

Winds of stagflation and new global challenges

2025 Quarterly



April 10, 2025

2Q25 Outlook

Winds of stagflation and new global challenges

The first 100 days of President Trump's administration are almost here, and the global economic landscape has shifted significantly from the expectations at the start of the year. The protectionist agenda pursued by the United States –reflected in [new trade tariffs, despite the 90-day pause](#)– have not only reshaped the rules of international trade, but have also introduced meaningful headwinds for global economic growth. In fact, it has reinforced the narrative of “stagflation”, which combines low dynamism in activity –and even contractions, as in some years during the 1970s– with inflationary pressures, posing a dual challenge for policymakers and financial markets alike.

This backdrop has complicated meaningfully the deployment of both monetary and fiscal policies in every region. Amid an ongoing cycle of monetary easing in several latitudes, central banks –including the Federal Reserve– are weighing the risks of a deeper slowdown against the potential upside to prices in case of an extended trade war. In several cases, recession concerns appear to be taking priority, which could prompt more interest rate cuts. On the fiscal front, most countries are maintaining countercyclical measures, exacerbating risks for growth. Nevertheless, at least three notable exceptions stand out: (1) Germany, which is deploying strong fiscal stimulus; (2) the United States, aiming to preserve enough fiscal room to keep an expansionary stance going forward; and (3) China, announcing stimulus packages and with ample willingness to unveil more support to domestic consumption if the need arises.

In financial markets, these changes have led to a rethinking of investment strategies. At the beginning of the year, we observed high optimism on assets tied to a strong U.S. economy and pro-market policies under Trump. Long positions in equities, energy, industrial commodities and the dollar, or short positions in long-term rates, were among the most popular trades. However, the recent evolution has triggered significant price adjustments, accompanied by a rotation towards more defensive portfolio positioning amid heightened uncertainty and stagflation risks.

In Mexico, the external backdrop has led to additional downward revisions in GDP growth forecasts despite more contained tariff threats relative to other countries. Also, to a more cautious view on local assets, including the peso, equities, and other financial instruments. This quarter, the market's attention will be on the evolution of Mexico-U.S. relations –especially around trade–, the pace of the economic slowdown, the outlook for further monetary easing, the fiscal path after the recent release of the [Preliminary Budget Guidelines](#) (Pre-Criterios), Judicial branch elections, and the next stages in the implementation of the “Plan México”.

Mexico's main macroeconomic and financial forecasts

End of period

	1Q25	2Q25	3Q25	4Q25	2023	2024	2025	2026
GDP (% y/y)	0.0	-1.3	0.2	2.9	3.3	1.5	0.5	2.0
Inflation (% y/y)	3.8	3.7	3.6	3.8	4.7	4.2	3.8	3.9
USD/MXN	20.47	21.20	21.60	21.40	16.97	20.83	21.40	20.80
Banxico's reference rate (%)	9.00	8.25	7.75	7.75	11.25	10.00	7.75	7.00
Funding TIIE (%) ^{1,4}	9.05	8.28	7.76	7.77	11.45	10.20	7.77	7.05
28-day Funding TIIE (%) ^{2,3,4}	9.47	8.40	7.88	7.89	11.31	10.27	7.89	7.17
Mexbol (points)	52,484	-	-	54,000	57,386	49,513	54,000	-

* Underlined figures represent our forecasts. Source: Banorte

1. The TIIE for one-day funding, as determined by the Bank of Mexico, is based on wholesale transactions carried out by banks and brokerage firms for one-business-day term repo operations collateralized with debt securities issued by the Federal Government, IPAB, and the Bank of Mexico, and which have been settled at INDEVAL's delivery-versus-payment system. 2. The 28-day Funding TIIE is compounded in advance. 3. As of January 1, 2025, the use of the 28-day TIIE for new contracts is prohibited. Financial institutions must reference the Funding TIIE instead. 4. Calculated daily by Banxico since 2020.



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Mexico

Lower GDP growth in 2025. This year's outlook was quite daunting even before it began. While Mexico has managed to mitigate some of the tariff risks so far, uncertainty about Trump's future actions and the evolution of the new global trade order represent significant headwinds. Some of the ramifications are already reflected in lower business confidence –translating into meaningful challenges for investment– and consumer sentiment –with greater caution in spending, especially in discretionary items. Based on this situation and hard data already published, [we recently revised down our GDP estimate for this year to 0.5%](#) (previous: 1.0%). One of the key assumptions of the new forecast is that tariffs against our country will remain in place throughout the summer. However, bilateral negotiations will continue, helping to achieve further exemptions. Some measures may even be intermittent. We think that this will cement an early review process of USMCA in 2H25, key for bringing greater clarity to the trade relationship between these countries. In addition, other factors will provide some support to activity, including: (1) Additional easing by Banxico; (2) current resiliency in fundamentals, most notably wage growth; and (3) social programs and remittances in local currency. For 2026, we anticipate a 2.0% expansion due to greater certainty about the outlook for trade and investment, the positive spillovers from the celebration of the hosting of some soccer World Cup matches in the country, and a more accommodative monetary stance.

Banxico will extend its easing cycle, with concerns about activity and more stable inflation. Price dynamics at the beginning of the year have been favorable given consistently positive surprises in bi-weekly figures, especially at the non-core level. Considering this and other encouraging factors in said category (e.g. agreement to cap the price of low octane gasoline, higher OPEC+ production), [we lowered our forecast for headline inflation](#) to 3.8% (previous: 4.0%). However, we adjust upwards our core inflation estimate to 3.8% (previous: 3.6%) based on a more complicated start to the year and as we see greater pressures towards the end of the period given our call that Mexico could impose tariffs on some imports coming from China. For 2026, we anticipate a slight acceleration in the headline to 3.9% on an improved economic outlook, with the core moderating towards 3.7%. In this environment, [Banxico has maintained a dovish tone](#), more concerned about growth –acknowledging the adverse impact from tariffs– and a better inflation outlook. Thus, we expect an additional 50bps cut in the May 15th, with further reductions throughout the year bringing the benchmark rate down to 7.75% by the end of period. Toward 2026, we expect the accommodative cycle to continue, albeit at a more moderate pace, with cumulative cuts of 75bps over the year, bringing the rate down to 7.00%.



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GDP: Aggregate Demand

% y/y nsa, % q/q sa

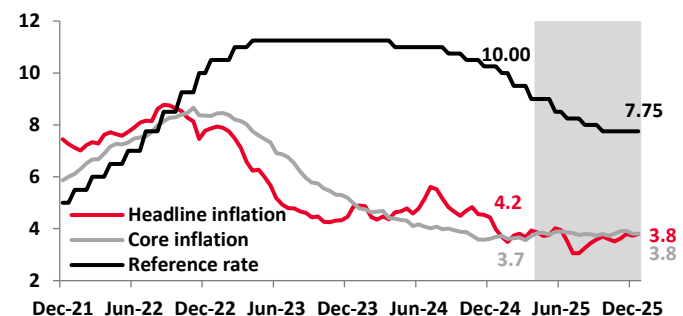
%	1Q25	2Q25	3Q25	4Q25	2025	2026
GDP (% y/y)	<u>0.0</u>	<u>-1.3</u>	<u>0.2</u>	<u>2.9</u>	<u>0.5</u>	<u>2.0</u>
Private consumption	<u>0.4</u>	<u>-0.7</u>	<u>0.0</u>	<u>2.8</u>	<u>0.6</u>	<u>1.9</u>
Investment	<u>-1.3</u>	<u>-5.0</u>	<u>-2.7</u>	<u>0.4</u>	<u>-2.1</u>	<u>1.3</u>
Government spending	<u>-0.7</u>	<u>-3.2</u>	<u>-3.6</u>	<u>-3.2</u>	<u>-2.7</u>	<u>-0.9</u>
Exports	<u>7.9</u>	<u>4.5</u>	<u>1.0</u>	<u>-0.3</u>	<u>3.1</u>	<u>3.3</u>
Imports	<u>2.8</u>	<u>-0.1</u>	<u>-0.1</u>	<u>-0.4</u>	<u>0.5</u>	<u>1.5</u>
GDP (% q/q)	<u>-0.4</u>	<u>0.4</u>	<u>1.1</u>	<u>1.3</u>	--	--

* Note: Underlined figures represent our forecasts.

Source: Banorte

Inflation and reference rate

% y/y; %



Source: INEGI, Banxico, Banorte

United States

A year of lower economic growth, but not a recession. Activity has begun to show signs of lower dynamism after a plethora of executive orders signed by President Trump to implement tariffs on all its trading partners. Everything points towards a pronounced slowdown in 1Q25 GDP, with our estimate for the period at only +0.5% q/q saar. Household spending has decelerated due to higher-than-expected interest rates, elevated delinquency rates—especially in credit cards—and a sharp deterioration in consumer confidence on fears about the economic impact from tariffs. Furthermore, companies are increasingly cautious about their CAPEX decisions, waiting for a clearer outlook. We estimate a strong negative contribution from net exports to GDP during the first quarter (-2.5pp) as businesses have brought forward their imports of goods to avoid supply chain distortions and price increases due to the tariffs. The second quarter will also exhibit low growth, albeit with net exports rebounding to a positive contribution (1.5pp). We are lowering our full-year 2025 GDP growth forecast from 2.4% to 1.7% on the back of a loss of momentum, high uncertainty, and lower confidence.

The labor market remains solid. Employment has stayed resilient despite lower economic dynamism and the measures implemented by the Department of Government Efficiency (DOGE). Average monthly job creation in the first three months of the year stood at 152k with the unemployment rate at 4.2%, very close to full employment (4.0%). However, we expect to see additional and gradual weakness due to: (1) DOGE's plan to cut half a million public sector jobs; and (2) stronger restrictions to the labor supply on Trump's immigration policies. With this, we anticipate job creation to moderate and the unemployment rate to reach 4.4% by the end of 2025. Nevertheless, the labor market will remain relatively healthy as we do not anticipate a recession.

Upside risks to inflation. Since September last year, the downward trend in annual inflation has stagnated, with this metric still above the Fed's 2.0% target. However, the last two reports have been favorable. Currently, the main concern is the impact that the tariffs already implemented could have on import prices, especially those against major trading partners such as China, the European Union, Japan, and, to a lesser extent, Mexico and Canada. Inflation expectations have begun to rise, and the Fed no longer classifies the potential impact on inflation as "transitory", instead suggesting it could be "persistent." We estimate this year's inflation at 2.8%.

All in all, the Fed will remain cautious. The central bank has been clear in signaling that there is no rush for immediate actions and that they will wait for additional data to assess the path of employment and inflation. We maintain our view of only two -25bps cuts this year, in June and December. This contrasts with market pricing, consistent with three or four cuts amid growing fears of a recession as soon as this year.

US: Banorte Estimates*

	2024	1Q25	2Q25	3Q25	4Q25	2025*
GDP (% q/q annualized rate)*	2.8	0.5	1.7	1.0	1.1	1.7
Private Consumption	2.8	0.8	1.1	1.2	1.4	2.0
Fixed Investment	3.7	0.4	0.4	1.3	1.2	0.6
Exports	3.3	1.2	0.8	1.1	0.8	1.8
Imports	5.3	9.1	-2.2	1.0	1.7	3.4
CPI (% y/y, average)	3.0	2.7	2.5	2.8	2.8	2.7
Unemployment rate (% eop)	4.1	4.2	4.3	4.4	4.4	4.4
Non-farm payrolls (thousands)	2,232	456	400	340	280	1,476

* All GDP estimates are % q/q saar, except for full-year 2024 and 2025, which are % y/y. eop: end of period.
Source: Banorte



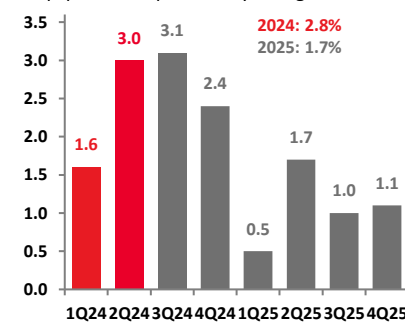
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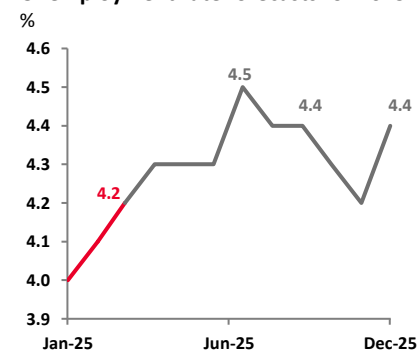
GDP*

% q/q saar except for full year figures



* Note: Gray bars correspond to Banorte's estimates
Source: Banorte with data from BEA

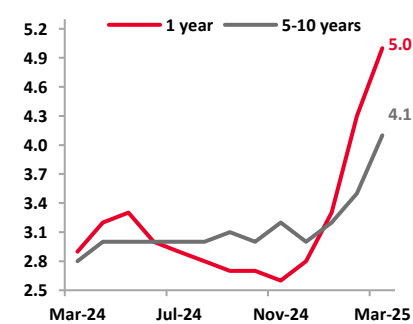
Unemployment rate forecasts for 2025*



* Note: Data in gray are Banorte's estimates.
Source: Banorte

Inflation expectations

% annual



Source: Banorte with data from University of Michigan

Global

A global trade war? Trump's campaign promises of implementing tariffs have been materializing. In terms of their magnitude, the outcome so far has been stronger and broader than anticipated. We have seen announcements in specific sectors such as autos, on targeted products such as steel and aluminum, and to 185 countries or regions (reciprocal tariffs), with higher magnitudes on those in which the US has the largest deficits. The strategy remains very erratic, with the President informing yesterday a 90-day pause in the latter measures and a base level of 10% to all countries that have refrained from retaliating. He has also promised more actions in pharmaceuticals and to investigate practices on goods such as copper and timber, to name a few. Considering only the measures up to the close of April 2nd, the Tax Foundation estimated that the average US tariff rate would reach 18.8%, its highest level since 1933. Studies show that this will lead to lower growth and higher inflation, with the magnitude of the impact depending largely on: (1) The responses of the affected countries; and (2) the enforcement period as additional deals could be reached to reduce, pause, or eliminate them.

The most aggressive compensatory measures have been from China. Trump has stated that they are willing to negotiate with their trading partners despite not considering the removal of reciprocal tariffs. Beijing was taxed at 34% because of this concept, which was added to the 20% tariffs already implemented since February. The Asian country responded rapidly, imposing a 34% duty on all imports from the US, among other measures. Trump had already warned China that an additional hike was in the cards if they did not remove them. The latter materialized. All in and as of this edition's close, China's rate stood at 84% and the US lifted it to 145%. In the Eurozone, the European Commission proposed a range of 10% to 25% starting on May 16th, in addition to other duties that would take effect on December 1st. However, they simultaneously proposed a bilateral exemption on autos and other industrial goods. Trump answered by saying that the US trade deficit with that region would quickly disappear if Europe purchased energy from them. For its part, Canada announced 25% tariffs on autos produced in the United States. Meanwhile, Japan and the United Kingdom have been more conciliatory. In a similar fashion, Vietnam offered a complete removal of all existing tariffs to US products after the latter imposed a 46% tariff.

According to the Peterson Institute for International Economics (PIIE), these tariffs will affect the US most where it derives the greatest benefits from international trade. They strongly criticized the detailed calculations published by the Office of the United States Trade Representative (USTR) to determine county-level tariffs. They argue that: (1) The plan demonstrates a fundamental and basic lack of understanding of why nations exchange goods and services with each other; (2) US trade will be most affected with those countries from which it benefits the most, as this is reflected in deficit levels; and (3) the end result will be a direct impact on US consumers and businesses. On the last point, they warned that if the US enters a recession due to these measures and partners' responses, the trade deficit could improve, but because of a sharp decline in consumption and investment.

Some countries are preparing stimulus measures to soften the impact on GDP growth. Measures aimed at mitigating the effects of tariffs have already been announced. Among them, Japan is considering cash handouts, a supplementary budget and support for affected business sectors. China has shown greater flexibility in allowing an orderly depreciation of the yuan to absorb the shock. Another question is whether the feared impact will induce more accommodative monetary policies. The issue is complex since tariffs could also drive up inflation, which would limit their capacity to respond.



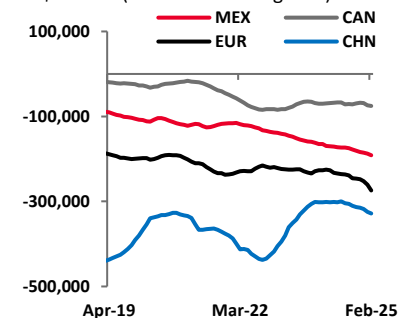
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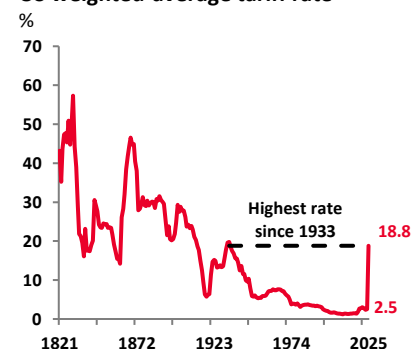
US trade deficit by country

US\$ million (12-month moving sum)



Source: Banorte with data from US Census Bureau

US weighted-average tariff rate*



* Note: The 2025 rate corresponds to the Tax Foundation's estimate up to April 2nd
Source: Banorte with data from the Tax Foundation

US reciprocal tariffs*

Country	Tariff
European Union	20
China	34
Japan	24
Mexico	0
Canada	0
United Kingdom	10
Vietnam	46

* Note: Considering only the April 2nd announcement, not previous or specific tariffs on other goods.
Source: Banorte with data from the White House

Fixed Income (Sovereign Debt)

Sovereign bonds rallied in 1Q25. Nominal yield curves in both the US and Mexico bull steepened sharply, driven by an outperformance in the short-end relative to longer maturities. Rate dynamics were deeply influenced by rising expectations of central bank rate cuts and mounting concerns about a global economic slowdown. US Treasuries gained 30bps during the quarter, with the yield of the 2-year note closing at a six-month low of 3.88%. Meanwhile, the Mbono curve rallied up to 134bps at the short-end and 80bps in long-term tenors. All securities in the latter zone of the curve returned below the key psychological threshold of 10.00%. Given the stronger performance of local rates relative to US Treasuries, spreads compressed significantly. The Mexican risk premia –measured as the 10-year yield spread– declined to a 12-month low of 513bps, down from 587bps at the end of 2024 and a 3-year average of 550bps.

We see further room for lower yields. We acknowledge that market conditions have shifted relative to our views at the start of the year. In particular, the narrative of US ‘exceptionalism’ has lost traction. This has weighed further on Mexico’s already fragile growth outlook. As a result, Banxico’s policy bias has turned more dovish. In addition, it is worth highlighting that the US administration keeps favoring explicitly the reduction of long-term interest rates. In this respect, the 90-day correlation between 10-year Mbono and UST yields has risen to 0.45 after reaching multi-year lows of 0.28 earlier this year, with the latter level not seen since 2021. Our fair value models suggest room for lower nominal yields and steeper curves. Specifically, we forecast the 10-year Treasury at around 3.80% by year-end. Locally, our models point towards greater relative value in short- and mid-term Mbonos. That said, heightened global risk aversion and already-tight spreads vs the US will likely cap further upside for Mexican fixed income. Given global uncertainty and the potential asymmetry tied to tariff irresolution, we remain strictly in relative value strategies. In this context, and despite maintaining a view of steeper curves ahead, today we take profit on our trade recommendation of a [2s10s steepener in TIIE-F IRS](#) (current: 72bps, entry: 30bps, target: 65bps, stop-loss: 15bps). The strategy accumulated a capital gain of 31bps, after discounting the negative effect of carry/roll (around -11bps), during the 83 days it remained open. We also maintain our idea based on [paying 10-year TIIE-F, simultaneously receiving SOFR of the same tenor](#) (current: 457bps, entry: 473bps, target: 505bps; stop-loss: 450bps). Lastly, we do not see Udibonos as attractive enough at current levels, still favoring nominal rates after revising our inflation forecasts to the downside.

Banorte: Interest rate forecasts

%

Security	2021	2022	2023	2024	2024				2025			
					1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Banxico's reference rate												
End of period	5.50	10.50	11.25	10.00	11.00	11.00	10.50	10.00	9.00	8.25	7.75	7.75
Average	4.38	7.65	11.14	10.85	11.22	11.00	10.84	10.34	9.67	8.58	8.00	7.75
28-day Cetes												
End of period	5.51	10.09	11.24	10.01	11.00	10.92	10.33	10.01	9.02	8.29	7.77	7.80
Average	4.44	7.72	11.13	10.76	11.18	11.00	10.75	10.13	9.53	8.62	8.02	7.80
28-day TIIE-F												
End of period	5.22	10.32	11.31	10.27	11.26	11.05	10.76	10.27	9.47	8.40	7.88	7.89
Average	4.37	7.47	11.15	10.96	10.30	10.08	10.96	10.51	9.85	8.73	8.13	7.89
10-year Mexican bond (Mbono)												
End of period	7.57	9.08	8.94	10.42	9.27	9.86	9.34	10.42	9.34	8.75	9.15	8.85
Average	6.81	8.80	9.13	9.66	9.21	9.83	9.61	9.98	9.83	9.05	8.95	9.00
10-year US Treasury												
End of period	1.51	3.87	3.88	4.57	4.20	4.40	3.78	4.57	4.21	3.75	4.00	3.80
Average	1.44	2.95	3.95	4.21	4.15	4.44	4.04	4.28	4.45	3.98	3.88	3.90
10-year Spread Mex-US												
End of period	606	521	506	585	507	546	556	585	513	500	515	505
Average	538	585	518	545	506	539	557	570	538	507	508	510

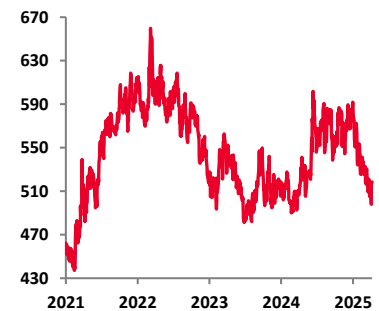
Source: Bloomberg and PiP for observed data, Banorte for rate forecasts. Underlined numbers indicate forecasts



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10-year Mbono-UST spread

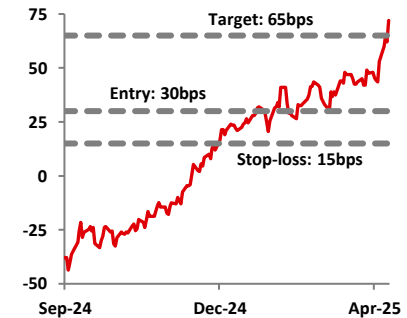
Basis points



Source: Bloomberg, PiP, Banorte

2s10s spread in TIIE-F swaps

Basis points



Source: Banorte, Bloomberg

The new benchmark rate: Overnight TIIE Funding

What is the Overnight TIIE Funding Rate? It is the risk-free rate in Mexico, which is based on real market transactions. The Overnight TIIE Funding Rate (TIIE-F), determined by [Banxico](#), is calculated using repo operations collateralized with government, IPAB, and Banco de México securities, traded by banks and brokerage firms in the wholesale market and settled through INDEVAL's delivery-versus-payment (DVP) services. Banxico calculates and publishes it since January 2020, along with historical series available since January 2006.

Determination of longer-term interest rates. The composition of term rates (28-, 91-, and 182-day) from the Overnight TIIE Funding Rate can be made "in advance" or "in arrears". The former are Compounded in advance Overnight Funding TIIE, [published by Banxico every business day](#), and are known at the start of the interest period. Specifically, for each business day, its composition is based on the Overnight TIIE Funding Rate during the previous 28 calendar days to calculate 28-, 91-, and 182-day tenors. For the latter, interest rates are determined until the end of the interest period.

Why did the Overnight TIIE Funding Rate replace the 28-day TIIE? In line with international efforts to adopt best practices and strengthen operating conditions in fixed-income markets, Banxico developed a new rate that complies with the principles recommended by the Financial Stability Board, BIS, and IOSCO. The goal is to prevent risks arising from the deficiencies in the design for the determination of interest rates in the past. These included possible market manipulation, lack of liquidity and transparency, as well as inefficiencies in the transmission of monetary policy, among other issues. The most relevant examples of this migration are LIBOR to SOFR by the Fed, LIBOR to SONIA by the BoE, EONIA and EURIBOR to €STR for the ECB, and LIBOR to TONA in the case of the BoJ, among others.

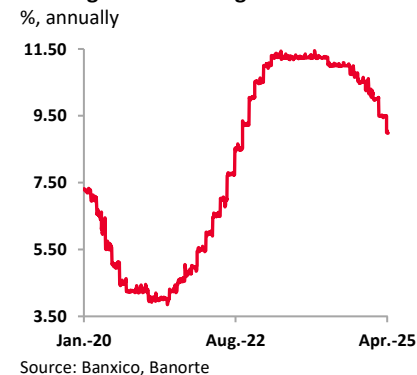
What are the main differences? The Overnight TIIE Funding Rate is authentically generated from market quotations based on collateralized transactions. It is [calculated](#) as the volume-weighted median of new repos observed in intraday trading. The official source for the TIIE Funding methodology is [Circular 3/2012](#). On the contrary, the 28-day TIIE was not collateralized and was obtained with the results of an auction with at least six quotes submitted by Banking Institutions (*Instituciones de Banca Múltiple*, in Spanish). In addition, this rate did not represent a risk-free benchmark since it included a credit risk component associated with banks, resulting in higher levels relative to the Overnight TIIE Funding Rate.

The use of 28-, 91-, and 182-day TIIE is prohibited for new contracts. Regulation prohibits the use of 91- and 182-day TIIE for new contracts after January 1st, 2024, and the 28-day TIIE was prohibited since January 1st, 2025 (for variable-rate loans, repos, and as the underlying asset in derivatives, among others). However, outstanding contracts signed before these dates may continue to use them until expiration. In other words, the 28-, 91- and 182-day TIIE has not disappeared and, in fact, is still published. However, Banxico changed its methodology, which is now also based on market transactions. Specifically, these rates are obtained from the Compounded Overnight Funding TIIE for the same term plus the median spread between them, which is 24bps for all maturities (see first table on the right). The latter level was calculated with the median spread observed between TIIE and Compounded Overnight Funding TIIE for the same tenor using a 5-year history (November 2017 - October 2022), which included periods of both tight and easy monetary policy. All in all, Overnight TIIE Funding Rates will become the key benchmarks of Mexico's money market.

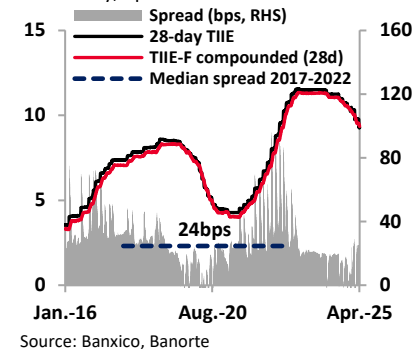


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Overnight TIIE Funding Rate



Compounded in advance Overnight Funding TIIE for 28 days and 28-day TIIE



Changes in methodology for outstanding and new contracts

Signed before January 1st, 2024	
91-day TIIE =	Compounded in advance Overnight Funding TIIE for 91 days + 24bps
182-day TIIE =	Compounded in advance Overnight Funding TIIE for 182 days + 24bps
Signed before January 1st, 2025	
28-day TIIE =	Compounded in advance Overnight Funding TIIE for 28 days + 24bps
New contracts	
Overnight TIIE Funding Rate	

Source: Banxico, Banorte

Determination of longer-term interest rates

In advance	The rates are known at the beginning of the interest period
In arrears	The rates are known at the end of the interest period

Source: Banxico, Banorte

Foreign Exchange

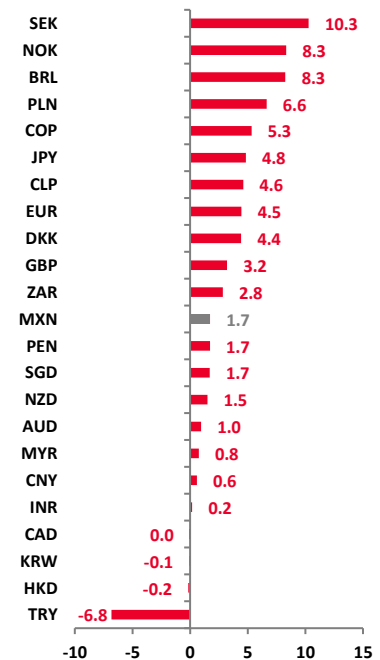
The dollar will remain weak on a complex policy balance. In 1Q25, USD/MXN ended right on our 20.50 per dollar forecast (-1.7%), trading within a range that was also broadly aligned with our projections. On the contrary, the USD (DXY: -3.9%) was more of a surprise, diverging from our view. The notion of US 'exceptionalism' has been put increasingly into question amid rising concerns about the outlook for GDP growth, with the stagflation scenario gaining traction at the margin due to tariff developments. Simultaneously, the narrative outside of the US has improved. Against this backdrop, we believe the dollar's bias has turned more negative for the coming months. In the near term, we do not rule out technical rebounds or potential consolidation in broad indices, given that: (1) The currency is likely factoring-in many negatives already, much of it visible in the aggressive market pricing for Fed cuts that contrasts with our call; and (2) recent CNH performance suggests that the PBoC may be ready to engineer a gradual depreciation. Nonetheless, from a broader perspective, we believe asset rotation away from the US will probably persist on the back of the erosion of confidence in public policies and their implications for the economic outlook, which would induce sustained pressure in the currency. Meanwhile, a notable shift in fiscal policy in the Eurozone has emerged with Germany's plans for higher public spending. This has improved the outlook for the region's growth prospects despite sizable global trade headwinds. As such, we now expect EUR/USD to close the year at 1.12, with the DXY hovering around 100pts. Uncertainty has proven to be unusually elevated, which we believe is highly likely to remain over the course of the current quarter. For the time being, the visibility about fiscal and spending proposals that could support the USD remains low. In this context, the dollar's correlations with other assets have shifted. Notably, the currency has not benefited from higher safe-haven demand, which typically supports it. We believe that current conditions do not make the case for a likely a coordinated agreement to weaken the USD, even if the current administration has openly expressed a preference for a weaker USD and lower rates.

We maintain our USD/MXN year-end forecast at 21.40. Despite our structurally bearish USD outlook, the Mexican peso still faces a particularly challenging year. Mexico has found itself in a more favorable position in trade *vis-à-vis* other countries as it was not included in the [US reciprocal tariffs](#). Nonetheless, negotiations are still taking place and far from a definite resolution. In our view, this will keep volatility high in upcoming months. At the same time, MXN's historically high and positive beta to US growth should be added to weaker domestic momentum, both of which weigh on the currency's strength. In this sense, Banxico's faster easing pace relative to the Fed will gradually erode the MXN's carry advantage. Meanwhile, Brazil –which is Mexico's main regional competitor for financial flows– keeps hiking its policy rate. Looking ahead into 2026, we believe that volatility spikes that have pushed the short-term risk premium higher will subside as clarity around the bilateral relationship with the US improves, leading to a notable reduction in uncertainty. This would allow the Mexican peso to trade closer to its fair value, which we currently estimate around 20.50 per dollar. All in all, we forecast a year-end level of 20.80.



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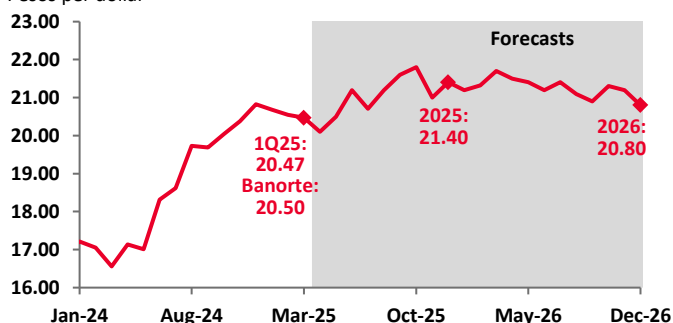
1Q25 performance % against the USD



Source: Banorte, Bloomberg

USD/MXN Forecasts

Pesos per dollar



Source: Bloomberg, Banorte

USD/MXN forecasts

Pesos per dollar

Period	End of period	Forecast end of period	Period average
1Q25	20.47	<u>20.50</u>	20.57
2Q25		<u>21.20</u>	<u>20.60</u>
3Q25		<u>21.60</u>	<u>21.17</u>
4Q25		<u>21.40</u>	<u>21.40</u>
1Q26		<u>21.70</u>	<u>21.41</u>
2Q26		<u>21.20</u>	<u>21.37</u>
3Q26		<u>20.90</u>	<u>21.14</u>
4Q26		<u>20.80</u>	<u>21.10</u>

Source: Bloomberg, Banorte *Underlined numbers indicate forecasts

Stock Market indices

Limited due to downgraded economic growth expectations and low risk appetite. In 1Q25, the sample of 30 indices that we track gained 6.7% in USD on average. However, divergence among regions was evident, with notable declines in major US indices. The Dow fell 1.3%, the S&P500 -4.6%, and the Nasdaq -10.4%. Specifically, the latter was affected by negative sentiment towards tech companies. The inflection point was the disruption triggered by the Chinese Artificial Intelligence (AI) company DeepSeek, who trained an “efficient enough” large language model with a much lower investment than its Western counterparts. This caused a heated controversy about the growth prospects and business models of US peers (e.g. Nvidia, which fell 19.3% in the quarter). It also exacerbated lingering questions about the sustainability of high valuations in Tech, particularly among the 'Magnificent Seven'. Just in this period, the latter group accumulated a 16.0% price correction. This situation, coupled with growing fears about US growth, strongly increased doubts about its so-called 'exceptionalism'. Meanwhile, strong fiscal stimulus in Germany convinced investors to rebalance their portfolios, favoring the European market (e.g. Eurostoxx +12.0%, German Dax +15.8%), among others. This has been compounded by pessimism about the potential effects from [reciprocal tariffs](#). We believe that investors will continue reallocating towards economies less dependent on the US and more defensive sectors in this environment. The performance of US indices will depend on: (1) Recession probabilities; (2) inflationary pressures stemming from tariffs and their impact on companies' costs and margins; (3) the response from central banks in terms of interest rate cuts; and (4) earnings sustainability. On the latter, the 1Q25 earnings season is about to kick-off, with Bloomberg consensus anticipating earnings per share growth for S&P500 companies of 6.7% vs +13.5% y/y in 4Q24.

We trim our S&P500 year-end estimate from 6,750 to 6,100pts... Following our downward revision of US GDP growth, we cut our earnings per share (EPS) expectation for S&P500 companies. We now estimate +5.0% in 2025 (vs. 11.0% previously). Similarly, we cut the premium on the valuation multiple of the 'Magnificent Seven' relative to the S&P500 after the disruption generated by Deepseek. The contribution of big techs to the index's value still accounts for approximately 30%, but we now see them adding 0.4pts to the total S&P500 valuation (P/E) vs ~2.0pts previously. Specifically, this group would return to its 5-year average valuation of ~23.1x (vs ~33.0x in the last two years). Accordingly, the revision now reflects an S&P500 P/E *fwd* multiple of 21.4x vs 21.7x before. We identify the best opportunities in Communications, Energy, Industrials, Materials, and Healthcare.

...and we reiterate Mexbol at 54,000pts. The Mexbol recovered part of its 2024 losses during the first quarter with +8.2% in USD and +6.0% in MXN. However, the index valuation remains depressed and well below historical averages with a FV/EBITDA multiple of 5.0x. Appetite for risk assets is likely to remain dampened due to Mexico's strong economic dependence and ties with the US. We still do not see clear and sustained catalysts yet. Moreover, risks for earnings growth have increased after [revising our GDP forecast to the downside](#). However, [expectations of lower interest rates](#) would mostly offset weaker economic growth. Consequently, our 54,000pts estimate remains unchanged. We now anticipate +2.5% y/y EBITDA for companies in the index (vs +3.2% previously) and reiterate our 5.3x FV/EBITDA multiple. In our view, an additional re-rating will be limited so long as the narrative towards Mexico remains without a meaningful breakthrough. In our **top-picks**, we reaffirm [Femsa](#), [Fmty](#), [Gap](#), [Gentera](#), [Kof](#), and [Lacomerc](#), which are in defensive sectors, with limited risks and modest exposure to tariffs.



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S&P500 forecast for 2025

Pts

P/E Fwd	S&P500	Potential Return (%)
22.0	6,271	14.9
21.7	6,185	13.3
21.4	6,099	11.8
21.1	6,014	10.2
20.8	5,928	8.6

Source: Bloomberg, Banorte

Mexbol forecast for 2025

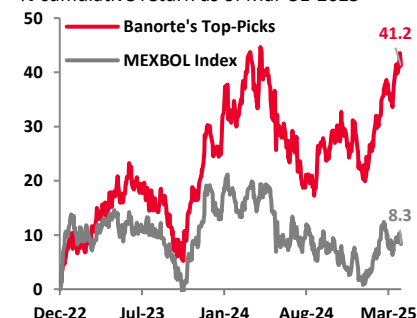
Pts

FV/EBITDA	Mexbol	Potential Return (%)
5.7x	59,937	14.1
5.5x	56,989	8.5
5.3x	54,040	2.9
5.1x	51,091	-2.7
4.9x	48,143	-8.3

Source: Bloomberg, Banorte

Top-picks vs Mexbol since 2023*

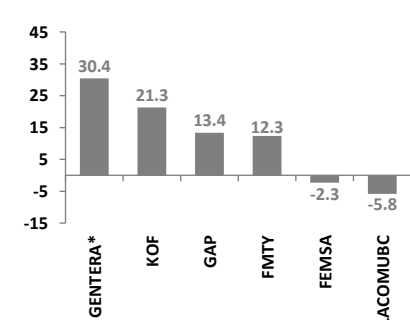
% cumulative return as of Mar-31-2025



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

Top-picks performance*

% cumulative return as of Mar-31-2025



* Note: (1) Relative performance vs Mexbol since their inclusion as top-picks: Gentera +38.4pp; Kof +18.3pp; Gap +13.2pp; Fmty +9.3pp; Femsa +1.2pp; and Lacomerc +1.2pp
Source: Bloomberg, Banorte

Commodities

Most commodities kicked off 2025 on a strong footing. The BCOM and GSCI indices rose 7.7% and 3.4% q/q, respectively. Precious metals led the rally, with gold up 19% q/q and silver advancing 17.9%. In contrast, industrial metals such as iron ore (-1.9%) and aluminum (-0.7%) ended lower.

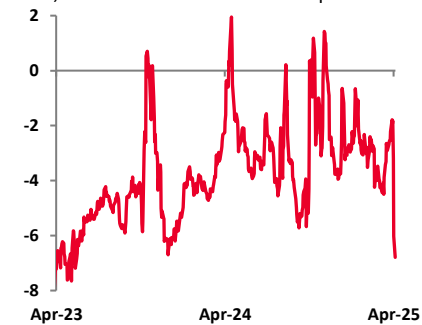
Bearish risks for crude oil. We maintain a view of lower crude oil prices as market conditions point to a surplus. First, downside risks to global demand are growing amid heightened concerns about a global economic slowdown. The weakening trade relationship between the US and China –by far the largest global consumers– stands out. Second, a higher global supply is expected. US inventories keep climbing and currently sit above its 3-year average, while [OPEC+ resumed higher output goals in April](#), gradually bringing back approximately 2.2 Mbbl/d. In May, this group surprised markets with an increase of 414 Kbbl/d, three times above expectations. OPEC+ will reassess its output each month, with the next meeting scheduled for May 5th. Lastly, market sentiment has turned decisively bearish. Net long positions in US crude futures (WTI) are hovering near their lowest in more than a year, while demand for downside protection has surged. This is evident in the collapse of the 3-month risk reversals, which stand close to two-year lows (first chart on the right). In this backdrop, [our bearish bias on Brent for 2025 has played out well](#). Given recent price action and a more challenging fundamental backdrop, we revise our Brent forecast to a range between 55–75 \$/bbl for the rest of the year ([previous: 60–80 \\$/bbl](#)). In gasoline, seasonal pressures are likely to build up through Q2 and Q3 as the US driving season gathers pace. The EIA forecasts PADD 3 prices to exceed 3.00 \$/gal, equivalent to a rebound of just over 10% from current levels, with year-end prices expected at 2.68 (+3.2% y/y). Natural gas demand is also expected to rise, including higher utilization for electricity generation. Accordingly, the EIA projects an annual average price for Henry Hub at 4.20 \$/MMBtu and an even higher year-end print of 4.89 (+57% y/y).

We maintain a constructive outlook for gold. The gold-to-copper ratio has surged to its highest level since the pandemic (second chart on the right). We reaffirm our bullish stance on gold, underpinned by: (1) Robust safe-haven demand; (2) sustained central bank purchases; and (3) lower interest rates. This metal reached an all-time high of 3,134 \$/oz t in early April and we expect it to end this year in the 3,100–3,300 range. In contrast, copper is likely to remain capped, with its performance heavily dependent on trade and economic developments. Its price recently declined to a one-year low amid a sharp shift in demand expectations triggered by reciprocal tariffs. Lastly, we see elevated volatility in the grains complex on the back of persistently adverse weather conditions, which should be added to the expected impact on production because of tariffs and challenges to export flows from key suppliers.



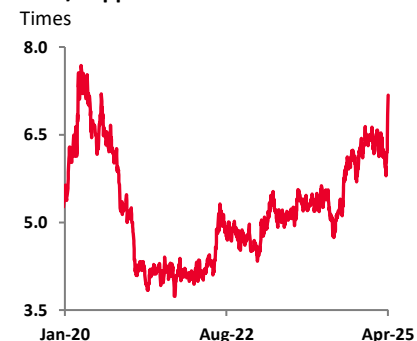
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WTI: 3-month 25D risk reversal*
vols, difference between calls and puts



* Note: Lower levels suggest higher pessimism about the price of crude-oil in a 3-month horizon
Source: Bloomberg, Banorte

Gold/Copper Ratio*



*A drop in this indicator is a signal of a more expansionary outlook for the economy
Source: Bloomberg, Banorte

Commodities price performance and market consensus forecasts

Commodities price performance and market consensus forecasts														
Commodity	Unit	Spot*	Performance (%)							Market consensus forecasts				
			2023	2024	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	2025	2026
WTI	\$/bbl	59.60	-10.73	0.10	16.08	-1.96	-16.40	5.21	-0.33	70.00	69.00	68.00	69.40	67.00
Brent	\$/bbl	62.90	-10.32	-3.12	13.55	-1.22	-16.94	4.00	0.13	73.00	73.00	71.92	73.00	70.00
Natural Gas (H. Hub)	\$/MMBtu	3.57	-43.82	44.51	-29.87	47.53	12.38	24.29	13.38	3.50	3.55	3.90	3.56	3.80
Gasoline (RBOB)	\$/gal	1.96	-14.51	-4.81	31.32	-8.40	-22.42	2.01	14.07	2.25	2.18	2.07	2.24	2.14
Gold	\$/t oz	3,165	13.10	27.22	8.09	4.34	13.23	-0.38	19.02	2,850	2,888	2,900	2,803	2,753
Silver	\$/t oz	31.00	-0.66	21.46	4.91	16.74	6.92	-7.24	17.94	33.50	34.00	34.32	33.33	33.00
Copper	\$/mt	9,015	2.23	2.44	3.60	8.26	2.40	-10.79	10.74	9,450	9,550	9,700	9,383	9,700
Corn	¢/bu	477	-30.55	-2.71	-6.21	-10.12	6.92	7.95	-0.27	450	458	450	448	475
Wheat	¢/bu	538	-20.71	-12.18	-10.79	-1.20	5.51	-5.57	-2.63	570	580	588	580	610

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

Corporate Debt

Credit risk vulnerability, with spreads still low by historical standards. In 1Q25, the global corporate market remained resilient despite ongoing uncertainty, with spreads hitting three-year lows. Nevertheless, a correction ensued during the opening sessions of the quarter due to the prevailing backdrop. We believe this adjustment will extend throughout 2025, although credit will likely be more defensive compared with previous episodes of market stress (2008, 2020). Performance will largely hinge on the evolution of US protectionist policies and their potential repercussions on corporate operating results. We believe investment-grade issuers exhibit stronger fundamentals when compared to those earlier periods (see charts below). However, should current conditions persist, a deterioration in these metrics could trigger higher default rates. In this context, Moody's estimates that 9.2% of US corporates are currently at risk of default, the highest level since 2009. Separately, corporate credit could find additional support from portfolio diversification and rebalancing needs given the fragile outlook for equity markets.



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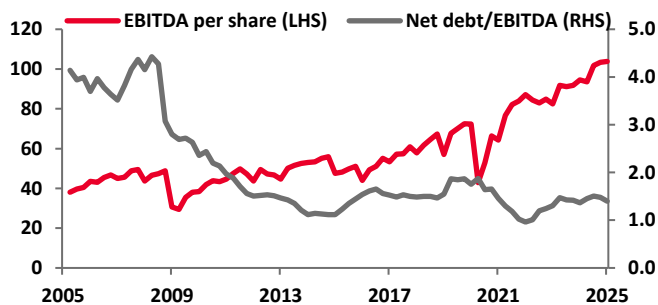


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The local market will remain supported by lighter volumes and refinancing activity. All proceeds raised through new local offerings in 1Q25 were allocated entirely to refinancing operations. We anticipate issuers' appetite for substantial capex investments will stay subdued as market uncertainty lingers around. For investors, the sharp decline in issuance volumes (-22.8% y/y) has translated into strong demand for these securities (1Q25 average bid-to-cover ratio: 1.74x). We expect robust demand to persist. In our view, the exclusive participation of well-known, highly rated issuers, combined with a supply-constrained environment, will continue to favor primary market placements. Investor preferences were clearly skewed toward fixed-rate debt, which accounted for an average of 76.3% of auction allocations made via communicating vessels. We foresee this preference extending into 2Q25 as market participants seek to lock in still-attractive yields, followed by a stabilization phase in the second half of the year.

S&P500 Index – Leverage*

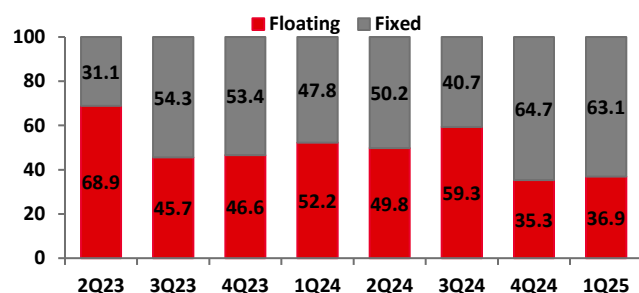
US\$, Times (x)



* Note: Quarterly frequency, average of index members
Source: Banorte with information from Bloomberg.

Long-term issued amount by quarter

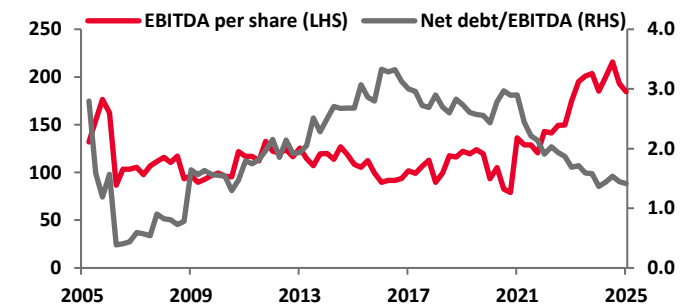
%



Source: Banorte / BMV / PiP, as of 1Q25

MEXBOL Index – Leverage*

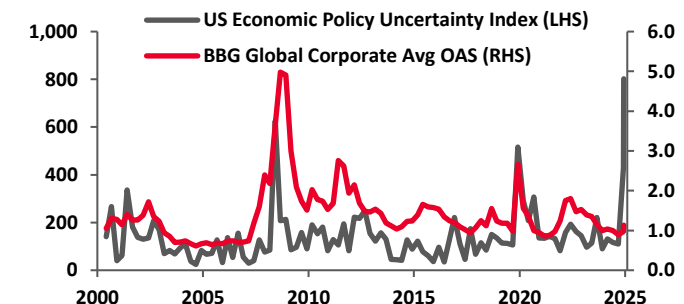
\$, Times (x)



* Note: Quarterly frequency, average of index members
Source: Banorte with information from Bloomberg.

BBG Global Corporate OAS vs. US economic policy uncertainty

Pts., %



Fuente: Bloomberg

PEMEX

Strategic plans target Pemex's strengthening and expansion. Grounded on the new energy reform, the company will operate as a single entity, consolidating its subsidiaries. New conditions for private sector participation have been established, its fiscal regime has been simplified (transitioning from the DUC to the 'Welfare Oil Duty' and the corporate income taxes), and PEMEX will develop alternative energy sources beyond hydrocarbons. The company announced that several strategic projects, including the Dos Bocas refinery and coker units at Tula and Salina Cruz, have been completed or are about to begin operations.

Restoring production will be the key challenge for the new administration. As of the latest available figures (February 2025), hydrocarbon output totalled 1,621 Kbb/d (1,367 crude oil and 254 in condensates), falling short of the 1,800 goal set by the new administration. In this context, the 2026 Preliminary Budget Criteria showed that the Ministry of Finance revised its production estimates downwards to 1,762 Kbb/d (previous: 1,891) for 2025 and 1,775 Kbb/d (previous: 1,902) for 2026.

The macroeconomic backdrop and financial leverage will remain as major hurdles. FX volatility continues to have a significant impact on PEMEX's debt metrics. By year-end 2024, the company's FX valuation effect decreased by MXN 543 billion vis-à-vis 2023, largely driven by the peso's depreciation. Against the backdrop of heightened economic volatility and our forecast for further upside in the USD/MXN from current levels, we expect exchange rate movements to continue weighing on the company's debt and financial performance. On top of this, we must add challenges in scaling production and navigating the recent drop in benchmark crude oil prices. PEMEX's zero net borrowing strategy will remain in place for the foreseeable future, supported by government assistance (budgeted at MXN 136 billion for 2025) to help meet its upcoming maturities. As of end-2024, PEMEX's financial debt decreased by US\$8.4 billion y/y, standing at US\$97.6 billion. However, market attention has shifted towards accounts payable to suppliers (US\$25.0 billion as of 4Q24). Based on official data, the government plans to settle US\$6.4 billion of this amount in March and April.



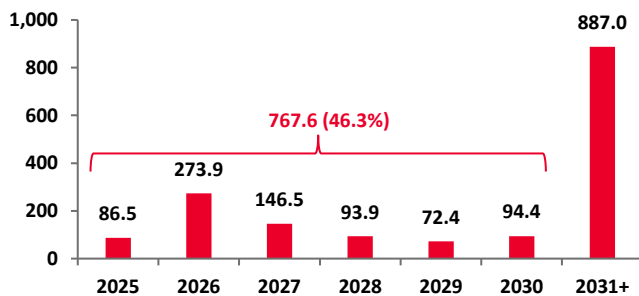
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Upcoming Maturities – PEMEX*

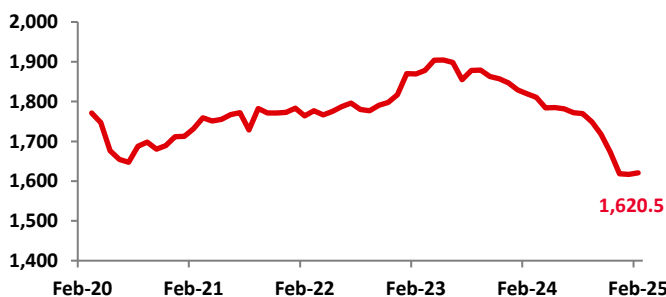
MXN billion



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

Monthly liquid hydrocarbons output

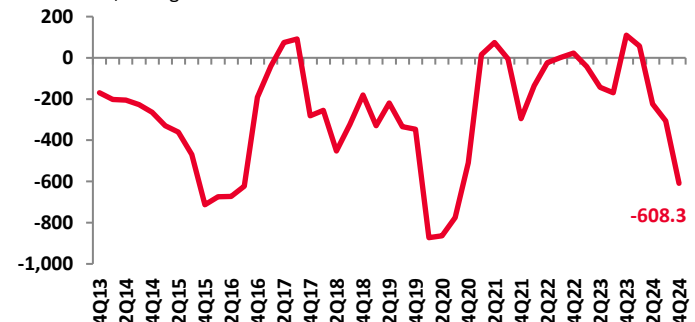
Thousand barrels per day (Kbb/d)



Source: PEMEX as of February 2025

Accumulated net income during the last twelve months

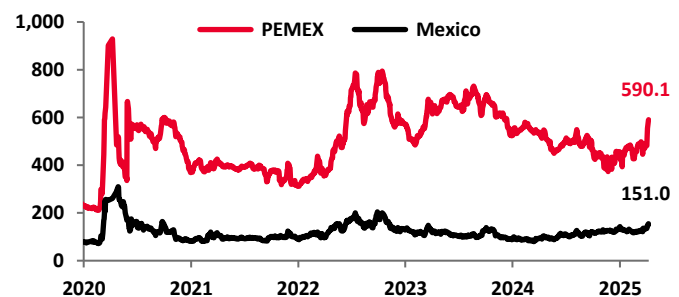
MXN billion, rolling sum



Source: Banorte

5Y CDS: PEMEX vs Sovereign

Bps, data as of April 8th, 2025



Source: Banorte with data from Bloomberg

CFE

The new strategy aims to enhance profitability. The new energy reform sets forth the goal of strengthening the State's role in the planning, regulation, and operation of the electricity and hydrocarbons sectors. The new administration is focused on: (1) Consolidating the State's share of power generation at a minimum of 54%; (2) providing greater clarity on private sector participation schemes; and (3) reinforcing CFE's position as the exclusive transmission provider. CFE anticipates an environment of rising electricity demand as the sector remains resilient to macroeconomic shocks. Moreover, the company expects to achieve sustainable efficiencies in operating costs, supported by lower fuel prices, which account for approximately 40% of total costs.



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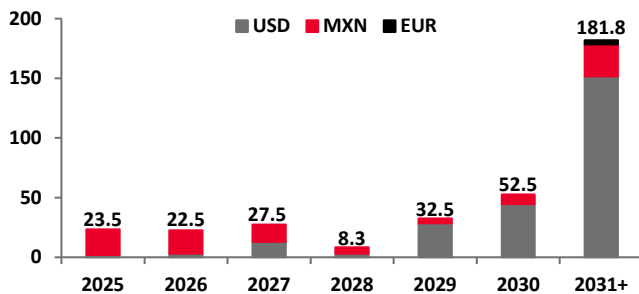


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Financing plan will boost debt issuance to fund new investment projects. The 2025–2030 expansion plan estimates total investments of US\$23.4 billion, with 27% financed through budgetary sources and the remaining 73% through off-budget mechanisms. The latter includes Export Credit Agencies, equity-based instruments, and mixed participation schemes. By project type, investments will be allocated to generation (53%), transmission (32%), and distribution (15%). In parallel, financing needs for the year are estimated at MXN 78.8 billion according to the 2025 Annual Financing Plan, comprising MXN 40 billion from the financial balance and MXN 38.8 billion in amortizations. In addition, CFE projects incremental financing needs of MXN 28.4 billion *vis-à-vis* 2024. Given the outlined funding requirements for 2025, CFE is likely to remain as a key player in the local debt market, solidifying its position as the largest issuer in both short- and long-term securities. Finally, it is expected to employ greater leverage in the coming periods.

CFE: Upcoming maturities

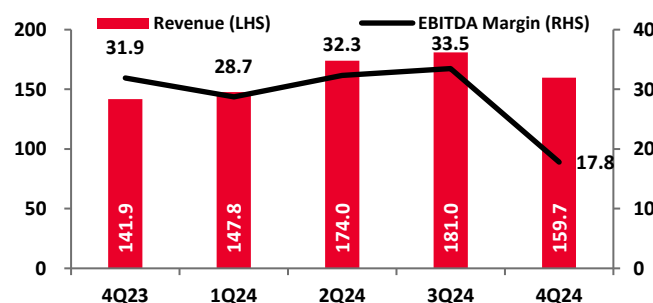
MXN billion



Source: Banorte with data from Bloomberg

Total Revenue and EBITDA margin

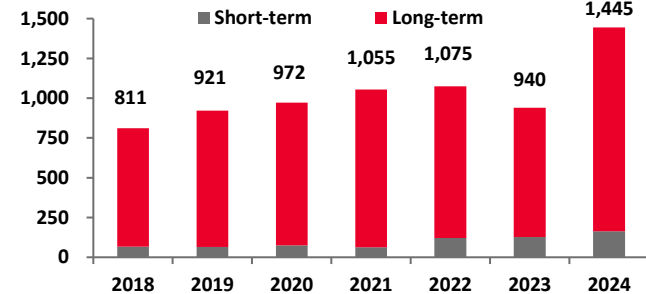
MXN billion and %



Source: Banorte with data from Capital IQ

CFE: Debt Classification by maturity

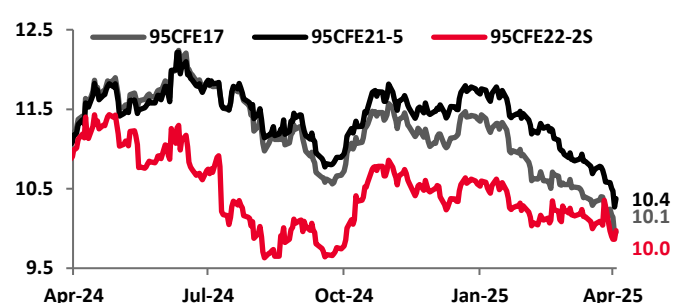
MXN billion



Source: Banorte with data from Capital IQ

CFE: Yield-to-maturity of local bonds

%



Source: Banorte with data from PiP

Quantitative Analysis

Banorte's National Home Price Index

In January 2025, we presented Banorte's National Home Price Index (INBAPREVI), which is a tool designed to overcome the limitations of traditional indicators in the analysis of the real estate market in Mexico. Using web scraping techniques, INBAPREVI collects monthly data from more than 180,000 homes, generating a national and state housing price index. This approach offers an updated and detailed perspective, improving the representation of real estate market trends. Among the main innovations, the indicator combines repeat sales methodologies and age adjustments, providing a more precise and less biased analysis.

During March 2025, INBAPREVI shows that house prices nationwide recorded a 6.8% y/y increase. This increase reflects the general upward trend in the Mexican real estate market, driven by the gradual recovery that the Mexican economy.

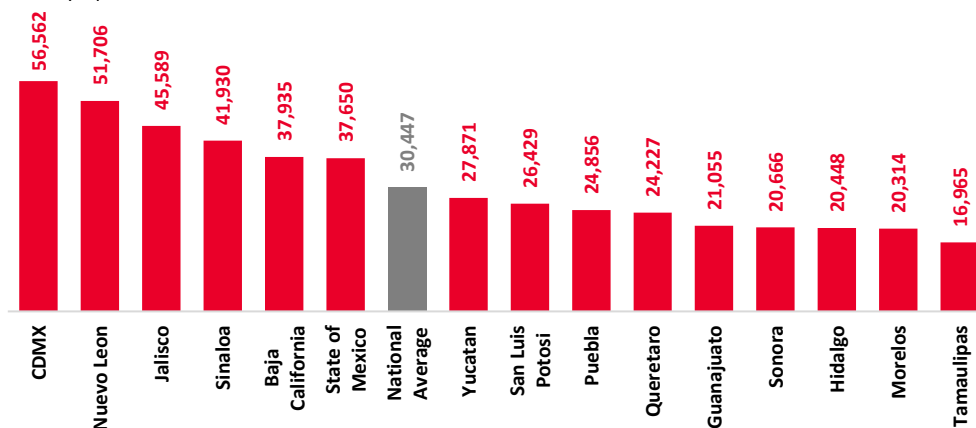
In March, the average housing price in Mexico was \$30,447 pesos per square meter (US\$1,472.3), marking a 0.2% m/m increase. This monthly gain, although moderate, remains aligned with the annual trend shown by the indicator.

Our index also includes sub-indexes for 15 states within Mexico. In March, the average price per square meter of home sales in Mexico City reached \$56,562 pesos (US\$2,735.1), consolidating it as the entity with the highest prices in the country. In contrast, Tamaulipas recorded the lowest price, with \$16,965 pesos per square meter (US\$820.4, refer to the chart below). These figures reflect the notable disparity in the cost of housing between different regions of the country, influenced by factors such as location, demand and characteristics of the properties.

In terms of monthly growth, Sonora stood out as the entity with the largest increase in housing prices during March, with an 1.6% m/m gain. In contrast, Hidalgo experienced the steepest decline, with a 1.1% reduction in prices per square meter. These variations reflect specific dynamics of each region.

Banorte's National Home Price Index

MXN by square meter



Source: Banorte



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Quantitative Analysis

Nowcasting Mexico's Economic Activity

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

One of the most relevant economic indicators in Mexico is the IGAE (Global Economic Activity Indicator), given that it allows to monitor Mexico's growth dynamics. However, despite 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 significant slowdown of the Mexican economy during 1Q25. The latest economic data available for our model suggests a significant deceleration of the Mexican economy in the first quarter of 2025. Mexican household spending slowed compared to the momentum gained in the previous quarter.

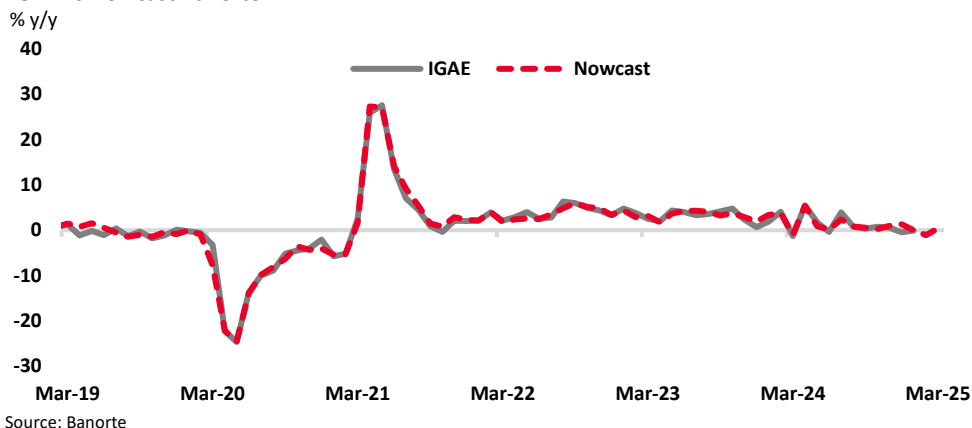
In addition, the uncertainty generated by the impact of Donald Trump's protectionist policies on the overall growth prospects of the global economy has translated into a contraction in private investment levels in our country. This has also affected the growth dynamics of the labor market, particularly for employment in the construction and manufacturing sectors.

Non-traditional data sources -such as keyword searches in Google Trends- suggest that aggregate demand slowed in the third month of the year. Similarly, transactional data showed less momentum in SMEs incomes in strategic sectors such as manufacturing, construction, and transportation.

In this regard, our model forecasts:

- A **1.1% y/y nsa contraction** in **February's** economic activity; and
- A **0.43% y/y nsa growth** in **March's** output

IGAE vs Nowcast Banorte



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Quantitative Analysis

Fed's topics classification using NLP and ML techniques

We previously developed a model using natural language processing (NLP) techniques that classifies and interprets the 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 easing cycle maintained moderated during the first quarter of 2025. In the last monetary policy decision, the Committee maintained the target range between 4.25% and 4.5%. During 2024, there were three interest-rate cuts from the Federal Reserve. Nevertheless, the current stall in the Fed's monetary police reflects a more conservative stance until economic data supports continuing the easing cycle.

Our NLP model identified a more hawkish bias during Powell's last press conference. Chair Powell showed a more hawkish tone in his remarks following the announcement. Nevertheless, 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 remained the prevalent one since the Fed began implementing its restrictive policy in 2022.

In this regard, the same topic provides 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 easing cycle will stand at 2% (refer to the following chart). This does not imply that we will reach this level in 2025, as the model estimate can be achieved in the next 2 to 3 years.

We expect two 25bps rate cuts of the federal funds rate in 2025. In his remarks, Powell emphasized that further cuts will be subject to economic data. However current data alludes to maintain a restrictive monetary stance. In this regard, considering recent economic data and Powell's more hawkish rhetoric, we anticipate only two 25bps rate cuts.



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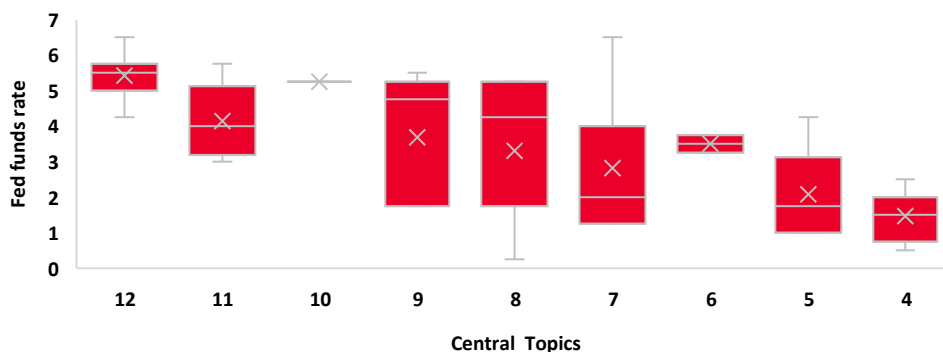


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Range of fed funds rate by Topic
%



Source: Banorte

Quantitative Analysis

Hawk-o-meter – Interpreting the hawkish/dovish bias of 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 identify the hawkish or dovish bias of each member.

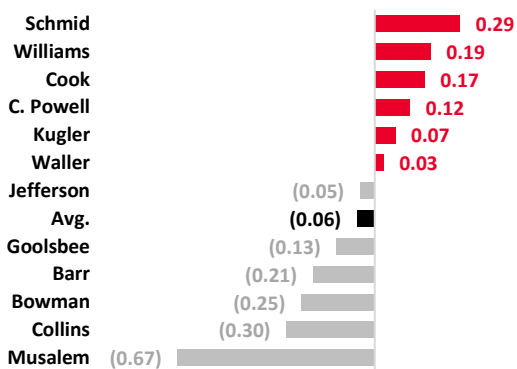
Hawkish rhetoric is majority in FOMC voters. The Committee maintained a strongly dovish rhetoric when rate cuts began in September 2024. Despite, our classification model identified a significant shift in the monetary stance of several voting members after December decision: (1) Musalem, Bowman, Barr, Goolsbee and Jefferson shifted their tone importantly, from accommodative to restrictive; (2) Powell increased their hawkish bias; and (3) 8 members from the Committee have a hawkish bias.

The increase in the restrictive tone of the FOMC members is probably due to the performance of the key economic indicators and the Fed's upward revision on the expected inflation path. In this context, despite the score generated by our hawk-o-meter reveals a significant shift in the overall tone of the Committee, **6 of the 12 voting members increased their hawkish rhetoric in the first quarter of 2025** (refer to the charts below).

We expect a moderate pace of reference rate adjustments, projecting two 25bps cuts in 2025. Our forecast is based on:

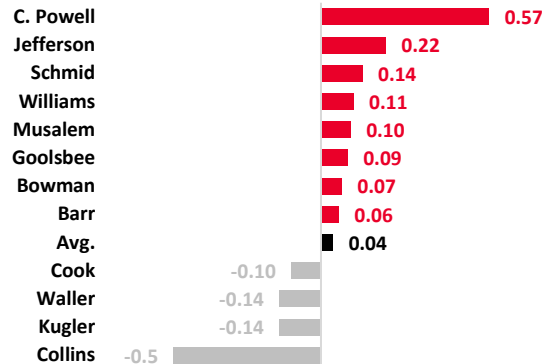
- (1) The increase in hawkish rhetoric among FOMC voting members;
- (2) The upward revision of core inflation, from 2.2% to 2.5%, in the official projections for this year; and
- (3) The latest leading economic indicators in the US, including signs of strength in the labor market, a significant increase in job creation during the month of March and the inflation data for March 2025, where core inflation was 2.79%.

Hawk-o-meter – Sep-Dec'24 Speeches
Speeches' tone



Source: Banorte

Hawk-o-meter – Jan-Mar'25 Speeches
Speeches' tone



Source: Banorte



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50%

**More hawkish
average
Committee's
score in the first
quarter of 2025**

Quantitative Analysis

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

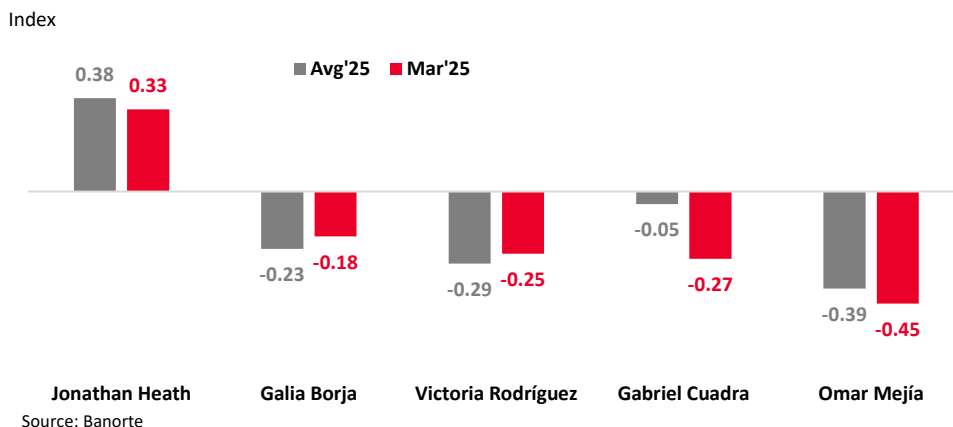
To classify and interpret the rhetoric of Banco de Mexico’s Board, a Hawk-o-meter was built using natural language processing (NLP) techniques and machine learning (ML) models. The classification of Banxico’s Board helps identify those members who have a hawkish or dovish bias. In our model, a value 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 the 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 classify the comments of each of the 5 voting members. However, the transcripts have a limitation, since they are available until March 2022. To assign the comments made by each member 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 a dovish stance from Banxico’s Board. Our classification model identified that most members of the Board adopted a dovish tone in the monetary policy decision on March, compared to the bias observed in the last meeting. In this regard, Governor Victoria Rodríguez, Deputy Governor Omar Mejía and Deputy Governor Galia Borja maintained their bias tone, whereas Deputy Governor Jonathan Heath exhibited a marginal reduction in their restrictive stance and Deputy Governor Gabriel Cuadra (recently incorporated instead of Irene Espinosa) showed a dovish tone (refer to chart below). We highlighted that our NLP model identified that Governor Victoria Rodríguez had a significant changed in her narrative adopting a less dovish bias and a different semantics compared to previous minutes.

We anticipate that the reference rate will close 2025 at 7.75%. In March 2025, Banxico decided to lower the reference rate by 50bps unanimously. In this context, and considering the more dovish comments from the board, we anticipate that the central bank could reduce the target rate by 225bps closing 2025 at 7.75%.

Tone of Banxico’s Board comments



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80%

Of Banxico’s Board had a **dovish** tone during the first quarter of 2025

Quantitative Analysis

Nowcasting Model for Mexico's Private Consumption

Banorte's nowcasting indicates a clear economic deceleration. Banorte's short-term forecasting points to a significant economic slowdown during the first quarter of 2025, primarily influenced by the imposition of 25% tariffs on Mexican automobiles (only for those vehicles outside USMCA's exemption) and the persistent depreciation of the national currency. Estimates show a 1.1% y/y quarterly decrease, representing a 0.7% contraction compared to the previous quarter (sa). This trend reversal marks an important contrast with the dynamic private consumption exhibited throughout 2024.

Impact of exchange rate depreciation on imported consumption. In January, imported goods consumption contracted by 0.3% m/m (sa), directly resulting from the sharp 20.2% y/y quarterly peso depreciation against the dollar. Trade balance figures further confirm this trend, showing a substantial 11.3% decline in non-oil consumer goods imports during the first two months of the year. This downward trajectory is expected to accelerate through the end of the quarter, driven by the significant weakening of the national currency ahead of the U.S. announcement of reciprocal tariffs.

The automotive sector is under pressure from tariff threats. The automotive industry showed clear signs of vulnerability to U.S. trade policy during the quarter. Domestic vehicle sales recorded a modest increase of just 3.3%, a figure lower than results from previous periods. Even more relevant is the 6.0% quarterly contraction in automotive exports, directly linked to the announced implementation of 25% tariffs in the U.S. market.

Weakening job creation. The first quarter of 2025 registered only 160,037 new jobs, evidence of a significant deceleration in employment creation. The construction sector, affected by the paralysis of federal government public works, showed a loss of 19,592 jobs at the beginning of the quarter. In contrast, real wages maintained some momentum with 3.8% growth during the first two months of the year, although with marked sectoral disparities: while the agricultural sector experienced a 6.1% increase, construction and mining wages grew by just 2.3% and 0.3% respectively.

Additional indicators confirm the slowdown. Various economic data reinforce evidence of a slowdown in national consumption. Electricity demand contracted 0.9% y/y during January and February, driven mainly by reduced demand from large companies (-5.3%) and government entities (-1.1%). Additionally, the tourism sector exhibited negative signals with a 4.5% drop in hotel occupancy during January, confirming that various economic activities are already in full deceleration.



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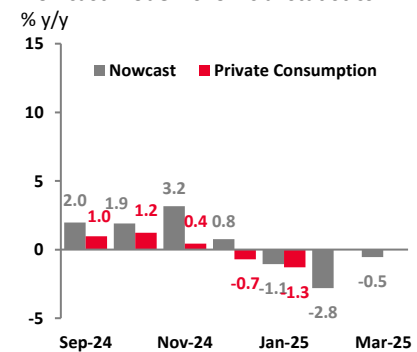


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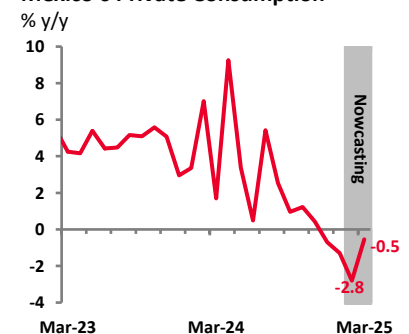
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Nowcast model vs. official statistics



Source: Banorte with data from INEGI.

Mexico's Private Consumption



Source: Banorte with data from INEGI.

Recent research notes

Zoom Nearshoring

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

Mexico

- *Banxico minutes – Cuts will continue despite external uncertainty*, April 10, 2025, [<pdf>](#)
- *March inflation – Downside revision in our 2025 year-end forecast*, April 9, 2025, [<pdf>](#)
- *View from the Top – Downward revision to 2025 GDP to 0.5%*, April 4, 2025, [<pdf>](#)
- *Sizable increase in tariffs for the rest of the world, but Mexico ends up well positioned*, April 3, 2025, [<pdf>](#)
- *Analysis of the 2026 Preliminary Budget Criteria*, April 2, 2025, [<pdf>](#)
- *US – Mexico: 25% tariffs on foreign auto imports are announced*, March 27, 2025, [<pdf>](#)
- *US – Mexico: 25% tariffs on steel and aluminum come into force*, March 12, 2025, [<pdf>](#)
- *US – Mexico: Tariff suspension, but for how long?*, March 6, 2025, [<pdf>](#)
- *US tariffs against Mexico go into effect, with retaliatory measures to be announced on Sunday*, March 4, 2025, [<pdf>](#)
- *Banxico – Gabriel Cuadra is ratified as Deputy Governor*, February 6, 2025, [<pdf>](#)
- *S&P Global Ratings reaffirms Mexico 'BBB' sovereign rating, maintaining a stable outlook*, December 13, 2024, [<pdf>](#)

Quantitative Research

- *Fed's monetary policy: We maintain our expectation of two 25 bps cuts in 2025*, March 19, 2025, [<pdf>](#)

Fixed-Income, FX, and Commodities

- *Fixed-Income and FX Weekly*, April 4, 2025, [<pdf>](#)
- *2Q25 Auction Calendar: Supply reduction for fixed and variable rates*, March 28, 2025, [<pdf>](#)
- *Government securities exchange auction results*, March 14, 2025, [<pdf>](#)
- *Syndicated auction results of new 3-year Udibono (Aug'29)*, March 13, 2025, [<pdf>](#)
- *OPEC+: Revive halted crude-oil production from April 2025 to September 2026*, March 3, 2025, [<pdf>](#)
- *Syndicated auction results of new 5-year Mbono (Feb'30)*, January 30, 2025, [<pdf>](#)
- *MoF's Annual Financing Plan 2025*, December 20, 2024, [<pdf>](#)
- *Syndicated auction results of new 3-year Mbono (Mar'28)*, December 4, [<pdf>](#)
- *Syndicated auction results of new 30-year Udibono (Oct'54)*, May 17, 2024, [<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: Proposed shareholder remuneration of up to 5.8% of return, April 4, 2025, [<pdf>](#)*
- *Flash: Walmex Day. Growth and innovation, although the greatest benefits will be in the medium term, March 28, 2025, [<pdf>](#)*
- *Flash ALFA|SIGMA: Controladora Alpek to Begin Trading on April 7, March 28, 2025, [<pdf>](#)*
- *Flash FIBRA MONTERREY: Strengthening of the industrial portfolio continues, March 26, [<pdf>](#)*
- *Flash AMX: Will propose a shareholder remuneration for up to 4.7% return, March 19, 2025, [<pdf>](#)*
- *Flash ASUR: Proposes dividends with a yield of 15.4%, March 14, 2025, [<pdf>](#)*
- *Equity Strategy: No changes in the Mexbol sample, March 7, 2025, [<pdf>](#)*
- *Flash ALPEK: 2025 guidance still reflects challenging conditions, February 20, 2025, [<pdf>](#)*
- *Flash ALFA | SIGMA: 2025 guidance presents modest growth, mitigated by exchange rate effects, February 20, 2025, [<pdf>](#)*

Corporate Debt

- *Corporate Bond Market Review: February 2025, March 6, 2025, [<pdf>](#)*
- *ESG Corporate Bonds – 4Q24, January 29, [<pdf>](#)*

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

Recent trade ideas				
Trade idea	P/L	Initial date	End date	
Pay TIIE-IRS (130x1), receive 10-year SOFR		Feb-28-25		
2y10y TIIE-F steepener	P	Jan-17-25	Apr-10-25	
3y10y TIIE-IRS steepener	L	Sep-27-24	Oct-7-24	
Tactical longs in Udibono Dec'26	L	Sep-27-24	Oct-24-24	
2y10y TIIE-IRS steepener	P	Jul-11-24	Sep-17-24	
Tactical longs in Udibono Nov'35	P	Jul-5-24	Aug-02-24	
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	
USD/MXN call spread (European options: long call with K=20.65 & short call with K=21.00)	L	20.55	20.25	Feb-28-25	Mar-7-25	
USD/MXN call spread (American options: long call with K=20.65 & short call with K=21.00)	P	20.55	21.00	Feb-28-25	Mar-4-25	
Long USD/MXN	P	19.30	19.50	Oct-11-19	Nov-20-19	
Long USD/MXN	P	18.89	19.35	Mar-20-19	Mar-27-19	
Long USD/MXN	P	18.99	19.28	Jan-15-19	Feb-11-19	
Long USD/MXN	P	18.70	19.63	Oct-16-18	Jan-3-19	
Short USD/MXN	P	20.00	18.85	Jul-2-18	Jul-24-18	
Long USD/MXN	P	19.55	19.95	May-28-18	Jun-4-18	
Long USD/MXN	P	18.70	19.40	Apr-23-18	May-14-18	
Long USD/MXN	P	18.56	19.20	Nov-27-17	Dec-13-17	
Long USD/MXN	L	19.20	18.91	Nov-6-17	Nov-17-17	
Long USD/MXN	P	18.58	19.00	Oct-9-17	Oct-23-17	
Short USD/MXN	L	17.80	18.24	Sep-4-17	Sep-25-17	
Long USD/MXN	P	14.40	14.85	Dec-15-14	Jan-5-15	
Long USD/MXN	P	13.62	14.11	Nov-21-14	Dec-3-14	
Short EUR/MXN	P	17.20	17.03	Aug-27-14	Sep-4-14	

* Total return does not consider carry gain/losses

P = Profit, L = Loss

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

1. Carry + roll-down gains of 17bps

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

P = Profit, L = Loss

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

* Total return does not consider carry gain/losses

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

P = Profit, L = Loss

Analyst Certification.

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Santiago Leal Singer, Víctor Hugo Cortes Castro, Leslie Thalia Orozco Vélez, Hugo Armando Gómez Solís, Carlos Hernández García, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, José De Jesús Ramírez Martínez, Daniel Sebastián Sosa Aguilar, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Marcos Saúl García Hernández, Juan Carlos Mercado Garduño, Ana Gabriela Martínez Mosqueda, Ana Laura Zaragoza Félix, 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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	Reference
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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

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