

## Outlook Frontier Markets 2019

### Rebound in frontier markets likely

After a correction of more than 12% in 2018 we think that frontier markets are likely to rise in 2019. Corrections in the frontier and smaller emerging markets universe are often followed by a quick rebound as can be learned from the history of the EMEF index. In the past 16 years there have been 5 years of negative returns excluding 2018. Every negative year has been followed by a rebound in the following year with an average price return of 17.1% in euro. Other factors that underpin a recovery are low valuations, the acceleration in GDP growth in frontier markets and double digit consensus earnings growth. Furthermore a dialing-back of the global trade tensions could also spark a rebound in the coming year.

### Trade tensions peaked out

The imposed tariffs have started to hurt the U.S. and Chinese economy and global stock markets. Neither country wants that, so the pressure is on to make a deal. Trump will be gearing up for his 2020 re-election race and a deal could be branded as a win for the U.S. business community. In addition, US growth is slowing from 2.9% in 2018 to 2.5% in 2019, according to the median forecast of 60 economists consulted by Bloomberg. Less monetary tightening in combination with a bigger growth differential and weaker dollar and oil prices, should be good news for frontier markets.

### Fundamentals looking good

Cheap valuations underpin a recovery for the frontier market index. The forward P/E has come down to 10.7x compared to 14x in mid-2017. At this level the discount in valuation compared to developed markets amounts to 21%. Because most investors in frontier markets focus on liquidity and growth, there is less attention for yield. In contrast to developed markets, frontier dividend stocks trade at a discount to the average market P/E. Therefore the portfolio of TCM Global Frontier High Dividend trades at only 8.7 times earnings with a dividend yield of 7.6%. The dividend yield of the FM index is currently 4.1% compared to 2.9% for emerging markets and 2.8% for developed markets.

The economic outlook for 2019 looks fairly good. According to Citi Research aggregate GDP growth for frontier markets is accelerating from 2.9% in 2018 to 3.4% in 2019 and 4.1% in 2020. Earnings is another potential positive for the coming years. Aggregate consensus earnings are expected to grow 15.2% in 2019 and 21.9% in 2020. In fact, every frontier market, except Morocco and Sri Lanka is expected to print double-digit average EPS growth for 2018-2020.

### Key Markets

The frontier markets index is disproportional skewed to three countries. Kuwait, Vietnam and Argentina make up more than 50% of the index. Kuwait has a 23% weighting within the frontier markets index. Considering the fact that the Kuwait index rose 16.13% (in euro) in 2018 and is currently one of the most expensive markets (P/E 16.13x) in the universe, it's good to know that TCM Global Frontier is more evenly spread and has currently a high active share of over 90%, meaning the fund deviates substantially from the index. The largest country weightings within the fund are Bangladesh (11.97%), Vietnam (11.44%) and Nigeria (10.16%) as our dividend selection model favors these markets the most going into 2019.

The Economist Intelligence Unit (EIU) expects the Bangladesh's GDP to grow 7.9% in 2019, making it one of the best performing economies in our universe. Gross fixed investment and private consumption will grow by an average of 9.9% and 10.6% per year, respectively, in 2018 - 2023, up from the respective averages of 9.3% and 6.3% in the preceding five-year period.

The economy of Vietnam also remains one of the world's best performers. Vietnam's growth accelerated in the fourth quarter to 7.3%. Low labor costs, a stable political environment and proximity to supply chains in southern China continues to attract foreign investments. Last year foreign investments rose 9% to a record of \$19 billion. The TCM Vietnam High Dividend Fund, which focuses primarily on mid and small cap stocks, had a P/E ratio of 9 and a dividend yield of 6.5% at the end of 2018. In terms of valuation and dividend yield, this is an attractive starting point for 2019.

The Nigeria All Share Index fell almost 11% in 2018. The lackluster performance is remarkable since foreign reserve almost doubled since the low in 2016 and the economy is recovering. The World Bank has put the estimated growth rate for Nigeria's economy at 2.2% for 2019 and 2.4% for 2020. Banks such as Guaranty, Zenith and United Bank for Africa trade under 5 times expected earnings and at a dividend yield of over 8%. Once the elections uncertainties in the first quarter have cleared we anticipate net capital inflow into Nigeria again in the latter half of 2019.

The TCM Africa High Dividend Fund has further expanded its positions in the above three financials during 2018 at these attractive valuations. The fund shows an average P/E ratio of 9.7 and a dividend yield of 7.6% at the end of 2018.

In general can be stated, partly due to the correction at the end of 2018, that the majority of the countries in the frontier markets universe have a historically low valuation. Surprisingly, this valuation is accompanied by the expectation that by 2020 nearly all markets will show double digit growth figures in total profit (Citi Research).

January 2019  
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Sources:

Businessoutlookbd.com: Bangladesh to be second best performing economy in 2019  
Bloomberg: Easing trade war in 2019 seen sparking emerging market rally  
Citi Research: Frontier Markets in 2019: Value is back