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Bonds Weekly

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U.S.-Iran agreement triggers broad price rally

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01 |
Our View

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Bond Market Movers – Review and Outlook

What drove the bond markets last week?

- The long-awaited U.S.-Iran agreement to reopen the Strait of Hormuz has gone into effect. This is intended to bring the war in Iran to a temporary end. A lasting solution, however, depends on the success of the upcoming round of negotiations, which will focus above all on Iran's nuclear program.
- At its first meeting under Kevin Warsh, the Fed once again left its target range for the federal funds rate unchanged at 3.50% to 3.75%. The new "dot plot" shows a sharply divided view on the future course of monetary policy. About half of the central bankers favor raising interest rates in the second half of the year.
- The Bank of Japan raised its key interest rate from 0.75% to 1.00% and reaffirmed its commitment to the continued gradual normalization of monetary policy. In the United Kingdom and Switzerland, however, key interest rates have remained unchanged once again.
- U.S. retail sales rose more than expected once again in May. This remains true even when excluding the volatile sales of cars and gasoline.
- British inflation remained stable in May, thus being tamer than expected.
- The latest auction of 20-year U.S. Treasury bonds saw clearly above-average demand.

What could drive the market next week?

- Barring any new bad news from the Middle East, financial market participants could now shift their focus back to other topics and macroeconomic data.
- The ECB is releasing its latest survey on consumers' inflation expectations.
- The most closely watched leading indicators for June from the eurozone – the HCOB Purchasing Managers' Indices and the ifo Business Climate Index – are set to be released. Is the easing of tensions in the Middle East already having a positive effect on sentiment?
- In the U.S., core PCE inflation is set to rise to its highest level since October 2023.
- In the primary market for U.S. Treasury bonds, the focus next week will be on short- to medium-term maturities. Meanwhile, activity in the primary market for euro-denominated government bonds may slow modestly compared with last week. We expect gross supply of just under 25 billion EUR, following well over 30 billion EUR the previous week. Reflows of a similar magnitude will temporarily create a certain balance in cash flows before net cash flows are likely to slip back deep into negative territory in early July.

U.S.-Iran agreement triggers broad price rally

Inflation concerns and speculation about ECB interest rate hikes have subsided

After a series of setbacks and disappointments, the opposing sides in the Iran War have finally come to an agreement: The relevant political forces in Tehran agreed last weekend to the framework agreement for ending the conflict, which U.S. President Trump had announced on several occasions. The way was apparently cleared after Israel's government, under intense pressure from Washington, agreed to refrain from further military strikes in Lebanon. The most important message for the global economy and financial markets: The Strait of Hormuz, which is of great importance for the transport of commodities, is to be made navigable again immediately and without restriction. The framework agreement holds out the prospect that the maritime transport route will regain its full prewar capacity within a month. Over the next two months, the U.S. and Iran plan to finalize the agreement as part of a new round of negotiations. Not least, this concerns the most important outstanding issue: the future of Iran's nuclear program. The sustainability of the recent step toward détente will therefore likely depend above all on whether a sufficient convergence of positions on the nuclear issue can be achieved. In our view, Israel's conduct in Lebanon remains another potential stumbling block. With parliamentary elections approaching, Prime Minister Netanyahu is under pressure to continue to show strength. This poses the risk of renewed military escalation, which could bring down the U.S.-Iran agreement. Finally, in our view, it remains to be seen how quickly the positive economic effects of the announced lifting of the Hormuz blockade will actually materialize. Initial difficulties, as well as a certain degree of caution on the part of shipowners and freight forwarders during the "transition phase" leading up to a final agreement, cannot be ruled out.

Hormuz Strait to be opened immediately

Iran's nuclear program remains the major sticking point

Oil price now only 10% above level from late February

Chart of the Week

Brent crude oil price (in USD/barrel) and global inflation (weighted, in %)

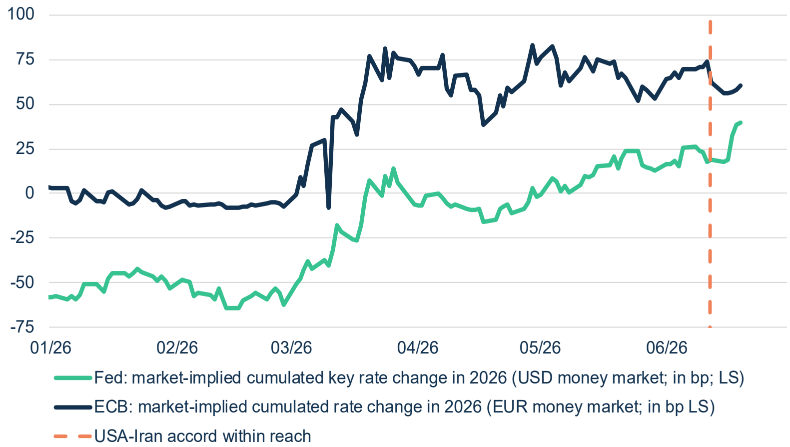
Source: Bloomberg, LBBW Research

Meanwhile, financial market participants seem to be largely brushing aside the arguments that cast doubt on the sustainability of the easing of tensions in the Middle East. The price of Brent crude oil approached its pre-war level by about 10 % (see chart above). Concerns linked to the energy price shock – namely, that global inflation will rise again on a sustained basis – have therefore clearly been subsiding (see also the article on page 13). As a result, market participants have scaled back their speculation regarding (further) interest rate hikes by the major central banks, particularly in Europe. On the euro interest rate market, the consensus – as reflected in money market forward rates – now tends to expect only one further hike by the ECB, after the central bank initiated an upward shift in its key interest rate a week ago. Also, turning to the UK, an unexpected stagnation in inflation in May led the rates market to push back the timeline for a potential tightening of the BoE's monetary policy.

Market consensus: Less need for tightening at the ECB and the BoE

Market consensus expects only one more ECB rate hike

Market expectations for cumulative changes in key interest rates in 2026 for the Fed and the ECB (in basis points)



Source: Bloomberg, LBBW Research

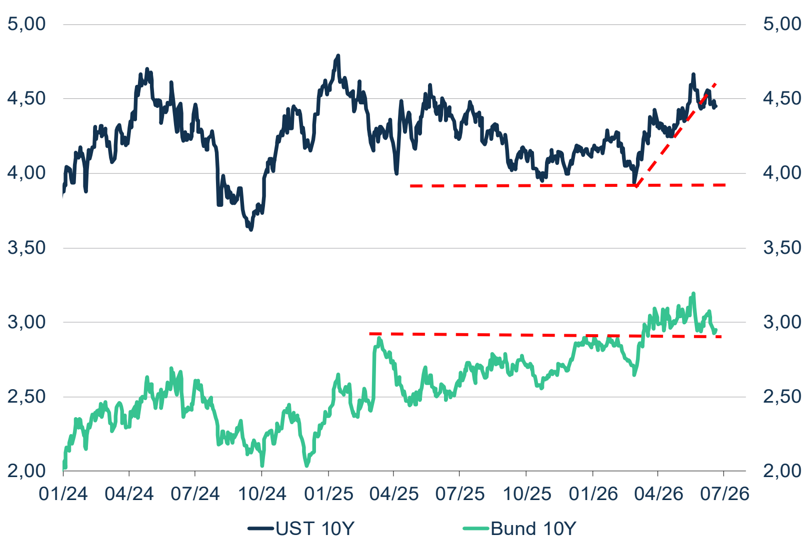
Declining volatility supports the upward trend in bond prices

On this basis, the EUR government bond market has seen a noticeable rise in prices this week. The yield on 10-year German government bonds fell well below 3% and hit its lowest level in a good two months. At around 2.90%, the EUR benchmark yield is hitting a major support area (see the chart below). A sustained break below that level would further fuel the build-up of bullish momentum in the bond market.

Bond markets get a boost

German government bond yields hit key support level

Yields on 10-year German government bonds and 10-year U.S. Treasuries



Source: Bloomberg, LBBW Research

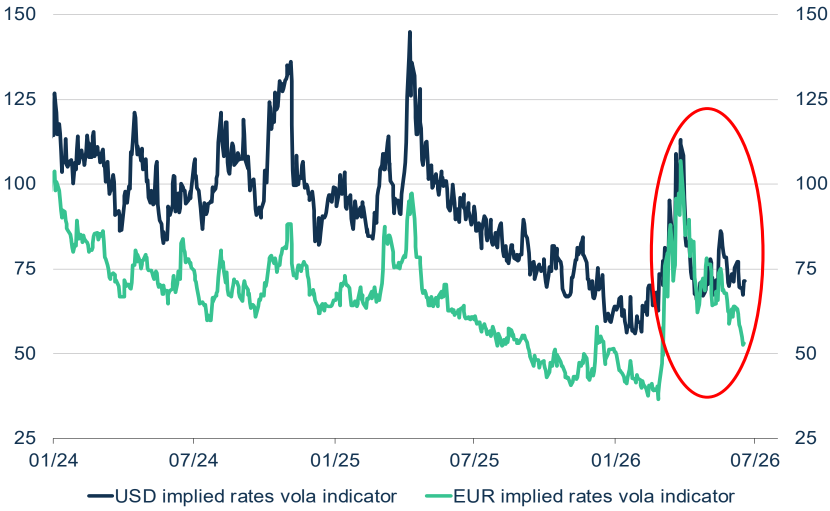
10-Year Bund yield hits two-month low

In our view, it is striking that the EUR yield curve has not steepened in response to the waning rate hiking speculation – quite the contrary. We view this as an indication that, given the easing of geopolitical uncertainty, market participants are generally regaining confidence in the performance of fixed-income investments. On both sides of the Atlantic, implied volatility in the rates markets is currently moving at only slightly elevated levels compared to the baseline prior to the Iran War (see the chart below). In our view, this suggests above all that investors' need for protection against a scenario of persistently higher interest rates has diminished significantly.

Yield curves flatter – Has falling vola been the driver?

Implied volatility is approaching prewar levels

LBBW indicators for implied volatility in the USD and EUR rates markets



Source: Bloomberg, LBBW Research

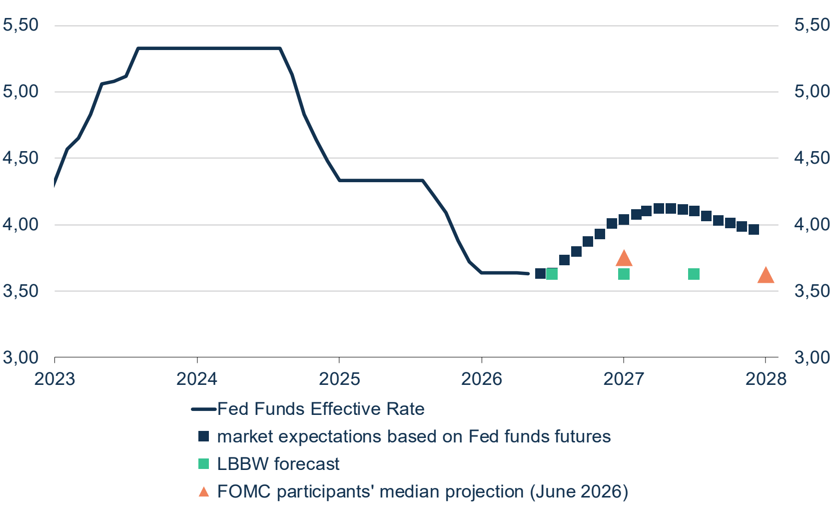
Under Warsh, the Fed keeps its course – rate projections make step toward a hike

U.S. bond market investors were more cautious than their European counterparts ahead of the highly anticipated first Fed meeting under Kevin Warsh. For the time being, U.S. monetary policymakers are sticking to the monetary policy course of the Powell era. However, the new key rate projections have counteracted the bond-friendly signals from the oil market. The result was a mixed performance: While short-term U.S. Treasuries came under downward pressure due to signals from the Fed, long-term Treasuries benefited from the positive global trend.

Fed is focusing on continuity for now, …

"Dot Plot" fuels rate hiking speculation

Fed Funds rate with market expectations and median Fed projections



Source: Bloomberg, LBBW Research

… but the "dot plot" opens the door to a rate hike

According to the "dot plot," Fed officials are roughly split down the middle on whether the next interest rate move should be up or down. According to the report, nine out of 19 central bankers are in favor of tightening monetary policy this year. The new Fed chair refrained from casting a dot, as he is known to have little regard for the use of projections. Kevin Warsh, however, emphasized with unexpected clarity that the central bankers were determined to put an end to the prolonged period of missing the inflation target.

U.S. bond market: tradeoff here to stay

With regard to the U.S. bond market, the tradeoff described above is likely to persist for the time being: On the one hand, given the Fed's "hawkish" signals, it is unlikely that investors will soon abandon their expectation of monetary tightening for the second half of the year. Especially since the latest U.S. retail sales figures for May underscored the robust state of the U.S. economy. On the other hand, the provisional resolution of the U.S.-Iran conflict is, for the time being, taking some of the wind out of the sails of the monetary policy hawks. If the easing of tensions in the Middle East persists, the likelihood will decrease that the Fed will follow the ECB's lead and begin raising its key interest rate in the coming months.

Looking at the remainder of this year, we do consider a Fed rate hike more likely than a cut. This assessment is consistent with the shifts in the Fed's "dot plot." Nevertheless, our main scenario is still that U.S. benchmark interest rates will remain unchanged for the next twelve months (see also our *Bonds in Focus* publication on the Fed, dated June 17, 2026; in German).

Outlook: Focus on leading indicators from the Eurozone

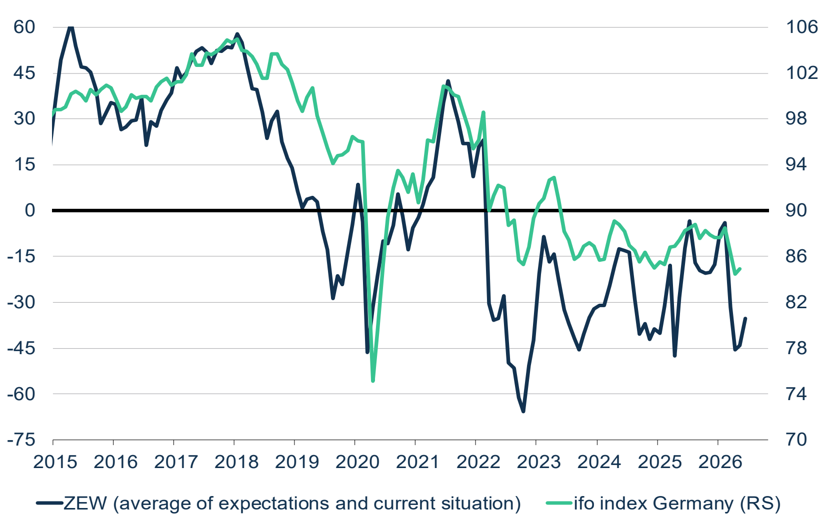
How reliable will peace in the Middle East be?

From a global perspective, the momentum triggered by the U.S.-Iran agreement is benefiting bond bulls in the short term. However, this positive mood is contingent on the widely celebrated easing of tensions in the Middle East not being marred by any new discord. Following the provisional resolution of the conflict, the situation has changed from a psychological perspective: Whereas hopes for a de-escalation have dominated so far, concerns about fresh setbacks in the peace process could soon take center stage. Last but not least, the U.S. president's erratic behavior is well known. If he is not satisfied with the progress of negotiations, it could at least trigger a new spiral of mutual threats, causing geopolitical risk premiums in the financial markets to rise again. Not to mention serious violations of the ceasefire.

ZEW indicator offers hope for another rise in the ifo Index

ifo index set for second consecutive improvement

Ifo Business Climate Index and the average from the ZEW Economic Survey



Source: Bloomberg, LBBW Research

From now on, the macroeconomic calendar is likely to once again become a greater focus for market participants. The focus for the coming trading week will be on the eurozone: With the ifo Business Climate Index (June 24) and the HCOB Purchasing Managers' Index (June 23) for

June, the most closely watched leading economic indicators are on the agenda. Assuming that the surveys will partially reflect the easing trends in the Gulf suggests, at the very least, that sentiment has bottomed out, if not that it has started to improv. Taken on its own, this should take some of the wind out of the bulls' sails on the euro bond market.

Forecasts at a Glance

Euro Area	Spot	30.09.26	31.12.26	30.06.27
ECB Main Refinancing Rate	2,40	2,65	2,90	2,90
ECB Deposit Rate	2,25	2,50	2,75	2,75
Overnight Rate (€STR)	2,18	2,45	2,70	2,70
3M Euribor	2,39	2,55	2,80	2,80
Swap 2Y	2,82	2,95	3,05	2,95
Swap 5Y	2,84	3,05	3,15	3,10
Swap 10Y	3,00	3,25	3,35	3,30
Bund 2Y	2,63	2,75	2,90	2,85
Bund 5Y	2,70	2,90	3,05	3,05
Bund 10Y	2,96	3,20	3,35	3,35
Swap/Bund 2Y	19	20	15	10
Swap/Bund 5Y	13	15	10	5
Swap/Bund 10Y	5	5	0	-5
Spread BBB Corporates/Bund	93	130	125	120

USA	Spot	30.09.26	31.12.26	30.06.27
Fed Funds Target Rate	3,75	3,75	3,75	3,75
Overnight Rate (SOFR)	3,63	3,65	3,65	3,65
3M Money Market	3,68	3,75	3,75	3,65
Swap 2J (SOFR-OIS)	4,05	3,90	3,90	3,65
Swap 5J (SOFR-OIS)	3,95	3,95	3,95	3,80
Swap 10J (SOFR-OIS)	4,05	4,20	4,25	4,10
Treasury 2Y	4,18	4,05	4,10	3,85
Treasury 5Y	4,23	4,25	4,30	4,15
Treasury 10Y	4,45	4,65	4,75	4,65

G5		Spot	30.09.26	31.12.26	30.06.27
Japan	*Overnight Rate (TONAR)*	0,98	1,05	1,05	1,30
Japan	*10Y Government Bond*	2,65	2,75	2,80	2,85
UK	*Overnight Rate (SONIA)*	3,73	3,95	4,20	4,20
UK	*10Y Government Bond*	4,76	5,00	5,15	5,00
Switzerland	*Overnight Rate (SARON)*	-0,04	-0,05	-0,05	-0,05
Switzerland	*10Y Government Bond*	0,35	0,50	0,55	0,55

FX	Spot	30.09.26	31.12.26	30.06.27
EURCHF	0,9232	0,92	0,93	0,94
EURCNY	7,7410	8,22	8,17	7,94
EURGBP	0,8670	0,85	0,85	0,85
EURJPY	184,52	187	186	182
EURUSD	1,1436	1,20	1,22	1,24
USDCHF	0,8073	0,77	0,76	0,76
USDCNY	6,7682	6,85	6,70	6,40
GBPUSD	1,3189	1,41	1,44	1,46
USDJPY	161,35	156	152	147

Economic Development		2024	2025	2026e	2027e
Germany	*GDP*	-0,5	0,4	0,3	0,8
	Inflation	2,3	2,2	3,0	2,5
Euro Area	*GDP*	0,9	1,5	0,8	1,0
	Inflation	2,4	2,1	3,0	2,5
UK	*GDP*	1,0	1,3	0,8	1,3
	Inflation	2,5	3,2	2,8	2,4
USA	*GDP*	2,8	2,1	2,2	1,6
	Inflation	3,0	2,7	3,8	2,2
Japan	*GDP*	-0,2	0,4	0,6	0,8
	Inflation	2,7	2,2	2,0	1,8
China	*GDP*	5,0	3,7	3,5	3,2
	Inflation	0,2	0,0	1,2	1,5
World	*GDP*	3,2	3,3	2,7	2,8
	Inflation	3,5	3,4	3,8	3,0

Changes to the foregoing week are marked by a (*)

Sources: LSEG, Bloomberg, LBBW Research

Main Events of the Past Week

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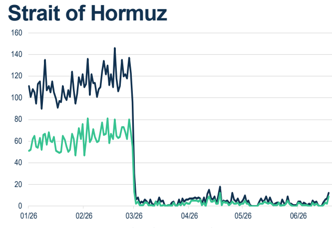
U.S. and Iran sign agreement

- *Middle East Conflict:* The U.S. and Iran have signed a preliminary agreement to end the war that has been ongoing for more than three months – the Strait of Hormuz is to be reopened immediately – key outstanding issues are to be resolved during a further 60-day negotiation phase – These include Iran's nuclear program, as well as sanctions relief and the release of frozen funds to Iran – Iran would receive certain concessions, such as in the trade of energy commodities, immediately – The ceasefire has been extended, including in Lebanon.
- *Middle East Conflict:* Meanwhile, according to media reports, the start of the new U.S.-Iran negotiations has been delayed because Iranian leaders are dissatisfied with Israel's ongoing military operations in Lebanon – U.S. Vice President Vance has explicitly warned the Israeli government against sabotaging the peace process.
- *Middle East Conflict – Energy Price Crisis:* Qatar has announced that it intends to rapidly ramp up natural gas production following a "safe" reopening of the Strait of Hormuz – according to the announcement, it could reach 80% of full capacity within two months.
- *Middle East Conflict – Energy Price Crisis:* According to Bloomberg data, the number of ships passing through the Strait of Hormuz on the first day after the signing of the U.S.-Iran agreement reached 12, the highest figure since mid-April – nine of which were tanker vessels.

Strait of Hormuz



Sources: Bloomberg, LBBW Research

- *Middle East Conflict – Energy Price Crisis:* Germany, France, the United Kingdom, and Italy have agreed to support the planned resumption of shipping in the Strait of Hormuz – European heads of government, however, are more skeptical than U.S. President Trump regarding remaining issues surrounding the reopening of the strait – Europeans also hold out the prospect of participating in the easing of sanctions against Iran – Chancellor Merz calls for the determined implementation of the U.S.-Iran agreement.
- *Middle East Conflict – Energy Price Crisis:* Bundesbank President Nagel warns against excessive hopes for a rapid easing of inflation – even after the Strait of Hormuz reopens, it could still take months for oil supplies to return to normal – Price pressures in the economy could rise again if measures to curb energy prices were to expire – Nagel does not rule out further ECB interest rate hikes.

G7 countries surprisingly united on Ukraine

- *Geopolitics:* G7 heads of state and government agree to tighten sanctions against Russia – particular focus on the oil and gas sectors – prospects for additional arms deliveries to Ukraine, especially for air defense – U.S. President Trump calls on Russian President Putin to engage in peace negotiations with Ukraine.
- *Geopolitics – Dependence on Raw Materials:* G7 countries plan to set caps on imports of certain commodities to reduce dependence on individual suppliers – Initial limits of 60% are planned for individual countries, which could later be lowered to 50% – The measure appears to be aimed primarily at reducing dependence on China.
- *Geopolitics:* The EU has officially opened accession negotiations with Ukraine and Moldova – start of the first round of accession talks is "recognition of the determination both countries have shown in implementing reforms," according to the European Commission.

- *Monetary Policy – ECB:* Several ECB officials have expressed concern that the negotiated Iran peace agreement is not sufficient to curb inflationary risks – economic damage that has already been done could further fuel price pressures – door left explicitly open for further monetary tightening.
- *Monetary Policy – Fed:* The U.S. Federal Reserve leaves its target range for the federal funds rate unchanged for the fourth consecutive time at 3.50% to 3.75% - updated interest rate projections paint a highly divided picture regarding the future course of monetary policy – Nine of 18 policymakers favor raising interest rates in the second half of 2026, while Fed Chair Warsh refrains from providing his own dot – Inflation projection for 2026 raised sharply, growth projection lowered slightly – Warsh pledges to fix the problem of persistent overshoots of the inflation target – an announced "reform agenda" is to be developed by five "task forces" covering different areas by the end of 2026.

Fed: Are the hawks about to gain the upper hand?

- *Monetary Policy – United Kingdom:* As expected, the BoE leaves its base rate unchanged at 3.75% for the fourth consecutive time – two of the nine MPC members deviated from the consensus by voting for a 25 -basis-point rate hike, marking one more "hawkish" vote than at the end of April – The BoE reiterates its readiness to act against inflation – upward pressure on prices remains in the pipeline despite the agreement in the Middle East conflict, they say.
- *Monetary Policy – Japan:* As expected, the BoJ raises its key interest rate by 25 basis points to 1.00% – highest rate in 31 years – central bank officials signal a continuation of gradual monetary tightening, provided their economic and inflation outlook holds true – The BoJ announces a constant volume of bond purchases for the period from April 2027.

BoJ raises key rate; BoE and SNB hold steady

- *Monetary Policy – Switzerland:* As expected, the SNB leaves its key interest rate unchanged at 0% – current monetary policy remains appropriate – Inflation projections raised slightly – central bank officials reaffirm their willingness to intervene in the foreign exchange market, but downplay the urgency of such action in their statement.
- *Germany – Economy:* The ZEW Economic Sentiment Index improved unexpectedly sharply in June, rising from -10.2 to +10.5 points – highest level since February – while the assessment of the current situation fell from -77.8 to -81.0 points.
- *Germany – Economy:* The Bundesbank expects that, in light of the war in Iran, the economic recovery in Germany will gain momentum more slowly than previously thought – energy prices are having the largest impact on consumer spending – however, the recovery is likely to take hold in the medium term, as higher government spending will outweigh the impact of the war in Iran – The Bundesbank forecasts GDP growth rates of 0.5% for 2026, 0.8% for 2027, and 1.4% for 2028.
- *Germany – Growth Potential:* According to a recent study, the Bundesbank expects demographics to increasingly weigh on German GDP growth – Dampening effect over the past ten years estimated at 0.4% points of annual GDP – Demographic burden is expected to rise to 0.6% points in the near future – The Bundesbank reiterates its call for higher labor force participation, including by increasing the number of hours worked by part-time employees.

Bundesbank: Demographics are dampening growth potential

- *Germany – Bankruptcies:* According to destatis, the number of corporate bankruptcies rose significantly in the first quarter, by 6.5 % compared to the same quarter of the previous year – particularly sharp upward trend in March – "Transportation and Warehousing" sector was hardest hit, followed by the hospitality industry – however, the total amount of affected claims declined, as the number of large-scale insolvencies was lower than in the previous year.

- *Germany – Right-wing populism:* KfW CEO Wintels warns, in light of the AfD's rising poll numbers, that growing extremism could deter international investors – a potential AfD-led government following the state election in Saxony-Anhalt in September appears to be the reason for the warning.
- *U.S. – Economy:* Retail sales once again exceeded expectations in May, rising by 0.9% (M/M), following a 0.4% increase in April – the trend excluding volatile auto and gasoline sales also surprised on the upside with a 0.5% increase.
- *United States – Labor Market:* Weekly ADP data show a slight slowdown in job growth – average increase of 25,500 jobs in the four-week period ending May 30, down from 29,000 in the previous period.
- *U.S. – Economy:* According to a University of Michigan survey, consumer confidence improved more than expected in June, rising from 44.8 to 48.9 points – both current conditions and expectations showed improvement – Inflation concerns have eased somewhat, with long-term inflation expectations falling from 3.9% to 3.4%.
- *U.S. – Economy:* Empire Manufacturing Index fell sharply in June, from 19.6 to 5.7 points – Philadelphia Fed Index, meanwhile, climbed from -0.4 to +10.3 points.
- *United Kingdom – Inflation:* Price pressure remained flat in May at a rate of 2.8% (Y/Y), thus falling short of expectations – core rate rose due to a "rebound" in services inflation, from 2.5% to 2.6%.
- *China – Economy:* Industrial production rose by 4.5% (Y/Y) in May, a slightly stronger increase than in the previous month (+4.1%) – Meanwhile, retail sales soured once again, falling by 0.6 % (Y/Y), following a 0.2 % increase in April – first decline since December 2022.
- *Switzerland – Referendum on Migration:* Swiss citizens have rejected an initiative to limit the country's resident population to 10 million by the year 2050 – about 55 % of voters cast their ballots against the initiative, which was proposed by the right-wing populist SVP.
- *UK – Government Crisis:* Labor politician Andy Burnham wins a special election for a House of Commons seat in northern England – electoral victory now allows the popular politician from Labor's left wing to directly challenge Prime Minister Starmer for the leadership of the Labor Party and the position of head of government.
- *AI:* ECB President Lagarde calls AI a major risk to financial stability – potential for dangerous financial crises – Lagarde calls for a form of "global governance" for AI.

U.S. retail sales exceed expectations

UK inflation stagnates

Swiss reject migration cap

Next Week's Data

TIME	COUNTRY		PERIOD	LBBW FORECAST	CONSENSUS FORECAST[1)]	LAST VALUE[2)]	IMPORTANCE
MONDAY, 22.06.2026							
14:30	EMU	ECB President Lagarde speaks before EU Parliament					***
16:00	EMU	Consumer Confidence (prelim.)	Jun	-18,0	-16,0	-19,0	*
TUESDAY, 23.06.2026							
09:30	GE	PMI Manufacturing (prelim.)	Jun	50,5	50,3	50,1	***
09:30	GE	PMI Services (prelim.)	Jun	48,0	49,0	48,1	***
10:00	EMU	PMI Manufacturing (prelim.)	Jun	51,5	51,5	51,6	***
10:00	EMU	PMI Services (prelim.)	Jun	48,0	49,3	47,7	***
10:00	EMU	PMI Composite (prelim.)	Jun	48,5	-	48,5	***
	GE	Retail Sales (M/M, sa)	May	0,2	-	0,0	*
WEDNESDAY, 24.06.2026							
10:00	GE	ifo Business Climate Germany	Jun	85,2	85,5	84,9	***
10:00	GE	ifo Expectations	Jun	84,5	84,5	83,8	***
10:00	GE	ifo Current Conditions	Jun	86,0	86,3	86,1	***
14:30	USA	Current Account Balance (bn USD)	Q1	-	-227,0	-190,8	*
16:00	USA	New Home Sales (thous.)	May	-	640	622	**
THURSDAY, 25.06.2026							
08:00	GE	GfK Consumer Confidence	Jul	-28,0	-26,5	-29,8	**
12:00	EMU	ECB Chief Economist Lane speaks					**
14:30	USA	Durable Goods Orders (M/M) (prelim.)	May	-3,5	-4,7	8,0	***
14:30	USA	GDP (Q/Q, annualized) (final)	Q1	-	1,7	1,6	*
14:30	USA	PCE Core (Y/Y)	May	3,4	3,4	3,3	***
14:30	USA	Personal Income (M/M)	May	0,4	0,4	0,0	**
14:30	USA	Personal Spending (M/M)	May	0,5	0,6	0,5	**
21:40	USA	FOMC Vice Chairman Williams speaks					**
FRIDAY, 26.06.2026							
10:00	EMU	ECB publishes Survey on Consumers' Inflation Expectations (1 Year, 3 Years)					***
15:45	EMU	ECB Council Member Schnabel speaks					***
16:00	USA	Uni Michigan Consumer Confidence (final)	Jun	-	50,0	48,9	**

1) Consensus forecast according to Bloomberg/Reuters

2) Should a provisional estimate be available, it is stated instead of the reference figure of the previous period

Sources: Bloomberg, LBBW Research

02 I
Rates

Linkers: Waiting for the second-round effects

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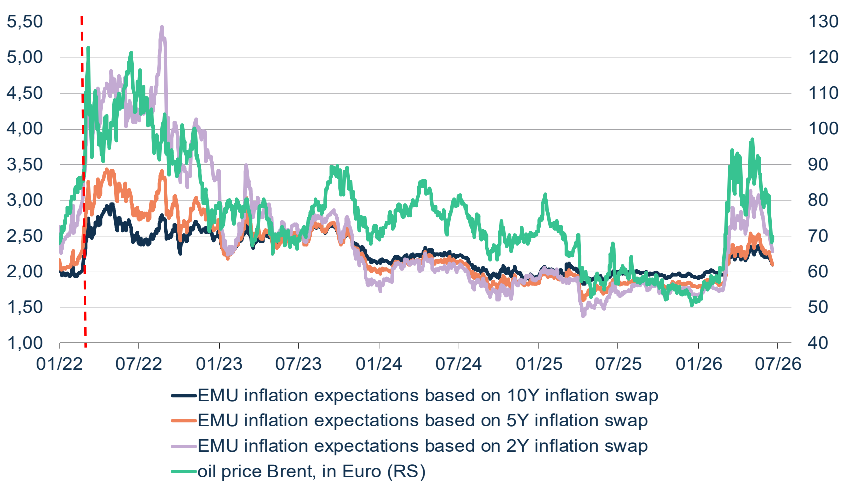
Outperformance has dwindled

YTD: linkers still ahead by 2%-points

Inflation-protected euro-denominated government bonds have shown relatively stable performance since the outbreak of the Iran conflict, which has now been preliminarily resolved. Price fluctuations were noticeably smaller in both directions than for comparable conventional government bonds. However, this proved to be a disadvantage for investors in linkers amid the recent overriding rally in the bond market. On a year-to-date basis, their outperformance has therefore declined somewhat, though linkers still maintain a significant lead: Based on the iBoxx Euro Sovereign inflation-linked Index, linkers have posted a return of 2.9% since the start of 2026, compared with +0.9% for the government bond market as a whole.

Inflation expectations ease as oil prices fall

EUR inflation swap rates for selected maturities and the Brent crude oil price (in EUR/barrel)



Source: Bloomberg, LBBW Research

Inflation expectations fall to a three-month low

Market-based inflation expectations have shifted noticeably downward across all maturities since the end of May. A significant portion of the sharp upward surge caused by the outbreak of the Iran War has thus been corrected. The reversal had the greatest impact on short-term expectations. The inversion of break-even inflation curves (BEI curves) triggered by the "Iran shock" has since subsided significantly. The 10-year EUR inflation swap rate recently slipped to 2.1%. This is the lowest level since the first half of March, just about 15 basis points above the pre-war level. Meanwhile, long-term forward inflation expectations remained stable at around 2.1%.

10-year inflation swap rate: approaching the 2% mark

Relief in the Gulf outweighs higher inflation

In our view, the reaction of inflation expectations to recent geopolitical events can be explained by what appears to be an almost mechanical link to trends in energy prices. The price of Brent crude has now largely reversed the war-driven spikes seen in March and May. In our view, the

ECB's recent decision to demonstrate its resolve in combating inflationary risks by raising interest rates is also likely to have helped dampen market-based inflation expectations.

Falling oil prices and a "hawkish" ECB are acting as a drag

Given the points mentioned above, investors reacted calmly to the news that inflation in the eurozone climbed to 3.2% in May, its highest level since September 2023. A simultaneous rise in the core rate also did not cause any concern.

The persistence of inflation now moves into focus of attention

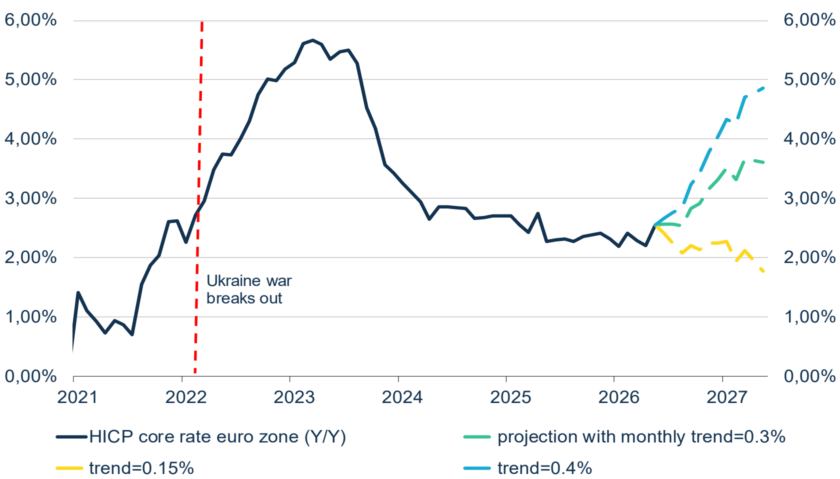
How resilient will the Hormus relief be?

However, in our view, the widespread sense of relief among market participants raises several questions. First, there is a risk that the situation in the Strait of Hormuz will return to normal more slowly than hoped. Second, it remains unclear to what extent the price structure in the European economy has already begun to shift as a result of the price shock that has lasted for several months. The core rate rose slightly more than generally expected in May. This could, however, be the result of temporary seasonal distortions. According to the chart below, the core rate is set to stagnate or even decline moderately again over the summer. Such a move would reinforce the recent easing of inflation concerns in the euro bond market and tend to weigh on the prices of inflation-protected bonds. This is particularly true given that headline inflation is likely to dip in June due to negative base effects and the recent drop in oil prices

Core inflation could move sideways for the time being

EMU core inflation (Y/Y) and projections based on different monthly trend rates

EMU core inflation rate: Jump from May only an outlier?



Source: Bloomberg, LBBW Research

Inflation risk premiums are quite moderate

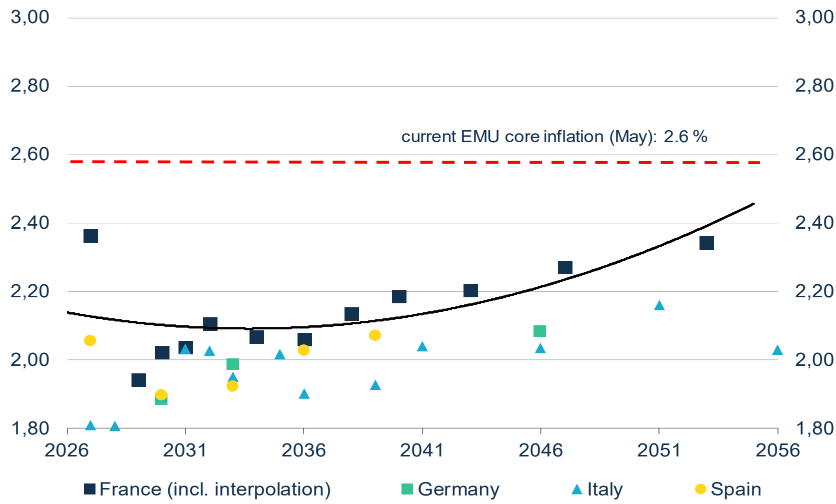
On the other hand, however, the recent sharp downward correction in the BEI has opened up upside valuation potential in the bond market once again. That is, assuming the rise in the core rate reported for May was not an outlier. As can be seen in the following chart, BEI rates for maturities between two and ten years have now moved back close to the 2% mark. The linker market is therefore pricing in only very moderate risk premiums for the scenario of persistently high inflation. Given this situation, a continued rise in the core rate over the coming months would suggest that risk premiums will climb again. The latter would usher in another period of relative strength for inflation-protected bonds.

Linkers' risks are balanced

In the medium term, our assessment of the balance between opportunities and risks for inflation-protected government bonds has shifted slightly in a positive direction. Overall, we believe that the opportunities and risks remain balanced. However, as a hedge against the adverse scenario of a prolonged period of inflation, linkers have once again become more attractive.

BEI curves: Inversion has decreased significantly

Break-even inflation curve for linkers tied to the EMU HICP



Source: Bloomberg, LBBW Research

BEI curves: Fully back below core inflation

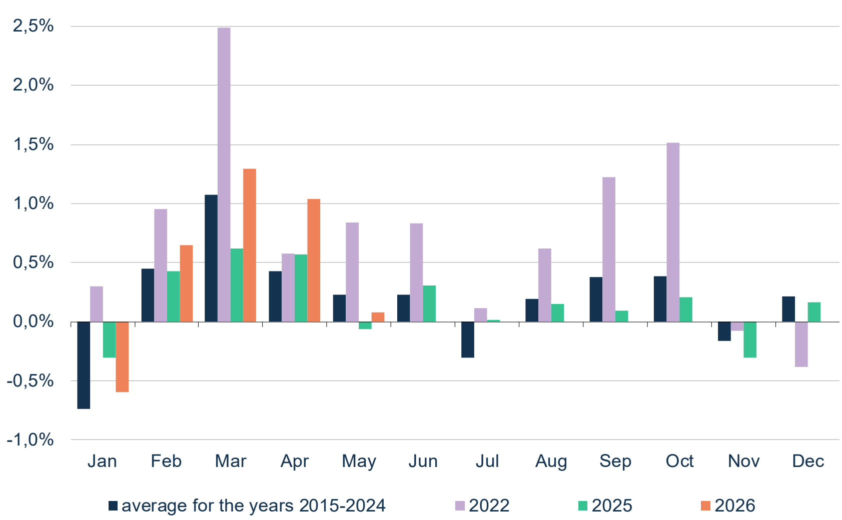
Carry: Headwinds starting in July

In the short term, however, it seems reasonable to assume that inflation-protected government bonds will face a rather challenging environment, unless the conflict in the Middle East escalates once again. We base this assessment on the fact that, after several months of favorable conditions, the carry will begin to weigh on performance this summer. The traditional "positive carry season" comes to an end in June. Next month, the tide will turn: The HICP for the euro area only rose by just under 0.1% month-over-month in the reference month of May 2026, following a 1.0% increase in April. This implies a slightly negative carry for the coming month.

Change in the EMU HICP in May: +0.1% MoM

Significant seasonal fluctuations in the HICP

Seasonal Patterns of the EMU HICP Excluding Tobacco (Month-over-Month Rates)



Source: Bloomberg, LBBW Research

Carry in July near zero

Since energy prices are likely to have a dampening effect on inflation in June, we expect a neutral to moderately negative carry contribution for August as well.

For an overview of currently outstanding inflation-protected EUR government bonds, please see our publication *Bonds in Focus* on the linker market as of June 16, 2026 (in German). The primary market for EUR linkers will have seen its second new issue of the year when the current week draws to a close – and this latest issue is once again coming from Italy: The Southern European country is placing a government bond linked to the national inflation rate (BTP Italia). From France, meanwhile, we expect a new OAT€i to be issued during the summer quarter.

Italy issues its second new linker this year

03 I

Credit Strategy

Corporates in calm waters

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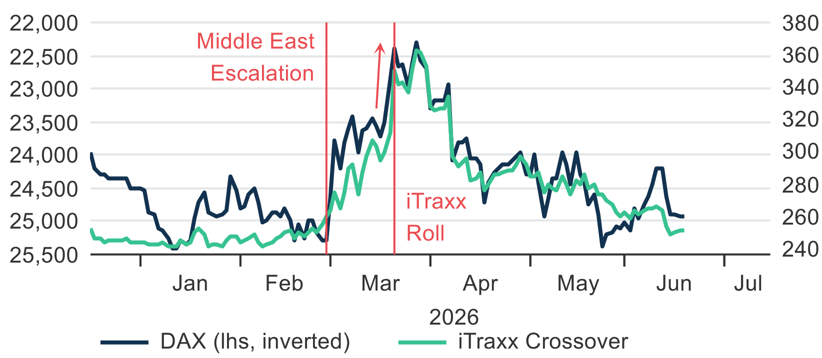
Spreads at very low levels

Risk premiums on European corporate bonds continued to fall this month, tracking the rise in share indices. In the wake of signs of détente from the Middle East, a further decline was noticeable. Excluding the roll effect in March, the iTraxx has thus been back at the level seen before the escalation in the Gulf region for some time now. Despite the tense economic and geopolitical situation, positive signals have recently predominated on the markets.

iTraxx back down to a very low level

Risk premiums remain low
iTraxx Crossover versus the DAX (inverted)

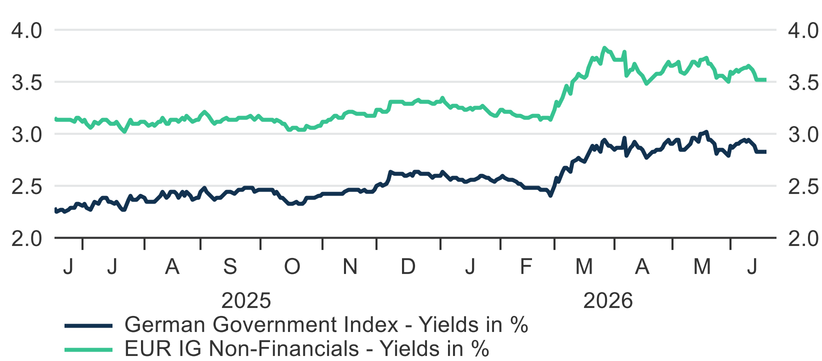


Source: LSEG, LBBW Research

The spreads between IG bonds and German government bonds have remained relatively stable in recent months. The narrowing of HY spreads was not possible to the same extent for the IG segment, as the current level left little room for further decline. The escalation of the Middle East conflict and the more expansionary fiscal policy had caused yields on German government bonds to rise significantly this year and had also put upward pressure on corporate bond yields. In the medium term, we continue to expect spreads to widen slightly.

German government bond yields remain high

Corporate bond yields remain at elevated levels
German Government Bond Index versus EUR Non-Financial Bond Yields (in %)



Source: LSEG, LBBW Research

IG yields track government bond yields

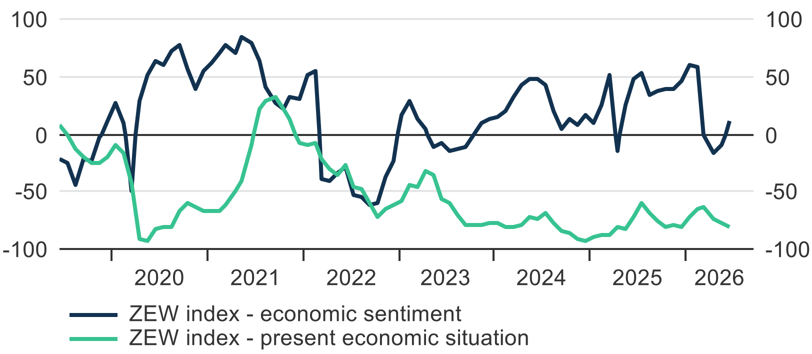
Sentiment indicators are pointing upwards again

Once again, the results of the ZEW survey in June were mixed. Whilst financial market experts were once again more optimistic about the economic outlook (+20.7 points month-on-month to 10.5 points), the current conditions indicator fell further to a low of -81 points. The picture emerging from the German sentiment indicators can also be applied to the economy as a whole: Whilst hopes of a medium-term recovery have not yet been entirely abandoned, the hard data over the past few months has been less than convincing.

Hope is growing, but the situation remains tense

ZEW Index rises despite the weak economic situation

ZEW Index: Current Conditions versus Expectations



Source: LSEG, LBBW Research

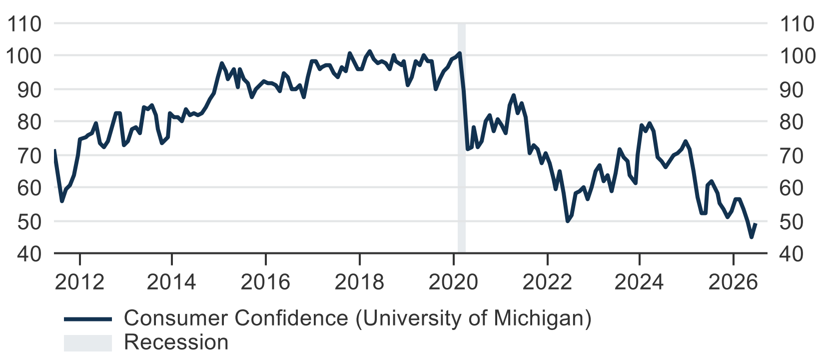
Expectations are positive

In the US, too, the mood remains tense – at least amongst consumers. The University of Michigan's consumer confidence index did rise by 4.1 points in June. However, this means that the current level remains in historically low territory. The (provisional) agreement between the US and Iran is likely to bring a sense of relief, following which oil prices have already fallen significantly in recent days.

Michigan Index rises again

US consumers remain unsettled

Michigan Consumer Confidence, USA



Source: LSEG, LBBW Research

Level remains low

CONCLUSION – Uncertainty amid robust markets

Despite the euphoria on the markets, with low spreads and low volatility, we believe that many risks remain. The Fed does not appear to be planning any further interest rate cuts at present, which is likely to result in upward pressure on yields here as well. We continue to believe that the market has already priced in many positive future developments, which could lead to market distortions should these fail to materialise.

Risks remain

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Credit Outlook H2 2026

This week we published our half-yearly outlook on the corporate bond market: “Corporate bonds remain in demand”.

In our publication, which is available on the Markets Portal, you will find numerous charts and explanations of our assessments. Here is a brief summary.

Publication available on the Markets Portal

Fundamentals

Despite the war with Iran, the earnings performance of European companies was largely positive in Q1 2026. Gross financial debt declined in Q1 as a result of a reduction in cash holdings. The current preliminary agreement (between the U.S. and Iran) offers hope for peace.

Interest rate environment and yields

Yields have risen

German government bond yields have risen in the wake of the war in Iran, pushing up corporate bond yields as well. The market has already priced in the ECB's recent shift in key interest rates, with a sharper rise for shorter-term rates. Historically speaking (especially over the past 10 years), corporate bonds currently offer relatively high yields to maturity.

Spreads

Low spreads

The Iran shock was followed by a surprisingly rapid and strong recovery – similar to the stock markets. Spreads are currently at the same level as at the beginning of the year. The spreads relative to the yields on German government bonds, which have risen again, are actually at a 15-year low. We therefore see risks of widening spreads – particularly in the high-yield segment.

New issues

New issues on track for record

The market environment remained surprisingly resilient even after the war with Iran began. Amazon completed a record-breaking transaction, and May even saw the fourth-highest monthly new issue volume in the history of EUR corporate bonds. 2026 is on track to set a new record volume (+9% YTD), driven primarily by U.S. corporate bonds (including AI-related refinancing) and hybrid bonds.

Performance & Recommendations

IG corporate bonds relatively attractive

In our view, the current yield levels on corporate bonds continue to offer a solid safety buffer. Even with a slight rise in government bond yields and spreads, they can still generate a positive total return. We continue to see a favorable risk-reward profile, particularly for corporate bonds with investment-grade ratings.

04 I

Calendar/Analytics

Developed Markets Overview

	2 Years			10 Years		
Euro Area	**Yields**	**Spread**	**Change***	**Yields**	**Spread**	**Change***
Bund	2,63			2,95		
Jumbo	2,84	22	-4	3,31	36	-3
Swap	2,82	19	0	3,00	5	1
Netherlands	2,64	1	1	3,07	12	0
Austria	2,69	6	1	3,21	25	1
France	2,79	16	-1	3,71	75	0
Belgium	2,68	5	-1	3,50	55	0
Italy	2,78	15	-1	3,66	71	-2
Spain	2,70	7	0	3,43	47	5
Ireland	n.a.	n.a.	n.a.	3,14	18	1
Portugal	2,60	-3	-1	3,32	36	0
Greece	n.a.	n.a.	n.a.	3,62	67	-1
EX. EURO AREA	**Yields**	**Spread**	**Change***	**Yields**	**Spread**	**Change***
USA	4,18	155	9	4,45	150	2
Canada	2,78	15	1	3,37	42	2
Japan	1,41	-122	-1	2,65	-30	7
UK	4,19	156	-6	4,76	181	-4
Switzerland	0,07	-256	-3	0,35	-260	-3

* Weekly change of the spread w.r.t. Bund w/w

Sources: Bloomberg, LBBW Research

Issuing Calendar Government Bonds

Date	Country	Type	Maturity	Coupon	Size	Comment
23.06.2026	Japan	JGB	5Y		JPY 2.5 tn.	
23.06.2026	Germany	Schatz	06/28	2.50%	€ 5 bn.	Tap
23.06.2026	Netherlands	NETHER	01/56	3,50%	€ 2 bn.	Tap
23.06.2026	USA	T-Note	06/28		USD 69 bn.	New
24.06.2026	Germany	Bund	15Y/20Y		€ 2 bn.	Tap
24.06.2026	Italy	Short BTP	02/28	2.20%	€ 3 bn.	Tap
24.06.2026	Italy	BTP I/L			€ 2 bn.	Tap
24.06.2026	UK	UKT	5Y		GBP 4.25 bn.	Tap
24.06.2026	USA	T-Note	06/31		USD 70 bn.	New
24.06.2026	USA	FRN	04/28	Float	USD 28 bn.	Tap
25.06.2026	Japan	JGB	20Y		JPY 800 bn.	
25.06.2026	USA	T-Note	06/33		USD 44 bn.	New
26.06.2026	Italy	BTP	07/36	3.80%	€ 3.5 bn.	Tap
26.06.2026	Italy	BTP	06/31	3.15%	€ 3.5 bn.	Tap
26.06.2026	Italy	CCT	04/36	Float	€ 2 bn.	Tap

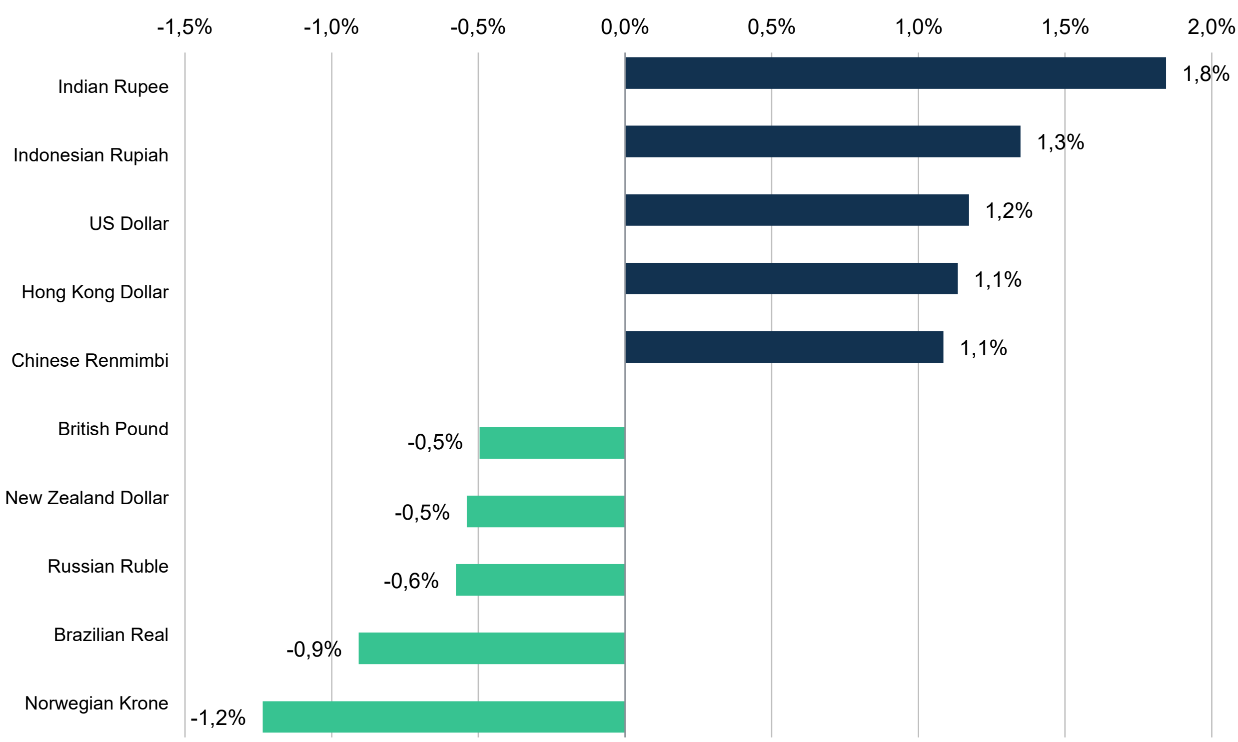
Sources: Bloomberg, LBBW Research

Central Banks and FX Monitor

Country	Next meeting	Current key rate	Latest change	Previous key rate	CPI YoY	6M trend	6M FX change ag. EUR	EUR-FX	6M EUR-FX Forward
Euro Area	23.07.26	2,25%	11.06.26	2,00%	3,2%	↗			
United States	29.07.26	3,75%	10.12.25	4,00%	4,2%	↑	2,1%	1,1459	1,1546
United Kingdom	30.07.26	3,75%	18.12.25	4,00%	2,8%	↘	1,0%	0,8668	0,8734
Japan	31.07.26	1,00%	16.06.26	0,75%	1,5%	↓	0,0%	184,81	183,44
China	***	2,00%	25.09.24	2,30%	1,2%	↗	6,4%	7,76	7,70
Switzerland	24.09.26	0,00%	19.06.25	0,25%	0,6%	↑	0,8%	0,9238	0,9121
Argentina	***	29,00%	31.01.25	32,00%	33,1%	↘	2,2%	1.662,85	1.871,10
Australia	11.08.26	4,35%	05.05.26	4,10%	3,2%	↗	8,5%	1,63	1,65
Brazil	05.08.26	14,25%	17.06.26	14,50%	4,7%	·	9,4%	5,92	6,22
Canada	15.07.26	2,25%	29.10.25	2,50%	2,8%	↗	-0,2%	1,62	1,62
Czech Republic	06.08.26	3,75%	18.06.26	3,50%	2,1%	·	0,4%	24,22	24,36
Denmark	***	2,00%	12.06.26	1,75%	1,9%	↘	0,0%	7,47	7,46
Hong Kong	***	4,00%	08.11.24	4,25%	1,7%	↗	1,4%	8,98	9,00
Hungary	23.06.26	6,25%	24.02.26	6,50%	1,8%	↓	9,5%	353,19	357,97
India	05.08.26	5,25%	06.02.25	5,50%	3,9%	↑	-3,4%	108,27	110,85
Indonesia	22.07.26	5,75%	18.06.26	5,50%	3,1%	↗	-3,9%	20.407,51	20.845,33
Mexico	25.06.26	6,50%	07.05.26	6,75%	3,9%	·	6,2%	19,87	20,33
New Zealand	08.07.26	2,25%	26.11.25	2,50%	3,1%	·	1,9%	2,00	2,00
Norway	13.08.26	4,25%	07.05.26	4,00%	3,1%	·	6,7%	11,13	11,25
Poland	08.07.26	3,75%	04.03.26	4,00%	3,1%	·	-1,2%	4,26	4,29
Romania	08.07.26	6,50%	07.08.24	6,75%	10,9%	↗	-2,9%	5,24	5,33
Russia	19.06.26	14,50%	24.04.26	15,00%	5,3%	↘	12,1%	84,05	89,86
Singapore	***	1,64%	n.a.	1,61%	1,8%	↗	2,3%	1,48	1,47
South Africa	23.07.26	7,00%	28.05.26	6,75%	4,5%	↑	4,1%	18,86	19,28
South Korea	16.07.26	2,50%	29.05.25	2,75%	3,1%	↗	-1,1%	1.751,10	1.755,83
Sweden	20.08.26	1,75%	23.09.25	2,00%	0,8%	↗	-1,2%	10,98	10,95
Turkey	23.07.26	37,00%	22.01.26	38,00%	32,6%	·	-5,9%	53,26	62,55

Sources: Bloomberg, LBBW Research

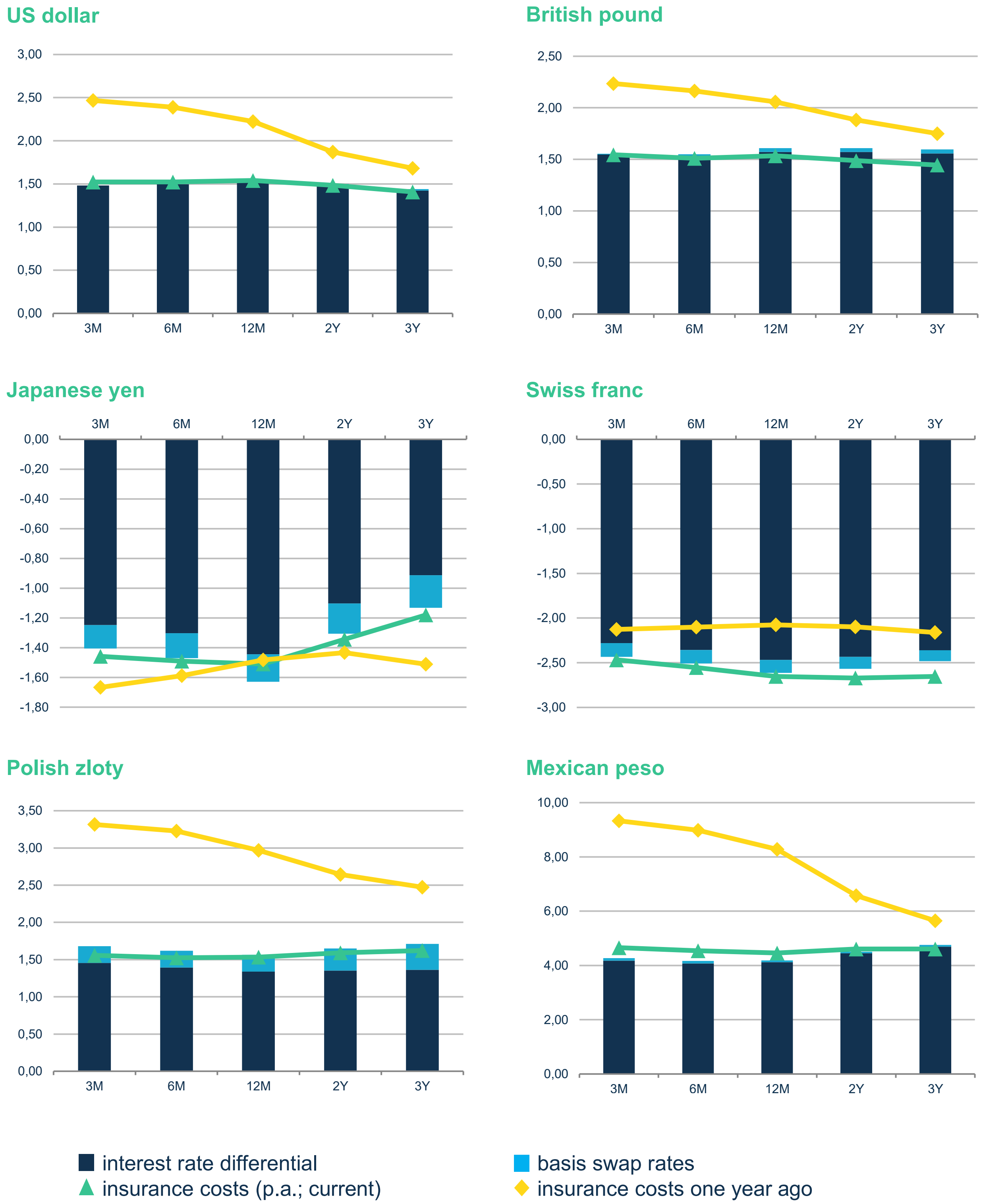
The Strongest Currency Appreciations and Depreciations Against the Euro This Week



Sources: Bloomberg, LBBW, Research

Interest rate differential and FX insurance costs vs. the Euro for selected currencies

interest rate differential, basis swap rates and insurance costs



Sources: Bloomberg, LBBW Research

Credit Spreads

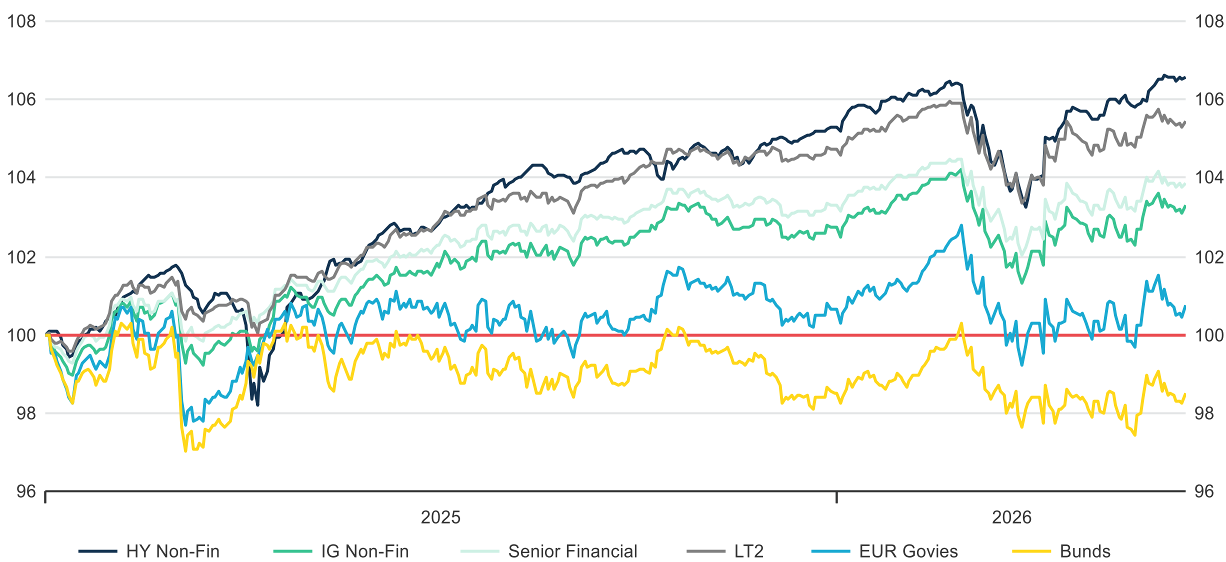
5Y CDS Spreads	Current	Changes 1W	1M	3M	6M	1Y
IG Corporates	54	0	-4	-9	2	-2
HY & NR Corporates	264	0	-20	-33	13	-29
Senior Financials	57	0	-4	-10	1	-6
Sub Financials	93	1	-7	-20	-2	-15

EUR Indices	Current	Changes 1W	1M	3M	6M	1Y
Non-Financials	74	1	-4	-10	0	-16
Banks Senior Preferred	53	1	-3	-10	-6	-18
Banks Senior Bail-in	72	2	-4	-15	-2	-19
Banks Subordinated	109	2	-3	-18	-1	-31

*time lag of one day, Asset Swap Spreads 12.06.2026

Sources: LSEG, LBBW Research

Performance Credits vs. Bunds



Quellen: LSEG, LBBW Research

Allocation recommendations (Credits vs. Bunds)

Under observation of 6 – 12 months

	Recommendation		Segments		Regions	Strategies
Rates	0	0	0-3 years	0/+	Euro periphery	Multi-Callables
		0/+	4-7 years	0	German Bunds	Inflation-linked bonds
		0/-	8-10 years	0/-	USD-Bonds	
Credit	0/+	0/+	Corporate Inv. Grade	0/-	Emerging Markets Debt	
		0	Corporate High Yield			
		0/+	Corporate Hybrids (IG)			
		0/+	Senior Financials			
		0/+	Covered Bonds/SSAs			
		0	Tier 2 Inv. Grade/ Sen. Non-Pref.			

Sources: LBBW Research

05 |

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Sources/Charts: Refinitiv Datastream, Ecowin, Bloomberg, LBBW Research

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