

**Exchange rate and Mexbol React Negatively to New Risks**

The soaring number of coronavirus patients outside of China negatively affected the performance of financial markets during the week. The main highlights of the increased risk aversion are:

1. The VIX index, used as a risk measure in the stock markets, increased by 20.7%.
2. The yield to maturity (ytm) of the 10-year US Treasury Bond declined more than 11 basis points (bps).
3. The dollar index, which measures the value of the US dollar regarding a basket of currencies of most of its trading partners, soared 0.16%.

The Mexican peso, which had appreciated 5.26% since early December, ended the week with a 1.9% depreciation. This decline is mainly a result of the adverse reaction of investors to the coronavirus crisis, which is spreading to other countries, notably to South Korea. Although additionally, an announcement of the tax authority, which is aggressively targeting relevant companies listed in Mexbol, generated worries in the local market.

**Spot Exchange Rate**

The spot exchange rate closed at MX\$18.90 per dollar; however, it reached MX\$19.08 in intraday quotes. The 1.9% week over week depreciation (the worst week for the peso in 2020) reduced the year to date appreciation to a meager 0.15%. The negative performance of the peso in the exchange market was due to:

1. Fears of the expansion of the coronavirus within the Asian region that caused a run to "safe havens." The dollar increased against virtually all the currencies of emerging countries.
2. Downward revisions on growth expectations for Mexico and its potential pressure on public finances. The consensus of analysts reduced their GDP forecast for 2020 from 1.0% to 0.9%. The Board of Governors of the Bank of Mexico mentioned it could review the current growth range published in its July-September 2019 quarterly report (0.8% - 1.8%).

**Mexbol**

Mexbol closed at 44,666 points for a weekly loss of -2.18% in dollars; YTD returns decreased to +2.90%. The market was affected by an announcement of the Tax Administration Authorities (SAT), which required from four relevant companies listed in the index the payment of MX\$23.36 billion unpaid taxes. The composition is this requirement is as follows:

1. America Movil paid MX\$8.29 billion, although it was not a fine but a change in its taxation regime.
2. Walmart de Mexico is required to pay taxes and fines of MX\$10.5 billion for the selling of Vips restaurants to Alsea. This operation was finished in 2014.
3. Alsea was required to pay taxes and fines for MX\$3.8 billion derived from what the SAT described as a significant difference in the valuation of Vips made by the authority, compared to the estimation of the company.
4. Maxcom received a settlement notice claiming an MX\$631 million tax payment from 2015.

The last three companies rejected any wrongdoing and announced they will challenge the rulings. But news worried investors, as the signal is that the government will seek to compensate the fall in tax revenues due to economic stagnation, through aggressive tax collection.

Seven companies reported in the week. Six (Grupo Aeroportuario del Pacífico, Megacable, Televisa, Ienova, Grupo Cementos Chihuahua, and Bimbo) had results above those expected in terms of earnings per share (EPS), and only Grupo Carso reported EPS below expectations. Thus, as of February 21, 4Q19 financial reports are:

- i. Twenty companies (57.14%) have already released results. While 60% had sales below market expectations, 61.11% were able to report EPS above expectations.

**Economic Indicators**

**Foreign Direct Investment**

The Ministry of Economy released the Foreign Direct Investment (FDI) preliminary figures for 2019. US\$32.92 billion of FDI arrived in Mexico, which represents an annual growth of 4.2%, the second-highest data since recording. The structure of FDI was:

1. 53.1% corresponds to profits reinvestments, 39.0% to new investments, and 7.9% to trading accounts between companies.
2. US\$ 12.83 billion were new investments, so they are considered dollar inflow.
3. Most of the FDI (36.81%) arrived from the United States, followed by Spain (12.08%) and thirdly Canada (9.71%).
4. By sector, 47.2% of FDI was on manufacturing, 15.3% on financial and insurance services, 9.7% on commerce, 5.5% on mass media information, and the remaining 22.3% on other sectors.



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**Definitions**

**Alsea:** Consumer Discretionary Company. As of December 31, 2019 the security represents 0.97% of Portfolio Net Assets. For a list of full securities please visit: [http://www.mxefund.com/portfolio\\_holdings.html](http://www.mxefund.com/portfolio_holdings.html).

**América Móvil (AMXL):** Communication Services. As of January 31, 2020 the security represents 2.09% of Portfolio Net Assets. For a list of full securities please visit: [http://www.mxefund.com/portfolio\\_holdings.html](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.

**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.

**Bimbo:** Food Products Company. As of December 31, 2019 the security represents 2.5% of Portfolio Net Assets. For a list of full securities please visit: [http://www.mxefund.com/portfolio\\_holdings.html](http://www.mxefund.com/portfolio_holdings.html).

**Bloomberg:** Company that provides financial software tools and enterprise applications such as analytics and equity trading platform, data services, and news to financial companies and organizations.

**Chicago Board Options Exchange Market Volatility Index (CBOE VIX):** Is a real-time market index that represents the market's expectation of 30-day forward-looking volatility. Derived from the price inputs of the S&P 500 index options, it provides a measure of market risk and investors' sentiments.

**Coronavirus:** They are 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.

**Earnings per Share (EPS):** The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability.

**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.

**Grupo Aeroportuario del Pacífico (GAP):** Transportation Infrastructure Company. As of December 31, 2019 the security represents 2.06% of Portfolio Net Assets. For a list of full securities please visit: [http://www.mxefund.com/portfolio\\_holdings.html](http://www.mxefund.com/portfolio_holdings.html).

**Grupo Carso:** Industrial Conglomerates. As of January 31, 2020 the security represents 0.00% of Portfolio Net Assets. For a list of full securities please visit: [http://www.mxefund.com/portfolio\\_holdings.html](http://www.mxefund.com/portfolio_holdings.html).

**Grupo Cementos de Chihuahua (GCC):** Construction Materials Company. As of December 31, 2019 the security represents 1.65% of Portfolio Net Assets. For a list of full securities please visit: [http://www.mxefund.com/portfolio\\_holdings.html](http://www.mxefund.com/portfolio_holdings.html).

**Ienova:** Utilities Company. As of December 31, 2019 the security represents 2.55% of Portfolio Net Assets. For a list of full securities please visit: [http://www.mxefund.com/portfolio\\_holdings.html](http://www.mxefund.com/portfolio_holdings.html).

**Megacable:** Media Company. As of January 31, 2020 the security represents 0.00% of Portfolio Net Assets. For a list of full securities please visit: [http://www.mxefund.com/portfolio\\_holdings.html](http://www.mxefund.com/portfolio_holdings.html).

**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.

**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.

**Televisa:** Media Company. As of January 31, 2020 the security represents 0.00% of Portfolio Net Assets. For a list of full securities please visit: [http://www.mxefund.com/portfolio\\_holdings.html](http://www.mxefund.com/portfolio_holdings.html).

**The Tax Administration Service (SAT):** Is a decentralized body of the Ministry of Finance and Public Credit, which is responsible for applying tax and customs legislation, in order that natural and legal persons contribute proportionally and equitably to public spending.

**Treasury Bond (T-Bond):** Is a marketable, fixed-interest U.S. government debt securities with a maturity of more than 10 years. Treasury bonds make interest payments semiannually, and the income received is only taxed at the federal level.

**Walmart:** Retail Company. As of January 31, 2020 the security represents 1.42% of Portfolio Net Assets. For a list of full securities please visit: [http://www.mxefund.com/portfolio\\_holdings.html](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.

**Yield to maturity (YTM):** Is the total return anticipated on a bond if the bond is held until it matures. Yield to maturity is considered a long-term bond yield but it is expressed as an annual rate.

**4Q19:** Period that starts the fourth and last quarter of the year 2019 which ends on December 31.

**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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