Fixed Income Update
Week 4

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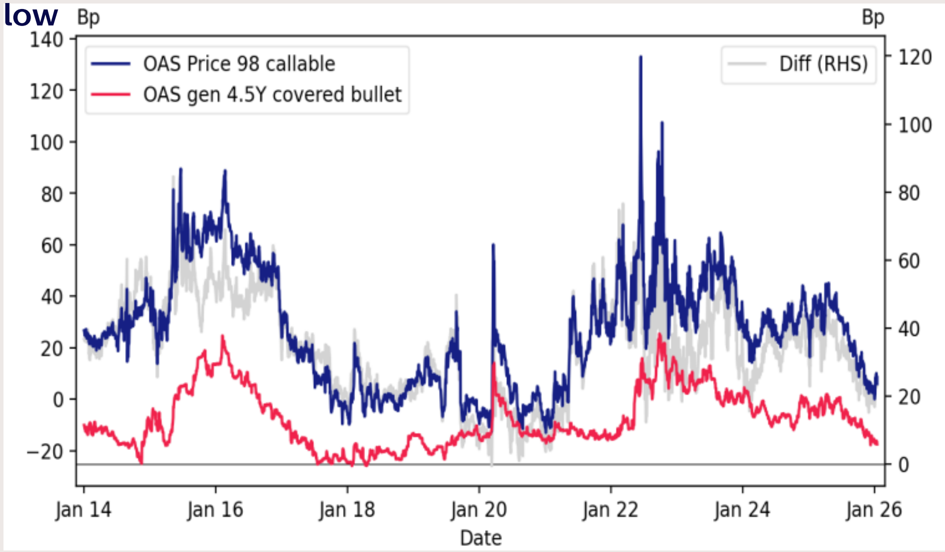
Outlook 2026: Tariffs or TACO?

- Last Thursday, we issued our Outlook 2026
  - We are moderately optimistic about Danish mortgage bonds in 2026 despite low performance potential compared to recent years.
  - You can read more about this – along with a discussion of a number of risk scenarios – in our research note here
- One of the risk scenarios discussed in our outlook is the situation concerning Greenland – as well as the possibility that Trump would use the tariff weapon
  - After we published the research note, Trump has threatened to impose 10% tariffs from 1 February on Denmark and seven other European countries (increasing to 25% tariffs in June if an agreement on the US takeover of Greenland is not in place by then).
  - The consequences for Danish mortgage bonds (and the DKK) will probably be less than if Trump had tried to hit Denmark more specifically. Trump's tariff announcement has not weakened support for Denmark and Greenland from the other European countries – quite the opposite.
  - We still consider it most likely that the situation will have a limited and temporary impact on the Danish bond markets in 2026. So far, the reaction in the bond and fixed income markets has also been limited (see also next page).
  - In the short term, however, the situation is expected to cause foreign investors in particular to be reluctant towards Danish mortgage bonds in general – and callables in particular.

Performance potential of Danish mortgage bonds in 2026 is low



Limited reaction in the mortgage market

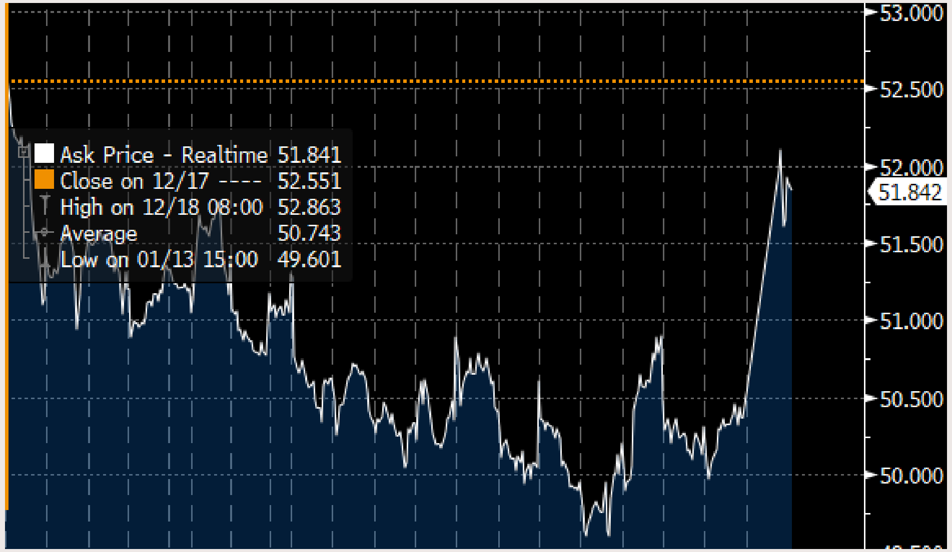
- The reaction to the US President's announcement of "until-I-get-Greenland tariffs" has led to a classic risk-off sentiment, with EUR FRA/OIS, Bund ASW and volatility widening, while all European equity indices have dropped in the morning.

- Activity in Danish mortgage bonds has been extremely modest, and all real money investors are sitting by and waiting to see what will happen.

- Bullet spreads have tightened marginally, while callables are more or less unchanged – probably helped by today's minor volatility increase.

- However, it would be natural if callables lose a little due to the increased uncertainty in the market.

iTraxx Main

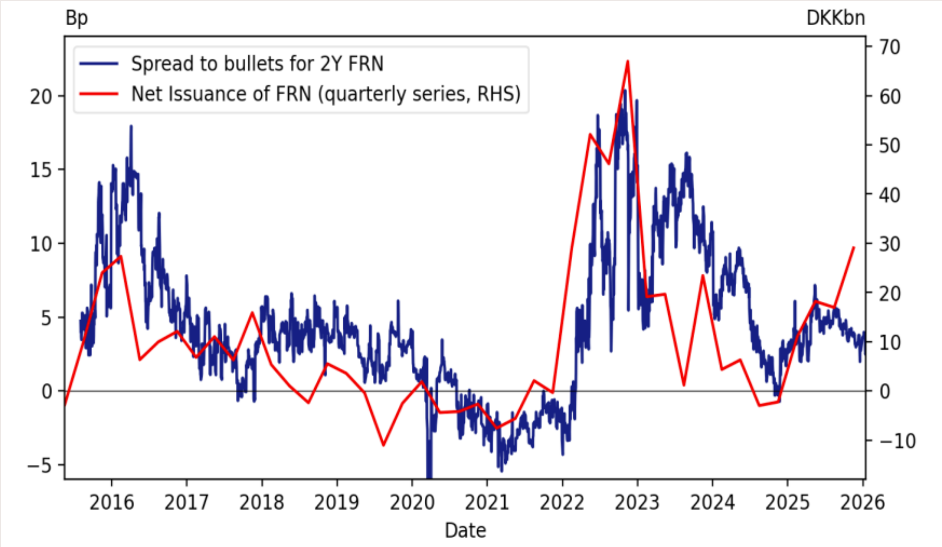


FRNs on offer

- FRNs maturing at the April payment date are 100% NYK
  - NYK's auctions – like those of the other issuers – will be held from 3 to 6 February
  - The table on this page shows ISINs and characteristics of the FRNs that NYK puts up for auction.
  - The volumes in the table are the outstanding amounts of the FRNs that the new bonds replace. The auction volumes will typically account for 90-98% of these amounts.

- We currently see FRNs as being priced rather expensively vs bullets and expect the pattern in recent years with spread widening of FRNs (vs bullets) to be repeated up to the major FRN auctions in May (read more here)
  - We therefore currently prefer bullets over FRNs.

FRN-bullet spreads and net issuance of FRNs



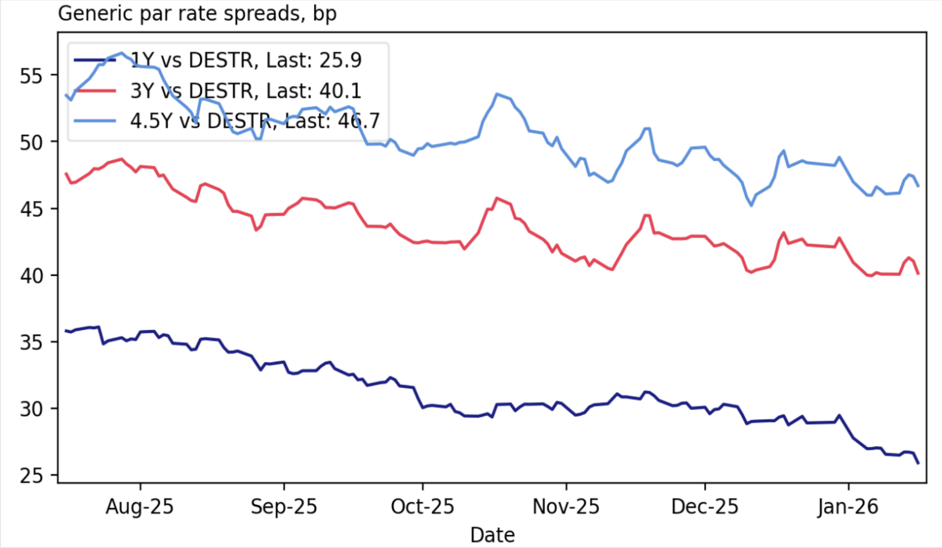
ISIN	Issuer	Ref.rate	Maturity	Cap.center	Type	Callable	Green	Ratecap	Amount*
DKK FRN									
DK0009551400	NYK	CIBOR 3M	Okt-28	NYK H	SDO	-	-	-	12,368
DK0009551590	NYK	CIBOR 3M	Apr-29	NYK H	SDO	Y	-	-	2,816
DK0009551673	NYK	CIBOR 3M	Apr-29	NYK H	SDO	-	Y	-	11,150
DK0009551756	NYK	CIBOR 3M	Okt-28	NYK G	RO	-	-	-	5,192
EUR FRN									
DK0009551830	NYK	EURIBOR 3M	Apr-29	NYK H	SDO	Y	-	-	390
DK0009551913	NYK	EURIBOR 3M	Okt-30	NYK H	SDO	Y	-	-	32

* Amount (in DKKm) indicates the outstanding amount of the FRN(s) that the new FRN replaces. The amount up for refinancing will typically be 90-98% of this amount.

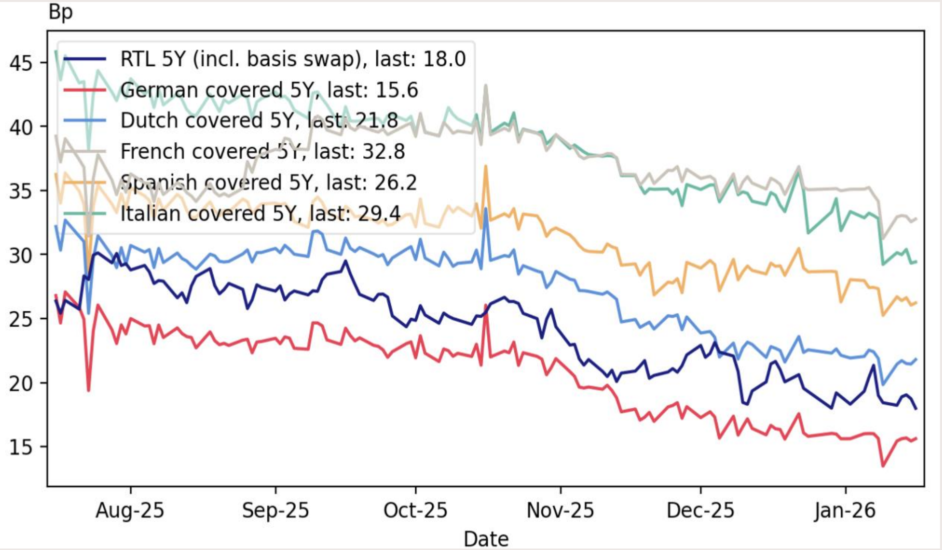
Bullets remain quite calm despite turmoil – for now

- Spread widening of callables and the turmoil over Greenland have so far not feed through to the spreads of bullets, which were roughly flat last week, in line with our expectations.
- European covered bonds lost slightly over the past week.
- With the intensification of the situation involving Greenland, as well as slightly less good mood in European covered bonds, it is our expectation that especially the longer-dated bullets will widen this week.
- We continue to prefer 5Y bullets over 3Y bullets.

Bullets: Spreads vs DESTR



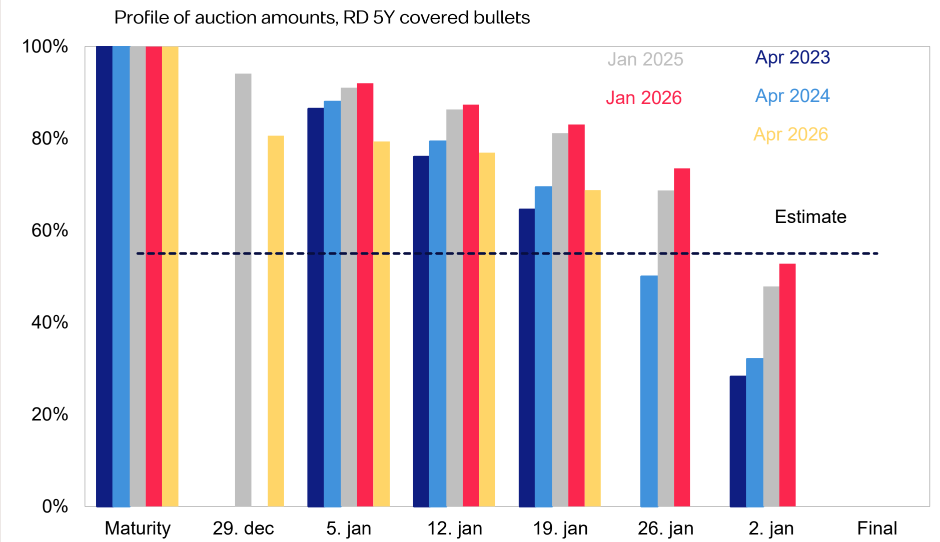
Bullets and EUR covered bonds: Spread vs swap (6M)



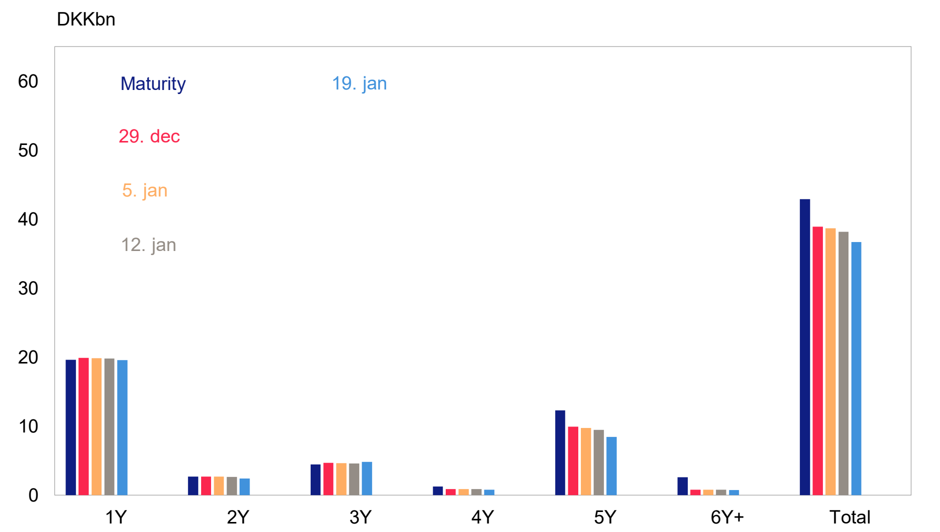
Preliminary auction volumes

- RD's preliminary volumes currently point to yet another auction with a relatively low refinancing percentage of 5Y bullets.
- The expected offering of 5Y bullets has dropped considerably today, after having been more or less stable for the past few weeks.
- Combined with the fact that the preliminary volumes of 5Y bullets were low from the start compared to the last auctions, we find it most likely that RD's offering of 5Y bullets will surprise a bit on the downside.
- Overall, we do not change our expectations for the auction offering of 5Y bullets.

RD – refinancing percentages of 5Y bullets based on preliminary volumes



RD – maturity and preliminary volumes

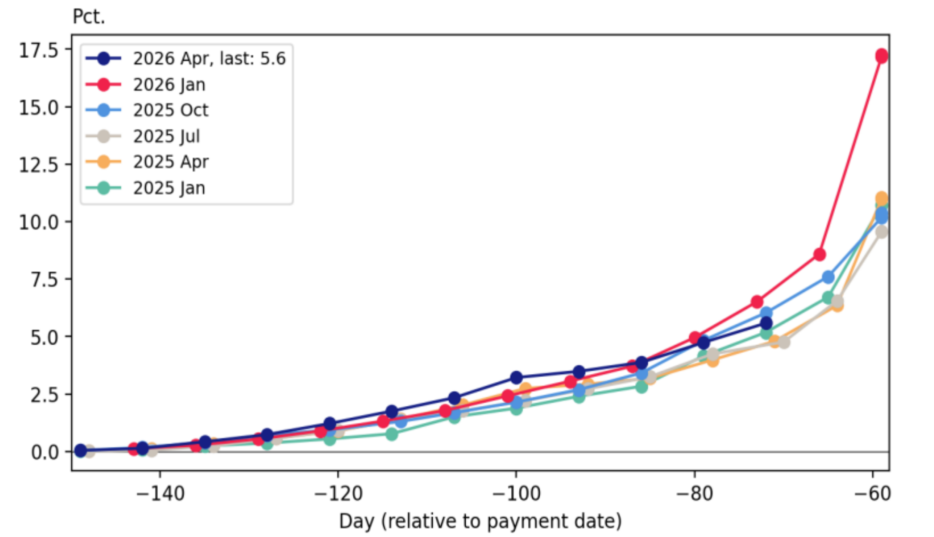


On track for 10% prepayments in 5% callables

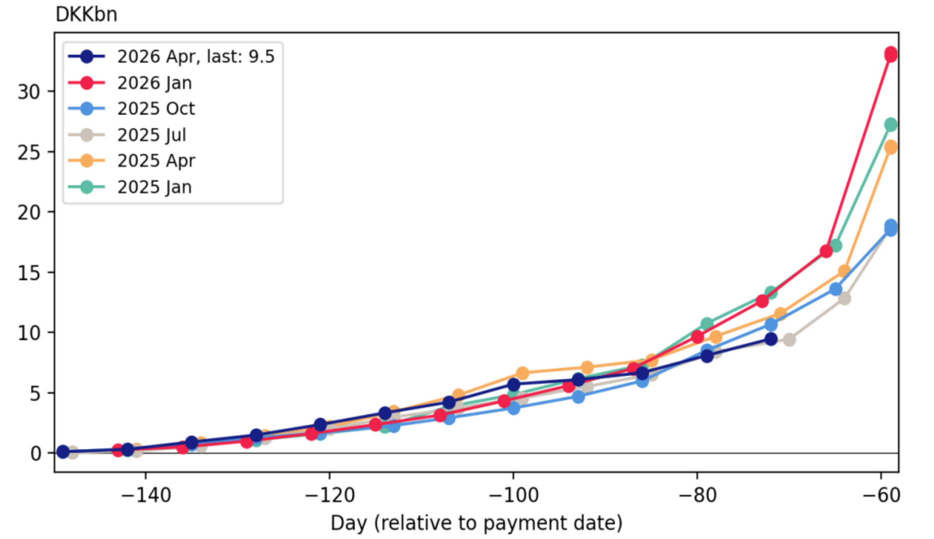
- Today's CK93 data came as no surprise – they are still on track for additional prepayments in the 5% callables of around 10% on average

- Prepayments for the April payment date are expected at around DKK 20 billion.
  - In that case, net issuance of callables in Q1 will be close to zero – and the negative net growth in the segment will be sharply reduced from the (minus) DKK 17-18 billion in Q3 and Q4 2025.

Preliminary prepayments in 5% callables



Total preliminary prepayments in callables



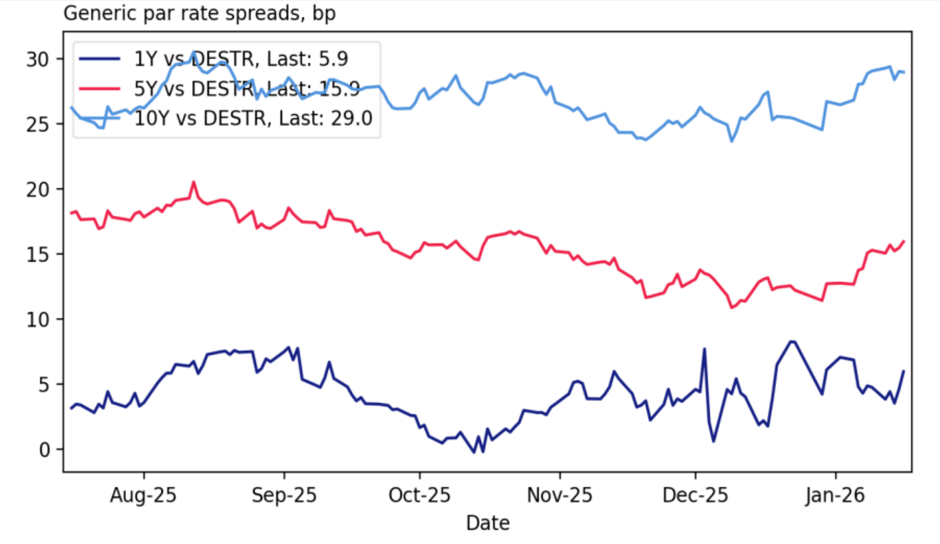
DGB: New 2Y government bond

- On 21 January 2026, 2% DGB'28 will be opened via auction (closes at 10:15 CET).
  - The bond's ISIN is DK0009925265 and is a bullet loan with an annual payment date on 15 November and maturity on 15 November 2028.
  - 2% DGB'28 replaces 0.5% DGB'27 as primary on-the-run issue.
  - The maximum auction offering is a nominal DKK 6 billion.
  - The current pricing of government bonds suggests OAS vs DESTR of around 14bp / ASW of around 17bp

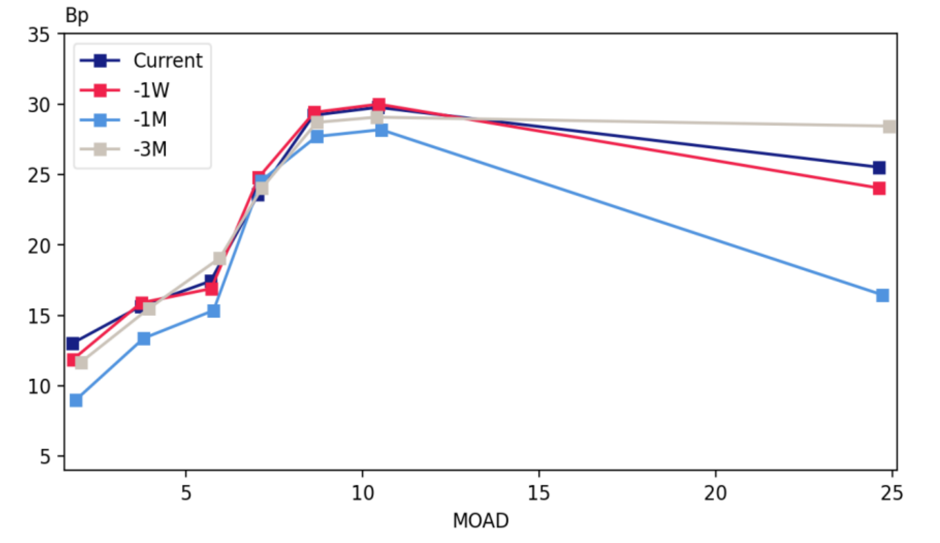
- Danish government bonds have recently lost against DESTR
  - This is partly driven by markets pricing in an increased probability of a tightening spread between Danish monetary policy rates vs the euro zone.

- In addition, the DGB-DBR spread has widened slightly in 2026, probably related to the geopolitical situation involving Greenland.

DGB: Generic par rate spreads vs DESTR



DGB: Spreads vs DESTR



Recommendations

- In connection with our Outlook 2026, we opened two new recommendations – read more here:
  - NYK 4'56 vs RD 5'56 and JRK 1.5'53 IO (or other combination of issuers/low coupon)
  - Bullets vs FRNs: We currently prefer bullets over FRNs – particularly around the 3Y point

- We maintain other recommendations

- DGBi'30 has immediately performed well against nominal government bonds lately – but January inflation data (which are dragged down by tax reductions) may be a bump in the road.
  - We still see value in the recommendation.

Recommendations

Opening date	Name	Return 5bd	Total return
2025-08-25	CITA vs CIBOR 3M FRN	-0.02	0.02
2025-11-27	CIBOR 6M vs CIBOR 3M FRN	-0.01	0.02
2025-12-15	DGBi'30 vs DGB'29 and DGB'31	-0.44	-0.11
2026-01-12	RTL5 vs. RTL3	N/A	-0.03
2026-01-15	RTL vs FRN	N/A	-0.02
2026-01-15	NYK 4'56 vs RD 5'56 + JRK 1.5'53 IO	N/A	0.01

Nykredit markets

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As at 13.12.2024
Note: Distribution of our recommendations, which therefore add up to 100%.

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