Monetary policy and global growth divergence

2Q24 Outlook

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Economic and Financial Markets Research
Economic Research and Market Strategy

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2Q24 Outlook
Monetary policy and global growth divergence

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The evolution of the global economy and financial markets' performance this year remains determined by three key drivers. First, the geopolitical component still has an important weight. Armed conflicts in Ukraine and the Middle East, disruptions in the Red Sea caused by attacks of Houthi rebels in Yemen, along with standing tensions between the United States and China, are still shaping risk management and strategic plans of decision makers. Given this backdrop, the regionalization process and significant changes in foreign trade dynamics seem here to stay (*e.g. nearshoring*). Overall, these events have proven to be a headwind for global growth, as well as investor and consumer confidence.

Another factor has been the divergent performance of economic growth among the world's regions. In a highly complex environment, US resilience still stands out, continuing with firm steps thanks to a strong labor market and consumption dynamics. In terms of employment, 829 thousand jobs were created in the first quarter of 2024 –an average of 276 thousand per month, higher than the average of 252 thousand a month seen in 2023. Unfortunately, the story has not been similar in other latitudes. In Europe, risks of a moderate recession remain very much in place in countries such as Germany and the United Kingdom. In Asia, high frequency data continues to show challenging conditions in Japan and China, with the latter carrying out a series of fiscal and monetary stimulus measures in a bid to reach its 5% GDP growth target.

The third factor is monetary policy. The view of an inflection point this year remains unchanged, although bets about its likely magnitude have moderated. Most central banks are prepared to cut, albeit lingering challenges for inflation keep suggesting a prudent and gradual stance in some cases, highlighting the Fed among them. Broadly speaking, the perception is that central banks are still facing some difficulties. Hence, monetary conditions are expected to remain restrictive for some time despite the possibility that easing cycles might begin somewhat soon.

In Mexico, the economy has lost a bit of steam since the end of 2023. Nevertheless, some favorable conditions remain in place, pointing towards good consumption and investment dynamics, at least during the first half of the year. With this in mind, we reiterate our 2.4% GDP growth forecast for 2024. On monetary policy, Banxico announced its first 25bps reference rate cut in March, as we had predicted in our previous *Quarterly Outlook*. Going forward, the central bank could follow a gradual easing strategy, with non-continuous cuts in coming months that would take the interest rate to 10% by year-end. In the fiscal front, expectations are anchored around a strategy that will stay focused on maintaining debt as a share of GDP at around 50%. Finally, the most relevant theme of the quarter will be the general elections on June 2nd.

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Best Forecaster Economic Indicators for Mexico 2023

FOCUS ECONOMICS ANALYST FORECAST AWARDS 2023

Document for distribution among the general public

Mexico's main macroeconomic and financial forecasts
End of period

	1Q24	2Q24	3Q24	4Q24	2022	2023	2024	2025
GDP (% y/y)	2.2	4.4	1.4	1.3	3.9	3.2	2.4	1.7
Inflation (% y/y)	4.4	4.6	4.4	4.3	7.8	4.7	4.3	3.7
USD/MXN	16.56	16.60	17.60	17.70	19.50	16.97	17.70	18.66
Banxico's reference rate (%)	11.00	10.75	10.50	10.00	10.50	11.25	10.00	7.00
28-day TIIE (%)	11.25	11.00	10.75	10.25	10.77	11.50	10.25	7.29
Mexbol (points)	--	--	--	60,200	48,464	57,386	60,200	--

* Underlined figures represent our forecasts
Source: Banorte

Mexico

We still anticipate a 2.4% GDP expansion in 2024 despite a slow start of the year. Economic weakness at the end of 2023 extended to January, impacting the outlook for 1Q24. Given already known data, we now expect growth of only 0.5% q/q (2.2% y/y) in the latter period. Nevertheless, we still see relevant drivers that would help sustain strength at the end of said quarter and into 2Q24 (0.9% q/q; 4.4% y/y). As we have mentioned previously, we highlight: (1) Spending in infrastructure, driving investment; (2) the spillover from the advance payment of social programs; (3) resilience in consumption fundamentals; (4) fewer inflationary pressures at the margin; and (5) market share gains vs China in the US goods' imports market. We continue to forecast a contraction in 3Q24 (-0.3% q/q; 1.4% y/y), but increased external strength, solid domestic conditions, and the first effects from monetary easing would drive a modest recovery in the last quarter at 0.2% q/q (1.3% y/y). With several of these factors extending into 2025, we anticipate a 1.7% expansion in said year –albeit with the negative effect of the leap year in the annual comparison also in play.

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Relevant dates in the 2024 elections

Event	Date
Campaigns	Mar-1 - May-29
1st debate	Apr-7
2nd debate	Apr-28
3rd debate	May-19
Start of the electoral ban	May-30
Election day	Jun-2
Electoral tallies	Jun-5 to Jun-8
Start of Congress' sessions	Aug-1
Inauguration Day	Oct-1

Source: Banorte with data from INE

Lower headline inflation, but with higher persistence to the upside at the core… We recently revised our inflation forecast for the end of the year, expecting 4.3% y/y (previous: 4.6%). A large part of this adjustment is driven by the non-core –forecasted at 4.0%– due to fewer distortions than the ones we originally envisioned from the *El Niño* phenomenon, coupled with MXN strength. Nevertheless, we see the core higher at 4.4% (previous: 4.2%) given additional pressures in some services (*e.g.* housing, education, dining away from home). In 2025, we believe that the restrictive monetary policy stance will keep operating while some distortions could start to dissipate, with headline and core inflation at the end of that year at 3.7% and 3.5%, respectively.

...reinforcing Banxico's cautiousness. On the back of persistent challenges for prices, a narrower space to maneuver in terms of the relative stance with the US, and the skew we perceive from the Board, we still think that Banxico will opt for a pause in its May 9th decision. However, considering the degree of tightening –measured by the ex-ante real rate– along with medium- and long-term expectations, we believe most members will push for additional rate cuts in a gradual fashion. As such, we see a reference rate of 10.00% by the end of the year. Reductions would keep going in 2025, expecting it to reach 7.00% by December.

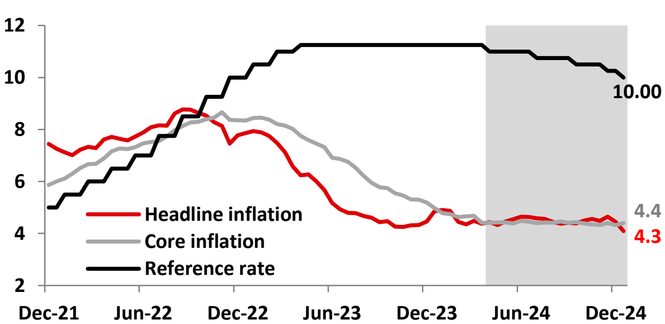
Increased focus on the electoral process and the June 2nd election. With campaigns currently in full force, we will watch closely the last two Presidential debates (on April 28th and May 19th), along with campaign closing events (May 29th) ahead of the June 2nd elections. On the legislative front, Congress' sessions end on April 30th. Some of the most relevant proposals yet to be discussed are about labor market issues (*e.g.* duration of the workday, doubling of year-end bonuses).

GDP: Aggregate Demand
% y/y nsa; % q/q sa

% y/y	1Q24	2Q24	3Q24	4Q24	2024	2025
GDP	**2.2**	**4.4**	**1.4**	**1.3**	**2.4**	**1.7**
Private consumption	4.1	6.2	3.0	1.9	3.8	2.4
Investment	12.3	15.3	4.2	0.9	7.9	2.1
Government spending	2.2	4.9	1.3	-1.6	1.7	-2.1
Exports	-2.8	2.2	1.4	-1.0	-0.1	0.5
Imports	3.3	6.1	0.7	0.5	2.7	0.8
% q/q	**1T24**	**2T24**	**3T24**	**4T24**	**2024**	**2025**
GDP	**0.5**	**0.9**	**-0.3**	**0.2**	**--**	**--**

* Note: Underlined figures represent our forecasts.
Source: Banorte

Inflation and reference rate
% y/y; %



Source: INEGI, Banxico, Banorte

United States

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GDP growth remains stronger than expected. Market fears about an economic slowdown –with some even warning of an upcoming recession– remain unrealized. In fact, during the first months of this year most indicators have been surprising to the upside. The economy remains solid, and it seems very likely that GDP growth in 2024 will be closer to the 2.5% observed in 2023. Based on already known data, we adjust our projections higher once again, now expecting 2.4% for this year (previously 2.2%). Specifically, our estimates for the first and second quarters stand at 2.4% and 1.4% q/q saar, respectively.

Consumption maintains a firm pace. Household spending has remained solid despite some signs of a decline in financial flexibility, including higher consumer loan delinquencies –especially credit cards. Ongoing support has come from the labor market, wage gains, the gradual decline in inflation, and debt forgiveness of some student loans, among others. In our view, higher debt service payments will end up curbing consumption. Nevertheless, and at least so far, everything indicates that the impact will be modest. On the other hand, investment has been supported by the Biden administration's infrastructure plans and a better performance of the residential sector. The latter has been favored by lower mortgage rates and reduced inventories of existing homes for sale. To this we must add that homebuilders' sentiment has turned more optimistic, reaching an eight-month high in March.

Inflation continues going down but reaching 2.0% will be more difficult. Inflation has maintained a downward trend but remains above the Fed's target. In addition, some pressures, and the discrepancy between prices of services and goods persist. The former are still advancing firmly, while the latter have been in deflation for several months. Given the cyclical position of the economy, the recent rebound in energy, and some new problems in terms of logistics, we do not believe that the 2.0% target will be met this year (second chart, right). The Fed has repeatedly said it requires more data to build enough confidence that inflation is on its way to reach the target before announcing a rate cut. After several months with somewhat disappointing prints, along with the hawkish and patient bias of most central bank members: (1) The expectation of the first cut has been postponed; and (2) the number of cuts foreseen this year has been declining. After March's inflation report, we modified our view on the first Fed cut. We now anticipate it in September (previously: June). However, we reiterate our expectation of a cumulative 75bps reduction this year, with two more cuts of 25bps each, in November and December. With this, the range of *Fed funds* would reach 4.50% to 4.75% at the end of 2024. For 2025 we anticipate -150bps in total (third graph, right).

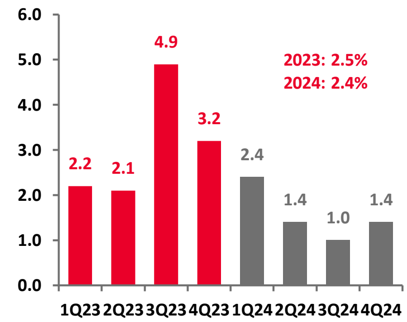
On the fiscal front, tensions have declined. After several continuing resolutions that allowed the government to continue operating, the budget that allows the government to finance itself until October was finally approved by lawmakers. On the positive side, this reduces uncertainty, at least for the coming months. However, the *Brookings Institution* estimates that fiscal policy will subtract 40bps on average from growth in each quarter of this year.

US: Banorte Estimates*

	1Q24	2Q24	3Q24	4Q24	2023*	2024*
GDP (% q/q annualized rate)*	2.4	1.4	1.0	1.4	2.5	2.4
Private Consumption	2.0	1.3	0.4	1.8	2.2	2.0
Fixed Investment	1.6	0.9	0.8	2.0	0.6	2.1
Exports	2.8	-5.5	-3.9	0.4	2.6	0.1
Imports	0.8	-2.4	-3.9	2.0	-1.7	-0.2
CPI (% y/y, average)	3.5	3.6	3.2	3.8	4.1	3.4
Unemployment rate (%, eop)	3.8	4.0	4.1	4.0	3.7	4.0
Non-farm payrolls (thousands)	829	550	280	360	3,013	2,019

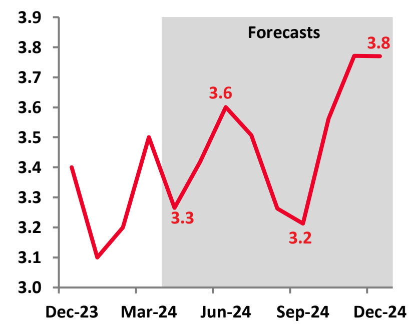
* All GDP estimates are % q/q saar, except for full-year 2023 and 2024, which are % y/y. eop: end of period.
Source: Banorte

GDP
% q/q saar



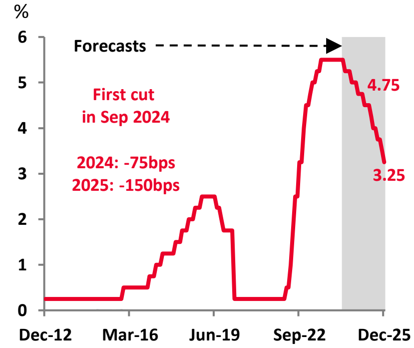
Source: Banorte with data from BEA

Banorte: Inflation estimates*
% y/y



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

Banorte: Fed funds estimates*
%



* Note: The gray area denotes our forecasts.
Source: Banorte with data from the Fed

US Elections

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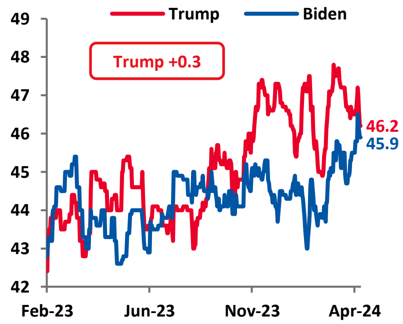
Democrats and Republicans have already defined their presidential candidates. Primary elections have not ended yet, but the winning candidates for each party have already been defined. In this respect, both Biden and Trump have already secured the number of required delegates to be nominated. Despite of the latter, National Conventions will still be relevant. Important things might be announced there, such as who will they chose to run for the Vice Presidency. The Republican National Convention will be held in Milwaukee from July 15th to the 18th, while the Democratic one will be in Chicago from August 19th to the 22nd.

Some polls show an improvement in Biden's voting preferences. Over the past few months, the balance has been clearly tilted in Trump's favor. Overall, Biden's popularity has been falling. According to *Real Clear Politics*, Trump could get 46.2% of the votes, with Biden at 45.9% (see first chart on the right). However, several polls are starting to show a change in voting intentions. Although it is still too early to talk about a definite shift, this makes it clear that the results for November 5th are not written yet. In our opinion, the most important development has been recent dynamics in swing states. March's *Morning Consult Pro* poll shows that the incumbent president has gained ground in six out of seven of these states. Additionally, in two of them (Wisconsin and Pennsylvania) the change in his favor has been quite significant. Nevertheless, Trump maintains an advantage in four (see second chart on the right). We will keep following closely the evolution of voting preferences given the relevance of these results for Mexico and the world. The latest information and trends can also be accessed in our *US Election Monitor*, available in our website (only in Spanish).

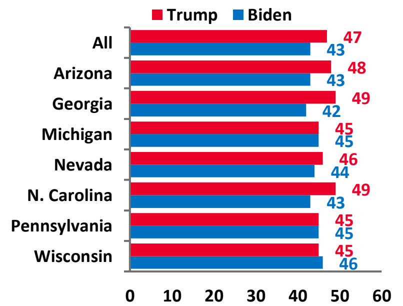
Voting intentions: Trump vs. Biden*
%



* Note: As of April 9, 2024.
Source: Banorte with data from Real Clear Politics

Differences in raised funds for the campaign trail. Several theories have been put forward to explain Biden's recent improvement in various polls. Among them, a sizable and positive shift in preferences among white people with a college degree (especially men, but also women), demographic changes, heightened concerns about extremism, threats to democracy, and even a better-than-expected performance by the President in his last State of the Union address. Although it is very difficult to isolate each of the reasons behind this, we believe another factor that is also influencing –and could continue to do so– is the difference in raised funds for their campaigns. Biden is outperforming Trump, especially after the Democrats' event, a few days ago, in which multiple celebrities and former presidents Barack Obama and Bill Clinton assisted. According to the Federal Election Commission, Biden has raised a total of $126.8 million so far, compared to Trump's $99.4 million. Despite of this, the latter secured considerably higher resources in March relative to February. Not only that, but Trump ($65.8 million) has outspent Biden ($56.0 million) at this stage of the race.

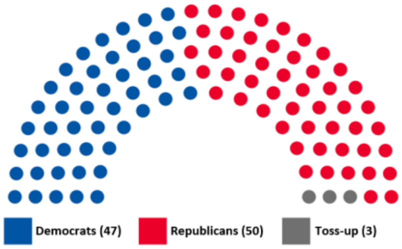
Voting preferences in swing states*
%



* Note: As of March 2024 survey
Source: Banorte with data from Real Clear Politics

Our base case remains a Trump win. However, November 5th is still a long way off and doubts persist about the future of his candidacy amid a plethora of charges and accusations. In the Congressional race, the Democrats have a slim majority of 51 seats in the Senate (including three independents) against 49 Republicans. There are 34 seats up for grabs in 2024, including a special election in Nebraska, of which 23 are currently held by Democrats or independents. This puts them in an uphill battle against Republicans, which would retake control with: (1) A net gain of only two seats; or (2) if they win the presidency and have a net gain of one seat. According to *270towin*, the coin is still in the air and either party could win, but it looks more likely that this will be called in favor of the Republicans. In the House of Representatives, all 435 seats will be renewed. The majority (218 seats or more) is currently in hands of the Republicans. According to the same specialized site, it is more likely that said party will maintain its lead.

Estimated Senate seats in 2024*
Number of legislators



*Note: As of April 9, 2024.
Source: Banorte with data from 270towin

Quantitative Analysis

Classification of the rhetoric in Trump's rallies

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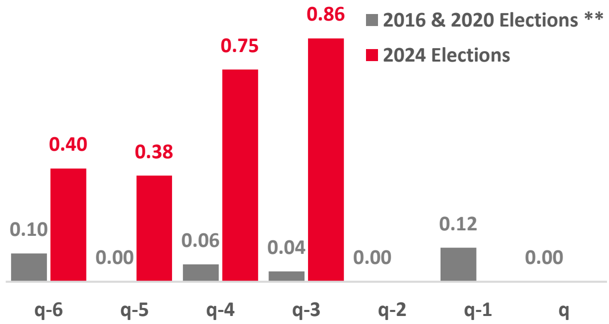
Trump's rhetoric. To analyze the rhetoric and identify the main topics over Donald J. Trump's speeches made during his presidential administration and electoral campaign periods, an analytical tool was built based on natural language processing (NLP) and machine learning (ML) techniques.

Each discourse can be represented by a mixture of topics, and each topic is represented by a collection of words that can be analyzed using NLP and ML techniques. For this analysis, unsupervised learning methodologies were applied to build models that allowed us to classify each of the speeches based on their semantics, and to define the preponderant topics over the observed period (September 2015 to January 2021 and January 2023 to March 2024).

Using the model that showed the best performance, 20 relevant topics were identified. Subsequently, these topics were classified into 9 headings. However, it is important to point out that the topics related to **Mexico, Economy, Security, Public Health, and Elections** have been the center line of his communication (62% of the main topics refer to these subjects).

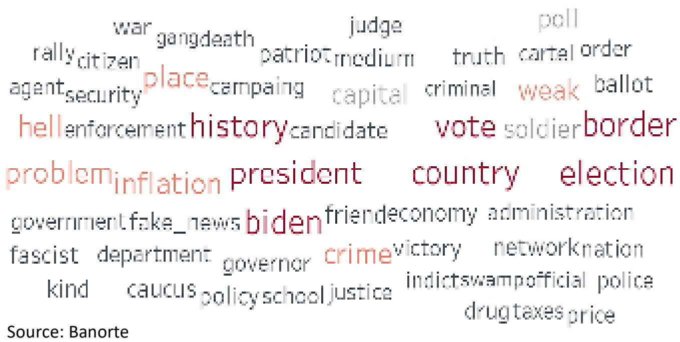
The negative rhetoric regarding Mexico has intensified. The classification shows that Trump's criticism of Mexico has strongly intensified in the last six months, in contrast to the average negative bias observed in the electoral processes of 2016 and 2020 (see Chart 1). In addition, the word cloud built on the communication analyzed since the beginning of the current campaign supports the negative connotation towards Mexico (see Chart 2). These research note will be updated on the following quarterly outlook to assess the proportion of speeches that contain a negative sentiment about Mexico. This is extremely relevant to evaluate the foreign policy that could be implemented if Donald Trump is elected in order to estimate the risks facing Mexico's growth outlook.

Chart 1: Trump's speeches with negative bias about Mexico
% of total speeches made in the quarters previous to the last three electoral processes*.



Source: Banorte
* q-x alludes to the previous quarters to the electoral processes.
** average between both electoral processes

Chart 2: Word cloud of the most relevant topics
Most relevant words in speeches made since 2023



Source: Banorte

Global

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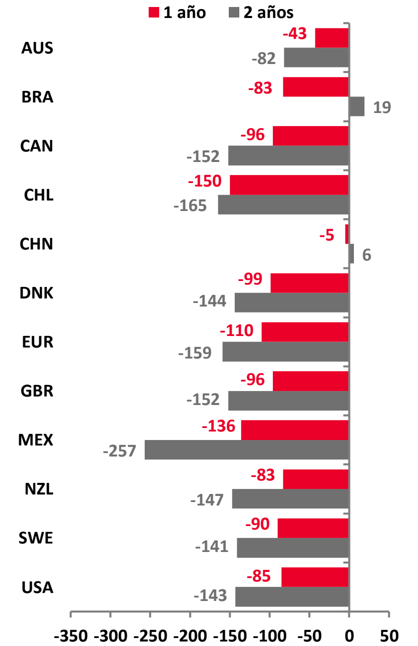
The global economy keeps growing despite central banks' restrictive cycles. Recently, the IMF's managing director, Kristalina Georgieva, said that the world economy is better than expected a year ago. Growth remains in place, while inflation is falling. The agency's latest forecasts, published in January, estimate global GDP growth in 2024 and 2025 at 3.1% and 3.2% respectively, both higher than the 2.9% and 3.2% estimated in October, in the same order. Global inflation is forecasted to moderate from 6.8% in 2023 to 5.8% this year, extending its decline in 2025 to 4.4%. On April 15th, the *World Economic Outlook* will be published again, including updated estimates. We don't see major adjustments in growth, although we do expect slight upward revisions to inflation.

The Eurozone will probably avoid the 'stagflation' scenario feared last year. March's PMI composite indicator came out of contraction territory for the first time since May 2023, standing at 50.3pts. However, manufacturing remains very weak (graph below, right) in most countries, especially in Germany –the largest economy in the region–, fueling speculation that they could well fall into recession. Spain, Italy, and France improved at the margin. Consensus estimates the Eurozone's full-year 2024 GDP at 0.5%, like last year (0.4%) and in our view very low, with weakness centered in the first semester. On the other hand, inflation has moderated more-than-anticipated, standing at 2.4% y/y in March from 2.6% in the previous month. Core prices declined from 3.1% y/y to 2.9% in the same period. Given current price dynamics and risks to economic growth, we reiterate our call of a first 25bps ECB rate cut in June. We expect some caution to prevail in terms of the tone due to the rigidity in the prices of services. Nevertheless, we believe that the ECB will end up cutting more than the Fed in 2024. Our base case is -100bps (June, September, November, and December) based on the assumption that geopolitical issues in Ukraine and/or the Middle East (that would trigger higher energy prices) do not deteriorate significantly, which would affect the euro and inflation expectations.

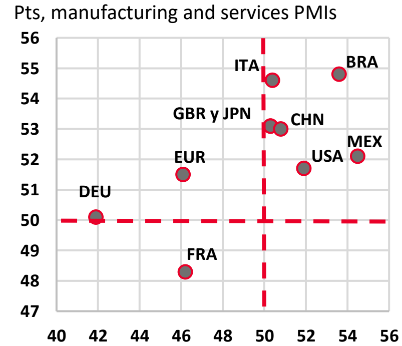
Implied interest rate cuts*
Bps, accumulated to the corresponding period



* Note: In 1 and 2 years ahead as of April 9, 2024. Country abbreviations based on ISO codes. Source: Banorte with data from Bloomberg

Better prospects in China. Recent data has been more positive. While most real estate sector indicators remain in contraction, some of them exhibit early signs of bottoming out. Such is the case of property investment. To this we must add a variety of stimulus measures that may be starting to have favorable effects. We highlight that fiscal spending started the year at an accelerated pace, while the government is planning to issue very high duration debt to finance additional spending. Monetary policy has also been more accommodative at the margin, although with more caution to avoid destabilizing the yuan and/or the financial system. This is prompting several analysts to adjust their GDP estimates higher for this year, albeit remaining close to the official target of 'around 5%' established in the National People's Congress at the beginning of March.

Economic momentum in March*
Pts, manufacturing and services PMIs



* Note: Dashed lines denote the neutral threshold of 50pts. The 'x' axis is manufacturing, and the 'y' axis is services. Country abbreviations based on ISO codes Source: Banorte with data from Bloomberg

Global investors paying attention to policies coming out of Japan and its impact on the yen. In March, the BoJ raised its interest rate for the first time in 17 years to a range between 0.0% to 0.1%. This contrasts with rate cut bets in developed countries. Despite of this, the yen has lost additional ground. According to some analysts, this is because the BoJ did not provide clear signals that the monetary policy normalization process will continue. Additionally: (1) Rates in Japan remain much lower than in the rest of the world; (2) currency depreciation has not been high enough to convince authorities to intervene, with speculation that the 152 yen per dollar level could trigger similar measures to those carried out in 2022; (3) low global volatility that favors carry trades funded in JPY; and (4) gains in relative competitiveness are not boosting exports yet, so an additional adjustment may be necessary. Even with an intervention, several analysts believe that it would not impact the currency if done in isolation. The key missing ingredient is that the Fed needs to start cutting rates. In any case, we believe that it will be very important to follow this country closely from this quarter onwards due to the possibility of side effects on global markets due to potential monetary divergences.

Fixed Income (Sovereign Debt)

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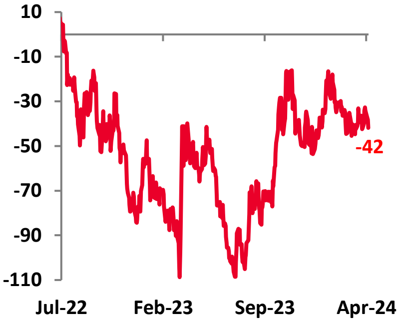
Interest rates picked up in the first quarter, in line with our view. In the first three months of the year, market optimism about rate cuts during 2024 –both in Mexico and the US– moderated significantly. This was reflected in higher interest rates, even reaching year-to-date highs on multiple occasions. Specifically, the 10-year UST sold off 33bps in the quarter to 4.20%, very close to our 4.15% estimate. The 10-year Mbono concluded at 9.27%, equivalent to an adjustment of +28bps q/q, and broadly in line with our 9.20% forecast. However, our preference for Udibonos over Mbonos was not favorable due to some downward surprises in domestic inflation, especially February's prints.

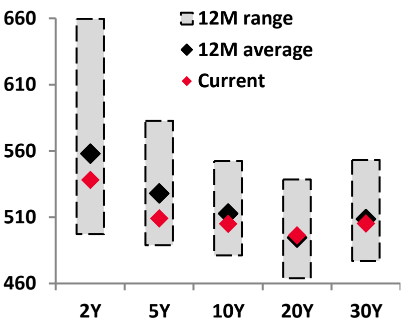
We expect slightly lower nominal rates in 2Q24, albeit within narrow ranges. After reviewing our monetary policy paths for the US and Mexico, we conclude that current valuations are relatively fair. We also expect curves to maintain a steepening bias, albeit at a much slower pace. In fact, we now anticipate the 2s10s spread in USTs (first chart on the right) to turn positive until next year. Additionally, we believe the 10-year UST will hold above the 4.00% resistance at least during the second quarter. Meanwhile, local rates will remain highly sensitive to US financial and monetary conditions. In our view, the recent wave of upward pressures led to more interesting valuations in some tenors, especially in longer-term Mbonos. These securities are trading above +2σ from their 90-day moving average and seem relatively cheap based on their duration-adjusted yield. We highlight the 20-year Mbono (Nov'42). However, we acknowledge that lingering uncertainty about the timing of the Fed's first rate cut and a low spread vs the UST of the same tenor (second chart to the right) provide little room to initiate directional positions with high conviction. On the other hand, we now see a better performance of nominal rates *vis-á-vis* real rates. This would be supported by the proximity of upcoming easing cycles and the downward revision to our headline inflation forecasts for this year. We believe ranges will be narrow, which is why we are focusing more on identifying attractive relative value strategies. In real rates, the period of seasonally low inflation prints in Mexico is underway as subsidies on electricity tariffs kick in, in turn further dampening appetite due to its negative effect on the carry of UDIS, among other factors. Additionally, all breakevens across the curve rebounded around 30bps in early April, making the relative valuation of Udibonos less appealing. It is worth noting that the 3-year Udibono (Dec'26) recently had an attractive relative valuation, with its breakeven at 2021 lows. We capitalized on this with our recommendation of tactical longs, which we closed with a total gain of 20bps.

2s10s spread in *Treasuries*
Bps



Source: Banorte, Bloomberg

Spread between Mbonos and Treasuries
Bps



Source: Banorte, PiP, Bloomberg

Banorte: Interest rate forecasts
%

Security	2020	2021	2022	2023	2023 1Q	2023 2Q	2023 3Q	2023 4Q	2024 1Q	2024 2Q	2024 3Q	2024 4Q
Banxico's reference rate												
End of period	4.25	5.50	10.50	11.25	11.25	11.25	11.25	11.25	11.00	10.75	10.50	10.00
Average	5.44	4.38	7.65	11.14	10.79	11.25	11.25	11.25	11.22	10.92	10.67	10.25
28-day Cetes												
End of period	4.25	5.51	10.09	11.24	11.31	11.27	11.18	11.24	11.00	10.81	10.56	10.06
Average	5.33	4.44	7.72	11.13	10.93	11.28	11.21	11.09	11.18	10.98	10.73	10.31
28-day TIIE												
End of period	4.48	5.72	10.77	11.50	11.52	11.50	11.50	11.50	11.25	11.00	10.75	10.25
Average	5.69	4.63	7.93	11.40	11.09	11.52	11.50	11.50	11.48	11.17	10.92	10.50
10-year Mexican bond (Mbono)												
End of period	5.54	7.57	9.08	8.94	8.85	8.67	9.87	8.94	9.27	9.10	9.00	9.15
Average	6.25	6.81	8.80	9.13	8.92	8.81	9.21	9.57	9.21	9.19	9.05	9.08
10-year US Treasury												
End of period	0.91	1.51	3.87	3.88	3.47	3.84	4.57	3.88	4.20	4.10	3.90	3.85
Average	0.88	1.44	2.95	3.95	3.65	3.59	4.14	4.44	4.15	4.15	4.00	3.88
10-year Spread Mex-US												
End of period	463	606	521	506	538	483	530	506	505	500	510	530
Average	534	538	585	518	527	522	507	513	506	504	505	520

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

Foreign Exchange

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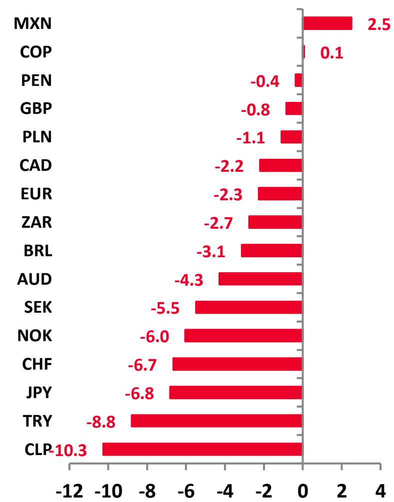
As we expected, the MXN gained despite USD strength. The dollar closed the first quarter with a strengthening bias due to: (1) US economic resilience and stock market gains; and (2) reduced market expectations regarding Fed rate cuts. The DXY and BBDXY advanced 3.1% and 2.7% q/q, respectively, while bets on the USD in CME futures shifted from net short to net long. Likewise, the monetary easing cycle in other regions resulted in a spread compression against the USD. In our view, this induced additional pressures on some EM currencies. CLP stood out as the weakest in the latter group, selling off 10.3% q/q. Meanwhile, the global backdrop led to a significant reduction in implied volatilities across all FX crosses and other financial assets. Consequently, carry trade strategies benefited, with the MXN remaining among the favorites despite concerns about its valuation. Thus, the peso gained 2.5% q/q to 16.56 per dollar, with a trading range between 16.51 and 17.39.

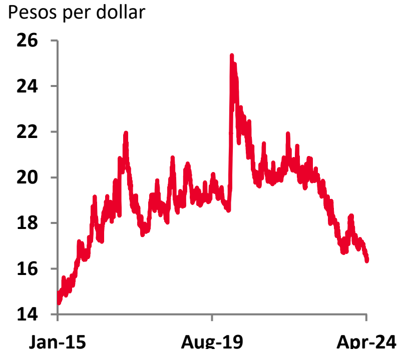
Resilient peso ahead, albeit still volatile. We revise our USD/MXN forecasts downwards, expecting a year-end close at 17.70 from 18.80 per dollar previously. The path incorporates a low of 16.30 and a high of 18.50. As a result, the trading average for 2024 would be 17.23, below the 17.74 observed in 2023. Our adjustments are based on: (1) A lower base effect due to the strong performance registered in 1Q24, particularly in March; (2) the currency's high carry and the gradual path that we expect for Banxico's easing cycle, in turn remaining highly attractive compared to other EM currencies; and (3) a favorable view on flows, also reflecting optimism related to nearshoring and a 'soft landing' in the US. We expect the MXN to remain defensive for the remainder of the first semester, anticipating clearer pressures towards the end of the third quarter. In our view, upcoming elections –both in Mexico and the US– will induce higher hedging demand, as has happened in the past. Although each of these processes is different, it could well be the case as proactive risk management strategies in investment portfolios are always pursued to assure the fulfillment of their respective mandates. Statistically, this has been seen in Mexico in the last four elections. As such, it is an element that we factor-in again into our forecasts. Notwithstanding, we are more cautious about the US election in November, believing it has greater potential to induce MXN losses and higher global risk premia. We expect the factors that have kept the currency strong in recent months to regain importance after these events. However, given a tight valuation and low implied volatilities, we see levels below 16.40 per dollar as good entry levels to start hedges via USD longs in anticipation of a more challenging second half of the year. We recognize that the rally of over 11% in the last 12 months suggests heightened risks of a crowded trade. Although MXN longs in futures are currently at highs not seen since 2020, it is our take that there is still room for an orderly unwinding, and even for adding further longs in coming months.

Selected currency performance
%, during 1Q24



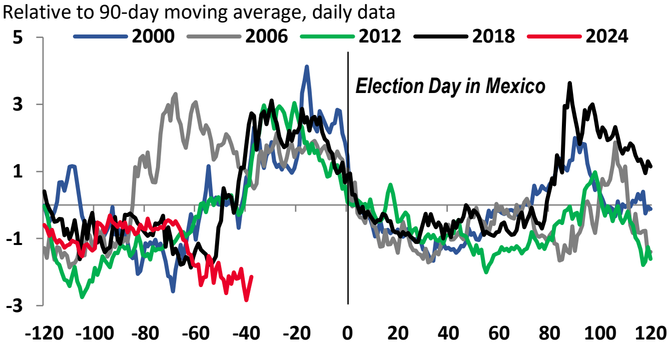
Source: Banorte with data from Bloomberg

MXN performance
Pesos per dollar



Source: Bloomberg, Banorte

USD/MXN: Z-score*
Relative to 90-day moving average, daily data



Source: Bloomberg, Banorte *Up means MXN depreciation

USD/MXN forecast
Pesos per dollar

Period	End of period	Forecast	Period average
1Q23	18.05		
2Q23	17.12		
3Q23	17.42		
4Q23	16.97		
1Q24	16.56		
2Q24		16.60	16.60
3Q24		17.60	17.30
4Q24		17.70	18.07

Source: Bloomberg, Banorte *Underlined numbers indicate forecasts

![GRUPO FINANCIERO BANORTE]

Stock market indices

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Risk appetite will remain determined by the possibility of interest rate cuts, the recovery in corporate earnings, and the electoral process in Mexico. The average dollar return of the 30 indices that we regularly track stood at 4.5% in 1Q24. US indices continued to set new all-time highs, with the S&P500 up 10.2% and the subset of the so-called 'Magnificent Seven' –Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla– maintaining an outstanding performance (+17.1%). For 2Q24 we expect investors to be more cautious, waiting for: (1) The Fed's interest rate cuts to begin; and (2) the earnings recovery trend to keep surprising. In this backdrop, the 1Q24 earnings season, which is about to begin, will be of special interest. Recall that earnings per share in the previous quarter were well above expectations in the US (+8.0% y/y vs. 1.2%e). This time around, Bloomberg consensus anticipates 3.9% growth for S&P500 companies', decelerating at the margin. The recent rise in oil prices and other commodities on the back of a difficult geopolitical situation could lead to more adverse cost dynamics. Nevertheless, technology companies, particularly those related to artificial intelligence (AI), are expected to continue standing out. Specifically, anticipated earnings growth for companies in the semiconductor sector, which includes cases such as Nvidia, is 71.5%. All in all, investors will continue favoring Growth over Value given the significant recovery seen in this quarter's results and beyond.

S&P500 benchmark level. We raise our year-end 2024 estimate for the S&P500 to 5,460pts vs. 5,000pts formerly. This is mainly supported by a higher valuation than previously anticipated. More elevated multiples would be supported by: (1) The lift from the contribution of the 'Magnificent Seven'; and (2) the start of the monetary easing cycle. On the former, we estimate that these companies could add between 1.2pts and 1.6pts to the S&P500's total valuation (P/E), remembering that they trade at a high premium and represent ~25% of the index's value. We believe their earnings growth prospects will continue to be highlighted by increased demand stemming from more widespread AI utilization. Although this trend is still in its early stages, we believe it justifies higher-than-average multiples. We assume 9.0% y/y EPS growth in 2024 and 12.5% in 2025 (vs. consensus of +9.0%e and +13.3%e). We also upgrade our P/E fwd multiple to 20.1x (below the current level of 21.7x, but up from the previous 19.0x).

Mexbol benchmark level. The Mexbol lagged in 1Q24, with a 2.3% gain in USD (unchanged in local currency terms). Losses in some companies with a relevant weight due to non-recurrent events (*e.g.* Femsa) limited the index's advance. For 2024, our forecast remains at 60,200pts. We anticipate 4.7% y/y EBITDA growth, with net debt rising 5.1%, and a FV/EBITDA multiple of 5.9x (vs. its current level of 5.7x). In our view, the Mexbol's performance will be limited in the short-term, mainly on two factors: (1) The continuation of MXN strength, reducing the appeal of long positions for foreign investors; and (2) a cautious bias that is historically observed before a presidential election.

In **our top-picks,** we reaffirm Cemex, Gcc, and Gentera. We include Asur in Airports, with reduced risks after they released their MDP and with the best growth prospects for 2024 among peers. We decided to take profits on Livepol, despite its good fundamentals, after an outperformance of ~50% since we added it to our selection (+39.8pp above the Mexbol). We also exclude Ac after a 7.1% gain as we see few near-term catalysts in an environment in which raw materials' costs are starting to come more heavily pressure than expected.

S&P500 forecast for 2024
Pts

P/E Fwd	S&P500	Potential Return (%)
20.6x	5,596	8.4
20.4x	5,528	7.1
20.1x	**5,460**	**5.8**
19.8x	5,378	4.2
19.6x	5,310	2.9

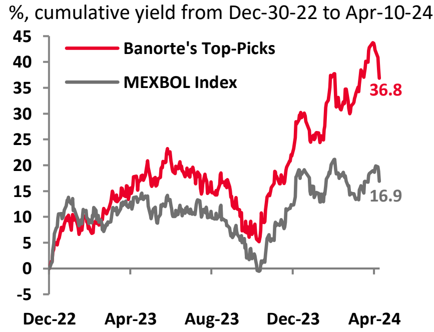
Source: Bloomberg, Banorte

Mexbol forecast for 2024
Pts

FV/EBITDA	Mexbol	Potential Return (%)
6.3x	65,746	16.1
6.1x	62,916	11.1
5.9x	**60,228**	**6.3**
5.7x	57,540	1.6
5.5x	54,852	-3.2

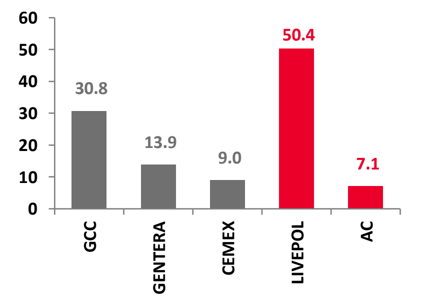
Source: Bloomberg, Banorte

Top-picks vs Mexbol since 2023*
%, cumulative yield from Dec-30-22 to Apr-10-24



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

Top-picks performance*
%, cumulative from Dec-30-22 to Apr-10-24



* Note: (1) Relative performance of stocks vs Mexbol, since its inclusion as top-picks: Gcc +27.4pp; Gentera +14.5pp; Cemex +3.0pp; Livepol +39.8pp; and Ac -9.8pp.
(2) Red bars represent the companies we are excluding from our top-picks
Source: Bloomberg, Banorte

Commodities

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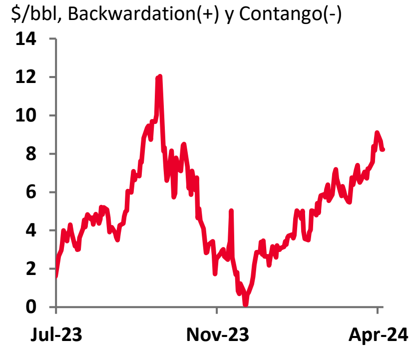
Higher prices amid global dynamism, geopolitical issues, and the weather. The BCOM index rose 0.9%, with the GSCI at +8.7% in 1Q24. All subindices within the latter benchmark advanced, with livestock and energy leading, while only agriculture was slightly down.

Risks of an inflation rebound due to higher crude-oil prices. We think that OPEC+ is likely to extend their current production cuts into the second half of the year despite: (1) Recent price increases; and (2) deeper deficit estimates from major energy agencies given an improvement in physical consumption and supply restriction policies. This situation has been reflected in the crude oil futures curve, which remains in backwardation (spot prices higher than futures), signaling deficit conditions in the short-term. In this regard, the spread between 1- and 12-month futures in the Brent curve trades at its highest level since early October (first chart on the right). Additionally, US inventories remain low as they have had a marginal increase this year. This will gain more influence as we enter the period of higher consumption, typically aligning with summer, along with the US driving season (April-September). Another element that will likely support prices and result in temporary spikes is the complex geopolitical situation in the Middle East and the war between Ukraine and Russia. For the latter, incentives could even be well aligned towards announcing further supply restrictions ahead of the US presidential election. Moreover, there is limited room to draw down from the US Strategic Petroleum Reserves (SPR). Thus, we expect a quarterly range for Brent between 85 and 100 $/bbl. While higher prices could allow for a pickup in production from higher-cost competitors, such as shale, they will also continue to put pressure on US gasoline prices, which have already surged +15% this year for the AAA reference. In this regard, the EIA estimates an increase for the PADD 3 benchmark of 13% q/q.

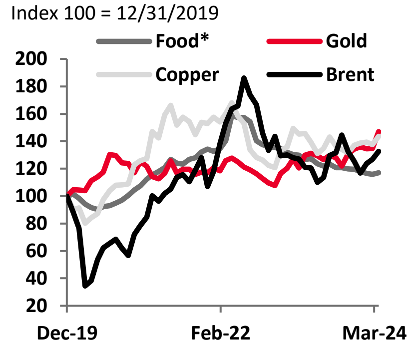
Positive metals, extending their strong start to the year. We maintain a favorable short-term view for gold. The metal has reached new historical highs, surpassing 2,300 $/t oz. Several reasons could be behind the latest rally, including higher central bank purchases, along acquisitions to use it as a hedge against US stock market strength and geopolitical risks. The fact is that the relative delay –both in timing and magnitude– of expected rate cuts has not been enough to limit gains. Looking ahead, we believe the market already prices in reasonable rate cuts for major central banks, so the risk of a correction lower triggered by this factor seems more limited. As such, we believe gold could reach up to 2,450 $/t oz, with a floor at 2,200. In industrial metals, we maintain a constructive view on the back of low inventories, particularly for copper. The latter has reached its highest in 2-years as demand has improved, in line with the resilience of the global economy, coupled with fears about further supply disruptions. For grains, risks are to the upside due to more complex weather conditions, a situation that has already been reflected in a reduction in harvesting space.

Brent's 1st-12th month time spread
$/bbl, Backwardation(+) y Contango(-)



Source: Bloomberg, 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	1T24	2T24	3T24	4T24	2024	2025
WTI	$/bbl	86.22	-20.54	55.01	6.71	-10.73	16.08	80.00	80.00	79.00	79.00	75.00
Brent	$/bbl	90.50	-21.52	50.15	10.45	-10.32	13.55	83.50	84.00	84.00	82.50	79.55
Natural Gas (H. Hub)	$/MMBtu	1.87	15.99	46.91	19.97	-43.82	-29.87	2.10	2.50	3.00	2.68	3.55
Gasoline (RBOB)	$/gal	2.78	-17.05	58.23	10.37	-14.51	31.32	2.62	2.55	2.43	2.51	2.61
Gold	$/t oz	2,334	25.12	-3.64	-0.28	13.10	8.09	2,060	2,100	2,100	2,062	2,050
Silver	$/t oz	27.93	47.89	-11.72	2.77	-0.66	4.91	24.10	25.00	25.90	24.33	25.53
Copper	$/mt	9,374	25.79	25.17	-13.87	2.23	3.60	8,700	8,888	9,041	8,800	9,124
Corn	¢/bu	434	24.82	22.57	14.37	-30.55	-6.21	460	440	440	460	465
Wheat	¢/bu	558	14.63	20.34	2.76	-20.71	-10.79	586	560	560	600	600

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

Corporate Debt

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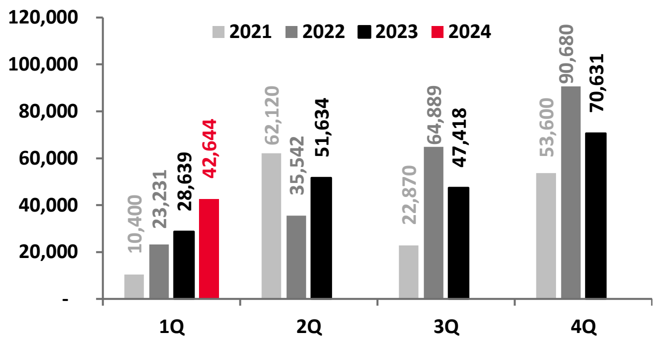
Non-bank bond placements in 1Q24 amounted MXN 42.644 billion (+48.9% y/y). As we had anticipated, a strong performance was observed at the beginning of the year, with a higher amount issued relative to recent years. In this sense, we believe issuers have been covering their financial needs prior to the election period. Demand for high quality and unsecured bonds was clear. Hence, spreads were placed 5bps below expectations on average. We believe that ESG-themed issuances will have a greater participation during the rest of the year. Also in line with our view, the balance in the composition between floating- vs. fixed-rate bonds was maintained despite stronger investor preference for the latter. Of the amount placed: (1) 96.7% had the highest credit ratings on a national scale ('AAA/AA+/AA'); (2) 94.4% was in unsecured bonds; (3) floating-rates (TIIE-28 and ON-TIIE) amounted to 52.2%, while fixed-rates represented 47.8%; and (4) 29.2% had a ESG label.

We expect the balance between floating- vs. fixed-rate bonds to be maintained in the second quarter. Based on our call of a second rate cut by Banxico in June and a reference rate at 10% by YE24, we believe that the balance between floating- and fixed-rate issuances will remain in place this quarter. Looking further ahead, we expect placements to shift more towards floating rates, in line with the monetary policy easing cycle. We do not rule out the possibility that this trend could begin as early as the end of the current quarter.

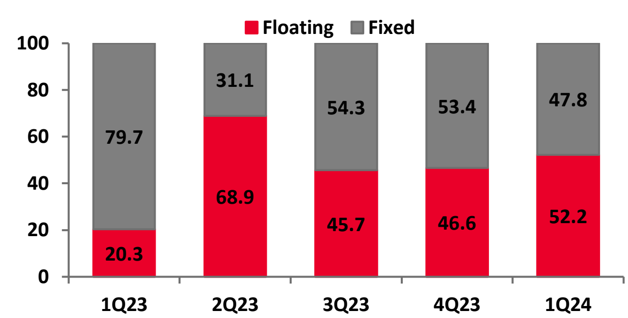
Issuance will remain high before the election period. Companies will continue to refinance and cover their maturities before the electoral processes in Mexico and the US. In line with this view, a hefty number of well-known participants remains in the pipeline (Arca Bebidas, Navistar, VW Leasing, Sigma, Toyota, among others). After the first three months of the year, we reiterate our 2024 full-year placement forecast of around MXN 195 billion (-1.7% y/y), similar to last year.

Long-term bonds issued by quarter
MXN million, excluding banking bonds



Source: Banorte with information from BMV, BIVA and PiP

Long-term issued amount by quarter
%



Source: Banorte / BMV / PiP, as of March 2024

Breakdown of issued amount
MXN million and %, as of 1Q24

Interest rate type	Millions	%
TIIE28	15,027	35.2%
ON-TIIE	7,250	17.0%
FIXED	18,968	44.5%
UDIS*	1,400	3.3%
Credit rating		
AAA	31,744	74.4%
AA+	3,500	8.2%
AA	6,000	14.1%
AA-	1,400	3.3%
Structure		
Unsecured	40,244	94.4%
ABS	500	1.2%
Guaranteed	500	1.2%
Future Flow	1,400	3.2%
ESG-themed		
No	30,200	70.8%
Yes	12,445	29.2%
Total	**42,644**	

*UDIS: amount in pesos as of the placement date. Source: Banorte / BMV / BIVA, as of March 2024

PEMEX

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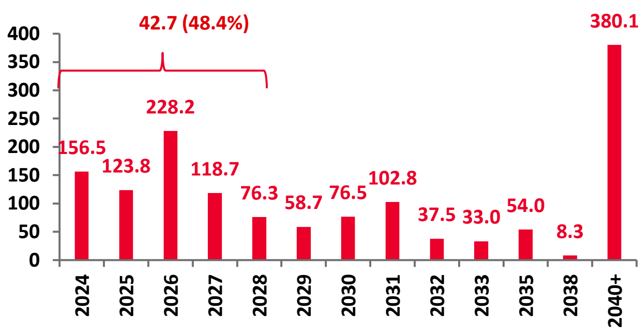
PEMEX's 4Q23 results. On February 27th, PEMEX announced that 4Q23 revenues fell 17.4% y/y, mainly due to lower prices in gasoline, diesel, jet fuel, natural gas, and liquefied gas, along with lower international prices of the Mexican Crude Oil Basket. Apart from this, domestic demand for oil related goods declined (1,640.8 Kbbl/d, -1.7%). Domestic and export sales dropped 19.9% and 14.3%, respectively. The average price of low-grade gasoline in the period was 2.74 $/gal (-50.5% y/y). Net income stood at MXN 106.9 billion in 4Q23, much higher than the MXN 95.6 billion net loss in the same period last year. This was due to: (1) A reversal of previous fixed asset impairments; (2) lower cost of goods sold; (3) a foreign exchange gain of MXN 55.3 billion; and (4) the reduction in taxes and duties from the application of the decree that granted tax incentives for the accrued amount of DUC (*Derecho de Utilidad Compartida* in Spanish, a profit-sharing duty) and hydrocarbon extraction rights in 4Q23 and January 2024 for MXN 81.9 billion in the quarter. The company recorded average production of liquid hydrocarbons (crude-oil and condensates) of 1,856 Kbbl/d (+3.0% y/y) driven by production in new fields. In addition, natural gas production decreased to 3,954 MMcfd (-0.8% y/y).

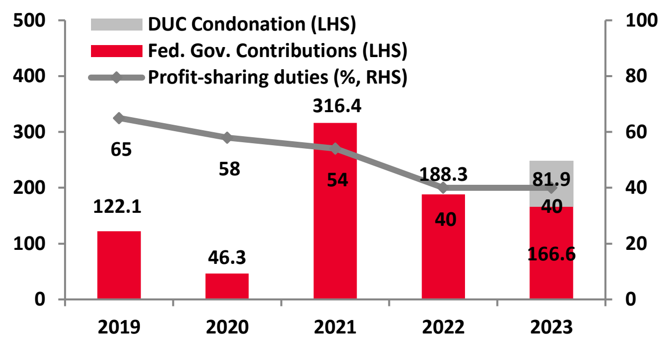
PEMEX reiterated the government's support and stated that it will have enough resources to meet most of its financial needs in 2024. Financial debt decreased 14.2% y/y to MXN 1.79 trillion, supported by FX dynamics. In dollar terms, it decreased only 1.6% to US$ 106.1 billion. For the current year, the DUC will be 30% from 40%, in addition to the DUC condonation for the month of January. Moreover, the government will contribute MXN 145 billion to the company (about US$8.5 billion at the proposed average exchange rate of 17.1 pesos per dollar). With such support, higher available cash flow from the DUC reduction, and refinancings that have already taken place, we estimate that PEMEX will be able to meet its remaining maturities of 2024, which amount to about MXN 156.5 billion. PEMEX will report its 1Q24 figures on April 26th.

Upcoming Maturities – PEMEX*
MXN billion



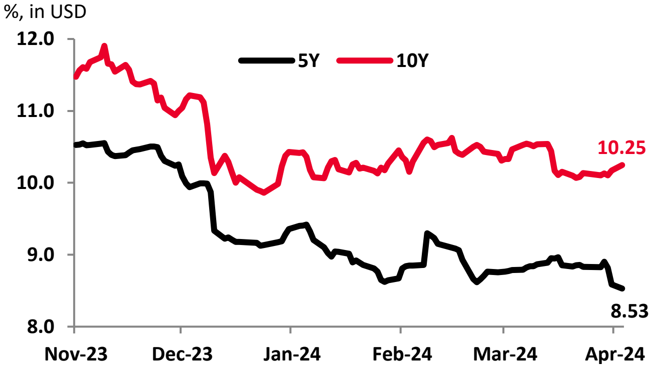
* Note: Revolving credit lines with banks not included. Source: Bloomberg

Federal Government contributions and profit-sharing duties
MXN billion, %



Source: Banorte with information from PEMEX

PEMEX & CFE International bond yields
%, in USD



Source: Banorte with data from Bloomberg

Oil companies in Latam
Bps, data as of April 8th, 2024

Company	Credit rating			CDS		Spread vs UST	
	Moody's	S&P	Fitch	5Y	10Y	5Y	10Y
Pemex (Mexico)	B3	BBB	B+	559	630	506	620
Ecopetrol (Colombia)	Baa3	BB+	BB+	--	--	286	379
Petrobras (Brazil)	Ba1	BB	BB	145	362	141	215
YPF (Argentina)	Caa3	CCC-	CCC-	--	--	698	539
PDVSA (Venezuela)	WR	NR	WD	--	--	--	--

Source: Banorte with data from Bloomberg

CFE

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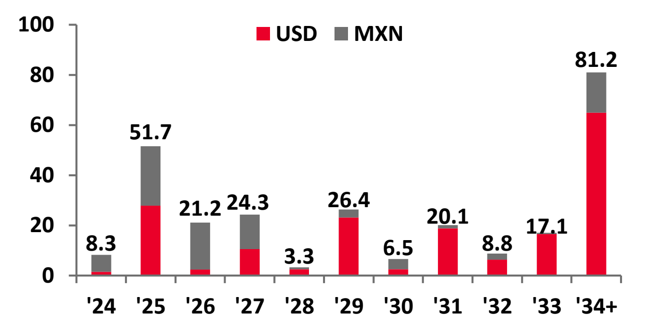
Record profits in 2023. The company reported its largest net gain in over a decade at MXN 117 billion in FY2023, breaking with the trend of losses since 2020 due to the pandemic. The main driver was the 31.1% drop in fuel costs, highlighting the adjustment on natural gas prices. The latter is one of its main inputs for energy generation, which experienced exceptional increases after the conflict between Russia and Ukraine broke out. Also, modest revenue growth and exchange gains finalized a positive report for CFE.

CFE expects short- and medium-term revenue growth. In 2023, demand increased in the domestic and industrial sectors. The former has benefited from a higher number of activities online, as well as increased temperatures in summer. Moreover, the industrial sector has benefited from nearshoring, with an increasing number of foreign companies relocating their operations to Mexico. CFE expects these growth trends to continue in the short- and medium-term.

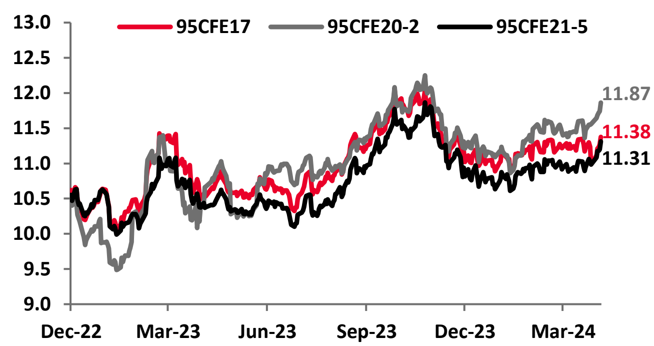
Few maturities expected in the rest of 2024. After the liability management operations carried out in 2023, when the company reduced its indebtment, CFE's maturities for the rest of the year total around MXN 8.3 billion. Most of this amount comes from two local notes due in December. Therefore, we expect the company to carry out liability management operations once again this year to refinance part of its 2025 maturities. According to CFE's 2024 Annual Financing Plan, they will prioritise financing in Mexican pesos through the local debt market, given that CFE's revenue is mainly in local currency.

CFE Upcoming Maturities*
MXN billion



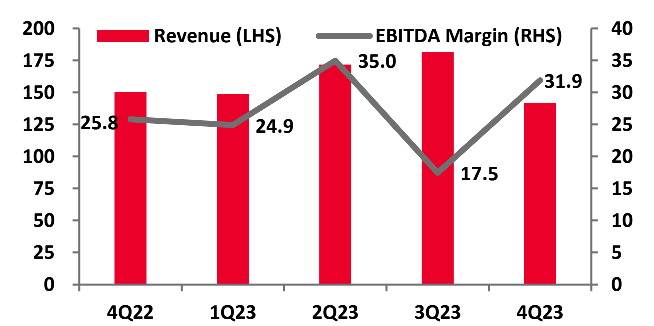
* Note: Revolving credit lines with banks not included. Maturities in USD were converted at a rate of MXN 16.41 per USD. Source: Bloomberg

CFE local bond yields
%



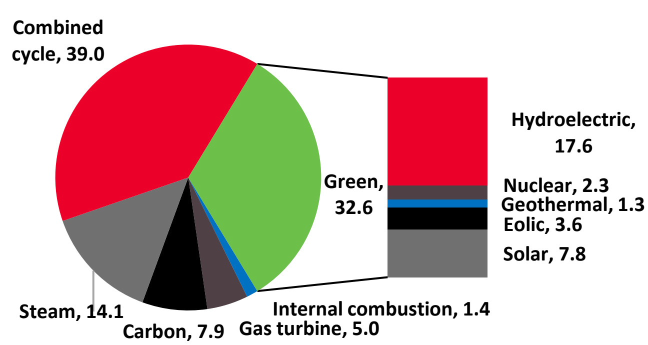
Source: Banorte with data from PiP

Total Revenue and EBITDA margin
MXN billion and %



Source: Banorte with data from Capital IQ

Installed capacity (69,370 MW)
%



Source: Banorte with data from CFE

Quantitative Analysis

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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 that IGAE is a good 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.

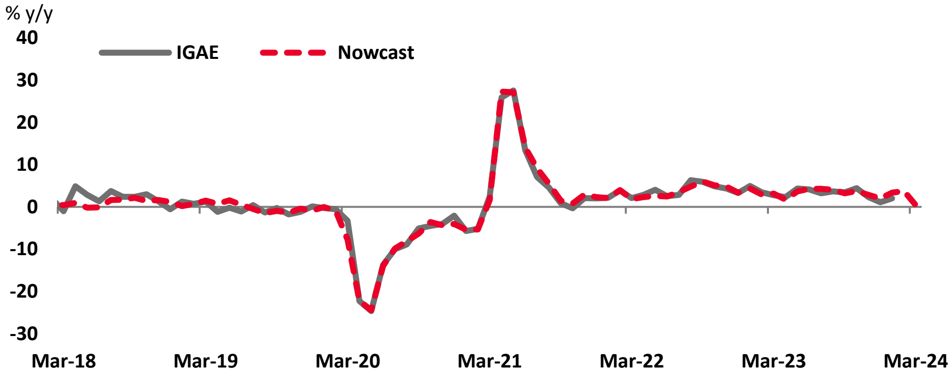
Recent economic data available for our model hints at a marginal slowdown of the Mexican economy during 1Q24. On the downside, manufacturing output has strongly decelerated, probably because of the strong appreciation of the Mexican currency. In addition, mining output has sustained a significant decline in 1Q24.

On the upside, using Banorte's transactional data, particularly credit and debit card purchases, we can infer that Mexican household spending maintained an upward trend during 1Q24. In fact, household spending during February and March posted strong gains in services. Household spending in retail averaged a 13.9 y/y increase in 1Q24. Moreover, the momentum in formal employment coupled with strong gains in real wages supported overall growth dynamics for Mexico's economic outlook. Furthermore, non-traditional data sources -such as keyword searches in Google Trends- also suggest that the dynamism of aggregate supply continued during the first quarter of the year. Particularly strong growth was observed in SMEs income.

In this regard, our model forecasts:

- A **3.78% y/y nsa expansion** in **February's** economic activity; and
- **0.41% y/y nsa growth** in **March's** output

IGAE vs Nowcast Banorte



Source: Banorte

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 the FOMC statements. In addition, the model developed allows us to confirm whether the communication made by 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]).

The Fed's semantics signal a 2% terminal rate for the easing cycle. Although the Fed maintained the funds rate at 5.5% (upper bound) in the last monetary policy decision and showed a marginally less hawkish tone in its written communication, the model continues to rank the semantics of the statement with the central topic alluding to the tightening monetary cycle of 2023 (Topic 8 in the chart below). We highlight that this topic has been the dominant one since the Fed began implementing its current tightening monetary cycle in March 2022.

In this regard, the same topic can give us an estimate of the terminal rate for Fed's easing cycle. Taking the 1st quartile for the monetary policy rates included within this topic, we forecast that the upper bound for the terminal rate will stand at 2% (refer to the following chart).

We expect that the Fed will make its first 25bps rate cut in September. It is worth noting that Powell's last press conference was less hawkish than in January's meeting. Speaking to reporters after the last FOMC's decision, Powell mentioned several times that the committee would pay close attention to upcoming economic data. In this regard, we believe that the downward trend in core inflation, coupled with an expected slowdown in the credit and labor markets during 3Q24, will allow the Fed to make its first 25bps rate cut on the 18th of September.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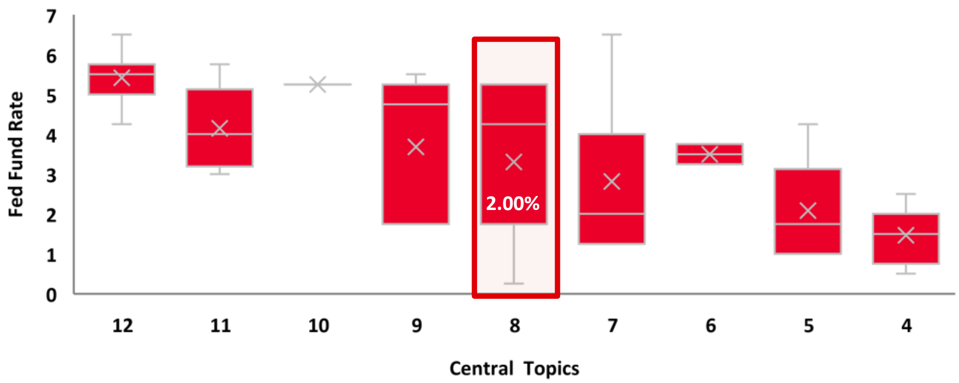
Range of Fed Funds Rate by Topic
Central Topics



Source: Banorte

Quantitative Analysis

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

In order to classify and have an objective interpretation of the speeches made by 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 member.

Less hawkish tone. Our classification model identified that 5 FOMC voting members increased their hawkish bias in the first quarter of 2024 vs. 2023 (Jefferson, Williams, Barkin, Waller, and Bostic). However, 6 voting members (Powell, Daly, Mester, Bowman, Cook, and Barr) have shown a less hawkish tone in their recent speeches. In addition, Adriana Kugler, who joined the FOMC in January, has mostly shown a dovish bias.

The change in voting members' bias is probably due to the recent downward trend in core inflation, coupled with the sharp slowdown in the U.S. credit market. As a result, the score generated by our Hawk-o-meter fell from 0.41 in 2023 to 0.27 in the first quarter of 2024. This represents a 34.4% contraction in the average tone of the current committee (refer to the charts below).

We anticipate that the first cut will be in September 2024. Our forecast is supported by the following factors:

1) A less hawkish bias from the FOMC shown in the Hawk-o-meter;
2) Core inflation's recent downward trend; and
3) The slowdown in leading economic indicators, such as the contraction in bank credit, the significant increase in consumers' interest payments, and the rise in NPLs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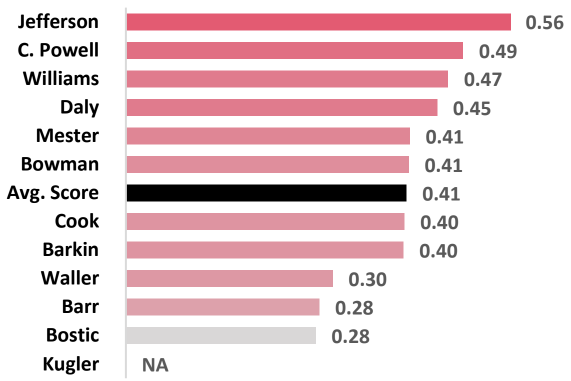
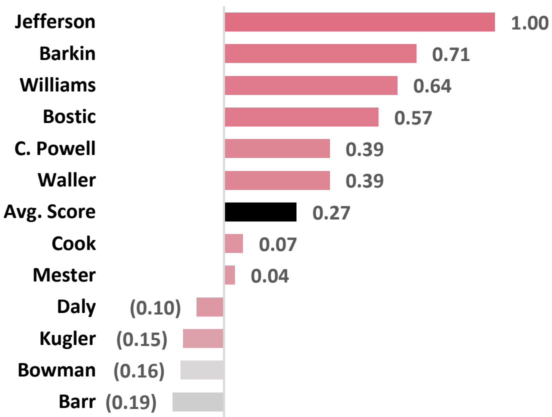
Hawk-o-meter – 2023 Speeches
Speeches tone



Source: Banorte

Hawk-o-meter – 1Q 2024 Speeches
Speeches tone



Source: Banorte

34%

Less **hawkish** average Committee's score in the first quarter of 2024 vs. 2023

Quantitative Analysis

Nowcasting Model for Mexico's Private Consumption

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According to Banorte's Nowcast model, we expect private consumption to maintain an upward trend in 1Q24. The criteria used for variable selection in our machine learning models indicate that the sustained revaluation of the national currency has been the main catalyst for the strong recovery in private consumption by facilitating a significant increase in the purchasing power of foreign products by Mexican families. We believe that these positive effects continued in 1Q24, given that in this period the MXN appreciated by 8.92% compared to 1Q23 and 3.18% compared to 4Q23. Furthermore, it should be noted that, in March, the national currency performed its best since 2015, reaching USD/MXN16.46.

Another variable that has been fundamental in the increase of imported consumption goods is the Package Against Inflation and Scarcity (PACIC in Spanish), extended throughout 2024, exempting 138 imported products from tariffs, such as meats and a variety of fruits and vegetables. At the beginning of the year, non-oil imports increased by 6.41% on an annual comparison during the first bimester of the year. This increase suggests that the demand for foreign products will continue to drive consumption during 1Q24.

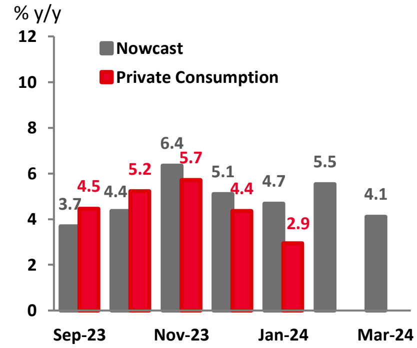
Although domestic goods consumption began with a slowdown in January (-0.8% m/m sa), there are factors that suggest the quarter will close with a favorable performance. Mexico will hold its presidential election in June 2024. As a result, the federal government has paid in February the government monetary transfers to various social actors, that would have been paid in 2Q24. As a result, private consumption has shown a strong increase reflected in the monetary transaction data. In the case of debit card purchases, these increased 17.5% y/y during 1Q24. In addition, credit card purchases have increased 10.7% y/y in the same period.

Sectors such as retail saw substantial increases of 15.12% y/y. Additionally, spending in hotels and restaurants also showed an 9.4% y/y increase in March, mainly driven by the Easter holiday period.

Furthermore, durable goods sales have also shown a favorable performance. Car purchase posted a 11% y/y growth in 1Q24. In addition, real wages have increased 5.4% in this period, and 265,424 new jobs were created in January and February. All these factors signal strength in the labor market.

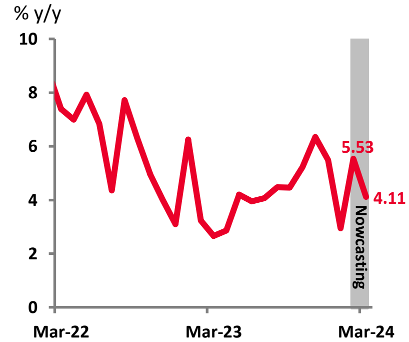
The previous dataset added to other variables related to economic activity, such as the demand for energy and strong tourism figures, among others, supports our view that private consumption increased 5.5% and 4.1% in February and March 2024 (nsa), respectively. These data represent an increase in the quarter of 4.16% y/y and 1.8% q/q, sa. These results demonstrate that private consumption remains as the main driver of economic activity at the start of the year.

Nowcast model vs. official statistics
% y/y



Source: Banorte with data from INEGI

Mexico´s Private Consumption
% y/y



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 lll: Nearshoring and the Mexican Stock Market,* January 11, 2024, <pdf>

Mexico

- *March inflation – We expect the headline by YE24 at 4.3%, with the core higher,* April 9, 2024, <pdf>
- *Banxico minutes – Caution will reign in coming decisions after the first cut,* April 4, 2024, <pdf>
- *Analysis of the 2025 Preliminary Budget Criteria,* April 1, 2024, <pdf>
- *4Q23 GDP – Upward revision in services drives the full-year figure to 3.2%,* February 22, 2024, <pdf>
- *S&P Global Ratings affirms Mexico 'BBB' sovereign rating, maintaining a stable outlook,* February 2, 2024, <pdf>
- *Fitch affirms Mexico 'BBB-' sovereign rating, maintaining a stable outlook,* December 7, 2024, <pdf>
- *Minimum Wage – 20% increase in 2024,* December 1, 2023, <pdf>
- *The IMF renewed Mexico's FCL for a new two-year period,* November 16, 2023, <pdf>

Quantitative Research

- *Fed's monetary policy: We expect a terminal rate of 2% for the easing cycle,* March 20, 2024, <pdf>
- *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,* April 5, 2024, <pdf>
- *Pension Funds Outlook - February 2024,* March 27, 2024, <pdf>
- *Syndicated auction results of new 10-year Udibono (Aug'34),* March 14, 2024, <pdf>
- *OPEC+: Output cuts will extend to mid-year,* March 4, 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 Mbbl/d, while Saudi Arabia extended its supply restriction,* November 30, 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 TIIE-IRS payer,* March 4, 2022, <pdf>
- *New levels to protect profits in our trade idea of paying 2-year TIIE-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 TIIE funding, Bondes F,* August 18, 2021, <pdf>

Equities

- *Flash Airports: Lower traffic performance despite Easter week* , April 10, 2024, <pdf>
- *Flash ASUR: Normalized comparative base in Colombia and Easter Week drive growth, although lower than expected,* April 9, 2024, <pdf>
- *Flash OMA: Passenger traffic falls on the verge of three consecutive years of growth,* April 9, 2024, <pdf>
- *Flash GAP: Surprising drop in traffic, while performance will be more challenging in the coming months,* April 8, 2024, <pdf>
- *Flash Volar: Capacity reduction in 1Q24 slightly below expectations,* April 4, 2024, <pdf>
- *Flash AC: Cash dividend with a yield of 2.1%,* March 22, 2024, <pdf>
- *Flash AC: Announces 2024 investment plan,* March 22, 2024, <pdf>
- *Flash: Cemex Day. Favorable medium-term growth prospects,* March 22, 2024, <pdf>
- *Flash AMX: Proposed shareholder remuneration of up to 4.6% return,* March 20, 2024, <pdf>
- *Flash: Alsea Day. The Outlook is for continued double - digit growth in 2024,* March 19, 2024, <pdf>
- *Flash: Walmex Day. Progress in SSS continue, although new businesses will be long-term catalysts,* March 15, 2024, <pdf>
- *Flash Femsa: Actions began in relation to the repurchase fund*, March 15, 2024, <pdf>
- *Flash ASUR: Proposes dividends with a yield of 4.3%,* March 11, 2024, <pdf>
- *Flash: Lacomer Day. Growth prospects reaffirmed as digital businesses advance,* March 11, 2024, <pdf>

Corporate Debt

- *Corporate Bond Market Review: MARCH 2024,* April 4, 2024, <pdf>
- *Tax incentives boost PEMEX's profitability in 4Q23,* March 1, 2024, <pdf>
- *Moody's downgraded PEMEX's rating to 'B3' and maintains Negative outlook,* February 12, 2024, <pdf>
- *ESG Corporate Bonds – 4Q23,* January 12, 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>

Note: All our publications are available in the following link

Recent trade ideas			
Trade idea	**P/L**	**Initial date**	**End date**
Tactical longs in Udibono Dec'26	P	Feb-16-24	Mar-08-24
Pay 1-year TIIE-IRS (13x1)	P	Jan-12-24	Jan-19-24
2y10y TIIE-IRS steepener	L	Oct-13-23	Feb-23-24
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 TIIE-IRS steepener	28bps	43bps	18bps	31bps	P[2]	Feb-15-17	Mar-15-17
5y10y TIIE-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 TIIE-IRS (13x1)	3.92%	3.67%	4.10%	3.87%[1]	P	Nov-12-15	Feb-8-16
Long spread 10-year TIIE-IRS *vs* US Libor	436bps	410bps	456bps	410bps	P	Sep-30-15	Oct-23-15
Receive 9-month TIIE-IRS (9x1)	3.85%	3.65%	4.00%	3.65%	P	Sep-3-15	Sep-18-15
Spread TIIE 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 TIIE-IRS (3x1)	3.24%	3.32%	3.20%	3.30%	P	Jan-29-15	Jan-29-15
Pay 9-month TIIE-IRS (9x1)	3.28%	3.38%	3.20%	3.38%	P	Jan-29-15	Jan-29-15
Pay 5-year TIIE-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 TIIE-IRS (26x1)	3.75%	3.55%	3.90%	3.90%	L	Jul-11-14	Sep-10-14
Receive 1-year TIIE-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 TIIE-IRS (6x1)	3.83%	3.65%	4.00%	3.81%	P	Oct-10-13	Oct-25-13
Receive 1-year TIIE-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 TIIE-IRS (9x1)	4.50%	4.32%	4.65%	4.31%	P	Jun-21-13	Jul-12-13
Spread TIIE-Libor (10-year)	390bps	365bps	410bps	412bps	L	Jun-7-13	Jun-11-13
Receive 1-year TIIE-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 TIIE-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 TIIE-IRS (13x1)	4.87%	4.70%	5.00%	4.69%	P	Jan-11-13	Jan-24-13
Receive TIIE Pay Mbono (10-year)	46bps	35bps	54bps	54bps	L	Oct-19-12	Mar-8-13
Spread TIIE-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, Marcos Saúl García Hernandez, Juan Carlos Mercado Garduño, Ana Gabriela Martínez Mosqueda, 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.

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Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
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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