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Opinion Article

Emerging Markets: Overview and Performance Analysis

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Stock markets in emerging market economies have developed dynamically in the recent years with regard to their risk-return with developed markets, indicating a higher degree of market movement in the recent period. Unfortunately, financial crisis characterized by dramatic fluctuations in stock markets has been a common phenomenon in emerging countries. The empirical analysis of the literature [1-3] shows that the stock market development hinges on several notable episodes of boom and bust. Some financial crises were preceded by a rapid increase in the indebtedness of one or several groups of economies rather than by a rapid increase in the price of an asset or a security. The study finds that in the emerging markets, market capitalization, volatility, and returns have increased dramatically in the recent years. While emerging markets are more volatile than developed markets, they tend to be relatively less correlated with each other and also with developed markets. BRIC stock market continues to show wild fluctuations, often devoid of real economic rationale. Also, the study has found that BRIC markets are prone to financial contagion. Stock market indices are observed to display a persistent and high degree of correlation between them during high volatility and post high volatility periods. We find that conditional volatility of equity returns show widespread evidence of asymmetry. The study throws up further evidence to show higher inter-dependence between different stock market during crises. These findings are critical for foreign investors scouting for opportunities in the BRIC stock markets. For one, they can gain by holding portfolios from different countries. But, an investment strategy based solely on international diversification may not work during turbulent times.

Dynamic linkages in the emerging markets of less developed countries have been ignored, though with few exceptions. Such relationships are considerable, however, mainly due to the over whelming influence of governments on the economic activity. Emerging Stock markets still have low volume of trade, and company-specific information is not always timely or of high quality. BRIC stock markets are not responsive to changes in a majority of macroeconomic factors in spite of the sizable proportion of stock market capitalization as a share of the country's GDP. Hence, predicting stock prices and returns via changes in the macroeconomic performance becomes precarious and this affects economic forecast, planning and growth. It may be suspected that the BRIC Stock markets might be sensitive to global macroeconomic factors or other salient issues in the BRIC countries environment, which of course warrants further investigation. In Volume II of the '*Treatise*', Keynes described most of people as being too timid, greedy, impatient or nervous about their investments to take long views. Indeed, the idea of "animal spirits" (as a source of financial market movements or market psychology (speculation)) has long occupied a significant space in the literature attempting to explain crises [4-6]. In addition, Brock [7] observed in that financial markets cannot be attributed completely to the economic fundamentals, but that the 'psychological state of the market' may lead to sudden, large changes in stock prices triggered by news about changes in fundamentals of the economy. It means that stock market is influenced by speculative trading-buying stocks only because stock prices are expected to rise in near future, with the intention of selling quickly to realize capital gains. Stock market investors will have to decide whether the value of their shares is driven primarily by the rational estimation of future corporate earnings or macroeconomic fundamentals or whether speculative manias drive the value of their investments. This in turn suggests that the theories of Keynes, Galbraith and Shiller can provide valuable guidance to investors in this era.

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