

MONTHLY REPORT
May 2011
THE MEXICO EQUITY AND INCOME FUND, INC.
EXECUTIVE SUMMARY

For the one-month period through May 31, 2011, the MXE's net asset dollar loss per share of -2.56% was a monthly outperformance of 0.66% compared to the Morgan Stanley Capital International (MSCI) Mexico Index's -3.22% loss. The Mexbol Index's total return decreased -3.44% in May.

For the year-to-date period through May 31, 2011, the MXE's net asset dollar gain per share of 1.09% was a yearly outperformance of 1.98% compared with the MSCI Mexico Index's -0.89% loss. The Mexbol Total Return Index lost -0.17% for the same period.

The Mexican peso closed May at \$11.57 pesos per U.S. dollar, registering a 6.40% appreciation against the U.S. Dollar for the period January to end-May.

Equities accounted for 90% of the Fund's total assets, with a de-indexed strategy, 4% was invested in the Mexican Real Estate Investment Trust, 3% in Private Equity, 2% in fixed-income instruments (corporate dollar-denominated bond and United Mexican States bond) and 1% in cash and equivalents.

Renewed concerns about the European sovereign debt crisis increased risk aversion in May, strengthening the dollar and hitting commodity-related stocks. American and Japanese markets registered the biggest losses, while emerging markets underperformed developed markets.

Mexico's economic environment remains quite positive, as domestic economic fundamentals and macroeconomic policies continue to provide support in an uncertain global economy. Our economy is relatively insulated from commodity shocks, as the country is mainly an exporter of manufactures. Recent evidence suggests there was a strong surge in manufacturing production in May (on the back of historical vehicle production levels), following April's dip (Source: Santander).

I. PERFORMANCE AND INVESTMENT STRATEGY

For the one-year period through May 31, 2011, the MXE's 30.62% (Source: U.S. Bancorp) net asset dollar gain per share was a 535 basis points outperformance the

MSCI Mexico Index's 25.27%. The Mexbol Total Return Index increased 26.46% for the same period (Source: Bloomberg).

At end-May, the discount to NAV stood at -11.88% compared to -11.95% at the end of April 2011 (Source: Bloomberg).

The Fund's investment strategy continues to overweight the consumer sector, while maintaining an underweight position in telcos (America Movil) due to no visibility regarding the authorities' final ruling with respect to sanctions and the new anti-trust law.

As of May 30, 2011 the Mexico Equity and Income Fund, Inc held 15.03% in America Movil.

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

II. THE MEXBOL INDEX

The MSCI Mexico Index lost -3.22% in May bringing the one-year return as of May 31, 2011 to 25.27%. The Mexbol Index-total return registered a 26.46% increase for the same period.

The MSCI Mexico Index's performance during May was dragged down by its heaviest weighted constituent, America Movil (22%), which registered a dollar loss of -8.20% for the month due to greater uncertainty about the impact of recently confirmed anti-monopolistic regulatory changes.

The MSCI Mexico Index's -3.22% May dollar loss ranked it as the second worst performing Latam related equity market behind Venezuela (17.93%), Peru (12.01%), Colombia (-0.19%), Chile (-0.51%), Brazil (-2.89%). Argentina was the worst performing market (-3.26%). For the year to date period through May 31, 2011, the MSCI Mexico Index's -0.89% loss positioned it as the third best performing index within the Latam region after Venezuela (37.33%) and Colombia (0.44%).

III. THE MEXICAN ECONOMY

The National Institute of Statistics and Geography (INEGI) released first quarter Gross Domestic Product figures showing the economy expanded at a 4.6% year-over-year (y/y) pace. While primary

Total Net Assets 05/31/2011	NAV 05/31/2011	Common Share Market Price 05/31/2011
US\$	US\$	US\$
88,992,368	12.96	11.42

MXE US Dollar Returns

As of	NAV	Common Share	Mexbol	MSCI Mexico
05/31/2011	%	Market Price %	%	%
May	-2.56	-2.48	-3.44	-3.22
Y-t-d	1.09	0.79	-0.17	-0.89
1 YEAR	30.62	32.60	26.46	25.27

Average Annual Dollar Return with Dividends Reinvestment

5 YEAR	12.90	14.84	15.33	12.22
10 YEAR	15.59	17.67	17.55	13.58
*Since MXE's inception in 1990	14.52	14.84	N/A	13.62

* Period: 08/31/1990-05/31/2011.

MXE US Dollar Returns for Quarter Ending March 31, 2011

As of March 31, 2011	NAV %	Price %	Mexbol %	MSCI Mexico %
1 year	20.29	24.63	18.16	19.05
5 years	12.28	15.13	14.17	11.04
10 years	17.68	19.20	19.78	15.71
Since inception (08/30/90) as of 4/14/11	14.72	19.50	NA	NA

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.

Fund's gross expense ratio = 1.55% for the six months ended January 31, 2011 (unaudited).

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 May	Low (1 yr)	High (1 yr)
31, 2011.	06-11-2010	11-12-2010
-11.8827	-16.507	-8.765

Source: Bloomberg

Mexbol Index Best Performing Constituents in US Dollar terms in May 2011

Company	MXE weight %	One month ending 05/31/2011 %	Year-to-date ending 05/31/2011 %	1 year 05/31/10-05/31/11 %
BIMBOA	2.98	5.31	11.21	33.34
GMEXICO	7.08	3.42	-11.14	53.10
LABB	4.39	2.81	7.33	63.09
MEXCHEM	5.40	2.59	9.23	48.93
ASURB	0.00	2.18	11.27	19.07
GMODELO	0.00	1.56	5.63	17.51
ELEKTRA	0.00	1.23	9.24	18.90
COMPARTO	0.00	0.98	-12.31	n/a
ARCA CONTINENTAL	2.95	0.65	28.26	81.75
PE&OLES	3.85	-0.13	7.60	126.62

Source: Bloomberg

Stock Exchanges Performance in US Dollar terms

Ticker	One month ending 05/31/2011 %	Year-to-date ending 05/31/2011 %	1 year 05/31/10-05/31/11 %
IPSA (Chile)	-0.51	-1.13	42.29
IBVC (Venezuela)	17.93	37.33	52.31
IGBC (Colombia)	-0.19	0.44	33.02
INDU (Dow Jones, U.S.A.)	-1.53	9.79	27.30
CCMP (Nasdaq, U.S.A.)	-1.20	7.28	26.92
MEXBOL (Mexico)	-3.68	-0.94	24.56
MSCI Mexico	-3.42	-1.67	23.30
MEXBOL Total Return Index *	-3.44	-0.17	26.46
MSCI Mexico 1*	-3.22	-0.89	25.27
MERVAL (Argentina)	-3.26	-7.90	46.77
IBOV (Brazil)	-2.89	-2.15	17.85
IGBVL (Peru)	12.01	-6.51	52.87

Source: Bloomberg

*1 With dividends reinvested into index.

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activities experienced only a modest expansion of 1.2% y/y, the industrial sector is expanding at a healthy 5.2% clip, with its main component, manufacturing production up 7.4%. Similarly, construction activity increased by 4.9% and had its best performance since the second quarter of 2008. (Source: Santander).

Within the manufacturing sector, auto production reached 213,329 units, a growth of 19.4% y/y., with auto sales rising 11.4% in May to a total of 68,634 units.

In terms of bank credit, a major driver of growth, total loans to the private sector were up 8.6% y/y in March in real terms. During the first quarter consumer credit increased by 9.3% y/y in real terms driven by a jump in personal credit (via payrolls), which increased 28.2%, and supported by an improvement in credit for durable goods (9.4%). Corporate loans expanded by 12.1% y/y in the industrial sector and 9.5% in the services sector. Mortgage loans grew 7.7% y/y in March.

With regard to internal consumption, the National Association of Convenience Stores (ANTAD) reported April retail sales figures which indicate that domestic consumption may be gaining traction. While total sales increased 17.7% YoY, same-store-sales jumped by a solid 11% (up from 0.7% in March). (Source: Santander).

Regarding the labor market, the number of insured workers at the National Security Institute grew by 39,550 in June and by 351,577 in the first half of the year, confirming the positive labor market dynamics. 610,105 new jobs were created during the one-year period to June 2011.

Within this positive economic climate, inflation has remained contained due mainly to low core inflation, supported by contractions in agricultural prices, a stable exchange rate, and the ongoing effects of increased competition in the telecommunications sector. Headline inflation for May came out slightly below consensus expectations at -0.74% m/m, which implies 3.25% y/y inflation.

stockholders will continue to benefit from PAM's active portfolio management.

At end May small and mid cap stocks accounted for 11% and 21% of the portfolio and PAM's asset classification was 40% in Beta stocks (high growth companies in cyclical industries, usually $\beta > \text{market}$), and 42% in Alfa stocks (companies with a high total annual yield (cash dividend + buybacks), usually $\beta < \text{market}$), and 8% in Special Situations (discounted stocks to their intrinsic value, as calculated by PAM).

Yours sincerely,
Pichardo Asset Management

IV. CLOSING REMARKS

Our mission is to generate relatively good returns compared to the MSCI Mexico Index and we believe that MXE



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ECONOMIC DATA

Economic Activity Index

In **March**, according to INEGI, economic activity (IGAE -a Gross Domestic Product proxy) reported a variation of -0.23% month over month (m/m). This proxy increased 3.6% y/y in the referred month. In seasonally-adjusted terms, the service sector's activities decreased -0.23% and the industrial ones decreased -0.19% m/m, while the agricultural sector's activities increased 7.63% m/m .

Industrial Activity

In **April**, industrial production decreased -0.14% m/m, and increased 1.4% y/y. Construction increased 0.80%, Mining 0.08%, and Utilities decreased -0.26% m/m, while Manufacturing Industries increased 0.24%.

Gross Fixed Investment

In **March**, gross fixed investment (GFI) decreased -0.60% m/m. Expenses in machinery and equipment increased 0.63%, and the construction subcomponent decreased -0.99% m/m. GFI posted a 5.8% y/y growth.

Trade Balance

The trade balance of **April** posted a USD767 million surplus. Total exports increased 12.6% y/y on a 35.1% increase in oil exports and a 9% increase in non-oil exports. This last figure was due to an increase in exports of 6.2% to the US, and of 20.2% to the rest of the world. Imports grew in this month 9.8% y/y.

Mexican Oil Mix

As of **end-May**, the price of the Mexican oil mix was of USD\$106.36 per barrel, translating into a -5.29% decrease in a month, and 63.73% in one year.

Retail Sales

In **March**, retail sales registered an increase of 1%, compared to the same month of 2010. Retail sales recorded an decrease of -0.29% in relation to the previous month.

Unemployment

In **April**, the unemployment rate came in at 5.17%. By gender, unemployment in men decreased from 5.41% to 5.04% y/y, and that in women decreased from 5.43% to 5.20% y/y, in the same month.

Monetary Policy

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

Inflation

CPI of **May** came in at -0.74% month-over-month. General annual inflation came in at 3.25%. General prices registered an annual variation of 3.12% versus the previous month's print of 3.18%.

Source: UBS, INEGI, SANTANDER.



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ECONOMIC PROJECTIONS

	2006	2007	2008	2009	2010e	2011e
National Accounts						
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%
Monetary and Exch. Rate Ind.						
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
Balance of Payments						
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
Debt Profile						
International Reserves (US\$bn.)	71.5	76.5	85.4	90.8	109.7	125.1

Source: INEGI, 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.

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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.

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.

Free cash flow is revenue less operating expenses including interest expenses and maintenance capital spending. It is the discretionary cash that a company has after all expenses and is available for purposes such as dividend payments, investing back into the business or share repurchases.

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