In late March, expectations about the future course of U.S. monetary policy began to change. As suggested by implied yields of federal funds futures, markets have come to anticipate a substantial hike in the federal funds target rate by the end of the year. Fed watchers now wonder whether rate hikes will come in a series of incremental moves or through a few large jumps. The pattern may matter.

For one thing, a sharp hike in U.S. interest rates could present particular problems for heavily indebted emerging markets and their international creditors. According to a recent survey, U.S. banking organizations hold approximately $101 billion in total claims on emerging market economies. Latin American countries account for roughly 54% (or $54.3 billion) of all U.S. bank loans to emerging markets. Our two most important Latin American debtor countries have received the great bulk of all U.S. bank loans in the region: Mexico accounts for nearly 40% and Brazil for 29%. Chile, Argentina, Venezuela, and Columbia combined hold another 19% of our total Latin American bank exposure.

As a rule of thumb, debtor countries must grow at a rate greater than the interest cost on their obligations if they hope to avoid painful fiscal adjustments and remain solvent. In March, some emerging market risk spreads, a barometer of lenders’ sentiments, had already begun to widen slightly.