1Q22 Outlook – A tough start of the year for markets on challenges in several fronts

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Winners of the award for best economic forecasters for Mexico in 2021, granted by *Refinitiv*

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The year started with relevant challenges, with most factors behind global economic and market performance in 2021 prevailing for longer. In November-end, the WHO designated Omicron as variant of concern. Since then, it has led to a strong rebound in COVID-19 cases. This is just a reminder that we will keep facing waves before a new equilibrium is reached when the Coronavirus becomes endemic. Headwinds will come mainly from persistent disruptions, including its impact on growth, supply chain issues, the rebound in prices of raw materials, and mobility restrictions, among many others. Despite of this, the room and willingness to add further stimulus is much lower, leaving markets in a more volatile environment. This backdrop could also result in an extension of price pressures accumulated during 2021, with annual rates at highs of at least two decades in several regions. Inflation closed last year at 7% in the US, 5% in the Eurozone and 5.4% in the UK. In response, more restrictive central banks' policies are expected. We see the Fed hiking its reference rate in March, with a total of +125bps this year. The ECB will try to resist pressures to hike rates, while the BoE will continue with rate increases that began in December.

In geopolitical events, we highlight the US mid-term elections (November), with Democrats facing increasing difficulties due to the fall in president Biden's approval ratings. Also, presidential elections will be held in Colombia (May) and Brazil (October). In Mexico, races for six governorships and other local positions (June 5th) and the public consultation on the revocation of mandate (April 10th). The year started with heightened tensions between the US and Russia due to a potential invasion of Ukraine. Problems between the US and China remain, with possible consequences for global corporations and trade, to name a few.

We think investors will have to keep repositioning their strategies. In our view, active management in relative value trades within each asset class, more flexibility and faster reaction times to adjust positions to changing circumstances, rotating towards value vs. growth stocks, as well as preference for higher-quality credit, will be more adequate and defensive for the first months of the year. In Mexico, all this resonates in higher risks for growth (to the downside) and inflation (to the upside). In our base case, we still assume policy responses that will safeguard the country's macro stability. For Banxico, we see a slightly more hawkish stance than analysts' consensus with +175bps this year to 7.25%, albeit still below what markets are already pricing-in.

Mexico's main macroeconomic and financial forecasts
End of period

	1Q22	2Q22	3Q22	4Q22	2020	2021	2022
GDP (% y/y)	0.5	1.7	3.3	3.9	-8.3	4.8	2.4
Inflation (% y/y)	6.4	5.3	5.0	4.4	3.2	7.4	4.4
USD/MXN	21.20	21.50	21.60	21.80	19.91	20.53	21.80
Banxico's reference rate (%)	6.25	6.75	7.00	7.25	4.25	5.50	7.25
28-day TIIE (%)	6.60	7.10	7.35	7.60	4.48	5.72	7.60
Mexbol (points)	--	--	--	58,000	44,066	53,272	58,000

Source: Banorte. Underlined data represents our forecasts

Mexico

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The Mexican economy still has ample room to recover, with activity levels around 3% lower than those seen before the pandemic (4Q19) at the end of 4Q21. We especially highlight the strong deceleration in the second half of last year due to weakness in services. This is negative as it represents a lower inertial boost than previously expected. In addition, other important risks have materialized, including the spread of the Omicron variant. Locally, higher contagions have had an impact due to increased work absenteeism as people quarantine themselves, with reports of difficulties in several industries. Globally, the virus constitutes a relevant driver of lower growth in the US –with negative implications for our country– and has resulted in lockdowns in countries like China, impacting global trade. In addition, its renewed effect on supply chains and prices still represents a headwind, impacting businesses' margins and households' real incomes. On the contrary, we believe some factors could provide support, especially in the second half of 2022. Among them, we highlight: (1) Higher amounts and earlier disbursements of resources from social programs to students (starting in February) and other vulnerable groups (March); (2) progress on the pandemic, including vaccinations, treatments against the virus, and even a situation in which it becomes "endemic", allowing a more decisive reopening; (3) moderation of supply bottlenecks, helping lagged sectors (*e.g.* auto and household appliance manufacturing, *maquiladoras*); and (4) a gradual reactivation of domestic demand on more modest price increases and a recovery in fundamentals. Considering all these factors, we revise our GDP forecast for 2022 lower, to 2.4% (previous: 3.0%).

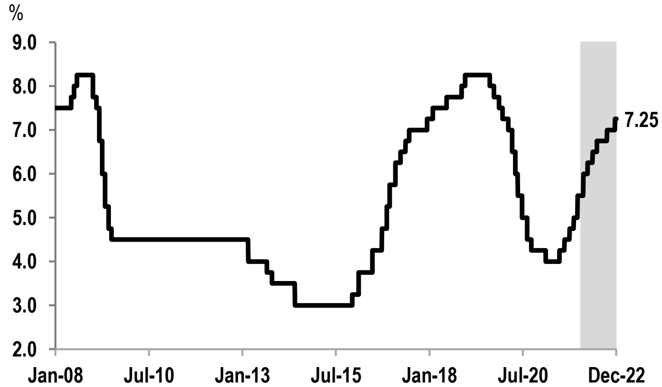
By sectors, on supply we expect industry to improve, especially in 2H22. On the other hand, external demand will continue as the main driver (table below, left), with domestic categories more muted (consumption and investment). An additional drag for the latter may be a more restrictive monetary policy. We still think Banxico will extend its hiking cycle this year, starting with +50bps on February 10th. After this, it is our take that the central bank will be forced to follow the Fed's restrictive cycle. Given that we now forecast five 25bps increases each from said monetary authority, starting in March (see section below), the reference rate in Mexico at the end of the year would reach 7.25% (table below, right), implying accumulated rate hikes of 175bps up to December.

GDP forecasts: Aggregate demand
% y/y nsa; % q/q sa

% y/y	1Q22	2Q22	3Q22	4Q22	2021	2022
GDP	0.5	1.7	3.3	3.9	4.8	2.4
Private consumption	1.8	3.0	4.7	4.2	7.1	3.5
Investment	3.6	4.2	2.4	1.6	9.9	3.0
Govt. spending	3.2	0.8	1.5	1.0	1.5	1.6
Exports	3.4	6.8	12.6	9.9	6.7	8.3
Imports	3.1	3.6	9.5	8.8	13.8	6.4
% q/q						
GDP	0.5	1.4	1.1	0.6	--	--

Source: INEGI, Banorte

Reference rate
%



Source: INEGI, Banorte

United States

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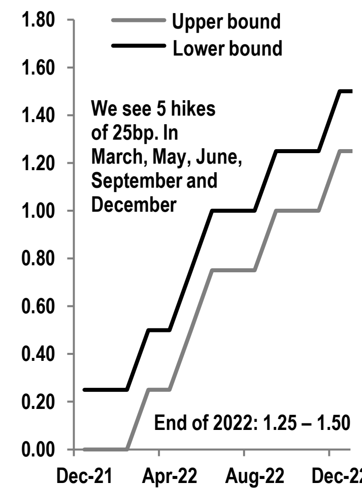
The current year will be challenging amid the emergence of new COVID-19 strains, while the factors behind rising inflation have been more persistent than anticipated. We believe a key factor in 2022 will be consumption's slowdown due to: (1) The expiration of direct transfers to families as part of fiscal stimulus; (2) fears about the rebound in the number of infections; and (3) growing price pressures. At the same time, companies have been affected by staffing shortages because of the high number of cases, while investment in structures continues to contract due to new work-at-home schemes. As a result, we have revised down our GDP estimate for the year to 3.5% from 3.7% previously.

Banorte's estimate of *Fed funds* rate*
%



* Note: 2022 correspond to Banorte's forecast
Source: Banorte with data from Bloomberg

Despite headwinds for growth, the labor market has recovered further. Although there are still 2.9 million left to be filled to reach pre-pandemic levels, the unemployment rate closed 2021 at 3.9% –below the 4.0% estimate of NAIRU– and reached 4.0% in January. We expect the downward trend to continue, albeit at a more modest pace, closing the year at 3.5%. Broadly speaking, conditions look consistent with the Fed's maximum employment mandate. On the other hand, we expect prices pressures to remain at least during the first half of the year. Some drivers that stand out include renewed supply chain problems, the rise in commodities and wages, higher housing costs and the uptick in inflation expectations. We anticipate inflation still above 4.5% y/y in 1H22, ending the year close to 3.0% y/y. With this, average inflation for the year would be 5.0%. In this context, we estimate that the Fed will begin the hiking cycle with a 25bp increase in March, immediately after tapering ends. Given the inflation outlook, the labor market recovery and after Powell's hawkish comments at the last FOMC meeting, we estimate four more increases of the same magnitude in May, June, September and December, closing the year in a range between 1.25 %-1.50%. In 2023 we see four more hikes, with the rate practically at neutral of 2.25%-2.50%.

On the political agenda, the approval of Biden's *Build Back Better* plan in the Senate looks increasingly difficult. The current bill is likely dead, although there is a chance some key parts will pass. However, this is negative news for growth, adding to the already high probability that the Democrats will lose control of both Houses in the mid-term elections to be held in early November.

US: Banorte Estimates

	2021	1Q22	2Q22	3Q22	4Q22*	2022
GDP (% q/q annualized rate)*	5.7	2.0	3.0	2.7	2.7	3.5
Private Consumption	7.9	2.5	3.4	2.9	3.6	3.4
Fixed Investment	7.7	2.6	3.6	4.1	4.1	2.4
Exports	4.6	6.1	5.3	6.1	4.9	7.6
Imports	14.0	6.1	4.5	5.9	4.9	7.6
CPI (% y/y, average)	4.7	6.9	5.5	4.5	3.1	5.0
Unemployment rate (%, eop)	3.9	3.9	3.8	3.6	3.5	3.5
Non-farm payrolls (thousands)	6.448	967	800	1,200	1,000	3,967

* All GDP estimates are % q/q saar, except for 2021 and 2022 which is % y/y. eop: end of period.
Source: Banorte

Global

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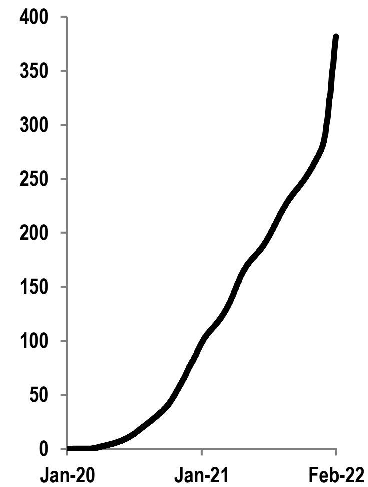
Global growth will keep facing challenges. With two years into the pandemic, most countries are learning to live with COVID-19 as an endemic disease, with China as the exception. The Asian country continues with a zero-tolerance strategy that is increasingly difficult to maintain, especially because of the new and highly contagious omicron variant. Every country in the world has seen a sharp spike in the number of cases recently (see graph on the right), including China, despite having closed its borders. High infection rates have prompted many regions to impose restrictions on mobility once again, while businesses face staffing shortages. This will lead to low global growth in 1Q22, a situation that will likely continue throughout the year due to more restrictive monetary policies, the absence of fiscal stimulus and, in some instances, geopolitical tensions. Currently, the greatest hope lies in the continuity of vaccinations and new antiviral treatments, although the effectiveness of the latter is still unknown.

Total global cases of COVID-19
Million



Source: Banorte with data from Bloomberg

Hand in hand, both advanced and emerging economies are experiencing high inflation, far exceeding central banks' targets. In the former, the tapering and likely start of rate hikes by the Fed in March stand out, as well as additional increases by the BoE –we estimate year end at 1.00% from the current 0.50%. There are also growing pressures to do the same for the ECB, but we don't expect increases in 2022. In addition to the effect that these adjustments could have in advanced economies, emerging markets will face increasing competition for financial flows and a strong dollar. In this group, only China appears to be preparing additional stimulus and has already cut interest rates given weaker growth, even despite risks to financial stability. On the contrary, we highlight that Brazil's Copom will probably extend its aggressive hiking cycle, estimating the *Selic* at least at 12.50% by the middle of the year (current: 10.75%).

At the same time, there's a busy political agenda in 2022. Highlights include mid-term elections in the US, as well as presidential elections in Germany in February, Colombia in May and Brazil in October. In the latter, polls show that President Bolsonaro could lose against former president Lula da Silva, leading him to implement even more populist policies in a bid to boost his approval ratings, thus increasing risks on the fiscal front.

Geopolitical tensions should be added to the above. On the one hand, the US has raised the alarm with the European Union about a possible invasion of Ukraine by Russia. On the other, a more conciliatory stance from Biden towards China was expected, but this has not been the case and tensions continue rising between these countries on several fronts. Finally, and following with issues about the Asian country, President Xi Jinping keeps consolidating his leadership ahead of his likely historic election this year as Secretary General of the Communist Party for the third consecutive time. However, risks for investors have been increasing amid regulatory changes that could hurt the economy in the long run, high levels of corporate leverage, tensions in Hong Kong and other social grievances, to name just a few.

Fixed income (sovereign debt)

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Sovereign rates ended last year with a negative performance, with the Mbonos' curve printing an average 212bps sell-off and a clear flattening bias. The 10-year benchmark, Mbono May'31, closed at 7.57% after reaching as high as 7.75% –not seen since the start of the pandemic– in November. This occurred amid sharp losses in global sovereign bonds, led by US Treasuries.

We expect high volatility to continue, not ruling out abrupt changes mainly in short- and mid-term rates. Uncertainty is likely to prevail due to high inflation and the ongoing adjustment in global monetary expectations. Based on our calls for the Fed and Banxico, we recommend a short/payer position in 2-year TIIE-IRS (26x1) with an entry level of 7.40%, target at 8.10% and stop-loss at 7.15%. Carry and rolldown for this trade is close to -8bps per month. Specifically, we see this as attractive as the market is pricing-in implicit cumulative hikes of about +200bps by Banxico until early 2024. In contrast, our call is for cumulative hikes of +275bps by year-end 2023, of which +175bps and +100bps correspond to this year and next, respectively.

Furthermore, we see higher value in long-term Mbonos. It is our take that this zone has less room for further pressures after the adjustments seen so far. In particular, 20- and 30-year spreads vs. the USTs currently stand at 580bps and 586bps, in the same order, above their 12-month averages. In addition, duration-adjusted yields also reflect greater value in this segment of the curve. In greater detail, we favor Mbono Nov'42 at levels close to +2σ of its 90-day MA, equivalent to 8.20%. We also identify Mbono Nov'47 as favorably valued.

Lastly, we maintain our preference for nominal vs. real rates. Nonetheless, if we had to choose within the latter, we believe short-term Udibonos are most attractive when compared to other maturities. In this respect, inflation breakevens in this section have compressed relatively faster. For example, the 3-year tenor stands at 4.02%, which is an 8-month low after falling 81bps YTD. It is also 30bps lower than its one-year average. Amid a complex inflationary backdrop –at least in the short term–, we see these securities as having the highest value for trading positions.

Banorte's interest rate forecasts
%

Security	2018	2019	2020	2021	2021				2022 forecasts			
					1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Banxico's reference rate												
Average	7.64	8.05	5.44	4.38	4.11	4.02	4.39	4.98	5.92	6.50	6.83	7.08
End of period	8.25	7.25	4.25	5.50	4.00	4.25	4.75	5.50	6.25	6.75	7.00	7.25
28-day Cetes												
Average	7.64	7.87	5.33	4.44	4.13	4.08	4.45	5.10	5.96	6.58	6.93	7.18
End of period	8.06	7.30	4.25	5.51	4.09	4.29	4.72	5.51	6.30	6.85	7.10	7.35
28-day TIIE												
Average	8.00	8.31	5.69	4.63	4.37	4.30	4.64	5.20	6.22	6.85	7.18	7.43
End of period	8.59	7.56	4.48	5.72	4.28	4.53	4.75	5.72	6.60	7.10	7.35	7.60
10-year Mexican bond (Mbono)												
Average	7.93	7.61	6.25	6.81	5.98	6.75	7.00	7.48	7.74	7.95	8.03	8.08
End of period	8.63	6.85	5.54	7.57	6.81	6.99	7.36	7.57	7.90	8.00	8.05	8.10
10-year US Treasury												
Average	2.91	2.14	0.88	1.44	1.31	1.58	1.32	1.53	1.71	1.93	2.03	2.13
End of period	2.71	1.92	0.91	1.51	1.74	1.47	1.49	1.51	1.90	1.95	2.10	2.15
10-year Spread Mex-US												
Average	502	547	534	538	467	517	568	595	603	603	600	595
End of period	592	493	463	606	507	552	587	606	600	605	595	595

Source: Bloomberg and PiP for observed data, Banorte for rate forecasts. Underlined numbers indicate forecasts

Foreign exchange

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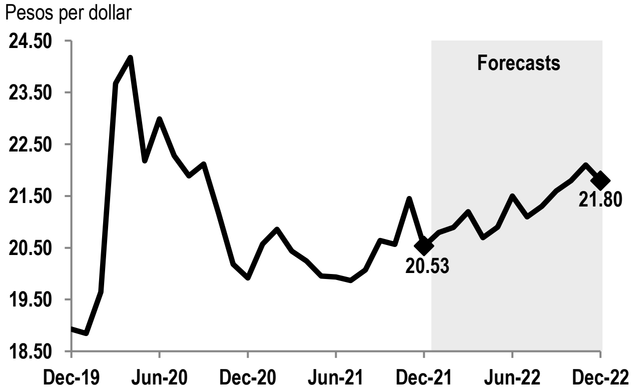
The dollar finished 2021 with an appreciation of 6.4% y/y and 1.5% q/q on the DXY, consistent with our view of structural strength as the market priced-in a hawkish Fed. Performance was negative in both developed and emerging market currencies. Nevertheless, the MXN had a relatively defensive bias, accumulating a 3.0% y/y depreciation but gaining 0.5% q/q, with wider trading ranges vs. the previous quarter. We believe the change in the pace of hikes by Banxico was key for this to happen, also allowing 3-month implied volatility to end below its 12-month average and net shorts on the MXN to fall sharply, reaching US$ 222 million against an average of US$ 1.1 billion in October and November.

We expect the dollar's structural strength to continue in 1Q22 on the back of the Fed's hawkish tone. This could contribute to further USD longs, although the upside is more limited relative to the 2019 peak. In our view, the biggest risk for the USD is that market expectations are already pricing-in five *Fed funds* hikes this year. However, we do not expect the currency to fall significantly in the short term as we also add the possibility of new bouts of risk aversion because of the pandemic, geopolitical tensions (*e.g.* Russia and the US) and higher and more persistent inflation. Meanwhile, weak European growth on pandemic waves, along the desynchronization of the ECB's monetary policy stance –where we do not anticipate rate hikes this year– with the Fed, will be limiting factors for EUR/USD gains. For the latter, we estimate 1.07 per euro by year-end 2022.

We expect USD/MXN to return near 21.00 per dollar as the market is already pricing-in a more aggressive path of implied rate hikes by Banxico for this year relative to our call. In this sense, the carry trade as an underlying support for the currency could wane ahead. We maintain our year-end estimate at 21.80, with a low near 20.20 and a high of 22.10 in the monthly path. In the short term, additional MXN gains could be limited by a technically congested zone defined by a Fibonacci level and the 200-day MA, at 20.57 and 20.32, respectively, with the latter coinciding with relevant options' maturities. We keep our recommendation of buying USD on dips for trading purposes, especially if the current move extends to the 20.25-20.35 area. For investors with an appetite for carry, we see a more attractive opportunity in EUR/MXN shorts given the lag in the hiking cycle between Banxico and the ECB, as well as current rate differentials, even after considering the risk of higher volatility given the use of our currency as a proxy for emerging market exposure.

USD/MXN
Pesos per dollar



Source: Bloomberg, Banorte

USD/MXN forecasts
Pesos per dollar

Period	End of period	Forecast	Period Average
1Q21	20.43		
2Q21	19.94		
3Q21	20.64		
4Q21	20.53		
1Q22		21.20	20.96
2Q22		21.50	21.03
3Q22		21.60	21.33
4Q22		21.80	21.90

Source: Bloomberg, Banorte *Underlined numbers indicate forecasts

Stock market indices

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Last year was undoubtedly characterized by a sustained, albeit divergent, recovery. This was mainly driven by high liquidity coming from unprecedented stimulus as well as the resumption of activities, resulting in a clear appetite for risk assets. Despite ongoing challenges, the vaccination process has at least managed to alleviate the effects of the still latent COVID-19, boosting corporate earnings. Major equity markets averaged a ~7.0% increase in USD terms, with the US and Mexico even reaching all-time highs. Now, in 2022, we find ourselves in a backdrop of inflationary pressures not seen in decades, with strong challenges due to supply chain disruptions and rising costs of commodities still present. Above all, expectations of a tighter monetary stance from different central banks, particularly the Fed, stand out. Bearing this in mind, stock markets will keep facing periods of high volatility, at least as long as the monetary policy normalization process in the US and the start of interest rate hikes are more clearly defined. This happens in a context of valuations in some sectors and markets that look high. In our view, this calls for a greater relevance of active strategies aimed to improve asset diversification while controlling risk appetite more effectively. Hence, we believe stock picking will be crucial for success. Earnings growth will continue, although at a more modest pace (S&P500: 2021e 47.8% and 2022e 8.7%), while interest rate hikes will likely encourage more rotation –Value vs. Growth– from sectors where valuations seem expensive –such as Technology– towards Cyclical and Value companies, such as Energy and Financials.

S&P500 forecast. In a context of earnings growing at a more normalized pace and higher interest rates, we expect the index's valuation to gradually approach its historical averages. For 2022, we maintain our reference level of 4,950pts, assuming 8.7% earnings growth and a 20.5x P/E ratio (consistent with the 3Y average).

Mexbol forecast. In Mexico, the Mexbol accumulated a 2021 return of 16.6% in nominal terms and 12.9% in US dollars, closing at 53,272pts. Now, 2022 underpins sustained growth, although at a slower pace, along the risks mentioned above. In our view, a backdrop of higher rates will be a headwind for valuations to reach levels above the previous year, despite still being below historical averages. Having said that, considering a FV/EBITDA multiple of 7.7x –consistent with the 3Y average, and below the 7.8x of 2021–, expected EBITDA growth of 6.7% y/y, and almost flat net debt levels (+0.4% y/y), we reaffirm our 2022 reference level at 58,000pts. In 1Q22, the outlook will continue favoring companies as Alpek, Gentera, Orbia and Volar. Asur, Gap, Liverpool and Oma will recover further, while we still see upside potential in Alsea. Meanwhile, Femsa should stand out as a value company.

S&P 500 forecast for 2022
Pts

P/E fwd	S&P 500 (pts)	Potential Return (%)
21.5x	5,225	16.7
21.0x	5,103	14.0
20.5x	**4,982**	**11.3**
20.0x	4,860	8.5
19.5x	4,739	5.8

Source: Bloomberg, Banorte

Mexbol forecast for 2022
Pts

FV/EBITDA	Mexbol (pts)	Potential Return (%)
8.1x	61,885	21.0
7.9x	59,942	17.2
7.7x	**57,998**	**13.4**
7.5x	56,055	9.6
7.3x	54,111	5.8

Source: Bloomberg, Banorte

Commodities

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Commodities recovered in most sectors at year-end 2021, highlighting energy and industrial metals as they extended the recovery that began in the aftermath of the strong shock triggered by COVID-19. The GSCI and BCOM rallied 37.1% y/y and 27.1% y/y, respectively, despite more moderate dynamics in the last quarter. Brent and WTI even traded above pre-pandemic levels, closing at 77.8 $/bbl (+50% y/y) and 75.2 $/bbl (+55% y/y), in the same order. In this backdrop, the US and other countries released part of their Strategic Reserves in November, although China continues to evaluate the timing and pace at which it will implement its strategy.

In 2022, OPEC+ will continue adjusting production levels until September to fully dilute the historic supply withdrawal since April 2020 of 9.7 Mbbl/d. Additionally, some countries' production benchmarks will be adjusted upwards starting in May. However, the effect could be limited given robust demand expectations, more so as they have incorporated a moderate impact from the Omicron variant. Specifically, the EIA and OPEC forecast average monthly demand of 100.5 and 100.8 Mbbl/d, respectively, returning to pre-pandemic levels. In a backdrop of low inventories –with US readings close to 2018 lows–, production disruptions due to geopolitical issues and an increase in long positions, we see upside risks to prices. In this sense, we forecast Brent in a range between 85 to 100 $/bbl for the remainder of the year, without ruling out temporary rallies. We will watch closely the potential impact from the Fed's normalization on growth as it could affect commodities, particularly crude-oil and industrial metals. Regarding crude-oil products, the EIA estimates year-end gasoline prices for PADD 3 at 2.43 $/gal (-18% y/y) and natural gas at 3.98 $/MMBtu (+2%).

Precious metals were down in 2021, while industrials extended gains of the previous two years. Gold lost 3.6% y/y, impacted by the Fed's hawkish stance. Based on our expected path for US monetary policy, we expect this metal to adjust towards levels close to 1,750 $/t oz. In industrials, copper and aluminum traded at multi-year highs, although with a slight moderation by year-end. For this sector, we maintain a favorable outlook in view of the continuity of the economic recovery and still latent supply and demand disruptions. Finally, we expect additional upside in grains in a context of low inventories, complex weather conditions, and high logistics costs.

Commodities price performance and market consensus' forecasts

Commodity	Unit	Spot*	Performance (%)			Market consensus' forecasts					
			2019	2020	2021	1Q22	2Q22	3Q22	4Q22	2022	2023
WTI	$/bbl	87.70	34.46	-20.54	55.01	76.37	72.00	71.53	71.50	82.26	73.63
Brent	$/bbl	89.47	22.68	-21.52	50.15	79.00	75.00	74.00	74.00	84.68	77.23
Natural Gas (H. Hub)	$/MMBtu	5.42	-25.54	15.99	46.91	4.00	3.80	3.70	3.90	4.90	3.66
Gasoline (RBOB)	$/gal	2.60	0.28	-0.17	0.58	2.72	2.78	2.70	2.58	2.69	2.71
Gold	$/t oz	1,808	18.31	25.12	-3.64	1,783	1,750	1,707	1,683	1,720	1,650
Silver	$/t oz	22.63	15.21	47.89	-11.72	22.90	22.40	22.21	21.20	22.49	20.20
Copper	$/mt	9,840	3.50	25.79	25.17	9,500	9,300	9,400	9,500	9,334	9,550
Corn	¢/bu	623	2.39	5.39	34.75	578	563	543	525	525	485
Wheat	¢/bu	755	4.28	8.62	19.96	780	771	727	701	738	659

Source: Bloomberg *as of 2/February/22; RBOB (Reformulated gasoline blendstock for oxygenate blending)

Corporate Debt

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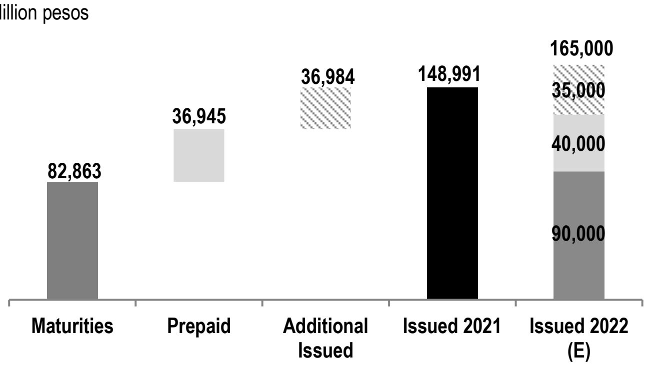
Corporate debt performance was better in 2021, helped by the easing of certain pandemic-related restrictions since the second quarter. We believe this recovery will continue in 2022. In this sense, we estimate corporate placements during the year of around MXN 165 billion, implying growth of 11% y/y. This reflects similar maturities to last year, plus additional growth by issuers seeking financing for new investments.

Specifically, we see low dynamism in the first quarter due to the spread of the Omicron variant in Mexico, coupled with historically low activity in the first few months of the year. Real activity will likely start in March, after the market gets a clearer view about the pandemic's evolution in the short and medium term. Last year, a clear preference for unsecured bonds was observed (83%), mostly in securities with high credit ratings. However, an increasing number of structured bonds (ABS) were issued in the last quarter, signaling a broader appetite for this segment after it was among the most affected and with the lowest levels of demand during the more challenging part of the pandemic. For 2022, we see an extension of the preference for 'AAA' unsecured bonds, albeit with a better balance towards ABS, as well as the regular participation of Fovissste and Fhipo with mortgage-backed securities. Given global and local monetary policy normalization, investors probably will show greater appetite for floating-rate bonds. Meanwhile, state-owned enterprises will remain as top issuers. CFE could participate for the third consecutive year in the local market to refinance its maturities for the year (MXN 7.9 billion), while Petróleos Mexicanos has no upcoming maturities and has financed itself outside of the domestic debt market. Hence, we do not anticipate local issuances in the year for the latter.

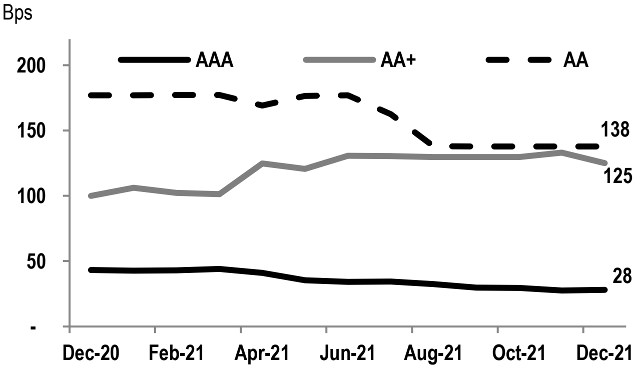
Regarding premium rates, rating samples have returned to levels close to those seen at the end of 2019, driven by high demand in last year's auctions. This pulled premium rates at issue date to the downside, as well as spreads in the rest of outstanding bonds (-15bps for 'AAA' and -39bps for 'AA' y/y). In 2022, we expect further adjustments and an extension of the downward path during the first semester. In the second half we could observe a trend shift, supported by the likely balance between bond supply and demand in the primary market, with placements closer to average levels.

Issued amount 2021 vs Issued 2022 (E)
Million pesos



Source: Banorte / BMV / BIVA / PiP, with information as of 2021

Spreads – Unsecured TIIE 28
Bps



Source: Banorte, BMV, PiP. As of December, 2021

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Mexico

- *4Q21 GDP – A modest contraction as services failed to gather steam*, January 31, 2022, <pdf>
- *1H-January inflation – The core remains on the upside*, January 24, 2022, <pdf>
- *A hawkish calibration of our calls for the Fed and Banxico*, January 12, 2022, <pdf>
- *S&P maintains Mexico's rating at 'BBB', with a negative outlook on fiscal and GDP challenges*, December 7, 2021, <pdf>
- *Minimum wage – 22% increase in 2022* December 2, 2021, <pdf>
- *Banxico – Victoria Rodríguez is nominated as next Governor*, November 24, 2021, <pdf>
- *The IMF renews Mexico's Flexible Credit Line for a new two-year term*, November 22, 2021, <pdf>
- *Fitch affirms Mexico 'BBB-' rating, with a stable outlook*, November 17, 2021,<pdf>
- *The debate and approval of the 2022 Budget has finalized*, November 16, 2021, <pdf>
- *Electricity sector reform proposal – More faculties to public utility CFE*, October 4, 2021, *<pdf>*
- *Moody's affirms Mexico rating on a prudent fiscal stance and the impulse from the US,* April 29, 2021, <pdf>

Fixed-Income, FX, and Commodities

- *OPEC+: Production strategy unchanged (+400 Kbbl/d)*, February 2, 2022, <pdf>
- *The MoF issued USD bonds and refinanced its external debt*, January 5, 2022, <pdf>
- *Mexico announces global USD bond offering and public offering*, January 4, 2022, <pdf>
- *OPEC+: retains production strategy unchanged with 400 Kbbl/d increase*, January 4, 2022, <pdf>
- *MoF's Financing Plan 2022: Active liability management reduced financing requirements*, December 28, 2021, <pdf>
- *1Q22 Auction Calendar: Longer tenors in Mbonos, higher issuance in real and variable rates*, December 20, 2021, <pdf>
- *Collective release of crude oil reserves*, November 23, 2021, <pdf>
- *New Development Bonds indexed to the TIIE funding, Bondes F*, August 18, 2021, <pdf>

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- *MEXBOL resampling, no changes in constituents*, February 2, 2022, <pdf>
- *GMEXICO, Quarterly Report 4Q21: Outstanding despite challenges to global growth*, February 2, 2022, <pdf>
- *Flash ALPEK: Agrees to buy Octal*, February 1, <pdf>
- *GCC, Quarterly Report 4Q21: 2022 guidance offsets pressures in 4Q21*, January 25, 2022, <pdf>
- *Flash ALFA: Sigma continues to sell non-core assets*, January 12, 2022, <pdf>
- *Flash PINFRA: Will propose a dividend with a 4.6% yield*, January 12, 2022, <pdf>

- *AIRPORTS: Passengers exceed 2019 figures at year-end*, January 7, 2022, <pdf>
- *Flash VOLAR: Closes 2021 with solid passenger performance*, January 7, 2022, <pdf>
- *FCFE: Attractive distribution continues in 4Q21, yield 3.2%*, December 21, 2021, <pdf>
- *Flash OMA: Will propose an attractive dividend, 8.9% yield*, December 2, 2021, <pdf>
- *Flash: AMX, Will increase shareholder return*, November 4, 2021, <pdf>
- *Flash: ALPEK, Approves dividend, 2.4% yield*, October 29, 2021, <pdf>
- *Flash: NEMAK, Reduces 2021 guidance due to the impact of the semiconductor crisis*, October 19, 2021, <pdf>
- *Flash: CEMEX Day II, confirms positive outlook despite challenges*, October 8, 2021, <pdf>
- *Flash ALFA: Sigma to sell its operations in Belgium and the Netherlands*, October 7, 2021, <pdf>
- *Flash AMX: Investor Day, consolidating the strategy towards 5G with a solid balance sheet*, October 5, 2021, <pdf>

Corporate Debt

- *Corporate Bond Market Review: DECEMBER 2021*, January 11, 2022, <pdf>
- *MoF announced strategy to support PEMEX*, December 6, 2021, <pdf>
- *PEMEX* – Global context gives additional boost to results, October 29, 2021, <pdf>
- *PEMEX – Recovery boosts quarterly results*, July 28, 2021, <pdf>
- *PEMEX received an additional fiscal credit of MXN 73.3 billion*, February 22, 2021, <pdf>
- *Effects of the pandemic in 2020*, December 17, 2020, <pdf>
- *Credit Ratings Tutorial*, December 17, 2020, <pdf>
- *Pemex's assets exchange for Federal Government Development Bonds*, December 15, 2020, <pdf>

Note: All our publications are available in the following link

Recent trade ideas

Trade idea	P/L	Initial date	End date
Pay 2-year TIIE-IRS (26x1)		4-Feb-22	
Tactical longs in Mbono Mar'26	P	14-May-21	7-Jun-21
Receive 6-month TIIE-IRS (6x1)	P	17-Dec-20	3-Mar-21
Long positions in Udibono Nov'23	L	11-Feb-21	26-Feb-21
Long positions in Mbono May'29 & Nov'38	P	7-Sep-20	18-Sep-20
Long positions in Udibono Dec'25	P	23-Jul-20	10-Aug-20
Long positions in Udibono Nov'35	P	22-May-20	12-Jun-20
Long positions in Mbono May'29	P	5-May-20	22-May-20
Tactical longs in 1- & 2-year TIIE-28 IRS	P	20-Mar-20	24-Apr-20
Long positions in Udibono Nov'28	P	31-Jan-20	12-Feb-20
Long positions in Udibono Jun'22	P	9-Jan-20	22-Jan-20
Long positions in Mbono Nov'47	L	25-Oct-19	20-Nov-19
Long positions in Mbonos Nov'36 & Nov'42	P	16-Aug-19	24-Sep-19
Long positions in the short-end of Mbonos curve	P	19-Jul-19	2-Aug-19
Long positions in Mbonos Nov'42	L	5-Jul-19	12-Jul-19
Long positions in Mbonos Nov'36 & Nov'38	P	10-Jun-19	14-Jun-19
Long positions in Mbonos Jun'22 & Dec'23	P	9-Jan-19	12-Feb-19
Long floating-rate Bondes D	P	31-Oct-18	3-Jan-19
Long CPI-linkded Udibono Jun'22	L	7-Aug-18	31-Oct-18
Long floating-rate Bondes D	P	30-Apr-18	3-Aug-18
Long 20- to 30-year Mbonos	P	25-Jun-18	9-Jul-18
Short Mbonos	P	11-Jun-18	25-Jun-18
Long CPI-linkded Udibono Jun'19	P	7-May-18	14-May-18
Long 7- to 10-year Mbonos	L	26-Mar-18	23-Apr-18
Long CPI-linkded Udibono Jun'19	P	20-Mar-18	26-Mar-18
Long 5- to 10-year Mbonos	P	5-Mar-18	20-Mar-18
Long floating-rate Bondes D	P	15-Jan-18	12-Mar-18
Long 10-year UMS Nov'28 (USD)	L	15-Jan-18	2-Feb-18

P = Profit, L = Loss

Track of directional fixed-income trade recommendations

Trade idea	Entry	Target	Stop-loss	Closed	P/L	Initial date	End date
Long Udibono Dec'20	3.05%	2.90%	3.15%	3.15%	L	9-Aug-17	6-Oct-17
5y10y TIIE-IRS steepener	28bps	43bps	18bps	31bps	P[2]	15-Feb-17	15-Mar-17
5y10y TIIE-IRS steepener	35bps	50bps	25bps	47bps	P	5-Oct-16	19-Oct-16
Long Mbono Jun'21	5.60%	5.35%	5.80%	5.43%	P	13-Jul-16	16-Aug-16
Long Udibono Jun'19	1.95%	1.65%	2.10%	2.10%	L	13-Jul-16	16-Aug-16
Receive 1-year TIIE-IRS (13x1)	3.92%	3.67%	4.10%	3.87% [1]	P	12-Nov-15	8-Feb-16
Long spread 10-year TIIE-IRS *vs* US Libor	436bps	410bps	456bps	410bps	P	30-Sep-15	23-Oct-15
Receive 9-month TIIE-IRS (9x1)	3.85%	3.65%	4.00%	3.65%	P	3-Sep-15	18-Sep-15
Spread TIIE 2/10 yrs (flattening)	230bps	200bps	250bps	200bps	P	26-Jun-15	29-Jul-15
Long Mbono Dec'24	6.12%	5.89%	6.27%	5.83%	P	13-Mar-15	19-Mar-15
Relative-value trade, long 10-year Mbono (Dec'24) / flattening of the curve					P	22-Dec-14	6-Feb-15
Pay 3-month TIIE-IRS (3x1)	3.24%	3.32%	3.20%	3.30%	P	29-Jan-15	29-Jan-15
Pay 9-month TIIE-IRS (9x1)	3.28%	3.38%	3.20%	3.38%	P	29-Jan-15	29-Jan-15
Pay 5-year TIIE-IRS (65x1)	5.25%	5.39%	5.14%	5.14%	L	4-Nov-14	14-Nov-14
Long Udibono Dec'17	0.66%	0.45%	0.82%	0.82%	L	4-Jul-14	26-Sep-14
Relative-value trade, long Mbonos 5-to-10-year					P	5-May-14	26-Sep-14
Receive 2-year TIIE-IRS (26x1)	3.75%	3.55%	3.90%	3.90%	L	11-Jul-14	10-Sep-14
Receive 1-year TIIE-IRS (13x1)	4.04%	3.85%	4.20%	3.85%	P	6-Feb-14	10-Apr-14
Long Udibono Jun'16	0.70%	0.45%	0.90%	0.90%	L	6-Jan-14	4-Feb-14
Long Mbono Jun'16	4.47%	3.90%	4.67%	4.06%	P	7-Jun-13	21-Nov-13
Receive 6-month TIIE-IRS (6x1)	3.83%	3.65%	4.00%	3.81%	P	10-Oct-13	25-Oct-13
Receive 1-year TIIE-IRS (13x1)	3.85%	3.55%	4.00%	3.85%	--	10-Oct-13	25-Oct-13
Long Udibono Dec'17	1.13%	0.95%	1.28%	1.35%	L	9-Aug-13	10-Sep-13
Receive 9-month TIIE-IRS (9x1)	4.50%	4.32%	4.65%	4.31%	P	21-Jun-13	12-Jul-13
Spread TIIE-Libor (10-year)	390bps	365bps	410bps	412bps	L	7-Jun-13	11-Jun-13
Receive 1-year TIIE-IRS (13x1)	4.22%	4.00%	4.30%	4.30%	L	19-Apr-13	31-May-13
Long Udibono Jun'22	1.40%	1.20%	1.55%	0.97%	P	15-Mar-13	3-May-13
Receive 1-year TIIE-IRS (13x1)	4.60%	4.45%	4.70%	4.45%	P	1-Feb-13	7-Mar-13
Long Mbono Nov'42	6.22%	5.97%	6.40%	5.89%	P	1-Feb-13	7-Mar-13
Long Udibono Dec'13	1.21%	0.80%	1.40%	1.40%	L	1-Feb-13	15-Apr-13
Receive 1-year TIIE-IRS (13x1)	4.87%	4.70%	5.00%	4.69%	P	11-Jan-13	24-Jan-13
Receive TIIE Pay Mbono (10-year)	46bps	35bps	54bps	54bps	L	19-Oct-12	8-Mar-13
Spread TIIE-Libor (10-year)	410bps	385bps	430bps	342bps	P	21-Sep-13	8-Mar-13
Long Udibono Dec'12	+0.97%	-1.50%	+1.20%	-6.50%	P	1-May-12	27-Nov-12
Long Udibono Dec'13	+1.06%	0.90%	+1.35%	0.90%	P	1-May-12	14-Dec-12

1 Carry + roll-down gains of 17bps

2. Closed below target and before the proposed horizon date due to changes in market conditions that have differed from our expectations.

Short-term tactical trades

Trade Idea	P/L*	Entry	Exit	Initial Date	End date
Long USD/MXN	P	19.30	19.50	11-Oct-19	20-Nov-19
Long USD/MXN	P	18.89	19.35	20-Mar-19	27-Mar-19
Long USD/MXN	P	18.99	19.28	15-Jan-19	11-Feb-19
Long USD/MXN	P	18.70	19.63	16-Oct-18	3-Jan-19
Short USD/MXN	P	20.00	18.85	2-Jul-18	24-Jul-18
Long USD/MXN	P	19.55	19.95	28-May-18	4-Jun-18
Long USD/MXN	P	18.70	19.40	23-Apr-18	14-May-18
Long USD/MXN	P	18.56	19.20	27-Nov-17	13-Dec-17
Long USD/MXN	L	19.20	18.91	6-Nov-17	17-Nov-17
Long USD/MXN	P	18.58	19.00	9-Oct-17	23-Oct-17
Short USD/MXN	L	17.80	18.24	4-Sep-17	25-Sep-17
Long USD/MXN	P	14.40	14.85	15-Dec-14	5-Jan-15
Long USD/MXN	P	13.62	14.11	21-Nov-14	3-Dec-14
Short EUR/MXN	P	17.20	17.03	27-Aug-14	4-Sep-14
Short USD/MXN	L	12.70	13.00	26-Jul-13	21-Aug-13

Track of the directional FX trade recommendations*

Trade Idea	Entry	Target	Stop-loss	Closed	P/L*	Initial Date	End date
Long USD/MXN	18.57	19.50	18.20	18.20	L	19-Jan-18	2-Apr-18
Long USD/MXN	14.98	15.50	14.60	15.43	P	20-Mar-15	20-Apr-15
Short EUR/MXN	17.70	n.a.	n.a.	16.90	P	5-Jan-15	15-Jan-15
Short USD/MXN	13.21	n.a.	n.a.	13.64	L	10-Sep-14	26-Sep-14
USD/MXN call spread**	12.99	13.30	n.a.	13.02	L	6-May-14	13-Jun-14
Directional short USD/MXN	13.00	12.70	13.25	13.28	L	31-Oct-13	8-Nov-13
Limit short USD/MXN	13.25	12.90	13.46	--	--	11-Oct-13	17-Oct-13
Short EUR/MXN	16.05	15.70	16.40	15.69	P	29-Apr-13	9-May-13
Long USD/MXN	12.60	12.90	12.40	12.40	L	11-Mar-13	13-Mar-13
Long USD/MXN	12.60	12.90	12.40	12.85	P	11-Jan-13	27-Feb-13
Tactical limit short USD/MXN	12.90	12.75	13.05	--	--	10-Dec-12	17-Dec-12
Short EUR/MXN	16.64	16.10	16.90	16.94	L	03-Oct-12	30-Oct-12

** Total return does not consider carry gain/losses*

*** Low strike (long call) at 13.00, high strike (short call) at 13.30 for a premium of 0.718% of notional amount*

Source: Banorte

Certification of Analysts.

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Francisco José Flores Serrano, Katia Celina Goya Ostos, José Luis García Casales, Yazmín Selene Pérez Enríquez, José Itzamna Espitia Hernández, Carlos Hernández García, Paola Soto Leal, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Daniela Olea Suárez, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez and Gerardo Daniel Valle Trujillo, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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BUY	*When the share expected performance is greater than the MEXBOL estimated performance.*
HOLD	*When the share expected performance is similar to the MEXBOL estimated performance.*
SELL	*When the share expected performance is lower than the MEXBOL estimated performance.*

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