Breaking new ground

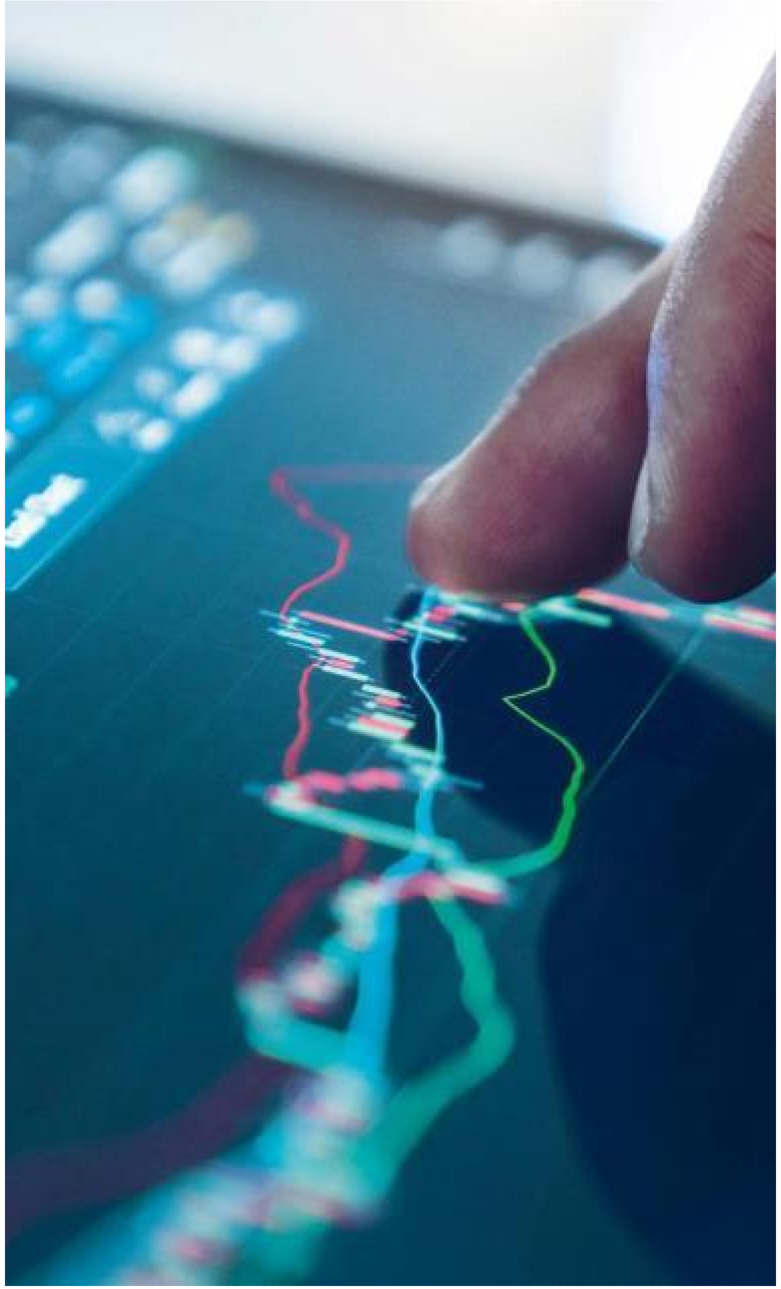
LBBW

Capital Markets Compass July

Will Reforms Succeed in Germany?

7 July 2026 Macro | Rates | Credits | Equities

Contents



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Foreword and Introduction

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Dr. Moritz Kraemer
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"Investors are concerned about the sustainability of public finances."

There were a lot of topics in the first half of the year: AI, oil prices, SpaceX. Public finances took a back seat. Wrongly: S&P Global estimates the outstanding sovereign debt of central governments with an S&P rating at 83 trillion USD: an astronomical figure. What's more: In just five years, the debt has risen by a third. Since the beginning of the year, government bond yields have risen significantly. This is particularly striking in Japan, a country with extreme levels of debt and decades of rock-bottom interest rates. In the U.S., there is speculation about a “Mar-A-Largo Accord.” So there is reason to be nervous. Long-term interest rates are likely to remain high. A reversal in fiscal policy is nowhere in sight.

Key Dates in July

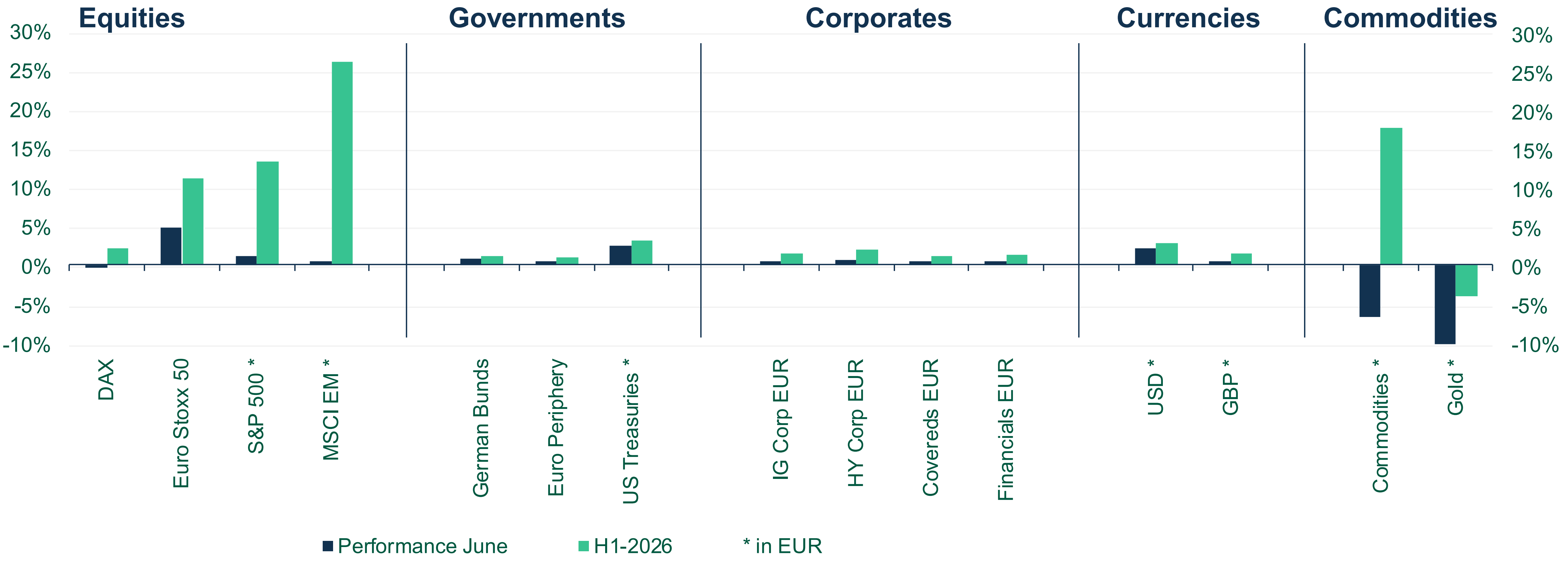
2.7.	US labor market report June
7.7.	France: Appeals Court decides on whether Marine Le Pen can run in 2027 presidential election
7./8.7.	NATO summit in Turkey
9.7.	Ecofin meeting
14.7.	US Inflation June
14.7.	Fed: Fed Chairman Warsh delivers semi-annual testimony before Congress
17.7.	Rating Review Finland (Fitch) and Spain (Moody's®)
23.7.	ECB rate decision (without new staff projections)
27.7.	ifo business climate July
29.7.	Fed rate decision
30.7.	GDP Germany/EMU Q2
30.7.	GDP USA Q2
31.7.	Inflation Euro area July

- Fed: An end to the pause remains unlikely also at the second meeting chaired by Kevin Warsh.
- ECB: Following the interest rate hike in June, monetary policymakers are likely to take a break to await more new data.
- German GDP might contract slightly in Q2.
- For Marine Le Pen, the leader of France's right-wing populist party, the court case centers on whether she will be allowed to run in the 2027 presidential election.

Sources: Bloomberg, LBBW Research

Positive Performance in the 1st half of 2026

Selected Assets
Total Return in Percent



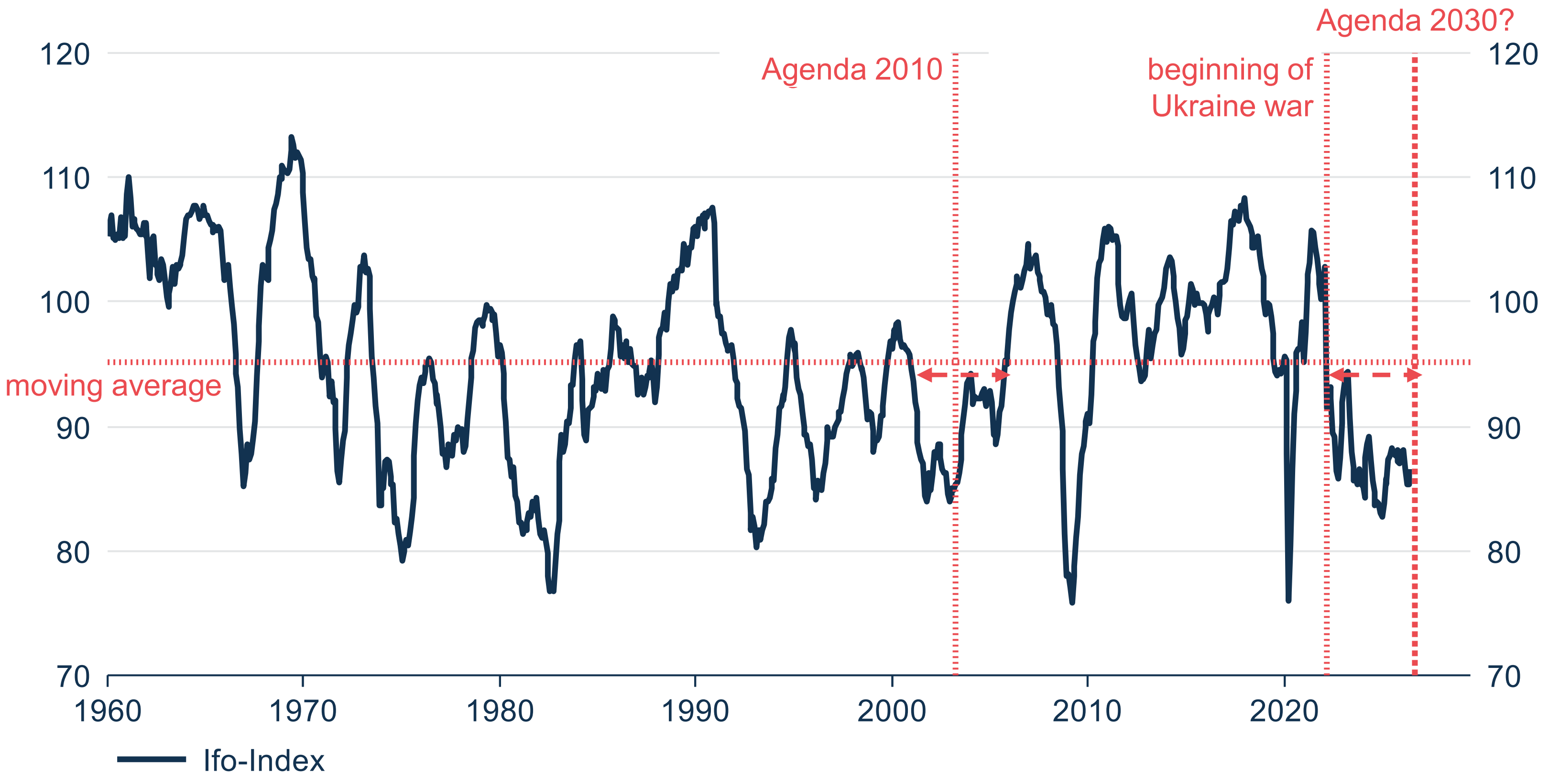
Source: LSEG, LBBW Research

Will Reforms Succeed in Germany?

ifo Business Climate Index Below Average for >4 Years

ifo Business Climate Index

Quarterly Results



- ifo Business Climate Index: Average since 1960 at 95.1 points.
- Since March 2022, the index has been below its average—for more than four years now with no end in sight.
- Between 2001 and 2005 It was just under four years below average. At that time, the Reform Agenda 2010 brought about a turning point.

Note: Until 1990, the Ifo Index for West Germany; from 1991 onward, the Ifo Index for all of Germany
Source: LSEG, LBBW Research

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Macro: The outlook is brightening

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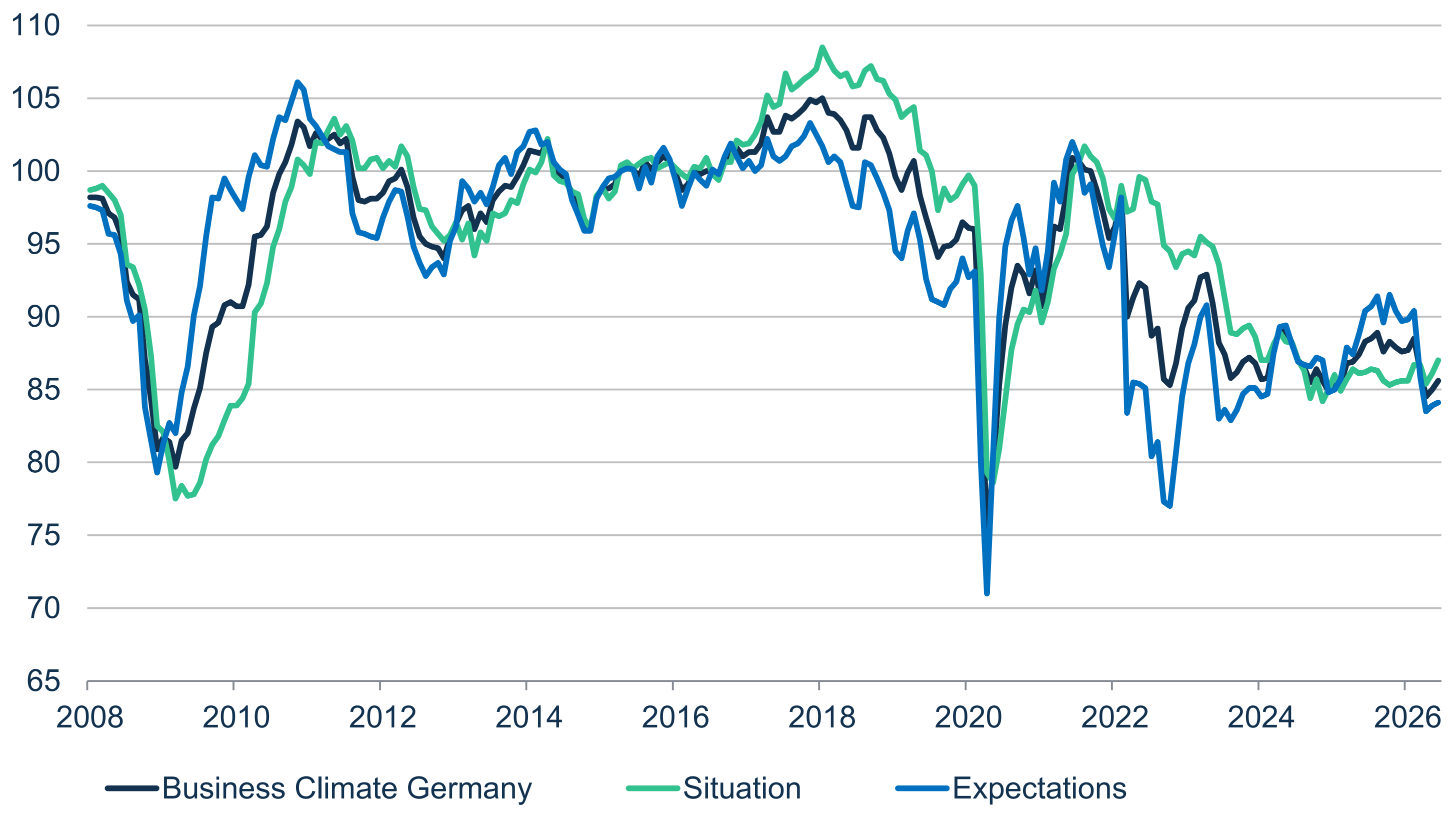
Germany: Outlook Slightly Improved

ifo Business Climate, Current Conditions, and Expectations

Monthly figures



Source: LSEG, LBBW Research

- The ifo Business Climate Index rose in June. The situation has improved more than expected, contrary to what one might assume.
- Nevertheless, the outlook has brightened slightly overall (though the situation remains difficult with regard to geopolitics and the competitiveness of the German economy).

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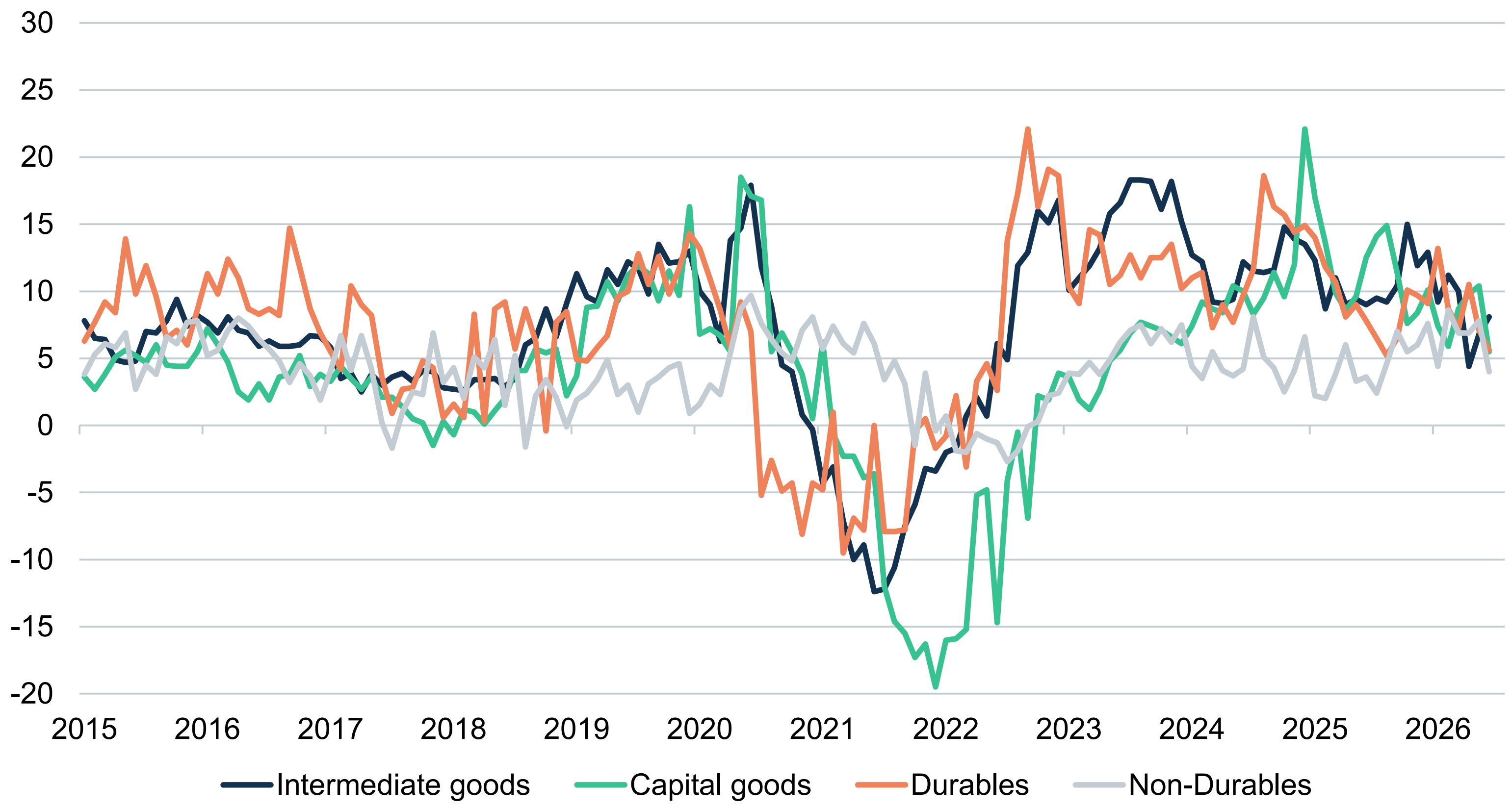
Germany: Inventory Levels Fall – Will There Be a Rebound?

Germany: Inventory of Finished Goods

Monthly figures



- In the first quarter, a particularly sharp negative impact from inventory was evident. They contributed minus 0.9 percentage points to GDP growth of 0.3%, thus having a significant negative impact. However, on the positive side, foreign trade made a significantly positive contribution (+1.3 percentage points).
- We generally expect these figures to reverse in the next one to two quarters. So far, the evidence for this has been rather sparse. Although the trade balance in April fell to 14.5 billion euros, compared with an average of +18.2 billion in the months from January through March.
- However, there is still no corresponding data available on inventory levels. They remain low.

Source: LSEG, LBBW Research

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Germany: What are the benefits of the reforms?

- **Pension** Implement the “Pension Security Commission’s” proposals in the Bundestag by the end of 2026
- **Taxes** Relief for middle-income earners; higher taxes for high-income earners; higher taxes for “mini” jobs
- **Labor Market** More temporary contracts; less protection against dismissal for "high earners"; incentives to return to work after receiving a severance package; elimination of sick leave requests by phone
- **Growth and Equity** among other things: support measures for promising industries; accelerating grid expansion and grid digitization; promoting housing construction; a federal law prohibiting the expropriation of private rental housing through state law
- **Reducing bureaucracy** Reviewing reporting requirements not mandated by EU or constitutional law; Expanding the presumption of approval; reducing data protection requirements where they are excessive or inappropriate

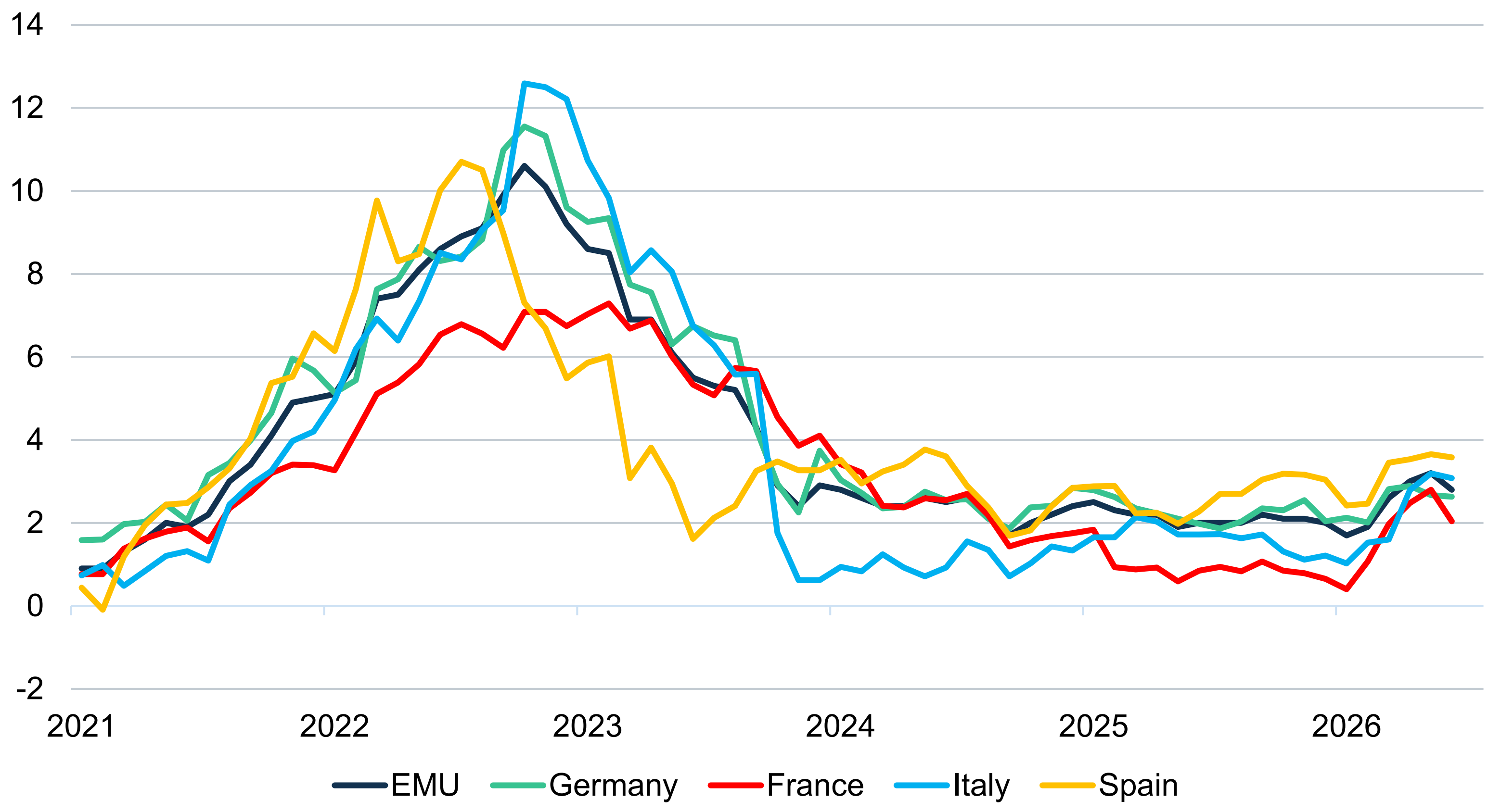
Conclusion Some measures are appropriate; tax relief may not amount to much (rising burdens due to higher social security contributions are to be expected); pension reform is a major hurdle; in most other areas of reform, the direction is the right one—namely, increasing flexibility and reducing bureaucracy; more incentives to work. However, there are likely to be significant debates when lobbying groups step up their activities.

Source: Press, LBBW Research

EMU: Inflation Curbed by Crude Oil Prices

Inflation in the EMU and the E-4

Monthly figures



Source: LSEG, LBBW Research

- A surprisingly sharp drop in the price of crude oil, resulting from a ceasefire and negotiations between the U.S. and Iran, provided some relief on the inflation front. At least inflation in the eurozone fell from 3.0% to 2.8%.
- So, for now, the rise in inflation is not quite as sharp as had been feared at the start of the war. The year-over-year increase in energy prices slowed from 10.8% to 8.7% in June. Compared with the previous month, energy prices fell by 1.7%.
- We are lowering our inflation forecast for the euro area
  - for 2026 from 3.0% to 2.9%, and
  - for 2027 from 2.5% to 2.4%.

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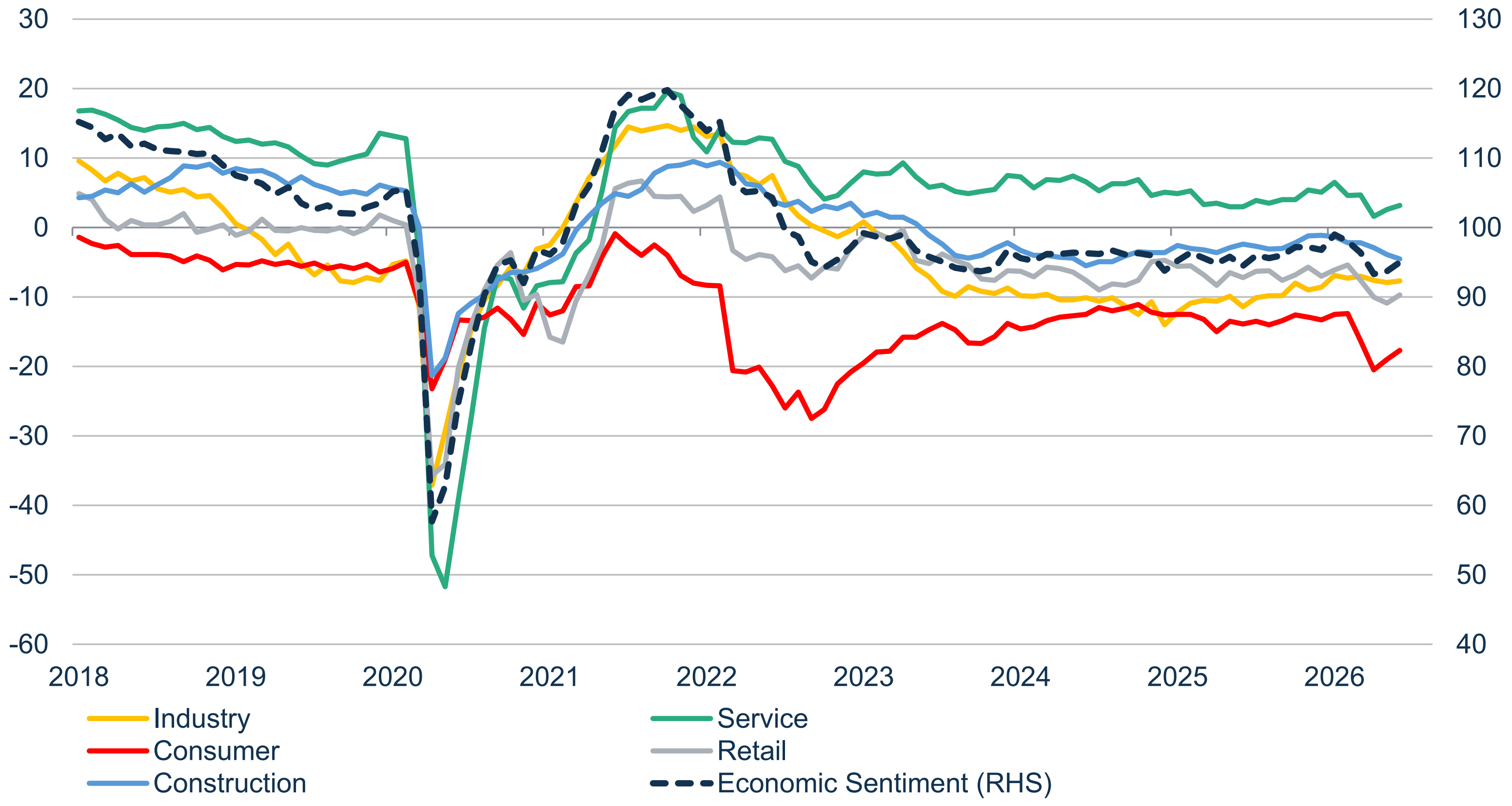
EMU: Improvement in June

Economic Sentiment and Sector Indices

Monthly figures



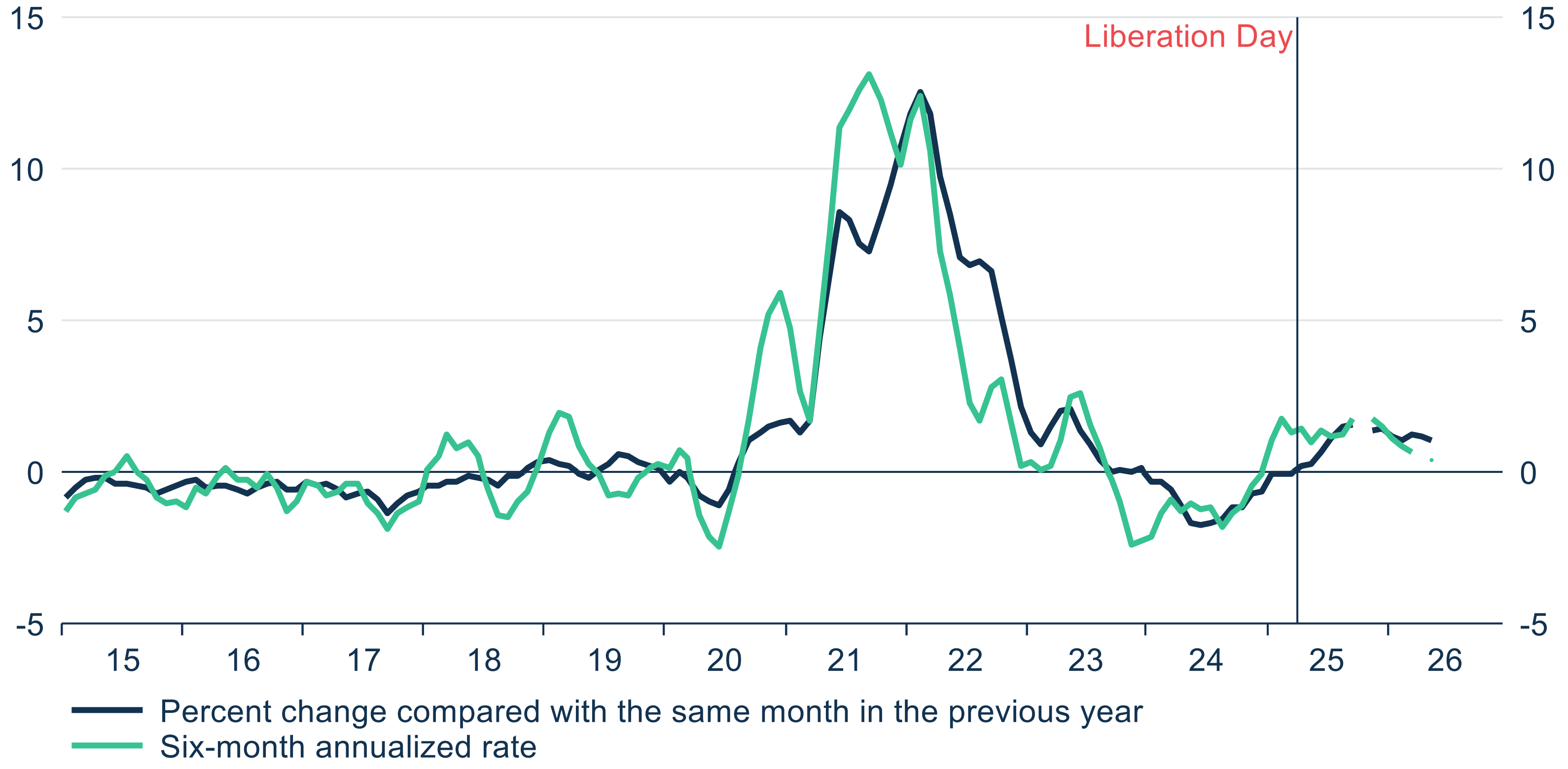
- Similar to Germany, the eurozone also saw a slight recovery in leading indicators.
- The Economist Sentiment rose from 93.7 points to 95.0 points.
- However, the improvement did not apply to all parts. Things improved for consumers, retailers, and service providers; the construction sector continued to decline; and the manufacturing sector reported no significant change.

Source: LSEG, LBBW Research

Virtually No Inflation at the Goods Level

U.S. Consumer Prices for Goods

Excluding Food and Energy, Monthly Figures



- Upward pressure on prices at earlier stages of production increased noticeably with the Iran War. Nevertheless, at the consumer level, prices for goods excluding food and energy fell by 0.1% month-over-month in May, following a period of price stagnation in April.
- The year-over-year change in the index was just 1.1% in May 2026. The annualized six-month rate was even lower, at 0.4%!
- However, higher rates of increase are being recorded for prices of services (excluding rent).

Source: LSEG, LBBW Research

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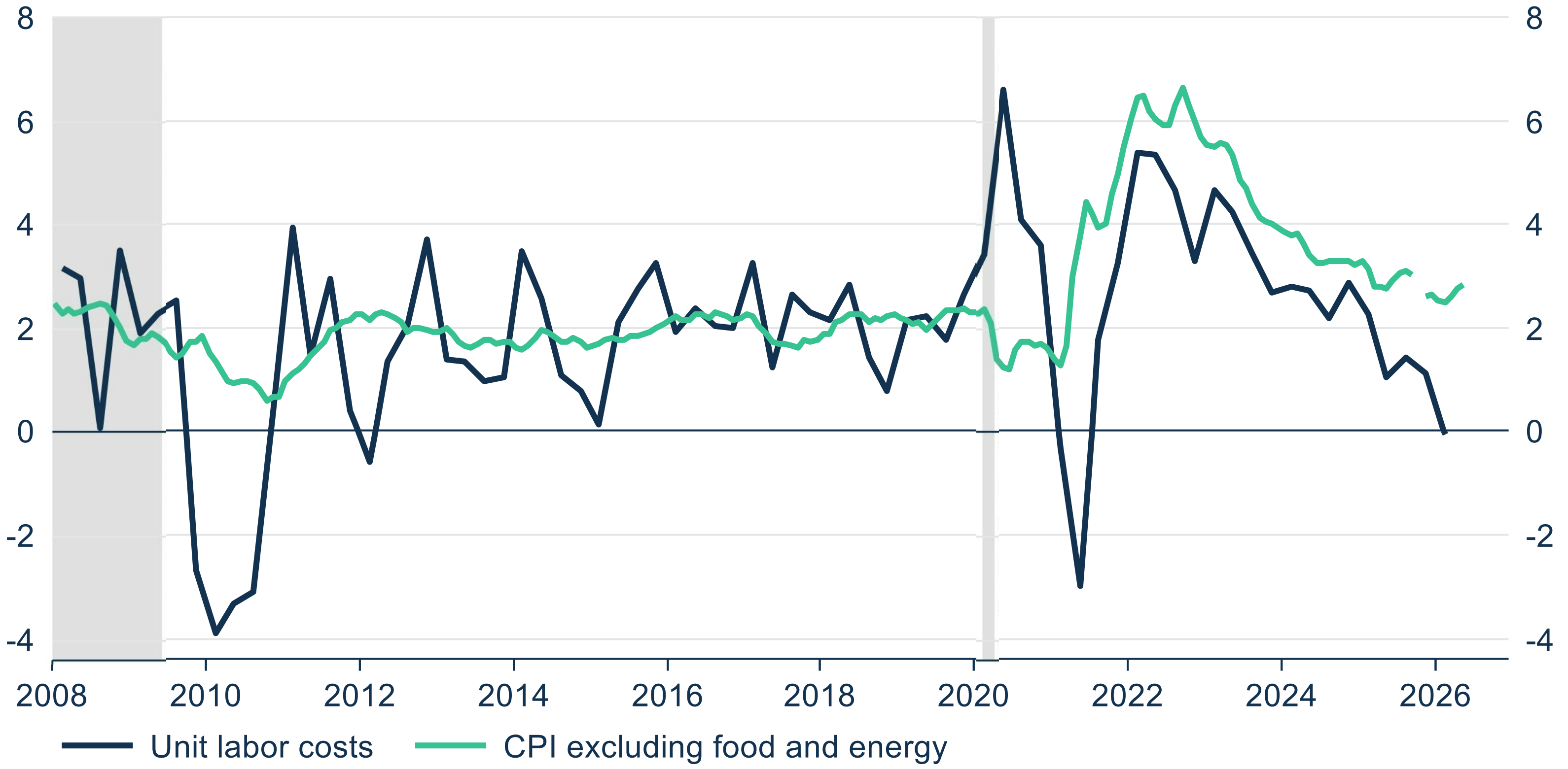
United States:
Unit labor costs should keep inflation in check

Unit Labor Costs and Consumer Prices

Percent change compared with the same period in the previous year



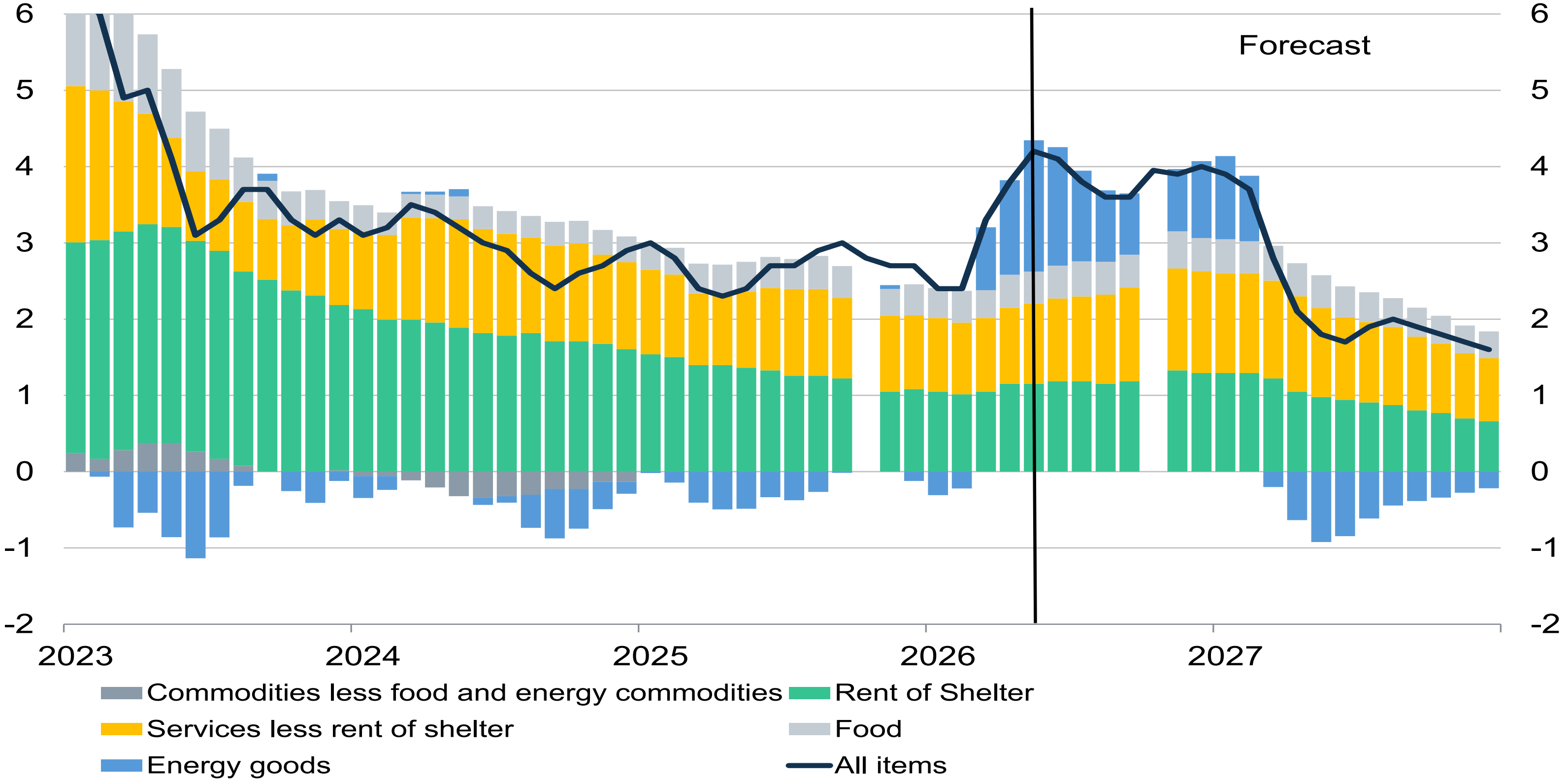
- U.S. unit labor costs (here: nonfinancial corporations) fell by 0.1% in the first quarter of 2026 compared with the same quarter of the previous year.
- This is primarily due to significant gains in U.S. productivity.
- Trends in productivity and unit labor costs should continue to keep consumer inflation in check for the time being.

Source: LSEG, LBBW Research

U.S. Inflation Forecast for 2026 Lowered

U.S. Consumer Price Index

Change compared to the same month in the previous year, in % or contribution, in percentage points*



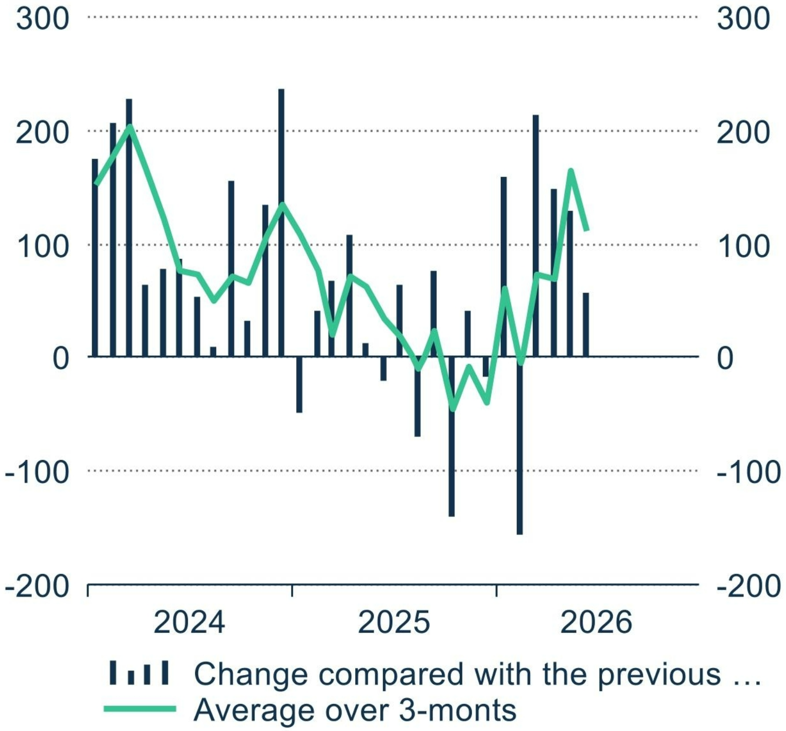
- Following the downward revision of the crude oil price forecast, we have also adjusted our U.S. inflation forecast for 2026 slightly downward, specifically from 3.8% to 3.6%.
- The U.S. inflation forecast for 2027 remained unchanged at 2.2%.

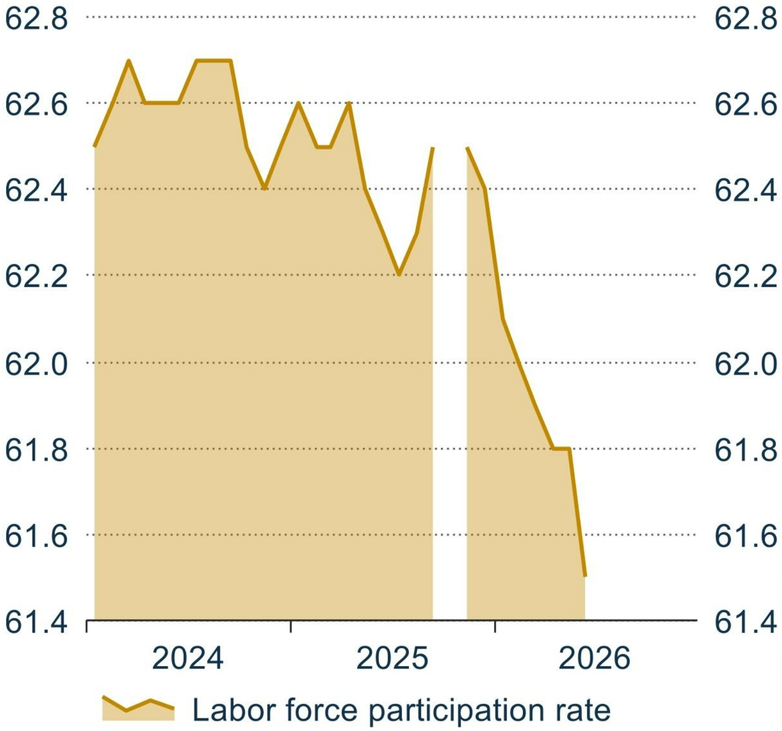
* The sum of the individual contributions only approximates the overall inflation rate

Source: LSEG, LBBW Research

Weak U.S. jobs report dampens speculation about Fed rate hikes

U.S. Employment and the U.S. Labor Force Participation Rate





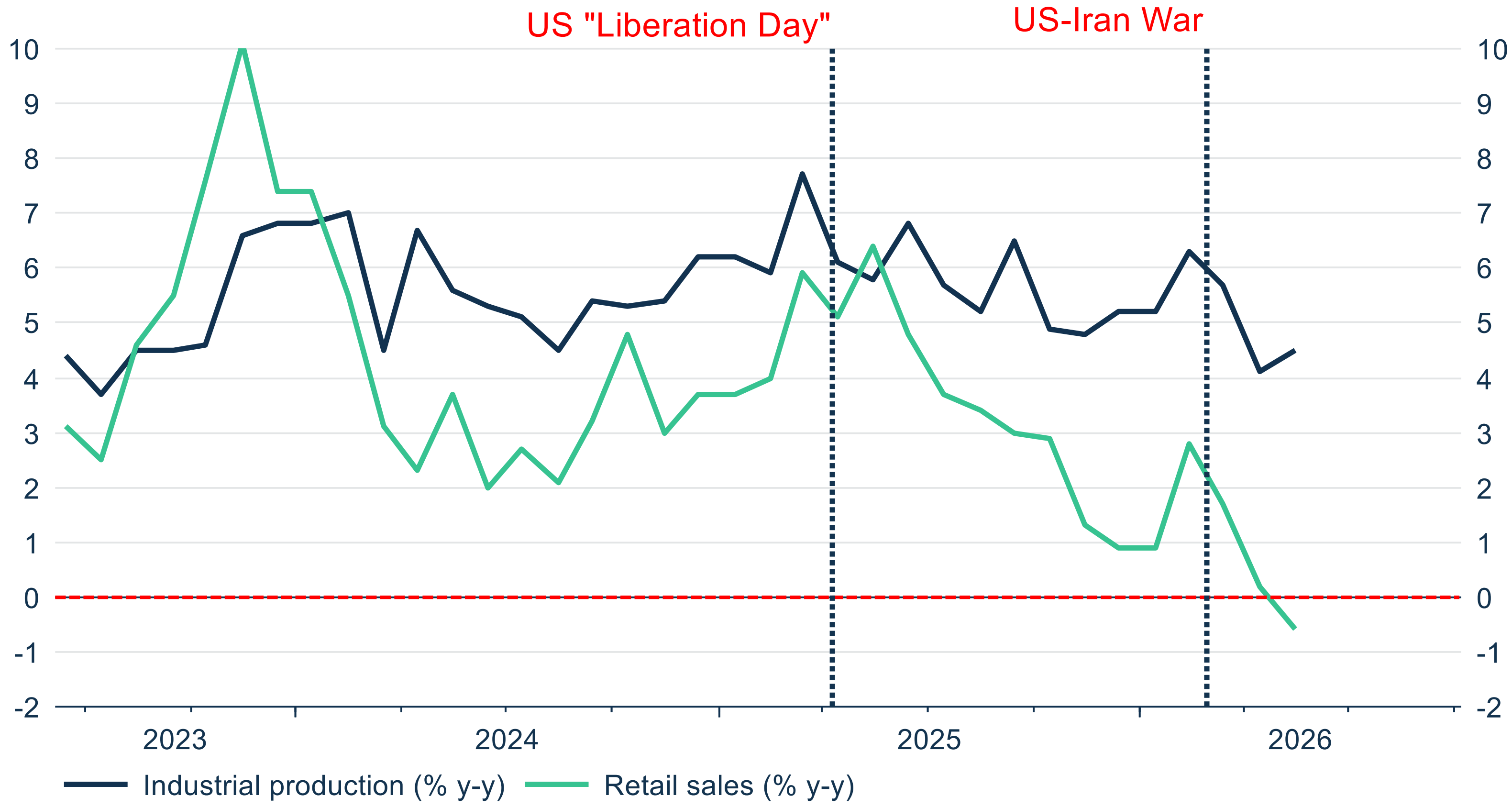
- The U.S. economy added 57,000 new jobs in June, which was fewer than generally expected. As a result, speculation about Fed interest rate hikes subsided.
- By the way: The labor force participation rate fell from 61.8% in May 2026 to 61.5% in June 2026, reaching a level not seen since the 1970s—excluding the COVID-19 period.
- In June, the number of people in the labor force decreased by 720,000. Currently, about one in five workers is 55 years old or older.
- Against this backdrop, the AI revolution comes at just the right time.

Source: LSEG, LBBW Research

China: Energy shock exacerbates economic imbalances

China: Industrial Production & Retail Sales

in % y-y



Source: LSEG, LBBW Research

- The negative effects of the US-Iran war were also felt in China's economy, particularly in consumer spending and traditional sectors.
- Retail sales posted negative growth (-0.6%) in May for the first time since the COVID-19 pandemic.
- Growth in the manufacturing sector (including petrochemicals, textiles, and steel manufacturing) has also slowed, driven by supply shortages, supply chain disruptions, and softer global demand (May: 4.5%).
- The recent easing of tensions in the Middle East, however, provides some relief for the Chinese economy. Early indicators for June signal an improvement in the manufacturing and the service sector.

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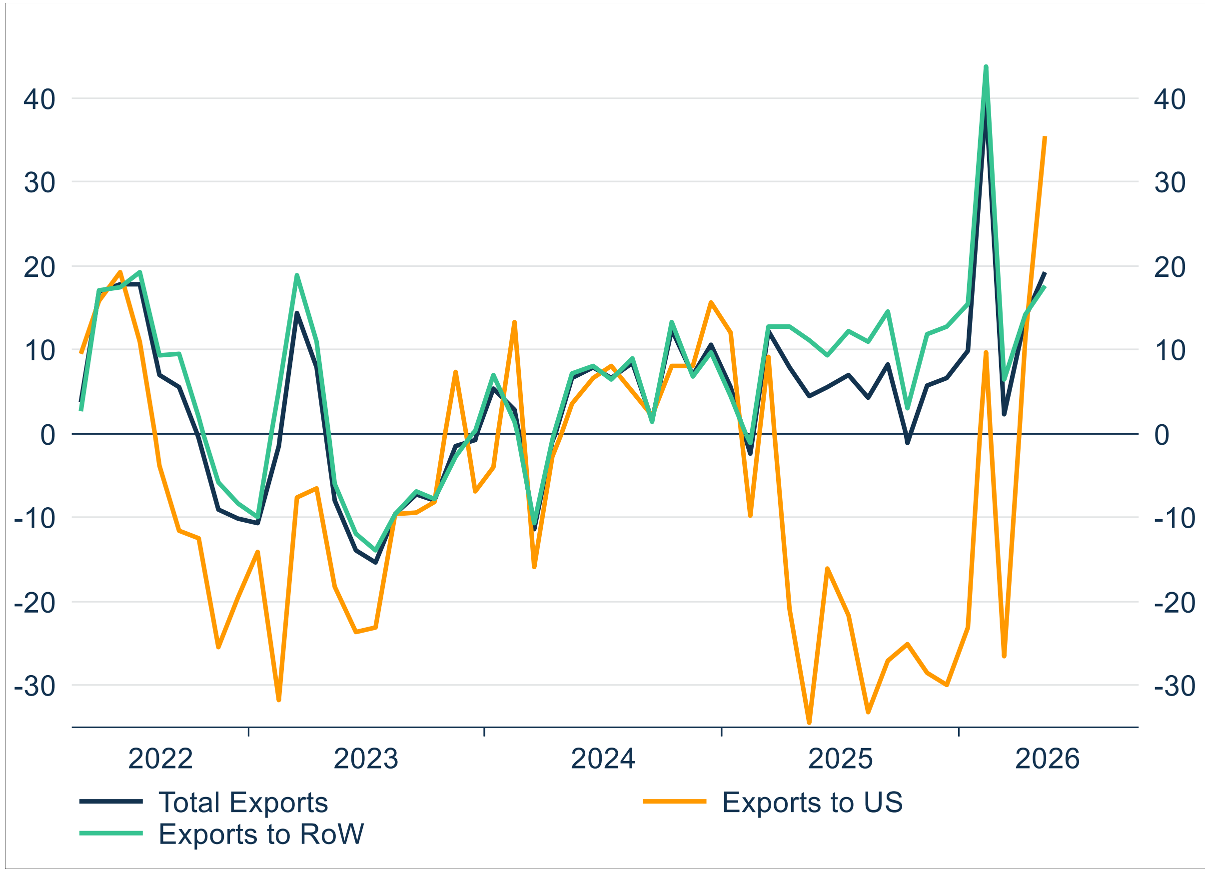
China's export sector receiving a boost from many sides

China: Export Growth (by Destination)

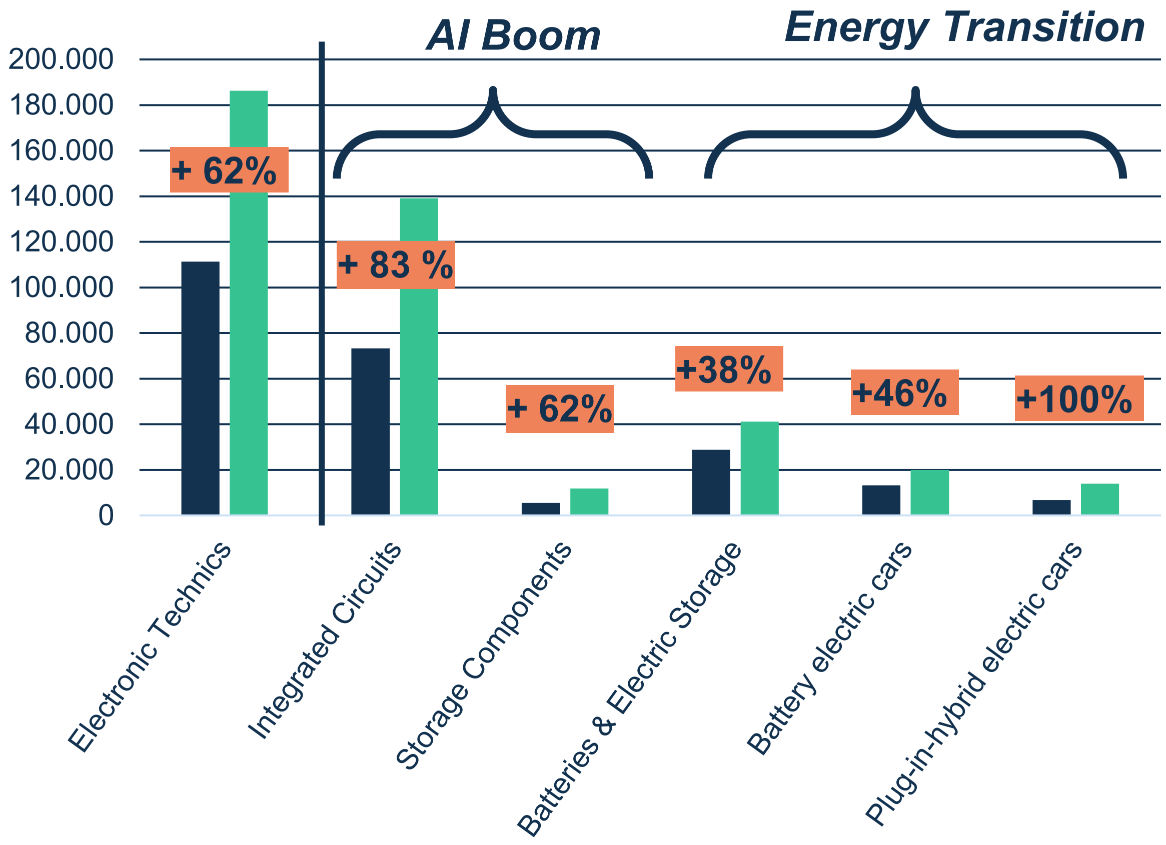
in % y-y



Source: LSEG, Bloomberg, LBBW Research

China: Exports by Commodity

in USD mio., selected categories



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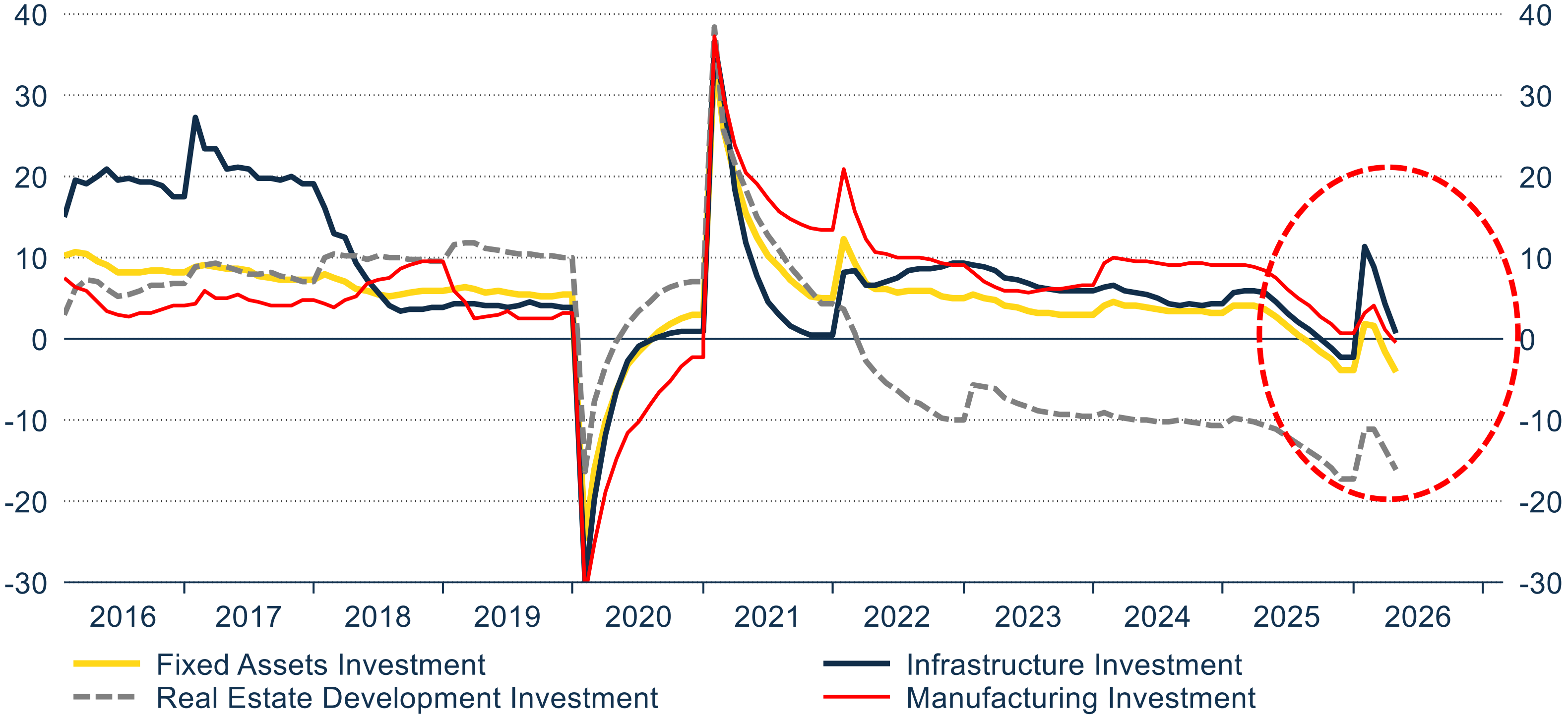
Government cutting back on capital investments, real estate crisis persists

China: Fixed Assets Investment (ex-rural)

in %, YTD



- China's fixed-asset investments fell more sharply than expected over the spring months.
- In the first five months of the year, investments posted a 4.1% decline year-on-year.
- A stalling stabilization in construction and real estate as well as a surprisingly sharp decline in public infrastructure spending were the main drivers.
- Pressure on profit margins, rising energy costs, and global uncertainty also dampened investment activities in the manufacturing sector.

Source: LSEG, LBBW Research

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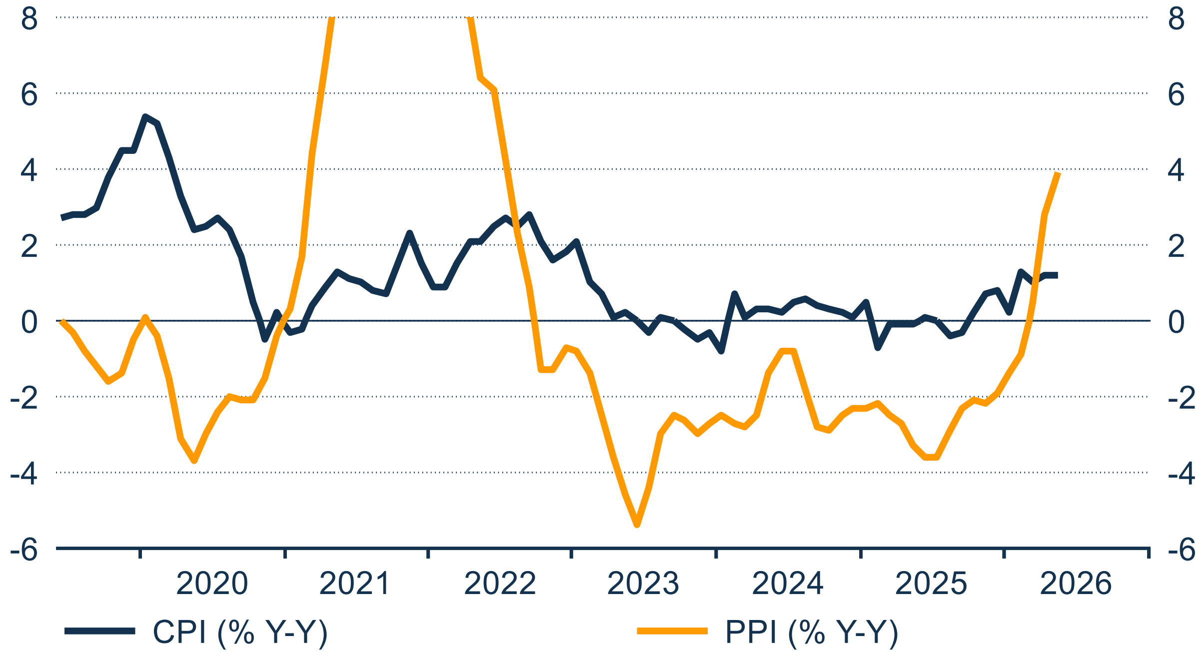
Moderate rise in inflation could give PBoC room to cut rates

Consumer Prices & Producer Prices

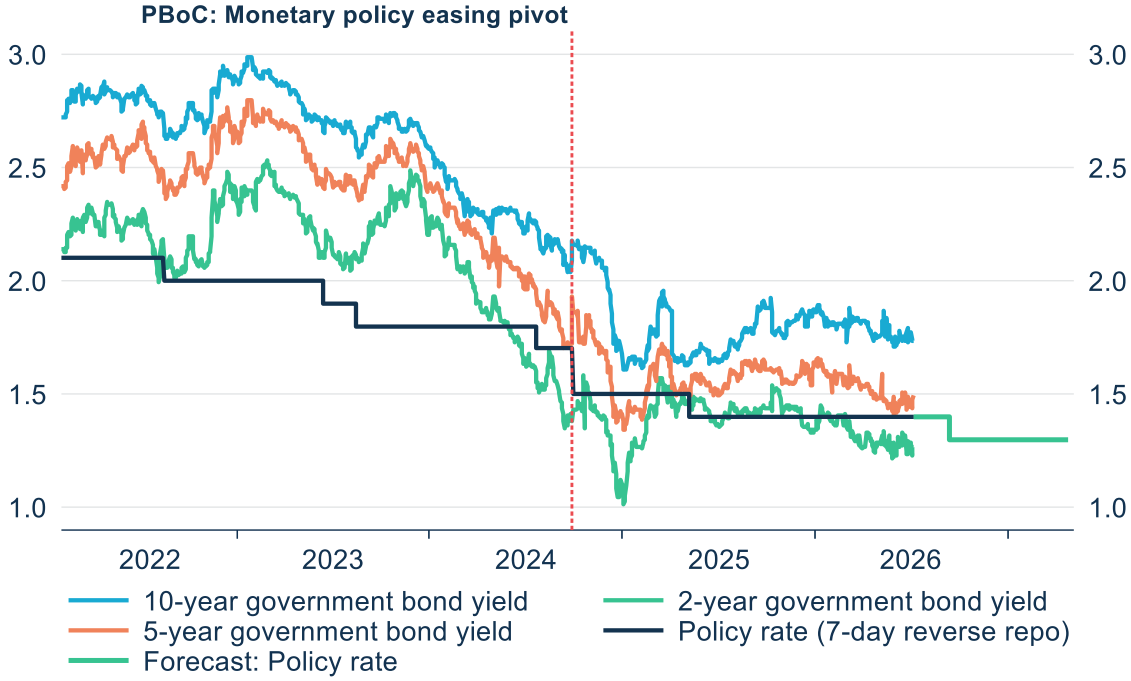
in % y-y



- Subdued domestic consumption limits the pricing power of firms; falling food prices and weak consumer goods prices are further dampening inflation.

Policy Rate & Government Bond Yields

in %



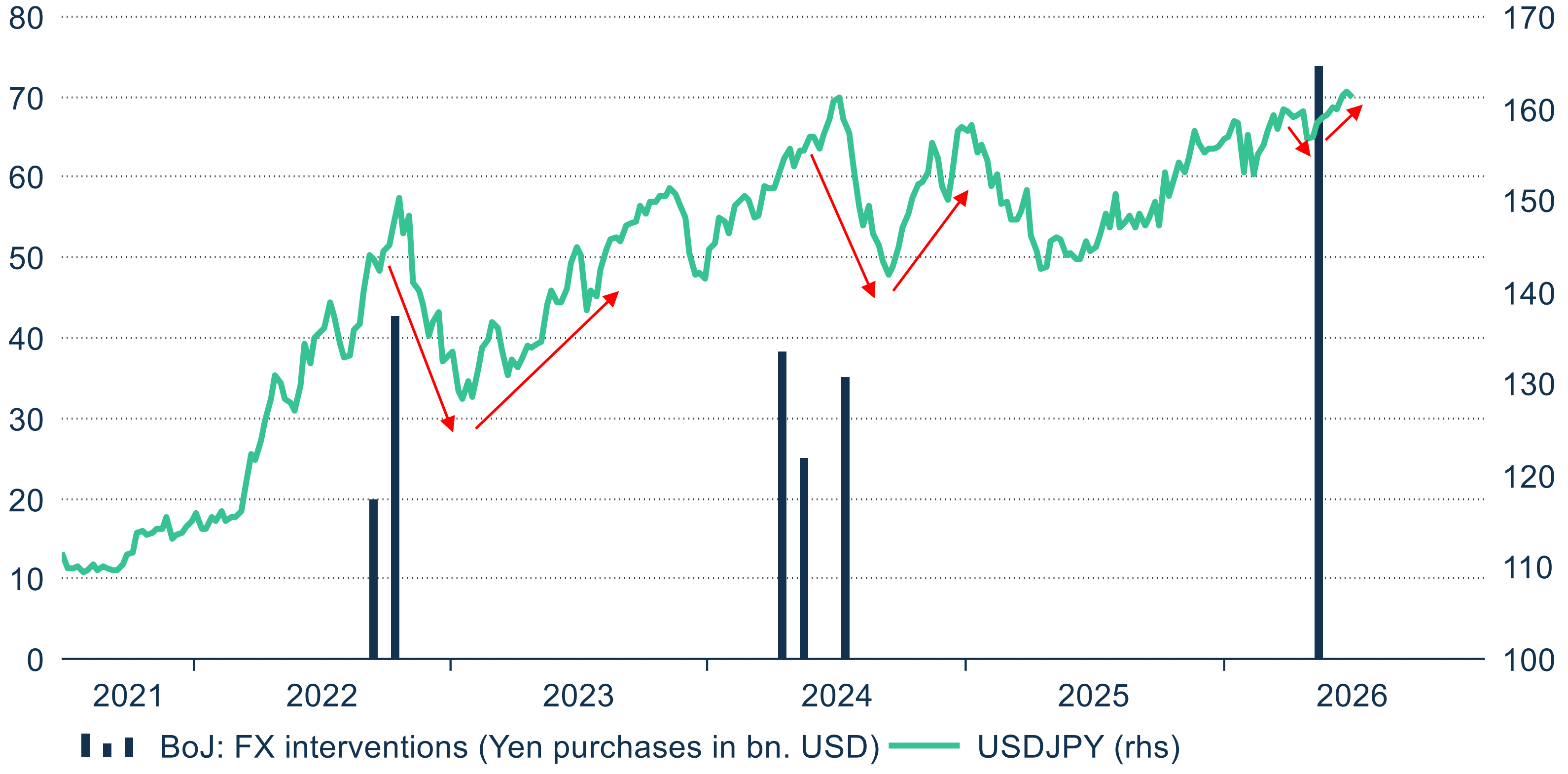
- China's central bank (PBoC) last cut interest rates in March 2025. A persistently weak domestic economy, falling energy prices, and the recent yuan rally should create room for further easing (with a potential 10-basis-point rate cut towards end of Q3).

Source: Bloomberg, LSEG, LBBW Research

Japan: Foreign Exchange Market Interventions Fizzled Out Quickly

BoJ Yen Purchases in the FX Market vs. USDJPY

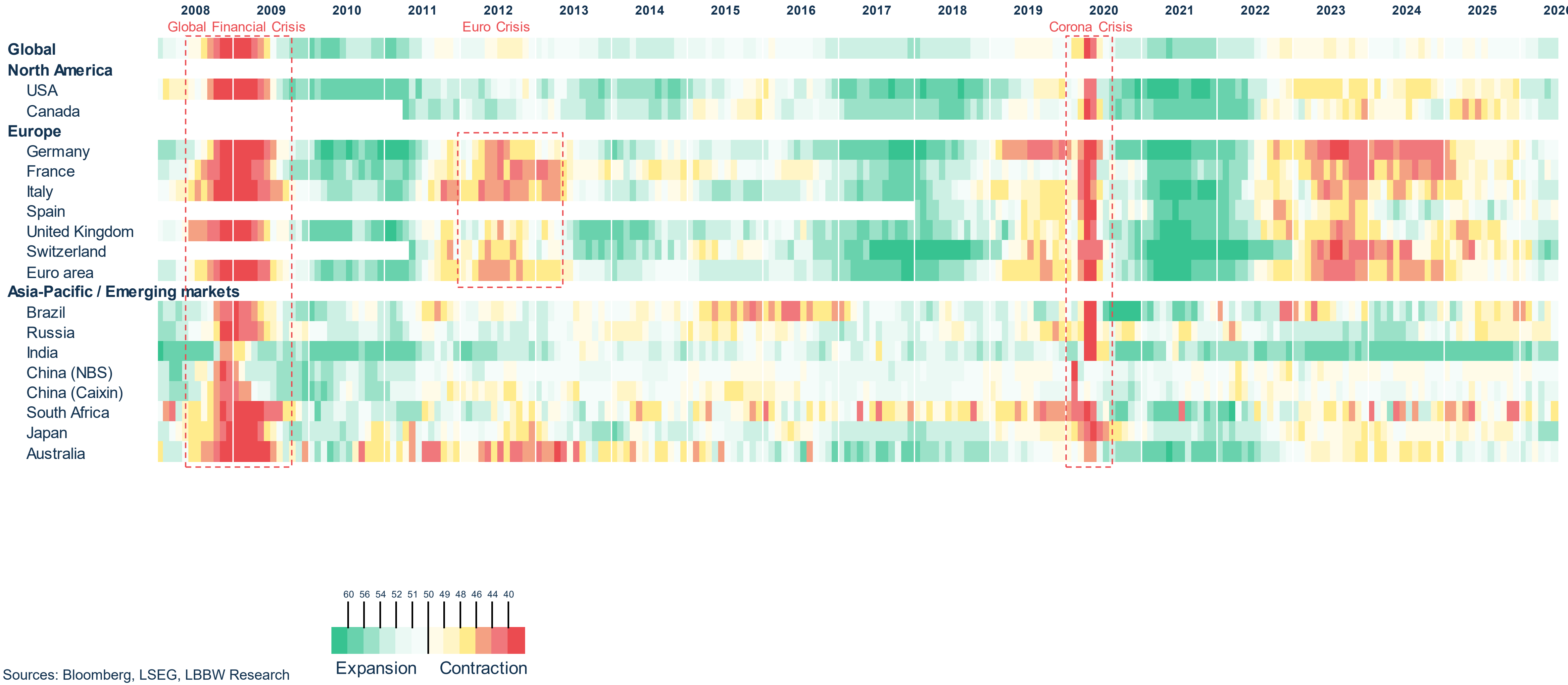
in billions of USD / USDJPY



- In May, the BoJ purchased approx. 74 bn. USD worth of Yen on the foreign exchange market - in an effort to halt the yen's decline. Further interventions were “threatened.”
- However, as is almost always the case (see the past five years), this had only a very short-term effect. USDJPY began to trend upward again.
- This shows once again that a central bank cannot sustainably prop up its own currency against economic fundamentals. Low interest rates on the yen make yen-denominated investments unattractive. The Japanese economy also remains sluggish.
- At any rate, the BoJ has now raised its key interest rate to 1.0% and announced further rate hikes. In the medium term, this should provide the yen with a bit more momentum.

Source: LSEG, LBBW Research

Global Purchasing Managers' Indices for the Manufacturing Sector



Sources: Bloomberg, LSEG, LBBW Research

03

Rates: Less pressure to act on the ECB and the Fed

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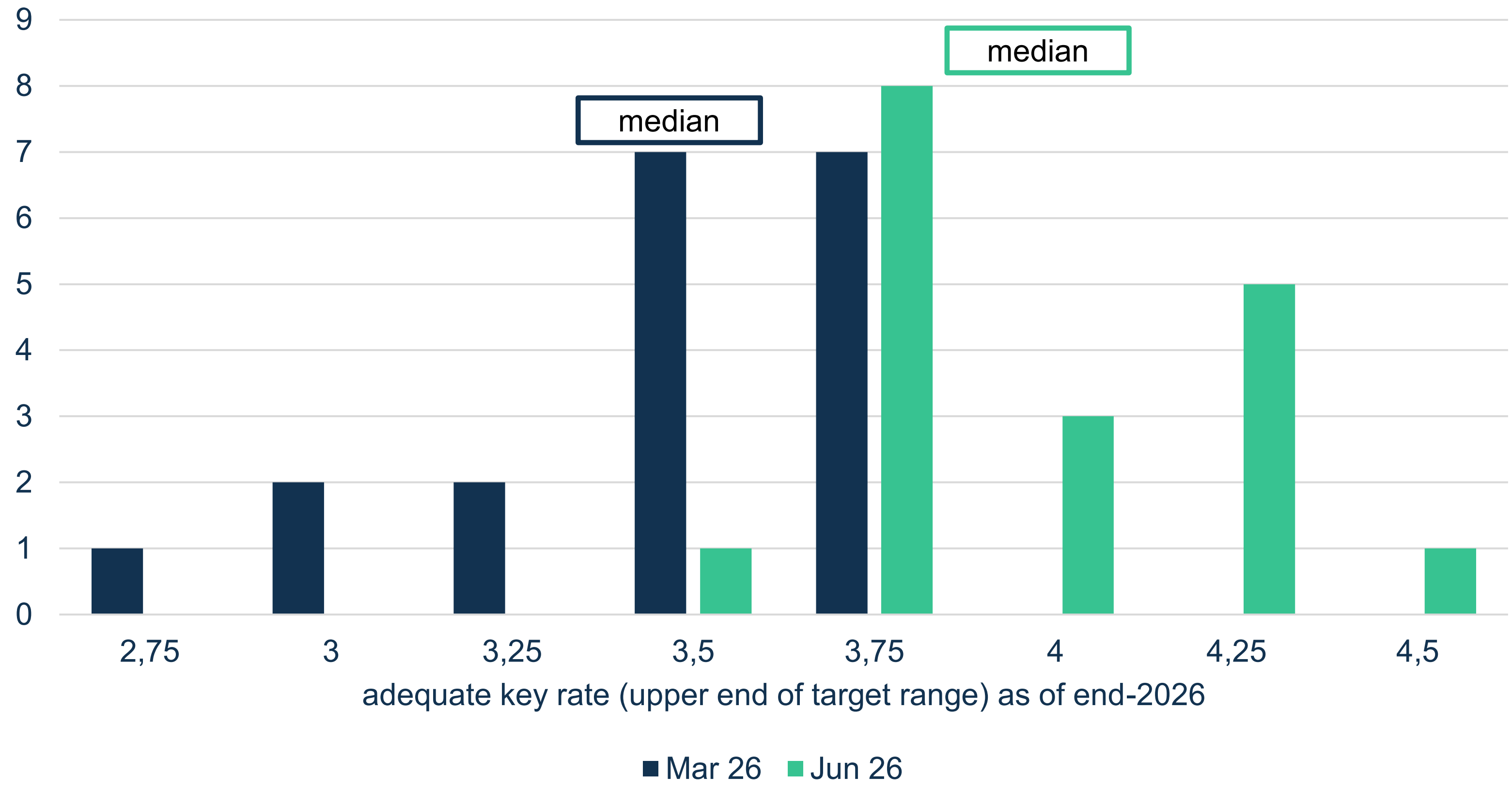
Fed:
“Dot Plot” takes move toward a rate hike

Frequency distribution of Fed officials’ preferred policy rates as of the end of 2026, “dot plots” from March and June 2026



Sources: Bloomberg, LBBW Research

- The first rate decision under Kevin Warsh came, in itself, without surprises: The key rate remains at 3.75% (upper edge of the target range).
- But: Hawkish signals dominate Warsh's first appearance.
- 1) The "dot plot" has shifted significantly upward. The Fed is divided on whether the next move will be up or down. Nine out of 18 central bankers (Warsh abstained) favor at least one hike in the second half of the year.
- 2) Warsh has shown an unexpectedly clear commitment to focusing on price stability. He pledged to end the prolonged period of missing inflation targets.
- => A hike has become more likely. However, our call remains the same: Key rates will stay unchanged through mid-2027.

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Fed: U.S. Supreme Court Strengthens Independence – but with a Bitter Aftertaste

Number of news results for “Fed independence” on Bloomberg and the EUR/USD exchange rate

Sources: Bloomberg, LBBW Research

- Concerns about the Fed‘s independence have been temporarily alleviated by:
- 1) Kevin Warsh repeatedly emphasized the importance of the Fed‘s independence. In addition to focusing on price stability, this has been his key message so far!
- 2) The Supreme Court has blocked Donald Trump's attempt to dismiss Federal Reserve Governor Lisa Cook for the time being.
- => Judicial backing for the Fed is an important signal. But the cow isn't quite out of the woods yet:
- a) The Supreme Court's decision was very close, with a 5-4 vote.
- b) The judges criticized the fact that Ms. Cook was not granted a hearing on the charges against her, but refrained from making a substantive assessment.

U.S. Bond Market: Tradeoff between relief over the Middle East and a "hawkish" Fed

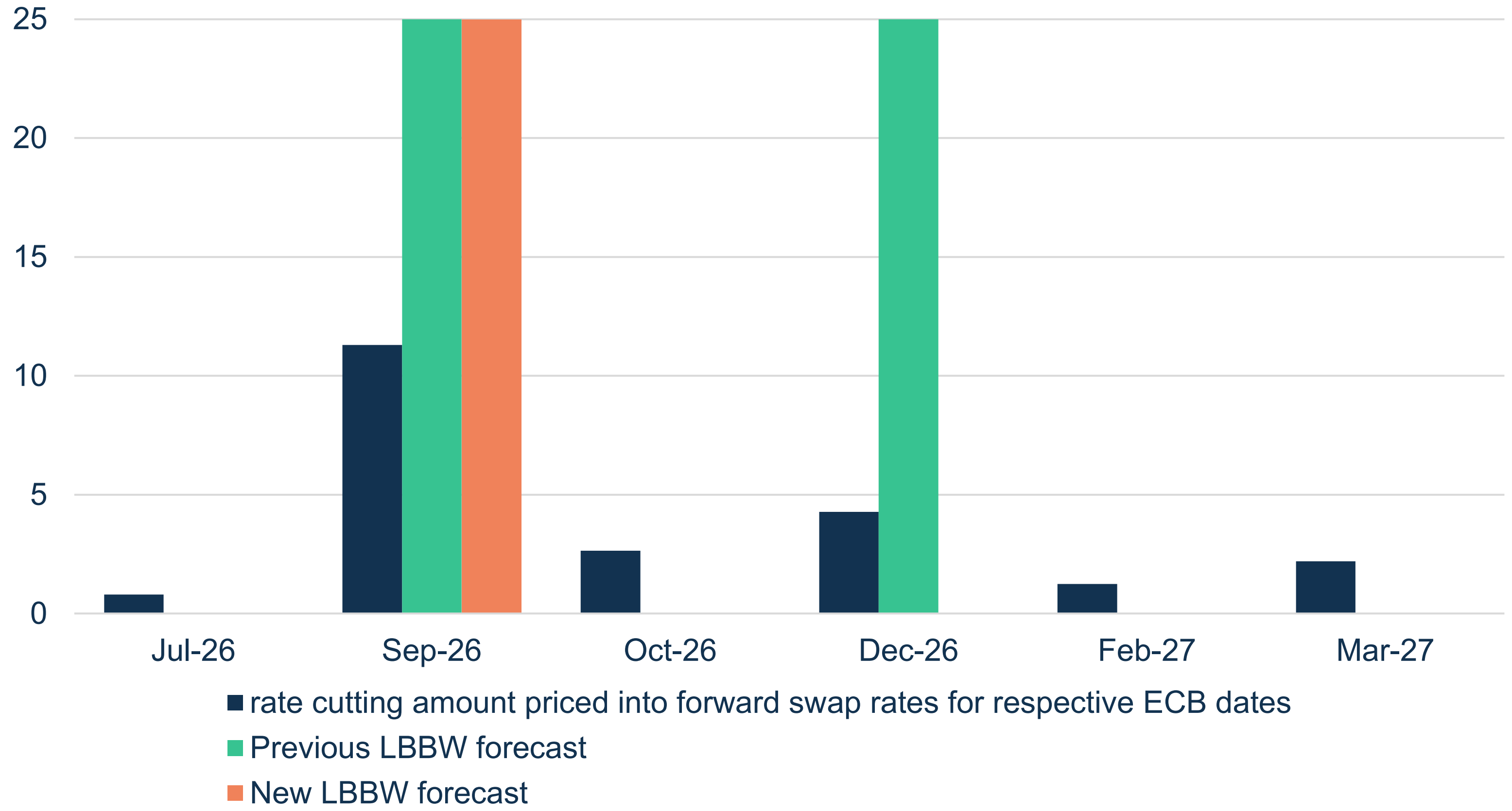
Market expectations for Fed rate changes through the end of 2026 and the yield on 10-Year U.S. Treasuries

Sources: Bloomberg, LBBW Research

- Recent trends in the U.S. bond market have been mixed:
- A "hawkish" Fed fuels rate hiking speculation. One hike is now fully priced in by the end of 2026.
- Yields on short-term government bonds reached an annual high.
- The yield on 10-year U.S. Treasuries, on the other hand, was at times noticeably affected by the easing of tensions in the Middle East. Hopes that energy prices will fall permanently are weighing on yields.
- It also appears that Kevin Warsh has, for the time being, managed to allay concerns about political influence on monetary policy.
- We have lowered our forecast for 10-year U.S. Treasury yields, but we still expect yields to go higher in the medium term.

ECB: A pause in July is all but certain – we expect only one more rate hike

Market expectations for key interest rate changes per ECB meeting (in bps), including LBBW's forecast

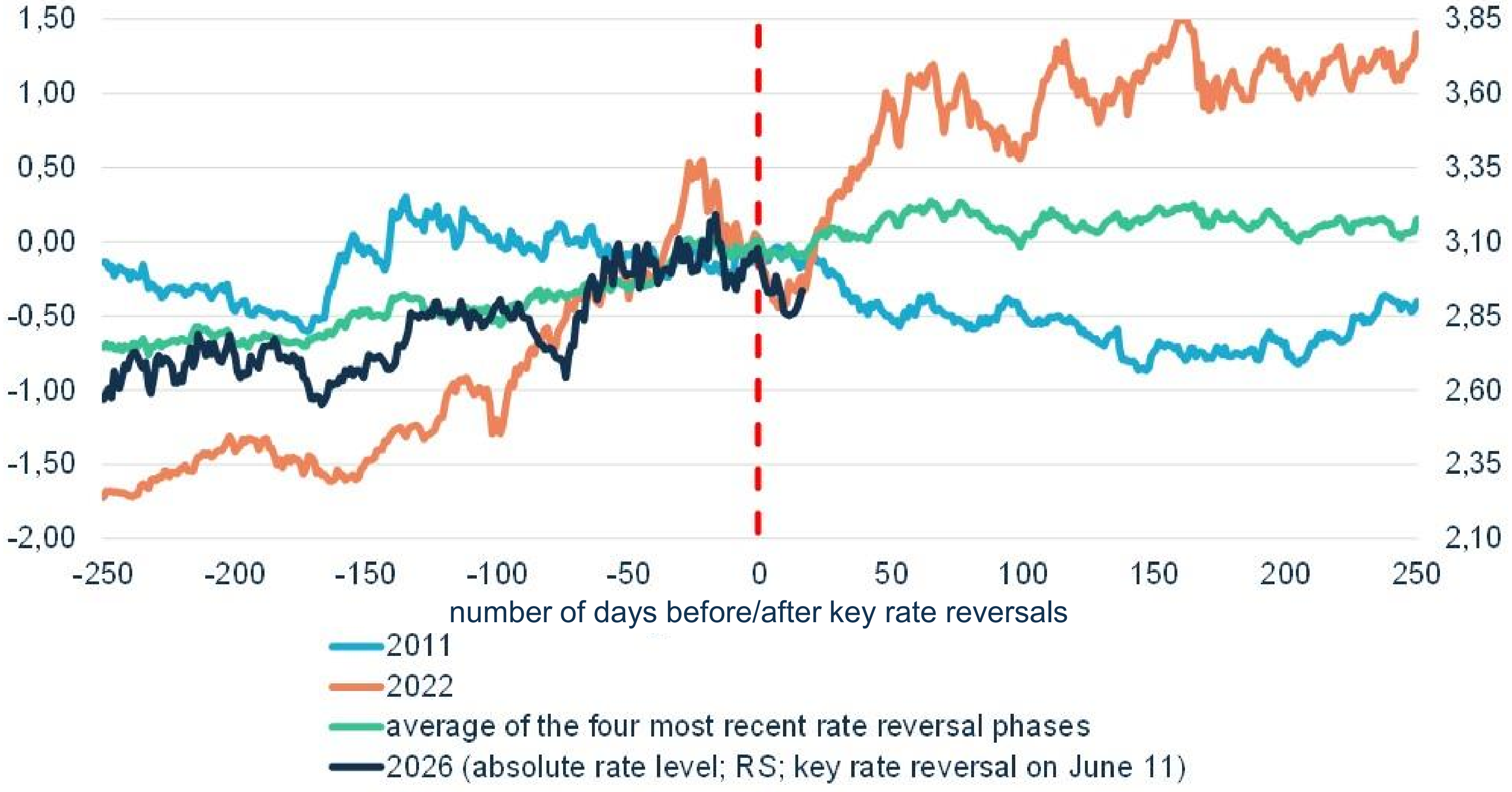


Sources: Bloomberg, LBBW Research

- As expected, a 25-basis-point interest rate hike was unanimously approved on June 11.
- ECB President Lagarde largely avoids providing guidance on further steps.
- According to Lagarde, however, inflation risks are "generally more balanced" than they were a few weeks ago. This strongly suggests a pause at the July meeting.
- At the same time, several ECB officials emphasized that the door remains open for further hikes, regardless of the easing of tensions in the Middle East.
- => We continue to expect a 25-basis-point interest rate hike in September. We believe that further tightening measures would only be realistic if the war in the Middle East were to flare up again.

EUR Bond Market:
The ECB's rate turnaround signals rising yields

Yields on 10-Year Bunds and cumulative changes in yields during historical ECB rate turnarounds



- Provided that the ECB's interest rate hike does not turn out to be a "flash in the pan" or even a "misstep," the turnaround in monetary policy generally points to further rising yields in the coming months.
- The yield on 10-year German government bonds rose by an average of about a quarter of a percentage point within six to twelve months after the first rate hike during the most recent four hiking phases.
- A notable counterexample was 2011, when the ECB's tightening quickly proved to be a mistake in light of the worsening eurozone debt crisis.

Sources: Bloomberg, LBBW Research

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EUR Bond Market: Seasonal trends play into the bulls' hands in the third quarter

Cumulative change in the 10-Year Bund yield since the start of the year and seasonal patterns

- In the short term, bond bulls appear to have the upper hand, based on the typical seasonal pattern and given the (net) supply environment.
- The yield on 10-year German government bonds reached its seasonal peak around mid-year, based on the average of the past 20 years. In 2026, this might have already been the case a few weeks earlier.
- July and August, in particular, were “bullish” on a statistical average.
- For the current year, we expect below-average net issuance volumes on the euro government bond market for both of the latter two months.

Sources: Bloomberg, LBBW Research

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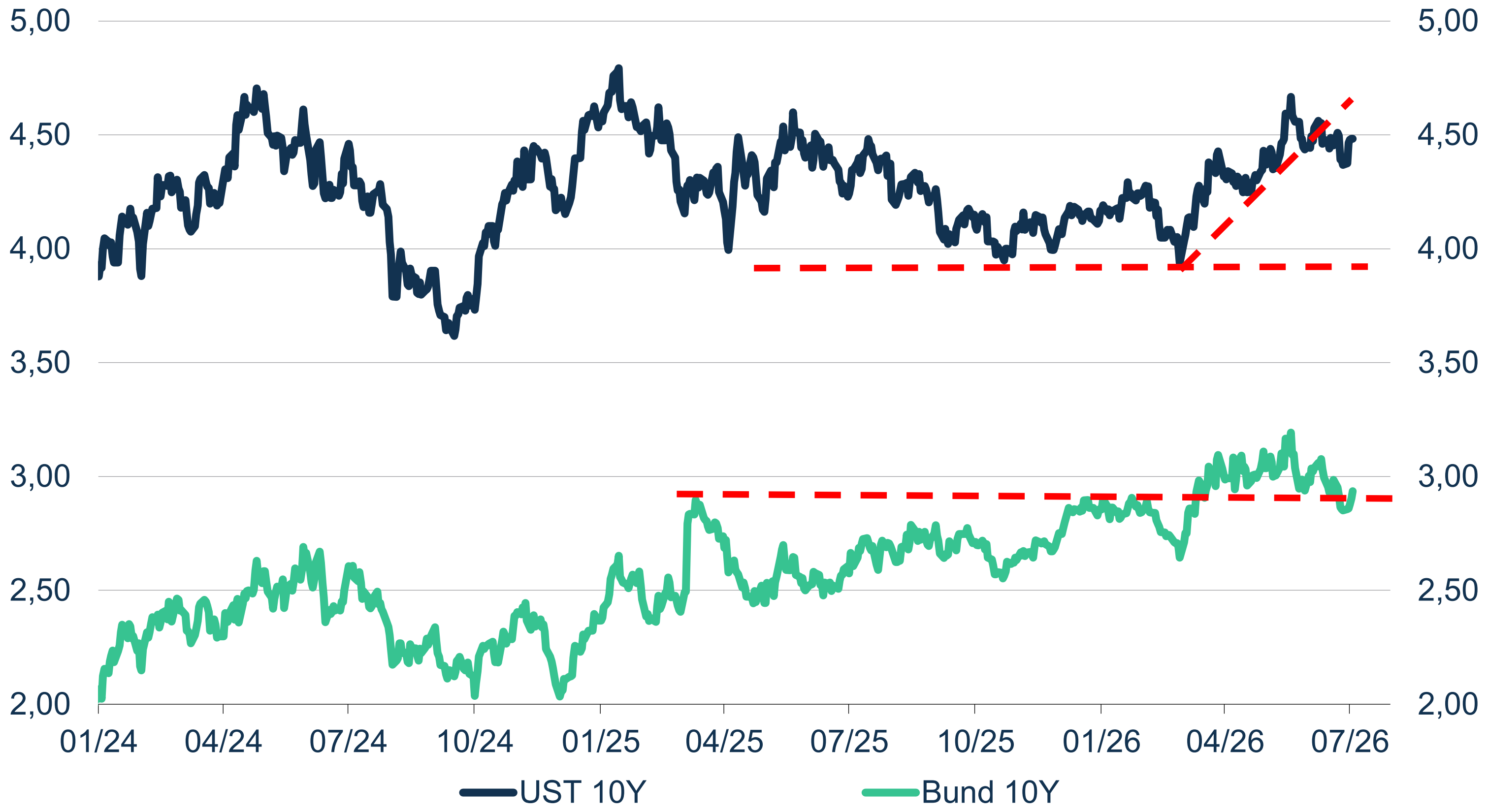
EUR Bond Market: How long will the bullish momentum from the Middle East last?

Yield on 10-year German government bonds and yield on 10-year U.S. Treasuries

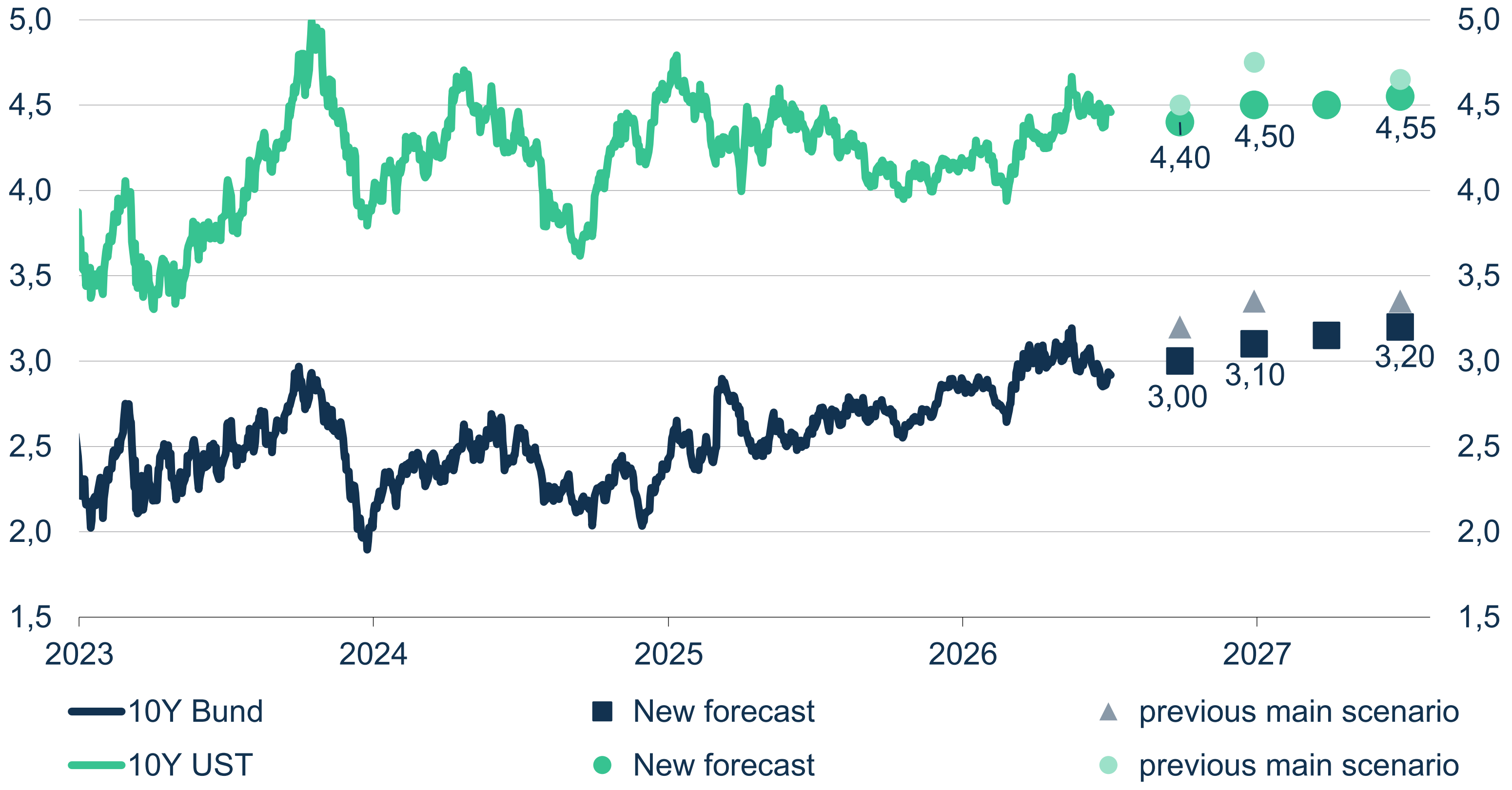


Sources: Bloomberg, LBBW Research

- 10-Year German Government Bond: Easing tensions in the Middle East triggered bullish momentum. Will this break the sideways consolidation of the past two months?
- The yield has fallen below the key support level at 2.90% (the former breakout level to the upside). A sustained break could fuel bullish momentum; a false signal could trigger frustration.
- A noticeable decline in implied interest rate volatility (close to pre-war levels) indicates that the need to hedge against a scenario of further rising interest rates has diminished.
- 10Y UST: The sharp upward trend in yields, which began with the outbreak of the war in Iran, has come to an end. At first glance, there are several factors suggesting consolidation around the 4.50% mark.

We have lowered our forecasts for long-term interest rates moderately!

Yields on 10-Year U.S. Treasuries and 10-Year German government bonds: previous and new LBBW forecasts



Sources: Bloomberg, LBBW Research

- Our revised ECB key rate path forecast currently brings us roughly in line with the financial market consensus, as reflected in money market forward rates.
- Looking at the U.S. bond market, short-term bonds in particular could find support if our prediction that the Fed will keep interest rates unchanged proves correct.
- With regard to long-term government bonds, we maintain a bearish baseline assessment overall, citing a simmering debt problem. In our revised main scenario, however, we expect a flatter angle in yield increases.
- => We have lowered our 10-year German government bond forecast for the end of 2026 from 3.35% to 3.10% and our 10-year U.S. Treasury forecast from 4.75% to 4.50%.

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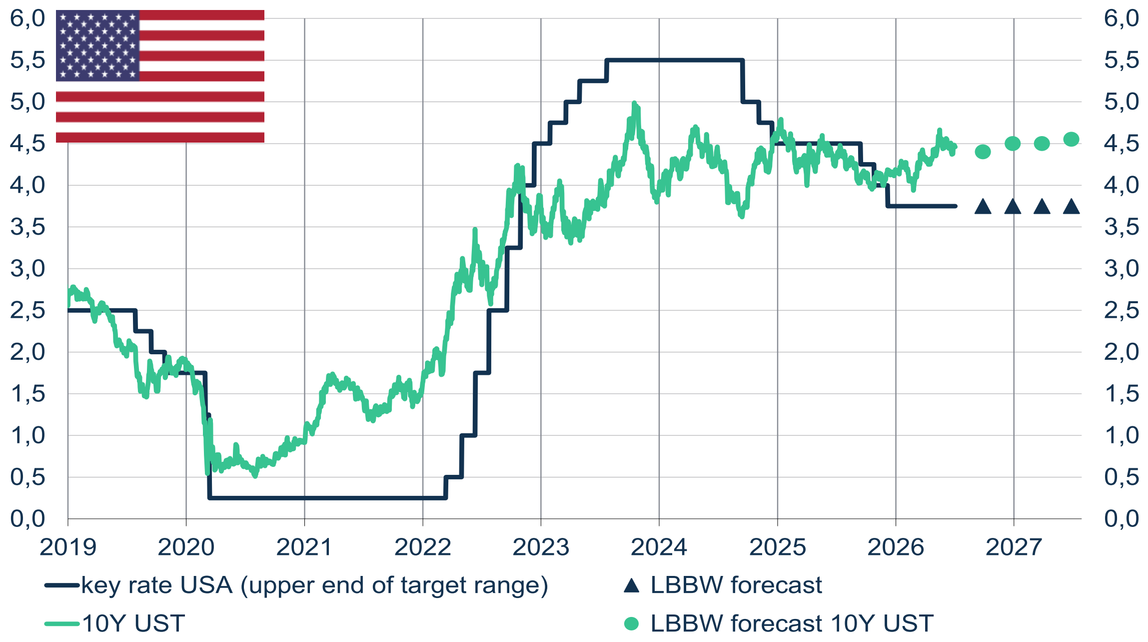
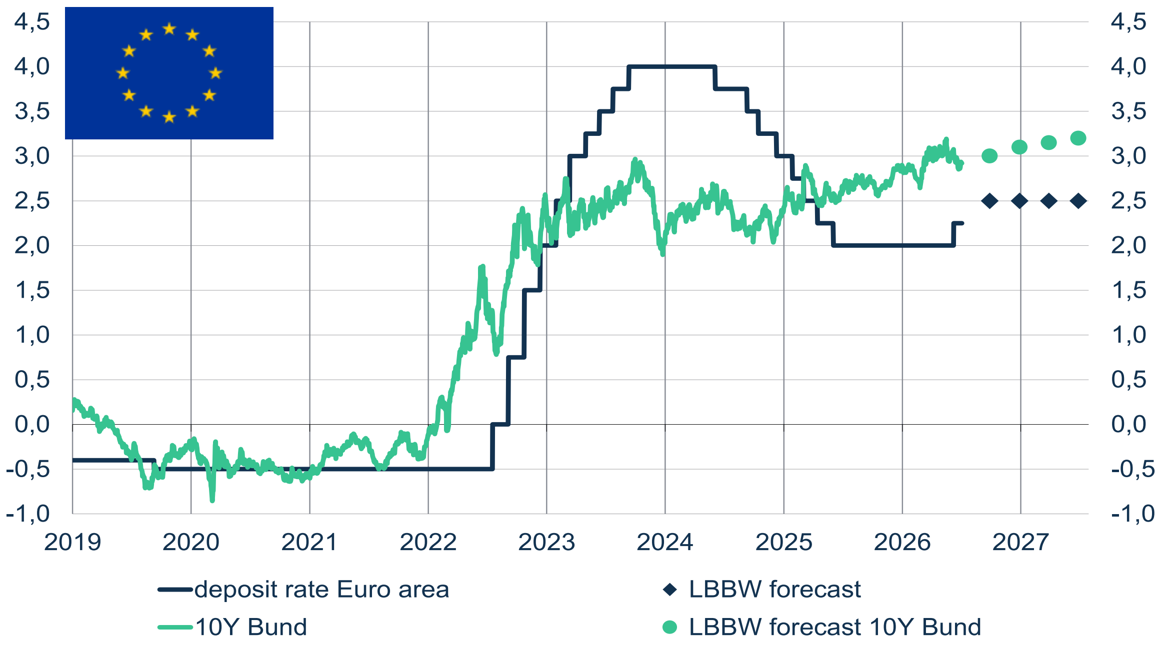
Fed to keep its feet still for the foreseeable future, ECB to raise deposit rate to 2.5%

U.S. Interest Rates and Forecast
in %



EUR Interest Rates and Forecast
in %



- Fed Puts Inflation Back in the Spotlight: No change in interest rates; by mid-2027, a rate hike is more likely than a cut.
- In the U.S. Treasury market, the risks to its status as a safe haven and the risks associated with its debt are being underestimated.

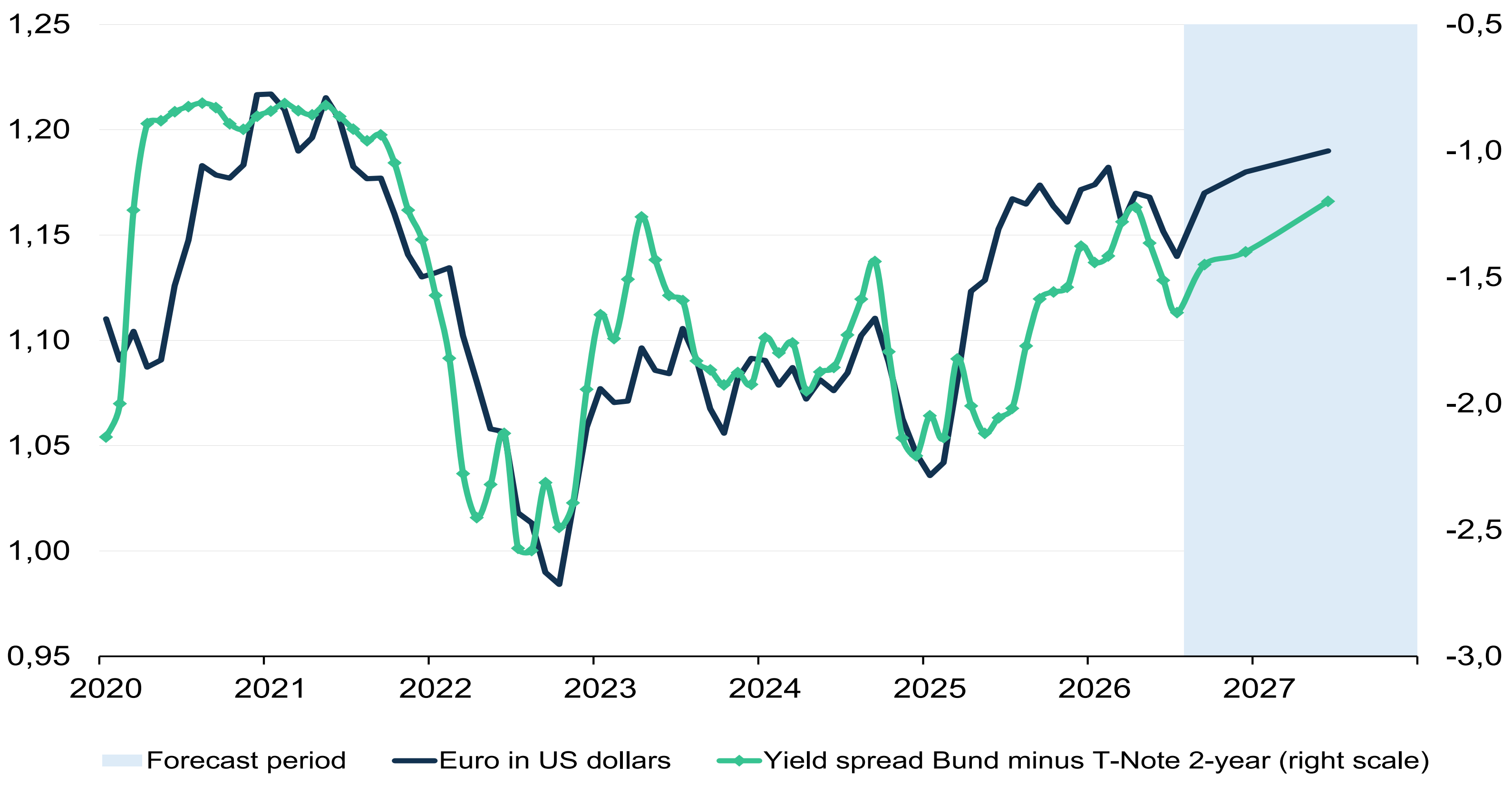
- Second-round effects keep pressure on the ECB One more interest rate hike by the end of 2026.
- Long-term interest rates: Persistent inflation risks and rising term premiums suggest the potential for another rise.

Sources: Bloomberg, LBBW Research

The U.S. yield spread is likely to narrow, though to a lesser extent than previously assumed

The Euro in U.S. Dollars and the "Transatlantic Spread"

Monthly figures



- If our Fed call proves accurate, yields on short-term U.S. Treasury securities are likely to decline, and with them their yield spread over German government bonds with matching maturities.
- Since we had previously anticipated an even greater narrowing of the U.S. yield spread – we had factored in two more ECB rate hikes for the rest of the year – we are now revising downward our forecast for the extent of the euro's appreciation.
- According to our new forecast, the euro will appreciate to 1.18 U.S. dollars (previously: 1.22 U.S. dollars) by the end of 2026.

Source: LSEG, LBBW Research

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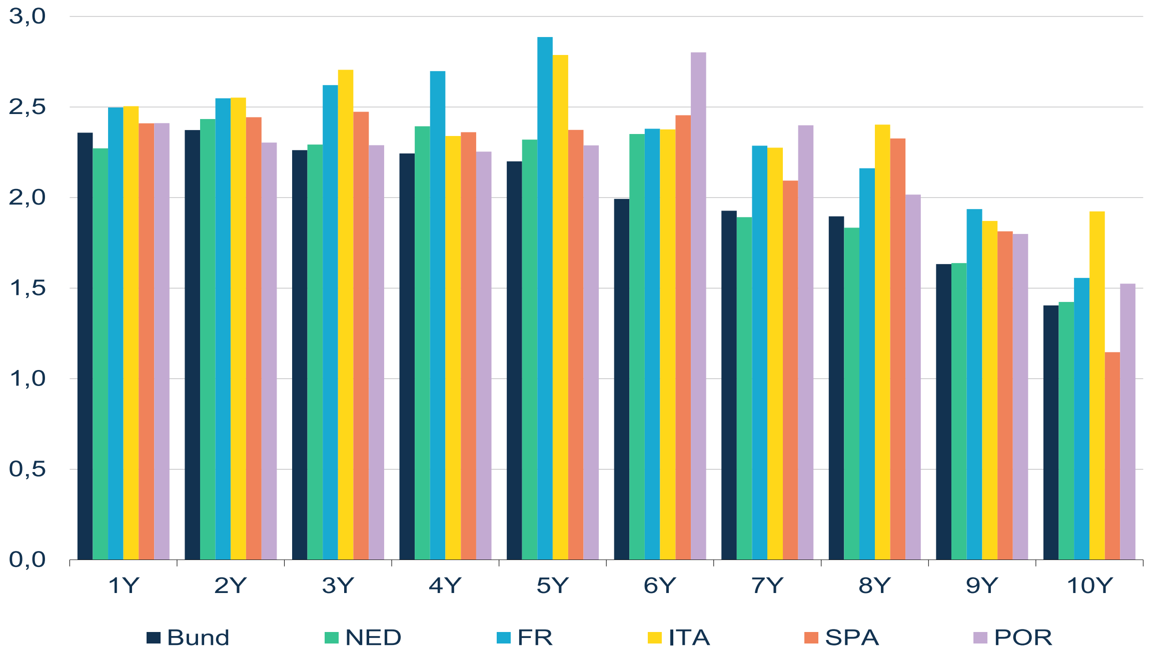
Performance expectations for Eurozone government bonds / U.S. Treasuries

EUR government bonds over a 12M horizon

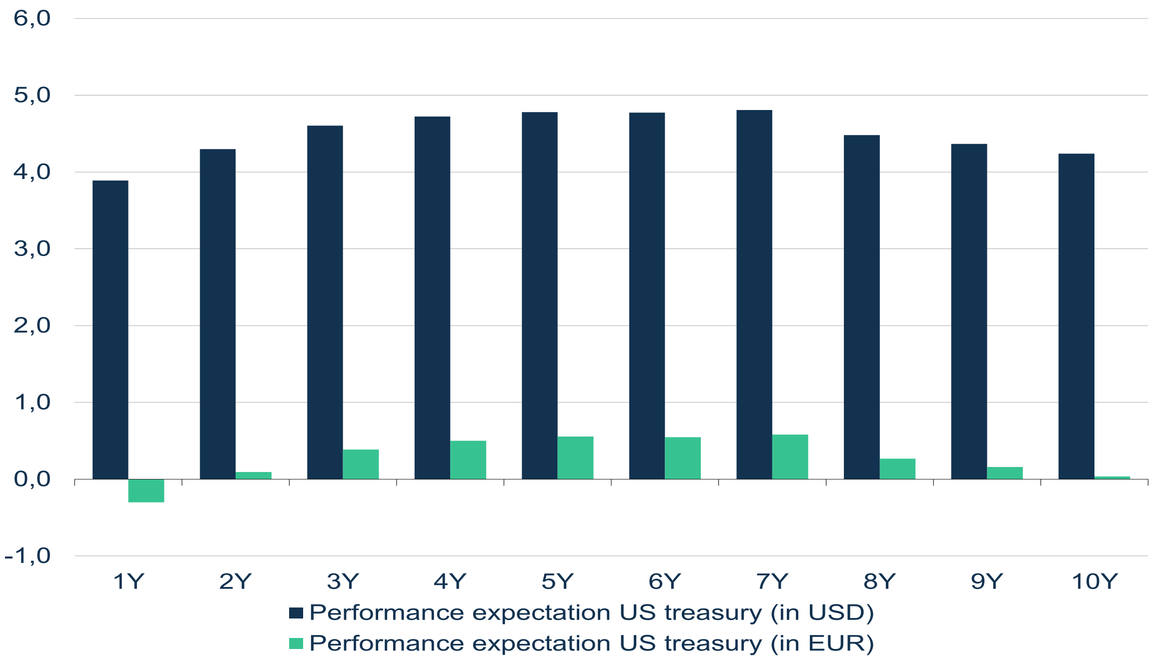
(in %; Assumption: moderate spread widening of 20%)



- The market has priced in a moderate further tightening of monetary policy; Long-term bonds remain under pressure due to debt risks.
- Sovereign spreads: Rating upgrades appear to have come to an end for now; medium term, the risks of deficit widening predominate.

U.S. Treasuries: 12M Outlook

(in %; in USD and EUR)



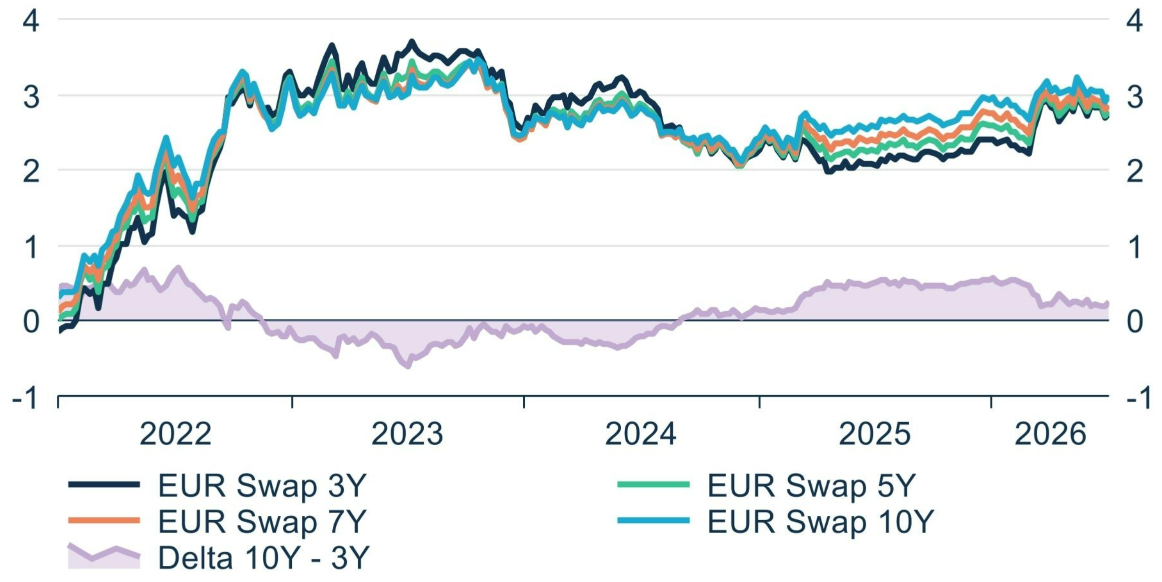
- U.S. dollar: Doubts about its reserve status are growing. In the medium term, the risk of a return to the downward trend prevails.
- The risk of another decline in prices for long-term U.S. Treasuries argues for underweighting duration.

Sources: Bloomberg, LBBW Research

Swap Yields

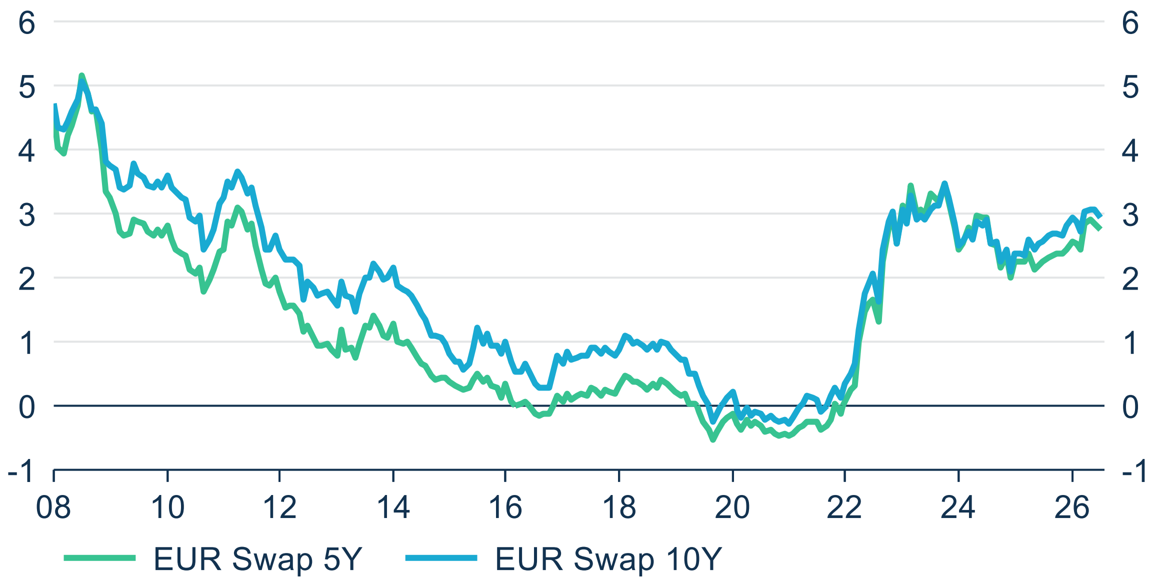
EUR Swap Yields in %

Terms of three to ten years, since 2022



EUR Swap Yields in %

Five- and ten-year terms, since 2008



Source: LSEG, LBBW Research

Interest Rate Forecasts in Detail

		Spot	30-Sep-26	Forecast 31-Dec-26	30-Jun-27
Euro area					
ECB Main Refinancing Rate		2.40	2.65	2.65	2.65
ECB Deposit Rate		2.25	2.50	2.50	2.50
Overnight Rate (€STR)		2.18	2.45	2.45	2.45
3M Euribor		2.32	2.55	2.55	2.55
Swap 2Y		2.72	2.80	2.85	2.75
Swap 5Y		2.79	2.85	2.90	2.85
Swap 10Y		2.99	3.05	3.10	3.15
Bund 2Y		2.54	2.60	2.70	2.65
Bund 5Y		2.65	2.70	2.80	2.80
Bund 10Y		2.93	3.00	3.10	3.20
USA					
Fed Funds Target Rate		3.75	3.75	3.75	3.75
Overnight Rate (SOFR)		3.66	3.65	3.65	3.65
3M Money Market		4.85	3.75	3.75	3.65
Swap 2Y (SOFR-OIS)		3.99	3.95	3.90	3.65
Swap 5Y (SOFR-OIS)		3.94	3.85	3.85	3.75
Swap 10Y (SOFR-OIS)		4.06	3.95	4.00	4.00
Treasury 2Y		4.14	4.10	4.10	3.85
Treasury 5Y		4.23	4.15	4.20	4.10
Treasury 10Y		4.48	4.40	4.50	4.55
Other industrialized countries					
Japan	Overnight Rate (TONAR)	0.98	1.05	1.05	1.30
Japan	10Y Government Bond	2.73	2.75	2.80	2.85
UK	Overnight Rate (SONIA	3.73	3.70	3.95	3.95
UK	10Y Government Bond	4.87	4.80	4.90	4.90
Switzerland	Overnight Rate (SARON)	-0.04	-0.05	-0.05	-0.05
Switzerland	10Y Government Bond	0.31	0.35	0.40	0.45

Sources: LSEG, LBBW Research

04

Foreign Exchange: Swiss Franc Popular as a Safe Haven

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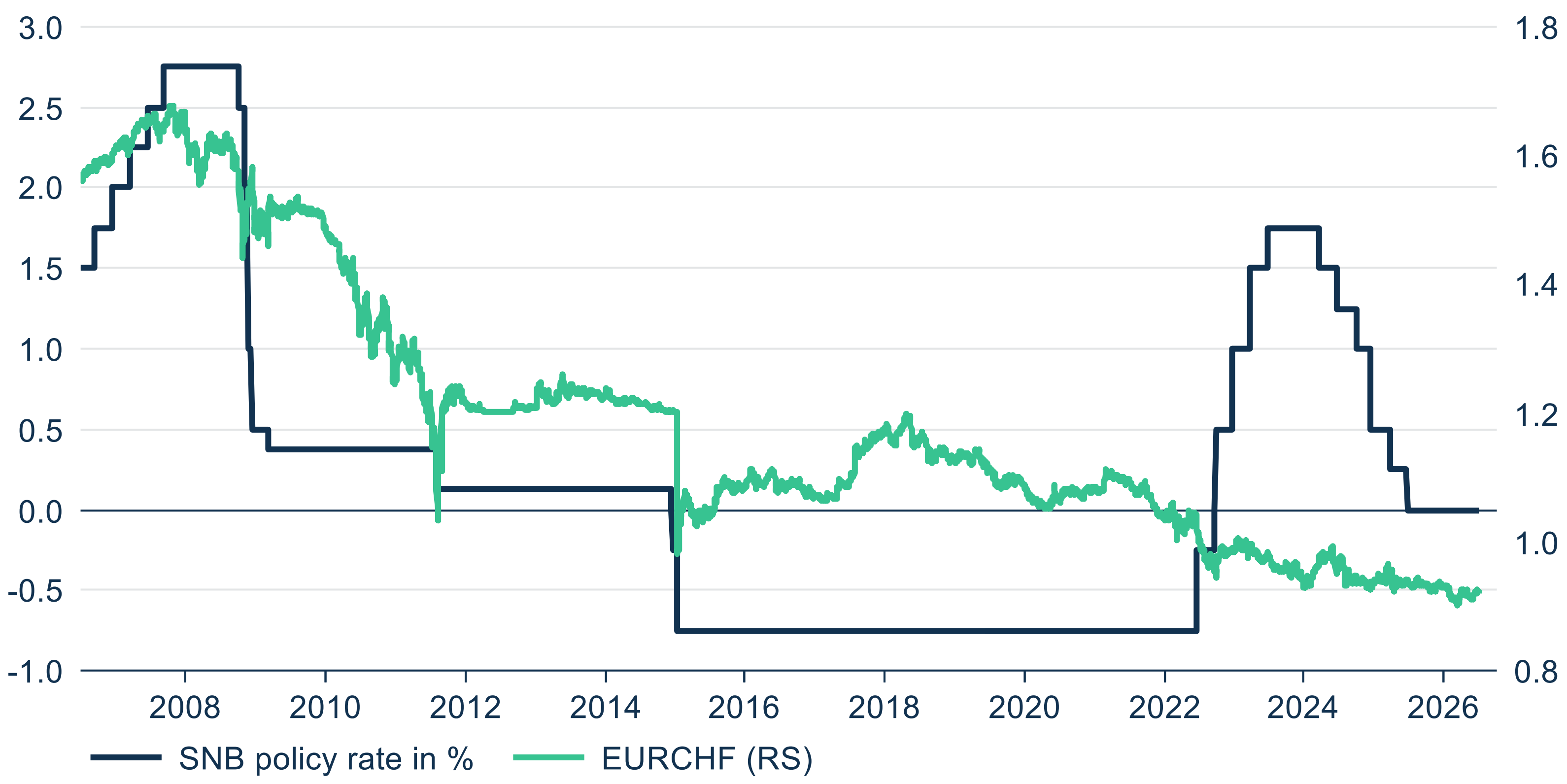
SNB Under No Pressure to Act

SNB Policy Rate and EURCHF

Key interest rate in %



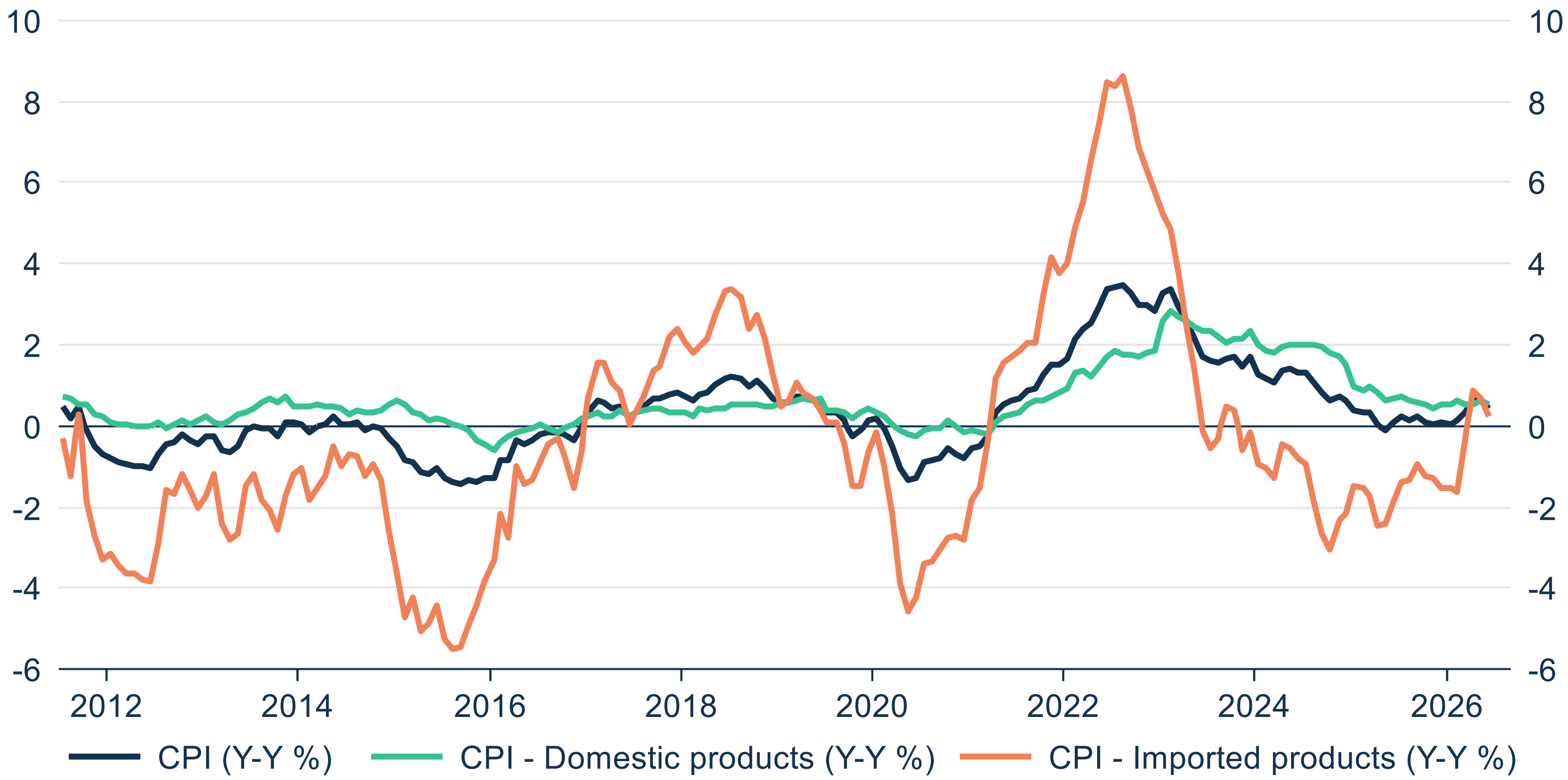
- Since June 2025, the Swiss National Bank (SNB) has kept its key interest rate steady at 0%.
- The SNB's inflation target range is 0% to 2%. In doing so, economic trends should be taken into account.
- Inflation stood at 0.5% year-over-year in June. A strong Swiss franc and inflationary pressures caused by rising energy prices are pulling in opposite directions.
- For the time being, the SNB can maintain its wait-and-see stance. We expect key interest rates to remain unchanged through mid-2027.
- The SNB also has foreign exchange market interventions as an additional option.

Sources: LSEG, LBBW Research

Strong Swiss Franc Cushions Rise in Energy Prices

Trends in Consumer Prices in Switzerland

Year-over-Year %



- Imported goods account for nearly a quarter of the Swiss Consumer Price Index.
- Before the outbreak of the Iran War, the import component was still causing concerns about deflation. Now, a strong Swiss franc is dampening the rise in import prices.
- In addition, the weight of energy in the consumer price index is lower in Switzerland than in other countries (according to the HICP, just over 5% in Switzerland versus just under 11% in the eurozone).
- The low energy intensity of the Swiss economy further mitigates second-round effects.

Sources: LSEG, LBBW Research

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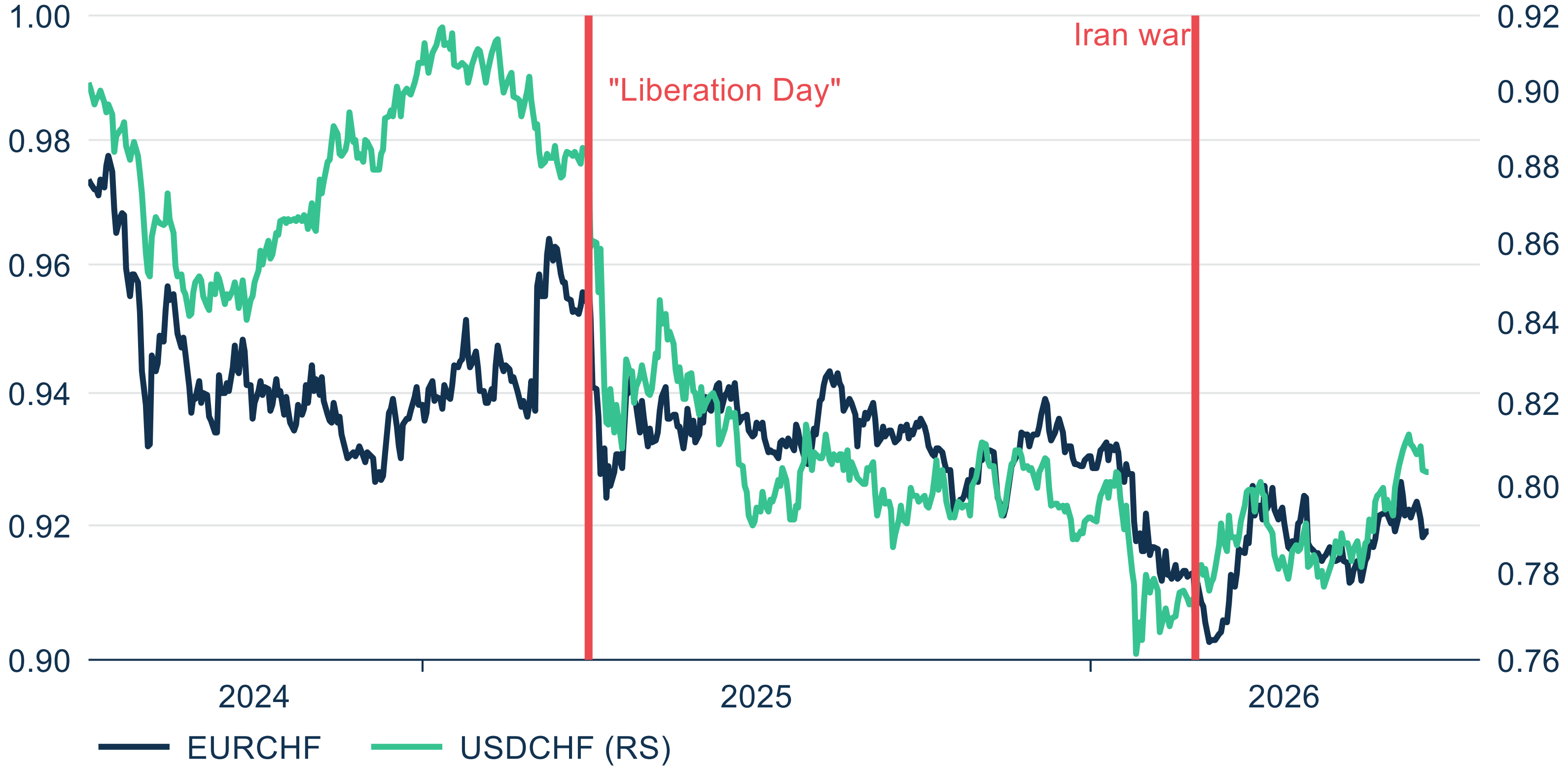
The Swiss franc remains a popular safe haven

Exchange rate of the Swiss franc against the euro and the U.S. dollar



Sources: LSEG, LBBW Research

- Following Donald Trump's "Liberation Day" on April 2, 2025, the Swiss franc was in high demand as a safe-haven currency. This led to a significant appreciation of the Swiss franc. Ongoing uncertainty kept demand for the Swiss currency high.
- After the outbreak of the Iran War, pressure on the franc to appreciate increased once again. In response, the SNB resorted to verbal interventions in early March. The central bankers announced, in unusually clear terms, that they were more willing to intervene in the foreign exchange market.
- Although the franc has weakened again since then, it remains at a historically strong level.

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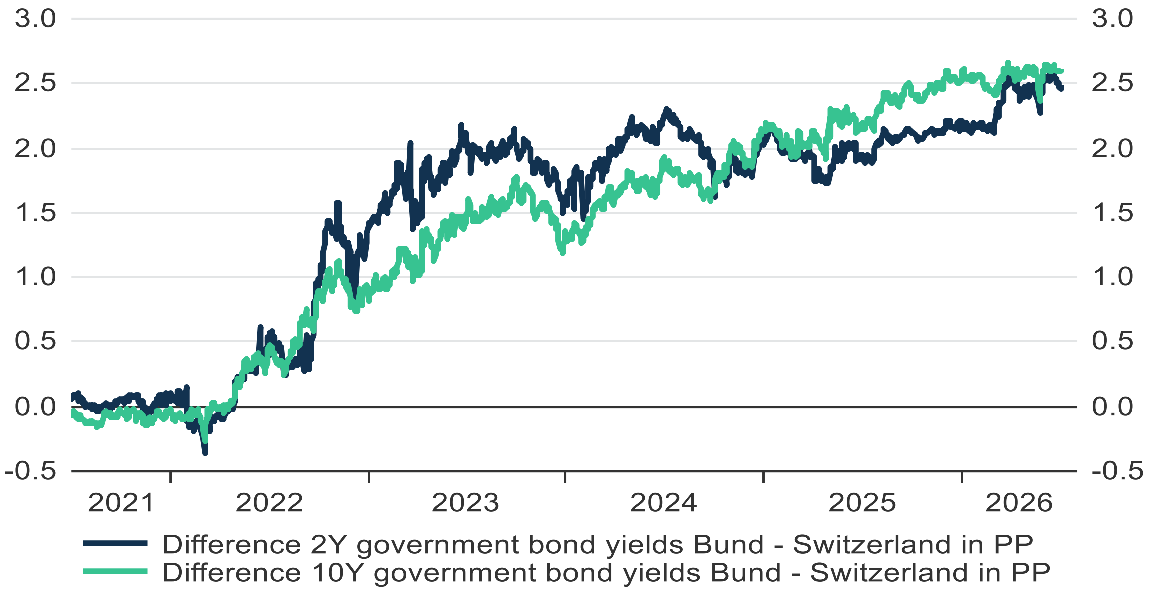
In the long run, the franc will depreciate, but parity remains out of reach

Interest Rate Differential Euro - Swiss Franc
In percentage points

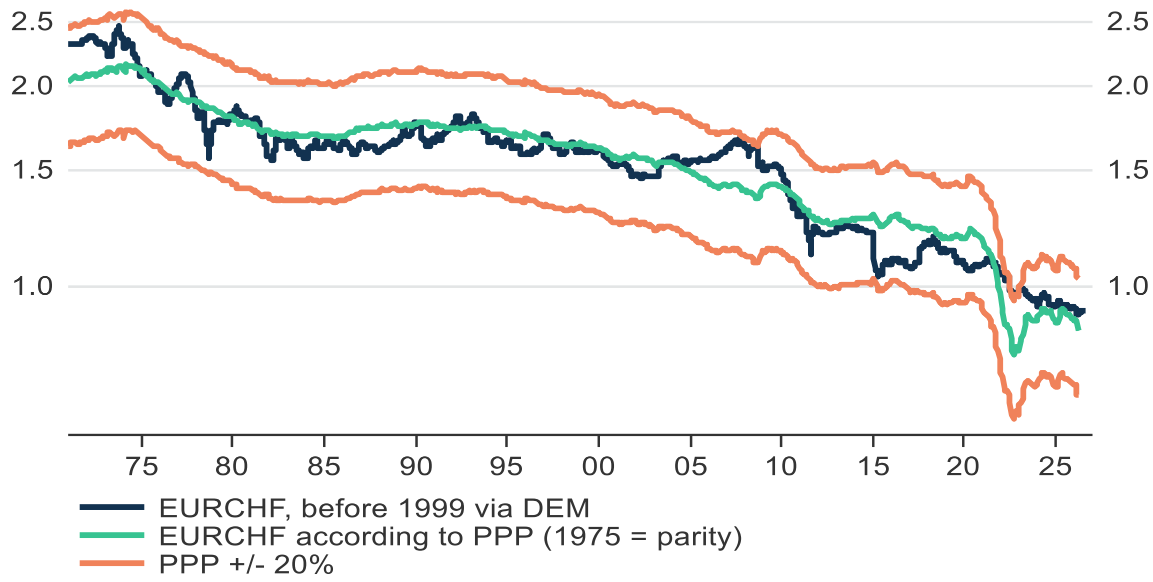


Against the Swiss franc:

- The Swiss franc's interest rate disadvantage is likely to widen further.
- At a historically high level against the euro.

Sources: LSEG, LBBW Research

Actual EURCHF Exchange Rate and Purchasing Power Parity (PPP)



- The Swiss franc's potential for depreciation is limited: According to our PPP model, the Swiss franc is slightly undervalued against the euro; **it is considered a safe-haven currency**.
- **Forecast: 0.93 EURCHF by the end of 2026; 0.94 EURCHF by mid-2027.**

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05

Stocks: The Good, the Bad, and the Ugly

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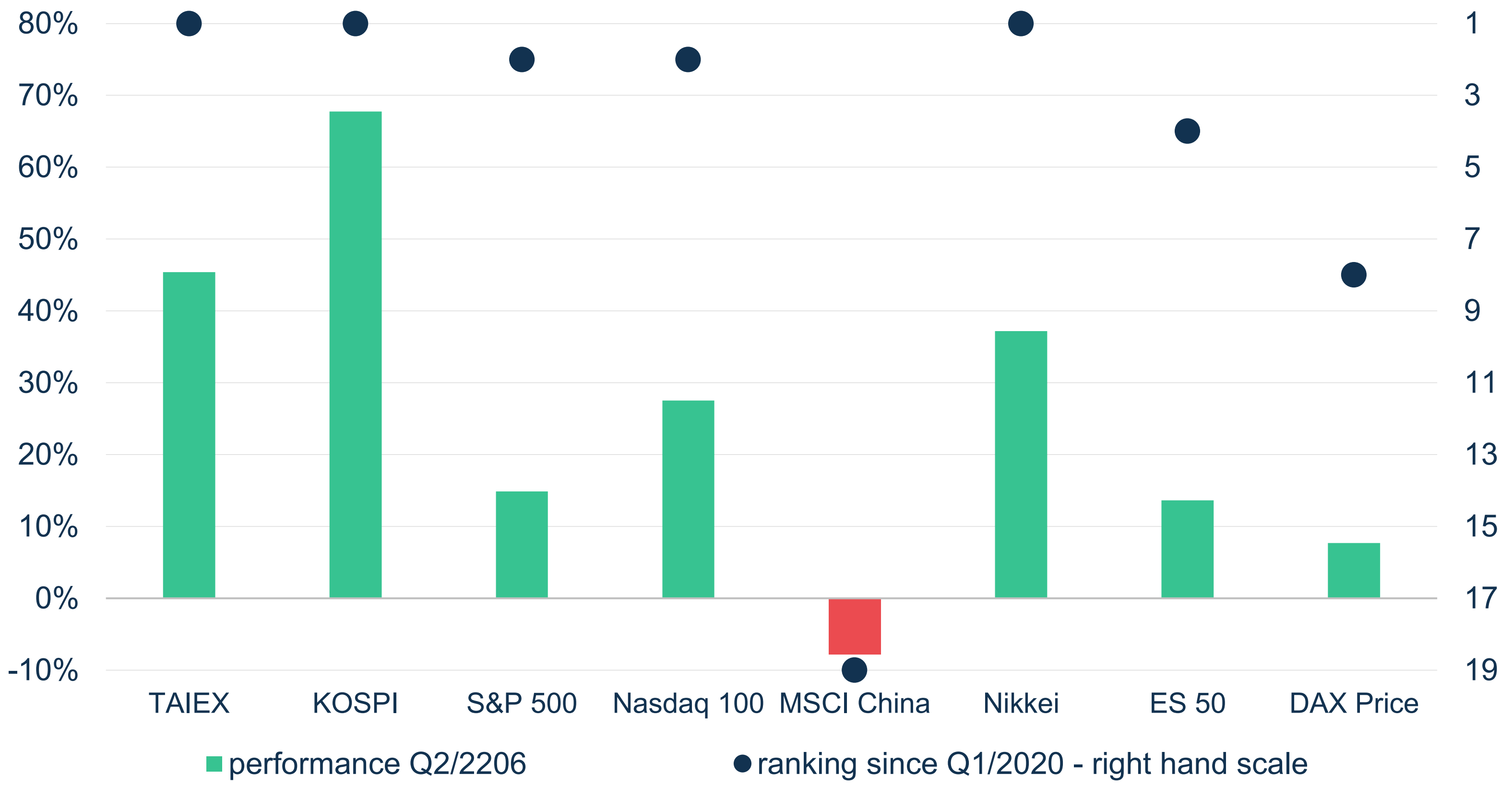
Too far, too fast?
Q2 2026 was the best quarter in a long time

International Indices: Performance in Q2 2026 vs. Ranking Since 2020

as a percentage or by rank



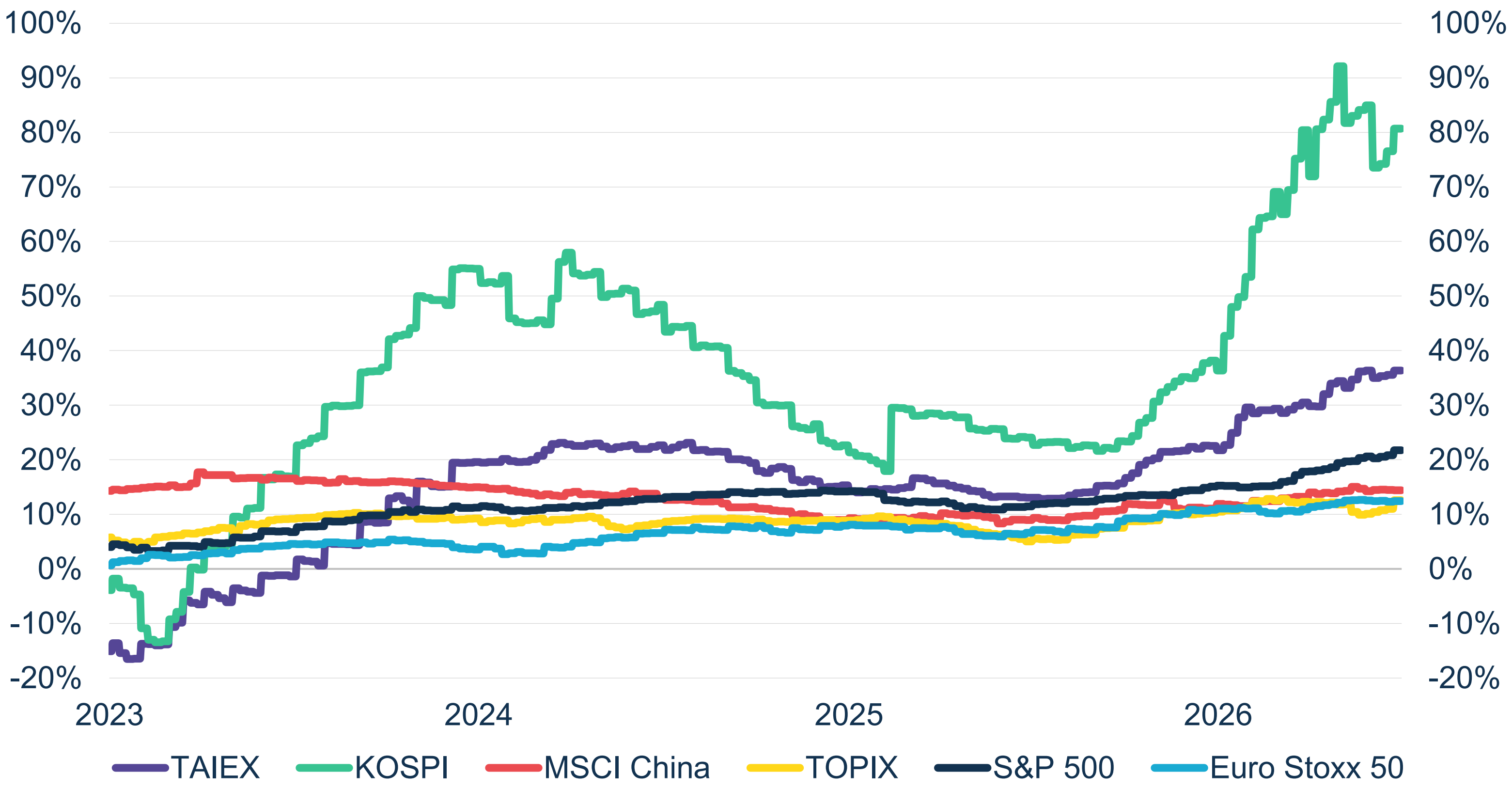
- In Q2 2026, the stock markets benefited from a significant drop in crude oil prices. Markets with a high proportion of tech stocks, in particular, were surging: South Korea's KOSPI soared by 68%, Taiwan's TAIEX shot up by 45%, and Japan's Nikkei – now downgraded from "overweight" to "underweight" — rose by 37%.
- Each of these was the best quarter in recent history. The Nasdaq 100 (+28%) and the S&P 500 (+15%) posted their second-best quarters of the current decade.
- In contrast, the less tech-heavy Euro Stoxx 50 and the DAX are far behind. But even for them, the increase was significantly higher —or at least somewhat higher — than the respective historical average.

Source: LSEG, LBBW Research

Earnings growth at a record high – ist but estimates for future growth are even higher

International Indices: Earnings Growth Expectations

12-Month Forward / 12-Month Trailing (in percent)



Source: I/B/E/S, LSEG, LBBW Research

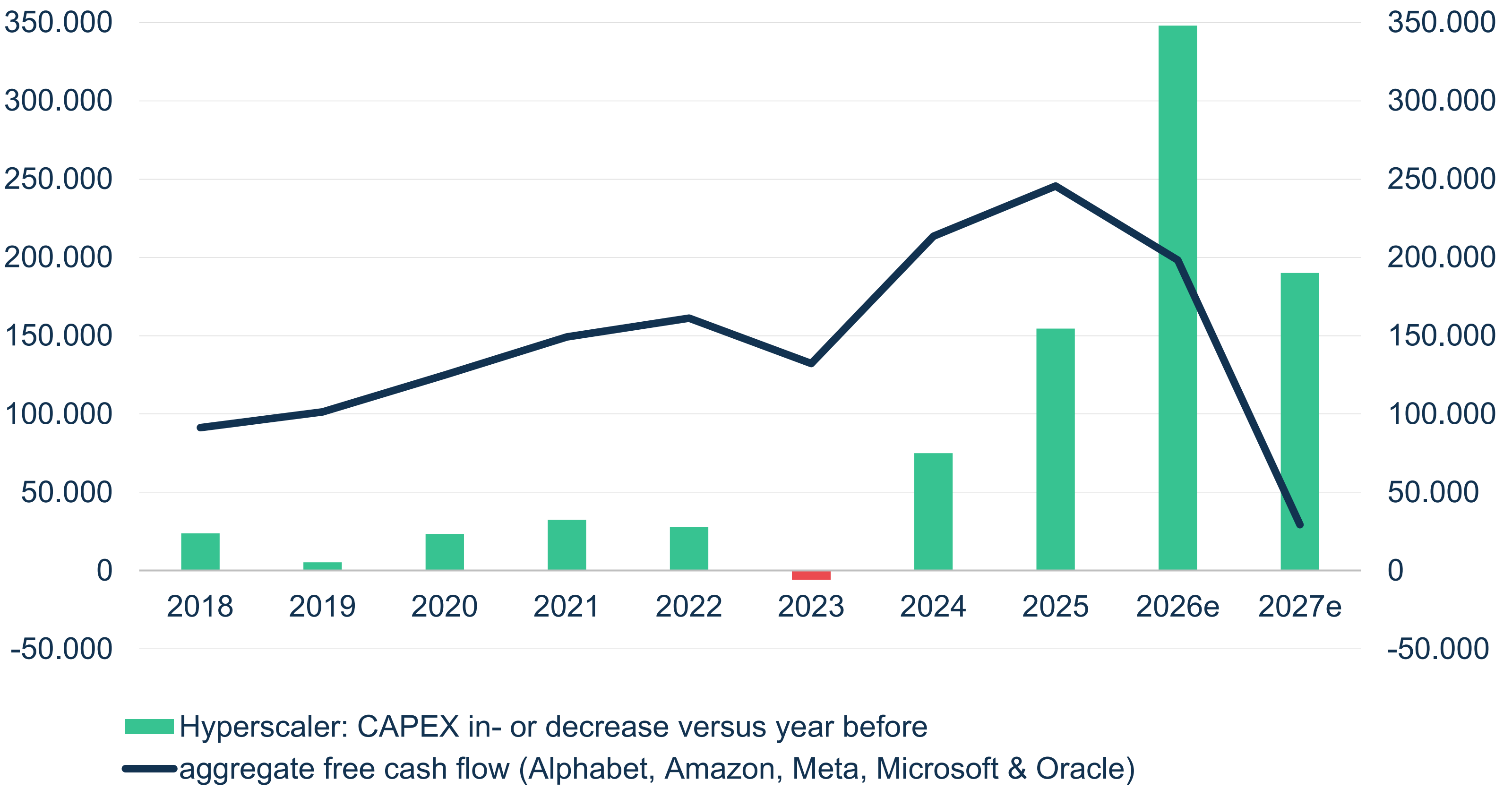
- As massive investments in AI infrastructure have fueled a spectacular rally driven by profit growth at unprecedented levels. The more tech an index contains, the higher its growth was.
- China is the exception here because companies there have been barred from U.S. contracts for political reasons, and the country is also suffering from strong consumer reluctance.
- As earnings momentum picked up, analysts continued to raise their expectations for future growth. In the KOSPI (81%e), these currently stand at 1.4 times the actual momentum since the end of 2022. In the TAIEX (36%e) and the S&P 500 (22%e), these figures correspond to factors of 1.8 and 1.5, respectively. This could lead to disappointment.

LB≡BW

Hyperscaler investments are reaching their limits – growth momentum is expected to slow in 2027

U.S. hyperscalers: Growth in Capital Expenditures vs. Aggregate FCF

in millions of USD



Source: Bloomberg, LBBW Research

- Outside the IT sector, investment in the U.S. has been declining for five quarters. Within this segment, they have recently been growing at an even faster pace. This is primarily due to the hyperscalers' massive spending on AI infrastructure.
- However, these are now reaching their limits. On an aggregate basis, the free cash flow of Alphabet, Amazon, Meta, Microsoft, and Oracle has recently plummeted. For some, it is now even negative.
- This limits the potential for further investment. According to current estimates, these figures will continue to grow in 2027, but only by slightly more than half the amount seen this year. As a result, the resulting growth momentum is likely to begin to slow down again for the first time.

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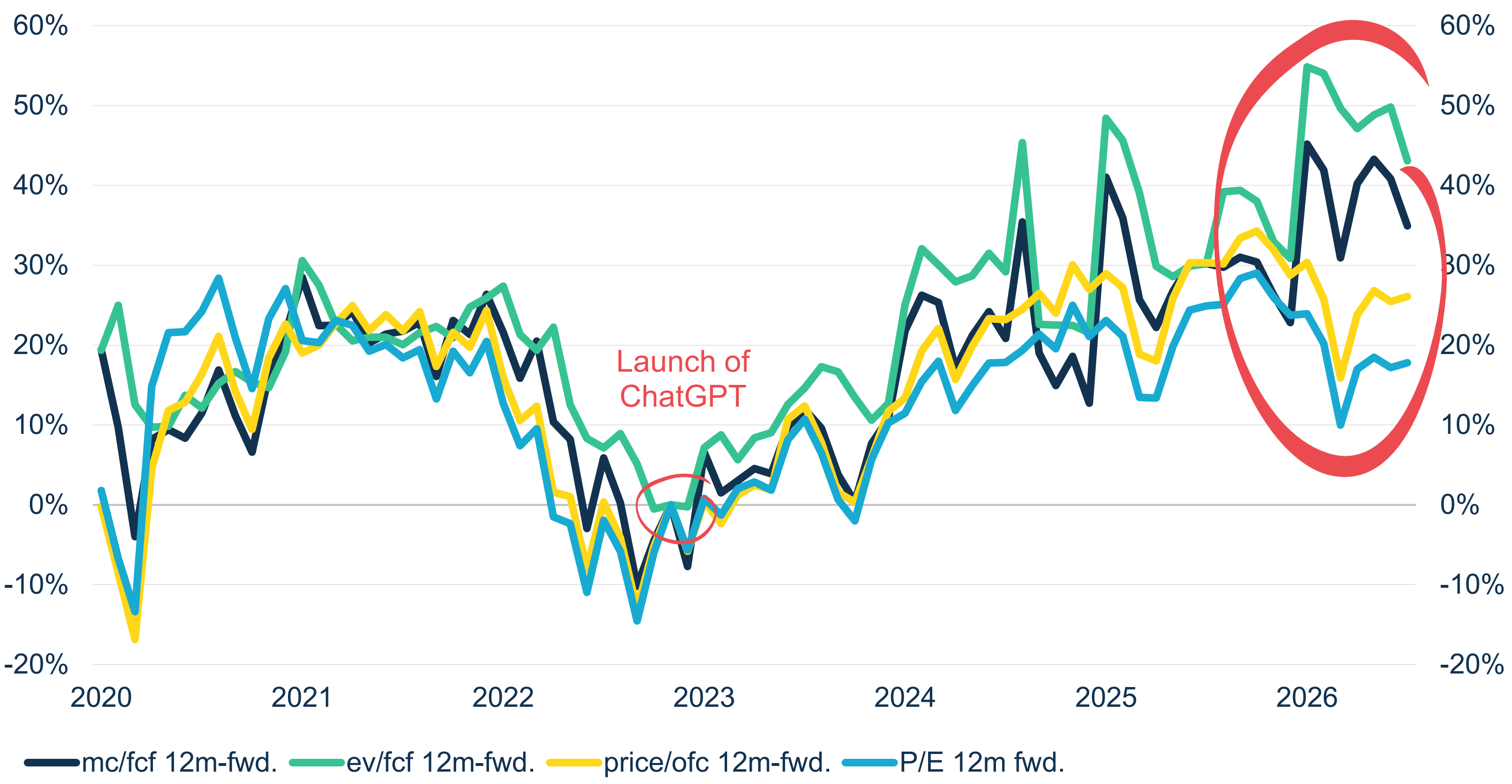
Massive investments in AI infrastructure are causing valuation multiples to diverge in the U.S.

Valuation of the S&P 500 Based on Various Ratios

Percentage change since the launch of ChatGPT (November 30, 2022)



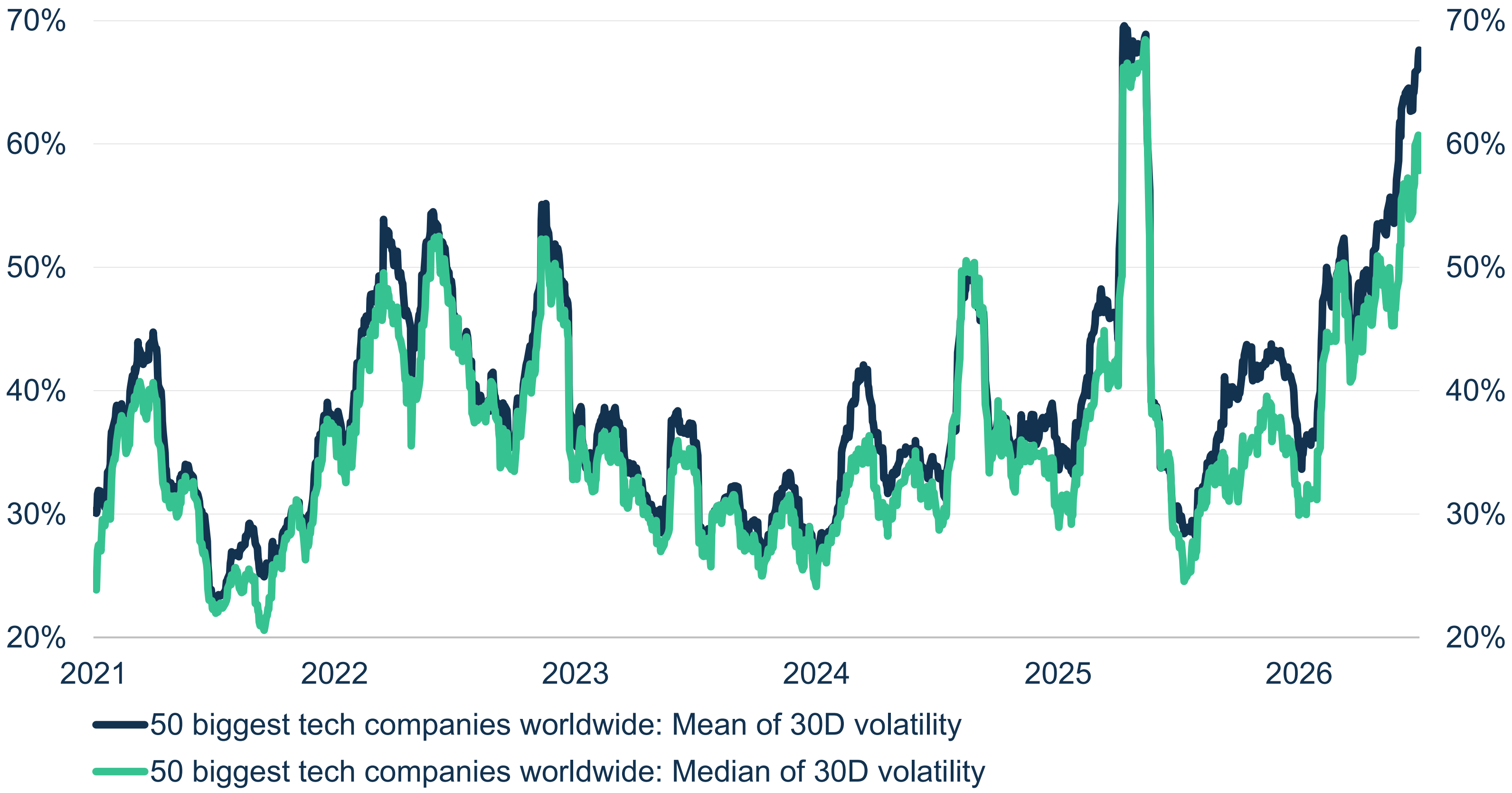
- Since the AI hype began, P/E ratios have risen worldwide. Since then, the S&P 500 has risen 18%. Based on operating cash flow (OFC), the valuation of the U.S. market actually rose by 26%.
- Furthermore, a gap has recently emerged between the latter metric and the ratio of market capitalization to free cash flow (FCF) — which had been closely correlated in the past — due to the hyperscalers' free cash flow plummeting like a stone. Since those companies have very high weightings in the index, this situation has a significant impact on the S&P 500. Because these companies also raised debt on a large scale to cover the immense investments, the gap in the ratio of enterprise value to free cash flow widened even further.

Source: I/B/E/S, LSEG, LBBW Research

Investors are becoming increasingly nervous about tech stocks

Volatility of the World's 50 Largest Tech Stocks

as a percentage – calculated on an equally weighted basis



Source: LSEG, LBBW Research

- Recently, there have been increasingly frequent sharp price swings among leading tech companies. One example is Micron's recent 13.2% drop in share price compared to the previous day, only to rebound by 15.7% just two trading days later. The situation was similar for SK Hynix, with -12.5 % and +13.1 %, or SanDisk: -13.6 %, two trading days later +22.0 %, the following day -10.5 % again, two days later +10.9 %, and immediately after that -10.6 %.
- Investors' nervousness about tech stocks is growing by the day. The 30-day volatility of the world's 50 largest tech companies is barely lower than it was in early 2025 during the DeepSeek shock. But that was a one-time event. In the meantime, however, investor anxiety had been steadily increasing for about twelve months.

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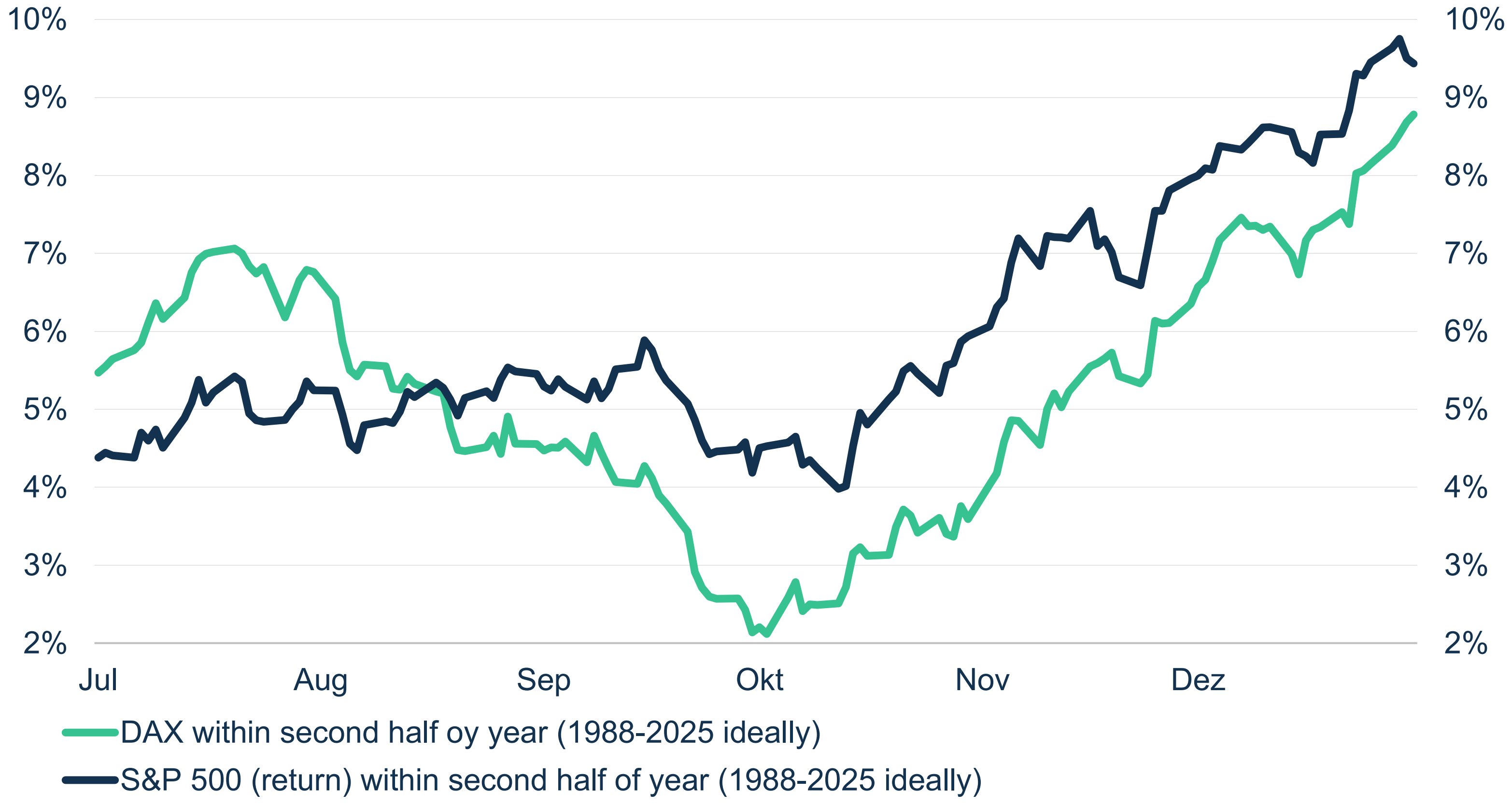
From a seasonal perspective, the third quarter is the weakest quarter

Idealized performance of the DAX and S&P 500 (Return) in the 2nd Half-year

as a percentage YTD – calculated for each year from 1988 through 2025



Source: LSEG, LBBW Research

- Historically, the DAX, and S&P 500 rose in the first and second. The third quarter instead is typically the weakest due to seasonal factors.
- In a textbook scenario, the DAX hit its intraday high on July 20 and subsequently fell by nearly five percentage points until it reached its low on October 2. In the S&P 500 — which is also calculated as a return index — the situation looked quite different. It rose slightly until September 15. The subsequent pullback did not end until October 12 — later than in the DAX — and resulted in a decline of just under two percentage points.
- While the DAX's performance to date has largely been in line with historical trends, the S&P 500 is already performing slightly better than it typically does at the end of the month.

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06

Forecasts and Asset Allocation

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Our Big Picture at a Glance

Economy

- Germany: GDP is expected to grow moderately in 2026. Government spending stimulates demand. However, private investment remains subdued.
- Ongoing inflationary and economic risks due to rising oil prices in the wake of the war in the Persian Gulf. The trade conflict with the U.S. continues to weigh on the market.

Foreign Exchange

- The yield advantage of short-term U.S. Treasury bonds over German government bonds is likely to narrow moderately.
- The U.S. president's erratic behavior is undermining confidence in the U.S. dollar.
- The flight to the "safe haven" of the U.S. dollar is unlikely to last.

Stock Markets

- Stock markets have anticipated the end of the war in Iran, and investors are betting on a sustained AI boom.
- A bull market has swept through the entire AI ecosystem, and the risk of excessive speculation is growing.
- Rising interest rates are likely to slow the investment boom.

Commodities

- Bloomberg Commodity Index shows upside potential after consolidation.
- Easing inflation concerns should improve sentiment toward gold once again.
- The normalization of oil shipments through the Strait of Hormuz is likely to lead to a supply surplus in the oil market in Q4/26. Limited upside potential for Brent.

Interest Rate Environment

Money Market / Central Banks

- Fed:
  Central bankers are keeping the key interest rate unchanged for the foreseeable future. An increase is more likely than another decrease.
- ECB:
  A shift toward monetary tightening has begun. Another interest rate hike is expected by the end of 2026; the deposit rate is expected to remain at 2.50% for an extended period thereafter.

Returns

- Long-term euro interest rates:
  Upside risks dominate amid existing inflation concerns and rising debt.

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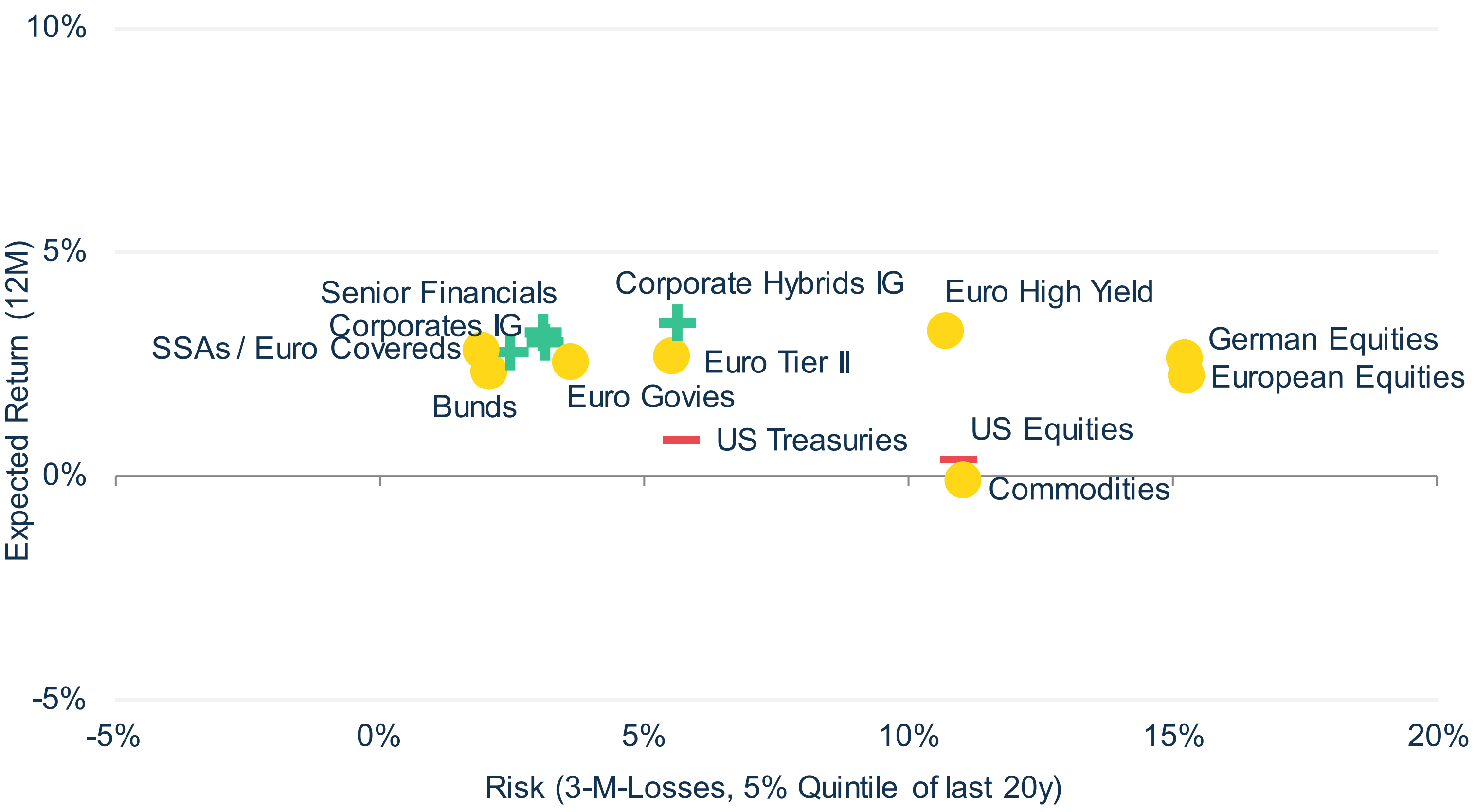
Asset Allocation Over a 12-Month Period: Risk & Forecasts at a Glance

Performance Expectations Versus Risk (LBBW Estimates)

as a percentage



- There are still risks that the conflict between the U.S. and Iran will drag on even longer and disrupt energy supplies. Therefore, the risk-reward ratio for stocks at their current record high appears unfavorable.
- Even if longer-term yields rise slightly, bonds could still deliver positive returns.
- Assets denominated in USD are being impacted by the weakening of the USD that we forecast:
  U.S. stocks, Treasuries, and commodities are experiencing a negative currency effect of about 4%.

Source: LSEG, LBBW Research

Asset Allocation for the Next 6–12 Months: Overview of Estimates

Exposure	Recommendation		Segments		Regions	Strategies
Rates	0	0	0-3 years	0/+	Euro periphery	Multi-Callables
		0/+	4-7 years	0	German Bunds	Inflation-linked bonds
		0/-	8-10 years	0/-	USD-Bonds	
Credit	0/+	0/+	Corporate Inv. Grade	0/-	Emerging Markets Debt	
		0	Corporate High Yield			
		0/+	Corporate Hybrids (IG)			
		0/+	Senior Financials			
		0/+	Covered Bonds/SSAs			
		0	Tier 2 Inv. Grade/ Sen. Non-Pref.			
Equity	0/-	+	Banks	0/-	USA	Value
			Energy	0/-	Japan	Dividend Strategies
			Healthcare	0/+	Europe ex Germany	Mid Caps
			Financial Services	0/+	Germany	
			Travel & Leisure	0	China	
			Telecoms	0/+	EMMA ex China	
Currencies	0/+		vs. Euro	+	GBP	Selective
				0	USD, CNY	
				-	CHF, JPY	
Commodities	0	0/+	Precious metals	+	Gold	Selective
		0/+	Base metals	+	Copper	
		0/-	Energy	0/-	Brent	
Real Estate	0/-	0/+	Residential, Local Supplier, Logistics	0	Germany	
		0	"High Street" Retail			
		0/-	Office			

Source: LBBW Research

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LBBW Forecasts

(Changes since the June Capital Markets Compass update)

Economy

		2024	2025	2026e	2027e
Germany	GDP	-0.5	0.4	0.5 +	0.8
	Inflation	2.3	2.2	2.7 −	2.3 −
Euro Area	GDP	0.9	1.5	0.8	1.0
	Inflation	2.4	2.1	2.9 −	2.4 −
USA	GDP	2.8	2.1	2.2	1.6
	Inflation	3.0	2.7	3.6 −	2.2
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

Equity Markets

	Spot	09/30/26	12/31/26	06/30/27
DAX	25 818	25 000	25 500	26 500
Euro Stoxx 50	6 398	6 200 +	6 300 +	6 400 +
S&P 500	7 537	7 300	7 500	7 800
Nikkei	69 738	65 000 +	66 000 +	67 000

Interest Rates and Spreads

	Spot	09/30/26	12/31/26	06/30/27
ECB Deposit Rate	2.25	2.50	2.50 −	2.50 −
Bund 10 Years	2.95	3.00	3.10 −	3.20 −
Fed Funds	3.75	3.75	3.75	3.75
Treasury 10 Years	4.47	4.40	4.50 −	4.55 −
BBB Bundspread (bps)	90	100 −	110 −	120

Currencies and Commodities

	Spot	09/30/26	12/31/26	06/30/27
US-Dollar per Euro	1.14	1.17 −	1.18 −	1.19 −
Swiss Franc per Euro	0.92	0.92	0.93	0.94
Pound per Euro	0.86	0.85	0.85	0.85
Gold (USD/Troy Ounce)	4 140	4 200 −	4 400 −	4 600 −
Oil (Brent - USD/Barrel)	72	80 −	75 −	70 −

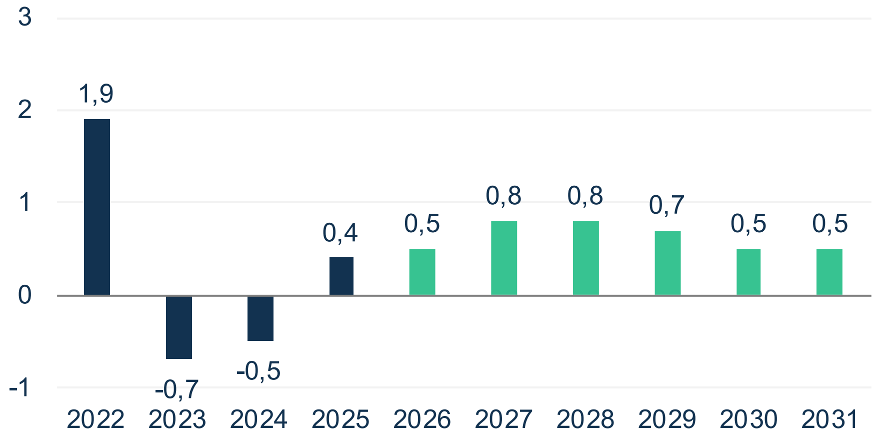
+ Raised
− Lowered

LBBW Scenarios

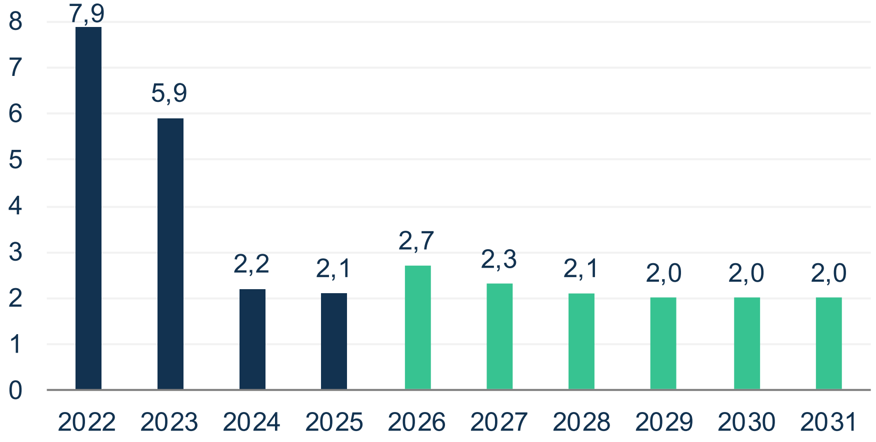
60% **Main Scenario**	1) War with Iran: Ship traffic in the Strait of Hormuz is returning to normal over the course of the summer, while inflation is rising due to second-round effects from the surge in energy prices. The U.S. economy will slow slightly in 2027 as the AI investment boom loses momentum. Growth in China continues to slow. EU/Germany: Only modest growth and a further rise in government debt in industrialized nations. 2) Efforts to combat inflation prompt the ECB to raise key interest rates twice in total; the resulting impact on growth is accepted. No further Fed rate cuts until mid-2027; yields will rise slightly further from their already elevated levels. 3) Stock Markets: Consolidation over the summer, with investors torn between hopes for AI, fears of rising interest rates, concerns about the war, and fears that the AI bubble will burst; credit spreads are widening amid setbacks in the stock market.
20% **Negative Scenario I** ***"Energy Price Shock"***	1) The war with Iran flares up again. Persistent, severe disruption to shipping traffic in the Strait of Hormuz will require the restructuring of energy supplies and supply chains; inflation will rise sharply due to second-round effects from the surge in energy prices, as well as high government spending and increasing protectionism. Some countries are reporting surprisingly high deficits and providing corresponding outlooks for the coming years. 2) Central banks are adopting a clearly restrictive stance to combat inflation. Yields are rising across the board. 3) "Risk-off": A downturn in the stock markets. Credit spreads are rising sharply. A sharp drop in prices in the real estate market.
10% **Negative Scenario II** ***"AI Bubble" /*** ***"China-Taiwan"***	1) Tensions between China and Taiwan are escalating. Increased hybrid attacks by Russia on EU member states. 2) The Bursting of the AI Bubble: Massive Write-Downs on AI Investments, Crisis in the Private Debt Market 3) The Fed and the ECB cut their key interest rates. Government bond yields are falling due to economic concerns and monetary easing by central banks. 4) "Risk-off": Stock markets are experiencing a sharp correction, and credit spreads are rising significantly.
10% **Positive scenario** ***"Relaxation"***	1) Stabilization in the Gulf region. Ceasefire in the war in Ukraine; geopolitical tensions between the U.S. and China ease. 2) The U.S. is shifting to a more moderate trade policy. U.S. economy is growing at a faster pace again, and the AI boom continues. 3) Productivity Gains Through AI. Inflation rates remain stable as energy prices fall rapidly. The economy is picking up speed. 4) "Risk-on": Stock markets continue to rise amid ongoing AI rally. Credit spreads are falling, and real estate prices are recovering.

Base-case scenario (60%)

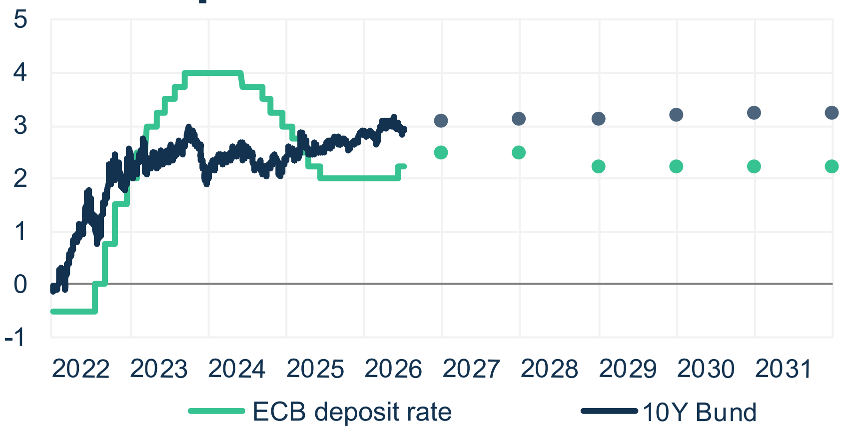
Germany GDP Growth (Y/Y)*



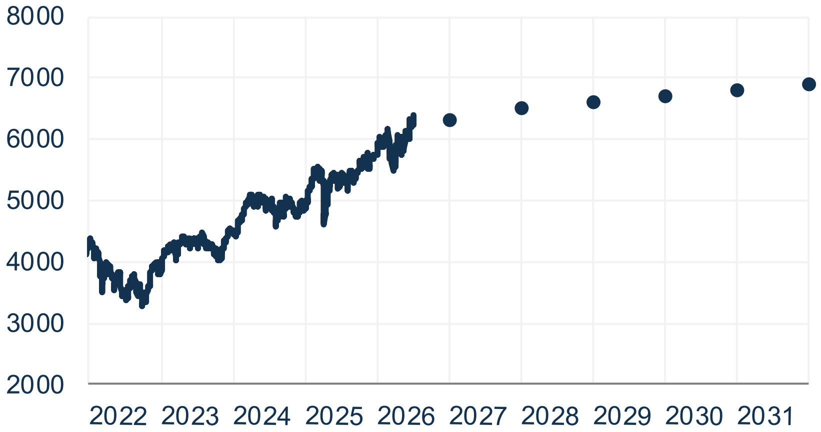
Germany Inflation (Y/Y)*



ECB Deposit Rate & 10Y Bund Yield*



Euro Stoxx 50*

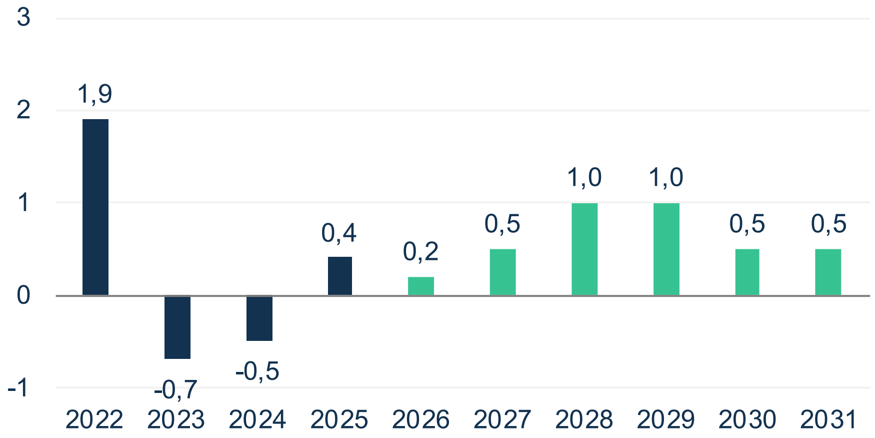


Sources: Bloomberg, LBBW Research

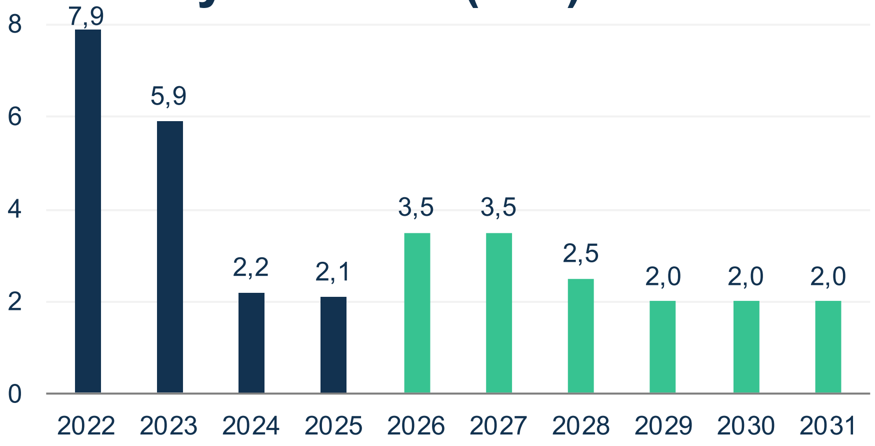
*GDP and inflation are annual averages; interest rates and the Euro Stoxx 50 are year-end figures in the forecasts

Negative Scenario 1)
“Energy Price Shock” (20%)

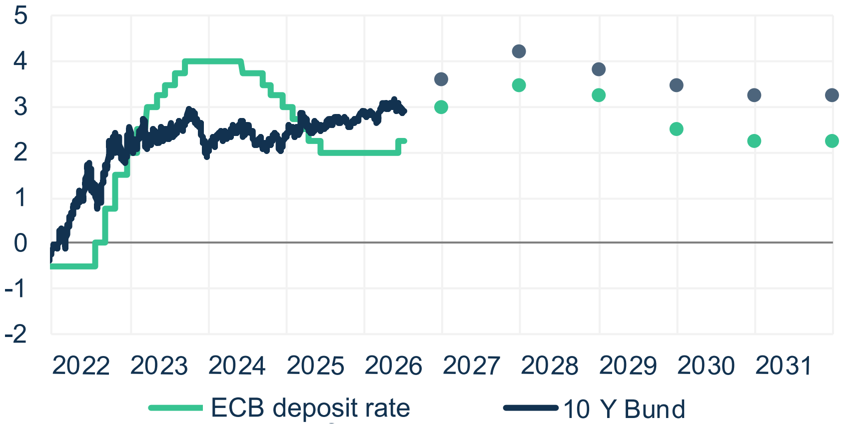
Germany GDP Growth (Y/Y)*



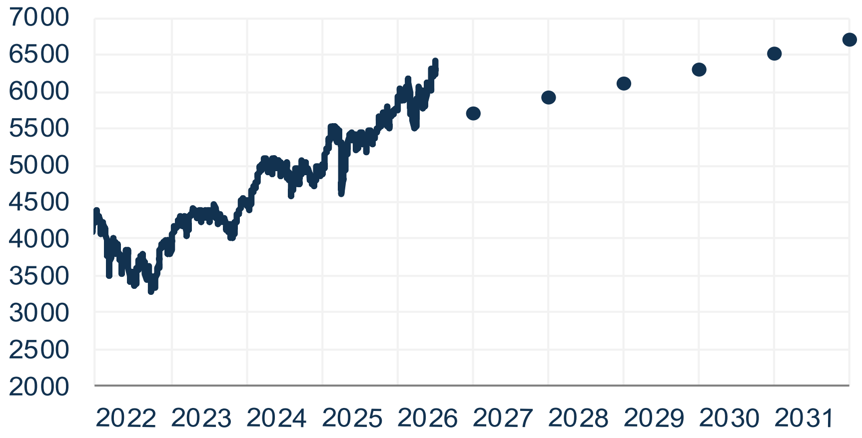
Germany Inflation (Y/Y)*



ECB Deposit Rate & 10Y Bund Yield*



Euro Stoxx 50*

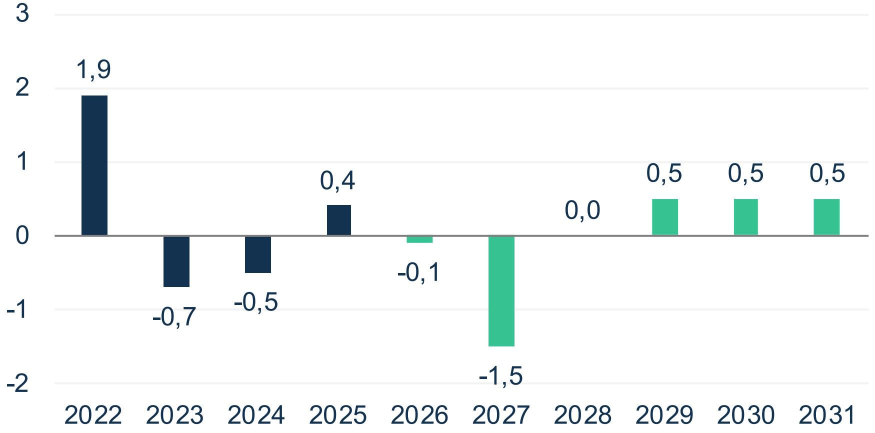


Sources: Bloomberg, LBBW Research *GDP and inflation are annual averages; interest rates and the Euro Stoxx 50 are year-end figures in the forecasts

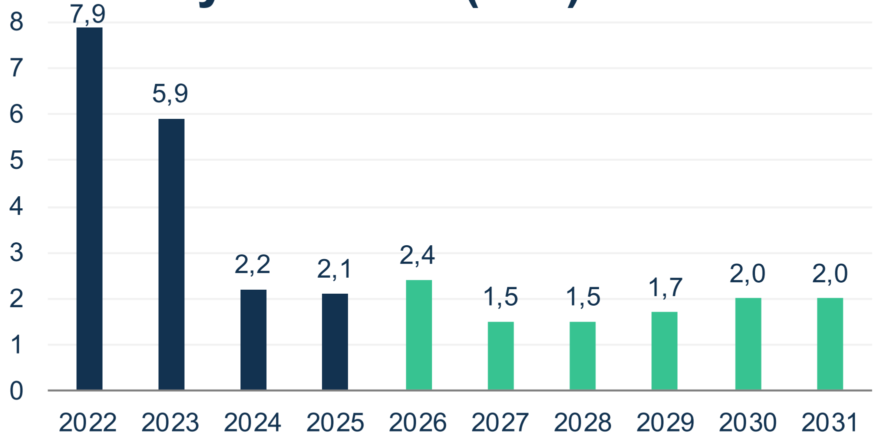
LB≡BW

Negative Scenario 2)
"AI Bubble" / "China-Taiwan" (10%)

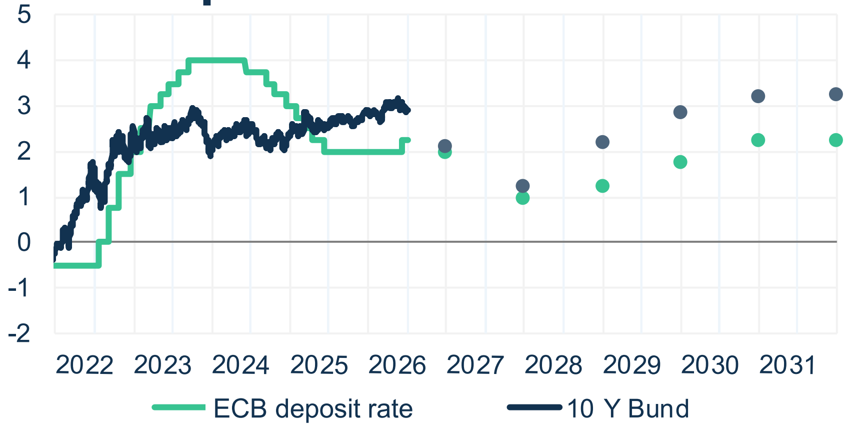
Germany GDP Growth (Y/Y)*



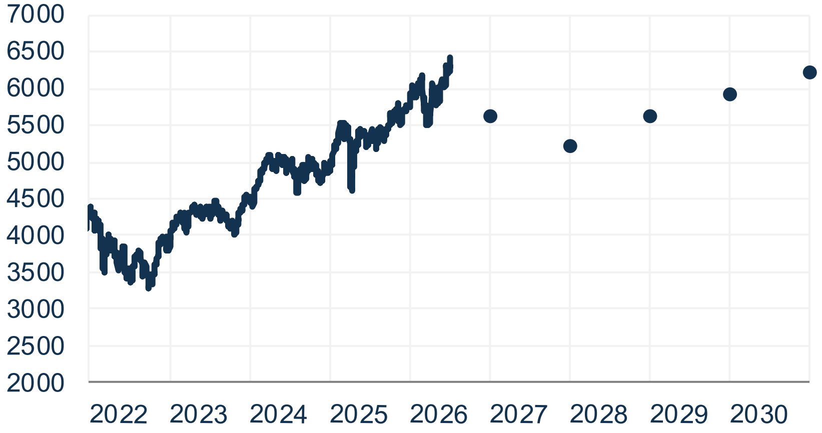
Germany Inflation (Y/Y)*



ECB Deposit Rate & 10Y Bund Yield*



Euro Stoxx 50*

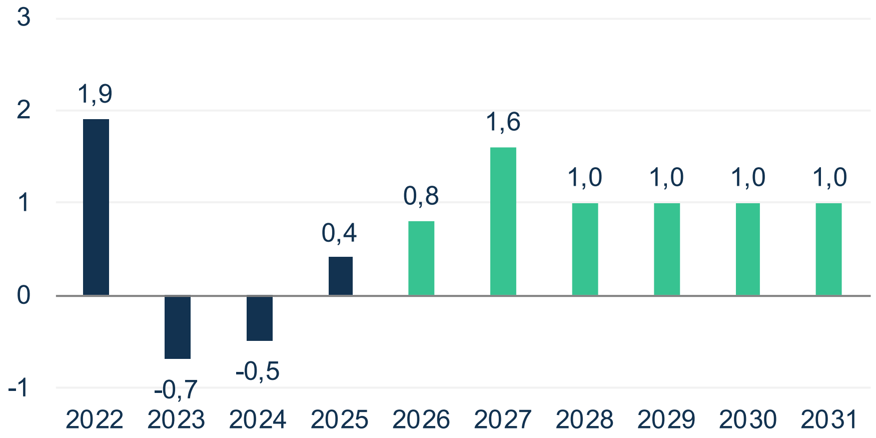


Sources: Bloomberg, LBBW Research

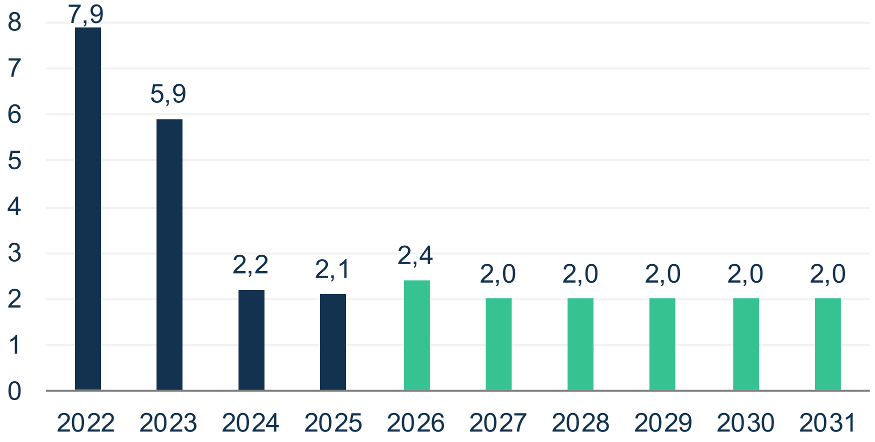
*GDP and inflation are annual averages; interest rates and the Euro Stoxx 50 are year-end figures in the forecasts

Positive scenario (10 %)

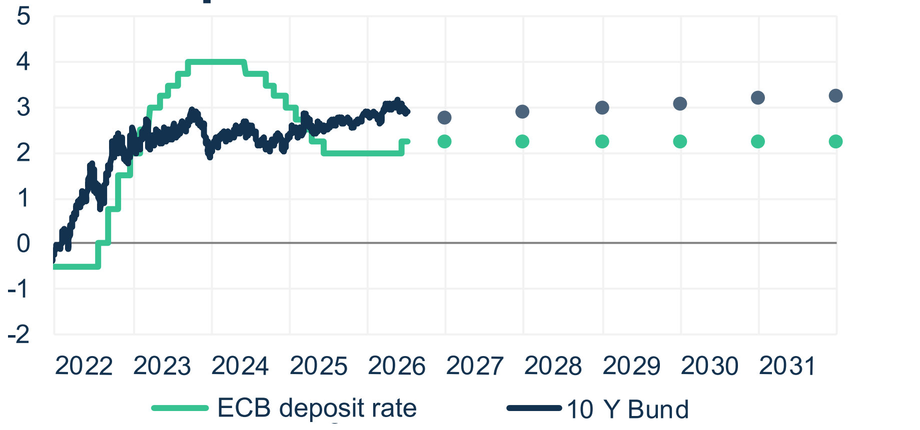
Germany GDP Growth (Y/Y)*



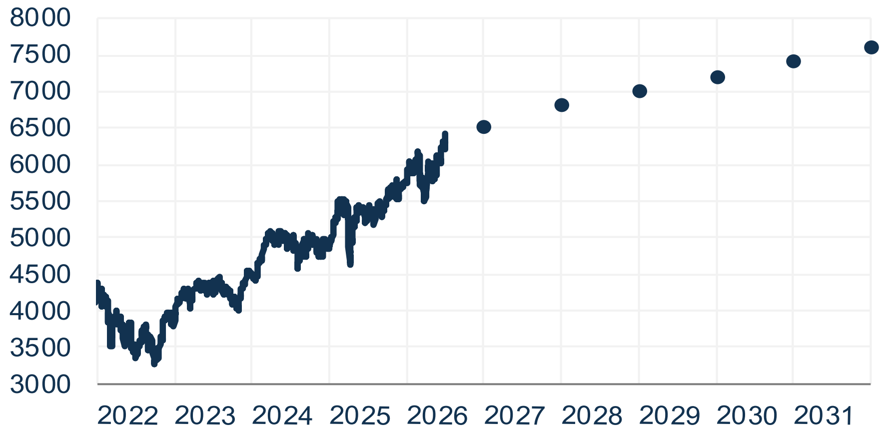
Germany Inflation (Y/Y)*



ECB Deposit Rate & 10Y Bund Yield*



Euro Stoxx 50*



Sources: Bloomberg, LBBW Research

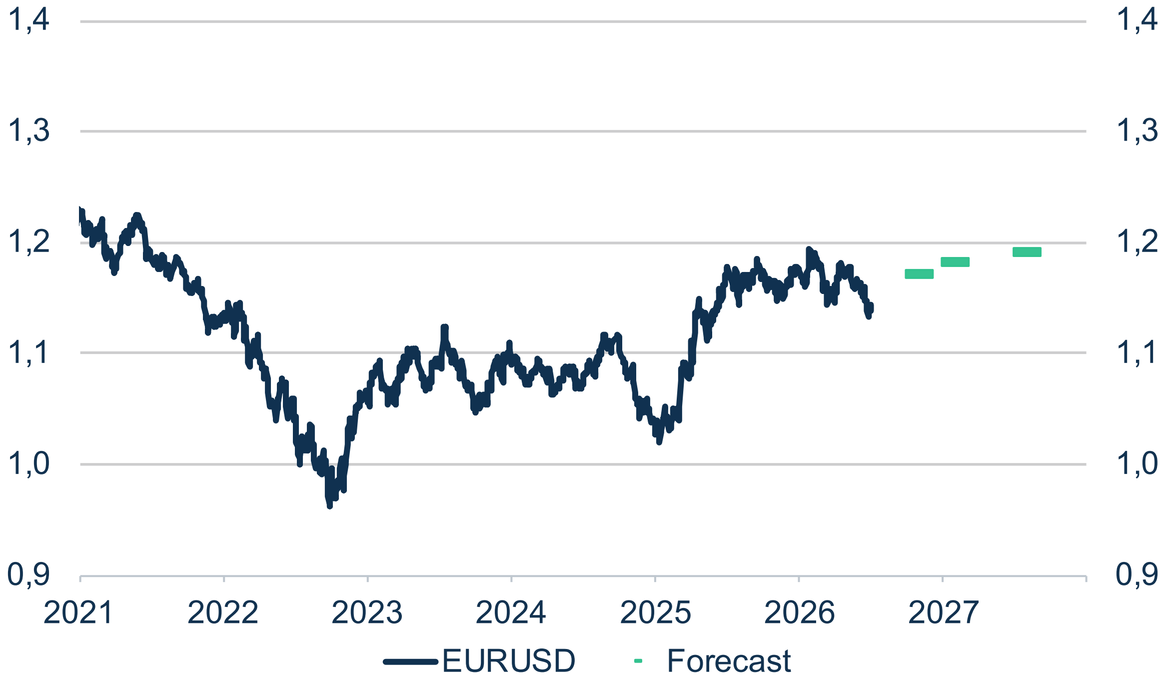
*GDP and inflation are annual averages; interest rates and the Euro Stoxx 50 are year-end figures in the forecasts

07

Appendix

EURUSD: ECB Rate Hike Expected to Boost the Euro

FX EUR/USD



	Historical Data			Forecast		
	Spot	Ø 2025	Dec-25	Ø H1 26	Sep-26	Dec-26	Jun-27
EURUSD	1.14	1.13	1.17	1.17	1.17	1.18	1.19

Source: LSEG, LBBW Research

Pro EUR

- Given the U.S. dollar's role as the world's reserve currency, the high level of U.S. national debt has not yet had a negative impact on the greenback's exchange rate. But at some point, unchecked debt threatens to go too far.
- Donald Trump has unsettled the foreign exchange markets with his remarks about the benefits of a weak dollar.
- The U.S. president's erratic actions on tariff issues, as well as his undermining of the Fed's independence, are causing uncertainty and spooking the foreign exchange markets.
- While we forecast that the ECB will raise its key interest rates once more later this year, the Fed is not expected to change its policy rates.

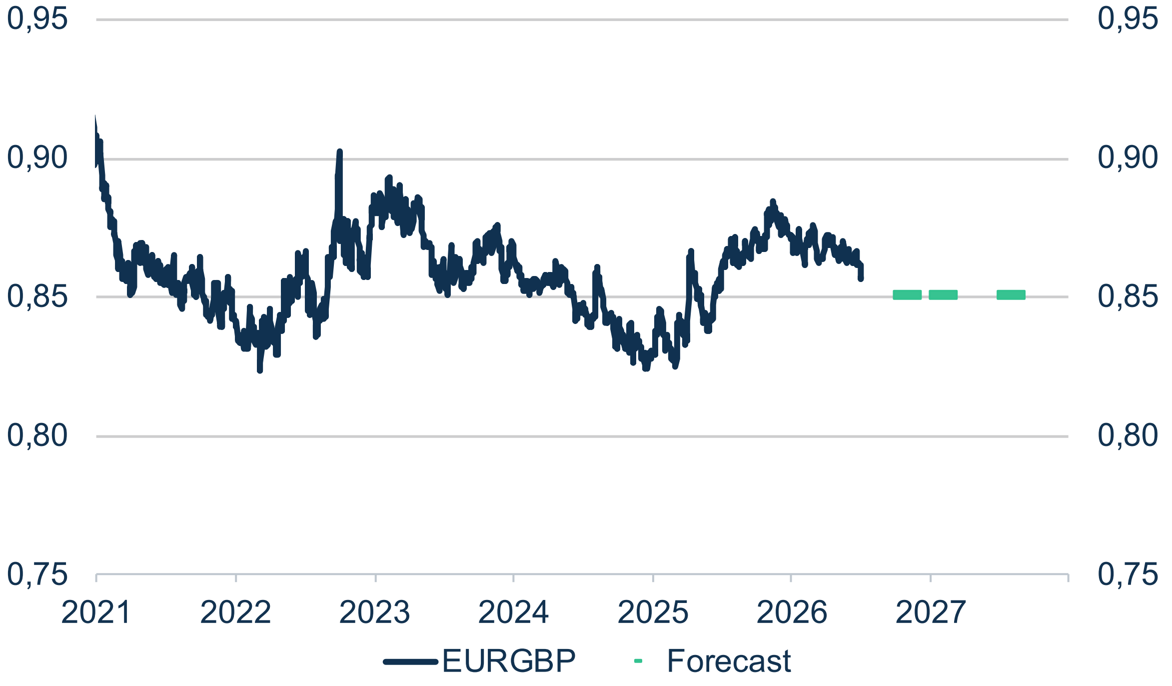
Contra EUR

- In the run-up to the French presidential election in April 2027, political uncertainty could increase.
- High government debt in France threatens to limit the ECB's room to maneuver.

LBBW

EURGBP: Based on purchasing power parity, the pound sterling is undervalued against the euro

FX EUR/GBP



	Spot	Historical Data Ø 2025	Dec-25	Ø H1 26	Forecast Sep-26	Dec-26	Jun-27
EURGBP	0.86	0.86	0.87	0.87	0.85	0.85	0.85

Source: LSEG, LBBW Research

Pro EUR

- According to OBR projections, despite the recent tax increases, the U.K.'s national debt will rise to 96% of GDP by the end of the decade.
- Following the announcement of British Prime Minister Keir Starmer’s resignation, there is considerable uncertainty about the course his designated successor, Andy Burnham, will take.

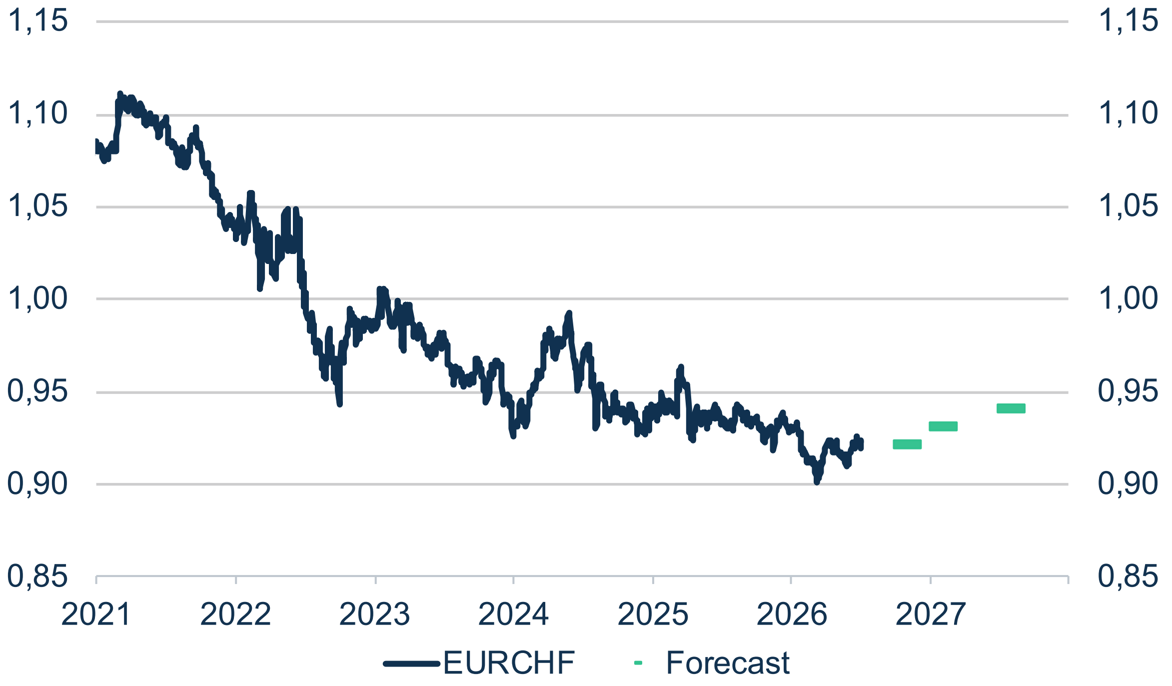
Contra EUR

- According to purchasing power parity, the pound sterling is significantly undervalued against the euro.
- The high share of services in the UK’s value added is also likely to prove an advantage in the trade dispute—the UK is significantly less dependent on goods exports than key eurozone countries.
- The significant yield advantage of British government bonds over their eurozone counterparts is expected to persist.

LBBW

EURCHF: SNB Leaves Key Interest Rate Unchanged

FX EUR/CHF



		Historical Data			Forecast		
	Spot	Ø 2025	Dec-25	Ø H1 26	Sep-26	Dec-26	Jun-27
EURCHF	0.92	0.94	0.93	0.92	0.92	0.93	0.94

Source: LSEG, LBBW Research

Pro CHF

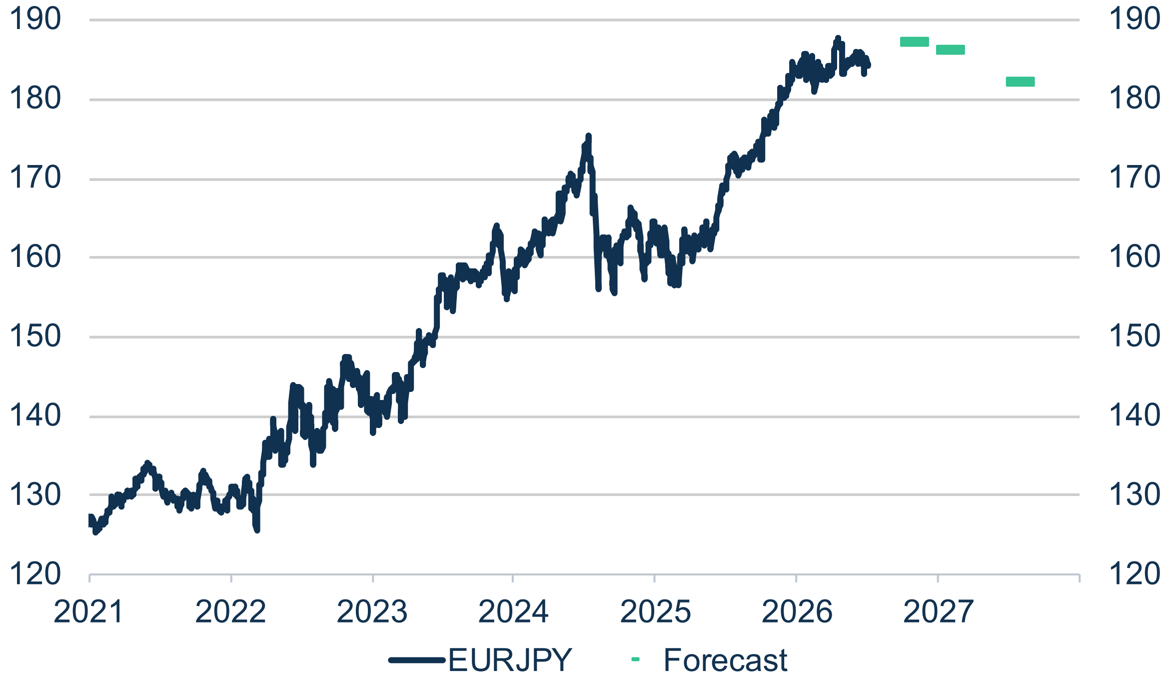
- According to our calculations based on purchasing power parity (PPP), the Swiss franc is slightly undervalued against the euro.
- Geopolitical conflicts and political risks are fueling the flight to the "safe haven" of the Swiss franc.

Contra CHF

- The SNB has kept its key interest rate steady at 0% since June 2025. If necessary, the SNB is prepared to intervene in the foreign exchange market to prevent the franc from appreciating too much. The Swiss franc's interest rate disadvantage relative to the euro is likely to continue to widen.
- The Swiss franc is trading at a historically strong level against the euro.
- U.S. customs policies are hitting Switzerland's export-oriented economy hard.

EURJPY: Interest Rate Hike to Support the Yen

FX EUR/JPY



	Spot	Historical Data			Forecast		
		Ø 2025	Dec-25	Ø H1 26	Sep-26	Dec-26	Jun-27
EURJPY	184.48	169.08	184.09	184.44	187.00	186.00	182.00

Source: LSEG, LBBW Research

Pro EUR

- The ECB's interest rates are higher than those of the BoJ, and the war in Iran—with its inflation risks—increases the likelihood of further increases in euro interest rates in the near future.
- Japan's economy remains weak, and the war in Iran is now driving up the cost of Japan's energy supply as well.
- Prime Minister Takaichi advocates for higher government spending and promotes low interest rates.

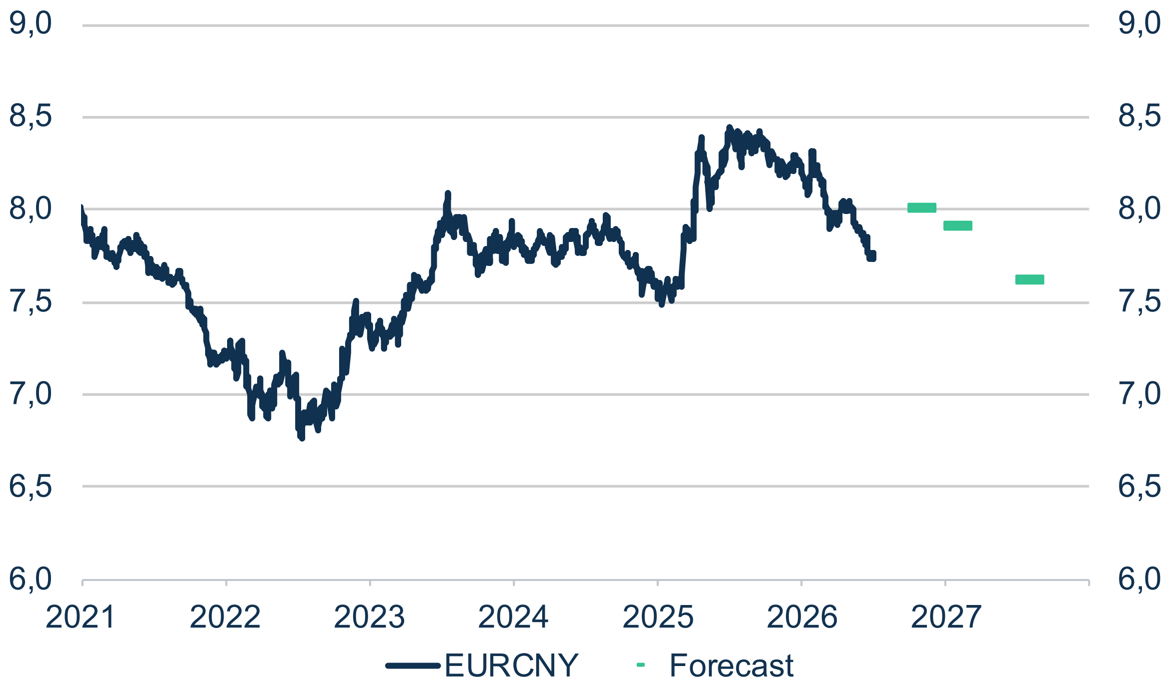
Contra EUR

- The BoJ has finally raised its key interest rate to 1.00% and is likely to take at least one more rate hike.
- Pressure from the U.S. to strengthen the yen against the U.S. dollar through interest rate hikes continues.
- The BoJ has recently intervened several times in the foreign exchange market to prop up the yen.

LBBW

EURCNY: Continued Export Strength Supports the Yuan

FX EUR/CNY



	Historical Data			Forecast		
Spot	Ø 2025	Dec-25	Ø H1 26	Sep-26	Dec-26	Jun-27
EURCNY 7.76	8.13	8.20	8.01	8.01	7.91	7.62
USDCNY 6.78	7.19	6.99	6.87	6.85	6.70	6.40

Source: LSEG, LBBW Research

Pro EUR

- The retreat of global energy prices should support the European economy.
- The ECB continues to signal its readiness to raise interest rates in the near term if needed.
- The fundamental weakness of the Chinese real estate market persists; liquidity concerns in the sector are causing unease.

Contra EUR

- China's industrial and export strength is providing tailwinds for the Yuan.
- China’s stable bond market provides some shelter amid global bond volatility.
- In light of increased global uncertainty, the People's Bank of China (PBoC) currently favors a slightly stronger exchange rate.

EURBRL: Public debt is rising faster than expected ahead of the election

FX EUR/BRL

		Historical Data			Forecast		
	Spot	Ø 2025	Dec-25	Ø H1 26	Sep-26	Dec-26	Jun-27
EURBRL	5.95	6.31	6.44	6.01	6.40	6.30	6.20

Source: LSEG, LBBW Research

Pro EUR

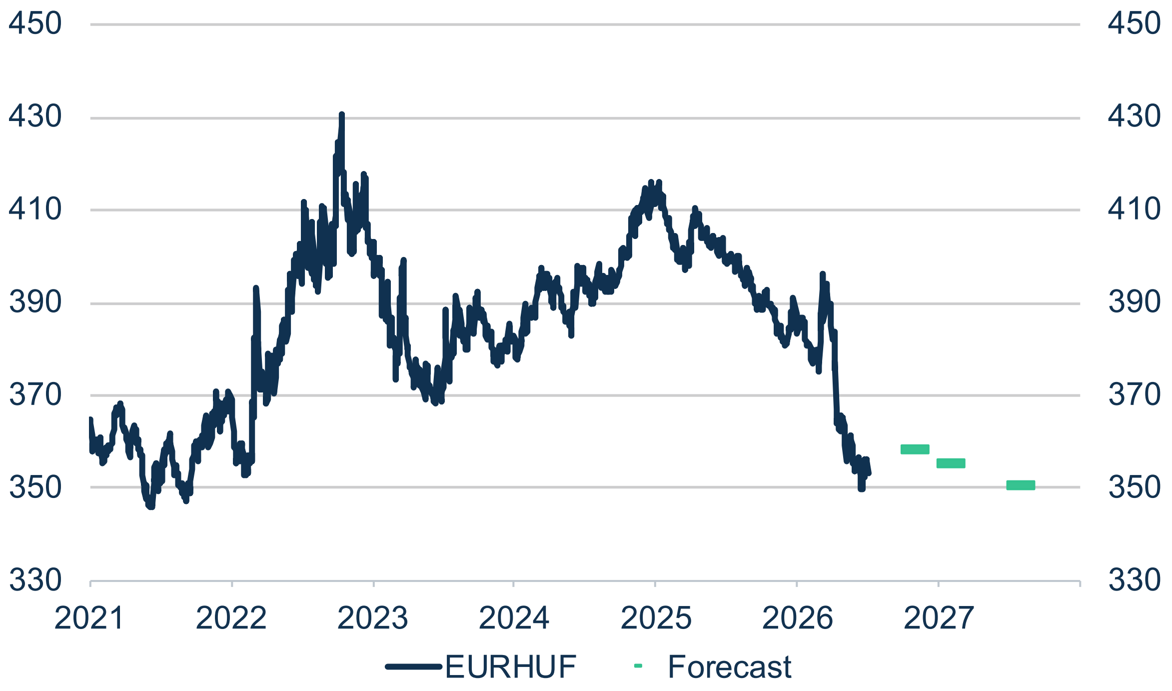
- High public debt is weighing on Brazil's public budget; fiscal consolidation is proceeding only slowly.
- The general elections scheduled for October are increasing political uncertainty.

Contra EUR

- With a key interest rate of 14.25%, Real continues to offer a significant yield advantage.
- Brazil's economy is expected to grow by just under 2% in 2026, slightly more than that of the eurozone.
- The trade surplus is expected to remain robust and increase compared with the previous year—driven by oil, soybeans, and iron ore.

EURHUF: Significantly lower inflation forecasts could create room for interest rate cuts

FX EUR/HUF



	Historical Data			Forecast		
Spot	Ø 2025	Dec-25	Ø H1 26	Sep-26	Dec-26	Jun-27
EURHUF 353.10	397.84	385.15	372.48	358.00	355.00	350.00

Source: LSEG, LBBW Research

Pro EUR

- Hungary's fiscal policy has led to high budget deficits so far. Fiscal consolidation under the new government will be implemented only gradually.
- The Hungarian central bank is lowering its key interest rate to 6.00%. Further easing measures will reduce the forint's interest rate advantage.

Contra EUR

- Hungary's government plans to adopt the euro in the medium term. This requires major reforms that will boost investor confidence.
- Hungary's move towards the EU following the change in government is likely to lead to the release of additional frozen EU funds in the future. These will support the economy.
- The forint continues to offer a clear interest rate advantage.

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EURMXN: Renegotiation of the trade agreement with the U.S. could weigh on the peso

FX EUR/MXN

	Spot	Historical Data Ø 2025	Dec-25	Ø H1 26	Forecast Sep-26	Dec-26	Jun-27
EURMXN	19.97	21.67	21.12	20.39	22.40	22.30	22.10
USDMXN	17.46	19.17	17.98	17.48	19.15	18.90	18.57

Source: LSEG, LBBW Research

Pro EUR

- Mexico's economic growth is slowing and is expected to be less than 1% this year.
- The peso's interest rate advantage is likely to decline as the ECB raises its key interest rates over the course of the year.
- There is heightened uncertainty due to the upcoming renegotiation of the North American Free Trade Agreement, as well as institutional risks.
- Deteriorating Fiscal Situation Leads to Credit Rating Downgrade

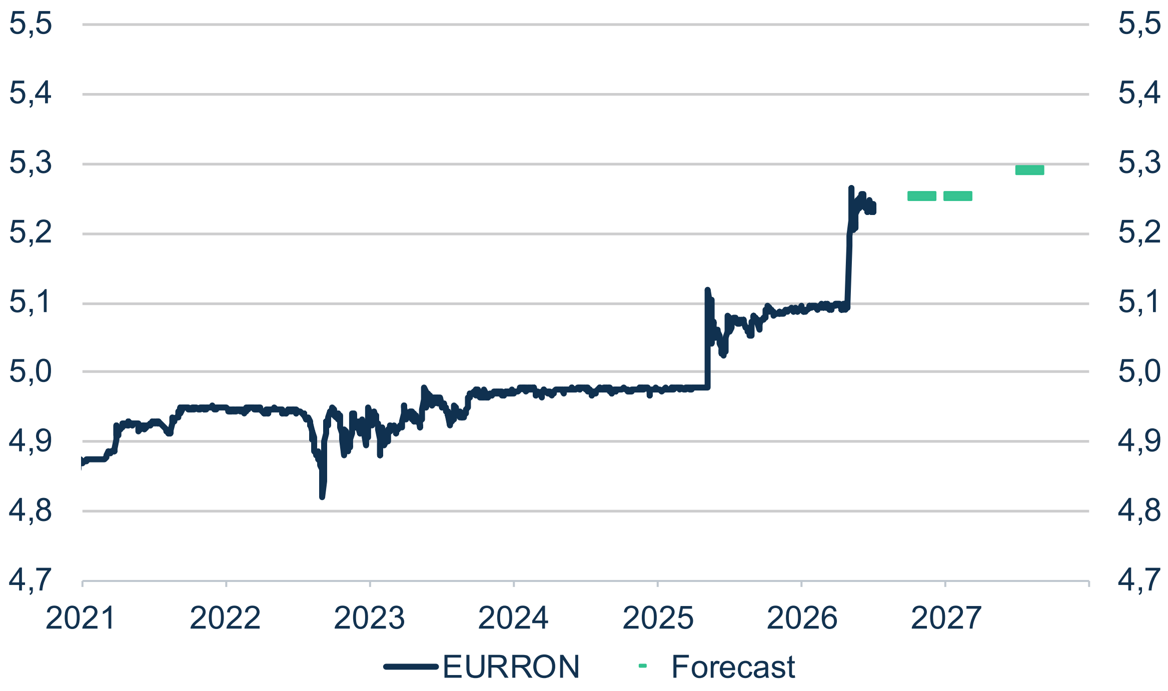
Contra EUR

- The peso continues to offer an interest rate advantage over the euro.
- Nearshoring and close ties to the United States remain structural pillars of exports and investment.

LBBW

EURRON: Hopes for the swift formation of a government remain unfulfilled

FX EUR/RON



	Historical Data			Forecast		
	Spot	Ø 2025	Dec-25	Ø H1 26	Sep-26	Dec-26	Jun-27
EURRON	5.24	5.04	5.10	5.14	5.25	5.25	5.29

Source: LSEG, LBBW Research

Pro EUR

- Fiscal risks remain high. After standing at 7.7% last year, the budget deficit is expected to fall to around 6.2% in 2026—still the highest in the eurozone.
- The collapse of the governing coalition is increasing political uncertainty and putting pressure on the leu.
- The VAT increase has driven up inflation and is limiting the scope for interest rate cuts.
- The economy is expected to grow by just under 1% this year.

Contra EUR

- The large inflow of EU funds is likely to support growth.
- With a key interest rate of 6.5%, the Leu continues to offer an interest rate advantage over the euro.

LBBW

EURPLN: Poland's growth is expected to slow in the second quarter as well

FX EUR/PLN

	Historical Data			Forecast			
	Spot	Ø 2025	Dec-25	Ø H1 26	Sep-26	Dec-26	Jun-27
EURPLN	4.28	4.24	4.22	4.24	4.32	4.36	4.36

Source: LSEG, LBBW Research

Pro EUR

- Poland's fiscal policy remains a weak point. The budget deficit stood at around 6.9% in 2025, causing public debt to rise toward 60%.
- Political tensions between the government and the president are complicating the implementation of economic policy.
- Rising inflation is limiting the scope for interest rate cuts. This could slow growth.

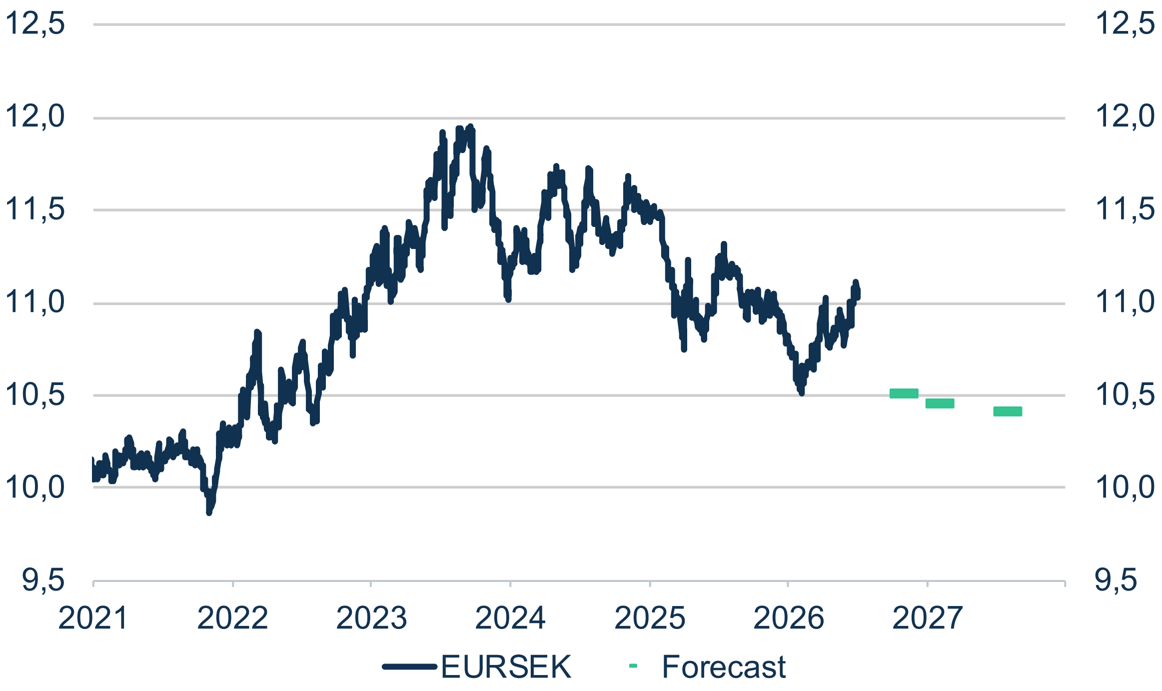
Contra EUR

- As in previous years, Poland's economy is likely to continue growing at a faster rate than that of the eurozone.
- With a key interest rate of 3.75%, the zloty continues to offer an interest rate advantage over the euro.

LBBW

EURSEK: Central Bank Signals Possible Interest Rate Hike Later This Year

FX EUR/SEK



	Historical Data			Forecast		
Spot	Ø 2025	Dec-25	Ø H1 26	Sep-26	Dec-26	Jun-27
EURSEK 11.03	11.06	10.83	10.79	10.50	10.45	10.40

Source: LSEG, LBBW Research

Pro EUR

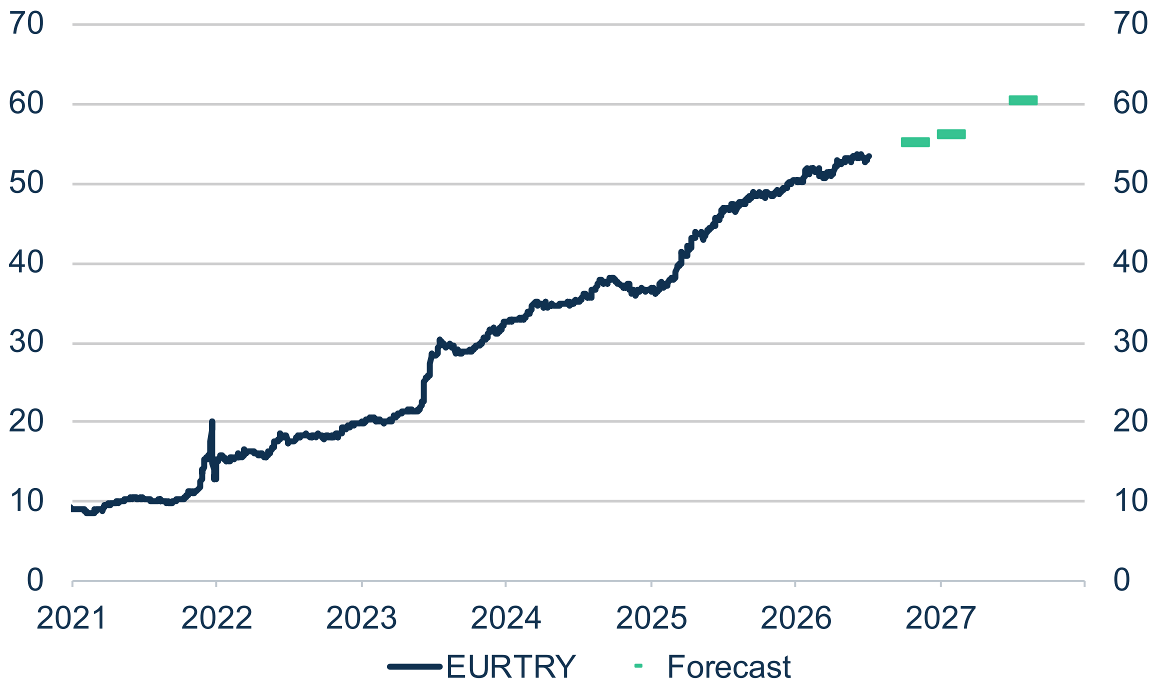
- Following significant cuts in key interest rates, the Swedish krona is at a interest rate disadvantage compared to the euro.
- The Swedish economy is recovering, but remains vulnerable to global uncertainty and higher energy prices.

Contra EUR

- Sweden's economy is growing faster than that of the eurozone. Growth for 2026 is expected to be around 2.6%.
- Inflation has fallen. Real wages are rising. This supports private consumption.
- Ongoing shifts of investment from abroad into Swedish assets are strengthening the krona.

EURTRY: Turkish Economic Growth Is Slowing

FX EUR/TRY



	Historical Data			Forecast		
Spot	Ø 2025	Dec-25	Ø H1 26	Sep-26	Dec-26	Jun-27
EURTRY 53.58	44.81	50.48	52.05	54.90	56.00	60.20

Source: LSEG, LBBW Research

Pro EUR

- Turkey remains a country with high inflation. Disinflation is proceeding more slowly than the central bank had announced.
- As an energy importer, Turkey is affected by rising energy prices. Higher prices are weighing on growth and driving inflation.
- Foreign exchange interventions to prop up the lira are putting a strain on the country's already low foreign exchange reserves.
- Tense domestic political conditions are undermining investor confidence.

Contra EUR

- The lira continues to offer a significant yield advantage over the euro.
- Political influence over the central bank has waned.

EURZAR: South Africa's rising inflation rate could lead to further interest rate hikes

FX EUR/ZAR

	Historical Data			Forecast			
	Spot	Ø 2025	Dec-25	Ø H1 26	Sep-26	Dec-26	Jun-27
EURZAR	18.56	20.18	19.44	19.15	19.20	19.00	18.70

Source: LSEG, LBBW Research

Pro EUR

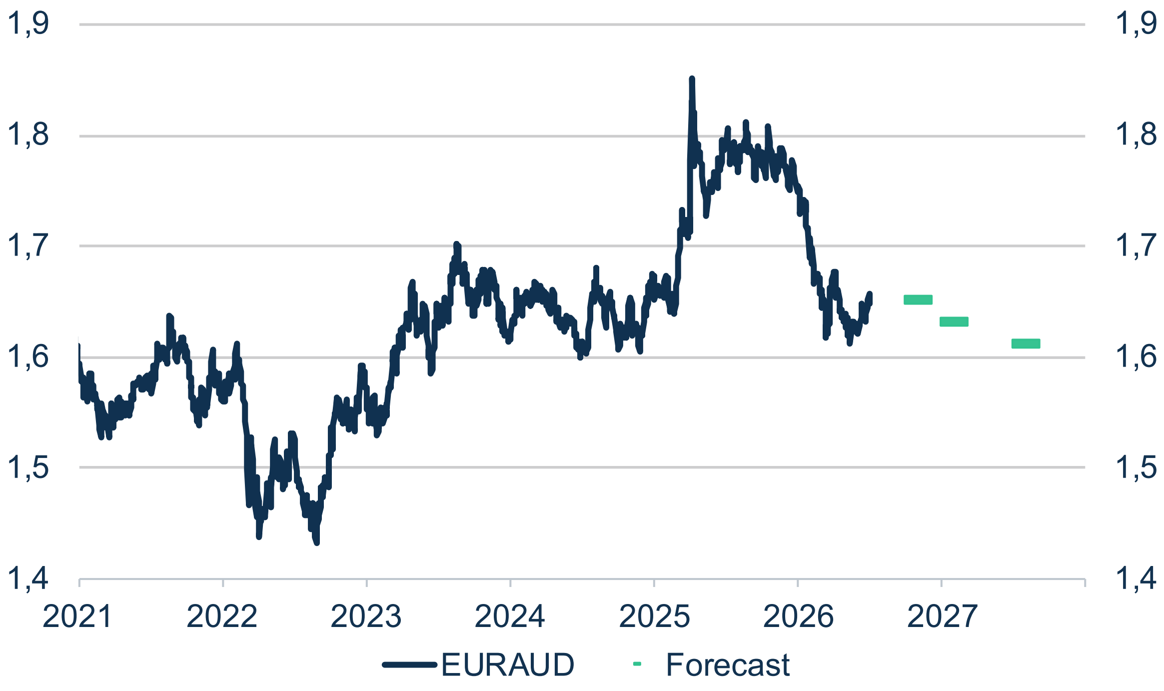
- South Africa's economic growth remains sluggish and, despite positive signs, continues to be vulnerable to structural problems.
- The margin remains heavily dependent on investors' risk appetite.

Contra EUR

- With a benchmark interest rate of 7.00%, the Rand offers a significant yield advantage over the euro.
- The central bank's new inflation target supports a continued restrictive monetary policy.
- Urgently needed investments in transportation and energy infrastructure are improving growth prospects.
- Public debt is likely to decline sooner than expected.

EURAUD: Australia's is weakening, but remains above the target range

FX EUR/AUD



	Historical Data			Forecast		
Spot	Ø 2025	Dec-25	Ø H1 26	Sep-26	Dec-26	Jun-27
EURAUD 1.65	1.75	1.75	1.66	1.65	1.63	1.61

Source: LSEG, LBBW Research

Pro EUR

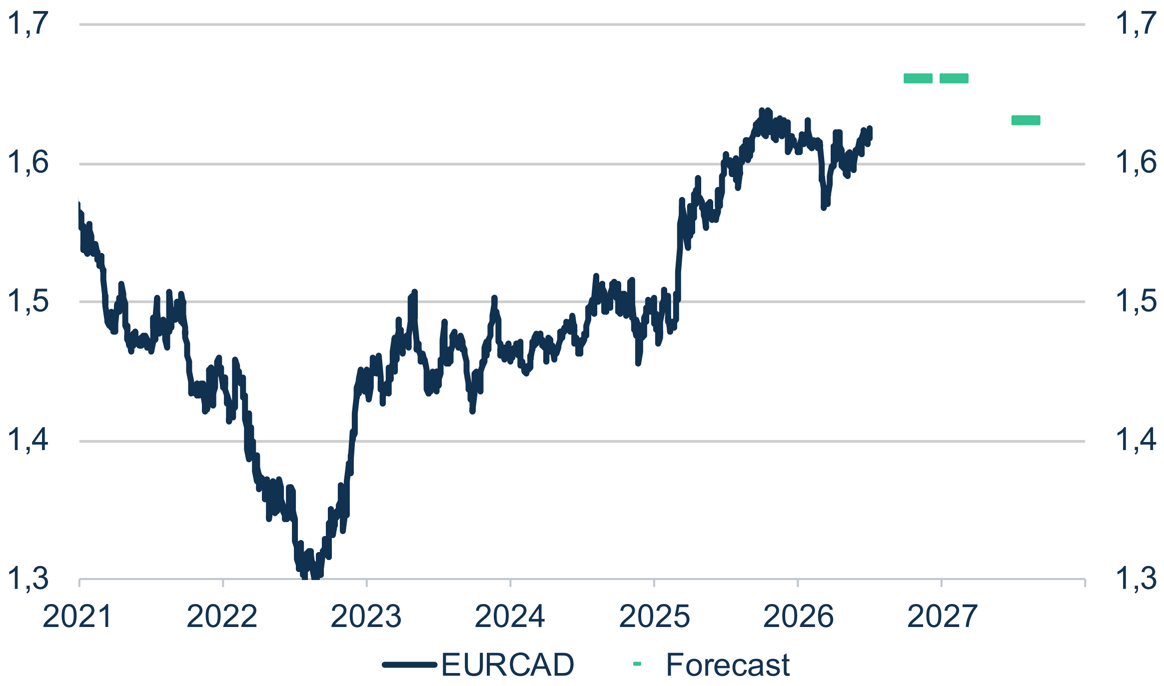
- Australia's economy is sensitive to economic cycles. It is heavily dependent on China's growth and commodity prices.
- The ECB's interest rate hikes are unlikely to cause the Australian dollar's interest rate advantage to widen further.
- Australia's growth advantages over the eurozone are diminishing.

Contra EUR

- The Australian dollar offers a significant interest rate advantage over the euro. The central bank remains hawkish and could raise the key interest rate again.
- Australia's economy is expected to grow slightly faster than that of the eurozone in 2026.

EURCAD: Canada's economy disappoints in the first quarter with zero growth

FX EUR/CAD



	Historical Data			Forecast		
Spot	Ø 2025	Dec-25	Ø H1 26	Sep-26	Dec-26	Jun-27
EURCAD 1.63	1.58	1.61	1.61	1.66	1.66	1.63

Source: LSEG, LBBW Research

Pro EUR

- Canada's economy remains vulnerable to U.S. trade policy and tariffs. The upcoming renegotiation of the North American trade agreement is increasing uncertainty in the market.
- The close ties to the U.S. economy are weighing on the market; an economic slowdown in the U.S. weakens the Canadian dollar.
- A prompt end to the war in Iran is likely to weaken the oil price, which has recently been a key source of support.

Contra EUR

- Canada is a major oil exporter. High oil prices are bolstering the Canadian dollar through trade and government revenue.
- A prolonged blockade of the Strait of Hormuz would support the Canadian dollar through higher oil prices.

EURCZK: The central bank is raising the key interest rate due to persistently high core inflation

FX EUR/CZK

	Historical Data			Forecast		
Spot	Ø 2025	Dec-25	Ø H1 26	Sep-26	Dec-26	Jun-27
EURCZK 24.19	24.69	24.24	24.32	23.90	23.80	23.65

Source: LSEG, LBBW Research

Pro EUR

- The export-dependent economy remains vulnerable to international trade risks and geopolitical conflicts.
- The Czech koruna's interest rate advantage is likely to diminish as the inflation rate falls.

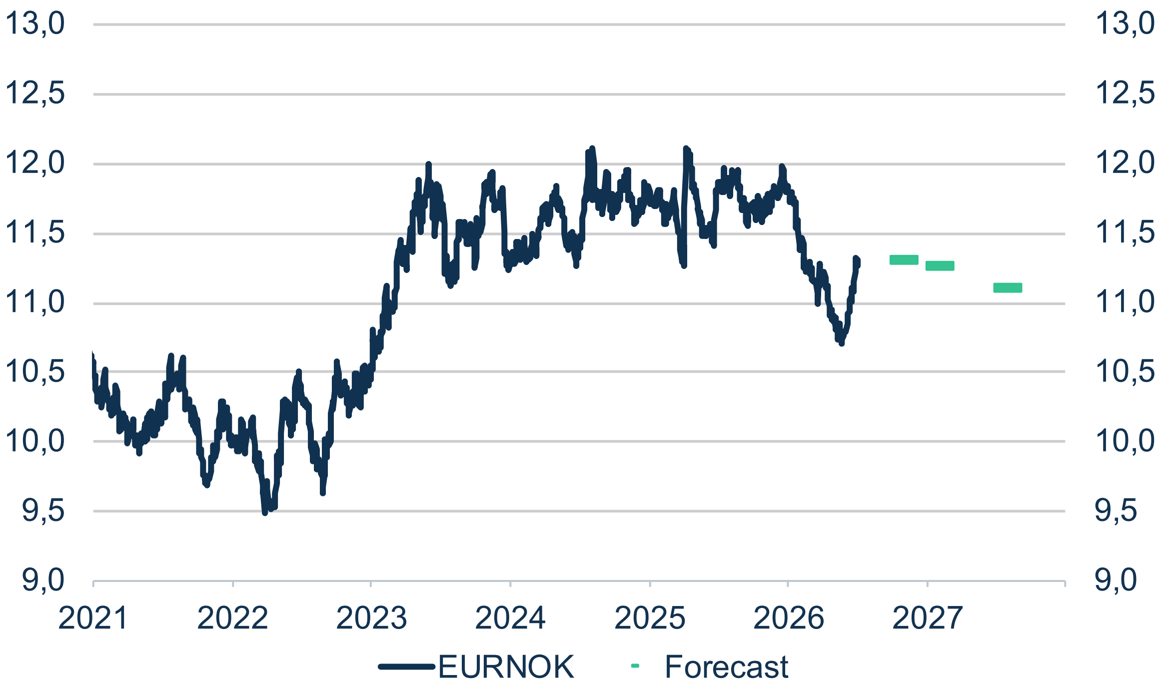
Contra EUR

- As in previous years, the Czech economy is expected to grow at a significantly faster rate than that of the eurozone. A more expansionary fiscal policy supports growth momentum.
- With a key interest rate of 3.75%, the Krone offers an interest rate advantage that is likely to persist under a restrictive monetary policy.
- The Czech economy is likely to benefit disproportionately from a recovery in the European industrial sector.

LB≡BW

EURNOK: Norway's central bank signals another interest rate hike

FX EUR/NOK



	Historical Data				Forecast		
	Spot	Ø 2025	Dec-25	Ø H1 26	Sep-26	Dec-26	Jun-27
EURNOK	11.27	11.72	11.84	11.17	11.30	11.25	11.10

Source: LSEG, LBBW Research

Pro EUR

- Norway's agriculture is growing more slowly than expected.
- The krone is sensitive to economic conditions. Slower growth in European industry is weighing on the krona.
- Falling oil prices following the reopening of the Strait of Hormuz could weigh on the Norwegian krone.

Contra EUR

- The Norwegian krone offers a significant interest rate advantage over the euro. The hawkish central bank considers a further increase in the key interest rate from its current level of 4.25% to be possible.
- Higher oil and gas prices are improving Norway's terms of trade and supporting the krone.
- Norway has a sound fiscal position, supported by its sovereign wealth fund and high energy revenues.

Market Data Overview: Currencies

Exchange rates to EUR	Date	-1M %	-3M %	-1J %	YTD %	Max 52W	Min 52W
AUD	1.65	-1.52	1.28	8.54	6.75	1.81	1.61
BRL	5.92	-1.12	0.67	7.45	8.74	6.55	5.75
GBP	0.86	0.88	1.81	0.53	1.93	0.88	0.86
CNY	7.76	1.36	2.63	8.47	5.78	8.44	7.72
JPY	184.55	0.63	-0.25	-7.59	-0.25	187.56	170.23
CAD	1.62	-0.80	-1.00	-1.73	-0.90	1.64	1.57
NZD	2.00	-1.45	0.60	-3.22	1.89	2.06	1.94
NOK	11.24	-3.92	-0.13	5.24	5.37	11.99	10.72
PLN	4.29	-1.05	-0.23	-1.11	-1.52	4.31	4.20
RUB	87.99	-2.81	5.28	5.61	5.58	99.54	82.46
SEK	11.03	-1.22	-1.28	1.97	-1.83	11.32	10.51
CHF	0.92	-0.18	0.40	1.79	1.23	0.94	0.90
ZAR	18.55	1.90	5.10	11.01	4.89	20.97	18.55
CZK	24.18	0.04	1.37	1.80	-0.05	24.68	24.11
TRY	53.55	-0.36	-4.05	-12.60	-5.78	53.74	46.46
HUF	353.30	0.52	8.63	12.96	8.67	400.55	349.33
USD	1.14	1.48	0.95	2.71	2.64	1.20	1.13
Exchange rates to USD							
JPY	161.29	-0.83	-1.19	-10.03	-2.81	162.53	144.53
CNY	6.78	-0.16	1.51	5.73	3.15	7.21	6.76

Sources: LSEG, LBBW Research

LBBW

FX: at-the-money volatility

Period	EUR/USD		EUR/CHF		EUR/JPY		EUR/GBP		EUR/HUF		EUR/PLN		EUR/CZK		EUR/CNY		USD/CNH	
	bid	ask	bid	ask	bid	ask	bid	ask	bid	ask	bid	ask	bid	ask	bid	ask	bid	ask
1 month	4.85	5.05	3.21	3.61	6.29	6.79	3.45	3.75	7.07	8.02	2.92	3.57	1.08	2.28	4.04	4.79	1.98	2.38
2 months	4.97	5.17	3.40	3.80	6.24	6.74	3.55	3.80	7.14	7.99	3.10	3.65	1.28	2.43	4.23	4.78	2.19	2.54
3 months	5.05	5.20	3.63	4.03	6.45	6.80	3.69	3.94	7.15	8.00	3.26	3.81	1.39	2.54	4.23	4.88	2.30	2.65
6 months	5.24	5.44	4.02	4.37	6.74	7.24	4.10	4.25	7.28	8.18	3.69	4.24	1.89	2.74	4.29	4.99	2.70	3.00
9 months	5.50	5.70	4.32	4.67	7.05	7.55	4.33	4.58	7.44	8.29	4.13	4.58	2.18	3.03	4.69	5.09	2.98	3.28
1 year	5.93	6.03	4.70	5.00	7.33	7.83	4.73	4.98	7.59	8.44	4.38	4.88	2.34	3.19	4.96	5.41	3.19	3.49
2 years	6.35	6.55	4.97	5.42	7.52	8.02	5.11	5.31	7.94	8.64	4.44	4.89	2.45	3.20	5.37	5.82	3.55	3.80
3 years	6.30	7.20	4.88	6.08	7.30	8.80	5.19	5.69							5.08	6.38	3.46	4.21
5 years	6.62	7.62	5.43	6.63	7.47	9.27	5.76	6.36									3.79	4.34

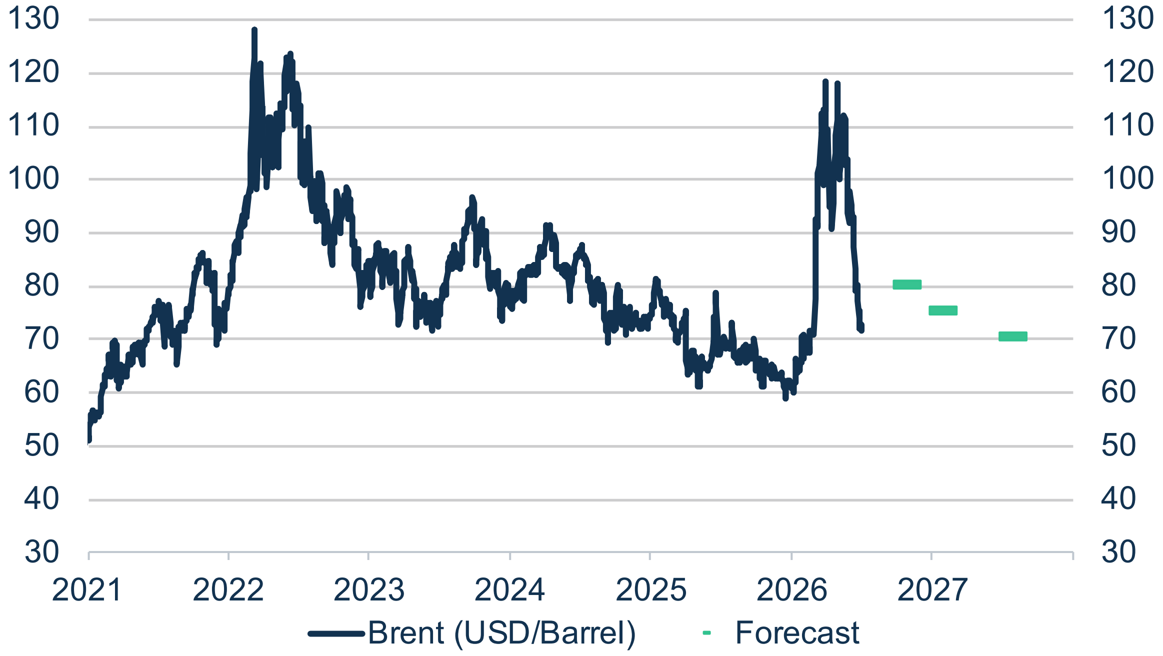
Data as of: 07/06/2026 10:35 AM

Sources: LSEG, LBBW Research

Brent: The oil rally is over—again

Brent Oil Price & Forecast

in USD



	Historical Data			Forecast		
	Spot	Ø 2025	Dec-25	Ø H1 26	Sep-26	Dec-26	Jun-27
Brent (USD/Barrel)	71.81	68.32	60.85	87.55	80.00	75.00	70.00

Source: LSEG, LBBW Research

Pro

- Crude oil supply plummeted by about 13.5 mbpd from late February to late June.
- During the Iran War, production facilities, refineries, and oil infrastructure totaling 3–4 mbpd were destroyed.

Contra

- The supply surplus in the oil market is expected to be around 0.5 mbpd in Q4/26. The trend continues to rise in the first quarter. First half of 2027.
- Gloomy economic outlook and the war in Iran are dampening demand for oil. Consumption fell by 5 mbpd (year-over-year) in Q2/26.
- OPEC (+ UAE) spare capacity currently stands at 15 mbpd.
- The traffic jam in the Strait of Hormuz is expected to clear up sometime in July.
- Oil reserves in Gulf Coast countries are at very high levels.

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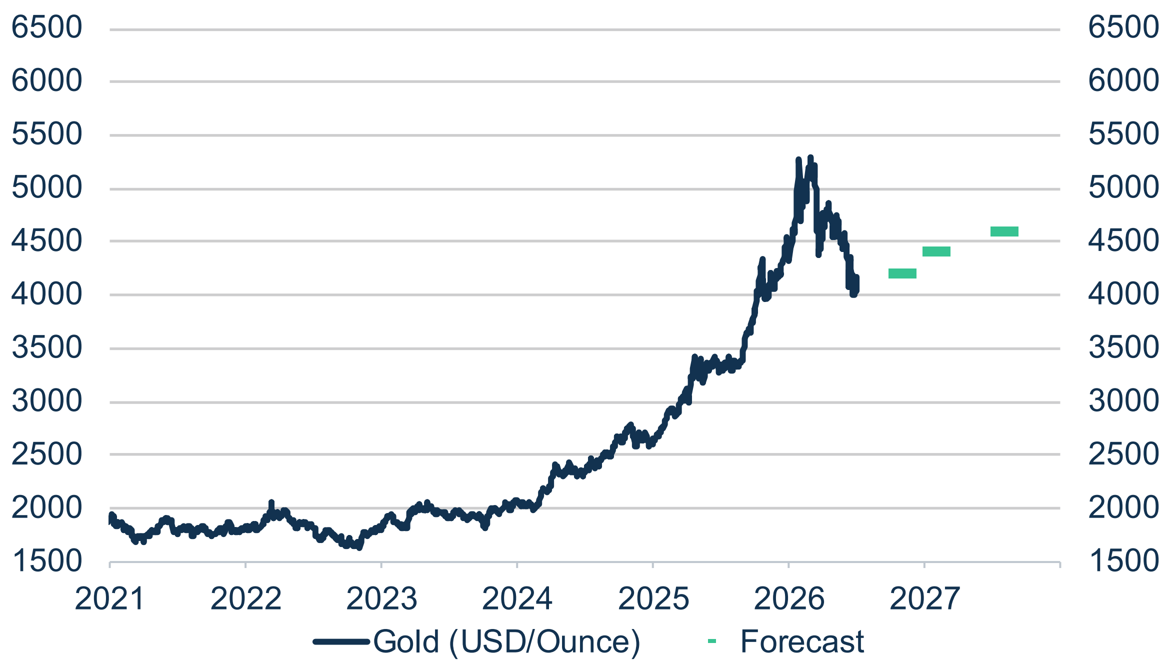
Gold: Easing inflation concerns are boosting sentiment

Gold Price & Forecast

in USD



		Historical Data			Forecast		
	Spot	Ø 2025	Dec-25	Ø H1 26	Sep-26	Dec-26	Jun-27
Gold (USD/Ounce)	4 172	3 444	4 325	4 687	4 200	4 400	4 600

Source: LSEG, LBBW Research

Pro

- Demand for coins and bars rose significantly in Q1/26 compared with the same quarter of the previous year, by 42% and 140 metric tons, respectively.
- Gold mine production rose only very slowly in Q1/26, by 2.4% or 20 metric tons.
- Erratic U.S. trade policy and ongoing political... Tensions are keeping gold in demand as a safe haven.
- Cryptocurrencies are increasingly becoming a major driver of demand for physical gold.
- Expected depreciation of the U.S. dollar should support price.
- Falling oil prices make interest rate hikes less likely.

Cons

- Jewelry demand fell by 23% (90 metric tons) in Q1/26. Central bank purchases remain virtually unchanged compared to Previous year (+2.8% or 7 metric tons)
- Recycling of scrap gold rose by 5% or 18 metric tons in Q1/26.

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Commodities Market Data Overview

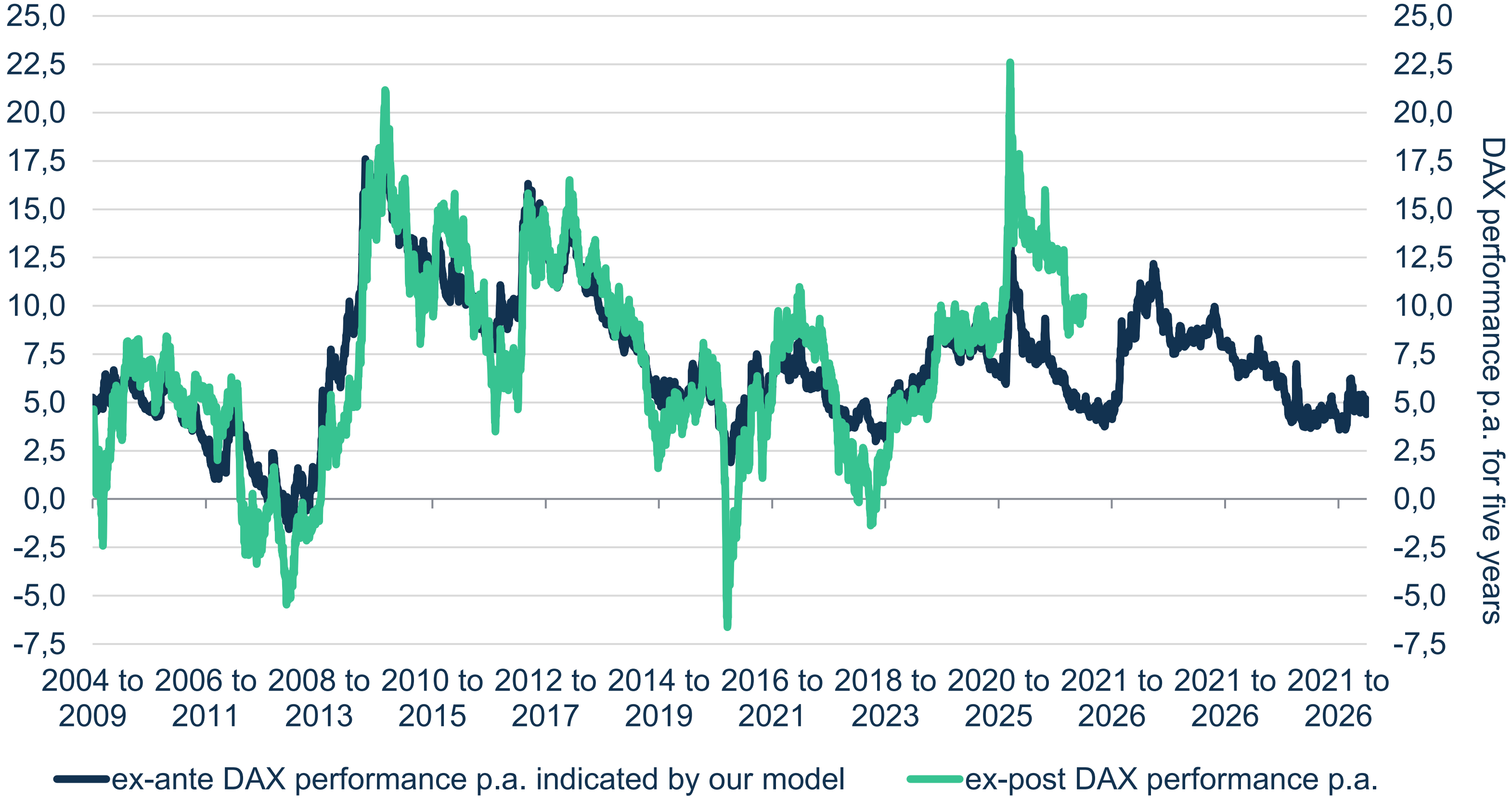
Energy (Spot)	Unit	Date	-1M %	-3M %	-1Y %	YTD %	Max 52W	Min 52W
Crude Oil Brent	USD/bbl	71.96	-26.49	-33.91	4.67	18.26	118.34	58.98
Crude Oil WTI	USD/bbl	69.73	-30.10	-38.42	2.35	21.78	114.58	55.44
Precious Metals (Spot)								
Gold	USD/oz	4 172	-6.16	-10.70	25.39	-3.52	5 298	3 293
Silver	USD/oz	62.26	-16.26	-12.31	68.80	-13.52	118.45	36.22
Platinum	USD/oz	1 649	-13.72	-13.67	19.66	-18.65	2 811	1 302
Palladium	USD/oz	1 277	-5.62	-12.72	13.81	-18.51	2 106	1 090
Industrial Metals (3M Future)								
LME Aluminium	USD/MT	3 091	-16.55	-10.92	18.64	3.17	3 753	2 553
LME Copper	USD/MT	13 367	-3.32	8.15	34.28	7.59	14 153	9 611
LME Lead	USD/MT	1 892	-6.52	-2.15	-8.36	-5.94	2 100	1 866
LME Zinc	USD/MT	3 541	-1.92	8.47	28.74	13.58	3 642	2 685
LME Tin	USD/MT	52 628	-8.33	13.72	55.48	29.77	57 960	32 710
LME Nickel	USD/MT	16 424	-12.97	-3.87	6.30	-1.33	19 642	14 263

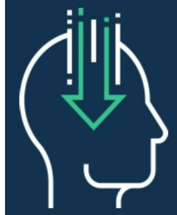
Sources: LSEG, LBBW Research

The DAX five-year model continues to indicate a performance well below average

LBBW DAX Five-Year Model

as a percentage per annum for each of the next five years





Two input factors

1. dividend yield
   (return component)
2. market cap in relation to money supply M3
   (valuation component)

5 years

Forecast

Since more than 21 years very reliable prediction of geometric DAX-mean performance

4.4 % **p.a.** **(inluding dividends)**

performance forecast

Source: LSEG, LBBW Research

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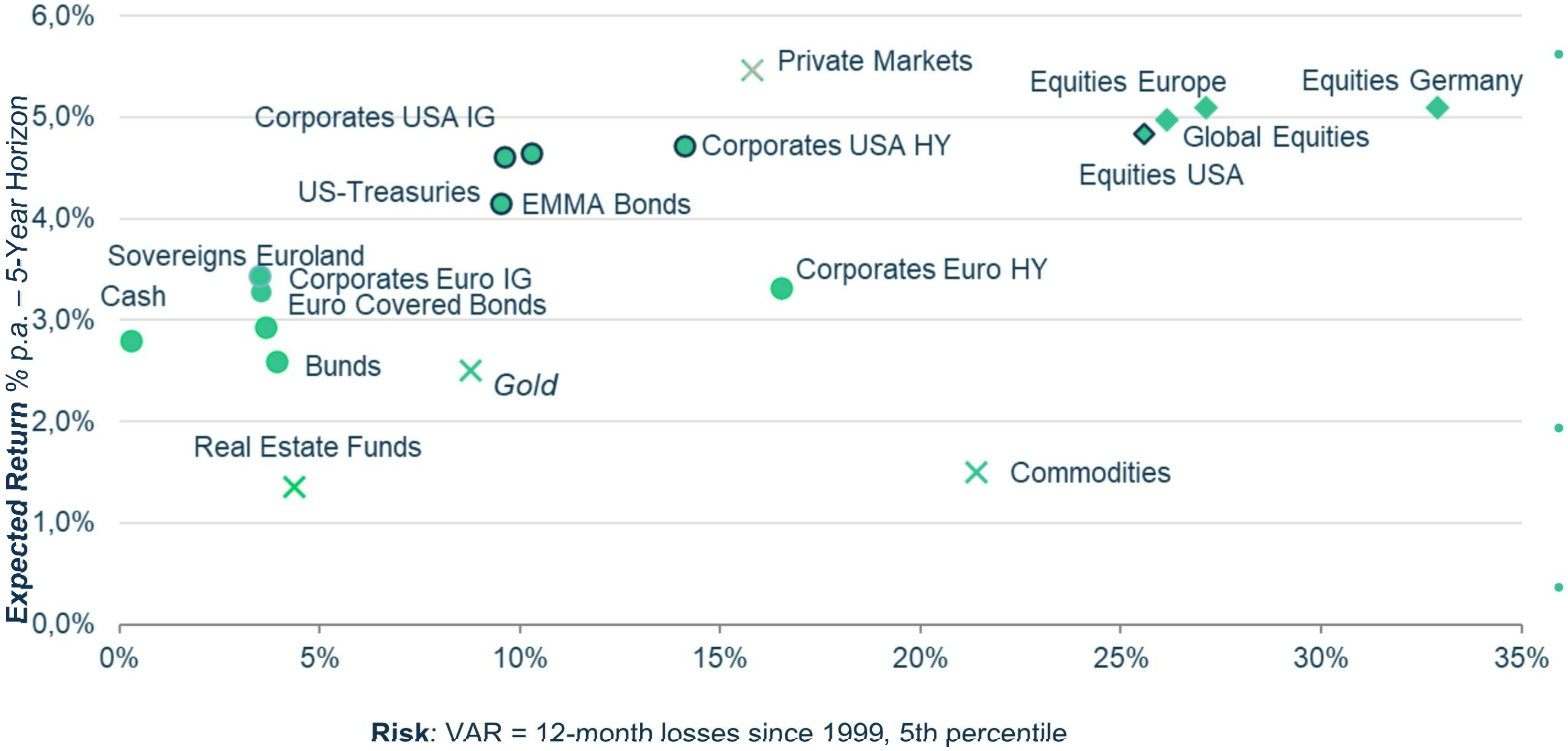
Risk/Return of Asset Classes over a 5-Year Period

Expected Returns Versus Risk: LBBW's Assessments

as a percentage



Sources: LSEG, LBBW Research – As of June 29, 2026. IG = Investment Grade; HY = High Yield. The bond indices have a duration ranging from three to seven years. Note on Risk/VAR: The loss that the respective total return index—used as a proxy for a portfolio in this asset class—has not exceeded with a 95% probability since 1999.

- Expected Bond Yields:
  Basis: Current yields of the respective bond indices. In the case of high-yield and emerging markets, these figures were adjusted based on historically plausible assumptions regarding defaults and recovery rates. Additional assumption: a constant yield curve.
- Expected Returns on Stocks:
  Combination of the five-year DAX model and long-term equity risk premiums.
- Currency Analysis:
  In the risk analysis, unhedged portfolios were evaluated from the perspective of a euro-denominated investor. The same applies to the return assumptions, which are based on the assumption of constant exchange rate relationships.

Yield Curves for EUR Sovereigns

Yields by Rating and Maturity

as a percentage

Average Yield EUR Sovereigns														
03.07.2026	Maturity in Years													
Country	1	2	3	4	5	6	7	8	9	10	15	20	25	30
Germany	2,43	2,48	2,52	2,57	2,62	2,69	2,76	2,83	2,91	2,99	3,34	3,50	3,54	3,58
France	2,56	2,63	2,72	2,86	3,02	3,18	3,33	3,48	3,62	3,74	4,18	4,43	4,63	4,81
Italy	2,56	2,68	2,81	2,94	3,08	3,23	3,37	3,51	3,64	3,76	4,22	4,48	4,66	4,78
Spain	2,51	2,56	2,64	2,74	2,84	2,96	3,08	3,21	3,33	3,44	3,86	4,08	4,22	4,24
Netherlands	2,40	2,47	2,55	2,63	2,71	2,78	2,86	2,93	3,00	3,06	3,35	3,54	3,63	3,65
Austria	2,47	2,55	2,64	2,73	2,82	2,91	3,00	3,08	3,16	3,23	3,54	3,75	3,87	3,92
Belgium	2,48	2,55	2,65	2,77	2,90	3,03	3,16	3,29	3,41	3,53	4,03	4,37	4,58	4,66
Ireland	2,38	2,47	2,54	2,62	2,70	2,78	2,87	2,95	3,03	3,11	3,43	3,64	-	-
Portugal	2,49	2,51	2,56	2,65	2,76	2,88	3,00	3,11	3,23	3,34	3,77	4,03	4,15	4,19
Finland	2,45	2,55	2,63	2,73	2,82	2,92	3,02	3,11	3,21	3,31	3,68	3,87	3,96	4,03
EUR Swap in %	2,67	2,70	2,71	2,73	2,76	2,80	2,84	2,88	2,92	2,96	3,13	3,20	3,19	3,15

Yield over 4.0%

Source: LSEG, LBBW Research

Yield Curves for EUR Non-Financials

Interpolated Yields by Rating and Maturity

as a percentage

Average Yield EUR Non-Financials										
03.07.2026	Maturity in Years (Call-Date)									
Rating	1	2	3	4	5	6	7	8	9	10
AA	2,28	2,67	2,89	3,04	3,17	3,26	3,35	3,44	3,50	3,55
AA-	2,33	2,70	2,92	3,07	3,19	3,29	3,37	3,45	3,51	3,57
A+	2,42	2,79	3,01	3,16	3,29	3,38	3,47	3,54	3,60	3,66
A	2,50	2,87	3,08	3,24	3,35	3,45	3,53	3,60	3,67	3,72
A-	2,51	2,87	3,10	3,27	3,39	3,50	3,59	3,66	3,73	3,79
BBB+	2,54	2,94	3,17	3,33	3,46	3,56	3,65	3,72	3,79	3,85
BBB	2,65	3,05	3,28	3,45	3,57	3,68	3,77	3,84	3,91	3,97
BBB-	2,78	3,22	3,47	3,65	3,79	3,90	4,00	4,08	4,16	4,22
BB+	3,08	3,59	3,89	4,10	4,26	4,39	4,50	4,60	4,69	4,76
BB	3,04	3,83	4,28	4,61	4,86	5,06	5,24	5,39	5,52	5,64
BB-	3,78	4,53	4,96	5,28	5,52	5,71	5,88	6,02	6,15	6,27
B+	3,97	4,97	5,55	5,97	6,29	6,56	6,78	6,97	7,14	7,29
B	4,38	5,33	5,88	6,28	6,58	6,83	7,04	7,22	7,38	7,53
B-	4,87	6,29	7,12	7,71	8,17	8,54	8,86	9,13	9,37	9,59
EUR Swap in %	2,67	2,70	2,71	2,73	2,76	2,80	2,84	2,88	2,92	2,96

Yield over 4.0%

Source: LSEG, LBBW Research

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Yield Curves for EUR Senior Bank Preferred Bonds

Interpolated Yields by Rating and Maturity

as a percentage

Average Yield EUR Banks Senior Preferred										
03.07.2026	Maturity in Years (Call-Date)									
Rating	1	2	3	4	5	6	7	8	9	10
AA	2,67	2,89	3,03	3,12	3,20	3,26	3,31	3,35	3,39	3,42
AA-	2,70	2,92	3,05	3,14	3,21	3,27	3,32	3,37	3,40	3,44
A+	2,64	2,95	3,13	3,25	3,35	3,43	3,50	3,56	3,61	3,66
A	2,67	2,95	3,11	3,22	3,31	3,38	3,44	3,50	3,54	3,58
A-	2,79	3,06	3,23	3,34	3,43	3,51	3,57	3,62	3,67	3,71
BBB+	2,97	3,18	3,30	3,39	3,46	3,51	3,56	3,60	3,63	3,66
BBB	2,99	3,23	3,38	3,48	3,56	3,63	3,68	3,73	3,77	3,81
BBB-	3,15	3,25	3,31	3,36	3,39	3,42	3,44	3,46	3,48	3,49
EUR Swap in %	2,67	2,70	2,71	2,73	2,76	2,80	2,84	2,88	2,92	2,96

Yield over 4.0%

Source: LSEG, LBBW Research

Yield Curves for EUR Covered Bonds

Yields by Rating and Maturity

as a percentage

Average Yield EUR Covered Bonds

03.07.2026	Maturity (Call-Date)										
Country	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
AU	2,80	2,87	2,89	2,94	2,97	3,06	3,09	3,13			3,37
AT	2,74	2,81	2,86	2,95	3,02	3,10	3,18	3,15	3,34		3,38
BE	2,73	2,83	2,88	2,94	3,00	3,08		3,25			
CA	2,75	2,82	2,91	2,97	3,02	3,11	3,10				
DK	2,71	2,90	2,92	2,89	3,12	3,32					
FI	2,76	2,79	2,86	2,99	3,08	3,03	3,21		3,27		
FR	2,75	2,82	2,90	2,99	3,08	3,16	3,23	3,31	3,43	3,46	3,55
DE	2,69	2,78	2,84	2,91	2,96	3,03	3,07	3,12	3,21	3,28	3,40
GR											
IE											
IT	2,76	2,85	2,94	2,99	3,15	3,16	3,25	3,34		3,47	3,59
LU											
NL	2,76	2,80	2,86	2,95	3,01	3,09	3,10	3,26	3,34	3,25	3,41
NZ		2,77	2,91	2,90	3,00	3,03	3,11				
NO	2,75	2,83	2,88	2,95	3,04	3,01	3,14	3,14		3,44	3,40
PL				2,90			3,10				
PT	2,72	2,80		2,95	3,01	3,11	3,15		3,31		
SG		2,88	2,87	2,96	3,05	3,06					
ES	2,71	2,81	2,93	2,92	3,04	3,05	3,17	3,23		3,30	
SE	2,73	2,81	2,91	2,97	3,08	3,05	3,11		3,22		
CH	2,80		2,90	3,02	3,14		3,20				
UK	2,82	2,84	2,87	2,90	3,04	3,03		3,16	3,13	3,32	
JP	2,63	2,90	2,97		3,03	3,04				3,39	
KR		2,70	2,89	3,00	3,02	3,11					
SK	2,84	2,92	2,98	3,05	3,10	3,19					
EUR Sw ap in %	2,67	2,70	2,71	2,73	2,76	2,80	2,84	2,88	2,92	2,96	3,00

Yield over 4.0%

Source: LSEG, LBBW Research

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