Bonds Weekly

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Jackson Hole will be a litmus test for the Fed Chair

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Our View

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Bond Market Movers – Review and Outlook

What drove the bond markets last week?

- Iran by presenting a new list of demands has dealt a significant blow to hopes for a swift reopening of the Strait of Hormuz.
  Donald Trump's claim that the U.S. controls the strait is not reflected in the recorded ship movements.
- The U.S. jobs report for July fell far short of expectations. Employment declined for the first time since February, while wage growth slowed markedly.
- U.S. inflation eased in July for the second consecutive month, coming in exactly in line with analysts' consensus expectations. The core rate fell to 2.5%, the lowest level since February. At the producer level, price pressure also continued to ease.
- The issuance of a new 10-year U.S. Treasury note met with slightly above-average investor demand. The issuance yield marked the highest level since August 2007.

What could drive the market next week?

- The financial markets are set to remain focused on developments in the Middle East and commodity price trends. Given the often conflicting signals, everything still seems to be up in the air.
- The Fed will release the minutes of its July 28 to 29 rate-setting meeting.
- The Fed's annual symposium, which takes place in Jackson Hole on the last weekend of August, may already cast its shadow. Will Federal Reserve Chairman Warsh provide more insight into his thinking or his plans to combat inflation than he did during the most recent interest rate decision?
- Key leading economic indicators from the eurozone for August are the highlights on the macroeconomic data calendar. We expect sentiment to continue to improve moderately in each case.
- The ECB is releasing the latest survey on consumer-inflation expectations as well as the negotiated wages indicator for the second quarter.
- In the primary market for U.S. Treasury securities, the focus next week will be on the issuance of a new 20-year T-bond. Meanwhile, activity in the primary market for euro-denominated government bonds likely remains well below average. We expect gross supply of between 12 and 15 billion euros, compared with 9 billion euros the previous week. Net cash flows are set to surge well into positive territory due to high reflows from maturities.

Jackson Hole will be a litmus test for the Fed Chair

Tradeoff between frustration over the Middle East and a tailwind from the U.S. job market

Events in the Middle East continue to unsettle market participants in the major government bond markets on both sides of the Atlantic. The latest developments once again played into the hands of the bond bears, following news the previous week that had supported prices. Initial hopes for a swift reopening of the Strait of Hormuz have given way to frustration because the Iranian leadership has drawn up a list of demands as a condition for ending the de facto blockade – demands that are likely to be largely unacceptable to the other side. U.S. President Trump did remain conspicuously calm in the face of these demands. However, a breakthrough in the negotiations – whatever form they may currently take – seems to have slipped further out of reach once again. As a result, prices for energy commodities came under resh upward pressure – though they did not break out of the trading ranges seen in recent weeks. In our view, this reflects an ongoing seesaw in the Middle East, compounded by uncertainty about how much oil is actually passing through the strait. In the euro rates market, participants' conviction has grown that the ECB will raise its key interest rates at least two more times by spring 2027. All the more so given that the ongoing drought across much of Europe is gradually fueling concerns about renewed upward pressure on inflation. The yield on 10-year German government bonds staged a fresh approach at the resistance zone around 3.20%. However, the bearish momentum was once again insufficient to break through to the upside. From a chartist perspective, we believe the likelihood of the EUR benchmark yield forming a top is increasing. However, the ongoing threat of an escalation in the Middle East serves as an urgent reminder not to underestimate the risk of another downward price spiral in the bond market.

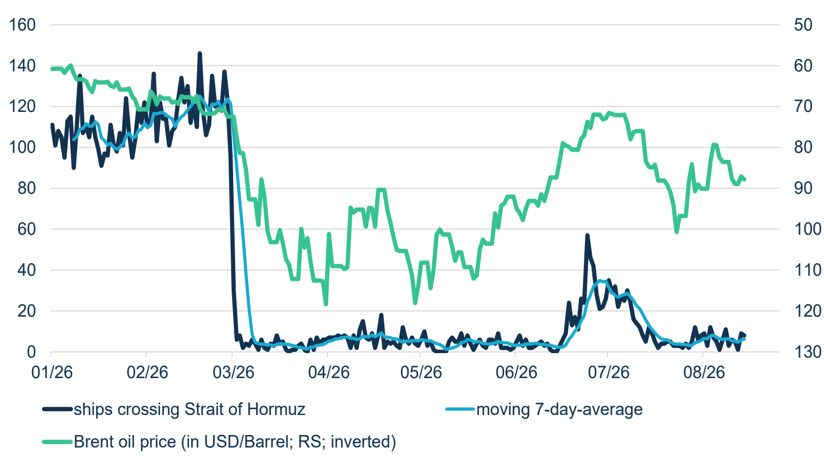
Middle East conflict remains in limbo

Drought in Europe fuels inflation worries

There is still little registered traffic in the Strait of Hormuz

Chart of the Week

Brent crude oil price (in USD per barrel) and registered ship movements in the Strait of Hormuz



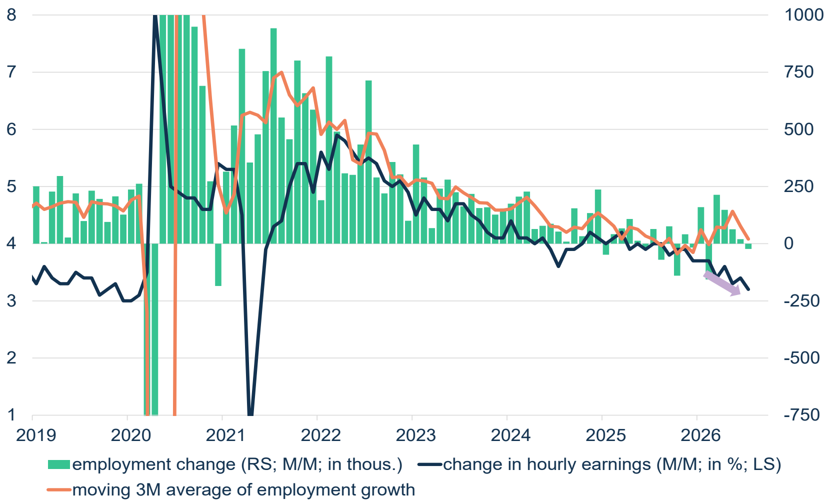
Source: Bloomberg, LBBW Research

Meanwhile, the most recently released U.S. macroeconomic data have, on the whole, offset the bond-negative signals coming from Iran. In our view, both the U.S. jobs report and the consumer price data for July support the position of the doves within the Federal Reserve. First of all, last month's employment figures were a bitter disappointment. Not only did the U.S. economy lose jobs on balance for the first time since February. Instead, statisticians sharply revised the previous month's figures downward for the second month in a row. The upturn in the U.S. job market reported for the spring was therefore significantly weaker than originally expected. In addition, the three-month moving average of employment growth in July stood at just 20,000, a level similar to that at the start of 2026. In addition, the growth in hourly earnings has slowed surprisingly sharply (see the chart below). In light of these data, it is therefore growing more difficult to imagine the risk of a price-wage spiral.

Signs of improvement in U.S. jobs market have already faded, again

U.S. employment fell for the first time since February

Employment growth in the U.S. economy (M/M, in thousands) and hourly earnings trends (Y/Y)



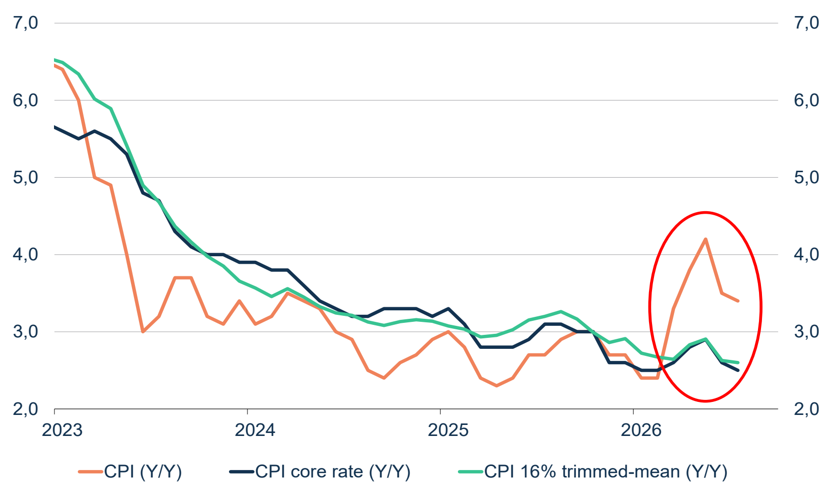
Source: Bloomberg, LBBW Research

U.S. inflation eases for the second month in a row

Second, price pressures in the U.S. economy eased at the consumer level in July for the second consecutive month. Headline inflation did decline at a much slower pace than in the previous month. Moreover, at 3.4%, the Fed's price stability target remains well out of reach.

Signs of ongoing underlying disinflation

U.S. Inflation (Y/Y), core rate, and trimmed-mean inflation



Source: Bloomberg, LBBW Research

Kevin Warsh likes trimmed-mean inflation

However, inflation in the U.S. has once again eased across the board: The core inflation rate slipped to 2.5% (Y/Y), meaning that its interim rise following the outbreak of the war in Iran has now been completely offset (see chart above). The so-called trimmed-mean inflation rate, which smooths out price trends even more than core inflation, stands at 2.6%, the lowest level since the inflation shock of 2022–23. We should stress that the latter measure of inflation – which, according to reports, is highly favored by Fed Chairman Warsh – does not allow U.S. monetary policymakers to sit back and relax. However, the apparently intact trend toward disinflation should, in and of itself, give the Federal Reserve sufficient leeway to maintain its wait-and-see stance on monetary policy at its September meeting. In our view, the final deciding factor for the Fed's next decision is likely to be the August inflation data, which is set to be released a few days before the meeting.

Fed's "wait-and-see" stance has been underpinned

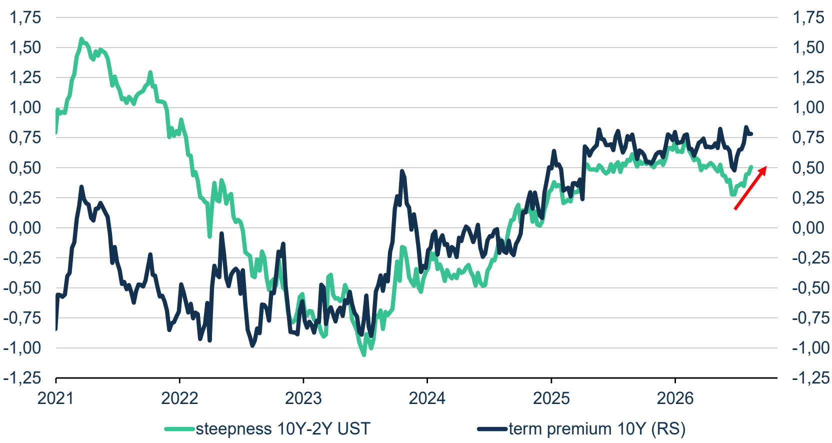
Term premium on the U.S. Treasury market hits a twelve-year high

Ultimately, it remains to be seen to what extent the Federal Reserve is concerned about the strikingly mixed performance of the U.S. Treasury market over the past three weeks. The macroeconomic bond-positive factors mentioned above had a noticeable impact only at the short end of the yield curve during this period. Easing market speculation about an imminent Fed hike has caused the yield on 2-year U.S. Treasuries to fall to a four-week low. Meanwhile, the yield on 10-year U.S. Treasuries remained quite close to its annual high reached in late July. Consequently, the U.S. dollar yield curve has steepened significantly. As the following chart shows, the term premium on 10-year U.S. Treasury bonds surged to an annual high as a result. The last time investors demanded a higher risk premium for holding long-term bonds was in the summer of 2014. The coincidence between the beginning spike in term premiums and Fed Chair Warsh's remarks following the latest interest rate decision suggests that investors are growing increasingly skeptical of his role as a resolute fighter against inflation.

Steepening of the U.S. dollar yield curve is going on

Investors are calling for a mounting premium on long-term U.S. bonds

10Y to 2Y yield spread on the U.S. Treasury curve and term premium for 10Y government bonds



Source: Bloomberg, LBBW Research

Term premium on 10-year U.S. Treasuries: 14-year high!

Setting aside any speculation about political influence on the Fed, we believe the following can be stated: At the end of July, the head of the U.S. central bank left market participants guessing as to whether the Fed would deliberately allow long-term interest rates to rise. The resulting tightening of financing conditions for the U.S. economy might basically "replace" the economic slowdown effect otherwise caused by a key interest rate hike, which the Federal Reserve has so far refrained from implementing. One possible underlying motive: U.S. President Trump, who regularly criticizes the Fed for its monetary policy, is more concerned about the trend in the benchmark interest rate than that of Treasury yields. In our view, Mr. Warsh's vague statements have thus provided participants in the U.S. Treasury market with a pretext for (renewed) speculation about a steepening of the yield curve.

Warsh has kept the markets guessing so far – is he overdoing it?

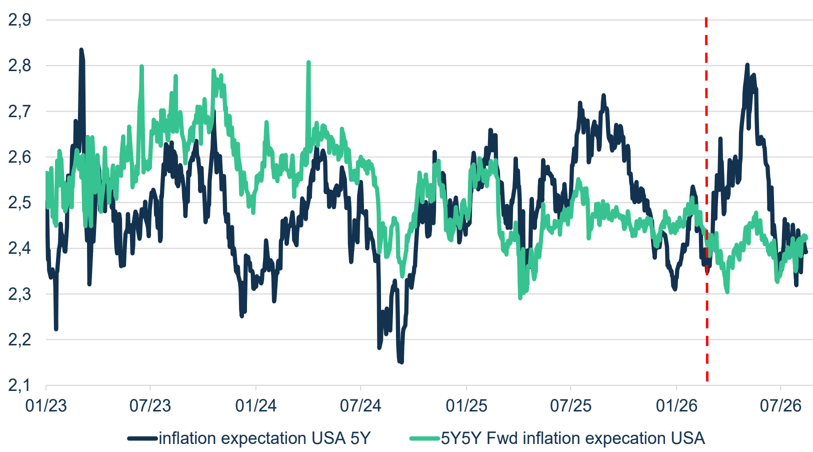
Outlook: The most important events are coming up in the second half of the week

The presumed impact of the Fed chair's (lack of) communication with investors on bond market trends in recent weeks has brought two events from the second half of August into sharp focus. First, the minutes of the Open Market Committee's July meeting will be released (August 19), which could provide additional insight into the distribution of monetary policy priorities. Second, attention is already turning to the upcoming symposium in Jackson Hole (August 28/29). We think it is clearly unlikely that Kevin Warsh will completely break with his previous approach and return to providing guidance on the next monetary policy steps. Nevertheless, there is little doubt that investors are eagerly awaiting an assessment of the current inflation trend. It would also be helpful to have details on how the Fed, under his leadership, plans to restore price stability as soon as possible. If the Fed chair once again fails to provide answers on this matter, we believe there is reason to fear renewed upward pressure on the term premiums of long-term U.S. Treasuries. We would like to emphasize at this point that the risk of inflation expectations becoming unanchored in the U.S. appears moderate so far. Long-term inflation expectations in the U.S. dollar rates market have risen only slightly in recent weeks. Forward inflation expectations for five years in five years from now are currently no higher than they were directly before the outbreak of the Iran War (see the chart below). The credibility of U.S. monetary authorities in the fight against inflation does not, therefore, appear to have been fundamentally undermined. The latter can be interpreted as a reassurance, but also as a warning to the Fed chair: If he seriously jeopardizes his credibility, sentiment in the U.S. Treasury market could become even more frosty.

Warsh's appearance in Jackson Hole: eagerly awaited

So far, there is no sign that inflation expectations are becoming unanchored

Inflation expectations and 5Y5Y forward inflation expectations in the USD rates market



Source: Bloomberg, LBBW Research

Inflation expectations have remained firmly anchored to date

Looking at the macroeconomic data calendar, the highlights of the coming week won't be on the agenda until the homestretch of the week. The focus here will clearly be on the eurozone, where, according to our forecast, the purchasing managers' indices for August (August 21) are set to signal another slight improvement in sentiment. In addition, the latest ECB data on consumers' inflation expectations and on negotiated wage trends in the euro area provide new insights into the risk that higher inflation could become entrenched.

Eurozone: PMIs will be the highlight of the week

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		2,51	2,55	2,55	2,55
Swap 2Y		2,98	2,80	2,85	2,75
Swap 5Y		3,03	2,85	2,90	2,85
Swap 10Y		3,19	3,05	3,10	3,15
Bund 2Y		2,79	2,60	2,70	2,65
Bund 5Y		2,89	2,70	2,80	2,80
Bund 10Y		3,16	3,00	3,10	3,20
Swap/Bund 2Y		19	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		3,76	3,75	3,75	3,65
Swap 2J (SOFR-OIS)		4,02	3,95	3,90	3,65
Swap 5J (SOFR-OIS)		4,06	3,85	3,85	3,75
Swap 10J (SOFR-OIS)		4,26	3,95	4,00	4,00
Treasury 2Y		4,16	4,10	4,10	3,85
Treasury 5Y		4,33	4,15	4,20	4,10
Treasury 10Y		4,66	4,40	4,50	4,55
G5		**Spot**	**30.09.26**	**31.12.26**	**30.06.27**
Japan	*Overnight Rate (TONAR)*	0,98	1,00	1,25	1,30
Japan	*10Y Government Bond*	2,89	2,75	2,80	2,90
UK	*Overnight Rate (SONIA)*	3,73	3,70	3,95	3,95
UK	*10Y Government Bond*	4,99	4,80	4,90	4,90
Switzerland	*Overnight Rate (SARON)*	-0,05	-0,05	-0,05	-0,05
Switzerland	*10Y Government Bond*	0,38	0,35	0,40	0,45
FX		**Spot**	**30.09.26**	**31.12.26**	**30.06.27**
EURCHF		0,9396	0,92	0,93	0,94
EURCNY		7,7868	8,01	7,91	7,62
EURGBP		0,8549	0,85	0,85	0,85
EURJPY		183,92	187	186	182
EURUSD		1,1547	1,17	1,18	1,19
USDCHF		0,8137	0,79	0,79	0,79
USDCNY		6,7440	6,85	6,70	6,40
GBPUSD		1,3507	1,38	1,39	1,40
USDJPY		159,28	160	158	153

Economic Development		2024	2025	2026e	2027e
Germany	*GDP*	0,0	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

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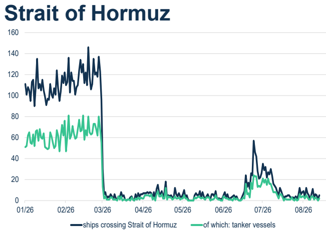
- *Global Economy – Labor Market:* A recent report by the International Labor Organization (ILO) notes a growing divide in the global labor market between older and younger workers – unemployment among people under 25 has risen by 2 million since 2023 to about 67 million – problem is that not enough jobs are being created for those entering the labor market – the rise of AI could be a contributing factor – young people in North America and Europe are particularly affected by this, according to ILO.
- *FX Market:* According to media reports, the Japanese and U.S. governments are at odds over the extent of further interest rate hikes by the BoJ to support efforts to strengthen the yen – U.S. Treasury Secretary Bessent is convinced that only monetary tightening in Japan can lead to a lasting strengthening of the yen – Japan's Prime Minister Takaichi, on the other hand, is putting the brakes on hasty tightening – Nevertheless, support for another BoJ rate hike after the summer break has been growing.
- *Middle East Conflict:* Iranian leadership has laid out a series of demands on the U.S. in exchange for the targeted reopening of the Strait of Hormuz – list includes conditions previously stated that are likely to be largely unacceptable to the other side.
- *Middle East Conflict:* U.S. President Trump has made counter-demands, but at the same time appears relaxed about a possible agreement and also claims that the U.S. already has control over the strait – meanwhile, U.S. Treasury Secretary Bessent has announced the rollout of a plan for the "economic isolation" of Iran – according to the plan, "unprecedented" measures are intended to bring the mullah regime to its knees.
- *Middle East Conflict:* Meanwhile, the Pakistani government says the U.S. and Iran are closing in on "some kind of agreement."
- *Middle East Conflict:* According to media reports, the Iranian military has adopted a more offensive stance in response to the ongoing conflict – "offensive doctrine" stands in contrast to the more defensive pre-war approach, which was primarily aimed at national defense.
- *Middle East Conflict – Energy Price Crisis:* Actual volume of crude oil transport through the Strait of Hormuz has remained unclear – number of officially recorded ship passages has recently been stuck at extremely low levels – meanwhile, U.S. Secretary of Energy claims that the actual volume of oil transported through the Strait of Hormuz is 9 million barrels per day – he also claims the U.S. Navy's capacity to protect shipping is growing.
- *Geopolitics:* Russian President Putin is threatening retaliation against European countries that sell oil and other seized goods from the so-called "shadow fleet" – he claims that the authorization provided by the recently adopted EU sanctions package amounts to "piracy and robbery" – Putin has not yet specified what form these retaliatory measures will take.
- *Fed – Independence:* According to press reports, U.S. President Trump is making a new attempt to remove Fed Governor Lisa Cook – Cook is reportedly expected to respond within three weeks to the allegations regarding possible mortgage fraud – Cook's attorneys reiterate that they will continue to fight the baseless allegations and defend her position.
- *Eurozone – Economy:* Sentix Investor Confidence rose from -3.1 to +0.9 points in August – indicator is back above the zero line for the first time since February 2026.

ILO: Labor market is drifting apart

Strait of Hormuz



Sources: Bloomberg, LBBW Research

US wants to economically isolate Iran

Trump makes a second attempt to fire Lisa Cook

- *Germany – River Water Levels:* The Association of Inland Waterway Shippers warns of a further worsening of the low-water crisis – risk of a de facto “division” of the Rhine – while restrictions on shipping are driving fuel prices even further upwards in some regions.
- *U.S. – Inflation:* Consumer price inflation slowed in July for the second consecutive month, falling to 3.4% (Y/Y) from 3.5% in June – core rate declined from 2.6% to 2.5%, the lowest level since February 2026.
- *U.S. – Inflation:* In July, producer prices rose less than expected for the second consecutive month, increasing by 4.7% (Y/Y), down from 5.5% in June – slowest rise since March 2026 – PPI excluding food and energy stood at 4.2% (Y/Y), down from 4.7%.
- *U.S. – Labor Market:* Official July labor market report delivers a bitter disappointment – employment shrinks for the first time since February, by 23,000 (M/M), following +20,000 in June – previous month’s figures were also sharply revised downward – the unemployment rate did show a positive trend, falling from 4.2% to 4.1%, but this was driven by a decline in the labor force – Hourly earnings growth slowed to 3.2% (Y/Y), the lowest level since March 2020, following 3.4% the previous month.
- *U.S. – Labor Market:* Weekly ADP data show a continued slowdown in job growth for the four-week period ending July 25, with an average of 8,250 jobs added, down from 11,000 in the previous period – lowest figure since mid-January.
- *U.S. – Midterm Elections:* A U.S. federal court has blocked the government's plans to tighten mail-in voting rules for now – Democrats fear that certain voter groups will be disadvantaged – final ruling will come from the Supreme Court.
- *UK – Economy:* GDP grew by 0.4% (Q/Q) in the second quarter, following +0.6% in the first quarter – Investment helped to lift growth, while declining government consumption acted as a drag.
- *China – Inflation:* Price pressure eased unexpectedly sharply in July, falling to 0.5% (Y/Y), down from 1.0% in June – core rate fell from 1.0% to 0.9% – rise in producer prices also slowed, to 3.5% (Y/Y).

Price pressure easing further in the U.S.

U.S. jobs market markedly weaker than expected

British economy shows growth

Next Week's Data

TIME	COUNTRY		PERIOD	LBBW FORECAST	CONSENSUS FORECAST[1)]	LAST VALUE[2)]	IMPORTANCE
FRIDAY, 14.08.2026							
14:30	USA	Advance Retail Sales (M/M)	Jul	-0,3	0,1	0,2	***
16:00	USA	Uni Michigan Consumer Confidence (prelim.)	Aug	53,0	54,9	55,2	***
	AUT	Rating Review Austria (Moody's®)					**
MONDAY, 17.08.2026							
01:50	JPN	GDP (Q/Q) (prelim.)	Q2	0,4	0,5	0,5	**
04:00	CHN	Industrial Production (Y/Y)	Jul	5,2	4,9	5,3	**
04:00	CHN	Retail Sales (Y/Y)	Jul	0,5	1,5	1,0	**
11:30	EMU	ECB Chief Economist Lane speaks					**
14:30	USA	Empire Manufacturing Index	Aug	10,0	10,0	15,6	**
16:00	USA	NAHB Index	Aug	33	33	34	**
22:00	USA	Net Long-Term TIC Flows (bn USD)	Jun	-	-	232,7	*
TUESDAY, 18.08.2026							
11:00	GE	ZEW Index	Aug	30,0	28,0	26,3	**
14:30	USA	Housing Starts (thous.)	Jul	1350	1350	1427	**
14:30	USA	Building Permits (thous.) (prelim.)	Jul	1390	1369	1374	**
14:30	USA	Import Price Index (M/M)	Jul	-	0,1	0,3	*
15:15	USA	Industrial Production (M/M)	Jul	0,2	0,3	0,1	**
15:15	USA	Capacity Utilization (in %)	Jul	76,1	76,3	76,1	*
16:00	USA	Pending Home Sales (M/M)	Jul	-	0,5	-5,4	*
WEDNESDAY, 19.08.2026							
11:00	EMU	HICP (Y/Y) (final)	Jul	2,9	2,9	2,9	*
20:00	USA	Fed publishes Minutes of July 28/29 Meeting					***
THURSDAY, 20.08.2026							
08:00	GE	PPI (M/M)	Jul	0,2	0,8	-0,3	*
14:30	USA	Philadelphia Fed Index	Aug	28,0	25,0	41,4	**
16:00	USA	Index of Leading Indicators	Jul	-	0,1	-0,2	*
FRIDAY, 21.08.2026							
01:30	JPN	National CPI (Y/Y)	Jul	1,9	2,0	1,7	*
09:30	GE	PMI Manufacturing (prelim.)	Aug	52,5	-	52,2	***
09:30	GE	PMI Services (prelim.)	Aug	50,0	-	49,8	***
09:30	GE	PMI Composite (prelim.)	Aug	51,5	-	51,3	***
10:00	EMU	PMI Manufacturing (prelim.)	Aug	52,2	51,4	51,9	***
10:00	EMU	PMI Services (prelim.)	Aug	51,5	51,4	51,7	***
10:00	EMU	PMI Composite (prelim.)	Aug	52,0	51,4	52,0	***
10:00	EMU	ECB publishes Consumers' Inflation Expectations (1 Year, 3 Years)					**
11:00	EMU	ECB publishes Negotiated Wages Indicator (Y/Y)	Q2	2,7	-	2,5	**
16:00	EMU	Consumer Confidence (prelim.)	Aug	-17,0	-16,6	-15,9	*
	IRL	Rating Review Ireland (Moody's®)					**

1) Consensus forecast according to Bloomberg/Reuters

2) Should a provisional estimate be available, it is stated instead of the reference figure of the previous period

Sources: Bloomberg, LBBW Research

02 I
Rates

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EUR swap spread: Trading sideways within a narrow range

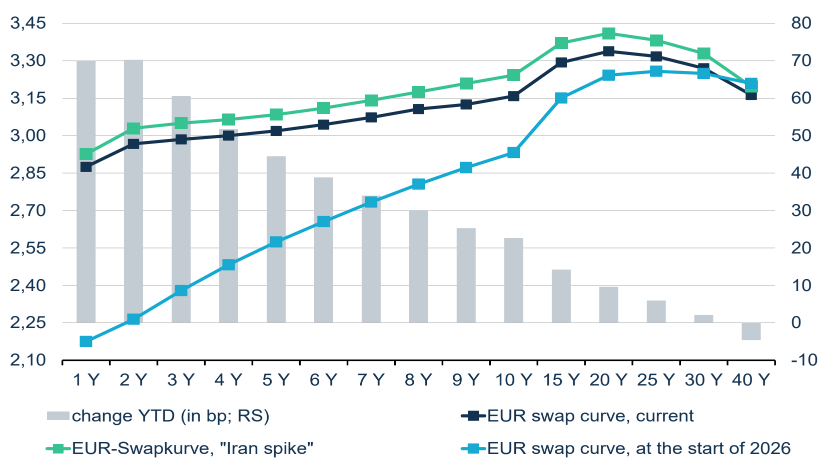
EUR swap curve: The news situation in the Middle East has still been the main driver

2Y swap rate just below the “Iran peak”

The influence of the events surrounding the Strait of Hormuz on the euro interest rate market is still high. The temporary easing of tensions between the U.S. and Iran at the end of the second quarter had led to a partial correction of the bearish flattening of the yield curve, which had been triggered by the preceding energy price shock. However, the subsequent renewed closure of the strait reignited speculation among market participants about continued tightening of monetary policy in the eurozone. In recent weeks, the EUR swap curve has hovered near its annual highs across the entire maturity spectrum. Compared with the level at the beginning of the year, this results in a relatively wide array of changes, as the following chart shows: At the short end, rates are nearly three-quarters of a percentage point higher than at the beginning of 2026, reflecting the cumulative shift in key rate expectations. At the ultra-long end of the yield curve, however, rates have, on balance, hardly changed despite occasional sharp fluctuations. This results in a relatively uniform flattening of the yield curve along its entire length. The latter, however, can be attributed almost entirely to the initial “Iran shock” of March 2026. Since April, the slope has been in a consolidation phase. In our view, this reinforces the impression that a bottom is forming.

30-Year swap rate close to its starting level for the year

Swap curve: consolidation following the “flattening shock”
Current EUR swap curve, at the beginning of 2026, and at the 2026 annual high (for the 10-year swap rate)



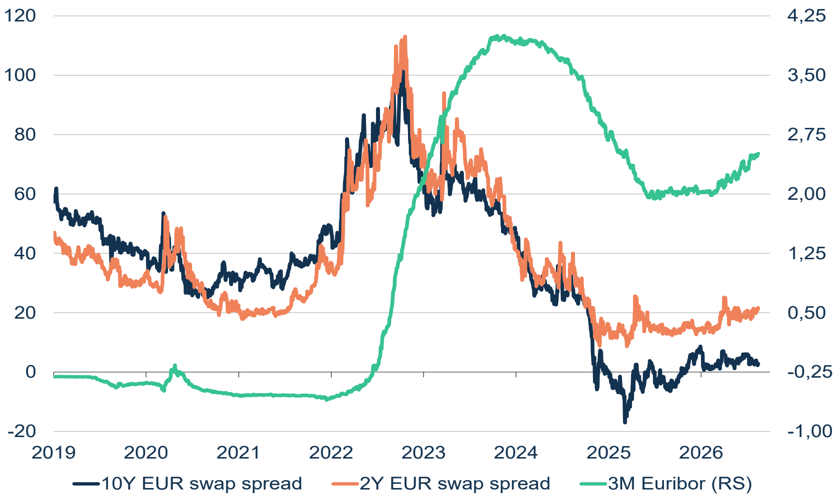
Source: Bloomberg, LBBW Research

EUR swap spread not affected in a sustainable manner

Swap spread: “Iran shock” faded quickly

As for EUR swap spreads – that is, the difference between swap rates and Bund yields with matching maturities – the “Iran shock” appears to have left virtually no lasting impact. The impression we gained from our initial assessment of the situation (see the April 24, 2026, issue of *Bonds Weekly*) has thus been confirmed. Since the outbreak of the Iran War, there has been, on balance, only a slight widening at the short end of the swap spread curve. The 2-year EUR swap spread rose from around 15 basis points to just over 20 basis points, though this appears marginal compared to the major trends of recent years (see the chart below). In our view, this slight upward trend is underpinned, from a fundamental perspective, by the turnaround in key interest rates initiated by the ECB.

A turnaround in the euro money market has been creating modest widening pressure
2Y and 10Y EUR swap spreads (in basis points) and 3-month Euribor



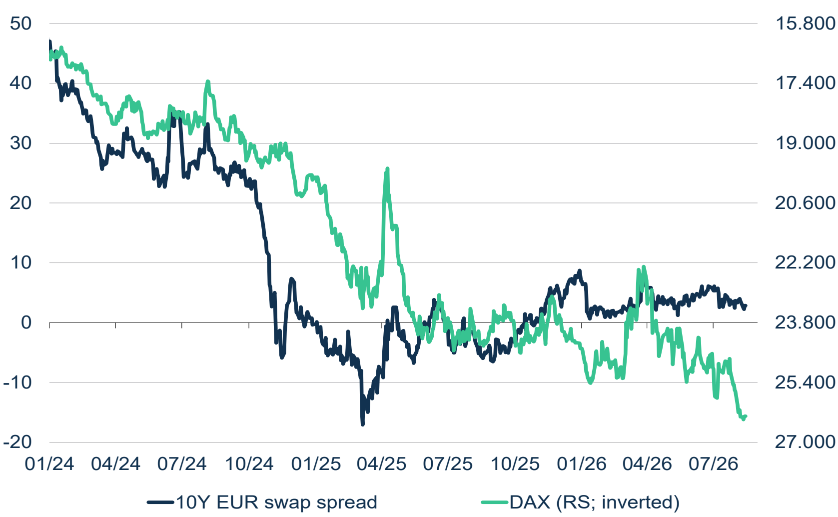
Source: Bloomberg, LBBW Research

2Y swap spread slightly higher than in February

By contrast, the 10-year EUR swap spread was pushed higher in March only briefly by the "risk-off" surges in the financial markets triggered by the war in Iran. This widening was driven by a temporary surge in investor demand for the safety of German government bonds. However, the latter quickly subsided as major stock indices subsequently returned to a bullish trend. The 10-year EUR swap spread moved closer to zero again in the following months – without, however, mirroring the recent all-time highs of the stock indices in the form of a renewed narrowing push (see the chart below).

10Y swap spread has moved back towards zero, …

The zero line remains a focal point for the swap spread
10Y EUR swap spread (in bp) and DAX



Source: Bloomberg, LBBW Research

… but the stock market rally did not mark the start of a fresh tightening trend

At the ultra-long end of the EUR swap curve, temporary distortions in the swap spread from March 2026 have, in retrospect, likewise been of little significance. In our view, these upheavals were only indirectly linked to the Iran War. They were primarily driven by the fact that some market participants had abruptly closed out bets on a steepening of the EUR swap curve in the ultra-long segment. The 30-year EUR swap spread has consolidated within a range of -35 to -40 basis points over the past few weeks.

Outlook: Arguments in favor of a slight narrowing of the 10Y swap spread prevail

Looking ahead, we currently see little reason to expect a meaningful new trend in EUR swap spreads. The zero level is expected to remain a major point of attraction for the 10-year EUR swap spread. In the short term, from a fundamental perspective, the forces driving expansion and the factors pushing the swap spread downward are roughly in balance. On the one hand, the ECB has not yet finished its monetary tightening campaign. According to our forecast, at least one more interest rate hike is still on the cards. Since a resolution to the Middle East conflict does not yet seem within reach, upside risks are prevailing in the euro money market. This opens up the potential for EUR swap spreads to widen.

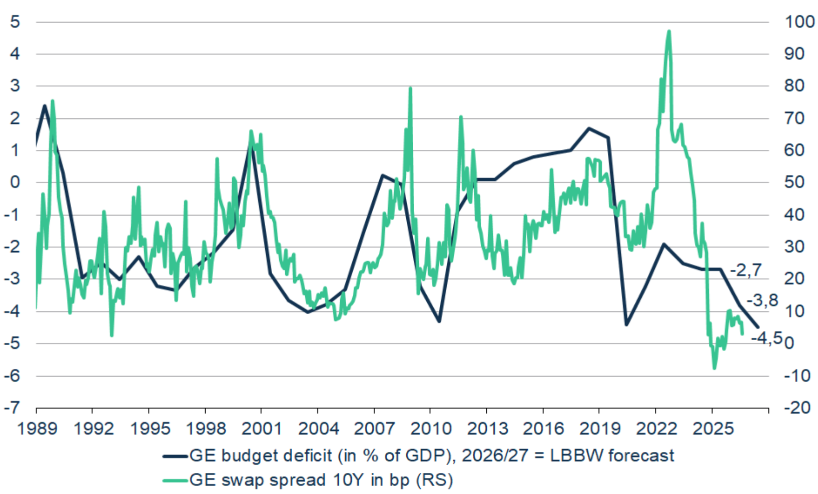
ECB hiking points to a wider swap spread

On the other hand, the unrelenting rise in global government debt continues to worry investors. In this regard, we do focus primarily on the U.S., as the federal government's new debt there has become entrenched at an exorbitantly high level of 6 to 7% of GDP annually. However, Germany is likely to increasingly follow suit in the coming years, given the planned special spending on infrastructure and defense. The federal government is projecting that new debt will rise to approximately 180 billion euros in 2027. This corresponds to a deficit ratio of approximately 4% for the central government alone. Including the shortfalls of local governments, the public budget deficit could, in our view, rise to between 4.5 and 5 percent of GDP, provided that the projected debt headroom will actually be exhausted.

Rising budget deficit, however, suggests potential for tightening

Widening deficit trend set to kick in

10Y EUR swap spread and general government deficit ratio for Germany (as a percentage of GDP; including forecasts)



Source: LSEG, LBBW Research

It is true that, based on the chart above for the 10-year EUR swap spread, the tightening trend of recent years appears to have already priced in the aforementioned increase in new borrowing. In fact, we believe it is likely that the 10-year swap spread has already gone through its historic low, recorded around -15bp in the spring of 2025, for now. In the medium term, however, we expect another, albeit moderate, tightening. This applies provided that, in line with our forecast, the current phase of monetary tightening in the euro area will have been completed by the end of this year.

Conclusion: Preference for a medium-term tightening

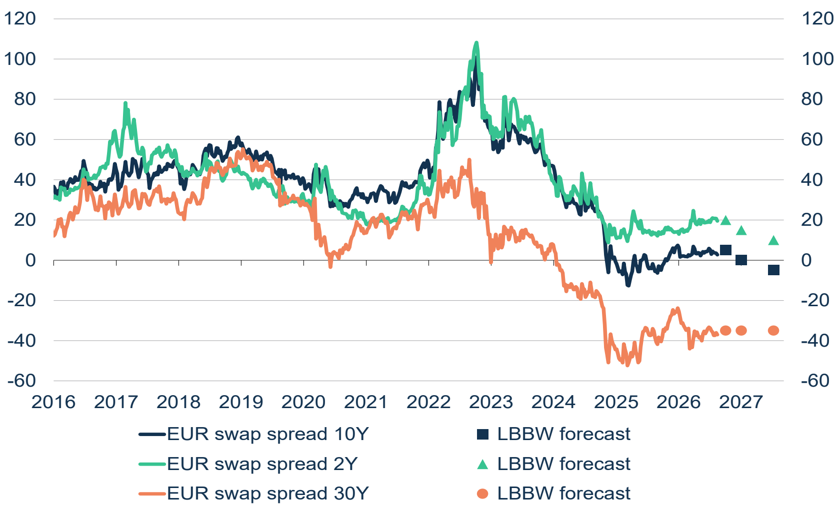
Forecast: 10Y swap spread expected to slip slightly below zero

To sum up, we have not changed our forecast for the 10-year EUR swap spread recently. As of the end of 2026, we therefore continue to expect, on balance, a sideways trend in the range of 0 bp. In the medium term, we believe it is realistic to expect a moderately negative level to take hold (forecast as of June 30, 2027: -5 bp). Looking at the 30-year EUR swap spread, we currently expect it to move sideways over the next twelve months. For the ultra-long segment, in addition to the factors mentioned above, we factor into our analysis the impact of the repositioning of Dutch pension funds as part of the pension reform. This tends to counteract an overarching swap spread narrowing.

Forecast for the 10Y EUR swap spread as of mid-2027 remains at -5 bp

We continue to expect a slightly negative 10Y swap spread

EUR swap spreads for selected maturities with LBBW forecasts (in bps)



Source: Bloomberg, LBBW Research

We envisage the 30Y EUR swap spread to stay roughly unchanged

03 I

Credit Strategy

Calm Waters

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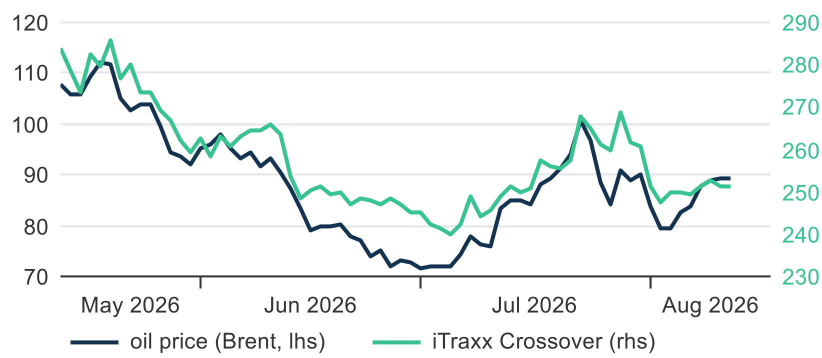
Credit spreads remain stable at low levels

Despite a significant rise in oil prices, the DAX, Euro Stoxx 50, and other indices reached new record highs this week. The iTraxx, too, remained unfazed by the rise in oil prices and remained largely unchanged. Good news from the European economy—and especially the German economy—has recently given the market a significant boost. However, we should not overlook the fact that such periods of hope have proven to be illusory on several occasions in recent years.

iTraxx remains unfazed

Risk premiums are moving sideways
iTraxx Crossover vs. Brent Oil Price



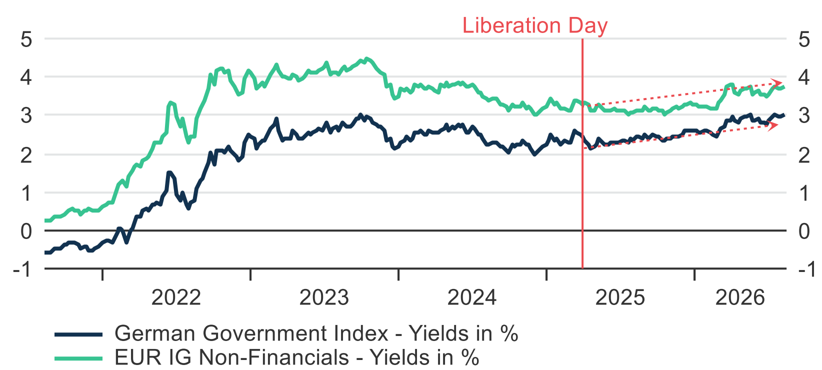
Source: LSEG, LBBW Research

Federal bonds drive IG bonds

Yields and spreads on cash bonds have also shown little movement recently. Yields continued to track German government bond yields, and spreads remained stable at low levels. The fact that yields on IG corporate bonds have risen over the past two years is therefore primarily attributable to the rise in Bund yields resulting from expansionary fiscal policy. Given the current low levels, we see little room for spreads to narrow further.

Yield spread remains stable

Corporate Bond Yields Remain Largely Unchanged
IG Yields on Non-Financials in EUR vs. the Bund Index (in %)



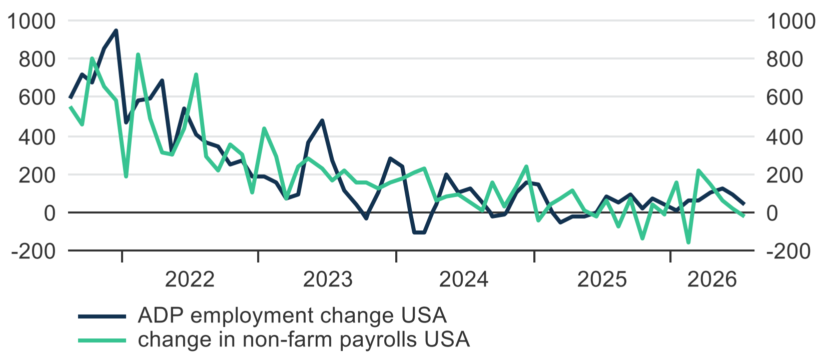
Source: LSEG, LBBW Research

US Data in the Fed's Crosshairs

Recent U.S. labor market data was disappointing in two respects. On the one hand, 23,000 jobs were cut in July; on the other hand, the figures for the previous months were revised downward by more than 100,000 jobs. The expected recovery is thus stalling for the time being. This is likely to serve as a warning sign for the Fed and make a prompt interest rate hike less likely.

U.S. labor market sends signals to the Fed

U.S. jobs market weakening
ADP Employment vs. Actual Employment (in thousands)



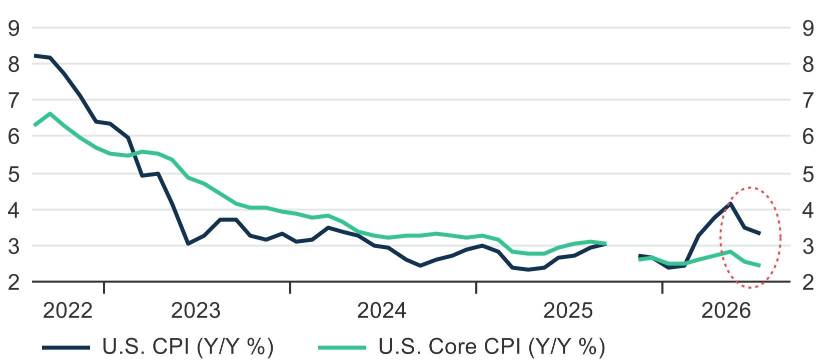
Source: LSEG, LBBW Research

Jobs were cut in July

In addition to the labor market, inflation is also currently playing a decisive role in the Fed's future interest rate decisions. Signs of easing tensions have also been coming from that side recently. In July, inflation and core inflation posted slight declines, taking the wind out of the sails of monetary policy hawks. It is true that oil prices have recently risen significantly again. However, we consider it unlikely that this will be enough to trigger an interest rate hike in September.

CPI sends signals of easing to the Fed

Inflation in the U.S. falling, again
U.S. Inflation vs. Core Inflation (YoY, in %)



Source: LSEG, LBBW Research

U.S. inflation rate falling, again

CONCLUSION – Bullish Markets, Credit Opportunities

This past week was also a positive one for the credits. Persistently low risk premiums on corporate bonds once again confirmed the stability of the corporate bond market. For the time being, there appears to be no threat of rising key interest rates from the Fed. We therefore maintain our recommendation for IG bonds. For less risk-averse investors, the high-yield (HY) segment is worth considering if the underlying fundamentals continue to stabilize.

IG bonds still recommended

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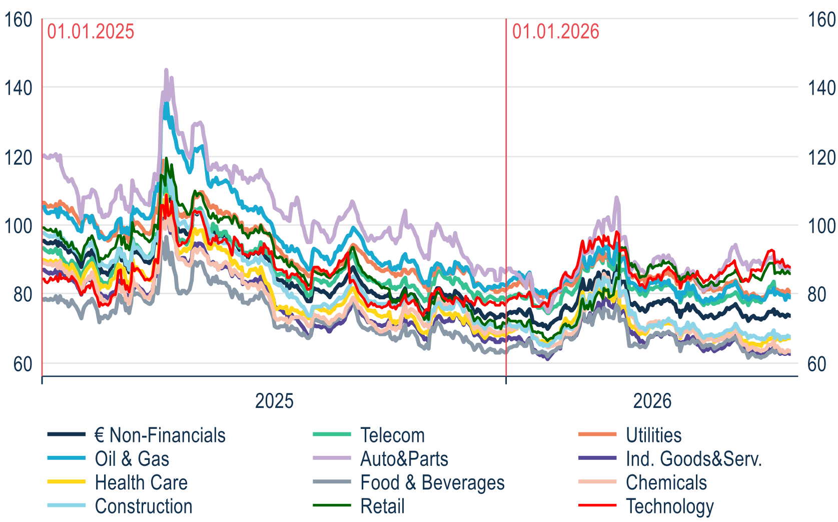
Wider Spreads Due to AI Bonds

Despite the war in Iran and significant market volatility: The current spread level in the investment-grade index for corporate bonds denominated in euros is the same as it was at the beginning of 2026.

In only two industries are risk spreads significantly higher than at the beginning of the year: In Technology and Retail. Because spreads have widened in these two sectors—unlike in other industries—they now rank among the highest of all industries. This means that, along with automotive bonds, they are now among the “top 3” in terms of the highest spreads.

Technology and Retail spreads among “Top 3”

Industry spread trends for investment-grade bonds
EUR corporate bonds, asset swap spreads in basis points



Source: LSEG, LBBW Research

Retail shaped by Amazon

The retail sector saw the largest increase in spreads. With its record-breaking debut transaction of over 14.5 billion euros, U.S. tech giant Amazon immediately accounted for approximately 33% of the sector's weighting. Even though Amazon's new EUR bonds are primarily intended to fund AI investments by its AWS (Amazon Web Services) division, Amazon continues to be classified as part of the retail industry due to its dominant position in online retail.

In the Technology sector as well, AI-related financing led to higher spreads: Alphabet, Google's parent company, increased its market share in the sector to just under 25% through several major transactions.

Long maturities result in wider spreads

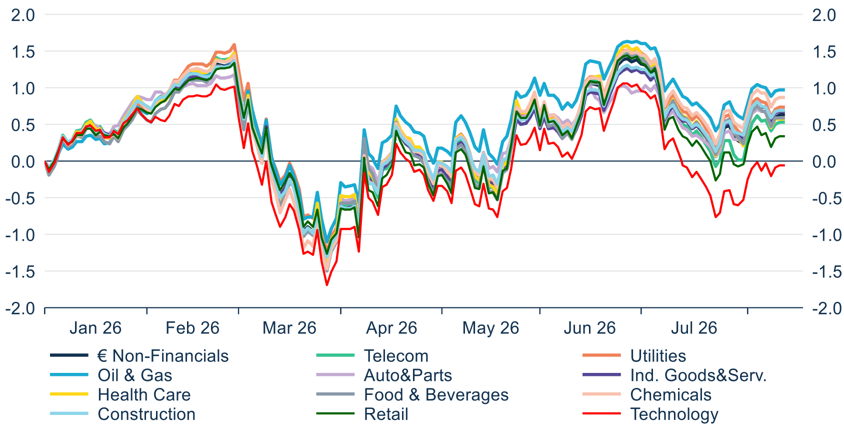
The main reason for the higher average spread levels of some tech companies is the long maturities of their bonds. U.S. corporations often issue new debt across a very wide range of maturities, thereby raising funds even over very long periods.

In a record-breaking transaction in March 2026, Amazon issued eight bonds with maturities ranging from 2 to 38 years. As a result, the average remaining maturity of Amazon bonds is roughly double the average remaining maturity of all corporate bonds included in the investment-grade index.

In addition, there were actual widening of spreads on the bonds included in the sector indices. While the risk spreads for the technology and retail sectors moved upward “to the top,” their year-to-date total returns correspondingly landed “at the very bottom” (see chart on the following page).

Industry performance

Investment-grade EUR bonds, total return in % since January 1, 2026



Source: LSEG, LBBW Research

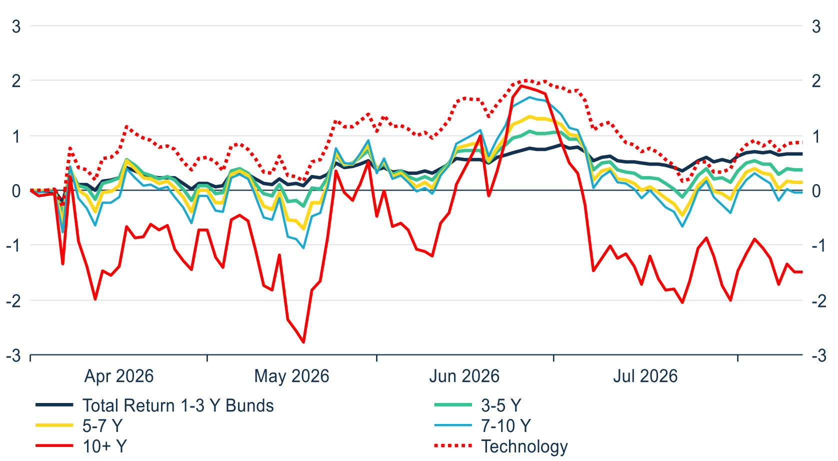
Technology and Retail with the weakest performance

The overall index for investment-grade corporate bonds posted a gain of 0.6% from the beginning of the year through mid-August 2026. By contrast, the technology (+0.3%) and retail (+0.0%) sectors—both of which were influenced by new bonds issued to finance AI—posted only below-average performance.

In addition to the effects of changes in spreads, however, this also includes the impact of changes in German government bond yields, which can vary depending on the maturity. The following chart showing the total return on German government bonds (starting in April 2026) indicates that longer-term bonds have recently underperformed. For investment horizons of more than 10 years, a negative return was even recorded starting in April (approx. -1.5%). By comparison—that is, taking into account the effects of the yield curve—bonds in the technology sector, with their longer remaining maturities, have performed significantly better than they appear at first glance.

German Bunds: Performance by maturity (including Technology)

Total Return in % since April 1, 2026, for various remaining maturities



Source: LSEG, LBBW Research

Bunds show: The longer the term, the weaker the performance

04 I

Calendar/Analytics

Developed Markets Overview

	2 Years			10 Years		
Euro Area	**Yields**	**Spread**	**Change***	**Yields**	**Spread**	**Change***
Bund	2,79			3,16		
Jumbo	2,99	20	-3	3,49	33	-3
Swap	2,98	19	-2	3,19	3	-1
Netherlands	2,76	-3	0	3,25	9	0
Austria	2,80	1	-2	3,37	21	0
France	2,97	18	1	3,98	82	4
Belgium	2,83	4	1	3,71	55	2
Italy	2,95	17	1	3,93	77	0
Spain	2,82	3	0	3,59	43	0
Ireland	n.a.	n.a.	n.a.	3,30	14	-1
Portugal	2,77	-2	2	3,49	33	1
Greece	n.a.	n.a.	n.a.	3,83	67	0
EX. EURO AREA	**Yields**	**Spread**	**Change***	**Yields**	**Spread**	**Change***
USA	4,16	137	-8	4,66	150	-1
Canada	2,93	14	-7	3,63	47	-5
Japan	1,67	-112	2	2,89	-27	6
UK	4,34	155	2	4,99	183	4
Switzerland	0,11	-268	-4	0,38	-278	-3

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

Sources: Bloomberg, LBBW Research

Issuing Calendar Government Bonds

Date	Country	Type	Maturity	Coupon	Size	Comment
18.08.2026	Japan	JGB	5Y		JPY 2.5 tn.	
18.08.2026	UK	UKT	10Y		GBP 4 bn.	Tap
19.08.2026	Germany	Bund	08/36	3.00%	€ 6 bn.	Tap
19.08.2026	USA	T-Bond	08/46		USD 16 bn.	New
20.08.2026	Japan	JGB	20Y		JPY 800 bn.	
20.08.2026	France	OAT	2Y - 5Y		€ 7 bn.	Tap
20.08.2026	France	OAT€i			€ 1.5 bn.	Tap
20.08.2026	Spain	SPGB	3Y - 30Y			Cancelled
20.08.2026	USA	TIPS	02/56	2.375%	USD 9 bn.	Tap

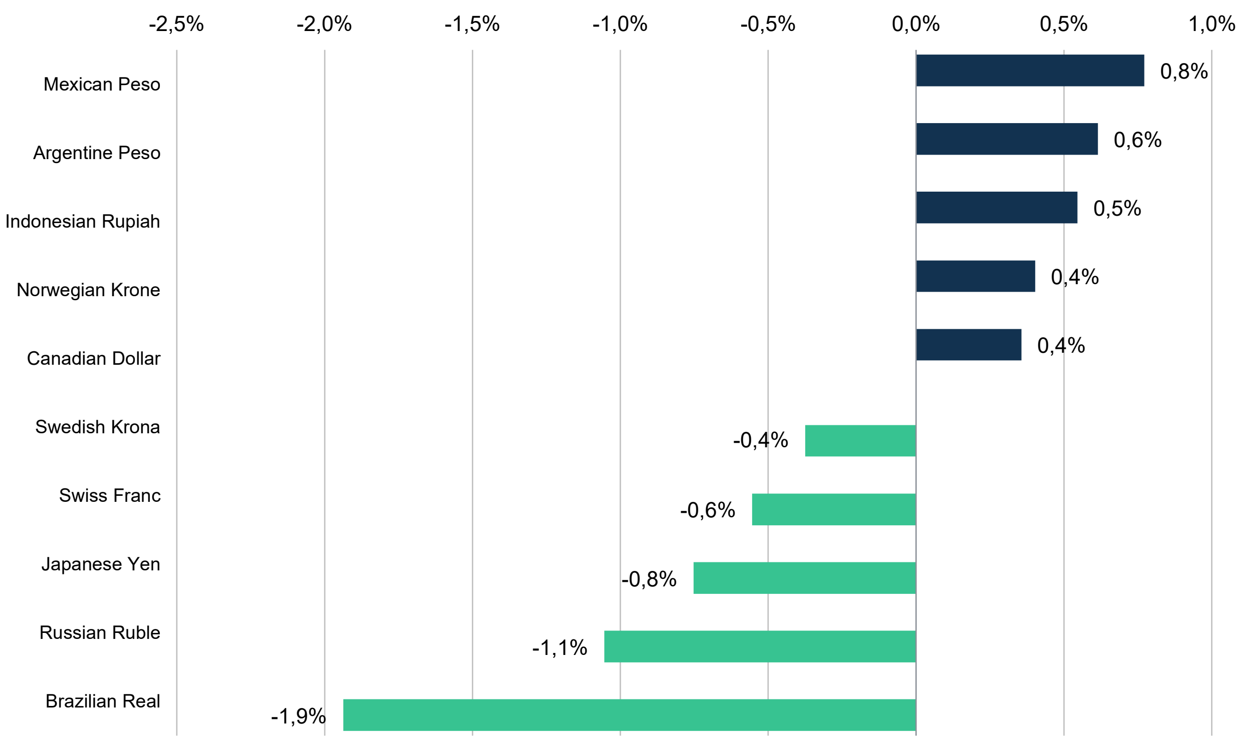
Sources: Bloomberg, LBBW Research

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%	2,9%	↑			
United States	16.09.26	3,75%	10.12.25	4,00%	3,4%	↑	2,6%	1,1540	1,1621
United Kingdom	17.09.26	3,75%	18.12.25	4,00%	2,6%	↘	1,7%	0,8548	0,8610
Japan	18.09.26	1,00%	16.06.26	0,75%	1,7%	↘	-1,0%	183,75	182,41
China	***	2,00%	25.09.24	2,30%	0,5%	·	5,3%	7,78	7,72
Switzerland	24.09.26	0,00%	19.06.25	0,25%	0,4%	↗	-2,9%	0,9390	0,9263
Argentina	***	29,00%	31.01.25	32,00%	33,2%	↘	-3,4%	1.720,07	1.940,22
Australia	29.09.26	4,35%	05.05.26	4,10%	3,2%	↗	2,6%	1,63	1,65
Brazil	16.09.26	14,00%	05.08.26	14,25%	4,4%	·	3,7%	5,98	6,27
Canada	02.09.26	2,25%	29.10.25	2,50%	2,8%	↗	0,7%	1,61	1,60
Czech Republic	17.09.26	3,75%	18.06.26	3,50%	1,7%	·	0,2%	24,22	24,32
Denmark	***	2,00%	12.06.26	1,75%	1,7%	↗	-0,1%	7,48	7,46
Hong Kong	***	4,00%	08.11.24	4,25%	2,0%	↗	2,3%	9,06	9,07
Hungary	25.08.26	5,75%	21.07.26	6,00%	1,2%	↘	3,8%	363,60	368,06
India	07.10.26	5,25%	06.02.25	5,50%	4,5%	↑	-2,3%	110,14	112,57
Indonesia	19.08.26	5,75%	18.06.26	5,50%	2,9%	↘	-3,0%	20.567,64	21.004,78
Mexico	24.09.26	6,50%	07.05.26	6,75%	3,1%	↘	3,5%	19,66	20,10
New Zealand	02.09.26	2,50%	08.07.26	2,25%	4,1%	↑	-0,1%	1,97	1,97
Norway	24.09.26	4,25%	07.05.26	4,00%	3,0%	↘	2,9%	10,95	11,06
Poland	09.09.26	3,75%	04.03.26	4,00%	3,0%	↗	-2,2%	4,31	4,34
Romania	08.10.26	6,50%	07.08.24	6,75%	8,2%	↓	-2,8%	5,24	5,33
Russia	11.09.26	14,00%	24.07.26	14,25%	6,0%	·	-5,2%	96,17	102,44
Singapore	***	1,97%	n.a.	2,01%	1,9%	↗	1,3%	1,48	1,47
South Africa	23.09.26	7,00%	28.05.26	6,75%	5,0%	↑	1,3%	18,69	19,09
South Korea	27.08.26	2,75%	16.07.26	2,50%	2,8%	↗	4,7%	1.634,36	1.639,71
Sweden	20.08.26	1,75%	23.09.25	2,00%	0,2%	↘	-3,8%	11,02	10,99
Turkey	10.09.26	37,00%	22.01.26	38,00%	31,8%	·	-6,3%	55,30	64,51

Sources: Bloomberg, LBBW Research

The Strongest Currency Appreciations and Depreciations Against the Euro This Week

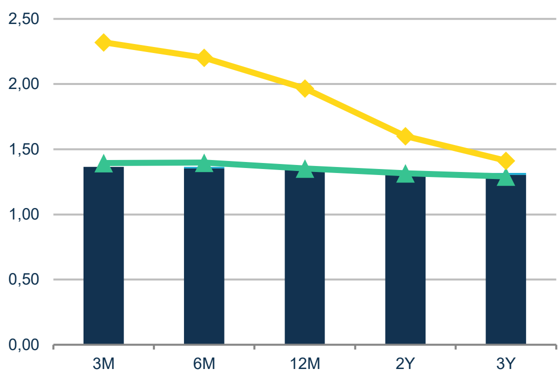


Sources: Bloomberg, LBBW, Research

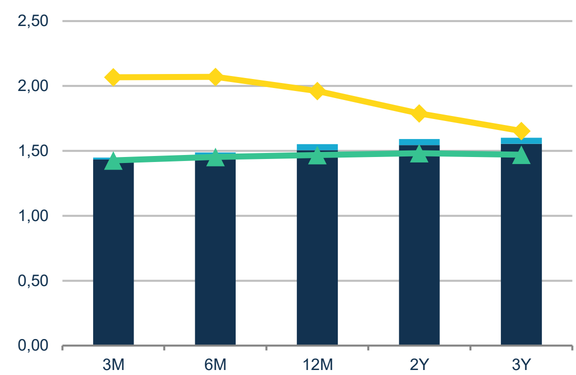
Interest rate differential and FX insurance costs vs. the Euro for selected currencies

interest rate differential, basis swap rates and insurance costs

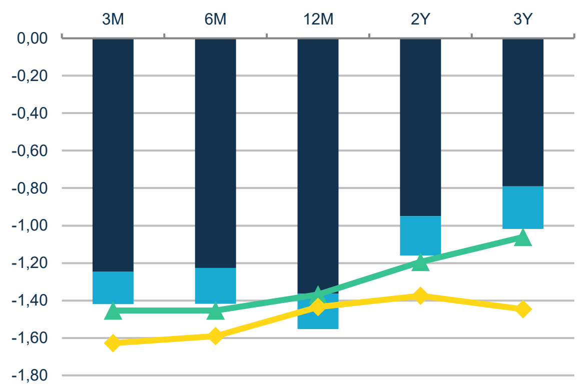
US dollar



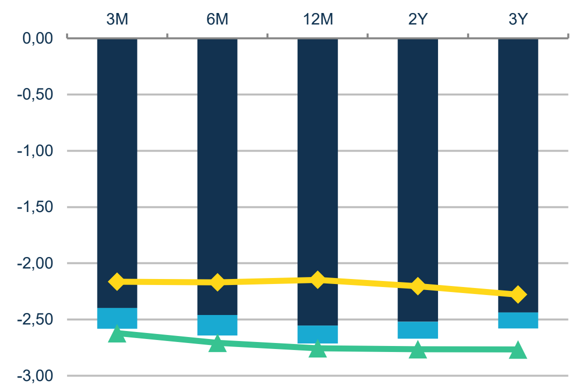
British pound



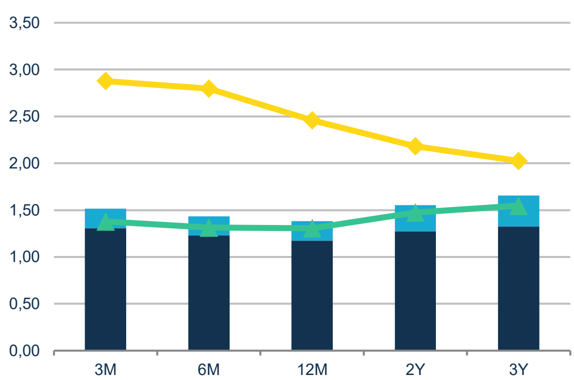
Japanese yen



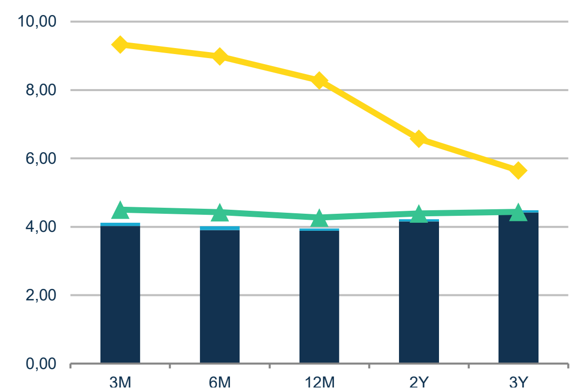
Swiss franc



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

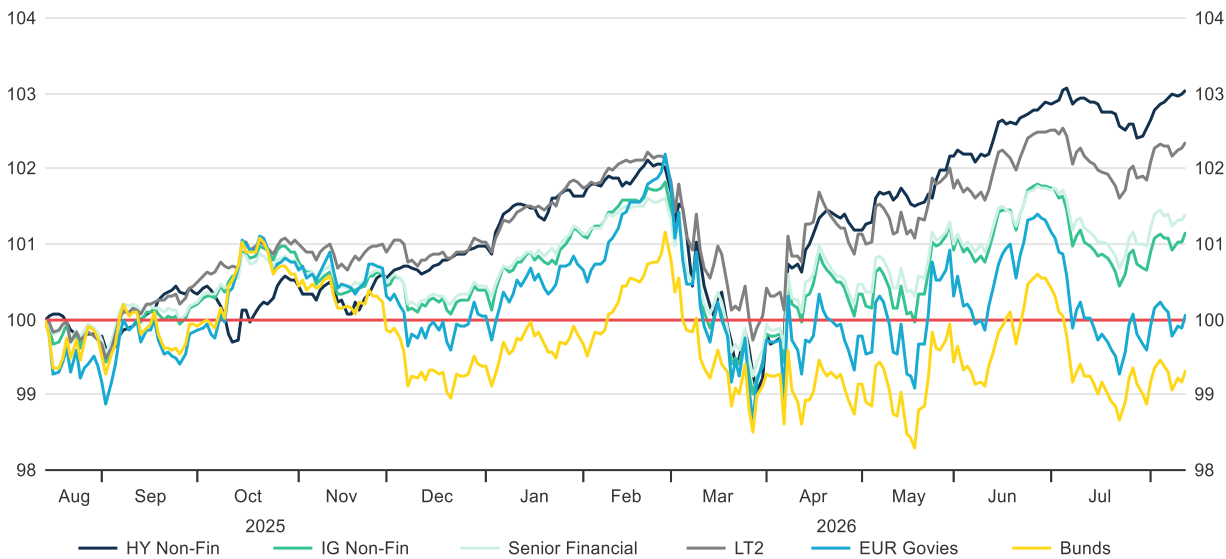
5Y CDS Spreads	Current	Changes 1W	1M	3M	6M	1Y
IG Corporates	51	0	-2	-5	-1	-1
HY & NR Corporates	248	-2	-3	-25	0	-13
Senior Financials	53	0	-2	-6	-2	-3
Sub Financials	86	-1	-3	-10	-7	-6

EUR Indices	Current	Changes 1W	1M	3M	6M	1Y
Non-Financials	74	1	1	-3	0	-5
Banks Senior Preferred	50	2	-1	-4	-5	-9
Banks Senior Bail-in	69	2	-1	-5	-6	-7
Banks Subordinated	101	0	0	-7	-8	-20

*time lag of one day, Asset Swap Spreads 14.08.2026

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 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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Disclaimer

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Sources/Charts: Refinitiv Datastream, Ecowin, Bloomberg, LBBW Research

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