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A retiring country

"In Mexico, people retire when they are 72 years old, in Brazil at 59, so this is an impossible system," said André Jakurski, a noted Brazilian trader (in stocks, bonds, currencies, commodities) and founder of the Rio de Janeiro-based investment-management firm JGP.

Unqualified bullishness on Brazil is in the air these days, but Jakurski's bullishness is contingent. Opportunity awaits if—and a big "if" it is, Jakurski acknowledged—the government of Jair Bolsonaro can pass a pension reform sufficiently potent to curb Brazil's voracious entitlement appetite. Social security absorbs 51% of the government's expenditures, public-servant retirement benefits another 8% and public-sector payrolls an additional 14%, leaving only 26% for everything else, including the funds with which to fix Brazil's lamentable infrastructure.

Yes, Jakurski went on, interest rates have collapsed; the exchange rate is competitive; the Brazilian financial system is first-rate; inflation is calculated on an annual basis (4% today) rather than, in the bad old days, a monthly one (84% in February 1990); and the iShares MSCI Brazil index ETF (EWZ on the Big Board) trades at 11½ times forward earnings.

But there's no confusing today's Brazil with the Asian Tiger-like Brazil of the 1970s. Population growth is 1%, not 6% or 7%. And GDP growth is 2.2%, not 5% or 6%.

While awaiting the reforms that the politicians may or may not deliver, Jakurski says he is sticking to short-duration, U.S. dollar-denominated bonds of state-owned Brazilian utilities.

For instance, the double-B-minus-rated Electrobras 5¾s of 2021 ($1.75 billion outstanding), trading at 103¾ for 4.2%, 176 basis points over Treasurys; the double-B-minus Light S.A. 7.25s of 2023 ($600 million), trading at 101⅝ for 6.8%, 440 basis points over Treasurys; the single-B-rated Cemig 9.25s of 2024 ($1.5 billion), priced at 109⅜ for 6.8%, 445 basis points over Treasurys.

Then, too, noted Jakurski, Brazilian inflation-indexed bonds due 2024 change hands to yield inflation plus 4.1%, compared to less than inflation plus 0.4% for America's TIPS.

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