

WEEKLY ECONOMIC REPORT
Positive week for stock markets

OCTOBER 9, 2020.

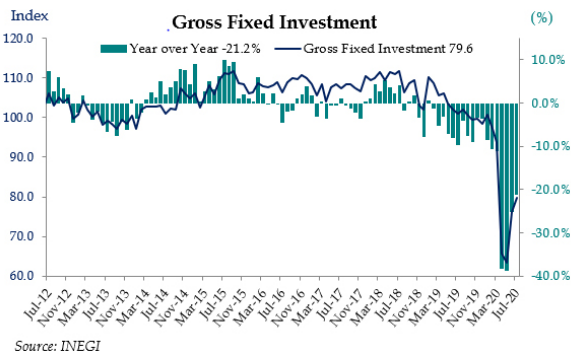
Mexican Stock Exchange

Mexbol closed October 9th at 38,478 points, a solid 7.26% weekly advance in dollars; therefore, the Year-to-Date (YTD) decline reduced to (-)20.21% in USD. The excellent performance of the index can be associated with:

1. The third quarter (3Q'20) earnings season that will begin on October 13th. Investors may have started to build positions waiting for reports to display a positive performance. Good results are likely expected as in 2Q'20 the interruption of economic activities occurred due to the COVID-19 crisis, and there has been some economic recovery in 3Q'20; although there are still sectors that show a lag in their improvement.
2. Mexbol looks "cheap" unlike its US peers. The forward Price to Earnings multiple (P/E) of the Mexican index stands at 14 times, in contrast to those of the S&P 500, Dow Jones, and Nasdaq, which are at 21x, 19x, and 30x respectively. Additionally, the opportunity cost of investing in the Mexbol is relatively low in two ways:
 - a. For Mexican taxpayers, the real rate obtained in the money market after taxes is negative.
 - b. For foreign investors, while the local rate is attractive, the return on investing in 10-year U.S. Treasuries is less than 1.0%.
3. The government announced a program of 39 investment projects in conjunction with the private sector for a total of MX\$297 billion. In the most positive scenario, the presentation could indicate a redefinition of the rules of the game between the public sector and the private initiative. Although this program is much less than the proposal that Business Coordinating Council (CCE) submitted to the government in September (MX\$2.09 trillion or 8.37% of Gross Domestic Product (GDP)), it still comes positive.
4. Recently, there has been a close correlation between the recovery of the U.S. equity markets and Mexbol. Given the arrival of the 3Q'20 reports and the possibility of the approval of a new fiscal stimulus package, the markets in the United States seem to resume their upward trend with a favorable impact on the local market.

Exchange Rate

The spot exchange rate closed at MX\$ 21.14 per dollar, a 2.05% weekly appreciation, reducing the YTD depreciation to (-)11.68%. The Mexican currency once again displayed strength due to the external accounts, as the Department of Commerce of the United States announced that, in August, Mexico ranked as its second commercial partner with a US\$337.9 billion total volume of trade and a US\$68.71 billion YTD surplus. This surplus is 2.65% higher than the same data of 2019 and is relevant due to the sharp drop in the trade that was observed in April and May.



Agreement for the Economic Reactivation

On October 5th, the Ministry of Finance and Public Credit (SHCP) and the CCE announced the Agreement for Economic Reactivation (AER). The plan consists of the construction of 39 infrastructure projects whose investment amounts to MX\$297 billion (1.08% of GDP). Ventures will focus on projects of i) roads and transportation (MX\$196.2 billion or 66.02% of the total), ii) energy (MX\$98.9 billion or 33.27% of the total), and iii) water and environment (MX2.1 billion or 0.71% of the total).

Although this new program (AER) has detailed projects and specific starting dates, it only represents 13.9% of the amount that the Private

Sector through the CCE proposed in September. Furthermore, none of the ten most important projects in the portfolio presented by the CCE were included in the AER.

Considering that private investment represents 12.58% of GDP (approximately MX\$3.85 trillion), a program such as the AER of MX\$297 billion (1.08% of GDP) seems insufficient to counteract the sharp fall that the IFB has shown in the last years. In contrast, if the CCE project portfolio had been approved, the percentage of private investment could have risen to approximately 20% of GDP.

Economic Indicators
Gross Fixed Investment

The Gross Fixed Investment Indicator (IIFB) had a (-)21.2% annual drop in July, although it had a 4.4% monthly recovery. Like the general indicator, the components had annual falls but monthly recoveries: i) machinery and equipment decreased (-)17.6% at an annual rate, but increased 11.1% at a monthly rate, and ii) construction investment fell (-)23.7% at an annual rate, although it rose 1.1% at a monthly rate. The IIFB has shown a recovery since May when it had a (-)38.17% annual fall, despite this, it is one of the indicators that has the least improvement after COVID-19. In this sense, the AER that the government announced could bring a boost to investment, although, as commented in the previous section, it is insufficient to reverse the downward trend observed since 2018.

U.S. International Trade

The United States Department of Commerce announced that in August Mexico ranked as its second trading partner with a joint trade volume of US\$337.90 billion; therefore, Mexico had a US\$68.71 billion YTD surplus, 2.65% more than the same data from 2019. Noteworthy, although in April and May there was a partial closure of trade due to COVID-19, the YTD surplus in the first eight months of the year already exceeds that of the same period of 2019. The above is supported by manufacturing exports to the United States, which in June and July had increases of more than 90.0%.

United States International Trade (As of August 2020)				United States International Trade (As of August 2020)					
Country	Exports	Imports	Total Trade Balance	Country	Exports	Imports	Total Trade Balance		
China	72,342	209,367	341,709	-197,025	India	17,210	30,655	47,845	-13,425
% of Total	7.8%	18.1%	14.2%		% of Total	1.9%	2.7%	2.0%	
Mexico	134,995	203,313	337,908	-68,718	France	18,600	28,968	47,568	-10,368
% of Total	14.6%	17.7%	14.0%		% of Total	2.0%	1.0%	2.0%	
Canada	163,049	172,244	335,293	-9,195	Italy	13,218	30,903	44,138	-17,702
% of Total	17.0%	11.0%	13.0%		% of Total	1.4%	2.7%	1.8%	
Japan	43,259	75,025	118,284	-31,766	Singapore	18,157	21,279	39,436	-3,122
% of Total	4.7%	5.0%	4.9%		% of Total	2.0%	1.4%	1.6%	
Germany	37,322	75,024	110,346	-35,702	Brazil	22,970	14,394	37,564	8,576
% of Total	4.0%	4.0%	4.0%		% of Total	2.5%	1.0%	1.5%	
Korea, South	34,788	48,402	83,190	-13,614	Hong Kong	15,946	6,437	22,403	9,489
% of Total	3.8%	3.3%	3.4%		% of Total	1.7%	0.4%	0.9%	
United Kingdom	38,416	32,966	71,282	5,450	Saudi Arabia	7,577	7,094	14,671	483
% of Total	4.2%	2.2%	3.0%		% of Total	0.8%	0.8%	0.8%	
Taiwan	20,466	38,196	58,662	-17,730	All other countries	206,428	434,491	700,919	-168,063
% of Total	2.2%	2.0%	2.4%		% of Total	28.8%	20.2%	29.1%	
				TOTAL 2020 YTD 338,343 1,486,975 2,411,318 -662,632					
				TOTAL 2019 1,645,486 2,438,400 4,143,886 852,914					
				TOTAL 2018 1,964,064 2,542,735 4,206,799 -878,671					

Source: U.S. Census Bureau
 Amounts in millions of dollars

Inflation

The National Consumer Price Index (INPC) displayed a 4.01% annual inflation in September; by components, the core index had a 3.99% annual increase and the non-core grew 4.10% annually. Noteworthy, for the first time, INEGI published the Price Index of the Minimum Consumption Basket (IPCCM). This index is calculated with 176 goods and services from the INPC, based on the products that make up the CONEVAL baskets. This component of the INPC presented a 4.47% annual inflation. The usefulness of this new indicator lies in the fact that the impact that inflation has on the poor population can be precisely known. Noteworthy that the inflation of the IPCCM is above the other components.

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Definitions

Agreement for Economic Reactivation (AER): The construction of road infrastructure agreement that consists of 39 projects in the Communications and Transport, Energy, Water and Environment sectors with an accumulated investment of 297,344 million pesos

Business Coordinating Council (CCE): It is an autonomous body that represents the business sector and regulates actions of organizations from various business sectors in Mexico, in order to boost the country's economic growth and the level of competitiveness of Mexican companies.

CONEVAL: It is a decentralized public body of the Federal Public Administration, with autonomy and technical capacity to generate objective information about social policy and the measurement of poverty in Mexico.

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.

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.

Dow Jones: Is a stock market index made up of the 30 companies with the largest market capitalization on the NYSE, with the exception of transportation and public services.

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.

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.

Nasdaq: Is the second largest automated and electronic stock exchange in the United States, the first being the NYSE, with more than 3,800 companies and corporations.

Price to Earnings Ratio (P/E): Is a valuation ratio of a company's current share price compared to its per-share earnings.

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.

Standard & Poor's 500 (S&P 500): Is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value. It is a market value or market-capitalization-weighted index and one of the most common benchmarks for the broader U.S. equity markets.

The Ministry of Finance and Public Credit (SHCP): Is the government entity responsible for proposing and controlling the economic policy of the Mexican Federal Government regarding the financial, fiscal, expenditure, income and public debt sector.

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 Price Index of the Minimum Consumption Basket (IPCCM): Indicator that allows to measure the variations of the prices of the products that meet nutritional and energy recommendations in the food industry.

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.

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.

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", 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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