# Emerging Markets Go to the Polls

## Elections in Brazil, Elsewhere Add Uncertainty for Investors

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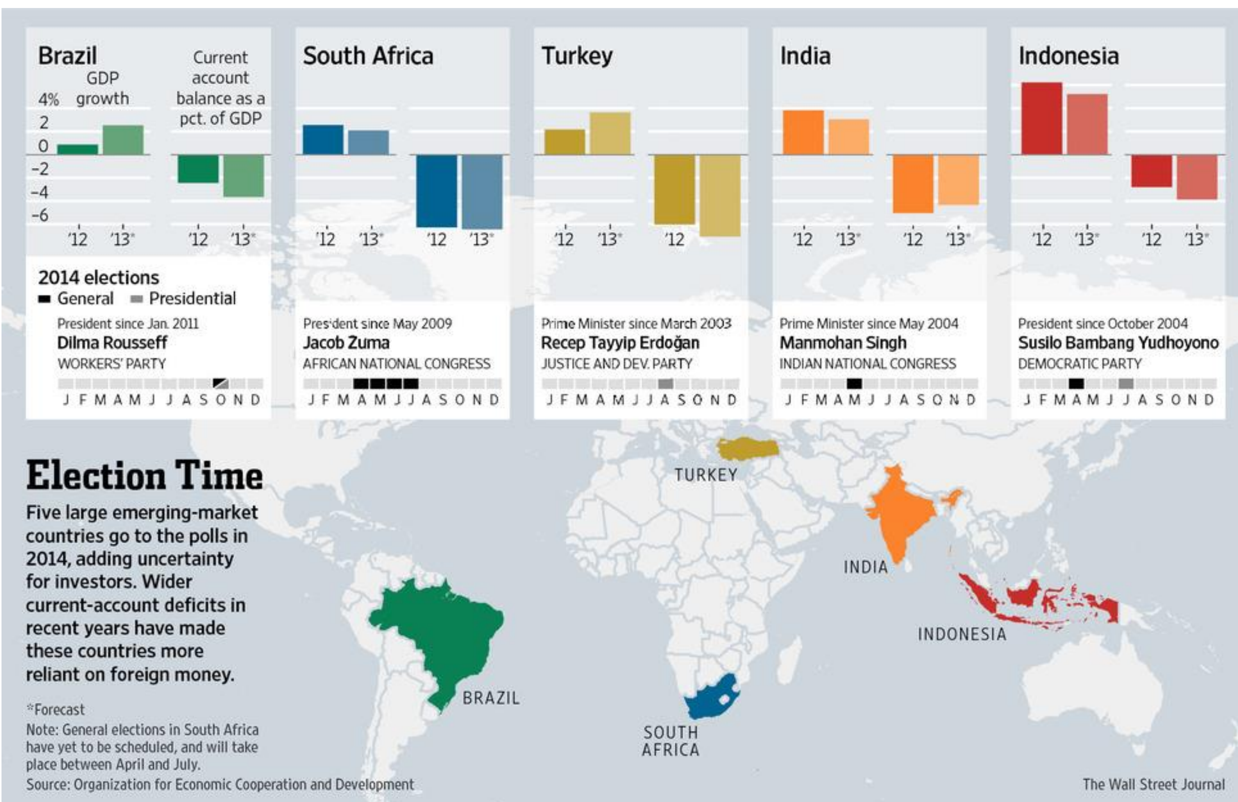
For emerging-market investors, 2013 was a year of stomach-turning gyrations induced by the words of global central bankers.

For 2014, add another dash of uncertainty: elections.




Five large emerging-market countries—Brazil, India, Indonesia, Turkey and South Africa—all go to the polls in 2014.

Their new leaders will face a changed world. The Federal Reserve is winding down its program of monetary stimulus, which has pumped epic volumes of cash into the global economy and benefited few players more than large emerging-market countries desperate for foreign cash.

Without that ballast, investors say, countries that fail to put in place economic overhauls will suffer.

Five large emerging-market countries—Brazil, India, Indonesia, Turkey and South Africa—all go to the polls in 2014. Pictured here, anti-government Alevi protesters shout slogans during a demonstration in Istanbul in June 2013. *Reuters*

"As the Fed begins to taper, investors will start to become a lot more demanding," said Greg Saichin, head of global emerging-market debt at Allianz Global Investors, which manages €322 billion ($443 billion) of assets. "Reforms need to come back to the table for emerging-market countries."
The elections come at a precarious time for emerging-market nations. The frenetic economic growth in recent years that lured foreigners to pour billions of dollars into regional stocks and bond markets has stalled. Higher inflation has bitten into savings and public anger over governance has spilled onto the streets in places such as Brazil and Turkey.

Last month, the Fed announced its long-awaited pullback from economic stimulus. Global markets have reacted relatively calmly, with no sign of the panic experienced earlier in the year when the Fed initiated discussions about such a move. Emerging-market investors took the Fed move in stride, but investors are keeping a close eye on how some crucially large economies will fare without the foreign-money inflows.

Among the so-called Fragile Five, investors are perhaps most bullish on India in 2014.

The prospect of a win for the pro-reform Bharatiya Janata Party at general elections due before the end of May has increased the allure of Indian assets for investors, including Mr. Saichin and Sam

Finkelstein, head of emerging markets and global currency at Goldman Sachs Asset Management, which oversees about $37 billion in emerging-market debt.
The Bharatiya Janata Party, currently in opposition in the world's second-most populous country, emerged as the top vote-getter in local elections in four provinces in early December. Investors cheered the move by sending India's benchmark stock index to a record.

Growth in India's economy picked up to an annual pace of 4.8% in the three months through September from 4.4% three months earlier. The trade gap has narrowed as the weak rupee has bolstered exports and the government has moved to curb gold imports.

While the ruling coalitions in Brazil (elections in October) and South Africa (elections likely in the second quarter) are expected to win, investors say they will be eager to see more progress in lifting roadblocks in the labor market, spurring economic growth and keeping a lid on inflation.

Brazil appears vulnerable to a negative assessment by ratings firms because the government has struggled to rein in spending. Lack of economic overhauls, fractious labor relations and shrinking profit margins at South African companies are causes for concern over the long run, said Rob Drijkoningen, co-head of emerging-market debt at Neuberger Berman, which manages $227 billion of assets. He is betting on shorter-dated South African interest rates to decline.

In Indonesia, opinion polls suggest continued fragmentation of Parliament. Legislative elections will take place in April, while the presidential vote is due in July.

Across the Fragile Five, the need to appeal to voters ahead of the elections means that governments could hold back unpopular measures in the near term.

"Structural reforms have political costs and they are unlikely to be implemented in times of electoral campaign," said Mr. Finkelstein.