

**MONTHLY ECONOMIC REPORT**

**November 30, 2020.**

**Excellent November within financial markets**

**Economic Indicators**

In November 2020, the financial markets were favored by a set of good news that determined an excellent advance in all of them. The results can be summarized as follows:

1. Mexbol had a 13.53% monthly advance, so the YTD losses reduced to only (-)2.28%. Noteworthy that, as of March 23, at the worst moment of the COVID-19 crisis for Mexico, the Year-To-Date (YTD) loss was (-)24.22%. In dollars, the advance in November totaled 19.77%, for a (-)8.47% YTD decline. On March 23rd, the YTD fall in dollars totaled (-)42.91%.
2. The Mexican peso had a 5.33% monthly appreciation; therefore, the YTD decline reduced to (-) 5.90%. At the worst moment of the year (March), the peso's accumulated depreciation reached around (-)36.0%.

Among the set of news that conditioned the market's extraordinary performance in November and set the tone for a good closing of the year and a positive start in 2021, the following stand out:

1. Elections in the United States were carried out calmly and peacefully. Joe Biden beat his rival Donald Trump, and the Democrats obtained the majority in the House of Representatives. Besides, President Trump has already instructed the General Services Administration (GSA) to cooperate with the Biden team for an orderly transition. Georgia's extraordinary election, which will occur on January 5th, will define the Senate.
2. At the beginning of the transition process, Joe Biden appointed Janet Yellen as the future Secretary of the Treasury of the United States. Mrs. Yellen served from 2014 to 2018 as president of the Federal Reserve and continued the monetary policy decisions of her predecessor Ben Bernanke, which fueled the longest bull market in history. As a result of the above, the markets received Yellen's designation with enthusiasm.
3. A series of laboratories, among which Pfizer/BioNTech and Moderna stand out, released positive results regarding the last phase of experimentation with their vaccines. Additionally, both laboratories began the emergency authorization process with the Food and Drug Administration (FDA). Estimates expect that the start of the mass vaccination process in the United States and other countries could begin as soon as the end of December of this year.
4. On November 11th, Fitch Ratings ratified the Mexican sovereign debt's credit rating in the last step of the investment-grade (BBB-), but with a stable outlook. Because Moody's and S&P award Mexico a higher rating within the investment grade, Fitch's decision gives certainty about the strength of Mexico's sovereign debt for the beginning of 2021. The above allowed a 102 bps reduction in the spread between the rate of Mexican 10-year dollar-denominated bonds and the United States Treasury bonds from September to November; Besides, Mexico's 5-year Credit Default Swaps (CDS) had an 80 bps decrease in the same period, thus standing at 95 bps.

**Banxico's Quarterly Report**

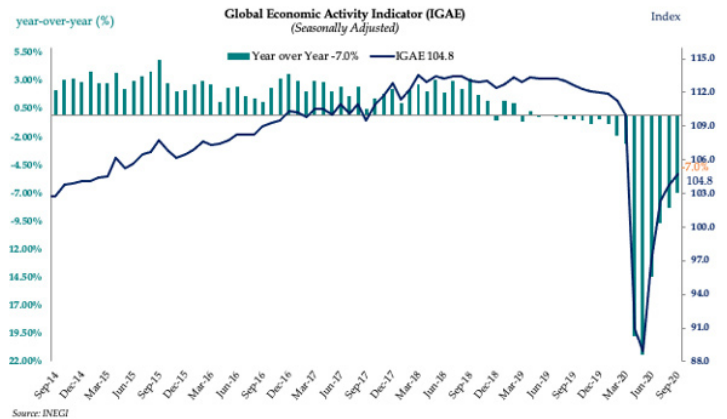
The Bank of Mexico (Banxico) released its 3Q20 report). Some of the most important topics mentioned in it were:

1. Banxico recognizes that there has been a remarkable economic recovery in Mexico due to the improvement in the United States' economy. Regarding the outlook of the economy, the central bank affirms that it will depend on a new stimulus package in the US and the control of the pandemic in our country. Unlike the previous quarterly reports, Banxico now forecasts a central growth scenario and not three. This estimate contemplates that in 2020 there will be a (-)8.9% contraction of the GDP and that the recovery in 2021 will be 3.3%, in both cases, a more positive outlook.
2. Regarding inflation, the central bank continues estimating that the increase in the yearly inflation will be transitory and that in the 12 to 24 month forecast horizon, it will stand around 3.0%. Therefore, they estimate that in 2020 inflation will close at 3.6% while for 2021 it will be at 3.1%.

**IGAE**

September's Global Indicator of Economic Activity (IGAE) displayed a 1.0% monthly growth and a (-)7.0% YoY decline. The data is favorable considering that at the lowest point of the recession (May) the IGAE had a (-)21.42% YoY drop. By economic activities, the results were as follows:

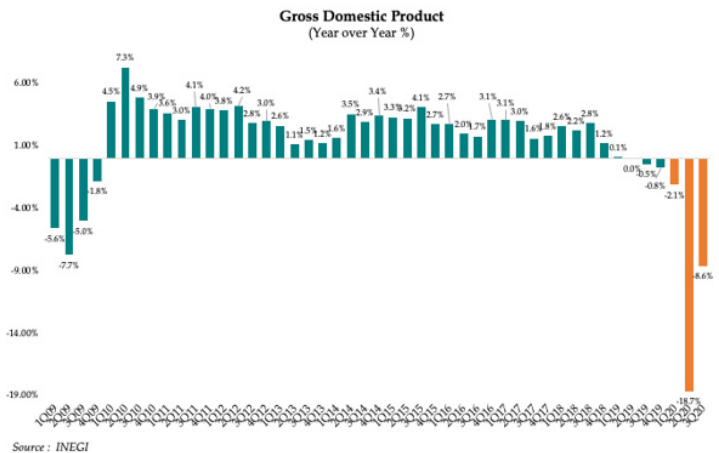
1. Primary activities (agriculture, livestock, fishing, and forestry), representing 3.16% of the GDP, had a 1.1% MoM growth.
2. Secondary activities (mining, construction, and manufacturing), totaling 29.13% of the GDP, had no variation regarding August.
3. Tertiary activities (commerce, services, and consumption), representing 63.46% of the GDP, increased by 1.8% compared to August.



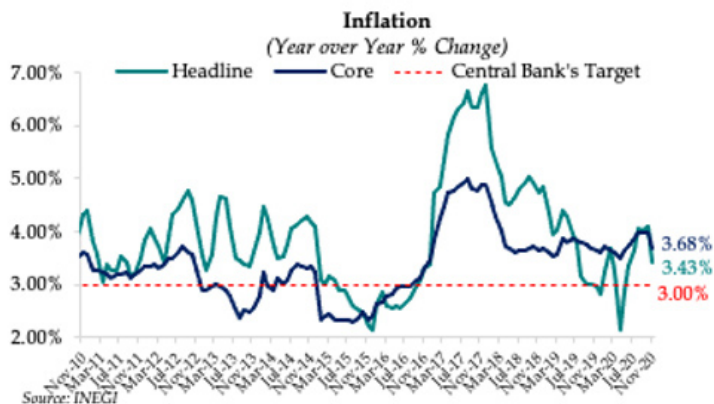
**Gross Domestic Product**

INEGI released the Gross Domestic Product's final data for the 3Q'20. Noteworthy that on October 30th INEGI had already given his timely estimate, so the published data is only an update. The quarterly GDP growth amounted 12.1%, and the YoY contraction was (-)9.8%; in 2Q20, the same data showed a (-)18.67% annual fall and a (-)18.73% quarterly decline. By components, the results were the following:

1. The primary activities' GDP had an 8.0% quarterly growth and a 7.4% annual improvement. In 2Q20, the YoY decline in this type of activity was (-)1.5%.
2. The GDP of secondary activities increased by 21.7% at a quarterly rate, although it contracted (-)8.8% at an annual rate. In 2Q20, this type of activity showed a (-)25.5% yearly decline.
3. The GDP of tertiary activities grew by 8.8% at a quarterly rate and decreased (-)8.9% YoY. In 2Q20, this sector had an annual drop of (-)16.3%.



In the first half of November, the National Consumer Price Index (INPC) had a 3.43% annual inflation, so for the first time since August, inflation returned to the target range of Banxico. By components, annual core inflation was 3.68%, and non-core inflation was 2.67%. Although the decrease is positive and could increase the degrees of freedom for Banxico to cut its interest rate again, the data should be taken with caution. The above, since practically throughout the first half of November, the "Buen Fin" promotions were present, and the general decrease in prices may be a transitory effect.



**Trade Balance**

In October, the trade balance had a US\$6.22 billion surplus increasing the YTD surplus to US\$25.18 billion. The result by components was as follows:

1. The value of merchandise exports totaled US\$41.94 billion, which implies a 2.9% YoY growth. By components, the following was observed:
  - a. Oil exports (4.1% of the total) fell (-)30.2% at an annual rate.
  - b. The positive growth of 4.4% in non-oil exports (95.9% of the total) stands out. The above since manufacturing exports (91.4% of the total) increased 3.5% at an annual rate due to a significant recovery in the automotive sector (+ 12.8% annually).
2. The value of merchandise imports was US\$35.72 billion, an amount that implied an annual reduction of (-)13.8%. Oil imports (7.6% of the total) fell (-)33.4% at an annual rate. Non-oil imports showed the following behavior in their components:
  - a. The import of intermediate goods (74.6% of the total) had an annual contraction of (-)7.8%.
  - b. The import of consumer goods (8.8% of the total) fell 31.0% at an annual rate.
  - c. The import of capital goods (9.0% of the total) had an annual fall of (-) 18.3%.

	2019			2020 YTD			Oct-20		
	Amount	% of Total	Annual Change	Amount	% of Total	Annual Change	Amount	% of Total	Annual Change
<b>Exports</b>									
Total Exports	460,704	100.0%	2.2%	336,187	100.0%	-12.6%	41,945	100%	2.9%
Oil	25,842	5.6%	-15.63%	13,906	4.1%	-35.9%	1,284	3.1%	-30.2%
Crude Oil	22,409	4.9%	-15.57%	11,527	3.4%	-38.8%	1,034	2.5%	-31.5%
Others	3,433	0.7%	-16.05%	2,379	0.7%	-16.8%	250	0.6%	-24.0%
Non-Oil	434,862	94.4%	3.52%	322,281	95.9%	-11.2%	40,660	96.9%	4.4%
Agricultural	17,840	3.9%	8.07%	15,314	4.6%	5.4%	1,452	3.5%	5.7%
Mining	6,189	1.3%	-0.69%	5,963	1.8%	17.3%	873	2.1%	66.4%
Manufacturing	410,834	89.2%	3.39%	301,004	89.5%	-12.3%	38,335	91.4%	3.5%
Automotive Industry	147,757	32.1%	3.92%	97,724	29.1%	-21.0%	13,985	33.3%	12.8%
Others	263,077	57.1%	3.10%	203,280	60.5%	-7.4%	24,350	58.1%	-1.1%
<b>Imports</b>									
Total Imports	455,295	100.0%	-1.9%	311,005	100%	-18.8%	35,721	100%	-13.8%
Oil	47,207	10.4%	-12.0%	25,634	8.2%	-35.9%	2,708	7.6%	-33.4%
Non-Oil	408,088	89.6%	-2.7%	285,370	91.8%	-16.8%	33,013	92.4%	-11.7%
Consumption Goods	43,852	9.6%	0.5%	27,141	8.7%	-25.3%	3,145	8.8%	-31.0%
Intermediate Goods	322,449	70.8%	0.4%	229,881	73.9%	-15.5%	26,655	74.6%	-7.8%
Capital Goods	41,787	9.2%	-8.9%	28,348	9.1%	-18.5%	3,213	9.0%	-18.3%
<b>Trade Balance</b>									
Total	5,409		-17.1%	25,182		763.6%	6,224		N.A.

Source: Mexico's Ministry of Economics  
 Amounts in Millions of Dollars



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Definitions

**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.

**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.

**Credit Default Swap (CDS):** Is a financial derivative or contract that allows an investor to offset his or her credit risk with that of another investor.

**El Buen Fin (short for "El Buen Fin de Semana,"** meaning "The Good Weekend") is an annual nationwide shopping event in Mexico. It began in 2011. It occurs the weekend before Mexican Revolution Day, which is observed on the third Monday of November. On this weekend, major retailers extend their store hours<sup>[1]</sup> and offer special promotions, including extended credit terms and price promotions.

**Gross domestic product (GDP):** is a monetary measure of the market value of all the final goods and services produced in a specific time period.

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

**The International Monetary Fund (IMF):** is an international organization, headquartered in Washington, D.C., consisting of 190 countries working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world while periodically depending on the World Bank for its resources.

**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.

**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.

**International reserves** (or reserve assets in the balance of payments) are those external assets that are readily available to and controlled by a country's monetary authorities.

**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.

**Investment grade:** Descriptive term for ratings awarded by bond rating agencies to high quality corporate and government securities. Rating Agency's: Standard and Poor's ratings are expressed as letters ranging from 'AAA', which is the highest grade, to 'D', which is the lowest grade. Moody's ratings are expressed as letters and numbers ranging from 'Aaa', which is the highest grade, to 'C', which is the lowest grade. A Standard and Poor's rating of BBB or higher is considered investment grade. A Moody's rating of Baa3 or higher is considered investment grade. A Standard and Poor's rating below BBB is considered non investment grade. A Moody's rating below Baa3 is considered non investment grade. If an issue is rated by both agencies, the higher rating is used to determine the sector.

**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.

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