

Mexico



Real GDP growth in Mexico will likely return to average historical levels in 2022. We project growth of 2.3% in 2022, after growth of close to 6.0% in 2021. Some of the headwinds the economy is likely to face include a tighter monetary policy stance and slower growth in the USA, Mexico's main export destination. Another source of risk to growth will be the congressional debate on a controversial electricity reform that seeks to strengthen the government-owned electricity company, known as CFE, at the expense of private sector companies. Congressional passage of the reform would be the latest setback to business confidence, in our view.

We project that inflation in Mexico will peak near 7.0% at the end of 2021 and that it will fall gradually toward 4.0% by year-end 2022. These levels of inflation, which are above the central bank's 3.0% target, will likely continue to lead the central bank to continue to normalize its monetary policy stance. We project that the overnight rate will likely increase toward 6.0% by year-end 2022 after closing 2021 at an estimated 5.25%.

We do not envision major changes to the austere fiscal stance in 2022. We project a primary deficit of approximately 0.3% of GDP, which would be similar to the projected result for 2021. This would consolidate Mexico as one of the most austere countries during the pandemic, a positive for the country's creditworthiness, but a clear negative for many companies and households, and for the country's medium-term growth prospects.

Mexico's external imbalances are likely to remain contained in 2022. We project a modest current account deficit of less than 0.5% of GDP, similar to the projected result for 2021, which we project will be fully financed by net foreign direct investment flows. Of greater importance should be the behavior of the capital account, particularly if portfolio outflows persist in 2022, either due to a recomposition of global emerging market funds favoring China or due to greater risk aversion toward emerging markets due to the Fed's tapering process and eventual policy normalization in the USA.

Finally, on the political front, we think that investors' focus will center on the debate of the electricity reform, which will likely take place in the first four months of the year. Additionally, gubernatorial elections will take place on 5 June in six states, all of which are currently governed by opposition parties. We think that the outcome of these elections will be another good barometer of the balance of political power in the country.

Disclaimer

Important Information

This report represents the views of the Investment Strategy Department of CS and has not been prepared in accordance with the legal requirements designed to promote the independence of investment research. It is not a product of the Credit Suisse Research Department even if it references published research recommendations. CS has policies in place to manage conflicts of interest including policies relating to dealing ahead of the dissemination of investment research. These policies do not apply to the views of Investment Strategists contained in this report.

Risk Warning

Every investment involves risk, especially with regard to fluctuations in value and return. If an investment is denominated in a currency other than your base currency, changes in the rate of exchange may have an adverse effect on value, price or income.

This document may include information on investments that involve special risks. You should seek the advice of your independent financial advisor prior to taking any investment decisions based on this document or for any necessary explanation of its contents. Further information is also available in the information brochure "[Risks Involved in Trading Financial Instruments](#)" available from the Swiss Bankers Association.

Past performance is not an indicator of future performance. Performance can be affected by commissions, fees or other charges as well as exchange rate fluctuations.

Financial market risks

Historical returns and financial market scenarios are no reliable indicators of future performance. The price and value of investments mentioned and any income that might accrue could fall or rise or fluctuate. You should consult with such advisor(s) as you consider necessary to assist you in making these determinations.

Investments may have no public market or only a restricted secondary market. Where a secondary market exists, it is not possible to predict the price at which investments will trade in the market or whether such market will be liquid or illiquid.

Emerging markets

Where this document relates to emerging markets, you should be aware that there are uncertainties and risks associated with investments and transactions in various types of investments of, or related or linked to, issuers and obligors incorporated, based or principally engaged in business in emerging markets countries. Investments related to emerging markets countries may be considered speculative, and their prices will be much more volatile than those in the more developed countries of the world. Investments in emerging markets investments should be made only by sophisticated investors or experienced professionals who have independent knowledge of the relevant markets, are able to consider and weigh the various risks presented by such investments, and have the financial resources necessary to bear the substantial risk of loss of investment in such investments. It is your responsibility to manage the risks which arise as a result of investing in emerging markets investments and the allocation of assets in your portfolio. You should seek advice from your own advisers with regard to the various risks and factors to be considered when investing in an emerging markets investment.

Alternative investments

Hedge funds are not subject to the numerous investor protection regulations that apply to regulated authorized collective investments and hedge fund managers are largely unregulated. Hedge funds are not limited to any particular investment discipline or trading strategy, and seek to profit in all kinds of markets by using leverage, derivatives, and complex speculative investment strategies that may increase the risk of investment loss.

Commodity transactions carry a high degree of risk, including the loss of the entire investment, and may not be suitable for many private investors. The performance of such investments depends on unpredictable factors such as natural catastrophes, climate influences, hauling capacities, political unrest, seasonal fluctuations and strong influences of rolling-forward, particularly in futures and indices.

Investors in real estate are exposed to liquidity, foreign currency and other risks, including cyclical risk, rental and local market risk as well as environmental risk, and changes to the legal situation.

Private Equity

Private Equity (hereafter "PE") means private equity capital investment in companies that are not traded publicly (i.e. are not listed on a stock exchange), they are complex, usually illiquid and long-lasting. Investments in a PE fund generally involve a significant degree of financial and/or business risk. Investments in PE funds are not principal-protected nor guaranteed. Investors will be required to meet capital calls of investments over an extended period of time. Failure to do so may traditionally result in the forfeiture of a portion or the entirety of the capital account, forego any future income or gains on investments made prior to such default and among other things, lose any rights to participate in future investments or forced to sell their investments at a very low price, much lower than secondary market valuations. Companies or funds may be highly leveraged and therefore may be more sensitive to adverse business and/or financial developments or economic factors. Such investments may face intense competition, changing business or economic conditions or other developments that may adversely affect their performance.

Interest rate and credit risks

The retention of value of a bond is dependent on the creditworthiness of the Issuer and/or Guarantor (as applicable), which may change over the term of the bond. In the event of default by the Issuer and/or Guarantor of the bond, the bond or any income derived from it is not guaranteed and you may get back none of, or less than, what was originally invested.

Investment Strategy Department

Investment Strategists are responsible for multi-asset class strategy formation and subsequent implementation in CS's discretionary and advisory businesses. If shown, Model Portfolios are provided for illustrative purposes only. Your asset allocation, portfolio weightings and performance may look significantly different based on your particular circumstances and risk tolerance. Opinions and views of Investment Strategists may be different from those expressed by other Departments at CS. Investment Strategist views may change at any time without notice and with no obligation to update. CS is under no obligation to ensure that such updates are brought to your attention.

From time to time, Investment Strategists may reference previously published Research articles, including recommendations and rating changes collated in the form of lists. The recommendations contained herein are extracts and/or references to previously published recommendations by Credit Suisse Research. For equities, this relates to the respective Company Note or Company Summary of the issuer. Recommendations for bonds can be found within the respective Research Alert (bonds) publication or Institutional Research Flash/Alert – Credit Update Switzerland. These items are available on request or from <https://investment.credit-suisse.com>. Disclosures are available from www.credit-suisse.com/disclosure.

Global disclaimer / Important Information

The information provided herein constitutes marketing material; it is not investment research.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject CS to any registration or licensing requirement within such jurisdiction.

References in this document to CS include Credit Suisse AG, the Swiss bank, its subsidiaries and affiliates. For more information on our structure, please use the following link: <http://www.credit-suisse.com>

NO DISTRIBUTION, SOLICITATION, OR ADVICE: This document is provided for information and illustrative purposes and is intended for your use only. It is not a solicitation, offer or recommendation to buy or sell any security or other financial instrument. Any information including facts, opinions or quotations, may be condensed or summarized and is expressed as of the date of writing. The information contained

in this document has been provided as a general market commentary only and does not constitute any form of regulated investment research financial advice, legal, tax or other regulated service. It does not take into account the financial objectives, situation or needs of any persons, which are necessary considerations before making any investment decision. You should seek the advice of your independent financial advisor prior to taking any investment decisions based on this document or for any necessary explanation of its contents. This document is intended only to provide observations and views of CS at the date of writing, regardless of the date on which you receive or access the information. Observations and views contained in this document may be different from those expressed by other Departments at CS and may change at any time without notice and with no obligation to update. CS is under no obligation to ensure that such updates are brought to your attention. **FORECASTS & ESTIMATES:** Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. To the extent that this document contains statements about future performance, such statements are forward looking and subject to a number of risks and uncertainties. Unless indicated to the contrary, all figures are unaudited. All valuations mentioned herein are subject to CS valuation policies and procedures. **CONFLICTS:** CS reserves the right to remedy any errors that may be present in this document. CS, its affiliates and/or their employees may have a position or holding, or other material interest or effect transactions in any securities mentioned or options thereon, or other investments related thereto and from time to time may add to or dispose of such investments. CS may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investments listed in this document or a related investment to any company or issuer mentioned. Some investments referred to in this document will be offered by a single entity or an associate of CS or CS may be the only market maker in such investments. CS is involved in many businesses that relate to companies mentioned in this document. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading. **TAX:** Nothing in this document constitutes investment, legal, accounting or tax advice. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax advisor. The levels and basis of taxation are dependent on individual circumstances and are subject to change. **SOURCES:** Information and opinions presented in this document have been obtained or derived from sources which in the opinion of CS are reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for a loss arising from the use of this document. **WEBSITES:** This document may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the document refers to website material of CS, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this document or CS's website shall be at your own risk. **DATA PRIVACY:** Your Personal Data will be processed in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website <https://www.credit-suisse.com>. In order to provide you with marketing materials concerning our products and services, Credit Suisse Group AG and its subsidiaries may process your basic Personal Data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can opt-out from receiving these materials at any time by informing your Relationship Manager.

UNITED STATES: NEITHER THIS REPORT NOR ANY COPY THEREOF MAY BE SENT, TAKEN INTO OR DISTRIBUTED IN THE UNITED STATES OR TO ANY US PERSON (within the meaning of Regulation S under the US Securities Act of 1933, as amended).

This report may not be reproduced either in whole or in part, without the written permission of Credit Suisse. Copyright © 2021 Credit Suisse Group AG and/or its affiliates. All rights reserved.

21C014A_IS