Fixed Income Update
Week 39

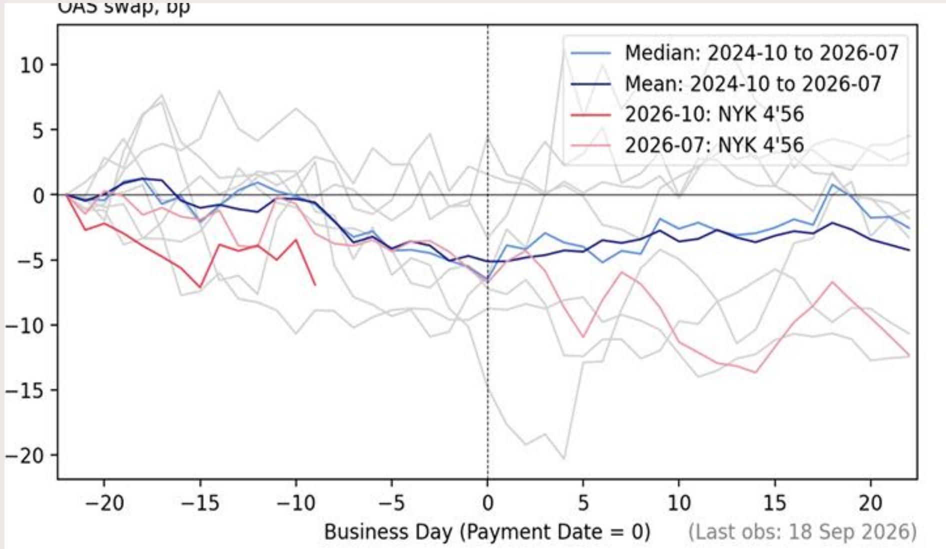
Jacob Skinhøj
Peter Bache
Veronica Bergstrøm

Nykredit

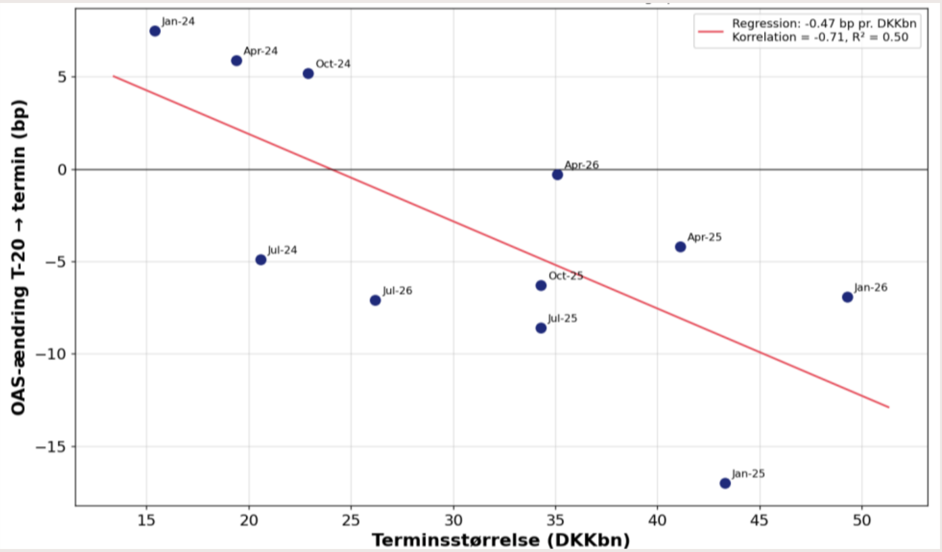
Time for reinvestment performance?

- At first glance, October prepayments are too small to generate reinvestment performance.
- Yet we expect reinvestment performance of at least 4bp this time.
- Over the past few years, we have needed average payments of more than DKK 25 billion, including principal payments, interest rates and coupon payments, to generate reinvestment performance.
- This time, payments will only be at DKK 14.7 billion in principal payments and redemptions, and DKK 22 billion including coupon payments.
- Our expectation of reinvestment performance nevertheless reflects the uncertainty surrounding the current issuance coupon and resulting record-low issuance of callables.
- So, even though the payments are low, current issuance is, broadly speaking, even lower.

Reinvestment performance in callables

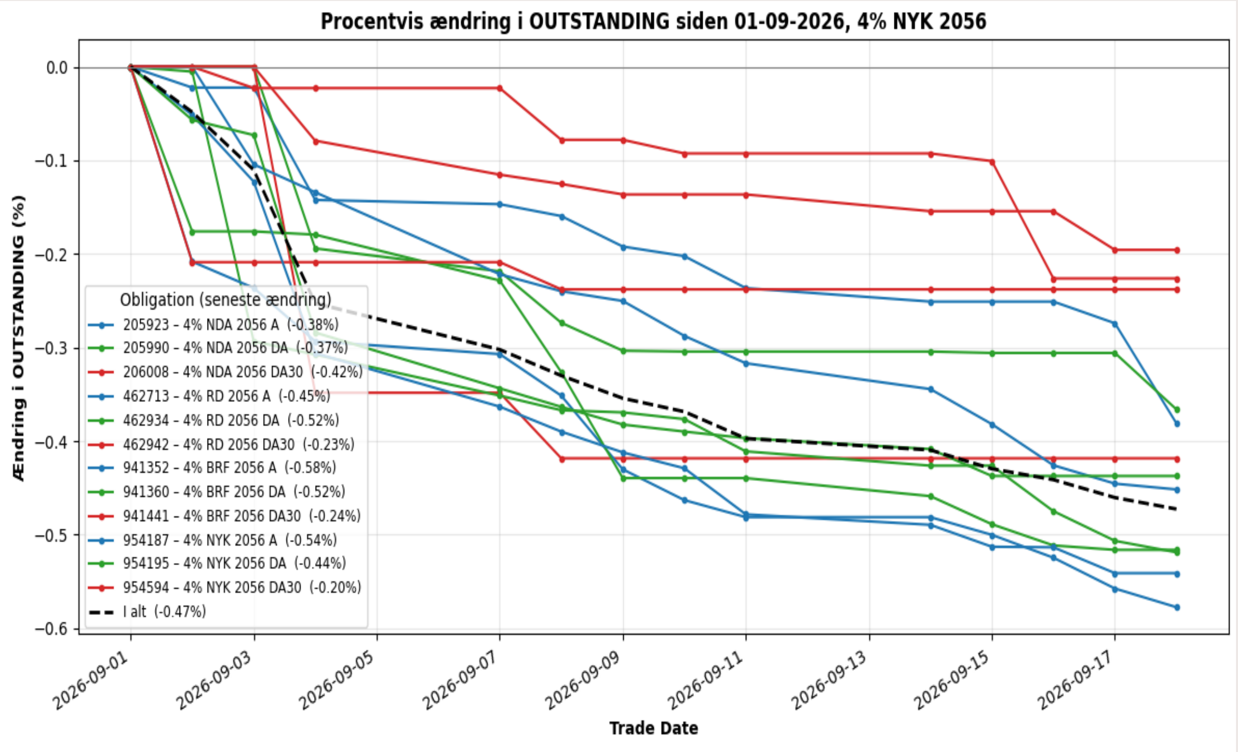


Correlation between the size of prepayments and OAS



4'56 – from issuance to buyback status

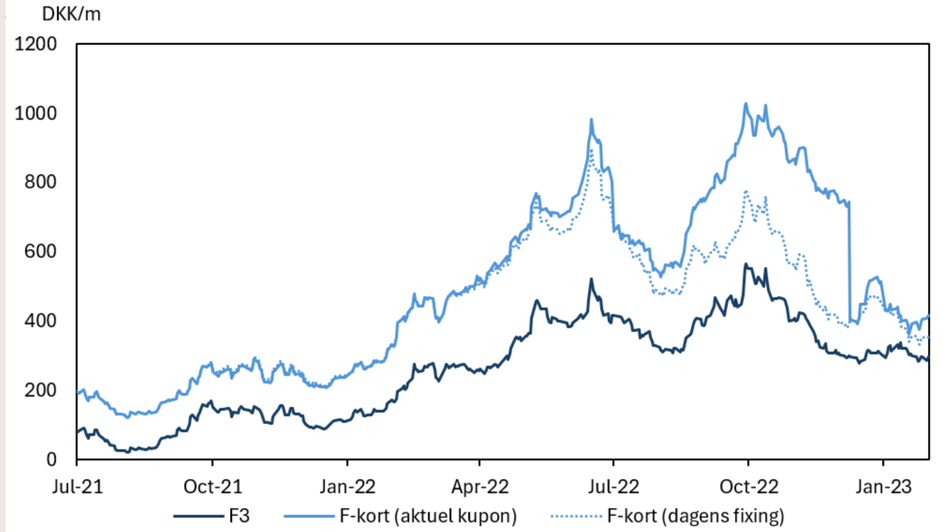
- While 4'56 remained open for issuance, issuers could offset buybacks directly against current issuance.
- After the closing of 4'56, however, any buybacks must be covered through purchases in the market.
- At current price levels, we believe buybacks are primarily attributable to redemptions associated with change of ownership.
- The key question, therefore, is the scale of the underlying buyback activity in the 4% segment.
- Measured from 1 September, buyback activity has been substantial, corresponding to an annualised rate of just under 9% of the outstanding amount.
- However, this elevated level is largely driven by a significant cancellation during the first week following the closure. This most likely reflects a technical cleanup of previously issued bonds that ultimately did not give rise to underlying lending activity.
- Excluding this first week, buyback activity has been considerably more moderate and corresponds to an annualised rate of approx 4.5%.
- Accordingly, we believe that around 4.5% represents a more reliable estimate of the current underlying buyback activity in the 4% segment.



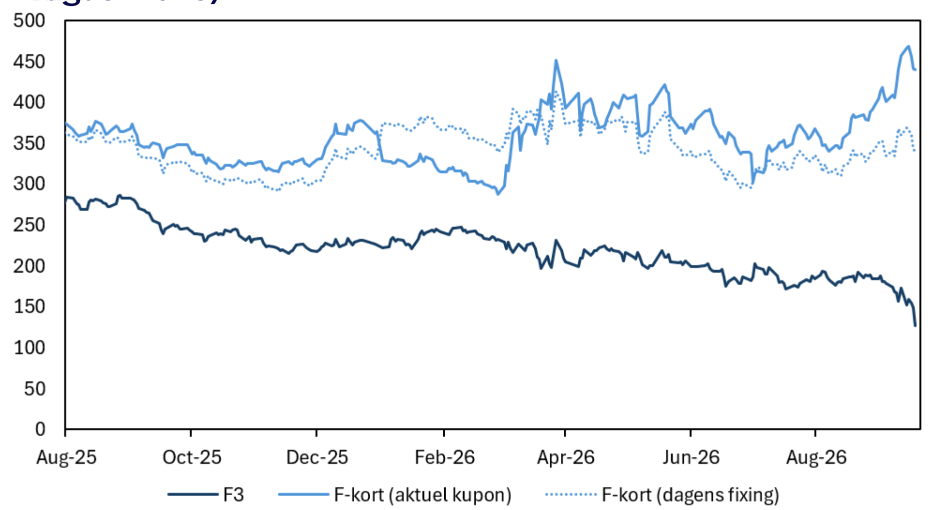
Prospect of buyback surge in 4'56?

- The recent price decline has raised the question of whether there is scope for a large-scale buyback surge in 4'56 bonds.
  - In 2022, a very substantial share of the low-coupon callables was bought back, with activity unfolding in three distinct waves that coincided with the price of 1'50A reaching 90, 80 and 75, respectively.
- First and foremost, the 4'56 bond has so far only fallen to just below a price of 96. This means that a considerably larger decline in price would likely be required before a genuine buyback surge becomes a realistic prospect.
- Should the 4'56 bond fall to a price of 90, several factors would influence the magnitude of any subsequent buyback surge.
  - One of the key drivers behind the significant buybacks observed in 2022 was not merely the opportunity to reduce outstanding debt, but also the potential of reducing mortgage payments.
  - The chart above illustrates the *immediate* after-tax payment saving from buying back a fixed-rate 1% loan of DKK 1 million, originated on 1 July 2021, and refinancing into either a 3Y bullet loan or an F-kort loan.
  - At origination, the saving from choosing a 3Y bullet loan or FRNs rather than a fixed-rate mortgage loan amounted to DKK 100-200. During 2022, however, this increased to almost DKK 1,000. The primary reason was the sharp decline in the price of 1'50, which enabled borrowers to reduce their outstanding debt, while FRN coupons rose only marginally and remained broadly unchanged even after the mid-2022 refixing.
  - So far, the decline in 4'56 has not occurred in a way that has materially increased the payment saving relative to the original borrowing date for a homeowner who took out a DKK 1 million 4'56 loan in August 2025 – quite the opposite (see the lower chart).
  - For further price declines in 4'56 to generate genuinely sizeable buyback potential, those declines would thus need to occur without simultaneously increasing the funding costs of short-term interest rate products (different from the pattern observed thus far).

Savings by switching from 1'50 to FRNs/bullets (originated on 1



Savings by switching from 4'56 to FRNs/bullets (originated on 1 August 2025)

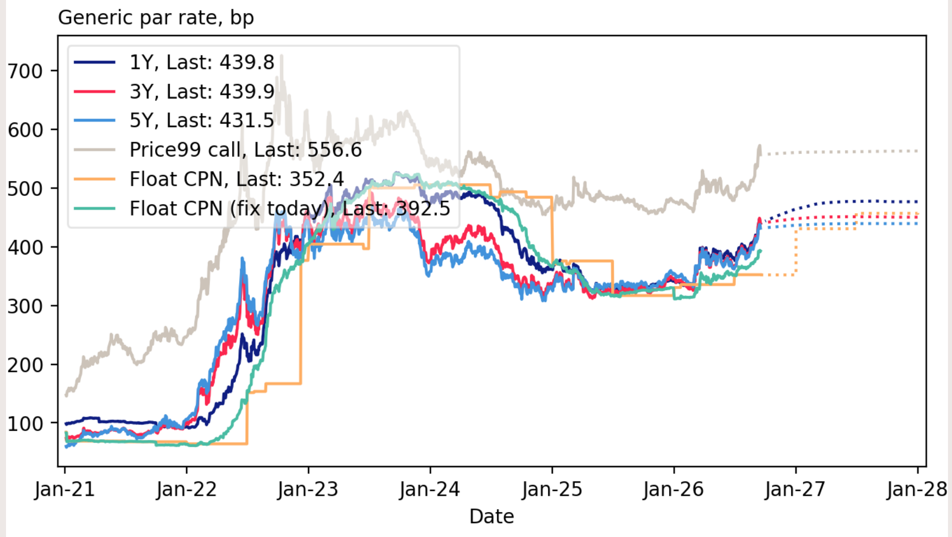


Relatively modest end-of-quarter issuance

- We expect the end-of-quarter issuance to be relatively modest.
- This is partly due to the smaller outstanding volume stemming from the August refinancing auctions of DKK 3.5 billion, and partly due to lower redemptions in the callable segment of DKK 7 billion.
- Overall, we expect end-of-quarter issuance to total approx DKK 6-8 billion, with the bulk of the activity likely to take place on Monday and Tuesday next week, 28 and 29 September, respectively.
- As was the case in June, we believe end-of-quarter issuance will be dominated by FRNs.
- The relative cost difference between the various loan types is broadly unchanged from the levels observed in June.
- At the same time, if anything, the increase in interest rates over the past couple of weeks may encourage a greater number of borrowers to opt for variable-rate loans on the expectation that rates will decline again over time.
- Accordingly, we expect:
  - FRNs: DKK 4-5 billion
  - Bullets: DKK 2-3 billion
  - ~ DKK 1 billion-worth of callables

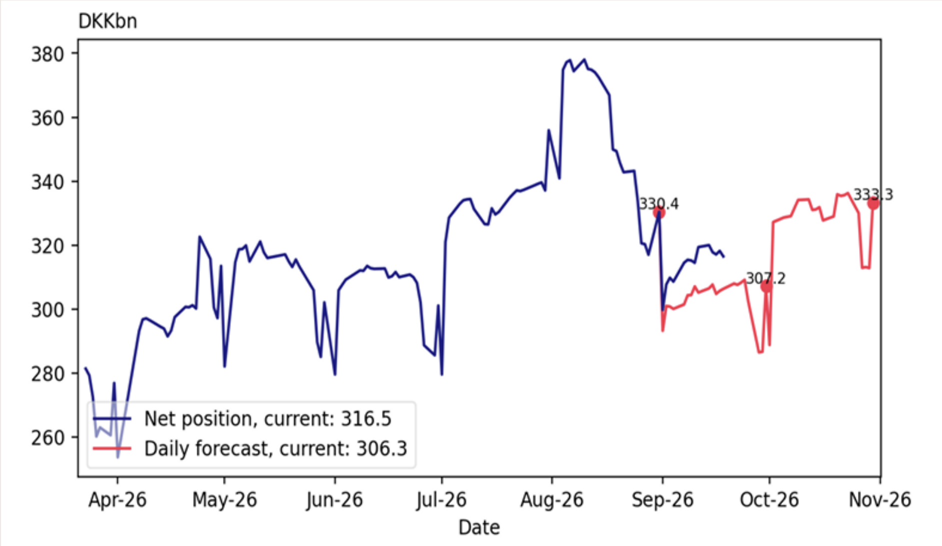
Expected end-of-quarter issuance	
FRNs	DKK 4-5 billion
Bullets	DKK 2-3 billion
Callables	< DKK 1 billion
Total	**DKK 6-8 billion**

Yields and coupons adjusted for margins etc

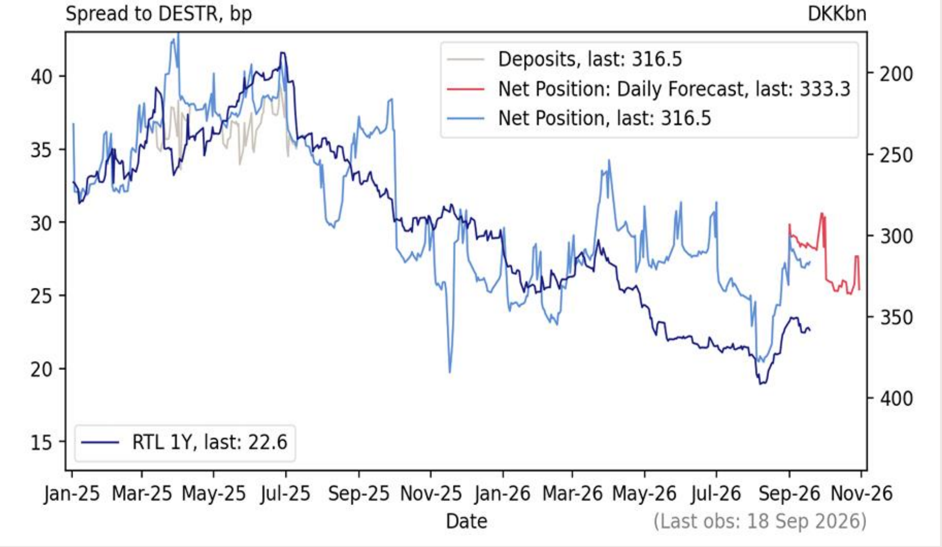


Liquidity ahead in September

- The net position is currently just over DKK 10 billion ahead of the daily forecast (adjusted for actual issuance).
  - In recent months, however, we have seen a pattern where the net position tends to lose momentum relative to the forecast towards the end of the month.
  - As a result, we do not expect the net position to finish the month more than around DKK 5 billion above the level implied by the forecast.
  - As previously discussed in , there remains considerable uncertainty surrounding where the net position will end the year, and therefore what the starting point for 2027 will be.
- At present, one-year bullets appear to be priced on the assumption that the net position will increase by as much as DKK 350 billion between now and year-end.
  - We believe investors are likely to be disappointed. Consequently, we see scope for one-year bullets to widen by up to 5bp in spread from current levels.



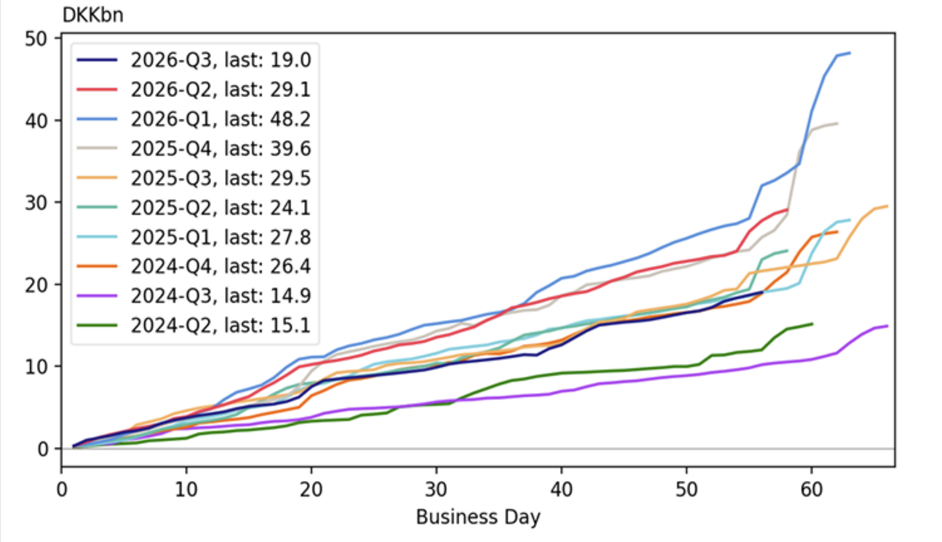
One-year bullets are priced at increase in liquidity



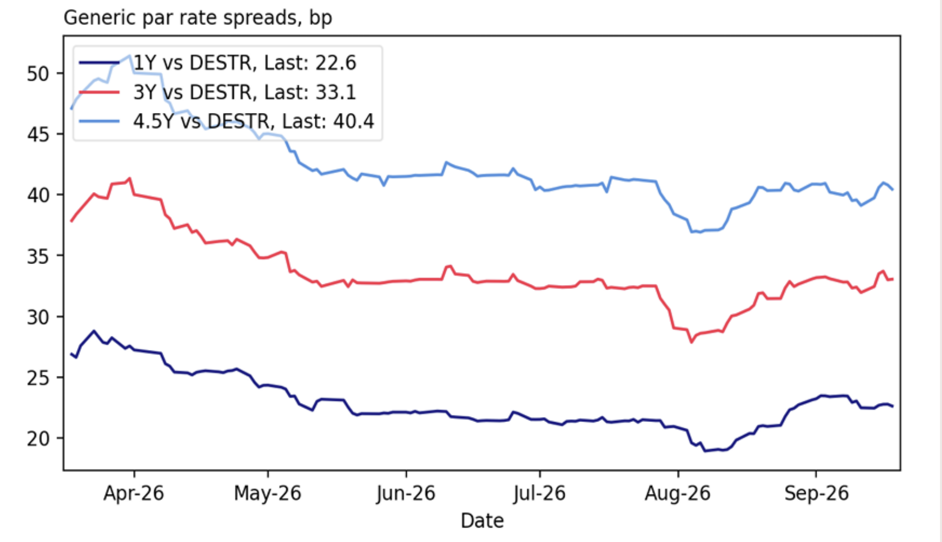
Bullets: More 5Y bullets on the way

- Issuance of 5Y bullets was moderate in Q3 and slightly lower than in the preceding three quarters.
- We expect issuance of 5Y bullets to pick up somewhat in October (and throughout the remainder of Q4).
  - This is mainly because about DKK 63.5 billion-worth of originally 5Y bullets maturing at the January payment date (see here), together with a sizeable auction offering in November, may generate refinancing-related flows outside the auction process.
  - Part of this refinancing activity outside the auctions is likely to materialise in the run-up to the prepayment deadline at the end of October.
- Offsetting this, however, is the reduced flow from fixed-to-variable refinancing out of 5% callables, which have now become fairly limited in scale.
  - That said, the same was broadly true during the second quarter, and we no longer view fixed-to-variable refinancing as the primary driver of movements in the issuance of 5Y bullets.
- Setting aside the relatively short-lived performance rally seen in early August, bullet spreads have generally remained stable since May.
  - Looking ahead, we believe that the combination of increased supply and evolving liquidity conditions could lead to modest spread widening in the bullet segment over the coming months. For longer-dated bullets, however, it will most likely not be until 2027 that liquidity conditions begin to represent a meaningful headwind.

5Y bullet issuance may be picking up again in Q4



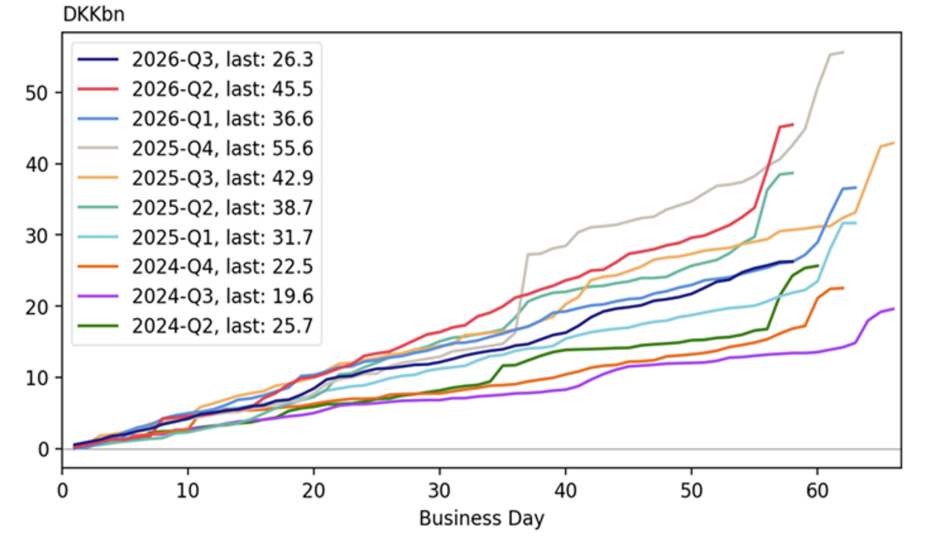
Bullet spreads vs DESTR overall gone sideways since May



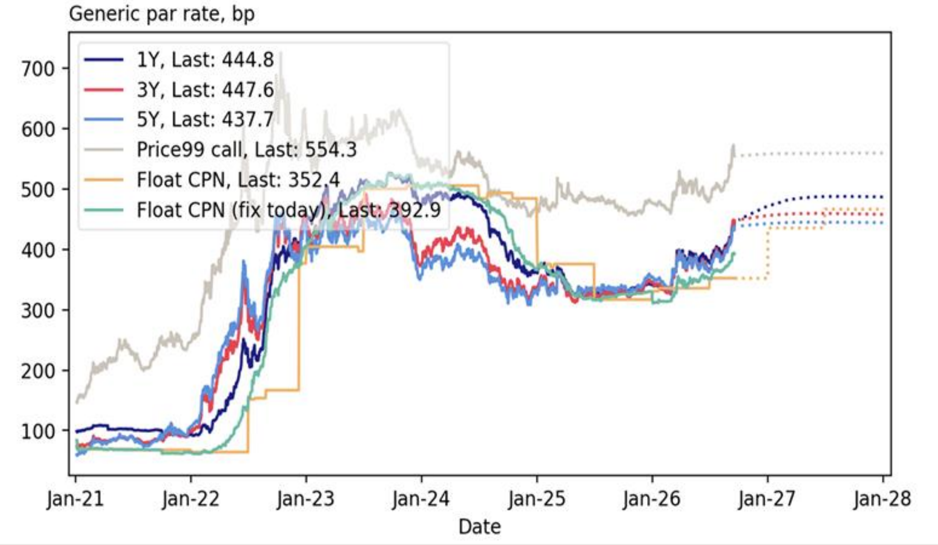
FRNs: Interest rate tailwinds for issuance?

- Overall, FRN issuance has declined relative to the second quarter, although activity has regained some momentum in recent weeks.
  - The segment has likely been supported by the recent rise in interest rates, which has, at least so far, had a more pronounced impact on the payment of fixed-rate mortgages and 1Y and 5Y loans.
- Since 2022, we have observed greater focus on presenting borrowers with an illustration of what the payments on an FRN-funded loan would be if the coupon was hypothetically reset based on the current level of the reference rate, particularly when such a calculation would imply a higher coupon.
  - This reduces the potential for a significant boost to FRN issuance arising from the fact that FRN coupons temporarily lag behind the pricing of other mortgage products (see the chart below).
  - Nevertheless, we still expect this effect to provide some incremental support for FRN issuance during the fourth quarter.
- That said, we do not expect any additional FRN issuance to be of a magnitude that would exert meaningful pressure on FRN-bullet spreads.
- Approximately DKK 62.5 billion-worth of FRNs issued by NDA, NYK and DLR mature at the January refinancing date. The maturity profile is distributed largely equally between CITA 6M and CIBOR 6M-linked FRNs (see here).
  - This points to anticipated FRN auction offering of around DKK 56-58 billion.

FRN issuance may pick up a bit in Q4



Yields and coupons adjusted for margins etc



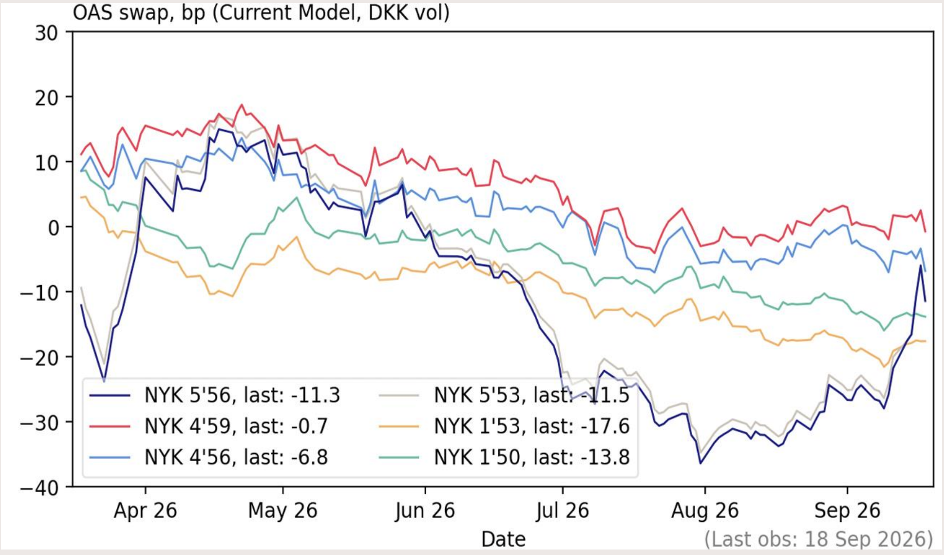
New 5% bonds – almost here, yet not quite

- Last week, all issuers (except DLR) announced the opening of new 5'59 bonds.
- On Thursday, JRK conducted the first tap of its 5% 2059 A bond at a price of 100.30. On Friday morning, NDA followed with a tap of its 5% 2059 interest-only bond at 100.00.
- We believe issuance in the period ahead may shift back and forth between 4'59 and 5'59 (with 5'59 IO bonds being used by those issuers that fund amortising repayment loans through interest-only funding series).
- All else equal, this would imply a slower build-up of the new benchmark series and, consequently, a longer path towards achieving index representation.
- In our view, this argues for a larger "maturity class premium" across all of the newly opened series.
- For the 5% bonds specifically, there is also a risk that they ultimately remain relatively small issues with a high concentration of large loan balances. This supports a higher OAS relative to 4'59 bonds.
- We therefore find the new 5% bonds reasonably attractive if they come at a higher OAS than 4'59 bonds. Investors should, however, pay close attention to the actual borrower distribution, as the eventual composition of these series may become apparent fairly quickly.
- Legacy 5% bonds have widened by around 15-20% following the launch of the new 5% series. It is possible that they may recover some of this underperformance, reflecting the uncertainty that previously existed regarding whether any new 5% series would be launched at all.

ISINs of the newly opened bonds

	5'59	5'59IO	5'59IO30	4'49
NYK	955620	955639	955647	955655
RD	463566	463574	N/A	463558
NDA	206660	206679	206687	206695
JRK	942,081	942103	942111	942138

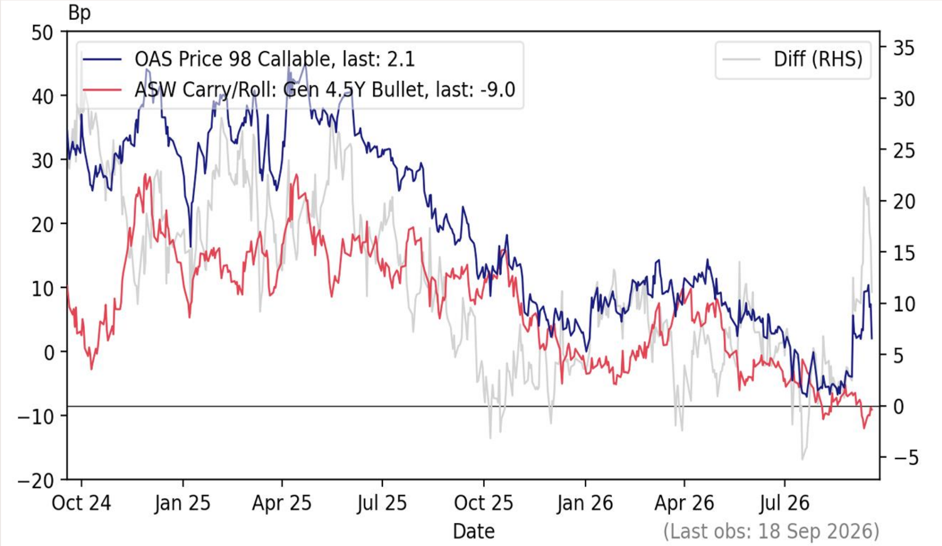
30Y callables: OAS swaps



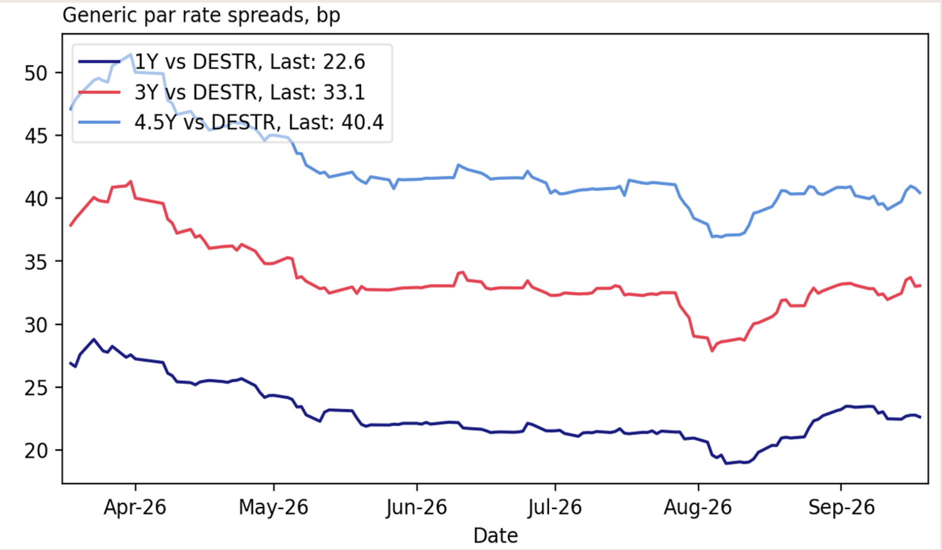
4% vs longer-dated bullets

- Last Monday, we argued that longer-dated bullets had begun to look expensive and that 4% callables appeared attractive on a relative-value basis.
- Over the course of the week, bullet bonds also came under pressure, with longer-dated issues widening by around 1.5bp in spread, while the 4% segment gained ground over the week (true for both 4'56 and 4'59).
- As a result, the relative valuation between longer-dated bullets and callables now appears more balanced, particularly in the case of 4% 2056 bonds versus 5Y bullets.
- That said, we continue to believe that longer-dated bullets may underperform further over the coming months, and to the extent that investors are able to source 4% 2059 bonds at an OAS of around zero, we continue to see value in the recommendation.

OAS Price 98 Callable vs. Gen 5Y Bullet (Start 18 Sep 24)



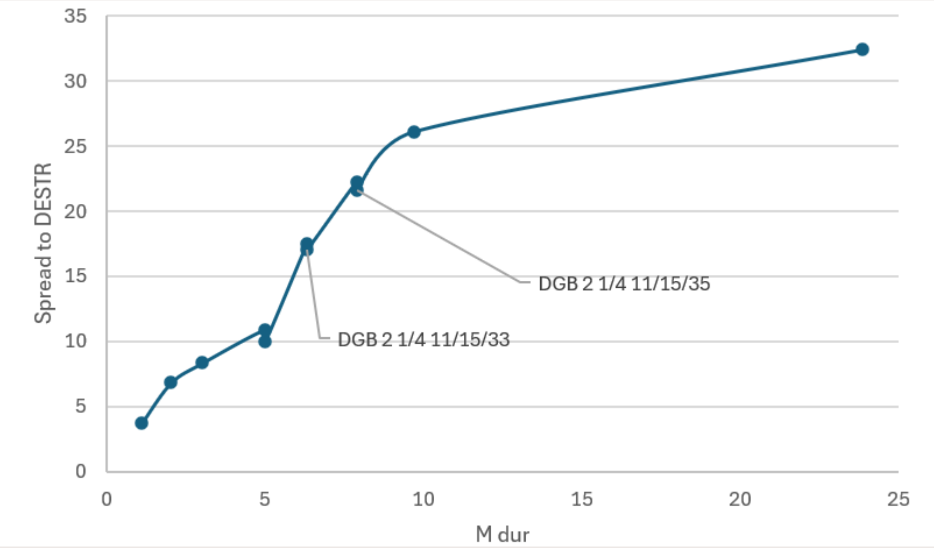
Bullets: Spreads vs DESTR



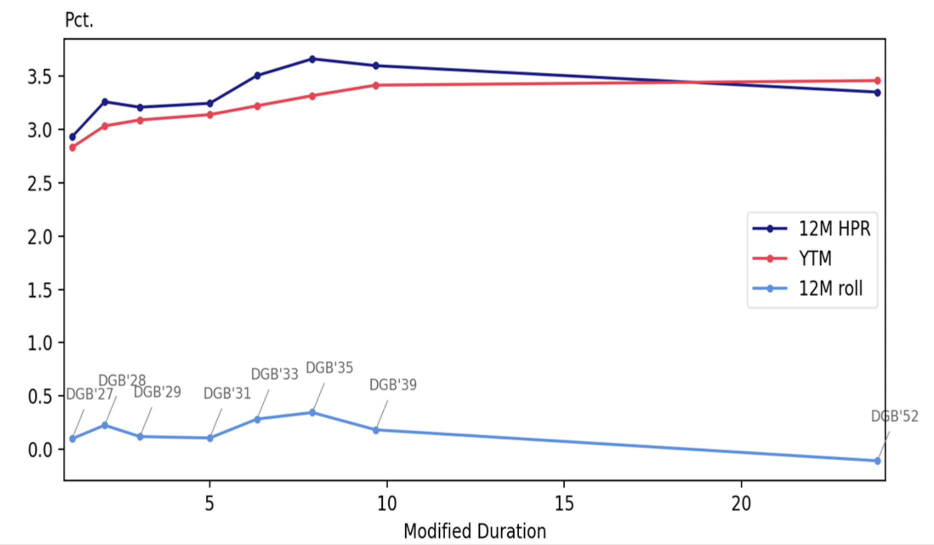
DGB

- We continue to see the highest expected 12-month HPR in DGB 2035, with DGB 2033 following closely behind.
- These two bonds are also where we currently identify the most compelling relative value opportunities.
- Foreign investors appear to share this assessment and now hold approximately 50% of each issue.
- So far, September's favourable rate movements have had little impact on the DGB-DBR yield spread. Around 10Y, the spread has remained broadly unchanged at approximately -18bp.
- The uncertainty surrounding Germany's political situation is, in isolation, supportive of Danish government bonds relative to Bunds, while any renewed bout of interest-rate volatility would, at least initially, be expected to favour German Bunds.

DGB 12M HPR, 12M roll & YTM



DGB 12M HPR, 12M roll & YTM



Recommendations

- Our recommendation of holding 4'56 against a barbell of 5% bonds and low-coupon callables has recovered part of its earlier underperformance following the spread widening in the legacy 5% bonds.
  - We do not expect the legacy 5% bonds to cheapen further from current levels and therefore close the recommendation out of the money.
- Our newer recommendation of 4'59 vs 5Y bullets has rebounded well after a difficult start. We still see value in the recommendation and maintain it.
- We also maintain our other recommendations.

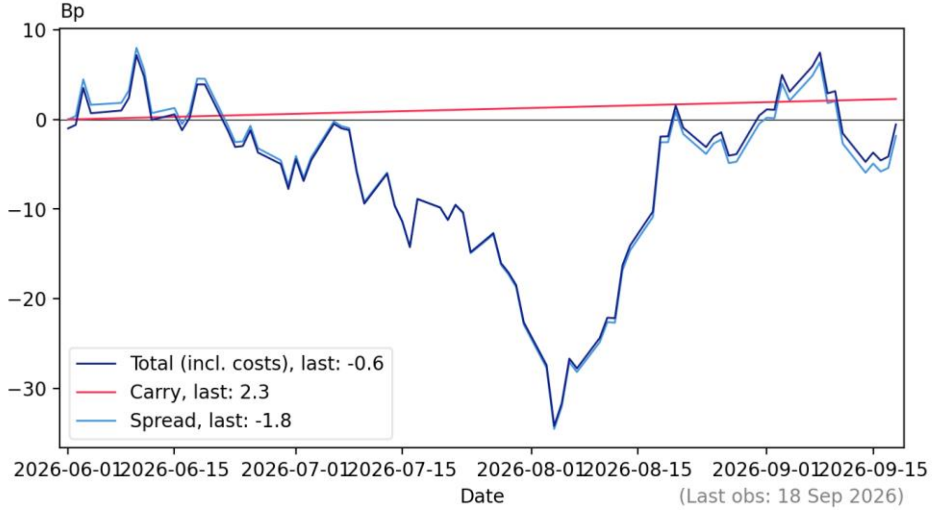
Current recommendations

Opening date	Name	Return 1bd	Return 5bd	Total (incl. costs)
2026-06-01	RD 4'56IO vs NYK 4'56IO	0.04	0.04	0.07
2026-06-15	DGBi'34 vs DGBi'30 (BOX)	-0.12	-0.14	-1.55
2026-07-07	4'56 vs 1'50 & 5'53	0.05	0.46	-0.40
2026-08-21	3Y FRN vs RTL	0.01	-0.02	-0.00
2026-09-03	RTL5 vs RTL1 (hedged)	-0.01	-0.08	-0.07
2026-09-02	1'59 vs 4'59	-0.30	-0.62	-0.46
2026-09-10	4'59 vs. RTL5	0.44	0.95	0.50

Outlook recommendations

Opening date	Name	Return 1bd	Return 5bd	Total (incl. costs)
2025-08-25	CITA vs CIBOR 3M FRN	0.00	-0.01	-0.00
2025-11-27	CIBOR 6M vs CIBOR 3M FRN	0.00	0.04	0.13
2026-01-15	NYK 4'56 vs RD 5'56 + JRK 1.5'53 IO	0.02	0.64	-0.89
2026-01-26	4'56 vs RTL5	0.30	0.82	0.48

Recommendation: 4.5Y German Covered Bonds vs bullets (vs ESTR via ba...



Nykredit markets

DISCLOSURE

This material was produced by Fixed Income Research, which is part of Nykredit Bank A/S ("Nykredit Bank" or "the Bank"). Nykredit Bank is a financial undertaking subject to the supervision of the Danish Financial Supervisory Authority.

Nykredit Bank participates in market-making schemes for Danish government and mortgage bonds and can, in its capacity as market maker, hold positions in Danish government and mortgage bonds.

Over the previous 12-month period, Nykredit Bank or companies of the Nykredit Group may have been lead manager or co-lead manager of any publicly disclosed offering of Danish government or mortgage bonds. Further information is available on request.

Nykredit Bank or companies of the Nykredit Group are not involved in corporate finance activities or any other investment services or activities or ancillary services for companies referred to in the material.

This material contains information recommending or suggesting an investment strategy and was not produced by an independent analyst. Instead, it was produced by strategic analysts, whose recommendations are based on their experience or knowledge in the financial area. It was not produced in accordance with regulation aiming to promote the independence of investment research and is therefore considered marketing material and not investment research. No prohibition applies to trading in any financial instruments referred to in the material prior to its dissemination.

Nykredit Bank and companies of the Nykredit Group have not entered into any agreement with the issuer on the production of this material. This material has not been presented, in full or in part, to the company.

This material was finalised and released for distribution for the first time on the date and time stated at the top of the material.

Financial models and methods used

Calculations and presentations are based on ordinary econometric and financial tools and methods as well as publicly available sources. Assessments of Danish callable mortgage bonds are modelled using a proprietary model consisting of a stochastic yield curve model and a statistical prepayment model calibrated to borrowers' historical prepayment behaviour.

Recommendation and risk assessment structure for government and mortgage bonds (incl covered bonds)

Nykredit Bank typically focuses on isolating relative value in fixed income and derivatives markets. Therefore, the interest rate and/or volatility risks of the strategy are typically hedged through other bonds or derivatives (swaps, swaptions, caps, floors etc).

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.

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

Risk warning

Any assessments and recommendations made in this material may involve substantial risk. Such risk, including a sensitivity analysis of the relevant assumptions, is stated in the material. All investors should consider the purpose of their investment and make their own decisions as regards any kind of investment in financial instruments referred to in this material.

Regular updates of the recommendation are not scheduled, and any updates will therefore be on an ad-hoc basis.

Unless otherwise stated, all price information in this material is as at the trading day prior to the date stated on the front page.

For a list of all Nykredit Bank's government and mortgage bond recommendations in the last 12 months, including specific information on the individual recommendation, please see here.

Nykredit Bank has significant financial interests in relation to Nykredit Realkredit A/S in the form of general banking services and investments in bonds issued by Nykredit Realkredit A/S.

Nykredit Bank is a wholly-owned subsidiary of Nykredit Realkredit A/S. The material may contain a recommendation to buy bonds issued by Nykredit Realkredit A/S. This entails a conflict of interest between Nykredit Bank and customers, as Nykredit Bank has a particular interest in selling bonds issued by companies of the Nykredit Group.

Information about Nykredit Bank

Nykredit Bank has adopted internal rules to prevent and avoid conflicts of interest in the preparation of research and to ensure effective communication barriers. Analysts at Nykredit Bank are obliged to refer any communication that may affect the objectivity and independence of investment research to the Head of Research and the Compliance unit. Employees of Nykredit Bank must at all times be alert to any potential or actual conflicts of interest between Nykredit Bank and customers, between customers, and between an employee on the one hand and Nykredit Bank or customers on the other, and must endeavour to avoid conflicts of interest. Nykredit Bank has adopted a conflicts of interest policy on the identification, management and disclosure of conflicts of interest in connection with securities trading and related services provided by Nykredit Bank for customers. If becoming aware of circumstances that may constitute a conflict of interest, Nykredit Bank's employees are obliged to disclose such information to their line manager and to the Compliance unit, which will then determine how to proceed.

Fixed Income Research in Nykredit Markets operates independently of the units Debt Capital Markets & Sustainability and Financial Institutions Group and is organised independently of, and does not report to, any other business units of the Nykredit Group. Employees are remunerated partly based on Nykredit Bank's overall performance, which includes income from investment banking transactions, but do not receive bonuses or other remuneration directly related to specific corporate finance or debt capital transactions. Persons involved in the production of the material do not receive remuneration related to investment bank transactions conducted by companies of the Nykredit Group.

Distribution of recommendations

The table below shows the distribution of Nykredit Bank's direct investment recommendations in investment research on government and mortgage bonds in the most recent quarter. No significant investment firm services have been provided to issuers in the period. Current distribution of direct investment recommendations:

Recommendation	
Buy	50%
Sell	50%

As at 13.12.2024
Note: Distribution of our recommendations, which therefore add up to 100%.

DISCLAIMER

Special rules on crisis management in banks (bail-in):
Special rules apply to crisis management in banks. The rules prevent the use of taxpayers' money in times of crisis, meaning that banks will not be bailed out by rescue packages paid by the public. Instead, losses will be borne by the shareholders and bondholders of crisis-stricken banks. This is called "bail-in".

It may be difficult for investors to predict the implications of the complex rules, and a crisis may hit very suddenly. If you invest in bank shares or securities issued by a bank, be aware of the special risk of a write-down or a complete loss of your investment. A potential or current banking crisis will also have a huge impact on the liquidity of your investments.

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