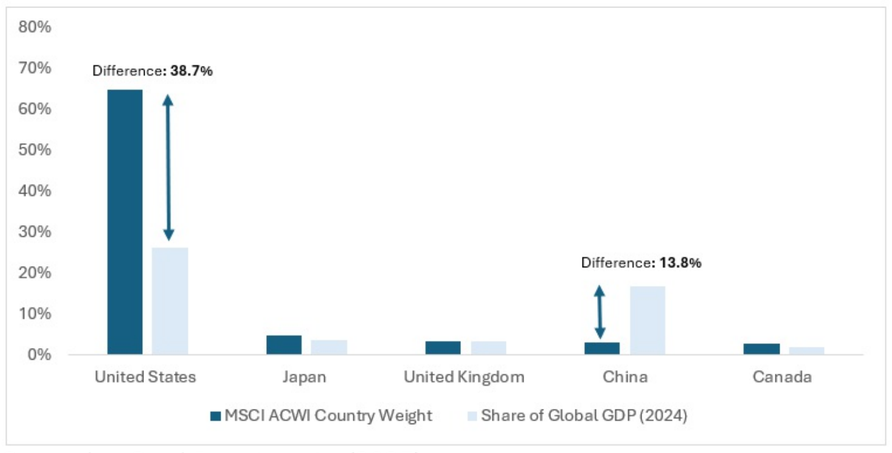
Does Investing in a "Global Index" Really Provide Global Exposure? - Part 2

Following on from last week's article, where we explored three of the widely used MSCI indices and how they are constructed, it's clear that these benchmarks play an important role in giving investors efficient access to global markets. By design, they capture the largest and most investable companies across regions. However, the methodology behind them naturally shapes their exposures, which can at times create concentration risk. In this week's article, we build on that foundation by looking more closely at regional representation, how economic output compares with index weights, and what this means for investors seeking true global exposure.

It is important to recognise that where a company is listed does not necessarily reflect where it generates its revenue. Many of the largest US-listed companies are in fact global businesses, generating a significant portion of their income from international markets. Among the top five holdings in the MSCI World (covered in Part One), Apple is a clear example, with more than 60% of its revenue coming from outside the United States. By contrast, Amazon has a more US-focused profile, with over 60% of its revenue generated in North America. Most large-cap companies are multinationals with highly diversified revenue streams, and understanding these splits is key to evaluating how "international" a US-heavy index really is. In practice, indices like the MSCI World or MSCI ACWI still offer meaningful exposure to global demand and economic growth.

The dominance of the US in global indices is not a flaw but a feature of market-capitalisation weighting. Because the US equity market is the largest and has outperformed other regions in recent years, it naturally commands the largest share of these benchmarks. However, stock market value and economic output do not always align. The chart below compares the major economies included in the MSCI ACWI with their respective economic size, measured as a share of global GDP. Data for 2024 highlights a striking imbalance: the United States contributes roughly 26% of global GDP, yet makes up nearly 65% of the MSCI ACWI. By contrast, China is the world's second-largest economy at around 17% of global GDP, but its index weight is only about 3%. These two countries represent the most significant divergences between economic size and index representation.



Source/s : Seed Investments (2025)

This raises an important question - Why is China's weight so small despite its large economy? There are several reasons. First, MSCI classifies China as an emerging market, meaning it is excluded from the MSCI World and only represented within the emerging market segment of the MSCI ACWI and MSCI ACWI IMI. Second, MSCI only includes a fraction of China's extensive domestic A-share market, applying a 20% inclusion factor due to historic concerns around capital mobility, foreign ownership restrictions, and market accessibility. Lastly, free-float adjustments reduce China's weight further, as many listed companies have high levels of state ownership.

Conclusion

In summary, global indices provide a practical and cost-effective way to access international markets, but they are not fully diversified representations of the global economy. Instead, they tend to reflect where market value is concentrated at any given time. For most investors, this exposure may align with their objectives, while for others it can create concentration risks that need to be thoughtfully managed. At Seed Investments, we address this by complementing index exposure with active underlying managers who adjust regional and sector allocations using risk-adjusted metrics to broaden diversification. This blended approach has been key to the continued success of our Funds. It enables us to build portfolios that are resilient, balanced, and aligned with our clients' long-term objectives, while ensuring that global exposure is both meaningful and deliberate.

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