Perspectives
Emerging Markets

SwissLife
Asset Managers

Second quarter 2024

Key takeaways

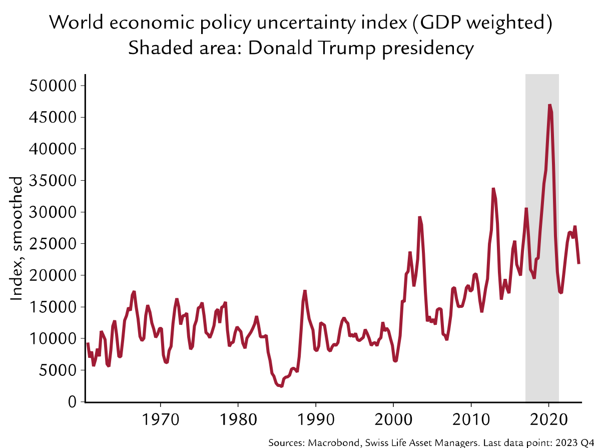
- Emerging markets saw a strong start to 2024, supported by falling inflation and lower interest rates
- China's economic measures are insufficient to meet its ambitious growth target
- Economic policy uncertainty would increase under President Trump and particularly affect emerging markets

Number in focus

60

Elections are due to be held in more than 60 countries in 2024. In Russia, President Putin has already secured another six-year term – this comes as no surprise, as no significant opponents were permitted. One of the most important upcoming elections in the emerging markets is in India, where the polls are predicting a victory for incumbent Prime Minister Narendra Modi. Elections are also scheduled for the second quarter of this year in South Korea and South Africa.

Chart in focus



The possibility of Donald Trump returning to power in the US presidential election on 5 November raises questions about the potential global economic impact. During his first term as President, Trump's foreign policy was confrontational and unpredictable, leading to significant economic policy uncertainties. For the emerging markets, the main concerns are renewed trade tensions with China, the impact on the war in Ukraine, Trump's influence on the ongoing war in Gaza, and the already announced crackdown on immigration.

Emerging markets saw a strong start to 2024

The emerging markets started 2024 with robust economic momentum. The Purchasing Managers' Indices for manufacturing surprised to the upside in both January and February, and the overall index for emerging markets is well above the 50-point mark that separates expansion from contraction (see Chart 1). There are a number of reasons for the acceleration of economic activity in emerging markets: First, private households in emerging markets have accumulated a sizeable surplus of savings, which they continue to spend. Second, lower inflation is having a positive impact on sentiment and disposable income. And third, central banks in Latin America and Eastern Europe have already started to lower their key interest rates, which is boosting investments. This means that the GDP growth figures for the first quarter of 2024, which are still to be published, may provide a positive surprise. Despite robust economic activity, the disinflation process is ongoing. While headline inflation has recently risen again slightly in some Asian economies due to higher food prices, the core component, which excludes the volatile food and energy items, is still on a downward trajectory, giving central banks room to cut interest rates further. In Latin America especially, the cycle of interest rate cuts is proceeding rapidly: Brazil, Mexico, Chile, Colombia and Peru have all lowered their interest rates this year. Most Asian countries are cautious of acting before the US Federal Reserve (Fed) due to potential currency depreciation risks. However, as soon as the Fed does ease its monetary policy, the Asian economies will follow suit.

China is likely to miss its growth target of "around 5%"

China has announced a growth target of "around 5%" for 2024, which remains unchanged from the previous year. We consider this to be a very ambitious target, as it will be more difficult to achieve 5% growth this year. This is due to the base number being higher. In 2023, growth of around 5% was comparatively easy to achieve, as it started from a very low baseline in 2022 when the Covid restrictions had a severe impact on the economy. We are particularly sceptical, as substantial stimulus measures are necessary to achieve such a growth target. There are two possible ways to ensure this support: On the one hand, fiscal policy measures. However, the budget deficit target, including the issuance of "special government bonds," was raised only marginally from 3.5% to 4.1% of GDP year-on-year. On the other hand, substantial support for the real estate sector, which is currently the biggest challenge facing the Chinese economy. This year, the government is no longer focusing on preventing an uncontrolled real estate expansion, but rather on slowing down the real estate slump. Support measures were therefore announced with the promotion of public projects for affordable housing and urban renovations, which could lead to an increase in real estate investments. However, this announcement remained vague with no concrete figures. We therefore expect the government to take a cautious approach to these real estate investments. Given the moderate fiscal announcements and the unclear measures for the real estate sector, we are not revising our current growth forecast of 4.5%.

Chart 1: The Purchasing Managers' Index for emerging markets continues to rise sharply

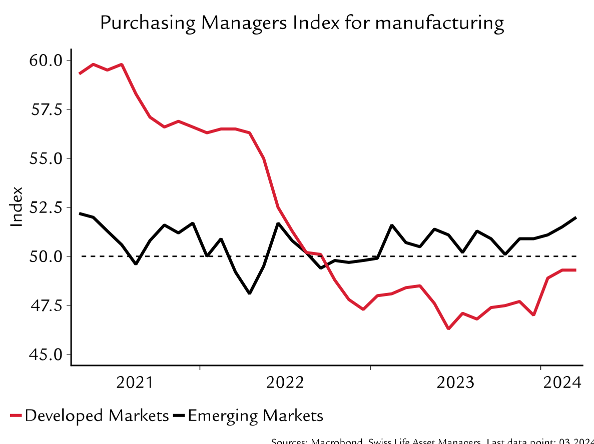
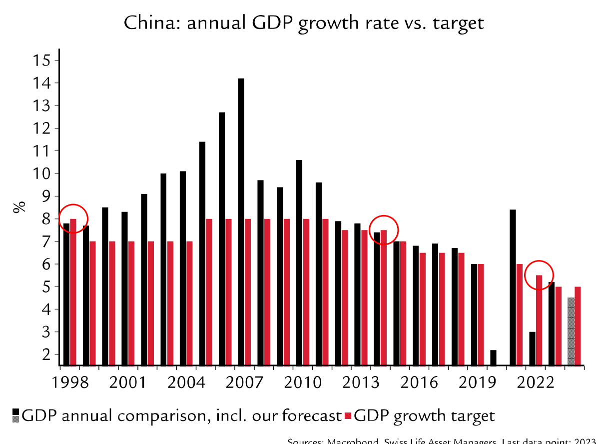


Chart 2: China has not always met its growth target in the past

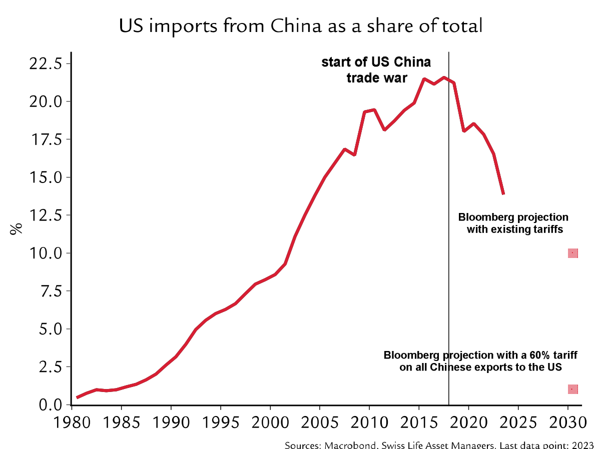


In view of the sluggish growth dynamics in China companies' pricing options are limited. In addition, overcapacity is emerging in a number of sectors as demand fails to keep pace with the abundant supply of goods. As a result, producer prices and export prices remain in deflationary territory. China will therefore continue to contribute to the general disinflationary trend in global goods prices, with a welcomed impact on inflation prospects in other major economies. At the same time, discussions about trade practices could become heated, as the intensified price competition from China will not please western competitors.

Trump 2 and the consequences for China

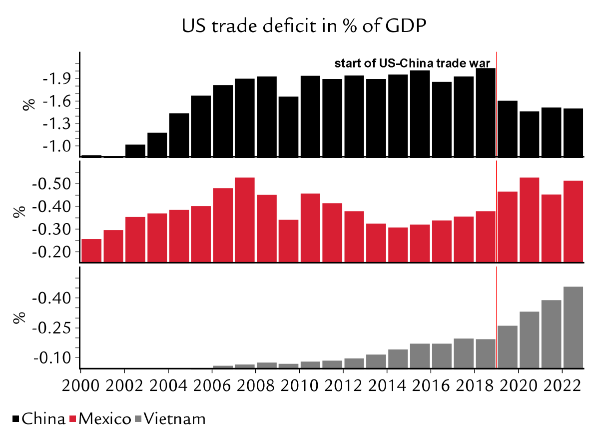
If Donald Trump is re-elected as US President in November, political uncertainty would increase significantly due to his unpredictable and confrontational foreign policy. Of particular concern would be his attitude towards China, and the resulting impact on the Chinese economy and the global economy in general. Compared to the Biden government, there are three main differences: Firstly, Trump would continue to use trade tariffs as his instrument of choice. He has already caused a stir with the threat of 60% tariffs on all Chinese goods. Secondly, broader export restrictions would be introduced as a large number of goods would be considered a threat to national security. And thirdly, as in his first term, Donald Trump is likely to adopt a unilateral and more confrontational approach that could put a strain on the US's long-standing partnerships. Biden, on the other hand, is focusing on working with allies and striving for "anti-China coalitions". Regardless of the outcome of the election, China can thus expect some negative effects. The threat of tariffs in particular is likely to lead to significant market volatility. The proposed 60% tariffs on all Chinese goods could lead to the almost complete disappearance of US imports from China. With their low profit margins, sectors such as the textile and electronics industries could not withstand such a drastic tariff increase. Although we consider an escalation on this scale unlikely, the Trump administration will continue to use the instrument of tariffs, not only against China, but also other countries. While the US trade deficit with China has declined since the start of the trade war in 2018, its deficits with other countries such as Mexico and Vietnam have reached new highs (see Chart 4). This shift reflects both the substitution of Chinese goods by those from other countries as well as the efforts of Chinese companies to circumvent tariffs via intermediate countries. Ultimately, world trade is becoming increasingly complex, and the US remains intertwined with China despite trade barriers.

Chart 3: US imports from China would almost completely disappear in the event of a 60% tariff



Sources: Macrobond, Swiss Life Asset Managers. Last data point: 2023

Chart 4: While the US trade deficit with China is falling, its deficit with Mexico and Vietnam is increasing



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