

WEEKLY ECONOMIC REPORT

AUGUST 21, 2020.

Markets Consolidate

Mexican Stock Exchange

Mexbol closed August 21st operations at 38,096 points for a (-)2.17% weekly decline; therefore, the year-to-date (YTD) return stands at (-)24.27% in US dollars. After the 5.21% hike observed from July 31st to August 14th, the index's weekly decline could likely be explained by the relatively flattish behavior of the S&P 500 and possible profit-taking in the local market.

Exchange Rate

The spot exchange rate closed August 21st operations at MX\$21.97 per dollar, practically flat (+0.02%), which left the YTD depreciation at 16.07%. The latter could imply a consolidation of the exchange rate around MX\$22.00 per dollar even though the dollar index had a weekly increase of 0.11%. During the week, the Ministry of Economics announced that the flow of Foreign Direct Investment (FDI) to Mexico in the first half of 2020 (1H'20) totaled US\$17.96 billion, practically the same as in 1H'19 and 1H'18. This data, combined with the US\$19.74 billion of remittances, and the trade balance surplus of US\$2.65 billion until June consolidates the Mexican external accounts in favor of the Mexican peso.

Interest Rates

Central Bank, Banxico, in its last monetary policy decision, reduced its main reference rate by 50 basis points (bps) to 4.50%; thus, the real rate after-tax is negative. The latter reduced Banxico's degrees of freedom for further cuts in its reference rate. Market expectations now reflect that in 2020 there will only be one more rate drop in 2020 (25 bps) and would place the rate at 4.25%. On August 26th, Banxico will release its report for the second quarter of 2020.

Ministry of Finance Transfers to the States

The Ministry of Finance (SHCP) reported that it will stop delivering the resources of the Stabilization Fund of the Federal Entities (FEIEF) every quarter and will do so monthly. The FEIEF is the mechanism that the SHCP uses to erase the differences between the budgeted and observed participation that the states receive. Therefore, when there are falls in the observed shares as strong as the one in June (-39% against budget), the states will not have to wait a full quarter to obtain those resources. The modification is already operational since, in the first days of August, the SHCP allocated MX\$13 billion from the FEIEF to oust the drops in June's figures. Finally, the SHCP also reported that derived from the National Commission of Governors (CONAGO), there could be a possibility of refinancing state debts through the development banks, primarily via the National Bank of Public Works and Services (Banobras).

Economic Indicators

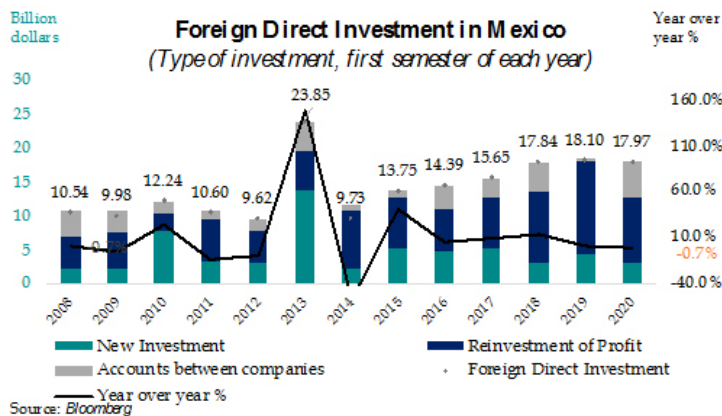
The Ministry of Economy announced that, during the first semester of 2020 (1H20), the flow of Foreign Direct Investment (FDI) to Mexico totaled US\$17.96 billion, practically the same year-over-year (YoY) (US\$18.10 billion) and in 1H18 (US\$17.80 billion). By components, the result was the following:

1. A total of US\$9.60 billion (53.5% of FDI) corresponded to the reinvestment of profits. Structurally, this item is the main component of FDI since it usually represents half of the flows and makes at least 50% of the FDI permanent.
2. The flow of accounts between companies was US\$5.32 billion (29.62% of FDI). This type of investment shows the parent corporations' commitment to their Mexican branches, especially in the context of a sharp decline in sales amid the halting of a large number of economic activities. In this sense, the number of accounts between companies in 1H20 was 58 times higher than that observed in 1H19.
3. New investments that arrived in Mexico totaled US\$3.03 billion (16.88% of FDI), an annual drop of (-)29.68%. These types of investments may have been affected by government policies regarding private investment.

By sectors, FDI had the following composition:

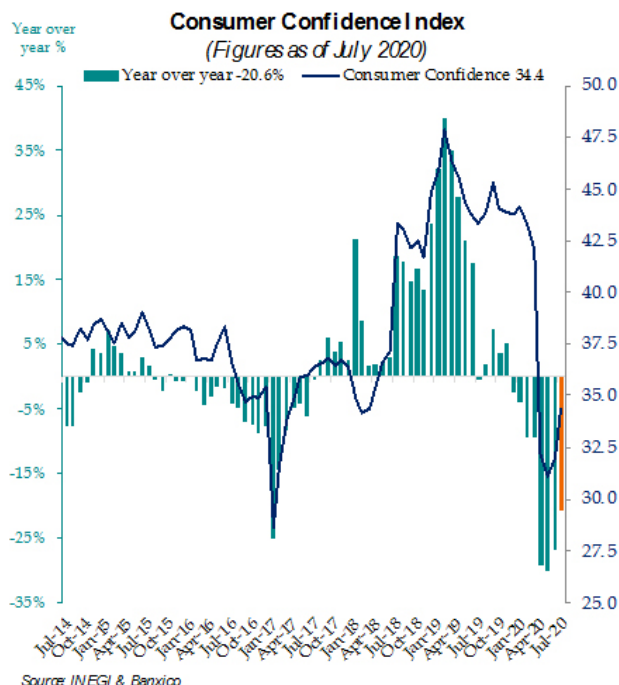
1. The manufacturing sector captured 43.2% of FDI (US\$7.76 billion). The above could be explained by the close intra-industrial link in the productive apparatus of Mexico and the United States.
2. Financial services received 15.4% of the total FDI (US\$2.76 billion).
3. The third place in attracting investment was the transportation sector, which received 14.1% of FDI (US\$2.53 billion). This figure is one of the most surprising data in 1H20 since last year it only represented 4.2% of the FDI.

4. Mining captured only 4.9% of the FDI (US\$873 million) and the energy, water, and gas sector 4.8% (US\$ 866.2 million). In both cases, the percentage decreased, possibly due to the government's position in these sectors to maintain a strategic majority interest. Noteworthy that the possible administrative or constitutional reversal of the energy reform approved in the last administration and proposed by the federal executive eliminates the possibility of growth in this sector. This sector is one of the world's most dynamic and could boost foreign capital entry on a large scale due to the magnitude of investments it requires.



Consumer Confidence

Consumer Confidence Survey showed that the General Indicator of Consumer Confidence stood at 34.4 points in July. The figure represents a 7.5% monthly increase, although compared to the same data in 2019, it shows a drop of (-)20.55%. Notably, in its monthly comparison, all the components of the indicator showed an increase. The improvement in the index may be a reflection of the reincorporation of approximately six million people to the Economically Active Population (PEA); Although, given that there are still seven million people pending to join the PEA, it seems complicated for the indicator to return to levels observed before the COVID-19 pandemic.



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Definitions

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.

Basis points (bps): Refers to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001.

COVID-19: The disease caused by the coronavirus, a family of viruses that were discovered in the 60s but whose origin is still unknown. Its different types cause different diseases, from a cold to a severe respiratory syndrome.

Foreign Direct Investment (FDI): Is an investment made by a company or individual in one country in business interests in another country, in the form of either establishing business operations or acquiring business assets in the other country, such as ownership or controlling interest in a foreign company.

General Indicator of Consumer Confidence: Is defined as the degree of optimism about the state of the economy that consumers are expressing through their activities of saving and spending.

Mexbol: The S&P/BMV IPyC 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.

National Bank of Public Works and Services (Banobras): Is the leading development bank institution in Mexico, which makes possible the creation of infrastructure with high social profitability, promoted by the Federal Government through innovative financing schemes, with a long-term vision and expanding the participation of the private sector.

National Commission of Governors (CONAGO): It is a permanent forum, which seeks to strengthen federalism through democratic mechanisms, maintaining full respect for the institutions of Mexico. It is an inclusive space open to all entities in the country without distinction of political parties.

Spot Exchange Rate: Is the current price level in the market to directly exchange one currency for another, for delivery on the earliest possible value date.

Stabilization Fund of the Federal Entities (FEIEF): It is the emergency fund with which the differences between the participations of the states and municipalities are compensated. The mechanism seeks to guarantee that the revenues of the federal entities are not affected despite a decrease in the federal collection.

Standard & Poor's 500 (S&P 500): Is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value. It is a market value or market-capitalization-weighted index and one of the most common benchmarks for the broader U.S. equity markets.

The Ministry of Finance and Public Credit (SHCP): Is the government entity responsible for proposing and controlling the economic policy of the Mexican Federal Government regarding the financial, fiscal, expenditure, income and public debt sector.

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.

Year over Year (YoY): Indicates the change from the comparable amount reported in the same period one year earlier.

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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