Fixed Income Update
Week 24

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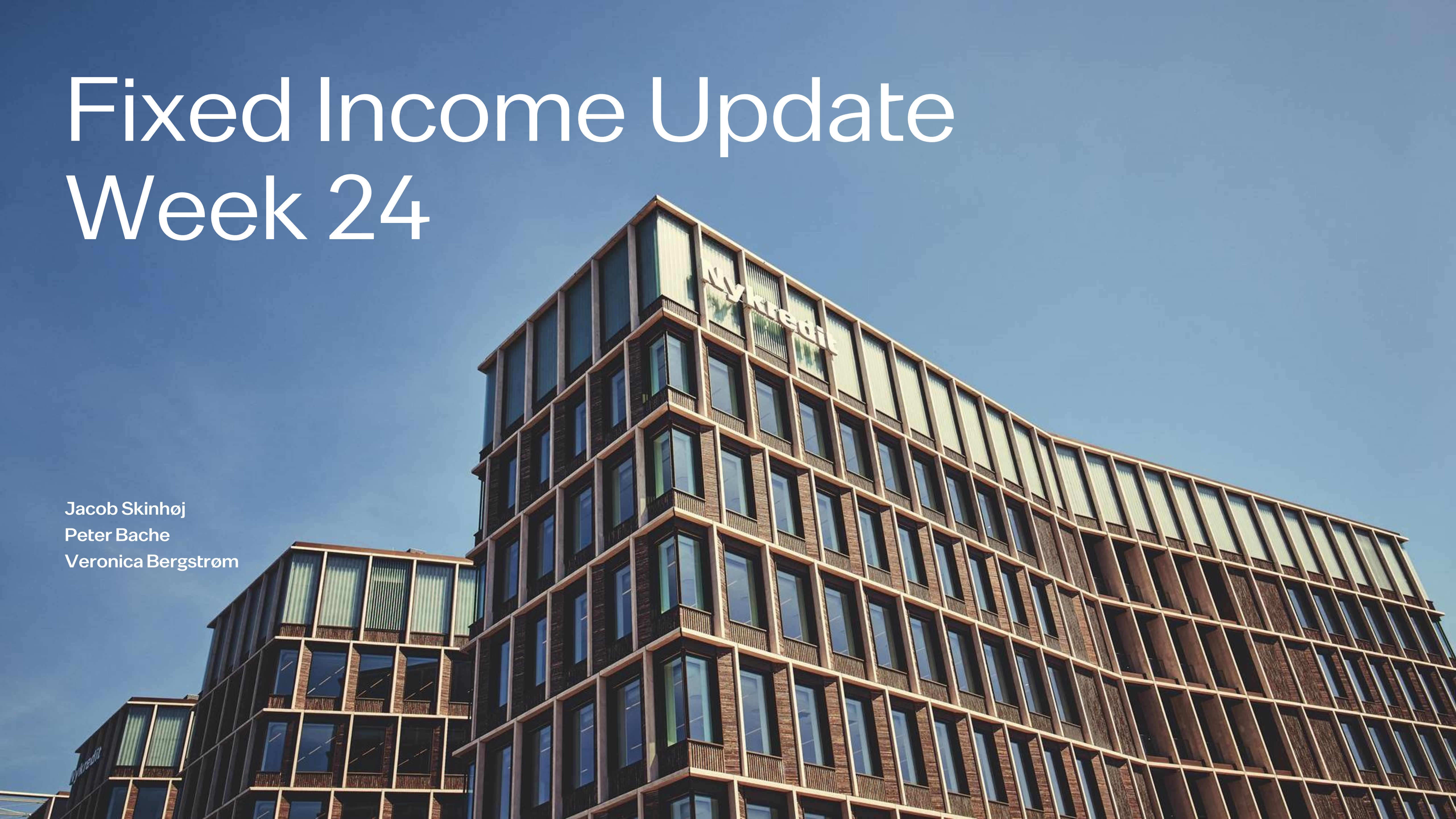


Sour mood

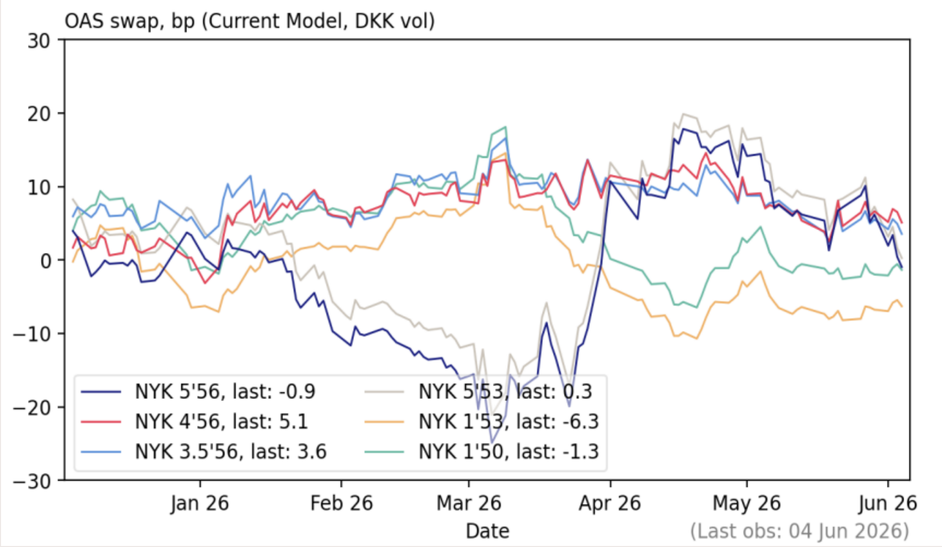
- Friday – which was Constitution Day and therefore a public holiday in Denmark – was marked by a somewhat sour international mood.
- Leading US technology equities declined by 5-6% while Intel – which has otherwise been on a strong run this year – dropped as much as 11%!
- iTraxx widened on Friday and has continued to move higher today
  - … and the same goes for rates.

- Taken together, this is likely to spill over negatively into the Danish covered bond market, which is expected to widen by around 1-2bp.
- On Thursday, we will see the first rate hike from the ECB, and the market expects Danmarks Nationalbank, which has so far refrained from intervening, to follow 1:1.

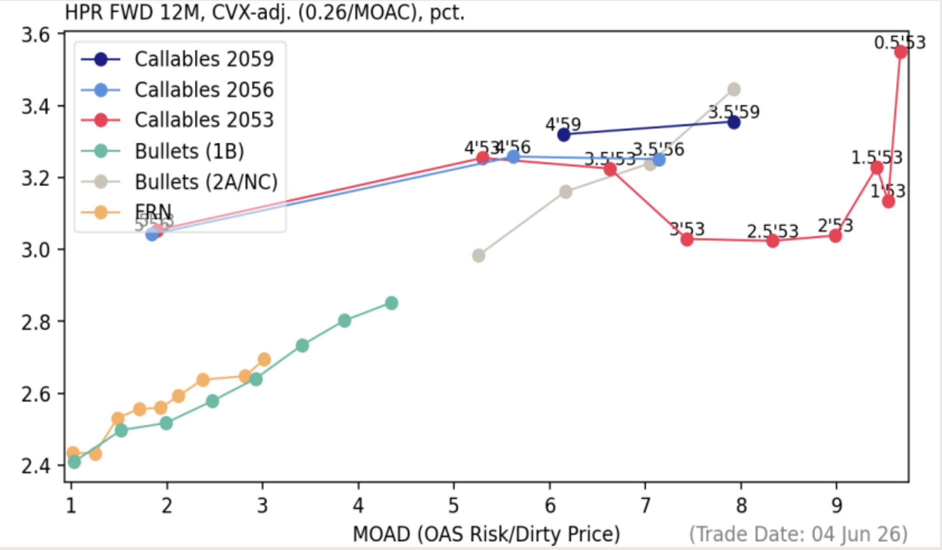
Callables

- Callables saw (yet another) strong week, with OAS performance across coupon segments, particularly 5% bonds tightened.
- The prospect of another round of low prepayments continues to support 5% bonds.
- Despite continued performance, the convexity-adjusted return on callables remains reasonably attractive relative to bullets.
- This reflects not only the fact that bullets have also performed, but also that the convexity adjustment is based on realised volatility and thus remains relatively low.
- The issuance of 4'59 is not expected to really pick up until next month, as fixed-price agreements related to October refinancing activity are likely to be entered into in 4'59 bonds.
- As issuance in 4'59 increases, we expect the spread between 4'59 and 4'56 to converge somewhat.

30Y callables: OAS swaps



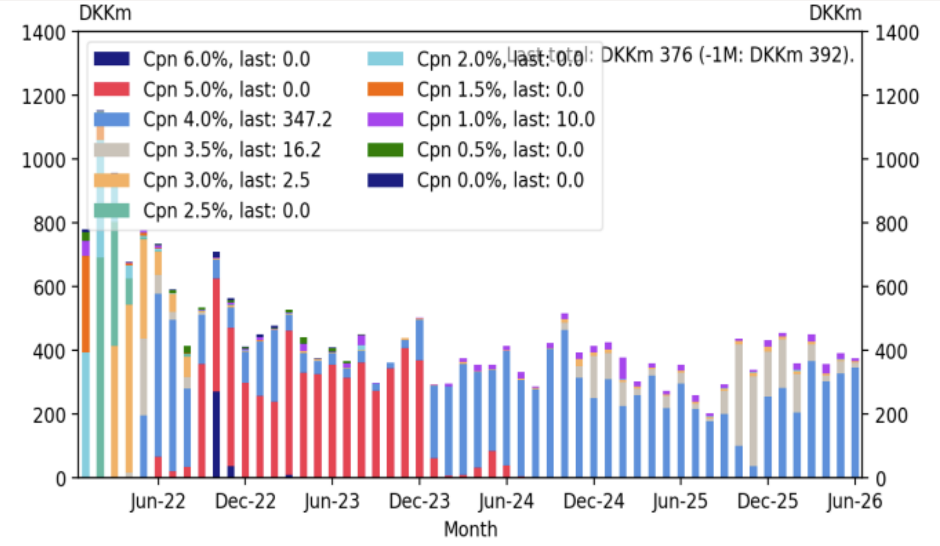
HPR FWD 12M (DKK vol), CVX adj based on last 3M



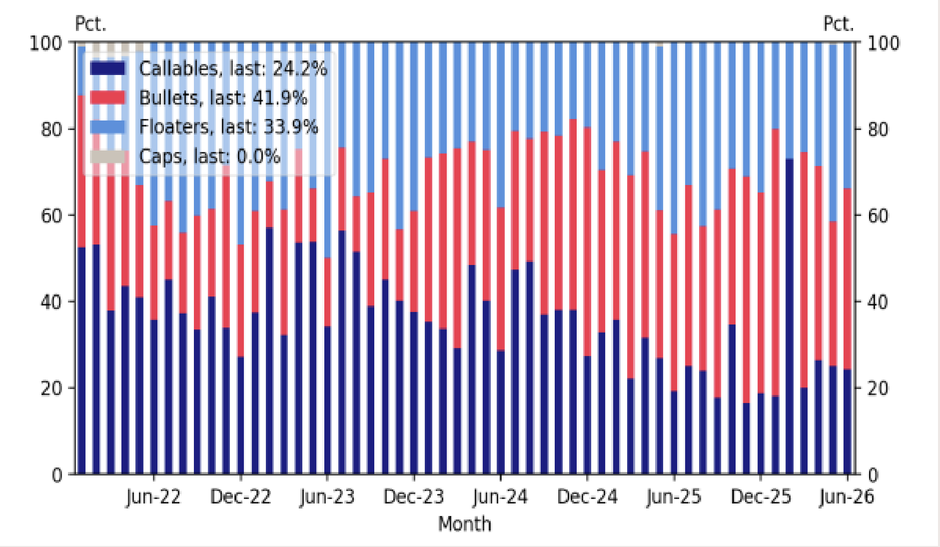
Callables – issuance

- Issuance in the callables segment has been concentrated in 4% bonds over the past two and a half months.
- As a result, closing effects in the callables segment related to the change of maturity class are limited (Read more here).
- The 3.5'56 bond was issued over a relatively short period roughly midway through the opening period and therefore also carries only limited closing potential.
- As has been the case in recent years, issuance has remained modest.

Callables: Avg daily issuance by month (OMX)

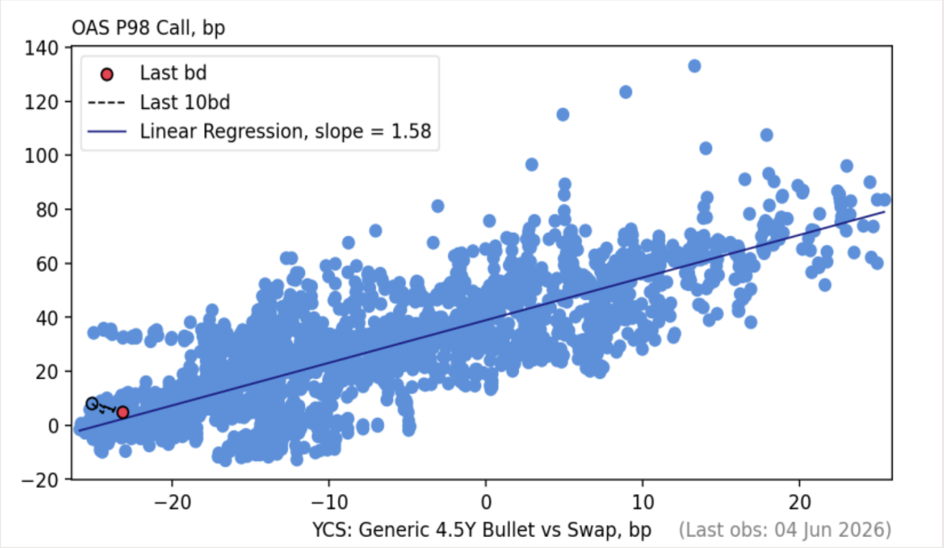


Composition of issuance by month (Outst)

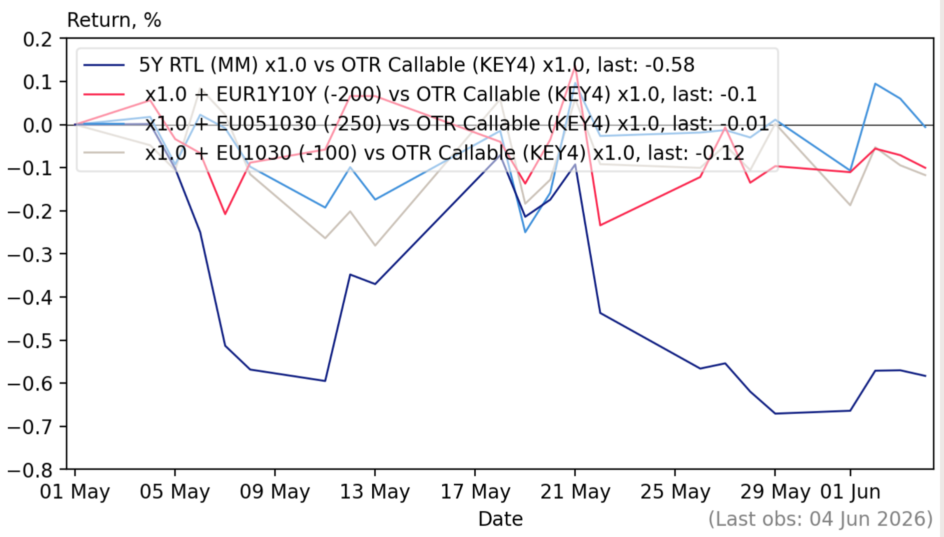


Bullets vs callables

- We opened a recommendation in early May favouring 5Y bullets swap-hedged + overlays vs OTR callables swap-hedged as callables seemed relatively expensive.
  - The purpose of combining 5Y bullets with overlays was to replicate (or hedge) the volatility and convexity exposure embedded in callables (Read more here)
- Overall, the recommendation has traded broadly sideways since then, as both 5Y bullets and callables have performed since the opening – and both now appear expensive.
  - In particular, 5Y bullets look expensive relative to EUR covered bonds when using a maturity-matched basis swap against ESTR – however, they continue to be supported by the pickup available in short-dated FX forwards (for example 3M).
  - Callables have become less attractive relative to, for example, US MBS or JGB in 2026 (see overleaf), but remain supported by low issuance, higher rates (since March), and to some extent also by short-dated FX forwards.
  - Although the relative pricing of 5Y bullets and callables does not appear materially out of line (see top chart), we see a greater risk of spread widening in callables and therefore maintain our recommendation.
- While performance has yet to materialise, our recommendation has at least demonstrated the possibility of using both swaptions and swaps to replicate (or hedge) volatility and convexity exposure in callables.
  - Thus, 5Y bullets without overlays have underperformed significantly vs OTR callables since early May – and exhibited substant volatility in returns.



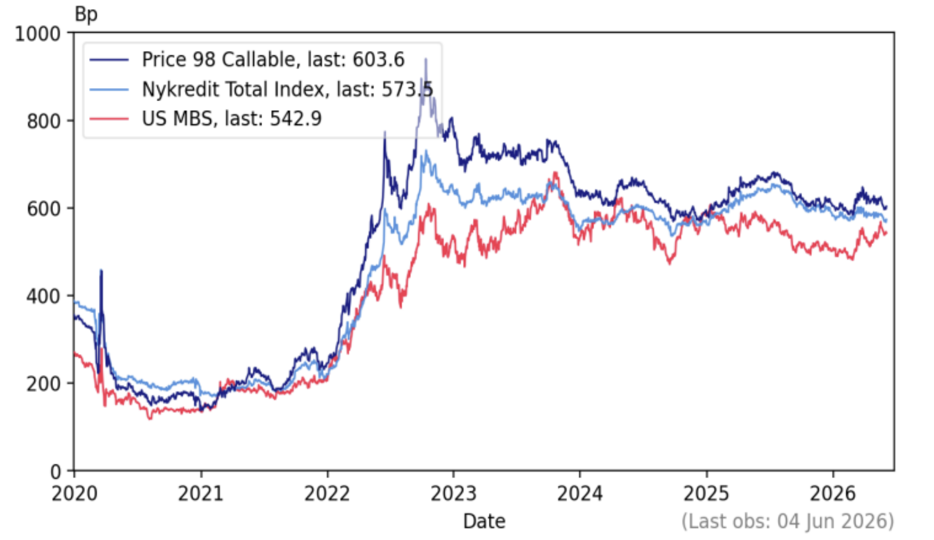
Return on bullets + overlays vs OTR callables (swap-hedged)



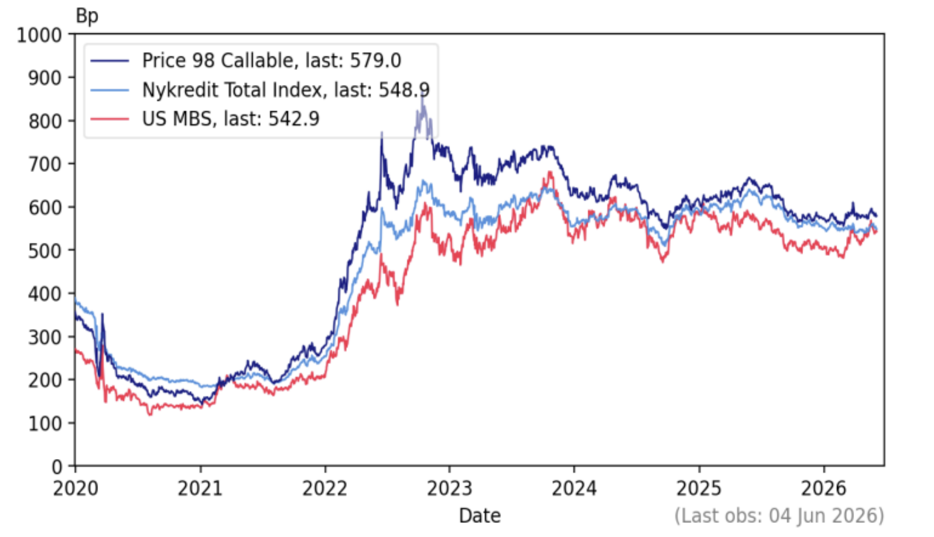
Callables vs foreign investors

- In 2026, YTM of callables (incl FX fwd) and US MBS has narrowed.
  - Most of the attractiveness that callables gained (on this metric) during the first half of 2025 has now been lost again in 2026.
  - A similar pattern is observed when looking at callables (incl FW fwd into JPY) vs JGB.
- The prospect of rising interest rates in the eurozone – both in absolute terms and relative to the US – means that the effective yield pick-up in callables is lower when measured using 12M FX forwards than when using 3M FX forwards (see charts).
  - This also implies that the yield pick-up in callables, when using 3M FX forwards is set to decline further over the remainder of the year.
- This may dampen foreign investor demand (further) and put some downward pressure on pricing in the callables segment.

Yields: Callables (incl 3M FX fwd to USD) vs US MBS



Yields: Callables (incl 12M FX fwd to USD) vs US MBS

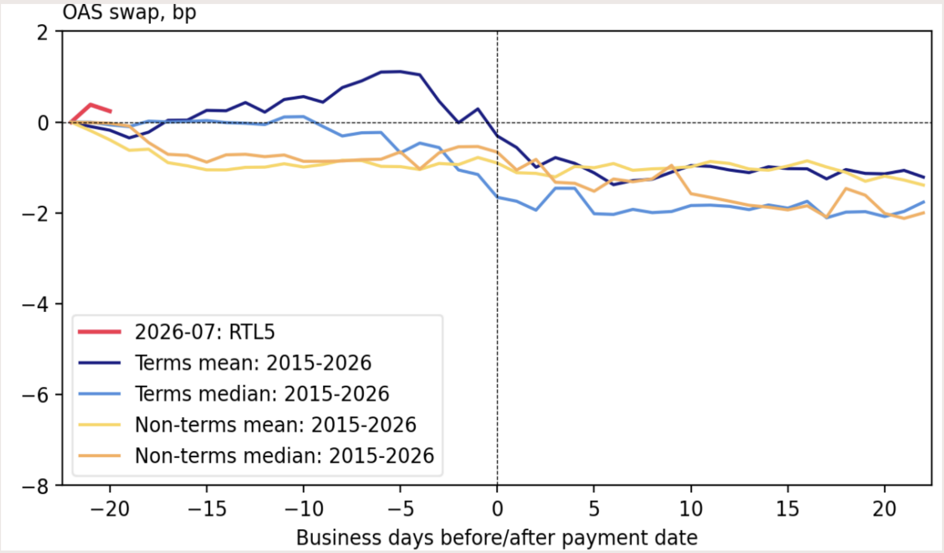


End-of-quarter issuance

- DKK 23 billion could potentially be added to the end-of-quarter issuance on top of the regular month-end supply on 26 and 29 June, as a result of
  - prepayments in callables: DKK 11 billion
  - Outstanding amounts from May auctions: DKK 12 billion
- Some of the flow will already have materialised in the tap issuance, and we therefore expect end-of-quarter issuance of around DKK 15-17 billion.
- The end-of-quarter issuance is expected to be distributed as follows:
  - Bullets: DKK 7-9 billion
  - FRNs: DKK 6-8 billion
  - Callables: DKK 1 billion
- Slightly more than half of the end-of-quarter issuance in bullets is expected to come in 5Y bullets.
- We generally expect bullets to follow the usual payment date pattern and thus widen by around 1-2bp in connection with the end-of-quarter issuance.
- They are subsequently expected to regain the losses as a result of the reinvestment.
- That said, the outcome will largely depend on market developments over the following weeks. If liquidity and outright yields stay elevated, it is possible that bullets will maintain their current (rich) pricing through the end-of-quarter issuance.

Expected end-of-quarter issuance	
Bullets	DKK 7-9 billion
FRNs	DKK 6-8 billion
Callables	DKK 1 billion
Total	**DKK 15-17 billion**

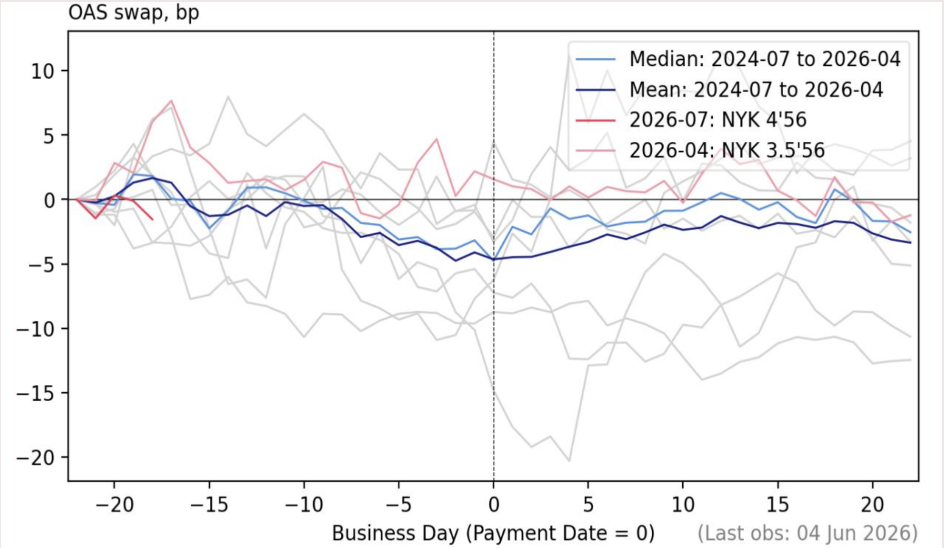
Performance of 5Y bullets in payment date and non-payment



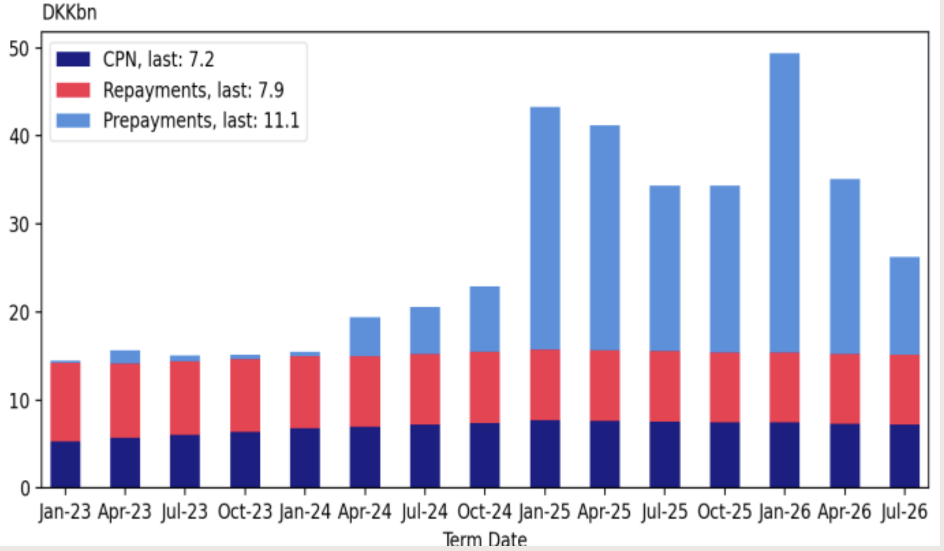
Another cancellation of reinvestment performance

- In March, we cancelled our expectation of reinvestment performance in callables, citing the conflict between the US and Iran, as well as the (despite the conflict) very low OAS levels.
- This proved to be the right call, and we did not observe the usual reinvestment performance at the April payment date.
- Since then, OTR callables have performed by another 5bp and, at such low OAS levels, it is difficult to identify scope for additional (payment date) performance.
- The reinvestment need from principal payments and prepayments amounts to DKK 19 billion, while current net issuance of callables (issuance less buybacks) is tracking towards approx DKK 15 billion for the quarter.
- This implies net growth in callables for the quarter of around DKK -3 billion to 5 billion, broadly in line with Q1.
- This, too, suggests that June is likely to mirror the April payment date, with limited to no reinvestment performance.

Reinvestment performance in callables



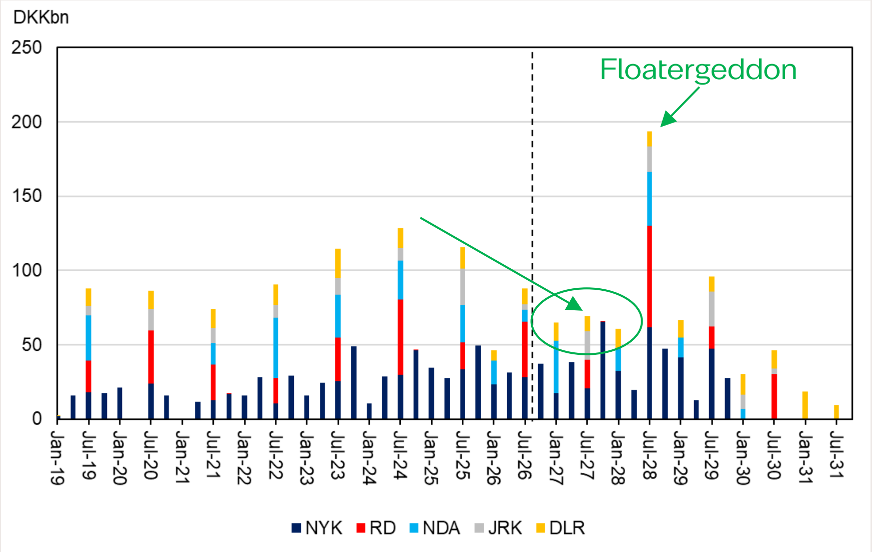
Prepayments and principal and coupon payments in callables



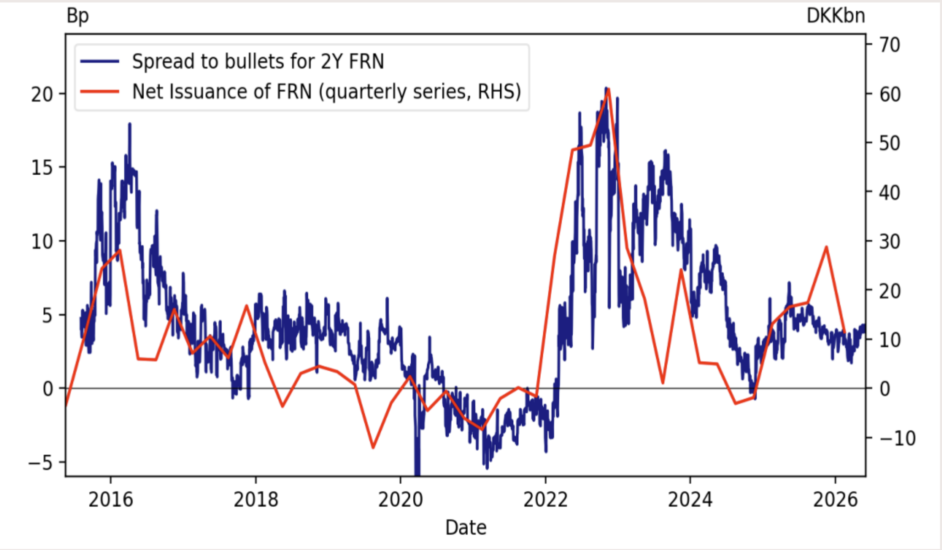
From here to floatergeddon

- The size of FRN maturities at the July payment date has been declining since peaking in July 2024 – and this trend is expected to continue into 2027.
  - This reflects shifts in maturities and in the choice of maturity date for FRNs issued/refinanced by the issuers.
  - These shifts also have implications for FRN maturities in the coming years – and consequently for the size of future refinancing auctions.
- From the October 2027 to January 2028 payment dates, the variation in FRN maturities is currently significantly smaller than historically (see top chart).
  - As such, the January 2027 and 2028 payment dates, as well as the October 2027 payment date, are all approaching a size comparable to the July 2027 payment date.
  - This is expected to contribute to reduced volatility in FRN-bullets spreads throughout the year. Coupled with the observation that FRN-bullets spreads appear closely aligned with the issuance and the prospect of ample liquidity, this underpins our positive view on FRNs relative to bullets.
- However, the July payment date is set to make a striking return in 2028 – with maturities currently approaching DKK 200 billion!
  - Although buybacks are likely to reduce the outstanding volume in the interim period, the refinancing auctions in May 2028 are set to reach record levels.
- Read more – for example about the underlying changes in FRN issuance – here

FRNs: Historical and current maturities across future payment d



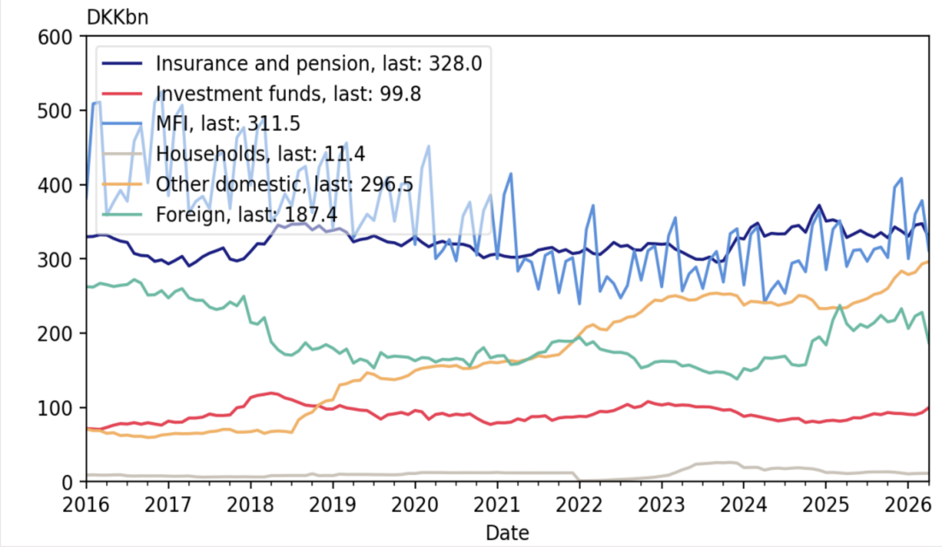
FRNs: Net issuance and spread vs the bullet curve



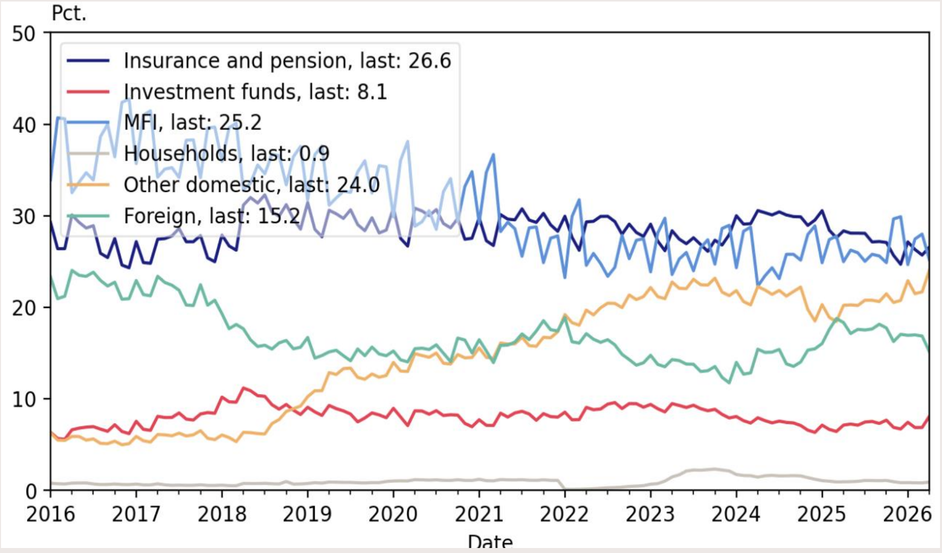
Shrinking foreign ownership in bullets

- The ownership distribution data for April shows a decline in foreign holdings of bullets of DKK 41 billion.
- The April figures reflect the large bullet maturity on 1 April, and a reduction is therefore to be expected.
- However, foreign holdings did not increase sufficiently in February and March to maintain an unchanged foreign ownership share, which has consequently declined by 1.7 percentage points.
- Holdings are now back at the level seen in January 2025, effectively reversing the increase in foreign ownership driven by hedge fund buying throughout 2025.
- The reduction in foreign bullet holdings reflects DKK 31 billion in maturities, while the remaining DKK 10 billion is primarily attributable to a decline in holdings of the Jan'27 segment.
- We see this development as a result of hedge funds having participated to a lesser extent in the February refinancing auctions, combined with a more modest degree of active sell-off.
- It is our impression that hedge funds have reduced their Danish leverage and have increasingly purchased SEK and NOK covered bonds.
- Read our research note here

Bullets: Nominal holdings



Bullets: Ownership distribution



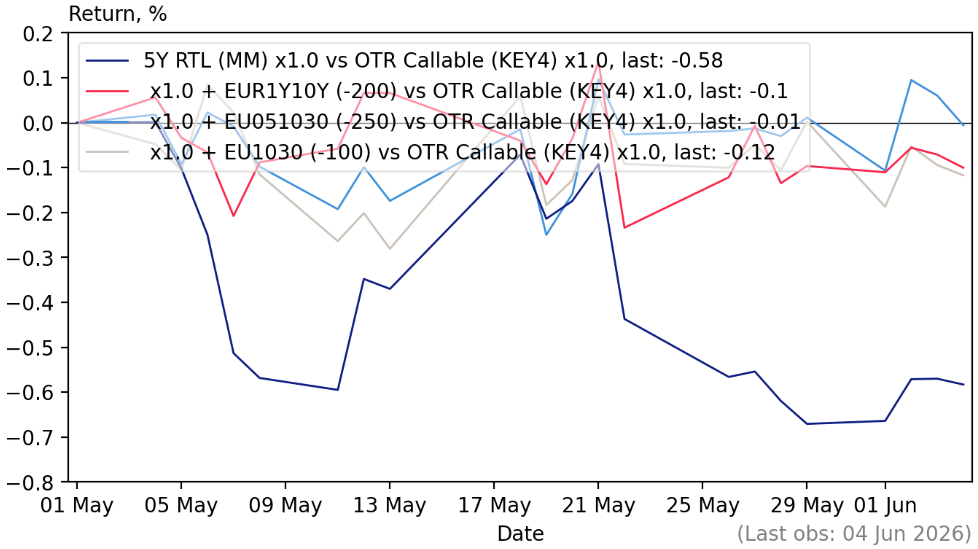
Recommendations

- Our recommendation of RD 4'56IO vs NYK 4'56IO has gone sideways since we opened it last Monday, having so far absorbed trading costs.
- Our recommendation of German covered bonds vs Danish 4-5Y bullets has returned 0.01 after trading costs, reflecting a modest spread widening in Danish bullets relative to German covered bonds. We continue to see scope for further performance.
- We maintain all our recommendations this week.

Current recommendations

Opening date	Name	Return 5bd	Total return
2026-02-23	RTL5 vs. RTL1	-0.00	-0.01
2026-04-23	5'56 vs RTL	0.24	0.69
2026-06-01	RD 4'56IO vs NYK 4'56IO	N/A	-0.05

5Y bullets vs OTR callable incl swap/swaption overlay



Outlook recommendations

Opening date	Name	Return 5bd	Total return
2025-08-25	CITA vs CIBOR 3M FRN	0.01	0.03
2025-11-27	CIBOR 6M vs CIBOR 3M FRN	0.02	0.08
2026-01-12	RTL5 vs. RTL3	-0.00	-0.08
2026-01-15	NYK 4'56 vs RD 5'56 + JRK 1.5'53 IO	-0.20	-0.29
2026-01-26	4'56 vs RTL5	-0.04	0.33

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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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