CITY OF LONDON
Investment Management Company Limited

Frontier Markets Semi-Annual Outlook

February 2021*

Overview

The Road to Reduced Restrictions

The outlook for frontier markets (FM) depends in large part on the success in combatting COVID-19 globally, defeating threats from new variants and progressing with vaccinations. Should the global economy reopen more fully in H2, FM stands to benefit from external demand tailwinds.

The backdrop for global markets has improved in recent months with the advent of effective COVID-19 vaccines and the rollout of national vaccination programmes. This could allow for a broader reopening of economies globally and a move closer to a pre-pandemic operating environment. Sectors like tourism are likely to be slower to recover given that this will require vaccinations for large swathes of populations, beyond the vulnerable. In this sense, the need for 'vaccine passports' could delay the recovery. New variants of COVID-19 are also a concern, though adapted vaccines can potentially tackle these. What is more, the speed of development and rollout may be facilitated by improved technology, scientific collaboration and more flexible regulatory standards.

In addition, the Biden administration is likely to implement a new stimulus bill worth some $1.9 trillion. Fiscal and monetary supports in many economies are likely to remain substantial globally. This, in turn, should support external demand for a number of FM economies.

Meanwhile, certain FM countries have controlled the outbreaks of COVID-19 well (Vietnam) and governments have delivered economic support (Kazakhstan). At the same time, others face a delay in the recovery due to reliance on tourism (Morocco) and suffered from more traditional issues like currency stability and inflation (Argentina).

Market Strategy

FM equities are attractively valued relative to emerging market (EM) peers. The 12M forward P/E for MSCI FM has fallen in recent months while that of MSCI EM has risen, leading to a widening of the P/E discount to 22% (two standard deviations below the five-year average). Part of this is due to a difference in expected earnings, with the 12M forward EPS for FM 6.6% below pre-pandemic levels while that for EM is only 0.8% lower. However, this discrepancy is unlikely to be warranted should COVID-19 restrictions begin to ease in H2. Hence, FMs could catch up and participate in a cyclical upturn given the likely rise in EPS expectations and their high exposure to financials. FM also offer a dividend yield of 3.1%, which is comfortably above that of EM (1.8%).

We make the following changes to our allocation:

- **Downgrade Argentina to *underweight*.** Argentina faces significant economic headwinds, including a resurgence of COVID-19. A devaluation also appears likely given low and falling reserves. The outlook could improve if an IMF agreement were reached, though austerity would likely have to accompany this. The stock market is expensive too, with valuations increasingly difficult to justify.
- **Downgrade Morocco to *neutral*.** The economic rebound is likely to be muted due to low consumer confidence and still-weak tourism.
- **Upgrade Kenya to *overweight*.** The gradual reopening of the economy is set to support activity in 2021. The market's 12M forward P/E discount to FM is one standard deviation below the five-year average and we think offers good value.
- **Upgrade Kazakhstan to *overweight*.** Control of COVID-19, rising oil prices and supportive fiscal policy augur well for activity in 2021. Meanwhile, valuations and the 8.7% dividend yield are attractive.
- **Upgrade Romania to *overweight*.** The economic outlook has brightened amid improved control of COVID-19 and a vaccination programme that is progressing well, while political risk has fallen.
- **Upgrade Slovenia to *overweight*.** The second wave of COVID-19 appears to be under control, while supportive fiscal and monetary policy should allow for a robust recovery this year.

Allocation Breakdown

	Chg	-2	-1	0	+1	+2
Latin America						
Argentina	↓		■			
Middle East and North Africa						
Morocco	↓			■		
Sub-Saharan Africa						
Nigeria	–	■				
Kenya	↑				■	
Asia						
Vietnam	–					■
Bangladesh	–			■		
Kazakhstan	↑				■	
Europe						
Romania	↑				■	
Slovenia	↑				■	

Note: Up/down arrows indicate a positive/negative change in our asset allocation compared to the previous quarter. A dash indicates no change.

Source: City of London Investment Management

**The publication reflects asset performance up to 29 January, 2021, and macro events and data releases up to 12 February, 2021, unless indicated otherwise.*

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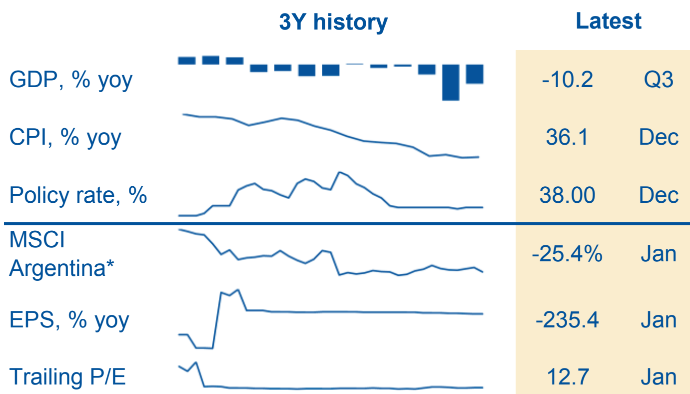
Latin America

Argentina

Underweight (↓)

Argentina's economy faces headwinds from a resurgence in COVID-19. A devaluation appears likely, pushing inflation higher and calling for a new IMF agreement.



**US$ total return relative to MSCI FM 100. Latest is six-month return.*

Source: Bloomberg

Argentina's economic recovery, following an estimated 10.7% yoy contraction in 2020, is likely to be weak this year. Consensus projects GDP growth of 4.7% in 2021 and 2.5% in 2022. The resurgence in COVID-19 cases, with the more contagious UK variant detected in Argentina in January, has led to increased restrictions. This is likely to hold back activity in Q1.

In addition, inflation is expected to accelerate to 46% yoy in 2021 from an estimated 42% in 2020. The Argentinian peso fell by 29% in 2020 and this is set to push imported inflation higher this year. A key upside risk to the inflation outlook is the increasingly likely devaluation of the peso. Pressure is building due to increased demand for hard currency (US dollars) amid heightened economic uncertainty. The central bank (BCRA) has had to sell dollars in order to keep the peso stable, while capital controls have also been tightened in the past six months. Nevertheless, international reserves fell to a four-year low in December.

Estimates of net foreign reserves, which are not disclosed by the Bank but could be negative, suggest that BCRA is in a weak position to defend the currency. Hence, BCRA may have to resort to stricter currency controls or a devaluation to alleviate market pressure. The disparity between the official peso exchange rate (87 per US dollar) and the unofficial rate (160) suggests substantial downside for the peso.

The government is likely to support the economy through another large fiscal stimulus. While the estimated 2021 budget deficit of 5.9% of GDP is down from 8.9% in 2020, it is still larger than the 3.7% deficit in 2019. Given limited access to debt markets, spending has so far been underwritten by monetary financing of the BCRA, but will eventually need to be resolved differently.

The government may yet reach an agreement with the IMF to secure additional funds and thereby minimise the potential FX devaluation. Finance Minister Martín Guzmán's aim is to secure a deal by May in order to repay $44 bn of debt. This would also raise market confidence and could allow Argentina to access international debt markets more fully. However, such an agreement is likely to have conditions from the IMF such as reduced capital controls. Guzmán has stated that he would seek to narrow the budget deficit as part of a deal, but that the adjustment would be more gradual than in other IMF deals. Guzmán expects greater macroeconomic stability and less stringent austerity measures to enable a 5% point reduction in inflation annually.

Market Strategy: The strong performance of Argentina's equity market has been due to its main constituent, online retailer MercadoLibre (72% of the S&P Argentina index). However, the company's valuations are very high. The 12M forward P/E of 586x compares with an average since listing in 2007 of 200x. Indeed, the market capitalisation is more than double that of eBay. To justify these valuations, it must be assumed that earnings, which have contracted in recent years due to high investment levels, will improve dramatically.

However, at current multiples this looks somewhat optimistic. MercadoLibre also faces headwinds from increasing competition from new market entrants (e.g. Shopee from Singapore, which offers free shipping unlike MercadoLibre). At the same time, the company is a direct beneficiary of increased COVID-19 restrictions and can thus be seen as a hedge against the pandemic. But should the pandemic ease as vaccination programmes progress, it would stymie EPS growth.

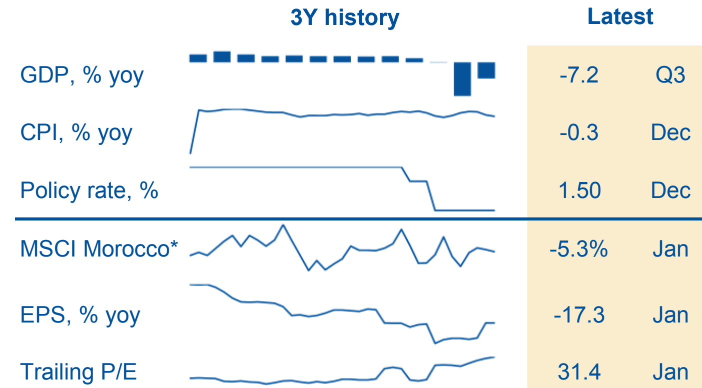
Argentina faces significant economic headwinds, some of which could be eased with an IMF agreement. At the same time, the accompanying austerity may hamper activity this year. Meanwhile, we believe exposure to the market is expensive and downgrade Argentina to *underweight* accordingly.

Middle East and North Africa

Morocco

Neutral (↓)

The economy is likely to suffer due to the ongoing impact of the global pandemic this year.



**US$ total return relative to MSCI FM 100. Latest is six-month return.*

Source: Bloomberg

Morocco's economy suffered its first contraction of the century in 2020, with an estimated GDP fall of 5.8%. However, the concern is that the recovery will be lacklustre given exposure to the tourism sector (12% of GDP). Even a doubling of revenues for the sector this year would leave the level 60% below that pre-pandemic. Consensus expects growth of 4.3% yoy in 2020 and 3.1% in 2022, though this would still leave real GDP next year below the 2019 level. Support could come from the agricultural sector (12% of GDP), with an improved harvest expected this year.

Household consumption (57% of GDP) is likely to be weak. The Consumer Confidence Index showed that 60% of households surveyed experienced a deterioration in quality of life last year and only 25% expect an improvement this year. Two thirds expect food prices to rise further and 85% believe the same for unemployment in 2021, leaving the potential for social unrest.

A continuation of government support for businesses and households will likely be required this year. This is set to keep the budget deficit wide at an estimated 6.0% of GDP this year. The backdrop has weakened the government's debt dynamics and led Fitch to downgrade Morocco's sovereign debt rating to non-investment grade (BB+), with S&P the only one of the three major rating agencies to have an investment grade rating. This could push up debt servicing costs at a time when revenues are likely to be weak. Nevertheless, funding conditions are favourable since the vast majority of debt is dirham denominated and the 10-year yield is close to 2%.

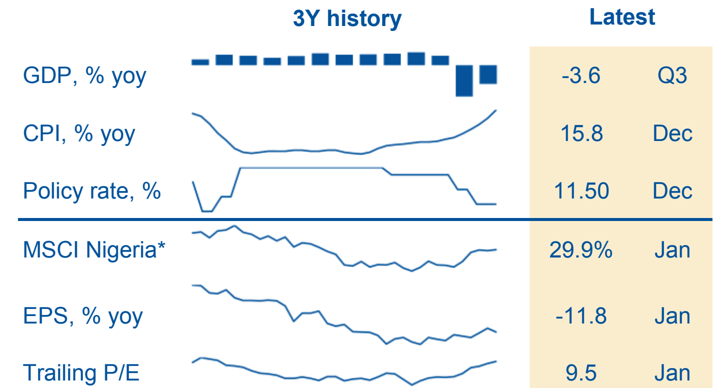
Market Strategy: MSCI Morocco's valuations have risen over the past six months, with the 12M forward P/E premium over FM at the five-year average of 49%. Given the deterioration of the outlook, the premium is harder to justify in our view and we reduce our weight to *neutral*.

Sub-Saharan Africa

Nigeria

Underweight

Nigeria faces numerous economic risks, ranging from the resurgence of COVID-19 to weak oil revenues.



**US$ total return relative to MSCI FM 100. Latest is six-month return.*

Source: Bloomberg

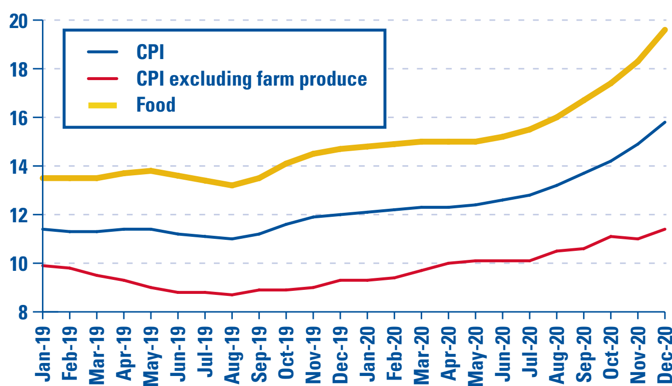
Nigeria's economy continues to face significant challenges. After an estimated 5.4% yoy GDP fall in 2020, consensus forecasts growth of 2.0% in 2021 and 2.9% in 2022. This would leave the level of 2022 real GDP below that of 2019. Key headwinds are the resurgence of COVID-19 and reduced oil revenues.

The virus has been rampant in recent months and the new variant was recorded in Nigeria in December. The number of COVID-19 cases rose by 30% in December, compared to 7.5% in November, and the percentage of positive tests surged from 4% at end-November to as high as 25% in January. Restrictions were tightened in December. Meanwhile, Nigeria's vaccination program is somewhat reliant on support from the WHO and delivery of the vaccines has already been delayed. This is also likely to delay any economic recovery as restrictions may be needed for longer.

The low oil price and required support due to the pandemic has widened the budget deficit from 3.0% of GDP in 2019 to an estimated 5.4% in 2020. A marginal narrowing is expected this year as fuel subsidies are removed and those for electricity are reduced too. However, revenue growth is set to be limited by: 1) weak economic growth; 2) low oil prices and an uncompetitive industry, with high personnel outlays pushing up production costs, and 3) reduced output under the OPEC+ agreement. Approval of the long-mooted Petroleum Industry Bill is now expected in Q1 and this could result in increased FDI, though it is unlikely to come through until H2 at the earliest.

Rising food prices (19.6% yoy in December) have pushed headline inflation up to the highest level since 2017 (see Chart 1). This could cause social unrest, and is also likely to hamper household consumption (73% of GDP). Consumer prices are expected to rise by 13.4% in 2021 and prevent further monetary easing from the central bank (CBN) to support growth. Separately, a lack of US dollar inflows may prompt further downward adjustments to the exchange rate.

Chart 1: Nigeria Consumer Prices, % yoy



Source: National Bureau of Statistics Nigeria, Bloomberg

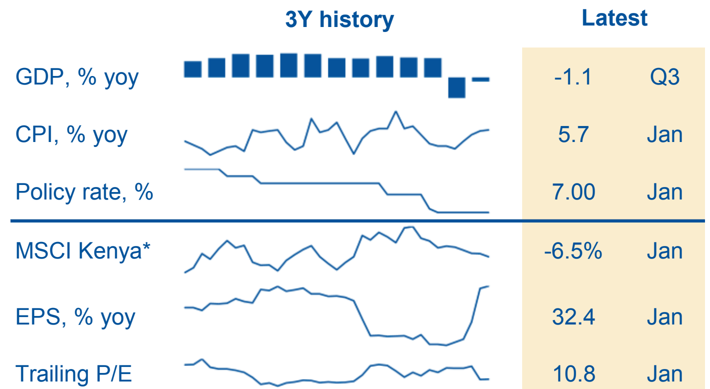
Market Strategy: Nigeria's equity market has rebounded significantly in the past nine months, raising valuations significantly. Banks represent a large part of the index and could be supported by further regulatory forbearance from the central bank to restructure loans. Moreover, Nigerian banks are well capitalised.

However, Nigeria's 12M forward P/E has risen 10-20% above pre-pandemic levels and it is likely that asset quality deteriorates from here, so valuations appear to be pricing in an optimistic scenario. The 12M forward P/E relative to FM is half a standard deviation above the five-year average, having been 1.7 standard deviations below in September. Overall, these metrics indicate a richly priced market given significant downside risks ranging from social unrest to currency devaluation and weak oil revenues. We therefore maintain our *underweight*.

Kenya

Overweight (↑)

Control of COVID-19 has been good, with reopening set to support growth in 2021.



**US$ total return relative to MSCI FM 100. Latest is six-month return.*

Source: Bloomberg

Kenya has controlled COVID-19 cases well, with total cases and deaths per million at the lower end globally and compared to other countries in Africa. This has allowed for restrictions to be eased and allowed the economy to expand by 1.0% yoy in 2020. Healthy output in the agricultural sector (34% of GDP) helped, with support from horticulture exports (27.7% yoy), and are expected to rise by a further 6% in 2021.

Gradual reopening in the past six months has culminated in schools reopening in January after a nine-month closure. The percentage of positive tests fell from a peak of 19% in November to below 3% in January and this augurs well for Q1 growth. Kenya is also adopting a digital tool for COVID-19 results verification, which should make it less susceptible to importing virus cases and, in time, allow tourism to recover somewhat. The government has also ordered 24 mn doses of the AstraZeneca vaccine compared to population of 53 mn, with the programme expected to commence in Q1. This sets the backdrop for expected close-to-trend growth of 4.9% yoy in 2021 and 5.5% in 2022.

Risks to the outlook include inflation, which has been rising in recent months due to accelerating food-price inflation. The economic recovery could yet push up price pressures and may result in some monetary policy tightening, likely via tapering of pandemic-related support measures.

On the other hand, fiscal policy is set to remain supportive. The budget deficit is projected to be 8.1% of GDP this year compared to 8.3% in 2020. This includes continued support for the unemployed and SMEs, and infrastructure buildout. Revenue may be supported by robust growth.

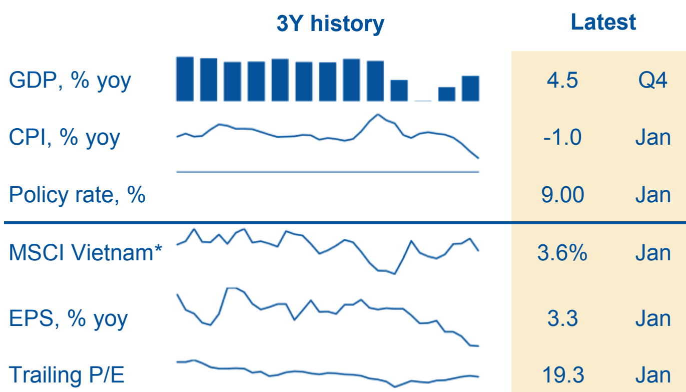
Market Strategy: The economic outlook for Kenya is positive and valuations compared to FM are reasonable. MSCI Kenya's 12M forward P/E discount to FM is one standard deviation below the average. We believe the market offers value and upgrade to *overweight*.

Asia

Vietnam

Overweight

Successful containment of the virus kept economic growth positive in 2020. Despite a new leadership, the authorities will likely preserve policy continuity.



	3Y history	Latest	
GDP, % yoy		4.5	Q4
CPI, % yoy		-1.0	Jan
Policy rate, %		9.00	Jan
MSCI Vietnam*		3.6%	Jan
EPS, % yoy		3.3	Jan
Trailing P/E		19.3	Jan

**US$ total return relative to MSCI FM 100. Latest is six-month return.*

Source: Bloomberg

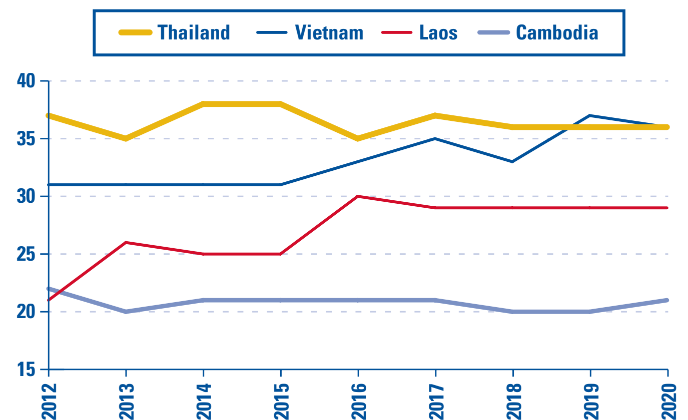
Vietnam was one of only a few countries to post positive GDP growth in 2020 (2.9% yoy), due to its successful containment of COVID-19. Not only did this obviate the need for extended lockdowns, but it also meant that manufacturing could continue, attracting more offshoring to Vietnam as supply chains were disrupted elsewhere. The supportive backdrop is likely to remain and growth is projected by consensus to accelerate back to trend this year (7.7%) and next (6.7%) as conditions move close to the pre-pandemic period.

Although there was an outbreak of COVID-19 due to the more contagious UK variant in early 2021, the authorities again reacted quickly and decisively with local lockdowns. The seven-day average of new cases rose to a new high of 47 in February, very low against a population of 90 mn. Containment measures should allow for effective control of the virus, while the targeted nature of restrictions will likely limit the economic impact. Meanwhile, Vietnam has purchased 30 mn doses of the Oxford-AstraZeneca vaccine which are set to arrive later in Q1, while negotiations with other providers are ongoing. The effective containment of COVID-19 lowers the urgency for vaccines somewhat, but the vaccination program is unlikely to be sufficient to change pandemic-related policies in H1. Hence, further restrictions may yet dampen activity in the near term.

Rising food prices are a key downside risk for household consumption (68% of GDP), as they accelerated to 6.1% yoy in December, well above the 1.0% rise in core prices. However, the central bank governor said in November that there was "ample room" for further monetary easing, suggesting that the central bank views this episode as temporary. The refinancing rate was cut by 200bps last year to 4.0%.

The 13th National Congress of the Vietnamese Communist Party (VCP) took place in January, selecting leaders for the next five years. Broadly, the new leadership is expected to continue with policies of economic liberalisation, modernisation and other reforms. Half of the 18-strong Politburo served in the previous administration. In addition, 76-year-old General Secretary Nguyen Phu Trong was re-elected after securing waivers to serve a third-term and for the age limit of 65. Tackling corruption is thus likely to remain a priority, with the country moving up 14 places to 104th since 2016 in Transparency International's Corruption Perceptions Index. There also appears to be more focus on centralisation of power and priorities of the VCP. This potential for tighter control from the centre seems prudent given the uncertainties the pandemic has brought.

Chart 2: Corruption Perceptions Index Score



Source: Transparency International

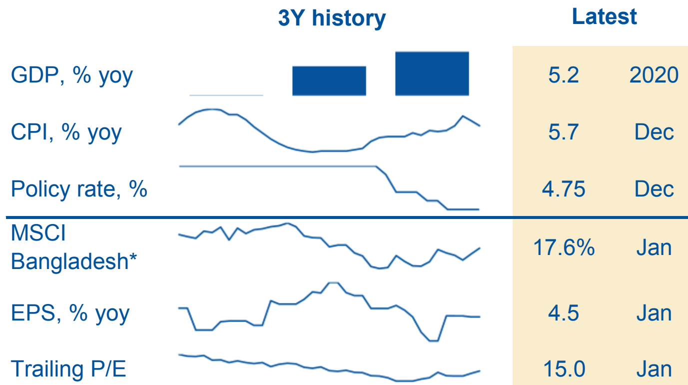
Fiscal policy will likely remain supportive this year, with a budget deficit of 4.6% of GDP projected, around 1% point above the pre-pandemic norm. Some tax reductions from 2020 have been extended to June 2021. At the same time, public investment is set to remain high (8.1% of GDP in 2020). Disbursement of funds improved markedly to 90% last year from 67% in 2019 and 66% in 2018. The authorities are targeting a 1.4% yoy rise in public investment this year, including funding projects like the North-South Expressway, and this is set to boost activity further.

Market Strategy: Market fundamentals remain strong in Vietnam. The 12M forward P/E premium over FM has doubled over the past six months to 33%. However, this is still one standard deviation below the five-year average. Given numerous positives - control of COVID-19, robust fiscal support, continued prudent policies – we believe the market offers good value and remain *overweight*.

Bangladesh

Neutral

COVID-19 has dented the export sector and continued economic support will likely be necessary for a recovery.



	3Y history	Latest	
GDP, % yoy		5.2	2020
CPI, % yoy		5.7	Dec
Policy rate, %		4.75	Dec
MSCI Bangladesh*		17.6%	Jan
EPS, % yoy		4.5	Jan
Trailing P/E		15.0	Jan

**US$ total return relative to MSCI FM 100. Latest is six-month return.*

Source: Bloomberg

Bangladesh's export sector was severely impacted by the global pandemic. The ready-made garments sector (80% of exports) experienced a significant amount of cancelled or postponed orders. Overseas remittances were also a drag on activity, with GDP growth for fiscal year (FY) 2019/20 ended June 2020 halving from 12 months earlier to 3.8% yoy. An acceleration to 5.7%, still below pre-pandemic trend of 6-8%, is expected in FY 2020/21. This is set to be aided by improved remittances (43% yoy in Q1 of FY2020/21) as the government has implemented incentives to repatriate. The second wave of COVID-19 is a set-back for export growth, but a fuller recovery may ensue in H2 if global economies reopen more fully.

Falling price pressures may also provide a tailwind, with food prices rising by 5.3% yoy in December, down two percentage points from October as the impact of floods eased. A continued easy stance from the central bank (BB) is thus likely to prevail.

However, the country remains vulnerable to COVID-19. Although new cases have fallen, testing remains low both in absolute terms, at just 20 per 1,000 of the population, and even compared to regional peers (35 in Pakistan and 80 in Sri Lanka). Bangladesh has begun vaccinations and this could help ease strain on the healthcare sector.

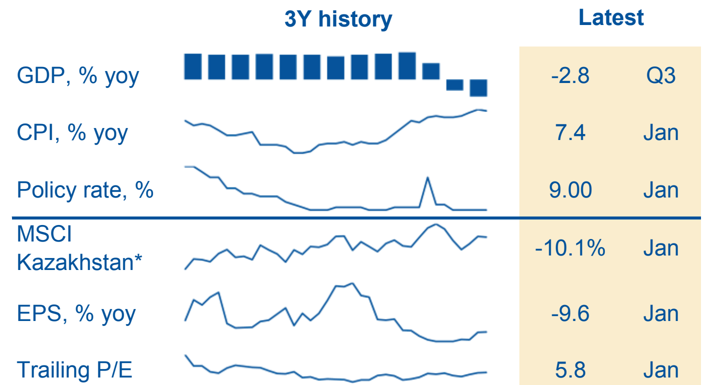
The fiscal support package in response to COVID-19 was relatively modest at 4.3% of GDP, but a continuation of this in FY2020/21 is also set to support growth. For example, the government aided exporters last year and this is likely to continue. The country's low public debt (35% of GDP) means there is room for further fiscal expansion and given the vulnerability to external shocks, this may be necessary in the near term.

Market Strategy: MSCI Bangladesh's 12M forward P/E trades at an 8% premium over FM, not far above the five-year average of 3%. Given that the healthcare sector is 60% of the index, this could prove defensive against pandemic risk, but a lacklustre domestic recovery means we ultimately stay *neutral*.

Kazakhstan

Overweight (↑)

Control of COVID-19, rising oil prices and supportive fiscal policy augur well for Kazakhstan's outlook.



	3Y history	Latest	
GDP, % yoy		-2.8	Q3
CPI, % yoy		7.4	Jan
Policy rate, %		9.00	Jan
MSCI Kazakhstan*		-10.1%	Jan
EPS, % yoy		-9.6	Jan
Trailing P/E		5.8	Jan

**US$ total return relative to MSCI FM 100. Latest is six-month return.*

Source: Bloomberg

Kazakhstan has controlled the spread of COVID-19 reasonably well, despite a rise in new cases in January. The country is also producing Russia's Sputnik V vaccine and mass vaccinations began in February. Activity in 2020 was impacted by the fall in the oil price and an output reduction of as much as 25% under the OPEC+ agreement, leading to an estimated GDP contraction of 2.7% yoy. However, the outlook for 2021 is positive, with 3.5% growth expected. This would bring the level of real GDP back above the 2019 level. Growth is set to be aided by control of the virus, though a potential lockdown in March has been flagged and this could dent the trajectory. Nevertheless, the vaccine programme should allow for reduced restrictions overall in the coming months. The rise in the oil price is also a key support – the average price of Brent crude oil in 2020 was $42/barrel against a current price of $60.

Fiscal policy will also provide a significant tailwind. The 2021 budget deficit is projected to be 2.7% of GDP, with the improved oil price aiding a narrowing from 3.5% in 2020. Indeed, much of the support measures like aid for SMEs are set to continue in 2021. The "Employment Roadmap" plans to create 1.2 mn jobs, 0.2 mn (2.2% of the labour force) of which have been created since last April, and could also prove to be a key support.

Accelerating inflation has been partly driven by rising food prices amid export quotas, which push up feed costs for producers. However, the impact of this is expected to fade this year and CPI should fall closer to the 4-6% target range. The central bank is likely to keep its policy rate unchanged this year, with lower capital requirements also set to remain.

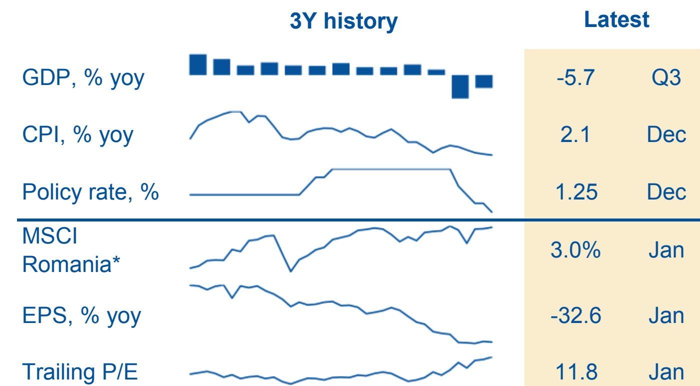
Market Strategy: Kazakhstan's market looks attractive given the strong economic backdrop, reasonable valuations and an attractive dividend yield (8.7%). We therefore raise Kazakhstan to *overweight*.

Europe

Romania

Overweight (↑)

New cases of COVID-19 have fallen and government policy is likely to support activity.



	3Y history	Latest	
GDP, % yoy		-5.7	Q3
CPI, % yoy		2.1	Dec
Policy rate, %		1.25	Dec
MSCI Romania*		3.0%	Jan
EPS, % yoy		-32.6	Jan
Trailing P/E		11.8	Jan

**US$ total return relative to MSCI FM 100. Latest is six-month return.*

Source: Bloomberg

Daily new cases of COVID-19 in Romania surged in Q4, with the seven-day average peaking at 8,500 in November before falling to 2,500 in January. The country's vaccination program began in December, prioritising frontline workers and the vulnerable, and is expected to start for the wider public in April. Progress has been good, with 4.8 doses per 100 of the population administered so far, comfortably above developed countries such as Canada and other countries in the EU. These factors should allow for a reopening of the economy to begin in H1. This is set to support growth of 4.0% yoy projected for 2021 following an estimated contraction of 5.2% in 2020.

Meanwhile, at December's general election the ruling centre-right PNL won only 25% of lower house seats compared to 29% for the opposition PSD. Nevertheless, the PNL were able to form a majority coalition, with additional centrist parties the USR-PLUS alliance and the Democratic Union of Hungarians in Romania. Fiscal policy is set to remain somewhat expansionary given ongoing challenges related to COVID-19. At the same time, the draft 2021 budget reduced subsidies for state-owned companies and capped pensions at the December 2020 level.

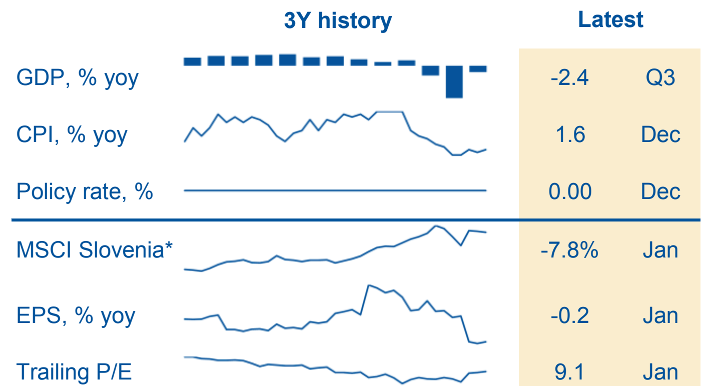
Price pressures appear controlled, with core inflation in a range of 2.1-2.6% yoy since March. Headline inflation has also been within the central bank's 1.5-3.5% target range since February 2020. Monetary policy should thus stay loose this year.

Market Strategy: MSCI Romania's 12M forward P/E trades at a 14% discount to FM, in line with its five-year average. The market also offers an attractive dividend yield of 4.7%. The brighter outlook amid better control of COVID-19 and good progress with the vaccination programme, as well as somewhat reduced political risk, mean we raise our weight to *overweight*.

Slovenia

Overweight (↑)

The second wave of COVID-19 appears to be under control, while supportive fiscal and monetary policy should allow for a robust recovery this year.



	3Y history	Latest	
GDP, % yoy		-2.4	Q3
CPI, % yoy		1.6	Dec
Policy rate, %		0.00	Dec
MSCI Slovenia*		-7.8%	Jan
EPS, % yoy		-0.2	Jan
Trailing P/E		9.1	Jan

**US$ total return relative to MSCI FM 100. Latest is six-month return.*

Source: Bloomberg

Slovenia's economy suffered from the pandemic and associated lockdowns in 2020, with an estimated GDP contraction of 6.8% yoy. A second wave in late Q4 led to further restrictions and weighed on activity. However, a swift rebound of 4.5% growth is expected this year and with the virus seemingly under control this could start to emerge as early as Q1. After moving above 2,000 for the first time in January, the seven-day average of daily new cases fell below levels prior to the second wave. This should allow for restrictions to be eased.

Meanwhile, fiscal support is set to remain robust. The budget deficit is projected to narrow from an estimated 8.1% of GDP in 2020 to 6.1% in 2021, compared to small surpluses (0.5-0.7%) in 2018-19. Support for households and businesses have included furlough schemes, wage subsidies and loan deferrals. These are likely to be extended, helping underpin activity.

Since Slovenia is part of the Eurozone, it is likely to benefit from continued loose monetary policy from the ECB. This should support the financial sector as it comes out of the crisis. Moreover, strong capital ratios and low NPLs pre-pandemic may also help limit the damage when virus-related restrictions are eased. Indeed, this, along with bank privatisations in 2018-19 and reduced debt levels, prompted Moody's to raise its sovereign debt rating for Slovenia by one notch to A3.

Market Strategy: The 12M forward P/E MSCI Slovenia relative to FM has risen over the past six months and is around the five-year average of a 12% discount. We believe the market remains attractive given that a healthcare stock (Krka) accounts for some 65% of the index. This is likely to offer some defensive exposure in the case of a resurgence in COVID-19, while the 3.5% dividend yield is attractive in a low rate environment. Given the expected economic recovery too, we raise Slovenia to *overweight*.

The information contained herein is obtained from sources believed by CLIM to be accurate and reliable. No responsibility can be accepted under any circumstances for errors of fact or omission. Any forward looking statements or forecasts are based on assumptions and actual results may vary from any such statements or forecasts.

KEY ECONOMIC AND FINANCIAL INDICATORS *(All data shown are as at end-January 2021 unless otherwise stated)*

	Frontier Market	Annual GDP Growth YoY	Quarterly GDP Growth QoQ*	Industrial Production Growth YoY	Consumer Price Index YoY	Trade Balance	Current Account	Foreign Reserves 2021 Latest	Foreign Reserves 2021 Year Ago	Currency vs $ 2021 Latest	Currency vs $ 2020 Year ago	Sovereign Rating S&P	Budget Balance % of GDP 2021F	Short-Term Interest Rates	% S&P Frontier 150 Index**	Stock Market Index (S&P Frontier 150 Index) US$	Change since 12/31/20 US$	Change since 12/31/20 Local	Trailing P/E	6 month Currency vs $ +/-
		Macroeconomic Data: % change on year ago				Latest 12 months									Market Performance					Forecast (Bloomberg)†
		%	%	%	%	$ Bns	$ Bns	$ Bns	$ Bns					%	Jan. 29, 2021	Jan. 29, 2021	%	%		
Overweight	SLOVENIA	-2.6	49.6	-0.9	-0.7	1.2	3.6	0.6	0.4	1.2	1.1	AA-	-6.1	0.2	3.3	1634.2	2.1	2.8	11.3	-
Overweight	KAZAKHSTAN	-2.8	n.a.	0.3	7.4	10.5	-5.9	11.3	9.3	417.7	378.7	BBB-	-2.7	15.0	5.1	151.1	5.4	6.1	7.0	-
Overweight	ROMANIA	-5.7	23.0	0.4	2.1	-7.6	-12.2	44.5	35.6	4.0	4.4	BBB-	-6.9	1.3	7.7	1839.9	3.8	4.7	12.4	+
Overweight	VIETNAM	2.9	n.a.	22.2	-1.0	11.1	17.4	88.4	68.8	22976.0	23260.0	BB	-4.5	3.5	14.3	491.0	-2.8	-3.0	17.6	+
Overweight	KENYA	-1.1	17.0	n.a.	5.7	-10.0	n.a.	8.7	9.5	109.5	100.5	B+	-8.1	6.3	4.6	4235.2	0.4	1.3	10.8	-
Neutral	BAHRAIN	-6.9	n.a.	n.a.	-1.6	0.3	n.a.	1.9	3.6	0.4	0.4	B+	-9.2	1.4	3.7	3097.8	-0.0	-0.0	11.2	uc
Neutral	BANGLADESH	5.2	n.a.	30.4	5.0	-17.1	-2.3	41.0	30.6	84.8	84.9	BB-	5.7	5.3	4.4	1812.1	15.6	15.6	15.0	-
Neutral	CAMBODIA	7.1	n.a.	n.a.	3.7	n.a.	-2.3	18.4	16.9	4071.0	4075.0	n.a.	n.a.	1.5	2.0	1911.4	-13.1	-12.7	n.a.	-
Neutral	COTE D'IVOIRE	6.2	n.a.	n.a.	-1.2	n.a.	n.a.	0.0	0.0	540.7	600.9	B	-4.1	6.6	0.3	632.4	-19.1	-18.5	n.a.	-
Neutral	CROATIA	-10.0	72.2	0.3	-0.7	-9.4	2.2	22.8	20.4	6.2	6.8	BBB-	-3.6	0.8	1.2	658.7	0.2	1.2	38.2	-
Neutral	ESTONIA	-1.9	-3.2	0.8	0.2	-1.0	1.0	1.9	0.1	1.2	14.3	AA-	n.a.	0.1	0.3	1177.8	-4.0	-3.3	24.8	-
Neutral	GEORGIA	-6.2	n.a.	-5.6	-1.6	-4.7	-2.0	3.9	3.3	3.3	2.9	BB	n.a.	n.a.	1.3	903.0	-4.2	-4.0	31.2	-
Neutral	JORDAN	-2.2	n.a.	-11.2	-0.4	-13.6	-1.5	12.9	13.0	0.7	0.7	B+	-4.2	2.0	2.6	611.7	1.3	1.3	19.3	-
Neutral	LEBANON	2.5	n.a.	n.a.	133.5	-15.0	n.a.	25.5	38.6	1512.5	1511.9	SD	-9.8	2.8	1.5	1559.6	2.6	2.7	63.1	-
Neutral	LITHUANIA	-1.2	4.8	3.6	0.2	0.0	3.3	4.2	4.5	2.8	3.2	A+	-1.1	1.7	0.2	1118.5	5.7	6.4	72.2	-
Neutral	MAURITIUS	-13.0	n.a.	n.a.	1.0	-2.1	-0.8	6.4	6.6	40.0	37.7	n.a.	n.a.	0.5	1.2	775.4	-1.1	-0.8	11.4	-
Neutral	MOROCCO	-7.2	n.a.	14.7	-0.3	-18.6	-4.0	33.7	24.4	8.9	9.7	BBB-	-5.8	2.8	13.4	1329.6	2.6	3.2	30.6	-
Neutral	OMAN	-0.8	n.a.	-2.5	-1.4	10.9	-4.1	17.0	17.6	0.4	0.4	B+	-11.7	0.8	2.2	2399.4	2.3	2.3	7.9	uc
Neutral	PANAMA	-23.6	n.a.	n.a.	-1.9	-2.3	7.3	8.4	3.5	1.0	1.0	BBB	n.a.	1.9	2.3	4398.9	-0.5	-0.5	30.1	uc
Neutral	SRI LANKA	1.5	n.a.	-1.7	3.0	-6.2	n.a.	6.6	7.4	197.0	181.4	CCC+	-8.2	6.9	1.2	2675.8	17.5	20.9	16.9	-
Underweight	ARGENTINA	-10.2	51.2	-13.3	36.1	12.5	6.9	39.1	44.6	88.4	61.0	CCC+	-5.9	34.2	15.9	5417.5	0.8	4.6	12.7	-
Underweight	NIGERIA	-3.6	48.5	n.a.	15.8	-10.2	-18.5	35.9	37.7	381.6	364.3	B-	-5.3	2.8	9.6	1151.6	7.8	7.8	9.5	-
Underweight	UKRAINE	-3.5	34.0	4.8	6.1	-0.5	-1.4	27.5	24.1	27.9	24.4	B	-5.4	4.4	1.7	613.6	6.0	5.2	3.8	+

*Note: S&P credit rating shown is long-term foreign currency rating. * % change in GDP on previous quarter, annual rate. **S&P/IFCG Extended Frontier 150 Net Total Return Index. Data are the latest available, but in certain cases relate to periods more than one year ago. †Any forecasts are based on Bloomberg consensus forecasts, where available, and assumptions. Actual results may vary from any such statements or forecasts. Past performance is no guarantee of future results.*

Source: Bloomberg, City of London Investment Management

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