

Gross Domestic Product Revision Threats Equity Markets

Economic Indicators

Mexico's Gross Domestic Product

November was a complicated month for the Mexican market as Gross Domestic Product (GDP) adjustments exhibited that the Mexican economy experienced a technical recession in the first half of the year. However, the National Infrastructure Plan (NIP) and the continuous arrival of Foreign Direct Investment could help to trigger the private investment needed to reactivate the economy.

Mexican Stock Exchange

Even though investors expected a positive reaction of the index in November due to positive quarterly financial reports in October, Mexbol had a monthly decline of -2.39%, mainly due to the negative economic data released. Mexbol closed the month at 42,820 points, still within the 42,208 - 43,800 range in which the index has oscillated since May.

Exchange Rate

The spot exchange rate closed the month at MX\$19.53 per USD, a 1.52% monthly depreciation triggered by the non-ratification of the United States-Mexico-Canada Agreement (USMCA) before the 2020 presidential election period. Noteworthy, the exchange rate still is within the MX\$19.00 – MX\$19.50 per dollar range driven by the strength of Mexican external accounts (first US trade partner, remittances on historical records, and the trade balance surplus).

Interest Rates

The 10-year Treasury Bond of the United States closed November at 1.77% (+8.5 bps), due to fears that the commercial agreement between the United States and China might take longer than expected. The 10-year M Bond stood at 7.09% (+32.2 bps) at the end of the month, reflecting exchange rate upward pressures.

National Infrastructure Plan (NIP)

Mexico's government presented the 2020-2024 National Infrastructure Plan (NIP) on November 26th, which amounts to US\$44.15 billion, or 3.58% of the Gross Domestic Product (GDP) in the third quarter of 2019 (3Q19).

The NIP consists of 147 private investment projects that will be developed in three periods, as explained below:

1. In 2020, 72 projects worth US\$22.34 billion (more than 50% of the whole NIP or 2.80% of the 3Q19 GDP) will be developed. Most will be construction projects related to transportation (roads, railways, ports, and airports).
2. From 2021 to 2022, the government expects to develop 41 projects worth US\$13.25 billion (29% of the NIP); most of them also focused on transportation.
3. Finally, from 2023 to 2024, 34 projects worth US\$8.86 billion will be developed, of which 70% is transport infrastructure.

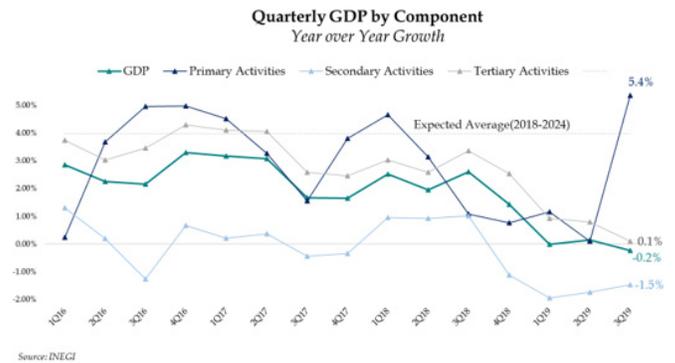
Pemex's third quarter 2019 Results

Pemex registered a net loss of US\$4.53 billion pesos that compares negatively with a US\$1.38 billion net gain recorded in 3Q18 mainly due to:

- i. A 20.2% revenue decrease (US\$4.57 billion) explained by lower prices of the Mexican crude oil mix coupled with a decline in the prices of gasoline and diesel. Besides, the volume of exports fell due to the drop-in production.
- ii. A foreign exchange loss of approximately MX \$ 35 billion caused by the depreciation of the peso against the US dollar.
- iii. A US\$1 billion loss in derivatives as a result of hiring exchange hedges not exercised due to the appreciation of the US dollar.

Gross Domestic Product

The National Institute of Statistics, Geography, and Informatics, INEGI, released the review of the Gross Domestic Product (GDP) data, which shows that the Mexican economy was in recession in the first two quarters of the year. In its annual comparison, GDP has had negative growth of -0.22%; the best performing sector performance was the primary activity, which increased 5.4%, followed by tertiary activities that grew 0.1%. Secondary activities had a contraction of -1.47%.



Foreign Direct Investment

Foreign Direct Investment (FDI) totaled US\$26.1 billion in the first nine months of the year, 7.8% higher than the same period of 2018, and representing the second-highest level of FDI arriving in the country since Banxico records this figure. Reinvestment of profits represented 55.22% of total FDI (US \$ 14.4 billion), while new investments accounted for 36.09%, and accounts between companies represented 8.6% of total FDI.



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Definitions

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

Gross Domestic Product (GDP): 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.

Primary Activities: Tends to make up a larger portion of the economy in developing countries than it does in developed countries.

Secondary Activities: The portion of an economy that includes light and heavy industrial manufacturers of finished goods and products from raw materials.

Tertiary Activities: consists of industries which provide a service, such as transport and finance.

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 November 30, 2019. For a list of full securities please visit: www.mxefund.com

(USMCA): United States-Mexico-Canada agreement.

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.

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.

Technical Recession: It is a macroeconomic term that refers to a significant decline in general economic activity. It is typically recognized after two consecutive quarters of economic decline, as reflected by GDP in conjunction with monthly indicators like employment.

Mexico's National Infrastructure Plan (NIP): Mexico has an outlined infrastructure development strategy that offers medium and long term visibility.

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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