

AND BANXICO SAYS ... PRESENT AND VOTING!

On November 16th, the spot exchange rate closed at 20.16 with a slight depreciation of (-) 0.15% pesos per dollar, which leaves in (-) 2.52% the decrease in the year. The advance of the Mexican currency was the result of the unanimous decision of the Governors Board of the Banco de Mexico (BANXICO) to raise the reference rate by 25 basis points and leave it at 8.00%; its highest level in 10 years. The decision was based on potential risks concerning growth and inflation given a series of internal and external factors that summarize as follows:

Domestic Risks

1. The significant depreciation that the peso has experienced against the US dollar since the last monetary policy meeting.
2. The concern of financial markets regarding the new federal administration public policies, such as the intention to cancel Mexico City New International Airport (NAIM) and other "law initiatives". Banxico does not detail what these initiatives are, but probably refers to a law proposal to regulate bank fees and perhaps interest rates too- which would be similar to price controls on bank services.
3. The decision of the rating agencies that, as a result of the provisions in the preceding paragraph, modified Mexico's sovereign debt outlook from stable to negative.
4. The substantial increase in the different risk premiums that investors demand to maintain national assets -superior to those observed in other emerging economies; especially in sovereign risk premium and medium and long-term rates in Mexico. The 10-year M bond is now above 9.0%.

International Risks

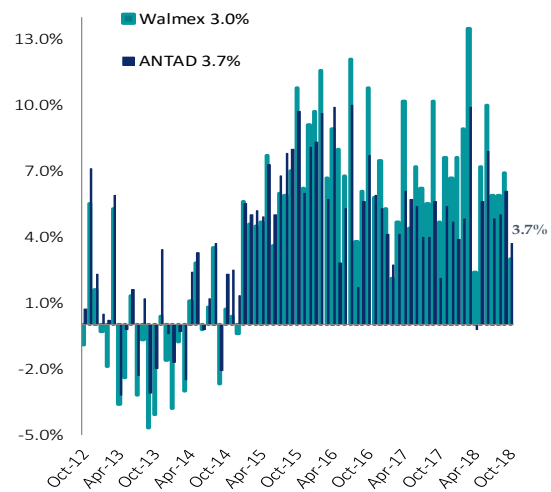
1. International oil prices have decreased considerably, mainly due to supply factors.
2. Lower global growth expectations for 2018 and 2019, due to commercial disputes and tighter global financial conditions.
3. The potential raise of interest rates in the United States.
4. The escalation of protectionism and compensatory measures worldwide.
5. Higher volatility in international financial markets.

Even more important than the expected increase in Mexico's reference rate, is BANXICO's signal towards keeping a prudent and stable monetary policy; which suggests the possibility of an additional ¼ of a point increment in its reference rate in December. Thus, the government funding rate could close 2018 at 8.25%.

On November 16th, MEXBOL closed at 42,319 points, one of its lowest levels since January 2016, which leaves annual losses at (-) 12.61%.

Economic Indicators

Same Store Sales vs. Walmex Sales

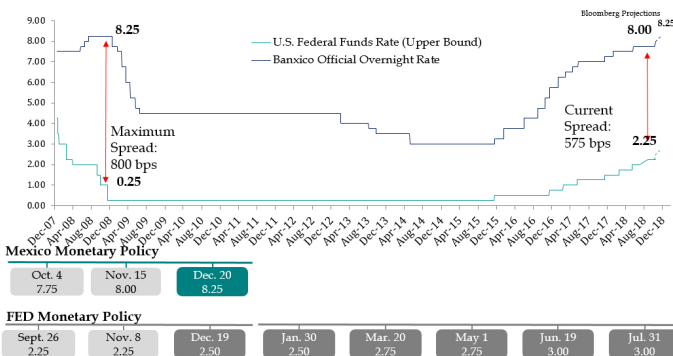


Source: ANTAD & Walmex

ANTAD Same-store Sales

Same-store sales, as reported by the National Association of Department Stores (ANTAD), increased 3.7% in October. Same-store sales have remained positive since May, which is consistent with the consumer confidence uptick observed in July, when the Consumer Confidence Index reached 105 points, its highest level in five years.

BANXICO vs. FED Reference Rate
 (As of November 15th, 2018)



Source: Bloomberg and Banamex Survey

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Compliance

Definitions

MEXBOL: The S&P/BMV IPC seeks to measure the performance of the largest and most liquid stocks listed on the Bolsa Mexicana de Valores. The index is designed to provide a broad, representative, yet easily replicable index covering the Mexican equities market.

Banco de México (BANXICO), Mexico's central bank, monetary authority and lender of last resort. The main objective of Banco de México is to maintain a low and stable inflation.

ANTAD: National Association of Self-Service and Departmental Stores.

Same-Store Sales: Same-store sales measures the sales of a company's existing stores that have operated for more than one year, excluding sales of new stores

NAIM: Mexico City New International Airport was a project that started in 2014 and was cancelled after a public consultation

Consumer Confidence Index: Consumer confidence indicator that provides an indication of future developments of households' consumption and saving, based upon answers regarding their expected financial situation, their sentiment about the general economic situation, unemployment and capability of savings.

Basis point (BPS): refers to a common unit of measure for interest rates and other percentages in finance.

Spread: The difference in yield between two bonds of similar maturity but different credit quality.

Disclosures

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Past performance is not a guarantee of future results. Index performance is not illustrative of fund performance. One cannot invest directly in an index. Please call (414) 765-4255 for fund performance.

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