

WEEKLY ECONOMIC REPORT
Week Ended July 6, 2018

Good Response from Financial Markets to Next Administration's Calming Signals

The biggest election in Mexico's history for President, Congress of the Union (Congress and Senate) and 9 governorships along with a large number of mayorships and state legislatures resulted in a landslide victory for Andrés Manuel López Obrador (AMLO), who will take office on December 1st with 53% of the vote compared to 22.5% and 16.4% for his main rivals. His party (Morena) and coalition allies (PT and PES) will also have a majority in the Senate (54%) and Congress (69%). While they do not have the two thirds majority required to make amendments to the Constitution, they will probably be able to forge alliances with minority parties. Morena also took most of the 18 state congresses, giving them the required minimum (50%+1) as a second condition to making changes to the Constitution. In sum, the July 1st election not only gave López Obrador a broad popular mandate, but also enough power among the different institutions that make up the balance of powers in Mexico to implement his national plan.

In this context and reflecting the good sense of the man that will become Mexico's next president on December 1st, the following positive signals that have underpinned a recovery of the peso and equities stand out:

1. His meeting with Mexico's most important business organizations (The Business Coordination Council, The Mexican Business Council, The National Council for Agriculture, etc.), who AMLO transmitted confidence to by mentioning his plan to boost economic growth, fight corruption and violence.
2. The message from Carlos Urzúa (who has been nominated for Finance Secretary in the next administration) which mentions 7 principles that will govern economic policy: (i) respect for Banco de México's autonomy; (ii) a floating exchange rate regime; (iii) a non-partisan fiscal committee similar to the U.S. Office of Budget and Management; (iv) the separation and counterbalance of powers; (v) consensus among parties interested in structural reform through the proper channels; (vi) transparency of the Revenue Administration Service and financial regulators; and (vii) a responsible macroeconomic, tax and debt policy.
3. The possibility of a speed-up in the North American Free Trade (NAFTA) negotiations in November following the inclusion of representatives of Mexico's next government led by Jesús Seade Kuri who will be the chief negotiator.
4. The agreement between the current president and incoming president to ensure a smooth transition of office conducive to an environment of cooperation

As a result of greater certainty about the next administration's economy policy, the spot exchange rate closed July 6th at \$19.07 to the dollar. After trading in line with the previous week's trend, the peso recorded a strong appreciation of 4.55% for the week and 3.24% year to date. In addition to the next administration's signals of economic stability and responsible handling of the economy, other factors that drove the peso were:

- Banco de México Governing Board's decision to raise the reference rate to 7.75% in its June 21st policy meeting.
- Statements from Banco de México Deputy Governor, Javier Guzmán, regarding not ruling out additional monetary policy adjustments; in other words, further hikes in Banxico's reference rates due to possible inflationary pressures.
- The ongoing increase in oil prices which have an inverse relationship to the peso/dollar exchange rate. (See Exhibit 1).

The IPyC gained 2.77% for the week, but has gained only 0.40% year to date. The Index closed July 6th at 48,981 points, a level not seen since April 19, 2018. Stocks that contributed the most to the IPyC's gain were: VOLARA (+14.55%), GENTERA (+11.50%), BSMXB (+9.39%), GFINBURO (+6.83%) and LALAB (+6.69%). In the weeks ahead, investors will be paying close attention to second quarter financial reports. (See Exhibit 2).

Similar to the local equity market, in what was a relatively short week, U.S. equity markets moved higher with the Dow Jones, S&P 500 and NASDAQ recording gains of 0.82%, 1.56% and 2.40%, respectively, for the week. This performance suggests that investors reacted positively to the June jobs report — a jobless rate of 4.0% and a 213,000 increase in nonfarm jobs vs. an estimated 195,000 —. Labor market data reflects a U.S. economy that remains strong, increasing the likelihood of a further two hikes of 25 basis points in the U.S. Federal Reserve reference rate between now and the end of the year (the current range is 1.75% - 2.00%), moves the market has already discounted. The fact that U.S. markets rose despite a growing trade war between the U.S. and China (both countries have levied duties amounting to US\$34 billion) is noteworthy.

Local Currency Return				
Index	1 week	1 year	YTD	Country
DOW JONES INDUS. AVG	0.82%	17.33%	0.09%	US
S&P 500 INDEX	1.56%	16.73%	4.24%	US
NASDAQ COMPOSITE INDEX	2.40%	27.63%	12.00%	US
S&P/BMV IPC	2.77%	-0.16%	0.40%	MX

Source: Bloomberg

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Exhibit 1

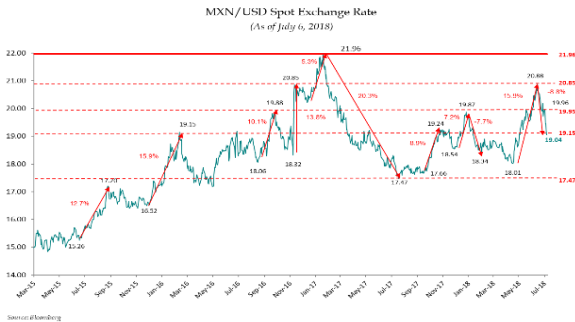
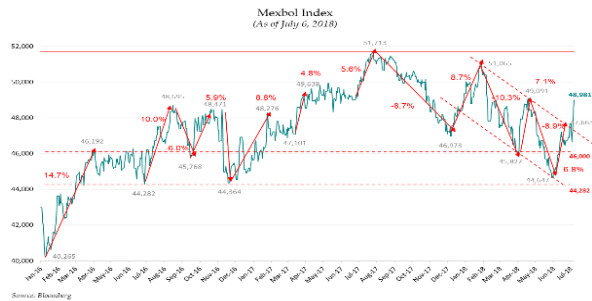


Exhibit 2



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Definitions

- FED** – The Federal Reserve System is the central bank of the United States and arguably the most powerful financial institution in the world.
- INEGI** - The National Institute of Statistics and Geography. It is the institution responsible for performing the population census every ten years; as well as the economic census every five years and the agricultural, livestock and forestry census of the country.
- S&P/BMV IPC (IPyC)** – The Índice de Precios y Cotizaciones (IPyC) is a capitalization-weighted index of the leading stocks traded on the Mexican Stock Exchange. The index was developed with a base level of 0.78 on October 30, 1978.
- 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.
- North American Free Trade Agreement (NAFTA)** – A regulation implemented January 1, 1994 in Mexico, Canada and the United States to eliminate most tariffs on trade between these nations. The three countries phased out numerous tariffs, (with a focus on those related to agriculture, textiles and automobiles), between the agreement's implementation and January 1, 2008. NAFTA's purpose is to encourage economic activity between the United States, Mexico and Canada.
- Dow Jones**: – The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the Nasdaq. One cannot invest directly in an index.
- S&P 500**: – The Standard & Poor's 500 Index is an index of 505 stocks issued by 500 large companies with market capitalizations of at least \$6.1 billion. It is seen as a leading indicator of U.S. equities and a reflection of the performance of the large-cap universe. One cannot invest directly in an index.
- NASDAQ**: Nasdaq is a global electronic marketplace for buying and selling securities, as well as the benchmark index for U.S. technology stocks. One cannot invest directly in an index.
- Points** - Index's value is measured in points.
- Basis points**: Refers to a common unit of measure for interest rates and other percentages in finance.
- INE**: Mexico's Electoral Institute, which oversees elections.

Disclosures 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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