

CW 40/2026 | LBBW Research | Strategy/Macro

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01 | Our View

Bond Market Movers – Review and Outlook

What drove the bond markets last week?

- The stalemate between the U.S. and Iran in the Middle East conflict continues. The mullah regime in Tehran insisted on its conditions for reopening the Strait of Hormuz. Donald Trump rejected them.
- In all major eurozone countries, inflation rose sharply in September. In France and Italy, the inflation rate has jumped by nearly one full percentage point each.
- In the U.S., the core PCE inflation rate for August came in well below expectations due to a surprisingly large benchmark revision. Meanwhile, according to the ADP report, job growth in the U.S. labor market accelerated more rapidly than expected.
- ECB President Lagarde hinted at the need for further monetary tightening, but she spoke of a “measured” approach.
- FOMC Vice Chair John Williams has hinted that the committee might wait until December before raising the benchmark interest rate again.
- The latest auction of long-term French government bonds went rather smoothly. The Trésor was able to utilize the target issuance volume of up to 12 billion EUR in full.

What could drive the market next week?

- The financial markets remain in the grip of news from the Middle East and developments in commodity prices. Will the conflict remain deadlocked until the U.S. midterm elections in early November?
- The Fed and the ECB are releasing the minutes from their most recent interest rate meetings. Investors are waiting for clues about the future path of interest rates.
- In terms of macroeconomic data, attention will be focused on the gleanings of the U.S. September jobs report and the ISM Services Index.
- Amid a persistent downward spiral in prices for long-term securities, the primary market for U.S. Treasuries must digest the next wave of long-term bond issuances. Meanwhile, supply pressure in the primary market for euro-denominated government bonds is likely to ease significantly compared with last week. We expect gross supply of only about 12 billion EUR, which could potentially rise to 20 billion EUR in case that Italy places a new syndicated bond, following just over 40 billion EUR the previous week. Meanwhile, net cash flows are set to rise just into positive territory due to solid reflows.

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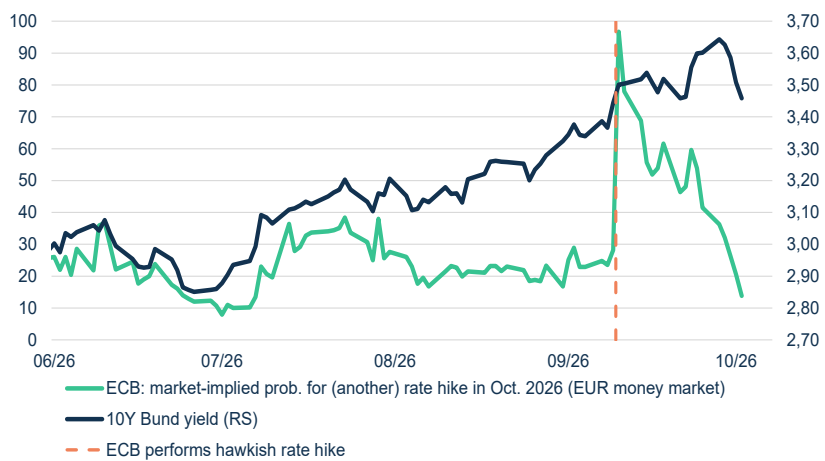
Forecast Table Revised

Central bankers dampen speculation about further rapid tightening; U.S. long-term bonds remain weak

Developments in the major government bond markets on both sides of the Atlantic were mixed this week. For short-term securities, downward pressure on prices has eased for the time being, as investor speculation regarding rapid further tightening of monetary policy in the eurozone and the U.S. has somewhat subsided. On this side of the Atlantic, inflation did indeed spike sharply in September. It is now approaching the 4% mark, based on the data released so far by the major eurozone countries. ECB President Lagarde emphasized, however, that monetary policy does not primarily respond to energy prices, but rather to their impact on the overall price structure. The head of the central bank hinted at her preference for a “measured” tightening of monetary policy. She also pointed out the growth-dampening effects resulting from the sharp rise in long-term financing costs for the economy. As a result, market participants increasingly moved away from the expectation that the ECB might already use its next Governing Council meeting in late October to raise the key rate again (see the chart below).

Chart of the Week

Yield on 10-year German government bonds and market-implied probability of another ECB rate hike in October



Source: Bloomberg, LBBW Research

In the U.S., Federal Reserve officials unanimously reaffirmed in their most recent statements that they are on track for further tightening of monetary policy in the coming months. However, FOMC Vice Chair John Williams indicated that, in his view, the committee could certainly wait until the meeting two sessions from now, in December, before implementing another hike. In our view, the most recently released PCE inflation data from the U.S. supports the position of those who oppose hasty further increases in the key rate. The annual benchmark revision resulted in an unexpectedly sharp downward revision of the Fed's preferred measure of inflation. Moreover, the corresponding core rate for August was reported at 3.0% (Y/Y), remaining unchanged from the previous month. The development was therefore more moderate than expected.

Nevertheless, with regard to long-term government bonds, the central bankers' reassuring statements were not enough to reverse the downward price momentum. In our view, long-term bonds remain, for the time being, gripped by fears of a spiraling national debt crisis. In our view, two observations suggest that debt concerns have recently fueled the sell-off in long-term bonds. First, yield curves on both sides of the Atlantic have steepened sharply this week – an abrupt reversal of the previous

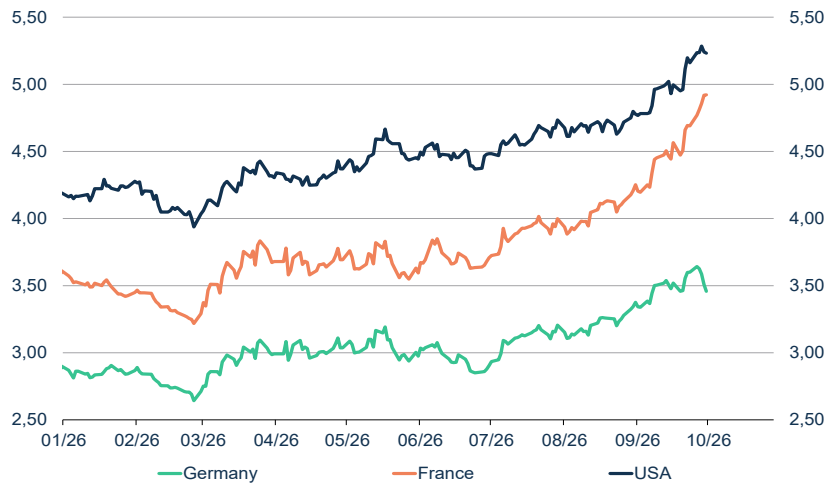
Lagarde:
“Measured”
tightening
appropriate”

Consensus
is shifting away
from ECB rate
hike in October

U.S. PCE core
rate revised
markedly
downward

flattening trend. This steepening suggests that term premiums are again on the rise. Second, U.S. Treasury bonds and French OATs were at the center of the ongoing sell-off in long-term bonds. Both the United States and France are under close scrutiny by investors with regard to their fiscal policies. The 10-year U.S. yield temporarily jumped over 5.30%, hitting the peak from 2007, while French long-term bonds are heading toward the 5% mark (see the chart below). In contrast, upward pressure on yields for 10-year German government bonds has eased for the time being. Given the “risk-off” sentiment in financial markets, we believe that Bunds may have finally moved back into “safe haven” mode, both within the eurozone and relative to U.S. Treasuries.

Bunds are suffering less than U.S. Treasuries and OATs
Yields on 10-year government bonds for selected countries



Source: Bloomberg, LBBW Research

**Macroeconomic forecasts for the Eurozone revised:
A bit more growth and inflation**

We have taken into account both macroeconomic developments and trends in monetary policy and the bond markets over the past few weeks and have revised our forecast table. In the macroeconomic sphere, this applies both to the surprising resilience of the German and eurozone economies in the face of the consequences of the war in Iran and to the lack of prospects for a rapid de-escalation in the Middle East. For Germany, we now expect GDP growth to accelerate significantly to 1.0% this year (previous estimate: 0.7%). Next year, this growth rate is set to be sustained thanks to a boost from higher public investment. According to our forecast, the euro area economy will not quite reach the 2025 growth rate (1.5%) either this year or next. However, we expect EMU GDP to grow by a rate close to or slightly above the 1% mark (see the chart below).

Economic resilience does tend to increase the risk that higher commodity costs will be transmitted more strongly into consumer prices. Nevertheless, in our main scenario, we maintain our basic assessment that the feared second-round effects will emerge only to a moderate extent. In light of the ongoing standoff between the U.S. and Iran in the Middle East, we have therefore decided to revise our inflation forecasts for the euro area only modestly upward for both the current and coming years.

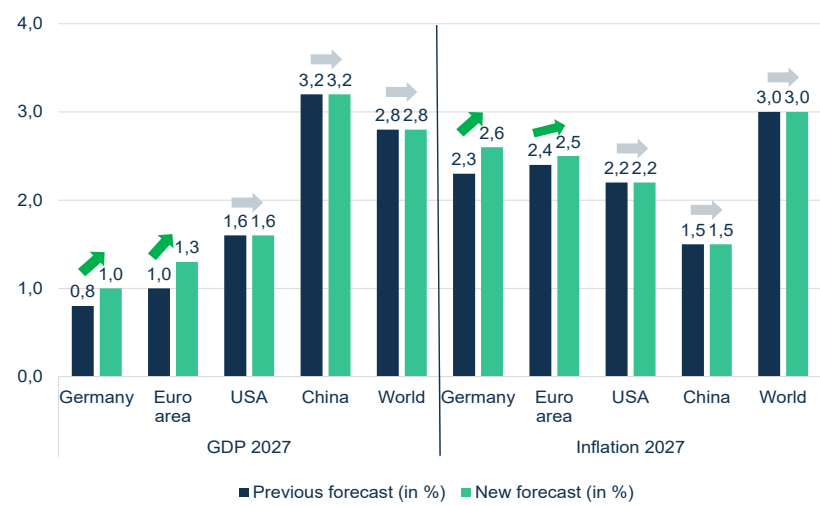
**France
and the U.S.
at the center
of debt worries**

**Bunds suddenly
back in demand
amid “risk-off”
environment**

**We expect
German GDP
to grow by 1%
in both 2026
and 2027**

Growth and inflation forecasts raised modestly

Previous and new LBBW forecasts for growth and inflation in 2027 for selected economic regions (in %)



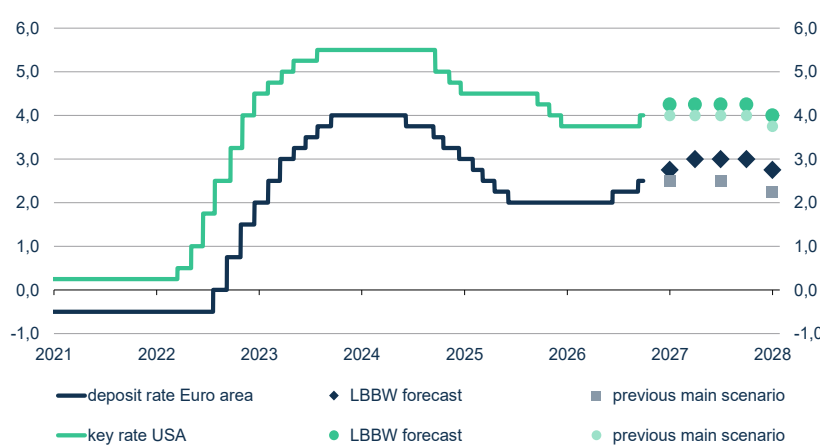
Source: Bloomberg, LBBW Research

Central banks: Two more ECB hikes and one more move by the Fed expected

With regard to monetary policy on both sides of the Atlantic, we are taking into account the recent string of predominantly “hawkish” statements from the Fed and the ECB and are revising our key rate forecasts upward for both the U.S. and the eurozone. We now expect the Federal Reserve to decide in December 2026 to raise interest rates by another 25 basis points. Subsequently, the target range for the overnight rate is set to remain at that level, i.e. 4.00% to 4.25%, at least through the fall of 2027.

Forecast key rate paths have shifted upward

Key rates in the Eurozone and the U.S., with LBBW’s previous and new forecasts (in %)



Source: Bloomberg, LBBW Research

We expect the eurozone central bankers to raise their key rates twice more, by 25 basis points each time, through the first quarter of 2027. We consider the December meeting of the ECB Governing Council to be the most likely date for the first of these tightening steps. With a deposit rate of 3.00%, the peak in the EMU key rate is set to be reached, provided that second-round effects on inflation in the eurozone remain limited, as we forecast. We maintain our view that, toward the end of 2027, the door could open for an initial rate cut in both the U.S. and the eurozone.

EMU inflation
forecast for 2027
now at 2.5%

ECB and Fed set
to continue tight-
ening policy, ...

... but only
moderately so,
according
to our perception

Long-term interest rate forecasts raised –
A top building to emerge soon remains the main scenario

We also continue to believe that the recent sharp surge in bond market participants' medium-term key rate expectations is excessive, provided that the situation in the Middle East does not continue to escalate markedly. Against this backdrop, our medium-term outlook for a price recovery in the severely battered bond markets appears positive. However, the timing and level at which long-term government bond yields will peak remain highly uncertain. In our view, this applies above all to the U.S. Treasury market. We have to admit that it cannot be ruled out that, under the banner of a "fundamental reassessment," market participants may use historical bear market scenarios as potential blueprints. Examples include the "uprising" of the so-called "bond vigilantes" in 1994 or the market crash of 1999 in the wake of the "dot-com" economic boom. In both cases, the 10-year U.S. benchmark yield surged by about 300 basis points from its previous cyclical low. The rise in yields during the current bear market has so far amounted to "only" a little over half of that amount. The current drivers of the bond market, including the AI boom as well as debt concerns, do indeed echo both of the historical bear market scenarios mentioned. However, we currently consider a full-scale continuation of the recent sell-off along these scenarios to be unlikely.

As a result, in light of the recent sharp market fluctuations, we have revised our forecasts for 10-year government bond yields in the euro area and the U.S. upward by about a quarter of a percentage point each across all forecast horizons (see the chart below). We stand by our forecast of steepening yield curves over the medium term.

Yields forecasts adjusted moderately upward

Yields on 10-year U.S. Treasury bonds and 10-year Bunds, with previous and new LBBW forecasts (in %)



Source: Bloomberg, LBBW Research

EUR/USD exchange rate forecast lowered

As part of our revision of our key rate forecasts for the eurozone and the U.S., we have also adjusted our EUR/USD exchange rate forecast. In our view, the U.S. dollar has benefited in recent weeks both from the Fed chair's decidedly "hawkish" tone and from a sharp rise in investor concerns regarding the evolution of the French budget deficit. We continue to expect a moderate narrowing of the interest rate differential between the U.S. and the eurozone. In the medium term, this still leaves some room for the European single currency to strengthen. However, we are scaling back our forecast for the euro's appreciation against the U.S. dollar somewhat: By the end of 2026, we now expect the EUR/USD exchange rate to be 1.15 (previously: 1.18); by the end of 2027, we expect the euro to be at 1.17 USD (previously: 1.20; see the chart below).

U.S. Treasuries:
1994 and 1999
as blueprints?

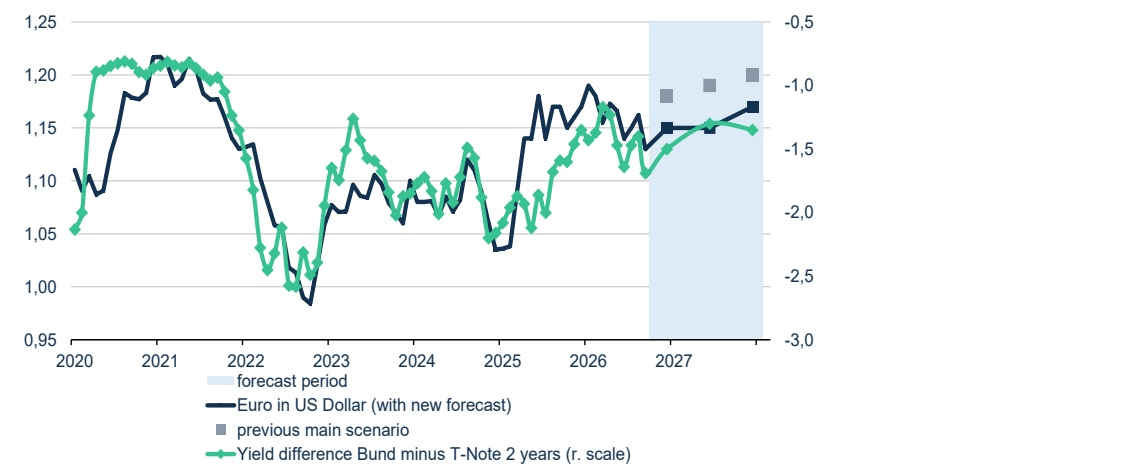
We consider this
excessive

We expect
moderately
declining
yields by the end
of 2027

Concerns about
France
are weighing
on the euro

The euro has somewhat less appreciation potential than we thought so far

Yield spread on 2-Year Government Bonds: Eurozone vs. U.S. and EUR/USD exchange rate with previous and new LBBW forecasts



Source: LSEG, LBBW Research

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		2,59	2,85*	3,05*	2,75*
Swap 2Y		3,42	3,50*	3,25*	2,75*
Swap 5Y		3,51	3,60*	3,35*	3,00*
Swap 10Y		3,61	3,65*	3,50*	3,30*
Bund 2Y		3,07	3,25*	3,05*	2,60*
Bund 5Y		3,26	3,40*	3,20*	2,90*
Bund 10Y		3,51	3,60*	3,50*	3,35*
Swap/Bund 2Y		35	25*	20*	15
Swap/Bund 5Y		25	20*	15*	10
Swap/Bund 10Y		10	5*	0*	-5
Spread BBB Corporates/Bund		110	100	105	110
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		4,08	4,30*	4,15*	3,90*
Swap 2J (SOFR-OIS)		4,64	4,60*	4,15*	3,75*
Swap 5J (SOFR-OIS)		4,72	4,60*	4,25*	3,95*
Swap 10J (SOFR-OIS)		4,85	4,70*	4,50*	4,30*
Treasury 2Y		4,79	4,75*	4,35*	3,95*
Treasury 5Y		5,01	4,90*	4,60*	4,30*
Treasury 10Y		5,25	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	3,10	3,15*	3,25*	3,30*
UK	Overnight Rate (SONIA)	3,73	3,95	4,20*	3,95*
UK	10Y Government Bond	5,40	5,30*	5,20*	5,00*
Switzerland	Overnight Rate (SARON)	-0,07	-0,05	0,20*	0,20*
Switzerland	10Y Government Bond	0,55	0,60*	0,60*	0,50*
FX		Spot	31.12.26	30.06.27	31.12.27
EURCHF		0,9333	0,93	0,94	0,95
EURCNY		7,5433	7,71*	7,36*	7,43*
EURGBP		0,8517	0,85	0,85	0,85
EURJPY		177,60	182*	178*	176*
EURUSD		1,1249	1,15*	1,15*	1,17*
USDCHF		0,8297	0,81*	0,82*	0,81*
USDCNY		6,7064	6,70	6,40	6,35
GBPUSD		1,3208	1,35*	1,35*	1,38*
USDJPY		157,88	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	1,1	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:** US President Trump rejects the Iranian leadership's conditions for reopening the Strait of Hormuz – Iran, for its part, is standing by its demands – Meanwhile, Trump has dismissed media speculation that he offered the mullah regime the release of frozen assets and an end to sanctions in return for an end to the war.
- **Middle East Conflict – Energy Price Crisis:** U.S. President Trump is threatening Europe with a ban on diesel exports if EU member states are not willing to release part of their strategic reserves to alleviate market shortages – EU ministers plan to discuss further steps today.
- **Geopolitics:** The US and China have agreed to a reciprocal reduction in tariff rates on imports totalling 30 billion US dollars on each side – the reductions apply, amongst other things, to Chinese toys and kitchenware, as well as US agricultural goods, coal and medical equipment.
- **Geopolitics:** British Prime Minister Burnham has left the door open for the UK to rejoin the EU after the next general election – stating that Brexit has done more harm than good – and the government intends to set out its options for future relations with the EU later this year.
- **Monetary Policy – ECB:** ECB President Lagarde signals the need for a 'moderate' tightening of monetary policy in the euro area – the ECB has remained on a "middle" path – it is responding "not to energy prices, but when we see a risk that higher energy prices could become entrenched in inflation" – Lagarde points out that long-term interest rates have risen significantly since the ECB meeting in September, which is holding back growth in the eurozone.
- **Monetary Policy – Fed:** Several US Federal Reserve officials have reiterated that further tightening of monetary policy is likely to be necessary, citing inflation trends – FOMC Vice-Chair Williams, however, is taking a slightly more cautious stance and suggests that the next interest rate rise could be delayed until December.
- **Monetary Policy – Australia:** The RBA has raised its key interest rate for the fourth time in nine months, by 25 Bp to 4.60% – it signalled further tightening of monetary policy in case rises in energy prices increasingly feed through to headline inflation.
- **Germany – Inflation:** Price pressure rose in September for the third month running, climbing from 2.9% to 3.3% (Y/Y) – highest level since December 2023 – with energy remaining the main driver of price rises – whilst the core rate, by contrast, remained unchanged, at 2.4%, once again.
- **Germany – Reform Policy:** Following a prolonged internal dispute, the Federal Government has agreed on legislation to stabilise the finances of the statutory long-term care insurance scheme – additional contributions from higher earners and childless contributors, as well as funds from the Infrastructure Special Fund, are to plug financial shortfalls in the short term – structural reform of the long-term care insurance scheme has been postponed until 2027.
- **Eurozone – Economy:** Business confidence fell short of expectations in September, dropping from 98.4 to 97.9 points – whilst sentiment in the manufacturing and services sectors, when considered in isolation, again improved.
- **Eurozone – Inflation:** Price pressures rose strongly in each of the four largest eurozone countries in September, and more sharply than expected – jumping energy prices pushed inflation rates up

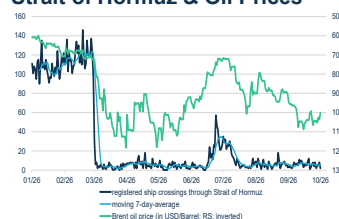
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Strait of Hormuz & Oil Prices



Sources: Bloomberg, LBBW Research

Burnham opens the door to rejoin the EU

German inflation jumps to 3.3%

Economic sentiment suffers setback

by between 0.4 and 0.9 percentage points – headline inflation in Spain and Italy stood at over 4% (Y/Y).

- *Eurozone – Growth outlook:* The ECB has criticised the lack of economic effectiveness of additional defence spending – it argues that, without far-reaching structural reforms to defence spending, the economic stimulus from European rearmament is likely to be largely wasted – The ECB is calling, above all, for more defence research to boost overall productivity.
- *USA – Inflation:* The PCE core inflation rate was revised downwards more significantly than expected as part of the annual benchmark revision, from 3.3% to 3.0% (Y/Y) for July – figure for August was stable at 3.0%, well below the consensus forecast.
- *USA – Economy:* The ISM manufacturing index remained virtually unchanged in September at 54.5 points, following 54.6 points in August – price component jumped to a four-month high of 77.9 points.
- *USA – Economy:* According to a survey by the Conference Board, consumer confidence fell unexpectedly sharply in September, from 88.6 to 81.9 points – lowest level since 2014 – assessment of the current situation was under particularly strong downward pressure – consumers view the labour market situation less favourable than at any time since early 2021.
- *USA – Labor Market:* ADP report for September exceeded expectations, with job growth accelerating to +90,000 (M/M), following 36,000 in August.
- *USA – Labor Market:* JOLTS data for August confirms the impression of a sluggish overall labor market – job opening slid by just under 4% (M/M), whilst layoffs fell by a comparable amount.
- *China – Economy:* RatingDog Purchasing Managers' Index for the manufacturing sector rose from 51.5 to 52.1 points in September – its highest level since April 2026 – index for the services sector also improved, rising from 51.4 to 51.6 points.
- *China – Economy:* The government is preparing further measures to stimulate growth and is considering steps to stabilise the property market – practical and effective measures to strengthen counter-cyclical adjustments are intended to help achieve this year's growth targets.
- *EU – Defence Policy:* The European Defence Agency (EDA) states that EU member states still have significant gaps to bridge in order to achieve the common goal of being defence-ready – Shortcomings are particularly evident in the coordinated procurement of defence equipment – closing the existing gaps in the foreseeable future will prove to be "extremely difficult".
- *France – Fiscal Policy:* Government sets out plans to reduce the budget deficit to 5% of GDP in 2027 – new measures include spending cuts and tax rises totalling 43 billion EUR – both pensions and healthcare to be affected by the planned cuts – tax increases account for around a third of the total – the budget bill tabled by Prime Minister Lecornu's minority government will serve as the basis for forthcoming negotiations with parliamentary groups.
- *France – 2027 Presidential Election:* According to a recent poll, the far-right and far-left candidates, Le Pen and Mélenchon, would reach the presidential run-off in April 2027 – In this scenario, Le Pen would win the run-off by a wide margin – according to the poll, the Rassemblement National candidate would also be well ahead in a potential head-to-head contest with the centre-right candidate Edouard Philippe.
- *Switzerland – Popular Initiative:* Swiss citizens have rejected the popular initiative on 'preserving neutrality' by a clear majority – Swiss Government thus retains the scope to impose sanctions on belligerent states.

Core PCE rate
markedly revised
downwards

ADP Report:
90,000 new jobs

France:
Government aims
to save
43 billion EUR

- *AI – Security:* AI developer OpenAI has suspended the release of a new AI model for the time being – the company cites the new AI model’s “unsettling behavior” as the reason – reportedly, during tests, it disconnected from its users and did not provide honest information about its actions.
- *AI – Security:* The US President appears to be changing his stance in light of AI security concerns and signalling support for the appointment of external auditors – though there are apparently still no plans for legally binding regulations on AI security.

Concerns about AI safety remain high

Next Week's Data

TIME	COUNTRY		PERIOD	LBBW FORECAST	CONSENSUS FORECAST ¹⁾	LAST VALUE ²⁾	IMPORTANCE
FRIDAY, 02.10.2026							
11:00	EMU	HICP, flash estimate (Y/Y) (prelim.)	Sep	3,7	3,7	3,2	***
11:00	EMU	HICP Core, flash estimate (Y/Y) (prelim.)	Sep	2,6	2,5	2,4	***
14:30	USA	Change in Nonfarm Payrolls (thous.)	Sep	40	90	162	***
14:30	USA	Unemployment Rate (sa)	Sep	4,1	4,1	4,1	***
14:30	USA	Average Hourly Earnings (M/M)	Sep	0,3	0,3	0,3	***
16:00	USA	Durable Goods Orders (M/M) (final)	Aug	-	0,0	0,0	*
16:00	USA	Factory Orders (M/M)	Aug	0,0	0,2	0,9	*
SUNDAY, 04.10.2026							
	BRA	Presidential Elections in Brazil (1st Round)					**
MONDAY, 05.10.2026							
09:55	GE	PMI Services (final)	Sep	52,9	-	52,9	*
09:55	GE	PMI Composite (final)	Sep	53,8	-	53,8	*
10:00	EMU	ECB Chief Economist Lane speaks					**
10:00	EMU	PMI Services (final)	Sep	53,0	-	53,0	*
10:00	EMU	PMI Composite (final)	Sep	53,1	-	53,1	*
10:30	EMU	Sentix Investor Confidence	Oct	4,5	-	5,1	*
11:00	EMU	PPI (Y/Y)	Aug	6,5	-	5,8	*
16:00	USA	ISM Services Index	Sep	56,0	55,2	55,4	***
TUESDAY, 06.10.2026							
08:00	GE	Factory Orders (M/M)	Aug	-1,5	-	2,5	**
09:00	CH	Unemployment Rate (sa)	Sep	3,2	-	3,1	*
11:00	EMU	Retail Sales (M/M)	Aug	-	-	-0,6	*
14:30	USA	Trade Balance (bn USD)	Aug	-102,0	-89,8	-88,6	**
WEDNESDAY, 07.10.2026							
08:00	GE	Industrial Production (M/M)	Aug	1,5	-	-1,1	**
20:00	USA	Fed publishes Minutes from September 15/16 Meeting					***
THURSDAY, 08.10.2026							
13:30	EMU	ECB publishes Account of September 10 Meeting					**
FRIDAY, 09.10.2026							
16:00	USA	Uni Michigan Consumer Confidence (prelim.)	Oct	49,0	48,0	48,1	***
	BEL	Rating Review Belgium (Moody's®)					**

1) Consensus forecast according to Bloomberg/Reuters
2) Should a provisional estimate be available, it is stated instead of the reference figure of the previous period

Sources: Bloomberg, LBBW Research

02

Rates

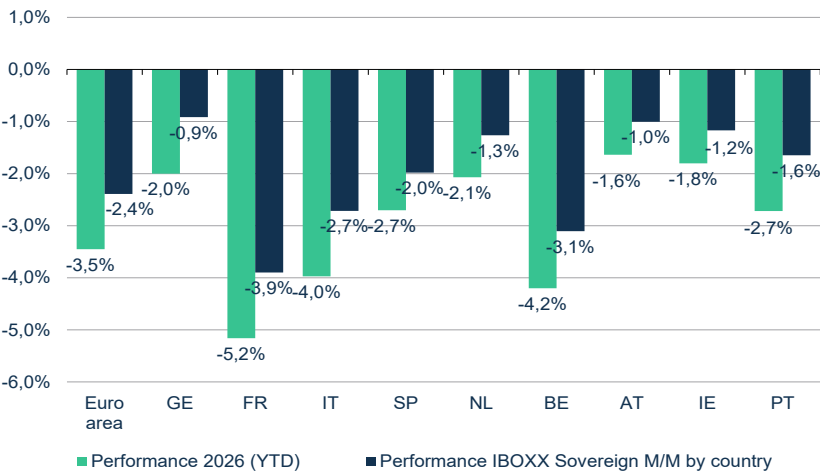
EUR government bonds: France leads the sell-off

A deeply negative third quarter

For the first time since the inflation shock of 2022, prices on the euro government bond market have declined in each of the three months of one quarter. The latest downward trend, which began in July, actually gained even more momentum in September. A combination of negative factors is likely to be responsible for the persistently gloomy sentiment in the bond market. The ECB has fueled speculation among market participants about continued monetary tightening in the eurozone through “hawkish” comments accompanying its latest interest rate hike. Signs of resilience in the European economy gave the monetary policy hawks an additional boost. Furthermore, hopes that had arisen in the meantime for a de-escalation in the Middle East have so far come to nothing. After all, the specter of a sovereign debt crisis continues to fuel fears among investors. From an international perspective, the focus is not least on the United States, with market interventions by the Treasury Department so far unable to cap yield rises. In the European context, attention is focused primarily on France, whose government bond market has led the recent downward spiral in prices (see the chart below). The following applies to the euro area as a whole: Based on the iBoxx Euro Sovereign Index, euro-denominated government bonds lost 1.9% in value last month, following a decline of 0.6% in August. The slump was thus slightly less steep than in March of this year – that is, at the onset of the Iran War. Year-to-date performance tumbled to -3.5%. The start of October specifically boosted the prices of German government bonds, driven by a growing demand for safe-haven assets

Germany, Austria, and Ireland have shown relative strength

Performance of EUR sovereign bonds since the end of August and since the start of 2026 (YTD)



Source: Bloomberg, LBBW Research

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YTD performance now well in the red

Spreads on EUR govern- ment bonds vs swaps (in Bp)

Spreads over swap (in Bp)	2Y	3Y	4Y	5Y	6Y	7Y	10Y
Germany	-36	-34	-34	-29	-25	-20	-11
Finland	-30	-19	-14	-4	4	8	26
Netherlands	-32	-28	-24	-17	-14	-9	1
Austria	-23	-23	-18	-10	-5	3	16
France	25	39	56	73	84	100	130
Belgium	-11	5	19	31	39	47	77
Slovakia	10	-1	22	36	46	53	79
Latvia	29	32	34	53	-	62	76
Slovenia	-19	-7	-10	-1	13	25	-
Ireland	-38	-34	-30	-23	-13	-11	3
Italy	29	41	54	63	77	86	110
Spain	-14	-4	3	12	21	30	51
Portugal	-21	-16	-4	6	12	23	40

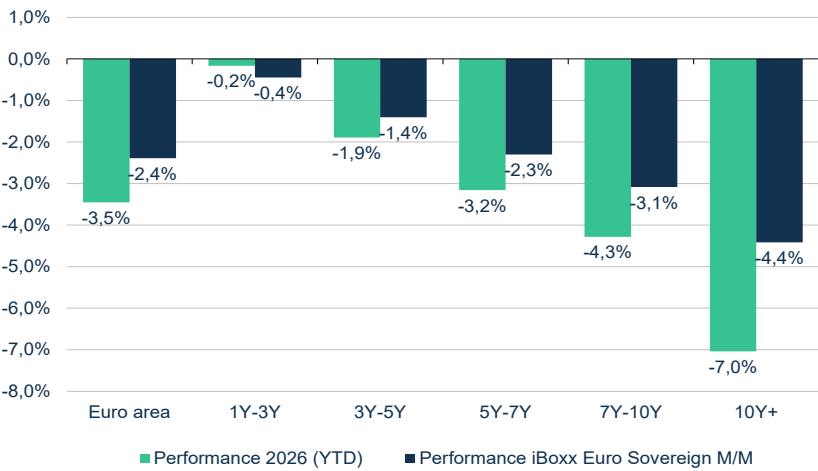
Ireland and Austria remain outperformers

Flattening of the curve somewhat cushions the price slump

In September, ultra-long-term EUR government bonds once again felt the strong negative impact of high duration leverage. Consequently, continued underperformance by this market segment was inevitable; on a year-to-date basis, the lag relative to the overall market widened to 3% points. However, thanks to the continued flattening of the EUR yield curve at the long end, the relative weakness of ultra-long-term bonds was somewhat mitigated. Meanwhile, the negative performance trend in September affected every single maturity segments (see the chart below).

Ultra-long-term bonds sliding ever deeper into relative weakness

Performance of EUR government bonds by maturity segment: M/M and YTD



Source: Bloomberg, LBBW Research

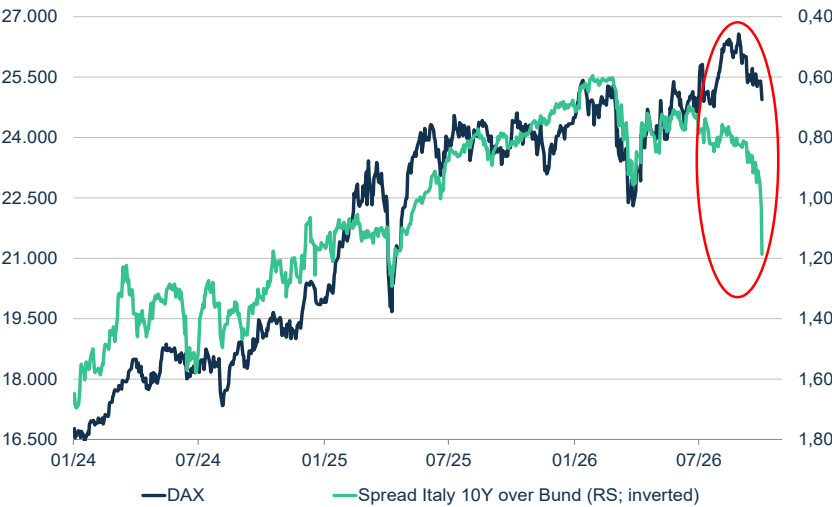
All segments
are down YTD

France: Deficit concerns mounting markedly

Unlike just a month ago, alarm bells have begun to ring more loudly in September regarding sovereign risk premiums on the euro government bond market. We see two factors driving a noticeable widening of yield spreads relative to German government bonds in recent weeks. First, the overall risk sentiment in the financial markets has deteriorated due to the deadlocked situation in the Middle East and growing concerns about a series of further central bank rate hikes.

"Risk-off" sentiment contributes to spread widening

Yield spread of 10-year Italian government bonds over Bund and DAX



Source: Bloomberg, LBBW Research

Sovereign risk
premiums
indicate mounting
stress, ...

... and clearly
more so
than does
the stock market!

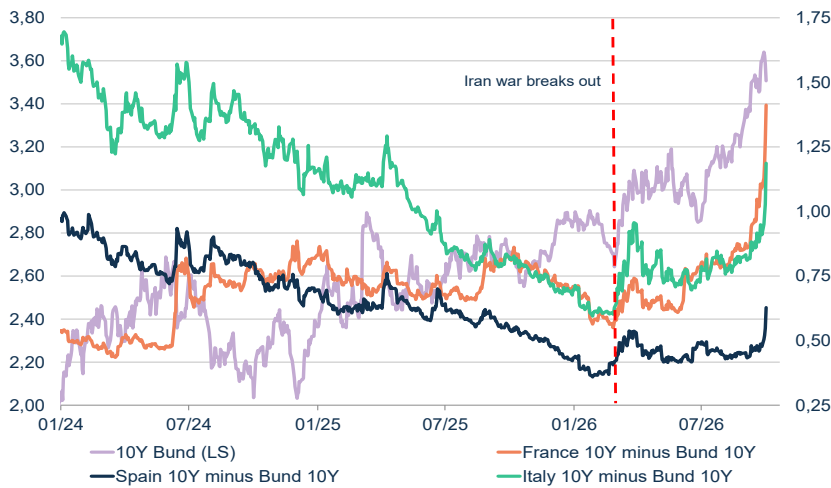
As the above chart shows, a rise in the risk premium on 10-year Italian government bonds to well over 100 basis points basically corresponded

with falling stock market prices. Second, we attribute a significant portion of the rise in sovereign risk premiums to growing concerns among financial market participants about the fiscal situation in the more heavily indebted eurozone countries. The Italian spread has jumped above the peak it reached during the initial period of upheaval following the outbreak of the Iran war. By comparison, stock prices around the world have recently experienced only moderate declines. Consequently, no widespread, massive risk aversion has been observed to date. In our view, sharply increasing global stress would be a significant risk factor that could lead to an even more pronounced widening of spreads in the government bond market.

The risk posed by another political crisis in France in the run-up to the 2027 presidential election appears to be similarly significant. The yield spread between French government bonds and German Bunds has widened much more heavily than the Italian spread (see the chart below). What's more, spillover effects from the precarious situation in France on the eurozone periphery appear to grow. There is currently no end in sight to the relative weakness of the French government bond market. In our view, the course of the political deliberations on the French national budget for 2027 will be an important milestone in the coming weeks. If the Lecornu government succeeds in implementing key parts of its austerity plans, the spiral of spread widening might well be halted for the time being.

French spread widens at a clearly accelerating pace

Yield spreads of 10-year EUR sovereign bonds over Bunds (in %) and 10Y Bund yield



Source: Bloomberg, LBBW Research

Is the market testing the ECB’s “TPI pain threshold”?

Meanwhile, we see a significant source of uncertainty in the actions of speculative market participants who are seeking to test the ECB’s tolerance for French yield spreads widening. With the “Transmission Protection Instrument” (TPI), introduced during the 2022 energy price crisis, the eurozone’s monetary authorities essentially have a tool at their disposal to address what they view as excessive yield spreads through targeted bond purchases. In our view, discussions about activating the TPI could take shape if the French spread jumps above the highs from 2012, in the range of 150 basis points. On the one hand, such discussions within the ECB Governing Council, if they were to become public, could already lead to a noticeable narrowing of sovereign spreads, as this would deter short sellers. On the other hand, the real possibility of activating the TPI would inevitably fuel a debate over whether the ECB is at risk of falling under so-called “fiscal dominance.”

Concern over government budgets is mounting

French spread jumps to 140 bp

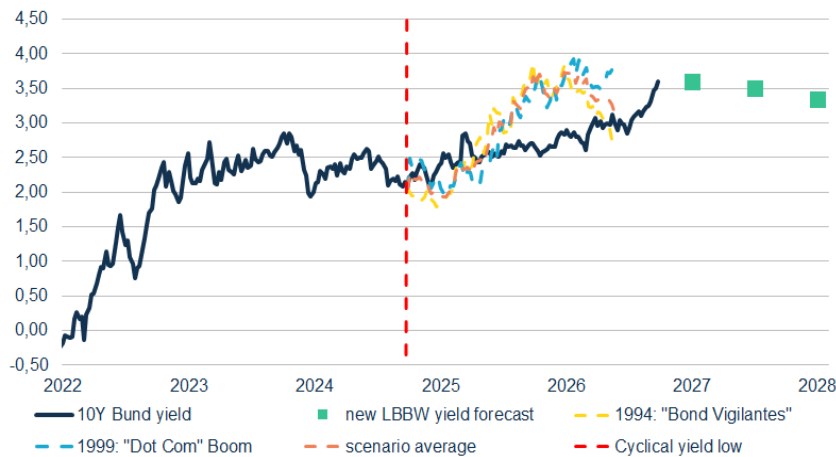
ECB: How much anxiety is there regarding France?

Outlook: Will fall bring some relief?

It is therefore to be hoped that the ECB will keep a cool head, while French politicians exercise at least a modicum of fiscal prudence. The latter could also help to calm the nerves on the euro bond market somewhat overall. Given the current situation, it would clearly seem a bit presumptuous to us to hold out the prospect of a “golden fall” as a counterbalance to the extremely hot summer on the bond market. Strategic investors appear to be staying on the sidelines so far, despite the massive price drop in recent weeks, because the strong negative momentum is acting as a deterrent. We now view the medium-term outlook for the bond market as constructive: The yield on 10-year German government bonds has risen by a good 1.5 percentage points since its cyclical trough in October 2024, when it stood at around 2%. That said, the magnitude of the cumulative rise in yields is still a long way from the crash of 2022, when the Bund yield shot up by about 300 basis points in just about twelve months. Meanwhile, the magnitude of the yield change is now approaching that seen during the two pronounced bear market phases of 1994 and 1999 (see the chart below). Driven in each case by a sharply negative price trend in the U.S. Treasury market, the Bund yield rose by as much as about 2% points during these periods. If we use these historical bear market periods as a yardstick, the remaining yield upside potential appears to be increasingly limited. Long-term investors could therefore take advantage of attractive buying opportunities.

Cumulative yield rise nearly as strong as in 1994 and 1999

Yields on 10-Year Bunds and projections based on selected historical bear market scenarios



Source: LSEG, LBBW Research

The prospect of a continued rise in EMU inflation this fall is likely keeping many investors on the cautious side for the time being when it comes to (new) investments in the euro bond market. In our view, the potentially most powerful catalyst for a positive shift in sentiment in the EUR government bond market remains an easing of pressure on the energy price front. However, given the ongoing deadlock in the Middle East, it currently appears that the door to this may at most open a bit after the U.S. midterm elections in November, at the earliest.

In our view, bond bulls can find some hope for an improvement in the fourth quarter, based on supply trends in the government bond market. Net government issuance is set to decline by more than a third in the final quarter compared with the summer quarter (see the September 25, 2026, issue of Bonds Weekly). In addition, the seasonal pattern in the euro bond market tends to be bond-positive in the final quarter of the year. As shown in the following chart, taking longer-term averages, the 10-year Bund yield has declined by about 20 bp between October and December, adjusted for the long-term yield trend. Admittedly, in the third quarter, seasonal patterns were no reliable guide for tactical investment decisions.

Strong bearish momentum is deterring strategic buyers

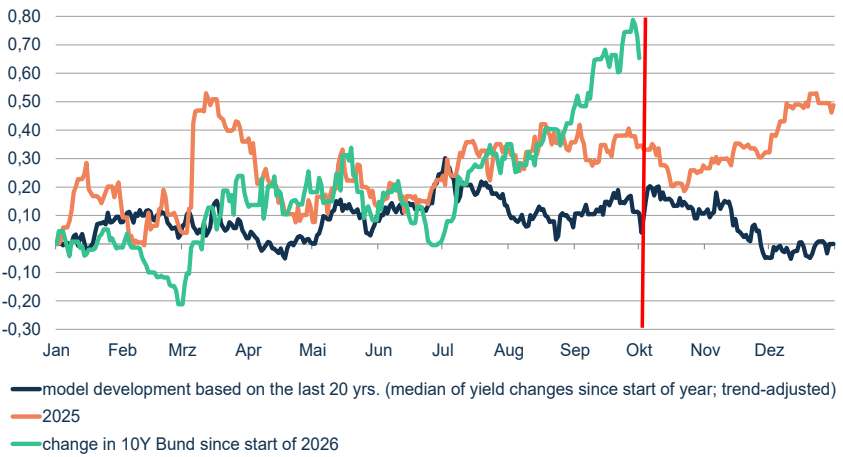
Bund yields up by a good 150 bp since October 2024

Declining net issuance may support bond prices in Q4

Provided there are no further geopolitical setbacks, however, there may now be some “bullish catch-up potential.”

10-year Bund yield fell by an average of 20 bp during Q4

Cumulative yield change on 10-Year Bunds since start of 2026 and seasonal patterns



Source: Bloomberg, LBBW Research

Seasonal pattern favors the bond bulls in October and November

Credit Strategy

Spreads are rising slightly

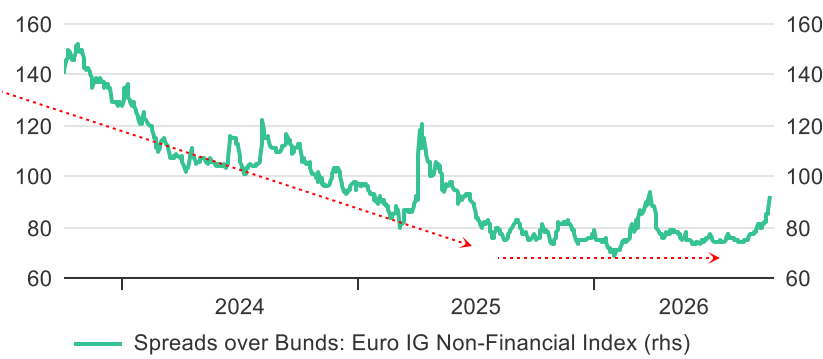
The European credit markets had a quiet week of trading. Rising government bond yields in the US and Europe continued to have a negative impact. Furthermore, the still unresolved situation surrounding the Strait of Hormuz, as well as Trump’s daily threats, did not fail to have an impact on credit spreads. However, in our view, the slight rise in IG spreads relative to Bund yields over the past few days is not yet a cause for concern. Overall, the standard remains comparatively low. In our view, a slight widening of spreads has been long overdue.

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Corporate bond spreads are rising slightly

EUR IG Spreads on Non-Financials relative to Bund yields (in bps)



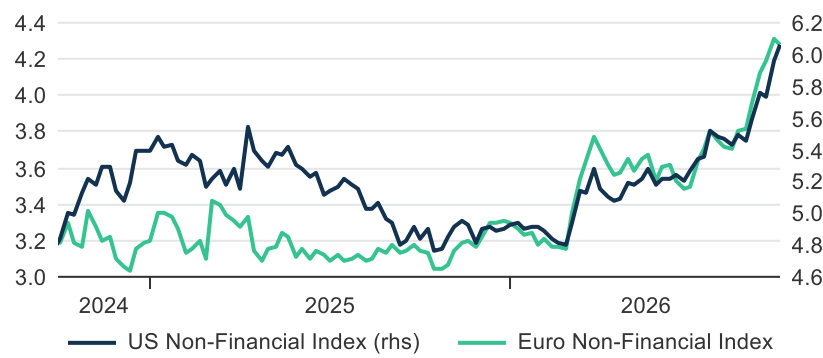
Source: LSEG, LBBW Research

By contrast, the rise in corporate bond yields on both sides of the Atlantic was significantly more pronounced. The underlying reason for this remains the sharp rise in government bond yields, which is also putting upward pressure on credit yields. In practical terms, this meant that yields on 10-year US government bonds rose at times this week to over 5.3 per cent – the highest level since 2002 (according to LSEG daily data).

Spreads remain at a low level

Returns showing a clear upward trend

Yields: EUR Investment Grade Non-Financials versus the US (in %)



Source: LSEG, LBBW Research

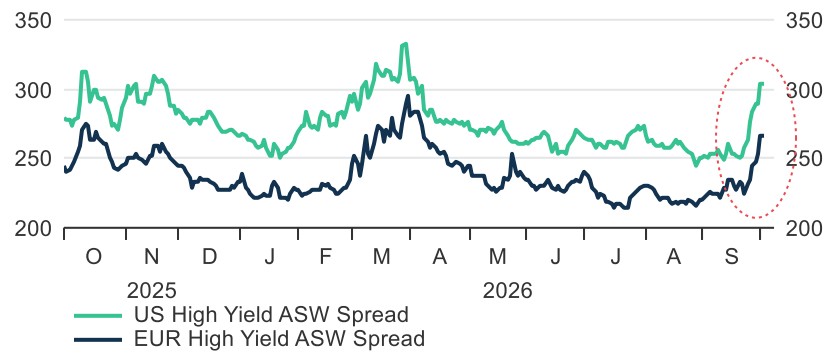
Government bonds are driving up credit yields

Significantly higher returns

The current level of returns is causing increasing concern in the market. Uncertainty is fuelled above all by the massive, debt-financed expansion programmes for data centres in the US, but also by the ever-rising public debt ratios in many developed economies, coupled with an increasingly heavy interest burden. This is another reason why credit spreads in the high-yield sector have risen noticeably on both sides of the Atlantic in recent days.

Spreads are also higher in the US

High-yield spreads: EUR non-financials versus US high yield



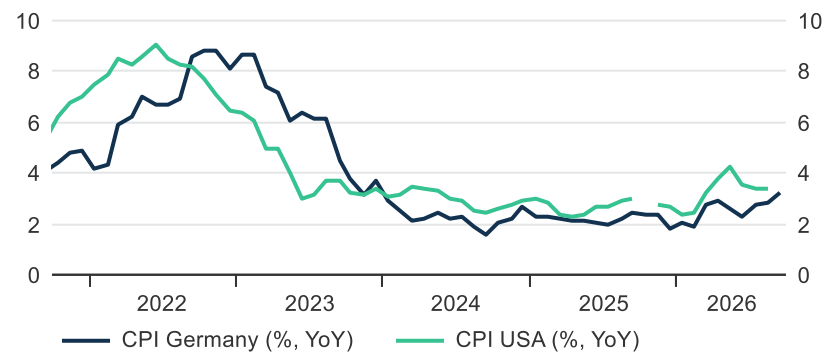
Source: LSEG, LBBW Research

However, relief could come from the central banks. We currently expect the Fed to raise interest rates by no more than one further rate hike in the coming months. This expectation was bolstered this week by the surprisingly moderate inflation figures in the US. Accordingly, the core PCE rate – a measure of core inflation to which the Fed pays particular attention – fell to 3.0 per cent year-on-year in August.

In Germany, by contrast, inflation rose surprisingly sharply from 2.9 per cent the previous month to 3.3 per cent year-on-year in September.

Energy prices are driving inflation

Inflation in Germany versus the US (year-on-year in %)



Source: LSEG, LBBW Research

CONCLUSION – Credit volatility is rising

In addition to the already significantly higher yields on corporate bonds, spreads have also widened slightly again recently. Whilst there are signs of easing in the US economy and inflation, concerns are growing that yields on government and corporate bonds are too high. We consider the current level to be attractive and reaffirm our recommendation for IG bonds, which offer a good balance between risk and return.

Early signs of concern

HY spreads widened

Inflation in the US is surprisingly robust

German inflation rises sharply

Corporate bonds remain attractive

High volume of new corporate bonds in September

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Senior Credit Analyst

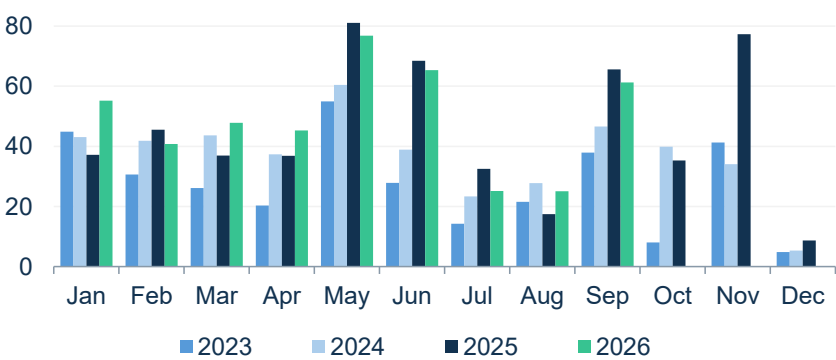
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In September, companies continued the high level of activity on the primary market that they had resumed at the end of August following the usual summer break: 77 issuers placed a total of 105 corporate bonds with a total value of 61.3 billion EUR in September 2026. Compared with the strong issuance in the same month last year, there was a 7 per cent decline. However, after 2019 and 2026, it was the third-highest September volume on record.

New issues by month

EUR corporate bonds, volume in billions of EUR



Source: Bloomberg, LBBW Research

61 billion EUR in September

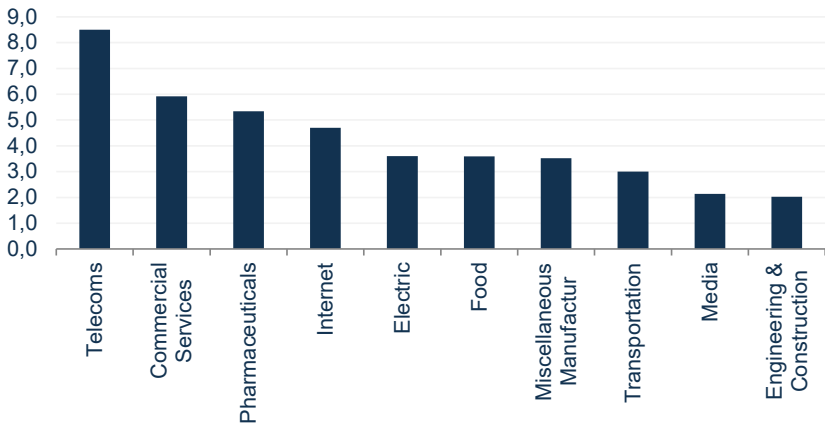
Historically third-highest September volume

On average, each new issue in September had a volume of 583 million EUR and a maturity of 6.2 years. The biggest transaction of the month came from Uber: In its debut on the euro bond market, the US group raised 4.5 billion EUR – the third-largest euro-denominated issue of the year to date – spread across five bonds with maturities ranging from 3 to 20 years. Close behind was the French telecoms group Orange, with 4.1 billion EUR, marking the fourth-largest transaction since the start of the year.

Thanks to these major transactions, the telecoms sector clearly took the top spot in September. The internet sector (Uber) came fourth.

Top 10 sectors in September 2026

EUR corporate bonds, volume in billions of EUR



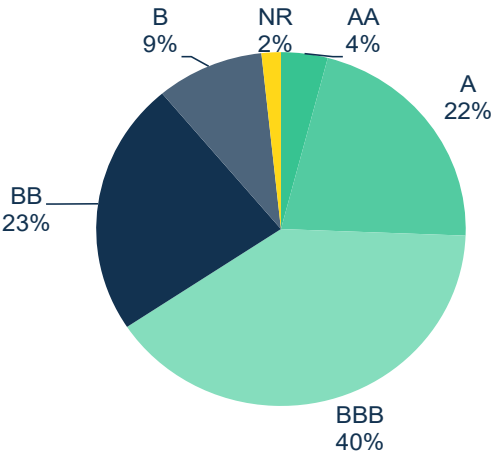
Source: Bloomberg, LBBW Research

More than 4 billion EUR from Uber and Orange

Telecoms at the top

French companies accounted for the highest volume, at EUR 16.3 billion, followed by US companies with EUR 14.5 billion. German corporations came third with EUR 8.6 billion. Bayer contributed the largest volume, at EUR 2.0 billion, whilst Deutsche Telekom placed almost exactly the same amount (3 bonds totalling EUR 1.9 billion). Other issuers from German groups included Bertelsmann, Brenntag, Grünenthal Pharma, Henkel and ZF.

New issues in September 2026 by rating category
EUR corporate bonds, share of volume in %



Source: Bloomberg, LBBW Research

As usual, the majority came from the investment-grade segment (around two-thirds of the volume of new issues). Whilst in August it was almost exclusively investment-grade companies that were active (25 of the 28 issuers), in September many companies from the high-yield segment returned to the market. At EUR 20 billion, this represented – despite a more challenging market phase – the third-highest monthly volume on record for high-yield ratings.

The HY new issues also included hybrid bonds, which, due to their subordinated status, are usually rated two notches below the company’s credit rating. With eight new hybrid bonds issued in September totalling 5.5 billion EUR (including two from Bayer, each worth 1 billion EUR), the volume of new hybrid bond issues since the start of the year has risen to 47 billion EUR. It has thus already surpassed the annual record set in 2020 of around 43 billion EUR.

11 new issues were issued as floating-rate bonds (i.e. with a variable interest rate) – predominantly by companies with a high-yield rating or not rated. 15 of the 105 new issues were issued as ESG bonds (of which 14 were green bonds and one was a sustainability-linked bond).

The sharp rise in government bond yields in September cast a shadow over the bond market. Nevertheless, there was solid demand for new issues of corporate bonds: On average, investors subscribed for 3.2 times the volume that was subsequently placed. However, companies often had to pay higher new issue concessions compared to secondary market bonds (on average 7 basis points).

Outlook

Since the start of the year, companies have placed a total of 442.8 billion EUR in new euro-denominated bonds (+5 per cent year-on-year), the highest figure ever recorded in the first three quarters. Following a strong September, the volume in October is likely to be significantly lower – as is usually the case. However, we still expect the record volume of the previous year (543 billion EUR) to be exceeded in 2026 as a whole.

Two-thirds from France, the USA, and Germany

66 per cent with IG ratings

High volume of high-yield bonds

Annual record for hybrid bonds

Solid demand

Still on course for a record in 2026

04 | Calendar/Analytics

Developed Markets Overview

2 Years				10 Years		
Euro Area	Yields	Spread	Change*	Yields	Spread	Change*
Bund	3,07			3,51		
Jumbo	3,44	38	8	3,99	48	4
Swap	3,42	35	6	3,61	10	4
Netherlands	3,09	2	4	3,62	12	3
Austria	3,23	17	24	3,75	24	4
France	3,67	61	32	4,92	141	32
Belgium	3,30	23	16	4,39	88	22
Italy	3,60	54	30	4,69	119	28
Spain	3,26	19	14	4,14	63	15
Ireland	n.a.	n.a.	n.a.	3,65	14	4
Portugal	3,24	18	14	4,02	51	13
Greece	n.a.	n.a.	n.a.	4,56	106	27
EX. EURO AREA	Yields	Spread	Change*	Yields	Spread	Change*
USA	4,79	172	15	5,25	174	18
Canada	3,26	19	14	3,93	42	10
Japan	1,92	-114	20	3,10	-41	11
UK	4,80	174	18	5,40	189	13
Switzerland	0,17	-289	0	0,55	-296	-2

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

Sources: Bloomberg, LBBW Research

Issuing Calendar Government Bonds

Date	Country	Type	Maturity	Coupon	Size	Comment
06.10.2026	Japan	JGB	10Y		JPY 2,6 tn.	
06.10.2026	Germany	Schatz	12/28		€ 6 bn.	New
06.10.2026	Austria	RAGB			€ 1.5 bn.	Tap
06.10.2026	UK	UKTI	9Y		GBP 1.25 bn.	Tap
06.10.2026	USA	T-Note	10/29		USD 58 bn.	New
07.10.2026	Germany	Bund	11/33		€ 4 bn.	New
07.10.2026	USA	T-Note	08/36	4.625%	USD 39 bn.	Tap
08.10.2026	Japan	JGB	30Y		JPY 700 bn.	
08.10.2026	USA	T-Bond	08/56	5.125%	USD 22 bn.	Tap

CW 41: Italy might place a new 30-year benchmark bond via banking syndication.

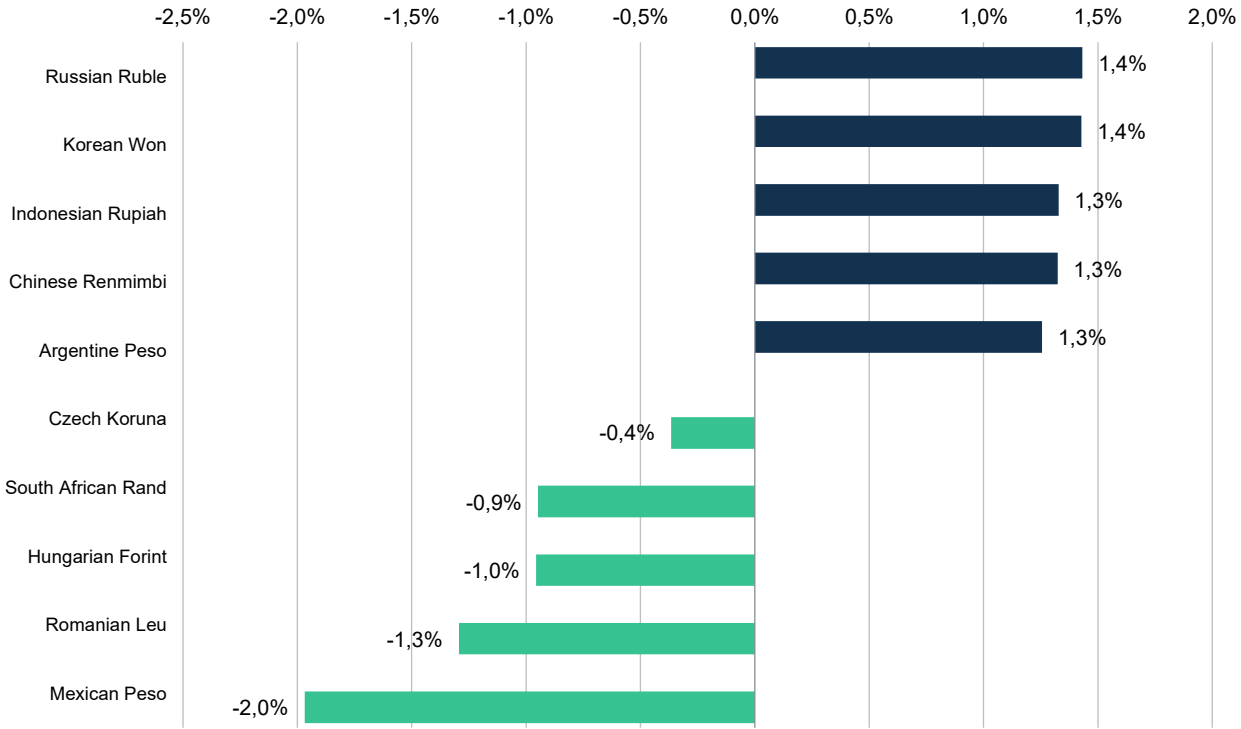
Sources: Bloomberg, LBBW Research

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	29.10.26	2,50%	10.09.26	2,25%	3,2%	↑			
United States	28.10.26	4,00%	16.09.26	3,75%	3,4%	↑	2,5%	1,1253	1,1343
United Kingdom	05.11.26	3,75%	18.12.25	4,00%	3,1%	•	2,4%	0,8518	0,8580
Japan	30.10.26	1,25%	18.09.26	1,00%	1,9%	↗	3,8%	177,46	176,25
China	***	2,00%	25.09.24	2,30%	0,8%	↘	5,3%	7,55	7,50
Switzerland	10.12.26	0,00%	19.06.25	0,25%	1,0%	↑	-1,1%	0,9321	0,9191
Argentina	***	29,00%	31.01.25	32,00%	33,3%	↘	-5,7%	1.710,67	1.927,79
Australia	03.11.26	4,60%	29.09.26	4,35%	3,2%	↗	2,9%	1,62	1,64
Brazil	04.11.26	13,75%	16.09.26	14,00%	4,2%	•	1,9%	5,87	6,13
Canada	28.10.26	2,25%	29.10.25	2,50%	3,0%	↑	0,4%	1,60	1,60
Czech Republic	05.11.26	3,75%	18.06.26	3,50%	1,9%	↗	0,3%	24,45	24,56
Denmark	***	2,25%	11.09.26	2,00%	2,0%	↑	0,0%	7,48	7,46
Hong Kong	***	4,25%	08.11.24	4,00%	1,7%	•	2,4%	8,83	8,85
Hungary	20.10.26	5,50%	25.08.26	5,75%	1,3%	•	4,2%	368,93	373,60
India	07.10.26	5,25%	06.02.25	5,50%	4,8%	↑	0,4%	108,54	111,51
Indonesia	21.10.26	5,75%	18.06.26	5,50%	3,3%	•	-2,6%	20.123,09	20.482,65
Mexico	05.11.26	6,50%	07.05.26	6,75%	3,3%	↘	0,4%	20,54	20,99
New Zealand	28.10.26	2,75%	02.09.26	2,50%	4,1%	↑	0,7%	2,00	2,01
Norway	05.11.26	4,50%	24.09.26	4,25%	3,3%	↗	3,8%	10,82	10,93
Poland	07.10.26	3,75%	04.03.26	4,00%	4,0%	↗	-2,2%	4,37	4,40
Romania	08.10.26	6,50%	07.08.24	6,75%	6,2%	↓	-4,6%	5,34	5,46
Russia	23.10.26	14,00%	24.07.26	14,25%	6,3%	•	-2,1%	94,76	100,89
Singapore	***	1,92%	n.a.	1,87%	2,3%	↑	3,1%	1,44	1,43
South Africa	19.11.26	7,25%	23.09.26	7,00%	4,4%	↑	4,2%	18,75	19,14
South Korea	22.10.26	3,00%	27.08.26	2,75%	2,9%	↗	14,7%	1.519,95	1.525,89
Sweden	04.11.26	1,75%	23.09.25	2,00%	0,3%	•	-3,6%	11,28	11,25
Turkey	22.10.26	37,00%	22.01.26	38,00%	31,5%	•	-7,1%	55,34	64,54

Sources: Bloomberg, LBBW Research

The Strongest Currency Appreciations and Depreciations Against the Euro This Week

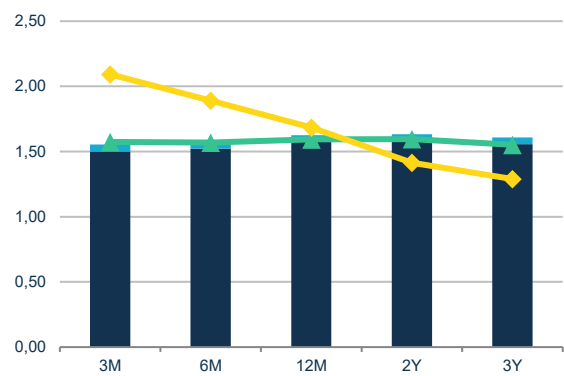


Sources: Bloomberg, LBBW, Research

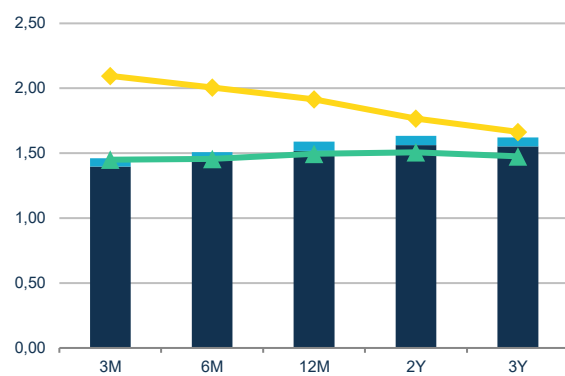
Interest rate differential and FX insurance costs vs. the Euro for selected currencies

interest rate differential, basis swap rates and insurance costs

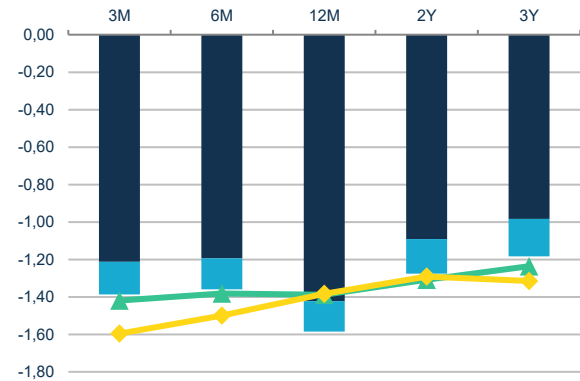
US dollar



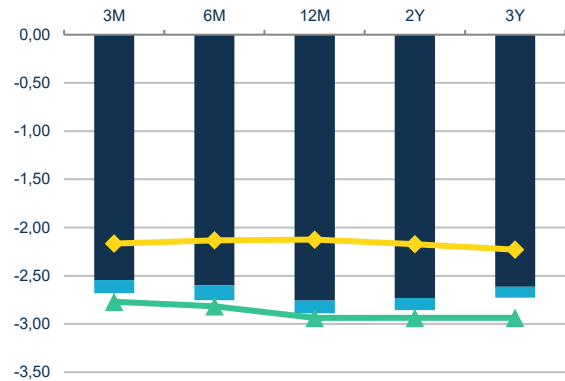
British pound



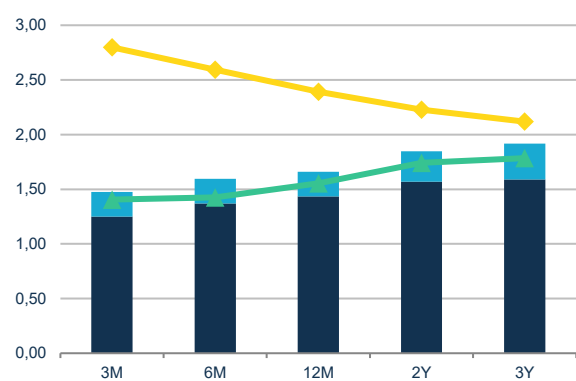
Japanese yen



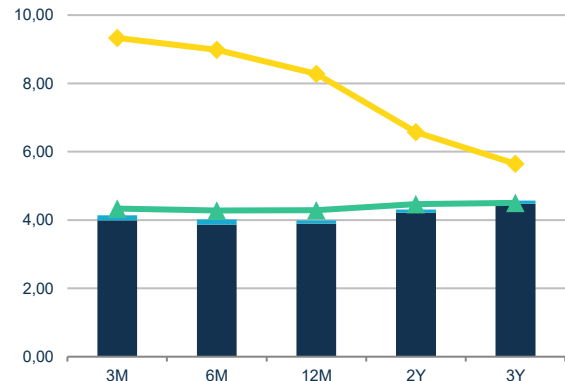
Swiss franc



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	59	5	7	7	-7	4
HY & NR Corporates	280	21	28	38	-46	22
Senior Financials	66	7	11	12	-5	0
Sub Financials	109	12	21	21	-10	9

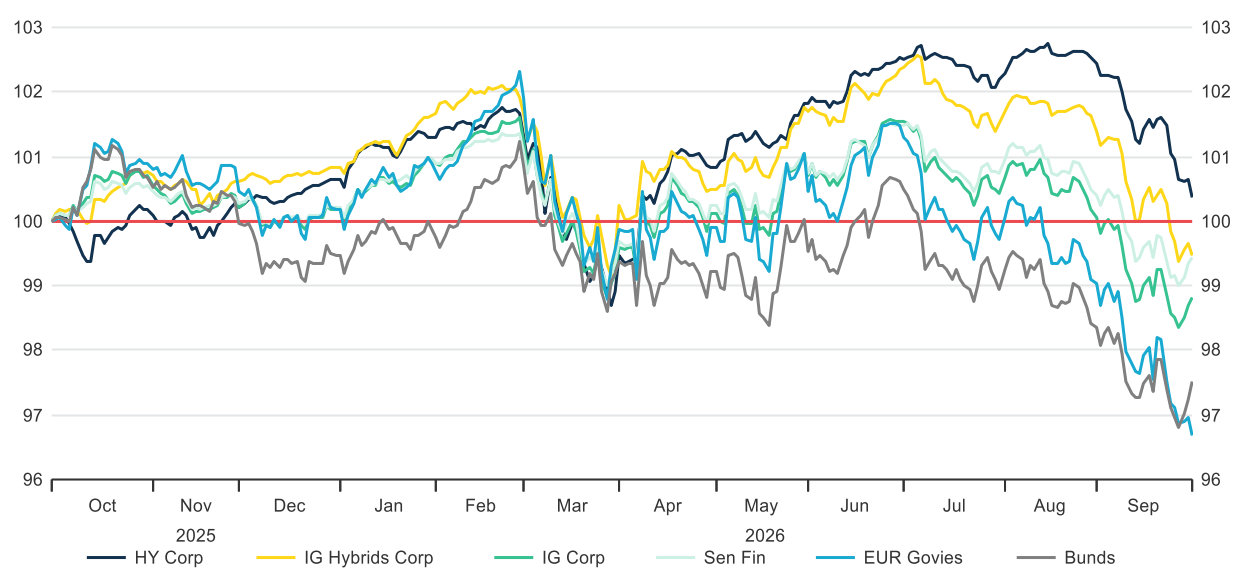
EUR Indices	Current	Changes				
		1W	1M	3M	6M	1Y
Non-Financials	77	2	2	1	-7	-2
Banks Senior Preferred	59	6	6	5	-7	-1
Banks Senior Bail-in	77	5	5	4	-8	3
Banks Subordinated	115	7	9	8	-14	0

*time lag of one day, Asset Swap Spreads

02.10.2026

Sources: LSEG, LBBW Research

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



Quellen: LSEG, LBBW Research

Allocation recommendations (Credits vs. Bunds)

Under observation of 6 – 12 months

Recommendation		Segments		Regions		Strategies
Rates	0/+	0	0-3 years	0/+	Euro Governments	Multi-Callables Inflation-linked bonds
		0/+	4-7 years	0	German Bunds	
		0	8-10 years	0	USD-Bonds	
		0/+	Corporate Inv. Grade	0/-	Emerging Markets Debt	
Credit	0/+	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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