

Systemic Risk and Volatility in Emerging Markets

The bullish trend seen in the peso-dollar exchange rate during the last weeks is called "Systemic Risk." The so-called "Systemic Risk" is the perception of serious economic problems that can cause losses in the entire international financial system. The perception of a greater systemic risk makes investors more cautious; therefore, an important decomposition of investment portfolios is generated worldwide, in which the acquisition of "safe assets" mainly US Treasury Bills is favored, and the most volatile financial assets are reduced.

On this occasion, the increase in systemic risk reflects problems in other emerging countries such as:

Argentina

The Argentine peso is down more than 50% this year while inflation in July rose to 31.2%. The budget deficit and sovereign risk led Argentina to take a 50-billion-dollar loan from the International Monetary Fund.

Turkey

The Turkish lira has lost 25% of its value in August and 40% since the beginning of the year. The lack of foreign investment, high debt maturities, and low saving rates have led public debt to represent up to 53% of GDP.

Brazil

The Brazilian real has depreciated almost 9% in August in the middle of political turmoil. The presidential front-runner, leftist Lula da Silva, is in jail while the right-wing candidate, Jair Bosonaro, was attacked at a campaign rally last week.

China

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

Mexico is also considered an emerging economy, but stands apart from the rest:

- i. The presidential election in July was an achievement for democracy. The left-wing candidate, AMLO, had a landslide victory, and his opponents accepted his triumph before results were made official.
- ii. The outgoing federal administration and the newly elected administration have reached essential agreements towards a smooth government transition.
- iii. Mexico's 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.
- iv. On August 27th, Mexico and the United States reached a commercial understanding that reduces one of the primary sources of uncertainty in the foreign exchange market since 2016.

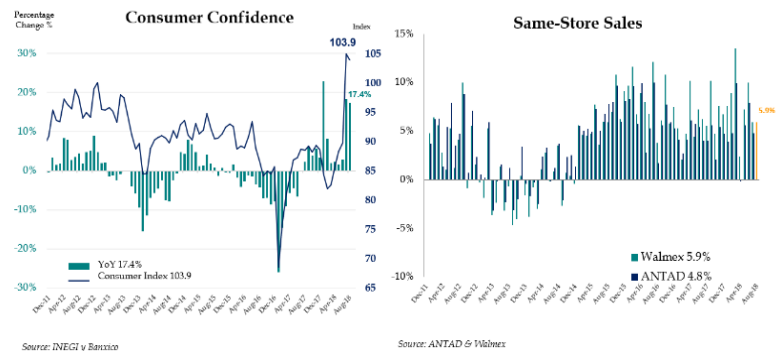
The Mexican peso lost 1.2% and 2.3% of its value during the first week of September and in August, however, overall performance throughout the year was positive as it appreciated 1.79% year-to-date. The Mexican peso had an outstanding performance when compared to depreciation in developed and emerging countries in the same time frame: The Canadian dollar lost 4.53% of its value, the British Pound 4.39%, and the Euro 3.77%. In Latin America, the Argentine peso fell 49.72%, the Brazilian real 18.38% and the Colombian peso 2.27%. In other emerging countries, the Turkish lira dipped 40.63%, the South African and 18.47%, and the Chinese yuan 4.92%.



MEXBOL Index dropped 1.16% in the first week of September and 0.06% in August given augmented risk aversion due to global volatility. The companies that had the best returns were: VolarA 8.17%, Cuervo* 4.18%, AlpekA 1.67% and AsurB 1.62% and the worst return were: Elektra* -8.56%, GeneraB -6.50%, LalaB -3.79%, and GFInbur -3.59%.

Evolution of consumption in Mexico

The Consumer Confidence Index rose 17.4% in August, in line with the 18.4% uptick in July while Walmex same-store sales increased 5.9%. In this context, consumer confidence and retail consumption suggest economic optimism following the presidential election victory of Andres Manuel Lopez Obrador.



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



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

www.paminversion.com
Andres Bello 45, 22nd Floor,
Polanco, 11550 CDMX, México
Phone: + 52 (55) 52 61 46 00 /04/21/16

epichardo@paminversion.com

Equity Portfolio Manager

arodriguez@paminversion.com

Macro Strategist & Debt Portfolio Manager

destevez@paminversion.com

Financials Analyst
Assistant Portfolio Manager

jelizalde@paminversion.com

Industrials Analyst
Assistant Portfolio Manager

lcalzada@paminversion.com

Compliance

Definitions

Mexican Stock Exchange/MEXBOL Index– 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.

Consumer Confidence Index: The consumer confidence index measures how optimistic or pessimistic consumers are with respect to the economy in the near future.

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.