Pichardo Asset Management
Asesores de Portafolios de Inversión

THE MEXICO EQUITY AND INCOME FUND, INC. "MXE"

WEEKLY ECONOMIC REPORT
Week Ended April 27, 2018.

Rise in U.S Treasury Yield Poses a Big Risk Factor

U.S. treasury bond yields probably had the biggest impact on U.S. equity markets during the week ended April 27th. The Dow Jones, Standard & Poor´s 500 and NASDAQ returned -0.62%, 0.00% and -0.36% for the week, respectively, bringing their year-to-date returns to -1.03%, +0.44% and +3.45%. On April 25th, the U.S. 10-year treasury yield hit 3.03%, a level not seen since July, 2011. Although U.S. treasuries hit 7-year highs, low consumer spending growth data for the first quarter of the year (+1.1%) along with higher-than-expected U.S. economic growth (2.3% currently vs. an estimated 2.0%) resulted in the yield on the U.S. 10-year bond closing Friday at 2.96%. The reasons for the approximate 30 bp increase in April (the 10-year yield was 2.73% at the start of the month) were:

1. Expectations that the U.S. Federal Reserve (Fed) will continue to pursue monetary policy normalization and raise its reference rate three times in 2018 –the first hike took place at its March 21st meeting–. According to the Bloomberg analyst consensus, the next hikes could occur in the Fed's June 13th and September 25th meetings. Given high year-on-year inflation in March (2.4%), equity markets are currently wary of a surprise increase in the Fed's reference rate in its May 2nd meeting.
2. Higher U.S. inflation underpinned by solid economic growth, low unemployment, a tax cut and higher government spending as well as a protectionist trade policy, could generate price increases in the U.S.
3. The U.S. government could issue more debt to meet the fiscal deficit it has generated.

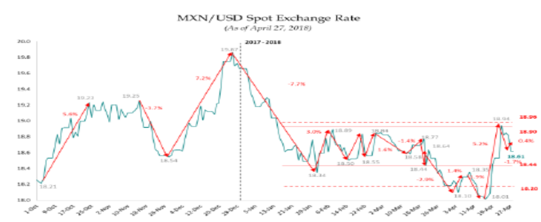
Local Currency Return

Index	1 week	1 year	YTD	Country
DOW JONES INDUS. AVG	-0.62%	18.59%	-1.03%	US
S&P 500 INDEX	0.00%	13.97%	0.44%	US
NASDAQ COMPOSITE INDEX	-0.36%	19.04%	3.45%	US
S&P/BMV IPC	-0.27%	-0.66%	-1.90%	MX

In this context of overall dollar strength due to higher U.S. treasury bond yields, the interbank spot exchange rate closing the week at $18.61 to the dollar, which is a depreciation of 0.45% for the week and an appreciation of 5.62% year to date. It is important to mention that pressure on the exchange rate eased towards the end of the week due to the release of solid economic data in Mexico, namely:

- The March trade surplus of US$ 1.918 bn, a factor that clearly impacted the exchange rate and contrasted with a deficit of US$ -63 mn for the same year-ago month. The year-to-date deficit is currently US$ -1.428 bn, 48.5% below the year earlier's US$ -2.775 bn deficit. Exports amounted to US$ 39.650 bn for the month (+10.0% y/y) and imports US$ 37.732 bn (+4.5% y/y).
- Retail sale data released by INEGI showed a second straight month of positive y/y growth: 0.5% in January followed by 1.2% in February.
- The jobless rate was 3.2%, below the 3.5% reported for the same year-earlier month.

Factors that could influence the peso/dollar exchange rate in the coming weeks are: (i) The Fed's May 2nd monetary policy meeting, (ii) the May 7th meeting between ministers responsible for modernizing the North American Free Trade Agreement (NAFTA), which could produce a resolution and (iii) Mexico's general election with the leftist candidate ahead in the presidential race.



For the Mexican Stock Exchange (MSE), systemic risk (induced by the rise in the U.S. treasury yield) prevailed over sound first quarter earnings reports, although many failed to meet analysts' expectations. CEMEX's report disappointed, but was due to poor weather conditions, especially in Europe. Thus, 34 of the 35 companies that make up the IPyC have reported, PEÑOLES being the only company that will report on April 30th. Thus, and in line with U.S. markets, the IPyC lost -0.27% for the week and is down -1.90% in 2018

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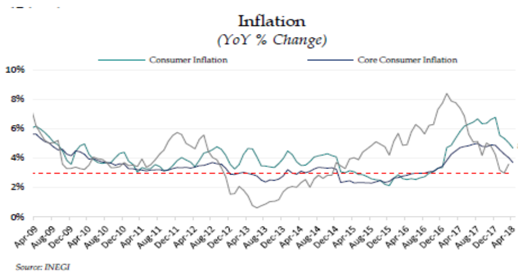
In other relevant information, INEGI reported that first half April inflation was 4.69% y/y (below March's 5.04%); core inflation was 3.70% (vs. 4.02%) and headline 7.67%. Inflation reached its lowest level since January 2017, with the data showing price decreases in electricity, air transportation and tourism services. This easing of inflation gives Banco de Mexico more room not to hike its reference rate in its May 17th policy meeting.



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Definitions

FED *– The Federal Reserve System is the central bank of the United States and arguably the most powerful financial institution in the world.*

INEGI - The National Institute of Statistics and Geography. It is the institution responsible for performing the population census every ten years; as well as the economic census every five years and the agricultural, livestock and forestry census of the country.

IPyC *– The Indice de Precios y Cotizaciones (IPyC) is a capitalization-weighted index of the leading stocks traded on the Mexican Stock Exchange. The index was developed with a base level of 0.78 on October 30, 1978.*

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.*

North American Free Trade Agreement (NAFTA) *– A regulation implemented January 1, 1994 in Mexico, Canada and the United States to eliminate most tariffs on trade between these nations. The three countries phased out numerous tariffs, (with a focus on those related to*