

CW 27/2026 | LBBW Research | Strategy/Macro

Forecast tables moderately adjusted

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Bond Market Movers – Review and Outlook

What drove the bond markets last week?

- The U.S. and Iran were engaged in renewed military skirmishes near the Strait of Hormuz. Nevertheless, both sides have generally been adhering to the agreed-upon ceasefire and continuing their negotiations on a final agreement.
 - ECB President Lagarde stated at the Sintra Conference that monetary policy has gained more room to maneuver as economic resilience in the euro area has increased. However, neither Lagarde nor her Fed colleague Kevin Warsh have provided any specific guidance regarding their respective monetary policies.
 - Overall, the U.S. labor market data for June confirmed the picture of solid employment growth. However, both the ADP report and the official labor market report showed a slowdown in job growth compared to the previous month.
 - The ISM Manufacturing Index showed a slight clouding in sentiment for June. From a business perspective, inflationary pressure is easing somewhat, but remains significantly elevated.
 - In the eurozone, inflation fell below the 3% mark in June for the first time since March. The core rate also retreated slightly more than consensus expectations.
 - The U.S. Supreme Court has, for the time being, rejected President Trump's efforts to remove Federal Reserve Governor Lisa Cook from office. Trump, however, refuses to back down.
-
- Investors are still keeping a close eye on developments in the Middle East. However, the threshold for significant impacts on the financial markets appears to have risen noticeably.
 - Both the ECB and the Fed will publish the minutes of their most recent interest rate meetings.
 - In the U.S., according to our forecast, the ISM index for the services sector is set to show a moderate improvement in sentiment for the second consecutive month. Otherwise, the macroeconomic calendar will be relatively light on both sides of the Atlantic.
 - The primary market for U.S. Treasury securities will have to absorb the next wave of long-term bond issuance next week. Meanwhile, activity in the primary market for euro-denominated government bonds is likely to decline compared with last week. We expect gross supply of just under EUR 20 bn., following EUR 26 bn. the previous week. The highlight will be the placement of a new 10-year German Bund. Given low reflows from maturities, net cash flows are set to remain negative.

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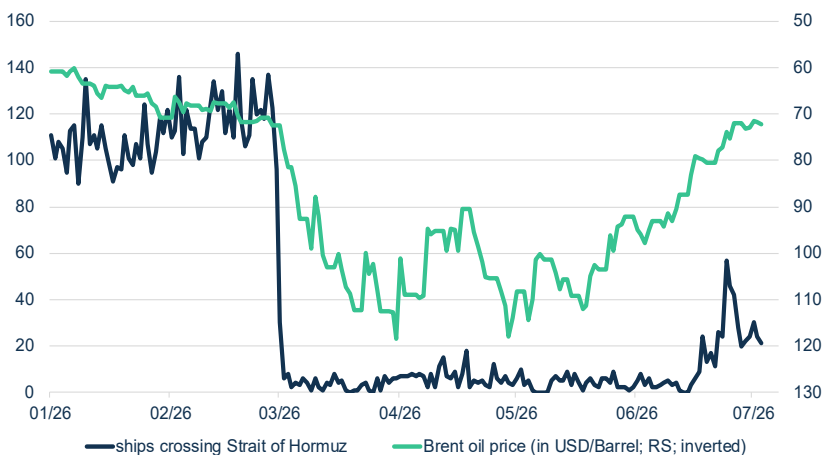
Forecast tables moderately adjusted

Optimism regarding Middle East détente persists – EMU inflation falls more than expected

These days, the sentiment among financial market participants appears relatively unaffected by the news coming out of the Middle East. The ceasefire between the U.S. and Iran still appears fragile, given the recent military skirmishes around the Strait of Hormuz last weekend. Nevertheless, the price of Brent crude has continued to consolidate near the level it was at before the war broke out. As long as none of the parties to the conflict fundamentally questions the ongoing negotiation process – which is intended to lead to a lasting peace agreement – investors apparently view the recurring exchanges of fire as part of the negotiation strategy. Reassuring statements from the U.S. government regarding further progress in the talks with Iran were therefore enough to maintain positive expectations in the financial markets regarding a lasting resolution of the conflict. The trend in shipping traffic through the Strait of Hormuz has so far only partially supported this confidence: Clearly, the number of crossings has risen significantly since the conclusion of the preliminary U.S.-Iran agreement. This week, however, it reached only about a quarter of its prewar level (see the chart below).

Chart of the Week

Brent crude oil price (in USD/barrel) and ship transits through the Strait of Hormuz



Source: Bloomberg, LBBW Research

The major government bond markets on both sides of the Atlantic showed mixed performance amid an overarching moderate risk-on sentiment. In the U.S. Treasury market, the previous week's positive price trend led into profit-taking. Fed Chairman Warsh did refrain from making any additional decidedly "hawkish" remarks on inflation during the ECB symposium in Sintra. Nevertheless, as indicated by forward rates in the U.S. money market, market participants are increasingly betting that U.S. monetary authorities will decide to raise their target range for the federal funds rate as early as the current third quarter. The eagerly awaited U.S. jobs data for June caused bond bears to retreat only slightly. Employment growth has slowed more than expected compared with the previous month. Nevertheless, in our view, an average increase of 111,000 jobs in the third quarter underscores the current solid state of the U.S. labor market. Especially since the unemployment rate has fallen to 4.2%, the lowest level in twelve months.

U.S. Government praises progress in Iran negotiations

Oil prices hold at pre-war levels

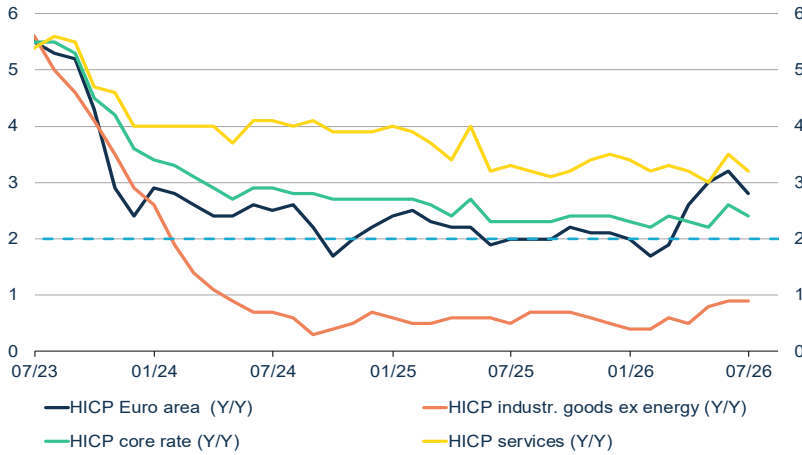
U.S. Treasuries: Profit-taking in a "risk-on" environment

U.S. job market disappoints, but is still robust

Meanwhile, on the euro government bond market, the EMU inflation data for June helped to ease concerns about persistently high inflation. Headline inflation fell below 3% for the first time since March, thanks to easing price pressures in the energy sector. The core rate also declined following its jump of the previous month. Excluding temporary seasonal distortions, underlying price pressure increased only gradually in the spring compared with the first quarter.

Price pressure eased across the board in June

EMU Inflation (Y/Y) with selected subcomponents



Source: Bloomberg, LBBW Research

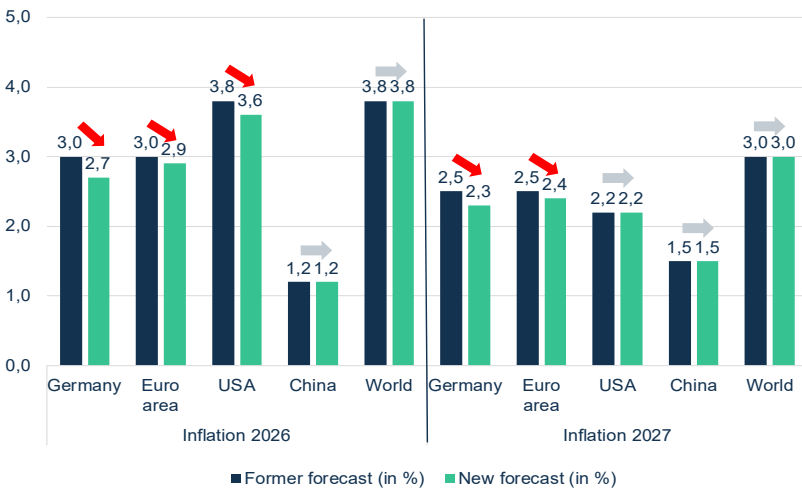
In our view, it therefore seems very unlikely that the ECB will feel compelled to further tighten its monetary policy as early as its next meeting at the end of July. Remarks made by ECB President Lagarde at the Sintra Conference support this view. According to this, inflation risks are “more broadly balanced” than they were a few weeks ago. While short-term euro-denominated government bonds received a boost from the inflation data, yields on 10-year German government bonds followed the international upward trend. The EUR benchmark yield has settled for the time being near the 2.90% mark. It had broken through this chartist support line a week ago, sending a bullish signal.

EMU inflation back below 3%, core rate only marginally up on Q1 2026

Lagarde: Inflation risks are “more balanced”

Forecasts: Slightly lower inflation on both sides of the Atlantic

Previous and new inflation forecasts for 2026 and 2027 (in %)



Source: LBBW Research

Inflation Forecasts Moderately Lowered

In light of the surprisingly sharp decline in EMU inflation in June and the rapid drop in oil prices in recent weeks, we are revising our inflation forecasts a bit downward for both the euro area and the U.S. (see chart

Inflation forecasts revised modestly downward

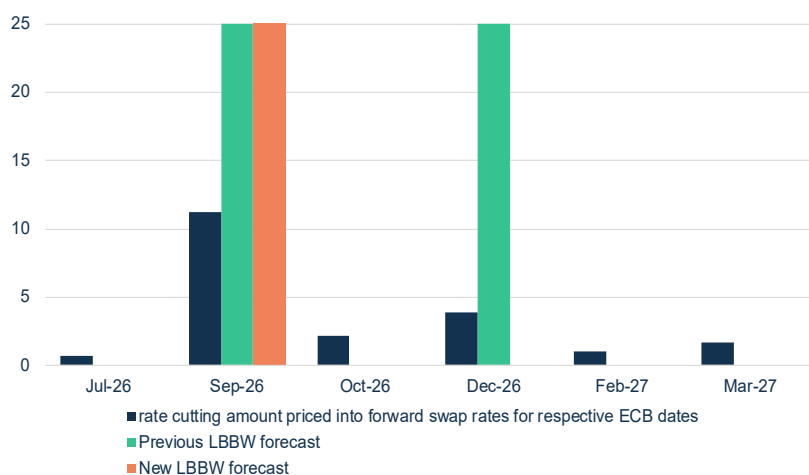
above). In doing so, we are taking into account, to some extent, the easing of tensions following the U.S.-Iran agreement. However, it is important to emphasize that market participants' euphoria regarding a quiet resolution of the conflict is built on shaky ground. Furthermore, we believe it is premature to rule out the risk of significant second-round effects on inflation at this stage. Looking at our GDP forecast table, we are making an adjustment for Germany only: We are raising our 2026 growth forecast from 0.3% to 0.5%.

Key rates: Just one further ECB rate hike – Fed view remains unchanged

Both ECB President Lagarde and Fed Chair Warsh appear to have taken a favorable view of the recent signs of easing inflation pressure in Sintra. The pressure to tighten monetary policy has eased for the time being. In our view, this gives monetary policymakers on both sides of the Atlantic more time to assess the impact of the recent energy price shock on the overall price structure. With regard to U.S. monetary policy, we continue to assume that the Fed will contend with its recent verbal shift toward a more hawkish stance on monetary policy. Clearly, a renewed cut to the target range for the overnight rate is off the table for the foreseeable future. At the same time, we expect that, thanks to the inflation-dampening effect of sustained productivity gains in the U.S. economy, U.S. monetary authorities will eventually be able to refrain from tightening monetary policy.

We now only expect one more ECB deposit rate hike by the end of 2026

Market expectations for ECB policy rate changes per meeting (in bps), including new and previous LBBW forecasts



Source: Bloomberg, LBBW Research

Meanwhile, we are revising our forecast for the EUR key interest rate downward by 25 basis points. We continue to expect that, at its September meeting, the ECB Governing Council will find sufficient grounds to raise the deposit rate by another 25 basis points to 2.50%. However, further tightening measures are likely to be considered only if the U.S.-Iran agreement fails and the Strait of Hormuz is closed again for several months. A second energy price shock following this would once again significantly increase the pressure to take monetary policy action. In line with our thinking for the ECB course, we are also revising our forecast for the Bank of England's interest rate path slightly downward. We now expect only one rate hike in the United Kingdom this year, rather than the two previously anticipated.

Long-term yield forecasts revised downward

The outlook for longer-term government bonds appears mixed in light of the revised overall forecast. On the one hand, we have the impression that, given the recent appetite for risk, financial market participants may be underestimating the risks to the peace process in the Middle East. It

Germany GDP forecast raised to 0.5%

Pressure on central bankers to act has eased

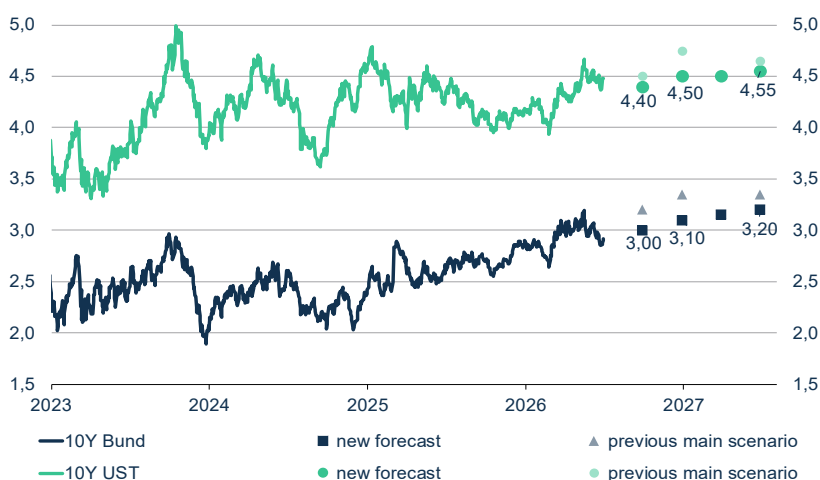
One hike less from the ECB and the BoE

would therefore be premature to conclude that the price gains recorded on balance since mid-June have started a bond-positive turnaround. On the other hand, investors' need to hedge against a scenario of persistently high inflation is likely to remain limited, provided there are no further sharp spikes in energy prices. Overall, we now expect long-term interest rates on both sides of the Atlantic to consolidate sideways in the short term. In the meantime, we continue to recommend caution regarding long-term government bonds in the medium term, as the ongoing rise in global government debt will likely continue to unsettle market participants. In our view, another bout of weakness in the Japanese government bond market this week underscores this vulnerability to debt-related issues.

In light of our revised ECB picture, we are cutting our forecast for the yield on 10-year German government bonds from 3.20% to 3.00% for the three-month horizon and from 3.35% to 3.20% for the 12-month horizon. The 10-year U.S. benchmark yield is set to settle below its 2026 annual high for now, provided the Federal Reserve refrains from raising its benchmark interest rate, contrary to widespread market expectations. Looking ahead three months, we now expect the U.S. benchmark yield to be 4.40% (previously: 4.65%), while we are only slightly cutting our forecast as of June 30, 2027, from 4.65% to 4.55% (see the chart below). Notwithstanding this adjustment, we reaffirm our allocation recommendation to underweight longer-term fixed-income securities.

Long-term rates: Consolidation for now, but the upward trend is set to continue in the medium term

Yields on 10-year government bonds for the Eurozone and the U.S., with LBBW's previous and new forecasts



Source: Bloomberg, LBBW Research

FX Market: Expected weakness in the USD to be less pronounced

Looking at the foreign exchange market, the continued strengthening of the U.S. dollar in recent weeks and our moderate adjustment to the transatlantic interest rate differential have led us to revise our EUR/USD exchange rate forecast downward. The greenback is currently receiving solid support from continued signs of a robust U.S. economic performance. The dollar's strength is underpinned by the fact that the market consensus, going by money market forward rates, now anticipates a slight widening of the USD/EUR interest rate differential in favor of the U.S. currency. We continue to expect, however, that the rate spread will narrow, albeit less sharply than previously forecast. Consequently, we are maintaining our forecast of a stronger euro. However, we do no longer expect the single currency to sustainably break above the 1.20 USD mark over the next twelve months. We are revising our three-

**10-Year Bund:
Forecast cut from
3.35% to 3.20%
as of
mid-2027**

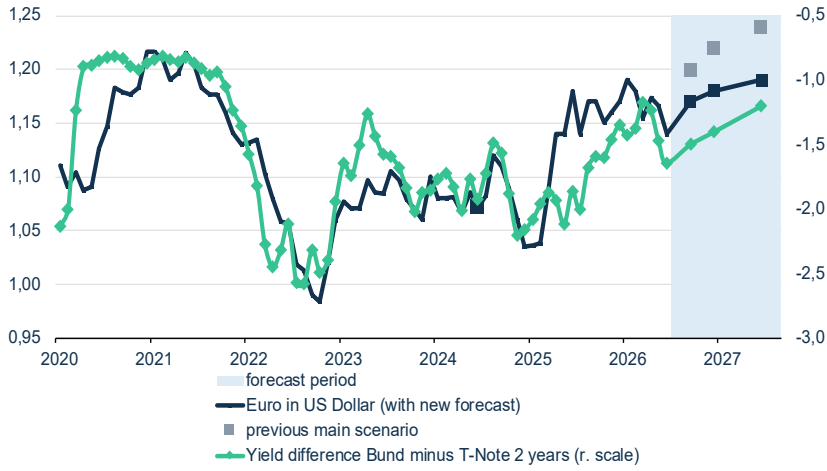
**10-year US yield
may settle
around 4.50%**

**Key rate differential continues to
point to a
stronger euro, ...**

month forecast for EUR/USD from 1.20 to 1.17 and now expect the exchange rate as of June 30, 2027, to be 1.19 (previously: 1.24 EUR/USD; see the chart below).

EURUSD: Euro likely to firm again, but less than we previously forecast








Spread between 2-year Bunds and 2-year U.S. Treasuries, as well as EUR/USD exchange rate, with LBBW's previous and new forecasts



... but EUR/USD is likely to stay below 1.20

Source: Bloomberg, LBBW Research

Forecasts at a Glance

Euro Area		Spot	30.09.26	31.12.26	30.06.27
ECB Main Refinancing Rate		2,40	2,65	2,65*	2,65*
ECB Deposit Rate		2,25	2,50	2,50*	2,50*
Overnight Rate (€STR)		2,18	2,45	2,45*	2,45*
3M Euribor		2,34	2,55	2,55*	2,55*
Swap 2Y		2,70	2,80*	2,85*	2,75*
Swap 5Y		2,77	2,85*	2,90*	2,85*
Swap 10Y		2,97	3,05*	3,10*	3,15*
Bund 2Y		2,51	2,60*	2,70*	2,65*
Bund 5Y		2,63	2,70*	2,80*	2,80*
Bund 10Y		2,92	3,00*	3,10*	3,20*
Swap/Bund 2Y		19	20	15	10
Swap/Bund 5Y		14	15	10	5
Swap/Bund 10Y		5	5	0	-5
Spread BBB Corporates/Bund		93	100*	110*	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)		3,66	3,65	3,65	3,65
3M Money Market		3,75	3,75	3,75	3,65
Swap 2J (SOFR-OIS)		3,98	3,95*	3,90*	3,65
Swap 5J (SOFR-OIS)		3,94	3,85*	3,85*	3,75*
Swap 10J (SOFR-OIS)		4,06	3,95*	4,00*	4,00*
Treasury 2Y		4,14	4,10*	4,10	3,85
Treasury 5Y		4,23	4,15*	4,20*	4,10*
Treasury 10Y		4,48	4,40*	4,50*	4,55*
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	2,79	2,75	2,80	2,85
UK	Overnight Rate (SONIA)	3,73	3,70*	3,95*	3,95*
UK	10Y Government Bond	4,78	4,80*	4,90*	4,90*
Switzerland	Overnight Rate (SARON)	-0,04	-0,05	-0,05	-0,05
Switzerland	10Y Government Bond	0,34	0,35*	0,40*	0,45*
FX		Spot	30.09.26	31.12.26	30.06.27
EURCHF		0,9181	0,92	0,93	0,94
EURCNY		7,7688	8,01*	7,91*	7,62*
EURGBP		0,8567	0,85	0,85	0,85
EURJPY		184,18	187	186	182
EURUSD		1,1459	1,17*	1,18*	1,19*
USDCHF		0,8012	0,79*	0,79*	0,79*
USDCNY		6,7799	6,85	6,70	6,40
GBPUSD		1,3376	1,38*	1,39*	1,40*
USDJPY		160,73	160*	158*	153*
Economic Development		2024	2025	2026e	2027e
	Germany				
	GDP	-0,5	0,4	0,5*	0,8
	Inflation	2,3	2,2	2,7*	2,3*
	Euro Area				
	GDP	0,9	1,5	0,8	1,0
	Inflation	2,4	2,1	2,9*	2,4*
	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	3,6*	2,2
	Japan				
	GDP	-0,2	1,1	0,6	0,8
	Inflation	2,7	3,2	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

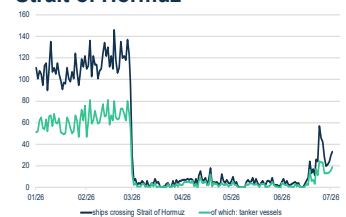
Main Events of the Past Week

- **Global Financial Stability:** In its latest annual report, the BIS warns of the global economy's growing vulnerability to crises – citing a combination of record-high government debt, a fragile bond market, risky hedge fund strategies, and precarious AI financing – global government debt-to-GDP ratio at its highest level since immediately after World War II – BIS economists are concerned about the growing influence of hedge funds and other non-banks in the government bond market – highly leveraged, refinancing-dependent hedge fund strategies could “introduce stress into the system more quickly” – Warning about the risk of a new financial crisis due to the “fiscal-financial nexus” – disruptions could also quickly spread to other markets.
- **Middle East Conflict:** The U.S. and Iran have once again exchanged military strikes near the Strait of Hormuz – triggered by an Iranian drone attack on a ship in the strait – while both sides reaffirm their commitment to the ceasefire and the continuation of the negotiation process.
- **Middle East Conflict:** Israel and the Lebanese government have reached a new ceasefire agreement that includes a partial withdrawal of Israeli troops from southern Lebanon – but the Iran-backed Hezbollah militia has rejected the agreement.
- **Middle East Conflict – Energy Price Crisis:** According to U.S. data, oil shipments through the Strait of Hormuz have recently risen to just over 10 million barrels per day – thereby reaching roughly half of pre-war levels – while oil supply from the United Arab Emirates has already returned to pre-war levels thanks to alternative routes – Saudi Arabia recently reported an increase in its oil exports to 90% of pre-war levels.
- **United States – Trade Policy:** U.S. President Trump is threatening European countries with a further escalation of the trade conflict should they introduce digital taxes – new tariffs of 100% would then replace existing trade agreements.
- **Monetary Policy – ECB:** At the Sintra Conference, ECB President Lagarde emphasized that the euro area economy has become more resilient to external economic shocks – progress driven by an improved financial framework and the “green” economic transition – monetary policy “flexibility” is therefore increasing – while Lagarde avoids giving clear indications of possible further adjustments to key interest rates, she notes that inflation risks are “more broadly balanced” than they were a few weeks ago.
- **Monetary Policy – ECB:** Several other ECB officials in Sintra warned against dismissing inflation risks just yet, given the recent easing of tensions in the Middle East – they called for continued vigilance regarding consumer prices – Chief Economist Lane emphasized that it is necessary to monitor how rising energy prices are affecting other sectors, such as food and services.
- **Monetary Policy – ECB:** According to media reports, the central bank is considering doubling the reserve requirement ratio from the current 1% to 2% – the reason being a desire to reduce its own interest burden – while banking associations are sharply criticizing a possible increase in the reserve requirement ratio.
- **Monetary Policy – Fed:** Fed Chairman Warsh reaffirms in Sintra the central bank's commitment to reforming its strategy and operations – though he refrains from providing guidance on the course of monetary policy – Inflation risks have declined in recent weeks – Warsh emphasizes openness regarding the future size of the central bank's balance sheet.

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BIS warns against a "fiscal-financial nexus"

Strait of Hormuz



Sources: Bloomberg, LBBW Research

Lagarde: Inflation risks “more balanced”

Does the ECB plan to raise the reserve requirement ratio?

- **Fed – Independence:** The U.S. Supreme Court has temporarily blocked President Trump's attempt to dismiss Federal Reserve Governor Lisa Cook based on unproven allegations of mortgage fraud – the vote was a narrow 5-4 decision – justices, however, refrained from ruling on whether the allegations raised would, in principle, justify dismissal – court's criticism is directed primarily at the failure to thoroughly investigate the allegations before pursuing Cook's dismissal, particularly with regard to her right to a prior hearing – meanwhile, President Trump has no intention of giving up on his efforts to remove Cook from office – and those close to Trump are also stepping up their criticism of former Chairman Powell's continued presence on the board.
- **Monetary Policy – China:** Central bank sets the interest rate for the newly introduced overnight lending facility at 1.25% – reference rate thus 10 bp lower than analysts had expected.
- **Germany – Reform Package:** German government agrees on framework of a reform package consisting of 34 measures – Income tax reform is intended primarily to reduce the tax burden on low- and middle-income earners by approximately 10 billion EUR per year – in return, the so-called “wealth tax” will be expanded – all 33 reform proposals from the Pension Commission are to be fully implemented by the end of 2026 – Rules governing employees' sick leave will be tightened to address high rates of absenteeism due to illness – Chancellor Merz hopes that the reform package will boost German economic growth to over 1% next year..
- **Germany – Inflation:** Price pressures eased more than expected in June – inflation rate fell from 2.6% to 2.3% (Y/Y), reaching its lowest level since February 2026 – Falling energy prices were the main driver, while the core rate remained stable at 2.5%.
- **Eurozone – Economy:** Business confidence improved in June from 93.7 to 95.0 points, a stronger-than-expected increase – with sentiment brightening in both the manufacturing and service sectors.
- **Eurozone – Inflation:** Inflation eased more than expected in June, falling from 3.2% to 2.8% (Y/Y) – lowest level since March 2026 – core rate fell from 2.6% to 2.4% - inflation retreat primarily due to weaker price pressures in energy and services.
- **Eurozone – Inflation:** The latest ECB consumer survey shows that inflation fears are easing – one-year inflation expectations have fallen from 4.0% to 3.5% – Expectations for three years, however, remain unchanged at 2.9%, and are thus still well above the baseline level prior to the Iran war.
- **U.S. – Economy:** ISM Manufacturing Index declined moderately in June, from 54.0 to 53.3 points – firms' inflation expectations also eased, but remained at a significantly elevated level.
- **U.S. – Labor Market:** According to the BLS labor market report, employment growth slowed unexpectedly sharply in June, to 57,000 (M/M), down from 129,000 in May – Previous month's figures were also revised significantly downward – unemployment rate fell from 4.3% to 4.2%, as the labor force shrank by just over 700,000 – Average hourly earnings grew steadily at a rate of 0.3% (M/M).
- **U.S. – Labor Market:** ADP report shows a slight slowdown in job growth for June – private sector added 98,000 new jobs (M/M), down from +122,000 in May – Meanwhile, JOLTS data for May point to an overall stable labor market situation – only minor changes in both the number of job openings and layoffs compared to the previous month.
- **China – Economy:** RatingDog Purchasing Managers' Index for the manufacturing sector declined slightly in June, from 51.8 to 51.7 points – Index for the service sector.

Supreme Court lets Lisa Cook stay in office for now

German government reaches agreement on reform package

U.S. job growth far below expectations

- *Japan – Economy:* Tankan Index for the manufacturing sector rose unexpectedly sharply in the second quarter, from 17 to 22 points – highest reading since Q1 2018 – while the index for the service sector rose from 36 to 37 points.
- *UK – Government Crisis:* Prime Minister-designate Burnham aims to unleash economic growth in the United Kingdom through a better distribution of power in favor of the regions – promising the largest postwar housing construction program – At the same time, Burnham is committed to “prudent fiscal policy” and to adhering to current fiscal rules.
- *France – Debt:* OECD urges France to step up its efforts toward fiscal consolidation – and to resume the suspended pension reform – noting that, without spending limits, France’s public debt-to-GDP ratio could rise to just over 200% by 2050.

Sentiment in Japan brightens

OECD urges France to consolidate its budget

Next Week's Data

TIME	COUNTRY		PERIOD	LBBW FORECAST	CONSENSUS FORECAST ¹⁾	LAST VALUE ²⁾	IMPORTANCE
FRIDAY, 03.07.2026							
10:00	EMU	ECB President Lagarde speaks					***
MONDAY, 06.07.2026							
08:00	GE	Factory Orders (M/M)	May	2,5	-	-3,8	**
09:00	CH	Unemployment Rate (sa)	Jun	3,1	3,1	3,1	*
10:30	EMU	Sentix Investor Confidence	Jul	-7,5	-	-13,4	*
11:00	EMU	PPI (Y/Y)	May	5,3	-	4,9	*
11:00	EMU	Retail Sales (M/M)	May	0,1	0,3	-0,4	*
16:00	USA	ISM Services Index	Jun	54,8	54,1	54,5	***
TUESDAY, 07.07.2026							
08:00	GE	Industrial Production (M/M)	May	-0,8	-	0,4	**
14:30	USA	Trade Balance (bn USD)	May	-78,9	-78,7	-55,9	**
	NATO	NATO Summit in Turkey (till July 8)					***
	FR	French Appeals Court decides whether Marine Le Pen can run in 2027 presidential election					**
WEDNESDAY, 08.07.2026							
20:00	USA	Fed publishes Minutes of June 17 policy decision					***
THURSDAY, 09.07.2026							
03:30	CHN	CPI (Y/Y)	Jun	1,1	1,1	1,2	**
03:30	CHN	PPI (Y/Y)	Jun	3,8	4,2	3,9	*
13:30	EMU	ECB publishes account of June 11 policy decision					**
16:00	USA	Existing Home Sales (mn)	Jun	4,15	4,20	4,17	**
	EMU	Ecofin Meeting					**

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

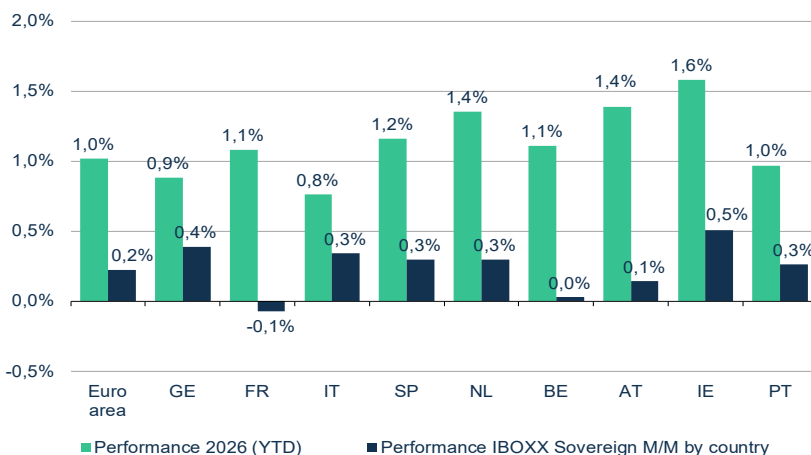
EUR government bonds: Seasonal pattern plays into the bulls' hands

Losses from the “Iran shock” have been largely offset

The EUR government bond market did begin the just concluded second quarter of 2026 under very unfavorable conditions. The outbreak of the Iran War had thrown investors into a state of panic shortly before, given the rapidly rising risk of inflation. In addition, the usual seasonal pattern pointed to continued price declines following the “Iran shock”. In fact, however, the spring quarter was marked by a relatively steady recovery in bond prices – initially accompanied by continued high volatility, which has recently subsided gradually. The ECB in June did respond to the surge in energy prices with its widely expected first interest rate hike since fall 2023, as they are committed to prevent second-round effects from spreading widely. However, following the preliminary U.S.-Iran accord to permanently end the war, the price of Brent crude oil has fallen back to near its prewar level. Consequently, bond market participants' concerns about further substantial tightening of the ECB's monetary policy subsided in June. As the month drew to a close, news that inflation in the eurozone had fallen more sharply than expected in June further dampened rate hiking speculation. Based on the iBoxx Euro Sovereign Index, this resulted in a price increase of 0.5% over the past month. Overall, the second quarter saw a recovery of 1.9%, which offset about three-quarters of the losses incurred in March (-2.7%). After a weaker start to July, driven by profit-taking in global bond markets, the year-to-date performance currently stands at 1.0%.

Federal bonds reduce YTD underperformance

Performance of EUR government bonds since the end of May and since the start of 2026 (YTD)



Source: Bloomberg, LBBW Research

Ultra-long-term bonds keep outperformance

As was already the case in May, long-term government bonds benefited more than average from the broader market rally in June. Admittedly, this is hardly surprising given the higher duration leverage compared to short-

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YTD performance
at 1 %

Spreads on EUR government
bonds over swaps (in bp)

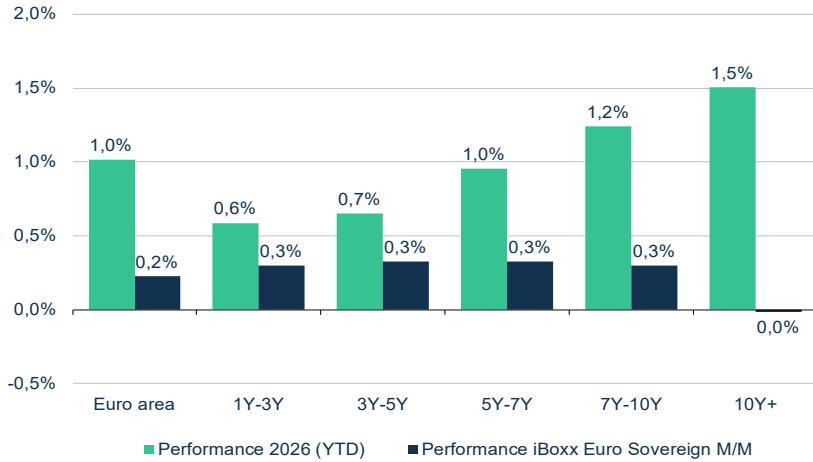
Spreads over swap (in Bp)	2Y	3Y	4Y	5Y	6Y	7Y	10Y
Germany	-22	-20	-16	-16	-14	-11	-2
Finland	-19	-8	-1	6	12	13	30
Netherlands	-23	-17	-12	-8	-4	-1	6
Austria	-14	-15	-5	-2	6	9	24
France	-5	2	11	21	33	44	70
Belgium	-16	-8	2	12	21	28	51
Slovakia	-18	-16	1	20	21	33	60
Latvia	-5	8	19	25	37	50	61
Slovenia	-23	-16	-13	-6	3	6	32
Ireland	-26	-18	-13	-12	0	-2	11
Italy	-7	9	20	29	41	46	69
Spain	-18	-8	-2	7	11	21	39
Portugal	-22	-16	-6	0	6	17	32

The curve has
been flattening

term bonds. Long-term bonds, meanwhile, benefited further from a flattening of the yield curves. We attribute the latter primarily to investors' diminishing need to hedge against a scenario of persistently higher interest rates. Ultra-long-term bonds further defended their outperformance relative to the overall market in June (see the chart below).

Long-term bonds with increasing YTD outperformance

Performance of EUR government bonds by maturity segment: month-over-month and year-to-date (YTD)



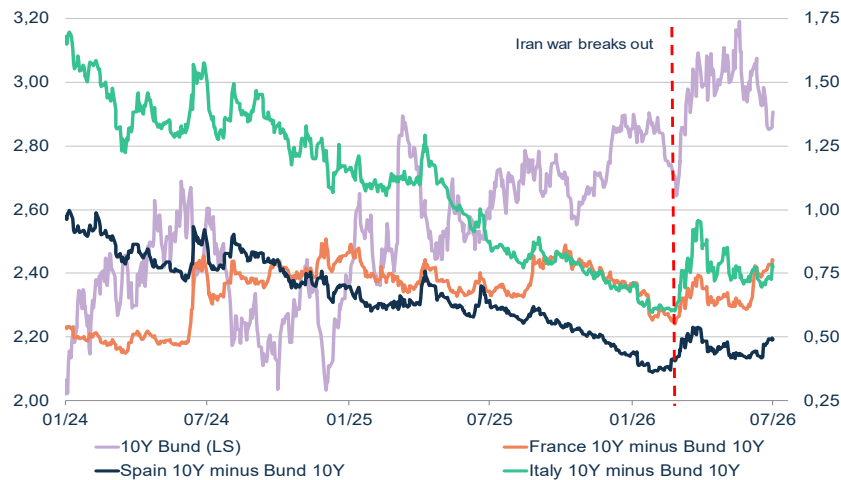
Source: Bloomberg, LBBW Research

Spreads have moved sideways month-over-month – a bit above YTD starting levels

With regard to credit spreads in the EUR government bond market, it still holds that the widening triggered by the energy price shock has not yet fully reversed. The yield spread of 10-year Italian government bonds over German Bunds currently stands at just over 75 basis points, which is about 15 basis points above the multi-year low reached in February 2026. The current spread level has largely persisted with limited fluctuation since April, when the initial war-related upheaval among market participants had subsided (see the chart below).

Risk premiums for Italy are about 15 bp above pre-war levels

Yield spreads of 10-year government bonds for selected eurozone countries relative to the Bund



Source: Bloomberg, LBBW Research

Overall, this means that for Italy – as is the case for the remaining peripheral eurozone countries and France – credit spreads on long-term bonds have consolidated at levels slightly above their YTD starting values. We draw a two-part conclusion: On the one hand, the spread performance underscores that the sell-off triggered by the war in Iran was short-lived.

Long-term bonds keep their relative strength

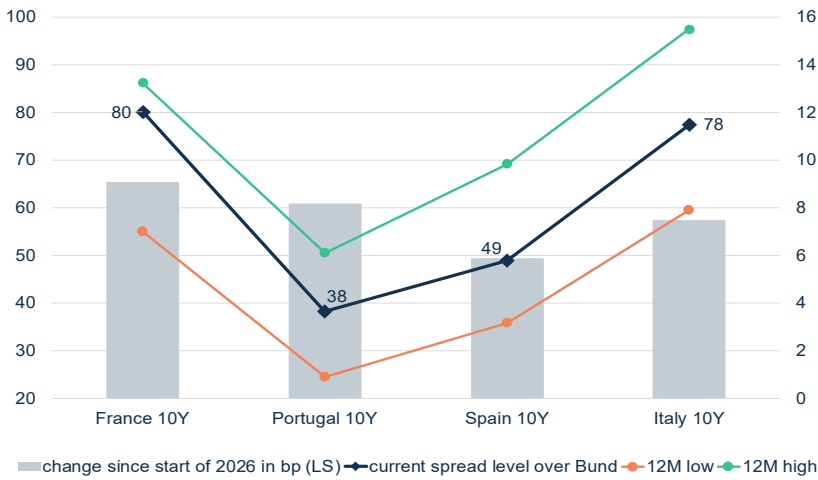
Low volatility in sovereign spreads

Italy's spread at just over 75 Bp

On the other hand, investors are currently shying away from a return to the yield convergence trades of the pre-war era. The ECB's bias toward further monetary tightening is likely dampening investors' appetite for betting on a continued narrowing of spreads.

Spreads slightly above their YTD starting levels across the board

Yield spreads on 10-year government bonds over Bund and trading spreads over the past twelve months



Source: Bloomberg, LBBW Research

Once investors will be sufficiently confident that the peak in key interest rates has been reached, this could open the door to (moderately) tighter spreads. However, in our view, there are two arguments against the possibility of a significant narrowing. First, the trend toward credit rating upgrades in the eurozone periphery appears to have run its course for the time being. Fresh economic downward pressures resulting from the war in Iran are likely to cause credit rating agencies to become more cautious. Second, political uncertainty could once again become a significant factor in the medium term. This is particularly true in light of the important national elections scheduled for 2027 in France, Italy, and Spain.

Outlook: Is the Hormus euphoria overblown?

With regard to the overall market outlook for EUR government bonds, it should be noted that the prospects for a sustained correction of the price slump triggered by the war in Iran have improved in recent weeks. Inflation may have already peaked, provided there will be no second energy price shock triggered by a resurgence of the war. In our view, two additional factors are playing into the hands of the bond bulls: First, the chartist view points to a bond-positive trend reversal, as the yield on 10-year German government bonds has broken below a key support level at 2.90%. Second, the usual seasonal pattern gives investors hope that the recent price recovery will continue into the summer quarter. As the following chart shows, the model seasonal pattern for the 10-year German government bond yield suggests that it peaks around the middle of the year. This year, that might have already been the case a few weeks earlier. The seasonal trend is set to "bullish," especially for July and August. Moreover, as we explained in the June 26, 2026, issue of *Bonds Weekly*, below-average net supply can be expected on the euro government bond market for the latter two months. The supply situation therefore appears to be somewhat favorable for bonds in the short term.

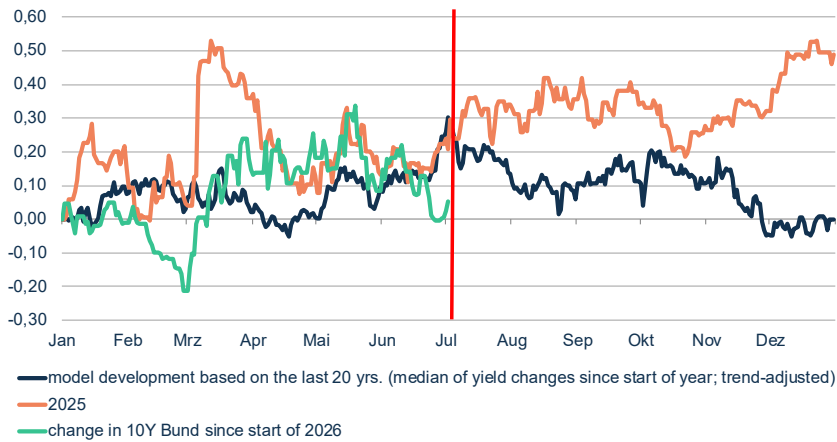
Investors reluctant to return to convergence trades

Has the series of rating upgrades subsided?

Chartist view is playing into the hands of bond bulls, ...

Seasonal trends in July and August are bullish

Cumulative change in the 10-year German government bond yield since the start of the year and the ideal seasonal pattern

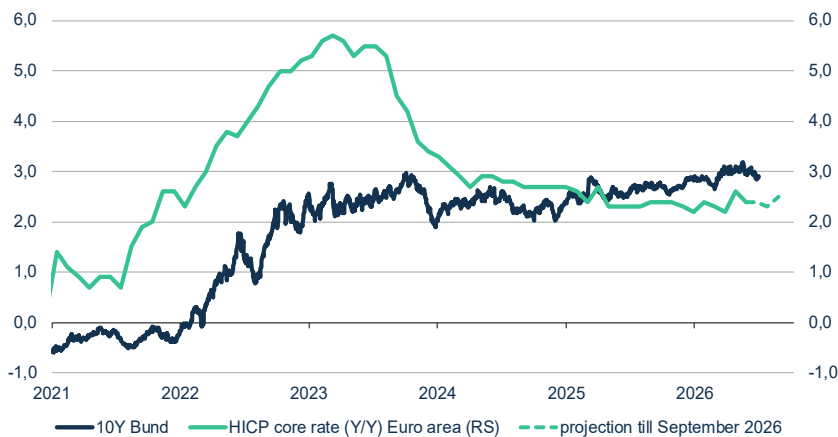


Source: Bloomberg, LBBW Research

On the other hand, however, we think this is counterbalanced by the fact that the resilience of the U.S.-Iran agreement still appears uncertain, as the repeated military skirmishes in recent days make clear. Market participants' euphoria over the normalization that has begun in the Strait of Hormuz may therefore be premature. Similarly, it is still difficult to assess how far-reaching the effects of the energy price shock will be on the overall price structure in the euro area. Despite the slowdown in headline inflation in June, we believe it is realistic to expect the core rate to trend upward in the second half of the year. In our view, this would dampen hopes for a swift end to the ECB's rate hikes, preventing a continued decline in long-term euro interest rates (see the chart below).

A Resurgence in the core rate could hinder the bullish trend

Yields on 10-Year German government bonds and EMU core inflation (in %, including projections)



Source: Bloomberg, LBBW Research

We therefore see a risk that the recovery rally of the past few weeks, driven in part by chartist factors, could lead to profit-taking. Especially since the BIS's recent warnings about skyrocketing global government debt could help raise investors' awareness once again of the growing debt risks.

... the same applies in Q3 to the seasonal pattern

Don't be too quick to dismiss inflation risks!

BIS issues urgent debt warning

Credit Strategy

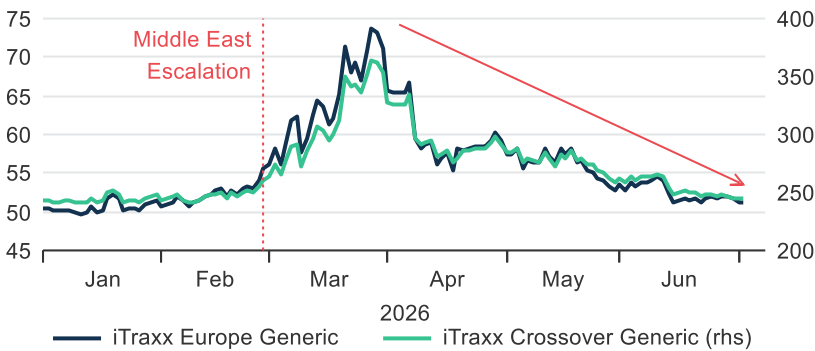
Deceptive Calm

Credit spreads remain anchored at low levels

As the first half of the year draws to a close, financial markets continue to exhibit a pronounced risk-on sentiment. Equity markets have largely shrugged off geopolitical uncertainties, while European credit spreads have already retraced to levels below those seen before the escalation of the Middle East conflict. Risk appetite has broadened across the credit spectrum: Since peace negotiations began in early April, both investment-grade and high-yield spreads have tightened in tandem, declining by roughly 30% from their respective peaks.

iTraxx Indices at Pre-War Levels

iTraxx Europe vs. iTraxx Crossover

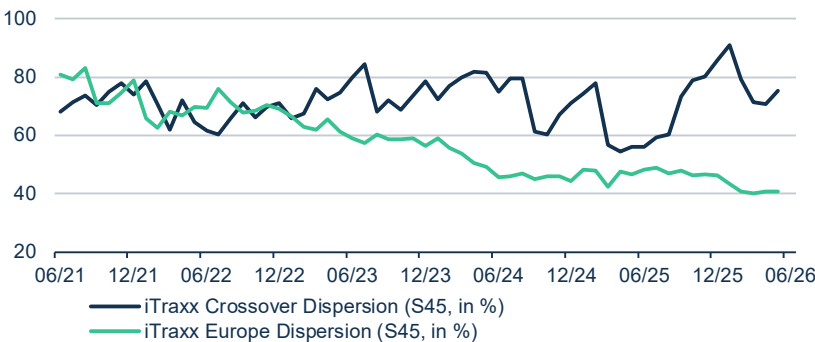


Source: LSEG, LBBW Research

A more granular view, however, paints a different picture. Looking beyond headline indices and analysing individual issuers reveals a growing divergence between market segments. While spread dispersion within the investment-grade universe has continued to decline, dispersion across high-yield issuers remains elevated. Although the overall trend has improved since the beginning of the year, recent data suggest that dispersion in the high-yield segment has started to edge higher again. In other words, benign index performance continues to mask meaningful differences between individual credits.

Differences in Volatility Between IG and HY Securities

Spread dispersion of the constituents in %*



* Coefficient of variation of the constituent spreads (standard deviation / mean)
Source: Bloomberg, LBBW Research

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Spreads back at pre-crisis levels

HY Index stable, dispersion still elevated

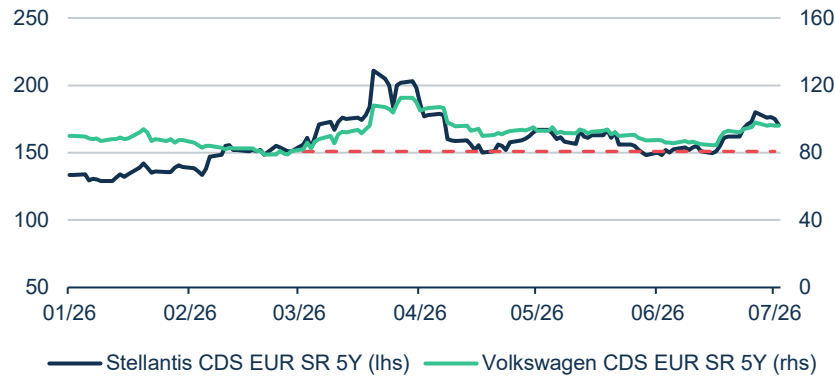
High dispersion across HY issuers

Automotive issuers remain under pressure

The divergence is particularly visible in the European automotive sector. In addition to ongoing uncertainty surrounding US trade policy and intensifying competition from Chinese manufacturers, the conflict in the Middle East has added another layer of pressure. As illustrated in the chart below, the CDS spreads of Stellantis and Volkswagen initially widened broadly in line with the overall market following the outbreak of the conflict, rising by around 35%. While the broader market has largely priced in a return to normality, both issuers continue to trade well above their pre-conflict spread levels. This highlights that the recent recovery has not been evenly distributed across all sectors of the credit market.

Spreads in the automotive sector have risen

Stellantis and Volkswagen CDS YTD (in basis points (bps))



Source: Bloomberg, LBBW Research

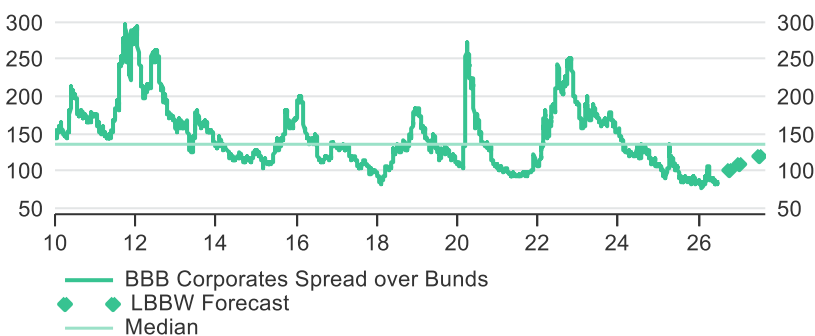
Outlook – Forecasts revised

The recent stabilisation in credit markets has prompted us to revise our short-term spread forecasts lower. Our previous baseline scenario assumed a more prolonged disruption to shipping through the Strait of Hormuz, resulting in a more pronounced widening of credit spreads. As tensions have eased, near-term risks have diminished accordingly.

But today's stable index levels should not distract from the fact that significant risks remain beneath the surface. Current market pricing reflects a highly constructive scenario despite persistent geopolitical risks and elevated idiosyncratic risks in selected sectors, most notably European automotive credits. Over the medium term, we continue to expect credit spreads to gradually normalise towards their historical median.

Spread Forecasts

Spreads of BBB-Rated Corporate Bonds over Bunds (in bps)



Source: LSEG, LBBW Research

Individual issuers under Pressure

Automotive spreads still above pre-crisis levels

Optimism is already priced in

Forecasts:

30/09/26: 100 bps
(previously 130 bps)

31/12/26: 110 bps
(previously 125 bps)

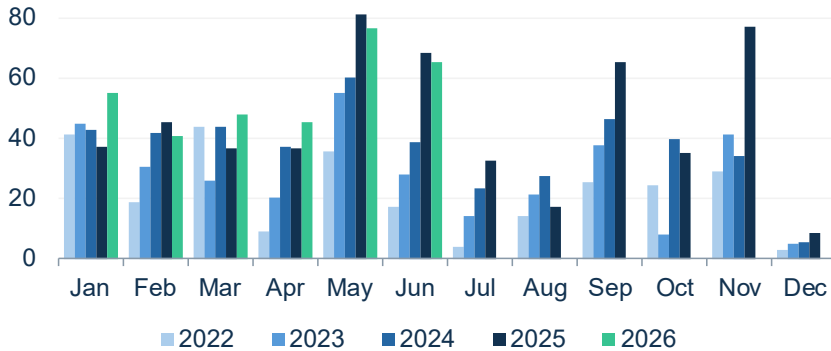
30/06/27: 120 bps
(unchanged)

A strong June leads to a record first half of the year for new issues

Following a strong May (the third-highest monthly volume on record), companies also issued a very high volume of new EUR-denominated bonds in June. At EUR 65.3 billion, it was, however, 5 % below the strong figure for the same month last year. June nevertheless ranked among the top 10 months on record (ninth-highest monthly volume).

New issues by month

EUR corporate bonds, volume in billions of EUR



Source: Bloomberg, LBBW Research

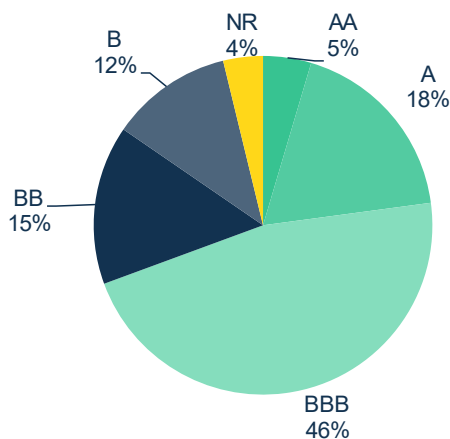
88 issuers were active in June and launched a total of 113 new issues. On average, the volume was EUR 578 million and the maturity 6.3 years.

The largest transaction of the month was carried out by the Japanese telecoms group NTT, which placed five bonds worth EUR 3.85 billion.

Among the new issues in June were eight hybrid bonds, which continued their record-breaking run since the start of the year.

New issues in June 2026 by rating category

EUR corporate bonds, share of volume in %



Source: Bloomberg, LBBW Research

In June, almost 70% of new issues had a purely investment-grade rating (totalling EUR 45.3 billion).

The high-yield segment accounted for an above-average 27 % of the monthly volume (with the remaining 4 % from unrated companies). As a result, the HY sector achieved a new record quarterly volume of around EUR 49 billion in Q2 (+15% compared with the previous record quarter, Q2/2025).

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EUR 65 billion
in June 2026

Ninth-strongest
month on record

Approx. 70% with
investment-grade
ratings

Record HY
volume in Q2

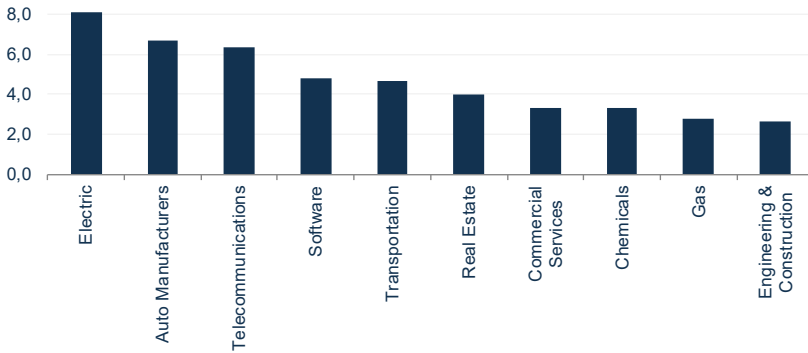
German companies issued EUR 4.7 billion. Alongside Vonovia (with 3 bonds totalling EUR 2.0 billion), RWE, Lanxess and Mahle were active.

US companies were once again at the top of the list with a monthly volume of EUR 9.3 billion, on a par with companies from France.

According to **Sectors**, the traditional heavyweights – utilities, autos and telecoms – once again occupied the top three positions, followed by the tech sector (software), which is very active this year.

Top 10 sectors for new issues in June 2026

EUR corporate bonds, volume in billions of EUR



Source: Bloomberg, LBBW Research

ESG: In June, companies issued a record number of 34 new ESG bonds (28 green, 2 sustainability, 3 SLB, 1 social). Compared with the previous month, the ESG rate doubled to 30 %. At EUR 20.4 billion, the volume reached the second-highest monthly ESG figure on record (after November 2021, when it stood at EUR 22.9 billion).

Demand: On average, investors subscribed for 3.3 times the volume that was subsequently placed. The spreads relative to secondary market bonds averaged 4 basis points (down from 5 bps in May).

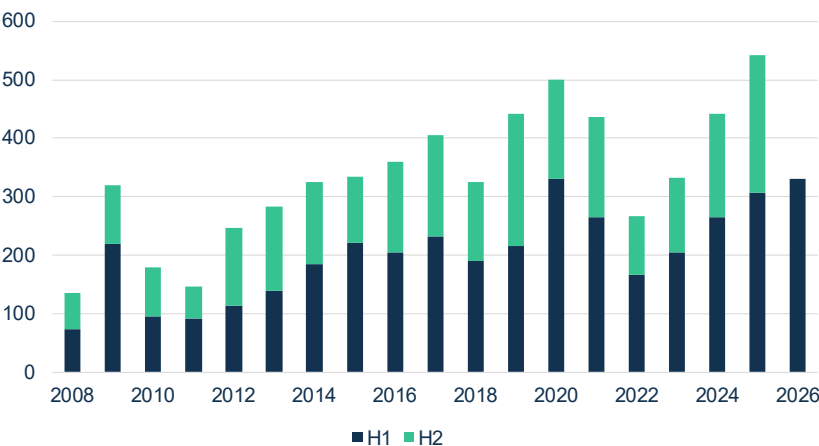
Conclusion and Outlook

In the first half of 2026, companies issued a record volume of EUR 331 billion in EUR-denominated bonds (+8 % yoy). US corporations (+21% yoy) accounted for almost a quarter of the volume of new issues.

Following a record year in 2025 (volume of EUR 543 billion), we also expect for 2026 new issues of at least EUR 500 billion. If the positive trend of H1/2026 continues, the EUR 600 billion mark will even come into view. This is supported by very active US corporations, the growing need for AI investments, and the boom in hybrid bonds.

New issues by half-year

EUR corporate bonds, volume in billions of EUR



Source: Bloomberg, LBBW Research

Heavyweights at the top, software in fourth place

Record number of ESG bonds

Good demand

+8% yoy in H1

Forecast: At least EUR 500 bn for 2026

Calendar/Analytics

Developed Markets Overview

Euro Area	2 Years			10 Years		
	Yields	Spread	Change*	Yields	Spread	Change*
Bund	2,50			2,90		
Jumbo	2,75	25	0	3,28	37	-2
Swap	2,69	19	-1	2,96	6	0
Netherlands	2,48	-2	-2	3,03	12	1
Austria	2,55	5	0	3,16	26	0
France	2,68	18	0	3,71	80	2
Belgium	2,56	6	-2	3,48	58	0
Italy	2,68	18	1	3,68	78	4
Spain	2,56	6	-1	3,40	49	0
Ireland	n.a.	n.a.	n.a.	3,09	18	1
Portugal	2,50	0	0	3,29	39	0
Greece	n.a.	n.a.	n.a.	3,59	69	0
EX. EURO AREA	Yields	Spread	Change*	Yields	Spread	Change*
USA	4,14	164	6	4,48	158	6
Canada	2,76	26	3	3,45	54	1
Japan	1,39	-111	0	2,78	-13	10
UK	4,12	162	1	4,78	187	-1
Switzerland	0,06	-244	4	0,32	-258	1

* 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
07.07.2026	Japan	JGB	30Y		JPY 700 bn.	
07.07.2026	Germany	Green Bund	1Y, 15Y		€ 2 bn.	Aufstockung
07.07.2026	Austria	RAGB	5Y, 10Y		€ 2 bn.	Aufstockung
07.07.2026	UK	UKT	7Y		GBP 4 bn.	Aufstockung
07.07.2026	USA	T-Note	07/29		USD 58 bn.	Neu
08.07.2026	Germany	Bund	08/36		€ 6 bn.	Neu
08.07.2026	Portugal	OT			€ 1.25 bn.	Aufstockung
08.07.2026	USA	T-Note	05/36	4.375%	USD 39 bn.	Aufstockung
09.07.2026	Japan	JGB	5Y		JPY 2.5 tn.	
09.07.2026	USA	T-Bond	05/56	5.00%	USD 22 bn.	Aufstockung
10.07.2026	Italy	BTP	09/29	3.00%	€ 3.5 bn.	Aufstockung
10.07.2026	Italy	BTP	7Y			
10.07.2026	Italy	BTP	15Y - 30Y		€ 2 bn.	Aufstockung

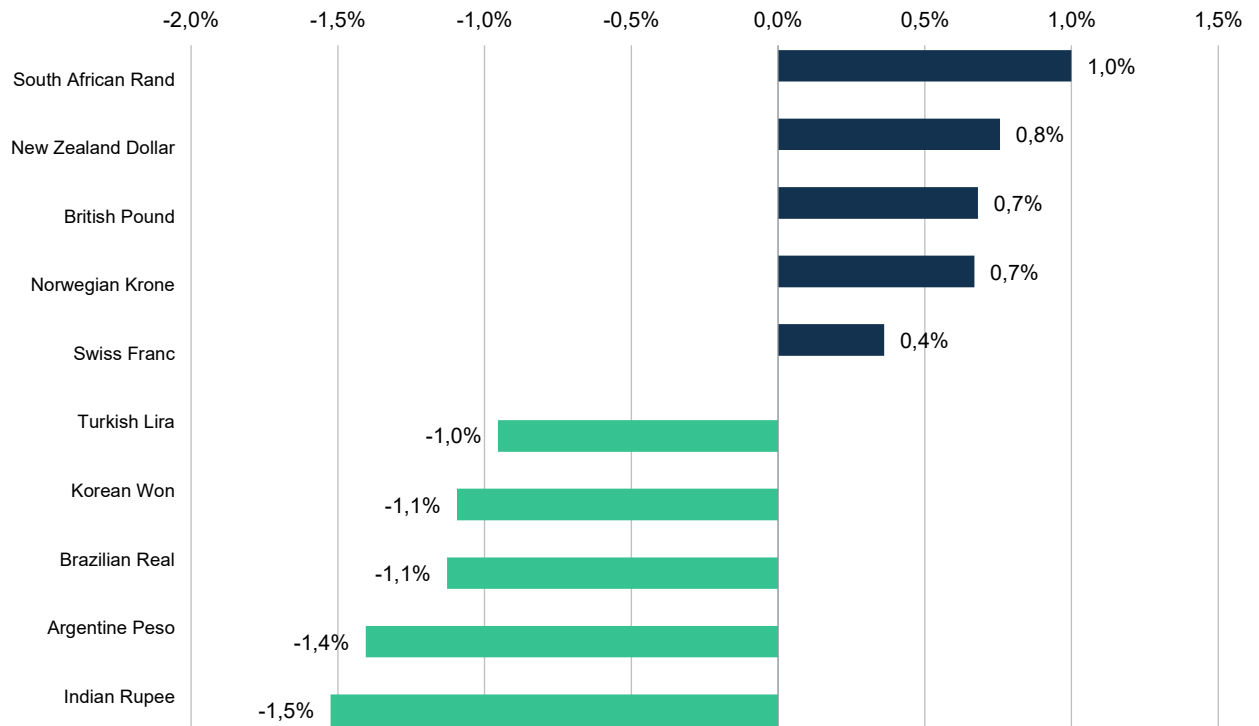
Sources: Bloomberg, LBBW Research

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%	2,8%	↗			
United States	29.07.26	3,75%	10.12.25	4,00%	4,2%	↑	2,3%	1,1452	1,1542
United Kingdom	30.07.26	3,75%	18.12.25	4,00%	2,8%	↘	1,0%	0,8566	0,8632
Japan	31.07.26	1,00%	16.06.26	0,75%	1,5%	↓	-0,7%	184,55	183,22
China	***	2,00%	25.09.24	2,30%	1,2%	↗	5,5%	7,77	7,73
Switzerland	24.09.26	0,00%	19.06.25	0,25%	0,5%	↗	1,0%	0,9185	0,9070
Argentina	***	***	31.01.25	32,00%	33,1%	↘	1,6%	1.702,40	1.916,90
Australia	11.08.26	4,35%	05.05.26	4,10%	3,2%	↗	5,8%	1,65	1,67
Brazil	05.08.26	14,25%	17.06.26	14,50%	4,7%	•	6,9%	5,95	6,25
Canada	15.07.26	2,25%	29.10.25	2,50%	3,2%	↑	-0,5%	1,62	1,62
Czech Republic	06.08.26	3,75%	18.06.26	3,50%	2,1%	•	0,0%	24,19	24,31
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%	2,0%	↑	1,6%	8,98	9,01
Hungary	21.07.26	6,00%	23.06.26	6,25%	1,8%	↓	8,4%	354,02	358,54
India	05.08.26	5,25%	06.02.25	5,50%	3,9%	↑	-3,3%	109,09	111,63
Indonesia	22.07.26	5,75%	18.06.26	5,50%	3,3%	↗	-4,9%	20.566,82	21.026,24
Mexico	06.08.26	6,50%	07.05.26	6,75%	3,9%	•	5,3%	19,95	20,41
New Zealand	08.07.26	2,25%	26.11.25	2,50%	3,1%	•	1,1%	2,00	2,01
Norway	13.08.26	4,25%	07.05.26	4,00%	3,1%	•	4,7%	11,23	11,35
Poland	08.07.26	3,75%	04.03.26	4,00%	2,5%	•	-1,7%	4,29	4,32
Romania	08.07.26	6,50%	07.08.24	6,75%	10,9%	↗	-2,8%	5,23	5,33
Russia	24.07.26	14,25%	19.06.26	14,50%	5,3%	↘	7,1%	88,94	95,36
Singapore	***	1,92%	n.a.	1,95%	1,8%	↗	1,7%	1,48	1,47
South Africa	23.07.26	7,00%	28.05.26	6,75%	4,5%	↑	3,4%	18,56	18,98
South Korea	16.07.26	2,50%	29.05.25	2,75%	3,2%	↑	-4,2%	1.766,59	1.771,99
Sweden	20.08.26	1,75%	23.09.25	2,00%	0,8%	↗	-2,6%	11,05	11,02
Turkey	23.07.26	37,00%	22.01.26	38,00%	32,6%	•	-5,9%	53,62	62,48

Sources: Bloomberg, LBBW Research

The Strongest Currency Appreciations and Depreciations Against the Euro This Week

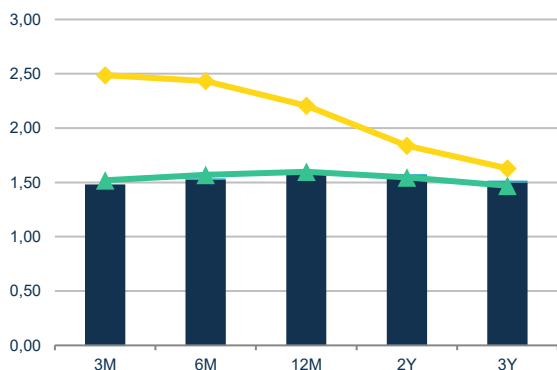


Sources: Bloomberg, LBBW, Research

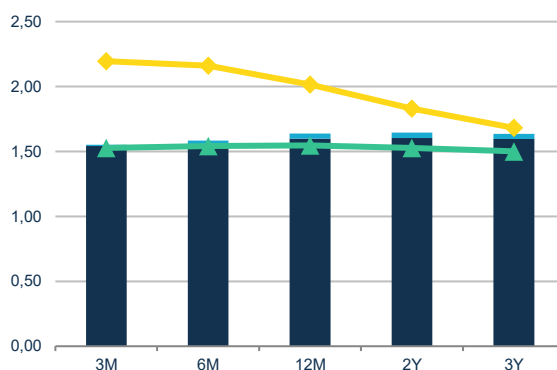
Interest rate differential and FX insurance costs vs. the Euro for selected currencies

interest rate differential, basis swap rates and insurance costs

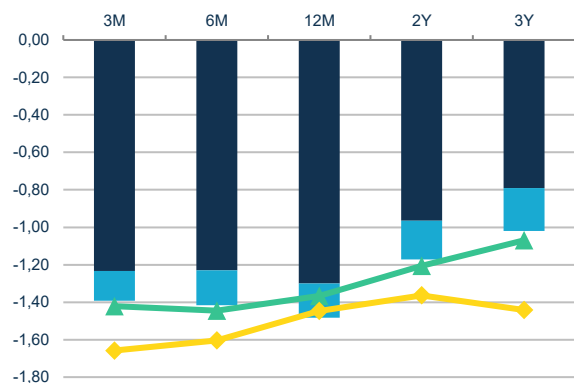
US dollar



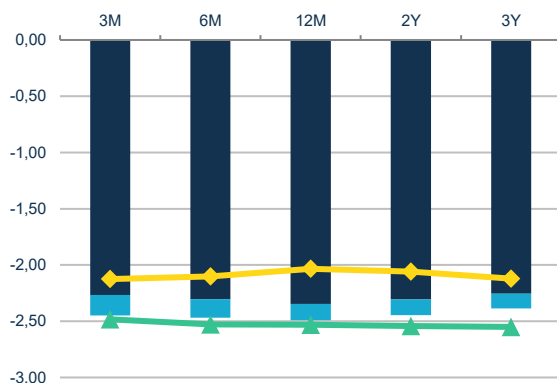
British pound



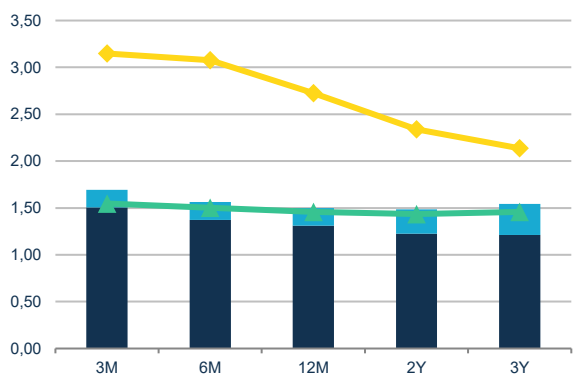
Japanese yen



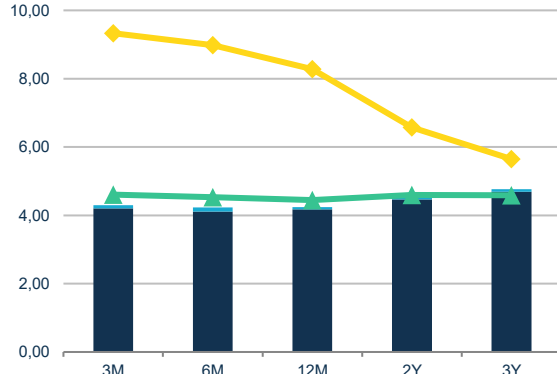
Swiss franc



Polish zloty



Mexican peso



■ interest rate differential
▲ insurance costs (p.a.; current)

■ basis swap rates
◆ insurance costs one year ago

Sources: Bloomberg, LBBW Research

Credit Spreads

5Y CDS Spreads	Current	1W	1M	Changes		
				3M	6M	1Y
IG Corporates	52	0	-2	-14	1	-1
HY & NR Corporates	242	-6	-21	-84	-1	-36
Senior Financials	54	-1	-3	-17	0	-6
Sub Financials	88	-1	-5	-32	-5	-14

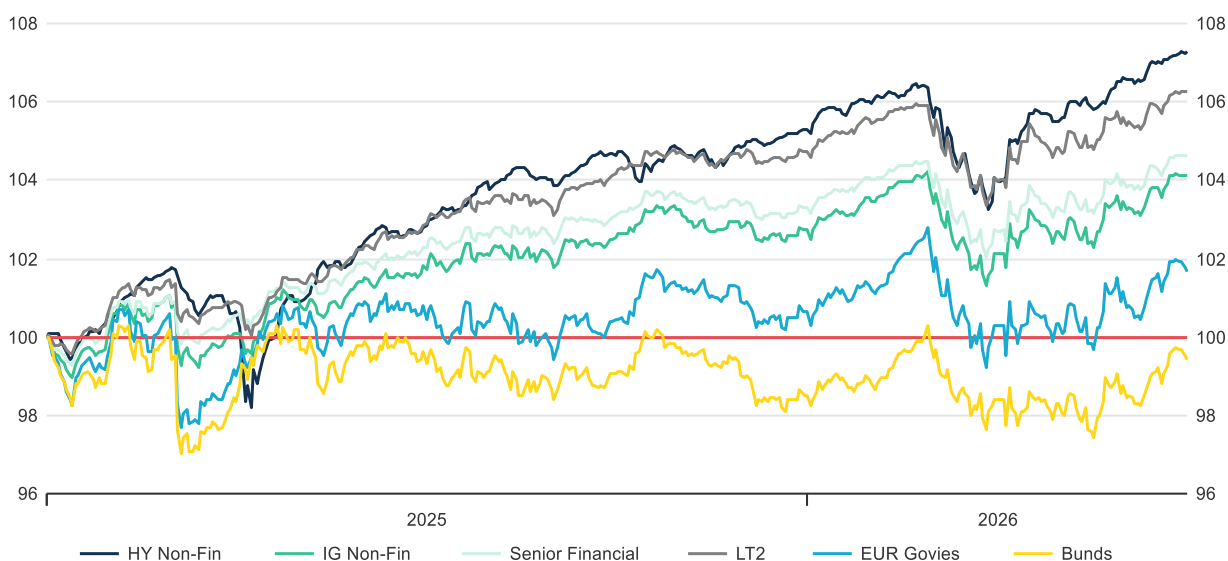
EUR Indices	Current	1W	1M	Changes		
				3M	6M	1Y
Non-Financials	76	0	2	-7	1	-9
Banks Senior Preferred	54	1	0	-13	-6	-12
Banks Senior Bail-in	73	1	0	-12	-2	-10
Banks Subordinated	107	0	-2	-22	-4	-26

*time lag of one day, Asset Swap Spreads

03.07.2026

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	
		0/+ Corporate Inv. Grade	0/- Emerging Markets Debt	
Credit	0/+	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

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

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