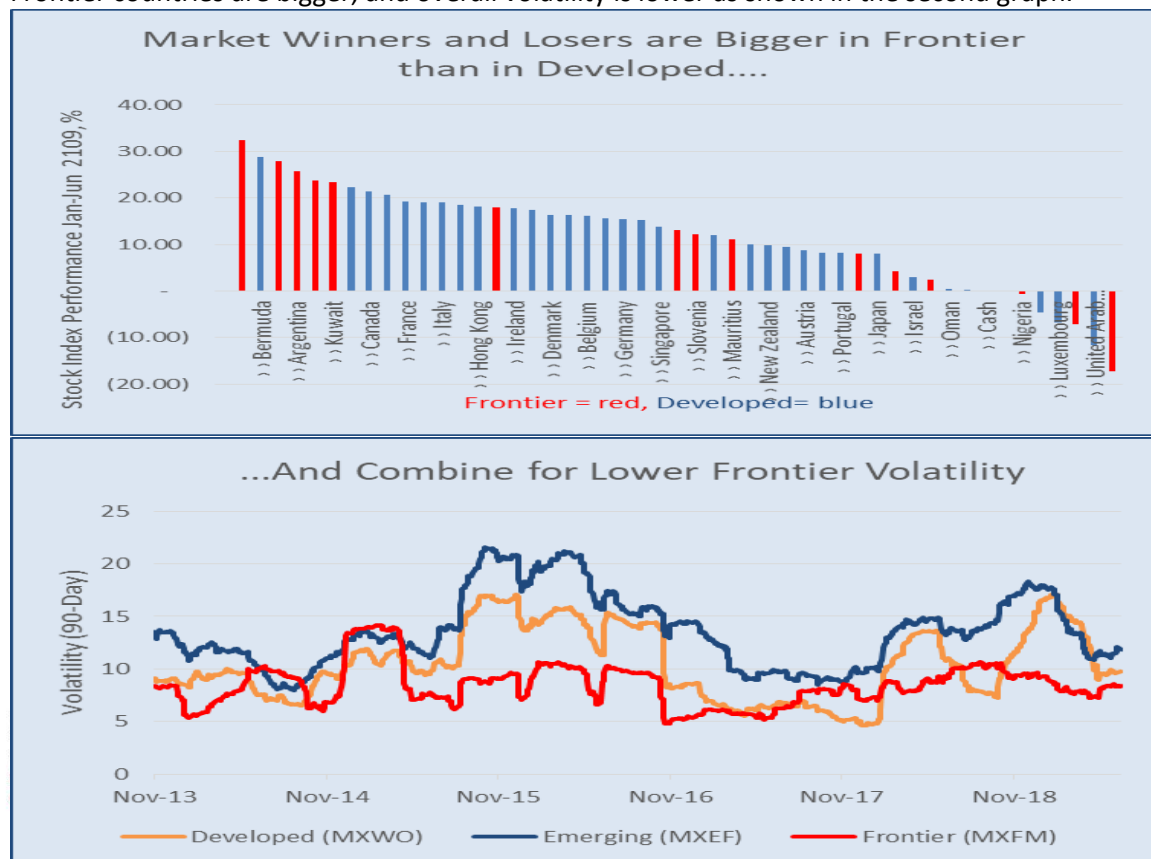


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OUTLOOK: Less Risk from Big Moves. Plus: Argentina Redux.

"I will have to remember 'I am here today to cross the swamp, not to fight all the alligators.'"
Rosamund and Benjamin Zander, *The Art of Possibility*

Low price volatility is the statistical measure of low risk for investors, and it is a key reason to be an investor in Frontier equity markets. That sounds counter-intuitive. Frontier features bigger trading liquidity and currency risks than Developed. But the underlying economic differences between countries are far greater in Frontier than in other market classes, and drive greater differences in stock market performance. For example, the income level of MSCI Frontier member Kenya is under \$3,000 per capita (PPP), while that of Kuwait, also an index member, is a chunky \$65,000, over 20 times higher-- so their consumer and banking companies look very different. Such vast differences mean very low correlation in market performance between Frontier countries overall, and the biggest price moves at both ends of the spectrum tend to be dominated by Frontier as the graph below illustrates. The benefits of diversification between Frontier countries are bigger, and overall volatility is lower as shown in the second graph.



Sources: Bloomberg, MSCI

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As it happens, June provided an excellent illustration, with the MSCI Argentina Index posting a return of +26% in the month, offsetting a miserable performance by MSCI Pakistan (which Kyklos considers Frontier) at -4.5%. Kyklos has exposure in both markets, but, happily, Argentina's weight in the portfolio is more than double Pakistan's.

One More Update on Argentina

In June I spent several days in Argentina meeting with government officials, market participants, and company management teams. At present, all of them are obsessively focused on the looming presidential elections, which have quickly boiled down to a two-way contest between the current Cambiemos government led by Mauricio Macri and the opposition Judicialist Alberto Fernandez with his vice president hopeful, Cristina Fernandez Kirchner. Argentine politics are messy, but most observers see an ongoing political pivot to the center, with many of the extreme factions backing one or the other of the big players. As a stock market bet, that would mean that the worst options, such as another debt default, are off the table. Furthermore, the latest economic data smells like a looming rebound, with exports, the current account, and the Argentine peso performing better in recent weeks. With key elections in August, October and probably November, market players are suddenly more hopeful for a Macri win (and they all want a Macri win!). Argentina is now 12% of the Kyklos portfolio after the recent bounce.

Charlie Gushee
July 2, 2019

Interesting June Reading

China acts more like Western institution in their African investments: <https://www.economist.com/middle-east-and-africa/2019/06/29/china-is-thinking-twice-about-lending-to-africa>

That African population boom? Not so much-- the UN changes its numbers. <https://www.economist.com/graphic-detail/2019/06/22/the-un-revises-down-its-population-forecasts>

Quiz: What's the biggest port in the Mediterranean? Hint: it's not in France. <https://www.reuters.com/article/us-morocco-economy-ports/moroccos-tangier-port-to-become-mediterraneans-largest-idUSKCN1TR2G0?mod=djem> Frontiers

How India may cook their GDP numbers: <https://www.economist.com/finance-and-economics/2019/06/15/a-former-official-casts-doubt-on-indias-gdp-figures>

AFRICA: Governance may be improving a bit on civil society acting as a brake on leaders-for-life:

https://www.cfr.org/backgrounder/africas-leaders-life?sp_mid=59688237&sp_rid=Y2d1c2hlZUBreWtsb3NjYXBpdGFsLmNvbQS2

The market impact of IMF deals: <https://research.cdn-1.capitaleconomics.com/e2b86c/what-happens-after-imf-deals.pdf>

What would a shooting war with Iran look like? https://www.foreignaffairs.com/articles/iran/2019-06-04/what-war-iran-would-look?sp_mid=59552413&sp_rid=Y2d1c2hlZUBreWtsb3NjYXBpdGFsLmNvbQS2&spMailingID=59552413&spUserID=MzcOTM0NzU4Mzc1S0&spJobID=1661339028&spReportId=MTY2MTMzOTAyOAS2

Oil theft ripping in Nigeria: <https://www.bloomberg.com/news/articles/2019-06-05/nigeria-s-oil-thieves-roar-back-even-as-militants-kept-in-check?mod=djem> Frontiers

Cambodia: What Chinese debt trap? <https://www.euronews.com/2019/05/30/cambodia-pm-dismisses-fears-of-chinese-debt-trap?mod=djem> Frontiers

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