

The Markets: The Bulls Are Running

With the help of a healthier global economy, developing- country stocks are hot again. Can they stay that way?

By Mac Margolis

Dec. 22 issue - Venturing onto the trading floors of the developing nations has never been for the fainthearted. But for anyone with ready cash and a good set of nerves, the ride can be rewarding. Consider this year. After a wintry 2002, stocks and bonds are hot again, and not just on the Dow or the DAX.

Across Latin America, Asia and Central and Eastern Europe, the big boards are bright. China's surging economy has lifted that country's three big bourses by 40 percent since January. Healthier banks and a glowing year-end report from Moody's Investor Service have carried Thailand's benchmark SET to its finest year since pre-contagion 1997. Russia is also on a roll. Nowhere is the bull running harder than in Latin America. Mexico has seen its Bolsa Index climb 28 percent in dollar terms this year. Argentina's Merval, which was an echo chamber for the past few years, is packed and prospering—up 122 percent on the year. The powerful Bovespa of Brazil has risen a staggering 127 percent in dollar prices in 2003.

Much of the credit goes to a healthier global economy, led by a resurgent United States. Sagging world interest rates have also helped, pumping up liquidity and driving the adventuresome to gamble on the higher yields that only emerging-market assets can deliver. Improved prices for developing-world export commodities, especially oil, have also helped pump confidence into markets with a heavy dependence on natural resources.

Surely some of the revival is long overdue. "Last year everyone was at the bottom of the well," says Ricardo Pinto Nogueira, superintendent of operations at Bovespa. Lackluster growth and financial turmoil left stock and bond prices with nowhere to go but up. Bargains abound around Latin America. Brazil's recovery is no mystery. Last year, when leftist Luiz Inacio Lula da Silva was elected president, foreign and local investors alike rushed to cash out their Brazilian assets. Then, when Lula hewed to orthodox economics and advanced key economic reforms, they came rushing back.

A harder read is Venezuela. Hugo Chavez's embattled regime has nearly paralyzed the country and sent its GDP plunging 9 percent this year. And yet the benchmark General Stock Index is up a stunning 139 percent. Foreign creditors are at war with Argentina over \$100 billion in overdue debt, but that hasn't stopped investors from mobbing the Merval. Business is business. Shrugging off four years of recession, Argentina's farm exports are booming and consumer spending is finally perking up. "In a favorable climate," says Ricardo Amorim, chief Latin American analyst at Idea Global, a New York think tank, "investors turn a blind eye toward political crisis."

They may not look the other way forever. **"A lot of these economies are still fragile, with high debts and low growth," warns Alex Kazan, emerging-market analyst with G7, a Washington, D.C.-based consultancy.** They don't call developing markets a roller coaster ride for nothing.