

Will the rally continue in December?

The strong momentum seen in financial markets during November continued in the first week of December due to more positive news that generated optimism in the markets:

1. A group of bipartisan legislators in the United States revealed a new US\$980 billion fiscal stimulus package. Although this proposal has not yet been approved, it served as a trigger for the House Leader, Nancy Pelosi, and Senate Majority Leader, Mitch McConnell, to meet for the first time since the election. According to Pelosi's spokesperson statements, the new stimulus is expected to be approved before December 11th. Additionally, the fact that November's non-farm payroll reflected a creation of 245 thousand jobs, below the 440 thousand anticipated by the market, could accelerate the process.
2. The hope of the beginning of a massive vaccination in December now seems like a reality. The developments of the vaccines are:
 - a. The Pfizer and BioNTech vaccine have already been approved for use in the United Kingdom and is awaiting approval in the United States and Mexico for immediate mass application.
 - b. Moderna submitted emergency authorization requests for its COVID-19 vaccine in Europe and the United States on November 30th.
 - c. Vladimir Putin ordered to start the massive vaccination of Sputnik V on December 7th.
 - d. In Mexico, the government will publish the national vaccination plan on December 8th. According to Chancellor Marcelo Ebrard, if the use of the Pfizer and BioNTech vaccine is authorized, massive vaccination could begin as soon as this month.
3. In Mexico, S&P confirmed Mexico's sovereign debt investment grade at BBB, although it kept a negative outlook. The above implies that even if the negative outlook were to materialize and the sovereign debt rating fell one notch to BBB-, sovereign debt would still retain its investment grade. This decision, together with the one made by Fitch Ratings on November 11th, gives certainty to investors about the solvency of the Mexican government in the medium term.

All the previous news allowed the continuation of the stock market's rally with the following results:

1. Mexbol had a 4.75% weekly advance. Therefore, for the first time in more than nine months, the YTD return in pesos is positive (2.10%). Like US markets, Mexbol is immersed in an upward trend that began on November 2nd, allowing an 18.36% advance.
2. The previous results have been even better in dollars, given the strong appreciation of the peso. The weekly advance was 6.20%, and the YTD loss is only (-)2.51%. The rally that started on November 2nd has yielded gains of 27.57% in the US dollars.

Exchange Rate

The spot exchange rate closed on December 4th at MX\$ 19.76 per dollar for a 1.38% weekly appreciation reducing the Year-to-Date (YTD) depreciation to (-)4.41%. Noteworthy, the peso's most recent appreciation trend began on November 3rd, and since then, the improvement has been 6.36%. During the week, the excellent performance of the Mexican currency was driven by the following events:

1. Remittances totaled US\$3,554 in October, the second highest for a month since it has been registered. With this, the accumulated in the year amounts to a historical maximum of US\$33.56 billion and makes it very feasible that the US\$40 billion will be exceeded at the end of the year.
2. In October, Mexico was ranked as the second trade partner of the United States with a combined US\$435 billion trade volume and a surplus of US\$91.26 billion.
3. The recent ratification of the investment-grade of the sovereign debt by the rating agencies Fitch Ratings and S&P gives investors peace of mind about the Mexican government's solvency in the medium term.

Oil Hedges

According to different journalistic sources, the government of Mexico received US\$2.5 billion due to the oil hedges contracted for 2020. The government acquired the coverage at US\$49 per barrel, although the percentage of sales that was covered is unknown. Expert estimates range from 40% to 80% of sales.

The 2020 Income Law estimated that PEMEX's sales revenues would amount to MX\$574.53 billion. If the current exchange rate is considered (MX\$20.00 per USD), the hedges (MX\$50 billion) will represent 8.70% of the estimated sales income.

The last hedges that Mexico collected were:

1. US\$ 5.1 billion when prices plummeted in 2009 during the global financial crisis.
2. US\$6.4 billion in 2015 and US\$2.7 billion in 2016 after the price war that was started by Saudi Arabia.

Second Track of Infrastructure Plan

The government published the second track of the infrastructure program that it had announced on October 5th. The second stage will have 29 investment projects for a total of MX\$228.63 billion. Thus, the first and second phases total MX\$ 525 billion and 68 projects representing 2.3% of GDP.

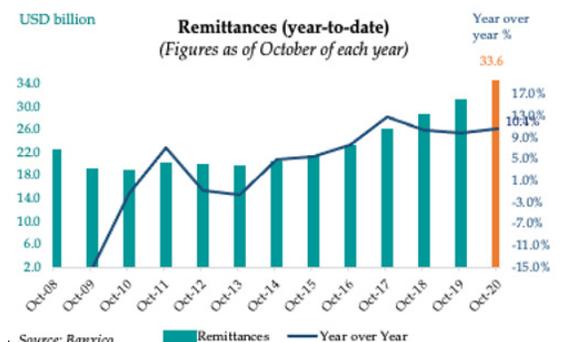
A significant number of the projects in this second section are associated with the General Felipe Angeles International Airport's connectivity. Besides, in the same way as the first section, the projects of the second section must have the following characteristics:

1. The private initiative's participation must be greater than 50% of the total investment of each project.
2. Projects must be for the energy, communications and transportation, tourism, water, sanitation, and environment sectors.

Economic Indicators

Remittances

Banxico announced that in October, remittances totaled US\$3.59 billion; therefore, the YTD totals US\$33.56 billion, a historical maximum and a Year-over-Year growth of 10.42%. According to our estimates, a total of US\$40 billions of remittances, almost US\$5 billion more than the data observed in 2019 (US \$ 36.4 billion), could arrive.



US International Trade

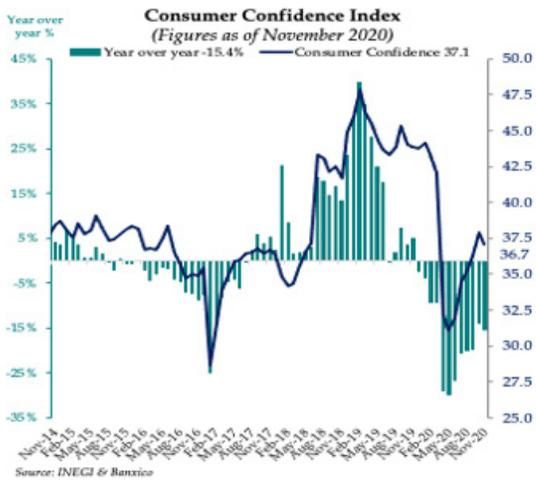
The Department of Commerce of the US released October's international trade figures. Mexico remains as its second trading partner with a US\$91.26 billion surplus, which is 8.85% higher than the same figure of 2019. Besides, the trade volume between the two countries was US\$435 billion, only US\$7 billion less than the volume of China and the United States. The data becomes relevant since the president-elect of the United States, Joe Biden declared that he would not review the partial agreement phase one between China and his country until the COVID-19 crisis has concludes. The preceding could lead to an advantage for Mexico for 2021.

United States International Trade (As of October 2020)									
Country	Exports	Imports	Total Trade	Balance	Country	Exports	Imports	Total Trade	Balance
China	97,494	345,414	442,908	-247,920	India	21,819	40,554	62,373	-18,735
% of Total	8.3%	18.2%	14.4%		% of Total	1.9%	2.1%	2.0%	
Mexico	172,245	263,507	435,752	-91,262	France	23,103	35,468	58,571	-12,365
% of Total	14.7%	13.9%	14.3%		% of Total	2.0%	1.9%	1.9%	
Canada	208,598	220,454	429,052	-11,856	Italy	16,636	39,595	56,231	-22,959
% of Total	17.8%	11.6%	14.0%		% of Total	1.4%	2.1%	1.8%	
Japan	53,380	96,466	149,846	-43,086	Singapore	22,536	25,450	47,986	-2,914
% of Total	4.6%	5.1%	4.9%		% of Total	1.9%	1.3%	1.6%	
Germany	47,725	94,189	141,914	-46,464	Brazil	28,601	18,615	47,216	9,986
% of Total	4.1%	5.0%	4.6%		% of Total	2.4%	1.0%	1.5%	
Korea, South	42,836	61,651	104,487	-18,815	Hong Kong	19,673	6,964	26,637	12,709
% of Total	3.7%	3.3%	3.4%		% of Total	1.7%	0.4%	0.9%	
United Kingdom	40,548	41,004	89,552	7,544	Saudi Arabia	9,557	8,169	17,726	1,388
% of Total	4.1%	2.2%	2.9%		% of Total	0.8%	0.4%	0.6%	
Taiwan	25,605	49,039	74,644	-23,434	All other countries	332,708	549,681	882,389	-216,973
% of Total	2.2%	2.6%	2.4%		% of Total	28.4%	29.0%	28.8%	
					TOTAL 2020 YTD	1,171,064	1,896,220	3,067,284	-725,156
					TOTAL 2019	1,445,486	2,496,400	4,143,886	-852,914
					TOTAL 2018	1,464,064	2,542,735	4,206,799	-878,671

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

Consumer Confidence

After five consecutive months with monthly growth, the Consumer Confidence Indicator (CCI) once again displayed a negative monthly growth rate (-2.54%). Therefore, the YoY fall increased to (-)15.38%. The ICC's contraction reacts to household fears about their current situation and their expectations for the next 12 months. The fear of households may be associated with the recent increase in COVID-19 cases.





MONTHLY ECONOMIC REPORT

November 30, 2020.

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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.

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.

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

Economic stimulus is action by the government to encourage private sector economic activity by engaging in targeted, expansionary monetary or fiscal policy. Fiscal stimulus measures are deficit spending and lowering taxes.

Gross domestic product (GDP): is a monetary measure of the market value of all the final goods and services produced in a specific time period.

Hedge is an investment that is made with the intention of reducing the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security. **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.

Petróleos Mexicanos: (PEMEX): 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.

International Trade is usually referred to the exchange of goods, and services across international borders or territories. In most countries, it represents a significant share of gross domestic product (GDP).

Nonfarm payrolls is the measure of the number of workers in the U.S. excluding farm workers and workers in a handful of other job classifications

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.

Investment grade: Descriptive term for ratings awarded by bond rating agencies to high quality corporate and government securities. Rating Agency's: Standard and Poor's ratings are expressed as letters ranging from 'AAA', which is the highest grade, to 'D', which is the lowest grade. Moody's ratings are expressed as letters and numbers ranging from 'Aaa', which is the highest grade, to 'C', which is the lowest grade. A Standard and Poor's rating of BBB or higher is considered investment grade. A Moody's rating of Baa3 or higher is considered investment grade. A Standard and Poor's rating below BBB is considered non investment grade. A Moody's rating below Baa3 is considered non investment grade. If an issue is rated by both agencies, the higher rating is used to determine the sector.

Remittances: 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.

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.

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.

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.

To read about The Mexico Equity and Income Fund, Inc, please access the Annual Report by calling (414) 765-4255 to receive a copy, or access the Annual Report on the Fund's website, "www.mxefund.com", under the section captioned investor reports. Investors should consider the Fund's investment objectives, risks, charges and expenses carefully before investing. An investment in the Fund should not constitute a complete investment program.

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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