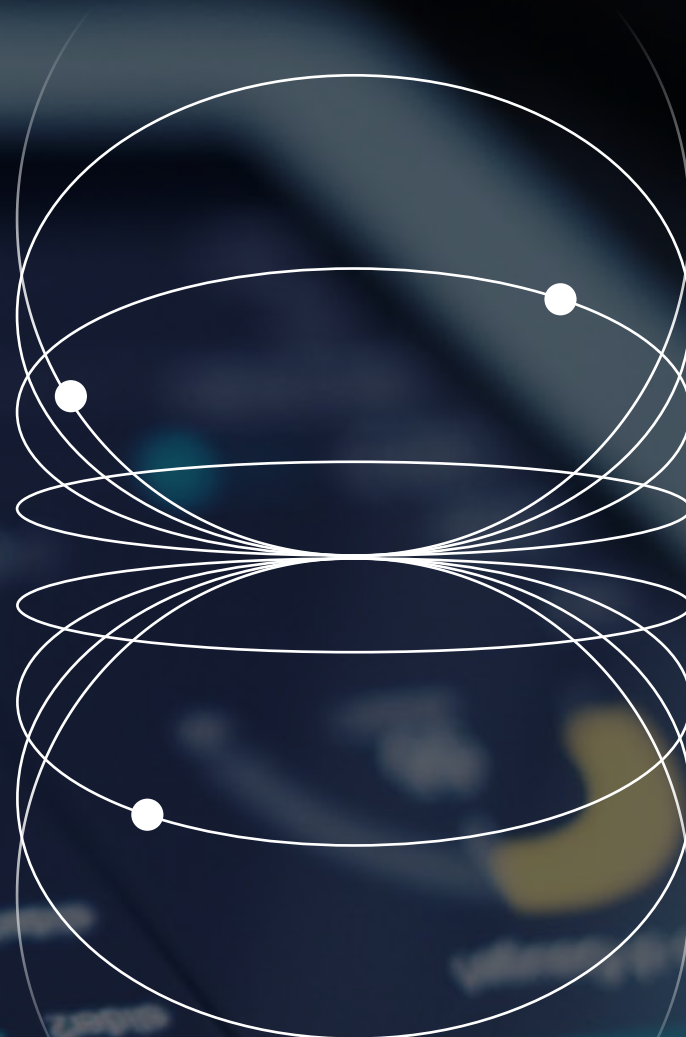




# Index Client Solutions Newsletter

July 2025 →

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# Index Performance Recap

- Amongst Market Cap indexes, EAFE continues to outperform USA YTD, specifically EMU which is leading USA by ~24% as of June 30. Within EMU, Spain and Austria were the best performer YTD with 43.5% and 40.1%, respectively. Korea and Taiwan led EM universe in 2025 YTD and 5yr horizon, respectively.
- For sectors, Industrials is the best performing sector in USA and World YTD. Financials is the sector that has dominated over 5yr horizon.
- Among the factors, momentum and value continue to perform YTD.
- Blockchain Economy had the best YTD performance and 5yr annual performance amongst thematic indexes.

## Market Cap, Sector and Factor Indexes Performance – [Monthly Performance Report](#)

	Benchmark returns (%)		Best performing factor returns (%)		Best performing sector returns(%)	
	YTD	5Yr annualized	YTD	5Yr annualized	YTD	5Yr annualized
USA	6.3	16.5	Momentum 12.9	Growth 18.3	Industrials 12.7	Energy 22.4
World	9.8	15.1	Enhanced Value 17.3	Growth 15.3	Industrials 17.9	Financials 20.8
EAFE	19.9	11.7	Momentum 24.6	Enhanced Value 16.3	Comm Service 33.8	Financials 21.8
Emerging Market	15.6	7.3	Enhanced Value 22.4	Enhanced Value 12.1	Comm Service 23.1	Info Tech 17.0
EMU	28.7	14.0	Momentum 37.3	Enhanced Value 17.3	Financials 50.7	Financials 26.5
AC Asia Pacific	13.6	8.0	Enhanced Value 16.3	High Div 12.7	Comm Service 26.6	Financials 16.0

## Thematic Indexes Performance

	Best performing index (%)	
	YTD	5Yr annualized
Thematics - technology	Blockchain Economy 19.1	Blockchain Economy 25.1
Thematics - other	Food Revolution 15.4	Smart Cities 20.8

## Best Performing Country – [Country Index Report](#)

YTD perf. (%)	5-year perf. (annualised, %)
DM: Spain 43.5	DM: Austria 24.6
EM: Korea 39.7	EM: Taiwan 20.5

Data Source: MSCI. Gross total returns in USD as of June 30, 2025. YTD covers the period from Jan 01, 2025 to June 30 2025. Illustrative examples only. Not investment advice. Past performance not indicative of future results.

# Market Trends

We continue to see a strong market demand on indexes that offer diversifications from crowded US equities. Sectors such as Defense, European Sovereignty and AI/Semiconductors are among those that are favored by our clients. Single or multi-factor approaches are popular in selective markets where we launched multiple new indexes.

## Structured Products →

Focus on diversification from crowded US equities.

- In the US, clients look into diversifications outside of US equities. Popular areas are international equities, gold or miners and alternative asset classes like digital asset and private equity via synthetic replication. AI remains topical.
- In EMEA, we see continued interest in thematic and sector indexes, in particular Defense, European Sovereignty and AI/Semiconductors.
- In APAC, we continue to see client demand for multi-asset strategies. We see demand for China-related thematic ideas for selective clients. In Japan we see certain sectors (e.g. semiconductors) in favor.



## ETFs →

Q2 2025 was another strong quarter for EMEA MSCI linked ETFs with investors focusing on international markets.

- MSCI captured significant net cash flows in the first half of the year topping other index providers in EMEA.
- Investors have been increasingly seeking opportunities outside of the U.S. market with main focus on Europe, World ex USA and Emerging Markets. On the fundamental front, key areas of concern include inflation, trade disruptions and European defence especially given the recent developments in the Middle East.
- The success of the recently launched products MSCI World ex-USA by 4 major ETF providers (DWS, Amundi, iShares and UBS) continued in the second quarter.



## Asset Owners →

Benchmark wins seen across global investing, factor, and sustainability with significant estimated AUM impact.

- Pension allocated passively to MSCI World Minimum Volatility Index, citing transparency and lower fees over active low-volatility strategies.
- Endowment established MSCI factor-based reference portfolio (EAFE Quality, Momentum, Volatility Tilt, etc.) to track non-US developed markets.
- MSCI USA Futures deployed by endowment as part of overlay strategy.
- Adoption of MSCI ACWI IMI ex China ex HK as new policy benchmark.



\*The estimated AUM benchmarked to MSCI indexes is intended solely to be a helpful reference point for the investment community to better understand the scale of the use of MSCI equity indexes globally. It is not an indicator of the financial strength of MSCI. Not investment advice.

# Index Launches and Research Insights

## Highlights



- We launched market neutral long/short factor indexes powered by Barra factor model, meeting increased client demand in embedding MSCI's Analytics capabilities into index creations.
- We continue to see strong demand for custom indexes for structured products clients. The sectors/themes in focus are Defence, Inflation, Economic Exposure, Patent, and Multi Asset Indexes.

## MSCI Quarterly Index Review



### INSIGHTS FROM MSCI MAY 2025 INDEX REVIEW ►

123 securities were added and 208 securities removed from the MSCI ACWI Investable Market Index (IMI), MSCI's flagship global equity index. The MSCI ACWI IMI is designed to represent the performance of the investment universe of large/mid and small cap companies across developed and emerging markets.

It covers approximately 99% of the global equity investment opportunity by free float-adjusted market capitalization.

## Recent Research Publications Overview



### Is Min-Vol Defense Now the Best Offense?:

Our research showed allocations to the MSCI Minimum Volatility Indexes helped reduce equity drawdowns in high-volatility market regimes. We examined the strong performance of the MSCI Minimum Volatility Indexes after early April's tariff surprise, informed by MSCI Economic Exposure data. We also compare the indexes' recent resilience with their behavior during past periods of market stress.

### Tariffs Expose a Rift in the Clean-Tech Supply Chain:

China's export controls on rare earths in response to U.S. tariffs revealed vulnerabilities in the global critical-mineral supply chain, which underpins many advanced technologies, including clean-tech solutions. If export controls are tightened further, clean-tech providers outside China may experience stagnant growth.

### Every Share Counts: The Impact of Buybacks on Markets:

As 2025 forecasts of earnings per share drift lower across many markets, dividends and buybacks could have a larger influence on total shareholder return.

- Index-level dilution highlights regional differences: Emerging markets show persistent dilution from new issuance, contrasting with steady net repurchases in the developed markets, particularly the U.S.
- Factor returns show conservative share issuers have historically outperformed chronic diluters, offering active and systematic equity managers the ability to quantify the impact of disciplined capital management.

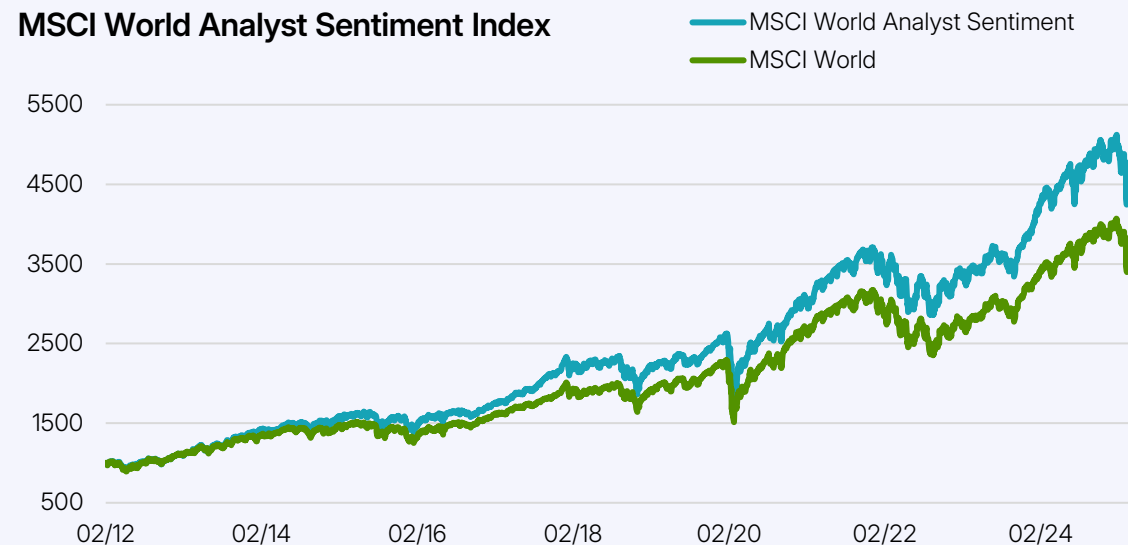
# Live Index Spotlight: Analyst Sentiment Indexes

**Analyst sentiment can be seen as a factor complementary to the core factors already well known in the market.**

- Analyst's opinion of stocks summarizes how a variety of different forces (such as geopolitical, macroeconomic, country, industry, and company-specific) and their inter-action may affect the future performance of a company.
- Equity markets are forward-looking, and stock prices are driven by expectations about a company's future performance.
- MSCI's analysis revealed that analyst sentiment has been a robust and differentiated investment factor that had low correlation with equity style factors such as value, quality, and momentum. It appeared that incorporating analyst sentiment into equity-factor portfolio has improved their investment outcome.
- MSCI launched a series of Analyst Sentiment indexes for Europe, EM, USA, World , Europe and World ex-USA in May 2025.

**These sentiment calculations are applied to 5 key company estimates and averaged for final Analyst Sentiment Score:**  
**Cash-flow | Earnings | Sales | Price Target | Recommends**

**MSCI World Analyst Sentiment Index**



Source: MSCI. 1. Period: Feb 2012 to June 2025. Gross Total returns in USD are used. 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.

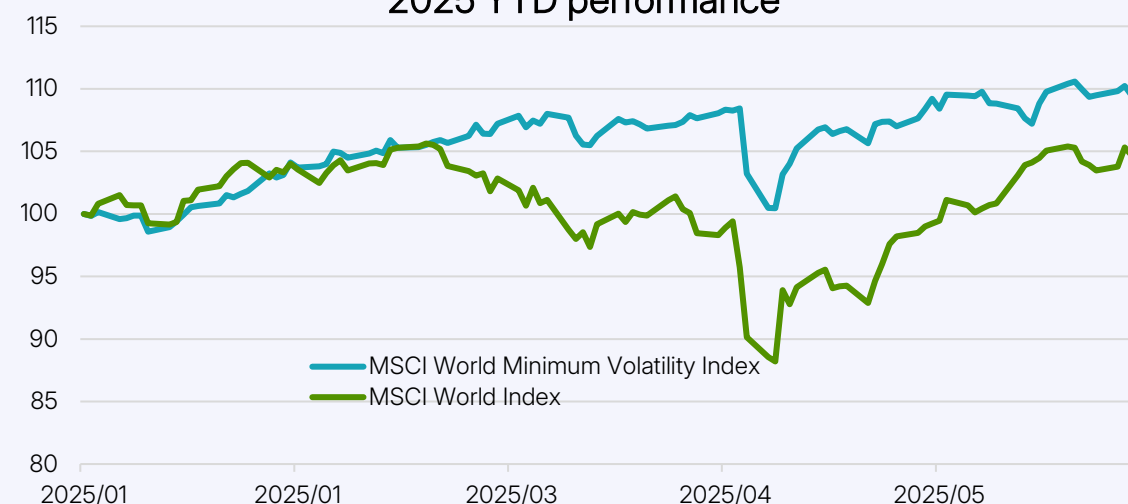


# Live Index Spotlight: MSCI Minimum Volatility Indexes

The MSCI Minimum Volatility Indexes have typically performed well during periods of elevated market volatility and drawdowns, true to their aim of reducing risk while maintaining exposure to equity markets by capturing the low-volatility factor premium.

- The performance edge that min-vol indexes have had in choppy markets primarily arises from having a lower beta than the parent index as well as the core index construction methodology. Additionally, we found the regional economic exposures of the MSCI Minimum Volatility Indexes appeared to steady them in the wake of higher tariffs
- A closer look at past key market-stress events shows a similar pattern of resiliency by the min-vol indexes. The MSCI World Minimum Volatility, MSCI USA Minimum Volatility and MSCI Emerging Markets Minimum Volatility Indexes consistently outperformed during the systemic market sell-offs caused by the 2008 global financial crisis (GFC), COVID-19 crash and start of the Federal Reserve's rate-hiking cycle in 2022
- With tariff uncertainty persisting and its potential economic impact growing, the risks of a prolonged equity drawdown are elevated. Defensive strategies associated historically with lower equity-market drawdowns — such as capturing the low-volatility-factor premium — could play a key role as investors seek to mitigate market volatility while maintaining diversified equity exposure.

2025 YTD performance



Annual Returns	1 Yr	5 Yr	10 Yr
MSCI World Minimum Volatility Index	17.63	9.07	8.76
MSCI World Index	16.76	15.09	11.23

Source: MSCI. 1. Period: Feb 2012 to June 2025. Gross Total returns in USD are used. 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: MSCI USA vs EAFE Rotation

Dynamic rotation between MSCI USA and EAFE based on growth measures using fundamentals and analyst sentiment.

## Step 1 → Calculate Scores

- For each stock in MSCI USA and EAFE, calculate the growth and analyst sentiment scores respectively
- Aggregated growth scores and analyst sentiment scores of stocks in USA and EAFE respectively

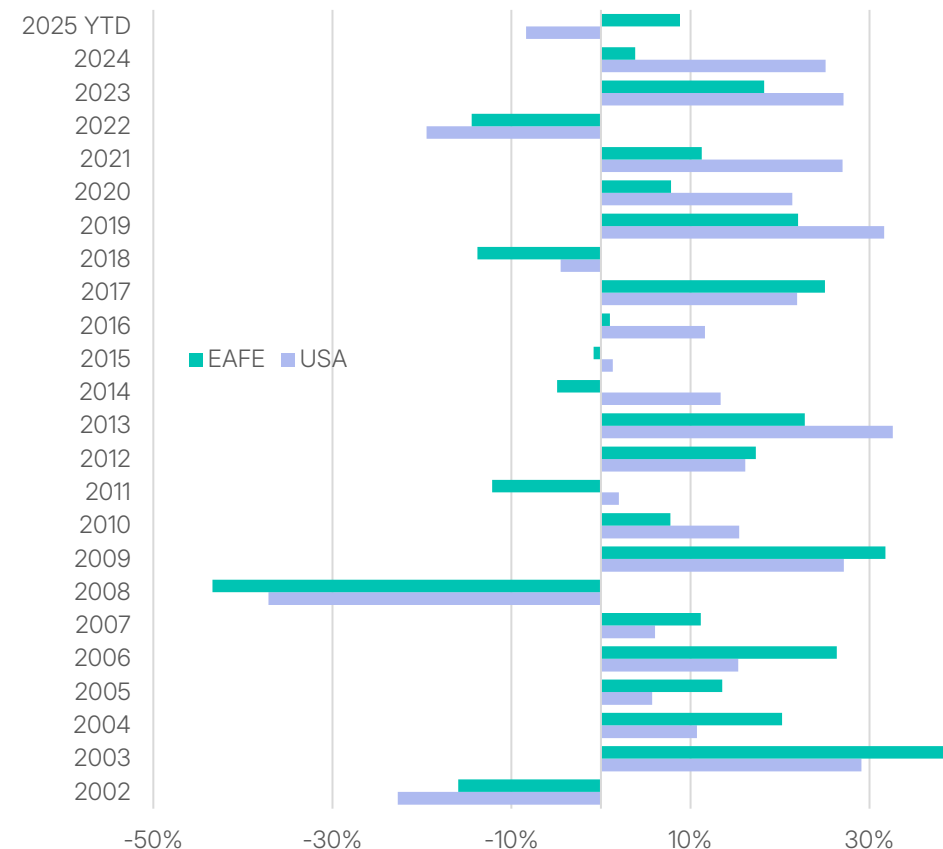
## Step 2 → Allocate among MSCI USA and MSCI EAFE

- At each month end:
- If both the fundamental growth score and analyst sentiment score of EAFE are greater than those of USA, it allocates to EAFE;
- Otherwise, the portfolio allocates to USA

## Step 3 → Risk Control Overlay

- Targeting 10% volatility level based on the equity portfolio realized volatility
- Maximum leverage 200%
- No fee included
- Excess return, used Fed fund rate as cost of funding

## Calendar Year Returns of USA vs EAFE

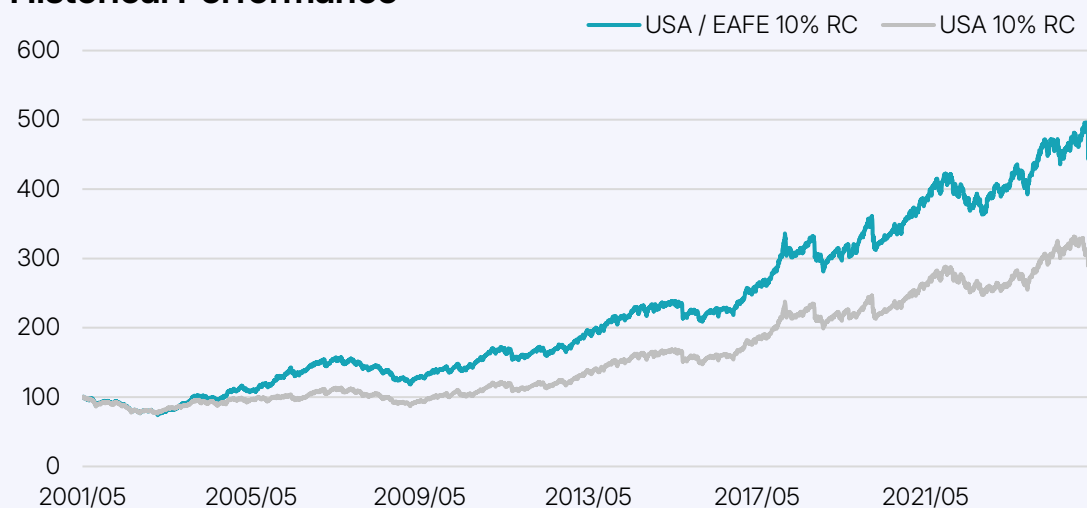


Source: MSCI. Period: May 2001 to Apr 2025. Simulations are indicative illustrations of the concept only and have been prepared solely for informational purposes. Any MSCI production index may differ. The strategies in the simulations have not been adopted or endorsed by MSCI, and it may or may not be 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.

# Index Idea Spotlight: MSCI USA vs EAFE Rotation

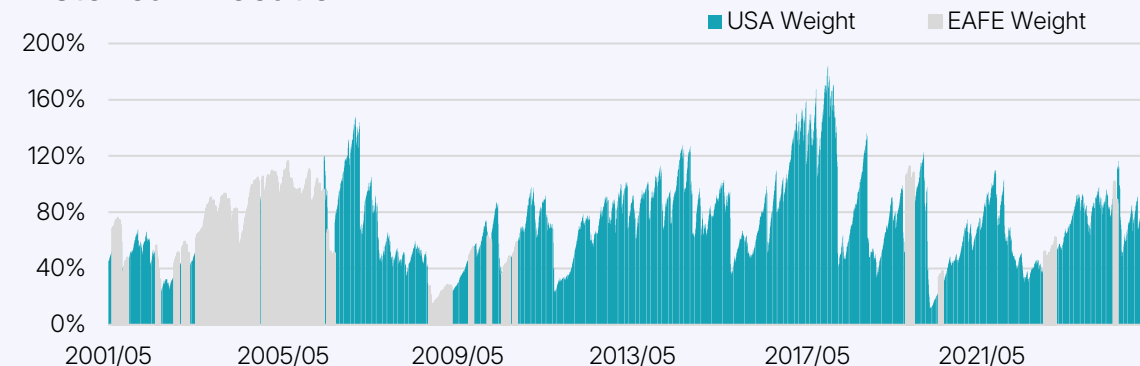
## Hypothetical back-tested index performance

### Historical Performance

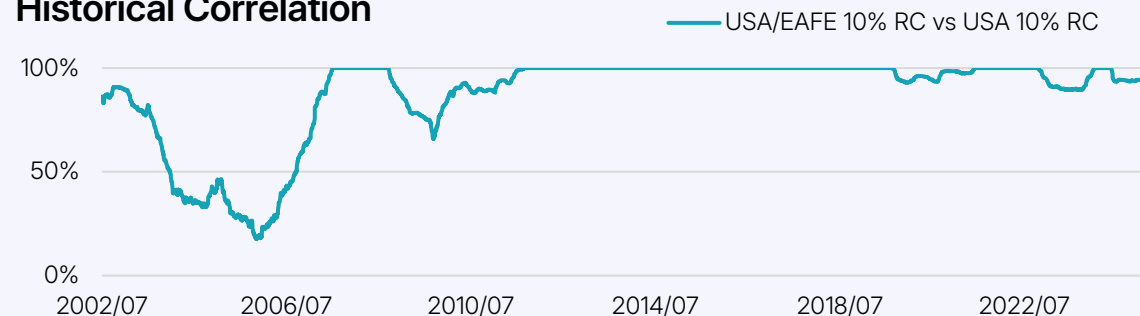


USA / EAFE 10% RC	Since Inception	5-Year	10-Year	3-Year	1-Year
Annualized Return	6.63%	7.48%	7.11%	6.43%	2.60%
Annualized Volatility	10.08%	9.98%	10.30%	10.37%	11.86%
Sharpe	0.66	0.75	0.69	0.62	0.22

### Historical Allocation



### Historical Correlation



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