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Bonds Weekly

CW 37/2026 | LBBW Research | Strategy/Macro

Anticipation builds ahead of Fed decision and U.S. Inflation

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CREATED ON: 2026-09-11 11:50

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Our View

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Bond Market Movers – Review and Outlook

What drove the bond markets last week?

- The price of Brent crude has jumped back above the $100-per-barrel mark for the first time in nearly two months. The military skirmishes between the U.S. and Iran in the Strait of Hormuz appear to be escalating rather than showing any signs of de-escalation.
- As expected, the ECB raised its key rate for the second time since the outbreak of the war in Iran. The new staff projections now show inflation at the end of the forecast horizon slightly above the 2% target.
- The U.S. jobs report for August came in significantly better than expected. Job growth was three times higher than the consensus forecast, while the unemployment rate remained at a multi-month low.
- U.S. President Trump is promising every adult citizen a "dividend" of $5,000 if his Republicans win the midterm elections, contrary to the polls.
- The most recent auction of 10-year U.S. T-Notes has seen the highest investor demand in about ten years. Meanwhile, at the most recent auction of 10-year German government bonds, demand exceeded the volume of bonds offered for sale for the first time in three months.

What could drive the market next week?

- The financial markets are set to remain focused on news from the Middle East and trends in commodity prices. When will a way out of the recent military escalation become apparent?
- The Fed's next interest rate decision hangs in the balance between continuing to wait and see and the first rate hike since July 2023. The consumer price data for August, particularly the core rate, may well tip the scales. We expect the underlying price pressure to ease somewhat once again.
- The Bank of Japan is poised to accelerate its monetary tightening. It likely will raise its key rate for the second time in just three months.
- In the UK, the BoE is set to maintain its current monetary policy stance for the time being. However, if British inflation rose sharply than expected in August, the central bank could adopt a more “hawkish” tone.
- In the primary market for U.S. Treasury securities, the focus next week will be on the tap of the 20-year T-bond. Meanwhile, supply pressure in the primary market for euro-denominated government bonds is likely to rise moderately compared with last week. We expect gross supply to total just under 30 billion euros, compared with 25 billion euros the previous week. Nevertheless, net cash flows are set to surge well into positive territory, as reflows from maturities will be far above average.

Anticipation builds ahead of Fed decision and U.S. Inflation

Downward spiral in the bond market: 10-Year benchmark yields at key thresholds

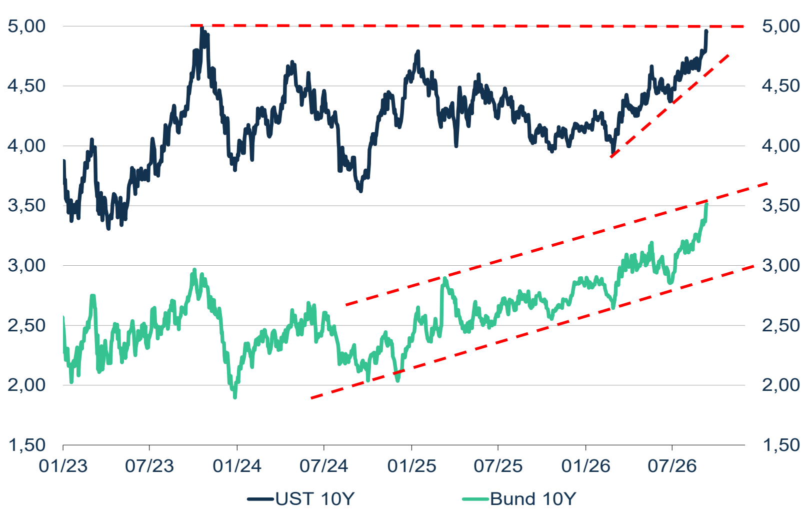
The mood in the major government bond markets on both sides of the Atlantic remains gloomy. The downward trend in prices, which began about two months ago with the collapse of the preliminary U.S.-Iran agreement to reopen the Strait of Hormuz, continues to gain momentum. There are very few bright spots at the moment. Still: The significant rise in long-term government bond yields appears to have stimulated investor interest to some extent in recent auctions of long-term government securities. At an auction of 10-year Bunds, the German Federal Finance Agency received bids totaling more than the full amount of bonds offered for sale for the first time in about three months. Across the Atlantic, demand for the 10-year T-Note auction, as measured by the bid-to-cover ratio, was the highest in ten years. However, the factors dragging bond prices lower outweighed the tailwind from the primary market. In our view, the key factors to mention here are signs of a renewed escalation of the situation in the Middle East. According to media reports, the exchange of fire between the U.S. and Iran in the Strait of Hormuz is intensifying. U.S. President Trump reiterated his assessment that Iran would not be able to hold out much longer. Meanwhile, the scenario of a conflict that will continue for the foreseeable future appears to be gaining further traction among financial market participants. The price of Brent crude oil surged well above the $100-per-barrel mark for the first time in months, while natural gas in Europe is now two and a half times as expensive as it was before the war broke out. Bond market participants are therefore stepping up their speculation on a series of (further) interest rate hikes by the major central banks. In the eurozone, the market consensus is that, following yesterday's interest rate hike, the ECB Governing Council will decide on further monetary tightening as early as October.

Demand picked up at the latest auctions, …

… but Middle East escalation, has deepened the mess in the bond market

Chart of the Week

Yields on 10-Year U.S. Treasuries and 10-Year Bunds



Source: Bloomberg, LBBW Research

10-Year Bund yield hits key resistance level

The European Central Bank officials did stay with their previous approach of not making any preemptive statements regarding their next monetary policy moves. However, given the ongoing upward pressure on energy prices, investors are currently paying little attention to this restraint. Especially since ECB President Lagarde has emphasized the risks of inflation more clearly than before. The negative bond momentum has once again pushed the yield on 10-year Bunds to an annual high this week. The major chartist threshold at the 3.50% mark, the yield top from 2011, has been hit. We expect significant resistance to the bond bears' advance to build at this threshold, especially since the market appears to be increasingly oversold in the short and medium term. However, if the yield resistance were to break on a sustained basis, we do believe that even warnings of a "bloodbath" aren't exaggerated, as investor demand for protection against an uncontrolled decline in bond prices was likely to increase sharply. The specter of a "bond market crisis" would loom large.

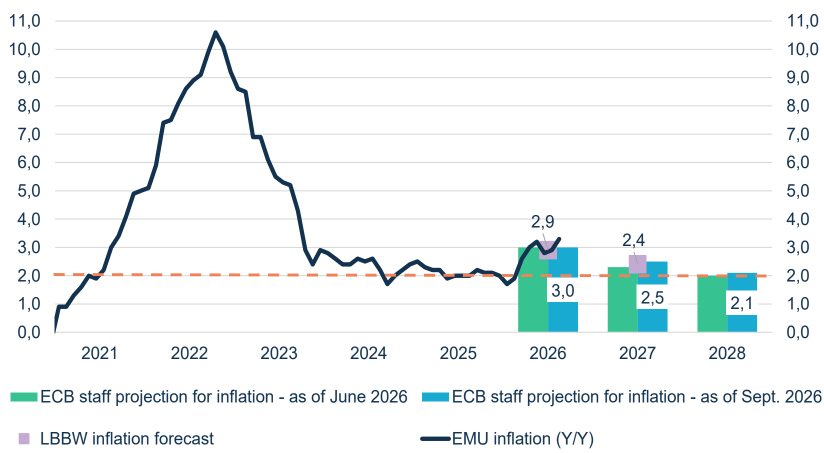
Recovery ahead, or is a "bloodbath" looming?

From the perspective of the eurozone's monetary authorities, the upward spiral in bond yields is likely to become increasingly relevant to their monetary policy considerations, in our view. The resulting tightening of financing conditions for the economy is already having the effect of a tighter monetary policy. Taken on its own, this argues against another hasty increase in key interest rates. Nevertheless, the updated staff projections indicate that, under current circumstances, the ECB Governing Council is inclined to further tightening: According to the ECB's baseline scenario, inflation is therefore expected to remain significantly above the 2% target not only this year but also in 2027, with the deviation from the target being greater than in the June projection (see the chart below). In our view, it is equally important that the ECB's projection suggests a slight upward deviation from the target even for 2028.

ECB appears to be leaning toward further tightening

Staff projections for inflation raised

ECB projection forecasts inflation above target through 2028
EMU Inflation (in %) with previous and new ECB staff projections



Source: Bloomberg, LBBW Research

U.S. labor market data plays into the hands of the hawks

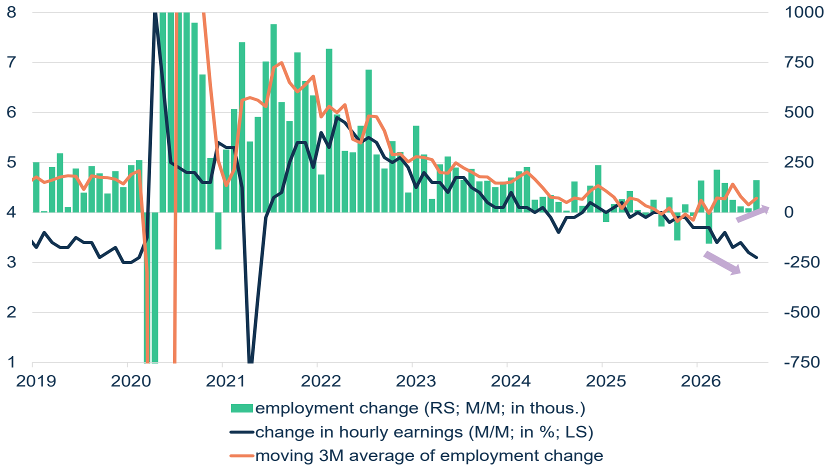
Across the Atlantic, the 10-year U.S. benchmark yield is eyeing the psychologically important 5% mark. That is where the historic bond market decline of 2022–2023 reached its peak. Meanwhile, market observers believe that U.S. Treasury Secretary Bessent is aiming to defend this yield level with his recent strong rhetoric on intervention. In our view, however, the finance minister is at the same time inviting speculative players to test his resolve to further escalate the scale of intervention if necessary. In our view, such "short speculation" may well have contributed to the recent and ongoing weakness in the bond market. In addition, the U.S. jobs report for August provided ammunition for the monetary policy hawks within the Fed. After negative surprises in each of the previous two months, job growth in the U.S. economy exceeded all expectations this time, coming in at just over 160,000. The figures for the previous month were also revised upward. Given a three-month average of about 70,000 new jobs, the U.S. job market is still far from experiencing a new boom. Rather, apart from temporary fluctuations in either direction, the labor market appears to be relatively stable overall, with only moderate wage growth (see the chart below). From the perspective of the U.S. Federal Reserve, we believe this means: At present, they need

Bessent de facto invites short-selling

to give little consideration to employment trends in their monetary policy assessments and can therefore focus entirely on inflation risks.

U.S. job market delivers a positive surprise in August

U.S. employment change (M/M, in thousands) and average hourly earnings (Y/Y, in %)



Source: Bloomberg, LBBW Research

U.S. labor market is not currently a cause for concern for the Fed

Fed decision on Sept. 16: Market consensus leans toward a hike

Based on this assessment, the August jobs data have had only a negligible impact on the outlook for the upcoming interest rate decision on September 16. The hope held by some market participants that a weakening labor market would deter monetary policymakers from raising interest rates has vanished. The market-implied probability of a 25 -basis-point increase in the overnight rate target range therefore rose from 50% to around 70% week-on-week – a trend further fueled by the recent spike in oil prices.

Outlook: U.S. consumer price data and the Fed's decision to be closely linked

Focus on the U.S. CPI

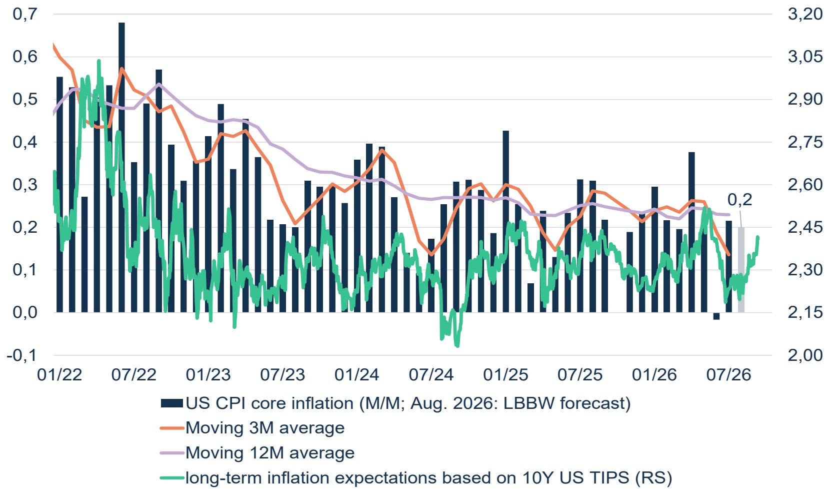
Nevertheless, in our view, the U.S. consumer price data for August, which is set to be released today (September 11) – will still be the deciding factor in the Fed's decision next week. This conclusion is suggested both by the remarks made by Fed Chairman Warsh at the Jackson Hole symposium and by several subsequent statements from members of the Federal Open Market Committee (FOMC). The key factor in the U.S. central bank's monetary policy assessment is likely to be how underlying inflation fared last month. Since the fall of 2025, the monthly rate of U.S. core inflation has averaged 0.2%. During that period, the 12-month moving average has shown a very slight downward trend, despite the war in Iran (see the chart below).

Will the core rate come in above or below 0.2% (M/M)?

If core inflation remains on a moderate 0.2% path in August, the annual rate is likely to continue its recent downward trend due to negative base effects. In this case, we expect the Federal Reserve Board, led by its chairman Kevin Warsh, to be inclined to maintain its current wait-and-see stance. Several regional Fed presidents are likely to counter that the upside risks to inflation have increased since the July FOMC meeting due to the escalation in the Middle East. Consequently, it could come down to a “close call” as to which way the FOMC will lean at the end of its discussion.

We forecast a core CPI rate of 0.2% (M/M)

U.S. core inflation (M/M) with moving averages and market-based long-term inflation expectations



Source: Bloomberg, LBBW Research

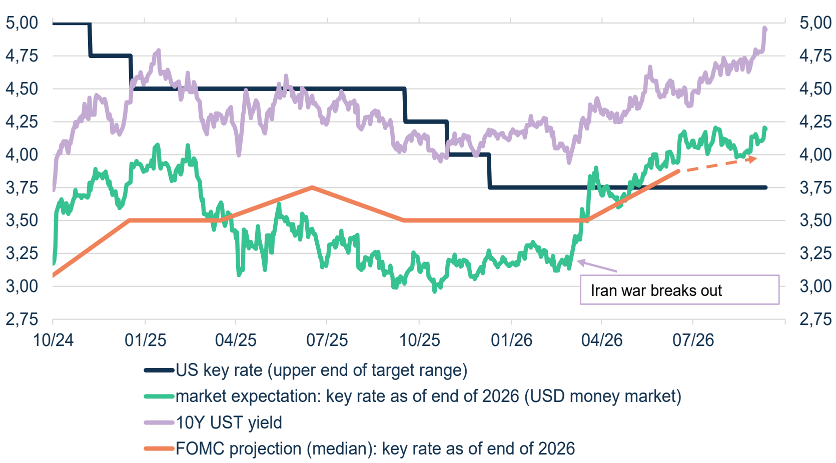
Core inflation a bit lower than a year ago, despite the Iran war

However, if core inflation in August exceeds the average of the past few months, we believe it will be very difficult for the monetary policy doves to maintain a wait-and-see stance. If the figure comes in higher than the consensus forecast, which is also 0.2%, it is thus highly likely that the key rate will move up next Wednesday. Such a "negative" CPI surprise would also be likely to further fuel bearish sentiment in the U.S. Treasury market and push the 10-year benchmark yield further toward the 5% mark.

Above average core rate will lead to a Fed rate hike

How much will the "dot plot" shift upward?

U.S. Federal Funds Rate: Market expectations and Fed projections as of the end of 2026



Source: Bloomberg, LBBW Research

In the event of a "positive" inflation surprise, however, we believe the bond market is likely to see at least a temporary relief rally. If the Federal Reserve were to continue adopting a wait-and-see approach on this basis, however, the implications for the U.S. Treasury market would be mixed: Short-term government bonds would then likely benefit from a setback to the now-excessive hiking speculation. At the long end of the curve, however, investors are unlikely to get carried away by euphoria, as a continued wait-and-see approach to monetary policy could, in and of itself, fuel concerns about long-term price stability. In addition, suspicions of political influence behind the scenes on the Fed could be stoked.

Wait-and-see approach by the Fed would be ambivalent for the bond market

Finally, the Fed's new key interest rate projections, which are set to be released as part of the rate decision, are likely to serve as a yardstick for bond investors. In June, the so-called "dot plot" showed the Fed split down the middle between supporters and opponents of tighter monetary policy in the second half of the year. In our view, the upcoming update is particularly significant in the event that the FOMC ultimately decides to raise interest rates. The “dot plot” then provides guidance on the likelihood of further monetary policy tightening by the end of the year. If the majority of central bankers favor a “one-time” tightening, the “dot plot” could cushion a negative reaction in the bond market to a potential hike.

"Dot Plot" to provides key hint at where the Fed is heading through the end of 2026

Forecasts at a Glance

Euro Area	Spot	31.12.26	30.06.27	31.12.27
ECB Main Refinancing Rate	2,65	2,65	2,65	2,40
ECB Deposit Rate	2,50	2,50	2,50	2,25
Overnight Rate (€STR)	2,19	2,45	2,45	2,20
3M Euribor	2,64	2,55	2,55	2,30
Swap 2Y	3,42	3,00	2,80	2,50
Swap 5Y	3,47	3,10	2,95	2,75
Swap 10Y	3,54	3,30	3,20	3,10
Bund 2Y	3,21	2,80	2,65	2,35
Bund 5Y	3,30	2,95	2,85	2,65
Bund 10Y	3,51	3,30	3,25	3,15
Swap/Bund 2Y	21	20	15	15
Swap/Bund 5Y	17	15	10	10
Swap/Bund 10Y	3	0	-5	-5
Spread BBB Corporates/Bund	90	100	105	110

USA	Spot	31.12.26	30.06.27	31.12.27
Fed Funds Target Rate	3,75	3,75	3,75	3,50
Overnight Rate (SOFR)	3,64	3,65	3,65	3,40
3M Money Market	3,84	3,75	3,65	3,40
Swap 2J (SOFR-OIS)	4,43	4,05	3,65	3,35
Swap 5J (SOFR-OIS)	4,46	4,15	3,85	3,60
Swap 10J (SOFR-OIS)	4,55	4,40	4,25	4,10
Treasury 2Y	4,56	4,20	3,85	3,55
Treasury 5Y	4,74	4,45	4,20	3,95
Treasury 10Y	4,94	4,85	4,75	4,60

G5		Spot	31.12.26	30.06.27	31.12.27
Japan	*Overnight Rate (TONAR)*	0,98	1,25	1,30	1,50
Japan	*10Y Government Bond*	2,99	2,90	2,95	3,00
UK	*Overnight Rate (SONIA)*	3,73	3,95	3,95	3,70
UK	*10Y Government Bond*	5,36	5,10	5,00	4,85
Switzerland	*Overnight Rate (SARON)*	-0,04	-0,05	-0,05	-0,05
Switzerland	*10Y Government Bond*	0,55	0,45	0,45	0,40

FX	Spot	31.12.26	30.06.27	31.12.27
EURCHF	0,9443	0,93	0,94	0,95
EURCNY	7,7880	7,91	7,62	7,62
EURGBP	0,8586	0,85	0,85	0,85
EURJPY	178,99	186	182	180
EURUSD	1,1607	1,18	1,19	1,20
USDCHF	0,8135	0,79	0,79	0,79
USDCNY	6,7092	6,70	6,40	6,35
GBPUSD	1,3519	1,39	1,40	1,41
USDJPY	154,2	158	153	150

Economic Development		2024	2025	2026e	2027e
Germany	*GDP*	0,0	0,4	0,7	0,8
	Inflation	2,3	2,2	2,7	2,3
Euro Area	*GDP*	1,1	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*	0,1	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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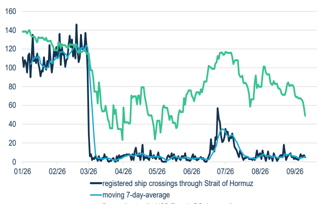
Middle East: Signs point to escalation

- *Middle East Conflict:* The military skirmishes between the U.S. and Iran continue and have recently intensified, with both sides launching attacks on ships around the Strait of Hormuz – price of Brent crude has jumped clearly above the $100 mark for the first time in several months.
- *Middle East Conflict:* U.S. President Trump predicts the end of the war with Iran “shortly after” the U.S. congressional elections on November 3 – Trump reportedly believes that Iran only wants to influence the elections but will not be able to hold out much longer beyond that – whereas, according to media reports, the president’s top advisers are significantly more skeptical about the duration of the conflict.
- *Middle East Conflict:* Yemeni Houthi rebels have escalated the military conflict with Saudi Arabia, thereby further increasing the risk to commodity supply chains – moreover, the rebels have captured a key seaport in Yemen.
- *Middle East Conflict – Energy Price Crisis:* Freight rates for tankers on the Middle East-China route have reached a new all-time high of approximately $800,000 – sharp rise in prices reflects growing supply chain bottlenecks resulting from the ongoing war in Iran.
- *Geopolitics:* EU Strengthens Ties with the autonomous island of Greenland – announces a 200-Million-Euro investment package – EU Commission President von der Leyen warns U.S. President Trump against annexing the island.
- *United States – Trade Policy:* U.S. government has further escalated the trade conflict with Canada – Imports of certain products are to be blocked across the board, while additional tariffs are being imposed on others – the U.S. also wants to exclude Canadian companies from government contracts – Canadian government is considering its own retaliatory measures.

Strait of Hormuz & Oil



Sources: Bloomberg, LBBW Research

ECB delivers "hawkish" rate hike

- *Monetary Policy – ECB:* ECB Governing council decides to raise key rates by 25 bp; deposit rate now at 2.50% – central bankers confirm data-dependent approach “meeting by meeting” – Staff projections for inflation raised for both 2027 and 2028; the figure for 2028 is now 2.1%, slightly above the ECB’s target (previously: 2.0%) – ECB confirms that upside risks to inflation prevail – Inflation is likely to remain above the target “for an extended period” – Lagarde: “We did not discuss the future path of interest rates today.”
- *Monetary Policy – ECB:* According to media reports, ECB officials are leaning toward further tightening of monetary policy - another hike is therefore conceivable as early as the next meeting in October, though the December meeting might be a more appropriate time – meanwhile, market speculation about at least three more rate hikes is presumably too pronounced.
- *Monetary Policy – Fed:* U.S. President Trump is urging the Federal Reserve to refrain from raising interest rates, despite persistently high inflation and surprisingly strong job market figures – Interest rates should rather be lowered – Trump threatens that, if this did not happen, he would have to “likely halt foreign trade with countries that run surpluses with the U.S.”

A setback for German industry

- *Germany – Economy:* Industrial production fell short of expectations in July, dropping by 1.1% (M/M), following stagnation in June – sharp temporary slump in production in the automotive industry played a major role.
- *Germany – Economy:* Exports fell in July for the first time after five consecutive increases, dropping by 0.8% (M/M), following a

0.9% increase in June – decline in exports to other EU countries was the main factor.

- *German – Investments:* The United Arab Emirates (UAE) announces additional investments totaling 40 billion euros in Germany – "Building on the UAE's existing investments in Germany totaling 34 billion euros, we will support those industrial sectors, technologies, and skilled jobs that drive future growth and competitiveness," said the UAE's Minister of Industry and High Technology.
- *Eurozone – Economy:* Sentix Investor Confidence continues its upward trend in September – indicator rises from 0.9 to 5.1 points, the highest level since February 2022.
- *Eurozone – Economy:* GDP growth for the second quarter was significantly revised upward from 0.4% to 0.6% – adjustment once again driven by a sharp revision to Ireland's data (to +10.2% Q/Q).
- *U.S. – Labor Market:* Employment growth in August, at 162,000 (M/M), significantly exceeded expectations, following +21,000 in July – Previous month's figures were also revised upward by a total of 55,000 – unemployment rate remained at 4.1%, the lowest level since June 2025 – Growth in average hourly earnings slows to 3.1% (Y/Y), following 3.2% the previous month.
- *U.S. – Labor Market:* Weekly ADP data shows a slight acceleration in job growth for the four-week period ending August 22, with an average of 12,000 jobs added, up from 10,000 in the previous period.
- *U.S. – Inflation:* Producer prices rose by 5.4% (Y/Y) in August, a modestly sharper increase than in July (4.8%).
- *U.S. – Midterm Elections:* U.S. President Trump promises citizens a "dividend" of $5,000 per adult if the Republicans emerge victorious from the midterm elections in November – Trump's fellow Republicans in Congress are largely cautious about the high cost of this proposal, which would clearly exceed $1 trillion.
- *China – Economy:* Exports rose by 25.0% (Y/Y) in August, following a 23.9% increase in July – trade surplus climbed to 119 billion USD – growth in the technology sector has remained a key driver of foreign trade.
- *China – Inflation:* Price pressure increased moderately in August, rising to 0.8% (Y/Y), up from 0.5% in July – core rate rose from 0.9% to 1.0%.
- *Germany – State Elections:* The right-wing populist AfD celebrates a triumph in the state election in Saxony-Anhalt, but with just under 44% of the vote, it fell short of an absolute majority of seats – not certain that the AfD will take power, but it appears likely – Chancellor Merz acknowledges his own political responsibility for the disaster faced by the CDU, which had previously governed Saxony-Anhalt – however, the federal government must not back down from its reform plans, he says – The EU expresses concern over the election results in Saxony-Anhalt, while other right-wing populist groups in Europe and U.S. President Trump congratulate the AfD.
- *Germany – National Debt:* The ZEW Research Institute criticizes the lack of a forward-looking approach in German government spending – regular core budget for education, research, infrastructure, and climate protection is less future-oriented than at any time since 2018 – only temporary special-purpose debt is currently offsetting this – with the alarming performance of German students on the latest PISA test highlighting this lack of future orientation.
- *Germany – Fiscal Policy:* The Federal Audit Office has criticized the government's budget plans for 2027, calling them a "spiraling debt trajectory" – federal government's borrowing is expanding more and more, and the cost is ever-higher interest payments – the government must "break free from the debt trap now."

UAE to invest more in Germany

EMU GDP and U.S. job market better than expected

Trump makes outrageous campaign promises

AfD set to take power in Saxony-Anhalt

Court of Auditors criticizes "out-of-control debt trend"

Next Week's Data

TIME	COUNTRY		PERIOD	LBBW FORECAST	CONSENSUS FORECAST[1]	LAST VALUE[2]	IMPORTANCE
FRIDAY, 11.09.2026							
14:30	USA	CPI (M/M)	Aug	0,4	0,4	0,1	***
14:30	USA	CPI Ex Food & Energy (M/M)	Aug	0,2	0,2	0,2	***
16:00	USA	Uni Michigan Consumer Confidence (prelim.)	Sep	51,0	51,0	51,7	***
	SPA	Rating Review Spain (Fitch)					**
SATURDAY, 12.09.2026							
09:30	EMU	ECB President Lagarde speaks					***
SUNDAY, 13.09.2026							
	SWE	Parliamentary Elections in Sweden					**
TUESDAY, 15.09.2026							
04:00	CHN	Industrial Production (Y/Y)	Aug	5,0	4,8	4,5	**
04:00	CHN	Retail Sales (Y/Y)	Aug	0,5	0,8	0,6	**
11:00	GE	ZEW Index	Sep	25,0	40,2	34,2	**
11:00	EMU	Trade Balance (bn EUR)	Jul	-	-	1,8	*
14:30	USA	Empire Manufacturing Index	Sep	14,0	14,1	20,6	**
WEDNESDAY, 16.09.2026							
11:00	EMU	Industrial Production (M/M)	Jul	-0,5	-0,9	0,0	**
14:30	USA	Advance Retail Sales (M/M)	Aug	1,0	0,9	-0,6	***
14:30	USA	Import Price Index (M/M)	Aug	-	-	-0,4	*
16:00	USA	NAHB Index	Sep	33	34	35	**
20:00	USA	FOMC Interest Rate Decision		3,75	3,75	3,75	***
22:00	USA	Net Long-Term TIC Flows (bn USD)	Jul	-	-	172,7	*
THURSDAY, 17.09.2026							
11:00	EMU	HICP (Y/Y) (final)	Aug	3,3	-	3,3	*
13:00	UK	BoE Interest Rate Decision		3,75	3,75	3,75	**
14:15	EMU	ECB Chief Economist Lane speaks					**
14:30	USA	Housing Starts (thous.)	Aug	1305	1315	1239	**
14:30	USA	Building Permits (thous.) (prelim.)	Aug	1395	1410	1433	**
14:30	USA	Philadelphia Fed Index	Sep	25,0	28,6	47,4	**
16:00	USA	Pending Home Sales (M/M)	Aug	-	-	-2,3	*
FRIDAY, 18.09.2026							
01:30	JPN	National CPI (Y/Y)	Aug	2,1	2,0	1,9	*
08:00	GE	PPI (M/M)	Aug	1,0	0,3	1,1	*
10:00	EMU	ECB publishes Consumers' Inflation Expectations (1 Year, 3 Years)					**
15:15	USA	Industrial Production (M/M)	Aug	0,4	0,3	0,2	**
15:15	USA	Capacity Utilization (in %)	Aug	76,5	76,4	76,3	*
16:00	USA	Index of Leading Indicators	Aug	-	0,2	0,2	*
	JPN	BoJ target rate		1,25	1,25	1,00	***
	GE	Rating Review Germany (Moody's®)					**
	GRC	Rating Review Greece (Moody's®)					**

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 Yield Curve: Medium-term steepening prospects remain intact

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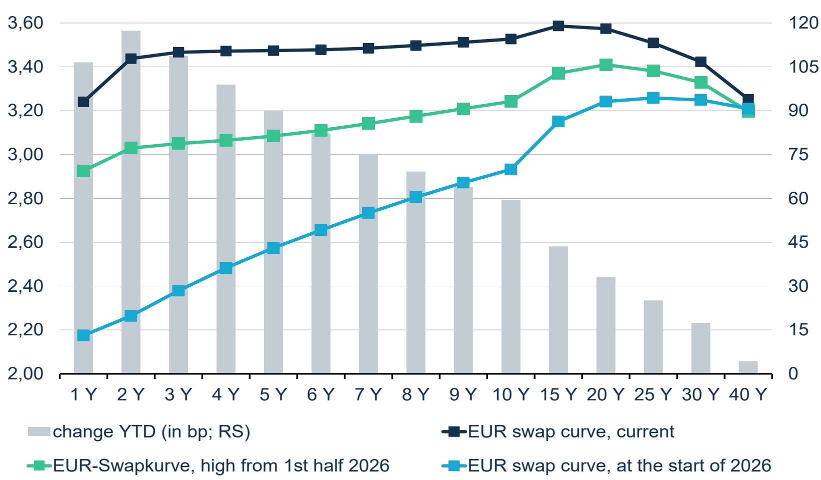
Annual highs across all maturities thanks to a new surge in energy prices

For about half a year now, news developments in the Middle East have been the primary driver of the euro interest rate market. The initial "hot" phase of the conflict was followed in early summer by a temporary lull, which gave way to a second round of escalation from the start of the second half of the year. The latter has so far persisted in principle, with temporary fluctuations in intensity. The price of Brent crude oil – a key indicator of how the conflict is unfolding – is currently below its highs from the first half of 2026. However, interest rates on the EUR swap curve have recently hit new annual highs across the entire maturity spectrum. For maturities ranging from two to ten years, rate levels are currently consistently about 40 bps above their respective highs from the spring of 2026 (see the chart below). In the ultra-long-term range, however, the previous annual peaks were only slightly exceeded. Overall, the market reaction to the second surge in energy prices has thus followed quite a similar pattern to that seen during the initial "Iran shock": The largest overall upward shift occurred in the front segment of the curve; since the beginning of the year, this has now totaled more than 100 bp.

Short-term swap rates 40 bp points above their spring highs

Upward shift went consistently higher than in the spring

Current EUR swap curve, as of the beginning of 2026, and at the peak for the first half of the year



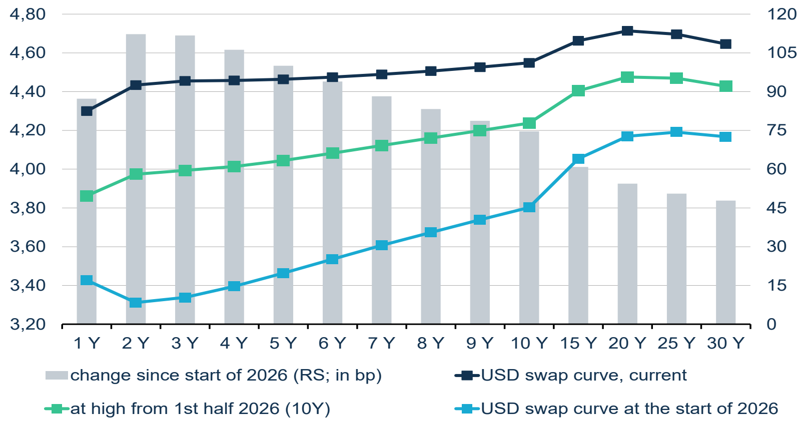
Source: Bloomberg, LBBW Research

Ultra-long-term interest rates just a bit higher YTD

The dominance of the Middle East conflict for interest rate trends is shown not least by the fact that developments in the interest rate markets on both sides of the Atlantic have been largely similar so far this year. As the chart below shows, short-term USD swap rates are also about 100 basis points above YTD starting levels. The longer the maturity, the smaller the upward shift was on balance in the U.S. dollar interest rate market as well.

Very similar picture on the USD rates market

The picture is very similar in the U.S. interest rate market
Current USD swap curve, as of the beginning of 2026, and at the high point of the first half of the year



Source: Bloomberg, LBBW Research

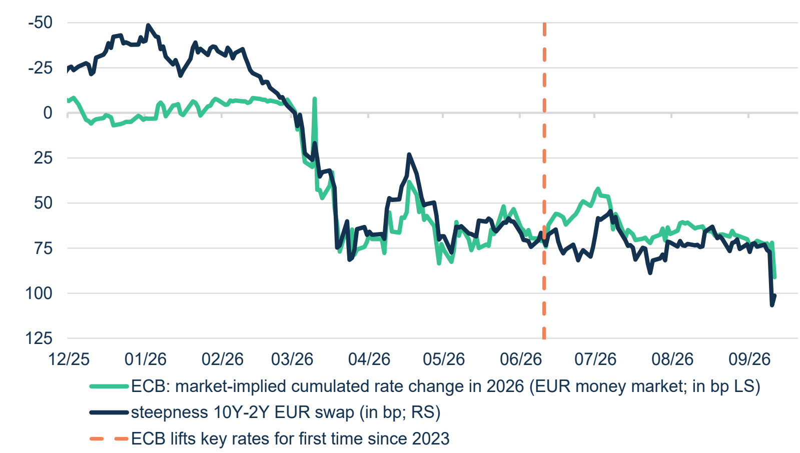
EUR yield curve steepness back near its annual low

The 10Y/2Y spread is closely linked to ECB policy, …

The steepness of the EUR swap curve continues to show a fairly high correlation with the extent of key interest rate hikes that the market consensus expects the ECB to implement in the coming months. The European central bankers have now raised their key interest rates twice since the outbreak of the war in Iran. Since the first hike in June 2026, the market consensus regarding cumulative tightening this year has, on balance, mounted further. Forward rates on the euro money market are pricing in at least one more hike in the fourth quarter. Expectations for the key rate at a cyclical high correspond to a yield curve steepness at a fresh annual low, as measured by the spread 10Y-2Y EUR swap.

… new annual low has therefore been reached

Slope of the yield curve has hit fresh cyclical low
Spread 10Y-2Y EUR swap and market expectations for the cumulative change in the ECB policy rate in 2026 (in bps)

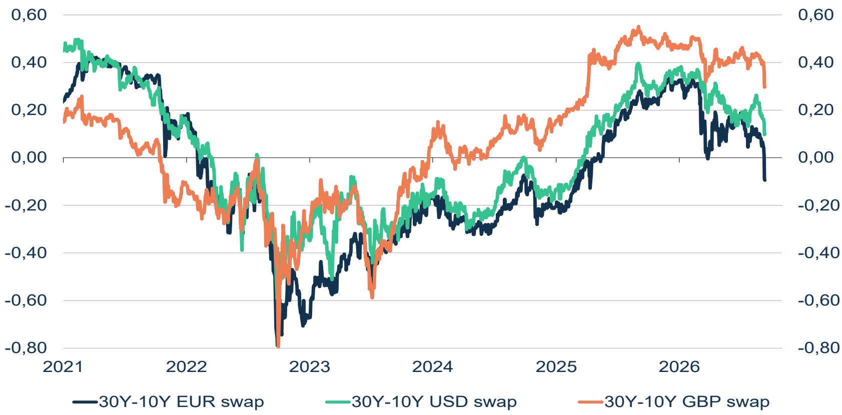


Source: Bloomberg, LBBW Research

Another aspect of the market's reaction to events in the Middle East and the associated expectations regarding key interest rates has been confirmed in recent weeks with regard to the ultra-long end of the yield curve: Growing rate hiking speculation is putting the ultra-long segment under above-average flattening pressuren. The 30-year/10-year spread on the EUR swap curve abruptly ended its interim recovery in early July and has recently fallen back below the zero level. By international standards, the EUR yield curve stands out due to the excessive sensitivity of its ultra-long end steepness (see the chart below).

Ultra-long end in the eurozone under particularly heavy flattening pressure

30Y-10Y slope for selected swap curves



Source: Bloomberg, LBBW Research

30Y/10Y spread in the eurozone has been more volatile than in the U.S.

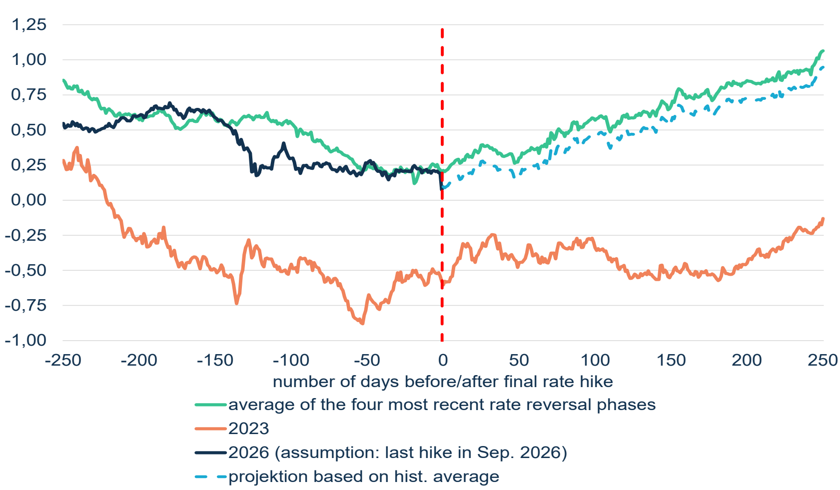
A cyclical argument in favor of medium-term tax increases

Outlook: steepness remains dependent on the Iran war for the time being

In our view, the trends of the past few weeks clearly underscore that, in the short term, the development of the yield curve slope is largely dependent on events in the Middle East. It is true that the second-round inflation effects, which central bankers keep worrying over, have not materialized to date, neither in the eurozone nor in the United States. However, the longer the parties to the conflict in the Gulf refuse to de-escalate, the more persistent the pressure on the Fed and the ECB to take monetary policy action becomes. Nevertheless, we believe that market participants have gone too far in their rate hiking speculation. If our forecast proves accurate, that the ECB may have already reached its rate peak yesterday, then the signs clearly point to a medium-term steepening of the yield curve. As shown in the chart below, the spread 10Y-2Y EUR swap was, on average across the four most recent policy rate cycles, more than a quarter of a percentage point higher just six months after the ECB's final hike than it had been at the end of the hiking phase.

Our ECB forecast suggests that the yield curve will re-steepen

10Y-2Y EUR swap during periods of historical ECB plateau phases



Source: Bloomberg, LBBW Research

Cycle Analysis: Bottoming out around the time the key rate peaked

If the ECB were to conclude its rate-hiking cycle in the fourth quarter of 2026, the cyclical trough in yield curve steepness might still lie ahead of us. However, if the key rate peak is delayed only moderately, we expect the spread 10Y-2Y EUR swap to exceed its current level by mid-2027 at the latest.

ECB peak only in Q4? Steepening would just be delayed

Additional arguments in favor of medium-term steepening

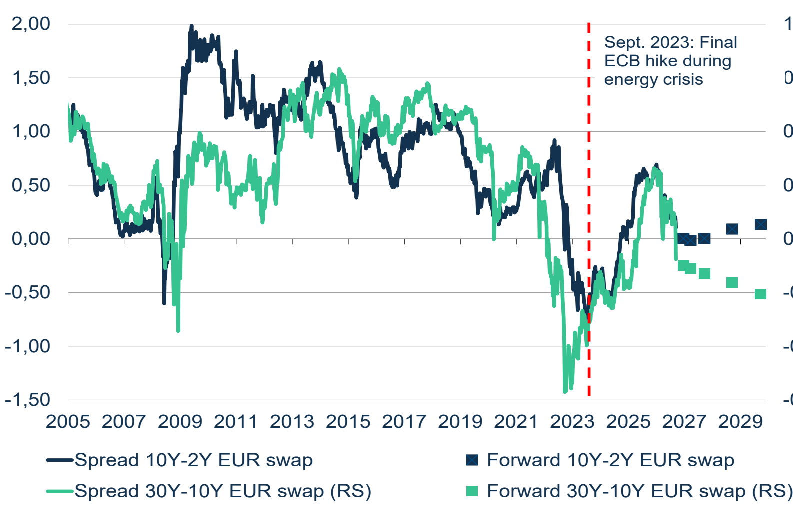
In addition to the cyclical argument outlined above, we currently see several other reasons why investors should position themselves for a steeper yield curve in the medium term. First, we consider it unlikely that the global unease among market participants over steadily rising government debt will subside anytime soon. To date, there is no sign anywhere of a political will to pursue consistent fiscal consolidation. Against this backdrop, there is good reason to believe that debt concerns will repeatedly escalate, causing term premiums at the long end of the yield curve to continue rising on both sides of the Atlantic.

Debt concerns, Tech issuance and pension reform all point to a steeper curve

Second, the major U.S. tech companies are currently increasing their issuance of primarily long-term bonds so drastically to finance their AI investments that there is a risk of cutthroat competition in the primary market. The effects of this crowding-out also suggest that existing or new investors will demand higher risk premiums to increase their bond exposure.

Third, the implementation of the Dutch pension reform will continue through the end of next year. The latter is likely to lead to a decline in demand from Dutch pension funds for long-term government bonds and for buyer positions in (ultra-)long-term interest rate swaps. Admittedly, the “Iran shock” has largely overshadowed the impact of this reform on the yield curve since March 2026. However, in our view, should tensions in the Middle East ease, the “delayed” steepening effect could be made up for.

Forwards are pricing in more flattening across all segments
Yield Curve: 10Y-2Y and 30Y-10Y EUR swaps with forward slopes



Forwards: 10Y/2Y is to approach zero, …

Source: Bloomberg, LBBW Research

All in all, we maintain our preference for steepening positions on both the EUR yield curve and the USD yield curve, even though these have recently come under noticeable pressure. For the EUR yield curve, forwards are currently pricing in a further flattening over the next twelve months, both in the maturity segment up to ten years and at the ultra-long end (see chart above). This implies a favorable risk-reward ratio for steepener positions. We maintain this assessment, particularly for the ultra-long end, as forwards imply the 30-year minus 10-year EUR swap to remain in deeply negative territory over the coming years.

… while for the 30Y/10Y spread, negative values are envisaged

03 I
Credit Strategy

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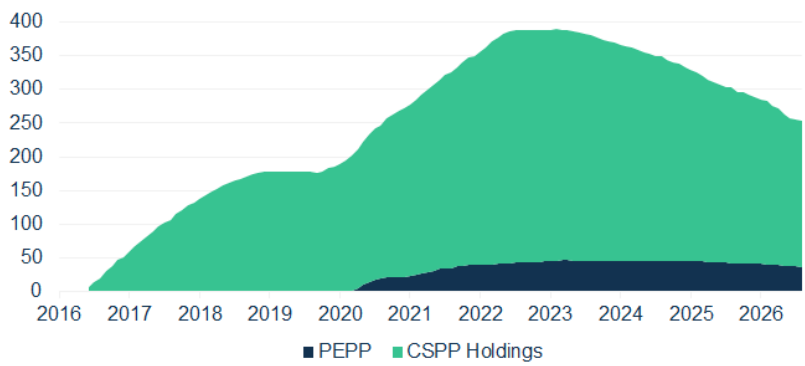
ECB's corporate bond portfolio falls below 250 billion euros

As of the end of August 2026, the ECB still held a total of 253.6 billion EUR in euro-denominated corporate bonds – of which 217 billion EUR came from the CSPP (Corporate Sector Purchase Program) and 36.7 billion EUR from the PEPP (Pandemic Emergency Purchase Program).

Most bonds from the CSPP

Gradual Reduction of the ECB's Portfolio
EUR Corporate Bonds, Volume in billions of EUR



Source: ECB, LBBW Research

Highest volume was EUR 390 bn

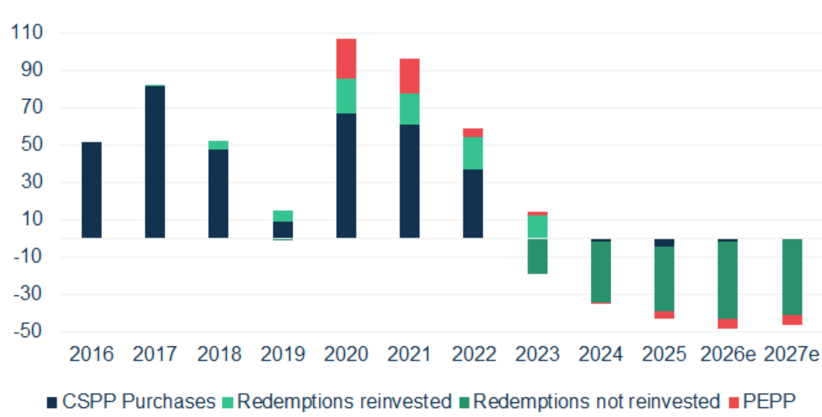
In September, the ECB's portfolio of corporate bonds will fall below the 250 billion euro mark due to bond maturities totaling approximately 4 billion euros. Compared to the peak of 390 billion euros in February 2023, the ECB has since reduced its holdings by more than a third.

Decline due to Maturities

Currently, there are still more than 1,300 different corporate bonds in the ECB's portfolio – at its peak, there were about 1,900 bonds. Since July 2023, the ECB has stopped purchasing corporate bonds, so the portfolio's volume has been steadily decreasing due to maturities and early redemptions. As a result, a decline in volume of nearly 50 billion EUR is expected for the full year 2026. We expect a similar order of magnitude for 2027.

Reduction of EUR 50 bn in 2026 and 2027

Annual Changes in the ECB's Portfolio
EUR Corporate Bonds, Volume in billions of EUR



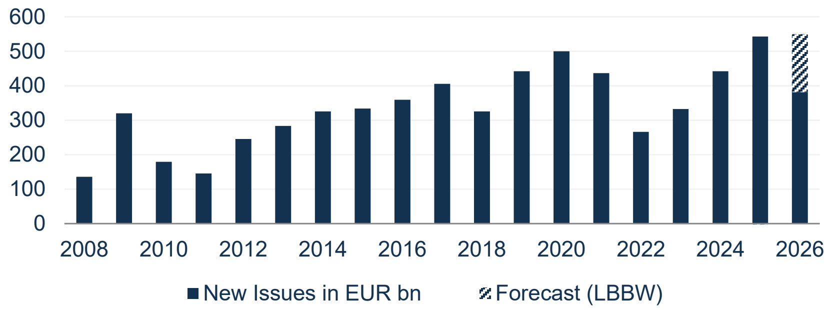
Source: ECB, LBBW Research

The bond markets have easily weathered the European Central Bank's withdrawal as the dominant buyer of euro-denominated corporate bonds with investment-grade ratings. This is evident from the record volume of new issuances that companies were able to place in 2025 (543 billion euros). This year, too, the volume of new issuances is on track to set a record, supported by continued strong demand for corporate bonds from all other investors.

High Demand for Bonds, Even Without the ECB

Yearly New Issuances

EUR Corporate Bonds, Volume in billions of EUR (incl. LBBW forecast)



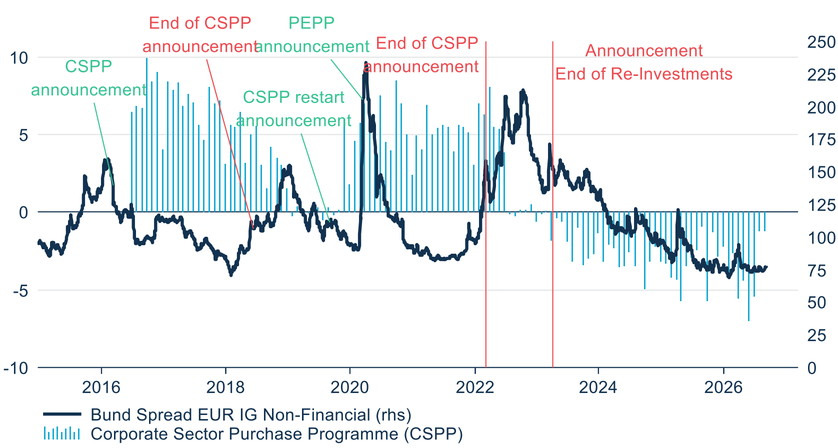
Source: Bloomberg, LBBW Research

New Issuance Volume Hits Record High

Furthermore, no discernible negative effects have occurred on risk spreads since the ECB announced it would end its purchases in 2023. Since then, the spreads over German government bonds have actually narrowed significantly and are now at a long-term low.

Corporates Bund Spreads vs. ECB Purchases

EUR IG Corporate Bonds, spreads in basis points (scale on the right), and monthly ECB purchases or portfolio reductions in billions of EUR



Source: Bloomberg, LBBW Research

Risk spreads have fallen, despite the ECB's tapering

As the ECB continues to gradually reduce its portfolio, the still-high share of the overall market will decrease. Compared to outstanding euro-denominated corporate bonds with investment-grade ratings (totaling approximately 2.5 trillion euros), the ECB's 250 billion euros portfolio represents a high share of 10 %. The European Central Bank is therefore likely to remain the largest single investor in this market segment for some time to come.

ECB holds about 10 % of EUR IG Corporate Bonds

04 I

Calendar/Analytics

Developed Markets Overview

	2 Years			10 Years		
Euro Area	**Yields**	**Spread**	**Change***	**Yields**	**Spread**	**Change***
Bund	3,19			3,51		
Jumbo	3,42	22	0	3,90	39	3
Swap	3,41	21	0	3,53	3	0
Netherlands	3,18	-2	2	3,59	8	0
Austria	3,20	0	0	3,71	20	0
France	3,39	20	2	4,43	93	7
Belgium	3,22	3	0	4,12	61	6
Italy	3,39	20	3	4,37	86	5
Spain	3,22	3	1	3,97	46	3
Ireland	n.a.	n.a.	n.a.	3,62	11	-1
Portugal	3,20	1	2	3,87	36	4
Greece	n.a.	n.a.	n.a.	4,24	73	6
EX. EURO AREA	**Yields**	**Spread**	**Change***	**Yields**	**Spread**	**Change***
USA	4,56	136	-6	4,94	144	0
Canada	3,33	13	-2	3,95	44	0
Japan	1,84	-135	-25	2,99	-52	-10
UK	4,84	165	7	5,36	185	6
Switzerland	0,30	-289	-10	0,55	-295	-6

* 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
15.09.2026	Japan	JGB	20Y		JPY 800 bn.	
15.09.2026	Germany	Schatz	09/28	2.70%	€ 5 bn.	Tap
15.09.2026	Finland	RFGB			€ 1.5 bn.	Tap
15.09.2026	USA	T-Bond	08/46	5.125%	USD 13 bn.	Tap
16.09.2026	Germany	Bund	30Y		€ 2.5 bn.	Tap
16.09.2026	Greece	GGB			€ 250 mn.	Tap
17.09.2026	France	OAT	09/29	2.40%	€ 6 bn.	Tap
17.09.2026	France	OAT	02/32	3.25%	€ 6 bn.	Tap
17.09.2026	France	OAT€i			€ 3 bn.	New
17.09.2026	Spain	SPGB	3Y - 30Y		€ 5.5 bn.	Tap
17.09.2026	USA	TIPS	07/36	2.375%	USD 20 bn.	Tap

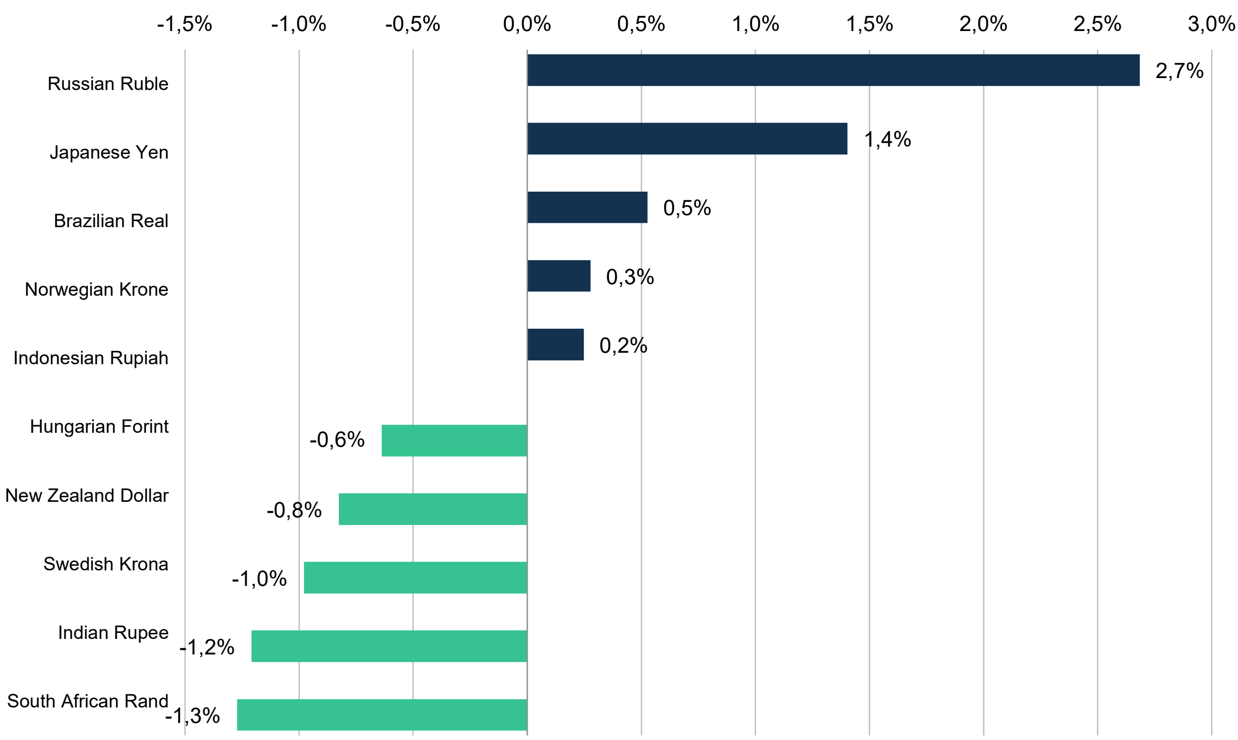
Sources: Bloomberg, LBBW Research

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	29.10.26	2,50%	10.09.26	2,25%	3,3%	↑			
United States	16.09.26	3,75%	10.12.25	4,00%	3,4%	↑	-0,4%	1,1610	1,1689
United Kingdom	17.09.26	3,75%	18.12.25	4,00%	2,9%	·	0,5%	0,8585	0,8645
Japan	18.09.26	1,00%	16.06.26	0,75%	1,9%	↗	2,7%	178,96	177,61
China	***	2,00%	25.09.24	2,30%	0,8%	↘	2,1%	7,79	7,71
Switzerland	24.09.26	0,00%	19.06.25	0,25%	0,8%	↑	-4,4%	0,9441	0,9307
Argentina	***	29,00%	31.01.25	32,00%	33,3%	↘	-7,3%	1.757,63	1.964,28
Australia	29.09.26	4,35%	05.05.26	4,10%	3,2%	↗	-0,1%	1,62	1,63
Brazil	16.09.26	14,00%	05.08.26	14,25%	4,4%	·	1,0%	5,93	6,19
Canada	28.10.26	2,25%	29.10.25	2,50%	3,0%	↗	-2,1%	1,61	1,60
Czech Republic	17.09.26	3,75%	18.06.26	3,50%	1,9%	↗	0,7%	24,23	24,33
Denmark	***	2,25%	11.09.26	2,00%	2,0%	↑	0,0%	7,47	7,46
Hong Kong	***	4,00%	08.11.24	4,25%	1,7%	↗	-0,6%	9,10	9,12
Hungary	22.09.26	5,50%	25.08.26	5,75%	1,3%	·	6,3%	364,60	368,91
India	07.10.26	5,25%	06.02.25	5,50%	4,5%	↑	-4,0%	111,10	113,78
Indonesia	23.09.26	5,75%	18.06.26	5,50%	3,2%	↓	-4,1%	20.436,87	20.838,13
Mexico	24.09.26	6,50%	07.05.26	6,75%	3,3%	↘	3,9%	19,69	20,11
New Zealand	28.10.26	2,75%	02.09.26	2,50%	4,1%	↑	-1,7%	1,99	1,99
Norway	24.09.26	4,25%	07.05.26	4,00%	3,3%	↗	3,6%	10,78	10,87
Poland	07.10.26	3,75%	04.03.26	4,00%	3,4%	↗	-1,8%	4,33	4,35
Romania	08.10.26	6,50%	07.08.24	6,75%	6,2%	↓	-3,1%	5,25	5,34
Russia	11.09.26	14,00%	24.07.26	14,25%	6,0%	·	-6,7%	98,19	104,49
Singapore	***	1,78%	n.a.	1,80%	2,2%	↗	0,2%	1,47	1,46
South Africa	23.09.26	7,00%	28.05.26	6,75%	4,3%	↗	1,6%	18,77	19,15
South Korea	22.10.26	3,00%	27.08.26	2,75%	3,1%	↑	9,4%	1.561,38	1.566,97
Sweden	24.09.26	1,75%	23.09.25	2,00%	0,3%	·	-4,9%	11,23	11,19
Turkey	22.10.26	37,00%	22.01.26	38,00%	31,5%	·	-9,7%	56,48	65,67

Sources: Bloomberg, LBBW Research

The Strongest Currency Appreciations and Depreciations Against the Euro This Week

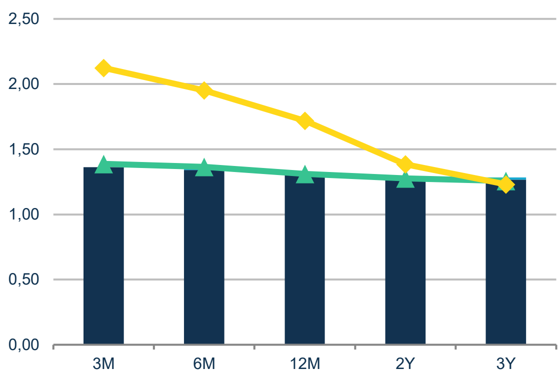


Sources: Bloomberg, LBBW, Research

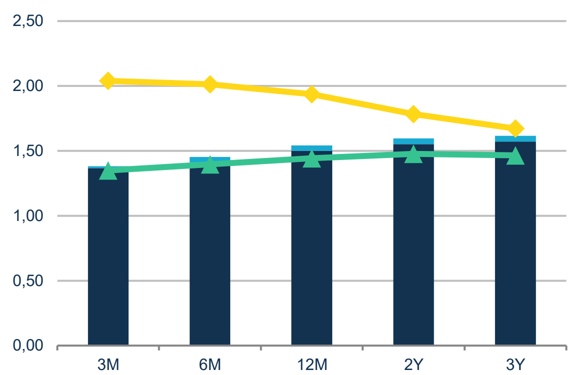
Interest rate differential and FX insurance costs vs. the Euro for selected currencies

interest rate differential, basis swap rates and insurance costs

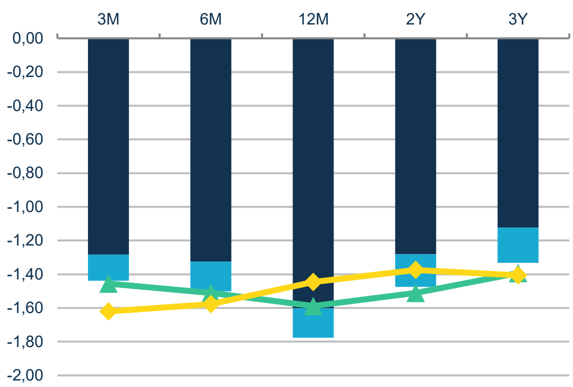
US dollar



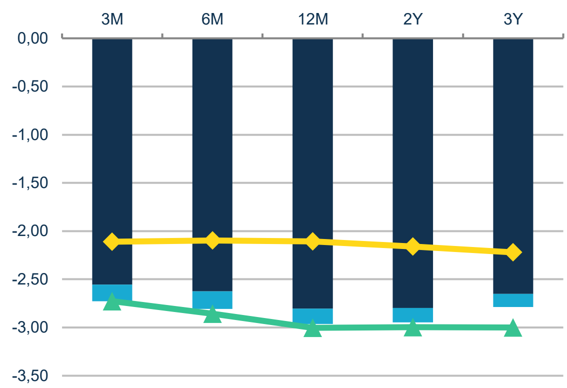
British pound



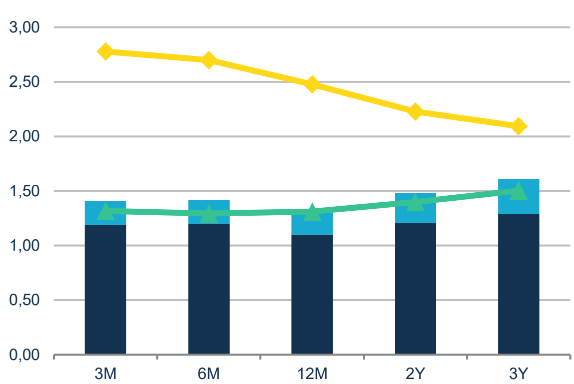
Japanese yen



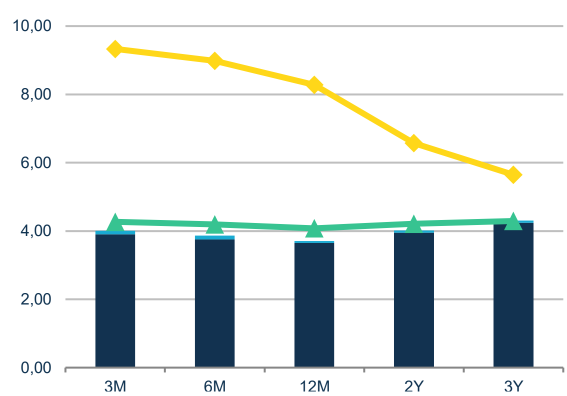
Swiss franc



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

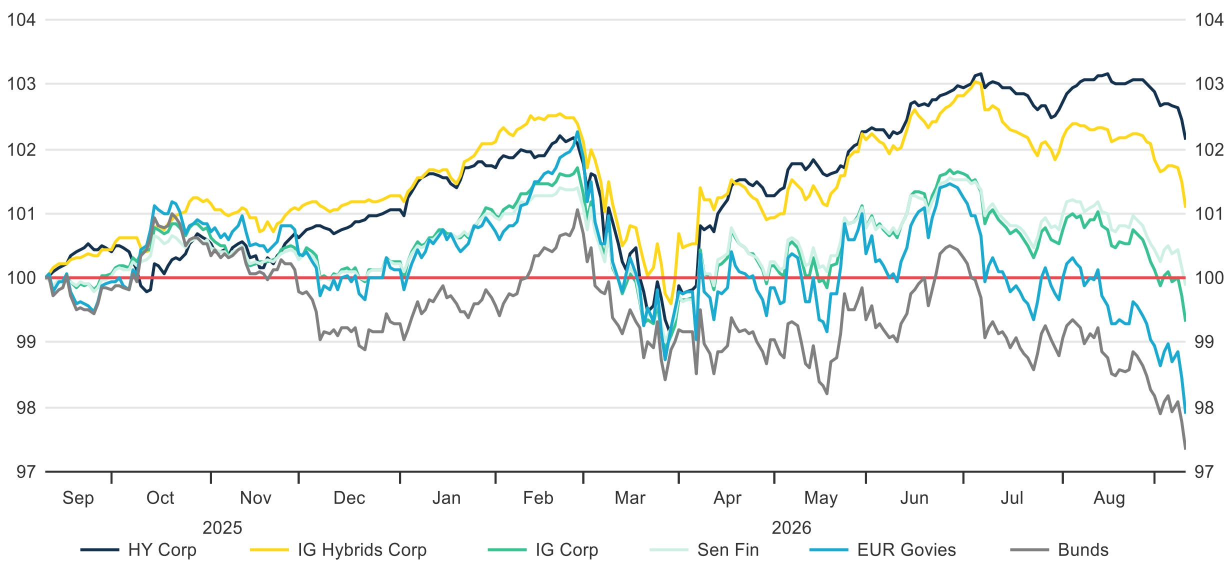
5Y CDS Spreads	Current	Changes 1W	1M	3M	6M	1Y
IG Corporates	54	3	2	0	-5	3
HY & NR Corporates	262	13	10	-1	-24	8
Senior Financials	56	2	2	-1	-8	-1
Sub Financials	90	4	3	-3	-18	-1

EUR Indices	Current	Changes 1W	1M	3M	6M	1Y
Non-Financials	75	0	1	1	-8	-8
Banks Senior Preferred	51	0	1	-2	-10	-9
Banks Senior Bail-in	71	0	3	-1	-12	-7
Banks Subordinated	104	0	3	-5	-17	-21

*time lag of one day, Asset Swap Spreads — 11.09.2026

Sources: LSEG, LBBW Research

Performance Credits vs. Bunds (LTM – last twelve months)



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

Sources: LBBW Research

05 | Disclaimer

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ORIGINAL PUBLICATION DATE: 11.09.2026.
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