



MONTHLY REPORT
February 2010

THE MEXICO EQUITY AND INCOME FUND, INC.

Total Net Assets 2/28/10	NAV 2/28/10	Common Share Market Price 2/28/10
US\$73,918,338.33	US\$9.70	US\$8.12

MXE US Dollar Returns

As of 2/28/10	NAV	Common Share Market Price	Mexbol	MSCI Me- xico
Feb.	10.23	9.14	6.15	4.25
Y-t-d	7.18	6.14	0.87	-2.25
1 YEAR	103.78	97.57	114.68	102.37
Average Annual Dollar Return with Dividends Reinvestment				
5 YEAR	13.30	12.25	17.00	13.63
10 YEAR	12.46	12.94	13.95	10.17
Since Inception in 1990 as of 3/24/10 *	13.48	14.56	na	na

As of 12/31/09	NAV	Common Share Market Price	Mexbol	MSCI Me- xico
1 YEAR	52.27%**	22.20%	55.34%	56.71%
Average Annual Dollar Return with Dividends Reinvestment				
5 YEAR	13.44%	14.26%	18.42%	15.90%
10 YEAR	12.86%	14.08%	14.38%	10.65%

Source: Bloomberg, reinvesting gross dividend in security.

* Thomson. Inception Date 08/30/1990. Not yet adjusted by Thomson on payment date due to the dilution effect on January 27, 2009. Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data to the most recent month end may be obtained by calling U.S. Bancorp Fund Services, LLC, (414) 765-4255.

** Performance numbers were calculated according to the methodology explained in the Fund's memorandum released on August 2009, remarking the dilutive effect on Fund performance due to the large dividend from net income and distribution of capital gains paid in January, 2009 (available on the Fund's website).

SUMMARY

In February, the MXE's NAV per share gained 10.23% in dollar terms (12.77 pesos/U.S. dollar) and 8.10% in peso terms. For the year-to-date period ended February 28, 2010, the MXE's 7.18% NAV per share gain repositioned the fund as a leading performer, outperforming the Mexbol Total Return Index's 0.87% gain by 631 basis points and the MSCI Mexico Index's -2.25% loss by 943 basis points. Beta-growth companies, as classified by PAM, was the asset category that added the most value to the Fund's performance for the period January and February.

The Fund's common share market price increased 9.14% in dollar terms for the month of February and 6.14% y-t-d through February. The Fund's NAV discount widened 83 basis points at February 28, 2010 to -16.29% from -15.46% the previous month.

As of February's month end, equities accounted for approximately 85% of the Fund's assets, while 12% were invested in debt and readily available instruments, and 3% in private equity.

Mexico's central bank increased its 2010 economic growth forecast to a 4%-5% range on the back of a recovery in manufacturing exports as well as job creation, but believes the economy still has a lot of spare capacity, and that consumption and investment levels are likely to remain subdued for a while. The central bank held its benchmark interest rate steady at 4.5 percent on March 19.

At the end of last year, the Mexican Bolsa ranked among the worst calendar year performing global stock exchanges and as of February 28, ranked 10th among the top ten. Given its last 12 month lagging performance, we believe that the Mexican Bolsa has the potential to be the best performer in the Latam region in 2010, based on a strong rebound in GDP, an undervalued currency and an under-owned market (underinvestment in Mexican equities).

We believe that the Fund's outperformance in 2010 is the result of adequate asset diversification compared to the MSCI Mexico's 33% weight in Amx, which causes distortions when the stock suddenly rallies or remains flat.

Since most stock markets around the world hit bottom in March 2009, the

MXE's net asset value per share low of US\$ 4.60 on 03/06/2009 has rebounded to US\$ 9.70 as of 02/28/2010, which is a 110.87% dollar return, according to Bloomberg, and 72.50 basis points below the MSCI Mexico Index's 118.12% return for the same period.

I. PERFORMANCE AND INVESTMENT STRATEGY

The MXE's NAV per share posted an average annual dollar return (with dividends reinvested) of 13.48% for the last 19 1/2 years since inception in August 1990 through March 24, 2010. The Fund's common share market price registered a 14.56% gain, according to Thomson. For the 3, 5 and 10 year period, ending February 28, 2010, the MXE's NAV per share registered average annual dollar returns of -3.65%, 13.30%, and 12.46%, respectively.

The MXE has repurchased 261,591 shares at an average price of US\$7.90 for US\$ 2'061,658 in total between December 2009 and March 15th, 2010.

At the end of February PAM favored consumer staples (soft drinks-specialty stores and packaged foods & meats), industrials (toll road concessions and construction & engineering) and materials (copper and commodity-chemicals).

Regarding the Fund's investment in Discovery America II, a Mexican Bolsa-listed Private Equity fund, Atlas Capital Management reports three investments on which due diligence is being performed in the health, education and sports clubs sector. They have negotiated the purchase of around 35% of a company in the hospital services sector, with the rest requiring further negotiation. Pending issues regarding the acquisition of this company include corporate governance and controlling shareholders' rights. Negotiations should be completed in May and the investment amounts to between 15 and 25 million dollars.

Once an investment in a company has been made, PAM will present a formal fairvaluation report issued in accordance with the MXE's Portfolio Securities Valuation Policy to the MXE's Chairman of the Valuation Committee. This report will be based on Discovery Americas II's quarterly financial statements audited and valued by Deloitte & Touche, and KPMG, Atlas' independent auditor and valuation agent.

MXE Discount/Premium to NAV

As of	High (1 yr)	Low (1 yr)
02/28/2010	9/4/09	3/20/09
-16.29	-20.83	-13.51

Source: Bloomberg

Mexbol Index Best Performing Constituents in US Dollar terms in February 2010

Company	MXE % weight	One month ending 2/28/2010	Year-to-date ending 2/28/2010	1 year 2/28/09-2/28/10
KIMBERLY	0	18.38	18.58	71.30
GRUPO MEXICO	9.57	18.00	4.20	330.80
SORIANA	1.95	16.43	7.65	105.85
BIMBO	3.97	16.23	10.42	158.59
G R U P O CARSO	0	15.28	16.51	70.66
BOLSA MEX	0	14.58	22.24	128.16
BANORTE	0	13.90	2.36	254.38
INBURSA	0	13.41	19.08	81.61
G R U P O MODELO	0	12.82	-0.26	116.07
WALMART	7.90	12.61	11.21	167.62

Source: Bloomberg

Stock Exchanges Performance in US Dollar terms

Ticker	One month ending 2/28/2010	Year-to-date ending 2/28/2009	1 year 2/28/09-2/28/10
MEXBOL (Mexico)	6.14	0.86	110.73
Mexbol-Total Return Index	6.15	0.87	114.68
MSCI Mexico	4.23	-2.26	97.65
MSCI Mexico*1	4.25	-2.25	102.37
IPSA (Chile)	0.36	3.37	76.32
MERVAL (Argentina)	-3.98	-5.69	104.45
IBOV (Brazil)	6.23	-6.40	128.73
IBVC (Venezuela)	-5.10	-48.91	-13.23
IGBVL (Peru)	-2.74	0.19	139.39
IGBC (Colombia)	4.57	5.36	108.75
INDU*2 (U.S.)	2.95	-0.47	50.59
CCMP*3 (U.S.)	4.37	-1.20	64.02

*1 With dividends reinvested into index.

*2 Dow Jones, *3 Nasdaq.

Source: Bloomberg.

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The capital received from Atlas continues to be invested in Mexican treasury bills with a daily rollover at approximately 4.4% (as of March 17) and government development banks at a 50 basis points spread, with a yield of approximately 4.55%.

II. THE MEXBOL INDEX

In February the Mexbol Total Return Index gained 4.10% in nominal and 6.15% in dollar terms outperforming most LatAm markets, with the exception of Brazil (+6.23% in dollar terms). The Mexican peso closed February at 12.77 pesos/U.S. dollar registering a 2.44% y-t-d appreciation. We have seen pension funds and global dedicated investors buying Alpha-companies at these levels when volume rises.

For the one-year period ended February 28, 2010, the Mexbol Total Return Index's 114.68% dollar gain places it third within Latam markets overall, behind Peru (+139.38%) and Brazil (128.73%).

III. THE MEXICAN ECONOMY

According to the National Statistics Institute (INEGI), economic activity (IGAE -a Gross Domestic Product proxy) increased 0.50% year-over-year (y/y) in December 2009. Industrial output rose 1.6% y/y, service sector activity decreased -0.3% y/y, while agriculture sector activity weakened -0.5% y/y in the period.

Industrial production posted positive 3.6% y/y growth in January. Taking a look at the breakdown, the manufacturing, utilities, and mining sectors grew 8.0%, 2.6%, and 1.3%, respectively. On the other hand, the construction component fell -5.0% y/y.

In December 2009, gross fixed investment decreased -4.1% y/y. Investment in machinery and equipment registered a decrease of -8.6% y/y, while construction fell -0.40% y/y.

Retail sales declined 1.8% y/y in January compared to December's +1.6% annual rise.

The unemployment rate came in at 5.87% in January compared to last month's 4.80% rate.

January's trade balance posted a deficit of -US \$ 333 mn. Exports increased 26.7% on a 68.6% increase.

in oil exports and 20.7% increase in non-oil exports. Imports rose 17% on a year-over-year basis, due to an 89% increase in oil products and 11.2% in non oil products.

Headline inflation came in at 0.58% month-over-month in February. 12-month headline inflation stood at 4.83% vs. 4.60% the previous month.

IV. CONCLUSION

As we write this report, the Mexican Bolsa has hit 33,164 points on a daily average volume of approximately US\$400 million with the pension system continuing to drive asset appreciation along with overall bullish market sentiment.

Again, a higher economic growth rate depends on the country's ability to overcome the bureaucratic and political hurdles necessary to getting energy and fiscal reforms passed this year.

We feel comfortable with the current portfolio structure's overweight in large cap companies with an investment edge, solid corporate governance, clean balance sheets and a strong market presence.

*Yours sincerely,
Eugenia Pichardo,
Portfolio Manager*

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ECONOMIC DATA

Economic Activity Index

- According to INEGI, economic activity (measured by IGAE, a GDP proxy) increased 0.35% m/m in **December** 2009. Industrial output rose (1.0% m/m) along with services activities (0.49% m/m), while agriculture sector activity decreased (-1.66% m/m) in the period.

Industrial Activity

- Industrial production posted positive 3.6% y/y growth in **January**. Taking a look at the breakdown, the manufacturing, utilities, and mining sectors grew 8.0%, 2.6%, and 1.3%, respectively. On the other hand, the construction component slumped -5.0% y/y

Gross Fixed Investment

- In **December** 2009, gross fixed investment increased 0.19% m/m. Investment in machinery and equipment registered an increase of 2.27%, while construction fell (-) 1.06% m/m. On a yearly basis, gross fixed investment decreased (-4.1%), as a result of plunge in machinery and equipment investment (-8.6% y/y), and construction (-0.4% y/y).

Trade Balance

- January's trade balance posted a deficit of -US \$ 333 mn. Exports increased 26.7% on a 68.6% increase in oil exports and +20.7% in non-oil exports. Imports rose 17% on a year-over-year basis, due to an 89% increase in oil products and 11.2% in non oil products.

Mexican Oil Mix

- The price of the Mexican oil mix closed **February** at US\$71.65 per barrel translating into a 6.67% increase for the month and a 75.91% increase for the year.

Retail Sales

- Retail sales declined -1.8 y/y (-0.65% m/m) in **January**. This number was explained by an ongoing contraction in sales of household appliances (-6.2% y/y) and cars (-10.2% y/y), while sales of food and beverages, department store sales, and apparel continued consolidating positive rates of growth (+5.9% y/y, +1.0% y/y, and 9.0% y/y, respectively).

Unemployment

- The unemployment rate came in at 5.87% in **January**. The unemployment rate was way above the Bloomberg consensus of 5.30% and last month's 4.80% rate.

Monetary Policy

- Banco de Mexico left its benchmark rate unchanged at 4.5%. In its post-meeting communiqué, the Central Bank mentioned that "observed inflation doesn't appear to show second-round effects"; however, the bank's board acknowledged that some prices have increased above recent tax hikes.

Inflation

- **February's CPI** came in at 0.58% month-over-month. General prices showed a variation of 0.40% during this month. Core inflation came in at 0.66%, slightly above the market consensus of 0.64%. These figures left 12-month headline inflation at 4.46%, far above last month's 3.57% print.



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ECONOMIC PROJECTIONS

Structure of GDP:

70%
24%
29%
(32%)

	2005	2006	2007	2008	2009e	2010e
National Accounts						
Real GDP growth (y/y)	3.0%	4.8%	3.2%	1.3%	-7.1%	3.6
GDP (US \$bn.)	769.4	843.6	886.0	1,099.0	865	967
Consumption (Chg. y/y)	5.4%	6.0%	4.3%	2.2%	-6.1%	3.4%
Investment (Chg. y/y)	7.6%	11.5%	7.4%	4.4%	-15.1%	22.5%
Exports (Chg. y/y)	6.9%	10.3%	6.2%	1.3%	-18.2%	7.2%
Imports (Chg. y/y)	8.7%	13.1%	7.1%	5.5%	-20.1%	8.7%
Monetary and Exch. Rate Ind.						
CPI Inflation (Year-end)	3.3%	3.8%	3.8%	6.5%	4.10%	4.80%
US\$ Exchange Rate (Year-End)	10.6	10.9	10.9	13.40	12.80	13.10
28day Cetes Int. Rate (Year-End)	8.2%	7.1%	7.4%	7.9%	4.51%	NA
Balance of Payments						
Trade Balance (US\$bn.)	-7.6	-6.1	-12.4	-16.8	-10.9	-12.7
Exports (US\$bn.)	214.2	253.9	270.6	291.8	223.6	247.2
Imports (US\$bn.)	221.8	260.0	283.0	308.6	234.6	260.0
Transfers (US\$bn.)	20.5	24.0	24.3	25.5	22.0	22.9
Current Account (US\$bn.)	-4.6	-2.4	-9.0	-15.5	-7.8	-11.60
Current Account (%GDP)	-0.7	-0.3	-1.0	-1.4	-0.9	-1.2
Foreign Direct Inv. (US\$bn.)	18.8	17.9	21.6	27.2	17.0	18.0
Debt Profile						
International Reserves (US\$bn.)	68.7	71.5	76.5	85.4	85.0	91.9

Source: Banamex.

PAM's investment team

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Disclosures and Definitions

The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling U.S. Bancorp Fund Services, LLC, (414) 765-4255. Read it carefully before investing.

Mutual fund investing involves risk. Principal loss is possible.

Investing in Foreign Securities

Investment in Mexican securities involves special considerations and risks that are not normally associated with investments in U.S. securities, including (1) relatively higher price volatility, lesser liquidity and small market capitalization of the Mexican securities markets; (2) currency fluctuations and the cost of converting Mexican pesos into U.S. dollars; (3) restrictions on foreign investment and potential restrictions on repatriation of capital invested in Mexico and remittance of profits and dividends accruing thereon; (4) political, economic and social risks and uncertainties, including risks of confiscatory taxation and expropriation or nationalization of assets; (5) higher rates of inflation, unemployment and interest rates than in the United States; and (6) less stringent disclosure requirements, less available information regarding Mexican public companies and less active regulatory oversight of Mexican public companies.

Mexican Economic and Political Factors. Although Mexico's economy has strengthened in recent years and Mexico's sovereign debt was recently upgraded to an "investment-grade" rating by the three most prominent rating agencies, including Standard and Poor's, Mexico continues to be characterized as a developing economy and investments in developing countries are subject to certain economic risks. Mexico has experienced widespread bank failures, currency devaluations, high levels of inflation and interest rates. Mexico is also dependent on certain industries and exports for the health of its economy. The Portfolio Securities are denominated in pesos. As a result, the Portfolio Securities must increase in market value at a rate in excess of the rate of any decline in the value of the peso against the U.S. dollar in order to avoid a decline in their equivalent U.S. dollar value.

Mexican Securities Laws and Accounting Rules. There is less publicly available information about the issuers of Mexican securities, such as the Portfolio Securities, than is regularly published by issuers in the United States. Information provided by Mexican public companies may not be current, accurate or easily obtainable and, to the extent available, is likely to be in Spanish. Also, there is generally less governmental supervision and regulation of exchanges, brokers and issuers in Mexico than there is in the United States. U.S. holders of Portfolio Securities may also experience difficulties enforcing U.S. laws or obtaining service of process against the issuers of the Portfolio Securities.

- *MEXBOL-Mexico Bolsa Index: The Mexican Bolsa Index, or the IPC (Indice de Precios y Cotizaciones), 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 as of October 30, 1978.*
- *Mexbol-total return index. The Mexican Bolsa index that calculates the performance of their constituents assuming that all dividends and distributions are reinvested.*
- *IPSA-Chile Stock Market Select: The IPSA Index (Indice de Precios Selectivo de Acciones) is composed of the 40 stocks with the highest average annual trading volume in the Santiago Stock Exchange (Bolsa de Comercio de Santiago). On the last trading day of the year, the index is re-based back to 1000. The index has been calculated since 1977 and is revised on a quarterly basis.*
- *MERVAL-Argentina Merval Index: The Argentin Merval Index, a basket weighted index, is the market value of a stock portfolio, selected according to participation in the Buenos Aires Stock Exchange, number of transactions and trading value. The index has a base value of \$0.01 as of June 30, 1986. The index is revised every 3 months, taking into account trading volumes over the past 6 months.*
- *IBOV-Brazil Bovespa Stock Exchange Index: The Bovespa Index is a total return index weighted by traded volume and is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange. The Bovespa Index has been divided 10 times by a factor of 10 since January 1, 1985, those dates are: 12/02/85, 04/14/89, 05/28/91, 01/26/93, 02/10/94, 08/29/88, 01/12/90, 01/21/92, 08/27/93, 03/03/97.*
- *IBVC-Venezuela Stock Market Index: The IBC Index from the Caracas Stock Exchange (Venezuela), also known as the General Index, is a capitalization-weighted index of the 15 most liquid and highest capitalized stocks traded on the Caracas Stock Exchange (Bolsa de Valores de Caracas). The index was modified from a previous existing index on August 28, 1997, but essentially continues to be the same.*
- *IGBVL-Peru Lima General Index: The IGBVL Index is a value weighted index that tracks the performance of the largest and most actively traded stocks on the Lima Exchange. The index was developed with a base value of 100 as of December 31, 1981.*
- *IGBC-IGBC General Index: The IGBC Index from the Colombia Stock Exchange, also known as the General Index, is Price-weighted index of the liquid and highest capitalized stocks traded on the Colombia Stock Exchange (Bolsa de Valores de Colombia). This index was merged with Medellin and Occidente since 7/3/01.*
- *INDU-Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.*
- *CCMP-Nasdaq Composite Index: The Nasdaq Composite Index is a broad-based capitalization-weighted index of stocks in all three Nasdaq tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.*

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- *MSCI MEXICO: The Morgan Stanley Capital International Index Mexico is a capitalization weighted index that monitors the performance of stocks from Mexico.*
- *M10Y Bond: The Underlying Asset is the Fixed Interest Rate Federal Government Development Bonds, issued or to be issued by the federal government, through the Ministry of Finance and Public Credit, and placed by the Central Bank (Banco de Mexico), in its capacity as financial agent of the federal government, at a par value of 100 (one hundred) Mexican pesos, and for a term of 10 (ten) years.*
- *M20Y Bond: The Underlying Asset is the Fixed Interest Rate Federal Government Development Bonds, issued or to be issued by the federal government, through the Ministry of Finance and Public Credit, and placed by the Central Bank (Banco de Mexico), in its capacity as financial agent of the federal government, at a par value of 100 (one hundred) Mexican pesos, and for a term of 20 (twenty) years.*

You cannot invest directly in an index.

Beta measures the volatility of the fund, as compared to that of the overall market. The Market's beta is set at 1.00; a beta higher than 1.00 is considered to be more volatile than the market, while a beta lower than 1.00 is considered to be less volatile.

Basis point (bps) is one hundredth of a percentage point (0.01%).

The net asset value per share (NAV) is calculated as the total market value of all the securities and other assets held by a fund minus the total liabilities, divided by the total number of common shares outstanding. The NAV of an investment company will fluctuate with the changes in the market prices of the underlying securities. However, the market price of a closed-end fund is determined in the open market by buyers and sellers. This public market price is the price at which investors may purchase or sell shares of a closed-end fund. The market price of a closed-end fund fluctuates throughout the day and may differ from its underlying NAV, based on the supply and demand for a fund's shares on the open market. Shares of a closed-end fund may trade at a premium to (higher than) or a discount to (lower than) NAV. The difference between the market price and the NAV is expressed as a percentage that is either a discount or a premium to the NAV, or underlying value.

Alfa-defensive companies: is an asset classification created by PAM and is based on the following criteria: high total annual yield, clean balance sheet, market share dominance and pricing power.

Beta-growth companies: is an asset classification created by PAM and is based on the following criteria: oversold stocks with consistent sales and EBITDA (Earnings before Interest, Tax, Depreciation and Amortization) growth, especially in the infrastructure and housing sectors.

Special Situation companies: is an asset classification created by PAM and is based on the following criteria: High discount to companies' valuation.

Diversification does not assure a profit or protect against loss in a declining market.

Growth stocks typically are more volatile than value stocks; however, value stocks have a lower than expected growth rate in earnings and sales.

Earnings before interest, taxes, depreciation and Amortization (EBITDA): an indicator of a company's financial performance and it is essentially Net Income with interest, taxes, depreciation, and amortization added back to it. EBITDA can be used to analyze and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions. However, this is a non-GAAP measure that allows a greater amount of discretion as to what is (and is not) included in the calculation.

Earnings per share (EPS) is calculated by taking the total earnings divided by the number of shares outstanding.