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## Vietnam Markets Still Need Reform After EM Upgrade, Analysts Say

By Nguyen Kieu Giang

(Bloomberg) -- Vietnam's upgrade by FTSE Russell from frontier to emerging market status marks a significant milestone for the country's financial markets. However, analysts emphasize that authorities must continue implementing reforms to improve market accessibility for foreign investors.

The country's stocks will be included in FTSE Russell's secondary emerging markets grouping from Sept. 21, 2026, subject to an interim review in March next year.

Vietnam's benchmark VN Index surged 33% this year through Tuesday.

### ANALYST COMMENTS

Xin-Yao Ng, a fund manager at Aberdeen Investments

- FTSE is much less influential on capital flow than MSCI, but flows may be "meaningful" and still a positive step for the capital market. Blue chips should benefit the most
- More important however, beyond short-term capital flow, is still the longer-term dynamics of Vietnam's capital market thanks to the multiyear transformation as the country aspires to the MSCI upgrade by 2030
- Vietnam's market "deserves more attention from foreign investors" given its economy is fastest growing in Southeast Asia with "relatively stable politics and a sizable and hardworking population"

Nguyen Thomas, chief global markets officers at SSI Securities Corp.

- There's been a lot of anticipation on this already. What's most critical is for Vietnam to continue its path of development. The gap between capital markets in Vietnam and the actual economic development is quite wide
  - "A lot of it is already priced in" and "you might actually see people take money off the table. So my expectation is - it'll be positive but muted"
- "I look at this upgrade just as a step, but a very important step in unwavering path of capital market and economic development"

Hiroshi Motoki, senior portfolio manager at Fivestar Asset Management Co.

- "This is a highly encouraging development for Vietnam equities. Beyond the potential inflows from FTSE index-tracking funds — estimated at \$2 trillion to \$3 trillion in aggregate — the upgrade effectively endorses Vietnam's market status by a well-established global index provider"
- We preliminarily estimate a 0.4%-0.7% weighting
  - "Looking further ahead, an eventual MSCI upgrade would have an impact approximately eight times larger than the FTSE change, which we tentatively expect by 2030"

Ruchir Desai, a fund manager at Asia Frontier Capital in Hong Kong

- The announcement does not come as a surprise as Vietnam has met most of the criteria to qualify for the upgrade
- The market was anticipating this upgrade and hence we have seen a strong rally in the last few months

- Large cap stocks, which have enough foreign ownership room and a good earnings-growth outlook, and which will potentially be included in the emerging market index, may see short term interest

Hebe Chen, an analyst at Vantage Markets in Melbourne

- The upgrade “marks a watershed moment for Southeast Asia’s fastest-rising economy and equity story” as the long-awaited entry ticket to the global stage could unlock billions in foreign inflows and boost liquidity across major blue chips
- “Yet the celebration comes with caution — a fast-rising dong could chip away at export strength, the lifeblood of Vietnam’s rapid growth story”
- “In addition, with valuations already stretched after this year’s stellar rally, a cooling phase during a typical ‘sell-the-news’ cycle may be the next test for Vietnam’s market momentum”

Brendan McKenna, a strategist at Wells Fargo in New York

- The upgrade offers Vietnam exposure to new capital inflows, which could ultimately be supportive of VND
- The sustainability of those capital flows will be key to whether VND can strengthen on a sustained basis, but certainly a step in the right direction for the economy and currency
- If the external environment remains conducive to EM capital inflows, then VND may be able to experience a modest rally
- Still, an upgrade of Vietnam’s bond market to emerging market status will take some time
- That said, Vietnam is becoming an important manufacturing hub and is growing very quickly, so “if those kinds of trends can be sustained a full upgrade to EM should be more a matter of when rather than if”

Suvir Loomba, head of securities services for Asia at HSBC

- The upgrade “sends a strong signal to global investors that this export powerhouse can withstand the near-term trade headwinds”
- Potential foreign inflows between \$3.4 billion to \$10.4 billion from active and passive funds may follow the inclusion

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--With assistance from Winnie Hsu and Matthew Burgess.

To contact the reporter on this story:

Nguyen Kieu Giang in Hanoi at giang1@bloomberg.net

To contact the editors responsible for this story:

Catherine Ngai at cngai16@bloomberg.net

Joanna Ossinger, Francesca Stevens