

THE MEXICO EQUITY & INCOME FUND, INC.

Quarterly Message from The Fund's Investment Advisor at the end of the first Quarter of 2018

Dear Stockholders of the Fund,

Against the backdrop of a possible U.S. trade war with China, the Mexican economy remains on a solid growth track at the end of March with the January Global Indicator of Economic Activity (IGAE) rising 2.15%, above the four previous months, driven by the services and industrial sectors as well as consumption (+9.9%). (Source: INEGI & ANTAD).

Noteworthy, on April 12th, Moody's raised Mexico's credit rating from negative to stable citing expectations of 2% Gross Domestic Product (GDP) growth in 2018 and 2.5% in 2019 on the back of U.S. growth and investment in the oil industry as well as the low probability of the next president of Mexico weakening the country's macroeconomic and fiscal trends. (Source: Moody's Rating Agency) (Please refer to our full report on the Economy, Markets, NAFTA and Politics on the Fund's web page).

Fund Performance

The MXE outperformed the Mexbol Index by 553 basis points for the first quarter through March 2018 as a result of our value and growth strategy, once the market began re-pricing undervalued stocks included in our investment strategy for the last 18 months versus constituents with high concentrations in the Mexbol Index. In U.S. dollar terms, the Fund's NAV increased 6.59% compared to an increase of 1.06% for the Mexbol Index for the first quarter period ended March 31, 2018, due to an 8.15% appreciation of the peso. The Fund's NAV decreased 1.45% in pesos compared to a decrease of -6.34% for the Mexbol Index for the first quarter period ended March 31, 2018. (Source: U.S. Bancorp; Bloomberg) (Please refer to Exhibit 1 on the MXE's Fact Sheet for detailed information on the Fund's performance).

Investment Strategy

At the end of the first quarter of 2018, the MXE's portfolio construction continued to adhere to a growth and value strategy, including total annual return and energy investment themes whose quarterly contributions are presented in the Fund's Fact Sheet. (Source: PAM) (See Exhibits 2, 3, 4 and 5 as well as the Performance & Investment Strategy, Decision-Making Process and Portfolio Construction Report on the Fund's web page).

The Peso

The peso appreciated by approximately 8% to the U.S. Dollar during the quarter, due mainly to high carry in 28 day-CETES (Mexican treasury bills) at an approximately 7.53%, favourable trade balance results, and sources confirming that an agreement on NAFTA will be reached prior to the elections in Mexico (see comment below). (Source: Banxico)

The Mexbol

The MEXBOL Index, "IPyC," is currently trading at a 22% discount in terms of its last 12-month trailing Price-to-Earnings ratio and at an approximate 14% discount in terms of its 12-month-forward ratio versus the IPyC's 5-year historical average. (Source: Bloomberg) (See Exhibit 6 on the Fact Sheet).

IPyC constituents currently show profitability improvements, as reflected in Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) margins, given ongoing growth in sales and favourable operating leverage. Thus, the IPyC has as one of the highest ROICs in Latam, surpassing peers like Brazil, Chile and Colombia. It should be noted that companies with operations both inside and outside Mexico whose sales are set to benefit from higher global economic growth have an 81% weight in the IPyC. Furthermore, 40% of the EBITDA of IPyC constituents is generated outside Mexico, which lowers their exposure to local risk factors. (Source: PAM)

NAFTA and Politics Update

As mentioned in our last report, the outlook for the negotiation of the North American Free Trade (NAFTA) agreement has improved since January this year, so much so that an initial agreement could be forthcoming by the end of April or even the beginning of May, due mainly to growing U.S. trade tensions with China and the convenience for the Trump administration of finalizing an agreement with the current Congress given that mid-term elections in November could reduce the Republican majority.

The July 1st election campaigns, which got underway formally on March 30th, show Andres Manuel López Obrador (AMLO) —the leftist anti-system candidate— still out in front with an average 13 percentage point lead over his closest competitor in the presidential race. AMLO's advantage could narrow over the next four months following three televised debates, which would result in a tight race between two or three of the main political coalitions. If, as we expect, the election gives a narrow victory to any of the coalitions and is challenged, Mexico's Supreme Electoral Court will decide the winner, a process that could last several weeks. (Source: PAM) (Please refer to our full report on the Economy, Markets, NAFTA and Politics on the Fund's web page).

Energy Reform Update

On March 21, 2018, the first round of Round Three was held. The contractual areas tendered were in oil provinces located in shallow waters of the Gulf of Mexico: Burgos, Tampico-Misantla, Veracruz and Cuencas del Sureste. Sixteen contracts were awarded for the exploration and extraction of hydrocarbons in shallow waters of the Gulf of Mexico to 14 companies grouped into 12 bidders and the contracts awarded have an associated investment of approximately US\$ 8.6 billion during the term of the contracts. (Source: CNH)

THE MEXICO EQUITY & INCOME FUND, INC.

The State will be receiving, on average, between 72% and 78% of the profits generated in the awarded contracts. The prospective resources associated with the awarded contracts are 513 million barrels of oil equivalent. Three years after beginning the oil rounds in Mexico, 9 tenders and 3 farm-outs of Petróleos Mexicanos (PEMEX) have been completed, which will guarantee the best utilities for the State with an average of 74%, and an estimated total investment that would amount to US\$ 161 billion in case of geological success. (Source: *The Mexican Energy Ministry, SENER*) (Please see our *Electricity Sector Report on the Fund's webpage*).

Sincerely yours,

Eugenia Pichardo
Head Portfolio Manager

Important Information

Pichardo Asset Management has prepared this reported based on sources it believed to be accurate and reliable. However, the figures are unaudited and neither the Fund, Pichardo Asset Management (the Investment Advisor), nor any other persons or authorities guarantee their accuracy. Investors should seek their own professional advice and should consider the investment objectives, risks, changes, and expenses before acting on this information. Pichardo Asset Management is a registered investment advisor since 2003 in accordance with Section 204 of the Investment Advisers Act of 1940 and is also registered as an Independent Investment advisor in Mexico pursuant to articles 225 and 226 of the Mexican Securities Act under registration number 30018-001 (5365).

Closed-end funds are traded on the secondary market through one of the stock exchanges. The Fund's investment return and principal value will fluctuate so that an investor's shares may be worth more or less than the original cost. Shares of closed-end funds may trade above (a premium) or below (a discount) the net asset value (NAV) of the fund's portfolio. There is no assurance that the fund will achieve its investment objective.

Total return figures with distributions reinvested at the dividend reinvestment price are stated net-of-fees and represents past performance. Past performance is not indicative of future results, current performance may be higher or lower. Holdings are subject to change and are provided for informational purposes only and should not be deemed as a recommendation to buy or sell the securities shown. Inception date August 1990.

Definitions

- **ANTAD:** Mexico's National Association of Supermarket and Department Stores.
- **Basis Points:** Refers to a common unit of measure for interest rates and other percentages in finance.
- **Carry:** Positive carry is a strategy of holding two offsetting positions and profiting from a price difference. The first position generates an incoming cash flow that is greater than the obligations of the second.
- **CETES:** Mexican Federal Treasury Certificates are investment instruments offered by the Federal Government through the Ministry of Finance and the Bank of Mexico
- **CNH:** National Hydrocarbons Commission.
- **EBTIDA:** Net income with interest, taxes, depreciation and amortization added back to it.
- **IGAE:** A monthly indicator of short-term real sector economic growth
- **LATAM Indexes:** Captures market capitalization across countries in Latin America.
- **NAV:** Net Asset Value
- **Mexbol Index:** The Mexican Bolsa Index, or the IPyC (Índice 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 on October 30, 1978.
- **P/E:** The price-earnings ratio (P/E ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings.
- **PEMEX:** The Mexican state-owned oil company
- **Return on Invested Capital (ROIC):** A calculation used to assess a company's efficiency at allocating the capital under its control to profitable investments.
- **The North American Free Trade Agreement (NAFTA):** A regulation implemented January 1, 1994 in Mexico, Canada and the United States to eliminate most tariffs on trade between these nations. The three countries phased out numerous tariffs, (with a focus on those related to agriculture, textiles and automobiles), between the agreement's implementation and January 1, 2008. NAFTA's purpose is to encourage economic activity between the United States, Mexico and Canada.

THE MEXICO EQUITY & INCOME FUND, INC.
RETURNS

As of March 31, 2018	Total Annual Average U.S. Dollar Return through March 31, 2018 (Reinvested Dividends)						
	1 Month	YTD	1 Year	3 Years	5 Years	10 Years	Since MXE Inception in 08/30/90
MXE NAV*	1.61% ¹	6.59% ¹	2.42% ¹	-1.49% ¹	-1.49% ¹	2.12% ¹	11.88% ²
MXE NAV (Returns in Mexican Pesos "MXN")	-2.00% ³	-1.45% ³	-0.55% ³	4.41% ³	6.43% ³	7.74% ³	19.60% ³
MXE Market Price	1.48% ¹	6.82% ¹	1.38% ¹	-2.11% ¹	-2.30% ¹	3.37% ¹	12.17% ²
MXN Appreciation/ Depreciation	3.69% ³	8.15% ³	2.98% ³	-5.65% ³	-7.44% ³	-5.21% ³	-6.46% ³
MEXBOL Index	0.28%	1.06%	-0.54%	-2.33%	-5.07%	0.22%	9.61%
MXF NAV	2.02%	4.03%	3.15%	-2.84%	-4.31%	1.13%	8.41%
MXF Market Price	1.31%	3.72%	1.93%	-3.46%	-8.14%	2.18%	8.87%
MXE NAV Excess Return vs. MEXBOL Index	133	553	296	84	358	190	227

Cumulative to March 31, 2018	YTD	(Dividends Reinvested)					Since MXE Inception 8/30/90	Discount to NAV, as of March 31, 2018
		1 Year	3 Years	5 Years	10 Years			
MXE Common Share Market Price	6.82% ¹	1.38% ¹	-6.21% ¹	-10.96% ¹	39.32% ¹	2274.95% ³	-13.15%	
MXF Common Share Market Price	3.72%	1.93%	-10.03%	-34.58%	24.07%	941.22%	-13.22%	

Source: U.S. Bancorp¹; Thomson²; PAM³, Bloomberg.

The Fund's Portfolio securities are denominated in Mexican pesos. As a result, the portfolio return in U.S. dollars must increase in market value at a rate in excess of the rate of the decline in the value of the Mexican peso against the U.S. dollar in order to present an excess dollar return.

The NAV accretion that resulted from share repurchases, for the 1, 3, and 5-year period ended March 31, 2018, was 0.04, 0.08, and 0.08 respectively. For the purpose of performance calculation, U.S. Bancorp assumes that MXE's dividends and distributions are reinvested at the closing market price on the dividend ex-date and takes into account the dilution effect resulting from fund's stock dividend. This calculation of MXE's performance figures may differ from other financial sources, such as Bloomberg.

MXE's ratio of expenses to average net assets=1.64% for the Semi-Annual period ended January 31, 2018.

MXF's ratio of expenses to average net assets=1.59% for the Fiscal Year ended October 31, 2017.

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.

For the fund's most recent performance data, please see the price and performance section on the fund's web page (www.mxefund.com)

THE MEXICO EQUITY & INCOME FUND, INC.

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Considerations and risks involved in investing in Mexican securities.

All investments involve risk. Principal loss is possible. Investing internationally involves additional risks such as currency fluctuations, market prices volatility, social and economic instability, changes in taxation, periods of illiquidity and other factors. Stocks of small-and-mid-capitalization companies involve greater volatility and less liquidity than larger-capitalization companies. All Mexican companies are subject to Mandatory IFRS (International Financial Reporting Standards) accounting since the year 2011.

The Fund's portfolio securities are denominated in Mexican pesos. As a result, the portfolio return in U.S. Dollars securities must increase in market value at a rate in excess of the rate of the decline in the value of the Mexican peso against the U.S. dollar in order to present an excess dollar return.

To read about the Mexico Equity and Income Fund, Inc. please access the Annual Report by calling (414) 765-4255 to receive a copy, or access the Annual Report on the Funds website www.mxefund.com, under the section caption investor reports. Investors should consider the Fund's investment objectives, risks, charges and expenses carefully before investing. An investment in the Fund should not constitute a complete investment program.

Closed-end funds are traded on the secondary market through one of the stock exchanges. The Fund's investment return and principal value will fluctuate so that an investor's shares may be worth more or less than the original cost. Shares of closed-end funds may trade above (a premium) or below (a discount) the net asset value (NAV) of the fund's portfolio and there is no assurance that the fund will achieve its investment objective.

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THE MEXICO EQUITY & INCOME FUND, INC.

ECONOMIC DATA

- **Gross Domestic Product (GDP):** According to INEGI, the demand side of GDP grew 1.5% in **4Q'17** compared to the previous year. By components, primary activities increased by 4.1% and tertiary activities 2.3%, while secondary activities decreased by -1.0%.
- **Economic Activity Index:** According to INEGI, economic activity (IGAE, a Gross Domestic Product proxy) decreased by -0.7% month over month (m/m) in **January**. In seasonally-adjusted terms, primary activities increased by 1.3%, secondary activities remained unchanged and tertiary activities decreased by -0.4% compared to the previous month.
- **Industrial Activity.** In **February**, industrial production increased 0.4% compared to the previous month. Seasonally-adjusted data showed that utilities increased by 0.8%, manufacturing and 0.6% construction, while mining was down -1%.
- **Gross Fixed Investment.** In **January**, gross fixed investment (GFI) increased 1.0%, m/m. Expenses related to construction decreased by -0.4% and those related to machinery and equipment increased by 2.1%, m/m. GFI posted a 2.2% increase y/y.
- **Trade Balance.** The **February** trade balance registered a US\$1,062 million surplus. Total exports increased by 12.3% y/y, driven by advances in oil and non-oil exports. Imports increased by 11.6% y/y.
- **Mexican Oil Mix.** As of **end-March**, the price of the Mexican oil mix was USD\$56.44 per barrel, translating into a 1.53% monthly increase and a 32.5% increase in one year.
- **Retail Sales.** Retail increased 0.5% y/y in **January**, compared to the same month of 2016. Retail sales decreased -18.6% in relation to the previous month.
- **Unemployment.** The **February** unemployment rate came in at a seasonally-adjusted 3.3%, a similar rate than in the previous month. By gender, both male unemployment and unemployment in women decreased from 3.5% to 3.3%.
- **Monetary Policy.** On February 8, 2017, Banco de Mexico increased its benchmark interest to 7.50%.
- **Inflation.** The **March** Consumer Price Index (CPI) increased by +0.32% month-over-month. Annual headline inflation came in at 5.04% and core inflation 4.02%.
- **Public Finances:**
 - o From January to February 2018, the government reported a fiscal deficit (including Pemex and the Federal Electricity Commission) of MXN \$78.4 billion, which compares negatively to the MXN \$32.4 billion deficit observed in the same period in of 2016. During first two months of 2018, income increased by 6.9% y/y taking into account Banxico's transfer. During the same period, expenses increased by 11.9% y/y.
 - o The Ministry of Finance expects to lower debt from 46.2% of GDP at the end of 2017 to 45.2 by the end of 2018.

Source: SHCP, BANXICO, INEGI.

THE MEXICO EQUITY & INCOME FUND, INC.
ECONOMIC PROJECTIONS

Economic Projections	2014	2015	2016	2017e	2018e
National Accounts					
Real GDP growth (y/y)	2.3%	2.5%	2.9%	2.0%	2.7%
GDP (US \$bn.)	1.288	1.139	1.076	1.159	1.234
Consumption (Chg. y/y)	2.0%	3.3%	2.4%	3.0%	2.8%
Investment (Chg. y/y)	2.3%	4.5%	1.1%	-1.3%	0.2%
Exports (Chg. y/y)	7.3%	9.4%	3.5%	5.8%	6.8%
Imports (Chg. y/y)	5.7%	6.1%	2.9%	5.6%	6.5%
Monetary and Exchange Rate Ind.					
CPI Inflation (year-end)	4.1%	2.1%	3.3%	6.8%	4.2%
US\$ Exchange Rate (year-end)	14.7	17.2	20.6	19.7	18.2
28Day Cetes Int. Rate (year-end)	3.00%	3.25%	5.75%	7.2%	7.5%
Balance of Payments					
Trade Balance (US\$ bn.)	-2.8	-14.5	-13.1	-10.8	-11.9
Exports (US\$ bn.)	397.5	380.8	373.9	409.5	424.5
Imports (US\$ bn.)	400.0	395.2	387.06	420.4	436.9
Transfers (US\$ bn.)	23.6	24.8	26.6	28.1	n/a
Current Account (US\$ bn.)	-24.8	-32.4	-22.8	-18.8	-27.8
Foreign Direct Inv. (US\$ bn.)	25.6	28.4	26.7	29.7	n/a
Debt Profile					
International Reserves (US\$ bn.)	193.2	176.7	176.5	173.0	175.0
Public Debt (gross % of GDP)	42.6%	46.6%	48.7%	46.2%	46.1%
External Debt (gross % of GDP)	11.9%	14.6%	18.3%	15.3%	14.9%

Source: SHCP, BANXICO, INEGI, Santander.

(e) Estimate

The projections on this page are based on industry estimates and are no guarantee of future outcomes.