

Is unpredictability the new normal?



UBS Investor Watch

Global perspectives / Q2 2017

Mexico market insights

Do we live in turbulent times?

UBS Investor Watch is UBS Wealth Management's international analysis of issues facing investors. In each edition, we will take an in-depth look at a current issue affecting these individuals and their plans for the future.

For this edition, we interviewed more than 2,800 investors in seven markets around the world (Hong Kong, Japan, Singapore, Mexico, Italy, Switzerland and the UK) to assess how unpredictability is shaping their attitudes and actions. This included 402 people in Mexico.

The past year saw many unexpected events with major political, economic and social consequences. The election of Donald Trump as President of the USA, the UK's vote to leave the European Union, tensions over North Korea, high profile terrorist attacks and severe natural disasters, to name but a few.

At the same time, a series of powerful long-term trends continue, including a rising tide of populism, climate change and the search towards energy efficiency, a sharing economy and urban world. We are also seeing a fast development of virtual reality, digitalization, automation, artificial intelligence and robotics. Each has the potential to cause significant disruption and uncertainty, but also generates interesting investment opportunities.

Opinions differ on whether or not this is anything out of the ordinary. Some feel we live in very unpredictable times, while others consider such events to be no different to those experienced by previous generations.

So, just how unpredictable is the world in investors' minds? What drives uncertainty in their view and how do they respond to it? What impact does unpredictability have? This edition of UBS Investor Watch sets out to answer these fundamental questions.



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Unpredictability: What did we find?

Despite being the most unpredictable period in history...

- **90%** of investors surveyed in Mexico believe this is the most unpredictable period in history – more than any other global market.
- Some forms of media – television and social media in particular – are seen as causing a lot of uncertainty. Newspapers, by contrast, are highly trusted when making important decisions.
- Too much information may be a bad thing however. Two thirds of Mexican investors say they suffer from information overload.

...driven by economic and financial risks...

- Like their peers across the world, Mexico's investors see the economy as the top source of uncertainty. Nowhere else is there a stronger concern about economic risk.
- Over **80%** believe the new US President could negatively impact the Mexican economy. The commercial relationship between the two countries is the second biggest source of domestic uncertainty.

- In the most unpredictable time in history, only a third (**33%**) of Mexicans are purely focused on long-term concerns.
- Mexico's investors admit that short-term events often distract them from long-term investment planning. This is particularly the case for women under 45.

...optimism about the future prevails

- Mexico has always been an unpredictable country, according to **76%** of its investors. They feel this makes them better at dealing with uncertainty than investors in other markets.
- More than **80%** of the nation's investors feel confident when assessing financial risks. Nearly all respondents trust their own instinct when taking important decisions.
- Mexican investors are the most active in reviewing their investments in uncertain times. Most believe that they can find safe places to invest their wealth.

"I try to get as well informed as possible in order to make the right decisions, so that these are beneficial for me and my family."

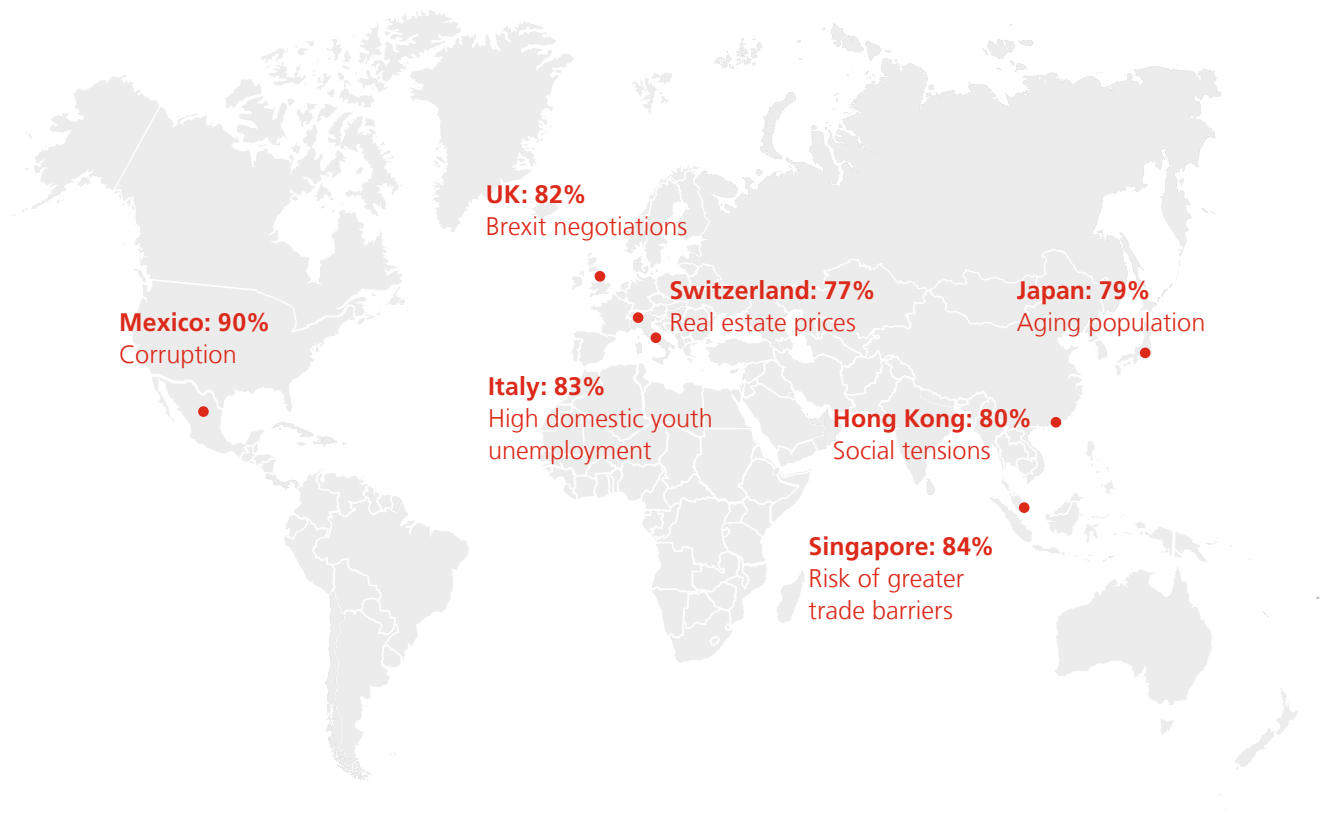
Male, age 35 – Veracruz

90%

of Mexican investors believe the world is living through the most unpredictable period in history

Do you agree or disagree with the following statement: We are currently living through the most unpredictable period in history? (percentage who strongly or somewhat agree)

What are the biggest sources of domestic uncertainty? (most mentioned category)



“Try to keep calm with as much confidence as possible.”

Female, age 39 – Jalisco

“Everything is somewhat risky. We don’t know what will happen in the next months.”

Female, age 35 - Estado de México

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Why does the world feel unpredictable?

In Mexico, 90% of investors surveyed believe this is the most unpredictable period in history. Nowhere else in the world is this belief so strongly held. What drives those perceptions, and are they accurate?

Many trusted sources of information, but television is not one

With news feeds being created almost in real-time, investors consume a range of information sources when making their decisions. Mexico is a leading example of this. Nowhere else do investors place so much trust in such a wide range of information sources.

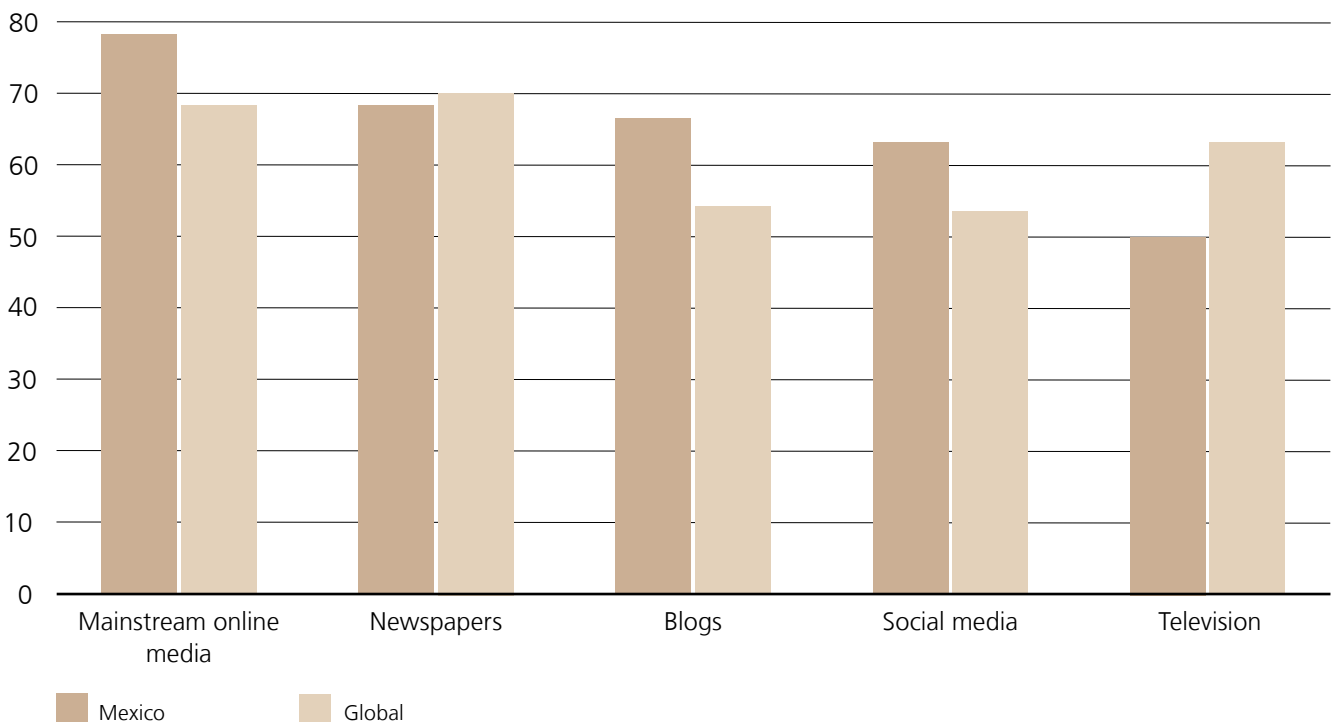
Traditional media sources like newspapers remain highly trusted. Newer forms, like social media and blogs, are also embraced, as are mainstream media outlets consumed online. Television, however, is less trusted than anywhere else.

Yet at the same time, many of Mexico's investors think these sources of information can also cause uncertainty.

A large majority feel that television can be a source of uncertainty due to the way it reports on current events. Similarly, over 60% see social media as a source of uncertainty.

The Mexican investors interviewed want a diverse range of opinions: over 90% believe ample information enhances their decision-making. Yet there are limits. Nearly two thirds say they suffer from information overload.

What level of trust do you have in these information sources when taking important decisions? (percentage who strongly or somewhat trust)

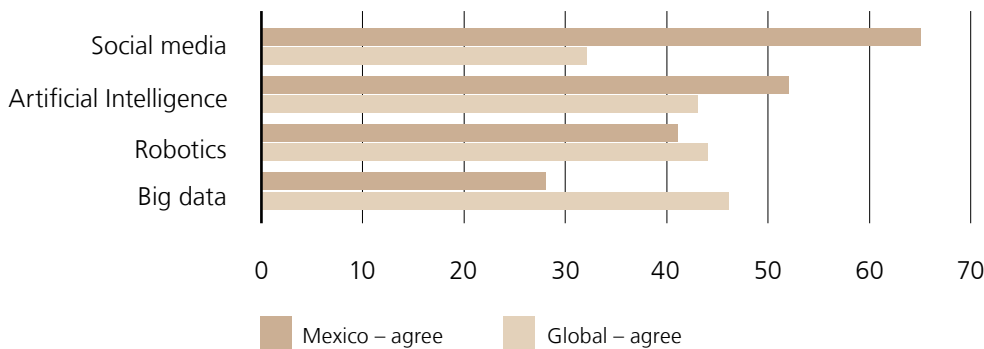


Can technology come to the rescue?

We might hope that technologies such as big data and artificial intelligence (A.I.) would help us to create more predictability.

In some ways, Mexican investors agree. Over half believe A.I. can make the world more predictable. Two thirds believe the same about social media. Yet on the other hand big data, seen elsewhere in a positive light, is viewed far more negatively by the investors interviewed in Mexico.

Which technologies do you feel are making the world more predictable? (in %)



"I read the news to take decisions in my life."

Male, age 41 - Jalisco

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Short or long-term uncertainty: Which matters more?

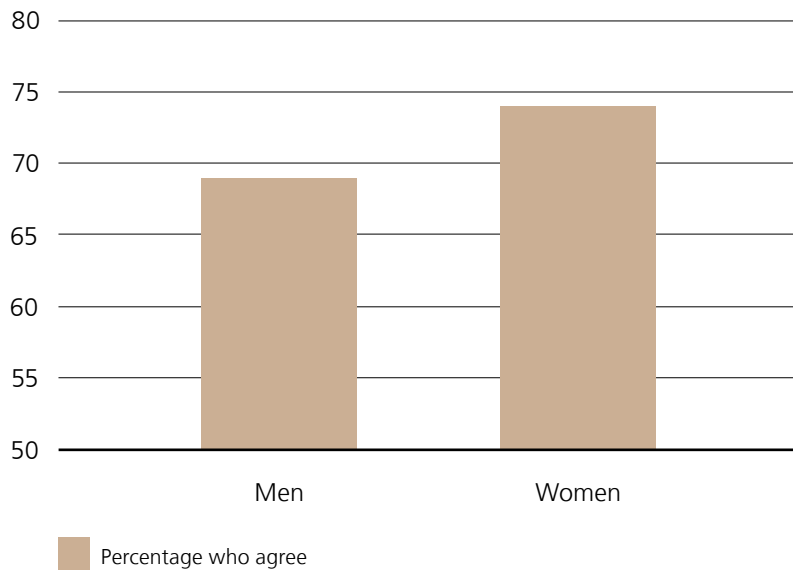
When preparing for the future, investors recognize the need to separate short-term shocks from longer-term trends.

Dealing with short-term distractions

In the most unpredictable time in history according to respondents, 56% of Mexican investors seek to balance their focus on uncertainty over both the short and the long term. However, fewer investors say they purely look at long-term concerns than elsewhere in the world.

Distraction caused by short-term events often prevents investors from spending time analyzing the longer-term future. Nearly 70% of Mexican investors interviewed admit this can be a challenge for them. Women under the age of 45 in particular often feel that short-term events can distract them from long-term investment planning.

Do you agree with the statement: "I am often distracted from my long-term investment planning by short-term risks"? (percentage who strongly or slightly agree)



"I seek to predict changes and anticipate them."

Male, age 35 – Ciudad de México

"I try to get informed of potential changes and from there define a strategy."

Male, age 37 – Tlaxcala

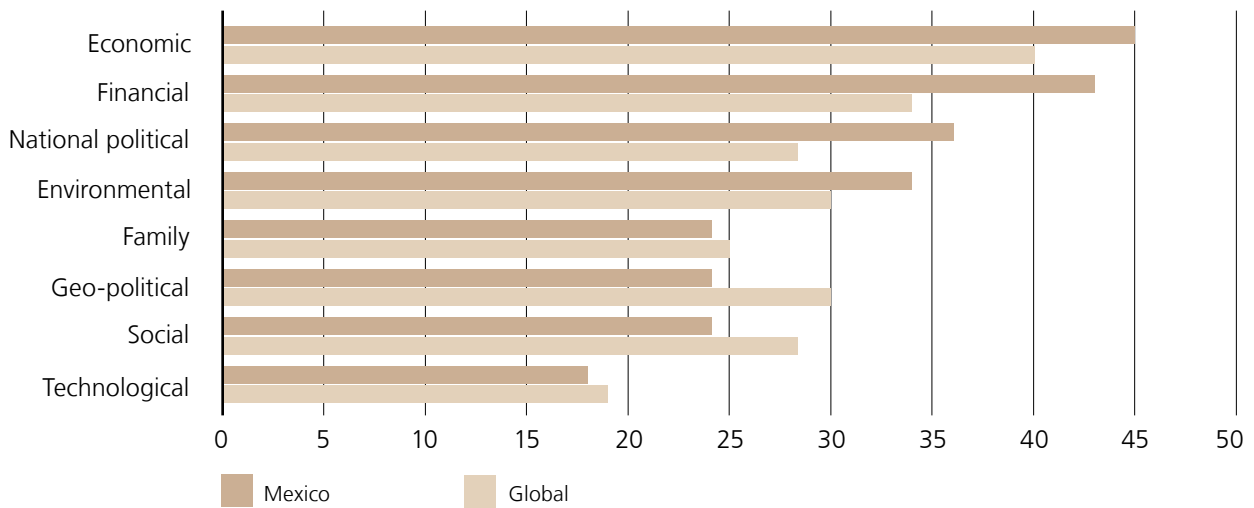
Economic and political risks to the country

Like their peers across the world, Mexico’s investors see the economy uncertainty as the leading source of uncertainty, both now and in the future. Nowhere else is there a stronger concern about economic risk.

Events across the border in the USA are also on their minds. Over 80% believe the new US President could negatively affect the Mexican economy. A similar number think that political and diplomatic ties might become strained. The commercial relationship between the two countries is the second biggest source of domestic uncertainty.

Domestic political risk is high on the agenda too. Nearly half identify it as a key short-term cause of uncertainty. A third feel the same over the long term. Geo-politics, social tensions and technological risks pale in comparison to these more prominent concerns.

Which of the following possible risks or causes of uncertainty are you most worried about in the long term? (in %)



Business is short-term oriented as well

Just as they are distracted by short-term risks themselves, a large majority of Mexico’s investors interviewed believe companies suffer from the same problem. Shareholders in particular are seen as having a short-term attitude to risk.

Despite this, Mexican investors maintain confidence in their business leaders to navigate uncertainty. Nearly 90% say

that businesses are balancing short-term performance with long-term investment.

In addition, the ongoing development of a renewed US-Mexico relationship opens opportunities for Mexico to explore new commercial markets, according to 90% of respondents.

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Unpredictability: Opportunity or threat?

In the "most unpredictable period in history", how do Mexico's investors make choices about their wealth and their investments?

Unpredictability is a fact of life

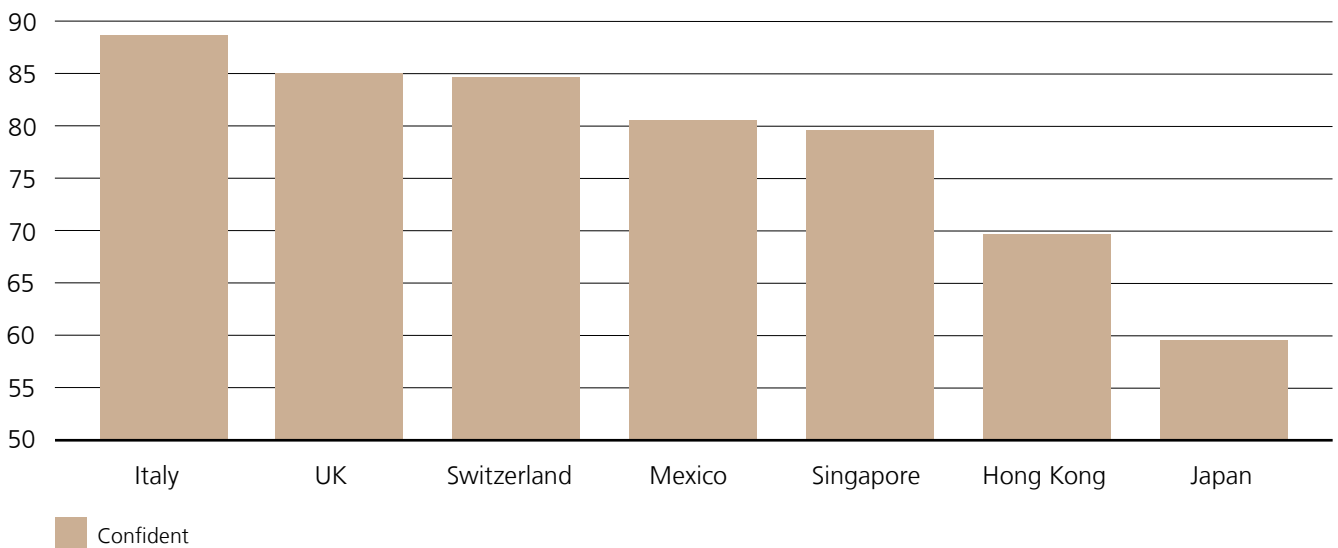
Mexico has always been an unpredictable country, say 76% of the investors interviewed. They believe this makes them better at dealing with uncertainty.

This confidence is reflected throughout the research. More than 80% of the nation's investors surveyed are confident in their ability to assess financial risks. Nearly all Mexican

investors trusts their own instinct when taking important decisions. Confidence about their own future is stronger than in many other markets.

However, Mexican investors are less likely than their international peers to believe that unpredictability presents an investment opportunity. They also have less appetite than investors in other markets to take risks following the 2008 financial crisis.

How confident are you in your ability to accurately assess financial risks relating to uncertain events? (percentage who are very or fairly confident)



"I feel much more uncertainty, however I'm confident that the economy will improve somehow in Mexico."

Female, age 35 – Estado de México

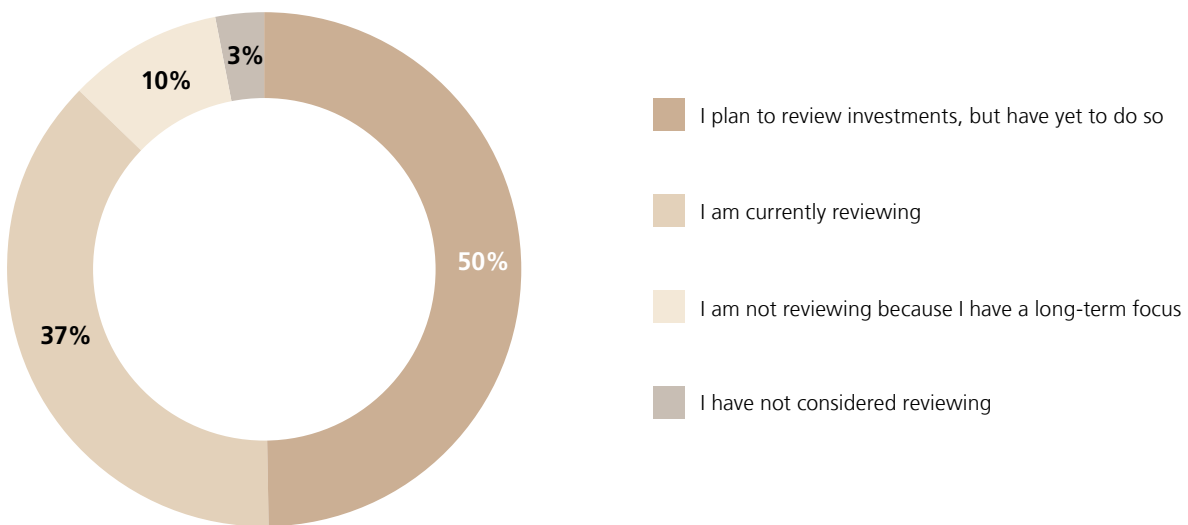
57%

are less willing to take risks since the financial crisis – a higher figure than anywhere else

Mexican investors reviewing their investments

Mexican investors may be confident dealing with unpredictability but that does not mean taking a hands-off approach to their financial arrangements. In fact, the Mexican investors surveyed are the most active in reviewing their investments in the face of uncertain times. Nearly 40% are already doing so. A further 50% plan to do so. More men say they have already reviewed their investments, while more women say they plan to.

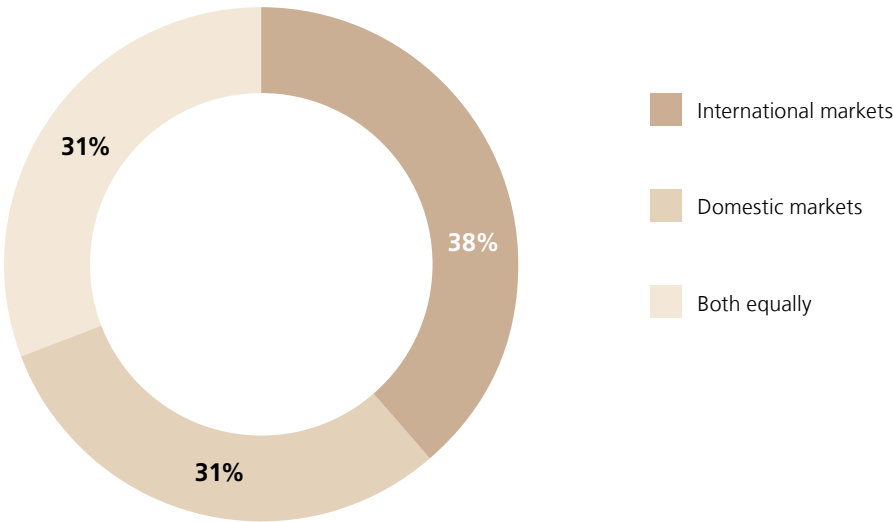
Are you reviewing your investments as a result of recent global unexpected events?



Finding low-risk investment options is a focus for many and a large majority believe they can do so. Mexico's investors demonstrate a high degree of faith in the security of holding cash, and especially physical assets: real estate, wine, art and jewelry are seen as lower-risk investment options by 84% of respondents.

Confidence in Mexico's domestic market as a source of lower-risk investment alternatives is similarly high. However, opinions are split as to whether the greatest investment opportunities are to be found at home or abroad.

Do you see greater investment opportunities in Mexican or international markets?



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The UBS Confidence Index

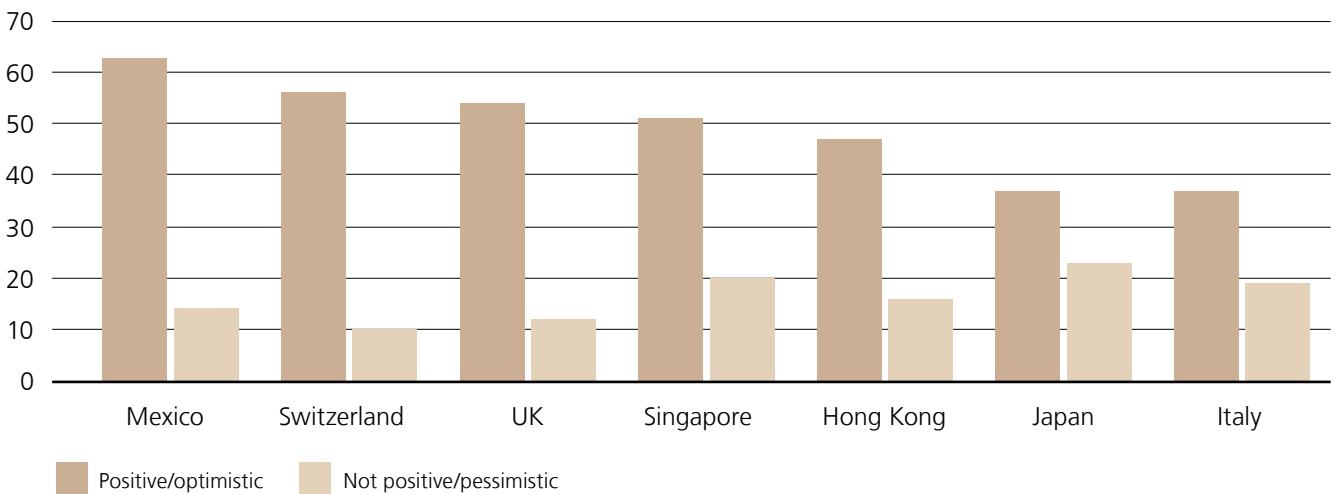
The UBS Confidence Index tracks the confidence and optimism of investors. It looks at four measures of investors' confidence in their own prospects and the outlook for the world economy. Our analysis produces an average of the number of people confident about each:

- Confidence in their personal financial situation over the next 12 months
- Confidence in the economic outlook over the next 12 months
- Optimism in reaching their long-term financial goals
- Optimism in the long-term global investment climate

Mexico's investors seem very confident for the future

Despite the belief that we live in the most unpredictable time in history, the Mexican investors interviewed demonstrate the highest levels of optimism for the future of any market around the world.

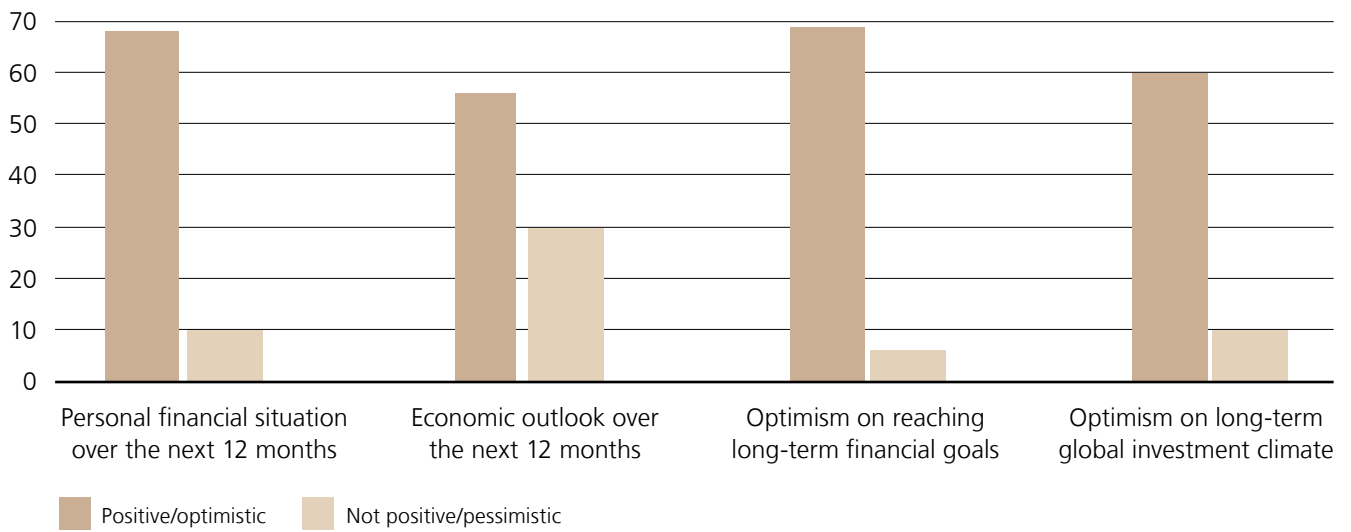
The UBS Confidence Index – country by country (in %)



Over two thirds of respondents expect to see an improvement in their own financial situation in the next year. Only a tenth expect a decline. 56% think that the economic outlook will improve, while less than a third say they expect it to deteriorate.

Long-term confidence is even higher than expectations over the short term.

The UBS Confidence Index for Mexico (in %)



Divided on their place in Mexican society

The Mexican investors interviewed are the most satisfied of any market globally when it comes to their work/life balance. Yet respondents were also more polarised than most other countries: a significant minority, particularly those under forty-five, feel the opposite.

The issue of taxation is similarly divisive. A third of respondents believe that they pay an appropriate level. A similar number say the tax burden is not fair.

“Face things as they come and give priority to what is important, and take it step by step.”

Female, age 35 – Ciudad de México

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Unpredictability is a fact of life, but it can be dealt with.

Uncertainty comes from many angles – the financial system, various forms of politics and government, new and traditional media sources.

Short-term thinking could be dangerous. Long-term risks are abundant. Unpredictability is more of a threat than an opportunity.

Yet, confidence is high in dealing with an uncertain world. The critical question is how we translate this confidence into tangible results for our wealth.

Three things in particular can help to deal with unpredictability:

1. **Focus on the long-term.** Avoid responding to short-term events or distractions. Cutting through this noise has never mattered more, because there has never been so much of it.

“Unpredictable events can be both negative and positive, the key lies in finding the opportunity within the crisis to be able to move forward.”

Female, age 36 – Querétaro

2. **Maintain a diversified portfolio.** Exposure to a broad range of assets and geographies is essential. It helps to avoid the risks of domestic biases. Adding alternative investments can provide another source of protection against global and regional uncertainty while offering attractive yield opportunities in the mid to longer term.
3. **Be wary of overestimating the safety of cash.** Cash may always be attractive, especially in an unpredictable world. But inflation erodes its value, meaning that cash assets can damage your financial health in the long-term.

Do we live in the most unpredictable time in history? Possibly. Is confidence in our ability to navigate it a good thing? Probably. Does it guarantee success in protecting and growing wealth in the years to come? Not necessarily.

People have relied for centuries on an outside voice offering a sober perspective and considered advice. In unpredictable times, that advice appears even more important.

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More about us and our survey

About UBS Wealth Management

UBS is one of the world's leading financial firms. Protecting and managing wealth is at the heart of what we do; by providing investment advice and solutions to our clients and helping them to protect their assets in difficult market environments.

About the survey

UBS commissioned international research firm Censuswide to investigate the beliefs and attitudes of investors world-wide.

Combined with our own insights, the UBS Investor Watch report is a global research platform to help you understand the views, interests and concerns of the world's investors.

The sample comprised 2,842 investors across seven of the world's major markets: Hong Kong, Japan, Singapore, Mexico, Italy, Switzerland and the UK.

At least 400 were surveyed in each market, and at least 30% of respondents were women. Interviews were carried out online during January and February 2017.

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