

MONTHLY ECONOMIC REPORT

May 2020.

May: Recovery of the Mexican peso and stock markets

The spot exchange rate closed at MX\$22.17 per dollar on May 29th, a 9.02% monthly appreciation of the peso; therefore, the year-to-date (YTD) depreciation reduced to (-)17.11%. In contrast to what happened in March and April, this time, the Mexican peso had a positive performance, mainly due to the following reasons:

1. Recently, the dollar has weakened; specifically, since May 14th and up to date, the dollar index, which measures the value of the US currency against a basket of six currencies, has depreciated 2.13%.
2. There has been an increase in political tensions between China and the United States, mainly due to the COVID-19 and the geopolitical issue in Hong Kong. Such conflict could again hinder the trade agreement between China and the United States for the benefit of Mexican exports.
3. Mexican external accounts show resilience in the face of the world economic crisis. The balance of payments for the first quarter of 2020 (IQ'20) resulted in a positive net result of US\$6.77. The financial account showed a surplus of US\$7.75 billion and the current account had a minimum deficit of US\$980 million.

Mexican Stock Exchange

Mexbol closed May 29th operations at 36,171 points, which implies a monthly decrease of (-)0.63% in pesos. Despite the above, the sharp appreciation of the peso allowed Mexbol to have a 7.50% monthly advance in dollars. The YTD loss stands at (-)16.49% in pesos and (-) 28.92% in dollars. Even though there was adverse news for investors, such as the recent agreement by the Ministry of Energy (SENER) that negatively affects investment in renewable energy, the index displayed a better performance than the rest of the year, in a strong correlation with what happened in the stock markets of the United States.

Important news of companies with high ponderation in the index was also released during the week:

1. Walmart de México paid MX\$8.08 billion to the Tax Administration System (SAT) for a review of the sale of VIPS restaurants to the Alsea group. The company reported that the payment would be recorded in its consolidated statement of income for the three months ending June 30th, 2020.
2. Businessman, Carlos Slim, paid in advance the taxes of the companies he owns, with the intention of offering his solidarity in the face of the crisis caused by COVID-19.

Banxico Quarterly Report

The Central Bank released its quarterly report (January-March 2020). Unlike other occasions, it forsees three scenarios for economic growth:

1. In the base case scenario, Banxico expects the recession to have a deep "V" shape, where the economy will collapse by 8.8%.
2. In the "positive" scenario, the national economy will contract (-) 4.6%, its worst decline since the 2009 world crisis.
3. In the negative scenario, Banxico foresees a pronounced "U" recession, in which GDP would fall 8.3% in 2020 and 0.5% in 2021.

Regarding inflation, the Central Bank identified two relevant effects. A decrease in energy prices that has led to a fall in inflation. On the other hand, the depreciation of the Mexican currency has caused an increase in some prices. In general, the effect they expect to prevail is that of the drop in energy prices. Regarding employment, Banxico estimates that this year at least 800,000 jobs will be lost, and in the worst case, the figure could rise to 1.4 million.

Economic Indicators

Gross Domestic Product

The National Institute of Statistics, Geography, and Informatics (INEGI) released the definitive figures for the Gross Domestic Product for the IQ'20. In real terms, GDP contracted at a (-)2.2% annual rate; by components, the behavior was as follows:

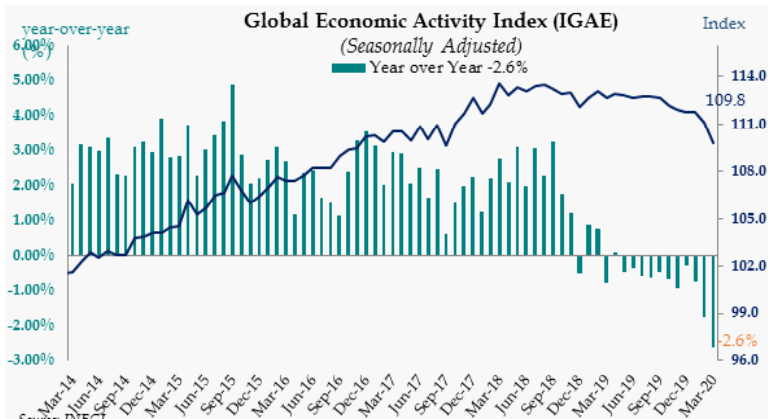
1. Primary activities (agriculture, fishing, and livestock) that represent 3.35% of GDP grew 1.1% at an annual rate.

2. Secondary activities (manufacturing, mining, construction, etc.), which totals 28.56% of the GDP, contracted (-)3.5% annually.
3. Tertiary activities (services), which weight 63.94% of total GDP, decreased (-)1.2%. The slowdown in tertiary activities denotes a worrying drop in domestic consumption. Noteworthy, same-stores sales (SSS) of the National Association of Self-Service and Department Stores (ANTAD) and car sales in April contracted (-) 22.9% and (-) 64.50%, respectively.

Global Indicator of Economic Activity

March's Global Indicator of Economic Activity displayed a (-)1.3% decrease compared to the previous month. By components, primary activities grew 11.1%, secondary activities decreased (-) 3.4%, and tertiary activities decreased (-) 1.3%.

Noteworthy that the social distancing measures took effect in the last week of March, so the most substantial adverse impacts on the economy will likely be observed at IIQ20.



Balance of Payments

The balance of payments in the first quarter of the year showed a US\$7.74 billion surplus in the financial account and a small US\$980 million deficit in the current account. The above allowed the accumulation of US\$6.42 billion in international reserves in the quarter, equivalent to a 3.55% increase.

By components, the tourism balance had a deficit of US\$800 million, while remittances had a significant growth compared to the same quarter of last year and totaled US\$9.1 billion. Noteworthy, in March, the arrival of remittances totaled US\$4.02 billion, a record high for one month. Moreover, interest paid regarding the external debt totaled US\$13 billion, and the trade balance displayed a US\$3.7 billion surplus.

Regarding the financial account, Foreign Direct Investment (FDI) totaled US\$10.3 billion in 1Q20, and Portfolio investment totaled US\$1.3 billion. Moreover, the investment of Mexicans abroad totaled an outflow of (-) US\$ 1.3 billion, and there was an outflow of other investments for (-) US \$ 2.6 billion.

Trade Balance

In April, Mexico's international trade was a US\$3.08 billion deficit, reducing the YTD surplus to US\$ 635 million. The figures already reflect the world's recessionary situation and specifically the Mexican and United States economies, since both imports and exports showed sharp falls of (-) 30.5% and (-) 40.9%, respectively.

In terms of exports, the drop was due to a decrease of (-)66.4% in oil exports, a - 39.4% decline of non-oil exports, and a drop in Manufacturing of (-)41.9% as automotive industry sales abroad decreased (-)79.1%.

Regarding imports, the reduction was caused by a decrease of (-) 30.5% in oil imports, and a drop of (-) 27.6% mainly because consumer goods and intermediate use goods were not purchased since their acquisition decreased (-)46.5% and (-)28.1%, respectively.

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Definitions

Alsea: Consumer Discretionary Company. As of March 31, 2020 the security represents 1.61% of Portfolio Net Assets. For a list of full securities please visit: http://www.mxefund.com/portfolio_holdings.html.

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.

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.

Global Indicator of Economic Activity (IGAE): Allows to know and monitor the monthly evolution of the real sector of the economy.

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.

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.

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 Association of Self-Service and Departmental Stores (ANTAD): Entity responsible of promoting the development of retail and its suppliers within the Mexican market.

The National Institute of Statistics and Geography (INEGI): 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.

SAT: Entity of the Ministry of Finance and Public Credit in charge of collecting the tax and customs resources that the law provides. They give taxpayers the necessary tools to fulfill their tax obligations.

SENER: The Energy Secretary is one of the state secretaries that make up the legal cabinet of the President of Mexico. It is the office of the federal executive power in charge of the administration and regulation of the country's energy resources.

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.

Same Store Sales (SSS): Are also referred to as comparable-store sales or identical-store sales, measures the sales of a company's existing stores that have operated for more than one year, excluding sales of new stores.

Walmart: Retail Company. As of April 30, 2020 the security represents 5.66% of Portfolio Net Assets. For a list of full securities please visit: http://www.mxefund.com/portfolio_holdings.html.

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.

Disclosures

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