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A positive weighting for Vietnam and Nigeria

by Stefania Basso

Andrea Federici – portfolio manager at Banor Capital and manager of the Aristea SICAV New Frontiers Equity Fund – took part in Fondi&Sicav's investigation of the frontier markets, their performance and their outlook.

Until now, 2018 hasn't been an easy year for the emerging markets. How have the frontier markets been behaving over the same period?

So far, 2018 has been led more by short-term fears than by long-term fundamentals. The commercial tensions between the United States and China and the Fed's restrictive policies have made investors' more risk-averse. They've lessened their exposure to equity asset classes, including those of the frontier markets. The performance of these geographical regions has been very diverse in terms both of yields and of timescales. Indeed, while Latin America suffered keenly following the crisis in Argentina, after the request for help from the International Monetary Fund, the frontier countries of Asia performed well in the early months of the year. But they saw an adjustment in the second half, in the wake of increased volatility at the global level.

“For us, Oman and Slovenia are among the least interesting countries”, comments Federici, of Banor Capital.

The middle-eastern countries, however, brought excellent returns thanks to the inflow of capital after the MSCI and FTSE announced the inclusion of Saudi Arabia and Kuwait in their emerging markets indices. The Aristea New Frontiers Equity Fund has benefited from individual countries’ differing performance levels, thanks to its active investment strategy based on behavioural finance studies. Since the start of the year it has out-performed the reference index by +7.49%.

Nigeria

In which frontier markets do you think there’s value, and which is it best to avoid, given their shaky or worsening fundamentals?

In general, the fundamentals in the frontier markets are still particularly strong, in all asset classes. An active management approach like ours makes it possible to benefit from the different levels of financial market performance in those countries, where low intra-correlation is a key factor in reducing risk. Right now we prefer countries we view as less vulnerable to external factors because their economies are underpinned by internal socio-economic factors. Countries like Vietnam and Nigeria, for example. We also take a positive view of Saudi Arabia and Kuwait, which have embarked on a virtuous series of reforms to attract interest and capital from foreign investors. Countries we consider to be less interesting at present include Oman and Slovenia. In the case of Oman, we feel there’s a high risk of political instability. Sultan Qaboos, who’s been in power since 1970 – which gave the country fifty years of stability and economic growth – is ill and has no direct heirs. The situation in Slovenia, on the other hand, is mainly linked to the limited degree of market liquidity as a result of a relative lack of interest from foreign investors, in spite of the good macroeconomic fundamentals.