

Global Equity Allocation and Frontier Markets: A Case of Vietnam

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Abstract

Frontier countries account for 21.6 percent of the world's population, 6 percent of its nominal GDP, and only 3.1 percent of the world market capitalization. Frontier markets represent 11 percent of the combined total of developing country markets which includes the combination of emerging markets and frontier markets. Thus it is imperative that a global investor following indexing style of fund allocation should allocate 3.1 percent of its wealth in the frontier markets and those making a targeted portfolio allocation to a blended emerging/ frontier segment should allocate 11 percent of their wealth to the frontier markets. However, a typical frontier market is characterized as highly volatile and illiquid. In addition to the volatility and illiquidity of the equity markets, impulsiveness of their currencies inflict heightened risk for the international investors. Thus a case to case analysis of frontier markets make sense for an active portfolio investor. Present paper explores the opportunities and challenges of equity allocation in frontier markets in general and Vietnam in particular, evaluating their macroeconomic factors and investigating into micro structure of their financial markets.

Key Words: Frontier Markets, Emerging Markets, Volatility, International Diversification, Liquidity.

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