

**Uncertainty and mistrust in local equity markets**

Numerous information has been published as part of the "phase one" negotiations of the partial agreement between China and the United States, however none of it conclusive. Nonetheless, Wall Street indices once again reached new historical highs while Mexbol seems to enter a lateral or possible downward trend reflecting a growing distrust of investors facing doubts regarding political-social issues, law enforcement, and inconsistency in public policies.

**Mexican Stock Exchange**

Mexbol had an adverse week due to the market's ability to foretell poor economic performance in the future, driven by:

- i) The continuing deterioration of the institutional framework that, in addition to the inconsistency in public policies that characterize the current government, has corroded investor's confidence. The decline observed in the last three months in the Business Confidence Index published by INEGI confirms the above.
- ii) The slowdown in consumption, which in October became evident with the low growth rate of Walmart's (2.30%) and ANTAD's (2.10%) same-store-sales (SSS). In both cases, the sales growth rate is below their year-to-date (YTD) averages of 4.5% and 3.1%, respectively.

The above led Mexbol to a weekly decline of -1.20%, and a YTD return of 9.50%.

**Exchange Rate**

The spot exchange rate closed at MX\$19.20 per dollar, a weekly depreciation of 0.42%, which reduces the YTD appreciation to 2.45%. At the beginning of the week, the dollar presented an appreciation against other hard currencies; the Mexican peso was not excluded from this behavior and fluctuated above MX\$19.50 per dollar. However, statements made by Nancy Pelosi, president of the House of Representatives, regarding the prompt ratification of the United States-Mexico-Canada Agreement (USMCA) allowed the peso to recover, although not enough to close the week with an appreciation.

**Monetary Policy Banxico and Rates**

The Central Bank, Banxico, decided to reduce its reference rate by 25 basis points from 7.75% to 7.50%. The voting was split, as two of the five members of the Board voted for a 50-bps reduction. Concerning inflation, the Board stated that there are still potential risks that could increase it: i) core inflation persistence, ii) wage increases above productivity, iii) peso-dollar pressure due to external factors, iv) the US tariff threat to Mexico, v) deterioration of public finances, and vi) increases in the prices of agricultural products.

Despite the above, in a press conference after the release, the Governor of Banxico, Alejandro Díaz de León, suggested that he does not rule out future rate cuts.

The decision of the Board to reduce 25 Bps its reference rate was not enough to fix the local yield curve; whose current distortion disrupts the financial system due to the high short-term rates. Nevertheless, the 10-year M-bond rate closed the week at 6.90% (+2 bps), in a movement that, on this occasion, was opposite to the fall observed in the 10-year US Treasury bond.

**Economic Indicators**

**Industrial Activity**

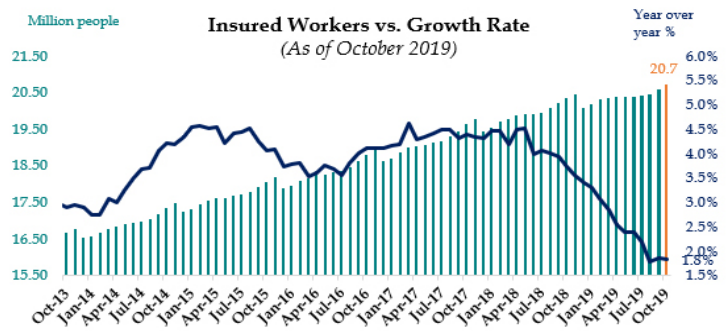
Industrial activity fell -2% in October and for the 12<sup>th</sup> consecutive month. Although utilities and manufactures had increases of 3.2% and 0.1% respectively, they were not enough to compensate for the -3% and -7.3% decline in mining, and construction respectively. Noteworthy, in the last three months, the mining indicator has considerably increased, although it has not been enough to reverse the annual fall — the above due to the slight rebound of Pemex's oil production.



Source: INEGI

**IMSS Formal Employment**

The Mexican Social Security Institute (IMSS) announced the creation of almost 160 thousand jobs in October, 67.05% of them were permanent, and 32.95% were temporary. The above is the highest number so far this year, totaling 648,059 new jobs in the year, 30.89% lower than that accumulated until October 2018. Noteworthy, so far this year, the percentage of permanent employment is equivalent to 85.6% of the total jobs created.



Source: INEGI & IMSS

**ANTAD Sales**

The National Association of Self-Service and Department Stores (ANTAD) reported a 2.1% Yoy SSS growth, below the 3.1% YTD average and significantly lower than the 5.1% average of 2018. ANTAD noted that this month's SSS was low as consumers are saving for the "Buen Fin" promotions. Noteworthy, Walmart's SSS growth of 2.30% was similar to ANTAD's SSS, which is inconsistent with the usual behavior since, in most cases, Walmart's SSS grow more than those of ANTAD.

**Unemployment Rate**

The Unemployment Rate of the Economically Active Population (PEA) in 3Q19 was 3.54 %, slightly higher than the 3.5% reported in the previous quarter while the Labor Informality Rate decreased -0.1% QoQ.

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**Definitions**

**The Mexican Institute of Social Security (IMSS):** Is a governmental organization that assists public health, pensions and social security in Mexico operating under the Secretariat of Health.

**Mexbol:** The S&P/BMV IPC 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.

**Basis points (bps):** Refers to a common unit of measure for interest rates and other percentages in finance.

**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.

**Year over Year (YoY):** Calculation that compares a statistic for one period to the same period the previous year.

**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.

**Quarter over Quarter (QoQ):** Calculation shows the change in the value of a statistic as a percentage of the previous quarter.

**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.

**United States-Mexico-Canada Agreement (USMCA):** Is a signed but not ratified free trade agreement between Canada, Mexico, and the United States.

**Same Store Sales (SSS):** Are also referred to as comparable-store sales, SSS or identical-store sales. Same-store sales figures are expressed as a percentage that indicates the relative amount of revenue increase or decrease.

**Walmart:** Retail company. As of October 31, 2019 the security represents 8.81% of Portfolio Net Assets. For a list of full securities please visit: [http://www.mxefund.com/portfolio\\_holdings.html](http://www.mxefund.com/portfolio_holdings.html)

**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 October 31, 2019 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).

**Buen Fin:** Is an annual nationwide shopping event in Mexico in which major retailers extend their store hours and offer special promotions, including extended credit terms and price promotions.

**National Association of Self-Service and Departmental Stores (ANTAD):** Entity responsible of promoting the development of retail and its suppliers within the Mexican market.

**The National Institute of Statistics and Geography (INEGI):** Is an autonomous agency of the Mexican Government dedicated to coordinate the National System of Statistical and Geographical Information of the country.

**Economically active population (PEA):** Is the sum of employed and unemployed persons.

**Business Confidence Index:** Provides information on future developments, based upon opinion surveys on developments in production, orders and stocks of finished goods in the industry sector.

**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.

**Informality labor:** Is the diversified set of economic activities, enterprises, jobs, and workers that are not regulated or protected by the state. The concept originally applied to self-employment in small unregistered enterprises. It has been expanded to include wage employment in unprotected jobs. **Insured Workers:** Those workers who are registered to the Mexican Social Security Institute and are provided of public health pensions and social security in Mexico.

**The growth rate:** indicates how many more workers are registered to the Mexican Social Security Institute compare with the same month of the last year.

**Industrial Activity:** It is the monthly indicator that measures the real evolution of the productive activity in the industry sector.

**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. Fund holdings and sector allocations are subject to change and are not a recommendation to buy or sell any security*

*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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