

Overview

Frontier Markets More Insulated from Tariffs

US trade policy is expected to stay hawkish under the Trump presidency. However, lower trade linkages and stronger fundamentals leave frontier markets (FM) in a better position to absorb higher tariff rates. Easier Fed policy and a softer US dollar suggest a more supportive backdrop for FM too. Within the FM universe, our allocations reflect our positive view on structural drivers such as friend-shoring (Vietnam) and decarbonisation (Kazakhstan).

Frontier markets equities have remained resilient amid uncertain and volatile US trade policy. Reciprocal US tariffs, introduced on April 2nd (“Liberation Day”), were paused at a rate of 10% for 90 days to allow for trade negotiations. The updated tariff rates announced on the eve of August 1st are generally in line with or lower than those introduced on April 2nd, seemingly avoiding the worst-case scenario for global growth (see Chart 1). Among FM, only Vietnam and Pakistan have reached a trade deal with the US, and there appears to be scope for further countries to negotiate. However, elevated US tariff rates are set to be a mainstay of the Trump administration, with the Budget Lab at Yale estimating an average effective tariff rate of approximately 18% in 2025, the highest since 1933. Meanwhile, sectoral tariffs are less likely to be negotiated away as they are viewed by the US as a national security tool. As such, the global economy is projected to slow in H2 as tariff front-loading fades and higher tariff rates weigh on activity.

There are several factors that should support FM. Apart from Vietnam, FM tend to have more domestically oriented economies and weaker trade linkages with the US. Overall, FM fundamentals have also improved, with countries building foreign reserves and undertaking structural reforms - particularly under IMF programmes. The softening of the US dollar this year has also meant that most currencies have held up well (see Chart 2). In some markets, such as Pakistan, subdued inflation means that the central bank has the policy space to support the economy.

We maintain a bearish dollar view as cyclical and structural factors come into play. Rate and growth differentials do not favour the US dollar, with the Fed expected to resume its easing cycle at the September FOMC meeting. Concerns over US

fiscal health and the Trump administration’s push to narrow the trade deficit suggest capital may be diverted away from US assets. FM equities tend to outperform developed market (DM) during periods of dollar weakness (see Chart 3).

Vietnam’s trade deal with the US, agreed in early July, was widely seen as a template for what other trade dependent countries could negotiate. The agreed 20% tariff rate is higher than before but much lower than the 46% threatened on Liberation Day. Notably, Vietnam’s trade deal also stipulates a 40% tariff rate on transshipment goods, underscoring the Trump administration’s efforts to clamp down on transshipment from China. While at first glance this deal may seem to jeopardise the China Plus One strategy that has driven growth over the past few years in Vietnam, the rate is still lower than China’s (which is expected to be 40-50%). The trade deal in turn may spur more supply chain diversification away from China, especially if goods now need to meet more stringent rules of origin requirements. However, the US has not provided a definition of these rules or clarified how this rule will be enforced. Beyond the trade agreement, Vietnam continues to present long-term value. The government is making a concerted effort to boost the private sector and support a growing middle class. The country still has a competitive and educated labour force, an attractive geopolitical position, and stable politics. It is also worth noting that Vietnam and the US are strategic partners.

Allocation Breakdown

	Chg	-2	-1	0	+1	+2
Argentina	↑					
Vietnam	-					
Morocco	-					
Iceland	-					
Romania	-					
Kazakhstan	-					
Oman	-					
Georgia	-					
Pakistan	-					

Note: Up/down arrows indicate a positive/negative change in our asset allocation compared to the previous quarter. A dash indicates no change. The table shows the major Frontier Markets.

Source: CLIM

*This publication reflects asset performance up to 31 July, 2025, and macro events and data releases up to 8 August 2025, unless indicated otherwise.

We have become more balanced on Argentina since our last *Outlook*, upgrading our allocation to *neutral*. Following the election of President Milei in 2023, we have been cautious about the government's ambitious reform programme and its ability to sustainably address Argentina's long-standing macro imbalances. However, positive developments warranted a change in view. The IMF approved a \$20 billion loan in April and the central bank relaxed currency controls, allowing the peso to trade with a crawling peg without triggering a large devaluation. Economic activity appears to be holding up, while inflation continues to trend lower. President Milei's La Libertad Avanza coalition is polling well ahead of October's midterm elections and an expanded congressional presence should help improve the prospects for advancing reforms. That said, we remain cautious. Argentina continues to struggle to build reserves, having missed its mid-June IMF target. Reserves have instead been used to support the peso within its crawling band – both to aid disinflation and repay its debts. As such, there is a risk that any relaxation in the peso or efforts to build reserves after the October election could result in a sharp depreciation and thereby an inflationary shock. An inflationary shock would erode public support, which is instrumental in the success of Milei's reforms.

Market Strategy:

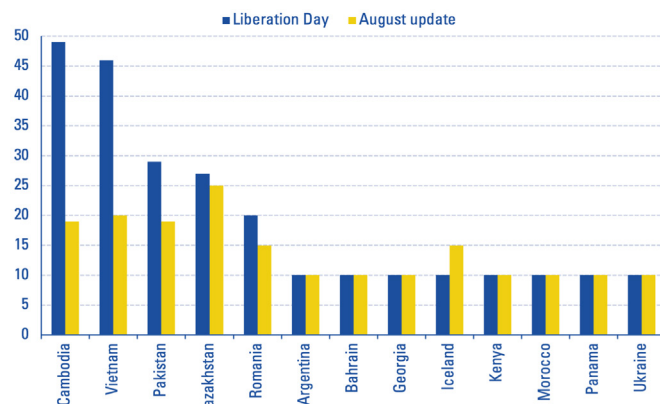
FM equities (MSCI FM 100 Net TR Index) outperformed Emerging market (EM) equities (MSCI EM Net TR Index) and DM equities (MSCI World Net TR Index) by 7.8% and 16.1% points over February-July. Vietnam was one of the strongest within the FM universe (see Chart 4), as sentiment improved following the trade deal with the US. Other strong markets included Georgia and Kenya, both of which have been spared the worst of US tariffs. The FM100 12M forward P/E discount has narrowed on the back of outperformance and is now trading close to its five-year average (see Chart 5).

Beyond the near-term twists and turns of US trade policy, our allocations reflect structural themes of friend-shoring and decarbonisation. On friend-shoring, while the prospect of a 40% transshipment tariff could be a slight headwind for the export sector, we continue to believe that the country is poised to benefit from diversification away from China. Meanwhile, countries with alternative energy sources stand to gain from the shift away from fossil fuels and the growing energy demands of artificial intelligence (AI) models. Kazakhstan is the world leader in natural uranium production and Kazatomprom makes up nearly a third of the MSCI Kazakhstan Index. In our EM strategy, our positive thesis on AI is reflected in our overweight allocations to tech-heavy markets such as South Korea and Taiwan. Therefore, we maintain our overweight allocation to Vietnam and Kazakhstan. We make one upgrade in Argentina to a neutral allocation as outlined above. We keep our underweight in Romania as we continue to view the widening fiscal deficit as unsustainable. Oman and Bangladesh were removed from the benchmark S&P Extended Frontier 150 on May 1st.

We held an overweight position in Oman prior to its index removal as we saw it as a beneficiary of decarbonisation trends due to its ambitious renewable hydrogen plans.

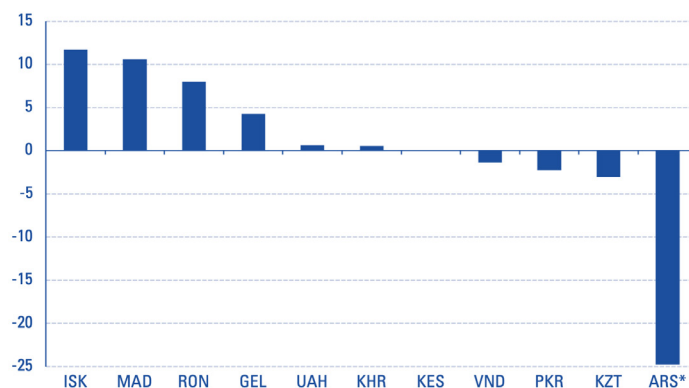
Yasemin Engin
August 8, 2025

Chart 1: Announced US Tariff Rate (%)



Source: White House

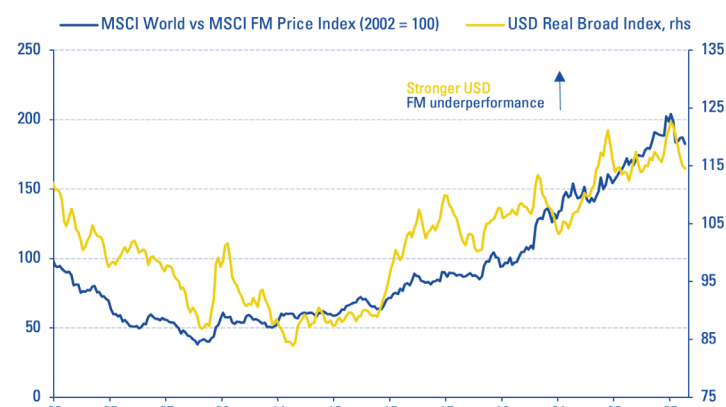
Chart 2: Nominal FX Spot Return vs USD (% year-to-date)



As of 31 July, 2025. *Argentina relaxed FX controls in April.

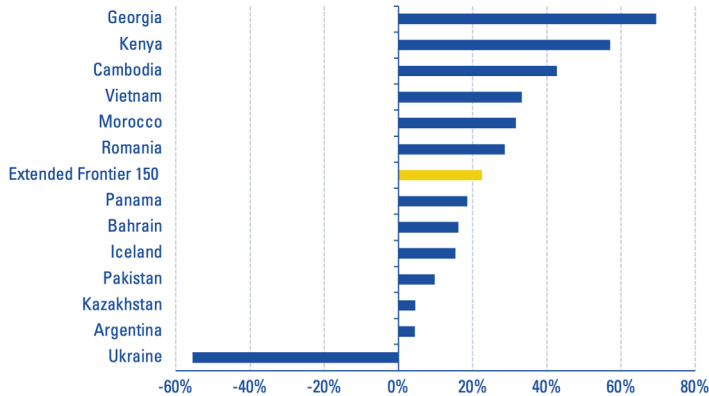
Source: Bloomberg

Chart 3: MSCI FM VS MSCI World Relative to the US REER



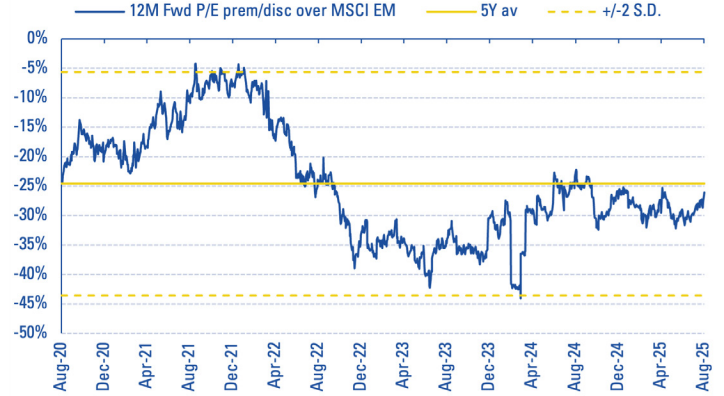
Source: Bloomberg

Chart 4: S&P Extended Frontier 150 Net TR USD, Feb-Jul 25 %



Source: S&P

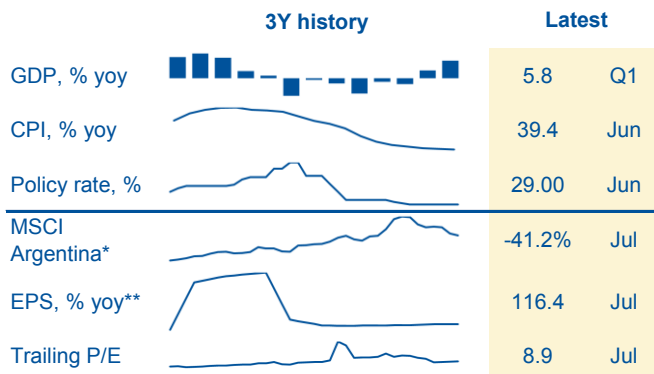
Chart 5: MSCI FM 100 Discount to MSCI EM (%)



Source: Bloomberg

Argentina

N (↑)



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

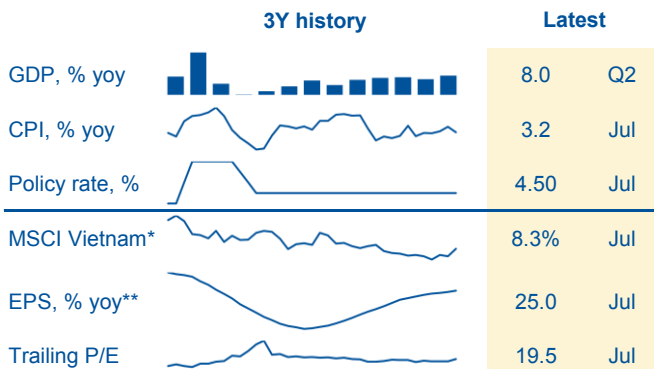
** 12-month moving average.

Source: Bloomberg

- President Milei's ambitious stabilisation programme made further progress in April with a \$20 billion IMF loan and a relaxation of foreign exchange controls. Disinflation is underway, and polling suggests Milei's La Libertad Avanza is on track to consolidate power in October's midterm elections – an outcome that would help facilitate further reforms.
- Argentina's low foreign reserves remain a concern, as reserves have been used to support the peso, contain inflation, and maintain public support. As a result, the peso appears overvalued, putting pressure on the trade balance.
- Our view on Argentina has become more balanced as Milei's reforms begin to yield results. Therefore, we upgrade our allocation to *neutral*. However, low levels of foreign reserves remain a risk as it limits the central bank's ability to defend the peso if market sentiment turns.

Vietnam

OW



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

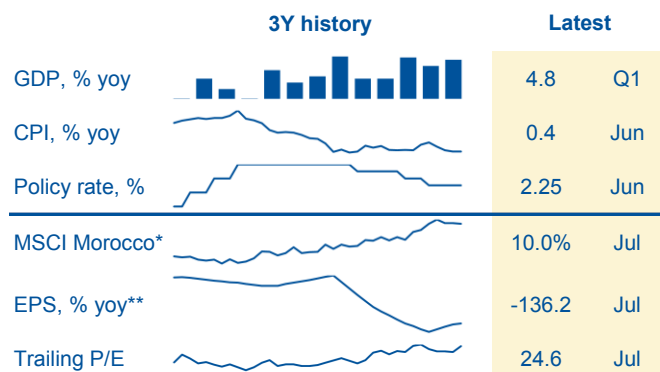
** 12-month moving average.

Source: Bloomberg

- The US-Vietnam trade deal of 20% tariffs is in line with regional peers but the 40% rate on transshipment could weigh on activity initially. However, the deal reduces some uncertainty, and the drop in the dong could help offset some of the impact of tariffs.
- On the domestic side, the government continues to elevate the private sector by reducing and streamlining public sector involvement. Vietnam's growing middle-class, educated labour force, geopolitical position and stable politics mean that it should continue to benefit from friend-shoring in a post-tariff world.
- Vietnam's stock market rebounded in response to the trade deal and therefore valuations now appear closer to neutral. While the near-term outlook in trade provides less of a tailwind, we still see value in Vietnam and maintain our *overweight* allocation.

Morocco

N



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

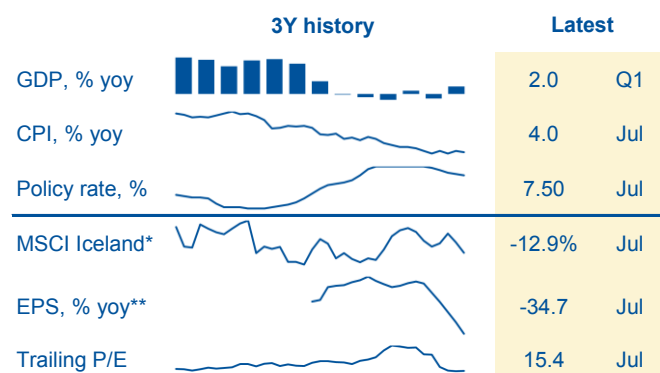
** 12-month moving average.

Source: Bloomberg

- Morocco's economy is projected to maintain its growth rate of the past few years as activity rebounds from the 2024 drought and tourism arrivals remain robust. Inflation continues to ease, allowing the Bank Al-Maghrib (BAM) to cut rates further in March. BAM aims to gradually loosen its dirham peg to a euro and dollar basket in 2026.
- With a tariff rate of 10% and limited direct trade links to the US, Morocco is relatively insulated from tariff developments. Further integration into European supply chains is a structural driver, while infrastructure projects ahead of the co-hosted FIFA 2030 World Cup are another positive.
- Morocco's stock market has rallied strongly this year and as a result it appears more expensive than other FM. Its current account deficit leaves it vulnerable to swings in market sentiment, while the large agriculture sector is exposed to climate change. We remain *neutral*.

Iceland

N



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

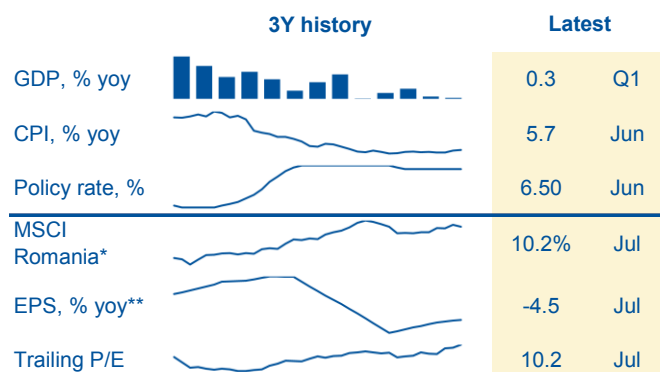
** 12-month moving average.

Source: Bloomberg

- The US tariff impact is likely limited for Iceland given its 15% tariff rate (same as the EU) and its low export share to the US. However, threatened sectoral tariffs on pharmaceuticals is a risk as it is one of Iceland's major exports to the US.
- The domestic economy is set to be supported by population growth and continued policy rate cuts as inflation trends lower. Easier monetary policy should help offset a tightening fiscal stance, with the government ambitiously targeting a fiscal surplus by 2028. The economy's move towards higher-value sectors (pharmaceuticals, data centres) and foreign labour flows should bolster medium-term productivity.
- MSCI Iceland's 12M forward P/E discount to MSCI FM100 is in line with its historical average. With US tariff risks to the pharmaceutical sector, we stay *neutral*.

Romania

UW



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

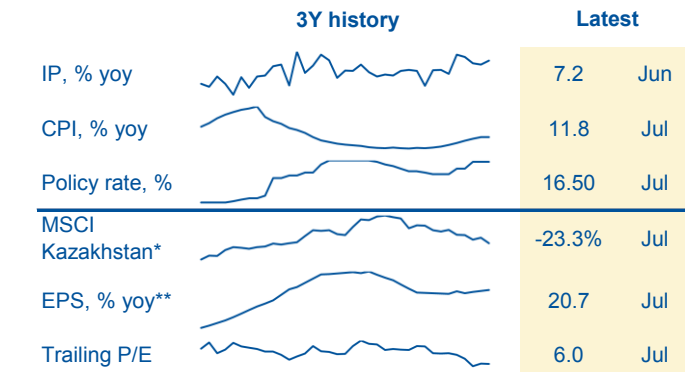
** 12-month moving average.

Source: Bloomberg

- The new government unveiled a much-needed fiscal package in July to reduce the wide budget deficit. The package includes a VAT hike, cuts to investment spending and public wage and pension freezes. While the measures are welcome, they will also weigh on near-term activity.
- Tax hikes will cause a one-off bump in inflation that was already running above the National Bank of Romania's (NBR) inflation target. As such, the NBR will likely keep rates on hold this year.
- The MSCI Romania Index outperformed and therefore continues to appear expensive, with the 12m forward P/E premium close to two standard deviations above the five-year average. The new fiscal plan is promising but with the budget deficit reaching 9.3% of GDP in 2024, there are a lot of painful adjustments that need to be made. We remain *underweight*.

Kazakhstan

OW



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

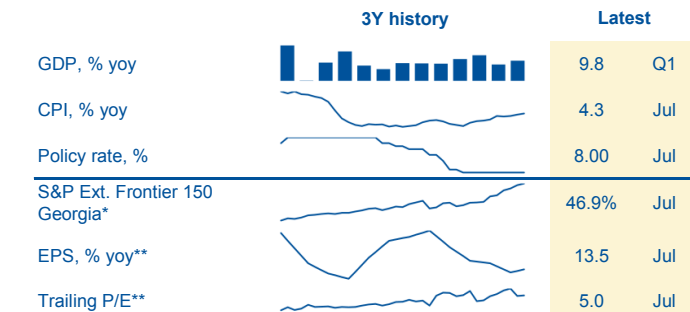
** 12-month moving average.

Source: Bloomberg

- Kazakhstan's GDP growth is set to be boosted by higher oil output from the new Tengiz field expansions. However, weaker oil prices may widen the current account deficit. The planned VAT hike will help non-oil revenues but it will also push up already elevated inflation. Combined with tenge weakness, there is a risk that the National Bank of Kazakhstan (NBK) may hike rates.
- We view Kazakhstan's ample uranium reserves as a positive amid the decarbonisation trend. While Kazakhstan faces a moderately high US tariff rate, this excludes uranium. Kazatomprom, the world's largest primary uranium producer, accounts for nearly a third of the MSCI Kazakhstan Index.
- The underperformance of Kazakhstan's stock market has led to a further improvement in valuations. We are *overweight* as we think Kazakhstan provides a good proxy to the decarbonisation trend within the FM universe.

Georgia

N



*US\$ total return relative to S&P Extended Frontier 150.

Latest is six-month return.

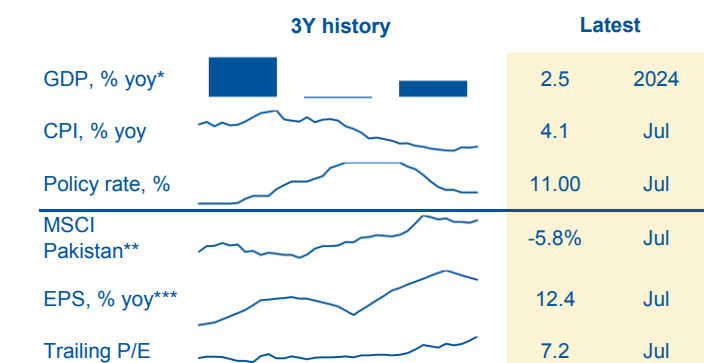
** Average for Georgia Capital, Bank of Georgia and TBC Bank. EPS is the 12-month moving average.

Source: Bloomberg

- Economic activity has eased but remains robust following protests. Growth is being driven by strong consumer spending, which has been boosted by real wage growth. Inflationary pressures as a result have been building, leaving the National Bank of Georgia (NBG) likely to hold rates in the near term.
- The external picture is weaker, as FDI has been falling and reserve coverage is low. Tensions between Georgia and the EU/US remain. The introduction of the bipartisan Megobari Act in the US, which would sanction some Georgian officials, illustrates the deterioration in ties.
- While Georgia is relatively sheltered from US tariffs given low trade linkages, the ongoing political situation and weak reserve buffers leave it vulnerable. As such, we stay *neutral*.

Pakistan

N



*Annual GDP series for three years.

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

***12-month moving average.

Source: Bloomberg

- Pakistan's trade deal with the US sees the tariff rate drop from 29% to 19% and allows the US to help develop Pakistan's oil reserves. The 19% tariff rate is similar to Vietnam and Bangladesh, other major textile exporters, and therefore isn't particularly competitive. The US is one of Pakistan's largest export markets, but Pakistan's trade-to-GDP ratio is in the lower end within FM.
- Pakistan's economic reform programme is on track, and it looks set to meet the IMF's end-FY25 targets for fiscal surplus under the Extended Fund Facility programme. Inflation is contained and will be helped by lower oil prices, allowing further rate cuts from the State Bank of Pakistan.
- Pakistan's progress with the economic reform programme is a positive, but the equity market appears expensive following July's rally. While tariff risks for Pakistan are not as acute as for other FM, we still view it as a risk to the outlook. Therefore we remain *neutral*.

KEY ECONOMIC AND FINANCIAL INDICATORS

Frontier Market	Macroeconomic Data										Market Performance					Forecast (Bloomberg)†			
	% change on year ago				Latest 12 months														
	GDP Growth YoY	Quarterly GDP Growth QoQ*	Industrial Production Growth	Consumer Price Index	Trade Balance	Current Account Balance	Foreign Reserves Latest	Foreign Reserves 2024 Year ago	Currency vs \$ 2025 Latest	Currency vs \$ 2024 Year ago	Sovereign Rating S&P	Budget Balance % of GDP** 2025F	Short-Term Interest Rates	% S&P Frontier 150 Index***	Stock Market Index (S&P Frontier 150 Index) July 31, 2025	Change since 12/31/24 US\$	Change since 12/31/24 Local	Trailing P/E	6-month Currency vs \$ +/-
VIETNAM	8.0	n.a.	8.5	3.2	19.7	23.8	79.8	84.1	26225.0	25130.0	BB+	-3.5	3.5	17.4	602.5	33.9	37.6	18.6	+
KAZAKHSTAN	5.6	n.a.	7.2	11.8	18.3	-6.9	17.5	15.4	543.9	479.7	BBB-	-2.8	n.a.	12.0	359.2	7.0	10.3	6.0	n.a.
ARGENTINA	5.8	3.2	-13.3	39.4	11.0	0.3	38.9	26.4	1328.0	938.7	CCC	0.0	37.5	13.5	11323.7	12.5	46.2	9.2	-
BAHRAIN	3.4	n.a.	n.a.	-0.4	3.6	2.3	3.9	4.1	0.4	0.4	B+	-5.9	5.3	1.3	7797.9	17.9	17.8	10.6	uc
CAMBODIA	5.3	n.a.	n.a.	1.6	n.a.	0.2	18.7	16.0	4007.5	4096.3	NR	n.a.	1.0	0.7	914.0	40.8	40.0	n.a.	n.a.
GEORGIA	9.8	n.a.	n.a.	4.3	0.0	-1.9	3.8	3.6	2.7	2.7	BB	-2.5	8.1	7.3	5756.4	73.8	66.7	20.1	n.a.
ICELAND	2.0	10.8	n.a.	4.0	-29.4	-3.3	6.5	5.6	123.2	138.3	A+	n.a.	7.5	7.7	1021.1	15.8	3.6	18.2	n.a.
MOROCCO	4.8	n.a.	3.2	0.4	-30.6	-2.0	40.5	32.9	9.1	9.8	BB+	-3.8	2.7	14.6	2042.7	50.0	35.3	18.8	n.a.
PAKISTAN	2.5	n.a.	2.3	4.1	-27.2	n.a.	15.8	9.9	284.0	278.9	B-	-5.6	11.0	5.7	1556.4	3.3	5.0	6.7	n.a.
PANAMA	2.0	n.a.	n.a.	-0.4	0.2	-1.3	4.2	4.9	1.0	1.0	BBB-	-4.3	1.5	4.6	8180.8	25.8	25.8	7.2	uc
ROMANIA	0.3	0.1	3.7	5.7	-38.1	-36.4	64.5	65.3	4.4	4.6	BBB-	-7.7	6.5	12.7	5311.9	31.4	21.1	9.7	-
KENYA	4.9	7.0	n.a.	4.1	-12.2	n.a.	10.8	7.3	129.2	129.1	B-	-5.5	8.4	2.1	3568.9	58.6	58.4	6.0	n.a.
UKRAINE	0.9	2.8	-6.4	14.1	-31.4	-20.5	40.5	35.8	41.4	41.3	SD	-17.1	10.0	0.2	99.9	-53.8	-54.1	0.1	n.a.

Note: All data shown are as at August 11, 2025 unless otherwise stated. S&P credit rating shown is long-term foreign currency rating. * % change in GDP on previous quarter, annual rate.

**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.

***S&P Extended Frontier 150 Net Total Return Index. Data are the latest available, but in certain cases relate to periods more than one year ago.

This is Stage Two of City of London's three-stage asset allocation process.

Source: Bloomberg, CLIM



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