

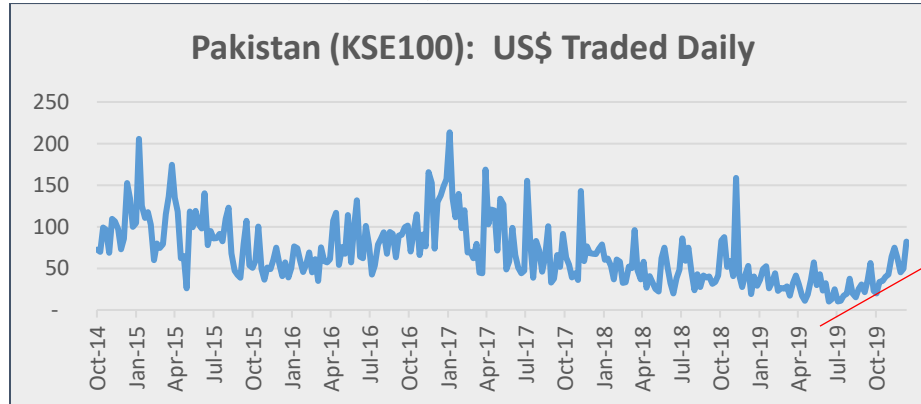
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Outlook: What's on the Radar for 2020?

"Prediction is very difficult, especially if it's about the future." Niels Bohr, Nobel Laureate in Physics

Like a portfolio, predictions are better in large numbers, so that the good ones outweigh the stinkers. A few thoughts, in that vein, for 2020.

- **We are past-peak in anti-trade.** Frontier is the only group of countries that have growing working populations in the long term. They will see GDP growth benefits from the resulting higher incomes, and from the production and consumption of traded goods. After the 2019 political attacks by populist movements on all things global, including Trump and Brexit, 2020 should feature some deals on trade. If not a new dawn, at least a quieter storm.
- **A long drought in Frontier stock liquidity is ending.** Many markets are already showing fresh signs of life after a long winter. For example, Pakistan's stock market volumes seem to have bottomed in 2019 (below).



Frontier trading volumes are starting to recover

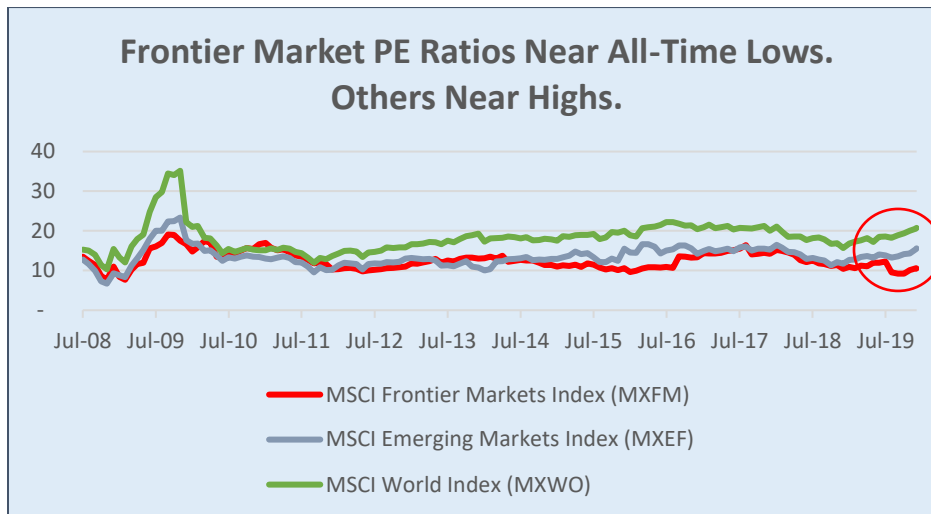
Source: Bloomberg

- **MSCI's Frontier index changes will stop being a Frontier theme.** The top index house shook Frontier markets in 2017, 2018 and 2019 by moving some of its biggest Frontier Markets Index weights, Pakistan, Argentina, and Kuwait, into their Emerging index. (Kuwait, which currently represents a fat 28% weighting in the Frontier ETF, will go into

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Emerging in 2020, and was +36% in 2019.) Trying to time MSCI's index country changes is like predicting the date the Yankees will bring up a pitcher from their AAA team-- and is an unwelcome market distortion to active investors. Looking ahead, however, the remaining Frontier heavyweights are all hampered by major foreign ownership, account and FX restrictions that limit foreign investor involvement, namely Vietnam (12% weighting), Morocco (11%), and Kenya (10%).

- **Frontier valuations will recover.** Frontier earnings growth has outpaced stock prices, so its valuations on PE ratios have gone down even as World and Emerging stocks have gotten pricey (below). Look for a catchup in Frontier valuations in 2020.

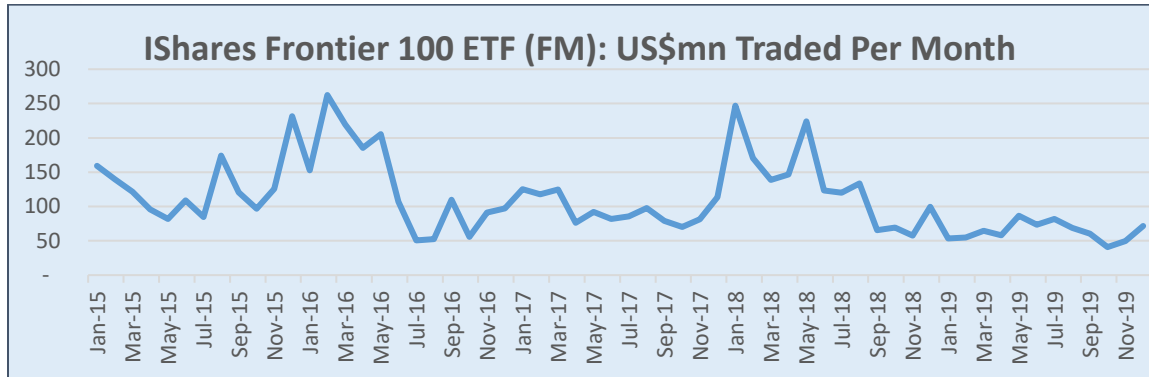


Frontier
valuations
are low, not
high

Source: Bloomberg, MSCI

- **Investor interest in Frontier can only go up.** This is clearly talking my book, but investor flight from Frontier equity may have run its course, judging from trading volumes in the main passive instrument (below). Hand in hand with valuations, we may have seen the worst.

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Source: Bloomberg

As potential catalysts for a Frontier recovery stack up for 2020, investors should take note. It might be a good time for a conversation.

Charlie Gushee
January 3, 2020

Interesting December Reading

Graphs on: the US imports less from China and more from “Other”, LatAm politics get less pink, Africa needs massive increases in urban housing, US far right terrorism 18-19, countries banning gas vehicles to 2040, ballooning China R&D spend, aging Asia. https://www.cfr.org/article/visualizing-2020-trends-watch?utm_source=dailybrief&utm_medium=email&utm_campaign=DailyBrief2019dec24&utm_term=DailyNewsBrief

ESG standards are not so clear after all: <https://www.economist.com/finance-and-economics/2019/12/05/climate-change-has-made-esg-a-force-in-investing>

The Economist buys the bull case for Pakistan: <https://www.economist.com/finance-and-economics/2019/12/05/the-perils-and-rewards-of-economies-in-rehab>

Africa stalls on energy development: <https://www.theafricareport.com/21310/energy-for-all-stalls-across-africa/?mod=djem> Frontiers

Off-radar market Jamaica gets a rare pat on the back from Moody's: <http://www.jamaicaobserver.com/business-report/moody-s-upgrades-jamaica-s-rating-moving-in-the-right-direction-says-clarke-182126?mod=djem> Frontiers

1350 Avenue of the Americas
2nd Floor
New York, NY 10019
t: 646.738.8078
cgushee@kykloscapital.com

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