

OUTLOOK: Top-Down for Bottom-Up Types. What Now for Frontier GDP?

“Everything should be built top-down, except the first time.” Yogi Berra

A Top-Down View for a Bottom-Up Manager

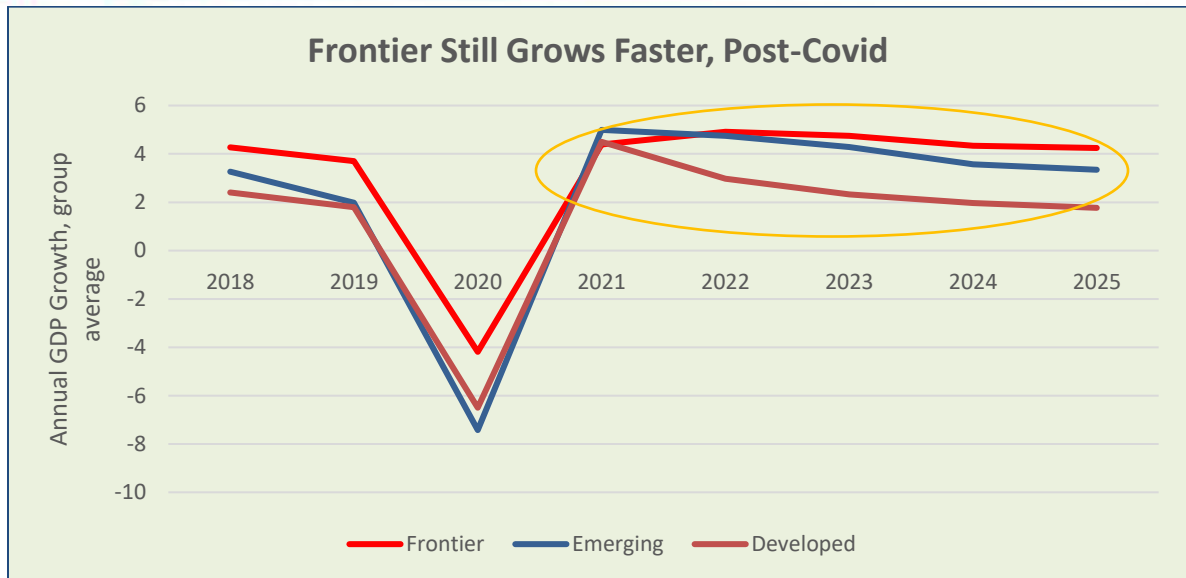
Kyklos uses a proprietary six-factor macro country risk model, to score and rank Frontier countries according to their overall economic risk. The goal is to have an accurate and independent reality check on some of the risks that escape our bottom-up stock selection process, such as potential currency devaluations, extreme shifts in GDP trends and current accounts, and sovereign credit rating changes. It allows us to take an informed view on the operating environment of our companies.

The latest update to the model was good news overall for our current portfolio, with improved scores for Ghana, Kazakhstan, Pakistan, and Vietnam, where we hold significant positions. It showed declining scores for several markets that may be popular with investors but where we have no exposure, such as Kuwait, Morocco, and Argentina. And it drives us to take a closer look at Sri Lanka and Nigeria, where we continue to have small positions but which our model does not like.

Do Frontier Countries Still Have a Growth Story?

Faster economic growth is the linchpin of Frontier market investor motivation. With structurally higher rates of population growth, younger populations, and potential increases in productivity from low levels, Frontier countries offer higher real GDP growth than Developed or Emerging countries. Is that still true in a post-Covid period?

Covid is a Frontier growth hiccup, but not a permanent disability, according to the IMF's latest GDP estimates. After less of a plunge in 2020 than Developed or Emerging countries, Frontier sees less of a 2021 bounce, but then returns to its steady premium growth rate going forward (below).



Sources: Kyklos, IMF, <https://www.imf.org/en/Publications/SPROLLS/world-economic-outlook-databases#sort=%40imfdate%20descending>.

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Kyklos Capital

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