GLOBAL EMERGING MARKETS: A Slow Ascent

"As if predicting exchange rates and interest rates wasn't hard enough, a strong El Niño may be arriving. So, economists and investors will need to keep an eye on the weather, too."

– Alberto Ades, Co-head of Global Economics Research and Head of Global Emerging Markets Fixed Income Strategy

Our view

El Niño returns: Caused by the prolonged warming of the waters of the central Pacific, El Niño could cause severe global weather patterns, deeply affecting the world economy for the first time since 1998. An aggressive El Niño might lead to higher food prices and inflation. Countries dependent on fishing and agriculture are most vulnerable.

Finally, a faster pace: For the first time since 2010, economic growth in the emerging markets should accelerate. Three-quarters of emerging nations should be recovering by mid-2016, with an overall growth rate of 4.3 percent, up from 4 percent in 2015.

Slow growth in China: As China continues its shift to a consumer-oriented economy, its growth rate should slip to 6.6 percent in 2016 from 6.9 percent. Its economic evolution should affect other nations and regions unevenly. Nations in Emerging Asia could bear the brunt of spillovers, given their trade and financial links with China; commodity exporters may feel pain, too.

India leads the pack: The second-largest emerging market is again the world's fastest-growing economy. We expect India to grow by 7.6 percent in 2016. The EEMEA region (emerging Europe, the Middle East and Africa) could rise by 2 percent. Latin America should contract by 0.2 percent, largely because of a 3.5 percent decline in fiscally challenged Brazil.

Russia rebounds (sort of): Russia would help the emerging market cohort simply by staying in neutral. Economic growth should flatten in 2016 after contracting by 3.7 percent in 2015. If there are no major political surprises (and if commodities stabilize), investment should continue to recover, supported by growth in corporate profits and a deep decline in labor costs.

Inflation slows, mostly: The overall inflation rate in the emerging markets may drop to 3.8 percent from 4.3 percent in 2015. Once again, results should vary sharply, even within regions. The biggest declines will be seen in EEMEA and Latin America (except Argentina), while we expect India's rate to climb half a percentage point to 5.5 percent.

On debt: We remain moderately constructive and expect returns of 2.7 percent for external sovereign debt and 1 percent for local currency debt.

Key calls

- **Bullish calls:** We're more positive than consensus on Venezuela and Turkey. Post-election Venezuela should undergo big policy changes, including devaluation and the correction of price distortions. Turkey's real economic growth may recover to 3.5 percent in 2016 from 2.6 percent amid long-delayed reforms.

- **Top bond and currency picks:** We are bullish on the Russian ruble, Turkish lira and South African rand; meanwhile, we are bearish on the Chinese yuan, Malaysian ringgit and Singapore dollar. We like long-term government bonds in India, Israel and Hungary.