



Not all who wander are lost

Why frontier markets offer rich rewards for the most skilful navigators.

Update
10 February 2026

Immortalised in the Lord of the Rings epic, J.R.R. Tolkien’s line “Not all who wander are lost,” offers an apt lens for investing in frontier markets. Investors straying beyond the comfort of well-mapped economies may face political complexity and relatively opaque markets but for those equipped to navigate them, these very challenges can deliver the greatest rewards.

As developed economies grapple with anaemic growth, frontier and emerging markets provide a compelling growth opportunity, driven by youthful populations, rising incomes and thriving local economies. Indeed, the MSCI Frontier Markets Index topped the regional table in 2025, posting a return of over 35%, more than three times its US counterpart.

Despite this, gaining meaningful exposure to these economies remains difficult for investors. Take the MSCI ACWI IMI, which offers one of the broadest global spreads: the US takes up more than 60% but what about the higher growth economies? On the face of it, you’re getting an 11% allocation to emerging markets but strip out the big four of China, Taiwan, India and Korea and you’re left with just 3% - and no frontier markets at all.

While frontier and smaller emerging markets may lie off the radar for many investors, they offer compelling valuations, being cheap relative to history and against peer indices, as well as returns driven by idiosyncratic local factors. As global equity returns become ever more correlated with the Magnificent Seven, these markets can serve as a valuable diversifier during periods of heightened volatility.

All the big things

While macroeconomic conditions shape all markets, they arguably have the greatest influence in frontier and emerging economies. Shifts in inflation, interest rates and consumer demand can have an outsized impact, creating fertile conditions for well-managed companies to thrive as cycles turn.

BlackRock Frontiers (BRFI) employs a macro-anchored framework as a key source of alpha generation. By tracking economic and policy cycles, the managers seek to identify inflection points where improving fundamentals, supportive policy shifts and strengthening external balances signal the early stages of an upswing.

This macro lens allows the managers to invest early in the cycle, often at discounted valuations before broader investor interest

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drives up valuations. Exploiting these inefficiencies, however, requires deep, country-level analysis of macro trends, policy direction and evolving supply chains.

This top-down approach is blended with on-the-ground research by the wider resources of the BlackRock team. Managers Sam Vecht and Emily Fletcher conduct extensive due diligence, meeting management teams, suppliers, competitors, development institutions and central banks to build a holistic understanding of the corporate ecosystem.

This research underpins BRFI’s disciplined portfolio construction, targeting resilient businesses well-positioned to gain from improving macro conditions. As a result, BRFI has delivered a one-year share price return of 29%, rising to over 90% over five years. This compares to a one and five-year return of 15% and 52% respectively from the trust’s benchmark index. While income is not a primary objective, strong cash generation in the portfolio supports a current dividend yield of around 4%.

Looking forward, macro conditions in frontier and emerging markets appear increasingly supportive.



Lower inflation and stable US bond yields have given central banks the headroom to cut rates, aiding a recovery in domestically driven economies.

A fertile landscape

After a challenging few years, Egypt is quietly staging a recovery. Inflation has fallen sharply, interest rates are heading down and the balance of payments position has strengthened, marking a clear improvement in macro conditions. Reflecting this shift, BRFI has increased its exposure to Egypt, having trimmed exposure during its post-pandemic hangover.

Structural reforms are also reshaping the investment landscape. The government is targeting 70% of total investment from private capital by 2030, while efforts to diversify the economy are reducing reliance on traditional sectors such as tourism.

Signs of recovery are already emerging. GDP growth has rebounded to around 5% in recent quarters, supported by stronger exports, rising private consumption and a wave of new investment, including UAE-backed projects moving into execution.

On the consumer front, a youthful and fast-growing population, combined with increasing financial services penetration, is accelerating digitalisation and formalisation of Egypt's economy.

BRFI's holding in Commercial International Bank, a leading retail and commercial lender, is well-positioned to capitalise on a market where only 25% of adults are banked, supporting a share price gain of more than 80% over the past year.

Poles apart

BRFI has also increased exposure to Poland, which is early-cycle if not early-stage. Economic growth continues to outpace European peers, while falling inflation has created scope for interest rate cuts. Public investment is rebounding, supported by EU funding, while increased defence spending adds further fiscal momentum.

Structural tailwinds are reinforcing the recovery: Poland's central position within the EU, skilled workforce and improving infrastructure are driving near-shoring activity, supported by targeted tax incentives and deregulation. At the same time, government policy is focused on moving up the value chain, including investment in higher-value industries such as AI.

BRFI offers exposure to the European growth story in Poland driven by structural tailwinds. A top-ten holding, fashion retailer LPP, has expanded both domestically and overseas, with more than 3,000 stores across Europe. Strong earnings growth has underpinned a five-year share price increase of over 160%.

The path ahead

In a world where global returns are increasingly tied to US technology, frontier markets stand out as a valuable source of diversification. BRFI has a proven track record in understanding the macro picture, identifying turning points and acting with conviction before shifts are fully reflected in valuations.

Frontier investing, as Tolkien might say, is not about wandering aimlessly off the map, but about moving early, before the path widens and the crowd follows.

All data as at 06/02/2026 and returns in GBP unless otherwise specified. Benchmark index: MSCI Frontier + Emerging Markets ex Selected Countries Index.

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