Fixed Income Update
Week 5

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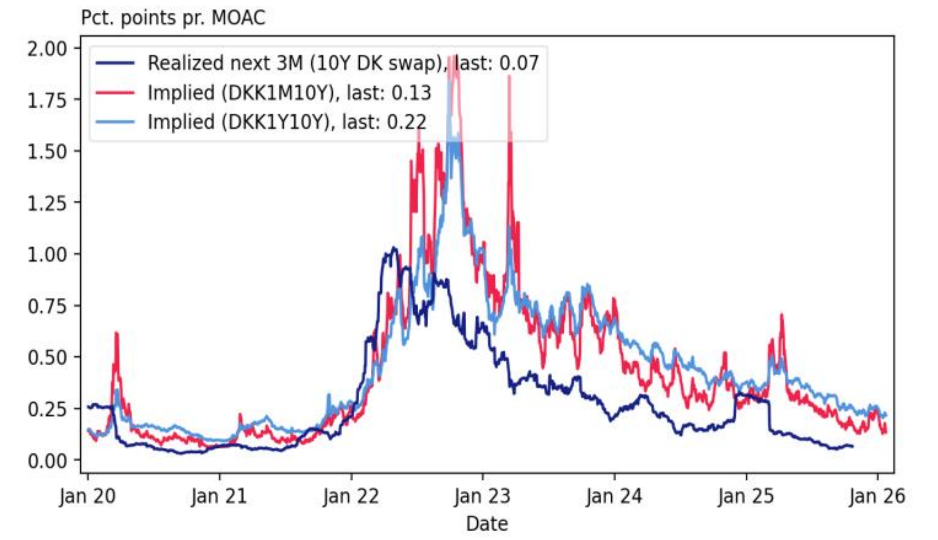
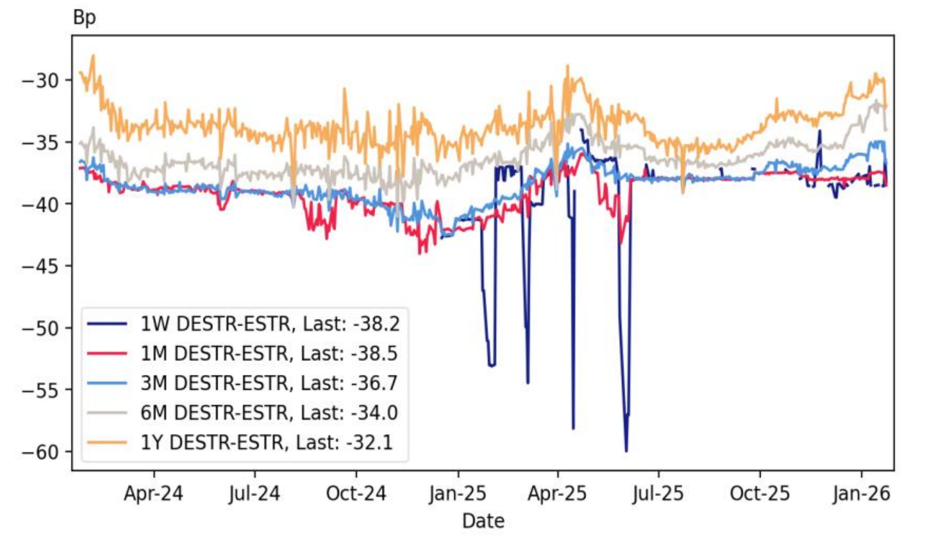
Breathe!

- The situation with Greenland has de-escalated (at least for now).
  - In line with our expectations, the situation has (so far) had limited impact on Danish covered bonds.
  - This is partly due to the fact that there was no real threat specifically to the Danish economy (the threat of tariffs was directed at a number of European countries), and partly because the interest rate markets generally remained relatively calm about the whole thing.
  - We saw relatively subdued increases in implied and realised vol (which is why the cost of negative convexity has remained low, see chart) as well as in credit spreads.

- As the DKK rate is not very far from the intervention level, the situation still had the potential to be the last straw in terms of a unilateral Danish interest rate hike.
  - After the de-escalation of the situation, however, the DKK has strengthened slightly again, and the probability of a unilateral Danish interest rate hike has been reduced once more (also reflected in the DESTR-ESTR spread, see chart).

Low realised vol throughout the Greenland business!





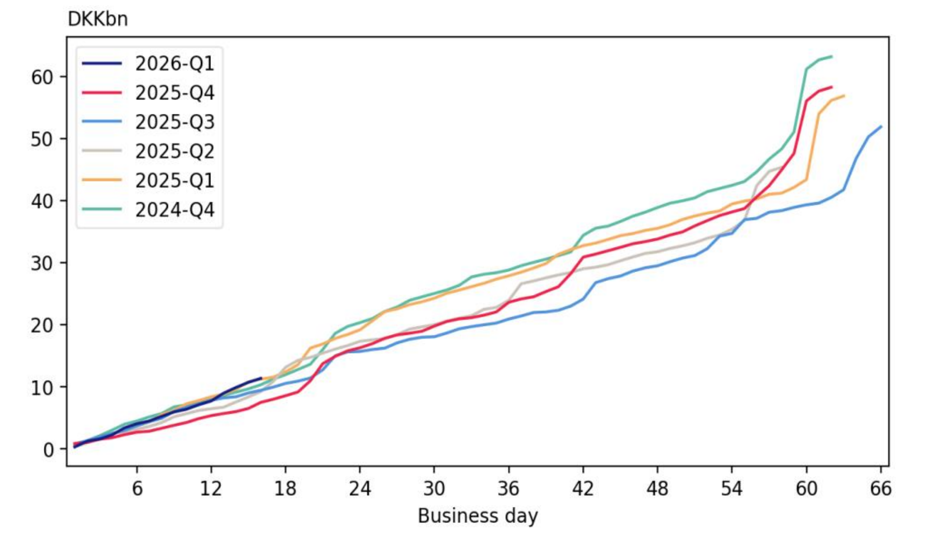
Issuance news: 5Y bullets hold the fort!

- We expect lower 5Y bullet issuance in 2026 (see also our outlook here) primarily as a result of a lower level of fixed-to-variable refinancing from 5% callables.
  - However, the bullet issuance has continued undeterred in January – and is not showing any signs of slowing down (see top chart).
  - However, to the best of our knowledge, this is due to RD's "early refinancing" of the maturity for the April payment date. Thus, RD's issuance in Q1 2026 is so far above the level seen at the same time in previous quarters (see bottom chart).

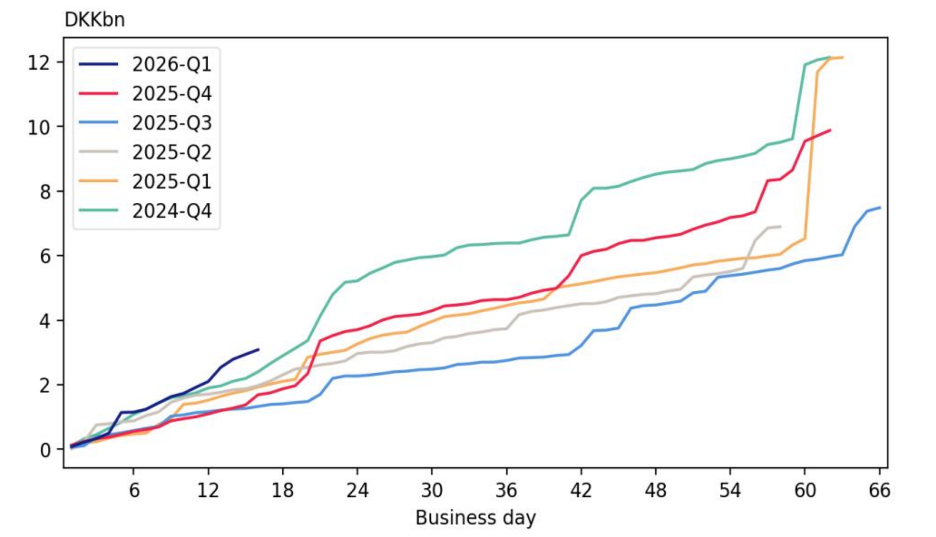
- We continue to expect bullet issuance (in particular 5Y bullets) to slow down as we move beyond the refinancing auctions next week.

- It can be noted that RD's issuance of callables in Q1 2026 so far is also above recent quarters.
  - This may indicate that growth in bank-issued home loans is slowing down. We're following this development closely!

Bullet issuance (OMX)

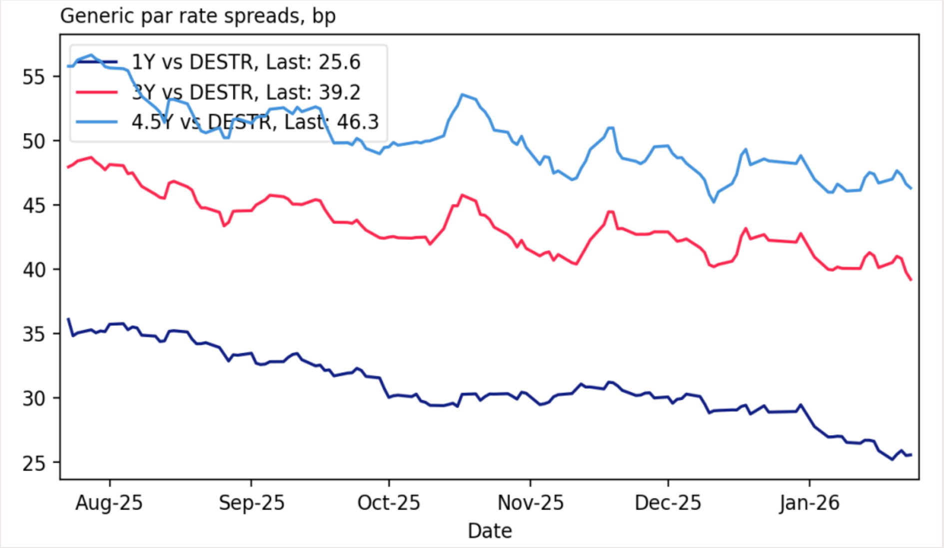


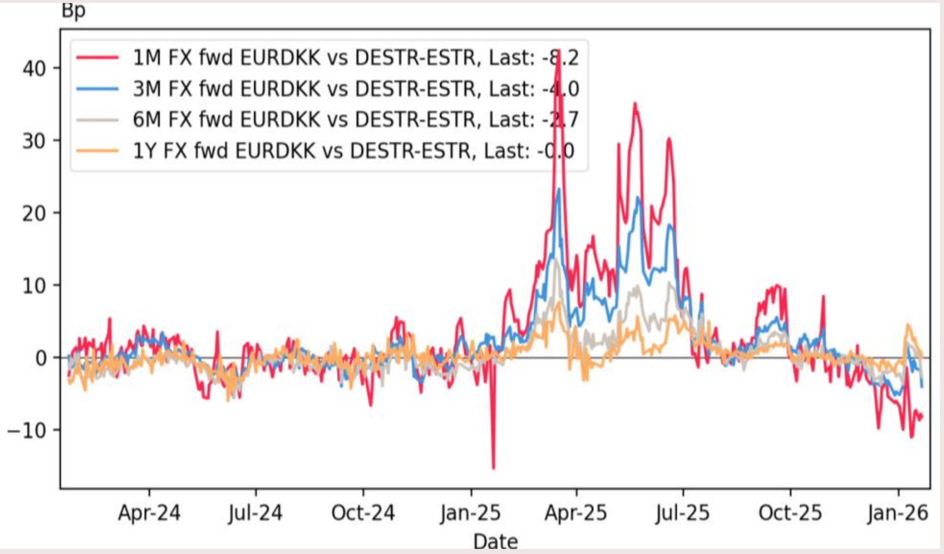
Bullet issuance, RD (OMX)



Short-dated bullets have performed steadily through the turbulence

- 2026 took off with spread widening in both callables and Danish government bonds, whereas bullets have more or less escaped scot-free.
- Ultra-short bullets have even (generally) continued their performance throughout the turmoil.
- The bullet curve has thus steepened fairly significantly over the last few weeks.
- Performance in short-dated bullets is attributed to the current liquidity abundance, which increases demand for short-dated securities.
- Ample liquidity is also seen in the FX market, where the implied interest rate spread in short-dated EURDKK FX forwards is currently a bit low compared to the DESTR-ESTR spread.
  - This may have attracted foreign investors who are funded through the FX forward market and have supported performance further.
- Liquidity is expected to decrease during the spring as a result of pension investment return tax, corporate tax and income tax falling due.
- We expect short-dated bullets to lose value as a result.
- FRNs have also performed, and FRN spreads to the bullet curve have tightened. We expect FRNs to lose value relative to bullets and still prefer bullets over FRNs.

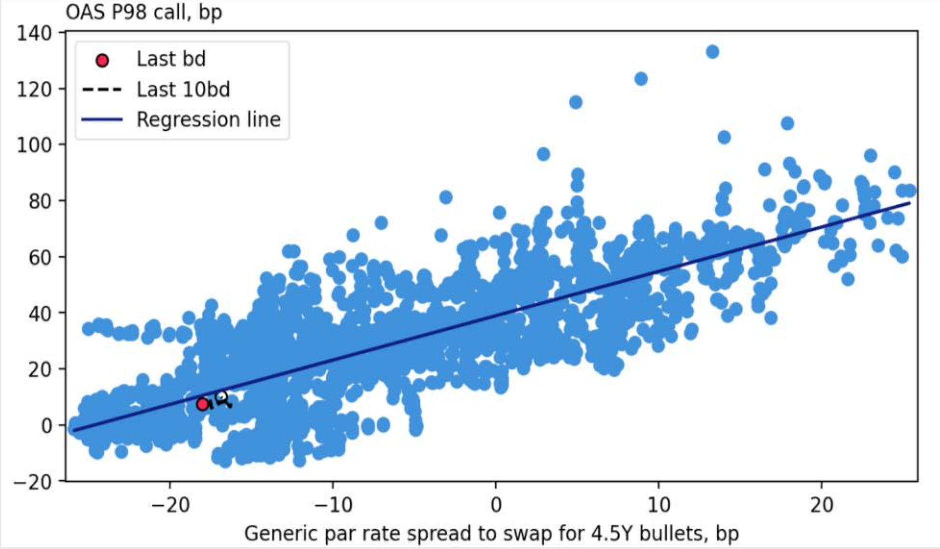




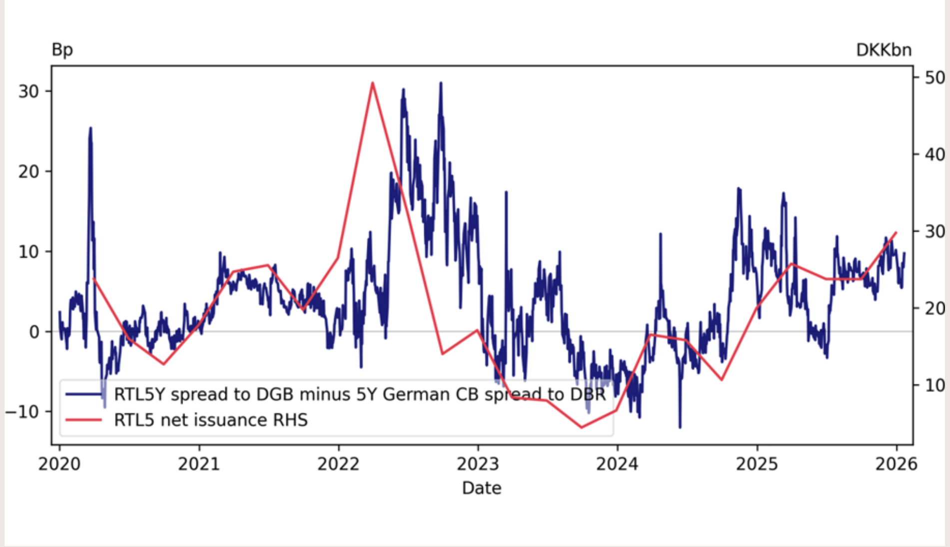
5Y bullets are no longer cheap relative to callables

- The relative pricing of 5Y bullets vs callables has returned to a "balanced" level relative to its historical context.
- 5Y bullets have otherwise traded cheaply relative to callables since early autumn, although 5Y bullets have performed as the spreads of European covered bonds have tightened.
- We believe that the mispricing has primarily been due to an expensive pricing of callables, as a result of low issuance, reinvestment needs and low realised vol.
- The pricing of 5Y bullets is highly correlated with the pricing of European covered bonds, but the correlation between the difference between government bond spreads of 5Y bullet and German covered bonds (vs Danish and German government bonds, respectively) and the net issuance of 5Y bullets suggests that the spread of 5Y bullets is also to some extent affected by the level of issuance (see bottom chart).
- Larger issuance of 5Y bullets from fixed-to-variable refinancing may thus have further supported the mispricing.
- It is not our expectation that 5Y bullets will trade cheaply relative to callables again.
- Overall, we expect the bullet curve to flatten again, read more here

OAS, callable (price 98) vs generic 5Y covered bullet



5Y bullet spread to DGB minus German CB spread to DBR vs ISS



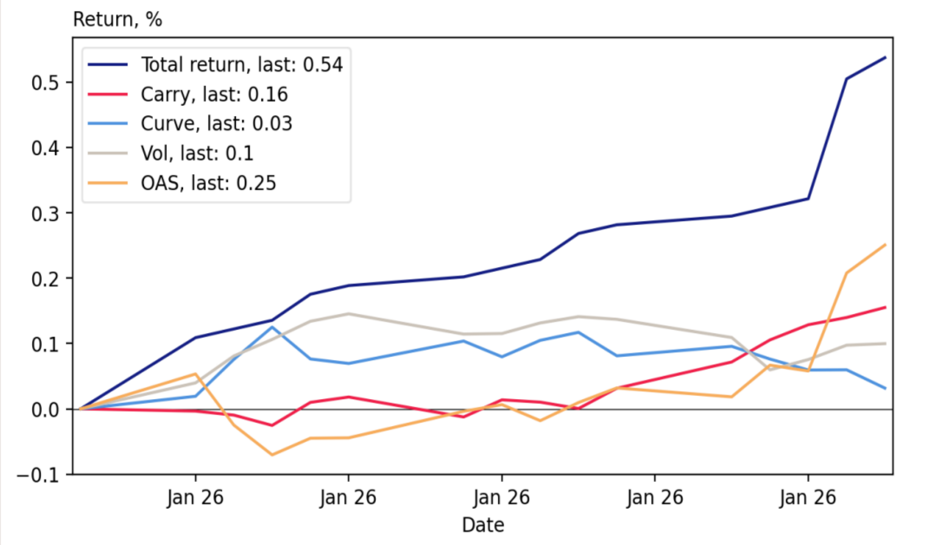
5% bonds have become expensive!

- After 4% bonds fell below par last week (primarily a consequence of the yield development/curve steepening), 5% bonds have performed well,

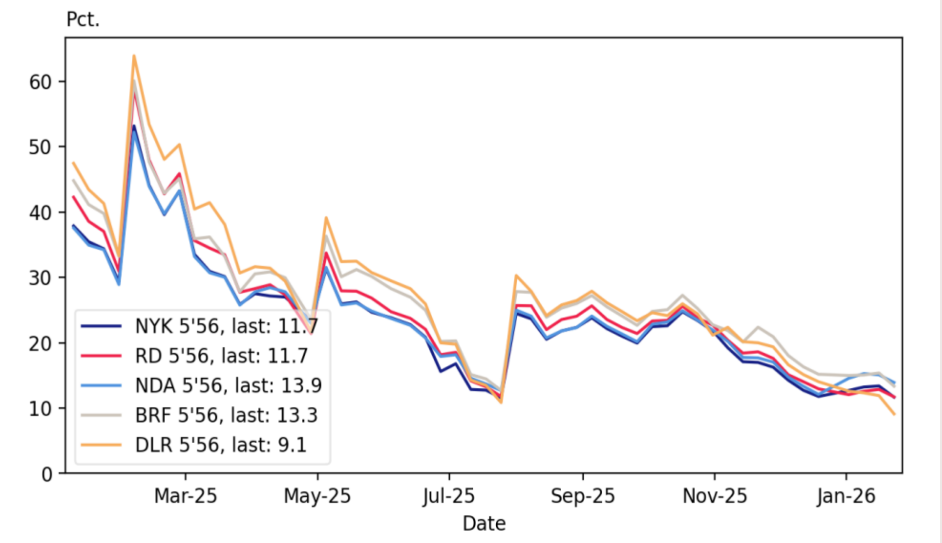
- with break-even prepayments vs duration-equivalent bullets at 11-15%, depending on the detailed assumptions.
  - Thus, the buffer relative to expected prepayments (around 10%) is very limited.
  - With a price of NYK 5'56 A of just over 104.5, any increase in prepayments will hurt.

- It remains likely that 5% bonds can outperform other short-dated securities – as scenarios where prepayments increase significantly as a result of fixed-to-variable refinancing do not seem imminent.
  - In addition, shorter-dated bullets, for example, may lose a bit of value in the near future.
  - However, the risk/reward ratio of 5% bonds is starting to look a little strained – also in light of the experience with the 2/2.5% in 2019.

YTD return on NYK 5'56



Break-even prepayments vs duration-equivalent bullets



Recommendations

- We open a "2026" recommendation of 4'56 vs 5Y bullets following our 2026 outlook, where we argued why we are positive on callables (but also why there may be reason to wait and see).
  - We do not see any great performance potential, but open the recommendation as a "2026 carry case".

- Our recommendation of 4% vs 5% and 1.5% has taken a hit,
  - primarily as a result of performance of 5% bonds. This does not change our view of the relative value – and we maintain our recommendation.

Recommendations

Opening date	Name	Return 5bd	Total return
2025-08-25	CITA vs CIBOR 3M FRN	-0.00	0.01
2025-11-27	CIBOR 6M vs CIBOR 3M FRN	0.01	0.03
2025-12-15	DGBi'30 vs DGB'29 and DGB'31	-0.18	0.39
2026-01-12	RTL5 vs. RTL3	-0.04	-0.07
2026-01-15	RTL vs FRN	0.01	-0.00
2026-01-15	NYK 4'56 vs RD 5'56 + JRK 1.5'53 IO	-0.33	-0.32

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