

MONTHLY REPORT
May 2010

THE MEXICO EQUITY AND INCOME FUND, INC.

SUMMARY

Total Net Assets 5/31/10 US\$	NAV 5/31/10 US\$	Common Share Market Price 5/31/10 US\$
73,641,198.41	9.94	8.63

MXE US Dollar Returns

As of 5/31/10	NAV %	Common Share Market Price %	Mexbol %	MSCI Me- xico %
May	-7.88	-10.85	-6.47	-6.51
Y-t-d	9.83	12.81	1.67	0.96
1 YEAR	44.69	54.11	36.64	36.86
Average Annual Dollar Return with Dividends Reinvestment				
5 YEAR	14.68	15.94	17.89	15.31
10 YEAR	15.43	15.14	16.60	12.75
Since Inception in 1990	13.02*	14.09*	13.04	13.15

As of 03/31/10	NAV %	Common Share Market Price %	Mexbol %	MSCI Me- xico %
1 YEAR	99.45	119.06	98.17	96.39
Average Annual Dollar Return with Dividends Reinvestment				
5 YEAR	19.46	19.03	21.14	18.22
10 YEAR	13.07	14.42	14.86	11.13

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.

For the one month period ended May 31, 2010, the MXE's NAV per share lost -7.88% in dollar terms compared to losses of -6.47% for the Mexbol Index and -6.41% for the MSCI Mexico. We believe that the MXE's reversal of its defensive return for the period January to April was probably due to a move out of Alphas and into Betas. The lower monthly return in May, for the first time in the year, was due, in our opinion, to a bigger correction in Betas than Alphas owing to volatility from the Euro zone (as Alpha companies had generally experienced strong rallies during the period January to April).

For the year-to-date (y-t-d) period ended May 31, 2010, the MXE's 9.83% NAV per share dollar gain outperformed the Mexbol Total Return Index's 1.67% gain by 816 basis points, and the MSCI Mexico Index's 0.96% gain by 887 basis points. The MXE's NAV closed end-May at US\$9.94 (US\$10.43 as of June 14, 2010).

The Fund's common share market price decreased -10.85% in dollar terms for the one month period ended May 31, 2010, and 12.81% y-t-d through end-May. The Fund's NAV discount widened 289 basis points as of end-May to -13.18% from -10.29% the previous month.

As at end-May, equities accounted for 96% of the Fund's assets, while 1% was invested in debt and readily available instruments, and 3% in private equity.

The Mexican economic recovery continues with GDP growing at 4.3% year-over-year in 1Q10, chiefly on the back of a strong rebound in manufacturing activity in response to the U.S. recovery, particularly in the industrial sector. The upturn is expected to continue in the coming quarters, and although it could slow in the second half, GDP is seen ending 2010 at Banco de Mexico's 4.5% forecast.

The Mexican Stock Exchange ranked 9th out of the world's top ten best y-t-d performers in US dollars as at May 28, 2010. European stock markets are among the worst performers globally. It is important to mention that no Latin American country forms part of the worst-performing stock exchanges.

During the period January to May 2010, we stuck to the investment strategy established at the end of 2008, even during bouts of strong volatility. As at the end of May, we maintain an overweight in Betas followed by Alphas and Special Situation companies, based on PAM's Asset Classification. In our view, the 10 largest positions in the MXE's portfolio are distributed among stocks with solid fundamentals and attractive discounts relative to their 3-4 yr compound annual growth rate estimates and consensus target prices.

I. PERFORMANCE AND INVESTMENT STRATEGY

The MXE's NAV per share posted an average annual dollar return of 13.02% (with dividends reinvested) for the last 19 ½ years since the Fund's inception in August 1990 through May 31, 2010 (according to Thompson). The Fund's common share market price registered a 14.09% increase for the same period, according to Thompson.

For the 3, 5 and 10-year periods ended May 31, 2010, the MXE's NAV per share registered average annual dollar returns of -10.77%, 14.68%, and 15.43%, respectively.

For the one-year period ended May 31, 2010, the MXE's 44.69% NAV per share gain outperformed the Mexbol Total Return Index's 36.64% gain by 805 basis points, and the MSCI Mexico Index's 36.86% gain by 7.83 basis points.

We believe that the MXE's year-to-date outperformance of the Mexbol is likely due to: (i) stock specifics; (ii) an adequate allocation in Alphas and Beta companies with solid fundamentals and, (iii) a continuing monitoring of companies and the market with periodical one-on-one meetings with management to review financial results. We have also been present at different institutional analyst and investor forums.

II. THE MEXBOL INDEX

The Mexbol Total Return Index lost -1.80% in nominal terms in May, and -6.47% in dollar terms on the back of global concerns related to sovereign debt, especially in the Euro Zone, which triggered a rise in global risk aversion (the VIX jumped 45.4% during May to 32.07), and market concerns about

MXE Discount/Premium to NAV

As of	Low (1 yr)	High (1 yr)
5/28/10	4/30/10	7/24/09
-13.18	-10.29	-18.92

Source: Bloomberg

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

Company	MXE weight %	One month ending 5/31/10 %	Year-to-date ending 5/31/10 %	1 year 5/31/09-5/31/10
GMODELLOC	0.0	0.73	2.60	67.38
GAP	0.0	-0.23	13.75	71.83
GFINBURO	0.0	-1.55	15.32	15.63
COMERUBC	0.0	-2.33	11.58	54.11
TELECOA	0.0	-2.67	11.02	31.98
TELMEX L	0.0	-2.75	-9.26	-2.20
COMPARTO	0.0	-3.88	7.06	96.79
WALMEX V	2.07	-4.39	0.47	53.45
ASUR B	0.0	-4.83	5.84	59.62
AMX L	10.92	-5.14	4.21	32.80

Source: Bloomberg

Stock Exchanges Performance in US Dollar terms

Ticker	One month ending 5/31/2010 %	Year-to-date ending 5/31/2010 %	1 year 5/31/09-5/31/2010 %
MEXBOL (Mexico)	-6.64	1.09	34.34
MEXBOL-Total Return Index	-6.47	1.67	36.64
MSCI Mexico	-6.61	0.47	34.03
MSCI Mexico*1	-6.51	0.96	36.86
IPSA (Chile)	-1.46	3.69	32.63
MERVAL (Argentina)	-8.61	-7.39	35.42
IBOV (Brazil)	-11.13	-12.03	28.14
IBVC (Venezuela)	2.69	-40.07	-16.28
IGBVL (Peru)	-8.34	3.81	13.73
IGBC (Colombia)	-3.17	10.08	48.45
INDU*2 (U.S.)	-7.56	-1.63	22.66
CCMP*3 (U.S.)	-8.17	-0.13	28.40

*1 With dividends reinvested into index.

*2 Dow Jones, *3 Nasdaq.

Source: Bloomberg.

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Chinese policy measures to control a booming real estate market.

In May, the Mexbol Index was the fourth worst performing market in the Latam region behind Brazil (-11.13%), Argentina (-8.61%) and Peru (-8.34%). The Mexican Peso depreciated -4.8% vs. the U.S. dollar in May, closing the month at 12.93 MXN/USD.

For the year-to-date period ended May 31, 2010, the Mexbol Total Return Index's 1.67% dollar gain ranks it fourth within the Latam region after Colombia (+10.08%), Peru (+3.81%) and Chile (+3.69%). Brazil lost -12.03, Argentina -7.39% and Venezuela -40.07% in dollar terms for the same period.

III. THE MEXICAN ECONOMY

According to INEGI, economic activity (IGAE, a Gross Domestic Product proxy) increased 6.9% year-over-year (y/y) in March. In seasonally-adjusted terms, the service and industrial sector grew 3.03% and 0.85%, respectively, while the agricultural sector weakened -0.23 month-over-month (m/m) in March.

Industrial production posted positive 6.1% y/y growth in April. On a month-over-month basis, the index decreased -0.29%. Manufacturing, mining and utilities increased 11.2%, 2.5%, 2.8%, on a y/y basis, respectively. Construction decreased -3.1% y/y.

In March, gross fixed investment increased 2.4% y/y. Expenses related to machinery and equipment increased 1.7%, and the construction subcomponent +2.9%.

Retail sales were up 2.3% in March, compared to the same month in 2009.

The unemployment rate came in at 5.42% in April. Employment figures from the Mexican Institute of Social Security (IMSS) continued to reflect how the job market is gaining momentum with 92,405 new jobs created in April, or 381,904 year to date (+413,370 in the past 12 months). Economists estimate the creation of 550,000 new jobs from January to November 2010. This figure is expected to decrease to 350,000 at the end of the year due to the seasonal effect.

The National Statistics Institute (INEGI) defines the unemployment rate as the percentage of the economically active population (EAP) without work but seeking a job. This information is based on the results of the National Occupation and Employment Survey which is undertaken on a monthly basis by INEGI and covers the segment of the population aged 14 or older.

For a better understanding of the unemployment rate it is important to clarify INEGI's definition of the economically active and working population:

- EAP: people who during the reference period carried on or had an economic activity (occupied population) or who were actively seeking a job at some point during the month prior to the survey date (unemployed population).
- Working population: all those who during the reference period undertook some kind of economic activity in any of the following capacities: (i) worked for at least one hour or one day to produce goods and/or services independently or as an employee without or without remuneration, or (ii) were temporarily absent from their job without terminating their formal working relationship.

April's trade balance posted a surplus of US\$195 m. Exports increased 43.2% y/y on a 73.3% increase in oil exports and a 39.3% increase in non-oil exports. Imports rose 44% y/y.

May's CPI came in at -0.63% month-over-month. In annual terms, inflation fell within central bank's target range to 3.92% y/y. Core prices increased 0.24% during May.

IV. CONCLUSION

We expect volatility to continue going forward as markets will be focusing on Euro zone policy measures to shore up the weak fiscal balances of some European countries. In this environment we will continue to adhere to the Fund's investment strategy based on our in-house rating and valuation methodology.

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ECONOMIC DATA

Economic Activity Index

- According to INEGI, economic activity (IGAE -a Gross Domestic Product proxy) increased 6.9% y/y in **March**. In seasonally-adjusted terms, the service and industrial sectors' activity grew 3.03% and 0.85%, respectively, while the agricultural sector's activities decreased (-)0.23 m/m in March.

Industrial Activity

- Industrial production posted positive 6.1% y/y growth in **April**. On a month-over-month basis, the index decreased -0.29%. Manufacturing, mining and utilities increased 11.2%, 2.5%, 2.8%, on a y/y basis, respectively.

Gross Fixed Investment

- In **March**, gross fixed investment increased 2.4% y/y. Expenses related to machinery and equipment increased 1.7%, and the construction subcomponent +2.9%.

Trade Balance

- **April's** trade balance posted a surplus of US\$195 m. Exports increased 43.2% on a 73.3% increase in oil exports and 39.3% increase in non-oil exports. This last figure was due to an increase of 39.8% in non-oil exports to the US market, and 37.4% to the rest of the world. Imports rose 44% on a month-over-month basis.

Mexican Oil Mix

- The price of the Mexican oil mix closed **May** at US\$65.60 per barrel, translating into a 10.66% decrease in a month, and a 5.25% increase in one year.

Retail Sales

- Retail sales registered 2.3% in **March**, compared to the same month in 2009.

Unemployment

- The unemployment rate came in at 5.42% in **April**. Taking a look at the breakdown by gender, unemployment in men decreased from 5.48% to 5.41% y/y in the same month, while that in women increased from 4.88% to 5.43% y/y.

Monetary Policy

- Banco de México left its benchmark rate unchanged at 4.5%. The Bank will monitor the course of medium and long-term inflation expectations, as well as other inflation factors that could alert on unexpected pressures on prices, in order to adjust the monetary position towards an inflation goal of 3% for the end of 2011.

Inflation

- **May's** CPI came in at -0.63% month-over-month. In annual terms, inflation fell within central bank's target range to 3.92% y/y. Core prices increased 0.24% during May.



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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.*

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.

VIX: The Chicago Board Options Exchange Volatility Index (VIX) is a weighted blend of prices for a range of options on the S&P 500 Index.