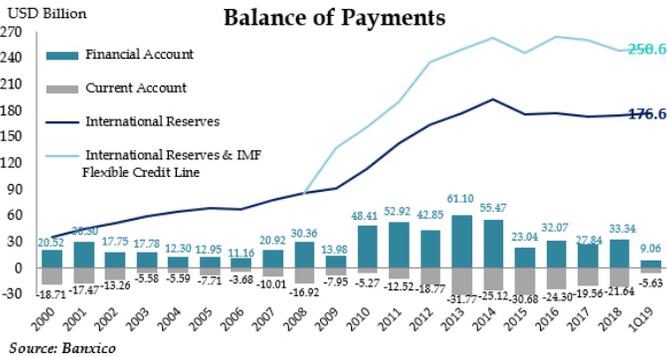


Step back in growth, solid external accounts, and trade tariff threat

During the 1Q19 Mexican economy stagnated due to the negative growth of industry and deceleration of the tertiary sector; nevertheless, the strength of Mexican external accounts should be noticed. As proof of the above, Banco de Mexico (Banxico) released the balance of payments for 1Q19 with positive figures. The current account deficit—which refers to trade in goods, services, and transfers—was (-) 5.6 billion dollars; an interesting reduction of 43% compared to the deficit observed in the same period of 2019. While the 1Q19 financial account surplus amounted \$9.06 billion dollars, this figure generates an excess of \$4 billion dollars in Mexico's benefit.



Source: Banxico

The total trade between Mexico and the United States (US) amounted \$154.6 billion dollars in the first quarter of the year. This amount represents 15% of the United States total international trade, hence Mexico became US first commercial partner this year.

Country	Exports	Imports	Total Trade	Balance
Mexico	65,528	89,075	154,603	-23,547
% of Total	15.7%	14.2%	14.8%	
Canada	75,091	75,327	150,418	-236
% of Total	17.9%	12.0%	14.4%	
China	27,213	118,825	146,038	-91,612
% of Total	6.5%	18.9%	13.9%	
Japan	18,556	36,649	55,205	-18,093
% of Total	4.4%	5.8%	5.3%	
Germany	15,531	32,756	48,287	-17,225
% of Total	3.7%	5.2%	4.6%	
United Kingdom	18,514	15,794	34,308	2,720
% of Total	4.4%	2.5%	3.3%	
Korea, South	13,832	20,391	34,223	-6,559
% of Total	3.3%	3.2%	3.3%	
France	9,820	14,972	24,792	-5,152
% of Total	2.3%	2.4%	2.4%	
India	9,368	15,207	24,575	-5,839
% of Total	2.2%	2.4%	2.3%	
Taiwan	7,686	13,601	21,287	-5,915
% of Total	1.8%	2.2%	2.0%	
Italy	5,884	14,361	20,245	-8,477
% of Total	1.4%	2.3%	1.9%	
Brazil	10,583	7,956	18,539	2,627
% of Total	2.5%	1.3%	1.8%	
Singapore	7,365	6,776	14,141	589
% of Total	1.8%	1.1%	1.4%	
Hong Kong	8,213	1,176	9,389	7,037
% of Total	2.0%	0.2%	0.9%	
Saudi Arabia	4,175	4,256	8,411	-61
% of Total	1.0%	0.7%	0.8%	
Other	121,026	161,737	282,763	-40,711
% of Total	28.9%	25.7%	27.0%	
2019 YTD	419,885	628,839	1,047,224	-210,454
2018	1,664,064	2,542,735	4,206,799	-878,671
2017	1,546,654	2,342,905	3,889,559	-796,251

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

Nevertheless, recent developments threaten the previously mentioned indicators and most of the positive economic outcomes that the Mexican economy has exhibited during this year. On May 30th, through an official statement, President Donald Trump announced that effective June 10th, 2019, a 5% tariff will be applied to all imported Mexican goods. The argument of the tariff imposition is a consequence of the invasion of hundreds of thousands of people that cross through the border and enter the country illegally so that national security is affected. In the figures of the US government, 79% of the illegal immigrants that are caught in the southwest border come from a Central American country.

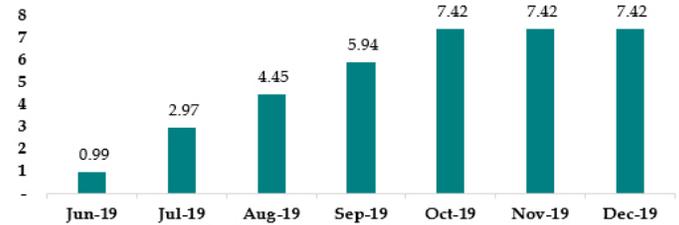
According to the US government statement, the tariff will be withdrawn if Mexico manages to diminish the crisis on illegal immigration effectively, otherwise import taxes will increase as follows:

- I. **June 10th, 2019.** United States will impose a 5% Tariff on all goods.
- II. **July 1st, 2019.** Tariffs will rise to 10%.
- III. **August 1st, 2019.** Tariffs will rise to 15%.
- IV. **September 1st, 2019.** Tariffs will rise to 20%.
- V. **October 1st, 2019.** Tariffs will rise to 25%.

So far, in response to the threat of general import tariffs, the Federal Government has suggested the following solutions: (i) a dual investment in Central America to foster its development and (ii) the beginning of negotiations between Mexican officials led by Marcelo Ebrard, Secretary of Foreign Affairs of Mexico.

Based on the amount of total trade between Mexico and the US in 1Q19 and considering a ceteris paribus condition the forecast for the yearly Mexican exports ascends to \$ 356 billion dollars. Bearing in mind this figure, the cost of the tariffs, considering the announced program and assuming it goes all the way down, will amount \$36.61 billion dollars in 2019.

Expected tariffs on Mexican Goods
Billion dollars



Source: US Census Bureau

As a result of the measures adopted by the United States regarding trade, on Friday, May 31st, the spot exchange rate closed at 19.62 pesos per dollar for a significant depreciation of (-) 2.43% in a single day. The above leaves the monthly depreciation at (-) 3.42% which eliminates year-to-date appreciation. Thus, the exchange rate surpasses the upper limit of the fluctuation band between 19.00 and 19.50 pesos per dollar observed this year.

The complex situation, the significant impact of tariffs and the possibility that these could gradually increase, lead to revising the expected exchange rate to a range between 19.50 to 20.00 pesos per dollar in the next weeks. This doesn't rule out the possibility of reaching parity of 20.62 pesos per dollar, which was the one observed on November 26th of 2018—after the New International Airport of Mexico City was canceled— depending on the government ability to manage this crisis.

Between April 30th and May 30th, the yield on the 10-year M bond fell from 8.10% to 7.94%. However, given the announcement of new protectionist measures in the United States, the rate of return of this instrument increased 10 basis points in one day, to settle at 8.04%. This leaves the spread against the 10-year treasury bill at 586 basis points; the highest since the end of January.

The possible imposition of tariffs to Mexico's foreign trade also had a strong impact on the Mexican Stock Exchange that brought its index to 42,749 points. This represents a decrease of (-) 1.38% in a single day. With this stock market adjustment, the decline in May was (-) 3.53%. This leaves the progress of the index in April without effect and leaves year-to-date returns at 3.85%.

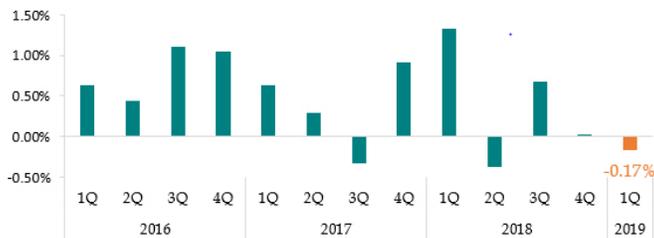
Economic Indicators

Gross Domestic Product

In May the fall of the Gross Domestic Product (GDP) in 1Q19, which was (-) 0.17% quarter-over-quarter, was confirmed. Within its components, positive results were achieved by agriculture as it grew 2.6%. While the services and industrial sectors fell (-) 0.6% and (-) 0.2% respectively. A contraction of GDP in the second quarter of the year would, by definition, imply a recession.

Step back in growth, solid external accounts, and trade tariff threat

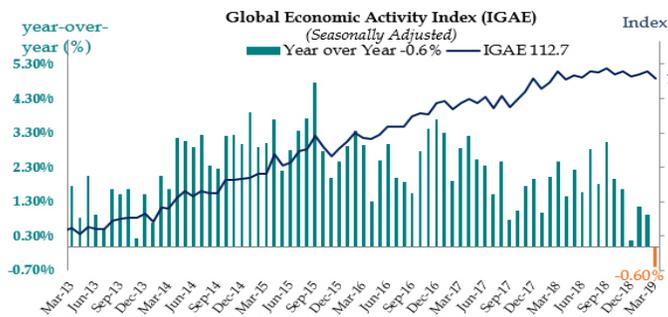
Gross Domestic Product
(Quarterly Variation %)



Source: INEGI

Global Indicator of Economic Activity

The Global Indicator of Economic Activity (IGAE) decreased (-) 0.60% per year in March; this is the first contraction of the indicator since 2009. The primary sector—agriculture—displayed a growth of 4.77% but the tertiary sector—services—grew 0.27% but at a slower pace. On the other hand, the industrial sector fell (-) 2.65% year-over-year, which represents its fifth consecutive fall since October of last year. In this context, April's IGAE, which will be announced on Monday, June 24th, will be relevant for estimating GDP growth in the second quarter of the year.



Source: INEGI

Banco de México

Banco de Mexico (Banxico) revised its forecasts for general inflation slightly upwards compared to its previous report: inflation estimates for 2019 went from 3.4% to 3.7%. Furthermore, Banxico adjusted core inflation expectations from 3.2% to 3.4%. In its quarterly report, the monetary authority pointed out that core inflation will probably meet the 3.0% punctual target until 2Q20.

Estimates on economic growth for 2019 were also reduced, but the 2020 forecasts were left unchanged. In December 2018 expected economic growth was within the range of 1.1% - 2.1%, but in this report, the range fell to 0.8% - 1.8%. The expected growth for 2020 remained unchanged at 1.7% - 2.7%.

Trade Balance

The trade balance had a surplus in April (1,370 million dollars) for the third consecutive month; which implies year to date (-) 446 million dollars deficit ;(-) 78% less compared to the first quarter of 2018. This is the lowest deficit for this period since 2012.

Trade Balance
(Billion dollars)

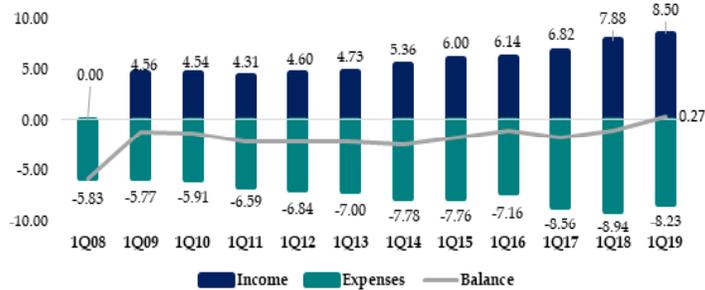


Source: Banxico

Services Balance

The services balance, which includes tourism, excursions, and transportation, improved substantially from a deficit of (-) 1.06 billion dollars in 2018 1Q to a surplus of 270 million dollars between January and March of this year. International tourism revenues in Mexico —of 8,501 million dollars between January and March— increased 7.8% year over year. A small growth rate compared to the one in 2017 and 2018 which were 11% and 16%, respectively.

Services Balance

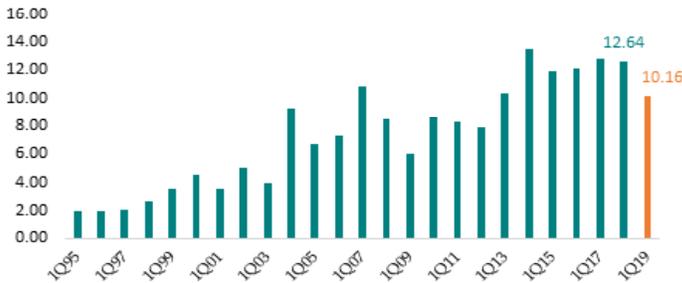


Source: Banxico

Financial Account

The financial account had a surplus of 9.06 billion dollars; 26% less compared to the first quarter of last year. Between these two periods, Foreign Direct Investment (of 10.16 billion dollars) and Portfolio Investments (of 5,277 million dollars) decreased by 20% and 5% respectively. On the other hand, the investment of Mexicans abroad (-1,854 million dollars) fell 14% compared to the first quarter of last year.

Foreign Direct Investment



Source: Banxico

Same Store Sales

In April, the Same Stores Sales (SSS) indicator of the National Association of Self-Service and Department Stores (ANTAD) —which does not consider Walmart sales— increased 4.4% annually; an important advance compared to last month when sales increased by only 0.6%. Thus, year-to-date sales amounted to MX \$ 401.2 billion pesos.

In the same vein, the SSS indicator of Walmart de México grew 6.1%, an improvement over the 4.7% reported in March. The above, due to a seasonal effect: this year the holiday period of Easter occurred in April and not in March, which distorts the indicator reported in both March and April.

Eugenia Pichardo & Arnulfo Rodríguez
Equity Portfolio Manager & Macro & Debt Strategist

Investor Relations: Igarcia@paminversion.com
Tel: (52) 55 5261 4600



Step back in growth, solid external accounts, and trade tariff threat

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

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

epichardo@paminversion.com

CEO Senior Equity Portfolio Manager

arodriguez@paminversion.com

Associate Macro Strategist

destevez@paminversion.com

Managing Director Co-Portfolio Manager

jelizalde@paminversion.com

Associate Co-Portfolio Manager

igarcia@paminversion.com

Associate Consumption Analyst & IR

lcalzada@paminversion.com

Compliance & Portfolio Administration

Definitions

Banco de Mexico (Banxico): Mexico Central Bank, lender authority and lender of last resort.

Basis point: One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001.

Gross Domestic Product: a monetary measure of the market value of all the final goods and services produced in a period of time, often annually.

MEXBOL : The S&P/BMV IPC Index measures the performance of the largest and most liquid stocks listed on the Bolsa Mexicana de Valores. The index is designed to provide a broad and representative index covering the Mexican equities market. It is not possible to invest directly in an index.

Treasury Bills: It is a government debt instrument issued by the United States Department of the Treasury to finance government spending as an alternative to taxation.

tariffs: a tax or duty to be paid on imports or exports.

Balance of Payments: the record of all economic transactions between the residents of a country and the rest of the world.

Trade Balance: the difference between the value of imports and exports.

Services Balance: the difference between incoming and outgoing tourism, excursions and transportation.

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.

Same Store Sales: total dollar amount of sales in stores that have been operating for a year or more.

Ceteris paribus: A Latin expression meaning other things remaining the same.

Spread: The yield spread shows the difference between the quoted rates of return between two different investment vehicles. These vehicles usually differ regarding credit quality.

Global Indicator of Economic Activity: The Global Indicator of Economic Activity allows to know and monitor the monthly evolution of the real sector of the economy..

INEGI - The National Institute of Statistics and Geography. It is the institution responsible for performing the population census every ten years; as well as the economic census every five years and the agricultural, livestock and forestry census of the country.

ANTAD: National Association of Self-Service and Departmental Stores.

Same-Store Sales: Same-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 May 31, 2019 the security represents 5.23% of Portfolio Net Assets.

For a list of full securities please visit: http://www.mxefund.com/portfolio_holdings.html.

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.

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