

The Federal Reserve halts the bullish tone in financial markets

After two weeks of positive gains, financial markets declined in the trading week of May 11th, possibly due to profit-taking coupled with the refusal of the Federal Reserve of the United States (Fed) to leave its federal funds rate in negative values. The adverse effects of the measures adopted to contain COVID-19 are beginning to manifest in sales and employment figures in Mexico.

Mexican Stock Exchange

Mexbol closed May 15th operations at 35,691 points, which implies a (-)6.43% weekly decrease, following international markets declines over the FED's statements on its rates. Consequently, the year-to-date (YTD) loss amounts to (-)35.29%. Although, after a 7.71% advance in peso terms in the previous two weeks, investors may have taken the opportunity of profit-taking.

Exchange Rate

The spot exchange rate closed May 15th operations at MX\$23.95 per dollar, a 1.31% weekly depreciation of 1.31%; therefore, the year-to-date depreciation stands at 26.51%. Noteworthy, in previous weeks, the Mexican peso appreciated, mainly due to the positive results of Mexico's external accounts (remittances and trade balance). The drop occurred despite the recovery in the price of oil and within an environment of generalized losses in financial markets due to the Fed's statements regarding its benchmark interest rate.

Mexican Interest Rates

Banxico decided to reduce its interest rate by half a percentage point to 5.5% on May 14th. The rate stands at its lowest level since the end of 2016 and accumulates a 300 basis points (bps) decrease since the current downward cycle began in June 2019. Noteworthy, the decision was unanimous, and the members of the board consider a downward trajectory of inflation within the recession context of the Mexican economy. Regarding the future of its monetary policy decisions, Banxico hinted that if the current situation of the Mexican economy continues to worsen, there is still room for further rate decreases.

As part of the monetary measures to counteract the economic effects of COVID-19, on April 29th, Banxico swapped government securities to lower long-term interest rates. The above is due to the considerable increase in the differential between the yield to maturity (ytm) of the 10-year M Bond with the ytm of the 10-year United States Treasury Bond.

The exchange of government securities allowed a reduction in the ytm of the 10-year M Bond, which currently stands at 6.14%, 74 bps below its April 29th value (the day the swaps materialized). The distance with the ytm of the US bond is 554 bps (the ytm of the 10-year Treasury bond is 0.60%). Although the swaps met their objective, it is unlikely to see a further decrease since the position of foreigners in the M Bonds represents 51.9% of the total instrument.

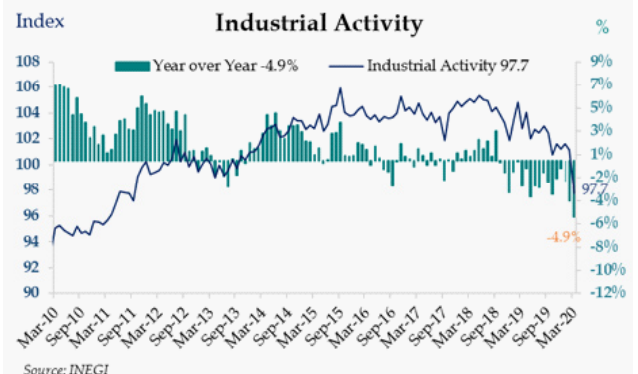
Oil Prices Evolution

Saudi Arabia's ARAMCO announced a surprise new cut to its oil production. The latest reduction joins what the OPEC + member countries and the United States had previously agreed to and will total one million barrels per day. Both Kuwait and the United Arab Emirates joined this proposal, although a specific figure has not been specified. The price of the oil barrels has increased, although the oversupply problem has not yet been resolved, even though it does show commitment on the part of the Arab country. Since Saudi Arabia announced this measure, Brent's price has increased by 22% (29.53 dpb), and the West Texas Intermediate's price 9.88% (32.56 dpb).

Economic Indicators

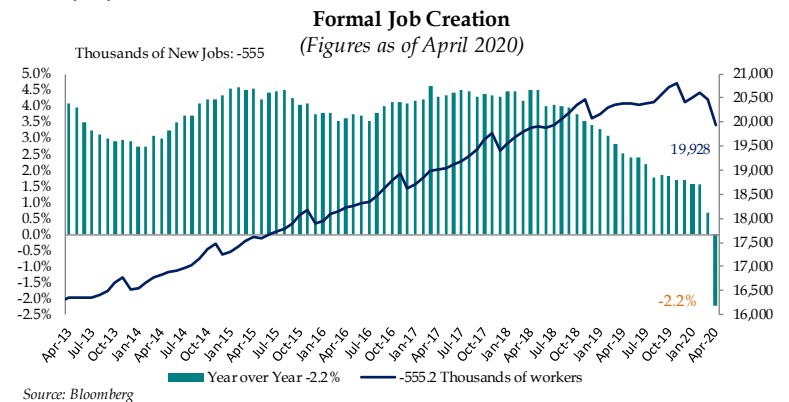
Industrial Activity

Industrial Activity in March contracted by (-)4.9% at an annual rate. By sectors, construction decreased (-)7.0%, manufacturing (-)6.4% and the generation, transmission and distribution of electrical energy, water and gas supply by pipelines to the final consumer reduced by (-)0.5%; in contrast, mining increased 1.5%. Noteworthy, higher contractions are estimated for next month because most of the country's industrial plants remained closed due to the COVID-19.



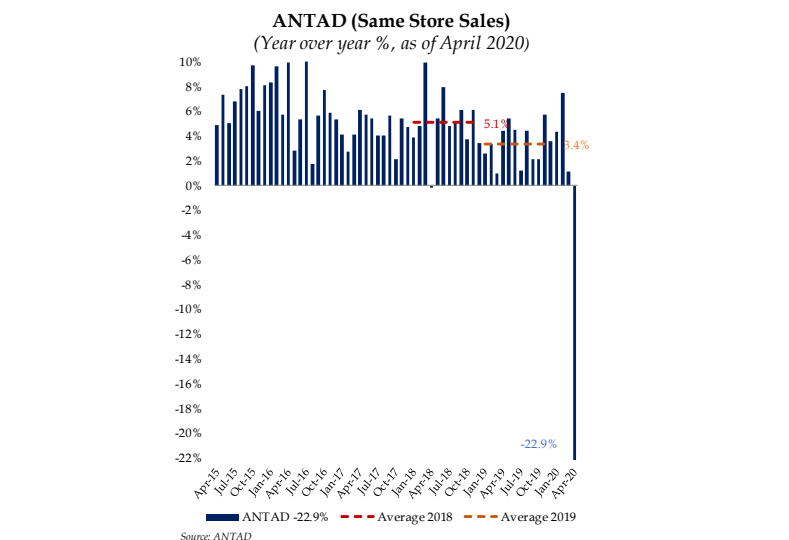
Formal Employment

In April, a total of 555.24 thousand formal jobs were lost; the most significant monthly drop observed since 1997; To contextualize, in 2019, approximately 342 thousand jobs were created. It is evident that the loss of employment is a consequence of the containment measures of COVID-19 and, since there is no bright outlook, it is probable that the number of unemployed will continue to rise.



ANTAD Same-Store Sales

The National Association of Self-Service and Department Stores (ANTAD) reported that in April, its Same Store Sales (SSS) had a (-)22.9% annual contraction derived from the closure of most establishments; E-commerce sales, were not enough to compensate the decline as department stores fell (-)72.7% annually. Restaurants and department stores could reopen until June 15th; however, only operating at a third of their standard capacity.



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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.

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.

The Federal Reserve System (Fed): Is the central bank of the United States and arguably the most powerful financial institution in the world.

M-Bond: Mexico Federal Government fixed-rate development bonds that are issued and placed at terms of over one year, pay interest every six months and their interest rate is determined at issue date and remains fixed all along the life of the bond.

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.

Mexican Stock Exchange: The Mexican Stock Exchange headquartered in Mexico City, is the full-service securities exchange of the country, dealing in cash equities, derivatives and fixed income products.

National Association of Self-Service and Departmental Stores (ANTAD): Entity responsible of promoting the development of retail and its suppliers within the Mexican market.

Remittances: Funds an expatriate sends to his/her country of origin via wire, mail, or online transfer. These peer-to-peer transfers of funds across borders are economically significant for many of the countries that receive them.

Same Store Sales (SSS): Are also referred to as comparable-store sales or identical-store sales, measures the sales of a company's existing stores that have operated for more than one year, excluding sales of new stores.

Saudi Aramco: Is an oil, gas and petrochemicals company, based and headquartered in Dhahran. As of April 30, 2020 the security is not included in the Fund Top 10 Portfolio Holdings. For a list of full securities please visit: http://www.mxefund.com/portfolio_holdings.html.

The Organization of the Petroleum Exporting Countries (OPEC): A group consisting of 14 of the world's major oil-exporting nations, founded in 1960 to coordinate the petroleum policies of its members and to provide member states with technical and economic aid.

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.

Year over Year (YoY): Indicates the change from the comparable amount reported in the same period one year earlier.

Yield to maturity (ytm): Is the total return anticipated on a bond if the bond is held until it matures. Yield to maturity is considered a long-term bond yield but it is expressed as an annual rate.

Disclosures

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