

Examining the International Portfolio Diversification Benefits of the Turkish Stock Market (BIST100Index) with Some Major Emerging and Developed Markets: A Diagonal BEKK Approach

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Abstract

Since the 1980s, the increased liberalisation process in the global financial system and extent of international capital inflows have raised the importance of the construction of well-diversified portfolios. For a portfolio to be well-diversified, the correlation between the financial assets constituting the portfolio should be low or negative, which can be achieved by constructing portfolios comprising domestic and foreign financial assets. In this regard, this study examines the potential international portfolio diversification benefits between the Turkish stock market and five major emerging (Brazil, Russia, China, South Korea and India) and four developed (United States, United Kingdom, Germany and France) stock markets after the 2007–2008 global financial crisis based on conditional time-varying correlation analysis, which is estimated by using the diagonal BEKK model. The results show that the mean conditional correlations between the BIST100 index and five major emerging and developed stock markets range from 0.24 to 0.38. These results suggest that the portfolios comprising the BIST100 index and other emerging and developed country stock markets investigated in this study may provide significant international diversification benefits for international investors.

Keywords: International portfolio diversification, DBEKK model, emerging stock market, developed stock market

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