Perspectives
Emerging Markets

Annual outlook 2024

Key takeaways

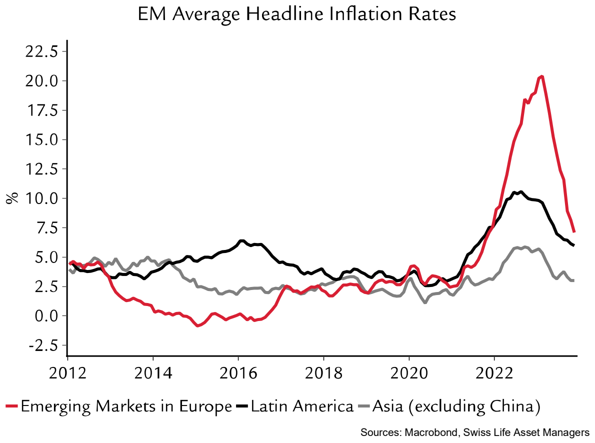
- Recovery of domestic demand in emerging markets, while China fails as a growth engine
- As soon as the US Federal Reserve cuts interest rates, the cycle of rate cuts in the emerging markets will widen
- Geopolitical risks remain elevated and are one of the biggest risks to our outlook

Number in focus

4%

According to a Bloomberg survey, GDP growth of 4% is expected for the emerging markets in 2024, compared to expected growth of 3.9% for 2023. As external demand is expected to be rather sluggish, domestic demand will be the driving force behind emerging market growth. We particularly expect inflation to fall further, supporting private consumption and allowing for a broader cycle of interest rate cuts, which should boost investment.

Chart in focus



The downward trend in inflation rates is likely to continue in most emerging markets in the course of 2024, bringing inflation rates into the central banks' comfort zone. Accordingly, we expect the rate-cutting cycle to be extended beyond the first countries that have already started to reduce their rates, especially once the US central bank cuts its own interest rates. The fall in inflation will be most pronounced for goods, while services inflation will remain somewhat more stubborn.

Solid domestic demand as a growth driver

Following a better-than-expected year in 2023, the economic outlook for the emerging markets remains robust in 2024. According to a Bloomberg survey, growth of 4.0% is expected for the emerging markets in 2024, which is even slightly higher than the 3.9% growth expected for this year. These positive prospects contrast with the outlook for the US. The world's largest economy is likely to slow down and thus weigh on export demand in the emerging markets. The world's second-largest economy, China, is not expected to deliver any positive momentum either, as growth is being held back by the ongoing weakness in the real estate sector and weak consumer sentiment. The growth engine for the emerging markets will therefore be domestic demand: most of the major emerging markets still have ample excess savings in 2024 that were accumulated during the pandemic, while the ongoing decline in inflation will further boost real incomes. These two factors will support consumption. Moreover, the fall in inflation will allow for an easing of monetary policy, which should boost investment. Accordingly, the growth differential to the developed world should widen slightly (see Chart 1). Broken down by region, the Eastern European countries that were in a deep economic crisis in 2023 and had double-digit inflation rates are expected to see the greatest improvement in growth rates. Latin America, which already provided a surprise with solid growth rates in 2023, should be able to maintain this pace as the burden of tight monetary policy eases. In Asia (excluding China), growth is expected to slow slightly, mainly due to the normalisation of the extremely strong consumption in India. Nevertheless, at around 4.5%, the region still has by far the highest growth rate in the world.

Rate-cutting cycle being extended

Inflation fell sharply in most of the emerging markets in the course of 2023, and this trend is expected to continue in 2024. Consumer goods inflation in particular is set to decline further. One reason for this is overcapacity in China, which is likely to be reflected in lower export prices and thus support the global downward trend. While services inflation is also declining, it remains more persistent and – given the robust growth outlook – may be slower to normalise. Overall, the declining inflation trend should give the central banks more scope to lower interest rates. Unlike the developed economies, the emerging markets already started to cut interest rates in mid-2023, led by Latin American countries such as Brazil, Chile and Peru, as well as the two Eastern European economies Hungary and Poland. The Asian central banks have been more cautious so far, having shied away from the risk of currency depreciation. However, as soon as the US Federal Reserve starts to cut interest rates in 2024 as we expect, these central banks will also follow suit.

Chart 1: The growth differential between emerging markets and developed markets is widening

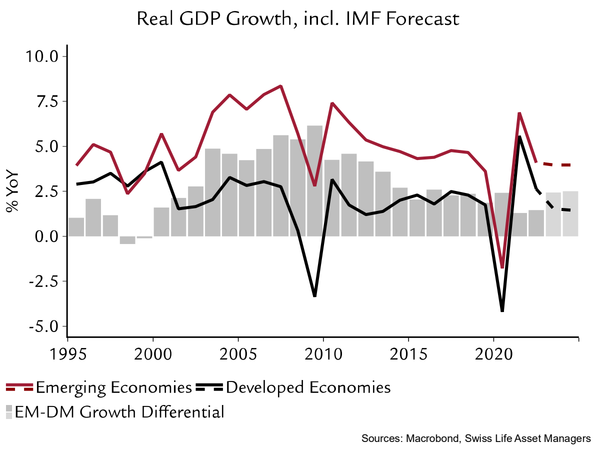
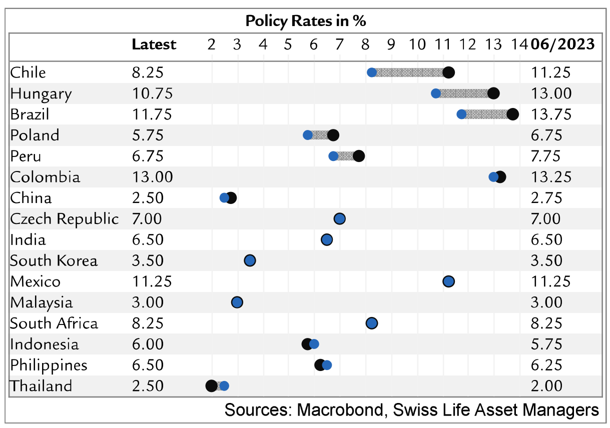


Chart 2: The first central banks have already lowered interest rates, with others likely to follow



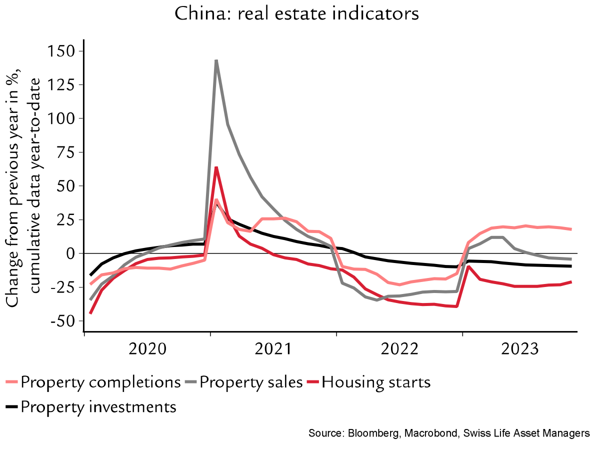
No growth impetus from China

China's economic outlook for 2024 will be shaped by the prospects of the real estate sector. The government's aim is to reduce the oversupply that has built up in the sector in recent years, and to bring supply into line with actual demand. We therefore expect the slowdown to continue over 2024 and beyond. As the real estate sector accounts for about a quarter of the Chinese economy, this slowdown will impact the economic conditions and weigh on consumer confidence. Although a further downward correction of real estate activity is the aim, the current pace of decline is too fast. Further support measures will follow in order to slow down the negative trend somewhat. One important indicator of the possible stabilisation of real estate sales is property completions, as confidence in the sector can only be restored once people are confident that they will actually receive the houses they have already paid for. While the pace of completion has accelerated, if it remains at its current level this year, around half of all houses already sold would still be subject to delays. So while the old growth drivers are fading, there are other areas that are soaring. Exports of what are known as the "new three," i.e. solar cells, lithium-ion batteries and electric vehicles, are skyrocketing. As a result, China has been able to maintain its share of global exports despite diversification efforts under the "China plus one" strategy. At the same time, however, increased trade competition could open another chapter in the trade war.

Geopolitics in focus

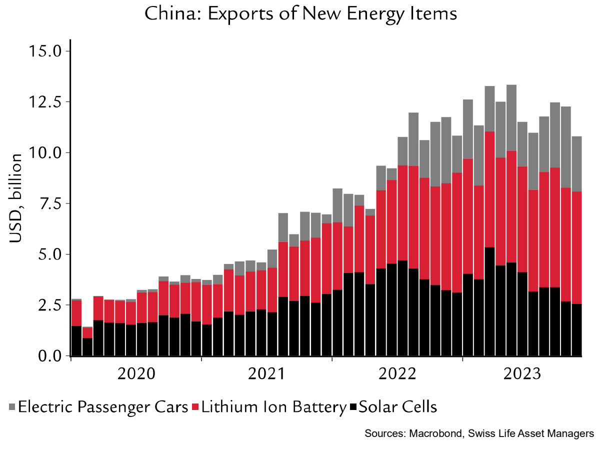
Geopolitical risks are set to remain elevated in 2024. We do not expect the current conflicts, such as the war between Israel and Hamas, to escalate. Any significant deterioration in the current situation or new geopolitical hotspots will therefore pose a downside risk to our forecasts. There are also a large number of presidential elections pending, including in India, Mexico, South Africa, Venezuela and Taiwan. The elections in Taiwan on 13 January will be of particular importance, as their outcome will be crucial for relations between China and Taiwan. According to the polls, the candidate from the incumbent DPP party, Lai Ching-te, is expected to win by a narrow margin. Nevertheless, the risk of Taiwan declaring independence, which could trigger a wider conflict in the region, has decreased compared to four years ago. On the one hand, the DPP's tone has become more moderate. On the other, according to a poll by Chengchi University in Taipei in June 2023, the Taiwanese people's aspirations for independence are declining. Only 4.5% of the Taiwanese population is in favour of a Taiwanese state completely independent of China. However, the Sino-Taiwanese relationship will cause volatility in the markets, as the risk of an escalation cannot be entirely excluded.

Chart 3: Real estate completions need to accelerate further to stabilise sales



Source: Bloomberg, Macrobond, Swiss Life Asset Managers

Chart 4: Rising exports of the "new three" are stabilising China's share of global exports



Sources: Macrobond, Swiss Life Asset Managers

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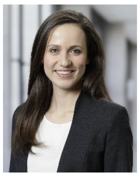

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