

WEEKLY ECONOMIC REPORT

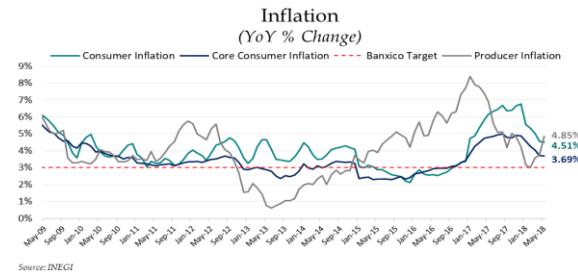
Week Ended June 08, 2018

Mexican Stock Exchange Pauses For Breath while the Peso Comes Under Pressure. Important FED Meeting

After 7 straight losing weeks, the Mexican Stock Exchange Index (IPyC) gained a solid +2.39%, closing Friday June 8th at 45,940 points, a year-to-date loss of -5.97%. This reflects price opportunities that have opened up on the back of improved investor sentiment following the presidential candidate for the “Together We’ll Make History” coalition’s meeting with the Mexican Business Council. The companies that posted the biggest gains were: GMEXICO (+10.68%), GENTERA (+8.45%), GCARSO (+6.97%) and VOLARA (+5.63%). Going forward, investors will be paying close attention to the June 12th presidential debate and the Federal Open Market Committee’s (FOMC) Wednesday, June 13th reference rate decision.

U.S. equity markets extended their winning streak in response to a favorable May jobs report that reflected economic solidity as well as less risk aversion associated with trade tensions between the U.S. and China. Thus, the Dow Jones, Standard & Poor’s 500 and NASDAQ recorded gains of 2.79%, 1.66% and 1.22%, respectively, for the week, resulting in year-to-date gains of 3.50%, 4.84% and 11.30%, respectively.

The National Institute of Statistics and Geography (INEGI) reported that inflation reached 4.51% year-over-year (YoY) in May, its lowest level since December 2016 and a fifth straight declining month. Core inflation was 3.69% and the non-core number 6.99%. Lower consumer inflation was driven by the seasonal impact of lower summer electricity rates in some regions of the country. This is one of the factors that will impact the monetary policy decision of Banco de México’s Governing Board on June 21st, which will face the following dilemma: (i) replicate the likely 25 basis points (bp) increase in the Fed rate this week, or (ii) take advantage of the wide 575 bp spread and the fact that inflation maintains a downward path in order to leave the reference rate unchanged. Banxico could opt for the latter option in order to preserve the future application of this measure.



| Local Currency Return | | | | |
|------------------------|--------|--------|--------|---------|
| Index | 1 week | 1 year | YTD | Country |
| DOW JONES INDUS. AVG | 2.79% | 22.28% | 3.50% | US |
| S&P 500 INDEX | 1.66% | 16.43% | 4.84% | US |
| NASDAQ COMPOSITE INDEX | 1.22% | 22.27% | 11.30% | US |
| S&P/BMV IPC | 2.39% | -4.43% | -5.97% | MX |

Source: Bloomberg

This week several countries will make a number of important monetary policy decisions. In the U.S., the FOMC is expected to hike its reference rate by 25 basis points to a 1.75% – 2.00% range and there will be relevant changes to future reference rate hikes this year. In the case of the Euro zone, the European Central Bank may announce the date on which the asset repurchase program that began in 2015 will end. The Central Bank of Japan could further its expansive monetary policy given the deflation effect the country is currently facing.

In contrast with stock markets, the peso extended its losing streak with the mid-market rate reaching \$20.29, a level not seen since February, 2017. In the foreign exchange market, solid macro data —mentioned below— was overshadowed by trade tensions between Mexico and the U.S., while the possibility of an agreement being reached on the North American Free Trade Agreement (NAFTA) in the short term has decreased. In this context, the peso lost 1.73% during the week, bringing its year-to-date depreciation to 3.11%. (see Exhibit 1)

The following economic data with a positive bias was released in Mexico during the week:

- INEGI reported that gross fixed investment grew 1.9% YoY in March, 2018 for a fourth straight rising month. By components, total machinery and equipment spending grew 8.4% while construction spending decreased 1.6%.
- Mexico recorded a trade surplus of US\$ 24.6 billion with the U.S. in the first 4 months of 2018, according to the U.S. Bureau of Economic Analysis.
- The U.S. Ministry of Labor and Social Security reported that wages rose 5.7% YoY in May, comparing positively with the inflation trend.
- According to the Mexican Department for Social Security (IMSS), 33,966 new jobs were created in May, more than the number reported in the year-ago period. The total number workers registered with the Department amounted to 19,908,072.

WEEKLY ECONOMIC REPORT
Week Ended June 08, 2018

Exhibit 1

Mexican Peso/US Dollar (MXN/USD) Spot Exchange Rate
(As of June 8, 2018)



Source: Bloomberg

Arnulfo Rodriguez

Senior Debt Analyst & Portfolio Manager
Investor Relations: imartin@paminversion.com
(55) 5261 4600

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.

S&P/BMV IPC (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 agriculture, textiles and automobiles), between the agreement's implementation and January 1, 2008. NAFTA's purpose is to encourage economic activity between the United States, Mexico and Canada.

Dow Jones: – The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the Nasdaq. One cannot invest directly in an index.

S&P 500: – The Standard & Poor's 500 Index is an index of 505 stocks issued by 500 large companies with market capitalizations of at least \$6.1 billion. It is seen as a leading indicator of U.S. equities and a reflection of the performance of the large-cap universe. One cannot invest directly in an index.

NASDAQ: Nasdaq is a global electronic marketplace for buying and selling securities, as well as the benchmark index for U.S. technology stocks. One cannot invest directly in an index.

Points - Index's value is measured in points.

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.

Experience

Consistency

Vision