Emerging-Market Stocks to Extend Rally: Citi

By Richard Frost and Weiyi Lim - Feb 8, 2012

The rally in emerging-market stocks will probably continue as “ample liquidity” and appealing valuations persist, Citigroup Inc. said.

“We would be buyers of any pullback,” Geoffrey Dennis, global emerging-market equity strategist at Citigroup, wrote in a report dated yesterday. He forecast the MSCI Emerging Markets Index (MXEF) will climb to 1,225 this year, about 15 percent above yesterday’s closing level.

The MSCI Emerging Markets Index lost 0.3 percent to 1,057.64 at 11:32 a.m. Singapore time. Companies in the index of developing-nation companies trade at 10.5 times estimated earnings, less than the four-year average of 12, according to data compiled by Bloomberg.

Emerging-market shares posted their best start to a year since 2001 after European countries agreed to tighter budget controls and as policy makers from Brazil to the Philippines cut borrowing costs to spur economic growth. The MSCI Emerging Markets Index climbed 11 percent last month, the biggest January increase since 2001, following a 20 percent drop in 2011. The gauge has jumped 15 percent this year, compared with 8.3 percent increase by the MSCI World Index (MXWO) of developed stocks.

Global equities advanced yesterday, sending the MSCI All-Country World Index 20 percent above its closing low on Oct. 4, surpassing the threshold that some investors define as a bull market. Emerging-market shares have climbed 27 percent from an October low.

Brazil ‘Overweight’

The brokerage raised its rating on Brazil to “overweight” from “strong neutral” on the possibility the central bank will cut interest rates by a further 1 percentage point, according to the note. South Africa was lowered to “neutral,” Dennis wrote, without giving the previous rating.

Brazil is among the “world’s most exciting markets,” Mark Mobius, executive chairman of Franklin Templeton Investment’s Emerging Markets Group, said in a post on Templeton’s website dated Feb. 7.

“We continue to keep our long-term eye on Brazil,” Mobius wrote in his website post. The nation is among the most “economically vibrant” in the Western hemisphere, he wrote.

The Bovespa Index (IBOV), Brazil’s benchmark stock gauge, surged 16 percent this year after slumping 18 percent in 2011. The measure trades at 10.5 times estimated profit, compared with its four-year average of 11.7. The MSCI BRIC Index, which tracks Brazil, Russia, India and China, trades at 9.2 times.

To contact the reporter on this story: Weiyi Lim in Singapore at wlim26@bloomberg.net;

To contact the editor responsible for this story: Darren Boey at dboey@bloomberg.net