

**WEEKLY ECONOMIC REPORT**

**MARCH 27, 2020.**

**Economic stimulus in the world and downgrade in Mexico's sovereign debt rating**

The coronavirus (COVID-19) pandemic changed its epicenter to the United States, which registers the highest number of infections (97,028 confirmed cases as of March 27<sup>th</sup>). In Europe, the health crisis continues rising, especially in Italy (86,498 cases) and in Spain (64,059 cases). Worldwide, as of March 27<sup>th</sup>, there are 558,502 confirmed infections and 26,819 deaths according to data from the John Hopkins University.

Because isolation and the closure of most economic activity is the main tool to diminish the rate of infections, the global economy have entered a recession. As a result, the governments of the United States, Germany, and the United Kingdom among others, have released enormous economic stimulus packages, which favored a slight recovery of their stock markets last week. The biggest package is the one announced by the United States (US \$ 2 trillion). Germany (€656 billion) and the United Kingdom (£ 400 billion) packages are also significant.

In Mexico, the Ministry of Health declared the start of phase two of the health emergency (community contagions) on March 25. However, the federal government has not announced any measure to offset the costs of the pandemic in the Mexican economy. S&P Global Ratings downgraded the Mexican sovereign debt as well as Petróleos Mexicanos (PEMEX) level from BBB + to BBB.

**Mexbol**

Mexbol closed at 33,799 points; a 1.81% week over week (WoW) progress. Thus, the year to date (YTD) decline stands at (-)37.32%. Noteworthy, at the beginning of the week, Mexbol displayed a positive performance due to lower global risk aversion due to the economic relief package announced in the United States. However, the S&P downgrade changed the trend.

**Exchange rate**

The spot exchange rate closed at MX\$23.49 per dollar, a 3.76% week over week appreciation. Therefore, the year to date depreciation diminished to 24.08%. The change in the trend of the peso, after three consecutive weekly depreciations (11.35%, 9.0%, and 3.75% respectively), responded to lower global risk aversion caused by the economic stimulus package in the United States. Although still prematurely, it is estimated that the exchange rate could oscillate in the short-term within the range of MX \$ 23 - MX \$ 25 per dollar.

**Interest Rates**

Despite the downgrade in the sovereign debt rating, the yield to maturity (ytm) of the 10-year M Bond dropped 25 basis points (bps) to 7.17%. Apparently, the market had discounted a broader downgrade, that the one which took place.

The monetary policy meeting of The Governing Board of Banco de Mexico (Banxico) took place on March 20<sup>th</sup> due to the urgency caused by the COVID-19 pandemic. A 50 basis points decrease in the main reference rate was announced. The next monetary policy meeting will take place on May 14<sup>th</sup>.

**Downgrade in the Rating of the Mexican Sovereign Debt and Pemex**

On March 26<sup>th</sup>, S&P Global Ratings announced that it downgraded Mexico's and Pemex's sovereign debt rating from BBB + to BBB, still two steps above the investment grade. Although the rating agency considers the shocks from the COVID19 pandemic to be temporary, it aggravates the already undermined GDP growth trend, which reflects the distrust of the private sector. In addition, the rating agency assigned a negative outlook as a result of the government's inefficiency in responding to the situation.

Regarding Pemex, the rating agency highlights the increasing pressure on the oil company, a potential contingent liability for the government. However, the decision is mostly the result of the sovereign's downgrade. Noteworthy, as it has happened before, S&P could also downgrade the foreign currency debt rating of Mexican banks and corporations.

**Economic indicators**

**IGAE**

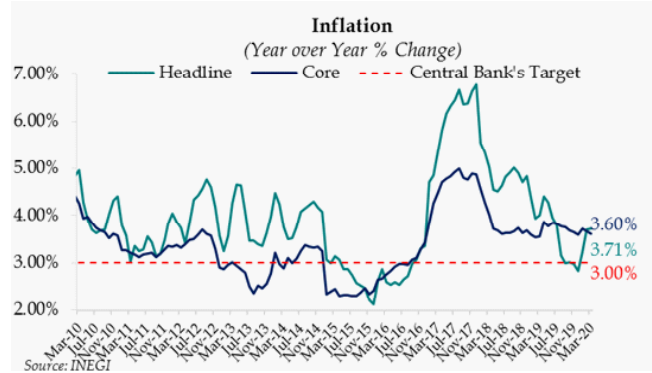
The Global Economic Activity Indicator (IGAE) of January registered a (-)0.7% contraction. The decline in secondary and tertiary activities, which decreased (-) 1.7% and (-) 0.2% respectively, explain the drop. It is likely that subsequent IGAE data will show even greater contractions.

**Unemployment Rate**

The unemployment rate in February amounted to 3.7% of the Economically Active Population (PEA). This implies a deterioration compared to that of the same month in 2019 (3.7% vs. 3.4%); noteworthy, it is the highest rate since October 2016. These indicators will also be strongly affected by the measures to reduce the spread of COVID-19.

**Inflation**

The Mexican Consumer Price Index (INPC) in the first half of March displays a year over year 3.71% general inflation. Core inflation increased 3.60% YoY, and the non-core index had a 4.04% annual inflation. The drop in the general inflation is mainly due to the decrease in non-core inflation.



**Trade Balance**

Mexico's trade balance in February 2020 displayed a US\$2.91 billion surplus, a positive figure compared to a US\$1.34 billion surplus achieved in the same month of 2019. Thus, year to date balance is a US\$495 million surplus. Exports amounted US\$36.63 billion, practically no growth compared to the same month of 2019 (0.6%). Imports reached US\$33.72 billion, an annual drop of (-)3.9%. The recession caused by the containment measures of COVID-19 considerably endangers the trade accounts through the following mechanisms:

- i. Domestic demand will contract due to the slowdown in economic activity, so the drop in imports could be exacerbated.
- ii. Even though the depreciation of the peso gives a competitive advantage to Mexican exports, the drop on the US economy, could reduce the demand for Mexican products, therefore exports could fall.

	Exports				Imports				Trade Balance					
	2018	% of Total	Annual Change	2020 YTD	% of Total	Annual Change	Feb-20	% of Total	Annual Change	2018	2020 YTD	Feb-20	Annual Change	
<b>Total Exports</b>	465,856	100.0%	2.5%	72,887	100.0%	3.8%	36,634	100%	0.6%	459,299	100.0%	39,724	100%	-3.8%
Oil	25,869	5.6%	-13.9%	4,116	5.6%	-11.7%	1,759	4.8%	-32.0%	47,207	10.2%	3,250	8.2%	-6.7%
Crude Oil	22,592	4.9%	-14.9%	3,594	5.1%	-12.2%	1,539	4.2%	-38.7%	408,055	89.6%	30,474	80.4%	-3.3%
Other	3,433	0.7%	-16.0%	921	0.7%	-8.2%	219	0.6%	-16.7%	6,189	1.3%	513	1.4%	-0.4%
Non-Oil	439,333	94.4%	3.3%	68,771	94.1%	2.6%	34,876	95.2%	3.1%	410,836	89.1%	32,729	89.3%	3.2%
Agricultural	18,106	3.9%	9.6%	3,342	4.6%	3.7%	1,634	4.5%	2.6%	147,797	32.0%	12,935	32.9%	3.4%
Mining	6,189	1.3%	-0.6%	992	1.4%	13.1%	513	1.4%	-0.4%	259,090	57.1%	23,026	59.2%	3.0%
Manufacturing	410,836	89.1%	3.4%	61,837	86.0%	2.6%	32,729	89.3%	3.2%					
Automotive/Industry	147,797	32.0%	3.9%	22,226	31.6%	6.1%	12,935	32.9%	3.4%					
Other	259,090	57.1%	2.1%	39,611	54.4%	0.7%	20,795	56.9%	2.0%					
<b>Total Imports</b>	459,299	100.0%	-1.9%	69,793	100%	-3.9%	33,724	100%	-3.8%					
Oil	47,207	10.4%	-12.0%	7,866	10.6%	0.0%	3,250	9.6%	-6.7%					
Non-Oil	408,055	89.6%	-2.7%	61,927	89.4%	0.0%	30,474	90.4%	-3.3%					
Consumption Goods	43,892	9.6%	0.3%	6,514	9.3%	-2.6%	3,069	9.1%	-2.6%					
Intermediate Goods	322,449	70.8%	0.4%	49,749	71.3%	-2.3%	24,600	72.9%	-2.2%					
Capital Goods	41,787	9.2%	-8.9%	6,164	8.8%	-12.3%	2,806	8.3%	-11.1%					
<b>Trade Balance</b>	5,820		-17.1%	495		N.A.	2,911		N.A.					

Source: Mexico's Ministry of Economics

Amounts in Millions of Dollars

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#### Definitions

**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.

**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.

**BBB:** Rating that reflects an opinion that the issuer has the current capacity to meet its debt obligations but faces more solvency risk than an A-rated issue and less than a BB-rated issue.

**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.

**Economically Active Population (PEA):** Is the sum of employed and unemployed persons. Inactive persons are those who, during the reference week, were neither employed nor unemployed.

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

**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.

**M-Bond:** Mexico Federal Government fixed-rate development bonds that are issued and placed at terms of over one year, pay interest every six months and their interest rate is determined at issue date and remains fixed all along the life of the bond.

**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.

**Petróleos Mexicanos (PEMEX):** Is the Mexican state-owned petroleum company, created in 1938 by nationalization or expropriation of all private, foreign, and domestic oil companies at that time. As of February 29, 2020 the security is not included in the Fund Top 10 Portfolio Holdings. For a list of full securities please visit: [http://www.mxefund.com/portfolio\\_holdings.html](http://www.mxefund.com/portfolio_holdings.html).

**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.

**Week over Week (WoW):** Refers to the mathematical process of comparing one week of data to prior week'.

**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.

**Yield to maturity (ytm):** Is the total return anticipated on a bond if the bond is held until it matures. Yield to maturity is considered a long-term bond yield but it is expressed as an annual rate.

#### 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.

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