CITY OF LONDON
Investment Management Company Limited

Frontier Markets Semi-Annual Outlook

August 2020*

Overview

For Better, for Worse

Frontier markets (FM) face similar headwinds to the rest of the world with the outlook dominated by the trajectory of COVID-19. There is an increasing likelihood of the virus persisting as a public health concern, meaning that any recovery is more likely to be "W-shaped", rather than "V-shaped". This is somewhat magnified in a number of FM countries due to weak health infrastructure, low incomes, a lack of social safety net and high levels of informal activity, but it would be wrong to assume that this is the case across all FMs.

There are a number of countries that have been exemplary in managing the virus, including Vietnam, which reported no deaths for six months after its first confirmed case. Similarly, Sri Lanka has been a pioneer in developing a tracking system that has been adopted by a global platform.

This is not to take away from the huge economic and social challenges these countries face. All but a handful of economies are set to contract in 2020 and the rebound remains uncertain and somewhat at the mercy of external demand from larger economies. A number of countries are also likely to suffer from reduced tourist flows and a prolonged slump in associated sectors, which means that income support for households may need to be increased and duration lengthened. These policies may also be needed in order to avoid social unrest. In addition, the collapse in the oil price may be positive for some but for Nigeria, in particular, it has made existing economic problems acute.

The health and economic policy response to COVID-19 in many countries has been swift and strong. Governments locked down reasonably quickly after the first cases were confirmed and this helped limit the spread of the virus. This came at a substantial economic cost and most governments acknowledged the need for support for households and businesses during the pandemic. Some countries, like Morocco, have even been innovative in their policy implementation and have used mobile cash payments to get money to those in need quickly. Central banks have also generally been quick to offer support via a number of routes, including rate and reserve requirement cuts, refinancing operations and FX swaps and even quantitative easing.

Aid from multilateral institutions has been sought by a few FMs. The amounts have thus far been small, but some countries will likely need to seek a fuller programme. Aside from delivering immediate aid, this may push reforms through in countries that may not have implemented them of their own accord. More broadly, easy financial conditions should provide a supportive backdrop for FM economies.

Market Strategy

MSCI FM has lagged both MSCI Emerging (EM) and developed markets so far this year and in the rally since the lows in March. However, it did outperform by some 5-7% points during the peak to trough falls in February to March. FM faces headwinds that may be more pronounced than other asset classes, with oil-exporting countries accounting for around a fifth of the index. At the same time, it also has countries that have led the way in containing COVID-19 like **Vietnam**, which we keep at *overweight*. Meanwhile, other countries have made progress on long-standing issues, with **Argentina** potentially securing a deal with creditors to restructure its debt.

Overall, valuations for MSCI FM have become more attractive in recent months. The trailing P/E is one third below that of MSCI EM, which is nearly two standard deviations below the five-year average. Given easy financial conditions and an improving outlook in a number of countries, the asset class likely offers value and has shown some defensive qualities during the crisis. This could prove important should the spread and fear of the virus rise significantly from here.

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	–			■		
Sri Lanka	↑			■		
Kazakhstan	–			■		
Europe						
Romania	↓			■		

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

For our country allocation, some market dislocations have presented opportunities to make changes to our allocation. The crisis has also revealed the ability, and inability, of policymakers to steer through a difficult period. We make three changes: 1) downgrade **Nigeria** to *underweight* as it faces the dual headwinds of the COVID-19 outbreak, which is yet to be controlled, and the oil price collapse; 2) raise **Sri Lanka** to *neutral*, where an effective response to the pandemic and attractive valuations are countered by economic and debt servicing challenges and 3) downgrade **Romania** to *neutral* as COVID-19 is not under control and room for policy support is limited.

**The publication reflects asset performance up to 31 July, 2020, and macro events and data releases up to 7 August, 2020, unless indicated otherwise.*

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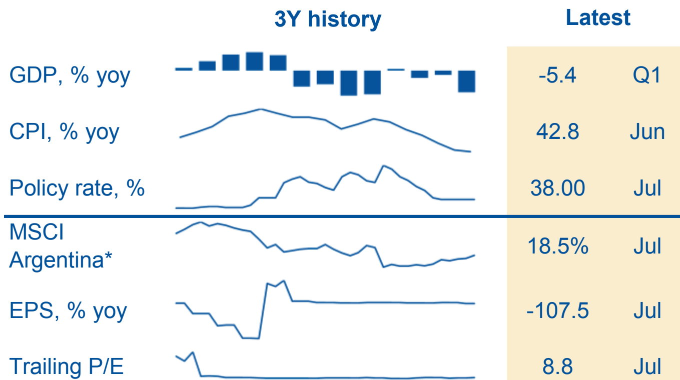
Latin America

Argentina

Neutral

A debt restructuring deal could allow Argentina to return to capital markets, but numerous other challenges remain.



	3Y history	Latest	
GDP, % yoy		-5.4	Q1
CPI, % yoy		42.8	Jun
Policy rate, %		38.00	Jul
MSCI Argentina*		18.5%	Jul
EPS, % yoy		-107.5	Jul
Trailing P/E		8.8	Jul

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

Source: Bloomberg

Argentina has faced severe growth headwinds this year. The economy was on a weak footing at the start of 2020 amid economic and policy uncertainty, with consensus expecting a 1.8% yoy contraction. The outlook was largely unchanged until March, when Argentina reported its first case of COVID-19 and consensus now expects 2020 GDP to fall by 9.4% yoy. A lacklustre rebound of 4.0% is projected for 2021 and 2.0% in 2022. Indeed, using IMF projections, it will take five years for Argentina's real GDP to move back above the 2019 level.

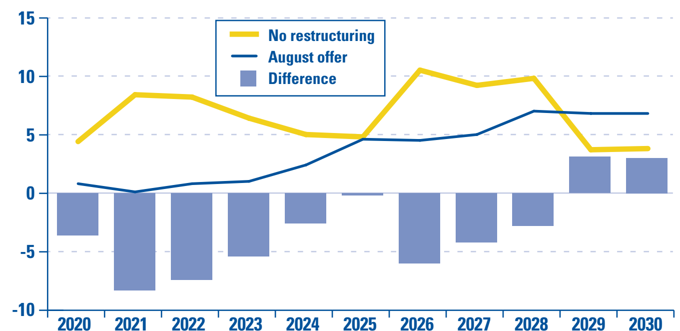
In March, the government imposed a nationwide quarantine and closed its borders. The plans to ease restrictions have been based on the length of time it took COVID-19 cases to double and with this moving above 25 days in early May, Argentina embarked on a gradual reopening. However, after a rise in infections in Buenos Aires, restrictions in the metropolitan area were tightened in late May and other large cities followed in early June. A phased reopening started in mid-July as the rise in infections began to slow again. Overall, the country's containment of the virus has been good, with infections and deaths per million well below those of regional peers like Brazil, Colombia and Peru.

The toing and froing in policy reflects the desire of the authorities to control the spread of the virus while limiting economic damage. Argentina's economic activity index fell by a cumulative 26% in March and April and it only rebounded by 10% in May, leaving it some 19% below the pre-COVID-19 level. Any recovery is unlikely in June given the restrictions imposed.

Argentina's policy response has been aimed at supporting the households most impacted and has centred on a fiscal expansion worth some 5% of GDP. Some of this has been financed by the central bank (BCRA). Measures included income support for vulnerable individuals and households, support for exposed sectors and credit guarantees. BCRA has tried to encourage lending and has reduced reserve requirements for loans to households and SMEs.

At the same time, the peso has been successfully stabilised. Given the global backdrop, the weakness in the currency has been limited. Indeed, the 20% fall against the USD this year is not far from that in the same period in 2019 and has been smaller than others in the region like Brazil (-30%). The peso was likely aided by currency restrictions imposed in August 2019, which limited US dollar purchases and international transfers, and restricted outflows during the pandemic.

Chart 1: Foreign-law Bond Cashflows, US$ bn



Source: J. P. Morgan

Meanwhile, debt restructuring negotiations have progressed in recent months. In July, three bondholder committees that had previously worked separately put forward a joint proposal. The following month, the government announced that it had reached an agreement with bondholders in a deal estimated to be worth 54.8 cents on the dollar, up from an initial offer of 38 cents. Bondholders will still need to vote on the deal, but it was reported that creditor groups that have signed up to this offer represent around 50-60% of eligible bonds (which total $65 bn). More bondholders are likely to sign up so that there is sufficient support to pass the required approval thresholds (two thirds to 85%) for various bonds. If the deal is approved, it should allow Argentina to access capital markets again.

Approval would also allow for negotiations with the IMF on a deal. This may prove to be a double-edged sword though, since capital controls have limited the peso's fall and they may be removed under an IMF deal. FX debt is estimated to amount to 77% of total debt after restructuring and this makes control of the currency important. Moreover, although inflation has slowed to a two-year low, disinflationary forces may fade in 2021 and currency weakness is likely to put upward pressure on inflation, a perennial threat in Argentina.

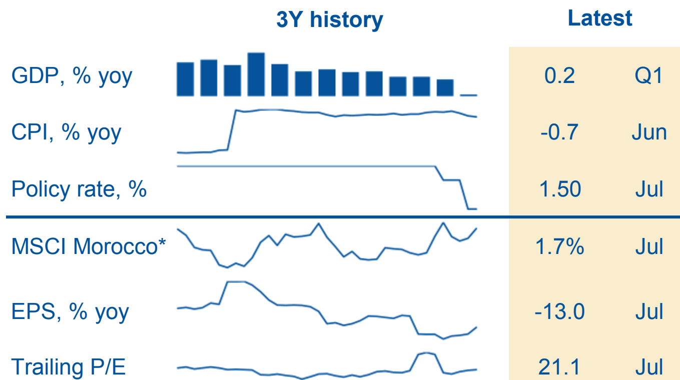
Market Strategy: Argentina's stock market has performed extremely well, gaining 40% in USD terms for 2020 through end-July. Much of this has been due to I.T. stocks like Mercado Libre and Globant that have benefited from the lockdown. Valuations have risen commensurately, making the overall market less attractive. Further peso devaluation also looms large and could dent USD returns. These factors are countered by progress on debt restructuring, so we stay *neutral.*

Middle East and North Africa

Morocco

Overweight

The severe downturn due to COVID-19 and the drought have elicited a strong policy response.



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

Source: Bloomberg

Morocco's economy this year is expected to post its worst contraction in 25 years. Consensus projects a 5.4% yoy fall in GDP in 2020 followed by a 4.3% rise in 2021. The decline is mainly due to the fallout from COVID-19. Lockdown was imposed from March, when the first case was confirmed. A gradual reopening started in June, with most businesses now up and running. In July, restrictions on domestic and international flights were also eased. However, after a spike in cases in the same month, a partial lockdown was imposed on certain urban areas.

Tourism accounts for one-fifth of GDP and this is set to be a significant drag on activity this year. At the same time, the agricultural sector (11.4% of GDP) has also suffered due to dry weather conditions. The Ministry of Agriculture expects a 42% fall in cereal production this year.

This backdrop justifies the strong policy response. Fiscal stimulus worth some 2.7% of GDP has been announced, including income support for households and tax breaks for businesses and households. For the former, one novel policy was mobile payments to those working in the informal sector (85% of households in the sector were covered by this). Given that the informal sector accounts for an estimated 20% of GDP, this is a significant move. Moreover, it potentially enables workers in the sector to forgo work and keep to lockdown rules, thereby helping to restrict the spread of the virus. Meanwhile, the central bank also cut its key rate by 75bps to 1.5% in March, increased liquidity via refinancing operations and FX swaps and reduced reserve requirements.

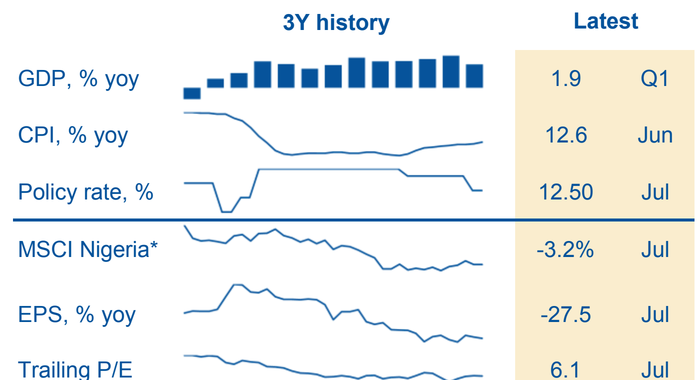
Market Strategy: The underperformance of Morocco's equity market compared to FM has made valuations more reasonable. The trailing P/E premium over FM has fallen from 100% six months ago to 68%, in line with the five-year average. We believe the market still offers value given the strong policy response and stay *overweight*.

Sub-Saharan Africa

Nigeria

Underweight (↓)

Dual headwinds from COVID-19 and the oil price collapse pose considerable challenges to growth.



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

Source: Bloomberg

Nigeria's economy has faced two severe headwinds this year in the form of the collapse in the oil price and the outbreak of COVID-19. Consensus projects GDP to contract by 3.5% yoy this year, followed by 2.5% rebound in 2021. The latter is unchanged from the estimate six months ago and so, in the context of the fall in GDP, the expected rebound is lacklustre. Indeed, using IMF projections Nigeria's real GDP will only return to the 2019 level in 2023.

The collapse in the oil price from close to $70/barrel in January to below $20 in April is a significant setback to the outlook. It is set to hamper government and exports earnings, for which oil accounts 65% and 86%, respectively. Growth will also be impacted, as the oil and gas sector accounts for some 10% of GDP. Despite more than doubling since April to $43, the oil price is till significantly below the 2020 budgetary assumption of $57. Substantial fiscal expansion had been planned for 2020, with Fitch estimating a budget breakeven oil price of $144.

Meanwhile, the country implemented lockdowns in Lagos, Abuja and Ogun states in March after detecting the country's first COVID-19 case. In May, the government began to ease some measures as part of a three-phase plan. In June, it moved to phase two which included reopening schools, but extended the phase by four weeks at the start of July. However, many measures remain in place, such as curfews and bans on non-essential inter-state travel, while wearing face masks in public has been made mandatory.

These policies appear to be having the desired effect, with the rise in cases per million slowing to 1.7 times in July, down from 2.6 in June and 5.7 in May. Increased testing, with tests per million people doubling in July, has also likely aided containment of the virus.

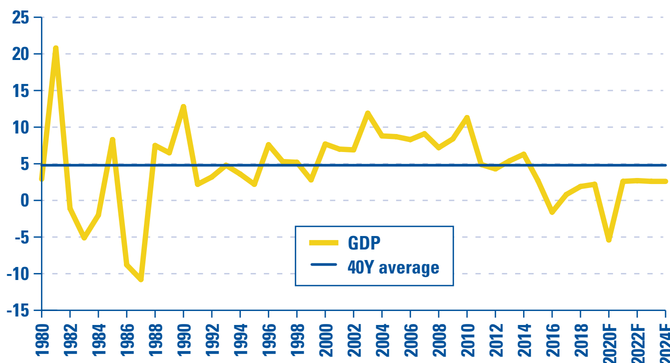
Given the backdrop of economic contraction and weak government revenues, fiscal space is limited. This has led to a somewhat

muted response to the pandemic in this regard. The government has halved its 2020 oil price assumption to $28, with the fiscal deficit still expected to nearly double from 2019 to 5% of GDP in 2020. Deteriorating fiscal dynamics led to one notch downgrades by both S&P (to B-) and Fitch (B) in March and April, respectively. This backdrop is set to limit government borrowing, despite reduced yields, since around 40% of government revenues may be absorbed by interest payments this year. Hence, fiscal policy is unlikely to be supportive.

Instead, policy support has come from the central bank (CBN). It has cut its key rate by 100bps in 2020 to 12.5% and has injected liquidity worth some 2.4% of GDP into the banking sector in May. There has also been increased liquidity provision for non-bank financial institutions. The subsequent fall in borrowing costs may help raise credit growth.

CBN devalued the official naira rate in March to alleviate pressure on the currency. Inflation is thus expected to rise to 13% this year, limiting both further monetary easing and household consumption. The banking sector also has 40% of its loans in foreign currency and the fall in the naira is likely to lead to a rise in non-performing loans. Moody's expects the proportion of doubtful loans to double to 12-15%. The government has sought limited help from multilateral institutions like the IMF so far, but may need to seek further help amid pressure on the currency and foreign currency shortages.

Chart 2: GDP Growth, % yoy



F is IMF forecast.

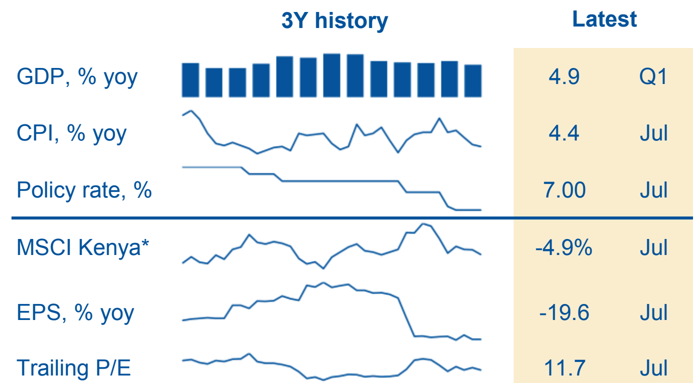
Source: Bloomberg, IMF

Market Strategy: MSCI Nigeria's trailing P/E is half that of MSCI FM, the same as six months ago and 1.2 standard deviations below the five-year average. In our view, this is not sufficient compensation for numerous significant risks including the ongoing fallout from both the oil price collapse and COVID-19, a lacklustre policy response and the potential for a further devaluation in the naira. We downgrade Nigeria to *underweight*.

Kenya

Neutral

COVID-19 is not yet under control, but supportive policies should mean the economy still grows in 2020.



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

Source: Bloomberg

Kenya's GDP growth is set to slow substantially this year as a result of both the spread of COVID-19 and the locust outbreak. Despite this, output is still expected to grow by 1.1% yoy and down from 5.6% in 2019. The crop destruction from locusts pushed food inflation to 11.9% in March, the highest since 2017, but it has nearly halved since then. A further fillip to the economy should come from the collapse in oil prices (15% of imports).

The first COVID-19 case was detected in March and measures such as social distancing and encouraging remote working were used to contain the outbreak. However, other restrictions in areas like domestic flights and places of worship were partially lifted in July and there is not yet significant evidence of the virus being under control. For example, cases per million rose by 3.3 times in June and by 3.2 times in July.

The government appears keen on reopening the economy and to this end, international flights resumed in August. Quarantine measures will, however, remain for arrivals. This is an attempt to revive the tourism sector, which accounts for some 9% of GDP, thereby supporting the economy. However, the sector is likely to struggle as long as the virus persists, given its reliance on tourists from outside Africa.

Meanwhile, fiscal and monetary policy have been supportive. The former has come mainly via income, corporate and VAT cuts. The latter has taken the form of a 100bps cut in both the policy rate and banks' cash reserve requirement ratio. The government has also received a significant amount of aid from the IMF and World Bank and this should help support activity.

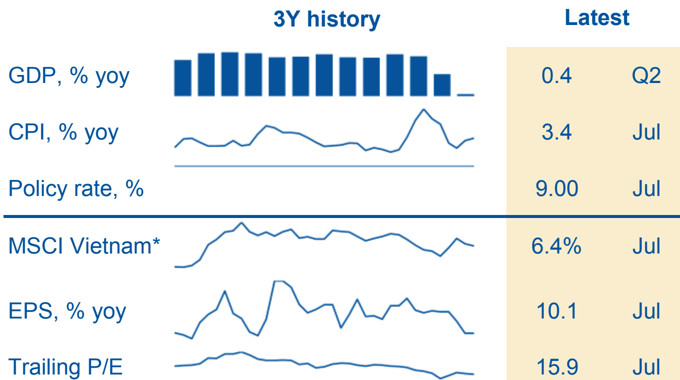
Market Strategy: MSCI Kenya's trailing P/E is at a 13% discount to MSCI EM, just below the five-year average. Policy support is countered by uncertainty over control of COVID-19, so we stay *neutral*.

Asia

Vietnam

Overweight

Vietnam's handling of COVID-19 has been one of the most effective globally. This is set to aid a swift rebound in H2.



	3Y history	Latest	
GDP, % yoy		0.4	Q2
CPI, % yoy		3.4	Jul
Policy rate, %		9.00	Jul
MSCI Vietnam*		6.4%	Jul
EPS, % yoy		10.1	Jul
Trailing P/E		15.9	Jul

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

Source: Bloomberg

Vietnam's containment of COVID-19 has been very effective, with no reported deaths for six months after its first confirmed case. Efforts were aided by the experience with previous outbreaks such as SARS in 2003. Its policies of containment included an early lockdown and effective communication, which convinced citizens to follow government advice. The lockdown was lifted in April and the vast majority of sectors have now reopened. However, international travel is still banned and this could be the reason that the re-emergence of the virus has been limited. In July, there was an outbreak in Da Nang, the country's fifth-largest city, and restrictions were reimposed in the area. The government also plans on testing Da Nang's entire population, illustrating how decisively the authorities are treating the outbreak.

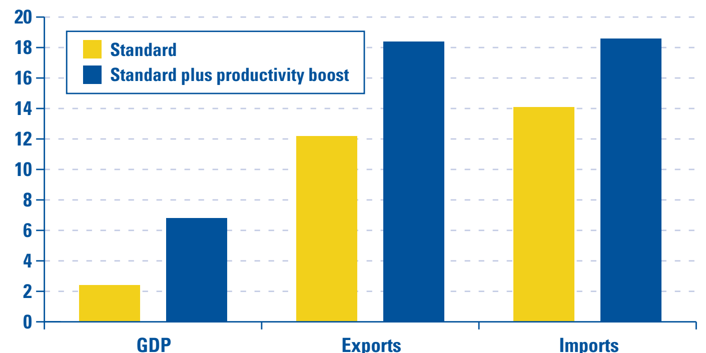
As a result, the rebound in economic activity may occur sooner and more swiftly than in other economies. Indeed, Vietnam is one of only a handful of FMs where consensus expects GDP to expand both this year (2.8% yoy) and next (8.0%). The rebound in manufacturing PMI reflects this, but the country's reliance on external demand means it is still at the mercy of global economic conditions.

Nevertheless, the upturn in H2 should be supported by significant policy support. Fiscal stimulus worth some 3.7% of GDP has been announced. Measures include deferment of tax payments, tax cuts and income support for households. This likely aids household consumption (68% of GDP). Indeed, retail sales so far this year (through end-July) already match those for the same period in 2019. The government is also seeking to ramp up public investment, which excluding that by SOEs accounts for 20% of the total. It is targeting 9% of GDP worth of investment this year, a rise of 67% yoy. The plans are progressing slowly though, with only 3% of GDP disbursed in 1H.

In addition, the central bank (SBV) has cut its key rate by 150bps this year. However, further easing may be less forthcoming in 2H as inflation has risen and activity has rebounded somewhat. Macroprudential measures have also been implemented to ensure financial stability, including issuing guidance for banks to allow loan relief and rescheduling. This has helped facilitate lower interest rates on loans worth some 3.8% of GDP.

Meanwhile, longer-term trends, such as the signing of free trade agreements (FTA), are supportive of growth in the medium-term. The agreement with the EU (EVFTA) was ratified in June and became effective in August. This will lift tariffs on 70% of exports to the EU, the destination of 16% of Vietnam's exports. The investment and knowledge transfer that is likely to come from the FTA could be a catalyst for development and may raise Vietnam's growth potential. Its effective handling of COVID-19 should give confidence to corporates that production would face minimal disruption in the event of another outbreak. Continued Sino-US tensions also mean relocation of production to Vietnam deeps.

Chart 3: Impact of EVFTA on Vietnam GDP by 2030, %*



**World Bank estimates. % deviation from baseline.*

Source: World Bank, J. P. Morgan

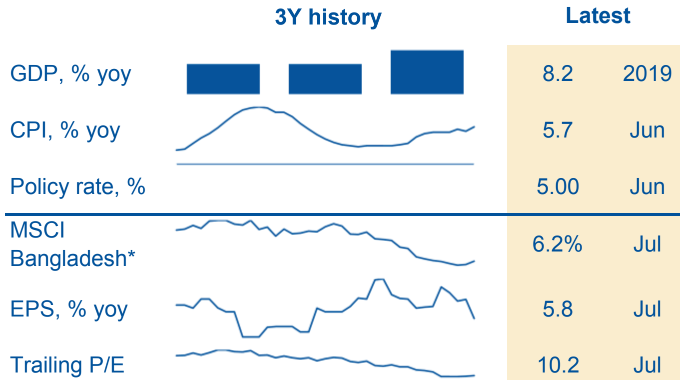
Market Strategy: A number of factors make Vietnam's equity market attractive. This includes the handling of the COVID-19 pandemic, with the strong health policy response boding well for any future outbreaks. Economic policy has also been supportive and should underpin a decent rebound in activity. External demand conditions remain a vulnerability, but FTAs such as the EVFTA put the country in a strong position relative to regional peers to benefit from relocation flows.

We believe valuations do not fully account for this and see the market as offering good value. MSCI Vietnam's trailing P/E is at a 32% premium to FM, similar to the level six months ago and 1.4 standard deviations below the five-year average. We stay *overweight*.

Bangladesh

Neutral

The policy response to the economic crisis has been lacking, though the virus has been contained well.



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

Source: Bloomberg

Bangladesh implemented lockdown measures in March after its first COVID-19 case was confirmed, declaring a "general holiday with restrictions on movement" through to 30 May. This has been somewhat effective, with the increase in infections per million falling from over 3.2 times in June to nearly half that in July. Restrictions were eased at the end of May, with gradual reopening since.

However, there are significant growth headwinds, chief among them are lacklustre demand for key export (ready-made garments) and reduced remittances. The former has been impacted by reduced demand due to COVID-19, leading to large order cancellations. The latter is set to decline due to preponderance of workers located in the Gulf region, which has been impacted by the sharp fall in the oil price. The agricultural sector (13% of GDP) is also set to be hampered by a historic monsoon season, with close to a third of the country underwater. Although the IMF expects GDP to grow by some 2.0% this year, this would be the lowest on record. The projected 9.5% rise in 2021 is dependent on a rebound in global activity.

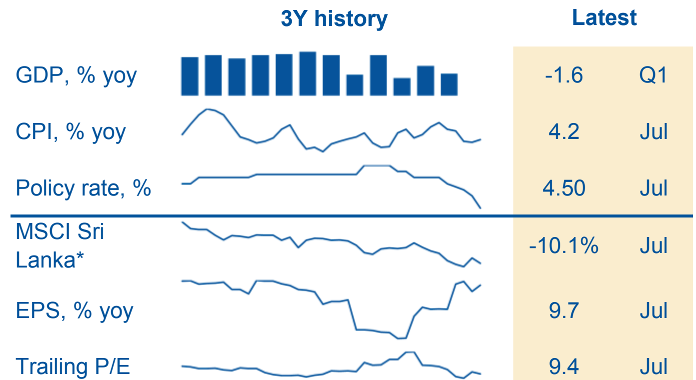
To date, fiscal and monetary support have been minimal. The former has been focussed on helping the most vulnerable in society, including housing schemes for the homeless and income support for people that had been made redundant due to the pandemic. A stimulus package of 0.2% of GDP was announced for exporting industries. Financing from multilateral institutions has also been minuscule, with the IMF providing just 0.2% of GDP in emergency financing thus far. This source of financing is likely to rise as the government seeks budget support. The central bank has been more supportive, cutting its key rate by reducing the repo rate by 125bps to 4.75% this year and reserve requirements by 350bps.

Market Strategy: MSCI Bangladesh's trailing P/E relative to FM is nearly two standard deviations below its five-year average. This, combined with good virus containment, mean we stay *neutral*.

Sri Lanka

Neutral (↑)

Strong health policy has helped contain COVID-19, which should aid the rebound in the coming months.



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

Source: Bloomberg

Sri Lanka has been reasonably successful in containing the COVID-19 outbreak, with only 11 deaths reported as a result of the virus to date. Indeed, this was a key factor in August's parliamentary elections. The result gave Prime Minister Mahinda Rajapaksa's SLPP a landslide victory, winning 145 of 225 seats. Moreover, the party has at least five allies that would give it a supermajority and may allow it to reverse the constitutional amendment limiting presidential powers. This has been a policy goal pushed by the PM and his brother, President Gotabaya Rajapaksa.

After the first confirmed case (a Chinese tourist who was hospitalised, recovered and was released) in late January, there were no cases until March 10 (a Sri Lankan national). The authorities acted swiftly and implemented a nationwide curfew from March 20. Investment in the health system over a number of years also helped, with 3.6 beds per 1,000 people and above many developed countries like the US, Italy and Spain. Public health facilities are in close proximity for most Sri Lankans. Surveillance of the virus has been another strength, with the development of the tracker adopted by the District Health Information Software community globally.

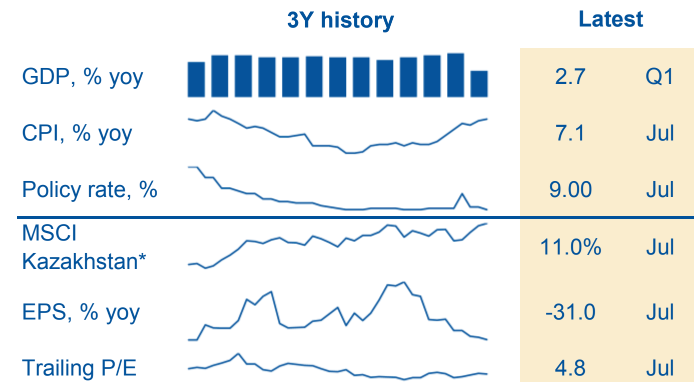
The economic cost is an expected GDP contraction of 2.3% yoy in 2020, the first since 2001, amid downturns in tourism and remittances. However, control of the virus means that the contraction is not severe, providing a good foundation for a rebound in 2021 (3.8% yoy projected) to leave real GDP above the 2019 level. Low FX reserves are a concern for currency stability. External debt of 65% of GDP and an onerous refinancing schedule may mean that IMF assistance is needed. Monetary stimulus has been significant, with the key rate cut by 250bps to 5.5% and reserve requirements by 300bps this year.

Market Strategy: MSCI Sri Lanka's P/E is at a 24% discount to FM, one standard deviation below the five-year average. The strong health policy augurs well for future containment, but challenges remain around growth and debt sustainability. We raise Sri Lanka to *neutral*.

Kazakhstan

Neutral

The impact of COVID-19, which is yet to be controlled, and the oil price collapse are set to lead to recession.



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

Source: Bloomberg

Kazakhstan has had limited success in containing the COVID-19 outbreak. The first case was confirmed in mid-March and a state of emergency was declared the day after. The capital Nur-Sultan and Almaty were locked down, while certain businesses that involved gatherings of large crowds were suspended nationwide, and domestic and international movement were restricted. However, cases have risen substantially. There was a doubling of cases per million at end-June due to the inclusion of asymptomatic cases, but even after this cases more than doubled in July. In the same month, quarantine measures were reimposed after a gradual reopening began in May.

Economic activity is set to fall by 1.5% this year, the first contraction since 1998, hampered also by the fall in the oil price, and rise by 4.3% in 2021. Support is set to come from a fiscal stimulus package worth 9% of GDP, with the country's sovereign wealth fund (36% of GDP) a key funding source. Measures include income support for the unemployed and self-employed, subsidised lending to businesses, infrastructure spending and tax breaks.

The central bank (NBK) has reversed policy during 2020. The key rate was raised by 275bps in March after the fall in the oil price to support the tenge. However, as the economic damage from the oil shock and COVID-19 became clearer, NBK reversed course in April and cut by 250bps. A further 50bps reduction in July leaves the key rate at 9.0%, down by just 25bps this year. Reduced reserve should provide some liquidity support though. The bank allowed the tenge to weaken by over 20% against the US dollar between February and March and though it stopped intervening, the currency has since recovered half these losses as the oil price rose by 60% over the period.

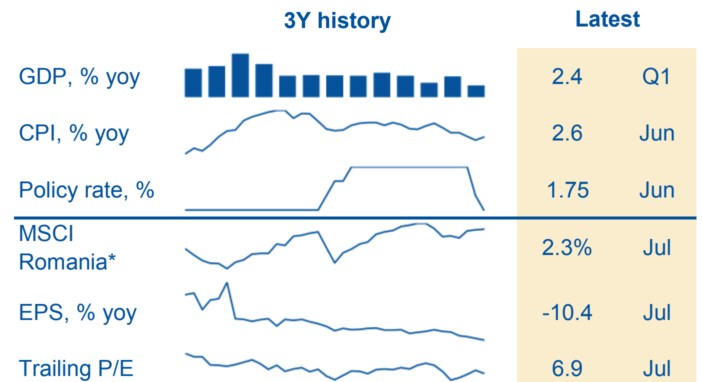
Market Strategy: MSCI Kazakhstan's trailing P/E relative to FM is 1.6 standard deviations below the five-year average. This somewhat factors in the deterioration in the outlook due to the oil price fall and COVID-19, but there is room for further policy support. We stay *neutral*.

Europe

Romania

Neutral (↓)

The COVID-19 outbreak has been reasonably well managed, but a deep recession is nevertheless likely.



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

Source: Bloomberg

COVID-19 deaths and cases in Romania have continued to rise since the first confirmed case in February, but at a slowing pace. Cases per million nearly doubled in May, but rose by a third in July. This was likely a consequence of restrictions on movement and closure of certain sectors, as well as a ramp-up in testing and compulsory wearing of face masks. As a result, restrictions were eased in May and further in June. However, rising new cases led to a tightening in August.

The reopening is set to provide a fillip to activity. However, the economy is likely to enter a recession for the remainder of 2020. One key hindrance to growth are falling real wages. This is happening for the first time since 2013 and household consumption (62% of GDP) has been a key growth driver in recent years. Moreover, real wage growth was already weak before the outbreak and may not recover quickly amid fiscal prudence in the fiscal sector and recessionary conditions.

Stimulus measures are helpful, but likely insufficient to meaningfully change the economy's trajectory. GDP is expected to fall by 5.1% yoy in 2020 before rebounding to 4.0% in 2021. Fiscal stimulus of 2% of GDP announced so far is helpful, but there is limited room for further expansion given the ongoing risk of the sovereign debt rating (BBB-) being downgraded to non-investment grade – all three major rating agencies have a "negative" outlook. Monetary easing has been more significant, with 100bps of rate cuts to 1.5%, QE and loan repayment deferrals for households and businesses impacted by COVID-19.

Market Strategy: MSCI Romania is at a 40% discount to FM. This is similar to six months ago despite a significant deterioration in the outlook. We reduce our weight to *neutral*.

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KEY ECONOMIC AND FINANCIAL INDICATORS *(All data shown are as at end-July 2020 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 2020 Latest	Foreign Reserves 2019 Year Ago	Currency vs $ 2020 Latest	Currency vs $ 2019 Year ago	Sovereign Rating S&P	Budget Balance % of GDP 2020F	Short-Term Interest Rates	% S&P Frontier 150 Index**	Stock Market Index (S&P Frontier 150 Index) US$	Change since 12/31/19 US$	Change since 12/31/19 Local	Trailing P/E	6 month Currency vs $ +/-
		Macroeconomic Data													Market Performance					Forecast (Bloomberg)†
		% change on year ago				Latest 12 months														
		%	%	%	%	$ Bns	$ Bns	$ Bns	$ Bns					%	Jul. 31, 2020	Jul. 31, 2020	%	%		
Overweight	VIETNAM	7.0	n.a.	1.1	3.4	2.1	15.2	82.8	63.2	23177.0	23216.0	BB	-6.5	4.7	13.2	366.8	-14.6	-14.6	17.6	+
Overweight	MOROCCO	0.2	n.a.	-0.6	-0.7	-21.5	-5.1	27.9	22.9	9.3	9.6	BBB-	-4.3	3.1	12.0	1094.0	-15.8	-17.9	20.9	-
Neutral	ARGENTINA	-5.4	-19.2	-13.3	42.8	18.5	-0.9	43.3	67.6	72.7	45.7	SD	-7.5	28.8	22.4	3948.2	40.1	69.0	8.8	-
Neutral	BAHRAIN	-1.1	n.a.	n.a.	-3.4	0.3	n.a.	3.4	2.2	0.4	0.4	B+	-11.1	1.1	3.6	2587.9	-31.4	-31.4	8.9	uc
Neutral	BANGLADESH	8.2	n.a.	30.4	6.0	-19.2	-4.8	33.9	30.7	85.0	84.4	BB-	2.5	6.1	3.0	1112.0	-8.6	-8.7	10.2	-
Neutral	CAMBODIA	7.1	n.a.	n.a.	2.4	n.a.	-4.7	16.4	13.9	4101.0	4090.0	NR	n.a.	1.5	2.5	1787.2	-36.6	-36.1	n.a.	-
Neutral	COTE D'IVOIRE	7.4	n.a.	n.a.	-0.9	n.a.	n.a.	0.0	0.0	555.2	585.1	B	-4.6	6.6	0.5	671.5	-18.3	-22.5	n.a.	-
Neutral	CROATIA	0.4	-34.4	-1.8	-0.2	-10.7	1.2	19.1	22.2	6.3	6.6	BBB-	-8.0	0.8	1.1	555.0	-27.3	-30.6	17.1	-
Neutral	ESTONIA	-0.7	-14.8	-5.5	-0.9	-1.7	0.8	1.8	0.1	1.2	13.9	AA-	n.a.	0.1	0.4	1167.5	16.8	8.1	23.1	+
Neutral	GEORGIA	2.8	n.a.	-11.3	-1.5	-4.9	-1.1	3.4	3.5	3.1	2.9	BB	n.a.	n.a.	0.9	580.9	-49.9	-46.0	27.4	-
Neutral	JORDAN	1.3	n.a.	-13.0	-0.6	-13.6	-1.0	12.9	13.0	0.7	0.7	B+	-5.1	2.0	3.4	597.7	-25.2	-25.2	8.7	-
Neutral	KAZAKHSTAN	2.7	n.a.	-5.6	7.1	19.4	-4.3	10.6	10.4	419.5	387.5	BBB-	-3.3	15.0	6.4	113.0	9.3	20.4	6.1	n.a.
Neutral	KENYA	4.9	4.5	n.a.	4.4	-10.8	n.a.	9.7	9.2	108.0	103.5	B+	-8.4	7.0	4.6	3623.8	-27.9	-23.3	11.7	-
Neutral	LEBANON	0.9	n.a.	n.a.	89.7	-15.0	n.a.	34.9	38.4	1510.0	1509.5	SD	-11.9	2.8	1.3	1150.4	9.2	9.5	22.3	-
Neutral	LITHUANIA	-3.8	-20.4	-2.0	1.0	0.0	2.3	4.1	5.0	2.9	3.1	A+	-3.3	1.7	0.2	920.2	-6.7	-11.5	7.8	-
Neutral	MAURITIUS	-1.4	n.a.	n.a.	1.5	-2.2	-0.8	6.3	6.4	39.7	35.8	n.a.	n.a.	2.4	1.3	715.7	-37.9	-32.2	8.2	-
Neutral	OMAN	0.5	n.a.	-7.9	-0.7	15.0	-4.3	16.3	16.3	0.4	0.4	BB-	-16.3	1.5	2.2	2112.9	-11.7	-11.7	6.9	uc
Neutral	PANAMA	0.4	n.a.	n.a.	-0.8	-7.9	8.8	5.3	1.9	1.0	1.0	BBB+	n.a.	2.2	1.5	2502.9	-58.4	-58.4	24.7	uc
Neutral	ROMANIA	2.4	1.2	-28.0	2.6	-7.6	-10.7	37.8	35.7	4.1	4.2	BBB-	-8.4	1.9	6.8	1435.1	-11.3	-15.0	6.9	-
Neutral	SRI LANKA	-1.6	n.a.	-25.5	4.2	-7.8	n.a.	7.5	5.1	185.3	177.4	B-	-9.4	8.7	1.0	1835.4	-31.0	-29.4	9.4	-
Neutral	SLOVENIA	-2.3	-18.0	-16.9	0.3	1.8	3.4	0.5	0.5	1.2	1.1	AA-	-7.8	0.2	3.2	1388.7	19.5	13.5	11.3	+
Underweight	NIGERIA	1.9	-57.1	n.a.	12.6	3.5	-19.2	35.7	44.8	383.6	362.8	B-	-4.7	5.9	7.2	731.4	-18.7	-13.5	6.1	n.a.
Underweight	UKRAINE	-1.3	-2.8	-5.6	2.4	-0.5	-1.4	27.1	19.5	27.6	25.3	B	-7.2	6.1	1.3	406.1	-4.7	11.2	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

CITY OF LONDON
Investment Management Company Limited

Contacts

Macroeconomic Analysis

Michael Hart, London Office
Phone: 011 44 207 711 1558
Fax: 011 44 207 711 0774
E-Mail: michael.hart@citlon.co.uk

Lyndon Barreto, CFA, London Office
Phone: 011 44 207 711 1551
Fax: 011 44 207 711 0774
E-Mail: lyndon.barreto@citlon.co.uk

Mike Liu, CFA, London Office
Phone: 011 44 207 860 8318
E-Mail: mike.liu@citlon.co.uk

London Office
77 Gracechurch Street
London EC3V 0AS
United Kingdom
Phone: 011 44 20 7711 0771
Fax: 011 44 20 7711 0774
E-Mail: info@citlon.co.uk

Philadelphia Office
The Barn, 1125 Airport Road
Coatesville, PA 19320
United States
Phone: 610 380 2110
Fax: 610 380 2116
E-Mail: info@citlon.com

Seattle Office
Plaza Center
10900 NE 8th Street, Suite 1414
Bellevue, WA 98004
United States
Phone: 206 505 2587

Singapore Office
20 Collyer Quay
10-04
Singapore 049319
Phone: 011 65 6236 9136
Fax: 011 65 6532 3997

Dubai Office
Unit 2, 2nd Floor
The Gate Village Building 1
Dubai International Financial Centre
P.O. Box 506695, Dubai, United Arab Emirates
Phone: 011 971 4 249 8402
Fax: 011 971 4 437 0510

Website

www.citlon.co.uk

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