

**MONTHLY REPORT**  
**January 2011**
**THE MEXICO EQUITY AND INCOME FUND, INC.**
**SUMMARY**

For the one-month period ending January 31, 2011, the MXE's net per share value decreased -1.33% in dollar terms compared with the Mexbol Total Return Index (TRI)'s dollar loss of -2.43% and the MSCI Mexico Index's -2.84% loss. Beta-high growth companies within cyclical industries helped the MXE to register a lower loss compared with the other indexes.

In January global equities investors moved out of emerging markets into so-called developed equity markets as a result of President Obama's fiscal stimulus at the end of December, which turned out to be approximately 200 basis points (bps) above what the market was expecting as a percentage of GNP.

Equities accounted for 94% of the Fund's total assets, while 3% was invested in debt and readily available instruments, and 3% in private equity as of January 31, 2011.

We believe that investors remain bullish about the Mexican Bolsa, as a scenario of stronger GDP growth materializes on the back of solid macro fundamentals such as a modest fiscal deficit, low debt levels, and international reserves at historical high levels. Flow dynamics are also supportive due to approximately US\$110 billion assets under management from the pension system (17% authorized in equities).

The Latam region is likely to continue to benefit from its risk profile (largely an investment grade) as well as the benefits of economic growth, such as a growing middle class and increasing bank penetration, a surge in consumer confidence, and improvement in employment, which are boosting private consumption, company earnings and investment plans. (Source: Santander).

Domestic consumer data (retail sales and consumer confidence) were weak in January. However, industrial production beat consensus expectations on strong manufacturing and construction trends. The Central Bank continued to hold rates steady at 4.5%, as expected, despite

increasing global commodity prices and signs of rising inflation.

We continue to adhere the MXE to our investment strategy set up in December 2008 favoring stock specifics with solid balance sheets and growth related to consumption, materials, and mining (silver and gold), as well as cell telephony related to Latam demographics.

We also believe Mexico is well positioned to achieve balanced growth with a strong government fiscal position and a flexible exchange rate regime that has allowed the Mexican economy to plot its place within the current global environment as one of the best positioned emerging economies.

**I. PERFORMANCE AND INVESTMENT STRATEGY**

For the one-year period through January 31, 2011, the MXE's 44.01% net per share asset value dollar gain continued to outperform the Mexbol Index's 32.24% gain by 1,177 bps and the 32.22% MSCI Mexico Index risen by 1,179 bps. (Source: Bloomberg).

The MXE's net per share asset value registered a 16.08% average annual dollar return (with dividends reinvested), since the Fund's inception in August 1990, through February 2, 2011. The Fund's common share market price registered a 15.81% average annual dollar gain for the same period. (Source: Thomson).

We will continue to balance the MXE portfolio among PAM's three asset classes established at end-December 2008:

- i) Alfa-High Total Annual Yield = cash dividend + buybacks (usually beta<market),
- ii) High growth = cyclical industries (usually beta>market), and
- iii) Special Situations = Discounted stocks to their intrinsic value, as calculated by PAM, targeting Medium & Small caps.

PAM's in-house rating and valuation methodology along with a qualitative analysis of the companies will continue to be the main tools of our investment

Total Net Assets 01/31/2011	NAV 01/31/2011	Common Share Market Price 01/31/2011
US\$	US\$	US\$
88,932,905.55	12.65	11.29

**MXE US Dollar Returns as of January 31, 2011**

As of	NAV	Common Share Market Price %	Mexbol	MSCI Mexico
01/31/2011	%		%	%
January	-1.33	-0.35	-2.43	-2.84
Y-t-d	-1.33	-0.35	-2.43	-2.84
1 YEAR	44.01	52.06	32.24	32.22
Average Annual Dollar Return with Dividends Reinvestment				
5 YEAR	11.76	14.07	12.90	10.02
10 YEAR	17.01	17.23	18.19	14.06
Since MXE's Inception on August 30, 1990	16.08*	15.81*	7.67	13.78

\* Period: 08/31/1990-02/08/2011.

**MXE US Dollar Returns as of December 31, 2010**

As of	NAV	Common Share Market Price %	Mexbol	MSCI Mexico
12/31/2010	%		%	%
1 YEAR	41.91	48.41	28.79	27.61
Average Annual Dollar Return with Dividends Reinvestment				
5 YEAR	14.29	18.28	15.18	12.43
10 YEAR	18.62	19.36	20.07	16.00
Since MXE's Inception on August 30, 1990	14.81*	15.20*	7.87	14.00

\* Period: 08/31/1990-01/03/2011.

Source:

MXE's NAV and Common Share Market Price Returns:

I) Monthly, year-to-date, 1- and 5-year: US Bancorp.

II) 10-year: Bloomberg.

III) Since MXE's inception: Thomson.

Mexbol and MSCI Mexico indexes' returns: Bloomberg.

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.

### MXE Discount/Premium to NAV

As of	Low (1 yr)	High (1 yr)
01/31/2011	02/19/2010	11/12/2010
-10.751	-18.238	-8.765

Source: Bloomberg

## THE MEXICO EQUITY AND INCOME FUND, INC.

decision. Percentage allocation by stock continues to be the most relevant element along with our qualitative analysis and local expertise, as well as momentum and one-on-one meetings with management.

second half of 2011. Capital inflows remain strong. (Source: Banco de México).

The rebound in inflation at the end of 2010 was in accordance with what Banxico expected and is mainly associated with higher core inflation (especially farm products). During the final three months of the year core inflation was stable and in 2010 decreased by 85 bp year over year on favorable exchange rate performance, a negative production gap and modest cost pressures. (Source: Banco de México).

Regarding the marked increase in the prices of some products Banxico notes that: i) price reviews normally occur at the beginning of the year; ii) upward pressures on annual inflation have eased since January 2011; and iii) exchange rate appreciation has partially offset increases in the international prices of diverse commodities. Consequently headline inflation is still expected to resume a clear downtrend in 2011 and Banxico has opted to hold the benchmark rate steady at 4.5%. (Source: Banco de México).

*Yours sincerely,  
Eugenia Pichardo,  
Portfolio Manager*

### II. THE MEXBOL INDEX

The Mexbol Total Return Index lost -4.07% in nominal terms in January but gained 23.29% for the one-year period ending January 31, 2011. Arca, Alfa, Telmex and Urbi were the only stocks to post positive returns for the month. Cemex, Homex and Kimberly Clark were the worst-performing stocks for the month.

As of January 31, 2011 the Mexico Equity and Income Fund, Inc held 2.97% Arca, 4.11% Alfa, 0% Telmex, 0% Urbi, 1.27% Cemex, 0% Homex and 2.99% Kimberly Clark.

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

During the month Global Emerging Markets, GEMs (-2.8%) underperformed developed markets (2.2%) on higher inflation and tightening concerns in emerging markets as well as an improved outlook for the U.S. economy. The deterioration in the political situation in Egypt triggered a strong spike in risk aversion followed by a general decline in equity markets, a stronger dollar against most currencies, a decline in U.S. bond yields (as a result of a flight to quality) and a rebound in oil prices and gold.

### III. THE MEXICAN ECONOMY

The Mexican economy continued to recover during the final months of 2010; external demand appears to be picking up at a faster pace, domestic demand has experienced a more marked and generalized expansion, private consumption has continued to grow, and investment is already showing a more positive trend. The production gap has been closing at a faster pace and is expected to become positive towards the

### Mexbol Index Best Performing Constituents in US Dollar terms in January 2011

Company	MXE weight %	One month ending 01/31/2011 %	Year-to-date ending 01/31/2011 %	1 year 01/31/10-01/31/11 %
GRUMA	0	15.42	15.42	9.51
ARCA	2.97	9.91	9.91	69.31
ALFA	4.11	8.02	8.02	70.77
TELMEX	0	6.89	6.89	12.12
GENOMMA LAB	3.26	5.70	5.70	116.50
URBI	0	3.01	3.01	13.44
COMERCI	0	2.58	2.58	54.02
ARA	3.89	2.11	2.11	-2.41
CHEDRAUI	0	1.57	1.57	10.74
INDUSTRIAS CH	0	1.20	1.20	26.64

Source: Bloomberg

### Stock Exchanges Performance in US Dollar terms

Ticker	One month ending 01/31/2011 %	Year-to-date ending 01/31/2011 %	1 year 01/31/10-01/31/11 %
MERVAL (Argentina)	1.24	1.24	52.12
IBVC (Venezuela)	1.16	1.16	24.90
IGBC (Colombia)	-0.60	-0.60	41.12
IGBVL (Peru)	-0.71	-0.71	63.60
MEXBOL (Mexico)	-2.43	-2.43	30.52
MEXBOL-Total Return Index	-2.43	-2.43	32.24
MSCI Mexico	-2.84	-2.84	30.54
MSCI Mexico*1	-2.84	-2.84	32.22
IBOV (Brazil)	-4.67	-4.67	14.63
IPSA (Chile)	-8.15	-8.15	33.08
INDU (Dow Jones, U.S.A.)	2.85	2.85	21.35
CCMP (Nasdaq, U.S.A.)	1.81	1.81	27.07

Source: Bloomberg

\*1 With dividends reinvested into index.



## THE MEXICO EQUITY AND INCOME FUND, INC.

### ECONOMIC DATA

#### Economic Activity Index

In **November 2010**, according to INEGI, economic activity (IGAE -a Gross Domestic Product proxy) increased 0.68% month over month (m/m). In seasonally-adjusted terms, the agricultural sector's activities increased 10.91%, the services sector's activities 0.31%, and the industrial ones 0.21%. This proxy increased 5.8% year over year (y/y) in the referred month.

#### Industrial Activity

In **November 2010**, industrial production increased 0.21% m/m, and 5.3% y/y. Construction increased 1.20%, Utilities 0.66%, and Manufacturing Industries 0.51%, while Mining decreased (-)0.07% m/m.

#### Gross Fixed Investment

In **November 2010**, gross fixed investment (GFI) decreased -0.36% m/m. Expenses in machinery and equipment dropped -0.31%, while the construction subcomponent increased 0.31% m/m. GFI posted a 7.8% y/y growth.

#### Trade Balance

The trade balance of **November 2010** posted a deficit of USD(-)105 million. Total exports increased 25.9% y/y on a 24.8% increase in non-oil exports and 32.1% increase in oil exports. Non-oil exports' figure was due to an increase of 24.2% in exports to the US, and 27.5% to the rest of the world. Imports grew in this month 25.6% y/y.

#### Mexican Oil Mix

As of end-**January**, the price of the Mexican oil mix was of USD\$87.39 per barrel, translating into a 4.65% increase in a month, and 30.10% in one year.

#### Retail Sales

In **November 2010**, retail sales registered an increase of 2.4%, compared to the same month of 2009.

#### Unemployment

In **December 2010**, the unemployment rate came in at 5.55%. Taking a look at the breakdown by gender, unemployment in men increased from 4.98% to 5.25% y/y, and that in women decreased from 4.50% to 4.41% y/y, in the same month.

#### Monetary Policy

Banco de México left its benchmark rate unchanged at 4.5% in **January**.

#### Inflation

CPI of **December 2010** came in at 0.50% month-over-month. General annual inflation came in at 4.40%. Core prices increased 0.47% during the month. General prices registered an annual variation of 3.61% versus the previous month's print (+3.63%).



THE MEXICO EQUITY AND INCOME FUND, INC.

ECONOMIC PROJECTIONS

Structure of GDP:

70%  
24%  
29%  
(32%)

	2006	2007	2008	2009	2010e	2011e
<b>National Accounts</b>						
Real GDP growth (y/y)	4.8%	3.2%	1.3%	-6.5%	4.4%	4.0%
GDP (US \$bn.)	843.6	886.0	1,099.0	877	1034	1120
Consumption (Chg. y/y)	6.0%	4.3%	2.2%	-5.0%	3.0%	3.3%
Investment (Chg. y/y)	11.5%	7.4%	4.4%	-18.0%	10.2%	8.9%
Exports (Chg. y/y)	10.3%	6.2%	1.3%	-14.8%	17.4%	8.9%
Imports (Chg. y/y)	13.1%	7.1%	5.5%	-18.2%	16.6%	10.1%
<b>Monetary and Exch. Rate Ind.</b>						
CPI Inflation (Year-end)	3.8%	3.8%	6.5%	3.6%	4.80%	3.7%
US\$ Exchange Rate (Year-End)	10.9	10.9	13.40	13.09	12.80	12.60
28day Cetes Int. Rate (Year-End)	7.1%	7.4%	7.9%	NA	NA	NA
<b>Balance of Payments</b>						
Trade Balance (US\$bn.)	-6.1	-12.4	-16.8	-4.3	-10.0	-20.4
Exports (US\$bn.)	253.9	270.6	291.8	230.1	288.4	281.0
Imports (US\$bn.)	260.0	283.0	308.6	234.4	298.4	301.4
Transfers (US\$bn.)	24.0	24.3	25.5	21.5	22.1	23.1
Current Account (US\$bn.)	-2.4	-9.0	-15.5	-5.2	-11.4	-23.0
Current Account (GDP %)	-0.3	-1.0	-1.4	-0.6	-1.1	-2.1
Foreign Direct Inv. (US\$bn.)	17.9	21.6	27.2	12.5	21.0	20.0
<b>Debt Profile</b>						
International Reserves (US\$bn.)	71.5	76.5	85.4	90.8	109.7	125.1

Source: Banamex.

**PAM's investment team**

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The information contained herein reflects the opinion of Pichardo Asset Management and as such does not constitute fundamental research. Nor should it be construed as a solicitation of business or a buy/sell recommendation with regard to any of the securities mentioned. Furthermore, it is subject to change without prior warning and estimates cannot be guaranteed. Past returns are no guarantee of future earnings.

## THE MEXICO EQUITY AND INCOME FUND, INC.

### 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 Medellín 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.*

*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.*

*Alpha-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.*

*Consumer Price Index: measures monthly changes in the general level of prices of goods and services that households acquire for consumption. This index is calculated and published on a monthly basis by Banco de México, the Central Bank.*

*Fund holdings: As of January 31, 2011 the Mexico Equity and Income Fund, Inc. held 2.97% Arca, 4.11% Alfa, 0.0% Telmex, 0.0% Urbi, 1.27% Cemex, 0.0% Homex, and 2.99% Kimberly Clark.*

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