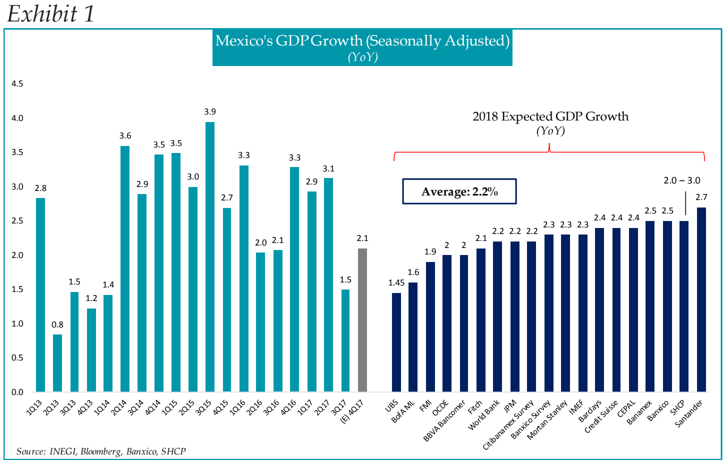
REPORT ON THE ECONOMY, DECEMBER 2017

The Economy

Economic Growth

In contrast to bleak growth expectations at the beginning of the year, in 2017, the Mexican economy posted year on year (YoY) quarterly growth rates of 2.9%, 3.1% and 1.5% (Exhibit 1). A lower third quarter growth rate was due to: (i) two big earthquakes, one measuring 8 on the Richter scale and the largest to hit Mexico in 100 years; and (ii) Hurricane "Harvey", historically the strongest in the Gulf of Mexico where most of the country's port and tourism infrastructure is located. The factors that drove economic growth were: (i) Mexico's trade surplus with the U.S., which could reach US$70 bn by the end of year compared to the previous year's US$60 bn to which the Trump administration repeatedly refers (Exhibit 2 and 3); and (ii) consumer growth driven by job creation.

Exhibit 1



The average 2018 growth estimate is 2.2% (from sources such as the IMF, Citibanamex, and the OECD). Banxico maintains its 2.5% projection. The estimates indicate the Mexican economy´s resilience to external factors, such as the NAFTA negotiations. Also, over the long-term, the economy should be further strengthened by structural reforms, which should translate into greater stability.

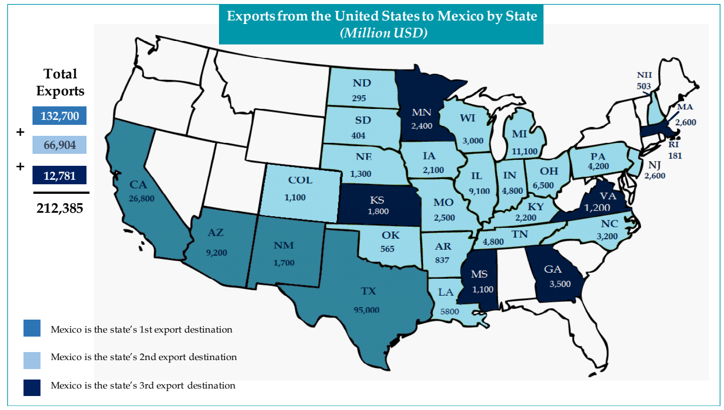
Exhibit 2

United States International Trade (to Nov 2017)

Country	Exports	Imports	Total Trade	Balance	Country	Exports	Imports	Total Trade	Balance
China	118,416	460,333	578,749	-341,917	Taiwan	23,736	38,855	62,591.0	-15,119
% of Total	*8.4%*	*21.5%*	*16.3%*		*% of Total*	*1.7%*	*1.8%*	*1.8%*	
Mexico	221,853	286,975	508,828	-65,122	France	31,072	44,411	75,483	-13,339
% of Total	*15.7%*	*13.4%*	*14.3%*		*% of Total*	*2.2%*	*2.1%*	*2.1%*	
Japan	61,411	124,754	186,165	-63,343	Saudi Arabia	15,430	17,640	33,070	-2,210
% of Total	*4.3%*	*5.8%*	*5.2%*		*% of Total*	*1.1%*	*0.8%*	*0.9%*	
Germany	48,596	107,435	156,031	-58,839	United Kingdom	51,300	48,465	99,765	2,835
% of Total	*3.4%*	*5.0%*	*4.4%*		*% of Total*	*3.6%*	*2.3%*	*2.8%*	
Italy	16,792	44,865	61,657	-28,073	Brazil	33,610	27,162	60,772	6,448
% of Total	*1.2%*	*2.1%*	*1.7%*		*% of Total*	*2.4%*	*1.3%*	*1.7%*	
Canada	258,047	274,216	532,263	-16,169	Singapore	27,282	17,747	45,029	9,535
% of Total	*18.3%*	*12.8%*	*15.0%*		*% of Total*	*1.9%*	*0.8%*	*1.3%*	
India	23,460	44,428	67,888	-20,968	Hong Kong	36,837	7,029	43,866	29,808
% of Total	*1.7%*	*2.1%*	*1.9%*		*% of Total*	*2.6%*	*0.3%*	*1.2%*	
Korea, South	43,917	64,982	108,899	-21,065	All other countries	400,062	528,861	928,923	-128,799
% of Total	*3.1%*	*3.0%*	*3.1%*		*% of Total*	*28.3%*	*24.7%*	*26.2%*	
					TOTAL	**1,411,821**	**2,138,158**	**3,549,979**	**-726,337**

Source: U.S. Census Bureau
Amounts in millions of dollars

Exhibit 3



Inflation

2017 inflation came in at 6.77%, its highest level since 2000 (Exhibit 4). Core inflation closed the year at 4.87% and headline inflation at 12.62% (Exhibit 4.1 and 4.2). The rise in gasoline prices had the biggest impact on headline inflation along with the passthrough of costs related to peso depreciation to final prices. First-half January inflation could be lower, as by then, the consumer price index should have absorbed the jump in gasoline prices. Nevertheless, inflation should remain above Banxico's 3% target rate due to the uptrend in the prices of goods and services like gasoline, gas, air travel, tourism services and agricultural products. The high annual inflation in 2017 led Banxico to raise its reference rate by 150 basis points to 7.25%, taking the spread with the Fed's reference rate (1.50%) to 575 bps compared with 500 bps at the beginning of the year (Exhibit 5). This could lead Banco de México to raise its reference rate to 7.50% in one of its policy meetings early in 2018.

Exhibit 4

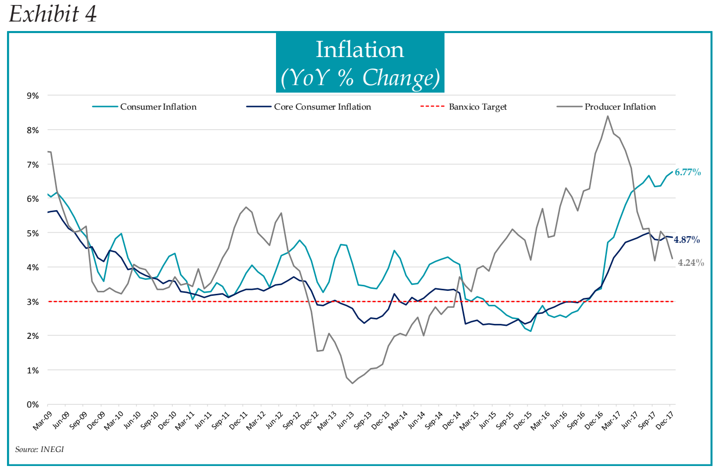
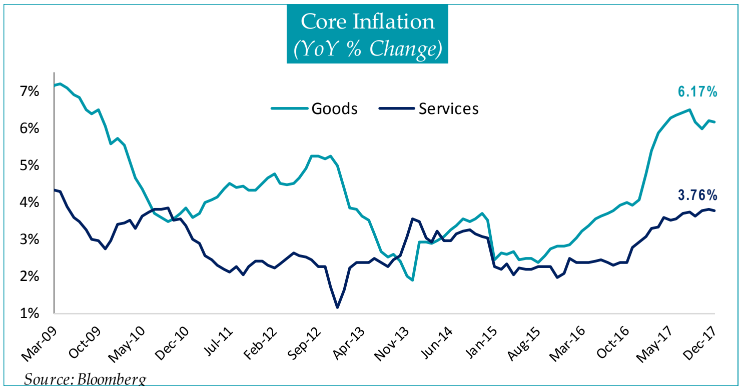
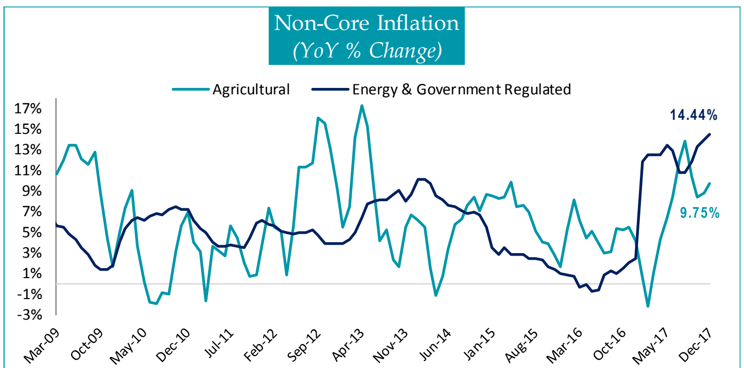


Exhibit 4.1



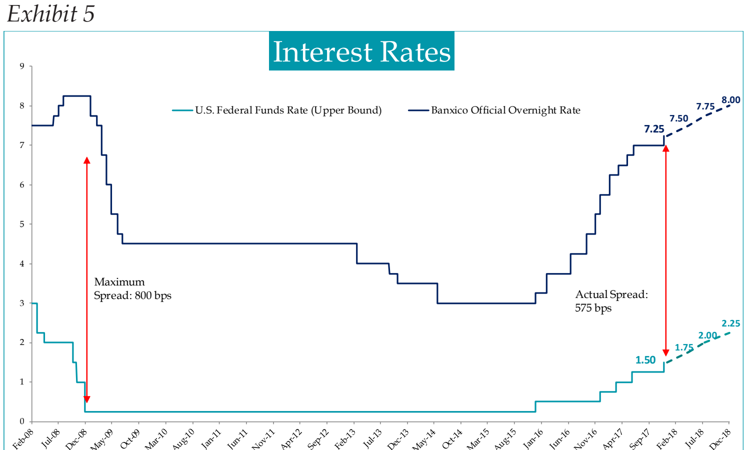
Source: Bloomberg

Exhibit 4.2



Source: Bloomberg

Exhibit 5

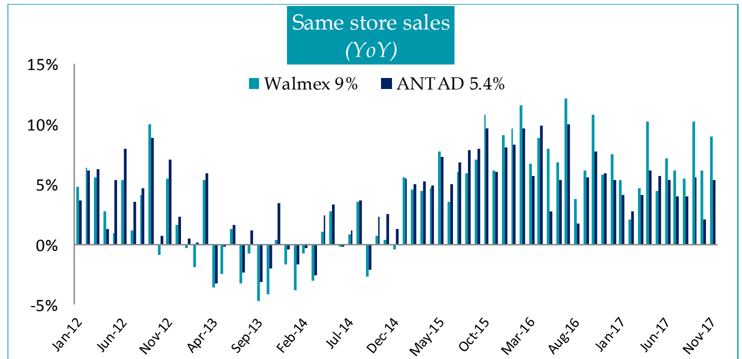


Source: Bloomberg, Banxico Survey of Expectations

Consumption

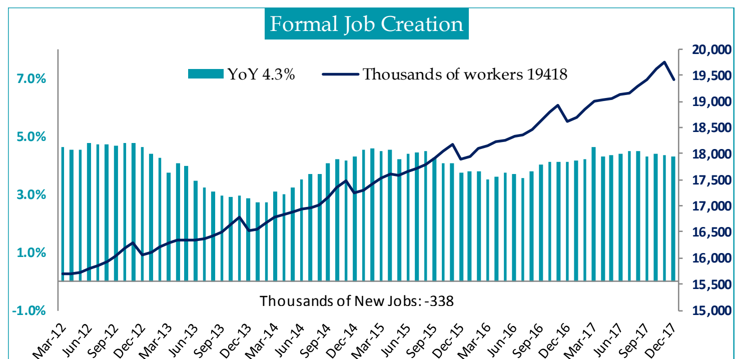
During the period from January 1, 2017 to November 30, 2017 ANTAD and WALMEX's sales grew at annual average rates of 4.5% and 6.4%, respectively (Exhibit 6). Solid consumption is driving job creation. According to the Mexican Social Security Institute (IMSS) 801,831 jobs were created between January and December (Exhibit 7). Over the course of the current administration 3,123,520 new jobs have been created or 2.2 times more than the number of jobs created during the previous administration, and are driving consumption.

Exhibit 6



Source: ANTAD & Walmex

Exhibit 7

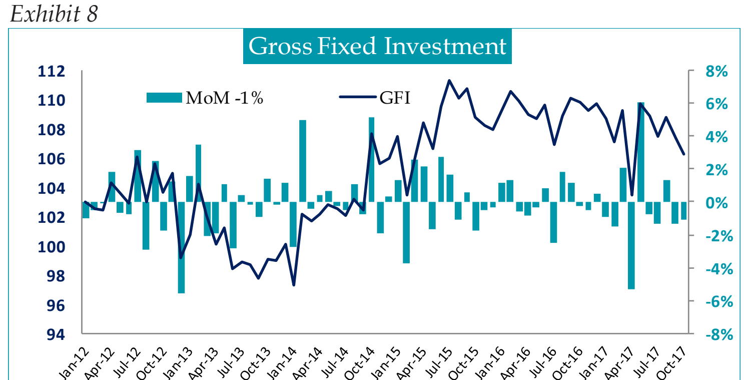


Source: Bloomberg

Gross Fixed Investment

Gross Fixed Investment (GFI), which reflects the behavior of local investors, decreased by -1.2% on average through September (Exhibit 8). This was mainly due to an average 4.3% reduction in construction costs (largely due to a reduction in Federal Government spending on infrastructure associated with the public deficit correction) while expenses related to machinery and equipment maintained an average increase of 3.3%. In 2018, construction should be driven by reconstruction work following the September earthquakes.

Exhibit 8



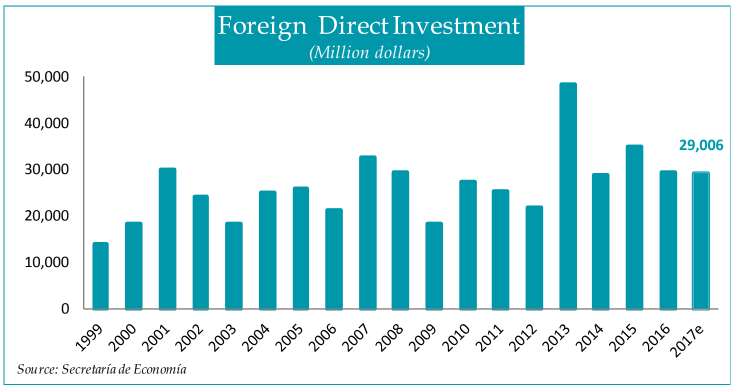
Source: INEGI

REPORT ON THE ECONOMY, DECEMBER 2017

Foreign Direct Investment

Foreign Direct Investment amounted to US $21.754.9 bn in the third quarter of 2017 and US $163.157 bn so far in the current administration (Exhibit 9), which is 44% above what was recorded during the previous administration. Regarding the possibility of Trump's fiscal reform approval having a negative impact on profit repatriation, the final effective tax rate has yet to be defined.

Exhibit 9



Source: Secretaría de Economía

The Mexican Stock Exchange, IPyC Index

The Mexbol Index closed 2017 at 49,354 points gaining 10.11% for the year in pesos. This performance was the best since 2012 and bodes well for 2018. Exhibit 10 shows a favorable comparison of main financial market variables compared to prior years as well as other relevant financial indicators, in particular, the remarkable performance of U.S. stock markets.

Exhibit 10

	2010	2011	2012	2013	2014	2015	2016	2017
IPyC*	21.60	-2.39	19.66	-0.02	1.99	1.46	7.92	10.11
MXN/USD*	6.09	-11.45	8.42	-1.41	-11.62	-14.27	-16.98	5.43
Inflation**	4.40	3.82	3.57	3.97	4.08	2.13	3.36	6.69
Banxico**	4.50	4.50	4.50	3.50	3.00	3.25	5.75	7.25
MBono 10**	0.00	6.49	5.36	6.40	5.83	6.30	7.49	7.66
Dow Jones*	14.06	8.38	10.24	29.65	10.04	0.21	16.50	28.11
Nasdaq*	18.13	-0.79	17.74	40.17	14.83	7.11	8.97	29.73
S&P 500*	15.06	2.11	15.99	32.37	13.68	1.37	11.95	21.82
Fed**	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.50
TBond 10**	3.30	1.88	1.76	3.03	2.17	2.27	2.45	2.41

** Index return in local currency and currency apreciation/depreciation in percentile terms.*
*** Most recent rate*
Source: Bloomberg

The excellent performance of Mexican financial markets during the first half of the year is noteworthy. On July 25, 2017 Mexbol Index hit an historic high of 51,713 points, gaining 14.85% in seven months. The second half of the year was complicated by a hardening of the U.S. stance on NAFTA, which triggered an overreaction from markets. Regarding NAFTA, it is important to distinguish between the Trump administration's negotiating tactics and rash political statements and economic facts, such as the close integration of the Mexican and U.S. economies, an unravelling of which would not be in U.S. interests.

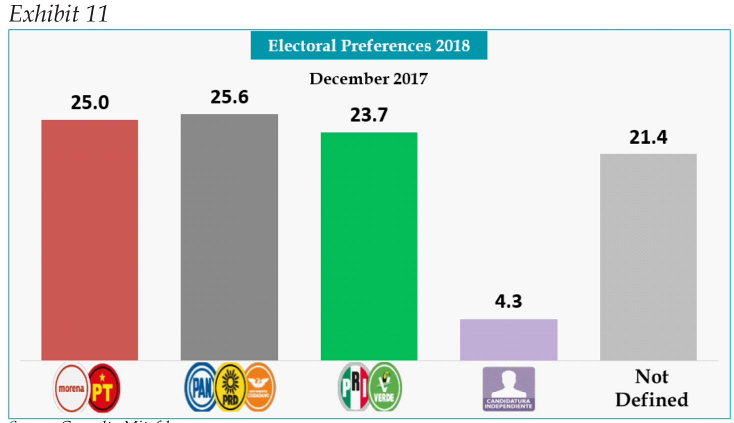
Factors of uncertainty in 2018

Factors of uncertainty in 2018 are: (i) The 2018 presidential elections, as there are two strong alternative coalitions to Morena; (ii) the recently approved U.S. fiscal reform; and iii) NAFTA negotiations with a further three rounds scheduled to address key themes (rules of origin, the "Sunset" clause, and the elimination of Chapter XIX).

(i) Politics

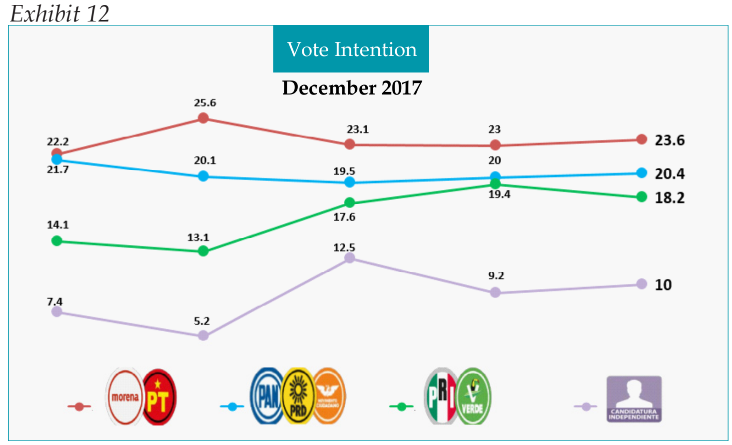
The July presidential elections are currently at the forefront in terms of risk, as in 2018, Mexico faces a very complicated political process that will define not only the presidency, but also the Senate, Congress, and several states. For financial markets, this process will gain momentum as the formal campaigns get underway on March 30th and will reach a climax on July 1st after which markets will begin to adapt and adjust to the outcome until December 1st, when changes of office will formally take place. It is important to point out that whichever party wins the presidential election, it is unlikely to have a majority in the Senate or Congress. From a statistical point of view, recent polls show a technical tie between the three main political coalitions (Morena-PT-PES / PAN-PRD-MC / PRI-PVEM-Panal) implying that this will be the most disputed election in Mexico's history (Exhibit 11 and 12).

Exhibit 11



Source: Consulta Mitofsky

Exhibit 12



Source: Consulta Mitofsky

(ii) NAFTA

There appears to have been a radical shift in market sentiment, as it is in the U.S.'s best interest to establish a framework agreement before the Mexican July elections in order to provide institutional certainty to the trade relationship irrespective of the election outcome. Furthermore, all the information surrounding the NAFTA negotiation process has focused the market's attention on the great importance of the North American Free Trade Region as one of the most powerful economic blocks in the world, its prevalence being in the interest of all three countries. In PAM's view, given the level of integration of the U.S. and Mexican economies, which share a "commerce of components," any move to cancel the NAFTA would be far from straightforward. The tariff issue alone illustrates this. While the Trump administration has suggested levying a 20% tariff on Mexican exports -which would eventually hurt U.S. consumers- a more realistic scenario is that World Trade Organization (WTO) tariffs (currently 3%) would prevail. In a worst-case scenario in which NAFTA is cancelled, it is important to bear in mind that Mexico is a free market economy that has signed many trade agreements with other countries besides the U.S. with the prospect of increasing them.

(iii) U.S. Fiscal Reform

On Wednesday, December 20, 2017 the Trump administration's tax reform was approved by the U.S. Senate and Congress and will come into effect at the beginning of 2018. The reform contains the following key amendments: (1) A reduction in the corporate income tax rate to 21% from 35%; (2) A decrease in the maximum income tax rate for individuals to 37% from 39.6%, with the lowest rate of 10% in effect from 2018 to 2025; (3) A 20% tax deduction for small business owners; (4) The repeal of "Obamacare" under which citizens with no medical insurance must pay a tax penalty; (5) A tax rate of 15.5% on profits repatriated to the U.S. if they are liquid and 8.0% if they are illiquid; (6) The 100% depreciation of investments in machinery and fixed assets in the same period. Although the final effect of the reform on Mexico's competitiveness has still to be determined, as the corporate income tax rate is currently 30% vs. 21% in the U.S., the addition of a state tax of 5.0% – 8.0%, would bring the effective U.S. tax rate to between 26% and 29%.

REPORT ON THE ECONOMY, DECEMBER 2017

DISCLOSURES

Pichardo Asset Management, a registered Mexican and U.S. Independent Investment Advisor has prepared this report 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 person guarantee their accuracy. Investors should seek their own professional advice and should consider the Fund's investment objectives, risks, changes, and expenses before acting on this information.

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 4613 imartin@paminversion.com.

REPORT ON THE ECONOMY, DECEMBER 2017

ECONOMIC DATA

- **Gross Domestic Product (GDP):** According to INEGI, the demand side of GDP grew 3.0% in **3Q17**. By components, primary activities increased by 1.0%, secondary activities 0.6%, and tertiary activities 4.1.%
- **Economic Activity Index.** According to INEGI, economic activity (IGAE, a Gross Domestic Product proxy) decreased by 0.1% month over month (m/m) in **October**. In seasonally-adjusted terms, services sector activities increased by 0.4%, industrial sector activities decreased -0.1%, and agricultural sector activities increased 0.1% compared to the previous month.
- **Industrial Activity.** In **November**, industrial production decreased by -0.1% m/m. Seasonally-adjusted data showed that mining was up 0.1%, manufacturing activities increased 0.6%, while utilities grew 5.7%, and construction decreased -1.2% m/m.
- **Gross Fixed Investment.** In **October**, gross fixed investment (GFI) decreased -1.0%, m/m. Expenses related to machinery and equipment decreased -2.6%, and those related to construction decreased by -1.6%, m/m. GFI posted a -3.2% dropped y/y.
- **Trade Balance.** The trade deficit for the first **11 months** of the year was US$10.718 billion, 18.3% below the US$13.1 billion recorded in the same 2016 period .
- **Mexican Oil Mix.** As of **end-November**, the price of the Mexican oil mix was USD$53.59 per barrel, translating into a 1.656% increase in one month, and a 0.11% decrease in one year.
- **Retail Sales.** Retail decreased -0.1% y/y in **October**. Retail sales increased 1% in relation to the previous month.
- **Unemployment.** The **November** unemployment rate came in at a seasonally-adjusted 3.5%.
- **Monetary Policy.** On **December** 14, 2017, Banco de Mexico maintained its benchmark interest unchanged at 7.25%.
- **Inflation**. The **December** Consumer Price Index (CPI) increased by +0.59% month-over-month. Annual headline inflation came in at 6.77% and core inflation 4.87%.
- **Public Finances:**
  - Net budgetary expenditure was 6.4 percent lower in real terms vs. the end of the third quarter of 2016 and $85.1 bn pesos above the budget program. Excluding contributions made in both years using the Bank of Mexico´s Excess Operating Liquidity (ROBM) to acquire financial assets and the Federal Government's 2016 contribution to Pemex, net expenditure paid was a real 2.8 percent below the same 2016 period and 11.3 billion pesos below the program.
  - Public Sector Financial Requirements (RFSP) registered a $73.341 billion surplus vs. a $207.657 billion deficit for the same period in 2016.

Source: SHCP, BANXICO, INEGI.

ECONOMIC PROJECTIONS

Economic Projections	2014	2015	2016	2017e	2018e
National Accounts					
Real GDP growth (y/y)	2.3%	2.5%	2.9%	2.5%	2.7%
GDP (US $bn.)	1.288	1.139	1.076	1.181	1.321
Consumption (Chg. y/y)	2.0%	3.3%	2.4%	2.4%	2.5%
Investment (Chg. y/y)	2.3%	4.5%	1.1%	1.0%	3.7%
Exports (Chg. y/y)	7.3%	9.4%	3.5%	7.6%	8.9%
Imports (Chg. y/y)	5.7%	6.1%	2.9%	5.3%	7.9%
Monetary and Exchange Rate Ind.					
CPI Inflation (year-end)	4.1%	2.1%	3.3%	6.3%	3.8%
US$ Exchange Rate (year-end)	14.7	17.2	20.6	18.9	19.0
28Day Cetes Int. Rate (year-end)	3.00%	3.25%	5.75%	7.0%	6.5%
Balance of Payments					
Trade Balance (US$ bn.)	-2.8	-14.5	-13.1	-14.4	-12.4
Exports (US$ bn.)	397.5	380.8	373.9	397.8	424.5
Imports (US$ bn.)	400.0	395.2	387.06	412.2	436.9
Transfers (US$ bn.)	23.6	24.8	26.6	n/a	n/a
Current Account (US$ bn.)	-24.8	-32.4	-27.8	-23.4	-27.8
Foreign Direct Inv. (US$ bn.)	25.6	28.4	26.7	n/a	n/a
Debt Profile					
International Reserves (US$ bn.)	193.2	176.7	176.5	178.0	180.0
Public Debt (gross % of GDP)	41.0%	42.5%	50.5%	48.0%	48.0%
External Debt (gross % of GDP)	11.9%	19.7%	15.5%	15.2%	15.0%

Source: SHCP, BANXICO, INEGI, Santander.

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

REPORT ON THE ECONOMY, DECEMBER 2017

DEFINITIONS

- **ANTAD:** Mexico's National Association of Supermarket and Department Stores.
- **Banco de Mexico (Banxico):** The Central Bank of Mexico.
- **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.
- **Gross Fixed Investment (GFI):** Gross fixed capital formation is measured by the total value of a producer's acquisitions, less disposals, of fixed assets during the accounting period plus certain additions to the value of non- produced assets (such as subsoil assets or major improvements in the quantity, quality or productivity of land) realized by the productive activity of institutional unit.
- **MBonos:** Fixed-rate Federal Government Development Bonds.
- **Mexbol Index:** The Mexican Bolsa Index, or the IPyC (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 on October 30, 1978.
- **MXN/USD:** The Mexican peso US dolar (MXN/USD) is a currency pairing whereby the U.S. dollar and the Mexican peso can be traded against each other.
- **PAN:** National Action Party
- **PRI:** Institutional Revolutionary Party
- **PRD:** Party of the Democratic Revolution
- **PT:** The Labor Party
- **PES:** The Social Encounter Party
- **The Dow Jones Industrial Average (DJIA):** Is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.
- **The Federal Reserve (FED):** Is the central bank of the United States. It's composed of three key entities, including a Board of Governors, 12 Federal Reserve Banks and the Federal Open Market Committee.
- **The International Monetary Fund (IMF):** The International Monetary Fund is an international organization that aims to promote global economic growth and financial stability, to encourage international trade, and to reduce poverty.
- **The Nasdaq Composite Index:** Is the market capitalization-weighted index of approximately 3,000 common equities listed on the Nasdaq stock exchange.
- **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 Standard & Poor's 500 Index (S&P 500):** Is an index of 505 stocks issued by 500 large companies with market capitalizations of at least $6.1 billion.
- **The World Trade Organization (WTO):** An intergovernmental organization that regulates international trade. The WTO officially commenced on 1 January 1995 under the Marrakesh Agreement, signed by 123 nations on 15 April 1994, replacing the General Agreement on Tariffs and Trade (GATT), which commenced in 1948. It is the largest international economic organization in the world. The WTO deals with regulation of trade in goods, services and intellectual property between participating countries by providing a framework for negotiating trade agreements and a dispute resolution process aimed at enforcing participants' adherence to WTO agreements, which are signed by representatives of member governments, and ratified by their parliaments.