

THE MEXICO EQUITY & INCOME FUND, INC.
RETURNS

As of September 30, 2018

Total Annual Average U.S. Dollar Return through September 30, 2018 with dividends reinvested.

Fund	3Q18	Y-T-D	1 Year	3 Years	5 Years	10 Years	Since MXE Inception in 08/30/90
MXE NAV	10.93% ¹	12.33% ¹	1.54% ¹	2.76% ¹	0.52% ¹	5.60% ¹	11.85% ²
MXE NAV (Returns in Mexican Pesos "MXN")	4.52% ³	6.91% ³	4.35% ³	6.30% ³	7.96% ³	11.42% ³	19.55% ³
MXE Market Price	18.88% ¹	19.69% ¹	6.44% ¹	5.67% ¹	1.73% ¹	7.77% ¹	12.40% ²
MXN Appreciation/ Depreciation vs 1 USD	6.13% ³	5.07% ³	-2.69% ³	-3.33% ³	-6.90% ³	-5.23% ³	-6.44% ³
MEXBOL Index	10.29%	7.16%	-2.69%	3.47%	-1.07%	3.23%	9.61%
MXE Excess Return vs. MEXBOL Index (basis points)	64	517	423	-71	159	237	224

Dividends Reinvested

Cumulative to September 30, 2018	3Q18	Y-T-D	1 Year	3 Years	5 Years	10 Years	Since MXE Inception 8/30/90	Discount to NAV, as of Sept 30, 2018
MXE Common Share Market Price	18.88% ¹	19.69% ¹	6.44% ¹	17.98% ¹	8.94% ¹	111.25% ¹	2564.57% ³	-7.67%

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 September 30, 2018 was 0.06, 0.10, and 0.10 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=1.75% for the fiscal year period ended July 31, 2018.

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.

THE MEXICO EQUITY & INCOME FUND, INC.

Quarterly Message from The Fund's Investment Advisor September 2018

Dear Stockholders of the Fund,

At the end of the third quarter of 2018, most of the risks that we saw at the beginning of the year have been reduced, such as the renegotiation of NAFTA and the political environment in Mexico.

On September 30, 2018, the United States, Mexico and Canada announced the completion of negotiations toward a new United States-Mexico-Canada Agreement (USMCA). The outcomes preserve key elements of this trading relationship and incorporate new and updated provisions that seek to address 21st-century trade issues and promote opportunities for the nearly half a billion people who call North America home.

An orderly political transition is taking place in Mexico with all government branches delivering all the relevant information, for new government officials to be able to make the best-informed decisions.

The risk, which is greater, is the increase in rates by the US Federal Reserve that will continue to accelerate its cycle of hikes during 2019.

Fund Performance

The Fund's Net Asset U.S. Dollar Value per share, "NAV," outperformed the Mexbol Index for the year-to-date period ended September 30, 2018, registering an excess return of 517 basis points vs. the Mexbol Index, according to Bloomberg. For the third quarter of 2018, the Fund's NAV increased 10.93% in U.S. Dollars and 4.52% in local currency. (Source: U.S. Bancorp; Bloomberg).

The Fund's common share market price of US\$12.28 on the New York Stock Exchange rose 19.69% in dollars for the year-to-date period ended September 30, 2018, registering a discount of -7.67% to the Fund's NAV of US\$13.30, compared to a discount of -11.86% at the end of September 30, 2017. For the third quarter of 2018, the Fund's common share market price increased 18.88% in U.S. Dollars. (Source: U.S. Bancorp; Bloomberg).

The Mexico Equity and Income Fund, Inc. (the "Fund") announced on September 17, 2018, that its Board of Directors has approved in principle a tender offer to repurchase up to 25% to 30% of its outstanding shares for cash at 99% of net asset value subject to (1) any required regulatory approvals, and (2) on each proposal presented at the 2018 Annual Meeting of Stockholders, a majority of the shares being voted in accordance with the recommendation of the Board of Directors. If these conditions are met, the tender offer is expected to commence shortly after the 2018 Annual Meeting.

Investment Strategy

At the end of the third quarter of 2018, the MXE's portfolio construction registered 96% weight in equities (with no single one position higher than 10%), 2% in private equity and 2% approximately in cash & readily available instruments. High-quality growth and "special situation" stocks weighted 83% and 12%, respectively. PAM categorizes quality growth stocks into three investment themes: i) high profitability, ii) investment yield and iii) energy-related stocks. (Source: PAM).

The investment strategy currently overweight three sectors such as i) Materials (consolidating strong capital investments made in the last 15 years), ii) Financials (healthy sector with high returns on capital and high expected growth) and iii) Consumer Staples (continues supported by catalysts such as the labor market, credit, real wages, and remittances).

The Fund's portfolio is constructed with approximately 28 issuers. At September 30, 2018, small caps stocks (US\$ 0.5bn to US\$ 1bn) accounted for about 9%, medium capitalization stocks (US\$ 1bn to US\$ 5bn) for 31% and large caps (US\$ 5bn - up) for 56%. (Source: PAM; Bloomberg).

The top ten stocks comprised 63% of total assets as of September 30, 2018. (Source PAM).

The MEXBOL Index

The MEXBOL Index posted a 10.29% increase in US dollar terms during the third quarter of 2018; supported by a significant advance of +6.13% appreciation of the Mexican Peso vs the US Dollar. The best performers during the third quarter by sectors, were: Financials +22.26%, Industrials +19.22%, and Utilities +13.54%; while the worst performers were: Telecommunication Services -3.71% and Health Care -2.86%. (Source: Bloomberg).

The Economy

Gross domestic product (GDP) had an annual growth rate of 2.5% and 1.5% during the first and second quarter of 2018. Services mainly commerce continue to be the main engine of the economy with growth rates above 3.0%. Mining and construction industries slowed down, and manufacturing came to a halt. In 2017 annual growth was 2.0% and for 2018 should also be close to 2.1%. The Mexican economy would grow in a range of 1.9% - 2.1% for 2019. The new administration intends to boost this growth by 4.0%. (Source: INEGI).

Consumption remains resilient and is one of the primary engines of the Mexican economy. After the Mexican election's consumer confidence has increased significantly; July and August its annual growth was above 17% taking to a maximum not seen since January 2018. (Source: INEGI).

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August annual inflation was 4.88%; core inflation was 3.64%, and non-core inflation was as high as 8.38% possibly due to energy prices. Fuel prices liberalization at the beginning of 2017 was one of the reasons annual inflation was as high as 6.77%. Consumer inflation adopted a downward trend once fuel prices shocks were absorbed during the first half of 2018. Mexico Central Bank (BANXICO) also contributed to the trend by raising the reference interest rate from 5.75% to 7.25%. The current rate is 7.75% but inflation could lead to further tightening of monetary policy. Expectations are that Mexico Central Bank rate of reference will be 8.0% by the end of the year. (Source: INEGI; Banxico).

(Please see full September 2018 Economy Report at the Fund's website: www.mxefund.com).

Closing Remarks

According to BANXICO, the balance of risks to the economic growth of Mexico is biased to the downside, likely due to i) the escalation of protectionist measures affects global growth and trade negatively, ii) observed bouts of volatility in international financial markets, and iii) the environment of uncertainty has been changing investment.

We are cautiously optimistic about Mexico's economy and sound fundamentals in the long-term; justifying the excellent performance of the Mexican Peso in the forex market with 5.07% appreciation against the U.S. Dollar, year-to-date through September 27, 2018, according to Bloomberg.

Some of the so-called emerging markets that were "rising stars" in the 2000 decade are now "falling in flames" due to different causes such as:

- i) Poor and irresponsible management of public finances as observed in Brazil and Argentina,
- ii) Geopolitical tensions and local political disorder such as in Turkey or Brazil,
- iii) The adverse consequences of protectionist measures in the growth of commerce and commodities as observed in China or South Africa.

In remarkable contrast, Mexico's change of political regime is being conducted in an orderly, coordinated, and transparent manner with the goal of avoiding any disruption in the economy. This political behaviour would be the third change of political regime in the last 18 years without any economic or political crisis. So far Mexico seems to be more than a stable economy, but also a mature democracy.

Sincerely yours,
Eugenia Pichardo
Head Portfolio Manager

FOOTNOTE 1

PAM's Investment Categories:

High Profitability Stocks: as defined by PAM, are stocks with attractive valuations, proven good management, organic and accretive M&A, consistent ROIC growth, and high free cash flow generation.

Investment Yield Stocks: are stocks related to value companies with growth, solid balance sheet, annual dividend policy, share repurchases, and asset return.

Energy Related Stocks: are stocks related to the energy reform, growth opportunities in natural gas, hydrocarbons and electricity cogeneration.

Special Situation Stocks: are discounted value stocks with high upside potential according to PAM, hands-on management, solid corporate governance, and business model easy to understand.

Definitions

- **MEXBOL:** The S&P/BMV IPC 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.
- **Basis point (BPS):** Refers to a common unit of measure for interest rates and other percentages in finance.
- **NAV:** Net asset value (NAV) is value per share of a mutual fund or an exchange-traded fund (ETF) on a specific date or time.
- **INEGI:** The National Institute of Statistics and Geography.
- **BANXICO:** Banco de Mexico is the central bank of Mexico
- **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.
- **NAFTA:** The North American Free Trade Agreement is an agreement signed by Canada, Mexico, and the United States, creating a trilateral trade bloc in North America. The agreement came into force on January 1, 1994. NAFTA's purpose is to encourage economic activity between North America's three major economic powers.
- **USMCA:** The United States–Mexico–Canada Agreement is a pending free trade agreement between Canada, Mexico, and the United States, intended to replace the current North American Free Trade Agreement (NAFTA). It is the result of the 2017–2018 renegotiation of NAFTA by its member states, which informally agreed to the terms on September 30, 2018, and formally on October 1. Final ratification and implementation is pending.
- **M&A:** Mergers and acquisitions (M&A) is a general term that refers to the consolidation of companies or assets through various types of financial transactions.
- **ROIC:** Return on invested capital (ROIC) is a calculation used to assess a company's efficiency at allocating the capital under its control to profitable investments.

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DISCLOSURES

Pichardo Asset Management, a registered Mexican and U.S. Independent Investment Advisor 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).

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.

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.

For further information please contact Pichardo Asset Management +52 (55) 5261 4602 lgarcia@paminversion.com.

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ECONOMIC DATA

Gross Domestic Product (GDP): According to INEGI, Gross Domestic Product registered an increase of 1.6% in the second quarter of the current year (**2Q'18**) in relation to the same period of 2017. For economic activities, Service sector activities rose 2.4%, the Agricultural sector activities 2% and the Industrial sector activities did it in 0.1% with respect to the period April-June of 2017.

Economic Activity Index: According to INEGI, economic activity (IGAE, a Gross Domestic Product proxy) increased by 2.8% year over year (y/y) in **September**. In seasonally-adjusted terms, Service sector activities increased 3.6%, Agricultural sector 1.8%, and Industrial activities advanced 2.2% at annual rate.

Industrial Activity: Industrial Production increased 0.2% in **August** compared to same month of 2017. By sectors of economic activity, Utilities rose 2.7% and Manufacturing industries 1.8%. In contrast, Mining decreased -4.0% and Construction -0.8% last August compared to the same month of 2017.

Gross Fixed Investment: Gross Fixed Investment rose 4.3% in real terms in **July**. By components, the expenses in Machinery and total equipment ascended 5.3% and those of Construction 2.6% in relation to July of 2017, with seasonally adjusted series.

Trade Balance: The trade balance information of **August** indicates a trade deficit of US \$2.59 billion dollars, a balance that is compared with the deficit of US\$2.58 billion dollars observed in the same month of 2017. With this balance, for the first eight months of the year the trade balance showed a deficit of US\$ 10.03 billion dollars. Total exports reported an annual increase of 10.1%, which was the result of increases of 8% in non-oil exports and 47.2% in oil exports. Within non-oil exports, those directed to the United States advanced at an annual rate of 10%, while those channeled to the rest of the world fell -0.4%, y/y.

Mexican Oil Mix: As of **end-September**, the price of the Mexican oil mix was USD\$674.23 per barrel, translating into an 11.98% monthly increase and a 51.43% increase in one year.

Retail Sales: Commercial Retail sales increased 4.2% at annual rate during **July**. Personnel employed was 1.7% higher and Average real wages rose 0.8%, with series adjusted for seasonality. Retail sales decreased -1.9% in relation to the previous month.

Unemployment: The unemployment rate was 3.3% in **August**, a rate similar to that of the previous month. By sex, unemployment rate in men was 3.1% in August, similar to that of a month earlier; in women it was 3.5%, lower to the previous month.

Monetary Policy: On October 4, 2018, Banco de Mexico has decided to maintain its benchmark interest rate at a level of 7.75%

Inflation: The **September** Consumer Price Index (CPI) increased 0.42% month-over-month. Annual headline inflation came in at 5.02% and core inflation 3.67%.

Public Finances:

- **In January-July 2018**, the Public Sector Financial Requirements (RFSP), the broadest measure in the balance of the Federal Public Sector, registered a deficit of MXN \$213.1 billion pesos, in line with the annual goal of a deficit of 2.5% percent of GDP.
- **In January-July 2018**, budget revenues were higher than the program in MXN \$296.1 billion pesos, which highlights the growth of oil revenues and taxes without fuel especial taxes (IEPS) that increased 9.1 and 4.0 percent annual, respectively.

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.