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A Latin revival

Latin American stocks have rallied nearly 30 percent in a year as investors have shrugged off fears of instability in Brazil in response to the market-friendly stance of the new president, Luiz Inácio Lula da Silva.

The focus is now shifting to consumer stocks on hopes for increased household spending following this year's interest-rate cuts after a two-year slump.

"It's time to recommit ourselves to the domestic Brazilian economy," said Alan Nesbit of First State's Global Emerging Markets fund in London. The fund made significant investments in Brazilian consumer stocks in July after his return from a fact-finding trip there. "We're happy to be early."

Those looking toward recovery are steering toward supermarket stocks because they are some of the prime beneficiaries of an upturn. In this sector, investors like big names as much for their distribution muscle as their growth prospects, and poorer households are likely to trade up to the big chains in better times.

Take **Pão de Açúcar**, which holds about a quarter of the formal Brazilian supermarket sector (about half is informal) through four store lines pegged to different income levels. The company has lagged amid Brazil's depressed economy and its stretched balance sheet, but its debt could actually be good news during a recovery, when borrowing costs fall. The stock trades at 17 times earnings — reasonable given a projected growth rate of 43 percent next year and 20 percent through 2008.

In Mexico, the other regional powerhouse, **Wal-Mart de Mexico** is a favorite. Like its U.S. parent, it has benefited from vast economies of scale and streamlined supply and distribution. Its share of the formal market is 50 percent and likely to grow as wages rise.

— *Carolyn Whelan (IHT)*