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Bonds Weekly

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‘Risk-off’ sentiment triggers a rally in the bond market

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01 | Our View

Bond Market Movers – Review and Outlook

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What drove the bond markets last week?

- Anthropic's stock market debut has, admittedly, been a success. Nevertheless, market turbulence in the tech sector has intensifyed, fuelling demand for safety. Nor has the enigmatic return of 'chip guru' Jensen Huang to Nvidia managed to put a lasting stop to the 'risk-off' sentiment.
- The ifo Business Climate Index recorded its seventh consecutive rise in November. Meanwhile, the purchasing managers' indices for the euro area paint a mixed picture. Sentiment in France remains subdued.
- In the US, core PCE inflation rose more sharply than the consensus forecast in October.
- According to the Conference Board, US consumer confidence saw an unexpectedly strong upturn in November.
- This year's final auction of 10-year Bunds has only just managed to attract sufficient demand to cover the targeted issuance volume.

What might drive the market next week?

- For the time being, the performance of technology-heavy shares serves as the most important 'barometer' of risk sentiment amongst financial market participants.
- Furthermore, the financial markets remain under the spell of news from the Middle East and commodity prices.
- On the macroeconomic data calendar, the focus on this side of the Atlantic will be on the euro area inflation figures for November. We expect headline inflation to remain stable and the core rate to rise a bit.
- In the US, attention will likely be focused primarily on the November labor market report. We expect job growth to be just over 100,000.
- According to our forecast, the ISM indices are set to show an improvement in sentiment in both the manufacturing and services sectors.
- According to the latest polls on the snap general election, Spain is set to see a shift to the right and a change of government.
- The primary market for US Treasuries will be quiet next week. Meanwhile, the primary market for EUR government bonds is drifting into its usual pre-Christmas lull. We expect gross supply of just EUR 10 bn, down from around EUR 20 bn the previous week. Net cash flows will likely remain positive thanks to average reflows from maturing bonds.

‘Risk-off’ sentiment triggers a rally in the bond market

10Y Bund yield falls to its lowest level since August

The greater the concern that the AI boom on global stock markets might collapse, the more investors on both sides of the Atlantic are turning to the safety of government bonds. Ahead of the long Thanksgiving weekend in the US, there were renewed phases with heightened selling pressure on the stock market, particularly amongst technology companies. Market participants were not even reassured by the successful IPO of AI developer Anthropic or the return of ‘chip guru’ Jensen Huang to Nvidia. Temporary rallies in the share market appear to have served instead as an opportunity to reduce exposure to the technology sector. Is this a sign that skepticism toward the AI narrative has taken hold? Investors’ repeated “risk-off” shifts have given U.S. Treasury prices a noticeable boost. As indicated by forward rates on the US money market, the market consensus has completely backed away from the possibility of a ‘major’ rate hike by the US Federal Reserve on 9 December. The yield on 10-year US Treasuries slipped well below the 5% mark. The preceding bond-market-shaking shock caused by the unwelcome rise in US consumer prices in October has thus completely faded. From a chartist perspective, we believe US bond bulls have enjoyed further tailwind: It seems that the medium-term upward trend in the US benchmark yield, which began with the outbreak of the war in Iran, has been broken (see the 20 November 2026 issue of *Bonds Weekly*). The impression that yields have peaked is becoming more entrenched.

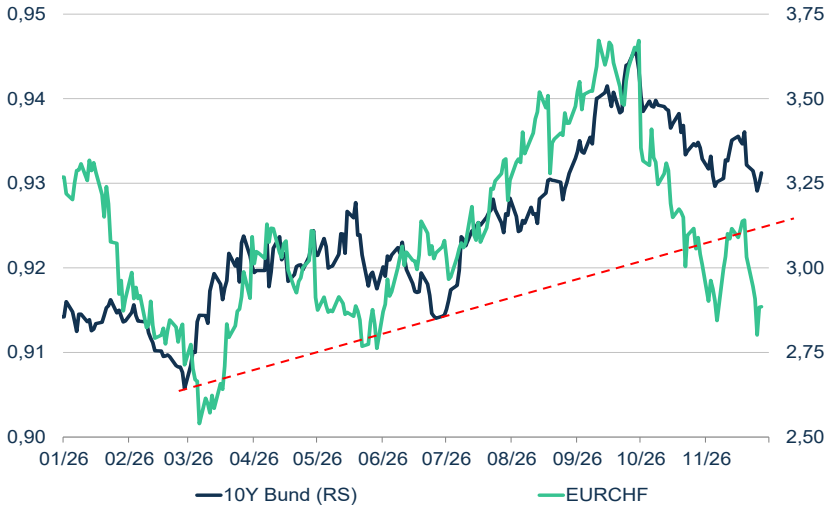
Is scepticism about the AI story taking hold?

On this side of the Atlantic, the euphoria on the bond market was admittedly somewhat more subdued than in the US. Nevertheless, the yield on 10-year German government bonds hit its lowest level since the end of August. In our view, the simultaneous strong investor demand for the Swiss franc as a ‘safe-haven currency’ underlines the dominance of the need for crisis hedging as the driving force behind the recent price rally (see the chart below). Meanwhile, it is noteworthy that the medium-term upward trend in the EUR benchmark yield has remained intact.

10Y Bund yield: medium-term upward trend still intact

Chart of the Week

Yield on 10-year Bunds and the EUR/CHF exchange rate



‘Safe-haven’ flows are benefiting Bunds and the Swiss franc

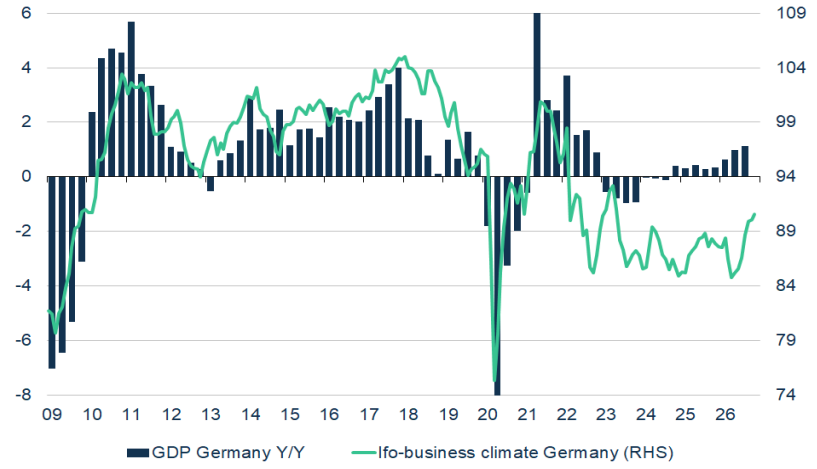
Source: Bloomberg, LBBW Research

Bond investors are brushing aside robust economic data

The bullish momentum in the bond market, which is also coupled with chartist tailwinds in the US, does provide scope for further price increases. But the one-sided focus on fears surrounding AI makes the bond rally fragile. In our view, the latter is particularly true, especially as the recently published macroeconomic data runs counter to the prevailing bond-positive sentiment. In the eurozone, the S&P Global Purchasing Managers' Indices for November indicated that economic sentiment remained stable overall. Apart from France, which remains a cause for concern, the trend continued to point upwards. For Germany, the seventh consecutive rise in the ifo Business Climate Index underlines a sustained improvement in the economic environment. In our view, against this backdrop, the ECB remains on course for further monetary tightening.

Macro data plays into the hands of the bond bears

The German economy continues to gain momentum
ifo Business Climate Index and GDP growth in Germany (Y/Y)

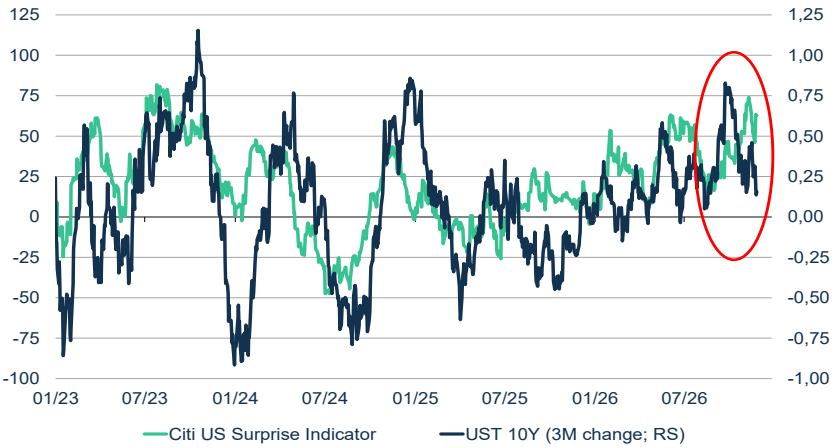


ifo index at its highest level since spring 2023

Source: LSEG, LBBW Research

In the US, an unexpected upturn in consumer confidence, according to a survey by the Conference Board, has recently reinforced the trend of positive economic surprises that has been ongoing for months. As shown in the chart below, economic surprises therefore continue to favour the bears in the US Treasury market.

US economic data suggests that yields are unlikely to slump sustainably
Citigroup Economic Surprise Index for the US and 3-month change in the 10-year US Treasury yield



U.S.: Positive economic surprises keep dominating

Source: Bloomberg, LBBW Research

To put it another way: In our view, a continued slide in bond yields would suggest that the current economic picture, as reflected in the 'hard' data, is already obsolete in the face of growing AI risks. We consider this conclusion to be clearly premature. Moreover, the recently published US inflation figures have played into the hands of the hawks within the Fed. Accordingly, the core PCE rate rose to its highest level in almost three years. It therefore remains likely that US Federal Reserve Chairman Warsh will accompany the widely anticipated interest rate hike on 9 December with 'hawkish' rhetoric. In our view, the same applies to the ECB with regard to its interest rate decision on 17 December, as hopes for a lasting easing of the situation in the Middle East have not yet been realised. The prospect of 'hawkish' signals from central banks in December, in turn, limits the potential for a year-end rally in the major government bond markets.

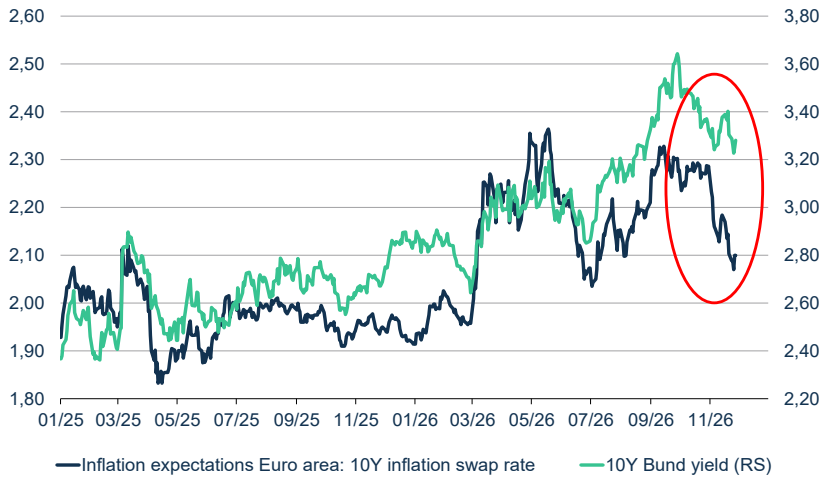
Core PCE inflation set to ensure a 'hawkish' tone from the Fed

Outlook: EMU inflation and the US labour market in focus

We expect the macroeconomic data flow to remain on the bond-bearish side, on balance, in the coming trading week. On this side of the Atlantic, the EMU inflation rate (1 December) may have stabilized in November at around the 4% mark, as falling energy prices are providing some relief. Initial data from France and Spain even suggest that hopes for an easing of inflation pressures may be justified. However, we expect the core rate to have risen for the third month in a row. According to our forecast, underlying price pressure will be at 2.7%, its highest level since April 2025. The inflation figures are therefore likely to show that it would be premature to dismiss the risk of second-round effects. Following the recent price rally in the EUR government bond market, this could give some market participants cause for concern, particularly as long-term market-based inflation expectations have fallen to their lowest level since early July in the wake of AI-related concerns (see the chart below). In our view, investors' awareness of inflation risks has, by this measure, declined to an astounding extent. A growing sense of complacency regarding inflation could pave the way for fresh price setbacks in the bond market. In our view, this applies in particular once investors start turning their attention to the next massive wave of issuance on the EUR government bond market, which is set to build up as we enter the new year (see the article on page 13).

EMU inflation: Headline may remain stable; core rate set to rise

Awareness of inflation risks has clearly been on the wane
Yields on 10-year German government bonds and long-term market-based inflation expectations



Have market players become too relaxed as to inflation?

Source: Bloomberg, LBBW Research

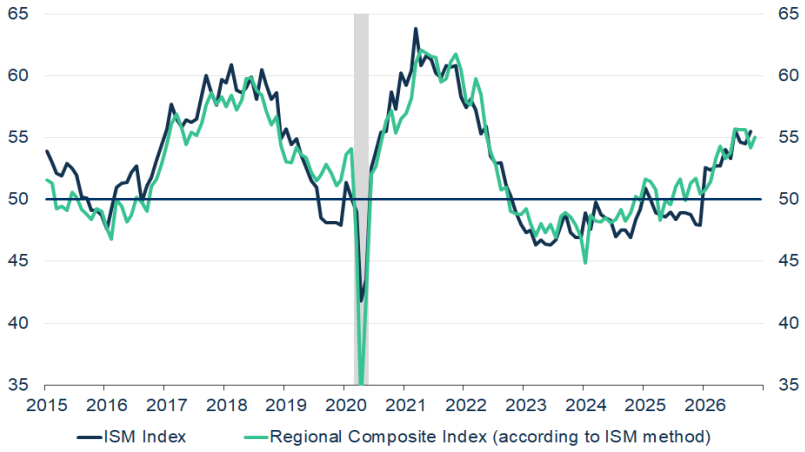
In the US, following the long Thanksgiving weekend, attention will be focused primarily on the November labor market figures (2 December/4 December). We expect solid job growth in the region of 100,000 and a stable unemployment rate. We therefore do not expect the jobs data to

give rise to fresh doubts about the continuation of the Fed's monetary tightening phase. Moreover, we do not expect the ISM indices for November to provide any grounds for a continued rally in the US Treasury market. According to the latest regional US leading indicators, there is, in fact, a prospect that sentiment in both the manufacturing and services sectors will improve yet a bit further from already solid levels.

We think the US labor market remained robust in November

The ISM index looks set to rise a little further

ISM Manufacturing Index and Composite Index of Regional Leading Indicators



ISM index might hit its highest level since March 2022

Source: Bloomberg, LBBW Research

According to our forecast, US industry is likely to be as optimistic in November as it hasn't been for around four and a half years.

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Forecasts at a Glance

Euro Area	Spot	31.03.27*	30.06.27	31.12.27
ECB Main Refinancing Rate	2,65	3,15	3,15	2,90
ECB Deposit Rate	2,50	3,00	3,00	2,75
Overnight Rate (€STR)	2,45	2,95	2,95	2,75
3M Euribor	2,81	3,10	3,05	2,75
Swap 2Y	3,33	3,45	3,25	2,75
Swap 5Y	3,30	3,50	3,35	3,00
Swap 10Y	3,35	3,55	3,50	3,30
Bund 2Y	3,07	3,20	3,05	2,60
Bund 5Y	3,11	3,30	3,20	2,90
Bund 10Y	3,28	3,50	3,50	3,35
Swap/Bund 2Y	26	25	20	15
Swap/Bund 5Y	19	20	15	10
Swap/Bund 10Y	6	5	0	-5
Spread BBB Corporates/Bund	124	120	125*	130

USA	Spot	31.03.27*	30.06.27	31.12.27
Fed Funds Target Rate	4,00	4,25	4,25	4,00
Overnight Rate (SOFR)	3,94	4,15	4,15	3,90
3M Money Market	4,22	4,30	4,15	3,90
Swap 2J (SOFR-OIS)	4,54	4,55	4,15	3,75
Swap 5J (SOFR-OIS)	4,44	4,55	4,25	3,95
Swap 10J (SOFR-OIS)	4,53	4,70	4,50	4,30
Treasury 2Y	4,69	4,70	4,35	3,95
Treasury 5Y	4,73	4,85	4,60	4,30
Treasury 10Y	4,92	5,10	4,95	4,80

G5		Spot	31.03.27*	30.06.27	31.12.27
Japan	*Overnight Rate (TONAR)*	1,23	1,80	1,80	2,05
Japan	*10Y Government Bond*	2,64	3,00	3,10*	3,20*
UK	*Overnight Rate (SONIA)*	3,99	4,20	4,20	3,95
UK	*10Y Government Bond*	5,20	5,30	5,20	5,00
Switzerland	*Overnight Rate (SARON)*	-0,04	0,20	0,20	0,20
Switzerland	*10Y Government Bond*	0,57	0,65	0,60	0,50

FX	Spot	31.03.27*	30.06.27	31.12.27
EURCHF	0,9164	0,94	0,94	0,95
EURCNY	7,2964	7,28	7,36	7,43
EURGBP	0,8353	0,85	0,85	0,85
EURJPY	174,84	178	178	176
EURUSD	1,0964	1,12	1,15	1,17
USDCHF	0,8358	0,84	0,82	0,81
USDCNY	6,6553	6,50	6,40	6,35
GBPUSD	1,3125	1,32	1,35	1,38
USDJPY	159,48	162	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

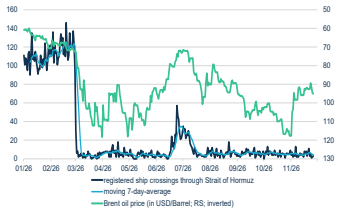
Main Events of the Past Week

- *Middle East Conflict:* A hoped-for new agreement between the U.S. and Iran is still not in sight – meanwhile, military skirmishes in the Strait of Hormuz have continued, as have attacks by Yemeni Houthi rebels on Saudi ports.
- *Geopolitics:* The strikes by several Russian missiles in eastern Poland, a NATO member, are fueling concerns about a further escalation of the hybrid conflict with Russia – Polish government accuses Russia of deliberate provocation – NATO has expressed concern and reaffirmed the member states' solidarity with Poland; however, Secretary General Rutte does not "yet" see grounds for invoking Article 5 – a Ukrainian attack on a Russian freighter in the Baltic Sea is further racking up tension.
- *United States – Trade Policy:* U.S. government imposes new tariffs on imports from China, the EU, and a dozen other countries – new regime is based on allegations of overproduction of certain goods by domestic industries and is intended to permanently replace import tariffs that have been struck down by the US Supreme Court – Tariff rate for China is initially set at 20%, with the possibility of doubling to 40% should the current truce in the trade conflict break down – Tariff rate for the EU is set at 15% – Politicians from the EU and China are threatening retaliatory measures should the new tariffs violate previous agreements.
- *Monetary Policy – ECB:* According to the minutes of the ECB meeting on October 29, a "large number" of central bankers could, in principle, have supported an interest rate hike – There was agreement that the inflation outlook had deteriorated – Meanwhile, central bankers saw no substantial evidence of second-round effects – Monetary policy tightening remains necessary until the inflation outlook has "significantly" improved, the ECB says.
- *ECB – Lagarde's Successor:* According to media reports, EU heads of state and government are rallying behind Spain's Hernandez de Cos as the new ECB president – he will succeed Christine Lagarde, who is stepping down early on February 7, 2027.
- *Fed – Beige Book:* The Fed's anecdotal economic report notes slight to moderate economic growth – employment has increased slightly, while businesses report rising wage pressure – prices are rising at a moderate pace overall.
- *Germany – Economy:* ifo Business Climate Index rose in November for the seventh consecutive month, from 90.1 to 90.6 points – highest level since May 2023 – Expectations improved from 91.5 to 91.9 points, while the current situation index climbed from 88.8 to 89.4 points.
- *Germany – Economy:* S&P Global Manufacturing Purchasing Managers' Index surprises in November with a rise from 54.2 to 55.0 points – highest level since spring 2022 – index for the services sector also rose, from 52.5 to 54.0 points.
- *Eurozone – Economy:* S&P Global Manufacturing Purchasing Managers' Index climbs from 52.7 to 52.9 points in November – Index for the services sector, however, disappoints with a decline from 51.4 to 51.2 points – France stands out with persistently gloomy economic sentiment; both indices were below the 50-point threshold in November.
- *Eurozone – Wages:* The ECB's wage indicator shows a slight increase in wage pressure for the third quarter, to a rate of 2.6% (Y/Y), up from 2.4% in the second quarter.

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Missile strikes in Poland are causing concern

Strait of Hormuz & Oil Prices



Sources: Bloomberg, LBBW Research

Hernandez de Cos to become ECB President

German economic indicators are encouraging

- *United States – Inflation:* Core PCE inflation accelerated to 3.3% (Y/Y) in October, up from 3.1% in September – highest level since November 2023.
- *U.S. – Economy:* According to a Conference Board survey, consumer confidence improved much more than expected in November, jumping from 91.9 to 103.3 points, the highest level since January 2025 – consumers also view the labor market situation much more positively than they did the previous month.
- *U.S. – Economy:* Durable goods orders rose by 0.2% (M/M) in October, following a 2.0% increase in September – "core rate," excluding volatile orders for the transportation sector, grew steadily at a rate of 0.5%.
- *United States – Labor Market:* Weekly ADP report shows a slight slowdown in job growth for the four-week period ending November 7 to an average of 21,000, down from 23,000 in the previous period.
- *Germany – Fiscal Policy:* Chancellor Merz defended the 2027 budget against sharp criticism from the opposition and, at the same time, announced further cuts for the coming years – saying that in the future, the country would "no longer be able to afford everything" it had grown accustomed to in recent years.
- *EU Budget:* The political tug-of-war over the size of the EU's medium-term budget framework for the years starting in 2028 continues – German Chancellor Merz considers a "streamlined" framework proposed by EU Council President Costa to still be too high – Costa's proposals for generating new revenue at the EU level, such as through a digital tax, are also meeting with resistance – EU heads of state and government plan to make a fresh attempt to reach an agreement at their summit in December.
- *Belgium – Rating:* Fitch Ratings has affirmed Belgium's "A+" credit rating with a stable outlook – the country's robust economy and membership in the eurozone are viewed as supportive – but Fitch warns that a high budget deficit and rising debt partially offset these strengths.
- *Portugal – Rating:* Moody's® upgrades Portugal's credit rating from A3 to A2 – outlook stable – credit rating agency confident that Portugal remains on a path of declining debt and economic growth – Debt has recently fallen more sharply than expected, they say.
- *France – 2027 Presidential Election:* Poll favorite Marine Le Pen, like her far-left rival Mélenchon, is increasingly stoking anti-German sentiment in her campaign – she denounces alleged German dominance in the EU – Le Pen also hints at wanting to break away from the EU's common trade policy and negotiate a trade agreement directly with the U.S.
- *AI:* AI model developer Anthropic made a successful stock market debut – but its share price subsequently saw a noticeable pullback amid generally deteriorating market sentiment toward the AI sector.
- *AI:* According to media reports, Anthropic's model Claude has solved the most significant unsolved problem in mathematics to date – researchers have presented a 25,000-page proof of the so-called "Riemann Hypothesis," from which statements about the distribution of prime numbers are derived.
- *Climate Policy:* UN Climate Conference in Antalya ends without a joint final declaration – the EU, among others, refuses to approve the proposed declaration because several resource-rich countries blocked a commitment to phase out fossil fuels – In contrast, several groups of countries reached bilateral agreements on climate protection measures.

U.S. core PCE rate hits three-year high

Merz rejects new EU budget compromise

Moody's gives Portugal a thumbs-up

AI proves Riemann hypothesis

Next Week's Data

TIME	COUNTRY		PERIOD	LBBW FORECAST	CONSENSUS FORECAST[1)]	LAST VALUE[2)]	IMPORTANCE
FRIDAY, 27.11.2026							
11:00	EMU	Economic Sentiment	Nov	96,6	97,2	96,9	***
11:00	EMU	Industrial Confidence	Nov	-3,6	-3,4	-3,4	*
	FR	Rating Review France (S&P)					***
SUNDAY, 29.11.2026							
	SPA	Parliamentary Elections in Spain					**
	OPEC	OPEC+ meets to plot oil supply outlook for 2027					**
MONDAY, 30.11.2026							
09:00	CH	GDP (Q/Q)	Q3	0,0	0,0	1,9	**
09:00	CH	KOF Swiss Leading Indicator	Nov	108,2	107,5	107,6	*
14:00	GE	CPI (Y/Y) (prelim.)	Nov	2,9	2,8	2,8	***
15:45	USA	Chicago Purchasing Manager Index	Nov	-	-	55,3	*
	GE	Retail Sales (M/M, sa)	Oct	1,5	1,5	-2,1	*
TUESDAY, 01.12.2026							
00:30	JPN	Unemployment Rate (sa)	Oct	-	2,4	2,4	*
02:45	CHN	RatingDog PMI Manufacturing	Nov	51,4	51,7	52,0	***
09:30	CH	PMI Manufacturing	Nov	57,2	56,3	56,7	*
09:55	GE	PMI Manufacturing (final)	Nov	55,0	-	55,0	*
10:00	EMU	PMI Manufacturing (final)	Nov	52,9	52,9	52,9	*
11:00	EMU	HICP, flash estimate (Y/Y) (prelim.)	Nov	4,0	4,0	4,0	***
11:00	EMU	HICP Core, flash estimate (Y/Y) (prelim.)	Nov	2,7	2,7	2,6	***
16:00	USA	Construction Spending (M/M)	Oct	-	0,8	-1,9	*
16:00	USA	ISM Manufacturing	Nov	56,0	55,0	55,5	***
19:00	EMU	ECB Chief Economis Lane speaks					**
WEDNESDAY, 02.12.2026							
08:30	CH	CPI (Y/Y)	Nov	-	1,4	1,5	*
09:40	EMU	ECB President Lagarde speaks					***
11:00	EMU	Unemployment Rate (sa)	Oct	6,5	6,5	6,5	**
14:15	USA	ADP Employment Change (thous)	Nov	95	80	86	**
THURSDAY, 03.12.2026							
09:55	GE	PMI Services (final)	Nov	54,0	-	54,0	*
09:55	GE	PMI Composite (final)	Nov	55,0	-	55,0	*
10:00	EMU	PMI Services (final)	Nov	51,2	51,2	51,2	*
10:00	EMU	PMI Composite (final)	Nov	51,7	51,7	51,7	*
11:00	EMU	PPI (Y/Y)	Oct	11,5	-	11,1	*
16:00	USA	Factory Orders (M/M)	Oct	-	0,4	1,8	*
16:00	USA	ISM Services Index	Nov	55,5	54,5	54,5	***
FRIDAY, 04.12.2026							
11:00	EMU	Retail Sales (M/M)	Oct	-	0,5	-0,7	*
14:30	USA	Change in Nonfarm Payrolls (thous.)	Nov	110	90	165	***
14:30	USA	Unemployment Rate (sa)	Nov	4,1	4,1	4,1	***
14:30	USA	Average Hourly Earnings (M/M)	Nov	0,3	0,3	0,4	***
16:00	USA	Uni Michigan Consumer Confidence (prelim.)	Dec	56,0	52,5	51,5	***
	AUT	Rating Review Austria (Fitch)					**

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

Transatlantic vola spread hits annual high

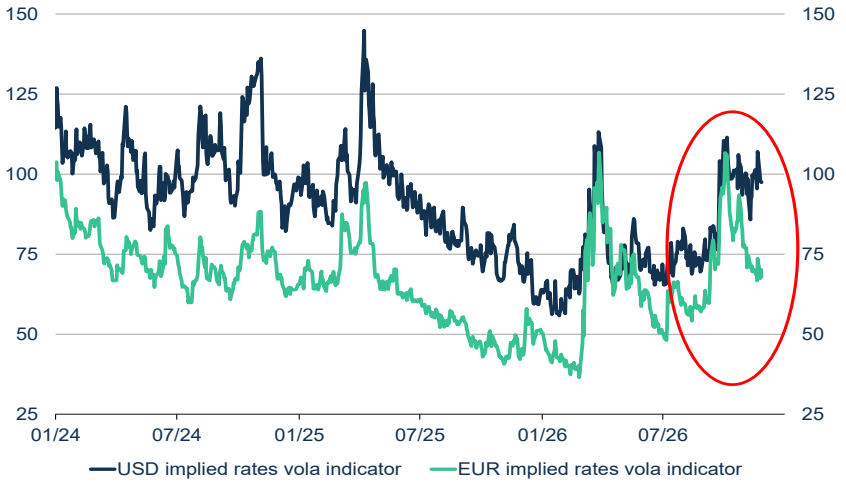
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AI concerns keep implied volatility high in the USD rates market

Volatility in the major rates markets on both sides of the Atlantic went through a series of ups and downs in 2026. At the start of the year, implied volatility, as measured by the indicators we calculate, was still at its lowest levels since the inflation shock of 2022–23. The outbreak of the Iran War brought this “low-vola regime” to an abrupt end. At their annual peaks, the Vola indicators for the U.S. and the eurozone were nearly on par, as the following chart shows. During the second major bond sell-off in September, these yearly highs were tested once again. Since then, a significant transatlantic gap has opened up between the Vola indicators. Implied volatility in the euro interest rate market has, to a certain extent, followed the downward correction in interest rates. The relevant indicator corrected by more than a third from its recent high. On the USD market, rates have, on balance, also fallen noticeably from their annual highs. Meanwhile, the corresponding implied volatility remained at a heavily elevated level.

Vola's peaks this year were almost on par, …

A transatlantic rift has opened since late September
LBBW Indicators for implied rates volatility in the EUR and USD rates markets



Source: Bloomberg, LBBW Research

… but there has been a significant correction in the EMU as of late

In our view, the recent transatlantic discrepancy in Vola's performance stems from two different sources. On the one hand, this reflects the fact that the USD rates market has been hit by two opposing shocks in recent weeks. The upward surprise in the October inflation data initially fueled speculation about further interest rate hikes by the Fed. The subsequent turmoil in the U.S. technology sector abruptly reversed sentiment in the bond market. Both developments appear to have had only a somewhat muted impact on the EUR rates market. That contrasts with the energy

U.S. inflation and AI concerns: Two opposing shocks!

price shock caused by the war in Iran, which had a nearly uniform global impact.

Realized volatility has followed the same pattern

On the other hand, to a certain extent, the recent discrepancy in Vola's performance reflects a "normalization." In a long-term historical comparison, volatility in the USD rates market has been clearly larger than in the EUR rates market for much of the time. This applies not only to implied volatility but also to realized volatility: On average over the past ten years, the realized volatility of long-term USD rates – measured as the average daily range of the yield on 10-year government bonds – was more than a third above that of EUR rates.

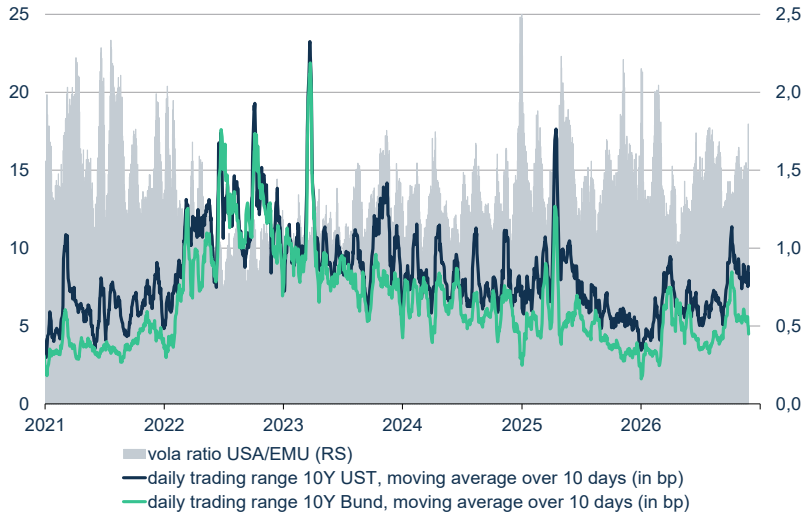
Rates volatility is usually higher in the U.S. than in the euro area

It should be noted, however, that the volatility discrepancy evident in the latest data goes well beyond this longer-term historical average. The ratio of realized volatility in the U.S. to that in the eurozone was most recently around 1.8. This is the highest figure since the outbreak of the Iran War (see the chart below).

Vola ratio, at 1.8, hits a ten-month high

Realized volatility in the USD rates market is usually higher than EUR rates market

10-Day moving averages of the volatility of 10Y sovereign bond yields (in basis points)



Source: Bloomberg, LBBW Research

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EUR government bonds: Issuance to continue its record-breaking run in 2027

Review: Gross issuance likely rises by 7% in 2026 – yet the year will end at a lackluster pace

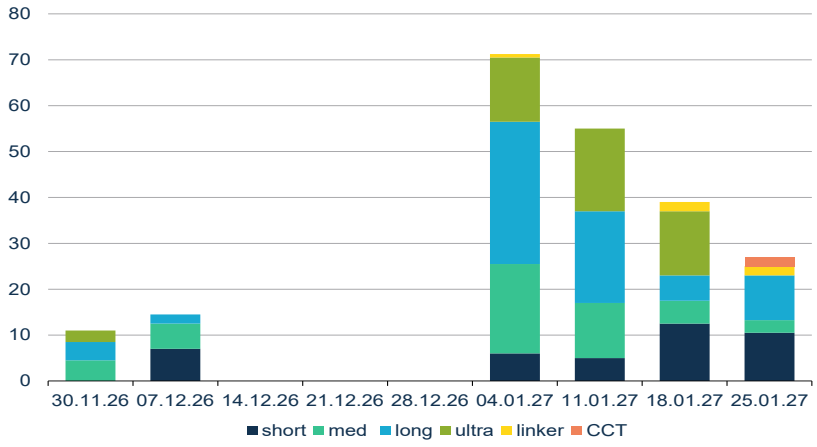
Toward the end of the year, activity on the primary market for EUR government bonds is usually slowing down. This year is no exception: In November, the eurozone countries at least shifted down one gear when it came to bond issuance: According to our analysis, gross government bond issuance from the eurozone (excluding Slovenia, Slovakia, Croatia, Bulgaria, Cyprus, Malta, Luxembourg, and the Baltic states) totaled EUR 92 bn euros in the month just ending, roughly 22% less than in October (EUR 118 bn). This is the lowest figure so far this year – we guess the usual pre-Christmas lull is already making itself felt here. The latter will be in full swing in December: Activity in the primary market is likely to plummet next month. Just over half of the countries have already terminated issuance activity in the capital market for this year, including the Netherlands, Belgium, Portugal, Finland, and Ireland. Moreover, in the second half of December, the primary market is likely to come to a complete standstill (see the chart below). In our view, only Germany, France, Italy, Spain, and Austria will still be active in the capital markets in the final month of the year, though each with significantly reduced issuance volumes. The German financing agency will conclude its issuance activities with additional taps of the OBL 10/31 (EUR 4.5 bn on December 1) and the Schatzanweisung 12/28 (EUR 4 bn on December 8). France will tap the capital market for the last time on December 5 (estimated volume: EUR 6 to 9 bn), and Italy is expected to do so on December 11 (estimated volume: EUR 5 to 6 bn). Based on this, we expect gross issuance from the euro area in December to total just EUR 25 bn.

Gross supply: -22% M/M in November

Bund to make its final appearance 2026 as early as December 8!

Gross supply for December set to total just EUR 25 bn

Complete lull in issuance during the second half of December
Expected weekly issuance volume of EUR government bonds, by maturity segment (in billions of euros)



Source: Bloomberg, LBBW Research

Given solid reflows from maturities and coupon payments, which will total just over EUR 44 bn in the coming month (of which EUR 39 bn will be maturities), this will result in a clearly negative net supply through mid-December. In and of itself, this net supply constellation thus promises to

provide tailwinds for prices in the euro government bond market as the year comes to a close.

Despite the year-end slowdown, it is already certain that 2026 will once again be a record year on the primary market. By the end of the year, the cumulative gross supply is likely to rise to EUR 1,433 bn. This compares with EUR 1,334 bn in 2025, representing an increase of 7%. Among the "Big Four" eurozone countries, Germany in particular set the tone with a 21% increase in supply.

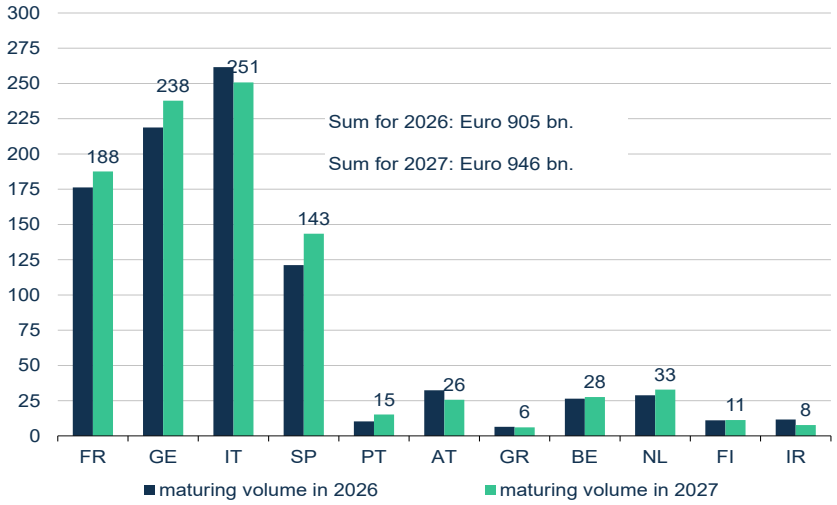
Yet another record year!

Outlook: Maturities will rise again in 2027

Our supply outlook for the euro government bond market in 2027 consists of two components. A continued increase in bond maturities is driving up governments' overall financing needs. The long-term effects of the sharp rise in issuance during the years of the COVID-19 and energy crises continue to make themselves felt here. Year-over-year, the total amount of maturing debt for the eurozone countries considered here is set to rise by nearly 5% to EUR 945 bn – yet another historic record!

Maturities in 2027 will be 5% higher Y/Y

Maturities are rising, particularly for France, Germany, and Spain
Maturity volumes for selected Eurozone countries in 2026 and 2027 (in billions of euros)



Source: Bloomberg, LBBW Research

More maturities for three of the four major EUR countries

At the same time, we expect net financing needs to rise further – albeit moderately – across all eurozone countries. However, uncertainty is higher than average because parliamentary elections will be held in Spain, France, and Italy over the next twelve months. Amid all this, the sharp recent rise in financing costs on the bond market is exerting increasing pressure for fiscal consolidation. We therefore do not assume that budget deficits in any of the major eurozone countries are getting fully out of hand. In Germany, the budget plans for 2027 of the politically teetering federal government call for an increase in net borrowing of approximately EUR 25 bn on top of the figure for 2026 to just over EUR 210 bn. In our view, the general government deficit-to-GDP ratio could approach the 5% mark, no more that far behind the two "deficit leaders", France and Belgium.

Germany's net financing needs to rise by another EUR 20 bn

Gross supply forecast to rise by 4%

Taken together, we believe the signs point to a continuation of the upward trend in primary market activity in the eurozone in 2027. However, given the somewhat more moderate uptrend in maturities and the increasing pressure for fiscal consolidation from the bond markets, the supply increase is likely to be smaller than in the current year. We expect the total gross issuance volume of the eurozone countries considered here to

Yet another record-breaking issuance year as good as assured

mount by 4% next year, reaching a record high of EUR 1,496 bn. Another record year for government borrowing is likely to be avoided only if the consolidation of public finances receives an unexpected boost from a significant acceleration in economic growth.

It is striking that, for the second year in a row, Germany is set to account for about half of the projected increase in gross issuance. We forecast that the Bund will increase its gross supply on the capital market by just under 10% to EUR 380 bn. The Federal Finance Agency will likely publish its annual supply plan in the second half of December. Germany is about to top the issuance league table, roughly on par with France (forecast: EUR 375 bn). The following table shows our forecasts for supply trends in the individual eurozone countries. For further details, please refer to our publication *Bonds in Focus* dated November 11, 2026 (in German).

Germany and France to be almost neck and neck at the top
Expected issuance volume of EUR government bonds in 2027, with lower and upper limits (in billions of euros)

Country	LBBW forecast volume of issuance in 2027	lower boundary of forecast range	upper boundary of forecast range	volume in 2026	change
France	**375**	360	390	363	3%
Germany	**380**	370	395	350	9%
Italy	**343**	330	355	347	-1%
Spain	**183**	175	190	167	9%
Portugal	**20**	18	22	18	13%
Austria	**44**	42	48	42	4%
Greece	**8**	7	10	8	3%
Belgium	**56**	50	60	50	12%
Netherlands	**54**	50	55	52	4%
Finland	**25**	23	26	24	3%
Ireland	**8**	7	10	12	-32%
Sum	**1496**	**1432**	**1561**	**1433**	**4%**

Source: Bloomberg, LBBW Research

Our forecast for gross issuance in 2027: EUR 1,496 bn

"Effective" net issuance about to decline only moderately

On a net basis, according to our forecast, among the “Big Four” eurozone countries, Germany (+8% Y/Y to EUR 142 bn) and Italy may both show an upward trend, while Spain is set for a modest decline. For France, we expect net capital market issuance to remain roughly flat at around EUR 185 bn. However, there are significant upside risks in this case should the French minority government's budget plans fail to pass in Parliament. For the eurozone as a whole, we forecast that the net supply in 2027 will be EUR 550 bn, which would be 4% higher than the figure for the current year.

Net supply to rise moderately to EUR 550 bn

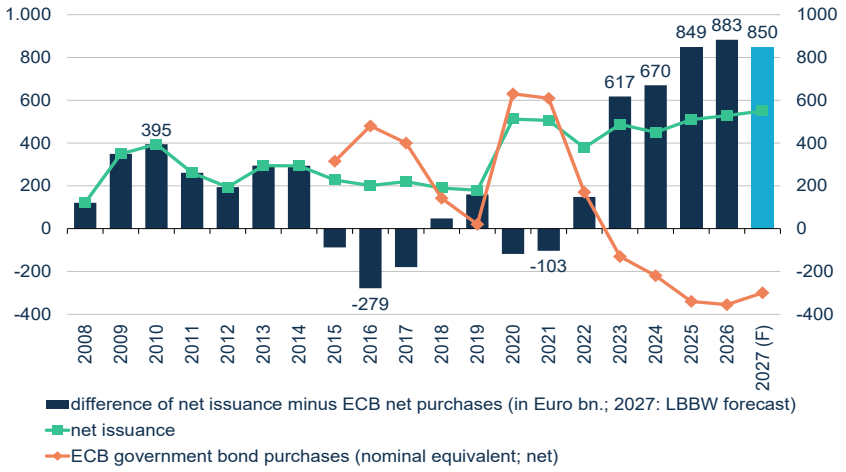
Our forecast therefore suggests that there is no relief in sight from the record-high net supply pressure in the EUR government bond market. Furthermore, the risks to our forecast are primarily on the upside, as political uncertainty in several countries and the strong upward trend in interest rate costs are hampering any consolidation efforts. There is therefore no bond price relief in sight from the supply side. We think the latter factor will have a particularly burdening impact on long-term government bonds. In addition, the ECB has so far shown no signs of modifying or even exiting its policy of “quantitative tightening” (QT). From a monetary policy perspective, we believe that an adjustment in this area will only be justifiable once inflationary pressures in the euro area have eased markedly. We currently expect that QT will continue unchanged throughout the entire year of 2027. Nevertheless, the central bank’s balance sheet contraction – achieved by refraining from reinvesting maturing bonds – is set to result in a moderate year-over-year easing of the lack of bond demand.

ECB may again refrain form bond reinvest in 2027

We estimate that the maturities in the ECB's portfolio will be approximately 15 % lower than in 2026. According to this forecast, net effective issuance (net supply minus net ECB purchases) will total EUR 850 bn, a decrease of 4% compared with the previous year (see the chart below).

Net issuance plus "QT" to remain near record levels

"Effective" net issuance in the euro government bond market (net supply minus net ECB purchases; in billions of euros)



Source: Bloomberg, LBBW Research

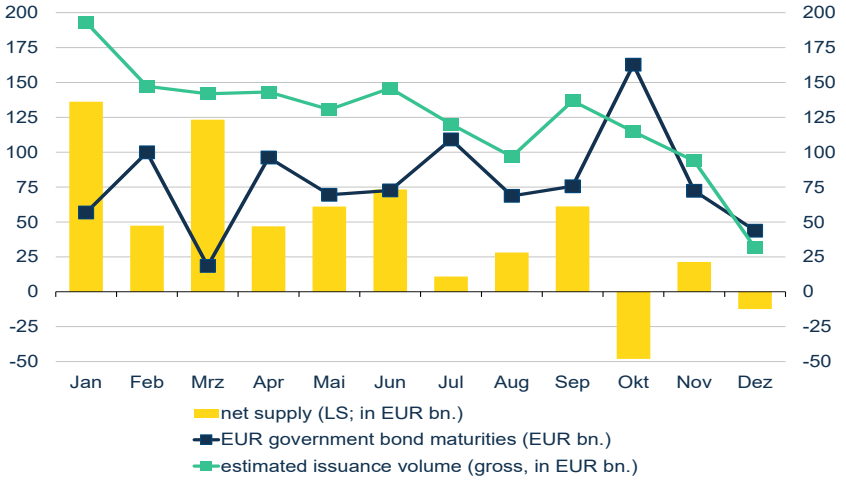
QT-driven lack of demand set to ease by 15%

Peak (net) supply pressure in the early stages of the year

As has been the case in previous years, primary market activity among eurozone countries in 2027 is unlikely to be distributed evenly over the course of the year. Rather, the majority of government debt managers tend to engage in significant "front-loading" of their bond issuances.

Peaks of net supply in January and March

Gross and net issuance on the euro government bond market in 2027, by month, according to the LBBW forecast (in billions of euros)



Source: Bloomberg, LBBW Research

Net issuance to be negative in October and in December

Based on past experience, January is by far the month with the highest volume of supply, not least due to numerous syndicated new issuances with long and ultra-long maturities. For the purposes of our forecast, we assume that the eurozone countries will continue to follow this traditional issuance pattern in the coming year. In the first month of 2027, gross sovereign issuance in the capital market could approach the EUR 200 bn mark for the first time. In the case of net issuance, the seasonal imbalance mentioned above is generally even more pronounced. We expect this trend to hold next year, as the chart above shows. Accordingly, net

Gross supply: EUR 200 bn in January?

supply at the start of the year will be at a well above-average level, with the first quarter accounting for approximately EUR 300 bn – or about 55% of the expected net issuance for 2027. The peak in net supply pressure on the euro government bond market is likely to occur as early as January, as maturities this month are set to be moderate. March marks another high point in terms of net supply pressure.

03 | Credit Strategy

Tech Turmoil Weighs on Markets

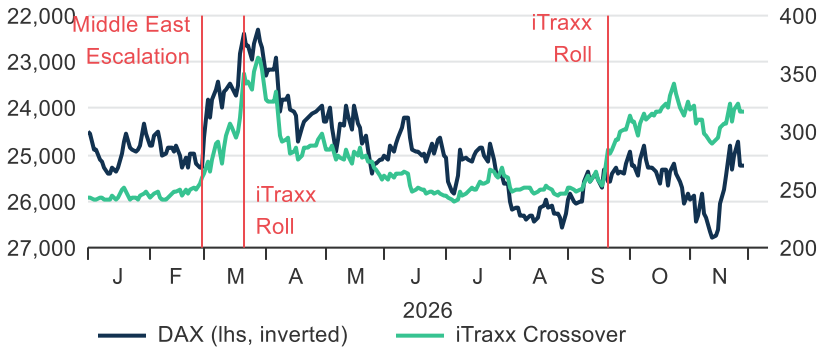
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Uncertainty Remains High

The ups and downs on the markets continued this week as well. Euphoria and panic were closely intertwined here—especially when it came to chip and AI stocks. However, following last week's sharp market decline, a negative undertone persists despite the temporary recovery. Adding to the pressure, there were renewed signals from the U.S. pointing to new discussions about tariffs. Despite all the uncertainties, the Fed's rate hike in December appears to be a done deal. In this environment, the iTraxx Crossover experienced volatility. All in all, risk premiums on corporate bonds remained at elevated levels, though fluctuations in both directions have recently become more pronounced, indicating general market jitters.

Risk Premiums in the Eurozone Remain Elevated
iTraxx Crossover vs. DAX (inverted)



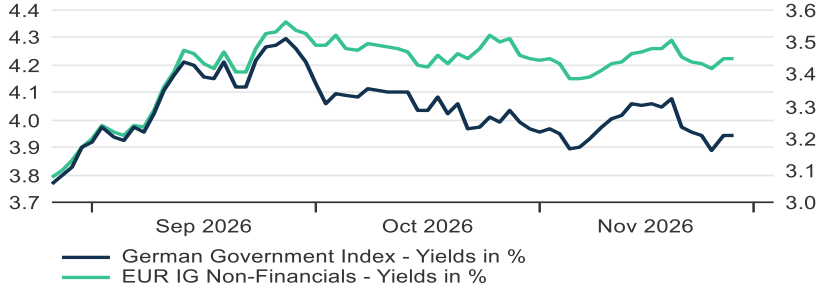
Source: LSEG, LBBW Research

Stocks down, iTraxx up

Amid the turbulence in the stock and credit markets, investors seeking safety have recently turned their attention back to government bonds. IG bonds were unable to keep pace with the falling yields on German government bonds. As a result, the spread in the eurozone widened further. Given the current uncertainty, the slight downward trend in IG yields should be viewed positively.

Safe havens in demand

Yields on Bunds are falling faster than those on corporate bonds
German Bund Index vs. EUR Investment-Grade Bond Yields (in %)



Source: LSEG, LBBW Research

IG yields falling despite tension

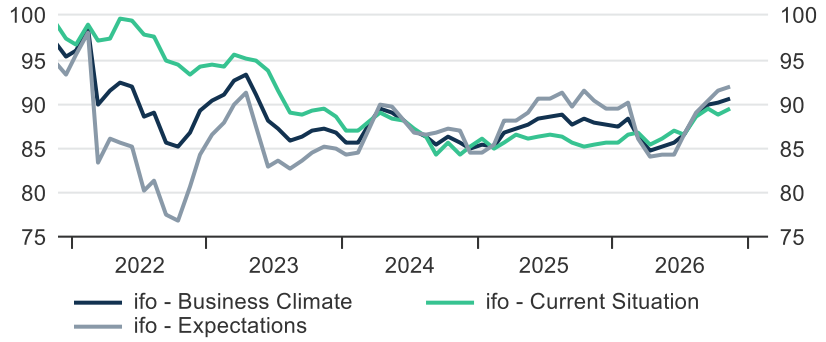
Optimism Is Growing in Germany

Overall, sentiment and conditions in the German economy continue to improve. Although there have recently been increasing signs of slowing momentum, we are still heading in the right direction.

For the ifo Business Climate Index, this meant a further increase in November, from 90.2 points the previous month to 90.6. The business climate indicator, in particular, showed an increase. The index is thus at its highest level since mid-2023. Historically speaking, however, there is still plenty of room for growth.

Relaxation with subject to change

The mood continues to brighten
Ifo Business Climate and Components



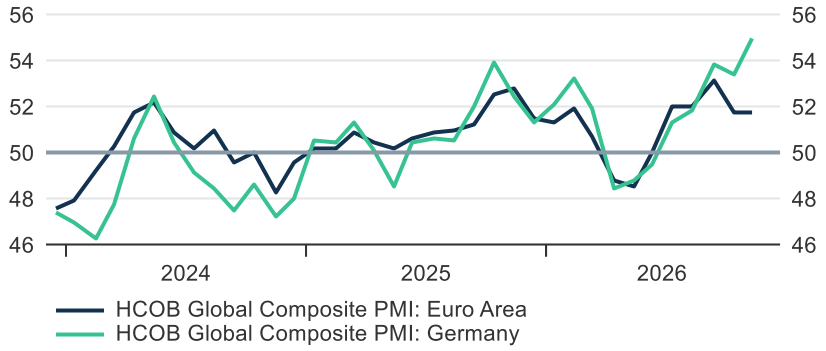
ifo index continues its uptrend

Source: LSEG, LBBW Research

The preliminary figures for the German purchasing managers' indices in November came as a distinctly positive surprise. The composite index rose from 53.4 to 55 points, primarily due to the significant increase in the services sector. But the manufacturing sector, too, came in at 55 points—significantly above market expectations.

PMI surprise causes a stir

German PMI Well Within the Expansionary Range
Purchasing Managers' Indices: Eurozone vs. Germany



Germany overtakes the U.S.

Source: LSEG, LBBW Research

CONCLUSION – Credit spreads remain elevated

Credit spreads rose again this week. Market conditions remain tense and volatile. Following the rise in the core PCE rate in the U.S. to 3.3% year-over-year in October, a rate hike by the Fed in December appears all but certain. Based on current levels, we expect only a moderate widening of credit spreads toward the historical median in the medium term. We are maintaining our recommendation for investment-grade bonds. One of the key arguments in favor of this asset class is that, despite the severe turbulence of the past few days, it has seen only a slight decline in returns.

IG bonds are performing well

Credit Outlook 2027

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Yesterday we published our outlook for 2027: “Corporate bonds offer high returns”.



The publication, which is available on the Markets Portal, contains numerous charts and explanations of our assessments. Below is a brief summary of the key points:

Fundamentals

Despite the disruption caused by the Iran conflict, the earnings of the larger European companies performed well overall in 2026. Meanwhile, the median level of financial debt remained stable. Default rates in the HY segment are in line with the long-term average.

Interest rate environment and yields

German government bond yields have risen to multi-year highs in the wake of the war in Iran, and have also pushed up yields on corporate bonds. We expect there to be less headwind here next year. From a historical perspective, investment-grade corporate bonds are currently offering above-average yields to maturity.

Spreads

The shock caused by events in Iran in March was followed by a surprisingly strong recovery, with risk premiums falling to long-term lows. It was not until September that spreads rose to new highs for the year. The headwinds included rising public debt, high energy prices and AI-related risks. We expect IG spreads to stabilise at their long-term median level in 2027.

New issues

Companies capitalised on the high demand from investors and raised a record total of over EUR 550 bn in 2026. US corporations were the main contributors to this (accounting for 25 %). In the year 2027, new corporate bond issues could once again reach such a high volume – partly as a result of investment in AI again.

Performance & Assessment

In our view, the current high yields on corporate bonds offer a good safety buffer. Even if there were a slight rise in German government bond yields and/or risk spreads, a positive total return would still be possible. Compared with other asset classes, we continue to see a more favourable risk-reward profile for corporate bonds, particularly in the investment-grade segment.

Publication available on the Markets Portal

IG yields: Above average

Spreads: Rise following a low

New issues: On course for a record

IG corporate bonds relatively attractive

04 | Calendar/Analytics

Developed Markets Overview

	2 Years			10 Years		
Euro Area	**Yields**	**Spread**	**Change***	**Yields**	**Spread**	**Change***
Bund	3,06			3,27		
Jumbo	3,38	33	-2	3,71	44	-3
Swap	3,31	26	-3	3,34	7	-1
Netherlands	3,05	-1	0	3,36	9	0
Austria	3,12	6	2	3,54	27	1
France	3,53	48	-3	4,73	146	-12
Belgium	3,24	18	-4	4,27	100	-1
Italy	3,41	36	-6	4,33	106	-4
Spain	3,14	8	0	3,86	59	-1
Ireland	n.a.	n.a.	n.a.	3,40	12	0
Portugal	3,08	2	-2	3,73	45	-2
Greece	n.a.	n.a.	n.a.	4,15	88	-7
EX. EURO AREA	**Yields**	**Spread**	**Change***	**Yields**	**Spread**	**Change***
USA	4,68	162	3	4,91	163	-1
Canada	3,24	18	4	3,64	37	-4
Japan	1,77	-129	-7	2,64	-63	-13
UK	4,87	181	1	5,18	191	-3
Switzerland	0,38	-267	11	0,57	-270	6

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

Sources: Bloomberg, LBBW Research

Issuing Calendar Government Bonds

Date	Country	Type	Maturity	Coupon	Size	Comment
30.11.2026	Japan	JGB	2Y		JPY 2.8 tn.	
01.12.2026	Germany	OBL	10/31	2.90%	€ 4.5 bn.	Tap
01.12.2026	UK	UKT	6Y		GBP 4.5 bn.	Tap
03.12.2026	Japan	JGB	10Y		JPY 2.6 tn.	
03.12.2026	France	OAT	5Y - 30Y		€ 6 bn.	Tap

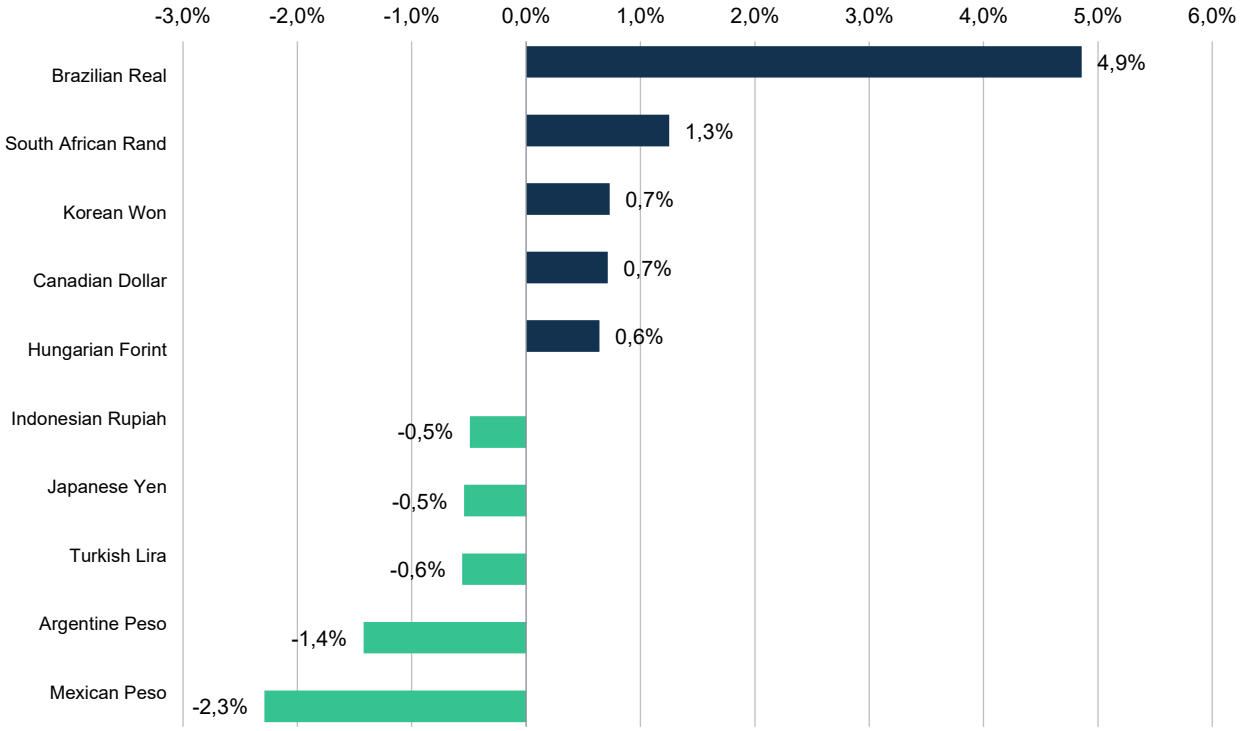
Sources: Bloomberg, LBBW Research

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%	↗	5,6%	1,0975	1,1065
United Kingdom	17.12.26	4,00%	05.11.26	3,75%	3,6%	↗	3,5%	0,8363	0,8431
Japan	18.12.26	1,25%	18.09.26	1,00%	2,3%	↑	6,1%	174,85	173,55
China	***	2,00%	25.09.24	2,30%	0,7%	↘	8,0%	7,30	7,25
Switzerland	10.12.26	0,00%	19.06.25	0,25%	1,5%	↑	0,0%	0,9152	0,9022
Argentina	***	29,00%	31.01.25	32,00%	32,5%	↘	-6,7%	1.756,50	1.999,34
Australia	08.12.26	4,85%	03.11.26	4,60%	3,2%	↗	-1,1%	1,65	1,66
Brazil	09.12.26	13,75%	16.09.26	14,00%	4,6%	▪	-5,8%	6,21	6,49
Canada	09.12.26	2,50%	28.10.26	2,25%	3,1%	▪	3,0%	1,56	1,56
Czech Republic	17.12.26	4,00%	05.11.26	3,75%	2,4%	▪	-0,6%	24,44	24,55
Denmark	***	2,25%	11.09.26	2,00%	2,2%	↗	0,0%	7,47	7,46
Hong Kong	***	4,25%	08.11.24	4,00%	2,2%	↗	6,0%	8,59	8,62
Hungary	15.12.26	5,50%	25.08.26	5,75%	2,0%	▪	-4,2%	370,14	374,65
India	04.12.26	5,50%	06.02.25	5,25%	6,1%	↑	9,4%	101,92	105,11
Indonesia	16.12.26	6,00%	18.11.26	5,75%	3,2%	↗	2,8%	20.152,38	20.471,87
Mexico	17.12.26	6,25%	05.11.26	6,50%	3,8%	↘	-6,2%	21,51	21,93
New Zealand	09.12.26	2,75%	02.09.26	2,50%	3,7%	↗	-1,5%	2,00	2,00
Norway	17.12.26	4,50%	24.09.26	4,25%	3,6%	▪	1,0%	10,68	10,77
Poland	02.12.26	3,75%	04.03.26	4,00%	3,5%	▪	-5,4%	4,47	4,50
Romania	19.01.27	6,50%	07.08.24	6,75%	6,9%	↓	-1,8%	5,34	5,43
Russia	18.12.26	14,00%	24.07.26	14,25%	6,9%	↗	-8,5%	90,21	96,75
Singapore	***	2,12%	n.a.	2,14%	1,9%	▪	5,0%	1,41	1,41
South Africa	28.01.27	7,25%	23.09.26	7,00%	5,2%	↑	-0,2%	19,06	19,45
South Korea	14.01.27	3,25%	26.11.26	3,00%	2,8%	▪	18,9%	1.466,96	1.471,41
Sweden	16.12.26	2,00%	04.11.26	1,75%	0,9%	↑	-3,4%	11,18	11,15
Turkey	10.12.26	36,00%	22.10.26	37,00%	29,8%	↘	-4,3%	55,79	65,76

Sources: Bloomberg, LBBW Research

The Strongest Currency Appreciations and Depreciations Against the Euro This Week

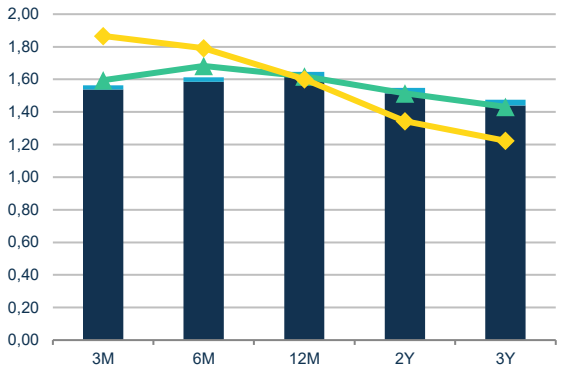


Sources: Bloomberg, LBBW, Research

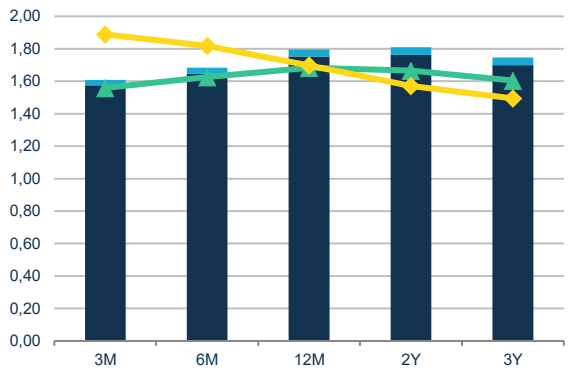
Interest rate differential and FX insurance costs vs. the Euro for selected currencies

interest rate differential, basis swap rates and insurance costs

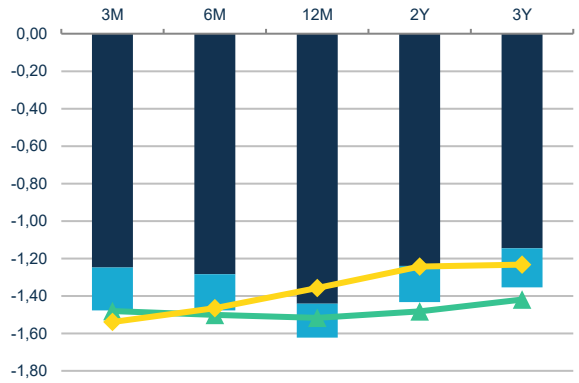
US dollar



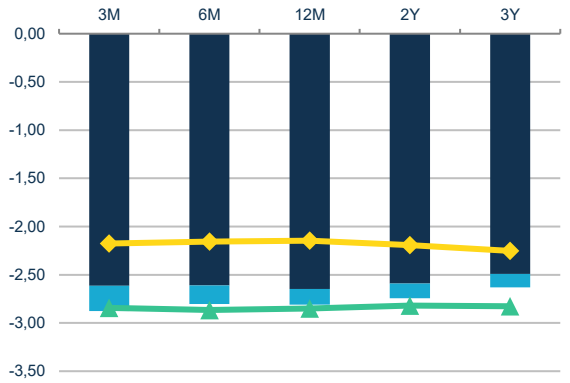
British pound



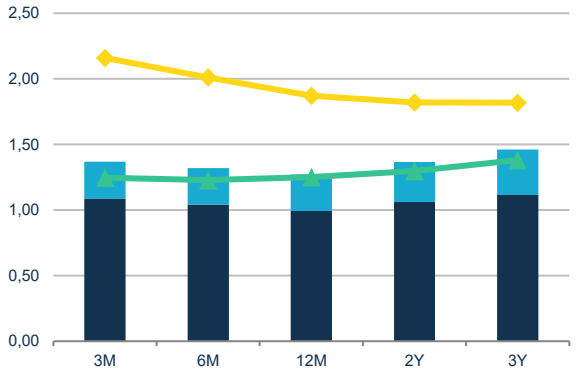
Japanese yen



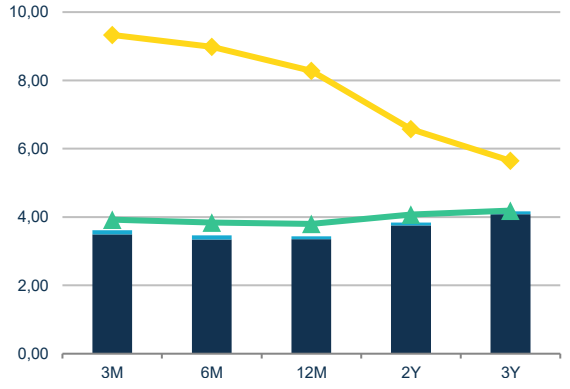
Swiss franc



Polish zloty



Mexican peso



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

Sources: Bloomberg, LBBW Research

Credit Spreads

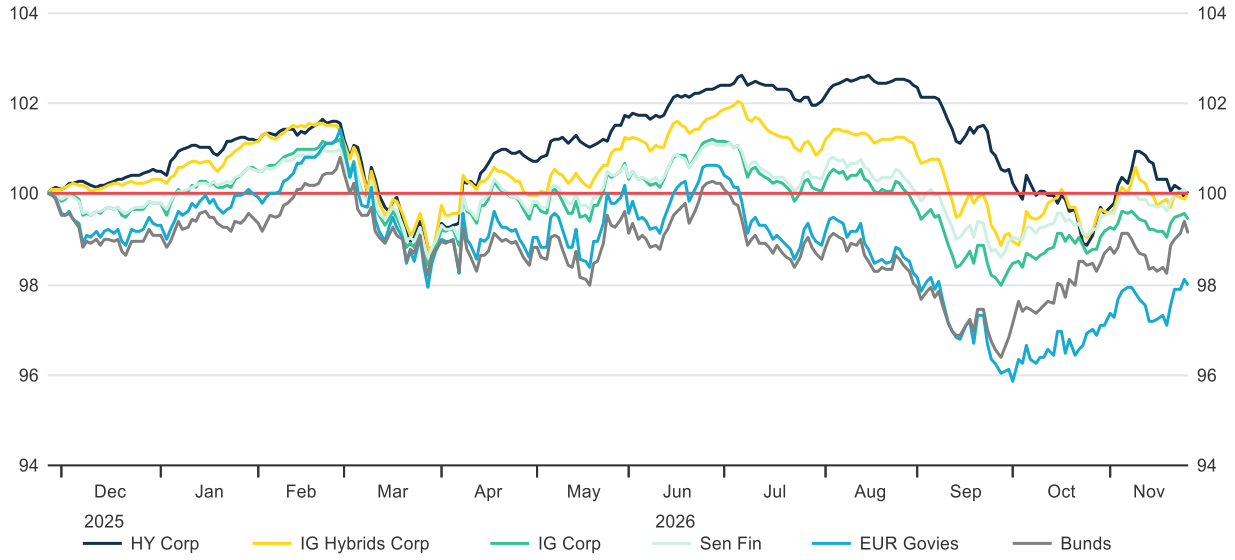
5Y CDS Spreads	Current	Changes 1W	1M	3M	6M	1Y
IG Corporates	64	-1	0	13	10	11
HY & NR Corporates	317	-7	-5	69	50	59
Senior Financials	72	-2	-2	18	15	7
Sub Financials	118	-4	-6	31	25	21

EUR Indices	Current	Changes 1W	1M	3M	6M	1Y
Non-Financials	97	3	5	23	21	18
Banks Senior Preferred	73	2	-1	22	18	12
Banks Senior Bail-in	93	2	-2	22	19	17
Banks Subordinated	132	1	-6	29	23	15

*time lag of one day, Asset Swap Spreads 27.11.2026

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

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