

Global optimism despite geopolitical and economic policy risks

1Q24 Outlook



January 17, 2024

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Decision makers in the global economy and financial markets have welcomed 2024 more cautiously, moderating some of the abundant optimism seen at the end of last year which underpinned a significant relief rally in countless assets. Doubts have been voiced about the possibility that markets are too ahead of themselves, leaving little 'margin of error' as they are already discounting an outlook characterized by: (1) The absence of a global recession; (2) inflation on the way towards their respective central bank's targets, allowing for less restrictive monetary policy throughout the year; (3) greater financial stability; and (4) a recovery in profitability on the back of a better cost environment and the boost to growth and productivity from a wider adoption of new technologies (e.g. Artificial Intelligence). In our view, this year's scenario still includes many complexities, but also a series of opportunities. In Banorte's Research Department, we have identified three major aspects that will likely determine the direction of the economy and investments around the world.

The first comes from geopolitical factors. In 2024 a plethora of countries will have presidential and/or legislative elections –among them, the United States and Mexico–, in addition to conflicts that will likely prevail (e.g. Ukraine and the Gaza Strip). Structural changes in globalization will also continue, coupled with tensions –as those between the US and China– that will shape the future of foreign trade and the international agenda.

The second focuses on the notion of a global economic slowdown, assimilating the lagged effects of restrictive monetary policies during the last couple of years, geopolitical issues, higher leverage and inflation, among others. Despite these headwinds, we maintain our call that the United States will experience more modest growth as we move into mid-2024, but we do not anticipate a recession.

The third is related to an inflection point in global monetary policy, with the Fed and most central banks starting easing cycles. However, it is important to stress out that, despite this "pivot", monetary conditions will remain restrictive. In the case of the Fed, we expect the first rate cut in May, with the Federal Open Market Committee keeping a prudent stance.

Factoring in this international backdrop, we believe Mexico will maintain good economic dynamism, with GDP growth at 2.4% this year. This would be lower than in 2023, but still above potential. Banxico will likely begin cutting rates in March, but in a gradual fashion, taking its reference rate to 9.25% by year-end. Fiscal policy will be more stimulative, especially during the first semester. Another important aspect will be the June 2nd elections.



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best Mexico economic
forecasters, granted by Focus



#1 OVERALL FORECASTER - MEXICO

Mexico's main macroeconomic and financial forecasts

End of period

	1Q24	2Q24	3Q24	4Q24	2021	2022	2023	2024
GDP (% y/y)	<u>3.7</u>	<u>4.9</u>	<u>1.5</u>	<u>-0.3</u>	5.7	3.9	<u>3.3</u>	<u>2.4</u>
Inflation (% y/y)	<u>5.0</u>	<u>5.3</u>	<u>4.9</u>	<u>4.6</u>	7.4	7.8	4.7	4.6
USD/MXN	<u>17.49</u>	<u>17.33</u>	<u>18.02</u>	<u>18.80</u>	20.53	19.50	16.97	<u>18.80</u>
Banxico's reference rate (%)	<u>11.00</u>	<u>10.75</u>	<u>10.25</u>	<u>9.25</u>	5.50	10.50	11.25	<u>9.25</u>
28-day TIIE (%)	<u>11.20</u>	<u>11.00</u>	<u>10.50</u>	<u>9.50</u>	5.72	10.77	11.50	<u>9.50</u>
Mexbol (points)	-	-	-	<u>60,200</u>	53,272	48,464	57,386	<u>60,200</u>

* Underlined figures represent our forecasts

Source: Banorte

Document for distribution among the general public

Mexico

Economic strength in 1H24. The economy has shown remarkable dynamism during the last eight quarters, a situation that we believe will extend into the first half of 2024. Starting from a relevant inertial push—considering our 3.3% GDP growth forecast for 2023—, several factors will provide an even larger stimulus. [As we have mentioned previously](#), some of them include: (1) The continuation of key infrastructure projects, with the goal of finishing most of them before the June 2nd elections; (2) the expansion of social programs and the moment in which resources will be handed out—remembering that several of these payments, including the pensions for the elderly, will be paid in advance during the month of March to comply with electoral rules; (3) a prevailing and favorable trend in private investment, especially linked to nearshoring; (4) the possibility that a ‘soft landing’ materializes, coming on top of rate cut expectations and additional market share gains in US imports; and (5) wage growth above inflation, supporting progress in real incomes. In this context, we forecast 1.0% and 0.3% q/q growth in 1Q24 and 2Q24, respectively. However, we anticipate a setback in the second half of the year, with a more pronounced global deceleration and a challenging base effect.

Inflationary pressures will continue in the short term, but Banxico will begin its easing cycle this quarter. We think risks for inflation in coming months are tilted to the upside given a series of adverse factors such as: (1) Adverse climate conditions for agricultural goods, including the fallout from droughts in previous months and the presence of 27 cold fronts so far during this winter season (of 56 expected in total); (2) typical price adjustments at the beginning of the year (e.g. changes to excise taxes of various products and tax updates to some services); and (3) cost pressures given [the 20% minimum wage increase](#), fueling the persistence to the upside in services. As such, we still see inflation by the end of the year at 4.6%. Despite these challenges, Banxico will start cutting its benchmark rate in March due to less restrictive global monetary policies and a high ex-ante real rate. We see a first reduction of 25bps in March, a pause in May, and further cuts in June and onwards. As such, we reiterate our forecast that the reference rate will close 2024 at 9.25%.

The political agenda advances ahead of the elections. Attention in the quarter will be on electoral issues, highlighting the deadlines for the registration and approval of candidacies and coalitions by the end of February (between the 15th and 29th of the month) and the start of campaigns on March 1st. In addition, on the legislative front, we highlight the discussion of the possible reform to the *Federal Labor Law* and other initiatives on judicial and security matters, with ordinary sessions resuming on February 1st.



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GDP: Aggregate Demand

% y/y nsa; % q/q sa

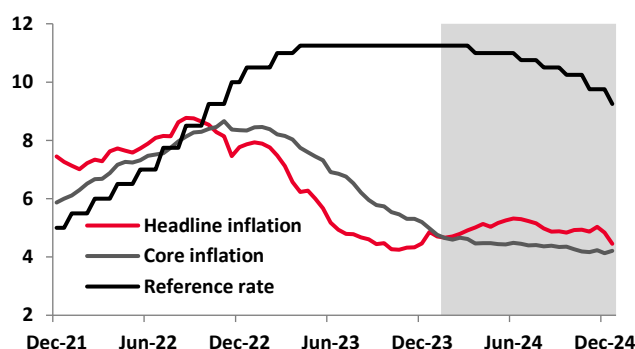
% y/y	1Q24	2Q24	3Q24	4Q24	2024
GDP	<u>3.7</u>	<u>4.9</u>	<u>1.5</u>	<u>-0.3</u>	<u>2.4</u>
Private consumption	<u>4.4</u>	<u>5.9</u>	<u>3.1</u>	<u>0.4</u>	<u>3.4</u>
Investment	<u>15.7</u>	<u>14.8</u>	<u>4.1</u>	<u>-2.1</u>	<u>7.7</u>
Government spending	<u>2.8</u>	<u>4.9</u>	<u>1.3</u>	<u>-1.3</u>	<u>1.9</u>
Exports	<u>-2.8</u>	<u>0.3</u>	<u>-0.7</u>	<u>-3.2</u>	<u>-1.6</u>
Imports	<u>2.6</u>	<u>4.5</u>	<u>-0.5</u>	<u>-3.0</u>	<u>0.9</u>

* Note: Underlined figures represent our forecasts.

Source: Banorte

Inflation and reference rate

% y/y; %



Source: INEGI, Banxico, Banorte

United States

Slowdown in 2024, but not a recession... We estimate GDP growth of 0.9% q/q saar in the first quarter after an expected advance of 1.9% in 4Q23. In our opinion, most recent figures suggest that consumption will be more modest after a solid pace in the second half of last year. The main drivers include the Fed's accumulated hiking cycle, increasing household interest payments, and higher credit card delinquencies. In this context: (1) Achieve's 2023 *Spending Season Survey* stated that consumers planned to increase debt levels to pay their year-end holiday season expenses; (2) The New York Fed's *Household Debt and Credit Report* showed that total credit card debt exceeded US\$1 trillion in 3Q23 (+4.7% q/q), with delinquencies rising to their highest since the pandemic; and (3) according to *Bankrate*, the number of credit card owners unable to pay their monthly debt burdens in full are on the rise. To this we must add the resumption of student loan payments since October, with debtors disbursing US\$300 per month on average. This puts consumer fundamentals in a weaker position despite the strength of the labor market. We also see a slowdown in the latter, with the unemployment rate remaining close to levels consistent with full employment with an average of 4.1%, but with an average monthly job creation of 105k throughout the year. Residential investment continues to face high mortgage rates and declining homebuilder sentiment; the non-residential component would also see more headwinds in equipment and structures. Meanwhile, net exports will not contribute strongly to growth due to a more complicated environment for external demand. All this places our full-year 2024 GDP growth estimate at 1.5% from 2.4% in 2023.

Inflation's downward trend would continue on: (1) Contained pressures in the prices of goods and a slowdown in wage growth; and (2) a moderation in the rate of increase in services. We estimate average inflation of 2.7% and 2.3% y/y in 1Q24 and during the year, respectively. Despite of this, we do not see room for Fed rate cuts in the first three months of 2024. Central bank participants have emphasized that the reference rate will remain elevated for an extended period. We reiterate our view that the first cut will materialize in May, with a cumulative decline this year of 150bps.

Lastly, recall that the government is operating under a continuing resolution as the fiscal-year budget has not been approved. Some agencies will be able to continue operating until January 19, while others have a limit date on February 2. At the time this edition closed, negotiations were ongoing. Nevertheless, the closure of non-essential operations was still in the cards. The current proposal is a new short-term agreement to extend additional funding until early March. If not: (1) A January shutdown would coincide with the beginning of political parties' primary elections to choose their presidential candidate; and (2) it could renew fears about US debt sustainability, which has been drawing more responses from credit rating agencies. Since neither party wants to bear the political costs of a shutdown, we expect that an agreement will be reached on time, even if it is only temporary.

US: Banorte Estimates *

	1Q24	2Q24	3Q24	4Q24	2023*	2024*
GDP (% q/q annualized rate)*	0.9	0.3	0.7	1.2	2.4	1.5
Private Consumption	1.2	0.5	0.9	1.3	2.1	1.4
Fixed Investment	-2.0	-3.4	-2.0	0.4	0.4	-0.7
Exports	-3.9	-5.1	-1.2	0.4	2.5	-1.6
Imports	-4.7	-6.2	-1.6	2.0	-1.6	-1.9
CPI (% y/y, average)	2.7	2.1	1.9	2.6	4.1	2.3
Unemployment rate (% eop)	4.0	4.2	4.2	4.1	3.7	4.1
Non-farm payrolls (thousands)	355	275	280	360	2,697	1,270

* All GDP estimates are % q/q saar, except for full-year 2023 and 2024, which are % y/y. eop: end of period.
Source: Banorte

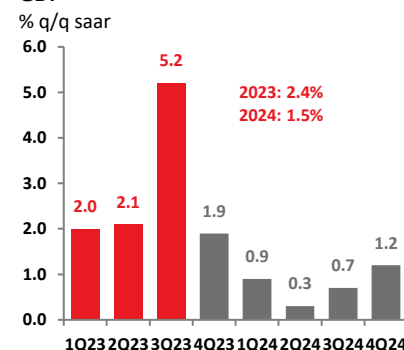


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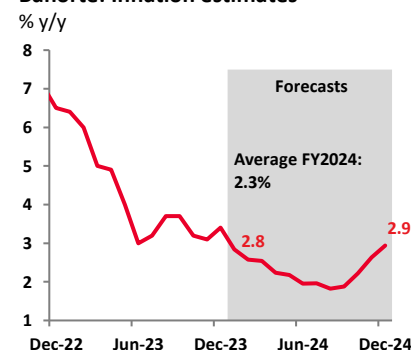
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GDP



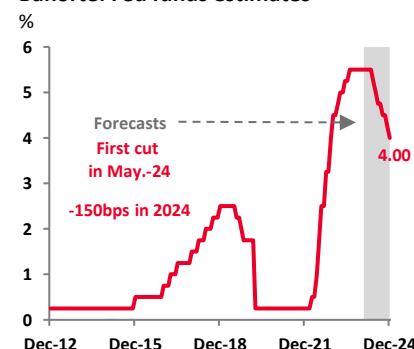
Source: Banorte with data from BEA

Banorte: Inflation estimates*



* Note: Gray area denotes our forecasts.
Source: Banorte with data from BLS

Banorte: Fed funds estimates*



* Note: Gray area denotes our forecasts.
Source: Banorte with data from the Federal Reserve

US Elections

The process to reach the White House on November 5th has already begun. Starting in January, each party holds a caucus in every state to select their presidential candidate. These results then translate into the support of a certain number of delegates, in turn responsible of casting the vote for their preferred candidate at each party's National Convention. As dictated by tradition, Republicans started this process with the Iowa caucus on Monday, January 15. Democrats will make changes, now starting in South Carolina (previously, it was also in Iowa) on February 24. In mid-March, primary election results for more than 50% of the states of the Union will be unveiled in the so-called Super Tuesday. This stage ends with the Republican National Convention in Milwaukee from July 15 to 18, and the Democratic National Convention in Chicago from August 19 to 22.

The winners of the primaries will probably be Biden and Trump. For the Democrats, we anticipate that the incumbent president will be the candidate. We do not see other options within the party with meaningful chances of winning. The Republicans have several alternatives, but the probability that Trump fails to be the candidate is very low. According to *Real Clear Politics*, the former president has 61.4% of voting intentions, Nikki Haley stands at 12.0%, and Ron DeSantis is at 10.7%. Aside from these processes, Robert F. Kennedy Jr. –an independent candidate– has presented himself as an alternative for those who are against both Biden and Trump. However, his possibility of winning the presidency is almost null. Despite of this, he could alter the results in at least some swing states, which are key to define the next president. In these cases, polls show that Biden would be most affected by the presence of a third candidate.

Biden has increasingly lower approval ratings. According to *Real Clear Politics*, less than 40% of the population approves the president's job, well below the 55% seen at the beginning of his term. In fact, the current level is close to his administration's minimum of 36.8% in July 2022. In this backdrop, Trump has 45.8% of voting intentions, while Biden has 44.7%. We expect that the downward trend in inflation, our base scenario of no recession, and the beginning of rate cuts, will support Biden's candidacy. But even in this case, fears about his age and the perception that he has mismanaged the economy will weigh heavily on preferences for him.

Uncertainty about Trump's eligibility due to the criminal charges against him. Despite multiple indictments against him, the former president currently has the lead in the seven swing states for this election (see last table on the right). If convicted, many questions remain about whether he can be president, but the answer seems to be a resounding yes. The Constitution establishes very few eligibility requirements and there are no limitations based on reputation and/or criminal records. However, Section 3 of the 14th Amendment says that no person who participated in an insurrection or rebellion against the Constitution can hold public office. Congress can remove this condition with two-thirds of both the House and the Senate, but the Republicans do not have enough votes to surpass these thresholds. Despite of the above, there is no consensus about the interpretation of the amendment, so not every state seems willing to apply it. Some of them, such as Michigan and Minnesota, have said that Trump can appear on primary ballots, but left the door open to changes. Meanwhile, Colorado approved removing him in that state.

So far, our base case is that Trump will win. Considering the trends observed so far, everything seems to indicate that the former president will win the race. However, November 5 is still a long way off, while lingering doubts persist about his candidacy due to the plethora of charges and accusations that he is facing. On the other hand, we believe that the most likely scenario is that Congress will remain divided, with the Senate in the hands of the Democrats, but the House of Representatives with a Republican majority, as currently.

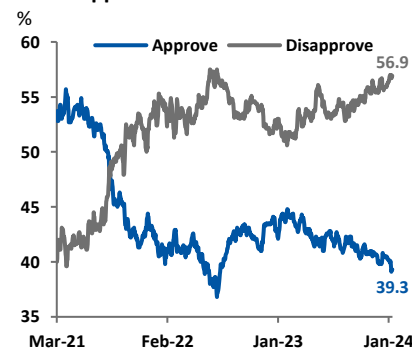


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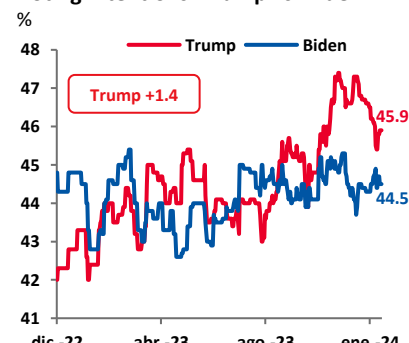
Biden approval*



* Note: As of January 17, 2024

Source: Banorte with data from Real Clear Politics

Voting intentions: Trump vs. Biden*



* Note: As of January 17, 2024

Source: Banorte with data from Real Clear Politics

Voting preference in swing states *

State	Trump	Biden	Difference
Wisconsin	45	41	+4
Pennsylvania	46	44	+2
N. Carolina	49	40	+9
Nevada	47	44	+3
Michigan	46	42	+4
Georgia	49	43	+6
Arizona	46	42	+4
All	47	42	+5

*Note: December 2023 survey

Source: Banorte with data from Bloomberg and Morning Consult Pro

Global

We expect the global economy to avoid a recession... The key question is how strong the slowdown will be after aggressive rate hikes in most regions and positive surprises in 2023. Will there be a recession in the US and the Eurozone? Depending on this, how will authorities respond and what will the impact be across different regions? Our base case scenario does not contemplate a recession in either of them but a slowdown in the first, and a slow pace in the second (close to 0.5%, as in 2023). On the other hand, will China's growth accelerate on the back of new and multiple stimulus measures, or does it suffer from a more serious and structural problem? We believe this country still faces many challenges that are not only of a cyclical nature, which is why we estimate GDP growth close to 4.5% after increasing slightly above 5.0% in 2023. Therefore, this country will probably not be a major driver for the global economy. In this sense, the International Monetary Fund's latest estimate for China's GDP in 2024 is 4.2%, 30bps below its previous projection.

...while inflation remains high but will maintain the correct trend. In many regions, inflation continues to exceed their respective central bank's targets, although the trend remains to the downside. The lagged effects of restrictive monetary policies are expected to fully materialize this year, while energy prices have been contained despite geopolitical, climatological, and logistical risks, among others. Thus, optimism prevails about the continuation of the disinflationary process, with the debate focused more on the pace, rather than its direction.

Given these expectations, markets are betting on the start of easing cycles in advanced and emerging economies. It is virtually a fact that lower reference rates are in store for this year. However, the monetary policy stance in most countries will probably remain in restrictive territory in a scenario of still-high inflation and no strong recession (commonly referred to as a 'hard landing'). With this, we believe that risks are skewed towards rate cuts that will not be as strong and fast as markets are discounting. We expect the first cut in the US in May, in the Eurozone in June, and in the United Kingdom in 2Q24 (May or June). Mexico should announce its first reduction in March and Brazil will continue easing throughout the year. In China, the expansion of liquidity and credit directed to specific sectors will probably continue, rather than lowering interest rates sharply. A gradual approach will likely persist even though the country is in deflation, especially on concerns about financial stability, yuan volatility, geopolitical conflicts, and low confidence levels.

Unfortunately, we do not see current geopolitical conflicts fading anytime soon. Adding tensions to the global outlook is that, according to *Agence France -Presse*, elections will be held this year in countries that represent almost half of the world's GDP. In Russia, they will last three days and will start on March 15th. Although several candidates will be on the ballot, it is almost certain that Putin will be re-elected for a fifth term. In Ukraine, the presidential election in March 2024 is also on the schedule, but it could be changed or delayed because of the war. In any case, no immediate solution to the conflict between these countries is in sight. Conditions for a prompt resolution of the conflict in Gaza are also absent. Apart from this, we highlight the Iran-backed attacks of the Houthis in the Red Sea. On the other hand, tensions between China and the US will not only continue but will likely exacerbate due to the latter country's election. If this weren't enough, their relationship may be strained further after Taiwan's presidential election, in which the winning candidate is considered by China as pro-independency. In our view, markets find it is especially difficult to discount geopolitical events. Therefore, monitoring them will be key in an environment in which implied volatilities in various asset classes remains relatively low.

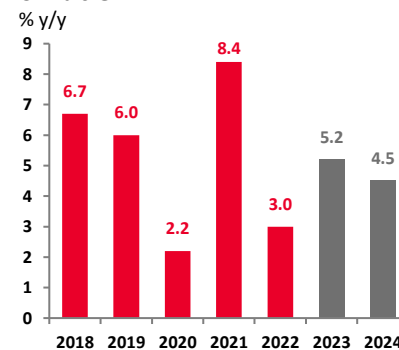


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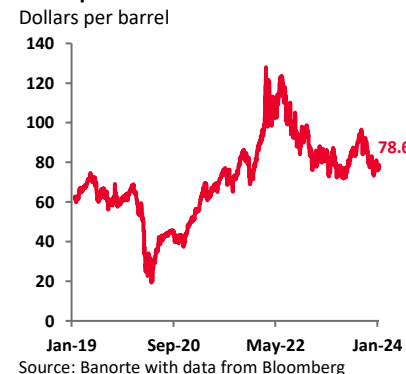
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China's GDP*



* Note: 2023 and 2024 figures correspond to Bloomberg consensus estimates.
Source: Banorte with data from Bloomberg

Brent price



Source: Banorte with data from Bloomberg

Elections in some regions

Country	Date
Taiwan	Jan 13
Russia	Mar 15 to 17
Mexico	Jun 02
Venezuela	2024 (undetermined)
United States	Nov 5
United Kingdom	2024 (undetermined)

Source: Banorte with data from Bloomberg

Fixed Income (Sovereign Debt)

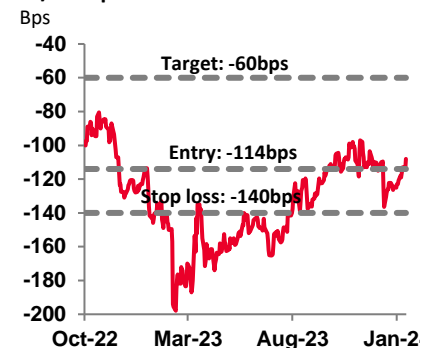
On the road to lower rates despite potential short-term pressures. Sovereign bond dynamics will be defined by the timing and pace of major central banks' easing cycles relative to market expectations. History shows that yield curves tend to steepen as monetary policy transits to an easing bias, caused by short-term interest rates falling faster than long-term tenors. Based on this and our view for the Fed, we think the USTs 2s10s spread will turn positive in 4Q24 from -37bps at the end of 2023. Under this narrative, we expect lower interest rates throughout the year. However, in terms of the balance of risks, the bias for 1Q24 is to the upside, highlighting: (1) Market optimism about rate cuts in 2024 compared to our scenario, both for Mexico (-225bps vs Banorte: -200bps) and the US (-168bps vs Banorte: -150bps); (2) the Fed's tapering, which may still affect risk and term premiums; and (3) higher US Treasury debt issuance given the difficult fiscal outlook and mild demand that could influence the performance of Treasuries.

We hold a 2s/10s steepener in TIIE-IRS and see value in short-term Udibonos. Local rates will remain very sensitive and correlated to US financial and monetary conditions. After the 100bps rally of the previous two months, we see Mbonos as overvalued, mainly in the belly (5- to 10-year maturities), both in absolute terms and relative to Treasuries. On the other hand, we have a more neutral view on floating rates after their defensive performance in the [previous quarter](#), especially in light of interest rate cuts that could impact demand. Moreover, we maintain our 2s/10s steepener in TIIE-IRS [initiated on October 13th](#) at -114bps given our conviction that we will eventually see a correction in the curve's slope (current: -108bps, with a net loss of 12bps due to a negative carry/roll of 5.6bps per month). The trade had a [net gain of up to 12bps](#) in the aftermath of Banxico's decision in November. However, momentum diluted after the unexpected rally in long-term securities triggered by solid optimism that the US will achieve a 'soft landing' and the Fed's 'pivot' on eventual rate cuts. Meanwhile, and on a tactical basis only, we suggested on January 12th to [pay 1-year TIIE IRS \(13x1\)](#) with an entry level of 10.65%, target of 10.90%, stop loss of 10.50%, and positive carry/roll of 16bps per month. Last but not least, and as [we have said before](#), 3-year real-rate Udibonos depict a more compelling relative valuation (breakevens at 3.72%, as shown in the second chart on the right). We expect a stronger performance when compared to nominal rates given that our inflation forecasts are higher relative to market expectations, opening an opportunity for tactical longs during the current quarter.



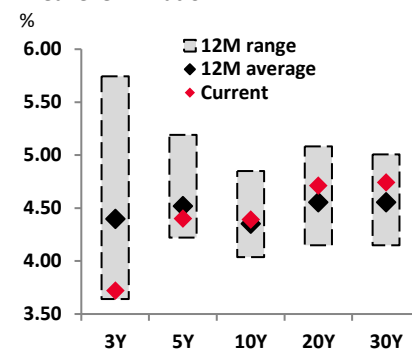
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2s/10s spread in TIIE-IRS



Source: Banorte, Bloomberg

Breakeven inflation*



* Implied market inflation using Fisher Equation with Mbonos and Udibonos. Source: Banorte, PiP

Banorte: Interest rate forecasts

%

Security	2020	2021	2022	2023	2023				2024			
					1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Banxico's reference rate												
End of period	4.25	5.50	10.50	11.25	11.25	11.25	11.25	11.25	<u>11.00</u>	<u>10.75</u>	<u>10.25</u>	<u>9.25</u>
Average	5.44	4.38	7.65	11.14	10.79	11.25	11.25	11.25	<u>11.17</u>	<u>10.92</u>	<u>10.50</u>	<u>9.75</u>
28-day Cetes												
End of period	4.25	5.51	10.09	11.24	11.31	11.27	11.18	11.24	<u>11.04</u>	<u>10.79</u>	<u>10.33</u>	<u>9.33</u>
Average	5.33	4.44	7.72	11.13	10.93	11.28	11.21	11.09	<u>11.21</u>	<u>10.96</u>	<u>10.58</u>	<u>9.83</u>
28-day TIIE												
End of period	4.48	5.72	10.77	11.50	11.52	11.50	11.50	11.50	<u>11.20</u>	<u>11.00</u>	<u>10.50</u>	<u>9.50</u>
Average	5.69	4.63	7.93	11.40	11.09	11.52	11.50	11.50	<u>11.37</u>	<u>11.13</u>	<u>10.75</u>	<u>10.00</u>
10-year Mexican bond (Mbono)												
End of period	5.54	7.57	9.08	8.94	8.85	8.67	9.87	8.94	<u>9.20</u>	<u>8.85</u>	<u>8.50</u>	<u>9.05</u>
Average	6.25	6.81	8.80	9.13	8.92	8.81	9.21	9.57	<u>9.07</u>	<u>9.03</u>	<u>8.68</u>	<u>8.78</u>
10-year US Treasury												
End of period	0.91	1.51	3.87	3.88	3.47	3.84	4.57	3.88	<u>4.15</u>	<u>3.85</u>	<u>3.40</u>	<u>3.70</u>
Average	0.88	1.44	2.95	3.95	3.65	3.59	4.14	4.44	<u>4.02</u>	<u>3.90</u>	<u>3.50</u>	<u>3.55</u>
10-year Spread Mex-US												
End of period	463	606	521	506	538	483	530	506	<u>505</u>	<u>500</u>	<u>510</u>	<u>535</u>
Average	534	538	585	518	527	522	507	513	<u>506</u>	<u>513</u>	<u>518</u>	<u>523</u>

Source: Bloomberg and PiP for observed data, Banorte for rate forecasts. Underlined numbers indicate forecasts

Foreign Exchange

USD correction opens opportunities for tactical longs... In 4Q23, the US dollar reverted the strengthening bias shown much of the year, with the DXY and BBDXY indices falling 4.6% and 4.2% q/q, respectively. The key event was the Fed's signal that it would not hike further even in a 'soft landing' scenario, boosting risk appetite. As a result, bets for interest rate cuts surged and the USD was sold. This was reflected in IMM net positioning, going from long to short during the period (second graph on the right). The adjustment was surprising, although we think it has been somewhat overstretched. Specifically, the dollar could pare back at least some of these losses in 1Q24 amid: (1) Our view about a balance of risks to the upside for interest rates as the market moderates its pricing about the Fed's first cut in March (Banorte: -25bps in May) and for the full year; (2) a relatively strong US economy, at least during the first quarter, with inflation taking slightly more time to decline; and (3) low risk premia considering geopolitical factors in several regions. Broadly speaking, FX volatilities are trading low, increasing the vulnerability of risk aversion shocks that could support the dollar.

...while the EUR will remain challenged. Although the US economy will likely slow down, we see the Eurozone as more fragile. Coupled with a faster reduction in inflation, this will pressure the ECB to cut rates more decisively despite several Governing Council members that have tried to push back against current market expectations. Even if this does not materialize, the conflicts in Ukraine and Gaza, the situation in the Red Sea, and problems in China have a greater potential to affect this region. We hold our unfavorable view for the euro and reduce our EUR/USD forecast to 1.05 from 1.08 for year-end 2024.

MXN resilient in the short-term, albeit differentiated. For the second consecutive year, the Mexican peso was among the strongest currencies in EM. In fact, in 2023 it had its greatest historical appreciation (since 1954, when records are easily available) at 14.9%. Although it may well be overvalued, our 'resiliency' call has been accurate. This dynamic could extend into 1H24, supported by: (1) Our view that the US and Mexico will avoid recession, helping external accounts and remittances; (2) an improvement in the MXN's carry advantage against the dollar, with 150bps of Fed rate cuts this year (previous: -100bps), while for Banxico, we remain at -200bps; and (3) FDI strength supported by nearshoring. In contrast, we have incorporated a more refined view about the potential effect of the Mexican and US elections, especially given Trump's lead in the polls. Although it is too early to be discounted, the latter event could be hedged away during the second half. All in all, we revise our year-end 2024 estimate lower, to 18.80 from 19.20 per dollar, with a yearly range between 16.70 to 19.65. We recommend buying USD/MXN on dips only for trading purposes, without enough room for directional positions due to its high negative carry. For longer-term investors focused on total returns, we believe that EUR/MXN shorts are still much more suitable, with a positive three-month annualized carry close to 7.49% (against +6.06% if this position is funded in USD).

USD/MXN

Pesos per dollar



Source: Bloomberg, Banorte

USD/MXN forecasts

Pesos per dollar

Period	End of period	Previous forecast	Forecast	Period average
1Q23	18.05			
2Q23	17.12			
3Q23	17.42			
4Q23	16.97			
1Q24		<u>18.50</u>	<u>17.49</u>	<u>17.31</u>
2Q24		<u>19.70</u>	<u>17.33</u>	<u>17.70</u>
3Q24		<u>19.10</u>	<u>18.02</u>	<u>18.00</u>
4Q24		<u>19.20</u>	<u>18.80</u>	<u>18.92</u>

Source: Bloomberg, Banorte *Underlined numbers indicate forecasts

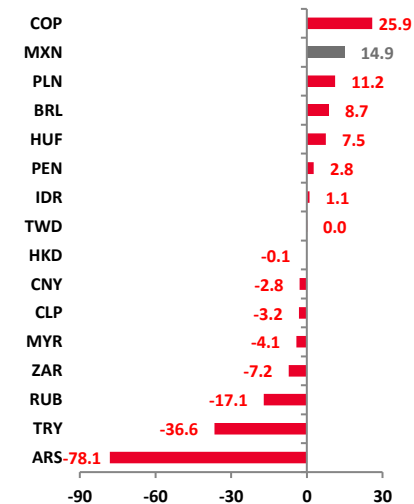


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EM currency performance

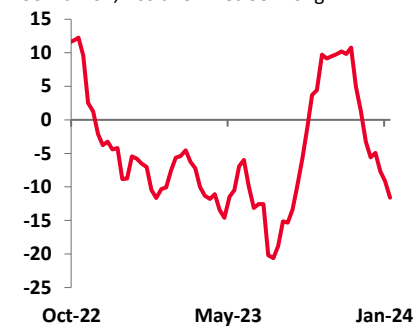
%, as of December 29, 2023



Source: Banorte with data from Bloomberg

IMM positioning in USD futures*

USD billion, Positive = net USD long



* Note: Against EUR, AUD, GBP, NZD, MXN, CAD, JPY, and CHF

Source: CME, Banorte

Stock market indices

A less restrictive scenario will support a greater appetite for risk assets. A significant share of 2023 returns were determined by the performance seen during the final months of the year. The average dollar return of the 30 indices that we regularly track stood at 17.7% y/y, with the US and Mexico among the strongest as they reached all-time highs in December. Expectations that central banks will start cutting rates soon, particularly the Fed and Banxico, will continue boosting risk assets in 2024. In our view, a less restrictive scenario will support higher valuations, although a multiple re-rating will also depend on: (1) The pace of the anticipated slowdown in GDP growth; (2) the evolution of geopolitical risks and other idiosyncratic factors, with presidential elections in both Mexico and the US especially relevant; and (3) the recovery in corporate earnings. In this backdrop, the 4Q23 earnings season is just getting underway, with the focus remaining on: (1) Trends in earnings growth, recalling that 3Q23 marked an inflection point; and (2) companies' guidance for 2024, with important challenges still related to cost dynamics and some remaining bottlenecks. Bloomberg's consensus anticipates 1.2% y/y earnings growth for S&P500 companies in the fourth quarter, albeit accelerating rapidly for subsequent periods to resume double-digit growth as early as 2Q24. In our view, Growth should be favored over Value during the first months of the year as a persistent and important recovery in their results is envisioned.

S&P500 benchmark level. We maintain our year-end 2024 estimate for the S&P500 at 5,000pts. We assume 10.5% earnings growth (vs. consensus of +10.8%e) and a P/E fwd multiple of 19.0x (below its current level of 22.0x). Although the Fed will likely start cutting its benchmark rate later this year, the pace would be slower than already priced in by the market, given the prevailing challenges for inflation and that this country will avoid a recession.

Mexbol benchmark level. In 2023, the Mexbol achieved the second highest dollar return in our sample with a 36.3% y/y gain (+18.4% y/y in local currency terms due to MXN strength). For 2024, our forecast remains at 60,200pts. We anticipate 6.3% y/y EBITDA growth for the companies in the sample, net debt increasing by 3.6% y/y, and a FV/EBITDA multiple of 6.0x (vs. its current level of 5.6x). We believe Mexico will continue standing out among its peers, mainly due to: (1) A sustained advance in earnings, increasingly underpinned by the effects of [nearshoring](#); (2) the latent start of the monetary easing cycle, which may support higher multiples; and (3) appealing valuations among comparable countries. Nevertheless, some short-term risks that need to be weighed are related to: (1) MXN strength, which may limit the appeal of long positions for foreign investors; (2) higher volatility stemming from changes in the methodology to calculate the Mexbol, which will be effective in March's rebalancing and that will affect the cumulative weight of the five largest companies, limiting them to a maximum of 45% (vs. 60% currently); and (3) some idiosyncratic risks that could increase sales for hedging purposes, even if only temporarily.

Lastly, going to specific companies, we reaffirm [Ac](#), [Cemex](#), [Gcc](#), and [Livepol](#) among our top-picks. In our view, their prospects remain very solid. We expect them to maintain good financial results in 4Q23, while valuations remain very appealing. On the other hand, we have decided to take profits on [Femsa](#) despite its strong fundamentals after the share price increased 44.1% since we included it in our selection, beating the Mexbol by 3x over the same period. We have also decided to exclude [Amx](#), a value company with few near-term catalysts, expecting also limited appetite from institutional and passive investors due to the potential decline in its Mexbol sample weight.



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S&P500 forecast for 2024

Pts

P/E Fwd	S&P500	Potential Return (%)
19.5x	5,200	9.1
19.3x	5,134	7.7
19.0x	5,067	6.3
18.8x	5,000	4.9
18.5x	4,934	3.5

Source: Bloomberg, Banorte

Mexbol forecast for 2024

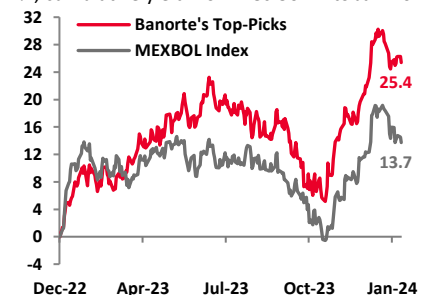
Pts

P/E Fwd	S&P500	Potential Return (%)
6.4x	64,953	17.8
6.2x	62,212	12.9
6.0x	60,156	9.1
5.8x	57,963	5.1
5.6x	55,221	0.2

Source: Bloomberg, Banorte

Top-picks vs Mexbol since 2023*

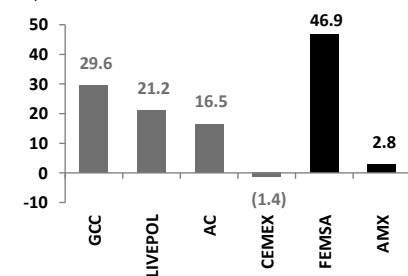
%, cumulative yield from Dec-30-22 to Jan-16-24



* Note: Price-only returns. Top-picks assume an equally-weighted portfolio
Source: Bloomberg

Top-picks performance since 2023*

%, cumulative from Dec-30-22 to Jan-16-24



* Note: (1) Relative performance of stocks vs Mexbol, since its inclusion as top-picks: Gcc +29.0pp; Livepol +13.7pp; Ac +2.8pp; Cemex -4.5pp; Femsa +33.2pp; and Amx -8.1pp.
(2) Black bars represent the companies we are excluding from our top-picks
Source: Bloomberg

Commodities

Most commodities ended 2023 in negative territory. The GSCI and BCOM indices dropped -12.2% and -12.6% y/y, respectively. Within the complex, energy posted the largest loss, while grains and industrial metals showed more moderate declines.

Crude-oil prices will be less pressured in 2024, although with tight balances in the first quarter. Last year's volatility in crude-oil was high, reaching close to 100 \$/bbl followed by the largest quarterly decline since September 2022 for Brent and WTI of 19.2% and 21.1%, respectively, on concerns about weaker global demand. For 2024, we expect narrower prices and even a downward bias due to: (1) Risks to global economic activity; (2) signs of less cohesion within [OPEC+](#) after Angola's exit given their disagreements on production quotas, which is the reason why we do not rule out that some members may try to reduce or even eliminate the collective cut of 1 million barrels per day (Mbbbl/d) that will be in force until 1Q24; (3) growing market participation of non-OPEC+ countries, with EIA forecasting that US production will reach record levels this year; and (4) the recent increase in inventories, with oversupply starting in 2Q24, allowing for further restocking. The most relevant upside risks are geopolitical, highlighting tensions in key sea routes (e.g. Red Sea) and fears of an escalation in the Middle East conflict leading to a disruption in regional supply. Specifically, we believe that the first quarter will be the most pressured of the year when considering an 0.8 Mbbbl/d deficit due to ongoing OPEC+ cuts and a global economy that remains in relatively good shape. Notably, Saudi Arabia holds its production target at 9 Mbbbl/d, significantly lower than the 2015-2019 average of 10.1 Mbbbl/d. Considering these factors, we anticipate Brent to trade between 70 and 85 \$/bbl this quarter. In gasoline, we foresee a modestly positive bias in prices derived from crude-oil dynamics, with EIA estimating an average of 2.75 \$/gal in PADD3. In natural gas we could observe slightly higher prices on the back of expectations of a colder winter in the US. However, we see a constrained performance for the latter two due to high inventories.

Record levels for gold. Industrial metals closed last year with losses despite a slight recovery in the fourth quarter, with copper up 3.5% q/q. However, we anticipate a downward skew in this sector because of the economic slowdown (e.g. China and Europe) amid high inventories. In precious metals, gold stood out as a safe-haven asset after the conflict between Hamas and Israel erupted, holding above 2,000 \$/t oz during the final stretch of the year (+11.6% q/q). Given latent geopolitical risks and our expected path for the Fed, we have a constructive view in this metal. We see room for it to push above its 2023 high (2,077 \$/t oz), with a range between 1,975 and 2,150 \$/t oz. In grains, difficult weather conditions have not allowed producers to capitalize on lower fertilizer costs. In tandem with elevated geopolitical risks, we believe they could come under pressure again.



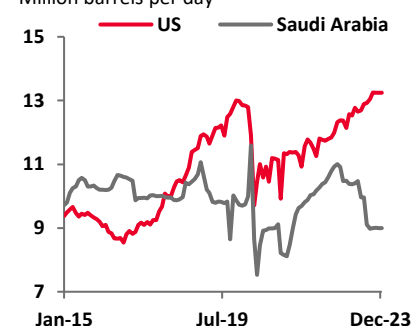
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Oil production

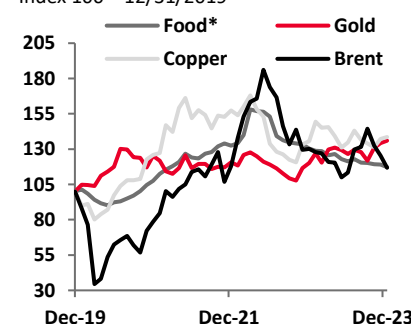
Million barrels per day



Source: Bloomberg, OPEP, EIA, Banorte

Commodities' performance

Index 100 = 12/31/2019



* Note: FAO food price index
Source: Banorte, Bloomberg

Commodities price performance and market consensus forecasts

Commodity	Unit	Spot*	Performance (%)				Market consensus forecasts					
			2020	2021	2022	2023	1Q24	2Q24	3Q24	4Q24	2024	2025
WTI	\$/bbl	71.84	-20.54	55.01	6.71	-10.73	79.00	78.00	80.20	80.00	80.00	77.63
Brent	\$/bbl	77.72	-21.52	50.15	10.45	-10.32	82.50	82.50	84.00	84.00	83.50	80.96
Natural Gas (H. Hub)	\$/MMBtu	2.84	15.99	46.91	19.97	-43.82	2.85	2.60	3.00	3.52	3.14	3.83
Gasoline (RBOB)	\$/gal	2.12	-17.05	58.23	10.37	-14.51	2.23	2.45	2.33	2.18	2.36	2.44
Gold	\$/t oz	2,028	25.12	-3.64	-0.28	13.10	1,995	2,025	2,055	2,090	2,019	2,070
Silver	\$/t oz	22.92	47.89	-11.72	2.77	-0.66	23.50	24.10	24.30	25.00	24.00	25.34
Copper	\$/mt	8,381	25.79	25.17	-13.87	2.23	8,388	8,500	8,750	9,000	8,551	9,020
Corn	¢/bu	444	24.82	22.57	14.37	-30.55	480	495	470	500	503	513
Wheat	¢/bu	582	14.63	20.34	2.76	-20.71	620	604	601	600	618	615

Source: Bloomberg *Last closing price; RBOB (Reformulated gasoline blendstock for oxygenate blending)

Corporate Debt

Market placements in 2023 amounted to MXN 198.3 billion (-7.5% y/y). Dynamism was high in the last quarter, with 35.6% of the year's total issuance. Appetite for high-quality, unsecured, and [ESG-themed](#) bonds was clear. In addition, the balance in the composition between floating- vs. fixed-rate bonds continued. Of the amount placed: (1) 88% had the highest credit ratings on national scale ('AAA/AA+'); (2) 92% was in unsecured bonds; (3) the participation of floating rates (TIIE-28 and ON-TIIE) was 48.4%, while fixed rate notes represented 51.6%; and (4) 52.7% had an ESG label.



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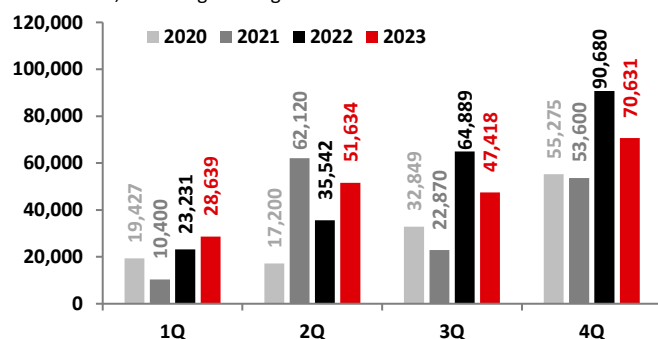
We expect the balance between floating- vs fixed-rate bonds to continue in early 2024.

Considering our expectation for Banxico's rate cuts beginning in March, along with a benchmark rate ending 2024 at 9.25%, we expect the preference between floating- and fixed-rate issuances in 1Q24 to remain balanced, as observed recently. However, from the second half of the year onwards, appetite will be mainly in floating rate instruments, in line with the monetary policy cycle. We do not rule out the possibility that this trend could begin as early as 2Q24.

Issuers will anticipate their funding needs due to the electoral period. Historically, the second half of each year has shown greater seasonal strength in the amount placed (between 60% and 70%). However, we believe it will be the opposite in 2024. We expect higher participation in the first half as companies are more interested in refinancing and covering their maturities ahead of the electoral processes in Mexico and the United States. In line with this expectation, we have observed a larger number of well-known issuers in the pipeline (Arca, Cemex, Naturgy Mexico, Sigma, among others). For this reason, we reiterate our placement forecast for 2024 of about MXN 195 billion (-1.7% y/y), similar to the amount issued in 2023. The latter is mainly composed of hefty maturities (MXN 130 billion), expecting that most of them will be refinanced, while new issuances would not deviate much from historical averages.

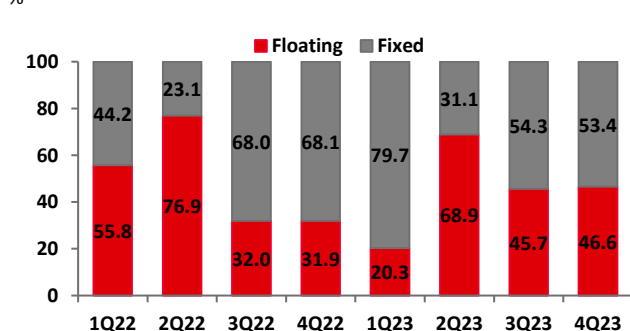
Long-term bonds issued by quarter

MXN million, excluding banking bonds



Source: Banorte with information from BMV, BIVA and PiP

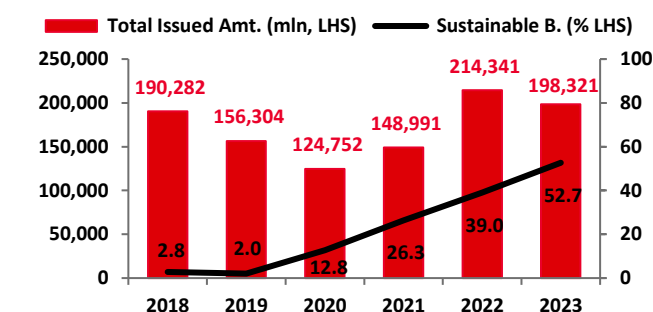
Long-term issued amount distribution by quarter



Source: Banorte / BMV / PiP, as of December 2023

ESG bonds evolution

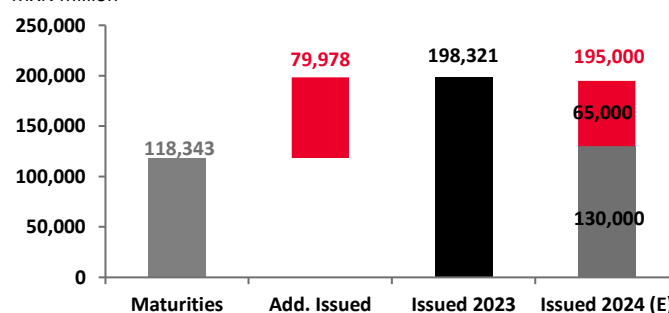
MXN million



Source: Banorte / BMV / PiP, as of December 2023

Issued amount 2023-2024 (E)

MXN million



Source: Banorte / BMV / PiP, as of December 2023

PEMEX

PEMEX's 3Q23 results. [The oil company reported average liquid hydrocarbons production of 1,850 Kbb/d in the quarter \(4.9% y/y\).](#) In the sequential analysis, production declined 1.7% q/q (-4.2% in condensates, +30.8% in extra-light, -13.5% in light, and +0.2% in heavy). Heavy crude-oil production still represents more than 50% of the total. However, the share in condensates has been boosted to 15% this year after an historical participation of almost zero. Revenues fell 26.8% y/y in the same quarter, mainly due to lower international prices of the Mexican Crude Oil Basket, as well as the decline in domestic and export sales volumes. A net loss of MXN 79.1 billion was observed in 3Q23, weaker than the MXN 52 billion loss in the same period of last year. Apart from what we have already mentioned, this was exacerbated by the effects from fixed asset impairments and higher foreign exchange losses. Nevertheless, this was partially offset by cost of goods sold (-22.7% y/y), and a reduction in taxes and duties (-76.2% y/y). PEMEX will publish its 4Q23 results on February 27.



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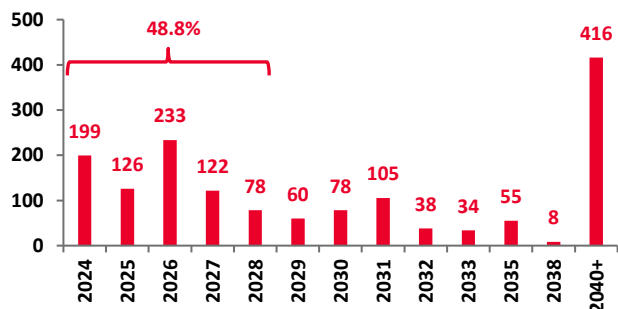


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With government support, the company will have sufficient resources to meet most of its 2024 financial needs. It is worth remembering that the [2024 Budget Proposal](#) mentioned that the tax burden will decrease, with the royalty paid (DUC, or '*Derecho de Utilidad Compartida*' in Spanish) falling from 40% to 30% (with this latter number being the one included in the [Revenue Law approved by Congress](#)). In addition, the government pencilled in a MXN 145 billion (about US\$ 8.5 billion at the proposed average FX rate of 17.1 pesos for dollar) contribution to the company. The average production estimate for 2024 is 1,983 Kbb/d, 26.5% less than the company's 2023-2027 Business Plan, but 7.2% higher than in 3Q23. With such support and higher cash flow available from the royalties' (DUC) reduction, we estimate the company can cover around 80% of 2024 maturities, which amount to about MXN 199 billion. Nevertheless, this figure could vary depending on actual production, operating performance, and crude-oil prices.

Upcoming Maturities – PEMEX*

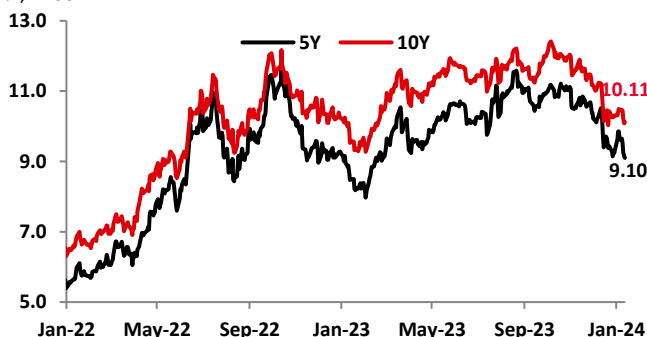
MXN billion



* Note: Revolving credit lines with banks not included. Source: Bloomberg

PEMEX & CFE International bond yields

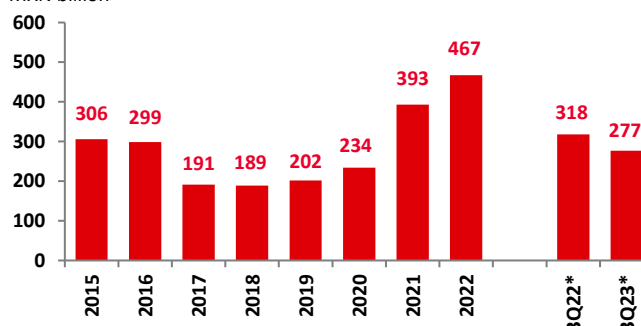
%, in USD



Source: Banorte with information from Bloomberg

Capex – PEMEX*

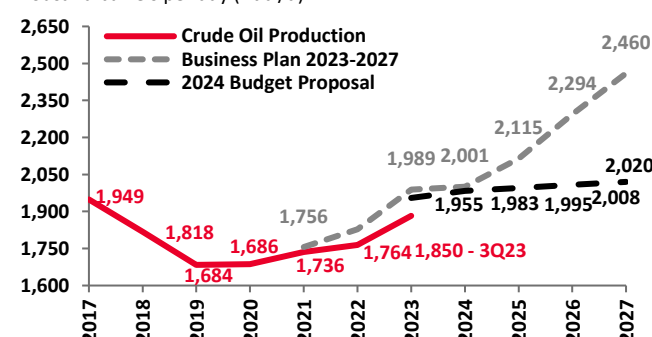
MXN billion



* Year to date until said quarter. Source: Banorte with information from PEMEX

PEMEX production vs Business Plan and 2024 Budget Proposal

Thousand barrels per day (Kbb/d)



Source: Banorte with information from PEMEX and MoF

CFE

Constant revenue growth, with profits affected by FX losses in 3Q23. The company has observed constant revenue growth since 2018, with a modest increase of 5.2% y/y in the third quarter. However, the bottom line was affected by currency exchange pressures given the company's debt structure (Domestic 47%; External 53%). It is estimated that 4Q23 results (expected to be released at the end of February) could improve with respect to the previous quarter considering the appreciation of the Mexican peso against the US dollar and constant energy demand.



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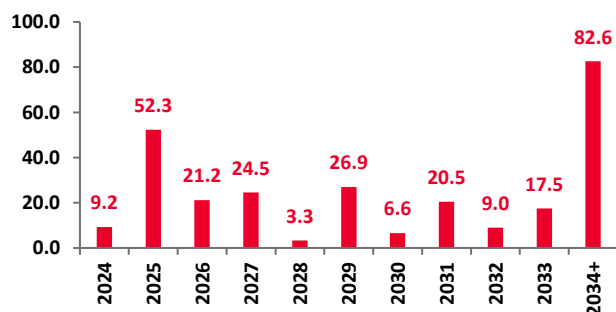
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CFE's upcoming maturities for 2024 add up to MXN 9.2 billion. During 2023, the State-owned company carried out some liability management operations, highlighting the buyback of US\$877.5 million of four senior notes in October. Of its MXN 9.2 billion in maturities for 2024, MXN 5.3 billion are listed in the Mexican corporate debt market, all scheduled for December (CFE 21-3, CFE 23X). Given these circumstances, we expect CFE to refinance in the local market, where it has been a constant participant and the second issuer by outstanding amount.

Nearshoring will increase energy demand. As the sole supplier in electricity transmission and distribution in Mexico, CFE's revenue is bound to be benefited from the relocation of international companies to Mexico (nearshoring), which will increase electricity demand. To capitalize this opportunity, it is important for the company to continue developing investment projects on electricity generation, transmission, and distribution with the goal of meeting demand and increase the company's profitability.

Upcoming Maturities – CFE*

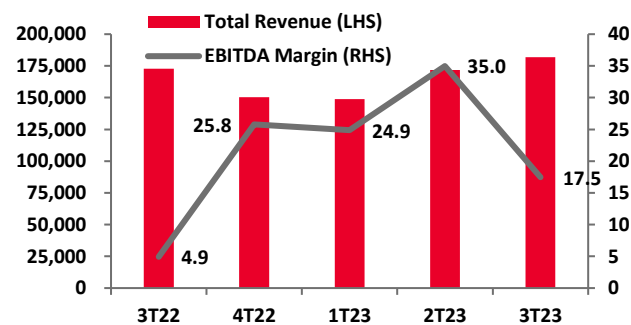
MXN billion



* Note: Revolving credit lines with banks not included. Source: Bloomberg

Total Revenue and EBITDA margin

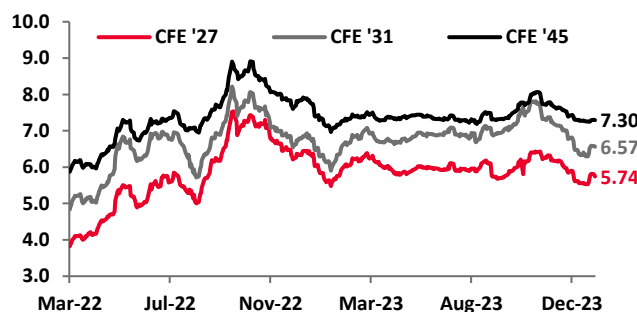
MXN Billion and %



Source: Banorte with data from Capital IQ

CFE International bond yields

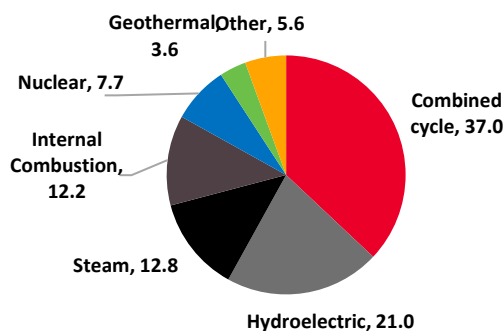
% in USD



Source: Banorte with data from Bloomberg

CFE energy production by type

%



Source: Banorte with data from CFE

Quantitative Analysis

Nowcasting Mexico's Economic Activity.

Previously, we presented a Nowcast model of IGAE's growth using high-frequency financial and transactional data, as well as incorporating a wide range of macroeconomic information as it becomes available.

One of the most relevant economic indicators in Mexico is the IGAE (Global Economic Activity Indicator), given that it allows to monitor Mexico's growth dynamics. However, despite IGAE's good track record as a monthly GDP-proxy –since it covers around 95% of Mexico's GDP in one month– it has a 56-day lag.

Our nowcast model has a high accuracy forecasting IGAE's growth just 10 days after the end of the month. Our model also gives us a fair estimate of IGAE's economic growth just one day after the end of each month. With this approach, we aim to read the real-time flow of information and evaluate its effects on current economic conditions.

The model is estimated using MIDAS regressions, which allows us to use high frequency data. To preserve parsimony, we also use factor analysis techniques to summarize the information from 300 daily financial and transactional series.

Recent economic data available for our model hints at a strong performance during 4Q23.

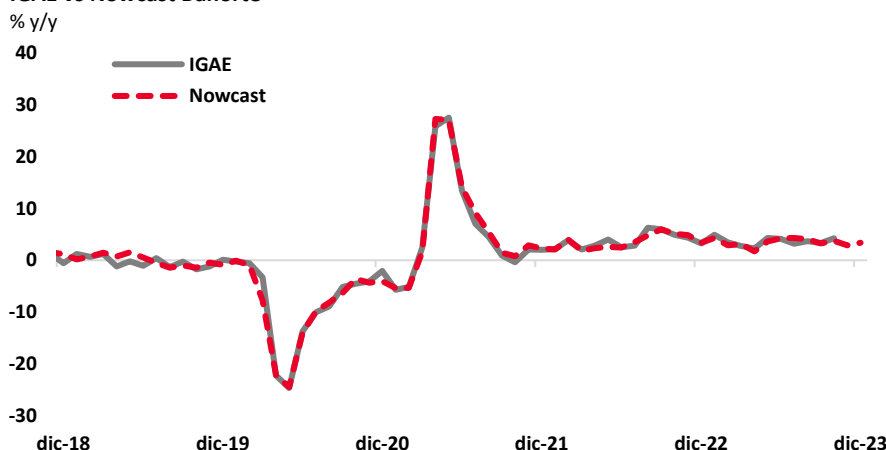
Using Banorte's transactional data, particularly credit and debit card purchases, we can infer that Mexican household spending maintained an upward trend in December. In fact, household spending during the first 25 days of the month posted 11% y/y growth, significantly higher than the 5.5% observed in 2022. In addition, momentum in formal employment, coupled with strong gains in real wages, supported overall growth dynamics for Mexico's economic outlook.

Non-traditional data sources –such as keyword searches in Google Trends– also suggest that dynamism in aggregate supply continued during the fourth quarter of the year. Particularly, strong growth was observed in SMEs income.

In this regard, our model forecasts:

- A **2.88% y/y nsa expansion** in **August's** economic activity; and
- A **3.41% y/y nsa growth** in **September's** output

IGAE vs Nowcast Banorte



Source: Banorte



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Quantitative Analysis

Fed's topics classification using NLP and ML techniques.

We previously developed a model using natural language processing (NLP) techniques that classifies and interprets FOMC statements. In addition, the model allows us to confirm whether the communication of the Central Bank is coherent with the monetary policy implemented (refer to: [Welcome to the Machine \(Learning\): An NLP framework for analyzing the Fed's monetary policy statements](#)).

Loss of coherence between monetary policy announcements and rate forecasting.

Although the Fed maintained the target range between 5.25% and 5.50%, our model classified the semantics of the statement with the central topic congruent with a terminal rate of 5.25% (upper range; Topic 8 in the chart). It is worth noting that this topic has been the dominant one since the Fed began its hiking cycle in March 2022. In this context, the semantics were identical to previous announcements, so the model continues to exhibit strength in its classification of the statements.

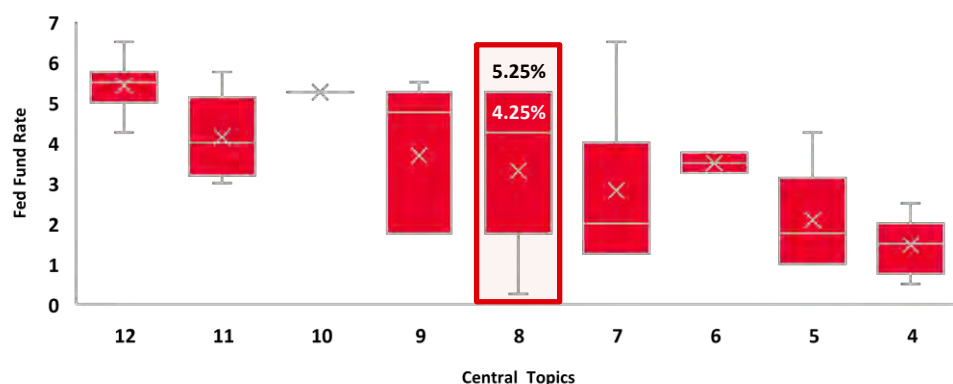
It is worth noting that our model analyzes only the semantics and does not consider the economic outlook associated with the dot-plot. This implies that the Fed's written communication continues to point to a terminal rate of 5.25%. From this, we can conclude that the congruence that existed between the language used in previous monetary policy announcements with the current restrictive cycle was lost.

We anticipate that the first cut will be in May 2024. Although the Fed's statements have maintained a restrictive tone, we consider that the hiking cycle has concluded. Current semantics, coupled with the slowdown that the US economy has begun to show, such as the deceleration in the labor market (164K new jobs per month in 4Q23 vs. 245K new jobs per month in the first three quarters of 2023), are unequivocal signs that allude to a less restrictive monetary stance in the first half of the year. Therefore, we believe that the first cut will be on May 1st.

However, it is worth noting Powell's last press conference was more hawkish than the Fed's statement and alluded to the fact that the first cut in the reference rate will be subject to the inflation and employment reports that will be published in 1H24.

Range of Fed Funds Rate by Topic

Central Topics



Source: Banorte



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Quantitative Analysis

Hawk-o-meter – Interpreting the hawkish/dovish bias of FOMC members.

In order to classify and have an objective interpretation around the speeches of the voting and alternate members of the Federal Open Market Committee (FOMC), an analytical tool was built based on natural language processing (NLP) and machine learning (ML) techniques (refer to: [Hawk-o-meter: An AI approach to FOMC speeches](#)). The classification of the speeches helps to identify the hawkish or dovish bias of each one.

The 2024 committee board is slightly less hawkish. According to the Federal Reserve Bank rotation calendar, Austan Goolsbee (Chicago), Patrick Harker (Philadelphia), Neel Kashkari (Minneapolis), and Lorie Logan (Dallas) will not be part of the 2024 voting committee. The 2023 alternate members Thomas Barkin (Richmond), Raphael Bostic (Atlanta), Mary Daly (San Francisco) and Loretta Mester (Cleveland, who will retire in June 2024) will replace them. This year's alternate members will be occupied by Austan Goolsbee (Chicago), Susan Collins (Boston), Alberto Musalem (St. Louis, who will replace James Bullard in April 2024), Jeffrey Schmid (Kansas City) and Sushmita Shukla (First Vice President, NY). It is important to mention that there are no speeches from the following members: Adriana D. Kugler, Sushmita Shukla, Alberto Musalem and Jeffrey Schmid. As a result of these moves, the committee went from having a hawkish score of 0.40 to 0.38 on the hawk-o-meter, which implies a 5% decline in the average restrictive tone.

We anticipate that the first cut will be in May 2024. A less hawkish tone, coupled with the slowdown that the US economy has begun to show, such as the deceleration in the labor market (164K new jobs per month in 4Q23 vs. 245K new jobs per month in the first three quarters of 2023), are unequivocal signs that allude to a less restrictive monetary stance in the first half of the year. Therefore, we believe the Fed's first cut will be on May 1st.



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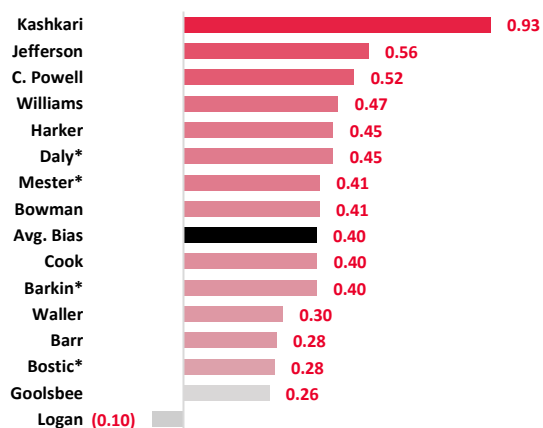
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Hawk-o-meter – 2023 FOMC Members

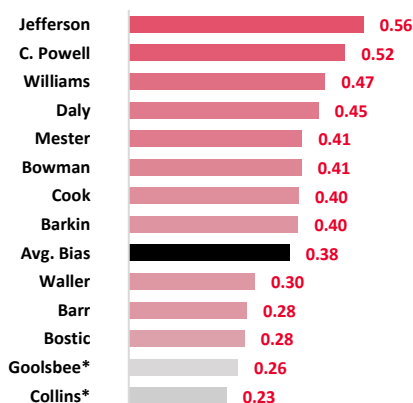
Speeches tone



Source: Banorte, Federal Reserve

Hawk-o-meter –2024 FOMC Members

Speeches tone



2023 Speeches analyzed
Source: Banorte, Federal Reserve

5%

**Less hawkish
average score
of the 2024
Committee vs.
2023**

Quantitative Analysis

Nowcasting Model for Mexico's Private Consumption.

During 4Q23, labor market indicators related to the growth prospects of private consumption consistently exhibited an upward trend. Despite that the reference rate stands at 11.25%, the acceleration of public infrastructure projects towards the end of the year, coupled with the slowing of inflation, have led to substantial increases in real wages in industries related to these projects, such as construction and manufacturing. In these sectors, real wages increased by 10.3% and 6.9% y/y nsa respectively. These positive effects have also spread to the rest of economic activities, resulting in an average rise in workers' purchasing power of 6.0% y/y. Moreover, employment in formal activities increased 3.1% y/y in this period, which implied the creation of 116,015 new formal jobs.

The commercial strategy of *El Buen Fin* (Mexico's Black Friday), along with the Day of the Dead celebrations and December festivities, were significant catalysts in the demand for goods and services during the quarter. For example, total vehicles sales in November reached 35.0% y/y growth, contributing to the highest quarterly car sales in the last five years (22.9% y/y during the fourth quarter of 2023). Supermarket, general stores, and retail sales recorded strong growth in their monetary payments received through bank transactions, accounting for increases of 27.1%, 82.3%, and 9.7% y/y, respectively. It is important to highlight that the proportion of transactions made with credit cards relative to the total has remained stable around 40.5%, indicating that the quarterly demand boost has not been induced by increased household debt.

Strong MXN performance was also a key factor in higher purchases. The FIX average exchange rate during 4Q23 was 17.54 Mexican pesos per dollar, appreciating by 10.8% compared to the same period of the previous year. The recovery in the value of the national currency partly explained the significant increase in demand for foreign products. For example, imported consumption grew in October by 27.4% y/y (nsa), mainly through durable goods consumption, while non-oil imports grew 9.5% annually (Oct-Nov'23, nsa) and are expected to maintain this rising trend in the last month of the year.

Drawing from various economic indicators, Banorte's Nowcasting models indicate a substantial increase in private consumption during 4Q23. The forecasted real annual growth rates stood at 6.3% for November and 5.5% for December. This uptick translates to a 5.1% y/y increase for 4Q23 (nsa) and a 1.1% q/q rise (sa). The charts on the right illustrate the positive acceleration of private consumption in these months. Taking these factors into account, the projection for private consumption growth in 2024 is pegged at 4.3% (nsa). This has been a key component of Mexico's sustained economic expansion.

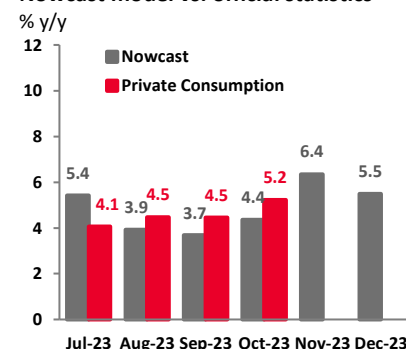


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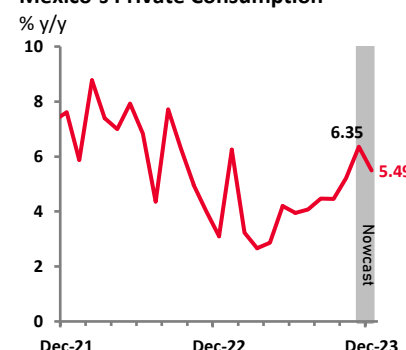
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Nowcast model vs. official statistics



Source: Banorte with data from INEGI

Mexico's Private Consumption



Source: Banorte, with data from INEGI

Recent research notes

Zoom Nearshoring

- *Volume I: Nearshoring could unleash Mexico's potential*, March 6, 2023, [<pdf>](#)
- *Volume II: Shifting Gears: Exploring Mexico's Regional Advantages for Nearshoring*, July 17, 2023, [<pdf>](#)
- *Volume III: Nearshoring and the Mexican Stock Market*, January 11, 2024, [<pdf>](#)

Mexico

- *December inflation – Strong pressures in fruits and vegetables, but with the core more modest*, January 9, 2024, [<pdf>](#)
- *Banxico – Forward guidance continuity reinforces our view of a first rate cut in March*, December 14, 2023, [<pdf>](#)
- *Fitch affirms Mexico 'BBB-' sovereign rating, maintaining a stable outlook*, December 7, 2023, [<pdf>](#)
- *Minimum Wage – 20% increase in 2024*, December 1, 2023, [<pdf>](#)
- *3Q23 GDP – Dynamism reaffirmed, boosted by all three sectors*, November 24, 2023, [<pdf>](#)
- *The IMF renewed Mexico's FCL for a new two-year period*, November 16, 2023, [<pdf>](#)
- *Congress finishes the approval process of the 2024 Revenue Law*, October 27, 2023, [<pdf>](#)

Global

- *IMF and World Bank Annual Meetings – Higher need for cooperation given risks of a global recession*, October 17, 2022, [<pdf>](#)

Quantitative Research

- *Fed's monetary policy: Rates unchanged in the first half of 2024*, December 13, 2023, [<pdf>](#)
- *Fed's monetary policy: We expect 25bps hike in December's meeting*, November 1, 2023, [<pdf>](#)
- *Fed's monetary policy: We expect 25bps hike in November's meeting*, September 20, 2023, [<pdf>](#)
- *Hawk-o-meter: An AI approach to FOMC speeches*, April 17, 2023, [<pdf>](#)

Fixed-Income, FX, and Commodities

- *Fixed-Income and FX Weekly*, January 12, 2024, [<pdf>](#)
- *MoF's Annual Financing Plan 2024: Priority to the local market to meet higher funding needs*, December 20, 2023, [<pdf>](#)
- *Pension Funds Outlook - November 2023*, December 20, 2023, [<pdf>](#)
- *1Q24 Auction Calendar: Higher debt issuance at both floating and fixed rates*, December 15, 2023, [<pdf>](#)
- *OPEC+: Collective output cut by 1 Mbb/d, while Saudi Arabia extended its supply restriction*, November 30, 2023, [<pdf>](#)
- *Extraordinary Cetes and Bondes F auction results*, November 29, 2023, [<pdf>](#)
- *FX Commission: Reduction of the FX NDFs program*, August 31, 2023, [<pdf>](#)
- *Syndicated auction results of new 5-year Mbono Mar'29*, August 17, 2023, [<pdf>](#)
- *Profit-taking: Tactical long in 2-year Mbono Dec'24*, June 22, 2023, [<pdf>](#)
- *New 10-year Mbono May'33 syndicated auction results*, December 7, 2022, [<pdf>](#)
- *MXN is the third most traded currency in EM*, November 4, 2022, [<pdf>](#)
- *Closing Trade Idea: Pay TIIE-IRS (26x1), receive 2-year SOFR*, October 28, 2022, [<pdf>](#)

- *Liability Management Transaction*, October 7, 2022, [<pdf>](#)
- *3- and 6-year Bondes G syndicated auction results*, July 20, 2022, [<pdf>](#)
- *New 30-year Mbono Jul'53 syndicated auction results*, June 29, 2022, [<pdf>](#)
- *Profit taking on 2-year TIEE-IRS payer*, March 4, 2022, [<pdf>](#)
- *New levels to protect profits in our trade idea of paying 2-year TIEE-IRS*, February 16, 2022, [<pdf>](#)
- *MoF - Refinancing operation in the euro market*, February 8, 2022, [<pdf>](#)
- *The MoF issued USD bonds and refinanced its external debt*, January 5, 2022, [<pdf>](#)
- *Mexico announces global USD bond offering and public offering*, January 4, 2022, [<pdf>](#)
- *Collective release of crude oil reserves*, November 23, 2021, [<pdf>](#)
- *New Development Bonds indexed to the TIEE funding, Bondes F*, August 18, 2021, [<pdf>](#)

Equities

- *AIRPORTS: Oma with the highest passenger growth in 2023*, January 10, 2024, [<pdf>](#)
- *Flash OMA: With the highest passenger growth in 2023*, January 9, 2024, [<pdf>](#)
- *Flash GAP: 2023 ends with slow growth due to NEO aircraft shutdowns*, January 8, 2024, [<pdf>](#)
- *Flash VOLAR: Aircraft maintenance shutdowns affect 2023 closure*, January 5, 2024, [<pdf>](#)
- *Flash ASUR: Confirms moderate growth at the end of 2023*, January 5, 2024, [<pdf>](#)
- *Flash: Amx and Liberty Latin America enter into agreement regarding their joint venture in Chile*, December 28, 2023, [<pdf>](#)
- *Flash: Gmxt continues to expand its shipping network*, December 27, 2023, [<pdf>](#)
- *Flash ASUR: Master Development Program 2024-2028 approved*, December 14, 2023, [<pdf>](#)
- *Flash WALMEX: Notification from COFECE regarding wholesale market investigation announced*, October 10, 2023, [<pdf>](#)
- *Flash Airports: The tariff base regulation is being modified*, October 5, 2023, [<pdf>](#)
- *Flash: Mexican aviation recovers Category 1*, September 14, [<pdf>](#)

Corporate Debt

- *Corporate Bond Market Review: DECEMBER 2023*, January 2024, [<pdf>](#)
- *Fitch Removes Pemex's IDRs from Rating Watch Negative; affirms Ratings at 'B+'*, December 21, 2023, [<pdf>](#)
- *The Federal Government will keep supporting Pemex in 2024*, October 30, 2023, [<pdf>](#)
- *Moody's affirmed Pemex's 'B1' ratings; outlook changed to negative*, July 24, 2023, [<pdf>](#)
- *Fitch Downgrades Pemex's IDRs to 'B+' on Rating Watch Negative*, July 18, 2023, [<pdf>](#)

Note: All our publications are available in the [following link](#)

Recent trade ideas				
Trade idea	P/L	Initial date	End date	
2y10y TIIE-IRS steepener		Oct-13-23		
Long positions in Mbono Dec'24	P	Jun-16-23	Jun-22-23	
Pay TIIE-IRS (26x1), receive 2-year SOFR	L	Aug-18-22	Oct-28-22	
Pay 2-year TIIE-IRS (26x1)	P	Feb-4-22	Mar-4-22	
Tactical longs in Mbono Mar'26	P	May-14-21	Jun-7-21	
Receive 6-month TIIE-IRS (6x1)	P	Dec-17-20	Mar-3-21	
Long positions in Udibono Nov'23	L	Feb-11-21	Feb-26-21	
Long positions in Mbono May'29 & Nov'38	P	Sep-7-20	Sep-18-20	
Long positions in Udibono Dec'25	P	Jul-23-20	Aug-10-20	
Long positions in Udibono Nov'35	P	May-22-20	Jun-12-20	
Long positions in Mbono May'29	P	May-5-20	May-22-20	
Tactical longs in 1- & 2-year TIIE-28 IRS	P	Mar-20-20	Apr-24-20	
Long positions in Udibono Nov'28	P	Jan-31-20	Feb-12-20	
Long positions in Udibono Jun'22	P	Jan-9-20	Jan-22-20	
Long positions in Mbono Nov'47	L	Oct-25-19	Nov-20-19	
Long positions in Mbonos Nov'36 & Nov'42	P	Aug-16-19	Sep-24-19	
Long positions in the short-end of Mbonos curve	P	Jul-19-19	Aug-2-19	
Long positions in Mbonos Nov'42	L	Jul-5-19	Jul-12-19	
Long positions in Mbonos Nov'36 & Nov'38	P	Jun-10-19	Jun-14-19	
Long positions in Mbonos Jun'22 & Dec'23	P	Jan-9-19	Feb-12-19	
Long floating-rate Bondes D	P	Oct-31-18	Jan-3-19	
Long CPI-linkded Udibono Jun'22	L	Aug-7-18	Oct-31-18	
Long floating-rate Bondes D	P	Apr-30-18	Aug-3-18	
Long 20- to 30-year Mbonos	P	Jun-25-18	Jul-9-18	
Short Mbonos	P	Jun-11-18	Jun-25-18	
Long CPI-linkded Udibono Jun'19	P	May-7-18	May-14-18	
Long 7- to 10-year Mbonos	L	Mar-26-18	Apr-23-18	
Long CPI-linkded Udibono Jun'19	P	Mar-20-18	Mar-26-18	
Long 5- to 10-year Mbonos	P	Mar-5-18	Mar-20-18	
Long floating-rate Bondes D	P	Jan-15-18	Mar-12-18	
Long 10-year UMS Nov'28 (USD)	L	Jan-15-18	Feb-2-18	

P = Profit, L = Loss

Short-term tactical trades					
Trade idea	P/L*	Entry	Exit	Initial Date	End date
Long USD/MXN	P	19.30	19.50	Oct-11-19	Nov-20-19
Long USD/MXN	P	18.89	19.35	Mar-20-19	Mar-27-19
Long USD/MXN	P	18.99	19.28	Jan-15-19	Feb-11-19
Long USD/MXN	P	18.70	19.63	Oct-16-18	Jan-3-19
Short USD/MXN	P	20.00	18.85	Jul-2-18	Jul-24-18
Long USD/MXN	P	19.55	19.95	May-28-18	Jun-4-18
Long USD/MXN	P	18.70	19.40	Apr-23-18	May-14-18
Long USD/MXN	P	18.56	19.20	Nov-27-17	Dec-13-17
Long USD/MXN	L	19.20	18.91	Nov-6-17	Nov-17-17
Long USD/MXN	P	18.58	19.00	Oct-9-17	Oct-23-17
Short USD/MXN	L	17.80	18.24	Sep-4-17	Sep-25-17
Long USD/MXN	P	14.40	14.85	Dec-15-14	Jan-5-15
Long USD/MXN	P	13.62	14.11	Nov-21-14	Dec-3-14
Short EUR/MXN	P	17.20	17.03	Aug-27-14	Sep-4-14

* Total return does not consider carry gain/losses

P = Profit, L = Loss

Track of directional fixed-income trade recommendations								
Trade idea	Entry	Target	Stop-loss	Closed	P/L	Initial date	End date	
Long Udibono Dec'20	3.05%	2.90%	3.15%	3.15%	L	Aug-9-17	Oct-6-17	
5y10y TIE-IRS steepener	28bps	43bps	18bps	31bps	P ²	Feb-15-17	Mar-15-17	
5y10y TIE-IRS steepener	35bps	50bps	25bps	47bps	P	Oct-5-16	Oct-19-16	
Long Mbono Jun'21	5.60%	5.35%	5.80%	5.43%	P	Jul-13-16	Aug-16-16	
Long Udibono Jun'19	1.95%	1.65%	2.10%	2.10%	L	Jul-13-16	Aug-16-16	
Receive 1-year TIE-IRS (13x1)	3.92%	3.67%	4.10%	3.87% ¹	P	Nov-12-15	Feb-8-16	
Long spread 10-year TIE-IRS vs US Libor	436bps	410bps	456bps	410bps	P	Sep-30-15	Oct-23-15	
Receive 9-month TIE-IRS (9x1)	3.85%	3.65%	4.00%	3.65%	P	Sep-3-15	Sep-18-15	
Spread TIE 2/10 yrs (flattening)	230bps	200bps	250bps	200bps	P	Jun-26-15	Jul-29-15	
Long Mbono Dec'24	6.12%	5.89%	6.27%	5.83%	P	Mar-13-15	Mar-19-15	
Relative-value trade, long 10-year Mbono (Dec'24) / flattening of the curve					P	Dec-22-14	Feb-6-15	
Pay 3-month TIE-IRS (3x1)	3.24%	3.32%	3.20%	3.30%	P	Jan-29-15	Jan-29-15	
Pay 9-month TIE-IRS (9x1)	3.28%	3.38%	3.20%	3.38%	P	Jan-29-15	Jan-29-15	
Pay 5-year TIE-IRS (65x1)	5.25%	5.39%	5.14%	5.14%	L	Nov-4-14	Nov-14-14	
Long Udibono Dec'17	0.66%	0.45%	0.82%	0.82%	L	Jul-4-14	Sep-26-14	
Relative-value trade, long Mbonos 5-to-10-year					P	May-5-14	Sep-26-14	
Receive 2-year TIE-IRS (26x1)	3.75%	3.55%	3.90%	3.90%	L	Jul-11-14	Sep-10-14	
Receive 1-year TIE-IRS (13x1)	4.04%	3.85%	4.20%	3.85%	P	Feb-6-14	Apr-10-14	
Long Udibono Jun'16	0.70%	0.45%	0.90%	0.90%	L	Jan-6-14	Feb-4-14	
Long Mbono Jun'16	4.47%	3.90%	4.67%	4.06%	P	Jun-7-13	Nov-21-13	
Receive 6-month TIE-IRS (6x1)	3.83%	3.65%	4.00%	3.81%	P	Oct-10-13	Oct-25-13	
Receive 1-year TIE-IRS (13x1)	3.85%	3.55%	4.00%	3.85%	--	Oct-10-13	Oct-25-13	
Long Udibono Dec'17	1.13%	0.95%	1.28%	1.35%	L	Aug-9-13	Sep-10-13	
Receive 9-month TIE-IRS (9x1)	4.50%	4.32%	4.65%	4.31%	P	Jun-21-13	Jul-12-13	
Spread TIE-Libor (10-year)	390bps	365bps	410bps	412bps	L	Jun-7-13	Jun-11-13	
Receive 1-year TIE-IRS (13x1)	4.22%	4.00%	4.30%	4.30%	L	Apr-19-13	May-31-13	
Long Udibono Jun'22	1.40%	1.20%	1.55%	0.97%	P	Mar-15-13	May-3-13	
Receive 1-year TIE-IRS (13x1)	4.60%	4.45%	4.70%	4.45%	P	Feb-1-13	Mar-7-13	
Long Mbono Nov'42	6.22%	5.97%	6.40%	5.89%	P	Feb-1-13	Mar-7-13	
Long Udibono Dec'13	1.21%	0.80%	1.40%	1.40%	L	Feb-1-13	Apr-15-13	
Receive 1-year TIE-IRS (13x1)	4.87%	4.70%	5.00%	4.69%	P	Jan-11-13	Jan-24-13	
Receive TIE Pay Mbono (10-year)	46bps	35bps	54bps	54bps	L	Oct-19-12	Mar-8-13	
Spread TIE-Libor (10-year)	410bps	385bps	430bps	342bps	P	Sep-21-13	Mar-8-13	
Long Udibono Dec'12	+0.97%	-1.50%	+1.20%	-6.50%	P	May-1-12	Nov-27-12	
Long Udibono Dec'13	+1.06%	0.90%	+1.35%	0.90%	P	May-1-12	Dec-14-12	

1. Carry + roll-down gains of 17bps

2. Closed below target and before the proposed horizon date due to changes in market conditions that have differed from our expectations.

P = Profit, L = Loss

Track of the directional FX trade recommendations								
Trade Idea	Entry	Target	Stop-loss	Closed	P/L*	Initial Date	End date	
Long USD/MXN	18.57	19.50	18.20	18.20	L	Jan-19-18	Apr-2-18	
Long USD/MXN	14.98	15.50	14.60	15.43	P	Mar-20-15	Apr-20-15	
Short EUR/MXN	17.70	n.a.	n.a.	16.90	P	Jan-5-15	Jan-15-15	
Short USD/MXN	13.21	n.a.	n.a.	13.64	L	Sep-10-14	Sep-26-14	
USD/MXN call spread**	12.99	13.30	n.a.	13.02	L	May-6-14	Jun-13-14	
Directional short USD/MXN	13.00	12.70	13.25	13.28	L	Oct-31-13	Nov-8-13	
Limit short USD/MXN	13.25	12.90	13.46	--	--	Oct-11-13	Oct-17-13	
Short EUR/MXN	16.05	15.70	16.40	15.69	P	Apr-29-13	May-9-13	
Long USD/MXN	12.60	12.90	12.40	12.40	L	Mar-11-13	Mar-13-13	
Long USD/MXN	12.60	12.90	12.40	12.85	P	Jan-11-13	Feb-27-13	
Tactical limit short USD/MXN	12.90	12.75	13.05	--	--	Dec-10-12	Dec-17-12	
Short EUR/MXN	16.64	16.10	16.90	16.94	L	Oct-3-12	Oct-30-12	

* Total return does not consider carry gain/losses

** Low strike (long call) at 13.00, high strike (short call) at 13.30 for a premium of 0.718% of notional amount

P = Profit, L = Loss

Analyst Certification.

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Santiago Leal Singer, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Carlos Hernández García, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Daniel Sebastián Sosa Aguilar, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Juan Carlos Mercado Garduño, Jazmin Daniela Cuautencos Mora, Andrea Muñoz Sánchez and Paula Lozoya Valadez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

Relevant statements.

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Guide for investment recommendations.

	Reference
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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

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