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Emerging Markets Report

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Kenya crisis casts shadow on hot frontier market

Terrorism plays an increasing role in investment risk assessments

By **Myra P. Saefong**, MarketWatch

SAN FRANCISCO (MarketWatch) — The terror attack at a shopping mall in Kenya is prompting some analysts to warn about widening instability in Africa, a recently hot region for investors seeking better returns in frontier markets.

The attack on the mall began on Saturday. Interior Cabinet Secretary Joseph Ole Lenku [confirmed Monday](#) that at least 62 people have been killed.

For the deadly attack at the Westgate mall in Nairobi, Al-Shabaab, al-Qaida affiliated militants in Somalia, appeared to claim responsibility, [according to a Financial Times](#) report.

Al-Shabaab joins Nigeria's Boko Haram and similar movements in Tunisia and Algeria in a "thickening arc .. of a specific al-Qaeda franchised brand of jihadist rebellion linked to Wahabi or Salafi traditions that have their origin in Saudi Arabia," said Nic Borain, an analyst at BNP Paribas, in a note.



Kenya attack: Part of the 'long war' on terror

Mary Kissel and Sohrab Ahmari discuss the attack on a Nairobi, Kenya mall and how the strength of Somalia's al Shabaab illustrates a prolonged war on jihadist terror. Also, Paul Gigot on the U.S.'s nuclear negotiations with Tehran.

for frontier markets, particularly Kenya and Nigeria. As investor money flooded into the space, securities that track frontier markets rallied in July, [outpacing emerging markets](#) counterparts more weighted to China and Brazil. The iShares MSCI Frontier 100 ETF (NAR:FM) is up 15% so far this year versus a close to 5% drop for the iShares MSCI Emerging Markets ETF. (NAR:EEM) .

Reminder of investment risk

The hostage situation in Kenya is a warning of the heavy risks involved in frontier markets. Emerging-market expert Usha Haley said investors need to be "cautious and operate as they would in areas with other Islamic militia activity."

FM 31.53, -0.05, -0.16%

EEM 41.68, +0.13, +0.30%

Frontier markets, emerging markets ETFs



Tourism in Kenya will be affected in the short term, she said, and we'll have to find out more details about the attackers.

"We do not know if this was a last gasp or resurgence of terrorism," said Haley, who is also professor and director of the Robbins Center for Global Business and Strategy at [West Virginia University](#).

That said, with risks often come opportunities. The turmoil could create a situation where "investors can jump in," said Karim Rahemtulla, emerging markets and options director at Wall Street Daily.

The problem is a lack of investable opportunities for the general public, he said.

0%
-5%

Aside from a couple of funds such as the Nile Pan African Fund (MFD:NAFAX) and a few direct investments in South Africa and the Market Vectors Egypt exchange-traded fund (NAR:EGPT) "it's pretty slim pickings," Rahemtulla said.

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Moreover, investors have to have "a very strong constitution to withstand shocks to the system like the events in Kenya," Rahemtulla said, noting that in the aftermath of the 1998 bombings of U.S. embassies in Nairobi and Dar es Salaam, Tanzania, there was a lull in activity followed by

the biggest boom Africa has seen in decades.

Given such history and this latest terrorist act, emerging-market investors and analysts are increasingly considering how much they factor such instability into investment risks.

"This arc of organizations is likely to play a significantly destabilizing role, pushing both North and South in the years ahead," BNP's Borain noted. And while "Kenya, Nigeria and Uganda are not necessarily mortally injured by events like the one at the Westgate Mall in Nairobi ... the signal is that we need to have this matter more central in our assessments of the region." ■



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