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Frontier Sovereign Debt: 60-Day Rolling Volatility



Source: Momentum Global Investment Management, Bloomberg Finance L.P. Data to 30 September 2026.

The composite (FTSE Frontier Emerging Markets Government Bond Index - Capped, in USD terms) uses monthly data until end of March 2021. Local currency is represented by Bloomberg Global EM Local Currency Govt Universal TR Index Value Unhedged. Hard currency is represented by Bloomberg Emerging Markets Sovereign TR Index Value Unhedged USD.

Don't Fear the Frontier

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What does the chart show?

This week's chart shows that frontier emerging market (EM) sovereign debt, represented by a composite of hard and local currency bonds, has historically exhibited lower and more stable volatility than broader EM government debt indices. Volatility measures the extent of price fluctuations over time, with higher readings reflecting greater uncertainty and larger swings in returns.

Why is it important?

Frontier EM government debt refers to sovereign bonds issued by governments in developing economies that are at an earlier stage of market development than traditional EM. The chart challenges a common perception that frontier market debt is inherently more volatile and riskier than traditional EM debt.

One explanation lies in the nature of the investor base. Frontier markets are often characterised by a strong domestic investor base, with banks, pension funds and insurance companies accounting for a significant share of demand. These local institutions typically maintain longer investment horizons and are less inclined to react to short term market volatility, creating a more resilient ownership structure. As a result, frontier debt prices tend to be influenced more by local economic conditions and country specific fundamentals than by shifts in international investor sentiment. Lower levels of foreign participation mean frontier markets are generally more insulated from global capital flows, reducing their vulnerability to broad based selling pressure and herd behaviour during periods of market stress. Consequently, both frontier debt and currencies are often shaped primarily by idiosyncratic factors and long term domestic trends, which can contribute to lower volatility than many investors might expect.

By contrast, broader EM government debt markets have become increasingly integrated into global investment portfolios and benchmark indices. While this has improved liquidity and market depth, during periods of market uncertainty, investors often reduce exposure across the asset class regardless of individual country fundamentals, leading to synchronised outflows and amplified price movements. In turn, traditional EM debt markets can experience greater price fluctuations, as changes in global sentiment frequently outweigh country specific factors in determining short term market performance.

At Momentum, we own both EM and frontier sovereign bonds and believe the combination offers the most compelling risk adjusted return profile. By blending exposures to markets with different drivers of performance, diversification can help dampen volatility while preserving long term return potential.

Markets were dominated by a renewed inflation scare, with rising sovereign bond yields, tighter monetary policy expectations, and growing concerns over stretched AI related valuations driving volatility across global equity and fixed income markets.



US

- » September CPI came in hotter than expected, with headline inflation rising 3.7% year-on-year and core inflation reaching 2.6%, reinforcing concerns that inflationary pressures remain persistent.
- » US Treasury yields remained near multi-decade highs as investors priced in a higher-for-longer interest rate environment amid inflation concerns, heavy government borrowing and AI related capital spending.
- » Markets reassessed expectations for further Federal Reserve tightening after policymakers signalled a cautious approach despite stronger inflation data.
- » President Trump signed an executive order waiving large portions of the newly enacted Lindsey O. Graham Sanctioning Russia and Iran Act of 2026, reducing the immediate impact of planned tariffs and sanctions on Russia and major importers of Russian energy.



UK

- » The Institute for Fiscal Studies published its Green Budget 2026, warning that higher inflation, elevated borrowing costs and public-spending pressures would complicate Chancellor John Healey's first Budget.
- » Fiscal sustainability became a major market theme as analysts highlighted the challenge of funding public services, energy support measures and defence commitments simultaneously.
- » The IMF upgraded its 2026 UK growth forecast to 1.3%, citing stronger-than-expected economic activity and investment linked to AI-related industries.
- » Policymakers faced growing pressure to address rising household energy costs ahead of the Autumn Budget as geopolitical tensions continued to lift energy price.



Europe

- » EU leaders met at the European Council Summit on 15-16 October, focusing on competitiveness, Ukraine, migration, defence and the next long-term EU budget.
- » Leaders advanced the "One Europe, One Market" agenda, pushing for regulatory simplification, market integration and reduced administrative burdens on businesses.
- » Soaring energy prices emerged as a major concern, prompting discussions on temporary support measures and reforms to reduce price volatility.
- » The EU reinforced support for Ukraine, including discussions around winter resilience, defence funding and further sanctions against Russia.



Rest of the World/Asia

- » China proposed new export controls covering 23 advanced AI technologies, including large language models and semiconductor related technologies.
- » China expanded its technology security framework by proposing restrictions on 40 sensitive technologies spanning AI, biotechnology and solar manufacturing, with tighter oversight of overseas technology transfers.
- » Japan and the United States announced a major semiconductor initiative, with investment of up to US\$21bn in two chip fabrication plants, strengthening supply chain resilience and economic security cooperation.
- » The International Monetary Fund released its World Economic Outlook, forecasting global growth of 3.1% in 2026 while warning that higher inflation, geopolitical tensions and fiscal vulnerabilities are increasing risks to the outlook.

Weekly market data

Week ending 16 October 2026

Cumulative returns					
Asset Class / Region	Currency	Week ending 16 October	Month to date	YTD 2026	12 months
Developed Markets Equities					
United States	USD	-1.9%	0.1%	12.6%	16.5%
United Kingdom	GBP	3.3%	2.9%	12.8%	19.5%
Continental Europe	EUR	1.6%	0.9%	10.0%	13.4%
Japan	JPY	-0.9%	-1.0%	21.8%	29.8%
Asia Pacific (ex Japan)	USD	-4.9%	-5.4%	17.1%	18.7%
Australia	AUD	1.0%	0.2%	4.0%	0.4%
Global	USD	-1.1%	0.1%	11.9%	15.7%
Emerging Markets Equities					
Emerging Europe	USD	2.1%	-2.0%	22.9%	33.1%
Emerging Asia	USD	-6.2%	-6.5%	18.6%	20.4%
Emerging Latin America	USD	-1.5%	9.4%	25.5%	39.7%
BRICs	USD	-0.2%	1.0%	-9.2%	-10.4%
China	USD	-1.6%	-2.2%	-13.8%	-17.2%
MENA countries	USD	-1.3%	-3.1%	-4.4%	-9.9%
South Africa	USD	3.2%	2.2%	-2.1%	5.5%
India	USD	4.8%	3.5%	-15.3%	-15.2%
Global emerging markets	USD	-5.1%	-4.9%	17.3%	19.9%
Bonds					
US Treasuries	USD	0.9%	1.3%	-1.5%	-1.9%
US Treasuries (inflation protected)	USD	1.2%	1.5%	-0.8%	-1.5%
US Corporate (investment grade)	USD	0.8%	1.3%	-1.5%	-1.8%
US High Yield	USD	-0.2%	0.0%	0.0%	1.4%
UK Gilts	GBP	0.9%	0.8%	-1.6%	-0.2%
UK Corporate (investment grade)	GBP	0.6%	0.5%	-0.8%	0.7%
Euro Government Bonds	EUR	0.6%	0.9%	-2.4%	-3.3%
Euro Corporate (investment grade)	EUR	0.4%	0.7%	-0.5%	-0.9%
Euro High Yield	EUR	-0.1%	-0.5%	-0.5%	0.3%
Global Government Bonds	USD	0.9%	0.8%	-1.9%	-2.6%
Global Bonds	USD	0.9%	0.8%	-2.3%	-2.5%
Global Convertible Bonds	USD	-5.0%	-5.2%	6.4%	5.9%
Emerging Market Bonds	USD	0.7%	1.2%	-1.3%	0.8%
Property					
US Property Securities	USD	1.0%	0.8%	10.4%	8.9%
Australian Property Securities	AUD	-1.7%	-2.2%	-17.0%	-21.5%
Global Property Securities	USD	1.2%	0.2%	2.6%	2.4%
Currencies					
Euro	USD	0.3%	-1.0%	-4.4%	-3.9%
UK Pound Sterling	USD	0.7%	0.4%	-1.0%	-0.8%
Japanese Yen	USD	0.0%	-0.6%	-0.9%	-5.0%
Australian Dollar	USD	-0.5%	-0.1%	4.1%	7.0%
South African Rand	USD	0.3%	-0.4%	0.5%	5.2%
Swiss Franc	USD	0.6%	1.2%	-3.9%	-3.8%
Chinese Yuan	USD	0.1%	0.3%	4.5%	6.5%
Commodities & Alternatives					
Commodities	USD	1.1%	3.4%	47.0%	52.8%
Agricultural Commodities	USD	-0.8%	-1.2%	15.1%	14.2%
Oil	USD	4.9%	6.1%	80.5%	79.9%
Gold	USD	-0.7%	0.1%	-3.7%	-2.8%

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.

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