Mexican Economy; Steady, Stable And Growing

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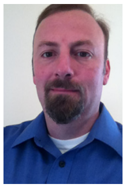

The Mexican economy does not get the credit it deserves. It is the 2nd largest in Latin America and growing at a rate above the global average.

Mexican GDP Expected to Expand

Mexico has a relatively stable economy for an emerging market. Described as both predictable and without volatility it is a dramatic counterpoint to public perception and the performance of the financial markets. The economy, shepherded by the central bank and a reform minded president, has benefited from close to ties to the US and Canada, and from expanded trade through NAFTA. In fact, the Mexican economy is very closely linked to the overall economy of North American and the US in particular. When the US does well, Mexico does well, when the US does poorly, so too does Mexico.

Times are changing in Mexico. The government, historically dependent on oil for its revenues, is in the midst of reforms intended to privatize once state owned resources and help transform the country to a more industrial and consumer driven economy. In terms of GDP, Mexico is the 2nd largest economy in Latin American worth an estimated $1.3 trillion annually and is the worlds 12th largest exporter. Over 80% of exports are manufactured goods and they are exchanged through free trade agreements with 44 trade

partners. In terms of manufacturing, the label Made In Mexico has grown to rival Made In China.

Efforts to reform the economy, to wean the governments dependence on oil, are bearing fruit although the most recent GDP data does not show it. GDP contracted from the 1st quarter to the 2nd quarter by -0.3%, a bit more than the -0.1% predicted by economists and the first quarter of negative growth in over 3 years. Regardless, growth remains strong at 2.4% year over year, down just a tenth from the previous year, and has been trending at this level for years.

The decline in GDP is is due to a slump in exports to the US and slower domestic demand than seen earlier in the year. Despite this, expectations are high that GDP growth will be favorable later in the year. Farm activity led with

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growth of 4.2%, followed by services 3.2% (down from 3.7% in the 1st quarter). Industrial activity lags but is still expanding at 0.8%. Outlook for the remainder of the year is good, economists see potential for "favorable" growth for the rest of this year at least. Today's biggest headwind is the low price of oil, and possibly US politics considering the hard-line stance taken by one of the presidential candidates.

The economic forecast for Mexico is particularly bright. Economists at the Organization for Economic Cooperation and Development, OECD, see the economy continue to improve on structural reforms into the next few years. GDP is expected to rise to 3% in 2017 and could continue to expand if reforms are fully implemented.

Invest In Mexico; Value And Income In One Fund

There are two popular ways to for US investors to enter the Mexican market and that is through the ETF's EWW and QMEX but even they are not ideal. The EWW is a weight capped passively managed fund that invests in large and mid capped companies, diversified across the market focused on performance, quality, value and low volatility. The

QMEX is also a passively managed fund targeting large and mid cap issues bench-marked to an MSCI Strategic Mexico Index. What you get when you compare the two are nearly identical funds. If you look at the top ten holding in each ETF you will see that 7 out of 10 are identical, and held at roughly the same weight in each.

They both pay a dividend, EWW edges out the other but only by 0.3% for a yield of 2.64%, but it isn't really that much considering what you can find with other investments. A look at the QMEX chart alone is enough to scare most investors away so the fact it pays a lesser dividend is just extra incentive to leave it be. A much better way for value and income investors to enter the Mexican market is through The Mexico Fund. The Mexico Fund (MXF) is a closed end fund focused entirely on the Mexican markets. It's objective is capital appreciation and current income, paying a dividend yielding 6.81% at today's prices.

The fund uses a managed distribution plan, or MDP, to dictate distributions. It is currently set at 3% of prior year net asset value with no expectation of it being suspended. The fund has paid a regular dividend since 1983 with more than $50 in total distributions. The fund has paid $27.84 since 2008 alone and $0.90 in 2016.

Fund composition is similar to both EWW and QMEX without the restrictions of passive management. Fund managers are able to hold any company they see value in and at whatever weight they see fit. At this time there are 7 stocks in the top 10 held by one or the other of the passive funds, 5 held by both. The bonus of buying them via a closed end fund is that they usually come at a discount and now is no exception. The MXF is currently trading at a near -12% discount to NAV, NAV is about $18.80. This discount has been holding steady over the past 6 months but much deeper than historical averages suggest are more appropriate. The 3 year discount is closer to -5% providing an attractive entry for value investors and a bonus value for dividend seekers.