

Weathering the macro: Evaluating the investment risks of a super El Niño

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Key takeaways

1. A “super” El Niño is increasingly probable for this year and may persist into 2027. Although the economic and market impacts of El Niño events are typically eclipsed by broader global macroeconomic forces, a super El Niño could drive commodity prices higher.
2. With some exceptions in the emerging world, most central banks are expected to treat inflationary shocks caused by El Niño as transitory, opting to look past them rather than adjust policy in response.
3. El Niño is likely to impact both food and fossil fuel prices, underscoring the importance of commodities for portfolio diversification. El Niño can influence oil prices by increasing demand for fossil energy. The higher temperatures associated with El Niño events often lead to greater use of air conditioning, while droughts and heatwaves can reduce electricity output from hydroelectric dams.

A super El Niño would create upside risks to food inflation

El Niño is a climate phenomenon characterized by the periodic warming of surface waters in the central and eastern Pacific Ocean, which disrupts normal weather patterns and can lead to significant global impacts such as altered precipitation, increased temperatures, and extreme weather events.

The [National Oceanic and Atmospheric Administration \(NOAA\)](#) confirmed that the conditions for an El Niño have developed (defined by temperatures along the equatorial Pacific Ocean rising between 0.5°C and 1.4°C on average). Moreover, they are also predicting a 2/3 chance of a “Very Strong” El Niño during November–January as defined by above-average temperatures of 2°C. This El Niño could be among the most severe in the historical records going back to 1950.

The economic and market impacts of El Niño events are typically eclipsed by broader global macroeconomic forces. This explains why the economic literature is not conclusive on the economic impact of El Niño. Some papers found a significant impact. For example, the ECB conducted a [review of literature](#) on the topic in 2023 and found that El Niño events account for almost 20% of global commodity price inflation movements. As a rule of thumb, a normal El Niño event tends to raise commodity price inflation by around 5% for 6–16 months after its emergence. A strong El Niño could increase global food commodity prices by 9%.

GDP impacts on Canada and the United States: Negative, but likely contained

The [academic literature](#) finds that the GDP effects of El Niños are minimal for developed economies, as agriculture and food constitute only a small share of their GDP and CPI basket, respectively. Our attempts to drill down into the conceptually most sensitive sector of the Canadian economy also yield similarly ambiguous results. (See Box 1 and Figure 1: No Clear Impacts on the Canadian Property & Casualty (P&C) Insurance Industry).

The negative impact on the economy could be magnified by K-shaped wealth disparity and already elevated food inflation. Reflecting this, for example, [Canadian food inflation](#) was already projected to increase by 4–6% in 2026.

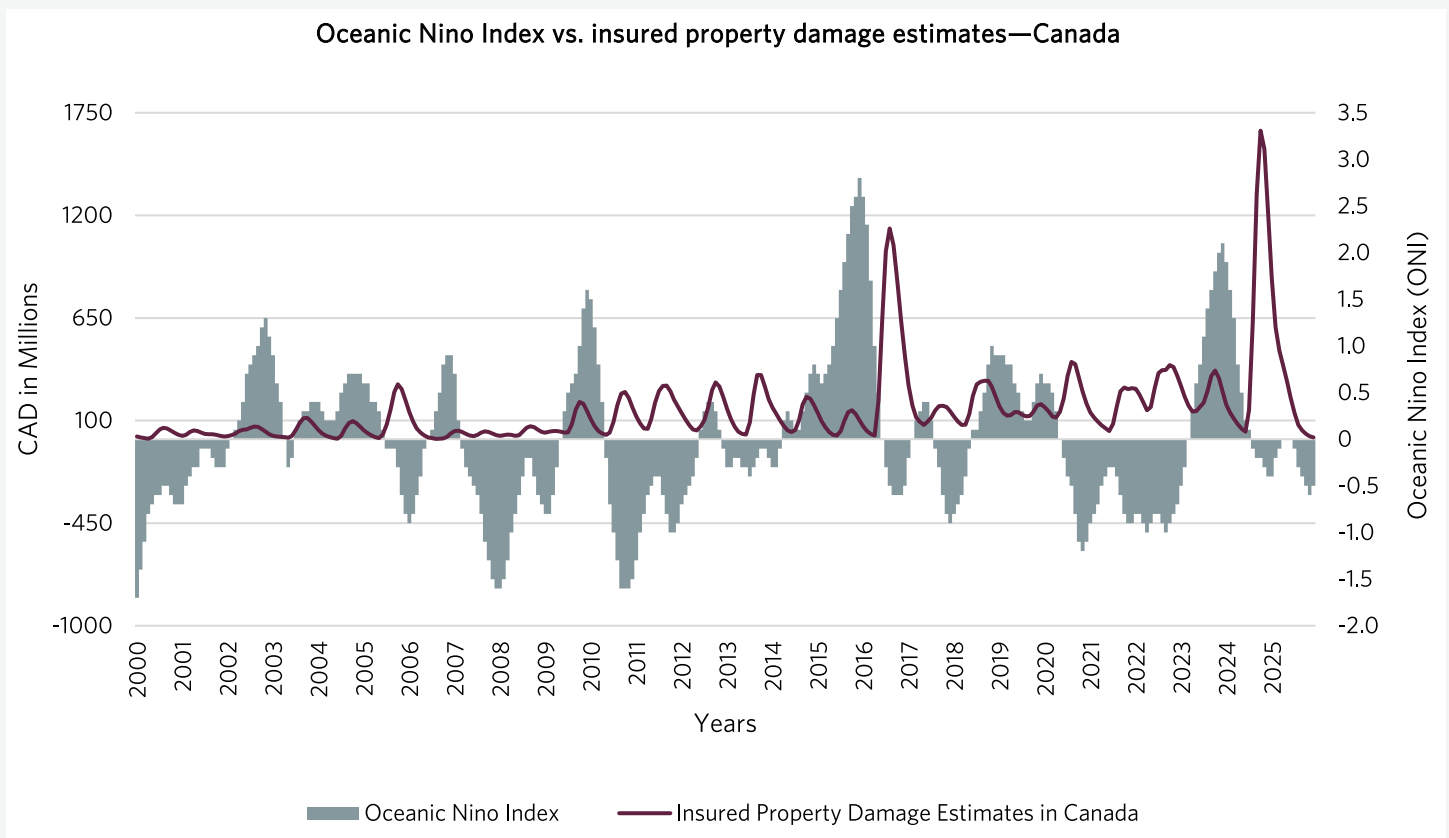
A mitigating factor for net energy producers such as Canada and the US is stronger demand for fossil energy. [According to an IMF paper](#), the higher temperatures following an El Niño event leads to rising demand for crude oil and natural gas. The higher temperatures associated with El Niño events often lead to greater use of air conditioning while droughts and heatwaves can reduce electricity output from hydroelectric dams.

Given the temporary nature of the shock and its expected negative effect on growth, most developed market central banks are unlikely to adjust policy in response.

Box 1: No clear impacts on the Canadian Property & Casualty (P&C) insurance industry

Our research into specific industries and sectors within the Canadian equity markets proved equally difficult to distill into clear, definitive conclusions. As with our macro-level findings, the limitations of a small historical sample size continued to present a meaningful challenge at the sector level. Our analysis of the Canadian Property & Casualty (P&C) insurance industry, intuitively one of the sectors more structurally vulnerable to the adverse effects of a Super El Niño event gives a clear example of this. While Canada may experience elevated insured property damages in the wake of El Niño events, the limited sample data does not appear to reveal a statistically meaningful correlation, either positive or negative, between El Niño occurrences and P&C company quarterly revenue or earnings per share (EPS). This disconnect may reflect the industry’s ability to reprice risk, adjust reinsurance arrangements, or otherwise absorb weather-related shocks in ways that insulate near-term financial performance from catastrophic loss events. Based on our initial conclusions across both the macro and sector-level research, the upcoming El Niño episode may not constitute a material event for Canadian equity sectors, though we caution that the inherent limitations of our sample size warrant continued monitoring as the event develops and more data becomes available.

Figure 1: Monthly time series overlay of insured property damages in Canada during previous El-Niño events



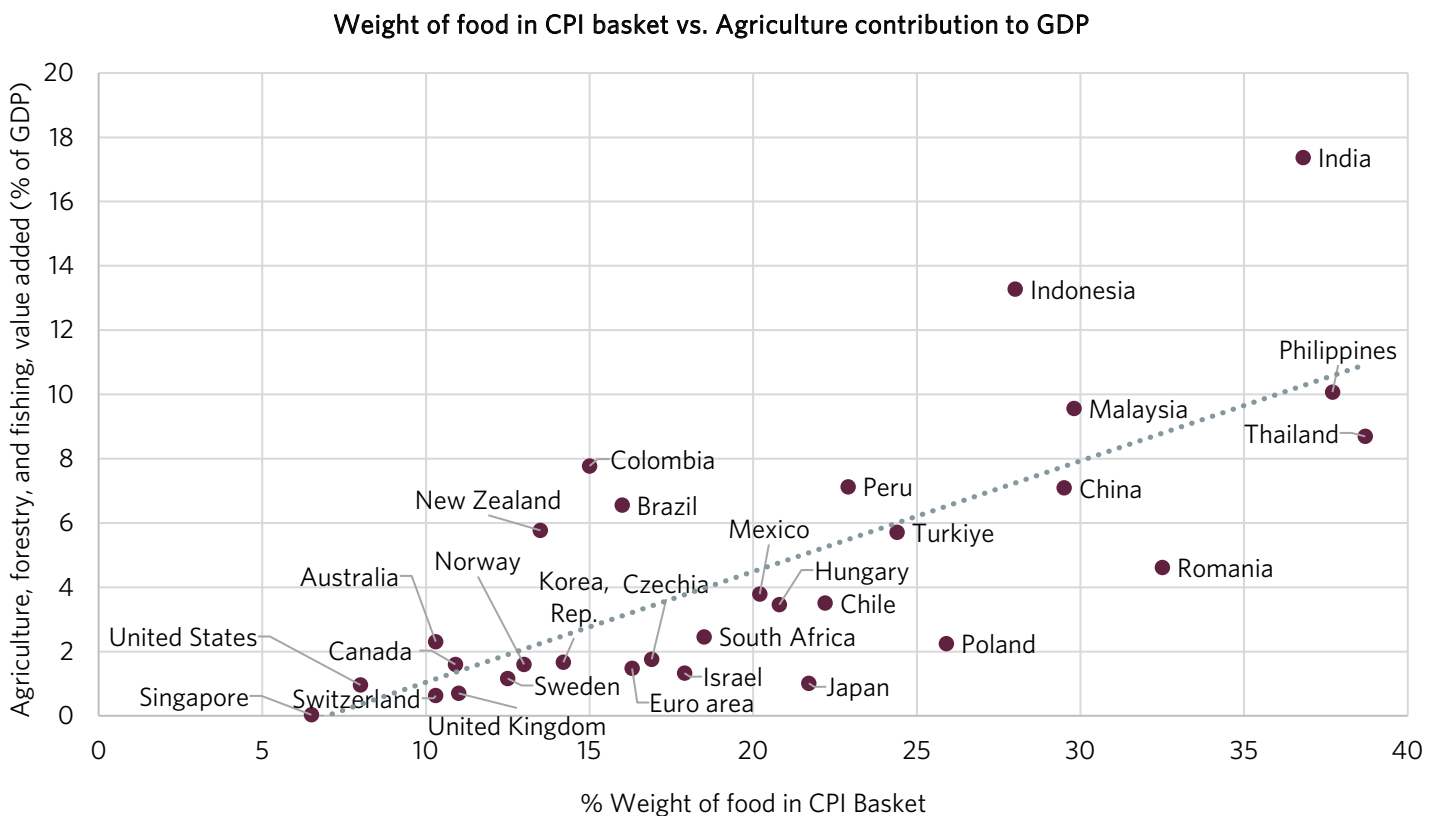
Source: Bloomberg Intelligence, [Climate Prediction Center \(CPC\) - NOAA](#), March 2026.

Emerging markets face greater exposure due to agriculture and food’s larger share of GDP and CPI respectively

The economic literature suggests that countries with a higher agricultural share of GDP or a greater weight of food in the CPI basket are more vulnerable to shocks from El Niño events. This is intuitive, as economies with larger agricultural sectors are more exposed to production and crop losses caused by adverse weather. Additionally, economies where food constitutes a higher proportion of the consumption basket will experience a more pronounced impact on headline inflation when commodity prices rise.

Using [CIBC Global Asset Management’s \(CGAM\) Country Sustainability Dashboard](#), a proprietary tool that was developed internally in 2025, we are able to screen and identify countries that may be at elevated macro risk heading into the 2026–27 El Niño event based on each country’s exposure to agriculture, as a share of GDP, and/or food prices, as a weight its CPI basket.

Figure 2: EM sensitivity to El Niño risks



Source: CGAM Country Sustainability Dashboard, [World Bank](#), National Sources, calculated by CIBC Global Asset Management June 2026.

Figure 2 shows that Latin American countries alongside select Asian economies are most exposed to the risk. As El Niño events apply inflation pressure to global commodity prices, Latin American economies heavily exposed to these commodities, whether through consumer consumption or economic output, are more likely to be negatively impacted with Colombia, Peru and, to a lesser extent, Chile illustrating the highest vulnerabilities. It is worth noting that while Brazil screens as vulnerable in Figure 2, above-average rainfall can boost agricultural output which illustrates that the effects of El Niño can be uneven.

El Niño also has well documented effects on select [Asian economies](#) where delayed monsoon seasons and drought materially affect the economic fortunes of specific countries including Indonesia, the Philippines, Malaysia, and India.

Potential market implications: A mixed bag with a limited sample size

An historical analysis of the market implications of strong and super El-Niño episodes is also challenging because there have only been five such events since 1980, all of which took place against a backdrop of major macroeconomic shifts, which tended to dominate the effect on asset prices. That said, we can intuit the following:

Developed markets:

- Equity impacts should be modest in DMs given that the global cycle tends to be the dominant driver, while the share of agriculture in equity markets is low.
- We foresee limited upside on bond yields for several reasons: 1) the inflation shock is a one-off; 2) we expect a small negative impact on growth; 3) we don't expect central banks to react to that shock. Upside pressures on yields could come from the term premium due to increased inflation uncertainty.

Emerging economies:

- EM's higher sensitivity to food inflation (particularly LATAM and the aforementioned Asian economies) means central banks are more likely to respond by raising rates. Inflation uncertainty is also likely to be higher. As a result, relative to DMs, we see more upside on bond yields and more downside risks on equities.
- Central banks in Chile, Colombia, India, Indonesia, Malaysia, and Peru are most likely to respond to higher inflation rates stemming from El Niño-driven inflation.

Commodities:

- El Niño is likely to increase food and fossil fuel prices, underscoring the importance of commodities in diversified portfolios.
- Prices of corn, wheat, and rice are particularly expected to rise. The impact on soybean prices is more uncertain. Soybean production typically increases during El Niño years due to increased rainfall in Southern Brazil and the U.S. Midwest, but demand could also rise, as soy is a good substitute for corn, especially in livestock feed.
- Higher prices for key foodstuffs may pose ESG (social) risks in emerging countries that are vulnerable to political unrest and famine.

Importance of sustainability research in a robust investment process

Amid a global landscape with increased geopolitical tensions, a shifting climate, and polarized policy response, material sustainability risks increasingly have the potential to shape decisions around government policy, fiscal resilience, and economic dependencies. For top down investors, it is important to develop views on how countries and economies are mitigating and or managing these risks, and having the right data and tools to effectively monitor and research these factors is critical.

A changing climate has the potential to compound cyclical weather patterns, impacting commodities and economic activity, while influencing government policy response. CIBC Global Asset Management integrates both top down and bottom up sustainability research to support deeper insights into these structural forces with portfolio and investment implications. Providing investment teams with a deeper understanding of the impacts of a stronger El Niño – Southern Oscillation cycle is an example of how our sustainability research supports investment decision making and portfolio and client outcomes.



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¹ CIBC Global Asset Management (previously known as TAL Global Asset Management Inc.) was founded in 1972 as a privately-owned investment manager. CIBC took an ownership stake in 1994, eventually assuming 100% in 2001.

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