

Making the Case for Asia's Frontier Markets: Taking Stock

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(Bloomberg) -- As Asia's stocks look to break out of their coronavirus-fueled bear markets, some of its frontier bourses are leading the way. Vietnam's Ho Chi Minh Stock Index has climbed 16% so far this month, while Pakistan's KSE-100 Index is up 10%, compared with just a 3% gain for the regional benchmark MSCI Asia Pacific Index.

Some investors are lauding frontier countries for their efforts at curbing the virus contagion -- in many cases better than those seen in developed world. Vietnam and Sri Lanka have less than 300 cases each despite their proximity to China -- a stark contrast to the tens of thousands of new cases daily in the U.S., now the world's deadliest virus hotspot. "The number of infections in Asian frontier markets is nowhere close to those of the U.S. and Europe," fund managers including Thomas Hugger, chief executive officer at Asia Frontier Capital Ltd. wrote in a report Monday. "The recent stock market correction, though painful, is now providing an excellent entry point to investors as valuations across our universe are at 10-year lows."

Unlike the U.S. and Europe, frontier markets were quick to implement lockdowns and close their airports and borders "without any political squabbling," allowing them to manage the crisis better, AFC said. While frontier economies will be hit alongside those in the rest of the world, lower oil prices have capped currency pressures and should act as a tailwind which can support recovery in 2021, the firm said.

Meantime, monetary and fiscal policy measures in these countries should help cushion some of the negative impact of the outbreak, while institutions such as the International Monetary Fund and World Bank have committed financing lines that could help alleviate any funding issues, according to AFC.

Asian frontier markets bounced back very strongly after the 2008 global financial crisis, the asset manager noted. The KSE-100 is up 550% from its 2009 trough, compared to a 155% rise in Vietnamese shares and a 75% gain in the MSCI Asia Pacific Index over the same period.

Still, the Institute of International Finance expects overseas investors will take their time to return to frontier markets. And investors looking for bargains in Sri Lanka will have to wait -- the stock market closed March 20 due to a curfew until further notice.

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