

Steep fall in equity markets due to global health alert

The week was defined by the declaration of a public health emergency made by the World Health Organization (WHO) regarding the outbreak of the coronavirus in the Chinese region of Hubei. The death toll until January 31st pointed at least 7,711 cases of infection and 213 deaths in at least 18 countries. Given this situation, most equity markets had substantial declines in anticipation of a further slowdown in China's Gross Domestic Product (GDP) and its negative consequences on the world's economic growth.

Even though there are still no confirmed cases in Mexico, Mexbol also resented the negative outlook. Besides, the GDP data for the 4Q19 aggravated Mexbol's performance, as it confirmed that Mexico's economy is in recession and, for the first time in a decade, it had a negative growth rate.

Mexican Stock Exchange

Mexbol fell -2.59% in the week and closed at 44,108, leading the Index to 1.37% year-to-date (YTD) return. The Mexican market was not isolated from global concerns caused by the coronavirus, and the real annual GDP decrease of -0.1%, aggravated the situation.

Although most of the companies in the index have yet to report, two significant issuers released their fourth-quarter 2019 (4Q19) financial results, where Earnings per Share growth were above market expectations:

- i. Grupo Financiero Inbursa reported US\$539.38 million sales, -1.82% below Bloomberg consensus, while its earnings per share were 5.74% above consensus expectations.
- ii. Banco Santander México reported US\$1.09 billion sales, -4.89% below Bloomberg consensus, while its earnings per share were 0.86% above expectations.

Spot Exchange Rate

The spot exchange rate closed at MX\$18.84 per dollar, which implies a weekly depreciation of 0.31%, leaving the YTD appreciation at 0.46%. The MXN peso decline against the dollar is a consequence of the reallocation of portfolios in favor of refuge assets such as gold or US Treasury bonds, and it is a phenomenon that affects most currencies.

Economic Indicators

Gross Domestic Product Estimate

The Mexican economy in 2019 had an annual contraction of -0.1%. Both the primary sector (agricultural) and the tertiary sector (services) presented a positive real growth rate of 2.1% and 0.5%, respectively. However, these figures were not enough to offset the current crisis in the secondary sector (manufacturing, construction, mining, etc.), which decreased by -1.7%. Hence, the Mexican GDP experienced its first contraction since 2009 when it had a -5.3% decline. Noteworthy, Banxico expects a 1.0% GDP growth in 2020; however, recent international developments could lead to downward revisions.

Public Finances

The Ministry of Finance released the annual public finance results:

- i. The primary surplus was 1.1% of GDP, higher than the 1.0% budgeted in the 2019 General Economic Policy Criteria. Achieving this surplus was mainly due to the usage of approximately 45% of the Budget Revenue Stabilization Fund (US\$6.5 billion) since tax and oil incomes were lower than budgeted.
- ii. Throughout the year, the federal government exercised an under expenditure of the budget, which led to a total investment of US\$308.07 billion, -0.88% lower than budgeted as they stopped injecting US\$2.6 billion into the economy.
- iii. The deficit of the Financial Requirements of the Public Sector was 2.3% of GDP, less than the 2.5% budgeted in the 2019 Economic Budget.
- iv. The Historical Balance of the Financial Requirements of the Public Sector (the debt as a proportion of GDP) was 44.7% of GDP, lower than the 44.9% observed in 2018.

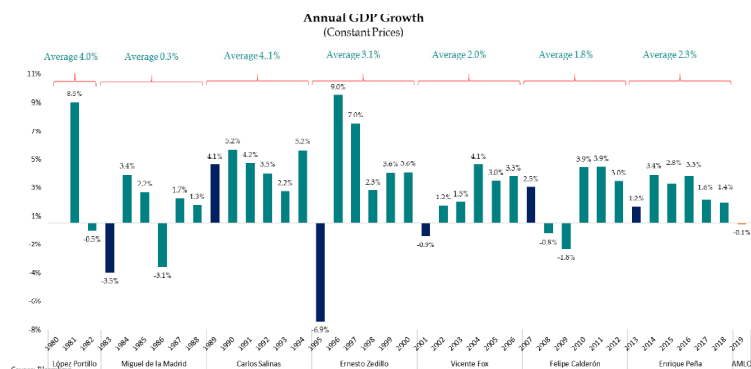
Trade Balance

Mexico ended 2019 with a trade balance surplus of US\$5.82 billion, which compares positively with a US\$-13.61 deficit observed in 2018, mainly due to:

- i. A slight 2.3% increase in exports compared to a 10.08% growth in 2018 due to the significant deceleration of manufacturing exports (84% of the total), which only grew 3.4%, vs. 9.08% in 2018.
- ii. An annual drop in total imports due to a slowdown in the importation of intermediate-use goods (63.5% of the total), which only grew 0.4%, a figure considerably below the 8.8% observed in 2018. Additionally, there was a decrease of -8.9% in the purchase of capital goods (investment), in line with the contraction seen in the national gross fixed investment.

Exports									
	2018	% of Total	Annual Change	Dec-19	% of Total	Annual Change	2019 YTD	% of Total	Annual Change
Total Exports	450,685	100.0%	10.1%	38,663	100.0%	3.0%	461,116	100%	2.3%
Oil	30,601	6.8%	28.98%	2,306	6.0%	4.3%	25,985	5.6%	-15.1%
Crude Oil	26,512	5.9%	32.25%	1,891	4.9%	0.8%	22,852	4.9%	-14.9%
Others	4,089	0.9%	11.18%	416	1.1%	24.2%	3,433	0.7%	-16.1%
Non-Oil	420,083	93.2%	8.91%	36,357	94.0%	2.9%	435,131	94.4%	3.6%
Agricultural	16,508	3.7%	3.17%	1,690	4.4%	7.5%	18,106	3.9%	9.7%
Mining	6,232	1.4%	14.83%	587	1.5%	5.7%	6,189	1.3%	-0.7%
Manufacturing	397,344	88.2%	9.08%	34,080	88.1%	2.6%	410,836	89.1%	3.4%
Automotive Industry	142,178	31.5%	12.24%	11,860	30.7%	2.7%	147,757	32.0%	3.9%
Others	255,165	56.6%	7.39%	22,220	57.5%	2.5%	265,080	57.1%	3.1%
Imports									
	2018	% of Total	Annual Change	Dec-19	% of Total	Annual Change	2019 YTD	% of Total	Annual Change
Total Imports	464,302	100.0%	10.4%	35,595	100%	-0.3%	455,295	100%	-1.9%
Oil	53,762	11.6%	28.4%	3,665	10.3%	-9.7%	47,207	10.4%	-12.2%
Non-Oil	410,541	88.4%	7.9%	31,930	89.7%	0.9%	408,088	89.6%	-0.6%
Consumption Goods	145,616	9.4%	3.1%	3,580	10.1%	4.8%	43,852	9.6%	0.5%
Intermediate Goods	321,037	69.1%	8.8%	24,828	69.8%	0.6%	322,449	70.8%	0.4%
Capital Goods	45,887	9.9%	11.9%	3,523	9.9%	-0.6%	41,787	9.2%	-8.9%
Trade Balance									
	2018			Dec-19			2019 YTD		
Trade Balance	-13,618		-17.1%	3,068		65.0%	5,820		N.A.

Source: Mexico's Ministry of Economics
Amounts in Millions of Dollars



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Definitions

Banco de México (Banxico): Is the central bank of Mexico. Its main function is to provide domestic currency to the Mexican economy and its main priority is to ensure the stability of the domestic currency's purchasing power.

Bloomberg: Company that provides financial software tools and enterprise applications such as analytics and equity trading platform, data services, and news to financial companies and organizations.

Budget Revenue Stabilization Fund (FEIP): It is a savings available to the Mexican State that aims to compensate for imbalances that the government budget could suffer and thus be able to cover the planned expenditure.

Coronavirus: They are a family of viruses that were discovered in the 60s but whose origin is still unknown. Its different types cause different diseases, from a cold to a severe respiratory syndrome.

Economic Budget: Term that is used in Mexico to describe the set of legislative projects presented by the Federal Executive to the Legislative Power, each fiscal year, for its analysis and approval, in matters of Tax Policy, Income and Expenditures.

Earnings per Share (EPS): The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability. **Earnings growth is not representative of the Fund's future performance.**

General Economic Policy Criteria (CGPE): Contain the proposal of the Federal Executive of the economic and fiscal policy guidelines for 2020 in Mexico.

Gross Domestic Product (GDP): Is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

Grupo Financiero Inbursa: Financial services company. As of December 31, 2019 the security represents 0.00% of Portfolio Net Assets. For a list of full securities please visit: http://www.mxefund.com/portfolio_holdings.html.

Historical Balance of the Public Sector Financial Requirements (SHRFSP): Fiscal indicator that aims to provide the public with summarized and timely financial results of the activities that the public sector performs to fulfill the set of functions that are entrusted.

Mexbol: The S&P/BMV IPyC seeks to measure the performance of the largest and most liquid stocks listed on the Bolsa Mexicana de Valores. It is not possible to invest in an index.

Banco Santander México: Financial services company. As of December 31, 2019 the security represents 0.00% of Portfolio Net Assets. For a list of full securities please visit: http://www.mxefund.com/portfolio_holdings.html.

Public Sector Financial Requirements (RFSP): Fiscal indicator that aims to provide the public with summarized and timely financial results of the activities that the public sector performs to fulfill the set of functions that are entrusted.

Spot Exchange Rate: Is the current price level in the market to directly exchange one currency for another, for delivery on the earliest possible value date.

The World Health Organization (WHO): Is the body of the United Nations Organization specializing in the management of health prevention, promotion and intervention policies worldwide.

Trade Balance: The difference between the value of a country's imports and its exports for a given period.

Treasury Bond (T-Bond): Is a marketable, fixed-interest U.S. government debt securities with a maturity of more than 10 years. Treasury bonds make interest payments semiannually, and the income received is only taxed at the federal level.

Year to Date (YTD): Refers to the period of time beginning the first day of the current calendar year or fiscal year up to the current date.

4Q19: Period that starts the fourth and last quarter of the year 2019 which ends on December 31.

Disclosures

Closed-end funds are traded on the secondary market through one of the stock exchanges. The Fund's investment return and principal value will fluctuate so that an investor's shares may be worth more or less than the original cost. Shares of closed end funds may trade above (a premium) or below (a discount) the net asset value (NAV) of the fund's portfolio and there is no assurance that the fund will achieve its investment objective.

To read about The Mexico Equity and Income Fund, Inc, please access the Annual Report by calling (414) 765-4255 to receive a copy, or access the Annual Report on the Fund's website, "www.mxefund.com", under the section captioned investor reports. Investors should consider the Fund's investment objectives, risks, charges and expenses carefully before investing. An investment in the Fund should not constitute a complete investment program.

Past performance is not a guarantee of future results. Index performance is not illustrative of fund performance. One cannot invest directly in an index. Please call (414) 765-4255 for fund performance.

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