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Postgraduate Certificate in International Finance

## Emerging Markets and Global Investment

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### Emerging Markets:

Emerging markets refer to countries that are in the process of rapid industrialization and experiencing significant economic growth. These markets are characterized by factors such as increasing GDP, rising incomes, expanding middle class, improving infrastructure, and favorable demographics. Emerging markets offer investors opportunities for high returns but also come with higher risks compared to developed markets.

### Global Investment:

Global investment involves investing in assets across different countries and regions around the world. This type of investment allows investors to diversify their portfolios and take advantage of opportunities in various markets. Global investment can include stocks, bonds, real estate, commodities, and currencies. It requires a thorough understanding of international markets, economies, and regulations.

### Acronym:

An acronym is a word formed from the initial letters of a name or phrase. Acronyms are commonly used in the finance industry to represent complex terms or concepts in a more concise manner. For example, BRIC stands for Brazil, Russia, India, and China, which are considered major emerging markets.

### Asset Allocation:

Asset allocation is the practice of dividing investments among different asset classes such as stocks, bonds, real estate, and cash to achieve a desired risk-return profile. The goal of asset allocation is to optimize portfolio performance while managing risk. In the context of global investment, asset allocation may involve allocating funds across various countries and regions.

### Benchmark:

A benchmark is a standard or reference point used to measure the performance of an investment portfolio or asset. Benchmarks can be market indices, specific asset classes, or custom indices that represent a particular investment strategy. Investors often compare their portfolio returns against a benchmark to evaluate performance.

### BRIC:

BRIC is an acronym that stands for Brazil, Russia, India, and China. These four countries are considered major emerging markets with significant growth potential. The term was coined by economist Jim O'Neill in 2001 to highlight the economic importance of these countries in the global economy.

### Capital Market:

A capital market is a financial market where individuals, companies, and governments can raise long-term funds through the issuance and trading of financial instruments such as stocks, bonds, and derivatives. Capital markets play a crucial role in allocating capital efficiently and promoting economic growth.

**Correlation:**

Correlation is a statistical measure that indicates the degree to which two variables move in relation to each other. In the context of global investment, correlation is used to assess how different asset classes or markets behave in relation to each other. Understanding correlation can help investors diversify their portfolios effectively.

**Currency Risk:**

Currency risk, also known as exchange rate risk, is the potential for losses arising from fluctuations in foreign exchange rates. Investors who hold assets denominated in foreign currencies are exposed to currency risk, which can impact the value of their investments. Hedging strategies can be used to mitigate currency risk.

**Diversification:**

Diversification is a risk management strategy that involves spreading investments across different asset classes, industries, and regions to reduce exposure to any single asset or risk factor. Diversification can help investors achieve a more stable and consistent return on their portfolios. In global investment, diversification across countries and regions is essential.

**Emerging Market Bond:**

Emerging market bonds are debt securities issued by governments or corporations in emerging markets. These bonds offer investors the opportunity to earn higher yields compared to developed market bonds but come with higher risks. Emerging market bonds can be denominated in local currency or foreign currency.

**ETF (Exchange-Traded Fund):**

An exchange-traded fund (ETF) is a type of investment fund that trades on a stock exchange like a stock. ETFs typically track an index, commodity, or basket of assets and provide investors with exposure to a diversified portfolio. ETFs are popular among global investors for their low costs and liquidity.

**Foreign Direct Investment (FDI):**

Foreign direct investment (FDI) refers to investment made by a company or individual in one country in business interests in another country. FDI involves acquiring a lasting interest in a foreign enterprise, such as setting up a subsidiary, joint venture, or acquiring ownership stakes. FDI plays a significant role in the global economy.

**Global Bond:**

Global bonds are debt securities issued by governments, municipalities, or corporations in multiple countries. These bonds are typically denominated in major currencies such as US dollars, euros, or yen. Global bonds provide investors with diversification benefits and exposure to different interest rate environments.

**Hedge Fund:**

A hedge fund is an alternative investment vehicle that pools capital from accredited investors and institutional investors to invest in a wide range of assets using various strategies. Hedge funds aim to

generate high returns while managing risk through hedging techniques. Hedge funds are active participants in global markets.

#### Inflation Risk:

Inflation risk is the potential for the purchasing power of money to decline due to rising prices of goods and services. Inflation erodes the real value of investments over time, especially fixed-income securities. Investors need to consider inflation risk when making investment decisions, particularly in emerging markets.

#### Joint Venture:

A joint venture is a business arrangement in which two or more parties agree to collaborate on a specific project or enterprise. Joint ventures are common in global investment as they allow companies to pool resources, share risks, and access new markets. Joint ventures can be formed between domestic and foreign partners.

#### Key Performance Indicator (KPI):

A key performance indicator (KPI) is a measurable value that demonstrates how effectively a company is achieving its key business objectives. KPIs are used to evaluate the performance of investments, projects, or initiatives. In global investment, KPIs can help investors track the success of their international portfolios.

#### Liquidity:

Liquidity refers to the ease with which an asset can be bought or sold in the market without significantly affecting its price. Liquid assets can be quickly converted into cash, while illiquid assets may take longer to sell and may incur a price discount. Liquidity is an essential consideration for global investors.

#### Market Capitalization:

Market capitalization, or market cap, is the total value of a company's outstanding shares of stock calculated by multiplying the share price by the number of shares outstanding. Market capitalization is used to categorize companies as large-cap, mid-cap, or small-cap. In global investment, market capitalization reflects the size of a company relative to the global market.

#### Net Asset Value (NAV):

Net asset value (NAV) is the per-share value of a mutual fund or ETF calculated by subtracting liabilities from the total value of the fund's assets and dividing by the number of shares outstanding. NAV represents the underlying value of the fund's portfolio and is used to determine the price at which shares are bought or sold.

#### Opportunity Cost:

Opportunity cost is the potential benefit that is foregone when choosing one alternative over another. In global investment, opportunity cost refers to the returns that could have been earned by investing in a different asset or market. Investors need to consider opportunity cost when making investment decisions.

#### Political Risk:

Political risk is the potential for government actions, political instability, or social unrest to impact investments in a particular country or region. Political risk can include changes in regulations, expropriation

of assets, civil conflict, or terrorism. Investors in emerging markets need to assess and manage political risk effectively.

#### Quantitative Easing:

Quantitative easing is a monetary policy used by central banks to stimulate the economy by buying financial assets such as government bonds, mortgage-backed securities, or corporate bonds. Quantitative easing increases the money supply and lowers long-term interest rates to boost investment and spending. The impact of quantitative easing can affect global markets.

#### Return on Investment (ROI):

Return on investment (ROI) is a measure used to evaluate the efficiency of an investment by comparing the gain or loss generated relative to the initial investment. ROI is calculated as a percentage of the investment amount. In global investment, ROI helps investors assess the profitability of international ventures.

#### Stock Market Index:

A stock market index is a benchmark that tracks the performance of a specific group of stocks representing a particular market, sector, or region. Stock market indices are used to gauge the overall performance of the stock market and to compare the returns of individual investments. Global investors often use stock market indices to analyze market trends.

#### Technical Analysis:

Technical analysis is a method of evaluating securities by analyzing statistical trends and historical price action. Technical analysts use charts, graphs, and other tools to identify patterns and signals that help predict future price movements. Technical analysis is widely used in global investment to make trading decisions.

#### Unsystematic Risk:

Unsystematic risk, also known as specific risk or diversifiable risk, is the risk that is unique to a particular company, industry, or investment. Unsystematic risk can be reduced through diversification across different assets. In global investment, unsystematic risk can be mitigated by investing in a diverse range of countries and regions.

#### Value at Risk (VaR):

Value at risk (VaR) is a statistical measure that quantifies the potential loss in the value of a portfolio over a specified time horizon at a given confidence level. VaR is used to estimate the maximum loss that an investment portfolio could experience under normal market conditions. Global investors use VaR to manage risk exposure effectively.