

Indonesia's MSCI review – What it means for investors

A white speech bubble with a red border and a red arrow pointing to the right, containing the text "Market update" in red.

19 October 2026

Summary

- ▶ Indonesia's equity market is facing renewed challenges after MSCI announced on 15 October 2026 a consultation on the potential reclassification of Indonesia from Emerging Market to Standalone Market status.
- ▶ The Indonesian equity market may remain volatile given the uncertainty surrounding MSCI's classification review. The market potentially faces a 6–9-month overhang until MSCI's final decision before 30 June 2027.
- ▶ It is important to distinguish between market-wide governance risks and the fundamental quality of individual companies. The MSCI announcement reinforces our conviction in an active, stock-picking approach. In this environment, we continue to prioritise rigorous risk management, diversification and focus on companies with robust fundamentals and strong governance.

Recent market developments

Indonesia's equity market is facing renewed challenges after MSCI announced on 15 October 2026 a consultation on the **potential reclassification of Indonesia from Emerging Market to Standalone Market status**. This announcement caught investors off-guard because **market expectation had been for MSCI to retain Indonesia's Emerging Market status**, and a **reclassification to Standalone Market is viewed to be a worse downgrade than a move to Frontier Market status**.

The move reflects growing concerns over the quality of domestic capital market governance, while adding to investor uncertainty amid still-fragile market conditions. The Jakarta Composite Index (JCI) declined by 12.4% on 16 October 2026 and had briefly triggered a trading halt¹. At the point of writing (19 October), the equity market has fallen another 5%.

¹ As part of its volatility-control mechanism, the Indonesia Stock Exchange (IDX) imposes a 30-minute trading halt if the JCI declines by 8%. A further 30-minute halt is applied if the decline reaches 15%, while a 20% drop may trigger a suspension for one trading session.

Q. Why is MSCI considering downgrading Indonesia's status?

MSCI's decision was driven by several factors, including the transparency of shareholding structures, concerns over coordinated trading, and progress in strengthening market supervision and regulatory enforcement. While several reforms have been announced, MSCI considers the implementation to date insufficient to fully address the concerns of global institutional investors.

Notably, MSCI is considering a direct reclassification to Standalone Market status, which sits outside both the Emerging and Frontier Market classifications. This indicates that the concerns extend beyond market size or liquidity and relate to more fundamental issues involving the integrity and credibility of trading mechanisms.

Q. What does this mean for Indonesian equities?

It is important to emphasise that Indonesia currently retains its Emerging Market status, while any potential reclassification remains under consultation. Nevertheless, this development is a risk that warrants close monitoring, particularly given the potential for global investors, especially passive funds tracking international indices, to adjust their allocations. Several broker estimates indicate further potential outflows of USD4 billion or more should the reclassification materialise, taking into account the passive fund exposure tracking the MSCI, FTSE Russell, and S&P Dow Jones indices. The Indonesian equity market has experienced approximately USD 5 billion in outflows year-to-date (as of 15 Oct).

That said, these estimates illustrate the potential scale of outflows in a risk scenario where the reclassification proceeds; they are not a forecast of outflows that will necessarily materialise. The actual impact will depend on the index providers' final decisions, the implementation mechanism, and investors' response to Indonesia's capital market reforms.

In the near term, market pressure could also intensify as the freeze on MSCI index changes remains in place. This policy restricts the addition of new constituents and increases in index weights, while deletions and weight reductions remain possible. More broadly, the implications extend beyond potential foreign outflows to include a shift in investor perceptions of the credibility of Indonesia's capital market.

Q. Is there any impact on Indonesian bonds?

The recent weakness in Indonesian government bonds reflects a combination of external pressures and domestic developments.

Externally, elevated US Treasury yields, persistent inflation concerns and heightened geopolitical uncertainties have weighed on investor appetite for emerging market bonds. Domestically, continued depreciation pressures on the rupiah, alongside concerns over fiscal discipline and policy credibility, have contributed to a reassessment of Indonesian sovereign risk premiums.

While the latest MSCI announcement relates specifically to equities, the sharp equity sell-off risks aggravating foreign capital outflows and currency weakness, potentially adding further pressure on domestic bond yields. Importantly, however, the bond

market has already been facing these broader headwinds for some time, and the recent equity developments should not be viewed as the sole driver of higher yields.

Q. What should investors monitor going forward?

For equity investors, the key milestones are:

- MSCI's regular index review - 12 November 2026
- Developments in FTSE Russell's assessment - December 2026
- MSCI's consultation process - Remains open until 30 April 2027

A final decision on the potential reclassification of Indonesia's equity market is scheduled no later than 30 June 2027. It is worth noting that, in its Annual Equity Country Classification Review announced on 6 October 2026, FTSE Russell retained Indonesia's Secondary Emerging Market classification and did not place the country on its Watch List for a potential classification change.

The current review period provides an important opportunity to assess progress in the capital market reforms currently underway, particularly efforts to improve transparency in share ownership, strengthen trading oversight, and ensure effective regulatory enforcement.

Q. What are the portfolio implications?

In the near term, uncertainty surrounding MSCI's classification review may **prolong volatility** in Indonesia's equity market, particularly amid **limited domestic catalysts and persistent external pressures**. The broad market **potentially faces a 6–9-month overhang** until MSCI's final decision before 30 June 2027.

However, it is important to distinguish between market-wide governance risks and the fundamental quality of individual companies. The MSCI announcement reinforces our conviction in an active, stock-picking approach focused on identifying low-correlation investment opportunities. In this environment, we continue to prioritise rigorous risk management, diversification and focus on companies with current earnings, positive free cash flow, robust balance sheets and strong governance.

In our **domestic equity strategies**, we remain focused on the following themes:

- **Self-help, execution and value-to-growth** bottom-up opportunities – Companies positioned to benefit from policy changes under the Prabowo administration, as well as those capable of growing regardless of macro conditions, with earnings inflections driven by company-specific execution.
- **Total Shareholder Return** - Particularly in large caps seeking to restructure and/or return excess capital. This is a differentiated source of return that is not dependent on broad market direction; and
- **Commodities** - Energy as a hedge for geopolitical disruptions in the near term, gold which is driven by global asset allocation flows, and select base metals that are supported by improving cash flows, new capacity, and favourable commodity

prices/global dynamics.

Our broad **Asia value equity strategies** have very limited exposure to Indonesia. Indonesia's weight in the MSCI AC Asia ex Japan index is small relative to the country's share of the regional profit pool and the size of its economy. The scale of active domestic and international funds invested in Indonesian equities, together with analysts' estimates of potential passive-fund outflows and the size of Indonesia's annual balance-of-payments deficit, suggests that the impact of those outflows should be manageable. Nevertheless, we continue to monitor the impact of tighter liquidity conditions, management responses and the cost of capital as we assess the long-term intrinsic value and risk-reward profiles of the select Indonesian stocks held in our portfolios. For our **Asia income-focused equity strategies**, our exposure remains limited and highly selective, focusing on businesses with strong franchises and prudent capital management that can support resilient earnings and dividend growth.

For **Indonesian bonds**, the market is likely to remain volatile until there is greater stability in the rupiah and global interest rates. While the rise in yields has improved the income proposition of Indonesian government bonds, we remain mindful of near-term currency and duration risks. Bank Indonesia's commitment to exchange-rate stability and continued fiscal discipline will be important in rebuilding investor confidence.

Disclaimer

This document is produced by Eastspring Investments (Singapore) Limited and issued in:

Singapore by Eastspring Investments (Singapore) Limited (UEN: 199407631H)

Australia (for wholesale clients only) by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore, is exempt from the requirement to hold an Australian financial services licence and is licensed and regulated by the Monetary Authority of Singapore under Singapore laws which differ from Australian laws.

Hong Kong by Eastspring Investments (Hong Kong) Limited and has not been reviewed by the Securities and Futures Commission of Hong Kong.

Indonesia by PT Eastspring Investments Indonesia, an investment manager that is licensed, registered and supervised by the Indonesia Financial Services Authority (OJK).

Malaysia by Eastspring Investments Berhad (200001028634/ 531241-U) and Eastspring Al-Wara' Investments Berhad (200901017585 / 860682-K) and has not been reviewed by Securities Commission of Malaysia.

Thailand by Eastspring Asset Management (Thailand) Co., Ltd.

United States of America (for institutional clients only) by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore and is registered with the U.S Securities and Exchange Commission as a registered investment adviser.

European Economic Area (for professional clients only) and Switzerland (for qualified investors only) by Eastspring Investments (Luxembourg) S.A., 26, Boulevard Royal, 2449 Luxembourg, Grand-Duchy of Luxembourg, registered with the Registre de Commerce et des Sociétés (Luxembourg), Register No B 173737.

United Kingdom (for professional clients only) by Eastspring Investments (Luxembourg) S.A. - UK Branch, 1 Angel Court, London, EC2R 7AG.

Chile (for institutional clients only) by Eastspring Investments (Singapore) Limited (UEN: 199407631H), which is incorporated in Singapore and is licensed and regulated by the Monetary Authority of Singapore under Singapore laws which differ from Chilean laws.

The afore-mentioned entities are hereinafter collectively referred to as Eastspring Investments.

The views and opinions contained herein are those of the author, and may not necessarily represent views expressed or reflected in other Eastspring Investments' communications. This document is solely for information purposes and does not have any regard to the specific investment objective, financial situation and/or particular needs of any specific persons who may receive this document. This document is not intended as an offer, a solicitation of offer or a recommendation, to deal in shares of securities or any financial instruments. It may not be published, circulated, reproduced or distributed without the prior written consent of Eastspring Investments. Reliance upon information in this document is at the sole discretion of the reader. Please carefully study the related information and/or consult your own professional adviser before investing.

Investment involves risks. Past performance of and the predictions, projections, or forecasts on the economy, securities markets or the economic trends of the markets are not necessarily indicative of the future or likely performance of Eastspring Investments or any of the funds managed by Eastspring Investments.

Information herein is believed to be reliable at time of publication. Data from third party sources may have been used in the preparation of this material and Eastspring Investments has not independently verified, validated or audited such data. Where lawfully permitted, Eastspring Investments does not warrant its completeness or accuracy and is not responsible for error of facts or opinion nor shall be liable for damages arising out of any person's reliance upon this information. Any opinion or estimate contained in this document may subject to change without notice.

Eastspring Investments companies (excluding joint venture companies) are ultimately wholly-owned/indirect subsidiaries of Prudential plc of the United Kingdom. Eastspring Investments companies (including joint venture companies) and Prudential plc are not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America or with the Prudential Assurance Company Limited, a subsidiary of M&G plc (a company incorporated in the United Kingdom).



A Prudential plc company 

eastspring.com