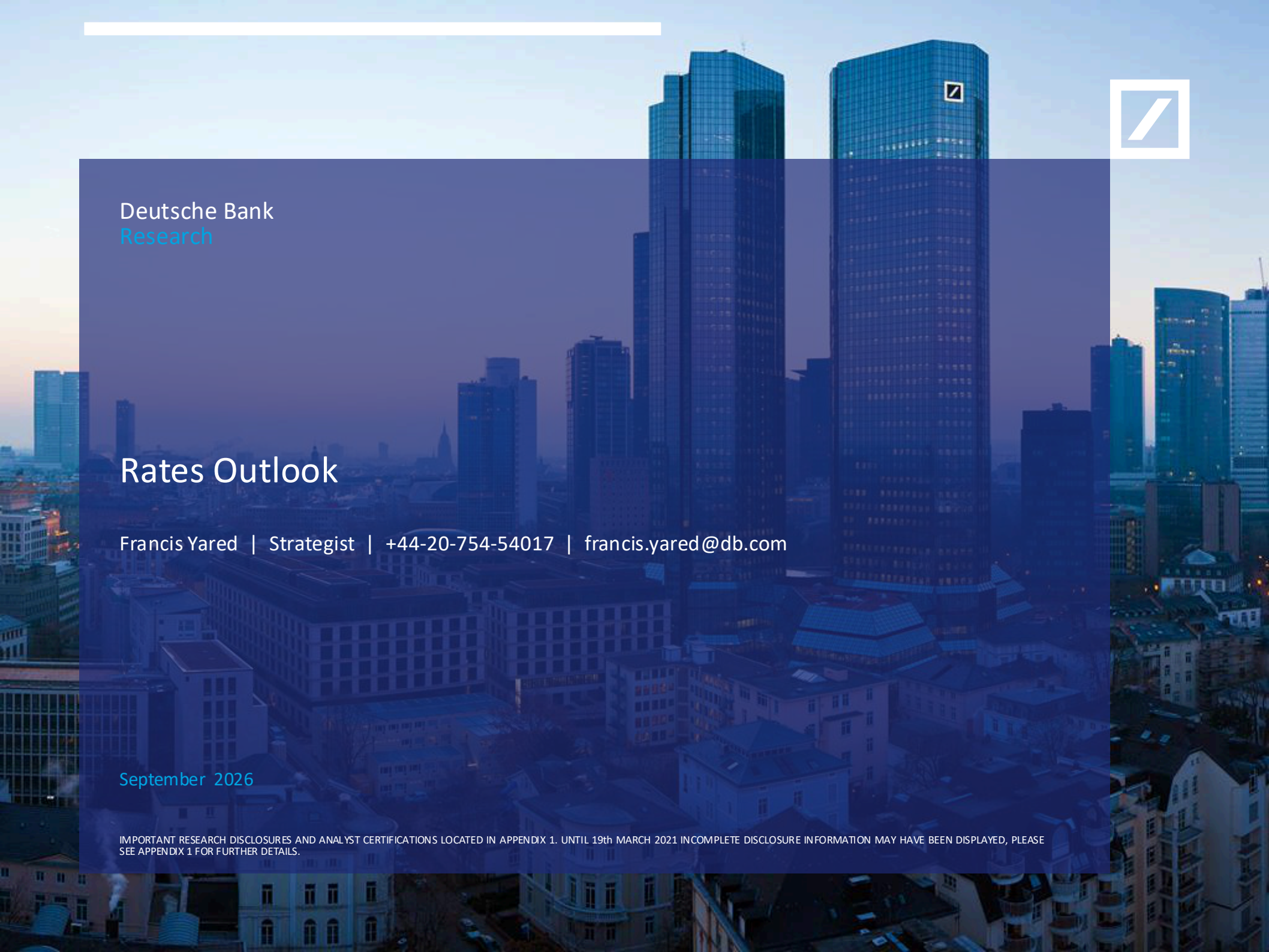


Deutsche Bank
Research

Rates Outlook

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September 2026

IMPORTANT RESEARCH DISCLOSURES AND ANALYST CERTIFICATIONS LOCATED IN APPENDIX 1. UNTIL 19th MARCH 2021 INCOMPLETE DISCLOSURE INFORMATION MAY HAVE BEEN DISPLAYED, PLEASE SEE APPENDIX 1 FOR FURTHER DETAILS.

Duration closer to fair value

Macro portfolio	Short duration: short UST 10y (4.80% target; 20bp additional upside risk) Higher DB TP: EUR 5s10s + 20% 2s; SOFR 5s10s + 20% in 2s; EUR 10s30s + 33% 5s (15bp+ upside) JGB 5s20s flattener: 35bp+; upside (highest-conviction trade) UST ASW 2s10s steepener: 5bp upside
Structural views	(1) Fiscal policy stays structurally easy; (2) most of the post-GFC decline in neutral unwinds; (3) conditions support a secular rise in term premia; (4) BoJ behind the curve; (5) external position matters more than fiscal position for sovereign risk
USD front-end	Post-GFC fall in equilibrium policy rates was unrelated to growth. Forces depressing r* have reversed: private-sector deleveraging vs. AI capex; fiscal restraint vs. sustained stimulus; positive supply shock (shale oil) vs. repeated negative shocks (Covid, Ukraine, Iran tariffs). r* estimated at ~2%. **Priced and increasingly accepted**
EUR front-end	ECB terminal-rate pricing plausible from both a bottom-up (data) and a top-down (spread to the US) perspective. **Priced, but against consensus**
Term premia	Supply/demand shift and inflation risks should lift term premia. EUR 10s30s could additionally benefit from Dutch pension reform. **Not fully priced; slow-moving**
JGB curve	BoJ behind the curve given wages, polls and price action. Front-end now better priced. Long end cheap vs. external position. JGB flatteners. **Significant upside; probably consensus**
AI and risks to the view	*Textbook impact of AI:* higher capex and productivity; higher rates *Tail risks of AI:* (1) boom/bust; (2) significant AI-driven job losses. However, inflation ultimately driven by policy not technology —"inflation is always and everywhere a monetary phenomenon." *Other risks*: (1) US fiscal tightening after midterms; (2) Iran war resolution materially lowers oil prices (positive supply shock)

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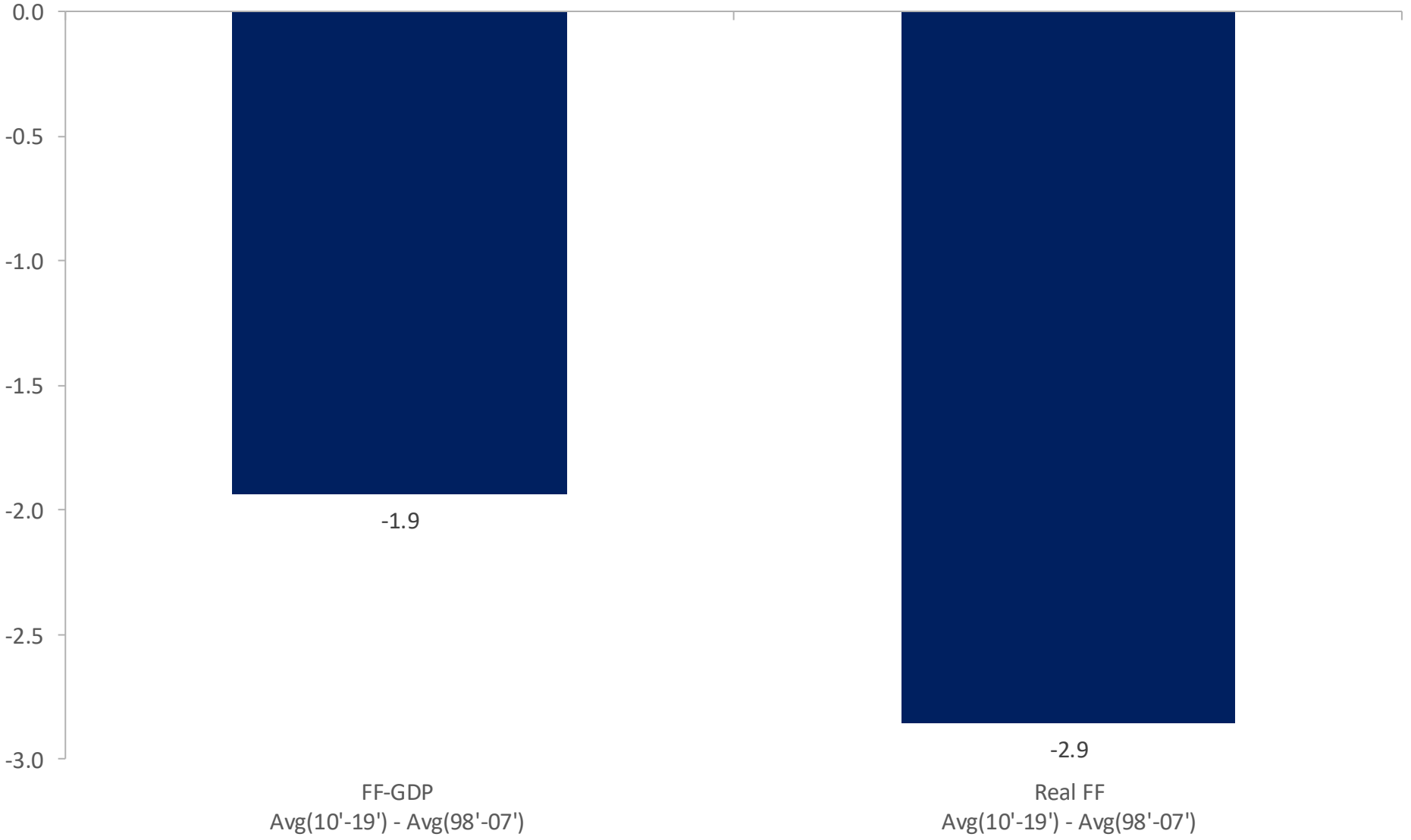
Global military expenditures would need to rise by 1–2% of GDP to reach the levels observed during the Cold War



Source: Deutsche Bank Research, SIPRI, World Bank

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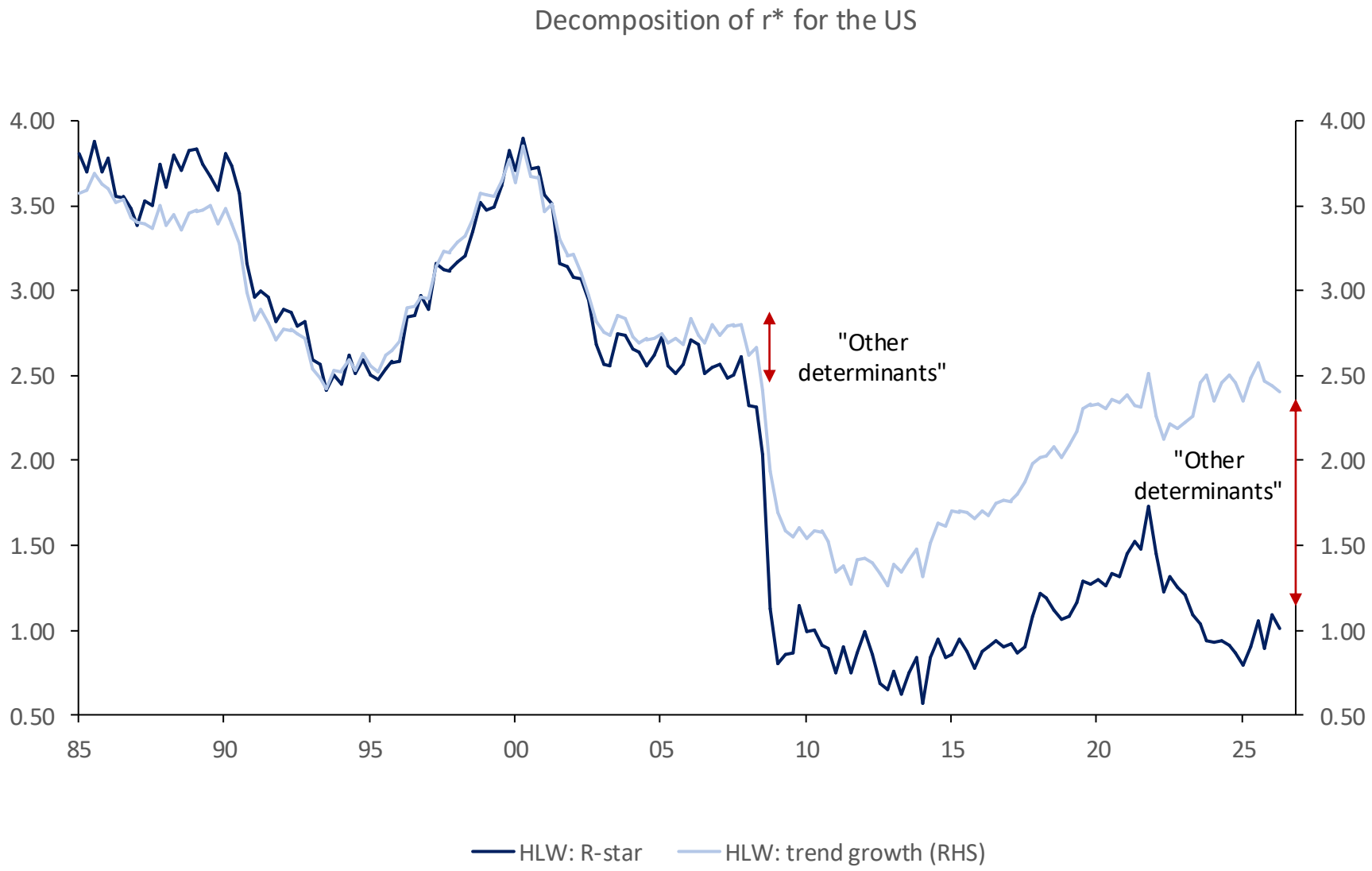
Most of the post-GFC decline in equilibrium rates is unrelated to growth



Source: Deutsche Bank, Bloomberg Finance LP, Federal Reserve Bank of New York, BEA

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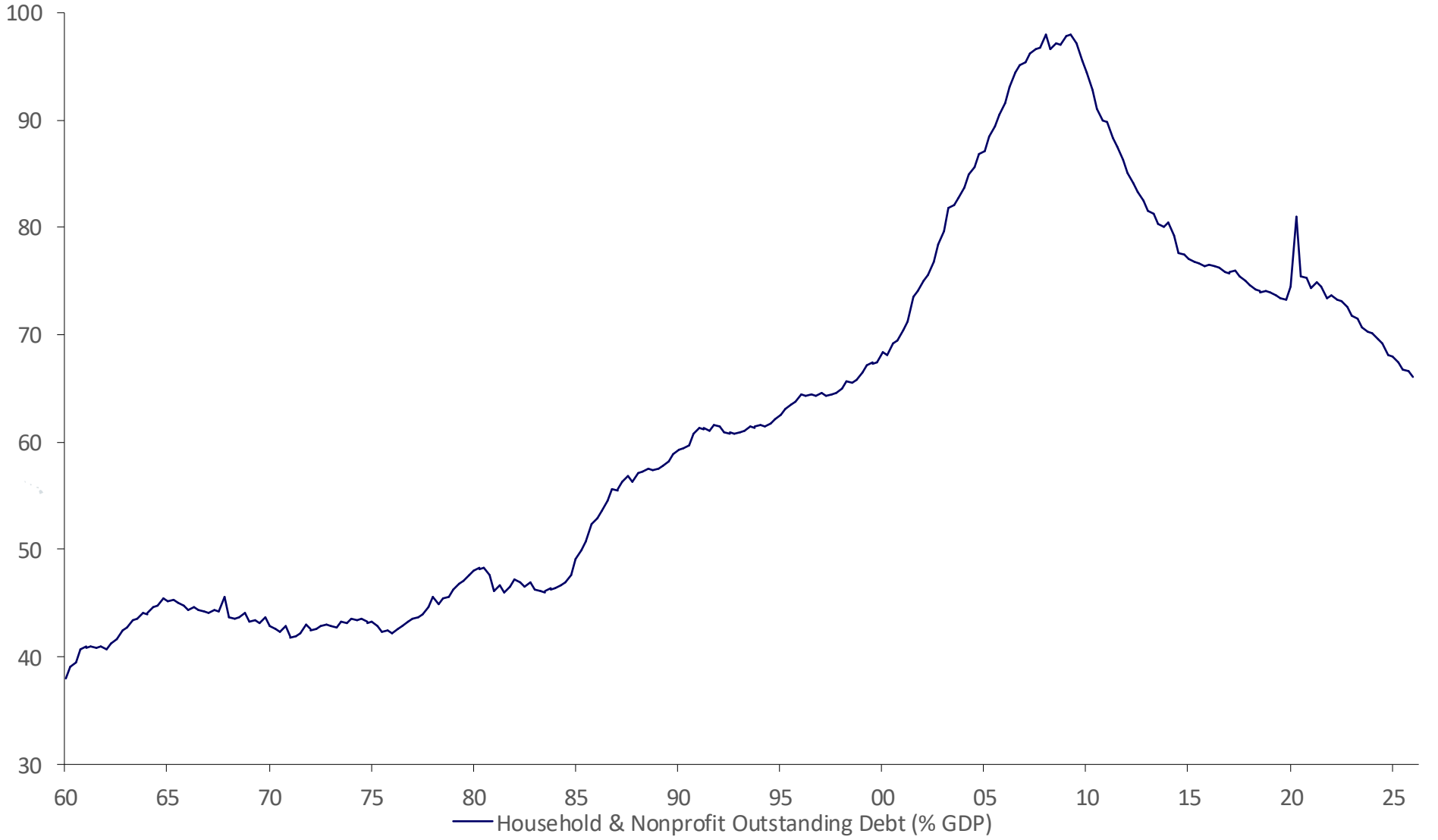
R* is not the same as potential growth



Source: Deutsche Bank, Bloomberg Finance LP, Federal Reserve Bank of New York

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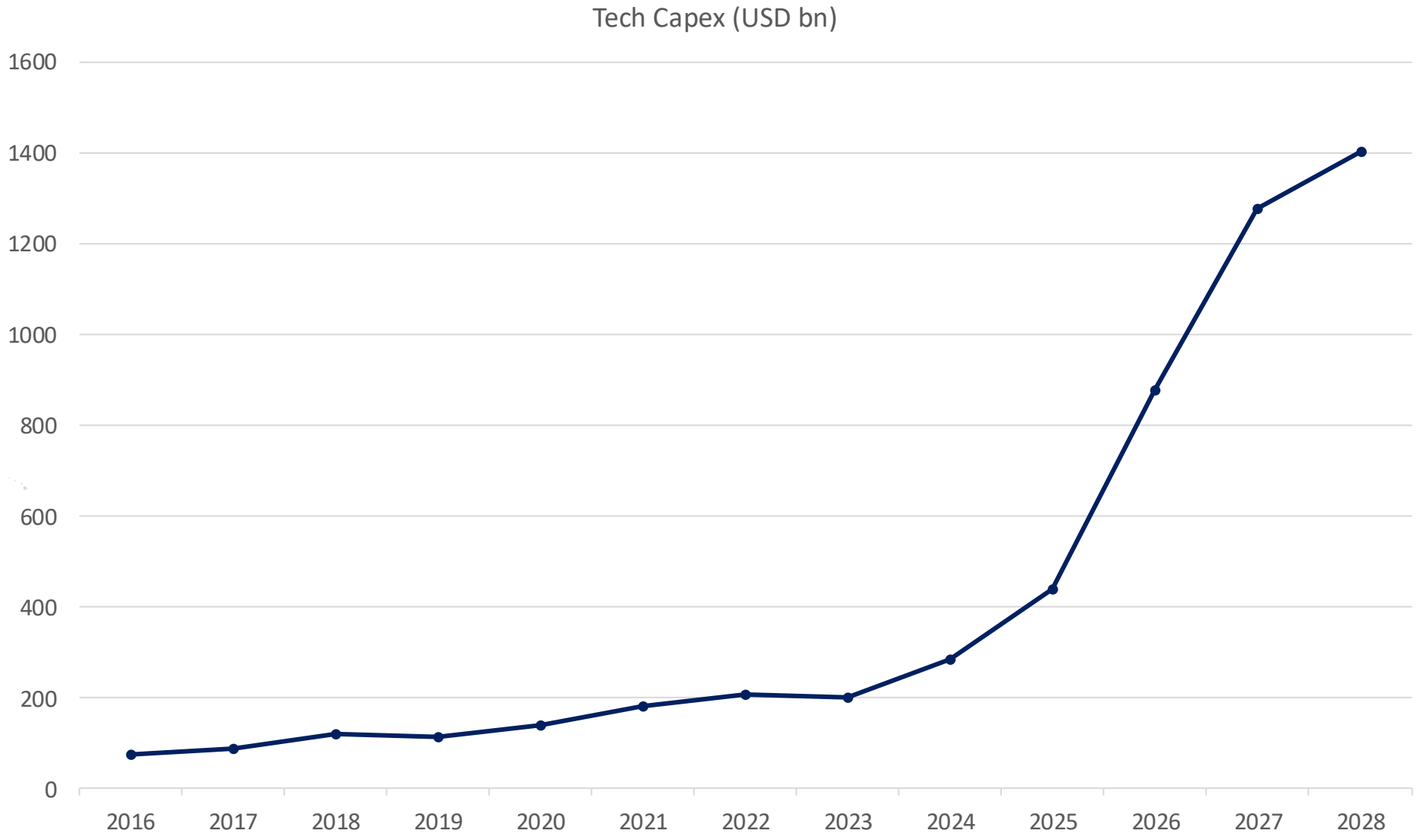
Households have significantly reduced their leverage



Source:Deutsche Bank, Haver Analytics, BEA

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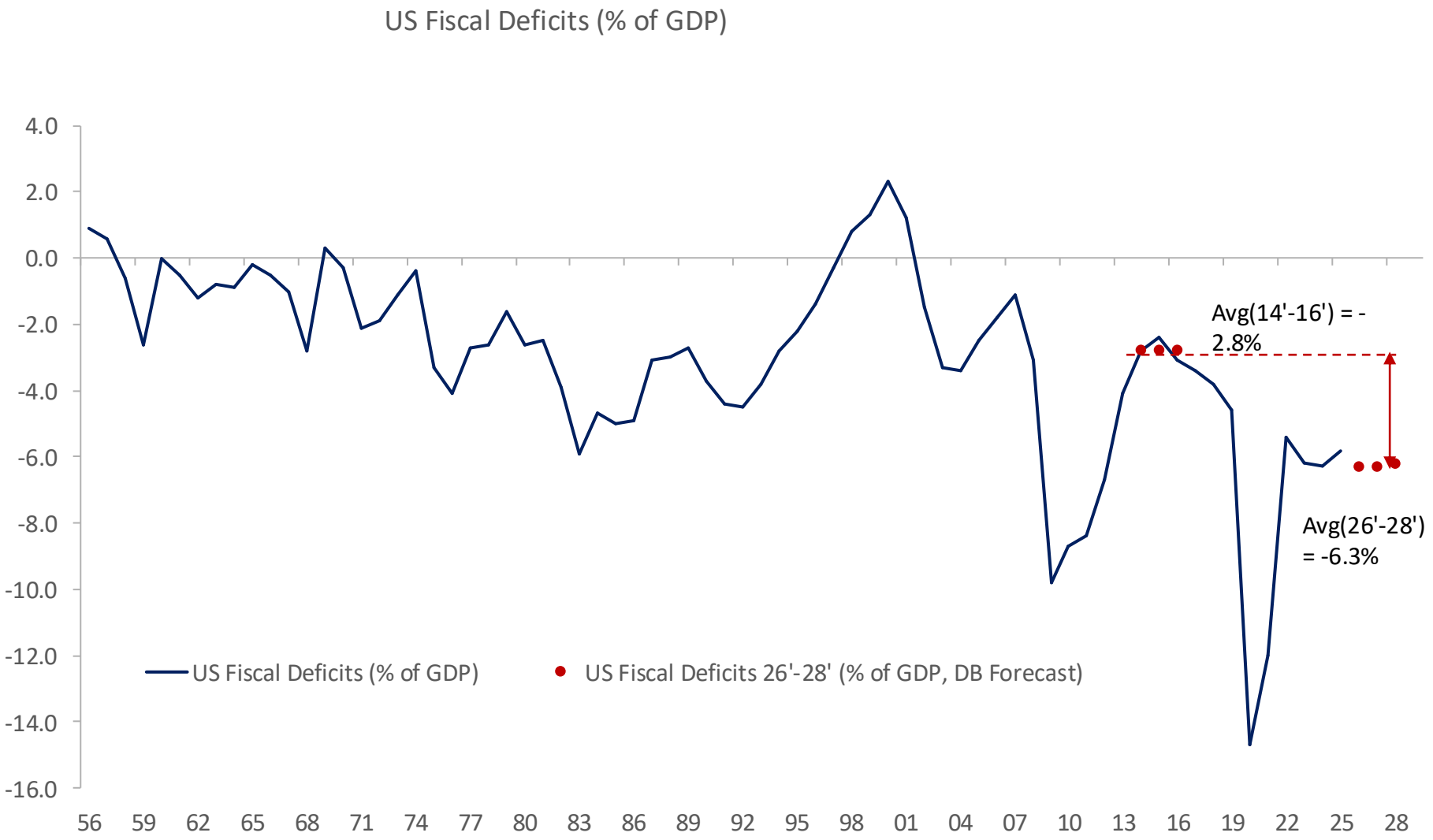
Significant AI-related capex by corporates



Source: Deutsche Bank, Capital IQ Pro
**Based on GICS sectors with Amazon, Alphabet and Meta reclassified as Technology*
*** 2026 and 2027 based on Bloomberg consensus estimate of capex for hyperscalers*

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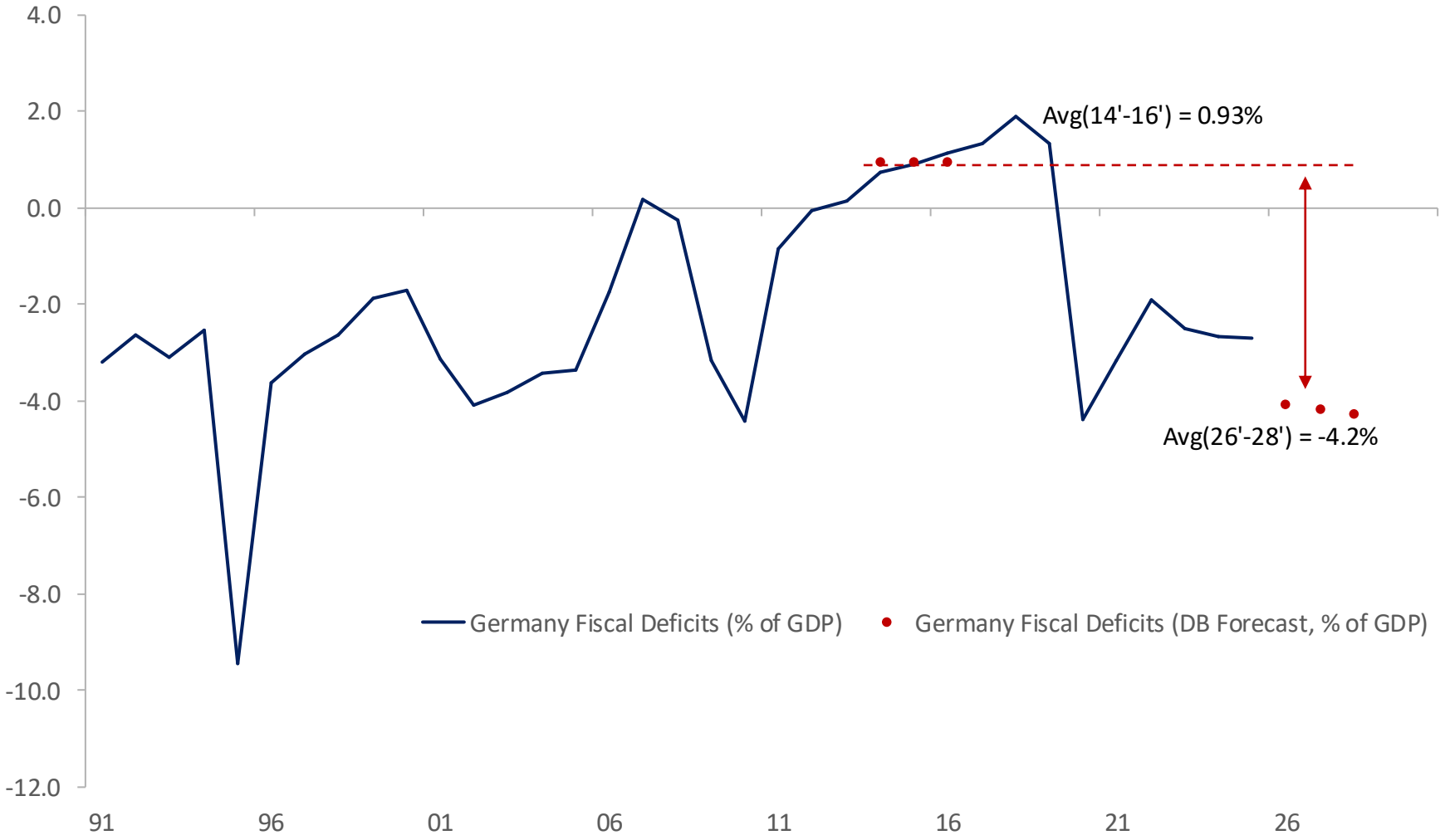
In the US, the 2011 debt ceiling led to deficits falling to less than 3% by 2014



Source: Deutsche Bank, Haver Analytics, CBO

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Germany is likely to use its fiscal capacity domestically

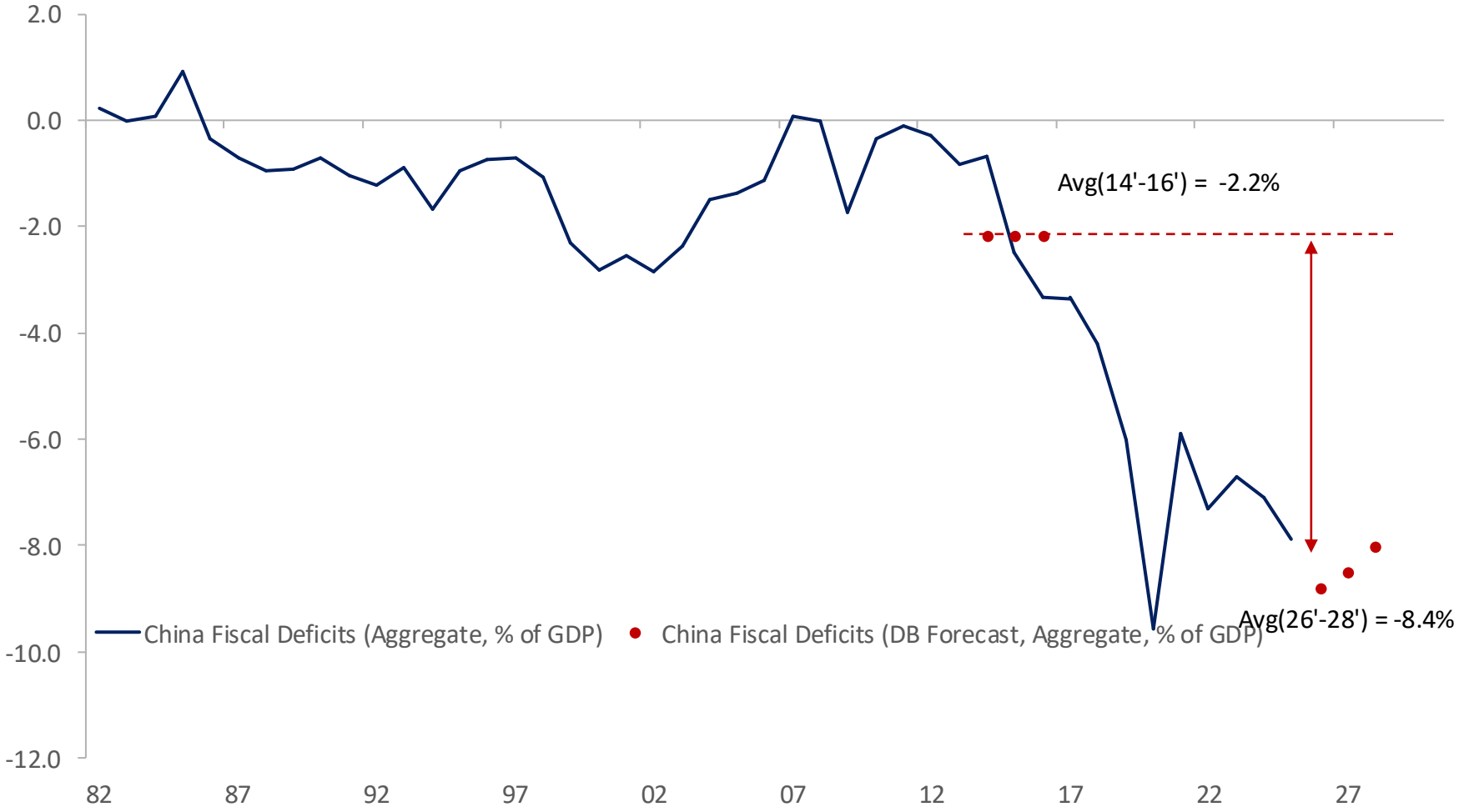


Source: Federal Statistical Office, Federal Ministry of Finance, Deutsche Bank

** Based on federal government's nominal GDP forecasts.*

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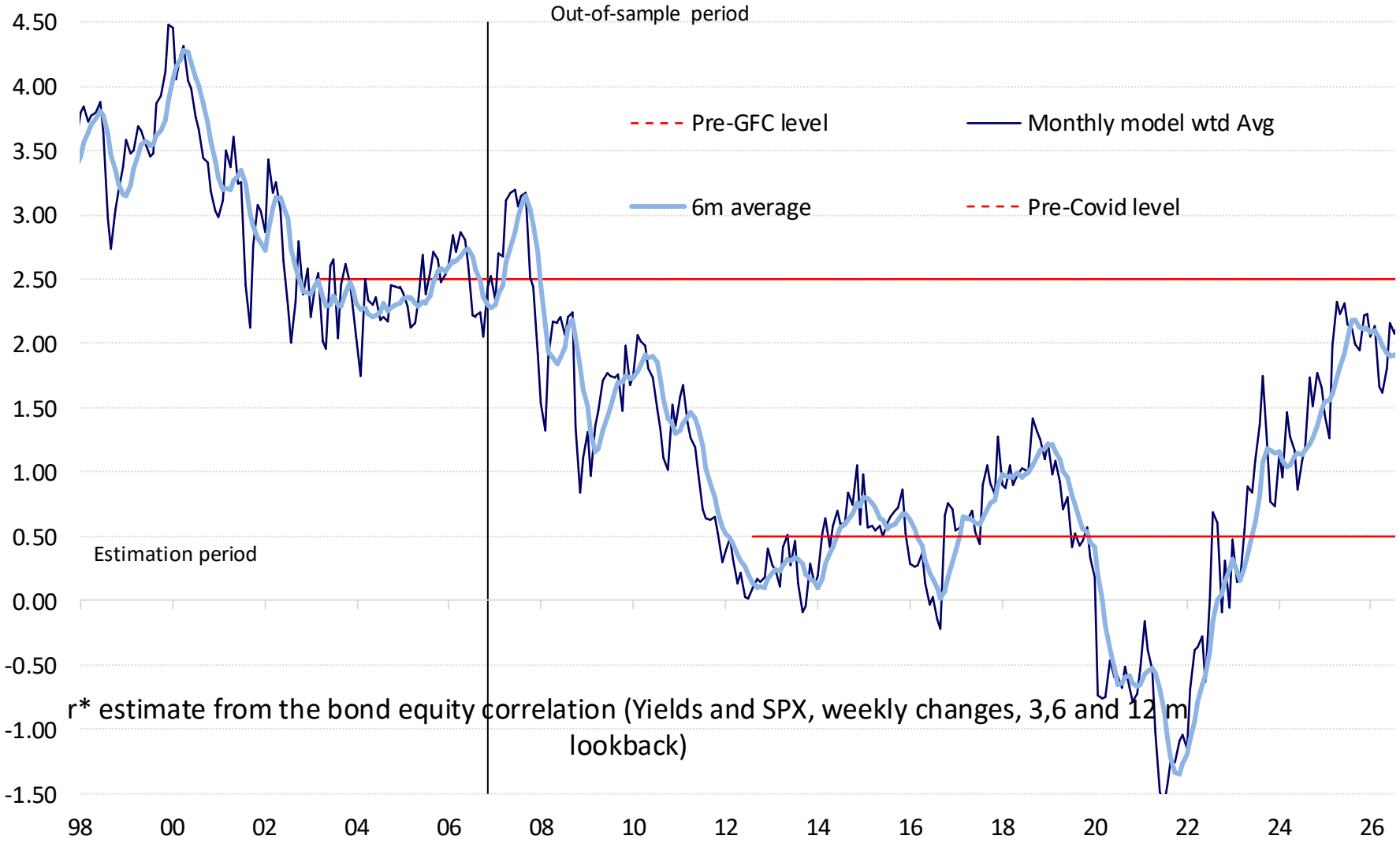
China has also significantly larger deficits



Source: Deutsche Bank, IMF

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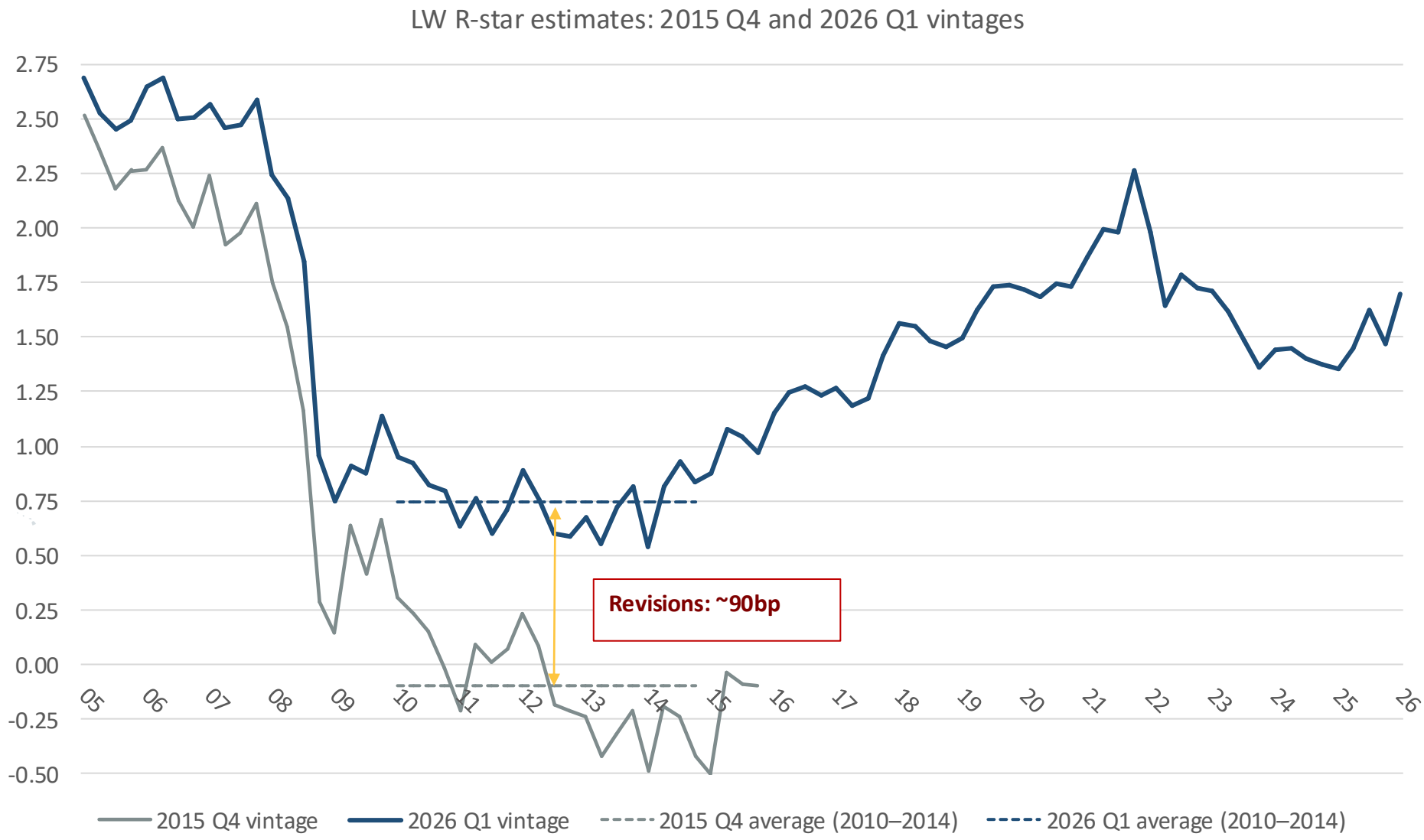
Bond/equity correlation indicates that r* has unwound most of the post-GFC decline



Source: Deutsche Bank, Federal Reserve, Bloomberg Finance LP

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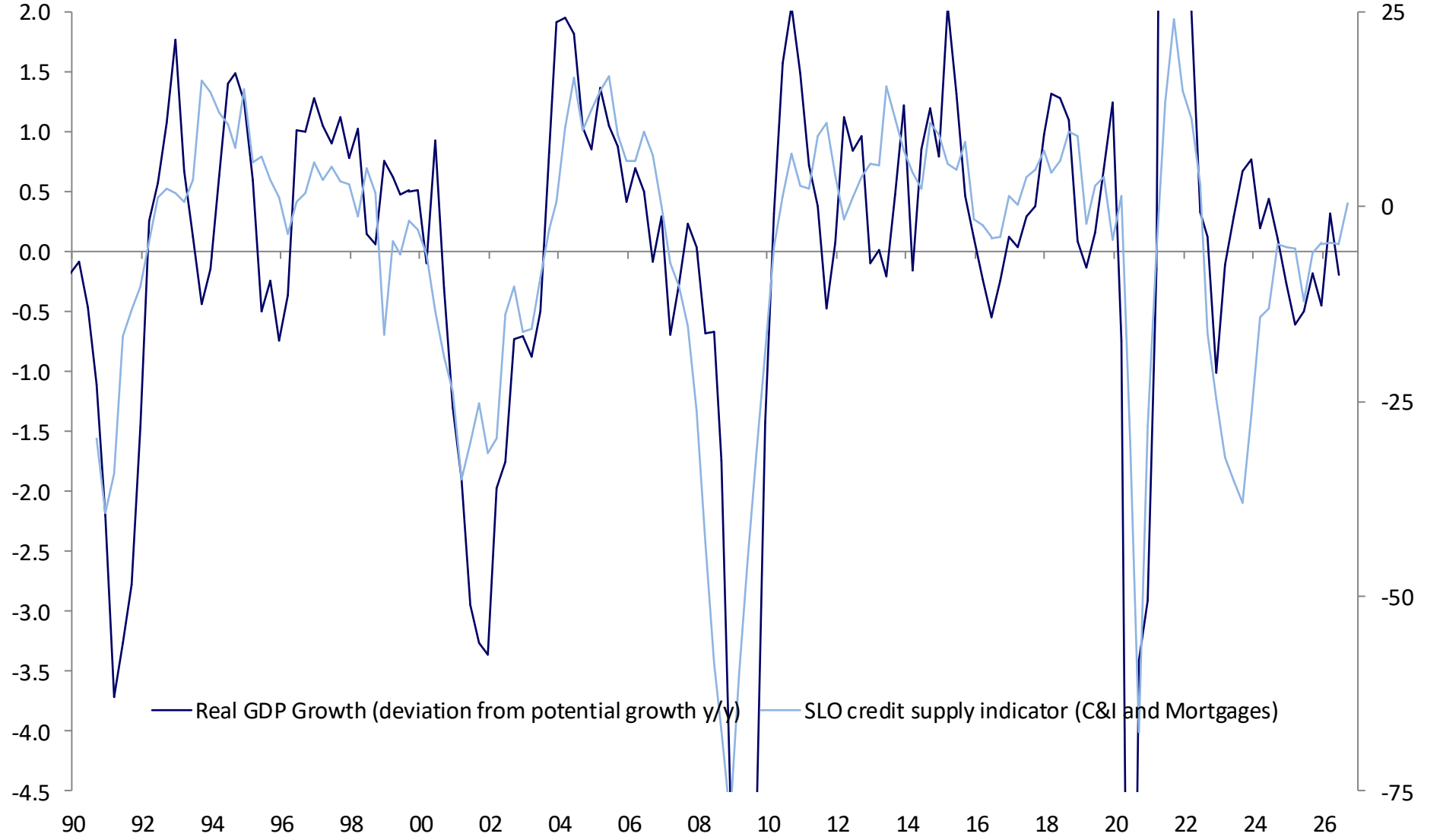
Beware of excessive certainty on the level of neutral



Source: Deutsche Bank, Federal Reserve

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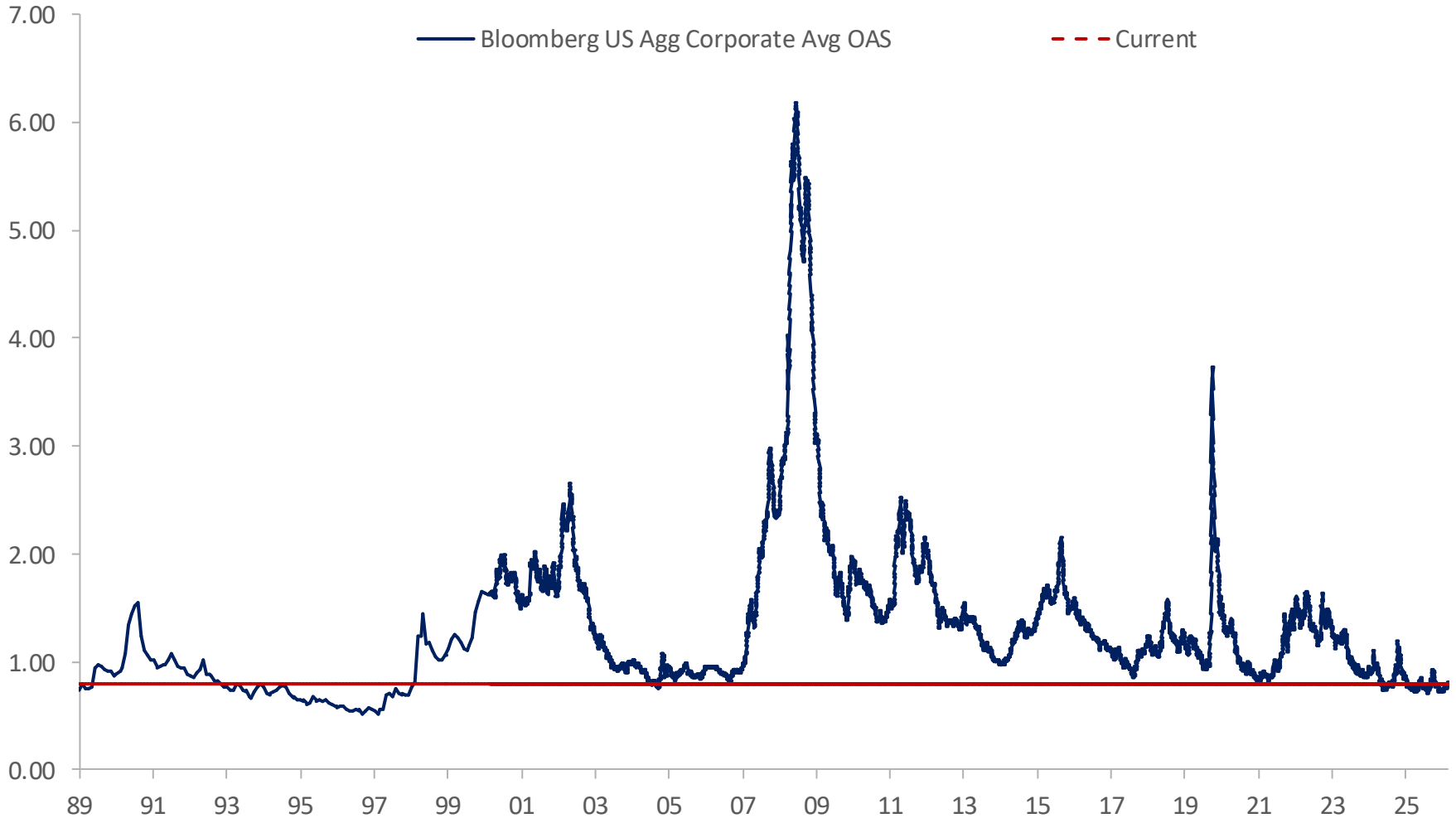
SLO is consistent with the US economy growing slightly above potential and monetary policy being slightly easy



Source: Deutsche Bank, Federal Reserve, BEA, Haver Analytics

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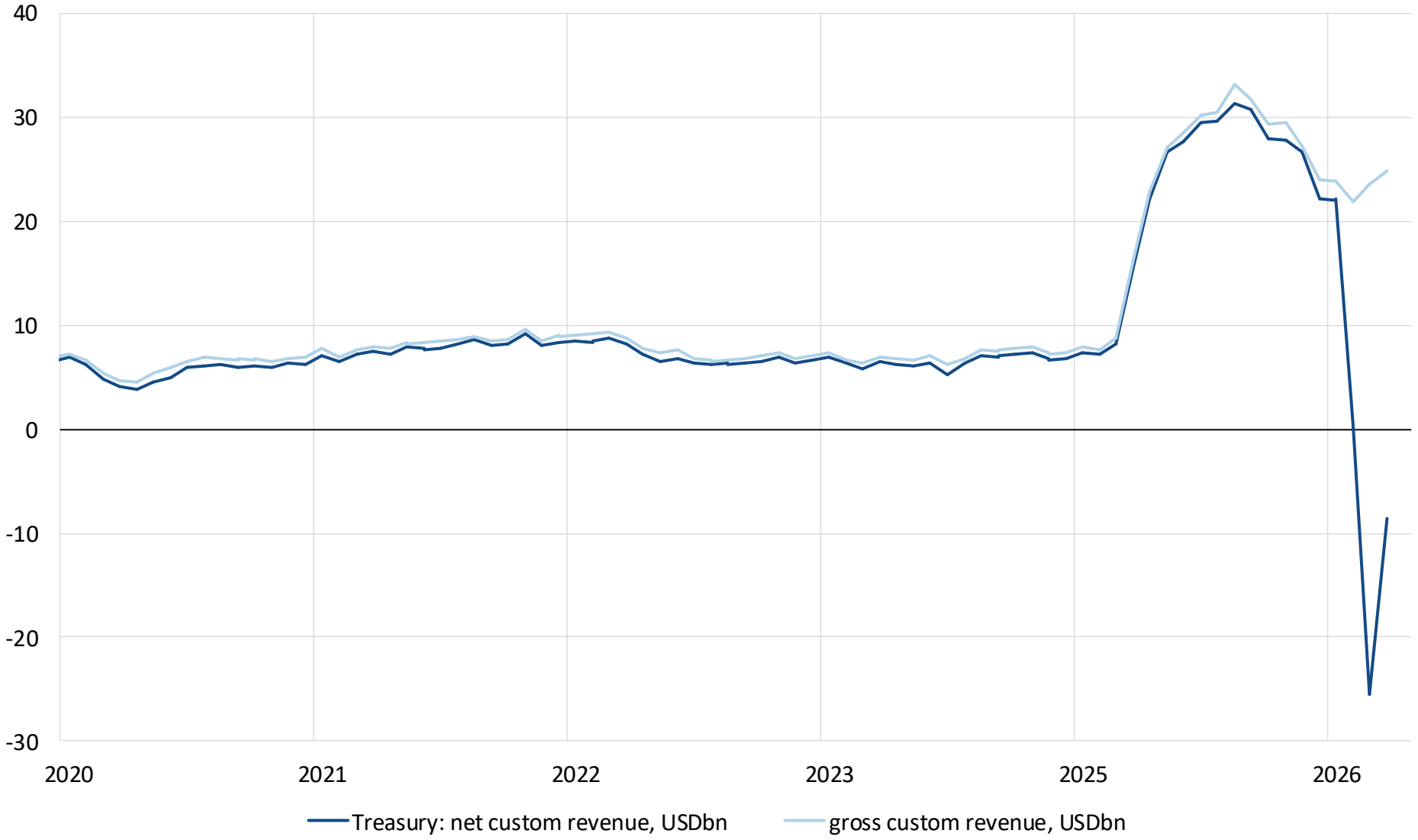
BBB credit spreads confirm that monetary policy is unlikely to be tight



Source: Deutsche Bank, Bloomberg Finance LP

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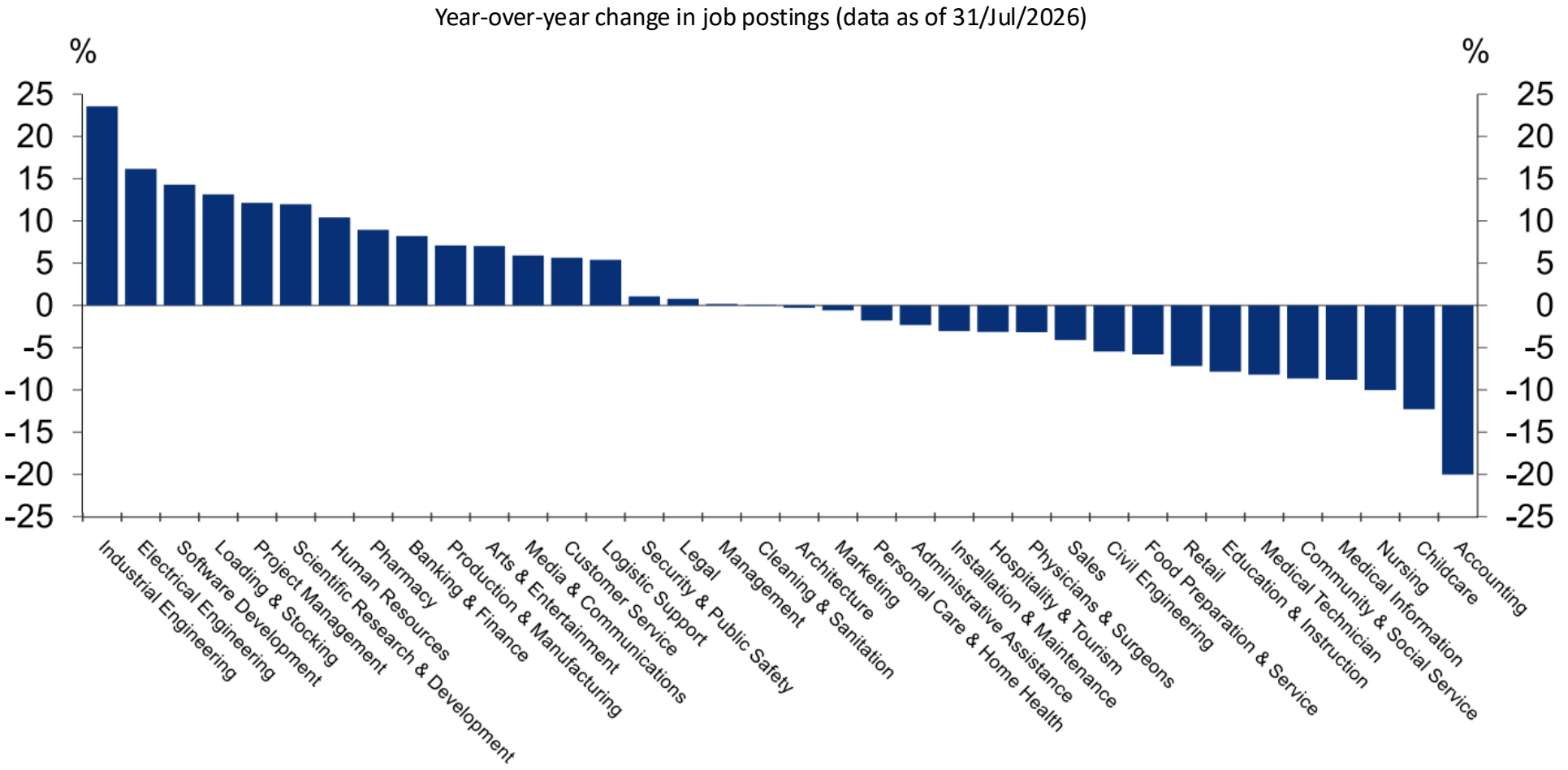
Tariffs turn into a temporary fiscal stimulus



Source: Deutsche Bank, Haver Analytics, US Treasury, BEA, Census Bureau

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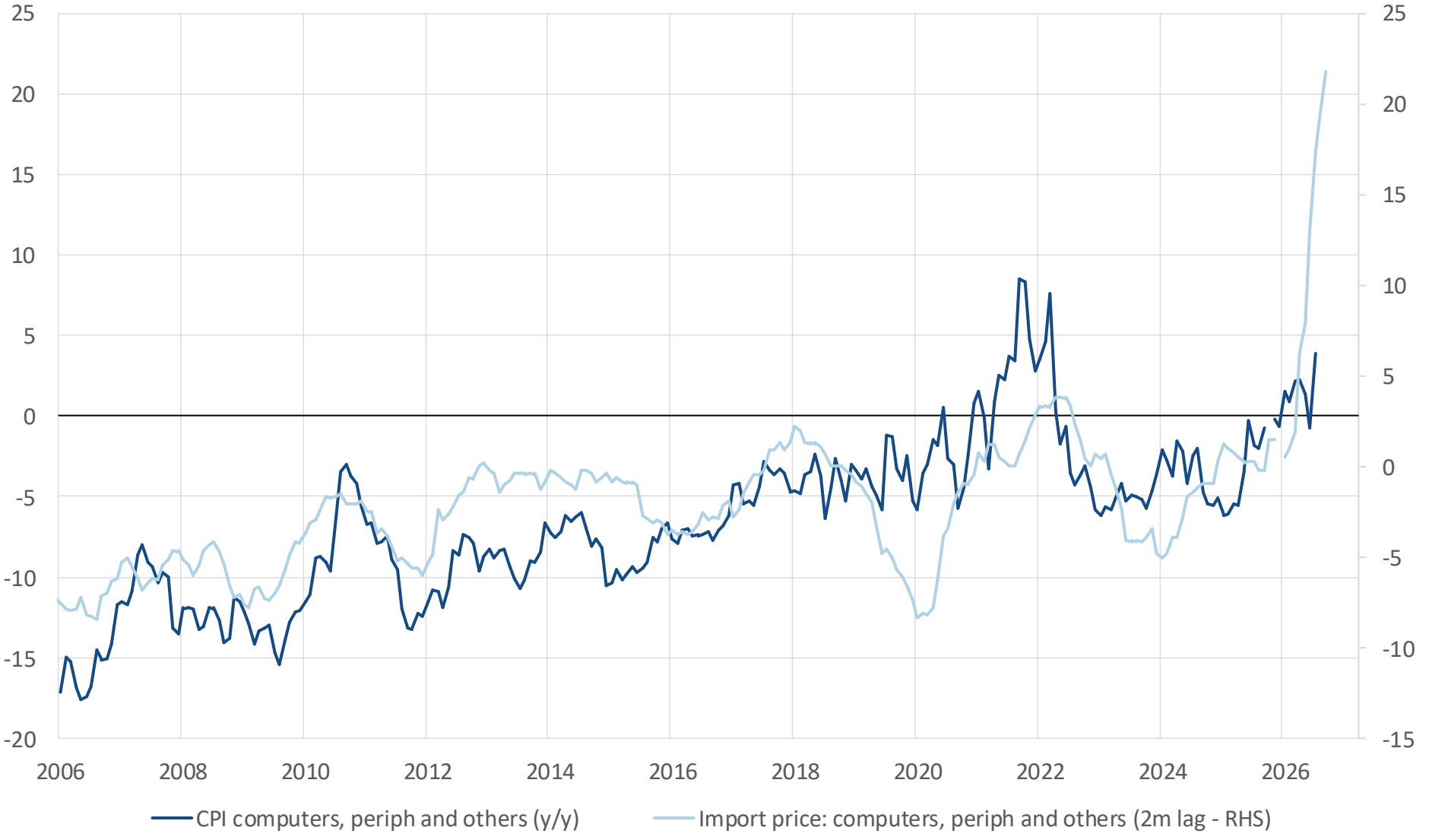
AI is not yet impacting the labour market



Source: Deutsche Bank, Macrobond, Indeed Hiring Lab

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AI is impacting inflation



Source: Deutsche Bank, Bloomberg Finance LP, BLS, BEA, Haver Analytics

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Sahm rule adapted to jobless claims far from trigger point

Threshold (%)*	Equivalent level (k)	No. of trades	Hit ratio (%)	Avg. excess return	Sharpe ratio
3.27	***205.5***			***<<< Current Level***	
7.45	213.8	41	73	1.65	0.36
14.1**	227.1	27	56	2.24	0.36
16.26***	231.4	19	68	2.88	0.43
22.78	244.3	11	82	2.83	0.57

* % of 4-week average initial claims above past 12-month minimum

** DB Econ threshold of economic recessions

*** Optimal trading threshold

Threshold (%)*	Equivalent level (k)	No. of trades	Hit ratio (%)	Avg. excess return	Sharpe ratio
1.14	***1778***			***<<< Current Level***	
4.70	1841	75	56	1.49	0.29
9.10	1918	43	60	1.84	0.35
11.50**	1960	28	68	3.62	0.62
15.61	2032	25	84	2.83	0.76

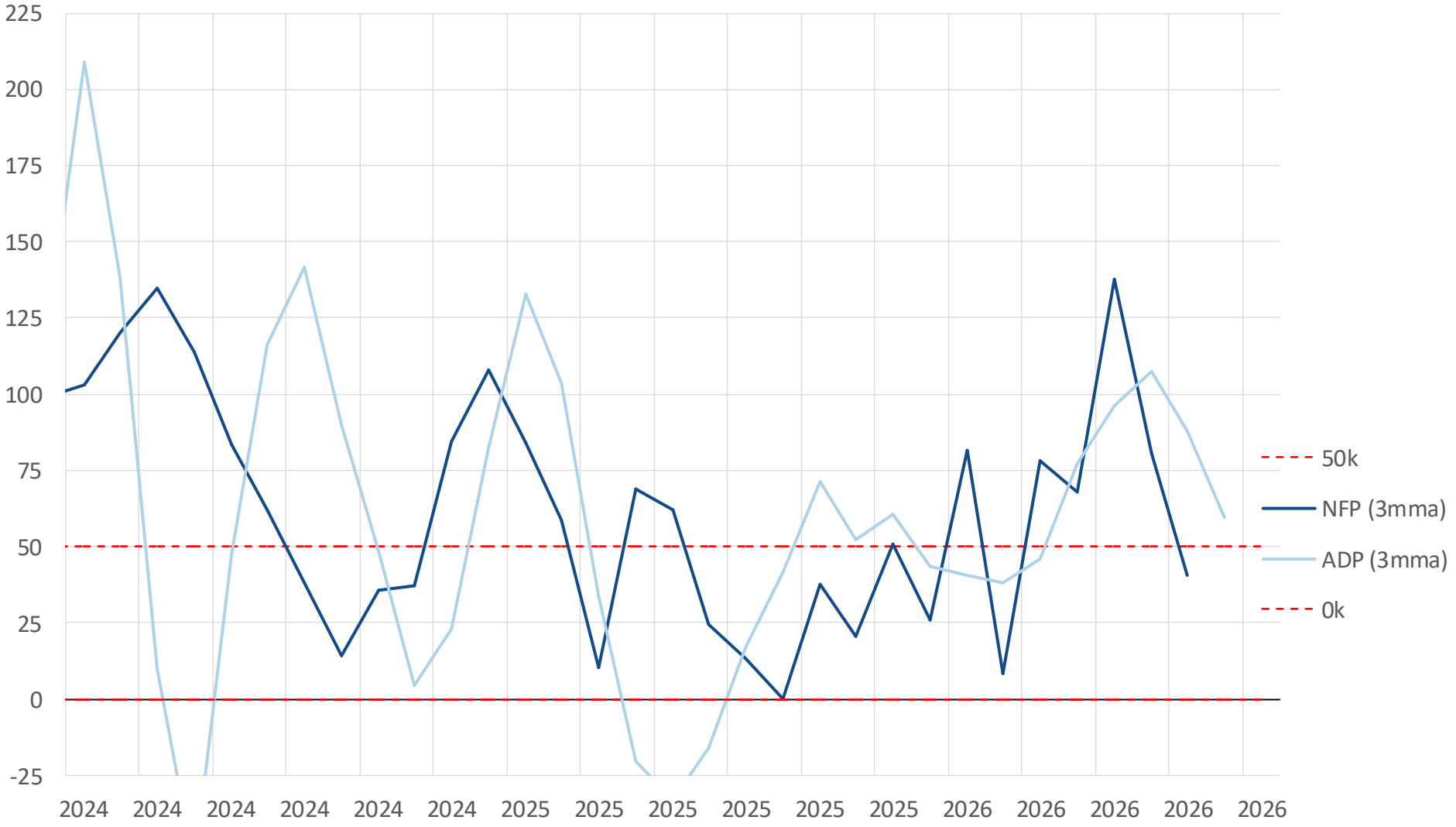
* % of current continuing claims above past 12-month minimum

** DB Econ threshold of economic recessions & optimal trading threshold

Source: Deutsche Bank, Haver Analytics, Department of Labor

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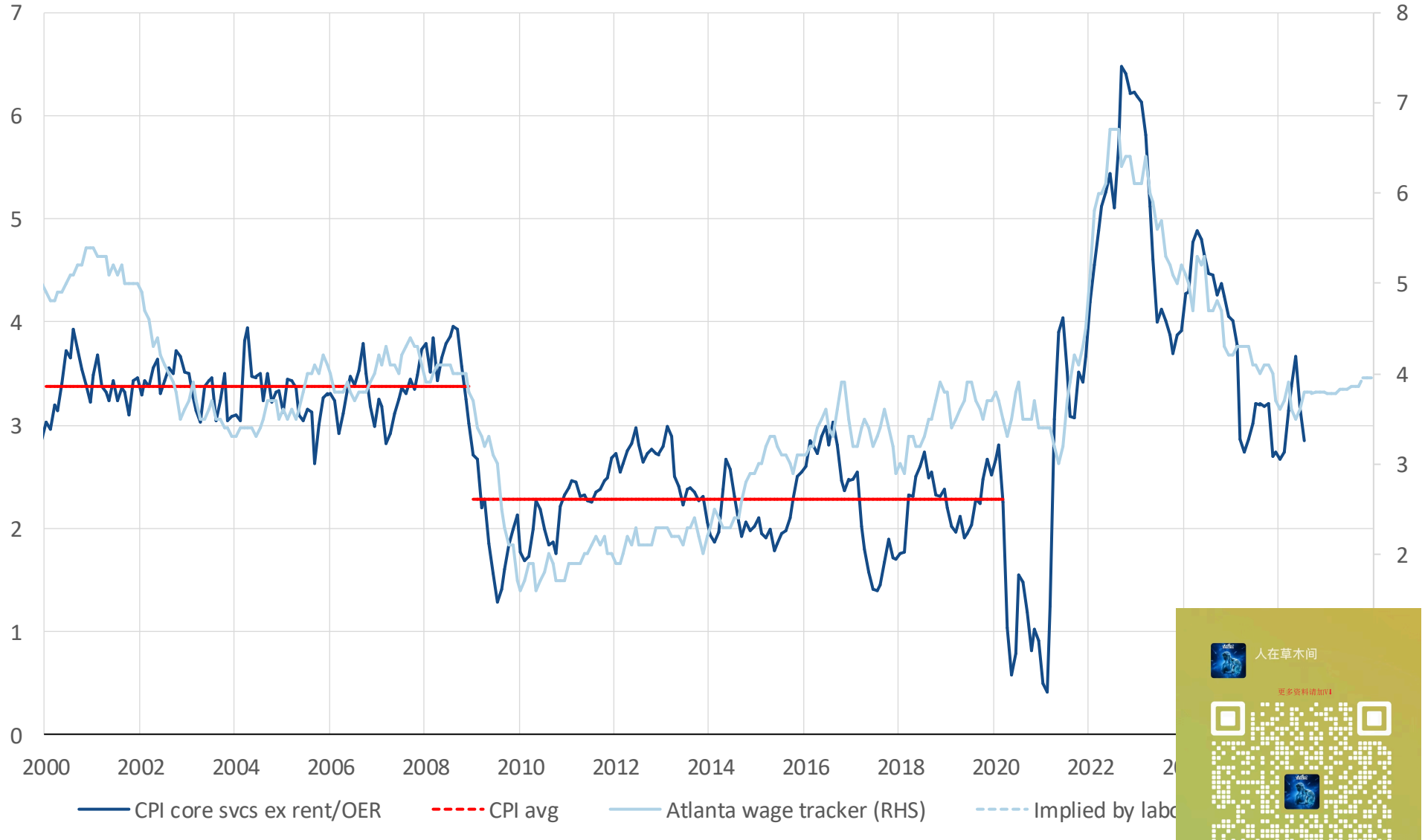
In the US, job data close to estimated break-even rates



Source: Deutsche Bank, Haver Analytics, Department of Labor, ADP

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US inflation likely to be stickier than post-GFC



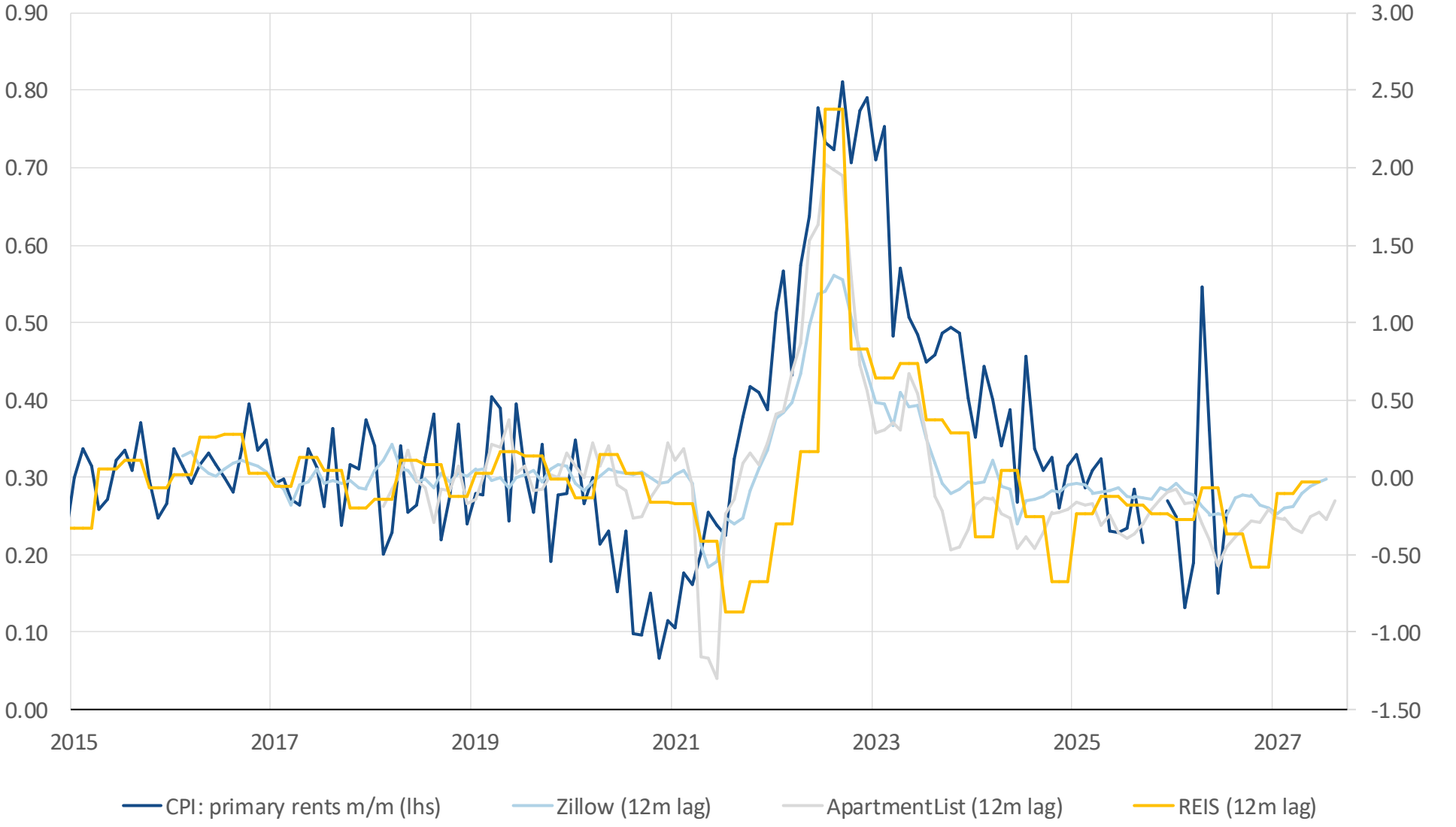
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Source: Deutsche Bank, Haver Analytics, Federal Reserve, BLS, BEA

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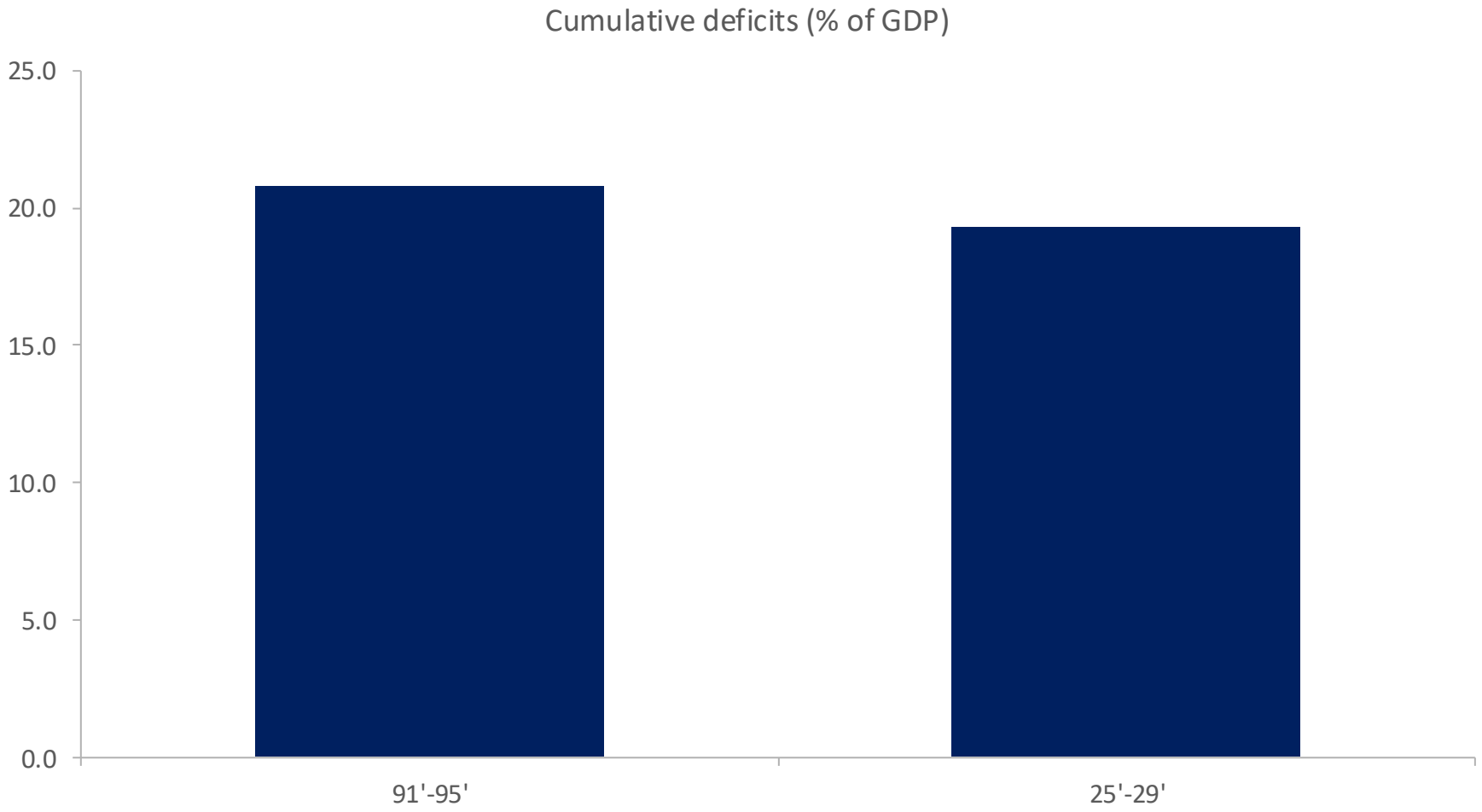
Reduced downside risks for CPI rents



Source: Deutsche Bank Research, Haver Analytics, Bloomberg Finance LP.
** For the new rent indicators, the chart shows differences from pre-covid averages*

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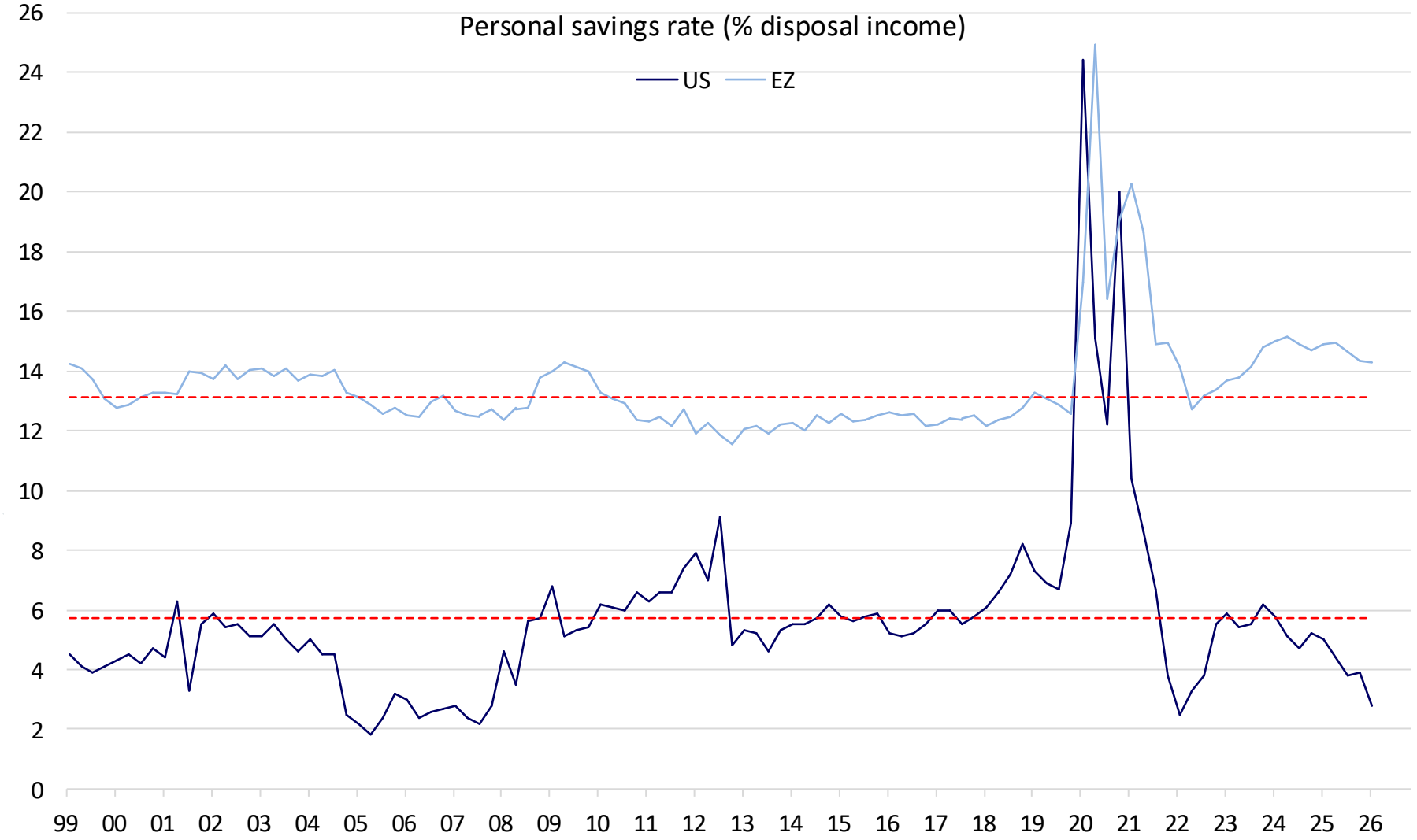
German stimulus comparable to the early 1990s



Source: Deutsche Bank, Haver Analytics, Deutsche Bundesbank

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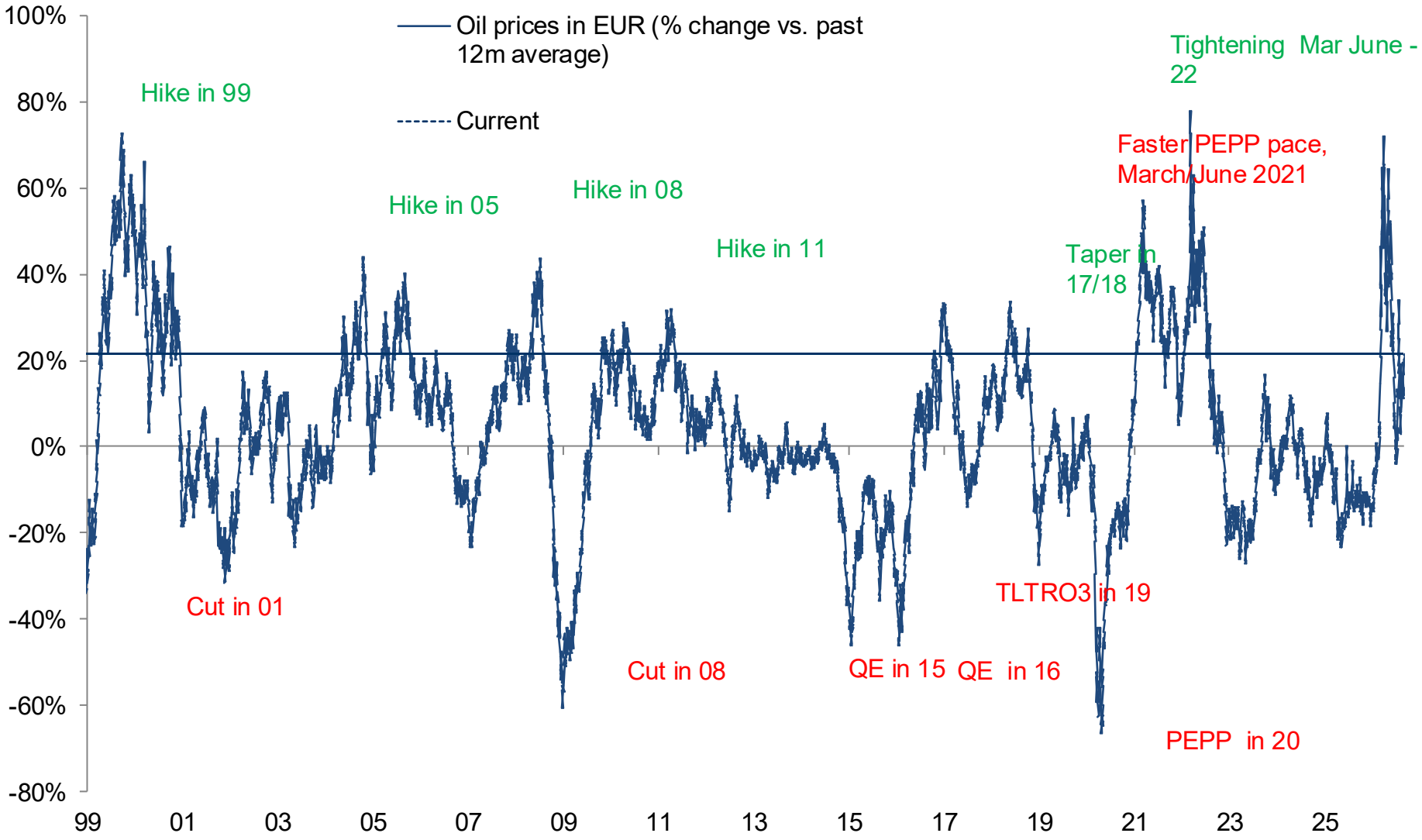
Unlike in the US, European consumers have not dipped into their savings



Source: Deutsche Bank, Bloomberg Finance LP, eurostat, BEA

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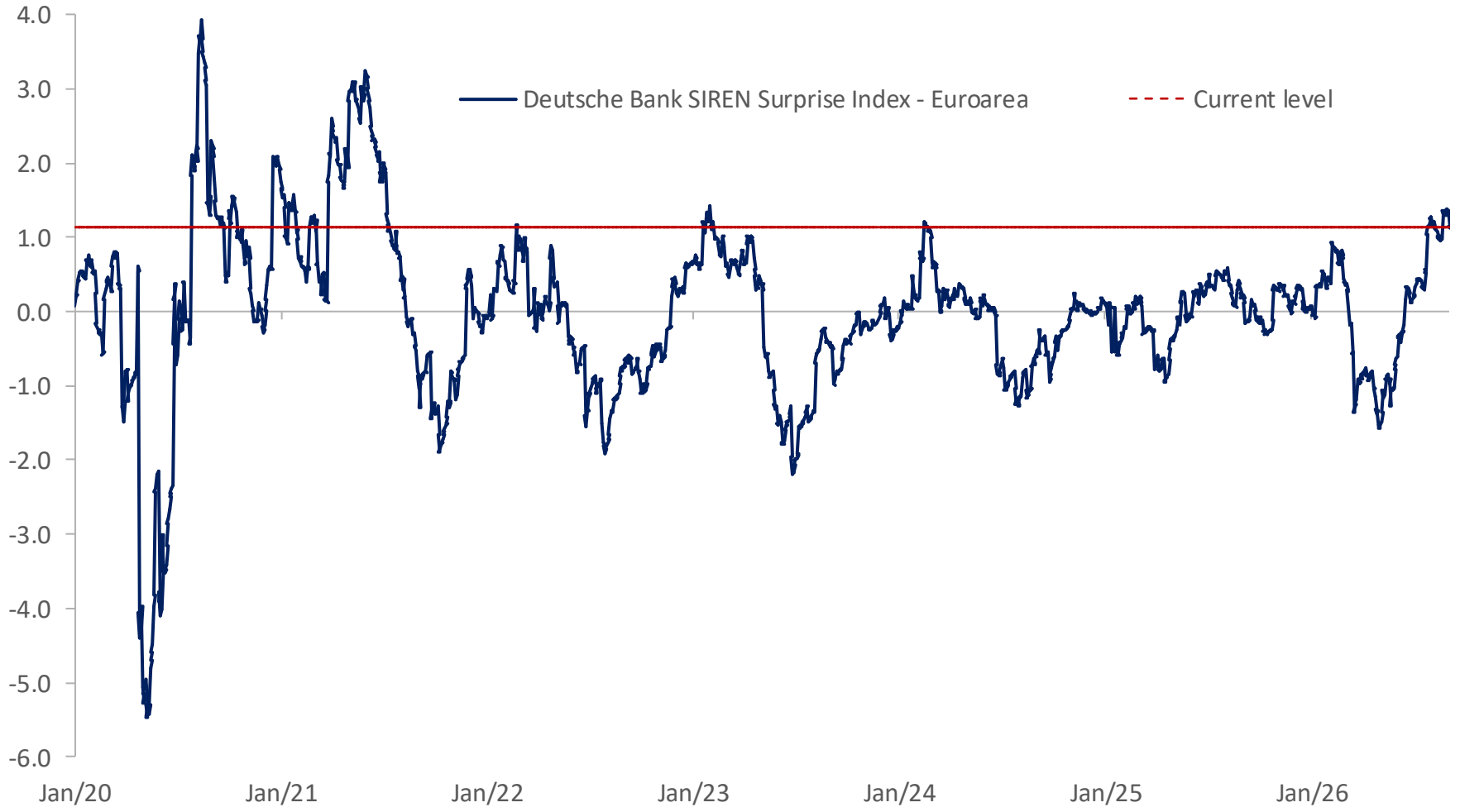
Oil prices and the ECB



Source: Deutsche Bank, Bloomberg Finance LP

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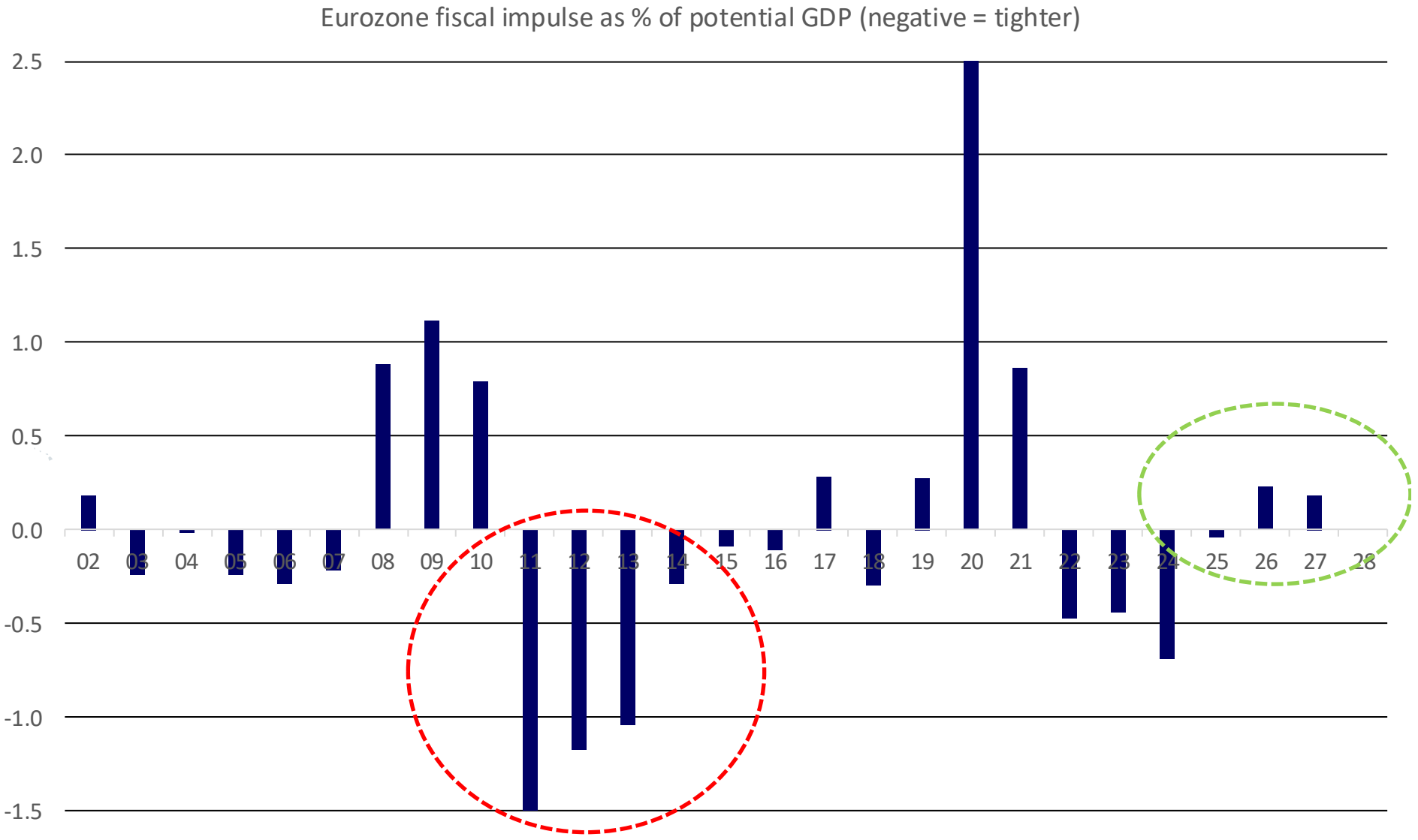
EZ growth has been more resilient than consensus expectations



Source: Deutsche Bank

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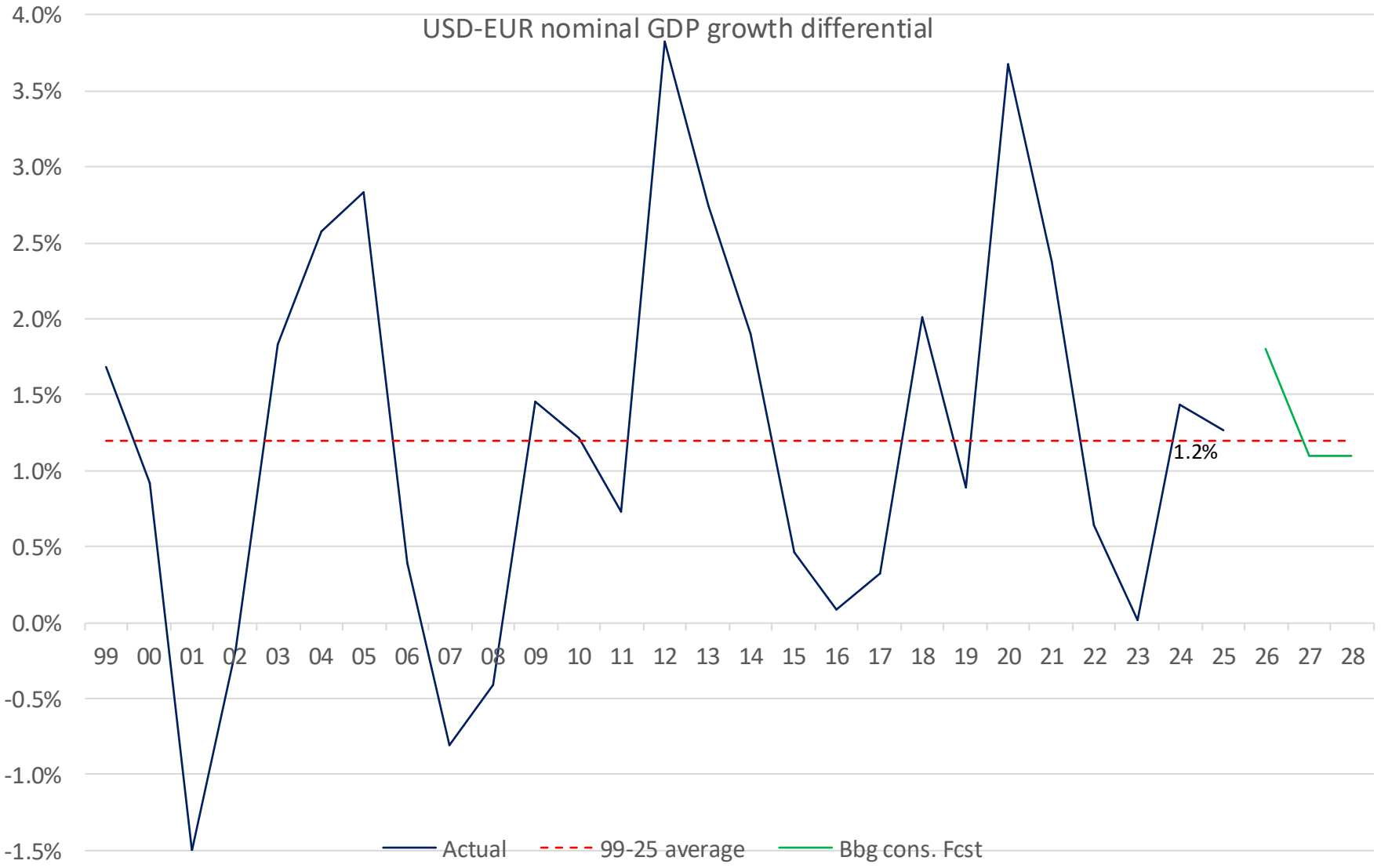
The fiscal outlook is drastically different than in 2011



Source: Deutsche Bank Research, European Commission, Haver Analytics

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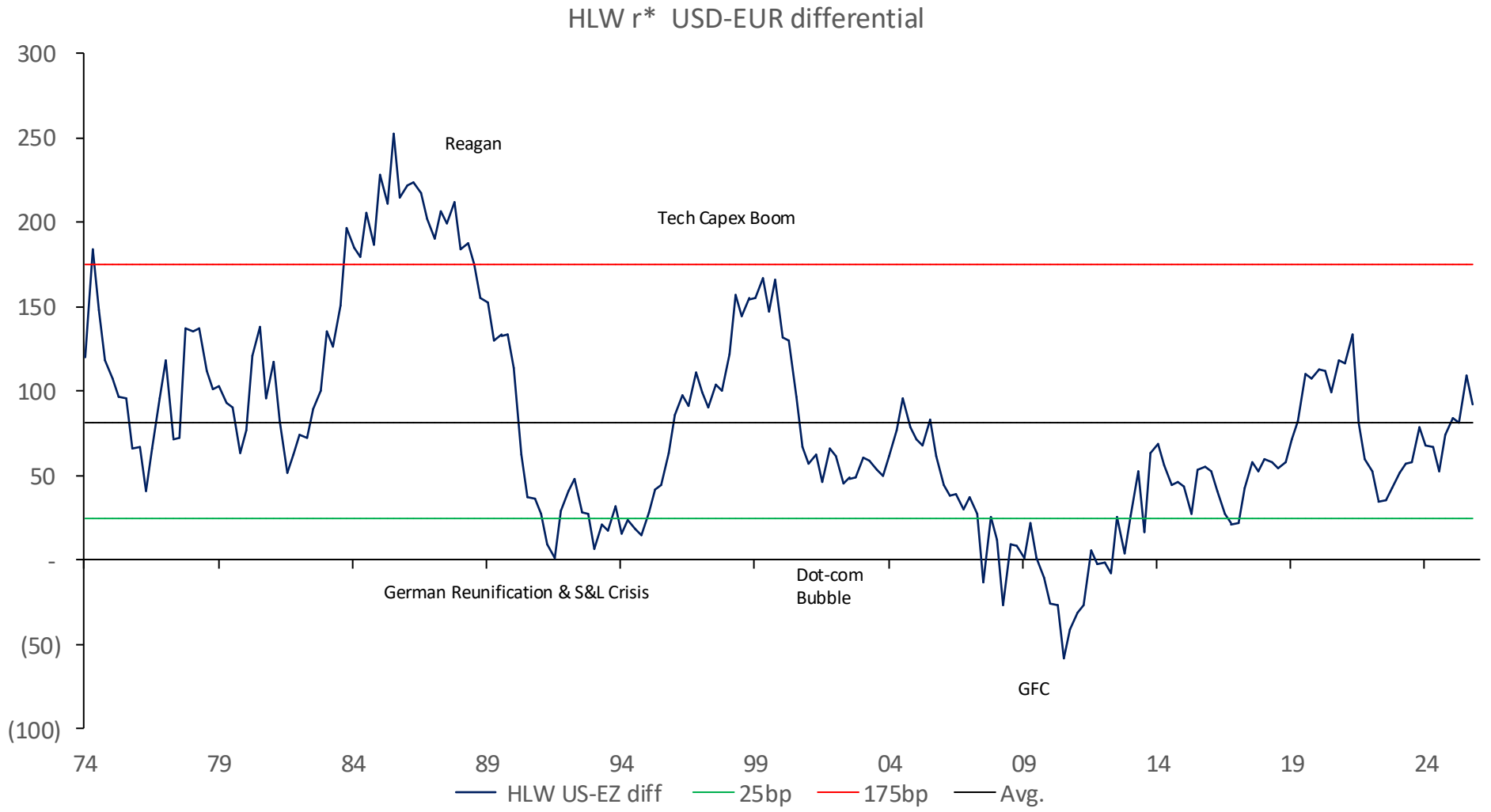
The US/EZ growth differential averaged ~125bp historically and is expected to do so in the future



Source: Deutsche Bank Research, OECD, Haver Analytics, Bloomberg Finance LP

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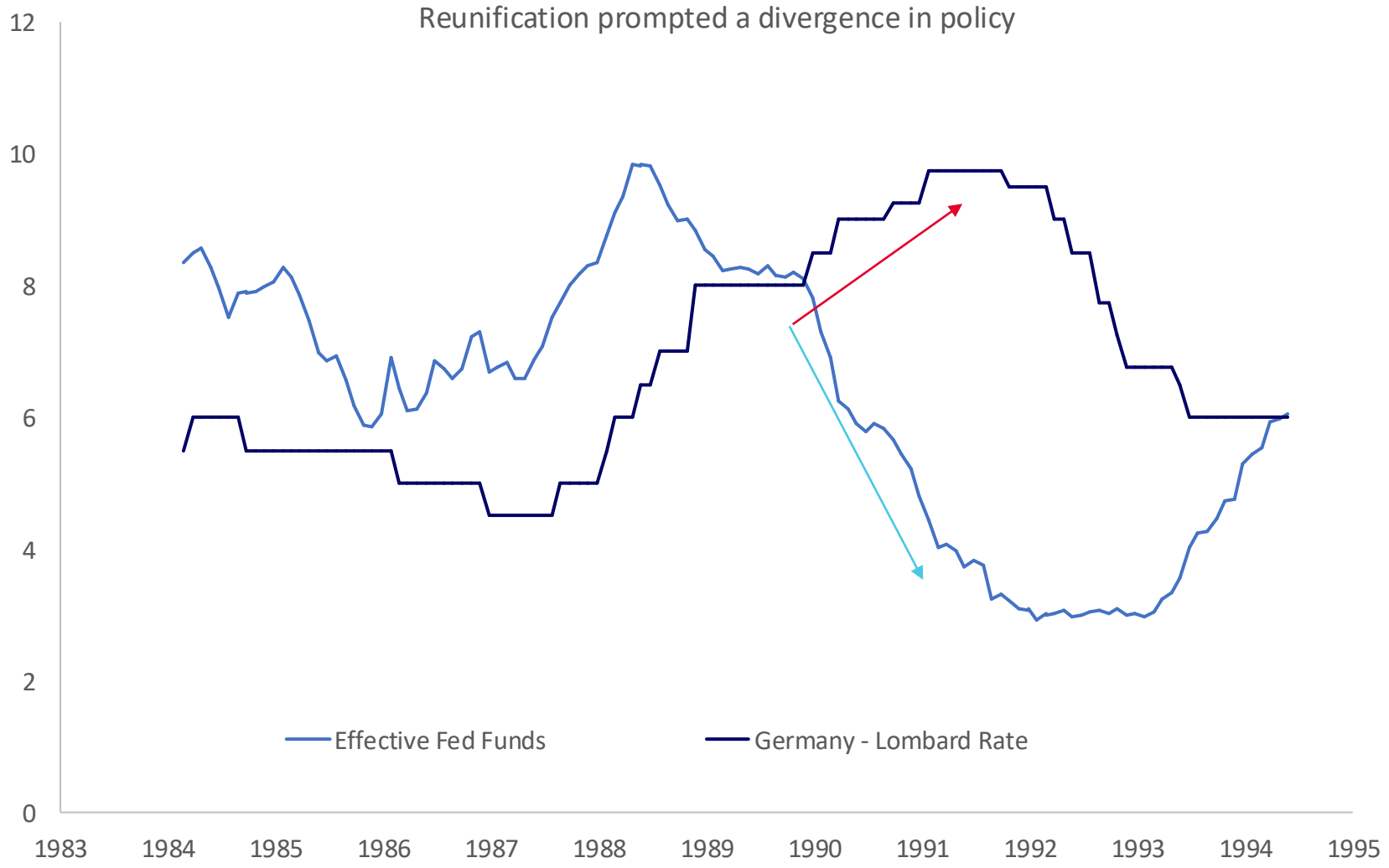
A 125-150bp terminal rate differential with the US is plausible



Source: Deutsche Bank, Bloomberg Finance LP, Federal Reserve Bank of New York

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In the early 1990s, the Bundesbank hiked its policy rates by more than 1%, even though the Fed was easing aggressively



Source: Deutsche Bank, Haver Analytics, Deutsche Bundesbank, Federal Reserve Board

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Deining the term premium

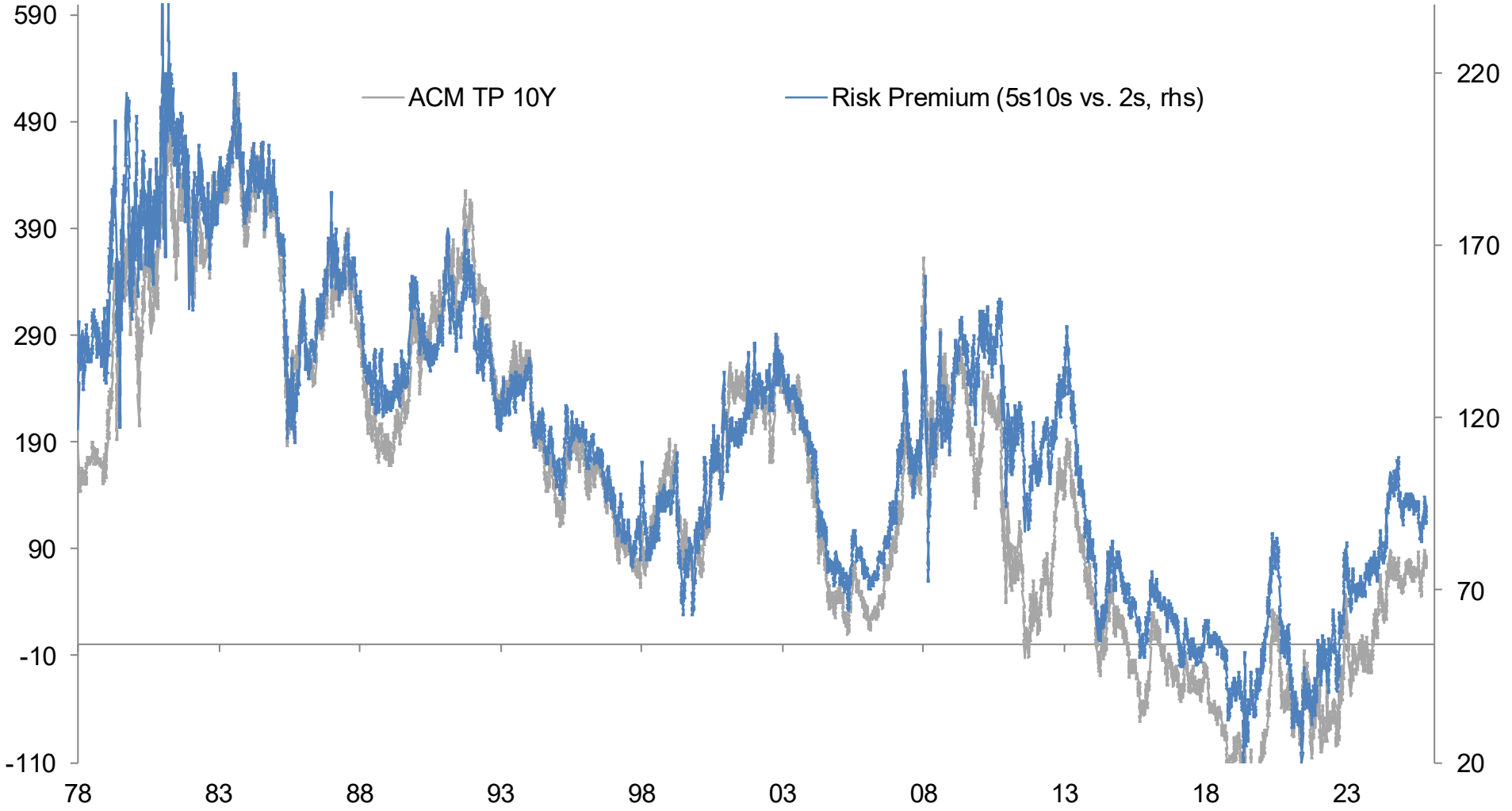
- The 5s10s slope should be determined by three key drivers
  - *Monetary policy relative to neutral*: tighter monetary policy leads to latter curve
  - *Inlation risks*: higher inflation risks lead to a steeper curve as bonds become less of a hedge or risky assets
  - *Supply/demand actors* : Behaviour of price-insensitive participants, i.e. QE (monetary policy), FX reserves (FX policy), ALM/banks (regulation), issuance (iscal policy)

- To adjust or the monetary policy cycle, we beta hedge with a 20% short in 2y
  - This is justiied theoretically by the decomposition of the 5s10s into 2y, 2y3y and 5y5y components
    - *5s10s = 0.5*5y5y - 0.5*(0.4*2y+0.6*2y3y)*
    - *5s10s + 0.2*2y = 0.2*2y3y + 0.5*(5y5y - 2y3y)*

- Defining the DB TP as 5s10s + 20% 2s
  - Removes the directionality with monetary policy
  - It is a tradable
  - It should be a unction of three key drivers
    - 5s10s + 20% 2s = a + b **nominal neutral** + c **inflation risks** + d **supply/demand**

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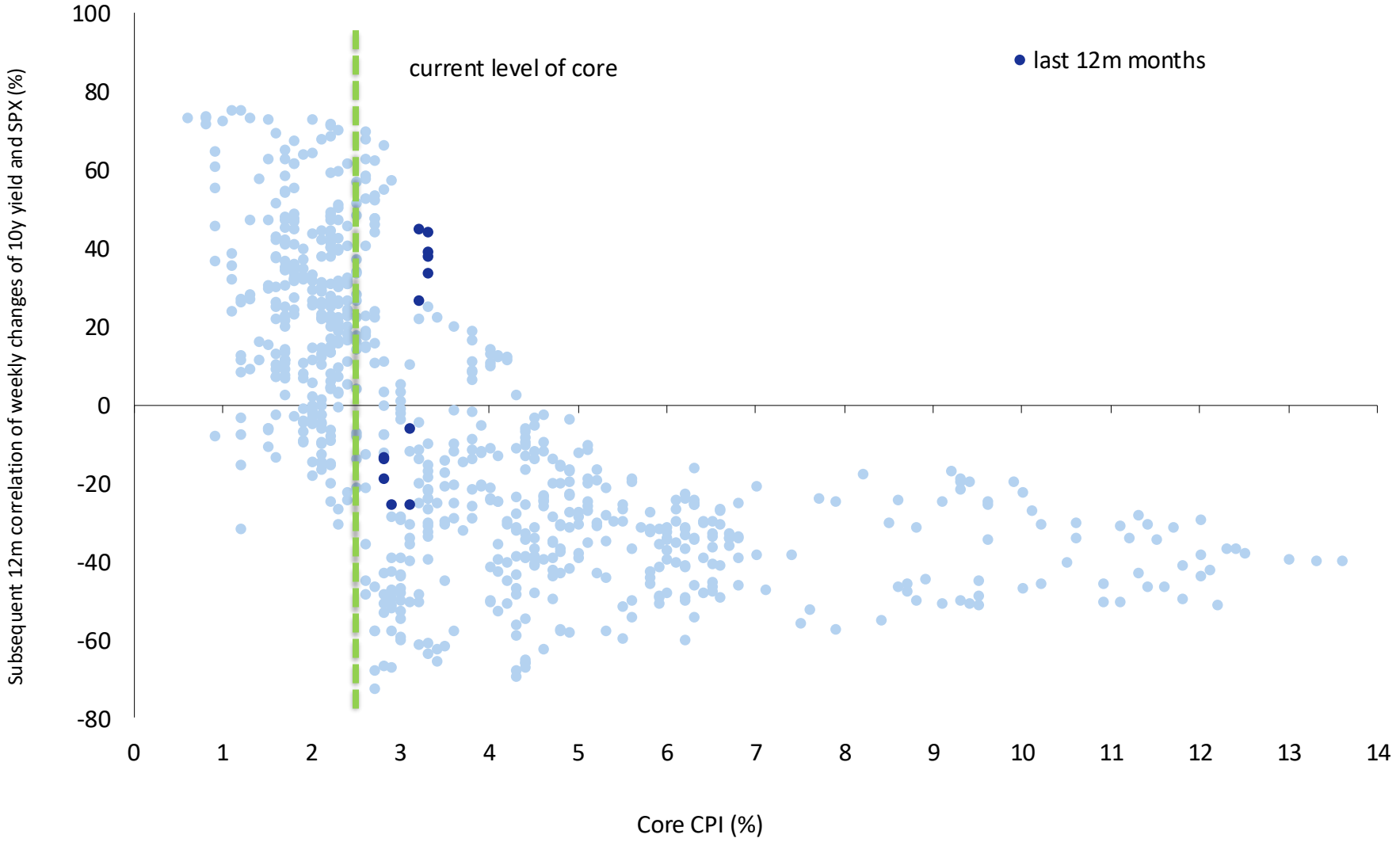
The DB TP has tracked the ACM TP



Source: Deutsche Bank, Bloomberg Finance LP, Federal Reserve

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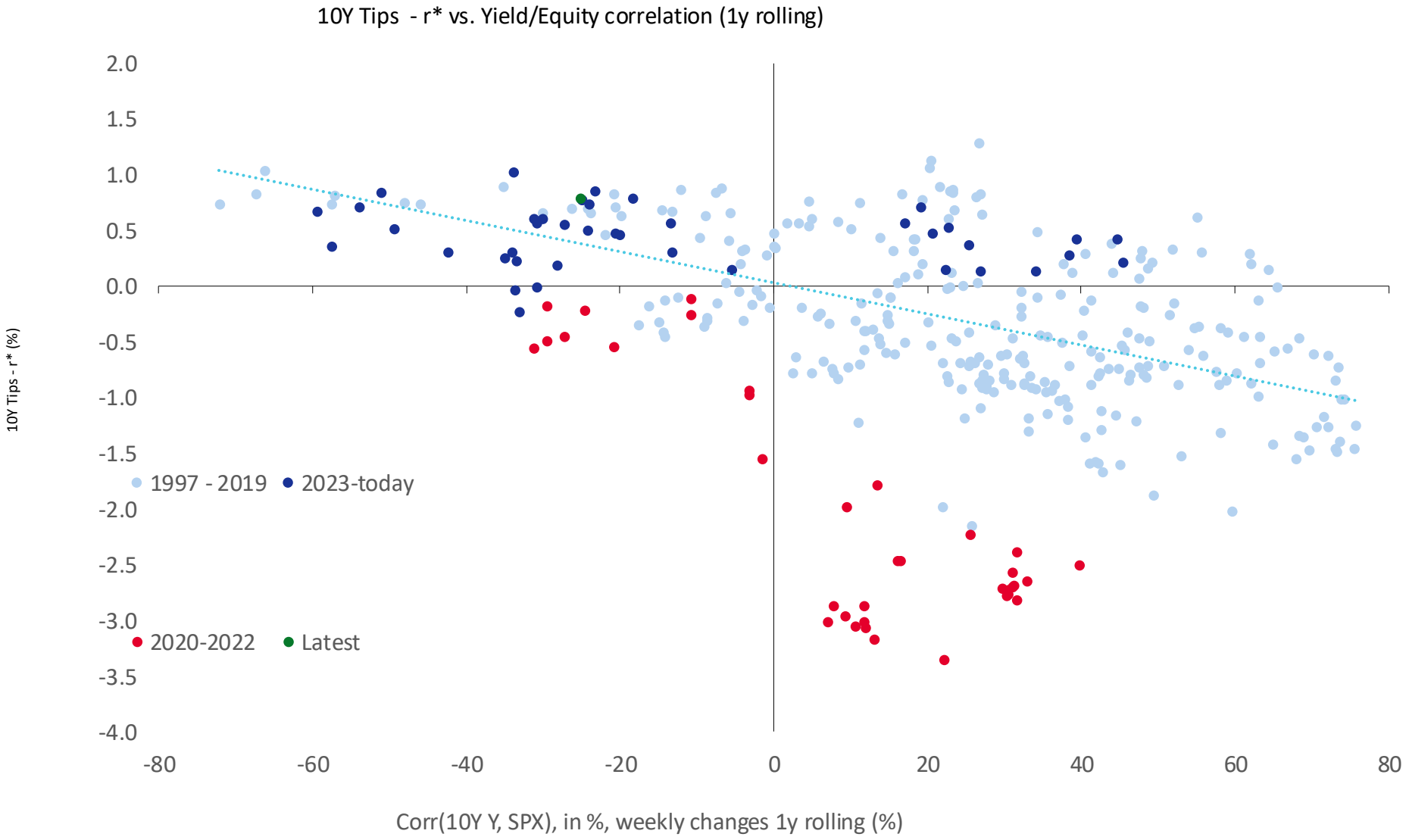
Bonds are not a good hedge for equities in higher inflation environments



Source: Deutsche Bank, BLS, Bloomberg Finance LP, Haver Analytics, BLS

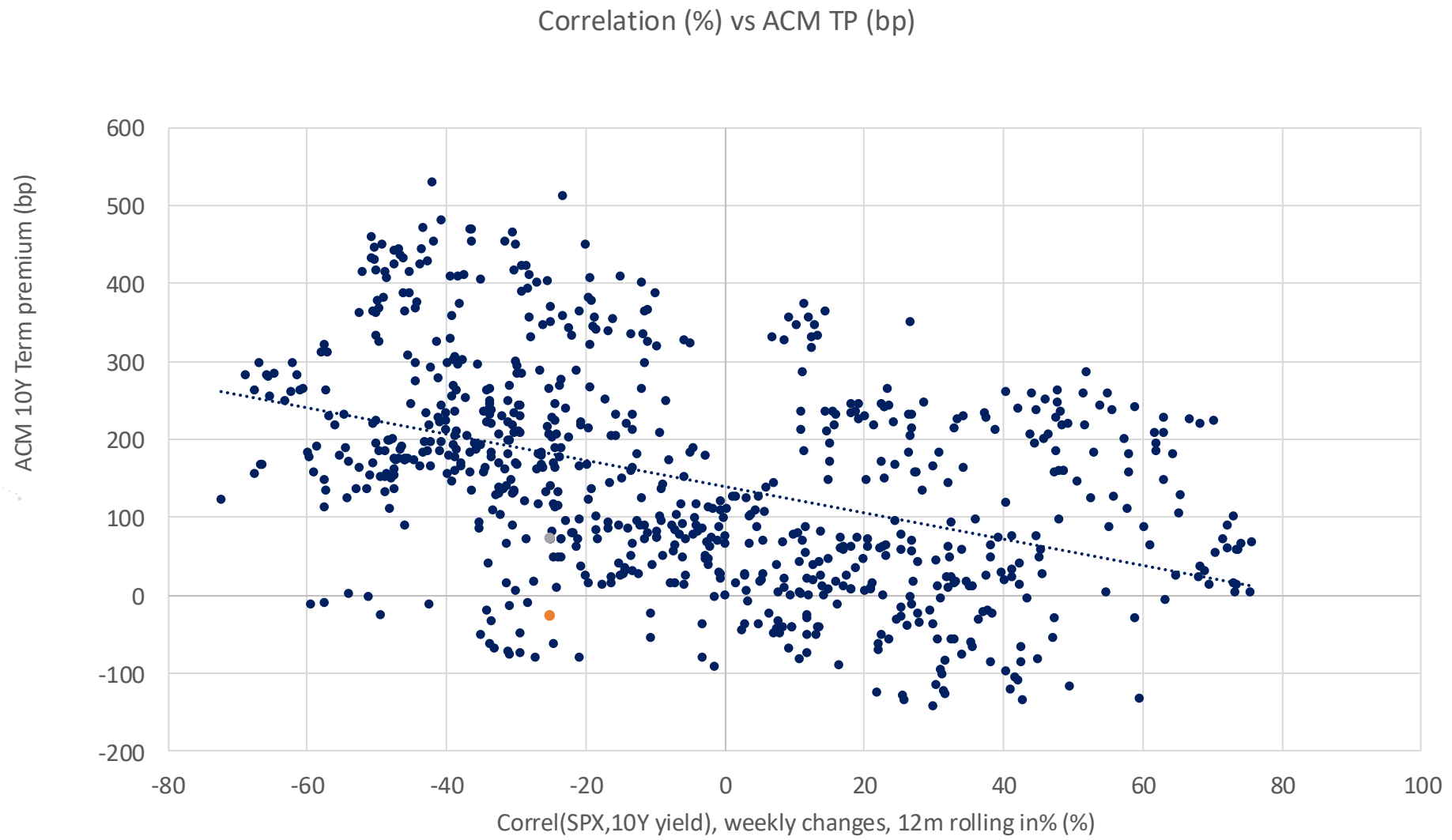
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10Y TIPS real yields are above r* when bonds are not a good hedge for equities



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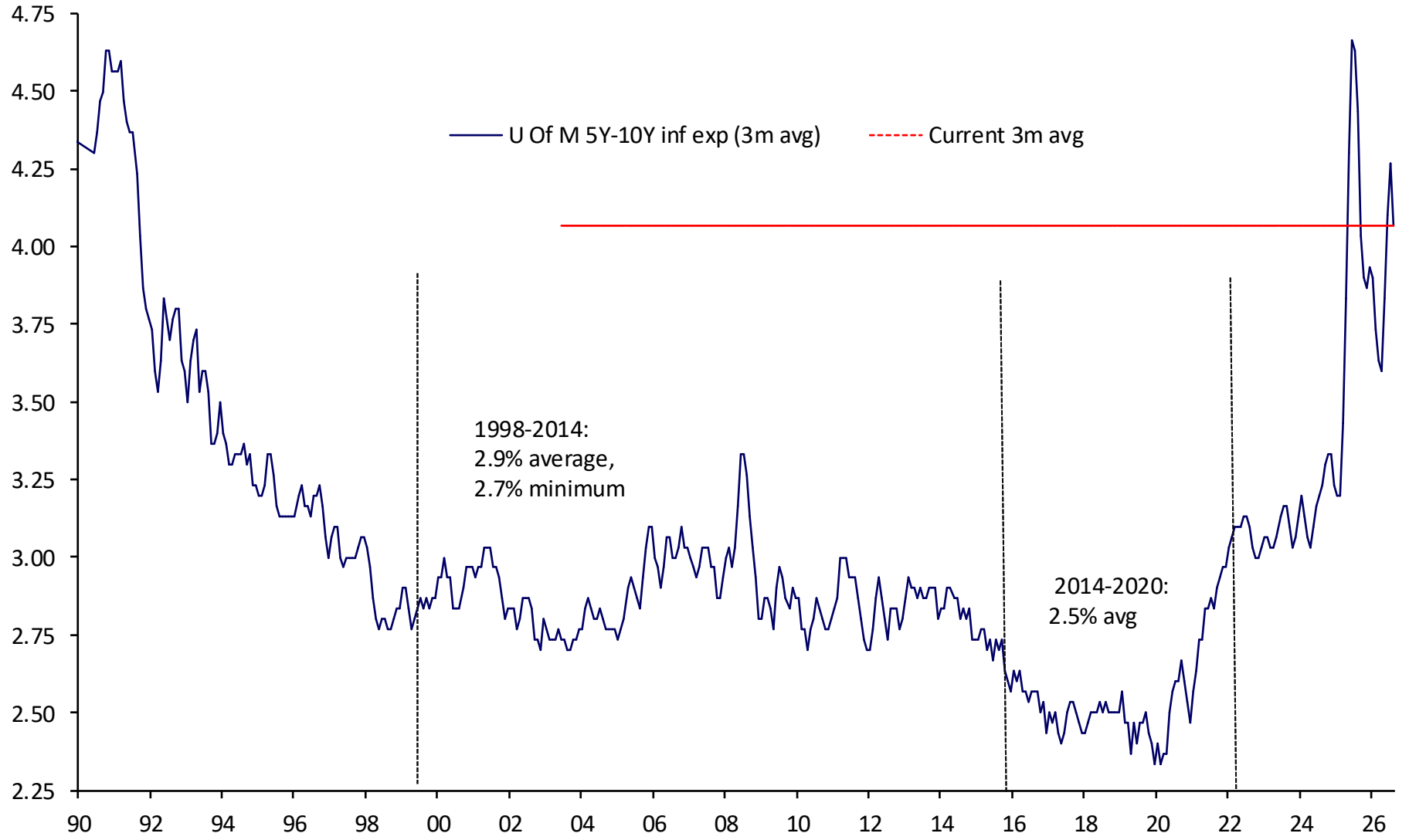
The ACM term premium is higher when bonds are not a good hedge for equities



Source: Deutsche Bank, Bloomberg Finance LP, Federal Reserve

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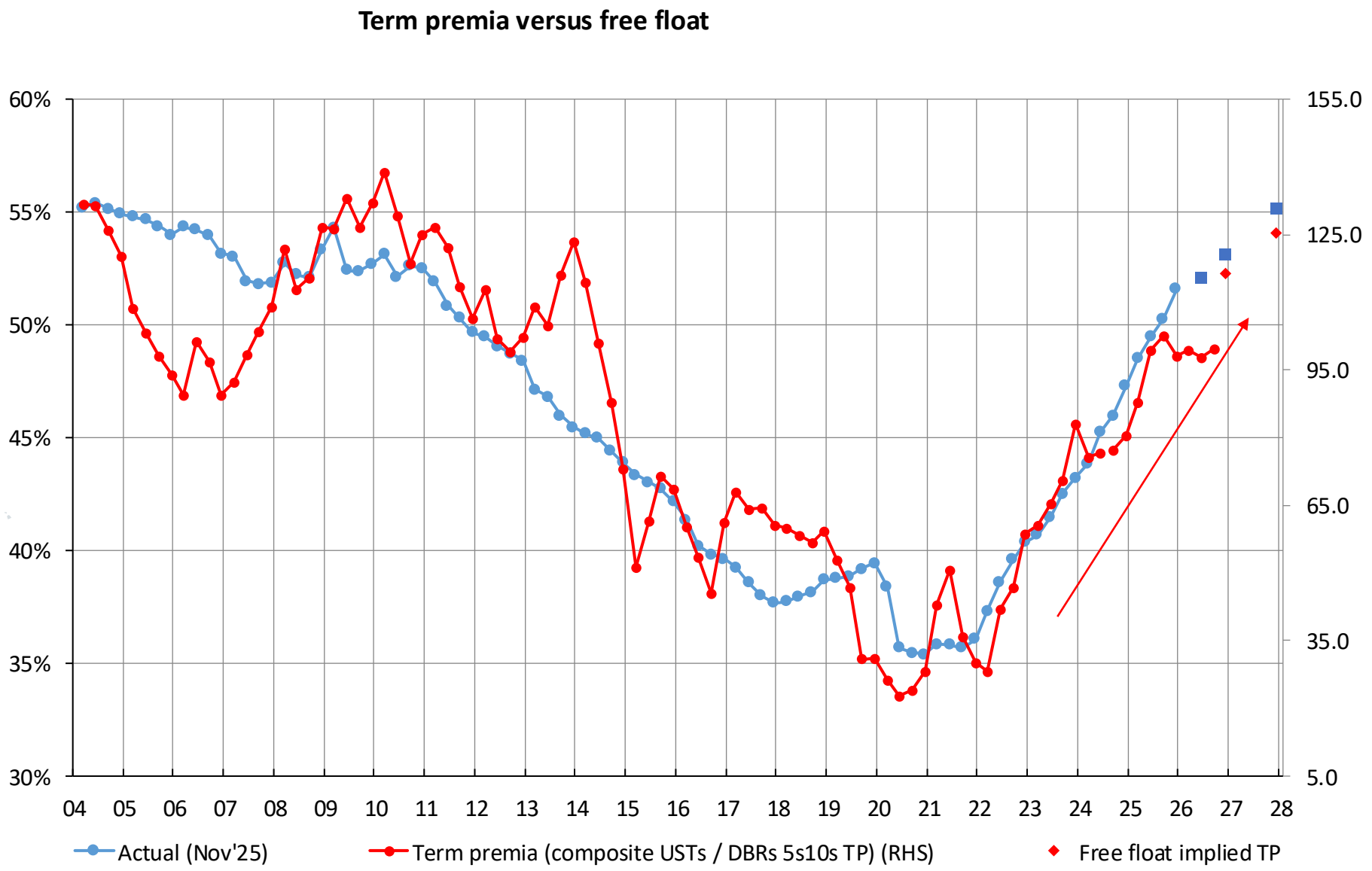
Long-term inflation expectations at multi-decade highs



Source: Deutsche Bank, Haver Analytics, University of Michigan
Note: Figure depicts 3m moving average

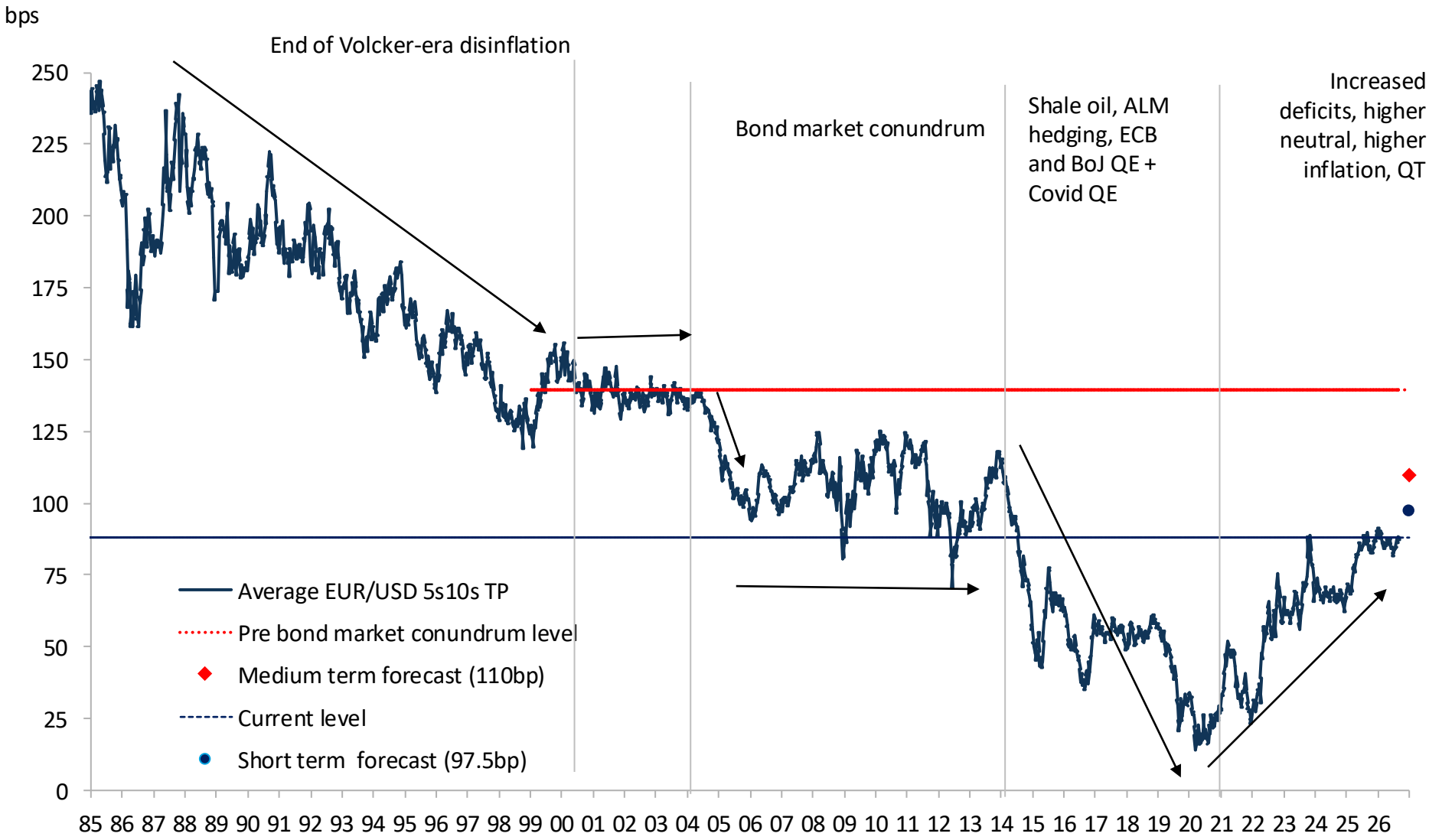
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Global free float supportive of higher term premia



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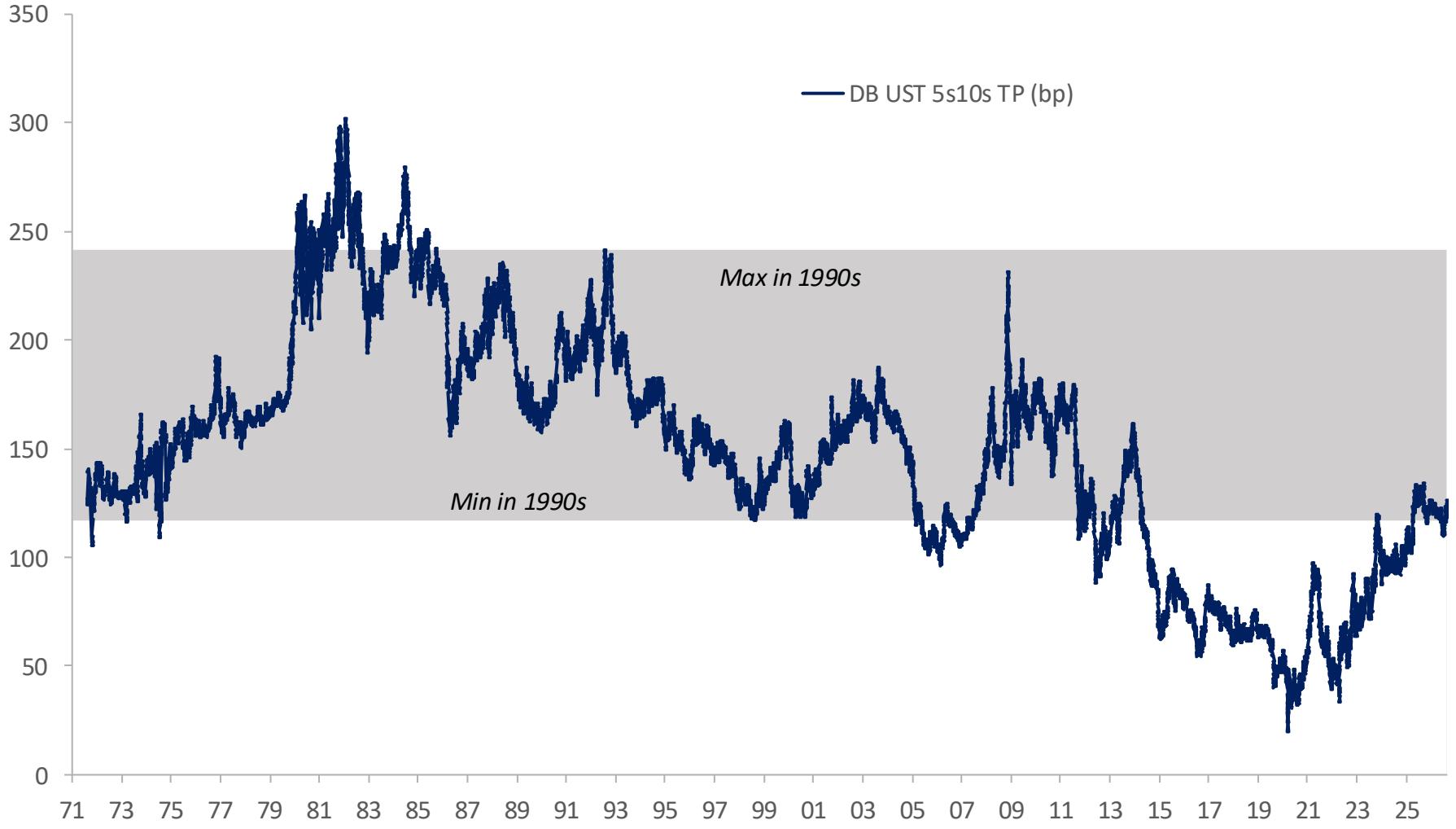
The term premium has more upside



Source: Deutsche Bank, Bloomberg Finance LP

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The term premium has more upside



Source: Deutsche Bank, Bloomberg Finance LP

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During negative supply shocks, duration performs only if the term premium is high or if fiscal policy tightens

	1973	1980	1969
Core PCE at the start	4.9%	8.2%	4.7%
Change in y/y core PCE	5.1%	0.9%	0.1%
Change in unemployment	3.8%	1.5%	2.4%
ACM at the start	0.6%	3.0%	0.2%
Change in deficits	-0.4%	0.0%	3.3%
Change in 10Y yield	1.0%	-0.6%	-0.8%
UST10Y excess return	-10.1%	1.4%	11.0%

Source: Deutsche Bank, Bloomberg Finance LP, Haver Analytics, Bureau of Economic Analysis, National Bureau of Economic Research, Bureau of Labor Statistics, US Treasury, Federal Reserve Board, S&P, Federal Reserve Bank of New York, CBO (Note: Positive change in deficits = fiscal tightening)

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Structural upside to the EUR10s30s TP

	Implied	Impact
Current	110	
Historical Lookback: pre GFC ave 2000-06	178	
Historical Lookback: 2007-09 ave	144	
TP vs FI allocation	138	
Model Implied f(5s10s TP, vol) 2001-2007	122	
Estimated flows		10-60bp
Estimated on QE/QT betas		3-42bp

Source: Deutsche Bank, Bloomberg Finance LP

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Blind tasting sovereign risk: which country has the least sovereign risk?

	Deficits	Growth	Debt-to-GDP
A	1.3	3.6	36
B	-3.9	1.7	173

Source: Deutsche Bank Research, IMF, Haver Analytics

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Blind tasting sovereign risk: and now?

	NIIP-to-GDP	CA
A	-91.3	-7.7
B	47.9	3.9

Source: Deutsche Bank Research, IMF, Haver Analytics

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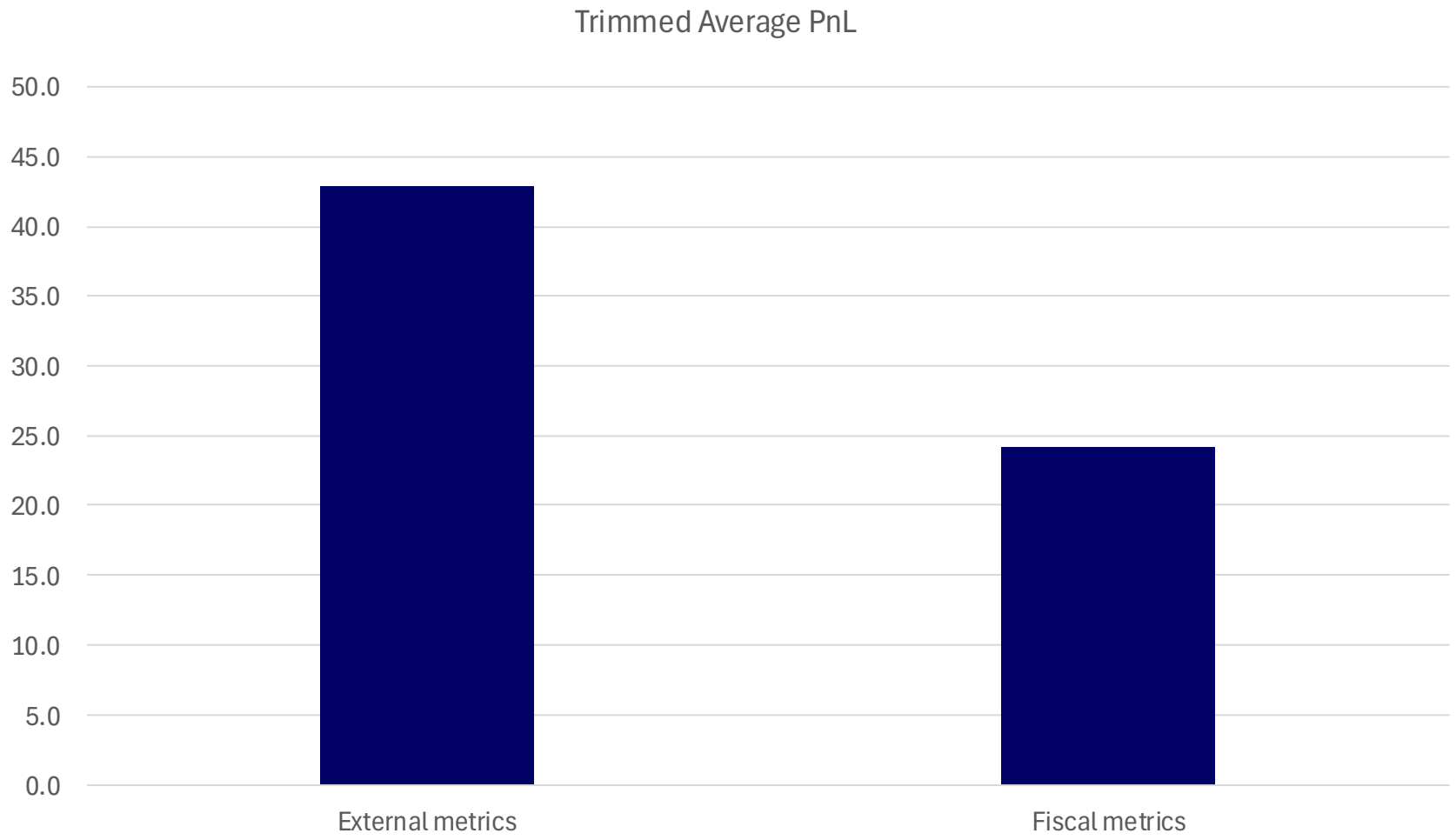
Entering an IMF lending programme is determined by the external rather than the fiscal position

Metric	Median programme country	World
5y average current account (% GDP)	-5.2	balanced by construction
NIIP/GDP ex gold (t-1, %)	-44.9	balanced by construction
5y average fiscal balance (% GDP)	-2.2	-2.7
Debt/GDP (t-1, %)	47.9	67.2

Source: Deutsche Bank Research, Vreeland IMF programme dataset, External Wealth of Nations, IMF WEO

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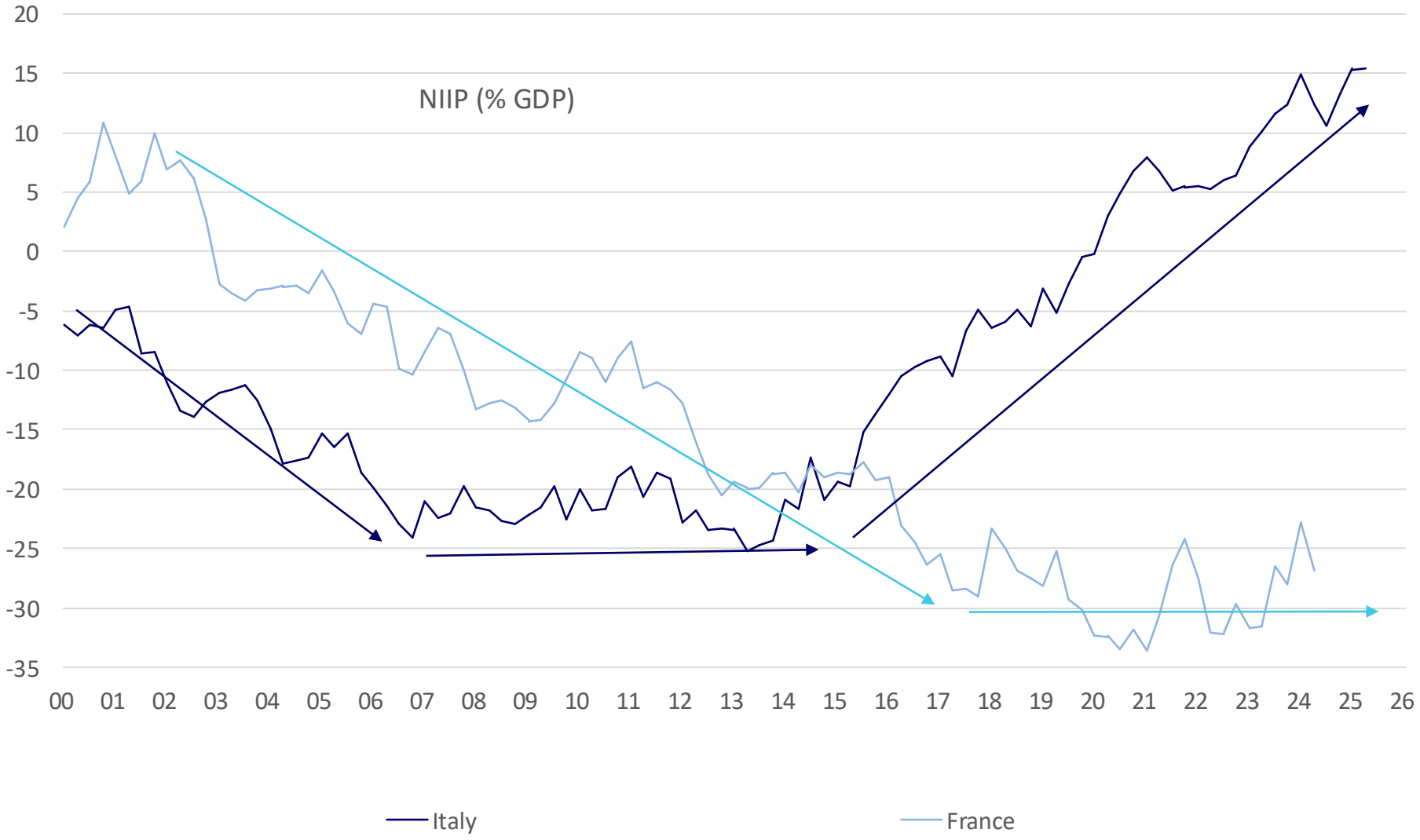
The external position is a better leading indicator of sovereign risks (and spreads) than fiscal metrics



Source: Deutsche Bank, Bloomberg Finance LP

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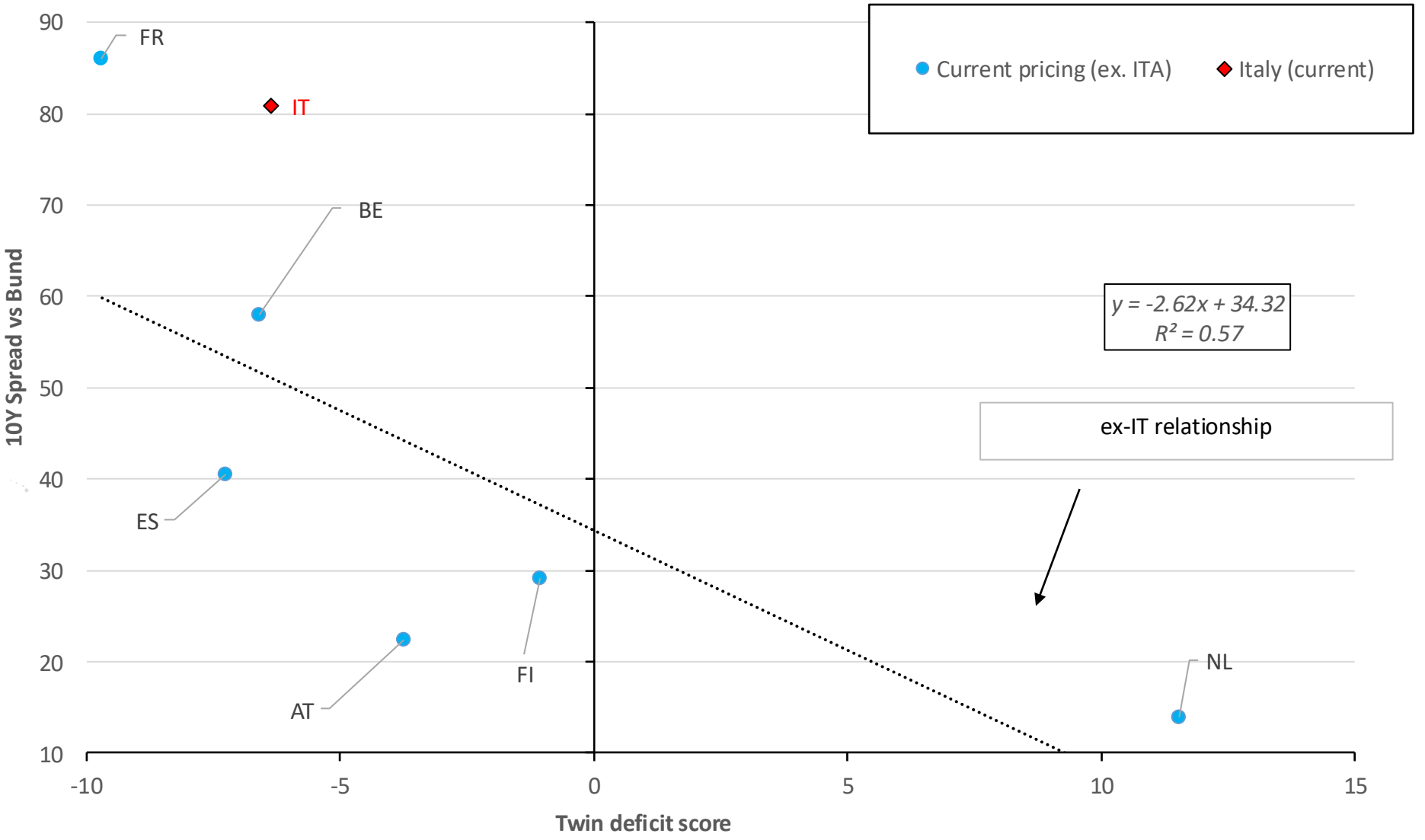
Italy's external position has improved, while France's has deteriorated



Source: Deutsche Bank, Haver Analytics, ECB, eurostat

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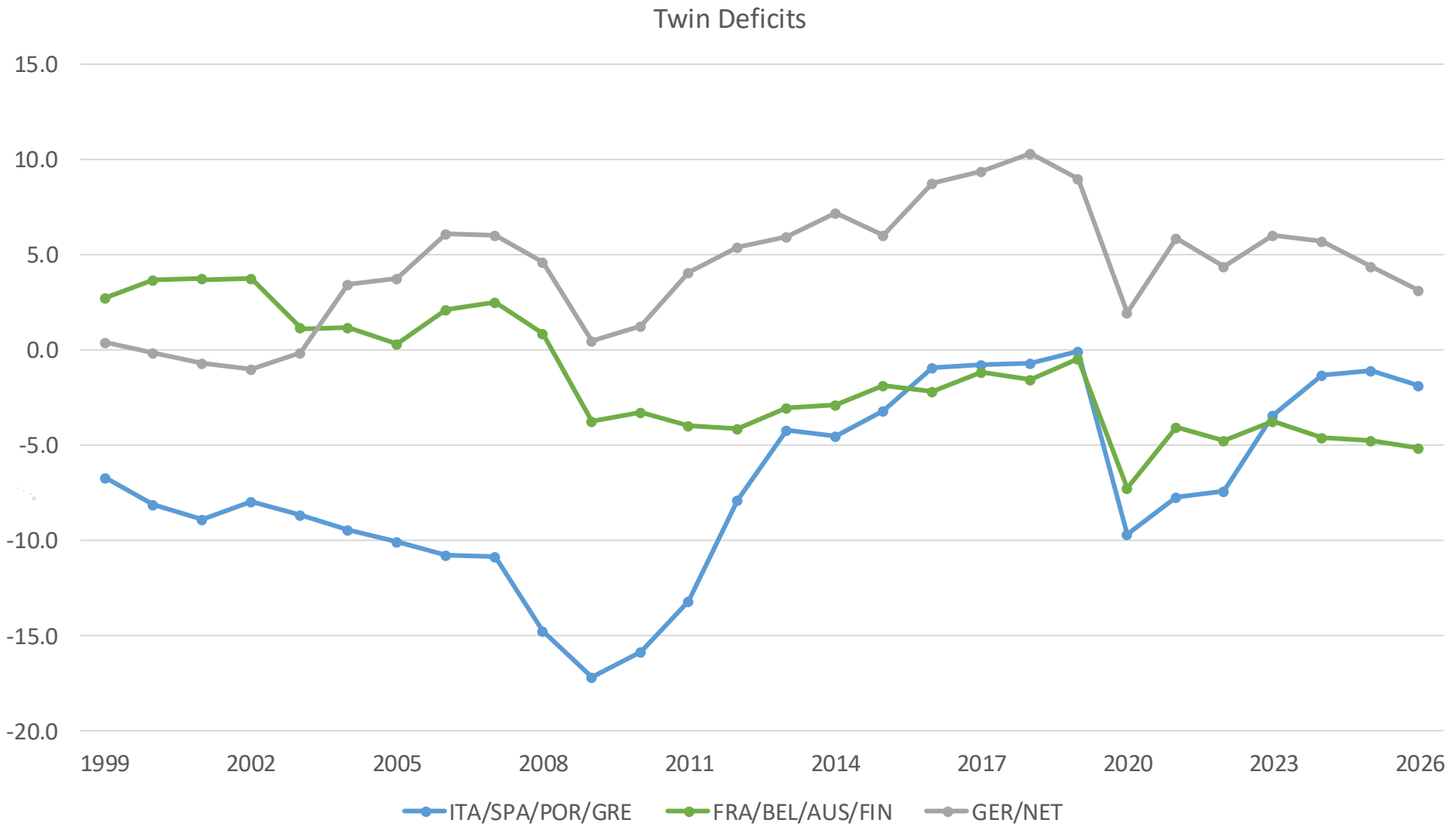
Twin-deficit model with 10-year EGB spread vs Bund



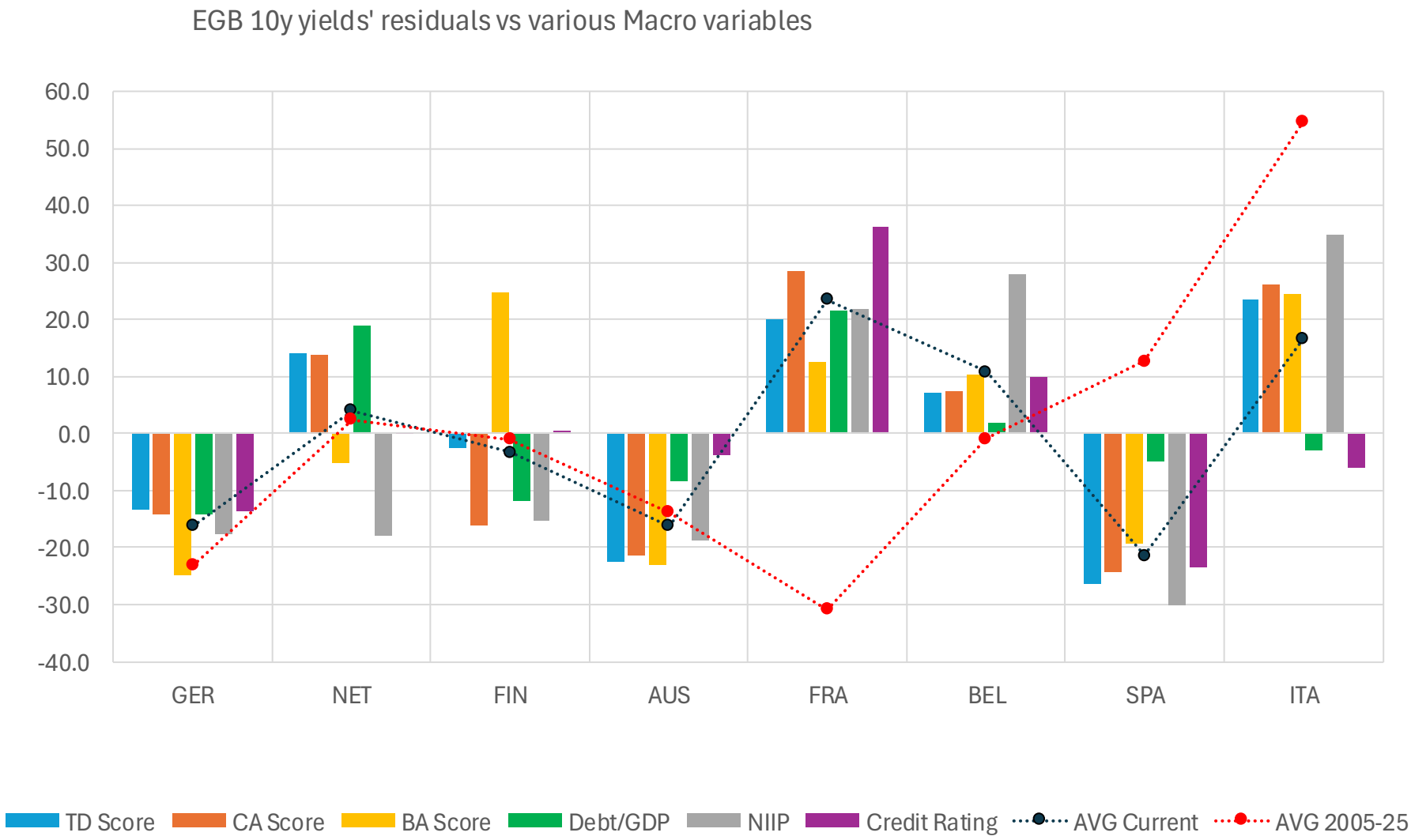
Source: Deutsche Bank, Haver Analytics, Bloomberg Finance LP, IMF

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Periphery's improving twin deficits



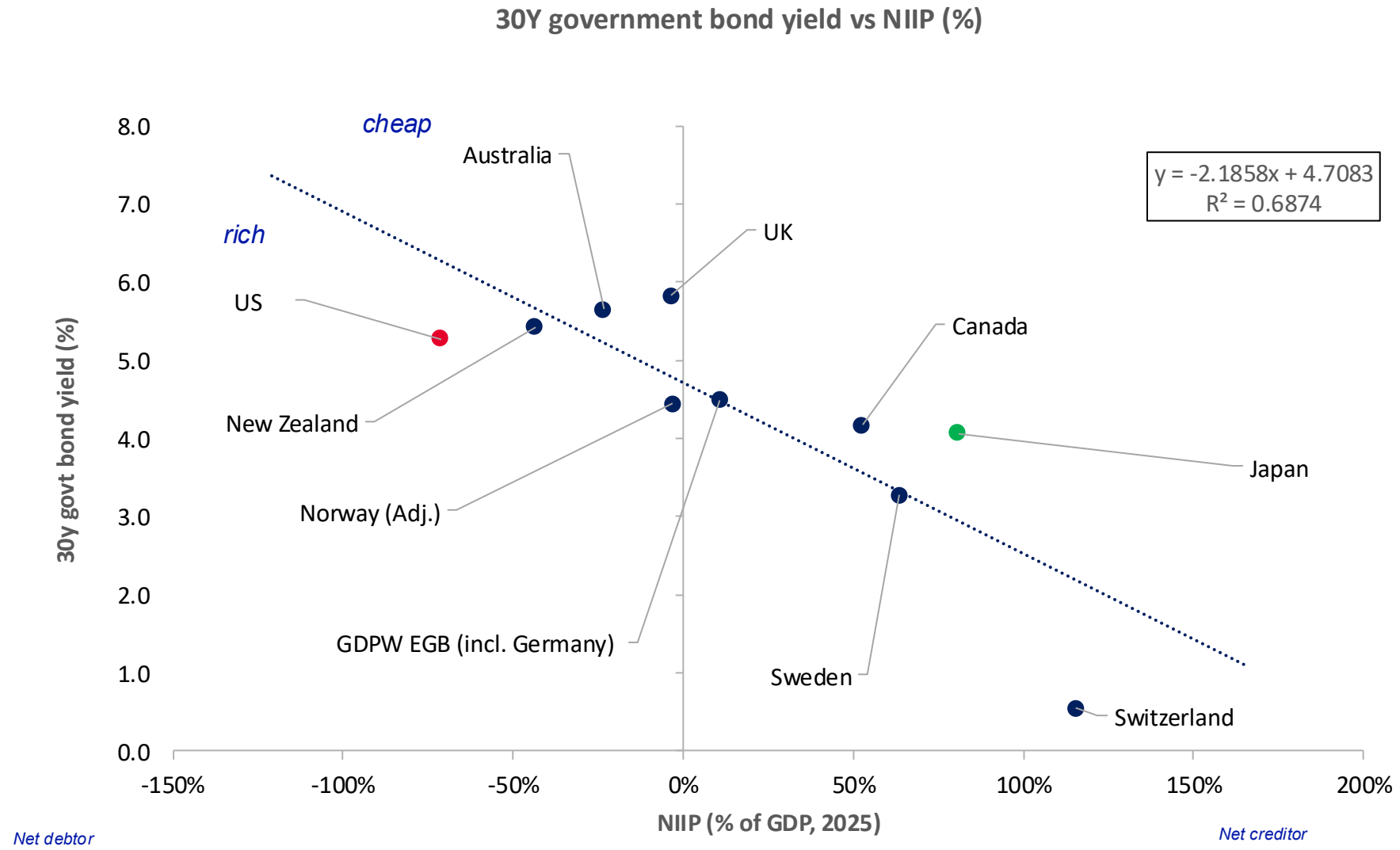
Macro valuation metrics for EGBs



Source: Deutsche Bank, Bloomberg Finance LP

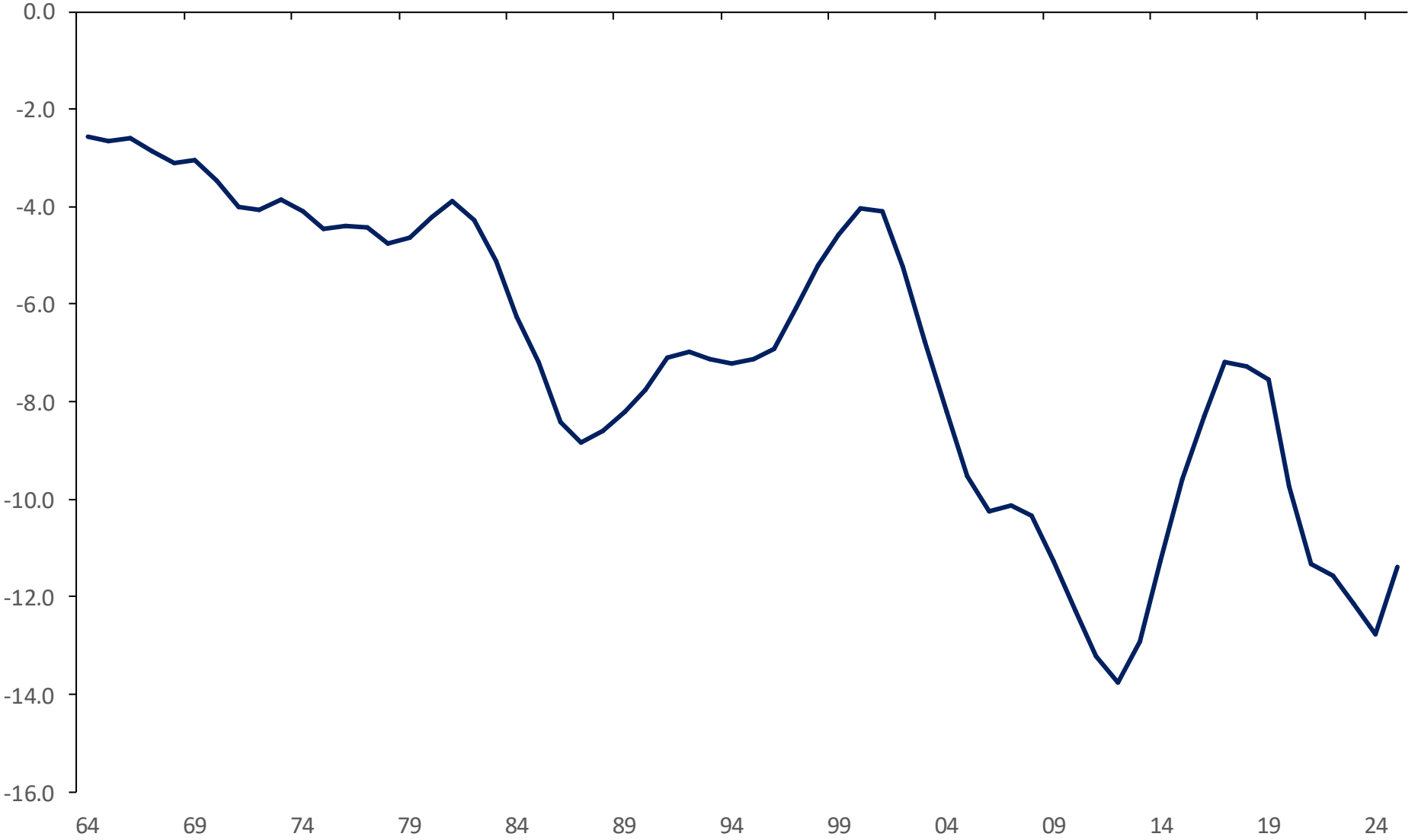
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30Y government bond yield vs NIIP



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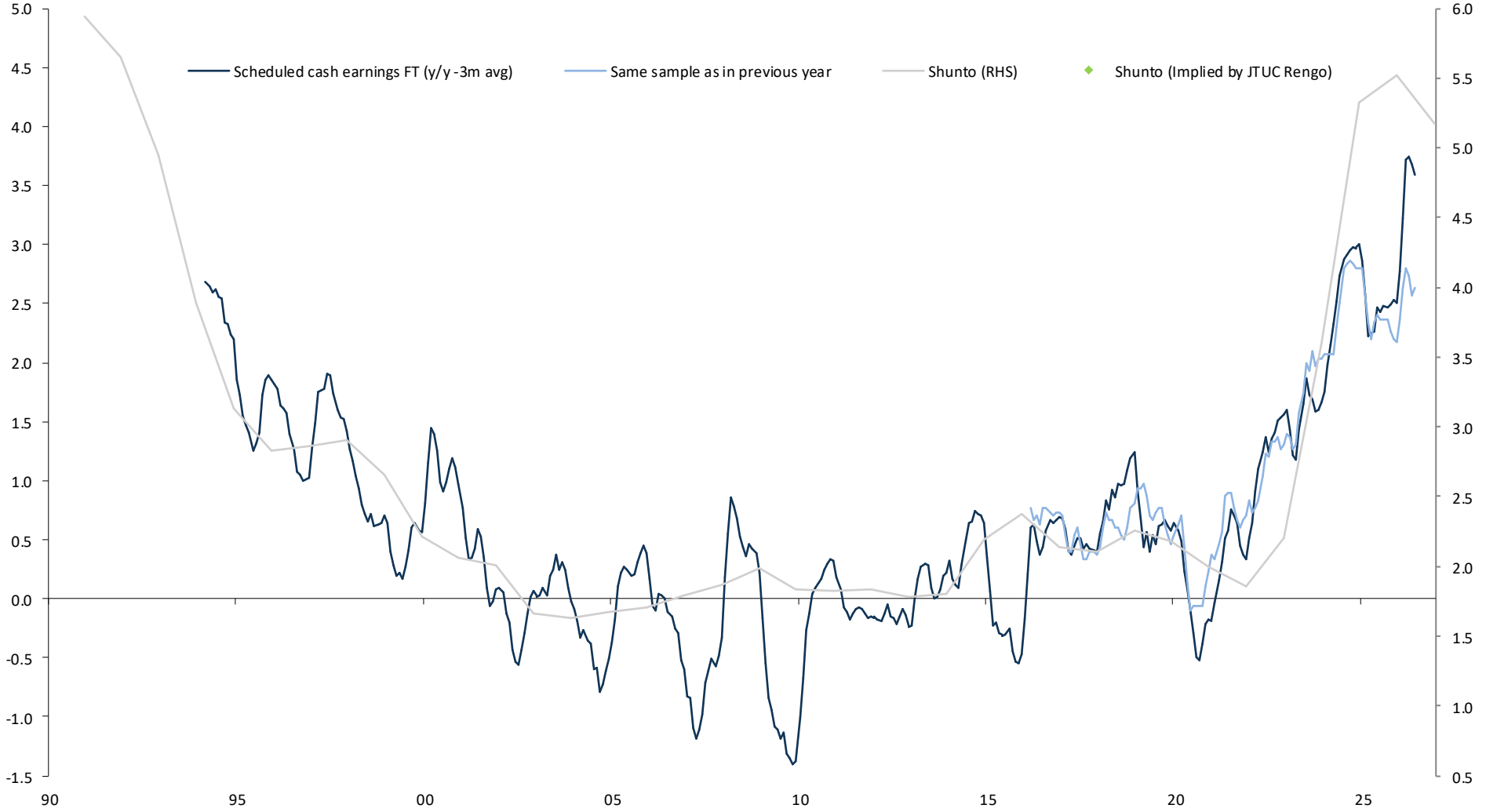
The US twin deficits are materially worse than in the 1970s



Source: Deutsche Bank, Haver Analytics, OECD (Note: 5-year moving average of annual sum of budget and current account deficit/surplus (% of GDP))

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Why is this time different for the BoJ? Wages

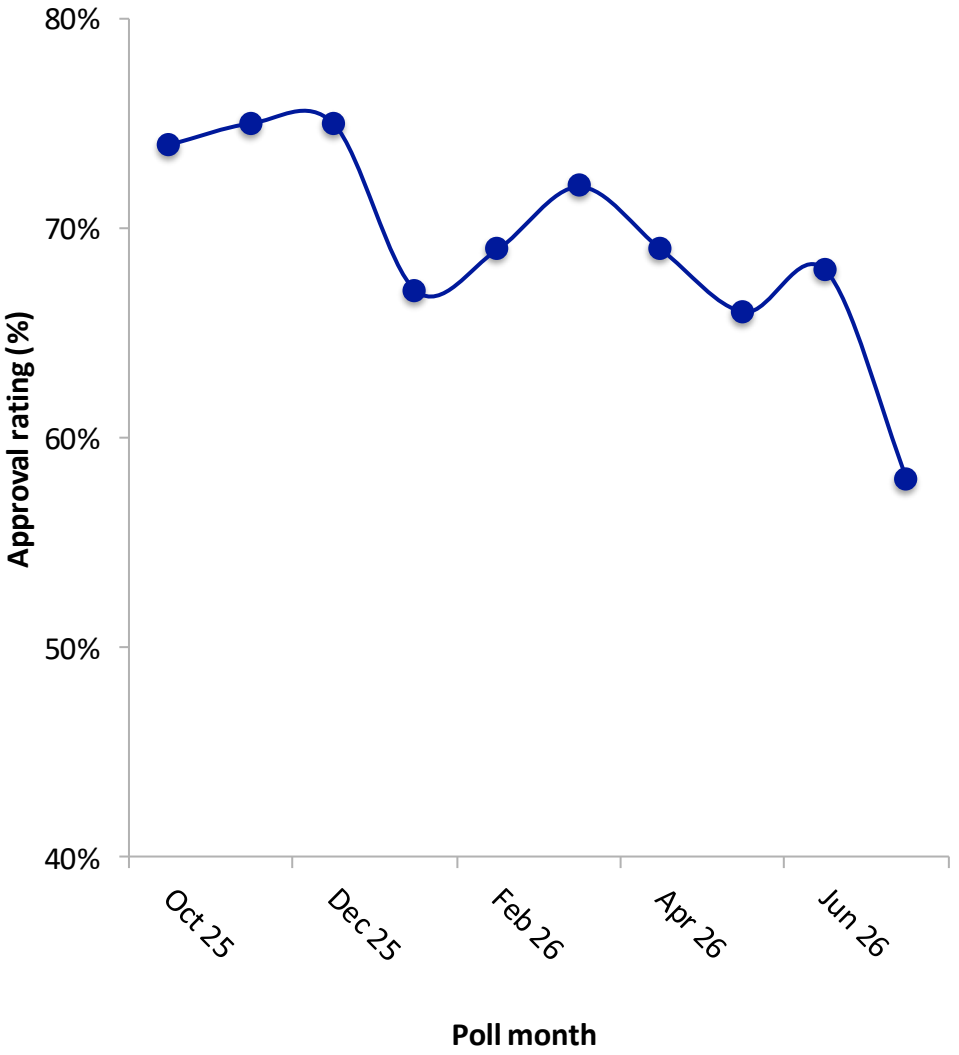


Source: Deutsche Bank, Haver Analytics, Japanese Trade Union Confederation, MHLW

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Opinion polls indicate that benign neglect of inflation is not a viable option politically

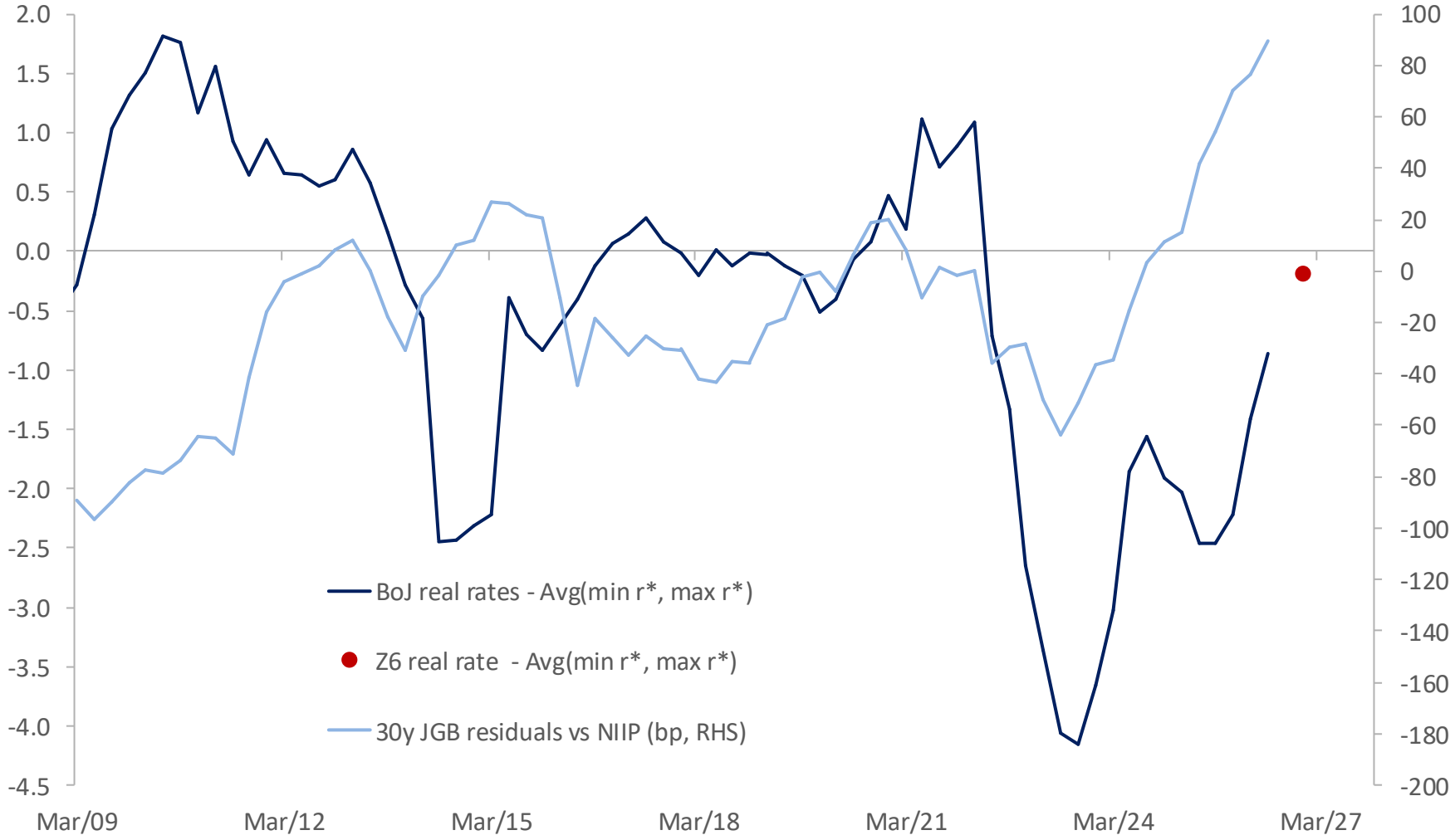
Top issues for voters	Share of respondents
Measures to address rising prices	49%
Pensions, healthcare and long-term care	38%
Foreign policy and national security	29%
Economic growth	28%
Employment and wages	22%
Child-rearing and education	22%
Fiscal consolidation	20%
Constitutional revision	10%



Source: Deutsche Bank, Nikkei/ TV Tokyo polls (26 July)

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Scope for potential flattening in Japan



Source : Deutsche Bank, Bloomberg Finance LP, Bank of Japan
Note: BoJ real rates calculated by deflating for Core-core CPI

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Appendix 1
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