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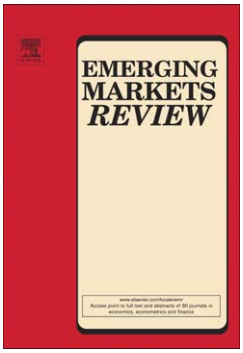

Frontier and emerging government bond markets

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Frontier and Emerging Government Bond Markets

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Abstract

We investigate correlation dynamics and diversification properties of US dollar-denominated debt issued by governments of frontier markets. Our analysis is on the aggregate, regional, and country level, with a sample covering 29 countries over the period 2001–2013. We show that the correlation between the returns of frontier government bond markets and US government bonds is time-varying, but on average close to zero. Correlations with US investment grade corporate bonds, US corporate high yield bonds, and US dollar-denominated debt issued by governments of emerging markets are substantially higher, which limits diversification benefits for investors who already own these asset classes.

Keywords: Bonds, Emerging markets, Frontier markets, Diversification

JEL Classification: G11, G12, G15

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