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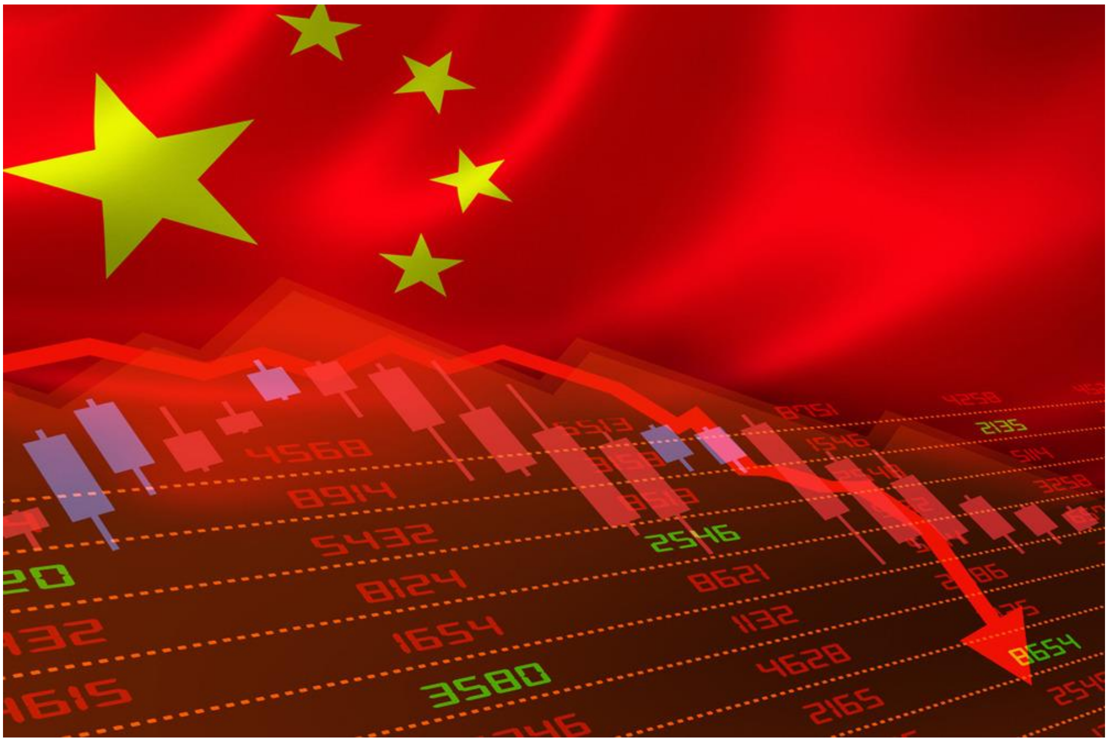
Should We Fund the 'Nazis' of the 21st Century?

by **Gordon G. Chang** • November 28, 2023 at 5:00 am

- The new index does not include Chinese and Hong Kong stocks, so to match the assets of the I Fund to the new index, the Thrift Board will have to sell Chinese and Hong Kong stocks and not buy them in the future.
- Investors have noticed. More than three-quarters of the foreign cash invested in Chinese stocks in the first seven months of this year has already been withdrawn from China. In excess of $25 billion has exited the country.
- Chinese stocks listed in Shanghai, Shenzhen, Hong Kong, and New York have lost about $955 billion of market capitalization this year.... The plunge in the renminbi against the dollar this year has further eroded returns.
- Chinese economic news has become downright scary, and, unfortunately for China, there is no such thing as a brave money manager.
- China's companies for decades essentially had a free ride: As a practical matter, they did not have to meet U.S. disclosure requirements, which applied to companies from all other countries. This unjustified preferential treatment was reduced somewhat in August of last year when the Public Company Accounting Oversight Board surprisingly clinched an agreement with Chinese regulators to

give the U.S. access in Hong Kong to the audit papers of Chinese companies.

- So why should companies continue to get special access to American equity markets just because they come from China? Or why should they have any access at all?
- The Chinese economy and financial markets are fragile. It is time to cut off all the blood supply to the Nazis of the 21st century.



(Image source: iStock)

They certainly cannot be happy in Beijing. An exceedingly technical administrative decision in Washington, D.C. will soon result in investors pulling tens of billions of dollars in investments from a cash-strapped China.

On November 14, the Federal Retirement Thrift Investment Board changed the benchmark for the Thrift Savings Plan's International Stock Index Investment Fund, better known as the I Fund.

Previously, the I Fund tracked the MSCI Europe, Australasia and Far East Index. The Thrift Board decided on November 14th instead to track the

MSCI All Country World ex USA ex China ex Hong Kong Investible Market Index.

The new index does not include Chinese and Hong Kong stocks, so to match the assets of the I Fund to the new index, the Thrift Board will have to sell Chinese and Hong Kong stocks and not buy them in the future.

The switch in indices of the Thrift Savings Plan, essentially the 401(k) plan for federal employees, will take place next year.

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