



Overview

Weaker Dollar, Stronger Discipline

Frontier market (FM) performance has held up following last year's trade upheaval. We think conditions are in place for this to continue in 2026, supported by further US dollar depreciation and improved macro-economic fundamentals. Our allocations continue to favour beneficiaries of friendshoring (Vietnam) and the energy transition (Kazakhstan). In this Outlook, we upgrade Romania to neutral and downgrade Bahrain to underweight.

Frontier market (FM) equities started the year on a strong footing, maintaining the momentum from the second half of 2025 on the back of a weaker US dollar and the ongoing rally in Vietnamese equities. We continue to hold a bearish dollar view and expect it to be a key support for FM equities in 2026. To begin with, despite recent depreciation, valuations for the US dollar remain stretched following more than a decade of real appreciation. In addition, while the announcement of new Fed Chair nominee Kevin Warsh has added uncertainty to the rate outlook, futures market pricing continues to point to two rate cuts in 2026, which would leave the Fed with a more dovish stance compared to its developed market (DM) central bank peers. Structurally, the Trump administration's aim of narrowing the current account deficit implies a slowdown in financial inflows into the US, removing support for the US dollar. Historically, periods of dollar weakness have coincided with FM equity outperformance relative to DM (Chart 1).

Meanwhile, global growth has held up better than expected despite higher US tariff rates due to front-loading and AI-related capex spending. Continued growth in AI investment and policy support from major economies is expected to remain supportive this year. In the event of a global slowdown – whether due to a US recession or greater-than-expected “payback” from 2025 trade frontloading – FM are in a better position given the improvement in their fundamentals since the pandemic. Fiscal consolidation, credible central bank policymaking and FX reserve building have generally reduced external vulnerabilities across the FM universe. Romania exemplifies this, having passed an ambitious fiscal consolidation package last summer. While sacrificing growth in the short term, the much-needed reforms are set to address the unsustainably wide twin deficit (Chart 2). Moreover, an improvement in the eurozone economy is a positive given Romania's close trade ties to the bloc. Accordingly, we now hold a more balanced view, upgrading our allocation to *neutral*.

Another adjustment in this *Outlook* is downgrading Bahrain to *underweight*. As an oil-dependent country with a US dollar peg, it is likely to be affected by both a softer US dollar and weaker oil backdrop. While geopolitical factors have lifted energy prices recently, the net supply backdrop remains a headwind. The EIA's projections for implied global stocks, which are expected to build

as supply outpaces demand, point to further downward pressure on Brent crude prices (Chart 3). Bahrain's elevated external debt and low FX reserves mean that it is more vulnerable to external pressures.

We maintain our *overweight* allocations in Vietnam and Kazakhstan as we seek to benefit from friendshoring and energy transition trends, respectively. Vietnam remains our highest-conviction overweight. The government is targeting growth of “at least 10%” this year, with elevated public infrastructure spending, tourism and FDI helping offset the likely “payback” from previous export frontloading. General Secretary To Lam, who has pushed for structural reforms collectively known as Doi Moi 2.0, cemented his position of power at the 14th National Congress in January. These reforms have so far focused on elevating the private sector as a driver of growth, streamlining bureaucracy and pushing technological advancements. On friendshoring, Vietnam's stable politics, infrastructure push, educated labour force and geopolitical position suggest that it should continue to benefit from firms shifting away from China. Reflecting this, although softer than the highs of prior years, FDI into Vietnam is still robust (Chart 4).

In Kazakhstan, prudent fiscal policy should help rein in the current account deficit, while the surge in gold prices has helped boost the National Bank of Kazakhstan's holdings. With large uranium reserves, Kazakhstan is set to gain from the growing demand for uranium as countries seek alternative sources of energy, particularly for energy-hungry artificial intelligence models and hyper-scale data centres (Chart 5). Kazatomprom, which accounts for over a third of the MSCI Kazakhstan Index, is one of the world's leading producers of primary uranium.

Allocation Breakdown

	Chg	-2	-1	0	+1	+2
Argentina	-					
Vietnam	-					
Morocco	-					
Iceland	-					
Romania	↑					
Kazakhstan	-					
Georgia	-					
Pakistan	-					
Kenya	-					
Bahrain	↓					
Ukraine	-					

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

Source: CLIM

*The publication reflects asset performance up to 30 January 2026 and macro events and data releases up to 6 February 2026 unless indicated otherwise.

Market Strategy:

FM equities (MSCI FM 100 Net TR Index) increased by 20%, underperforming EM equities (MSCI EM Net TR Index) by 3.7 percentage points over August 2025-January 2026. In contrast, FM equities outperformed DM equities (MSCI World Net TR Index) by 8.4 percentage points. The FM100 12M forward P/E discount to EM continued to narrow and now trades above its five-year average (Chart 6). Looking at the S&P Extended Frontier 150, Ukraine was the best performer after higher iron prices lifted shares of Ferrexpo, a major producer of iron ore pellets (see Chart 7). Bahrain's equity market performance was primarily driven by the Financials sector.

While FMs tend to be driven by idiosyncratic factors, we strive to find unifying themes such as beneficiaries of dollar weakness and those exposed to structural trends such as friendshoring and the energy transition. We maintain our overweight position in Vietnam and Kazakhstan, as outlined above, while keeping an underweight allocation to Kenya and Ukraine. In Kenya, the government continues to struggle with fiscal consolidation, particularly in the absence of an IMF programme. In Ukraine, while the likelihood of a deal with Russia is higher this year than before, the post-war transition could take time.

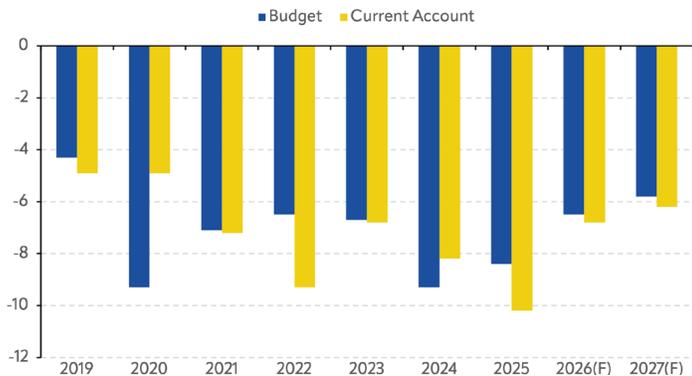
Yasemin Engin
February 6, 2026

Chart 1: MSCI FM vs MSCI World Relative to the US REER



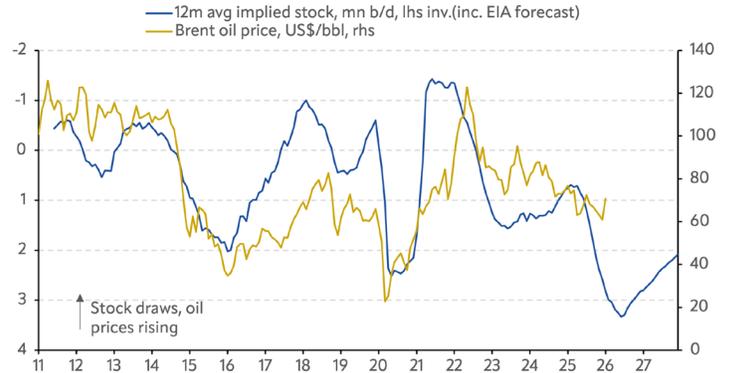
Source: Bloomberg

Chart 2: Romania Balance (% of GDP)



2026 and 2027 are consensus forecasts.
Source: Bloomberg

Chart 3: Global Crude Stock Balance and Price



Source: Bloomberg, EIA

Chart 4: Vietnam FDI (12 MMA, USD Million)



Source: Bloomberg

Chart 5: Kazakhstan Relative Performance and Uranium Prices



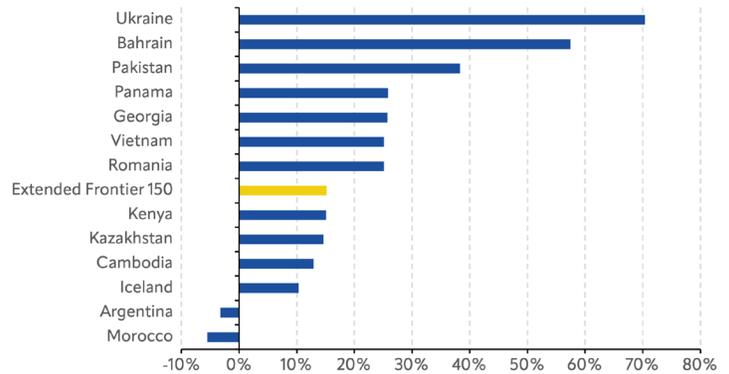
Source: Bloomberg

Chart 6: MSCI FM 100 Discount to MSCI EM (%)



Source: Bloomberg

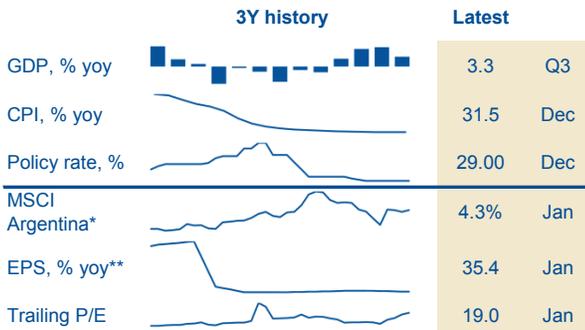
Chart 7: S&P Extended Frontier 150 Net TR USD %, Aug25-Jan26



Source: S&P

Argentina

N



*US\$ total return relative to MSCI FM 100. Latest is 6-month return.

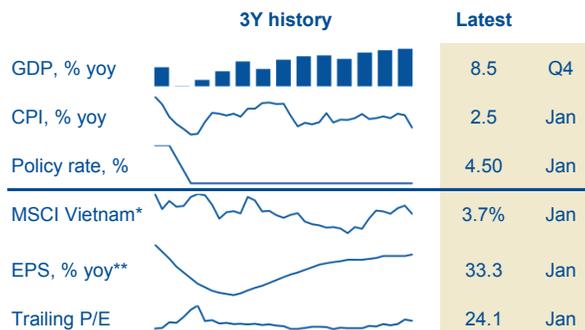
**12-month moving average.

Source: Bloomberg

- President Milei has consolidated his coalition's power at the midterm congressional elections in October, making it easier for him to push ahead with his reform agenda, starting with the approval of the 2026 budget. Tax and labour reforms are expected to be tackled next. Inflation continues to fall, and economic activity has held up well given fiscal discipline.
- The overvalued peso and low reserves remain key headwinds. The exchange rate band adjustments will now match monthly inflation, which should help curb peso appreciation. However, reserves continue to miss the IMF target and will remain under pressure from debt payments.
- Argentina's equity market has recovered from the pre-election sell off. We became more constructive on Argentina in the last Outlook as President Milei's reform efforts gained traction. While the recent legislative win is a positive, we remain cautious given the lack of progress on floating the peso and lifting the remaining currency controls, both of which are constrained by low reserves. As such, we stay *neutral*.

Vietnam

OW



*US\$ total return relative to MSCI FM 100. Latest is 6-month return.

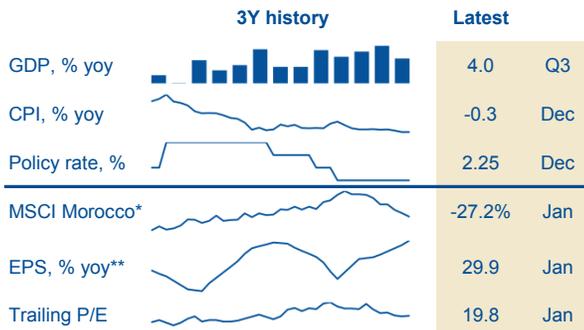
**12-month moving average.

Source: Bloomberg

- GDP grew by 8% in 2025, and the government is targeting growth of "at least 10%" in 2026. The primary drivers of growth are set to be the government's infrastructure push, along with tourism and domestic consumption. This should help offset the anticipated "payback" as the export frontloading from 2025 fades.
- Over the medium term, we expect Vietnam to remain a beneficiary of friendshoring on account of its geopolitical position, stable politics and educated workforce. The government's ambitious reform agenda, which includes elevating the private sector, should further support friendshoring.
- Vietnam's stock market continued to rally following its trade deal with the US, although this is starting to taper. Market outperformance means that valuations are now closer to neutral. We still see value and therefore maintain our *overweight* position.

Morocco

N



*US\$ total return relative to MSCI FM 100. Latest is 6-month return.

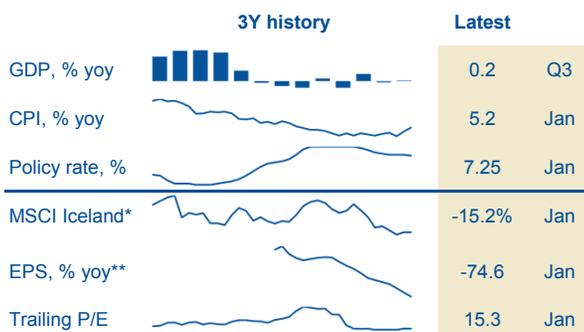
**12-month moving average.

Source: Bloomberg

- GDP growth of 4.6% in 2025 was mainly driven by the agriculture and construction sectors, with the former recovering following multi-year droughts. Replenished reservoir levels support agriculture in 2026, but they also serve as a reminder of how exposed Morocco's economy is to the weather and climate-related shocks. Infrastructure projects for the 2030 World Cup should continue to lift construction activity.
- Fiscal consolidation is underway, even with adjustments to healthcare and education spending in response to protests. Inflation is low, owing to the stability of the currency due to the dirham soft peg. Price pressures are projected to stay contained, while the Bank Al-Maghrib keeps rates on hold at 2.25%.
- Morocco's stock market has been trailing other FM over the past six months, with the 12M forward P/E premium to MSCI FM100 below its five-year average. Prudent policymaking reduces country risk, but protests could reignite ahead of elections scheduled for later in the year. We remain *neutral*.

Iceland

N



*US\$ total return relative to MSCI FM 100. Latest is 6-month return.

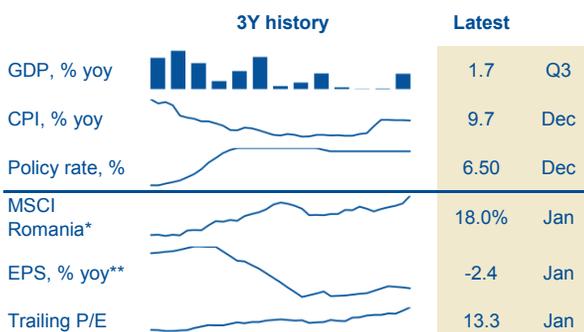
**12-month moving average.

Source: Bloomberg

- Tight monetary and fiscal policy has been a drag on growth, along with a weak fishing season and lower aluminium exports. Inflation remains above the Central Bank of Iceland's target of 2.5%, meaning the CBI will likely keep rates on hold at 7.25%. A tighter fiscal stance, through an improvement in tax collection, should help bring down inflation.
- Growth is projected to gradually pick up, with tourism and innovation-driven sectors providing an important source of growth. Pharmaceuticals, biotechnologies and data centres are growing sectors, with capital goods imports rising to support the expansion of the latter.
- The Icelandic equity market has been underperforming the wider FM universe. Tight policy will weigh on growth, while the pharmaceutical sector is exposed to US tariff risks. We stay *neutral*.

Romania

N (↑)



*US\$ total return relative to MSCI FM 100. Latest is 6-month return.

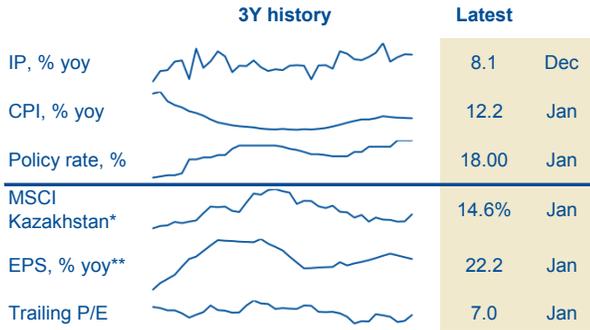
**12-month moving average.

Source: Bloomberg

- Aggressive fiscal consolidation measures are underway, including freezing public sector wages and pensions as well as higher taxes. These measures are starting to bear fruit, with the fiscal deficit narrowing to 7.7% of GDP in December 2025, down from 8.7% a year earlier. Tight fiscal policy means that consumption will slow, which will also help narrow the wide current account deficit.
- Tax hikes have been putting upward pressure on inflation, but slowing growth should allow inflation to ease back closer to the upper limit of the target rate. The National Bank of Romania (NBR) will therefore likely resume its easing cycle in H2.
- Another period of outperformance has left the MSCI Romania Index screening as expensive, with the 12M forward P/E premium now two standard deviations above the five-year average. While tight fiscal policy will weigh on short-term growth, we think that the fiscal measures in place will help address Romania's imbalances and strengthen its market credibility. We therefore have become more constructive and upgrade our allocation to *neutral*.

Kazakhstan

OW



*US\$ total return relative to MSCI FM 100. Latest is 6-month return.

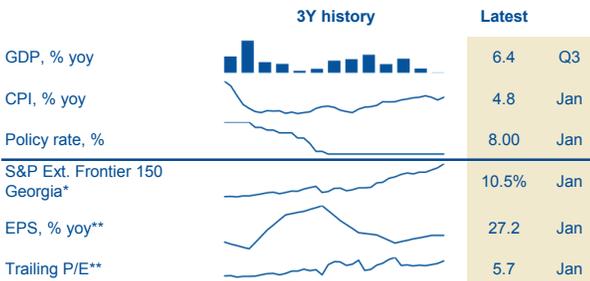
**12-month moving average.

Source: Bloomberg

- Kazakhstan is undertaking fiscal and monetary tightening as lower oil prices put pressure on its balances. Higher taxes and lower government spending should help the budget deficit to narrow, while also supporting an improvement in the current account. Combined with a tight monetary stance, inflation should fall but remain above the National Bank of Kazakhstan's 5% target.
- The positive outlook for uranium is a tailwind for the Kazakh stock market, given Kazatomprom's large weighting. Healthy demand from hyperscalers and AI come at a time of low mine supply, supporting uranium prices.
- The MSCI Kazakhstan Index outperformed the FM100 over the six-month period, yet valuations still appear cheap. We think recent government measures should set the economy on a stronger footing. Moreover, we think Kazakhstan is a compelling proxy for the energy transition theme. We keep our *overweight* allocation.

Georgia

N



*US\$ total return relative to S&P Extended Frontier 150. Latest is 6-month return.

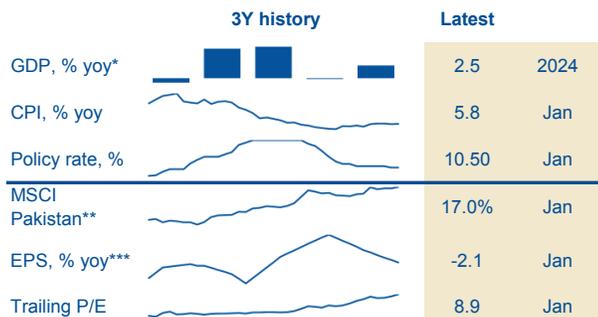
**Average for Georgia Capital, Lion Finance and TBC Bank. EPS is the 12-month moving average.

Source: Bloomberg

- Economic activity is projected to ease amid tighter fiscal policy but still grow at a healthy pace. Inflation has been propped up by food prices and will need to ease further before the National Bank of Georgia (NBG) can cut rates. A draft law eliminating NBG discretionary fiscal transfers to the government to bolster central bank independence has been registered, a step welcomed by the IMF.
- Municipal elections in October resulted in the Georgian Dream party consolidating power. As such, tensions with the EU, a key source of FDI, will remain elevated. Capital from alternative sources, such as the Gulf and China, pales in comparison. The NBG has rebuilt FX reserves to pre-2024 levels.
- Political headwinds mean Georgia will continue to miss out on vital EU funds, keeping the current account deficit wide. Accordingly, we stay *neutral*.

Pakistan

N



*Annual GDP series for five years.

**US\$ total return relative to MSCI FM 100. Latest is 6-month return.

***12-month moving average.

Source: Bloomberg

- The IMF programme is on track, with the Extended Fund Facility's second review completed in December. The IMF highlighted the progress made on fiscal consolidation and reserve accumulation. The first review of the Resilience and Sustainable Facility arrangement, financing to help manage climate-related risks, was also completed.
- Growth has held up, as evidenced by the above-50 manufacturing PMI reading in January. Momentum is expected to slow as fiscal consolidation is maintained and the real policy rate remains high. Inflation is expected to edge up above target, prompting the State Bank of Pakistan (SBP) to wait until H2 to cut rates.
- Pakistan's progress with its IMF programme is a positive, but the equity rally suggests most of this optimism is already priced in. As a result, we remain *neutral*.

KEY ECONOMIC AND FINANCIAL INDICATORS

Frontier Markets	Macroeconomic Data										Market Performance					Forecast (Bloomberg)†			
	% change on year ago					Latest 12 months					Market Performance								
	GDP Growth YoY	Quarterly GDP Growth QoQ*	Industrial Production Growth YoY	Consumer Price Index YoY	Trade Balance	Current Account	Foreign Reserves 2025 Latest	Foreign Reserves 2024 Latest	Currency vs \$ 2026 Latest	Currency vs \$ 2025 Year ago	Sovereign Rating S&P	Budget Balance % of GDP** 2026F	Short-Term Interest Rates	% S&P Frontier 150 Index*** Jan 30, 2026	Stock Market Index (S&P Frontier 150 Index) US\$ Jan 30, 2026		Change since 12/31/25 US\$	Change since 12/31/25 Local	Trailing P/E
VIETNAM	8.5	n.a.	21.5	2.5	14.1	32.7	82.2	82.3	25885.0	25386.0	BB+	-4.0	3.5	14.6	753.9	-3.6	-4.9	20.1	-
KAZAKHSTAN	6.3	n.a.	8.1	12.2	15.2	-11.8	19.8	491.8	508.2	BBB-	-2.5	n.a.	12.7	411.7	13.8	14.6	8.2	n.a.	
ARGENTINA	3.3	1.2	-13.3	31.5	11.3	-91	45.4	301	1420.9	1055.9	CCC+	0.0	30.2	12.0	10953.8	6.1	5.8	21.5	-
CAMBODIA	5.3	n.a.	n.a.	1.2	n.a.	0.2	19.5	18.2	4030.0	4015.8	NR	n.a.	1.3	0.7	1032.0	-1.6	-1.4	n.a.	n.a.
GEORGIA	5.9	n.a.	n.a.	4.8	-0.0	-1.3	4.7	3.3	2.7	2.8	BB	-2.5	8.1	8.3	7238.2	10.0	9.7	20.4	n.a.
ICELAND	0.2	-0.8	n.a.	5.2	-36.9	-4.3	6.8	5.6	121.7	142.2	A+	n.a.	7.3	7.9	1126.5	3.7	0.8	17.4	n.a.
MOROCCO	4.0	n.a.	2.2	-0.3	-36.3	-2.0	43.1	33.1	91	10.0	BBB-	-3.2	2.7	12.7	1930.6	-1.3	-1.5	19.0	n.a.
PAKISTAN	2.5	n.a.	10.4	5.8	-35.4	4.8	171	12.9	280.0	278.9	B-	-4.4	10.5	7.0	2152.0	4.9	4.9	9.0	n.a.
PANAMA	3.4	n.a.	n.a.	-0.4	0.2	-1.3	5.6	6.3	1.0	1.0	BBB-	-3.7	1.5	5.2	10291.7	12.0	12.0	8.5	uc
ROMANIA	1.7	-0.7	-0.5	9.7	-37.0	-33.6	74.7	59.6	4.3	4.8	BBB-	-6.5	5.7	14.4	6645.2	8.0	6.6	12.3	+
KENYA	4.9	4.8	n.a.	4.4	-12.9	n.a.	11.9	9.7	1290	1291	B	-5.3	7.1	2.2	4108.5	4.4	4.4	6.4	n.a.
BAHRAIN	4.0	n.a.	n.a.	0.5	3.6	2.3	4.2	4.2	0.4	0.4	B	-7.4	4.6	1.9	12277.1	-7.4	-7.4	12.5	uc
UKRAINE	3.0	2.8	-6.4	8.0	-24.5	-31.9	52.6	39.5	43.1	41.6	CCC+	-18.6	10.4	0.3	170.2	4.6	6.4	0.1	n.a.

Note: All data shown are as at February 10, 2026 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. Post 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.

Source: Bloomberg, CLIM



CITY OF LONDON
Investment Management Company Limited

Contacts

Macroeconomic Analysis

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

17 East Market Street
West Chester, PA 19382
United States
Phone: 610 380 2110
Fax: 610 380 2116
E-Mail: info@citlon.com

City of London Investment Management (Singapore) Pte. Ltd. Office

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

Website

www.citlon.com
www.citlon.co.uk

Disclosures

City of London Investment Management Company Limited (CLIM) is authorised and regulated by the Financial Conduct Authority (FCA) and registered as an Investment Advisor with the Securities and Exchange Commission (SEC). CLIM (registered in England and Wales No. 2851236) is a wholly owned subsidiary of City of London Investment Group plc. (CLIG) (registered in England and Wales No. 2685257). Both CLIM and CLIG have their registered office at 77 Gracechurch Street, London, EC3V 0AS, United Kingdom. City of London Investment Management (Singapore) Pte. Ltd. is a wholly owned subsidiary of CLIM.

While CLIM has used reasonable care to obtain information from reliable sources, no representations or warranties are made as to the accuracy, reliability or completeness of third party information presented herein. No responsibility can be accepted under any circumstances for errors of fact or omission. Some of the information in this document may contain projections or other forward looking statements regarding future events or future financial performance of countries, markets or companies. These statements are only predictions as of the date of this document which could change without notice and actual events or results may differ.

This document does not constitute an offer to sell or the solicitation of an offer to buy any securities. Nothing herein should be construed as investment advice to buy or sell any securities. Past performance is not a guide to future results. The value of an investment and any income from it can go down as well as up and investors may not get back the original amount invested.

The MSCI ACWI Index is designed to represent performance of the full opportunity set of large- and mid-cap stocks across 23 developed and 24 emerging markets.

The Bloomberg Terminal service and data products are owned and distributed by Bloomberg Finance L.P. ("BFLP"). BFLP believes the information herein came from reliable sources, but does not guarantee its accuracy. No information or opinions herein constitutes a solicitation of the purchase or sale of securities or commodities.