

Likely economic slowdown in Mexico and high probability of a cut in the Federal Reserve's reference rate

The trading week that ended on July 12th characterized by several factors that constrained Mexican financial markets and the peso-dollar exchange rate, namely:

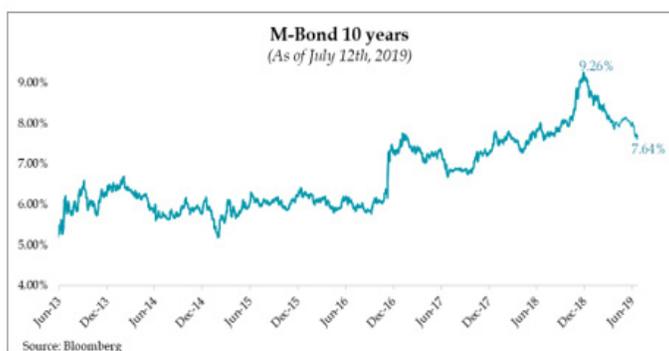
- I. The unexpected resignation of the Secretary of Finance, Carlos Urzúa, on July 9th where he revealed the lack of consistency in public policies, imposition of improvised officials within the Secretary of Finance (SHCP), and conflicts of interest in the government.
- II. The minutes published by the Central Bank's (Banxico) monetary policy decision of June 27, where it highlights the risks of lower economic growth. In this sense, Bank of America Merrill Lynch (BofAML) forecasts a negative growth of (-) 0.17% for 2Q19; Mexico's economy would enter a technical recession. INEGI will publish the preliminary economic growth data for 2Q19 on July 31.
- III. The Federal Reserve of the United States (FED) published the minutes of its Open Market Committee (FOMC) held on June 18th and highlighted its willingness to reduce its reference rate to face the risks of a possible global economic recession. Noteworthy, Jerome Powell confirmed this possibility in the United States Congress (USA). The market anticipates a reduction of 25 basis points on July 31st, and with this, the federal funds rate would oscillate in the range of 2.00% - 2.25%.

Peso-Dollar Exchange Rate

The spot exchange rate closed July 12th operations at MX\$18.98 per dollar, a weekly and year to date appreciation of 0.18% and 3.42% respectively. Noteworthy, the significant variation of 2.65% in the week was a consequence of the unexpected resignation of the Secretary of Finance; however, the impact was limited due to the appropriate designation of the Undersecretary Arturo Herrera as his successor. Besides the stability of the exchange rate is also supported by the strength of external accounts such as remittances and the trade surplus.

10-Year M Bond

The 10-year M bond rate closed at 7.63% on July 12th, a weekly increase of 28.5 basis points. Investors' appetite for risk increases, so the primary beneficiaries are assets with a controlled level of risk such as the M-Bond; however, it did not happen this time due to investors' uncertainty regarding the public policies of the Federal Government.



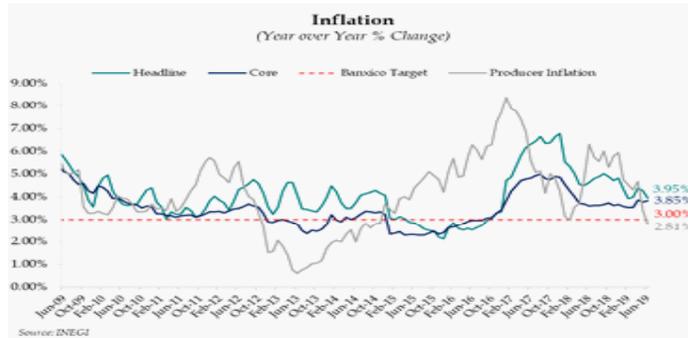
Mexican Stock Exchange

The Mexican Stock Exchange Index (Mexbol) had a weekly decrease of -1.72% mainly on the resignation of the Minister of Finance and the expectations of an economic recession. The Index accumulates a 2.45% year-to-date return, and its trend will be determined by the release of INEGI's preliminary 2Q19 Gross Domestic Product growth estimate coupled with companies 2Q19 financial results.

Economic Indicators

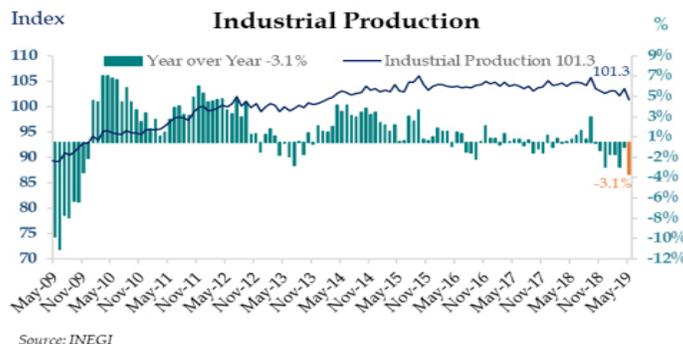
Inflation

Monthly inflation in June was 3.95%, within the range of Banxico. Core inflation rose to 3.85% due to a considerable price increase in chicken, avocado and air transport, which grew, 4.39%, 23.83%, and 12.98% respectively. In contrast, non-core inflation fell 1.59% compared to May to 4.19% given the drop in the prices of energy products (2.67%).



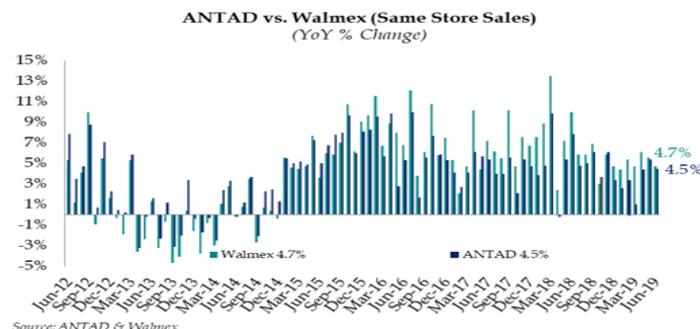
Industrial Activity

Industrial activity in Mexico fell -3.1% year-over-year. By component, the most significant drop was in construction, which fell -9.0% and mining, which fell -8.9%. The manufacturing industry and utilities (water, gas, and electric power) grew 0.4% and 1.6% respectively and were not enough to offset the negative effect.



ANTAD same stores sales

ANTAD's same-store-sales (SSS) increased by 4.7% year-over-year (YoY) in June and seems positive as consumption continues to grow despite economic slowdown; this contrasts with Walmex's SSS growth of 4.5% and dissipates the fear of a considerably lower growth after March's figure, which only grew 1.0%. A possible explanation of the above can be the recovery of the purchasing power aided by a 1.69% real wage growth in June.



Wages Growth

Contractual wages in June registered a 6.10% year over year increase and compares favorably with the 3.85% annual inflation in June; this implies a 2.15% real wage growth. Average annual real growth amounts to 1.69%, the highest since 2001. Noteworthy, so far this year, all real salary data has been positive, not observed since 2016; however, this improvement relates to the increase in the unemployment rate.

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WEEKLY ECONOMIC REPORT

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Definitions

Bank of America Merrill Lynch. Is an American multinational investment bank division under the auspices of Bank of America. As of June 30, 2019 the security represents 0.00% of Portfolio Net Assets.

FED (Federal Reserve System) is the central bank system of the United States that includes the Board of Governors in Washington, D.C., and 12 independent regional Reserve banks.

FOMC: The Federal Open Market Committee, a committee within the Federal Reserve System (the Fed), is charged under the United States law with overseeing the nation's open market operations and makes key decisions about interest rates and the growth of the United States money supply

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.

Mexbol: The S&P/BMV IPC seeks to measure the performance of the largest and most liquid stocks listed on Mexbol. It is not possible to invest in an index.

INEGI: The National Institute of Statistics and Geography is a public body with technical and managerial autonomy, its own legal personality and assets, responsible for regulating and coordinating the National System of Statistical and Geographic Information.

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.

Non-core inflation: Includes the seasonal inflation element. Core and non-core are the two parts of total inflation or what we call the headline inflation.

Core inflation: is the change in costs of goods and services but does not include those from the food and energy sectors.

National Association of Supermarkets and Department Stores (ANTAD): Association founded in 1983 to promote the development of retail trade and its suppliers. As of May 2019 ANTAD, represents 55,148 convenience stores, supermarkets, department stores and specialty stores.

SHCP: Secretaría de Hacienda y Credito Publico, is the executive federal power office with functions of Ministry of Economy.

Basis point (BPS): One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001.

GDP: Gross Domestic Product. 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.

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.

Walmex: Retail company. As of June 30, 2019 the security represents 7.53% of Portfolio Net Assets.

Fund holdings and sector allocations are subject to change and are not a recommendation to buy or sell any security.

Disclosures

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Past performance is not a guarantee of future results. Index performance is not illustrative of fund performance. One cannot invest directly in an index. Please call (414) 765-4255 for fund performance.

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