

**WEEKLY ECONOMIC REPORT**

**JULY 24, 2020.**

**Good 2Q earnings reports, geopolitical tensions, and weak economic data**

During the week, decisions taken by China and the United States increased the geopolitical tensions, such as:

1. On July 22<sup>nd</sup>, the U.S. government ordered the closure of the Chinese consulate in Houston to protect the intellectual property of the American people.
2. On July 23<sup>rd</sup>, U.S. Secretary of State, Michael Pompeo, affirmed that "ensuring our liberties of the Chinese Communist Party is the mission of our times." Furthermore, President Donald Trump stated that the trade agreement between the two countries increasingly means "much less to me," citing China's role in the coronavirus spread.
3. On July 24<sup>th</sup>, in retaliation, the Chinese government ordered the United States Consulate's closure in Chengdu. The reason was apparent, retribution for the American decision.

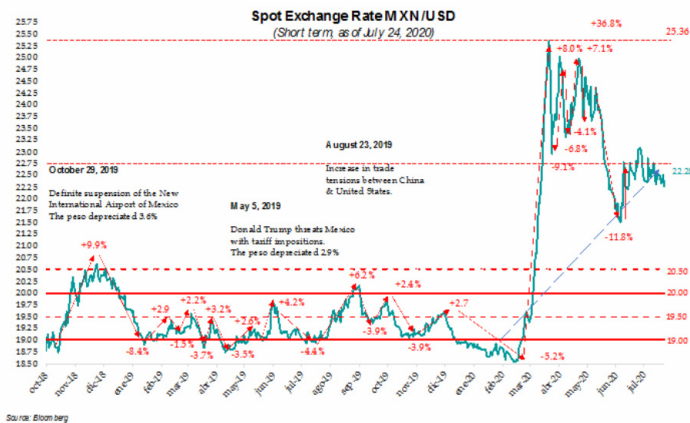
**Mexican Stock Exchange**

At the close of business of July 24<sup>th</sup>, the Mexbol closed at 37,357 points, a 3.50% weekly gain, and a (-)26.90% year-to-date (YTD) loss in dollar terms. The Mexbol Index outperformed its US peers due to better than expected 2Q20 financial reports. Out of the 35 companies listed in the index, 24 (68.57%) have already reported:

1. In terms of sales, 13 of the 24 companies (54.16%) reported better results than market expectations.
2. In terms of Earnings per Share (EPS), 12 of the 24 companies that have reported (50.0%), exceeded market expectations.

**Exchange Rate**

The spot exchange rate closed July 24<sup>th</sup> at MX\$22.28 per dollar, a 1.18% weekly appreciation, leaving the YTD depreciation at 17.70%. The trade balance, published on July 27<sup>th</sup>, had a US\$5.54 billion surplus, which could strengthen the appreciation of the Mexican Peso soon. Moreover, a weaker dollar drove the exchange rate movement due to the aforementioned geopolitical issues. Specifically, the dollar index, which measures US currency's relative value against a basket of currencies (British pound, Japanese yen, Swedish krona, Swiss franc, euro, and the Canadian dollar), had a sharp weekly drop of 1.56%.



**Reform to the Pensions System**

On July 22<sup>nd</sup>, the Federal Government presented an initiative to reform the Mexican pension system. The proposal aims to improve the 1997 reform and has two main objectives:

1. That the monthly pension of the retiree is close to its last monthly payment.
2. Provide long-term sustainability to the Retirement Savings System (SAR).

According to the CONSAR, there are 66 million active accounts, that is, workers in the formal sector enrolled in an AFOR within the SAR. The total system has MX \$4.2 billion, equivalent to 15% of the Mexican financial system's total assets. Considering these figures, the simple average of the resources that would correspond to each worker enrolled in the system is just MX \$63,600.

The government's initiative proposes:

1. An increase in the global replacement rate from 27% to 37.8%. The rate is defined as the percentage of income that the worker receives, compared to what they received immediately before retirement. According to the OECD, the average global

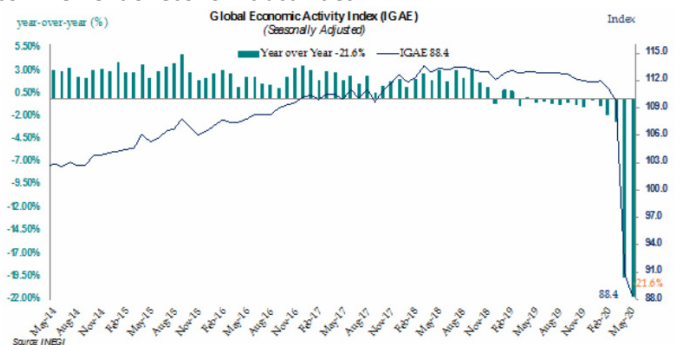
replacement rate in the world is 62.5%, so even if the reform is successful, it would remain low according to international standards.

2. The government's contributions will be focused on the pensions of lower-income workers.
3. The employer's contribution will gradually increase from 5.15% to 13.87% over eight years, and it will continue to be deductible.
4. The AFOR's commissions will be reduced little by little so that the costs adhere to international standards. Currently, AFORs in Mexico charges a 0.98% average commission, and the objective is to decrease it to 0.70%.
5. A reduction from 25 to 15 years of the necessary time to retire to support some workers who currently would not be able to have a guaranteed pension. The number of years of contribution will gradually increase.

**Economic Indicators**

**Global Indicators of Economic Activity**

According to The National Institute of Statistics, Geography, and Informatics, INEGI, the Global Indicator of Economic Activity (IGAE) fell (-)21.6% year over year (YoY) in May. The primary activities grew 2.5% while the secondary and tertiary activities decreased (-) 29.7% and (-) 19.1%, respectively. The data shows the Mexican economy's behavior during the second month of the confinement of economic activities.



**Consumer Confidence**

INEGI announced that consumer confidence in June registered a (-)26.77% YoY decline. All the survey components displayed higher than 20% annual falls, but the contraction of the indicator that shows the possibilities of purchasing durable goods stands out. Specifically, this indicator had a (-)89.0% YoY decline, and has the lowest level among all the others, since it amounted to 12.8. To contextualize, data above 50 indicates that the consumer feels positive about it.

**Biweekly Inflation**

The National Consumer Price Index (INPC) presented a 3.59% annual inflation during the first fifteen days of July. The underlying price index increased by 3.84% annually, and the non-underlying price index rose to 2.79%. Noteworthy that inflation is currently on an upward trend as it has shown increases in the last three similar periods. The rise is because prices of products such as low-octane gasoline, chicken, and domestic natural gas, which have a high weight within the index, continue to rise, increasing by 3.03%, 1.57%, and 1.21%, respectively.

**Commercial Companies Survey**

INEGI released the results of May's Survey of Commercial Companies (EEC). Wholesale trade data indicates that real income from the supply of goods and services decreased (-)23.8%, active personnel declined (-)4.7%, and real average wages paid did so by (-)3.9%. Retail trade data showed that real income decreased (-)23.4% and total employed personnel (-)8.4%, while real average wages increased by 0.2%. The figures show a deterioration in the country's consumption sector in wholesale and retail sales, in addition to the drop in consumer confidence and the weak data on ANTAD's same-store sales (SSS), which in June fell (-)17.9%.

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**Definitions**

**Afore:** It is a private financial institution that is in charge of managing the retirement funds of workers affiliated to the IMSS and ISSSTE.

**CONSAR:** The National Commission of the Retirement Savings System is a decentralized administrative body of the Ministry of Finance and Public Credit whose fundamental task is to regulate the Retirement Savings System.

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

**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.

**Global Indicator of Economic Activity (IGAE):** Allows to know and monitor the monthly evolution of the real sector of the economy.

**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.

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

**National Consumer Price Index (INPC):** It is an economic indicator whose purpose is to measure, over time, the variation in the prices of a basket of goods and services representative of the consumption of households in the country.

**Retirement Savings System (SAR):** It is an additional remuneration or complementary benefit of the Mexican pension system established in the Social Security Law. It is a savings fund that workers have, which does not influence the payment of their wages.

**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.

**Survey of Commercial Companies (EEC):** It is a project to generate basic statistics, which meets the objective of providing relevant indicators on the behavior of Mexico's internal trade.

**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.

**The Organization for Economic Cooperation and Development (OECD):** Is an intergovernmental economic organization with 36 member countries, founded in 1961 to stimulate economic progress and world trade.

**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**

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](http://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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