Building blocs for diverse investment

August 7 2023, by David Bradley

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A research study in the *International Journal of Trade and Global Markets* has looked at the effects of the evolution of the BRIC economies to the BRICS bloc and the implications of that transition on investment and global trade. The work highlights the independence of leading emerging bond markets and their potential for investment diversification.

Adefemi A. Obalade of the University of the Western Cape in Bellville and Brian Nxumalo, Dylan Hoover, Grace O. Obalade, and Paul-Francois of the University of KwaZulu-Natal in Durban, South Africa, used the autoregressive distributed lag model (ARDL) and Pearson correlation tests to explore long-term relationships among bond markets within these blocs. Their findings suggest that investors might explore these markets for improved portfolio diversification opportunities, despite their being within the same league of emerging economies. The team suggests that understanding the dynamics of cointegration and independence among these markets has implications for portfolio management, risk assessment, and global market exposure.

The BRIC countries are Brazil, Russia, India, and China. This economic collation became BRICS when South Africa was added in 2010. The term "BRIC" was originally coined by Goldman Sachs economist Jim O'Neill in 2001 to cover the fast-growing economies that might dominate global finance by 2050.

Obalade and colleagues looked at the BRIC era from 2007 to 2010 and found that long-running cointegration occurred only among three of the 12 possible combinations of bond markets. For the BRICS period (2010 to 2020), there were only two long-running cointegrations among the twenty possible combinations. The implications of this are that while BRIC and BRICS may have been put together nominally, the bond markets in the emerging markets are more independent than originally thought.

Indeed, the strongest connections were between China and India and Brazil and South Africa, respectively, during the two periods the team examined. The addition of South Africa to the bloc led to the evaporation of many of the connections present in the BRIC era.

The findings align with previous research that highlighted certain BRICS bond markets as providing diversification opportunities due to their lack of cointegration. However, they contrast with other studies reporting cointegration among BRICS bond markets, likely due to differences in sample periods and methodological approaches. As such, the present work suggests that despite the BRICS nations being part of a nominal bloc, investment across those markets nevertheless represents diversification.

The lack of cointegration is not surprising, given that BRICS economies respond differently to global factors. The research underscores the country-specific nature of risks associated with bond investments and the heterogeneity among BRICS member states.

More information: Adefemi A. Obalade et al, Evolution of emerging bond markets' cointegration: a transition from BRIC to BRICS, *International Journal of Trade and Global Markets* (2023). DOI: 10.1504/IJTGM.2023.132036

Provided by Inderscience