

International Portfolio and Emerging Markets: Challenges and Opportunities: Case of Egypt

Michael Ayad Gayed Gendy ,Laila Gamal

Abstract

With the growing integration of world capital markets, great emphasis has been placed on exploring investment opportunities in emerging markets as they began to offer attractive investment alternatives, offering more diversification benefits and higher return. This paper studies the attractiveness of the Egyptian market as one of the emerging markets as an international diversification destination. This paper also discusses how the challenges in the emerging markets like Egypt may swallow its attractiveness to the potential foreign investors. Based on constructive literature review there are numerous advantages of international investing. Even though these advantages appear attractive, the risks and constraints for international portfolio investment must not be overlooked since they might influence the investment decision considerably. Based on the results, we suggest that to reap the benefits of international diversification, when diversifying in asset classes from emerging markets, these emerging markets must not be well correlated and integrated with the developed ones. International portfolio theories to emerging markets might serve as a helpful starting point in determining the appropriate allocation between domestic and international equities. Also, many investors should consider their sensitivity to a number of considerations, including volatility reduction, exchange rate risk, implementation costs, taxes, regulation, and their own preferences.

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