

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

For the one-month period ended September 30, 2009, the Mexico Equity and Income Fund's NAV per share gained 1.28% in dollar terms. One of the main reasons the MXE posted a return 143 basis points below the Mexbol Index's 2.71% was very likely the 7% weight in Cidmega, a less liquid stock, which registered a loss of 33% in September compared with some heavily-weighted Mexbol constituents with low floats which made the biggest positive contribution to the Mexbol during the month such as Elektra (weight 4%) +4.51% and Gfinbur (weight 4%) +5.45%.

For the period January to September the MXE trailed the Mexbol Index's 34.60% dollar return by 168bps.

The Fund's common share market price increased 3.99% in dollar terms for the month of September and 8.31% y-t-d through September, according to Bloomberg.

We continue to tactically increase the MXE's Beta-commodity-infrastructure, favoring Small and Midcap value versus growth.

Mexican activity indicators reinforced a likely turnaround in the economy during the second half of this year. Gross fixed investment increased 0.3% in July over the previous month as a result of a significant recovery in construction investment.

The -7.3% year-over-year (y-o-y) decline of industrial production in August was much better than the declines observed in 2Q'09 following the recovery in the car industry boosted by the cash for clunkers program in the U.S. Furthermore, recent indicators on employment also suggest activity could be picking up. In September 61,621 new jobs were created, more than the 30,909 added in the previous month, although still down 3.7% yoy.

President Calderon ordered the liquidation of the government-owned electricity distribution company, Luz y Fuerza del Centro, due mainly to its operating losses and mounting labor liabilities. We believe that this is a positive structural step and an indication of President Calderon's decisiveness in boosting competitiveness in the country and dismantling old structures that have hampered the healthy development of the economy. Furthermore, the decision earns President Calderon some points with private and public opinion in terms of moving

structural reforms along.

We believe that two main short-term challenges for the Bolsa could be the resolution of the fiscal tax package, as well as an accelerating U.S. economic recovery.

I. PERFORMANCE AND INVESTMENT STRATEGY

For the month of September the MXE's NAV per share gained 2.48% in nominal terms. The Mexican Peso lost 1.04% versus the U.S. Dollar, closing at 13.50 pesos for 1 US Dollar. As at end-September, 93% was invested in equities and 5% in 8.5% dollar yield corporate bonds and 2% in cash and readily available instruments.

The Fund's NAV discount narrowed 223 basis points as at end-September to -14.18% from -16.41% at end-August.

II. THE MEXBOL INDEX

For the month of September, the Mexbol Index gained 3.92% in nominal terms, underperforming every other Latam market due to currency weakness mainly owing to fiscal pressures and low projected 2010 economic growth.

The Mexican peso was the only Latam currency that depreciated in September (-1.1%) closing the month at \$13.51 MXN/USD (the Brazilian Real appreciated 6%). Year-to-date, the Mexbol continues to be the laggard among the Latam markets posting a 34.60% gain in dollar terms. The Mexbol gained 17.6% in Q3.

On September 30, the Mexbol Index Committee announced changes in the methodology of its index selection and weights, adjusting as the main change, the market cap for the free float to prevent distortions caused by stocks with high weightings in the Index, but low liquidity due to a reduced free float. The change incentivizes companies to increase their free-float and to price their liquidity. The previous methodology selected the 35 most traded names and assigned a market capitalization value weight.

President Calderon has reiterated his plan to make Mexican Pension Funds (Afores) a relevant source of infrastructure project funding. Thus, the Afores regime will be made even more flexible in order to grant

Total Net Assets 9/30/09	NAV 9/30/09	Common Share Market Price 9/30/09
US\$ 61, 897,460.75	US\$7.90	US\$ 6.78

MXE US Dollar Returns

As of 9/30/09	NAV	Common Share Market Price	Mexbol	MSCI Me- xico
Sept.	1.28%	3.98%	2.71%	1.64%
Y-t-d	32.92%*	8.30%	34.60%	36.07%
1 YEAR	-16.08%*	-23.65%	-4.34%	-4.97%
Average Annual Dollar Return with Dividends Reinvestment				
5 YEAR	14.63%	16.25%	17.61%	15.49%
10 YEAR	14.50%	16.07%	14.89%	12.84%
Since In- ception in 1990 as of 10/14/09 **	14.11%	14.20%	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.

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MXE Discount/Premium to NAV

As of 9/30/2009	High (Ytd)	Low (Ytd)
-14.18%	-20.83%	-4.16%

Source: Bloomberg

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

Company	One month ending 9/30/2009	Year-to-date ending 9/30/2009	1 year 9/30/08-9/30/09
GMEXICO	27.82%	203.16%	88.80%
MEXCHEM	15.20%	69.54%	-16.24%
AXTEL	15.14%	38.51%	-17.98%
GEO	14.82%	143.83%	19.36%
GFNORTE	14.12%	87.18%	5.40%
AUTLAN	14.10%	18.33%	-49.55%
ALFA	11.06%	127.52%	8.04%
ICA	10.91%	43.03%	-17.93%
GAP	9.95%	26.93%	14.47%
TELINTL	8.46%	24.58%	9.17%

Source: Bloomberg

Stock Exchanges Performance in US Dollar terms

Ticker	One month ending 9/30/2009	Year-to-date ending 9/30/2009	1 year 9/30/08-9/30/2009
MEXBOL (Mexico)	2.71%	34.60%	-4.34%
Mexbol-Total Return Index	2.73%	36.16%	-3.11%
MSCI Mexico	1.64%	36.10%	-4.97%
IPSA (Chile)	6.77%	65.64%	22.38%
MERVAL (Argentina)	16.80%	72.60%	5.93%
IBOV (Brazil)	15.54%	116.53%	35.18%
IBVC (Venezuela)	-0.37%	43.45%	32.57%
IGBVL (Peru)	11.03%	133.75%	39.17%
IGBC (Colombia)	13.38%	72.14%	38.87%
INDU*1 (U.S.)	2.27%	10.66%	-10.49%
CCMP*2 (U.S.)	5.64%	34.58%	1.46%

*1 Dow Jones, *2 Nasdaq.

Source: Bloomberg.

them access to Initial Public Offerings (IPO's) and any stocks that are not part of authorized indices. This should result in funds of around 60 billion dollars next year.

III. THE MEXICAN ECONOMY

Economic indicators seem to reinforce the opinion that the Mexican economy has finally bottomed. IGAE (the monthly GDP proxy) jumped 2.4% m/m in July after rising 0.4% in June (-6.9% yoy in July from -8% yoy in June). The boost in activity stemmed not only from manufacturing, which rose by 4.5% m/m, but more surprisingly, from services (growth of 1.2%).

Industrial production declined -7.3% yoy in August, due mainly to a -10.8% yoy decrease in manufacturing activity. Construction decreased -7.8% yoy, mining activity increased 3.0% yoy and utilities 1.5% yoy. Even though industrial production figures are still negative, they are much better than those observed in 2Q09.

Gross Fixed Investment showed a marginal improvement in July increasing 0.3% in seasonally-adjusted terms over the previous month, as a result of a significant recovery in construction investment (+1.2% mom).

Recent employment figures are beginning to show recovery signs. In September 61,621 new jobs were created, more than the 30,909 added in the previous month, although still down 3.7% yoy.

Retail sales in July expanded for the second consecutive month, advancing 0.5% versus June; however, on an annual basis, retail sales remain fairly depressed, mainly due to weak durable consumer goods sales, which show only modest signs of improvement.

Mexico's trade balance posted a deficit of -US\$ 835m in August. Compared with the same month last year, exports declined -24.9%, with oil exports and non-oil exports falling by -50.4% and -18.1%, respectively. On the same basis, imports dropped -28.0%.

September's headline inflation fell to 4.89% yoy from the previous 5.08% yoy while core inflation fell to 4.92% from

5.1% yoy.

The Mexican peso depreciated against the dollar for the third consecutive month, falling 1.2% to close September at P\$13.50. Year-to-date, the peso has gained a mere 2.2% against the dollar, lagging corresponding returns from other regional currencies (e.g., the Brazilian real is up 24%).

IV. CONCLUSION

The MXE's 1.28% September NAV per share dollar gain compares with a 1.68% increase for the MSCI Mexico Index. For the year-to-date period, through September 30, 2009, the MSCI gained 36.10% in dollar terms.

Percentage allocation in Beta, Alpha and Special Situations as classified by PAM, will continue to be the most important factor in MXE's portfolio performance. Also we continue to search for special situations and value.

In a bit more than one month there has been an active improvement in regulation for the Mexican equity market seeking more flexibility in Afores' investment regime:

- i. On August 21st, the Afores' regulatory body, approved the +/- 4% individual member tracking error for investments in stocks within Mexican equity indices;
- ii. On September 30th, the Mexican Stock Exchange announced changes in the methodology to calculate the main index; and,
- iii. On October 1st, President Calderon proposed to liberalize Afores regime in order to grant them access to invest in IPOs and in any stock other than the members of the authorized indices.

One pending issue is the Afores' renewal of the agreement to buy only Mexican instruments in 2010.

*Yours sincerely,
Eugenia Pichardo,
Portfolio Manager*

ECONOMIC DATA

Economic Activity Index

- IGAE (monthly GDP proxy) decreased 6.9% y/y in **July of 2009**, above market expectations of -7.2% year-over-year (y/y). There was an overall contraction of the economy, all three components fell on a y/y. basis with the exception of agricultural, which actually expanded marginally by 1.1% y/y. Agricultural activity decreased 1.7%, while industrial activity and services dropped 6.5% and 7.6%, respectively.

Industrial Activity

- Industrial production fell -7.3% y/y in **August**. Taking a look at the plunge, manufacturing production fell -10.8% year-over-year, construction declined -7.8%, mining activity increased 3.0%, and production of electricity, water, and gas grew 1.5%.

Gross Fixed Investment

- Gross Fixed Investment fell -14.1% y/y in **July** or +0.30% m/m. The construction subcomponent came in at -1.6% year-over-year, while machinery and equipment declined -28.9% on the back of decreases in the domestic (-26%) and the imported components (-30%).

Trade Balance

- Mexico's trade balance posted a deficit of -US\$ 835m in **August** below market expectations (-US\$1.31 bn). Compared to August 2008, exports and imports contracted - 24.9% and -28%, respectively.

Mexican Oil Mix

- The price of the Mexican oil mix closed **September** at US\$63.64 per barrel translating into a -1.03% decrease in the month and 85.97% increase during 2009. Amid for the one year trailing the Mexican mix still -29.82% below a year ago in 2008.

Retail Sales

- Retail sales declined 4.8% y/y in **July** or +0.5% m/m. The decline was led by sales of computers (-29.6% y/y), appliances (-21.4% y/y), and cars (-24.3% y/y), while sales of food and beverages remained flat with respect to the same month last year and supermarket sales were up 3.2% y/y.

Unemployment

- According to INEGI, Mexico's unemployment rate ended **August** at 6.28%, which in turn is above the level of 4.15% observed in August 2008, as well as the highest reading for the year so far. As a result, Mexico's unemployment rate has averaged 5.4% on a YTD basis, which is just 40 bps below the average reading observed in the same period of 1996.

Monetary Policy

- Banxico maintained the pause in monetary policy. As expected by the market, the Central Bank maintained its interest rate at 4.5%, but did not provide any insight on the direction of monetary policy, nor did it comment on risks to the inflation outlook in the coming months.

Inflation

- Mexico's September inflation rose 0.50% with respect to **August**, below market expectations for a rise of 0.57%. Core inflation came in at 0.21%. These monthly increments left 12-month inflation at 4.89%, a significant lower figure compared to July's 5.08%



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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 (09/30/09)	
Index	Volume (U.S. \$ Million)
Mexico Stock Exchange	712.62
Brazil-Bovespa	3,452.43
Chile-Santiago Stock Exchange	154.47
Peru-Lima Stock Exchange	24.11
US-NYSE	34,864.20
US-NASDAQ	18,900.70

Source: Bloomberg

Commodities (09/30/09)				
US\$, %	Last	1M	3M	Y-T-D
Silver	16.65	11.7	22.3	46.1
Gold	1,007.70	5.9	8.8	14.2
Copper	6,147.5	-4.9	24.2	102.1
Crude (WTI)	70.61	0.9	1.0	58.3
Crude (MIX)	63.64	-7.2	-3.5	86.0

Source: UBS Pactual

Currencies (09/30/09)				
(per US\$ %)	Last	1M	3M	Y-T-D
MXN (Mexico)	13.51	-1.1	-2.4	1.2
ARS (Argentina)	3.84	0.3	-1.2	-10.1
BRL (Brazil)	1.77	6.4	10.5	31.0
EUR (European Union)	0.68	2.1	4.3	4.8
JPY (Japan)	89.70	3.8	7.4	1.0
PEN (Peru)	2.88	2.5	4.3	8.8
CLP (Chile)	549.70	0.7	-2.9	16.2

Source: UBS Pactual

Debt Securities (09/30/09)	
	Last
28-day Cetes	4.53%
M10Y Bond	7.914%
M20Y Bond	8.455%
30Y Treasury Bond	4.051%

Source: Bloomberg

PAM's investment team
Eugenia Pichardo: CEO
 epichardo@paminversion.com
Francisco Lopez: Managing Director
Sales & Research
 flopez@paminversion.com
Laura Garcia: Trading Director
 lgarcia@paminversion.com
Luis Calzada: Compliance Director
 lcalzada@paminversion.com
Kathia Reynoso: Analyst
 kreynoso@paminversion.com

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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.