

Fixed Income Update Week 8

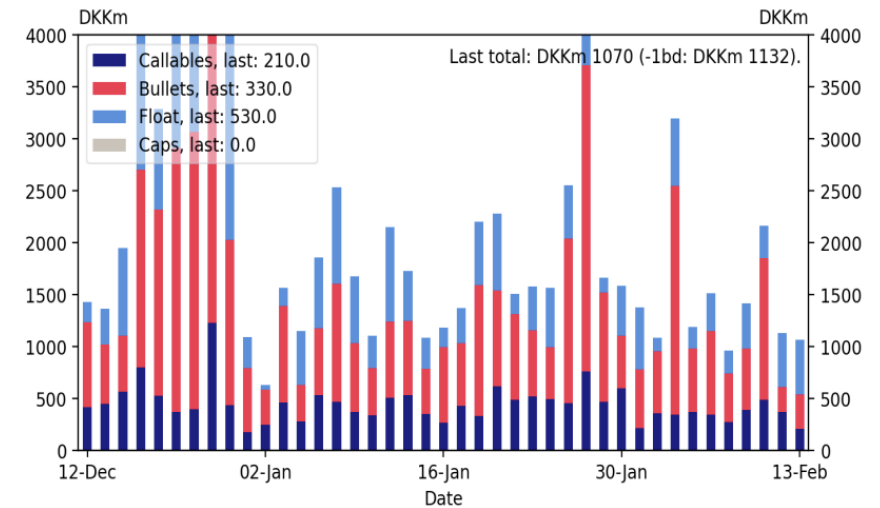
Jacob Skinhøj



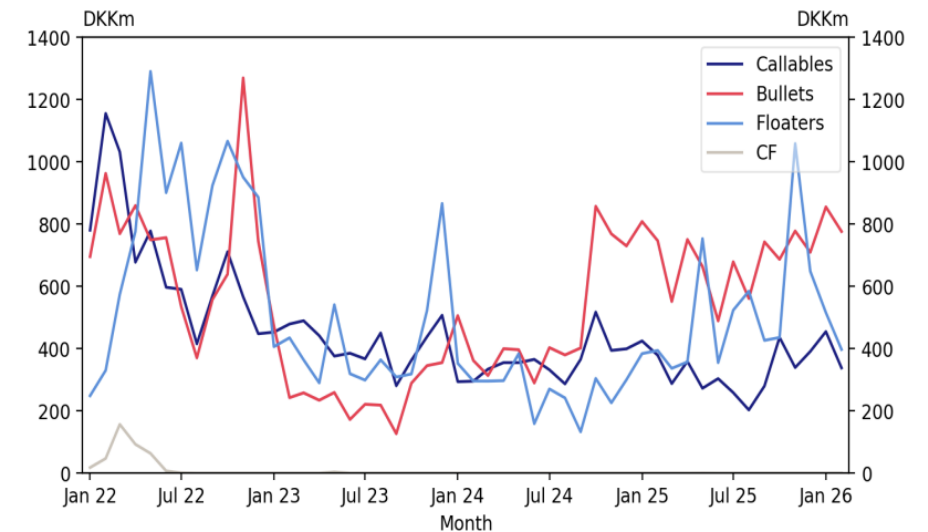
Issuance

- Issuance continues to be characterised by borrowers' preferences for ARMs and FRN-funded loans.
- We expect the current issuance pattern to continue for in the coming months, unless there is a major exogenous shock to the yield curve.
- Issuance was modest last week, likely driven by the winter holiday.

Daily issuance (OMX)



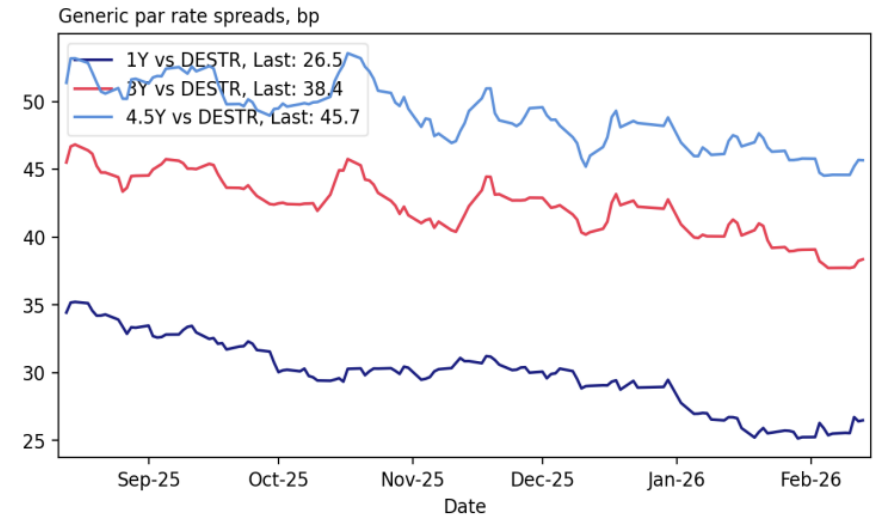
Avg daily issuance excluding refinancing auctions and EOO



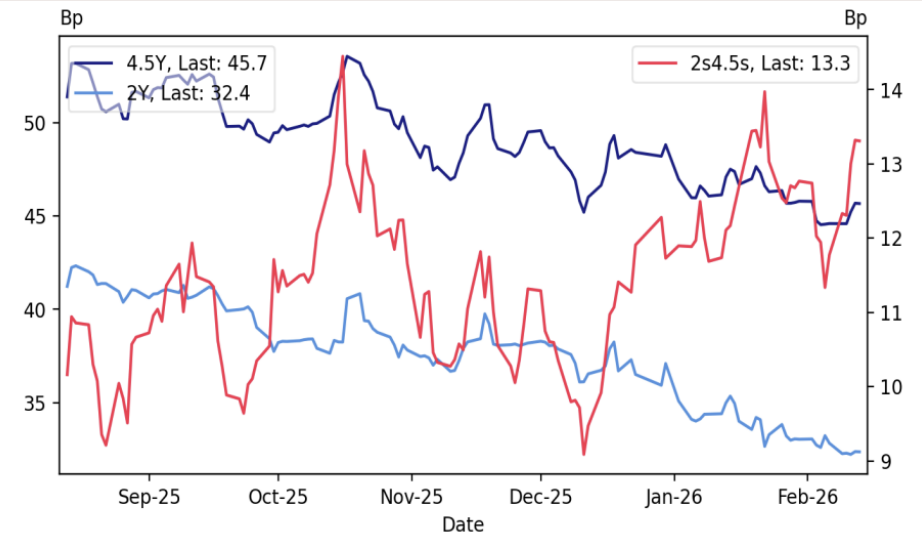
Pricing of bullet covered bonds

- Bullets saw a quiet winter holiday week.
- The shortest-dated bullets lost a few basis points, perhaps due to expectations of declining liquidity abundance, while long-dated bullets lost 1bp.
- Relative to European CBs, the current pricing looks fair.
- The bullet curve has steepened again, and historically, some investors have taken advantage of this slope to buy 5Y bullets.

Bullets: Spreads vs DESTR



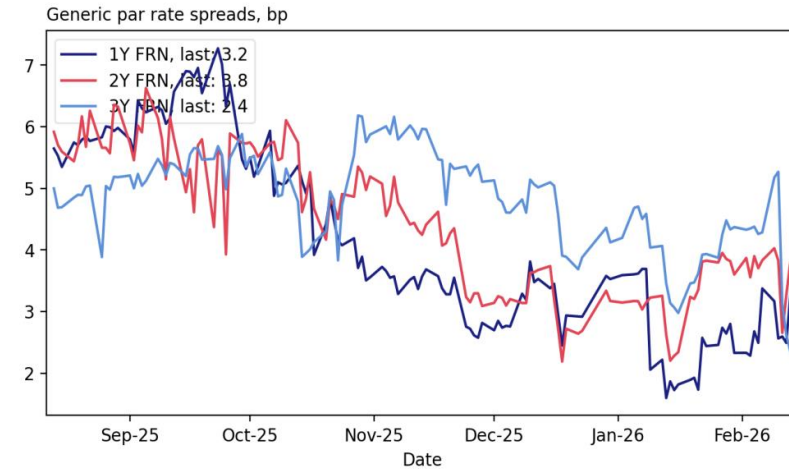
Bullets: Spreads vs DESTR



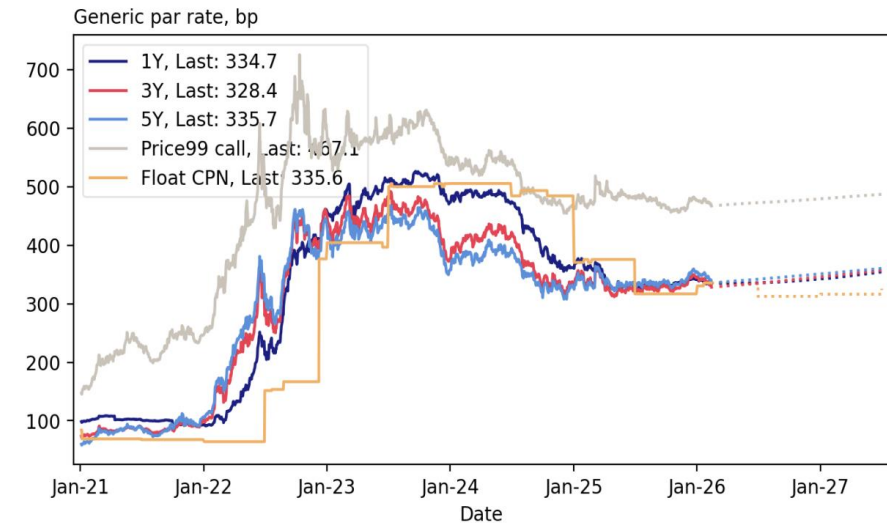
Pricing of FRNs

- Currently relatively restrained issuance in the FRN segment.
- Continued supply/spread imbalance between FRNs and bullets – driven by Jyske's bullet→FRN shift at end-2025.
- Spreads vs bullets are currently too tight, and we prefer bullets over FRNs.

FRNs: Spreads vs bullets



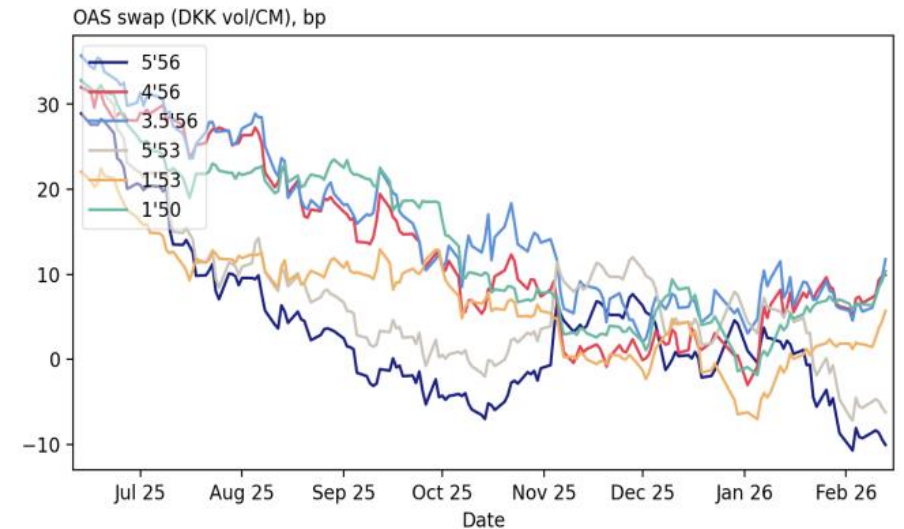
Yields and coupons adjusted for margins etc



Pricing of callables

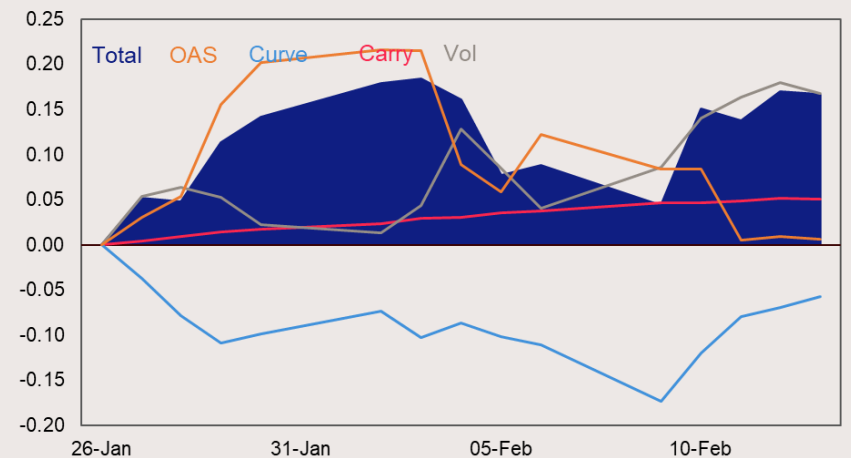
- Last week's lower issuance went hand in hand with lower demand – likely also because of the winter holidays.
- Callables – except for high-coupon segments – lost a few basis points in week 7 despite modest issuance.
- We opened a recommendation of 4'56 the week before (on 26 January) vs 5Y bullets.
- Despite last week's OAS widening, our recommendation is comfortably in the money, primarily due to volatility and better carry.

OAS swap of 30Y callables



Return 4'56

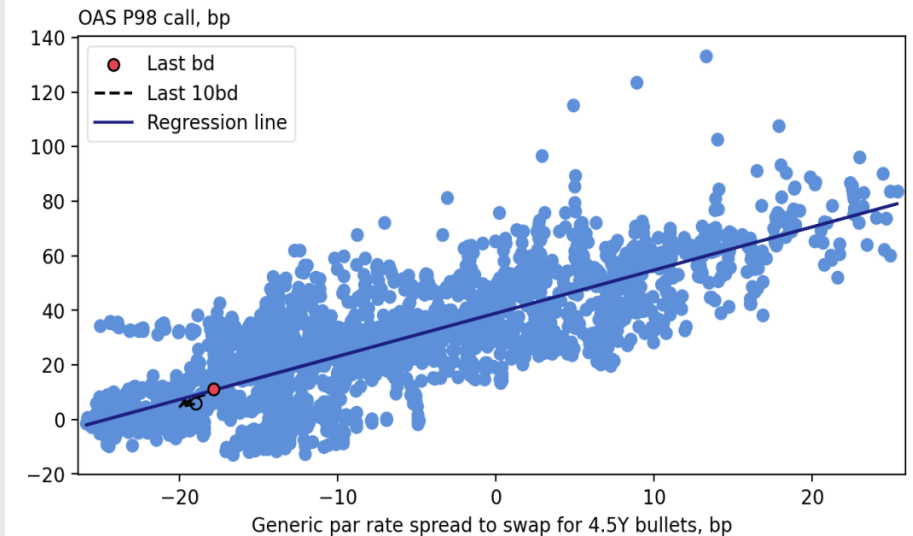
Total return, 4'56 vs RTL5 composed, % 26. jan 2026= 0



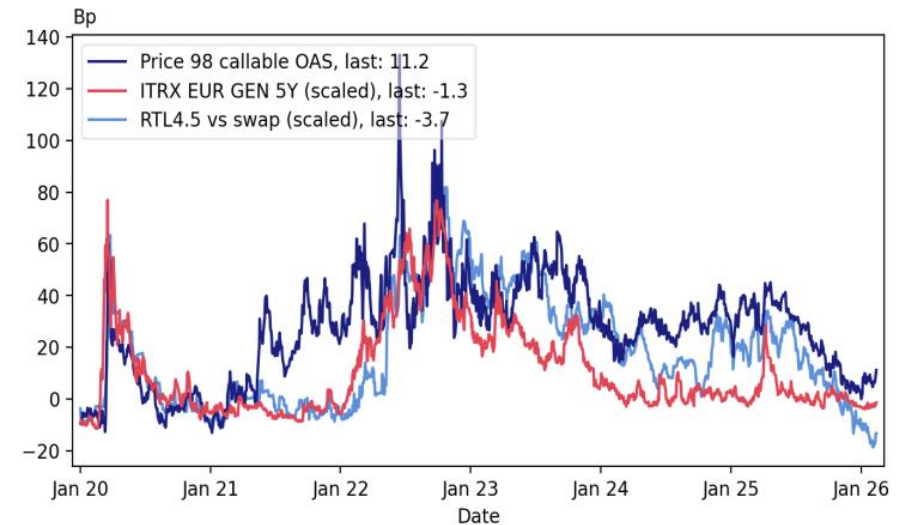
Pricing – Relative

- After the recent losses in callables, the pricing between bullets and callables now appears more balanced.
- Investors' choices must depend on any expectations of further risk-off sentiment in equities (and thus higher volatility), which would hit callables relatively harder than bullets.
- Alternatively, the new, slightly cheaper pricing could attract additional investors to the callables segment.

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



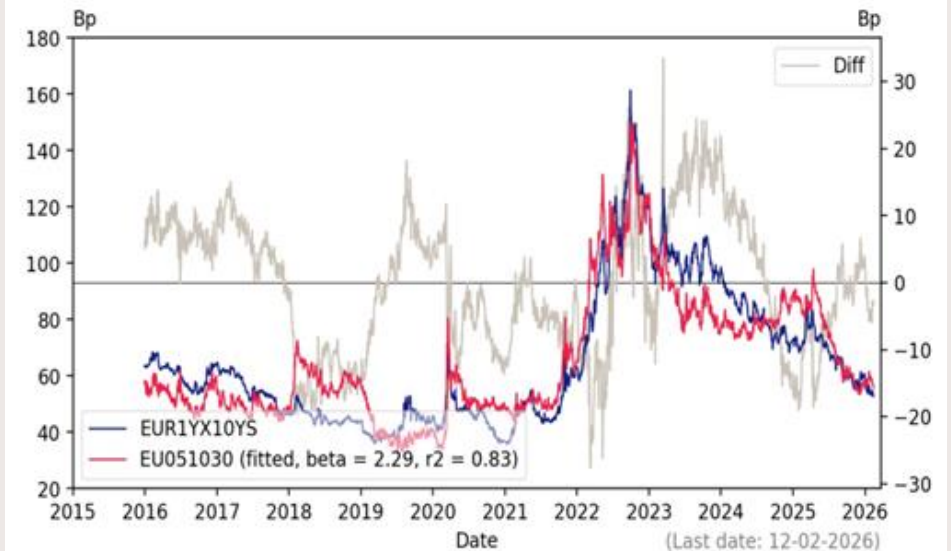
30Y callables, iTraxx Main and bullets



Hedging of callables

- **Cowboy hedging of vol exposure in OTR callables?**
- About a month ago, we published a research note on an EU051030 (a swap barbell) as a potential alternative to swaptions for investors seeking to hedge vol exposure in callables using overlays.
- This was motivated by the fact that, for a number of years, there has generally been a fairly strong correlation between EU051030 and, for example, EUR1Y10Y (implied vol).
- At the same time, a swap overlay can be a sensible alternative if you are not actively trading vol directly in the swap market.
- EU051030 barbell and 10-30 curve flattening overlays have improved the risk/reward ratio of OTR callables over the past ten years.
- However, in some respects, a EUR10Y10Y swaption overlay may be preferable.
- Whether to choose one or the other overlay can depend on which risk scenario you are most concerned about:
 - If the concern is increasing vol, the balance tilts toward EU051030 (or EUR10Y10Y, if available).
 - If the concern is a curve flattening that increases issuance pressure in the callables segment, the balance shifts towards 10-30 curve-flatteners.

EUR1Y10Y and EU051030 Linear fit



EUR1Y10Y and EU1030: Linear fit

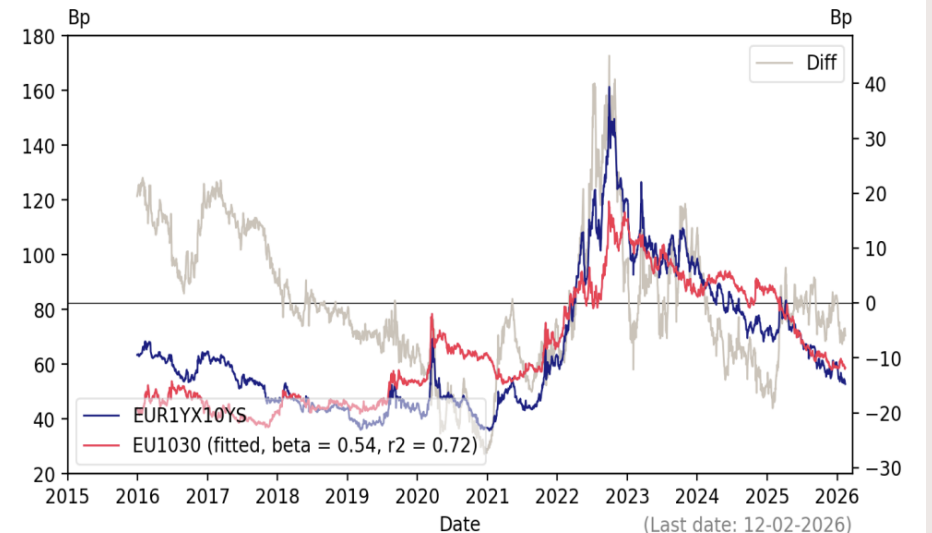


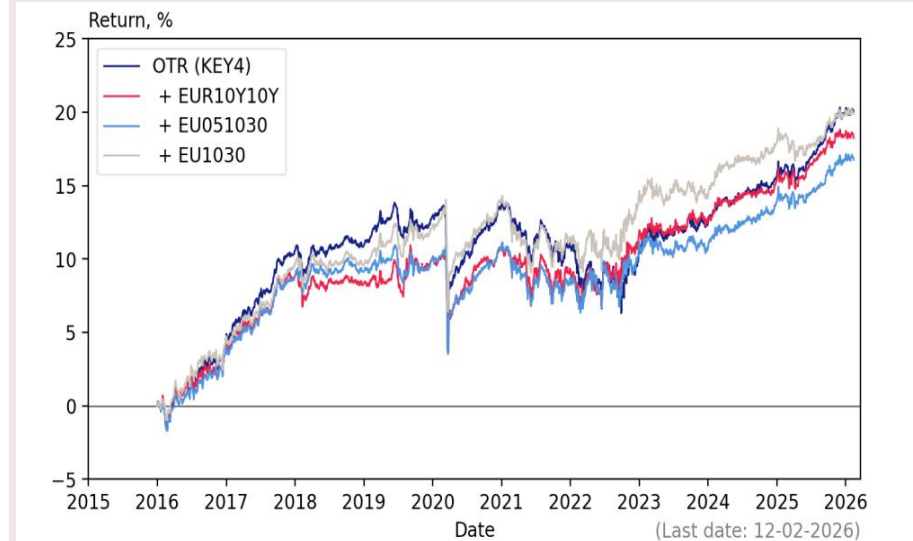
Chart details

- "OTR (KEY4)" refers to a funded on-the-run callable delta (vector) hedged using 2Y, 5Y, 10Y and 30Y swaps. "+ XXX" indicates OTR (KEY4), with an additional swap or swaption overlay.
- For EUR10Y10Y, a nominal amount of 150 (translated into DKK) per DKK 100 invested in OTR has been used, while for EU051030 and EU1030, respectively, nominal amounts of 100 and 50, respectively, of the 10Y payer swap leg have been used (the latter has thus been reversed as a curve-flattener).
- OTR callables, delta hedging and the three overlays are described in more detail in the research note.

In the table, "RetA" shows the annualised return. "SDw", "SDm" and "SDq" represent annualised standard deviations of the return based on weekly, monthly and quarterly returns, respectively. "SRw", "SRm" and "SRq" are Sharpe ratios calculated using the corresponding standard deviations.

- "MD" and "MDw" indicate maximum drawdowns for the entire time series and within a single week, respectively. "MDx" indicates the maximum drawdown over the entire time series and within a single week. "MDx" indicates the maximum drawdown over the entire time series, excluding the worst week during the corona lockdown.

EUR1Y10Y and EU051030 Linear fit



OTR + OL	RetA	SDw	SDm	SDq	SRw	SRm	SRq	MD	MDw	MDx
OTR (KEY4)	1.83	3.39	3.17	2.74	0.54	0.58	0.67	-8.75	-5.87	-7.67
+ EUR10Y10Y	1.68	3.33	2.85	2.18	0.51	0.59	0.77	-7.31	-5.82	-5.02
+ EU051030	1.55	3.17	2.80	2.21	0.49	0.55	0.70	-7.42	-5.32	-4.93
+ EU1030	1.82	3.35	2.96	2.37	0.54	0.62	0.77	-7.68	-5.76	-5.25

Recommendations

- Our recommendations have generally performed reasonably well over the week, despite spread widening, primarily in callables.

Current recommendations

Opened	Position	Return incl. costs
25-Aug-25	CITA vs CIBOR 3M FRN	0.02
27-Nov-25	CIBOR 6M vs CIBOR 3M FRN	0.04
15-Dec-25	DGBi'30 vs DGB'29 and DGB'31	0.72
12-Jan-26	RTL5 vs. RTL3	-0.05
15-Jan-26	NYK 4'56 vs RD 5'56 + JRK 15'53 IO	0.12
15-Jan-26	RTL vs FRN	0.32
26-Jan-26	4'56 vs RTL5	0.12

Nykredit

markets

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BUY: In our view, the bond pricing is fairly cheap relative to comparable alternatives in either the bond or the derivatives market. We expect that the bond will offer a higher return than any alternatives on a horizon of typically three months.

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Recommendation	
Buy	50%
Sell	50%

As at 13.12.2024

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

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Nykredit Bank A/S – Sundkrogsgade 25 – DK-2150 Nordhavn – Tel +45 44 55 10 00 – Fax +45 33 12 04 34