

Breaking new ground

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Capital Markets Compass – October

The mood is shifting

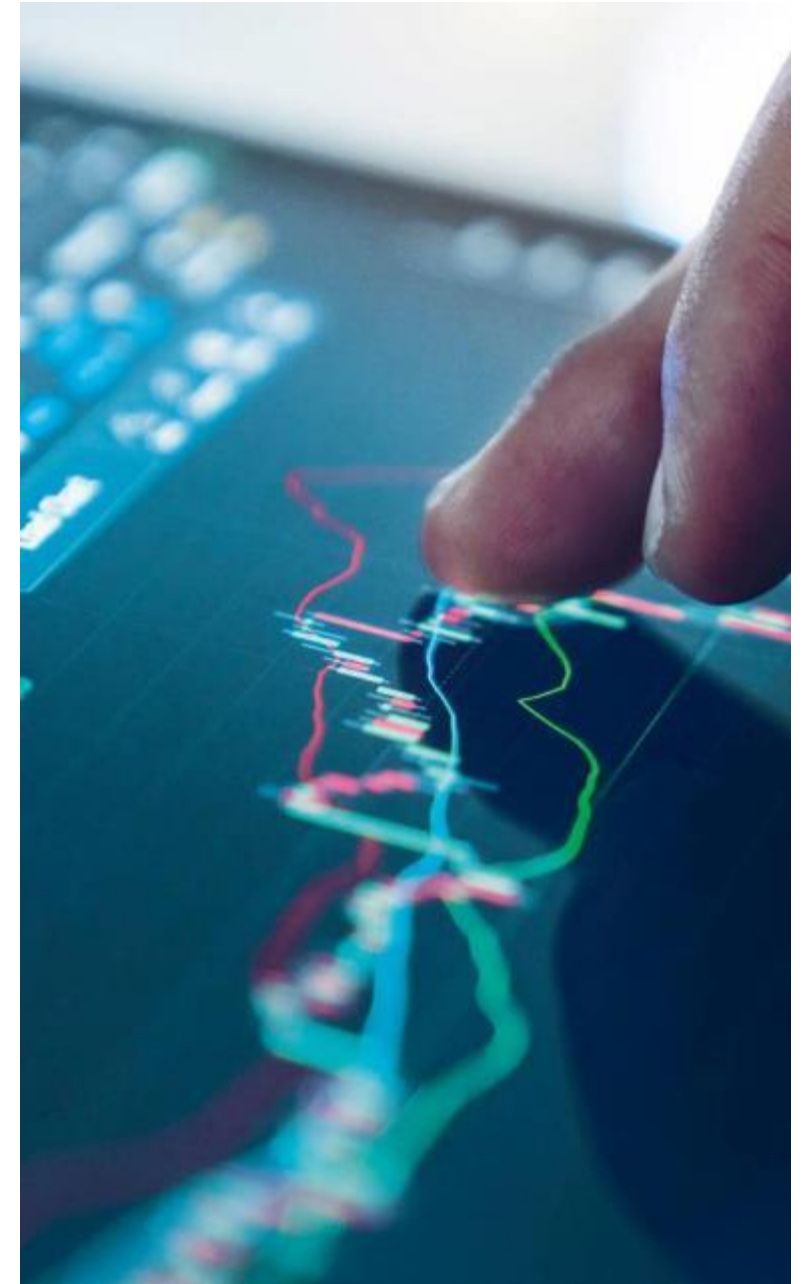
6 Oct 2026

Macro | Rates | Credits | Equities



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01

Foreword and Introduction

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Dr Moritz Kraemer

Chief Economist | Head of Research

“A turbulent world, only partly turbulent markets”

The Houthi rebels' recent territorial gains in the Bab al-Mandab Strait have caused crude oil prices to rise, once again, thereby fuelling inflationary concerns. Fearing second-round effects, major central banks have raised their key interest rates. Additional interest rate hikes are likely to follow. Expectations of further key interest rate rises have also pushed up long-term yields. The rise is being further fuelled by growing concerns about spiralling public debt in many countries.

This makes it all the more remarkable that volatility has so far remained surprisingly low in several segments of the financial market, such as the high-quality credit sector or the foreign-exchange market. Reason enough for us to devote a special feature to this phenomenon in this latest issue of Capital Markets Compass.

Key dates in October

CW40				CW41							CW42							CW43							CW44						
Thu 1	Fri 2	Sat 3	Sun 4	Mon 5	Tue 6	Wed 7	Thu 8	Fri 9	Sat 10	Sun 11	Mon 12	Tue 13	Wed 14	Thu 15	Fri 16	Sat 17	Sun 18	Mon 19	Tue 20	Wed 21	Thu 22	Fri 23	Sat 24	Sun 25	Mon 26	Tue 27	Wed 28	Thu 29	Fri 30	Sa 31	
	2.10.	US Payrolls September																													

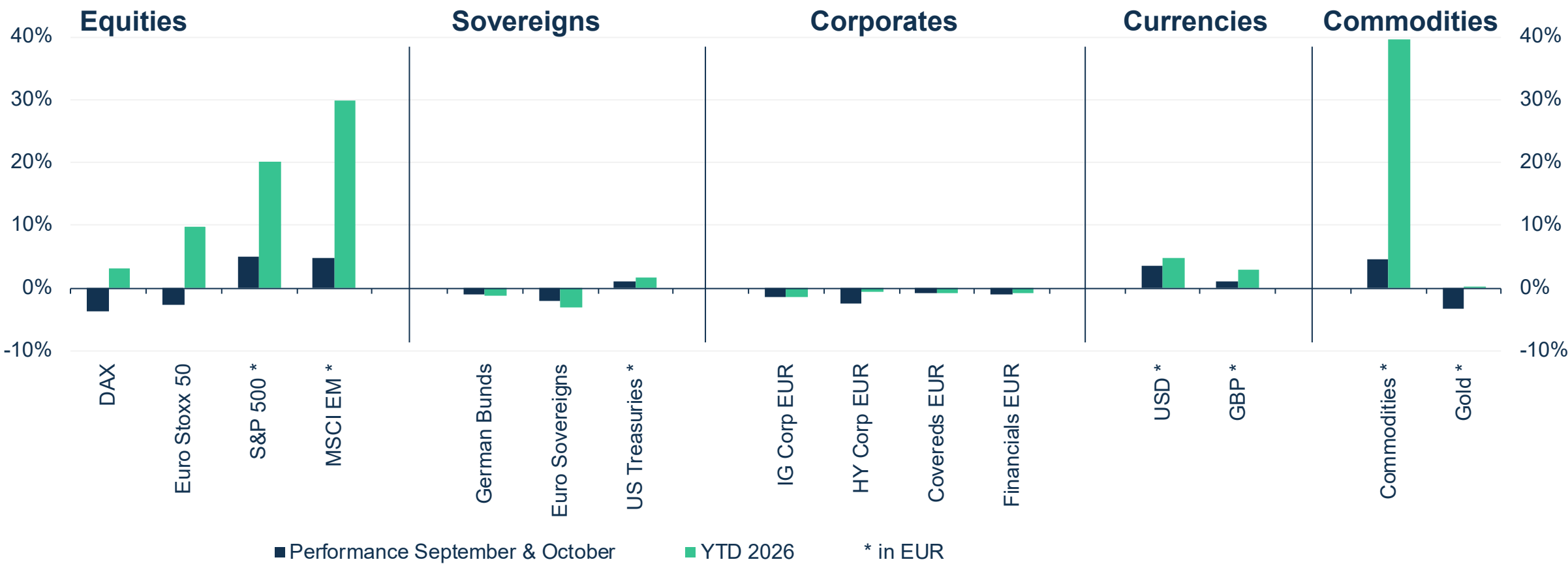
- Central banks: Both the ECB and the Fed are standing ready to tighten monetary policy once again should upside inflation risks mount as a result of the war in Iran.
We do not, however, expect further rate hikes in October.
- In Brazil, following his victory in the first round of voting, Flavio Bolsonaro is the favourite going into the run-off against the incumbent, Lula da Silva.
- The IMF is presenting its new World Economic Outlook.

Sources: Bloomberg, LBBW Research

Rising yields are weighing on performance

Selected assets

Total return as a percentage



02

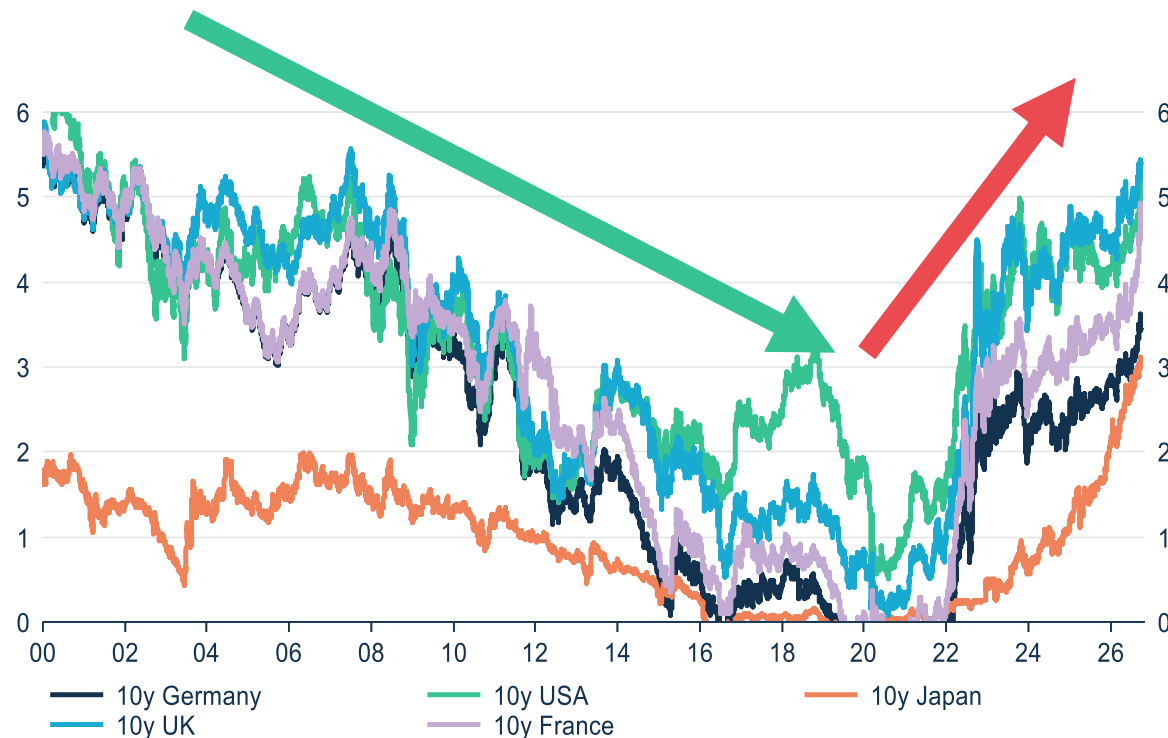
The mood is shifting

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Government bonds: The war in Iran is leading – with some delay – to a sharp surge in volatility

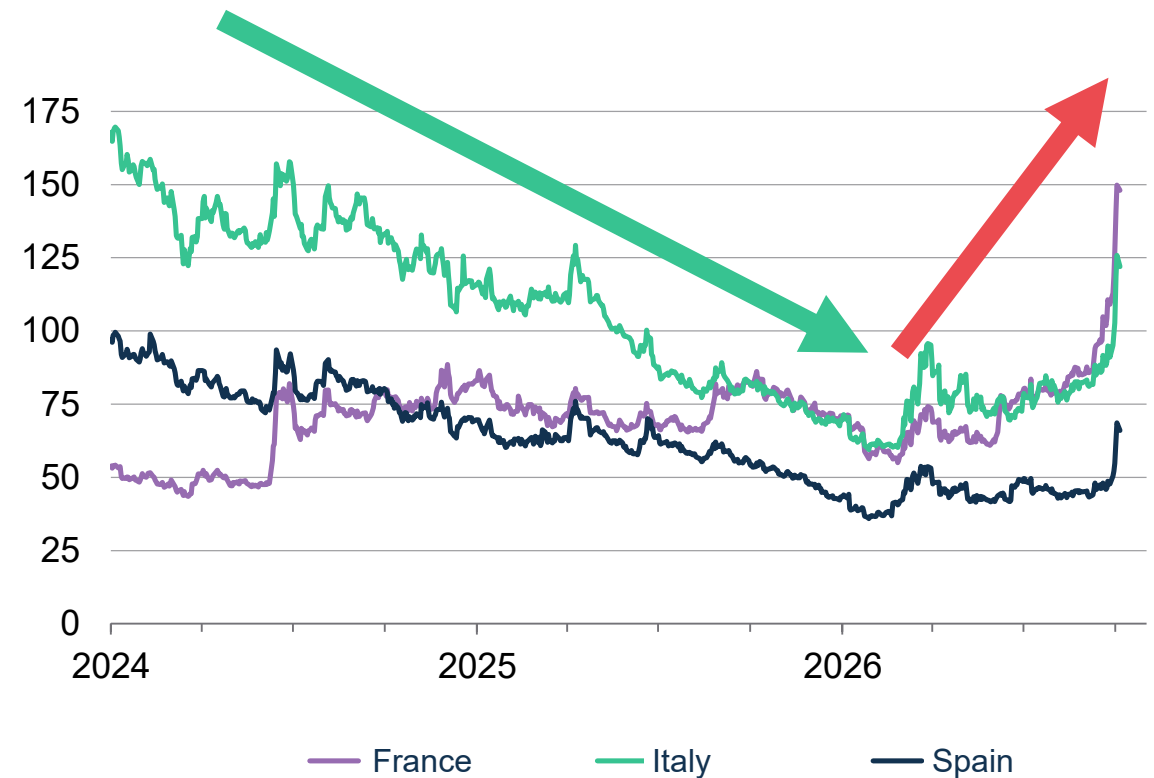
Select government bonds, 10-year

Return (as a percentage per annum)



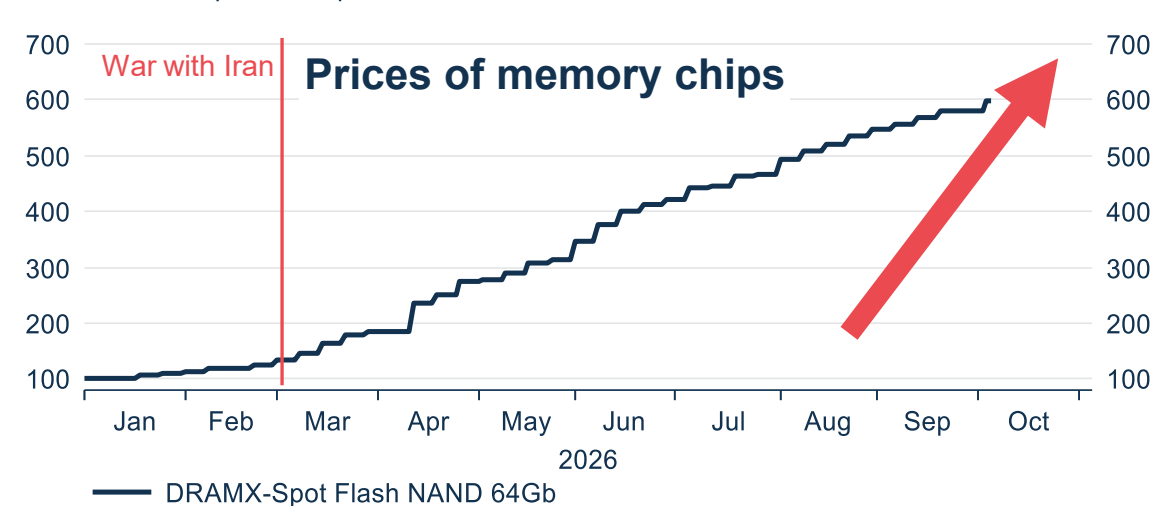
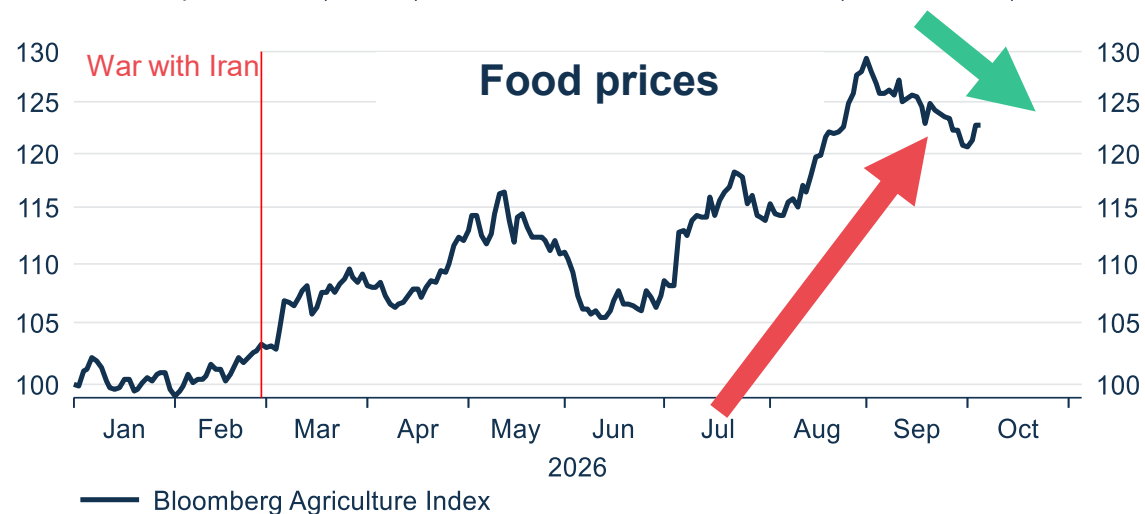
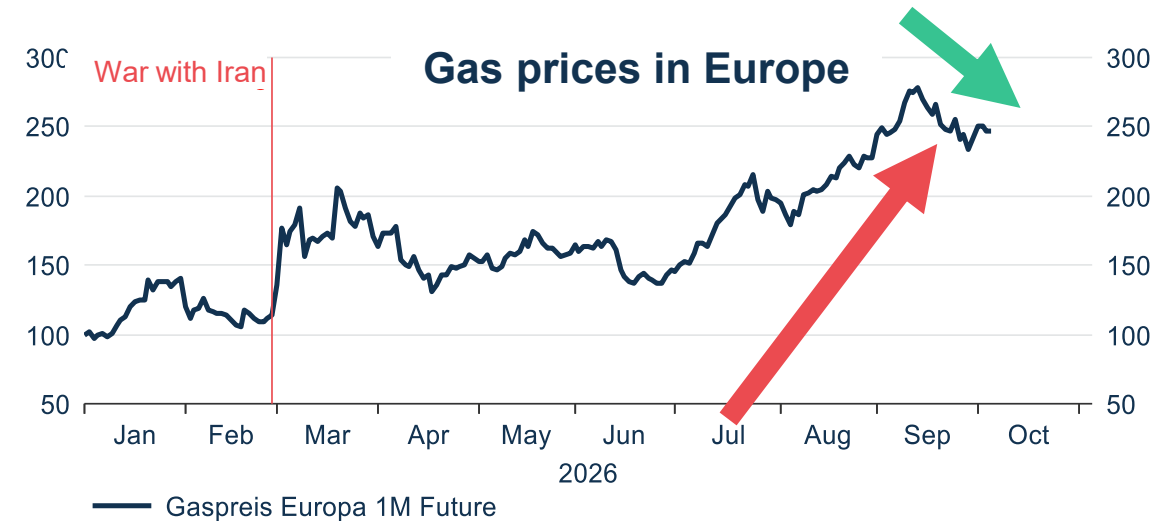
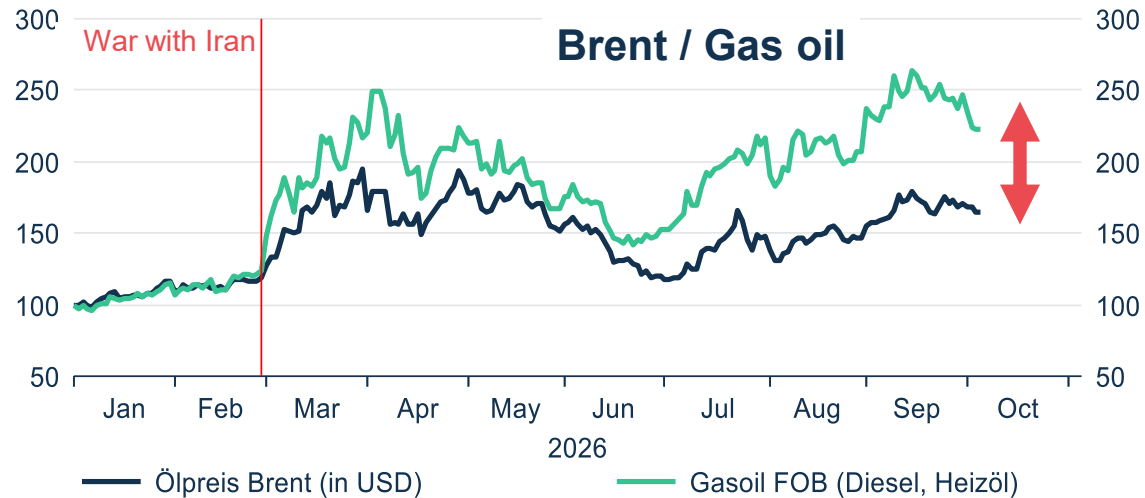
Select 10y euro-denominated govies

Spreads vs. Bunds (in basis points)



Source: LSEG, LBBW Research

The root of inflation fears: Crude oil, derivatives, gas, foodstuffs, memory chips

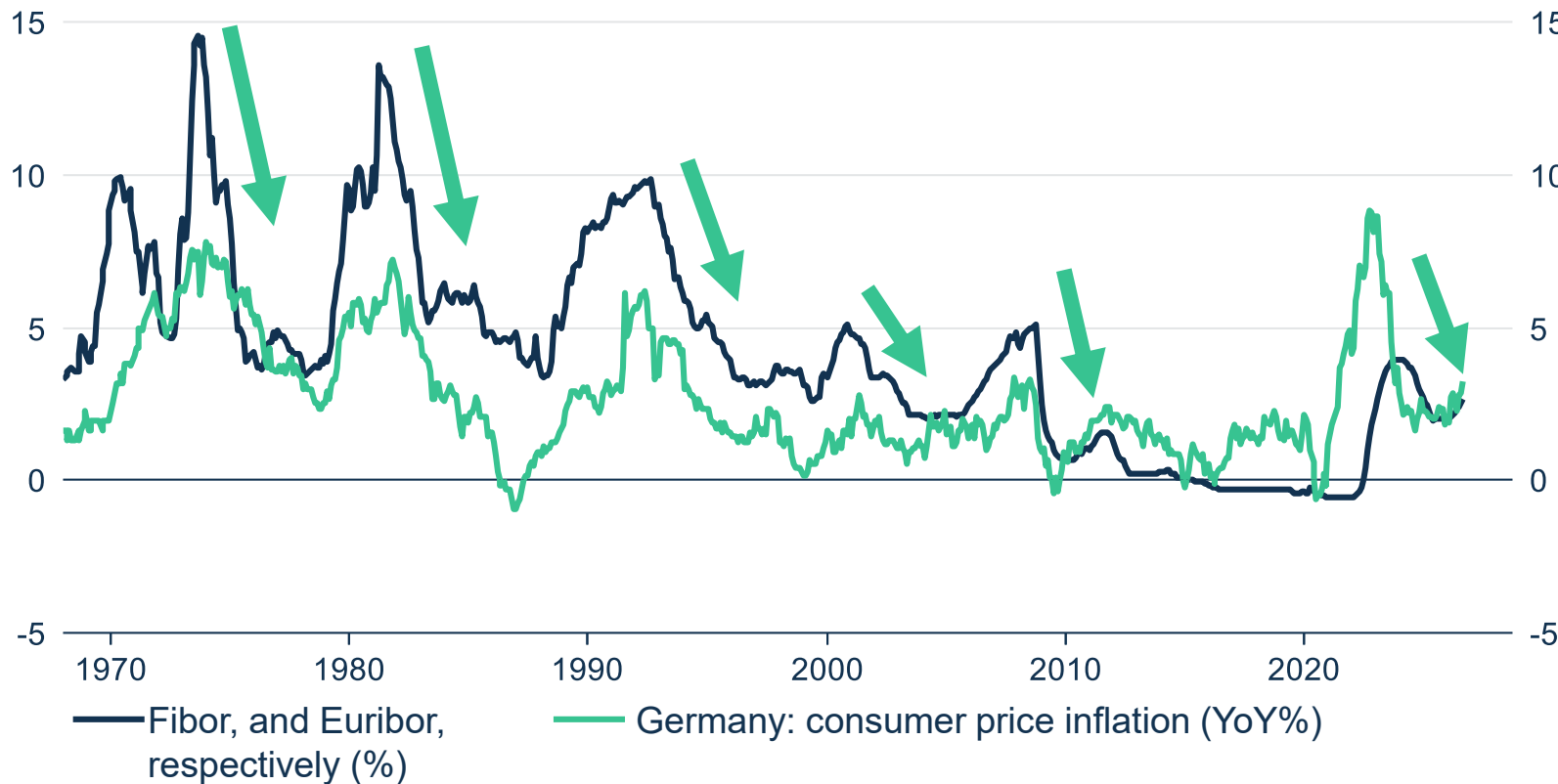


Source: LSEG, LBBW Research; all charts indexed to 100 at the start of the year

Inflation => interest rates!

Money market rates and consumer prices

long-term, as a percentage

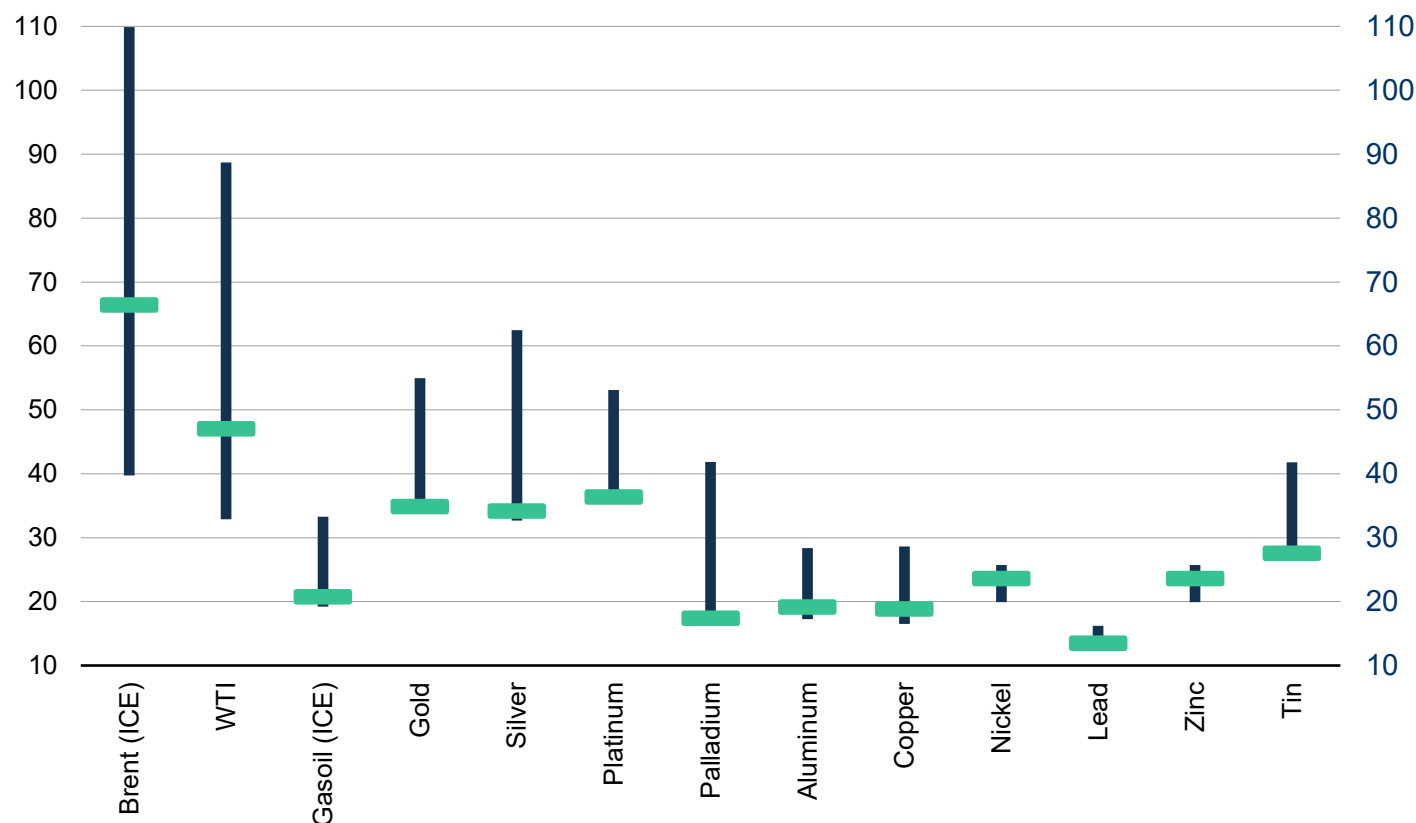


- Bundesbank, ECB: both aim for price stability
- Since 1970: six phases with a tight monetary policy – with falling inflation, key interest rates were cut
- Since June 2026: another rise in key interest rates

Vola on commodities: It's certainly not all going haywire

Implied 30-day volatility over the past six months

Range & current status, both in %, p.a.

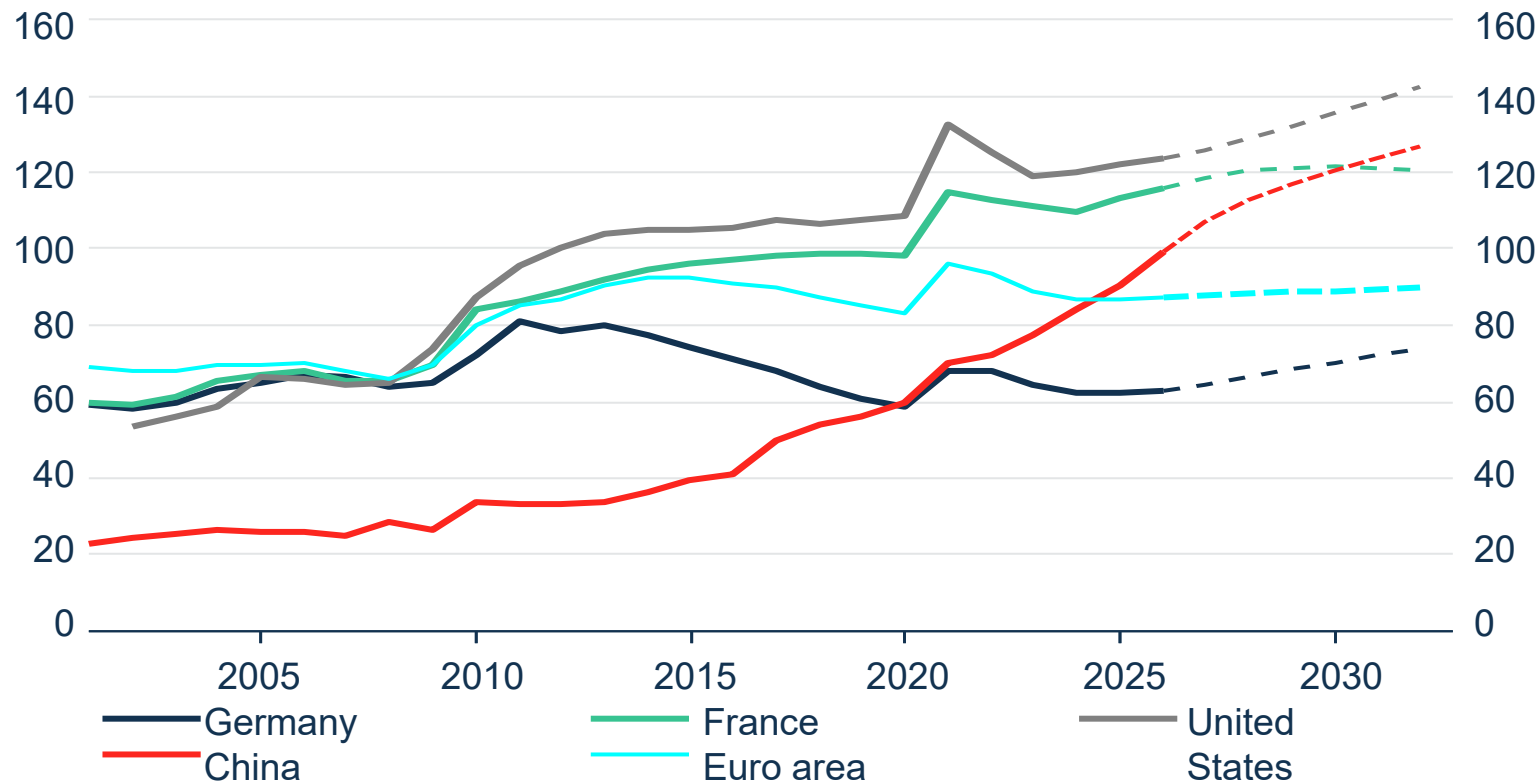


- **Energy sector:**
Volatility has clearly increased – the level is well above its long-term historical average
- **Key drivers:**
geopolitical tensions as well as asymmetric, idiosyncratic risks
- **Precious metals & base metals:**
Volatility, moderate to slightly elevated; compared with the start of the year has recently fallen significantly
- The tension between fiscal concerns (precious metals) and supply bottlenecks (base metals), on the one hand, as well as inflation and interest rate concerns, on the other

Public debt: advantage Germany

Public debt

(% of GDP)



- After the bond market had identified a problem in Q1 2026 in light of renewed inflationary risks, the search continued for vulnerabilities in the economic structure
- Next topic: National debt
- Germany appears in a safe position here.
- The other side of the coin: Germany lacks a 'growth story'

Credit spreads: Shocks in recent years, over time, with a generally diminishing impact

Spreads: EUR IG Non-Financials vs EUR HY Non-Financials

Asset swap spread in basis points

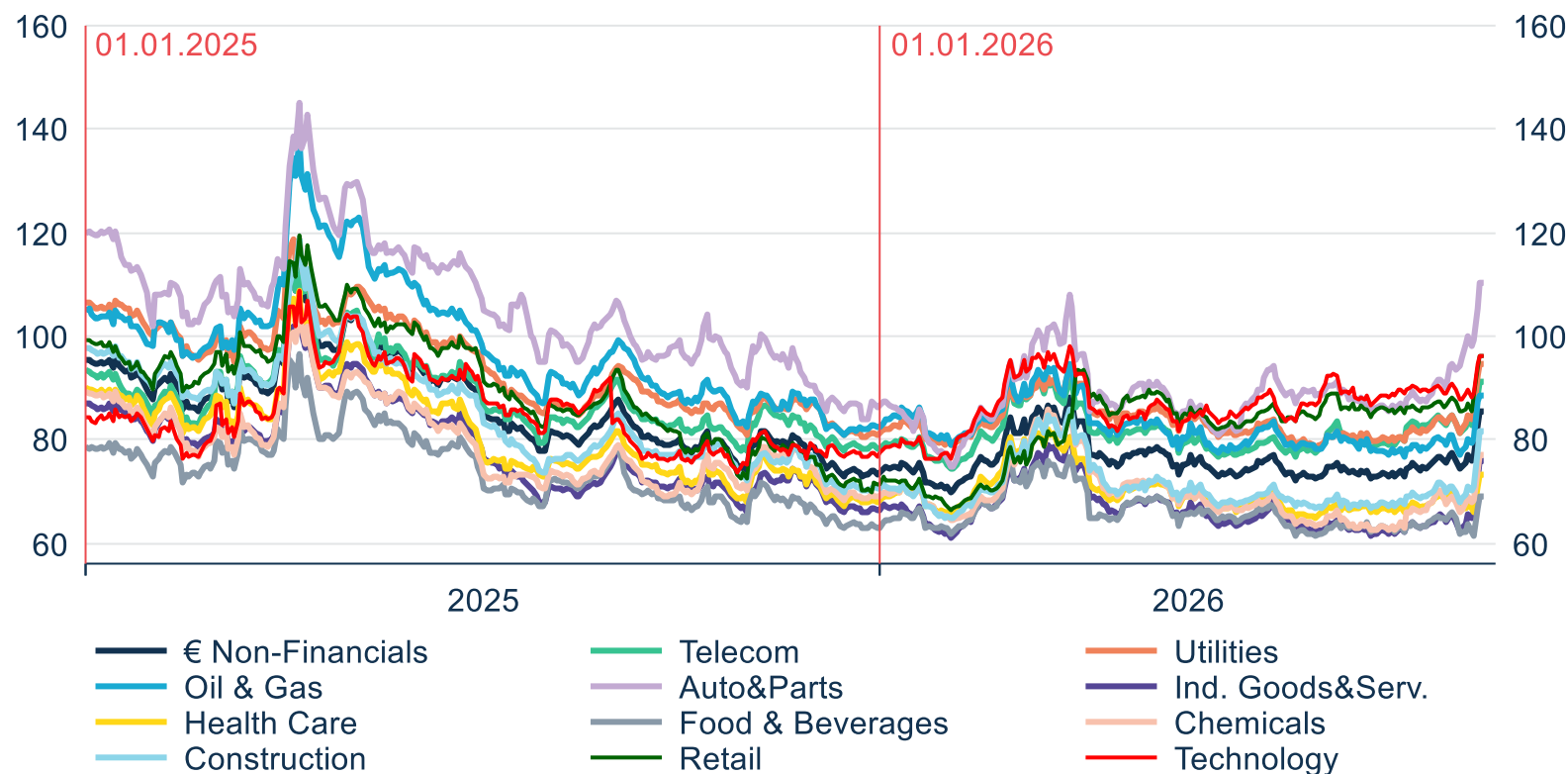


Source: LSEG, LBBW Research

Credits: Mixed performance across sectors

Spreads by business sector

Investment-grade bonds, ASW spreads in basis points

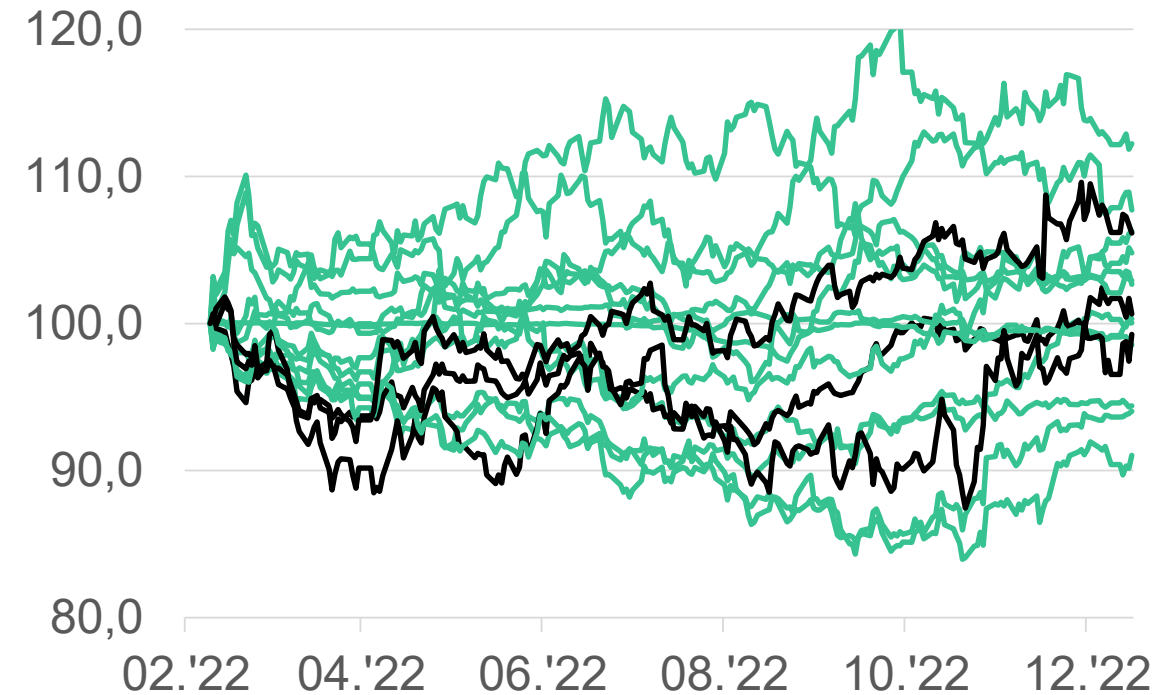


- Some sectors roughly at the same spread level as at the start of the year, whilst others have risen significantly
- Most recently, particularly in the automotive sector: spread widening
- Retail sector with a standout: Amazon jumped straight to a sector weighting of around 33% with its first major transaction
- Technology: wider spreads due to AI financing; Google's parent company Alphabet completed several major transactions – sector share now stands at just under 25%
- The main reason for the higher average spread levels among some tech companies: longer maturities on their bonds (in some cases over 30 years)

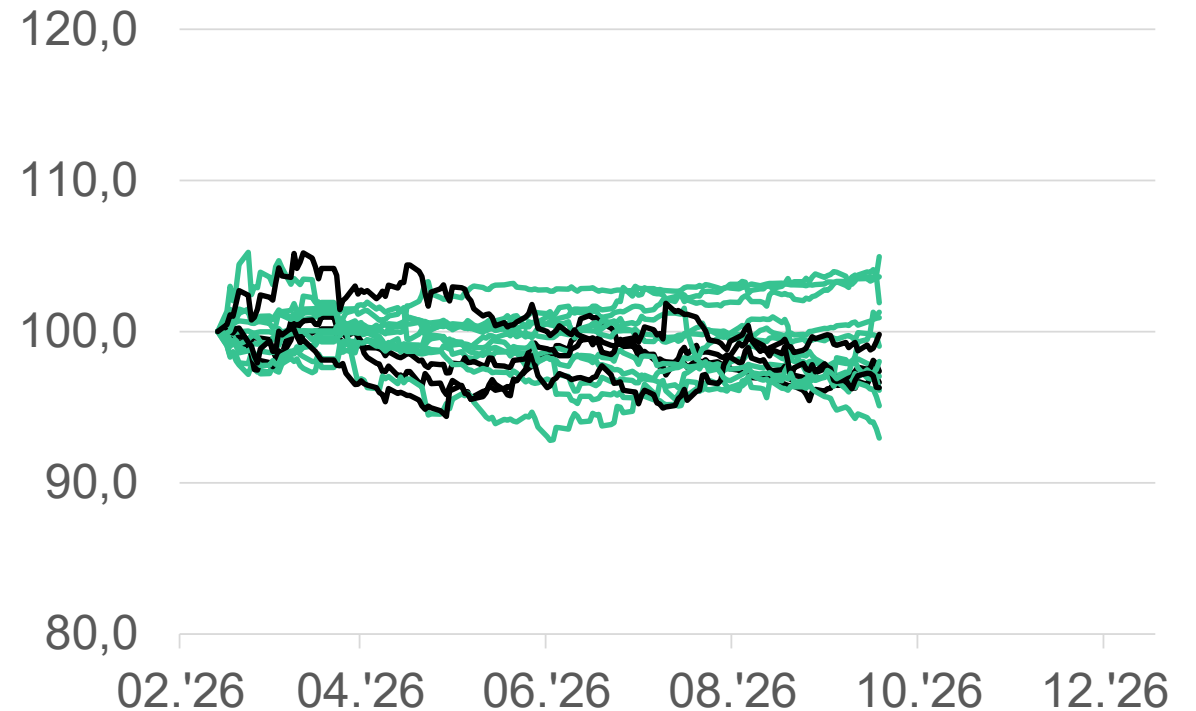
The foreign exchange market in 2026 has been uneventful – at least thus far ...

Select currencies covered by LBBW Research: exchange rates vis à vis Euro

Escalation of the war in Ukraine (21 February 2022 = 100)



Start of the war in Iran (22 February 2026 = 100)



Black: 'Commodity currencies'; Green: other currencies. Sources: LSEG, calculations by LBBW Research'

03

Macro: Germany out of intensive care

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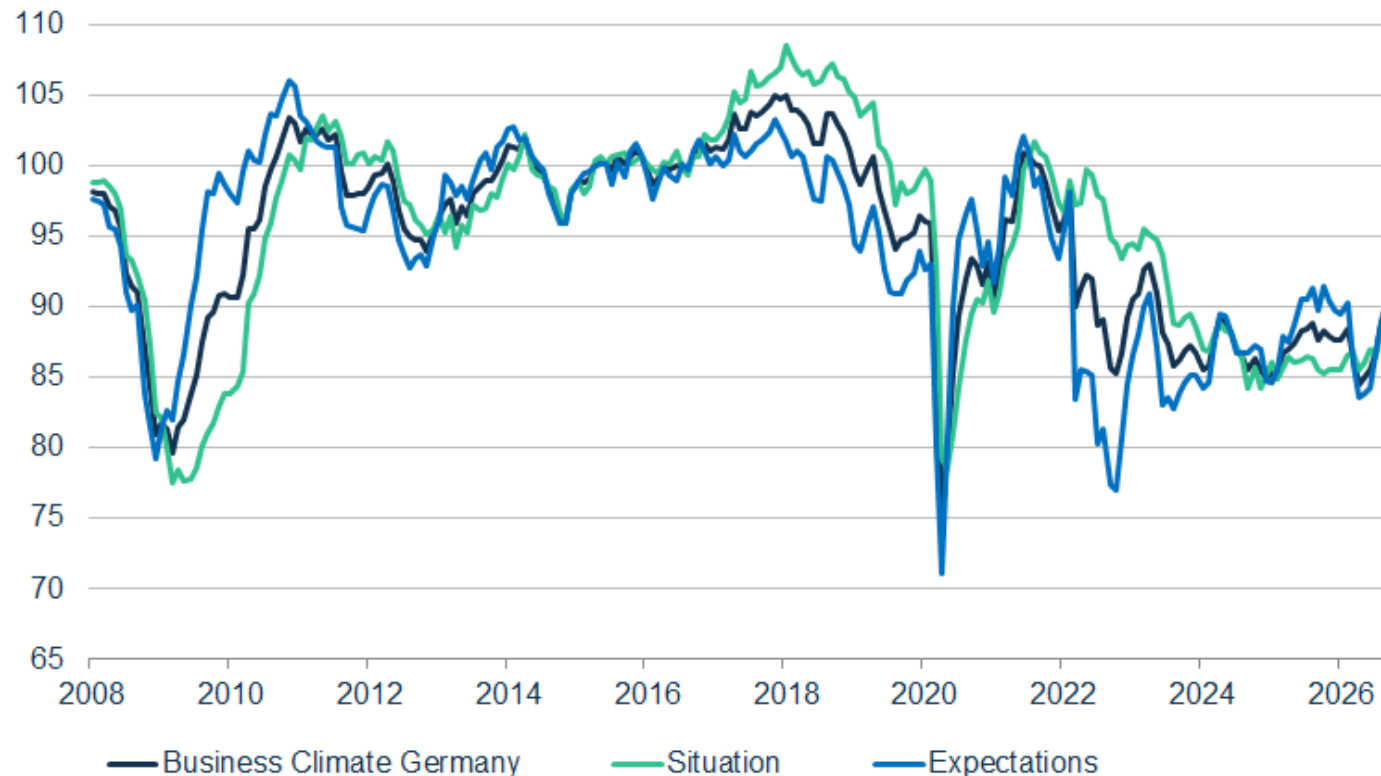
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ifo Business Climate Index rises again

ifo Business Climate Index: Situation and expectations

Monthly figures

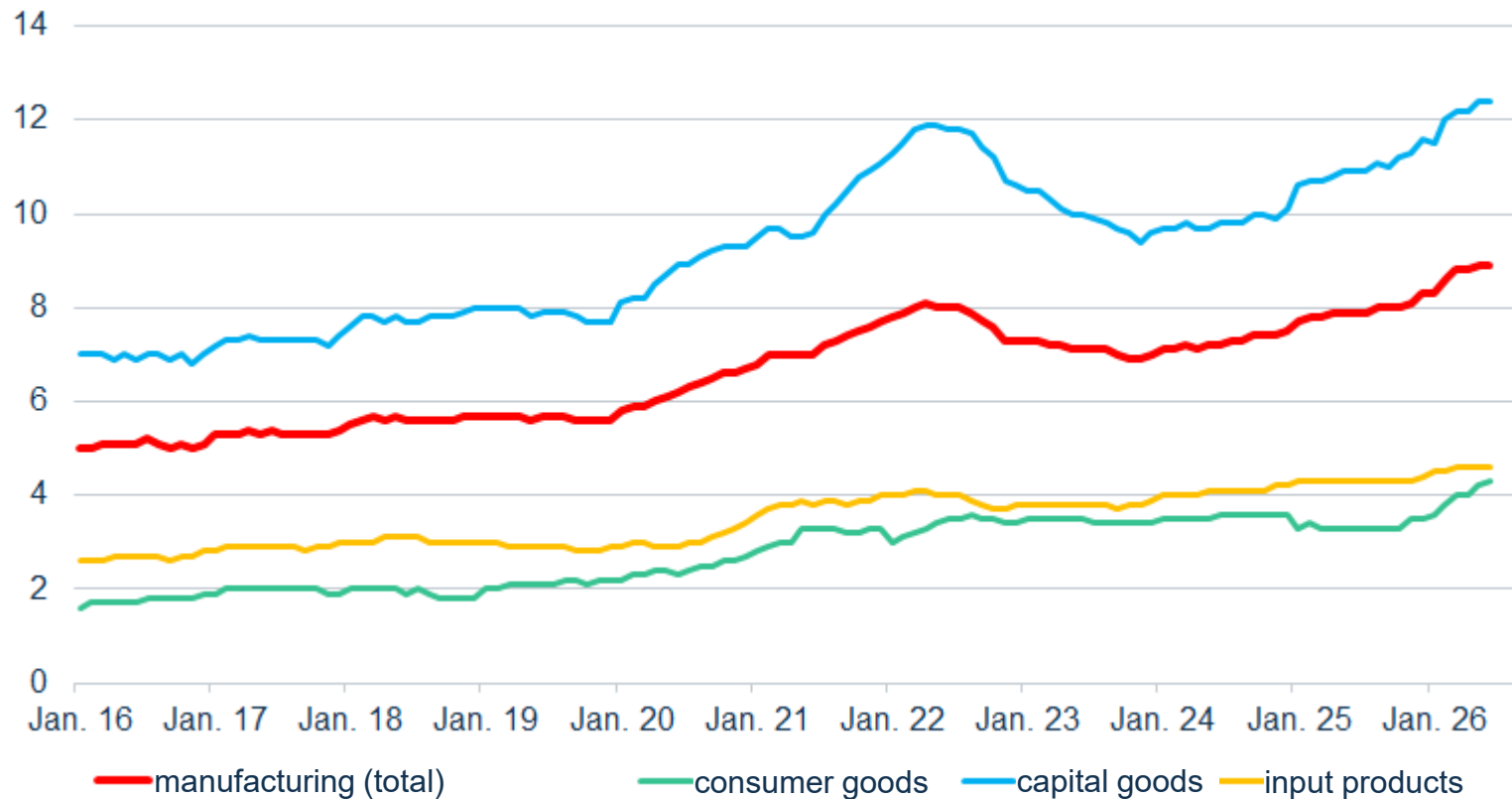


- The Ifo Business Climate Index rose further in September. With its fifth consecutive rise, the index reached its highest level in more than three years. Nevertheless, the index is still some way below its long-term average of 96.5 points.
- The situation (from 88.5 points to 89.5 points), and, above all, expectations (from 89.0 index points to 90.4 points) improved significantly.
- Nevertheless: Growth momentum in Germany is likely to have slowed slightly in the third quarter. One-off factors in the manufacturing sector and a prolonged drought, which particularly affected shipping on the Rhine, are likely to have contributed to this.

Relative order book has increased

Duration of existing orders in production months

Monthly figures

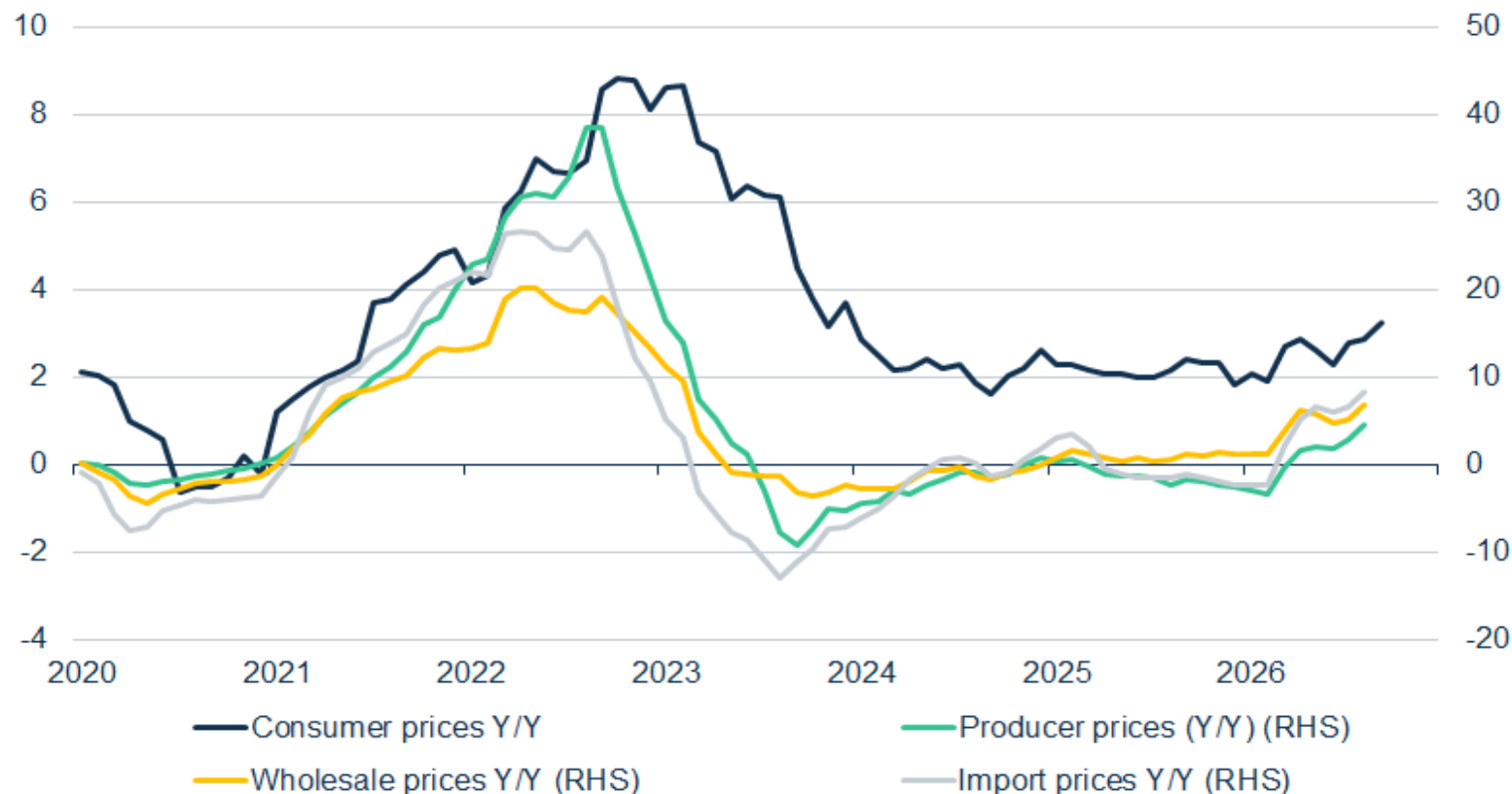


- Overall, rising order volumes and weak production are reflected in a further increase in the order book's range in production months.
- The order book, measured in production months, has reached its highest level since records began for this time series.

Inflation: Fuel discount, part two

Germany: Consumer prices and upstream stages

Monthly figures

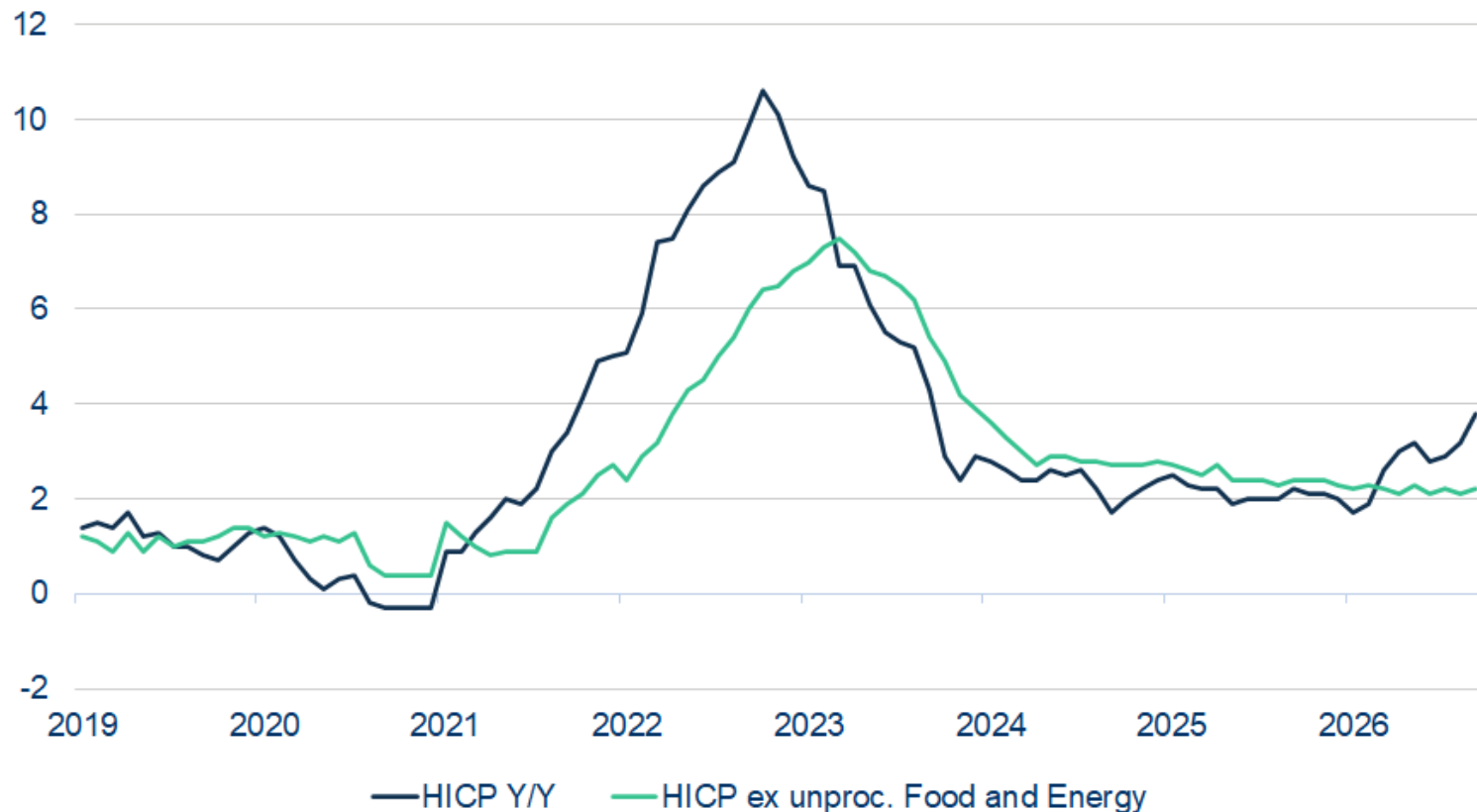


- Inflation has picked up pace in Germany. The national CPI and the HICP both rose by 3.3 per cent in September compared with the same month a year earlier.
- Energy prices, in particular, fuelled inflation. To offset this, the German Government has decided to temporarily reduce the energy tax once again, with the reduction taking effect from October to December. The impact on the inflation rate is estimated at around 0.3 percentage points. The measure is, to say the least, controversial.
- At the earlier stages of the supply chain – in imports, at the producers' level and in the wholesale sector – energy prices also contributed to higher price pressures

EMU: Inflation jumps to 3.8 per cent

HICP y/y and core rate excluding Food and Energy

Monthly data

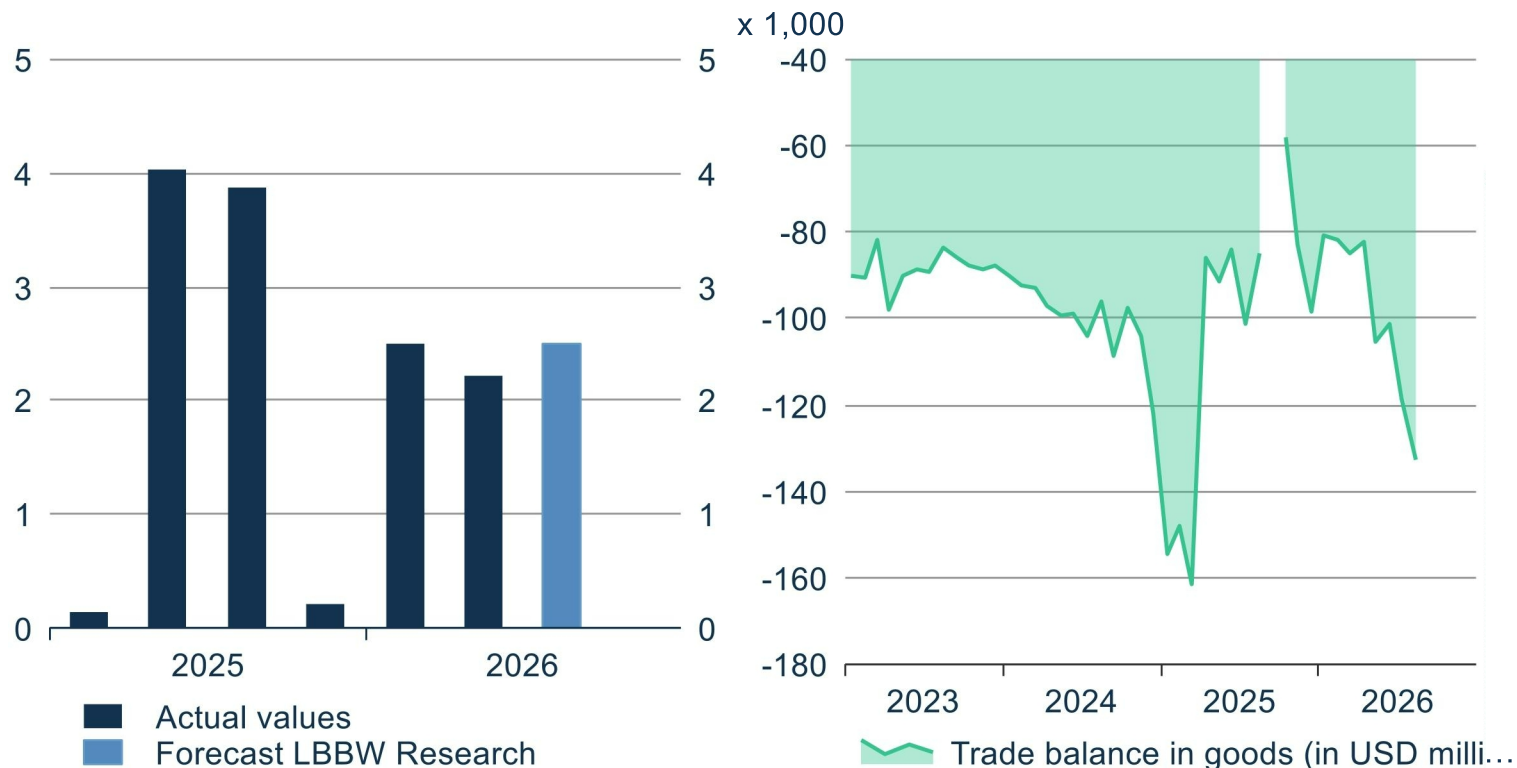


- Inflation (year-on-year rate of change) jumped from 3.2 per cent to 3.8 per cent in September. Energy prices (+18.8 per cent) fuelled inflation. Unprocessed foodstuffs also became significantly more expensive.
- The core rate (excluding energy and unprocessed food) rose by 2.2 per cent, following a 2.1 per cent increase in August.
- Among the major countries, price rises were particularly notable in France (from 2.6 per cent to 3.4 per cent) and in Italy (from 3.2 per cent to 4.1 per cent). In Spain, inflation (5.0 per cent in September) has been above average for some time now.

Foreign trade dampens stronger US growth in the third quarter Quarter 2026

Gross Domestic Product and Foreign Trade

Seasonally adjusted quarterly figures, annual rates (in %), or seasonally adjusted monthly figures

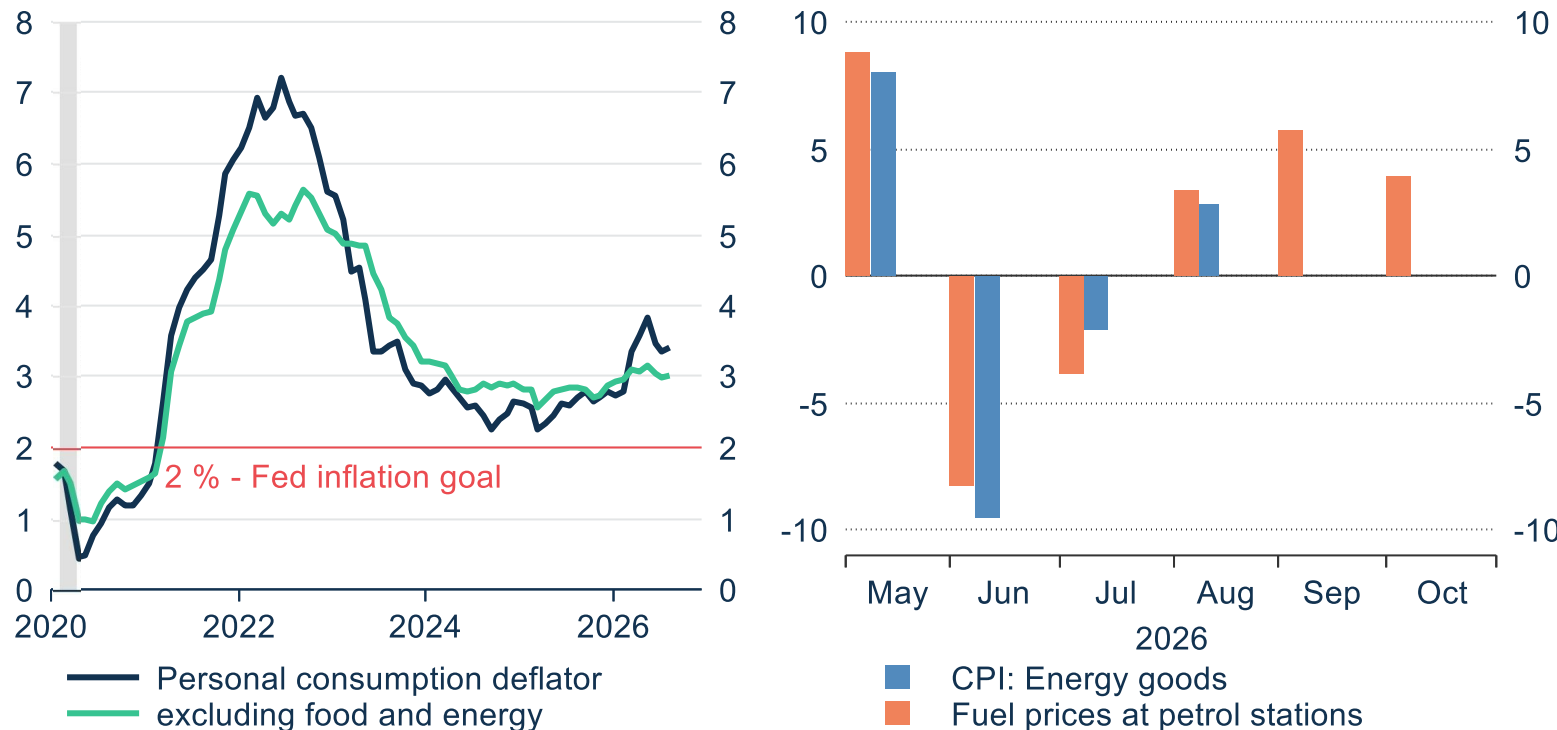


- The US Department of Commerce has raised its estimate for US growth in the second quarter of 2026 from 1.5 per cent to 2.2 per cent.
- It is likely that private consumption and investment in capital goods made a significant contribution to GDP growth in the third quarter. A rise in the foreign trade deficit in August is likely to stand in the way of stronger GDP growth.
- We estimate that the US economy will grow at an annualised rate of 2.5 per cent in the third quarter. The US economy would therefore be on track to meet our growth forecast of 2.2 per cent for 2026 as a whole.

The Fed has been missing its inflation target for years

Personal consumption deflator and fuel prices

Change compared with the same month of the previous year (deflators) or the previous month, in % in each case

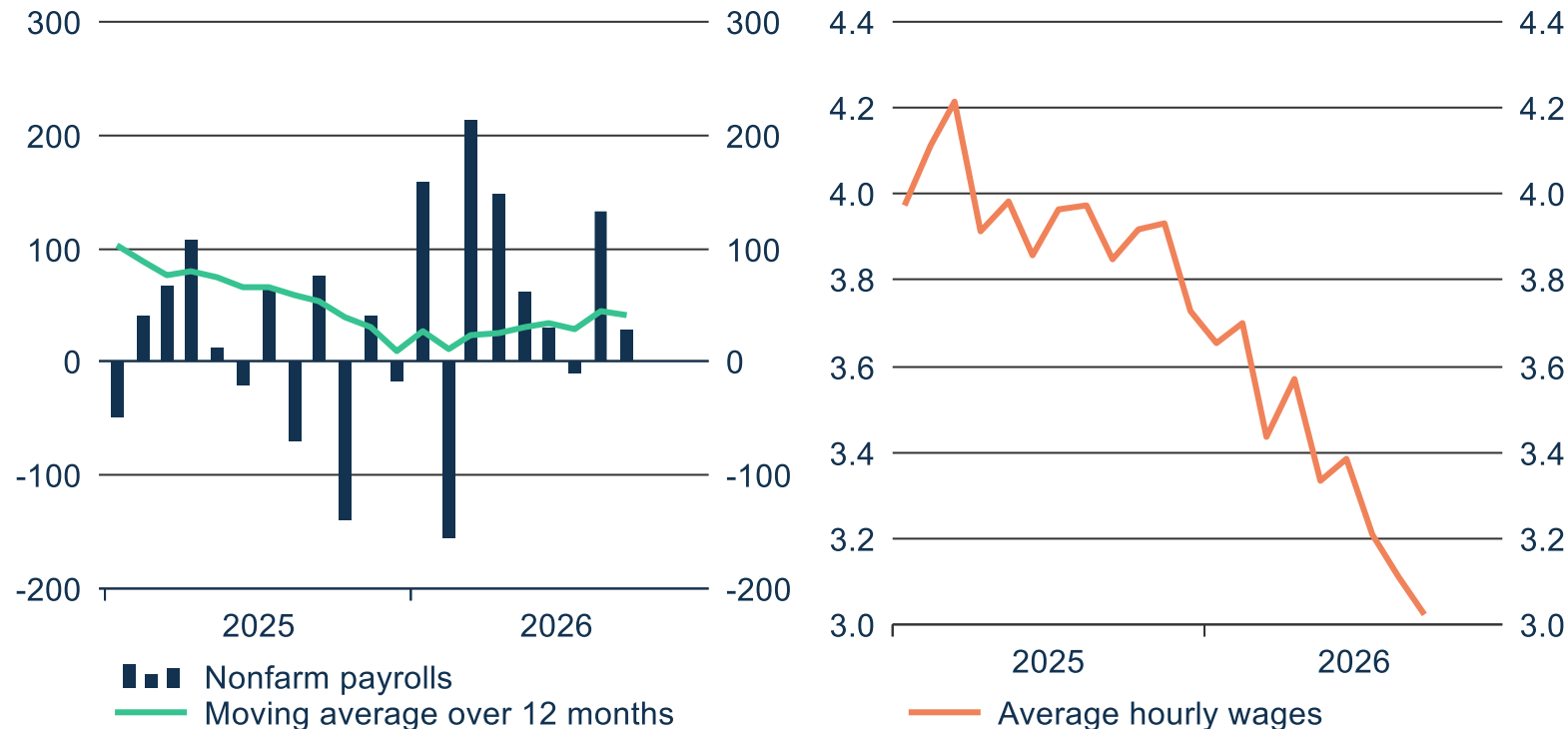


- In August, the personal consumption deflator rose by 3.4 per cent compared with the same period last year, a weaker increase than generally expected.
- This does not alter the fact that the Fed has been missing its inflation target for a good five years.
- "Inflation [...] "has been above the FOMC's 2 per cent target for five and a half years." Michael Barr, 29 September 2026
- Fuel prices at petrol stations rose by just over 5 per cent in September compared with the previous month. This will very likely have pushed up the inflation rate again in September.

September US labour market report disappoints

Employment and average hourly wages

Change compared with the previous month, in thousands, or change compared with the same month last year, as a percentage

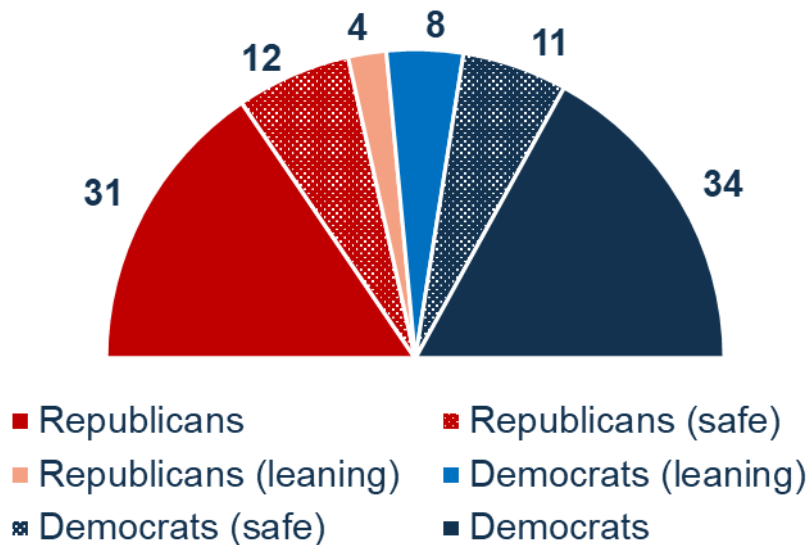


- As expected, the comparatively sharp rise in employment in August 2026 has turned out to be an outlier.
- In September, only 29,000 new jobs were created. Furthermore, the employment growth figures for July and August were revised downwards by a total of 60,000.
- Hourly wages have risen only moderately, in line with the slower pace of job creation. These rose by just 3.0 per cent compared with the previous year. Excluding energy, price pressures remain moderate.

Growing political headwinds for Trump – a change of power in Congress is on the horizon

US Senate

LBBW Forecast

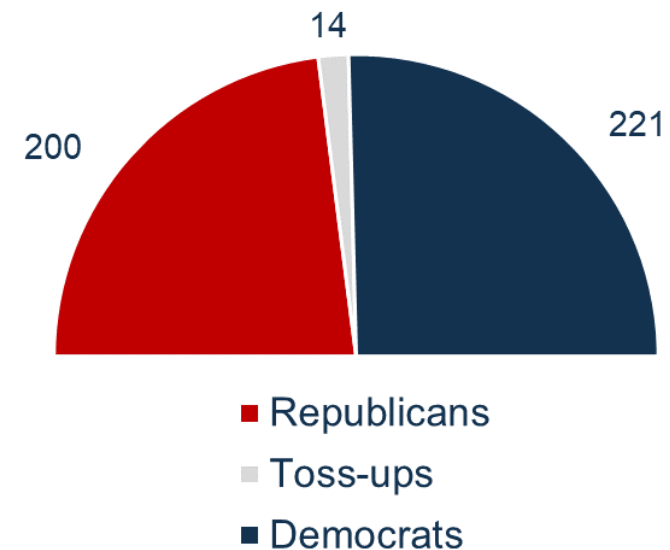


- Dissatisfaction with President Trump's policies is giving the Democrats a good chance of securing a majority in the Senate. This is shown by our projection, which is based on opinion polls and betting odds.
- Even in more conservative states such as Alaska, Iowa, Kansas and Texas, the Democrats are doing well in the race.

Source: LBBW Research. Data from RealClearPolitics, The New York Times

US House of Representatives

LBBW Forecast

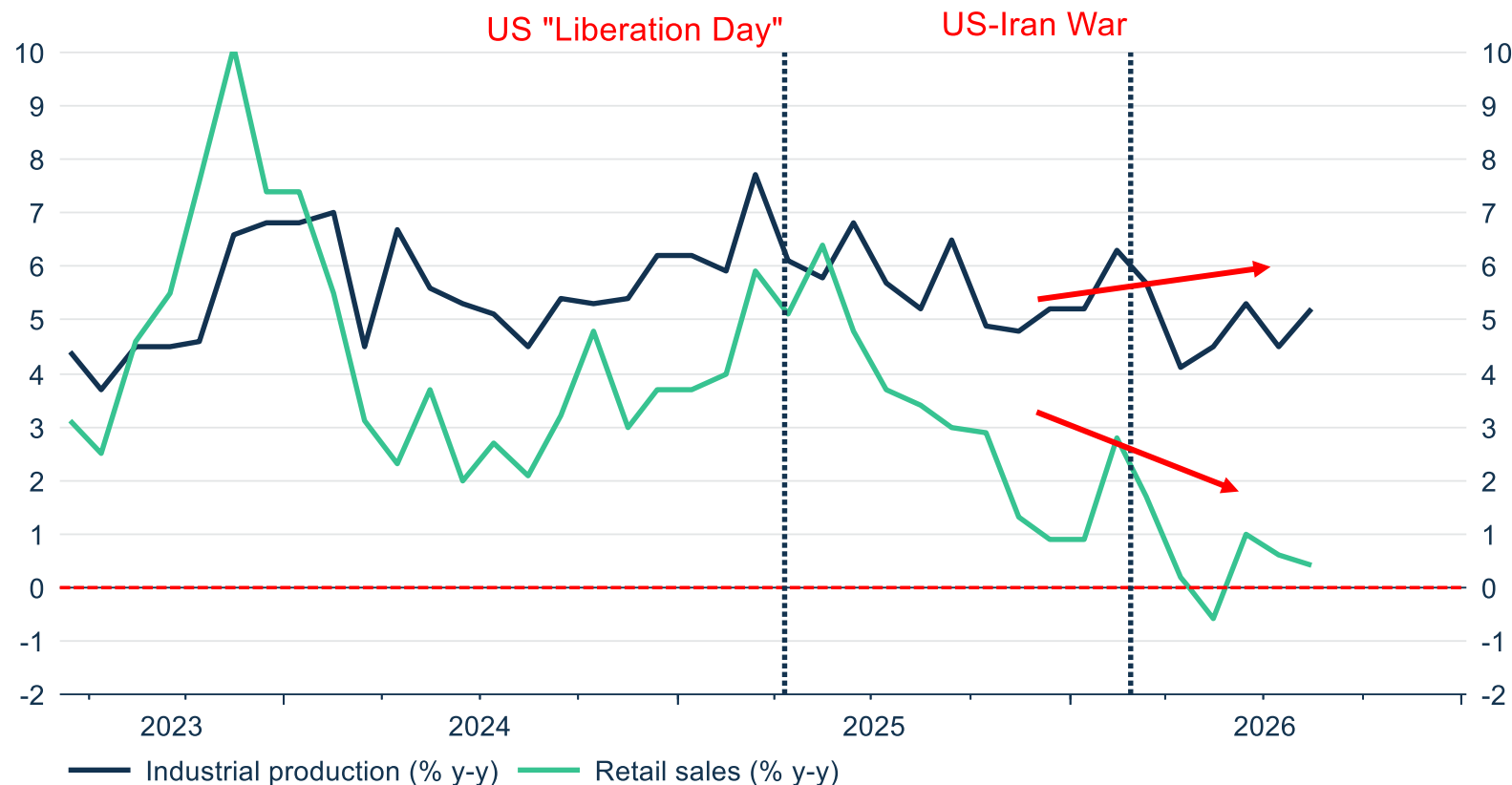


- In 2024, Republican candidates were 1.5 per cent ahead nationwide. Polls are now showing a significant shift towards the Democrats.
- Taking into account the redrawing of districts, this suggests a change in the House of Representatives. Our model tends to be on the cautious side. According to the polls, even Republican seats that were previously considered safe could flip.

China: Two-track economy as the dominant theme

China: Industrial production & retail sales

in % y-y

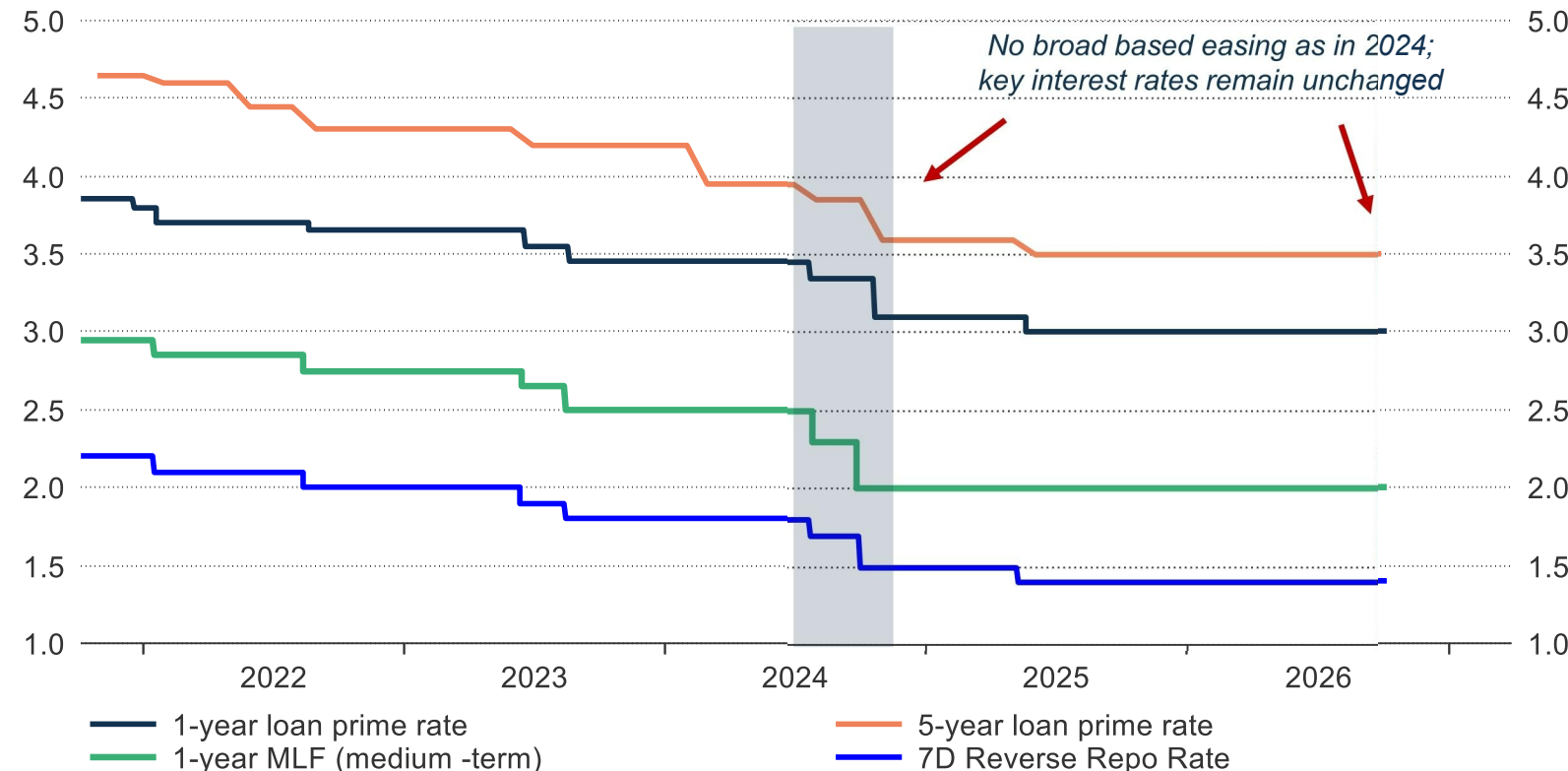


- The manufacturing sector is the driving force behind the Chinese economy.
- Following a slowdown in July, production picked up again in August, rising 5.2 %.
- On the other hand, private consumption is virtually stagnant. Retail sales rose by just 0.4 % in August (July: 0.6 %).
- The contraction in fixed-asset investment continued: From January to August, investments fell by 7.2 %, largely driven by the property sector (-19.9 %).
- Investment remains strong in strategic industries and growth sectors (i.e. CAPEX in aerospace +14.9 %, semiconductor manufacturing +12.0 %, IT sector +22.7 % (mainly thanks to AI infrastructure)).

Government announcing targeted policy support, impact expected to be limited so far

China: Policy rate & key lending rates

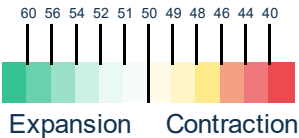
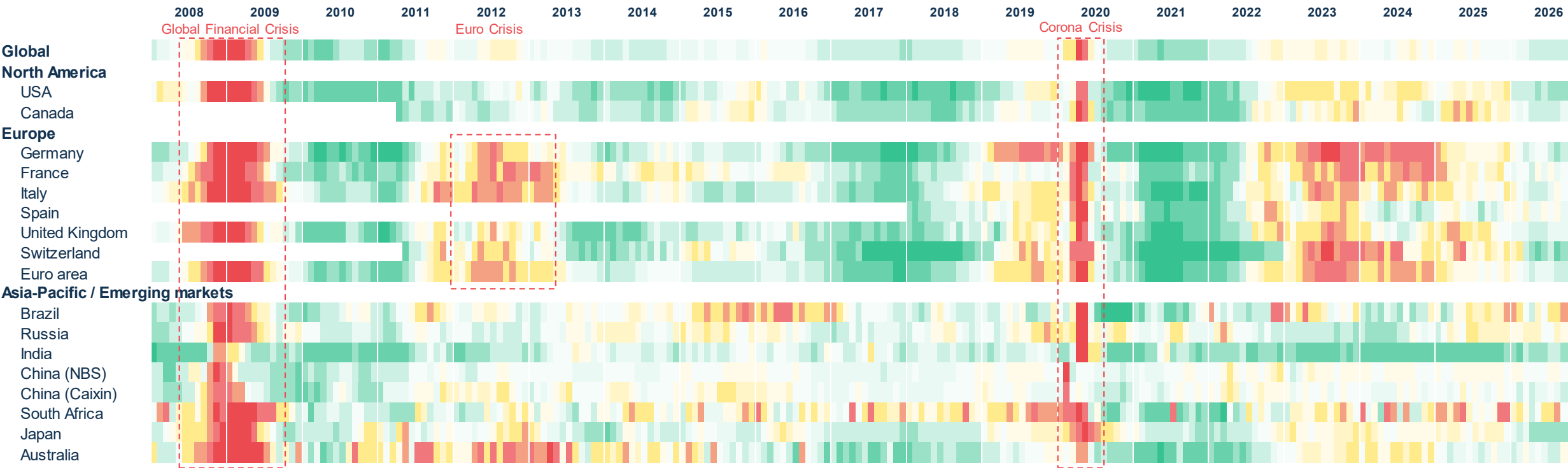
in %



- Given the disappointing economic data over the summer months, the government and the central bank announced new measures to help stabilize the dynamic. The announced measures include:
 - Cuts to selected structural lending rates by 25 basis points to 1.25 % (focus: infrastructure)
 - Additional CNY 700 bn (USD 105 bn) of low-interest loans to tech firms, SMEs and the agricultural sector.
 - Accelerated issuance of this year's government bond quotas
 - NO broad based reduction in key interest rates and lending rates
- Further measures are said to be explored, particularly regarding the employment and the property market, but no details announced yet.
- Conclusion:** The scope and volume of the current package remains limited.
- Outlook for Q4:** Measures are most likely to lead to stabilization in (public) investment spending; consumption is expected to remain weak.

Source: LSEG, LBBW Research

Global Purchasing Managers' Indices for the manufacturing sector



Sources: Bloomberg, LSEG, LBBW Research

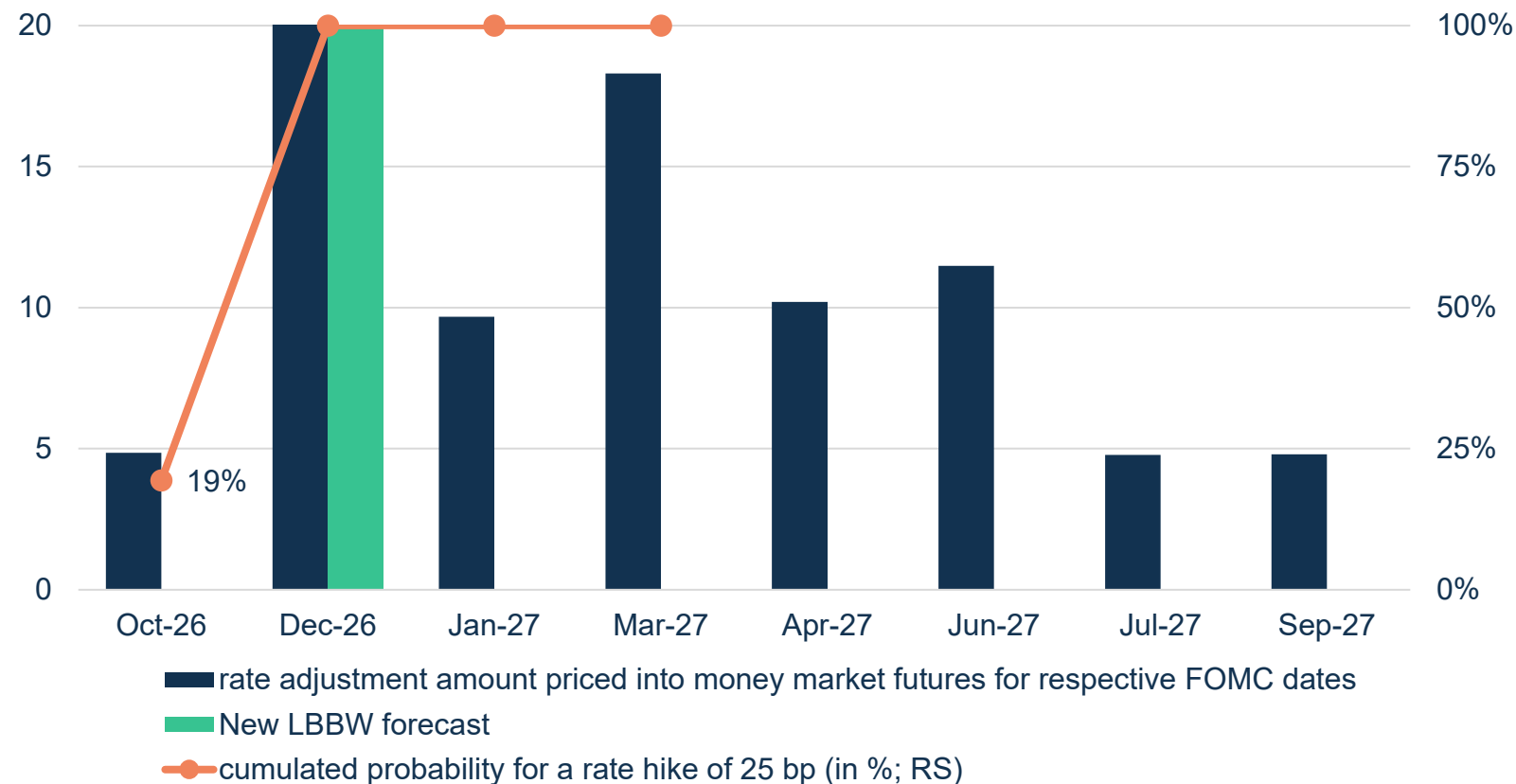
04

Rates:
Forecasts
revised
upwards

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Fed: The start of a series of interest rate rises?

Market expectations for key rate changes per Fed meeting (in bps) and cumulative total probability of another 25-bp hike

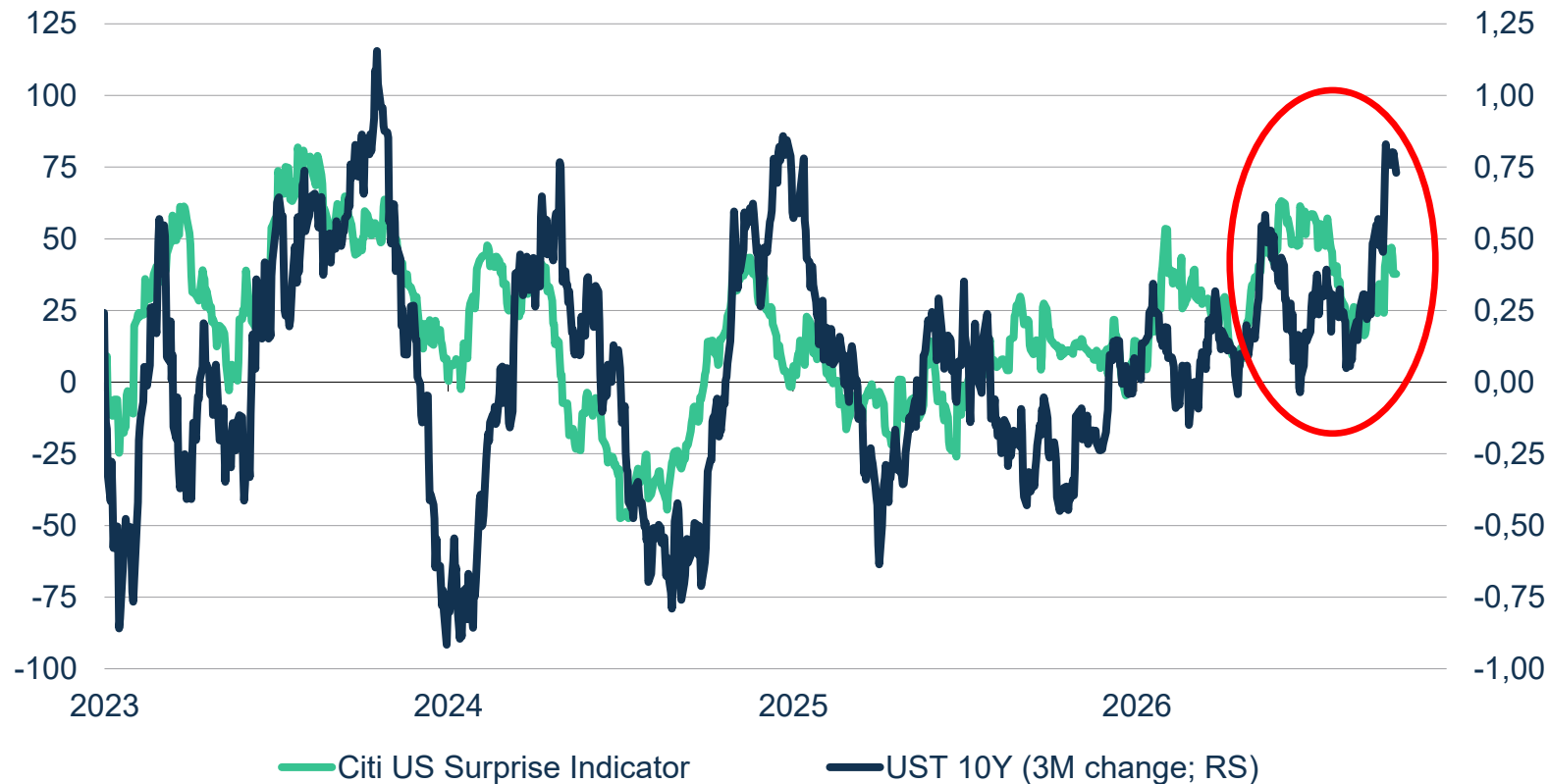


- The 25-bp rate hike on 16 September was followed by predominantly 'hawkish' signals.
- In light of this, we have adjusted our Fed call. We now expect at least one further interest rate hike in the coming months.
- Fed Chairman Warsh is endeavouring to bolster his credibility, which suggests that a further move is on the cards soon.
- On the other hand, FOMC Vice-Chair Williams hinted that a hike might be held off until December.
- Weak job growth and easing wage pressure in September suggest that tightening at the October meeting might be rather unlikely.
- We would prefer a hike at the December meeting. We do not expect there to be a prolonged series of tightening steps.

Sources: Bloomberg, LBBW Research

US bond market: Robust economic indicators vs. increasing oversold conditions

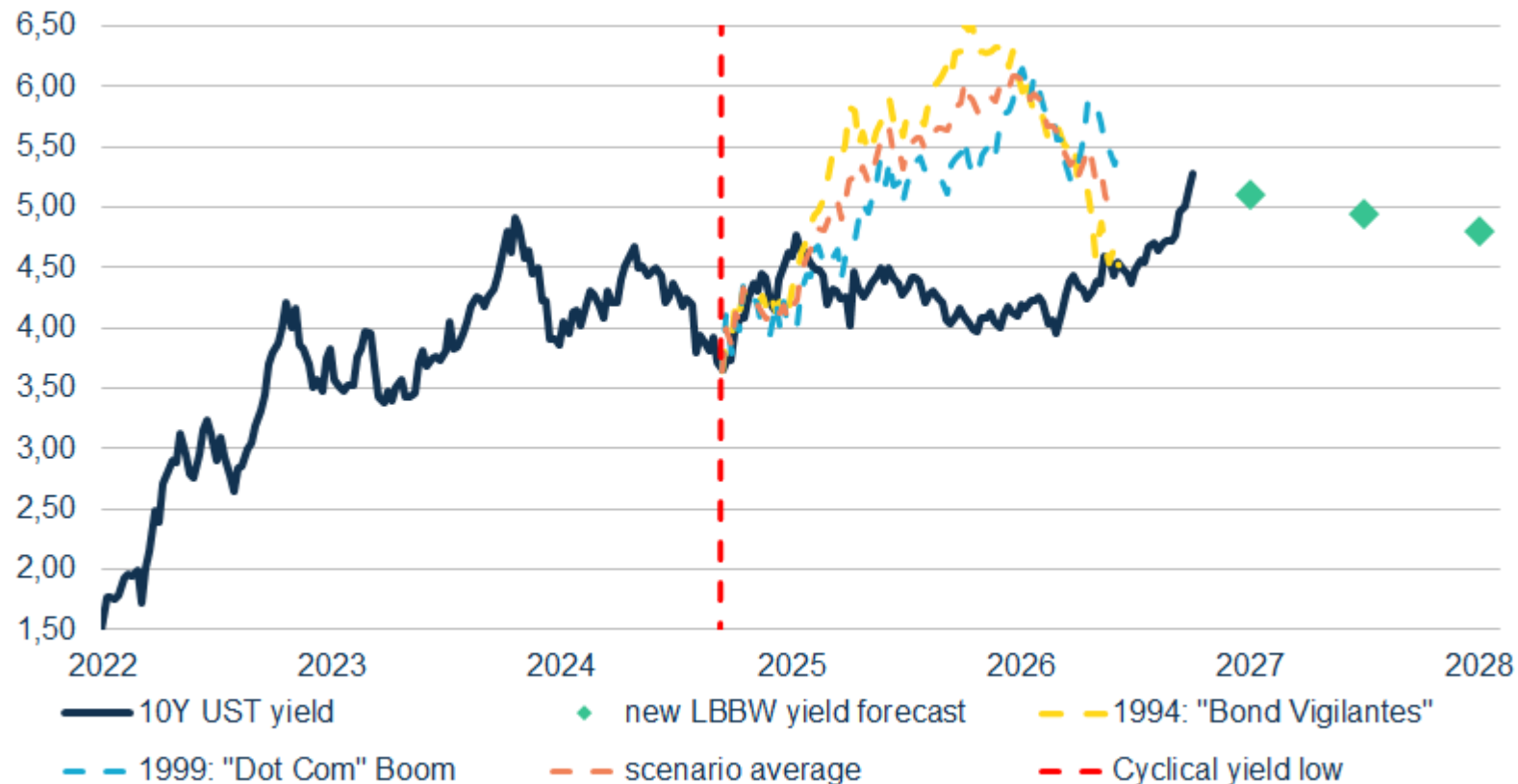
Change in yields on 10-year US Treasuries over a 3-month horizon and the Citigroup Economic Surprise Index



- The consistent signals of robustness from the US economy are basically playing into the hands of the bond bears.
- For months now, positive economic surprises have, on balance, dominated, which is keeping US yields under upward pressure.
- However, the labour market figures for September sent a signal of weakness.
- Over the past three months, the rise in yields has been substantial and is approaching the upper limit for comparable movements over the past three years.
- => Momentum and economic resilience are favouring the bond bears, but the market excesses are becoming more pronounced.

US bond market: How much further could yields rise?

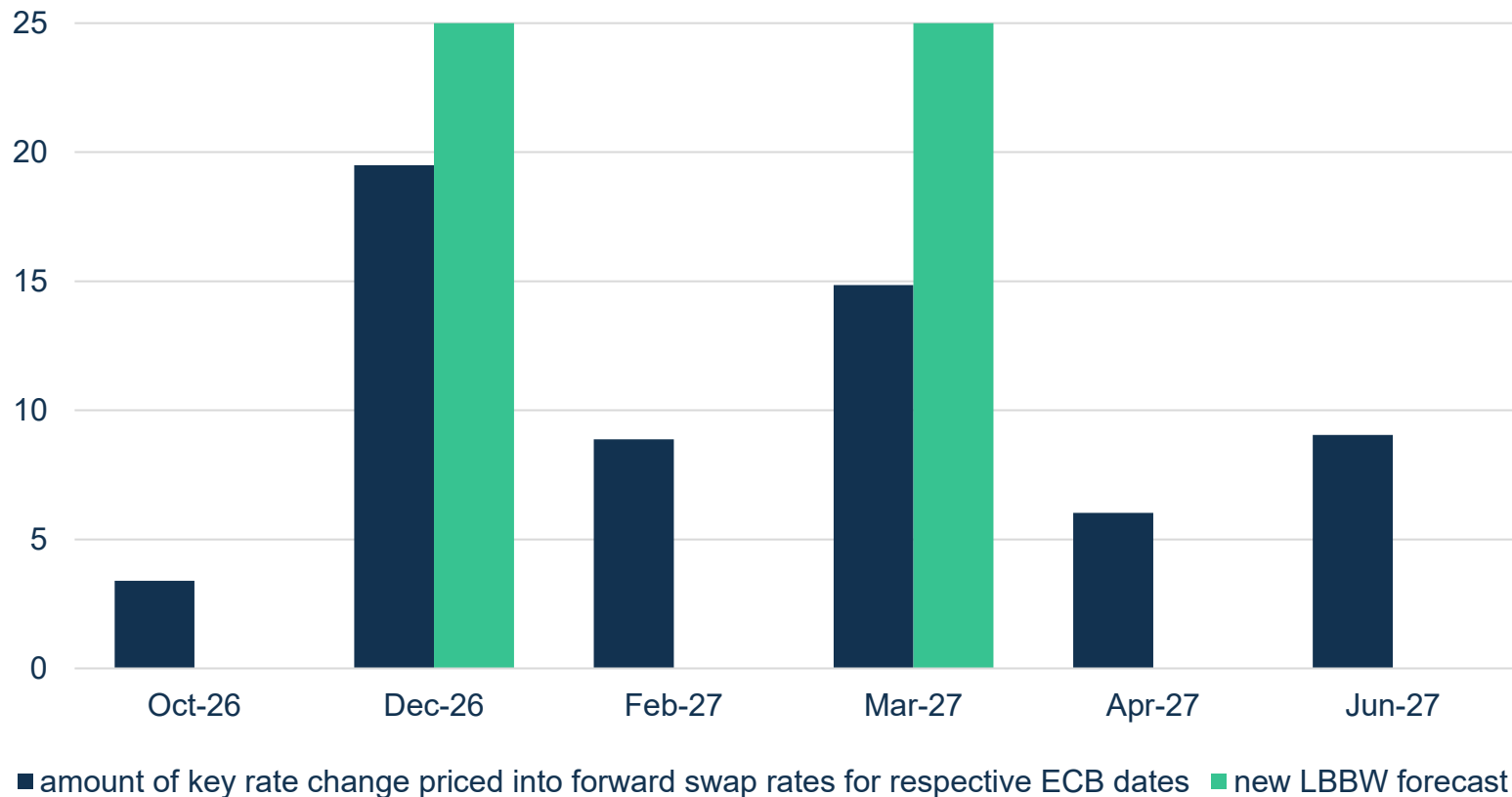
Yields on 10-year US Treasuries and projection based on selected historical bear market phases



- What historical precedents are there for a prolonged sell-off?
- **1994:** The so-called 'bond vigilantes' drove bond yields up by almost 300 basis points within a year in 'protest' against an excessively lax fiscal policy, until the US government relented.
- **1999:** The strong 'dot-com' economic boom prompted the Fed to raise interest rates by almost 2 %-points. The 10-year yield rose by a cumulative total of just over 250 basis points before the dot-com bubble burst.
- => In our main scenario, we do not anticipate such a severe sell-off. However, in light of our revised Fed rate call, we have raised our yield forecast by around a quarter of a percentage point across all time horizons.

ECB: 'Hawkish' signals dominate – forecast raised

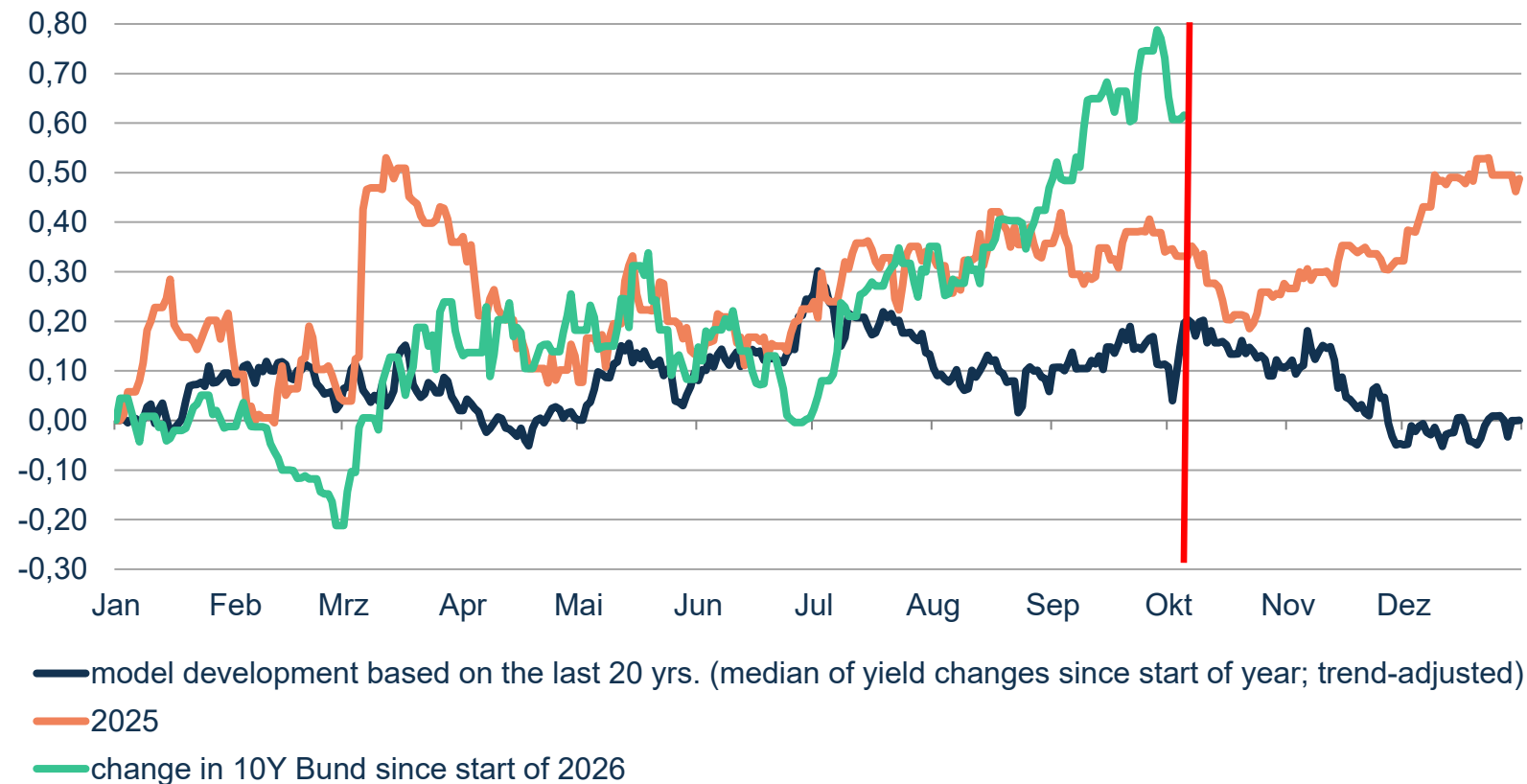
Market expectations for key interest rate changes per ECB meeting (in bps), including LBBW forecast



- Recent public comments from the ECB Governing Council paint a mixed picture.
- Virtually all ECB officials have indicated a clear preference for further tightening of monetary policy.
- Inflation in the EMU stands at almost 4%, whilst the core rate remains moderate.
- ECB President Lagarde hinted that she favours a measured tightening – which, in our view, contrasts with the at times excessive expectations on the euro interest rate market.
- => We have revised our ECB forecast and now expect two further hikes. We think the next step will take place in December.
- We expect the key interest rate to peak at 3.00%, whilst the market consensus is 3.25%.

EUR bond market: Seasonal trends offer hope of a slight recovery in the fourth quarter

Cumulative change in the 10-year Bund yield since the start of 2026 and the model seasonal pattern

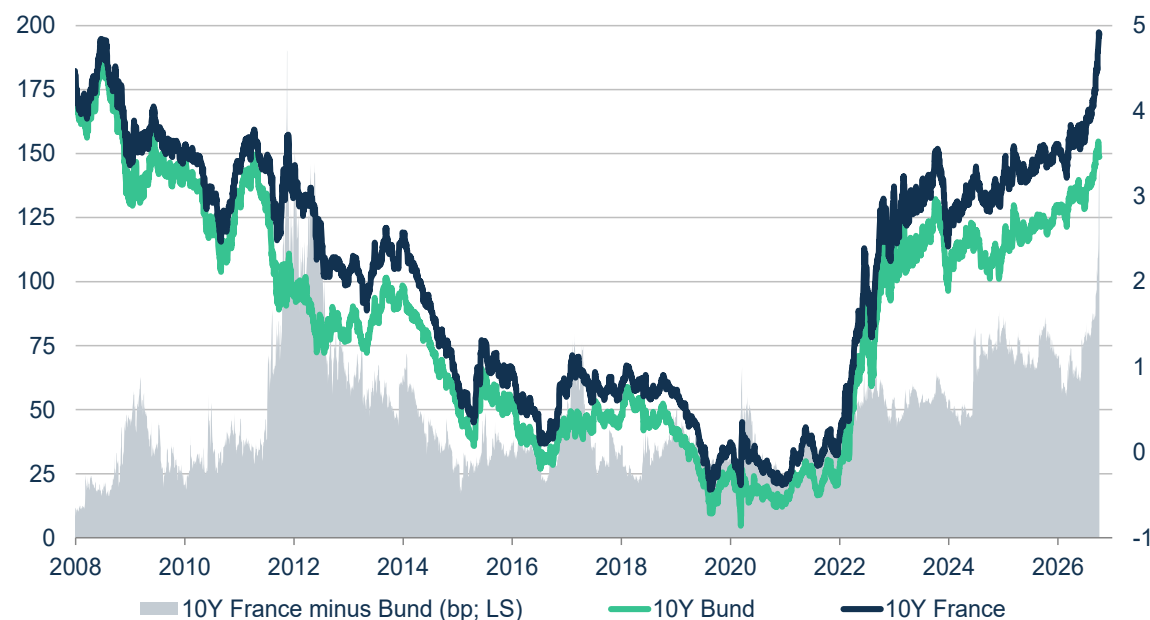


- The EUR government bond market suffered heavy losses in Q3 due to a toxic mix of several negative factors (speculation about sharp ECB rate hikes, debt fears).
- Performance has thus diverged significantly from the bond-friendly seasonal pattern.
- Where may hope for a recovery come from?
- In the fourth quarter, (net) supply pressure on the euro government bond market is set to ease noticeably. According to our forecast, net issuance will fall by more than a third (quarter-on-quarter).
- Historically, the 10-year Bund yield fell by around 20 bp during fourth quarters going by the the long-term average, adjusted for the long-term yield trend.

France: Growing unease – will it soon emerge at the ECB too?

Yields and spreads relative to Bunds

Daily data

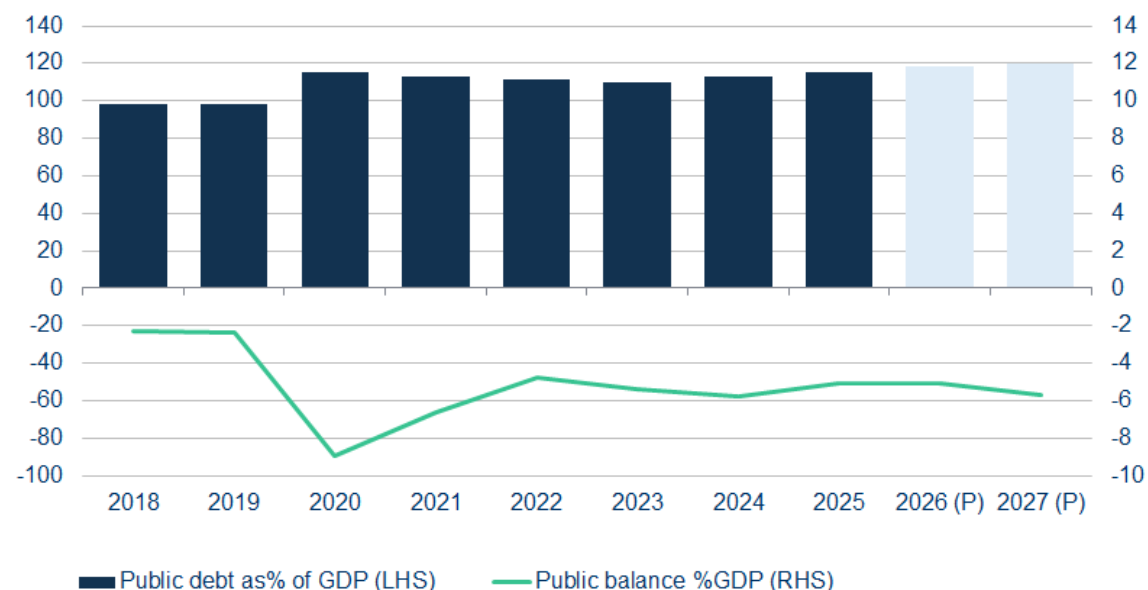


- The spreads between French OAT and German Bunds have literally skyrocketed. With half a year to go before the presidential elections, investors are demanding a risk premium of around 150 bps over Bunds. The all-time high (approx. 190 bp) is coming into view.

Source: LSEG, LBBW Research

Debt and deficit

Annual figures, (P) = European Commission forecast



- Finance Minister Lescures' plans to reduce the deficit from over 5% to below 3% of GDP by 2029 are unlikely to meet with much support in Parliament ahead of the elections. The numerous individual measures aimed at achieving total savings of EUR 54 bn. by 2027 are likely to prove a very 'tough nut to crack' for the government.

10-year government bond yield forecasts raised; by around a quarter of a percentage point

Yields on 10-year German government bonds and 10-year US Treasuries, with previous and new LBBW forecasts

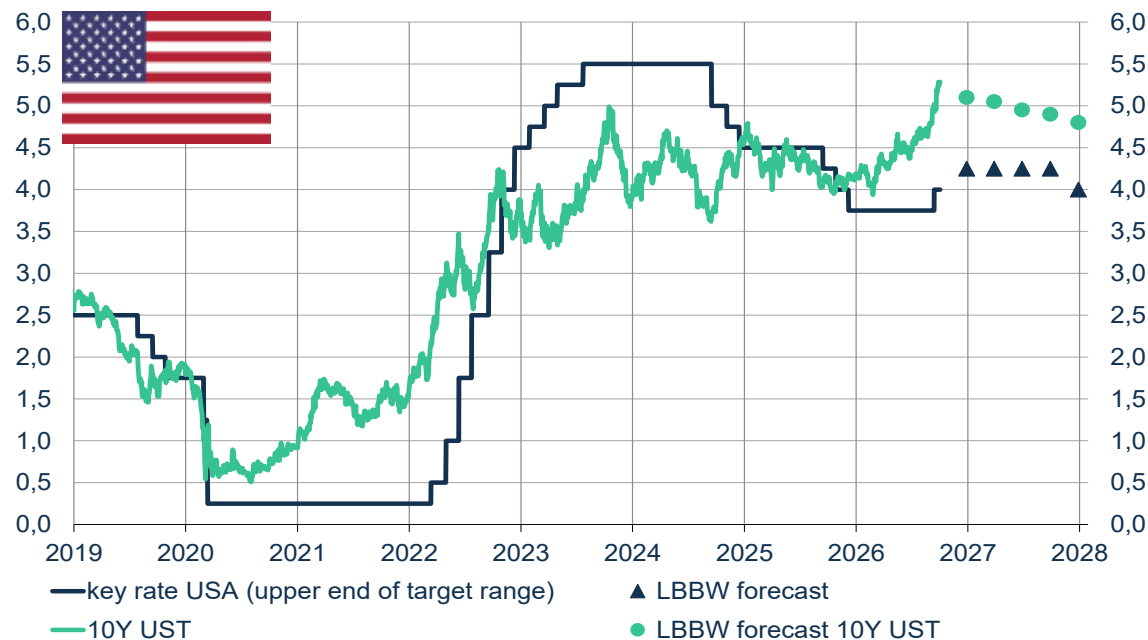


- Our main scenario remains that long-term interest rates will peak in the coming months on both sides of the Atlantic.
- Given the pronounced bearish momentum, it is virtually impossible to predict how high the yield peak will be.
There is no immediate sign of a trigger for a general turnaround.
- In the medium term (2027), signs are growing that the market is oversold. The key rate cycle points to a countermovement, albeit limited by a continued rise in term premiums, which we still expect to emerge.
- => *We have revised our forecasts for the 10-year Bund yield upwards, by approximately a quarter of a percentage point across all time horizons.*

Fed set to raise interest rates once again, ECB to hike the deposit rate to 3.0%

US interest rates and forecast

as a percentage

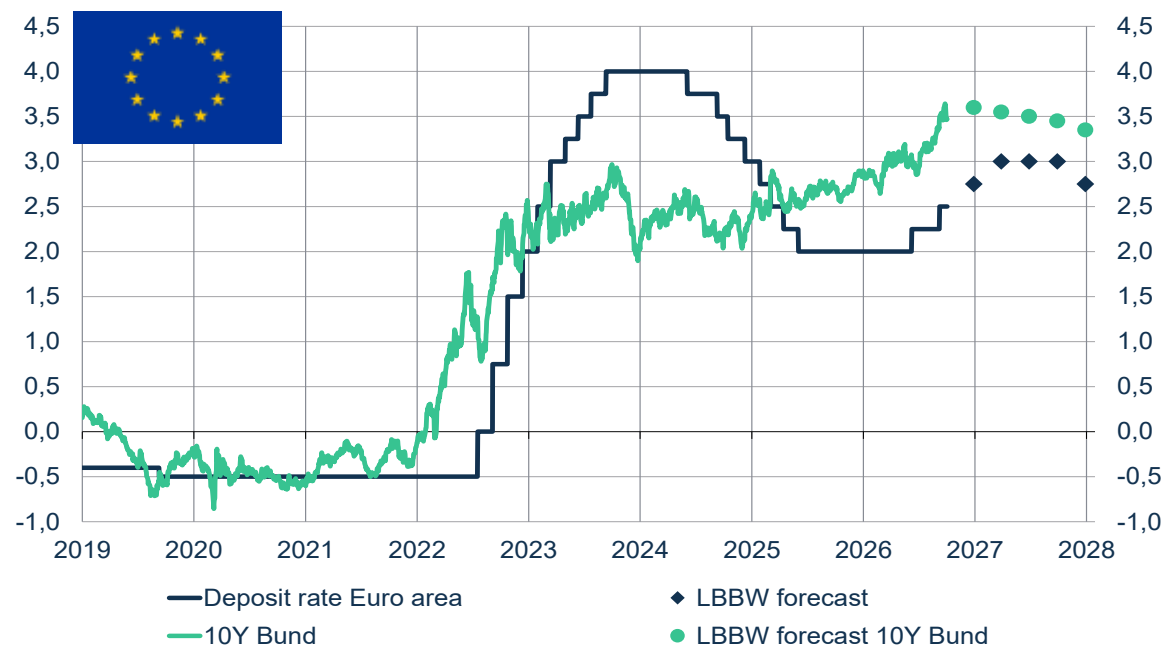


- **Fed:** One further interest rate hike by the end of 2026. The door for an interest rate cut opens towards the end of 2027.
- Long-dated US Treasuries caught between a wave of debt and hopes that key rates are moving towards a peak.

Sources: Bloomberg, LBBW Research

EUR interest rates and forecast

as a percentage

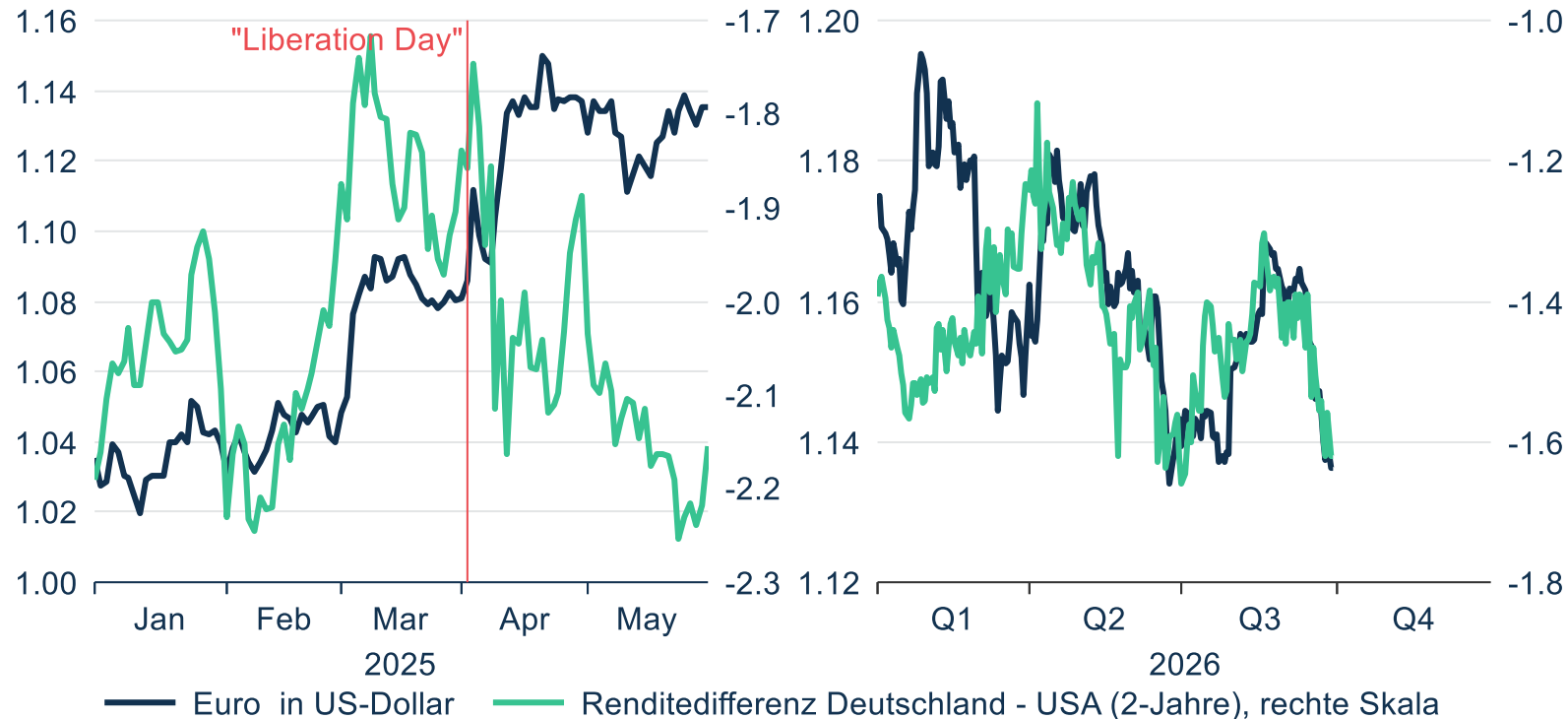


- **ECB:** Countering second-round effects is high on the agenda. Two further rate hikes by spring 2027.
- Long-term rates: The likelihood of a medium-term downward correction is increasing, limited by rising term premiums.

EUR/USD exchange rate: “Transatlantic spread” once again the dominant driver

The euro against the US dollar and the ‘transatlantic spread’

Daily figures

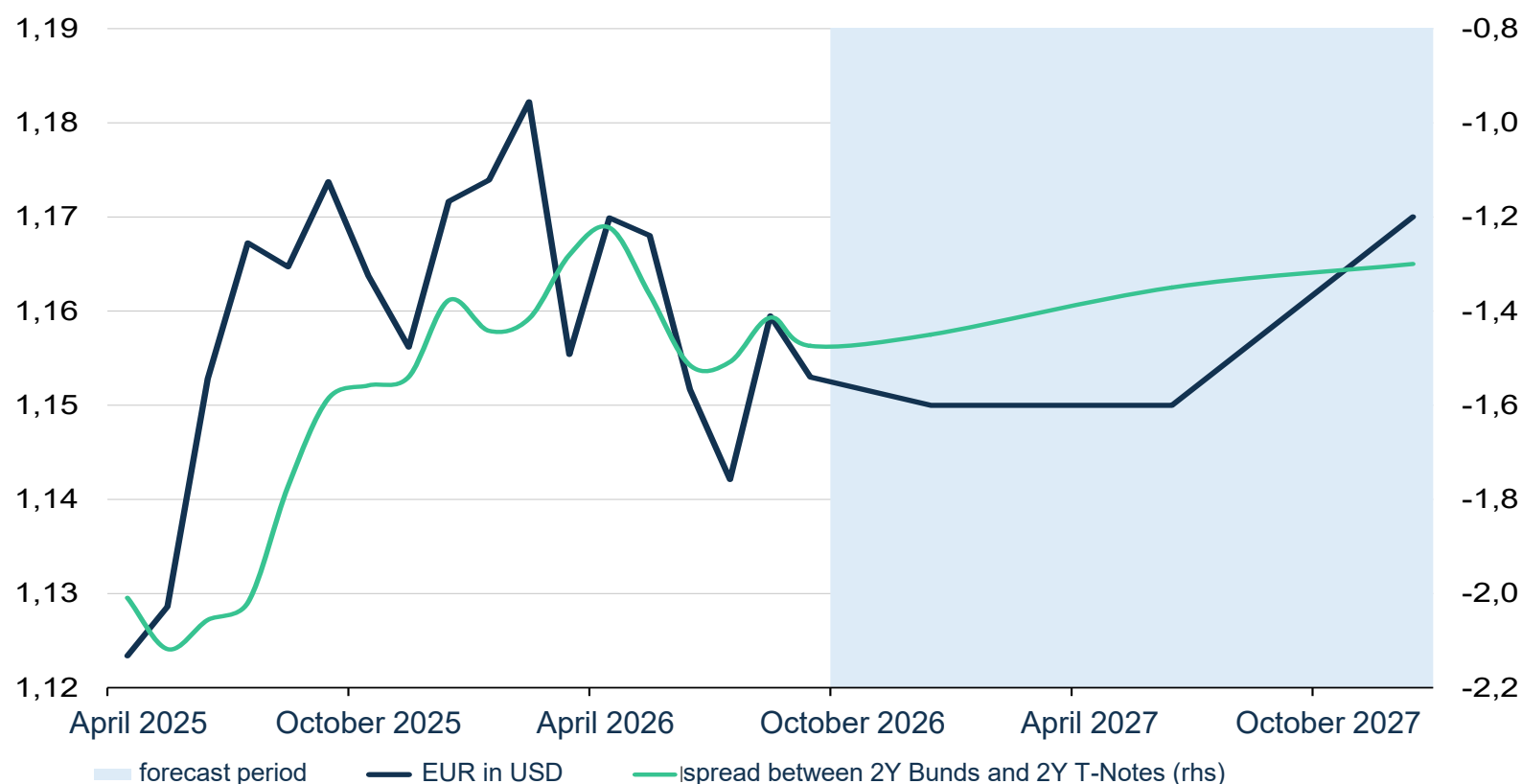


- The announcement of ‘reciprocal’ US import tariffs by Donald Trump in early April 2025 led to a brief break in the correlation between the movement of the EUR/USD exchange rate and the movement of the yield spread between short-term US Treasury securities and German Bunds with matching maturities.
- The ‘Transatlantic’ spread has now once again become the dominant driver of the exchange rate.
- The recent depreciation of the euro against the US dollar has gone hand in hand with a widening of the US yield advantage (see chart on the right).

expects the EUR/USD to trade sideways based on the forecast yield spread

Euro vs. US dollar and 'transatlantic spread' (with forecast)

Monthly averages

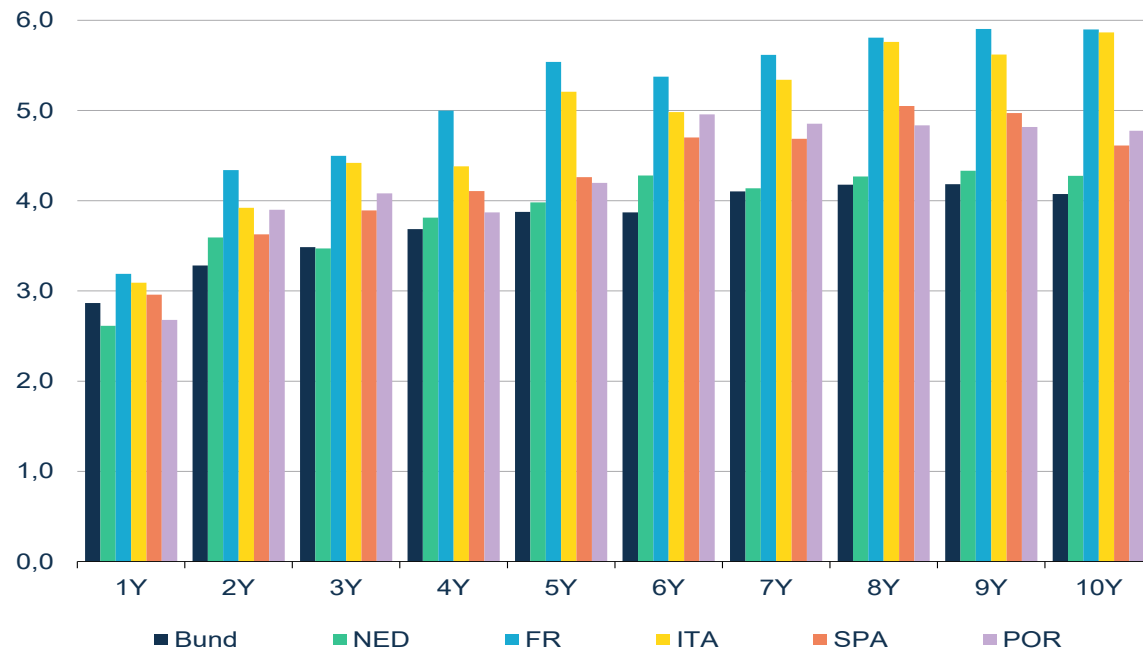


- According to our forecast, the US Federal Reserve will raise its target range for the overnight rate by a quarter of a percentage point by the middle of next year, whilst the ECB is expected to raise its key interest rates twice by a quarter of a percentage point on each occasion during the same period.
- Based on this forecast of central bank interest rates, we anticipate roughly a sideways trend in the 'transatlantic spread' and, consequently, in the exchange rate.
- Due to the risk of a US sovereign debt crisis (keyword: debt ceiling), we think that the euro may tend to strengthen again towards the end of 2027.

Performance expectations for euro-denominated government bonds / US Treasuries

Euro sov. bonds over a 12-month horizon

(as a percentage; Assumption: Spreads are stabilising)

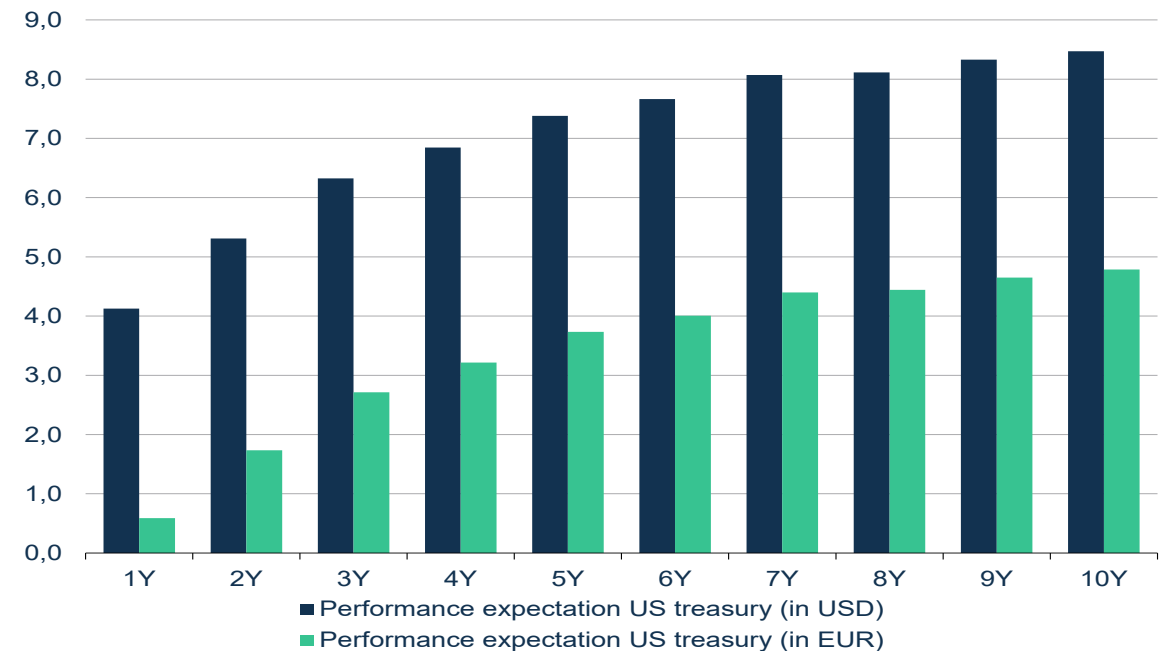


- Excessive monetary policy tightening priced into the market; **long-term bonds, on the other hand, remain burdened by debt risks.**
- Sovereign spreads: Stabilisation depends on fiscal policy decisions; **France remains the focus of attention.**

Sources: Bloomberg, LBBW Research

US Treasuries over a 12-month period

(as a percentage; in USD and EUR)

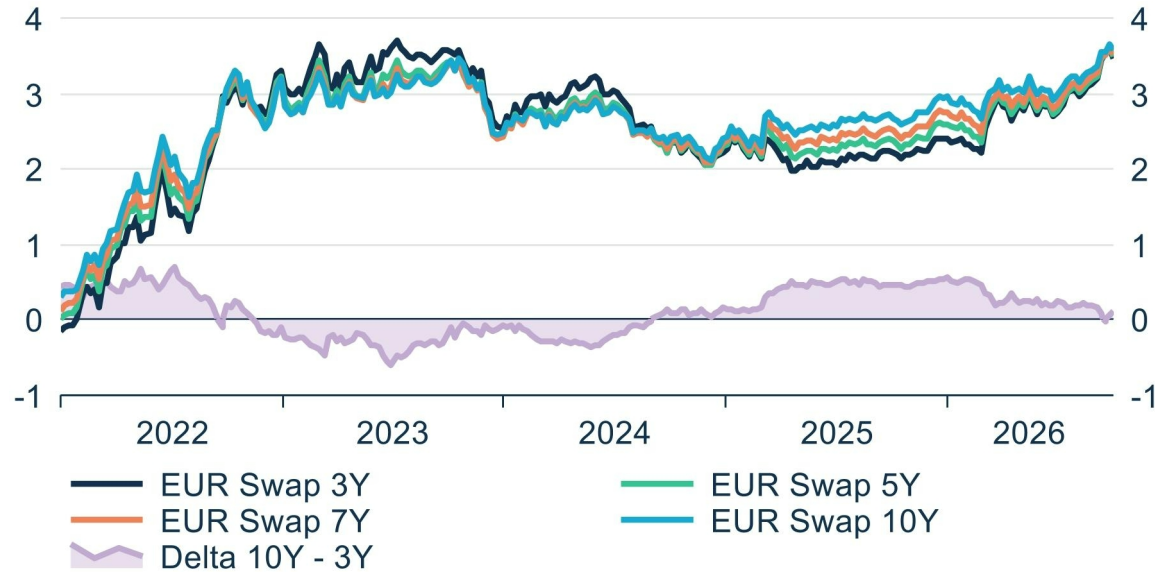


- US dollar: Doubts remain regarding its reserve status. **In the medium term, the risk of a moderate depreciation dominates.**
- The risk/reward ratio for long-dated US Treasuries has shifted towards 'balanced'; **allocation has been increased to 'neutral'.**

Swap rates

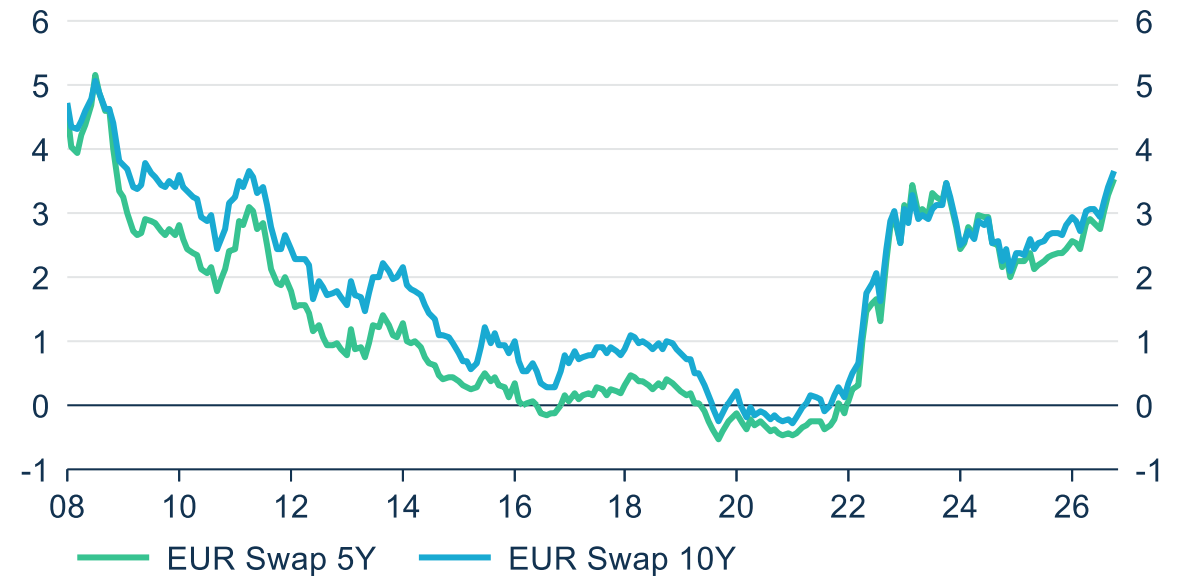
EUR swap rates in %

Terms of three to ten years, since 2022



EUR swap rates in %

Five- and ten-year terms, since 2008



Interest rate forecasts in detail

		Spot	31-Dec-26	Forecast 30-Jun-27	31-Dec-27
Euro area					
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		2.60	2.85	3.05	2.75
Swap 2Y		3.39	3.50	3.25	2.75
Swap 5Y		3.49	3.60	3.35	3.00
Swap 10Y		3.60	3.65	3.50	3.30
Bund 2Y		3.05	3.25	3.05	2.60
Bund 5Y		3.20	3.40	3.20	2.90
Bund 10Y		3.43	3.60	3.50	3.35
USA					
Fed Funds Target Rate		4.00	4.25	4.25	4.00
Overnight Rate (SOFR)		3.88	4.15	4.15	3.90
3M Money Market		4.85	4.30	4.15	3.90
Swap 2Y (SOFR-OIS)		4.68	4.60	4.15	3.75
Swap 5Y (SOFR-OIS)		4.78	4.60	4.25	3.95
Swap 10Y (SOFR-OIS)		4.92	4.70	4.50	4.30
Treasury 2Y		4.84	4.75	4.35	3.95
Treasury 5Y		5.07	4.90	4.60	4.30
Treasury 10Y		5.28	5.10	4.95	4.80
Other industrialized countries					
Japan	Overnight Rate (TONAR)	1.23	1.55	1.80	2.05
Japan	10Y Government Bond	3.06	3.15	3.25	3.30
UK	Overnight Rate (SONIA)	3.73	3.95	4.20	3.95
UK	10Y Government Bond	5.37	5.30	5.20	5.00
Switzerland	Overnight Rate (SARON)	-0.04	-0.05	0.20	0.20
Switzerland	10Y Government Bond	0.53	0.60	0.60	0.50

Sources: LSEG, LBBW Research

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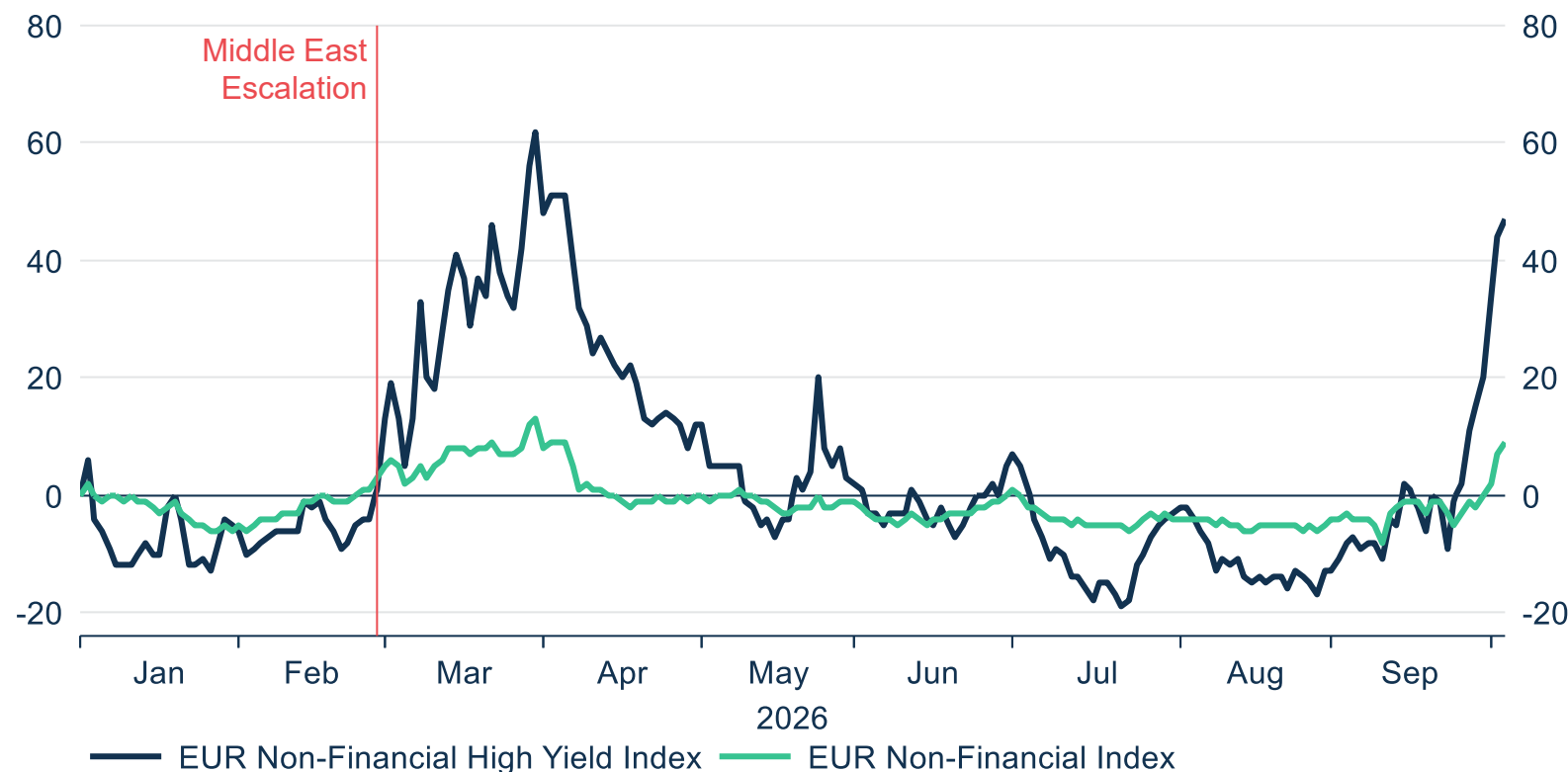
Credits:
Attractive yield
level

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Significant widening of spreads in September

Change in the spread since the start of the year

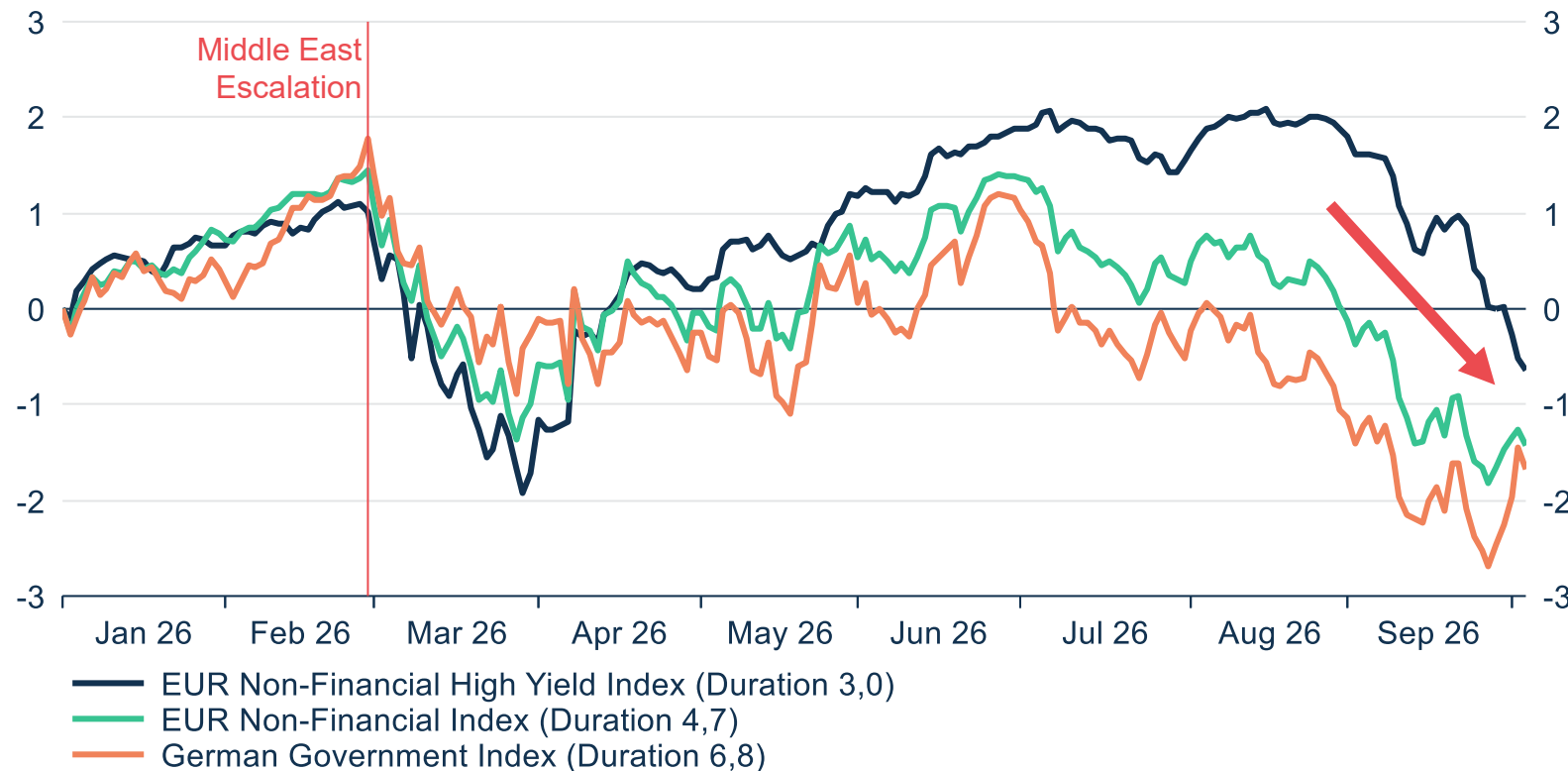
Asset swap spread, in basis points



- Following a very stable trend over the summer months, credit spreads have widened significantly in recent times.
- The annual highs reached at the outbreak of the Iran war are coming into view.
- Judged against the scale of past crises, the current fluctuations can still be described as moderate and the absolute spread levels can be regarded as low when compared historically.

Total returns are now in negative territory

Total return since the start of the year as a percentage



- A combination of rising German government bond yields and, at the same time, widening spreads weighed heavily on performance in September.
- Following on from government bonds, the credit segments have now also slipped into negative territory in terms of total return year-to-date.
- Furthermore, the performance lead that had built up in previous months in the high-yield segment has narrowed significantly.

Improved leading indicators are supporting spreads

ifo Expectations vs. EUR Non-Financial Spreads

in index points or basis points

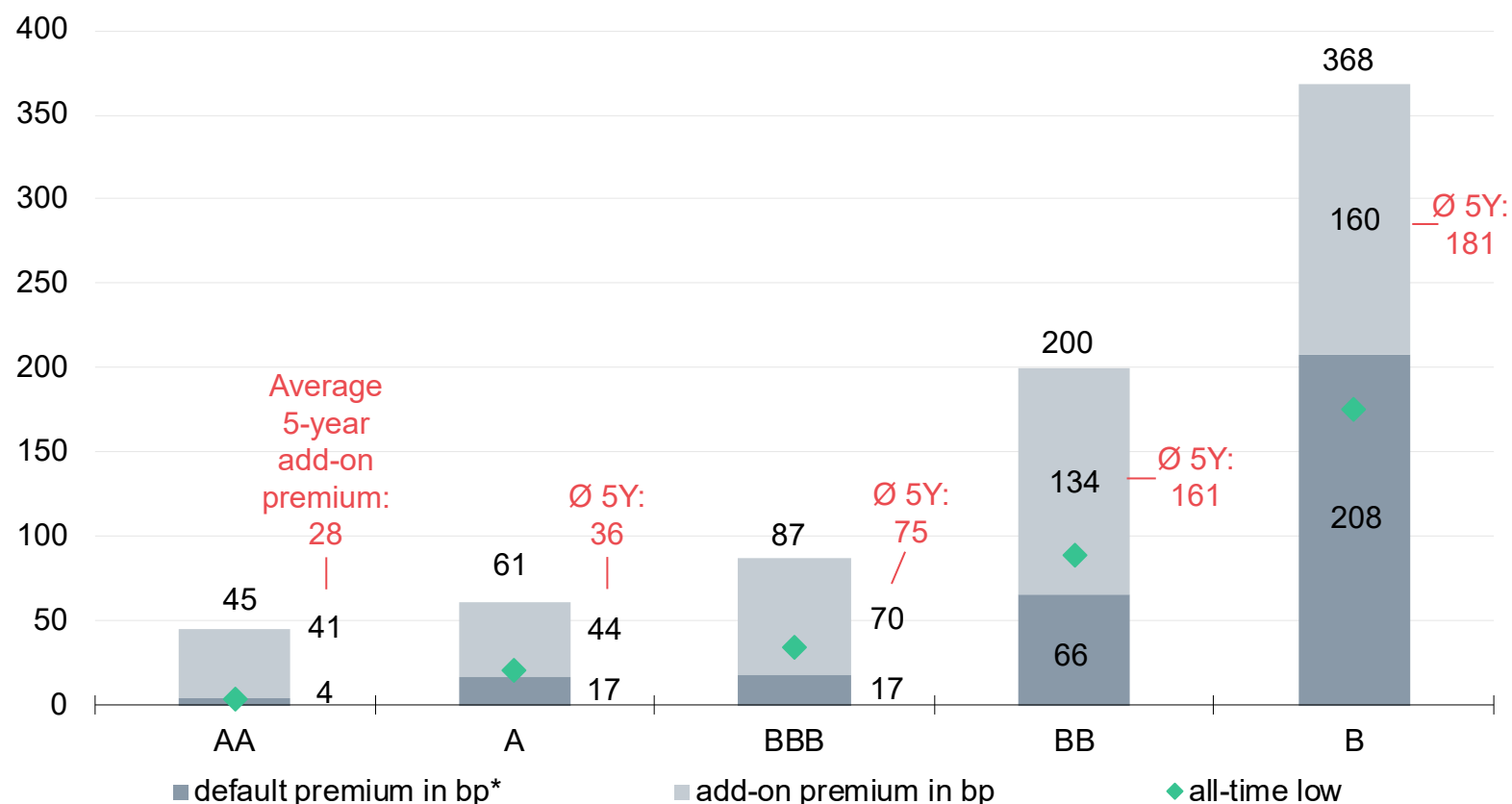


- The low spread levels have recently received fundamental support from predominantly positive macroeconomic data.
- Leading indicators such as the ifo Business Climate Index have shown significant improvements in recent months.
- The chart illustrates the traditionally close correlation between the ifo expectations component (inverted) and asset swap spreads.

Spreads offset average credit risks

Swap spreads (ASW) and default premiums by rating category

in basis points



Source: LSEG, LBBW Research, as at 5 October 2026

- The darker bars show the spread required to cover the historically average defaults. The light-coloured bars show the portion of the spread that remains as an additional premium.

Example BB:

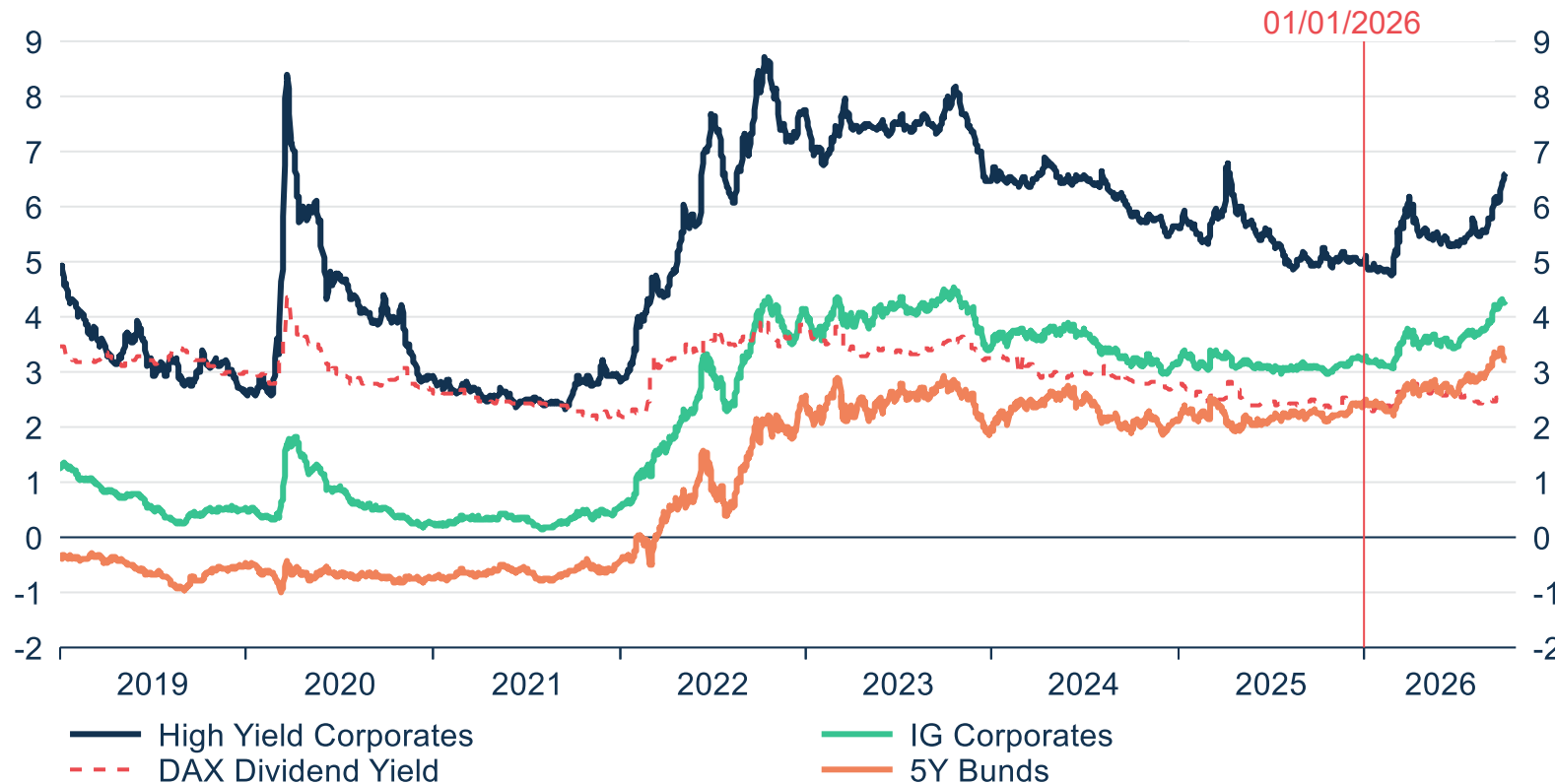
$$200 \text{ Bp.} - 66 \text{ Bp.} = 134 \text{ Bp.}$$

- In the past, risk premiums were at rock-bottom levels (see 'all-time low'), in some cases falling below levels commensurate with the default risk (particularly in the case of Single B bonds).
- At present, there is a significant buffer across all rating categories. However, this figure is, in some cases, significantly below the average figures for the past five years – particularly in the high-yield categories.

Bond yields: significantly higher than dividend yields

A comparison of returns

Indices for corporate bonds and other asset classes (yields in % p.a. to maturity)



- Yields have risen significantly again in recent weeks from what were already elevated levels. In the IG segment, they are only slightly below the highs reached in 2023.
- Furthermore, bond yields are currently well above the DAX dividend yield and are therefore at a comparatively attractive level.
- We continue to see an attractive risk-reward profile for investors in corporate bonds – particularly those with investment-grade ratings.

06

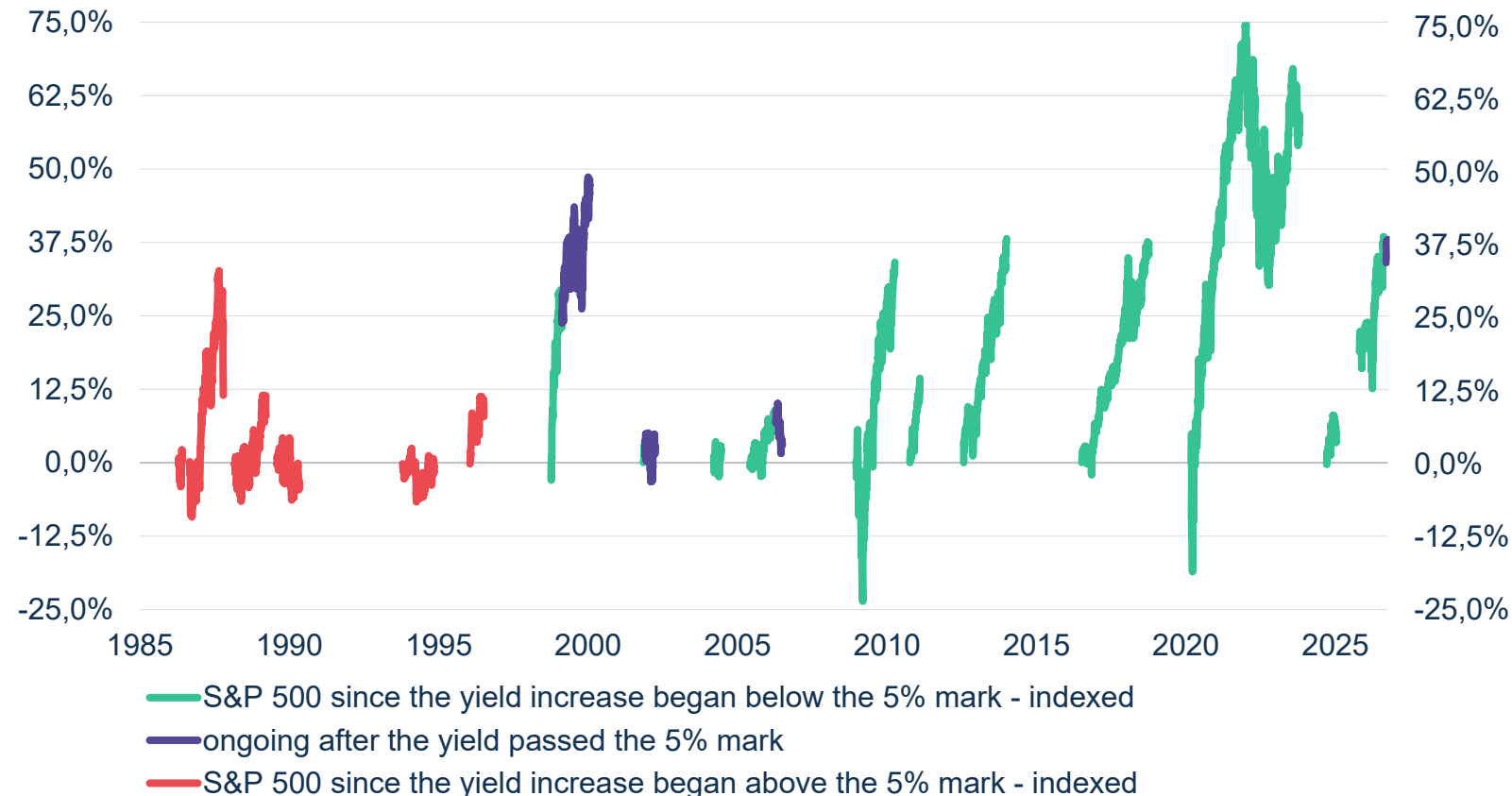
**Equities:
Yield surge
and high
valuations
weigh on the
market**

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When the US benchmark yield was above 5 %, the S&P 500 struggled

Performance of the S&P 500 against a backdrop of sharply rising Treasury yields

indexed as a percentage



- Whilst the yield on 10-year US Treasuries had bottomed out just above the 5 per cent mark and subsequently risen by at least a further 100 basis points (red), the S&P 500 struggled considerably more than when, despite a marked rise, it remained below this level even at its peak (green).
- In some cases, the cycle of rising yields began below the 5 per cent mark, and the critical level was only exceeded as the cycle progressed (purple). That's the case now, too.
- In two of those three cases to date, the S&P 500 subsequently fell. However, against the backdrop of the dotcom bubble, which continued to inflate in the late 1990s, investors were not deterred by the rising returns. At that time, her focus was solely on internet and mobile telecoms stocks.

When the yield was below 5 %, the S&P 500 rose at more than three times as above that level

The S&P 500 during periods of rising US yields

Returns and price performance in %, duration of the respective cycles in years

cycle	yield (low)	date	last day below 5%	yield (high)	date	in years	S&P 500 cumulated (nominal)	S&P 500 cumulated (real)
1	6,97%	16.04.1986		8,38%	04.06.1986	0,13	0,71%	0,55%
2	6,92%	01.09.1986		10,22%	16.10.1987	1,12	11,77%	6,98%
3	8,11%	02.03.1988		9,55%	20.03.1989	1,05	8,19%	3,25%
4	7,74%	02.08.1989		9,08%	02.05.1990	0,75	-2,86%	-6,41%
5	5,17%	15.10.1993		8,03%	07.11.1994	1,06	-1,37%	-4,24%
6	5,52%	18.01.1996		7,05%	05.07.1996	0,46	8,09%	6,55%
7	4,15%	05.10.1998	11.02.1999			0,35	26,86%	26,15%
			11.02.1999	6,78%	21.01.2000	0,94	18,95%	16,22%
8	4,19%	07.11.2001	22.11.2001			0,04	1,90%	1,93%
			22.11.2001	5,43%	01.04.2002	0,36	0,85%	0,28%
9	3,69%	16.03.2004		4,87%	14.06.2004	0,25	1,31%	1,73%
10	3,89%	02.06.2005	12.04.2006			0,86	6,96%	3,61%
			12.04.2006	5,24%	28.06.2006	0,21	-3,50%	-4,35%
11	2,08%	18.12.2008		3,99%	05.04.2010	1,30	34,13%	31,64%
12	2,38%	07.10.2010		3,72%	08.02.2011	0,34	14,38%	13,03%
13	1,41%	25.07.2012		3,01%	31.12.2013	1,43	38,15%	35,47%
14	1,36%	08.07.2016		3,23%	08.10.2018	2,25	35,43%	30,37%
15	0,50%	09.03.2020		4,98%	19.10.2023	3,61	55,76%	36,98%
16	3,62%	16.09.2024		4,79%	13.01.2025	0,33	3,61%	2,42%
17	3,94%	22.10.2025	14.09.2026			0,90	35,27%	28,81%
			Zyklus möglicherweise noch nicht beendet	5,31%	05.10.2026	0,06	2,73%	2,45%

below 5%
above 5%
whole time

weighted p.a.
weighted p.a.
p.a.

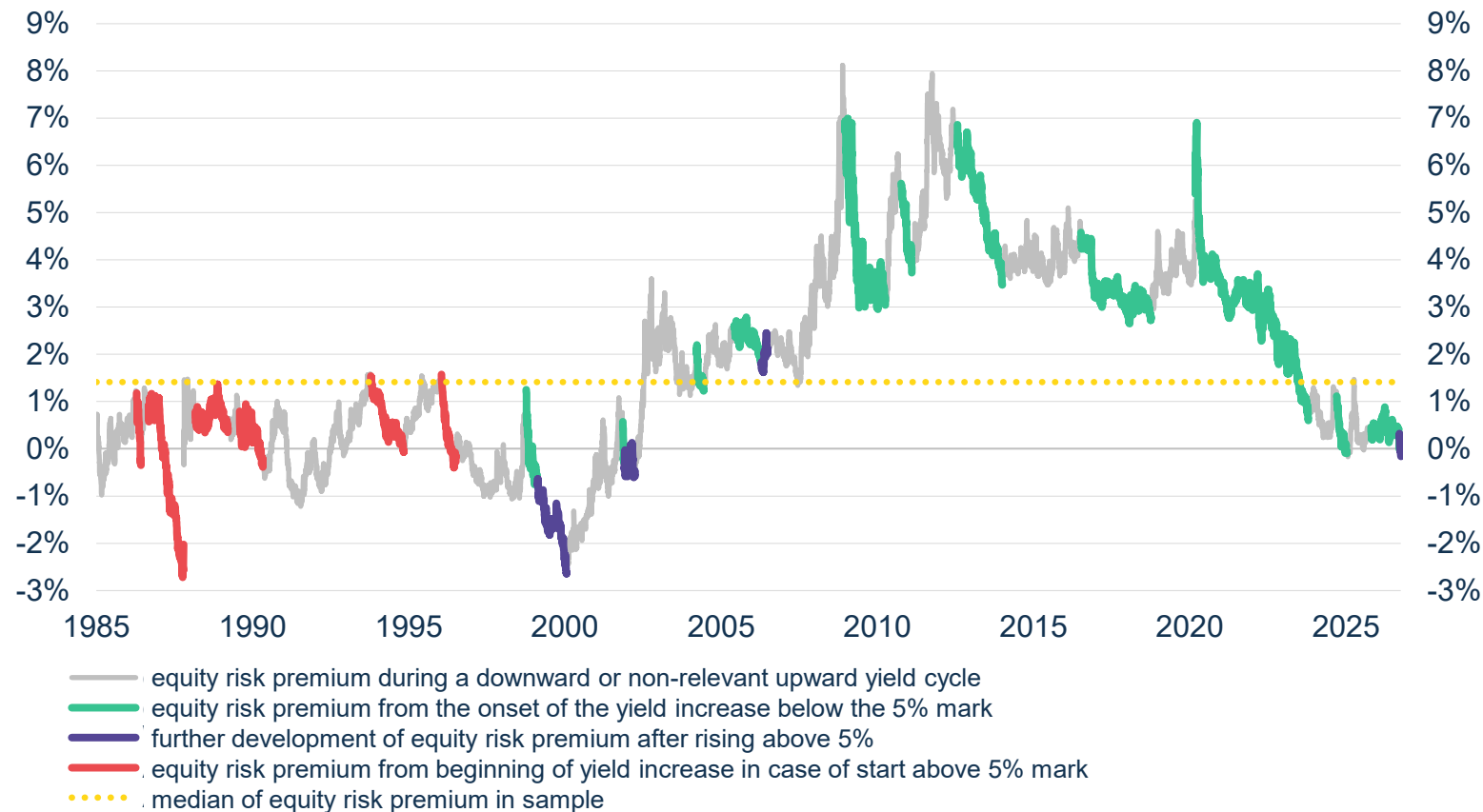
21,78%	18,21%
7,09%	3,46%
9,57%	6,63%

- Rising bond yields are generally regarded as bad news for shares. However, this is not true in general. On the contrary: Because rising yields are usually a reflection of an improving economy, which leads to higher corporate profits, the S&P 500 subsequently rose significantly in many cases.
- Whilst the US benchmark yield remained consistently below the 5 % mark (green) as yields rose, the return – weighted by the duration of the respective cycles – came to 21.8 % p.a., which was more than twice as high as the geometric mean for the entire period since the beginning of 1985.
- If the return exceeded the 5 % mark over the course of the period, or if it was even above that level from the outset (shown here in red in each case), shares did not necessarily collapse, but their performance, at 7.1 % p.a., was nevertheless below average.

The equity risk premium explains the discrepancy – – but it has now dipped below zero

Risk premium* of the S&P 500

in percentage points



Source: LSEG, LBBW Research

* = S&P 500 earnings yield minus the yield on ten-year US Treasuries

- A look at the trend in the equity risk premium explains the significant divergence in share price performance:

In periods when the US benchmark yield was above 5 % (red) or exceeded this level as yields rose (purple), the risk premium was, in most cases, below average or even negative.

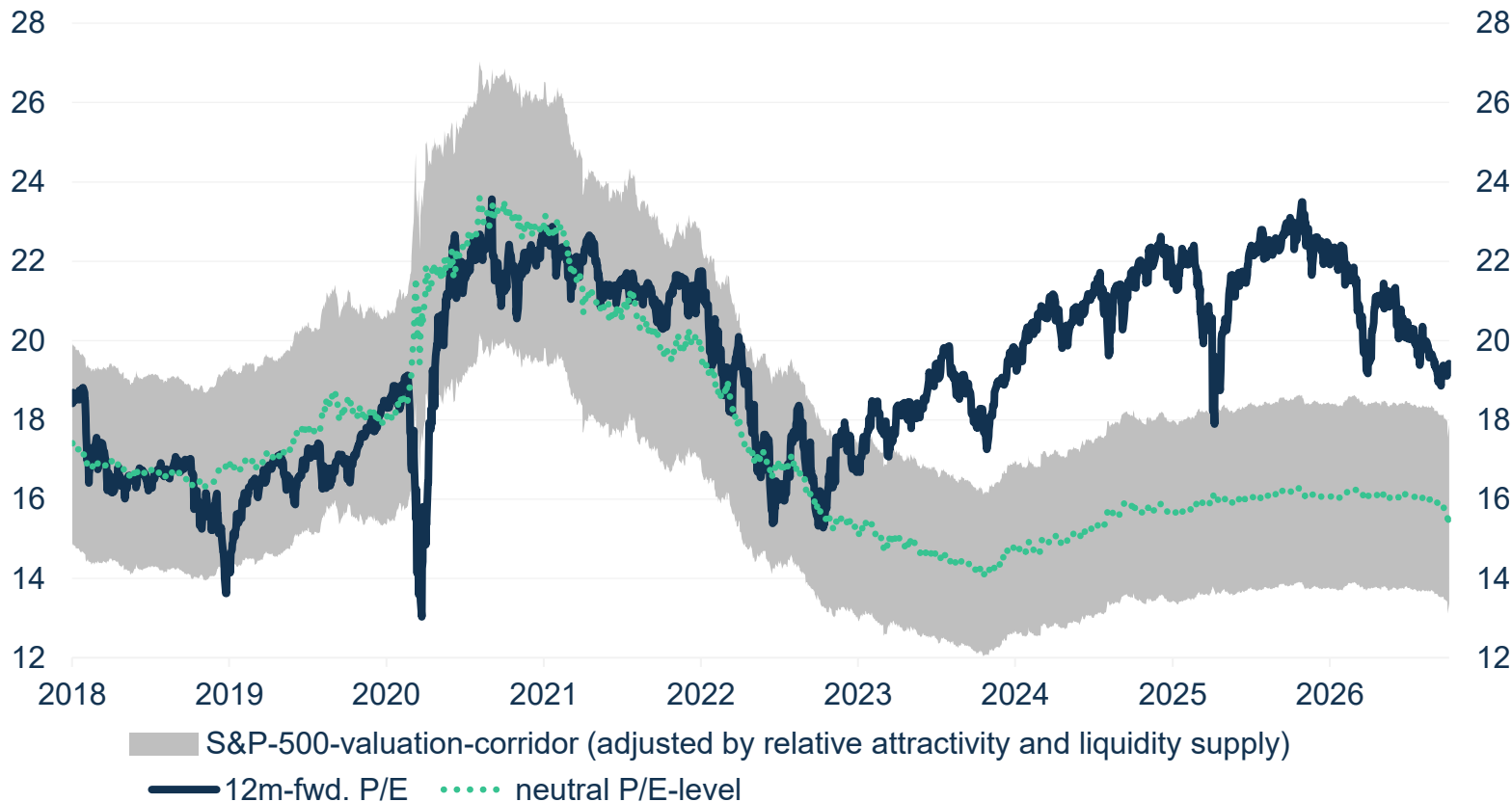
Whilst the return remained consistently below 5 % (green) – as it has for much of the period since the financial crisis – the risk premium remained well above its long-term median.

- For around three years, the risk premium has been below its long-term median. Equity risks are no longer adequately remunerated ex ante. Recently, the premium even dipped into negative territory.

Not all P/E ratios are the same – it also depends on the broader context

12-month forward P/E ratio of the S&P 500 in the light of our three-factor model

Multiple

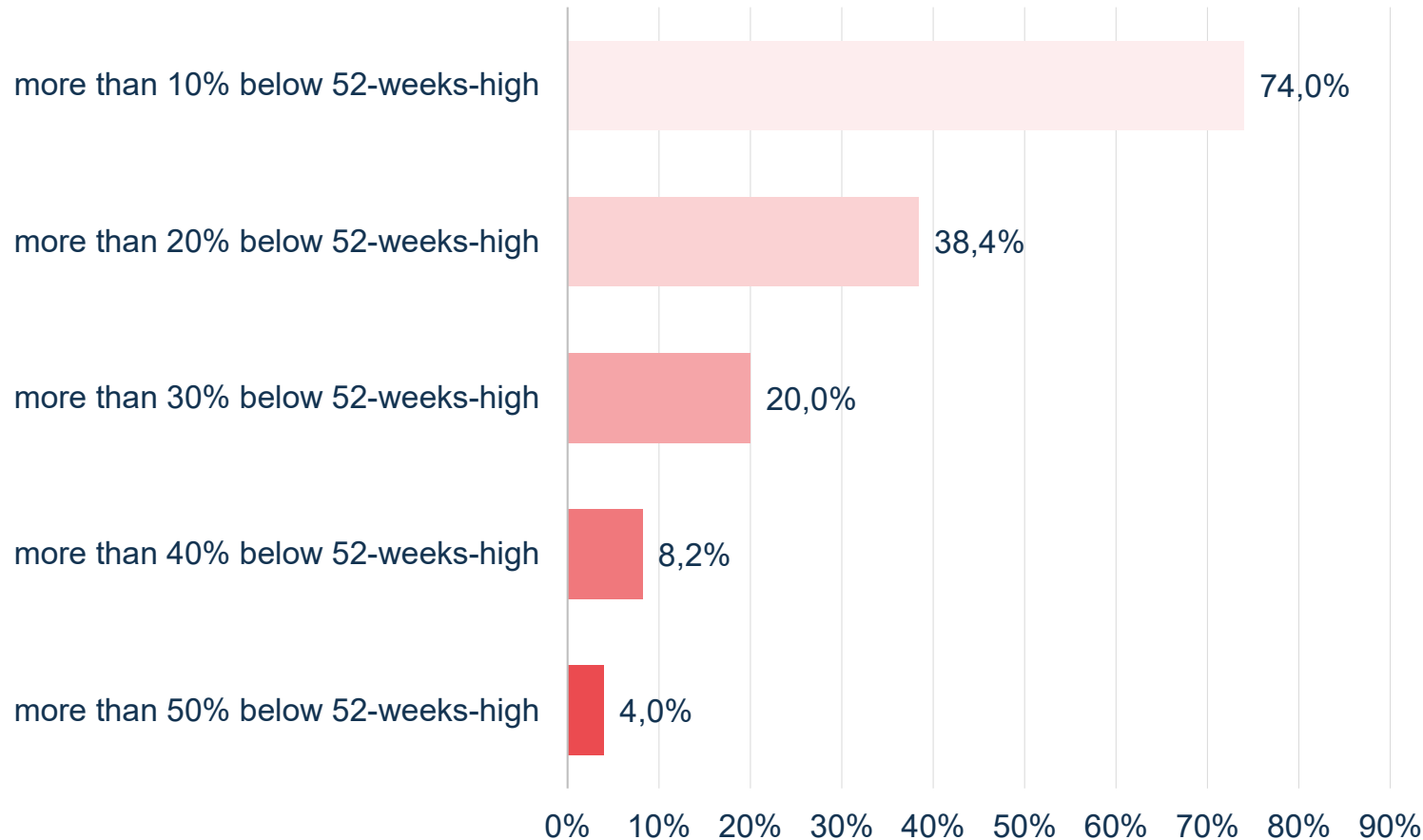


- The P/E ratio of a stock market should be considered not only in absolute terms, but always in the context of the prevailing conditions.
- In the wake of the post-Covid rally, the S&P 500's 12-month forward P/E ratio rose to 23.5. Due to bond yields hitting rock bottom, the risk premium peaked at five times the average level at that time. In addition, governments and central banks pumped vast amounts of money into the economy. A huge surplus of liquidity emerged, which is why the high P/E ratio – in absolute terms – was entirely appropriate at the time.
- There wasn't much left of the surplus liquidity. The risk premium is now negative. The fair P/E ratio is currently below 16.

At the index level, everything seems to be going – but behind the scenes, things look less rosy

Share price performance of S&P 500 constituents compared with 52-week high

Percentage shares

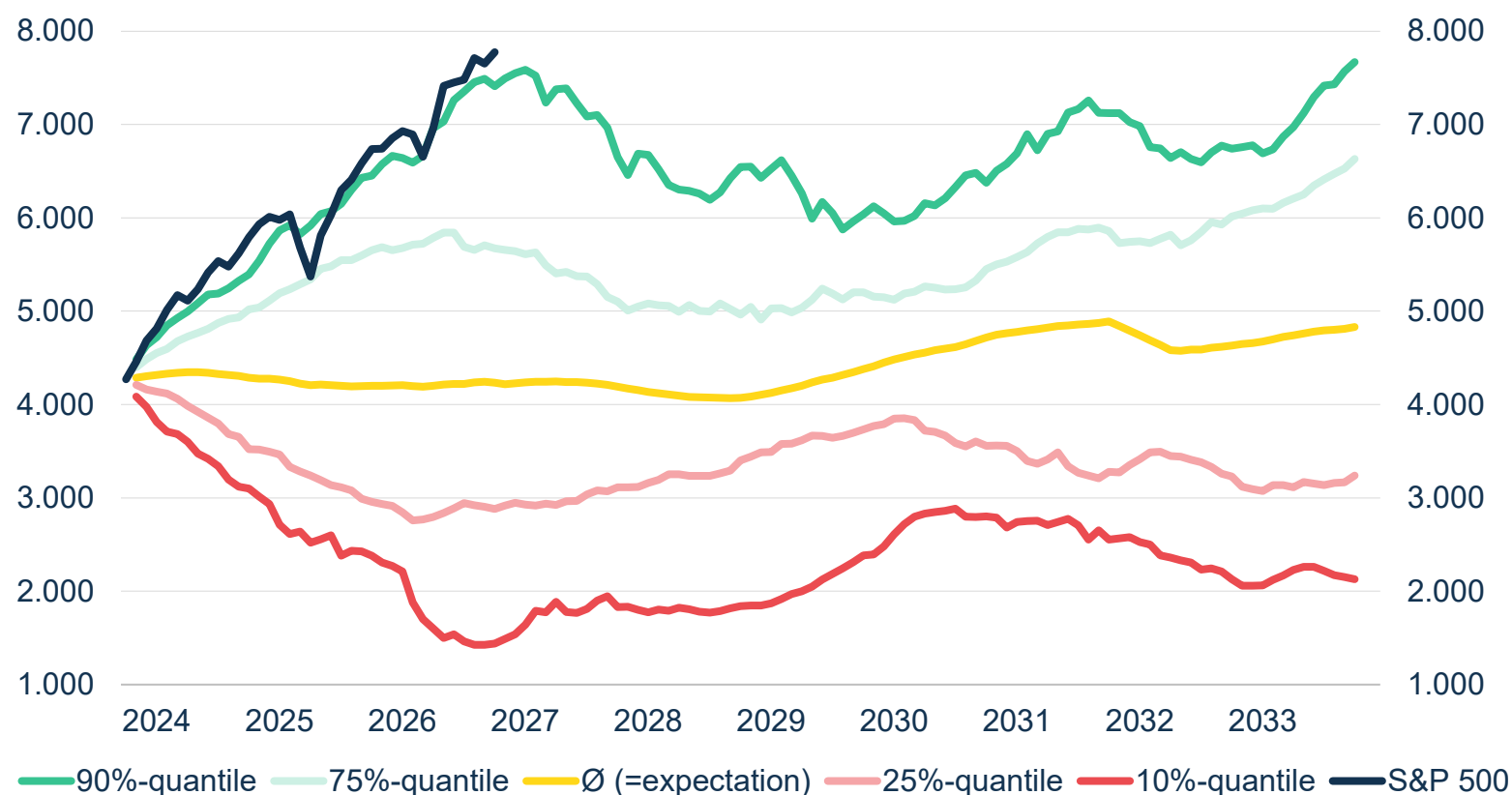


- The S&P 500 is currently trading just 0.3 % below its 52-week high – which is also its all-time high.
- This is largely due to an unchecked rally in AI stocks, which is why the Nasdaq 100 recently even hit a new all-time high,
- Behind the scenes – that is, across the S&P 500 as a whole – the picture is far from rosy: 74 % of the index's constituents have lost more than 10 % in share price since their 52-week high. Just over 38 % of the shares have seen losses of more than 20 %, and as many as one in five have even seen their share price fall by more than 30 % since their respective highs.
- And even declines of more than 40 % or even 50 % can still be found among numerous companies.

Poor prospects – even in the longer term

S&P 500 vs. historical performance under unfavourable valuation conditions

in index points



- In the history of key indicators compiled by Robert J. Shiller, winner of the Nobel Prize in Economics, which dates back to 1881 (!), the current combination of a high Shiller P/E ratio and a below-average specific risk premium (excess CAPE yield) ranks among the 10 per cent most unfavourable scenarios. In this context, the expected return for the S&P 500 over the next ten years, derived from historical data, stood at less than +1 per cent per annum.
- However, since the index entered this configuration two years ago, it has risen significantly. Historically, it has followed the 90th percentile. He could hardly have fared much better in this environment; on the other hand, he could certainly have fared much worse. Even looking several years ahead, the expected value for the S&P 500 derived from this is therefore below the current level.

Source: Robert J. Shiller, LBBW Research

06

Forecasts and asset allocation

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Our big picture in a nutshell



Economy



- Germany: GDP grew steadily in the first half of the year. Government spending and exports stimulate demand. The order book is growing. Private investment remains subdued.
- Inflationary and economic risks arising from the rise in energy prices in the wake of the war in the Persian Gulf. The trade dispute with the US continues to weigh on the market.



Foreign exchange



- The yield advantage of short-term US government bonds over German Bunds is likely to narrow moderately.
- A foreseeable dispute over raising the US debt ceiling is likely to undermine confidence in the US dollar.



Stock markets



- Companies are reporting strong profit growth this year.
- Stock markets are taking an increasingly critical view of the AI investment boom.
- A smouldering war with Iran and rising yields are acting as latent headwinds for the stock markets.



Raw materials

- The Bloomberg Commodity Index is likely to consolidate following its all-time high.
- The ongoing conflict between the US and Iran is keeping oil prices high. If the Strait of Hormuz is reopened, oil prices are likely to fall significantly once again.
- Rate hikes are creating headwinds for gold. Price is supported by purchases from central banks and gold ETCs.



Interest rate environment

Money market / Central banks

- Fed: A further interest rate rise by the end of 2026, with the key interest rate remaining unchanged at 4.25 per cent for some time thereafter.
- ECB: Two further interest rate rises by spring 2027; the deposit rate reaches a peak of 3.00 per cent.

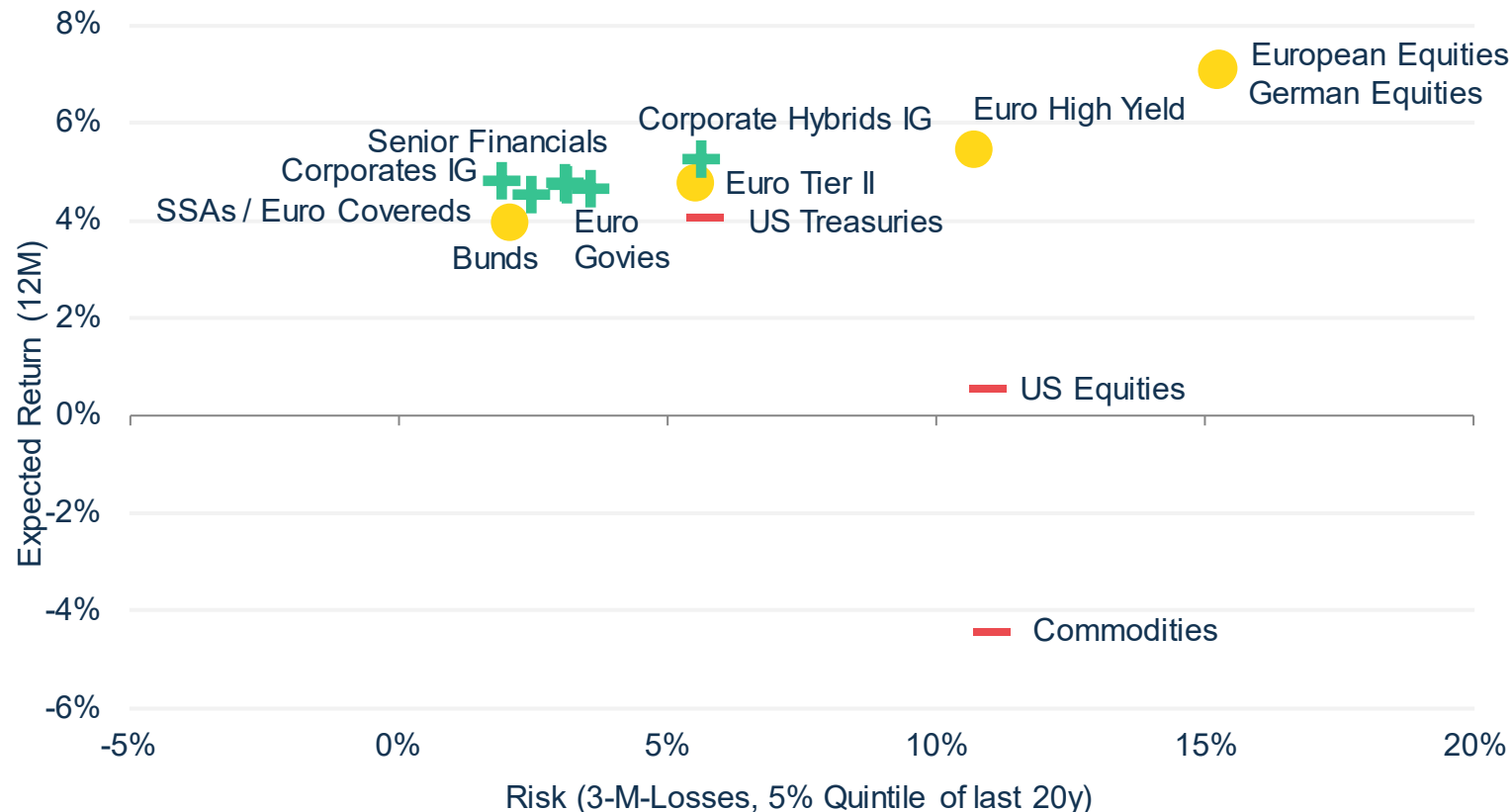
Returns

- Long-term euro interest rates: In the short term, upside risks are dominant given growing inflation concerns and rising debt; in the medium term, a reversal is on the cards.

Asset allocation over a 12-month horizon: Risk & Forecasts at a Glance

Performance expectations versus risk (LBBW assessments)

as a percentage



- For shares, the risk-reward ratio appears unfavourable at its current record high.
- Even if yields rise slightly, bonds could still deliver a positive return.
- Assets denominated in USD are being affected by the weakening of the USD that we had forecast:
US equities, Treasuries and commodities are subject to a negative currency effect of around 3 per cent.

Asset allocation for the next 6–12 months:

Key figures at a glance

Exposure	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	
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/-	+ Financial Services	0/- USA	Value Dividend Strategies Mid Caps
		Banks	0/- Japan	
		Technology	0/+ Europe ex Germany	
		Telecoms	0/+ Germany	
		Travel & Leisure	0 China	
		Industry	0/+ EMMA ex China	
		Energy		
Currencies	0/+	vs. Euro	0 USD, CNY, GBP, CHF - JPY	Selective
Commodities	0/-	0/+ Precious metals	0/+ Gold	Selective
		0/+ Base metals	+ Copper	
		- Energy	- Brent	
Real Estate	0/-	0/+ Residential, Local Supplier, Logistics	0 Germany	
		0 "High Street" Retail		
		0/- Office		

Source: LBBW Research

LBBW forecasts

(Changes since the September issue of Kapitalmarktkompass dated 1 September 2026)

Economy		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 +
USA	GDP	3.0	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

Interest Rates and Spreads		Spot	12/31/26	06/30/27	12/31/27
ECB Deposit Rate		2.50	2.75 +	3.00 +	2.75 +
Bund 10 Years		3.47	3.60 +	3.50 +	3.35 +
Fed Funds		4.00	4.25 +	4.25 +	4.00 +
Treasury 10 Years		5.31	5.10 +	4.95 +	4.80 +
BBB Bundspread (bps)		116	100	105	110

Equity Markets		Spot	12/31/26	06/30/27	12/31/27
DAX		25 254	25 500	26 500	27 500
Euro Stoxx 50		6 242	6 300	6 400	6 600
S&P 500		7 774	7 500	7 800	8 000
Nikkei		69 947	66 000	67 000	68 000

Currencies and Commodities		Spot	12/31/26	06/30/27	12/31/27
US-Dollar per Euro		1.12	1.15 -	1.15 -	1.17 -
Swiss Franc per Euro		0.93	0.93	0.94	0.95
Pound per Euro		0.85	0.85	0.85	0.85
Gold (USD/Troy Ounce)		4 138	4 200 -	4 500 -	4 800 -
Oil (Brent - USD/Barrel)		102	80	75	70

+ Raised
- Lowered

LBBW Scenarios

55% Main scenario

- 1) War with Iran: The oil supply shortfall will gradually narrow by the end of the year, but oil products will remain in short supply due to Refinery bottlenecks are costly. Inflation is rising due to higher energy and food prices, but second-round effects remain limited. The US economy is set to slow slightly in 2027 as the AI investment boom loses momentum. Growth in China continues to slow. EU/DE: Only modest growth, with a further rise in public debt in industrialised countries.
- 2) Efforts to combat inflation will prompt the ECB and the Fed to raise key interest rates at least once more in 2026, with the resulting headwinds to growth being accepted; yields will peak and then trend slightly downwards again in the medium term.
- 3) Stock markets: Consolidation in the second half of 2026, with investors torn between hopes for AI, fears over interest rates, concerns about war and doubts about the AI boom; credit spreads widen as the stock market suffers setbacks.

25% Negative Scenario I: *'Inflation Spike'*

- 1) The war in Iran is escalating. Energy supplies and supply chains need to be restructured; inflation is rising sharply due to soaring energy prices, a significant increase in food prices, high levels of government spending and growing protectionism. Second-round effects are further increasing inflationary pressure. Some countries are reporting surprisingly high deficits and are providing corresponding forecasts for the coming years.
- 2) Central banks are adopting a markedly restrictive stance to combat inflation. Yields continued their upward trend.
- 3) 'Risk-off': A downturn on the stock markets. Credit spreads are rising sharply. A slump in property prices.

10% Negative scenario II *"Sharp correction in the AI boom"*

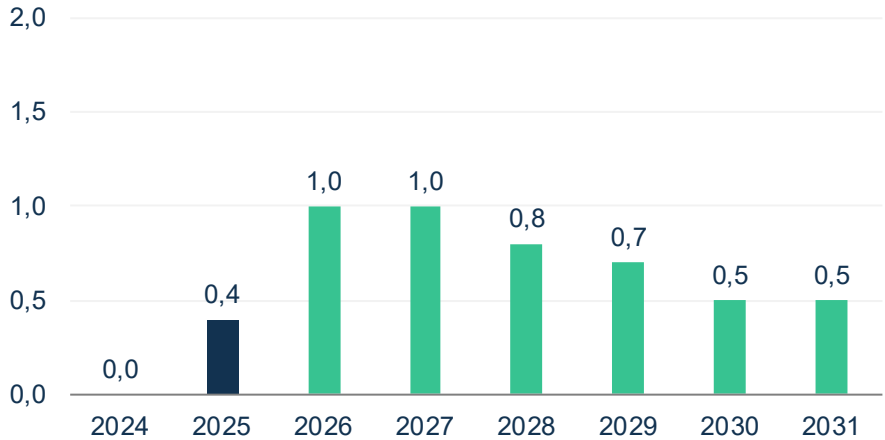
- 1) The AI boom comes to an end: Security concerns are mounting, problematic financing structures are collapsing, and investment momentum is faltering. The Fed and the ECB cut their key interest rates. Government bond yields are falling due to economic concerns and monetary easing by central banks.
- 2) 'Risk-off': Stock markets are experiencing a sharp correction, whilst credit spreads are rising significantly.
- 3) Tensions between China and Taiwan are mounting. Increased hybrid attacks by Russia on EU member states.

10% Positive scenario *'Relaxation'*

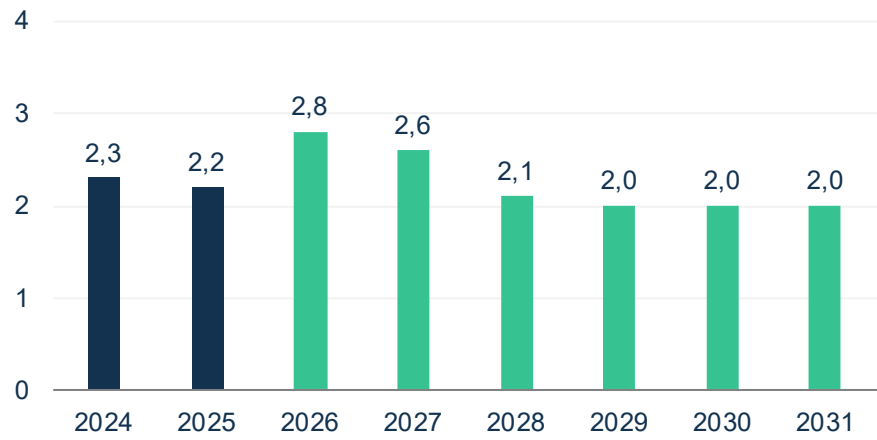
- 1) Stabilisation in the Gulf region. Ceasefire in the war in Ukraine; the geopolitical conflict between the US and China is easing.
- 2) The US is shifting towards a more moderate trade policy. US economy is growing at faster rate again and the AI boom continues.
- 3) Productivity gains through AI. Inflation rates remain stable as energy prices fall rapidly. The economy is picking up pace.
- 4) "Risk-on": Stock markets continue to rise on the back of the ongoing AI rally. Credit spreads are falling, and property prices are rising.

Main scenario (55 %)

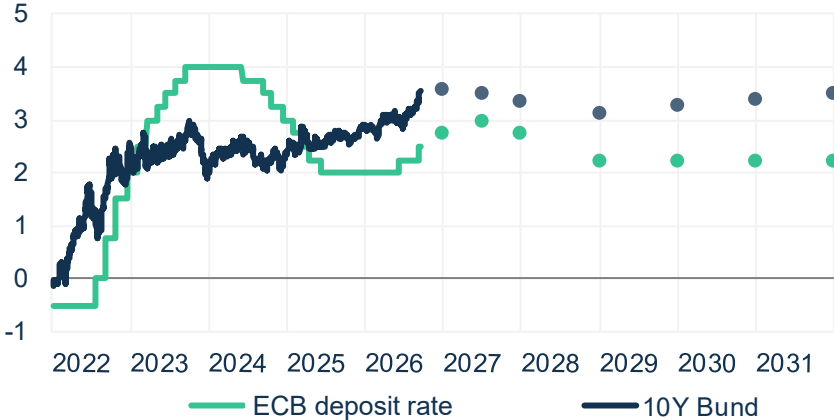
Germany GDP growth (year-on-year)*



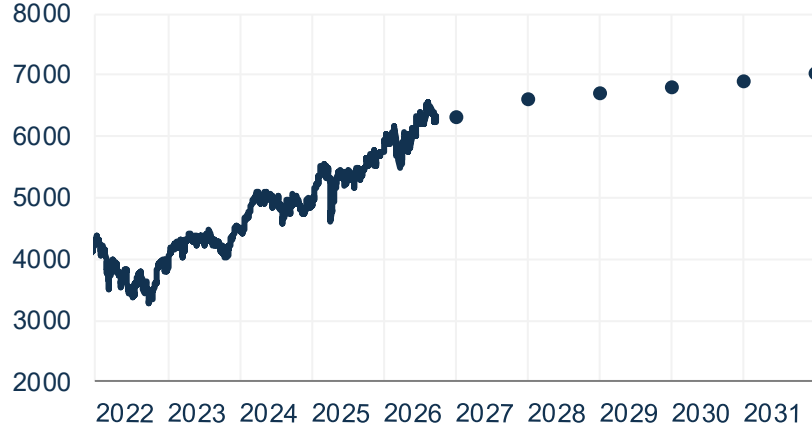
Germany: Inflation (year-on-year)*



ECB deposit rate & 10Y Bund Yield*



Euro Stoxx 50*

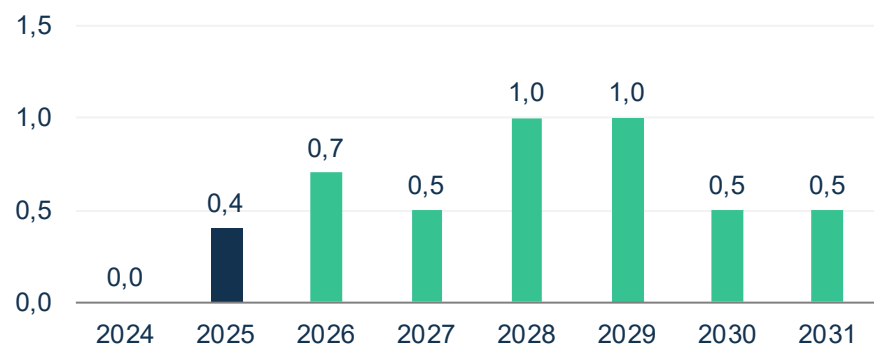


Sources: Bloomberg, LBBW Research

*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' (25 %)

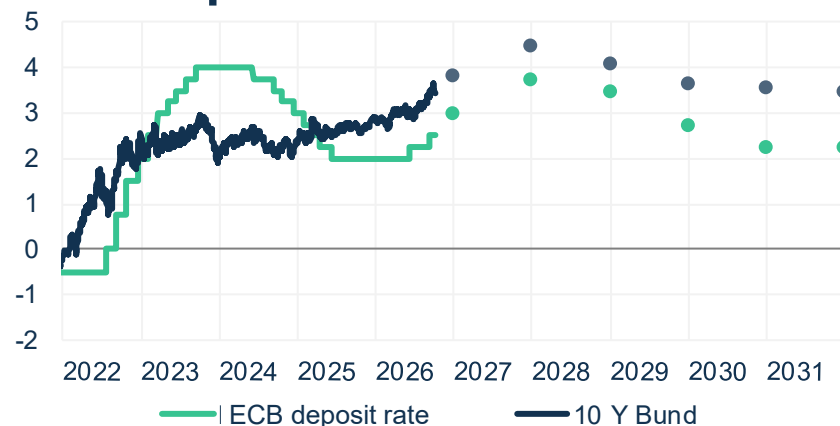
Germany GDP growth (year-on-year)*



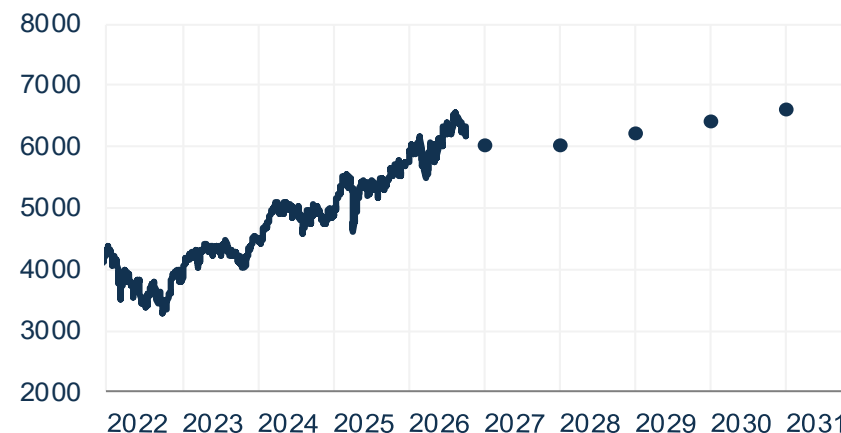
Germany: Inflation (year-on-year)*



ECB deposit rate & 10Y Bund Yield*



Euro Stoxx 50*

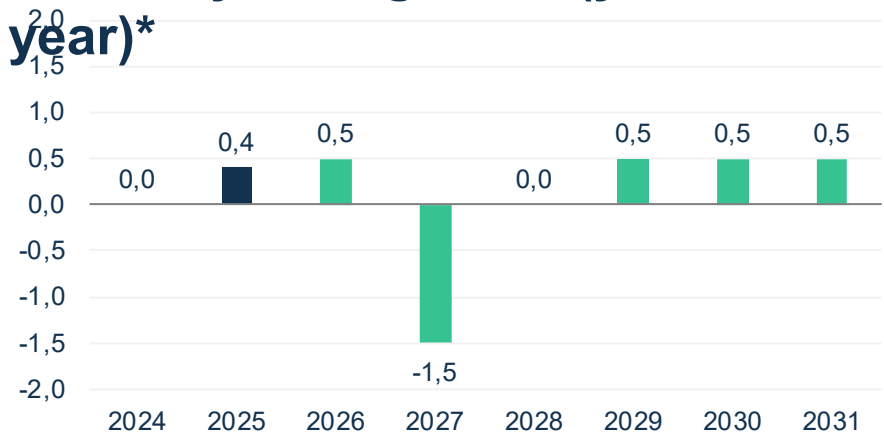


Sources: Bloomberg, LBBW Research

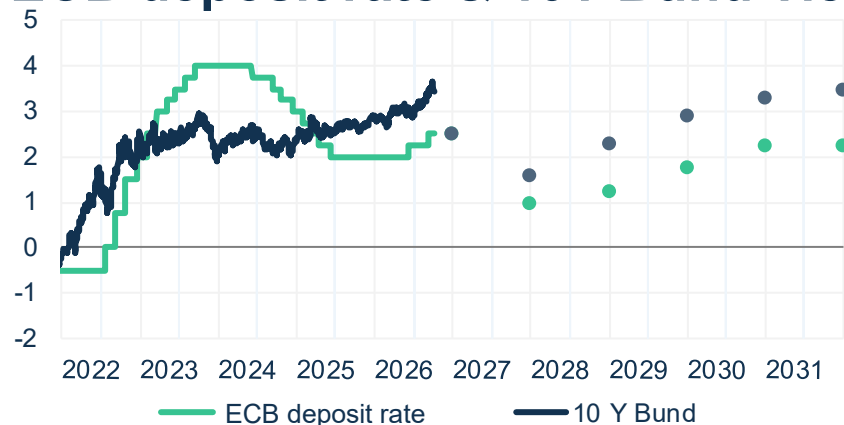
*GDP and inflation are annual averages; interest rates and the Euro Stoxx 50 are year-end figures in the forecasts

Negative scenario 2) 'AI bubble' (10 %)

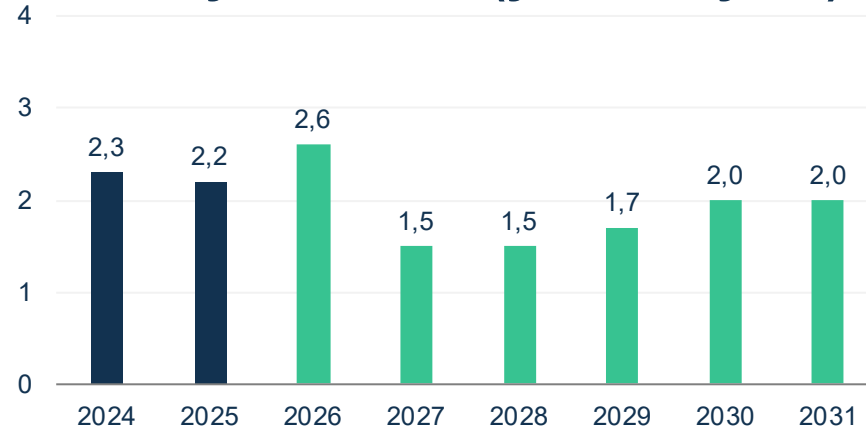
Germany GDP growth (year-on-year)*



ECB deposit rate & 10Y Bund Yield*



Germany: Inflation (year-on-year)*

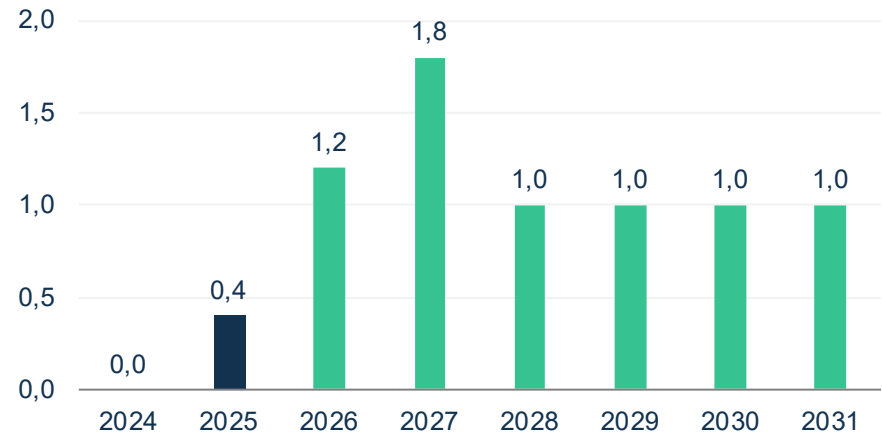


Euro Stoxx 50*

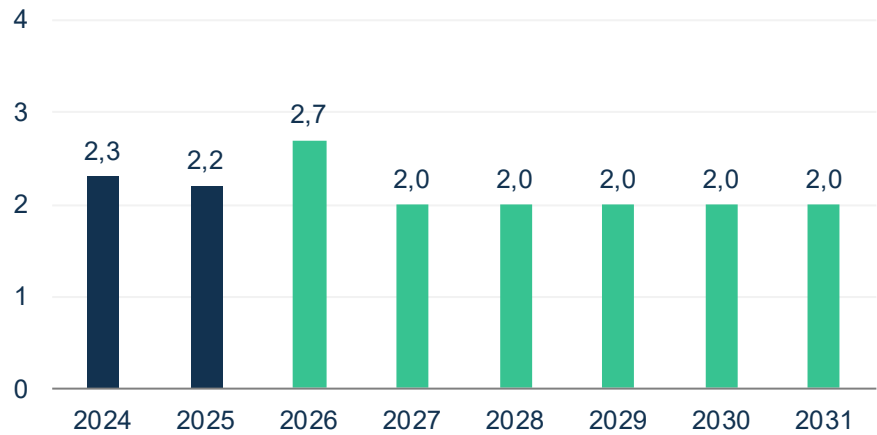


Optimistic scenario (10 %)

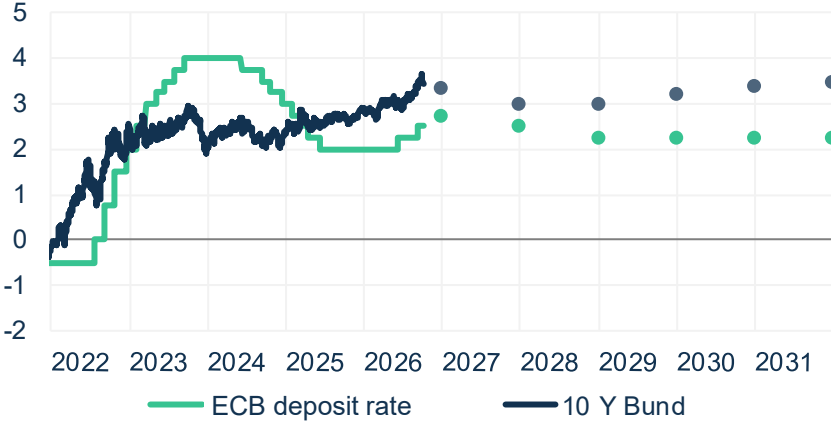
Germany GDP growth (year-on-year)*



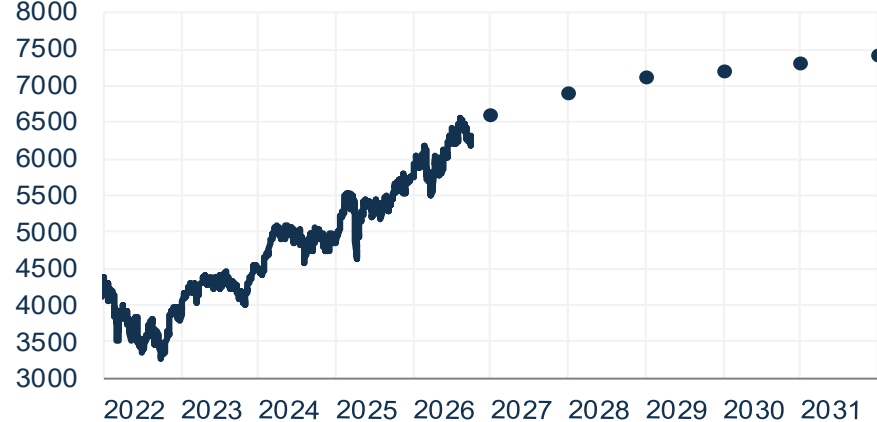
Germany: Inflation (year-on-year)*



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: Sideways movement forecast

FX EUR/USD



	Spot	Historical Data			Forecast		
		Ø 2025	Dec-25	Ø H1 26	Dec-26	Jun-27	Dec-27
EURUSD	1.12	1.13	1.17	1.17	1.15	1.15	1.17

Source: LSEG, LBBW Research

Pro EUR

- Given the US dollar's role as the world's reserve currency, the high level of US government debt has not, so far, had a negative impact on the greenback's exchange rate. But at some point, unchecked borrowing threatens to go too far. Furthermore, a renewed dispute over the debt ceiling carries the risk of a politically induced US default.
- Donald Trump has unsettled the foreign exchange markets with his comments on the benefits of a weak dollar.
- The US President's erratic behaviour on tariff issues, as well as his undermining of the Fed's independence, is causing uncertainty and spooking the foreign exchange markets.

Contra EUR

- In the run-up to the French presidential elections in April 2027, political uncertainty could increase.
- The high levels of public debt in France and other eurozone countries threaten to restrict the ECB's room for manoeuvre.

EURGBP: The pound sterling remains undervalued in terms of purchasing power parity

FX EUR/GBP



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

Source: LSEG, LBBW Research

Pro EUR

- The public debt-to-GDP ratio in the UK is significantly higher than that of the euro area.
- The persistently high current account deficit makes the UK reliant on foreign capital inflows and thus leaves the pound vulnerable to fluctuations in market sentiment.
- An election victory for Reform UK in the general election could – depending on its economic policy stance – trigger another ‘Liz Truss moment’ on the foreign exchange markets.

Contra EUR

- According to purchasing power parity, the pound sterling is significantly undervalued against the euro.
- The high proportion of services in the UK’s value added makes the UK less vulnerable to US tariffs than the more industry- and export-oriented economies of the eurozone.
- In times of severe crisis, differing national interests within the euro area can give rise to risks of fragmentation and redenomination, and put pressure on the euro.

EURCHF: SNB maintains zero interest rates

FX EUR/CHF



	Spot	Historical Data			Forecast		
		Ø 2025	Dec-25	Ø H1 26	Dec-26	Jun-27	Dec-27
EURCHF	0.93	0.94	0.93	0.92	0.93	0.94	0.95

Source: LSEG, LBBW Research

Pro CHF

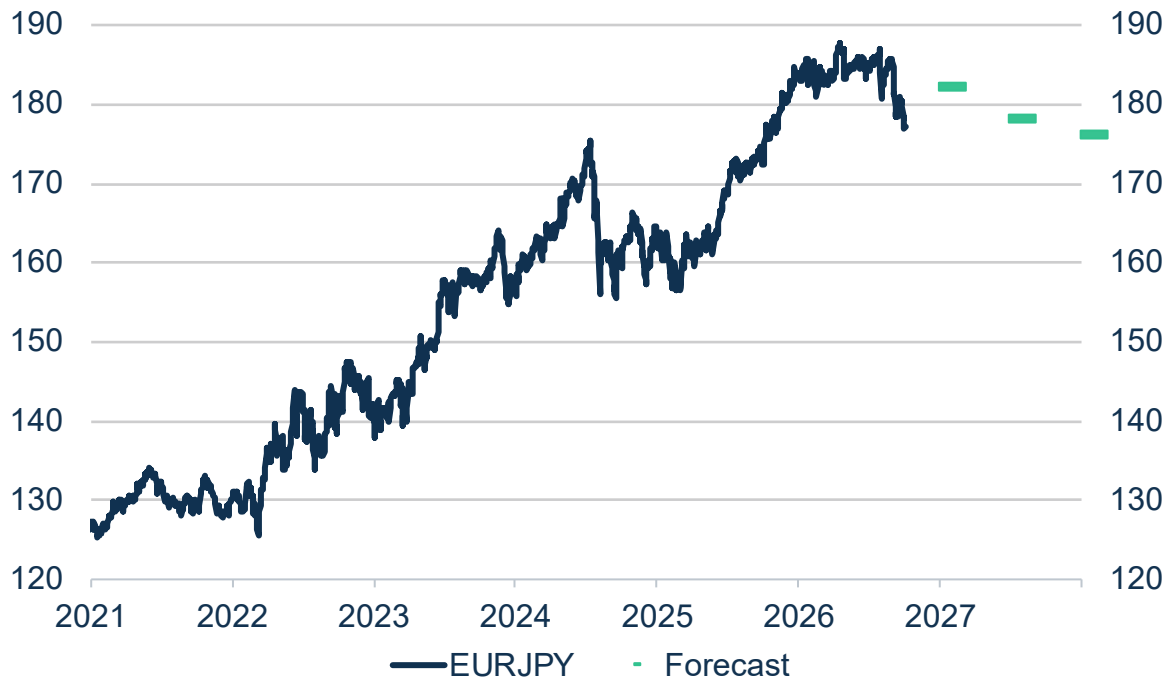
- According to our calculations based on purchasing power parity (PPP), the Swiss franc is slightly undervalued against the euro.
- Geopolitical conflicts and political risks are fuelling the flight to the ‘safe haven’ of the Swiss franc.
- In the first half of 2026, the Swiss economy proved to be in robust shape despite global headwinds.

Contra CHF

- The SNB has kept its key interest rate steady at 0 per cent since June 2025.
- The ECB remains on course to raise rates. The Swiss franc’s rate disadvantage against the euro is likely to widen further.
- Even following the recent depreciation, the Swiss franc is still trading at a historically strong level against the euro.

EURJPY: BoJ interest rate rise fizzles out

FX EUR/JPY



	Spot	Historical Data			Forecast		
		Ø 2025	Dec-25	Ø H1 26	Dec-26	Jun-27	Dec-27
EURJPY	177.28	169.08	184.09	184.44	182.00	178.00	176.00

Source: LSEG, LBBW Research

Pro EUR

- The ECB's interest rates are higher than those of the BoJ, and the ECB is expected to raise interest rates again soon. This runs counter to the BoJ's latest interest rate rise.
- Japan's economy remains weak, and the war in Iran is driving up the cost of Japan's energy supply.
- The BoJ's foreign exchange interventions in support of the yen are not having a lasting effect.

Contra EUR

- The weakness of the yen is increasing the pressure on the BoJ to take further action on interest rates.
- Pressure from the US to strengthen the yen against the US dollar through interest rate rises continues.
- The growing political polarisation in Europe (France, ...) also fuels concerns about the eurozone.

EURCNY: Concerns about France are weighing on the euro

FX EUR/CNY



	Spot	Historical Data			Forecast		
		Ø 2025	Dec-25	Ø H1 26	Dec-26	Jun-27	Dec-27
EURCNY	7.52	8.13	8.20	8.01	7.71	7.36	7.43
USDCNY	6.71	7.19	6.99	6.87	6.70	6.40	6.35

Source: LSEG, LBBW Research

Pro EUR

- The European Central Bank continues to signal its readiness to raise interest rates in the near future if needed.
- Europe's economy has recently surprised on the upside.
- The fundamental weakness in the Chinese property market persists; China's growth has lost further momentum over the summer months

Con EUR

- China's export strength acts as a structural pillar for the yuan.
- Given its low volatility, the Chinese bond market has been perceived as relative safe haven amid the global bond rout.
- The French presidential election is casting its shadows; concerns about the sustainability of France's public finances are weighing on the euro.

EURBRL: Presidential election heads into the second round

FX EUR/BRL



	Spot	Historical Data			Forecast		
		Ø 2025	Dec-25	Ø H1 26	Dec-26	Jun-27	Dec-27
EURBRL	5.58	6.31	6.44	6.01	6.10	6.00	5.90

Source: LSEG, LBBW Research

Pro EUR

- High public debt is putting a strain on Brazil's public finances; fiscal consolidation is progressing only slowly.
- The general election due to take place in October is fuelling political uncertainty.

Contra EUR

- With a base rate of 13.75 per cent, Real continues to offer a significant yield advantage.
- Brazil's economy is expected to grow by just under 2 per cent in 2026, slightly more than that of the eurozone.
- The trade surplus is likely to remain robust and increase compared with the previous year – driven by oil, soya and iron ore.

EURHUF: deficit is expected to rise unexpectedly to 7.5 per cent in 2026, putting pressure on the forint

FX EUR/HUF



	Spot	Historical Data			Forecast		
		Ø 2025	Dec-25	Ø H1 26	Dec-26	Jun-27	Dec-27
EURHUF	367.80	397.84	385.15	372.48	370.00	368.00	362.00

Source: LSEG, LBBW Research

Pro EUR

- Hungary's fiscal policy has so far led to high budget deficits. Fiscal consolidation under the new government will be implemented only gradually.
- The Hungarian central bank has cut its key interest rate to 5.50 per cent. Further easing measures will reduce the forint's interest rate advantage.

Contra EUR

- The Hungarian Government intends to adopt the euro in the medium term. This requires significant reforms that will boost investor confidence.
- 's move towards the EU following the change of 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.

EURMXN: A global rise in interest rates increases the risk of a correction in the peso

FX EUR/MXN



	Spot	Historical Data			Forecast		
		Ø 2025	Dec-25	Ø H1 26	Dec-26	Jun-27	Dec-27
EURMXN	20.33	21.67	21.12	20.39	20.70	21.40	22.00
USDMXN	18.14	19.17	17.98	17.48	18.00	18.61	18.80

Source: LSEG, LBBW Research

Pro EUR

- Mexico's economic growth is slowing and is expected to be below 1 per cent this year.
- The peso is likely to lose some of its appeal as a result of interest rate rises by the ECB and the US Federal Reserve.
- There is heightened uncertainty due to the ongoing negotiations on the North American Free Trade Agreement, as well as institutional risks.
- A deterioration in the fiscal situation led to a credit rating downgrade

Contra EUR

- The peso continues to offer an interest rate advantage over the euro.
- Nearshoring and close ties with the US remain key pillars of exports and investment.

EURPLN: The market reaction to the credit rating downgrade is likely to remain limited

FX EUR/PLN



	Spot	Historical Data			Forecast		
		Ø 2025	Dec-25	Ø H1 26	Dec-26	Jun-27	Dec-27
EURPLN	4.38	4.24	4.22	4.24	4.34	4.29	4.25

Source: LSEG, LBBW Research

Pro EUR

- Poland's fiscal policy remains a weak point. The budget deficit stood at around 6.9 per cent in 2025, causing public debt to rise towards 60 per cent.
- 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 down growth.

Contra EUR

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

EURRON: Failure to form a government puts Leu under pressure once again

FX EUR/RON



	Spot	Historical Data			Forecast		
		Ø 2025	Dec-25	Ø H1 26	Dec-26	Jun-27	Dec-27
EURRON	5.34	5.04	5.10	5.14	5.25	5.29	5.35

Source: LSEG, LBBW Research

Pro EUR

- Fiscal risks remain high. Following 7.7 per cent last year, the budget deficit is expected to fall to around 6.2 per cent 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 increase in VAT has pushed up inflation and is limiting the scope for interest rate cuts.
- The economy is expected to grow by less than 1 per cent this year.

Contra EUR

- The substantial inflow of EU funds is likely to underpin growth.
- With a base rate of 6.5 per cent, the Leu continues to offer a rate advantage over the euro.

EURSEK: A rise in the base rate before the end of this year would reduce the rate disadvantage

FX EUR/SEK



	Spot	Historical Data			Forecast		
		Ø 2025	Dec-25	Ø H1 26	Dec-26	Jun-27	Dec-27
EURSEK	11.25	11.06	10.83	10.79	10.80	10.60	10.20

Source: LSEG, LBBW Research

Pro EUR

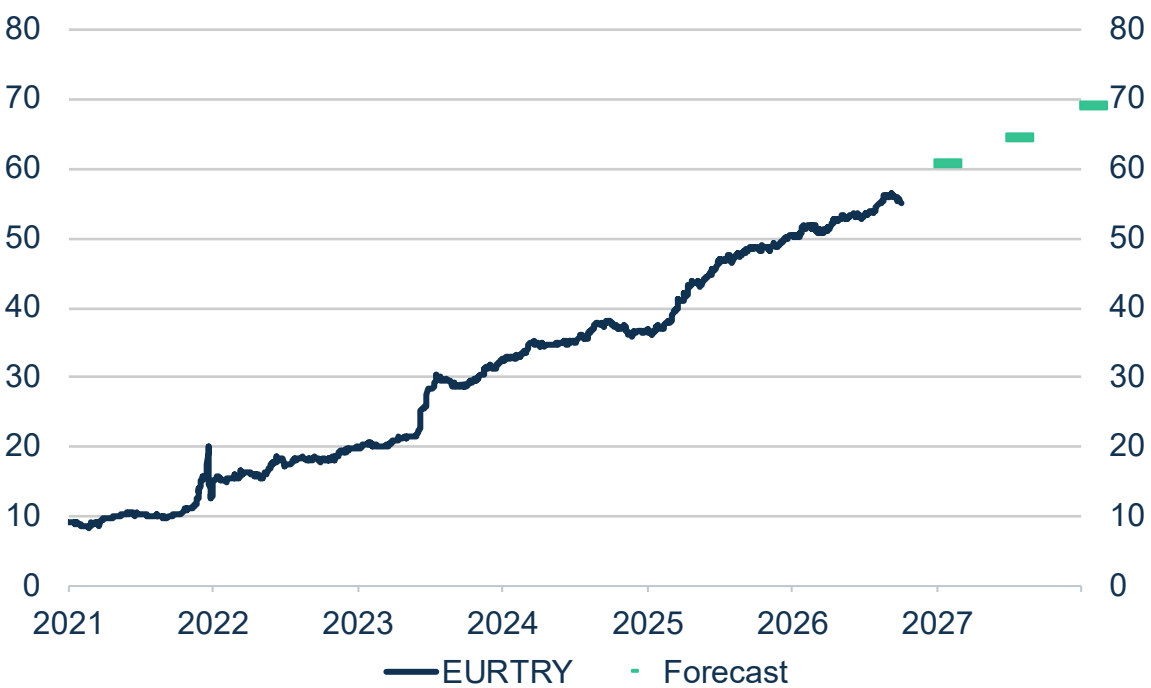
- Following significant cuts in key interest rates, the Swedish krona is at a competitive disadvantage against the euro.
- The Swedish economy is recovering, but remains vulnerable to global uncertainty and higher energy prices.

Contra EUR

- Sweden's economy is growing faster than that of the eurozone. Growth is expected to be around 2.6 per cent in 2026.
- 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: The Turkish central bank could resume its course of interest rate cuts

FX EUR/TRY



	Spot	Historical Data			Forecast		
		Ø 2025	Dec-25	Ø H1 26	Dec-26	Jun-27	Dec-27
EURTRY	55.08	44.81	50.48	52.05	60.50	64.20	69.00

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 hampering growth and fuelling inflation.
- Foreign exchange interventions to prop up the lira are putting a strain on the country's already low foreign exchange reserves.
- Political tensions at home 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: As expected by the market, the central bank has raised the key interest rate to 7.25 per cent

FX EUR/ZAR



	Spot	Historical Data			Forecast		
		Ø 2025	Dec-25	Ø H1 26	Dec-26	Jun-27	Dec-27
EURZAR	18.63	20.18	19.44	19.15	19.00	18.70	18.20

Source: LSEG, LBBW Research

Pro EUR

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

Contra EUR

- With a base rate of 7.25 per cent, the rand offers a significant yield advantage over the euro.
- The central bank’s new inflation target supports the continuation of a restrictive monetary policy.
- Urgently needed investment in transport and energy infrastructure is improving the prospects for growth.
- Public debt is likely to fall sooner than expected.

EURAUD: Central bank raises key rate to 4.60 per cent and leaves the door open for further increases

FX EUR/AUD



	Spot	Historical Data			Forecast		
		Ø 2025	Dec-25	Ø H1 26	Dec-26	Jun-27	Dec-27
EURAUD	1.62	1.75	1.75	1.66	1.63	1.61	1.59

Source: LSEG, LBBW Research

Pro EUR

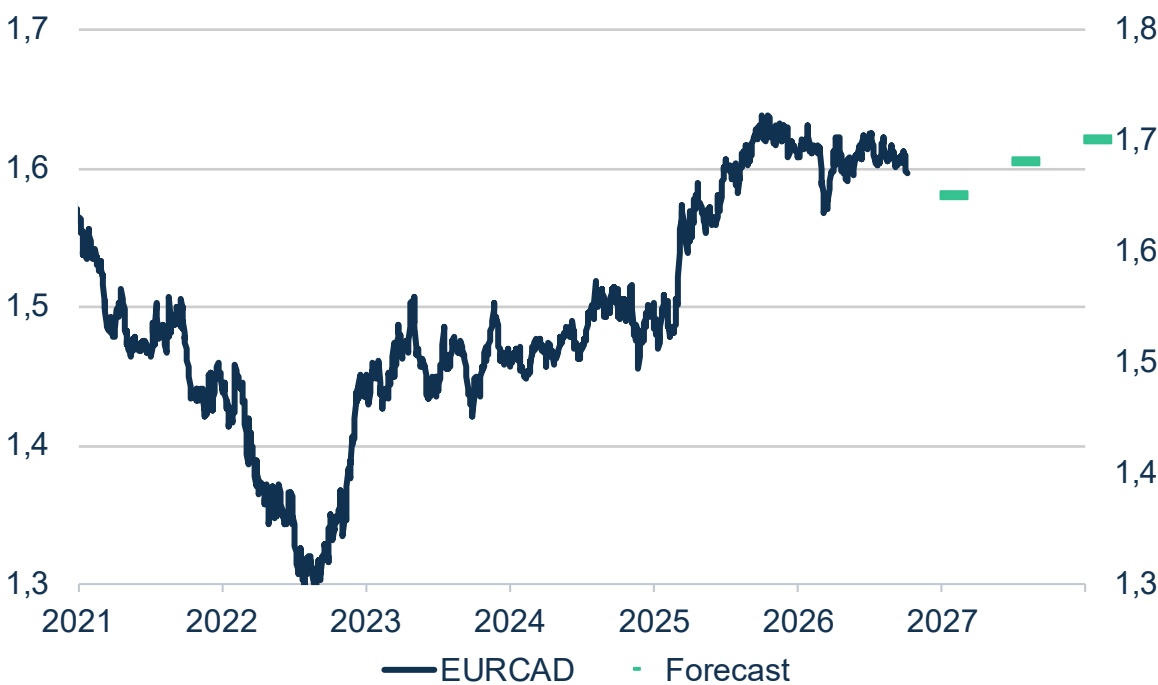
- Australia’s economy is cyclically sensitive. It is heavily dependent on China’s growth and commodity prices.
- The ECB’s interest rate rises are unlikely to allow the Australian dollar’s interest rate advantage to widen any further.

Contra EUR

- The Australian dollar offers a significant interest rate advantage over the euro. The central bank continues to adopt a restrictive stance.
- Australia’s economy is expected to grow slightly faster than that of the eurozone in 2026.

EURCAD: The persistently high oil price is providing only temporary support for the Canadian dollar

FX EUR/CAD



	Spot	Historical Data			Forecast		
		Ø 2025	Dec-25	Ø H1 26	Dec-26	Jun-27	Dec-27
EURCAD	1.60	1.58	1.61	1.61	1.65	1.68	1.70

Source: LSEG, LBBW Research

Pro EUR

- Canada's economy remains vulnerable to US trade policy and higher tariffs. The renewed escalation in the trade dispute with the US is increasing uncertainty in the market.
- The close links with the US economy are having a negative impact; an economic slowdown in the US is weakening the Canadian dollar.
- A swift 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 bolster the Canadian dollar through higher oil prices.

EURCZK: Rising inflation and higher global interest rates point to a rise in the base rate

FX EUR/CZK



	Spot	Historical Data			Forecast		
		Ø 2025	Dec-25	Ø H1 26	Dec-26	Jun-27	Dec-27
EURCZK	24.46	24.69	24.24	24.32	24.10	23.90	23.60

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 diminishing against a backdrop of rising global interest rates.

Contra EUR

- As in previous years, the Czech economy is likely to grow at a significantly faster rate than that of the eurozone. A more expansionary fiscal policy supports growth momentum.
- With a base rate of 3.75 per cent, the krone offers an interest rate advantage that is likely to be maintained given the restrictive monetary policy.
- The Czech economy is likely to benefit disproportionately from a recovery in the European industrial sector.

EURNOK: The rise in the base rate to 4.50 per cent and high energy prices are bolstering the krona

FX EUR/NOK



	Spot	Historical Data			Forecast		
		Ø 2025	Dec-25	Ø H1 26	Dec-26	Jun-27	Dec-27
EURNOK	10.76	11.72	11.84	11.17	11.10	10.80	10.60

Source: LSEG, LBBW Research

Pro EUR

- The krone is sensitive to economic cycles. Weaker growth in European industry is weighing on the krona.
- Falling oil prices following the reopening of the Strait of Hormuz could put pressure on the Norwegian krone.

Contra EUR

- The Norwegian krone offers a significant interest rate advantage over the euro. Following the recent rise in the key interest rate to 4.50 per cent, the central bank remains on a tight monetary policy stance.
- Higher oil and gas prices are improving Norway's terms of trade and supporting the krone.
- Norway has a sound fiscal position, underpinned by the Government Pension Fund and high energy revenues.

Market Data Overview: Currencies

Exchange rates to EUR	Date	-1M %	-3M %	-1J %	YTD %	Max 52W	Min 52W
AUD	1.61	0.24	2.55	10.52	9.48	1.80	1.61
BRL	5.59	6.45	5.95	12.57	15.21	6.55	5.59
GBP	0.85	1.39	1.05	2.80	3.00	0.88	0.85
CNY	7.52	3.71	3.23	11.19	9.20	8.34	7.52
JPY	177.06	2.43	4.23	-2.23	3.97	187.56	175.51
CAD	1.60	0.71	1.75	2.60	0.84	1.64	1.57
NZD	2.00	-1.39	0.11	0.61	2.01	2.06	1.95
NOK	10.74	0.59	4.66	8.69	10.28	11.99	10.70
PLN	4.38	-1.51	-2.14	-2.91	-3.63	4.38	4.20
RUB	95.28	4.70	-7.64	1.48	-2.50	101.21	82.46
SEK	11.25	-1.18	-1.97	-2.25	-3.77	11.34	10.51
CHF	0.93	0.99	-1.36	0.19	-0.14	0.95	0.90
ZAR	18.70	-0.84	-0.76	8.27	4.09	20.27	18.54
CZK	24.46	-1.04	-1.11	-0.87	-1.16	24.57	24.08
TRY	55.10	2.13	-2.80	-11.18	-8.42	56.46	48.32
HUF	367.73	-1.34	-3.92	5.65	4.41	394.20	349.33
USD	1.12	3.63	2.08	4.74	4.78	1.20	1.12
Exchange rates to USD							
JPY	157.96	-1.16	2.10	-6.65	-0.77	163.94	149.98
CNY	6.70	0.10	1.13	6.19	4.31	7.14	6.70

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	6.44	6.74	5.69	6.24	8.95	9.45	4.27	4.62	7.83	8.78	4.34	5.04	2.30	3.35	5.22	6.52	1.78	1.98
2 months	6.39	6.64	5.47	6.02	8.70	9.20	4.13	4.38	7.74	8.54	4.28	4.93	2.16	3.21	5.30	6.15	1.98	2.18
3 months	6.29	6.54	5.21	5.91	8.33	8.83	4.07	4.37	7.58	8.33	4.29	4.89	2.20	3.10	5.14	6.14	2.16	2.36
6 months	6.56	6.76	5.25	5.80	8.55	9.05	4.37	4.62	7.56	8.41	4.49	5.04	2.32	3.12	5.38	6.23	2.66	2.81
9 months	6.89	7.09	5.39	5.94	8.69	9.19	4.86	5.11	7.64	8.49	4.66	5.16	2.29	3.09	5.69	6.44	2.99	3.14
1 year	7.00	7.20	5.43	5.98	8.74	9.24	4.94	5.19	7.68	8.53	4.89	5.34	2.52	3.22	5.77	6.52	3.20	3.35
2 years	7.33	7.53	5.64	6.34	8.75	9.25	5.29	5.49	7.90	8.65	4.94	5.49	2.41	3.56	6.14	6.69	3.56	3.91
3 years	6.36	9.26	5.15	7.40	8.68	9.63	5.40	6.00							5.15	8.20	3.62	4.22
5 years	6.52	9.82	5.70	7.90	8.78	9.98	5.97	6.72									3.91	4.41

Data as of: 10/06/2026 6:48 AM

Brent: Oil prices remain high

Brent oil price & forecast in US dollars



	Historical Data				Forecast		
	Spot	Ø 2025	Dec-25	Ø H1 26	Dec-26	Jun-27	Dec-27
Brent (USD/Barrel)	102.25	68.32	60.85	87.55	80.00	75.00	70.00

Source: LSEG, LBBW Research

Pro

- Crude oil supply fell by almost 9 mbpd (year-on-year) in Q2/26.
- In the wars in Iran and Ukraine, refineries and oil infrastructure with a capacity of 3–4 mbpd were destroyed.
- Shipping traffic in the Strait of Hormuz remains disrupted.

Cons

- A supply surplus on the oil market is not expected until Q2/27.
- Gloomy economic prospects and the war in Iran are dampening demand. Consumption fell by 5 mbpd (year-on-year) in Q2/26.
- OPEC (+ UAE) spare capacity currently stands at over 10 mbpd.
- US rig count has risen by 12 per cent since the end of February. US production rises to a new record high of around 14 mbpd.
- The UAE has set a new production record following its withdrawal from OPEC.
- Oil stocks in the Gulf states remain very high.

Gold: Interest rate rises are creating headwinds

Gold Price & Forecast

in US dollars



	Spot	Historical Data			Forecast		
		Ø 2025	Dec-25	Ø H1 26	Dec-26	Jun-27	Dec-27
Gold (USD/Ounce)	4 138	3 444	4 325	4 687	4 200	4 500	4 800

Source: LSEG, LBBW Research

Pros

- Mine production rose only slowly in Q2/26, by 2 per cent or 18 tonnes (yoy). Recycling gold has fallen by 6%, or 20 tonnes.
- Central banks increased gold purchases by 62% in Q2/26.
- Erratic US trade policy and ongoing political... Tensions mean that gold remains in demand as a safe haven.
- Cryptocurrencies are increasingly becoming a major driver of demand for physical gold.
- expected depreciation of the US dollar should support gold.
- ETCs will return to the buy side from mid-July. Annual total for 2026: +60 tonnes.

Cons

- Demand for jewellery fell by 12%, or 44 tonnes, in Q2/26 (yoy).
- The ECB and the Fed are responding to high inflation by raising key interest rates. Interest rate rises are not expected to come to an end until the first half of 2027.

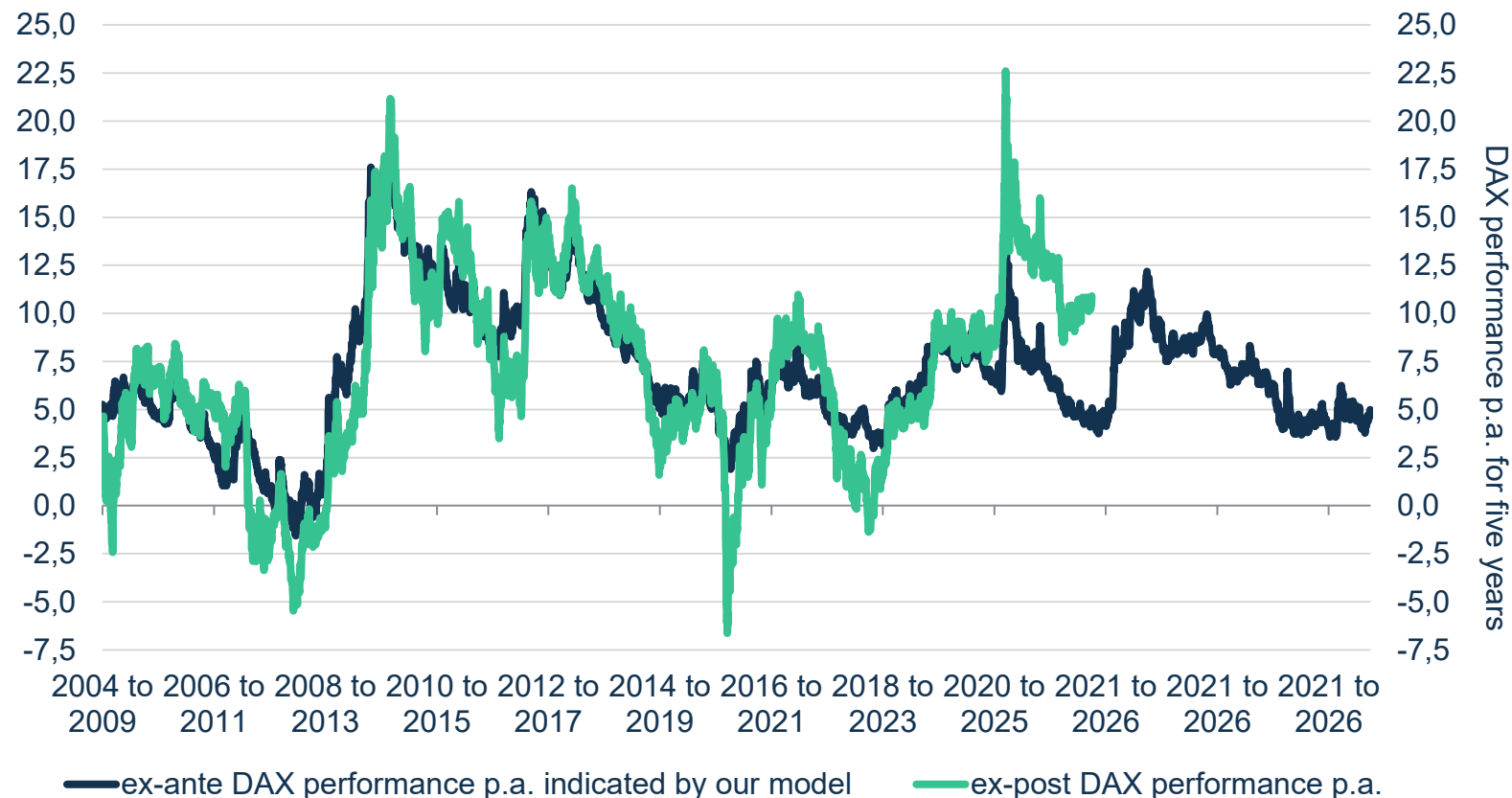
Overview of Commodity Market Data

Energy (Spot)	Unit	Date	-1M %	-3M %	-1Y %	YTD %	Max 52W	Min 52W
Crude Oil Brent	USD/bbl	102.25	6.13	42.09	58.43	68.04	118.34	58.98
Crude Oil WTI	USD/bbl	96.13	3.71	37.86	55.93	67.88	114.58	55.44
Precious Metals (Spot)								
Gold	USD/oz	4 138	-6.87	-0.82	6.65	-4.31	5 298	3 955
Silver	USD/oz	61.82	-7.51	-0.71	29.85	-14.13	118.45	46.44
Platinum	USD/oz	1 732	-3.60	5.02	8.09	-14.57	2 811	1 522
Palladium	USD/oz	1 182	-15.67	-7.47	-6.52	-24.60	2 106	1 182
Industrial Metals (3M Future)								
LME Aluminium	USD/MT	3 127	-5.06	1.18	15.41	4.39	3 753	2 725
LME Copper	USD/MT	14 420	0.03	7.88	34.57	16.08	14 768	10 518
LME Lead	USD/MT	1 876	-1.70	-0.85	-7.15	-6.74	2 100	1 852
LME Zinc	USD/MT	3 744	-5.13	5.72	23.36	20.08	4 053	2 934
LME Tin	USD/MT	54 314	-1.01	3.20	45.01	33.92	57 960	35 037
LME Nickel	USD/MT	15 714	-6.72	-4.32	1.82	-5.60	19 642	14 263

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

LBBW DAX Five-Year Model

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



Source: LSEG, LBBW Research



Two input factors

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



Forecast

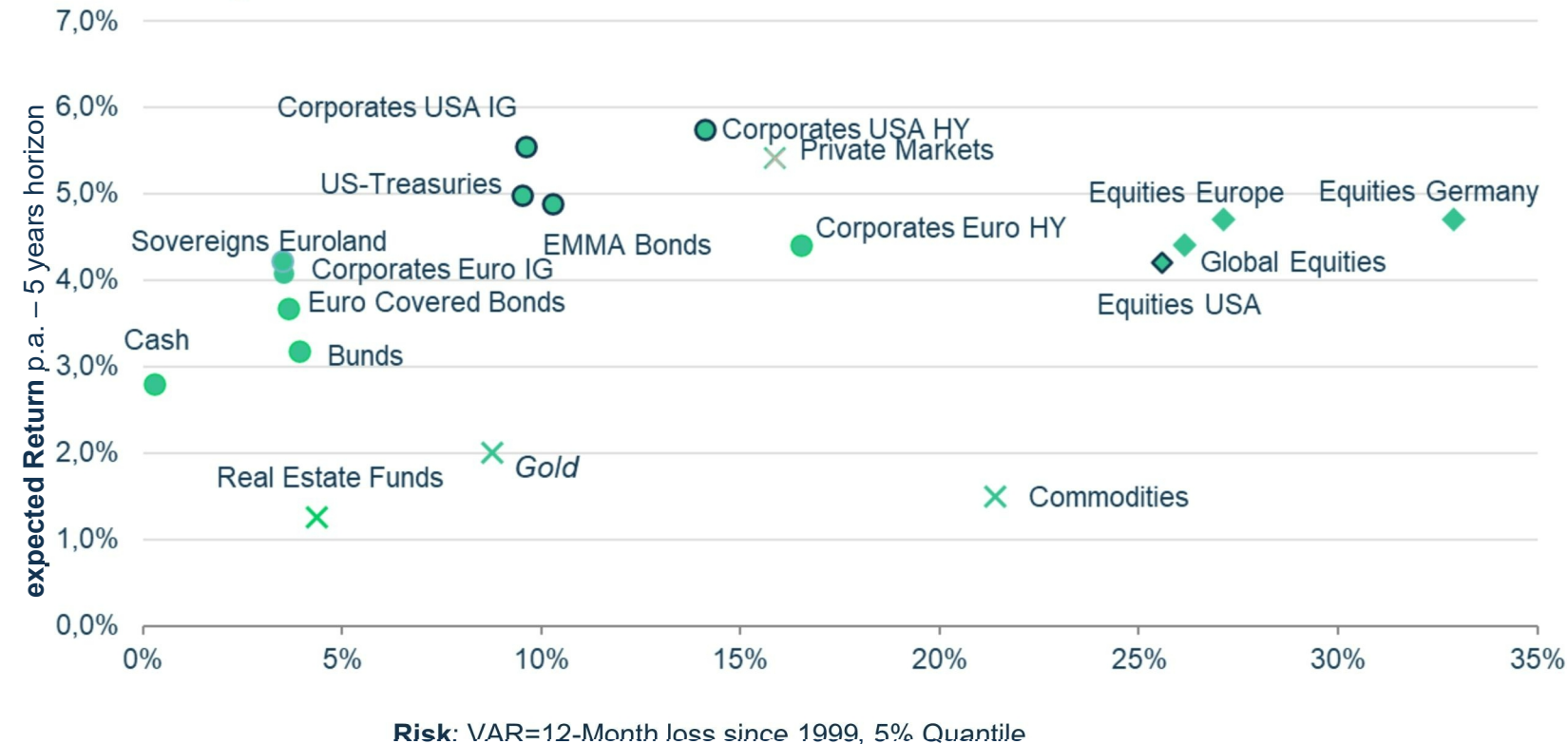
Since more than 21 years
very reliable prediction of
geometric DAX-mean performance

4.8 % p.a. (including dividends)
performance forecast

Risk-adjusted returns of asset classes over a 5-year period

Expected returns versus risk: LBBW's assessments

as a percentage



Expected bond yields:

Basis: Current yields on the respective bond indices. In the case of high-yield and emerging markets, these figures have been adjusted to reflect historically plausible assumptions regarding defaults and recovery rates. Further assumption: a constant yield curve.

Expected returns on shares:

A combination of the five-year DAX model and long-term equity risk premiums.

Currency analysis:

In the risk analysis, unhedged portfolios were assessed 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.

Sources: LSEG, LBBW Research – as at 5 October 2026. IG = Investment Grade; HY = High Yield. The bond indices have a duration of between three and seven years. Note on reading: Risk/VAR: The loss that the relevant total return index, acting as a proxy for a portfolio in this asset class, has not exceeded with a 95 per cent probability since 1999.

Yield Curves for EUR Sovereign Bonds

Yields by rating and maturity

as a percentage

Average Yield EUR Sovereigns														
02.10.2026	Maturity in Years													
Country	1	2	3	4	5	6	7	8	9	10	15	20	25	30
Germany	2,92	3,05	3,12	3,18	3,24	3,30	3,36	3,42	3,48	3,55	3,82	3,92	3,92	3,95
France	3,26	3,68	3,90	4,08	4,25	4,42	4,58	4,74	4,87	4,99	5,37	5,54	5,66	5,75
Italy	3,29	3,67	3,88	4,04	4,18	4,32	4,44	4,56	4,67	4,77	5,12	5,28	5,38	5,40
Spain	3,02	3,30	3,45	3,56	3,66	3,77	3,88	3,98	4,09	4,19	4,53	4,68	4,75	4,69
Netherlands	2,85	3,05	3,18	3,27	3,33	3,40	3,46	3,52	3,58	3,64	3,86	3,96	3,97	3,90
Austria	2,96	3,19	3,33	3,43	3,51	3,58	3,65	3,71	3,77	3,82	4,05	4,18	4,22	4,21
Belgium	3,12	3,36	3,53	3,68	3,82	3,96	4,09	4,22	4,34	4,46	4,93	5,22	5,35	5,32
Ireland	2,91	3,06	3,15	3,22	3,30	3,39	3,47	3,55	3,63	3,71	3,93	4,02	-	-
Portugal	3,10	3,25	3,36	3,47	3,59	3,70	3,81	3,91	4,01	4,10	4,43	4,59	4,63	4,59
Finland	2,91	3,13	3,26	3,38	3,49	3,59	3,68	3,77	3,85	3,92	4,18	4,29	4,31	4,32
EUR Swap in %	3,28	3,42	3,47	3,49	3,51	3,53	3,55	3,57	3,59	3,61	3,68	3,65	3,57	3,48
Yield over 4.0 per cent														

Source: LSEG, LBBW Research

Yield Curves for EUR Non-Financials

Interpolated yields by rating and maturity

as a percentage

Average Yield EUR Non-Financials										
02.10.2026	Maturity in Years (Call-Date)									
Rating	1	2	3	4	5	6	7	8	9	10
AA	2,95	3,37	3,62	3,79	3,93	4,04	4,14	4,22	4,29	4,35
AA-	3,02	3,37	3,58	3,73	3,85	3,94	4,02	4,09	4,15	4,21
A+	3,11	3,47	3,68	3,83	3,95	4,04	4,12	4,19	4,25	4,31
A	3,18	3,55	3,77	3,93	4,05	4,14	4,23	4,30	4,36	4,42
A-	3,20	3,56	3,78	3,95	4,07	4,18	4,26	4,34	4,41	4,47
BBB+	3,21	3,62	3,86	4,03	4,16	4,27	4,36	4,44	4,51	4,57
BBB	3,32	3,74	3,99	4,16	4,30	4,41	4,50	4,58	4,65	4,71
BBB-	3,41	3,90	4,18	4,38	4,54	4,66	4,77	4,87	4,95	5,02
BB+	4,12	4,68	4,95	5,14	5,28	5,40	5,50	5,59	5,67	5,74
BB	4,20	4,84	5,21	5,47	5,68	5,85	5,99	6,11	6,22	6,32
BB-	4,59	5,31	5,73	6,03	6,27	6,46	6,62	6,76	6,88	6,99
B+	5,52	6,03	6,33	6,54	6,71	6,84	6,96	7,06	7,14	7,22
B	5,53	6,20	6,60	6,87	7,09	7,27	7,42	7,55	7,66	7,76
B-	6,88	7,09	7,21	7,29	7,36	7,41	7,46	7,50	7,53	7,56
EUR Swap in %	3,28	3,42	3,47	3,49	3,51	3,53	3,55	3,57	3,59	3,61

Yield over 4.0 per cent

Source: LSEG, LBBW Research

Yield Curves for EUR Banks Senior Preferred

Interpolated yields by rating and maturity

as a percentage

Average Yield EUR Banks Senior Preferred										
02.10.2026	Maturity in Years (Call-Date)									
Rating	1	2	3	4	5	6	7	8	9	10
AA	3,14	3,47	3,67	3,80	3,91	4,00	4,07	4,13	4,19	4,24
AA-	3,23	3,52	3,69	3,81	3,91	3,98	4,05	4,11	4,15	4,20
A+	3,24	3,62	3,83	3,99	4,11	4,21	4,29	4,36	4,43	4,48
A	3,29	3,62	3,81	3,94	4,05	4,14	4,21	4,27	4,33	4,38
A-	3,40	3,72	3,90	4,03	4,13	4,21	4,28	4,34	4,40	4,44
BBB+	3,51	3,80	3,97	4,09	4,18	4,26	4,32	4,38	4,43	4,47
BBB	3,56	3,89	4,09	4,23	4,33	4,42	4,49	4,56	4,61	4,66
BBB-	3,74	3,93	4,03	4,11	4,17	4,22	4,26	4,29	4,32	4,35
EUR Swap in %	3,28	3,42	3,47	3,49	3,51	3,53	3,55	3,57	3,59	3,61

Yield over 4.0 per cent

Source: LSEG, LBBW Research

Yield Curves for EUR Covered Bonds

Yields by rating and maturity

as a percentage

Average Yield EUR Covered Bonds											
02.10.2026	Maturity (Call-Date)										
Country	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
AU	3,22	3,51	3,56	3,64	3,68		3,71	3,78			3,96
AT	3,25	3,42	3,54	3,62	3,66	3,74	3,83	3,77			3,95
BE											
CA		3,40	3,58	3,58	3,71	3,79					
DK	3,24		3,74								
FI	3,18	3,38	3,53	3,60	3,83	3,79	3,71		3,92		
FR	3,19	3,44	3,61	3,74	3,82	3,90	3,97	4,02	4,13	4,20	4,35
DE	3,14	3,39	3,56	3,55	3,63	3,79					
GR											
IE											
IT	3,21	3,51	3,67	3,72	3,85	3,88	3,96	4,02		4,11	4,24
LU											
NL	3,23	3,42	3,54	3,67	3,71	3,78	3,77	3,92	4,10	3,86	4,00
NZ		3,33	3,57	3,65	3,66	3,77	3,78				
NO	3,21	3,43	3,57	3,65	3,68	3,72		3,80	3,87	4,03	3,98
PL				3,81							
PT	3,15	3,42		3,67	3,72	3,78	3,84		3,97		
SG		3,48	3,67		3,77	3,70					
ES											
SE	3,23	3,45	3,56	3,67	3,79		3,74				
CH											
UK	3,33	3,46	3,56	3,69	3,74	3,68		3,81		3,92	
JP	3,17		3,62		3,71					4,01	
KR	3,15	3,39	3,52	3,59	3,71						
SK	3,27	3,57	3,65	3,75	3,79	3,87					
EUR Swap in %	3,28	3,42	3,47	3,49	3,51	3,53	3,55	3,57	3,59	3,61	3,63

Yield over 4.0 per cent

Source: LSEG, LBBW Research

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