



Monthly Perspective | February 6, 2019

## First two months: under the volcano

### SUMMARY

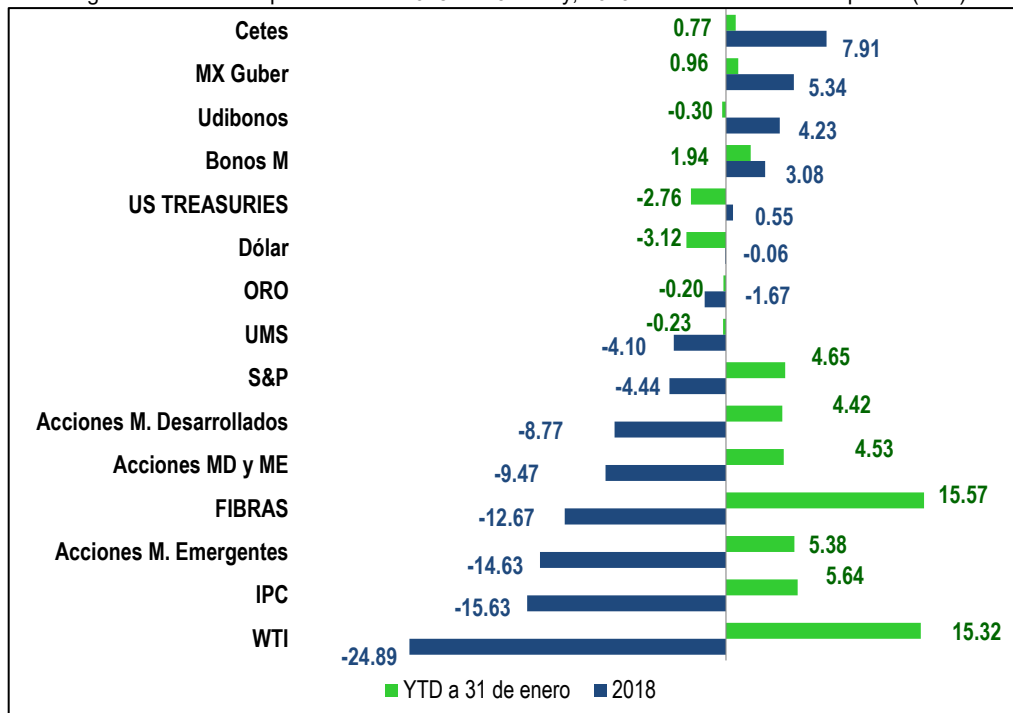
- Global. Synchronized slowdown. US: government shutdown. China-US: improved trade outlook. EU: Brexit uncertainty, Emerging Markets (EM): mixed.
- Mexico. Positive: 2019 budget, financial system plan. Negative: airport cancellation, gasoline shortage/tragedy, blockades, strikes, Pemex, Venezuela.
- Global risks 2019: sudden cycle end, trade wars, geopolitics, Brexit/Europe, monetary policy, EM.
- Local risks: dysfunctional government, non-ratification USMCA in US, lowered credit rating.
- 2019 investment scenarios with probabilities: positive (20%), negative (40%), middle (40%).
- Peso portfolios, overweight liquidity and ILS duration 1-3 years, underweight stocks and REITs.

**“Transport is the center of the world. When it works, we don’t see it. When it does not work, it makes us feel angry and impotent.” – Robin Chase**

### Global slowdown

Globally, in 2019, there are signs of a synchronized global slowdown (China, the US, and the euro zone) for the first time since 2009. Main causes include anti-immigration and protectionist policies, e.g. the US government shutdown and trade disputes between the US and China. In January, Mexico’s economy was slowed by the gasoline shortage, the pause in investment due to the cancellation of Mexico City airport, blockades in the state of Michoacán and strikes in the northern border states. Many risk assets had negative returns in 2018, but in January 2019 recovered significantly, mainly due to a more moderate Fed (Figure 1).

Figure 1. Investment performance: 2018 and January, 2019. Source: Franklin Templeton (“FT”)



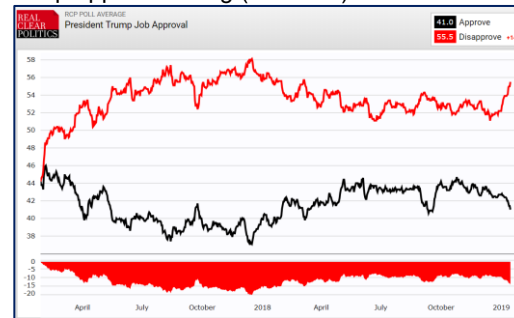
## POLITICS

### USA

#### Government shutdown

On December 22, 2018, Trump shut down the US government when Democrats refused to authorize a budget including US\$5.7bn. funding for a frontier wall with Mexico. The longest shutdown in history ended on January 25, 2019, affecting 800,000 federal employees (25% of the total) at an estimated cost of US\$11bn. It was agreed that the government would stay open for 3 weeks pending a further negotiation, and the confrontation between Trump and the Democrats continues. Trump's approval rating fell to the level of March 2018 (Figure 2).

Figure 2. Trump approval rating (31Jan19). Source: RealClearPolitics



### CHINA

The Chinese economy grew 6.6% in 2018, its lowest level in 3 decades, mainly due to trade disputes with the US. After a 90 days truce, negotiations were renewed in January in Beijing with some optimism, and the Chinese government has announced measures to stimulate the domestic economy.

### EUROPE

#### Brexit

After an overwhelming vote in January against her Brexit deal, Theresa May survived a vote of no confidence in the House of Commons, and reopened negotiations with the EU. The future is uncertain, between no Brexit, a hard Brexit, a softer Brexit, stretching the two years deadline for negotiation beyond March 29, or a second referendum.

### MEXICO

In the first two months of the current presidential term (*sexenio*) positive events have been a balanced 2019 budget, and a plan for the financial system. Negative events have been confirmation of the cancellation of Mexico City airport, the gasoline shortage and the tragic explosion in Hidalgo state, blockades in Michoacan, strikes in northern border states, the Pemex downgrade by Fitch, and the government's implicit backing of the dictatorship in Venezuela.

### Positive

#### 2019 budget

The 2019 budget approved in December shows fiscal discipline with conservative assumptions (Figure 3).

Figure 3. 2019 budget: economic premises. Source: SHCP

|   | Aprobado<br>2018 | Estimado<br>2018 | Estimado<br>2019 |
|---|------------------|------------------|------------------|
| <b>Producto Interno Bruto</b>                   |                  |                  |                  |
| Rango de crecimiento % real                     | 2.0 - 3.0        |                  | 1.5 - 2.5        |
| Puntual   | 2.5              | 2.3              | 2.0              |
| Nominal (miles de millones de pesos, puntual)*  | 22,831.9         | 23,552.5         | 24,942.1         |
| Deflactor del PIB (variación anual, % promedio) | 4.8              | 5.1              | 3.9              |
| <b>Inflación (%)</b>                            |                  |                  |                  |
| Dic. / dic.                                     | 3.0              | 4.7              | 3.4              |
| <b>Tipo de cambio nominal (pesos por dólar)</b> |                  |                  |                  |
| Fin de periodo                                  | N.A.             | 20.0             | 20.0             |
| Promedio  | 18.4             | 19.2             | 20.0             |
| <b>Tasa de interés (Cetes 28 días, %)</b>       |                  |                  |                  |
| Nominal fin de periodo                          | 7.0              | 8.3              | 8.3              |
| Nominal promedio                                | 7.0              | 7.7              | 8.3              |
| Real acumulada                                  | 4.1              | 3.1              | 5.0              |
| <b>Cuenta Corriente</b>                         |                  |                  |                  |
| Millones de dólares                             | -23,300          | -21,698          | -27,326          |
| % del PIB                                       | -1.8             | -1.8             | -2.2             |
| <b>Petróleo (canasta mexicana)</b>              |                  |                  |                  |
| Precio promedio (dólares / barril)              | 48.5             | 62               | 55               |
| Plataforma de producción crudo total (mbd)      | 1,983            | 1,849            | 1,847            |
| <b>Gas natural</b>                              |                  |                  |                  |
| Precio promedio (dólares/ MMBtu)                | 3.0              | 3.0              | 2.8              |

In the budget 7 of 26 executive agencies receive real increases over the 2018 budget: Labor and Social Security (929%), Energy (311%), Welfare (38%), Defense (16%) and Tourism (0.04%), Rural, Land and Urban Development (8%) , and Education (3%). There is an effort to curb waste with “personal services” down (-22%). Significantly, the budget for independent organs fell: National Hydrocarbons Commission (-78%) Energy Regulation Commission (-72%), judiciary sector (-12%), legislative sector (-23%).

#### *Financial system support plan.*

On January 8, AMLO presented his Financial System Support Plan, designed to reduce economic inequality and to stimulate the economy. There are provisions for young people with a minimum age of 15 to open bank accounts, to include remote areas in the financial system with digital banking, to improve terms for payroll lending, stimulate bond and stock markets, and strengthen the rules of the state regulated pension funds (Afores). According to Carlos Urzúa, Treasury Secretary, the program aims to reach 15 million new users in rural areas, poor towns, and semiurban areas, by broadening payments, particularly through social programs. Bank of Mexico Governor Alejandro Díaz de León announced the launch of the new platform called Codi or Cobro Digital, which will enable secure, rapid and free payments both in person and remotely.

## Negative

### *Gasoline shortage*

In December, there were signs of a gasoline shortage in 10 states (Figure 4). This was explained as part of a strategy to fight fuel theft (*huachicoleo*).

Figure 4. Mexico: volume and value of gasoline imports Nov2018-Jan2019. Source: Pemex

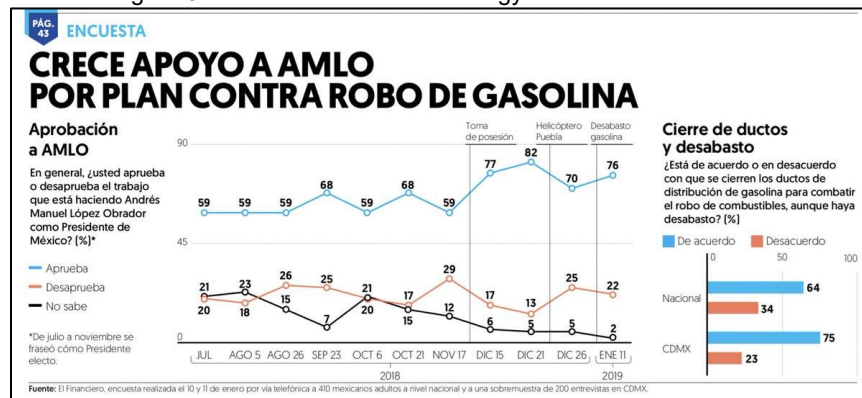


Fuel theft in Mexico has passed over the last 10 years from nonviolent local gangs to become the second income source for drug gangs. After 2012, communities began to make a living from the theft and sale of fuel. Between 2009 and 2016, Pemex losses rose by an estimated 14 bn. liters or 159,957 mn. pesos. In 2018, theft was concentrated mainly in the state of Hidalgo, followed by Puebla, Guanajuato and Jalisco: with just 7 states accounting for 80% of the total.

On December 27, 2018, a plan was announced to fight fuel theft, declared as a “war against corruption”, involving 15 agencies including the Ministries of Defense and the Navy. The army took over some Pemex facilities and many pipelines were closed, as that is where most fuel thefts occur. Owing to a shortage of road tankers, pipelines were reopened to recover the lost fuel supply, but the volume was lower than November and the beginning of December, above all in Jalisco, Guanajuato, Querétaro, México state and Michoacán. The solution to fuel theft, depriving all Mexicans of fuel, with some people having to wait to fill their tanks for more than 36 hours, was criticized. This strategy is still being followed, closing pipelines where illegal extraction is detected and using tankers to prevent shortages, through the purchase of 500 more tankers and contracting of 2,000 outside tanker operators, even though they cost more than 14 times the pipelines. Gasoline sales through pipelines that are operating have increased slightly, and theft has decreased according to the government. The Attorney General will arrest 3 ex-employees of Pemex involved in fuel theft, and bank accounts have been closed of 16 companies, an ex-employee, an ex-mayor,

and a local ex-deputy involved in fuel theft. After a declaration of firmness in the fight against corruption, a poll in January revealed an extraordinary rise in AMLO's popularity, despite the fuel shortage (Figure 5).

Figure 5. Poll on anti-fuel theft strategy.. Source: El Financiero



On January 18, two gasoline pipelines exploded, one in Queretaro with no injuries, the other in Tlahuelilpan (Hidalgo) in the Tuxpan-Tula pipeline, with more than 120 dead and more than 60 injured. It was the worst accident through fuel theft ever recorded in Mexico.

An alternative explanation from several commentators is that imports of liquids to be mixed with heavy crude to produce gasoline in the refineries of Tula and Salamanca had already been reduced on government orders since the beginning of December. When the shortage became apparent at the end of December, they declared war against fuel theft: government inefficiency was hidden by “war against corruption”, but badly planned and executed. There is concern that the massive departure of qualified people from the government increases the probability of disruption in critical government services such as the supply of fuel, water and medicine. In metaphorical terms, Mexicans are living in the shadow of a volcano, which could erupt at any moment.

### Other problems

The CNTE, a teachers' union allied to the government, in order to assert its rights, has blocked railway lines in the state of Michoacán, stopping economic activity. In states on the northern border, there have been 44 strikes owing to the reaction of in-bond manufacturers to the increase in minimum wage, suspending bonuses and other benefits. This number, for just 2 months, is compared to the total number of strikes in entire sexenios of previous presidents: Fox 49, Calderón 40, Peña Nieto 23). Suits against the Salary Law passed in December 2018 whereby no government employee can earn more than the President (108,000 pesos monthly) pressed by independent organs such as the judiciary, Bank of Mexico and the Competition Commission (COFEC) have not yet been resolved. In addition, to encourage food self-sufficiency, in January AMLO announced the reintroduction of price guarantees for agricultural products and the establishment of a new organization to execute them. Critics point out that, as occurred in the 1970s, this will cause massive distortions in the agricultural economy, at a high cost.

### Venezuela

There are views that AMLO has failed his first foreign policy test with his implicit approval (through a doctrine of “non-intervention”) of Nicolas Maduro, military dictator of Venezuela, against Juan Guaidó, President of the Venezuelan National Assembly. Guaidó declared himself President on January 23, 2019, against Maduro who took office on January 10 after elections on Mayo 2018 that were broadly considered as irregular. AMLO is aligning himself with mostly dictatorial regimes such as Russia, China, Iran, Turkey, South Africa, Cuba, Nicaragua and Bolivia against a group of democracies currently including the US, 19 European countries, Australia, Canada, Israel, and the countries of the “Group of Lima” (Argentina, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Honduras, Panama, Paraguay and Perú). The Group was established in August 2017 to seek a peaceful solution to the political crisis in Venezuela. Mexico was a member of the Group but through its declaration of non-intervention, effectively left it. Inside and outside Mexico, there is concern at the rejection by the new Mexican government of a civilian democracy in favor of a military dictatorship which has violated human rights, caused hyperinflation (1,300,000% 12 months), famine, recession, corruption, and the emigration of more than 3 million Venezuelans (7% of the population) since 2014.

## ECONOMICS

### GLOBAL

#### Growth

The IMF published its economic projections for 2019-20 in January. It estimates a fall in global growth in 2019 and 2020, but for EM higher growth in 2020, but lower growth in 2019. For Mexico in 2019, it lowered its growth estimate from 2.5% (October 2018) to 2.1% (Figure 6).

Figure 6. EM and EM: estimated growth 2019- 2020 (11Jan2019) Source: IMF

|   | Estimaciones |            | Proyecciones |  |
|---|--------------|------------|--------------|--|
|   | 2018         | 2019       | 2020         |  |
| <b>Producto mundial</b>                               | <b>3,7</b>   | <b>3,5</b> | <b>3,6</b>   |  |
| <b>Economías avanzadas</b>                            | <b>2,3</b>   | <b>2,0</b> | <b>1,7</b>   |  |
| Estados Unidos  | 2,9          | 2,5        | 1,8          |  |
| Zona del euro   | 1,8          | 1,6        | 1,7          |  |
| Alemania  | 1,5          | 1,3        | 1,6          |  |
| Francia   | 1,5          | 1,5        | 1,6          |  |
| Italia  | 1,0          | 0,6        | 0,9          |  |
| España  | 2,5          | 2,2        | 1,9          |  |
| Japón   | 0,9          | 1,1        | 0,5          |  |
| Reino Unido   | 1,4          | 1,5        | 1,6          |  |
| Canadá  | 2,1          | 1,9        | 1,9          |  |
| Otras economías avanzadas                             | 2,8          | 2,5        | 2,5          |  |
| <b>Economías emergentes y en desarrollo</b>           | <b>4,6</b>   | <b>4,5</b> | <b>4,9</b>   |  |
| Comunidad de Estados Independientes                   | 2,4          | 2,2        | 2,3          |  |
| Rusia   | 1,7          | 1,6        | 1,7          |  |
| Excluido Rusia  | 3,9          | 3,7        | 3,7          |  |
| <b>Economías emergentes y en desarrollo de Asia</b>   | <b>6,5</b>   | <b>6,3</b> | <b>6,4</b>   |  |
| China   | 6,6          | 6,2        | 6,2          |  |
| India   | 7,3          | 7,5        | 7,7          |  |
| ASEAN-5   | 5,2          | 5,1        | 5,2          |  |
| <b>Economías emergentes y en desarrollo de Europa</b> | <b>3,8</b>   | <b>0,7</b> | <b>2,4</b>   |  |
| América Latina y el Caribe                            | 1,1          | 2,0        | 2,5          |  |
| Brasil  | 1,3          | 2,5        | 2,2          |  |
| México  | 2,1          | 2,1        | 2,2          |  |
| Orient Medio, Norte de África, Afganistán y Pakistán  | 2,4          | 2,4        | 3,0          |  |
| Arabia Saudita  | 2,3          | 1,8        | 2,1          |  |
| <b>África subsahariana</b>                            | <b>2,9</b>   | <b>3,5</b> | <b>3,6</b>   |  |
| Nigeria   | 1,9          | 2,0        | 2,2          |  |
| Sudáfrica   | 0,8          | 1,4        | 1,7          |  |
| <b>Países en desarrollo de bajo ingreso</b>           | <b>4,6</b>   | <b>5,1</b> | <b>5,1</b>   |  |

## MEXICO

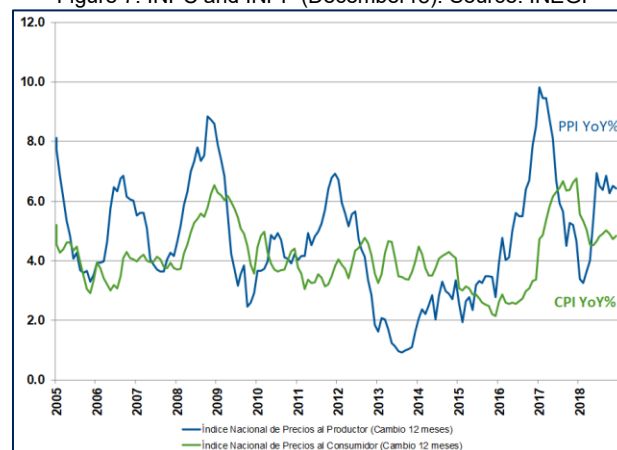
### Growth

The official growth assumption in the 2019 budget, of 2% (see Figure 3) is more conservative than the IMF (2.1%).

### Inflation

Consumer inflation for 2018 was 4.83% (4.72% in November) and producer inflation fell to 6.08% from 6.51% in November. We expect inflation to stay at current levels (Figure 7) with several risks: 1) the impact of lower international gasoline prices and the recent strength of the peso, although this may be offset by the gasoline shortage and an increase in the special gasoline tax in 2019; 2) the potential effect of the increase in the minimum wage which increased by 16.2% 3) the impact of the reduction in taxes on the frontier with the US, particularly VAT, and the effect on agricultural prices if the fuel shortage continues.

Figure 7. INPC and INPP (December18). Source: INEGI



## RISKS AND SCENARIOS FOR 2019

The objective is Mexican economic growth. In the positive scenario, all risks turn out favorable for growth, in the negative, unfavorable, and in the middle, mixed. Estimates for each scenario are given in Figure 8.

| RISKS   |  |
|---|--|
| <i>Global</i>   |  |
| <ul style="list-style-type: none"> <li>US: monetary policy, recession</li> <li>Global: trade wars</li> <li>Geopolitics: Europe, Middle East, Russia, China, North Korea, Venezuela</li> <li>EM: crisis and contagion</li> </ul>   |  |
| <i>Mexican</i>  |  |
| <ul style="list-style-type: none"> <li>New government</li> <li>Security</li> <li>Corruption</li> <li>Oil</li> <li>Debt rating</li> </ul>  |  |
| SCENARIOS   |  |
| <i>Positive (20%)</i>   |  |
| <ul style="list-style-type: none"> <li>US: expansion continues, no trade disputes.</li> <li>Monetary policy does not derail cycle.</li> <li>Rapid ratification USMCA.</li> <li>Geopolitical risks do not materialize.</li> <li>Global growth.</li> <li>EM: no crisis or contagion.</li> <li>Mexico: new government functions, spending drives infrastructure/consumption, measures anticorruption and antiviolence work.</li> </ul>                 |  |
| <i>Negative (40%)</i>   |  |
| <ul style="list-style-type: none"> <li>US: expansion stops, trade wars affect global commerce.</li> <li>Monetary policy derails cycle.</li> <li>USMCA not ratified, elimination threatened.</li> <li>Geopolitical risks materialize.</li> <li>Global recession.</li> <li>EM: crisis and contagion.</li> <li>Mexico: new government dysfunctional, spending out of control, anticorruption and violence measures backfire.</li> </ul>                |  |
| <i>Middle (40%)</i>   |  |
| <ul style="list-style-type: none"> <li>US: slow expansion continues, rhetorical trade disputes.</li> <li>Adequate monetary policy, but uncertain.</li> <li>USMCA approved late, with changes.</li> <li>Geopolitical: risks materialize partially.</li> <li>Global slowdown, unsynchronized.</li> <li>EM: crisis and some contagion from vulnerable countries.</li> <li>Mexico: government partially functional, continued mixed signals.</li> </ul> |  |

Figure 8. Estimates for 2019 scenarios. Source: FT

|                         | Scenarios for 2019 |           |                   | 2015      |
|-------------------------|--------------------|-----------|-------------------|-----------|
|                         | High               | Low       | Base <sup>1</sup> | Estimated |
| Probability             | 20%                | 40%       | 40%               |           |
| <u>US</u>               |                    |           |                   |           |
| Economy                 | > 2.50%            | < 2.50%   | 2.50%             | 2.9%      |
| Inflation               | > 2.00%            | < 2.00%   | 2.00%             | 2.50%*    |
| Budget deficit          | < 4.70%            | > 4.70%   | 4.70%             | 3.9%      |
| Current account deficit | < 2.60%            | > 2.60%   | 2.60%             | 2.4%      |
| Fed Funds rate          | > 2.90%            | < 2.90%   | 2.90%             | 2.50%*    |
| TNote 10 US             | > 3.11%            | < 3.11%   | 3.11%             | 2.69%*    |
| Oil (WTI)               | > \$55.01          | < \$55.01 | 55.01             | 45.41*    |
| <u>Mexico</u>           |                    |           |                   |           |
| Economy                 | > 1.80%            | < 1.80%   | 1.80%             | 1.80%     |
| Inflation               | > 3.85%            | < 3.85%   | 3.85%             | 4.87%*    |
| Budget deficit          | < 2.50%            | > 2.50%   | 2.50%             | 2.30%*    |
| Current account deficit | < 1.60%            | > 1.60%   | 1.60%             | 1.70%     |
| Cetes28 (year end)      | > 8.18%            | < 8.18%   | 8.18%             | 8.42%*    |
| Peso/US\$ (year end)    | < \$20.16          | > \$20.16 | 20.16             | 19.65*    |

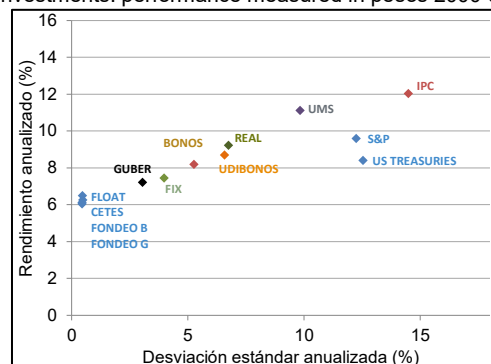


## MARKETS

### Investments in US\$ and pesos: comparative performance

Following peso depreciation since Trump, long term (2000-2019) the gap between US\$ and peso investments, both converted to pesos, has narrowed. Even so, peso investments have outperformed (Figure 9).

Figure 9. US\$ peso investments: performance measured in pesos 2000-31Jan2019. Source: FT.



### US\$ and peso

The peso has appreciated owing to US\$ weakness globally and the rate differential with the US (Figure 10). Sentiment measured by Bank of Mexico improved slightly in December but deteriorated in January (Figure 11).

Figure 10. Peso vs. US\$: 1980-31Jan2019. Source: FT

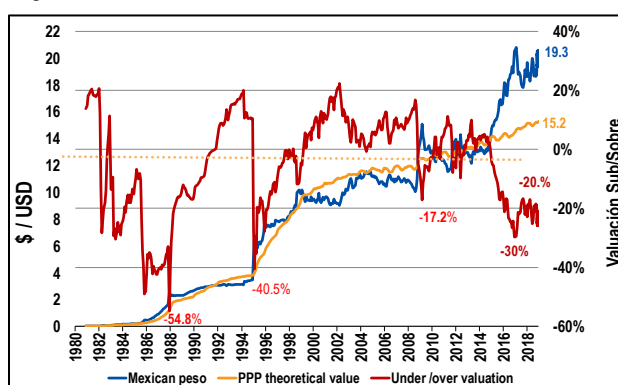
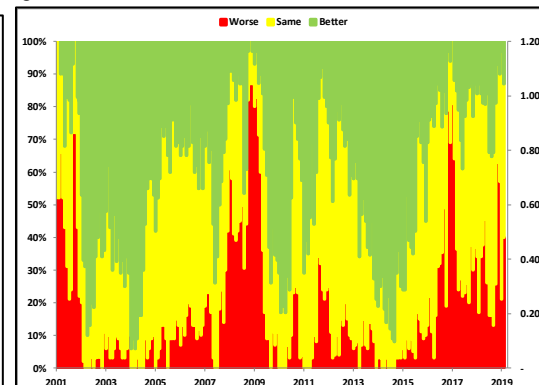


Figure 11. Sentiment: Banxico Dec2001-Jan2019. Source: Banxico



## Debt

### December rally

December 2018 was the third best ever month for long term ILS (udibonos) with long term rates falling from 4.66% at end-November to 4.12% at end-December. This could be partially explained by the renewed appetite of foreign over domestic investors (Figure 12). In January 2019, the Fed announced less aggressive hikes for 2019.

Figure 12. Change in holdings of peso investments at nominal value Source: Banxico

|                   | Residentes en el País | Residentes en el extranjero (II) |
|-------------------|-----------------------|----------------------------------|
| M BONO 13/12/2018 |                       |                                  |
| M BONO 11/12/2019 | 613.83                | -4,159.00                        |
| M BONO 11/6/2020  | 7,865.85              | -6,576.49                        |
| M BONO 10/6/2021  | 3,140.61              | -10,310.68                       |
| M BONO 9/12/2021  | 7,915.46              | 15,177.50                        |
| M BONO 9/6/2022   | -466.74               | -1,180.16                        |
| M BONO 7/12/2023  | 13,758.55             | 3,241.19                         |
| M BONO 5/12/2024  | 7,765.26              | -12,867.49                       |
| M BONO 5/3/2026   | 5,556.02              | -5,522.77                        |
| M BONO 3/6/2027   | -11,204.95            | 24,743.43                        |
| M BONO 31/05/2029 | -4,302.49             | 5,786.57                         |
| M BONO 29/05/2031 | -5,923.80             | 5,720.40                         |
| M BONO 23/11/2034 | -4,441.36             | 3,545.27                         |
| M BONO 20/11/2036 | -5,485.66             | 5,378.51                         |
| M BONO 18/11/2038 | -14,637.37            | 17,903.98                        |
| M BONO 13/11/2042 | -2,835.26             | 7,182.27                         |
| M BONO 7/11/2047  | -8,389.44             | 9,765.00                         |
| Total             | -11,071.49            | 57,827.53                        |

Rates in DM and EM are expected to rise in 2019, except in Mexico (Figure 13).

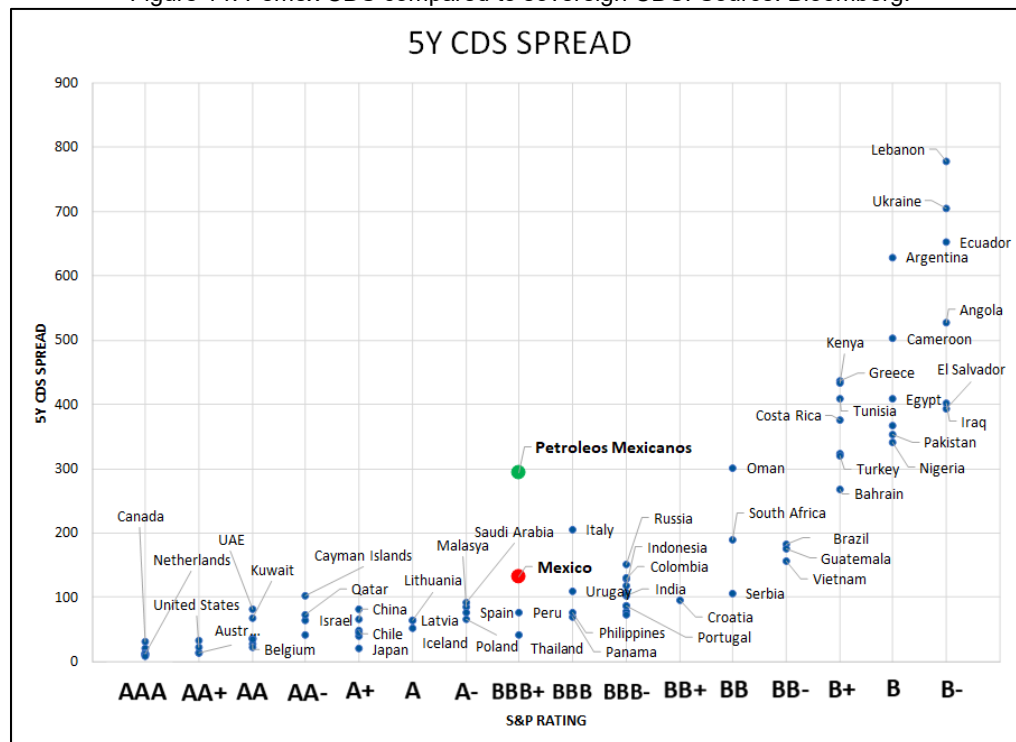
Figure 13. DM and EM: 10 year nominal rates estimated for end- 2019 (31Jan19). Source: Bloomberg, FT

| Developed            |       |        |       | Emerging             |       |        |       |
|----------------------|-------|--------|-------|----------------------|-------|--------|-------|
| local 10y yields (%) |       |        |       | local 10y yields (%) |       |        |       |
|                      | 4Q19e | Actual | (bps) |                      | 4Q19e | Actual | (bps) |
| US                   | 3.10  | 2.78   | 31.58 | China                | 3.25  | 3.11   | 14.5  |
| Euro Area            | 0.80  | 0.26   | 53.8  | India                | 7.61  | 7.31   | 30    |
| Japan                | 0.12  | 0.01   | 11    | Rusia                | 8.20  | 8.04   | 16.5  |
| Britain              | 1.82  | 1.35   | 46.7  | Brasil               | 9.96  | 9.08   | 88    |
| Australia            | 2.73  | 2.32   | 41.5  | México               | 8.65  | 8.66   | -0.6  |
| Canada               | 2.56  | 2.04   | 52.3  | Corea del sur        | 2.45  | 2.01   | 43.8  |
| Germany              | 0.80  | 0.26   | 53.8  | Indonesia            | 8.09  | 8.09   | 0.1   |
| France               | 1.18  | 0.66   | 52    | Turquia              | 16.90 | 16.06  | 84    |

### Pemex: Fitch ratings downgrade

Owing to the reduction in Pemex oil production (from 3.4 mmbd in 2004 to 1.8 mmbd on 2018), on January 28 the Mexican Treasury (SHCP) announced that it would free up 11 bn. pesos yearly for Pemex, to be invested only in exploration and production, with the goal to return to previous production levels. The market appears to believe that these measures are insufficient to clean up Pemex's finances, as it has negative capital close to US\$80mmn. This was reflected on January 29 when Fitch lowered its global rating for Pemex from BBB+ to BBB-, and local rating from AAA.mx to AA.mx., both with negative outlook. AMLO called Fitch "hypocritical", but Pemex executives said they took the rating seriously. Moody's has maintained its rating equivalent to BBB- with a stable outlook and S&P at BBB+ with a stable outlook. According to the valuation of its CDS in the market, it is possible that the market is discounting a downgrade by S&P, or another downgrade by other agencies (Figure 14).

Figure 14. Pemex CDS compared to sovereign CDS. Source: Bloomberg.



### Stocks

In 2018, stock performance measured in US\$ was negative due to global and local factors. The US market went through a major correction owing to fears that the current cycle is ending. Mexico was affected by the airport cancellation and the other negative factors, but improved in January 2019, as did other markets, owing to the optimism generated by the Fed's moderate announcement (Figures 15 and 16).



Figure 15. Stocks: DM and EM 2018 (US\$). Source: Bloomberg

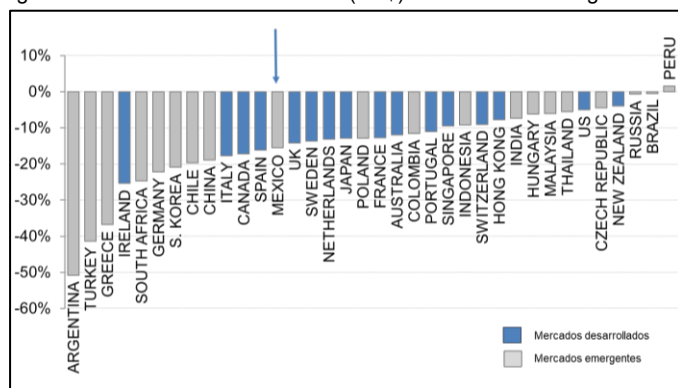
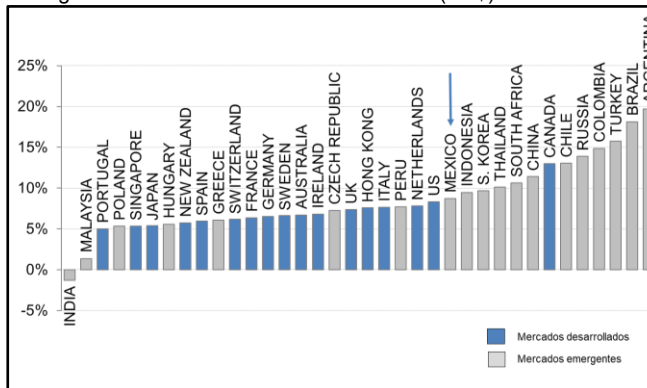


Figure 16. Stocks: DM and EM YTD 2019 (US\$). Source: Bloomberg



## Fibras (REITs)

Since inception Fibras have outperformed stocks since 2011 (Figure 17 and 18). Following a negative period since Trump's election victory in 2016, they were also affected by the AMLO election, but benefitted from the signing of TMEC in November 2018. With the fall in prices, Fibra dividends are more attractive. Most rents are linked to the US\$ and/or inflation (Figure 19).

Figure 17. Fibras vs. IRT Mar2011-31Jan19.

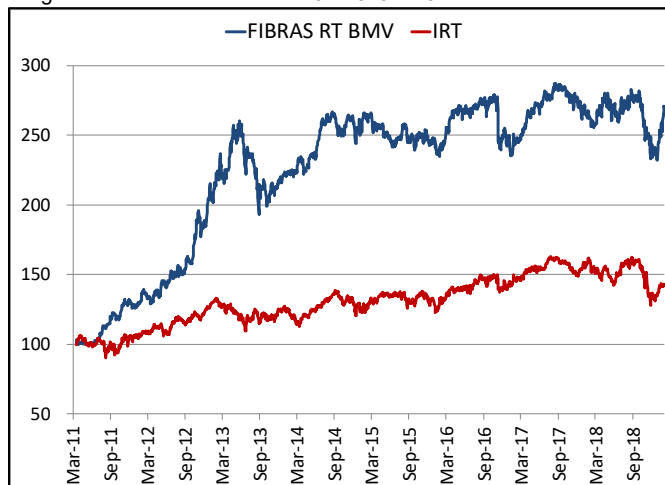


Figure 18. Fibras vs. IRT. Jan18-31Jan19 (base 100). Source: Bloomberg

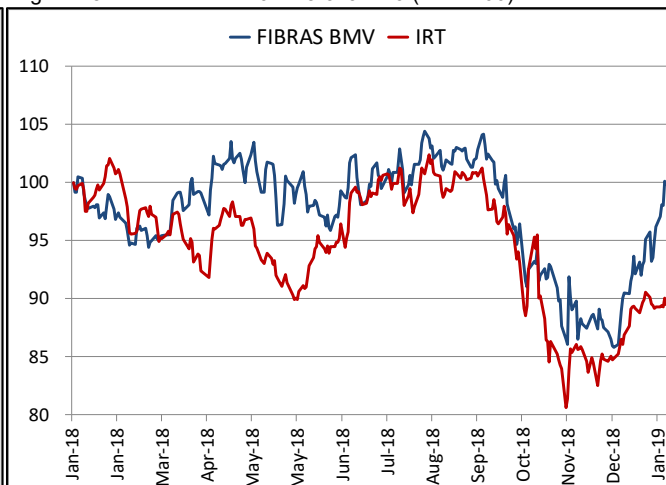


Figure 19. Fibras: valuation and dividends (31Jan2019). Source: Bloomberg

|             | Mcap (M) | Calendarized |      |       |       |       |       |       |
|-------------|----------|--------------|------|-------|-------|-------|-------|-------|
|             | (MXN)    | 2015         | 2016 | 2017  | 2018  | 2019  | 2020  | 2021  |
| FUNO11 MM   | 95,062   | 4.8%         | 6.3% | 6.8%  | 9.4%  | 8.1%  | 8.7%  | 9.2%  |
| DANHOS13 MM | 35,179   | 5.0%         | 6.3% | 7.0%  | 9.8%  | 8.7%  | 9.0%  | 9.2%  |
| FIBRAPL MM  | 21,626   |              | 6.8% | 6.5%  | 8.8%  | 7.3%  | 7.7%  | 8.9%  |
| TERRA13 MM  | 19,696   | 6.5%         | 7.5% | 7.8%  | 10.6% | 10.0% | 10.3% | 10.2% |
| FIBRAMQ MM  | 14,898   | 7.6%         | 7.1% | 8.6%  | 8.7%  | 7.4%  | 7.8%  | 8.3%  |
| FIHO12      | 8,064    | 7.6%         | 7.8% | 8.1%  | 9.7%  | 8.3%  | 8.2%  | 9.2%  |
| FMTY14 MM   | 7,539    |              |      | 7.6%  | 8.7%  | 9.0%  | 9.4%  | 9.7%  |
| FHIPO       | 6,747    | 7.6%         | 7.8% | 8.1%  | 9.7%  | 8.3%  | 8.2%  | 9.2%  |
| FINN13 MM   | 5,204    | 5.7%         | 6.4% | 7.9%  | 10.0% | 9.9%  | 8.5%  | 8.9%  |
| FSHOP13 MM  | 4,102    | 5.4%         | 8.2% | 10.8% | 12.7% | 12.6% | 12.5% | 12.8% |

**Conclusion**

The global and local outlook continues to be cloudy. Globally the end of the economic cycle indicates an increase in rates, although less aggressive, reduction in profits, and flight to quality. The risk of the inexperience of the incoming government and its avowed prioritization of politics over economics could detonate new problems, by definition unpredictable, in the short and medium term. We advise caution for peso denominated portfolios: overweight liquidity and ILS debt short duration 1-3 years, and underweight stocks and fibras.

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**February 6, 2019**

**Main financial indicators: monthly at January 31, 2019**

In January in Mexico stocks rose 5.64%. Nominal rates fell for all terms except 28d. Real rates rose over all terms. The US\$ fell 3.12% vs. the peso. In the US, DJ, S&P500 and Nasdaq rose. WTI oil rose 23.14%. Nominal rates fell for all terms, except 30y. Real rates fell for all terms. According to the Banxico business climate poll, optimism rose to 13% (3% previous), no change fell to 47% (76%), and pessimism rose to 40% (21%).

| Mexico                    |           |           |         |         |         |
|---------------------------|-----------|-----------|---------|---------|---------|
| Stock market and oil      |           |           |         |         |         |
|                           | 31-Jan-19 | 31-Dec-18 | Month   | YTD     | 2018    |
| IPC                       | 43,987.94 | 41,640.27 | 5.64%   | 5.64%   | -15.63% |
| Local currency (USD/MXN)  | 19.04     | 19.65     | -3.12%  | -3.12%  | -0.06%  |
| Mexican oil mix (USD/bbl) | 55.03     | 44.69     | 23.14%  | 23.14%  | -20.47% |
| Nominal rates             |           |           |         |         |         |
|                           | 31-Jan-19 | 31-Dec-18 | Month   | YTD     | 2018    |
| CETES 28                  | 8.44%     | 8.42%     | 2 bps   | 2 bps   | 110 bps |
| CETES 360                 | 8.30%     | 8.49%     | -19 bps | -19 bps | 103 bps |
| M5                        | 8.18%     | 8.52%     | -34 bps | -34 bps | 93 bps  |
| M10                       | 8.45%     | 8.66%     | -21 bps | -21 bps | 101 bps |
| M30                       | 8.75%     | 8.89%     | -14 bps | -14 bps | 111 bps |
| Real rates                |           |           |         |         |         |
|                           | 31-Jan-19 | 31-Dec-18 | Month   | YTD     | 2018    |
| UDIBONO 10                | 4.14%     | 4.11%     | 3 bps   | 3 bps   | 61 bps  |
| UDIBONO 30                | 4.32%     | 4.12%     | 20 bps  | 20 bps  | 42 bps  |
| Commodities               |           |           |         |         |         |
|                           | 31-Jan-19 | 31-Dec-18 | Month   | YTD     | 2018    |
| Gold                      | 1,321.40  | 1,280.71  | 3.18%   | 3.18%   | -1.70%  |
| WTI (USD/bbl)             | 55.03     | 44.69     | 23.14%  | 23.14%  | -20.47% |
| UMS                       |           |           |         |         |         |
|                           | 31-Jan-19 | 31-Dec-18 | Month   | YTD     | 2018    |
| UMS 10 years              | 4.73%     | 4.92%     | -19 bps | -19 bps | 129 bps |
| UMS 20 years              | 5.58%     | 5.78%     | -20 bps | -20 bps | 125 bps |
| UMS 30 years              | 5.37%     | 5.84%     | -47 bps | -47 bps | 120 bps |
| Stock markets (US\$)      |           |           |         |         |         |
|                           | 31-Jan-19 | 31-Dec-18 | Month   | YTD     | 2018    |
| MSCI Developed            | 8,379.03  | 7,771.71  | 7.81%   | 7.81%   | -8.20%  |
| MSCI Emerging             | 2,352.28  | 2,162.50  | 8.78%   | 8.78%   | -14.25% |
| MSCI Mexico               | 8,741.11  | 7,962.58  | 9.78%   | 9.78%   | -15.29% |
| MSCI Brazil               | 7,449.55  | 6,325.54  | 17.77%  | 17.77%  | -0.15%  |

| US            |           |           |         |         |         |
|---------------|-----------|-----------|---------|---------|---------|
| Stock market  |           |           |         |         |         |
|               | 31-Jan-19 | 31-Dec-18 | Month   | YTD     | 2018    |
| DJ            | 24,999.67 | 23,327.46 | 7.17%   | 7.17%   | 18.04%  |
| S&P           | 2,704.10  | 2,506.85  | 7.87%   | 7.87%   | 11.97%  |
| Nasdaq        | 7,281.74  | 6,635.28  | 9.74%   | 9.74%   | 23.26%  |
| Nominal rates |           |           |         |         |         |
|               | 31-Jan-19 | 31-Dec-18 | Month   | YTD     | 2018    |
| Tbill 90      | 2.41%     | 2.45%     | -4 bps  | -4 bps  | 194 bps |
| Tnote 5       | 2.43%     | 2.51%     | -8 bps  | -8 bps  | 58 bps  |
| Tnote 10      | 2.63%     | 2.69%     | -6 bps  | -6 bps  | 24 bps  |
| Tbond 30      | 3.03%     | 2.98%     | 5 bps   | 5 bps   | -8 bps  |
| Real rates    |           |           |         |         |         |
|               | 31-Jan-19 | 31-Dec-18 | Month   | YTD     | 2018    |
| Tip 5         | 0.73%     | 1.00%     | -27 bps | -27 bps | 91 bps  |
| Tip 10        | 0.78%     | 0.98%     | -20 bps | -20 bps | 48 bps  |
| Tip 30        | 1.08%     | 1.21%     | -13 bps | -13 bps | 22 bps  |

| Bank of Mexico survey |           |               |
|-----------------------|-----------|---------------|
| Indicator             | 2019      | 2019 anterior |
| PIB                   | 1.80%     | 1.89%         |
| Inflation             | 3.85%     | 3.85%         |
| Cetes 28              | 8.18%     | 8.16%         |
| Local currency        | 20.16     | 20.70         |
| Business conditions   |           |               |
|                       | 31-Jan-19 | 31-Dec-18     |
| Optimism              | 13%       | 3%            |
| No change             | 47%       | 76%           |
| Pessimism             | 40%       | 21%           |

Source: Bloomberg, Banco de Mexico

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\*Timothy Heyman, President of FTSAM, founded Heyman y Asociados in 1985. In 2013, Franklin Templeton established FTSAM and merged it with Heyman y Asociados.

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