

Dean Newman,
Head of Emerging Market Equities,
Invesco Perpetual



The financial crisis in Europe, reflecting market concerns about the solvency of Mediterranean countries such as Greece and Portugal, has sharply highlighted the growing divergence between developed economies and the emerging economies of Latin America.

Saddled with huge government fiscal deficits and the likelihood of Europe being stuck in the slow-lane of economic recovery for some years to come, the euro currency has come under intense selling pressure.

Uncertainties surrounding the sovereign debt issue among eurozone members has been compounded by the seemingly lack of cohesion between the affected governments.

By comparison, local currencies in Latin America remain strong and growth rate forecasts for this year have continued to be upgraded. Governments in the region are not encountering any problems in raising finance from international investors. But why is there such a big divergence between these two continents?

To answer this question we need to look back to the 1990s when countries such as Brazil and Mexico experienced their own financial problems. During this period some harsh medicine was administered and tough decisions were made.

What followed was the introduction of prudent and sensible government economic policies which lay the groundwork for a more stable and enterprising environment in which companies could successfully operate. Inflation rates fell sharply and the cost of borrowing declined to multi-year lows. Banks were careful with their lending policies towards companies and consumers. Governments did not go on spending sprees but instead kept some money back for less sunnier times.

The net result of this financial management is that today all the major Latin American economies' public sector/GDP ratios are under 50%. In Chile, for example, there is very little debt and the government has built up a sovereign wealth fund. It is not just the public sector that has low debt levels.

The same is true for companies and households. Indeed, they are both in a position to take on more debt. For companies, access to the debt markets brings cheaper financing; and for consumers the ability to borrow will help stimulate the demand for a whole range of goods - for example, better housing, white goods and cars.

Surviving the global financial downturn in good health has encouraged investors to focus on the strengths of the Latin American region. Although I expect infrastructure plans to be bolstered in Brazil by the awarding of the 2014 World Cup and 2016 Olympics, the bigger opportunities lie around the domestic consumption story.

This is a long-term theme and it's real. Living standards are rising and consumers have more money to spend. In addition to the economic powerhouses of Sao Paulo and Rio, other growth hotspots are emerging in the area around the capital Brasilia and in the north-east region of Brazil, traditionally a poor area.

With interest rates at or close to historical lows, there is another reason why companies and consumers in Brazil, as well as other Latin American countries, are in a position to be able to take on more debt, which, in turn, should stimulate the local economies even further.

Further information

UK

Telephone +44 1534 607600
www.invescointernational.co.uk

Dubai

Telephone +9714 425 0950
www.invesco.ae

Telephone calls may be recorded.

Important information

This document is for Professional Clients only in the UK, Malta, Dubai, Jersey and Guernsey. This document is not for consumer use.

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

Past performance is not a guide to future returns.

Where securities are mentioned in this document they do not necessarily represent a specific portfolio holding and do not constitute a recommendation to purchase or sell.

Where Dean Newman has expressed views and opinions, these may change and are not necessarily representative of Invesco views.

Issued in **Dubai** by Invesco Asset Management Limited, PO Box 506599, Building 5, Level 6, The Gate Precinct, Dubai, United Arab Emirates. Regulated by the Dubai Financial Services Authority.

Issued in **Jersey** and **Guernsey** by Invesco International Limited, 2nd Floor, Orviss House, 17a Queen Street, St Helier, Jersey, JE2 4WD. Regulated by the Jersey Financial Services Commission.

Issued in **Malta** by Invesco Global Asset Management Limited, George's Quay House, 43 Townsend Street, Dublin 2, Ireland. Regulated in Ireland by the Financial Regulator.

Issued in the **UK** by Invesco Global Investment Funds Limited, Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire RG9 1HH, UK. Authorised and regulated by the Financial Services Authority.

International Development Division, Perpetual Park, Perpetual Park Drive
Henley-on-Thames, Oxfordshire RG9 1HH, UK

45638/PDF/170910