

Cautiousness in local equity markets due to lower growth data

Global equity markets withdrew their attention from the US-China trade conflict to focus on international economic data. A positive environment prevailed in the United States thanks to the publication of the Federal Reserve's Beige Book in which the central bank mentions that the US economy expanded between October and the first half of November, although at a modest pace. On the other hand, the leading economies in Europe, such as France and Germany, managed to avoid a technical recession. In Mexico, the outlook seems unfavorable after the publication of the updated economic growth data, which confirmed that the Mexican economy was in a technical recession in the first half of the year. Besides, the Federal Government presented the 2020-2024 National Infrastructure Plan, and Mexbol had a neutral reception.

Mexican Stock Exchange

Mexbol closed the last week of November at 42,820, still within the range between 43,800-42,200 points that the index has traded since May; this implies a -2.17% weekly loss that reduces the Year to Date (YTD) return to 6.27%. Investors were expecting the National Infrastructure Plan (PNI) to be a driver that would allow Mexbol to cross the upper limit. Unfortunately, the presentation of the PNI lacked consistency and concreteness and did not gain the market's confidence; additionally, economic uncertainty discouraged investors. The National Institute of Statistics (INEGI) confirmed that the Mexican economy was in recession in the first half of the year and Banxico adjusted its growth forecast for 2020 downwards, and now expects the economy to grow within the range of 0.8% - 1.8%.

Exchange Rate

The peso depreciated against the US dollar for the third consecutive week and closed at MX\$19.53, representing a weekly decline of 0.87% and leaving the YTD gain at 0.62%. Noteworthy, the depreciation of the currency in the last three weeks amounts to 2.06% based on the fears that the American Congress will not ratify the Trade Agreement between the United States, Mexico and Canada (USMCA) before the presidential electoral period in the United States begins (February 3, 2020). Senior officials of the three governments held a meeting in Washington, the results of this event are not yet known.

Interest Rates in Mexico and United States

The 10-year US Treasury Bond remained unchanged compared to the previous week and closed at 1.78%. In contrast, for the fourth consecutive week, and reflecting upward pressures on the exchange rate, the 10-year M Bond rate had an upward movement and closed the week at 7.10% (+5 bps).

Mexico's National Infrastructure Plan

Mexico's government presented the 2020-2024 National Infrastructure Plan (PNI), which amounts to US\$44.15 billion, or 3.58% of the Gross Domestic Product (GDP) in the third quarter of 2019 (3Q19).

The PNI consists of 147 private investment projects that will be developed in three periods, as explained below:

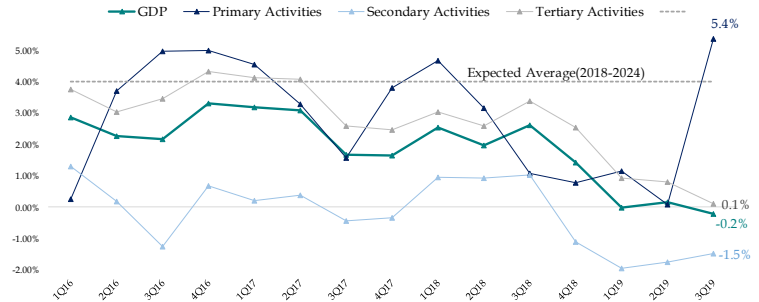
- i. In 2020, 72 projects worth US\$22.34 billion (more than 50% of the whole PNI or 2.80% of the 3Q19 GDP) will be developed. Most will be construction projects related to transportation (roads, railways, ports, and airports).
- ii. From 2021 to 2022, the government expects to develop 41 projects worth US\$13.25 billion (29% of the PNI); most of them also focused on transportation.
- iii. Finally, from 2023 to 2024, 34 projects worth US\$8.86 billion will be developed, of which 70% is transport infrastructure.

Noteworthy, 36 projects worth US\$3.38 billion, almost 8.0% of the PNI, had been previously announced; therefore, the market had already discounted them. Additionally, there is also a significant number of projects that are a continuation of constructions that had been paused, for example, the Mexico-Toluca intercity train.

Gross Domestic Product Review

INEGI released the review of the Gross Domestic Product (GDP) data, which shows that the Mexican economy was in recession in 4Q18, 1Q19, and 2Q19 since the quarterly growth rates were - 0.08%, -0.09%, and - 0.06% respectively; In 3Q19, the growth rate was 0.01%. In its annual comparison, GDP has had negative growth of -0.22%; the best performing sector performance was the primary activity, which increased 5.4%, followed by tertiary activities that grew 0.1%. Secondary activities had a contraction of -1.47%.

Quarterly GDP by Component
 Year over Year Growth



Source: INEGI

Banxico Quarterly Report

Banxico reduced its economic growth expectations for 2019 and 2020. The Central Bank lowered its growth forecast for 2019 to a range between -0.2 and 0.2% from the previous projection of 0.2 to 0.7%. For 2020, it expects a recovery of the Mexican economy, aided by the reactivation of investment through the National Infrastructure Plan; however, expected growth was adjusted from the prior forecast of 1.5 to 2.5% to 0.8 to 1.8%. On the other hand, the predicted trajectory of inflation remained unchanged compared to the previous quarter. Also, Banxico expects inflation to continue within the target range of 3.0% ± 1.0% until 2021, near the punctual target of 3.0%.

Trade Balance

Mexico's trade deficit amounted to US\$726 million in October; however, YTD, the trade balance totaled US \$1.96 billion surplus. Total exports grew 2.8%, motivated by a 4.1% increase in manufacturing exports that represent 89.2% of total exports. On the other hand, imports fell -1.2% mainly due to the -10.9% decline in oil imports and the - 9.5% contraction in capital goods; these two items represent 19.5% of total imports.

Unemployment Rate

The Unemployment Rate of the Economically Active Population (PEA) increased from 3.5% in September to 3.6% in October, while the sub-occupation rate (referring to the percentage of the employed population that has the need and availability to offer more working time) was 7.5%, practically unchanged compared to the previous month.

Eugenia Pichardo & Arnulfo Rodriguez,
Equity Portfolio Manager & Macro and Debt Strategist
 Investor Relations : igarcia@paminversion.com
 52 (55) 5261 4600



Pichardo Asset Management, SA de CV
An Independent Investment Advisory Firm

www.paminversion.com.mx
Andrés Bello 45, 22nd Floor,
Polanco, 11560 CDMX, México
Phone: + 52 (55) 52 61 46 00 /04/21/16

epichardo@paminversion.com

CEO & Senior Equity Portfolio Manager

arodriguez@paminversion.com

Associate
Macro Strategist

destevez@paminversion.com

Managing Director
Co-Portfolio Manager

jelizalde@paminversion.com

Associate
Co-Portfolio Manager

icalzada@paminversion.com

Compliance & Portfolio Administration

igarcia@paminversion.com

Associate
Consumption Analyst & IR

Definitions

Mexbol: The S&P/BMV IPC 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.

Basis points (bps): Refers to a common unit of measure for interest rates and other percentages in finance.

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.

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.

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

The National Institute of Statistics and Geography (INEGI): Is an autonomous agency of the Mexican Government dedicated to coordinate the National System of Statistical and Geographical Information of the country.

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.

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

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.

Economically Active Population (PEA): Is the sum of employed and unemployed persons. Inactive persons are those who, during the reference week, were neither employed nor unemployed.

Mexico's National Infrastructure Plan (PNI): Mexico has an outlined infrastructure development strategy that offers medium and long term visibility.

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.

The information contained herein reflects the opinion of "Pichardo Asset Management" and as such should not be taken to be fundamental analysis or a decision-making model. Neither should the information be interpreted as a solicitation, offer or recommendation to buy or sell financial securities. It is also subject to changes without prior notification and estimates cannot be guaranteed, past performance does not guarantee future performance. The registry maintained by PAM as an Independent Advisor to the securities supervisory authorities, both in Mexico and the United States, do not imply their recognition and / or approval of the information contained in this document.