



Bovespa Trouble Ahead

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Last week my colleagues at Business Monitor and I took off our bullish key market view of the Brazilian Bovespa index, following gains of around 13.8%. The monthly chart, which was run in the Latin America section of Business Monitor Online, highlights the strong potential of a major reversal. The accompanying chart below is the ratio of the Bovespa over the US Dow Jones in pure points terms. There are a number of interesting points to take from this chart.

1. When the US economy began to really pick up in 2003, and the Brazilian economy had stabilised, being in much better shape fiscally than in previous years, the Bovespa outperformed tremendously.
2. When the US economy nose-dived in 2008, causing the Dow to crash, the Bovespa really suffered, and in fact underperformed the Dow on the way down.
3. When the US banking system stabilised in Q1 this year, allowing the economy to recover its poise and exit recession, the Bovespa really outperformed the US market once again.

One conclusion, therefore, is that decoupling is still somewhat of a myth, although a stable US allows for dramatic emerging market (EM) outperformance. Another conclusion would be that given my relatively sombre assessment of the US economy going forward, the Bovespa may well be in for a period of consolidation, in line with the pure Bovespa monthly chart. Furthermore, on a purely technical basis, the ratio has clearly come a long way since 2003. Any reversal would indicate a difficult period ahead for EM stocks in general.