

ESG Corporate Bonds – 3Q24

- Non-bank ESG corporate bond issuance represented 27.1% of the total amount placed in 3Q24 (25.8% year-to-date) against 52.5% in 2023. We believe that the share of bonds with sustainable taxonomy will be within a 20%-25% range in the medium-term
- This quarter, dynamism in the banking market returned with 68.2% of the issued amount. We estimate that it will stay high in the coming quarters, mainly supported by the strong participation of development banks
- The ‘greenium’ increased in different samples, highlighting an expansion of 5bps q/q in private bonds referenced to TIIE-28. In fixed-rate bonds, it rose 1bp
- COP29 wrapped up last week amid tense negotiations. A financing plan for developing countries to support climate change needs was agreed upon, but countries backtracked on mentioning anything related to the phase-out of fossil fuels assumed in COP28

Non-bank ESG bonds have gradually lost market share... The amount issued in the third quarter was stronger when compared to the first half of the year despite a pause around the electoral period in our country. Specifically, 27.1% of the amount issued by non-bank corporates was ESG-labeled during the period, standing at MXN 14.1 billion (see table below). Nevertheless, a cooling in the presence of these instruments has been observed on a year-to-date basis. The proportion of ESG bonds since the first green bond was placed in 2019 peaked at 52.5% in 2023 (see chart to the right). As of today, it represents only 25.8%. We attribute this drop to several factors, including (1) A normalization of the amount after an extraordinary 2023; (2) lower appetite from issuers due to a contraction in the ‘greenium’, while costs of issuing and preserving ESG bonds have gone in the opposite direction; and (3) issuers in sectors which are less likely to participate with these instruments this year (automotive, financial services, metallurgy)

Thematic bond issuance 3Q24 – Corporates

Million pesos

Issue	Issued Amount	Tag	Issue Date	Maturity	Issuer	Rating
95FEFA24V	6,765	Green	Sep-02-24	Aug-25-31	FEFA	AAA
91AQUACB24X	6,600	Sustainable	Sep-04-24	Sep-05-32	Acueducto Cuchillo 2	AAA
91FUTILCB24S	700	Social	Sep-18-24	Mar-21-28	FEFA	AAA
Total	14,065					

Source: Banorte with information from BMV and PIP as of 3Q24. Not including banks

...but the banking market is still growing. A strong recovery was observed in the proportion of thematic bonds, with 68.2% of placements in the quarter. As a result, the accumulated percentage for 2024 reached 58.0%, far above the one observed in 2023 (37.3%). We believe that the key difference with the corporate market lies in the presence of development banks—whose objectives are usually aligned with sustainable principles—and in a greater relative ease in allocating resources to finance eligible projects.

Thematic bond issuance 3Q24 - Banks

Million pesos

Issue	Issued Amount	Tag	Issue Date	Maturity	Issuer	Rating
CDBACMEXT24-3X	4,548	Sustainable	Aug-13-24	Feb-22-28	Bancomext	AAA
CDBACMEXT24-4X	6,406	Sustainable	Feb-13-24	May-04-27	Bancomext	AAA
CDBACMEXT24DX	4,089	Sustainable	Feb-19-24	Feb-14-28	Bancomext	AAA
CDNAFF24-2S	6,814	Social	Feb-19-24	Feb-10-31	Nacional Financiera	AAA
CDNAFR24-2S	4,779	Social	Feb-19-24	Feb-06-34	Nacional Financiera	AAA
94SCOTIAB24V	4,325	Green	Mar-11-24	Feb-27-34	Scotiabank	AAA
Total	30,961					

Source: Banorte with information from BMV and PIP as of 3Q24.

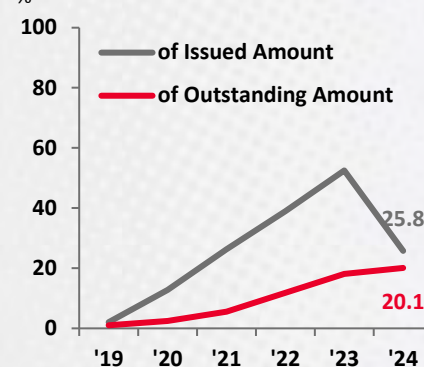


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ESG: Share in local corporate debt market %



Source: Banorte with information from BMV, BIVA, and PIP as of 3Q24. Banks not included



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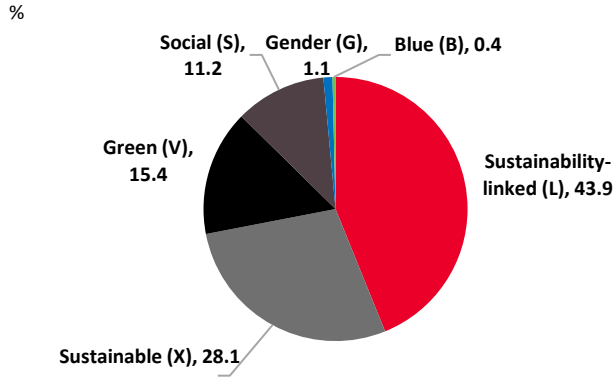
Winners of the award as the best economic forecasters in Mexico by LSEG in 2023



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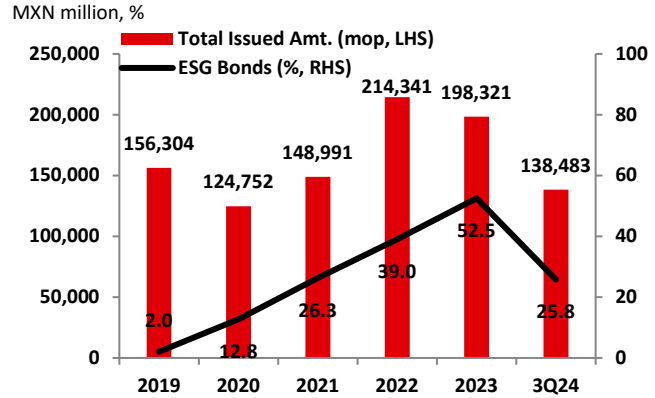
Thematic Bonds – Long-term Corporate Market

Thematic Bond Distribution by Tag



Source: Banorte with data from BMV and PIP as of 3Q24

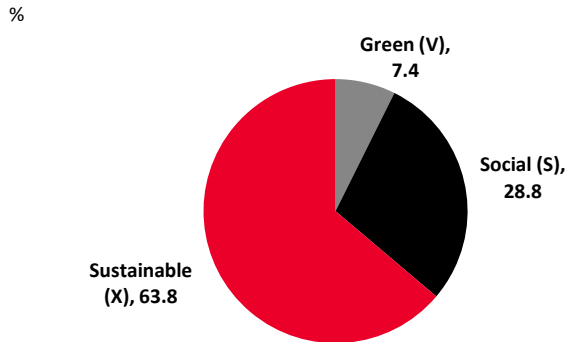
Issued Amount ESG vs. Total – Annual aggregate



Source: Banorte with data from BMV and PIP as of 3Q24

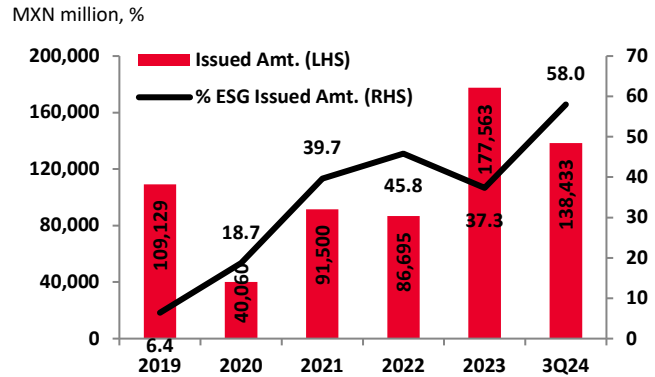
Thematic Bonds – Long-term Banking Market

Thematic Bond Distribution by Tag



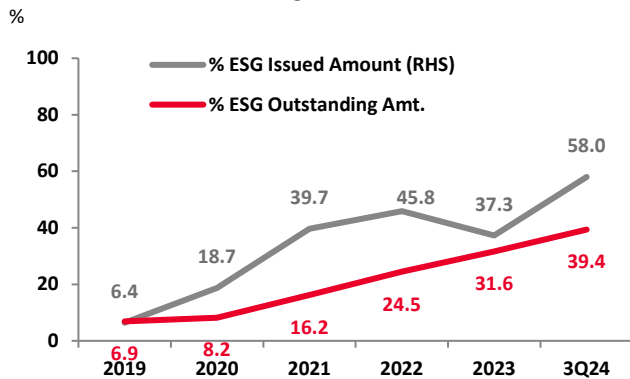
Source: Banorte with data from BMV and PIP as of 3Q24

Issued Amount ESG vs. Total – Annual aggregate



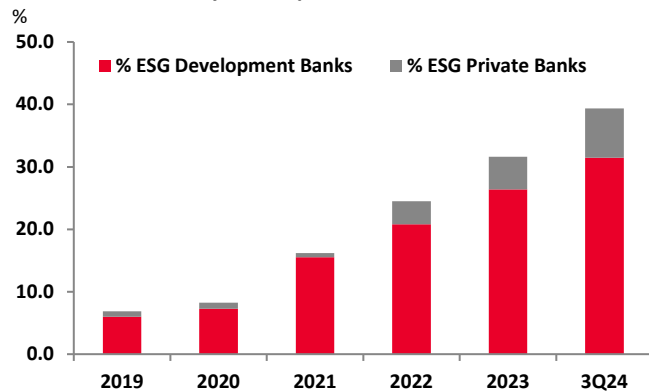
Source: Banorte with data from BMV and PIP as of 3Q24

ESG Debt Evolution – Banking bonds



Source: Banorte with data from BMV and PIP as of 3Q24

Share of ESG Debt by Development and Private Banks



Source: Banorte with data from BMV and PIP as of 3Q24

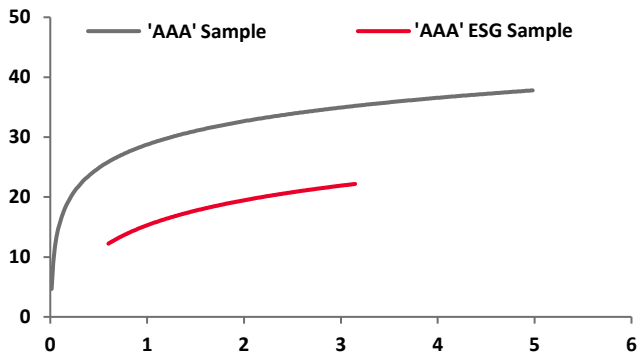
Relative Value

Greenium. The benefit granted by investors to ESG-related bonds –also known as *greenium*– showed mixed results in the different samples that we follow. In non-bank corporates, floating rate ‘AAA’ notes with sustainable taxonomy showed a 11bps benefit on their spread with respect to conventional bonds (vs. 6bps in 2Q24); fixed rate notes had a 22bps benefit (vs. 21bps in 2Q24). We expect to get a clearer picture of tagged bonds performance vs. conventional bonds, along with the magnitude of the benefit, as the sample grows further.

In the banking market, fixed rate bonds from development banks printed a 16bps premium (vs. 22bps on 2Q24). On the other hand, floating rate bonds pegged to Overnight TIIE showed a higher spread (1bp) than conventional bonds. This could be explained by a smaller sample of conventional bonds, which in turn are closer to their respective maturity dates.

Relative Value – Corporates ‘AAA’ TIIE-28

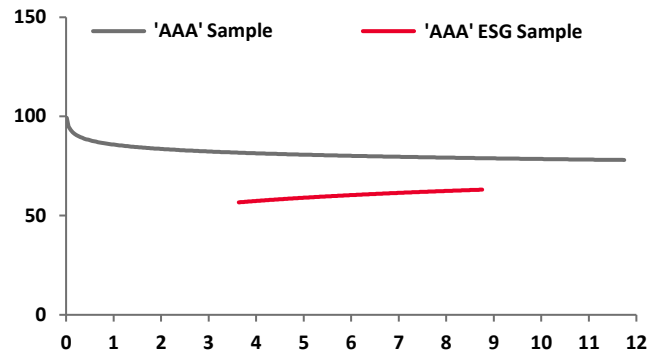
Years to maturity vs. Spread (bps)



Source: Banorte with data from BMV and PIP as of 3Q24

Relative Value – Corporates ‘AAA’ Fixed Rate

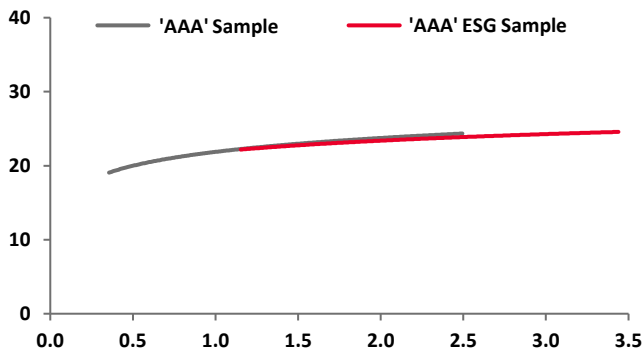
Years to Maturity vs. Spread (bps)



Source: Banorte with data from BMV and PIP as of 3Q24

Relative Value – Development Banks ‘AAA’ Overnight TIIE

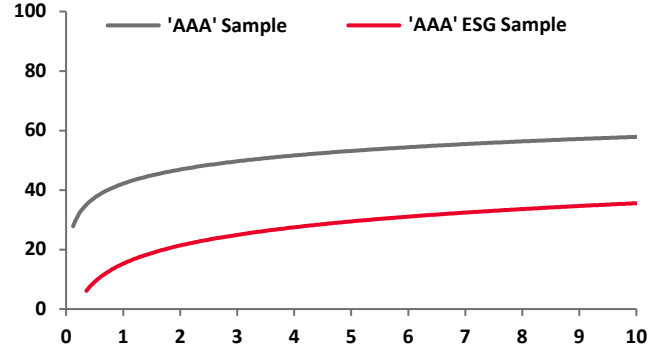
Years to Maturity vs. Spread (bps)



Source: Banorte with data from BMV and PIP as of 3Q24

Relative Value – Development Banks ‘AAA’ Fixed Rate

Years to Maturity vs. Spread (bps)



Source: Banorte with data from BMV and PIP as of 3Q24

Sovereign Bonds

The Federal Government also operates in thematic bonds, starting with the issuance of Sovereign Bonds Aligned to Sustainable Development Goals (SDG Bonds) in international markets since 2020. On the other hand, they have also issued new security classes in the local market. Among them: (1) Bondes G (first issued in May 2022), similar to Bondes F, but with resources earmarked for ESG projects; and (2) Bonds S (July 2023), similar to Mbonos, but also with this type of goals.

In 3Q24, the Federal Government continued with the issuance of ESG-related bonds through a Bondes G issuance with 2, 4 and 6-year terms for MXN 23.0 billion, as well as a new SDG Bond issue for JPY 152.2 billion (~MXN 20.9 billion) in 3-, 5-, 7-, 10-, and 20-year tranches. Based on government data, 83.8% of the budgeted programs in 2024 were directly or indirectly aligned with at least one SDG. Thus, we expect the issuance of government's sustainable securities to grow further in upcoming periods.

Federal Government Sustainable Bond Issues

Issue	Date	Security	Currency	Issued Amount (Millions in original currency)	Term (years)	Amount (million pesos)
1	Sep-20	UMS SDG Bond	EUR	750	7	16,449
2	Jul-21	UMS SDG Bond	EUR	1,250	15	27,415
3	May-22	Bondes G	MXN	20,000	2, 6	20,000
4	Jul-22	Bondes G	MXN	15,000	3, 6	15,000
5	Aug-22	UMS SDG Bond	USD	2,203	10	43,380
6	Aug-22	UMS SDG Bond	JPY	75,600	3, 5, 10, 15, 20	10,357
7	Nov-22	Bondes G	MXN	10,000	1, 2, 3	10,000
8	Apr-23	UMS SDG Bond	USD	2,941	30	57,913
9	Apr-23	Bondes G	MXN	15,000	2, 3, 5	15,000
10	Jul-23	Bono S	MXN	23,000	12	23,000
11	Oct-23	Bondes G	MXN	15,000	1.7, 2.4, 4.4	15,000
12	Jan-24	UMS SDG Bond	EUR	2,000	8	43,864
13	Mar-24	Bondes G	MXN	20,000	1, 3, 3.2, 6	20,000
14	May-24	Bondes G	MXN	25,000	2, 3, 6	25,000
15	Aug-24	Bondes G	MXN	23,000	2, 4, 6	23,000
16	Aug-24	UMS SDG Bond	JPY	152,200	3, 5, 7, 10, 20	20,851
Total						386,229

Source: MoF. FX rates informative as of September 30, 2024. Some bonds included in the table may have matured.

Tense negotiations for new environmental commitments during COP29, which wrapped up last week. The United Nations Climate Change Conference took place in Baku, Azerbaijan (November 11-22). Final resolutions were published two days afterwards. The conference reached two main climate finance agreements for developing countries. First, triple the amount of annual financing to developing countries to combat climate change, going from US\$100 to 300 billion until 2035. Second, strengthen efforts for all participants to scale up financing to developing countries, through the public and private sectors, to reach an amount of US\$1.3 trillion each year by 2035. Nevertheless, several experts have criticized that this amount is woefully insufficient to tackle the problem. Moreover, negotiations were very tense, especially as Saudi Arabia and its allies managed to eliminate any reference to the 'transition away from fossil fuels', a step back relative to COP28. In this respect, it should be said that any deal must be agreed upon by all members, which has made negotiations very tricky as any country can derail the entire meeting. Next year's conference (COP30) will be held in Brazil. Several challenges to advance on the fight against climate change remain in place, not less so because of the possibility of meaningful changes in US climate policies and leadership during the upcoming administration of Donald Trump.

Appendix A. Thematic Bonds and 'greenium' overview

The Mexican market has experienced a strong expansion in the use of "Thematic Bonds" during the last few years. This universe consists of marketable debt instruments in which the proceeds are used for purposes aligned with ESG (Environmental, Social and Corporate Governance) criteria. It is important to mention that there are several subclasses of instruments, which are presented in the following table. Investor demand for instruments with an environmental perspective has increased strongly, with a growing number of funds explicitly stating the need for investments that meet minimum standards in these areas in their mandates. On the supply side, this trend has also gained importance due to heightened concerns about environmental factors, both from companies and governments, while simultaneously allowing them to access a wider and more diverse pool of investors that can result in lower financing costs.

Description by Bond class

Bond	Tag	Description
Green	V	Any type of bond where the proceeds or an equivalent amount will be exclusively applied to finance or re-finance, in part or in full, new and/or existing, eligible Green Projects. The eligible Green Projects categories include Renewable energy; Energy efficiency; Pollution prevention and control; Environmentally sustainable management of living natural resources and land use; Terrestrial and aquatic biodiversity conservation; Clean transportation; Sustainable water and wastewater management; Climate change adaptation; Circular economy adapted products, production technologies and processes; and Green Buildings.
Social	S	Any type of bond where the proceeds, or an equivalent amount, will be exclusively applied to finance or re-finance in part or in full new and/or existing eligible Social Projects. Social Project categories include Affordable basic infrastructure; Access to essential services; Affordable housing; Employment generation; Food security and sustainable food systems; Socioeconomic advancement and empowerment.
Sustainable	X	Any type of bond where the proceeds, or an equivalent amount, will be exclusively applied to finance or re-finance a combination of both Green and Social Projects.
Sustainability-linked (SLB)	L	Any type of bond for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined Sustainability/ESG objectives. In that sense, issuers are thereby committing explicitly (including in bond documentation) to future improvements in sustainability outcome(s) within a predefined timeline. SLBs are a forward-looking performance-based instrument. Those objectives are (i) Measured through predefined Key Performance Indicators (KPIs) and (ii) assessed against predefined Sustainability Performance Targets (SPTs).
Gender	G	Social bonds with a gender focus, representing a promising financing vehicle for institutions committed to addressing and reducing gender inequality by improving women's access to financing, leadership positions, and equality in labor markets.
Blue	B	Subclass of Green Bonds (V). Proceeds from Blue Bonds are assigned to financing or refinancing water-related and/or ocean-based projects with an evidently positive impact on the achievement of the Sustainable Development Goals.

Source: *International Capital Market Association*, Inter-American Development Bank, IDB Invest.

The following comments were originally published on January 12th, 2024, in our [first research paper](#) about the ESG bond market.

Greenium

Benefits of ESG bonds on funding costs (known in the literature as “greenium”) are modest but have been on the rise. Given their relatively recent history, the literature on the benefits to green bond issuers –the so-called *greenium*– is limited. However, empirical studies indicate that it does exist. In sovereign bonds, emerging market countries have been more advantaged than developed countries. The *greenium* is usually explained by several factors, including: (1) The disparity between supply and demand, as these are relatively new instruments; (2) the growing trend of sustainable investments; (3) their inclusion in different benchmark indices, increasing demand from both passive and active investors; (4) some investors' preference for ESG bonds by giving up part of the immediate profit in exchange for their positive impact on the environment and/or society; and (5) other psychological factors, brand and reputational value, higher leverage with regulators, and other non-financial benefits.

In corporates, evidence points to the ‘greenium’ prevailing. Empirical studies have also been conducted in this universe, including one by the Federal Reserve (Caramichael, Rapp, 2022). This points to a *greenium* of 8bps (better funding costs) in green vs conventional bonds. It is important to note that this study only considers USD or EUR issuances. In the Mexican market, the information we have also points to the existence of some benefit. Specifically, we estimate that they have had lower premiums than conventional bonds (without ESG label). Despite the small sample size compared to the abovementioned studies, the decline in spreads is comparable to the average and range of emerging markets. However, we should be cautious as these differences come from a simple analysis, without controlling for other factors that could explain them.

Appendix B – Main Issuers of Thematic Bonds

Corporate Market – Long-term

Issuer	Outstanding Amount ESG	Total Outstanding Amount	% ESG	Issuer	Rating
CFE	30,868	117,159	26.3	Comisión Federal de Electricidad	mx AAA/AAA.mx/AAA (mex)/nd
AMX	25,618	48,096	53.3	America Móvil S.A. De C.V.	mx AAA/AAA.mx/AAA (mex)/nd
ORBIA	20,000	20,000	100.0	Orbia Advance Corporation, S.A.B. de C.V.	nd/nd/AAA (mex)/HR AAA
FIRA	19,567	67,768	28.9	Fondo Especial para Financiamientos Agropecuarios	mx AAA/nd/AAA (mex)/HR AAA
FUNO	16,300	35,887	45.4	Fibra Uno Administración, S.A. de C.V.	nd/nd/AAA (mex)/HR AAA
KOF	15,400	28,627	53.8	Coca-Cola FEMSA, S.A.B. de C.V.	mx AAA/AAA.mx/AAA (mex)/HR AAA
BIMBO	15,000	33,000	45.5	Grupo Bimbo, S.A.B. de C.V.	mx AAA/nd/AAA (mex)/nd
GAP	12,658	36,904	34.3	Grupo Aeroportuario del Pacífico, S.A.B. de C.V.	mx AAA/AAA.mx/nd/nd
ARCA	12,050	28,450	42.4	AC Bebidas, S. de R.L. de C.V.	mx AAA/nd/AAA (mex)/nd
CEMEX	11,500	11,500	100.0	CEMEX, S.A.B., de C.V.	mx AA+/nd/AA+ (mex)/nd
FONACOT	10,400	16,300	63.8	Instituto FONACOT	mx AAA/nd/AAA (mex)/HR AAA
FEMSA	9,274	9,274	100.0	Fomento Económico Mexicano, S.A.B. de C.V.	mx AAA/nd/AAA (mex)/nd
FIBRAPL	8,742	8,742	100.0	Prologis Property México, S.A. de C.V	mx AAA/nd/AAA (mex)/HR AAA
OMA	8,200	10,700	76.6	Grupo Aeroportuario del Centro Norte, S.A.B. de C.V.	mx AAA/AAA.mx/AAA (mex)/nd
EDUCA	7,943	7,943	100.0	Grupo Nagoin, S.A. de C.V. (Fibra Educa)	nd/AA+.mx/nd/HR AAA
AQUACB	6,600	6,600	100.0	Acueducto Cuchillo 2	nd/nd/nd/nd
AGUA	4,000	4,000	100.0	Grupo Rotoplas, S.A.B. de C.V.	mx AA-/nd/AA (mex)/nd
MEGA	3,945	10,945	36.0	Megacable Holdings, S.A.B. de C.V.	nd/nd/AAA (mex)/HR AAA
CMPC	3,200	3,200	100.0	Inversiones CMPC, S.A.	nd/nd/AAA (mex)/HR AAA
VINTE	3,107	3,292	94.4	Vinte Viviendas Integrales, S.A.P.I. de C.V.	mx A-/BBB+.mx/nd/HR AA-
GCDMXCB	3,100	19,675	15.8	Gobierno del Distrito Federal	mx AAA/AAA.mx/AAA (mex)/nd
GFMEGA	3,000	3,000	100.0	Operadora de Servicios Mega, S.A. de C.V., SOFOM, E.R.	nd/nd/nd/nd
HERDEZ	3,000	8,500	35.3	Grupo Herdez, S.A.B. de C.V.	mx AA/nd/AA (mex)/nd
EDOMEX	2,741	2,741	100.0	Estado de México	nd/nd/AA+ (mex)/HR AA+
DANHOS	2,500	8,000	31.3	Concentradora Fibra Danhos, S.A. de C.V.	nd/nd/AAA (mex)/HR AAA
ELEKTRA	2,500	23,800	10.5	Grupo Elektra, S.A.B. de C.V.	nd/nd/A (mex)/HR AA
ARA	1,700	1,700	100.0	Consorcio ARA, S.A.B. de C.V.	mx AA-/A.mx/A+ (mex)/HR AA+
STORAGE	1,500	1,500	100.0	Self-Storage Management, S. de R.L. de C.V.	nd/nd/AA- (mex)/HR AA
BWMX	1,500	2,314	64.8	Betterware de México, S.A.P.I. de C.V.	nd/nd/AA (mex)/HR AA
FINUTIL	1,300	1,300	100.0	Fin Útil, S.A. de C.V., y FinCrementar, S.A. de C.V.	nd/nd/nd/nd
VOLARCB	1,042	2,542	41.0	Concesionaria Vuela Compañía de Aviación, S.A.P.I. de C.V.	nd/nd/nd/nd
VIVACB	1,000	1,000	100.0	Aeroenlaces Nacionales, S.A. de C.V. (Viva Aerobus)	nd/nd/nd/nd
DHC	1,000	1,000	100.0	Desarrollos Hidráulicos de Cancún, S.A. de C.V.	nd/nd/AA+ (mex)/HR AA+
VASCONI	512	862	59.4	Grupo Vasconia, S.A.B.	nd/nd/D (mex)/HR D
CADU	502	502	100.0	Corpovael, S.A.B. de C.V.	nd/nd/BBB+ (mex)/HR BBB
IDEI	500	500	100.0	Internacional de Inversiones, S.A.P.I. de C.V.	nd/AA-.mx/nd/HR AA-
Total	271,768				

Source: Banorte with data from BMV, BIVA and PiP as of 3Q24

Banking Bonds – Long-term

Issuer	Outstanding Amount ESG	Total Outstanding Amount	% ESG	Issuer	Rating
BACMEXT	75,236	92,987	80.9	Banco Nacional de Comercio Exterior	mxAAA/Aaa.mx/AAA (mex)/
NAFIN	66,874	103,359	64.7	Nacional Financiera	mxAAA/Aaa.mx/AAA (mex)/HRAAA
BANOB	50,093	123,359	40.6	Banco Nacional de Obras y Servicios Públicos	mxAAA/Aaa.mx/AAA (mex)/
BBVAMX	18,689	82,798	22.6	BBVA Bancomer	mxAAA/Aaa.mx/AAA (mex)/
BANORTE	13,159	37,753	34.9	Banco Mercantil del Norte	mxAAA/Aaa.mx/AAA (mex)/
COMPART	11,500	13,360	86.1	Banco Compartamos	mxAA//AA (mex)/
KDB	3,500	3,500	100.0	Korea Development Bank	/AAA.mx/AAA (mex)/
BMIFEL	1,500	1,500	100.0	Banca Mifel	mxA-//A (mex)/HRAA-
Total	244,875				

Source: Banorte with data from BMV, BIVA and PiP as of 3Q24

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Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

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