Bonds Weekly

CW 28/2026 | LBBW Research | Strategy/Macro

Bond markets: Escalation in the Middle East turns sentiment negative

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01 |

Our View

Bond Market Movers – Review and Outlook

What drove the bond markets last week?

- Following the latest round of tit-for-tat military strikes between the U.S. and Iran in the Middle East, Donald Trump has had enough. He declares the ceasefire over. Negotiations on a permanent peace agreement are set to continue. Yet, Trump sees no prospect of success.
- U.S. President Trump also caused a stir at the NATO summit by threatening to halt bilateral trade with Spain.
- In light of the recent turmoil in the Middle East, Bundesbank President Nagel reiterated that another ECB rate hike might be necessary.
- According to the minutes of the most recent Fed meeting, a few central bankers already believed the conditions for tightening monetary policy were in place.
- The ISM index for the U.S. services sector edged down slightly in June, and price expectations also weakened.
- The issuance of the new 10-year Bund faced historically weak demand. The nominal bid-to-cover ratio was at its lowest level since the fall of 2021.

What could drive the market next week?

- The peace process in the Middle East is facing its toughest test since the U.S.-Iran agreement was signed about a month ago. Will the recent wave of military violence bring the negotiations permanently off track?
- Fed Chairman Warsh is set to deliver his first semiannual monetary policy testimony to the U.S. Congress.
- The macroeconomic highlight of the week will be the U.S. consumer price data for June. Headline inflation is very likely to fall for the first time since the outbreak of the Iran War, dropping back below 4%. According to our forecast, the core rate is set to stagnate at 2.9%. Moreover, U.S. retail sales figures for June will be in the spotlight.
- China is the first of the major economies to release its second-quarter GDP data.
- The primary market for U.S. Treasury bonds will be in the doldrums next week. Meanwhile, activity in the primary market for euro-denominated government bonds is set to pick up compared with last week. We expect gross supply to total just over EUR 30bn, following approximately EUR 20bn the previous week. Given quite high reflows from maturing bonds, net cash flows are nevertheless about to turn positive.

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Bond markets: Escalation in the Middle East turns sentiment negative

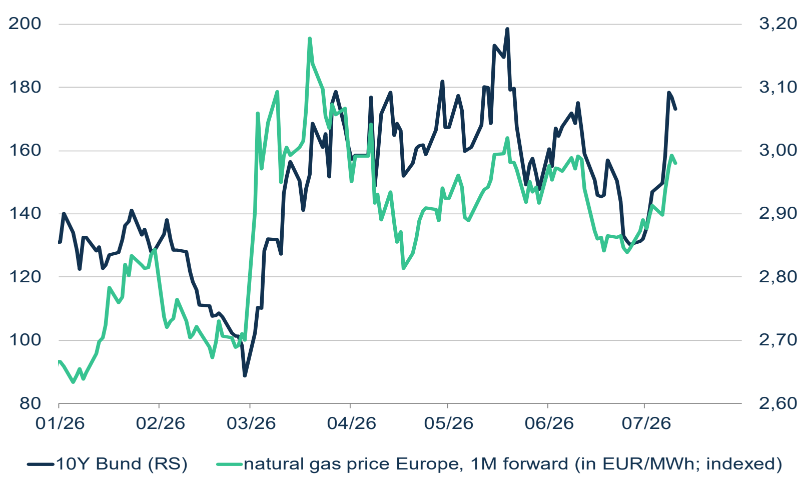
Back to where we started in the Strait of Hormuz?

Once again, the U.S. president's unpredictability strikes. Just a week ago, Donald Trump had largely ignored the repeated military incidents in the Strait of Hormuz and praised the (alleged) progress in the negotiations toward a lasting peace. Now, it seems, everything has changed again. Trump hurled vitriolic insults at Iran following its recent attacks on ships in the strait and ordered a stronger retaliatory response. He declared the ceasefire, which had been renewed under the U.S.-Iran agreement, to be over. Furthermore, since the U.S. has reinstated oil sanctions against Iran, Tehran, for its part, considers the agreement to be void. Shipping through the Strait of Hormuz, which has only just reopened, is thus once again in grave danger. The U.S. president's erratic behavior is now, once again, a source of hope: Perhaps Trump was simply in a bad mood in Ankara and wanted to vent his frustration over the sluggish diplomatic process with particularly bellicose threats in order to intimidate the mullah regime. Following this logic, a new round of mediation could lead to an agreement to restore the ceasefire once the recent turmoil has subsided. Pakistan has already offered to act as a mediator. In our view, however, the risk of a return to the "hot" phase of the war has increased significantly. Consequently, the geopolitical risk premium in the commodity markets has risen, with prices for Brent crude oil and European natural gas each surging by a good 10% week-on-week at their peaks.

Trump declares ceasefire over – is it all just a tactic?

Chart of the Week

Yield on 10-year German government bonds and futures price for European natural gas (indexed; 100 = Feb. 27, 2026)



Source: Bloomberg, LBBW Research

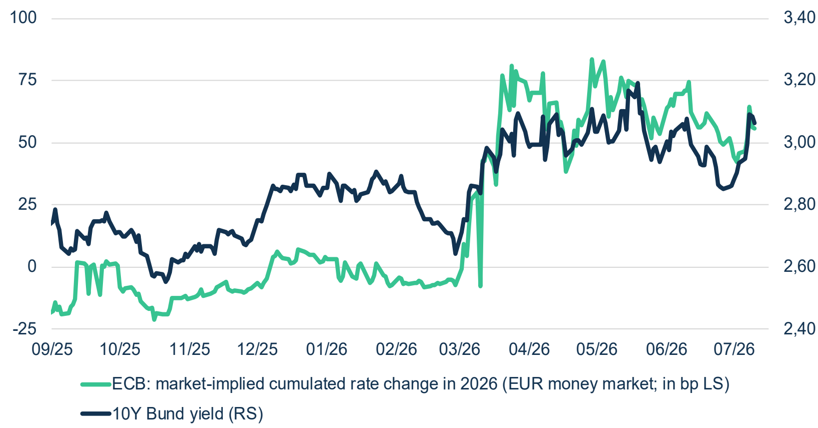
Natural gas price hits highest level since mid-June

Bond markets weighed down by inflation and debt concerns

The major government bond markets on both sides of the Atlantic suffered sharp price setbacks in the wake of the bad news from the Middle East. The spike in energy prices reignited concerns about persistently high inflation which had previously subsided. Consequently, expectations in the U.S. interest rate market solidified that the Fed will begin raising its benchmark interest rate in the third quarter. The yield on 10-year U.S. Treasuries climbed to a peak of just under 4.60% and thus came within 10 basis points of the annual high set in March. The picture

U.S. Treasuries come within just 10 bp of annual high is roughly the same for the euro-denominated government bond market: Investors have now put aside their doubts about another ECB interest rate hike this year. Based on the forward rates in the euro money market, they are instead considering the possibility that there could be two more rate hikes (see the chart below). The yield on 10-year German government bonds surged to around 3.10%. Compared to its interim low at the end of June, the EUR benchmark yield has risen by a quarter of a percentage point.

Fresh rate hiking speculation is weighing on the bond market
Yields on 10-year Bunds and market expectations for cumulative change in the ECB's key rate in 2026



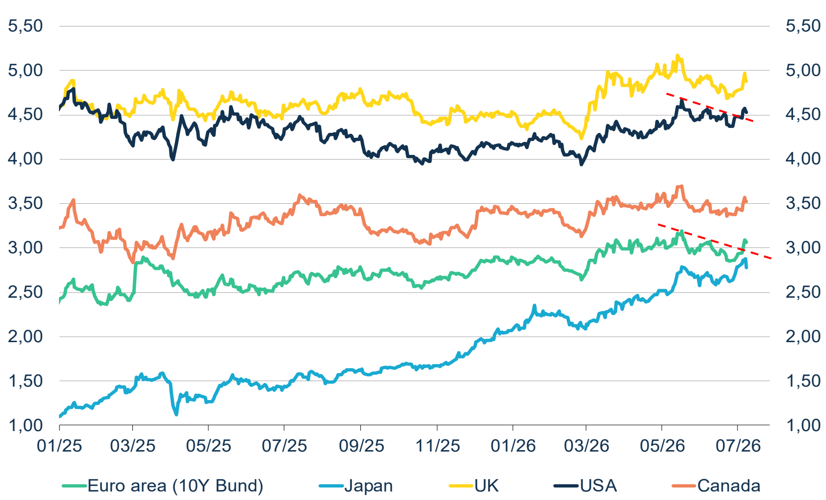
Source: Bloomberg, LBBW Research

10Y Bund yield up 25 bp since end of June

However, in our view, the sharp rise in government bond yields over the past few days cannot be explained solely by shifts in expectations regarding key interest rates. First, we suspect that, given the previous sharp decline in rates volatility, market participants were too complacent about the risk of a renewed escalation in the Middle East. The bond-bullish sentiment that had dominated global markets in the second half of June has come to an abrupt end. Especially since the downward trend in yields starting from annual highs in May has been broken in both the U.S. and the eurozone (see the chart below).

Abrupt shift in sentiment

Sovereign bond yields break their short-term downward trends
Yields on 10-Year government bonds for selected economic regions



Source: Bloomberg, LBBW Research

Short-term downward yield trends broken

Second, we assume that concerns among investors about a further rise in government debt have resurfaced more strongly over the past week and a half. One indication of this is that yield curves on both sides of the Atlantic have tended to steepen since the beginning of the month (see also the article on page 12). Amid growing speculation about tighter monetary policy, this steepening is rather unusual. Once again, Japan was a global pioneer in these trends, and developments there likely had a partial spillover effect on the U.S. and Europe. Reports that the German federal government intends to take on even more new debt than previously planned, according to its updated draft budget for 2027, may have further fueled investors' debt concerns, in our view.

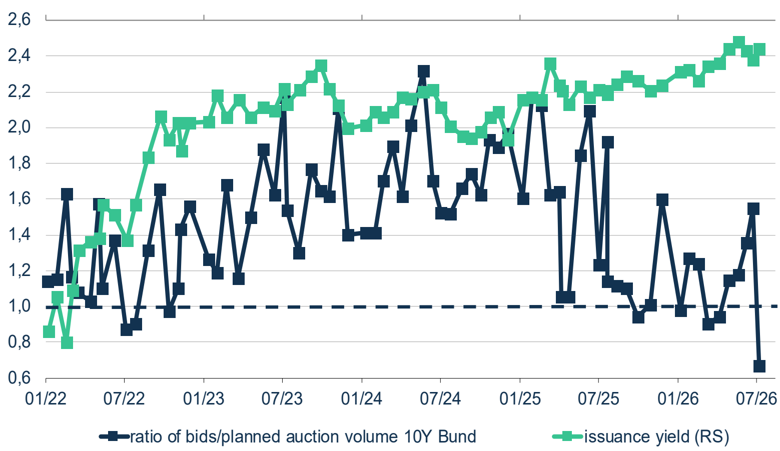
Steeper yield curves: Debt worries flare up

Against this backdrop, the issuance of the new 10-year German government bond met with a very lukewarm response this week. The Federal Finance Agency received bids totaling only about 4 billion EUR for the 6 billion EUR worth of bonds offered for sale. A nominal shortfall is, in itself, not unusual in Bund auctions. In the first half of 2026 alone, this scenario occurred a total of three times in auctions of 10-year securities (see the chart below). However, investor demand has not been as weak as it has been this week since the fall of 2021, relative to the respective target issuance volumes.

Demand for new 10Y Bund extremely weak

Significant mominal miss at most recent Bund auction

Yields on 10-year German government bonds and the ratio of bids to planned auction volumes



Source: Bloomberg, LBBW Research

Third, the recent massive bond issuance by the U.S. corporate giant Amazon is likely to have reminded the market of the enormous capital requirements of the so-called “hyperscalers” for expanding their AI infrastructure. The continued growth in AI investment suggests that major U.S. tech companies will become an increasingly significant competitor to governments in the primary market. In our view, the flood of corporate bond issuance could contribute to a continued rise in term premiums for long-term government bonds.

Hyperscalers' issuance wave continues

Outlook: U.S. inflation data could rein in rate speculation

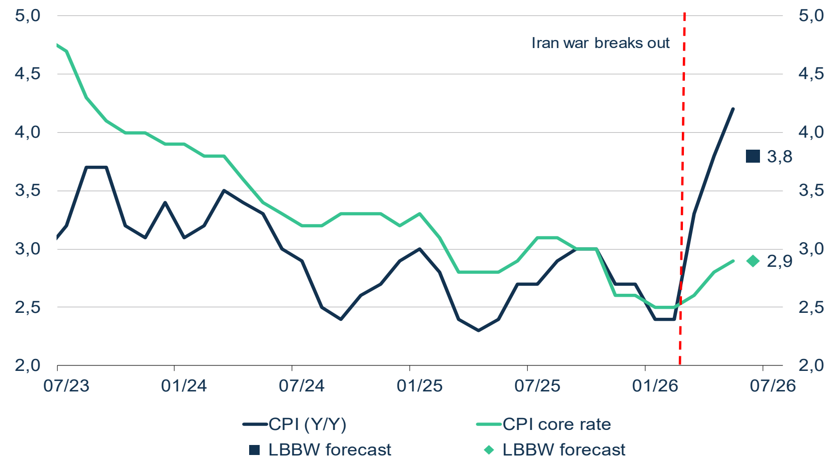
In the short term, meanwhile, following Donald Trump’s latest about-face, the conflict in the Middle East is once again becoming the main factor influencing financial market trends. Overall, both the energy markets and risk assets have reacted moderately to the escalation so far, compared with the start of the war in early March. Based on this assessment, the market consensus does not anticipate a return to the “hot” phase of the war, but rather a temporary interruption in the diplomatic process. If this bet pays off, government bond markets are likely to enter another period of consolidation. The most recent "wake-up call," however, should serve as a sufficient reminder not to slip back into previous complacency. We therefore assume, for the time being, that the potential for a price recovery is limited. By contrast, another prolonged closure of the Strait of Hormuz would carry the risk of a continued sell-off in the bond market.

Middle East is, once again, taking center stage

On the macroeconomic calendar, the focus for the coming trading week will be on the U.S. inflation data for June (July 14). According to our forecast, headline inflation is indeed likely to help keep speculation about

Fed rate hikes in check. Inflation has likely fallen for the first time since the start of the Iran War. It is set to drop below the 4% mark due to a sharp decline in gasoline prices (see the chart below). However, this is likely to reassure bond market participants only if the core rate does not move in the opposite direction. In our view, any sign that the energy price shock is spreading more widely throughout the price structure threatens to drive the already struggling U.S. bond market into a sell-off spiral.

U.S. inflation likely to fall for first time since the Iran war began
U.S. CPI (Y/Y) and Core Inflation (in %, with LBBW forecasts for June 2026)



Source: Bloomberg, LBBW Research

U.S. inflation set to fall below 4% in June

Core rate may tip the scales: Will it stay below 3%?

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	2,38	2,55	2,55	2,55
Swap 2Y	2,83	2,80	2,85	2,75
Swap 5Y	2,90	2,85	2,90	2,85
Swap 10Y	3,09	3,05	3,10	3,15
Bund 2Y	2,63	2,60	2,70	2,65
Bund 5Y	2,75	2,70	2,80	2,80
Bund 10Y	3,07	3,00	3,10	3,20
Swap/Bund 2Y	20	20	15	10
Swap/Bund 5Y	14	15	10	5
Swap/Bund 10Y	2	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)	3,58	3,65	3,65	3,65
3M Money Market	3,75	3,75	3,75	3,65
Swap 2J (SOFR-OIS)	4,01	3,95	3,90	3,65
Swap 5J (SOFR-OIS)	3,97	3,85	3,85	3,75
Swap 10J (SOFR-OIS)	4,11	3,95	4,00	4,00
Treasury 2Y	4,16	4,10	4,10	3,85
Treasury 5Y	4,26	4,15	4,20	4,10
Treasury 10Y	4,53	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*	2,78	2,75	2,80	2,85
UK	*Overnight Rate (SONIA)*	3,73	3,70	3,95	3,95
UK	*10Y Government Bond*	4,88	4,80	4,90	4,90
Switzerland	*Overnight Rate (SARON)*	-0,04	-0,05	-0,05	-0,05
Switzerland	*10Y Government Bond*	0,39	0,35	0,40	0,45

FX	Spot	30.09.26	31.12.26	30.06.27
EURCHF	0,9214	0,92	0,93	0,94
EURCNY	7,7575	8,01	7,91	7,62
EURGBP	0,8519	0,85	0,85	0,85
EURJPY	184,92	187	186	182
EURUSD	1,1439	1,17	1,18	1,19
USDCHF	0,8054	0,79	0,79	0,79
USDCNY	6,7824	6,85	6,70	6,40
GBPUSD	1,3428	1,38	1,39	1,40
USDJPY	161,66	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

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- *Global Economy:* IMF slightly lowers its global GDP growth forecast for 2026 from 3.1% to 3.0% – Forecast for 2027, however, raised from 3.2% to 3.4% – Germany once again stands out negatively with downward revisions for both years – The IMF notes that the global economy has so far weathered the war in Iran better than feared – Growth momentum driven by AI is helping to offset the war-related slowdown – Meanwhile, inflation risks loom largely over the global economy.
- *Middle East Conflict:* Recent Iranian attacks on ships in the Strait of Hormuz underscore the fragility of the current ceasefire between Iran and the U.S. – The attacks are hindering the normalization of shipping in the strait and could jeopardize the mine-clearing operation by France and the United Kingdom – The U.S. has responded with strikes on Iranian territory and by reimposing sanctions on Iranian oil – according to Iranian officials, this halts the provisional agreement between the two countries.
- *Middle East Conflict:* U.S. President Trump harshly denounced the Iranian regime as "scum" and declared the ceasefire between the two countries over in light of recent incidents – saying that while negotiations on a final peace agreement could continue, he saw no prospect of success.
- *Middle East Conflict:* Israeli Prime Minister Netanyahu emphasizes the need for military buffer zones on foreign territory to ensure the country's security – he reaffirms the permanent stationing of troops in the Gaza Strip, Syria, and Lebanon.
- *Middle East Conflict – Energy Price Crisis:* Ship traffic in the Strait of Hormuz has once again thinned out significantly following the latest military escalation – according to media reports, only a few ships are still passing through, most with their transponders turned off.
- *Geopolitics – NATO Summit:* NATO member states have pledged at least 70 billion EUR to Ukraine for military equipment, support, and training this year – this level of support is expected to continue next year – EU commitments for defense-related spending totaling 60 billion EUR are included in this figure – U.S. government has indicated that it may grant Ukraine a license to produce urgently needed ammunition for the U.S. Patriot air defense system.
- *Geopolitics – NATO Summit:* On the sidelines of the NATO summit, Canada awarded a contract to a German-Norwegian consortium to build twelve submarines – the contract, worth a total of 60 billion EUR, is also seen as a sign of closer military and security cooperation between European NATO member states and Canada.
- *Geopolitics – NATO Summit:* U.S. President Trump slams Spain as a "terrible" partner and threatens to sever bilateral trade ties due to a lack of support for the U.S. – Spanish government strives for a measured response, citing the U.S. trade surplus with Spain.
- *Monetary Policy – ECB:* According to the account of the June meeting, ECB policymakers followed an approach of "measured adjustment" with their rate hike – they did not want to signal either a series of hikes or a one-off tightening – energy price shock has spread to other sectors through broad-based indirect effects – further indirect effects are in the pipeline – ongoing uncertainty currently requires refraining from forward guidance.

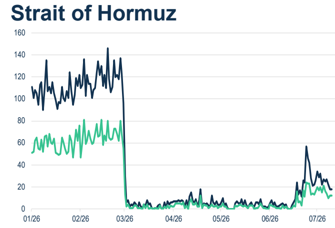
IMF Growth Forecasts

GDP forecasts (Y/Y)	2025	2026 Apr 2026	2026 *Jan 2026*	2027 Apr 2026	2027 *Jan 2026*
World	3,5	3,0	*3,1*	3,4	*3,2*
Developed countries	1,9	1,7	*1,8*	1,8	*1,7*
USA	2,1	2,3	*2,3*	2,2	*2,1*
Euro area	1,4	0,9	*1,1*	1,2	*1,2*
Germany	0,2	0,7	*0,8*	1,0	*1,2*
France	0,9	0,6	*0,9*	0,9	*0,9*
Italy	0,5	0,5	*0,5*	0,5	*0,5*
Spain	2,8	2,1	*2,1*	1,8	*1,8*
UK	1,4	1,0	*0,8*	1,3	*1,3*
Japan	1,1	0,6	*0,7*	0,7	*0,6*
Emerging Markets	4,5	3,8	*3,9*	4,5	*4,2*
China	5,0	4,6	*4,4*	4,1	*4,0*
Russia	1,0	1,1	*1,1*	1,1	*1,1*
Brazil	2,3	2,4	*1,9*	2,2	*2,0*
India	7,7	6,4	*6,5*	6,7	*6,5*
World Inflation (Y/Y)	4,1	4,7	*4,4*	3,9	*3,7*

Sources: IMF, LBBW Research

Trump calls off ceasefire with Iran and threatens Spain

Strait of Hormuz



Sources: Bloomberg, LBBW Research

ECB account: adjustment of monetary policy

- *Monetary Policy – ECB:* Bundesbank President Nagel has expressed frustration over the latest negative news from the Middle East – a further interest rate hike may be necessary – while Executive Board member Schnabel emphasizes that, even if tensions in the Middle East ease, the situation is not the same as it was before the Iran War.
- *Monetary Policy – Fed:* According to the minutes of the June 16/17 meeting, a few central bank officials already believed the conditions for tightening monetary policy were in place, but ultimately supported the consensus view that interest rates should remain unchanged – Overall, the meeting was dominated by growing concerns about inflation trends – Concerns about employment trends, on the other hand, eased somewhat – A majority of central bankers fear that AI investments could fuel inflation.

Positive signs from the German industry

- *Germany – Economy:* Factory orders rose by 1.9% (M/M) in May, following a decline of -3.2% in April – both domestic orders (+1.3%) and foreign orders (+2.2%) on the rise – Industrial production also climbed, by 0.9% (M/M), following +0.2% in April.
- *Eurozone – Economy:* Sentix investor confidence improved more than expected in July, rising from -13.4 to -3.1 points – highest level since March 2026.
- *Eurozone – Inflation:* Producer prices rose the most in May since March 2023, increasing by 5.9% (Y/Y), following a 5.0% increase in April.
- *U.S. – Economy:* ISM Index for the services sector edged down slightly in June, from 54.5 to 54.0 points – orders component weakened, while outlook for employment improved – price pressure eased somewhat from a significantly higher level, with the corresponding subindex falling from 71.3 to 67.7 points.

U.S. jobs market cools somewhat

- *United States – Labor Market:* Weekly ADP report shows another modest decline in employment growth – according to the report, private-sector jobs rose by an average of 21,000 during the four-week period ending June 20, down from 24,250 in the previous period.
- *China – Inflation:* Consumer price inflation slowed to a rate of 1.0% (Y/Y) in June, down from 1.2% in May – core rate also declined, from 1.1% to 1.0% – Producer prices rose by 4.1% in June, a sharper increase than in May (3.9%).

German government wants to take on more debt

- *Germany – Fiscal Policy:* Ministry of Finance is projecting higher new borrowing for 2027 than previously announced – According to the plan, the core budget deficit is expected to amount to 119 billion EUR instead of 110 billion EUR – additional shortfall of 85 billion EUR from special budgets must be financed with new loans – Revenue shortfalls due to weaker economic performance are the reason for the budget adjustment – The ifo Institute accuses the federal government of “accounting tricks.”
- *Germany – Corporate Defaults:* According to the IWH Insolvency Trend, the number of corporate insolvencies rose to its highest level in 21 years in the second quarter – the economic researchers expect this trend to continue into the third quarter -with many industries and regions affected simultaneously.
- *United Kingdom – Government Crisis:* Economic advisers to Prime Minister-designate Andy Burnham recommend radically overhauling the British tax system to trigger a new surge in economic growth – Plans call for comprehensive simplification, including the consolidation of various types of taxation, as well as tax relief for the middle class – Any resulting loss of revenue could be offset by a new 1% tax on real estate assets.

Le Pen will run for president in 2027

- *France – 2027 Presidential Election:* Appeals court upholds Marine Le Pen’s conviction for embezzlement of EU funds, but reduces the duration of her disqualification from holding public office to 15 months – Le Pen is thus, in principle, eligible to run for president in 2027 – however, she has been ordered to wear an electronic ankle monitor for one year – Le Pen announces her intention to run for office as the candidate of the right-wing populist Rassemblement National.

- *Euro area – Debt:* ESM chief economist warns of new crisis risks in the Euro area that would primarily affect smaller, highly indebted member states – ESM cites Belgium, Slovenia, and Slovakia, which are particularly vulnerable to energy and financial shocks – ESM bases its warning on stress scenarios that simulate a combination of sharp rises in energy prices and a "revaluation" of U.S. financial assets, such as government bonds.
- *Oil Market:* OPEC+ countries are continuing their current policy of gradually increasing production levels despite the recent drop in prices – as a result, member countries' oil production is set to rise by an additional 188,000 barrels per day starting in August.

ESM warns of crisis risks in the Euro area

Next Week's Data

TIME	COUNTRY		PERIOD	LBBW FORECAST	CONSENSUS FORECAST[1)]	LAST VALUE[2)]	IMPORTANCE
MONDAY, 13.07.2026							
18:45	EMU	ECB Council member Schnabel speaks					***
TUESDAY, 14.07.2026							
12:00	USA	NFIB Small Business Optimism	Jun	95,0	95,5	95,3	*
14:30	USA	CPI (M/M)	Jun	-0,2	-0,1	0,5	***
14:30	USA	CPI Ex Food & Energy (M/M)	Jun	0,3	0,2	0,2	***
16:00	USA	Fed Chairman Warsh delivers semiannual testimony before Congress					***
22:00	USA	Net Long-Term TIC Flow s (bn USD)	May	-	-	103,1	*
	CHN	Exports in USD (Y/Y)	Jun	20,8	18,5	19,4	**
WEDNESDAY, 15.07.2026							
04:00	CHN	GDP (Y/Y)	Q2	-	4,5	5,0	***
04:00	CHN	Industrial Production (Y/Y)	Jun	4,8	4,6	4,5	**
04:00	CHN	Retail Sales (Y/Y)	Jun	-0,1	-0,1	-0,6	**
11:00	EMU	Industrial Production (M/M)	May	0,4	0,3	0,1	**
14:30	USA	Empire Manufacturing Index	Jul	4,0	8,6	5,7	**
14:30	USA	Producer Price Index, Final Demand (M/M)	Jun	-0,1	-0,1	1,1	*
20:00	USA	Fed publishes Beige Book					**
THURSDAY, 16.07.2026							
11:00	EMU	Trade Balance (bn EUR)	May	1,0	-	1,3	*
14:30	USA	Advance Retail Sales (M/M)	Jun	0,2	0,3	0,9	***
14:30	USA	Philadelphia Fed Index	Jul	15,0	15,0	10,3	**
16:00	USA	NAHB Index	Jul	35	35	35	**
16:00	USA	Pending Home Sales (M/M)	Jun	-	-	3,8	*
FRIDAY, 17.07.2026							
11:00	EMU	HICP (Y/Y) (final)	Jun	2,8	-	2,8	*
14:30	USA	Housing Starts (thous.)	Jun	1350	1325	1177	**
14:30	USA	Building Permits (thous.) (prelim.)	Jun	1400	1400	1410	**
14:30	USA	Import Price Index (M/M)	Jun	-	-0,6	1,9	*
15:15	USA	Industrial Production (M/M)	Jun	0,0	0,2	0,1	**
15:15	USA	Capacity Utilization (in %)	Jun	76,1	76,2	76,2	*
16:00	USA	Uni Michigan Consumer Confidence (prelim.)	Jul	52,0	51,3	49,5	***

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

EUR Yield Curve: A tug-of-war between monetary policy and debt

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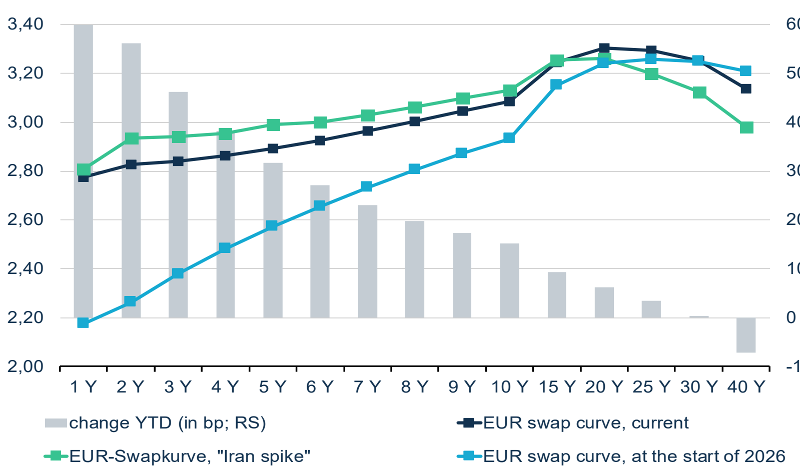
Several months of consolidation in the rates market

The euro interest rate market began to consolidate just a few weeks after the energy price shock in March of this year. Since then, the short end of the EUR swap curve has remained well above its pre-war level and also significantly above its level at the start of the year. At the same time, interest rates appear to have put some distance to the "peaks" reached during the height of the Iran War, after the parties to the conflict shifted toward détente with the U.S.-Iran agreement in June. The preliminary end to the "hot" phase of the war has capped interest rates for the time being, while the aftermath of the energy price shock has imposed a certain limit on the downside. At the long end of the euro yield curve, the consolidation of the past few weeks has also taken place well above the level seen before the Iran war. Compared to the start of 2026, however, the 10-year EUR swap rate is currently only moderately higher. For the ultra-long end, one can even observe a sideways trend on balance this year (see the chart below).

Short-term swap rates consolidate somewhat below Iran high

Upward shift since the start of the year, except at the ultra-long end

Current EUR swap curve, at the beginning of 2026, and at the "Iran peak"



Source: Bloomberg, LBBW Research

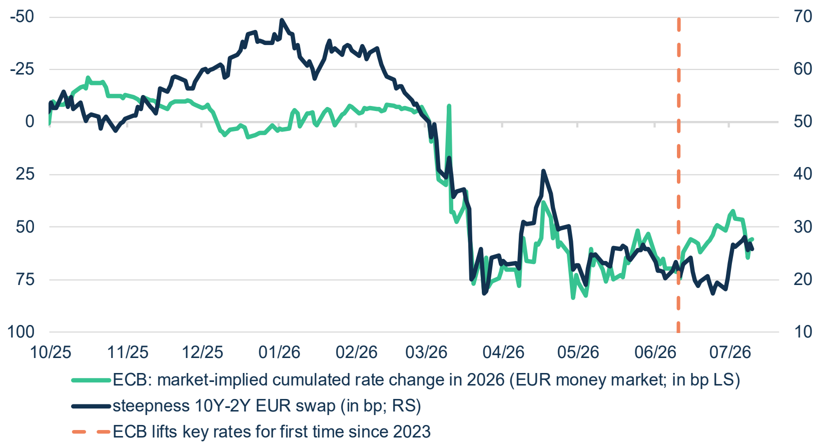
Ultra-long-term rates near YTD starting level

ECB's rate turnaround has not triggered a fresh yield curve flattening

Overall, the steepness of the EUR swap curve has flattened out broadly since the start of the Iran War. The spread 10Y-2Y EUR swap fell from just over 50 basis points at the end of February to below 20 basis points at times, the lowest level since February 2025. The subsequent consolidation in the rates market led to a tentative bottoming out of the yield curve slope. In our view, the initial flattening push following the energy price shock had already anticipated a phase of monetary tightening by the ECB. However, despite last month's actual start of rising key rates, the yield curve has not yet received any new impetus toward flattening. In fact, the opposite is true: As the following chart shows, since mid-June,

The 10Y-2Y spread suggests bottom building market participants have scaled back their expectations regarding the extent of further ECB interest rate hikes. The spread 10Y-2Y EUR swap appears to have reacted to this – albeit with some delay – with a moderate rise to just under 30 basis points. In our view, it can therefore be stated that, for the time being, the yield curve's steepness has not followed the historical "pattern," according to which a trend toward flattening typically occurs during periods of ECB hikes (see the June 12, 2026, issue of *Bonds Weekly*).

A slight curve steepening since the ECB's interest rate turnaround
Spread 10Y-2Y EUR swap and market expectations for the cumulative change in the ECB policy rate for 2026 (in bps)



Source: Bloomberg, LBBW Research

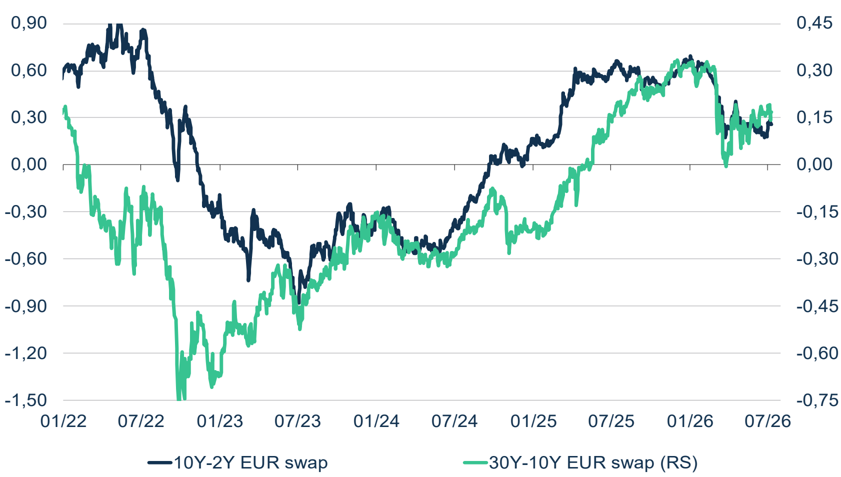
Steepness remains closely tied to key rate expectations

Is the ultra-long segment back on track for widening?

Looking at the ultra-long end of the EUR curve, the spread 30Y-10Y swap appears to have advanced even further in bottoming out following the initial flattening shock from March 2026. Starting from a yearly low near zero, the 30Y/10Y spread has risen by roughly 15 bp, on balance. The ultra-long slope has thus roughly offset half of the flattening triggered by the Iran War (see the chart below).

30Y/10 swap has recovered half of its slump

Is there more to it than just a bottom formation on ultra-long steepness?
Slope for 10Y/2Y EUR swap and the 30Y/10Y EUR swap



Source: Bloomberg, LBBW Research

10Y/2Y and 30Y/10Y have been closely aligned since mid-2025

Given this context, is it reasonable to state a return to the trend of steepening which dominated the year 2025? We currently consider this conclusion to be premature. First, during past periods of heightened market stress and increased market volatility – such as at the start of the Iran War – the ultra-long end of the EUR swap curve regularly exhibited significant distortions. As a result of these distortions, the 30Y/10Y spread was temporarily skewed downward. In our view, part of the steepening of the yield curve since March stems from a correction of these distortions. Second, based on historical cycle analysis, the EUR yield curve is expected to continue to flatten in the coming months. If the easing of tensions in the Middle East proves to be sustainable – something about which doubts have intensified in recent days – then the need for further monetary tightening by the ECB is indeed likely to be limited. However, it would be premature to write off the rate hiking phase, which in and of itself tends to flatten the yield curve. In principle, we believe this relationship also applies to the ultra-long end of the euro yield curve. Especially since the 10Y-2Y EUR swap and the 30Y-10Y EUR swap have generally moved tightly in tandem over the past twelve months.

Cycle analysis: Bottom forming could prove deceptive

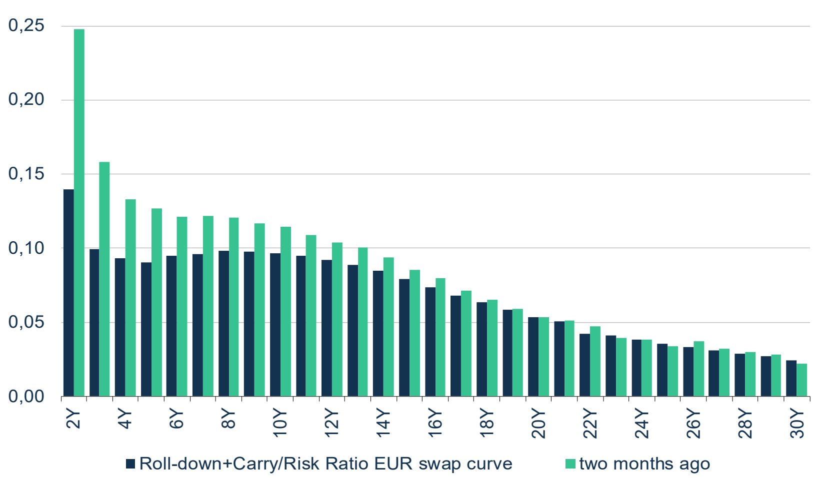
On the other hand, market participants are likely to once again focus more attention on the ongoing rise in global government debt, provided that a lasting resolution to the war in Iran is achieved. A strikingly sharp rise in yields on long-term Japanese government bonds last week may have provided a preview of this. In our view, pressing debt concerns were a key driver of the sharp steepening of the yield curve in 2025. In addition, with regard to the ultra-long end of the yield curve, market participants had anticipated a decline in demand for long-term bonds from Dutch pension funds. In our view, these last two factors influencing the steepness of the curve were only temporarily overshadowed by the Iran War. We would therefore reject to rule out these factors as drivers of a (renewed) medium-term steepening of the EUR yield curve. As far as the Dutch pension reform is concerned, it is true that the first stage of its implementation phase went relatively smoothly. According to the Dutch central bank, pension funds which account for approximately 30% of the sector's total assets had already implemented the reform when the first quarter of 2026 ended. However, a significant portion of the transition to the new pension system will not take place until 2027.

To what extent will debt concerns resurface?

Don't tick off dwindling demand from Dutch pension funds just yet!

Highest risk-adjusted carry remains at the short end

Sum of the roll-down and the carry/risk ratio on the EUR swap curve



Source: Bloomberg, LBBW Research

We keep medium-term preference for steepening

The near-term outlook for the steepness of the EUR swap curve remains subject to a high degree of uncertainty, especially since the process of de-escalation in the Middle East hangs in the balance following this week's events. New disruptions could loom, particularly at the ultra-long end, should the situation in the Strait of Hormuz escalate. Nevertheless, we feel vindicated for now in our assessment that steepener positions remained promising in the medium term, even at the peak of the energy price shock. Sticking with this assessment has proven effective, especially with regard to the ultra-long curve segment.

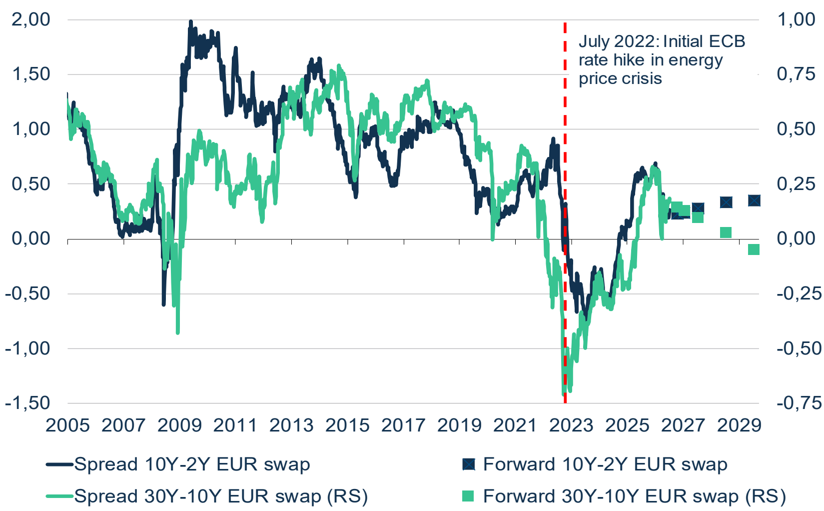
Steepeners: Short-term outlook fairly uncertain

And in our view, that is precisely where the risk-reward ratio for steepener positions has remained quite favorable looking ahead. The structural arguments cited above in favor of a steeper yield curve (rising debt, the impact of the Dutch pension reform) should at least provide a floor in case cyclical forces push the curve toward a flatter shape more strongly than we expect. Meanwhile, the conditions for a positive carry/roll-down for ultra-long steepeners remain stable. Forwards are pricing in a decline to zero for the spread 30Y-10Y EUR swap over the next two years. For the 10Y-2Y EUR swap, however, the "guidance" from the forwards indicates a slight steepening, which is in fact close to our own forecast. The adverse scenario of a prolonged period of ECB rate hikes could therefore more easily push a front-end steepener "underwater."

Forwards: 10Y/2Y relatively close to our forecast, …

A prolonged period of ECB hikes would pose significant flattening risks across all segments

Yield Curve: 10Y-2Y and 30Y-10Y EUR swaps with forward slopes



Source: Bloomberg, LBBW Research

… while, for 30Y/10Y, we do not share the "guidance" of flattening

03 I

Credit Strategy

Calm Credits Despite New Risks

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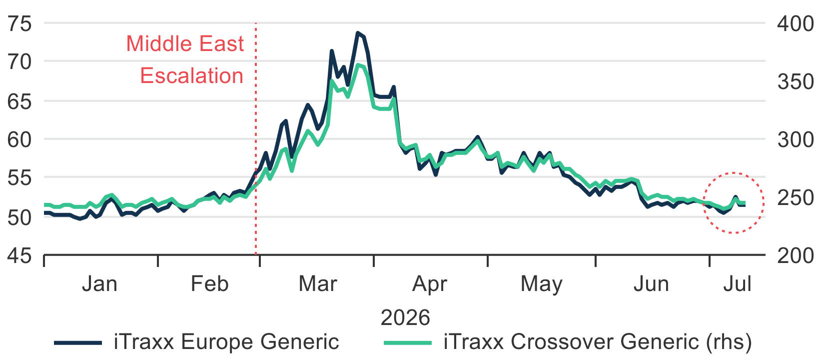
Spreads Remain Low, Yields Attractive

New uncertainty in the Gulf

Geopolitical tensions surrounding the Persian Gulf have once again become the focus of the financial markets in recent days. Remarks by U.S. President Donald Trump, in which he said the ceasefire between Israel and Iran should be considered a failure, caused oil prices to rise sharply again. While stocks and government bonds reacted to this with price declines, the reaction in the European credit markets was comparatively moderate. Although risk premiums widened slightly, they remain at historically low levels overall.

Geopolitics is losing influence

Credit spreads react calmly to renewed escalation
iTraxx Europe vs. iTraxx Crossover



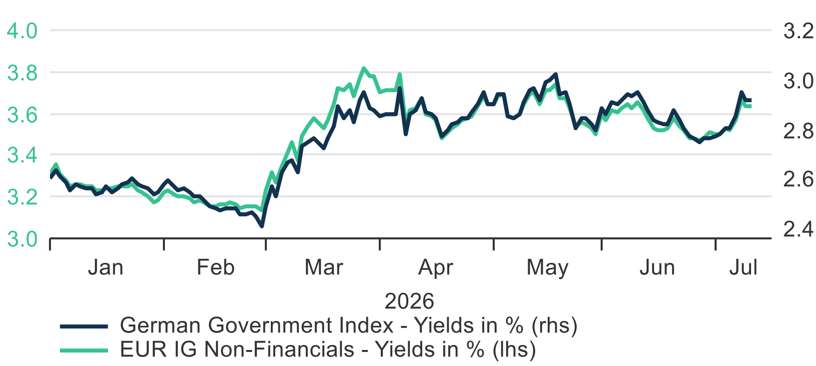
Source: LSEG, LBBW Research

Government bonds are driving the yield trend

The impact was significantly greater on the yield side. Yields on euro-denominated investment-grade corporate bonds have recently risen almost in tandem with yields on German government bonds. For investors, this continues to result in an attractive level of absolute yields, even though the risk premiums themselves show little room for further tightening. In the medium term, we therefore continue to expect a moderate widening of credit spreads.

Rising yields offer opportunities

Government Bond Yields Are Driving Up Corporate Bond Yields
EUR-IG Yields vs. Bund Yields



Source: LSEG, LBBW Research

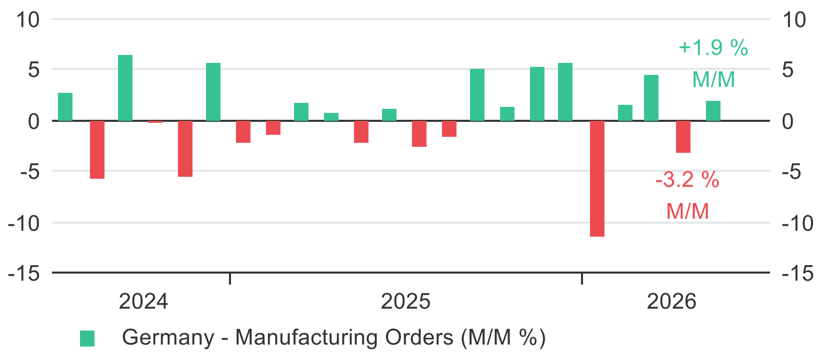
First Signs of Stabilization

Hard data are improving

On the economic front, there have recently been cautiously positive signs. New orders in Germany's manufacturing sector rose stronger than expected by 1.9% in May compared with the previous month, significantly exceeding analysts' expectations. At the same time, the sharp decline recorded in the previous month was revised upward to -3.2%. While it is still too early to speak of a sustained turnaround, the data suggest that the economy will not deteriorate further.

New orders exceed expectations

German Industry Reports an Increase in Orders
New Orders in the Manufacturing Sector



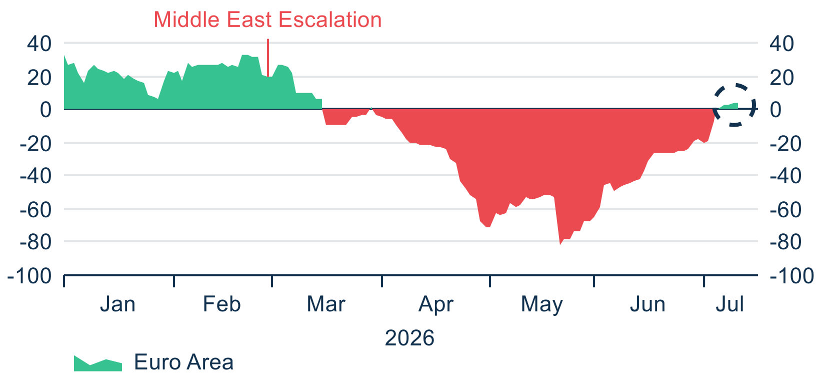
Source: LSEG, LBBW Research

Macroeconomic outlook improving

The Economic Surprise Index for the eurozone has also improved significantly recently. After months of macroeconomic data almost exclusively falling short of expectations due to the escalation in the Middle East, the index is back in positive territory for the first time since March, signaling an improvement in the economic outlook.

Mostly positive surprises

Macroeconomic data surprises on the upside again
Eurozone Economic Surprise Index



Source: LSEG, LBBW Research

CONCLUSION – Cautious Optimism

IG remains the top choice

Given the stabilizing fundamentals, the current robust credit market performance seems generally understandable. At the same time, current spread levels already reflect an extremely positive scenario. We therefore continue to see no significant potential for further tightening. In the medium term, we expect credit spreads to normalize moderately. In our view, investment-grade corporate bonds remain the most attractive balance between return and risk.

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New issues of corporate bonds with attractive coupons in H1/2026

Record Volume of new bonds

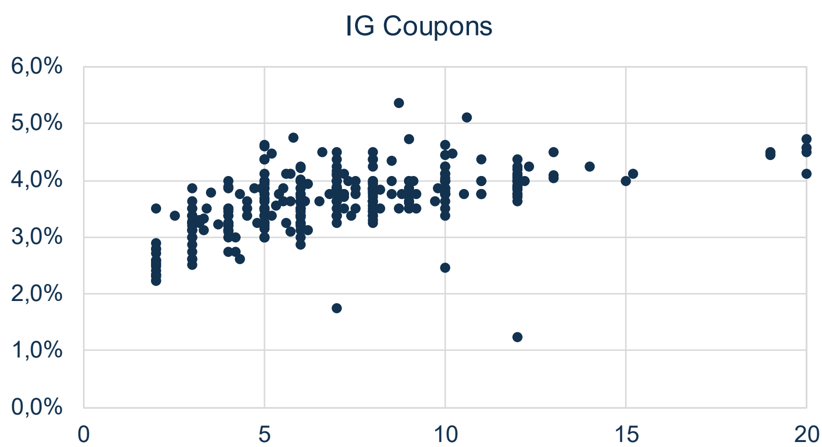
In the first half of 2026, companies issued new euro-denominated bonds totaling a record 331 billion EUR (+8% year-over-year). Only in the first half of 2020—the year of the COVID-19 crisis—was the volume similarly high (about 330 billion EUR). The high supply was driven by strong demand: On average, investors subscribed for nearly four times the volume that was ultimately placed.

The slight rise in interest rates and yields in the first half of 2026 also contributed to this. Despite low risk premiums, the new corporate bonds offered attractive coupons to investors.

To provide an overview, we have sorted the new issues from the first half of the year by coupon rates, maturities, and rating segments (IG/HY). To facilitate comparison, the charts below include only senior bonds (i.e., excluding subordinated hybrid bonds, which offer structurally higher yields).

Investment-Grade Segment

Investment grade: Coupons on New Issues H1/2026
EUR Corporate Bonds, Coupons in % and by Maturity (in Years)



Source: Bloomberg, LBBW Research

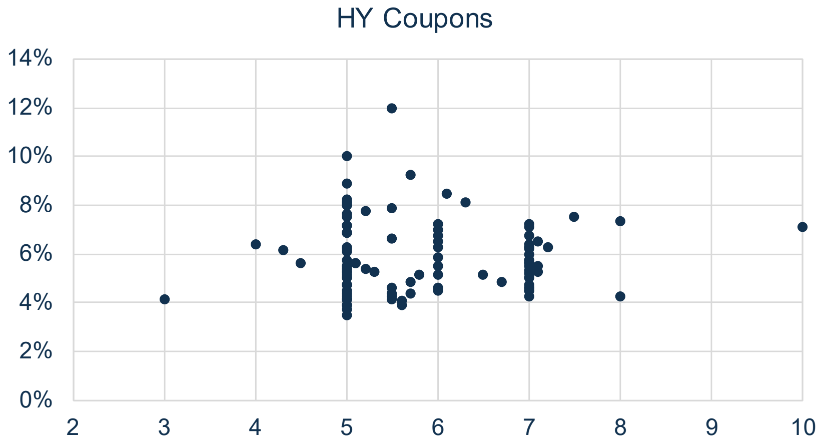
IG average: 7.2 years, 3.6%

In the investment grade segment, there were 344 new bonds issued, with an average maturity of 7.2 years and a coupon rate of 3.6%.

In addition to the range of maturities listed here—from 2 to 20 years—some bonds issued by U.S. corporations had even longer maturities. The tech giants Alphabet and Amazon issued bonds with by far the longest maturities of 37 and 38 years, with coupons of 4.8% and 4.85%.

For new issues in the investment-grade segment, coupon rates ranged from 1.25% to 5.375%.

High-Yield Ratings: Coupons on New Issues H1/2026
EUR Corporate Bonds, Coupons in % and by Maturity (in Years)



Source: Bloomberg, LBBW Research

HY average: 5.8 years, 5.9%

In the high-yield segment, there were 114 new bonds issued, with an average maturity of 5.8 years and a coupon rate of 5.9%.

Relatively long maturities for HY

Companies in the HY segment also took advantage of the favorable market conditions to issue bonds with longer maturities. Very few HY bonds were issued with a maturity of less than 5 years. The average term was therefore nearly 6 years, which seems very high compared to the IG segment (around 7 years). For companies with HY ratings, bond maturities are generally shorter than for new IG issues due to the higher credit risk.

The HY maturities ranged from 3 years to 10 years, with the majority issued with maturities between 5 and 7 years.

As usual, the coupon rates on new issues in the high-yield segment ranged widely, from 3.5% to 12.0%. This differentiation stems from the credit ratings of the high-yield issuers, which ranged from BB+ (close to investment grade) to CCC+.

04 I

Calendar/Analytics

Developed Markets Overview

	2 Years			10 Years		
Euro Area	**Yields**	**Spread**	**Change***	**Yields**	**Spread**	**Change***
Bund	2,64			3,07		
Jumbo	2,90	26	2	3,44	37	0
Swap	2,83	19	1	3,09	2	-3
Netherlands	2,63	0	2	3,16	9	-4
Austria	2,70	6	0	3,30	23	-3
France	2,81	18	0	3,84	77	-2
Belgium	2,69	5	0	3,60	53	-4
Italy	2,82	18	0	3,81	75	-3
Spain	2,70	6	0	3,51	45	-4
Ireland	n.a.	n.a.	n.a.	3,22	15	-4
Portugal	2,63	0	-1	3,41	34	-4
Greece	n.a.	n.a.	n.a.	3,73	66	-2
EX. EURO AREA	**Yields**	**Spread**	**Change***	**Yields**	**Spread**	**Change***
USA	4,16	152	-8	4,53	146	-9
Canada	2,81	17	-5	3,52	46	-5
Japan	1,44	-120	-5	2,78	-29	-14
UK	4,22	158	0	4,87	181	-4
Switzerland	0,09	-255	-8	0,39	-268	-8

* 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
14.07.2026	Japan	JGB	20Y		JPY 800 bn.	
14.07.2026	Germany	Schatz	09/28		€ 6 bn.	New
14.07.2026	Netherlands	NETHER	01/31	2.50%	€ 3.5 bn.	Tap
15.07.2026	Germany	Bund	30Y		€ 3 bn.	Tap
15.07.2026	Greece	GGB				Tap
16.07.2026	France	OAT	02/32	3.25%	€ 6 bn.	Tap
16.07.2026	France	OAT	09/29	2.40%	€ 6 bn.	Tap
16.07.2026	France	OAT€i			€ 3 bn.	
16.07.2026	Spain	SPGB	3Y - 30Y		€ 6 bn.	Tap
16.07.2026	UK	UKT	10Y		GBP 4 bn.	Tap

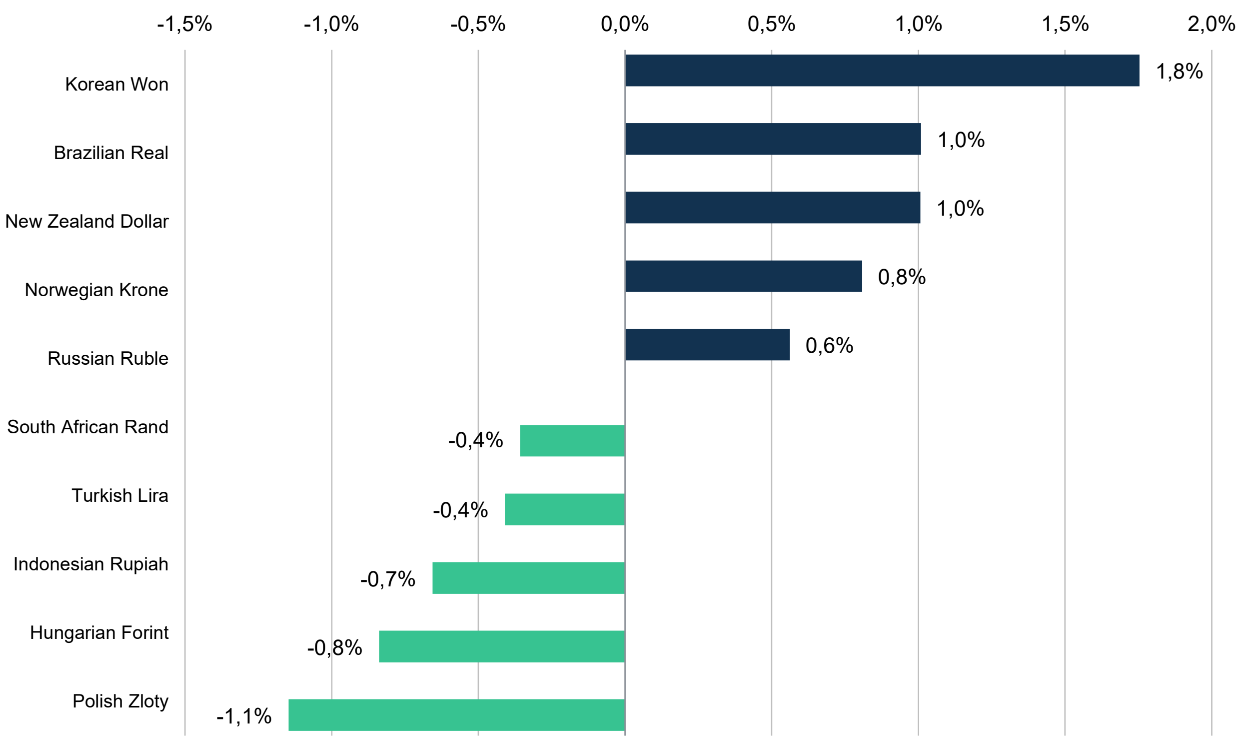
Sources: Bloomberg, LBBW Research

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%	2,8%	↗			
United States	29.07.26	3,75%	10.12.25	4,00%	4,2%	↑	1,9%	1,1440	1,1526
United Kingdom	30.07.26	3,75%	18.12.25	4,00%	2,8%	↘	1,7%	0,8522	0,8587
Japan	31.07.26	1,00%	16.06.26	0,75%	1,5%	↓	-0,3%	185,02	183,61
China	***	2,00%	25.09.24	2,30%	1,0%	·	4,9%	7,76	7,73
Switzerland	24.09.26	0,00%	19.06.25	0,25%	0,5%	↗	1,0%	0,9215	0,9095
Argentina	***	29,00%	31.01.25	32,00%	32,6%	↘	0,3%	1.699,17	1.912,26
Australia	11.08.26	4,35%	05.05.26	4,10%	3,2%	↗	5,6%	1,65	1,66
Brazil	05.08.26	14,25%	17.06.26	14,50%	4,7%	·	6,8%	5,85	6,14
Canada	15.07.26	2,25%	29.10.25	2,50%	3,2%	↑	-0,1%	1,62	1,62
Czech Republic	06.08.26	3,75%	18.06.26	3,50%	1,5%	↘	0,1%	24,25	24,37
Denmark	***	2,00%	12.06.26	1,75%	1,9%	·	0,0%	7,48	7,46
Hong Kong	***	4,00%	08.11.24	4,25%	2,0%	↑	1,4%	8,97	8,99
Hungary	21.07.26	6,00%	23.06.26	6,25%	1,7%	↓	8,6%	356,44	361,04
India	05.08.26	5,25%	06.02.25	5,50%	3,9%	↑	-3,5%	109,15	111,77
Indonesia	22.07.26	5,75%	18.06.26	5,50%	3,3%	↗	-4,8%	20.681,14	21.145,24
Mexico	06.08.26	6,50%	07.05.26	6,75%	3,4%	↘	4,4%	20,03	20,48
New Zealand	02.09.26	2,50%	08.07.26	2,25%	3,1%	·	1,9%	1,98	1,99
Norway	13.08.26	4,25%	07.05.26	4,00%	2,7%	↘	5,2%	11,17	11,28
Poland	09.09.26	3,75%	04.03.26	4,00%	2,5%	·	-2,9%	4,34	4,37
Romania	10.08.26	6,50%	07.08.24	6,75%	10,9%	↗	-2,8%	5,24	5,33
Russia	24.07.26	14,25%	19.06.26	14,50%	5,3%	↘	4,4%	87,66	93,71
Singapore	***	1,70%	n.a.	1,75%	1,8%	↗	1,6%	1,48	1,47
South Africa	23.07.26	7,00%	28.05.26	6,75%	4,5%	↑	2,6%	18,63	19,05
South Korea	16.07.26	2,50%	29.05.25	2,75%	3,2%	↑	-0,4%	1.719,40	1.723,67
Sweden	20.08.26	1,75%	23.09.25	2,00%	0,7%	↗	-3,1%	11,04	11,01
Turkey	23.07.26	37,00%	22.01.26	38,00%	32,1%	·	-6,4%	53,78	62,91

Sources: Bloomberg, LBBW Research

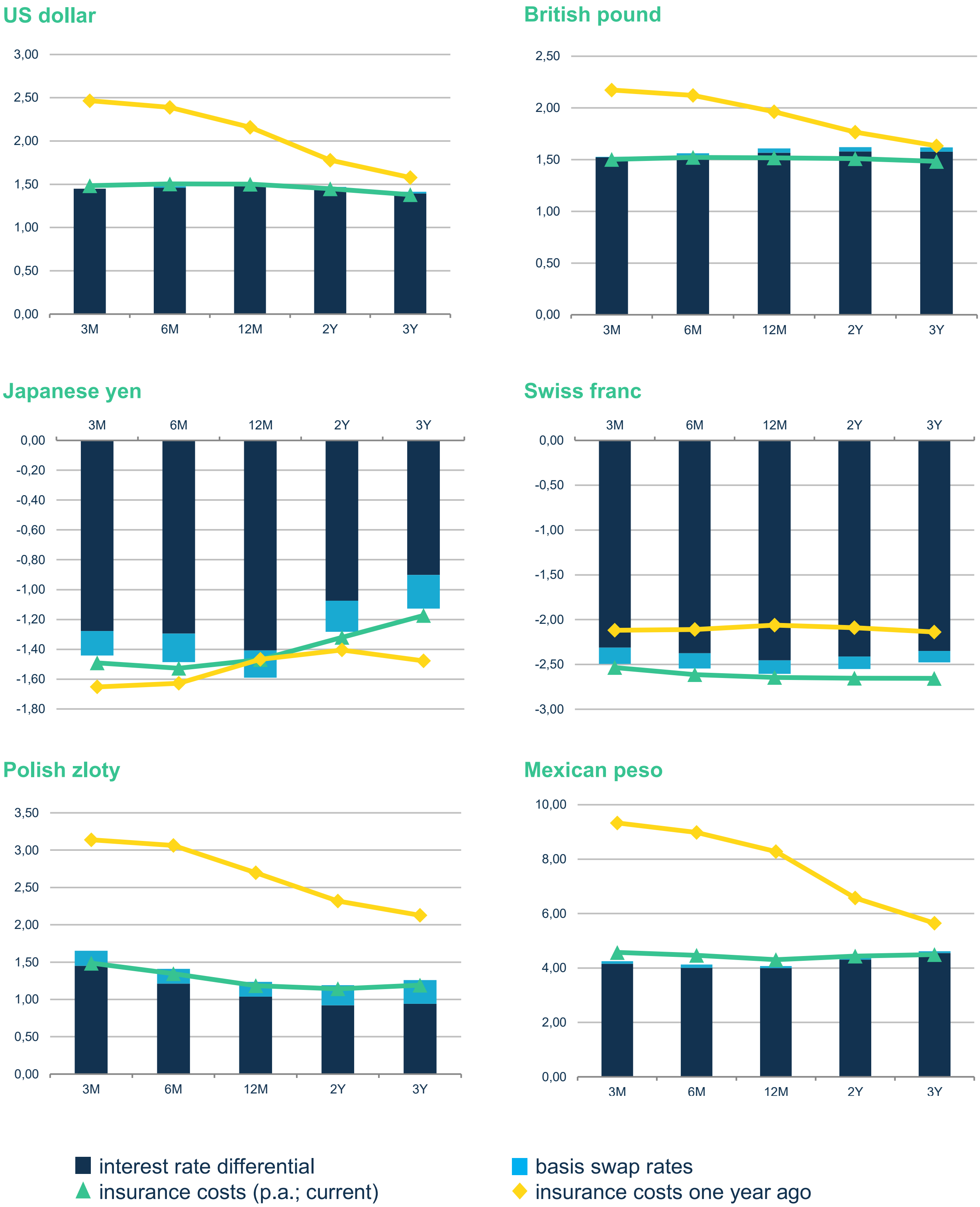
The Strongest Currency Appreciations and Depreciations Against the Euro This Week



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

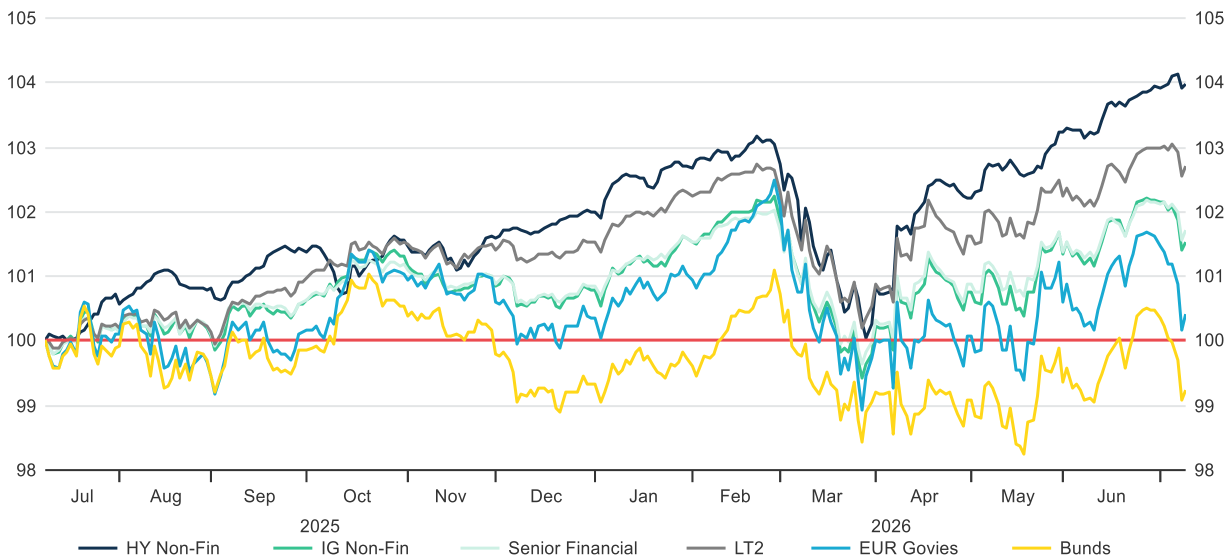
5Y CDS Spreads	Current	Changes 1W	1M	3M	6M	1Y
IG Corporates	51	1	-3	-7	2	-2
HY & NR Corporates	244	3	-22	-49	3	-33
Senior Financials	54	1	-3	-10	1	-6
Sub Financials	88	1	-6	-18	-3	-13

EUR Indices	Current	Changes 1W	1M	3M	6M	1Y
Non-Financials	74	-1	0	-3	-1	-9
Banks Senior Preferred	52	-1	-1	-7	-7	-12
Banks Senior Bail-in	69	-2	-2	-8	-4	-13
Banks Subordinated	102	-4	-7	-16	-6	-25

*time lag of one day, Asset Swap Spreads 10.07.2026

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	
Credit	0/+	0/+	Corporate Inv. Grade	0/-	Emerging Markets Debt	
		0	Corporate High Yield			
		0	Corporate Hybride			
		0/+	Senior Financials			
		0/+	Covered Bonds/SSAs			
		0	Tier 2 Inv. Grade/ Sen. Non-Pref.			

Sources: LBBW Research

05 | Disclaimer

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