

CW 41/2026 | LBBW Research | Strategy/Macro

Government bond markets remain in rough waters

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01 | Our View

Bond Market Movers – Review and Outlook

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- Mixed signals have come from the Middle East. On the one hand, there are reports that oil shipments through the Strait of Hormuz, apart from registered vessel traffic, are continuing to rise. On the other hand, Iran has reportedly stepped up its attacks on ships in the strait.
- The U.S. jobs report for September disappointed in every key respect. Job growth was well below expectations, while wage growth continued to slow.
- In the eurozone, inflation jumped to a three-year high in September. The core rate, on the other hand, trended only slightly upward.
- ECB Chief Economist Lane advocates a “moderate” monetary policy response to rising energy prices. The recent sharp rise in long-term interest rates is already putting a greater brake on growth and inflation than the ECB had previously assumed, he said.
- In France, Marine Le Pen, a leading presidential candidate, has presented plans to significantly reduce the government deficit ratio in the coming years. Speculation about ECB interventions in the government bond market has been countered by both the central bank and the French government.
- The latest auction of 10-year U.S. T-Notes has seen the strongest investor demand in more than ten years. The latest tap of the 30-year T-bond also met with above-average demand.

What could drive the market next week?

- The financial markets remain under the spell of news from the Middle East and developments in commodity prices.
- In addition, investors are likely to continue to closely monitor information regarding France's budget plans for 2027.
- As for the macroeconomic calendar, the focus will be on the U.S. consumer price data for September. Another rise in headline inflation seems a done deal. The trend in the core rate could provide important clues for the Fed's next interest rate decision.
- The IMF is presenting its new World Economic Outlook as part of its annual meeting.
- The primary market for U.S. Treasuries is set to be quiet next week. Meanwhile, supply pressure in the primary market for euro-denominated government bonds is likely to increase significantly compared with last week. We expect a gross supply of up to 40 billion euros, compared with just over 11 billion euros the previous week. Meanwhile, net cash flows are set to plummet deep into negative territory due to a lack of reflows.

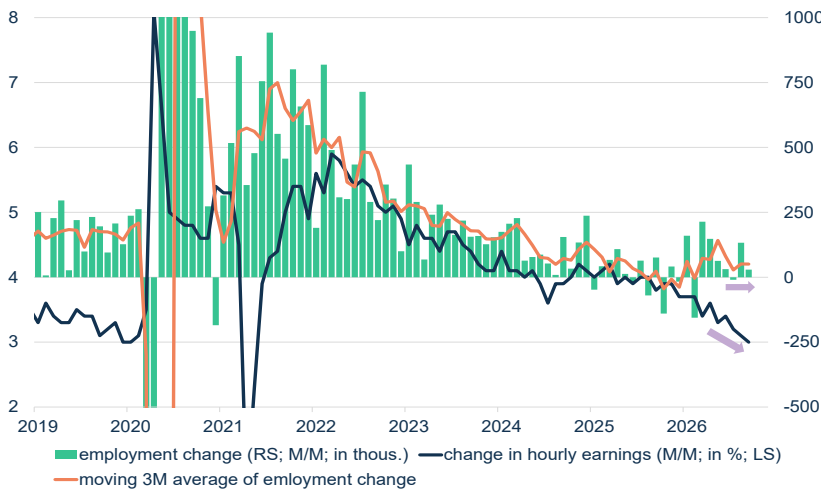
Government bond markets remain in rough waters

Weak U.S. jobs report dampens rate hiking speculation

The U.S. jobs report for September has provided some support to the hard-hit U.S. Treasury market in recent days. However, as regards long-term U.S. Treasuries, bond-positive macro input largely fizzled out quickly again. The number of new jobs created in the U.S. economy in September, at 29,000 (M/M), fell far short of expectations. This is even more true in light of a significant downward revision to the previous month's figures, which keeps the 3-month moving average of job growth just above the multi-month low recorded in July. After a brief uptick in the spring, the U.S. job market is, on balance, once again showing signs of sluggishness similar to those seen at the beginning of this year. Furthermore, at 3.0% (Y/Y), growth in hourly earnings was the lowest in more than five years (see the chart below). In our view, this plays into the hands of the monetary policy doves within the Federal Reserve, who are putting the brakes on further rapid policy tightening.

Chart of the Week

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



Source: Bloomberg, LBBW Research

The minutes from the Fed's September meeting did underscore that the overwhelming majority of central bankers are convinced of the need for further monetary tightening this year. However, the market-implied probability that such a hike would occur as early as the next Fed meeting in late October continued to trend downward. We feel further encouraged in our expectation that U.S. monetary policymakers will wait until their final meeting of the year in December before deciding on another tightening step.

Nevertheless, there does not yet appear to be an end in sight to the underlying weakness in long-term U.S. Treasury securities. The price-supporting effect of the bond-positive macroeconomic signals was short-lived for long-term bonds. Rather, following brief pullbacks in recent days, the yield on the 10-year U.S. benchmark bond consistently rebounded almost immediately close to the 24-year high reached a week ago (see the chart below). Based on this assessment, the U.S. Treasury market currently appears to be largely resistant to bond-bullish input. There is too much of a dominance of mounting global debt fears in many investors' minds. A recent steepening of the U.S. yield curve this week (see also the article on page 14) indicates that the term premiums on long-term U.S. Treasuries have remained on the rise. In our view, the situation is further complicated by the fact that brief hopes for an easing

U.S. job growth well below expectations

Wage inflation is falling: No second-round effects!

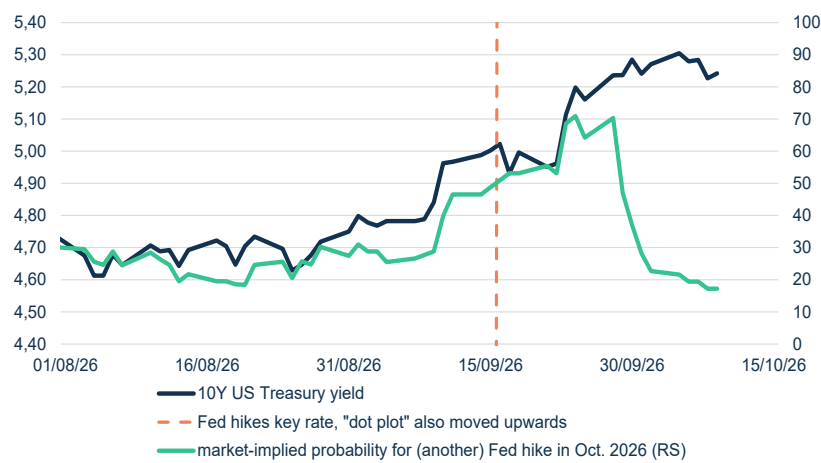
Market consensus moving further away from October Fed hike

Debt fears are keeping the long end of the curve under pressure!

of the energy price crisis stemming from the Middle East conflict have once again been dashed by signs of escalation. Investors are therefore finding it difficult to let go of their expectation that the major central banks on both sides of the Atlantic will enact several more interest rate hikes in the coming year.

Long-term interest rates decoupling from key rate expectations?

Yield on 10-year U.S. Treasuries and market-implied probability of another Fed rate hike in October



10-Year U.S. yield fails to come down, despite Fed relief

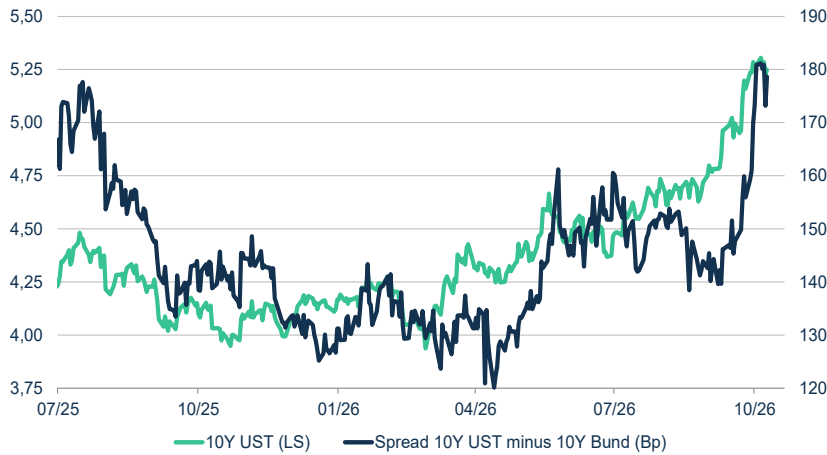
Source: Bloomberg, LBBW Research

EUR government bonds: France Remains in the Spotlight

We think that investors' increased differentiation among the bonds of individual countries also mirrors the mounting impact of debt concerns in keeping up a negative price momentum in global bond markets.

Transatlantic spread rises to its highest level since April 2025

Yield on 10Y U.S. Treasuries and yield spread over 10Y Bunds



Yield spread between UST and Bund skyrocketing

Source: Bloomberg, LBBW Research

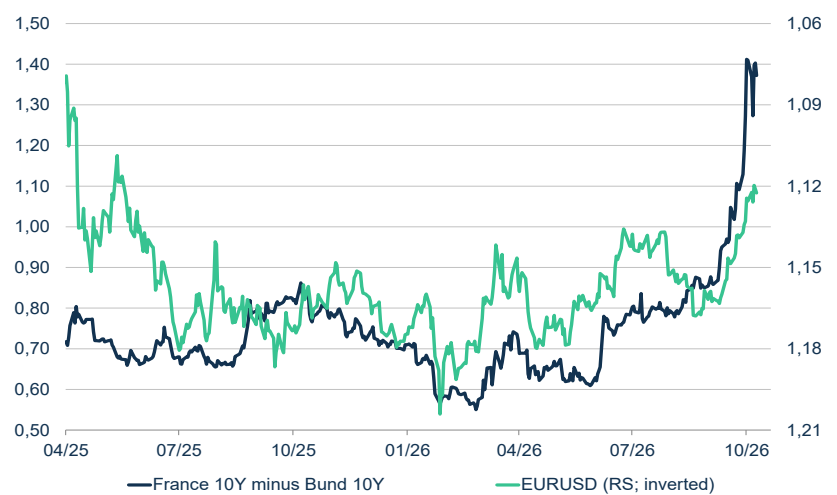
Long-term U.S. Treasury securities have shown striking relative weakness compared with German Bunds since mid-September. The yield spread between 10-year Treasuries and 10-year Bunds surged by more than 30 basis points during this period. The so-called transatlantic spread, at just over 180 basis points, recently hit its highest level since the period of market stress that followed Donald Trump's "Liberation Day" in April 2025.

Meanwhile, German government bonds are increasingly emerging as the safest haven, relatively speaking, not only in a transatlantic comparison but also within Europe. With regard to the eurozone, France's budget crisis has remained the focus of investors' attention. Toward the end of last week, the yield spread between 10-year French OATs and

Bunds with the same maturity made an intraday leap above 150 basis points, reaching its highest level since late 2011. It is true that French government bonds benefited temporarily from the fact that the front-runner in the upcoming French presidential election, Marine Le Pen, had spoken out in favor of more rapid fiscal consolidation. The right-wing populist leader wants to reduce the budget deficit to less than 4% of GDP as early as next year. The current government's austerity plans for 2027, announced a week ago and totaling just over 40 billion euros, are aiming merely to stabilize the deficit-to-GDP ratio at around 5%. However, financial market participants appear to be skeptical about Ms. Le Pen's promises of stability. On a week-over-week basis, the French spread remained virtually unchanged at around 140 basis points. Still: The spiral of escalation in sovereign spreads on the euro government bond market thus appears to have been halted for the time being. Le Pen's pledge of stability could be an indication that her party is, in principle, willing to support the Lecornu government's budget consolidation measures. In our view, this lifts the chances of the 2027 budget being successfully passed, which could relieve selling pressure on the French government bond market for the time being. As a result, the downward pressure on the euro against the U.S. dollar, which has persisted for weeks now, may also vanish. As shown in the following chart, there has been a clear correlation between growing concerns about France's fiscal stability, on the one hand, and the weakness of the common currency, on the other. However, the continued caution shown by investors in recent days indicates that it is still too early to give the all-clear.

France's budget crisis is weighing on the euro

Yield spread of 10-year French government bonds over German Bunds and the EUR/USD exchange rate



Source: Bloomberg, LBBW Research

Outlook: U.S. inflation for September to offer clues about the Fed's upcoming rate decision

Meanwhile, the near-term outlook for the major bond markets remains messy given their observed resilience to date to bond-bullish catalysts – whether these occur in the form of reassuring statements from policy-makers and central banks or from bond-positive macroeconomic data. Investors' caution appears to run too deep to easily reverse the bearish sentiment. In our view, a likely factor that could lift morale remains a sustained easing of the energy price crisis. However, given the dead-locked situation in the Middle East, this does not seem likely in the short term. Implied volatility is also hovering near its highs from the initial “heated” phase of the Iran war in both the U.S. dollar and euro interest rate markets. In our view, this indication of markedly heightened uncertainty among market participants suggests a continuing demand for hedging against an adverse inflation and rate scenario.

France: Le Pen's stability promise calms the market only briefly

Focus still on the 2027 budget

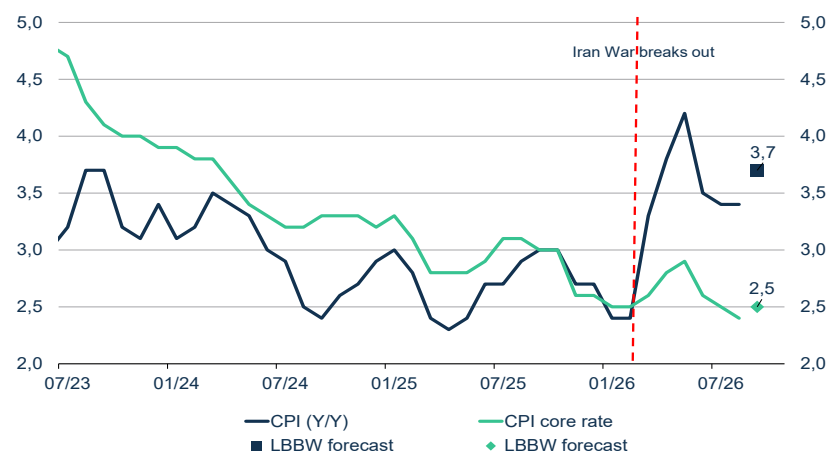
Euro exchange rate under the spell of French risks

Bond Market: No real turnaround without easing tensions in the Middle East

Given this situation, we must remain prepared for the emergence of more downward price spirals, especially in the U.S. Treasury market. Next week, the U.S. inflation data for September (Oct. 14) could provide a catalyst for another bearish move. In our view, a significant rise in headline inflation is virtually inevitable given the noticeable price increases at the gas pump compared with the previous month. Once again, U.S. core inflation is likely to be the key factor driving the reaction of the bond markets. Most recently, underlying price pressure has eased for three consecutive times, partly due to negative base effects. The latter have vanished in September, so in our view, a consolidation in the range of 2.5% (Y/Y) is the most likely outcome. Should the core rate rise by more than just a slight amount, however, concerns about second-round inflation effects are likely to be reignited. The scenario of a Fed rate hike in October, which market participants have recently virtually written off, would gain new traction in this case.

Higher inflation likely in September

U.S. Consumer Price Inflation and core rate (in %) with LBBW forecasts for September 2026



Source: Bloomberg, LBBW Research

U.S. inflation is the highlight of next week

We expect the core rate roughly stable

Forecasts at a Glance

Euro Area		Spot	31.12.26	30.06.27	31.12.27	
ECB Main Refinancing Rate		2,65	2,90	3,15	2,90	
ECB Deposit Rate		2,50	2,75	3,00	2,75	
Overnight Rate (€STR)		2,44	2,70	2,95	2,75	
3M Euribor		2,64	2,85	3,05	2,75	
Swap 2Y		3,38	3,50	3,25	2,75	
Swap 5Y		3,47	3,60	3,35	3,00	
Swap 10Y		3,56	3,65	3,50	3,30	
Bund 2Y		3,09	3,25	3,05	2,60	
Bund 5Y		3,23	3,40	3,20	2,90	
Bund 10Y		3,46	3,60	3,50	3,35	
Swap/Bund 2Y		29	25	20	15	
Swap/Bund 5Y		23	20	15	10	
Swap/Bund 10Y		10	5	0	-5	
Spread BBB Corporates/Bund		110	100	105	110	
USA		Spot	31.12.26	30.06.27	31.12.27	
Fed Funds Target Rate		4,00	4,25	4,25	4,00	
Overnight Rate (SOFR)		3,88	4,15	4,15	3,90	
3M Money Market		4,03	4,30	4,15	3,90	
Swap 2J (SOFR-OIS)		4,64	4,60	4,15	3,75	
Swap 5J (SOFR-OIS)		4,72	4,60	4,25	3,95	
Swap 10J (SOFR-OIS)		4,84	4,70	4,50	4,30	
Treasury 2Y		4,78	4,75	4,35	3,95	
Treasury 5Y		5,01	4,90	4,60	4,30	
Treasury 10Y		5,24	5,10	4,95	4,80	
G5		Spot	31.12.26	30.06.27	31.12.27	
Japan	Overnight Rate (TONAR)	1,23	1,55	1,80	2,05	
Japan	10Y Government Bond	3,02	3,15	3,25	3,30	
UK	Overnight Rate (SONIA)	3,73	3,95	4,20	3,95	
UK	10Y Government Bond	5,43	5,30	5,20	5,00	
Switzerland	Overnight Rate (SARON)	-0,04	-0,05	0,20	0,20	
Switzerland	10Y Government Bond	0,56	0,60	0,60	0,50	
FX		Spot	31.12.26	30.06.27	31.12.27	
EURCHF		0,9328	0,93	0,94	0,95	
EURCNY		7,5191	7,71	7,36	7,43	
EURGBP		0,8481	0,85	0,85	0,85	
EURJPY		177,65	182	178	176	
EURUSD		1,1228	1,15	1,15	1,17	
USDCHF		0,8308	0,81	0,82	0,81	
USDCNY		6,6957	6,70	6,40	6,35	
GBPUSD		1,3240	1,35	1,35	1,38	
USDJPY		158,21	158	155	150	
Economic Development		2024	2025	2026e	2027e	
	Germany	GDP	0,0	0,4	1,0	1,0
		Inflation	2,3	2,2	2,8	2,6
	Euro Area	GDP	1,1	1,5	1,0	1,3
		Inflation	2,4	2,1	3,0	2,5
	UK	GDP	1,1	1,3	1,3	1,2
		Inflation	2,5	3,2	3,2	2,5
	USA	GDP	3,0	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

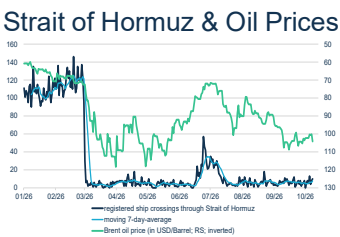
Main Events of the Past Week

- *Global Debt:* IMF Managing Director Georgieva urges industrialized nations to get their public finances in order – she warns against pinning hopes on a solution based on high, AI-driven growth – “credible, medium-term plans for fiscal consolidation” are the order of the day – in some cases, these should be accompanied by immediate measures – central banks urged to pursue restrictive monetary policy.
- *Global Financial Stability:* IMF reiterates growing risks to global financial stability posed by growth of hedge funds and calls for stronger regulation of the sector – IMF recommends different regulatory approaches depending on risk structure – focus also on potential contagion effects in the banking sector in the event of hedge fund distress – according to the IMF, the gross assets of hedge funds (including derivatives) have more than tripled since 2013 to approximately 40 billion USD.
- *Global Trade:* World Trade Organization expects global trade to grow by 3.9% in 2026, twice as much as forecast in the spring, while it has raised its forecast for 2027 from 2.6% to 4.1% – growth currently driven primarily by trade in goods for AI investments.
- *Middle East Conflict:* U.S. President Trump has ruled out further military attacks on Iran before the U.S. midterm elections in early November – Trump also spoke of “productive talks” with Iran, which, according to media reports, had previously stepped up attacks on ships in the Strait of Hormuz.
- *Middle East Conflict – Energy Price Crisis:* Bundesbank President Nagel has criticized Germany's slow progress in replenishing natural gas storage facilities this summer – that situation might further fuel inflation – with the average storage level in Germany currently at 59%, compared with 72% for the EU as a whole.
- *Middle East Conflict – Energy Price Crisis:* G7 countries agree to release a portion of their national diesel emergency reserves to address a growing shortage of petroleum products, thereby acceding to demands from the U.S. government – U.S. President Trump subsequently withdraws his threat to impose a diesel export blockade on European countries.
- *Geopolitics:* Saudi Arabia has activated a recently signed mutual assistance pact with Pakistan and Turkey in light of the ongoing military conflict with Yemeni Houthi rebels – Kingdom has also launched a joint offensive with Yemeni government forces to recapture strategically important coastal areas along the Red Sea.
- *Geopolitics:* BND Chief Jäger sees Germany as the main adversary in Russia's “shadow war” against the West – the country could be drawn deeper into a conflict as the Kremlin's military ambitions grow – political dynamics within Russia are making it increasingly difficult for President Putin to end the war in Ukraine without paying a high personal price.
- *EU – Trade Policy:* France and Germany are planning to propose a measure at the next EU summit in mid-October that would give the EU more leeway in dealing with unfair trade practices by trading partners – under the proposal, the European Commission would be able to impose trade restrictions at short notice against companies or countries that harm the EU – the plans are primarily aimed at taking a tougher stance toward China.

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IMF calls for budget consolidation

AI boom fuels global trade



Sources: Bloomberg, LBBW Research

BND warns of Russia's military ambitions

- **EU – Trade Policy:** The European Commission is planning measures to limit imports of Chinese hybrid vehicles in order to reduce the trade deficit with the Middle Kingdom – share of hybrid vehicle sales accounted for by Chinese manufacturers has recently risen to one-quarter – the move is presumably intended to secure a stronger position in upcoming negotiations with the Chinese government.
- **Monetary Policy – ECB:** Chief Economist Lane currently considers a “moderate” monetary policy response by the ECB to rising inflation to be appropriate – one reason for this is that the sharp rise in bond yields is likely to dampen growth and inflation in the eurozone more than was assumed back in September – Europe is also benefiting less from the AI boom than the U.S., according to Lane, which is why financing conditions on this side of the Atlantic have tightened more sharply.
- **Monetary Policy – ECB:** According to the account of the September 10 rate setting meeting, central bankers insisted on a “proportionate” monetary policy response to inflation risks – A repricing of long-term financing costs could influence the direction of monetary policy – higher bond yields could significantly impact growth.
- **Monetary Policy – Fed:** Minutes of the September 15 rate setting meeting show unanimous support for the approved rate hike – A majority of central bank officials expect that another hike will likely be necessary by the end of the year – numerous Fed members see an upward growth trend in the U.S. economy and still view financing conditions as supportive of growth.
- **Germany – Economy:** Factory orders plummeted by 10.6% (M/M) in August, following a 3.2% increase in July – a sharp decline in domestic orders (-17.3%) is primarily attributable to large orders – Foreign orders fell by 5.4% – Industrial production, by contrast, rose by 2.0% (M/M), following a decline of -1.2% in July.
- **Germany – Reform Policy:** The Federal Audit Office warns against watering down the planned pension reform – payments to the statutory pension insurance system are consuming an ever-larger portion of the federal budget – under unfavorable circumstances, nearly half of all tax revenue could go toward the pension insurance system by 2040.
- **Eurozone – Economy:** The Sentix Investor Confidence Index suffered its first slight decline after five consecutive increases – the index fell from 5.1 to 2.7 points in October.
- **Eurozone – Inflation:** Headline inflation jumped in September from 3.2% to 3.8%, the highest level since September 2023 – Energy prices were once again the main driver – core rate climbed only slightly, from 2.4% to 2.5% – price pressure in the services sector increased from 3.0% to 3.2%.
- **U.S. – Economy:** The ISM index for the services sector declined moderately in September, falling from 55.4 to 54.9 points – while the price component rose from 72.6 to 74.0 points, the highest level since July 2022.
- **U.S. – Labor Market:** Official labor market report for September disappointed in key areas – job growth slowed to 29,000 (M/M), down from 133,000 in August – previous month’s figures were also revised downward by a total of 60,000 – unemployment rate rose from 4.1% to 4.2% – Hourly earnings growth slowed from 3.1% to 3.0% (YY), the lowest growth rate since May 2021.
- **U.S. – Labor Market:** Weekly ADP report shows a slight acceleration in job growth for the four-week period ending September 19, with an average of 23,750 jobs added, up from 22,500 in the previous period – strongest growth since mid-June.
- **U.S. – Debt:** Finance Minister Bessent is working to allay investors’ concerns about a spiral of government debt – he says the rise in government borrowing will be “curbed” through a combi-

EU takes a more confrontational stance towards China

Fed minutes reaffirm rate hiking plans

U.S. job data weaker than expected

nation of stronger economic growth and a more restrictive spending policy – however, Bessent has yet to provide details on a possible fiscal policy course correction.

- *France – Fiscal Policy:* Presidential candidate Marine Le Pen proposes reducing France's budget deficit to below 3% of GDP by 2032 at the latest – her fiscal plan would call for the deficit to fall to 3.7% as early as next year, following an expected 5.4% in 2026 – Le Pen appears to be striving to allay investors' concerns about spiraling public debt.
- *France – Debt:* Finance Minister Lescure dismisses speculation about a possible ECB intervention in the French government bond market – France is “far from” needing such support, he says – the country is not facing a situation of “market distortion” – Lescure also sees no loss of confidence in the euro.
- *France – Government Bond Market:* According to Emmanuel Moulin, head of the Bank of France, the conditions for an ECB intervention in the French government bond market are not met – Moulin sees “complicated and serious” situation on the government bond market – but the ECB is not there to “deal with the fiscal policy problems of eurozone countries”, he says.
- *Spain – Government Crisis:* Prime Minister Sanchez announces early parliamentary elections for November 29 – center-left government had previously lost a key parliamentary vote on housing policy – government plans were intended to alleviate emerging protests over the housing crisis in major cities – Sánchez intends to focus his campaign primarily on the issue of affordable housing – meanwhile, the opposition conservative People's Party is leading in the polls, and its party leader appears to be preparing for a coalition with the far-right Vox party.
- *Brazil – Presidential Election:* Flavio Bolsonaro, the right-wing son of the former president, has emerged as the surprise winner of the first round of the presidential election – Bolsonaro Jr. was narrowly ahead with 47% of the vote, while incumbent Lula da Silva received 45% – campaign has turned into a culture war and a mudslinging contest, with the struggle for political dominance in the Supreme Court also taking center stage – Observers now see Bolsonaro as the favorite for the runoff election on October 25.
- *AI – Financial Stability:* ECB President Lagarde warns of the risk of instability in the financial system due to Europe's dependence on a small number of AI providers – she calls for the development of European AI capabilities.
- *Government Bond Market – Digital Bonds:* Luxembourg becomes the first eurozone country to issue “digital bonds” (“Digitally Native Securities”) based on distributed ledger technology (DLT) – moreover, the United Kingdom has unveiled plans to issue a pilot digital bond, expected for the first quarter of 2027.

Le Pen vows
to markedly cut
the budget deficit

Moulin rejects
ECB intervention
in the bond
market

Brazil: Bolsonaro
is the favorite
to win the runoff
election

Luxembourg
debuts with
“digital bond”

Next Week's Data

TIME	COUNTRY		PERIOD	LBBW FORECAST	CONSENSUS FORECAST ¹⁾	LAST VALUE ²⁾	IMPORTANCE
FRIDAY, 09.10.2026							
16:00	USA	Uni Michigan Consumer Confidence (prelim.)	Oct	49,0	47,6	48,1	***
	BEL	Rating Review Belgium (Moody's®)					**
TUESDAY, 13.10.2026							
04:00	IMF	IMF to release new World Economic Outlook					**
08:00	GE	CPI (Y/Y) (final)	Sep	3,3	3,3	3,3	*
12:00	USA	NFIB Small Business Optimism	Sep	98,4	98,0	98,7	*
16:00	USA	Existing Home Sales (mn)	Sep	3,96	3,96	3,98	**
WEDNESDAY, 14.10.2026							
03:30	CHN	CPI (Y/Y)	Sep	1,1	1,0	0,8	**
03:30	CHN	PPI (Y/Y)	Sep	4,5	4,4	3,8	*
14:30	USA	CPI (M/M)	Sep	0,6	0,6	0,4	***
14:30	USA	CPI Ex Food & Energy (M/M)	Sep	0,2	0,2	0,3	***
20:00	USA	Fed releases Beige Book					**
	CHN	Exports in USD (Y/Y)	Sep	23,5	25,3	25,0	**
THURSDAY, 15.10.2026							
11:00	EMU	Industrial Production (M/M)	Aug	0,5	0,1	-0,1	**
14:30	USA	Advance Retail Sales (M/M)	Sep	0,4	0,3	1,1	***
14:30	USA	Philadelphia Fed Index	Oct	25,0	26,4	37,8	**
14:30	USA	Producer Price Index, Final Demand (M/M)	Sep	0,5	0,5	0,4	**
	EU	EU Summit of Heads of States and Governments					***
FRIDAY, 16.10.2026							
05:30	USA	Fed Chairman Warsh to speak at IMF Annual Meeting					***
11:00	EMU	HICP (Y/Y) (final)	Sep	3,8	3,8	3,8	*
11:00	EMU	Trade Balance (bn EUR)	Aug	-	-	5,0	*
14:30	USA	Import Price Index (M/M)	Sep	-	0,6	0,7	*
15:15	USA	Industrial Production (M/M)	Sep	0,4	0,4	0,0	**
15:15	USA	Capacity Utilization (in %)	Sep	76,5	76,5	76,3	*
22:00	USA	Net Long-Term TIC Flow s (bn USD)	Aug	-	-	-27,9	*

1) Consensus forecast according to Bloomberg/Reuters
2) Should a provisional estimate be available, it is stated instead of the reference figure of the previous period

Sources: Bloomberg, LBBW Research

EUR government bonds: Swap spreads demonstrate signs of stress

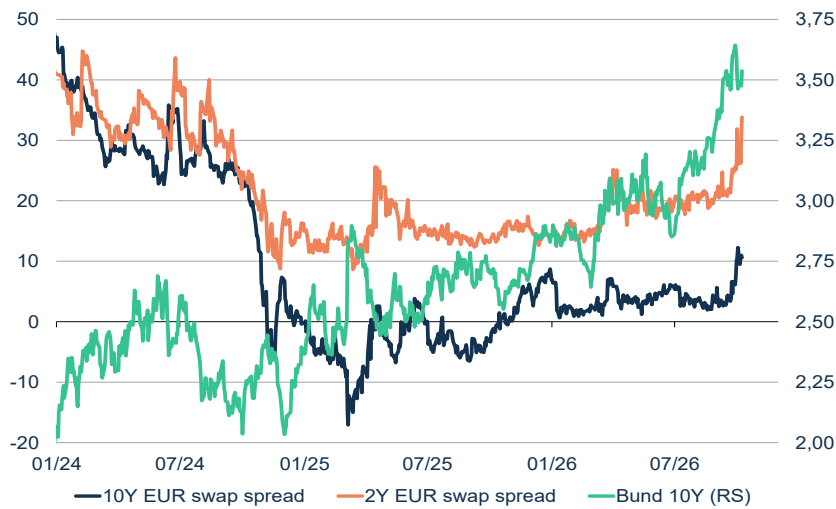
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10-Year EUR swap spread jumps to a two-year high

Investors' growing concerns about the debt situation of eurozone countries, particularly France, have triggered several classic indicators of stress in recent days. In addition to the risk premiums on bonds issued by highly indebted eurozone countries (see the October 2, 2026, issue of *Bonds Weekly*), this also affects the EUR swap spreads, i.e., the difference between EUR swap rates and the yields on German government bonds with the same maturity. The 2Y EUR swap spread has widened by more than 10 bp since mid-September and surpassed the 30 bp mark for the first time since September 2024. The 10-year EUR swap spread also jumped by about 10 bp, at its peak. In a longer-term comparison the spread between swap rates and Bund yields clearly is still below average. However, the most recent widening surge was the largest over such a short time frame since the market turmoil of April 2025, when U.S. President Trump sent investors into a frenzy with his tariff policy (see the chart below).

Investors are playing the "safe-haven" card

Yields on 10-year Bunds and EUR swap spreads for selected maturities



Source: Bloomberg, LBBW Research

On balance, EUR swap spreads have been on a flat-angled upward path since early 2025. This widening trend coincided with an overall upward trend in interest rates across the euro area. In our view, however, the recent upward surge in the swap spread differs from the previous gradual widening trend in that it was accompanied by a pullback in Bund yields from their previous multi-year highs. At the same time, implied volatility in the euro interest rate market rose noticeably (see the chart below). In our view, the latter is consistent with the above interpretation of heightened stress levels among investors. The obvious conclusion is: When it comes to German government bonds, investors are putting aside, for the time

Swap spreads
jumped by about
10 bp, ...

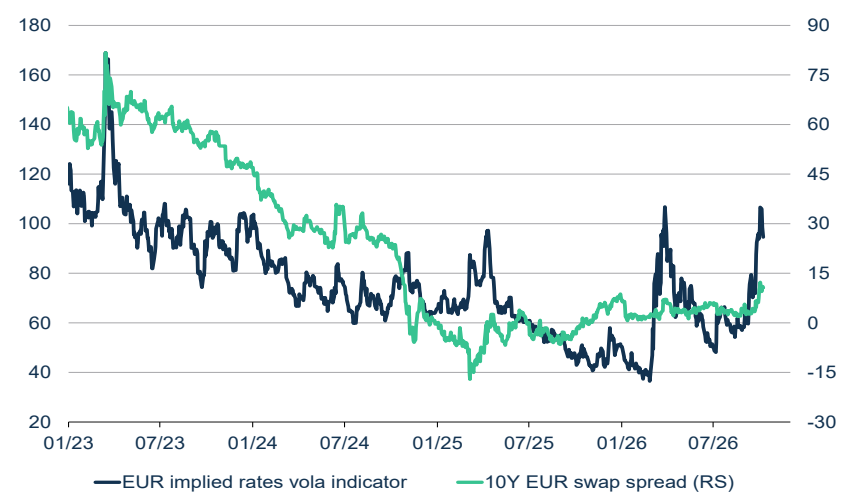
... while Bunds
yields came down
from their highs

A clear rupture
from the
“upward drift”
since early 2025

being, their concerns about Germany’s rising debt and the growing supply of bonds. At the moment, they place greater emphasis on the fact that German government bonds are the relatively safest haven – among numerous even less favorable alternatives.

Implied volatility also indicates elevated stress levels

10-Year EUR swap spread and LBBW Indicator for implied volatility in the EUR rates market



Source: Bloomberg, LBBW Research

We do not expect an overriding trend reversal

It remains to be seen how long this “special market situation” for German government bonds will last. As for France, signs of easing in the government bond market have been very slow to materialize in recent days. In the short term, therefore, we believe that the trend in EUR swap spreads depends primarily on how sustained investors’ “flight-to-safety” reactions will turn out to be. In the medium term, we continue to expect that EUR swap spreads will primarily reflect the trend of deteriorating credit quality of the German government. This applies first and foremost to the long-term maturity segments.

The recent upward move in 10-year EUR swap spreads should therefore not be seen as the start of a broader trend reversal toward widening. Rather, we expect the 10-year EUR swap spread to move back toward its average range since early 2025 – roughly 0 bp, or just into negative territory – over the next twelve months.

Implied volatility and swap spread move in the same direction

Medium-term swap spread forecast kept unchanged

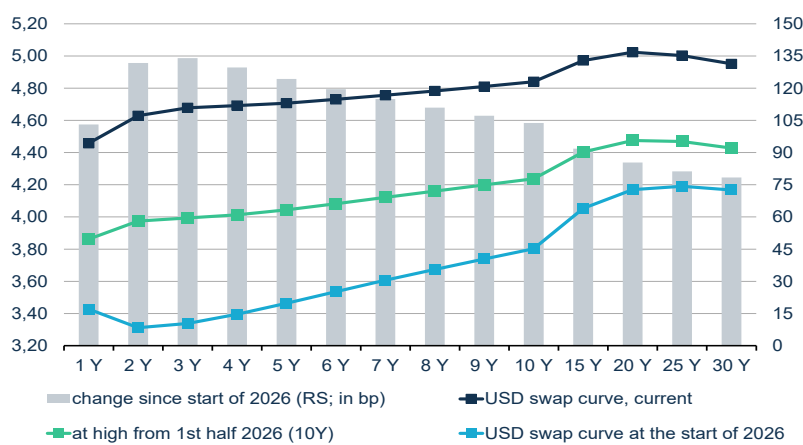
USD Yield Curve: Flatter in the short term, steeper in the medium term

Summer quarter brings a major upward shift in the curve

The “initial market shock” following the outbreak of war in the Middle East caused short-term USD swap rates to spike by more than half a percentage point in the spring of 2026. At the long end of the yield curve, the upward momentum was somewhat more moderate. The “second wave” of the interest rate shock, which drove market trends for much of the third quarter, has since at least doubled the overall impact on the yield curve. This occurred largely in line with the initial pattern, whereby the shorter-term USD swap rates experienced the largest cumulative upward deviation. For maturities up to and including 10 years, interest rates are currently more than one full percentage point higher than they were at the start of the year (see the chart below). The cumulative deviation was somewhat more moderate for ultra-long-term USD swap rates.

A slightly positive slope up to the 20-year range

Current USD swap curve, at the beginning of 2026, and at the year's high



Source: Bloomberg, LBBW Research

Slope is subject to large fluctuations: Key rate speculation vs. debt concerns

In the meantime, it must be noted that the “second wave” of the rate shock outlined above has not resulted in a consistent continuation of the flattening trend seen in the first half of 2026. Measured in terms of the yield spread between 10-year and 2-year U.S. Treasuries, the yield curve’s steepness did temporarily reach its lowest level in about a year and a half during the third quarter, at around 20 bp. As the following chart shows, this temporary low in the slope coincided with a preliminary peak in financial market speculation regarding a series of further interest rate hikes by the Federal Reserve. However, the 10Y/2Y spread subsequently corrected sharply higher, without investors significantly scaling back their expectations regarding the peak of the Fed’s policy rate in the current cycle. We view the fluctuations in the steepness of the curve over the past few weeks as an indication that opposing forces are at work. On the one hand, Fed Chairman Kevin Warsh’s “hawkish” remarks at the annual conference in Jackson Hole appear to have fueled rate hiking speculation in a sustained manner. In our view, the head of the U.S. Federal Reserve has thus temporarily managed to curb the term premiums at the long end of

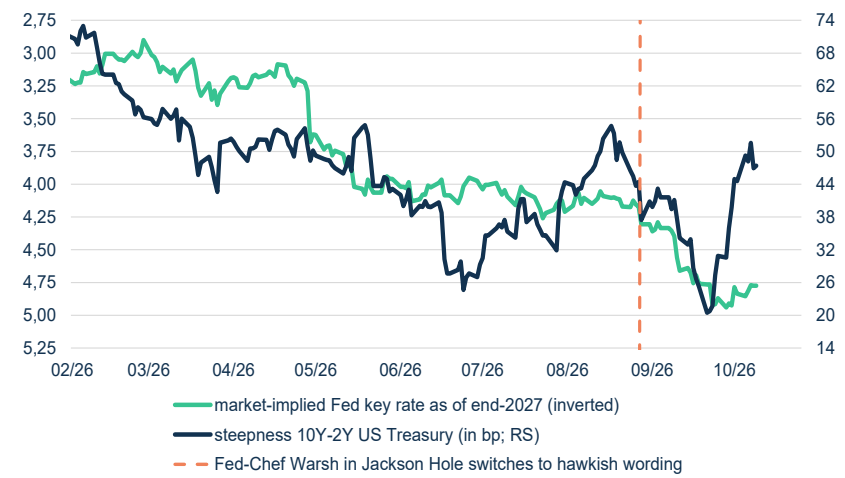
"Second wave" of rate shock at least as severe as the first one

Swap rates up to 10Y up more than 1%-point YTD

10Y-2Y UST spread rebounds after hitting an annual low

the U.S. dollar yield curve. On the other hand, investors' lingering concerns about spiraling U.S. national debt soon overshadowed this dampening effect on term premiums.

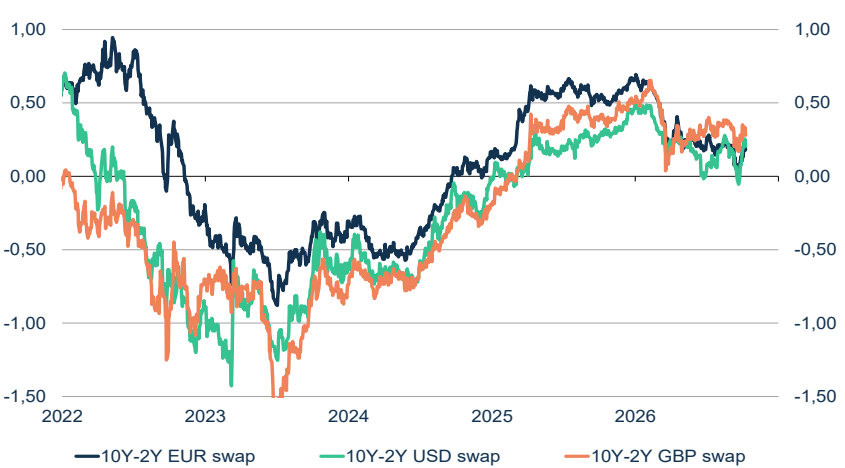
Opposing forces affect the steepness
10Y–2Y U.S. Treasury spread and market-implied expectations for the Fed's key rate level as at the end of 2027



Source: Bloomberg, LBBW Research

In our view, another factor is that, as evidenced by the majority of macro-economic indicators, the U.S. economy has so far appeared relatively unfazed by the significantly worsened (long-term) financing conditions. Consistent with this, the U.S. dollar yield curve has not yet sent any recession warning signals in the form of an inverted structure. On the contrary, the swap curve continues to show a slight upward slope across all segments.

Yield curves only briefly inverted before a rebound set in
10Y-2Y yield curve slope for selected currencies



Source: Bloomberg, LBBW Research

This resilience of the yield curve to inversion trends has been observed on both sides of the Atlantic. Going by the swap curves, the 10Y-2Y spreads did briefly dip below zero on both the USD and EUR interest rate markets. However, a subsequent rebound pushed the spreads back into positive territory almost in lockstep (see the chart above). The flattening trend has been most pronounced at the ultra-long end of the curves, with the EUR swap curve standing out due to an inversion – similar to what had already been seen in the early stages of the Iran War.

Cycle analysis: Key rate peak = Slope trough?

In our view, the interplay of opposing forces affecting the steepness of the U.S. Treasury yield curve complicates the forecasting business for

Slope only occasionally running parallel to key rate speculation

No inversion: Curve reflects robust U.S. economy

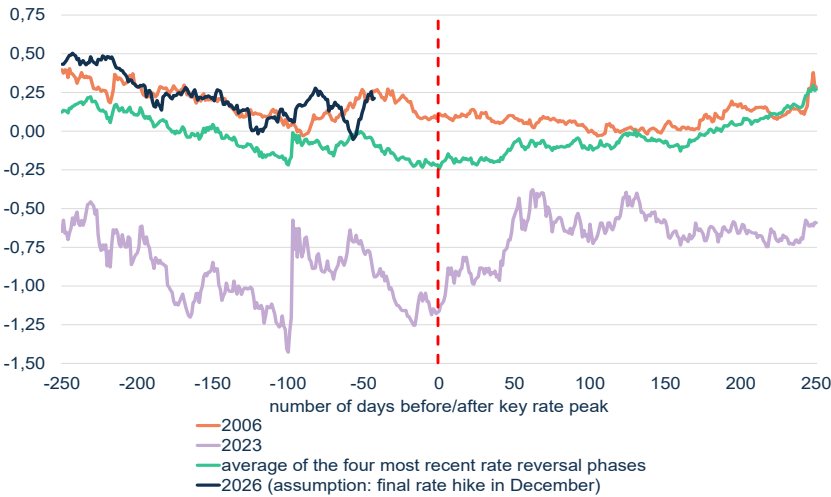
Spreads 10Y-2Y swap in tandem

the coming months. Concerns about debt have flared up relatively erratically at irregular intervals to date. In our view, this factor holds the potential for the yield curve to continue steepening in the medium term, as long as the U.S. government does not shift toward fiscal consolidation. Beyond recent verbal attempts at reassurance by U.S. Treasury Secretary Besent, there is as yet no solid evidence of such a shift in fiscal policy.

As to the key rate cycle, we would like to point out a twofold effect on the steepness of the yield curve: In the short term, our historical analysis suggests that the curve is still set to flatten. This is particularly true for the short end of the USD yield curve, as the spread 10Y-2Y USD swap hit its low at roughly the same time as the Federal Reserve's final rate hike in each cycle – going by the average over the last four policy rate cycles (see the chart below). If our forecast for the Fed's monetary policy proves accurate – namely, that the central bank will complete its tightening phase in December 2026 – the outlook for 2027 points toward a steepening of the yield curve. According to the analysis, the spread 10Y-2Y USD swap rose by an average of about 50 basis points during the first twelve months following the Fed's final interest rate hike.

Historically, a key rate peak has been followed by a steepening of the yield curve

Spread 10Y-2Y USD swap amid key rate plateau periods



Source: Bloomberg, LBBW Research

The medium-term prospects for a steepening of the ultra-long end of the USD swap curve appear to be at least as favorable. Based on the 30-year/10-year USD curve slope, the long end of the curve experienced an average steepening of one-quarter of a percentage point in the first twelve months following the Fed's final hike. In addition, the 30Y/10Y spread has, on average, already hit its cyclical low about three months before the policy rate peaks (see the chart below). Based on this assessment, the ultra-long steepness may have already bottomed out when it briefly dipped below zero last month. Based on the historical cycle analysis, sustained negative levels can only be expected if the Fed, contrary to our forecast, raises its key interest rate into strongly restrictive territory next year.

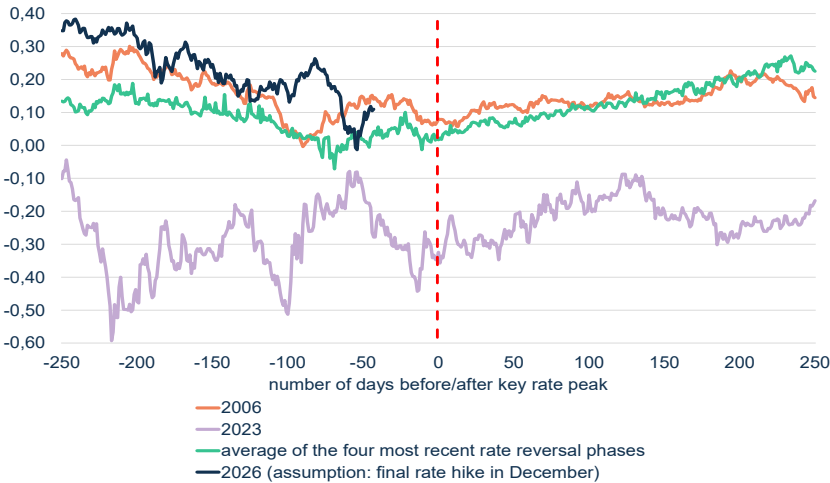
Debt concerns
are set to drive
term premiums
even higher

Cycle Analysis:
slope hit a low
when Fed rate
peaked

30Y-10Y:
Potential for a
25 bp rise in 2027

The ultra-long-term steepness had already hit a low prior to the key rate peak

Spread 30Y-10Y USD swap amid key rate plateau periods



Source: Bloomberg, LBBW Research

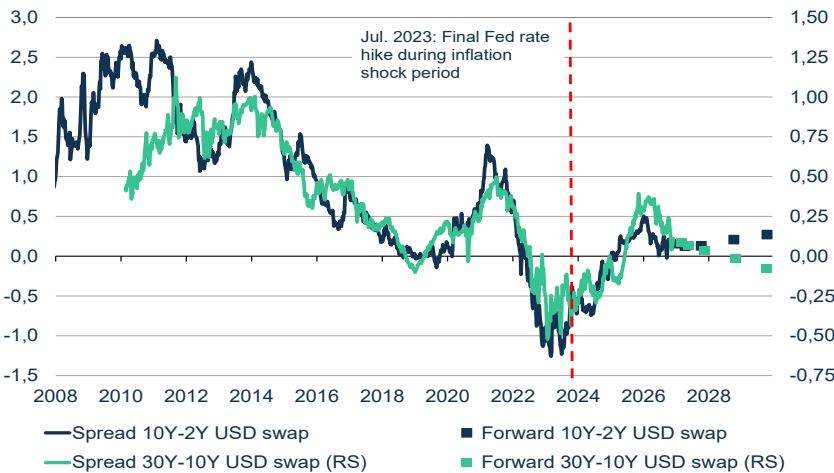
From a fundamental perspective, we believe risks of increased pressure on the USD rates curve to flatten would materialize primarily in a macro-economic scenario characterized by “precarious” conditions, i.e. one that combines persistently high inflation with emerging signs of an economic recession.

Outlook: If the Fed's rate-hiking cycle remains limited, the outlook for 2027 points toward steepening

The ongoing turmoil in the Middle East around the Strait of Hormuz – and, not least, the growing shortage of refined petroleum products – has indeed increased the likelihood of a prolonged period of monetary tightening in the United States. Looking ahead to 2027, however, we believe that, on balance, the arguments in favor of the U.S. dollar yield curve returning to a steepening trend outweigh the arguments against it. The biggest risks to our forecast of a medium-term steepening include, firstly, that we underestimate the duration of the rate-hiking cycle. Second, an abrupt shift in U.S. fiscal policy following the midterm elections could unexpectedly ease market participants’ debt concerns and push down the term premiums on long-term U.S. Treasuries.

Forwards imply a flatter yield curve over a 12-month horizon in both the front-end and back-end segments

Spreads 10Y-2Y and 30Y-10Y USD swap with forward slopes



Source: Bloomberg, LBBW Research

"Stagflation" would increase flattening pressure

Conclusion: Steepening remains our preferred scenario for 2027

Forwards imply a moderate flattening over next 12 months

Meanwhile, forward rates are favoring positions that bet on a steeper U.S. dollar yield curve. For both the 10Y/2Y spread and the 30Y/10Y spread on the swap curve, forwards are pricing in a moderate flattening over the next year. If such a flattening does not occur, steepener positions would already prove to be profitable.

03 | Credit Strategy

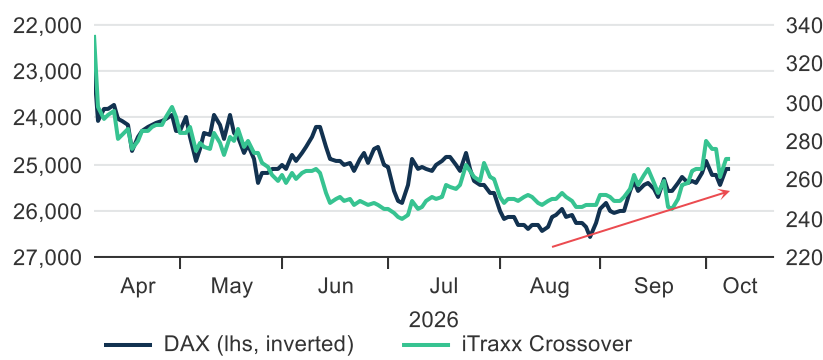
More volatility in credit markets

Spreads are slightly higher

While U.S. stock markets hit new record highs in recent days, uncertainty spread across Europe. Rising government bond yields, high oil prices, and uncertainty about U.S. politics caused European markets to fall sharply. As a result, the iTraxx Crossover once again tracked the DAX more closely. Given the current situation, we see little reason to believe that this trend will reverse in the coming days.

iTraxx is based on European stocks

iTraxx Crossover vs. DAX (inverted)

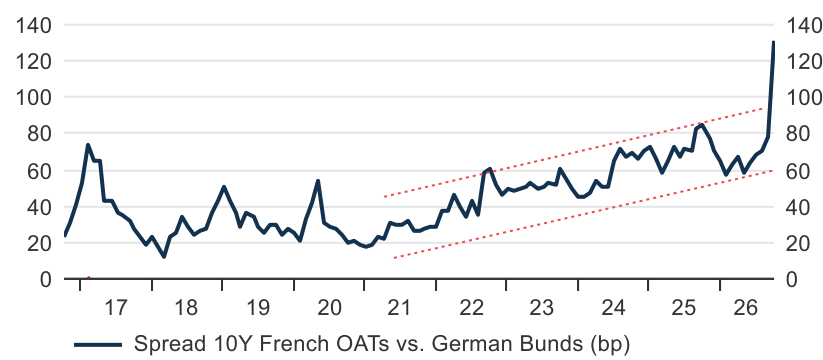


Source: LSEG, LBBW Research

The performance of French government bonds is a clear contributing factor to the increased volatility in the European credit market. The spreads on 10-year government bonds relative to their German counterparts rose significantly. However, this does not necessarily indicate a crisis. However, concerns have recently been growing about France's high national debt and its potential impact on all of Europe. These concerns could partly explain the trend in European corporate bond spreads.

French spreads are spiking

Spread between 10-Year French Bonds and Bunds (in basis points)



Source: LSEG, LBBW Research

The difference becomes clearly apparent when compared directly with U.S. spreads. While these showed little sign of widening amid the recent uncertainties, European spreads rose significantly.

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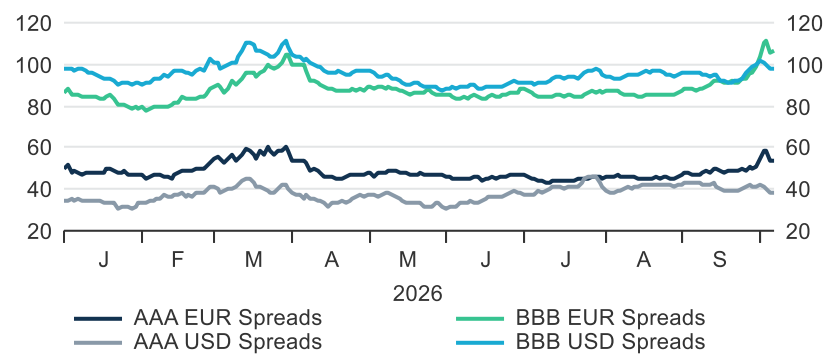
iTraxx has risen recently

Contagion from French government bonds

OAT spreads over Bunds are widening

European spreads hit harder

EUR Corporate Spreads (AAA and BBB) vs. the U.S. (in bps)



Source: LSEG, LBBW Research

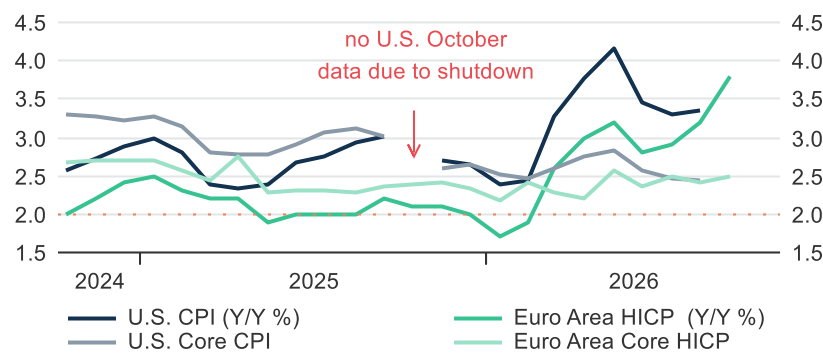
Mixed signals from the economy

Economic data has recently sent mixed signals. The U.S. job market, for example, fell short of expectations in September, which was generally good news for credit markets. As a result, and in light of a surprisingly moderate core PCE rate in August, the Fed faces little pressure to raise the benchmark interest rate anytime soon.

Inflation in the eurozone has recently been rising at a much faster pace. It rose by a surprisingly large margin to 3.8% year-over-year in September. Still, core inflation (excluding food and energy)—which is more important to the central bank—rose only slightly to 2.5% year-over-year. Above all, we will have to wait and see what the U.S. inflation data for September looks like next week and what implications this will have for central banks.

Inflation in the Eurozone Rises Sharply

U.S. CPI vs. Eurozone HICP (YoY in %)



Source: LSEG, LBBW Research

The data for August also painted a mixed picture of the German industrial sector. While new orders in the manufacturing sector plummeted by 10.6% MoM following a strong previous month, industrial production rose by a surprisingly sharp 2% MoM. The mechanical engineering sector performed particularly well (+5.3% MoM), while the automotive industry continued to struggle (-5.4% MoM).

European BBB spreads particularly affected

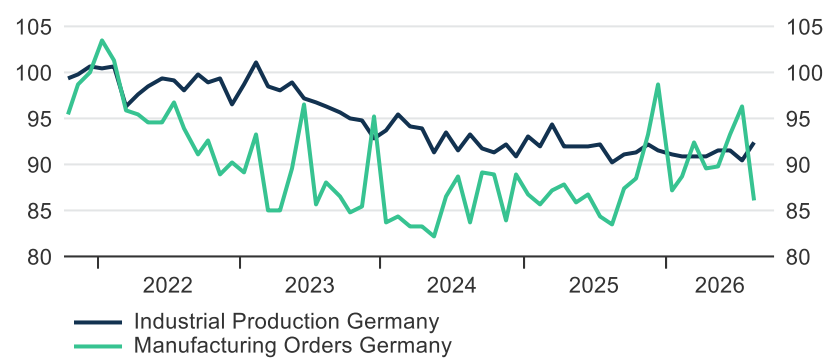
U.S. job market disappoints

Inflation in the Euro area at 3.8%

Ups and downs in the German industrial sector

Once again, a mixed picture for German industry

New Orders in the Manufacturing Sector vs. Industrial Production (Germany; 2021 Index = 100)



Source: LSEG, LBBW Research

CONCLUSION – The U.S. Sets the Tone

Overall, there's more going on with the credits again. Most recently, sentiment has soured somewhat amid increased uncertainty and market turbulence. It remains to be seen to what extent developments in the French bond market will lead to spillover effects in other market segments. However, the first effects are already evident in EUR corporate spreads.

However, the U.S. continues to set the tone. The rise in yields on German government bonds and European corporate bonds is largely attributable to the high level of U.S. Treasury yields. Further developments surrounding the Iran conflict will also remain crucial. If an agreement cannot be reached in the near future, it is likely that the higher energy prices will have a lasting impact on other sectors of the economy.

Industrial production +2% MoM

Uncertainty remains high

04 |

Calendar/Analytics

Developed Markets Overview

2 Years				10 Years		
Euro Area	Yields	Spread	Change*	Yields	Spread	Change*
Bund	3,09			3,46		
Jumbo	3,43	33	-1	3,96	50	5
Swap	3,38	29	-9	3,56	10	-2
Netherlands	3,08	-1	-4	3,58	12	0
Austria	3,22	13	-1	3,73	27	1
France	3,64	54	-11	4,84	138	-2
Belgium	3,31	21	-6	4,30	84	-4
Italy	3,40	30	-13	4,55	109	-5
Spain	3,23	14	-6	4,07	61	-1
Ireland	n.a.	n.a.	n.a.	3,59	13	-1
Portugal	3,22	13	-5	3,95	49	-3
Greece	n.a.	n.a.	n.a.	4,40	94	-7
EX. EURO AREA	Yields	Spread	Change*	Yields	Spread	Change*
USA	4,78	169	-6	5,24	178	-2
Canada	3,24	15	-4	3,93	47	-1
Japan	1,92	-117	-1	3,02	-44	-7
UK	4,87	177	3	5,43	197	7
Switzerland	0,26	-284	3	0,57	-289	3

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

Sources: Bloomberg, LBBW Research

Issuing Calendar Government Bonds

Date	Country	Type	Maturity	Coupon	Size	Comment
13.10.2026	Germany	OBL	10/31	2.90%	€ 5 bn.	Tap
13.10.2026	Netherlands	NETHER	01/31	2.50%	€ 3.5 bn.	Tap
13.10.2026	Italy	BTP	09/29	3.00%	€ 3.5 bn.	Tap
13.10.2026	Italy	BTP	09/33	3.35%	€ 3 bn.	Tap
13.10.2026	Italy	BTP	15Y - 30Y		€ 2 bn.	Tap
14.10.2026	Japan	JGB	5Y		JPY 2.5 tn.	
14.10.2026	Germany	Bund	30Y		€ 3 bn.	Tap
14.10.2026	Portugal	OT			€ 1.25 bn.	Tap
14.10.2026	UK	UKT	4Y		GBP 5 bn.	
15.10.2026	France	OAT	2Y - 5Y		€ 12 bn.	Tap
15.10.2026	France	OAT€i			€ 1.5 bn.	Tap
15.10.2026	Spain	SPGB	3Y - 30Y		€ 5.5 bn.	Tap

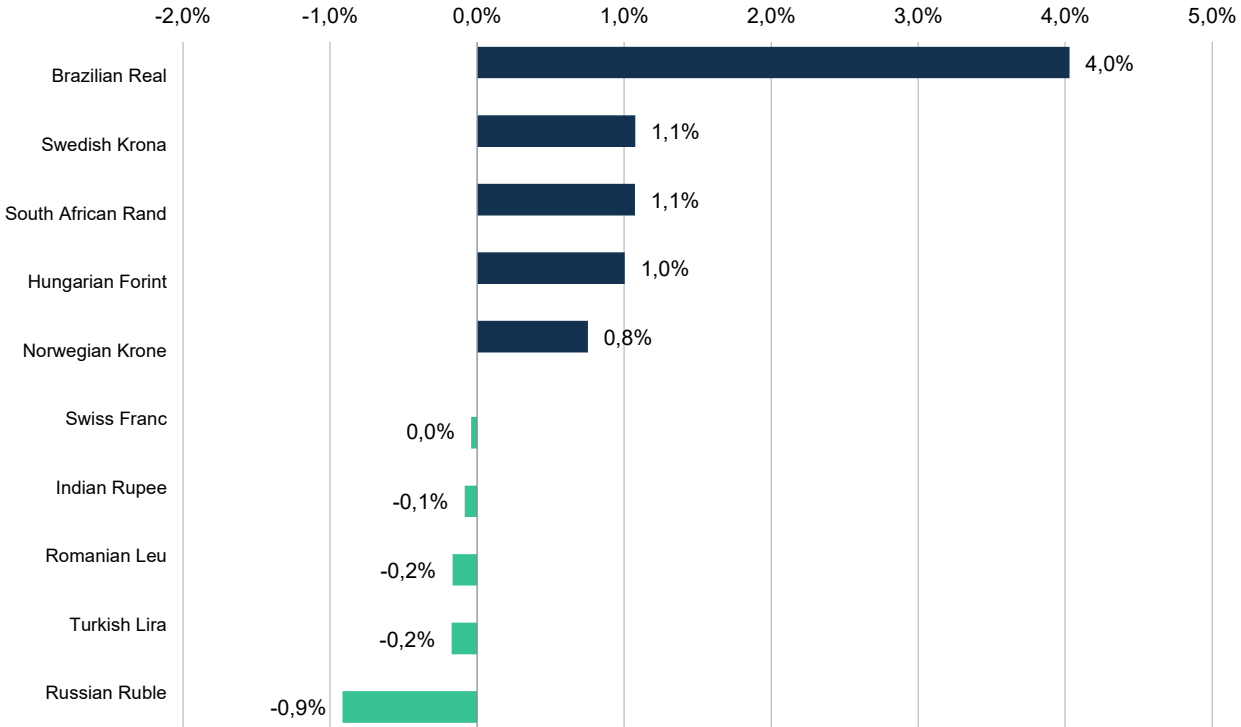
Sources: Bloomberg, LBBW Research

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%	3,8%	↑			
United States	28.10.26	4,00%	16.09.26	3,75%	3,4%	↑	4,0%	1,1228	1,1316
United Kingdom	05.11.26	3,75%	18.12.25	4,00%	3,1%	•	2,7%	0,8478	0,8541
Japan	30.10.26	1,25%	18.09.26	1,00%	1,9%	↗	4,6%	177,74	176,49
China	***	2,00%	25.09.24	2,30%	0,8%	↘	6,4%	7,52	7,46
Switzerland	10.12.26	0,00%	19.06.25	0,25%	1,0%	↑	-0,8%	0,9324	0,9193
Argentina	***	29,00%	31.01.25	32,00%	33,3%	↘	-4,8%	1.700,57	1.899,78
Australia	03.11.26	4,60%	29.09.26	4,35%	3,2%	↗	2,7%	1,61	1,63
Brazil	04.11.26	13,75%	16.09.26	14,00%	4,2%	•	5,6%	5,63	5,88
Canada	28.10.26	2,25%	29.10.25	2,50%	3,0%	↑	1,2%	1,60	1,60
Czech Republic	05.11.26	3,75%	18.06.26	3,50%	2,5%	↗	0,1%	24,36	24,47
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%	•	4,0%	8,81	8,83
Hungary	20.10.26	5,50%	25.08.26	5,75%	1,6%	•	3,3%	364,69	369,32
India	04.12.26	5,50%	06.02.25	5,25%	4,8%	↑	-0,4%	108,64	112,04
Indonesia	21.10.26	5,75%	18.06.26	5,50%	3,3%	•	-0,8%	20.098,36	20.447,74
Mexico	05.11.26	6,50%	07.05.26	6,75%	3,5%	↓	-0,3%	20,39	20,81
New Zealand	28.10.26	2,75%	02.09.26	2,50%	4,1%	↑	-0,2%	2,00	2,01
Norway	05.11.26	4,50%	24.09.26	4,25%	3,4%	•	3,4%	10,75	10,86
Poland	04.11.26	3,75%	04.03.26	4,00%	4,0%	↗	-3,0%	4,38	4,41
Romania	12.11.26	6,50%	07.08.24	6,75%	6,2%	↓	-4,7%	5,34	5,44
Russia	23.10.26	14,00%	24.07.26	14,25%	6,3%	•	-4,5%	95,27	101,43
Singapore	***	1,96%	n.a.	2,00%	2,3%	↑	3,7%	1,44	1,43
South Africa	19.11.26	7,25%	23.09.26	7,00%	4,4%	↑	3,2%	18,56	18,93
South Korea	22.10.26	3,00%	27.08.26	2,75%	2,9%	↗	14,5%	1.508,50	1.513,30
Sweden	04.11.26	1,75%	23.09.25	2,00%	1,1%	↗	-2,9%	11,17	11,14
Turkey	22.10.26	37,00%	22.01.26	38,00%	29,7%	↘	-5,8%	55,40	64,38

Sources: Bloomberg, LBBW Research

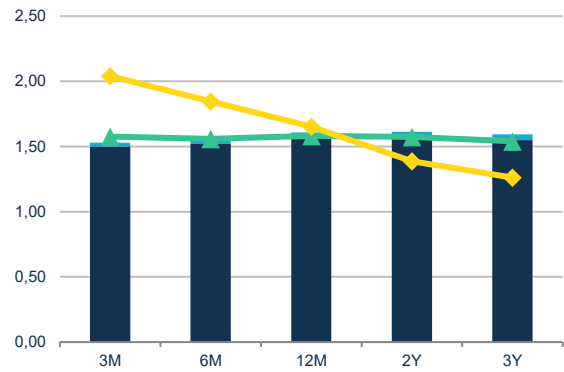
The Strongest Currency Appreciations and Depreciations Against the Euro This Week



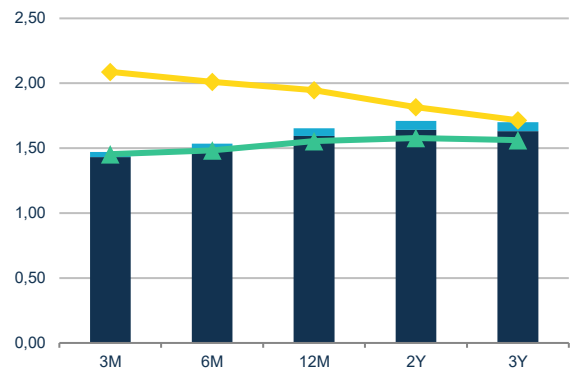
Sources: Bloomberg, LBBW, Research

Interest rate differential and FX insurance costs vs. the Euro for selected currencies
interest rate differential, basis swap rates and insurance costs

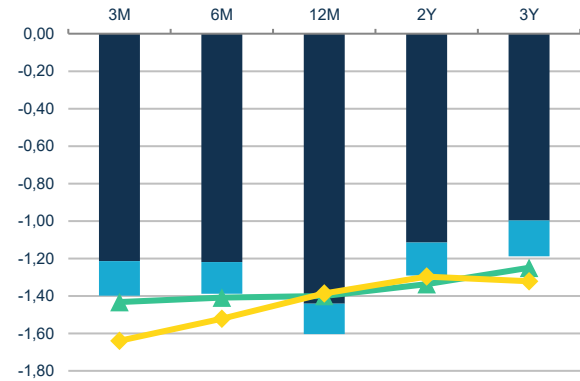
US dollar



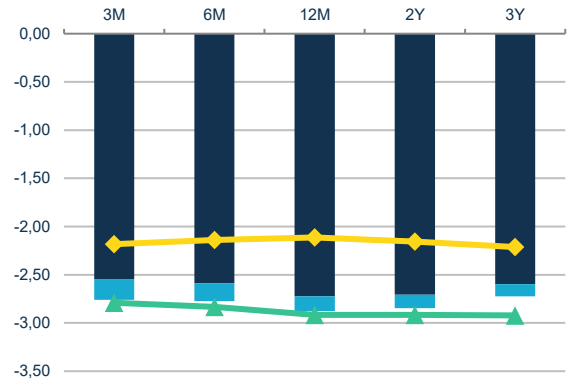
British pound



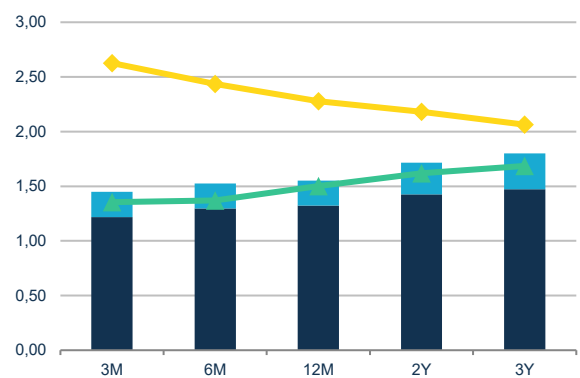
Japanese yen



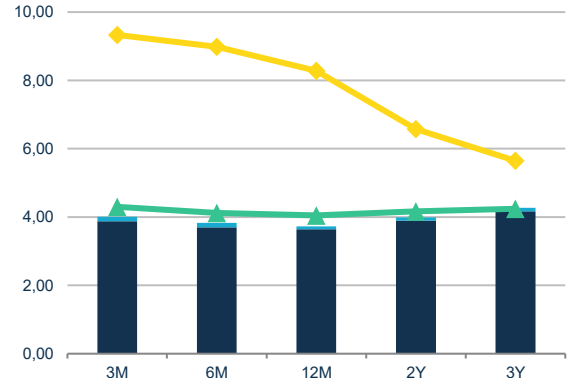
Swiss franc



Polish zloty



Mexican peso



■ interest rate differential
▲ insurance costs (p.a.; current)
■ basis swap rates
◆ insurance costs one year ago

Sources: Bloomberg, LBBW Research

Credit Spreads

5Y CDS Spreads	Current	1W	1M	Changes 3M	6M	1Y
IG Corporates	58	0	5	6	-1	1
HY & NR Corporates	283	7	27	38	-8	11
Senior Financials	65	0	10	11	1	-3
Sub Financials	107	0	19	20	3	1

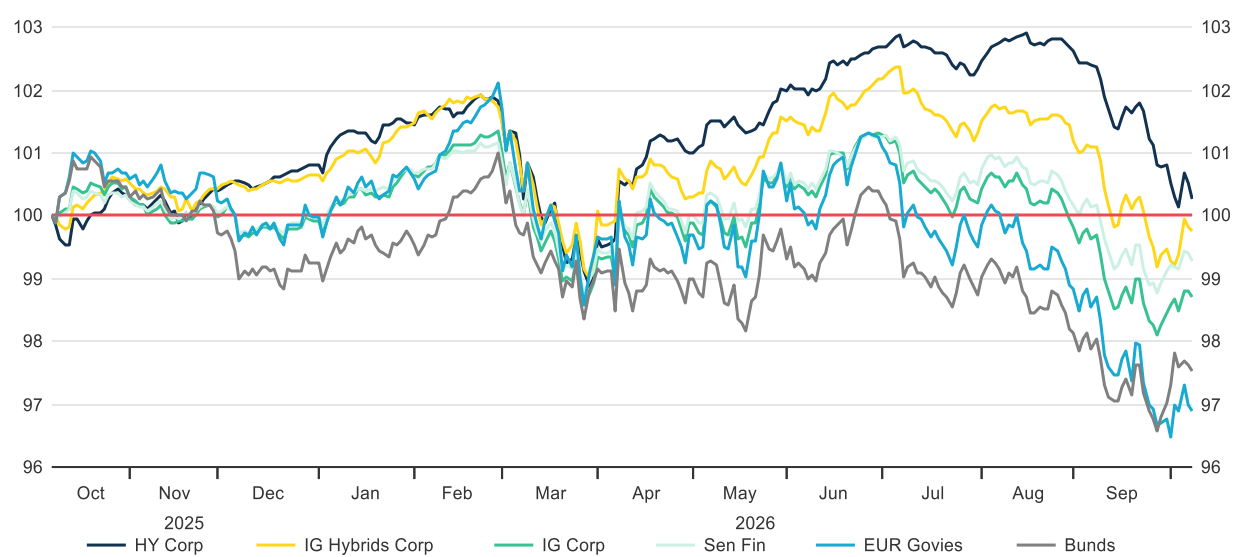
EUR Indices	Current	1W	1M	Changes 3M	6M	1Y
Non-Financials	81	-2	6	7	4	3
Banks Senior Preferred	65	-1	14	13	5	5
Banks Senior Bail-in	81	-4	11	12	4	7
Banks Subordinated	121	-4	17	18	1	7

*time lag of one day, Asset Swap Spreads

09.10.2026

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

Sources: LBBW Research

Disclaimer

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