

## Outlook Frontier Markets 2021

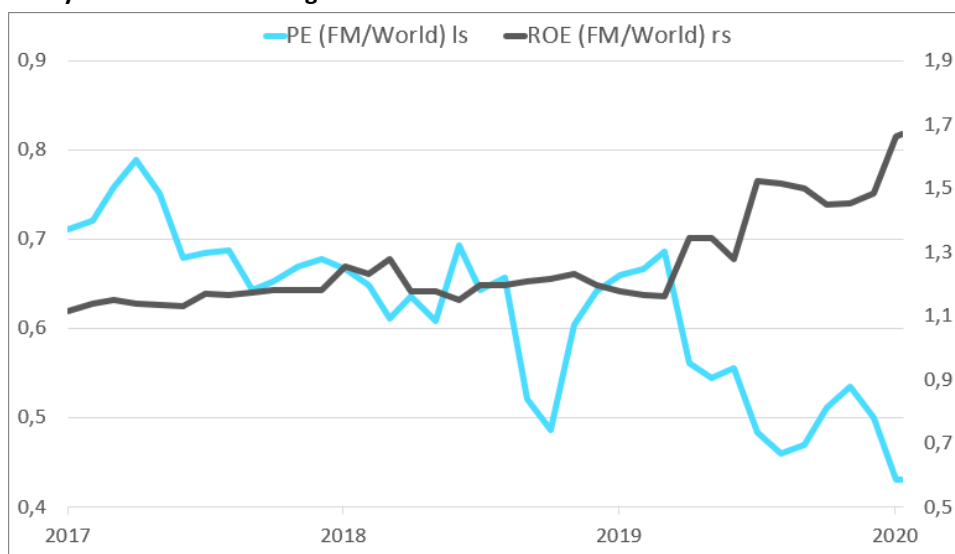
Over the past ten years, developed markets as measured by the world index (+ 200%) have outperformed the Emerging (+ 70%) and Frontier Markets (+ 55%). US equities in particular performed well. Aided by unprecedented monetary expansion and the rally in technology stocks, the SP500 index rose by as much as 300% over this period.

The corona crisis has further disrupted the relationship. After the sharp stock market declines in March, developed markets recovered at lightning speed. Frontier Markets (FM) have lagged behind this global market rebound, as it was initially thought that these countries would be hit harder by the corona virus. Still, FM have generally weathered the pandemic better than developed countries. Due to the lower population density, the relatively young population (median under 25 years) and less obesity, we saw relatively much fewer deaths than in developed countries. In addition, frontier countries have more experience with economic shocks and other diseases, resulting in a faster and more aggressive response.

According to World Bank figures, the economic contraction in 2020 for the Frontier universe (-3.5%) was therefore less than in developed countries (-7.0%), while the rebound for 2021 should be around the same level (+ 3.8%).

The corporate profits in FM are now turning upwards, but this is not yet reflected in the market valuation. FM's Return on Equity (ROE) is a 67% premium to developed markets, while FM's Price Earnings Ratio (PE ratio) is at a 57% discount to the world index. This is the largest discount in ten years. This divergence presents a rare opportunity and we believe it should be grasped with both hands.

### Rarely seen valuation divergence



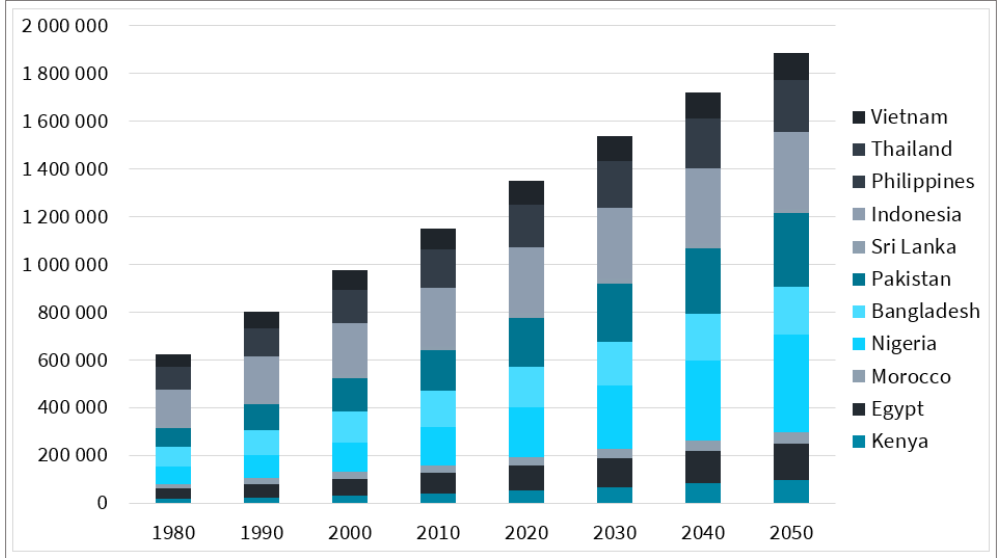
Source: Bloomberg

The feeling that we are at a tipping point is also reinforced by other recent developments. The change of power in the White House may be less beneficial for business with higher taxes, higher minimum wages and the curtailment of tech monopolies' power. The Federal Reserve's new monetary policy, whereby interest rates will be kept low for longer with rising inflation, is causing financial repression and will put pressure on the dollar. A weaker dollar is positive for FM, as the import of necessary goods becomes cheaper as well as the debts that are often outstanding in USD. All of this means that stocks outside the United States can rise faster than American stocks. Given the low valuation, emerging & frontier markets in particular appear to be an interesting alternative in the international pursuit of (dividend) returns.

With prospects for a significant recovery in economic growth and earnings growth in 2021, we expect cyclical stocks to outperform the broader market. In particular, cyclical stocks such as the auto, banking, cement, modern retail and travel sectors should do well in 2021 as earnings for these sectors grow from a very low base and valuations for companies in these sectors remain attractive. These are precisely the sectors that in FM outweigh technology, for example.

In the longer term, global consumption will probably double over the next ten years due to the rapidly growing middle class, especially in Asia. About \$ 10,000 in income per year is an important tipping point where consumers buy numerous products that require a relatively large amount of raw materials: a house, a refrigerator, a washing machine, etc. This tipping point in terms of income will mainly occur in the core countries of our FM strategy. The population of the top ten frontier countries within the TCM universe will have grown to 1.9 billion (20% of the world's population) by 2050, based on United Nations projections.

**Population growth core countries (x1000)**



Source: United Nations

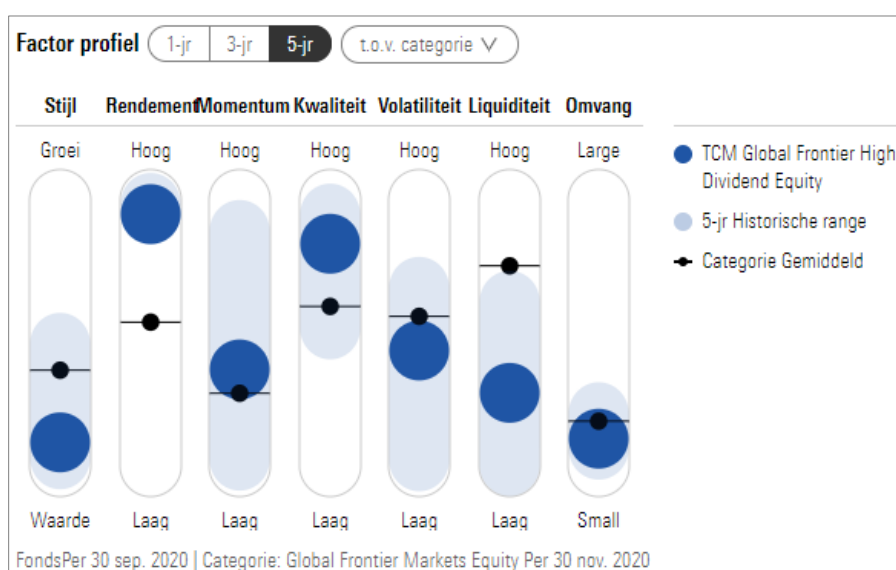
**Portfolio**

At the start of 2021, the portfolio of the TCM Global Frontier High Dividend Equity fund consists of 79 positions spread over 22 countries, with most of the weight invested in the core countries mentioned. The average 5-year profit growth of the companies in the portfolio is 25% and the portfolio is further characterized by a lower price-earnings ratio (10.29) than the FM index (12.81), while the dividend yield (5.83%) is higher than the index (3.26%).

The fund's factor profile on Morningstar.nl indicates that the fund scores better than the category average on almost all points. Returns, momentum and quality are higher with lower volatility. The fund is also more focused on midcaps. Liquidity is a bit lower than the category average though.

However, liquidity is expected to increase as we recently expanded the weighting in some countries that have an insignificant weight in the Emerging Markets index but do have FM characteristics, such as Pakistan, Thailand, Indonesia, Philippines and Malaysia. Liquidity in these countries is higher than in other FM countries. Perhaps more importantly, these countries signed the Regional Comprehensive Economic Partnership (RCEP) last November. The RCEP (15 Asian countries including Vietnam, China, Japan and South Korea) is the largest trade bloc in the world, creating one market for 30 percent of the world's population and 30% of the global economy. According to the American Johns Hopkins University, this agreement will increase world income by 200 billion dollars and add 500 billion dollars to the volume of world trade by 2030.

Finally, we would like to point out that over the past 20 years Emerging Markets have still outperformed, for example, the SP500 index. The recent rally in developed markets may cloud the picture that higher growth will ultimately translate into better market performance. In the face of persistently low interest rates and high valuations in developed markets, more and more investors will find their way to emerging & frontier markets, where you get higher growth for half the price.



Source: Morningstar.nl

### Valuation portfolio:

Name	Wgt	Div yield	Est PE	P/B	ROE	EPS growth
<b>Portfolio</b>	<b>100</b>	<b>5,83</b>	<b>10,29</b>	<b>1,38</b>	<b>18,71</b>	<b>25,31</b>
Communication Services	6,72	4,26	14,47	3,62	24,22	11,48
Consumer Discretionary	6,36	3,66	17,14	2,84	17,46	14,52
Consumer Staples	7,33	5,00	14,00	1,93	12,95	47,67
Energy	7,49	6,79	8,90	1,4	17,29	13,41
Financials	30,79	7,61	5,25	0,88	17,59	14,77
Health Care	2,79	4,45	12,65	2,19	18,1	68,33
Industrials	6,49	5,47	14,36	2,42	12,7	32,73
Materials	10,95	6,84	10,23	2,17	23,11	15,65
Real Estate	4,96	4,07	7,69	1,46	17,58	111,96
Utilities	9,54	4,75	10,65	1,16	30,71	17,92
Funds & unclassified	6,58	5,59	9,63	1,49	4,83	-

Source: Bloomberg. Basic Earnings per Share growth: 5 year average

TCM Investment Funds  
 Frontier Markets Team  
 January 2021