Fixed Income Update
Week 25

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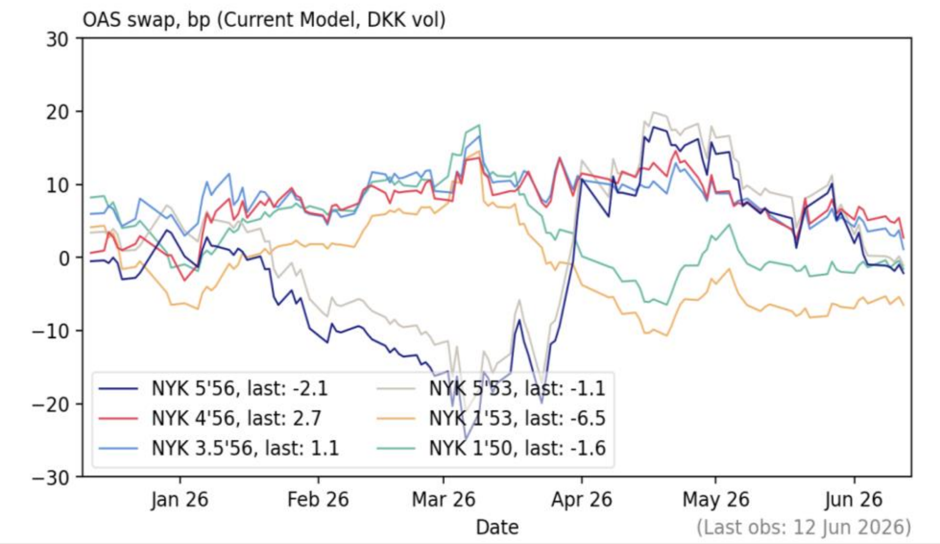
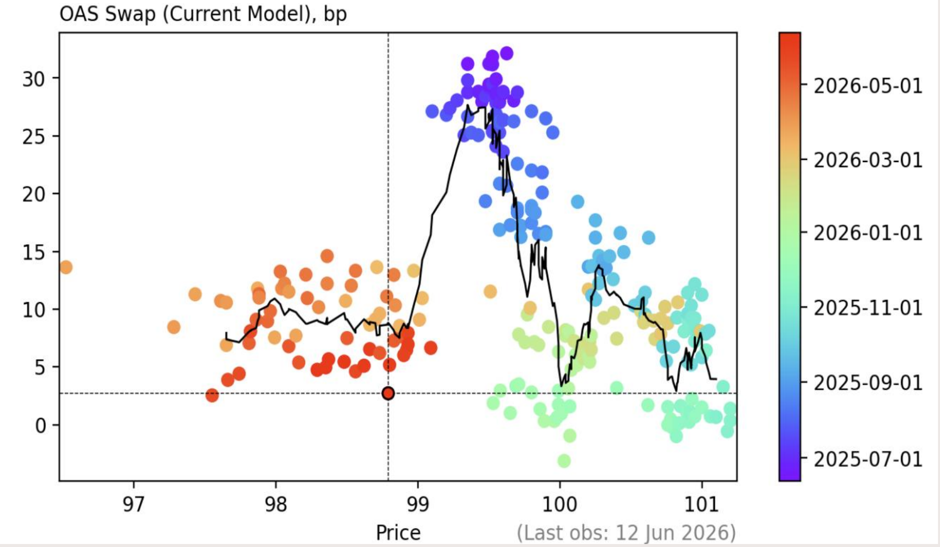
Peace agreement = performance?

- This weekend's peace agreement between the US and Iran is expected to lead to price performance in callable bonds this week, driven by lower volatility.
- The lower volatility may initially give rise to OAS widening, as prices may not adjust sufficiently at first – but as usual, we expect full pricing within 3-4 days.
    - Moreover, during the war we have seen faster pricing of volatility changes than previously, and that may also prove to be the case this week.
- However, we are sceptical as to whether this weekend's peace agreement will ultimately lead to OAS performance.
- Callables have generally maintained their OAS levels despite the war, meaning that there is no normalisation potential in OAS.
- Overall, callables currently look expensive (see bottom chart), and they also continue to trade rich vs EU financials.

30Y callables: OAS swaps



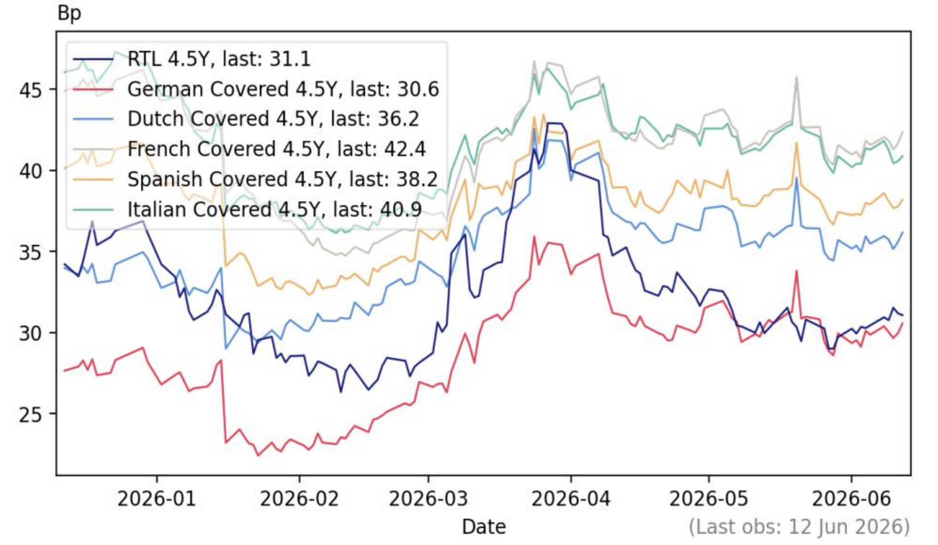
NYK 4'56: OAS vs price



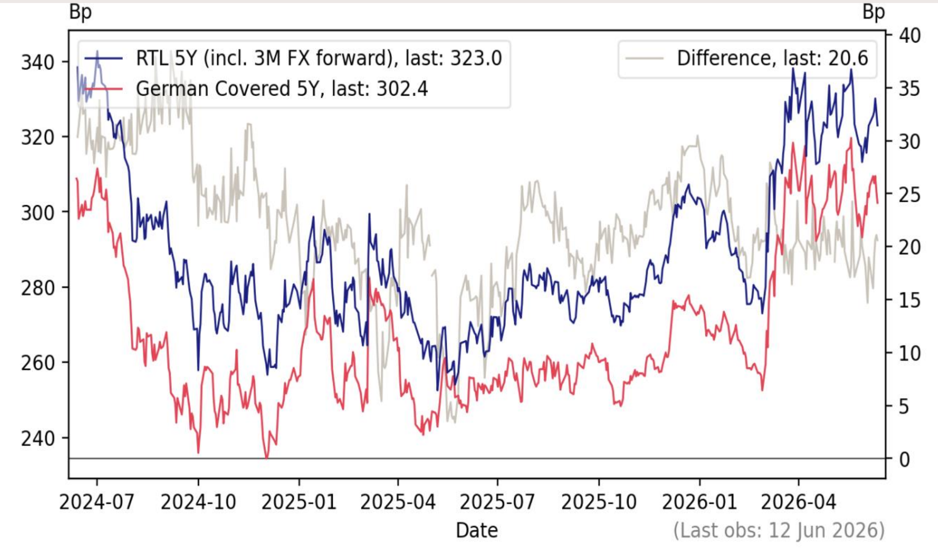
Expensive bullets?

- As with callables, we do not see any performance potential in bullets as a result of the end of the war.
- They continue to trade rich relative to European covered bonds, measured in terms of swap spreads and government bond spreads.
- We thus still prefer German covered bonds over Danish bullets.
- What could support bullets maintaining their current levels is the ample liquidity, which does not appear likely to recede for now.
- There is still roughly the same pickup in bullets vs German covered bonds if the FX risk is hedged using 3M FX forwards.
- We believe that high outright yields have also been a key driver of the richness in bullets.
- It seems likely that they will move somewhat lower again as a result of the peace agreement, and this could put pressure on bullet spreads.

Bullets and EUR covered bonds: Spread vs DGB/DBR



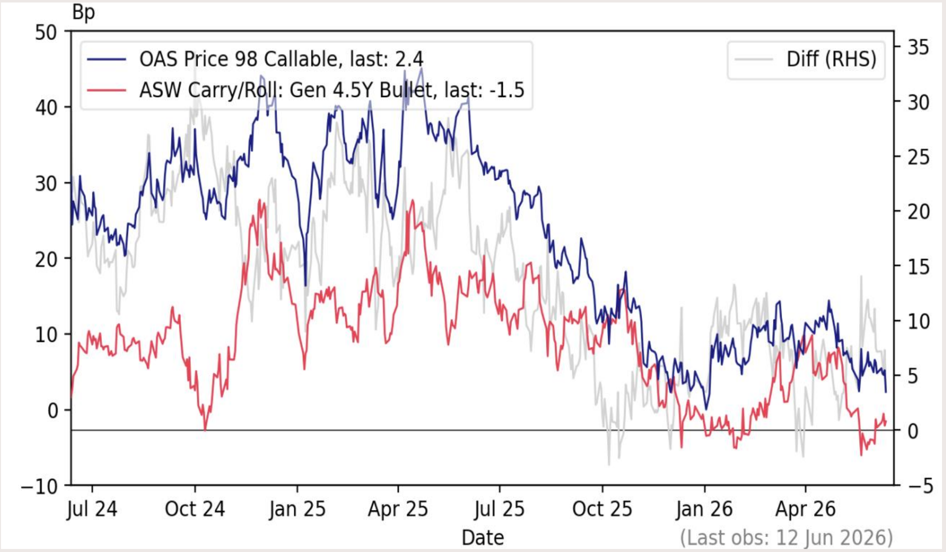
Yields on bullets (3M FX fwd) vs German covered: 5Y



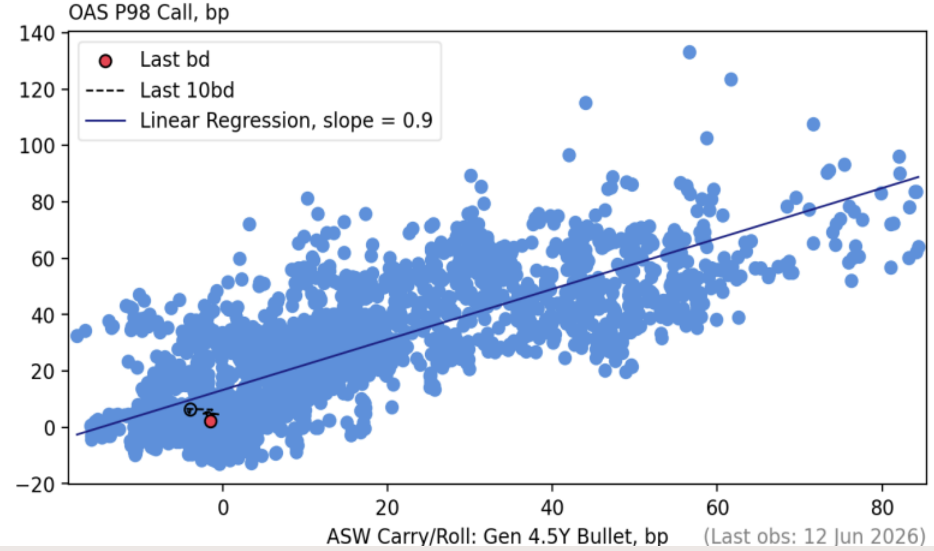
Callables vs bullets?

- The pricing of bullets and callables is currently broadly aligned, but this is mainly because both look expensive.
- Callables are perhaps trading slightly rich vs bullets, but provided that bullets can maintain their current level, it is difficult to see substantial spread widening in callables.
- By contrast, we expect price performance in callables this week as a result of declining volatility.
- This supports buying callables rather than bullets.
- For investors able to replicate the volatility performance potential in callables using swap overlays, as we have discussed previously, we prefer bullets.

OAS Price 98 Callable vs Gen 5Y Bullet (Start 12 May 24)



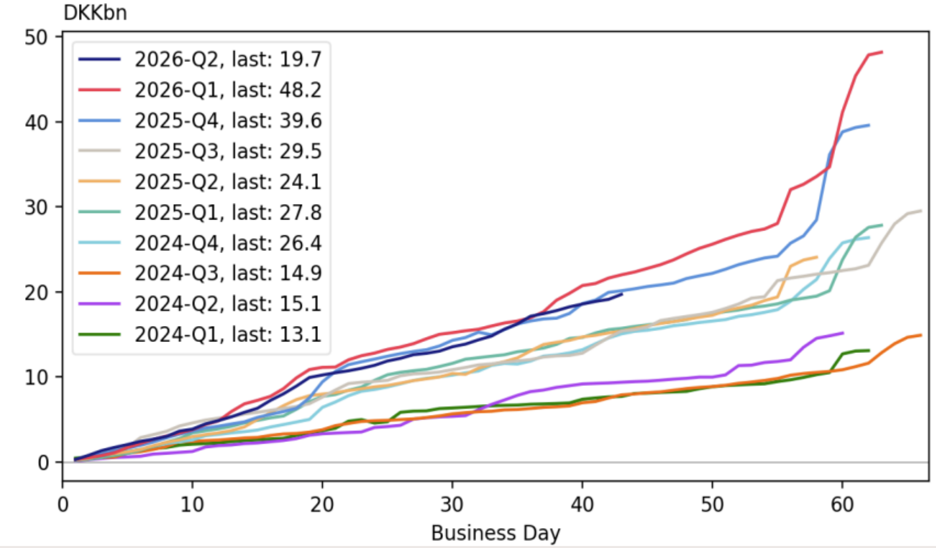
OAS Price 98 Callable vs Gen 5Y Bullet (Start 1 Jan 14)



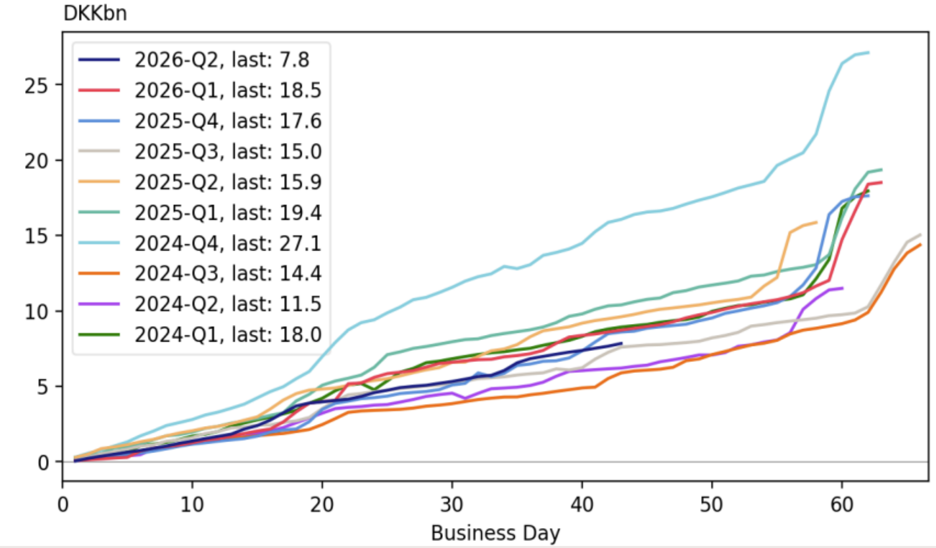
Slightly lower 5Y bullet issuance, but still ample!

- Issuance remains dominated by bullets, primarily driven by 5Y bullet issuance.
- This is despite the fact that 5Y bullet issuance has declined in Q2, as expected (see also here).
- However, the decline has so far only brought issuance down to the same level as in Q4 2025.
- If issuance of 5Y bullets continues at the current pace, and our expectations for end-of-quarter issuance prove correct, 5Y bullet issuance in Q2 will land at around DKK 34-36 billion.
  - We expect end-of-quarter issuance of bullets of DKK 7-9 billion, with more than half in 5Y bullets.
- This is a clear decline from the DKK 48 billion seen in Q1 2026, but only slightly lower than in Q1 2025, when almost DKK 40 billion was issued in 5Y bullets.
- The decline in 5Y bullet issuance this quarter has so far been smaller than we initially expected.
- We believe this reflects that more borrowers have wanted to fix the interest rate on their loans for an extended period as a result of the war in the Middle East.
- Accordingly, we have seen 3Y bullet issuance take another dip (see the bottom chart).

Bullet | 5Y: Issuance Net of Refi Auctions (CIRMIL)



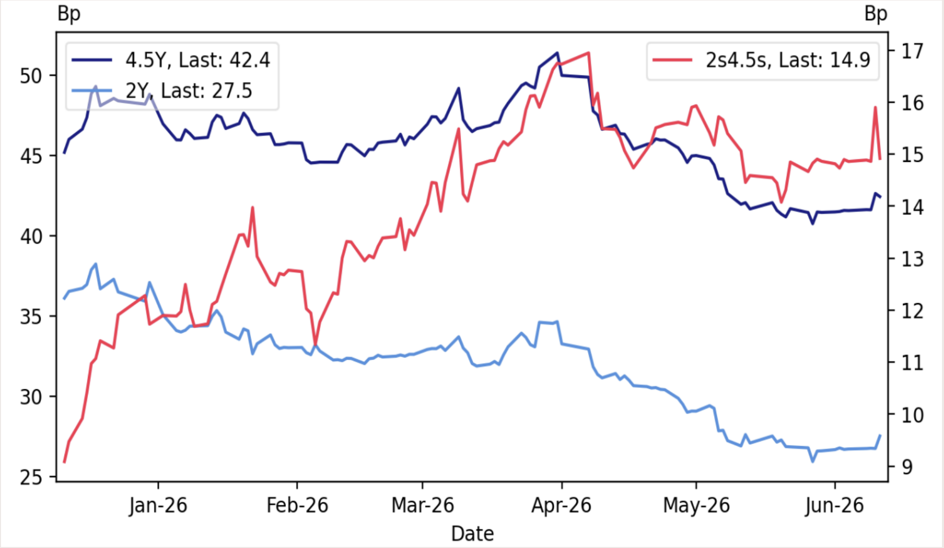
RTL | 3Y: Issuance Net of Refi Auctions (CIRMIL)



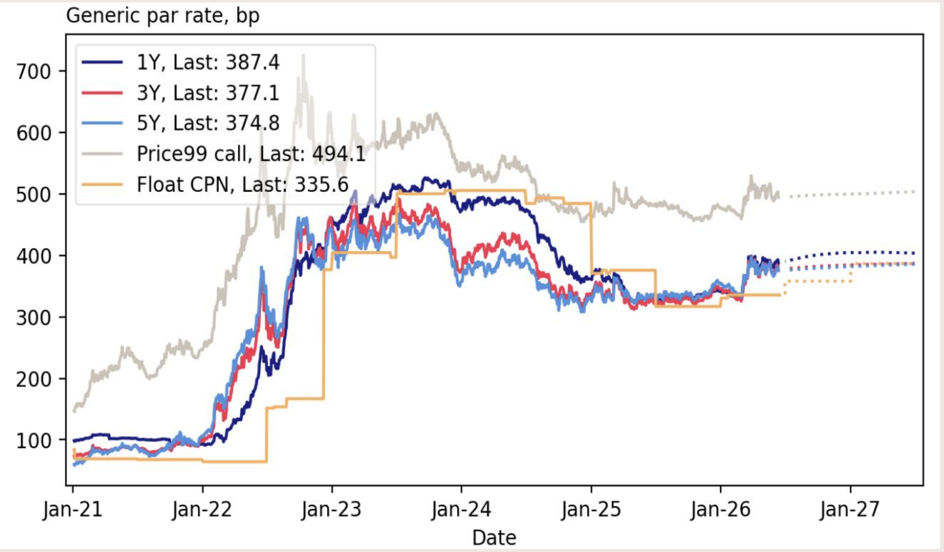
Steep bullet-DESTR spread curve

- 3Y bullets have for some time looked expensive relative to longer-dated bullets, and we expect the bullet-DESTR spread curve to flatten.
- Instead, the bullet-DESTR spread curve has only steepened further, although it has flattened slightly again since the start of April.
- The composition of ongoing bullet issuance has probably helped maintain a steep bullet-DESTR spread curve.
- Despite the weekend's peace agreement, we believe that more lasting calm in financial markets is needed, and that the ECB will need to start lowering interest rates again before borrowers regain their interest in 3Y bullets.
- This suggests that the slope of the bullet-DESTR spread curve is unlikely to flatten in the near term, contrary to what we expected at the beginning of the year.
- Although we do not expect spread widening in 3Y bullets vs 5Y bullets, we believe there is a greater probability that the entire bullet curve will shift wider in spread terms than the opposite.

Bullets: Spreads vs DESTR



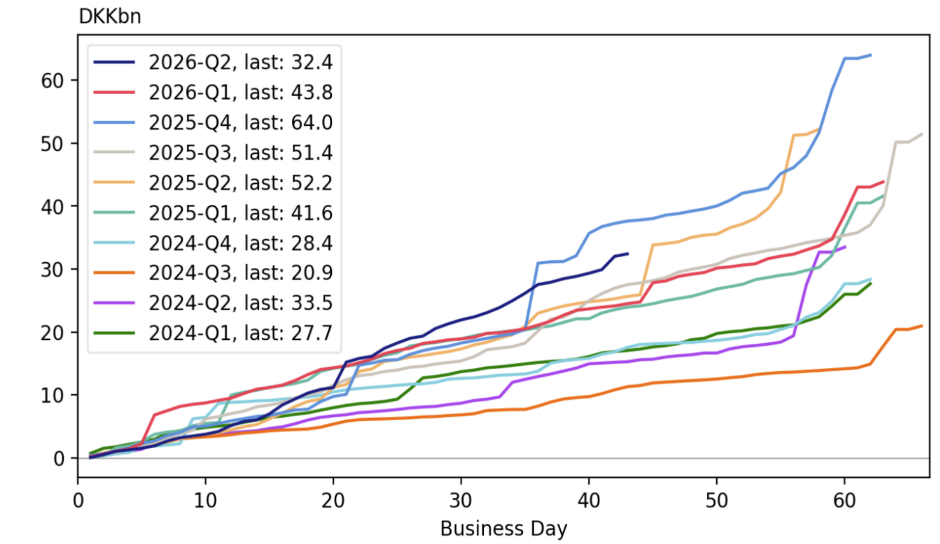
Yields and coupons adjusted for margins etc



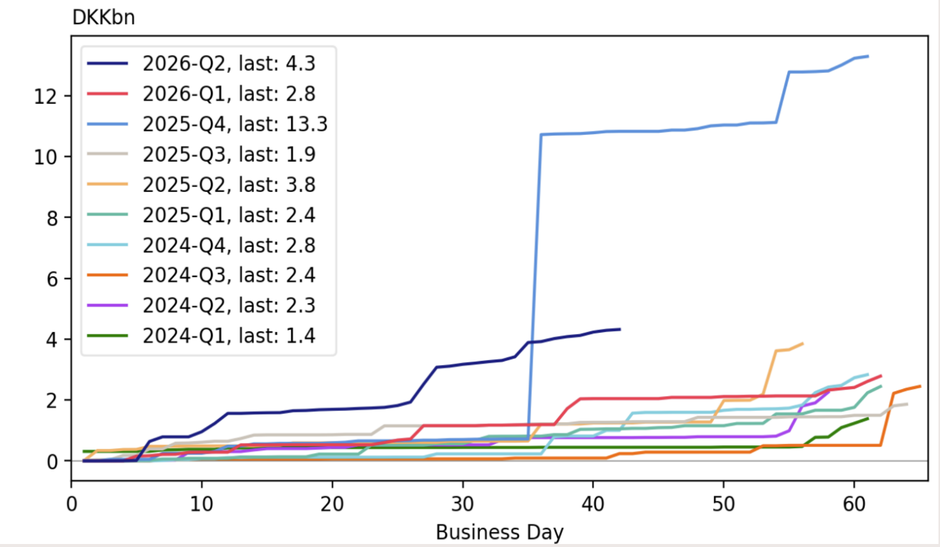
Is Jyske Frihed well underway?

- FRN issuance picked up again in Q2, mainly driven by increased issuance of Cibor3M FRNs, although issuance of Cibor 6M and Cita 6M FRNs was also higher than in the previous quarter.
- In terms of issuers, JRK in particular has brought more FRNs to market this quarter, as shown in the lower chart. Please note that Q4 2025 is affected by the DKK 10 billion issued by JRK in its new Cita 12M FRNs.
- NYK and RD have also recorded slightly higher FRN issuance than in Q1.
- For JRK, the increase in FRN issuance has come at the expense of lower bullet issuance.
- Although bullet issuance by NYK and RD is also lower than in Q1, it is less clear that this reflects a 1:1 shift into FRN issuance.
- This suggests that JRK has had considerable success with its new product Jyske Frihed, which is funded specifically through Cibor 3M FRNs.

FRNs: Issuance Net of Refi Auctions (CIRMIL)



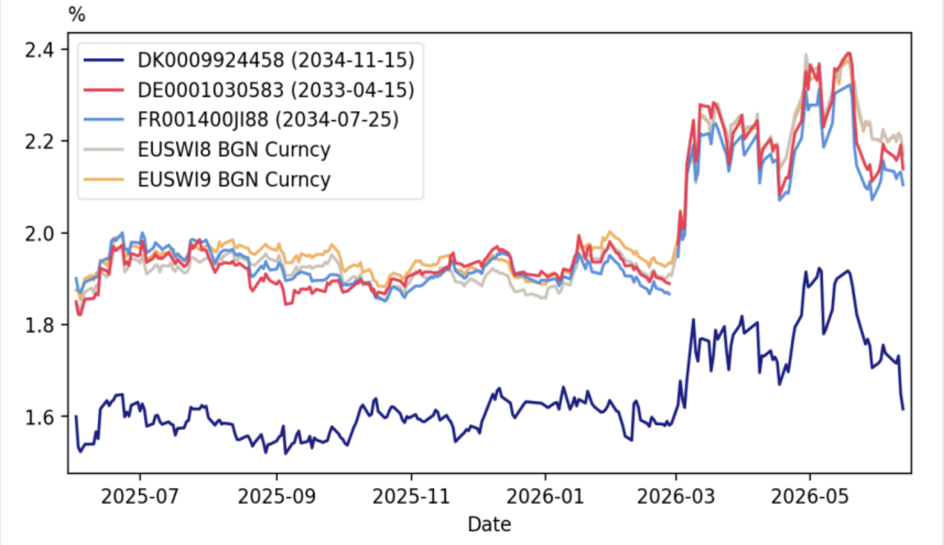
BOLIGX | JRK: Issuance Net of Refi Auctions (CIRMIL)



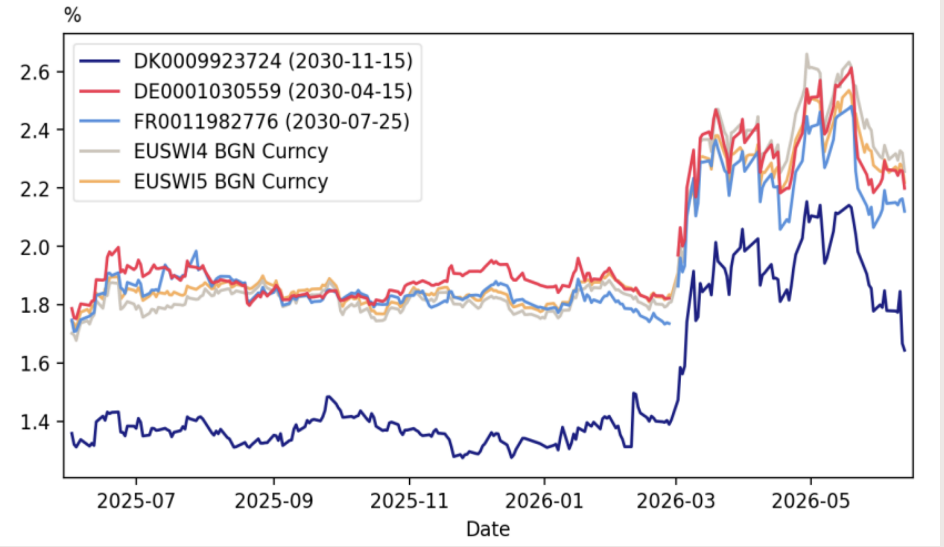
DGB: Linkers

- Break-even inflation has been trending lower recently and is expected to fall further on the back of the peace agreement.
- The break-even inflation on DGBi'34 is approaching the level before March.
  - As a result, BEI on DGBi'34 now appears particularly low relative to developments in BEI on European inflation-linked swaps and government bonds, which remain clearly elevated, as shown in the upper chart.
  - BEI on DGBi'30 also remains elevated compared with pre-war levels, and BEI on DGBi'30 has more closely tracked developments in BEI on European inflation-linked swaps and government bonds, as shown in the bottom chart.
- DGBi'34 is, of course, more exposed than DGBi'30 to the inflation effect of a future halving of VAT on food and the abolition of VAT on fruit and vegetables, which is forecast to be just under 1 percentage points.
  - However, a reduction in VAT is not expected to be implemented before 2028 at the earliest.
  - This could therefore coincide with the expiry of the temporary reduction in the electricity tax, as the new government has not allocated funds for an extension.
  - Since the inflation effect of the reduction in VAT and electricity tax is, at first glance, of a similar magnitude, the bottom line may be that DGBi'34 does not ultimately end up being hit harder by political measures.
- We are opening a recommendation of DGBi'34 against DGBi'30 (as a "box" against equivalent nominal government bonds) at a ratio of 1:1.8.

BEI (SA): DGBi'34 vs IL Bonds and Swaps



BEI (SA): DGBi'30 vs. IL Bonds and Swaps



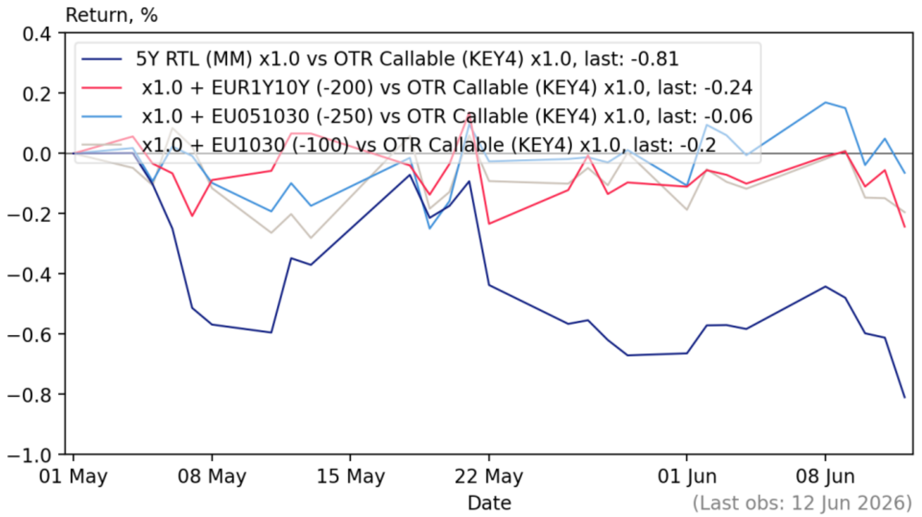
Recommendations

- We are closing our outlook recommendation of 3Y bullets vs 5Y bullets out of the money, as we do not believe the bullet-DESTR spread curve is set to flatten in the near term (see also slide 6).
- We are also closing our recommendation of 5Y bullets vs 1Y bullets, which has been subject to trading costs but has otherwise moved sideways.
  - We opened the recommendation on the basis of our expectation that the bullet-DESTR spread curve would flatten, as well as the prospect of reduced liquidity around the beginning of April.
  - As we no longer see the bullet-DESTR spread curve flattening in the near future, and liquidity is ample both now and in the coming months, we are closing the recommendation at a loss.
- We maintain our other recommendations.
- Our recommendation of 4.5Y German covered bonds vs 4.5Y bullets (vs ESTR via basis swap), has moved sideways, but we continue to see greater value in the German covered bonds.
- We are opening a recommendation in DGBi'34 vs DGBi'30 (see previous slide).

Current recommendations

Opening date	Name	Return 5bd	Total return
2026-02-23	RTL5 vs. RTL1	-0.00	-0.01
2026-04-23	5'56 vs RTL	0.07	0.75
2026-06-01	RD 4'56IO vs NYK 4'56IO	-0.01	-0.06

5Y bullets vs OTR callable incl swap/swaption overlay



Outlook recommendations

Opening date	Name	Return 5bd	Total return
2025-08-25	CITA vs CIBOR 3M FRN	-0.01	0.01
2025-11-27	CIBOR 6M vs CIBOR 3M FRN	0.01	0.09
2026-01-12	RTL5 vs. RTL3	0.01	-0.07
2026-01-15	NYK 4'56 vs RD 5'56 + JRK 1.5'53 IO	0.16	-0.13
2026-01-26	4'56 vs RTL5	0.19	0.52

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Recommendation	
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Sell	50%

As at 13.12.2024

Note: Distribution of our recommendations, which therefore add up to 100%.

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