Bonds Weekly

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Bond markets: Still the bears' turn

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Our View

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Bond Market Movers – Review and Outlook

What drove the bond markets last week?

- The military conflict in the Middle East continues to escalate. Neither the U.S. nor Iran has recently offered any prospects for diplomatic progress in the near future. Rather, the Yemeni Houthi rebels are opening another front by blocking the exit from the Red Sea to Saudi ships.
- As expected, the ECB left its key interest rates unchanged. Central Bank President Lagarde emphasized that the economic outlook is similar to that discussed at the June meeting. They have backed away from what had been a more balanced assessment of inflation at the Sintra symposium.
- The ZEW Economic Sentiment Index improved more than expected in July.
- The U.S. House of Representatives has approved an increase in defense spending of nearly 30% for the coming year.

What could drive the market next week?

- The financial markets remain focused on developments in the Middle East and trends in commodity prices. How long can the Trump administration withstand the pressure from the continued rise in oil prices?
- The Federal Reserve is likely to maintain a wait-and-see approach to monetary policy at its second meeting under Kevin Warsh. Markets' focus may be on whether there are any dissenting votes in favor of a rate hike.
- The central banks of the United Kingdom and Japan are also not rushing into adjusting their respective monetary policies.
- The macroeconomic data calendar is packed with events during the last week of July. GDP data for the second quarter are set to be released from both the U.S. and the eurozone. We expect moderate growth in each case.
- The ifo Business Climate Index is set to post its third consecutive increase, thanks to a positive reception of the German government's reform plans.
- Another key macroeconomic highlight is the eurozone inflation data for July. The crucial factor will be the extent to which the recent spikes in energy prices have already affected the average price level.
- In the primary market for U.S. Treasury securities, the focus next week will be on short- to medium-term maturities. Meanwhile, activity in the primary market for euro-denominated government bonds is likely to pick up strongly again following its recent slump. We expect gross supply of approximately 25 billion EUR, compared with just 8 billion EUR the previous week. Thanks to reflows of a similar amount, net cash flows are set to hover around zero.

Bond markets: Still the bears' turn

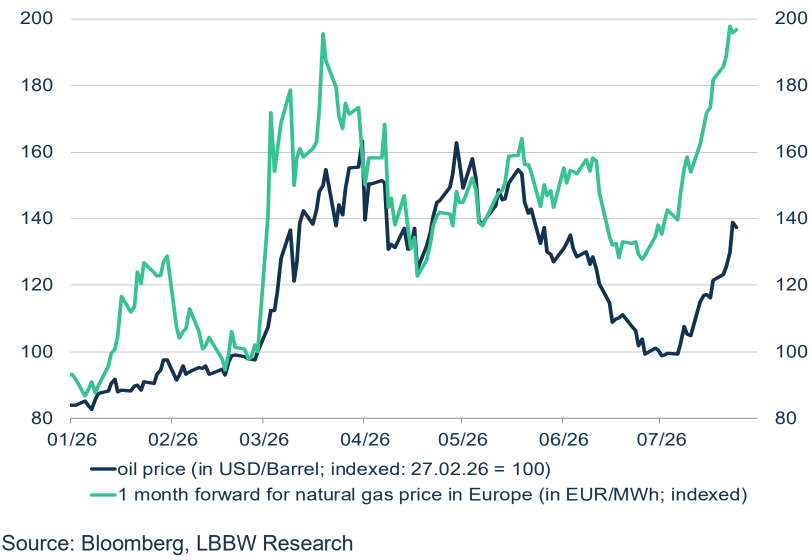
Upward pressure on energy prices continues

Concerns about a protracted military conflict in the Persian Gulf – which could escalate into a regional conflagration – have continued to grow in recent days. The U.S. and Iran have once again escalated both their exchanges of missile and drone strikes and their hostile rhetoric. Consequently, the chances of a return to the negotiating table in the near future appear to be dwindling, even though mediation efforts are continuing. Moreover, another conflict is threatening to erupt along the Red Sea, which Saudi Arabia uses as an alternative route for its oil shipments. The Yemeni Houthi rebels, who are allied with Iran and at odds with the Saudis, have announced a blockade of the Bab al-Mandab Strait to prevent Saudi oil shipments. The conflict between the Kingdom and the Houthis, which had recently been provisionally pacified, therefore threatens to flare up again as a "side theater" of the Iran war. Ship traffic (as officially recorded) in the Strait of Hormuz has already largely come to a standstill in recent days. Blocking a key alternative route would further increase pressure on the commodities market due to supply shortages. Especially as reports of a looming shortage in strategic crude oil reserves are on the rise. As a result, the price of Brent crude oil surged to $100 per barrel for the first time in about two months. On the European natural gas market, the one-month forward price has already returned to the highs seen during the first phase of the Iran war (see the chart below).

Second front in the Iran war

Chart of the Week

Brent Crude Oil Price and Natural Gas Price in Europe (both indexed; 100 = February 27, 2026)



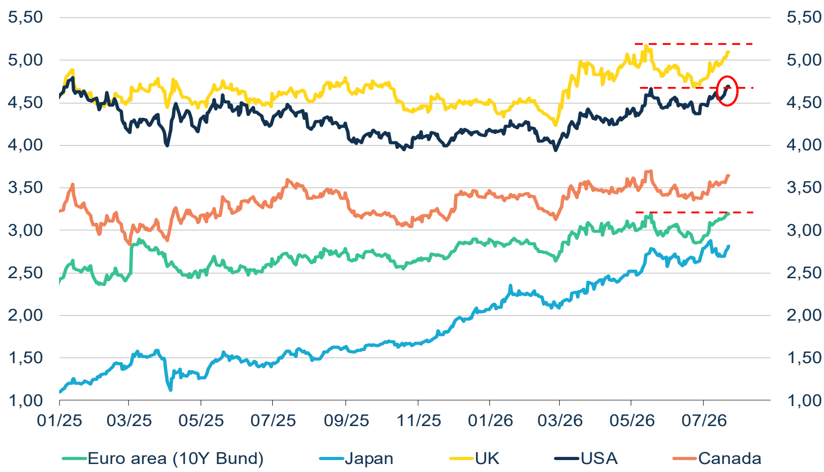
Source: Bloomberg, LBBW Research

Oil above 100 USD, natural gas hits annual high

The major government bond markets on both sides of the Atlantic came under selling pressure for the third week in a row amid rising energy prices. Growing inflation concerns are prompting investors to raise their expectations regarding the extent of monetary tightening by central banks. Expectations of rising key interest rates are pushing up yields across the entire spectrum of the government bond market. This week, 10-year benchmark yields have hit new annual highs in both the U.S. and the eurozone. From a market psychology perspective, we believe that important milestones have thus been reached: So far, the bond market has not yet entered a sell-off phase. In fact, implied volatility in the interest rate markets on both sides of the Atlantic have remained at moderate levels compared with the early stages of the Iran war in March of this year. A sustained break above the aforementioned yield resistance levels could prove to be a bearish catalyst in this scenario.

10-year U.S. yield at highest level since January 2025!

U.S. benchmark yield rises to a high for this year
Yields on 10-Year Government Bonds for Selected Currency Areas



Source: Bloomberg, LBBW Research

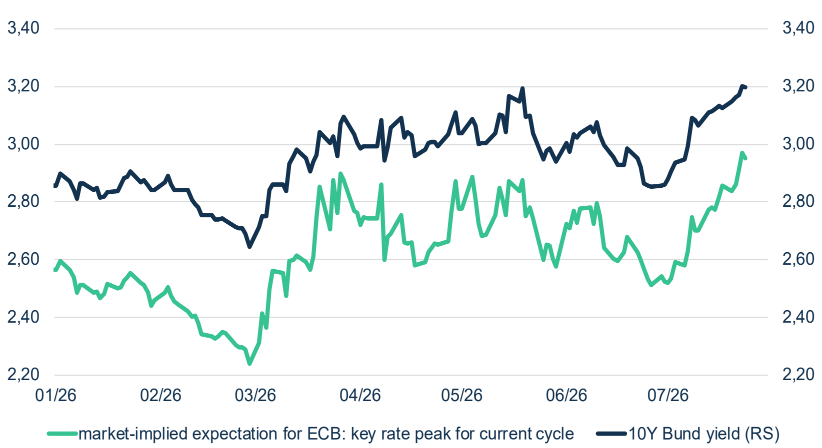
ECB Hits the Pause Button

At first glance, yesterday's decision by the ECB Governing Council to leave its key interest rates unchanged appears to be a suitable way to calm market participants. Meanwhile, the ongoing second wave of the Iran war is overshadowing the recent easing of inflationary pressures in the eurozone. In our view, therefore, the eurozone monetary authorities can refrain from another interest rate hike at the September meeting only if the situation in the Middle East eases very soon and in a sustainable manner. From today's perspective, we consider a 25-basis-point increase in the deposit rate in September to be all but certain.

Risk of another sell-off growing

An ECB rate hike in September seems all but certain, …

Market consensus expects the ECB key rate to peak near 3%
Yields on 10-Year German Government Bonds and Market-Implied Expectations for ECB Policy Meetings in the Current Cycle



Source: Bloomberg, LBBW Research

… but the market consensus is overshooting

Meanwhile, based on forward rates in the euro money market, the financial market consensus is now leaning toward two additional interest rate hikes beyond September, through spring 2027. Since there are no signs of second-round effects to date, as Ms. Lagarde emphasized yesterday, we believe that speculation about the extent of interest rate hikes is going well beyond what is warranted. In light of the recent volatility in energy prices, there appears to be a growing need among investors to hedge against a scenario of strongly rising interest rates. Worries that the inflation scenario from 2022 could repeat itself are on the rise again. In the short term, we think the resulting tendencies towards a bearish overshoot in the bond market pose significant risks of another sell-off. In

Specter of 2022 is haunting the bond market again the medium term, however, the likelihood of a price recovery is improving as soon as the signals from the Middle East point toward a de-escalation.

Outlook: Focus on the Fed's rate decision

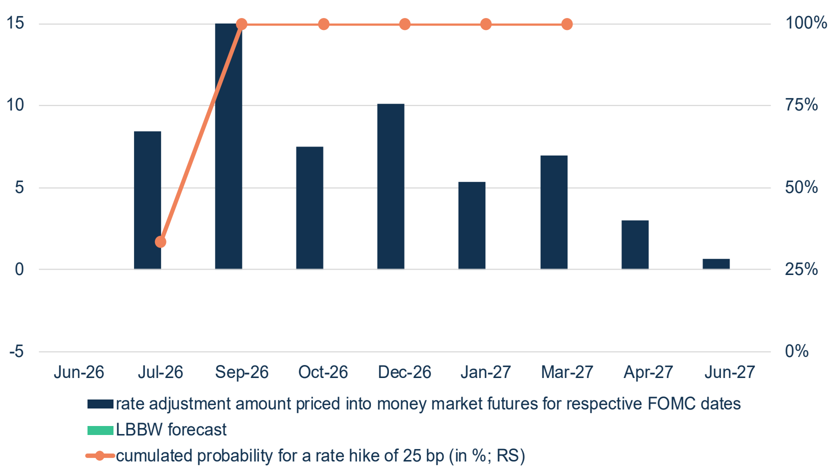
Not only the monetary authorities in the eurozone but also their colleagues across the Atlantic are likely hoping for such a geopolitical détente. Two factors are contributing to increased uncertainty regarding the Fed's monetary policy direction ahead of its upcoming rate decision (July 29): First, the recent spike in energy prices runs counter to the signal of easing inflationary pressures sent by the U.S. consumer price data for June. Second, the new Fed chair's deliberately sparing communication has caused the fog of uncertainty surrounding the future interest rate path to thicken. In our view, the likelihood of surprises is therefore increasing. Financial market participants appear to deal with this by approaching next week's monetary policy decision with utmost caution: The market-implied probability of a 25-basis-point increase in the overnight target range on July 29 has surged from about 10% to over 30% compared with the previous week. We consider the likelihood of monetary tightening to be lower, as we view the broad-based decline in U.S. inflationary pressures in June as a major boost for the doves on the Fed. In addition, job growth in the U.S. labor market appears to have lost some momentum again in recent weeks. And yet, the following still holds true: Unchanged U.S. benchmark interest rates do not guarantee a relief rally in the U.S. Treasury market. Instead, investors are likely to focus on the number of potential dissenting votes from the Open Market Committee in favor of a hike. We believe it is possible that there could be up to three dissenting votes, given that a bloc of this size had already voted against the Fed's then "dovish" forward guidance back in April.

All options fully open for the Fed decision on July 29?

Dissenting votes quite likely

Market consensus puts the probability of a Fed rate hike on July 29 at over 30%

Market-implied expectations for Fed policy rate changes per meeting (in bps) and cumulative probability of a 25-bps rate hike (in %)



Source: Bloomberg, LBBW Research

Market: Fed hike by September a done deal

In our view, a unanimous decision in favor of a wait-and-see monetary policy stance would be a bond-positive surprise, as it would shake market participants' current belief that a hike in September is practically a foregone conclusion.

Basically the same applies to the Bank of England's monetary policy decision on July 30 as to the Fed's: The macroeconomic data suggest that key interest rates will remain unchanged. Financial market participants are likely to focus on the number of dissenting votes. A mounting number of votes in favor of a rate hike compared to the June meeting (two) would likely be interpreted as a "hawkish" signal. The latter would clearly bring the BoE closer to a rate hike directly after the summer break.

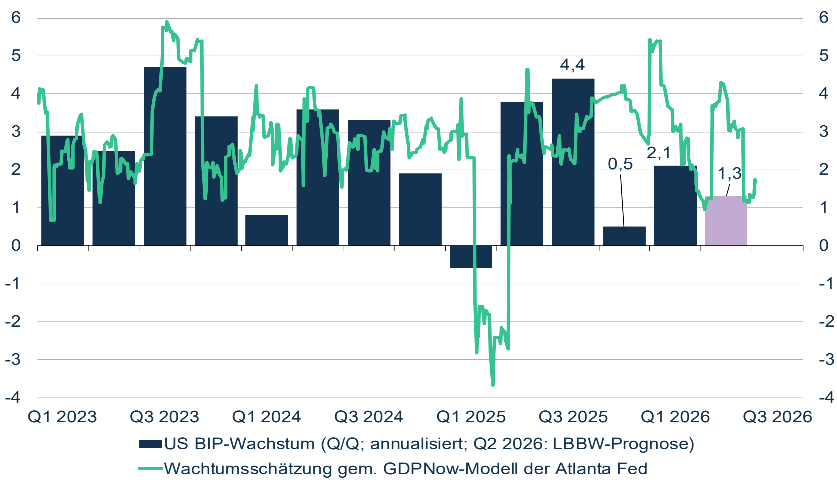
BoE: Focus on the number of "hawkish" votes

A packed data schedule – just a look in the rearview mirror?

With all this in mind, it remains to be seen whether the monetary policy signals will be able to hold their own against the news flow from the Middle East in the eyes of investors. In our view, this is even more true when it comes to the market impact of a very busy macroeconomic data calendar. In “normal” times, inflation data from the eurozone for July (July 31) and second-quarter GDP data from both sides of the Atlantic (July 30 in each case) would be key drivers with the potential to shift interest rate expectations. However, against a backdrop of renewed uncertainty regarding the economic impact of sharp fluctuations in energy prices, the macroeconomic data seem, more than ever, to be a proverbial look in the rearview mirror.

GDPNow model indicates slight growth slowdown

U.S. GDP growth (quarter-over-quarter, annualized; including forecast) and estimate based on the Atlanta Fed’s GDPNow model



Source: Bloomberg, LBBW Research

U.S. GDP is likely to have grown at a slower pace

Taken on its own, we see potential for moderately bond-positive impetus overall. With regard to U.S. GDP growth, we are a bit less confident than the analyst consensus in our forecast of an annualized rate of 1.3%. Furthermore, in the euro area, both headline inflation and the core rate in July are likely to have remained roughly at the moderated levels seen in the previous month. On both sides of the Atlantic, this may tend to put a damper on the rampant rate hiking speculation.

EMU inflation for July likely stayed virtually unchanged

Forecasts at a Glance

Euro Area	Spot	30.09.26	31.12.26	30.06.27
ECB Main Refinancing Rate	2,40	2,65	2,65	2,65
ECB Deposit Rate	2,25	2,50	2,50	2,50
Overnight Rate (€STR)	2,19	2,45	2,45	2,45
3M Euribor	2,47	2,55	2,55	2,55
Swap 2Y	3,08	2,80	2,85	2,75
Swap 5Y	3,11	2,85	2,90	2,85
Swap 10Y	3,23	3,05	3,10	3,15
Bund 2Y	2,87	2,60	2,70	2,65
Bund 5Y	2,97	2,70	2,80	2,80
Bund 10Y	3,20	3,00	3,10	3,20
Swap/Bund 2Y	21	20	15	10
Swap/Bund 5Y	14	15	10	5
Swap/Bund 10Y	3	5	0	-5
Spread BBB Corporates/Bund	90	100	110	120

USA	Spot	30.09.26	31.12.26	30.06.27
Fed Funds Target Rate	3,75	3,75	3,75	3,75
Overnight Rate (SOFR)	3,62	3,65	3,65	3,65
3M Money Market	3,78	3,75	3,75	3,65
Swap 2J (SOFR-OIS)	4,20	3,95	3,90	3,65
Swap 5J (SOFR-OIS)	4,16	3,85	3,85	3,75
Swap 10J (SOFR-OIS)	4,27	3,95	4,00	4,00
Treasury 2Y	4,35	4,10	4,10	3,85
Treasury 5Y	4,45	4,15	4,20	4,10
Treasury 10Y	4,70	4,40	4,50	4,55

G5		Spot	30.09.26	31.12.26	30.06.27
Japan	*Overnight Rate (TONAR)*	0,98	1,05	1,05	1,30
Japan	*10Y Government Bond*	2,82	2,75	2,80	2,85
UK	*Overnight Rate (SONIA)*	3,73	3,70	3,95	3,95
UK	*10Y Government Bond*	5,10	4,80	4,90	4,90
Switzerland	*Overnight Rate (SARON)*	-0,04	-0,05	-0,05	-0,05
Switzerland	*10Y Government Bond*	0,53	0,35	0,40	0,45

FX	Spot	30.09.26	31.12.26	30.06.27
EURCHF	0,9300	0,92	0,93	0,94
EURCNY	7,7139	8,01	7,91	7,62
EURGBP	0,8545	0,85	0,85	0,85
EURJPY	186,47	187	186	182
EURUSD	1,1385	1,17	1,18	1,19
USDCHF	0,8168	0,79	0,79	0,79
USDCNY	6,7754	6,85	6,70	6,40
GBPUSD	1,3323	1,38	1,39	1,40
USDJPY	163,79	160	158	153

Economic Development		2024	2025	2026e	2027e
Germany	*GDP*	-0,5	0,4	0,5	0,8
	Inflation	2,3	2,2	2,7	2,3
Euro Area	*GDP*	1,0	1,5	0,8	1,0
	Inflation	2,4	2,1	2,9	2,4
UK	*GDP*	1,0	1,3	0,8	1,3
	Inflation	2,5	3,2	2,8	2,4
USA	*GDP*	2,8	2,1	2,2	1,6
	Inflation	3,0	2,7	3,6	2,2
Japan	*GDP*	-0,2	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:* U.S. and Iran continue exchanging fire – For the first time since hostilities resumed, the U.S. military has attacked targets in Tehran; President Trump once again threatens to destroy civilian infrastructure – Iran responds with widespread strikes on targets in the Gulf region – both sides are also dampening hopes for imminent diplomatic progress.
- *Middle East Conflict:* Yemeni Houthi rebels allied with Iran are threatening to block the exit from the Red Sea for ships carrying Saudi oil – risk rises that the smoldering regional conflict could flare up again as a “side conflict” of the war with Iran – U.S. President Trump is threatening the Houthis with consequences, but without providing any details.
- *Middle East Conflict:* U.S. and Saudi Arabia sign an agreement on the civilian use of nuclear power – According to Saudi leaders, the deal does not include U.S. support for nuclear weapons – Observers nevertheless see a risk of a nuclear arms race in the Middle East – Meanwhile, U.S. President Trump cites Saudi Arabia’s rapprochement with Israel as a condition for implementing the agreement.
- *Monetary Policy – ECB:* As expected, the ECB Governing Council left the deposit rate unchanged at 2.25% – Central bankers reaffirm that decisions will be data-dependent on a meeting-by-meeting basis – They are closely monitoring the duration and intensity of the energy price shock, particularly with regard to second-round effects – The latter have not yet been observed at all, according to ECB President Lagarde – Outlook currently “close to the previous baseline scenario” – full impact of the energy price shock is not yet being felt – ECB monetary policy is currently “well positioned” – Central bankers confirm that inflation risks are tilted to the upside and growth risks to the downside – Lagarde noted that they have deliberately moved away from the more balanced inflation assessment presented at the Sintra symposium.
- *US – Trade Policy:* U.S. government has imposed new tariffs on imports from a total of 60 countries, citing alleged links to forced labor – tariff rates range from 10% to 12.5% – These are to replace the reciprocal tariffs that were struck down by the Supreme Court.
- *US – Trade Policy:* President Trump announces new punitive tariffs on Canadian imports totaling USD 20 billion – Tariff rate to be 50% – Measure is meant to be a retaliation for Canadian tariffs on U.S. goods – Trump cites a law from 1930.
- *US – Trade Policy:* Trump is also threatening to impose a 200% tariff on generic drugs – a measure intended to pressure manufacturers to shift their production to the U.S.
- *US – Fiscal Policy:* U.S. House of Representatives passes bill on new record-high defense budget for 2027 – Spending increase of about 30% Y/Y to 1.15 billion USD – personnel costs and planned construction of a missile defense shield are major drivers of spending.
- *Germany – Economy:* ZEW Economic Sentiment Index surprised on the upside with a rise from 10.5 to 26.3 points – highest level since February 2026 – while the assessment of the current situation improved slightly, from -81.0 to -77.6 points.
- *Germany – Economy:* S&P Global Purchasing Managers' Index for the Manufacturing Sector for July surprises on the upside, rising from 30.3 to 52.2 points- highest level since May 2022 – Index for the Services Sector also improves, from 48.6 to 49.6 points.

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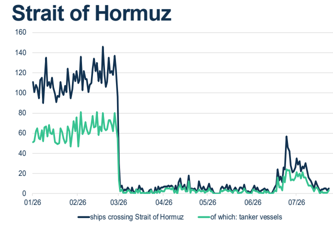
Fighting in the Middle East is intensifying

Strait of Hormuz



Sources: Bloomberg, LBBW Research

Lagarde: So far, we haven't seen any second-round effects

US: Defense spending is set to rise sharply

- *Eurozone – Lending:* According to the ECB's Bank Lending Survey, banks once again tightened their lending standards for corporate loans in the second quarter – though the extent of the tightening was less than anticipated a quarter earlier – demand for corporate loans has surprisingly picked up.
- *US – Economy:* According to the University of Michigan survey, consumer confidence rebounded unexpectedly sharply in July, rising from 59.5 to 54.4 points – highest level since February 2026 – Current conditions and expectations both improved – Consumer inflation concerns eased for the second month in a row – Meanwhile, long-term inflation expectations remained unchanged at 3.3%.
- *US – Labor Market:* Weekly ADP report shows a further slowdown in job growth for the four-week period ending July 4, with an average of 16,500 jobs added, down from 19,250 in the previous period – smallest increase since mid-March.
- *UK – Inflation:* Price pressure eased in June for the second consecutive month, falling to 2.6% (Y/Y), from 2.8% in May – lowest level since March 2025 – core rate remained steady at 2.6%.
- *UK – Cabinet Reshuffle:* New Prime Minister Burnham announces a "bold" yet "prudent" governing style – new Chancellor of the Exchequer Healey emphasizes continuity with the "disciplined" approach of his predecessor, Rachel Reeves – government signals "difficult decisions," highlighting the need to set political priorities – cost-of-living crisis to be addressed, among other measures, by curbing automatic price increases for household energy and water.
- *Germany – Right-wing Populism:* Economic experts and associations are increasingly warning of the negative economic consequences of a potential AfD takeover of state governments in German federal states – The DIW fears the loss of 10,000 jobs in Saxony-Anhalt and estimates the economic losses per resident there at 1,600 euros.
- *Germany – New Business Start-ups:* German government presents its "Start-Up Strategy" to promote business startups – about 150 individual measures are intended to improve financing, facilitate spin-offs, and reduce bureaucracy.
- *AI – Financial Stability:* IMF warns of herd behavior and the risk of a "flash crash" in financial markets as a result of market participants' adoption of AI – Concentration on a small number of cloud, data, and model providers could mean that disruptions affecting one key AI player would impact many institutions simultaneously and quickly trigger market turbulence.

British inflation falls to 15-month low

DIW warns of the consequences of an AfD-led government

IMF warns of an AI-driven "flash crash"

Next Week's Data

TIME	COUNTRY		PERIOD	LBBW FORECAST	CONSENSUS FORECAST[1)]	LAST VALUE[2)]	IMPORTANCE
FRIDAY, 24.07.2026							
16:00	USA	New Home Sales (thous.)	Jun	600	607	580	**
MONDAY, 27.07.2026							
10:00	GE	ifo Business Climate Germany	Jul	86,2	86,0	85,6	***
10:00	GE	ifo Expectations	Jul	85,0	-	84,1	***
10:00	GE	ifo Current Conditions	Jul	87,5	-	87,0	***
10:00	EMU	Money Supply M3 (Y/Y)	Jun	3,3	3,2	3,2	**
14:30	USA	Durable Goods Orders (M/M) (prelim.)	Jun	3,0	1,5	-4,5	***
	GE	Retail Sales (M/M, sa)	Jun	-0,5	-	1,1	*
TUESDAY, 28.07.2026							
15:00	USA	S&P / CS Composite-20 (M/M)	May	-	-	0,0	*
16:00	USA	Consumer Confidence (CB)	Jul	95,0	92,3	91,2	***
WEDNESDAY, 29.07.2026							
20:00	USA	FOMC Interest Rate Decision		3,75	3,75	3,75	***
THURSDAY, 30.07.2026							
09:00	CH	KOF Swiss Leading Indicator	Jul	102,5	100,8	101,2	*
10:00	GE	GDP (Q/Q) (prelim.)	Q2	0,1	0,0	0,3	***
11:00	EMU	Economic Sentiment	Jul	96,0	-	95,0	***
11:00	EMU	GDP (Q/Q) (1st estimate)	Q2	0,2	0,2	0,0	***
11:00	EMU	Unemployment Rate (sa)	Jun	6,2	6,2	6,2	**
11:00	EMU	Industrial Confidence	Jul	-7,0	-7,0	-7,7	*
13:00	UK	BoE Interest Rate Decision		3,75	3,75	3,75	**
14:00	GE	CPI (Y/Y) (prelim.)	Jul	2,6	2,6	2,3	***
14:30	USA	GDP (Q/Q, annualized) (1st estimate)	Q2	1,3	2,3	2,1	***
14:30	USA	PCE Core (Y/Y)	Jun	3,2	3,3	3,4	***
14:30	USA	Personal Income (M/M)	Jun	0,5	0,3	0,7	**
14:30	USA	Personal Spending (M/M)	Jun	0,1	0,4	0,7	**
FRIDAY, 31.07.2026							
01:30	JPN	Unemployment Rate (sa)	Jun	2,5	2,5	2,5	*
09:55	GE	Unemployment Rate (sa)	Jul	6,3	6,3	6,3	*
09:55	GE	Unemployment Change (thous., sa)	Jul	10,0	5,0	-1,0	*
11:00	EMU	HICP, flash estimate (Y/Y) (prelim.)	Jul	2,7	2,9	2,8	***
11:00	EMU	HICP Core, flash estimate (Y/Y) (prelim.)	Jul	2,4	2,4	2,4	***
14:30	USA	Employment Cost Index (Q/Q, sa)	Q2	0,7	0,8	0,9	*
16:00	USA	Uni Michigan Consumer Confidence (final)	Jul	-	54,2	54,4	**
	JPN	BoJ target rate		1,00	1,00	1,00	***

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

Linkers: Those profiting from the second wave of the Iran war

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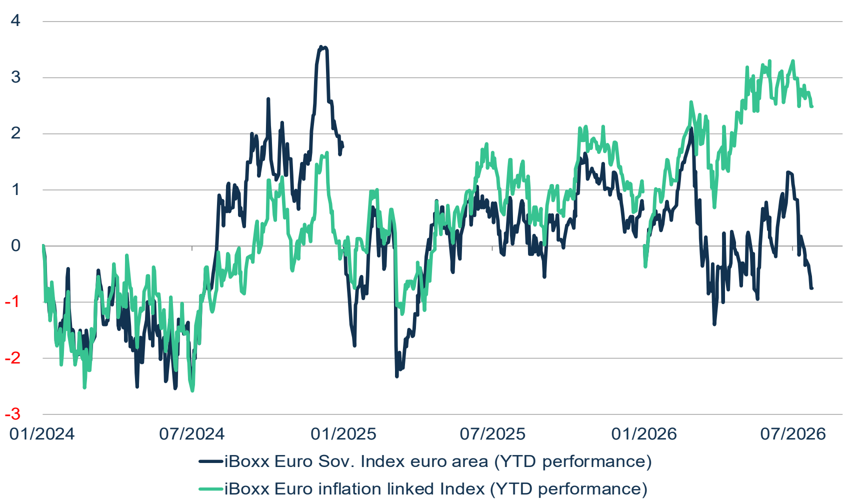
Outperformance expanded once again

YTD: Linkers are leading by more than 3 percentage points

In recent weeks, inflation-protected euro-denominated government bonds have once again demonstrated their value as a hedge against rising inflation risks. The recent turn in the Middle East conflict toward an escalation of hostilities between the U.S. and Iran caused prices on the euro-denominated government bond market to drop sharply in the first half of July. Although the Left's share prices followed this downward trend, they did so only to a much lesser extent. As a result, inflation-protected securities maintained their positive year-to-date performance on average and built on the relative strength they had established so far in 2026: Based on the iBoxx Euro Sovereign inflation-linked Index, linkers have posted a return of 2.5% since the start of 2026, compared with -0.8% for the government bond market as a whole.

Linkers YTD performance above 2%

Linkers have been maintaining a solidly positive YTD performance
YTD performance figures for 2024, 2025, and 2026



Source: Bloomberg, LBBW Research

10Y inflation swap rate turns upwards again

Market-based inflation expectations hit their lowest level since the first half of March around midyear, with the inversion of the break-even inflation curves (BEI curves) temporarily disappearing entirely. However, fueled by the “second wave” of the Iran war, the BEI curves offset a large chunk of the preceding decline. The inversion has returned, although for now in a much more moderate form than during the previous peak of the energy price shock. The 10Y EUR inflation swap rate is once again standing a good deal above the 2 % mark, trading currently at about 25 bp higher than its prewar level. Long-term forward inflation expectations have continued to fluctuate within a narrow range around 2.1%.

Fresh concerns in the Gulf overshadow decline in inflation

In recent weeks, the trend in inflation expectations has once again followed the pattern of a seemingly mechanical link to energy prices. Starting from pre-war levels, the price of Brent crude has surged by about 30%

since early July. However, despite the recent de facto closure of the Strait of Hormuz, it has remained well below its annual highs to date. We continue to assume that the ECB's verbal guidance on these developments tends to dampen fluctuations in inflation expectations, particularly at the long end of the BEI curves. As the energy market temporarily eased, central bankers initially toned down their "hawkish" rhetoric somewhat. In contrast, the recent escalation on the geopolitical front is forcing the central bank to once again place greater emphasis on its own readiness to curb inflationary risks.

Mechanical linkage to the oil price

In light of all this, as was the case last month, the actual trend in inflation appears to have taken a back seat from the investors' perspective. Both headline inflation and the core rate fell more sharply than expected in June. This did seem to temporarily dampen demand for inflation hedging. However, in our view, investors eventually are clearly more on the hooks of the day-to-day developments on the energy markets.

Market ignores inflation decline

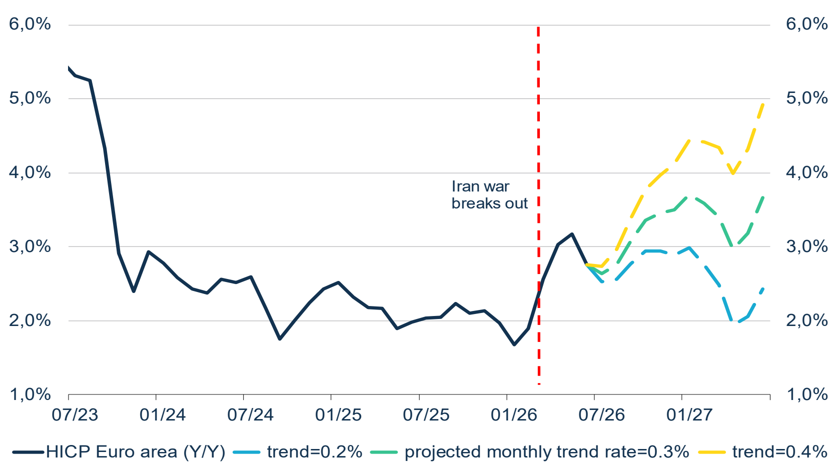
Will EMU inflation climb above 3% again this summer?

In our view, inflation expectations in the euro interest rate market are unlikely to deviate significantly from the trends set by energy prices in the coming months either. Escalation or de-escalation in the Middle East – this is set to remain the main driver of the relative performance of inflation-protected securities for now. However, this seemingly one-sided relationship is overshadowed by the question of when – or to what extent – second-round effects on inflation will become apparent. The recent decline in EMU core inflation suggests that the following still holds: The second-round effects are slow in coming. As far as headline inflation is concerned, we think it may stay roughly at its current place in July. An upward rebound cannot be ruled out, as the cessation of the German gas tax rebate will put an end to a temporary downward distortion of inflation. In addition, looking towards the fall, positive base effects are to be expected, which should keep the inflation rate around the 3% mark or just above it. However, without an additional boost from significant second-round effects, the peak is likely to have already been reached in May (light blue line in the chart below). The latter applies, provided there is no second energy price shock.

When and to what extent do second-round effects occur?

Core inflation could move sideways for the time being

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



Source: Bloomberg, LBBW Research

If EMU inflation hovers around the 3% mark in the coming months, then, in our view, the trend for the Linker BEI may well be sideways for the time being. The linkers' valuation is currently at a moderately elevated level compared to the average over the past two years. This appears to be appropriate given the macroeconomic situation. However, in our view, the scenario of significant second-round effects pushing the inflation rate to a new interim high is not yet reflected here. On the contrary, the BEI

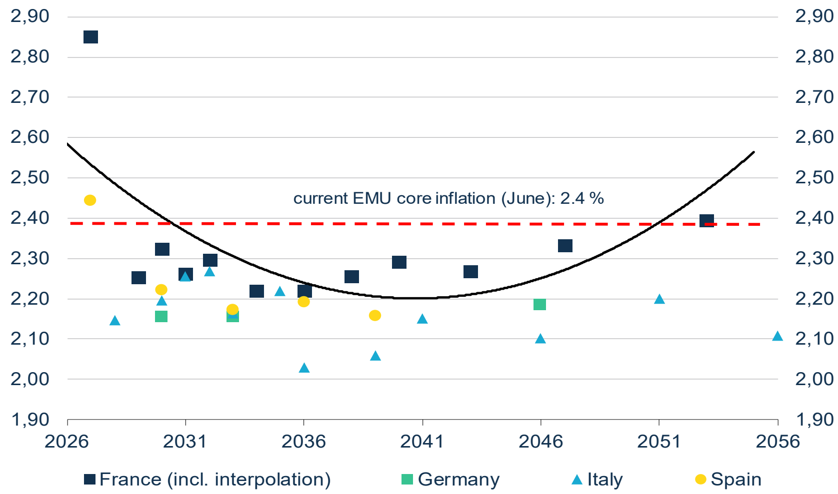
Linkers' valuation somewhat elevated

curves are still below the current core inflation rate almost across the board. The stronger the discussed second-round effects materialize, the greater the scope for the linkers to continue outperformance over the medium term.

All in all, we believe that the balance between opportunities and risks for inflation-protected bonds remains roughly balanced. Its key advantage is that it serves as a (partial) hedge against the adverse scenario of a prolonged period of elevated inflation, which is not factored into current valuations.

Opportunities and risks are still roughly balanced

BEI Curves: Inversion has increased again
Break-even inflation curve for linkers pegged to the EMU HICP



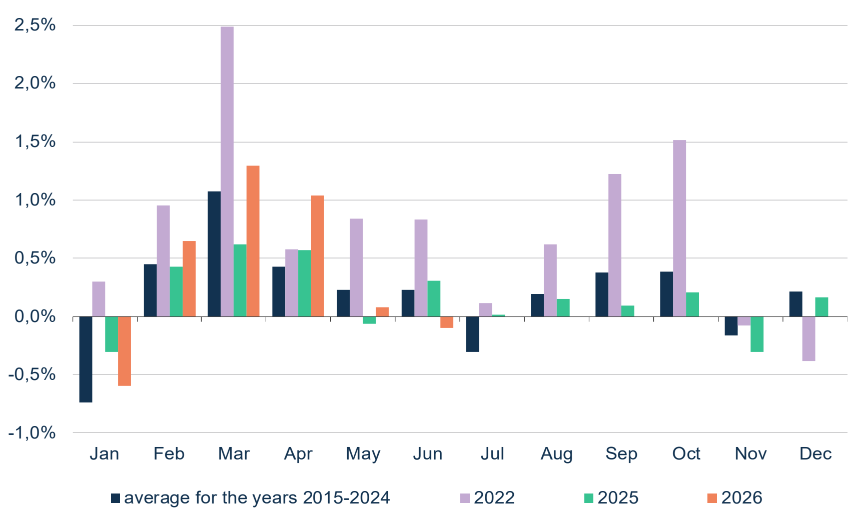
Source: Bloomberg, LBBW Research

BEI Curves: closing in on core inflation

Carry: Sustained headwind

For the time being, the carry factor will remain a drag on the performance of inflation-protected EUR government bonds. The linker market is currently experiencing a summer lull as regards the carry, which is unlikely to fade until the fourth quarter.

Significant seasonal fluctuations in the HICP
Seasonal patterns of the EMU HICP excluding tobacco (M/M change rates)



Source: Bloomberg, LBBW Research

Change in the EMU HICP in the June: -0.1 % M/M

Although headwinds are only moderate this month, they will increase in August: In the reference month of June 2026, the HICP for the euro area fell by 0.1% month-over-month, following a 0.1% increase in May. This implies a negative carry of just over a quarter of a percentage point for the coming month. In line with the long-standing seasonal pattern, the pressure from the carry side is set to continue into September. However, the recent spike in prices on the energy market could at least mitigate its negative impact on performance.

Carry will be clearly negative in August

Primary Market Overview

Below is an overview of currently outstanding inflation-protected EUR government bonds. The primary market for EUR linkers has seen a total of two new issues so far this year, both from Italy. After the summer, we believe this portfolio could be supplemented by the placement of one new linker issue each from France (10Y) and Spain (15Y).

Only two new issues so far in 2026

Linker Overview

Currently outstanding inflation-indexed government bonds from France, Germany, Italy, and Spain

Issuer	ISIN	Coupon	Clean Price	Maturity	Duration	Cpn Freq	Amount outstanding in EUR bn.	real yield	Break-Even Inflation	Index-Ratio	Inflation index
France	FR0011008705	1,85	101,75	25.07.2027	0,50	1	24.562.000.000	0,08	2,85	1,4091	EMU HICP ex. tobacco
France	FR0013238268	0,10	97,65	01.03.2028	0,80	1	17.612.000.000	1,61	1,32	1,2259	French CPI ex. tobacco
France	FR0013410552	0,10	98,07	01.03.2029	1,29	1	24.041.000.000	0,86	2,25	1,2687	EMU HICP ex. tobacco
France	FR0000186413	3,40	105,75	25.07.2029	1,45	1	10.176.144.000	1,42	1,67	1,5358	French CPI ex. tobacco
France	FR0011982776	0,70	99,27	25.07.2030	1,98	1	17.232.000.000	0,89	2,32	1,3218	EMU HICP ex. tobacco
France	FR0014001N38	0,10	95,27	25.07.2031	2,49	1	13.837.000.000	1,08	2,26	1,2582	EMU HICP ex. tobacco
France	FR0014003N51	0,10	91,15	01.03.2032	2,79	1	10.064.000.000	1,78	1,63	1,1782	French CPI ex. tobacco
France	FR0000188799	3,15	111,15	25.07.2032	2,79	1	15.525.000.000	1,21	2,30	1,6297	EMU HICP ex. tobacco
France	FR001400JI88	0,60	93,10	25.07.2034	3,91	1	12.848.000.000	1,52	2,22	1,1432	EMU HICP ex. tobacco
France	FR0013524014	0,10	82,55	01.03.2036	4,77	1	12.717.000.000	2,13	1,84	1,1748	French CPI ex. tobacco
France	FR0013327491	0,10	85,02	25.07.2036	4,97	1	16.213.000.000	1,75	2,22	1,2965	EMU HICP ex. tobacco
France	FR001400AQH0	0,10	80,88	25.07.2038	5,96	1	9.667.000.000	1,90	2,26	1,2353	EMU HICP ex. tobacco
France	FR001400IKW5	0,55	81,71	01.03.2039	6,06	1	6.227.000.000	2,23	1,91	1,0813	French CPI ex. tobacco
France	FR0010447367	1,80	97,80	25.07.2040	6,24	1	17.723.000.000	1,98	2,29	1,5096	EMU HICP ex. tobacco
France	FR001400QCA1	0,95	83,20	25.07.2043	7,81	1	8.059.000.000	2,14	2,27	1,0754	EMU HICP ex. tobacco
France	FR0013209871	0,10	64,50	25.07.2047	10,36	1	13.438.000.000	2,24	2,33	1,3156	EMU HICP ex. tobacco
France	FR0014008181	0,10	56,51	25.07.2053	13,24	1	11.861.000.000	2,27	2,39	1,2353	EMU HICP ex. tobacco
Germany	DE0001030559	0,50	99,01	15.04.2030	1,84	1	22.150.000.000	0,77	2,16	1,3319	EMU HICP ex. tobacco
Germany	DE0001030583	0,10	94,74	15.04.2033	3,35	1	10.650.000.000	0,91	2,16	1,2641	EMU HICP ex. tobacco
Germany	DE0001030575	0,10	77,50	15.04.2046	9,75	1	14.250.000.000	1,42	2,18	1,3384	EMU HICP ex. tobacco

Issuer	ISIN	Coupon	Clean Price	Maturity	Duration	Cpn Freq	Amount outstanding in EUR bn.	real yield	Break-Even Inflation	Index-Ratio	Inflation index
Italy	IT0004735152	3,10	100,04	15.09.2026	0,07	2	12.570.000.000	2,77	-0,46	1,3979	EMU HICP ex. tobacco
Italy	IT0005388175	0,65	99,98	28.10.2027	0,61	2	6.750.000.000	0,67	2,15	1,0190	Ita. CPI ex. tobacco
Italy	IT0005532723	2,00	101,56	14.03.2028	0,78	2	9.916.862.000	1,03	1,96	1,0254	Ita. CPI ex. tobacco
Italy	IT0005246134	1,30	100,64	15.05.2028	0,89	2	15.872.531.000	0,94	2,15	1,3164	EMU HICP ex. tobacco
Italy	IT0005517195	1,60	100,98	22.11.2028	1,13	2	11.994.517.000	1,17	1,92	1,0144	Ita. CPI ex. tobacco
Italy	IT0005543803	1,50	101,26	15.05.2029	1,37	2	18.074.787.000	1,04	2,15	1,0935	EMU HICP ex. tobacco
Italy	IT0005387052	0,40	97,54	15.05.2030	1,89	2	15.808.270.000	1,07	2,20	1,2757	EMU HICP ex. tobacco
Italy	IT0005497000	1,60	101,13	28.06.2030	1,90	2	9.440.001.000	1,31	2,02	1,0035	Ita. CPI ex. tobacco
Italy	IT0005713547	1,60	100,38	23.06.2031	2,35	2	8.842.593.000	1,52	1,93	1,0052	Ita. CPI ex. tobacco
Italy	IT0005657348	1,10	99,52	15.08.2031	2,45	2	12.675.000.000	1,20	2,26	1,0313	EMU HICP ex. tobacco
Italy	IT0005648255	1,85	101,53	04.06.2032	2,75	2	8.790.678.000	1,58	2,01	1,0114	Ita. CPI ex. tobacco
Italy	IT0005138828	1,25	99,91	15.09.2032	2,95	2	15.756.414.000	1,27	2,27	1,3167	EMU HICP ex. tobacco
Italy	IT0005482994	0,10	90,88	15.05.2033	3,39	2	19.742.788.000	1,52	2,16	1,2253	EMU HICP ex. tobacco
Italy	IT0003745541	2,35	105,82	15.09.2035	4,12	2	13.077.000.000	1,67	2,22	1,5757	EMU HICP ex. tobacco
Italy	IT0005588881	1,80	98,72	15.05.2036	4,49	2	15.787.500.000	1,95	2,03	1,0664	EMU HICP ex. tobacco
Italy	IT0005547812	2,40	102,49	15.05.2039	5,54	2	13.400.000.000	2,19	2,06	1,0877	EMU HICP ex. tobacco
Italy	IT0004545890	2,55	105,28	15.09.2041	6,31	2	15.837.435.000	2,15	2,15	1,4321	EMU HICP ex. tobacco
Italy	IT0005706293	2,25	96,83	15.02.2046	7,85	2	4.650.000.000	2,47	2,10	1,0255	EMU HICP ex. tobacco
Italy	IT0005436701	0,15	57,39	15.05.2051	12,07	2	6.803.220.000	2,47	2,20	1,2639	EMU HICP ex. tobacco
Italy	IT0005647273	2,55	98,67	15.05.2056	10,44	2	4.150.000.000	2,63	2,11	1,0472	EMU HICP ex. tobacco
Spain	ES00000128S2	0,65	100,30	30.11.2027	0,67	1	17.486.578.000	0,43	2,44	1,3138	EMU HICP ex. tobacco
Spain	ES00000127C8	1,00	100,73	30.11.2030	2,13	1	20.339.365.000	0,83	2,22	1,3163	EMU HICP ex. tobacco
Spain	ES0000012C12	0,70	96,56	30.11.2033	3,57	1	21.962.479.000	1,19	2,17	1,2945	EMU HICP ex. tobacco
Spain	ES0000012O18	1,15	96,68	30.11.2036	4,86	1	10.005.237.000	1,50	2,19	1,0647	EMU HICP ex. tobacco
Spain	ES0000012M69	2,05	103,97	30.11.2039	5,85	1	8.359.993.000	1,71	2,16	1,1104	EMU HICP ex. tobacco

Source: Bloomberg, LBBW Research

03 I
Credit Strategy

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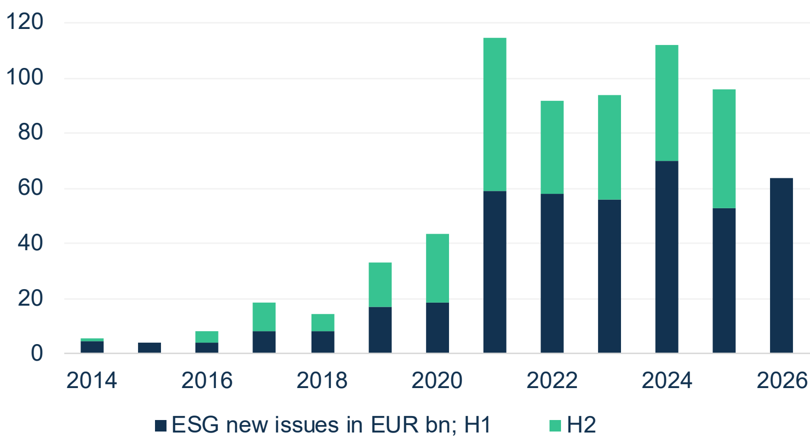
Companies Are Issuing More ESG Bonds Again

In the first half of 2026, companies issued 110 new ESG (Environmental, Social, and Governance) bonds denominated in euros. The volume of these sustainable bonds rose by 21% compared with the same period last year, reaching 63.6 billion euros. This was the second-highest volume of new ESG issuances in a half-year on record—only in H1 2024 did companies place an even larger amount, at 70.2 billion euros.

64 billion EUR in H1 2026

New ESG Issues by Half-Year Periods
EUR Corporate Bonds, Volume in billions of EUR

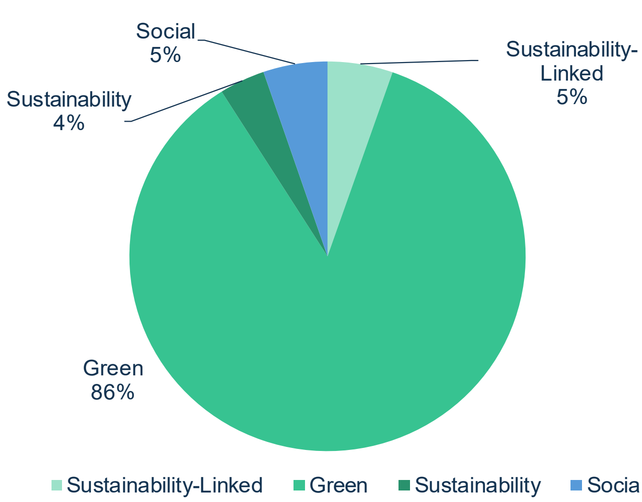


Source: Bloomberg, LBBW Research

Second-Best Half-Year for ESG New Issues

June 2026 stood out in particular: This month alone, companies issued a record 34 ESG bonds totaling 20.4 billion euros – the second-highest monthly volume on record!

ESG Categories (2026 YTD)
EUR Corporate Bonds, Share of New Issuance Volume



Source: Bloomberg, LBBW Research

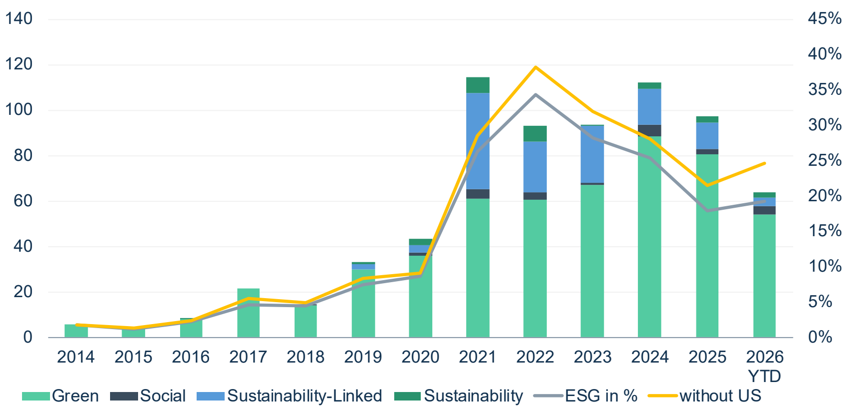
Green Bonds Dominate

As in previous years, the vast majority of new ESG issuances fell into the green bonds category (86%). The other categories – sustainability-linked bonds, social bonds, and sustainability bonds – accounted for shares ranging from 4% to 5%.

Record Half-Year for Green Bonds

For green bonds, it was even a record-breaking first half year: The volume placed, at 53.7 billion EUR, represented a 36% increase compared to H1/2025! By mid-July, the volume of green bonds issued since the beginning of the year (approximately 60 billion EUR) was approaching the total annual volume of green bonds issued in 2021 and 2022 (see chart below).

Annual ESG New Issues and ESG Share of Total Market
ESG EUR Corporate Bonds, Volume in billions of EUR and Share in %



Source: Bloomberg, LBBW Research

ESG Ratio Rises Again

The share of ESG bonds in total new issues denominated in euros rose slightly again this year to 20%. In previous years, the share had been on a downward trend – starting from a very high peak of approximately 33% in 2022.

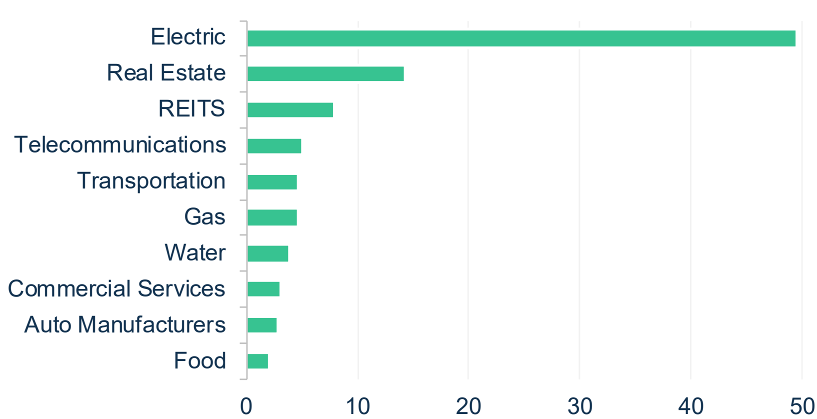
Without U.S. corporates, ESG quota is 25%

Since U.S. companies rarely issue new bonds as ESG bonds (only 4% of the total volume in 2025), they are dragging down the ESG ratio for the overall market. After excluding U.S. corporations, the ESG ratio has even reached the 25% mark since the beginning of the year.

Utilities and Real Estate Far Ahead

By far the largest volume of ESG bonds is issued by utilities (electricity, gas, and water), followed by real estate companies (real estate, REITs).

Top 10 Sectors by ESG New Issuances (LTM)
EUR Corporate Bonds, Volume in billions of EUR, last 12 months



Source: Bloomberg, LBBW Research

The positive trend in ESG bonds is likely to continue. Green bonds remain the clearly dominant ESG category.

04 I

Calendar/Analytics

Developed Markets Overview

	2 Years			10 Years		
Euro Area	**Yields**	**Spread**	**Change***	**Yields**	**Spread**	**Change***
Bund	2,87			3,20		
Jumbo	3,11	24	1	3,60	40	2
Swap	3,08	21	0	3,23	3	-1
Netherlands	2,85	-2	-1	3,30	11	1
Austria	2,86	-2	-5	3,42	22	0
France	3,04	17	0	4,01	81	1
Belgium	2,91	4	1	3,76	56	1
Italy	3,07	20	0	4,04	84	2
Spain	2,91	4	-2	3,66	47	0
Ireland	n.a.	n.a.	n.a.	3,37	17	0
Portugal	2,85	-2	-1	3,56	37	0
Greece	n.a.	n.a.	n.a.	3,94	74	2
EX. EURO AREA	**Yields**	**Spread**	**Change***	**Yields**	**Spread**	**Change***
USA	4,35	148	9	4,70	150	8
Canada	2,95	8	0	3,64	44	1
Japan	1,53	-134	1	2,82	-38	5
UK	4,49	162	6	5,10	190	8
Switzerland	0,26	-261	1	0,53	-267	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
27.07.2026	Belgium	OLO	5Y, 7Y, 9Y		€ 3.5 bn.	Tap
27.07.2026	USA	T-Note	07/28		USD 69 bn.	New
27.07.2026	USA	T-Note	07/31		USD 70 bn.	New
28.07.2026	Netherlands	NETHER	07/36	2.75%	€ 3 bn.	Tap
28.07.2026	Italy	BTP Short	2Y		€ 4 bn.	
28.07.2026	Italy	BTP I/L			€ 1.5 bn.	Tap
28.07.2026	USA	T-Note	07/33		USD 44 bn.	New
29.07.2026	Germany	Bund	08/36	3.00%	€ 6 bn.	Tap
29.07.2026	USA	FRN	07/28	Float	USD 30 bn.	New
30.07.2026	Japan	JGB	2Y		JPY 2.8 tn.	
30.07.2026	Italy	BTP	07/36	3.80%	€ 3.5 bn.	Tap
30.07.2026	Italy	BTP	06/31	3.15%	€ 3 bn.	Tap
30.07.2026	Italy	CCT	04/36	Float	€ 2 bn.	Tap

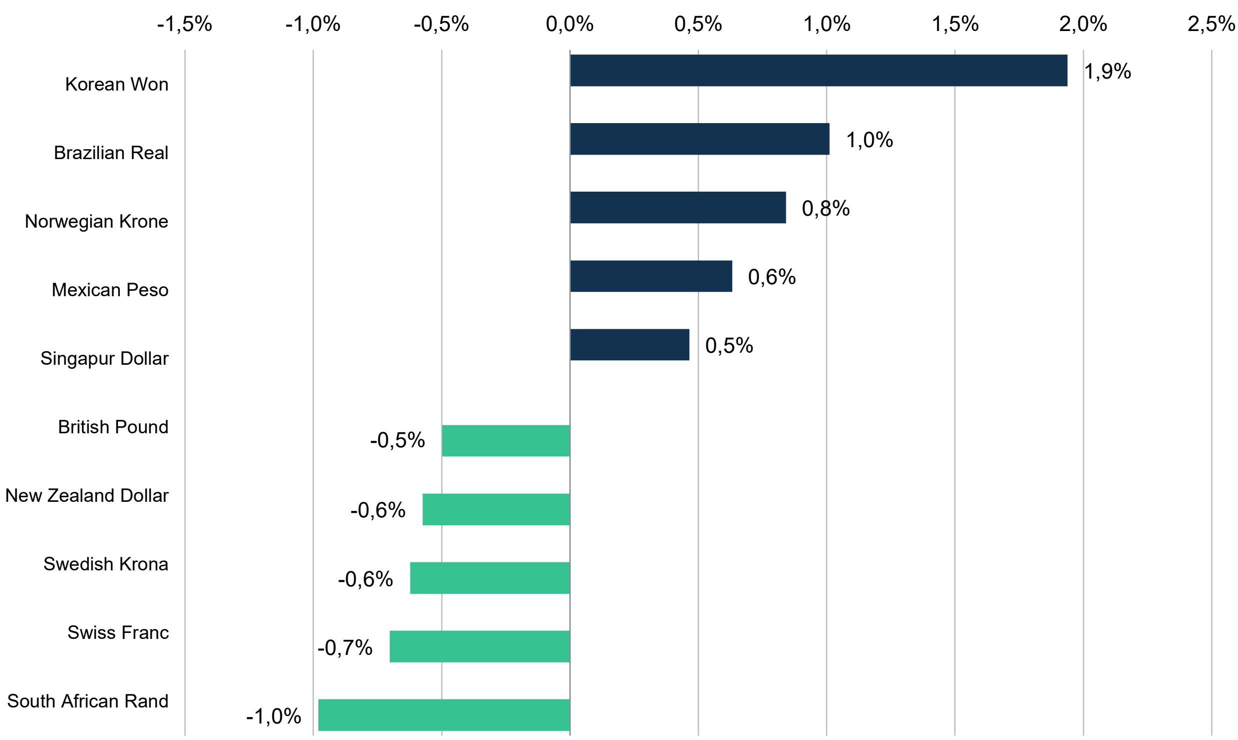
Sources: Bloomberg, LBBW Research

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	10.09.26	2,25%	11.06.26	2,00%	2,8%	↗			
United States	29.07.26	3,75%	10.12.25	4,00%	3,5%	↗	4,2%	1,1386	1,1475
United Kingdom	30.07.26	3,75%	18.12.25	4,00%	2,6%	↘	1,6%	0,8547	0,8615
Japan	31.07.26	1,00%	16.06.26	0,75%	1,7%	↘	-1,8%	186,49	185,06
China	***	2,00%	25.09.24	2,30%	1,0%	▪	7,1%	7,71	7,68
Switzerland	24.09.26	0,00%	19.06.25	0,25%	0,5%	↗	-0,8%	0,9300	0,9178
Argentina	***	29,00%	31.01.25	32,00%	32,6%	↘	-0,1%	1.693,19	1.908,08
Australia	11.08.26	4,35%	05.05.26	4,10%	3,2%	↗	5,3%	1,63	1,65
Brazil	05.08.26	14,25%	17.06.26	14,50%	4,6%	▪	8,0%	5,78	6,07
Canada	02.09.26	2,25%	29.10.25	2,50%	2,8%	↗	1,6%	1,60	1,60
Czech Republic	06.08.26	3,75%	18.06.26	3,50%	1,5%	↘	0,3%	24,17	24,30
Denmark	***	2,00%	12.06.26	1,75%	1,9%	▪	-0,1%	7,48	7,46
Hong Kong	***	4,00%	08.11.24	4,25%	2,0%	↗	3,8%	8,93	8,95
Hungary	25.08.26	5,75%	21.07.26	6,00%	1,7%	↓	5,0%	363,37	368,57
India	05.08.26	5,25%	06.02.25	5,50%	4,4%	↑	-1,8%	109,93	112,86
Indonesia	19.08.26	5,75%	18.06.26	5,50%	3,3%	↗	-2,8%	20.464,18	20.920,71
Mexico	06.08.26	6,50%	07.05.26	6,75%	3,4%	↘	3,5%	19,92	20,38
New Zealand	02.09.26	2,50%	08.07.26	2,25%	4,1%	↑	1,0%	1,97	1,97
Norway	13.08.26	4,25%	07.05.26	4,00%	2,7%	↘	6,1%	10,95	11,06
Poland	09.09.26	3,75%	04.03.26	4,00%	2,5%	▪	-2,8%	4,33	4,36
Romania	10.08.26	6,50%	07.08.24	6,75%	10,4%	▪	-2,6%	5,23	5,32
Russia	24.07.26	14,25%	19.06.26	14,50%	6,0%	▪	1,8%	89,15	95,33
Singapore	***	1,81%	n.a.	1,94%	1,9%	↗	2,5%	1,47	1,46
South Africa	23.09.26	7,00%	28.05.26	6,75%	5,0%	↑	-0,2%	19,09	19,53
South Korea	27.08.26	2,75%	16.07.26	2,50%	3,2%	↑	2,6%	1.669,54	1.675,94
Sweden	20.08.26	1,75%	23.09.25	2,00%	0,7%	↗	-4,3%	11,10	11,07
Turkey	10.09.26	37,00%	22.01.26	38,00%	32,1%	▪	-4,4%	53,93	63,63

Sources: Bloomberg, LBBW Research

The Strongest Currency Appreciations and Depreciations Against the Euro This Week

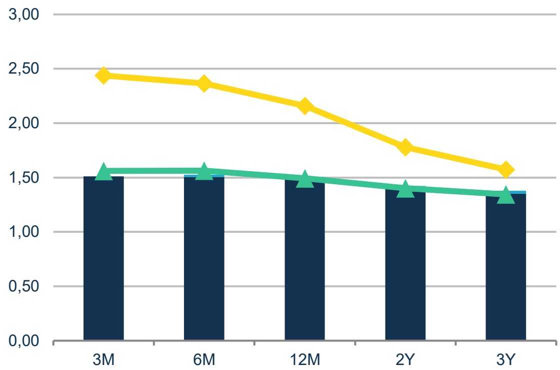


Sources: Bloomberg, LBBW, Research

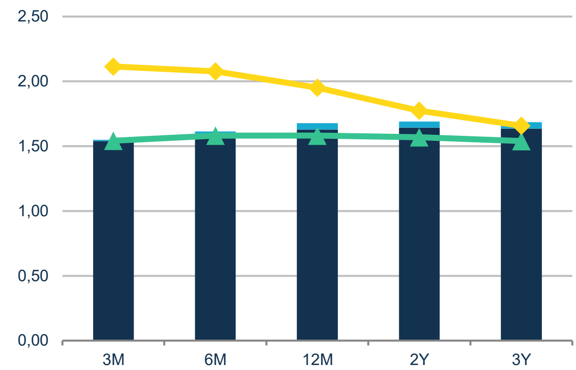
Interest rate differential and FX insurance costs vs. the Euro for selected currencies

interest rate differential, basis swap rates and insurance costs

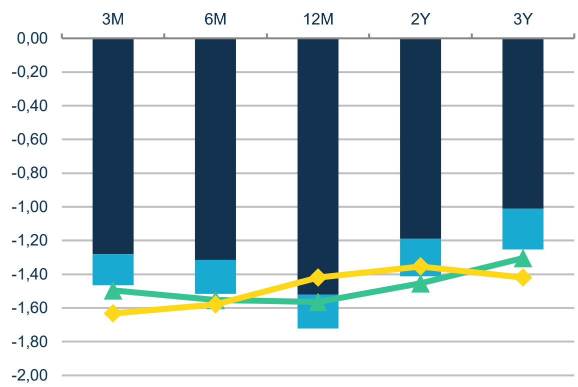
US dollar



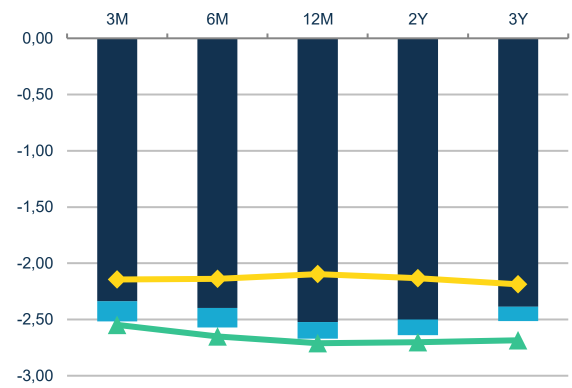
British pound



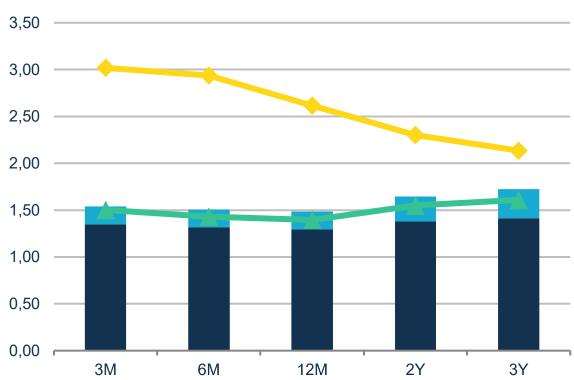
Japanese yen



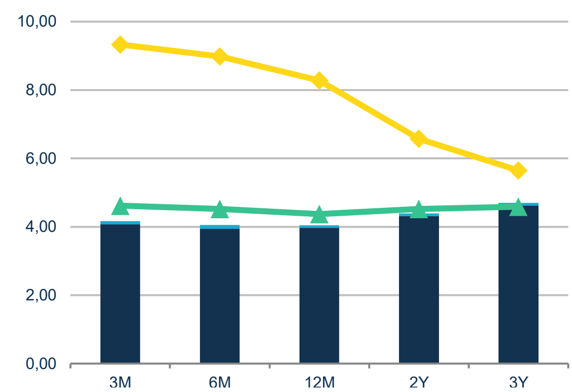
Swiss franc



Polish zloty



Mexican peso



■ interest rate differential ▲ insurance costs (p.a.; current)

■ basis swap rates ◆ insurance costs one year ago

Sources: Bloomberg, LBBW Research

Credit Spreads

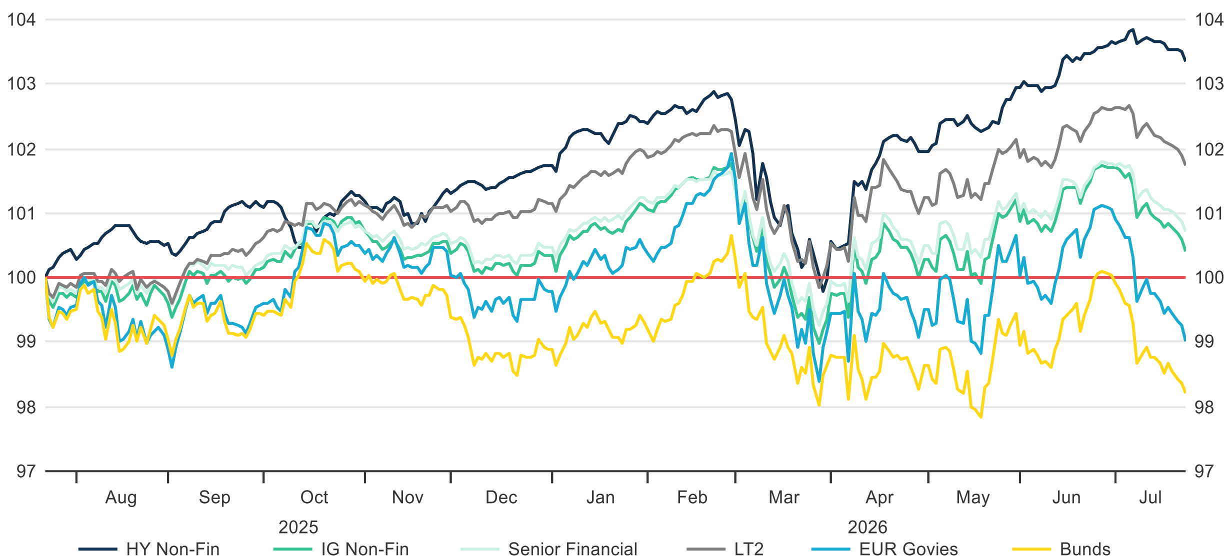
5Y CDS Spreads	Current	Changes 1W	1M	3M	6M	1Y
IG Corporates	55	2	4	-3	5	2
HY & NR Corporates	268	10	20	-20	25	-3
Senior Financials	58	2	3	-5	4	-1
Sub Financials	93	3	5	-10	2	-4

EUR Indices	Current	Changes 1W	1M	3M	6M	1Y
Non-Financials	73	0	-3	-4	1	-7
Banks Senior Preferred	51	-1	-2	-7	-4	-11
Banks Senior Bail-in	70	-1	-3	-8	1	-8
Banks Subordinated	103	0	-5	-12	-1	-23

*time lag of one day, Asset Swap Spreads 24.07.2026

Sources: LSEG, LBBW Research

Performance Credits vs. Bunds



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 periphery	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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