

MONTHLY REPORT
January 2010
THE MEXICO EQUITY AND INCOME FUND, INC.
SUMMARY

The MXE's NAV per share lost -2.76% in both dollar and peso terms as the Mexican Peso remained flattish in January. The Mexbol Total Return Index (TRI) lost -4.97% and the MSCI Mexico Index (TRI) -6.23%.

Alfa and Beta asset categories registered mixed performance and volatility during the month of January.

We believe one of the main reasons for the MXE's 347 basis points over-performance of MSCI Mexico (TRI) in the month of January is the Fund's greater diversification in terms of percentage allocation by issuer, with no one single stock accounting for more than 13% compared to the MSCI Mexico Index's 33% weighting in AMX (America Movil). Amx lost 7.05% in dollar terms in the month of January. Amx accounted for 12.58% of the MXE's total assets as at end-January.

Risk aversion increased at the end of January, mainly due to President Obama's January 21st abrupt shift on U.S. banking regulation with a plan to cap banks' size, ban their proprietary trading and curb their involvement in hedge funds and private equity.

At end-January equities accounted for approximately 88% with 8.26% in cash and readily available debt instruments. The Fund's NAV discount ended January at -15.48%, widening 909 basis points from -6.39% one year ago.

The investment in Atlas Discovery trust II accounted for 3.37% of the portfolio. Atlas Capital Management informed that as of the end of January there has been no material changes in the value of the Atlas Discovery trust II. They confirmed that in the short period of approximately 50 days, the Fund has not yet made any private equity investments and the net proceeds of the offering have been invested in short-term government securities earning a rate of approximately 4.50%. They also confirmed that issuance expenses will not materially affect the value of the trust, as these expenses will be amortized during the life of the trust. These considerations support authorized Mexican price vendors' valuation of this security at par since inception.

The Atlas Discovery trust II is subject to Mexbol reporting requirements. KPMG will be calculating and providing quarterly valuations for all portfolio companies within 40 days following the end of each quarter. Such external valuations will be used by the trust's independent auditor for the preparation of the trust's financial

statements as well as by the price vendors for the daily publication of the security's price.

We continue to monitor company valuations as at 4Q'09 and 2012 earnings per share estimates. The MXE is likely to outweigh companies with an investment edge and solid balance sheet given the dilemma of unemployment, flat consumption and lower economic growth.

I. PERFORMANCE AND INVESTMENT STRATEGY

For the MXE's semiannual period ended January 30th, 2010, the Fund's NAV per share gained 19.40% in dollar terms, outperforming the Mexbol's 14.87% gain by 453 basis points and the MSCI Mexico Index's 13.83% gain by 557 basis points. The Beta asset classification mainly related to medium cap companies added the most to the MXE's return.

The ten-issuers that contributed the most negative points to the Mexbol Index for the MXE's semi-annual period were not included in the MXE's portfolio throughout the period.

The Fund's common share market price decreased -2.75% in dollar terms for the month of January but rose 45.03% for the one-year period through January '10, according to Bloomberg. For the MXE's semi-annual period ended January 30th, 2010, the Fund's common share market price increased 22.37% in dollar terms.

The monthly average Alfa, Beta and Special Situation companies allocation for the MXE's semi-annual period was 28%, 42% and 15%, approximately. Small, Medium and Large Cap allocations were 28%, 22% and 39% as at end-January.

II. THE MEXBOL INDEX

In January the Mexbol Total Return Index lost -5.38% in nominal terms and -4.97% in dollar terms due to a rebound in global risk aversion, mainly in response to President Obama's financial reform proposal aimed at reducing the risks banks take, and uncertainty about the impact that China's recent restrictive measures to contain excess liquidity and inflation could have on global growth. The Mexican peso was flattish during the month closing at \$13.09 pesos/U.S. dollar.

For the one-year period ended January, 30th, 2009, the Mexbol Total Return Index's 73.44% dollar gain continues to underperform Latam markets as a whole. In

Total Net Assets 1/31/10	NAV 1/31/10	Common Share Market Price 1/31/10
US\$ 68,044,201	US\$8.80	US\$7.44

MXE US Dollar Returns

As of 1/31/10	NAV	Common Share Market Price	Mexbol	MSCI Me- xico
Jan.	-2.76%	-2.75%	-4.97%	-6.23%
Y-t-d	-2.76%	-2.75%	-4.97%	-6.23%
1 YEAR	60.58%	45.03%	73.44%	68.35%
Average Annual Dollar Return with Dividends Reinvestment				
5 YEAR	12.68%	13.16%	16.96%	14.40%
10 YEAR	13.07%	14.42%	14.86%	11.13%
Since Inception in 1990 as of 2/05/10 *	12.58%	13.32%	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).

MXE Discount/Premium to NAV

As of	High (1 yr)	Low (1 yr)
1/31/2010	3/20/09	2/06/09
-15.46%	-20.83%	-11.97%

Source: Bloomberg

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

Company	MXE % weight	One month ending 1/31/2010	Year-to-date ending 1/31/2010	1 year 1/31/09-1/31/10
Mexchem	4.88%	12.05%	12.05%	196.09%
Gruma	2.46%	11.79%	11.79%	354.06%
Grupo Famsa	0%	7.41%	7.41%	417.75%
Bolsa Mexicana	0%	6.68%	6.68%	84.80%
Grupo Financiero Inbursa	0%	5.00%	5.00%	36.71%
ICA	0%	4.75%	4.75%	47.32%
Elektra	0%	3.27%	3.27%	123.94%
Grupo Aeroportuario del Pacifico	0%	1.51%	1.51%	68.99%
Alfa	0%	1.10%	1.10%	284.82%
Grupo Carso	0%	1.06%	1.06%	37.48%

Source: Bloomberg

Stock Exchanges Performance in US Dollar terms

Ticker	One month ending 1/31/2009	Year-to-date ending 1/31/2009	1 year 1/31/09-1/31/10
MEXBOL (Mexico)	-4.97%	-4.97%	70.27%
Mexbol-Total Return Index	-4.97%	-4.97%	73.44%
MSCI Mexico	-6.23%	-6.23%	64.44%
MSCI Mexico*1	-6.23%	-6.23%	68.35%
IPSA (Chile)	2.10%	2.10%	75.84%
MERVAL (Argentina)	-1.78%	-1.78%	97.03%
IBOV (Brazil)	-11.89%	-11.89%	103.83%
IBVC (Venezuela)	-46.16%	-46.16%	-3.91%
IGBVL (Peru)	3.01%	3.01%	132.61%
IGBC (Colombia)	2.69%	2.69%	91.56%
INDU*2 (U.S.)	-3.32%	-3.32%	29.83%
CCMP*3 (U.S.)	-5.34%	-5.34%	46.93%

*1 With dividends reinvested into index.

*2 Dow Jones, *3 Nasdaq.

Source: Bloomberg.

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dollar terms, Peru gained 132.61% followed by Brazil +103.83%, Argentina +97.03%, Colombia +91.56%, Chile +75.84% and Venezuela -3.91%.

III. THE MEXICAN ECONOMY

Recent economic data continue to point to a sustained economic recovery in the fourth quarter of the year driven by external demand. Manufacturing output has recovered significantly, showing an almost flat rate in November (-0.1% y/y) after contracting at an average rate of 13.3% year-over-year (y/y) in the first nine months of the year, due mainly to the rebound in car production.

In November, IGAE (GDP proxy) fell -1.5% y/y but rose 1.5% month-over-month (m/m) as a result of a m/m expansion in all components. Taking a look at the breakdown, the services sector decreased -2.0% y/y, the industrial sector -1.0% YoY while the agricultural sector expanded 1.9%.

Gross Fixed Investment fell -14.0% y/y and -1.6% m/m in October. Machinery and equipment decreased -2.8% y/y during the month, while the construction subcomponent slipped -1.0% y/y.

The unemployment rate came in at 4.8% in December to average 5.3% during the fourth quarter of 2009. December's figure was the second consecutive slowdown in the unemployment rate driving it to its lowest level since March 2009.

Family remittances increased 4.35% m/m in December amounting to US\$1.56 bn.

In December the trade balance posted a deficit of US\$248 million. During the month exports rose 22.8% y/y, mainly on the back of a 93.2% y/y increase in oil exports and a 15.4% y/y rise in non-oil exports. The latter was due to growth rates of 13.4% in exports to the US and 24.2% in exports to the rest of the world. Imports on the other hand rose 11.7%.

In its 4Q09 inflation report, Banxico maintained 2010 inflation expectations at 5.25%, estimated GDP growth of 3.2% in 2010 and 4.2% in 2011, and an estimated current account deficit of -1.2% of GDP in 2010. Governor Carstens also announced that the bank will institute a program to accumulate reserves.

IV. CONCLUSION

As at the MXE's semi-annual period, ending January 30, 2010, the Fund's NAV per share posted an average annual dollar return (with dividends reinvested) of 12.59% for the last 19 1/2 years, since inception in August 1990.

The MXE's share buyback amounted to 75,410 common shares bought at an average price of US\$ 7.8516 per share in January, or US\$ 592,090, representing 0.82% of the MXE's total monthly average assets.

We continue to closely monitor Mexico's political reform and consumption trend and our company valuation methodology, adjusting EPS each quarter in accordance with the consensus compound annual EPS growth estimate for the next 3 years.

We continue to focus our decision making on stock specifics and monitoring our non-indexed investment strategy.

*Yours sincerely,
Eugenia Pichardo,
Portfolio Manager*

ECONOMIC DATA

Economic Activity Index

- According to INEGI, economic activity (proxied by IGAE) declined only 1.5% y/y in **November**. This result comes as a result of a reduction in annual terms of industrial output (-1.0% y/y) and services activities (-2.0% y/y), while the agriculture sector expanded 1.9% y/y in the period. Even though in annual terms comparisons are still negative, sequential comparisons continue to point to a substantial recovery of economic activity levels. In November, economic activity expanded 1.5% m/m in seasonally adjusted terms as a result of the expansion of all three of its components.

Industrial Activity

- **November's** industrial output expanded 1.05% m/m. This result was on the back of an increase of 1.91% m/m in manufacturing activity and a 0.01% m/m increase in utilities. Meanwhile, construction and mining decreased compared with the previous month by 0.02% m/m and 0.28% m/m, respectively.

Gross Fixed Investment

- Gross fixed investment decreased 14% y/y in **October**. Such performance was explained by the decline in machinery and equipment investment of 24.9% y/y, while investment in construction decreased 5.3% y/y. In seasonally adjusted figures, total investment fell 1.6% m/m over the preceding month on the back of lower spending in machinery and equipment (-2.8% m/m) as well as in construction (-1.0% m/m).

Trade Balance

- **November's** trade balance posted a deficit of US\$195m. Exports came in at US\$22.3bn, expanding 10% year-over-year, mainly as a result of an increase in non-oil exports of 6.5%, while oil exports increased 37%. Imports dropped -3.2% to US\$22.5bn on a year-over-year basis. Oil imports contracted -29.9% year-over-year while non-oil imports fell -0.1%.

Mexican Oil Mix

- The price of the Mexican oil mix closed **January** at US\$67.17 per barrel translating into a -8.53% decrease in the month and +67.55% increase during one-year.

Retail Sales

- Retail sales continued curbing their decline in **November**, falling only 1.5% y/y, better than expected on the back of the reduction in sales of appliances and other durable goods (-11.3% y/y), while sales in the car sector have curbed their rate of decline significantly (-4.6% y/y vs. An average of -12.6% y/y in the first ten months of 2009). In the meantime, sales of non-discretionary items such as food and beverages along with sales in supermarket and department stores showed positive rates of growth, expanding 7.4% y/y and 0.8% y/y, respectively.

Unemployment

- Mexico's employment situation continued to improve in **December**, as the unemployment rate reported eased to 4.80% from 5.26% in November.

Monetary Policy

- Banco de México decided to keep unchanged at 4.5% its key interest rate in **January**. The decision was primarily based on the belief that recent increases in basic products, public services, and sale taxes might not result in a potential inflation spiral, and that GDP growth below potential is likely to help maintain price pressures under control.

Inflation

- Consumer prices rose by 1.09% mom, 4.46% yoy in January. Core prices rose 0.66% mom, 4.70% yoy, versus an expectation of 0.62%. Annual headline inflation increased by a significant 89bp relative to December, and it is likely to continue rising through midyear. The full impact of the fuel price hikes and the tax increases has yet to passthrough to prices.



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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.

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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.