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Important challenges suggest higher market volatility ahead

3Q24 Outlook

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Economic and Financial Markets Research
Economic Research and Market Strategy

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3Q24 Outlook

Important challenges suggest higher market volatility ahead

The second half of the year will bring relevant tests in the economic and financial sphere on the back of several geopolitical factors that could lead to public policy changes, especially due to all the electoral processes of 2024. In Europe, the far right has gained ground, suggesting a pendulum move towards an anti-immigration stance and greater international trade restrictions. To this we must add greater polarization between the governments in Washington and Beijing, and consequently, a trade and tariff war between the West and China. Furthermore, the US electoral process has further complicated the global geopolitical landscape, especially due to an increasingly higher probability of a Donald Trump victory.

These changes could result in additional headwinds for the global economy, albeit in a heterogeneous fashion between countries. The biggest challenges will probably be seen in Europe and parts of Asia. The US could remain resilient, with an economy at full employment still supported by domestic demand. These differences will also be reflected in global monetary policy. Most central banks have begun or are close to starting to cut interest rates, but the pace and timing will also be heterogeneous. The latter would trigger several adjustments on many key variables, among them currencies. Within the G-10, the Federal Reserve will likely be the last to cut rates, with a very gradual approach amid inflationary dynamics that may not yet guarantee reaching the 2% target in their forecast horizon.

In Mexico, we expect less economic dynamism during the second half of the year, explained by seasonal effects (*i.e.* lower government spending after the elections, clearly observed in many periods during Mexico's modern history) and a slower pace for the global economy. As a result, we have made slight downward revisions to our GDP forecasts for both the US and Mexico. Even so, some positive factors remain for the domestic economy, especially the boost stemming from the first phase of nearshoring (mainly in the central and northern regions of the country).

It will also be important to analyze the transition after the June 2nd elections in Mexico, with a special focus during the third quarter on: (1) Remaining cabinet appointments of the virtual president, Claudia Sheinbaum; (2) messages provided by the next administration, which will serve as a guide about public policies ahead (chief among them, fiscal policy); and (3) the start of Congress' ordinary sessions and the reform agenda that will be discussed and approved. Regarding monetary policy, Banxico has maintained a sense of prudence. However, current conditions and the messages sent by Board members suggest the possibility of two more reference rate cuts (in August and December), resulting in a year-end reference rate at 10.50%.

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Winners of the award as the best economic forecasters in Mexico by *LSEG* in 2023

LSEG STARMINE AWARD FOR REUTERS POLLS
Best Forecaster Economic Indicators for Mexico 2023

Mexico's main macroeconomic and financial forecasts
End of period

	1Q24	2Q24	3Q24	4Q24	2022	2023	2024	2025
GDP (% y/y)	1.6	2.8	1.4	1.6	3.7	3.2	1.9	1.5
Inflation (% y/y)	4.4	5.0	4.6	4.4	7.8	4.7	4.4	4.0
USD/MXN	16.56	18.32	19.65	18.90	19.50	16.97	18.90	19.40
Banxico's reference rate (%)	11.00	11.00	10.75	10.50	10.50	11.25	10.50	8.50
28-day TIIE (%)	11.25	11.24	11.00	10.75	10.77	11.50	10.75	8.79
Mexbol (points)	57,369	52,440	--	56,000	48,464	57,386	56,000	61,000

* Underlined figures represent our forecasts
Source: Banorte

Mexico

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We expect lower GDP growth this year and in 2025. Known figures so far suggest that moderation in activity –which began late last year– has extended to 2024. As such, based on available information, and after a modest uptick in the first quarter, we now expect 0.5% q/q in 2Q24 (2.8% y/y). Industry (0.6% q/q) would have been supported by construction, although challenges in other fronts would dampen this sector, including: (1) A downward trend in mining; and (2) ups and downs in manufacturing given a lateral behavior of the same component in the US – with expectations of lower growth this year. Lastly, we expect a more modest performance in services (0.5% q/q), not ruling out distortions due to changes in the payment schedule of social programs, which were brought forward to 1Q24. Given this situation, the second half of the year would also be affected, although with sequential results favored by a less challenging base effect. With this, we now expect a 1.9% full-year 2024 GDP expansion (previous: 2.4%). Starting from this, the inertial push would be less positive for 2025, subtracting close to 10bps to our previous forecast. Other headwinds include: (1) A lower boost from the US (see following essay); and (2) fiscal consolidation efforts by the Federal Government to maintain a prudent macroeconomic stance. On a more favorable note, some consumption fundamentals –such as employment strength, rising wages, and an additional moderation in inflation– along with an extension in investment related to nearshoring should continue supporting results. Therefore, we now anticipate GDP growth for next year at 1.5% (previous: 1.7%).

Better core inflation, along with other factors, will allow for additional cuts from Banxico. We recently revised our headline inflation forecast higher to 4.4% y/y by year-end 2024 (previous: 4.3%), although noting a revision lower to the core, now at 3.7% (previous: 4.4%). The latter category has been helped by lower goods' prices and some signs of moderation in certain services. Nevertheless, volatility at the non-core prevented a downward adjustment for the headline. Considering this and lower economic dynamism, we believe that the central bank will ease monetary policy further. We expect 25bps cuts in August and December, taking the reference rate to 10.50% by year-end.

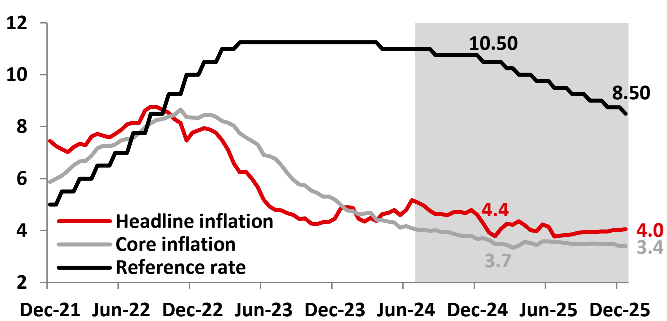
Attention to Congress' final composition and the start of the new legislature. Currently, electoral authorities are still processing legal challenges to some results from the June 2nd elections. In this sense, we believe that the most relevant dates include the final composition of Congress (expecting an announcement from the *National Electoral Institute* no later than August 23rd) and the start of the new legislature (on September 1st). On the latter, attention will be on the reforms outlined by virtual President Claudia Sheinbaum in several events and public statements during the last month.

GDP: Aggregate Demand
% y/y nsa

% y/y	1Q24	2Q24	3Q24	4Q24	2024	2025
GDP	**1.6**	**2.8**	**1.4**	**1.6**	**1.9**	**1.5**
Private consumption	3.5	5.2	3.4	2.3	3.6	1.7
Investment	9.2	10.5	3.3	1.1	5.9	0.6
Government spending	1.5	3.8	1.0	-1.2	1.2	-0.9
Exports	-6.8	-2.5	1.6	0.7	-1.8	1.5
Imports	4.7	4.2	3.2	2.4	3.6	0.0

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

Inflation and reference rate
% y/y; %



Source: INEGI, Banxico, Banorte

United States

We estimate a solid second half of the year, but weaker than the first semester. In the first six months of 2024, economic activity kept growing. The biggest surprises were the strength of fixed investment and solid household spending, despite the latter's more gradual pace. Recently, indicators have been mixed. The labor market remains strong amid a steady pace of job creation, albeit with the unemployment rate and jobless claims rising. Consumption continues to improve, supported by spending on services. However, there are some signs of moderation due to less favorable employment conditions, a deterioration in confidence, and higher delinquencies. Meanwhile, investment in structures and residences has advanced further, but we expect them to stop contributing positively to GDP soon. Finally, net exports have not, and probably won't, boost activity given lower relative dynamism in some of the US's trading partners and dollar strength. In this backdrop, we estimate 2Q24 GDP growth at 1.9% q/q saar. For 3Q24 and 4Q24, we expect 1.3% and 1.5%, in the same order. With this, full-year growth would be 2.3%, slightly lower than our previous forecast of 2.4%. For 2025, we cut our estimate from 1.7% to 1.5%.

Signs of lower inflationary pressures, but some risks remain. After negative inflation surprises at the end of 2023 and the beginning of this year, recent reports have been in line or have surprised to the downside. This latest trend has been supported by goods' deflation, with the prices of services rising further. Specifically, within the latter, pressures on shelter have remained in place. We expect favorable figures in coming months, but inflation is still above the Fed's target and risks related to wage growth remain. We estimate average inflation of 2.7% this quarter. By the end of the year, it would be 3.2% (Dec/Dec), so average inflation for the full-year would stand at 3.1% from 4.1% in 2023.

Interest rates could start declining soon. Fed communication has made it clear that members are not yet confident enough to start cutting the reference rate. However, recent inflation and labor market figures suggest some room may open soon. In this context, we modify our monetary policy call. We now expect two rate cuts of -25bps each, in September and December (previous: only -25bps in the last month of the year). Markets continue to price-in two cuts for a total of -50bps, although they have started to incorporate some chance of a third one by the same magnitude before year-end.

Key events in the quarter ahead of the presidential election on November 5. We highlight the Republican Convention (July 15-18), the Democratic Convention (at the close of this edition, from August 19-22), and the second presidential debate (September 10). Several fundamental issues with potential economic and market effects will be addressed. These include potential changes on the fiscal, trade, immigration, and regulatory fronts. We believe that a Trump victory –which remains the most likely scenario– will lead to more radical positions than in the case of a Biden reelection (see US Elections essay).

US: Banorte Estimates*

	1Q24	2Q24	3Q24	4Q24	2024*	2025*
GDP (% q/q saar)*	1.4	1.9	1.3	1.5	2.3	1.5
Private Consumption	1.5	1.4	1.1	1.5	1.9	1.5
Fixed Investment	7.0	4.1	2.0	2.0	4.2	1.8
Exports	1.6	1.2	-1.2	0.4	1.5	1.4
Imports	6.1	3.6	0.8	0.4	3.0	2.5
CPI (% y/y, average)	3.2	3.2	2.7	3.1	3.1	2.7
Unemployment rate (%, eop)	3.8	4.1	4.2	4.1	4.1	4.4
Non-farm payrolls (thousands)	802	532	480	360	2,174	1,440

* 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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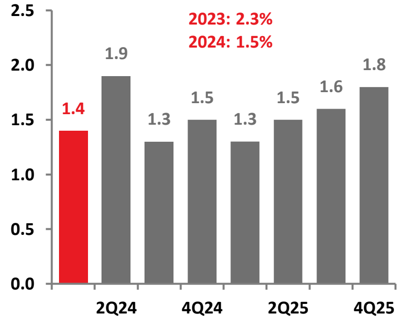
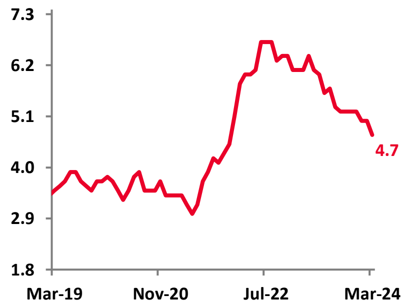
GDP
% q/q saar



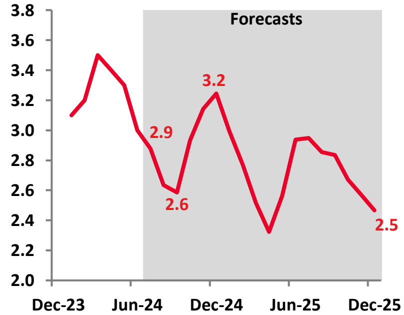
* Note: 2024 and 2025 are Banorte's estimates.
Source: Banorte with data from BEA

Wage growth tracker*
% 3-month MA



* Note: The Atlanta Fed's Wage Growth Tracker is a measure of the nominal wage growth of individuals
Source: Banorte with data from Fed of Atlanta

Inflation forecasts
% y/y



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

US Elections

Speculation regarding a change in the Democratic nomination. It is widely known who the Republican candidate will be; until recently, also who would be the Democrat. Official appointments will be made at the National Conventions to be held from July 15 to 18 and August 19 to 22, respectively. However, Biden's clear defeat at the first presidential debate on July 21st has generated doubts around the possibility that he could be replaced at the Convention, or if instead, a Democratic group nominates him sooner (July 21). While the likelihood that he withdraws from the race is low, pressure has been steadily building up. There are several names floating around for a possible replacement. Among them, Kamala Harris (the current vice president) and Gavin Newsom stand out. Diagram 1 on the next page shows the process that would be followed in the event of a replacement, as well as other potential candidates. On the Republican Convention, all eyes are on who will be Trump's running mate. J.D. Vance and Doug Burgum are the most popular (see Diagram 2). According to *ABC News*, an announcement could be made as soon as on Monday, July 15th. In coming months, another very relevant event will be the second debate, which will be aired by the same network on September 10.

The balance is leaning towards Trump. Polls were very tight before the debate. But from that moment onwards, both these and betting markets have decidedly leaned towards Trump as the winner. According to *Real Clear Politics*, the former president has 47.2% of voting intentions, while Biden stands at 44.2%. In the markets, the former president has an implicit win probability of 60%, while the current president reaches only 21%. Both candidates face critical issues. In Biden's case, a very low approval of his administration and concerns focused mainly on high inflation, the handling of immigration, and his age. Meanwhile, as discussed in the fourth edition of [our Election Monitor] (available only in Spanish), Trump faces several accusations and is waiting for his sentence after being found guilty in the 'hush money' case. However, this announcement was rescheduled from July 11 to September 12 after the Supreme Court ruled, for the first time ever, that former presidents have partial immunity on their actions while in the Oval Office.

A Trump victory will likely mean a tougher stance on several fronts. Starting with trade, he has proposed a 10% tariff on imports from any country, scaling them up towards 60% for China. This has induced nervousness about a potential resurgence of inflation, especially if there are retaliatory measures. Another key issue will be the destiny of Trump's 2017 tax cuts, which expire at the end of 2025. The former president wants to extend them, which would worsen the fiscal deficit. For Biden, the most likely scenario is that he will only support the extension of tax cuts for individuals. All of this happens in a scenario in which the CBO has just recently raised its projections for the US fiscal deficit, moving further away from a sustainable path. In this context, a new downgrade to the sovereign debt rating cannot be ruled out next year.

Tight contest in both Chambers of Congress. A third of the seats in the Senate (34) will be up for grabs, with 23 currently in the hands of Democrats, of which three are in states that voted for Trump in 2020. Republicans are defending only 11, all of them in states where the former president won. According to *Real Clear Politics*, 43 out of the 100 Senate seats are likely to grabbed by the Democrats, with 49 for the Republicans. Therefore, 8 are still undecided. This seems to tip the balance towards a loss of control for Biden's party. To achieve a majority, 51 seats are required. In the event of a tie, the Vice President has the decisive vote. Finally, the Democrats in the Lower House have likely secured 201 seats, with the Republicans at 209. Hence, 25 places remain in the air, according to the specialized site *270towin.com*.

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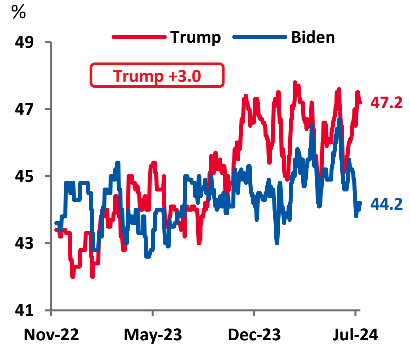
Voting intentions: Trump vs. Biden*

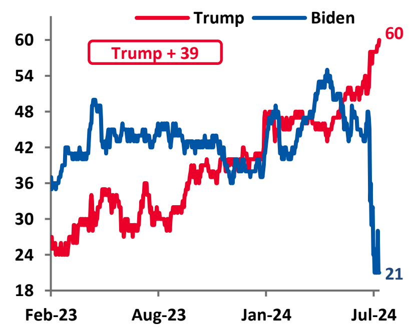
%



* Note: As of July 11, 2024
Source: Banorte with data from Real Clear Politics

Implied probability of winning*

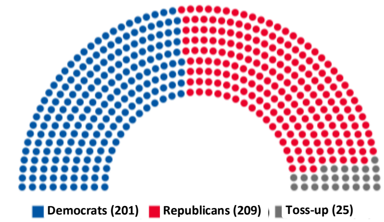
%



* Note: As of July 11, 2024
Source: Banorte with data from PredictIt

Estimate of Lower House elections in 2024*

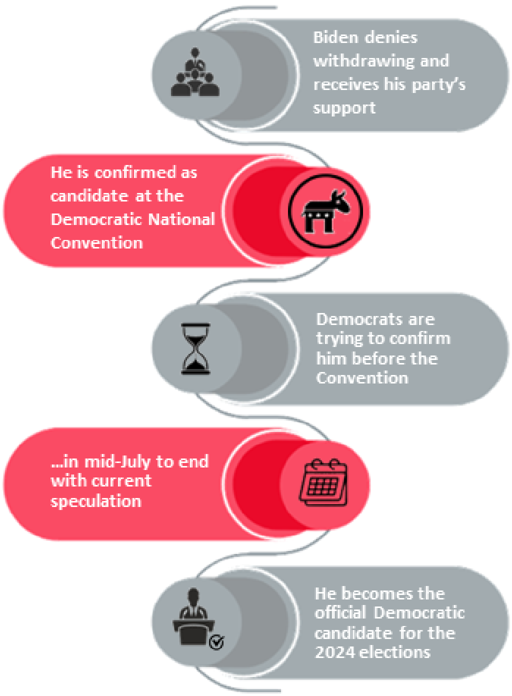
Number of legislators



* Note: As of July 11, 2024
Source: Banorte with data & estimates from 270towin

Diagram 1

Case 1 – Biden remains as candidate



Case 2- Biden steps aside

- The easiest way to replace Biden would be in the National Convention, specially if he accepts to drop out
- This is not stated in the Constitution so it will depend on the party's rules
- Delegates will arrive at the Convention with no compromise for Biden, supporting another candidate in an Open Convention
- If Biden continues once the Convention is over, the campaign starts another phase in which removing him will be more difficult, but not impossible

- However, there are some logistical and legal barriers as deadlines may have already passed and early voting may have started in some states
- In the event that Biden has been confirmed as the Democratic candidate and wins the election, but becomes disabled before December 17 (when the Electoral College votes), he could still be replaced, although there is no federal process to follow
- The logical thing would be for them to opt for the vice president, but they are not obliged to do so

- If Biden becomes disabled after December 17, the process to replace him is easier. The Constitution stipulates that the elected vice president will become president
- If he becomes disabled after taking office, the Presidential Succession Law stipulates that the vice president takes his place
- To win the nomination a Democratic candidate needs 1,969 of the 3,936 delegates

Possible options for replacement:
- **Kamala Harris**: Vice President (she is the one who would have the best chances)
- **Gretchen Whitmer**: Governor of Michigan for two terms
- **Gavin Newsom**: Governor of California (if he is the winner, he would have to choose another VP, because they are both from California)
- **Pete Buttigieg**: Transportation Secretary
- **Josh Shapiro**: Governor of Pennsylvania
- **JB Pritzker**: Governor of Illinois

Source: Banorte with data from The Washington Post
Icons: istockphoto.com

Diagram 2

Who will be Donald Trump's pick for Vice President?

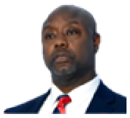
These are the options with the highest probability

Doug Burgum
- Governor of North Dakota
- Age: 67
- Birthplace: Arthur, ND

J. D. Vance
- Senator from Ohio
- Age: 39
- Birthplace: Middletown, OH

Ben Carson
- Former US Secretary of Housing and Urban Development
- Age: 72
- Birthplace: Detroit, MI

V. Ramaswamy
- Entrepreneur
- Age: 38
- Birthplace: Cincinnati, OH



Tim Scott
- Senator for South Carolina
- Age: 58
- Birthplace: North Charleston, SC

Source: Banorte with data from PredictIt and USA Today
Images: banorte.assetsdelivery.com, USA Today. Icons: istockphoto.com

Quantitative Analysis

Decoding Trump’s rhetoric through an NLP framework

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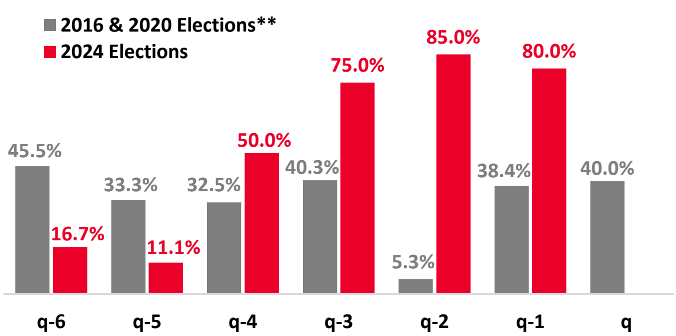
Trump's semantics. Trump’s rhetoric analysis is very relevant for Mexico due to the strong economic relationship between both countries. Around 54% of Mexico’s economic cycle is explained by the US. In terms of manufacturing exports, our country destined 84.5% of its 2023 outflows to our northern neighbor. In addition, Mexico is the highest recipient of remittances from said country (surpassing India, Philippines, and China). Family remittances represent around 3.5% of the local GDP, 5% of private consumption, and 26.4% of payrolls. Finally, 37.8% of foreign direct investment of 2023 came from the US. This essay describes a methodology that allows the extraction, classification, and interpretation of Trump’s speeches published in the different types of media.

Only the speeches that were part of his electoral campaigns and during his presidential administration were selected. The rest were not considered (such as interviews) to avoid possible biases in training the model (refer to: Decoding Trump’s rhetoric through an NLP framework). This classification allows to identify the main topics objectively.

The negative rhetoric towards Mexico has intensified. The topics’ classification for each of the *communiqués* shows that Trump’s negative sentiment towards Mexico has strongly intensified between December 2023 and June 2024 (expressed in *q-3*, *q-2*, and *q-1* red bars in Chart 1). In contrast, the average negative bias in the 2016 and 2020 electoral processes was substantially lower than in the current process (28% of total speeches in 2016 and 2020 vs. 80% in 2024). In addition, the word cloud alludes to a negative bias towards our country and supports the negative connotation in the semantics if we consider the relevance of words such as: “border”, “crime”, “cartel”, and “security” (refer to Chart 2).

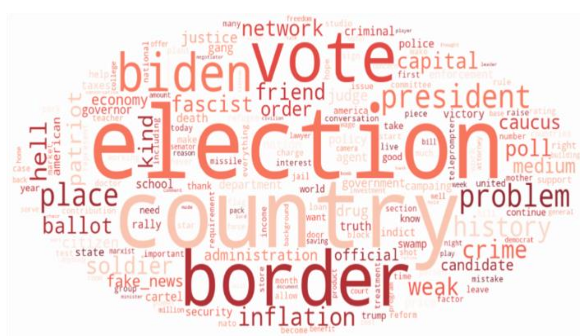
Trump’s rhetoric could represent a risk factor for the bilateral economic relationship. While it is currently impossible to assess who could be the winner of the electoral process that will take place on the 5th of November, Trump’s negative bias towards Mexico is a risk factor worth considering for the bilateral economic relationship. To analyze the foreign policy that could be implemented and the challenges that could arise ahead in the scenario that Donald Trump is elected to another term, we will continue to monitor the proportion of Trump’s speeches that contain a negative connotation towards our nation in the coming months.

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. For example, q refers to the months of September, October, and November of the electoral year; q-1 refers to the months of June, July, and August of the same year, and so on.
** 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

China remains as the epicenter of trade disputes. Among many other issues, the country's practices are considered unfair. A trade war with the US began many years ago, exacerbated by the tariffs imposed during the Trump administration –still in place– to which Biden has added new ones. Recently, the focus has been on Chinese supremacy of electric vehicle (EV) production, gaining market share in different regions. The European Union (EU) is its largest foreign market for these goods.

Several countries have decided to raise tariffs on EVs produced in China... The US increased tariffs above 100% from 25%. Thus, imports have declined to almost zero. Canada is also evaluating applying them. Meanwhile, the European Commission concluded after an eight-month investigation that Chinese EV companies benefit deeply from government aid. This means they can sell at lower prices, gaining market share unfairly in the EU and thereby threatening local manufacturers and the labor market. Given this, temporary tariffs were announced that came into effect on July 5, ranging from 20% to 38%, up from the current level of 10%. Because they need to be confirmed with a vote by EU governments before November 2, they do not need to be paid for now, but they will add to potential costs. If a qualified majority of 65% (15 of the 27 member states) blocks them, then they will not come into effect.

…but not everyone in the EU agrees with these measures. The Commission acted on its own, not because of auto industry complaints. Industry leaders, such as Germany, have been skeptical as many affected cars are made by European companies. In Spain, the argument is that vehicles produced in China sometimes have components and technologies produced by European suppliers. Likewise, it is feared that the Asian country could retaliate, although it is estimated that any measure would probably be very focalized.

Differentiated tariffs between companies. Tariffs will be at 17.4% for BYD, 19.9% for Geely, and 37.6% for state-owned SAIC. Other EV manufacturers in China, including Western companies such as Volkswagen, BMW, and Tesla, will be subject to tariffs of at least 20.8%. It is worth mentioning that the leader of the Chinese market is BYD, which had record annual profits in 2023 and aspires to be one of the top five auto companies in Europe.

Tensions in autos are just one of many problems for globalization and international trade, which in turn could have multiple effects. On one hand, the eventual impact of disputes on global growth, including their effect on key industries, along with potential government measures to alleviate them. This explains the "CHIPS" Act in the US, which in turn has had consequences for the fiscal deficit. The first question is whether all the measures implemented against China will impact this country's GDP growth. Not only them, but also many others who depend on its purchases abroad. Likewise, several other questions remain. Will this lead the Asian country to promote activity through other mechanisms that could be considered fair competition? Will they announce retaliatory measures? Depending on the answers, these could impact supply chains and inflation around the world. Moreover, disputes have extended to other regions. In this respect, the US is concerned that China will avoid tariffs by triangulating them through Mexico and Canada. They believe it is necessary to work closely with both countries to analyze Chinese investments. At the same time, the latter countries will need to study in detail the benefits and costs that a deeper relationship with China could imply for the strength of regional integration under the USMCA framework.

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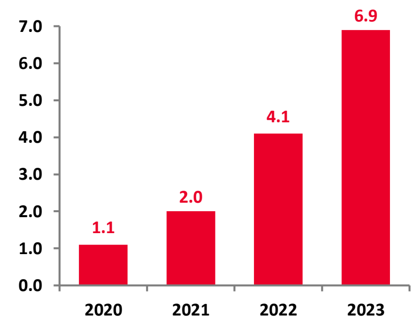
Chinese EVs sales in Europe
%



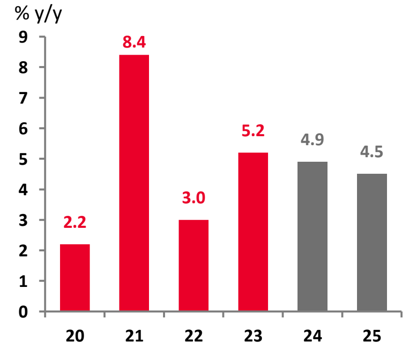
Source: Banorte with data from Bloomberg

Intended European tariffs on EVs
%

	Additional tariffs	Standard car duty	Total
BYD	17.4		27.4
Geely	19.9		29.9
SAIC	37.6		47.6
Others: Cooperated in investigation	20.8	+10	30.8
Others: Not cooperated in investigation	37.6		47.6

Source: Banorte with data from CGTN, European Commission and *China Passenger Car Association*

China GDP*
% y/y



* Note: 2024 and 2025 correspond to Bloomberg estimates
Source: Banorte with data from Bloomberg

Fixed Income (Sovereign Debt)

Repricing of Fed expectations triggered a bond sell-off. Losses already seen in 1Q24 widened, with Treasuries leading the adjustment as the market once again pushed back the expected timing for the Fed to start cutting interest rates. The UST curve steepened on the back of the long-end underperforming, with the 10-year note closing at 4.40% (+20bps q/q), validating the 4.00% resistance, in line with our call. Meanwhile, Mexican bonds had additional losses. In particular, the 10-year Mbono sold-off 59bps q/q, trading above the 10.50% handle in early June.

We recommend a 2s10s steepener in TIIE-28 IRS and see value in the Udibono Nov'35. Currently, the market is pricing-in implied cuts from the Fed for the rest of year of 61bps, with the first adjustment of -25bps in September. This outlook is slightly more optimistic compared to our view, which is of two cuts of 25bps (September and December). We are also considering a potentially higher neutral rate than previously contemplated. In this sense, we expect a correction in Fed expectations, whose impact would be mostly reflected in short-term maturities. However, we continue to anticipate a steeper curve as the case for a Republican administration has strengthened in the aftermath of the first presidential debate between Trump and Biden. We believe the implications for US trade, fiscal, and immigration policies will drive rates higher. As such, we see the 10-year UST closing this year at 4.75%. It is worth noting that US and Mexican rates have decoupled recently. We expect correlations between them to strengthen ahead, hence adding pressures to local rates, particularly in longer durations. This is compounded by higher supply of the 10-year Mbono. In the front-end of the curve, we believe there is room for the market to price-in a lower rate path for Banxico's monetary policy. For the second half of 2024, we anticipate a total of -50bps compared to -61bps currently implied by the market; for 2025, we see -200bps (vs -132bps). With these drivers in mind, we recommend a 2s10s steepener in TIIE-28 IRS. Although this strategy implies a negative carry and roll-down of 4.5bps per month, we expect the spread to move towards -35bps from -83bps currently (stop loss: -100bps). Finally, we believe this quarter could be more favorable for real *vis-á-vis* nominal rates. UDIS' carry and seasonal demand from local institutional investors are also factors that could benefit real-rate Udibonos. Considering relative valuations across maturities and inflation breakevens, we see initiating directional longs in the Udibono Nov'35 as attractive.

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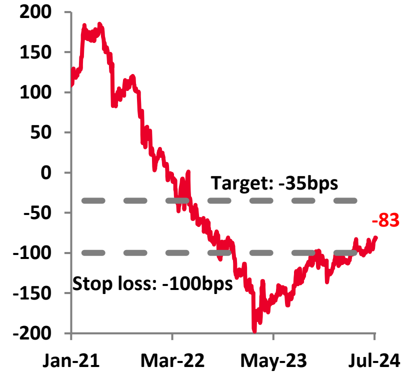
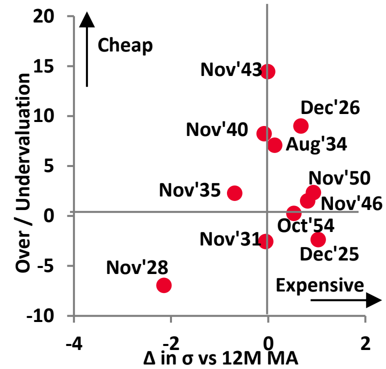
2s10s spread in TIIE-28 IRS
Bps



Source: Banorte, Bloomberg

Udibonos relative value
Δ in σ vs 12M MA in breakevens, bps*



*Note: Y-axis depicts undervaluation (+) or overvaluation (-) based on YTM normalized for modified duration. Source: Banorte, Bloomberg

Banorte: Interest rate forecasts
%

Security	2020	2021	2022	2023	2024 1Q	2024 2Q	2024 3Q	2024 4Q	2025 1Q	2025 2Q	2025 3Q	2025 4Q
Banxico's reference rate												
End of period	4.25	5.50	10.50	11.25	11.00	11.00	10.75	10.50	10.00	9.50	9.00	8.50
Average	5.44	4.38	7.65	11.14	11.22	11.00	10.83	10.67	10.25	9.75	9.25	8.75
28-day Cetes												
End of period	4.25	5.51	10.09	11.24	11.00	10.92	10.81	10.56	10.04	9.54	9.04	8.54
Average	5.33	4.44	7.72	11.13	11.18	11.00	10.89	10.73	10.29	9.79	9.29	8.79
28-day TIIE												
End of period	4.48	5.72	10.77	11.50	11.25	11.24	11.00	10.75	10.25	9.75	9.25	8.79
Average	5.69	4.63	7.93	11.40	11.48	11.24	11.08	10.92	10.50	10.00	9.50	9.04
10-year Mexican bond (Mbono)												
End of period	5.54	7.57	9.08	8.94	9.27	9.86	10.50	10.55	10.25	10.00	10.05	9.80
Average	6.25	6.81	8.80	9.13	9.21	9.83	10.18	10.53	10.40	10.13	10.03	9.93
10-year US Treasury												
End of period	0.91	1.51	3.87	3.88	4.20	4.40	4.60	4.75	4.55	4.35	4.15	4.05
Average	0.88	1.44	2.95	3.95	4.15	4.44	4.50	4.68	4.65	4.45	4.25	4.10
10-year Spread Mex-US												
End of period	463	606	521	506	507	546	590	580	570	565	590	575
Average	534	538	585	518	506	539	580	585	575	568	578	583

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

Foreign Exchange

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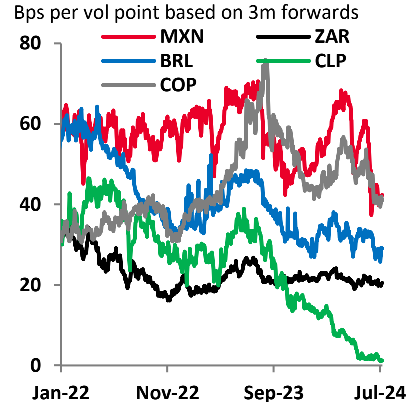
We expect dollar strength to continue. The USD marked its second positive quarter in a row, driven largely by significant losses in the JPY (-6% in 2Q24) and a broadly negative balance for emerging market (EM) currencies. The MXN depreciated 9.6% q/q and traded between 16.26 and 18.99, closing at 18.32 per dollar. We expect the second half of the year to be characterized by higher volatility linked to geopolitical factors. Notably, the US presidential election in November, whose relevance is on the rise on the market's narrative. We anticipate higher risk premia in financial assets and the EM universe to be impacted, albeit in a differentiated way. Additionally, we expect the USD to maintain a relative strengthening bias. In this backdrop, central bank divergence will play in its favor and, particularly, a more dovish tone in other regions. Specifically, the ECB will continue its gradual easing cycle. Thus, we reiterate our year-end EUR/USD forecast of 1.05. Moreover, downside risks have increased amid heightened political risks and a fragile economic growth outlook. In the UK, the BoE has shown a more cautious stance, but it is likely to cut rates before the Fed.

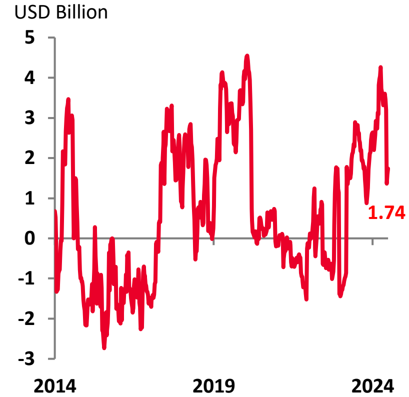
USD/MXN will close 2024 at 18.90, with a range between 17.50 and 20.50. Our trajectory reaches the latter level in October, in our view the most stressed period due to the US election. As a reference, the MXN came under pressure by nearly 4 standard deviations in 2016. Today, one deviation is slightly higher than 70 cents. Our base case is a Trump victory, which would not be as surprising this time around. However, a variety of issues in the bilateral agenda could increase uncertainty, and Banxico is closer to its accommodative cycle. Consequently, markets would hedge positions given the magnitude and implications of this event. In fact, Trump's negative rhetoric towards Mexico has intensified, suggesting asymmetric risks for the MXN as its valuation remains relatively expensive. On the other hand, the 2Q24 ended with higher implied volatilities. Despite compressing when compared to their highest levels. This element suggests investor caution in the short-term and could also limit the positive impact from an attractive carry. We still believe the latter factor will continue playing in favor of the MXN, especially when considered in relative terms. Other comparable EMs have seen a more aggressive easing than Mexico (*e.g.* Chile), Banxico's rate cut expectations are milder when compared to other central banks (*e.g.* Colombia), and Mexico's real rates are still among the most attractive in LatAm –only behind Brazil, and surpassing India and South Africa. In this environment, the MXN's speculative position in CFTC futures remains net long, although it has fallen 59% from its highest in April. All in all, we recommend buying USD/MXN below 18.00.

Carry/Vol for selected currencies
Bps per vol point based on 3m forwards



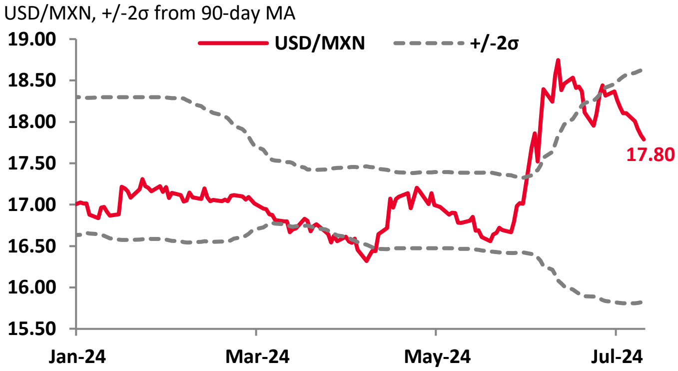
Source: Bloomberg, Banorte

IMM positioning in USD/MXN futures*
USD Billion



Source: CME, Banorte
*Positive = net MXN longs

USD/MXN performance
USD/MXN, +/-2σ from 90-day MA



Source: Bloomberg, Banorte

USD/MXN forecasts
Pesos per dollar

Period	End of period	Forecast end of period	Period average
1Q24	16.56		
2Q24	18.32		
3Q24		19.65	19.13
4Q24		18.90	19.83
1Q25		18.85	19.28
2Q25		18.45	18.67
3Q25		19.60	19.33
4Q25		19.40	19.73

Source: Bloomberg, Banorte *Underlined numbers indicate forecasts

Stock Market Indices

Earnings growth will remain solid, but other factors will induce greater caution among investors. The sample of 30 indices that we regularly track had an average USD gain of 4.1% in 1H24. In the US, both the Nasdaq and S&P500 reached new all-time highs, accumulating returns of 18.1% and 14.5%, respectively. Risk appetite for tech companies continued to stand out, with the subset of the so-called 'Magnificent Seven' —Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla— maintaining an outstanding performance (+36.8%). For 3Q24, we expect investors to be more cautious, focused on: (1) The start of the Fed's easing cycle; (2) the evolution of the US electoral process; (3) a slowdown in economic growth; and (4) geopolitical risks, particularly those affecting international trade. Despite of the latter, the ongoing recovery in corporate earnings, especially in the US, will continue to support high valuations relative to historical averages. The 2Q24 earnings season, which is about to begin, should maintain the inertia of sustained expansion. Earnings per share (EPS) growth in the previous quarter once again beat expectations (+8.0% y/y vs 3.9%e). Currently, Bloomberg's consensus estimates a slightly higher increase of +8.8% for S&P 500 companies. This could be even stronger in subsequent periods, reaching double-digit gains. Given this, appetite for 'Growth' shares will remain, fueled by the rise of tech and artificial intelligence (AI) related companies. As an example, estimated earnings per share growth for companies in semiconductors, which includes Nvidia, is 50.3%.

S&P500 benchmark level. We raise our year-end 2024 estimate for the S&P500 to 5,700pts vs 5,460pts previously. This revision is driven by higher-than-expected growth in corporate earnings, which continues to support relatively high valuations. We now assume 12.0% y/y EPS growth in 2024 and 10.5% in 2025 (vs +9.0% and +12.5% before, in the same order). We also raised slightly the P/E *fwd* multiple, to 20.8x from 20.1x. It should be noted that the latter level is lower than the 23.4x currently. In this sense, it is important to remember the momentum stemming from a greater contribution of the 'Magnificent Seven'. We estimate that these companies could add between 1.8 and 2.2pts to the S&P500's total P/E valuation as they trade at a high premium and represent ~30% of the index's value. For the end of 2025, we set a 6,500pts level. This forecast considers lower US GDP growth, but also a less restrictive monetary policy.

Mexbol benchmark level. The Mexbol underperformed relative to its peers in 1H24. The accumulated decline in USD terms was 15.2%; in local currency it was -8.6%. In this context, we adjust our 2024 forecast downwards, to 56,000pts from 60,200pts. We assume 4.9% y/y EBITDA growth for companies in the index (vs 4.7% previously, given the positive FX effect on dollar-denominated operations), with net debt up 5.1%, and a FV/EBITDA multiple of 5.6x (slightly above the current level of 5.5x, but below the prior of 5.9x). For 2025, our target is 61,000pts. We consider a slower pace of EBITDA expansion, growing only 3.5%. We set a FV/EBITDA multiple of 5.8x, slightly above its T12M average. We believe that higher valuations will depend on the consolidation of a scenario of lower interest rates.

Lastly, we reaffirm Asur, Gcc, Gentera and Lacomer in **our top-picks**. We have also included Femsa to strengthen the portfolio's more defensive bias. In our view, its valuation multiples are attractive, the outlook is very positive, and the company maintains significant financial strength. We decided to reduce exposure to cyclical companies, so we are excluding Cemex. Despite its appealing valuation, expected growth is not very encouraging. We hold Gcc on the prospect of a strong 2Q24 report and solid fundamentals.

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S&P 500 forecast for 2024
Pts

P/E Fwd	S&P500	Potential Return (%)
21.3x	5,837	3.6
20.8x	**5,700**	**1.2**
20.3x	5,563	-1.3

Source: Bloomberg, Banorte

S&P 500 forecast for 2025
Pts

P/E Fwd	S&P500	Potential Return (%)
21.8x	6,691	18.8
21.3x	**6,538**	**16.0**
20.8x	6,384	13.3

Source: Bloomberg, Banorte

Mexbol forecast for 2024
Pts

FV/EBITDA	Mexbol	Potential Return (%)
5.8x	58,844	8.4
5.6x	**56,008**	**3.2**
5.4x	53,172	-2.0

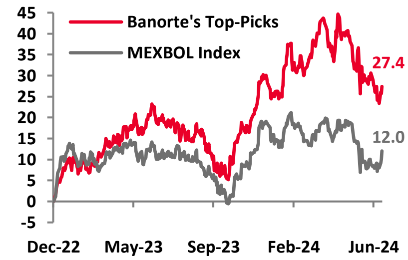
Source: Bloomberg, Banorte

Mexbol forecast for 2025
Pts

FV/EBITDA	Mexbol	Potential Return (%)
6.0x	63,898	17.7
5.8x	**60,962**	**12.3**
5.6x	58,027	6.9

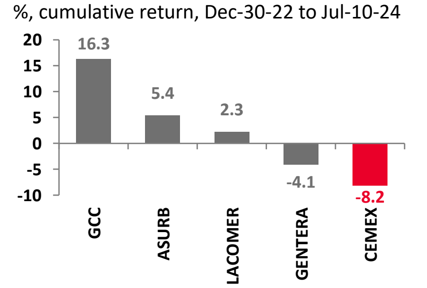
Source: Bloomberg, Banorte

Top-picks vs Mexbol since 2023*
% cumulative return, Dec-30-22 to Jul-10-24



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

Top-picks performance*
%, cumulative return, Dec-30-22 to Jul-10-24



* Note: (1) Relative performance of stocks vs Mexbol since its inclusion as top-picks: Gcc +17.2pp; Asur +9.9pp; Lacomer +6.1pp; Gentera +0.8pp; and Cemex -9.7pp. (2) Red bars represent the companies we are excluding from our top-picks
Source: Bloomberg, Banorte

Commodities

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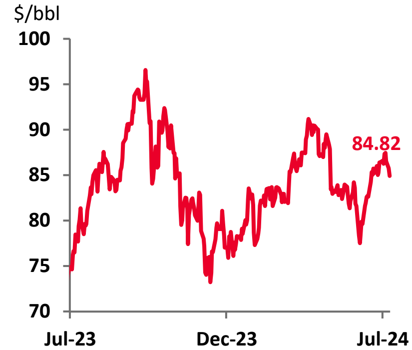
Differentiated dynamics among commodities in 2Q24. The BCOM index rose 1.5% while the GSCI lost 0.7% in the second quarter. Within both, industrial and precious metals picked up, energy had more moderate dynamics, and grains experienced a negative performance.

Upward bias in energy amid deficits for the remainder of the year. Crude-oil prices recovered in June after trading mostly in a bearish trend during the quarter. Brent broke above the key resistance of 85 $/bbl, while WTI surpassed 80 $/bbl. Consequently, these benchmarks moderated their accumulated quarterly losses to 1.22% and 1.96%, in the same order. We expect the bullish bias to characterize energy for the rest of the year. In this regard, the US Energy Information Administration (EIA) estimates a global deficit for the period, particularly in August, September, and December. This coincides with high seasonal demand in the summer and the US driving season. On supply, it is worth noting that OPEC+ will maintain a total production cut of nearly 6 Mbbl/d in the third quarter. The organization surprised the market with a plan to gradually reintegrate supply for 2.2 Mbbl/d starting in October. However, Saudi Arabia's recent positioning made it clear that these monthly adjustments depend on market conditions, leaving room for them to be paused or reversed. In this context, the next ministerial meeting to review oil policy will be in early December. Additionally, geopolitical risk premia –which increased prices in previous months– has moderated. However, the outlook in the Middle East remains highly complex, which should be added to the early start of the hurricane season. These risks could be additional drivers for higher prices. Notably, the Brent futures curve is in backwardation (spot price higher than futures), with the spread between 1- and 12-month contracts at 6.1 $/bbl. This is still below the year's high of 9.1 $/bbl. In this backdrop, we expect Brent to trade between 80 and 95 $/bbl for the rest of 2024. For gasoline, we believe prices could be impacted by crude-oil dynamics, despite robust inventories that may decline considering the abovementioned driving seasonality.

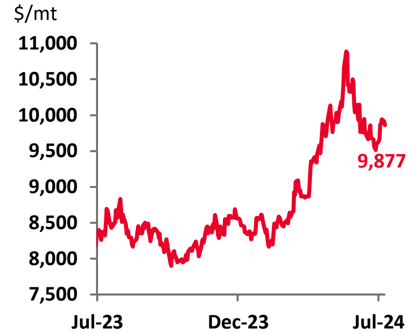
Brent
$/bbl



Source: Bloomberg, Banorte

Room for further gains in metals. Gold reached a record high of 2,450 $/t oz during May, in line with our expectations. We remain constructive in this metal, expecting a trading range between 2,300 and 2,500 $/t oz. Factors that keep supporting prices include strong demand from China, central bank reserve accumulation, and its use as a hedge against latent geopolitical risks. In industrial metals, copper's rally pushed it above 11,000 $/mt, also a record high. Despite a profit-taking phase, it quickly stabilized around 10,000 $/mt. With low inventories and still tamed signs of a significant global economic slowdown, we maintain a positive view on said metal. Finally, we anticipate higher grain prices, largely driven by adverse weather conditions worldwide this year.

Copper
$/mt



Source: Banorte, Bloomberg

Commodities price performance and market consensus forecasts

Commodity	Unit	Spot*	Performance (%)					Market consensus forecasts					
			2021	2022	2023	1Q24	2Q24	3Q24	4Q24	2024	1Q25	2Q25	2025
WTI	$/bbl	81.55	55.01	6.71	-10.73	16.08	-1.96	81.00	79.00	79.60	78.00	77.00	77.25
Brent	$/bbl	84.82	50.15	10.45	-10.32	13.55	-1.22	85.00	84.50	83.10	83.00	81.00	80.00
Natural Gas (H. Hub)	$/MMBtu	2.39	46.91	19.97	-43.82	-29.87	47.53	2.80	3.20	2.64	3.50	3.45	3.50
Gasoline (RBOB)	$/gal	2.53	58.23	10.37	-14.51	31.32	-0.08	2.53	2.37	2.42	2.52	2.75	2.62
Gold	$/t oz	2,358	-3.64	-0.28	13.10	8.09	4.34	2,315	2,376	2,268	2,350	2,200	2,220
Silver	$/t oz	30.76	-11.72	2.77	-0.66	4.91	16.74	28.00	29.20	26.55	29.40	29.00	28.63
Copper	$/mt	9,877	25.17	-13.87	2.23	3.60	8.26	9,500	9,731	9,310	9,880	9,875	9,929
Corn	¢/bu	403	22.57	14.37	-30.55	-6.21	-10.12	452	449	448	462	458	460
Wheat	¢/bu	553	20.34	2.76	-20.71	-10.79	-1.20	615	630	605	613	625	638

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

Corporate Debt

Non-bank corporate bond issuance in 1H24 reached MXN 86.6 billion (+7.9% y/y). As we had anticipated, performance was strong at the beginning of the year, with a higher amount issued relative to recent years. We believe that auction activity at the beginning of 3Q24 will be low, followed by greater dynamism in the last months of the year as an important share of 2024 maturities are concentrated in that period. Demand for high quality and unsecured bonds was clear, with spreads 4-5bps below expectations on average. Also, in line with our view, the balance between floating- and fixed-rate bonds stayed in place despite strong investor preference for the latter during the first half of the year. Of the amount placed in the first semester: (1) 96.7% had the highest credit ratings on a national scale ('AAA/AA+/AA'); (2) 90.9% was in unsecured bonds; (3) floating-rates (TIIE-28 and ON-TIIE) totaled 51%, while fixed-rates represented 49%; and (4) 22.9% had an ESG label.

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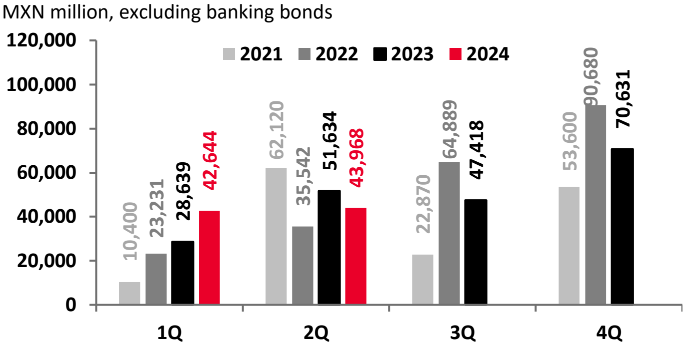
The preference for floating rates will increase as cuts from Banxico get closer. Given our view of two more central bank rate cuts in the second half of the year and a benchmark rate of 10.50% by year-end 2024, we believe the preference between floating- and fixed-rate issuances will remain balanced at the beginning of the quarter. However, placements will gradually shift towards floating rates, consistent with a gradual easing cycle.

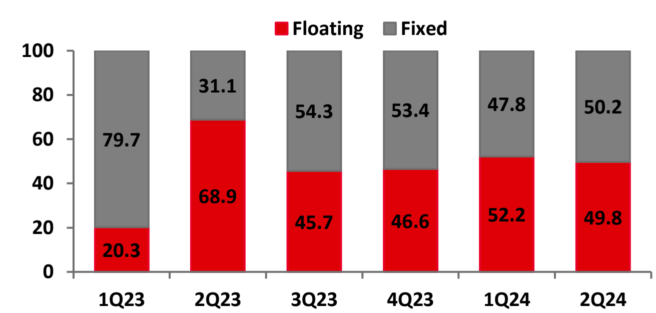
The pipeline will improve after the elections. Companies will keep refinancing and hedging their maturities in the aftermath of the Mexican election, monitoring the evolution of market conditions before the US election. In this backdrop, the pipeline has been rebuilding in recent weeks. We anticipate that high quality issuers will continue to dominate. We also reiterate our 2024 full-year issuance 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 June 2024

Breakdown of issued amount
MXN million and %, as of 2Q24

Interest rate type	Millions	%
TIIE 28	35,411	40.9%
O/N TIIE	7,250	8.4%
FIXED	41,052	47.4%
UDIS*	1,400	1.6%
CETES 28	1,500	1.7%
Credit rating		
AAA	73,713	85.1%
AA+	4,000	4.6%
AA	6,000	6.9%
AA-	1,400	1.6%
A+	1,500	1.7%
Structure		
Unsecured	78,708	90.9%
ABS	5,505	6.4%
Guaranteed	1,000	1.2%
Future Flow	1,400	1.6%
ESG-themed		
No	66,768	77.1%
Yes	19,845	22.9%
Total	**86,613**	

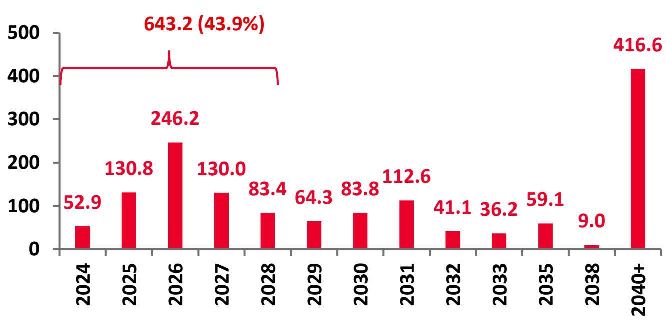
*UDIS: Amount in pesos as of the placement date. Source: Banorte / BMV / BIVA, as of June 2024

PEMEX

PEMEX's 1Q24 results. On April 26th, PEMEX reported that 1Q24 revenues fell 3% y/y, mainly due to lower prices in gasoline, diesel, jet fuel, natural gas, liquefied gas, and oil-related products. Domestic and export sales declined 2.8% and 3.4%, respectively. Net income was MXN 4.7 billion in 1Q24, lower than the MXN 56.7 billion of the same period last year. This was due to: (1) The decline in total sales; (2) a strong moderation in foreign exchange profits (MXN 33.4 billion vs. MXN 125.3 billion in 1Q23); and (3) an increase in COGS (Cost of goods sold). These were partially offset by lower deductions in fixed asset impairments and in taxes and duties (-55.6% y/y). In turn, the latter was driven by lower DUC (*Derecho de Utilidad Compartida* in Spanish, a profit-sharing duty) to 30% in 2024 from 40% in 2023, along with its full cancelation in January. The company's average production of liquid hydrocarbons (crude-oil and condensates) stood at 1,820 Kbbl/d (-2.8% y/y) on the back of a decline in some fields (Zaap, Xanab, Ayatsil, Ku, and Quesqui). In addition, natural gas production dropped to 3,836 MMcfd (-7.5% y/y).

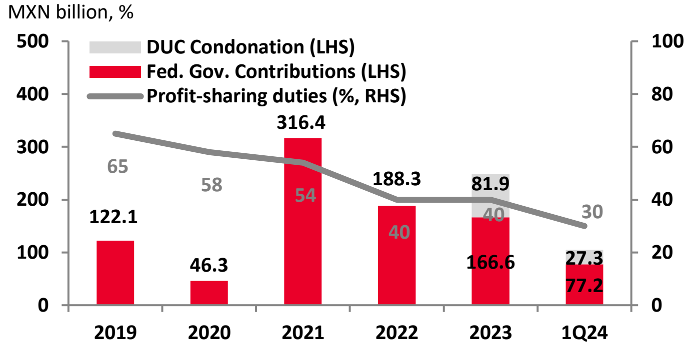
The company reiterated the government's support, paid suppliers, and stated that it will have enough resources to face most of its financial needs in 2024. Last May, PEMEX's CEO, Octavio Romero Oropeza, mentioned that they paid around MXN 39 billion on average per month to suppliers during 1Q24; they disbursed around MXN 50 billion in April; and would have been able to pay MXN 70 billion in May to regularize said account. It is important to note that the supplier account as of 1Q24 amounted to MXN 364.8 billion. For 2024, the DUC was reduced to 30% from 40% previously, while the entire payment for this concept was forgiven in January. Additionally, different media reports stated that the DUC payment corresponding to May would be postponed to July. Furthermore, the government will contribute MXN 145 billion to the company this year, of which MXN 77.2 billion had already been received in 1Q24. With this support, additional cash flow from the DUC's reduction –without ruling out more write-offs this year–, and the refinancings that have already been made, we estimate that PEMEX will be able to meet its remaining debt maturities of 2024, which are close to MXN 52.9 billion. PEMEX will report its 2Q24 financials on July 26th.

Upcoming Maturities – PEMEX*
MXN billion



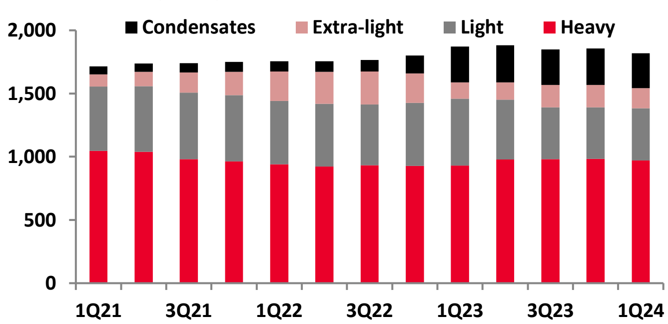
* Note: Revolving credit lines with banks not included. Source: Bloomberg

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



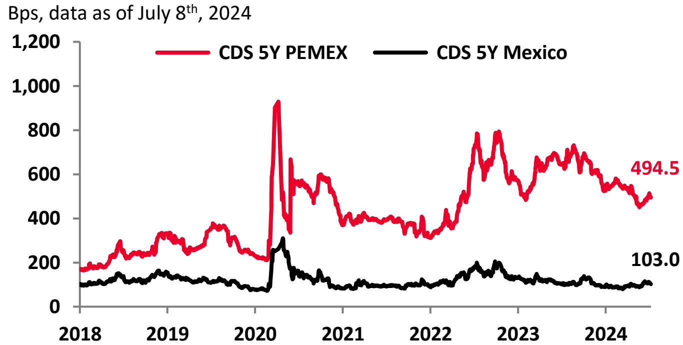
Source: Banorte with information from PEMEX

Crude-oil output by type
Thousand barrels per day (Kbbl/d)



Source: Banorte with data from PEMEX

5Y CDS: PEMEX vs Sovereign
Bps, data as of July 8th, 2024



Source: Banorte with data from Bloomberg

CFE

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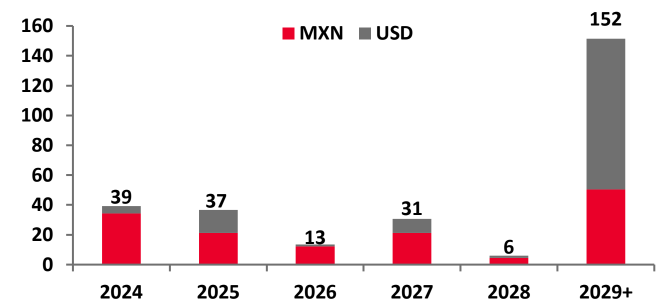
Currency effects will continue affecting year-on-year net profit. In 1Q24, the company reported revenues of MXN 147 billion (-0.7% y/y), with operating profit up 17%. However, net profit was only MXN 1.87 billion (-94.2% y/y). It is worth noting that an appreciation of the peso is positive for CFE as 52% of its financial debt is denominated in foreign currency. Considering exchange rate dynamics in the last few years, this led to strong benefits in 1Q23. Although the company also posted gains in 1Q24 for this concept, they were strongly curbed. We expect a currency exchange loss in 2Q24, following the path of the FX in recent months, which, in turn, will negatively impact net profit in the annual comparison.

Liability management operations during the rest of the year to finance upcoming maturities. As of 1Q24, the company's debt stood at MXN 277.6 billion (US$16.8 billion), with maturities for the rest of 2024 representing approximately 14% (MXN 39.3 billion) of that amount. However, most of it is in bank loans, which we believe are revolving or easier to refinance. In turn, two issuances in the local debt market have a maturity date in 2024, totaling MXN 5.9 billion. Hence, we expect the company to issue new bonds to refinance them.

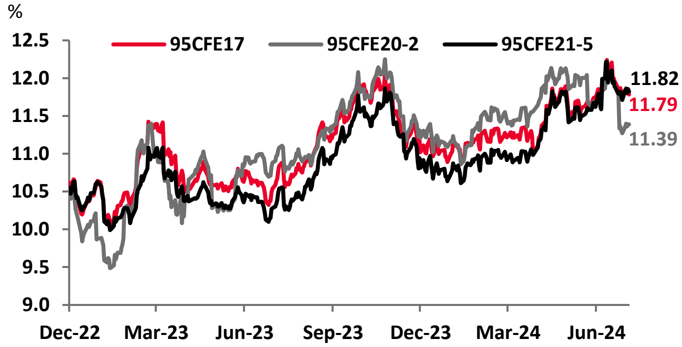
Challenges and recent developments in sustainability. Among the goals set in the Paris Agreement, Mexico committed to generate 35% of the country's electricity through clean sources by 2024. As of 1Q24, CFE's installed capacity –including independent producers– is close to this level, standing at 32.1%. Within this category, hydroelectric remains as the most relevant with 53%, followed by solar and wind.

CFE Upcoming Maturities
MXN billion



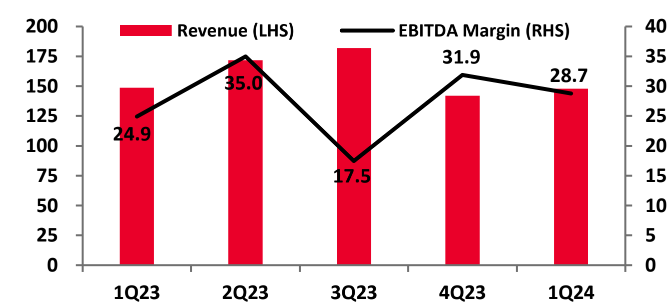
* Maturities in USD were converted at a rate of MXN 16.53 per USD. Source: CFE

CFE local bond yields
%



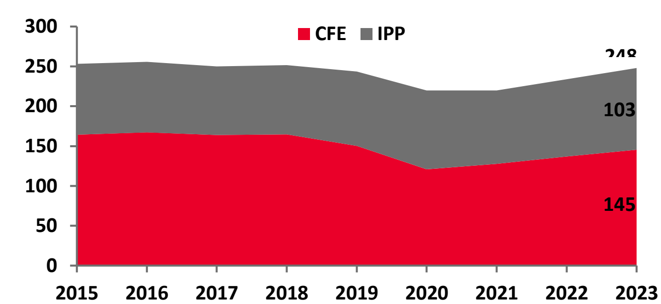
Source: Banorte with data from PiP

Total Revenue and EBITDA margin
MXN billion and %



Source: Banorte with data from Capital IQ

Net Energy Generation by CFE and Independent Private Producers
TWh



Source: Banorte with data from CFE. IPP: Independent Private Producers

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 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 growth dynamics. However, despite that the 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.

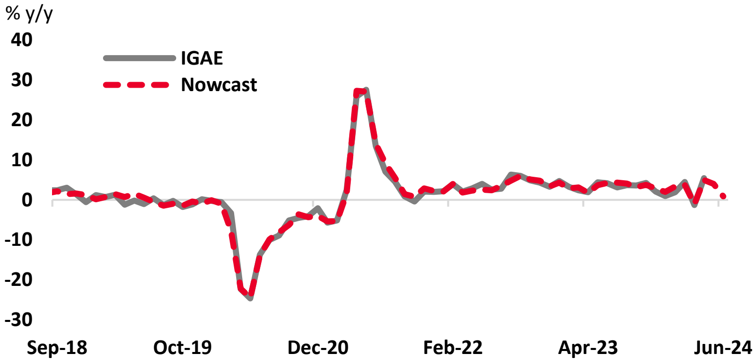
Recent economic data available for our model hints at better growth dynamics in 2Q24. On the upside, using Banorte's transactional data, particularly credit and debit card purchases, we can infer that Mexican household spending maintained an upward trend in 2Q24. In fact, household spending during May and June posted strong gains in services. Household spending in retail averaged a 12.7 y/y sa increase in 2Q24.

Moreover, momentum in formal employment and strong real wage gains supported overall growth dynamics for Mexico's economic outlook. Furthermore, non-traditional data sources –such as keyword searches in Google Trends– also suggest that 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 **3.16% y/y nsa expansion** in **May's** economic activity; and
- A **0.88% y/y nsa growth** in **June's** output

IGAE vs Nowcast Banorte
% y/y



Source: Banorte

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Fed's topics classification using NLP and ML techniques

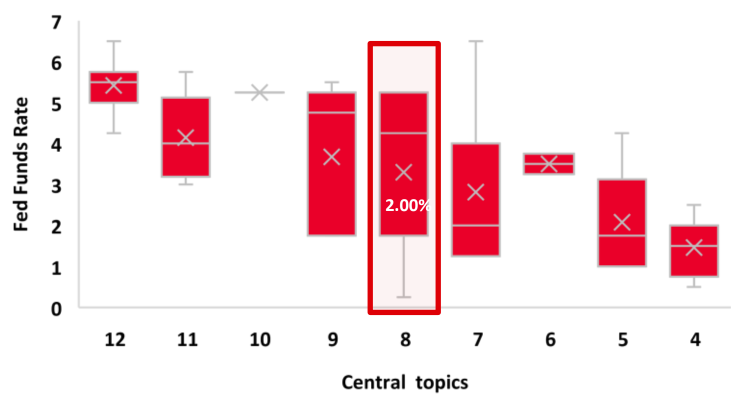
We have developed a model using natural language processing (NLP) techniques that classifies and interprets FOMC statements. In addition, the model allows us to confirm whether the communication made by the central bank is coherent with the monetary policy implemented (refer to: Welcome to the Machine (Learning): An NLP framework for analyzing the Fed's monetary policy statements).

The Fed's semantics allude to a terminal rate of 2% for the easing cycle. Although the Fed maintained the funds rate at 5.5% (upper bound) in its last monetary policy decision, our model suggested a more hawkish bias in Powell's speech following the announcement. Nevertheless, the model continues to rank the semantics of the statement with the central topic alluding to the restrictive 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 cycle in March 2022.

In this regard, the same topic can give us an estimate of the terminal rate for the 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 in the following cycle will stand at 2% (upper limit of the range, see the following chart).

We expect the Fed to make its first 25bps rate cut in September. It is worth noting that Powell's tone in the last monetary policy press conference was more hawkish than in May's meeting. Speaking to reporters after the last FOMC's decision, Powell pointed out that members will need more evidence to assess the possibility of cutting the target range for the federal funds rate. Nevertheless, recent economic data supports a rate cut. Core inflation has remained within a downward trend and has consistently surprised below market expectations. In addition, the pace of growth of the US economy has moderated and both conditions could allow the Fed to make its first 25bps rate cut in September. In addition, the recent trend in core inflation could support an additional rate cut in December and the reference rate could stand between 4.75% and 5% year-end.

Range of Fed Funds Rate by Topic
Central topics



Source: Banorte

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Hawk-o-meter – Interpreting the hawkish/dovish bias among 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.

Marginally less hawkish tone. Our classification model identified that 6 FOMC voting members increased their hawkish bias in the second quarter of 2024 relative to 1Q24 (Powell, Cook, Jefferson, Bowman, Daly, and Kugler). However, the 6 remaining voting members (Williams, Waller, Barkin, Mester, Bostic, and Barr) have shown a less hawkish tone in their recent speeches.

The hawkish tone in voting members' bias is probably due to their recent comments about needing evidence that inflation has declined enough to consider reducing rates. As a result, **the score generated by our Hawk-o-meter fell marginally from 0.28 in 1Q24 to 0.27 in the second quarter of 2024. This represents a 3.6% contraction in the average hawkish tone of the committee** (refer to the charts below).

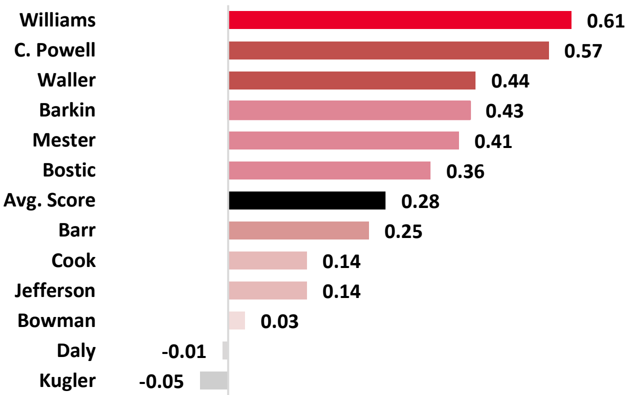
We anticipate that the first cut will be in September 2024. Our forecast is supported by the following factors:

1) A less-hawkish bias from certain FOMC voting members, as shown in the Hawk-o-meter;

2) Core inflation's recent downward trend; and

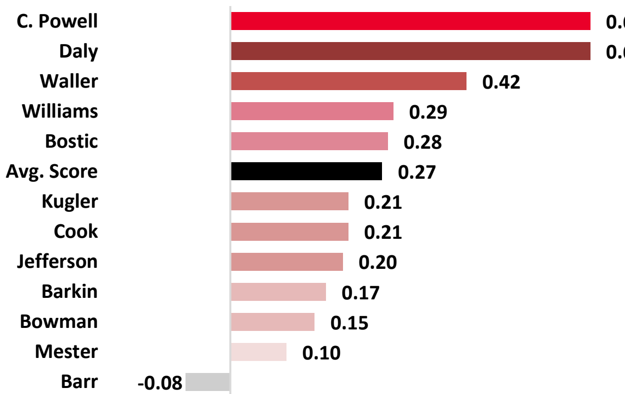
3) The slowdown in leading economic indicators, such as the significant increase in consumers' interest payments, the downward trend in the ISM Manufacturing PMI, and the rise in consumer NPLs.

Hawk-o-meter – 1Q24 Speeches
Speeches tone



Source: Banorte

Hawk-o-meter – 2Q24 Speeches
Speeches tone



Source: Banorte

Quantitative Analysis

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

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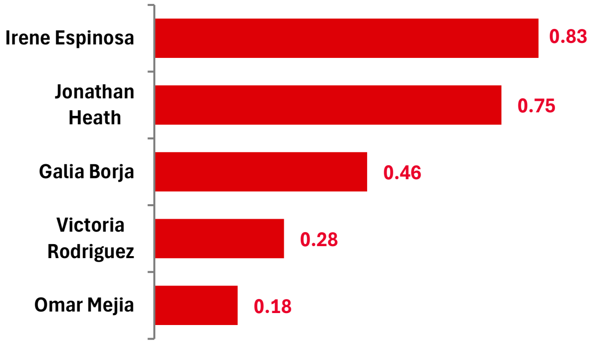
To classify and interpret the rhetoric of Banco de Mexico's Board, a Hawk-o-meter was built using natural language processing (NLP) techniques and machine learning (ML) models. Classification of Banxico's Board helps to identify those members who have a hawkish or dovish bias. In our model, a value between 0 to 1 refers to a hawkish tone, while a value between -1 to 0 refers to a dovish tendency.

The estimated model was trained using comments from the minutes of the monetary policy meetings since May 2018. For the training process, the transcripts of the minutes were used since they segment the comments of each of the 5 voting members. However, the transcripts have a limitation since they are available until July 2021. To assign the comments made by each member within the minutes after this date, we used an expert judgment analysis. It is important to note that, although this does not affect the model training process, there is certain subjectivity in classifying the comments using expert judgment.

The model confirms the restrictive stance of the Board. Our NLP model identified that all 5 members are biased towards maintaining a restrictive monetary stance. Nevertheless, our analysis of the minutes for June's monetary policy meeting shows a shift in the composition of bias among members of Banxico's Governing Board. Deputy Governors Irene Espinosa and Jonathan Heath had a greater hawkish bias in June vs the average bias observed in the first five months of 2024. In addition, Deputy Governor Omar Mejía now stands as the member with the lowest hawkish bias. For her part, Deputy Governor Galia Borja has a marginally less hawkish bias than in the previous months. Finally, Governor Victoria Rodríguez practically maintained the same hawkish bias.

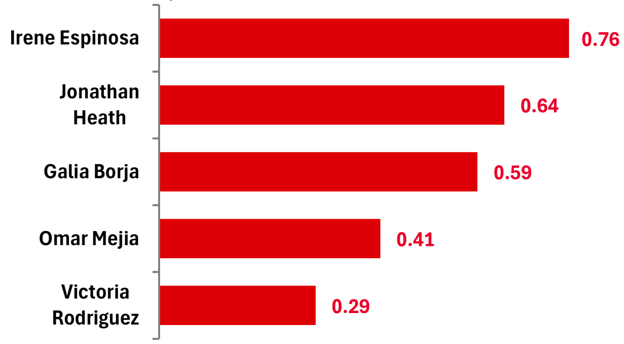
We expect Banxico to cut its reference rate again in August. After June's decision, in which Banxico left the reference rate unchanged, and Deputy Governor Omar Mejía was a dissenter (voting for a 25bps cut), while both Governor Victoria Rodríguez and Deputy Governor Galia Borja have alluded to the need of a less restrictive monetary stance. As a result, we consider that the central bank could cut the reference rate by 25bps at the August monetary policy meeting. Going forward and considering a complex environment in terms of geopolitical factors, we forecast two pauses, in September and November, with an additional 25bps cut in December. Thus, the reference rate would stand at 10.50% by year-end.

Tone of Banxico's Board Comments
Index; Jun'24



Source: Banorte

Tone of Banxico's Board Comments
Index; Jan'24 - May'24



Source: Banorte

Quantitative Analysis

Nowcasting Mexico's Private Consumption

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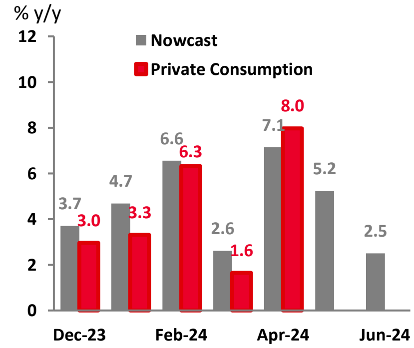
Private consumption has maintained an upward trend that is expected to continue in 2Q24. Economic indicators reveal that the labor market remains as one of the main pillars of GDP growth. Employment in construction and manufacturing have also sustained robust growth, driven by public infrastructure projects and private sector investments. For example, 72,555 new jobs were created in April-May, of which 33.7% were concentrated in these activities. Moreover, while workers' real wages increased 4.5% y/y overall, those in construction and manufacturing saw even higher increases of 7.2% and 5.1% respectively.

MXN appreciation boosted consumers' purchasing power. The Mexican peso gained 6.2% y/y against the dollar in April and May 2024. In our view, this had a notable impact on the trade balance, as evidenced by a substantial 30.6% y/y increase in non-oil consumer goods imports during this period. However, the depreciation seen in June could result in a slowdown in merchandise imports at the end of the quarter.

Higher stimulus to domestic demand. Commercial initiatives, such as the *Hot Sale,* Mother's Day, and Father's Day, gave a significant boost to the demand for goods and services. In April and May, monetary payments with credit/debit cards grew 3.0% compared to 1Q24, mainly driven by retail sales growth (2.5%). Light vehicle sales advanced 12.0% y/y, reaffirming the positive trend in domestic consumption. On the other hand, companies' electricity demand picked up 5.7% y/y in the same period, highlighting small businesses at 6.2% y/y.

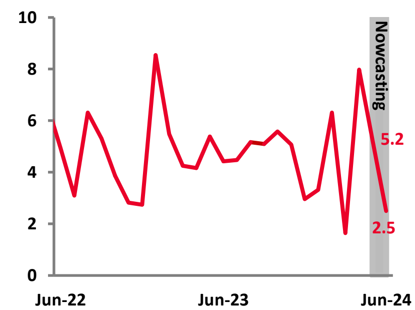
We expect 0.45 q/q growth in private consumption. Using Machine Learning models trained with historical and other related data, we estimate that private consumption will increase 5.23% and 2.50% y/y in May and June 2024, respectively (original figures). This represents 0.45% q/q, confirming that this variable remains as a key engine for Mexico's GDP growth.

Private consumption nowcasting model
% 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

- *Banxico minutes – Greater concerns on activity and lower core inflation lead us to expect a cut in August*, July 11, 2024, <pdf>
- *June inflation – Significant pressures in fruits and vegetables, albeit with the core better,* July 9, 2024, <pdf>
- *1Q24 GDP – Marginal upward revision that confirms a slow start to the year*, May 23, 2024, <pdf>
- *Analysis of the 2025 Preliminary Budget Criteria*, April 1, 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

- *Decoding Trump's Rhetoric through an NLP Framework,* June 26, 2024, <pdf>
- *Fed's monetary policy: We expect the first rate cut in December,* June 12, 2024, <pdf>
- *Hawk-o-meter: An AI approach to FOMC speeches,* April 17, 2023, <pdf>

Fixed-Income, FX, and Commodities

- *Fixed-Income and FX Weekly,* July 5, 2024, <pdf>
- *3Q24 Auction Calendar: More issuance in floating rates, with a reduction in fixed rates,* June 28, 2024, <pdf>
- *Government securities exchange auction results,* June 13, 2024, <pdf>
- *OPEC+: New plan will return some crude-oil to the market starting in October 2024,* June 5, 2024, <pdf>
- *Syndicated auction results of new 30-year Udibono (Oct'54),* May 17, 2024, <pdf>
- *Pension Funds Outlook - March 2024,* April 17, 2024, <pdf>
- *MoF's Annual Financing Plan 2024: Priority to the local market to meet higher funding needs,* December 20, 2023, <pdf>
- *FX Commission: Reduction of the FX NDFs program,* August 31, 2023, <pdf>
- *MXN is the third most traded currency in EM,* November 4, 2022, <pdf>

Equities

- *Flash GAP: Strengthens its participation in the cargo business,* June 14, 2024, <pdf>
- *Flash Airports: Asur stands out for showing the best performance,* June 10, 2024, <pdf>
- *Flash Volar: Passenger and capacity declines continue as anticipated,* June 10, 2024, <pdf>
- *Flash OMA: Surprises with a slight rise, supported by international traffic,* June 7, 2024, <pdf>
- *Flash ASUR: Colombia will continue to be the main driver,* June 7, 2024, <pdf>
- *Flash GAP: The declines will become more pronounced,* June 5, 2024, <pdf>

- *Flash: AMX Day: Consolidates its growth strategy. Higher shareholder remuneration is anticipated,* May 9, 2024, <pdf>
- *Flash LAB: Divestments in "non-core assets" advance,* May 6, 2024, <pdf>

Corporate Debt

- *Corporate Bond Market Review: JUNE 2024,* July 4, 2024, <pdf>
- *Pemex 1Q24: Tax reduction offsets revenue declines and the effect from Mexican peso strength,* April 30, 2024, <pdf>
- *ESG Corporate Bonds – 1Q24,* April 23, 2024, <pdf>
- *Moody's downgraded PEMEX's rating to 'B3' and maintains Negative outlook,* February 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>

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		Jul-11-24	
Tactical longs in Udibono Nov’35		Jul-5-24	
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	P2	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, 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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