TCX SPOTLIGHT

Building a **global** solution for **currency risk**

The TCX Frontier Index

Looking back at eight years of frontier local currency debt performance

Since its launch in 2021, the TCX Frontier Index (TCX FI) has provided one of the only consistent performance records for frontier local-currency debt — an asset class that remains largely invisible in global fixed-income markets. While indices such as the J.P. Morgan ELMI+ capture some frontier local-currency exposure, they differ meaningfully in construction and coverage, leaving a significant portion of the frontier local-currency universe unobserved. With a track record now stretching back to 2018, this note provides an updated view of what the index is telling us.

The TCX FI is not a benchmark in the traditional sense, and not a product that investors can buy directly. It is a transparency tool — a way to observe, in a consistent and data-driven manner, how a specific but important slice of frontier-market risk actually behaves.

What the index tracks

The TCX FI is an informative index that measures the performance of frontier-currency-linked Eurobonds issued by multilateral and bilateral development finance institutions (DFIs), where TCX is the hedge counterparty for the full life of the bond.

These bonds are issued in international markets, with cash flows linked to frontier currencies but settled in hard currency (USD or EUR). In practice, the index captures a curated universe of bonds that share three key features:

- they are issued by highly-rated DFIs;
- their cash flows are tied to frontier currencies; and
- they are hedged by TCX via full-tenor cross-currency swaps.

Because secondary markets for these bonds are still thin, reliable traded prices are scarce. TCX therefore uses its daily mark-to-market valuations of the local-currency swap legs to infer a proxy price for each bond — effectively answering the question: what would this bond be worth if it traded today?

On that basis, the TCX FI is calculated as a USD total-return index. It combines:

- changes in these proxy bond prices;
- coupon and principal payments; and
- movements in the underlying frontier currencies against the US dollar, which are already embedded in the valuations.

All cash flows are notionally reinvested into the outstanding bonds, and weights are updated as market values move. The result is a live, daily series that reflects the combined performance of a diversified portfolio of frontier-currency DFI bonds.

Why this corner of the market matters

Frontier local-currency bonds sit at the intersection of development finance, capital-market deepening and portfolio diversification.

For DFIs and TCX, these instruments are a way to channel long-term local-currency financing into frontier markets while managing currency risk sustainably. TCX often offsets its own local-currency exposures by supporting DFI bond issuance in those currencies, which makes it a central player in the supply of offshore frontier LCY paper.

Historically, however, investors could not easily observe how this opportunity set behaves as an asset class. Positions were typically held to maturity, prices were opaque, and there was no consolidated view of performance or risk.

Launched in 2021, the TCX FI fills that gap. It does not direct capital flows by construction — unlike major EM benchmarks — but it makes the performance of frontier-currency bonds visible, reducing information asymmetries in a very illiquid market.

For investors, this market offers:

1 Local yields

that often exceed mainstream emerging markets (EM).

2 Exposure

to economies that are under-represented in standard indices.

3 Potential

to diversify away from the global risk factors that dominate developed and large emerging markets.

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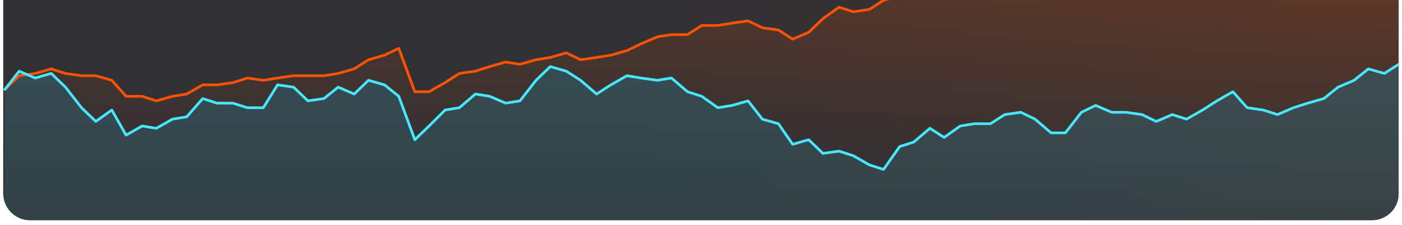
What the performance tells us about frontier currencies

The TCX FI has now built a multi-year track record that can be compared with mainstream bond markets.



Performance since inception

January 2018–December 2025

	TCX Frontier Index	EM Bond Index[1]	DM Bond Index[2]
Return	**6.9%**	1.2%	0.0%
Volatility	**4.2%**	8.1%	6.4%
10-day min. return	**-7.0%**	-15.7%	-6.3%
60-day min. return	**-9.2%**	-18.6%	-11.9%
Sharpe ratio	**0.74**	**-0.31**	**-0.59**

Performance over the last 12 months

December 2024–December 5, 2025

	TCX Frontier Index	EM Bond Index[1]	DM Bond Index[2]
Return	**15.4%**	15.4%	4.5%
Volatility	**2.4%**	5.5%	5.6%
10-day min. return	**-0.5%**	-2.0%	-2.8%
60-day min. return	**0.9%**	-6.6%	-5.8%
Sharpe ratio	**4.88**	**2.11**	**0.13**

As shown above, the TCX FI has indicated higher returns than both EM and DM benchmarks since inception, with roughly half the volatility and materially shallower drawdowns. The result is a Sharpe ratio of 0.74, compared with negative Sharpe ratios for both comparators.

1. J.P. Morgan GBI-EM (Bloomberg: GBIEMCOR)
2. FTSE G7 Govt USD (Bloomberg: CFIIG7EU)

The most recent 12-month data tell a similar story: the TCX FI and GBI-EM both recorded 15.4%, but the frontier index did so with less than half the volatility, resulting in a Sharpe ratio of 4.88.

For the frontier-currency asset class, these numbers send a clear and positive message:

- They challenge the assumption that “frontier” automatically means “higher risk, lower efficiency”. In this segment (DFI-issued, TCX-hedged frontier LCY bonds) investors would have been well compensated for taking such risks.
- They suggest that frontier-currency exposures can provide genuine diversification, not just more exposure to correlated EM risk. During global shocks, many of these currencies move differently from the big EM and G7 names, helping to smooth portfolio drawdowns.
- They indicate the presence of a liquidity and novelty premium that is still largely untapped by mainstream investors, as yields remain structurally higher in many frontier markets because the investor base is narrow, and index inclusion is limited.

Of course, past performance is not a guarantee of future returns, and this is still a small, specialized asset class. As a transparency tool, the index is only as large as the universe of underlying bonds, which remains relatively small. Furthermore, the TCX FI is relatively overweight in the Commonwealth of Independent States (CIS) region, whose currencies have done very well in recent years, thanks to a spike in remittances and other Russia-related inflows after the invasion of Ukraine, propping up their LCY performance. Still, the evidence generated by the TCX FI makes a strong case that frontier-currency debt, when structured and risk-managed prudently, can be both resilient and rewarding.

What is in it for investors and other stakeholders?

The TCX FI serves multiple stakeholders

Institutional investors

(asset managers, pension funds, insurance companies)

A transparent reference series for an otherwise opaque asset class; a way to study risk and return before committing capital; and a map of the investable universe that highlights which currencies and maturities DFIs issue in and how these exposures behave over time.

DFIs and sovereigns

A marketing and price-discovery tool that demonstrates a functioning investor base for frontier-currency bonds and supports conversations around new issuance, maturity profiles, and currency choices.

Regulators and policymakers

A lens on local-currency market development — tracking how frontier currencies are being used in long-term funding and how resilient these instruments are to global shocks.

Looking ahead

The TCX Frontier Index does not claim to be the final word on frontier-market debt. It is, rather, both a laboratory and a lighthouse: a carefully constructed window into how a specific, high-quality segment of frontier-currency risk behaves over time.

For investors looking for new sources of return and diversification, the index provides data and structure where there used to be merely anecdotes and guesswork. For DFIs and policymakers, it underscores that frontier-currency bond markets are real and measurable. While the underlying market is not yet large enough for tradeable products, TCX continues to explore ways to support secondary liquidity as the ecosystem develops.

As the universe of bonds expands and the track record lengthens, the message is a positive one thus far: frontier-currency debt, when structured and managed prudently, can be a resilient and attractive component of global fixed-income portfolios – and a powerful tool for developing local capital markets at the same time.