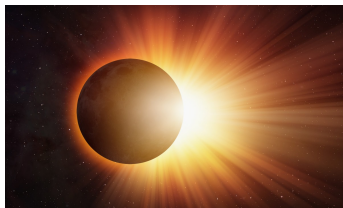


# ING's 2021 Global Outlooks

As this turbulent year draws to a close, we look back at the year everything changed and focus on what to expect from markets and world economies in our 2021 Global Outlooks. We hope you enjoy our cross-asset analysis and for more broad country coverage, visit our special 2021 hub

[\\*\\*Please note that these 2021 Outlooks have been published earlier, and can be found on ING THINK\\*\\*](#)

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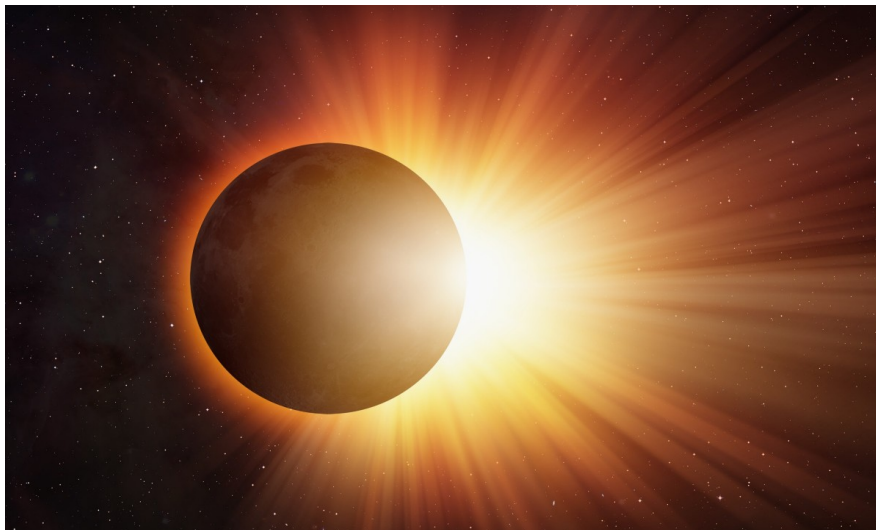
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Source: Shutterstock

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## Executive Summary

It's a sit up and pay attention moment when emerging markets run a collective fiscal deficit of some 10% of GDP. Eye-watering stuff that pushes the aggregate emerging markets debt/GDP ratio above 60%. That is a level that emerging market debt should not be above, but such is the effect of the 2020 crises that in fact an average of 70% of GDP is probable in the medium term. Therein lies the biggest risk for emerging markets, one that will be ever present in the coming decade. We explore further and assess the risks.

Given that context, our constructive stance on emerging markets has a focus just on the immediate few quarters, where we view the emerging space as one that aligns in a net positive sense, just about. The year ahead should see the US dollar remain on a weakening trend, a circumstance that cushions emerging market economies in many ways. It is also a year in which there will be some upward pressure on core rates, but not too much. This is a goldilocks combination, as there is a needed reflection and global growth underpinning, but no big bad bear market for core bonds.

To make money in emerging markets, risk must be taken though. Not a new theme, but in 2021 it is very apt. It is in the high yielders where value can be gleaned. This is applicable in both the local currency and hard currency spaces. We think that risk adjusted returns are tolerable enough to

pan them as the way to go in the next few quarters. But having to go out the credit curve for returns is fraught with added risk. It needs to be balanced with a rolling strategy, on tight stops where applicable.

The low yielding emerging markets offer very little apart from a vanilla low yielding rolldown play that remains vulnerable to any outsized upside to core US dollar rates. There are many places to hide in low yielding EM, but very few to make decent alpha. Even risk adjusted based off current volatility does not tell the full story here, as future volatility can spike, as it most probably will at some point.

Better then to be positioned in selected product that provides a decent cushion of spread, ensuring that the implied breakeven in the spread is not breached too easily.

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