Nykredit markets

We are drowning in 5Y bullets – when will it stop?

From NOW on!

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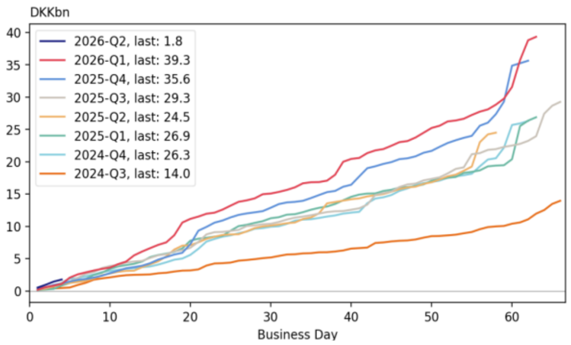
- In Q1 2026, we received (even) more 5Y bullets in issuance (excluding auction offerings) despite fewer pre in 5% callables
- We have previously communicated an expectation of lower issuance of bullets – and especially 5Y bullets – in 2026
- This research note explains why we maintain this forecast for Q2 2026 and Q3 2026. That should provide tailwinds for 5Y bullets!

The issuance of bullets (excluding offerings at refinancing auctions) shifted gear in Q4 2024, where the fixed-to-variable refinancing from 5% callable bonds gave a boost to the issuance of especially 3Y bullets and 5Y bullets. In the following three quarters, bullet issuance gradually eased off slightly, but in Q4 2025 and Q1 2026 bullet issuance rose again – this time driven solely by bullets. Q1 2026 ended with the largest 5Y bullet issuance we have seen in the past year and a half, despite the fact that prepayments in 5% bonds in Q1 2026 were at the lowest level since the fixed-to-variable refinancing began. We take a closer look at the underlying drivers and why they point to an expectation of lower 5Y bullet issuance in Q2 2026 and Q3 2026. We also forecast that this will contribute to a flatter ARM-DESTR spread curve.

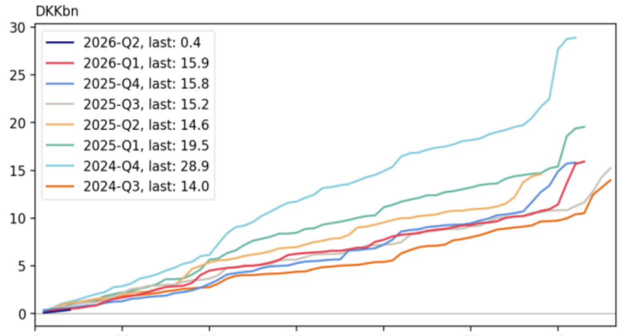
Cumulative issuance of 5Y bullets (OMX, net auctions)



Q4 2025 and Q1 2026 saw highest issuance of 5Y bullets for a long time

Source: Nykredit Markets

Cumulative issuance of 3Y bullets (OMX, net auctions)



The 3Y bullet issuance has ticked down again after the boost from fixed-to-variable refinancing subsided.

Source: Nykredit Markets

Decline in 5Y bullet issuance long in coming

Bullets – and especially 3Y and 5Y bullets – have accounted for a significantly larger share of issuance (here we look at the issuance excluding offerings at refinancing auctions) since the fixed-to-variable refinancing of 5% callables began in Q4 2024. In the first three quarters of 2025, bullet issuance decreased slightly again, in line with the extent of prepayments in 5% bonds.

In Q4 2025, the issuance of bullets rose again – this time driven solely by 5Y bullets – while we also saw a sharp rise in prepayments in 5% callables. At the beginning of 2026, it led us to forecast that the issuance of bullets (and especially 5Y bullets) would pick up during the year, as prepayments in 5% bonds were expected to be lower than the level from Q4 2025.

After Q1 2026, we must conclude that for the time being we were right about the latter, but not the former – the 5Y bullet issuance in Q1 2026 exceeded Q4 2025 despite a halving of prepayments in 5% callables! In this research note, we probably examine what has driven the issuance of 5Y bullets in the last two quarters – and what it means for the forecast of issuance for the rest of 2026.

Refinancing outside auctions provides more 5Y bullets

January and April are usually major bullet maturity dates, but they have been particularly large this year – both in aggregate for bullets and in relation to the originally 5Y bullets. Specifically, the bond maturing at the January payment date stood at DKK 165 billion and bonds maturing at the April payment date stood at just under DKK 125 billion. Of this, originally 5Y bullets amounted to DKK 55 billion and DKK 43 billion, respectively.

While we (in this research note) disregard 5Y bullets offering at the refinancing auctions, but not all refinancing takes place at the auctions. This is because some of the borrowers choose either to refinance ahead of the auctions – when they are contacted by their mortgage bank – or wait until just before the payment date (either driven by a desire for loan financing or a wish to wait and possibly hope for a lower interest rate).

It appears that in the last two quarters there has been a greater tendency towards refinancing outside the auctions. At both the November and February auctions, we saw refinancing percentages that were lower than the expected actual refinancing need – specifically 67% and 68% for bullets overall, and 47% and 53% for the originally 5Y bullets, respectively.

RD made a decent 5Y bullet offering in January, and, as we have previously pointed out, this was likely a frontloading ahead of the refinancing auctions in February. Furthermore, the large 5Y bullet issuance in Q1 2026 was mainly driven by the issuance in March leading up to the quarter-end, while February did not see any particularly elevated issuance (excluding the auction supply).

It is therefore highly likely that the larger issuance of 5Y bullets in Q4 2025 and Q1 2026 was driven by the part of the refinancing of the bullet maturity that did not take place at the refinancing auctions in November and February. This should also be seen in light of the fact that the bullet segment – despite the increase in issuance – has not grown more in Q4 2025 or Q1 2026 than in the previous quarters (see the chart at the top right).

The maturity of bullets (both in aggregate and for the originally 5Y bullets) is significantly lower for the upcoming two payment dates (July and October 2026). Currently, the maturities appear to be about DKK 36 billion and DKK 44 billion, respectively (see the table on the right). Furthermore, the extent of the fixed-to-variable refinancing from 5% callables is expected to decrease further. In particular, the fact that the refinancing source is drying up means that the outlook is clearly negative for the issuance of especially 5Y bullets in Q2 2026 and Q3 2026!

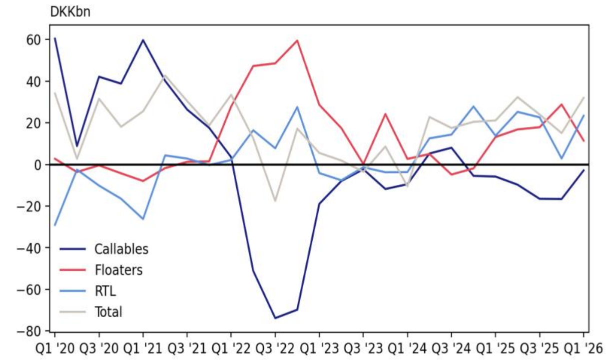
Over the past few months, we have seen a significant steepening of the bullet-DESTR spread curve. Although the market turmoil has probably been the primary driving force recently, we believe that the substantial 5Y bullet issuance has pushed this development. We therefore also expect that a lower 5Y bullet issuance in the current and upcoming quarter will contribute to the bullet-DESTR spread curve flattening by 2-3bp again (4.5Y-2Y). We have a recommendation of 5Y bullets vs 3Y bullets, which we maintain based on this expectation.

But why did the issuance of 5Y bullets RISE in Q1 2026 compared to Q4 2025?

The above may sound compelling, but the gap between the maturity of 5Y bullets and the refinancing auction supply was smaller in Q1 2026 than in Q4 2025, as was the scale of prepayments in 5% callables. Why were there *more* – and not *fewer* – 5Y bullets in Q1 2026 than in Q4 2025?

Firstly, a larger proportion of the refinancing that did not take place at the refinancing auctions ended up in 5Y bullets in Q1 2026 than in Q4 2025. The primary reason is probably that the financial turmoil and interest rate rises in March led borrowers who had not yet refinanced to increasingly seek bullet-funded loans with longer interest periods, and that a 3Y bullet and 5Y bullet loan currently cost the same. In addition, there is RD's early 5Y bullet refinancing in January.

Growth in the total outstanding amount by segment



In Q4 2025, the growth in FRNs was driven by JRK refinancing 1Y bullet loans worth DKK 10 billion through the issuance of a Cita 12M FRN (and the growth in bullets was correspondingly reduced).

Source: Nykredit Markets

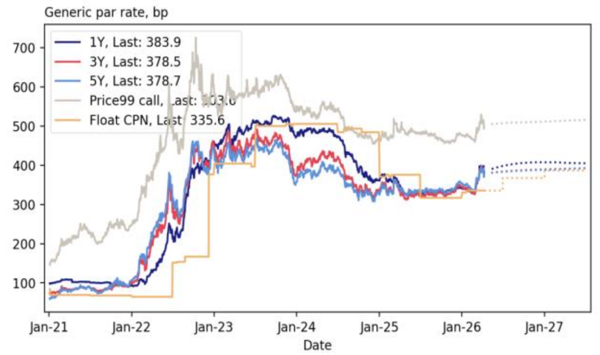
Maturity of bullets by original maturity

Payment date	Total	1Y	2Y	3Y	4Y	5Y	6Y+
2026-07-01	35,553	2,027	876	8,277	2,008	22,365	0
2026-10-01	43,628	20,874	691	5,456	374	16,233	0
2027-01-01	168,617	60,400	7,539	27,722	3,627	66,348	2,981
2027-04-01	145,645	44,660	7,794	33,528	3,002	51,165	5,495
2027-07-01	44,703	26	1,120	17,152	1,758	24,645	0
2027-10-01	18,429	0	859	9,376	387	7,807	0
2028-01-01	80,314	0	5,643	44,162	3,655	23,288	3,565
2028-04-01	64,835	0	6,648	27,893	7,010	19,909	3,377

The maturity is allocated across original maturities based on how the outstanding amount of each bonds has developed over time.

Source: Nykredit Markets

Borrowing costs of different types of loans



Shows borrowing costs, including interest expenses, administration margins, any auction spreads etc as well as the forecast for these (based on the forward curve).

Source: Nykredit Markets

Secondly, the larger volume of prepayments of callables at the January payment date was driven partly by the 3.5'56 bond reaching a price of around 97.5 up to the prepayment deadline, and partly by the 4% bonds exceeding a price of 100, which also led to prepayments of these bonds. Borrowers who have accounted for the larger volume of prepayments in Q4 2025 have therefore had somewhat different motives for their prepayments than the borrowers who have otherwise prepaid their 5% callables with a view to a fixed-to-variable refinancing into lower coupons since Q4 2024 – and have therefore to a greater extent refinanced into callables or FRNs. The larger volume of prepayments of callables in Q4 2025 has therefore not necessarily been a source of significantly more 5Y bullets.

These factors do not change the expectations for fewer 5Y bullets in Q2 2026 and Q3 2026. To the extent that the financial turmoil subsides and interest rates fall back, the proportion of borrowers seeking 5Y bullets may increase again. But in any case, a significantly lower total bullet refinancing need should lead to a lower issuance of 5Y bullets!

Bullet issuance may rise again from the end of the year!
Towards the end of 2026, the issuance of 5Y bullets may begin to rise again. In any case, the January and April 2027 payment dates are set to once again include (extra) large 5Y bullet volumes (see the table on the previous page). Furthermore, FRN-funded loans – with the current expectations for short-term rates – are set to lose some of their payment advantage relative to bullets (see the chart at the bottom of the previous page).

Finally, it is in the course of 2027 that borrowers who need to refinance their 5Y bullet loans will no longer experience a fair yield rise in connection with the refinancing. It may make 5Y bullet borrowers more inclined to remain in their existing loan type. But in the short term, the arrow is pointing downwards.

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