

**Increased caution in Equity Markets**

**Mexican Stock Exchange**

Mexbol closed at 45,892 points on January 15th, presenting a (-)1.78% weekly decline in MXN pesos (-0.32% in US dollars), which decreased to 4.17% the Year-to-Date ("YTD") return (5.26% in US dollars); The decline was in line with U.S. stock markets, and may be explained by:

1. The possibility of friction between the new government of the United States and the government of Mexico on various issues is growing, namely:
  - a. The Mexican government announced an initiative seeking to centralize autonomous organizations (COFECE, IFT, and the CNDH, among others). This proposal undermines these organizations' independence and technical approach and will generate distrust towards Mexico in the international financial circuits. It can also generate disagreements with the United States government. The above since the United States, Mexico, Canada Agreement (USMCA) protects organizations as the Federal Telecommunications Institute (IFT) within its clauses.
  - b. The new federal administration of the United States has a highly committed agenda regarding clean energy and sustainable development. This position contrasts drastically with the energy policy that Mexico has followed during the current federal administration, which prioritizes the use of highly polluting fossil fuels. Besides, there have been attempts by the Ministry of Energy (SENER), the National Energy Control Center (CENACE), and the Federal Electricity Commission (CFE) to stop the expansion of clean energy in the country.
  - c. There is a growing deterioration in trust and collaboration between the security agencies of both countries. The recent scandal of the arrest of the former Secretary of National Defense (General Salvador Cienfuegos) in the United States is a clear example. The general was arrested in the United States and later deported to Mexico; however, the Mexican Attorney General's Office has decided not to take him to trial, increasing the previously mentioned mistrust. In response to this decision on January 15, the spokeswoman for the United States Department of Justice, Nicole Navas, stated that "the United States reserves the right to restart the Cienfuegos trial if the Mexican government fails to prosecute it."
2. Investors are expected to be cautious on the Mexican market regarding the economic issues to be discussed in the next session of the Mexican Congress that begins on February 1, namely:
  - a. The proposal to centralize the autonomous institutions by the federal administration.
  - b. The modifications to Banxico's Law, which demands this institution to buy the U.S. dollars cash excedents that commercial banks have. This reform affects the autonomy of Banxico and seems to favor money laundering operations in the Mexican financial market; the Senate has already approved this reform, and it is pending the approval of the Chamber of Deputies. Moody's explicitly warned that if the changes affect the central bank's autonomy, it will downgrade Mexico's credit rating. If the Fitch Rating agency takes a similar measure, Mexico will lose its investment grade.
  - c. The reform to the Federal Labor Law that seeks to modify outsourcing could have severe effects on the Mexican companies' competitiveness within the USMCA framework and negatively impact the labor market, which in 2020 lost 649 thousand jobs formal.

**Exchange rate**

The The spot exchange rate closed January 15th operations at MX\$19.81 per USD for a 1.0% weekly appreciation and a 0.50% YTD advance. The uncertainty generated by the various factors described in the previous section hinders a greater appreciation of the peso despite the excellent performance shown by the external accounts (remittances US\$36.9 billion until November, trade surplus with the United States of US\$102.53 billion and US\$28.21 billion trade surplus with the world). totaled US\$36.94 billion, a historical maximum and more than in all

**Banxico's monetary policy decision**

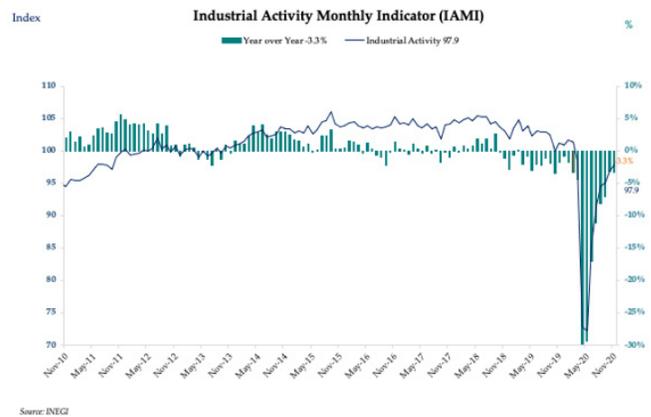
On February 11th, Banxico will take its first monetary policy decision of 2021. This meeting will be the first in which the new Deputy Governor Galia Borja will participate. The governing board is composed of five members, of which the current federal administration nominated three of them (Borja, Esquivel, and Heath).

Annual inflation in 2020 closed at 3.15%, above Banxico's 3.0% target, and annual core inflation, which is the most important for monetary policy decision-making, stood at 3.80%. The market expects Banxico's benchmark rate to be 4.25% for the entire year. However, according to the monetary policy meeting minutes on December 17th, both Gerardo Esquivel and Jonathan Heath voted to lower the rate by a quarter of a percentage point to 4.00%. Now that the Governing Board members proposed by the current government are the majority, the possibility of a greater consensus towards a more accommodative monetary policy arises.

**Economic Indicators**

**Industrial Activity**

Industrial activity had a monthly growth (1.06%) in November, and for the sixth consecutive month, leading to a practically "V" recovery in this sector. The index's value stands at 97.9 points, similar to that registered in March 2020 (98.5 points). By components, mining had a 0.1% monthly increase, however a (-)2.5% decrease at an annual rate. Construction grew 2.2% in the month but shows a (-)8.0% fall in the year. The manufacturing industry did not have monthly changes, and at an annual rate, its contraction amounted to (-)1.2%. The generation and distribution of electricity, water, and gas decreased (-)2.3% at a monthly rate and (-)7.0% at an annual rate.

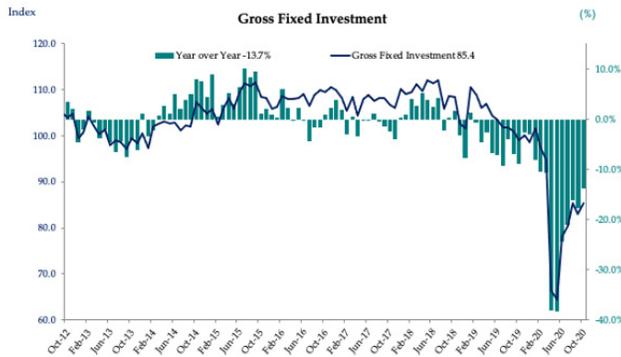


**Gross Fixed Investment**

The Gross Fixed Investment Index (IIFB) had a 2.8% monthly increase in October and a (-)13.7% YoY fall. The positive monthly data only allowed the index to recover from the fall that it displayed in September. By components, the results were:

1. Investment in construction increased 4.7% monthly, but it exhibits a (-)12.4% contraction at an annual rate.
2. The machinery and equipment investment had practically no monthly changes and dropped (-)14.9% at an annual rate.

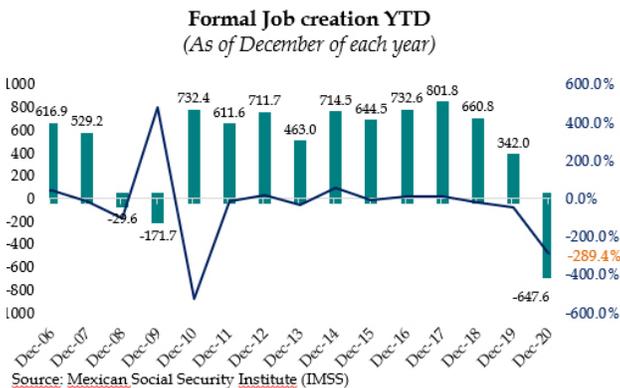
This is one of the indicators that shows the least recovery after the COVID-19 crisis. Furthermore, the slow recovery is concerning given that it was also one of the worst-performing indicators before the COVID-19 crisis.



Source: INEGI

**Formal Employment**

The Mexican Institute of Social Security (IMSS) announced that the Mexican economy lost 647 thousand formal jobs in 2020. The vast majority of the jobs that disappeared (86.5%) were permanent. The above is worrying since the majority of jobs that are lost are usually temporary. The preceding could be a consequence of the uncertainty around outsourcing and the minimum wage that has risen 39.45% since the current federal administration began. This is the largest drop in employment since the 1995 crisis.



Source: Mexican Social Security Institute (IMSS)

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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.

**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.

**COFECE** The Comisión Federal de Competencia Económica.- Commission guarantees competition amongst economic agents and prevents monopolies, monopolistic practices, concentration and other restrictions to the efficient functioning of markets.

**IFETE,** The Federal Telecommunications Institute (Instituto Federal de Telecomunicaciones) is an independent government agency of Mexico charged with the regulation of telecommunications and broadcasting services. It was formed on September 10, 2013, as part of larger reforms to Mexican telecom regulations.

**CNDH** "The National Human Rights Commission" (Comisión Nacional de los Derechos Humanos; CNDH) is the Mexican National Human Rights Institution (NHR) accredited at the United Nations with "A" status by the International Co-ordinating Committee of NHRs.

**External Accounts:** Summarize all interactions of the domestic economy with the rest of the world and can provide insights on the economic strength of a country and the risks that it faces.

**United States-Mexico-Canada Agreement (USMCA):** Is a signed but not ratified free trade agreement between Canada, Mexico, and the United States.

**SENER:** The Energy Secretary is one of the state secretaries that make up the legal cabinet of the President of Mexico. It is the office of the federal executive power in charge of the administration and regulation of the country's energy resources.

**CENACE** ("Centro Nacional de Energía"), Mexican National Center for control of energy.

**Federal Electricity Commission (CFE):** Is a productive company of the Mexican State in charge of controlling, generating, transmitting and commercializing electrical energy throughout the country.

**Fitch Ratings:** A leading provider of credit ratings, commentary and research. Offers global perspectives shaped by strong local market experience and credit market expertise.

**Moody's Credit Ratings:** System of rating securities originated by John Moody in 1909 to provide investors with a simple system of gradation by which future relative creditworthiness of securities may be gauged.

**Gross Fixed Investment Indicator (IIFB):** Describes the net capital accumulation during an accounting period for a country. The term refers to additions of capital stock, such as equipment, tools, transportation assets and electricity.

**The Mexican Institute of Social Security (IMSS):** Is a governmental organization that assists public health, pensions and social security in Mexico operating under the Secretariat of Health.

**The National Institute of Statistics and Geography (INEGI):** Is a public body with technical and managerial autonomy, its own legal personality and assets,

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