

Global watershed and local decoupling

Portfolio Management team



Timothy Heyman, CBE
President



Ramsé Gutiérrez, CFA
VP / Portfolio manager



Luis Gonzalí, CFA
Portfolio manager



Jorge Marmolejo, CFA
Portfolio manager



Nadia Montes de Oca, CFA
Portfolio Manager



Octavio Martínez
Analyst

Franklin Templeton Servicios de Asesoría Mexico (FTSAM)

- Established 2013.
- Subsidiary of Franklin Templeton Investments.
- Investment solutions for our clients taking into account their needs and the global and local environment.
- Portfolio management team with more than 20 years' experience.
- Pioneers in Mexican investments*.

Franklin Templeton: Culture and Values

- Put clients first.
- Build relationships.
- Achieve quality results.
- Work with integrity.

SUMMARY

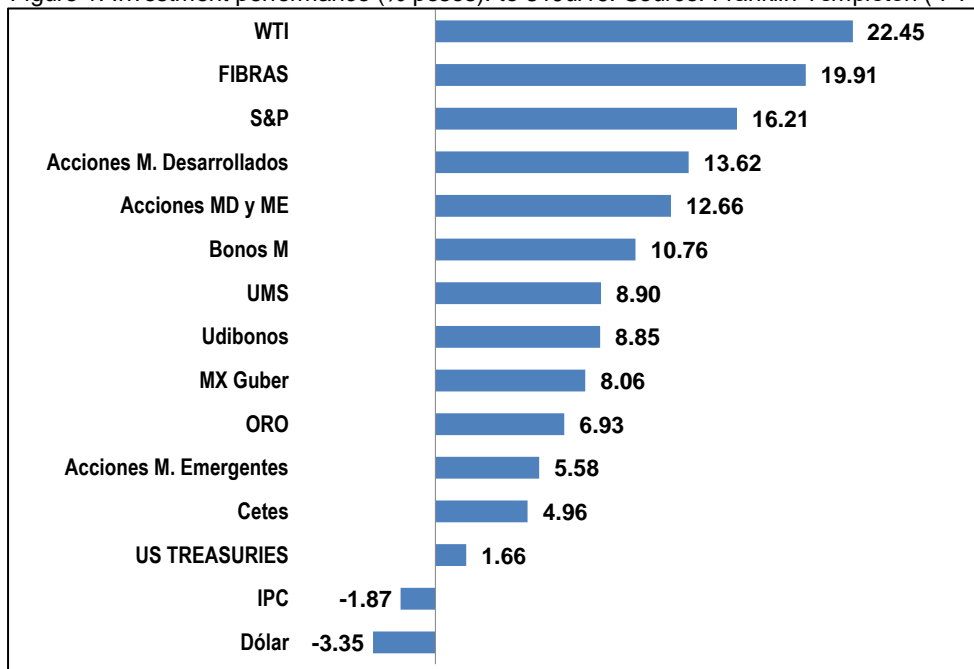
- Global. Risk assets rose during July due to expected lower rates, but August began with renewed US-China trade disputes.
- Mexico. Negative economic data and estimates, Pemex business plan, and anti-constitutional legal initiative damaged risk assets.
- Global risks 2019: abrupt deceleration, trade wars, geopolitics, Brexit / Europe, monetary policy, emerging markets.
- Local risks: trade war with the US, dysfunctional government, non-ratification of USMCA in the US, loss of investment grade.
- 2019 investment scenarios with probabilities: positive (10%), negative (50%), medium (40%).
- For portfolios in pesos, overweight liquidity and ILS debt to 3 year duration, underweight stocks and REITs

“Every life has a watershed moment...I’m not sure we recognize these moments until they’ve passed us” – Mira Grant

July: decoupling of global and local risk assets

Globally, yields of risk assets year to date were positive due to the expectation of a Fed rate cut, which occurred (-25bps) for the first time after 10 years, but face the threat of-a renewal of US-China trade disputes. In Mexico, risk assets continued to deteriorate owing to negative economic news, a Pemex business plan considered inadequate, and proposed legislation which appeared anticonstitutional (Figure 1). Investors fear the beginning of the end of the global recovery cycle and the practical beginning of the “Fourth Transformation” in Mexico (Figure 1).

Figure 1. Investment performance (% pesos): to 31Jul19. Source: Franklin Templeton (“FT”)



POLITICS

US

China: trade disputes continue

Previous tariff imposition begins to show losses on both sides. In the US, the number of farm bankruptcies has cost more than US \$25bn. (Figure 2), not offset by funds collected from tariffs (less than US\$20bn.). In China the economy slowed to 6.2% in the 2nd quarter of 2019, its lowest level since 1992 (Figure 3). President Donald Trump suddenly announced on August 1 that he will impose rates of 10% on US \$300bn. of Chinese imports that are not yet subject to tariffs as of September 1. China announced reprisals if more tariffs are imposed. Looking at the US presidential elections on November 3, 2020, the US should avoid escalation of the trade dispute and China could wait to negotiate with whoever wins the election. US-China negotiations are expected to continue in early September.

Figure 2. Farms declared bankrupt.

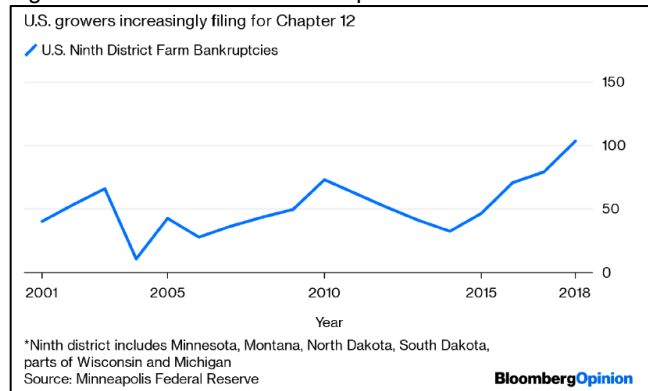
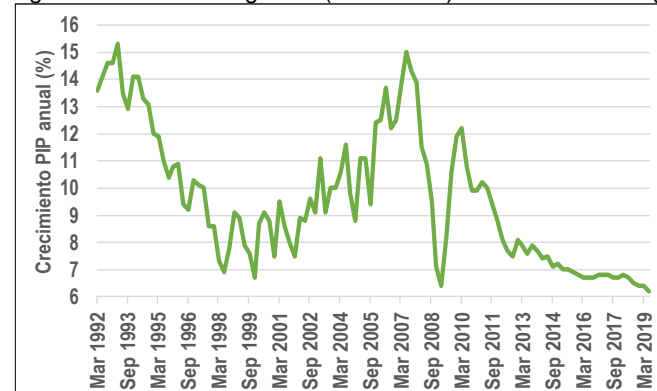


Figure 3. China: GDP growth (1992-2019).Source: Bloomberg



2020 elections:

In November 2020 presidential elections, President Trump will take on a Democratic candidate to be decided in primaries the next few months. The second debate occurred Tuesday, July 30 and Wednesday, July 31, among Democratic candidates with Joe Biden still ahead (Figure 4) and the average of the RealClearPolitics polls (Figure 5). If Joe Biden were the Democratic candidate, the polls give him, without exception, an advantage against Trump.

Figure 4. Declared support.

Source: ProjectFiveThirtyEight

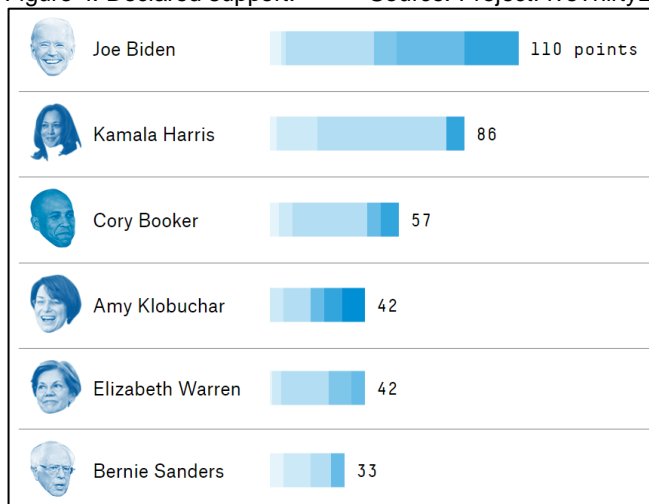
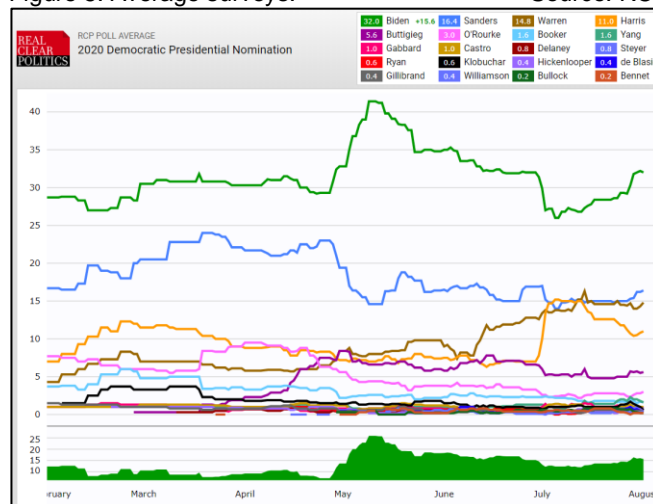


Figure 5. Average surveys.

Source: RCP



Iran: tensions

In May, the US increased sanctions, prohibiting all countries from buying Iranian oil. During June, Iran seized an oil tanker linked to the United Kingdom (UK), and in retaliation the UK seized an Iranian ship. Iran has said it is willing to desist if Europe, Russia and China resume trade, and has threatened to increase its nuclear program, in order to encourage Europe to persuade the US to reduce sanctions.

EUROPE

Brexit: no deal?

The new UK prime minister, Boris Johnson, has stated that the UK will exit the European Union (EU), on October 31, with or without an exit deal. A very negative "no deal" scenario produced by Mark Carney, the governor of the Bank of England, is that GDP will fall 8% during the first year and housing prices 33%. For the EU, the consequences would be negative, but incalculable. Meanwhile, the UK government has begun to prepare for supply shortages, financial market supervisors have arranged to continue using London's indispensable infrastructure and maintain the supervision of funds, and airlines have also reached an agreement to continue flying between countries.

In an extremely uncertain situation, after 2 extensions to the Brexit date, a negotiated exit scenario seems unlikely. With a majority for the conservative party in the parliament of just 1 seat, there are other scenarios: for a stipulation by Parliament that the prime minister cannot leave the EU without its consent, a motion of no confidence leading to his resignation, new elections, or even another referendum.

MEXICO

USA - Mexico: tariffs/migration

Mexico avoided the tariffs proposed by Trump in exchange for acting as an effective "border wall" against the illegal migration to the US by migrants from Central America. Mexico deployed 6,000 National Guardsmen on its border with Guatemala, detaining 29,153 undocumented migrants in June, 200% more than a year earlier. Mike Pompeo, the US Secretary of State, acknowledged that Mexico has made "real progress". This is unlikely to end US pressure, but it is unclear what additional measures the US may come up with. One possibility is that Mexico become a "safe third nation", implying that Central American migrants ask Mexico for refugee status, before arriving in the US. It is difficult to ensure the safety of migrants in Mexican territory, as the Mexican asylum system is underfunded.

USMCA

Democrats have been moderating their position to accept the USMCA negotiated by Trump. Next week they will send concrete and detailed proposals, which will probably include greater labor and environmental protections, to Robert Lighthizer, US trade representative.

Three law changes

Property takeover

The upper and lower chambers approved by majority the law of property takeover (*extinción de dominio*), designed to permit authorities to dispose of goods seized from organized crime or from acts of corruption, cover-up or crimes committed by public servants. Criticisms of the law range from its unconstitutionality to its being a precedent for undermining private property. Specifically, criticisms include: 1) abolition of the presumption of innocence with the possibility of the sale of the goods before the end of the investigation into lawful ownership, 2) lawsuits are to be settled by civil law (between individuals), but through mechanisms of criminal law (state against individuals), 3) civil judges will have to receive training during the next 6 months which has not been budgeted, 4) the proceeds from goods seized, instead of being used to strengthen institutions that prevent and punish crimes, will be decided by the Social Cabinet that reports directly to the President.

"Bonilla Law": extension of mandate in Baja California

On Tuesday, July 23, deputies of the Congress of Baja California (BC) passed a constitutional reform to extend the administration of Jaime Bonilla from two to five years, who will assume his position as governor, on November 1, after winning an election for a 2-year term. This would violate the constitutional prohibition of an extension of the mandate for which he was voted. There is also criticism that the session was in an alternate venue of which opposition deputies were not notified: when they finally arrived, they were not allowed entry. The current governor, Francisco Vega de Lamadrid, has yet to order publication in the Official State Gazette, declaring that he will refuse and send a constitutional controversy so that the reform is repealed. There is speculation that the "Bonilla Law" is an experiment for AMLO to extend a national mandate, on the premise that "I will stay as long as the people want."

"Garrote Law": incongruity and betrayal of social movements

On July 31, the governor of Tabasco, Adam Augusto López Hernández (Morena), ordered the publication in the Official State Gazette of the reform of the Criminal Code, which establishes a sentence of up to 20 years prison for

those who extort public or private companies and obstruct operations. On August 1 the so-called "Garrote Law" ("garrote" means "truncheon") came into force. Its objective is to prohibit obstruction of the construction of the Dos Bocas refinery, which is opposed by several communities. Amnesty International said that this law would allow the private sector to impose megaprojects unopposed by the people, and in addition, that freedom of expression is at risk, and that the new legislation could be a step towards the criminalization of human rights. Other critics believe that the law is a betrayal of social movements and contradicts the past of the President, who led various marches and blockades against the state government of Tabasco. There was even opposition among Morena's allies: both Encuentro Social and the Partido del Trabajo (PT) voted against and criticized the government's decision and the state Congress. Morena responded that the reform should be subjected to national debate.

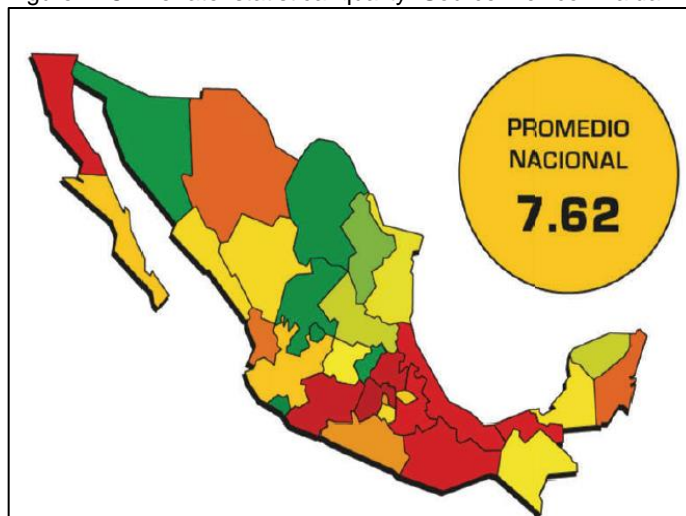
Crime on the rise

In July, a crime report was published, with information at the end of the first semester. Crime has continued to rise, with 170,738 crimes during June 2019 compared to 159,618 in 2018, a 6.97 % increase. The crimes that have grown the most have been those of minor drug trafficking, with an increase of 29.84%, while murders have increased more than 8% (Figure 6). Several studies, such as the Reliability Index of Mexico's Criminal Statistics of the thinktank Mexico Evalúa identify systematic underreporting up to 2018 in the data that state prosecutors or prosecutors report to the Executive Secretariat of the National Public Security System (SESNSP). The states with the worst quality of statistics reported are: State of Mexico, Hidalgo, Michoacán, Oaxaca, Baja California and Veracruz, which are ranked among the worst states in terms of insecurity (Figure 7).

Figure 6. Mexico; total crime rate. Source: SESNSP

Presuntos delitos	Junio 2018	Junio 2019	Porcentaje
Incidencia delictiva total	159,618	170,738	6.97%
Homicidio doloso (delitos)	2,369	2,560	8.06%
Homicidio doloso (víctimas)	2,769	3,001	8.38%
Feminicidio	75	77	2.67%
Secuestro	113	87	(23.01)%
Extorsión	556	687	23.56%
Robo total	61,496	60,478	(1.66)%
Robo a casa habitación	6,546	6,456	(1.37)%
Robo de vehículo automotor ^{2/}	14,230	12,268	(13.79)%
Robo a transeúnte	7,156	6,700	(6.37)%
Resto de los robos	33,564	35,054	4.44%
Violencia familiar	16,402	17,967	9.54%
Trata de personas	39	33	(15.38)%
Narcomenudeo	4,461	5,792	29.84%
Resto de delitos	74,107	83,057	12.08%

Figure 7. Crime rate: statistical quality. Source: México Evalúa



Dos Bocas refinery construction begins: six-year flagship project

On August 1, construction of the Dos Bocas refinery in Tabasco began. It is designed to process 340,000 barrels of oil per day (bbd.) and increase the supply of gasoline and diesel by 290,000 bbd. to reduce imports. Total cost is estimated at US\$8bn. and year of completion in 2022. It will be built in 3 parts: site preparation, construction and operation. The Mexican Center for Environmental Law (CEMDA) expressed concern that the operation of the refinery would alter air quality and noted that the Environmental Impact Statement did not include the analysis of other alternatives (required due to the size of the project). Information related to the necessary gas pipelines or the treatment plant was included. It noted that the analysis should be segmented to understand the real, cumulative and synergistic environmental impact. The report also points out that this project goes against the global trend and the law of energy transition and against the fulfillment of the Paris agreements on Climate Change. Finally, analysts at Moodys, global banks and the Mexican Institute for Competitiveness (IMCO) have warned that a refinery of this size will cost twice as much as the estimate and construction will take more than 10 years.

ECONOMY

GLOBAL

Increase

For 2019, global growth is expected to decline, according to the consensus of analysts and the International Monetary Fund (IMF). By 2020 analysts expect growth to continue at the same level, while the IMF expects a recovery. In China, it is expected to be the lowest growth since 1992 and even lower by 2020. In the US, a slowdown is also expected (Figures 8 and 9).

Figure 8. Estimated GDP growth. Source: Bloomberg

Developed markets				Emerging markets			
Growth(%)	2018 E			Growth(%)	2018 E		
	2020 E	2019 E	2018 E		2020 E	2019 E	2018 E
World	3.30	3.30	3.70	World	3.30	3.30	3.70
Developed	1.61	1.78	2.29	Emerging	4.81	4.64	4.97
US	1.81	2.50	2.90	China	6.00	6.20	6.60
Euro Area	1.20	1.10	1.80	India	6.90	6.70	7.40
Japan	0.50	0.70	0.70	Rusia	1.70	1.20	1.80
Britain	1.35	1.30	1.40	Brasil	2.10	1.00	1.22
Australia	2.50	2.00	3.00	México	1.70	1.00	2.10
Canada	1.80	1.40	2.10	Corea del sur	2.30	2.10	2.70
Germany	1.15	0.70	1.50	Indonesia	5.10	5.07	5.20
France	1.30	1.30	1.50	Turquia	2.40	(1.50)	3.00

Figure 9. Estimated. GDP growth

Source:IMF

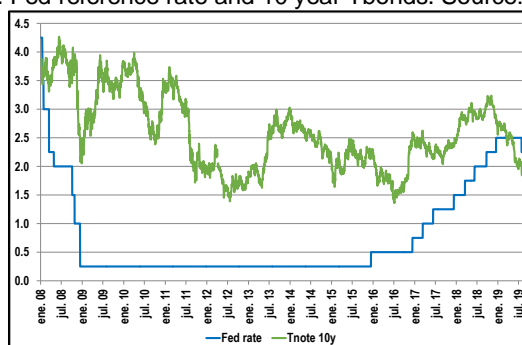
	Projections		
	2018	2019	2020
World Output	3.6	3.2	3.5
Advanced Economies	2.2	1.9	1.7
United States	2.9	2.6	1.9
Euro Area	1.9	1.3	1.6
Germany 3/	1.4	0.7	1.7
France	1.7	1.3	1.4
Italy	0.9	0.1	0.8
Spain	2.6	2.3	1.9
Japan	0.8	0.9	0.4
United Kingdom	1.4	1.3	1.4
Canada	1.9	1.5	1.9
Other Advanced Economies 4/	2.6	2.1	2.4
Emerging Market and Developing Economies	4.5	4.1	4.7
Commonwealth of Independent States	2.7	1.9	2.4
Russia	2.3	1.2	1.9
Excluding Russia	3.9	3.5	3.7
Emerging and Developing Asia	6.4	6.2	6.2
China	6.6	6.2	6.0
India 5/	6.8	7.0	7.2
ASEAN-5 6/	5.2	5.0	5.1
Emerging and Developing Europe	3.6	1.0	2.3
Latin America and the Caribbean	1.0	0.6	2.3
Brazil	1.1	0.8	2.4
Mexico	2.0	0.9	1.9

US

Fed: rate cut

The Fed cut its rate by 25bps for the first time in 10 years, even though the inverted curve stays at similar levels to 2008 (Figure 10). This cut is meant to extend the longest economic expansion since WWII. The decision is justified by the expected economic slowdown, inflation below the 2% target and low unemployment which has not led to wage hikes. Jerome Powell, Fed Chairman, said that the rate cut did not reflect aggressive easing, but a mid-cycle adjustment.

Figure 10. Fed reference rate and 10 year Tbonds. Source: Bloomberg



MEXICO

Growth: technical recession avoided

Preliminary growth rate of the second quarter was 0.1%, which avoided the expected technical recession. However, annual YoY growth (June 2018-2019) was -0.7%, a new low since the end of 2009. With this, the Fed's rate cut and inflation within the target range of Banxico, the possibility remains open for a decrease in the reference rate as early as August, which coincidentally is at the same level as before it began to decrease due to the 2008 crisis (Figure 11). Meanwhile, growth expectations continue to fall, both by analysts (Figure 8), international organizations such as IMF (Figure 9) and the government itself through the Treasury in the presentation of its report on the Economic Situation, Public Finance and the Public Debt for the Second Quarter of 2019 with an estimate of 1.1%, 0.9% less

than the level estimated in the 2019 Economic Package. In the same report, the public finance deficit continues to present better results than budgeted, although revenues of the public sector were lower than programmed due to lower oil revenues (-16% real), with net expenses lower than budgeted. The Public Sector Financial Requirements (RFSP), the broadest measure of the public finance deficit, posted a deficit of \$60.9mn. pesos, lower than 2018 of (\$236.3mn. pesos), So the historical balance of the RFSP was of 42.5% of GDP (Figure 14).

Prior to the publication of the growth figure, the federal government announced that it will launch a series of measures focused on boosting physical investment, private consumption and advancing bidding processes for fiscal year 2020 with the objective of “giving a little push” to the Mexican economy. The program will be divided into four areas: the creation of infrastructure, to which \$50bn. pesos will be allocated ; the delivery of new credits through the Development Bank, detonating financing for up to \$270bn. ; and the anticipation of the federal government's hiring and bidding of 2020, which will reach an amount up to \$116,000 bn. Moodys described this plan as “limited impact”, because it faces implementation risks, and confirms that the GDP slowdown is an issue of growing concern for the authorities.

Figure 11. Mexico: annual growth and Banxico rate

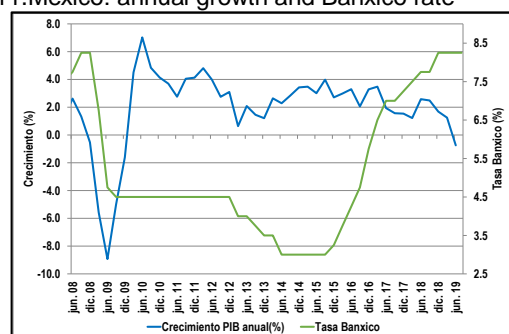


Figure 12. Mexico: expected growth 2019. Source: Bloomberg

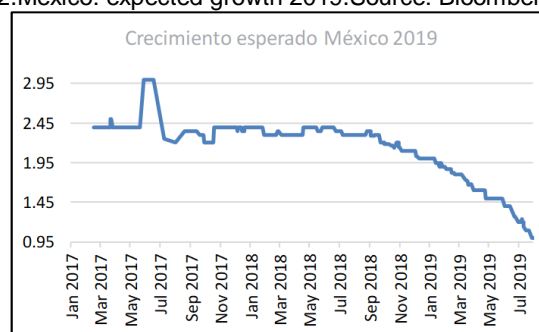


Figure 13. Summary of main public finance indicators. Source: SHCP

Concepto	Enero-junio		Variación % real (2/1)
	2018 ^{a./} (1)	2019 ^{a./} (2)	
1. Ingresos presupuestarios ^{1/}	2,502.0	2,622.6	0.6
2. Ingresos tributarios	1,558.1	1,694.1	4.4
3. Ingresos tributarios sin IEPS de combustibles	1,474.3	1,546.2	0.7
4. Gasto neto total sin erogaciones en inversiones financieras, pago de pensiones, participaciones y costo financiero	1,620.3	1,466.7	-13.1
5. Gasto neto total sin erogaciones en inversiones financieras, pago de pensiones y participaciones	1,952.0	1,828.7	-10.1
6. Gasto neto total sin erogaciones en inversiones financieras	2,778.8	2,732.8	-5.6
7. Gasto neto total	2,789.2	2,775.7	-4.5
8. Gasto corriente estructural	1,118.9	1,050.2	-9.9
9. Balance primario	126.9	228.1	72.6
10. RFSP	-236.3	-60.9	n.a.
11. SHRFSP	10,379.6	10,559.7	-2.3
12. Deuda pública	10,532.8	10,965.2	-0.1

Employment Generation: Down

Formal employment generation during the first semester, fell almost 40% compared to the same period of 2018, being the lowest figure since 2009. According to INEGI, the most affected sectors are construction and mining.

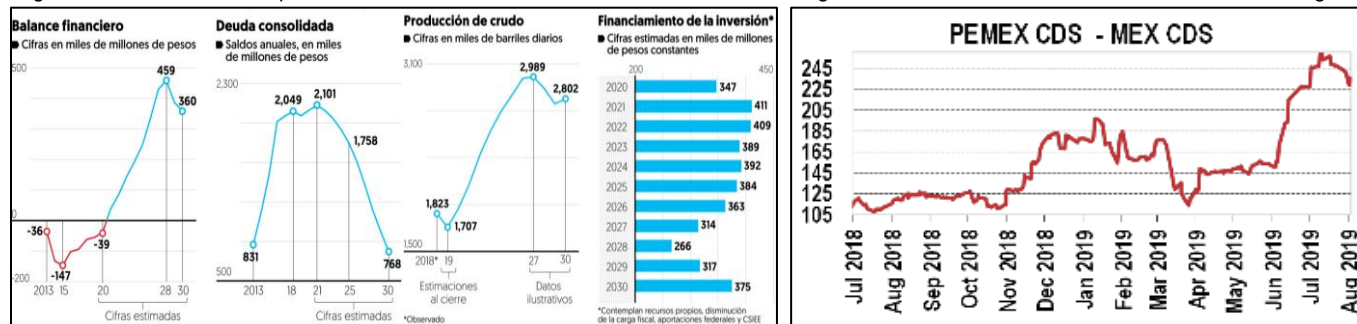
Pemex business plan

On July 30, the AMLO government presented the Pemex Business Plan, in which it was stated that the objective is to solve 3 priority problems; the high tax burden, high debt and low level of investment. The most relevant points of the plan are: 1) between 2020 and 2022, the government will give Pemex capital injections of \$141 bn., 2) Pemex will increase its daily barrel production from 1.8mn. bbd. in 2019 to 2.69 mn. bbd. in 2024, a 48% increase (Figure 14), 3) public investment will be completed with private investment with long-term service contracts, 4) the rate of the Profit-sharing Law will be reduced from 65% to 54% in 2021, 5) the company will focus on production and

exploration in shallow waters and land areas. The plan received many criticisms, including: 1) it is very optimistic, as details are missing, 2) strategic alliances with private farmouts were not considered, 3) the provenance of resources will come from, if the sovereign rating deteriorates 4) it is a very ideologically loaded business plan, 5) it forces Pemex to do everything alone. As a result, Pemex CDS prices rose even further, although there remains the possibility of an explicit guarantee of the Pemex bonds by the federal government (Figure 15).

Figure 14. Pemex business plan forecasts.

Source: El Financiero. Figure 15. Pemex-México CDS. Source: FT, Bloomberg.



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 16.

RISKS	
<i>Global</i>	<ul style="list-style-type: none"> US: monetary policy, recession, dispute between executive and legislative branch Global: trade wars Geopolitics: Europe, Middle East, Russia, China, North Korea, Venezuela EM: crisis and contagion
<i>Mexican</i>	<ul style="list-style-type: none"> Government Security Corruption Oil Debt rating
SCENARIOS	
<i>Positive (10%)</i>	<ul style="list-style-type: none"> US: expansion continues, trade disputes but no major consequences Monetary policy does not derail cycle. Rapid ratification USMCA. Geopolitical risks do not materialize. Global growth. EM: no crisis or contagion. Mexico: government functions, spending drives infrastructure/consumption, measures anticorruption and antiviolence work, ratings upgrade.
<i>Negative (50%)</i>	<ul style="list-style-type: none"> US: expansion stops, trade wars affect global commerce. Monetary policy derails cycle. USMCA not ratified, elimination threatened. Geopolitical risks materialize. Global recession. EM: crisis and contagion. Mexico: government dysfunctional, uncontrolled spending, anticorruption and violence measures fail, anticonstitutional laws, measures against private property, ratings downgrade.
<i>Middle (40%)</i>	<ul style="list-style-type: none"> US: slow expansion continues, rhetorical trade disputes. Adequate monetary policy, but uncertain. USMCA approved late, with changes. Geopolitical: risks materialize partially. Global slowdown, unsynchronized. EM: crisis and some contagion from vulnerable countries. Mexico: government partially functional, continued mixed signals, ratings stable.

Figure 16. Scenarios for 2019. Source: FT

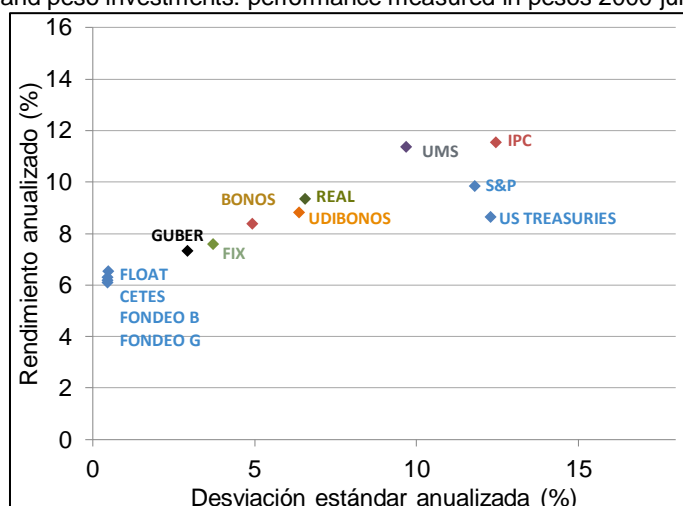
Probabilidad	Escenarios para 2019			2018
	Alto 10%	Bajo 50%	Base 40%	Observados
EU				
Crecimiento PIB	> 2.50%	< 2.50%	2.50%	2.90%
Inflación	> 1.90%	< 1.90%	1.90%	2.50%
Déficit fiscal	< 4.50%	> 4.50%	4.50%	4.20%
Déficit cuenta corriente	< 2.60%	> 2.60%	2.60%	2.50%
Tasa T-Bills	> 2.50%	< 2.50%	2.50%	2.50%
TNote 10 US	> 2.65%	< 2.65%	2.65%	2.69%
Petróleo (WTI)	> \$52.93	< \$52.93	52.93	45.41
México				
Crecimiento PIB	> 1.32%	< 1.32%	1.32%	2.00%
Inflación	> 3.75%	< 3.75%	3.75%	4.87%
Déficit fiscal	< 2.50%	> 2.50%	2.50%	2.10%
Déficit cuenta corriente	< 1.60%	> 1.60%	1.60%	1.60%
Cetes28 (fin de año)	> 7.96%	< 7.96%	7.96%	8.42%
Peso/US\$ (fin de año)	< \$19.92	> \$19.92	19.92	19.65

MARKETS

Investments in US\$ and pesos: comparative performance

After the depreciation of the peso since Trump, in the long term (2000-2019) the gap between investments in pesos and US\$, both converted to pesos, has narrowed. However, peso investments have outperformed (Figure 17)

Figure 17. US\$ and peso investments: performance measured in pesos 2000-Jul2019. Source: FT



US\$ and peso

Figure 18. Peso vs. US\$: 1980-Jul2019. Source: FT

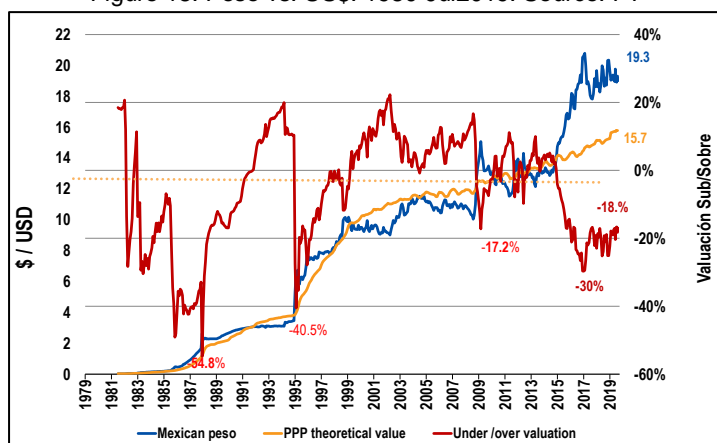
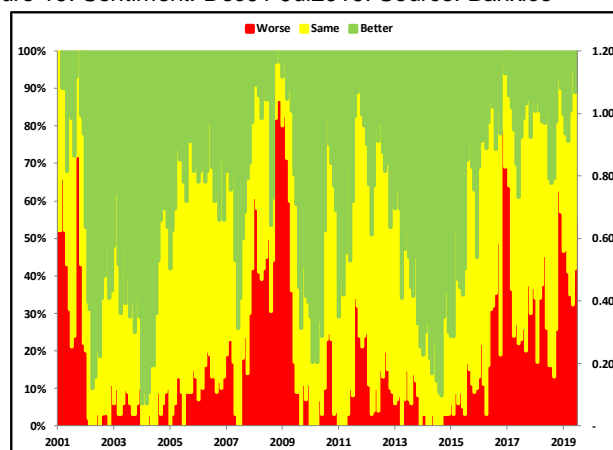


Figure 19. Sentiment: Dec01-Jul2019. Source: Banxico



Debt

Rates are expected to rise in all DM, but only India, Mexico, South Korea and Turkey among EM (Figure 20).

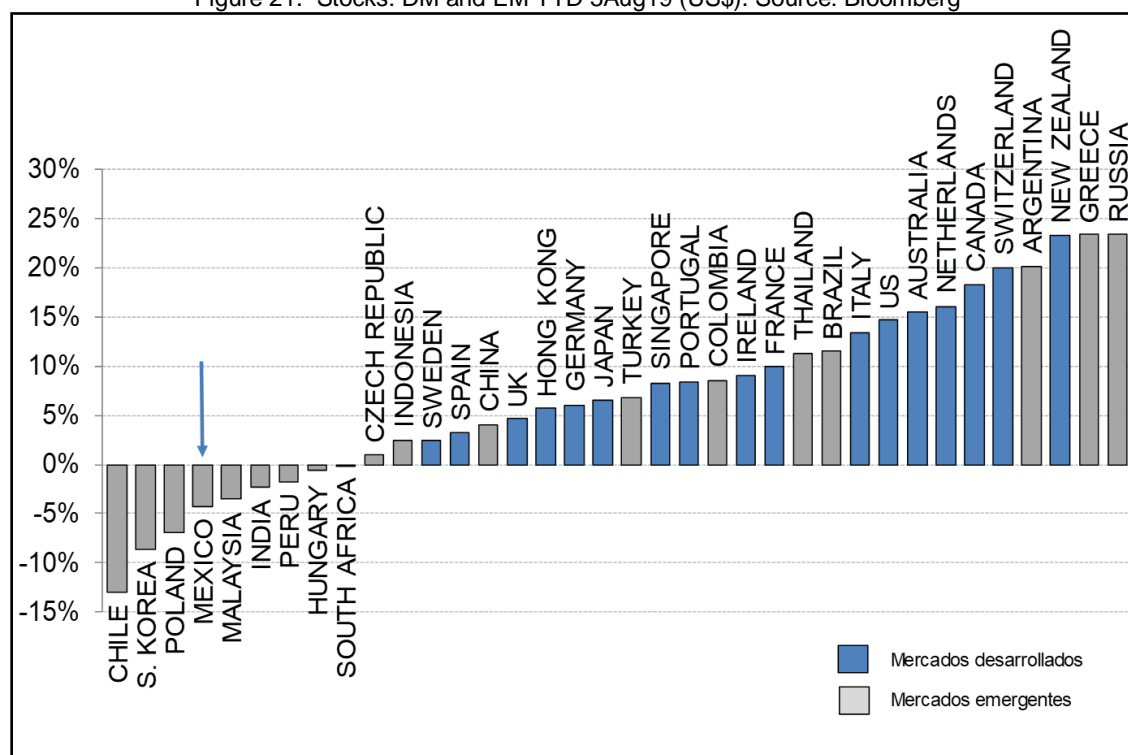
Figure 20. DM and EM: nominal 10 year rates estimated for June 2020 (Jul19). Source: Bloomberg, FT

Developed local 10y yields (%)				Emerging local 10y yields (%)			
	2Q20e	Actual	(bps)		2Q20e	Actual	(bps)
US	2.23	1.85	38.48	China	2.85	3.10	-25.3
Euro Area	(0.05)	(0.50)	44.5	India	6.90	6.35	54.7
Japan	(0.06)	(0.18)	11.5	Rusia	7.19	7.32	-13.4
Britain	1.17	0.55	62	Brasil	7.08	7.23	-15
Australia	1.42	1.09	33.5	México	7.75	7.45	29.6
Canada	1.70	1.37	32.6	Corea del sur	1.79	1.34	45
Germany	(0.05)	(0.50)	44.5	Indonesia	7.39	7.57	-17.9
France	0.32	(0.24)	55.8	Turquia	15.58	15.47	11

Stocks

In 2019 YTD, after a positive beginning and with Fed support markets fell in the first days of August owing to the renewal of US-China trade tensions. Even so, market performance measured in US\$ has been positive for most markets, compared with generalized falls in 2018 (Figure 21).

Figure 21. Stocks: DM and EM YTD 5Aug19 (US\$). Source: Bloomberg



Fibras (REITs)

Since inception, Fibras have outperformed stocks since 2011 (Figure 22). In 2019 they have recovered strongly, having been strongly affected by USMCA negotiations in 2018 (Figure 23). If rates continue to fall, it is possible that Fibras will benefit even more than stocks (Figure 24).

Figure 22. Fibras vs. IRT mar2011(=100)-05Aug19

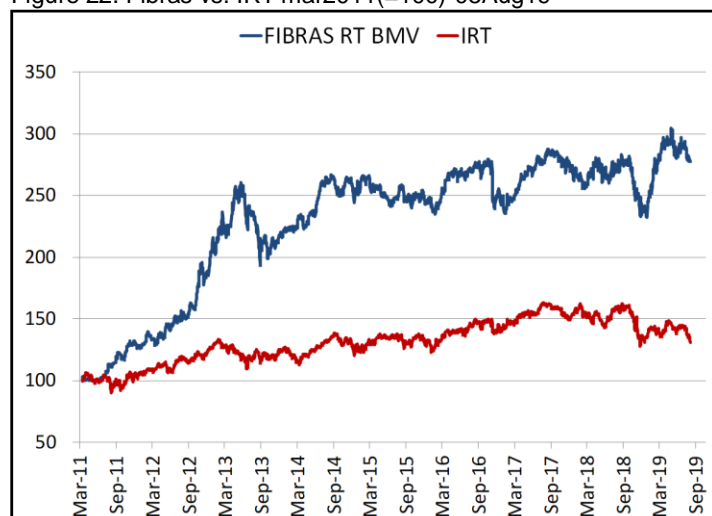


Figure 23. Fibras vs. IRT Jan18-05Aug19. Source: Bloomberg

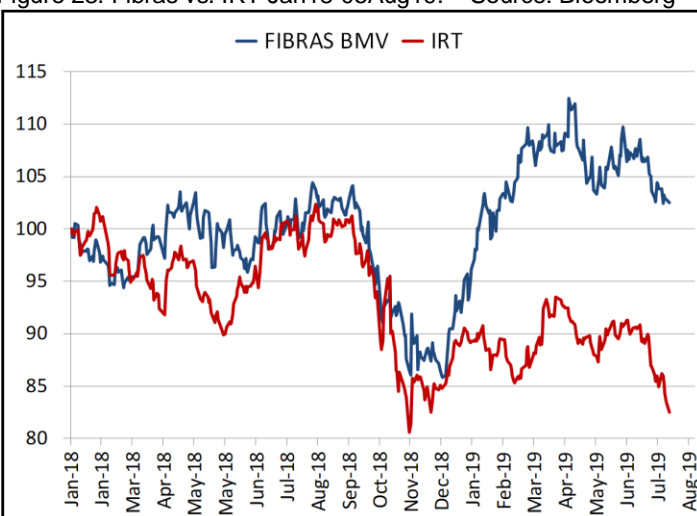


Figure 24. Fibras: valuation and dividends (Aug2019). Source: Bloomberg

	Mcap (M) (MXN)	Calendarized						
		2015	2016	2017	2018	2019	2020	2021
FUNO11 MM	99,545	5.3%	6.2%	7.0%	10.1%	9.2%	9.9%	9.9%
DANHOS13 MM	36,334	5.6%	6.8%	7.4%	4.7%	9.5%	10.0%	10.0%
FIBRAPL MM	25,987	6.5%	7.5%	7.8%	10.4%	6.2%	6.7%	7.1%
TERRA13 MM	23,884	7.6%	7.1%	6.9%	7.8%	9.2%	9.5%	10.2%
FMTY14 MM	7,585			8.6%	8.8%	9.1%	9.5%	9.7%
FIHO12 MM	6,491	5.6%	7.3%	9.0%	10.6%	11.8%	12.9%	12.1%
FSHOP13 MM	3,880	5.4%	8.2%	9.4%	110.5%	10.6%	12.8%	10.5%

Conclusion

Globally, the intensification of US-China trade disputes represents an additional threat to a global slowdown and it remains to be seen whether DM and EM monetary policies will be able to act as a counterweight: a watershed moment. In Mexico, investors can see the implementation of the Fourth Transformation: proposed laws, the Pemex business plan, and measures announced by the government have affected the business climate, with the possibility of more downgrades. We advise caution for peso denominated portfolios: overweight liquidity and ILS debt with 1-3-year duration, and underweight stocks and Fibras.

Ramsé Gutiérrez
Nadia Montes de Oca
Luis Gonzalí
Jorge Marmolejo
Octavio Martínez
Editor: Timothy Heyman
August 9, 2019

Key financial variables: performance as of July 31, 2019

During July, in Mexico, the IPC fell -5.32%. Nominal rates fell in all terms but 1 month, 10year real rate fell, but 30year remained in the same level. The US\$ weakened 1.11% against the peso. In the US: DJ, S&P500 and Nasdaq rose. Nominal rates rose, and real rates fell for 10- and 30-year terms. WTI price is up 0.19%. Regarding the business climate according to Banxico, optimism is at the same level: 11%, no change decreased to 34% (47% previous), and pessimism rose to 54% (42%).

Mexico					
Stock market and oil					
	31-Jul-19	28-Jun-19	Month	YTD	2018
IPC	40,863.09	43,161.17	-5.32%	-1.87%	-15.63%
Local currency (USD/MXN)	18.99	19.21	-1.12%	-3.35%	-0.06%
Mexican oil mix (USD/bl)	59.63	61.08	-2.37%	33.43%	-20.47%
Nominal rates					
	31-Jul-19	28-Jun-19	Month	YTD	2018
CETES 28	8.39%	8.38%	1 bps	-3 bps	110 bps
CETES 360	7.57%	7.73%	-16 bps	-92 bps	103 bps
M5	7.26%	7.35%	-9 bps	-126 bps	93 bps
M10	7.50%	7.54%	-4 bps	-116 bps	101 bps
M30	7.88%	7.83%	5 bps	-101 bps	111 bps
Real rates					
	31-Jul-19	28-Jun-19	Month	YTD	2018
UDIBONO 10	3.38%	3.43%	-5 bps	-73 bps	61 bps
UDIBONO 30	3.57%	3.57%	0 bps	-55 bps	42 bps
Commodities					
	31-Jul-19	28-Jun-19	Month	YTD	2018
Gold	1,418.01	1,410.03	0.57%	10.72%	-1.70%
WTI (USD/bl)	58.58	58.47	0.19%	31.08%	-20.47%
UMS					
	31-Jul-19	28-Jun-19	Month	YTD	2018
UMS 10 years	3.89%	3.88%	2 bps	-103 bps	129 bps
UMS 20 years	4.77%	4.83%	-6 bps	-101 bps	125 bps
UMS 30 years	4.64%	4.64%	0 bps	-120 bps	120 bps
Stock markets (US\$)					
	31-Jul-19	28-Jun-19	Month	YTD	2018
MSCI Developed	9,169.82	9,122.09	0.52%	17.99%	-8.20%
MSCI Emerging	2,368.23	2,395.54	-1.14%	9.51%	-14.25%
MSCI Mexico	8,187.85	8,511.45	-3.80%	2.83%	-15.29%
MSCI Brazil	7,527.34	7,338.84	2.57%	19.00%	-0.15%

US					
Stock market					
	31-Jul-19	28-Jun-19	Month	YTD	2018
DJ	26,864.27	26,599.96	0.99%	15.16%	18.04%
S&P	2,980.38	2,941.76	1.31%	18.89%	11.97%
Nasdaq	8,175.42	8,006.24	2.11%	23.21%	23.26%
Nominal rates					
	31-Jul-19	28-Jun-19	Month	YTD	2018
Tbill 90	2.08%	2.12%	-4 bps	-37 bps	194 bps
Tnote 5	1.84%	1.76%	8 bps	-67 bps	58 bps
Tnote 10	2.02%	2.00%	2 bps	-67 bps	24 bps
Tbond 30	2.53%	2.52%	1 bps	-45 bps	-8 bps
Real rates					
	31-Jul-19	28-Jun-19	Month	YTD	2018
Tip 5	0.28%	0.23%	5 bps	-72 bps	91 bps
Tip 10	0.26%	0.31%	-5 bps	-72 bps	48 bps
Tip 30	0.72%	0.78%	-6 bps	-49 bps	22 bps

Bank of Mexico survey		
Indicator	2019	2019 anterior
PIB	0.79%	1.13%
Inflation	3.62%	3.63%
Cetes 28	7.86%	7.96%
Local currency	19.69	19.85
Business conditions		
	31-Jul-19	28-Jun-19
Optimism	11%	11%
No change	34%	47%
Pessimism	54%	42%

Source: Bloomberg, Banco de Mexico

IMPORTANT LEGAL INFORMATION

The material has been prepared by Franklin Templeton Servicios de Asesoría Mexico, S. de R.L. de C.V. ("FTSAM" or the "Company") which has the folio inscription number 30045-001-(14127)-15/04/2016 in the Public Register of Investment Advisors assigned by the National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*) in terms of the Securities Market Law (*Ley del Mercado de Valores*). Registry does not imply compliance with the regulations applicable to the services that are provided, nor the precision or veracity of the information provided. The content of this document is for information purposes only. Past Performance is not a guarantee of future returns.

The material has been prepared by FTSAM solely for use in this document, and is intended to be of general interest only and does not constitute legal or tax advice nor is it an offer for shares or invitation to apply for shares of any kind. Nothing in this document should be construed as investment advice. This document may contain information obtained from various sources, and while it may be considered reliable, the Company makes no warranty or any statement on its fidelity, accuracy, scope or coverage, as the Company has not verified, validated or audited independently such information. The information is partial and, therefore, cannot be called complete. You agree to keep the contents of this document strictly private and confidential and it shall not be disclosed, copied, reproduced or redistributed (in whole or in part) to any person without the prior written consent of the Company.

This document may contain "forward looking statements" and results may vary from those expressed or implied are included in this document. Such forward-looking statements can be identified, among other words, by the use of terminology such as "expect", "anticipate", "believe", "continue", "could", "estimate", "predict", "try" "plan", "predict", "should" or other forward-looking terminology, or by the negative of these words or comparable terminology, including without limitation the plural form of these words. All forward-looking statements relate to the Company's current expectation regarding future events and are subject to a number of factors that could cause actual results to differ materially from those in respect of the forward-looking statements. One must be cautious of such statements and should not place undue reliance on any forward-looking statements.

This document includes no representation or warranty (express or implied) so it should not support the accuracy, fairness or completeness of the information presented or contained in this document. Neither the Company nor any of its affiliates, employees, advisers or representatives accepts any liability for any loss or damage caused by the information presented or contained in this document.

The information presented or contained in this document is current as of the date indicated and is subject to change without notice and its accuracy is not guaranteed. The information contained herein and the views, if any, expressed therein are issued on the date hereof and, therefore, are conditioned and / or subject to probable changes due to changes in applicable law, as well as the conditions and circumstances that may or may not be provided in this document, in addition to over time and other similar situations. Neither the Company, nor its affiliates, agents, employees nor advisers assume any responsibility or obligation to inform you or any other person regarding any changes to the information or opinions expressed herein resulting from matters, circumstances or events that may arise in the future or that may be brought to our attention after the date herein. This document should not be construed as legal, tax, investment or any other type of advice.

This document does not constitute an offer or invitation to purchase or subscribe shares or other securities and no part of this document or any information, opinion or statement contained herein shall be the basis of, or be referred to in connection with any contract or commitment. Any decision to purchase securities in any offering of securities should be made solely on the basis of information contained in the prospectus of the securities offered. By reading this document, you agree to be subject to the above limitations.

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

Copyright © 2019. Franklin Templeton Investments. All rights reserved. Valid only in the United States of Mexico.