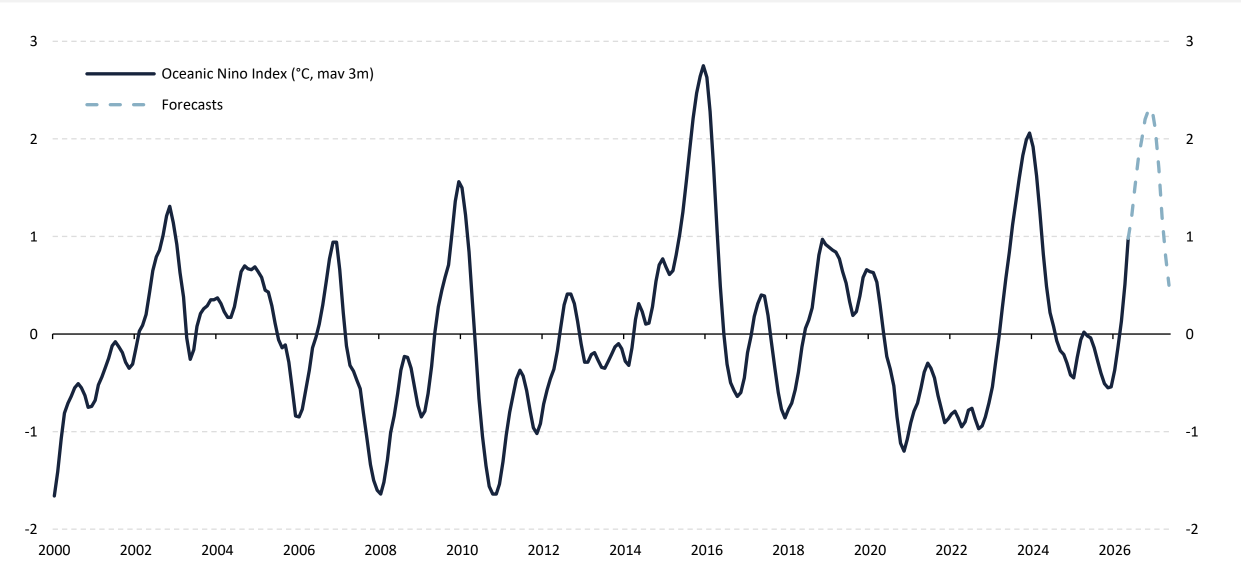
The flexiweekly that reaches new heights - published on 3 August 2026

"THE PACIFIC'S WILD CHILD"

- El Niño is back and could be one of the strongest since 1950
- The impact will be inflationary rather than recessionary, affecting households' purchasing power
- Emerging market debt and the agri-food supply chain will be on the front line
- Conversely, advanced economies will largely escape the impact

CHART OF THE WEEK: "The El Niño phenomenon is intensifying"



Source: NOAA, Altitude IS

FINANCIAL MARKETS ANALYSIS

In the 19th century, fishermen along the Peruvian coast named the warm current – which warmed their waters and emptied their nets as Christmas approached – after the baby Jesus, "El Niño". The child has grown up, and he is back. The "pseudo-periodic cyclical oceanographic phenomenon", the intensity of which is measured by the equatorial Pacific temperature anomaly (see Chart of the Week), was officially confirmed in June by the US National Oceanic and Atmospheric Administration. Since then, the probability of a very strong episode this winter has risen from 63 per cent to 81 per cent. As for its strength, it could be one of the most significant since 1950. Worse still, the phenomenon could drag on, as the probability of it persisting until spring 2027 is now estimated at 97 per cent, with a peak in temperature between October and December. **The question, therefore, is no longer whether the phenomenon will cause trouble, but just how severe it will be.**

El Niño's vagaries follow a well-known pattern. When the trade winds weaken, warm Pacific waters flow eastwards and redistribute global rainfall. This leads to drier conditions in South-East Asia, Australia and southern Africa, whilst the west coast of South America tends to experience heavy rainfall. The pattern of these events is well established. The first effects appear as early as July, intensify in September, and then peak between December and February (two months after the thermal peak), right in the middle of the South American sowing season. Intensity is not the only factor to take into account. The relatively mild episode of 2002–03, for example, caused a drought in Australia that was far more widespread than that of 1997–98, despite the latter being more powerful. The key factor to watch is the Indian Ocean Dipole (IOD), the thermal shift that usually accompanies major El Niño events, as in 1997 and 2015. At the end of July, however, it crossed into positive territory for the first time in a long while.

El Niño's fury leaves lasting scars. According to a study published in the journal *Science*, the 1982–83 episode reduced global income by 4,100 billion dollars over the following five years, and the 1997–98 episode by 5,700 billion, **with the bulk of the burden falling on tropical countries.** In 2023–24, the Panama Canal had to reduce its daily transits from 36 to 25 ships, extending waiting times to up to 21 days. This time, there will be no need to wait until winter to assess the initial damage. More than 20 of the 66 major emerging economies are already feeling the initial effects, eight of them severely, and this figure could rise to 35 at the height of winter (see Fig. 2). In Peru, anchovy catches have plummeted by 97 per cent year-on-year, even before the episode reached its peak. Fishing fell by 71 per cent in May alone, whilst fishmeal and fish oil production dropped by 80 per cent, wiping out half a percentage point of national economic output. In India, the south-west monsoon began with a rainfall deficit of nearly 40 per cent compared with normal levels.

Fig. 2 – Forecast of affected emerging economies

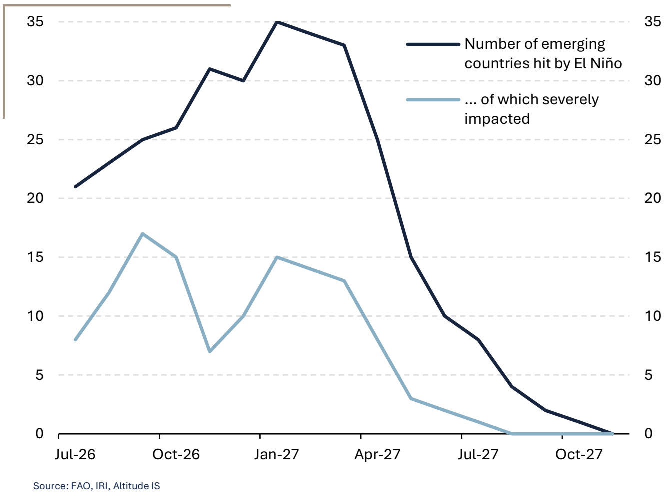
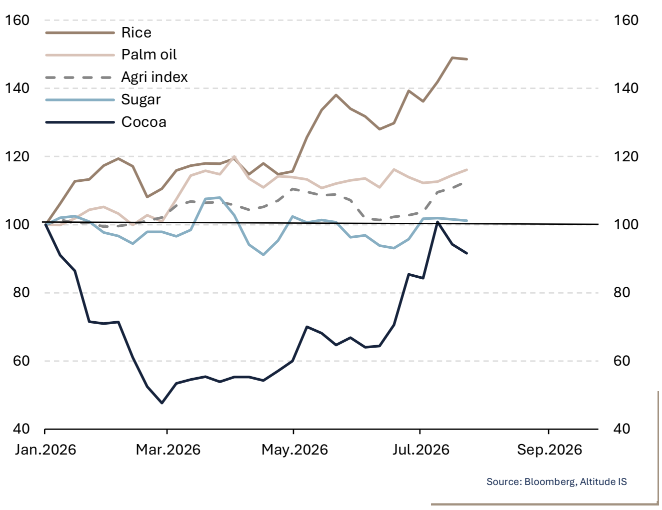


Fig. 3 – Agricultural commodity prices



What does El Niño have in store for the winter? The brunt of the impact on agriculture is expected to be felt between the fourth quarter of 2026 and the first quarter of 2027, once the atmospheric anomalies have taken hold. **In the event of a severe episode, prices for rice and palm oil could soar by between 50 per cent and 100 per cent by summer 2027.** Sugar production in Brazil and Thailand could fall by 10 per cent, whilst India, the world's second-largest sugar producer, has already suspended its exports until the end of September. The Australian agricultural agency expects the Australian wheat harvest to be down by 26 per cent. West African cocoa will have to weather both the diseases of the wet season and the drought brought by hot winds. In Colombia, the central bank estimates the impact at around 5 per cent of agricultural yields, not including the drought threatening a power grid heavily reliant on its dams. In Peru, the authorities fear coastal flooding.

But does this mean we should expect a widespread surge in agricultural commodity prices? History suggests a more nuanced view. Contrary to intuition, El Niño events are generally deflationary for aggregate agricultural prices, with price rises affecting only certain commodities (see Fig. 3). Cereals provide a good illustration of this offsetting effect. What the central-western region of Brazil loses due to drought, Argentina recovers thanks to rainfall. As for US wheat and soyabean harvests, they usually benefit. This time, it is rice that has led the way, up by nearly 40 per cent since January, driven by a poor monsoon and low Asian stocks. Sugar, historically the commodity most sensitive to El Niño years, has not yet seen any movement; its time is more likely to come in 2027, with the Indian harvest and Brazilian crushing season. Cocoa, for which West African supply remains precarious, reflects the prevailing nervousness, surging in early July to an eight-month high of $6,455 per tonne, before giving back a sixth of that gain in three weeks. Maize, meanwhile, is merely a bet on the US weather in July and August. On the metals front, copper appears to be the most exposed, caught between flooding in Chile and drought in Zambia.

The inflationary impact, meanwhile, is very real, but it is at once slow, concentrated and deeply unequal. Pressure on food prices is being passed on with a delay of nearly a year, making 2027 the year of the shock. The weighting of food in price indices helps to identify the countries that will be hardest hit: 36 per cent in India, 22 per cent in Brazil, 23 per cent in Peru, compared with less than 15 per cent in advanced economies (see Fig. 4). To address this phenomenon, **the Brazilian central bank could halt its cycle of rate cuts as early as the fourth quarter, whilst the Fed and the ECB are likely to remain unmoved.** Indeed, last Wednesday the Fed left its rates unchanged for the fifth consecutive meeting. According to the IMF, an El Niño event has historically even had a slightly positive effect on US and European economic activity. In the United States, this oceanographic phenomenon does indeed bring a milder winter, which reduces households' heating bills; welcome rainfall for wheat and soya crops in the south of the country; and a weaker Atlantic hurricane season, sparing infrastructure in the Gulf of Mexico. As for European countries, they simply lie outside the reach of major shifts in rainfall patterns. They also benefit from gas prices tempered by the mild winter. For wealthy nations, the 'wild child' is nothing more than a troublemaker whose voice echoes from the neighbourhood next door.

Fig. 4 – Weight of food in price indices

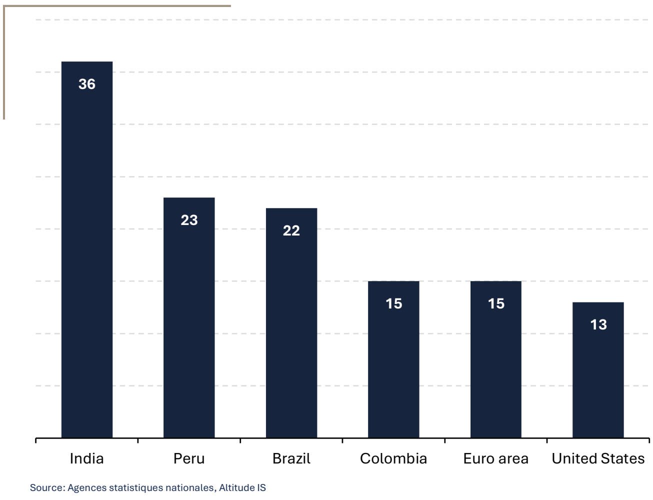
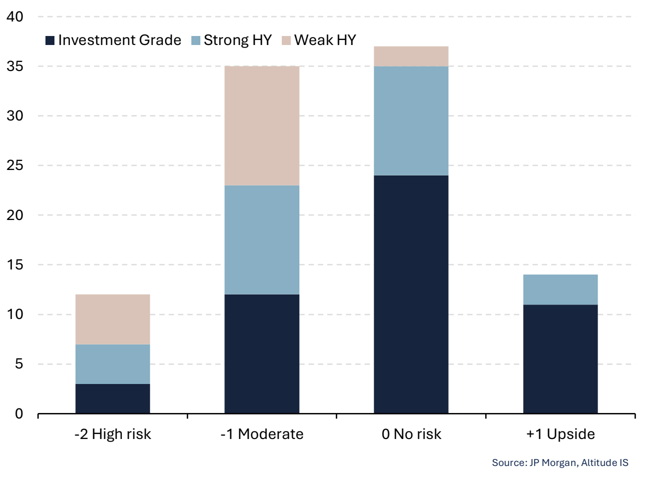
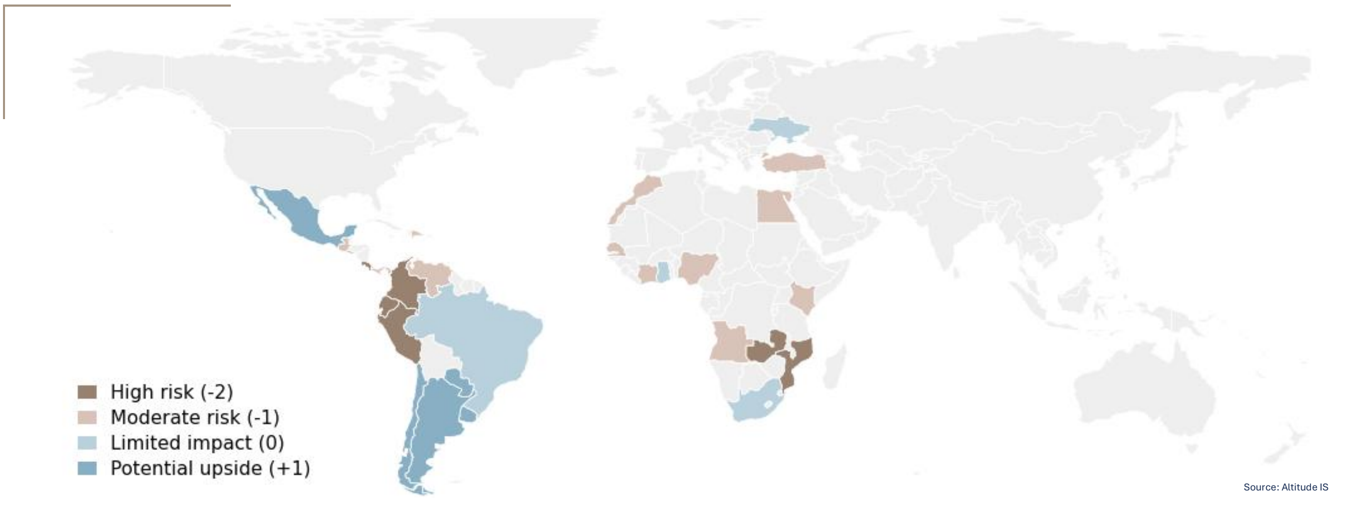


Fig. 5 – Emerging market debt, by risk level



In the bond markets, the question is which emerging economies are capable of weathering the storm. Our analysis considers three dimensions: direct physical exposure (agriculture, hydroelectricity, infrastructure), indirect macroeconomic impact, and fiscal capacity to support businesses and households. **It emerges that nearly half of the emerging- -sovereign debt universe is negatively exposed to El Niño, with 11 per cent classified as high risk (see Fig. 5).** This vulnerability is concentrated primarily in countries that issue high-yield debt and lack fiscal buffers. Conversely, the highest-rated (investment-grade) issuers should be able to weather the episode unscathed. The risk map (see Fig. 6) places Ecuador, Mozambique and Zambia at the forefront, followed by Colombia, Costa Rica and Peru, with two distinct risk channels: fishing and flooding for Lima, and hydroelectric drought for Bogotá. Central Europe and the Middle East are largely spared, as is Chile, which is benefiting from favourable rainfall. Argentina stands out as a welcome exception, with its soya and maize crops historically benefiting from El Niño rains, alongside Mexico and Uruguay.

Fig. 6 – Credit risk map for the El Niño phenomenon



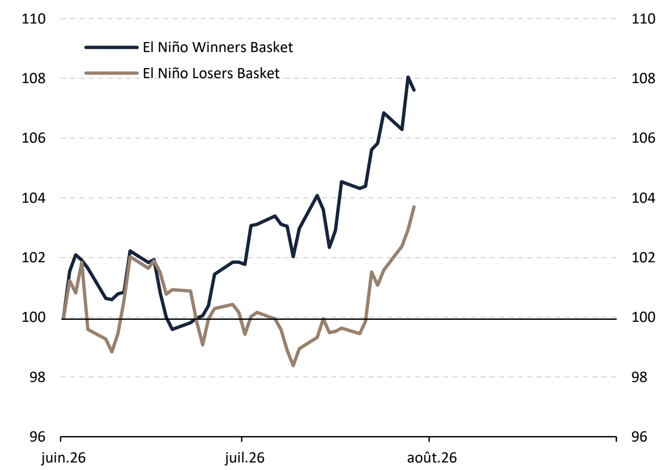
In the equity market, the historical link between El Niño and the major stock market indices is tenuous, if not non-existent. Seven major episodes have been recorded since 1950, each overshadowed by a more powerful concurrent shock. This makes statistical analysis unreliable. Furthermore, and this is a crucial point, the bulk of global market capitalisation is concentrated in economies that are spared by the phenomenon. Finally, every victim has its counterpart: rain-soaked Argentina offsetting parched Brazil, for example. Proof, if any were needed, is Credicorp, the Peruvian company that has mentioned El Niño most frequently in its earnings reports over the past twenty years, which is outperforming the Latin American index this year. In its case, domestic policy carries more weight than the weather.

Investors looking to capitalise on this theme are doing so in a straightforward manner, from indices to blue-chip stocks. At country level, Argentina and Chile account for the majority of the winners, whilst Peru and Colombia account for the losers. At sector level, four groups form the camp of natural beneficiaries: agrochemicals and agricultural equipment, grain trading, discount food retail, and US property and casualty insurance. El Niño is weakening the Atlantic hurricane season. This is good news for US insurers, but bad news for reinsurers, whose premiums fall during quiet seasons. Conversely, sectors facing difficulties include US natural gas, copper and the agri-food sector (see Figs. 7 & 8).

In the foreign exchange market, the sorting out is driven by terms of trade – the ratio between the prices of each economy's exports and imports. **The Peruvian sol, the Colombian peso and the Indian rupee are**

among the currencies under pressure, as is the Philippine peso, given that the archipelago imports nearly 45 per cent of its wheat from Australia, and the Australian dollar itself. Conversely, the currencies of the major grain-producing nations— ’s winners, led by the Argentine peso and the Uruguayan peso—will benefit from bumper harvests and the carry trade offered by central banks forced to remain firm. As for the dollar and the major European currencies, backed by unscathed economies, they are expected to remain completely unaffected.

Fig. 7 & 8 – Winners and losers baskets of the El Niño phenomenon



Winners (17)		Losers (12)	
Walmart	WMT US	EOG Resources	EOG US
Costco	COST US	Munich Re	MUV2 GY
Progressive	PGR US	Freeport-McMoRan	FCX US
Deere & Co.	DE US	Swiss Re	SREN SW
BHP Group	BHP AU	Coca-Cola FEMSA	KOF US
Chubb	CB US	Anglo American	AAL LN
Rio Tinto	RIO LN	EQT Corp	EQT US
Travelers	TRV US	Grupo Bimbo	BIMBOA MM
Allstate	ALL US	JBS	JBS US
Corteva	CTVA US	GAP Airports	PAC US
Woodside Energy	WDS AU	APA Corp	APA US
Archer-Daniels-Midland	ADM US	Treasury Wine	TWE AU
Nutrien	NTR US		
CNH Industrial	CNH US		
CF Industries	CF US		
Bunge Global	BG US		
Enel Chile	ENIC US		

Source: Bloomberg, Altitude IS

Beyond the markets, El Niño will leave a lasting and measurable impact. By raising global temperatures, the event could push the 30-year average warming above the 1.5-degree threshold as early as 2027. For investors, the consequence is tangible, with the theme of climate adaptation (air conditioning, electricity grids, water management, resilient materials) shifting from a niche focus to a structural one.

Conclusion:

For a century and a half, the Pacific’s ‘wild child’ has never responded to either fishermen’s prayers or investors’ forecasts. El Niño is not a systemic risk; it is a discriminating risk, which defies index-based analysis and necessitates a selective approach, asset class by asset class. Unless, that is, one focuses on the structural theme of climate adaptation.

RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2026 Year-to-Date (%)	2025 (%)	2024 (%)
Equities							
World (MSCI)	1 120.5	54.08	1.4%	0.1%	11.6%	22.9%	18.0%
USA (S&P 500)	7 490	52.77	1.1%	-0.1%	10.1%	17.9%	25.0%
USA (Dow Jones)	52 485	54.51	1.0%	0.4%	10.2%	14.9%	15.0%
USA (Nasdaq)	25 374	47.92	1.6%	-3.2%	9.5%	21.2%	29.6%
Euro Area (DJ EuroStoxx)	669.9	54.88	0.6%	-0.2%	12.2%	21.2%	10.2%
UK (FTSE 100)	10 868	65.85	1.2%	3.6%	11.5%	25.7%	9.6%
Switzerland (SMI)	14 346	55.56	0.1%	1.1%	11.3%	18.0%	7.5%
Japan (Nikkei)	63 656	45.32	-0.4%	-8.1%	28.9%	28.7%	21.3%
Emerging (MSCI)	1 666	51.34	2.4%	-3.0%	20.3%	34.3%	8.0%
Brasil (IBOVESPA)	177 999	57.75	2.3%	3.5%	10.5%	34.0%	-10.4%
Mexico (IPC)	66 937	50.29	0.8%	0.2%	5.9%	35.1%	-11.0%
India (SENSEX)	78 725	58.71	2.7%	2.3%	-7.3%	10.5%	9.6%
China (CSI)	4 542	42.48	-1.2%	-7.4%	0.6%	21.0%	18.2%
Com. Services (MSCI World)	160.7	49.45	4.8%	0.8%	-1.4%	33.0%	31.9%
Cons. Discretionary (MSCI World)	445.3	61.06	7.4%	3.1%	-2.0%	9.8%	20.7%
Cons. Staples (MSCI World)	307.9	53.51	2.0%	2.6%	8.0%	9.3%	4.7%
Energy (MSCI World)	340.2	65.24	0.1%	12.3%	31.0%	14.8%	2.9%
Financials (MSCI World)	246.3	65.95	1.5%	6.4%	10.9%	29.5%	25.1%
Health Care (MSCI World)	404.1	53.82	0.2%	1.6%	3.6%	15.3%	1.5%
Industrials (MSCI World)	526.1	52.61	0.2%	-1.6%	13.8%	26.2%	12.8%
Info. Tech. (MSCI World)	1 180.3	48.02	0.2%	-5.6%	22.6%	26.6%	31.9%
Materials (MSCI World)	417.3	48.02	0.1%	0.1%	7.0%	32.5%	-7.6%
Real Estate (MSCI World)	1 056	52.41	-1.0%	2.9%	7.1%	3.6%	-0.4%
Utilities (MSCI World)	204.5	41.36	-2.8%	-1.1%	7.8%	24.7%	13.0%
Bonds (Bloomberg)							
World (Aggregate)	4.00%	50.30	0.6%	-0.5%	-0.7%	8.2%	-1.7%
USA (Sovereign)	4.57%	39.16	-0.1%	-1.1%	-0.8%	6.3%	0.6%
Euro Area (Sovereign)	3.40%	40.89	0.0%	-1.7%	-0.5%	0.6%	1.9%
Germany (Sovereign)	3.05%	40.39	0.0%	-1.6%	-0.5%	-1.6%	0.6%
UK (Sovereign)	5.04%	44.76	0.1%	-1.5%	-0.9%	6.1%	-3.0%
Switzerland (Sovereign)	0.66%	45.42	0.4%	-1.2%	-0.4%	0.3%	5.4%
Japan (Sovereign)	2.43%	45.18	0.2%	-0.5%	-2.6%	-4.6%	-2.1%
Emerging (Sovereign)	6.41%	34.47	-0.4%	-1.4%	0.6%	13.1%	7.0%
USA (IG Corp.)	5.46%	36.40	-0.3%	-1.5%	-0.8%	7.8%	2.1%
Euro Area (IG Corp.)	3.74%	41.45	-0.2%	-0.9%	0.4%	3.0%	4.7%
Emerging (IG Corp.)	6.61%	34.73	-0.1%	-0.6%	1.0%	8.1%	7.0%
USA (HY Corp.)	7.41%	46.17	0.1%	-0.3%	1.7%	8.6%	8.2%
Euro Area (HY Corp.)	6.06%	44.39	-0.1%	-0.3%	1.5%	5.2%	8.2%
Emerging (HY Corp.)	7.64%	42.18	-0.1%	-0.8%	3.5%	13.9%	14.9%
World (Convertibles)	608.8	45.29	0.3%	-4.6%	13.0%	22.4%	9.4%
USA (Convertibles)	805.9	44.46	0.2%	-5.5%	15.1%	16.9%	10.1%
Euro Area (Convertibles)	307.8	49.81	0.1%	-1.0%	5.9%	24.8%	14.7%
Switzerland (Convertibles)	295.1	48.35	0.3%	0.2%	4.3%	17.5%	-10.5%
Japan (Convertibles)	311.4	45.20	-0.6%	-7.6%	20.7%	13.8%	6.4%
Hedge Funds (Bloomberg)							
Hedge Funds Industry	1 896	77.64	n.a.	-0.5%	13.1%	4.8%	11.1%
Macro	1 535	69.17	n.a.	-1.8%	13.9%	4.6%	7.4%
Equity Long Only	2 568	66.95	n.a.	0.3%	10.0%	3.9%	12.0%
Equity Long/Short	2 109	78.06	n.a.	0.0%	18.1%	7.0%	14.0%
Event Driven	2 055	83.87	n.a.	0.2%	16.0%	7.0%	8.7%
Fundamental Equity Mkt Neutral	2 006	88.92	n.a.	0.7%	15.8%	7.1%	12.4%
Quantitative Equity Mkt Neutral	1 895	80.08	n.a.	0.8%	10.0%	4.7%	9.8%
Credit	1 771	91.95	n.a.	0.4%	7.1%	3.1%	8.5%
Credit Long/Short	1 806	94.35	n.a.	0.4%	7.3%	4.1%	10.0%
Commodity	2 062	75.27	n.a.	-3.0%	9.3%	3.1%	14.7%
Commodity Trading Advisors	1 526	64.04	n.a.	-1.9%	19.4%	7.5%	7.9%
Volatility							
VIX	15.99	44.96	-13.9%	-2.8%	7.0%	-13.8%	39.4%
VSTOXX	17.21	47.33	-4.7%	3.7%	16.9%	-13.5%	25.3%
Commodities							
Commodities (CRB)	565.3	n.a.	1.0%	2.4%	4.7%	0.6%	5.1%
Gold (Troy Ounce)	4 068	n.a.	-0.2%	-2.6%	-5.8%	64.6%	27.2%
Silver (Troy Ounce)	58.35	n.a.	0.0%	-6.5%	-18.6%	148.0%	21.5%
Oil (WTI, Barrel)	84.67	n.a.	-7.0%	21.8%	47.5%	-19.9%	0.1%
Oil (Brent, Barrel)	96.22	n.a.	-2.6%	34.5%	54.1%	-15.7%	-4.6%
Currencies (vs USD)							
USD (Dollar Index)	99.69	33.62	-1.8%	-1.2%	1.4%	-9.4%	7.1%
EUR	1.1533	62.73	1.4%	0.8%	-1.8%	13.4%	-6.2%
JPY	156.66	78.35	4.5%	3.0%	0.0%	0.3%	-10.3%
GBP	1.3469	58.54	1.4%	0.9%	0.0%	7.7%	-1.7%
AUD	0.7034	58.11	0.6%	1.4%	5.4%	7.8%	-9.2%
CAD	1.4032	57.17	0.7%	1.2%	-2.2%	4.8%	-7.9%
CHF	0.8085	50.90	1.3%	-0.6%	-2.0%	14.5%	-7.3%
CNY	6.7519	63.34	0.2%	0.4%	3.5%	4.5%	-2.7%
MXN	17.311	58.71	0.8%	0.9%	4.0%	15.7%	-18.5%
EM (Emerging Index)	1 892.5	76.77	1.2%	2.0%	2.2%	7.2%	-0.7%
XBT	62 722	n.a.	-1.1%	0.0%	-28.4%	-6.5%	120.5%

Source: Bloomberg, Altitude Investment Solutions

Total Return by asset class (Negative \ Positive Performance)

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