

Brazil moves to top of emerging market index

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Published: February 29 2008 02:00 | Last updated: February 29 2008 02:00

Brazil has become the world's biggest emerging market, displacing China, according to a key market index.

The South American country's climb to the top of the index prepared by Morgan Stanley Capital International will have a big impact on fund managers around the world. Many investors benchmark their portfolios against the MSCI GEM index of global emerging markets.

That could lead to a flood of new money into Brazilian shares, according to Geoffrey Dennis, Latin American equity strategist at Citigroup in New York.

But he warned that investors risked getting carried away by euphoria. "It makes no sense with shares at this level to be complacent," he said. "It's inconceivable that you could have the US economy in recession and a world economy that ignores that. Our concern is that commodities will start to correct."

Brazil overtook China as the biggest market on the MSCI index on February 20, rising to a weighting of 14.95 per cent, compared with 14.15 per cent for China.

The MSCI index measures shares available to investors rather than the total market capitalisation of all companies traded on exchanges. By that measure, China is far bigger than Brazil. The combined value of companies listed on the Shanghai and Shenzhen exchanges was almost \$3,900bn in January, compared with almost \$1,300bn on the São Paulo stock exchange, or Bovespa.

Since emerging market equities peaked at the end of October, Chinese share prices have fallen by 28 per cent. Over the same period, Brazilian shares have gained 4.5 per cent.

Part of that relative swing was explained by a perception that Chinese shares were overvalued, Mr Dennis said. "Brazilian shares have been trading at 13 to 14 times earnings and Chinese ones at 30 to 40 times," he said. "The frothy ones tend to do worse in a crisis."

Investor sentiment has been particularly favourable to Brazil because, as a commodity exporter, it is perceived as being better protected from a global slowdown. But many observers warn that exposure is a risk.

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