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An Overview and Performance Evaluation of Emerging Markets

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Description

In recent years, stock markets in emerging market countries have developed rapidly in comparison to developed markets, demonstrating a greater degree of market movement in the recent time. Unfortunately, financial crises marked by large stock market volatility have been a typical occurrence in emerging markets. The empirical examination of the literature reveals that the stock market's evolution is influenced by a number of major boom and bust periods. Rather than a quick spike in the price of an asset or a security, several financial crises were preceded by a rapid growth in the indebtedness of one or more groupings of economies. Market size, volatility, and returns in emerging markets have all increased considerably in recent years, according to the report. Even while developing markets are more volatile than developed markets, they are less connected with one another and with developed markets.

The stock market in the BRIC (Brazil Russia India China) countries continues to experience erratic swings that are often devoid of any genuine economic logic. There are studies also discovered that BRIC markets are vulnerable to financial contagion. During periods of high volatility and after periods of low volatility, stock market indexes have been seen to have a persistent and high degree of association. Conditional volatility of stock returns shows broad evidence of asymmetry, according to our findings, which adds to the growing body of evidence that shows greater interdependence between different stock markets during times of crisis. For international investors looking for possibilities in the BRIC stock markets, these findings are crucial. They can benefit from holding portfolios from many countries, for example, However during volatile times, an investing strategy based entirely on foreign diversification may not work. With a few exceptions, dynamic linkages in emerging markets of less developed nations have been overlooked. However, such linkages are significant, owing to governments' disproportionate effect on economic activity.

The volume of activity in emerging stock markets is still limited, and company-specific information is not necessarily timely or of good quality. Despite the large amount of stock market capitalization as a share of GDP, BRIC stock markets are not sensitive to changes in a majority of macroeconomic indicators. As a result, forecasting stock prices and returns based on changes in macroeconomic performance becomes risky, affecting economic forecasting, planning, and growth. It's possible that the BRIC stock markets are susceptible to global macroeconomic factors or other important difficulties in the BRIC countries' environment, which has to be investigated further.

Keynes portrayed most individuals as being too timid, impatient, or worried about their investments to take long views in Volume of the 'Treatise.' Indeed, in the literature attempting to explain crises, the concept of "animal spirits" (as a source of financial market movements or market psychology (speculation)) has long claimed a large place. Furthermore, Brock noted in that financial markets cannot be entirely ascribed to economic fundamentals, but that the 'psychological condition of the market' can lead to big, sudden fluctuations in stock prices caused by news about changes in the economy's fundamentals. It signifies that the stock market is impacted by speculative trading, which involves purchasing stocks solely because stock prices are predicted to rise in the near future, with the purpose of immediately selling to achieve capital gains. Investors in the stock market will have to decide whether the value of their assets is mostly determined by realistic estimates of future business profitability or macroeconomic fundamentals, or by speculative manias. The theories like Keynes', Galbraith's, and Shiller's theories can provide useful recommendations to investors.

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