

Equity Market Integration and Portfolio Decisions: A Study of NASDAQ USA and MSCI Emerging Markets Asia Indexes

Ritesh Patel

Ritesh Patel

is an assistant professor in the Economics and Finance Area at the Institute of Management of Nirma University in Gujarat, India. ritesh@nirmauni.ac.in

KEY FINDINGS

- The markets have become more integrated after the Global Financial Crisis.
- Investment in an international market is better than investing only in the home market.
- Investors can diversify their funds to other markets as the diversification can result in a better Sharpe ratio.

ABSTRACT

This article studies market integration among the MSCI Emerging Markets Asia Index and the NASDAQ Composite Index for the United States of America (USA) with respect to the 2008 Global Financial Crisis. The study uses a three-level methodology based on short-term integration, long-term integration, and portfolio decisions. The correlation and Granger causality find short-term integration among the majority of the markets. According to the results of the cointegration test and value-at-risk (VAR) analysis, long-term integration exists among the markets in the post-Global Financial Crisis period. The outcome of the portfolio risk-return analysis indicates that investors have many portfolio options where investment diversification can yield better returns and lower levels of risk compared to investing only in the Indian market. Investors can make portfolio diversification decisions based on the integration among markets. Investors can generate better Sharpe ratios with diversification in both the pre-crisis and post-crisis periods. The government and policymakers can apply this information to draft decisions on monetary and economic policies. In addition, multinational companies can design their investment policies after considering integration among their markets.

TOPICS

Mutual funds/passive investing/indexing, quantitative methods, statistical methods, emerging markets, VAR and use of alternative risk measures of trading risk, financial crises and financial market history*

*All articles are now categorized by topics and subtopics. [View at PM-Research.com](https://www.pmr-research.com).

Financial market integration has evolved into an important topic in recent times. Stock market integration is defined as the state where financial markets in different countries move together and show the same expected risk-adjusted returns.