

Slowdown fears led to global market falls

Sharp declines in most global markets characterized the week that ended on August 19th.

- In the United States, the S&P 500, Dow Jones and Nasdaq indices fell -0.94%, -1.40% and -0.74% respectively due to concerns of a possible global recession that would affect the US economy.
- In Europe, the FTSE 100 (England), the DAX (Germany), and the IBEX (Spain) fell (-) 0.82%, (-) 2.15% and (-) 2.03% respectively.
- In Asia, Japan's Topix lost (-) 0.95%, while Hang Sen (Hong Kong) decreased (-) 0.65%.
- In Latin America declines were more pronounced, Mexbol dragged (-) 3.39%, BOVESPA (Brazil) (-) 5.30% and, in Argentina, Merval had a sharp decline of (-) 44.73%.

Volatility increased due to fears of a global recession mainly due to:

I. The trade war between China and the United States which has resulted in a slowdown in China's economy with a negative impact on the region and other commodity-producing countries. Average annualized economic growth has reduced from 6.8% in June 2018 to 6.2% in June 2019. Besides, the indicator of industrial production - the most significant driver of the Chinese economy - grew only 4.8% in July, the lowest figure since 2002.

II. Germany, the United Kingdom, and Italy - fourth, sixth, and ninth-largest economies in the world - had negative quarterly gross domestic product (GDP) results. Germany and the United Kingdom GDP's decreased (-) 0.1% and (-) 0.2% respectively quarter-over-quarter (QoQ), while Italy's remained unchanged. Germany already meets the definition of a technical recession as its GDP had its second consecutive quarter with negative growth. Besides, on October 31, Brexit will take place, which could trigger a recession throughout the eurozone and an even stronger slowdown in the United Kingdom.

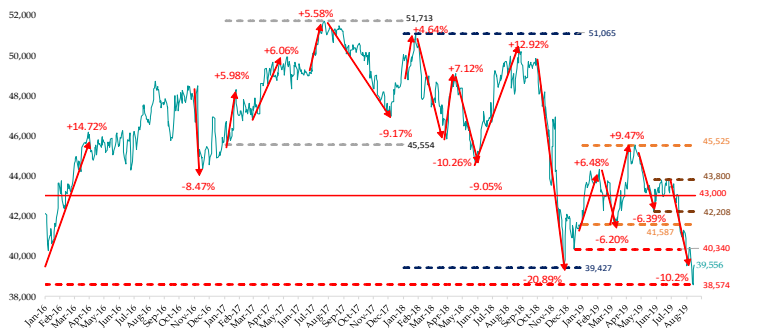
III. The unexpected result of Argentina's primary elections caused an adverse response from its financial markets. The Argentine peso plunged 26.96% during the week, and Merval fell 47%.

Mexican Stock Exchange

Like most stock exchanges in the world, Mexbol had a considerable weekly decrease of (-) 3.39%; which increases YTD losses to (-) 3.30%. Banxico's reference rate cut had no favorable effect on the market since the deceleration of the economy, caused by the lack of investor confidence, remains the main problem. Noteworthy, Banxico highlighted this situation in its monetary policy statement.

On August 14, Mexbol fell below the 39,427-level observed in November 2018, after the 20% drop caused by the cancellation of the New Mexico City International Airport (NAICM).

Mexbol Index
(As of August 16th, 2019)



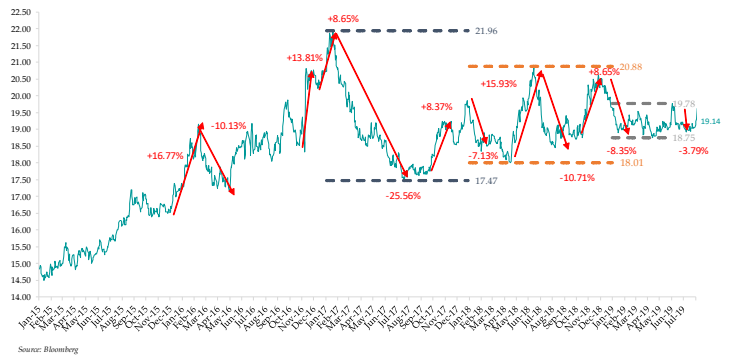
Source: Bloomberg
Exchange Rate

In the context of increased risk aversion in international capital markets, the U.S. dollar continued its strengthening trend. The dollar index had a weekly appreciation of 0.73% against hard currencies (Euro, Japanese Yen, Swiss Franc, British Pound, Canadian Dollar, and Swedish Krona), and a YTD appreciation of 2.12%. The Mexican peso could not resist the dollar

strengthening, and it had a weekly depreciation of 1.2%, which leaves the spot exchange rate at MX\$19.65 per dollar, practically the same parity observed at the end of 2018.

Noteworthy, the peso depreciation could have been higher, but the reduction in systemic risk, caused by the possibility of resumption of trade talks between China and the United States, allowed the peso to slightly recovery at the end of the week.

Spot Exchange Rate MXN/USD
(As of August 16th, 2019)



Banxico's Monetary Policy Decision

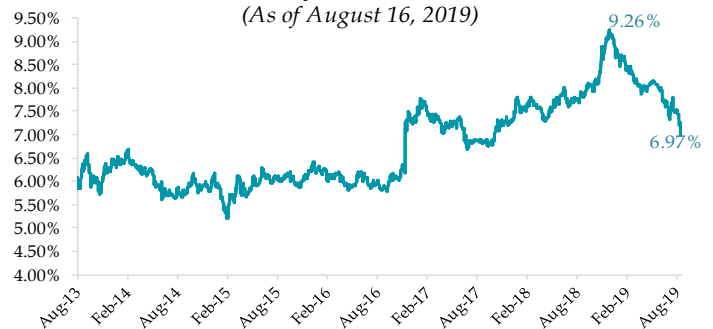
The Central Bank reduced its reference rate 25 basis points, from 8.25% to 8.0%. However, one of the four sub-governors voted to leave it unchanged; this was the first reduction since June 2014. The decline occurs in a context of global monetary policy easing. Noteworthy, Banxico's Governor Alejandro Díaz de León Carrillo, mentioned in an interview for Bloomberg, that it is not the beginning of an easing cycle. However, the downward trend in core inflation, which is currently above general inflation (3.82% vs. 3.78%) could motivate the above.

Mexico and United States Bonds

In a scenario of global uncertainty, we believe that the United States treasury bonds represent an attractive asset refuge for risk-averse investors. Thus, the 10-year Treasury Bond rate was 1.56%, a weekly decrease of 18 basis points. It is noteworthy the drop that the rate has had throughout the year, as in December 2018 it stood at 2.68%.

There was also a reduction in the local yield curve despite the decrease in positions of foreign investors. The 10-year M-Bond yield went from 7.19% to 6.97%, associated with the cut in Banxico's rate and due to conditions of international interest rate arbitration.

10-year M Bond
(As of August 16, 2019)



Source: Bloomberg

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Definitions

M-Bond: Mexico Federal Government fixed-rate development bonds that are issued and placed at terms of over one year, pay interest every six months and their interest rate is determined at issue date and remains fixed all along the life of the bond.

Gross Domestic Product (GDP): Is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

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. It is not possible to invest in an index.

Dow Jones: The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the Nasdaq. The DJIA was invented by Charles Dow in 1896.

S&P The S&P 500 Index: is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value.

NASDAQ: The Nasdaq Composite Index is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock exchange.

The FTSE 100 Index: is a capitalization-weighted index of the 100 most highly capitalized companies traded on the London Stock Exchange.

DAX: is a stock index that represents 30 of the largest and most liquid German companies that trade on the Frankfurt Exchange. It is not possible to invest in an index.

IBEX The IBEX 35: Is the benchmark stock market index of the Bolsa de Madrid, Spain's principal stock exchange. It is not possible to invest in an index.

TOPIX Index: Is a metric for stock prices on the Tokyo Stock Exchange. Is a capitalization-weighted index that lists all firms in the "first section" of the TSE, a section that organizes all large firms on the exchange into one group.

The Hang Seng Index: Is a market capitalization-weighted index of the largest companies that trade on the Hong Kong Exchange. A subsidiary of the Hang Seng Bank maintains the Hang Seng Index and has done so since 1969.

BOVESPA. A former stock exchange in Brazil. It was founded in 1890 and owned by the government until the 1960s. It merged with the Brazilian Mercantile and Futures Exchange in 2008 to form the BM&F BOVESPA.

The Merval Index: is the most important index of the Buenos Aires Stock Exchange. It is a price-weighted index, calculated as the market value of a portfolio of stocks selected based on their market share, number of transactions and quotation price. The base of Merval is set at 30 June 1986 = 0.01 Argentine pesos.

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

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.

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.

Banxico: Banco de México is the central bank of Mexico. By constitutional mandate, it is autonomous in both its operations and management. Its main function is to provide domestic currency to the Mexican economy and its main priority is to ensure the stability of the domestic currency's purchasing power. Its other functions are to promote both the sound development of the financial system and the optimal functioning of the payment systems.

Inflation: Is a quantitative measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over a period of time.

Basis points: Refers to a common unit of measure for interest rates and other percentages in finance.

Brexit: Is an abbreviation for "British exit," referring to the UK's decision in a June 23, 2016 referendum to leave the European Union.

YTD: year to date.

Disclosures

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