

Equity Insights | October 19, 2023

# Made in Mexico: Nearshoring is accelerating growth

*Equity Insights offers research and perspectives from Putnam’s equity team on market trends and opportunities.*

**Author: Brian S. Freiwald, CFA | Portfolio Manager**

Reshoring and nearshoring are key trends for investors in global markets. As geopolitical tensions escalate and more businesses shift operations away from China, investors are considering the impacts of deglobalization. For many businesses and regions, we believe it could drive meaningful growth, with Mexico as one of the biggest potential beneficiaries.

In our view, Mexico stands to benefit from both reshoring — businesses moving their manufacturing back to their domestic markets, and nearshoring — businesses moving manufacturing to regions that are closer to their headquarters.

## Executives are planning to increase investments in Mexico

Nearshoring to Mexico is still in its early phases, but we continue to see positive developments beyond already announced investment and expansion plans. In a survey of companies operating in Mexico, the Central Bank of Mexico found that a significant percentage of corporate executives are planning increased levels of investment. This includes expanding production, hiring more staff, and renting more real estate as a result of nearshoring opportunities.

### The impact of nearshoring on business plans

*Corporate executives in Mexico surveyed on impact (% who responded affirmatively)*



Source: Banco de Mexico, with data from the Programme of Surveys to Corporate Executives. Published in Bank of Mexico Report on Regional Economies, January–March 2023.

For use with institutional investors and investment professionals.

## Observations from our research

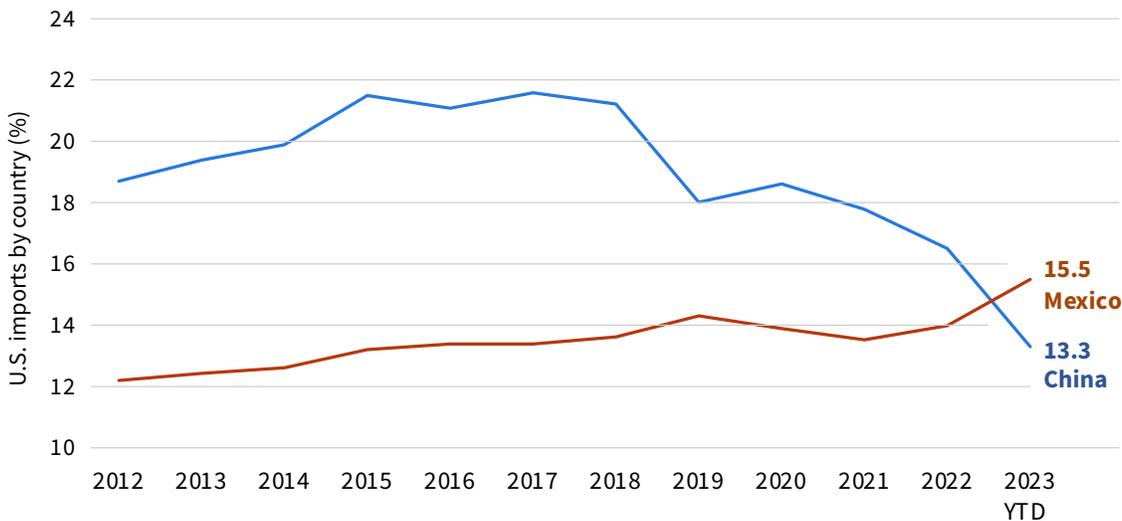
Through our travel, meetings, and research, we have observed nearshoring trends and their potential to drive further economic growth in Mexico.

- On our recent trip to Taiwan, we confirmed that Taiwanese companies — ranging from AI server assemblers to even curtain makers — have a strong desire to accelerate their expansion plans in Mexico.
- Tesla, Mattel, and Unilever recently announced significant investments in manufacturing facilities in northern Mexico.
- Beyond Tesla, our recent check-ins with Korean automakers revealed that Mexico continues to be a top priority for their capacity expansion.
- Conversations with IT services companies from India, Latin America, and the U.S. confirm incremental investments toward nearshore capabilities, as proximity, better time zone compatibility, and skilled talent bases drive client demand.
- One of the largest freight forwarders told us it is seeing a big increase in demand from clients to use Mexico as a final assembly base.
- The Canadian Pacific Kansas City Limited railroad company recently launched a service that connects the U.S. Midwest with the San Luis Potosi and Monterrey regions in Mexico.

## Mexico outpaces China in exports to the U.S.

Mexico is experiencing a surge in exports due in large part to nearshoring trends. In early 2023, for the first time in decades, Mexico overtook China as a source of exports to the U.S.

### Mexico overtakes China as leading exporter to the United States



Source: JP Morgan.

As a result of nearshoring trends, minimum wage hikes in Mexico have been consistent, with an additional increase of 15% to 20% expected in 2024. Although this can put pressure on corporate profits, it bolsters the spending power of consumers. Also, inflation in Mexico is moderating from elevated levels. Benchmark rates have likely peaked, but Banxico, Mexico's central bank, has indicated a cut is not likely any time soon, as inflation is still above its target range.

---

## Year to date, Mexico has been one of the best-performing markets in the world.

---

Year to date, Mexico has been one of the best-performing markets in the world, as measured by the MSCI Emerging Markets and Developed Markets Indexes. We believe there is room for further outperformance for Mexico, driven by upward earnings estimate revisions and compelling valuations.

### Positive outlook for EM equities overall

While we are bullish on Mexico's economic outlook and growth potential driven by nearshoring, we are also bullish in our outlook for emerging market stocks overall. In addition to Mexico, we are particularly focused on opportunities in India and Indonesia, which may also benefit as businesses look to expand operations outside of China. We believe stock prices follow earnings over the long run. Therefore, EM stocks may be poised for compelling growth, especially over the next three to five years.

This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon as research or investment advice regarding any strategy or security in particular. Any mention of specific securities is intended to help illustrate Putnam's research process and should not be considered a recommendation or solicitation to purchase or sell the securities. Potential market trends and opportunities were selected without regard to whether such trends and opportunities, or relevant securities, were profitable and are intended to help illustrate our investment and research process. It should not be assumed that any investment in these securities was, or will prove to be, profitable, or that the investment decisions we make in the future will be profitable or equal to the investment performance of securities referenced herein. There is no assurance that any securities referenced herein are currently held in a Putnam portfolio or that securities sold have not been repurchased. Any securities mentioned are not necessarily held by Putnam for all client portfolios.

This material is prepared for use by institutional investors and investment professionals and is provided for limited purposes. This material is a general communication being provided for informational and educational purposes only. It is not designed to be investment advice or a recommendation of any specific investment product, strategy, or decision, and is not intended to suggest taking or refraining from any course of action. The opinions expressed in this material represent the current, good-faith views of the author(s) at the time of publication. The views are provided for informational purposes only and are subject to change. This material does not take into account any investor's particular investment objectives, strategies, tax status, or investment horizon. Investors should consult a financial advisor for advice suited to their individual financial needs. Putnam Investments cannot guarantee the accuracy or completeness of any statements or data contained in the material. Predictions, opinions, and other information contained in this material are subject to change. Any forward-looking

Visit [putnam.com](http://putnam.com) for continuing market updates, expert insights, and investment commentaries.

Find us



statements speak only as of the date they are made, and Putnam assumes no duty to update them. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties. Actual results could differ materially from those anticipated. Past performance is not a guarantee of future results. As with any investment, there is a potential for profit as well as the possibility of loss.

This material or any portion hereof may not be reprinted, sold, or redistributed in whole or in part without the express written consent of Putnam Investments. The information provided relates to Putnam Investments and its affiliates, which include The Putnam Advisory Company, LLC and Putnam Investments Limited®.

Issued in the United Kingdom by Putnam Investments Limited®. Putnam Investments Limited is authorized and regulated by the Financial Conduct Authority (FCA). For the activities carried out in Germany, the German branch of Putnam Investments Limited holds a permit as a financial investment broker in accordance with Sec. 34f para. 1 sentence 1 no. 1 of the German Trade Ordinance and is registered under the registration number D-F-160-77N8-19 in the publicly available broker register. Putnam Investments Limited is also permitted to provide cross-border investment services to certain EEA member states. In Europe, this material is directed exclusively at professional clients and eligible counterparties (as defined under the FCA Rules, or the German Securities Trading Act (Wertpapierhandelsgesetz) or other applicable law) who are knowledgeable and experienced in investment matters. Any investments to which this material relates are available only to, or will be engaged in only with, such persons, and any other persons (including retail clients) should not act or rely on this material.

Prepared for use with wholesale investors in Australia by Putnam Investments Australia Pty Limited, ABN 50 105 178 916, AFSL No. 247032. This material has been prepared without taking account of an investor's objectives, financial situation and needs. Before deciding to invest, investors should consider whether the investment is appropriate for them.

Prepared for use in Canada by Putnam Investments Canada ULC (o/a Putnam Management in Manitoba). Where permitted, advisory services are provided in Canada by Putnam Investments Canada ULC (o/a Putnam Management in Manitoba) and its affiliate, The Putnam Advisory Company, LLC.

This material is prepared by Putnam Investments for use in Japan by Putnam Investments Japan Co., Ltd. ("Putnam Japan"). Putnam Japan is registered with Kanto Local Finance Bureau in Japan as a financial instruments business operator conducting the investment advisory and agency business, and is a member of Japan Investment Advisers Association. This material is prepared for informational purposes only, and is not intended as a solicitation to invest in any securities or other financial product in Japan, or to enter into with Putnam Japan an investment advisory contract or a discretionary investment management contract.

Certain information contained herein (the "Information") is sourced from/copyright of MSCI Inc., MSCI ESG Research LLC, or their affiliates ("MSCI"), or information providers (together the "MSCI Parties") and may have been used to calculate scores, signals, or other indicators. The Information is for internal use only and may not be reproduced or disseminated in whole or part without prior written permission. The Information may not be used for, nor does it constitute, an offer to buy or sell, or a promotion or recommendation of, any security, financial instrument or product, trading strategy, or index, nor should it be taken as an indication or guarantee of any future performance. Some funds may be based on or linked to MSCI indexes, and MSCI may be compensated based on the fund's assets under management or other measures. MSCI has established an information barrier between index research and certain Information. None of the Information in and of itself can be used to determine which securities to buy or sell or when to buy or sell them. The Information is provided "as is" and the user assumes the entire risk of any use it may make or permit to be made of the Information. No MSCI Party warrants or guarantees the originality, accuracy, and/or completeness of the Information, and each expressly disclaims all express or implied warranties. No MSCI Party shall have any liability for any errors or omissions in connection with any Information herein, or any liability for any direct, indirect, special, punitive, consequential, or any other damages (including lost profits) even if notified of the possibility of such damages.



For use with institutional investors and investment professionals.

Putnam Investments | 100 Federal Street | Boston, MA 02110 | [putnam.com](http://putnam.com)

TL003\_IN 334952 10/23