

February: Mexican currency and stock market fall due to lower economic growth and negative expectations on the sovereign rating

The spot exchange rate closed February at 19.27 pesos per dollar for a monthly depreciation of (-) 0.91%; and leaves year to date appreciation at 1.97%. The strength of the Mexican currency is supported by high levels of remittances from people living abroad and significant flows of foreign portfolio investment and is favored by the attractive prize - in international terms - paid by Mexican debt instruments in local currency. Risk premia remain at relatively high levels, although it has shown some reversion recently.

Mexico recorded a financial account surplus of 36,392 million dollars in 2018. Foreign Direct Investment (FDI) exceeded 30 billion dollars for the third consecutive year, and portfolio investment increased 2.5 times Year over Year (YoY), (from 4,196 million dollars in 2017 to 14,824 million dollars in 2018). This compensates the current account deficit (-22,186 million dollars) that is explained by external debt interests (-33,855 million dollars) and the trade balance deficit (-13,704 million dollars). At the same time, remittances reached a record high of 32.678 million dollars. Noteworthy, international reserves, together with the flexible credit line that Mexico has with the International Monetary Fund (IMF) amount to 249.7 billion dollars.

The 10-year M bond rate closed the month at 8.16%; 26 basis points below the previous month. Despite this fall, the spread with the ten-year US Treasury bond has remained above 540 basis points in the last four months; a spread not seen in two years and reflecting the deterioration in the sovereign debt rating outlook.

On Friday, March 1, Standard & Poor's lowered the outlook on Mexico's sovereign debt to negative from stable; this marks the third downgrade of a Rating Agency. HR Ratings and Fitch Ratings lowered their outlook from stable to negative on October 30 and 31 of last year; before the cancellation of the New International Airport of Mexico City (NAIM) and after the initiative of law to prohibit the banking commissions.

The Central Bank (Banxico), in its quarterly report on inflation for 4Q18, revised its GDP growth estimate for 2019 from a range of 1.7% - 2.7% to 1.1% - 2.1% and for 2020 from 2.0% - 3.0%, to 1.7 - 2.7%. The adjustment reflects the following risk factors: i) the current environment of uncertainty and its effect on investment ii) the ratification of the trade agreement with the United States and Canada iii) a credit rating downgrade in the country's sovereign debt or state companies, (i.e. Pemex) iv) fuel shortages, railroad blockades in Michoacán or labor disputes in Tamaulipas and v) greater volatility in international financial markets.

In line with previous statements, Banxico stated that the balance of risks with respect to the expected inflation trajectory has deteriorated and maintains an upward bias within an environment of uncertainty. Although inflation dropped from 4.72% in November to 4.37% in January -given the strength in the Mexican peso exchange rate and the fiscal stimuli for the Northern Border Region-, Banxico targets 3% annual inflation until the first half of 2020. Some elements that could pressure the Mexbol index are i) the critical revision to the minimum wage, ii) the deterioration in public finances and iii) an increase in energy prices.

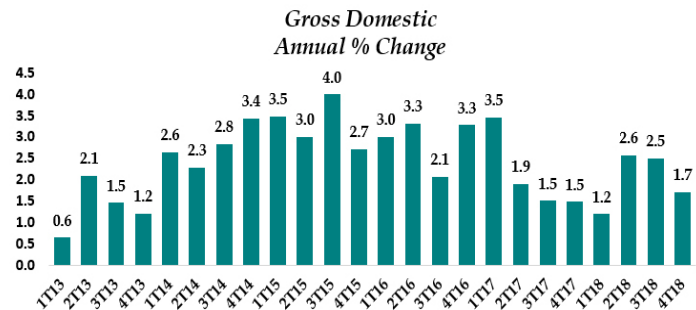
The Mexbol Index closed at 42,619 at the end of February representing a (-) 2.48% monthly loss and a 2.53% year to date return. The negative behavior of the index was due to the 4Q18 earnings season that, in comparison with the previous quarter, begin to show a deceleration. 15 of the 35 companies in the index, reported revenues below expectations while consolidated Earnings before Interest, taxes, depreciation and amortization (EBITDA) growth was 5.7% vs 15% in the previous quarter.

Equity markets in the United States presented positive results; The Dow Jones, S&P 500 and NASDAQ indexes posted monthly gains of 4.03%, 3.21%, and 3.60% respectively and year to date returns of 12.10%, 12.26%, and 14.69% respectively. The U.S. stock markets' positive performance was supported by the extension of the March 1 trade deal truce deadline between China and the United States. At the writing, President Trump will impose 10% tariffs on \$200 billion in Chinese goods, which will go up to 25% at the end of the year.

Economic Indicators

Gross domestic product

On Monday, February 25, the National Institute of Statistics and Geography (INEGI) released its revised GDP report for 4Q18, which expanded 1.7% YoY, lower than the 2.5% registered in the previous quarters of 2018. This revision leaves full-year 2018 GDP at 2.0%, the weakest since the first year of President Enrique Peña Nieto's government.



Fuente: INEGI

Balance of trade

The trade deficit was 4,809 million dollars in January; up 8% YoY. Exports grew 5.7% on an annual basis to 32,457 million dollars helped by an increase in manufacturing exports of 8.5%. Imports rose 6.1% YoY to 37,263 million dollars, partly due to the recovery of intermediate-good imports, which increased by 7.8% YoY.

| Exportaciones | | | | | | |
|--------------------------|---------|------------|--------------|---------|------------|--------------|
| | 2017 | % de Total | Cambio Anual | 2018 | % de Total | Cambio Anual |
| Exportaciones Totales | 409,401 | 100.0% | 94.8% | 458,572 | 100.0% | 10.1% |
| Petróleos | 21,701 | 5.8% | 25.80% | 30,572 | 6.8% | 29.0% |
| Petróleo Crudo | 20,023 | 4.9% | 28.50% | 26,483 | 5.9% | 32.3% |
| Otros | 1,678 | 0.9% | 13.42% | 4,089 | 0.9% | 11.2% |
| No Petróleos | 387,700 | 94.2% | 86.1% | 427,000 | 93.2% | 8.9% |
| Agriculturales | 15,523 | 3.9% | 7.7% | 16,235 | 3.6% | 2.7% |
| Extractivos | 9,427 | 1.3% | 24.24% | 6,281 | 1.4% | 1.48% |
| Manufacturadas | 364,445 | 89.0% | 84.4% | 397,514 | 88.2% | 9.1% |
| Industria Automotriz | 126,671 | 30.9% | 11.79% | 142,177 | 31.6% | 12.2% |
| Otros | 237,774 | 58.1% | 67.4% | 255,336 | 56.7% | 7.4% |
| Importaciones | | | | | | |
| | 2017 | % de Total | Cambio Anual | 2018 | % de Total | Cambio Anual |
| Importaciones Totales | 425,369 | 100.0% | 86% | 444,277 | 100.0% | 10.4% |
| Petróleos | 42,010 | 10.0% | 37.4% | 52,764 | 11.6% | 26.4% |
| No Petróleos | 373,359 | 80.0% | 53% | 410,515 | 88.4% | 7.9% |
| Bienes de Consumo | 42,307 | 10.1% | 48% | 43,610 | 9.4% | 3.1% |
| Bienes de Uso Intermedio | 295,035 | 70.2% | 71% | 321,020 | 69.1% | 8.8% |
| Bienes de Capital | 41,924 | 9.8% | 33% | 45,885 | 9.9% | 11.9% |
| Balanza | | | | | | |
| | 2017 | | | 2018 | | |
| Balanza Total | -10,968 | | -17.1% | -15,704 | | -22.2% |
| | | | | | | -4810 |
| | | | | | | 46178.3% |

Source: Banxico

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Definitions

PEMEX: Petróleos Mexicanos, which translates to Mexican Petroleum, is the Mexican state-owned petroleum company, created in 1938 by nationalization or expropriation of all private, foreign, and domestic oil companies at that time. The Fund maintains 0.0% investment in the security, at the close of December 31, 2018. For a list of full securities please visit: http://www.mxefund.com/portfolio_holdings.html

Fitch Ratings: Fitch Ratings is a leading provider of credit ratings, commentary and research. Dedicated to providing value beyond the rating through independent and prospective credit opinions, Fitch Ratings offers global perspectives shaped by strong local market experience and credit market expertise.

Moody's: Moody's Corporation is the holding company that owns both Moody's Investor Services, which rates fixed income debt securities and Moody's Analytics, which provides software and research for economic analysis and risk management. Moody's assigns ratings on the basis of assessed risk and the borrower's ability to make interest payments, and its ratings are closely watched by many investors.

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 directly in an index.

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.

Basis point (BPS) Refers to a common unit of measure for interest rates and other percentages in finance.

GDP: Is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

Banxico: Banco de México is the central bank of Mexico. By constitutional mandate, it is autonomous in both its operations and management. 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. Its other functions are to promote both the sound development of the financial system and the optimal functioning of the payment systems.

Inflation: Mexico's national index of consumer prices (CPI) is the measure for evaluating the inflation rate in the Mexican economy at a national level.

Remittances: A remittance is the 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.

HR Ratings: Since it was first authorized in 2007, HR Ratings has been on a remarkable trajectory, reflected in ratings assigned to debt issuances in Mexico and other countries, with a value upward of US\$30 billion. These ratings include analysis of governmental entities, corporates, financial institutions, infrastructure and structured finance.

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

INEGI: The National Institute of Statistics and Geography is a public body with technical and managerial autonomy, its own legal personality and assets, responsible for regulating and coordinating the National System of Statistical and Geographic Information.

NAIM: New International Airport of Mexico City.

Inflation: is a quantitative measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over a period of time.

Foreign Direct Investment: Is an investment made by a firm or individual in one country into business interests located in another country.

IMF: The International Monetary Fund (IMF) is an international organization headquartered in Washington DC, consisting of 189 countries working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

Trade Balance: the difference between the value of a country's imports and exports for a given period.

Financial Account: A financial account is a component of a country's balance of payments that covers claims on or liabilities to nonresidents, specifically with regard to financial assets. Financial account components include direct investment, portfolio investment and reserve assets broken down by sector.

Current Account: The current account records a nation's transactions with the rest of the world - specifically its net trade in goods and services, its net earnings on cross-border investments, and its net transfer payments - over a defined period of time.

EBITDA: earnings before interest, taxes, depreciation and amortization, is a measure of a company's overall financial performance and is used as an alternative to simple earnings or net income in some circumstances.

Disclosures

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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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