

**IMF and COVID-19 interrupts the market's recovery**

The International Monetary Fund (IMF) released on June 24<sup>th</sup> its new projections for the global economy in 2020 and 2021 in a document entitled "A crisis like no other, an uncertain recovery." In its latest estimate, the IMF predicts a (-)4.9% contraction of the global Gross Domestic Product (GDP), a figure that compares negatively with April's estimate of (-3.0%). The global economic contraction in 2020 will be the result of:

1. A (-)8.0% decrease in average of the GDP of advanced economies. The euro area and the United Kingdom will be the most affected as the IMF estimates that they will fall (-)10.2% each. Although its estimate for the United States is not as severe as for the eurozone, it is considerable in magnitude since it estimates a negative growth of (-)8.0%, compared to (-)5.9% of the April's estimate.
2. Emerging and developing economies GDP's will fall on average (-)3.0%. In the opinion of the IMF, the only country that will not experience a contraction in GDP would be China, with a positive growth of 1.0%. In contrast, the region with the lowest growth will be Latin America and the Caribbean. The most affected country in the area would be Mexico since its GDP would decrease (-)10.5%; This estimate is 3.9 percentage points lower than that of April (-6.6%).

The publication of the document reaffirms the concerns of further deterioration in the different economies, caused by the second wave of infections that will extend the COVID-19 pandemic. As a result of the above, a deterioration in most of the global stock markets and an increase in systemic risk was observed.

**Mexbol**

At the close of business of June 26<sup>th</sup>, the Mexbol closed June 26<sup>th</sup> at 37,431 points, a (-)2.48% weekly drop in pesos and (-)3.88% in dollars; the year to date (YTD) decrease is now at (-)13.50% and (-)28.82% respectively. The behavior of the index was conditioned by:

1. The deterioration of expectations regarding the economic evolution: In its update of expectations for economic growth for 2020, the IMF estimates that Mexico will be the fourth most affected country by the COVID-19 pandemic. In their current forecast, the IMF expects GDP to contract (-)10.5%; the April estimate was (-)6.6%.
2. The worsening of the country's economic situation: April's Global Indicator of Economic Activity (IGAE) displayed a (-)19.7% annual contraction, a drop never before observed.
3. The increase in systemic risk. The strong correlation between Mexbol and the S&P 500 observed since the beginning of 2020 prevails, so the US index's poor performance caused poor performance in the Mexican market.

**Exchange Rate**

1. The continuation of the deterioration of the Mexican external accounts since the beginning of the second quarter of 2020 (2Q20). For the second consecutive month, the May trade balance displayed a deficit, this time of US\$(-)3.52 billion, so the year to date deficit stood at US\$(-)2.88 billion.
2. The statements of the United States Ambassador to Mexico, Christopher Landau. In a webinar organized by the Confederation of Industrial Chambers (CONCAMIN), the ambassador stated that the new Trade Agreement between Mexico, the United States, and Canada (USMCA) would attract investment from China to the United States, but not so to Mexico. The reason for the above is "there is nothing worse for Foreign Direct Investment (FDI) than changing the rules of the game," alluding to the current Mexican government policies, especially in energy matters.
3. An upcoming visit from the Mexican president to the United States as part of the beginning of USMCA. According to various political analysts, this trip carries multiple risks such as:
  - a. Carried out in the context of electoral campaigns in the United States.
  - b. The disdainful treatment that Trump usually gives to the Mexican nation.
  - c. The possibility that US businessmen in the energy industry have asked Donald Trump to press the Mexican executive's

- head to modify the current energy policy.
4. On July 1<sup>st</sup>, the T-MEC will begin operations. There are three fundamental supports for the success of the treaty:
  - a. The rules of origin of the automotive sector. Although the T-MEC will be reviewed in six years, the strategic importance of the automotive industry for the three countries establishes that the rules of origin could be reviewed in a shorter period of time.
  - b. The assignment of the members who will make up the panels for the resolution of controversies regarding unfair trade practices and labor matters. The panelists will be in charge of debating and reaching an agreement on the disagreements. In this context, it seems that a group of US organizations already have a series of complaints against Mexico on issues of child exploitation and forced labor. The organization could file the complaints as soon as the USMCA starts operating.
  - c. The convergence of wages in Mexico. One of the most essential demands of the United States for the renegotiation of the USMCA, was that Mexico does not use low wages as a competitive advantage.

**Mexican Interest Rates**

On June 25<sup>th</sup>, Banxico, in line with market expectations, reduced its interest rate for the fifth time in 2020. The decrease amounted to 50 basis points (bps), so the benchmark is now at 5.0%. The current cycle of reductions, which began in August 2019 when the rate was at 8.25%, totals 325 bps. Noteworthy that in 2020 alone, Banxico has reduced its reference interest rate by 225 bps. The decision of the Governing Board of the Central Bank was unanimous; regarding the future trajectory of the rate, the statement hinted that board members believe that there is still room for lower rates. In this sense, the expectations of the specialists surveyed by Banxico expect that by the end of 2020, Banxico's target for the reference rate will be 4.50%.

**Economic Indicators**

**IGAE**

In April, the Global Indicator of Economic Activity (IGAE) had a (-)19.7% annual contraction. By groups of activities, secondary and tertiary activities decreased (-)29.6% and (-)16.1% respectively; In contrast, primary activities displayed a 2.4% annual growth. The April IGAE is especially relevant as it shows the economy's behavior at the most critical part of the recession caused by the containment measures of COVID-19. April was the month in which the containment measures began. The magnitude of the decline initially validates our forecast of an (-)18% contraction of the Mexican economy in 2Q20.

**Trade Balance**

INEGI released May's foreign trade information; the result was a deficit in Mexico's trade balance with the world of (-)US\$ 3.52 billion; therefore, the year to date balance is a (-)US\$2.88 deficit. The result was due to:

1. The value of exports was US\$18.07 billion, which implies a (-)56.7% annual fall mainly due to:
  - a. A (-)58.7% decrease in manufacturing exports, which represent 84.5% of the total. The automotive industry subcomponent fell (-)90.1%.
  - b. Oil exports, which only represent 5.1% of the total but relevant to the finances of PEMEX and the Federal Government, decreased at an annual rate of (-)63.8%.
2. The value of imports totaled US\$21.59 billion, representing an annual fall of (-)47.1%. The most significant drops were:
  - a. Imports of intermediate-use goods (73.8% of the total), since their acquisition decreased by (-)46.6% compared to the same data in 2019.
  - b. Oil imports showed an annual drop of (-) 69.4%.

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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.

**Basis points (bps):** Refers to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001.

**Confederation of Industrial Chambers (CONCAMIN):** Corporate representation body responsible for developing projects and initiatives for the sustained development of the Mexican industry.

**COVID-19:** The disease caused by the coronavirus, 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.

**Foreign Direct Investment (FDI):** Is an investment made by a company or individual in one country in business interests in another country, in the form of either establishing business operations or acquiring business assets in the other country, such as ownership or controlling interest in a foreign company.

**Global Indicator of Economic Activity (IGAE):** Allows to know and monitor the monthly evolution of the real sector of the economy.

**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.

**International Monetary Fund (IMF):** An international organization headquartered in Washington DC, consisting of 189 countries working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

**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.

**National Consumer Price Index (INPC):** It is an economic indicator whose purpose is to measure, over time, the variation in the prices of a basket of goods and services representative of the consumption of households in the country.

**Petróleos Mexicanos (PEMEX):** Is the Mexican state-owned petroleum company, created in 1938 by nationalization or expropriation of all private, foreign, and domestic oil companies at that time. As of May 31, 2020 the security represents 0.00% of Portfolio Net Assets. For a list of full securities please visit: [http://www.mxefund.com/portfolio\\_holdings.html](http://www.mxefund.com/portfolio_holdings.html).

**Standard & Poor's 500 (S&P 500):** Is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value. It is a market value or market-capitalization-weighted index and one of the most common benchmarks for the broader U.S. equity markets.

**The National Institute of Statistics and Geography (INEGI):** Is a public body with technical and managerial autonomy, its own legal personality and assets, responsible for regulating and coordinating the National System of Statistical and Geographic Information.

**United States-Mexico-Canada Agreement (USMCA):** Is a signed but not ratified free trade agreement between Canada, Mexico, and the United States.

**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.

#### Disclosures

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