



Pichardo Asset Management
Independent Portfolio Management Firm

Review of the Mexican Economy

September 25th, 2018

Experience

Consistency

Vision

- I. *Mexican Peso Exchange Rate*
- II. *Balance of Payments*
- III. *Market Returns*
- IV. *Review of the Mexican Economy*
- V. *Public Expenditure Forecasts*

I. Mexican Peso Exchange Rate

I. Mexican Peso Exchange Rate

Systemic risk increased in 2018 due to US trade policies and difficulties in emerging countries:

Argentina

- ▶ The Argentine peso depreciated almost 51% this year and inflation in July was 31.2%. Budget deficit and sovereign risk led Argentina to take a 50 billion dollar loan from the International Monetary Fund.

Turkey

- ▶ The lira depreciation was 25% in August and 40% throughout the year. The lack of investment, high debt maturities and low saving rates led public debt up to 53% of GDP.

Brazil

- ▶ The Brazilian real depreciated almost 9% in August in the middle of political turmoil. Presidential front-runner, leftist Lula da Silva, is in jail and right-wing candidate, Jair Bolsonaro, was stabbed last week.

China

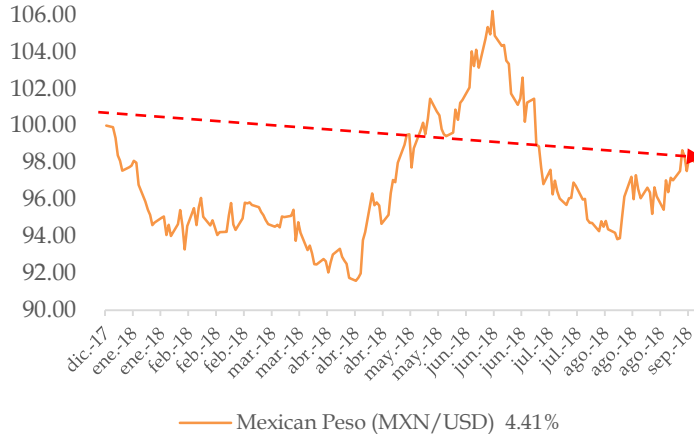
- ▶ The yuan was unchanged in August, after seven weeks of consecutive falls. Trade disagreements with the US, due to reciprocal duties and tariffs, are unlikely to settle soon.

South Africa

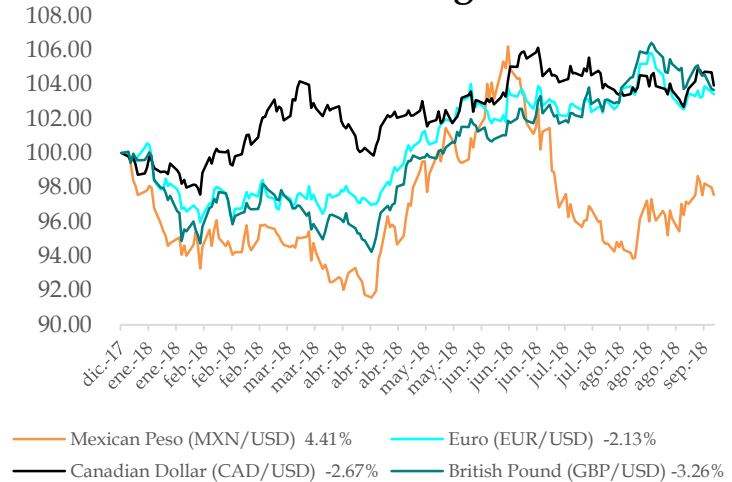
- ▶ The rand also lost value against the US dollar due to commodity prices and trade barriers.

I. Mexican Peso Exchange Rate

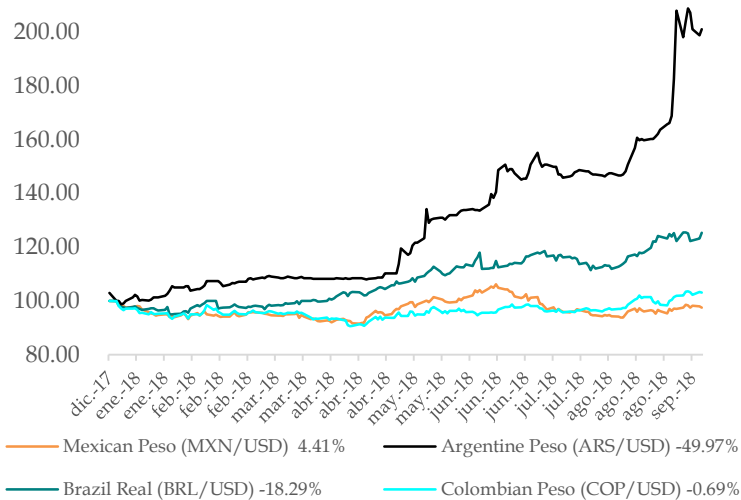
MXN Peso vs. US Dollar



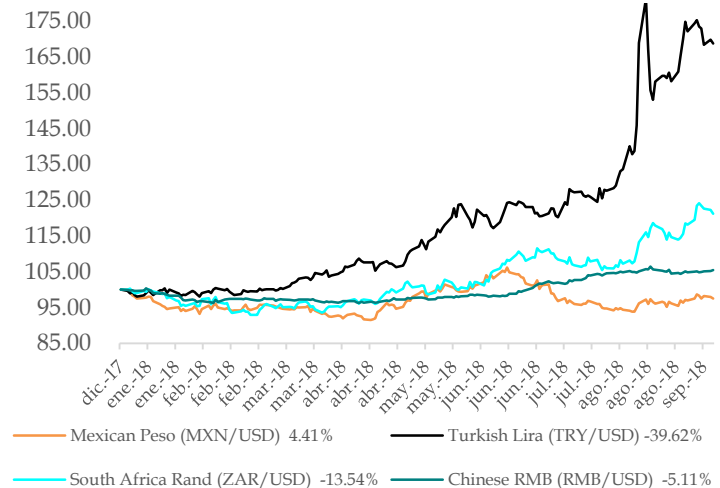
MXN Peso vs. Strong Currencies



MXN Peso vs. LATAM Currencies



MXN Peso vs. Currencies in Emerging Countries



*Source: Bloomberg. Index December 29th, 2018 = 100 Data as of September, 21st, 2018

I. Mexican Peso Exchange Rate

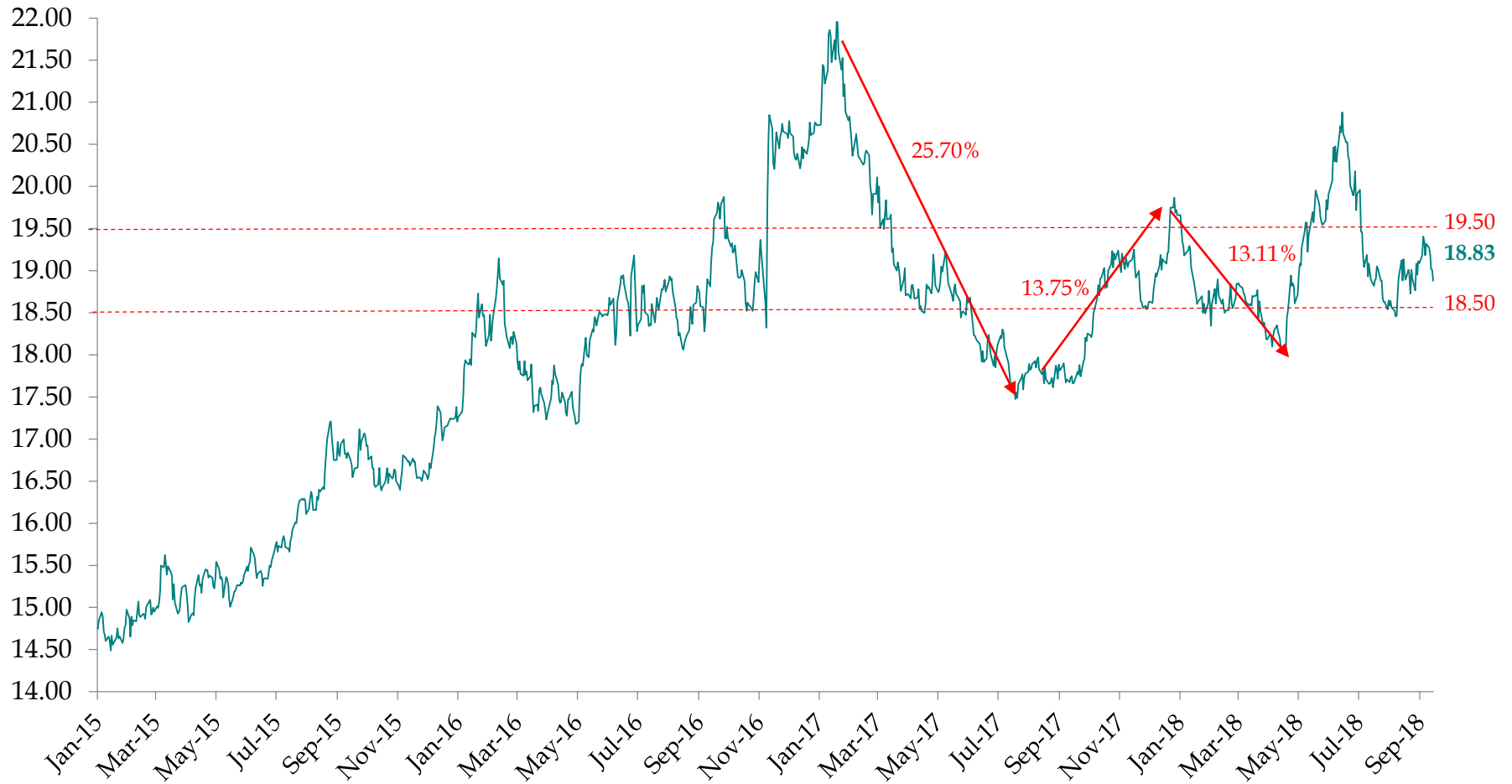
Mexico is also considered an emerging economy, but stands apart from the rest. Mexican peso 4.41 % appreciation in 2018 is consistent with recent development:

- ▶ July presidential election was a victory for democracy. Left-wing candidate had a landslide win and his opponents accepted his triumph before results were made official.
- ▶ The outgoing federal administration and the recently elected administration have reached important agreements towards a smooth government transition.
- ▶ New government will honor oil and gas contracts awarded under the energy reform and bidding processes in the energy sector could take place as soon as December, 2018.
- ▶ On August 27th, Mexico and United States reached a commercial understanding that reduces one of the main sources of uncertainty in the foreign exchange market since 2016.

I. Mexican Peso Exchange Rate

Spot Exchange Rate MXN/USD

As of September 21th, 2018



Source: Bloomberg

III. Balance of Payments

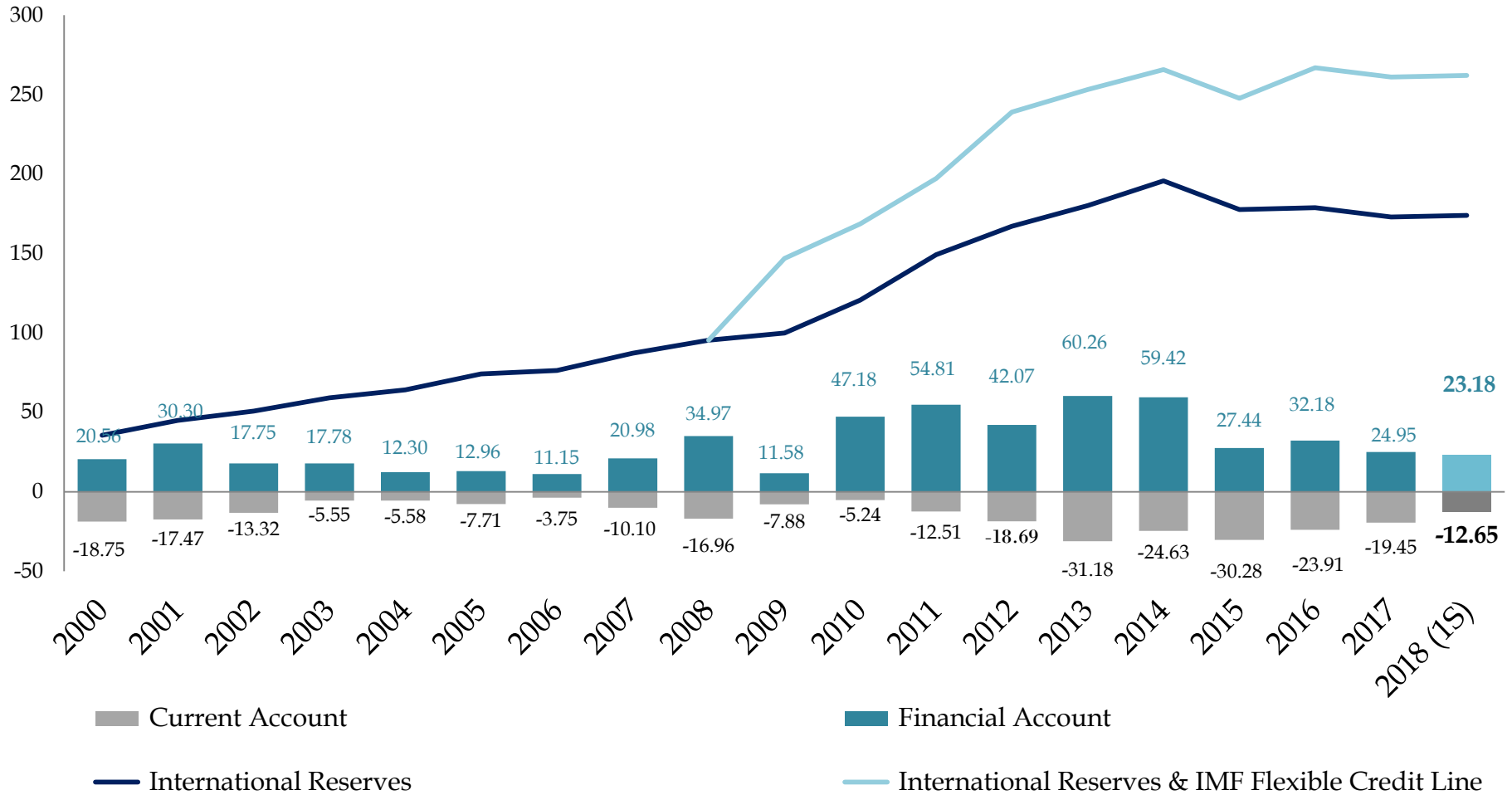
III. Balance of Payments

United States International Trade (As of Dec 2017)									
Country	Exports	Imports	Total Trade	Balance	Country	Exports	Imports	Total Trade	Balance
China	130,370	505,597	635,967	-375,227	Taiwan	25,754	42,492	68,246.0	-16,738
<i>% of Total</i>	8.4%	21.6%	16.4%		<i>% of Total</i>	1.7%	1.8%	1.8%	
Mexico	242,989	314,045	557,034	-71,056	France	33,582	48,888	82,470	-15,306
<i>% of Total</i>	15.7%	13.4%	14.3%		<i>% of Total</i>	2.2%	2.1%	2.1%	
Japan	67,696	136,544	204,240	-68,848	Saudi Arabia	16,261	18,866	35,127	-2,605
<i>% of Total</i>	4.4%	5.8%	5.3%		<i>% of Total</i>	1.1%	0.8%	0.9%	
Germany	53,493	117,745	171,238	-64,252	United Kingdom	56,329	53,075	109,404	3,254
<i>% of Total</i>	3.5%	5.0%	4.4%		<i>% of Total</i>	3.6%	2.3%	2.8%	
Italy	18,323	49,963	68,286	-31,640	Brazil	37,077	29,427	66,504	7,650
<i>% of Total</i>	1.2%	2.1%	1.8%		<i>% of Total</i>	2.4%	1.3%	1.7%	
Canada	282,392	299,975	582,367	-17,583	Singapore	29,753	19,397	49,150	10,356
<i>% of Total</i>	18.3%	12.8%	15.0%		<i>% of Total</i>	1.9%	0.8%	1.3%	
India	25,700	48,631	74,331	-22,931	Hong Kong	40,024	7,554	47,578	32,470
<i>% of Total</i>	1.7%	2.1%	1.9%		<i>% of Total</i>	2.6%	0.3%	1.2%	
Korea, South	48,277	71,164	119,441	-22,887	All other countries	438,634	579,542	1,018,176	-140,908
<i>% of Total</i>	3.1%	3.0%	3.1%		<i>% of Total</i>	28.4%	24.7%	26.2%	
					TOTAL 2017	1,546,654	2,342,905	3,889,559	-796,251
					TOTAL 2016	1,454,586	2,189,183	3,643,769	-734,597

Source: U.S. Census Bureau
 Amounts in millions of dollars

III. Balance of Payments

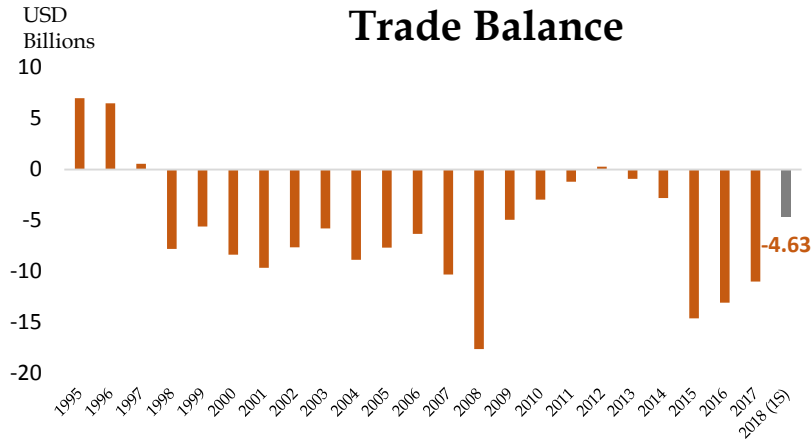
A strong Balance of Payments is one of the Highlights of the Economy



Source: Banxico

III. Balance of Payments

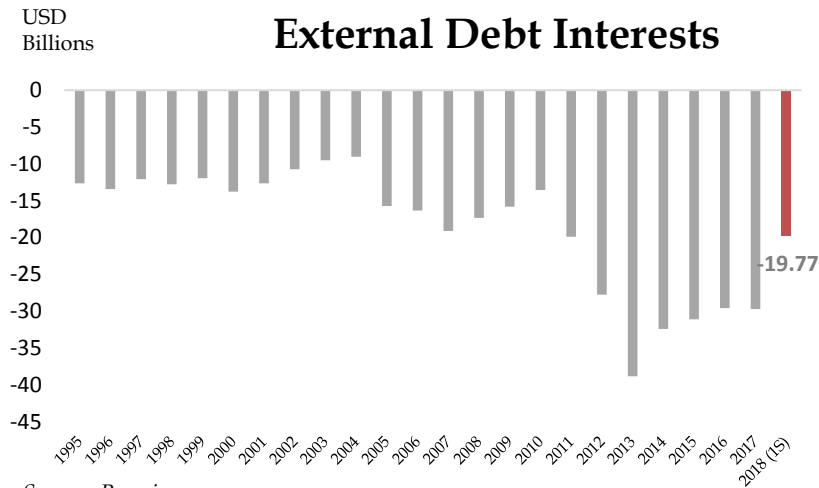
Current Account Deficit



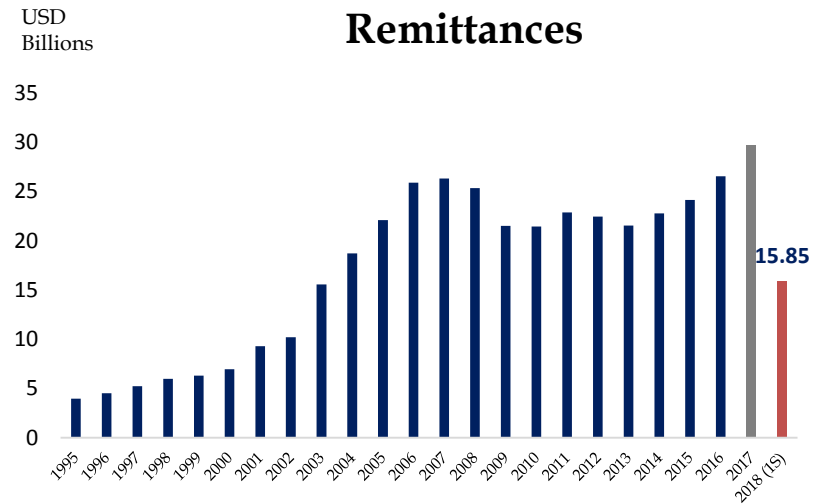
Source: Banxico



Source: Banxico



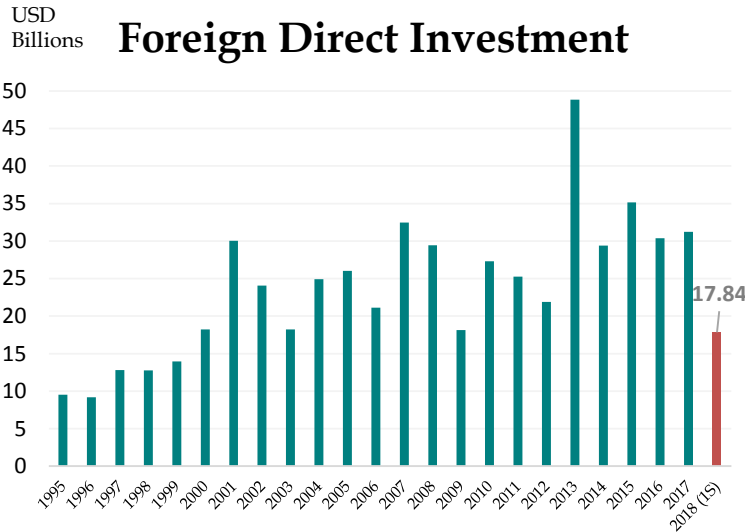
Source: Banxico



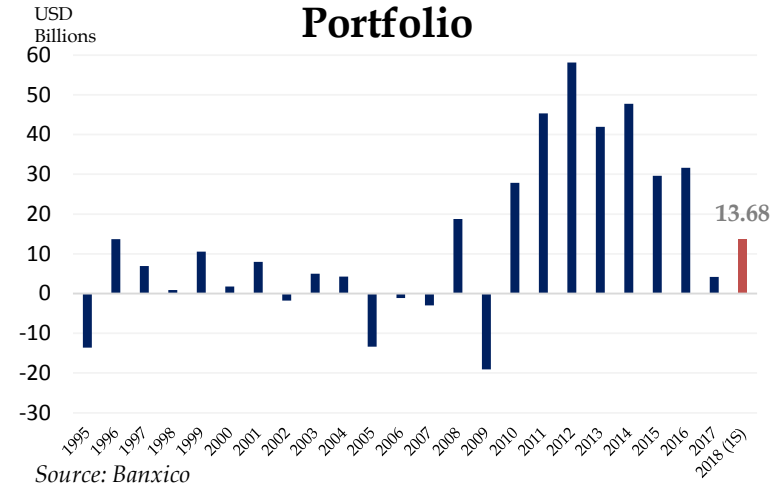
Source: Banxico

III. Balance of Payments

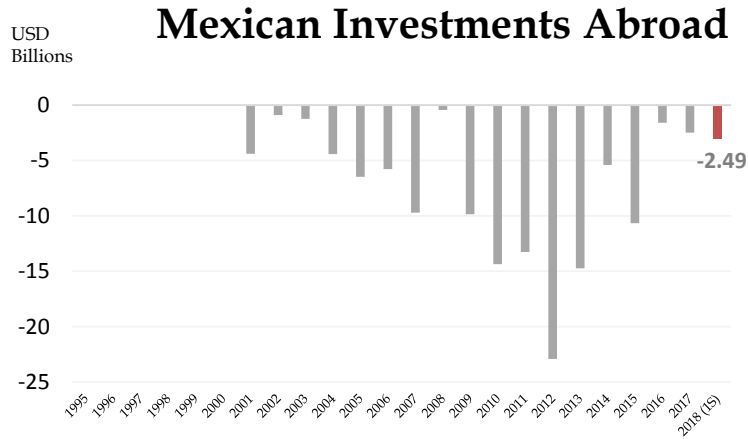
Financial Account Surplus



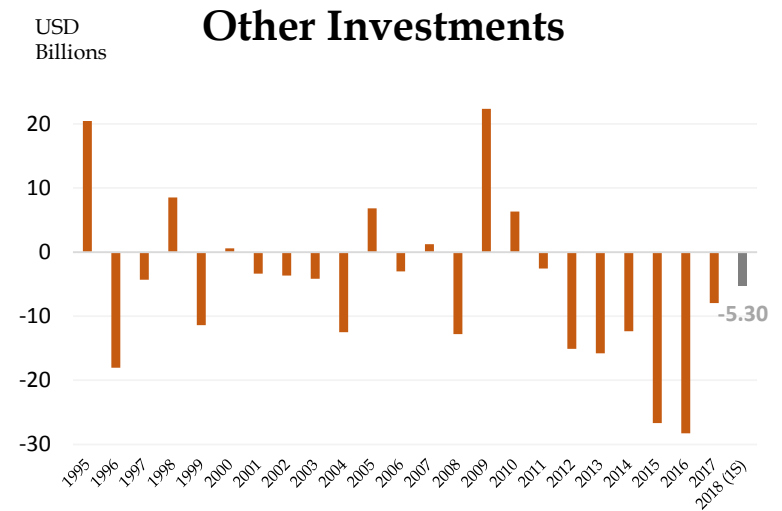
Source: Banxico



Source: Banxico



Source: Banxico

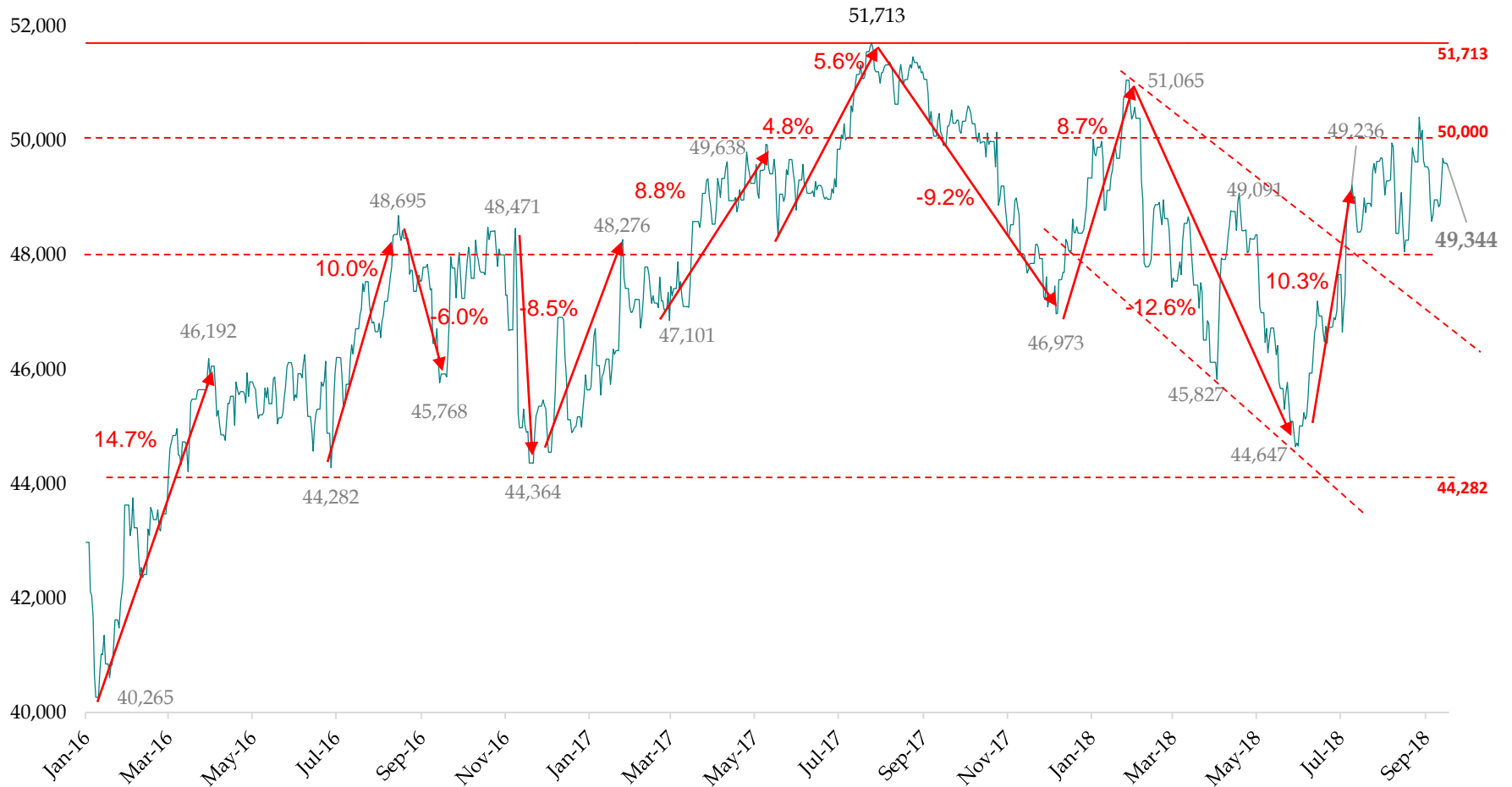


Source: Banxico

IV. Market Returns

IV. Market Returns

Mexbol Index
(As of September 21th, 2018)



Fuente: Bloomberg

IV. Market Returns

Global Market Returns (As of September 21st, 2018)

		Mexico VS US							
		Dividends reinvested in the index							
		Local				USD			
	INDEX	2017	2018	August	Sept 21	2017	2018	August	Sept 21
US	Dow Jones	28.11%	10.01%	2.56%	3.07%	28.11%	10.01%	2.56%	3.07%
	S&P 500	21.82%	11.12%	3.26%	1.08%	21.82%	11.12%	3.26%	1.08%
	NASDAQ	29.73%	16.61%	5.85%	-1.45%	29.73%	16.61%	5.85%	-1.45%
Mexico	Mexbol	10.11%	1.53%	-0.06%	-0.41%	15.44%	6.11%	-3.07%	1.55%

		Mexico VS LATAM							
		Dividends reinvested in the index							
		Local				USD			
	INDEX	2017	2018	August	Sept 21	2017	2018	August	Sept 21
Argentina	Merval	77.72%	14.17%	0.02%	17.18%	51.94%	-43.26%	-27.18%	17.54%
Brazil	Bovespa	26.86%	3.98%	-3.21%	3.61%	24.70%	-14.91%	-11.38%	4.97%
Chile	Ipsa	34.04%	-1.85%	-3.02%	3.63%	45.98%	-9.18%	-9.35%	6.20%
Peru	S&P/BVL	28.31%	-1.83%	-5.09%	0.86%	32.72%	-3.28%	-6.06%	1.31%
Colombia	COLCAP	14.79%	-0.20%	1.11%	-3.82%	15.38%	-0.71%	-4.23%	-2.37%
Mexico	Mexbol	10.11%	1.53%	-0.06%	-0.41%	15.44%	6.11%	-3.07%	1.55%

Source: Bloomberg

IV. Market Returns

Global Market Returns (As of September 21st, 2018)

Mexico VS Europe

Dividends reinvested in the index

Local

USD

	INDEX	2017	2018	August	Sept. 21	2017	2018	August	Sept. 21
Italy	FTSE MIB	16.90%	0.99%	-8.76%	6.26%	33.25%	-1.37%	-9.62%	7.61%
Spain	IBEX	11.25%	-1.80%	-4.78%	2.04%	26.81%	-4.09%	-5.67%	3.33%
France	CAC	12.54%	6.14%	-1.89%	1.62%	28.28%	3.67%	-2.81%	2.91%
Germany	DAX	12.51%	-3.77%	-3.45%	0.54%	28.25%	-6.01%	-4.35%	1.82%
Switzerland	SMI	17.88%	-0.81%	-2.19%	0.35%	23.16%	0.69%	-0.22%	1.50%
UK	FTSE 100	11.95%	0.65%	-3.28%	0.86%	22.64%	-2.64%	-4.52%	1.83%
Russia	IMOEX	-0.13%	19.91%	1.07%	3.50%	6.20%	3.77%	-6.70%	5.04%
Mexico	MEXBOL	10.11%	1.53%	-0.06%	-0.41%	15.44%	6.11%	-3.07%	1.55%

Mexico VS Asia

Dividends reinvested in the index

Local

USD

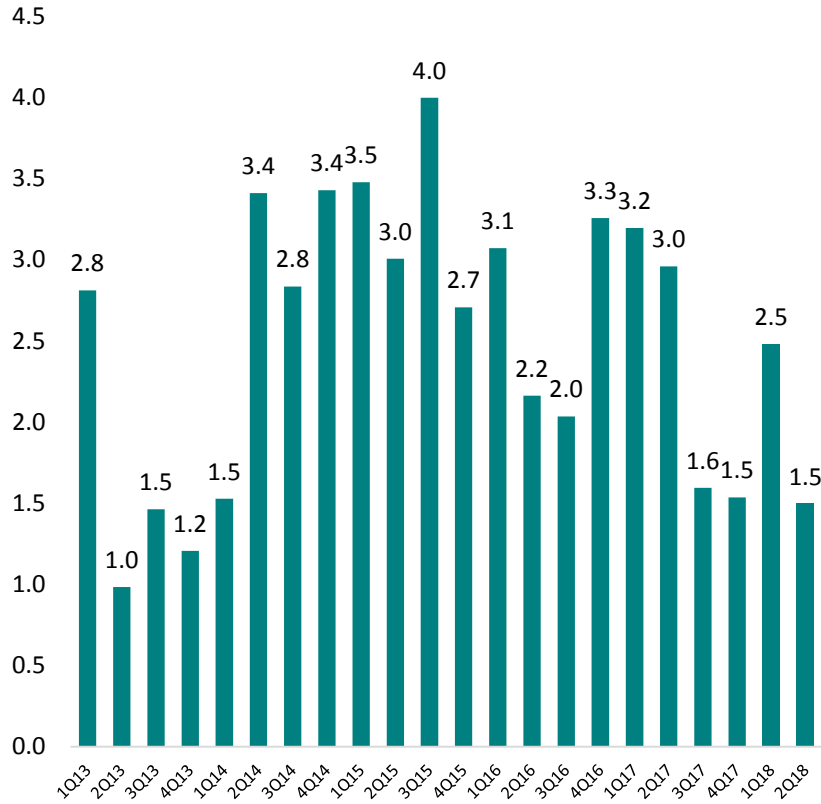
	INDEX	2017	2018	August	Sept. 12	2017	2018	August	Sept. 21
China	SZSE	24.25%	-13.54%	-4.97%	2.37%	32.52%	-18.03%	-5.20%	2.02%
China	SSE Composite	8.75%	-13.37%	-5.12%	2.78%	15.99%	-17.87%	-5.35%	2.43%
India	SENSEX	29.56%	9.26%	2.88%	-4.62%	37.93%	-3.50%	-0.62%	-6.50%
Indonesia	IDX	22.47%	-4.37%	1.39%	-1.00%	22.04%	-12.50%	-1.62%	-1.07%
Japan	TOPIX	22.23%	0.44%	-1.00%	3.96%	26.63%	0.43%	-0.35%	2.56%
South Korea	KRX100	28.48%	-5.80%	0.59%	-0.07%	44.73%	-9.52%	0.11%	0.10%
Mexico	Mexbol	10.11%	1.53%	-0.06%	-0.41%	15.44%	6.11%	-3.07%	1.55%

Source: Bloomberg

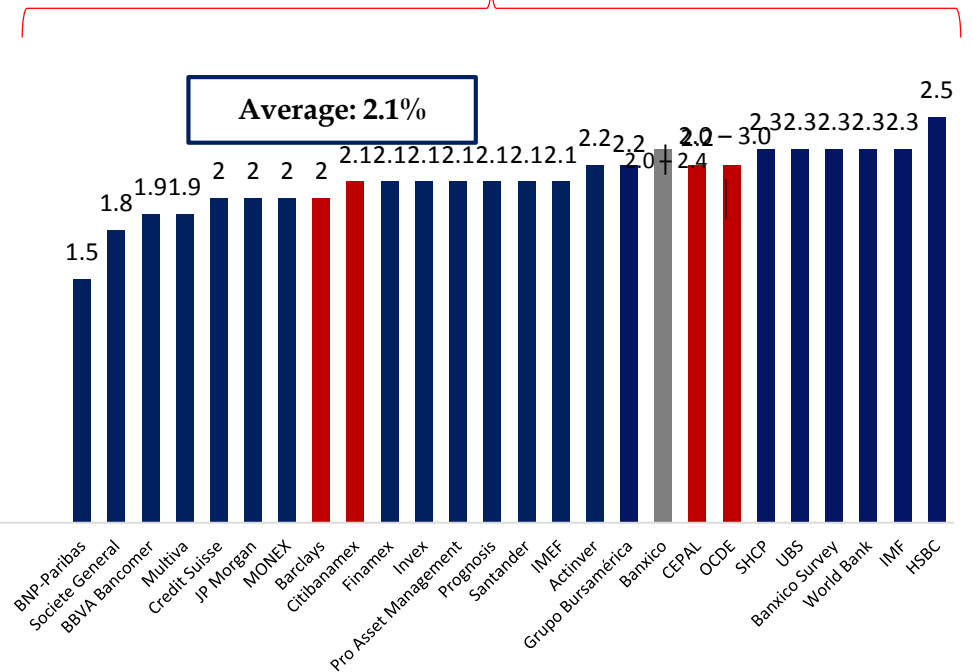
V. Review of the Mexican Economy

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Mexico's GDP Growth (Seasonally Adjusted)
(YoY)



2018 Expected GDP Growth
(YoY)

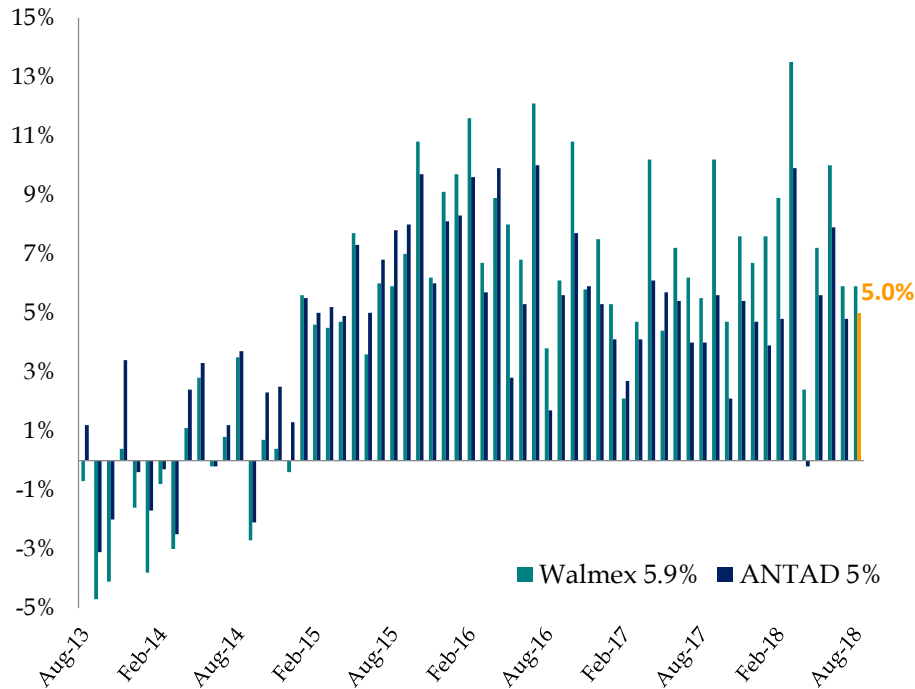


Source: INEGI, Bloomberg, Banxico, SHCP

V. Review of the Mexican Economy

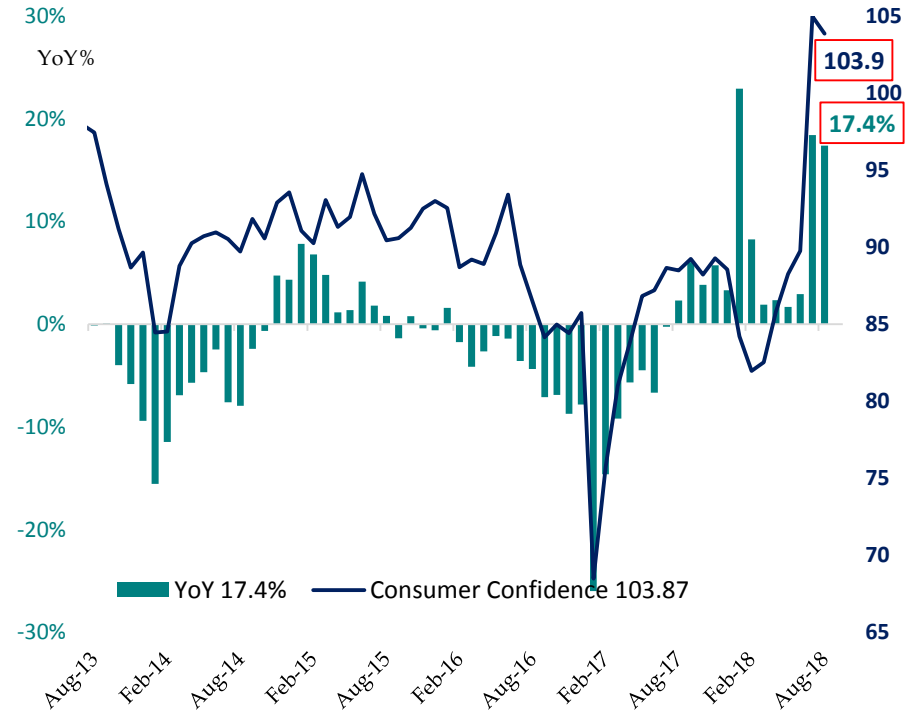
Consumption is one of the primary engines of the economy (2/2)

Same Store Sales
(% YoY)



Source: ANTAD & Walmart

Consumer Confidence
(% YoY)

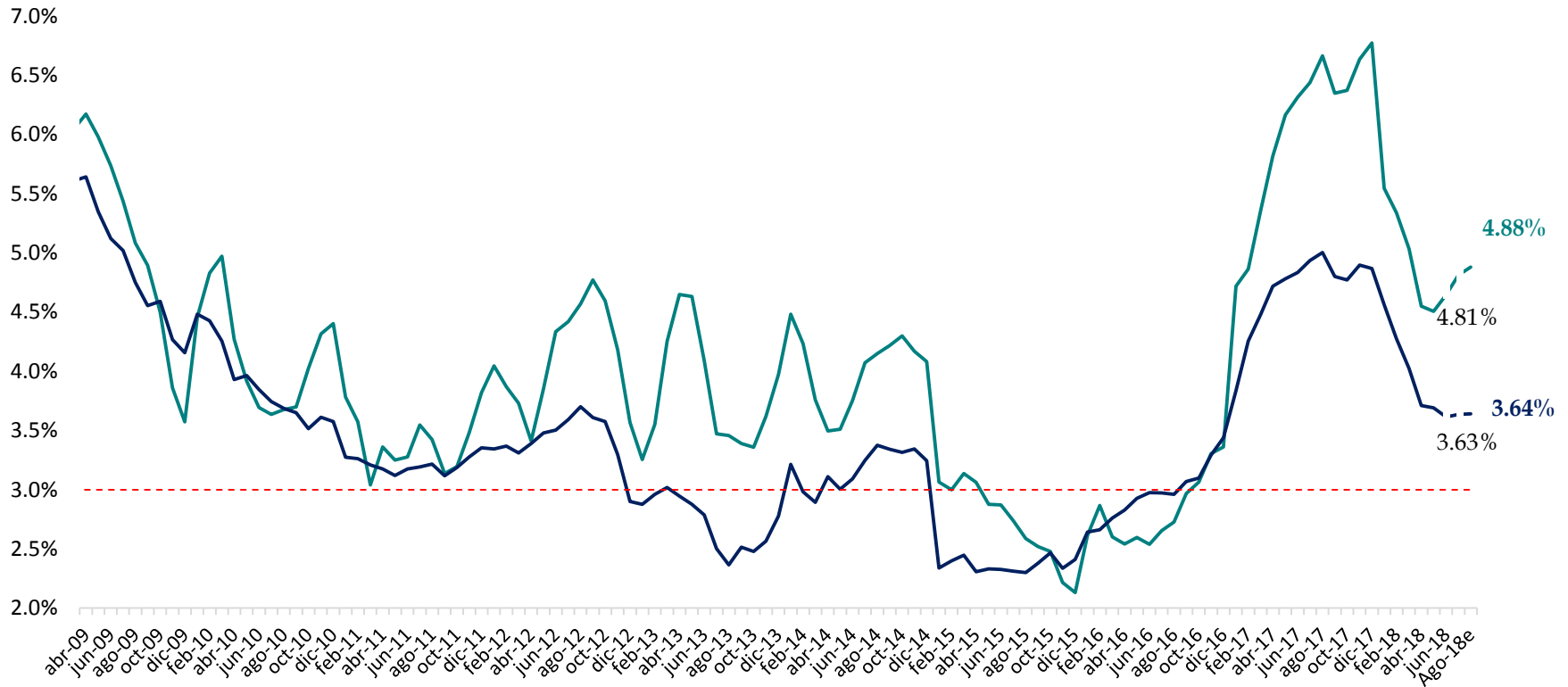


Source: INEGI y Banxico

- ▶ Consumer confidence during July and August point to a positive effect on consumption.
- ▶ Elected president could foster consumer confidence the way Trump did in the US.

V. Review of the Mexican Economy

Inflation (YoY % Change)

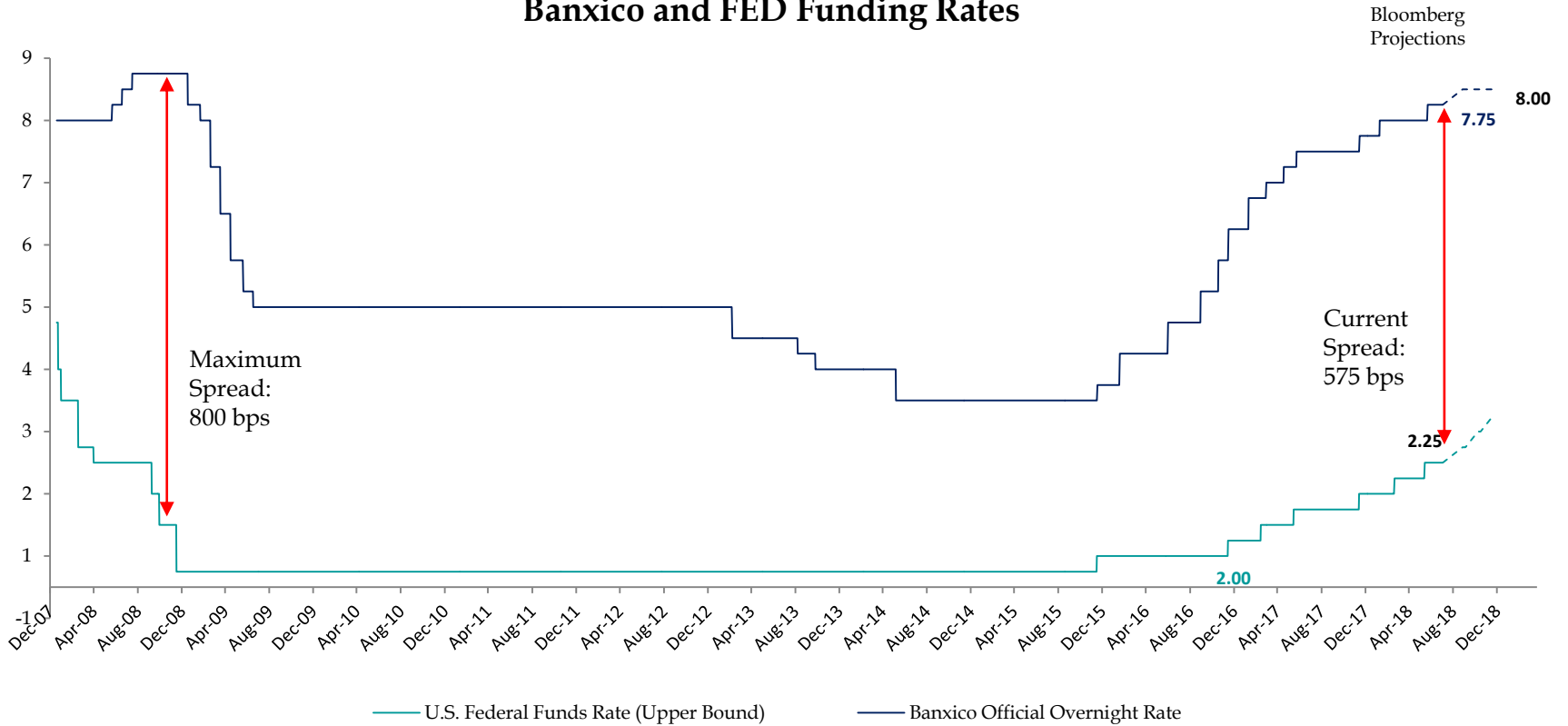


Source: INEGI

— Consumer Inflation
 — Core Consumer Inflation
 - - - Banxico Target
 - - - - - Estimates

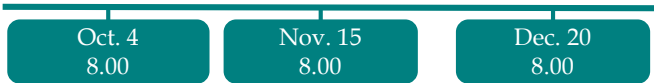
V. Review of the Mexican Economy

Banxico and FED Funding Rates



Source: Bloomberg.

Banxico Monetary Policy



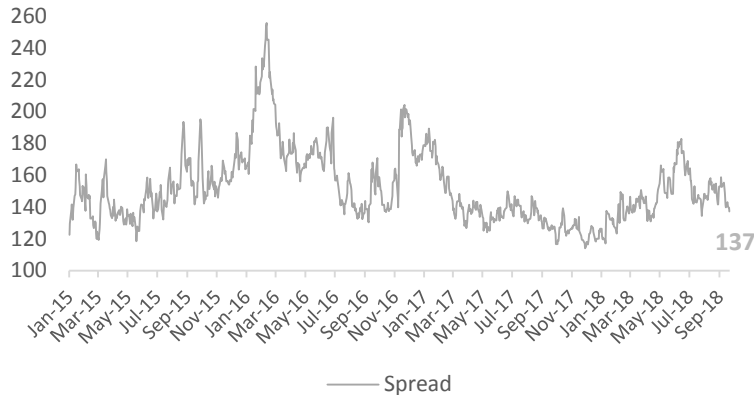
FED Monetary Policy



Source: Bloomberg and PAM estimates

V. Review of the Mexican Economy

10-year UMS vs. Treasury Bond Spread (As of September 21st, 2018)

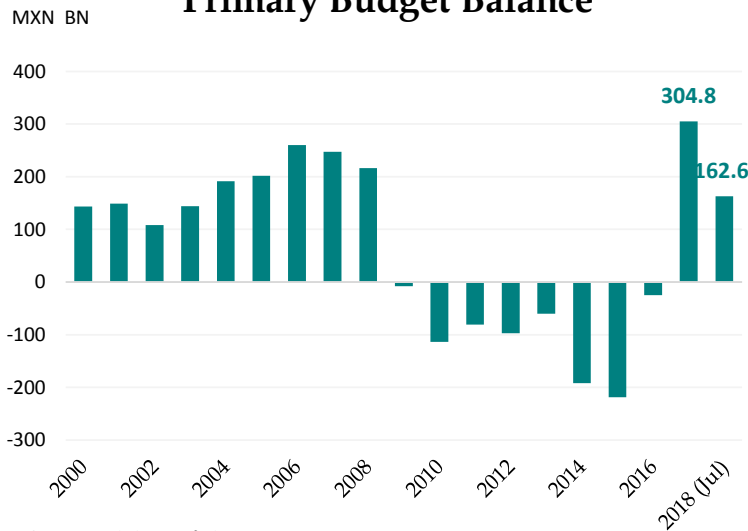


Source: Bloomberg

Mexico's Credit Ratings						
Date	Standard & Poor's		Moody's		Fitch	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
11-Apr-18			A3	STABLE		
3-Aug-17					BBB+	STABLE
18-Jul-17	BBB+	STABLE				
9-Dec-16					BBB+	NEGATIVE
23-Aug-16	BBB+	NEGATIVE				
31-Mar-16			A3	NEGATIVE		
5-Feb-14			A3	STABLE		

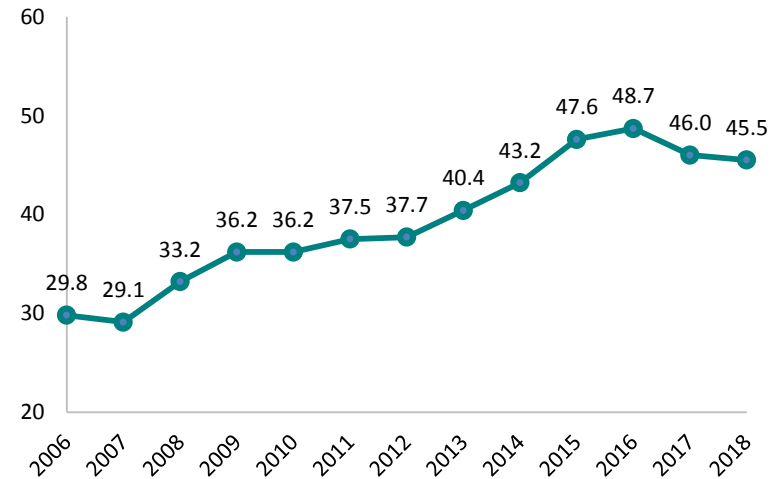
Source: Bloomberg, El Financiero

Primary Budget Balance



Source: Ministry of Finance

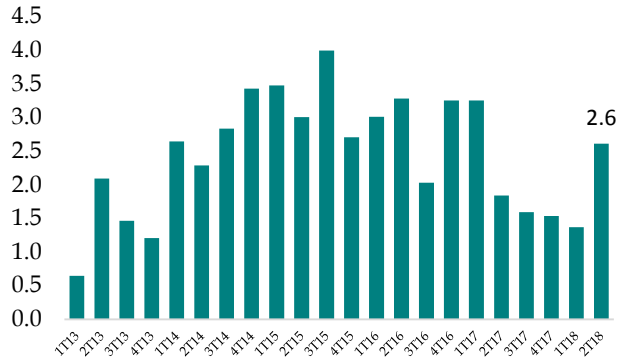
Public Sector Financial Requirements (As % of GDP)



Source: Ministry of Finance

V. Review of the Mexican Economy

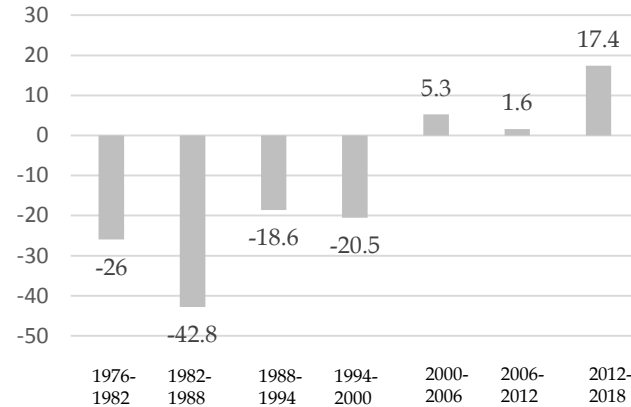
Gross Domestic Product (% YoY)



Source : INEGI

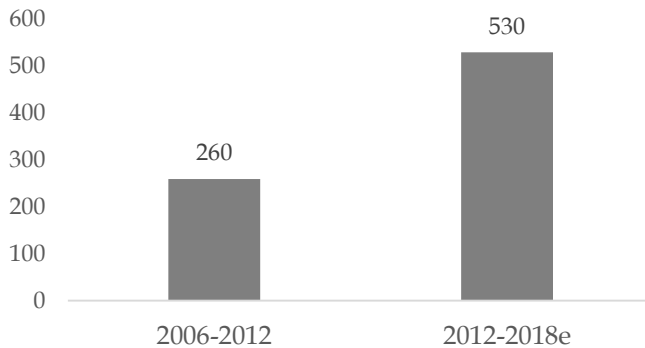
- ▶ The economy grew every quarter during the last six years, which hadn't happened since 88-94.
- ▶ GDP has increased every quarter since 2010.

Real Purchasing Power of Minimum Wages (% YoY)



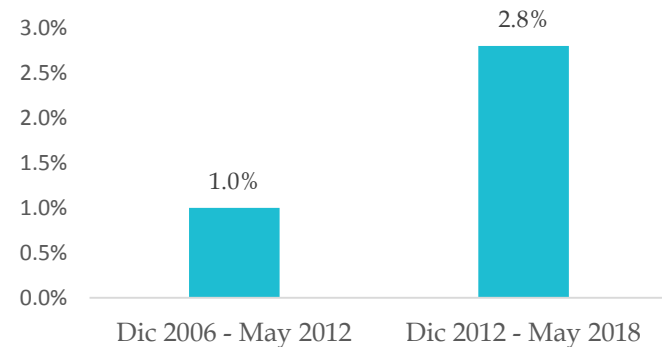
- ▶ For the first time in many years, minimum wage real purchasing power increased.

Seaports Capacity (tons)



- ▶ Port capacity doubled and Mexico City airport is under construction.(SIC)

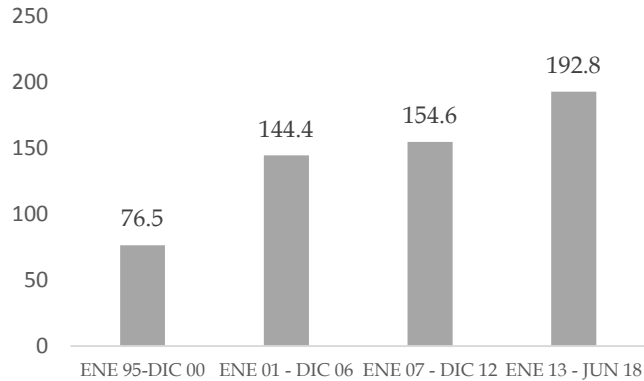
Private Consumption (% YoY)



- ▶ Average private consumption almost tripled.

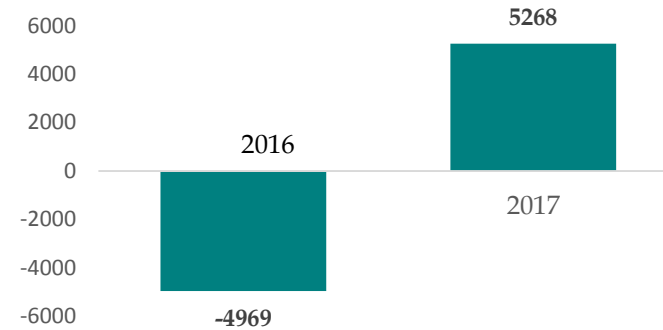
V. Review of the Mexican Economy

Foreign Direct Investment (billion dollars)



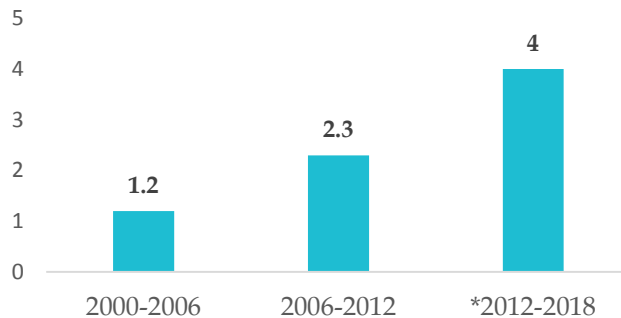
► Foreign Direct Investment amounted to 192 usd billion.

Agri-buisness Trade Balance (million dollars)



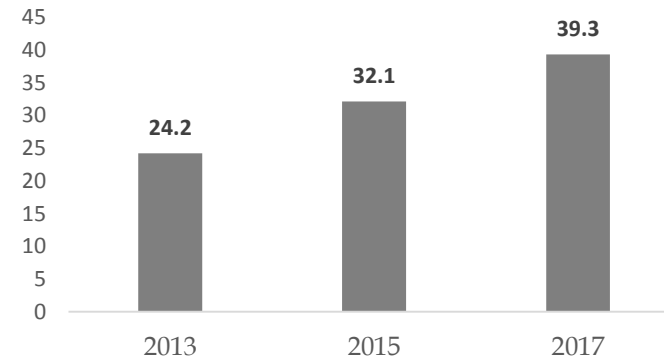
► Mexico is the 10th agri-buisness exporter in the world.

Formal Employment Creation (million of employments)



► Four million formal jobs were created.

International Tourism (millions of tourists)



► Mexico ranks sixth in incoming international tourism worldwide.

¡Thank you!

PAM's Contact Information

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Definitions

- **Dow Jones:** *The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the Nasdaq. The DJIA was invented by Charles Dow in 1896.*
- **S&P 500:** *The Standard & Poor's 500 Index - S&P 500 is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value. The S&P 500 is a market value or market-capitalization-weighted index and one of the most common benchmarks for the broader U.S. equity markets*
- **NASDAQ:** *The Nasdaq Composite Index is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests.*
- **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. The index is designed to provide a broad, representative, yet easily replicable index covering the Mexican equities market.*
- **MERVAL:** *The Argentina Merval Index, a basket weighted index, is the market value of a stock portfolio, selected according to participation in the Buenos Aires Stock Exchange, number of transactions of the past 6 months and trading value. The index has a base value of \$0.01 as of June 30, 1986.*
- **BOVESPA:** *Ibovespa Brasil Sao Paulo Stock Exchange Index it is a gross total return index weighted by free float market cap & is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange. It has been divided 10 times by a factor of 10 since Jan 1, 1985.*
- **IPSA:** *The Indice de Precio Selectivo de Acciones (IPSA) is a Chilean stock market index composed of the 40 stocks with the highest average annual trading volume in the Santiago Stock Exchange. On the last trading day of the year, the index is re-based back to 1000.*

Definitions

- **S&P/BVL:** *The S&P/BVL Peru General Index is a modified market cap-weighted index that is designed to serve as the broad benchmark for the Peruvian stock market.*
- **COLCAP:** *COLCAP is the main stock market index of the Colombia Stock Exchange since November 2013 when it replaced IGBC as the leading index for Colombia. It consists of the 20 most actively traded shares of the market. The adjusted Market Capitalization for each company listed on the COLCAP is reviewed periodically to determine its inclusion in the index.*
- **FTSE MIB:** *The FTSE MIB (Milano Indice di Borsa) (the S&P/MIB prior to June 2009) is the benchmark stock market index for the Borsa Italiana, the Italian national stock exchange, which superseded the MIB-30 in September 2004. The index consists of the 40 most-traded stock classes on the exchange.*
- **IBEX:** *The IBEX 35 is a market capitalization weighted index comprising the 35 most liquid Spanish stocks traded in the Madrid Stock Exchange General Index and is reviewed twice annually*
- **CAC:** *The CAC 40 is a benchmark French stock market index. The index represents a capitalization-weighted measure of the 40 most significant values among the 100 highest market caps on the Euronext Paris (formerly the Paris Bourse).*
- **DAX:** *The DAX (German stock index) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. DAX measures the performance of the Prime Standard's 30 largest German companies in terms of order book volume and market capitalization.*
- **SMI:** *The Swiss Market Index (SMI) is Switzerland's blue-chip stock market index, which makes it the most important in the country. It is made up of 20 of the largest and most liquid Swiss Performance Index (SPI) large- and mid-cap stocks.*

Definitions

- **FTSE 100:** *The Financial Times Stock Exchange 100 Index, also called the FTSE 100 Index, FTSE 100, FTSE, or, informally, the "Footsie", is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. It is seen as a gauge of prosperity for businesses regulated by UK company law.*
- **IMOEX:** *The MOEX Russia Index is the main ruble-denominated benchmark of the Russian stock market. The index was established on 22 September 1997, and has the same composition as the dollar-denominated RTS Index Russia Trading System“.*
- **SZSE:** *The SZSE Component Index is an index of 500 stocks that are traded at the Shenzhen Stock Exchange (SZSE). The Shenzhen Stock Exchange (SZSE) is one of two main stock exchanges operating independently in mainland China.*
- **SSE Composite:** *The SSE Composite, which is short for the Shanghai Stock Exchange Composite Index, is a market composite made up of all the A-shares and B-shares that trade on the Shanghai Stock Exchange.*
- **SENSEX:** *The S&P BSE SENSEX is India’s most tracked bellwether index. It is designed to measure the performance of the 30 largest, most liquid and financially sound companies across key sectors of the Indian economy that are listed at BSE Ltd.*
- **IDX:** *The IDX Composite is an index of all stocks listed on the Indonesia Stock Exchange, IDX (formerly known as Jakarta Stock Exchange, JSX).*
- **TOPIX:** *The Tokyo Price Index -- commonly referred to as TOPIX -- is a metric for stock prices on the Tokyo Stock Exchange.*
- **KRX100:** *KRX 100 is the index of 100 companies listed on Korea Exchange, including KOSDAQ's big companies. KOSDAQ (Korean Securities Dealers Automated Quotations) is a trading board of Korea Exchange (KRX) in South Korea established in 1996.*

Definitions

- **INEGI:** *The National Institute of Statistics and Geography.*
- **Banxico:** *Banco de Mexico is the Central Bank of Mexico.*
- **SHCP:** *Secretaria de Hacienda y Credito Publico, is the Ministry of Finance.*
- **GDP:** *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. Though GDP is usually calculated on an annual basis, it can be calculated on a quarterly basis as well (in the United States, for example, the government releases an annualized GDP estimate for each quarter and also for an entire year).*
- **UMS:** *United Mexican States Sovereign Bonds (UMS) are fixed income instruments issued by the federal government in international capital markets. Each issuance has specific characteristics (term, currency coupons, etc.).*

Disclaimer

All investments involve risk. Principal loss is possible. Investing internationally involves additional risks such as currency fluctuations, market prices volatility, social and economic instability, changes in taxation, periods of illiquidity and other factors. Stocks of small-and-mid-capitalization companies involve greater volatility and less liquidity than larger-capitalization companies. All Mexican companies are subject to Mandatory IFRS (International Financial Reporting Standards) accounting since the year 2011.

The Fund's portfolio securities are denominated in Mexican pesos. As a result, the portfolio return in U.S. Dollars securities must increase in market value at a rate in excess of the rate of the decline in the value of the Mexican peso against the U.S. dollar in order to present an excess dollar return.

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 Funds website www.mxefund.com, under the section caption 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.

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.

Disclaimer

Pichardo Asset Management, S.A. de C.V. “PAM” provides the advisory service to The Mexico Equity and Income Fund, Inc., incorporated in Maryland, U.S.A., registered under the U.S. Investment Company Act of 1940, as amended, as a closed-end, non-diversified management Investment Company. “PAM” conducts its decisions under standards from more than 27 years of experience in portfolio management advice, and provides comments in a weekly, monthly, semi-annual, and annual basis.

The information contained herein reflects the opinion of Pichardo Asset Management and as such does not constitute fundamental research, neither should it be construed as a solicitation of business or a buy/sell recommendation with regard to any of the securities mentioned. Furthermore, it is subject to change without prior warning and estimates cannot be guaranteed. Past returns do not guarantee future earnings.

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