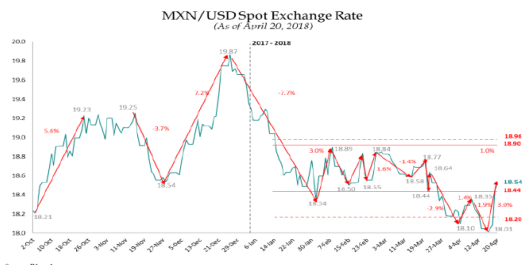


WEEKLY ECONOMIC REPORT
Week Ended April 20, 2018.

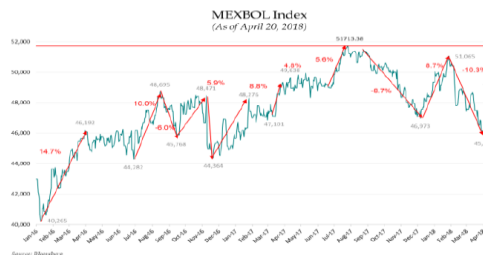
Stocks Adjusted During the Week; the Market Expects Good First Quarter Earnings Reports

In the week of April 20th, the peso was impacted by a strong dollar in international foreign exchange markets, which was reflected in an increase of 0.57% in the DXY dollar index vs. hard currencies (the euro, yen, pound sterling, Canadian dollar, etc.). The strength of the dollar was underpinned by a rise in the U.S. 10-year Treasury yield, which reached 2.96%, its highest level since 2014. As a result, the interbank spot exchange rate closed Friday at \$18.53 to the dollar, resulting in a depreciation of -2.62% for the week and -6.09% year to date. Factors that could be stabilizing the foreign exchange market are: (i) the culmination of the modernization of the North American Free Trade Agreement (NAFTA); the chapter on telecommunications was recently closed, and (ii) the free trade agreement (FTA) Mexico has reached in principle with the European Union. The new agreement includes telecommunication services, a new dispute resolution mechanism, and eliminates tariffs on some Mexican products (orange juice, honey, tuna fish, fruit and vegetables).

- The confrontational attitude the presidential candidate that is leading in the polls has shown towards the business sector (specifically the Business Coordinating Council and businessman Carlos Slim) regarding the construction of the New Mexico City International Airport (NAICM).
- Furthermore, Moody's rating agency warned that the cancellation of NAICM is a factor that could have negative implications for the credit rating of Mexico's airport sector. Moody's expects this sector to be driven by solid air traffic growth in Mexico over the coming years, which can only be met by capital investments and/or additional debt.



Despite the release of good first quarter earnings reports, the Mexican Stock Exchange (MSE) was unable to maintain its last two-week winning streak, despite the results of ALFA and its subsidiaries coming in above consensus. Thus, the IPyC closed April 20th at 48,432 points, a loss of -0.68% for the week and -1.63% year to date. The following factors may explain this performance:



The Mexican stock market could react positively to an ongoing flow of good 1Q18 earnings reports over the coming weeks and a possible agreement in principle on NAFTA at the beginning of May. It is important to mention that the Trump administration is willing to withdraw its demand for equal wages in the auto sector and has proposed increasing the regional content of autos from 62.5% to 70-75%. Next week, the reports of four of the five companies with the biggest weight in the IPyC, AMXL, FEMSA, GFNORTE and WALMEX, are due tout.

In the U.S., geopolitical tensions with Syria and trade tensions with China were overshadowed by the release of mixed earnings reports. After a good start to the week, the main stock indexes reacted to equity outflows in response to the increase in U.S. 10-year treasury yield and disappointing results from the tech sector mainly (Apple and Taiwan Semiconductor). Thus, the Dow Jones, Standard & Poor's 500 and Nasdaq gained 0.46%, 0.54% and 0.56%, respectively, for the week, taking their year-to-date results to -0.41%, 0.44% and 3.83%.

- The increase in the U.S. 10-year treasury yield, which had a negative impact on that country's equity markets as well as on the MSE.
- Modest profit-taking due to upward pressure on the peso/dollar exchange rate and following a 7.14% gain for the IPyC in the space of 12 days (between April 2nd and 18th).

| Local Currency Return | | | | |
|------------------------|--------|--------|--------|---------|
| Index | 1 week | 1 year | YTD | Country |
| DOW JONES INDUS. AVG | 0.46% | 21.66% | -0.41% | US |
| S&P 500 INDEX | 0.54% | 15.58% | 0.44% | US |
| NASDAQ COMPOSITE INDEX | 0.56% | 22.15% | 3.83% | US |
| S&P/BMV IPC | -0.68% | 0.28% | -1.63% | MX |



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Disclosures

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Definitions

FED – The Federal Reserve System is the central bank of the United States and arguably the most powerful financial institution in the world.

INEGI - The National Institute of Statistics and Geography. It is the institution responsible for performing the population census every ten years; as well as the economic census every five years and the agricultural, livestock and forestry census of the country.

IPyC – The *Indice de Precios y Cotizaciones (IPyC)* is a capitalization-weighted index of the leading stocks traded on the Mexican Stock Exchange. The index was developed with a base level of 0.78 on October 30, 1978.

Mexican Stock Exchange – The Mexican Stock Exchange headquartered in Mexico City, is the full service securities exchange of the country, dealing in cash equities, derivatives and fixed income products.

North American Free Trade Agreement (NAFTA) – A regulation implemented January 1, 1994 in Mexico, Canada and the United States to eliminate most tariffs on trade between these nations. The three countries phased out numerous tariffs, (with a focus on those related to

Experience

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