Mexico's 2020 Fiscal Budget

As you will have seen, this week the government sent Congress its Budget for 2020. We read various reports from sell-side economists and would summarize the consensus as follows.

- Overall the 2020 fiscal framework, noticeably a primary surplus of 0.7% of GDP, "meets expectations" (Actinver), "fiscal responsibility continues" (Banorte); "optimistic but investor friendly" (Bradesco). While AMLO may be a political and social populist, he is not (so far) a fiscal populist. And with monetary policy in the hands of the independent Central Bank, nor will interest rates be overly politicized.

- Tax increases are marginal. Retained tax on interest gains goes to 1.45% from 1.04%, but in theory at least the rate is unchanged once the annual tax returns are made. Excise taxes on soft drink went up, but in line with inflation. There are limits on deductibility of interest payments above 30% of EBITDA. As well flagged, e-commerce companies (UBER, Airbnb) will be subject to extra taxes, similar to initiatives elsewhere in the OECD. There are moves to collect taxes more aggressively on outsourced labor and rental properties. But there is nothing dramatic on the tax side.

- Oil production increase of 17% to 1.95mnb/d is clearly optimistic and would represent the highest annual increase in 40 years. Assume that government revenues will lag the forecast for this reason alone. And in the absence of a turnaround in oil production, concerns regarding PEMEX's ability to refinance USD100bn+ debt without a federal bail-out will only grow.

- GDP growth forecast of 1.5% to 2.5% is above the private sector forecast of about 1.5% growth. Tax revenues will also fall short to the extent growth disappoints.

All this said, the main challenge Mexico faces is not the 2020 budget, which by itself is reasonable enough. The major concerns remain: 1) lack of economic growth, driven by low investment (private and public) and weak global economic activity; 2) viability of PEMEX. Investment is in turn dampened by concerns regarding the erratic and often market distorting micro-economic policies espoused by the Federal government. And in the face of low growth the government's commitment to fiscal discipline may eventually erode – especially if it has to bail out PEMEX again if its production fails to grow.

ESG News

In ESG news we highlight the attached article in the Financial Times. (Big US sustainable funds fail to support ESG shareholder proposals: https://www.ft.com/content/5d342a5d-443d-3327-9502-2361f37f251c

The article suggests that 2019 shareholder voting records of major US "sustainable" funds have revealed that little has been done to uphold ESG standards. We agree that ESG investing should be treated with some skepticism, as a lot of ESG investing is really marketing to attract new fund flows. That said, simply voting in favor of management does not suggest funds are violating their ESG commitments, as the FT implies.

damian.fraser@miranda-partners.com
martin.lara@miranda-gr.com
Phone +52 (55) 5282 2992
Mobile +52 (55) 6413 8563

Montes Escandinavos #305
Lomas de Chapultepec
11000, Mexico City

f. /mirandapartnersmx
t. @mirandapartners
in. Miranda Partners

Summary of article. Big funds under Blackrock, JP Morgan Asset Management and Vanguard, labelled as sustainable, voted against shareholder proposals that laid out ways to be more in line with ESG criteria. These proposals included issues on political spending and diversity disclosures. Vanguard revealed to have oil and gas companies in an ESG fund that claimed to be fossil free. The manager of these funds categorized this mistake as an index error, and later ejected a gun manufacturer and private prison operator. Six of Blackrock's sustainability funds' records showed voting against shareholder proposals, and instead with the company's management, had increased to 73%. A 50% increase compared to 23% this time last year. JP Morgan's Intrepid Sustainable Equity fund also voted with company management for 4 out of the 5 shareholder proposals. These proposals gathered at least 40% of investor support. State Street's gender diversity ETF abstained from a gender pay gap proposal at Mastercard and voted against a proposal for disclosure about gender, race and ethnicity pay equity at The TJX Companies.

Damian Fraser.

S&P / BMV IPC Valuation

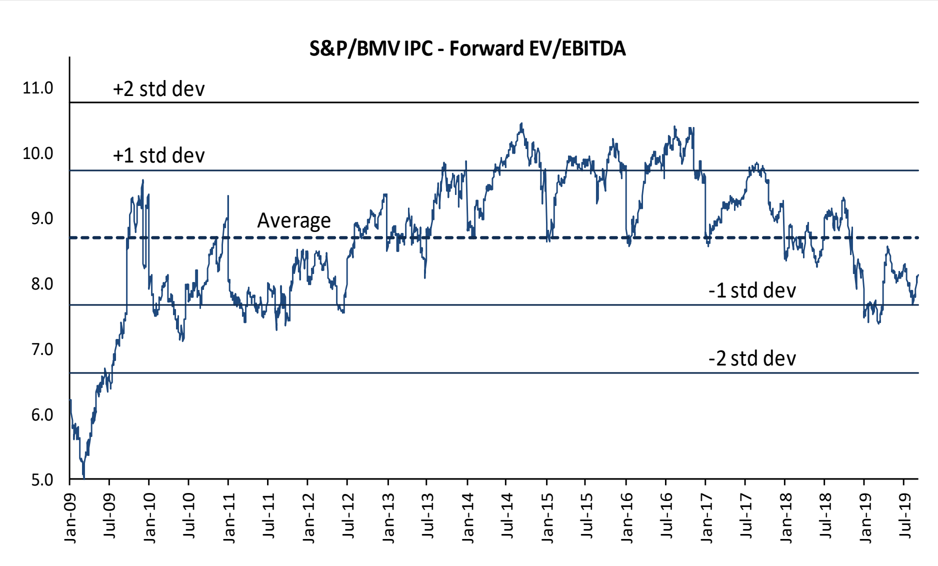
After last week's marginal 0.2% rebound, the Mexican S&P / BMV IPC Index continues to trade at a forward EV/EBITDA of 8.1x, which is above the first negative standard deviation of the last 10 years. The projected P/E stands at 14.1x, between the second and first negative standard deviations.

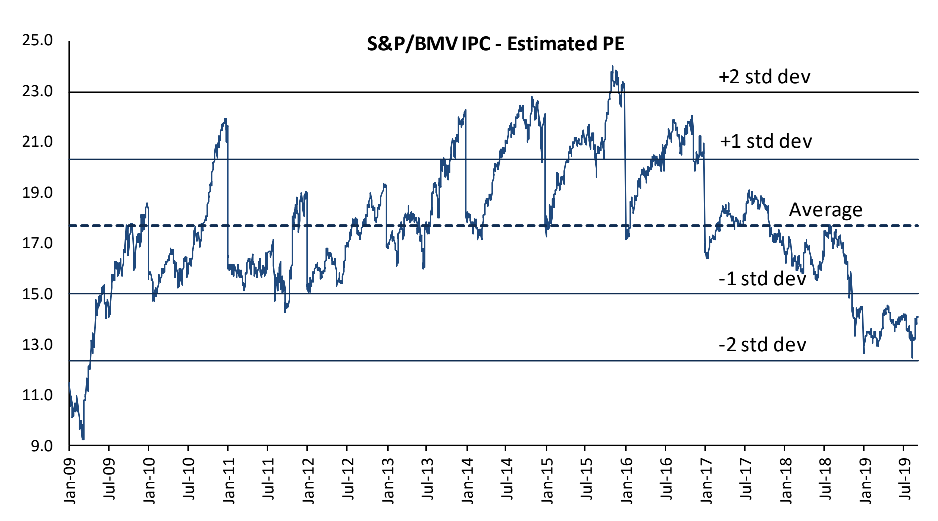
Martin Lara.

damian.fraser@miranda-partners.com
martin.lara@miranda-gr.com
Phone +52 (55) 5282 2992
Mobile +52 (55) 6413 8563

Montes Escandinavos #305
Lomas de Chapultepec
11000, Mexico City

f. /mirandapartnersmx
t. @mirandapartners
in. Miranda Partners





damian.fraser@miranda-partners.com
martin.lara@miranda-gr.com
Phone +52 (55) 5282 2992
Mobile +52 (55) 6413 8563

Montes Escandinavos #305
Lomas de Chapultepec
11000, Mexico City

f. /mirandapartnersmx
t. @mirandapartners
in. Miranda Partners

Disclaimer

The current report was prepared by Miranda Global Research ("Miranda GR"). The information is presented in summarized form and is not meant to be complete. There are no declarations or guarantees, expressed or implicit, in respect to the accuracy, impartiality or integrity of the information.

Miranda GR, in accordance to applicable legislation, has made sure that the presented personalized recommendation is reasonable to the client, as it has verified congruency between the client's profile and the profile of the financial product. Under no circumstance should it be understood that the fulfillment of the previously mentioned recommendation, guarantees the result or the success of the proposed strategies in the presented document.

The information included in this presentation was obtained from public and/or private sources. Projections or previsions included in this presentation, are a generalized recommendation and are based on subjective assumptions and estimations about events and circumstances that have not yet happened and are subjected to significant variations. Therefore, it is not possible to guarantee that any of the results included in the current report will happen in the future, in other words, it does not guarantee the result or the success of the posed strategies.

This report has been prepared solely with informational purposes. No declarations are made in respects to precision, sufficiency, veracity or accuracy of the information and opinions hereby included. Miranda GR will not answer (either because of negligence or for any other reason) for any damage or detriment derived or related to the use of this report or its content, or any connection to the report. Miranda GR is not responsible for the use or association with this report, including but not limited to, any declaration, expressed or implicit or guarantees or omissions included in this information.

This report is based on facts and/or events that have happened up to this date, consequently any future facts and/or events can impair the conclusions hereby expressed. Miranda GR does not assume any responsibility to update, review, rectify or invalidate this report based on any future occurrence.

The opinions related to this report eventually expressed by Miranda GR, should be considered only as suggestions/recommendations to better operate various topics related to the presentation.

damian.fraser@miranda-partners.com
martin.lara@miranda-gr.com
Phone +52 (55) 5282 2992
Mobile +52 (55) 6413 8563

Montes Escandinavos #305
Lomas de Chapultepec
11000, Mexico City

f. /mirandapartnersmx
t. @mirandapartners
in. Miranda Partners