

Aristea - New Frontiers Equity Fund

Commentary 30 September 2022

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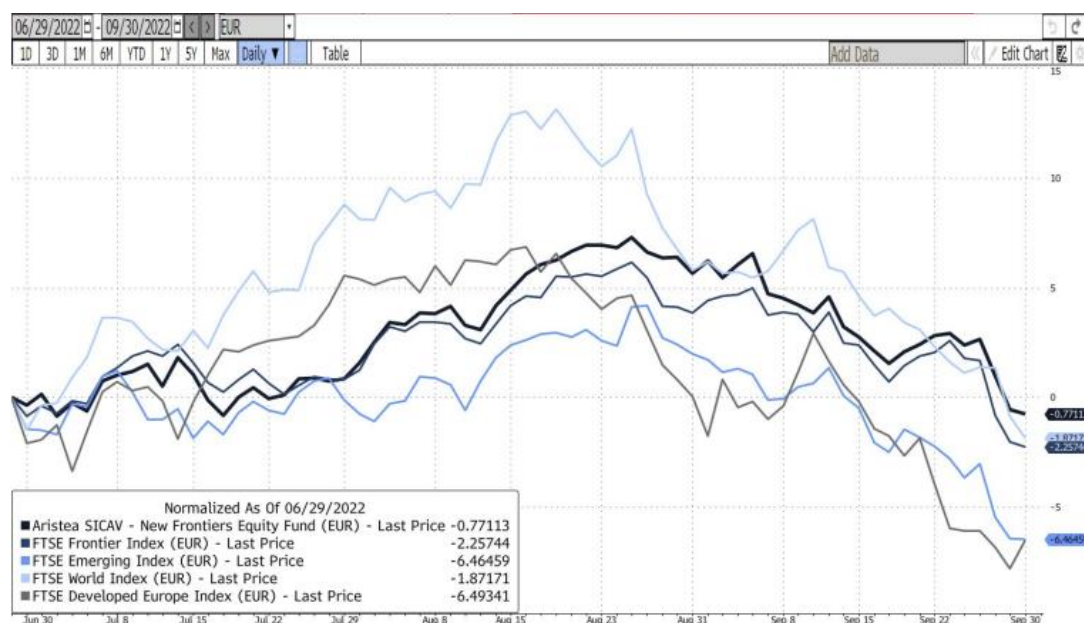
During the third quarter of 2022 the fund returned -6.94% compared to the -8.40% of the benchmark.

Increased geopolitical tensions and interest rate hikes around the globe pushed Frontier Markets lower, along with most Emerging and Developed Markets.

In the last month of the quarter our proprietary model scanning investment flows signalled to lower our exposure, leading to a more conservative beta that helped us soften the blow caused by a massive global equity divestment.

As showed in the figure below (Figure 1), our fund to fare better than other markets over the quarter.

Figure 1: Fund quarterly performance vs benchmark and world indices



Source: Bloomberg, FTSE

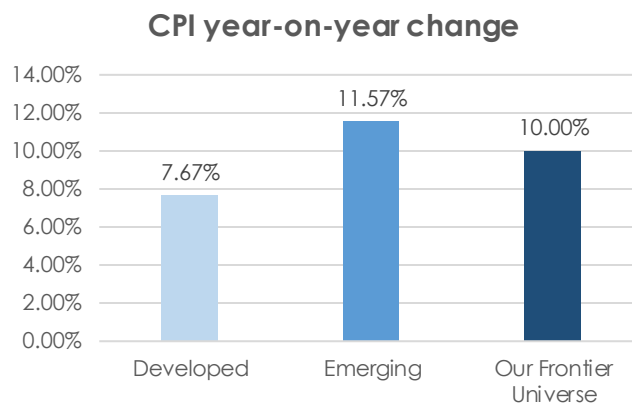
The main topic for global investors remains the renewed concern of potential recession in the US and Europe, after central banks aggressively hiked interest rates. This triggered a sharp selloff in many stock markets around the world this month. With higher-than-expected interest rate increases, the markets seem to go through a crisis of confidence, wondering how far the FED and ECB will need to hike rates in order to bring inflation back under control.

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Even though inflation is a global concern, Frontier Equity Markets, mainly composed of value stocks, have historically demonstrated to have a positive correlation with inflation, especially in the long-run¹. According to the latest IMF's estimates the average inflation level for the countries in our portfolio is 10%, a figure these economies are well used to cope with.

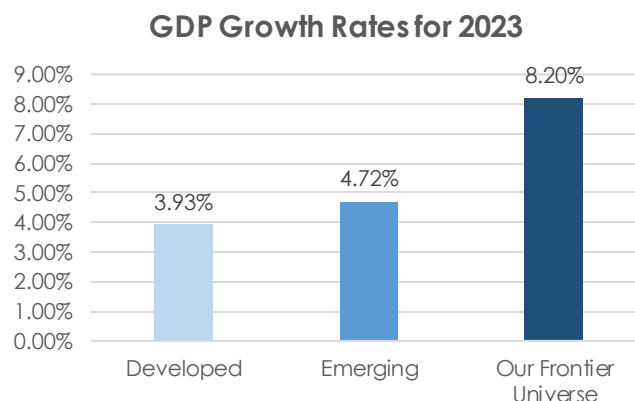
Figure 2: Average CPI year-on-year change



Source: IMF as of August 2022, Kallisto Partners

This is also reflected in the updated GDP growth rates for 2023 published by the IMF. In Figure 3 we see how the countries that make our Frontier Markets universe, are still considered to be the fastest growing economies the next year, with an average growth rate of 8.20% compared to 4.72% and 3.93% for Emerging and Developed Markets, respectively.

Figure 3: Average GDP growth rate



Source: IMF as of August 2022, Kallisto Partners

1. [Frontier Markets – Is inflation that bad? \(Oct 2021\)](#)

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We are confident that this is going to keep in next future, especially considering that most of our markets will benefit from supply chain reconfiguration, export diversification and continued inbound investment in manufacturing, as it is already the case for Vietnam, Bangladesh and Morocco, three major investments in our portfolio.