Actinver

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House View

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Summary

Despite the volatility that global financial markets have shown in recent days following the policies announced by Trump, our analysis continues to point to an environment in which the American stock market will remain favored in the coming months.

Among the factors supporting this outlook are: i) the U.S. economy and labor market remain strong; ii) it is likely that U.S. inflation will halt its upward trend, which would support expectations of two rate cuts by the Fed this year; iii) following recent adjustments in the stock market, the overbought condition has disappeared, and investors now hold a neutral stance.

Nevertheless, given the risks posed by the unpredictable decisions of Trump 2.0, maintaining a diversified portfolio is advisable.

Dollar Portfolio

For a portfolio that is 100% in dollars, the assets with the least volatility will be short-term government debt rates, which are still at 4.50%. Therefore, for an investor with low tolerance for volatility, these assets will be the best option.

For an investor looking to capitalize on episodes of volatility, gold continues to be seen as a protective asset.

For an investor with tolerance for volatility, the U.S. stock market remains the best-positioned stock index compared to other global markets.

Our models suggest that the Technology sector is attractively valued, due to the corrections it has experienced since mid-December 2024 and which have gradually extended into the beginning of the year. At the company level, we have found interesting opportunities in Google, Chevron, Adobe, Eli Lilly, Progressive, Verizon and Pfizer.

Peso Portfolio

For a portfolio that is 100% in pesos, the assets with the least volatility will be short-term government debt rates, which remain above 9.00%. Therefore, for an investor with low tolerance for volatility, this asset will be the best option.

An asset that will show volatility is the dollar. While it could be used to hedge risks, we prefer gold, as it not only provides protection against depreciation but also shields from negative surprises in the U.S.

The U.S. stock market could be the third most volatile asset. Negative movements in the S&P 500 would be cushioned by the temporary depreciation of the national currency.

The Mexican stock market could be the asset with the highest volatility in a peso-denominated portfolio. Investment ideas in the stock market continue to prioritize Mexican companies that benefit from the nearshoring trend and are well-positioned to navigate various local and international factors such as the exchange rate and regulatory environment, among others. In the local market, we prefer the stocks of GCC, Cemex, Chedraui, FEMSA, and KOF.

Actinver Expectations

			Central		Short Term Tariffs	
	2023	2024	2025	2026	2025	2026
Mexico						
GDP (% YoY)	**3.1**	**1.5**	1.2	1.9	-0.2	1.3
Headline Inflation (%)	**4.7**	**4.2**	3.9	3.7	4.2	3.7
Core Inflation (%)	**5.1**	**3.7**	3.8	3.6	4.1	3.7
Reference Rate (%)	**11.25**	**10.00**	8.50	8.00	9.25	9.00
USDMXN (pesos per dollar)	**16.95**	**20.82**	20.90	21.20	21.50	21.30
USA						
GDP (% YOY)	**2.5**	**2.50**	2.1	1.9	0.9	1.5
Inflation (%)	**3.3**	**2.9**	2.6	2.2	4.1	1.8
Reference Rate (upper bound, %)	**5.50**	**4.50**	4.00	3.25	4.50	3.50
Markets						
S&P 500 (points)	**4,770**	**5,882**	6,300	-	5,500	-

Financial Markets

Awaiting Trump 2.0

In the final days of Biden's administration, stock markets in the United States and Mexico advanced on expectations that Trump's arrival would bring more relaxed policies for the energy and financial sectors, a renewed boost to the economy, and, most importantly, a low probability of implementing the aggressive policies announced during the campaign.

This context favored indices with a higher concentration of traditional sector companies over those with a greater weight in technology stocks. As a result, up until January 20, the Dow Jones rose 2.2%, the S&P 500 gained 2.0%, and the Nasdaq increased by 1.7%.

Similarly, the dollar strengthened against developed market currencies (DXY), but lost ground against emerging market currencies (DXEM). The peso remained stable during those days, awaiting the first announcements from the new Trump administration.

The interest rate market showed divergent behaviors in the United States and Mexico. In the U.S., the ten-year yield rose after the Fed indicated that rate cuts would be gradual throughout 2025 and due to the threat of inflationary impacts from potential tariff implementations and migrant expulsions. In contrast, in Mexico, the ten-year yield declined thanks to the drop in inflation observed in December.

Market Performance Ahead of Trump's Arrival

	January 2025	Biden Jan, 1 - 17	Trump Jan-17 to Feb- 5
Stock Markets			
Dow Jones	4.7%	2.2%	3.2%
IPC	3.4%	0.9%	3.3%
S&P 500	2.7%	2.0%	1.1%
NASDAQ	2.2%	2.0%	1.0%
Currencies			
DXY	-0.1%	0.8%	-0.3%
USDMXN	-0.7%	-0.2%	-2.2%
DXEM	-2.0%	-0.8%	-1.2%
Rates			
US 10y (b.p.)	-3.0	5.0	-7.1
MX 10y (b.p.)	-36.2	-8.7	-27.5
Commodities			
Gold	6.1%	4.1%	3.9%
Oil	1.3%	7.9%	-5.5%

The First Days of Trump 2.0

Since Donald Trump's inauguration as President of the United States, financial markets have experienced notable volatility. Starting on Monday, January 20, following the signing of a series of executive orders focused on immigration policies particularly relevant to Mexico, which included: (i) the declaration of an emergency at the southern border and the deployment of troops; (ii) the initiation of mass deportation processes; and (iii) the implementation of tariffs, among others.

On the afternoon of Saturday, February 1, President Trump surprised markets by announcing a 25% tariff on all products imported from Mexico and Canada. Additionally, he imposed an extra 10% tariff on all products from China and indicated that tariffs on European Union products would be increased soon.

However, on February 3, the U.S. president held calls with Mexico's president and Canada's prime minister, reaching an agreement to pause the implementation of tariffs until March 4, 2025. Recently, he also announced the end of U.S. funding for Ukraine and proposed the idea of the United States taking control of the Gaza Strip.

In this context, markets have shown heightened volatility, causing the Nasdaq 100 to decline by -1.2% since Trump's inauguration, while the S&P 500 has remained practically unchanged.

This mixed performance is due to the impact on Nvidia, Apple, Microsoft, and Broadcom following the emergence of DeepSeek, a Chinese company that, despite U.S. restrictions aimed at preventing American semiconductor firms from exporting their most advanced chips to Chinese companies, introduced artificial intelligence algorithms that require lower computational power. This development challenges the aggressive investments made by U.S. companies and escalates tensions between both countries.

At the sector level, this has resulted in a -2.9% drop in the Technology sector, making it the only one of the eleven sectors to record losses this year. In contrast, quarterly reports have shown that U.S. companies continue to post robust revenue growth, surpassing consensus forecasts, benefiting most sectors—particularly Communication (9.0%), Healthcare (6.6%), and Financials (6.4%).

Cumulative Returns (% USD); February 5, 2025

	Enero 2025	Biden 1 a 17 Ene	Trump 17-Ene a 5-Feb
Comunicación	9.0%	2.0%	5.3%
Salud	6.6%	1.8%	5.9%
Financiero	6.4%	3.8%	2.9%
Materiales	5.5%	5.0%	0.8%
Industriales	5.0%	4.5%	-0.4%
Dow Jones	**4.7%**	**2.2%**	**3.2%**
Consumo Discrecional	4.4%	2.7%	0.1%
Servicios Públicos	2.9%	4.1%	-0.6%
S&P 500	**2.7%**	**2.0%**	**1.1%**
NASDAQ 100	**2.2%**	**2.0%**	**1.0%**
Energía	2.0%	9.2%	-4.0%
Consumo Básico	1.9%	-1.0%	4.0%
Bienes Raíces	1.2%	0.7%	3.1%
Tecnología	-2.9%	-0.2%	-1.6%

The dollar began to retreat against most currencies. Over the weekend of February 1-3, the peso-dollar exchange rate briefly reached 21.33, equivalent to a temporary depreciation of 4.15% for the national currency. In stress scenarios outlined in our House View, we identified initial peaks of up to 21.50 pesos per dollar, which held at that moment. Following the tariff postponement, the exchange rate declined again to around 20.40.

In the United States, expectations of immediate inflationary pressures eased, helping the ten-year yield to retreat to 4.45%. In Mexico, January inflation data showed a significant decline, allowing Banco de México to cut its rate by 50 basis points yesterday. This helped bring the ten-year yield back below 10.00%.

Actinver Expectations

Two scenarios are presented below:

- The first is the **central scenario**, which is our public forecast, as we assign a high probability to MX-US trade relationship to remain without restrictions.

- The second is the **short-term tariff scenario**, in which Trump could announce a series of anti-trade measures for a couple of months while agreements are reached. This scenario serves as a point of comparison but is not our central scenario.

Inflation

U.S. In the **central scenario**, inflation would stagnate between 2.4% and 2.7%. The main pressure would come from the services sector, as household incomes are expected to remain stable and the economy to grow robustly. In the **tariff scenario**, inflation would rise above 4.0% in the second half of 2025 and the first half of 2026 due to the increase in tariffs on imports. It is important to note that inflation would fade in the second half of 2026, returning to levels around 2.0%.

Mexico. In the **central scenario**, inflation would decline in the first half of 2025 to 3.2% before rebounding to 3.9% by the end of the year. In the **tariff scenario**, inflation would rise to 5.0% between the second half of 2025 and the first half of 2026 due to the increase in tariffs. In the second half of 2026, inflation would fade, returning to levels around 3.8%.

Reference Rate

U.S. Facing the threat of tariffs, in its latest monetary policy decision, the Federal Reserve announced that it will proceed cautiously when reducing the interest rate this year. Thus, in the **central scenario**, the reference rate would end the year at a level close to 4.00%, down from the current 4.50%. In the **tariff scenario**, the Fed would keep the reference rate unchanged throughout 2025. Rate cuts would take place in the second half of 2026 once inflation begins to decline and as the U.S. economy slows down.

Mexico. After yesterday's 50 bp reduction in the reference rate by Banco de Mexico and the incorporation of Gabriel Cuadra as Deputy Governor, replacing Irene Espinosa, in the **central scenario** we see an additional 50 bp cut in March and two more 25 bp cuts in the following meetings, ending the reference rate in 2025 at 8.50%. In the **tariff scenario**, should they be announced in early March, given the risk of higher inflation, Banxico would set the reference rate at 9.25% bye end-of-year to maintain the 5.00% differential with respect to the Fed.

Economic Growth

U.S. In the **central scenario**, the economy would grow by 2.1% in 2025, supported by strong consumption, stable household incomes, and a resilient labor market. In the **tariff scenario**, rising inflation would slow household consumption, while higher tariffs would weaken business activity. In this context, the U.S. economy would grow by around 1.0% in 2025 before regaining momentum in 2026.

Mexico. In the **central scenario**, consumption would continue growing at around 3.0%, supported by a strong labor market, record-high remittance inflows of USD 65 billion, and government transfers. However, due to slowing investment, economic growth would be modest at 1.2% in 2025. In the **tariff scenario**, the slowdown in the U.S. economy would impact Mexico, leading to a GDP contraction of -0.2% in 2025. Recovery would be gradual in 2026, reaching around 1.3%.

Currencies

In the **central scenario**, although the exchange rate may temporarily exceed 21.00 pesos per dollar, inflows from remittances and tourism, along with prudent monetary policy from Banco de México, should provide support, allowing the exchange rate to end 2025 near 20.90 pesos per dollar. In the **tariff scenario**, investor nervousness over aggressive tariff policies would keep volatility high, pushing the exchange rate above 22.00 pesos per dollar at times. However, once agreements are reached between both countries, the exchange rate could decline toward 21.50. If the USMCA is renewed, we expect the exchange rate to return to levels estimated under the central scenario.

U.S. Stock Market

The main U.S. equity indices ended 2024 with gains. The S&P 500 rose 23.3%, the Nasdaq 100 gained 24.9%, and the Dow Jones increased by 12.9%. Despite a volatile start to 2025, these indices have managed to extend their gains, averaging a 2.0% increase.

In the **central scenario**, our forecasts suggest that by the end of 2025, the S&P 500 could reach 6,300 points, surpassing its current level of nearly 6,000 points. Meanwhile, consensus estimates have been more optimistic, projecting a level of 6,600 points over the same period. In the **tariff scenario**, the U.S. stock market could experience volatility due to rising inflation and the absence of interest rate cuts by the Federal Reserve in 2025. This could lead to a correction of -8.0%, like the one observed in 2018 when the Fed continued raising its reference rate despite market expectations for a pause.

At the sector level, our analysis has found attractive valuations in the Technology and Healthcare sectors. At the company level, we have identified compelling investment opportunities in Healthcare, Technology, Financials, and Industrials.

Topic of the Month

Trump's Tariffs

Since taking office, Trump has implemented a series of measures focused on immigration control, security reinforcement, and the imposition of tariffs on foreign trade.

On February 1, Trump signed an executive order to establish 25% tariffs on all imports from Mexico and Canada, as well as an additional 10% on what Chinese products are already paying.

Given that 86% of trade between both countries consists of intermediate and capital goods, which reflects that we produce together, and only 14% consists of final goods, our central scenario is that the trade relationship between Mexico and the U.S. remains free of across-the-board tariffs.

How much is the total trade between Mexico and the United States?

Total trade between both countries amounts to USD 760 billion per year. Of this, USD 511 billion corresponds to Mexico's exports to the United States and USD 250 billion to imports from North America. Therefore, Mexico has an annual trade surplus of USD 261 billion.

Which products would be most affected by the tariffs?

The main products that Mexico sells to the United States are concentrated in machinery and electrical equipment (36.7% of the total) and transportation equipment (28.1%).

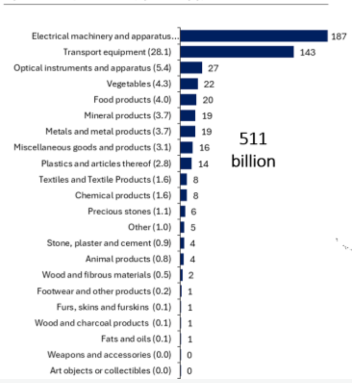
The rest of the products range from optical instruments and devices, agricultural and food products, minerals, and metals, among others.

Which states produce these goods and who do they sell to?

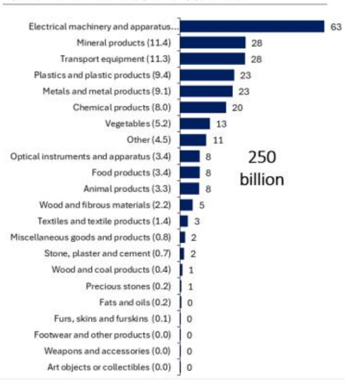
The states of the Mexican Republic that produce these goods are Chihuahua (12.9%), Coahuila (12.3%), Nuevo León (10.2%), and Baja California (10.1%).

The main buyers of these products are Texas (30%), Michigan (14.5%), and California (12.9%).

MX exports to USA
(USD billion, anual flow, (% Total)); Nov-24



MX imports from USA
(USD billion, anual flow, (% Total)); Nov-24



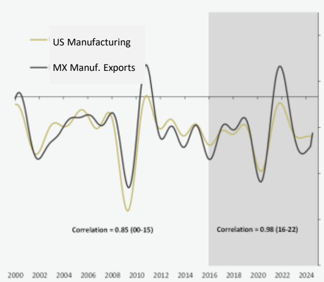
Why should the trade relationship between Mexico and the U.S. continue?

We believe there are strong advantages that make Mexico a strategic partner for the United States and other foreign investors.

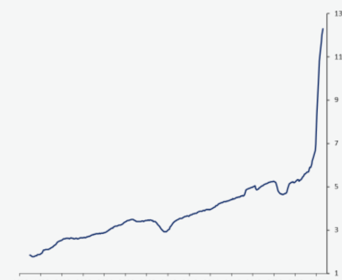
Mexico's advantages for global investors

Some indicators confirm that the integration process of production chains has intensified, increasing the cost of anti-trade measures for both countries.

MX-U.S. Manufacturing Cycle
(Z-value); Oct-24



MX-U.S. Border Freight Crossings
(Millions of crossings, annual flow); Oct-24



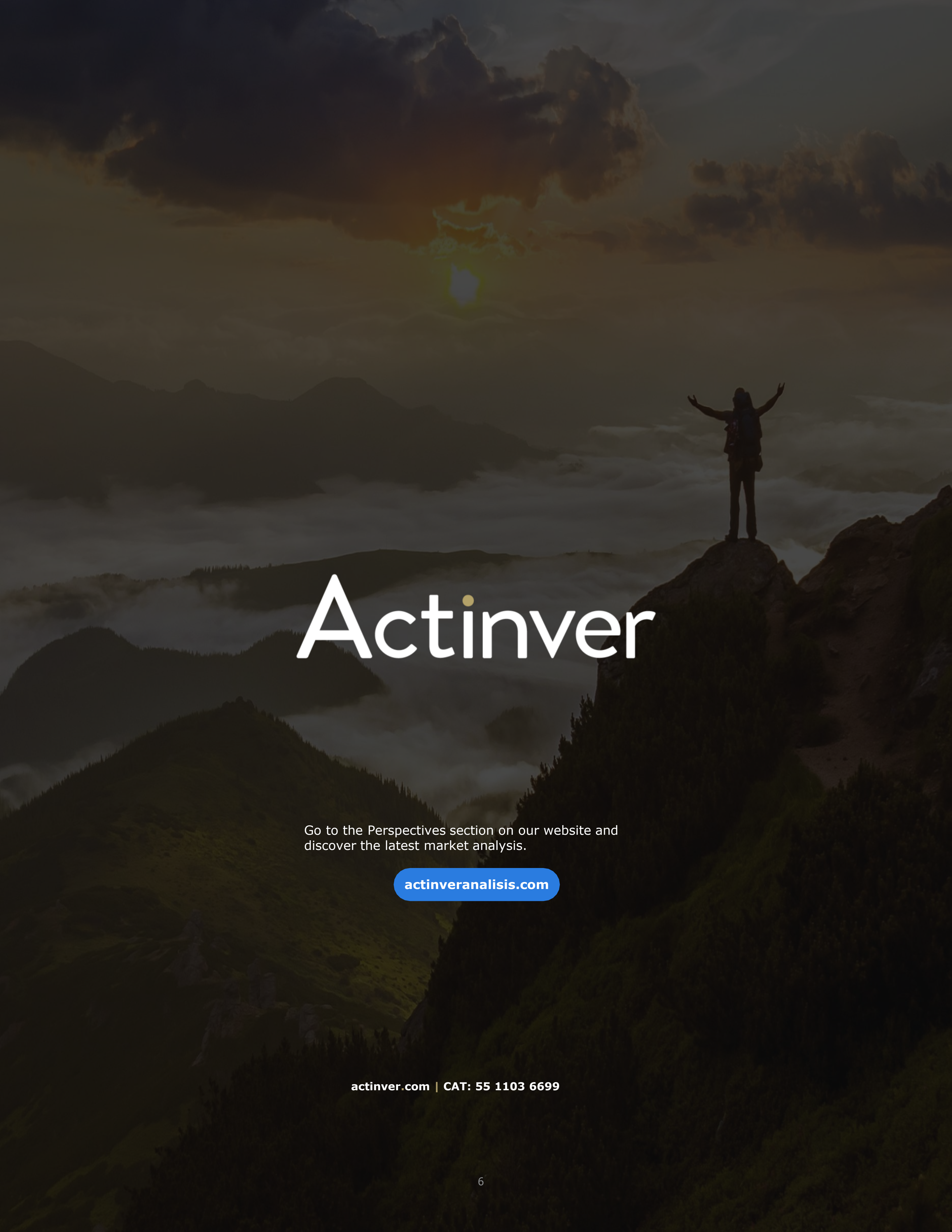
What are the scenarios after the tariffs? Will the USMCA be renewed?

Various global political analysis firms estimate that the tariffs will be used as a negotiation tool and that, in the central scenario, with recurring episodes of volatility, the USMCA should be renewed in 2026.

The central scenario is that the USMCA will be renewed, although with uncertainty due to the possibility of temporary application of tariffs in the early days of Trump's second term.

Eurasia's perspective on the renewal of the USMCA

Scenario	Tariffs?	Outlook	Implications	Probability
It is being renewed, although with difficulties in the short term.	Yes, tariffs in 2025.	Talks are accelerated after the economic impact of the tariffs.	Economic costs leading to a renewal in 2026.	55%
Successful renegotiation.	No.	Parties agree on a new version.	Tense negotiations although parties manage to avoid tariffs.	30%
Successful negotiation.	No.	All parties agree to renew until 2042.	North America integrates to compete with China.	10%
The agreement is cancelled.	Tariffs in Trump first 100 days.	United States withdraws from the agreement.	USA seeks bilateral agreements.	5%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December 31, 2024 | Update

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