

A REASONABLE BUDGET AND SOME PROGRESS ON AIRPORT BONDS REPURCHASE

At the close of Friday, December 21, the spot exchange rate was 19.93 pesos per dollar –its lowest level since the change of administration- for a weekly appreciation of 1.50%, which leaves the cumulative depreciation of the year at 140%. In the same line, the MEXBOL closed at 41,468 points, for a weekly advance of 0.38% that leaves the accumulated losses in the year at 14.21%. The previous, given the progress in negotiations with some of the bondholders of Mexico City New International Airport (NAIM) and the approval of the Income Law 2019. In greater detail:

On December 19th, the Ministry of Finance reached an agreement to repurchase a third of Mexico City Airport Trust Bonds (MEXCAT), which amount to 6,000 million dollars (MMD). According to the contract, the source of payment for the bonds comes from Airport Tariffs that passengers pay to the Benito Juárez International Airport of Mexico City and, eventually, to Mexico City New International Airport (NAIM) held-to-maturity: October 2026, April 2028, October 2046 or September 2047. To avoid a breach of contract penalties– and potential credit rating downgrades- the government offered a dollar-for-dollar repurchase plus a dime-per-dollar bonus, as well as a dime-per-dollar incentive for those who accepted changes to the contract, even if they did not agree to sell to the government. Noteworthy, the agreement was made after two unsuccessful repurchase attempts: the first one offered ninety cents per dollar and the second one bought at par. Given the 1,800 million dollars repurchase, it is still necessary to negotiate two-thirds of the MEXCAT bonds, in addition to other contracts to cancel, officially, the NAIM.

Mexico City Airport Trust Bonds
 (As of December 21, 2018)

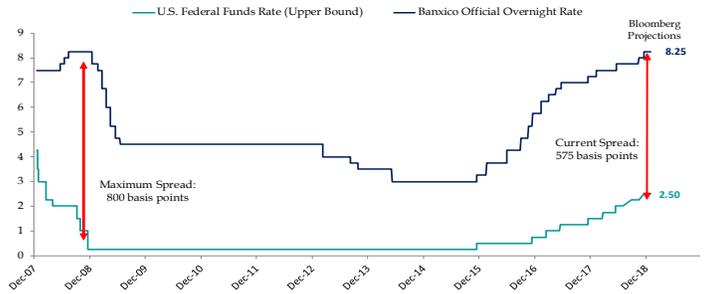


Source: Bloomberg.

On December 16th, the 2019 Economic Budget was announced. Forecasts of the Ministry of Finance regarding the main macroeconomic variables stand out as conservative: GDP growth (+2.0%), primary balance (surplus of 1% of GDP), inflation (3.4%), and average oil price (55 dpb). Furthermore, the current account deficit estimate is 2.2% of GDP, interest rate (CETES 28 days) is 8.3%, and the exchange rate assumption is 20 pesos per dollar. In this context, Congress approved the Income Law for 5.8 trillion pesos: 62% corresponds to taxes, 20% to oil revenues, 16% to agencies and public sector companies and 8% to public debt issuances and 2% to other income sources. As per the new policy "Republican austerity" policy, 17 out of 26 government offices will have lower budgets compared to last year. On the other hand, state companies will receive higher budgets in 2019: State Oil Company Pemex will receive up to 464.6 million pesos (+18.6%) and the Federal Electricity Commission up to 434.7 million pesos (+12.2%). The latter, due to a new refinery project in Dos Bocas, Tabasco and investment plans on hydroelectric plants.

Moreover, Banco de México (Banxico) raised the reference rate from 8.00% to 8.25% one day after the Federal Reserve of the United States (FED) raised its reference rate by 25 basis points, its highest level since 2018. The quarter of a percentage point increase is consistent with the salary increase scheduled for 2019 –as minimum wages will increase next year–, almost two years without managing to keep inflation at 3% (+/- 1%) and the need to maintain optimal conditions in fixed income markets. This was the last monetary policy meeting that included Manuel Ramos Francia as governor of the Central Bank, before Jonathan Heath and Gerardo Esquivel, appointed by the new president, join Banxico Board of Governors.

Reference rate in Mexico and the United States
 (As of December 21, 2018)



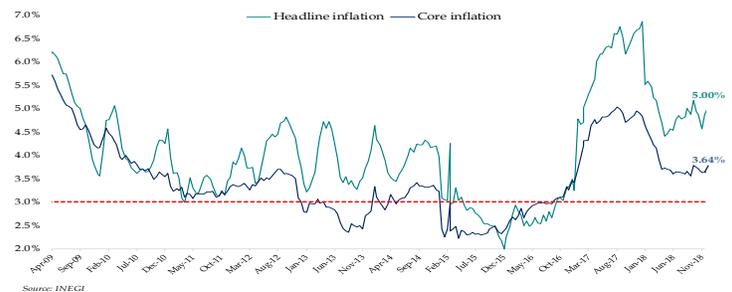
Source: Bloomberg.

Global Indicator of Economic Activity
 (Seasonally adjusted)



The Global Indicator of Economic Activity (IGAE) increased 2.05% in October compared to last year, an increase of more than 2% for the fifth time in the year. Primary activity –agriculture, livestock, fishing, mining, forestry- decreased by 2.65% and tertiary activity –trade and services- increased by 3.23%. Secondary activity remained practically unchanged.

CPI Biweekly
 (Year-over-Year % Change)



During the first half of December, annual inflation was 5.00%, and core inflation was 3.64%. Bi-weekly inflation quickens and, for the eighth time in the year, reaches a level above or equal to 5%, this time, due to agricultural and electricity prices.

Eugenia Pichardo & Arnulfo Rodriguez
 Equity Portfolio Manager & Macro and Debt Strategist

Investor Relations: igarcia@paminversion.com
 (55) 5261 4600



Pichardo Asset Management, SA de CV
An Independent Investment Advisory Firm

www.paminversion.com
Andres Bello 45, 22nd Floor,
Polanco, 11550 CDMX, México
Phone: + 52 (55) 52 61 46 00 / 04/21/16

epichardo@paminversion.com
Equity Portfolio Manager

arodriguez@paminversion.com
Macro & Debt Strategist

destevez@paminversion.com
Co-Portfolio Manager
Financials Analyst

jelizalde@paminversion.com
Co-Portfolio Manager
Industrials Analyst

lcalzada@paminversion.com
Compliance

igarcia@paminversion.com
Investor Relations

Definitions

S&P/BMV IPC (MEXBOL): Seeks to measure the performance of the largest and most liquid stocks listed on the "Bolsa Mexicana de Valores". The index is designed to provide a broad, representative, yet easily replicable index covering the Mexican equities market.

MEXCAT: MEXICO CITY AIRPORT TRUSTDL-NOTES.

NAIM: Mexico City New International Airport

PEMEX: Petróleos Mexicanos, which translates to Mexican Petroleum, is the Mexican state-owned petroleum company, created in 1938 by nationalization or expropriation of all private, foreign, and domestic oil companies at that time

GDP: Gross Domestic Product is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

CETES: Federal Treasury Certificates (Certificados de la Tesorería de la Federación) are the oldest debt instruments issued by the Federal Government of Mexico.

BANXICO: Banco de Mexico is the central bank of Mexico.

FED: The Federal Reserve System is the central bank of the United States and arguably the most powerful financial institution in the world.

IGAE: a Gross Domestic Product proxy. This indicator shows the evolution of the economic activity in Mexico.

Spread: The yield spread shows the difference between the quoted rates of return between two different investment vehicles. These vehicles usually differ regarding credit quality.

CPI: The Consumer Price Index (CPI): Is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. It is not possible to invest in an index.

INEGI: The National Institute of Statistics and Geography.

PEMEX: The Fund maintains a 0.00% investment in the security, at the close of September 30, 2018. For a list of full securities please visit: www.mxefund.com.

Basis Points (BPS): Refers to a common unit of measure for interest rates and other percentages in finance.

Disclosures

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