

**HIGH VOLATILITY IN GLOBAL FINANCIAL MARKETS**

For the second week in a row, financial markets, especially stock markets, showed significant falls in the face of risk factors that could represent potential losses in the international financial system, a plunge in world economic growth and even changes in the institutional arrangement of the world economic order.

The VIX Index - the Chicago Board Options Exchange Index that measures expected stock volatility for put options has a strong inverse correlation with the S&P 500 Index. Therefore, substantial declines in the S&P 500 Index derive in higher VIX levels, indicative of distress and pessimism among investors. On the contrary, significant increases in the S&P 500 Index imply lower levels of the VIX Index, showing contentment and confidence in the stock markets. Last week, the VIX index increased towards levels of high concern. The list of factors that caused this situation is cumbersome:

1. The trade war between the US and China. According to the World Trade Organization, a large-scale trade war between both countries could cause a 17% decline in world trade, and global GDP growth could decrease 1.9 basis points, which is close to zero. From an overall perspective, current annual world trade average growth is 1.5%, whereas in 2008 and 2009, during the financial crisis, GDP growth fell between 2% and 3% per year.
2. The FED interest rate hikes. Disquiet regarding a tighter monetary policy has increased, given that the primary reference interest rate could increase for a more extended period or faster than expected. Either way, a full employment scenario in the US economy could endorse a neutral monetary policy – one that does not require further rate increments above 3% or 4% - and even higher if inflation doesn't give in.
3. The increase in the Ten-Year Treasury rate. In the same context as the FED rate, the 10-year US treasury bond rate - which establishes the opportunity cost of equity worldwide - has also increased significantly. After starting the year below 3.0%, it surpassed 3.20% in the first week of October. Its highest level since 2011.
4. Brexit and Italy. In addition to the difficulties between the United Kingdom and the European Union to approve a customs agreement that fosters an orderly exit, and reduce adverse effects on both economies, now the new government in Italy has adopted a loose fiscal policy and an anti-European position.
5. Potential systemic risk in emerging countries. For political, social and economic reasons, some emerging countries are now important sources of systemic risk, as denoted by strong currency depreciations throughout the year, such as the Turkish lira (-35.33%), the Argentine peso (-49.24%), the Brazilian real (-12.50%) and the South African rand (-14.71%).
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7. The longest "bull market" in history. The nearly uninterrupted US stock markets rally that started in 2009 – that heightened in 2017 and continued throughout 2018 - has been associated with the FED expansive monetary policy, which could begin a neutral phase. Furthermore, October is usually an emblematic month, depicted by the financial crisis *deja-vú* of 1929 and 1987.

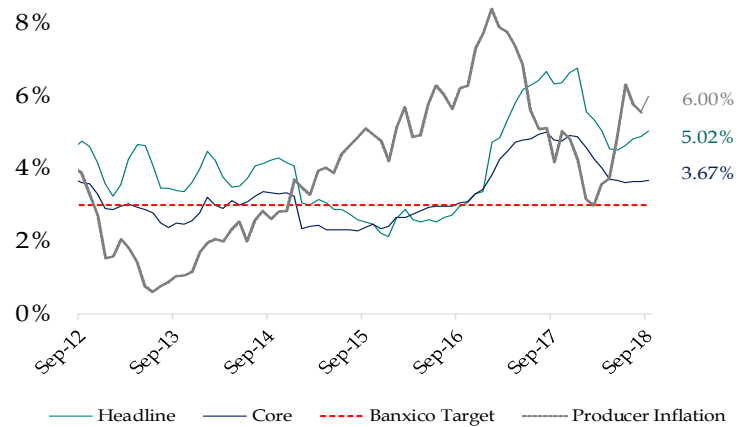
**Economic indicators**

**Inflation**

Contrary to the latest monetary policy decision of the Bank of Mexico, inflation continues with the upward trend of recent months, driven mainly by energy prices. During September, annual consumer inflation was 5.02%, the highest since March; and core inflation was 3.67%.

Core inflation was driven by consumer goods (+3.95%) and services (+3.38%), while non-core inflation is explained by energy and government tariffs (+14.47%) and agricultural products (+1.22%).

**Inflation (YoY % Change)**

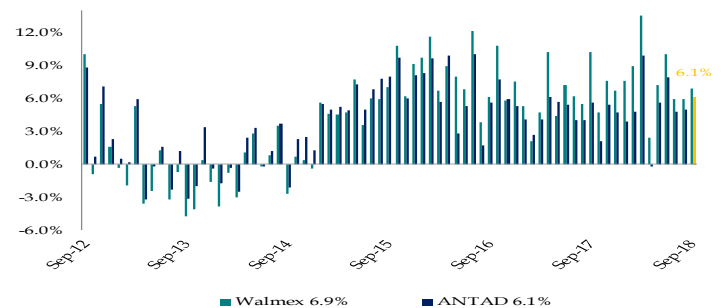


Source: INEGI

**ANTAD Same Store Sales**

Despite inflation, Same Store Sales increased 6.1% in September compared to the previous year and 1.1% compared to the last month. (Source: National Association of Department Stores).

**Same Store Sales (YoY % Change)**



Source: ANTAD & Walmex

Eugenia Pichardo & Arnulfo Rodriguez,  
 Equity Portfolio Manager & Macro and Debt Strategist  
 Investor Relations : igarcia@paminversion.com  
 (55) 5261 4600

WEEKLY ECONOMIC REPORT

OCTOBER 12, 2018

Pichardo Asset Management, SA de CV  
An Independent Investment Advisory Firm  
[www.paminversion.com](http://www.paminversion.com)  
Andrés Bello 45, 22nd Floor,  
Polanco, 11550 CDMX, México  
Phone: + 52 (55) 52 61 46 00 / 04/21/16

[epichardo@paminversion.com](mailto:epichardo@paminversion.com)

Equity Portfolio Manager

[arodriguez@paminversion.com](mailto:arodriguez@paminversion.com)

Macro Strategist & Debt Portfolio Manager

[destevez@paminversion.com](mailto:destevez@paminversion.com)

Financials Analyst  
Assistant Portfolio Manager

[jelizalde@paminversion.com](mailto:jelizalde@paminversion.com)

Industrials Analyst  
Assistant Portfolio Manager

[lcalzada@paminversion.com](mailto:lcalzada@paminversion.com)

Compliance

**Definitions**

**GDP:** Gross Domestic Product proxy. The monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory

**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.

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

**S&P 500:** The Standard & Poor's 500 Index - S&P 500 is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value. The S&P 500 is a market value or market-capitalization-weighted index and one of the most common benchmarks for the broader U.S. equity markets.

**INEGI:** The National Institute of Statistics and Geography.

**VIX** - CBOE Volatility Index: The Volatility Index, or VIX, is an index created by the Chicago Board Options Exchange (CBOE), which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities on S&P 500 index options. This volatility is meant to be forward looking, is calculated from both calls and puts, and is a widely used measure of market risk. The VIX is often referred to as the "investor fear gauge."

**BREXIT:** Brexit is an abbreviation for "British exit," referring to the UK's decision in a June 23, 2016 referendum to leave the European Union (EU).

**Bull Market:** A bull market is a financial market of a group of securities in which prices are rising or are expected to rise. The term "bull market" is most often used to refer to the stock market but can be applied to anything that is traded, such as bonds, currencies and commodities.

**Correlation:** in the finance and investment industries, is a statistic that measures the degree to which two securities move in relation to each other. Correlations are used in advanced portfolio management, computed as the correlation coefficient, which has a value that must fall between -1 and 1.

**ANTAD:** stands for Asociación Nacional de Tiendas de Autoservicio y Departamentales (National Retailers Association of Mexico).

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

**WALMEX:** the Fund maintains a 2.48% investment in the security, at the close of September 30, 2018. For a list of full securities please visit: [www.mxefund.com](http://www.mxefund.com).

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