

Fixed Income Update Week 18

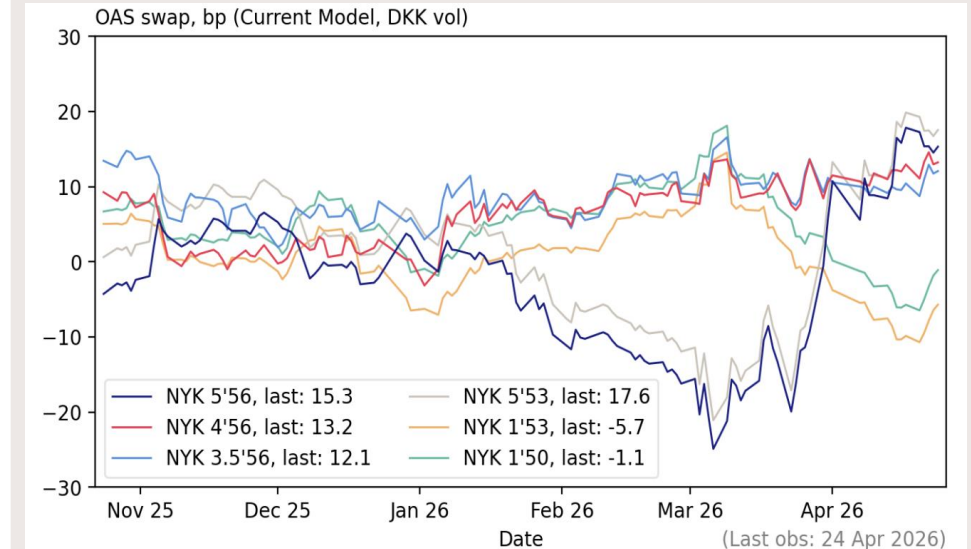
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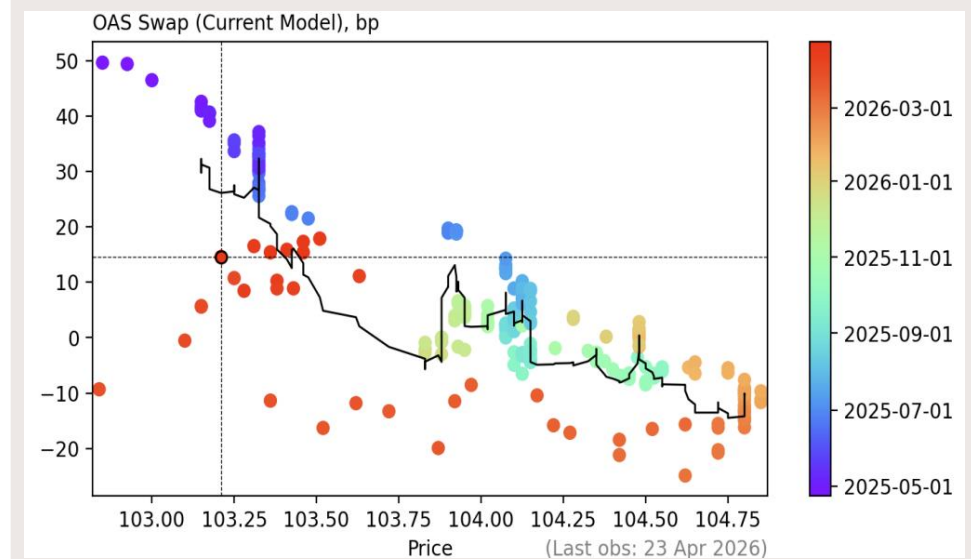
The carry case in the 5% bonds looks reasonable

- Although the 5% bonds performed slightly over last week – both before and after we opened our buy recommendation – they have lost just over 40 OAS points since early March.
- Before last week's performance, the 5% bonds were back at OAS and price levels corresponding to last summer.
- Had one back then purchased 5% bonds against duration-equivalent bullets, it would, as is well known, have been a good investment.
- On Thursday, we therefore opened a position in the 5% bonds against short-dated bullets, chiefly based on carry and to a lesser extent on the belief in the OAS performance potential.
- An important difference compared to last year is that the 5% bonds now have significantly more duration. This is due to a combination of the yield curve, less attractive refinancing alternatives and pool factor.
 - Should interest rates rise again, it will consequently hit the 5% bonds harder.
- Prepayments seem, however, to settle at 10% again at the July payment date (see also next slide), and we expect prepayments to gradually ease off at the upcoming payment dates.
 - This is below the current break-even prepayments of 13-15% (with the exception of RD).
 - We therefore still believe that the carry case in the 5% bullets is sensible and prefer them over duration-equivalent bullets.

30Y callables: OAS swaps



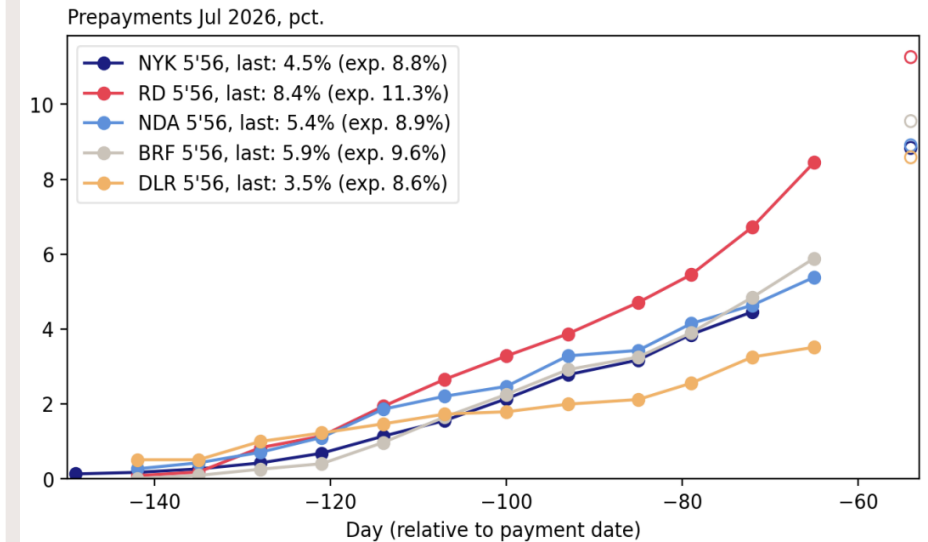
NYK 4'56: OAS vs Price



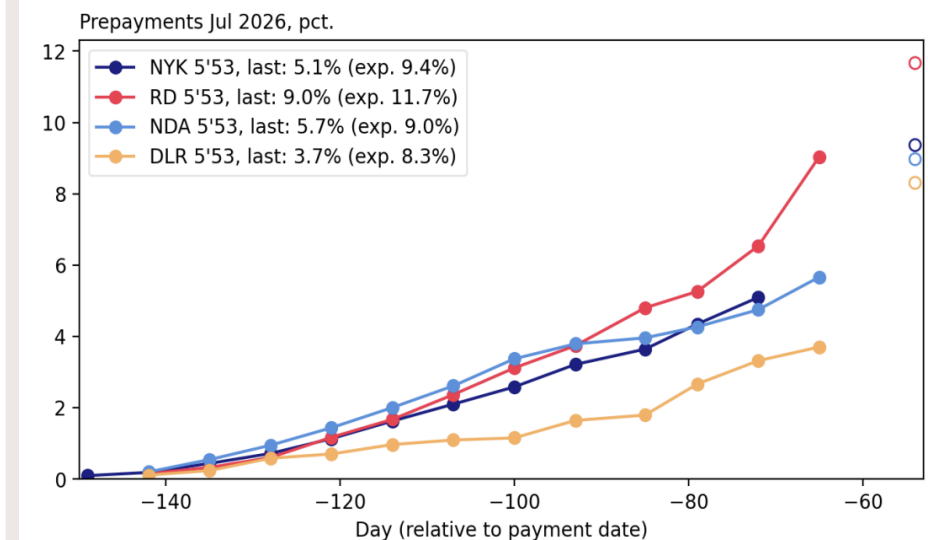
CK93: RD at the forefront

- The prepayment deadline is now only a few days away, and today's CK93 remains low for most issuers.
- In other words, we're still on track for another payment date with moderate prepayments of around 10%.
 - Note: NYK data is not updated in the charts, but NYK's prepayments are in line with the trend for the remaining issuers, except for RD.
- RD, however, exceeds other issuers – and will probably land at around 15%.

Preliminary prepayment rates in 5'56A, July 2026



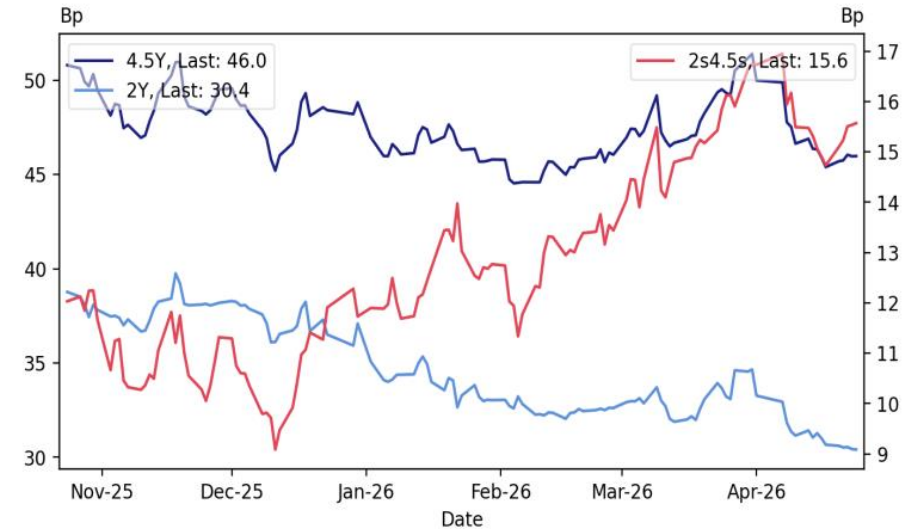
Preliminary prepayment rates in 5'53A, July 2026



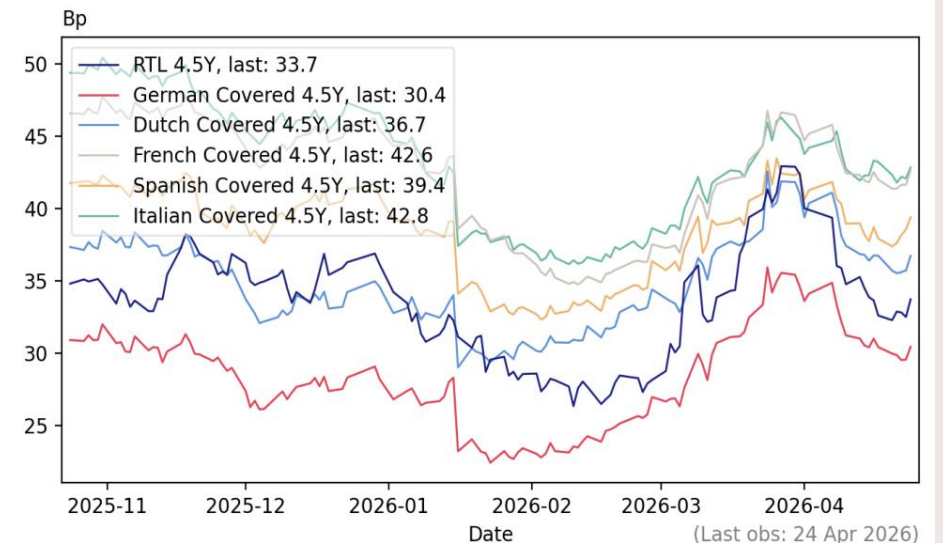
Bullet-DESTRO is steep!

- The bullet-DESTRO spreads steepened (2Y-4.5Y) slightly again last week – thus reversing some of the flattening we have seen since the end of March.
- The 4Y-5Y bullets lost slightly against government bonds – similar to the movement we saw in European covered bonds.
 - The 4Y-5Y bullets currently appear fairly priced compared to EUR covered bonds.
 - However, compared to both government bonds and (EUR) swaps, the bullet curve remains steeper than is the case for EUR-covered bonds.
- We still believe that the spread on short-dated bullets looks low, and we think that the bullets spread curve needs to flatten, but this will likely require lower issuance of 5Y bullets.
 - This will be put to the test for the first time this week (see next slide).

Bullet-DESTRO has reversed some of the recent flattening



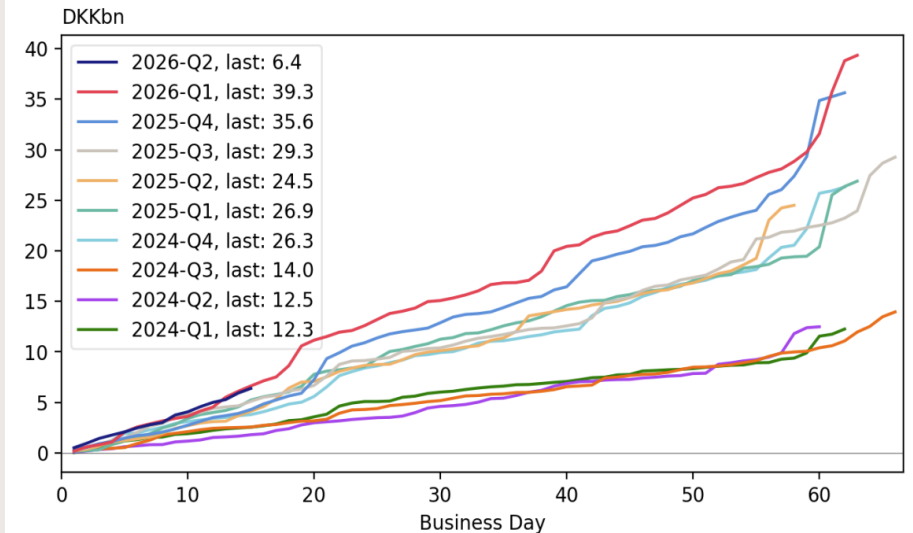
Bullets and EUR covered bonds: Spread vs DGB/DBR



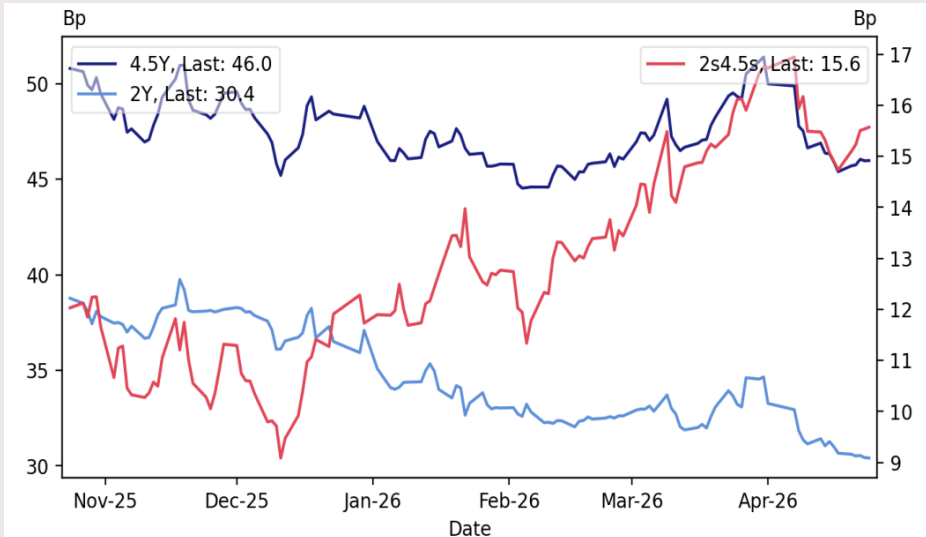
Continued 5Y bullet issuance and steep 5Y bullet curve

- Bullet issuance still constitutes about 50% of the total covered bonds issuance...
 - ...and 5Y bullets constitute about 60% of this issuance.
- This week we will get the first indication of whether our expectation for lower issuance of 5Y bullets in Q2 2026 is correct.
 - For the time being, the 5Y bullet issuance in Q2 2026 has been on a par with Q1 2026.
 - However, we expect less 5Y bullet issuance due to refinancing outside the refinancing auctions (capped bullet maturity at the July payment date) as well as less fixed-to-variable refinancing from 5% callables.
 - This expectation will be tested for the first time this week in connection with the issuance up to the end of April (which is the deadline for July prepayments).
 - Assuming our expectations hold, the end-of-quarter issuance of 5Y bullets in April should remain close to DKK 2 billion.
- The continued issuance of long-dated bullets has contributed to the currently relatively steep bullet-DESTTR curve.
 - It remains our expectation that the curve will flatten in line with lower 5Y bullet issuance this spring and summer.

Accumulated issuance of 4Y-5Y bullets (based on OMX)



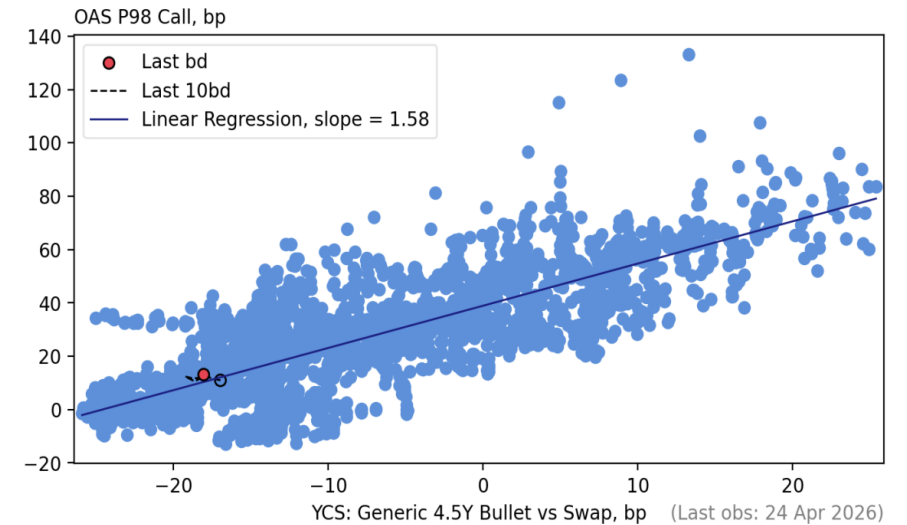
Bullets: Spreads vs DESTR



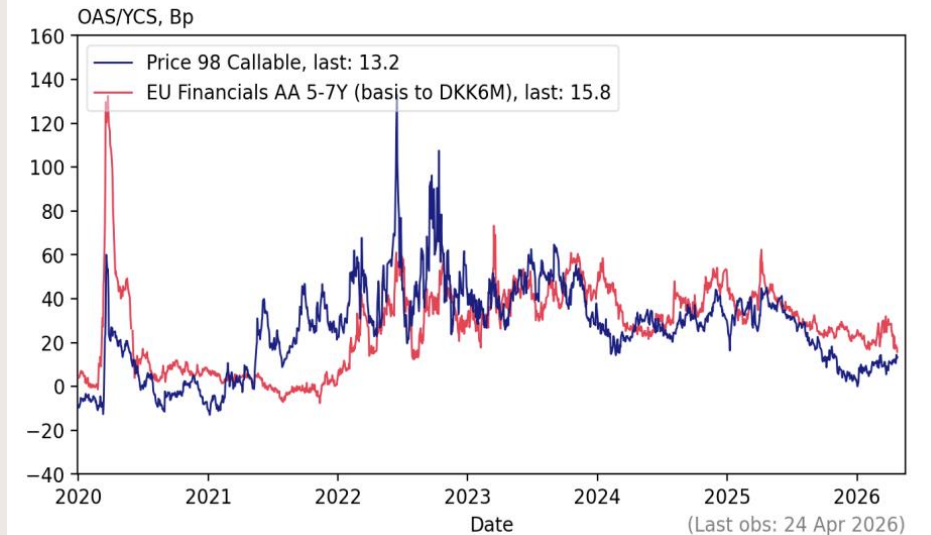
Have the 4% bonds returned to a "balanced" level?

- Both when assessed against the spreads of 4Y-5Y bullets and EU Financials (AA), the pricing of callables is approaching a "balanced" level, as illustrated in right-hand chart.
- The current steepness of the bullet ASW curve means, however, that ASW carry+roll-down on 4Y-5Y bullets is on the high side compared to OAS on callables.
 - We do not see significant OAS performance potential in callables vs 5Y bullets (it is more likely that they may lose a little more value).
- For the time being, the issuance of callables has been slightly on the low side in Q2 2026, most likely reflecting that the rate increases in March have led borrowers to increasingly look towards 5Y bullets.
 - This presumably appears to provide only limited support for callables at present.

OAS at a price of 98 callables vs 4.5Y bullets



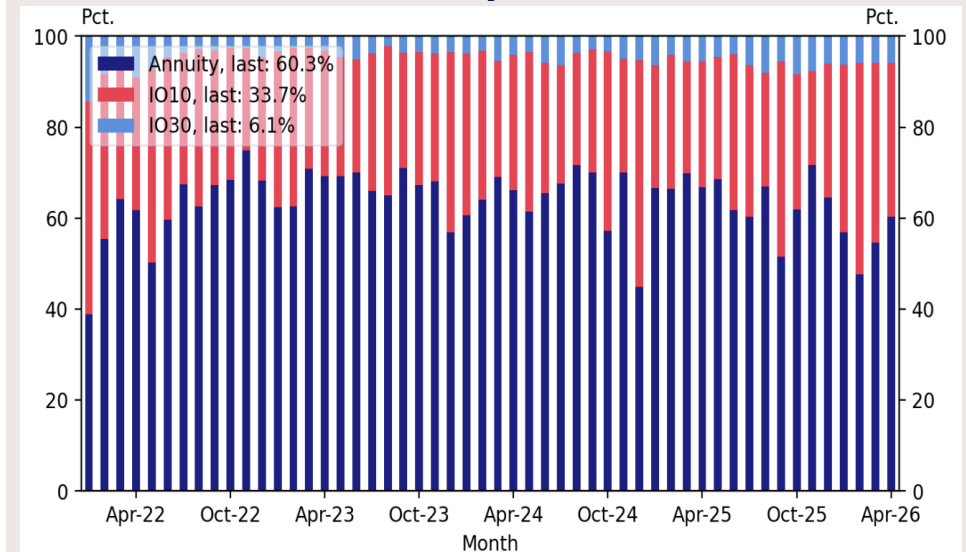
Callables and the EU Financials AA: Spread vs DKK swaps



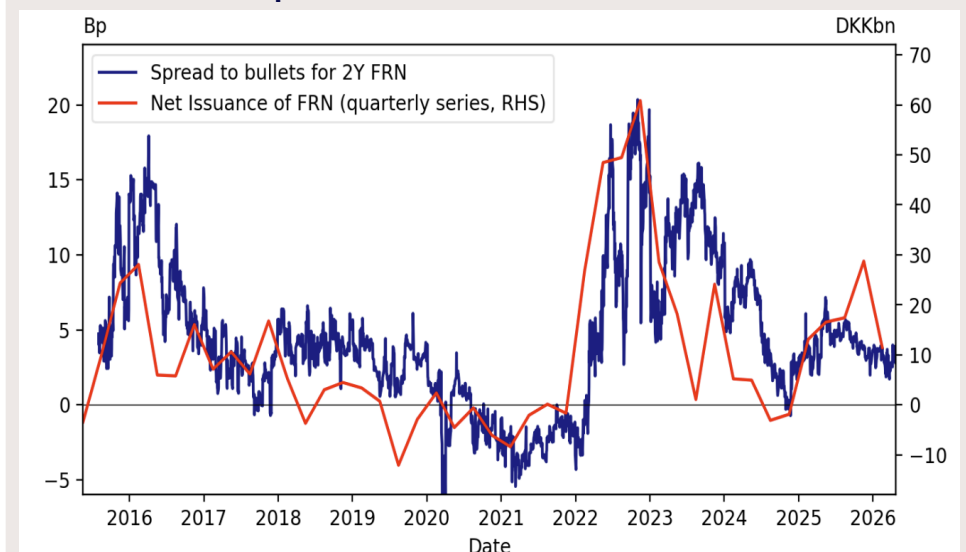
New products from Danske Bank and Jyske Bank

- RD opens FlexLife combined with bank loans for first-time buyers (up to 75% with FlexLife and 20% bank loan).
 - FlexLife can be offered with either with a fixed interest rate (IO30 bonds) or a variable interest rate (bullets).
- JRK's new product Jyske Frihed offers the option of fixed mortgage payments – even though the interest rate is variable – disbursement and prepayment without a capital loss and entails no additional costs in the form of price spreads.
 - Funding of Jyske Frihed will currently be provided through 3M Cibur Jul'29 FRN.
- More IO30 bonds from RD should be negative for the current pricing, but we do not believe that the issuance will rise significantly.
 - The administration margin on FlexLife is 0.15 higher than equivalent non-IO loans. If borrowers are not compensated with a lower bank loan interest rate, it would therefore be cheaper for them to opt for IO10 and hope to obtain a new IO10 period once the initial one expires.
 - We expect the variable-rate version (based on bullets) will become the most popular FlexLife option.
- Jyske Frihed may lead to a larger FRN issuance, mainly at the expense of 1Y bullets.
 - If Jyske's FRN issuance rises significantly, it may lead to spread widening in the FRN bullet spread of around 1-2bp.

Low issuance of IO30 in recent years



The bullet-FRN spread is correlated with the FRN issuance



Recommendations

- Several of the recommendations based on our outlook for 2026 have been affected by the turmoil related to the war in the Middle East.
 - However, we still see value in them at present, and in any case, we will continue to monitor their performance until we prepare the outlook for H2 2026.
- Furthermore, we currently have recommendations of 5% vs duration-equivalent bullets as well as 5Y bullets vs 1Y bullets.
 - We maintain our recommendation:

Outlook recommendations

Åbnet	Navn	Afkast 5hd	Afkast total
2025-08-25	CITA vs CIBOR 3M FRN	0.00	-0.01
2025-11-27	CIBOR 6M vs CIBOR 3M FRN	-0.00	0.06
2026-01-12	RTL5 vs. RTL3	0.01	-0.09
2026-01-15	RTL vs FRN	-0.02	-0.03
2026-01-15	NYK 4'56 vs RD 5'56 + JRK 1.5'53 IO	-0.23	-0.69
2026-01-26	4'56 vs RTL5	-0.26	-0.16

Current recommendations

Åbnet	Navn	Afkast 5hd	Afkast total
2026-02-23	RTL5 vs. RTL1	-0.00	-0.03
2026-04-23	5'56 vs RTL	N/A	-0.09

Nykredit

markets

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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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