

LBBW

Bonds Weekly

CW 47/2026 | LBBW Research | Strategy/Macro

AI concerns support bond markets; U.S. Dollar stays firm

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01 | Our View

Bond Market Movers – Review and Outlook

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What drove the bond markets last week?

- Military skirmishes between the U.S. and Iran in the Strait of Hormuz have continued. Nevertheless, crude oil prices tended to remain under downward pressure due to expectations of a global supply surplus and a strong U.S. dollar.
- In the run-up to Anthropic's initial public offering, price declines have been dominating the technology sector of the stock markets, even though the newcomer's shares were heavily oversubscribed. Strong results from AI chip giant Nvidia lifted spirits to some degree, though.
- Sales growth in the U.S. retail sector did slow significantly in October, but “core sales” underscore the robust state of consumer spending.
- In Germany, the ZEW Economic Sentiment Index has risen to its highest level since February 2026.
- The Fed's minutes from its October meeting show near-unanimous agreement on the need for further monetary tightening in the coming months.

What could drive the market next week?

- The financial markets remain in the grip of news from the Middle East and commodity prices. The sentiment surrounding AI following Anthropic's IPO is also likely to have a significant impact.
- The macroeconomic calendar will focus on the ifo Business Climate Index and the Purchasing Managers' Indices for the eurozone. Overall, we expect sentiment to move more or less sideways.
- In the U.S., attention will be focused on the core PCE inflation figure for October during the shortened Thanksgiving trading week. We expect underlying price pressures to rise to their highest level since November 2023.
- EU heads of state and government could finalize the new staffing structure for the ECB. It seems all but certain that the Spaniard Hernandez des Cos will succeed ECB President Lagarde.
- When it comes to sovereign ratings, France will once again be on edge when S&P releases the results of its latest review.
- In the primary market for U.S. Treasuries, the focus next week will be on short- to medium-term maturities. Meanwhile, activity in the primary market for euro-denominated government bonds is set to decline slightly as compared to last week. We expect a gross offering of between 20 and 25 billion euros, compared with approximately 25 billion euros the previous week. Net cash flows will likely surge well into positive territory thanks to high reflows from maturing obligations.

AI concerns support bond markets; U.S. Dollar stays firm

10-year U.S. yield consolidates just above 5%

For now, it's time to take a breather in the U.S. Treasury market. The prices have halted the sharp downward spiral of the previous week. The 10-year U.S. benchmark yield did settle above the psychologically important 5% mark. However, as volatility retreated significantly, bond prices entered a consolidation phase. In our view, two factors appear to have taken the wind out of the bond bears' sails for the time being. First, the situation in the Middle East continues to act as a factor that supports bind prices. Admittedly, there is no indication of an imminent breakthrough in the diplomatic efforts to resolve the conflict between the U.S. and its allies, on the one hand, and Iran, on the other. In fact, the military skirmishes in the Strait of Hormuz continue. However, market participants apparently believe that simply maintaining the potentially fragile status quo will help gradually alleviate the shortages in the energy markets. Accordingly, prices for both crude oil and natural gas continued to trend downward on balance.

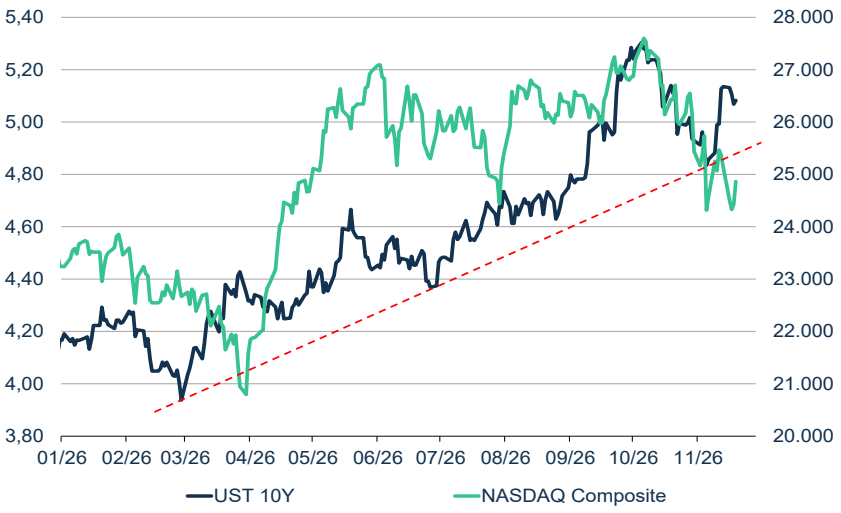
Market continues to bet on easing tensions in the Middle East

Second, in the run-up to the highly anticipated initial public offering of the AI company Anthropic, stock market participants tended to reduce their exposure to the AI sector. Consequently, caution prevailed regarding the continuation of the AI boom, as evidenced by a sharp drop in stock prices on the U.S. technology exchange NASDAQ. Conversely, demand for the safety of U.S. government securities increased, which slowed the previous rise in yields. Despite all this, the medium-term upward trend in the U.S. benchmark yield remains intact, as the following chart shows.

Price slump in the U.S. tech sector drives safe-haven demand

Chart of the Week

Yields on 10-Year U.S. Treasuries and NASDAQ Composite



Source: Bloomberg, LBBW Research

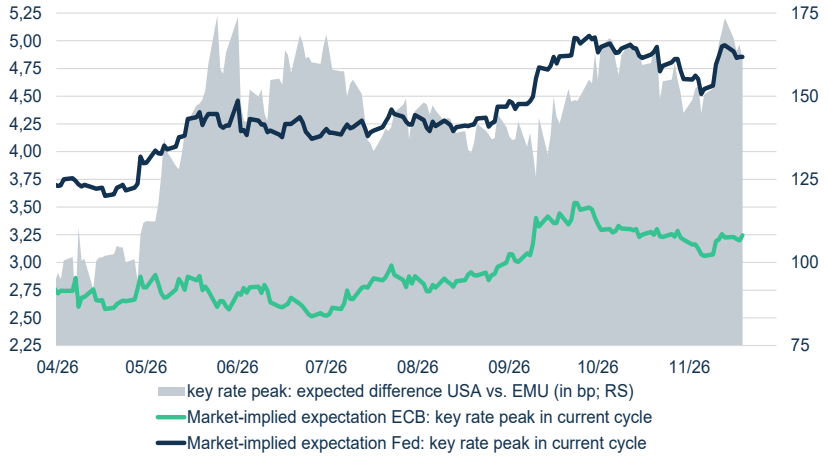
Amid lingering doubts about the AI boom, participants in the U.S. dollar interest rate market have also slightly scaled back their expectations regarding the extent of the Fed's upcoming interest rate hikes. Investors have thus tended to move away from their previous expectation that the key rate differential between the U.S. and the eurozone, currently standing at 150 basis points, will widen on balance over the next twelve months. On this side of the Atlantic, meanwhile, market participants' consensus expectations for the ECB's key rate peak remained stable week-over-week at 3.25% (see the chart below). In our view, "hawkish" comments by ECB Vice President Vujcic, who raised the possibility of further

Slight setback for Fed rate hiking speculations

monetary tightening following what is all but certain to be an interest rate hike in December, were offset by the dampening effect of energy prices.

Market consensus expects three more rate hikes from both the Fed and the ECB

Market expectations for the Fed and ECB key rate peaks



Source: Bloomberg, LBBW Research

Market consensus expects key rates to peak at 3.25% (ECB) and 4.75% (Fed)

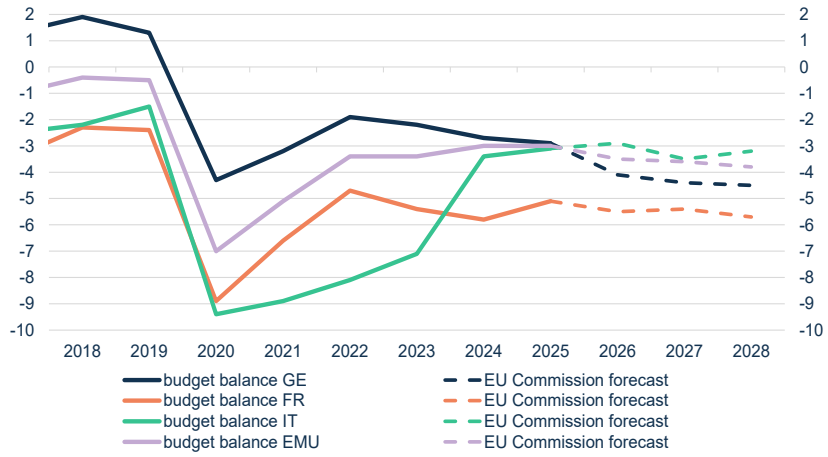
EUR government bonds: Debt worries persist

The “hawkish” comments from the ECB’s top ranks are likely to have helped prevent another positive swing in the EUR government bond market. Furthermore, in our view, the European Commission’s recently updated economic forecasts have served as a reminder that the bond market is facing the dual challenge of persistently high inflation and growing government debt problems. The Commission expects inflationary pressures in the euro area to ease only slightly next year. Moreover, the fiscal situation of the eurozone countries is likely to deteriorate somewhat overall, as Germany's deficit-to-GDP ratio is expected to move another step closer to that of France, the Euro area’s current “problem child” (see the chart below).

EU Commission expects sticky inflation …

The Eurozone is gradually slipping deeper into deficit

Budget balance of selected Eurozone countries (as a percentage of GDP) with European Commission forecasts through 2028



Source: Bloomberg, LBBW Research

… and a rising budget deficit

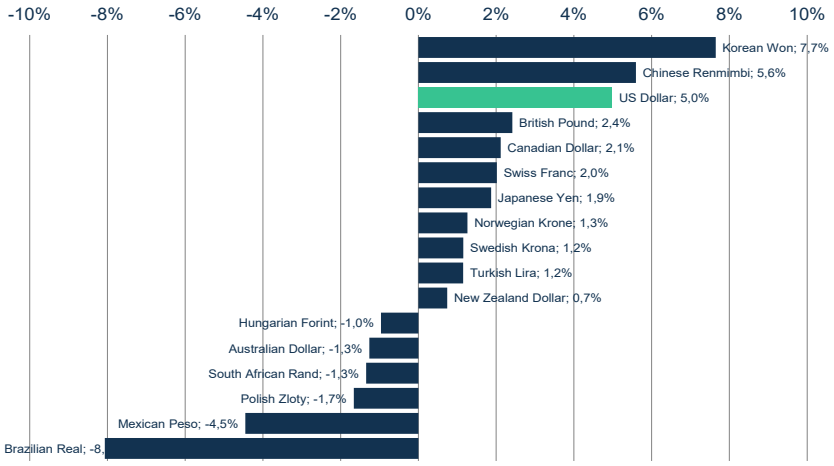
The euro remains under downward pressure against the U.S. dollar

In the foreign exchange market, investors' concerns about the sustainability of government debt, particularly in case of France, are likely to have been a key driver of the euro's sustained decline against the U.S. dollar in recent weeks. About two months ago, the yield spread between 10-year French government bonds and German Bunds sent a clear warning signal when it jumped above the 100-basis-point mark. Since then, the euro has lost roughly 5% against the U.S. dollar on balance, while it has also lagged behind most other major currencies (see the chart below).

Since mid-September, the Euro has lost 5% against the USD

The euro is losing ground against other major currencies

Performance of selected currencies against the Euro since mid-September 2026



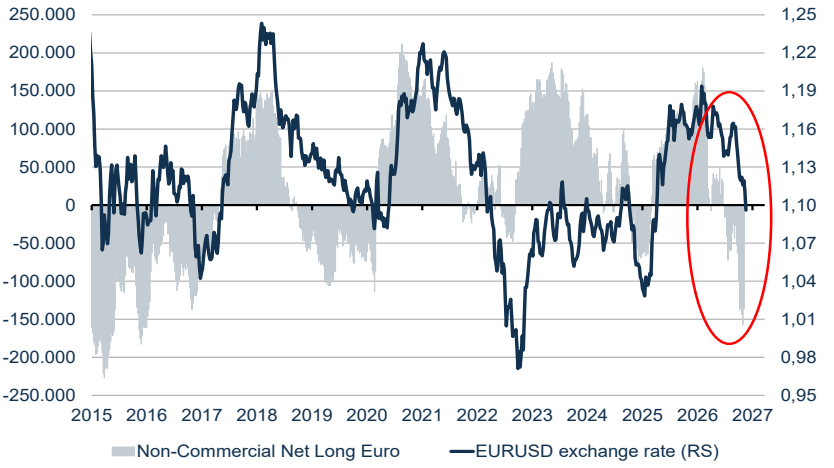
Source: Bloomberg, LBBW Research

This week, the European single currency continued its decline against the U.S. dollar, even though the trend in market expectations for the transatlantic key rate differential leaned somewhat in favor of the euro. The exchange rate slipped below the 1.10 mark for the first time since the spring of 2025. In our view, a look at the positioning of speculative players in the futures market underscores that sentiment has shifted dramatically against the euro. At the beginning of November, net positioning in anticipation of further weakness in the euro was at a level last seen more than ten years ago (see the chart below).

The 1.10 mark was undercut for the first time since spring 2025

Speculators are betting heavily against the euro

EUR/USD exchange rate and speculative net-long positions in the Euro



Source: CFTC, Bloomberg, LBBW Research

Heavy bearish speculation increases downward pressure, …

The strong downward momentum of the euro – and the corresponding investor appetite for the greenback, which has persisted despite the recent AI-related turbulence – appears to be creating fairly high hurdles for

a reversal for the time being. However, in our view, this strongly pronounced positioning on continued euro weakness also holds out the hope that the factors weighing on the euro have largely been priced in – including emerging signs of overdoing it. Based on historical experience, this should lay the groundwork for a recovery of the common currency in the medium term.

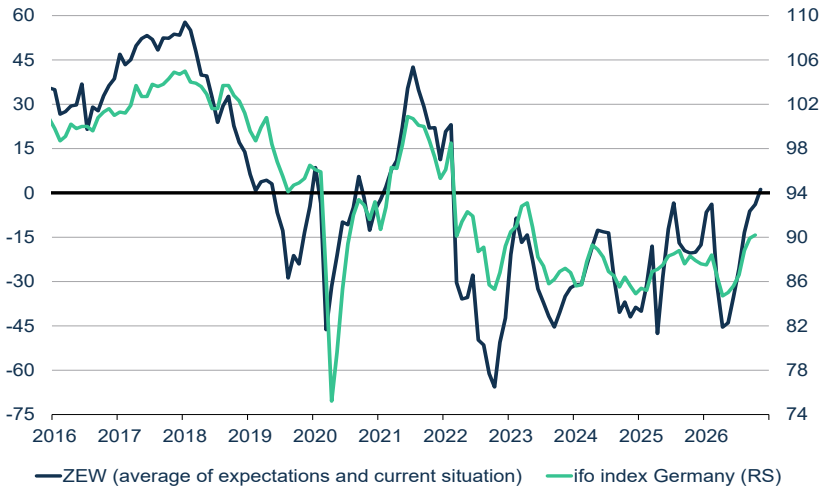
… but it also offers hope for a medium-term correction

Outlook: Focus on leading economic indicators from EMU

In the short term, however, the U.S. dollar could remain in a firm position. In addition to favorable momentum, we believe the greenback will be supported by U.S. macroeconomic data in the coming week. Core PCE inflation (Nov. 25) is likely to have jumped to its highest level in nearly three years in October, which is likely to fuel speculation among U.S. bond market participants that the Fed will implement several rate hikes. On this side of the Atlantic, meanwhile, the S&P Global Purchasing Managers' Indices for November (Nov. 23) and the ifo Business Climate Index (Nov. 24) will be the highlights on the macroeconomic data calendar. We expect sentiment to remain roughly stable overall. The PMIs may show a tendency toward slight setbacks. Looking at the ifo Index, the outlook is mixed. On the one hand, the data already released from the ZEW survey, whose average value climbed above zero for the first time since 2022, do indicate the potential for a seventh consecutive increase (see the chart below). On the other hand, growing concerns about the AI boom could contribute to a slight dip in the ifo business expectations component.

U.S. core PCE inflation set to continue rising

Can the ifo index rise yet again?
ifo Business Climate Index and the average of the ZEW Expectations and Current Conditions indices



Source: Bloomberg, LBBW Research

Will the ifo Index rise for the seventh time in a row?

Forecasts at a Glance

Euro Area	Spot	31.12.26	30.06.27	31.12.27
ECB Main Refinancing Rate	2,65	2,90	3,15	2,90
ECB Deposit Rate	2,50	2,75	3,00	2,75
Overnight Rate (€STR)	2,44	2,70	2,95	2,75
3M Euribor	2,85	2,85	3,05	2,75
Swap 2Y	3,38	3,50	3,25	2,75
Swap 5Y	3,38	3,60	3,35	3,00
Swap 10Y	3,42	3,65	3,50	3,30
Bund 2Y	3,11	3,25	3,05	2,60
Bund 5Y	3,18	3,40	3,20	2,90
Bund 10Y	3,36	3,60	3,50	3,35
Swap/Bund 2Y	27	25	20	15
Swap/Bund 5Y	20	20	15	10
Swap/Bund 10Y	6	5	0	-5
Spread BBB Corporates/Bund	120	115	120	130

USA	Spot	31.12.26	30.06.27	31.12.27
Fed Funds Target Rate	4,00	4,25	4,25	4,00
Overnight Rate (SOFR)	3,90	4,15	4,15	3,90
3M Money Market	4,19	4,30	4,15	3,90
Swap 2J (SOFR-OIS)	4,58	4,60	4,15	3,75
Swap 5J (SOFR-OIS)	4,52	4,60	4,25	3,95
Swap 10J (SOFR-OIS)	4,60	4,70	4,50	4,30
Treasury 2Y	4,73	4,75	4,35	3,95
Treasury 5Y	4,82	4,90	4,60	4,30
Treasury 10Y	5,01	5,10	4,95	4,80

G5		Spot	31.12.26	30.06.27	31.12.27
Japan	*Overnight Rate (TONAR)*	1,23	1,55	1,80	2,05
Japan	*10Y Government Bond*	2,80	3,15	3,25	3,30
UK	*Overnight Rate (SONIA)*	3,98	3,95	4,20	3,95
UK	*10Y Government Bond*	5,28	5,30	5,20	5,00
Switzerland	*Overnight Rate (SARON)*	-0,04	-0,05	0,20	0,20
Switzerland	*10Y Government Bond*	0,57	0,60	0,60	0,50

FX	Spot	31.12.26	30.06.27	31.12.27
EURCHF	0,9245	0,93	0,94	0,95
EURCNY	7,3239	7,71	7,36	7,43
EURGBP	0,8371	0,85	0,85	0,85
EURJPY	174,57	182	178	176
EURUSD	1,0974	1,15	1,15	1,17
USDCHF	0,8425	0,81	0,82	0,81
USDCNY	6,6746	6,70	6,40	6,35
GBPUSD	1,3109	1,35	1,35	1,38
USDJPY	159,07	158	155	150

Economic Development		2024	2025	2026e	2027e
Germany	*GDP*	0,0	0,4	1,0	1,0
	Inflation	2,3	2,2	2,8	2,6
Euro Area	*GDP*	1,2	1,5	1,0	1,3
	Inflation	2,4	2,1	3,0	2,5
UK	*GDP*	1,1	1,3	1,3	1,2
	Inflation	2,5	3,2	3,2	2,5
USA	*GDP*	3,0	2,1	2,2	1,6
	Inflation	3,0	2,7	3,6	2,2
Japan	*GDP*	0,1	1,1	0,6	0,8
	Inflation	2,7	3,2	2,0	1,8
China	*GDP*	5,0	3,7	3,5	3,2
	Inflation	0,2	0,0	1,2	1,5
World	*GDP*	3,2	3,3	2,7	2,8
	Inflation	3,5	3,4	3,8	3,0

Changes to the foregoing week are marked by a (*)

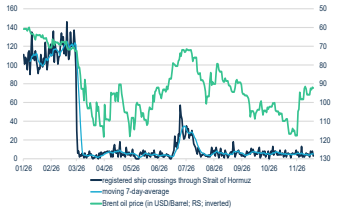
Sources: LSEG, Bloomberg, LBBW Research

Main Events of the Past Week

- *Middle East Conflict:* Media reports paint a mixed picture of the current state of the Iran conflict – according to some reports, the intensity of talks aimed at resolving the conflict has increased on the one hand, while mutual military attacks in the Strait of Hormuz continue – on the other hand, U.S. President Trump is reportedly considering the possibility of a new round of comprehensive military strikes in light of intelligence reports about Iran's efforts to replenish its own weapons arsenals.
- *Geopolitics:* The European Commission proposes a new loan to Ukraine totaling 45 billion euros, to be refinanced through joint borrowing by the European Union – The funds are intended to cover the Ukrainian government's financing shortfalls, with 25 billion euros earmarked for military needs – Commission President von der Leyen describes this as a strong signal of support for Ukraine at the negotiating table with Russia.
- *Geopolitics:* U.S. negotiators involved in peace efforts regarding the war in Ukraine have rejected Russia's list of demands for a future European security architecture as "maximalist" – NATO should remain the "central pillar" of security in Europe, and any proposed agreement with Russia must reduce the risk of future conflicts – The U.S. government is reportedly open to the option of Ukraine joining NATO in exchange for territorial concessions – President Trump insists he will not make "any deals with Putin without Ukraine."
- *ECB – Lagarde's Successor:* Race to succeed Christine Lagarde as ECB Chief decided, according to media reports – Dutchman Klaas Knot Is reportedly about to withdraw his application – BIS General Manager Pablo Hernandez de Cos thus the only remaining candidate – Germany and France support the Spaniard – Meanwhile, the German government is fielding top economist Markus Brunnermeier in the race for the position of ECB chief economist.
- *ECB – Financial Stability Report:* The ECB warns of the risk of increasing price volatility in the EUR government bond market due to the growing presence of hedge funds as investors in these securities – rapid liquidation of positions by hedge funds could lead to abrupt market reversals – The central bank also warns of risks stemming from persistent geo-economic uncertainty.
- *Monetary Policy – ECB:* ECB Vice President Vujcic considers a key interest rate hike in December to be "highly likely" – further steps may follow next year if inflationary pressures spread – Inflation is quite certain to spread to sectors outside the energy sector by 2027, according to Vujcic.
- *Monetary Policy – Fed:* Minutes from the Fed meeting on October 27/28 show near-unanimous agreement on the need for further monetary tightening in the coming months – two Fed officials advocated for a larger rate hike in December should the next inflation data come in unfavorable.
- *Germany – Economy:* ZEW Economic Sentiment surprises positively in November with a rise from 28.1 to 35.6 points – highest level since February 2026 – while the assessment of the current situation also improved, climbing from -35.9 to -33.2 points.
- *Germany – Economy:* A study by the consulting firm EY shows accelerated revenue growth in German industry – increase of 4.6% (Y/Y) in the third quarter, marking the strongest growth in four years – expansion of AI and military modernization have been key drivers – at the same time, job losses continue, with 140,000 fewer jobs Y/Y – mechanical engineering and automotive industries have been particularly affected.

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Strait of Hormuz & Oil Prices



Sources: Bloomberg, LBBW Research

Trump: No "deal" with Putin without Ukraine

Vujcic opens the door for further tightening in 2027

EU Commission raises growth forecast

- *Eurozone – Economy:* The European Commission raises its GDP growth forecast for the eurozone in 2026 from 0.9% to 1.2%, while forecast for 2027 remains unchanged at 1.2% – above-average upward revision for Germany (to 1.3% for 2026 and 1.0% for 2027) – Downward revision, however, for France (to 0.4% for 2026 and 0.6% for 2027) – Commission expects inflation to remain elevated in 2027 (3.1% after 3.2% this year).
- *U.S. – Inflation:* Rise in producer prices accelerated to 6.5% (Y/Y) in October – thus, a bit less than expected, following 6.3% in September – highest price pressure since November 2022 – while the core producer price index remained stable at 5.0%.
- *U.S. – Economy:* Retail sales rose by 0.2% (M/M) in October, following a 0.8% increase in September – weak auto sales held back sales growth, while "core sales" (excluding autos and gasoline) showed robust growth of 0.5%.
- *U.S. – Economy:* Industrial production fell short of expectations in October, declining by 0.4% (M/M), following a 0.7% increase in September.
- *U.S. – Labor Market:* Weekly ADP report shows a renewed increase in employment growth for the four-week period ending October 31, with an average of 23,750, up from 19,250 in the previous period – highest figure since late September.
- *UK – Inflation:* Price pressure rose to 3.6% (Y/Y) in October, up from 3.5% in September – highest level in a year – while core rate remained stable at 2.8%.
- *China – Economy:* Industrial production showed slower growth in October, rising by only 4.8% (Y/Y), down from 5.5% in September – lowest figure since July – while retail sales also disappointed, growing by 0.4%, down from 1.1% in September.

Japanese GDP disappointing

- *Japan – Economy:* GDP fell short of expectations in the third quarter, contracting slightly by 0.1% (Q/Q, annualized), following +1.7% in the second quarter – private consumption and foreign trade weighed on growth – while business investment, on the other hand, made a positive contribution.
- *Germany – Bankruptcies:* Number of corporate bankruptcies climbed in August to its highest level in 13 years – while there was a positive trend in new business start-ups, which, according to Destatis, outnumbered bankruptcies in August.

Fitch affirming Germany's AAA rating

- *Germany – Rating:* Fitch affirms Germany's top credit rating with a stable outlook – country can sustain fiscal expansion thanks to considerable fiscal and financial flexibility – Fitch nevertheless points to medium-term risks posed by an aging population, weak productivity growth, declining industrial competitiveness, and political fragmentation.
- *Germany – Fiscal Policy:* After much back-and-forth, the federal government agreed on the final budget for 2027 – new borrowing, including "special funds," is projected to total approximately 210 billion euros, which is 5 billion euros higher than previously planned – deficit remains just shy of the record set during the COVID-19 pandemic (215 billion euros) – coalition partners have finally agreed on the reduction in the electricity tax "for everyone" that Chancellor Merz had so boldly promised.
- *France – 2027 Presidential Election:* Rassemblement National presidential candidate Marine Le Pen promises to reverse Macron's pension reform as of January 2028 – Retirement age to be set between 60 and 62 – a pension fund totaling 900 billion EUR is to be built up "within a generation" – Funding is planned to come from reallocating employer contributions.

- *Netherlands – Government Crisis:* Three-party minority government averts impending collapse with a new agreement on future cooperation – new basic rules and a structural agreement are intended to replace the previous practice of seeking ad hoc majorities in Parliament.
- *AI:* AI model developer Anthropic priced its shares above the announced range due to strong investor demand – IPO raised a record USD 107.3 billion – bringing the company's estimated market capitalization to approximately 1.5 trillion USD.
- *AI:* U.S. President Trump emphasizes the importance of cooperation with allies Japan, Australia, and India (the "Quad") in the field of AI in light of growing competition with China – U.S. government imposes significant restrictions on exports of advanced AI chips to Southeast Asian countries to curb shipments to China via transshipment points.
- *AI – Stability Risks:* ECB Vice President Vujcic warned of risks posed by the increasing reliance on credit to finance the AI boom – rapid development brings new vulnerabilities to the financial system – Vujcic points to growing bond issuances by AI companies, the concentration of exposures, and AI-driven cyber risks – borrowing for AI expansion is likely to continue rising, as cumulative capital expenditures by major U.S. technology companies are projected to reach 5.5 trillion by 2030.

Anthropic IPO in high demand

ECB warns of AI risks

Next Week's Data

TIME	COUNTRY		PERIOD	LBBW FORECAST	CONSENSUS FORECAST[1)]	LAST VALUE[2)]	IMPORTANCE
FRIDAY, 20.11.2026							
16:00	EMU	Consumer Confidence (prelim.)	Nov	-17,5	-18,0	-17,9	*
16:00	USA	Uni Michigan Consumer Confidence (final)	Nov	-	51,6	51,0	**
	BEL	Rating Review Belgium (Fitch)					**
	POR	Rating Review Portugal (Moody's®)					**
MONDAY, 23.11.2026							
09:30	GE	PMI Manufacturing (prelim.)	Nov	54,0	-	54,2	***
09:30	GE	PMI Services (prelim.)	Nov	52,0	-	52,5	***
09:30	GE	PMI Composite (prelim.)	Nov	53,0	-	53,4	***
10:00	EMU	PMI Manufacturing (prelim.)	Nov	52,5	-	52,7	***
10:00	EMU	PMI Services (prelim.)	Nov	51,2	-	51,4	***
10:00	EMU	PMI Composite (prelim.)	Nov	51,5	-	51,7	***
22:00	USA	FOMC Vice Chair Williams speaks					**
TUESDAY, 24.11.2026							
10:00	GE	ifo Business Climate Germany	Nov	90,0	-	90,2	***
10:00	GE	ifo Expectations	Nov	91,0	-	91,6	***
10:00	GE	ifo Current Conditions	Nov	89,0	-	88,8	***
15:00	USA	S&P / CS Composite-20 (M/M)	Sep	-	0,2	0,3	*
16:00	USA	Consumer Confidence (CB)	Nov	93,0	92,1	91,7	***
WEDNESDAY, 25.11.2026							
08:00	GE	GDP (Q/Q) (details)	Q3	0,2	-	0,2	**
14:30	USA	Durable Goods Orders (M/M) (prelim.)	Oct	0,5	0,5	1,9	***
14:30	USA	GDP (Q/Q, annualized) (2nd estimate)	Q3	3,5	3,5	3,4	**
14:30	USA	PCE Core (Y/Y)	Oct	3,3	3,2	3,1	***
14:30	USA	Personal Income (M/M)	Oct	0,5	0,3	0,2	**
14:30	USA	Personal Spending (M/M)	Oct	0,4	0,4	0,5	**
16:00	USA	New Home Sales (thous.)	Oct	650	645	676	**
20:00	USA	Fed releases Beige Book					**
THURSDAY, 26.11.2026 (Thanksgiving Day, USA)							
08:00	GE	GfK Consumer Confidence	Dec	-29,0	-	-30,8	**
10:00	EMU	Money Supply M3 (Y/Y)	Oct	3,5	-	3,5	**
	EU	Special EU Summit of Heads of States and Governments					***
FRIDAY, 27.11.2026 (Black Friday)							
09:55	GE	Unemployment Rate (sa)	Nov	6,4	-	6,4	*
09:55	GE	Unemployment Change (thous., sa)	Nov	6,0	-	4,0	*
10:00	EMU	ECB publishes Consumers' Inflation Expectations (1 Year, 3 Years)					**
11:00	EMU	Economic Sentiment	Nov	96,6	-	96,9	***
11:00	EMU	Industrial Confidence	Nov	-3,6	-	-3,4	*
	FR	Rating Review France (S&P)					***

1) Consensus forecast according to Bloomberg/Reuters

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

Sources: Bloomberg, LBBW Research

02 | Rates

U.S. Treasury Market: Foreigners took sharp price drop as a buying opportunity

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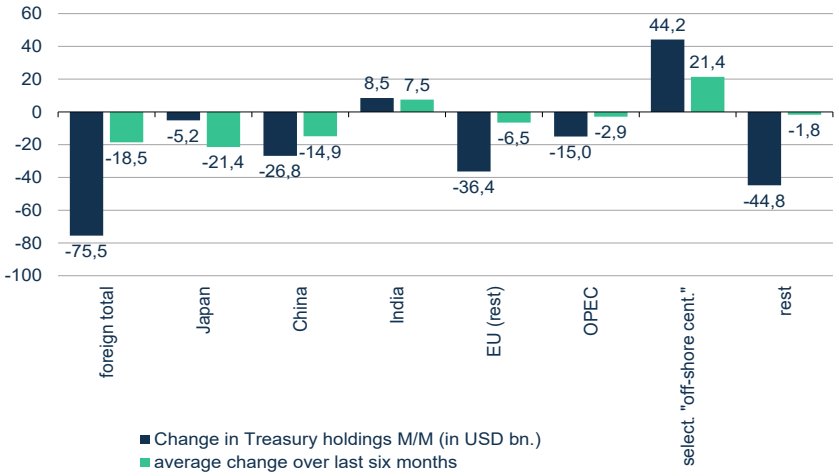
TIC Data: Foreign Treasury holdings decline in September – slump in market value as main driving factor

The U.S. Department of the Treasury's TIC (Treasury International Capital) database on foreign holdings of U.S. government securities once again paints a mixed picture for September. At first glance, it appears that foreign creditors have been selling off U.S. Treasuries on a large scale. According to the most recent available data, total holdings by foreign investors fell by about USD 75 billion, following a rise of USD 83 billion in August. It was the sharpest decline since March 2026. Once again, China – formerly the largest foreign creditor of the U.S. – stands out with a decline in holdings of just under USD 27 billion, leaving its holdings at only USD 563 billion (see the chart below). Conversely, Treasuries held in traditional offshore destinations have seen another sharp increase. This group of countries now accounts for more than one-third of all U.S. Treasury securities held by foreign investors. Ten years ago, the figure was just under 25%.

China continues to cut its holdings

Foreign investors appear to have sharply reduced their Treasury holdings in September

Change in holdings of U.S. Treasuries by selected creditors (in billions of USD, M/M and 6-month average)



Source: TIC, Bloomberg, LBBW Research

Holdings in "off-shore" centers continue to rise

However, in our view, it can be assumed that the sharp decline in holdings reported in the TIC data for September is attributable to the significant fluctuations in market value during that period. U.S. Treasury prices fell by an average of just over 2%, and the monthly TIC data are not adjusted for these price fluctuations.

Sharp fluctuations in market value distort the picture

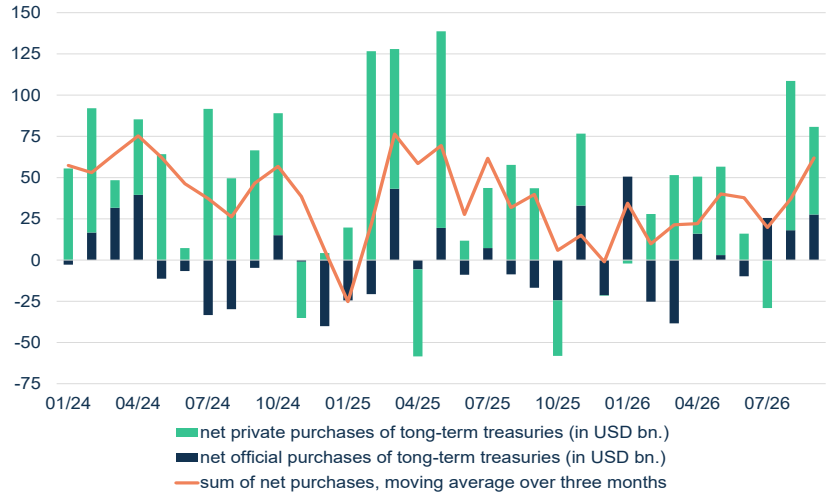
Long-term bonds: Net purchases by foreign public-sector investors positive for the third consecutive time

What's more: The net purchases of long-term U.S. Treasury securities, which are reported separately in the TIC statistics, even suggest that the price drop in September prompted foreign investors to increase their holdings. According to the report, foreign investors made net purchases of longer-term U.S. Treasuries totaling just over USD 80 billion in September. It was the second consecutive month of high net purchases (August: +USD 108 billion). Once again, robust demand from the private sector was the key driver (see the chart below). In addition, the willingness of state-affiliated foreign investors to buy appears to be recovering more sustainably from its previous period of pronounced weakness. For the past three consecutive months, the central banks and sovereign wealth funds listed below have purchased more long-term U.S. Treasury securities than they have sold. The last time there was such a long streak of positive net purchases from the public sector dates back to early 2024.

Net purchases at a high level for second consecutive time

Foreign investors once again post high net purchases

Net purchases of long-term U.S. Treasuries by foreign investors per month (in billions of USD) and 3-month moving average



Source: TIC, Bloomberg, LBBW Research

Demand from the public sector is recovering

Total net foreign purchases averaged about USD 60 billion over the months from July to September, reaching the highest level since the spring of 2025. At that time, the U.S. president's announcement that he would raise import tariffs on a large scale was followed by a sharp decline in foreign investors' interest in long-term U.S. Treasury securities. The preliminary conclusion from the recent recovery in net purchases is therefore: The jump in long-term U.S. yields to over 5% appears to have made Treasuries attractive enough to offset the “deterrent” effect of Trump’s policies on investor interest in government bonds. However, given the U.S. government’s unabated debt spree, we believe it remains to be seen whether the trend in net foreign purchases – which in and of itself may help stabilize long-term yields – will prove sustainable.

Rise in yields to 5% offsets the “deterrent Trump effect”

Linker: Hope for a Middle East détente weighs on the market

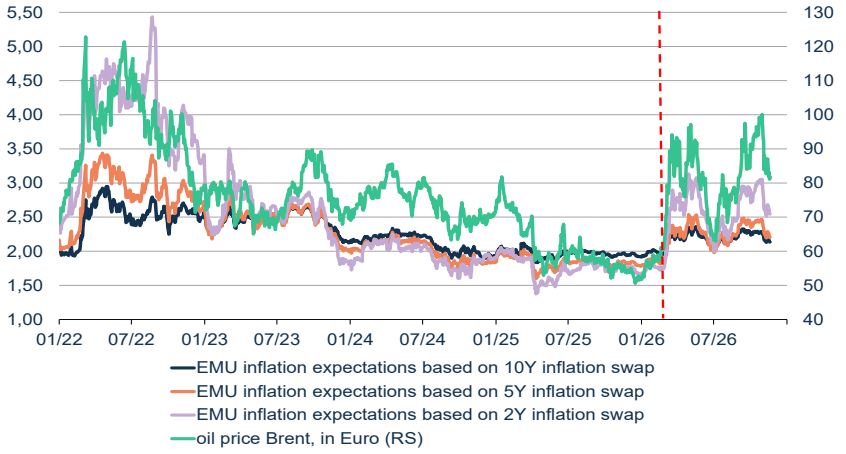
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Moderate relative weakness

Since the outbreak of the Iran war in late February 2026, inflation-protected EUR government bonds have significantly outperformed conventional ones. However, against the backdrop of the broader bond market recovery that has been underway since October, linker bonds showed relative weakness. On a year-to-date basis, that segment therefore had to give back some of the outperformance it had previously achieved: Based on the iBoxx Euro Sovereign inflation-linked Index, linkers have posted a return of -0.4% since the start of 2026, compared with -2.0% for the government bond market as a whole. Once again, the following observation has been confirmed: Inflation-protected government securities are usually less exposed to market volatility than the broader market – and the latter holds in both directions!

YTD: Linkers still roughly 1.5% pts ahead

Inflation expectations dampened by falling oil prices
EUR inflation swap rates for selected maturities and Brent crude oil price (in EUR/barrel)



Source: Bloomberg, LBBW Research

Inflation expectations hit three-month low

At the end of the third quarter, market-based inflation expectations had approached the annual highs reached in May; from that point, a noticeable downward correction followed. Short-term inflation expectations have retreated the most. The break-even inflation curves (BEI curves) do remain inverted, but the degree of inversion has decreased significantly. The 10Y EUR inflation swap rate fell to its lowest level since August. Despite all these up and down fluctuations, long-term forward inflation expectations have shown only minimal movements in recent weeks. Since the outbreak of war in Iran, the 5Y5Y forward inflation swap rate has ranged between 2.1% and 2.2%.

Oil price fluctuations have been driving the linker market

Hope in the Gulf and hesitant second-round effects

We continue to view developments in the Middle East as a key driver of the Linker segment's relative performance compared to the overall market. Investors' relief that the feared military escalation following the U.S. midterm elections has not materialized so far caused crude oil prices to drop sharply. At the same time, market-implied inflation expectations also declined, and investor demand for inflation protection waned.

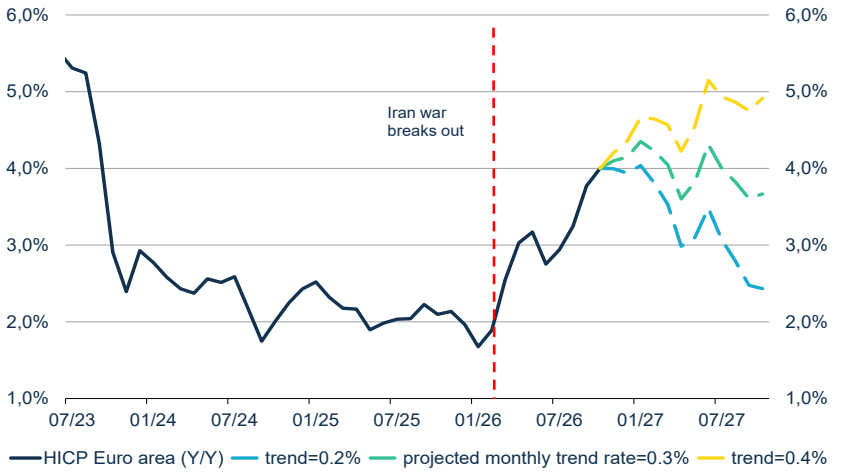
Meanwhile, market participants were not driven to increase their demand for inflation hedges by a recent rise in inflationary pressure in the eurozone to 4% in October. In our view, there are two obvious reasons for this

relative calm in the market. First, core inflation only climbed minimally, to 2.6%, thereby keeping concerns about second-round effects of the energy price shock in check. Second, leading ECB officials have reiterated that they stand ready to implement further interest rate hikes to tackle inflationary risks.

Inflation: How high will it go?

The mixed signals from inflation are keeping the outlook for the inflation-protected segment of the EUR government bond market in limbo. On the one hand, the ongoing upward trend in headline inflation suggests that investors' more confident outlook could prove to be fragile. Hopes for inflation to peak soon, followed by a broad easing of pressure next year, hinge on the sustainability of the latest encouraging signs from the Middle East. If the back-and-forth of the past few months continues there, the process of inflation peaking in the eurozone is likely to take longer than market participants currently seem to anticipate. In that case, inflation could hover close to the middle scenario shown in the following chart in the coming months. In our view, the recent cheapening in valuations in the linker market would therefore provide a favorable starting point for a new phase of relative strength for inflation-protected bonds.

Inflation likely to peak during the winter of 2026/27
EMU inflation (Y/Y) and projections based on selected monthly trend rates



Source: Bloomberg, LBBW Research

On the other hand, the fact that the feared second-round effects have largely failed to materialize thus far bolsters the position of those market participants who expect inflation to return swiftly to the ECB's target level in the event of a lasting easing of tensions in the Middle East. Based on this criterion, significant premiums in Linker-BEI relative to the 2% mark appear to be a sign of an overvaluation. However, a gradual rise in core inflation – which, in our view, still seems quite realistic for the coming months – would take some of the wind out of the sails of the latter position. Due to the downshift in BEI curves since the end of September, inflation expectations for medium- to long-term maturities are now clearly less than a quarter of a percentage point above the ECB's inflation target. At the same time, the "buffer" relative to current core inflation has jumped. This figure is also likely to increase over the coming winter, which would render the linkers more attractive (see the chart below). The current linker valuation attaches only minimal weight to the scenario of elevated inflation levels proving sticky. To put it another way: The potential for inflation-protected securities to effectively shield against adverse inflation trends through richening valuations and transition into a new phase of outperformance has increased.

Rising inflation leaves investors unfazed

When will the back-and-forth over the Gulf end?

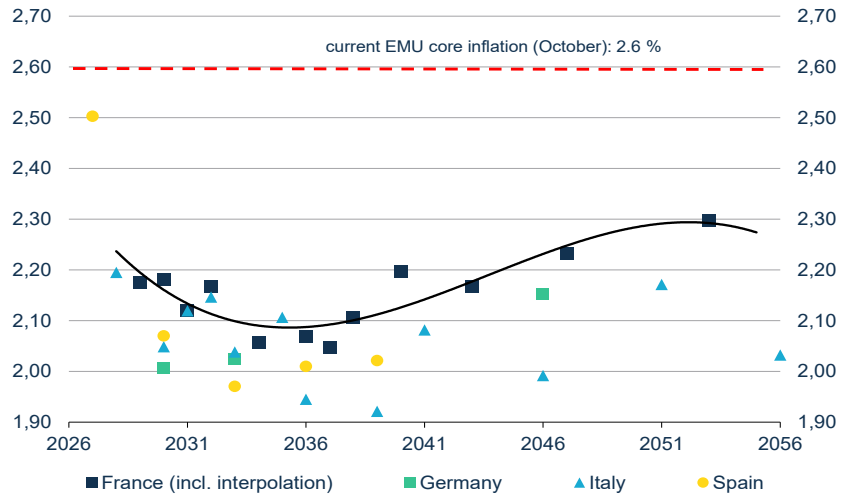
Delayed inflation peak would benefit linkers

Inflation risk premiums very modest

In the medium term, we are maintaining our baseline assessment of “balanced” opportunities and risks for inflation-protected bonds – with some recent shift in favor of opportunities.

Opportunity/risk has improved somewhat

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



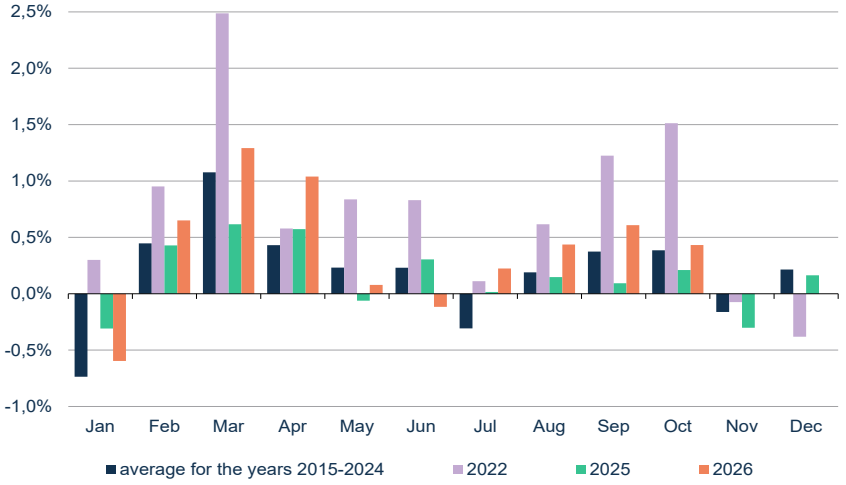
BEI Curves: "buffer" vs. core inflation has grown markedly

Source: Bloomberg, LBBW Research

Carry: The tailwind to continue through the end of the year

In the short term, the carry component is providing a positive boost to the performance of linkers. Carry is at its highest level this month since April.

Significant seasonal fluctuations in the HICP
Seasonal Patterns of the EMU HICP Excluding Tobacco (Month-over-Month Change Rates)



Change in the EMU HICP in October: +0.5% M/M

Source: Bloomberg, LBBW Research

Clearly, the tailwind from the carry trade will weaken somewhat in December. But the positive effect will remain: In the reference month of October 2026, the HICP for the euro area rose by just under 0.5% month-over-month, following a rise of 0.6% in September. This implies a positive carry of about a quarter of a percentage point for the coming month. However, as the new year begins, the carry environment will become clearly less favorable. On the one hand, this is related to the usual seasonal pattern. On the other hand, the recent decline in energy prices suggests that they will likely have a dampening effect on inflation in the eurozone in November.

Carry to stay positive in December

Primary Market Overview

As far as the primary market for EUR linkers is concerned, preliminarily summing up the year means a total of three new issues for 2026: two from Italy and one from France. In addition, the three active linker issuers – France, Italy, and Spain – are suppling the market once a month with re-openings of existing securities. The French Treasury held its final primary market auction of 2026 this week. Italy will follow next week; Spain is likely to hold its final linker auction on December 10.

For an overview of the inflation-protected EUR government bonds currently outstanding, please see our "*Bonds in Focus*" piece on the linker market dated November 17, 2026 (in German).

Three new linker issues this year

03 |
Credit Strategy

Markets under the spell of AI

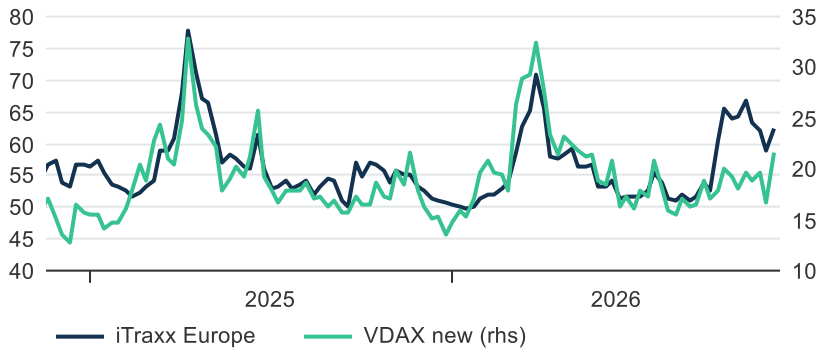
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Nvidia and Anthropic under close scrutiny

This week, too, it was primarily corporate quarterly results and developments relating to oil prices that drove market movements. Particular attention was paid to the figures from chip giant Nvidia and the IPO of Anthropic, which raised a record amount. Against this backdrop, the markets performed unevenly. Concerns about the chip and AI bubbles becoming over-inflated led to profit-taking at times. Volatility on the stock markets rose significantly. Spreads on credit derivatives also rose over the course of the week.

Risk premiums remain high
iTraxx Europe versus VDAX (right-hand scale)



Source: LSEG, LBBW Research

Higher volatility, wider spreads

This increased risk aversion was also reflected in the European corporate bond market. Consequently, spreads on euro-denominated corporate bonds have widened over the past few trading days. The most recent rise mainly affected the high-yield sector. Given the ongoing uncertainty, we do not expect a significant narrowing of spreads in the short term, but rather a sideways trend at the current elevated level.

Corporate bond yields have risen further

European spreads have widened further
EUR Non-Financials Spreads: High Yield versus Investment Grade (in basis points)



Source: LSEG, LBBW Research

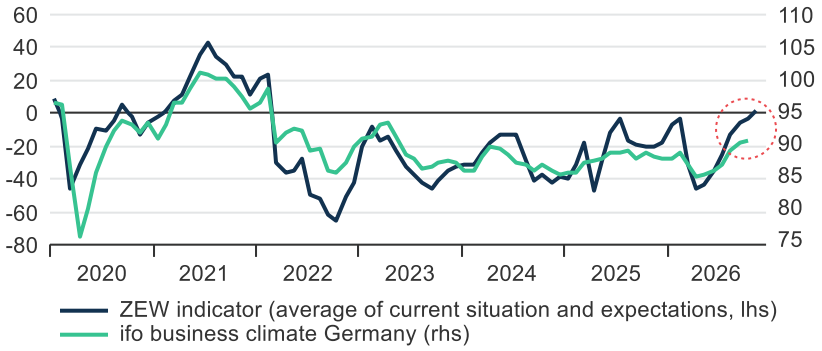
Spreads have widened slightly, again, recently

The economy remains on track for recovery

In recent months, the German economy has performed significantly better than had been feared following the outbreak of the Iran war. This week, the European Commission raised its forecast for German GDP growth for the current year from 0.6 per cent to 1.3 per cent year-on-year. The ZEW index also continued the upward trend seen in recent months. The average of the current situation and expectations actually rose into positive territory – for the first time in four years. The combination of these two components shows a close correlation with the ifo Business Climate Index, thereby fueling hopes of a seventh consecutive rise next week. A further improvement in the economic outlook could also provide support for credit spreads.

GDP growth higher than expected

Business confidence continues to improve
ZEW Index average versus ifo Business Climate Index



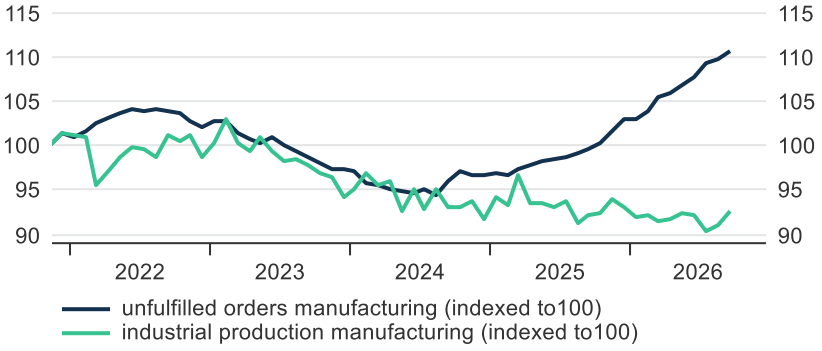
ZEW index in positive territory

Source: LSEG, LBBW Research

The order situation in the manufacturing sector remains solid. The order book rose by 0.8 per cent in September compared with the previous month, reaching a new record high. Industrial production has also shown a positive trend again recently. There is still hope that companies will increasingly work through their large order backlogs in the coming months, thereby boosting industrial production.

A positive outlook for the industry

Order backlog continues to rise
Manufacturing order book versus industrial production (Index as at the end of 2021)



Gap between order book and production

Source: LSEG, LBBW Research

CONCLUSION – Central banks and AI as key drivers

In parallel with the rising volatility on the equity markets, yields and spreads on European corporate bonds have also risen in recent months. Uncertainty is likely to remain high in the coming weeks. In addition to the central banks' interest rate decisions, developments surrounding the AI boom are likely to continue to have a significant impact on the credit markets.

Higher volatility in equities and in credit markets

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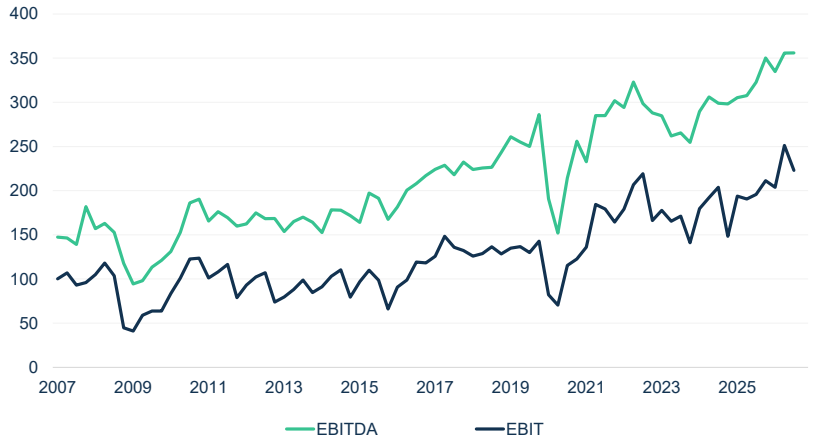
Companies increased profits in Q3 significantly again

Following a record second quarter in Q2/2026, the third quarter was also very successful for the majority of European companies. Among the companies in the STOXX Europe 600 that have published their quarterly reports, turnover rose significantly in Q3 2026 (up 11% year-on-year in aggregate), leading to a sharp increase in profits compared with the same quarter of the previous year (up 29%). By far the biggest increases were recorded in the Energy (+155%) and Technology (+55%) sectors.

Higher turnover and profits

EBITDA rose by a median of 10% year-on-year, once again reaching the record level of the previous quarter. As regards EBIT, the year-on-year increase of 14% was not sufficient to match the very high Q2 EBIT. Nevertheless, this was also the best result to date for a third quarter.

Earnings performance in Europe by quarter
Median STOXX Europe 600, in millions of euros



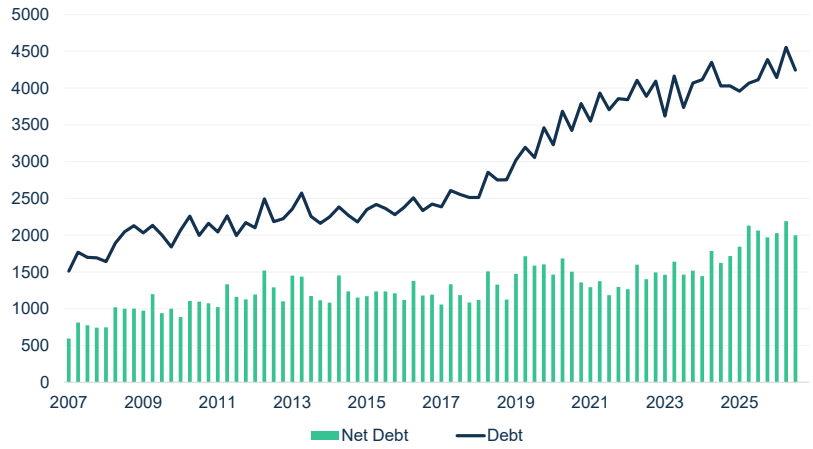
Source: Bloomberg, LBBW Research

The most profitable Q3 in history!!!

Financial liabilities stable yoy

Not only the earnings situation but also the debt levels of European companies showed an overall positive trend from a credit perspective. Financial debt fell from its peak in Q2 2026 and remained at the same level as in the corresponding quarter of the previous year.

Corporate debt in Europe by quarter
Median STOXX Europe 600, in millions of euros



Source: Bloomberg, LBBW Research

Financial debt falls from Q2 high

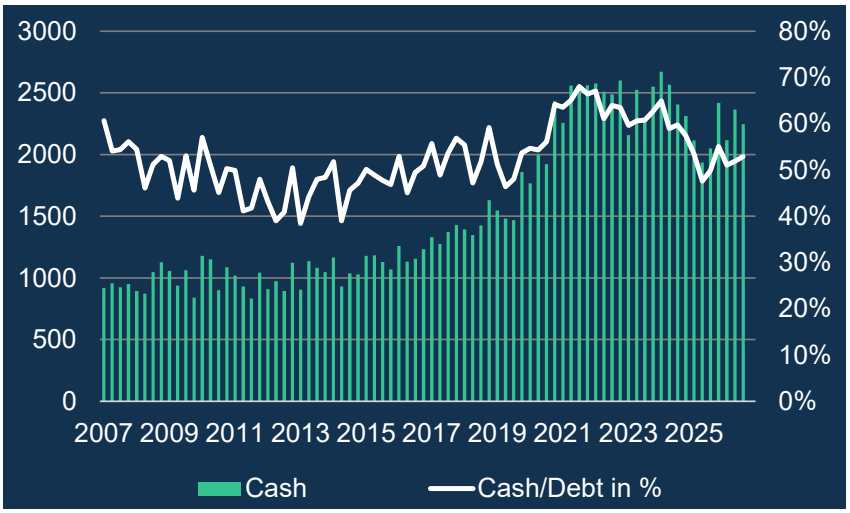
The net debt/EBITDA ratio stood at a median of 1.4x as at 30 September 2026, representing an improvement on the previous year's figure (1.7x).

Cash holdings fell slightly in Q3

The median cash holdings of European companies fell slightly by 5% in Q3. However, as gross financial debt fell at a slightly faster rate, the cash-to-debt ratio improved slightly from 52% to 53%. This meant that cash holdings were in line with the average quarterly figures since 2007.

By way of comparison: During the Covid-19 crisis, companies had significantly increased their cash holdings, even exceeding the 60% mark.

Companies' cash holdings (median STOXX Europe 600)
in millions of euros and as a percentage of financial debt



Source: Bloomberg, LBBW Research

Cash ratio:
In line with long-term average

Conclusion and Outlook

The impact of the war in Iran this year is not visble in the median figures for large European companies in the STOXX Europe 600. This is likely due to the wide range of sectors and the global presence of the index constituents. In Q3, too, the majority managed to increase their turnover and earnings compared with the same quarter last year. Only a few sectors experienced a decline (e.g. the automotive sector). Almost all sectors saw their earnings rise, with energy and technology performing best. Following three quarters with outperforming expectations, there is a good chance that 2026 as a whole will see another record year for the majority of companies.

Record year, thus far, despite Iran war

04 | Calendar/Analytics

Developed Markets Overview

	2 Years			10 Years		
Euro Area	**Yields**	**Spread**	**Change***	**Yields**	**Spread**	**Change***
Bund	3,12			3,37		
Jumbo	3,47	35	3	3,85	47	3
Swap	3,39	27	0	3,43	6	0
Netherlands	3,10	-2	-2	3,45	8	-1
Austria	3,17	4	0	3,62	25	1
France	3,62	50	0	4,91	154	0
Belgium	3,34	21	-2	4,36	99	1
Italy	3,51	39	1	4,45	108	3
Spain	3,19	7	1	3,95	58	2
Ireland	n.a.	n.a.	n.a.	3,49	12	0
Portugal	3,15	3	1	3,82	45	2
Greece	n.a.	n.a.	n.a.	4,30	93	3
EX. EURO AREA	**Yields**	**Spread**	**Change***	**Yields**	**Spread**	**Change***
USA	4,73	161	-11	5,02	164	-11
Canada	3,30	18	-5	3,81	44	-4
Japan	1,84	-128	-4	2,80	-57	-7
UK	4,95	183	-2	5,31	194	-2
Switzerland	0,32	-280	0	0,58	-280	1

* 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
23.11.2026	Belgium	OLO	5Y, 10Y		€ 2.25 bn.	Tap
23.11.2026	USA	T-Note	11/28		USD 69 bn.	New
24.11.2026	Netherlands	NETHER			€ 2 bn.	Tap
24.11.2026	USA	T-Note	11/31		USD 70 bn.	New
24.11.2026	USA	FRN	10/28	Float	USD 28 bn.	Tap
25.11.2026	Japan	JGB	40Y		JPY 500 bn.	
25.11.2026	Germany	Bund	08/36	3.00%	€ 5 bn.	Tap
25.11.2026	Italy	BTP Short	10/28	3.00%	€ 2.5 bn.	Tap
25.11.2026	Italy	BTP I/L			€ 1 bn.	Tap
25.11.2026	USA	T-Note	11/33		USD 44 bn.	New
26.11.2026	Italy	BTP	10/36	4.00%	€ 3 bn.	Tap
26.11.2026	Italy	BTP	02/32	3.95%	€ 2.5 bn.	Tap
26.11.2026	Italy	CCT		Float	€ 2 bn.	

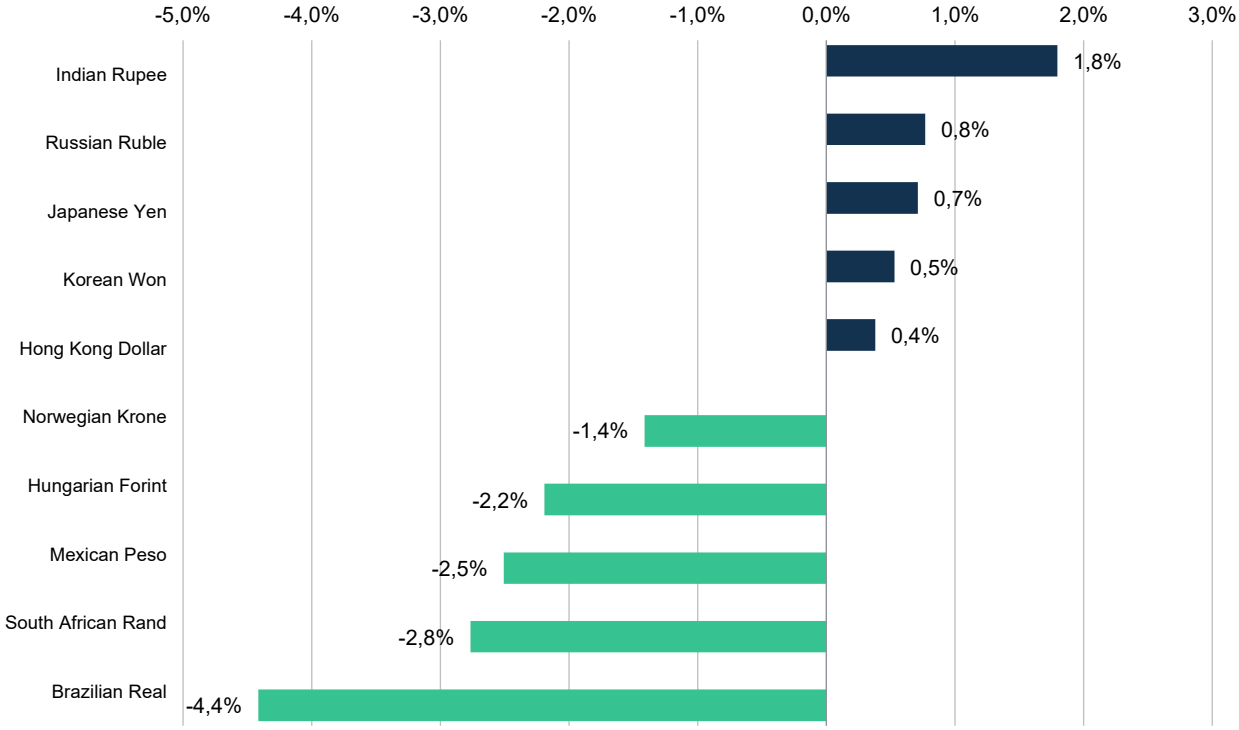
Sources: Bloomberg, LBBW Research

Central Banks and FX Monitor

Country	Next meeting	Current key rate	Latest change	Previous key rate	CPI YoY	6M trend	6M FX change ag. EUR	EUR-FX	6M EUR-FX Forward
Euro Area	17.12.26	2,50%	10.09.26	2,25%	4,0%	↗			
United States	09.12.26	4,00%	16.09.26	3,75%	3,7%	↗	5,5%	1,0986	1,1074
United Kingdom	17.12.26	4,00%	05.11.26	3,75%	3,6%	↗	3,3%	0,8375	0,8442
Japan	18.12.26	1,25%	18.09.26	1,00%	2,3%	↑	5,7%	174,80	173,52
China	***	2,00%	25.09.24	2,30%	0,7%	↘	7,9%	7,33	7,29
Switzerland	10.12.26	0,00%	19.06.25	0,25%	1,5%	↑	-1,1%	0,9251	0,9118
Argentina	***	29,00%	31.01.25	32,00%	32,5%	↘	-5,5%	1.718,15	1.956,76
Australia	08.12.26	4,85%	03.11.26	4,60%	3,2%	↗	-1,2%	1,65	1,66
Brazil	09.12.26	13,75%	16.09.26	14,00%	4,6%	▪	-10,1%	6,52	6,82
Canada	09.12.26	2,50%	28.10.26	2,25%	3,1%	▪	1,6%	1,57	1,57
Czech Republic	17.12.26	4,00%	05.11.26	3,75%	2,4%	▪	-0,5%	24,43	24,53
Denmark	***	2,25%	11.09.26	2,00%	2,2%	↗	0,0%	7,47	7,46
Hong Kong	***	4,25%	08.11.24	4,00%	1,9%	▪	5,7%	8,61	8,63
Hungary	15.12.26	5,50%	25.08.26	5,75%	2,0%	▪	-3,7%	373,41	377,81
India	04.12.26	5,50%	06.02.25	5,25%	6,1%	↑	9,9%	102,15	105,13
Indonesia	16.12.26	6,00%	18.11.26	5,75%	3,2%	↗	1,9%	20.076,95	20.429,41
Mexico	17.12.26	6,25%	05.11.26	6,50%	3,8%	↘	-4,1%	20,99	21,38
New Zealand	09.12.26	2,75%	02.09.26	2,50%	3,7%	↗	-0,7%	1,99	2,00
Norway	17.12.26	4,50%	24.09.26	4,25%	3,6%	▪	0,5%	10,70	10,79
Poland	02.12.26	3,75%	04.03.26	4,00%	3,5%	▪	-4,3%	4,44	4,47
Romania	19.01.27	6,50%	07.08.24	6,75%	6,9%	↓	-2,0%	5,35	5,43
Russia	18.12.26	14,00%	24.07.26	14,25%	6,4%	▪	-8,1%	90,18	96,71
Singapore	***	2,09%	n.a.	2,08%	2,2%	↗	4,9%	1,42	1,41
South Africa	28.01.27	7,25%	23.09.26	7,00%	5,2%	↑	-0,4%	19,23	19,62
South Korea	26.11.26	3,00%	27.08.26	2,75%	2,8%	▪	18,7%	1.465,86	1.469,48
Sweden	16.12.26	2,00%	04.11.26	1,75%	0,9%	↑	-2,9%	11,17	11,14
Turkey	10.12.26	36,00%	22.10.26	37,00%	29,8%	↘	-4,6%	55,61	65,11

Sources: Bloomberg, LBBW Research

The Strongest Currency Appreciations and Depreciations Against the Euro This Week

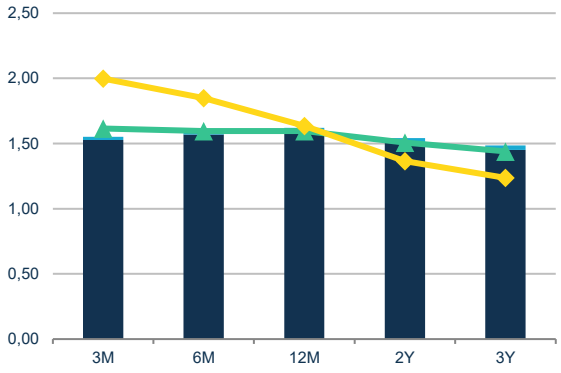


Sources: Bloomberg, LBBW, Research

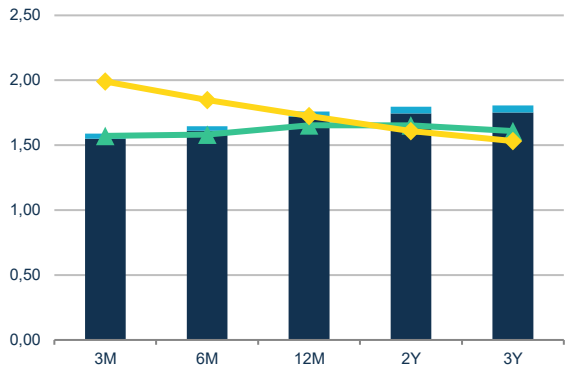
Interest rate differential and FX insurance costs vs. the Euro for selected currencies

interest rate differential, basis swap rates and insurance costs

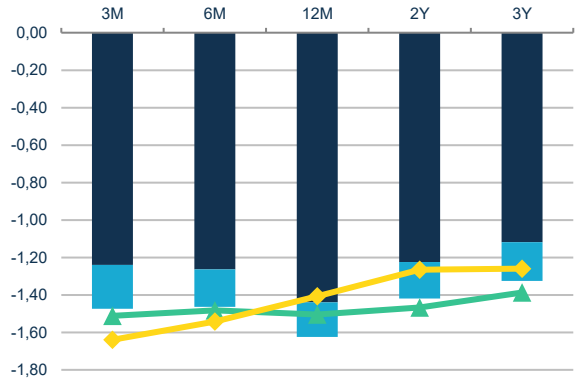
US dollar



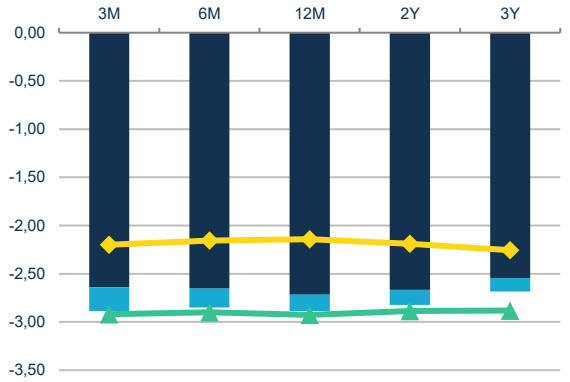
British pound



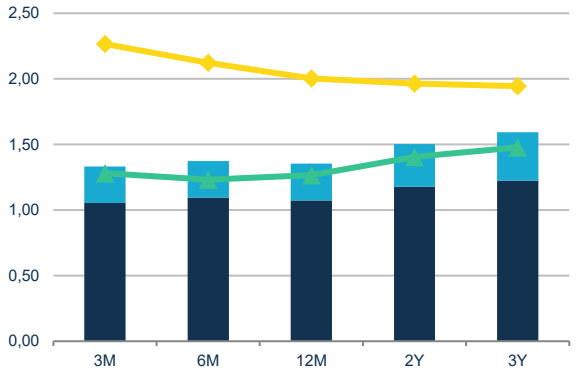
Japanese yen



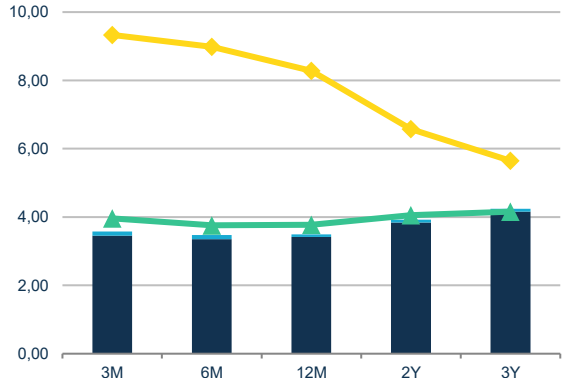
Swiss franc



Polish zloty



Mexican peso



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

Sources: Bloomberg, LBBW Research

Credit Spreads

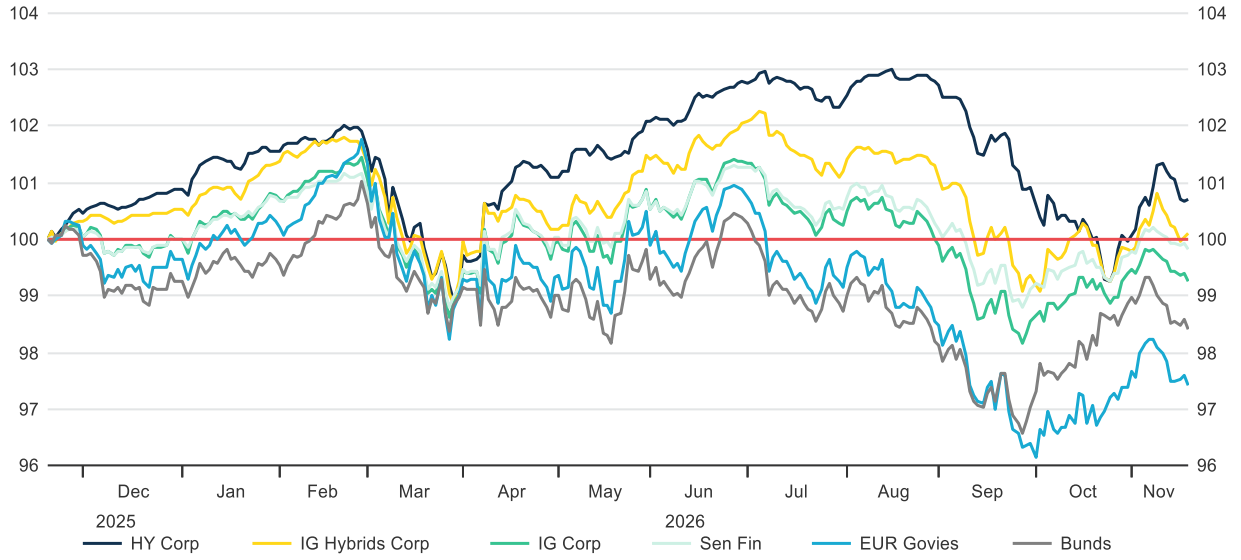
5Y CDS Spreads	Current	Changes				
		1W	1M	3M	6M	1Y
IG Corporates	62	3	-3	10	6	7
HY & NR Corporates	308	15	-17	55	31	44
Senior Financials	69	2	-5	14	10	4
Sub Financials	116	5	-8	28	20	12

EUR Indices	Current	Changes				
		1W	1M	3M	6M	1Y
Non-Financials	91	3	9	17	16	12
Banks Senior Preferred	69	2	4	18	16	10
Banks Senior Bail-in	88	3	4	18	16	13
Banks Subordinated	126	4	1	23	18	10

*time lag of one day, Asset Swap Spreads 20.11.2026

Sources: LSEG, LBBW Research

Performance Credits vs. Bunds (LTM – last twelve months)



Quellen: LSEG, LBBW Research

Allocation recommendations (Credits vs. Bunds)

Under observation of 6 – 12 months

	Recommendation	Segments		Regions	Strategies
Rates	0	0	0-3 years	0/+ Euro 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 Hybride		
		0/+	Senior Financials		
		0/+	Covered Bonds/SSAs		
		0	Tier 2 Inv. Grade/ Sen. Non-Pref.		

Sources: LBBW Research

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

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