

# The case for frontier debt (Abridged)

Like emerging market (EM) debt, frontier market (FM) debt can boost returns and diversification in global fixed income portfolios. However, a focused FM allocation offers distinct advantages. In recent years, this has often included more concentrated exposure to countries with improving economic fundamentals.

In the last two years, we have seen far more credit rating upgrades than downgrades in the space, which has boosted returns. This trend looks set to continue. With the US dollar potentially entering a long-term downcycle, both USD and local currency bonds present compelling opportunities.

## The Frontier Sovereign Debt universe

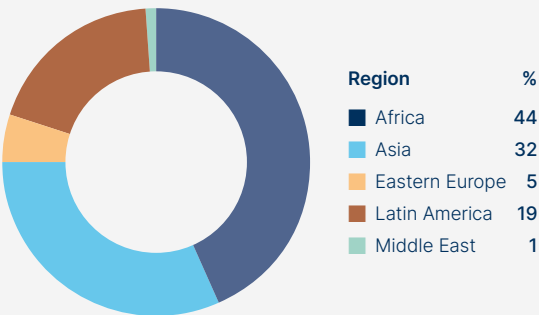
A broad definition of the FM universe starts with combining the JP Morgan NEXGEM Index (USD) and the FTSE Frontier Emerging Market Government Bond Index (local currency); a total of 50 countries.<sup>1</sup> In our portfolios, this universe can expand to other markets where foreign investor participation is low enough to be considered 'frontier'. This allows for the inclusion of investment grade countries such as Uruguay, Paraguay, and Iceland. Today, the total size of the combined local currency and USD FM universe exceeds USD 1trn. Around 70% of the total debt is now issued in local currency, but there are more USD issuers.

## Frontier debt vs frontier equity

Both FM equities and FM debt offer the potential for high, uncorrelated returns. However, it is a misconception to think the two asset classes offer exposure to similar economies.

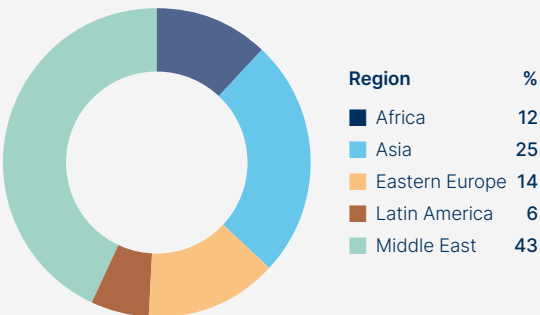
Figs 1 and 2 show the very different regional exposures in the frontier equity universe and frontier debt universe. To maximise regional diversification within a multi-asset portfolio, allocators should hold both asset classes, in our view.

Fig 1: Frontier Debt Universe (LC+ED)



Source: MSCI, FTSE, Bloomberg, Ashmore. September 2025.

Fig 2: Frontier Equity + Select EM Countries capped at 15%



Source: MSCI, Ashmore. September 2025.

## Frontier Market External Debt

### Performance

Since 2002, FM external debt has returned around 9% a year, while EM debt has returned c. 7%. However, since 2015, the outperformance has been more pronounced. Despite two major credit events (Covid and the 2022 inflation spike), FM debt has returned 6% a year, while EM debt returned around 3%. Over the same period, the Global Agg. index (DM bonds) has returned just 1% a year.

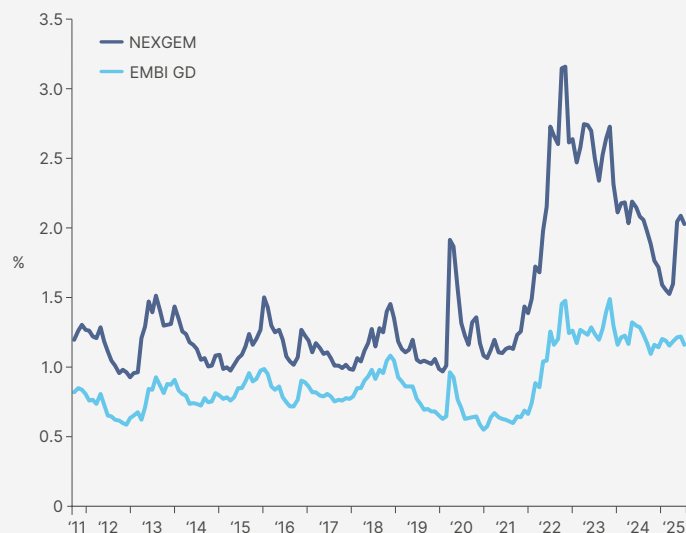
### Yield

Fundamental reforms in FM countries tightened the spread of NEXGEM vs J.P. Morgan EMBI Global Diversified Index (EMBI GD) back to around 1% by the start of this year. However, an index reclassification in April has pushed yield-to-maturities (YTM) back to over 10%, driven by the inclusion of high-yielding issuers, like Argentina, and defaulted bonds.

### Duration

The lower duration profile of FM USD debt is a key part of its appeal and recent outperformance. For every unit of duration, the NEXGEM offers more than 2% of yield, vs. just 1% for the EMBI GD, offering greater potential for uncorrelated returns.

Fig 3: Duration adjusted yield



Source: Bloomberg, Ashmore. Data as at August 2025.

## Frontier local currency debt

### Performance

The performance of the EM FTSE local currency bond index has been 4% annualised since its inception in 2017 in USD terms. For reference, the JP Morgan GBI-EM index has returned 2% per annum. However, this has been a period of Dollar strength. Now, as the USD has begun to weaken, the FM index is up 9% year-to-date.

### Yield

An equal weighted average one-year yield of the 25 countries we assess as investable frontier currencies is currently around 12%, well above its average this century. Real yields also remain attractive. Inflation moderated quickly in most FM countries in 2024 and 2025, but rates remain elevated in many cases. Average ex-ante real one-year yields are 4% – rarely in the past 10 years have they been higher.

In certain countries, such as Egypt (12%) and Kazakhstan (7%), they suggest the possibility of steep rate cuts in the coming quarters, meaning higher total returns for bond investors.

### FX

Most FM currencies remain attractive on a real effective exchange rate (REER) basis. Fig 4 shows the equal weighted average of the REER of currencies identified as investable in Ashmore's frontier fund, indexed to 2008.

Fig 4: Equal weighted REER – Frontier currencies



Source: Breugel, Ashmore. Data as at August 2025.

We believe investors should be positioned opportunistically in currencies where high carry from bonds, or generated through derivative contracts, provides a buffer to FX that is likely to be stable or to appreciate over time. Our selective and bottom-up approach to the strategy seeks to capitalise on idiosyncratic investment opportunities as they arise. As a result, we don't expect our frontier debt allocation to perform with a specific tracking error to any benchmark.

## Low volatility

FM local currency bonds have demonstrated notably low volatility over the past decade. Ashmore's FM local currency bond universe has averaged just over 3% annualised volatility over the past decade. The GBI-EM index has averaged over 10%. This reflects the prevalence of managed currency regimes. Recent external shocks have prompted currency regime shifts in several markets, such as Nigeria and Egypt, where sharp devaluations have created attractive entry points as inflation eases and external balances improve.

## Improving country fundamentals drive uncorrelated returns

Frontier markets can offer investors concentrated exposure to countries with improving economic fundamentals. In the past decade, FMs have shown remarkable resilience in a volatile global macro environment.

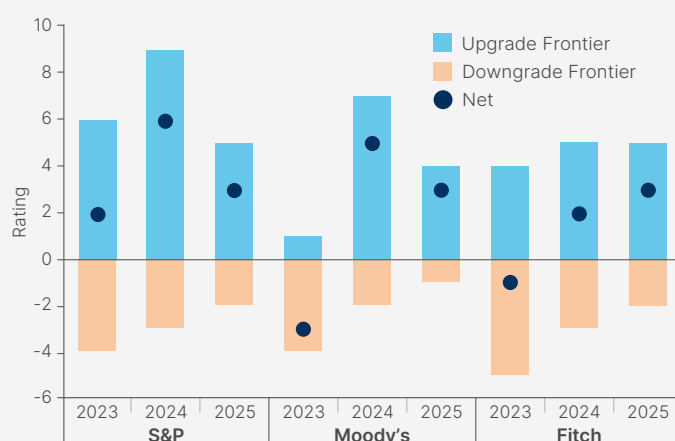
Of the FM economies that contracted in USD terms in the five years before 2019, nearly all have returned to growth. Importantly, this recovery has not relied on fiscal expansion: many FM countries consolidated their deficits during this period of major global government debt expansion. Consequently, the average primary balance change between 2019 and 2024 was just -0.6%.

Current account improvements have also supported resilience. FM current accounts strengthened by 93 basis points since 2019, on a GDP-weighted average basis, underpinned by solid monetary reforms and easing external debt servicing.

## Better fundamentals = credit rating upgrades

The trend in credit rating actions across FMs has been firmly positive in the past two years. In our view, this is likely to remain the case. Twenty FM countries currently have a positive outlook held by at least one of the three major credit rating agencies. Just six have a negative outlook. Furthermore, 21 countries have been upgraded by at least one agency within the last 18 months, while just seven have been downgraded. Momentum is, therefore, very positive.

Fig 5: Credit rating actions: frontier markets



Source: Bloomberg, Ashmore. September 2025.

## Expanding IMF and World Bank support

Various FM economies that fell into debt distress or default are regaining market access, helped by stronger multilateral backing. International Monetary Fund (IMF) outstanding credit is at a record USD 120bn, most of it directed to FMs.

The World Bank and The Paris Club have also expanded concessional frontier lending significantly. This shift comes as China, once a major lender to FM, has scaled back credit. In our view, the diversification of funding sources lowers systemic risk and supports the resilience of frontier economies.

## Conclusion

FM debt has matured into a distinct asset class, offering enticing total returns and diversification benefits.

Many countries once seen as vulnerable have demonstrated resilience through recent shocks, supported by disciplined economic policies.

Credit ratings are trending higher, and several sovereigns have regained market access, creating scope for spread compression and alpha. A more engaged IMF and World Bank, along with supportive global financing conditions, reduce default risk. Furthermore, the USD outlook is skewed to the downside from here. This will likely enable further appreciation of FM local currencies, while real yields remain elevated.

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The Emerging View

The case for  
frontier debt

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