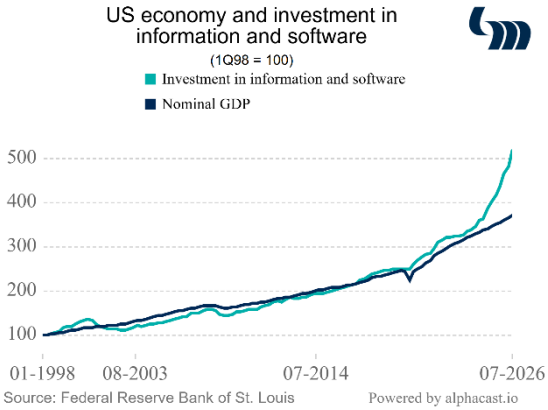


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Fed warns markets to "adjust to higher rates"

Fed minutes explain the decision to leave the federal funds rate unchanged in October, but they also suggest a rate hike in December. The rationale is to gather more information on current economic conditions and on investment demand related to AI. Members believe it is appropriate to allow market participants to incorporate current conditions and "adjust to higher interest rates". We arrive at a stronger conviction that the federal funds rate will be increased by 25 basis points in December when we combine this rationale with the fact that two participants who voted in favor of a rate increase, the two members who, during the discussion, argued for raising rates by more than 25 basis points in December if inflation remains unfavorable, and Warsh's statement that inflation is "too high," Markets have already fully priced in that probability, and the focus is now shifting toward the outlook for 2027, where the bias remains, for the time being, tilted in a restrictive direction.

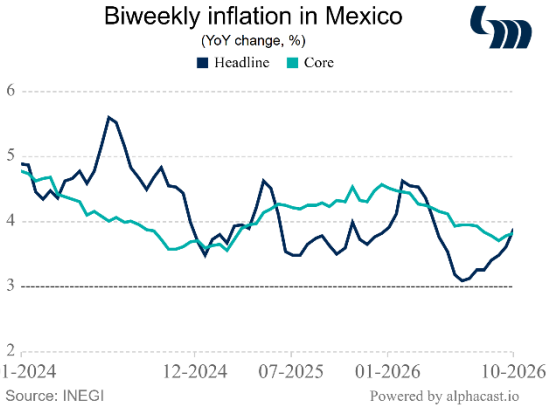
What about the investment supercycle? Central banks are closely monitoring its impact on both financial markets and real economic activity. The European Central Bank (ECB), for example, has drawn historical parallels between the build-up of debt surrounding the AI industry and the dynamics that preceded the 2008 housing bubble. Meanwhile, the Federal Reserve's minutes reveal that policymakers have conducted "tail risk" stress tests, meaning low-probability but high-impact scenarios, to assess the consequences of sudden shifts in asset prices. In such scenarios, liquidations by hedge funds and other asset managers could impair the functioning of financial markets. This week, for example, the S&P 500 fell 6.3%, the Dow Jones Industrial Average declined 6.4%, the Nasdaq Composite dropped 8.0%, the Euro Stoxx 50 lost 6.9%, and Japan's Nikkei 225 fell 7.7%, while the U.S. Dollar Index (DXY) strengthened 2.8%. These developments are occurring alongside the euphoria surrounding the largest initial public offering in history by a leading AI technology company and, at the same time, severe disruptions across cyber networks affecting government agencies, airline systems, financial institutions, and technology firms. Taken together, these developments suggest that the final months of the year will be marked by heightened attention to risk across both financial markets and the broader economy.

The Asia Pacific Economic Cooperation (APEC), a grouping of 21 countries on both sides of the Pacific Ocean, concluded its annual leaders' summit in Shenzen, China on Thursday, November 19. International Monetary Fund head Kristalina Georgieva warned leaders that this year's energy shock and artificial intelligence build-out has aggravated inflation challenges, and called on countries to hike interest rates in response. As with many international summits, however, the main events took place in leaders' side meetings, the most notable being the White House-instigated meeting between U.S. President Donald Trump, Russian President Vladimir Putin, and Chinese President Xi Jinping. The trilateral summit appeared to yield little substantively but was further evidence of Trump's sympathetic views toward Russia regarding their invasion of Ukraine and is sure to cause heartburn in Europe and Taiwan. But any U.S. leverage is limited by the fact that Ukraine now receives most of its international financial assistance from Europe.

U.S. industrial production grows 2.1% year-over-year in October. Manufacturing output increased **2.2% year-over-year**, driven by durable goods production, which advanced **4.8% year-over-year**. Meanwhile, **mining output** rose **2.4% year-over-year** and **utilities output** increased **1.7% year-over-year**. Within manufacturing, **motor vehicles and parts production** surged **9.5% year-over-year**, while **business equipment production** climbed **7.8% year-over-year**.

Potential successors to Christine Lagarde at the European Central Bank (ECB) are beginning to emerge ahead of February 2027. According to Reuters, leading candidates include Klaas Knot, Governor of the Dutch Central Bank, Pablo Hernández de Cos, currently serving at the Bank for International Settlements (BIS), and Joachim Nagel, President of Germany's Bundesbank. The position of Chief Economist is very important in the institutional design of the ECB, and next year (in May), the term of the current one, Philip Lane, comes to an end.

Banxico in retrospective



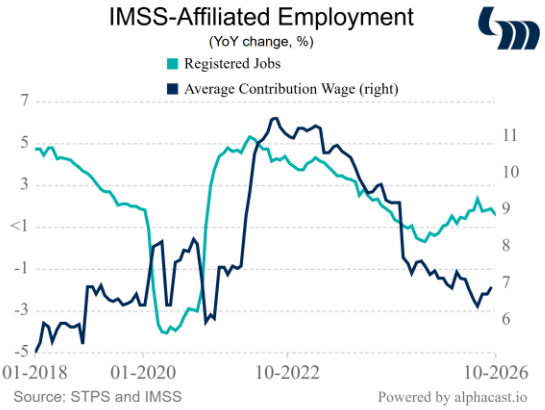
In its minutes, Banxico argues that economic slack justifies its decision to lower interest rates. Policymakers contend that the disinflation process has continued, despite evidence to the contrary over the past four months, with core inflation remaining persistent. They do not perceive demand-side pressures in the economy; they consider monetary policy to remain restrictive, view the pass-through from the exchange rate as limited, believe that economic activity is providing slack that helps contain prices, and maintain that the Federal Reserve's monetary policy cycle does not necessarily have to coincide with Mexico's. One board member attributed the recent uptick in inflation to base effects in non-core components. All of these arguments stand in contrast to the effort made throughout the minutes to reiterate the message that, following a controversial rate cut, the policy rate will remain at its current level "for an extended period". Notably, since these discussions took place, several members who supported the rate cut, including Governor Rodríguez, have had to repeatedly emphasize that there will be no further rate cuts. In our view, this reflects, at best, a confusing reaction function and, at worst, a loss of credibility. There are also challenges ahead. The first is, of course, the depreciation of the peso against the U.S. dollar, with the exchange rate reaching 19.04 pesos per dollar, its highest level since June 2025 and representing a 2.74% weekly loss. The shift in the Fed's stance and the appreciation of the dollar are the primary drivers, but it is also becoming increasingly evident that the greenback's strength is being reinforced against so-called "high-yield currencies," a category in which the peso no longer stands out given its historically narrow interest-rate differential. In addition, inflation data for the first half of November will be released next week. We estimate annual inflation of 4.09% for headline inflation and 3.91% for core inflation. Given recent inflation readings and the prospect of a weaker peso, we reiterate our year-end forecast of 4.10% for headline inflation. Should this scenario materialize, the exchange-rate pass-through effect assumed by Banxico would appear to be clearly underestimated.

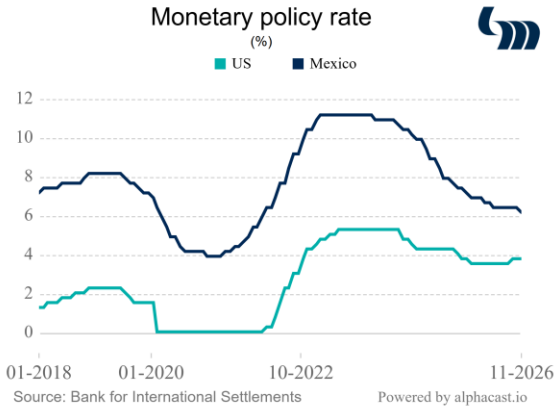
The summit also provided Mexican President Claudia Sheinbaum the opportunity to hold direct discussions on trade with Trump and Xi. Sheinbaum, fresh off of a 21-hour commercial flight) held a short bilateral meeting with Trump and U.S. Trade Representative Jamieson Greer that she called productive while predicting a bilateral trade deal in the short-term. With Xi, she hailed a "new era" of Mexico-China trade ties, suggesting perhaps that an escalation in tariffs against Chinese products may be unlikely or at least limited. Sheinbaum will likely need to carefully navigate U.S. demands for actions to limit China's role in North American supply chains without destabilizing Mexico's relationship with China. Though the diplomacy will be challenging, step one is showing up, and on that count Sheinbaum has bested her predecessor.

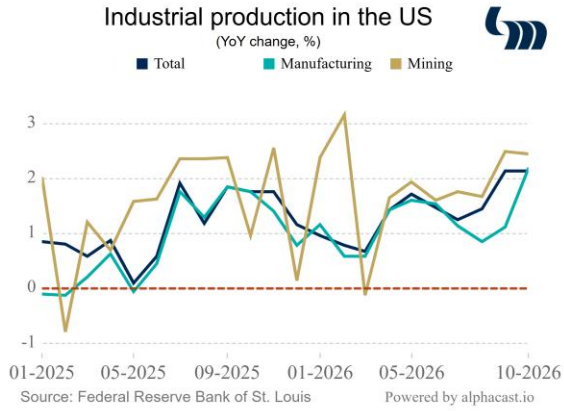
IMSS records an increase of 161.1 thousand affiliated jobs in October (1.3% year-over-year). This brings the total number of affiliated positions to 23.1 million, with a cumulative increase of 571.3 thousand jobs so far in 2026. The gains were particularly notable in the transportation, extractive industries, and construction sectors. Meanwhile, the average contribution wage reached MXN 664.7 per day, representing a 6.9% year-over-year increase.

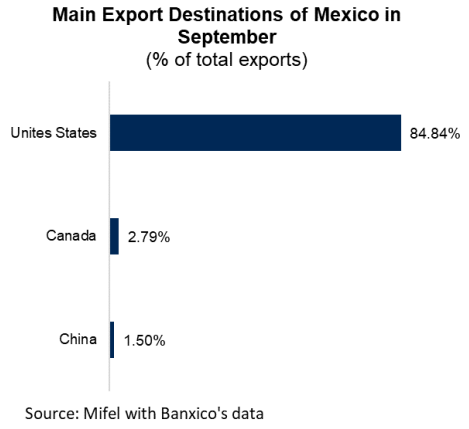
The Federal Revenue Law for 2027 is published in Mexico's Official Gazette (*Diario Oficial de la Federación*). The legislation contemplates budgetary revenues of MXN 10.636 trillion for fiscal year 2027, including MXN 5.7 trillion in federal revenue-sharing collections, MXN 6.3 trillion in tax revenues, MXN 774 billion in revenues from Pemex, and MXN 509 billion from CFE. The law also includes tax incentives for diesel purchases by selected taxpayers, customs-duty exemptions, and provisions governing income tax (ISR), value-added tax (VAT/IVA), the special tax on production and services (IEPS), and the Petroleum Welfare Duty (*Derecho Petrolero del Bienestar*).

Charts of the week









Mifel forecasts

	GDP	CPI	Core CPI	Exchange rate	Reference rate	M10 bond rate	Current account	Budget balance	Public debt
	YoY	YoY	YoY	USDMXN	%	%	%GDP	%GDP	%GDP
3T2026	3.2%	3.49%	3.97%	17.65	6.50%	9.35%	-0.1%	-0.9%	53.4%
4T2026	1.1%	4.10%	4.03%	19.20	6.25%	9.23%	0.5%	-1.6%	56.8%
1T2027	1.9%	3.25%	4.06%	19.48	6.25%	9.92%	-0.9%	-0.6%	57.1%
2T2027	1.2%	3.70%	4.08%	19.78	6.25%	9.61%	0.1%	-1.1%	55.4%
3T2027	0.9%	4.06%	4.13%	19.94	6.25%	9.70%	-0.1%	-0.9%	55.8%
4T2027	0.9%	3.63%	4.13%	20.10	6.25%	9.58%	0.5%	-1.5%	57.1%
1T2028	0.9%	4.06%	4.09%	20.71	7.00%	10.57%	-1.0%	-0.6%	59.1%
2T2028	0.9%	4.07%	4.07%	21.30	7.25%	10.56%	0.1%	-1.1%	57.0%
3T2028	0.9%	4.05%	4.03%	20.96	7.25%	10.40%	-0.1%	-0.9%	58.0%
4T2028	0.9%	4.03%	4.01%	21.30	7.25%	10.28%	0.5%	-1.5%	58.7%
2026	**1.6%**	**4.10%**	**4.03%**	**19.20**	**6.25%**	**9.23%**	**-0.2%**	**-4.3%**	**56.8%**
2027	**1.2%**	**3.63%**	**4.13%**	**20.10**	**6.25%**	**9.58%**	**-0.4%**	**-4.1%**	**57.1%**
2028	**0.9%**	**4.03%**	**4.01%**	**21.30**	**7.25%**	**10.28%**	**-0.4%**	**-4.1%**	**58.7%**

Date	Key rate	Cetes 28d	Cetes 91d	Cetes 182d	Cetes 364d	M3	M5	M10	M20	M30
Dec-26	6.25	6.22	6.30	6.32	7.10	8.29	8.67	9.23	9.53	10.01
Mar-27	6.25	6.49	6.60	6.65	7.57	8.86	9.31	9.92	9.78	10.21
Jun-27	6.25	6.37	6.48	6.52	7.46	8.50	8.98	9.61	9.36	9.88
Sep-27	6.25	6.54	6.64	6.70	7.64	8.68	9.10	9.70	9.51	10.01

Updated forecasts as of November 20, 2026. Forecasts prepared by Mifel Economic Research (EEM) are intended solely for informational purposes and should not be construed as an offer to sell or purchase securities, investment advice or recommendations, or any form of promise, commitment, or contract. The analyses and compensation of EEM are strictly independent from Mifel's business and operational areas.

Weekly economic calendar

November 23 to November 27

Monday	Tuesday	Wednesday	Thursday	Friday
Global Economic Activity Indicator (IGAE) September MX	Consumer Inflation November MX **(E Mifel: 4.09% YoY)**	PCE Inflation October USA **(E: 3.80% YoY)**	Unemployment Rate October MX	Trade Balance October MX
GDP 3Q26 MX **(E Mifel: 3.2% YoY)**	Consumer Confidence Index TCB November USA **(E: 92.1 pts)**	GDP 3Q26 EUA **(E: 3.40% YoY)**		
		Durable Goods Orders October USA **(E: 0.60% MoM)**		
		Current Account Balance 3Q26 MX		
		Building Permits October USA		
		New home sales October USA		



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