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# Bonds Weekly

**CW 38/2026** | LBBW Research | Strategy/Macro

# Bond bears are marching on, but orderly




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# 01 |
# Our View

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## Bond Market Movers – Review and Outlook

What drove the bond markets last week?

- Upward pressure on energy commodity prices initially continued, after a major Saudi oil pipeline had to be shut down for repairs and the Houthi rebels took control of the Bab al-Mandab Strait. Later, the oil market has moved to a consolidation mode for now.
- The Fed has decided to raise its benchmark interest rate for the first time since July 2023. The updated "dot plot" indicates one more rate hike by the end of 2026 and stable key rates in the coming year.
- U.S. inflation remained steady at 3.4% in August. The core rate did decline slightly, but the price increase compared to the previous month was larger than expected.
- U.S. retail sales returned to a growth trajectory with unexpected strength in August, driven by broad-based gains.
- The ZEW Economic Sentiment Index appears unfazed by the recent escalation of tensions in the Middle East. The assessment of the economic situation has actually improved notably.
- As expected, the Bank of Japan raised its key interest rate for the second time this year. The Bank of England, on the other hand, is still keeping its feet still.

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 the door open for a diplomatic rapprochement?
- The S&P Global Purchasing Managers' Indices for the Eurozone and the ifo Business Climate Index are the macroeconomic highlights of the coming week. Overall, we expect sentiment to continue to improve, albeit to a moderate extent.
- Following the state elections in Berlin and Mecklenburg-Western Pomerania, attention is now focused on whether the German federal government, composed of the CDU/CSU and the SPD, will remain stable.
- U.S. President Trump is hosting Chinese President Xi on a state visit. Key issues are likely to include an extension of the trade truce and U.S. sanctions against Iran.
- In the primary market for U.S. Treasury securities, short- to medium-term maturities will be in the spotlight next week. Meanwhile, supply pressure in the primary market for euro-denominated government bonds is likely to ease significantly compared with last week. We expect gross issuance to total only about 12 billion euros, down from 30 billion euros the previous week. Net cash flows are set to remain well in positive territory due to high reflows from maturing obligations.

# Bond bears are marching on, but orderly

## Fed raises key rate: The start of a series of hikes?

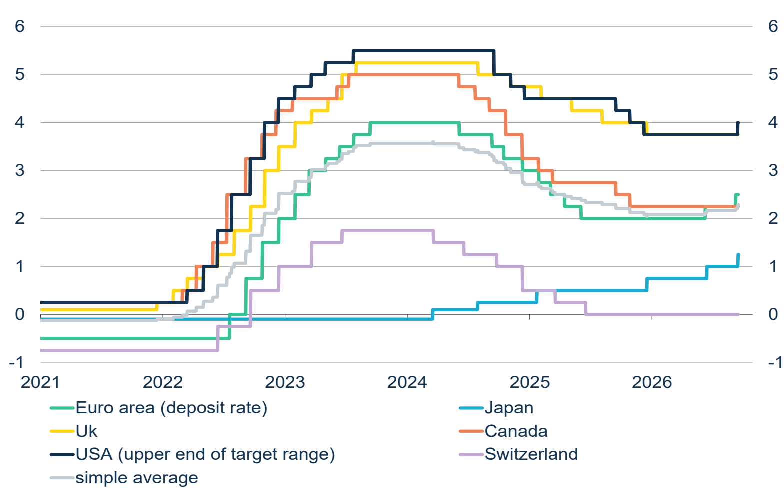
Among the major central banks, the ECB is no longer alone in shifting course toward a tighter monetary policy in response to the effects of the war in Iran. This week, the Fed followed suit by raising its target range for the federal funds rate by 25 basis points to 3.75% to 4.00%. In the U.S., the interest rate path is thus trending upward again for the first time in more than three years. The publication of the U.S. inflation data for August shortly before the decision was likely the deciding factor. Accordingly, the period of easing price pressure seen in June and July did not continue. Although the price data was roughly in line with consensus expectations, there was an upward deviation in one key detail: Core inflation, which Fed Chairman Warsh had previously highlighted as a key indicator for setting monetary policy, rose more sharply month-over-month than the average for the preceding months. U.S. monetary policymakers therefore apparently lacked confidence that the recent disinflation trend would continue. In our view, this confidence would have been necessary to maintain the previous wait-and-see stance on monetary policy. In addition to the Fed, Japan's central bank also used its most recent monetary policy meeting to raise its key interest rate. In the case of the BoJ, this effectively means an accelerated continuation of its path toward monetary policy normalization, which began in 2024. In contrast, the Bank of England decided to hold off for the time being. Among the G7 countries (plus Switzerland), the recent central bank decisions are helping to foster a trend toward tighter monetary policy (see the chart below). However, in terms of both the absolute level and the rate of change, this trend is still a long way from the "interest rate shock" of 2022–23.

Fed: rate hike due to inflation being too high

BoJ steps up normalization, BoE remains on hold

**Chart of the Week**

Key interest rates for G7 currency areas plus Switzerland




Source: Bloomberg, LBBW Research

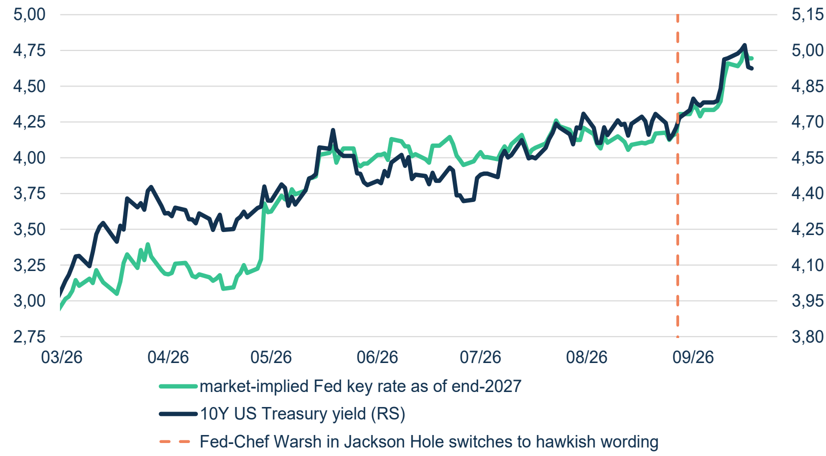
Just the start of a major global tightening campaign?

The strong bearish momentum in the major government bond markets on both sides of the Atlantic in recent weeks was fueled in no small part by speculation among market participants that the coming months will bring key interest rates at least significantly closer to the peak levels reached in 2023. Central banks on both sides of the Atlantic have fueled this speculation with their most recent rate decisions. The Fed sent a "hawkish" signal through its new interest rate projections. According to this, the majority of Federal Reserve officials are leaning toward one more hike this year. The new "dot plot" also moved away from the view that U.S. monetary policy could be eased again as early as 2027. Federal Reserve Chairman Warsh was also clearly striving to bolster his credibility as an inflation fighter by striking a “hawkish” tone. According to forward rates in the U.S. money market, the financial market consensus, even before the Fed meeting, was that there would be several more rate hikes in the coming months. Warsh's strong tone further fueled these expectations, with market participants now projecting that the key rate will peak close to 5% toward the end of next year (see the chart below).

"Hawkish" Fed fuels rate speculation

**Market consensus sees U.S. key interest rates peaking near 5%**

Yields on 10-Year U.S. Treasuries and market expectations for the U.S. Federal Funds rate as of the end of 2027




Source: Bloomberg, LBBW Research

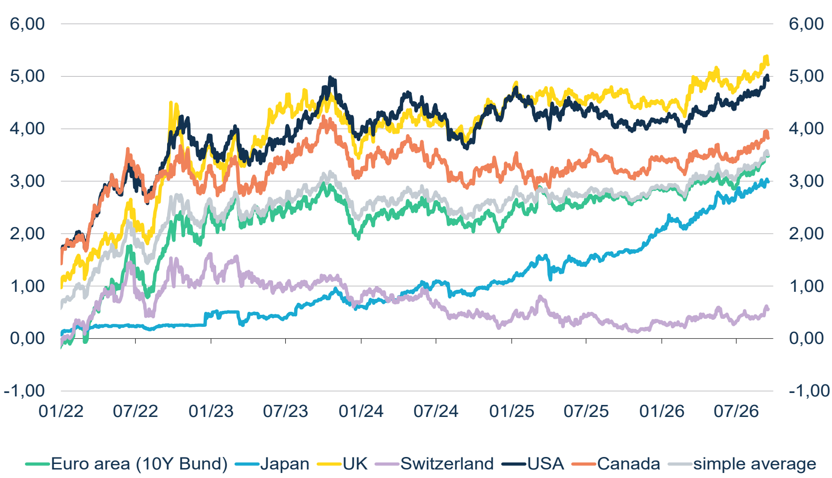
Market consensus thinks of three more hikes

## No new sell-off in the U.S. Treasury market for now

In the major government bond markets on both sides of the Atlantic, the central banks’ “hawkish” signals were met with a mixed response. Digesting the above-mentioned bond-negative U.S. inflation data, the 10-year U.S. Treasury yield did cross the 5% mark jumping to its highest level since 2007. However, the sell-off in the bond market, which had driven yields to this level, did not gain fresh momentum at this psychologically important threshold.

**G7 average yield reaches highest level since 2009**

Yields on 10-Year government bonds for selected currency areas




Source: Bloomberg, LBBW Research

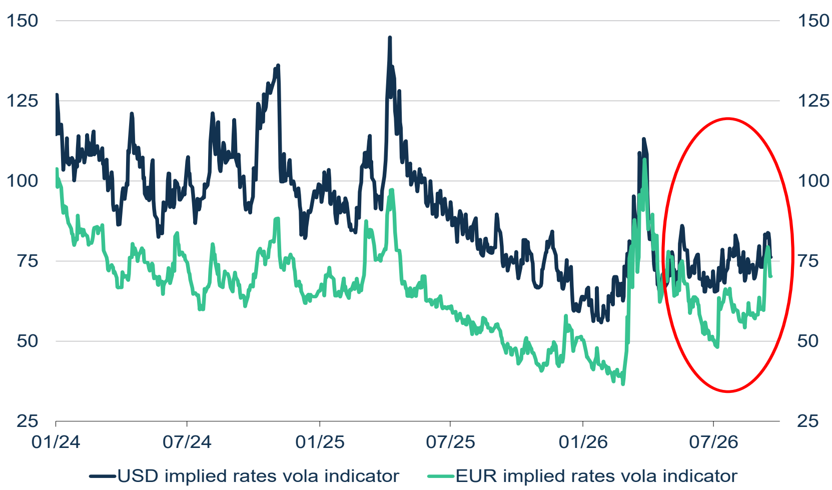
The 10-year U.S. yield jumps above the 5% mark, …

On a week-over-week basis, long-term interest rates around the globe have, for the time being, entered a period of consolidation, while yields on short-term government bonds advanced further, particularly in the U.S. The question now is: Is the market once again just taking a short breather before the next downward price spiral, or are we in the early stages of yields topping out? In our view, the orderly market reaction to the break above key yield resistance levels, taken on its own, offers hope for a more sustainable stabilization. In the wake of the central banks' most recent decisions, implied volatility in the rates markets on both sides of the Atlantic has indeed tended to rise. However, the Vola level remained moderate compared with past periods of stress (see the chart below). We hope that a balance will gradually emerge between bond-negative inflation and debt concerns, on the one hand, and a perception that current bond market valuations are becoming more attractive over the medium term, on the other. In our view, the firm stance that monetary authorities in the eurozone and the U.S. have recently taken regarding the fight against inflation could help stabilize prices for long-term government bonds.

… but there has been no further downward price spiral so far

**Implied volatility remains well below past "peak levels"**

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




Source: Bloomberg, LBBW Research

Implied volatility has risen, but not excessively

## No turnaround in bond sentiment without a de-escalation in the Middle East

Meanwhile, developments in the Middle East are likely keeping their role as the key source of uncertainty. The consolidation of long-term bond yields in recent days has coincided with a temporary stabilization of energy prices at high levels. For the time being, however, we see no reason to assume that the situation in the Gulf will ease any time soon. A damaged Saudi oil pipeline might eventually resume partial operations sooner than initially feared, which has slowed the rise in oil prices for the time being. However, efforts to reopen the Strait of Hormuz appear to remain at a standstill. Without a sustainable easing of tensions in the Middle East, the prospect of another spike in inflation rates on both sides of the Atlantic (see also the article on page 12) overshadows any temporary recovery in bond prices. Given the current situation, market participants are unlikely to be willing to abandon their medium-term rate hiking expectations, which we believe are excessive. In our view, the need for a "risk buffer" on top of key rate expectations that would seem more in line with the central bankers' presumed current views is unlikely to subside anytime soon.

Oil prices have stabilized for now, but there is no sign of relief on the horizon

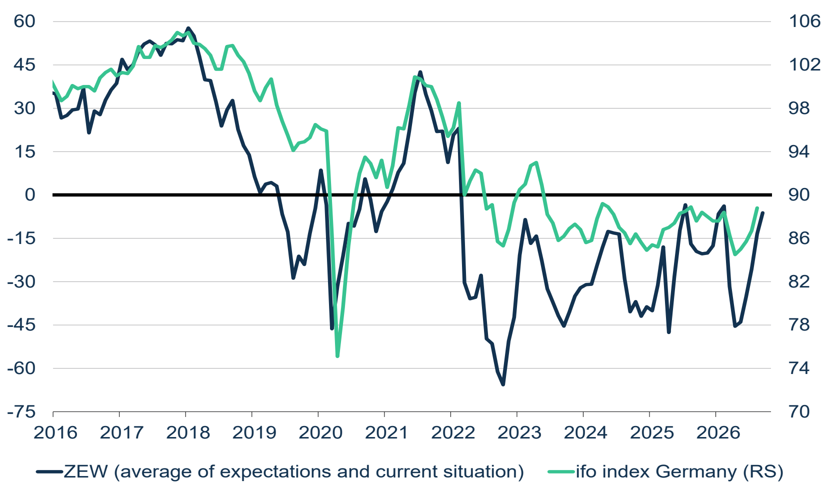
## Outlook: Focus on Leading Economic Indicators from the Eurozone

To make matters worse, the relatively robust state of the economy – especially in the U.S., but also in the eurozone – continues to play into the hands of bond bears. Neither the direct burdens resulting from the war in Iran nor the tightening of financing conditions, which stems from increases in key interest rates and higher long-term financing costs, appears to have significantly impacted the economy so far. Central bankers around the world therefore do not currently need to worry about a looming economic downturn when implementing their measures to combat inflation. As for the bond market, persistently strong economic indicators are therefore counteracting any trends of a price recovery. This is also likely to be the case next week, when the focus will be on major leading indicators from the eurozone for September, namely the S&P Global Purchasing Managers' Indices (Sept. 23) and the ifo Business Climate Index (Sept. 24). This week, the ZEW Economic Sentiment Index has already shown that the recent escalation in the Middle East has not hampered the positive shift in sentiment. Furthermore, as regards Germany, the federal government's fragile political state has so far done little to curb this trend. Based on this assessment, we expect that both the PMIs and the ifo Index will continue the positive trend of recent months, although there is no time for exuberance just yet.

A robust economy is hampering a recovery in the bond market!

**The ifo Index is set for its fifth consecutive increase**

ifo business climate index for Germany and the ZEW average of current conditions and expectations




Source: Bloomberg, LBBW Research

Upturn in economic sentiment defies several adversities

We are pinning our tentative hopes for bond-positive signals on Chinese President Xi's state visit to Donald Trump. If the summit results in a joint statement on the Middle East, it could fuel speculation about new diplomatic initiatives regarding the Strait of Hormuz.

Trump meets Xi in Washington

# 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) | 2,44 | 2,45 | 2,45 | 2,20 |
| 3M Euribor | 2,63 | 2,55 | 2,55 | 2,30 |
| Swap 2Y | 3,48 | 3,00 | 2,80 | 2,50 |
| Swap 5Y | 3,48 | 3,10 | 2,95 | 2,75 |
| Swap 10Y | 3,52 | 3,30 | 3,20 | 3,10 |
| Bund 2Y | 3,24 | 2,80 | 2,65 | 2,35 |
| Bund 5Y | 3,31 | 2,95 | 2,85 | 2,65 |
| Bund 10Y | 3,48 | 3,30 | 3,25 | 3,15 |
| Swap/Bund 2Y | 24 | 20 | 15 | 15 |
| Swap/Bund 5Y | 17 | 15 | 10 | 10 |
| Swap/Bund 10Y | 4 | 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 | 4,00 | 4,00 | 4,00 | 3,75 |
| Overnight Rate (SOFR) | 3,62 | 3,90 | 3,90 | 3,65 |
| 3M Money Market | 3,98 | 4,00 | 3,90 | 3,60 |
| Swap 2J (SOFR-OIS) | 4,56 | 4,05 | 3,65 | 3,35 |
| Swap 5J (SOFR-OIS) | 4,51 | 4,15 | 3,85 | 3,60 |
| Swap 10J (SOFR-OIS) | 4,55 | 4,40 | 4,25 | 4,10 |
| Treasury 2Y | 4,67 | 4,20 | 3,85 | 3,55 |
| Treasury 5Y | 4,78 | 4,45 | 4,20 | 3,95 |
| Treasury 10Y | 4,93 | 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* | 5,22 | 5,10 | 5,00 | 4,85 |
| Switzerland | *Overnight Rate (SARON)* | -0,04 | -0,05 | -0,05 | -0,05 |
| Switzerland | *10Y Government Bond* | 0,56 | 0,45 | 0,45 | 0,40 |

| FX | Spot | 31.12.26 | 30.06.27 | 31.12.27 |
|---|---|---|---|---|
| EURCHF | 0,9466 | 0,93 | 0,94 | 0,95 |
| EURCNY | 7,6921 | 7,91 | 7,62 | 7,62 |
| EURGBP | 0,8587 | 0,85 | 0,85 | 0,85 |
| EURJPY | 180,46 | 186 | 182 | 180 |
| EURUSD | 1,1481 | 1,18 | 1,19 | 1,20 |
| | | | | |
| USDCHF | 0,8244 | 0,79 | 0,79 | 0,79 |
| USDCNY | 6,6993 | 6,70 | 6,40 | 6,35 |
| GBPUSD | 1,3371 | 1,39 | 1,40 | 1,41 |
| USDJPY | 157,16 | 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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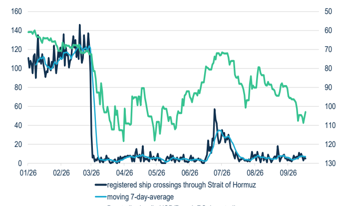
### BIS warns of risks posed by Leveraged Hedge Funds

- *Global Financial Stability:* BIS warns of “underlying fragilities” in global financial market architecture that central banks and investors must navigate – collapse of the “Situational Awareness” fund managed by a German “prodigy fund manager” serves as a cautionary tale regarding the growing role of so-called “leveraged hedge funds” in global markets – Increased use of leverage structures across various markets is cause for concern.
- *Global Financial Stability – Bond Market:* In its latest quarterly report, the BIS cites an intensifying battle for long-term investment capital as a key driver behind the recent sharp rise in global long-term bond yields – governments, hyperscalers, and private credit funds are all scrambling for new debt financing, thereby driving interest rates ever higher – BIS warns of the dwindling sustainability of government debt and the danger of “overinvestment in the tech sector”.
- *Middle East Conflict:* Yemeni Houthi rebels are pushing to gain control over a key strait in the Red Sea used for oil transport – attacks originating in Iraq on a Saudi oil pipeline, which has had to be temporarily shut down, further heightening concerns about oil supply shortages – according to media reports, a full repair could take several weeks, while Saudi sources speak of a partial resumption of operations “within days”.

**Strait of Hormuz & Oil Prices**




Sources: Bloomberg, LBBW Research

- *Geopolitics:* EU Commission President von der Leyen invites Canada to become the first associate member of the community of nations – U.S. President Trump threatens the EU with a trade ban if he perceives the emerging alliance as being directed against the United States.

### Wage pressure in the Eurozone remains modest

- *Monetary Policy – ECB:* The latest ECB Wage Tracker does not point to any imminent second-round effects from wage developments – Indicator suggests an average wage increase of 2.2% in the euro area for 2026, down from recent estimate of 2.3%.
- *Monetary Policy – Fed:* Fed decides to raise the target range for the federal funds rate by 25 basis points to 3.75% to 4.00% – unanimous vote – first hike since July 2023 – New policy rate projections call for one more rate hike by the end of 2026 and a rate plateau in 2027 – Fed Chair Warsh reaffirms “determination” to ensure price stability.

### Fed and BoJ raise interest rates; BoE holds steady

- *Monetary Policy – United Kingdom:* As expected, the Bank of England once again kept its key interest rate unchanged at 3.75% – three votes in favor of a 25 basis point rate hike, meaning the number of dissenting votes was the same as in July – BoE revised its forecasts upward for both GDP growth and inflation – BoE Governor Bailey suggests the need for a future rate hike if the Middle East conflict does not subside – At the same time, the BoE announces a scaling back of its bond-selling program to curb upward pressure on yields on ultra-long-term Gilts.
- *Monetary Policy – Japan:* The BoJ continues its monetary policy normalization course by raising the policy rate from 1.00% to 1.25 % – second rate hike in just three months – According to BoJ Governor Ueda, the trend in the policy rate is likely to continue upward, provided the central bank’s macroeconomic outlook proves accurate – two of the committee’s nine members, however, vote to keep key interest rates unchanged – “dovish” dissenting votes trigger a sell-off in the Japanese yen.
- *Germany – Economy:* The ZEW Economic Sentiment Index posted its fifth consecutive increase in September, rising from 34.2 to 34.7 points – current situation index jumped from -61.1 to -47.1 points, its highest level since May 2023.

- *Germany – Energy Price Crisis:* Chancellor Merz announces relief measures for consumers and the economy due to record-high gasoline prices – an apparent concession to mounting criticism from industry groups and his coalition partner – exact form of the relief remains to be determined.
- *Germany – Energy Price Crisis:* Federal Ministry of Economics has now instructed the government's energy procurement agency to accelerate the filling of gas storage facilities ahead of the approaching winter – measure intended to mitigate the risk of a gas shortage given the very low storage levels, which currently average around 55%.

German natural gas storage facilities are now set to fill up more quickly after all

- *France – Economy:* French central bank has revised its GDP growth forecast for 2026 downward to just 0.4%, but expects growth momentum to pick up again in 2027 and 2028 – Meanwhile, Central Bank Governor Moulin is working to allay concerns regarding the country's government bond market – he stated that there are no concerns regarding government financing, and that the French financial sector is solid and well-capitalized.
- *EU – Energy Price Crisis:* German Finance Minister Klingbeil plans to put the introduction of an excess profits tax on the agenda for this weekend's meeting of EU finance ministers – meant as a response to rising gasoline prices and growing calls to ease the burden on consumers.
- *Germany – Investment Activity:* German companies significantly increased their investments in China in the first half of the year, by about one-third compared with the same period last year, to 5.6 billion EUR – while investments in the United States, by contrast, were cut by about two-thirds to 4.3 billion EUR.
- *U.S. – Inflation:* Price pressure remained unchanged in August at a rate of 3.4% (Y/Y) – rising gasoline prices are driving upward pressure – core rate also remained unchanged at 2.4 % (Y/Y), though the month-over-month rate was higher at 0.3% (seasonally adjusted) compared to July (0.2%).

U.S. inflation failed to fall further in August

- *U.S. – Labor Market:* Weekly ADP report shows a further moderate acceleration in job growth for the four-week period ending August 29, with an average of 16,250 jobs added, up from 12,250 in the previous period – highest figure since early July.
- *U.S. – Economy:* Consumer confidence suffered another setback in September, according to a University of Michigan survey – indicator fell from 51.7 to 47.8 points, primarily due to significantly dimming expectations – Consumers' inflation concerns grew noticeably, with the one-year inflation expectation rising from 4.0% to 4.6%.
- *U.S. – Economy:* Retail sales surged by 1.2% (M/M) in August, more than offsetting the previous month's weakness (-0.5%) – strongest increase since March 2026 – Sales rose across the board, with "core sales" also posting a gain of 1.2%.

U.S. consumers are in a bad mood, yet still willing to spend

- *U.S. – Economy:* Philadelphia Fed Index fell from 47.4 to 37.8 points in September, while the Empire Manufacturing Index dropped from 20.6 to 7.6 points.
- *UK – Inflation:* Inflation rose in August for the second consecutive month, climbing from 2.9% to 3.1% (Y/Y), while the core rate remained unchanged at 2.6%.
- *China – Economy:* Industrial production rose more than expected in August, by 5.2% (Y/Y), following a 4.5% increase in July – retail sales, however, were again disappointing, rising by only 0.4% (Y/Y), following a 0.6% increase the previous month.
- *Sweden – Parliamentary Elections:* Center-left bloc wins a razor-thin majority of parliamentary seats – The opposition Social Democrats remain the strongest party and are thus in pole position to lead the future government – The right-wing populist Sweden Democrats slip from second to third place, suffering a political setback as a result – Observers expect the process of forming a government to be protracted.

A close election in Sweden

- *Germany – Government Crisis:* The media are speculating that Chancellor Merz wants to force a decision within the CDU leadership regarding the future leadership of the government following the upcoming state elections in Mecklenburg-Western Pomerania and Berlin – According to these reports, the party leadership should either back his position as chancellor or propose a successor – CDU state premiers are backing Merz for now by rejecting debates over personnel matters.
- *Euro Area – Financial Stability:* Bundesbank continues to view the "government-bank nexus" as a key vulnerability to financial stability in the eurozone – a deterioration in a government's creditworthiness could, through rising risk premiums, also put pressure on banks that hold large portfolios of such government securities – Bundesbank proposes capital surcharges or fixed caps on government securities in bank balance sheets as a remedy – this would also pave the way for a banking union.

Bundesbank concerned about the "government-bank nexus"

- *France – Fiscal Policy:* The government is abandoning its plan to reduce the public deficit ratio in 2026 to below the previous year's level (5.1% of GDP) – Finance Minister Lescure cites an unexpectedly sharp slowdown in French GDP growth as the reason for the change in plans – goal now is to exceed the 5% threshold by "as little as possible".
- *U.S. – Midterm Elections:* Supreme Court thwarts the Trump administration's efforts to restrict absentee voting for upcoming midterm elections – Supreme Court justices reject the Justice Department's motion to compel the U.S. Postal Service to implement controversial new mail-in voting rules as early as the November election – however, the possibility of stricter rules for future elections has not yet been ruled out.

Trump loses dispute over mail-in ballots

- *U.S. – Midterm Elections:* Democrats have been widening their lead over Republicans in the latest midterm election poll – according to which 44% of respondents nationwide would vote for the Democrats and 37% for the Republicans – widest margin since Trump took office.
- *AI – Security:* Several leaders in the AI industry and scientists are warning of security risks posed by rapidly advancing AI development – concerns about the looming threat of humanity's extinction in the coming years – calls for a deliberate slowdown in AI development and stronger regulation – However, the U.S. government rejects stricter regulation, citing the race with China for leadership in AI technology.

Will AI wipe out humanity soon?

- *AI – Investments:* Meanwhile, in Europe, a coalition of leading economists, politicians, and AI experts is warning that the continent runs the risk of becoming irrevocably dependent on a handful of foreign governments and individuals when it comes to AI, unless decisive action is taken this year – The EU is currently 80% dependent on non-EU countries for digital products, services, infrastructure, and intellectual property.

## Next Week's Data

| TIME | COUNTRY | | PERIOD | LBBW FORECAST | CONSENSUS FORECAST[1)] | LAST VALUE[2)] | IMPORTANCE |
|---|---|---|---|---|---|---|---|
| **FRIDAY, 18.09.2026** | | | | | | | |
| 12:30 | EMU | ECB President Lagarde speaks | | | | | *** |
| 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 | - | 0,1 | 0,2 | * |
| | GE | Rating Review Germany (Moody's®) | | | | | ** |
| | GRC | Rating Review Greece (Moody's®) | | | | | ** |
| **SUNDAY, 20.09.2026** | | | | | | | |
| | GE | Regional elections in Mecklenburg Western-Pomerania and Berlin | | | | | ** |
| **TUESDAY, 22.09.2026** | | | | | | | |
| 16:00 | EMU | Consumer Confidence (prelim.) | Sep | -17,0 | - | -15,5 | * |
| 16:05 | USA | FOMC Vice Chairman Williams speaks | | | | | *** |
| **WEDNESDAY, 23.09.2026** | | | | | | | |
| 09:30 | GE | PMI Manufacturing (prelim.) | Sep | 55,0 | - | 54,3 | *** |
| 09:30 | GE | PMI Services (prelim.) | Sep | 50,5 | - | 49,7 | *** |
| 09:30 | GE | PMI Composite (prelim.) | Sep | 52,5 | - | 51,8 | *** |
| 10:00 | EMU | PMI Manufacturing (prelim.) | Sep | 53,0 | 52,3 | 52,7 | *** |
| 10:00 | EMU | PMI Services (prelim.) | Sep | 52,0 | 51,1 | 51,6 | *** |
| 10:00 | EMU | PMI Composite (prelim.) | Sep | 52,5 | - | 52,0 | *** |
| | GE | Retail Sales (M/M, sa) | Aug | 1,5 | - | -3,4 | * |
| **THURSDAY, 24.09.2026** | | | | | | | |
| 09:30 | CH | SNB Interest Rate Decision | | 0,00 | 0,00 | 0,00 | *** |
| 10:00 | GE | ifo Business Climate Germany | Sep | 89,2 | 89,0 | 88,8 | *** |
| 10:00 | GE | ifo Expectations | Sep | 89,5 | - | 89,1 | *** |
| 10:00 | GE | ifo Current Conditions | Sep | 89,0 | - | 88,5 | *** |
| 14:30 | USA | Current Account Balance (bn USD) | Q2 | - | - | -226,8 | * |
| 16:00 | USA | New Home Sales (thous.) | Aug | 625 | 615 | 607 | ** |
| | USA/CHN | US President Trump hosts Chinese President Xi | | | | | *** |
| **FRIDAY, 25.09.2026** | | | | | | | |
| 08:00 | GE | GfK Consumer Confidence | Oct | -27,5 | -26,0 | -26,6 | ** |
| 10:00 | EMU | Money Supply M3 (Y/Y) | Aug | 3,5 | - | 3,4 | ** |
| 14:30 | USA | Durable Goods Orders (M/M) (prelim.) | Aug | 0,2 | -0,3 | 1,1 | *** |
| 16:00 | USA | Uni Michigan Consumer Confidence (final) | Sep | - | 47,8 | 47,8 | ** |
| | IT | Rating Review Italy (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

# 02

# Rates

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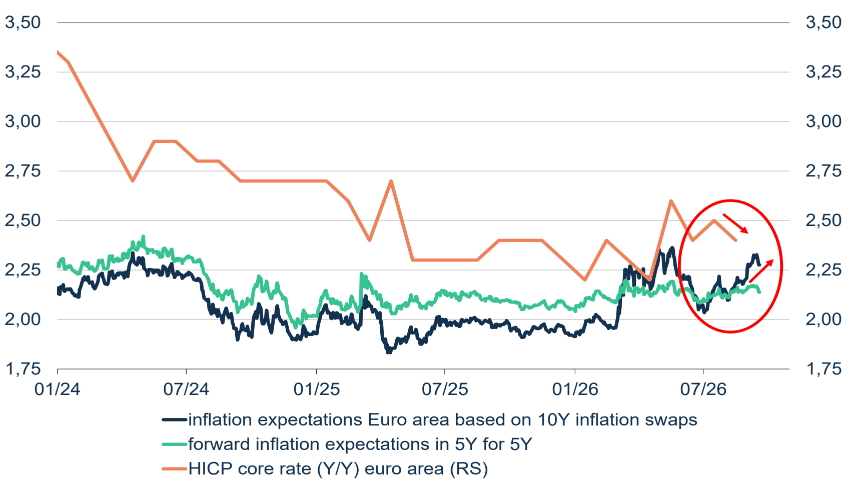
## Linkers: Inflation expectations close to annual high

### Outperformance improved

Inflation-protected EUR government bonds have been hit hard in recent weeks by rapidly deteriorating sentiment in global bond markets. However, as was the case in the spring, the price decline for linkers was less steep than that of the overall market. As a result, linker investors retained positive year-to-date performance, while the euro-denominated government bond market as a whole plunged deeper into negative territory than at any point earlier this year. Protection against inflation thus paid off in the form of increasing outperformance: Based on the iBoxx Euro Sovereign inflation-linked Index, linkers have posted a return of 1.1% since the start of 2026, compared with -2.2% for the government bond market as a whole.

YTD: Linkers are now more than 3%-points ahead

**Inflation expectations have been rising, while core inflation fell**
10-Year EUR inflation swap rate, forward inflation expectations, and EMU core inflation (Y/Y)




Source: Bloomberg, LBBW Research

Market-based inflation expectations have risen sharply across all maturities since mid-August. The temporary downward correction that had taken shape toward the end of the second quarter is now almost entirely a thing of the past. The pattern of the rise resembles that seen during the first phase of the Iran War; that is, the break-even inflation curves (BEI curves) have returned to a noticeable inversion. The 10-year EUR inflation swap rate approached its annual high, which had been set in May at just over 2.35%. Long-term forward inflation expectations still appear quite stable amid this latest overall rise. They have remained within a narrow range between 2.1% and 2.2%.

Inflation expectations at a four-month high

Forward inflation expectations still stable

### Escalation in the Gulf vs. lack of second-round effects

In our view, events in the Middle East remain by far the most important factor influencing the development of inflation expectations. The recent

Oil price remains key driver

rise in crude oil prices to levels close to the annual highs reached in the spring coincides with BEI's surge.

Meanwhile, actual inflation trends in the eurozone have recently sent mixed signals to the bond market. The jump in headline inflation to an annual high of 3.2% in August likely further fueled investors' desire to hedge against inflation risks. By contrast, the core rate fell to 2.4 percent, a development that market participants, however, apparently largely ignored in light of the overall environment described above.

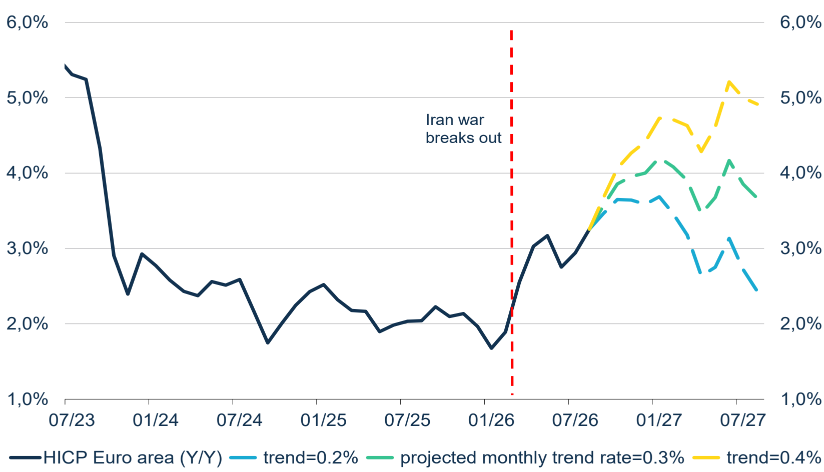
## Inflation: The trend is pointing upward

The divergent trends in headline and core inflation are creating a tradeoff in the performance outlook for the bond market. This is especially true when one considers the recent noticeable increase in valuations in the linker bond market resulting from the recent upward shift in the BEI curves. On the one hand, market sentiment and momentum currently point to continued relative strength in inflation-protected bonds. The price increases in the energy market over the past few weeks point to a continued rise in headline inflation this fall – unless there is a sudden easing of tensions in the Middle East. In addition, there will be positive base effects in the final phase of this year. As shown in the following chart, this could push inflation into the 4% range, even assuming only moderately elevated monthly trend rates. In our view, this may provide an additional boost to demand for inflation hedges, from which linkers would likely to benefit.

Tradeoff is building

**Inflation is likely to continue to rise in the fall**

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




Source: Bloomberg, LBBW Research

EMU inflation could be heading toward 4%

On the other hand, the widely feared second-round effects on inflation have yet to materialize. Before the recent upward shift in the BEI curves, there was still a certain “valuation buffer” between the BEI curves and current core inflation. It has now been largely exhausted. As the following chart shows, the BEI curves do exceed core inflation in parts beyond the very short-term range. The scenario of persistently and significantly higher inflation has thus bee increasingly reflected in Linkers’ valuation. To put it another way: (Long-term) inflation risk premiums have risen in the meantime. Consequently, the valuation becomes more vulnerable to pullbacks if second-round effects stay subdued in the coming months. Furthermore, the scope for a (temporary) period of relative weakness in inflation-protected bonds has increased in the event of the aforementioned scenario of de-escalation in the Middle East.

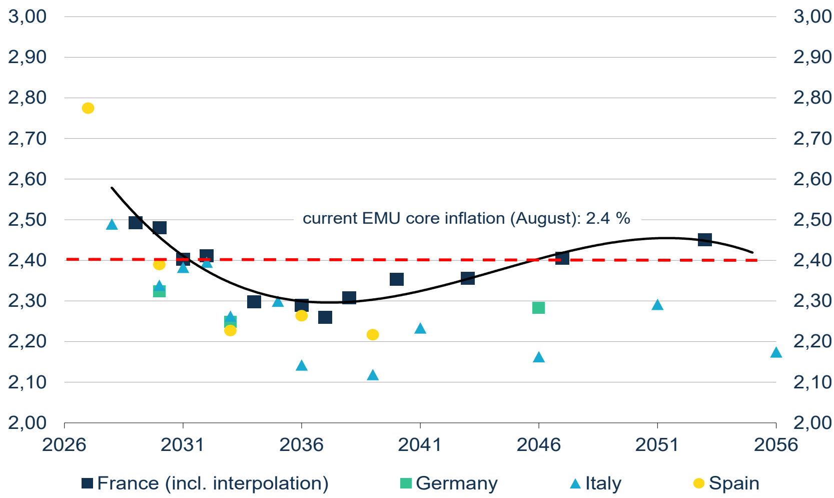
But: Valuation has become more expensive

Inflation risk premiums elevated

In the medium term, our assessment of the opportunities and risks associated with inflation-protected government bonds remains “balanced.” A “rush” to inflation-hedging assets this fall could, however, cloud the medium-term outlook given that valuations would then become increasingly elevated. Nevertheless, as a hedge against the adverse scenario of a prolonged period of inflation, Linkers remain attractive, as they are still far from the peak valuations seen in 2022–2023.

**BEI curves for the Eurozone: Inversion has increased again**

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



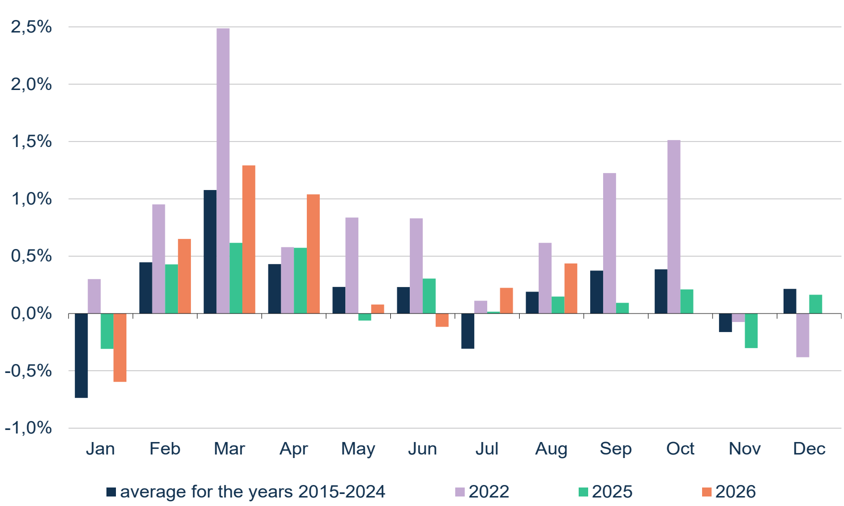

Source: Bloomberg, LBBW Research

## Carry: A tailwind this fall

In the short term, not only does the prospect of rising inflation rates promise to support the performance of linkers, but so does the carry factor. The latter tended to be a drag on performance throughout the summer. In contrast, during this fall carry is expected to contribute positively for several consecutive months, starting in October: According to preliminary data, the HICP for the euro area rose by just over 0.4% month-over-month in the reference month of August 2026, following a 0.2% increase in July. This implies a positive carry of about a quarter of a percentage point for the coming month.

**Significant seasonal fluctuations in the HICP**

Seasonal patterns of the EMU HICP excluding tobacco (M/M)




Source: Bloomberg, LBBW Research

Since energy prices are likely to have a noticeable inflationary impact in September, we believe that November, given an already slightly positive seasonal factor, promises an even higher positive carry contribution.

BEI curves: Larger segments now above core rate

Change in the EMU HICP in Aug.: +0.4% M/M

Carry to be clearly positive in October

## Primary Market Overview

The primary market for EUR-Linkers has been added this week the third new issuance of the year. For the first time since 2024, the French Treasury has issued a new inflation-protected bond, a 10-year security linked to the European HICP.

For an overview of the inflation-protected EUR government bonds currently outstanding, please see our *Bonds in Focus* on the Linker market as of September 16, 2026 (in German).

Third new issue of 2026

# 03 I

# Credit Strategy

## Credits unfazed by the Fed

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### Spreads Remain Largely Unchanged

The Fed's latest interest rate decision had relatively little impact on the credit markets. Although rising interest rates are making financing conditions more difficult for companies, the rate hike did not come as a surprise to market participants. While stock markets dipped at times, risk premiums on corporate bonds remained largely unchanged. Although they have closely tracked oil price movements in the recent past, the fluctuations have remained within narrow limits.

**Risk premiums driven by oil prices**
iTraxx Crossover vs. Oil Price (inverted)


Source: LSEG, LBBW Research

iTraxx rose only slightly

Yields on corporate bonds have shown significantly more volatility in recent weeks. They continued to track the yields on German government bonds closely. Accordingly, the yields on the Bund Index and the yields on investment-grade bonds show a high positive correlation. The rise in corporate bond yields was thus driven primarily by higher yields on German government bonds, rather than by growing uncertainty regarding corporate creditworthiness.

Federal bonds drive corporate bond yields

**Corporate bond yields are rising significantly**
Yields EUR Investment-Grade Non-Financials vs. Bund Index (in %)

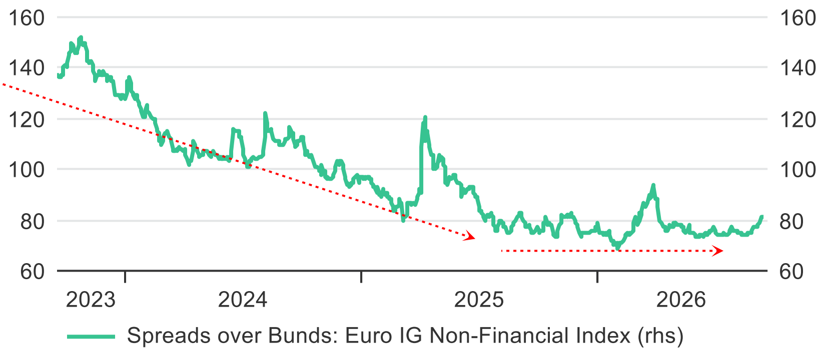

Source: LSEG, LBBW Research

Yields are moving in tandem

Corporate bond spreads remained at a very low level, with little room for further narrowing. Although a slight fluctuation is evident as a result of the renewed rise in oil prices, we do not believe this poses a substantial risk. In the medium term, we expect only a slight widening of spreads. However, geopolitical risks remain elevated, which limits the potential for further declines in risk premiums.

Still little room for a decline

**IG spreads are rising only slightly**
IG Non-Financials vs. Bund Spreads (in bps)




Source: LSEG, LBBW Research

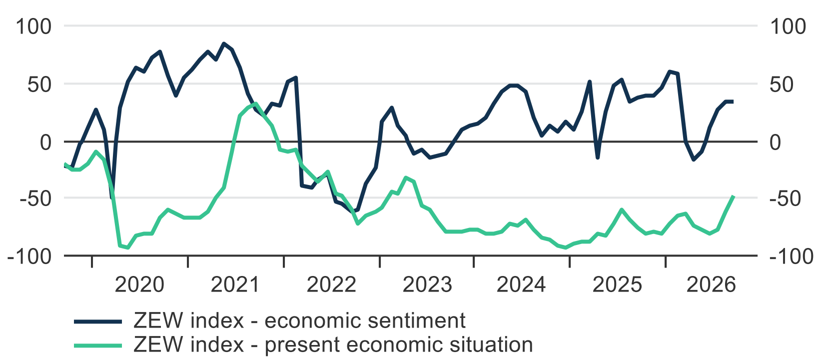
## Optimism Returns to the Economy

ZEW Index paints a positive picture

According to the ZEW Index, the assessment of the state of the German economy improved noticeably in September. The 14-point increase led—despite the index remaining in negative territory—to its highest level in more than three years. Meanwhile, expectations remained stable at an elevated level. This could also explain why corporate bond yields are currently driven primarily by German government bonds rather than by an increased perception of corporate risk.

Expectations remain optimistic

**Economic conditions are improving**
ZEW Index: Current Conditions vs. Expectations




Source: LSEG, LBBW Research

## CONCLUSION – High rates, economic optimism

IG Bonds as a sensible middle ground

In our view, the Fed's rate hike this week is unlikely to be the last one this year. A further increase in key interest rates by the ECB cannot be ruled out either. However, given the improving economic outlook, we do not expect credit spreads to widen significantly for the time being. Investment-grade bonds continue to offer a sensible balance between risk and return.

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# Almost all corporate bonds include call options

With corporate bonds, it has become common practice for companies to reserve the right to make early repayment. This allows them, for example, to refinance a bond early and use the proceeds to repay the bond being refinanced ahead of schedule.

The most common types are "par calls" and "make-whole calls." The trend toward these clauses has continued to grow in recent years and has become firmly established at a high level. This is evident from our analysis of the two categories. In doing so, we considered all new issuances of EUR corporate bonds with a fixed coupon.

## Par Call

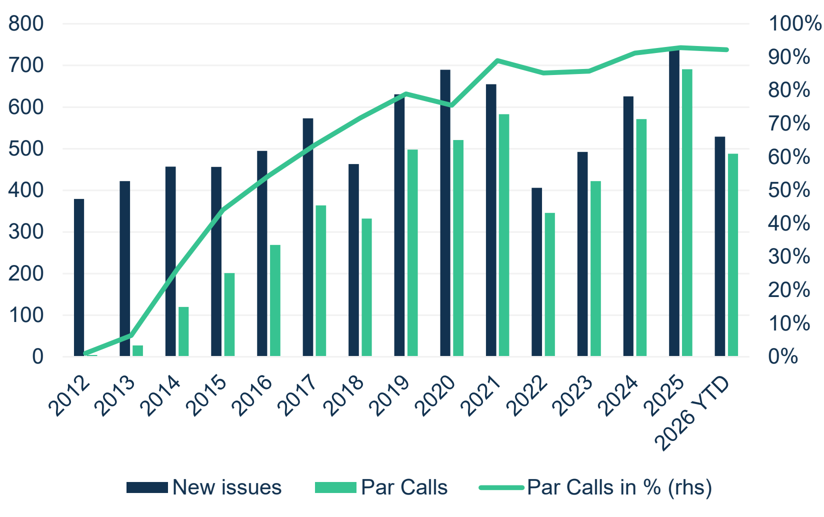
A par call gives the issuer the option to redeem the bond early at a price of 100% (= par).

Par Call:
Early Repayment
with price 100 %

Par calls have only been documented since 2012. Starting in 2014 (when they accounted for more than 20 percent), there was a rapid increase in the use of these clauses. As early as 2016, more than half of all new euro-denominated issues included par calls. And since 2024, at least 90% of new corporate bonds have included a par call clause.

Included in
over 90%
of new issues

**New Issues and Par Calls**
EUR Corporate Bonds, Number and Percentage




Source: Bloomberg, LBBW Research

In the case of a par call, the earlier repayment date is generally specified in the terms and conditions as the number of months prior to the regular repayment date. The most common is the "3-months par call," meaning that the company can redeem the bond starting three months before the original maturity date. This option is chosen in about two-thirds of all par calls. Next, by a wide margin, comes the "1m par call," which is starting 1 month before the regular expiration date.

Usually as
3 months
par call"

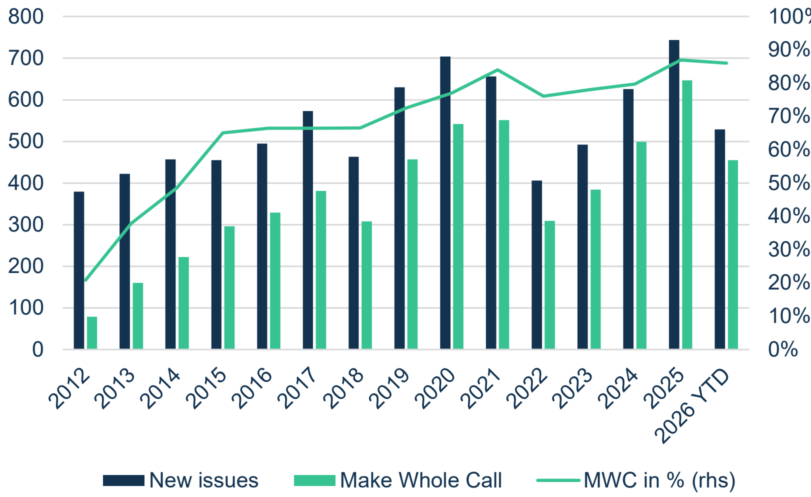
For companies, the par call is a very simple and therefore popular way to use the proceeds from an early refinancing of an upcoming bond maturity to redeem the bond early.

## Make Whole Call

A "make-whole call" is an option that allows the issuer of a bond to redeem it early under certain conditions. The early redemption amount is generally defined as the present value of the outstanding interest payments and the principal. The exact calculation method can be found in the respective securities terms and conditions. By setting a relatively low yield spread – for example, above German government bonds with a comparable remaining maturity – the goal is to arrive at a price that is significantly higher than the regular redemption price of 100%. This premium is intended to compensate the investor for the early repayment.

Make-Whole Call: Bonus for Investors

**New Issues and Make-Whole Calls (MWC)**
EUR Corporate Bonds, Number and Percentage




Source: Bloomberg, LBBW Research

Share of MWC: over 80%

The proportion of new corporate bonds with make-whole calls first reached the 20% mark in 2010 and then gained significant momentum. As early as 2015, more than half of all new issues regularly included this earlier redemption possibility. Since 2024, the share of new issues with MWC clauses has consistently been at least 80%.

## Conclusion and Outlook

The par calls and make-whole calls described here have now become standard for corporate bonds denominated in euros.

Call Options Remain the Standard

In addition, there are other early redemption options for corporate bonds, such as tax calls (which are also quite common; these occur in the event of changes in tax laws that adversely affect the company's financing costs associated with an existing bond).

We expect these early redemption options to continue to play a standard role in corporate bonds.

# 04 I

# Calendar/Analytics

## Developed Markets Overview

| | 2 Years | | | 10 Years | | |
|---|---|---|---|---|---|---|
| **Euro Area** | **Yields** | **Spread** | **Change*** | **Yields** | **Spread** | **Change*** |
| Bund | 3,24 | | | 3,48 | | |
| Jumbo | 3,45 | 21 | 0 | 3,88 | 40 | 0 |
| Swap | 3,47 | 24 | 3 | 3,52 | 4 | 0 |
| Netherlands | 3,21 | -2 | -1 | 3,56 | 8 | 1 |
| Austria | 3,18 | -6 | -3 | 3,68 | 20 | 0 |
| France | 3,46 | 22 | 2 | 4,45 | 97 | 2 |
| Belgium | 3,27 | 3 | 1 | 4,10 | 62 | 1 |
| Italy | 3,43 | 19 | 1 | 4,35 | 87 | 2 |
| Spain | 3,26 | 2 | -1 | 3,94 | 46 | 0 |
| Ireland | n.a. | n.a. | n.a. | 3,59 | 11 | 0 |
| Portugal | 3,24 | 0 | 0 | 3,84 | 36 | 0 |
| Greece | n.a. | n.a. | n.a. | 4,23 | 75 | 3 |
| **EX. EURO AREA** | **Yields** | **Spread** | **Change*** | **Yields** | **Spread** | **Change*** |
| USA | 4,67 | 143 | 0 | 4,92 | 144 | -2 |
| Canada | 3,26 | 2 | -13 | 3,82 | 34 | -9 |
| Japan | 1,86 | -138 | -3 | 2,99 | -49 | 3 |
| UK | 4,74 | 150 | -12 | 5,22 | 174 | -10 |
| Switzerland | 0,31 | -293 | -4 | 0,56 | -292 | 2 |

* 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 |
|---|---|---|---|---|---|---|
| 22.09.2026 | Germany | OBL | 10/31 | 2.90% | € 5 bn. | Tap |
| 22.09.2026 | UK | UKT | 6Y | | GBP 4.75 bn. | Tap |
| 22.09.2026 | USA | T-Note | 09/28 | | USD 69 bn. | New |
| 23.09.2026 | Germany | Bund | 15Y/20Y | | € 2 bn. | Tap |
| 23.09.2026 | USA | T-Note | 09/31 | | USD 70 bn. | New |
| 23.09.2026 | USA | FRN | 07/28 | Float | USD 28 bn. | Tap |
| 24.09.2026 | Italy | BTP Short | 10/28 | 3.00% | € 3 bn. | Tap |
| 24.09.2026 | Italy | BTP I/L | | | € 1.5 bn. | Tap |
| 24.09.2026 | USA | T-Note | 09/33 | | USD 44 bn. | New |

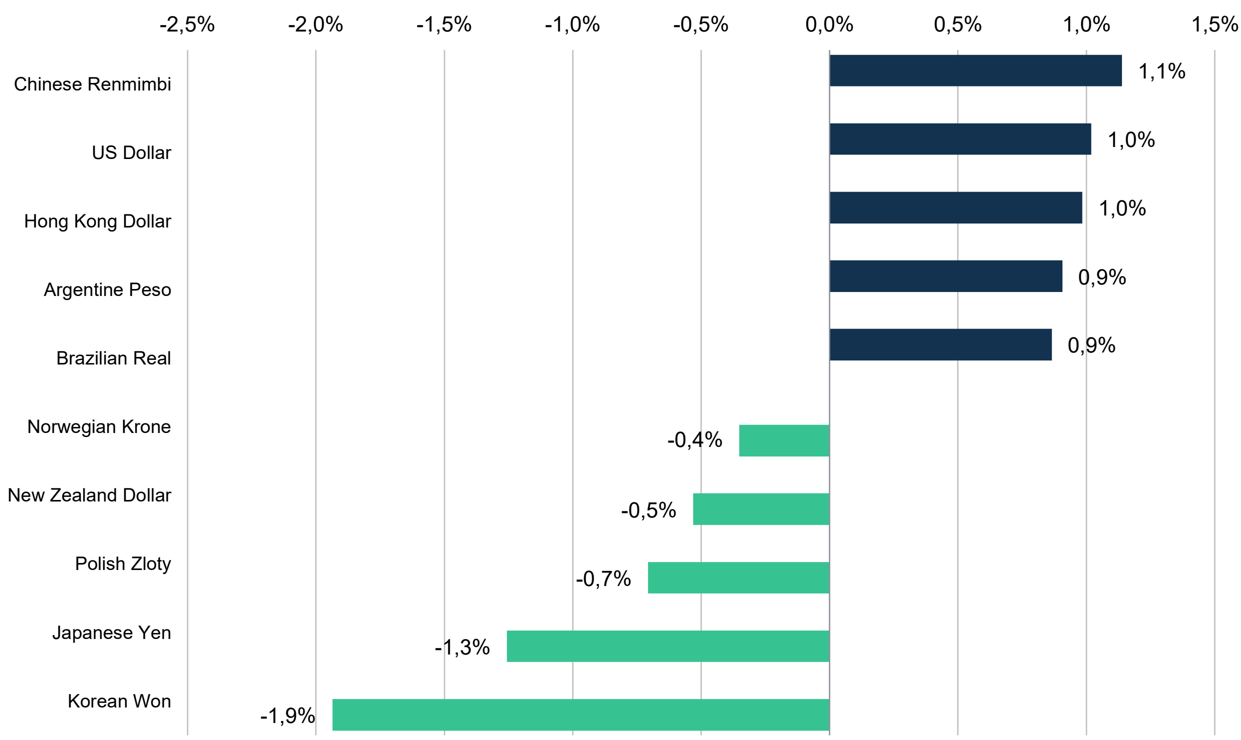
Sources: Bloomberg, LBBW Research

# 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% | 3,2% | ↑ | | | |
| United States | 28.10.26 | 4,00% | 16.09.26 | 3,75% | 3,4% | ↑ | -0,3% | 1,1482 | 1,1567 |
| United Kingdom | 05.11.26 | 3,75% | 18.12.25 | 4,00% | 3,1% | · | 0,6% | 0,8590 | 0,8648 |
| Japan | 18.09.26 | 1,25% | 18.09.26 | 1,00% | 1,9% | ↗ | 1,4% | 180,49 | 179,11 |
| China | *** | 2,00% | 25.09.24 | 2,30% | 0,8% | ↘ | 2,8% | 7,69 | 7,61 |
| Switzerland | 24.09.26 | 0,00% | 19.06.25 | 0,25% | 0,8% | ↑ | -4,0% | 0,9464 | 0,9330 |
| | | | | | | | | | |
| Argentina | *** | 29,00% | 31.01.25 | 32,00% | 33,3% | ↘ | -7,0% | 1.733,18 | 1.941,44 |
| Australia | 29.09.26 | 4,35% | 05.05.26 | 4,10% | 3,2% | ↗ | 1,2% | 1,61 | 1,63 |
| Brazil | 04.11.26 | 13,75% | 16.09.26 | 14,00% | 4,2% | · | 1,8% | 5,89 | 6,14 |
| Canada | 28.10.26 | 2,25% | 29.10.25 | 2,50% | 3,0% | ↑ | -2,1% | 1,61 | 1,60 |
| Czech Republic | 05.11.26 | 3,75% | 18.06.26 | 3,50% | 1,9% | ↗ | 0,8% | 24,31 | 24,41 |
| Denmark | *** | 2,25% | 11.09.26 | 2,00% | 2,0% | ↑ | 0,0% | 7,48 | 7,46 |
| Hong Kong | *** | 4,25% | 08.11.24 | 4,00% | 1,7% | ↗ | -0,3% | 9,01 | 9,03 |
| Hungary | 22.09.26 | 5,50% | 25.08.26 | 5,75% | 1,3% | · | 8,6% | 362,40 | 366,76 |
| India | 07.10.26 | 5,25% | 06.02.25 | 5,50% | 4,8% | ↑ | -2,8% | 109,98 | 112,71 |
| Indonesia | 23.09.26 | 5,75% | 18.06.26 | 5,50% | 3,2% | ↓ | -4,1% | 20.379,29 | 20.758,73 |
| 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% | ↑ | -1,5% | 2,01 | 2,01 |
| Norway | 24.09.26 | 4,25% | 07.05.26 | 4,00% | 3,3% | ↗ | 1,8% | 10,81 | 10,91 |
| Poland | 07.10.26 | 3,75% | 04.03.26 | 4,00% | 3,4% | ↗ | -1,7% | 4,36 | 4,38 |
| Romania | 08.10.26 | 6,50% | 07.08.24 | 6,75% | 6,2% | ↓ | -3,2% | 5,26 | 5,35 |
| Russia | 23.10.26 | 14,00% | 24.07.26 | 14,25% | 6,3% | · | -1,2% | 96,97 | 103,15 |
| Singapore | *** | 1,99% | n.a. | 1,81% | 2,2% | ↗ | 0,3% | 1,46 | 1,46 |
| South Africa | 23.09.26 | 7,00% | 28.05.26 | 6,75% | 4,3% | ↗ | 4,4% | 18,64 | 19,00 |
| South Korea | 22.10.26 | 3,00% | 27.08.26 | 2,75% | 3,1% | ↑ | 8,9% | 1.586,56 | 1.591,96 |
| Sweden | 24.09.26 | 1,75% | 23.09.25 | 2,00% | 0,3% | · | -4,2% | 11,26 | 11,22 |
| Turkey | 22.10.26 | 37,00% | 22.01.26 | 38,00% | 31,5% | · | -9,5% | 56,06 | 65,46 |

Sources: Bloomberg, LBBW Research

## The Strongest Currency Appreciations and Depreciations Against the Euro This Week

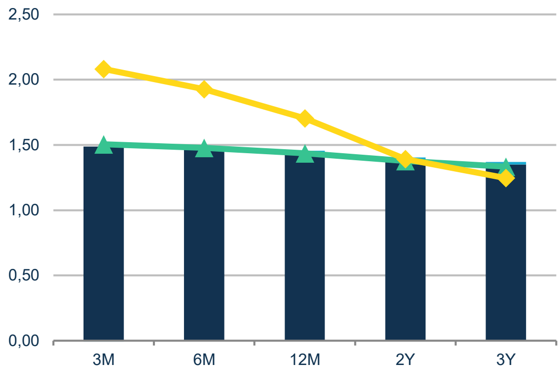



Sources: Bloomberg, LBBW, Research

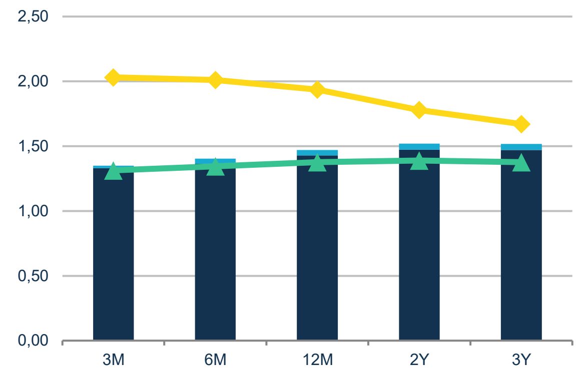
## Interest rate differential and FX insurance costs vs. the Euro for selected currencies

interest rate differential, basis swap rates and insurance costs

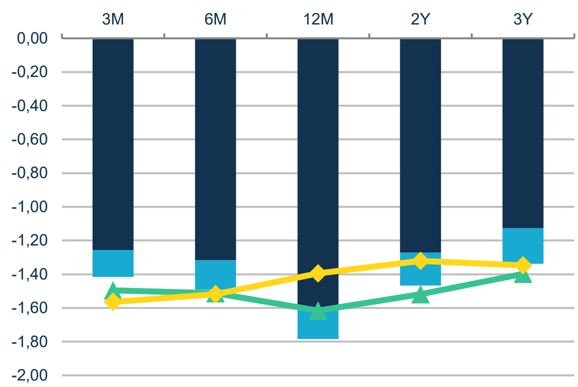
### US dollar



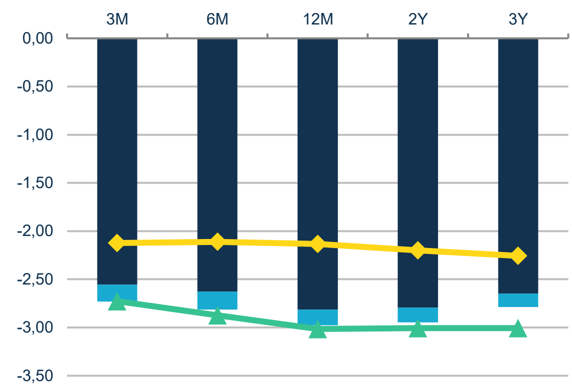

### British pound



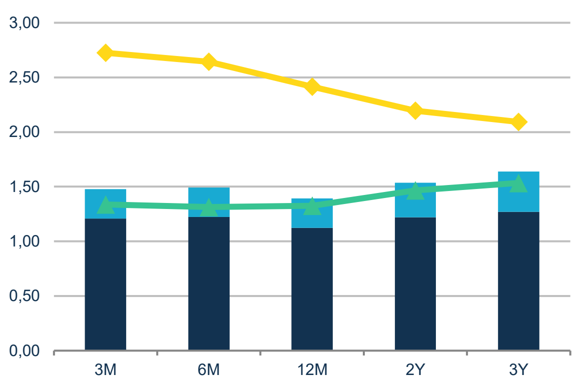

### Japanese yen



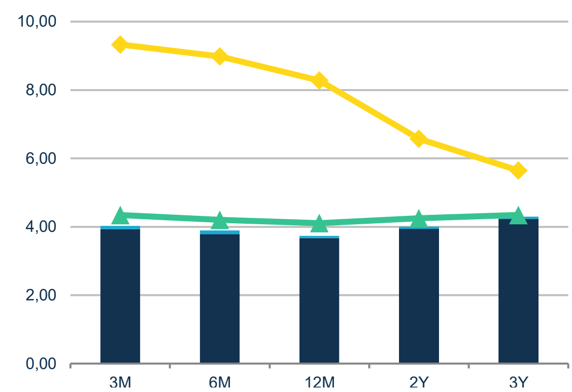

### Swiss franc




### Polish zloty




### Mexican peso




■ interest rate differential ■ basis swap rates

▲ insurance costs (p.a.; current) ◆ insurance costs one year ago

Sources: Bloomberg, LBBW Research

## Credit Spreads

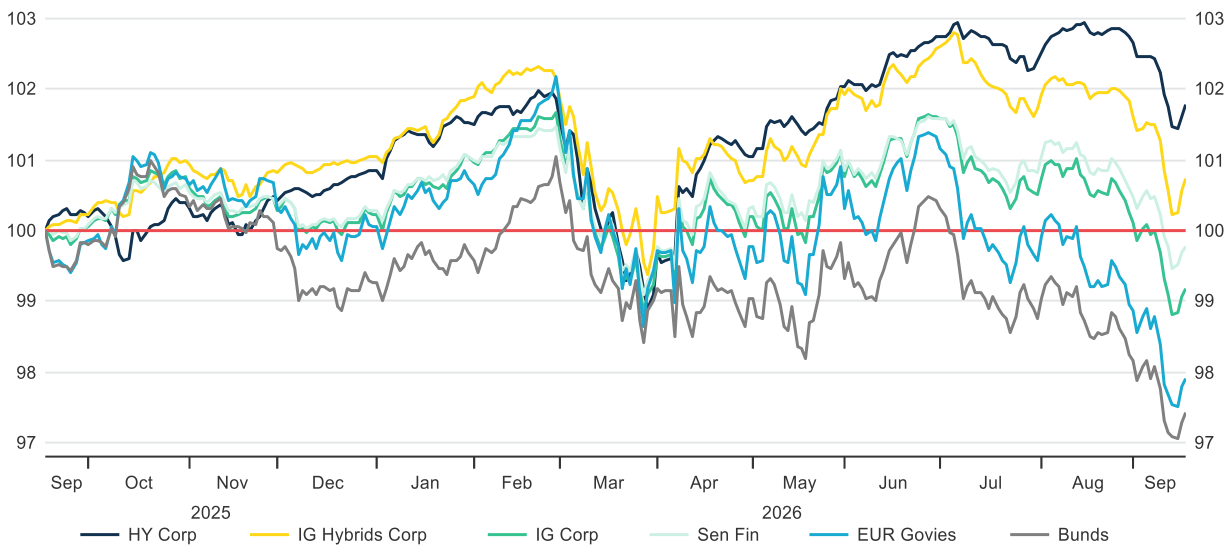
| 5Y CDS Spreads | Current | Changes 1W | 1M | 3M | 6M | 1Y |
|---|---|---|---|---|---|---|
| IG Corporates | 53 | 0 | 0 | 1 | -9 | 3 |
| HY & NR Corporates | 253 | -5 | 3 | 4 | -47 | 5 |
| Senior Financials | 55 | 0 | 0 | 1 | -11 | 0 |
| Sub Financials | 88 | 0 | 0 | 1 | -24 | -2 |

| EUR Indices | Current | Changes 1W | 1M | 3M | 6M | 1Y |
|---|---|---|---|---|---|---|
| Non-Financials | 76 | 1 | 3 | 2 | -8 | -4 |
| Banks Senior Preferred | 52 | 1 | 2 | 0 | -9 | -7 |
| Banks Senior Bail-in | 71 | 0 | 2 | -1 | -11 | -4 |
| Banks Subordinated | 106 | 1 | 4 | -2 | -14 | -14 |

*time lag of one day, Asset Swap Spreads 18.09.2026

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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