

International Stock Market Diversification among BRICS-P: A Cointegration Analysis

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Abstract: This study explores the benefits associated with the international portfolio diversification among BRICS-P economies. The dynamics of the globe are changing, and the economic transformations have made the emerging economies a prominent center for investments. The possibility of international diversification among the BRICS-P economies may help the investors in maximizing their utilities by earning a higher return with a given level of risk. To assess the benefits of diversification and to explore the long term and short term dynamics of the selected stock markets, this study uses Auto Regressive Distributive Lag (ARDL) approach. The findings show that substantial portfolio diversification benefits exist when the funds of Brazil, Russia, South Africa and China are merged. The study also found that Pakistan and India's funds are co-integrated, and that the prospect of diversification exists if the funds of these two economies are mixed. The results will help the investors in constructing their portfolios by merging the funds of the selected economies, because having a diversified portfolio leads to better risk return performance than having a portfolio with only native funds.

Keywords: BRICS-P, international portfolio diversification, emerging economies, ARDL.