Course Synopsis: The goal is to provide a methodology for constructing an investment portfolio of emerging and frontier market assets. After providing an overview of the emerging market landscape and the basics of portfolio theory we will investigate key issues for selecting emerging market assets. We will begin at the macro level assessing how to determine which countries are likely to provide a backdrop of strong economic growth. We will then dive deeper to assess the advantages and risks associated with specific asset classes – e.g., sovereign and local bonds, equities, real estate, money markets, etc. Issues associated with direct vs portfolio investment will be discussed as well as onshore vs offshore exposure, including exchange rate risk. We will finish the class by developing a system for assessing an emerging country’s vulnerability to financial crisis and determining when a crisis creates a buying opportunity. Throughout the semester we will be considering how COVID-19 is affecting markets and investment opportunities.

Class Meeting Times and Format

Classes will be lectures accompanied by power point slides; students are encouraged to actively participate by asking questions and challenging ideas and concepts introduced to the class. I intend to incorporate topical events into the classroom discussion and students are encouraged to alert the class to relevant articles and news events. I hold weekly office hours and am happy to arrange other times to meet.

While there are several texts with required reading (see below) lectures will have substantial additional content, especially, discussion of relevant current global events. Class attendance is highly encouraged as repeated absence is likely to negatively impact your grade as anything covered in class is fair game for exam questions.

Texts: Required readings from the following books

6. Topical articles will be added over the course of the semester

Lecture Notes: Relevant slides and links to news items will be posted to Sakai following each lecture.
Assignments, Projects, Exams and Grading:

Your grade will be based on:

1. Term Paper on a selected country (20%)
2. An ongoing simulated trading project beginning on Sept 29\textsuperscript{th}, which will require reports every other week (20%)
3. Mid-term on October 3\textsuperscript{rd}, (20%)
4. Final on December 14\textsuperscript{th} (25%)
5. Five Homework Assignments (5%)
6. Class Participation (10%)

Term Paper

The Term paper – max ten pages - will be distributed on October 10\textsuperscript{th} and will be due on November 26th. Each student or team (you may be required to form teams depending on class size) will provide an assessment of whether the macro conditions of a chosen country provide an attractive investment environment. The paper will also suggest specific investments and key risks. More details will be provided when the project is distributed and time permitting students will have an option to do an oral presentation at the end of the term for extra credit.

Trading Project:

The project requires you to manage a stock portfolio on a near-real-time basis, again, depending on class size you may be required to work in teams. The project will commence on September 24\textsuperscript{th} when you will be given a theoretical $50 million to invest. While any US listed equity is a viable investment, your investment strategy must have an emerging market theme. Details on trading rules will be provided at the onset of the project. Reports on alternate weeks outlining trading strategies will be required starting October 15\textsuperscript{th} and an additional final report at the termination of the project on December 3\textsuperscript{rd}. Your grade will be based on three components – risk-adjusted return, cash and trade management, and the reports where you will outline the rationale for your trading decisions.

Use of a Bloomberg terminal will be useful for establishing and monitoring trades. Bloomberg is available at several locations on campus, including on the third floor of the Social Science building, outside room 329A, as well as in Bostock Library. If you are not familiar with its use, this is an excellent opportunity to get some experience with a tool in almost universal use in the financial industry.

Final Exam

The final exam is open book and will be held on November 21\textsuperscript{st} from 7-10PM. While the final will focus on the material from the second half of the course, it will be cumulative.
Regrade Policy

My overall grading policy is that a weighted consistent numerical value will be attached to each assignment and the course grade will be based on the cumulative total for all assignments. So, a point ultimately is just a point regardless of what it might mean for your grade on an individual assignment. That said, for a grade reconsideration on any submitted work, it must be brought to my attention within one week of receipt. To avoid “grade grubbing”, you should only seek regrades if you think the difference is at least 2% of the total grade.

COURSE OUTLINE

I) Portfolio Basics and Assessing Macro Attractiveness

A) Introduction to emerging market portfolios (JB Ch.1-2; MD Ch. 1-2)
   - Defining the global economic landscape – what is an emerging market?
   - Identifying the risks and opportunities across the landscape
   - Basics of portfolio construction
   - Absolute return vs risk-adjusted return
   - The importance of diversification
   - Key indicators for assessing relative valuations of stocks and bonds

B) Identifying the Breakout Nations (RS1 Entire Book)
   - Defining a Breakout Nation – Why is it Important?
   - What do the BRICs – Brazil, Russia, India and China – have in common?
   - The key economic indicators for supporting investment
   - The social and political factors that are key for investors
   - Is it possible to see new Breakout Nations emerge?

C) Basic sources of economic growth (NYU Ch. 1-5; MD Ch. 3-4)
   - The composition of GDP and the mechanics of economic growth
   - A quick history of growth of the world economy
Introduction to the Production Function

The relationship between Savings and Growth

The critical importance of total factor productivity

D) The role of government policy in growth (NYU Ch.12, 15-20)

The role of fiscal policy in managing growth

The importance of an independent central bank

Exchange rate policy and the Impossible Trinity

E) Institutions and Infrastructure (JB Ch.11; NYU Ch 6)

How can institutional quality be measured?

The relationship between institutional quality and growth

Political systems and income distribution as drivers of growth

Road signs for improving institutional quality

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II) Assessing risks and returns for specific asset classes

A) Defining the tiers of investment Risk (JB Ch. 5-7; MD Ch. 5-10)

Discussion of the different types of risk

Categorizing the tiers of investment risk in emerging markets

Identifying the risks associated with each investment tier

Reviewing the tools available to manage these identified risks

What is sovereign risk and why is it such a key benchmark for most emerging markets

Determining whether emerging markets offer diversification

B) Anticipating and Exploiting Financial Crises (MD Ch. 11-12; NYU Ch. 21; RS2 entire book)

How to assess the backdrop of global economic risk
Assessing the vulnerability of a specific country to a crisis
Assessing the appropriateness of government response to crisis
Knowing when a crisis is creating an investment opportunity

III) Time Permitting, Case Studies – including..

What countries are the best candidates to become the next BRIC?
Turkey goes from market darling to dog and now back to darling?
The importance of the US trade wars for China’s economic future
Class country presentations