A whole new world

Why it's time to look beyond the technology trade for the next growth story.

Update
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"This time it's different" is usually the last thing you hear before a market correction. In fairness, it did feel different for a while as the Magnificent Seven climbed ever higher on AI euphoria. But 2025 served up a timely reminder that market leadership rarely lasts forever, with the S&P 500 lagging most major indices and Meta, Tesla and Microsoft looking distinctly less magnificent.

As leadership broadened, growth-seekers turned their focus to emerging markets as the main beneficiaries of the hyperscaler spending spree. This proved good business, with the MSCI Emerging Markets Index returning 24% last year, but the best returns were found further off the beaten track, with frontier markets chalking up an impressive 37% return.

Frontier markets may fly under the radar, but they're home to around 900 million people - more than 10% of the global population - and generate almost 3% of global GDP. Their share of global equity markets, however, is just 0.1%. Even if you widen the universe to include smaller emerging markets (excluding the eight largest emerging markets), the equity market share only rises to 7%, despite representing almost 15% of global GDP.

With leadership rotating away from the US, this imbalance between economic heft and market representation could provide a long-term source of returns for growth investors.

More than geography

Emerging markets tick the box on geographic diversification, but scratch the surface and they're primarily another play on the same handful of technology names. The top ten constituents make up 40% of the MSCI Emerging Markets Index, with TSMC and Samsung Electronics alone accounting for nearly a quarter, leaving the index highly exposed to any slowdown in demand from the likes of NVIDIA, Apple, Tesla and AMD.

Smaller emerging and frontier markets, on the other hand, don't require investors to put quite so many eggs in the AI basket. Their economies are driven by a range of factors - from domestic consumption to export led growth and natural resources to financial services - rather than the fortunes of the global tech giants.

This is demonstrated by the low correlation between frontier and smaller emerging markets: the MSCI Bangladesh Index has a near zero correlation with Chile, Kenya and the Philippines, while the Frontiers index has a meaningfully lower correlation to the S&P 500 than Korea or Taiwan. As a result, they offer genuine diversification from developed market indices.

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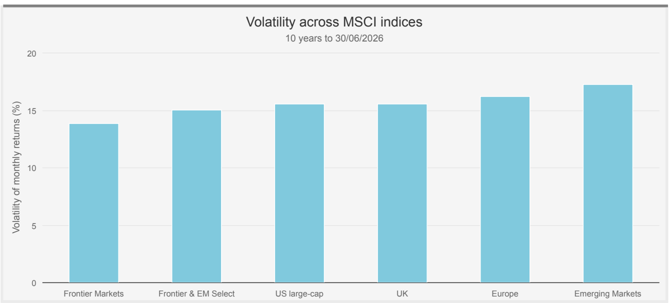
The rulebook has changed

Frontier and emerging markets have long been seen as the Wild West of investing, dismissed as volatile, fiscally fragile and politically unpredictable, but this perception is increasingly out of date.

Over the last decade, frontier markets have experienced lower volatility in aggregate than even US large-caps, as well as UK and European markets. Emerging markets remain more volatile, but largely because China, Taiwan and South Korea account for almost three-quarters of the index, and the technology sector for nearly half.

In contrast, no single country accounts for more than 10% of the MSCI Frontier & Emerging Markets Select Index, and technology exposure is just 1%. This broader opportunity set helps to smooth returns and reduces reliance on a single theme.

Fig.1: Frontier And Emerging Markets Are Less Volatile Than Developed Peers



Source: MSCI factsheet (as at 30 June 2026). Based on annualised standard deviation of monthly net returns data.

The fiscal backdrop has also shifted, with developed economies carrying significantly higher debt burdens after years of stimulus and rising borrowing costs. Emerging and developing market debt remains below 80% of GDP, compared with more than 100% in the UK and 125% in the US, creating challenges for central banks trying to tame sticky inflation.

A weakening US dollar has added another tailwind, with many emerging and frontier currencies strengthening in 2025, reducing the cost of servicing dollar-denominated debt and improving returns for overseas investors.

Political risk has by no means disappeared, but central bank independence and policy discipline have improved across frontier and emerging markets in recent years. Political developments also tend to be localised, with elections or policy changes in one country rarely spilling over into the wider investment universe.

Beyond the benchmark

The opportunity in frontier markets may be compelling but accessing it can be far from straightforward: research coverage is limited, liquidity can be patchy and the political and economic ecosystem backdrop varies widely.

These inefficiencies are precisely where active managers can add value. **BlackRock Frontiers (BRFI)** takes a different approach to emerging markets by excluding the eight largest economies (with China, India and Taiwan among them) and focusing instead on frontier markets and smaller emerging economies.

These countries have limited ETF coverage, meaning they're less exposed to the vagaries of investor flows. Valuations also remain attractive: the MSCI Frontier & Emerging Markets Select Index trades at a forward price-earnings ratio of just under 10, almost 50% below the MSCI ACWI.

Managers Sam Vecht and Emily Fletcher draw on BlackRock's extensive global resources to uncover opportunities supported by structural themes rather than being hostage to the fortunes of the Magnificent Seven.

One example is Uzbekistan, a resource-rich economy benefiting from long-term secular demand for commodities, while economic reforms are attracting foreign capital into large-scale infrastructure projects. BRFI has invested in the country's first IPO of national investment fund UzNIF, which holds stakes in utilities, telecoms, banking and transport companies.

Another theme is financial inclusion: Africa accounts for more than half of global mobile money accounts, yet 1.3 billion adults still lack access to financial services, predominantly in Bangladesh, Egypt, Indonesia and Pakistan, according to LHoFT. The managers have positioned the portfolio to benefit from the continued digitalisation of payments, lending and savings products across underbanked populations.

The trust's performance is testament to the strategy, with BRFI topping the AIC Global Emerging Markets sector with a 92% share price return over the last five years. Dividends have also become a meaningful part of returns, with the trust yielding just above 3% as earnings growth supports a rising natural income.

In summary, frontier and smaller emerging markets offer something genuinely different: broader market leadership, lower correlations and attractive valuations. As investors look beyond the US and the Asian technology leaders, they offer a credible long term source of growth for investors willing to venture where the index doesn't.

Data as at 21/07/2026 unless specified otherwise. Returns in GBP.

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