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The BICM Financial Market Review provides analytical insights about the performance of the financial market in Bangladesh on a monthly basis.

“Remittance Surge Bolsters Reserves, but Sluggish Credit Growth Underscores Cautious Economic Recovery”

— Imran Mahmud, Lecturer, BICM & Md. Adnan Ahmed, Lecturer, BICM



Economy of Bangladesh

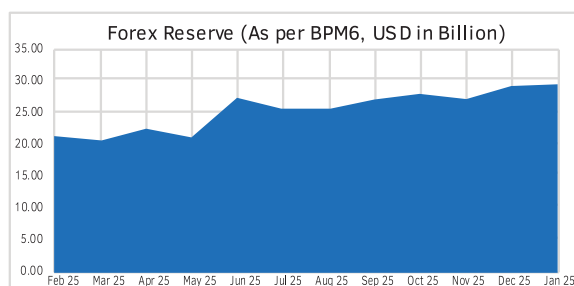


Figure-01 Forex Reserve

In January 2026, Bangladesh’s gross foreign exchange reserves increased to USD 28.75 billion (BPM6) from USD 28.51 billion in December 2025, continuing the rebound that began in mid-2025 after reaching a low of approximately USD 20.3 billion in March 2025. [Fig-01]

Remittance inflows increased to USD 3.17 billion in January 2026, representing a 4.24% month-on-month rise from USD 3.04 billion in December 2025. Despite notable volatility during mid-2025, remittance inflows recovered markedly in the second half of the year, rising from a trough of USD 2.42 billion in August to exceed USD 3.0 billion for two consecutive months. [Fig-02]

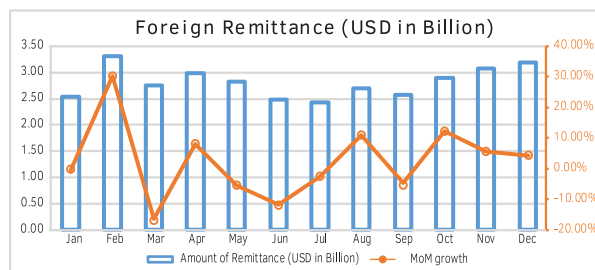


Figure-02 Foreign Remittance

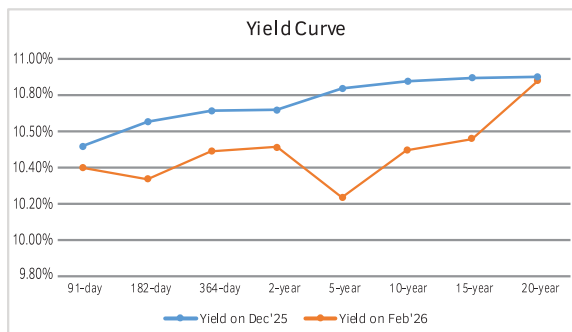


Figure-03 Yield Curve

Between December 2025 and February 2026, yields declined across most Treasury maturities, led by short- and medium-term instruments. The 91-day T-bill fell by 12 basis points to 10.40%, while the 182-day and 364-day bills eased to 10.34% and 10.49%, respectively. Medium-to long-term yields also moderated, with the 5-year bond dropping sharply by 61 basis points to 10.23% and the 10-year declining to 10.50%. Only the 20-year tenor remained broadly stable at 10.88%, indicating persistent long-term inflation and fiscal risk premiums. [Fig-03]

The call money rate edged down to 9.90% in January 2026 from 10.03% in December, while the interbank repo rate remained unchanged at 10.00%. Meanwhile, the 10-year Treasury bond yield declined to 10.50% from 10.87% a month earlier, indicating easing pressures at the long end of the yield curve despite stable short-term policy rates. [Fig-04]

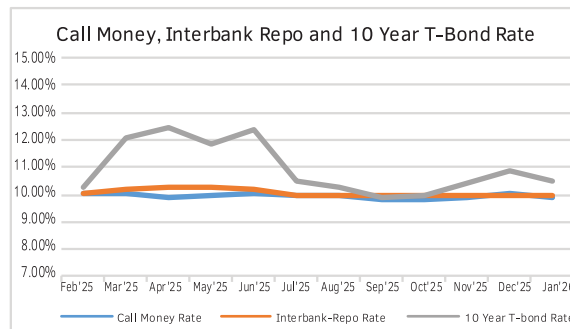


Figure-04 Call Money, Interbank Repo and 10 Year T-Bond Rate

A Visual Tour of the Key Statistics

Private sector credit growth slowed further to 6.10% in December 2025, down from 6.58% in November [Fig-05].

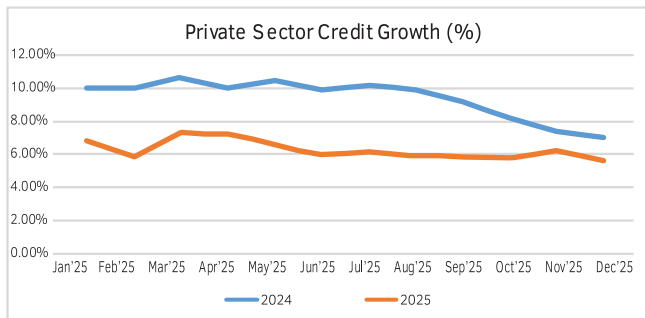


Figure-05 Private Sector Credit Growth Rate

In FY25, Bangladesh's foreign direct investment rose to USD 1,686.2 million from USD 1,415.5 million in FY24, marking a rebound after two consecutive years of decline, though remaining well below the FY19 peak of USD 3,482.7 million. [Figure-06].

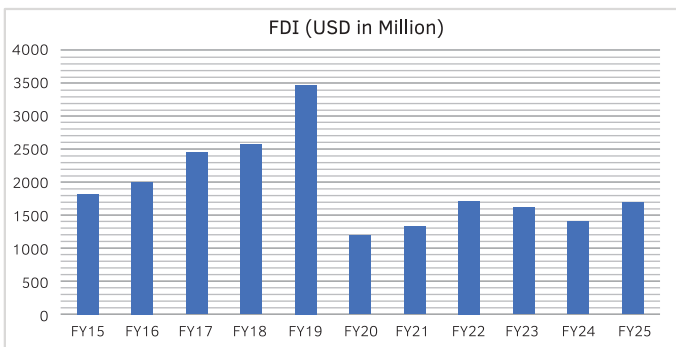


Figure-06 Foreign Direct Investment (FDI)

Between 2015 and 2025, NPL ratio increased sharply from 8.8% to 35.7%, while domestic credit growth slowed from 12% to 8%, with the most pronounced deterioration occurring after 2023. [Fig-07]

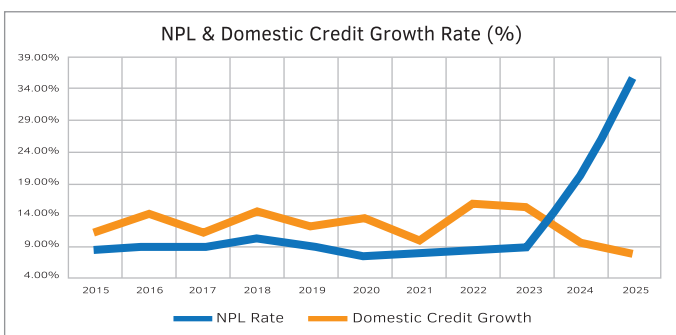


Figure-07 Historical NPL and Domestic Credit Growth in Banks

As of November 2025, total deposits in deposit money banks increased by 1.52% month-on-month and 10.80% year-on-year, driven by a 1.28% rise in time deposits and a 3.62% increase in demand deposits. Over the same period, total bank credit grew by 1.03% month-on-month and 11.06% year-on-year, supported mainly by a 27.02% year-on-year surge in investments, alongside moderate growth in advances, while import and inland bills declined by 15.46% month-on-month. [Table -01]

| Items | Nov, 2025 | Oct, 2025 | Nov, 2024 | Percentage Changes | |
|-------|-----------|-----------|-----------|--------------------------|--------------------------|
| | | | | Nov, 2025 over Oct, 2025 | Nov, 2025 over Nov, 2024 |

Deposits held in Banks (TK in millions)

| | | | | | |
|------------------|-------------------|-------------------|-------------------|-------------|--------------|
| Demand Deposits* | 2,022,236 | 1,951,535 | 1,912,634 | 3.62 | 5.73 |
| Time Deposits* | 17,510,722 | 17,289,681 | 15,715,922 | 1.28 | 11.42 |
| Total | 19,532,958 | 19,241,216 | 17,628,556 | 1.52 | 10.80 |

Bank Credit (TK in millions)

| | | | | | |
|--------------------------------|-------------------|-------------------|-------------------|-------------|--------------|
| Advances | 17,673,622 | 17,459,984 | 16,563,555 | 1.22 | 6.7 |
| Bills (Import & Inlands Bills) | 245,539 | 290,443 | 252,117 | -15.46 | -2.61 |
| Investments | 6,021,104 | 5,946,844 | 4,740,377 | 1.25 | 27.02 |
| Total | 23,940,265 | 23,697,271 | 21,556,049 | 1.03 | 11.06 |

Table-01 Trend of Amount of Deposits and Credit in Banking Industry of Bangladesh

Insights from Numbers

▶ Bangladesh's foreign exchange reserves have exhibited a sustained recovery since mid-2025, increasing from USD 20.29 billion in March to USD 28.75 billion by January 2026. This nearly USD 8.5 billion accumulation underscores a strengthening of external-sector stability, driven primarily by resilient remittance inflows, moderated import demand, and tighter macroeconomic management. Although month-to-month volatility persists—most notably in the declines observed in May and November—the overall upward trajectory indicates easing balance-of-payments pressures. Nevertheless, with private sector credit growth remaining subdued and investment sentiment constrained by political uncertainty ahead of elections, the reserve buildup appears to be more consumption- and remittance-led than investment-driven, underscoring the need to restore structural confidence to sustain medium-term external resilience.

▶ Remittance inflows have emerged as the primary anchor of Bangladesh's external recovery, rising steadily from USD 2.42 billion in August 2025 to USD 3.17 billion in January 2026. While flows experienced sharp fluctuations earlier in 2025—peaking in March before softening through mid-year—the recent acceleration reflects improved exchange rate alignment, stronger formal banking channels, and resilient overseas employment. This sustained remittance momentum has directly contributed to the rebuilding of forex reserves and eased balance-of-payments pressures.

▶ The broad-based decline in government securities yields in February reflects improving system liquidity, easing inflation expectations, and reduced near-term pressure on government borrowing following stronger remittance inflows and rising foreign exchange reserves. Banks—already heavily positioned in treasury instruments amid weak private credit demand—appear to be reallocating excess liquidity into shorter and medium tenors, compressing yields across the curve. While falling yields may provide modest relief to financing costs, the transmission to private sector activity remains constrained, as elevated lending rates and subdued investment sentiment continue to limit credit expansion.

▶ The stability in call money and repo rates reflects Bangladesh Bank's tight liquidity management stance, keeping overnight funding conditions broadly anchored around the policy corridor. However, the decline in the 10-year yield suggests growing demand for longer-dated government securities, supported by improving foreign exchange reserves and sustained remittance inflows, which have helped calm macro-financial risks.

▶ The persistent deceleration in private sector credit highlights weak investment demand amid elevated lending rates, policy uncertainty, and ongoing political transition ahead of elections. Compared with 2024, when credit growth hovered near double digits, 2025 reflects a structural cooling, with businesses delaying expansion and capital machinery imports remaining subdued. Excess liquidity in banks has increasingly been redirected toward government securities rather than productive lending, reinforcing a risk-averse credit environment. While easing bond yields and stronger external buffers offer some macro stability, a meaningful recovery in private credit is likely to depend on improved investor confidence, clearer policy signals, and restoration of business activity following political normalization.

▶ The FY25 uptick in FDI signals tentative improvement in investor sentiment, supported by easing external pressures and gradual macro stabilization. However, FDI levels remain structurally subdued compared with pre-pandemic highs, reflecting lingering political uncertainty, elevated financing costs, energy supply constraints, and slower private investment momentum. The gap between current inflows and FY19 underscores lost medium-term investment capacity.

▶ As NPLs surged particularly in 2024-25, banks became increasingly risk-averse, constraining new lending and tightening credit conditions. Elevated bad loans have weakened bank balance sheets, reduced risk appetite, and redirected liquidity toward safer government securities rather than productive private lending. This deterioration in financial intermediation is dampening investment momentum and capital formation, reinforcing the broader slowdown in private sector activity.

▶ Banking sector indicators in November 2025 point to continued liquidity accumulation, with deposit growth driven primarily by time deposits, reflecting a sustained preference for longer-term savings amid elevated interest rates. Credit expansion remains investment-oriented, as banks increasingly allocate funds to securities rather than trade finance, evidenced by the sharp rise in investments alongside a contraction in bills. While advances registered modest growth, weak trade-related financing signals subdued private sector activity. Overall, this pattern underscores a continued shift in bank balance sheets toward safer assets, highlighting cautious lending behavior amid political uncertainty, high borrowing costs, and fragile business confidence, despite improving deposit mobilization.

"January Witnessed Positive Momentum in Bangladesh's Stock Market with Rising Indices and Activity"

In January 2026, Bangladesh's capital market exhibited broad-based gains with rising indices, expanding market capitalization, and increased trading activity, reflecting improved investor sentiment and short-term market optimism.

Faima Akter [Lecturer, BICM] & Gourav Roy [Lecturer, BICM]



Capital Market

During January 2026, the Dhaka Stock Exchange recorded a broad-based positive movement across all major indices, reflecting improved market sentiment and rising investor confidence. As of table 2, the benchmark DSEX increased by 243.7 points, or 4.96 percent, indicating a general recovery in market capitalization and trading activity. The DSES rose by 2.83 percent, suggesting relatively moderate participation of Shariah-compliant stocks compared to the overall market. In contrast, the DS30 advanced by 6.27 percent, implying stronger performance of large-cap and fundamentally strong firms, which typically attract institutional interest. Notably, the CDESET and DSMEX posted the highest gains at 6.78 percent and 6.66 percent respectively, signaling increased risk appetite and speculative interest in capital goods and emerging stocks. Overall, the synchronized upward trend across indices points to short-term optimism supported by improved liquidity and positive expectations regarding corporate earnings.

| Index Name | 1-Jan-26 | 29-Jan-25 | Change | % Change |
|------------|----------|-----------|--------|----------|
| DSEX | 4,910.61 | 5,154.31 | 243.7 | 4.96% |
| DSES | 1,006.00 | 1,034.49 | 28.49 | 2.83% |
| DS30 | 1,869.42 | 1,986.54 | 117.12 | 6.27% |
| CDESET | 1,013.82 | 1,082.56 | 68.74 | 6.78% |
| DSMEX | 876.61 | 934.98 | 58.37 | 6.66% |

Table-02 Performance of Capital Market Indices in January, 2026

Figure 8 shows daily percentage changes in the DSEX and DSES during January 2026, reflecting short-term volatility and strong co-movement between the two indices. Both indices experienced frequent fluctuations, indicating an active but unstable trading environment. A significant upward spike occurred around mid-January, when both indices recorded their highest gains, suggesting temporary bullish sentiment and strong buying pressure. However, this momentum was not sustained, as several negative sessions followed toward the end of the month. Overall, the similar movement patterns imply that market-wide factors dominated investor behavior rather than segment-specific dynamics.

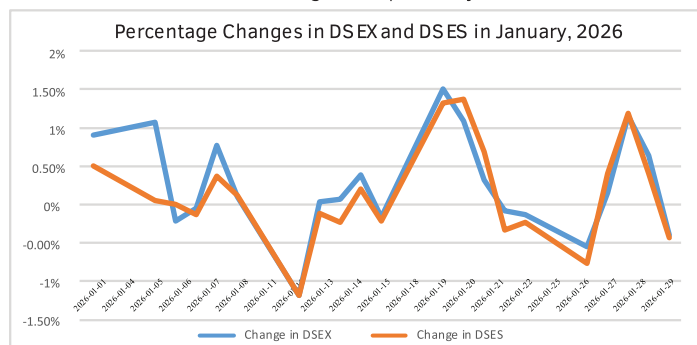


Figure-08 Percentage Changes in DSEX and DSES in January, 2026

On the other hand, both CASPI and CSE30 showed [Fig-09] showed a highly volatile trend throughout January 2026, with frequent shifts between gains and losses. A mid-month decline was followed by a short-lived rebound in the second half, but the momentum was not sustained as negative sessions returned toward the end. Overall, the month reflected mixed and cautious investor sentiment without a clear upward trend.

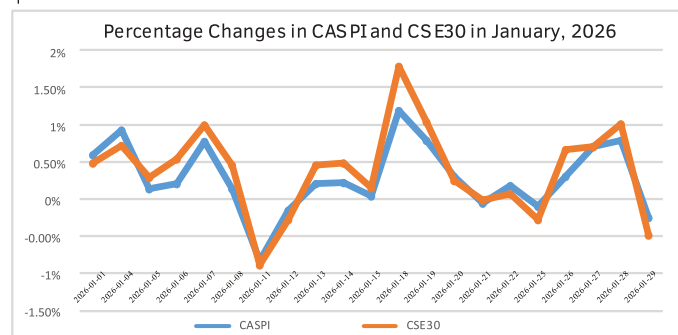


Figure-09 Percentage Changes in CASPI and CSE30 in January, 2026

The Advance-Decline ratio reflects market breadth and investor participation during January 2026. The sharp spike in mid-January indicates strong buying pressure, with significantly more advancing stocks than declining ones [Fig-10]. However, subsequent fluctuations and occasional negative values suggest unstable breadth, implying that the rally was not consistently supported across the broader market.

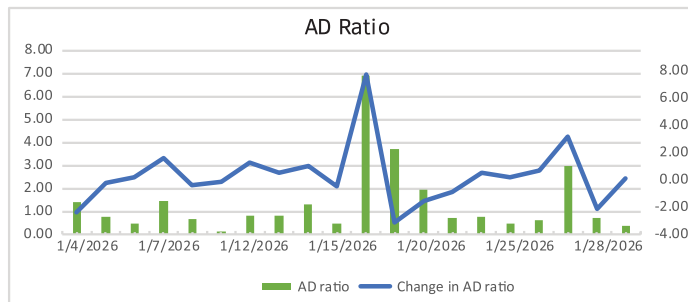


Figure-10 Advance Decline Ratio in January, 2026

Table 3 indicates a substantial expansion in market capitalization during January 2026, with average market value rising by 62.01 percent, reflecting strong price appreciation. However, average traded value declined by 20.05 percent, suggesting lower transaction value despite rising prices. Meanwhile, both the number of trades and trade volume increased, implying higher retail participation and liquidity driven by smaller-sized trades.

| Particulars | 30 December 2025 | 31 January 2026 | Change | % Change |
|-------------------------------------|------------------|-----------------|--------------|----------|
| Average Market Capital (TK Million) | 4236503.6 | 6,863,605.7 | 2,627,102.1 | 62.01% |
| Average Traded Value (TK Million) | 6204.6 | 4,960.8 | -1,243.8 | -20.05% |
| Average Number of Trades | 141576.9 | 154,038.2 | 12,461.3 | 8.80% |
| Average Trade Volume | 125325109.2 | 159,428,668.0 | 34,103,558.8 | 27.21% |

Table-03 Market Aggregates in January, 2026

Table 4 highlights the most active, top gaining, and top losing stocks in January 2026, reflecting both trading concentration and return dispersion in the market. SQUARE PHARMACEUTICALS led turnover, indicating strong investor attention toward fundamentally large and liquid stocks, while ORION INFUSION and PRAGATI LIFE INSURANCE also attracted significant trading activity. On the gainers' side, MEGCON MILK recorded an exceptional return of 60.26 percent, followed by MEGHNA PET and GBB POWER, suggesting speculative interest and short-term momentum trading in selected mid-cap stocks. In contrast, the losers' list was dominated by financial sector stocks such as FAS FINANCE and PLFS, both declining by 28.74 percent, indicating sector-specific weakness and possible negative investor sentiment toward non-bank financial institutions during the month.

| Turnover | | | Gainer | | Loser | | | |
|----------|-------------|-----------|--------|------------|------------|----|------------|------------|
| Sl | Stock | Turn Over | SI | Stock | Return (%) | SI | Stock | Return (%) |
| 1 | SQUARPHARMA | 183.48 | 1 | MEGCONMILK | 60.26% | 1 | FASFIN | -28.74% |
| 2 | ORIONINFU | 131.77 | 2 | MEGHNA PET | 30.32% | 2 | PLFS | -28.74% |
| 3 | PRAGATILIF | 122.48 | 3 | GBBPOWER | 25.42% | 3 | FAREASTFIN | -17.28% |
| 4 | DOMINAGE | 117.92 | 4 | PRAGATILIF | 21.73% | 4 | GENNEXT | -11.54% |
| 5 | ASIATICLAB | 103.89 | 5 | ISLAMIBANK | 13.23% | 5 | RUNNERAUTO | -10.99% |

Table-04 Top Turnover Leaders, Gamers and Losers

The sectoral P/E landscape [Fig-11] reflects broad dispersion in valuations across industries. Tannery, Paper and Printing, and Miscellaneous trade at notably higher P/E levels, reflecting strong growth expectations or relatively stretched valuations. In contrast, Bank, Fuel and Power, and NBF maintain lower P/E ratios, indicating more conservative pricing and subdued earnings expectations across these sectors.

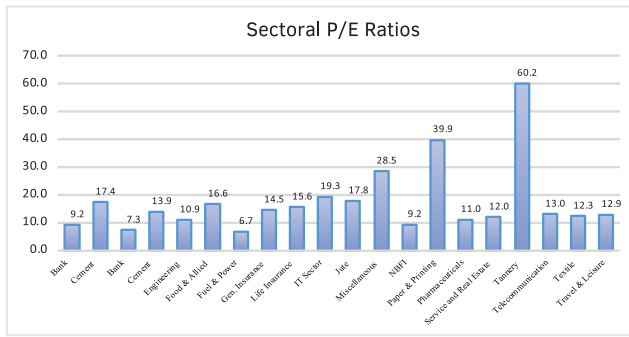


Figure-11 Sectoral P/E Ratios

The sector return profile in figure 12 indicates a mixed and highly uneven market, led by a sharp decline in Travel & Leisure, which significantly underperformed all other sectors. Textile, Paper & Printing, and Jute also posted negative returns, reflecting pressure on cyclical industries. In contrast, Life Insurance, General Insurance, Bank, and Cement recorded gains, indicating a shift toward relatively defensive sectors. Overall, the pattern suggests selective investor preference rather than broad-based market strength.



Figure-12 Sector-wise Return

The turnover distribution in Figure 13 shows that trading activity was concentrated in a few key sectors, particularly Bank, Pharmaceuticals, General Insurance, and Textile, each accounting for a notable share of total turnover. Engineering, Food & Allied, and Fuel & Power also contributed meaningfully, indicating active investor participation in these segments. In contrast, smaller sectors such as Jute, Tannery, Cement, Ceramic, and Travel & Leisure recorded minimal contributions, reflecting limited liquidity and investor interest. Overall, the pattern suggests a liquidity concentration in large and financially oriented sectors, while smaller or niche industries remained relatively inactive.

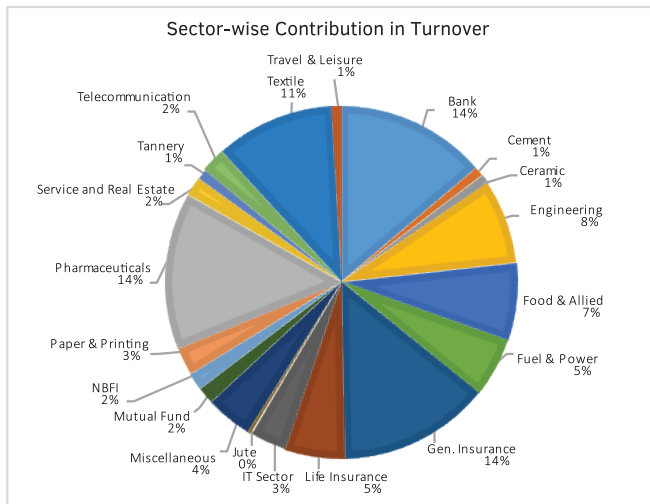


Figure-13 Sector-wise Contribution in Turnover

The performance comparison in Table 5 shows that Bangladesh's DSEX recorded a moderate gain of 4.96 percent in January 2026, outperforming major emerging markets such as India and China, which posted negative returns. However, Bangladesh underperformed Japan and Turkey, particularly Turkey's BIST 100, which exhibited exceptionally strong growth, indicating relatively higher market momentum in those economies.

| Performance Comparison of the World's Emerging Indices | | |
|--|------------|--------|
| Country | Index Name | Return |
| India | BSESENSEX | -0.77% |
| China | China A50 | -2.31% |
| Japan | Nikkei 225 | 6.03% |
| Turkey | BIST 100 | 22.88% |
| Bangladesh | DSEX | 4.96% |

Table-05 Performance Comparison of the World's Emerging Indices in January, 2026

The commodity futures market in Table 6 shows mixed performance in January 2026, reflecting divergent demand and supply dynamics. Natural gas recorded the highest gain at 18.12 percent, followed by crude oil and gold, indicating strong energy and safe-haven demand. In contrast, sugar declined by 5 percent, suggesting weaker agricultural pricing conditions. Overall, rising energy and precious metal prices point to inflationary pressures and heightened global economic uncertainty.

| Performance Comparison of Commodity Futures | | | |
|---|--------|-------------|-----------|
| Commodity name | Return | Price (USD) | Parameter |
| SUGAR | -5.00% | 14.26 | Lbs |
| NATURAL GAS | 18.12% | 4.35 | MMBtu |
| COTTON | 1.86% | 63.07 | Lbs |
| SOYBEAN | 3.28% | 1064.25 | Bu |
| GOLD | 13.13% | 4887.07 | t.oz |
| CRUDEOIL | 13.57% | 65.21 | Barrel |

Table-06 Performance Comparison of Commodity Futures

In January 2026, Bangladesh's capital market continued to experience volatility amid persistent macroeconomic pressures. The policy rate has remained at 10% since October 2025, tightening liquidity and increasing borrowing costs for businesses. BSEC continued implementing reforms to strengthen market stability and restore investor confidence. The Capital Market Stabilization Fund (CMSF) was being restructured to improve transparency while market surveillance systems were upgraded to curb price manipulation. The commission also collaborated with other institutions to tackle corruption, facilitate the listing of state-owned enterprises, and encourage high-quality non-listed firms to enter the market. The month saw cautious market activity, but ongoing reforms and selective sector gains offered optimism. With effective policy execution and renewed investor confidence, the capital market is poised for gradual stabilization and long-term growth.



“Is Bangladesh Integrated with Global Financial Markets? Evidence from DSEX and Major World Indices”



Executive Summary

This study examines the degree of financial integration between the Dhaka Stock Exchange (DSE) and major global equity markets using monthly data from 2016 to 2025. Using co-movement analysis, correlation measures, rolling integration indicators, volatility transmission, and principal component analysis, the results show that Bangladesh remains structurally weakly integrated with global financial markets. While temporary co-movement emerges during periods of global stress, such as the COVID-19 crisis, integration is neither stable nor persistent. The evidence suggests that the DSE behaves largely as a segmented market, driven more by domestic factors than global financial cycles. This has important implications for portfolio diversification, risk transmission, and capital market policy in Bangladesh.

1. Introduction

Financial market integration is a key feature of modern capital markets, where asset prices co-move across countries due to capital mobility, information flows, and synchronized economic cycles. While integration enhances efficiency, liquidity, and access to global capital, it also increases vulnerability to external shocks and financial contagion. For emerging markets like Bangladesh, this creates both opportunities and risks. Despite the rapid growth of Bangladesh’s capital market, empirical evidence on its global integration remains limited. This study addresses this gap by examining the co-movement between the Dhaka Stock Exchange and major international indices, including MSCI World, Nikkei 225, FTSE 100, Shanghai Composite, BSE Sensex, and regional benchmarks.

The central question is simple but fundamental:

Is Bangladesh truly part of the global financial system, or does it remain largely segmented from international market dynamics?

2. Data and Methodology

Monthly index data from January 2016 to June 2025 were collected from Investing.com for the Dhaka Stock Exchange (DSEX), MSCI World, Nikkei 225 (Japan), FTSE 100 (United Kingdom), BSE Sensex (India), VN30 (Vietnam), Karachi 100 (Pakistan), China A50, and the Shanghai Composite. Monthly log returns were computed from index levels to ensure comparability across markets. The analysis employs five complementary techniques: index co-movement using rebased index series, correlation analysis of monthly returns, rolling 12-month correlations to capture time-varying integration, rolling volatility to examine shock transmission, and Principal Component Analysis (PCA) to identify structural co-movement clusters. This approach is primarily descriptive but analytically robust, allowing for a clear and intuitive assessment of global market integration without relying on complex econometric assumptions, while remaining highly relevant for policy and investor decision-making.

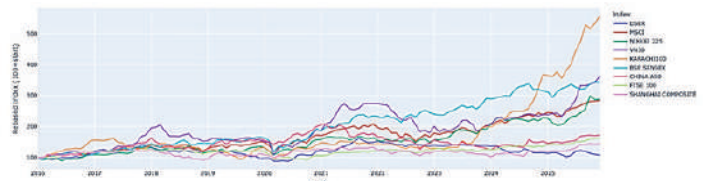
3. Results and Interpretation

3.1 Long-Run Co-movement of Equity Markets

Figure 1 shows the long-run co-movement of global indices rebased to a common starting value. Most international markets display strong upward trajectories, especially the MSCI World, BSE Sensex, and FTSE 100. In contrast, the DSEX exhibits a strikingly different pattern. While global indices more than triple

over the sample period, the DSE remains largely stagnant, with prolonged periods of flat or declining performance. This visual evidence alone suggests structural decoupling. Bangladesh does not participate meaningfully in the global equity growth cycle.

Figure 1: Index Co-movement (Rebased to 100)



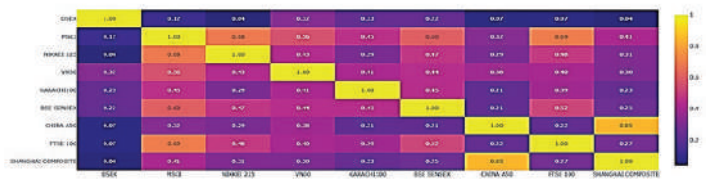
Source: Author's calculation

Figure-01 Index Co-movement (Rebased to 100)

3.2 Correlation Structure of Returns

The correlation matrix in figure 2 provides the most direct evidence of financial integration between markets. The results show that DSEX has very low correlations with major global indices, such as MSCI (0.12), FTSE 100 (0.07), Nikkei 225 (0.04), and Shanghai Composite (0.04). In contrast, strong correlations are observed among global markets, for example between China A50 and Shanghai Composite (0.85), MSCI and FTSE 100 (0.69), and MSCI and Nikkei 225 (0.68). This clearly indicates that while international markets move closely together, the Bangladesh stock market remains largely isolated. From a financial integration perspective, the DSE behaves more like a segmented domestic market than a globally connected one.

Figure 2: Correlation Heatmap (Monthly Returns, %)



Source: Author's calculation

Figure-02 Correlation Heatmap (Monthly Returns)

3.3 Time-Varying Integration

Figure 3 shows that Bangladesh’s financial integration with global markets is temporary. Correlations were near zero during 2016–2019, spiked in 2020–2021 due to COVID-19, and declined again after 2022, indicating short-term contagion rather than sustained structural integration.

Figure 3: Rolling 12-Month Correlation (DSEX vs Global Indices)



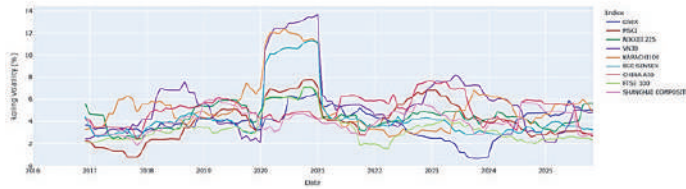
Source: Author's calculation

Figure-03 Rolling 12-Month Correlation (DSEX vs Global Indices)

3.4 Volatility Transmission

Volatility as per figure 4 increased sharply across all markets in 2020, confirming the presence of global financial stress. However, the behavior of the DSE is different from global markets. While its volatility rises during major global shocks, it does not continue to follow international volatility patterns afterward, and post-crisis movements are mainly driven by domestic factors. This suggests that Bangladesh absorbs global risk during crises but does not significantly transmit risk back to the global system, which is a common feature of frontier markets.

Figure 4: Rolling 12-Month Volatility (Std. Dev. of Monthly Returns, %)



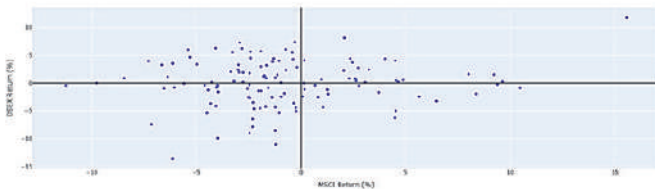
Source: Author's calculation

Figure-04 Rolling 12-Month Volatility

3.5 Linear Relationship with Global Market

The scatter plot in figure 5 shows no clear pattern between global market returns and DSE returns, as the points are widely spread and appear almost random. This means that changes in global markets do not consistently affect the Bangladesh stock market. For investors, this suggests that Bangladesh provides diversification benefits, but it is not strongly connected to global markets.

Figure 5: Scatter of Monthly Returns (DSEX vs MSCI)



Source: Author's calculation

Figure-05 Scatter of Monthly Returns (DSEX vs MSCI)

3.6 Focused Integration with MSCI

The rolling correlation between DSEX and MSCI in figure 6 shows that the two markets moved together only for a short period during the COVID-19 crisis. After that, their relationship turned negative for a long time in 2022–2023, and the connection has remained weak since then. Overall, this suggests that Bangladesh's stock market is still not closely connected to global equity markets.

Figure 6: Rolling 12M Corr. (DSEX vs MSCI)



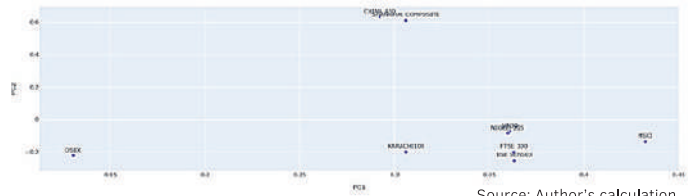
Source: Author's calculation

Figure-06 Rolling 12 Month Correlation between DSEX and MSCI

3.7 Structural Co-movement (PCA)

The principal component analysis reveals a clear three-cluster structure in global equity market co-movement. The first cluster represents the global core, comprising MSCI, FTSE 100, Nikkei 225, and BSE Sensex, which exhibit strong common factor loadings and move closely together. The second cluster forms a distinct China block, consisting of the China A50 and Shanghai Composite indices, reflecting region-specific dynamics. In contrast, the DSEX appears as an isolated node, lying far from both clusters, which indicates that its return behavior is statistically distinct from the global system. This provides the most structural and robust evidence of Bangladesh's segmentation from international financial markets.

Figure 7: PCA Loadings (Co-movement Structure)



Source: Author's calculation

Figure-07 PCA Loadings (Co-movement Structure)

4. Policy and Investor Implications

From an investor perspective, the empirical evidence suggests that Bangladesh offers meaningful diversification benefits due to its weak correlation with major global equity markets. The low degree of integration implies that movements in international markets do not systematically transmit into the Dhaka Stock Exchange, allowing investors to reduce overall portfolio risk through geographic diversification. However, this advantage comes at a cost. Limited integration also reflects low foreign liquidity, weak participation by global institutional investors, and slow transmission of international information into domestic asset prices. As a result, the DSE behaves more like a closed domestic market than a fully-fledged emerging international market, restricting its attractiveness to global portfolio investors seeking scalable exposure.

From a policy perspective, low financial integration should not be interpreted as a structural success. Instead, it reflects deeper institutional and regulatory constraints, including capital controls, limited foreign investor access, weak institutional investor presence, and persistent market microstructure issues. While segmentation may temporarily shield the market from external shocks, it also limits capital inflows, market depth, and pricing efficiency. Achieving sustainable integration requires systematic reforms aimed at improving market transparency, ensuring regulatory stability, liberalizing foreign investment rules, and strengthening the role of institutional investors. Without such reforms, Bangladesh's capital market is likely to remain peripheral to global financial systems despite long-term economic growth prospects.

5. Conclusion

This study provides consistent evidence that Bangladesh remains weakly integrated with global equity markets. While temporary co-movement appears during periods of global stress, such as the COVID-19 crisis, these linkages are short-lived and non-structural. The Dhaka Stock Exchange continues to operate largely as a segmented domestic market, driven more by local dynamics than international financial cycles. For Bangladesh, the challenge is not how to reduce integration, but how to build it sustainably without importing excessive instability. Until structural reforms take place, the DSE will remain on the periphery of global capital markets.

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