

Quick Take: Frontier Equities – Hiding in Plain Sight

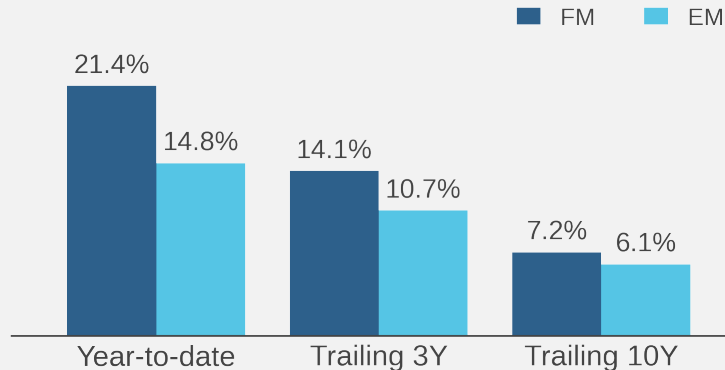
July 2025

Outperforming Under the Radar

- While U.S. news and stocks continued to dominate headlines over the first half of 2025, perennially underappreciated frontier markets (FM) enjoyed stellar performance.
- FM stocks outpaced U.S. equities by double digits and beat other developed and emerging markets (EM). Strong performance was broad based: large, mid and small FM stocks all moved higher.
- Over longer horizons, FM equities have outperformed EM peers on both an absolute and risk-adjusted basis. Moreover, frontier markets can help to diversify EM allocations, with a correlation (0.7 over the past 10 years) that is on par with EM-DM.

Frontier Versus Emerging Equities

USD returns as of June 30, 2025



Seeds of Additional Opportunity?

- Despite their rally, FM equities still trade 8% below long-run median valuations. So, looking ahead, we see continued attractive return generation and diversification opportunities.
- Moreover, frontier markets continue to offer rich alpha opportunities for active managers. Mispricings relative to fundamentals are plentiful and pronounced in these overlooked markets. As evidence, cheaper and higher-quality FM stocks have done the best (table below).
- But FM remains a challenging asset class, and not every investment approach is well suited to capitalize on this opportunity. Successful FM investing calls for locally tailored return forecasting, diversified and cost-aware portfolio construction, and deft implementation.

The Opportunity in Stock Selection: Past Three Years

Annualized USD return / risk, from monthly returns through June 2025

		Quality		
		High	Medium	Low
Valuation	Cheap	2.65	1.83	1.29
	Medium	0.82	0.87	0.06
	Expensive	0.86	-0.51	-0.41

Left chart: USD returns over periods indicated for corresponding MSCI indexes. Trailing 3- and 10-year returns are annualized, compounded monthly. Year-to-date returns are cumulative. Right chart: Price-to-Book and ROE terciles across the MSCI FM Index. MSCI Indexes include MSCI Frontier 15% Country Capped Index and the MSCI EM IMI Index. Sources: Acadian, MSCI Copyright MSCI 2025, All Rights Reserved. Unpublished. PROPRIETARY TO MSCI. For illustrative purposes only.



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