

Good pace in equity markets

Equity markets focused their attention on geopolitical tensions caused by the military attacks between the United States and Iran. At the beginning of the week, stock markets declined; however, following President Trump's statements regarding the implementation of economic and not warlike sanctions, markets reversed the losses and were able to regain the positive momentum observed since December 2019. The Mexican market was practically flat. Besides, the Ministry of Finance and Public Credit announced the hiring of oil exchange hedges; consequently, public finances immediately depresso.

Mexican Stock Exchange

Mexican markets began the year with an uptrend mood following the global trend; however, it seems to have slowed down due to the lack of economic growth indicators coupled with the adjustment of global markets caused by geopolitical tensions. Mexbol closed the week with a slight Mexican peso gain of 0.09% and 0.65% in dollars, leaving the Year-to-date return at 2.58% in pesos and 3.08% in USD. Noteworthy, Walmart's share price, which weights 10.42% of the index, had a 3.28% weekly hike despite poor Same Store Sales (SSS) growth data in December (2.62%).

Spot Exchange Rate

The spot exchange rate closed the week at MX\$18.80 per 1USD, allowing the peso to resume the weekly appreciation streak observed since the first week of December 2019, which was interrupted after the US attack on Iran. Additionally, the Ministry of Finance and Public Credit (SHCP) announced the hiring of oil hedges in 2020 to guarantee the price of the Mexican oil barrel (US\$49 per barrel). Hence, the Mexican currency had a 0.49% weekly appreciation that leaves the year to date gain at 0.6%.

Ministry of Finance Financial Operations

The SHCP announced two significant events in the week; the placement of bonds in global stock markets accompanied by liabilities management, and oil hedges.

The bonds placed by the SHCP are worth US\$2.5 bn and its demand was 6.4 times higher than the supply.

- US\$1.5 billion allocated in a 3.31% 10Y Bond yield, which represents 147-bps spread against the 10Y T-Bill, and a coupon of 3.25% (historical minimum).
- US\$800 million in a 4.04% M Bond yield (vs. 4.55% at the opening) that expires in 2050, with a spread of 170 bps vs. T-Bond that expires in 2050 and a coupon of 4.5%.

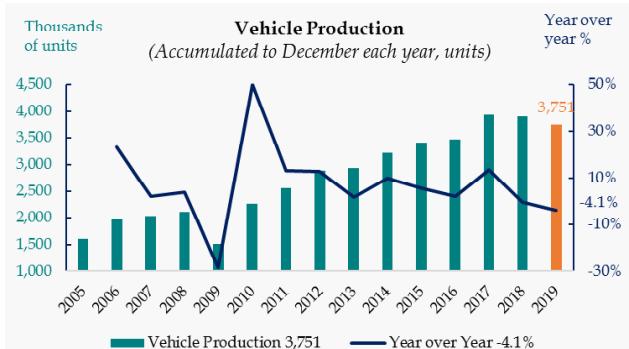
Besides, it handled liabilities for a total of US\$1.5 bn. through the exchange of M Bonds denominated in USD with maturities between 2022 and 2028 for the new 10-year Bond M or cash. Noteworthy, these operations satisfy 100% of the external debt repayments of 2020 and comprise 58% of the total external financing needs of 2020.

Lastly, the SHCP paid US\$1 bn. to hire oil hedges. The purpose of the hedges is to guarantee oil revenues despite possible reductions in the price of the Mexican crude barrel. The amount that the government paid for this year's coverage is 22.5% lower than in 2019. Consequently, the SHCP guaranteed the price of the Mexican crude barrel at US\$49 for the rest of 2020.

Economic Indicators

Light Vehicles Sales, Exports and Production

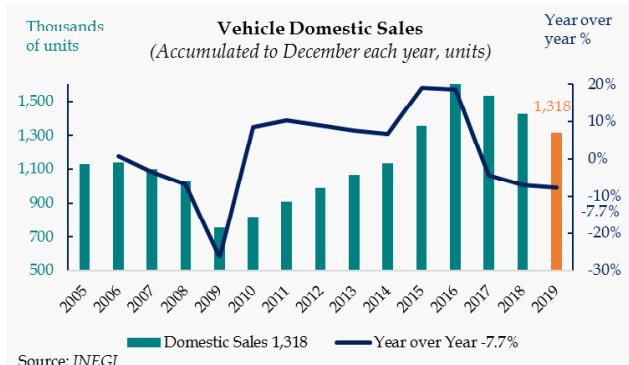
Unlike previous years, data on light vehicle production, sales, and exports closed the year with negative numbers. In December 2019, exports had the most significant decline with -16.7%, followed by production with -12.6% and sales with -8.3%; in an year to date comparison, the figures were -3.4%, -4.1%, and -7.7%, respectively. Except for vehicle exports, it is the second consecutive year with unsatisfactory results in the sector, which proves the cautiousness of Mexican consumers to acquire durable goods.



Source: INEGI



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Inflation

Annual inflation in December was 2.83%, the lowest figure for a year-end since 2015, and the second lower in 40 years. The downward trend was reinforced throughout the year by:

- A considerable drop in the annual inflation of prices of energetic products, which began 2019 at 6.26% and ended the year at 1.04%. Even, there were months with deflation.
- The significant fall in prices of agricultural products that started 2019 at 7.41% and ended with a -0.03% deflation.
- The stagnation of the economy, which makes it difficult for producers to increase the price of the goods they sell or their services.

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Definitions

Basis points (bps): Refers to a common unit of measure for interest rates and other percentages in finance.

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.

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.

Mexican Stock Exchange: The Mexican Stock Exchange headquartered in Mexico City, is the full service securities exchange of the country, dealing in cash equities, derivatives and fixed income products.

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.

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.

Treasury Bill (T-Bill): It is a government debt instrument issued by the United States Department of the Treasury to finance government spending as an alternative to taxation.

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 December 31, 2019 the security represents 8.88% of Portfolio Net Assets. For a list of full securities please visit: http://www.mxefund.com/portfolio_holdings.html.

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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