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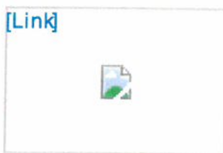
I nvesting in Latin American stock markets lately has been a lot like bungee-jumping without a safety net. Shares skyrocket one day on talk of an International Monetary Fund bailout package for Brazil only to plummet the next day on rumors that same country will devalue its currency, the real.

The volatility hit a crescendo last month, when major markets south of the border fell to levels not seen since 1995. As of September 9th, for example, Brazil's Bovespa Index was down 45% on the year. Other Latin American markets were doing as badly or worse. (See Weekday Trader, "**Gutsy Investors See Value in Latin America** ," September 10th.)



At that point most of Wall Street had capitulated to fears that higher interest rates and currency devaluations would severely pinch corporate profit performances and economic growth across Latin America next year.

That is exactly what's going to happen, says Joe Petry, head of Latin American sovereign research for CitiGroup. The economist is now expecting average Latin American economic growth to be 0.6% next year, compared with 5.1% before the emerging market turmoil hit last summer.

But Petry and a few other observers have turned more bullish on the prospects for Latin American equities over the next year. They acknowledge, though, that the next couple of quarters will be rough, and much hinges on passage of the Cardoso government's new $24-billion austerity plan.

Petry predicts that the Brazilian legislature will pass the government's budget plan, and that will mean the beginning of the end of Latin America's difficulties: He's looking for the region's economic growth to bounce back to a healthy 3% in 2000. That will come in the context of continuing free market reform, low inflation and fiscal restraint, persuading investors that Latin America is not Asia.

Deutsche Bank Latin American equity strategist Jane Heap concurs. "I don't think it will be a boom market next year," she says, but Brazil will pass the budget and muddle through. Add an aid package from the IMF, and equities prices will be higher a year from now, she predicts.

James Upton, Latin American equity strategist for Credit Suisse First Boston, is encouraged that many countries, like Mexico and Chile, have responded well to this year's economic strains, by tightening government spending and taking other responsible actions.

"Even if Latin America faces a year of slow growth [in 1999]...without a doubt, my sense is that things will improve in 2000," says Upton. A year from now, a lot of things that have troubled markets -- like weakness in commodity prices and the recent liquidity crunch -- will begin to fade.

Indeed, despite the stomach-churning moves of recent weeks, several major Latin American markets have moved up some 25% from the lows they hit a few weeks ago.

Everyone agrees, however, that developments in Brazil are key. "If the Brazilian Congress does pass the budget, you'll see confidence start to be restored," says Emily Alejos, a fund manager at BEA Associates. She says she's more cautious than optimistic, but adds that passage of the budget would allow interest rates -- currently 40% in Brazil -- to come down. That should extend to the whole region and allow investors' confidence to return, she says.

Adds Francis Claro, a co-manager of the Evergreen Latin American Fund, which has been moving to cash and is thus underweighted in Latin America right now: "If we saw that Brazil's Congress was cooperative, that a multilateral and substantial aid package was coming, and that U.S. rates would continue to ease, then we'd increase our weighting."

Though some of these investors are beginning to be optimistic again, they're still recommending defensive groups like utilities and food retailers.

CFSB's Upton favors Coca-Cola bottlers like Mexico's Femsa SA and Chile's **Embotelladora Andina** SA. TheChilean bottler, in particular, has a strong balance sheet and is increasing volumes, so the company should post earnings of 78 cents per ADR next year, a 15% rise from 68 cents this year, he says.

Upton also likes Brazilian electric utility **Companhia Paranaense de Energia Eletrica** (ELP), known as Copel. The ADRs currently trade at about5.7 times First Call's 1999 consensus earnings estimates of $1.25. That's slightly below the average P/E of a mere six times projected 1999 earnings for Brazilian stocks.

Deutsche Bank's Heap likes Mexican telephone utility **Telefonos de Mexico** SA. Even afterrebounding in recent weeks, it sells at only ten times 1998 estimated earnings, significantly less than either the Mexican market's multiple of 12x-14x or the average P/E of 13x for Latin American telecoms.

A favorite pick of both Alejos and Heap is Mexican retailer Cifra S.A., which is majority owned by **Wal-Mart Stores** Inc. It's a well-managed company with a solid balancesheet, important attributes in tough times like these, says Alejos. The shares do trade at a premium multiple of 21x, but then Cifra's earnings growth is expected to be 15%-20%, about double the market's expected growth of 5%-10%.

Nearly everyone agrees that Latin American markets will continue to be volatile in the short term. But as the Brazilian government acts to restore the market's confidence in the region, some investors expect to play offense again in the near-future.

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