HSBC Asset Management

Navigating Geopolitical Shifts: Finding Opportunities in Frontier Markets

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June 2026

Key takeaways

- **Resilience amid geopolitical tensions:** Despite proximity to recent events, Frontier Markets have remained relatively resilient, supported by ongoing earnings momentum.
- **Valuations are compelling versus EM:** Frontier Markets are trading at a meaningful discount to Emerging Markets, with the valuation gap widening—creating a potentially attractive entry point for investors.
- **High-conviction themes remain intact:** Vietnam continues to stand out on structural growth with Foreign Direct Investment (FDI), industrial upgrading, domestic demand and government spending; while GCC (Gulf Co-oeration Council) markets are accelerating resilience and diversification initiatives that create investable opportunities beyond oil.
- **Portfolio construction matters:** A diversified Frontier Markets allocation can complement EM exposure due to limited overlap and historically low correlation—and, contrary to a common misconception, Frontier has often delivered a less volatile return profile than investors expect. As a result, it's typically considered as a satellite allocation alongside EM, sized to the investor's diversification objectives and risk budget.

Authors

Ramzi Sidani
Head of Frontier Markets, Equities,
HSBC Asset Management

Jennifer Passmoor
Portfolio Manager
HSBC Asset Management

Andrew Craven
Investment Specialist
HSBC Asset Management

Market backdrop: performance and what it signals

- The first half of 2026 has been defined by heightened geopolitical risk, including the conflict involving Iran and disruption risk around the Strait of Hormuz. In many asset classes, that would normally be a recipe for sustained risk-off behaviour. Yet Frontier Markets have, so far, behaved more like a stress-tested diversifier than a fragile satellite.
- Performance dispersion across countries has been notable. Using the MSCI Select Frontier & Emerging Markets Capped Index—HSBC's customised reference index developed in tandem with MSCI to capture the balanced Frontier Markets opportunity set across both Frontier and EM-classified markets—Frontier Markets returned 8.68%* year-to-date, a resilient outcome given the asset class has been close to the epicentre of recent events. After several years of outperforming EM, Frontier has lagged MSCI Emerging Markets so far this year—partly reflecting the geopolitical shock, and partly because Frontier has limited exposure to the AI tailwind that has supported parts of the EM universe.

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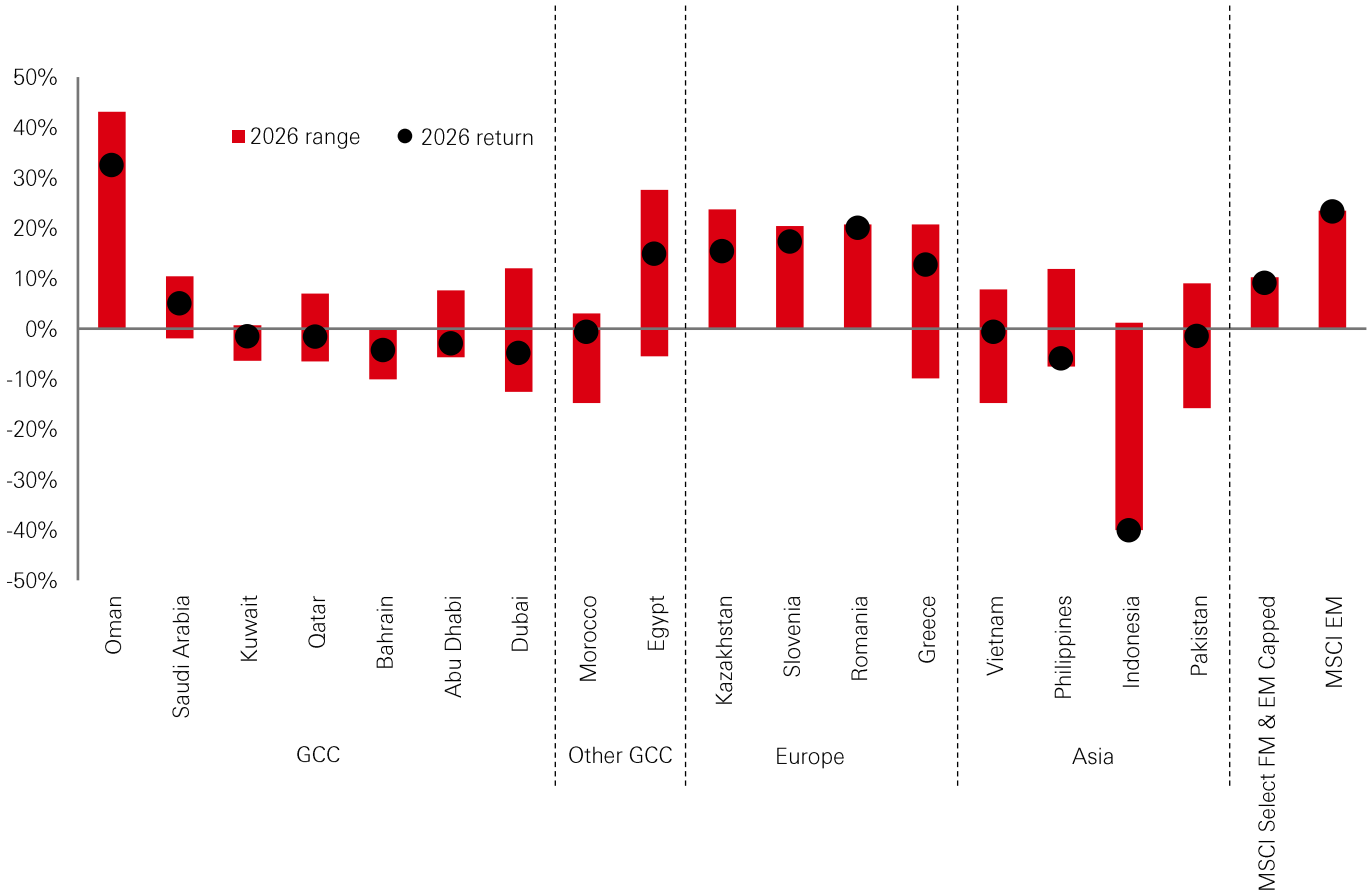
- Even so, the opportunity set remains resilient. It's balanced across energy importers and exporters, and includes countries that are rapidly improving infrastructure alongside those with already world-class logistics and energy systems—a combination that can help absorb shocks when geopolitics and commodity moves dominate the headlines.
- At the country level, Oman led returns, supported by its geographic positioning outside key chokepoints and an under-owned starting point, while Indonesia lagged amid fiscal and inflation pressures linked to higher oil prices. Importantly, several core markets for the strategy—including Egypt—remained meaningful contributors, reinforcing our view that domestic fundamentals and reform momentum can reassert themselves even when headline risk dominates in the short term.

Frontier Markets YTD Performance

YTD Market Performance
(Total Return, USD)



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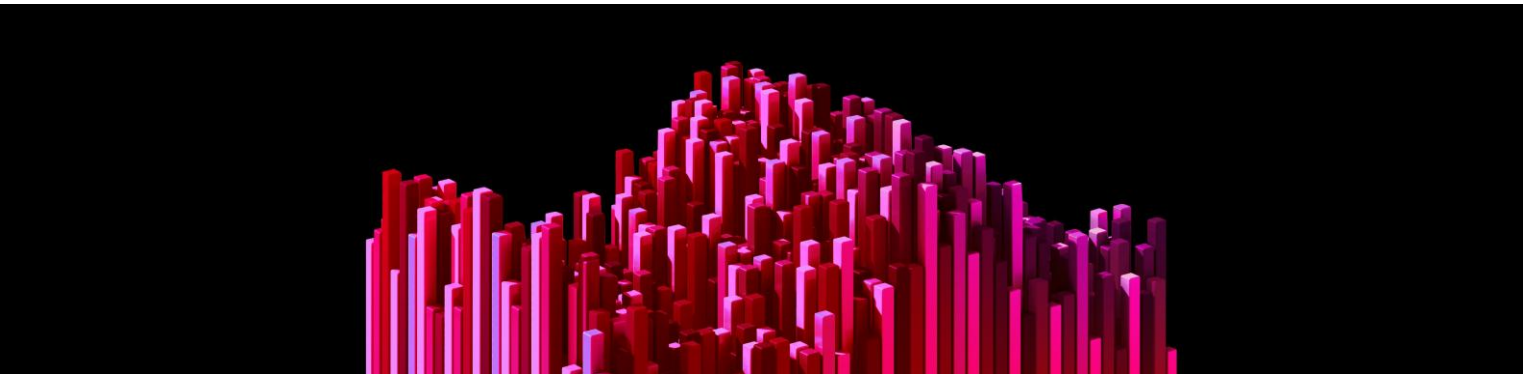
Asset class performance is represented by different indices. Oman: Muscat Stock Exchange MSX 30 Index, Saudi Arabia: Tadawul All Share Index, Kuwait: Boursa Kuwait All Share Price Return Index, Qatar: Qatar Exchange Index, Bahrain: Bahrain Bourse All Share Index, Abu Dhabi: FTSE ADX General Index, Dubai: Dubai Financial Market General Index, Morocco: MASI Free Float All Shares Index, Egypt: Egyptian Exchange EGX 30 Index, Kazakhstan: Kazakhstan Stock Exchange Index KASE, Slovenia: Ljubljana Stock Exchange Slovenian Blue-Chip SBITOP Index, Romania: Bucharest Stock Exchange Trading Index, Greece: Bloomberg Greece Large & Mid Cap Index, Vietnam: Vietnam Ho Chi Minh Stock Index, Philippines: Philippines Stock Exchange PSEi Index, Indonesia: Bloomberg Indonesia Large & Mid Cap Index, Pakistan: Karachi Stock Exchange KSE-100 Index, MSCI Select FM&EM Capped: MSCI Select Frontier + Emerging Markets Capped Index, MSCI EM: MSCI Emerging Index. Index returns assume reinvestment of all distributions and do not reflect fees or expenses. You cannot invest directly in an index.

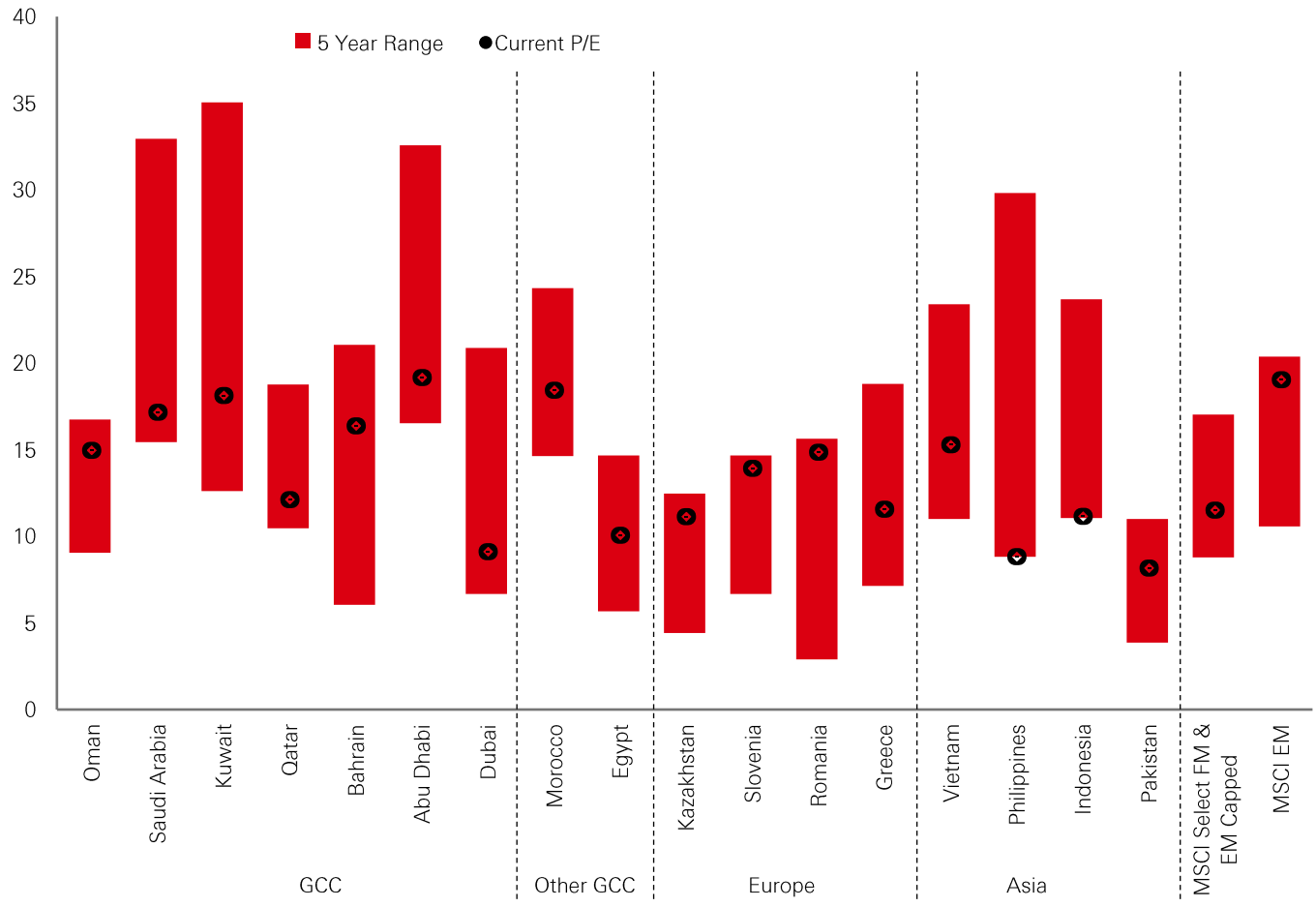


Valuations: discount to EM has widened

- Valuations were already attractive prior to the conflict and have become more compelling as risk premia expanded. The Frontier benchmark is trading around 11.5x P/E, versus 19.0x for MSCI Emerging Markets—a meaningful discount for access to long-term growth and diversification, with returns driven more by local fundamentals and reform momentum than global themes such as AI, which have been a major driver of performance across EM and DM.
- Within key allocations, Vietnam remains attractively valued, while UAE valuations are near historical lows versus five-year averages - suggesting investor sentiment is already conservative and risk premia remain elevated.
- This matters because the market's current "wait-and-see" stance isn't being driven by collapsing fundamentals—it's being driven by uncertainty and higher risk premia. Against that backdrop, we still expect ~15–20% earnings growth this year, driven primarily by domestic factors such as financial deepening, consumption and GDP growth (rather than AI). If that earnings momentum is confirmed through Q2 and Q3 reporting, it could provide the evidence investors need to move from caution to conviction—supporting a re-rating, particularly where valuations are starting from more discounted levels.

Frontier Markets Valuation

P/E Ratios vs. 5-Year History



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Vietnam: structural growth with multiple drivers

Vietnam remains the strategy's highest-conviction allocation at c. **30%**, and the investment case remains intact despite periodic risk-off episodes.

Liberation day has been a favourable tariff outcome for Vietnam

- Tariff realignment boosted Vietnam's competitive edge, with its differential over China rising from 15% to 20%.
- Deep FDI roots and manufacturing stickiness (Samsung, Apple, Intel etc.)

Key China +1 beneficiary

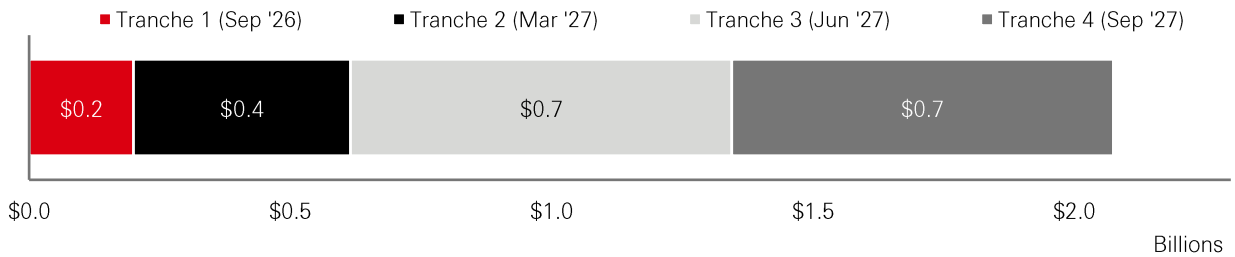
- Firms are actively diversifying supply chains
- Entrenched logistics and workforce make relocation slow and costly

Domestic growth offsets export risks

- Expanding middle class, digital adoption and urbanisation

Domestic growth offsets export risks

- Passive flow estimates suggest a cumulative inflow of c. US$2bn over the four tranches



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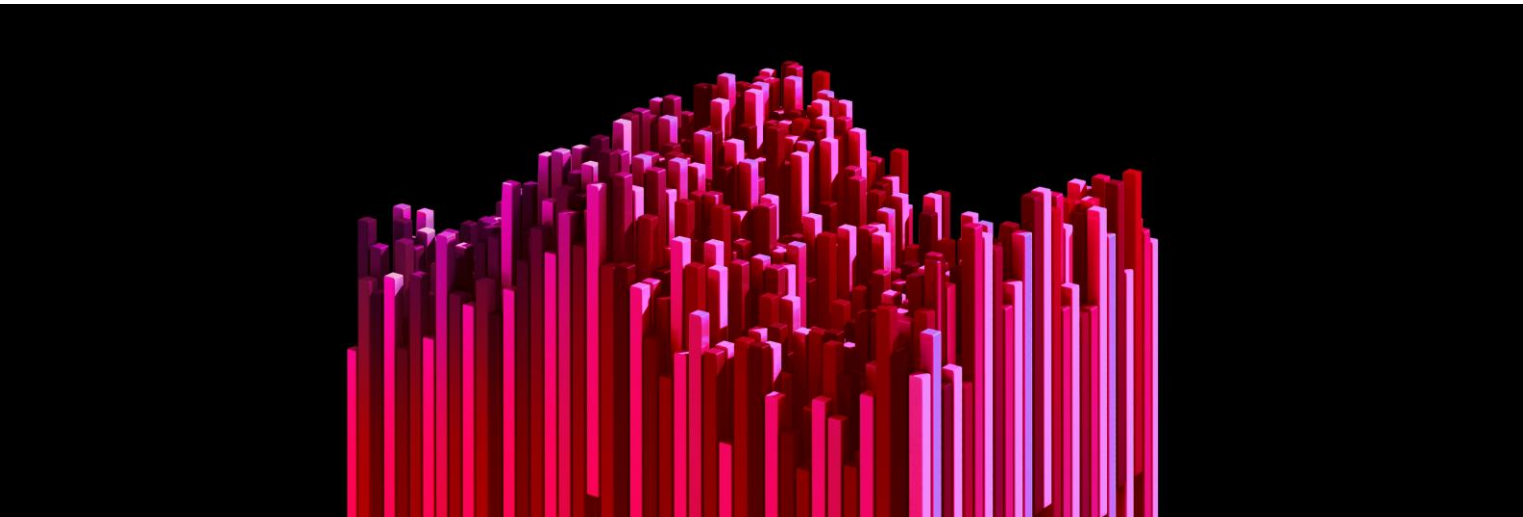


Vietnam's investment case is built around earnings compounding from three reinforcing engines. First, it remains a clear China+1 beneficiary: global manufacturers continue to diversify supply chains, and Vietnam's advantage is increasingly structural rather than cyclical—rooted in deep FDI linkages and a manufacturing ecosystem that has become difficult to replicate elsewhere. That "stickiness" matters because it supports a more durable pipeline of capacity expansion and upgrading, rather than one-off relocations.

Second, Vietnam is not reliant on exports alone. The domestic economy is providing a second leg of growth, with rising incomes and rapid digitisation supporting consumption and services activity. This helps cushion periods when external demand softens and broadens the set of companies able to grow through the cycle.

Third, policy is acting as a catalyst. The government's push to accelerate infrastructure spending is an incremental driver for 2026 and beyond, improving connectivity and efficiency across the economy. From an equity perspective, the focus is on businesses positioned to benefit from higher activity levels and productivity gains, rather than treating infrastructure spend as a blanket positive.

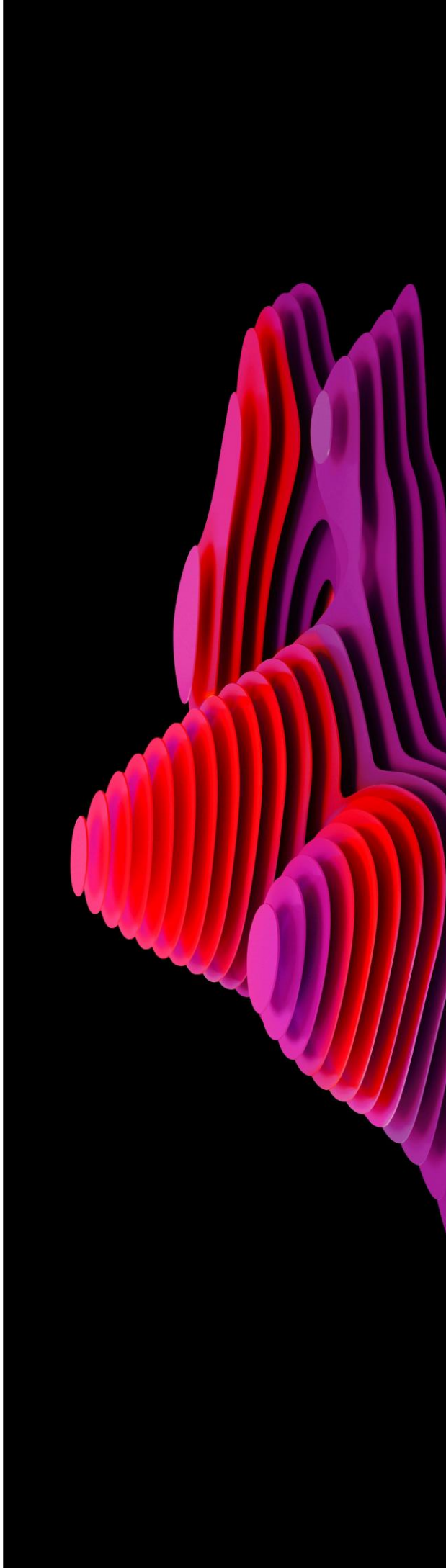
Finally, Vietnam's capital markets are approaching an inflection point. FTSE has confirmed Vietnam will be reclassified from Frontier to Secondary Emerging market status, which should broaden the investor base and support incremental flows (with passive flow estimates of c.US$2bn across four tranches), reinforcing liquidity and market depth over time.

Saudi Arabia and the UAE: Building Resilience Through Infrastructure

Recent events have accelerated GCC focus on **energy security, logistics resilience and strategic infrastructure**, alongside ongoing economic diversification reforms. The key investment implication is that the opportunity set is expanding into areas linked to activity, capex visibility and resilience spending—not just oil price direction.

Saudi Arabia: Capacity and flexibility

Saudi Arabia has been a key source of resilience through the shock, combining export-route flexibility with the ability to recover output quickly. As the chart in the next page illustrates, production dipped from around 10mbd to c.7.4mbd during the Hormuz disruption, but the more important point is the speed of normalisation—supported by the ability to reroute flows via the East–West pipeline—and the headroom to lift output towards 12mbd maximum sustainable capacity as conditions stabilise.



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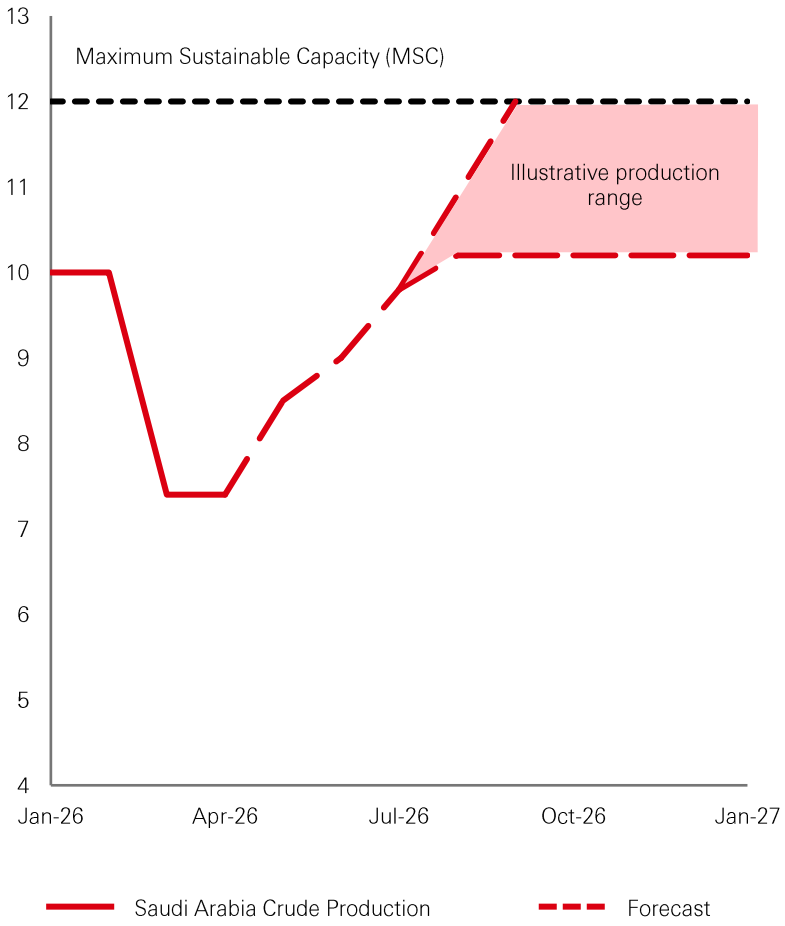
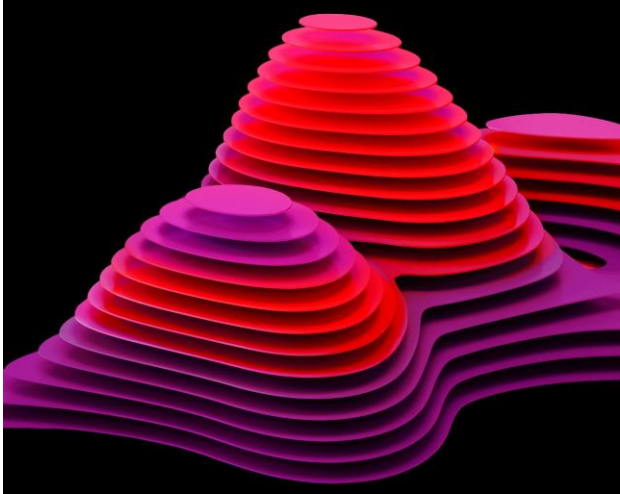
For investors, this operational flexibility helps explain why Saudi assets have been relatively resilient. The ability to restore output and reroute flows reduces the probability of a prolonged supply squeeze, supports fiscal visibility, and underpins continued domestic investment—creating a more stable backdrop for the portfolio's Saudi exposure, which is focused on activity-linked beneficiaries rather than direct oil producers.

Production cut from 10 mbd to 7.4 mbd during Hormuz disruption; MSC 12 mbd remains intact.

Saudi Arabia Crude production vs. Maximum Sustainable Capacity

(mbd)





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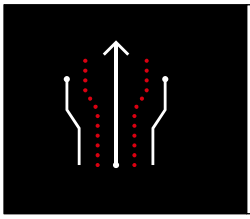
UAE: A Diversified Exposure to the Gulf's Transformation



UAE: A Parallel Story

- The UAE's OPEC exit unlocks a production ramp from 3.4mbd to 5mbd by 2027, with $55bn in fast-tracked investment and a resource base capable of delivering a further 2mbd of upside in the years ahead.

The UAE allocation (c.16% of the strategy) is built around four complementary pillars—designed to capture the domestic investment cycle while avoiding a simple "oil beta" exposure. The emphasis is on names within the energy supply chain that benefit from higher activity and investment without taking direct oil price risk, focusing instead on companies with contracted or high-visibility earnings profiles.

- Energy / energy services (c. 35% of UAE exposure): positioned to benefit from increased hydrocarbon and related infrastructure spend over the next 3–5 years, with earnings linked to activity levels and contracted work rather than spot oil prices.
- Financials (c.30%): positioned as a domestic activity proxy—benefiting as higher capex and diversification projects feed through into credit growth, transaction volumes and fee income, with strong balance sheets providing capacity to support the investment cycle.
- Real estate: exposure reflects the UAE's longer-term proposition (infrastructure, lifestyle, low taxes), while recognising that confidence can take 2–3 years to fully rebuild after periods of volatility.
- Consumer: positioned for domestic demand and services growth as sentiment normalises and the non-oil economy continues to deepen.

Frontier Markets in a global portfolio: complementing EM exposure

Frontier Markets can complementary to EM allocations due to:

- Limited overlap with mainstream EM portfolios (many small EM/frontier markets are structurally under-owned in EM strategies)
- Historically low correlation and lower overlap in drivers, with returns often linked to domestic reforms and local growth rather than a single global theme.
- Potential to enhance risk-adjusted returns when used as a satellite allocation

As a practical sizing reference, some investors allocate ~10–20% of their EM exposure to Frontier Markets, depending on risk appetite and portfolio objectives.

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Conclusion

Frontier Markets have demonstrated resilience through a volatile and geopolitically complex period, supported by attractive valuations and ongoing earnings momentum. The opportunity set remains driven by structural reforms and domestic growth—most notably in Vietnam—while GCC markets are accelerating resilience and diversification initiatives that create investable themes beyond oil. For investors seeking differentiated return drivers, Frontier Markets serve as a complementary allocation to EM, particularly when implemented through a diversified approach focused on fundamentals and long-term structural growth.

Source: HSBC Asset Management as of 31 May 2026

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A pioneer with a 18 year track record of investing in frontier markets

- HSBC Asset Management has one of the oldest and most differentiated frontier markets offerings in the industry.
- Dedicated investment team with access to the global resources and local commercial bank network of HSBC

A global investment approach

- Diversified exposure across 35 frontier markets and smaller emerging markets that exhibit “frontier” characteristics
- A customised and exclusive reference index reflects our sensibly diversified approach to investing in frontier markets globally

The case for active management

- Market inefficiencies in frontier markets give proprietary on-the-ground fundamental research increased scope to add value
- A rigorous and disciplined investment process with a focus on fundamental bottom-up analysis with top-down calibration

Source: HSBC Asset Management as of 31 May 2026
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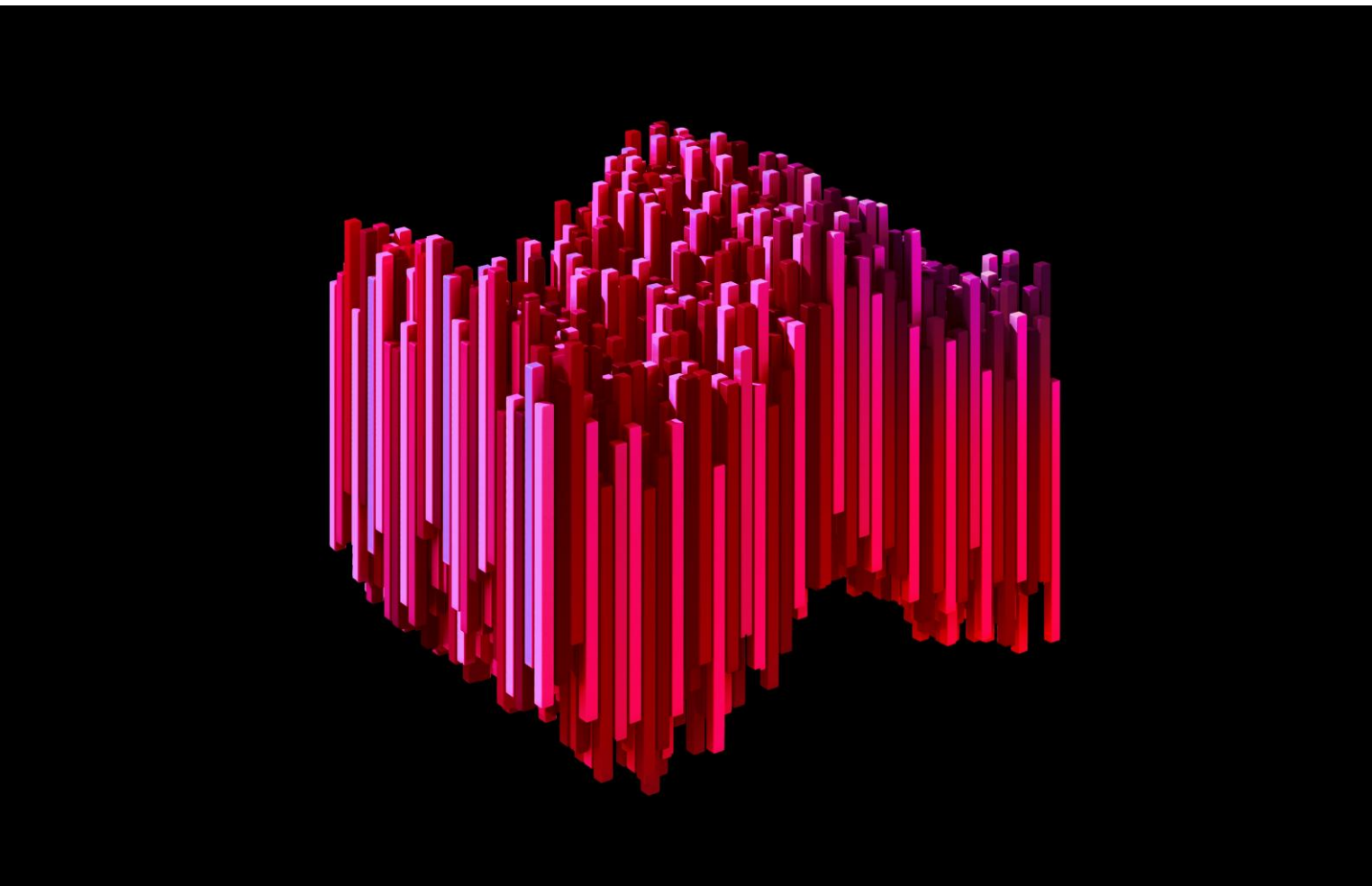

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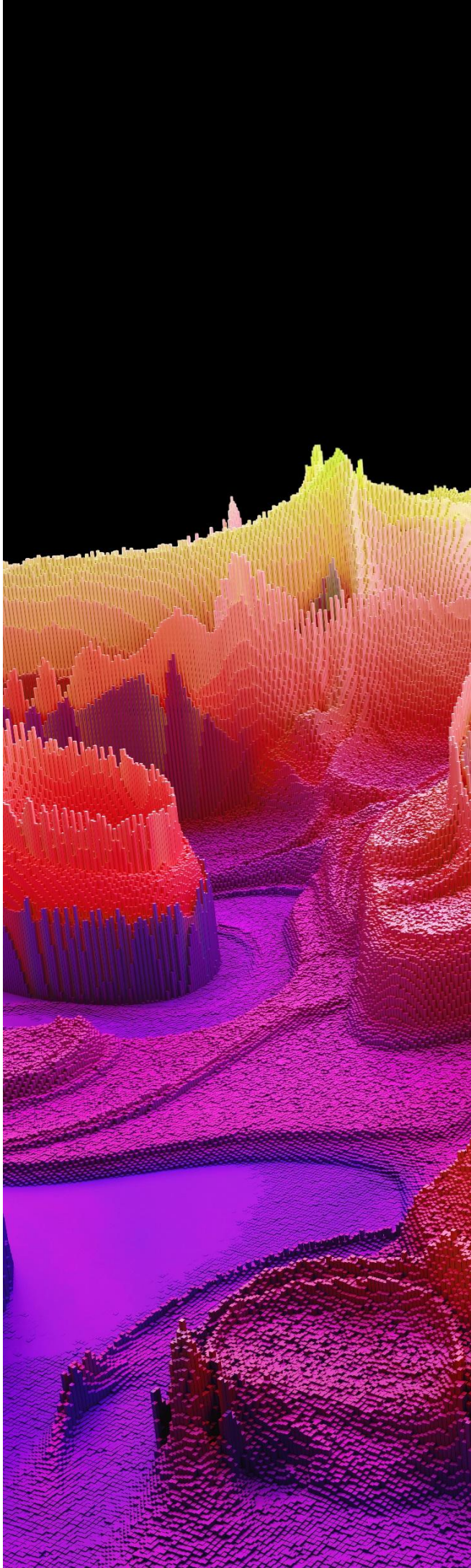
The value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested.

- **Counterparty Risk:** The possibility that the counterparty to a transaction may be unwilling or unable to meet its obligations.
- **Emerging Markets Risk:** Emerging markets are less established, and often more volatile, than developed markets and involve higher risks, particularly market, liquidity and currency risks.
- **Exchange Rate Risk:** Changes in currency exchange rates could reduce or increase investment gains orinvestment losses, in some cases significantly.
- **Investment Leverage Risk:** Investment Leverage occurs when the economic exposure is greater than the amount invested, such as when derivatives are used. A Fund that employs leverage may experience greater gains and/or losses due to the amplification effect from a movement in the price of the reference source.
- **Liquidity Risk:** Liquidity Risk is the risk that a Fund may encounter difficulties meeting its obligations in respect of financial liabilities that are settled by delivering cash or other financial assets, thereby compromising existing or remaining investors.
- **Operational Risk:** Operational risks may subject the Fund to errors affecting transactions, valuation, accounting, and financial reporting, among other things.



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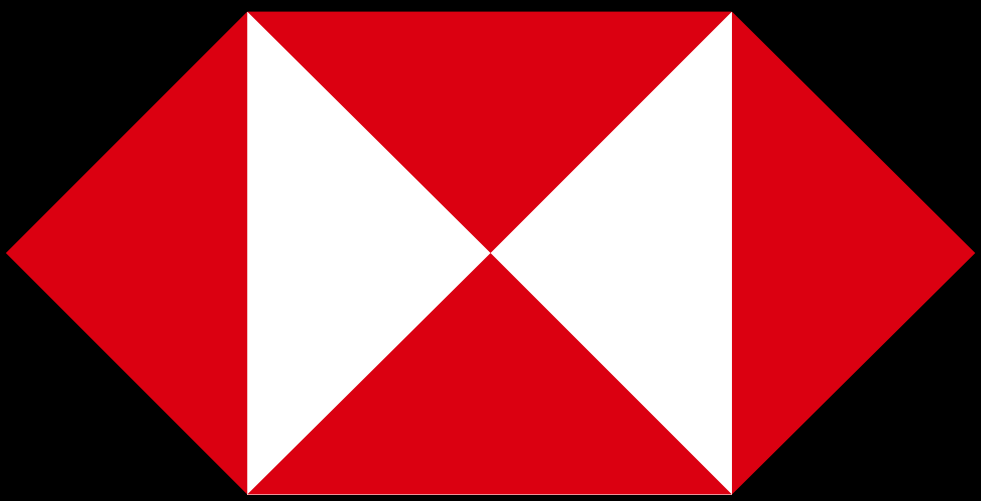
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