So it is Time to be More Constructive on Mexico?

We think so, even if risk remains high. We give five reasons:

- Valuations are attractive, suggesting that negative sentiment is in part discounted, and investors already positioned for bad news. Forward P/E is about 14.4x, versus an average of 17.8x over the past decade, according to Bloomberg.

- With inflation under control, the FX stable, and the FED accommodative, the Central Bank is cutting interest rates, with rates likely to fall again this week by another 25bps.

- Notwithstanding its optimistic assumptions, the budget for next year is fairly prudent, with a primary surplus more likely than not.

- The government and the private sector are getting on better, especially after the resolution of the pipelines dispute. Two case points. The interview with Carlos Salazar (Head of the CCE Business Council) in the Financial Times. ("Mexico business lobby tries to build bridges with leftist leader" https://www.ft.com/content/9bc3c822-db26-11e9-8f9b-77216ebe1f17i). And the prominent businessman Juan Gallardo, President of Cultiba, on the cover of FORBES this week. ("Pasemos de las Quejas a las Soluciones").

- New NAFTA or USMCA has a decent chance of being approved this year, or early next year, according to recent press reports.

Of course, the risks are significant, notably the anti-business rhetoric of the current regime turning into negative economic policies later on and fiscal vulnerabilities of PEMEX and by extension the Federal Government. And while US President Trump for now is being constructive on Mexico, that could change at any moment. Still, we think for now the positives outweigh the negatives.

Damian Fraser.

S&P / BMV IPC Valuation

After last week's marginal 1.68% rebound, the Mexican S&P / BMV IPC Index trades at a forward EV/EBITDA of 8.2x, which is above the first negative standard deviation of the last 10 years. The projected P/E stands at 14.4x, between the second and first negative standard deviations. We believe that investors will focus this week on Banco de México's monetary policy meeting. We expect a 25 bps rate reduction.

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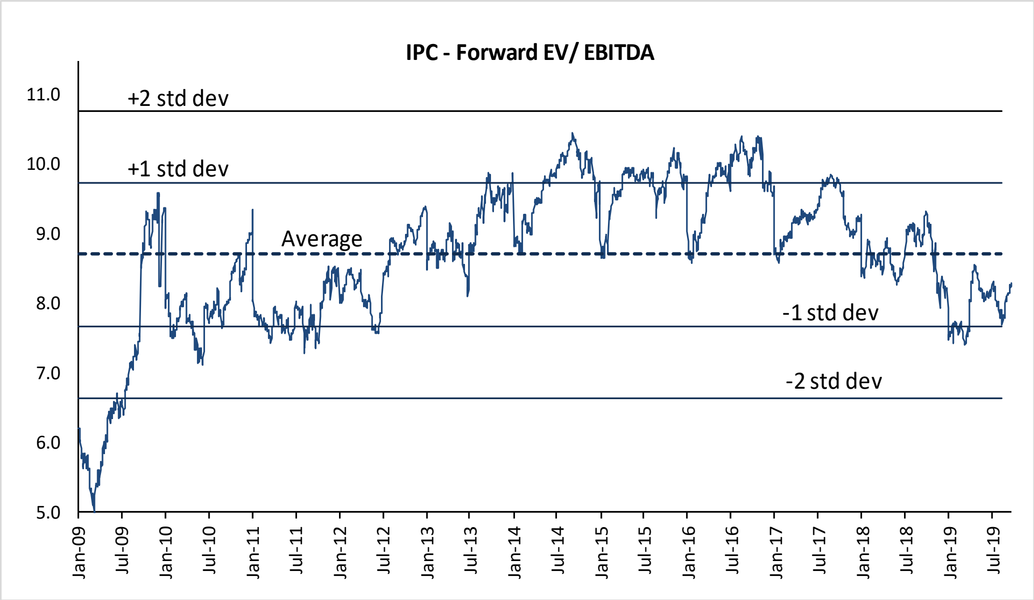

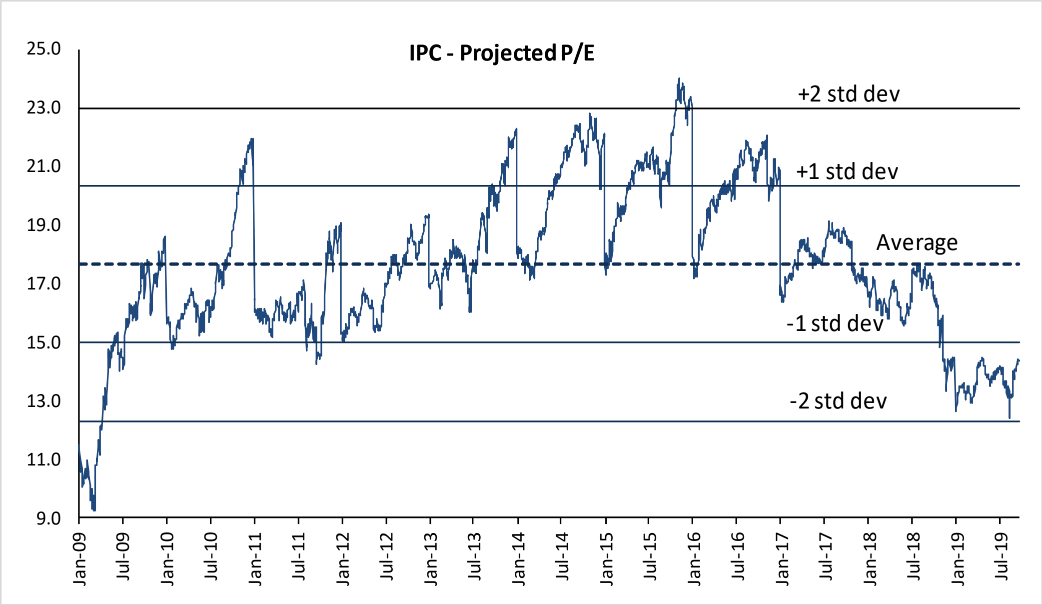

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