Ford Pulls Out Of Mexico

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Ford has announced it is scrapping plans to invest $1.6 billion in Mexico, but it might not matter.

Mexico And China; Trumping Trump

The first reaction to Trump's electoral victory by global markets was one of apprehension tinged with fear. With all the campaign rhetoric, threats of tariffs, the possibility of trade wars and frosty relations with our neighbors to the south there was reason. Trumps actions since the election have only reinforced those first emotions. Using his favorite method of public address, Twitter, President-Elect Trump has taken aim at a number of US businesses, the auto makers in particular, and that attention has led to several scrapping plans for investment in Mexico. Ford is only the latest. The US #2 automaker is no longer planning to invest $1.6 billion into a Mexican production facility, choosing instead to invest only a portion of the money into an existing plant in the US.

The common theme among Trump's attacks is business that has moved operations to Mexico in order to exploit a lower cost environment, and is then shipping product back to the US market tax free. While a concern for Mexico it is not the end of the world. Mexico does a lot of business with the US but it is not the only trading partner in the world. Global markets are expanding, if slowly, and Mexico is on the cutting edge. The country has been boosting it's manufacturing and export industries over the past five years and is now at the point of rivaling even China in terms of brand recognition. Hecho En Mexico are words found on products ranging from consumer goods to industrial products and a sign of quality. In numbers, Mexico's exports in the 80's were more than 60% oil related and are now more than 80% manufactured goods.

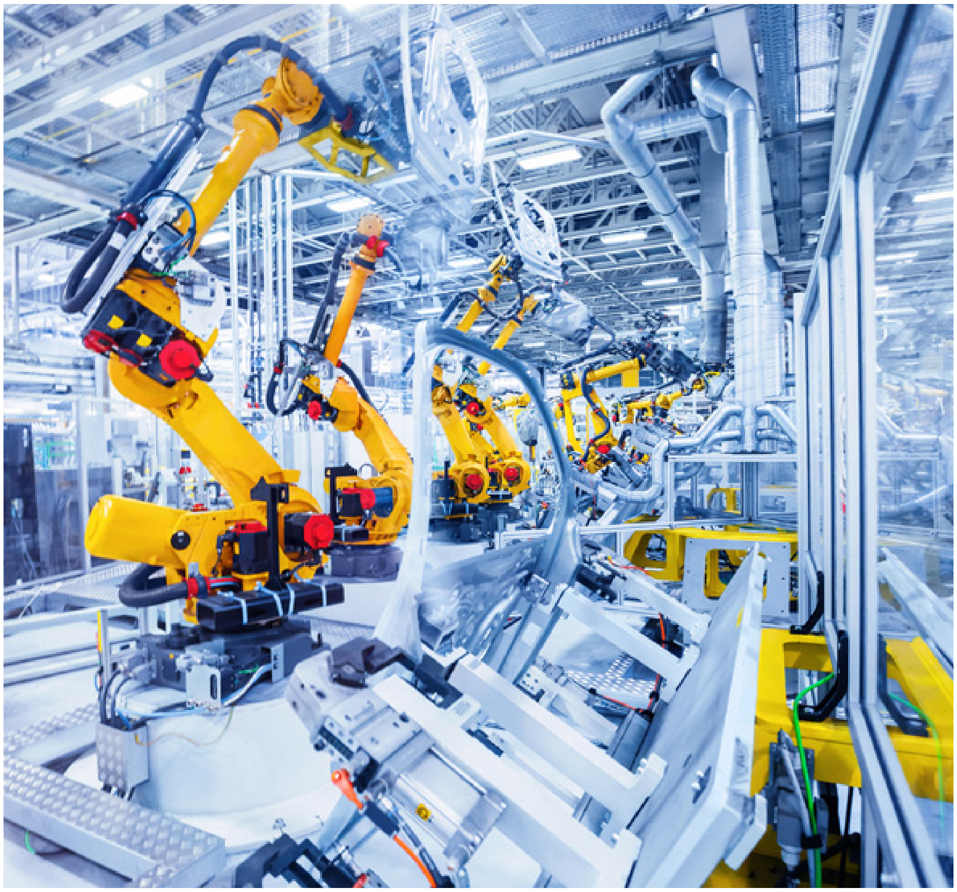
- China has been growing at a pace, albeit significantly lower than the peak pre-financial crisis, is still running a GDP greater than 6% while Mexico, under the guidance of President Enrique Pena Nieto, has been able to sustain average annual GDP growth around 2.5%.

The Law Of Unintended Consequences

While Trump remains a threat to global trade with his push to renegotiate NAFTA, the TPP and other deals what many have failed to recognize is that the US is not the only country to trade with, it's just the one that's consumer driven with a high population to disposable income ratio. Yes, Mexico is heavily dependent on North America and the US in particular but this is likely to change in the coming years, especially if some other, less publicized, events are any indication.

As with any tough decision comes the chance for unintended consequences. If Trumps intention is to keep jobs in the US, the unintended consequence is renewed and increased cooperation between Mexico and it's other trading partners, namely China. China and Mexico have long maintained positive trade relations despite an apparent cooling over the past year, a new pledge to enhance those ties only bodes well for both nations, and for the global economy at large.

The pledge came after a mid-December meeting between the nations top diplomats; Mexico's Foreign Minister Claudia Ruiz Massieu and Chinese State Councillor Yang Jeichi. In their statement the Mexican Foreign Ministry said that the two nations discussed enhancing trade, investment ties and improving airline connections. State Councillor Yang said that the relationship was "flourishing day by day" and that China wanted many of the same things as Mexico, namely improved trade. What this means in reality is yet to be seen.



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Another, unrelated, development adds credence to the idea that China and Mexico are on good terms and working toward the benefit of both nations. Mexico, as part of President Nieto's reforms and plans to privatize the energy sector, recently allowed China to win another, the second of two, major off-shore oil block in the Perdido Fold Belt. The Perdido Fold Belt is a zone close to the US-Mexico maritime border, the block acquired by the China Offshore Oil Corporation is estimated to contain 540.5 million barrels of light and extra-light crude, worth roughly $28 billion at today's prices.

China And Mexico, A Recipe For Results

What this means for investors is an opportunity to gain exposure in both these markets at a deep discount. Not only have the underlying markets been hit hard, some worse than others, actively managed funds invested in those markets have been hit harder. Many have seen a widening of their discounts to NAV that opens up new possibilities for value and income investors alike. The Asia Pacific Fund and the Mexico Fund are two such funds and both are trading near historic low discounts. This means that new investors can own a basket of stocks based on these two regions for less than it costs to purchase the stocks individually, and receive dividend distributions in line with the broad market average while holding them.

The Asia Pacific Fund is a closed end fund focused on the greater China Economic Arena, not just China, including Korea, Taiwan, Singapore, Thailand, Indonesia and Malaysia. It is traded on the NYSE under the ticker symbol APB and managed by Value Partners. Its net asset value is hovering around $11.36, with share prices trading near $9.60 gives a discount near -15.75%, just off the 6 year low. The fund targets small and mid cap issues that are undervalued with solid balance sheets and growth prospects. In terms of geography the portfolio is most heavily invested in Hong Kong, Korea and Hong Kong listed Chinese companies. In terms of sectors the fund is currently focused on industrials, real estate, the consumer, technology and financials. The top holding is China Construction Bank at 3.5% of portfolio. This fund was taken over by Value Partners late October, 2013 and since that time has reestablished distribution of dividends, about 2.25% at today's share prices.

The Mexico Fund is a closed end fund focused on Mexico. It's primary objective is long-term capital appreciation through investments in Mexican securities, primarily equities.

The fund targets Mexican corporations and international corporations with physical operations in Mexico with strong fundamentals and attractive valuations

In terms of allocation this fund diversifies its holdings among sectors with strong presence in the consumer, materials, financials and industrials sectors. The top three holdings, América Móvil, Grupo Financiero Banorte and Wal Mart de México make up roughly 23% of the portfolio. It trades on the NYSE under the ticker MXF and with share prices near $14 is offering a discount of -12.5%. With 3 and 6 year average discounts of 6%, and a managed distribution plan paying 3% of the prior years NAV, the potential for total returns over the next 12 months is attractive.

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