



ÁLAMOS: A DIFFERENT VISION

Mexico, February 2018



ONCE UPON A TIME IN A TINY VILLAGE

Mount-Invest SA has been honored to participate in the 25th anniversary of the Álamos Alliance in Álamos, Sonora State, Mexico and to sponsor the official closing dinner.

In this “Pueblo Magico” (magic town), you will feel yourself like coming back to the XIX century. Narrow cobblestone streets, beautiful vegetation, little markets, centuries-old constructions and many many little authentic restaurants and hotels that brings you the charm of a so called magic town.

Once a year, since 1994, numerous business, government and civil society leaders have made their way to this charming city. Founded by the “father” of the <Chicago Boys>, a very well known economist that has influenced, together with some other great Nobel Prices, today's world of finance and society.

This is made possible thanks to the active participation of the highest analysts of the most prestigious universities in the world, scholars and senior government officials as well as top business leaders involved in this event. Like its “big brother” the World Economic Forum (WEF), the Álamos Alliance reunion is a fantastic moment for those leaders to share opinions, brainstorm and find solutions to major global issues among others, in a very relaxed and unfussy atmosphere.

In this report, we will share some of the main relevant topics and economic conclusions we derive from this major summit.

Thanks to a fantastic organization, led for many years by organizers-members as well as by many actors working in the shadow of the participants we felt like home. Thanks to all of you.

This “Pueblo Magico” is a fantastic destination even if you have not the chance to participate in this exclusive event. Visit the Sonora region and find a different, wonderful and exciting Mexico !



ÁLAMOS

PUEBLO MÁGICO

THE LATAM WEF

This year, the 25th anniversary of the Álamos Alliance took place. This event could be compared to the roots of the World Economic Forum (WEF) of Davos but has been maintained on purpose (thankfully) as a very simple but effective economic and strategic forum. Happy anniversary and congratulations !

MEXICO & THE NEIGHBOR

“Opportunities and Uncertainties” could resume the red line topics of the 2018 Álamos Alliance summit. A global vision that leads to questions and solutions one may not have think before.

Uncertainties may come from the “populist ambiance” we are facing in many countries as of today. This movement has led the way to some conservative economic measures the Mexican neighbor, the so called “United” States of America are targeting (implemented for some), via the quarrelsome President Mr. Trump. A simplistic approach could see benefits in global protectionist measures, only beneficial on a short-term (ST) view (and populists use those tools). On a long term (LT) view, only a “well managed”* liberalistic approach will be favorable to all parties.

(* Well managed considering the avoidance of capitalism abuses we faced in some previous economic cycles)

In parallel to the above mentioned, the next Mexican elections are worrisome to some extend. The leftist candidate that leads the polls has a disruptive view on economic reforms. While the PRI (center-right) and PAN (right) candidates won recent positive perception and votes, it is the undecided voters and parties alliances that will will have the final word. Attention as this type of schemes/scenarios has brought surprises to recent past elections (the Trump election and the BREXIT had an unusual number of undecided voters during the polls. Some of the people not willing to announce their shameful vote... ?). Beware of this situation...

The NAFTA (North America Free Trade Agreement): The 7th round of negotiations could lead to a small compromise or not. Yet, a 8th round is mentioned. The major challenge: having Trump not loosing face on the NAFTA treaty, still very favorable and beneficial for the US on a global scale. One solution mentioned at the 25th Álamos Alliance brought by a smart and friendly US Senator (by the way, also a great banker and writer among others): to tax with a little percentage the participating countries and get this amount splitted in two ways:

- Reinforcement budget for security and immigration (this includes the wall)
- Wages adaptation in the low income countries (reducing wage disparities)

Diversification treaties like the Trans-Pacific Partnership (TPP) is vital to Mexico's economy in order to take some burden away from its love-hate relationship with its neighbor. Even if the current US administration allows tax economic sanctions or steep tariffs on foreign metals or goods importations, retaliation should not be part of the Mexican strategy as their vision is more global and long term oriented. On a short term basis, this could affect negatively the current positive GDP path. Raw protectionism could derive in trade war, incompatible with global growth synchronization.

One hope: a certain type of “pragmatic populism” in 1291 led to a pact in which the voters swore mutual support against any outsider who might attack or harm them. This pact is known as the Federal Pact and has derived into the greatest political system in the world: Switzerland and its true democracy!



POLITICAL UNCERTAINTY

The coming Mexican elections (renewals of President, the full Congress, 7 states governors, Mexico City mayor) is the major threat to the economic stability of the country.



POSITIVE TREND WITH HEADWINDS

Mexico has a unique combination of stability, scale and potential for a prolonged growth. But some headwinds could derail the positive trend.

- US interest rates: the cost of servicing any US denominated debt could exacerbate any margin erosion on local companies.
- NAFTA: re-negotiations or withdrawal from the deal could affect rapidly the foreign exchange level.
- Elections: a leftist president and/or any major change in the Congress is a cause of uncertainty in the future. The energy reform is the major market-sensitive factor today and continuity is at risk.
- US foreign politics: the President controversial measures on taxes and could derail the recent GDP strength
- Insecurity and Corruption: by fighting both causes through the treatment of "symptoms" would imply negative perception by foreign investors (and locals). A major change is needed but with sound knowledge and steps (Colombian "style").
- Banxico: running out of gas ? Topping interest rates levels ?



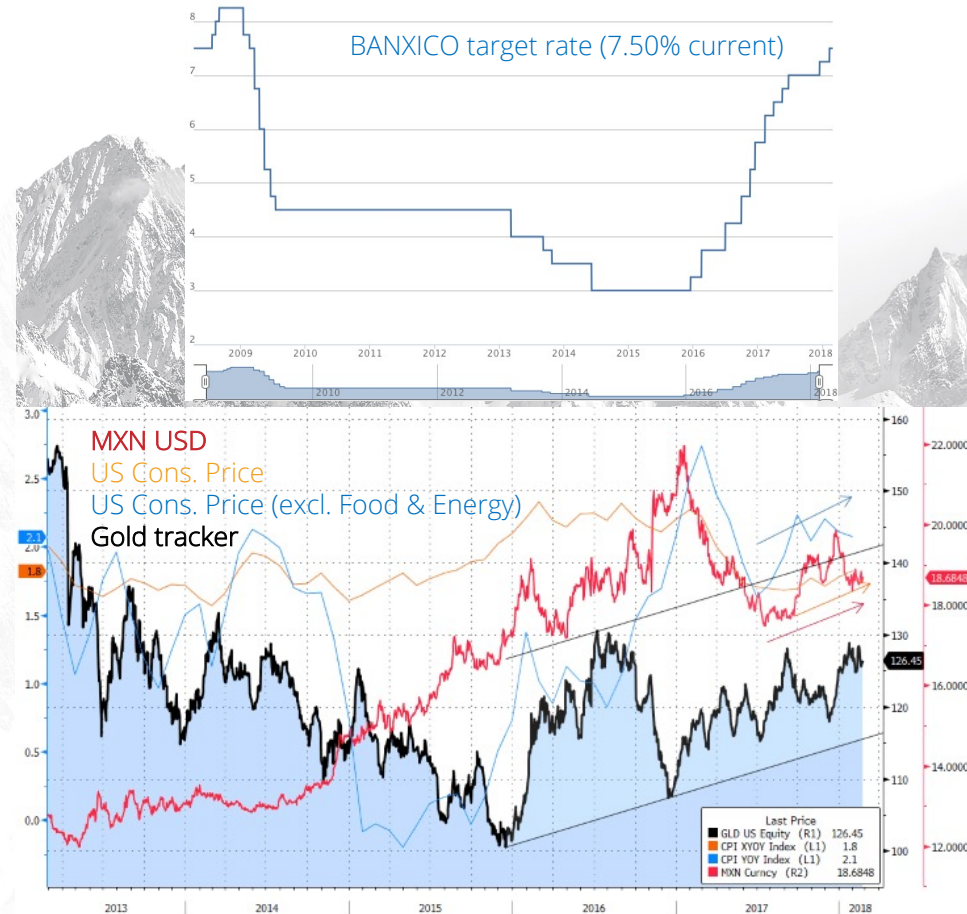
PORTFOLIO POSITIONNING

A defensive strategy to look for. Implementation of short term hedges and long term investments.

Short term: The recent strength in MXN USD could be used to build short positioning on the Peso and add exposure to the USD. Option strategies to hedge short term headwinds.

Medium Term: Gold exposure also a measure to counter any sharp increase on inflation (mostly US). Add Mexican equity single names on weakness (fallen angels and "Future Investment Themes" (FIT)).

Long Term: USD denominated inflation notes to add to the portfolio.



INVESTMENTS

Buy USD and Sell MXN at levels around 18.50. Buy Gold for hedge exposure and inflation protection. Add floating rate notes (in USD). Privilege a "protection strategy" before the elections (using options). See your Mount-Invest SA specialist for more details.

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