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Vietnam Market Upgrade

Key takeaways and implications

FTSE Russell confirms Vietnam's reclassification from frontier to secondary emerging market status

- According to FTSE, Vietnam has made significant progress toward secondary emerging market reclassification, including implementing the non-prefunding (NPF) model in November 2024, which removed the prefunding requirement for foreign institutional investors (FIIs), and establishing a formal mechanism for handling failed trades.
- The upgrade is expected to take effect on September 21, 2026, pending an interim review in March 2026 to evaluate Vietnam's progress in facilitating access for global brokers. FTSE Russell underscored that this is a critical prerequisite to ensure effective index replication.

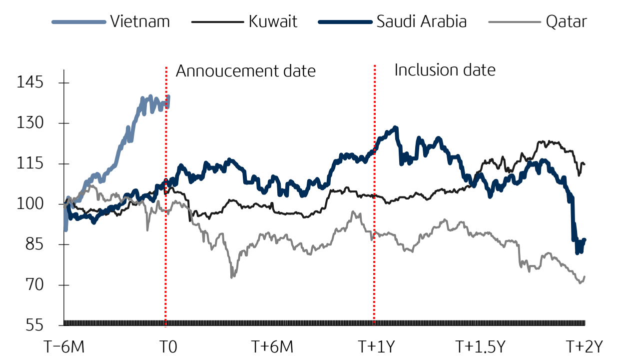
Vietnam's FTSE upgrade is expected to trigger substantial capital inflows and shape short-term market dynamics

- FTSE Emerging All Cap Index-tracking funds collectively manage over USD100 billion in assets. Vietnam's inclusion in the FTSE Secondary Emerging Market Index will attract passive inflows from ETFs and institutional mandates benchmarked to broader indices such as FTSE All-World and FTSE Emerging (FTSE EM). We estimate passive inflows of USD0.7-1.0 billion, based on Vietnam's projected index weight of 0.5-0.8%, comparable to the Philippines and Kuwait.
- Active fund inflows are likely to be much larger, as their assets under management typically exceed those of passive funds by about fivefold. Based on this, active inflows could total USD2.5-7.5 billion. Historically, active investors tend to rebalance portfolios and increase exposure ahead of reclassification, as seen in Saudi Arabia and Kuwait prior to their respective upgrades.
- Short-term selling pressure may emerge on Vietnam's stock market following the upgrade announcement, driven by exit mandates from frontier market-tracking funds that are required to divest Vietnamese holdings. However, these temporary outflows are expected to be quickly offset by larger passive and active inflows from funds benchmarked to Emerging Market indices, which typically begin investing around the official reclassification.
- Historically, market upgrades have tended to lift performance ahead of both the announcement date and the official inclusion date, as speculative inflows anticipate positive outcomes. However, markets often see a post-upgrade correction driven by profit-taking once expectations are priced in, with the extent of adjustment depending on subsequent macroeconomic developments.

VN30 stocks are poised to benefit the most from the upgrade

— Large-cap leaders meeting capitalization and liquidity criteria—such as VCB, MSN, VNM, HPG, VIC, VHM, and SSI—are likely candidates for index inclusion. Stocks with solid growth prospects and available foreign room may also attract active funds, while brokerages like SSI, HCM, and VCI stand to gain from higher trading volumes and brokerage fees amid rising foreign participation.

Fig 1. Global – Performance of benchmark indices around the announcement and inclusion dates



Source: Bloomberg

Table 2. Vietnam – Stocks eligible for inclusion in the FTSE Emerging Index

Ticker	Free float	Available foreign room	Market cap (USDbn)
VIC	40%	92%	26.3
VCB	11%	28%	20.2
VHM	30%	81%	16.1
HPG	55%	61%	8.4
LPB	95%	82%	6.0
VNM	40%	51%	4.9
MSN	55%	76%	4.5
STB	95%	41%	4.2

Source: KB Securities Vietnam

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Investment ratings & definitions

Investment Ratings for Stocks
(Based on the expectation of price gains over the next 6 months)

Buy:	Neutral:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors
(Based on the assessment of sector prospects over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market