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Bonds Weekly

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Bond markets: U.S. macro data crashes the rally

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01 | Our View

Bond Market Movers – Review and Outlook

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What drove the bond markets last week?

- U.S. President Trump is moving further away from the possibility of new, large-scale military strikes against Iran. Media reports indicate that the two sides have moved closer together in their talks on a new agreement.
- The U.S. jobs report for October was surprisingly positive across the board. Job growth exceeded expectations by far, the unemployment fell, and wages rose at a faster pace than in the previous month.
- U.S. inflation in October once again came in higher than analysts had forecast. As in the previous month, energy prices and services drove inflation higher.
- Several Federal Reserve officials have expressed concern about recent inflation trends. Fed Governor Waller even raised the possibility of a 50-basis-point rate hike in December.
- ECB Chief Economist Lane reaffirmed the prospect of another key interest rate hike in December, provided the data does not change.
- The U.S. AI developer Anthropic is moving forward with its initial public offering. Reports indicate that the shares offered were oversubscribed several times over during the offering period.
- At the most recent auction of new 10-year U.S. T-Notes, demand was slightly below average. Compared to the previous auction, there has been a marked decline.

What could drive the market next week?

- The financial markets remain in the grip of news from the Middle East, commodity prices, and political developments in France. How credible are the repeated reports of progress toward a new agreement with Iran?
- The Fed is releasing the minutes of its October interest rate decision. Investors are likely to be on the lookout for further "hawkish" signals in particular.
- The highlights on the macroeconomic calendar include U.S. retail sales for October, regional U.S. leading indicators, and the German ZEW indicator for November. The ECB will also release wage data for the third quarter.
- On the political scene, the APEC Summit in China is the focus of attention. There is also speculation in this context about a three-way meeting between the presidents of the United States, China, and Russia.
- In the primary market for U.S. Treasuries, the focus next week will be on the issuance of a new 20-year T-bond. Meanwhile, activity in the primary market for EUR government bonds is likely to pick up again after a quieter period. We expect gross supply to total just over 25 billion euros, up from only 13 billion euros the previous week. Net cash flows are set to slip even further into negative territory due to a lack of reflows from maturing obligations.

Bond markets: U.S. macro data crashes the rally

Inflation and labor market data: fresh fodder for U.S. bond bears sours sentiment

For the time being, geopolitics does continue to favor the bond bulls. Clearly, there has not yet been a breakthrough regarding a new agreement between the U.S. and Iran to resolve the conflict, which has lasted nearly nine months. But there have been reports in recent days of further progress in the ongoing negotiations. Furthermore, following his Republican Party's electoral defeat, U.S. President Trump appears to have distanced himself even further from the option of launching another large-scale military strike. As a result, the news flow continued to exert a dampening effect on energy prices for much of the period, while at the same time supporting prices in both the stock and bond markets.

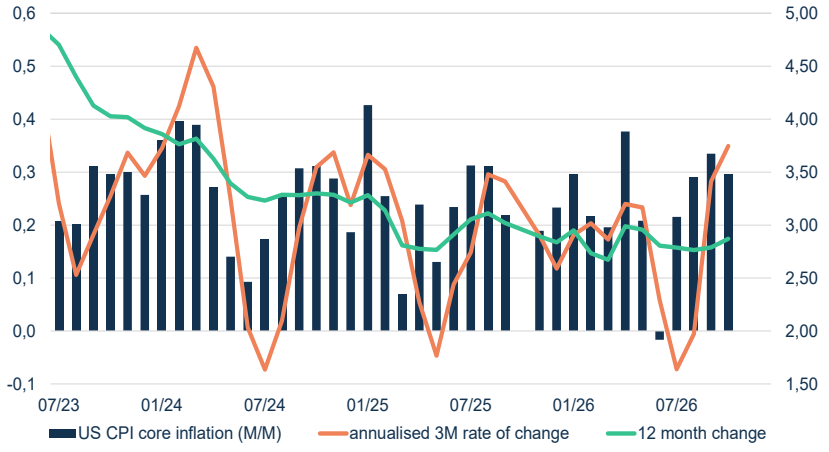
Trump continues to distance himself from fresh military strikes

In recent days, however, geopolitical factors were no longer enough to sustain the rally in the major government bond markets on both sides of the Atlantic. In the U.S. in particular, sentiment took an abrupt turn for the worse, triggered by the flow of macroeconomic data. The U.S. jobs report and the consumer price data for October delivered a veritable one-two punch that weighed on bond prices. First, the labor market data proved to be more robust than expected in all key respects. Employment grew by well over 100,000 (M/M), with upward revisions to the previous month's figures causing the three-month moving average of job growth to climb to its highest level since May. A simultaneous decline in the unemployment rate underscores the positive picture, while hourly earnings also rose more sharply than expected.

Macro data plays right into the hands of the bond bears

Chart of the Week

U.S. core inflation (M/M, in %) with moving annualized averages



Source: Bloomberg, LBBW Research

Second, U.S. consumer prices rose more than expected in October for the second consecutive month. It is true that, at 0.4%, the month-over-month change in the headline CPI was significantly lower than in September, as had been expected. However, at 0.3% (M/M), the core rate exceeded the average of the previous months for the third consecutive time. As a result, the three-month moving annualized average of the core rate jumped to its highest level in two and a half years (see chart above). Similar to September, price trends in the services sector were a major contributor to the unwelcome inflation surprise. On the surface, this aspect suggests that the main cause is not to be found in the feared second-round effects of the energy price shock. From the perspective of Federal Reserve officials, however, the persistence of elevated inflation in the services sector is, in our view, a warning sign. At the very least,

Core inflation elevated for third consecutive time

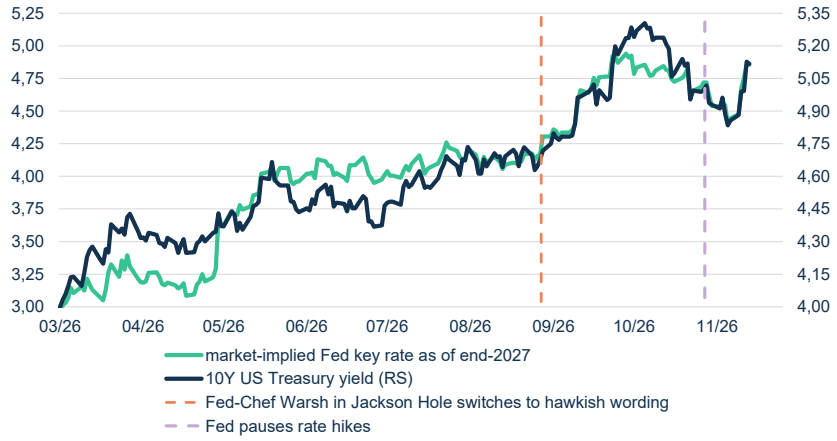
the latest data cast doubt on the theory that these were one-time effects that only briefly interrupt the previous trend of easing price pressures in the services sector.

Fed under pressure: Is a “major” rate hike on the horizon?

Given this background, it now appears virtually a done deal that U.S. monetary policymakers will have no choice but to raise the key interest rate again at their next meeting on December 9. Especially since we are detecting a growing level of concern about inflation trends in recent statements from Fed officials. Fed Governor Christopher Waller, who had still stood out for his decidedly “dovish” stance at the beginning of 2026, even raised the possibility of a “major” rate hike of 50 bp. Financial market participants currently still consider a 50-basis-point increase to be a long shot. We share this assessment. However, if the U.S. inflation data for November continues the string of unwelcome inflation surprises, then, in our view, the magnitude of the Fed’s upcoming rate hike is likely to be up in the air.

Waller raises possibility of a "major" hike

Market consensus sees one Fed hike more than it did last week
Yields on 10-Year U.S. Treasuries and market expectations for the Fed's key rate at the end of 2027



Source: Bloomberg, LBBW Research

Market consensus sees Fed's key rate peak at 4.75%

In any case, the monetary policy hawks among the members of the Federal Reserve have received a noticeable boost from the latest data. In the U.S. interest rate market, this is reflected in a significant upward shift in expectations for the medium-term key rate path. As the chart above shows, the market consensus has revised upward its prediction for the number of upcoming rate hikes expected by the end of 2027, from two to three, compared with the previous week. In the U.S. Treasury market, yields across all maturities came under significant upward pressure, though this was particularly pronounced at the short end of the curve.

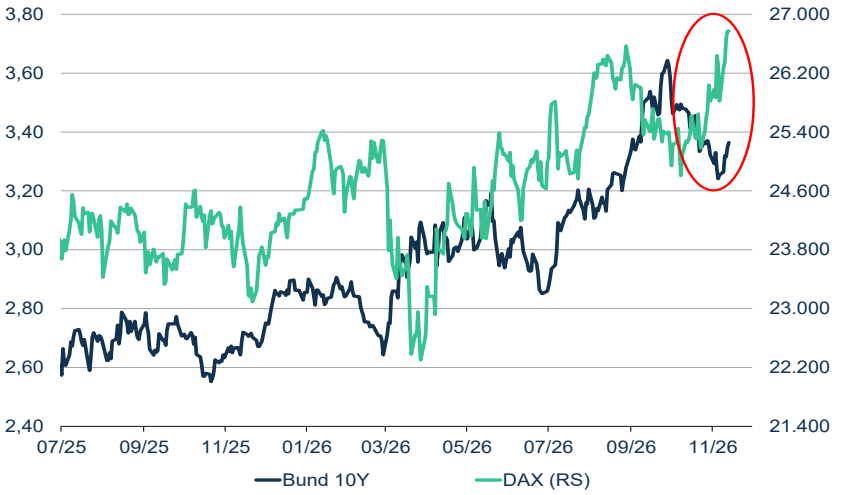
U.S. Dollar hits a one-and-a-half-year high against Euro

The yield on 10-year U.S. Treasuries jumped above the 5% mark for the first time since the Fed’s most recent interest rate decision, which was accompanied by slightly “dovish” wording. Initially, the lingering effects of the previous bullish sentiment in the bond market did act as a dampening factor for the renewed upward momentum in yields among long-term bonds. However, a subsequent pronounced leap in the U.S. benchmark yield above the psychologically important threshold threatens to wipe out the above-mentioned underlying bullish sentiment. From an investor's perspective, the hope remains that the prospects for a de-escalation in the Middle East will not prove to be illusory. The price support this provides for long-term bonds appears to be having a clearly stronger effect on the EUR government bond market than on U.S. Treasuries. Accordingly, the yield on 10-year German government bonds rose at a considerably more moderate pace this week.

10Y U.S. yield again above the 5% mark

German Stock Market Hits Record High

Yields on 10-Year German Government Bonds and the DAX



Source: Bloomberg, LBBW Research

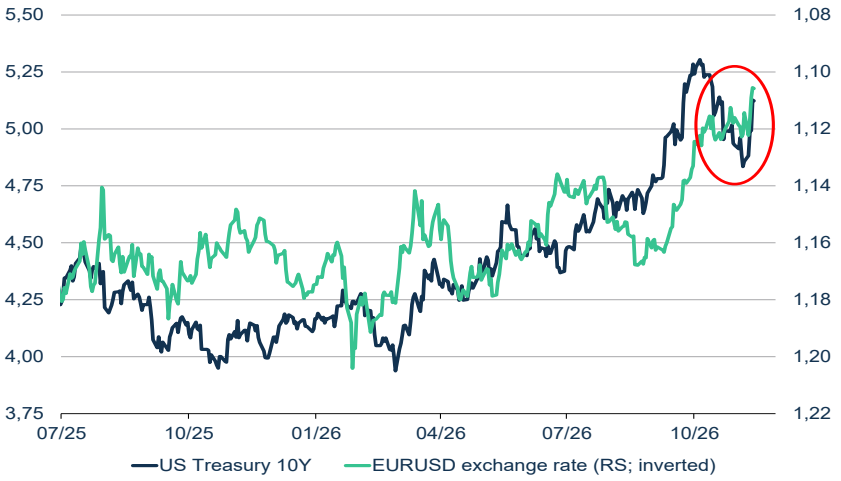
10Y Bund yield up only moderately for now

The transatlantic yield spread has widened significantly as a result of asymmetric developments in the bond markets. On the foreign exchange market, the U.S. dollar appears to have benefited substantially from this. The greenback climbed to its highest level against the euro since May 2025. It is true that “hawkish” signals have also recently emerged from within the ECB, which, in our view, reinforce the prospect of a rate hike in December. However, in light of the latest U.S. macroeconomic data, market participants believe the Fed is under even greater pressure to take monetary policy action than Europe's central bankers.

Transatlantic spread jumps heavily

Rising U.S. yields are benefiting the U.S. dollar

Yields on 10-Year U.S. Treasuries and the EUR/USD exchange rate



Source: Bloomberg, LBBW Research

EURUSD is approaching the 1.10 mark

Outlook: Anthropic's IPO to overshadow macro data

Ultimately, it likely also helped the U.S. dollar that investors' immediate concerns about a collapse of the AI boom have subsided for the time being. Instead, stock markets on both sides of the Atlantic have rebounded following positive corporate news from the tech sector and reports of strong investor demand for shares of Anthropic, a developer of AI models. Its highly anticipated initial public offering could overshadow both monetary policy and macroeconomic issues in the coming trading week. This is especially true given that the macroeconomic calendar is light on major events. In the U.S., October retail sales figures (Nov. 17) are likely to be the highlight in this regard, while on this side of the Atlantic, the ZEW Economic Sentiment Index (Nov. 17) may be the focus. If the Anthropic IPO revives hopes for a continuation of the AI boom, we

Retail sales will be the macro highlight

expect this to, in turn, further dampen sentiment in the major government bond markets. However, a sobering regarding AI sentiment following the IPO would likely give bond prices a fresh boost.

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	2,77	2,85	3,05	2,75
Swap 2Y	3,42	3,50	3,25	2,75
Swap 5Y	3,40	3,60	3,35	3,00
Swap 10Y	3,42	3,65	3,50	3,30
Bund 2Y	3,19	3,25	3,05	2,60
Bund 5Y	3,20	3,40	3,20	2,90
Bund 10Y	3,36	3,60	3,50	3,35
Swap/Bund 2Y	23	25	20	15
Swap/Bund 5Y	20	20	15	10
Swap/Bund 10Y	6	5	0	-5
Spread BBB Corporates/Bund	113	115	120	130

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)	3,89	4,15	4,15	3,90
3M Money Market	4,08	4,30	4,15	3,90
Swap 2J (SOFR-OIS)	4,72	4,60	4,15	3,75
Swap 5J (SOFR-OIS)	4,67	4,60	4,25	3,95
Swap 10J (SOFR-OIS)	4,73	4,70	4,50	4,30
Treasury 2Y	4,85	4,75	4,35	3,95
Treasury 5Y	4,95	4,90	4,60	4,30
Treasury 10Y	5,12	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*	2,87	3,15	3,25	3,30
UK	*Overnight Rate (SONIA)*	3,98	3,95	4,20	3,95
UK	*10Y Government Bond*	5,30	5,30	5,20	5,00
Switzerland	*Overnight Rate (SARON)*	-0,04	-0,05	0,20	0,20
Switzerland	*10Y Government Bond*	0,58	0,60	0,60	0,50

FX	Spot	31.12.26	30.06.27	31.12.27
EURCHF	0,9242	0,93	0,94	0,95
EURCNY	7,3812	7,71	7,36	7,43
EURGBP	0,8360	0,85	0,85	0,85
EURJPY	176,83	182	178	176
EURUSD	1,1063	1,15	1,15	1,17
USDCHF	0,8354	0,81	0,82	0,81
USDCNY	6,6712	6,70	6,40	6,35
GBPUSD	1,3234	1,35	1,35	1,38
USDJPY	159,83	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*	1,2	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

- *Middle East Conflict:* Limited military skirmishes between the U.S. and Iran continue while diplomatic efforts to end the conflict are underway – Meanwhile, U.S. President Trump is distancing himself even more clearly from the possibility of renewed large-scale military strikes – but the U.S. remains "locked and loaded" – and is committed to maintaining the status quo, also for the sake of Iran's neighbors.
- *Geopolitics:* At their first trilateral talks on the war in Ukraine in months, Russia and Ukraine agreed to a large-scale prisoner exchange – no substantial progress was made toward a peaceful resolution, though – possible trilateral summit between the presidents of the U.S., China, and Russia is being discussed for next week.
- *Monetary Policy – ECB:* Chief Economist Lane hints at another upcoming interest rate hike – saying such a move would be "wise" provided the data does not change between now and the next interest rate meeting – Lane expects the inflation rate in the eurozone to be "slightly" above 4 % by the end of 2026 – with regard to the situation on the French government bond market, the chief economist reiterates that the country must "solve its own problems."
- *ECB – Lagarde's Successor:* The pool of candidates to succeed ECB President Lagarde includes two former heads of national central banks – current BIS General Manager Herandez des Cos of Spain and Knot of the Netherlands have been officially nominated – while France has staked a claim to the position of chief economist – Eurogroup President Pierrakakis reaffirms the goal of finalizing the appointment by the end of 2026.
- *ECB – Bond Purchases:* German Constitutional Court dismisses lawsuits against the "Pandemic Bond Purchase Program" (PEPP) as unfounded – plaintiffs reportedly failed to sufficiently substantiate their objections.
- *Monetary Policy – Fed:* Governor Waller raises the possibility of a "major" interest rate hike of 50 bp at the next Fed meeting in December if the inflation picture does not improve – Chicago Fed President Goolsbee describes recent U.S. inflation data as, in part, "disturbing" – Persistently high price pressures in the services sector are likely the "most troubling" aspect, he says.
- *Germany – Economy:* So-called "economic wise men" have significantly raised their GDP growth forecast for 2026 from 0.5% to 1.3% – Moderate increase for 2027 from 0.8% to 1.0% – More favorable outlook thanks to rising government spending and surprisingly robust foreign trade – Experts expect the inflation rate to rise to 3.3% next year – "wise men" urge consolidation of public finances – Calls on policymakers for more comprehensive pension reform, cuts to inefficient subsidies, and a reduction in debt-financed defense spending.
- *Germany – Economy:* Exports posted a surprising 2.0% (M/M) increase in September, following a -0.4% decline in August.
- *Germany – Labor Market:* Federal Employment Agency (BA) reports record-high unemployment among college graduates – graduates under the age of 30 are reportedly particularly affected – Teachers have the lowest unemployment rate – Meanwhile, initial studies on the impact of AI suggest that non-academic professions are disproportionately affected by the growing use of this new technology.
- *Eurozone – Economy:* Sentix investor confidence declined slightly in November, falling from 2.7 to 2.4 points – second consecutive decline.

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No peace in sight for Ukraine

Lane envisages rate hike

Strait of Hormuz & Oil Prices



Sources: Bloomberg, LBBW Research

"Wise Men" call for change of course on fiscal policy

- *France – Economy:* The French central bank expects the economy to return to moderate growth in the fourth quarter – though uncertainty is assessed to be unusually high given the recent wave of protests and unrest – rating agency Moody's®, meanwhile, now expects GDP growth of just 0.2% for the current year and 0.7% for 2027.
- *U.S. – Inflation:* Price pressure at the consumer level was again higher than expected in October – CPI rose by 0.4% (M/M), following a 0.6% increase – Energy prices were once again the main driver of the increase – the core rate remained at 0.3% (M/M), as in the previous month, and thus above the average for the past twelve months – Services are once again contributing to above-average underlying inflation – year-over-year rates not reported.

U.S. inflation again higher than expected

- *U.S. – Labor Market:* According to the official labor market report, employment rose by 165,000 in October (M/M), significantly exceeding expectations – previous month's figures were also revised significantly upward (September: 60,000) – unemployment rate fell from 4.2% to 4.1% – Hourly earnings also surprised on the upside with a +0.4% (M/M) increase, following +0.3% in September.
- *U.S. – Labor Market:* Weekly ADP report shows a slight acceleration in job growth for the four-week period ending October 24, to an average of 19,750, up from 19,500 in the previous period.
- *Germany – Government Investments:* ifo Institute has renewed its criticism of the use of funds from the so-called "special assets" for investments in infrastructure and climate protection – according to the institute, 53% of the funds raised through the special fund in the first half of 2026 were not allocated to additional investments – overall picture since the special fund was established in the spring of 2025 shows an even higher rate of "misappropriation" in total.

ifo institute reiterates criticism of use of "special assets"

- *Germany – Real Estate Market:* According to vdp data, real estate prices showed an overall stable trend in the third quarter – slight decline of 0.2% compared to the previous quarter – Residential real estate prices (+1.0% Y/Y) have been supported by continued excess demand for housing – structural pressures, however, are dampening prices in the commercial real estate market (-3.9% Y/Y).
- *China – Economy:* Exports rose by 35.2% (Y/Y) in October, following a 36.3 % increase in September.
- *China – Inflation:* Price pressure eased to 0.7% (Y/Y) in October, down from 0.9% in September – core rate also fell, from 0.9% to 0.7%, the lowest level since January 2026.
- *Netherlands:* The center-right VVD party is considering withdrawing from the three-party minority government after its two coalition partners, together with left-wing opposition parties, pushed through a higher capital gains tax for the wealthy in Parliament – future of the government, which has been in office for only nine months, remains uncertain for now.

Dutch government wobbles

- *Europe – Financial Stability:* Bundesbank views rising government debt as one of the major risk factors for financial stability – urging European governments to get rising government debt under control – combination of high, still-rising government debt and low economic growth remains "toxic" – Bundesbank is also observing rising loan defaults and high levels of leverage in new residential mortgage lending.
- *AI:* AI model developer Anthropic is moving forward with its planned initial public offering despite recent market uncertainty about the sustainability of the AI boom – However, the company is making certain concessions regarding its targeted calculated market capitalization – The IPO is expected to have a volume of up to USD 65 billion, which would result in a market capitalization

Anthropic aims for a market capitalization of 1.4 trillion USD

of USD 1.4 trillion – According to insiders, investor demand exceeds the volume of shares being offered by a multiple – Initial listing on the NASDAQ is still expected for November 19.

- *AI Expansion:* According to media reports, following the upcoming change in control of the U.S. Congress in January, U.S. Democrats are planning legislative initiatives that target AI systems and the expansion of data centers – The goal is to protect consumers from rising electricity costs associated with data centers, mandate independent testing of advanced AI systems, and clarify when AI companies can be held liable for damages.
- *Climate Protection:* In the “Climate Action Index” compiled by Germanwatch and the NewClimate Institute, Germany has slipped another three spots to 25th place out of the 64 countries evaluated – climate policy at the national level receiving particularly critical ratings – Denmark, Lithuania, and Luxembourg occupy the top spots.

Climate Protection: Germany is slipping

Next Week's Data

TIME	COUNTRY		PERIOD	LBBW FORECAST	CONSENSUS FORECAST[1)]	LAST VALUE[2)]	IMPORTANCE
FRIDAY, 13.11.2026							
11:00	EMU	GDP (Q/Q) (2nd estimate)	Q3	0,4	0,4	0,4	*
11:00	EMU	Trade Balance (bn EUR)	Sep	-	-	-6,8	*
14:30	USA	Producer Price Index, Final Demand (M/M)	Oct	0,4	0,4	1,3	*
	GE	Rating Review Germany (Fitch)					**
MONDAY, 16.11.2026							
00:50	JPN	GDP (Q/Q) (prelim.)	Q3	0,1	0,1	0,4	**
03:00	CHN	Industrial Production (Y/Y)	Oct	5,5	5,3	5,5	**
03:00	CHN	Retail Sales (Y/Y)	Oct	0,6	0,8	1,1	**
11:00	EMU	Industrial Production (M/M)	Sep	0,5	0,9	-0,5	**
14:30	USA	Empire Manufacturing Index	Nov	30,0	19,0	25,5	**
18:00	USA	Fed Chairman Warsh speaks					***
TUESDAY, 17.11.2026							
11:00	GE	ZEW Index	Nov	33,3	28,2	28,1	**
14:30	USA	Advance Retail Sales (M/M)	Oct	0,1	0,2	0,8	***
14:30	USA	Import Price Index (M/M)	Oct	-	0,7	1,1	*
15:15	USA	Industrial Production (M/M)	Oct	0,1	0,1	0,7	**
15:15	USA	Capacity Utilization (in %)	Oct	76,9	76,8	76,9	*
16:00	USA	NAHB Index	Nov	29	29	29	**
WEDNESDAY, 18.11.2026							
11:00	EMU	HICP (Y/Y) (final)	Oct	4,0	4,0	4,0	*
14:30	USA	Housing Starts (thous.)	Oct	1200	1240	1221	**
14:30	USA	Building Permits (thous.) (prelim.)	Oct	1360	1378	1398	**
16:00	USA	Pending Home Sales (M/M)	Oct	-	-	-7,3	*
22:00	USA	Net Long-Term TIC Flows (bn USD)	Sep	-	-	279,2	*
20:00	USA	Fed publishes Minutes from October 27/28 Meeting					***
	APEC	APEC Summit in China: Trump and Xi to meet					***
THURSDAY, 19.11.2026							
14:30	USA	Philadelphia Fed Index	Nov	25,0	23,2	20,9	**
16:00	USA	Index of Leading Indicators	Oct	-	0,0	0,0	*
	USA	AI model developer Anthropic expected to start listing on NASDAQ					***
FRIDAY, 20.11.2026							
00:30	JPN	National CPI (Y/Y)	Oct	2,9	2,5	2,1	**
08:00	GE	PPI (M/M)	Oct	1,0	0,5	1,9	*
09:15	EMU	ECB President Lagarde speaks					**
11:00	EMU	ECB publishes Negotiated Wages Indicator (Y/Y)	Q3	2,6	-	2,4	**
16:00	EMU	Consumer Confidence (prelim.)	Nov	-17,5	-18,2	-17,9	*
16:00	USA	Uni Michigan Consumer Confidence (final)	Nov	-	53,3	51,0	**
	UN	UN Climate Conference in Turkiye ends					**
	BEL	Rating Review Belgium (Fitch)					**
	POR	Rating Review Portugal (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

EUR rates curve: How long will the ultra-long end remain inverted?

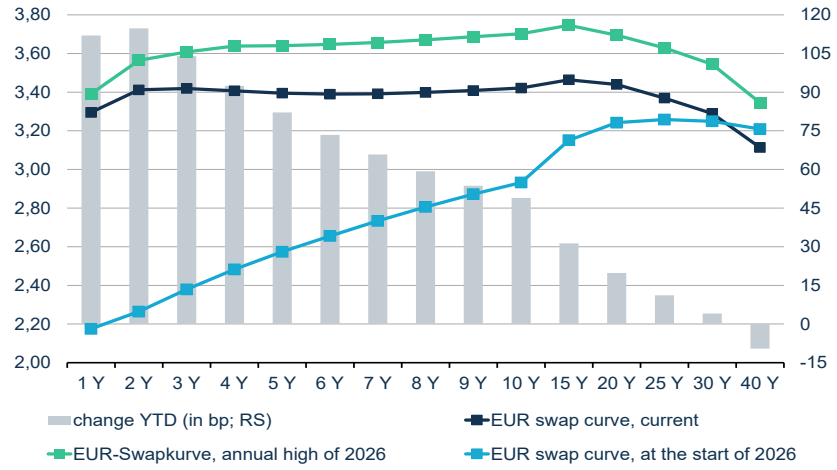
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Parallel downshift from the preliminary rates peak

Developments in the euro rates market have taken an abrupt turn in recent weeks: Following a sharp rise in rates across almost all maturities during the summer months, a broad-based reversal has been the dominant trend since early October. When looking at the following chart, one aspect clearly stands out: Starting from the preliminary peak values, the EUR swap curve has shifted downward in a nearly parallel manner. On balance, the adjustment amounts to between 20 and 30 basis points. This parallel shift stands in stark contrast to the previous surge in interest rates, which had spread in several waves since the outbreak of the Iran War. This had by far the largest impact on short-term EUR swap rates, while the impact at the ultra-long end was comparatively moderate. Looking at the overall picture since the start of the year, it remains clear that the shape of the EUR swap curve has changed markedly: Short-term EUR swap rates are still more than 1% point above their levels at the start of the year. In contrast, the balance for maturities of more than 20 years is virtually “zero to zero.” A curve that had a positive slope across nearly all maturity segments has thus become one that is nearly flat in the front part and even inverted beyond 15 years.

EUR yield curve consistently 20 to 30 bp below its peak

The shape of the curve has changed significantly since the beginning of the year
Current EUR swap curve, at the beginning of the year, and at the 2026 peak



Source: Bloomberg, LBBW Research

The curve is now flat at the front and inverted in the rear segment

EUR yield curve steepness flat near its annual low despite a setback for speculation on the key rate hikes

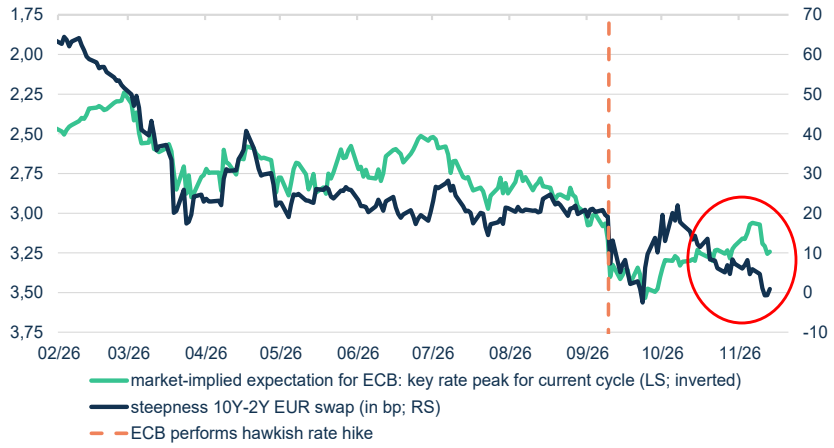
With regard to the steepness of the EUR swap curve, we note a striking decoupling from the magnitude of key rate hikes that the market consensus expects the ECB to implement in the coming months. Since their most recent interest rate move in September, the eurozone monetary authorities have indeed left little doubt that they haven't reached the end of

Rate hiking expectations take a hit, …

the line yet. Nevertheless, based on forward rates in the euro money market, the market consensus has cut its expectations regarding the peak level of the ECB's key interest rate since the end of September. Having peaked close to 3.50%, expectations have recently been hovering between 3% and 3.25% (see the chart below). Based on the pattern seen in previous months, this correction should have been accompanied by a steepening of the EUR yield curve. Measured in terms of the spread 10Y-2Y EUR swap, the yield curve steepness did indeed spike temporarily to around 20 bp during October. Subsequently, however, it once again approached its annual low near the zero mark.

Curve steepness near annual low

10Y-2Y EUR swap and market expectations for the ECB's key rate peak in the current cycle (in %)



Source: Bloomberg, LBBW Research

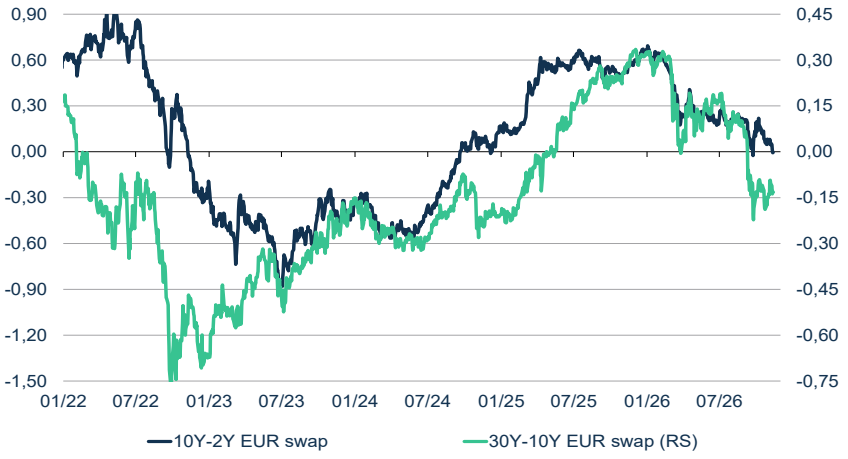
… but the 10Y-2Y spread has remained close to zero

We attribute the described turnaround in key rate expectations not least to the recently emerging hopes for a de-escalation of the Middle East conflict, which caused energy prices to slump. Apart from this, we suspect that market participants saw a need to correct previous "bearish" excesses in global rates markets. As a result, investors' need to hedge against a scenario of further rising interest rates has apparently declined by a notable amount. Accordingly, this effect impacted the long end of the EUR yield curve to a similar extent as the shorter-term swap rates.

Hope for the Middle East and a correction of a previous overshoot

Ultra-long-term slope in the euro area has remained negative

10Y to 2Y and 30Y to 10Y EUR swap curve slope



Source: Bloomberg, LBBW Research

The 30Y/10Y spread has been below zero for two months

We are surprised that the recent downward correction in EUR swap rates was not accompanied by a noticeable steepening at the ultra-long end of the curve. Rather, the spread 30Y/10Y EUR swap has, for the time being, settled firmly in negative territory (see the chart above).

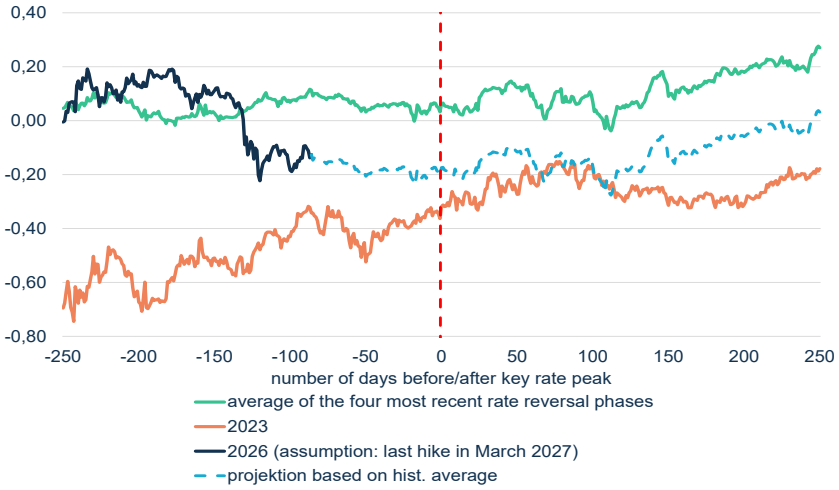
Is the slope bottoming out?

In our view, the persistently negative values for the ultra-long-end steepness of the EUR swap curve indicate the following: The interest rate shock from September of this year has led to an “overshoot” in the flattening of the yield curve at the ultra-long end, compared with the front end of the curve. This overshoot essentially resembles the market's reaction to the first wave of the "Iran shock" in the spring of 2026. Unlike back then, however, there has been no prompt correction of the overshoot in recent weeks.

Do these recent developments now permanently dim the prospects for a medium-term steepening at the ultra-long end of the yield curve? We continue to see strong arguments in favor of such steepening merely being delayed. There is no denying that historical cycle analysis currently points to an ambivalent outlook for the steepness of the EUR yield curve. With regard to the spread 10Y-2Y EUR swap, there could well be renewed downward pressure this winter – provided our forecast for the ECB’s interest rate path proves accurate. On average, over the past four policy rate cycles in the euro area, the 10Y-2Y EUR swap did not reach its cyclical low until just before the final rate hike. According to our ECB forecast, the key rate peak will be reached in March 2027. Accordingly, the 10Y-2Y EUR swap is set to bottom out in the first quarter of next year. In contrast, according to our historical cycle analysis, the spread 30Y-10Y swap typically begins to bottom out as soon as three to six months before the key rate peaks (see the chart below). Going by this, the ultra-long steepness may already have reached its lowest point – although the trough maybe has not yet been fully traversed: Historically, a sustained trend toward steepening did not gain momentum until about six months after the ECB's final tightening step.

Based on our ECB call, the slope may have already reached the bottoming phase

30Y–10Y EUR swap during periods of historic ECB key rate plateaus



Source: Bloomberg, LBBW Research

Dutch pension shift: Second wave of implementation is set for 2027

We believe that the structural arguments in favor of a steeper EUR yield curve, which we have repeatedly outlined here (see the September 12, 2026, issue of *Bonds Weekly*), stay valid. First, we expect that investors' global unease over the steadily rising level of government debt will continue to flare up from time to time. This suggests that term premiums at the long end of the yield curve will trend higher. In our view, this upward trend has therefore been overshadowed in recent weeks only by a correction resulting from temporary overshooting.

Flattening overshoot: Why wasn't it corrected?

Cycle Analysis: 10Y/2Y could sound out new lows this winter, …

… but the 30Y/10Y spread should already be bottoming out

Upward trend in term premiums only temporarily masked

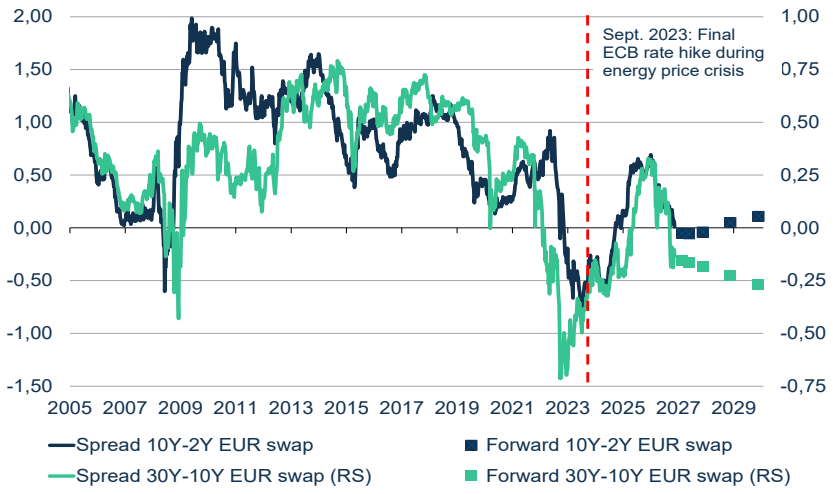
Second, the implementation of the Dutch pension reform is still in full swing. According to the latest available data, as of this summer, the country's pension funds had transferred only about 40% of the affected assets to the new defined-contribution system. The remaining 60%, which, according to Bloomberg, represent total assets of approximately 900 billion euros, are expected to be implemented next year. We clearly expect this "second wave," which is likely to begin rolling in primarily in the early part of 2027, to provide a new, substantial impetus for the steepening of the EUR yield curve. This may primarily affect the maturity range beyond 15 years, which currently has an inverted shape.

Taking all of the above arguments into account, we expect the 30Y-10Y spread on the EUR swap curve to return to positive territory on a sustained basis by mid-2027. Across all maturity segments, an overall trend toward steepening may take hold by the second half of 2027 at the latest, as market participants are likely to increasingly focus on the possibility of an easing of the ECB's monetary policy.

LBBW forecast: 30Y/10Y spread to return above zero by mid-2027

Forwards are pricing in more flattening across all segments

Yield Curve: 10Y-2Y and 30Y-10Y EUR Swap with Forward Yield Curve



Source: Bloomberg, LBBW Research

Forwards: 30Y/10Y to slip even further into the red

Our current outlook for the steepness of the yield curve in the euro area stands in sharp contrast to the forwards on the EUR swap curve. Forwards continue to price in another flattening of the yield curve over the next twelve months, both for maturities of up to ten years and at the ultra-long segment (see chart above). Based on this assessment, the risk-reward ratio for steepener positions remains favorable in the medium term, while these positions might come under pressure in the interim as part of final cyclical flattening episodes.

03 |
Credit Strategy

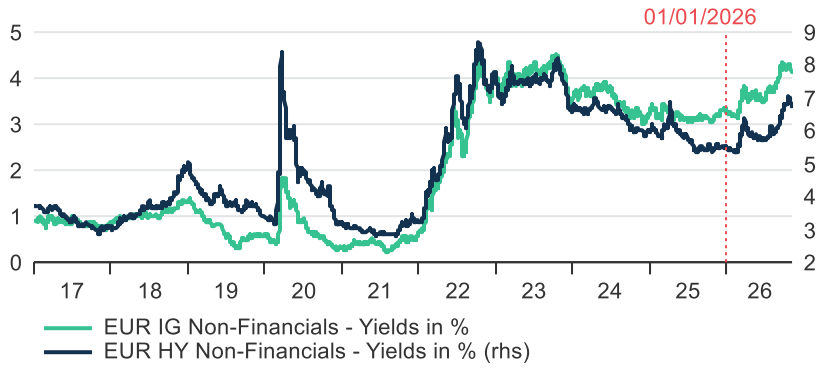
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Performance expectations for corporate bonds (IG and HY)

The sharp rise in government bond yields this year has also led to a significant increase in corporate bond yields. In the investment-grade index, the average yield to maturity has climbed above the 4 % mark – up from 3.3 % at the start of the year – and is now at its highest level in the past ten years. The high-yield index also saw a significant rise, from 5.5 % to over 6.5 %. However, the risk premiums did not rise as sharply as that, meaning there is still a noticeable gap between current levels and the peaks recorded between 2020 and 2023 (the start of the COVID-19 crisis and the early stages of the war in Ukraine).

Yields have risen since the start of the year

Yield trends for EUR corporate bonds with investment-grade and high-yield ratings
EUR corporate bonds, yields in %



Source: LSEG, LBBW Research

IG Index at 10-year high

The current high yields on corporate bonds offer the opportunity to secure high annual returns until maturity – even after taking expected defaults into account.

However, short-term trends also play a role, which we will examine below.

What is the risk-reward ratio for IG and HY corporates over the next twelve months?

Historical analysis for current yield level

Using daily historical data from 2000 onwards, we analysed the 1-year performance achieved by investment-grade (IG) and high-yield (HY) corporate bonds with comparable initial yields.

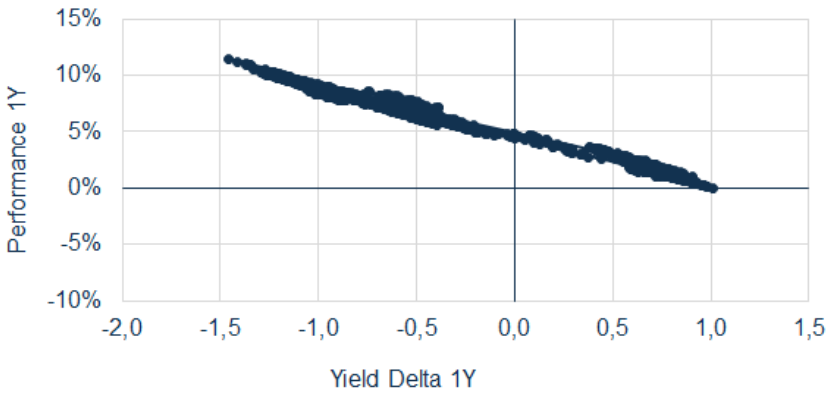
For the investment-grade index, we have used initial yields in the range of 4.0 % to 4.5 %, and for high-yield bonds, 6.5 % to 7.0 %.

Change in yield and total return over 1 year

For each of these selected data points, we have assigned the corresponding performance (total return) after one year and have also recorded how the index yield (yield to maturity) developed over this one-year period. In our analysis, an increase in the index yield, for example from 4.0 % to 5.0 % (i.e. +1.0 percentage points), results in a positive 'Yield Delta 1Y' of 1.0 percentage points.

The results for corporate bonds in the IG Index and the HY Index are shown separately below.

Historical total return for IG corporates (1-year performance in %), here for initial yields of 4.0% to 4.5%
with change in index yield (1-year yield delta, in percentage points)



Source: LSEG, LBBW Research

IG Index:
Total return was always positive

Historical results show that, where the initial yield on the EUR investment-grade index was between 4.0 % and 4.5 %, the index always delivered a positive return over the following one-year period.

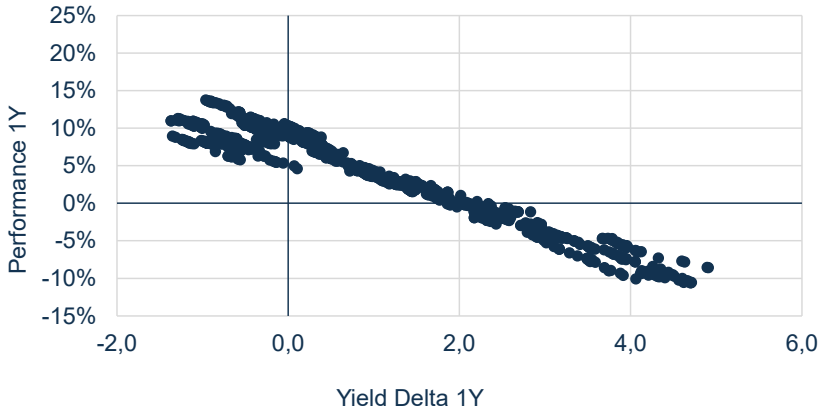
In case the index yield remained unchanged after 12 months, there was a total return of around +5 %. And in a falling interest rate environment (i.e. 1-year yield delta < 0), investors were even able to achieve an even higher return."

+5 % with the yield remaining unchanged

Even when the index yield rose by up to 1 percentage point, there was no negative total return after 12 months, as the high coupon payments were able to offset the price losses. Accordingly, a rise in the index yield to around 5.3 % would currently be manageable (break-even).

High Yield: Based on historical data, the HY Index could have seen an increase in its yield of up to around 2 percentage points without incurring any losses. Accordingly, the HY index yield could rise from its current level of 6.7 % to almost 8.7 % (break-even).

Historical total return for high-yield corporates (1Y perform. in %), here for initial yields of 6.5% to 7.0%
with change in index yield (1-year yield delta, in percentage points)



Source: LSEG, LBBW Research

HY Index:
Wide range with risk of loss

When the HY Index return remained unchanged after one year, historical performance ranged from approximately +5 % to over 10 %. In the event of falling yields, the range increased to between +5 % and 15 %.

It was only when the HY index yield rose by more than 2 percentage points that the total return usually slipped into negative territory. During the sharpest rises (1-year yield delta of up to approximately +5 percentage points), losses widened accordingly (performance down to approximately -10 %).

HY losses only after rise in yield of > 2 pp

Conclusion

Our analysis confirms that, with a current initial yield of over 4 %, the EUR IG corporates index offers a very good risk-reward profile.

Based on historical data dating back to 2000, when the IG Index yield fell within the selected range (4.0% to 4.5%), there was usually a slight yield decline after one year (by an average of 0.2 percentage points, and a median of 0.4 pp). This resulted in a good total return over 12 months of +5.5 % on average, and as high as +6.2 % in the median.

Favourable risk-reward profile for the IG Index

In the riskier high-yield segment, the swings in both directions were significantly greater; consequently, there was also a high risk of a significantly negative return here. The range for total return was between a loss of 10 % and a gain of 15 %. A predominantly higher index yield after 12 months (average +0.4 percentage points, median +0.2 percentage points) resulted in an average total return of 4.9 % and a median total return of +7.6 %.

04 | Calendar/Analytics

Developed Markets Overview

	2 Years			10 Years		
Euro Area	**Yields**	**Spread**	**Change***	**Yields**	**Spread**	**Change***
Bund	3,15			3,36		
Jumbo	3,44	29	-4	3,78	41	-3
Swap	3,42	27	0	3,43	6	-1
Netherlands	3,15	0	0	3,45	9	0
Austria	3,17	3	-5	3,61	24	-1
France	3,63	48	-1	4,87	151	1
Belgium	3,37	23	-2	4,32	96	-3
Italy	3,52	38	-1	4,41	105	-3
Spain	3,20	6	0	3,94	57	-1
Ireland	n.a.	n.a.	n.a.	3,49	13	-1
Portugal	3,17	2	0	3,80	44	0
Greece	n.a.	n.a.	n.a.	4,24	87	0
EX. EURO AREA	**Yields**	**Spread**	**Change***	**Yields**	**Spread**	**Change***
USA	4,85	171	19	5,12	176	15
Canada	3,35	20	5	3,81	45	4
Japan	1,88	-127	-2	2,87	-50	11
UK	4,97	183	5	5,30	194	4
Switzerland	0,34	-280	-1	0,58	-278	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
16.11.2026	Japan	JGB I/L			JPY 250 bn.	
17.11.2026	Germany	Schatz	12/28	3.00%	€ 5 bn.	Tap
17.11.2026	Finland	RFGB			€ 1.5 bn.	Tap
17.11.2026	UK	UKT	15Y		GBP 3.25 bn.	Tap
18.11.2026	Japan	JGB	20Y		JPY 800 bn.	
18.11.2026	Germany	Bund	11/33	3.30%	€ 3 bn.	Tap
18.11.2026	USA	T-Bond	11/46		USD 16 bn.	New
19.11.2026	France	OAT	2Y - 7Y		€ 11 bn.	Tap
19.11.2026	France	OAT€i			€ 1.5 bn.	Tap
19.11.2026	Spain	SPGB	3Y - 30Y		€ 4.5 bn.	Tap
19.11.2026	USA	TIPS	07/36	2.375%	USD 21 bn.	Tap

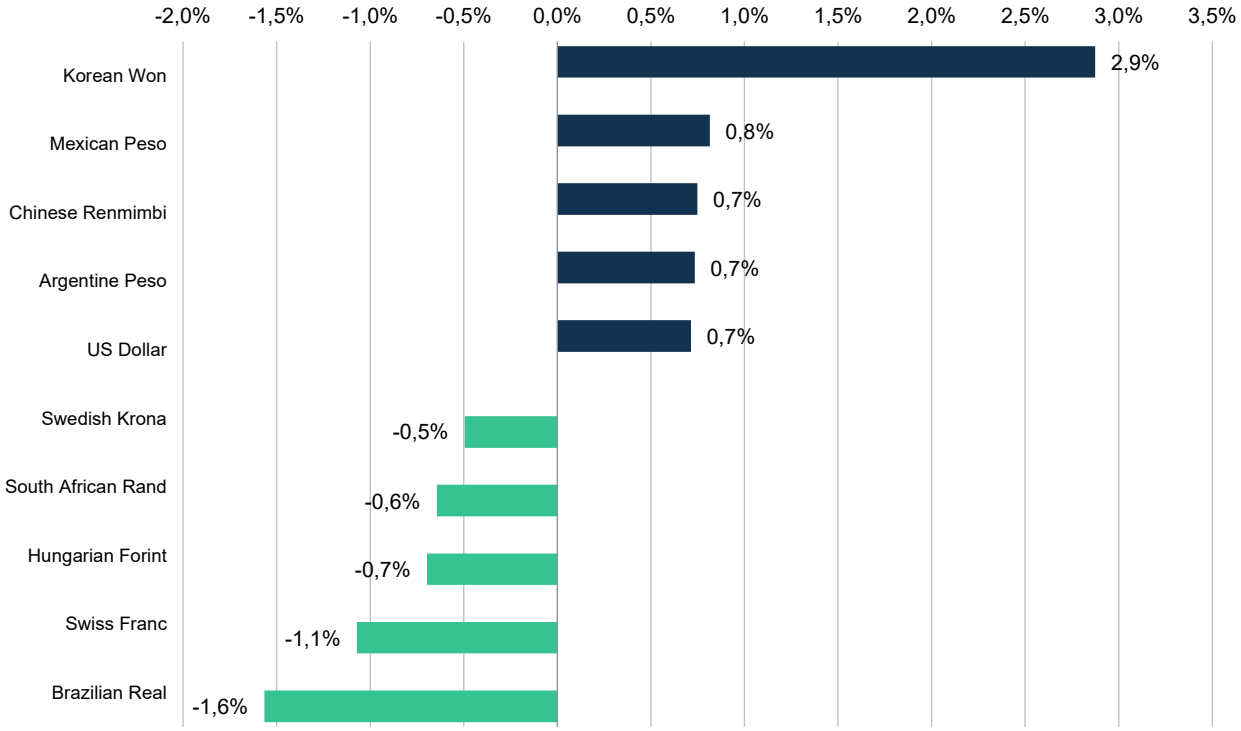
Sources: Bloomberg, LBBW Research

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	17.12.26	2,50%	10.09.26	2,25%	4,0%	↗			
United States	09.12.26	4,00%	16.09.26	3,75%	3,7%	↗	5,5%	1,1070	1,1160
United Kingdom	17.12.26	4,00%	05.11.26	3,75%	3,5%	↗	3,6%	0,8360	0,8426
Japan	18.12.26	1,25%	18.09.26	1,00%	2,1%	↗	4,5%	176,90	175,62
China	***	2,00%	25.09.24	2,30%	0,7%	↘	7,7%	7,38	7,33
Switzerland	10.12.26	0,00%	19.06.25	0,25%	1,5%	↑	-0,9%	0,9242	0,9109
Argentina	***	29,00%	31.01.25	32,00%	32,5%	↘	-4,8%	1.706,90	1.942,08
Australia	08.12.26	4,85%	03.11.26	4,60%	3,2%	↗	-0,9%	1,63	1,64
Brazil	09.12.26	13,75%	16.09.26	14,00%	4,6%	▪	-7,8%	6,23	6,52
Canada	09.12.26	2,50%	28.10.26	2,25%	3,1%	↗	1,7%	1,58	1,58
Czech Republic	17.12.26	4,00%	05.11.26	3,75%	2,4%	▪	-0,2%	24,38	24,49
Denmark	***	2,25%	11.09.26	2,00%	2,2%	↗	0,0%	7,48	7,46
Hong Kong	***	4,25%	08.11.24	4,00%	1,9%	▪	5,6%	8,68	8,70
Hungary	17.11.26	5,50%	25.08.26	5,75%	2,0%	▪	-2,0%	365,58	370,02
India	04.12.26	5,50%	06.02.25	5,25%	6,1%	↑	7,4%	104,31	107,50
Indonesia	18.11.26	5,75%	18.06.26	5,50%	3,2%	↗	1,5%	20.145,04	20.506,78
Mexico	17.12.26	6,25%	05.11.26	6,50%	3,8%	↘	-2,3%	20,58	20,98
New Zealand	09.12.26	2,75%	02.09.26	2,50%	3,7%	↗	-1,2%	2,00	2,00
Norway	17.12.26	4,50%	24.09.26	4,25%	3,6%	▪	1,6%	10,57	10,66
Poland	02.12.26	3,75%	04.03.26	4,00%	3,5%	▪	-3,6%	4,40	4,43
Romania	19.01.27	6,50%	07.08.24	6,75%	6,9%	↓	-2,6%	5,35	5,43
Russia	18.12.26	14,00%	24.07.26	14,25%	6,4%	▪	-5,3%	91,45	97,50
Singapore	***	2,31%	n.a.	2,22%	2,2%	↗	4,6%	1,42	1,42
South Africa	19.11.26	7,25%	23.09.26	7,00%	4,5%	↑	3,6%	18,55	18,92
South Korea	26.11.26	3,00%	27.08.26	2,75%	2,8%	▪	18,0%	1.478,49	1.482,53
Sweden	16.12.26	2,00%	04.11.26	1,75%	0,9%	↑	-1,5%	11,08	11,05
Turkey	10.12.26	36,00%	22.10.26	37,00%	29,8%	↘	-4,6%	55,80	64,92

Sources: Bloomberg, LBBW Research

The Strongest Currency Appreciations and Depreciations Against the Euro This Week

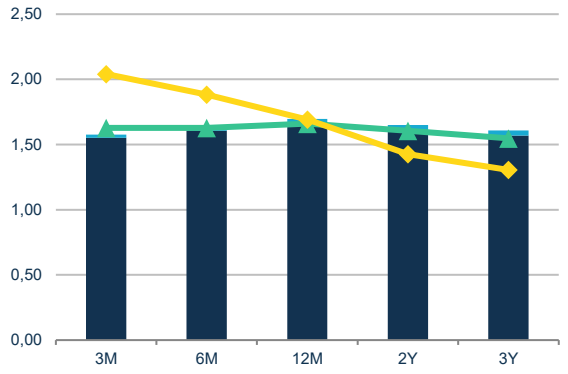


Sources: Bloomberg, LBBW, Research

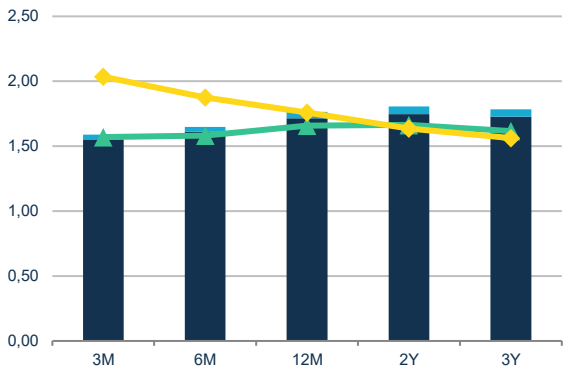
Interest rate differential and FX insurance costs vs. the Euro for selected currencies

interest rate differential, basis swap rates and insurance costs

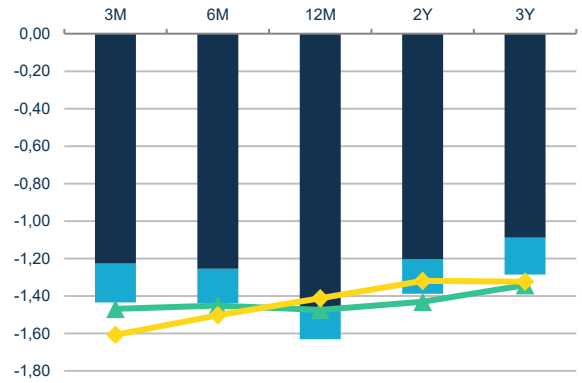
US dollar



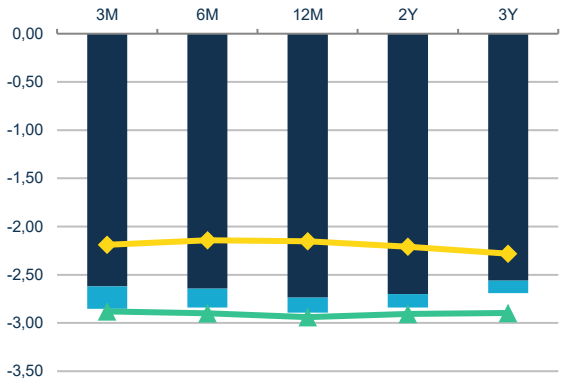
British pound



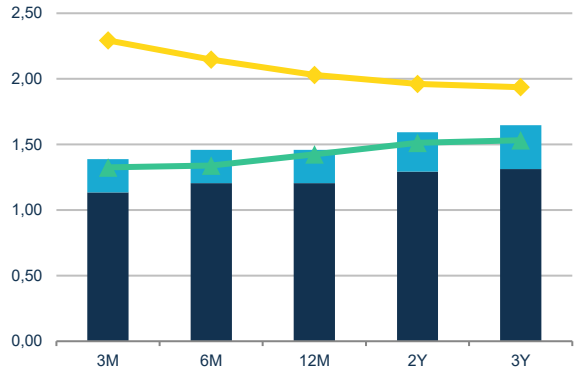
Japanese yen



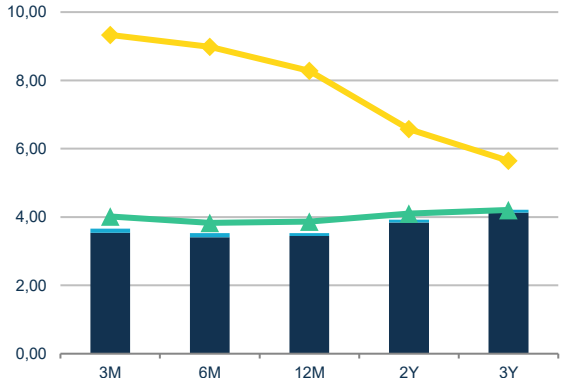
Swiss franc



Polish zloty



Mexican peso





Sources: Bloomberg, LBBW Research

Credit Spreads

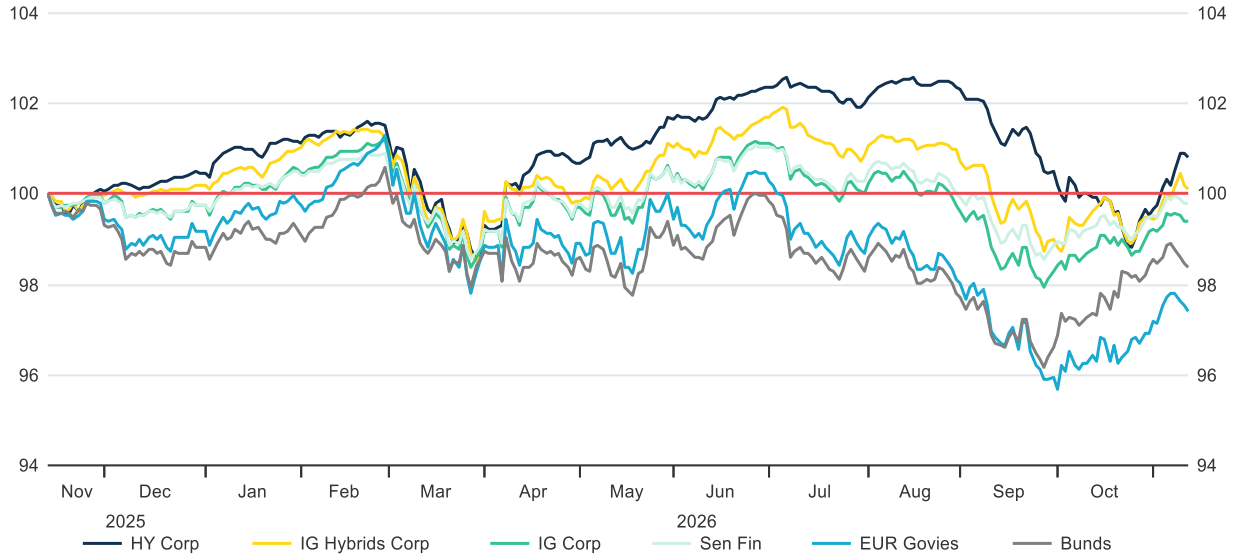
5Y CDS Spreads	Current	Changes				
		1W	1M	3M	6M	1Y
IG Corporates	59	-4	-5	8	2	4
HY & NR Corporates	290	-21	-25	42	11	26
Senior Financials	66	-4	-5	13	7	0
Sub Financials	110	-9	-10	24	12	9

EUR Indices	Current	Changes				
		1W	1M	3M	6M	1Y
Non-Financials	88	-3	6	13	10	8
Banks Senior Preferred	67	-4	2	16	12	7
Banks Senior Bail-in	85	-6	4	16	10	11
Banks Subordinated	121	-7	3	20	11	6

*time lag of one day, Asset Swap Spreads 13.11.2026

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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