

EM Outlook: Facing Up to New Realities

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EM Outlook: Pre-Ukraine conflict

EMs faced headwinds even prior to the Russia/Ukraine conflict:

- > A strengthening USD + a more hawkish Fed -> greater pressure on EMs to jack up rates
- > Covid took its toll on EM public finances & unemployment rose disproportionately in these economies relative to their DM peers
- > China slowdown served as a headwind to EM performance

EM Outlook: Post-Ukraine conflict

Ukraine conflict is seen as a “stagflationary” shock to the global economy & is amplifying the negative headwinds faced by EMs. Key channels:

- > *Rising commodity prices* -> higher inflation. This in turn is adding to political risks akin to what we saw during the “Arab Spring”
- > *Trade prospects* -> imposition of sanctions on Russia is negatively affecting global trade, which is set to hit export-orientated EMs
- > *Confidence/financial market channel* -> EMs are being whipsawed as result of higher market volatility & the rise in geopolitical tensions

Key guide-posts ahead for EMs

- > Duration of the conflict
- > Evolution of Fed policy
- > China policy response/soft landing prospects

Key takeaways

- > While global growth is expected to slow, the impact will vary by market. The US is better insulated vs Europe & APAC EMs are better placed than those in CEE.
- > While Russia & Ukraine account for just ~2% of global GDP, the impact of the conflict will be more pronounced given their central role to the global commodity markets. That said, there will be both winners & loser from the Ukraine conflict.
- > The de-globalization theme that gained traction since the onset of Covid is likely to receive a further leg-up on the back of the Ukraine conflict.