

International Portfolio Diversification and Implications for Investors: Empirical Study of South Asian Emerging Markets and Developed Stock Markets

M.A.U. Sandeepani¹ and H. M. N. P. Herath²

Department of Finance, University of Kelaniya, Sri Lanka^{1,2}

muthusinghe.us@gmail.com¹, nethmih@kln.ac.lk²

ABSTRACT

Introduction: International investment is proliferating among private and institutional investors due to the benefits of global portfolio diversification, if an investor could diversify more optimally by investing in different countries' stock markets, then investors do have opportunities to reduce economy specific risk. This research will add extra value to different stakeholders to utilize their wealth across the world better.

Design/Methodology/Approach: This research study has been tested the linkages between stock exchanges of developed and emerging markets of Sri Lanka, India, Pakistan, Bangladesh, Nepal, France, Japan, UK and US. Monthly closing levels of the benchmark indices are taken for period February 2013 to January 2020. Data has been analysed through ARDL bound test, Vector Error Correction Model, Wald test, Granger Causality Test and Variance Decomposition Test. Breusch-Godfrey Serial Correlation LM Test, Breusch-Pagan-Godfrey Heteroscedasticity Test & Jarque-Bera Statistic have been used as the diagnostic checks in VECM.

Findings: ARDL Bound test indicated a long-run relationship between variables in south Asian Emerging Markets, developed, and both South Asian Emerging & Developed countries. The researcher identified short run relationship with some countries and Variance Decomposition Analysis to identify impact on CSE from South Asian Emerging Markets and Developed Markets.

Conclusion: Investors may have to re-think diversification benefits in the future as the study implies diminishing diversification benefits among international emerging and developed markets.

Keywords: *ARDL, Developed Markets, Granger Causality, South Asian Emerging, Stock Returns, VECM, Walt Test.*