

Uncovered Equity Parity: Evidence from the Asian Frontier Financial Markets

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The purpose of this research is to examine the validity of the Uncovered Equity Parity (UEP) condition in the Asian Frontier Financial Markets. The UEP theory states that, when one country's equity market outperforms another country's equity market, the outperforming country's exchange rate depreciates. This research examines the validity of the UEP condition using the Autoregressive Distributed Lag cointegration approach (ARDL) using three countries (Sri Lanka, Vietnam and Bangladesh) categorized under the Asian Frontier Financial Markets for eleven years from January 2008 to December 2018. The generated results opposes the UEP condition. Thus, it has been observed that the outperformance of a country's equity market led to an appreciation of the exchange rate. Conducting studies to capture the second moment of equity; risk and including regulations and level of financial advancements in the sample would be beneficial.

Keywords: *Autoregressive Distributed Lag, Equity Return Differential, Exchange rate Differential, Uncovered Equity Parity*

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