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HAS INVESTOR PESSIMISM TOWARD MEXICO GONE TOO FAR?

MAKE MEXICO GREAT AGAIN

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ASK TYLER

Arriving at Benito Juárez international airport is often a painful experience due to long queues at immigration. This time, however, we whisked through the electronic passport scan and were immediately greeted in arrivals by a cheerful local group wearing hats bearing the ironic slogan “Make Mexico Great Again”.

Somewhat unexpectedly, this enthusiasm set the tone for the entire trip. Of course, outside of Mexico, many believe that Trump’s threats have catapulted the country into terminal decline (an ETF company has even launched a global ex-Mexico listing).

Boots on the ground tell a different story — one of resurgent patriotism and an eagerness to enlarge Mexico’s global trading ecosystem. Many Mexican business owners with both domestic and US footprints have decided to re-focus their efforts in Mexico. Others are pivoting their trade efforts to entirely different regions.

To be sure, real risks lie directly ahead. With the recent stampede out of the Mexican peso and the currency currently undervalued by around 50% (Spring break in Cabo, anyone?), a crisis is undoubtedly here again.

But this wouldn’t be the first time. After all, crisis is a recurring feature of Mexican history. The list is long: the 1976 peso devaluation, the 1982 debt crisis (and the “década perdida”— the lost decade— which followed), and the hyperinflation of the early 1990s which ultimately led to the Tequila crisis of 1994.

But pessimism has likely gone too far, pricing in a worst-case scenario for Mexico. There are limits to portraying the US as a victim of Mexico. The US trade deficit is only a quarter of its exports to the country, compared to a deficit with Japan of twice exports and with China of three times. As with many asset classes damaged by Trump rhetoric, there is plenty of room for positive surprises.

What’s more, currencies have adjusted to new realities quickly. For example, the new border tax adjustment, as envisaged by the House Republican majority, looks increasingly likely. Yet, the Mexican peso has already discounted this scenario, devaluing to radically improve its trade competitiveness.

INVESTMENT IMPLICATIONS

With the Mexican currency back at a level not seen since the depths of the Tequila crisis, it is time to keep Mexico on the “watch list”. Ironically, Trump’s anti-trade rhetoric has made Mexico far more competitive (via a cheaper currency) and engineered domestic optimism. This is also true for other emerging markets and confirms our overweight in Asia — countries that have already radically sharpened their competitiveness through currency debasement over the last four years, benefit more from a lower oil price and trade on far cheaper equity valuations than Mexico.