

Mexico Fixed Income Commentary Q3 2023

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Market Snapshot

Mexico's central bank held interest rates steady at 11.25% in September 2023, similar to the U.S. Federal Reserve's pause in rate increases due to an uncertain economic environment. The Bank of Mexico has raised interest rates 15 times since June 2021 in an effort to tame inflationary pressures. Overall, international markets have shown slowing inflation across the globe. Mexico's inflation rate fell again to 4.45% in September 2023 from 4.64% the previous month. In the U.S., inflation rose to 3.7% in September. The increase in U.S. inflation has been fueled by energy and food prices.

Domestic nominal bond indices that include both sovereign and quasi-sovereign bonds started on a downward trend at the beginning of Q3 2023. Q3 performance was down 0.5% for the [S&P/BMV All Sovereign Bond Index](#), driven in part by the MBONOS component that was down 2.5%. In contrast, CETES and BONDES indices showed Q3 gains of 2.8% and 2.9%, respectively. Yield on CETES flattened out this quarter to 11.4%. Unlike its sovereign counterpart, the [S&P/BMV Quasi-Sovereign Bond Index](#) was up 0.5% for the quarter, while the yield edged up to 12%.

Inflation-linked bond indices performed negatively in Q3. UDIBONOS indices posted a 2.8% decline, while quasi-sovereign inflation-linked bonds were down 0.8% for the quarter. In contrast, the mortgage-backed securities (MBS) indices—CEDEVIS and TFOVIS—were up at 1.9% and 0.1%, respectively, for the third quarter.

Eurobond indices were slightly down, at -0.4% for Q3. The steepest decline in Q3 performance has been seen in the United Mexican States (UMS) bond market, as measured by the [S&P/BMV Sovereign International UMS Bond Index](#). In Q3, the index was down 4.8%, while its yield was up at 6.4%.

A notable development in the Mexican bond market in Q3 was the government's issuance of BONOS MS—the first MBONOS with a social objective. MBONOS are Mexican Federal Government Development Bonds with a fixed rate and maturity greater than one year. The bond was issued on July 13, 2023, with a par amount of MXN 23 billion, a fixed 8% semiannual coupon and a maturity date of May 25, 2035.

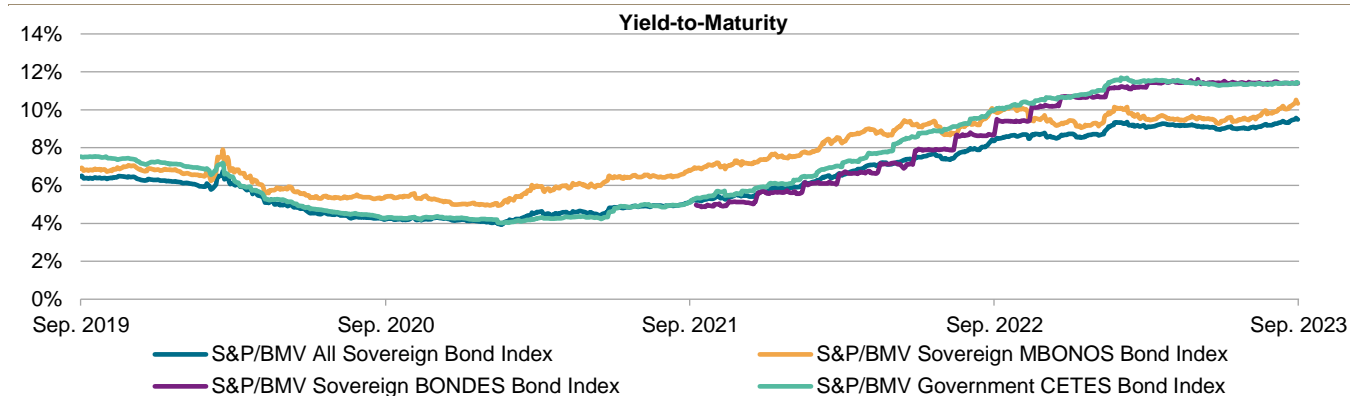
Domestic Nominal Bonds

Sovereign

The S&P/BMV All Sovereign Bond Index was down for Q3, partially influenced by its 34.3% MBONOS component, which was down to 2.5% in Q3. Yields on the Mexican sovereign bond indices kept a flat trend in the third quarter.

Exhibit 1: Performance and Analytics

Index	Performance (%)					Analytics						
	Q3	YTD	1-Year	5-Year	10-Year	Index Level	Number of Bonds	Market Value	Maturity	Coupon (%)	Yield (%)	Duration
S&P/BMV All Sovereign Bond Index	-0.5	4.4	8.6	6.9	6.0	529.8	177	11,050	6.6	6.9	9.5	4.2
S&P/BMV Sovereign MBONOS Bond Index	-2.5	3.0	8.2	5.9	5.4	658.5	18	3,853	7.9	7.5	10.3	4.3
S&P/BMV Sovereign BONDES Bond Index	2.9	8.9	11.7	-	-	119.3	80	2,397	1.7	11.3	11.4	1.5
S&P/BMV Government CETES Bond Index	2.8	8.5	11.2	7.5	6.14	339.2	22	700	0.3	0.0	11.4	0.3



Source: S&P Dow Jones Indices LLC. Data as of Sept. 30, 2023. Index performance based on total return in MXN. Q3, YTD and 1-year returns are cumulative; 5- and 10-year returns are annualized. Market value shown in MXN billions. The S&P/BMV All Sovereign Bond Index, S&P/BMV Sovereign MBONOS Index and S&P/BMV Sovereign BONDES Bond Index were launched April 1, 2015. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart and table are provided for illustrative purposes and reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Market Commentary

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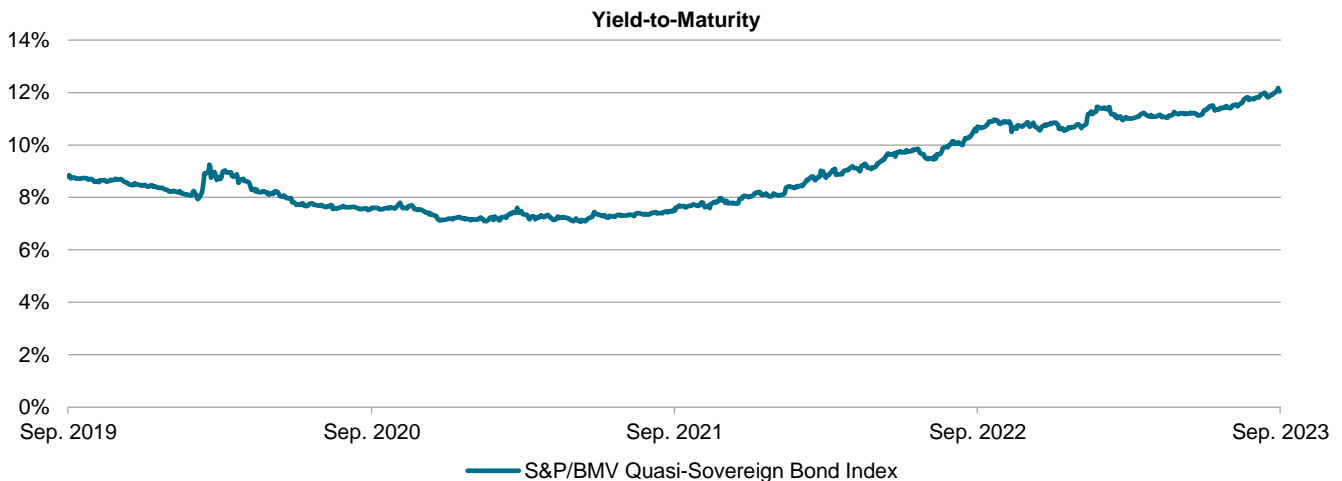
Domestic Nominal Bonds

Quasi-Sovereign

The S&P/BMV Quasi-Sovereign Bond Index was flat in the third quarter of 2023. The index's yield increased slightly to 12%. This index measures quasi-sovereign bonds issued by governmental agencies or companies fully or partially owned by the government, such as Pemex.

Exhibit 2: Performance and Analytics

Index	Performance (%)					Analytics						
	Q3	YTD	1-Year	5-Year	10-Year	Index Level	Number of Bonds	Market Value	Maturity	Coupon (%)	Yield (%)	Duration
S&P/BMV Quasi-Sovereign Bond Index	0.5	5.8	9.7	7.9	6.7	508.3	58	283.2	5.4	8.7	12.0	2.5



Source: S&P Dow Jones Indices LLC. Data as of Sept. 30, 2023. Index performance based on total return in MXN. Q3, YTD and 1-year returns are cumulative; 5- and 10-year returns are annualized. Market value shown in MXN billions. The S&P/BMV Quasi-Sovereign Bond Index was launched April 1, 2015. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart and table are provided for illustrative purposes and reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

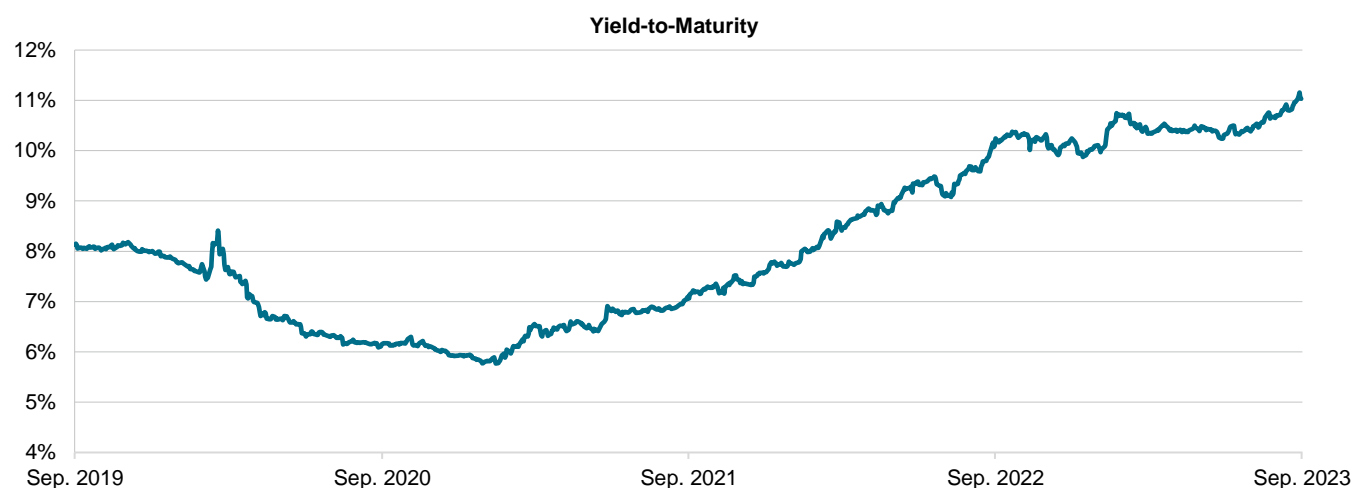
Domestic Nominal Bonds

Corporates

The S&P/BMV Corporate Bond Index ended Q3 at -0.4%. Yield was up to 11% for the quarter. The index contains 127 issuers.

Exhibit 3: Performance and Analytics

Index Name	Performance (%)					Analytics							
	Q3	YTD	1-Year	5-Year	10-Year	Index Level	Number of Bonds	Market Value	Maturity	Coupon (%)	Yield (%)	Duration	
S&P/BMV Corporate Bond Index	-0.4	5.4	9.9	8.2	7.4	684.3	281	683.6	6.4	9.3	11.0	3.7	



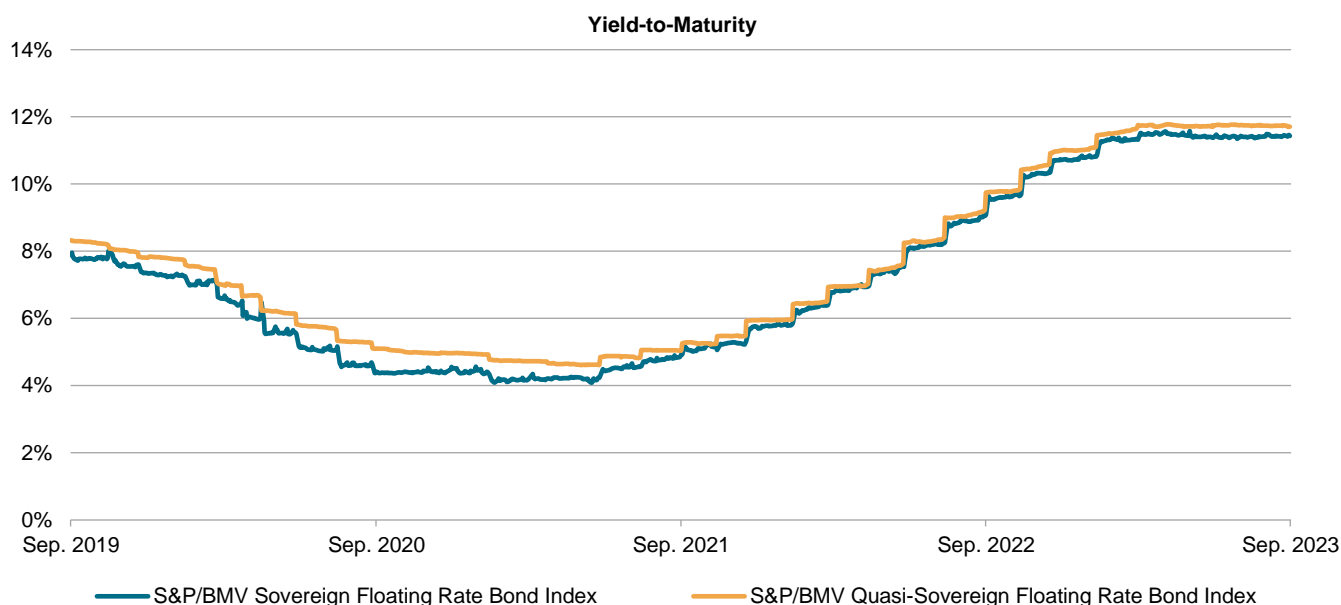
Source: S&P Dow Jones Indices LLC. Data as of Sept. 30, 2023. Index performance based on total return in MXN. Q3, YTD and 1-year returns are cumulative; 5- and 10-year returns are annualized. Market value shown in MXN billions. The S&P/BMV Corporate Bond Index was launched April 1, 2015. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart and table are provided for illustrative purposes and reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Floating Rate Notes

The [S&P/BMV Sovereign Floating Rate Bond Index](#) posted 2.9% in Q3, while the [S&P/BMV Quasi-Sovereign Floating Rate Bond Index](#) was up to 3.1%. Both indices saw a flattening of the yield curve.

Exhibit 4: Performance and Analytics

Index Name	Performance (%)					Analytics						
	Q3	YTD	1-Year	5-Year	10-Year	Index Level	Number of Bonds	Market Value	Maturity	Coupon (%)	Yield (%)	Duration
S&P/BMV Sovereign Floating Rate Bond Index	2.9	8.9	11.7	7.8	6.6	485.5	120	3,400	2.0	11.3	11.4	1.7
S&P/BMV Quasi-Sovereign Floating Rate Bond Index	3.1	9.2	11.9	8.1	6.8	473.2	29	71.4	3.9	11.9	11.7	1.9



Source: S&P Dow Jones Indices LLC. Data as of Sept. 30, 2023. Index performance based on total return in MXN. Q3, YTD and 1-year returns are cumulative; 5- and 10-year returns are annualized. Market value shown in MXN billions. The S&P/BMV Sovereign Floating Rate Bond Index and S&P/BMV Quasi-Sovereign Bond Index were launched April 1, 2015. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart and table are provided for illustrative purposes and reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Inflation-Linked Bonds

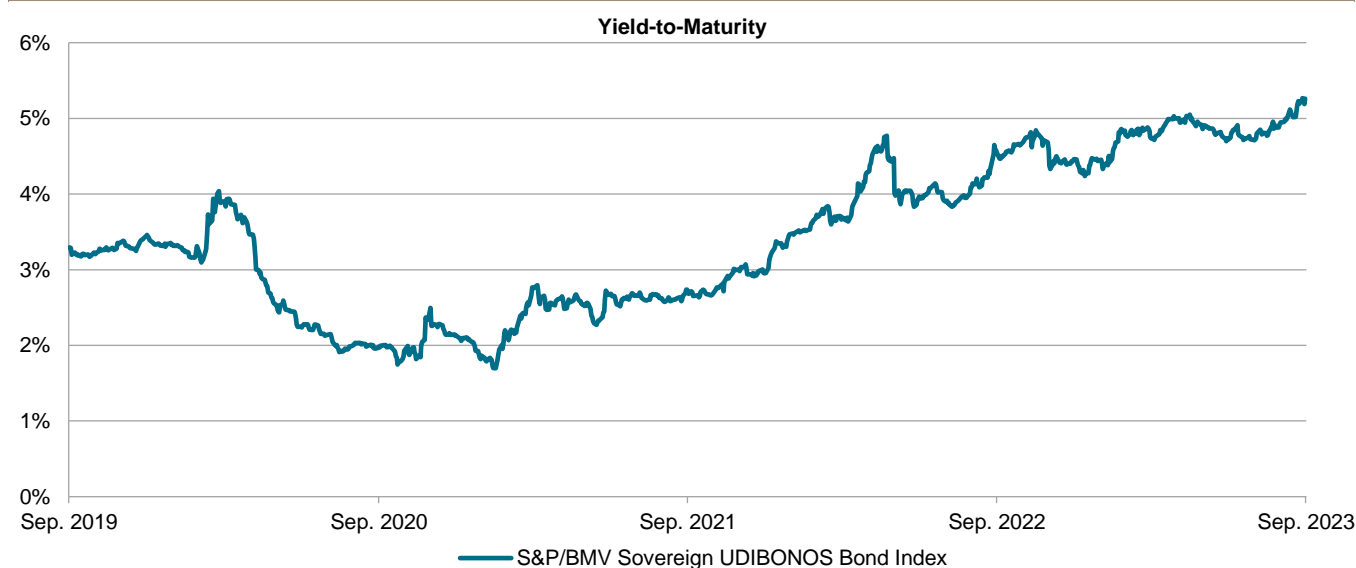
Mexican inflation-linked bonds are denominated in UDIs. In addition to the [S&P/BMV Sovereign UDIBONOS Bond Index](#), the [S&P/BMV Quasi-Sovereign Inflation-Linked Bond Index](#) and the MBS Indices ([S&P/BMV CEDEVIS Bond Index](#) and [S&P/BMV TFOVIS Bond Index](#)) contain securities denominated in Investment Units (Unidades de Inversion or UDIs), with a currency code of MXV instead of MXN. UDIs were introduced in 1995 by the Bank of Mexico after the “Tequila Crisis” and were meant to protect the buyer from the effects of inflation. Government bonds, such as UDIBONOS, MBS and certain quasi-sovereign bonds, are denominated in UDIs. Bank of Mexico publishes a daily UDI expected value, which for September 23 to 25 is 1 UDI = MXN 7.86. Therefore, the yield on the indices denominated in UDIs will be significantly different than the indices in MXN.

Sovereign

The S&P/BMV Sovereign UDIBONOS Bond Index contains 10 bonds with a market value of MXN 2.7 trillion. In Q3 2023, this index had a yield of 5.3%. The index was down 2.8% due to easing inflationary pressure in the market.

Exhibit 5: Performance and Analytics

Index Name	Performance (%)					Analytics						
	Q3	YTD	1-Year	5-Year	10-Year	Index Level	Number of Bonds	Market Value	Maturity	Coupon (%)	Yield (%)	Duration
S&P/BMV Sovereign UDIBONOS Bond Index	-2.8	-0.3	4.9	6.7	6.4	682.3	10	2,700	12.8	3.8	5.3	8.6



Source: S&P Dow Jones Indices LLC. Data as of Sept. 30, 2023. Index performance based on total return in MXN. Q3, YTD and 1-year returns are cumulative; 5- and 10-year returns are annualized. Market value shown in MXN billions. The S&P/BMV Sovereign UDIBONOS Bond Index was launched April 1, 2015. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart and table are provided for illustrative purposes and reflect hypothetical historical performance. Please see

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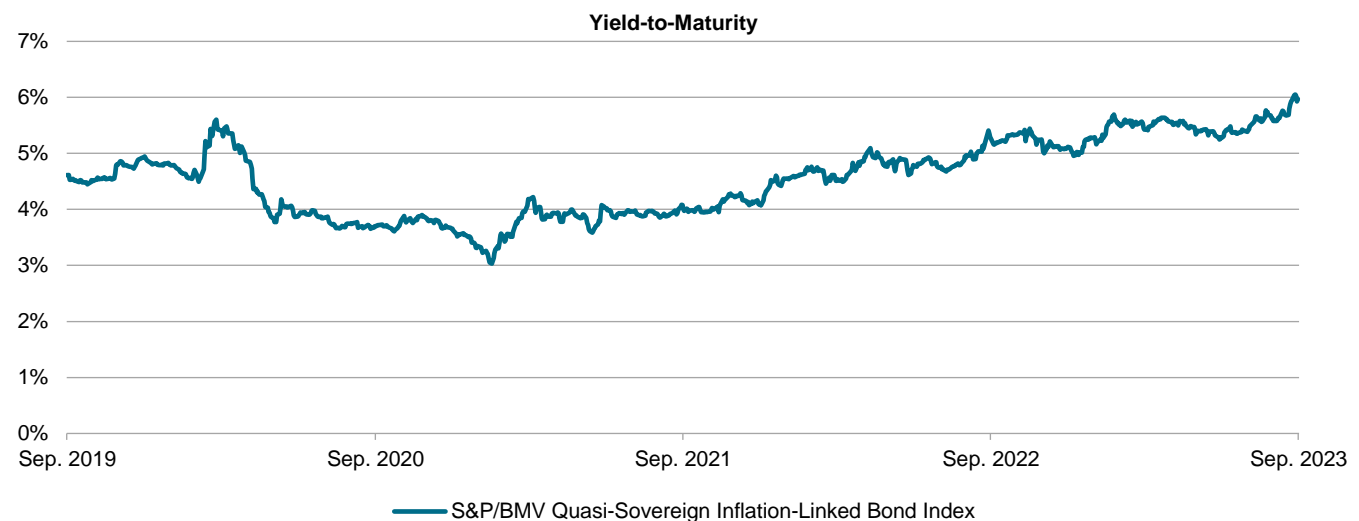
Inflation-Linked Bonds

Quasi-Sovereign

The [S&P/BMV Quasi-Sovereign Inflation-Linked Bond Index](#) contains 47 bonds from various governmental agencies. In Q3, the index was flat to negative while the overall yield was 5.9%. Notably, this index was up 9% over a 10-year annualized period.

Exhibit 6: Performance and Analytics

Index Name	Performance (%)					Analytics						
	Q3	YTD	1-Year	5-Year	10-Year	Index Level	Number of Bonds	Market Value	Maturity	Coupon (%)	Yield (%)	Duration
S&P/BMV Quasi-Sovereign Inflation-Linked Bond Index	-0.8	3.5	8.3	9.41	9.0	835.0	47	227.8	17.1	4.6	5.9	6.6



Source: S&P Dow Jones Indices LLC. Data as of Sept. 30, 2023. Index performance based on total return in MXN. Q3, YTD and 1-year returns are cumulative; 5- and 10-year returns are annualized. Market value shown in MXN billions. The S&P/BMV Quasi-Sovereign Inflation-Linked Bond Index was launched April 1, 2015. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart and table are provided for illustrative purposes and reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Inflation-Linked Bonds

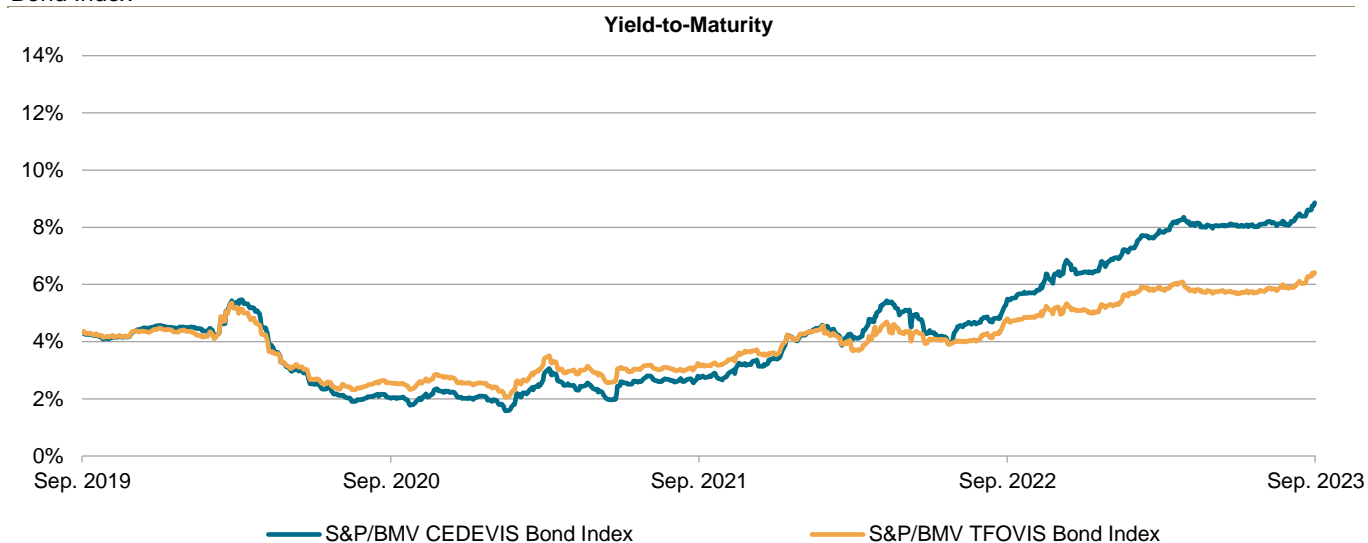
MBS

The S&P/BMV CEDEVIS Bond Index and S&P/BMV TFOVIS Bond Index measure the Mexican MBS market. CEDEVIS securities are issued by the Instituto del Fondo Nacional de la Vivienda para los Trabajadores (INFONAVIT), while TFOVIS securities are issued by the Fondo de la Vivienda del ISSSTE (FOVISTE). These two institutions were created in 1972 by the Mexican government to manage workers' social benefits such as retirement plans, health services and housing. Through these two institutions, workers have access to loans used for housing.

In Q3 2023, the CEDEVIS bonds measured by the S&P/BMV CEDEVIS Bond Index were up 1.9% and had a yield of 8.9%, slightly down compared to Q2 2023. The S&P/BMV TFOVIS Bond Index was flat in Q3 at 0.1% , with a yield of 6.4%.

Exhibit 7: Performance and Analytics

Index Name	Performance (%)					Analytics							
	Q3	YTD	1-Year	5-Year	10-Year	Index Level	Number of Bonds	Market Value	Maturity	Coupon (%)	Yield (%)	Duration	
S&P/BMV CEDEVIS Bond Index	1.9	5.3	7.1	9.4	8.1	381.7	7	0.6489	18.0	3.6	8.9	0.9	
S&P/BMV TFOVIS Bond Index	0.1	3.0	5.7	7.9	7.1	313.0	10	5.2	24.3	3.2	6.4	3.0	



Source: S&P Dow Jones Indices LLC. Data as of Sept. 30, 2023. Index performance based on total return in MXN. Q3, YTD and 1-year returns are cumulative; 5- and 10-year returns are annualized. Market value shown in MXN billions. The S&P/BMV CEDEVIS Bond Index and S&P/BMV TFOVIS Bond Index were launched April 1, 2015. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart and table are provided for illustrative purposes and reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Eurobonds

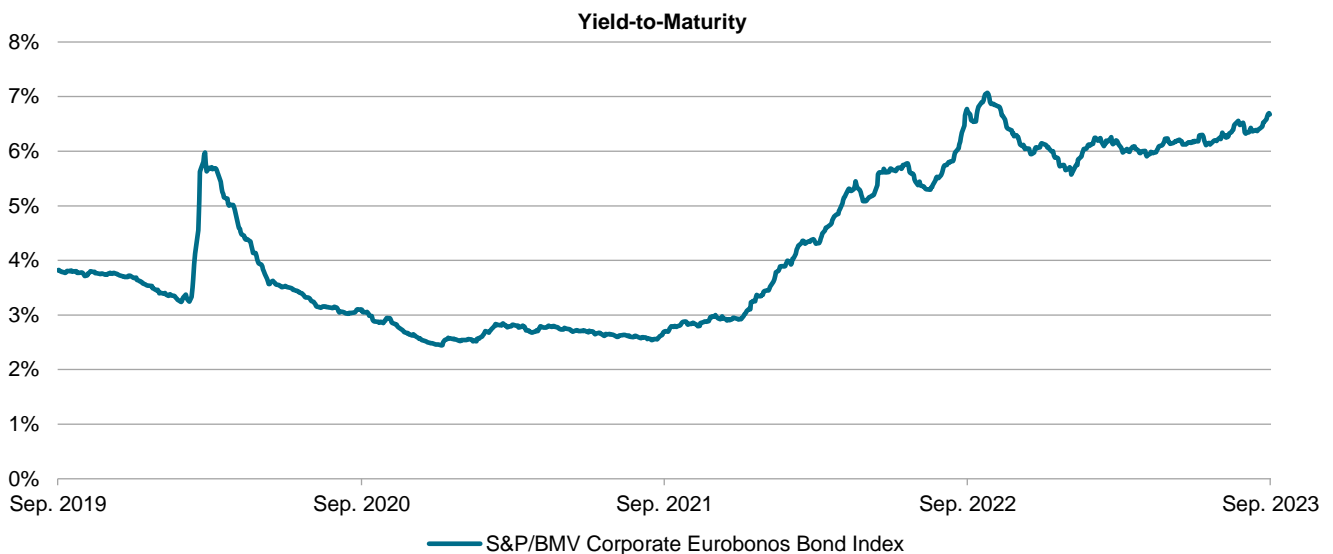
United Mexican States Bonds

UMS bonds are United Mexican States sovereign bonds usually issued in foreign hard currency such as U.S. dollars. In Q3, the S&P/BMV Sovereign International UMS Bond Index was down 4.8%, bringing the YTD level to -10.8%. The yield on the index stood at 6.4%.

The decline in total return is partially attributed to the 1-5 maturity bucket, which has underperformed for the last year compared to the rest of the UMS market. UMS bonds are traded in the international markets and returns started declining in January 2022 due to various rate increases by major global economies. An increase in rates negatively affects bond prices, which in turn is reflected in the total return calculation of the index.

Exhibit 8: Performance and Analytics

Index Name	Performance (%)					Analytics						
	Q3	YTD	1-Year	5-Year	10-Year	Index Level	Number of Bonds	Market Value	Maturity	Coupon (%)	Yield (%)	Duration
S&P/BMV Sovereign International UMS Bond Index	-4.8	-10.7	-8.6	-0.4	5.2	328.2	30	992.7	18.8	4.8	6.4	8.9



Source: S&P Dow Jones Indices LLC. Data as of Sept. 30, 2023. Index performance based on total return in MXN. Q3, YTD and 1-year returns are cumulative; 5- and 10-year returns are annualized. Market value shown in MXN billions. The S&P/BMV Sovereign International UMS Bond Index was launched April 1, 2015. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart and table are provided for illustrative purposes and reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

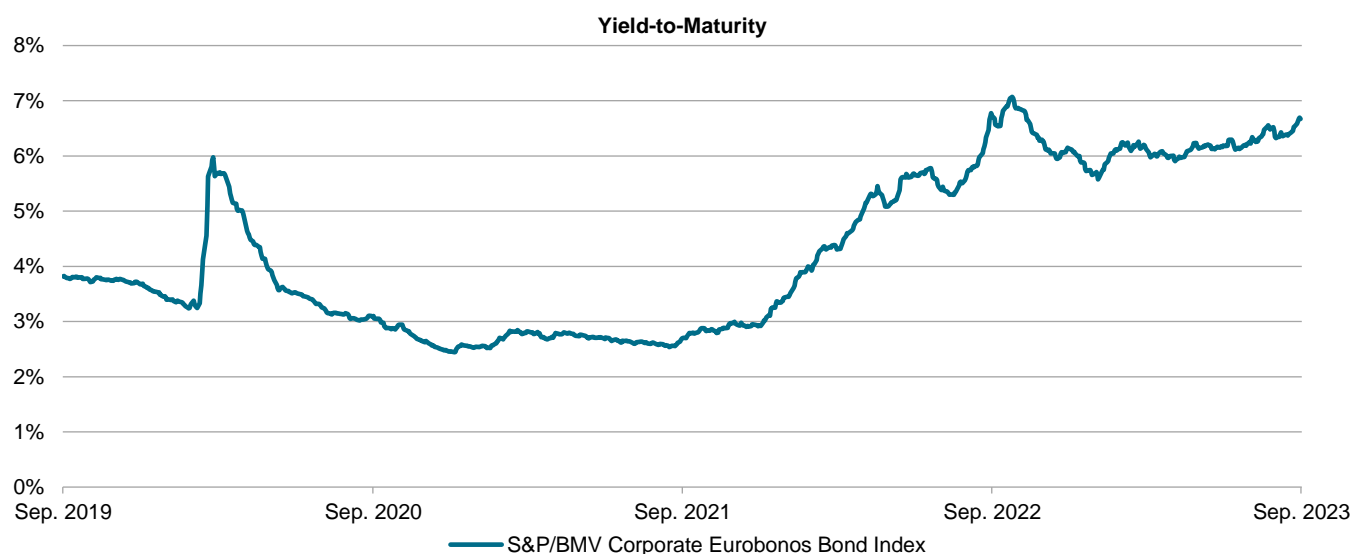
Eurobonds

Corporates

The [S&P/BMV Corporate Eurobonos Bond Index](#) was down 0.03% in Q3. The index posted a stark total return drop starting in January 2022. The S&P/BMV Corporate Eurobonos Bond Index measures the performance of corporate Mexican bonds issued in a currency other than MXN in the Eurobond market.

Exhibit 9: Performance and Analytics

Index Name	Performance (%)					Analytics						
	Q3	YTD	1-Year	5-Year	10-Year	Index Level	Number of Bonds	Market Value	Maturity	Coupon (%)	Yield (%)	Duration
S&P/BMV Corporate Eurobonos Bond Index	-0.03	-8.4	-6.4	-0.19	5.8	222.8	44	525.7	9.4	5.2	6.7	5.5



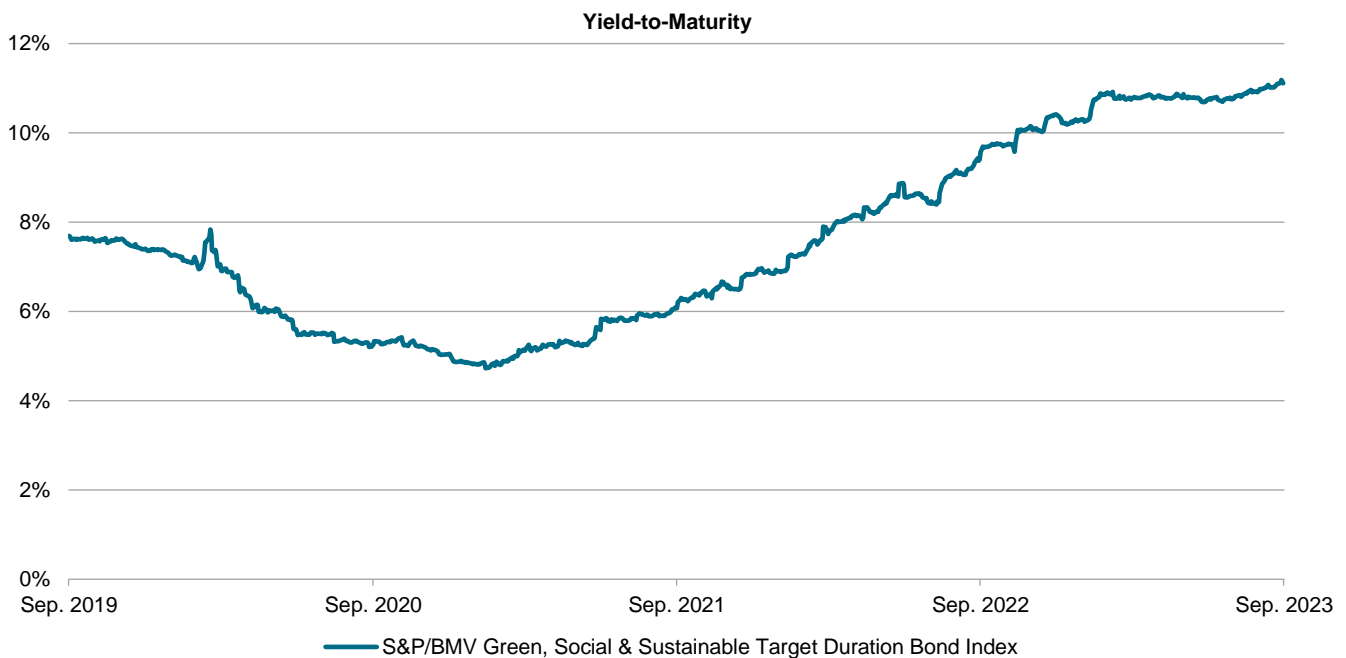
Source: S&P Dow Jones Indices LLC. Data as of Sept. 30, 2023. Index performance based on total return in MXN. Q3, YTD and 1-year returns are cumulative; 5- and 10-year returns are annualized. Market value shown in MXN billions. The S&P/BMV Corporate Eurobonos Bond Index was launched April 18, 2017. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart and table are provided for illustrative purposes and reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Sustainability

Launched in November 2022, the [S&P/BMV Green, Social & Sustainable Target Duration Bond Index](#) is the first of its kind in the Mexican fixed income market. The index covers approximately 58% of the GSS market and has a target duration of three years. In Q3, total return and yield were at 0.8% and 11.1%, respectively.

Exhibit 10: Performance and Analytics

Index Name	Performance (%)					Analytics						
	Q3	YTD	1-Year	5-Year	10-Year	Index Level	Number of Bonds	Market Value	Maturity	Coupon (%)	Yield (%)	Duration
S&P/BMV Green, Social & Sustainable Target Duration Bond Index	0.8	6.8	10.3	-	-	134.5	33	163.5	3.6	10.4	11.1	134.5



Source: S&P Dow Jones Indices LLC. Data as of Sept. 30, 2023. Index performance based on Total Return in MXN. Q3, YTD and 1-year returns are cumulative. Market value shown in MXN billions. The S&P/BMV Green, Social & Sustainable Target Duration Bond Index was launched Nov. 23, 2022. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart and table are provided for illustrative purposes and reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Performance Disclosure/Back-Tested Data

The S&P/BMV Green, Social & Sustainable Target Duration Bond Index was launched Nov. 23, 2022. The S&P/BMV Corporate Eurobonos Bond Index was launched April 18, 2017. The S&P/BMV All Sovereign Bond Index, S&P/BMV Sovereign MBONOS Index, S&P/BMV Quasi-Sovereign Bond Index, S&P/BMV Sovereign Floating Rate Bond Index, S&P/BMV Sovereign UDIBONOS Bond Index, S&P/BMV CEDEVIS Bond Index, S&P/BMV TFOVIS Bond Index, S&P/BMV Sovereign International UMS Bond Index, S&P/BMV Quasi-Sovereign Inflation-Linked Bond Index, S&P/BMV Corporate Bond Index and S&P/BMV Sovereign BONDES Bond Index were launched April 1, 2015. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance, and is based on the index methodology in effect on the index launch date. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. In addition, forks have not been factored into the back-test data with respect to the S&P Cryptocurrency Indices. For the S&P Cryptocurrency Top 5 & 10 Equal Weight Indices, the custody element of the methodology was not considered; the back-test history is based on the index constituents that meet the custody element as of the Launch Date. Complete index methodology details are available at www.spglobal.com/spdji. Back-tested performance reflects application of an index methodology and selection of index constituents with the benefit of hindsight and knowledge of factors that may have positively affected its performance, cannot account for all financial risk that may affect results and may be considered to reflect survivor/look ahead bias. Actual returns may differ significantly from, and be lower than, back-tested returns. Past performance is not an indication or guarantee of future results.

Please refer to the methodology for the Index for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations. Back-tested performance is for use with institutions only; not for use with retail investors.

S&P Dow Jones Indices defines various dates to assist our clients in providing transparency. The First Value Date is the first day for which there is a calculated value (either live or back-tested) for a given index. The Base Date is the date at which the index is set to a fixed value for calculation purposes. The Launch Date designates the date when the values of an index are first considered live: index values provided for any date or time period prior to the index's Launch Date are considered back-tested. S&P Dow Jones Indices defines the Launch Date as the date by which the values of an index are known to have been released to the public, for example via the company's public website or its data feed to external parties. For Dow Jones-branded indices introduced prior to May 31, 2013, the Launch Date (which prior to May 31, 2013, was termed "Date of introduction") is set at a date upon which no further changes were permitted to be made to the index methodology, but that may have been prior to the Index's public release date.

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Index returns shown do not represent the results of actual trading of investable assets/securities. S&P Dow Jones Indices maintains the index and calculates the index levels and performance shown or discussed but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the Index or investment funds that are intended to track the performance of the Index. The imposition of these fees and charges would cause actual and back-tested performance of the securities/fund to be lower than the Index performance shown. As a simple example, if an index returned 10% on a US \$100,000 investment for a 12-month period (or US \$10,000) and an actual asset-based fee of 1.5% was imposed at the end of the period on the investment plus accrued interest (or US \$1,650), the net return would be 8.35% (or US \$8,350) for the year. Over a three-year period, an annual 1.5% fee taken at year end with an assumed 10% return per year would result in a cumulative gross return of 33.10%, a total fee of US \$5,375, and a cumulative net return of 27.2% (or US \$27,200).

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