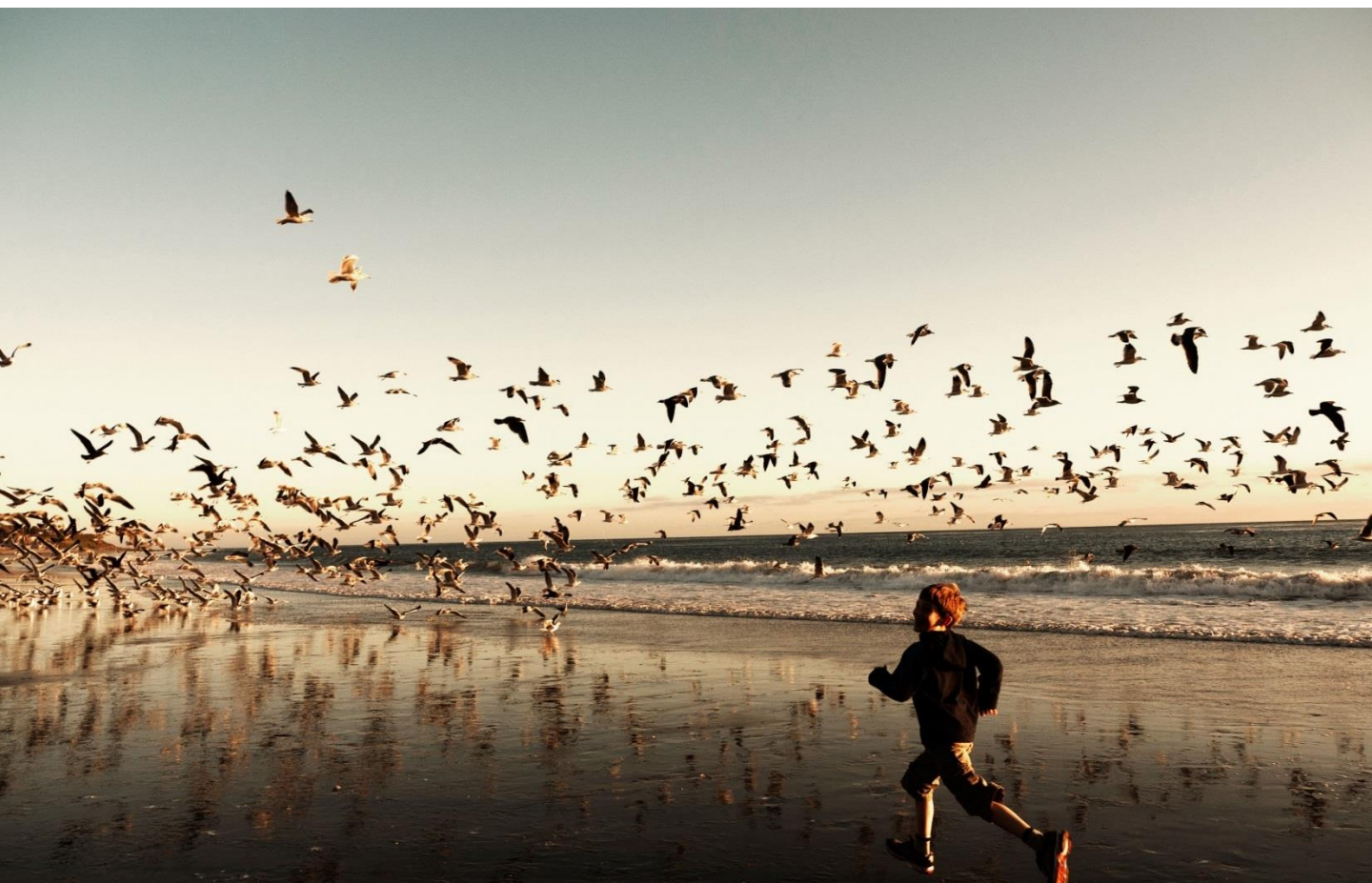


April 2018



Allocating to Frontier Markets equities



HSBC
Global Asset
Management

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Allocating to Frontier Markets equities

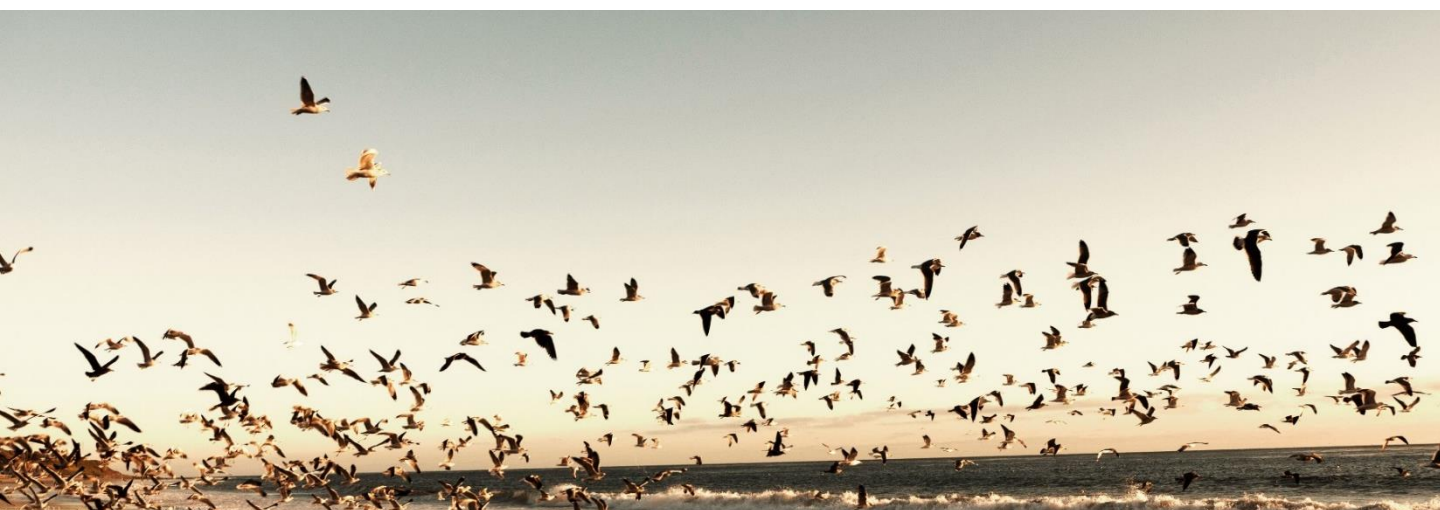
Introduction

Many investors have recently been focused on the strong appreciation in global Emerging Markets and some Developed Markets.

Investors should remember, however, that Frontier Markets equities is a standalone asset class with attractive performance characteristics.

Frontier Markets are at a similar point of economic development as Emerging Markets were fifteen years ago. The subsequent equity market returns of Emerging Markets may provide some insight into the investment potential of Frontier Markets going forward.

We believe that the performance characteristics of Frontier Markets are compelling and provide sufficient support for why investors should allocate to Frontier Markets equities.



Allocating to Frontier Markets equities

Returns and dividend yield

Frontier Markets delivered 9.1%¹ annualized returns between May 2002 and March 2018, with a dividend yield that has been typically higher than Emerging Markets and Developed Markets.

Figure 1. Cumulative returns

(May 2002 – March 2018, indexed to 100)

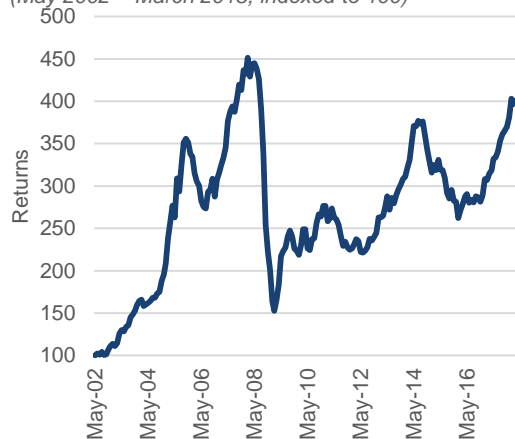
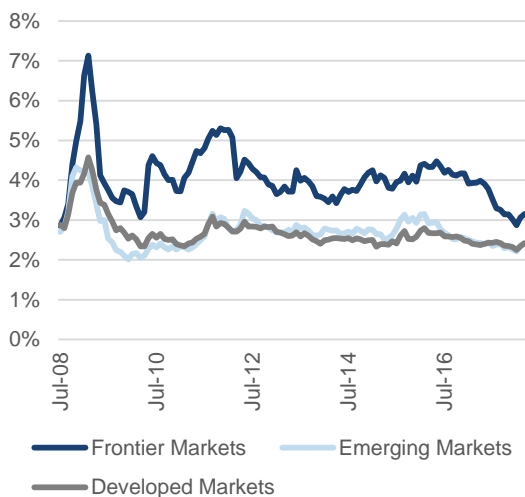


Figure 2. Annualized returns



Figure 3. Dividend yield



¹Source: HSBC Global Asset Management, Bloomberg, as of March 31, 2018

Source: HSBC Global Asset Management, Bloomberg, as of March 31, 2018. Frontier markets: MSCI Frontier Markets Daily TR Net USD; Emerging Markets: MSCI Emerging Markets Daily TR Net USD; Developed Markets: MSCI World Daily TR Net USD. USD returns gross of fee. Data shown is gross and the effects of commission, fees and other charges will reduce the overall return. The level of yield is not guaranteed and may rise or fall in the future. For illustrative purposes only. Past performance is no guarantee of future results.

Allocating to Frontier Markets equities

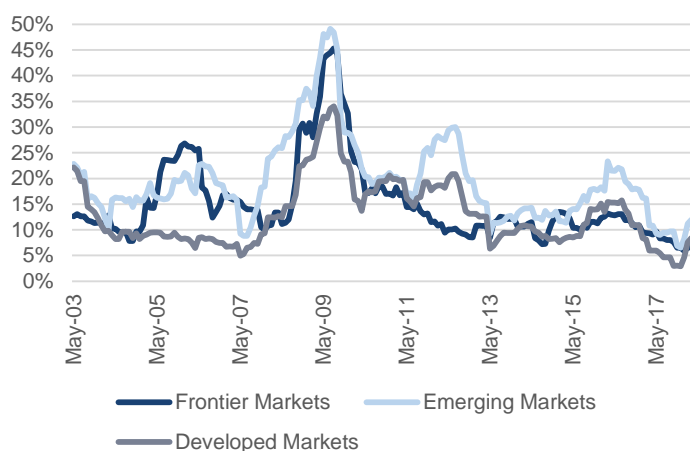
Volatility

Frontier Markets have had lower volatility than Emerging Markets historically and similar volatility to Developed Markets recently.

One reason for this is that Frontier Markets economies are driven by domestic forces, resulting in low intra-country correlations and, ultimately, lower volatility at the regional level. An additional explanation is that Frontier Markets may be less impacted by global factors.

Figure 4. Volatility

(12-month monthly returns)



May 2002 – March 2018	Volatility (Monthly returns)
Frontier Markets	18.0%
Emerging Markets	21.5%
Developed Markets	14.9%

Source: HSBC Global Asset Management, Bloomberg, as of March 31, 2018. USD returns gross of fee. Data shown is gross and the effects of commission, fees and other charges will reduce the overall return. Frontier Markets: MSCI Frontier Markets Daily TR Net USD; Emerging Markets: MSCI Emerging Markets Daily TR Net USD; Developed Markets: MSCI World Daily TR Net USD. For illustrative purposes only. Past performance is no guarantee of future results.

Figure 5. Intra-country correlations

(5-year weekly returns)

	Argentina	Colombia	Croatia	Kazakhstan	Kenya	Kuwait	Lebanon	Nigeria	Oman	Pakistan	Vietnam
Argentina	1.00										
Colombia	0.40	1.00									
Croatia	0.14	0.25	1.00								
Kazakhstan	0.26	0.35	0.19	1.00							
Kenya	0.11	0.14	0.06	0.12	1.00						
Kuwait	0.19	0.28	0.19	0.26	0.21	1.00					
Lebanon	0.02	0.04	0.05	0.05	0.03	0.07	1.00				
Nigeria	0.04	0.23	0.01	0.27	0.21	0.34	0.00	1.00			
Oman	0.21	0.36	0.15	0.35	0.11	0.50	0.07	0.36	1.00		
Pakistan	0.06	0.24	0.14	0.13	0.20	0.22	-0.08	0.26	0.24	1.00	
Vietnam	0.15	0.20	0.00	0.25	0.17	0.21	0.08	0.14	0.22	0.22	1.00

Source: Bloomberg, 27 March 2013 to 28 March 2018, correlation of weekly index returns (Wednesday to Wednesday) over a 5-year period. Frontier Markets: MSCI Frontier Markets Daily TR Net USD; Emerging Markets: MSCI Emerging Markets Daily TR Net USD; Developed Markets: MSCI World Daily TR Net USD. Yellow denotes correlation of 0 to 0.25, blue denotes correlation of 0.26 to 0.50, black denotes correlation of 0.51 to 1.00. Red denotes negative correlation. For illustrative purposes only. Past performance is no guarantee of future results.

Allocating to Frontier Markets equities

Correlations and beta

An allocation to Frontier Markets could help diversify an equity portfolio.

Frontier Markets have had low correlations to both Emerging Markets and Developed Markets. Between May 2002 and March 2018, the correlation of 36-month monthly returns between Frontier Markets and Emerging Markets was 0.60 and the correlation between Frontier Markets and Developed Markets was 0.61. The correlation between Emerging Markets and Developed Markets, on the other hand, was 0.87.

The beta (36-month monthly returns) of Frontier Markets versus Emerging Markets was 0.50, while the beta of Frontier Markets versus Developed Markets was 0.73.

Figure 6. Correlation
(36-month monthly returns)

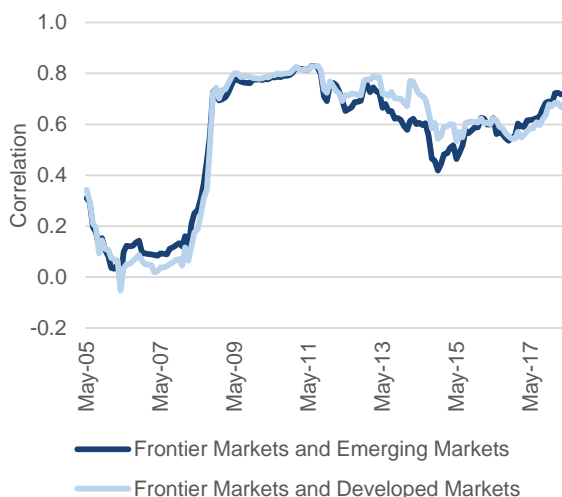
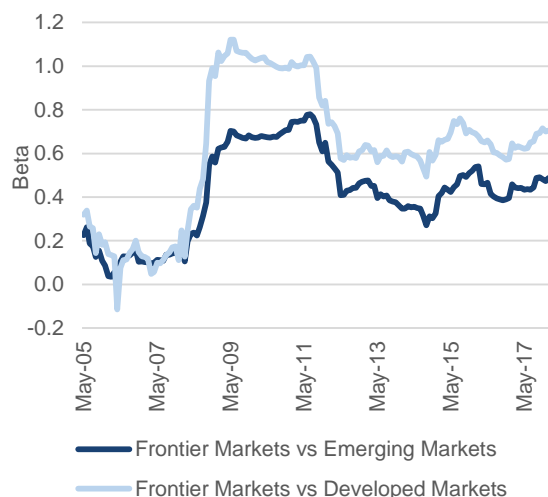


Figure 7. Beta
(36-month monthly returns)



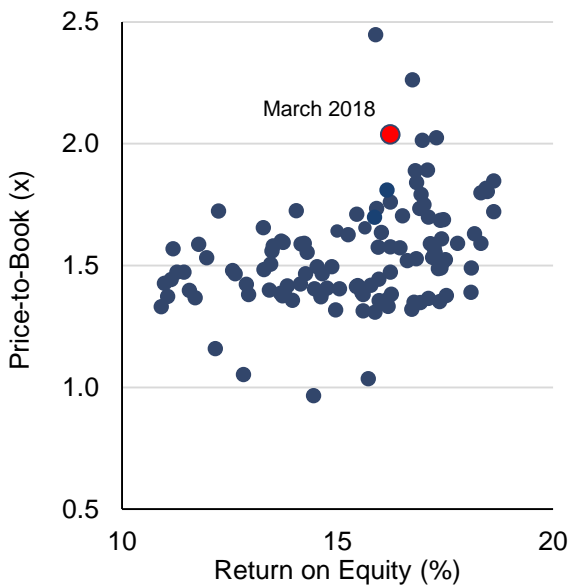
Source: HSBC Global Asset Management, Bloomberg, as of March 31, 2018. Frontier markets: MSCI Frontier Markets; Emerging markets: MSCI Emerging Markets; Developed markets: MSCI World. USD returns gross of fee. Data shown is gross and the effects of commission, fees and other charges will reduce the overall return. For illustrative purposes only. Past performance is no guarantee of future results.

Allocating to Frontier Markets equities

Valuation

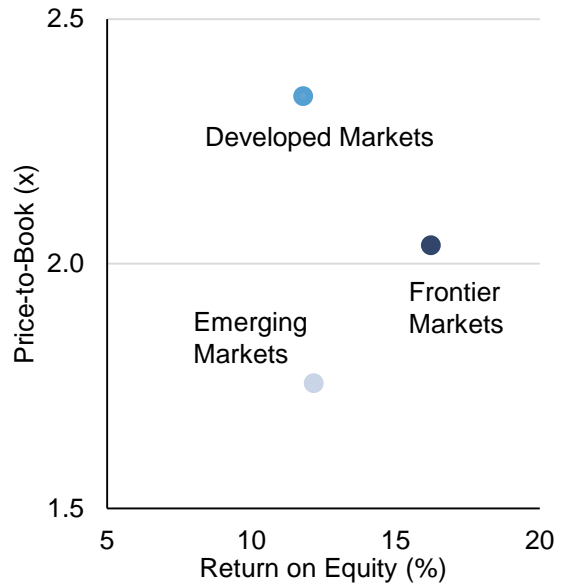
Frontier Markets offer an attractive valuation relative to profitability. They have a higher return-on-equity for only a slightly higher price-to-book valuation versus Emerging Markets and for a lower price-to-book valuation versus Developed Markets.

Figure 8. Profitability-Valuation
(July 2008 – March 2018, monthly)



Source: HSBC Global Asset Management, Bloomberg, as of March 31, 2018. Frontier markets: MSCI Frontier Markets; For illustrative purposes only. Past performance is no guarantee of future results.

Figure 9. Profitability-Valuation
(March 2018)



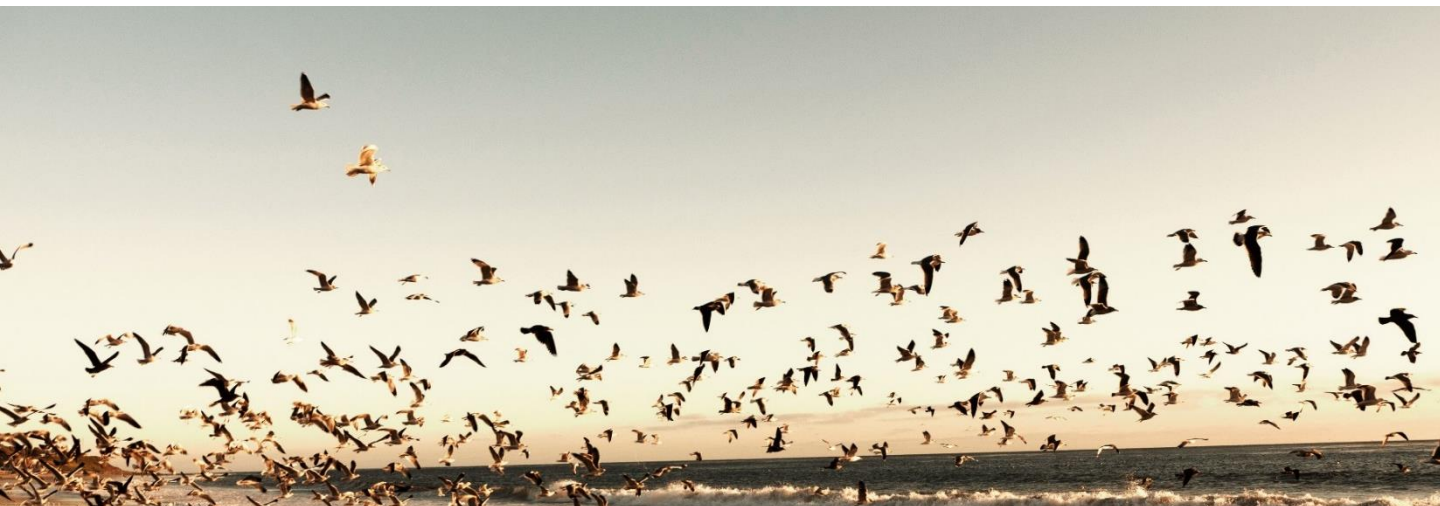
Source: HSBC Global Asset Management, Bloomberg, as of March 31, 2018. Frontier markets: MSCI Frontier Markets; Emerging markets: MSCI Emerging Markets; Developed markets: MSCI World. For illustrative purposes only. Past performance is no guarantee of future results.

Summary

- Frontier Markets equities are a standalone asset class that can be a diversification tool within a portfolio
- While equity markets have appreciated strongly recently, investors might consider rebalancing into Frontier Markets
- Frontier Markets have offered attractive investment returns historically
- Frontier Markets have typically offered attractive investment characteristics

	Frontier Markets versus Emerging Markets	Frontier Markets versus Developed Markets
Dividend yield	Higher	Higher
Volatility	Lower	Similar
Correlation	Low	Low
Beta	Low	Low
Profitability-Valuation	Higher Return on Equity Slightly higher Price-to-Book	Higher Return on Equity Lower Price-to-Book

Source: HSBC Global Asset Management, as of March 31, 2018.



Authors



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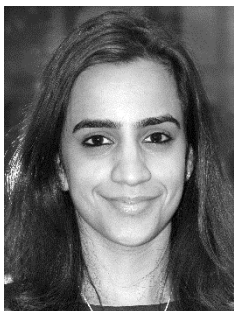
Ramzi Sidani is the lead senior portfolio manager of the Frontier Markets strategy and has been working in the industry since 2007. Prior to joining HSBC in 2016, he was a portfolio manager with SHUAA Asset Management in Dubai, managing the firm's flagship Frontier and MENA capabilities. Previously, he worked for Dubai Group as a part of the acquisitions team. Ramzi holds a MSc (Hons) in Finance, from Boston College, Carroll Graduate School of Management, a Master of Business Administration from Lebanese American University and a Bachelor of Business Administration – Finance from American University of Beirut and is a CFA charterholder.



Stephen Tong

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Stephen joined HSBC in 2014 as a Senior Equity Product Specialist, supporting active equities. Previously he managed sustainable solutions as Head of Emerging Markets Portfolio Management at Bank Vontobel. Prior, he was at AllianceBernstein for twelve years in Singapore, Tokyo and London in roles including Associate Director of Global Growth Research, President and CEO AllianceBernstein Japan, Team Leader Japan Equities, Co-Team Leader Global Thematic Growth, Global Sector Head-Telecommunications and Research Analyst. Stephen started his career as a strategy consultant at Bain & Company. He holds a Master of Business Administration from Stanford University, an M.S. Food Science from the University of California at Davis, and a B.S. Mechanical Engineering and Nuclear Engineering with High Honors from the University of California at Berkeley. Stephen is a CFA charterholder.



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Tanya Chadha is an equity product specialist covering HSBC's emerging and frontier markets equity capabilities. Prior to joining the team in 2012, she worked for HSBC's Retail and Wealth Management business and prior to that as an Analyst for KPMG's strategy advisory business. Tanya holds a Master's degree in Economics and Management from the London School of Economics and is a CFA charterholder.

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