

## GLOBAL PORTFOLIO DIVERSIFICATION FOR INDIAN INVESTORS: BALANCING RISKS AND OPPORTUNITIES IN INTERNATIONAL EQUITIES

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### **Abstract**

This teaching case examined the reason for Indian investors to assign some part of their portfolios to global equity market, considering that Indian markets accounted for only approximately 3% of global market capitalization. Taking into consideration MSCI index returns from 2008 to 2025, the case examined cross-market correlations and conducted portfolio simulations to ascertain benefit of International diversification. It examined the risk–return profiles of a purely domestic equity allocation with those of a mixed strategy consisting 70% domestic and 30% global equities, emphasizing the impact on portfolio efficiency and wealth creation over long term.

Practical implications: Investor with the help of systematic investment plans or hedged funds with 10- 30 % allocation to global equities reduced home bias and volatility., although geopolitical events, foreign currency risk and regulatory risks remained. The case was suitable for courses in Portfolio Management, International Finance, or Investment Analysis.

**Keywords:** International diversification, portfolio risk, global equities, Indian investors, currency risk, MSCI indices, home bias.

### **1. Introduction**

Indian equity markets accounted for only about 3% of global market capitalization, leaving Indian investors largely focussed on a single geography while effectively losing exposure to the remaining 97% of global opportunities. Such concentration of investments to only domestic equity exposed portfolios to country-specific risks—including domestic policy changes, sectoral concentration, exchange rate movements, and cyclical slowdowns—without the offsetting benefits of international diversification (Eun, C. S., & Resnick, B. G, 1988).

A strategic allotment to global large-cap equities across developed and emerging markets provided required diversification benefits (French, K. R., & Poterba, J. M., 1991). As markets moved differently across economic and policy cycles, exposure to global equity reduced dependence on any one country's growth trajectory. Periods of domestic underperformance were often offset by strength in other countries, thereby stabilising portfolio volatility and increased resilience.

The case used historical MSCI Indices data from 2008-2025 shown in table-1 to identify the risk- alleviation potential of introducing global equities into Indian portfolios (Markowitz, H., 1952). Through comparative return analysis and risk metrics, it illustrated how both retail and institutional investors achieved enhanced portfolio efficiency by integrating global equity allocation alongside domestic holdings.

**2. Background: The Case for Global Exposure**

Investors should spread their wealth among global equities according to each asset's share of global market capitalization and avoid home bias (Bertaut, C. C., Bressler, B., & Curcuro, S. E.,2020). Indian investors had most of the time shown a strong home bias, investing in domestic equities due to better understanding of local companies, absence of exchange rate risk as investment being in assets which were rupee-denominated assets, clear regulations, and ease of market access. Readily available information, media coverage, and brand recognition further reinforced this preference. Retail investor found investing overseas appeared complex, currency-exposed, and administratively cumbersome.

However, successive market disruptions underscored the vulnerabilities of domestically focused portfolio. The global financial crisis of 2008 revealed how interconnected markets could transmit financial shocks rapidly across regions. Later, domestic stress events, including the 2013 taper tantrum, which triggered sudden outflows of capital and devaluation of currency, and the 2016 demonetisation of specific currency denomination introduced significant short-term volatility into Indian markets. More recently, global rate tightening cycles and geopolitical tensions in 2022 once again highlighted systemic risk.

As a whole, such events demonstrated that dependence on a one economy increased portfolio risk. They fortified the strategic case for measured global allocation as a means to diversify macroeconomic, policy, and exchange rate risks while participating in wider global growth opportunities (Solnik, B.,1974).

**Historical Evidence of Asynchronous Performance**

**Table 1: Annual Returns of Select MSCI Indices (2008–2025, %).**

<b>Year</b>	<b>MSCI China (%)</b>	<b>MSCI Europe (%)</b>	<b>MSCI India (%)</b>	<b>MSCI Japan (%)</b>	<b>MSCI USA (%)</b>
2025	31.17	35.41	2.62	24.6	17.31
2024	19.42	1.79	11.22	8.31	24.58
2023	-11.2	19.89	20.81	20.32	26.49
2022	-21.93	-15.06	-7.95	-16.65	-19.85
2021	-21.72	16.3	26.23	1.71	26.45
2020	29.49	5.38	15.55	14.48	20.73
2019	23.46	23.77	7.58	19.61	30.88
2018	-18.88	-14.86	-7.3	-12.88	-5.04
2017	54.07	25.51	38.76	23.99	21.19
2016	0.81	-0.4	-1.43	2.38	11.61
2015	-7.62	-2.84	-6.12	9.57	0.69
2014	7.96	-6.18	23.87	-4.02	12.69
2013	3.64	25.23	-3.83	27.16	32.39
2012	22.75	19.12	25.97	8.19	16.13

2011	-18.41	-11.06	-37.17	-14.33	2.11
2010	4.83	3.88	20.95	15.46	15.45
2009	62.29	35.8	102.81	6.29	27.13
2008	-50.83	-46.21	-64.63	-29.28	-37.14

(Source: MSCI data)

The facts emphasized that global events had a significant impact on the Indian market, and allocations to global markets helped investors withstand such shocks. Tables 2 and 3 illustrated the impact of major global and domestic events on index returns, showing the relative resilience by using diversified exposure.

**Table 2: Impact of Global Events**

Year	Scenario	MSCI World Index %	MSCI India Index %
2000	Dot com bubble	-14	-23
2008	Subprime crisis	-42	-65
2011	US credit rating downgrades, European sovereign debt crisis	-8	-38

(Source: MSCI data)

**Table 3: Impact of Domestic Events**

Year	Scenario	MSCI World Index %	MSCI India Index %
1998	Nuclear Test	23	-23
2013	Taper tantrum	24	-6
2016	Demonetization and growth concern	5.3	-3

(Source: MSCI data)

**Table 4: Global exposure can bring down risk of the overall portfolio**

Portfolio	Return (CAGR) 10 years	Risk (Std deviation) 10 years	1 year return
Domestic Nifty 50 Index	10.5	16.6	12
MSCI world index	11.3	15.1	21
70 Domestic + 30 Global	14.5	9	16

(Source: MSCI data)

The blended approach, as shown in Table 4, delivered higher returns and significantly lower volatility over the updated period.

#### 4. Correlation Insights (historical)

- **With MSCI US:** China (0.67), Europe (0.87), India (0.67), Japan (0.84)
- **With MSCI India:** China (0.78), Europe (0.73), Japan (0.50)

Historical correlation analysis provided important insights into cross-market relationships and diversification benefits. When compared against the MSCI USA Index, China and India both

showed moderate correlations of 0.67, while Europe (0.87) and Japan (0.84) exhibited relatively higher co- movement with the US stock market.

From Indian point of view, correlations with other markets varied meaningfully. The MSCI India Index showed a strong correlation with China (0.78) and Europe (0.73), but a significantly lower correlation with Japan (0.50).

The relatively low India–Japan correlation indicated stronger diversification opportunity, as lower correlation coefficients implied reduced synchronized movement across markets. These historical relationships supported the case for international allocation to improve portfolio efficiency and risk dispersion.

## **5. Risks for Indian Investors**

Investing in global equity market to achieve further diversification exposed Indian investors to various risks. Currency risk arose from fluctuations between the rupee and foreign currencies, which could either enhance or erode returns. Geopolitical and market risks stemmed from political instability, trade tensions, global recessions, or sharp corrections in overseas markets. Regulatory risks were also relevant, particularly changes in the Liberalised Remittance Scheme (LRS) limits or evolving RBI guidelines governing overseas investments. Additionally, liquidity constraints and higher transaction or fund management costs could affect net returns.

These risks could be mitigated through prudent portfolio construction. A broad geographic spread across developed and emerging markets reduced concentration risk. Adopting long-term systematic investment plans (SIPs) helped average out market volatility and currency fluctuations. Currency- hedged funds offered protection against adverse exchange rate movements. Maintaining a moderate allocation, typically in the 10% to 30% range, ensured that global exposure enhanced diversification without disproportionately increasing portfolio risk.

## **6. Conclusion**

For an Indian investor, the analysis highlighted the enhance benefits of diversifying beyond domestic equities. Over a 10-year period, the mix of domestic and global portfolio mix comprising 70% Indian equities and 30% global equities—delivered a superior compounded annual growth rate (CAGR) of 14.5%. This meaningfully exceeded the 10.5% return generated by the Nifty 50 and the 11.3% return of the MSCI World Index.

Importantly, this higher return was achieved with substantially lower volatility. The mixed portfolio recorded a standard deviation of 9%, compared with 16.6% for a purely domestic allocation. In practical terms, Indian investors experienced smoother performance cycles and reduced drawdowns, while still capturing attractive long-term growth.

Recent performance patterns reinforced the diversification case. In 2025, Indian equities generated a modest 2.62% return, whereas several major global markets delivered significantly stronger gains— China returned 31.17%, Europe 35.41%, Japan 24.6%, and the United States 17.31%. These divergences illustrated how geographic concentration risk limited portfolio outcomes. A globally diversified allocation allowed Indian investors to participate in growth

opportunities across economic cycles, policy environments, and sectoral leaders worldwide, rather than relying solely on domestic market performance.

Global exposure significantly enhanced portfolio resilience for Indian investors. The 2008–2025 data set—including the 2025 divergence, when India lagged while major global markets surged—reinforced that a thoughtfully constructed 70/30 allocation delivered superior risk-adjusted returns. At the same time, prudent risk management remained essential to sustain these benefits over the long term.

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