

Presidents' Lopez Obrador visit to Washington has no effect on financial markets

Mexican Stock Exchange

Mexbol did not reflect the visit that President Andrés Manuel López made to Washington to meet with President Trump to mark the beginning of the new trade deal between the United States, Mexico, and Canada. (USMCA). At the meeting, the Mexican President thanked the American President for "the good treatment that the US president has had with Mexicans and his government."

Influential business leaders from both Mexico and the United States attended the event's gala dinner, including Tim Cook, Jeff Martin, and Mike Manley, CEOs of leading companies in the United States. As a positive sign after the frictions that have occurred in the energy sector (disagreement between the CFE and Sempra over the Guaymas gas pipeline in August 2019) and perhaps as a sign that these could fade, Jeff Martin announced a possible increase in Sempra's investment in Mexico of up to US\$1.3 billion.

None of the above had a positive influence on Mexbol as, on July 10th, the Index closed at 36,465 points, a (-)4.39% weekly decrease, leaving the above, the year-to-date (YTD) return at (-)29.37%. The factors that caused the Index to drop were:

1. The release of economic data confirming the severity of the drop in GDP due to the COVID-19 containment measures. In May, industrial activity contracted by (-)29.7% year over year (YoY) after the (-)29.7% fall in April, the month in which gross fixed investment fell (-)37.1%.
2. All states in Mexico are cataloged either with red or orange risk at the reopening "traffic light." Therefore, the opening of productive activities cannot occur in many states and only very partially in others. Besides, the Ministry of Health reported a total of 7,280 new cases of infection on July 9th, which implies a new maximum for one day. With 282,283 accumulated cases and 33,526 deaths, the epidemic is far from relaxing.

Exchange Rate

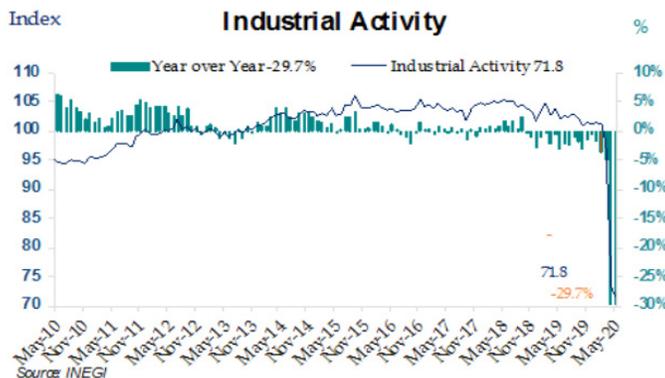
The spot exchange rate closed July 10th operations at MX \$ 22.44 per dollar, a weekly 0.26%-peso depreciation, which leaves the YTD decline at 18.55%. The deterioration of the Mexican currency materializes in an environment of global uncertainty due to the rebound of COVID-19 in countries that claimed to have the situation under control and increases in the first wave of infections in others.

Despite the apparent diplomatic success of the visit and the announcement of the possible arrival of new foreign direct investment (FDI) at the gala dinner, the exchange rate had no response to it. The latter could be due to a precautionary attitude until we see if the result of this visit will reflect a real change in the Mexican government's public policies regarding FDI.

Economic Indicators

Industrial Activity

According to the Institute of Statistics, Geography, and Informatics (INEGI) in May, the Monthly Indicator of Industrial Activity (IMAI) registered a (-)29.7% drop. By composition, construction decreased (-)35.9%, manufacturing industries (-)35.6%, generation, transmission and distribution of electric energy, water, and gas supply by pipelines to the final consumer (-)12.9% and mining (-)5.8%. The data is disturbing because, in other economies, the recovery after the critical months of containment measures of the COVID-19 was evident. In Mexico, there was even a new drop at the monthly rate (-1.8% vs. April).

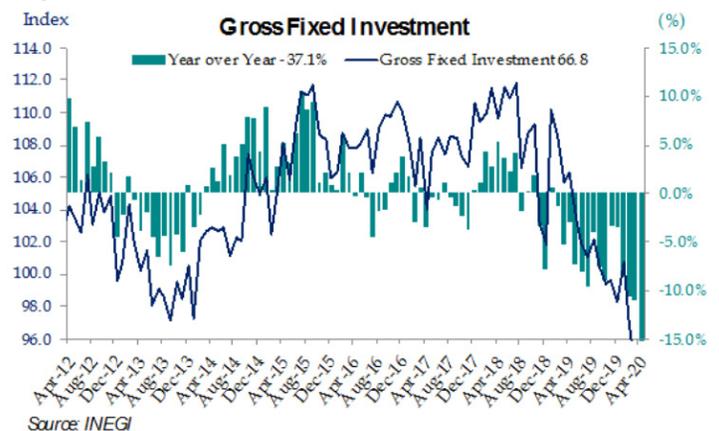


Private Consumption

The Monthly Indicator of Private Consumption in the Internal Market (IMCPMI) registered a (-)22.3% annual fall in April. Within its components, expenses on imported goods decreased (-)30.6% and on national products and services (-)21.2%. This indicator sums to the drop in ANTAD's same-store sales (SSS) in May (-19.6%) and the 29% drop in consumer confidence in May, which shows an evident deterioration in national private consumption.

Gross Fixed Investment

The Gross Fixed Investment Indicator (IIFB) accumulates fifteen consecutive months with negative annual growth rates, but in April, COVID-19 worsened the situation. In that month, the IIFB had an annual decline of (-)37.1%; by components, both the investment in construction and machinery and equipment decreased at annual rates of (-)36.3% and (-)38.0%, respectively. The IIFB may have suffered its most considerable negative impact in April as it was the first month since the official containment measures of COVID-19 began.



Production, Sales and Export of Automobiles

The twenty-one companies affiliated with the Mexican Association of the Automotive Industry, A.C. (AMIA), and Mitsubishi Motors S.A. published their administrative records of June automobiles sales, production, and exports with the following results:

1. Sales contracted (-) 41.14% YoY.
2. Vehicle production fell at an annual rate of (-)29.5%.
3. Exports decreased (-)38.79% YoY.

Noteworthy, the only companies that reported increases in their sales were the German Company BMW and the Japanese Company Mazda since the rest of the companies showed deterioration in these indicators.

Inflation

INEGI announced that the National Consumer Price Index (INPC) registered a 3.33% annual inflation in June. The underlying price index increased by 3.71% annually, while the non-underlying price index rose and 2.16% annually. The rise in the INPC was because the prices of products such as low-octane gasoline, chicken, or domestic natural gas, which have a high incidence on the indicator, expanded by 8.92%, 8.28%, and 3.24% respectively.

Formal Wages

Even though the Mexican Social Security Institute (IMSS) announced that more than 500,000 formal jobs were lost in the year, the wage contract negotiations in June showed a 4.70% nominal increase; If June inflation (3.33%) is discounted, the real increase in wages was 1.37%. Therefore, twenty consecutive months are accumulated with salary increases in real terms, which suggest the alignment of the Mexican labor market with the provisions of the labor chapter of the USMCA.

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Definitions

BMW: Automotive Sector. As of June 30, 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.

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 Price Index (INPC): Is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

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.

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.

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.

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.

Mazda: Automotive Sector. As of June 30, 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.

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 Association of the Automotive Industry (AMIA): Is a civil association formed by the will of the vehicle manufacturing companies established in Mexico, with the purpose of having an exclusive representation for this industrial sector.

Mitsubishi Motors: Automotive Sector. As of June 30, 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.

Monthly Indicator of Private Consumption in the Internal Market (IMCPMI): Measures the evolution of household spending on consumer goods and services, both national and imported, thereby allowing monthly monitoring of the most significant component of the product, on the demand side.

Monthly Industrial Activity Indicator (IMAI): Indicator to follow up on the evolution of the industrial sector, on the short term, providing valuable information for decision making.

National Association of Self-Service and Departmental Stores (ANTAD): Entity responsible of promoting the development of retail and its suppliers within the Mexican market.

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.

Sempra: Utilities Sector. As of June 30, 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.

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 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, responsible for regulating and coordinating the National System of Statistical and Geographic Information.

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.

Year over Year (YoY): Indicates the change from the comparable amount reported in the same period one year earlier.

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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