

MEXICO EQUITY & INCOME FUND INC

Form N-CSRS

April 08, 2010

As filed with the Securities and Exchange Commission on April 8, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-06111

The Mexico Equity and Income Fund, Inc.
(Exact name of registrant as specified in charter)

615 E. Michigan Street
Milwaukee, WI 53202
(Address of principal executive offices) (Zip code)

Mr. Gerald Hellerman
c/o U.S. Bancorp Fund Services, LLC
615 E. Michigan Street
Milwaukee, WI 53202
(Name and address of agent for service)

(866) 700-6104
Registrant's telephone number, including area code

Date of fiscal year end: July 31, 2010

Date of reporting period: January 31, 2010

Item 1. Reports to Stockholders.

The Mexico Equity
and Income Fund, Inc.

Semi-Annual Report

January 31, 2010

The Mexico Equity and Income Fund Inc.

March 29, 2010

Dear Fellow Shareholders:

Mexican stocks have rebounded strongly since the Bolsa (and most stock markets around the world) hit bottom in March 2009. So has the Mexico Equity and Income Fund. Its stock price has climbed from a low of \$3.34 to its current price of more than \$9.00. While volatility comes with the territory in Mexican equities, the Fund's long term performance is impressive. According to CEFConnect, the NAV has returned more than 13% per annum since the Fund's inception almost twenty years ago.

As to the future, Pichardo Asset Management, the Fund's investment advisor, expects the Mexican economic recovery to continue, driven primarily by external demand. In addition, job creation, and consumer credit conditions in Mexico are improving, the level of past due loans has decreased and bank balance sheets have improved. Please see the in depth commentary from Pichardo Asset Management in this report for more details on the prospects for investments in Mexico.

I would like to briefly discuss a few matters that the board has been considering recently.

As I mentioned in my previous letter, after our self-tender offer for 100% of the Fund's preferred shares, only about 100,000 shares remained outstanding. It is the board's intention to eliminate those shares. To that end, the board intends to authorize a reverse/forward stock split in the near future. The goal is to convert all the preferred shares to common shares on a one-for-one basis.

For some time, the board has been concerned about the Fund's discount. A few months ago, the discount exceeded 17%. Consequently, late last year, the board determined to re-activate our share repurchase program, which had been inactive for quite awhile. This had an accretive effect on the Fund's net asset value. Nevertheless, after a few months of buybacks, the board felt the discount was still too wide. Therefore, on February 26, 2010, we announced that we would no longer rely on the "safe harbor" provisions set forth in Rule 10b-18 of the Securities Exchange Act of 1934, which limit the number of shares that can be repurchased. We are hopeful that this move will have a more meaningful effect on the discount, which is currently less than 14%. We would like to see it move lower still.

In order to reduce the expense ratio, the board has been considering measures to increase the Fund's assets. Among the options being considered is issuance of a security with a convertible feature. However, the discussions are very preliminary and there can be no assurance that any particular measure will be implemented.

I welcome comments and suggestions from shareholders about these matters or anything else related to the Fund.

Sincerely yours,

Phillip Goldstein
Chairman

THE MEXICO EQUITY AND INCOME FUND, INC.

The Mexico Equity and Income Fund Inc.
Report of Pichardo Asset Management,
The Investment Adviser.

Dear Fund Stockholders,

We are pleased to present you with the semi-annual report for the Mexico Equity and Income Fund, Inc. (the “MXE”) for the six-month period ended January 31, 2010.

I. INTRODUCTION

The structural challenge facing the Mexican economy is growth. After the Gross Domestic Product contracted -6.5% in 2009, economic growth for the previous 10 years had averaged a meager 2.4% with not so encouraging average growth projections for 2010 and 2011 of 3.5% and 3.4%, respectively, based on a Bloomberg survey of 10 brokerage firms. For growth to significantly resume, several key sectors of the Mexican economy must be opened up to private investment, including energy and electricity. Mexican oil production has declined -23% from 3.38 million barrels per day –mbd- in 2004 to a current 2.60 mbd. This reflects the size of the challenge Mexico faces in terms of competitiveness.

The prudent and responsible management of public finances over the last 15 years has resulted in an estimated 2010 fiscal deficit of 2.75% of GDP, international reserves of US\$91.9 bn, contained annual inflation of 4.8%, and a 136 country risk premium over US rates, as well as a consolidated debt market with a long-term yield curve (the federal government recently placed an approximately US\$1.9bn. syndicated bond with a fixed coupon maturing in 2020 with a yield to maturity of 7.66% in pesos. Demand was 3 times the amount placed and was distributed among more than 60 local and foreign institutional investors according to the Ministry of Finance).

Confrontation among political parties is likely to continue in 2010, as this year 12 states will be choosing new governors. Meanwhile, President Calderon has proposed a major change to the political reform system that would mainly allow local officials to seek re-election for up to 13 consecutive years, federal lawmakers to seek re-election for up to 12 consecutive years and reduce the size of Congress. Mexico requires a political consensus to get structural reforms passed which would enable the economy to grow at sustainable annual rates of at least 5%.

The Mexican government is in a strong political position to continue implementing policies to tackle the country’s drug-trafficking and organized crime problems so as to pursue the objective of ensuring citizens a better quality of life.

Despite a deep economic recession in Mexico in 2009, Mexican companies reported positive financial results in 2009 on the back of strong market positioning, flexibility in dealing with suppliers, pricing power, and efficiencies as well as past experience confronting extreme macroeconomic stress. Efficiencies combined with a fledgling macroeconomic recovery underpinned annual results. Accival Banamex’s sample of 35 companies (excluding financials) showed the following results: Sales +1.3%, EBITDA +2.7%, Net Income +34.8% and Net Debt -14.3%.

THE MEXICO EQUITY AND INCOME FUND, INC.

For the six-month period ended January 31, 2010, the MXE's net asset value per share increased 19.40% in dollar terms and 17.68% in local terms (103.78%, dollar return in one-year to end-February) compared with a 14.87% increase for the Mexbol Index –TRI- and a 13.83% gain for the MSCI Mexico Index. (Source: Bloomberg).

For the one-year period through January 31, 2010, the MXE's NAV per share gained 60.58% in dollar terms. For the five and ten-year period, the MXE's NAV per share registered average annual dollar returns of 12.68% and 13.07%, respectively. (Source: Bloomberg).

The MXE's net asset value per share has posted a 13.37% annual average dollar return for the last 19 ½ years (with dividends reinvested), since its inception on August 30th, 1990, through March 9, 2010 (Source: Thomson).

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.

Throughout the semi-annual period, ended January 31, 2010, we continued to adhere to the MXE's portfolio structure established by PAM in December 2008, based on PAM's asset classification and company investment process rating (operating cash flow, low debt, prudent financials but aggressive growth and investment edge), as well as PAM's valuation process (market consensus of companies' three-year EPS estimates, a 20% margin of safety and PAM's comfort level of companies' P/E multiple).

The MXE's portfolio structure ended the six-month period with 88.37% in equities, 8.26% in debt and readily available instruments, and 3.37% in private equity.

II.MEXICO'S ECONOMIC REVIEW

Mexican GDP jumped 8.4% 4Q'09 quarter-over-quarter (q/q) at a seasonally adjusted annualized rate (-2.3% year-over-year –y/y- in real terms) on the back of a recovery in manufacturing activity (+25.9% q/q, at a seasonally adjusted annualized rate). Economic output contracted -6.5% y/y for the calendar year ended 2009, the worst contraction since 1932, compared to a 1.3% y/y increase in 2008, following the 2008 global financial crisis. The services sector (approximately 64% of GDP) shrank by 6.6% y/y, the industrial sector contracted by -7.3% y/y (approx. 30% of GDP) and primary activities rose by 1.8% y/y (approx. 6% of GDP). (Source: INEGI).

Industrial output recorded an annual average decrease of -7.2% between January and December 2009, compared with a decrease of just -0.5% in the same period of 2008. The manufacturing industry, the main component of industrial output, contracted at an annual average rate of -10.0% in 2009. Based on seasonally-adjusted numbers industrial production displays consecutive positive monthly variations since September, 2009. (Source: INEGI).

Retail sales rose during the second half of 2009, recording an average y/y growth rate of 7.7%. For the 2009 calendar year retail sales registered a y/y decrease of -4.3% compared with y/y average growth of 1.4% in 2008. (Source: INEGI).

THE MEXICO EQUITY AND INCOME FUND, INC.

Based on Mexican Social Security Institute data, at the end of 2009 the number of insured workers was 13,994,127, or a decrease of -3.06% compared to 14,435,576 at the end of 2008. (Source: Secretary of Labor and Social Insurance).

Gross fixed investment contracted at a y/y rate of -11.5% during the period January-November 2009. Total investment in machinery and equipment decreased -21.9% (local origin -20% and imported -22.6%), while construction decreased by -3.7% over the same period. In November, gross fixed investment grew a seasonally adjusted 1.8% m/m, the biggest monthly percentile variation since March 2008. (Source: INEGI).

The 2009 trade deficit amounted to US\$ 4.7 bn., 0.49% of GDP and 73% below the 2008 level. In 2009, total exports (US\$ 229.7 bn.) dropped -21.2% y/y, oil exports -39.0% and non-oil exports -17.4%. Manufacturing exports recorded positive y/y growth rates as of November 2009. Seasonally-adjusted figures show that such exports rose 3.1% on average per month during the second half of 2009. Total imports (US\$ 234.4 bn.) contracted -24.0%; consumer goods -31.5%, intermediate goods -22.9% and capital goods -21.6%. (Source: INEGI).

Inflation during 2009 reached 3.57%, the lowest level since 2006, following 6.53% in 2008. Banxico (Mexico's Central Bank) maintains a 2010 inflation target of 5.25%, GDP growth estimates of 3.2% and 4.2% for 2010 and 2011, respectively, and a current account deficit of -1.2% of GDP. (Source: Banco de Mexico).

III. THE MEXICAN STOCK EXCHANGE

For the MXE's semi-annual period ended January 31, 2010, the Mexbol Index's 14.87% dollar gain places it fourth among Latam markets after Argentina 33.97%, Chile 21.70%, and Brazil 18.33%. The Mexbol's performance for the semi-annual period was mainly driven by Afore flows and flows to emerging markets.

The Mexican Pension System (AFORES) has played a key role in the performance of the local market since its agreement to invest exclusively in Mexican instruments for the period March to December 2009, which has been extended until May 2010. Moreover, their regulatory body, CONSAR issued changes related to:

- 1) investments in individual stocks;
- 2) investment in private equity (US\$ 1.1bn. approximately as of end-January 2010);
- 3) Value at Risk (VAR) flexibility (the confidence levels of the VAR measure will decline when general market volatility increases, and vice versa).

As of December 2009, AFORES' assets under management amounted to US\$88.1 bn. The total equity exposure of the combined portfolio of pension funds stood at 13.0%, with 9.0% in local stocks and 4.0% in international equities. This equity exposure is higher than the 9.8% average in 1H'09 but lower than the 15.5% reached a year ago.

IV. THE MXE'S PERFORMANCE

The 19.40% net asset value per share dollar return for the MXE's semi-annual period ended January 31, 2010, was mainly due to its overweight in beta-growth companies. We believe that the MXE's 557 and 453 bps outperformance vs. the MSCI Mexico and the Mexbol Indices, respectively, is mainly the result of the percentage allocations in beta-growth companies. The Mexican peso appreciated 1.44% vs. the U.S. Dollar for the period.

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For the one-year period through January 31, 2010, the MXE's NAV per share gained 60.58% in dollar terms. For the five and ten-year period, the MXE's NAV per share registered average annual dollar returns of 12.68% and 13.07% respectively (Source: Bloomberg).

For the MXE's semi-annual period ended January 31, 2010, the MXE's common share market price increased 22.37% and its discount to NAV narrowed by 204 basis points closing at -15.46% from -17.50% in July 2009.

For the one-year period through February 28, 2010, the MXE's NAV per share gained 103.78% in dollar terms. For the three, five and ten-year period, the MXE's NAV per share registered average annual dollar returns of -3.93, 13.17% and 12.46%, respectively. (Source: Bloomberg).

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data to the most recent month end may be obtained by calling U.S. Bancorp Fund Services, LLC, (414) 765-4255.

V. PORTFOLIO STRATEGY

The MXE will likely continue to adhere to its non-indexed and diversified investment strategy, with a focus on stock specifics; favoring Consumer staples (soft drinks-specialty stores and packaged foods & meats), industrials (toll road concessions and construction & engineering) and materials (copper and commodity-chemicals).

In December the MXE invested US\$2.3 million (equivalent to 3.19% of the MXE's total assets) in Discovery Americas II, a Mexican Bolsa-listed Private Equity fund launched by Atlas Capital Management, LLC. Discovery Americas II raised approximately US\$90 million, capitalized mainly by four Mexican Pension Funds –Afores- (Banamex, ING, Profuturo and Coppel), Televisa and Nafin. Discovery Americas II will invest the net proceeds of the offering in Private Equity transactions in mid-sized Mexican companies focused on domestic consumption-related industries including healthcare, education, transportation, restaurants, consumer finance, leisure and entertainment and retail, among others. Discovery Americas II has a daily price publication provided by Mexican price vendors.

Our investment philosophy continues to favor companies with an investment edge and solid corporate governance. We continue to hold meetings with management and to visit company plants or facilities to better monitor their investment objectives and financials.

Sincerely yours,

Eugenia Pichardo
Portfolio Manager

THE MEXICO EQUITY AND INCOME FUND, INC.

Disclosures

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/or visiting www.themexicoequityandincomefund.com. 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, lower liquidity and the 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 thereto; (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 "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 economic health. 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.

The information provided herein represents the opinion of Pichardo Asset Management and is not intended to be a forecast of future events, a guarantee of future results, or investment advice.

Fund holdings and sector allocations are subject to change at any time, and should not be considered recommendations to buy or sell any security. Current and future portfolio holdings are subject to risk.

THE MEXICO EQUITY AND INCOME FUND, INC.

Definitions

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.

MSCI MEXICO: The Morgan Stanley Capital International Index Mexico is a capitalization weighted index that monitors the performance of stocks from Mexico.

- It is not possible to invest directly in an index.
- 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.

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.

- Earnings per share (EPS) is calculated by taking the total earnings divided by the number of shares outstanding.

The P/E ratio (price-to-earnings ratio) of a stock is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share.

Operating cash flow: The sum of net profit, depreciation, change in accruals, and change in accounts payable, minus change in accounts receivable, minus change in inventories.

INEGI -National Statistics, Geography and Informatics Institute-: provides geographic, demographic and economic information of Mexico. It also coordinates the Informatic Development Programme and provides the public service of statistical and geographic information.

THE MEXICO EQUITY AND INCOME FUND, INC.

RELEVANT ECONOMIC INFORMATION for the years ended December 31

Real Activity (billion US\$)	2000		2001		2002		2003		2004		2005		2006		2007		2008
Real GDP Growth (y-o-y)	6.60	%	-0.30	%	0.90	%	1.30	%	4.40	%	3.00	%	4.80	%	3.30	%	1.30
Industrial Production (y-o-y)	6.00	%	-3.50	%	0.00	%	-0.75	%	3.80	%	1.60	%	1.60	%	1.40	%	-0.70
Trade Balance (US billions)	-\$8.00		\$10.00		-\$8.00		-\$5.60		-\$8.10		-\$7.60		-\$6.10		-\$11.20		-\$15.00
Exports	\$166.50		\$158.40		\$160.70		\$164.80		\$189.10		\$213.70		\$253.90		\$249.99		\$291.00
Export growth (y-o-y)	22.10	%	-4.90	%	1.50	%	2.50	%	14.70	%	14.00	%	10.30	%	5.80	%	7.30
Imports	\$174.50		\$168.40		\$168.70		\$170.50		\$197.20		\$221.30		\$260.00		\$283.00		\$308.00
Import growth (y-o-y)	22.90	%	-3.50	%	0.20	%	1.10	%	15.70	%	12.00	%	13.10	%	8.30	%	9.50
Financial Variables and Prices																	
28-Day CETES (T-bills)/Average	15.30	%	11.20	%	7.10	%	6.24	%	8.60	%	8.02	%	7.10	%	7.04	%	7.97
Exchange rate (Pesos/US\$) Average	9.46		9.34		9.66		10.79		11.15		10.64		10.90		10.93		11.16
Inflation IPC, 12 month trailing	9.00	%	4.40	%	5.70	%	4.00	%	5.20	%	3.30	%	3.80	%	4.00	%	6.53
Mexbol Index USD Return	-20.81	%	20.88	%	14.43	%	33.61	%	50.49	%	44.90	%	45.77	%	10.56	%	-40.40
Market Cap- (US billions)	\$111.70		\$112.40		\$103.80		\$124.70		\$169.50		\$283.80		\$343.48		\$441.04		\$172.00
EV/EBITDA	7.9	x	8.1	x	6.6	x	7.8	x	8.3	x	8.9	x	10.60	x	9.8	x	7.4
Fund's NAV & Common Share Market Price Performance																	
NAV's per share	-14.61	%	9.48	%	-13.51	%	40.00	%	55.24	%	36.25	%	59.29	%	30.68	%	-52.80
Share Price	-5.82	%	18.73	%	-18.50	%	36.04	%	66.57	%	24.84	%	75.54	%	24.39	%	-47.40

Sources: Banamex, Banco de Mexico, Bloomberg.

THE MEXICO EQUITY AND INCOME FUND, INC.

Allocation of Portfolio Assets

January 31,
2010
(Unaudited)

(Calculated as a percentage of Net Assets)

The accompanying notes are an integral part of these financial statements.

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THE MEXICO EQUITY AND INCOME FUND, INC.

Schedule of Investments
 January 31,
 2010
 (Unaudited)

MEXICO – 104.30%	Shares	Value
COMMON STOCKS – 88.60%		
Communications – 13.93%		
America Movil, S.A. de C.V. – Class L	3,916,499	\$8,569,587
Megacable Holdings SAB de CV	448,057	900,567
		9,470,154
Financial Groups – 1.82%		
Corporativo GBM SAB de CV	3,168,928	1,235,591
		1,235,591
Food, Beverage, and Tobacco – 15.03%		
Embotelladoras Arca S.A.	376,700	1,209,587
Fomento Economico Mexicano, S.A. de C.V.	331,000	1,400,930
Gruma S.A.B.	850,700	1,677,986
Grupo Bimbo, S.A.B. de C.V.	728,457	4,580,703
Grupo Continental, S.A.	514,600	1,343,153
		10,212,359
Industrial Conglomerates – 9.20%		
Kimberly-Clark de Mexico, S.A.B. de C.V.	652,227	2,926,046
Mexichem, S.A. de C.V.	1,552,659	3,323,735
		6,249,781
Infrastructure – 13.46%		
Carso Infraestructura y Construccion, S.A.	2,171,368	1,361,255
Grupo Mexicano de Desarrollo, S.A. (a)	1,211,851	537,365
Impulsora del Desarrollo y el Empleo en America Latina, S.A. de C.V.	1,725,685	2,058,156
Promotora y Operadora de Infraestructura, S.A. de C.V. (a)	2,470,105	5,193,264
		9,150,040
Insurance – 2.72%		
Qualitas Compania de Seguros	3,250,451	1,851,366
		1,851,366
Mining – 12.91%		
Grupo Mexico, S.A. – Series B	4,182,557	8,477,033

The accompanying notes are an integral part of these financial statements.

THE MEXICO EQUITY AND INCOME FUND, INC.

	January 31, 2010	
Schedule of Investments (continued)	(Unaudited)	
COMMON STOCKS (CONTINUED)	Shares	Value
Mining (continued)		
Industrias Penoles, S.A.	15,905	\$294,206 8,771,239
Pharmaceuticals – 7.27%		
Genomma Lab Internacional SA	2,121,477	4,937,138 4,937,138
Retailing – 4.59%		
Wal-Mart de Mexico, S.A. de C.V. – Class V	704,100	3,121,618 3,121,618
Real Estate Developer – 5.52%		
GMD Resorts SAB de CV	1,371,073	314,466
Grupe, S.A. de C.V. (a)(b)	3,272,386	3,440,008 3,754,474
Waste Management – 2.15%		
Promotora Ambiental, S.A. de C.V. (a)	1,297,845	1,458,587 1,458,587
TOTAL COMMON STOCKS (Cost \$67,404,197)		\$60,212,347
CAPITAL DEVELOPMENT CERTIFICATES – 3.34%		
Atlas Discovery Trust II	300,000	2,268,708
TOTAL CAPITAL DEVELOPMENT CERTIFICATES (Cost \$2,292,248)		2,268,708
CORPORATE BONDS – 2.24%	Principal	
Housing – 2.24%		
Urbi, Desarrollos Urbanos, S.A. de C.V. 8.500%, 04/19/2016	1,521,000	1,526,323
TOTAL CORPORATE BONDS (Cost \$1,257,744)		1,526,323

The accompanying notes are an integral part of these financial statements.

THE MEXICO EQUITY AND INCOME FUND, INC.

January 31,
2010

Schedule of Investments (concluded) (Unaudited)

SHORT-TERM INVESTMENTS – 10.12%	Principal	Value
Mexican BANOBRA 0.000% Coupon, 2.984% Effective Yield, 02/08/2010 (c)	15,413,654*	\$1,177,750
Mexican INAFIN 0.000% Coupon, 3.989% Effective Yield, 02/02/2010 (c)	38,568,541*	2,948,293
Mexican INAFIN 0.000% Coupon, 3.024% Effective Yield, 02/09/2010 (c)	35,973,428*	2,750,263
TOTAL SHORT-TERM INVESTMENTS (Cost \$6,950,868)		6,876,306
TOTAL MEXICO (Cost \$77,905,057)		\$70,883,684
UNITED STATES – 0.15%	Shares	
INVESTMENT COMPANIES – 0.15%		
First American Treasury Obligation – Class A, 2.132%	100,335	100,335
TOTAL INVESTMENT COMPANIES (Cost \$100,335)		100,335
TOTAL UNITED STATES (Cost \$100,335)		100,335
TOTAL INVESTMENTS – 104.45% (Cost \$78,005,392)		70,984,019
LIABILITIES IN EXCESS OF OTHER ASSETS – (4.45)%		(3,026,232)
TOTAL NET ASSETS – 100.00%		\$67,957,787

Footnotes and Abbreviations

- (a) Non-income producing security.
- (b) Affiliated company.
- (c) Effective yield based on the purchase price. The calculation assumes the security is held to maturity.
- * Principal Amount in Mexican Pesos

The accompanying notes are an integral part of these financial statements.

THE MEXICO EQUITY AND INCOME FUND, INC.

Statement of Assets & Liabilities

January 31,
2010
(Unaudited)

ASSETS:

Investments, at value	
Unaffiliated issuers (Cost \$73,312,710)	\$67,544,011
Affiliated issuers (Cost \$4,742,682)	3,440,008
Total investments, at value (Cost \$78,005,392)	70,984,019
Foreign currency (Cost \$8,937)	8,891
Receivables:	
Investments sold	73,631
Dividends and Interest	35,154
Prepaid expenses	22,179
Total Assets	71,123,874

LIABILITIES:

Payable for securities purchased	2,967,356
Payable for Fund shares repurchased	71,973
Advisory fees payable	48,902
Legal fees payable	11,317
Custody fees payable	10,690
Fund accounting fees payable	10,220
Administration fees payable	6,987
Accrued expenses and other liabilities	38,642
Total Liabilities	3,166,087
Net Assets	\$67,957,787
Net Asset Value Per Preferred Share (\$728,580 / 82,773)	\$8.80
Net Asset Value Per Common Share (\$67,229,207 / 7,637,817)	\$8.80

NET ASSETS CONSIST OF:

Preferred stock, \$0.001 par value; 82,773 shares outstanding (1,855,128 shares authorized)	\$83
Common stock, \$0.001 par value; 7,637,817 shares outstanding (98,144,872 shares authorized)	7,638
Paid-in capital	98,434,487
Accumulated net investment loss	(562,258)
Accumulated net realized loss on investments and foreign currency	(22,900,679)
Net unrealized depreciation on investments and foreign currency	(7,021,484)
Net Assets	\$67,957,787

The accompanying notes are an integral part of these financial statements.

THE MEXICO EQUITY AND INCOME FUND, INC.

Statement of Operations	For the Six Months Ended January 31, 2010 (Unaudited)
INVESTMENT INCOME	
Dividends – Unaffiliated issuers	\$ 198,979
Interest(1)	153,347
Total Investment Income	352,326
EXPENSES	
Advisory fees (Note B)	\$268,949
Directors' fees and expenses (Note B)	56,623
Administration fees (Note B)	32,848
Custodian fees (Note B)	30,073
Transfer agent fees	25,083
Legal fees	23,643
Printing and mailing	23,318
Fund accounting fees (Note B)	21,735
CCO fees (Note B)	18,745
Insurance expense	18,655
Audit fees	15,314
NYSE fees	15,279
Miscellaneous fees	445
Total expenses	550,710
NET INVESTMENT LOSS	(198,384)
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS	
Net realized gain (loss) from investments and foreign currency transactions	
Unaffiliated Issuers	14,159,663
Affiliated Issuers	(1,587)
Net realized gain from in-kind redemptions (Note A)	
Unaffiliated Issuers	146,639
Affiliated Issuers	27,250
Net change in unrealized appreciation/depreciation	(2,910,180)
Net gain from investments and foreign currency transactions	11,421,785
Net increase in net assets resulting from operations	\$ 11,223,401

(1) Net of \$4,695 in foreign withholding tax.

The accompanying notes are an integral part of these financial statements.

THE MEXICO EQUITY AND INCOME FUND, INC.

Statements of Changes in Net Assets

	For the Six Months Ended January 31, 2010 (Unaudited)	For the Year Ended July 31, 2009
INCREASE (DECREASE) IN NET ASSETS		
Operations:		
Net investment income (loss)	\$ (198,384)	\$ 613,708
Net realized gain (loss) on investments and foreign currency transactions		
Unaffiliated Issuers	14,159,663	(38,136,633)
Affiliated Issuers	(1,587)	109,559
Net realized gain (loss) from in-kind redemptions (Note A)		
Unaffiliated Issuers	146,639	(441,976)
Affiliated Issuers	27,250	53,321
Net change in unrealized appreciation (depreciation) in value of investments and foreign currency transactions	(2,910,180)	(18,185,491)
Net increase (decrease) in net assets resulting from operations	11,223,401	(55,987,512)
Distributions to Shareholders from:		
Net investment income		
Common stock	—	(933,287)
Preferred stock	—	(203,116)
Net realized gains		
Common stock	—	(24,096,615)
Preferred stock	—	(5,244,284)
Decrease in net assets from distributions	—	(30,477,302)
Capital Share Transactions		
Repurchase of common stock through Repurchase Plan	(877,000)	(1,233,668)
Issuance of common stock for dividend	—	21,326,756
Repurchase of preferred stock for in-kind tender offer	(3,813,379)	(1,429,112)
Increase (decrease) in net assets from capital share transactions	(4,690,379)	18,663,976
Total increase (decrease) in net assets	6,533,022	(67,800,839)
Net Assets:		
Beginning of period	61,424,765	129,225,603
End of period*	\$ 67,957,787	\$ 61,424,765
* Including undistributed net investment loss of	\$ (562,258)	\$ (409,861)

The accompanying notes are an integral part of these financial statements.

THE MEXICO EQUITY AND INCOME FUND, INC.

Financial Highlights

For a Common Share Outstanding Throughout Each Period

	For the Six Months Ended January 31, 2010 (Unaudited)	For the Year Ended July 31,			2006	2005
		2009	2008	2007		
Per Share Operating Performance						
Net asset value, beginning of period	\$ 7.37	\$28.29	\$38.18	\$22.18	\$21.27	\$13.66
Net investment income (loss)	(0.02)	0.07	0.03	(0.14)	0.14	0.01
Net realized and unrealized gains (losses) on investments and foreign currency transactions	1.43	(13.95)	(2.57)	19.17	6.54	7.60
Net increase (decrease) from investment operations	1.41	(13.88)	(2.54)	19.03	6.68	7.61
Less: Distributions						
Dividends from net investment income	—	(0.25)	—	(0.13)	(0.16)	—
Distributions from net realized gains	—	(6.52)	(7.41)	(2.90)	(4.41)	—
Total dividends and distributions	—	(6.77)	(7.41)	(3.03)	(4.57)	—
Capital Share Transactions						
Anti-dilutive effect of Common Share Repurchase Program	0.02	0.04	0.15	—	0.18	—
Anti-dilutive effect of Common Rights Offering	—	—	0.06	—	—	—
Anti-dilutive effect of Preferred In-Kind Tender Offer	—	—	0.02	—	—	—
Dilutive effect of Preferred In-Kind Tender Offer	(0.00)	(5) (0.02)	—	—	—	—
Dilutive effect of Reinvestment of Distributions by Common Stockholders	—	(0.29)	(0.17)	—	(0.18)	—
Dilutive effect of Preferred Shares Offering	—	—	—	—	(1.20)	—

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Total capital share transactions	0.02	(0.27)	0.06	—	(1.20)	—
Net Asset Value, end of period	\$ 8.80	\$7.37	\$28.29	\$38.18	\$22.18	\$21.27
Per share market value, end of period	\$ 7.44	\$6.08	\$24.39	\$44.23	\$19.40	\$18.82
Total Investment Return Based on Market Value, end of period(1)(3)	22.37%	(43.10)%	(28.38)%	152.78%	37.62%	60.44%

The accompanying notes are an integral part of these financial statements.

THE MEXICO EQUITY AND INCOME FUND, INC.

Financial Highlights (continued)

For a Common Share Outstanding Throughout Each Period

Ratios/Supplemental Data	For the Six Months Ended January 31, 2010 (Unaudited)	For the Year Ended July 31,		2007	2006	2005
		2009	2008			
Net assets, end of period (000's)	\$ 67,229	\$ 56,980	\$ 106,484	\$ 100,251	\$ 54,872	\$ 52,621
Ratios of expenses to average net assets:	1.64% (4)	1.82%	1.50%	1.42%	1.90%	1.77%
Ratios of net investment income (loss) to average net assets:	(0.59%) (4)	0.97%	0.09%	(0.47%)	0.24%	0.03%
Portfolio turnover rate(3)	193.42% (2)	335.64% (2)	224.10% (2)	135.49% (2)	179.85% (2)	259.60%

(1) Total investment return is calculated assuming a purchase of common stock at the current market price on the first day and a sale at the current market price on the last day of each period reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment does not reflect brokerage commissions.

(2) Calculated on the basis of the Fund as a whole without distinguishing between shares issued.

(3) Not annualized for periods less than one year.

(4) Annualized.

(5) Less than 0.5 cent per share.

The accompanying notes are an integral part of these financial statements.

THE MEXICO EQUITY AND INCOME FUND, INC.

Financial Highlights

For a Preferred Share Outstanding Throughout the Period

	For the Six Months Ended January 31, 2010 (Unaudited)	For the Year Ended July 31,		2007	For the Period January 7, 2006 through July 31, 2006	
		2009	2008			
Per Share Operating Performance						
Net asset value, beginning of period	\$ 7.37	\$ 28.29	\$ 38.18	\$ 22.18	\$ 21.25	
Net investment income (loss)	(0.02)	0.07	0.03	(0.14)	0.13	
Net realized and unrealized gains (losses) on investments and foreign currency transactions	1.43	(13.95)	(2.57)	19.17	0.80	
Net increase (decrease) from investment operations	1.41	(13.88)	(2.54)	19.03	0.93	
Less: Distributions						
Dividends from net investment income	—	(0.25)	—	(0.13)	—	
Distributions from net realized gains	—	(6.52)	(7.41)	(2.90)	—	
Total dividends and distributions	—	(6.77)	(7.41)	(3.03)	—	
Capital Share Transactions						
Anti-dilutive effect of Common Share Repurchase Program	0.02	0.04	0.15	—	—	
Anti-dilutive effect of Common Rights Offering	—	—	0.06	—	—	
Anti-dilutive effect of Preferred In-Kind Tender Offer	—	—	0.02	—	—	
Dilutive effect of Preferred In-Kind Tender Offer	(0.00)	(5)	(0.02)	—	—	
Dilutive effect of Reinvestment of						
Distributions by Common Stockholders	—	(0.29)	(0.17)	—	—	
Total capital share transactions	0.02	(0.27)	0.06	—	—	
Net Asset Value, end of period	\$ 8.80	\$ 7.37	\$ 28.29	\$ 38.18	\$ 22.18	
Per share market value, end of period	\$ 7.64	\$ 6.85	\$ 25.50	\$ 36.10	\$ 19.00	
Total Investment Return Based on Market Value, end of period(1)	11.37%	(3)	(38.67)%	(8.25)%	110.66%	2.70% (3)

Ratios/Supplemental Data

Net assets, end of period (000's) \$	729	\$ 4,444	\$ 22,742	\$ 54,567	\$ 31,708
Ratios of expenses to average net assets:	1.64% (4)	1.82%	1.50%	1.42%	1.97% (4)
Ratios of net investment income (loss) to average net assets:	(0.59%) (4)	0.97%	0.09%	(0.47%)	0.37% (4)
Portfolio turnover rate(2)(3)	193.42%	335.64%	224.10%	135.49%	179.85%

(1) Total investment return is calculated assuming a purchase of common stock at the current market price on the first day and a sale at the current market price on the last day of each period reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment does not reflect brokerage commissions.

(2) Calculated on the basis of the Fund as a whole without distinguishing between shares issued.

(3) Not annualized for periods less than one year.

(4) Annualized.

(5) Less than 0.5 cent per share.

The accompanying notes are an integral part of these financial statements.

THE MEXICO EQUITY AND INCOME FUND, INC.

Notes to Financial Statements

January 31,
2010
(Unaudited)

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Mexico Equity and Income Fund, Inc. (the "Fund") was incorporated in Maryland on May 24, 1990, and commenced operations on August 21, 1990. The Fund is registered under the Investment Company Act of 1940, as amended, as a closed-end, non-diversified management investment company.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Significant accounting policies are as follows:

Portfolio Valuation. Investments are stated at value in the accompanying financial statements. All securities for which market quotations are readily available are valued at the last sales price prior to the time of determination of net asset value, or, if no sales price is available at that time, at the closing price last quoted for the securities (but if bid and asked quotations are available, at the mean between the current bid and asked prices, rather than the quoted closing price). Securities that are traded over-the-counter are valued, if bid and asked quotations are available, at the mean between the current bid and asked prices. Investments in short-term debt securities having a maturity of 60 days or less are valued at amortized cost if their term to maturity from the date of purchase was less than 60 days, or by amortizing their value on the 61st day prior to maturity if their term to maturity from the date of purchase when acquired by the Fund was more than 60 days. Other assets and securities for which no quotations are readily available will be valued in good faith at fair value using methods determined by the Board of Directors. These methods include, but are not limited to, the fundamental analytical data relating to the investment; the nature and duration of restrictions in the market in which they are traded (including the time needed to dispose of the security, methods of soliciting offers and mechanics of transfer); the evaluation of the forces which influence the market in which these securities may be purchased or sold, including the economic outlook and the condition of the industry in which the issuer participates.

Investment Transactions and Investment Income. The cost of investments sold is determined by use of the specific identification method for both financial reporting and income tax purposes. Interest income, including the accretion of discount and amortization of premium on investments, is recorded on an accrual basis; dividend income is recorded on the ex-dividend date or, using reasonable diligence, when known to the Fund. The collectibility of income receivable from foreign securities is evaluated periodically, and any resulting allowances for uncollectible amounts are reflected currently in the determination of investment income.

Tax Status. No provision is made for U.S. Federal income or excise taxes as it is the Fund's intention to continue to qualify as a regulated investment company and to make the requisite distributions to its shareholders that will be sufficient to relieve it from all or substantially all U.S. Federal income and excise taxes.

THE MEXICO EQUITY AND INCOME FUND, INC.

January 31,
2010

Notes to Financial Statements (continued)

(Unaudited)

The Fund is subject to the following withholding taxes on income from Mexican sources:

Dividends distributed by Mexican companies are subject to withholding tax at an effective rate of 0.00%.

Interest income on debt issued by the Mexican federal government is generally not subject to withholding. Withholding tax on interest from other debt obligations such as publicly traded bonds and loans by banks or insurance companies is at a rate of 4.9% under the tax treaty between Mexico and the United States.

Gains realized from the sale or disposition of debt securities may be subject to a 4.9% withholding tax. Gains realized by the Fund from the sale or disposition of equity securities that are listed and traded on the Mexican Stock Exchange (“MSE”) are exempt from Mexican withholding tax if sold through the stock exchange. Gains realized on transactions outside of the MSE may be subject to withholding at a rate of 25% (20% rate prior to January 1, 2002) of the value of the shares sold or, upon the election of the Fund, at 35% (40% rate prior to January 1, 2002) of the gain. If the Fund has owned less than 25% of the outstanding stock of the issuer of the equity securities within the 12 month period preceding the disposition, then such disposition will not be subject to capital gains taxes as provided for in the treaty to avoid double taxation between Mexico and the United States.

Accounting Pronouncements

Derivatives

In March 2008, Statement of Financial Accounting Standards, “Disclosures about Derivative Instruments and Hedging Activities” (“Disclosures about Derivatives”) was issued and is effective for interim and annual periods beginning after November 15, 2008. Disclosures about Derivatives is intended to improve financial reporting for derivative instruments by requiring enhanced disclosure that enables investors to understand how and why an entity uses derivatives, how derivatives are accounted for, and how derivative instruments affect an entity’s results of operations and financial position.

The Fund did not invest in any derivative instruments during the six months ended January 31, 2010.

Summary of Fair Value Exposure at January 31, 2010. The Fund has adopted authoritative fair valuation accounting standards which establish an authoritative definition of fair value and set out a hierarchy for measuring fair value. These standards require additional disclosures about the various inputs and valuation techniques used to develop the measurements of fair value and a discussion of changes in valuation techniques and related inputs during the period. These inputs are summarized in the three broad levels listed below:

THE MEXICO EQUITY AND INCOME FUND, INC.

Notes to Financial Statements (continued) January 31,
2010
(Unaudited)

Level 1 – Quoted prices in active markets for identical securities.

Level 2 – Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).

Level 3 – Significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments).

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following is a summary of the inputs used to value the Fund's investments carried at fair value as of January 31, 2010:

	Level 1	Level 2	Level 3	Total
Equity				
Communications	\$9,470,154			\$9,470,154
Financial Groups	1,235,591			1,235,591
Food, Beverage, and Tobacco	10,212,359			10,212,359
Industrial Conglomerates	6,249,781			6,249,781
Infrastructure	9,150,040			9,150,040
Insurance	1,851,366			1,851,366
Mining	8,771,239			8,771,239
Pharmaceuticals	4,937,138			4,937,138
Retailing	3,121,618			3,121,618
Real Estate Developer	3,754,474			3,754,474
Waste Management	1,458,587			1,458,587
Capital Development Certificates	—	2,268,708		2,268,708
Total Equity	60,212,347	2,268,708	—	62,481,055
Corporate Bonds				
Housing	\$—	\$1,526,323	\$—	\$1,526,323
Short-Term Investments	\$100,335	\$6,876,306	\$—	\$6,976,641
Total Investment in Securities	\$60,312,682	\$10,671,337	\$—	\$70,984,019

Federal Income Taxes. The Fund intends to comply with the requirements of the Internal Revenue Code necessary to qualify as a regulated investment company and to make the requisite distributions of income and capital gains to its shareholders sufficient to relieve it from all or substantially all federal income taxes. Therefore, no federal income tax provision is required. Accounting principles generally accepted in the United States of America require that permanent differences between financial reporting and tax reporting be reclassified between various components of net assets.

THE MEXICO EQUITY AND INCOME FUND, INC.

January 31,
2010

Notes to Financial Statements (continued)

(Unaudited)

The Fund recognizes the tax benefits of uncertain tax positions only where the position is “more-likely-than-not” to be sustained assuming examination by tax authorities. The Adviser has analyzed the Fund’s tax positions, and has concluded that no liability for unrecognized tax benefits should be recorded related to uncertain tax positions taken on returns filed for open tax years (2006-2008), or expected to be taken in the Fund’s 2009 tax returns. The Fund identifies its major tax jurisdictions as U.S. Federal, New York State and foreign jurisdictions where the Fund makes significant investments; however the Fund is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next twelve months.

The Fund intends to utilize provisions of the federal income tax laws which allow it to carry a realized capital loss forward for eight years following the year of loss and offset such losses against any future realized capital gains. At July 31, 2009, the Fund had accumulated capital loss carryforwards for tax purposes as follows:

Date of Expiration	Amount
July 31, 2017	\$8,567,159

As of July 31, 2009, the Fund deferred post-October losses on investments and foreign currencies of \$22,118,749, which will be recognized in the fiscal year ending July 31, 2010.

Reclassification of Capital Accounts. Accounting Principles generally accepted in the United States of America require certain components of net assets relating to permanent differences be reclassified between financial and tax reporting. These reclassifications have no effect on net assets or net asset value per shares. The permanent differences are primarily attributed to foreign currency gain reclassifications and net capital gains realized on in-kind redemptions due to the tender offers on the preferred shares (Note D). For the year ended July 31, 2009, the Fund decreased undistributed net investment income by \$1,023,540 increased accumulated realized gain by \$4,078,133 and decreased paid in capital by \$3,054,593.

Foreign Currency Translation. The books and records of the Fund are maintained in U.S. dollars. Foreign currency amounts are translated into U.S. dollars on the following basis:

- (i) market value of investment securities, assets and liabilities at the current Mexican peso exchange rate on the valuation date, and
- (ii) purchases and sales of investment securities, income and expenses at the Mexican peso exchange rate prevailing on the respective dates of such transactions. Fluctuations in foreign currency rates, however, when determining the gain or loss upon the sale of foreign currency denominated debt obligations pursuant to U.S. Federal income tax regulations; such amounts are categorized as foreign exchange gain or loss for income tax reporting purposes.

THE MEXICO EQUITY AND INCOME FUND, INC.

January 31,
2010

Notes to Financial Statements (continued)

(Unaudited)

The Fund reports realized foreign exchange gains and losses on all other foreign currency related transactions as components of realized gains and losses for financial reporting purposes, whereas such gains and losses are treated as ordinary income or loss for Federal income tax purposes.

Securities denominated in currencies other than U.S. dollars are subject to changes in value due to fluctuations in the foreign exchange rate. Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of domestic origin as a result of, among other factors, the level of governmental supervision and regulation of foreign securities markets and the possibilities of political or economic instability.

Distribution of Income and Gains. The Fund intends to distribute to shareholders, at least annually, substantially all of its net investment income, including foreign currency gains. The Fund also intends to normally distribute annually any net realized capital gains in excess of net realized capital losses (including any capital loss carryovers), except in circumstances where the Directors of the Fund determine that the decrease in the size of the Fund's assets resulting from the distribution of the gains would generally not be in the interest of the Fund's shareholders. An additional distribution may be made to the extent necessary to avoid payment of a 4% U.S. Federal excise tax.

Distributions to shareholders are recorded on the ex-dividend date. The amount of dividends and distributions from net investment income and net realized gains are determined in accordance with U.S. Federal income tax regulations, which may differ from accounting principles generally accepted in the United States of America. These "book/tax" differences are either considered temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their Federal tax-basis treatment; temporary differences do not require reclassification. Dividends and distributions which exceed net investment income and net realized capital gains for financial reporting purposes but not for tax purposes are reported as dividends in excess of net investment income and net realized capital gains, respectively. To the extent they exceed net investment income and net realized gains for tax purposes, they are reported as distributions from additional paid-in capital.

Distributions to Shareholders. The tax character of distributions paid to shareholders during the periods ended July 31, 2009 and July 31, 2008 were as follows:

Distributions paid from:	7/31/09	7/31/08
Ordinary Income	\$7,580,697	\$14,703,135
Long-Term Capital Gain	22,896,605	18,993,356
Total	\$30,477,302	\$33,696,491

THE MEXICO EQUITY AND INCOME FUND, INC.

January 31,
2010

Notes to Financial Statements (continued)

(Unaudited)

The Fund has designated \$22,896,605 as long-term capital gain dividend, pursuant to Internal Revenue Code section 852(b)(3).

As of July 31, 2009, the components of distributable earnings on a tax basis were as follows:

Cost of Investments for tax purposes(a)	\$73,575,047
Gross tax unrealized appreciation on investments	7,530,703
Gross tax unrealized depreciation on investments	(18,379,122)
Net tax unrealized appreciation (depreciation) on investments	(10,848,419)
Net unrealized appreciation on foreign currency transactions	395
Net tax unrealized appreciation (depreciation) on investments and foreign currency	\$(10,848,024)
Undistributed ordinary income	—
Undistributed long-term capital gains	—
Total Distributable earnings	\$—
Other accumulated gains(losses)	\$(30,685,908)
Total accumulated earnings(losses)	\$(41,533,932)

(a) Represents cost for federal income tax purposes. Differences between the Fund's cost basis of investments at July 31, 2009, for book and tax purposes, relates primarily to the deferral of losses related to wash sales.

The Mexico Equity and Income Fund designates 23.96% of dividends declared for the fiscal year July 31, 2009 from net investment income as qualified dividend income under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (unaudited).

IN-KIND REDEMPTION

During the six months ended January 31, 2010, the Mexico Equity and Income Fund realized \$173,889 of net capital gains resulting from an in-kind redemption. Shareholders exchanged fund shares for securities held by the Fund rather than cash. Net capital gains or losses resulting from in-kind redemptions are excluded from the Fund's taxable gains and are not distributed to shareholders. Because such gains are not taxable to the Fund, and are not distributed to shareholders, they have been reclassified from accumulated net realized gains and losses to paid-in-capital. Such reclassification has no effect on the Fund's net assets.

THE MEXICO EQUITY AND INCOME FUND, INC.

January 31,
2010

Notes to Financial Statements (continued)

(Unaudited)

ADDITIONAL INFORMATION APPLICABLE TO FOREIGN SHAREHOLDERS ONLY (unaudited)

The percent of ordinary income distributions designated as interest related dividends for the fiscal year ended July 31, 2009 was 1.45%.

The percent of ordinary income distributions designated as short-term capital gain distributions for the fiscal year ended July 31, 2009 was 85.01%.

NOTE B: MANAGEMENT, INVESTMENT ADVISORY AND ADMINISTRATIVE SERVICES

Pichardo Asset Management, S.A. de C.V. serves as the Fund's Investment Adviser (the "Investment Adviser") under the terms of the Investment Advisory Agreement (the "Advisory Agreement") effective July 1, 2003. Pursuant to the Advisory Agreement, the Investment Adviser makes investment decisions for the Fund and supervises the acquisition and disposition of securities by the Fund. For its services, the Investment Adviser receives a monthly fee at an annual rate of 0.80% of the Fund's average daily net assets. For the six months ended January 31, 2010, these fees amounted to \$268,949. The Investment Adviser has voluntarily agreed to reimburse the Fund for certain fees and expenses on an annual basis. These expense reimbursements may be terminated at any time. For the six months ended January 31, 2010, there were no expense reimbursements made by the Investment Adviser.

Effective September 20, 2007, the Fund pays each of its directors who is not a director, officer or employee of the Investment Adviser, the Administrator or any affiliate thereof an annual fee of \$20,000, paid pro rata, quarterly plus a fee of \$500 for each meeting held telephonically. For serving the Fund as Chief Compliance Officer, in addition to the aforementioned Directors' fees, Mr. Hellerman receives annual compensation in the amount of \$30,000. In addition, the Fund reimburses the directors for travel and out-of-pocket expenses incurred in connection with Board of Directors' meetings.

U.S. Bancorp Fund Services, LLC ("USBFS"), an indirect wholly-owned subsidiary of U.S. Bancorp, serves as the Fund's Administrator and, in that capacity, performs various administrative and accounting services for the Fund. USBFS also serves as the Fund's Fund Accountant (the "Fund Accountant"). U.S. Bank, N.A. serves as the Fund's custodian (the "Custodian"). The Custodian is an affiliate of the Administrator. The Administrator prepares various federal and state regulatory filings, reports and returns for the Funds; prepares reports and materials to be supplied to the directors; monitors the activities of the Fund's Custodian and Fund Accountant; coordinates the preparation and payment of the Fund's expenses and reviews the Fund's expense accruals.

THE MEXICO EQUITY AND INCOME FUND, INC.

January 31,
2010

Notes to Financial Statements (continued)

(Unaudited)

For its services, the Administrator receives a monthly fee at the following annual rate:

0.12% of average daily net assets up to \$200 million, plus
0.10% of average daily net assets from \$200 million to \$700 million, plus
0.05% of average daily net assets on the remaining balance above \$700 million

For its services, the Fund Accountant receives a monthly fee at the following annual rate:

\$42,000 minimum annual fee on average daily net assets up to \$100 million, plus 0.030% of average daily net assets from \$100 million to \$300 million, plus 0.015% of average daily net assets on the remaining balance above \$300 million

For its services, the Custodian receives a monthly fee at the following annual rate:

\$12,000 minimum base fee, plus 0.03% of average daily custody balance

For the six months ended January 31, 2010, the Mexico Equity and Income Fund, Inc. incurred Administration fees of \$32,848; Fund Accounting fees of \$21,735 and Custody fees of \$30,073.

NOTE C: PORTFOLIO ACTIVITY

Purchases and sales of securities other than short-term obligations, aggregated \$119,106,635 and \$121,001,252 respectively, for the six months ended January 31, 2010.

At January 31, 2010 substantially all of the Fund's assets were invested in Mexican securities. The Mexican securities markets are substantially smaller, less liquid, and more volatile than the major securities markets in the United States. Consequently, acquisitions and dispositions of securities by the Fund may be limited.

NOTE D: CAPITAL STOCK

During the six months ended January 31, 2010, the Fund purchased 112,319 shares of capital stock in the open market at a cost of \$877,000. The weighted average discount of these purchases comparing the average purchase price to net asset value at the close of the New York Stock Exchange was 15.35%.

During the year ended July 31, 2009, the Fund purchased 70,348 shares of capital stock in the open market at a cost of \$1,233,668. The weighted average discount of these purchases comparing the average purchase price to the net asset value at the close of the New York Stock Exchange was approximately 12.52%.

THE MEXICO EQUITY AND INCOME FUND, INC.

January 31,
2010

Notes to Financial Statements (continued)

(Unaudited)

During the year ended July 31, 2008, the Fund purchased 158,149 shares of capital stock in the open market at a total cost of \$4,138,645. The weighted average discount of these purchases comparing the average purchase price to the net asset value at the close of the New York Stock Exchange was approximately 14.94%.

The Board of Directors approved in-kind tender offers to repurchase up to 25% of the Fund's preferred stock in exchange for portfolio securities of the Fund valued at 99% of the Fund's per share net asset value on the expiration date of the repurchase offers (the "Offers"). During the six months ended January 31, 2010, the Fund commenced one offer with an expiration date of August 14, 2009. During the year ended July 31, 2009, the Fund commenced one offer with an expiration date of December 26, 2008. During the year ended July 31, 2008, the Fund commenced two Offers with expiration dates of June 27, 2008 and November 16, 2007. Portfolio securities to be received by participating Preferred Stock-holders were pro-rata among tendering Preferred Stockholders in proportion to the number of Preferred Shares tendered to the Fund by each such Preferred Stockholder. Following the expiration of the Offers, the Fund redeemed 1,327,436 Preferred Shares or \$26,196,556 of Capital Stock. The net asset value per share of the Fund's common and preferred stockholders was increased by approximately \$0.02 and decreased by approximately \$0.02 and \$0.003 in 2008, 2009 and 2010, respectively, as a result of these Offers.

The Board of Directors approved a nontransferable rights offering for the purchase of the Funds common stock. The Fund issued to each stockholder of record as of July 27, 2007 (the Record Date) one nontransferable right for every two shares of common or preferred stock such stockholder owned as of the Record Date. Each right entitled the holder to purchase one share of common stock at a subscription price calculated as the greater of (i) the Funds asset value per share (NAV) as determined on the Expiration Date (August 31, 2007) or (ii) 95% of the average trade weighted market price of the Funds common stock on the Expiration Date. On September 11, 2007, the Fund issued 848,150 shares of common stock at \$36.24 which raised \$30,736,956. The net asset value per share of the Funds common and preferred stockholders was increased by approximately \$0.06 per share as a result of this issuance.

On December 12, 2008, the Board of Directors declared a stock dividend of \$6.77531 per share. This dividend was paid in shares of common stock of the Fund, or in cash by specific election of the stockholders. Stockholders that did not elect the cash options were issued 4,036,750 shares, which amounted to \$21,326,756.

On December 6, 2007, the Board of Director's declared a stock dividend of \$7.41206 per share. This dividend was paid in shares of common stock of the Fund, or in cash by specific election of the stockholder. Stockholders that did not elect the cash option were issued 448,587 shares, which amounted to \$11,124,950.

THE MEXICO EQUITY AND INCOME FUND, INC.

January 31,
2010

Notes to Financial Statements (continued)

(Unaudited)

On December 6, 2006, the Board of Directors declared a stock dividend of \$3.03306 per share. This dividend was paid in shares of common stock of the Fund, or in cash by specific election of the stockholder. Stockholders that did not select the cash option were issued 152,515 shares, which amount to \$4,255,191.

The Board of Directors approved rights offering (the "Offering") on October 12, 2005. In connection with the Offering by the Fund, the Fund issued to stockholders of record as of November 30, 2005 (the "Record Date") 0.75 nontransferable rights to purchase one share of preferred stock for each share of common stock owned as of the Record Date. The rights entitled the holders to purchase three shares of preferred stock for every four shares held as of the Record Date at a subscription price calculated as the greater of (i) 90% of the Fund's asset value per share ("NAV") as determined on the Expiration Date (December 28, 2005) or (ii) the average closing price of the Fund's common stock over the four consecutive trading days ending on the Expiration Date. On January 6, 2006, the Fund issued 1,429,336 shares of preferred stock at \$17.97 per share, which raised \$25,685,167. The net asset value per share of the Fund's common stockholders was reduced by approximately \$1.20 per share as a result of this issuance (see Note E).

During the year ended July 31, 2006, the Fund purchased 242,594 shares of capital stock in the open market at a total cost of \$4,514,583. The weighted average discount of these purchases comparing the purchase price to the net asset value at the time of purchase was 8.60%. On December 13, 2005, the Board of Directors declared a stock dividend of \$4.57038 per common share. This dividend was paid in shares of common stock of the Fund, and in cash by specific election. Some stockholders selected the stock dividend; therefore on January 31, 2006 the Fund issued 242,594 shares, which amounted to \$4,514,583.

During the years ended July 31, 2007 and July 31, 2005, the Fund made no repurchases pursuant to the program.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that the Fund may purchase, from time to time, shares of its common and preferred stock in the open market.

NOTE E: PREFERRED STOCK

Shares of the Preferred Stock have identical rights, voting powers, restrictions, and qualifications of the common stock of the Fund except for repurchase and conversion preference features and the ability to elect two directors.

In the event the Put Warrant Program is approved by the SEC and upon the anticipated issuance of put warrants by the Fund, all issued and outstanding shares of Preferred Stock will automatically convert to our common stock on a one-for-one basis upon the anticipated issuance of put warrants by the Fund and, shortly thereafter, stockholders will receive put warrants.

THE MEXICO EQUITY AND INCOME FUND, INC.

Notes to Financial Statements (concluded) January 31,
2010
(Unaudited)

NOTE F: TRANSACTIONS WITH AFFILIATES

The following issuer is affiliated with the Fund; that is, the Fund held 5% or more of the outstanding voting shares during the period from August 1, 2009 through January 31, 2010. As defined in Section (2)(a)(3) of the Investment Company Act of 1940, such issuers are:

Issuer Name	Share			Share Balance At Jan. 31, 2010	Realized Gain	Dividend Income	Value At Jan. 31, 2010	Acquisition Cost
	Balance At Aug. 1, 2009	Additions	Reductions					
Grupe, S.A. de C.V.	3,467,818	—	195,432	3,272,386	\$25,663	—	\$3,440,008	\$4,742,682

THE MEXICO EQUITY AND INCOME FUND, INC.

Additional Information January 31,
2010
(Unaudited)

NOTE 1: INFORMATION ABOUT PROXY VOTING

Information regarding how the Fund votes proxies relating to portfolio securities is available without charge upon request by calling toll-free at 1-888-294-8217 and the SEC's website at www.sec.gov. Information regarding how the Fund voted proxies relating to portfolio securities during the most recent twelve month period ended June 30 is available on the SEC's website at www.sec.gov or by calling the toll-free number listed above.

NOTE 2: AVAILABILITY OF QUARTERLY PORTFOLIO SCHEDULE

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The filing will be available, upon request, by calling 1-866-700-6104. Furthermore, you will be able to obtain a copy of the filing on the SEC's website at <http://www.sec.gov> beginning with the filing for the period ended October 31, 2004. The Fund's Forms N-Q may also be reviewed and copied at the SEC's Public Reference Room in Washington, DC and information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

NOTE 3: INFORMATION ABOUT CERTIFICATIONS

In November 2009, the Fund submitted a CEO annual certification to the NYSE in which the Fund's principal executive officer certified that she was not aware, as of the date of the certification, of any violation by the Fund of the NYSE's Corporate Governance listing standards. In addition, as required by Section 302 of the Sarbanes-Oxley Act of 2002 and related SEC rules, the Fund's principal executive and principal financial officers have made quarterly certifications, included in the filing with the SEC on Forms N-CSR and N-Q, relating to, among other things, the Fund's disclosure controls and procedures and internal control over financial reporting.

THE MEXICO EQUITY AND INCOME FUND, INC.

Dividends and Distributions

January 31, 2010
(Unaudited)

DIVIDEND REINVESTMENT PLAN

The Fund intends to distribute to shareholders substantially all of its net investment company taxable income at least annually. Investment company taxable income, as defined in section 852 of the Internal Revenue Service Code of 1986, includes all of the Fund's taxable income minus the excess, if any, of its net realized long-term capital gains over its net realized short-term capital losses (including any capital loss carryovers), plus or minus certain other required adjustments. The Fund also expects to distribute annually substantially all of its net realized long-term capital gains in excess of net realized short-term capital losses (including any capital loss carryovers), except in circumstances where the Fund realizes very large capital gains and where the Directors of the Fund determine that the decrease in the size of the Fund's assets resulting from the distribution of the gains would not be in the interest of the Fund's shareholders generally.

Pursuant to the Fund's Dividend Reinvestment Plan (the "Plan"), each shareholder will be deemed to have elected, unless the Plan Agent (as defined below) is otherwise instructed by the shareholder in writing, to have all distributions, net of any applicable U.S. withholding tax, automatically reinvested in additional shares of the Fund by Computershare Trust Company, Inc., the Fund's transfer agent, as the Plan Agent (the "Plan Agent"). Shareholders who do not participate in the Plan will receive all dividends and distributions in cash, net of any applicable U.S. withholding tax, paid in U.S. dollars by check mailed directly to the shareholder by the Plan Agent, as dividend-paying agent. Shareholders who do not wish to have dividends and distributions automatically reinvested should notify the Plan Agent for The Mexico Equity and Income Fund, Inc., c/o Computershare Investor Services, ATTN: Ms. Margaret Dunn, 250 Royall Street; 3B, Canton, Massachusetts 02021. Dividends and distributions with respect to shares of the Fund's Common Stock and Preferred Stock registered in the name of a broker-dealer or other nominee (i.e., in "street name") will be reinvested under the Plan unless the service is not provided by the broker or nominee or the shareholder elects to receive dividends and distributions in cash. A shareholder whose shares are held by a broker or nominee that does not provide a dividend reinvestment program may be required to have his shares registered in his own name to participate in the Plan. Investors who own shares of the Fund's Common Stock and Preferred Stock registered in street name should contact the broker or nominee for details.

The Plan Agent serves as agent for the shareholders in administering the Plan. If the Directors of the Fund declare an income dividend or a capital gains distribution payable either in the Fund's Common Stock, Preferred Stock, or in cash, as shareholders may have elected, nonparticipants in the Plan will receive cash and participants in the Plan will receive Common Stock or Preferred Stock, respectively, to be issued by the Fund. If the market price per share on the valuation date equals or exceeds net asset value per share on that date, the Fund will issue new shares to participants at net asset value; or, if the net asset value is less than 95% of the market price on the valuation date, then such shares will be issued at 95% of the market price.

THE MEXICO EQUITY AND INCOME FUND, INC.

January 31,
2010

Dividends and Distributions (continued)

(Unaudited)

If net asset value per share on the valuation date exceeds the market price per share on that date, participants in the Plan will receive shares of Common Stock or Preferred Stock from the Fund valued at market price. The valuation date is the dividend or distribution payment date or, if that date is not a New York Stock Exchange trading day, the next preceding trading day. If the Fund should declare an income dividend or capital gains distribution payable only in cash, the Plan Agent will, as agent for the participants, buy Fund shares in the open market on the New York Stock Exchange or elsewhere, for the participants' accounts on, or shortly after, the payment date.

The Plan Agent maintains all shareholder accounts in the Plan and furnishes written confirmations of all transactions in an account, including information needed by shareholders for personal and tax records. Shares in the account of each Plan participant will be held by the Plan Agent in noncertified form in the name of the participant, and each shareholder's proxy will include those shares purchased pursuant to the Plan.

In the case of shareholders such as banks, brokers or nominees that hold shares for others who are beneficial owners, the Plan Agent will administer the Plan on the basis of the number of shares certified from time to time by the shareholders as representing the total amount registered in the shareholder's name and held for the account of beneficial owners who participate in the Plan.

There is no charge to participants for reinvesting dividends or capital gains distributions payable in either Common Stock, Preferred Stock or cash. The Plan Agent's fees for the handling or reinvestment of such dividends and capital gains distributions will be paid by the Fund. There will be no brokerage charges with respect to shares issued directly by the Fund as a result of dividends or capital gains distributions payable either in stock or in cash. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open market purchases in connection with the reinvestment of dividends or capital gains distributions payable in cash.

Brokerage charges for purchasing small amounts of Common Stock and Preferred Stock for individual accounts through the Plan are expected to be less than usual brokerage charges for such transactions because the Plan Agent will be purchasing stock for all participants in blocks and prorating the lower commissions thus attainable. Brokerage commissions will vary based on, among other things, the broker selected to effect a particular purchase and the number of participants on whose behalf such purchase is being made.

The receipt of dividends and distributions in Common Stock or Preferred Stock under the Plan will not relieve participants of any income tax (including withholding tax) that may be payable on such dividends or distributions.

THE MEXICO EQUITY AND INCOME FUND, INC.

January 31,
2010

Dividends and Distributions (concluded)

(Unaudited)

Experience under the Plan may indicate that changes in the Plan are desirable. Accordingly, the Fund and the Plan Agent reserve the right to terminate the Plan as applied to any dividend or distribution paid subsequent to notice of the termination sent to participants at least 30 days before the record date for such dividend or distribution. The Plan also may be amended by the Fund or the Plan Agent, but (except when necessary or appropriate to comply with applicable law, or rules or policies of a regulatory authority) only upon at least 30 days' written notice to participants. All correspondence concerning the Plan should be directed to the Plan Agent at the address above.

THE MEXICO EQUITY AND INCOME FUND, INC.

Results of Annual
Stockholders Meeting

January 31, 2010
(Unaudited)

The Fund's Annual Stockholders meeting was held on November 27, 2009, at 777 Wisconsin Avenue, 31st Floor, Milwaukee, Wisconsin 53202. As of October 15, 2009, the record date, outstanding shares of common and preferred stock were 7,731,007 and 101,900 respectively. Holders of 7,152,073 shares of the Fund were present at the meeting either in person or by proxy. These holders, as being holders of a majority of the outstanding shares of the Fund, constituted a quorum. The stockholders voted on two proposals. The stockholders elected two Directors to the Board of Directors one by each share class. The following table provides information concerning the matters voted on at the meeting:

I.	Election of Director – Common		
	Andrew Dakos	Votes For 6,221,259	Votes Against 837,770
II.	Election of Director – Preferred		
	Rajeev Das	Votes For 90,597	Votes Against 2,447

THE MEXICO EQUITY AND INCOME FUND, INC.

Privacy Policy

January 31, 2010
(Unaudited)

The Fund has adopted the following privacy policy in order to safeguard the personal information of its consumers and customers in accordance with SEC Regulation S-P, 17 CFR 284.30:

Commitment to Consumer Privacy. The Fund recognizes and respects the privacy expectations of each of our customers and believes that the confidentiality and protection of consumer information is one of our fundamental responsibilities. The Fund is committed to maintaining the confidentiality, integrity and security of the customers' personal information and will handle personal consumer and customer information only in accordance with Regulation S-P and any other applicable laws, rules and regulations. The Fund will ensure: (a) the security and confidentiality of customer records and information; (b) that customer records and information are protected from any anticipated threats and hazards; and (c) that unauthorized access to, or use of, customer records or information is protected against.

Collection and Disclosure of Shareholder Information. Consumer information collected by, or on behalf of, The Fund, generally consists of the following:

Information received from consumers or customers on or in applications or other forms, correspondence, or conversations, including, but not limited to, their name, address, phone number, social security number, assets, income and date of birth; and

Information about transactions with us, our affiliates, or others, including, but not limited to, shareholder account numbers and balance, payments history, parties to transactions, cost basis information, and other financial information.

The Fund does not disclose any nonpublic personal information about our current or former consumers or customers to nonaffiliated third parties, except as permitted by law. For example, as The Fund has no employees, it conducts its business affairs through third parties that provide services pursuant to agreements with The Fund (as well as through its officers and directors).

Security of Consumer and Customer Information. The Fund will determine whether the policies and procedures of its affiliates and service providers and reasonably designed to safeguard customer information and require only appropriate and authorized access to, and use of, customer information through the application of appropriate administrative, technical, physical, and procedural safeguards that comply with applicable federal standards and regulations. The Fund directs each of its service providers to adhere to The Fund's privacy policy and to their respective privacy policies with respect to all customer information of The Fund and to take all actions reasonably necessary so that The Fund is in compliance with the provisions of 17 CFR 248.30, including, as applicable, the development and delivery of initial and annual privacy notices and maintenance of appropriate and adequate records. The Fund will require its service providers to confirm to The Fund, in writing, that they are restricting access to nonpublic

THE MEXICO EQUITY AND INCOME FUND, INC.

January 31,
2010

Privacy Policy (concluded)

(Unaudited)

personal information about customers to those employees who need to know that information to provide products or services to customers.

The Fund requires its service providers to provide periodic reports, no less frequently than annually, to the Board of Directors outlining their privacy policies and implementation and promptly report to The Fund any material changes to their privacy policy before, or promptly after, their adoption.

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THE MEXICO EQUITY AND INCOME FUND, INC.

Management of the Fund

January 31, 2010
(Unaudited)

Board of Directors. The management and affairs of the Fund are supervised by the Board of Directors. The Board consists of five individuals, all of whom are not “interested persons” of the Fund as the term is defined in the Investment Company Act of 1940, as amended (the “1940 Act”). The Directors are fiduciaries for the Fund’s shareholders and are governed by the laws of the State of Maryland in this regard. The Board establishes policies for the operation of the Fund and appoints the officers who conduct the daily business of the Fund. The Directors and Interested Officers of the Fund are listed below with their addresses, present position(s) with the Fund, length of time served, principal occupations over at least the last five years, and any other Directorships held. Please note that there is only one fund in the complex that is overseen by the Directors.

Name and Address	Year Born	Position(s) with the Fund	Term of Office/Length of Time Served	Principal Occupation During the Past Five Years	Other Directorships Held by
Gerald Hellerman 5431 NW 21st Avenue Boca Raton, FL 33496	1937	Director, Chief Financial Officer and Chief Compliance Officer	2007 / 9 years	Managing Director, Hellerman Associates	Director, MVC Capital, Inc.; Director, MVC Acquisition Corp; Director, Old Mutual Absolute Return and Emerging managers Fund Complex; Director and Chairman of Audit Committee; Director, Special Opportunities Fund Inc.
Phillip Goldstein 60 Heritage Drive Pleasantville, NY 10570	1945	Director	2008 / 10 years	Principal of the general partner of five investment partnerships in the Bulldog	Director, ASA Ltd. Director, Special Opportunities

Investors group Fund Inc.
of funds.

Glenn Goodstein 2308 Camino Robledo Carlsbad, CA 92009	1963 Director	2007 / 9 years	Registered Investment Advisor; held numerous executive positions with Automatic Data Processing until 1996.	None
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THE MEXICO EQUITY AND INCOME FUND, INC.

				January 31, 2010		
				(Unaudited)		
				Term of		
Name and Address	Year Born	Position(s) with the Fund	Office/Length of Time Served	Principal Occupation During the Past Five Years	Other Directorships Held by Director	
Rajeev Das 68 Lafayette Avenue Dumont, NJ 07628	1968	Director	2009 / 9 years	Principal, Bulldog Investors, a group of Investment Funds Managing member of the General Partner of Opportunity Income Plus L.P. an investment fund.	None	
Andrew Dakos Park 80 West Plaza Two, Suite 750 Saddle Brook, NJ 07663	1966	Director	2009 / 9 years	Managing Member of the general partner of five investment partnerships in the Bulldog Investors group of Funds: Opportunity Partners L.P., Opportunity Income Plus Fund L.P., Full Value Partners L.P., Full Value Special Situations Fund L.P., and Full Value Offshore L.P.	Director, Special Opportunities Fund Inc.	
Maria Eugenia Pichardo 408 Teopanzolco Avenue 3rd Floor-Reforma Cuernavaca, 62260 Morelos Mexico	1950	Interested Officer, President	Indefinite / 6 years	Portfolio Manager of the Fund since the Fund's Inception; President and General Partner, Pichardo Asset Management, S.A. de C.V. since 2003; Managing Director, Acciones y Valores de Mexico, S.A. de C.V.	None	

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from 1979 to 2002.

Francisco Lopez	1971	Interested	Indefinite / 6 years	Research Director, Pichardo Asset Management, S.A. de C.V. since 2003; Assistant Portfolio Manager, Acciones y Valores de Mexico, S.A. de C.V. from 1997 to 2002.	None
408 Teopanzolco Avenue 3rd Floor-Reforma Cuernavaca, 62260 Morelos Mexico		Officer, Secretary			

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THE MEXICO EQUITY
AND INCOME FUND, INC.

Investment Adviser:

Pichardo Asset Management, S.A. de C.V.
408 Teopanzolco Avenue
3rd Floor – Reforma
Cuernavaca, 62260 Morelos
Mexico

Independent Registered Public

Accounting Firm:

Tait, Weller & Baker LLP
1818 Market Street, Suite 2400
Philadelphia, PA 19103

Administrator and Fund Accountant:

U.S. Bancorp Fund Services, LLC
615 East Michigan Street
Milwaukee, WI 53202

Transfer Agent and Registrar:

Computershare Investor Services, LLC
250 Royall Street; 3B
Canton, MA 02021

Custodian:

U.S. Bank, N.A.
Custody Operations
1555 Rivercenter Drive, Suite 302
Milwaukee, WI 53212

Board of Directors:

Andrew Dakos
Rajeev Das
Phillip Goldstein
Glenn Goodstein
Gerald Hellerman

Item 2. Code of Ethics.

Not Applicable for semi-annual reports.

Item 3. Audit Committee Financial Expert.

Not Applicable for semi-annual reports.

Item 4. Principal Accountant Fees and Services.

Not Applicable for semi-annual reports.

Item 5. Audit Committee of Listed Registrants.

The standing audit committee is comprised of Mr. Andrew Dakos, Mr. Phillip Goldstein and Mr. Rajeev Das.

Item 6. Investments.

Schedule of Investments is included as part of the report to shareholders filed under Item 1 of this Form.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

PROXY VOTING POLICIES AND GUIDELINES

The Proxy Voting Policies and Guidelines contained in this document summarize The Mexico Equity and Income Fund, Inc.'s (the "Fund") positions on various issues of concern to the Fund's shareholders. These Guidelines give general indication as to how the Fund's Advisor will vote Fund shares on each issue listed. However, this listing does not address all potential voting issues or the intricacies that may surround individual proxy votes. For that reason there may be instances in which votes may vary from the guidelines presented here. The Fund endeavors to vote Fund shares in accordance with the Fund's investment objectives and strategies.

I. CORPORATE GOVERNANCE

A. Board and Governance Issues

1. Board of Director/Trustee Composition

The Board of Directors is responsible for the overall governance of the corporation.

The Fund advisor will oppose slates without at least a majority of independent directors (directors who are outsiders to the corporation).

The Fund advisor will vote for shareholder proposals that request that the board audit, compensation and/or nominating committees include independent directors exclusively.

2. Increase Authorized Common Stock

The Fund advisor will generally support the authorization of additional common stock necessary to facilitate a stock split.

The Fund advisor will generally support the authorization of additional common stock, if the company already has a large amount of stock authorized but not issued or reserved for its stock option plans. In this latter instance, there is a concern that the authorized but unissued shares will be used as a poison pill or other takeover defense, which will be opposed. In addition, we will require the company to provide a specific purpose for any request to increase shares by more than 100 percent of the current authorization.

3. Blank Check Preferred Stock

Blank check preferred is stock with a fixed dividend and a preferential claim on company assets relative to common shares. The terms of the stock (voting dividend and conversion rights) are set by the Board at a future date without

further shareholder action. While such an issue can in theory have legitimate corporate purposes, most often it has been used as a takeover defense since the stock has terms that make the entire company less attractive.

The Fund advisor will generally oppose the creation of blank check preferred stock.

4. Classified or “Staggered” Board

On a classified (or staggered) board, directors are divided into separate classes (usually three) with directors in each class elected to overlapping three-year terms. Companies argue that such Boards offer continuity in direction which promotes long-term planning. However, in some instances they may serve to deter unwanted takeovers since a potential buyer would have to wait at least two years to gain a majority of Board seats.

The Fund advisor will vote on a case-by-case basis on issues involving classified boards.

5. Supermajority Vote Requirements

Supermajority vote requirements in a company’s charter or bylaws require a level of voting approval in excess of a simple majority. Generally, supermajority provisions require at least 2/3 affirmative vote for passage of issues.

The Fund advisor will vote on a case-by-case issues involving supermajority voting.

6. Restrictions on Shareholders to Act by Written Consent

Written consent allows shareholders to initiate and carry out a shareholder action without waiting until the annual meeting or by calling a special meeting. It permits action to be taken by the written consent of the same percentage of outstanding shares that would be required to effect the proposed action at a shareholder meeting.

The Fund advisor will generally oppose proposals to limit or eliminate the right of shareholders to act by written consent.

7. Restrictions on Shareholders to Call Meetings

The Fund advisor will generally oppose such a restriction as it limits the right of the shareholder.

8. Limitations, Director Liability and Indemnification

Because of increased litigation brought against directors of corporations and the increased costs of director’s liability insurance, many states have passed laws limiting director liability for those acting in good faith. Shareholders however must opt into such statutes. In addition, many companies are seeking to add indemnification of directors to corporate bylaws.

The Fund advisor will generally support director liability and indemnification resolutions because it is important for companies to be able to attract the most qualified individuals to their Boards. Note: Those directors acting fraudulently would remain liable for their actions irrespective of this resolution.

9. Reincorporation

Corporations are in general bound by the laws of the state in which they are incorporated. Companies reincorporate for a variety of reasons including shifting incorporation to a state where the company has its most active operations or corporate headquarters, or shifting incorporation to take advantage of state corporate takeover laws.

While each reincorporation proposal will be evaluated based on its own merits, the Fund advisor will generally support reincorporation resolutions for valid business reasons (such as reincorporating in the same state as the corporate headquarters).

10. Cumulative Voting

Cumulative voting allows shareholders to “stack” their votes behind one or a few directors running for the board, thereby helping a minority of shareholders to win board representation. Cumulative voting gives minority shareholders a voice in corporate affairs proportionate to their actual strength in voting shares.

The Fund advisor will generally support proposals calling for cumulative voting in the election of directors.

11. Dual Classes of Stock

In order to maintain corporate control in the hands of a certain group of shareholders, companies may seek to create multiple classes of stock with differing rights pertaining to voting and dividends.

The Fund advisor will generally oppose dual classes of stock. However, the advisor will support classes of stock offering different dividend rights (such as one class which pays cash dividends and a second which pays stock dividends) depending on the circumstances.

12. Limit Directors’ Tenure

In general corporate directors may stand for re-election indefinitely. Opponents of this practice suggest that limited tenure would inject new perspectives into the boardroom as well as possibly creating room for directors from diverse backgrounds; however, continuity is important to corporate leadership and in some instances alternative means may be explored for injecting new ideas or members from diverse backgrounds into corporate boardrooms.

Accordingly, the Fund advisor will vote on a case-by-case basis attempts to limit director tenure.

13. Minimum Director Stock Ownership

The director share ownership proposal requires that all corporate directors own a minimum number of shares in the corporation. The purpose of this resolution is to encourage directors to have the same interest as other shareholders.

The Fund advisor will support resolutions that require corporate directors to own shares in the company.

14. Selection of Auditor

Annual election of the outside accountants is standard practice. While it is recognized that the company is in the best position to evaluate the competence of the outside accountants, we believe that outside accountants must ultimately be accountable to shareholders. Furthermore, audit committees have been the subject of a report released by the Blue Ribbon Commission on Improving the Effectiveness of Corporate Audit Committees in conjunction with the NYSE and the National Association of Securities Dealers. The Blue Ribbon Commission concluded that audit committees must improve their current level of oversight of independent accountants. Given the rash of accounting irregularities that were not detected by audit panels or auditors, shareholder ratification is an essential step in restoring investor confidence.

The Fund advisor will oppose the resolutions seeking ratification of the auditor when fees for financial systems design and implementation exceed audit and all other fees, as this can compromise the independence of the auditor.

The Fund advisor will oppose the election of the audit committee chair if the audit committee recommends an auditor whose fees for financial systems design and implementation exceed audit and all other fees, as this can compromise the independence of the auditor.

B. Executive Compensation

1. Disclosure of CEO, Executive, Board and Management Compensation

On a case-by-case basis, the Fund advisor will support shareholder resolutions requesting companies to disclose the salaries of top management and the Board of Directors.

2. Compensation for CEO, Executive, Board and Management

The Fund advisor will oppose an executive compensation proposal if we believe the compensation does not reflect the economic and social circumstances of the company (i.e. at times of layoffs, downsizing, employee wage freezes, etc.).

3. Formation and Independence of Compensation Review Committee

The Fund advisor will support shareholder resolutions requesting the formation of a committee of independent directors to review and examine executive compensation.

4. Stock Options for Board and Executives

The Fund advisor will generally oppose stock option plans that in total offer greater than 15% of shares outstanding because of voting and earnings dilution.

The Fund advisor will generally oppose option programs that allow the repricing of underwater options. (Repricing divides shareholder and employee interests. Shareholders cannot “reprice” their stock and, therefore, optionees should not be treated differently).

The Fund advisor will generally oppose stock option plans that have option exercise prices below the marketplace on the day of the grant.

The Fund advisor will generally support options programs for outside directors subject to the same constraints previously described.

5. Employee Stock Ownership Plan (ESOPs)

The Fund advisor will support ESOPs created to promote active employee ownership. However, they will oppose any ESOP whose purpose is to prevent a corporate takeover.

6. Pay Equity

The Fund advisor will support shareholder resolutions that request that management provide a race and/or gender pay equity report.

7. Ratio Between CEO and Worker Pay

The Fund advisor will generally support shareholder resolutions requesting that management report on the ratio between CEO and employee compensation.

8. Maximum Ratio Between CEO and Worker Compensation and/or Cap on CEO Compensation

The Fund advisor will vote on a case-by-case basis shareholder resolutions requesting management to set a maximum ratio between CEO and employee compensation and/or a cap on CEO compensation.

9. Changes to Charter or By-Laws

The Fund advisor will conduct a case-by-case review of the proposed changes with the voting decision resting on whether the proposed changes are in shareholder's best interests.

10. Confidential Voting

Typically, proxy voting differs from voting in political elections in that the company is made aware of shareholder votes as they are cast. This enables management to contact dissenting shareholders in an attempt to get them to change their votes.

The Fund advisor will support confidential voting because the voting process should be free of coercion.

11. Equal Access to Proxy

Equal access proposals ask companies to give shareholders access to proxy materials to state their views on contested issues, including director nominations. In some cases, they would actually allow shareholders to nominate directors. Companies suggest that such proposals would make an increasingly complex process even more burdensome.

In general, the Fund advisor will oppose resolutions for equal access proposals.

12. Golden Parachutes

Golden parachutes are severance payments to top executives who are terminated or demoted pursuant to a takeover. Companies argue that such provisions are necessary to keep executives from "jumping ship" during potential takeover attempts.

The Fund advisor will support the right of shareholders to vote on golden parachutes because they go above and beyond ordinary compensation practices. In evaluating a particular golden parachute, we will examine total management compensation, the employees covered by the plan, and the quality of management.

C. Mergers and Acquisitions

1. Considering the Non-Financial Effects of a Merger Proposal

Such a proposal allows or requires the Board to consider the impact of merger decisions on various "stakeholders," such as employees, communities, customers and business partners. This proposal gives the Board the right to reject a tender offer on the grounds that it would adversely affect the company's stakeholders.

The Fund advisor will support shareholder resolutions that consider non-financial impacts of mergers.

2. Mergers, Restructuring and Spin-offs

A merger, restructuring, or spin-off in some way affects a change in control of the company's assets. In evaluating the merit of each issue, we will consider the terms of each proposal. This will include an analysis of the potential

long-term value of the investment.

The Fund advisor will support management proposals for merger or restructuring if the transaction appears to offer fair value and other proxy voting policies stated are not violated. For example, the advisor may oppose restructuring resolution which include in it significant takeover defenses and may again oppose the merger of a non-nuclear and a nuclear utility if it poses potential liabilities.

3. Poison Pills

Poison pills (or shareholder rights plans) are triggered by an unwanted takeover attempt and cause a variety of events to occur which may make the company financially less attractive to the suitor. Typically, directors have enacted these plans without shareholder approval. Most poison pill resolutions deal with putting poison pills up for a vote or repealing them altogether.

The Fund advisor will support proposals to put rights plans up for a shareholder vote. In general, poison pills will be opposed unless management is able to present a convincing case for such a plan.

4. Anti-Greenmail Proposals

Greenmail is the payment a corporate raider receives in exchange for his/her shares. This payment is usually at a premium to the market price, so while greenmail can ensure the continued independence of the company, it discriminates against other shareholders.

The Fund advisor will generally support greenmail provisions.

5. Opt-Out of State Anti-Takeover Law

A strategy for dealing with anti-takeover issues has been a shareholder resolution asking for a company to opt-out of a particular state's anti-takeover laws.

The Fund advisor will generally support bylaws changes requiring a company to opt-out of state anti-takeover laws. However, resolutions requiring companies to opt-into state anti-takeover statutes will be opposed.

Item 8. Portfolio Managers of Closed-End Management Investment Companies.

Information is presented as of January 31, 2010.

Portfolio Manager. Ms. Maria Eugenia Pichardo is the Portfolio Manager responsible for the day-to-day management of the Fund, which includes making portfolio management decisions and executing transactions.

Ms. Pichardo has been the Fund's Portfolio Manager since the Fund's inception (1990). She is also the President and General Partner of Pichardo Asset Management, S.A. de C.V. ("PAM") (the Fund's Investment Adviser) since February 2003. Prior to starting PAM, from 1989 to 1990 she was General Director of Acci-Worldwide S.A. de C. V, a wholly owned subsidiary of Acciones y Valores de Mexico, S. A. de C.V member of the Banamex Financial Group, subsidiary of Citigroup. Ms Pichardo was Managing Director and General Director of the International Sales Department of Acciones y Valores de Mexico, S. A. de C. V from 1983 to 1989.

Registered Investment Company (dollar amount and number of accounts)	Other Pooled Investments (dollar amount and number	Other Accounts (dollar amount and number of
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Portfolio Manager Name		of accounts)	accounts)
Ms. Maria Eugenia Pichardo	\$68,044,201 (1)	\$3,549,356 (1)	\$1,365,781 (10)

Material Conflict of Interest. The Portfolio Manager has day-to-day management responsibilities with respect to other accounts and accordingly may be presented with potential or actual conflicts of interest. Conflicts of interest can arise in the allocation of securities to the various accounts when a security is purchased or sold over a period of time. "PAM" has established policies and procedures to reduce the conflict of interest.

The management of other accounts may result in the Portfolio Manager devoting unequal time and attention to the management of the Fund and/or other accounts. In approving the Advisory Agreement, the Board of Directors was satisfied that the Portfolio Manager would be able to devote sufficient attention to the management of the Fund, and that PAM seeks to manage such competing interests for the time and attention of the portfolio manager.

Compensation. Ms. Pichardo receives a fixed annual salary with a potential bonus from PAM. Ms. Pichardo participates in a deferred compensation plan.

Securities Owned in the Fund by Portfolio Manager. As of January 31, 2010, the Portfolio Manager owned the following securities in the Fund:

Portfolio Manager Name	Dollar Range of Equity Securities in the Fund (None, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000, \$100,001 - \$500,000, \$500,001 to \$1,000,000, Over \$1,000,000)	Aggregate Dollar Range of Securities in all Registered Investment Companies Overseen by Portfolio Manager in Family of Investment Companies
Ms. Maria Eugenia Pichardo	None	None

Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
8/1/09 to 8/31/09	501,101 (1)	7.57	0	0
9/1/09 to 9/30/09	0	0	0	0
10/1/09 to 10/31/09	0	0	0	0
11/1/09 to 11/30/09	0	0	0	0
12/1/09 to 12/31/09	36,909 (2)	7.72	0	0
1/1/10 to 1/31/10	75,410 (2)	7.85	0	0
Total	613,420	7.61	0	0

- (1) The purchases were due to the result of an in-kind tender offer of preferred shares.
- (2) 112,319 common shares were purchased pursuant to the Fund's Stock Repurchase Program.

Item 10. Submission of Matters to a Vote of Security Holders.

The registrant's independent directors serve as its nominating committee, however they do not make use of a nominating committee charter.

Item 11. Controls and Procedures.

- (a) The Registrant's President and Chief Financial Officer have reviewed the Registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940 (the "Act")) as of a date within 90 days of the filing of this report, as required by Rule 30a-3(b) under the Act and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934. Based on their review, such officers have concluded that the disclosure controls and procedures are effective in ensuring that information required to be disclosed in this report is appropriately recorded, processed, summarized and reported and made known to them by others within the Registrant and by the Registrant's service provider.
- (b) There were no changes in the Registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Act) that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting.

Item 12. Exhibits.

- (a) (1) Any code of ethics or amendment thereto, that is the subject of the disclosure required by Item 2, to the extent that the registrant intends to satisfy Item 2 requirements through filing an exhibit. Not applicable.
- (2) A separate certification for each principal executive and principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
- (3) Any written solicitation to purchase securities under Rule 23c-1 under the Act sent or given during the period covered by the report by or on behalf of the registrant to 10 or more persons. None.
 - (b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) The Mexico Equity and Income Fund,
Inc.

By (Signature and Title) /s/ Maria Eugenia Pichardo
Maria Eugenia Pichardo, President

Date 4/7/10

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title) /s/ Maria Eugenia Pichardo
Maria Eugenia Pichardo, President

Date 4/7/10

By (Signature and Title) /s/ Gerald Hellerman
Gerald Hellerman, Chief Financial Officer

Date 4/7/10