

MONTHLY REPORT
October 2009
THE MEXICO EQUITY AND INCOME FUND, INC.
SUMMARY

For the one-month period ended October 30, 2009, the Mexico Equity and Income Fund's NAV per share gained 2.03% in dollar terms, having outperformed the Mexbol Index's -0.0025% loss by 203 bps.

The Fund's common share market price increased 1.47% in dollar terms for the month of October and 9.90% y-t-d through October, according to Bloomberg. On a last twelve-month basis, the MXE's common share market price increased 10.8% in dollar terms, the first positive return in 16 months, and a significant improvement on -64.80% for the one-year period through end-February 2009.

The Fund's NAV discount widened 46 basis points as at end-October to -14.64% from -14.18% the previous month.

We continue favoring Cyclical and Small-Mid Caps based on our reading that the Mexican economy is resuming a growth phase supported by the industrial recovery in the United States.

The Mexbol Index was flattish in October. For the year-to-date period ended October 30, 2009, the Mexbol Index (+34.60 in dollar terms) continued to rank at the bottom of the Latam region while Brazil ranked top with a 117.83% return.

On October 20th, the Senate finally approved a similar version of fiscal reform to President Calderon's proposal. The main changes to the approved fiscal reform were: crude oil was set at US\$59 and a deficit of MXN\$90 billion, or 0.75% of 2010 GDP.

I. PERFORMANCE AND INVESTMENT STRATEGY

For the period January to October 30, 2009, the MXE's NAV per share gained 35.61% outperforming by 101 bps the Mexbol Index's 34.60% gain in dollar terms.

For the period year-to-date ended October 30, 2009, the Mexico Fund's 43.15% NAV per share with dividends reinvested (36.8% simple price appreciation), according to Bloomberg, is likely due to the MXF's Managed Distribution Plan paid quarterly in April, July and October 2009 amounting to a total of US\$0.94 per share in 2009.

The MXE's top ten stocks (60% of the overall portfolio) have proved to be a solid asset allocation with average returns above to those of the Mexbol Index for the period January to October.

II. THE MEXBOL INDEX

For the month of October, the Mexbol Index lost -2.01% in nominal and -0.0025% in dollar terms. The Mexican Peso appreciated +2.26% against the US dollar in October closing at 13.20 MXN/USD.

The best-performing sectors in October were food & beverages (mergers and acquisitions), metals & mining (copper and silver) and petrochemicals; while the worst-performing sectors were materials (cement), telecommunications (wireless and fixed telephony) and retailing.

For the year-to-date period ended October 30, 2009, the MSCI Mexico Index's 36.54% dollar gain outperformed the Mexbol Index's 34.60% gain by 194 bps with overweights relative to the Mexbol Index in America Movil (+13%), Televisa (+3%) and Cemex (+3%); while the main underweights are Walmex (-5%), Carso Global Telecom (-4%) and Grupo Financiero Inbursa (-3%).

3Q'09 corporate earnings in Mexico continued the recovery begun in 2Q'09.

III. THE MEXICAN ECONOMY

Overall economic activity seemed to have reached an inflection point during the July-September period amid mixed economic data released during the month.

IGAE (the monthly GDP proxy) registered a variation of -1.75% in August 2009 over the previous month after two consecutive months of positive growth. Year on year (y/y) the IGAE dropped -6.9% in real terms. The services sector fell -7.5% y/y and construction -7.3% y/y, while the agricultural sector increased 6.1% y/y.

Meanwhile September's industrial production showed a recovery increasing 0.15% in seasonally adjusted month-over-month (m/m) terms, as a result of more dynamic manufacturing activity (+0.74% m/m). Even though industrial output continues to register negative annual growth rates (-5.7% y/y), the numbers are much better than those observed in 2Q'09.

Total Net Assets 10/30/09	NAV 10/30/09	Common Share Market Price10/30/09
US\$63,164,128	8.06	6.88

MXE US Dollar Returns

As of 10/30/09	NAV	Common Share Market Price	Mexbol	MSCI Me- xico
Oct.	2.03%	1.47%	-0.002%	0.35%
Y-t-d	35.61%	9.90%	34.60%	36.54%
1 YEAR	27.62%	10.86%	35.51%	37.66%
Average Annual Dollar Return with Dividends Reinvestment				
5 YEAR	14.21%	15.68%	16.67%	14.35%
10 YEAR	15.22%	16.02%	14.36%	12.30%
Since Inception in 1990 as of Nov.30 **	13.95%	15.24%	NA	NA

Source: Bloomberg, reinvesting gross dividend in security.

* 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). This methodology will be used during 2009 calendar year.

** 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.

MXE Discount/Premium to NAV

As of 10/30/2009	High (Ytd)	Low (Ytd)
-14.64%	-20.83%	-4.16%

Source: Bloomberg

Mexbol Index Best Performing Constituents in US Dollar terms in October 2009

Company	One month ending 10/30/2009	Year-to-date ending 10/30/2009	1 year 10/30/08- 10/30/09
GRUPO MODELO	23.07%	44.24%	50.79%
TV AZTECA	18.62%	29.19%	10.62%
BANCO COM-PARTAMOS	12.08%	124.90%	144.12%
FEMSA	11.50%	40.45%	65.04%
PEÑOLES	10.48%	50.14%	105.33%
MEXCHEM	8.74%	81.45%	67.13%
GRUPO MEXICO	7.44%	220.56%	148.67%
ALFA	6.25%	137.93%	159.54%
BIMBO	4.74%	36.68%	21.78%
TELEVISA	3.38%	28.63%	9.96%

Source: Bloomberg

Stock Exchanges Performance in US Dollar terms

Ticker	One month ending 10/30/2009	Year-to-date ending 10/30/2009	1 year 10/30/08- 10/30/2009
MEXBOL (Mexico)	-0.0025%	34.60%	35.51%
Mexbol-Total Return Index	0.11%	36.31%	37.33%
MSCI Mexico	0.35%	36.54%	37.66%
IPSA (Chile)	1.52%	68.16%	68.25%
MERVAL (Argentina)	2.60%	77.09%	85.60%
IBOV (Brazil)	0.60%	117.83%	102.84%
IBVC (Venezuela)	0.90%	44.75%	42.53%
IGBVL (Peru)	7.02%	117.35%	113.83%
IGBC (Colombia)	-8.62%	59.25%	76.39%
INDU*1 (U.S.)	0.0046%	10.67%	4.16%
CCMP*2 (U.S.)	-3.64%	29.68%	18.84%

*1 Dow Jones, *2 Nasdaq.

Source: Bloomberg.

Gross Fixed Investment continued to show a marginal improvement in August increasing 0.78% in seasonally-adjusted terms over the previous month, as a result of a significant recovery in investment in machinery and equipment (+1.52% m/m offset by a decline of 0.5% m/m in construction).

The unemployment rate continued deteriorating coming in at 6.41% in September compared to last month's print of 6.28%, the highest rate since 2000.

Retail sales fell -1.40% m/m in August, while y/y they registered a fall of -5.5% in real terms.

Mexico's trade balance showed a deficit of US\$ -1.0 bn in September, compared with a deficit of US \$ -2.9bn in the same month of 2008, which means a decrease of -63.4%. Total exports plunged -17.3% y/y, due to slumps of -19.8% of oil exports and -16.9% in non-oil exports. Imports dived -22.1% y/y.

October's headline inflation fell to 4.50% yoy from the previous 4.89% yoy in September.

IV. CONCLUSION

Year-to-date through October 30, 2009, the MXE's NAV per share managed to close above the Mexbol Index after having lagged the Mexbol by approximately 300 bps for the seven months ended July 31st, 2009.

The MSCI Mexico Index gained 36.54%, for the y-t-d ended October 30, 2009, as a result of its highly concentration in a few stocks.

Mexico's economic recovery will most likely depend on the U.S. economic recovery holding steady and gaining traction as we enter the 2010 year. What remains to be seen is the effectiveness of a restrictive fiscal reform to tackle short-term pressures and to maintain the currently tepid economic recovery.

Yours sincerely,
 Eugenia Pichardo,
 Portfolio Manager



ECONOMIC DATA

Economic Activity Index

- IGAE (monthly GDP proxy) showed a recovery of output in **September** over the previous month of 0.69% m/m. By sector, services increased 1.31% m/m and industry 0.15% m/m, while agriculture declined 2.82% m/m. Annual comparisons continue to be negative, although showing that economic activity is no longer free-falling.

Industrial Activity

- Industrial production increased 0.15% m/m in **September**. Taking a look at the plunge, manufacturing production increased 0.74% m/m, mining activity increased 0.15% m/m, production of electricity, water, and gas grew 0.48% m/m, while construction decreased -1.22% m/m.

Gross Fixed Investment

- Gross Fixed Investment increased 0.78% m/m in **August**. The construction subcomponent came in at -0.50% m/m, while machinery and equipment increased 1.52% m/m.

Trade Balance

- Mexico's trade balance posted a deficit of -US\$ 1.07 Bn. in **September**. Compared to September 2008, exports and imports contracted -17.3% and -22.1%, respectively.

Mexican Oil Mix

- The price of the Mexican oil mix closed **October** at US\$70.90 per barrel translating into a 11.41% increase in the month and 107.19% increase during 2009. For the one year trailing the Mexican mix increased 37.00%.

Retail Sales

- **August** retail sales declined -5.5% year-over-year. In seasonally adjusted terms, retail sales contracted -1.4% versus August 2008. Sales that dipped the most included domestic appliances, computers, indoor decoration articles, motor vehicles, auto parts, and fuel. On the other hand, food, beverages, tobacco, and department stores sales showed some improvement.

Unemployment

- According to INEGI, Mexico's unemployment rate ended **September** at 6.80%, which is marginally higher than the 6.2% observed in August. Even though unemployment figures in September show a step back from the incipient recovery of the previous month, employment figures from the Mexican Institute of Social Security (IMSS) indicate a marginal increase in jobs. According to these figures, in the June to September period 126,000 new jobs were created.

Monetary Policy

- Banxico maintained the pause in monetary policy. As expected by the market, the Central Bank maintained its interest rate at 4.5%.

Inflation

- Mexico's **October** inflation rose 0.3% with respect to September 2009. Core inflation came in at 0.29% m/m. 12-month inflation stood at 4.50%.



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ECONOMIC PROJECTIONS

Structure of GDP:
70%
24%
29%
(32%)

	2004	2005	2006	2007	2008	2009e
National Accounts						
Real GDP growth (y/y)	4.4%	3.0%	4.8%	3.2%	1.3%	(2.4%)
GDP (US \$bn.)	676.5	769.4	843.6	886.0	1,099.0	903.0
Consumption (Chg. y/y)	5.5%	5.4%	6.0%	4.3%	2.2%	(1.0%)
Investment (Chg. y/y)	7.5%	7.6%	11.5%	7.4%	4.4%	(-2.6%)
Exports (Chg. y/y)	11.5%	6.9%	10.3%	6.2%	1.3%	(6.1%)
Imports (Chg. y/y)	10.2%	8.7%	13.1%	7.1%	5.5%	(2.5%)
Monetary and Exch. Rate Ind.						
CPI Inflation (Dec. cumulative)	5.2%	3.3%	3.8%	3.8%	6.5%	3.5%
US\$ Exchange Rate (Year-End)	11.1	10.6	10.9	10.9	13.40	13.50
28day Cetes Int. Rate (Year-End)	8.5%	8.2%	7.1%	7.4%	7.9%	5.75%
Balance of Payments						
Trade Balance (US\$bn.)	(8.8)	(7.6)	(6.1)	(12.4)	(16.8)	(26.0)
Exports (US\$bn.)	188.0	214.2	253.9	270.6	291.8	232.5
Imports (US\$bn.)	196.8	221.8	260.0	283.0	308.6	258.5
Transfers (US\$bn.)	17.0	20.5	24.0	24.3	25.5	24.0
Current Account (US\$bn.)	(7.3)	(4.6)	(2.4)	(9.0)	(15.5)	(20.9)
Current Account (%GDP)	(1.1)	(0.7)	(0.3)	(1.0)	(1.4)	(2.3)
Foreign Direct Inv. (US\$bn.)	17.9	18.8	17.9	21.6	27.2	18.6
Debt Profile						
International Reserves (US\$bn.)	61.5	68.7	71.5	76.5	85.4	93.6

Source: Banamex.

MAIN MARKET STATISTICS

Global Value Traded (10/30/09)	
Index	Volume (U.S. \$ Million)
Mexico Stock Exchange	727.69
Brazil-Bovespa	2,652.17
Chile-Santiago Stock Exchange	96.59
Peru-Lima Stock Exchange	22.64
US-NYSE	31,233.70
US-NASDAQ	15,588.30

Source: Bloomberg

Commodities (10/30/09)				
US\$, %	Last	1M	3M	Y-T-D
Silver	16.31	-2.0	17.2	43.2
Gold	1,045.40	3.7	9.6	18.5
Copper	6,455.25	5.0	12.9	112.2
Crude (WTI)	77.00	9.0	10.9	72.6
Crude (MIX)	70.90	11.4	7.8	-51.1

Source: UBS Pactual

Currencies (10/30/09)				
(per US\$ %)	Last	1M	3M	Y-T-D
MXN (Mexico)	13.20	2.4	0.0	3.6
ARS (Argentina)	3.82	0.6	0.4	-9.6
BRL (Brazil)	1.76	0.3	5.9	31.4
EUR (European Union)	0.68	0.6	3.3	5.3
JPY (Japan)	90.09	-0.4	5.1	0.6
PEN (Peru)	2.91	-0.9	2.6	7.8
CLP (Chile)	530.77	3.6	1.9	20.3

Source: UBS Pactual

Debt Securities (10/30/09)	
	Last
28-day Cetes	4.480
M10Y Bond	7.845
M20Y Bond	8.347
30Y Treasury Bond	4.193

Source: Bloomberg

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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.

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.