

Rates Outlook 2026

December 2025

Situation Normal, All Fuddled Up



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Our reversion to normal for 2026 is akin to a desperate 'I'm okay!' It's a normal that's far from boring, as it treks a narrow path along which the ECB holds at normal, the Fed gets to normal, and long-end rates get to levels that map out normal curves. We can go off track, the most pertinent being a deviant Federal Reserve, with varying effects on long-term rates



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The US, eurozone, spreads and Dutch pension reform dynamics for 2026

2026 is littered with conflicting influences for rates. In the United States, there is the potential to lurch into the unknown of super-low rates if the Trump administration gets its way. Not our base view. At the other end of the curve, fiscal deficit concerns remain elevated and could spill over to an attack on Treasuries. Also, not our base view. US private credit is being monitored for bad smells and potentially correlation risks. We don't assume a dramatic correction. The same goes for the technology space, which has been on a tear. Geopolitics, too, is rattled with uncertainty. We assume a muddle through.

Overall, the potential for a chaotic 2026 is absolutely there. Again, we don't assume that. Instead, we map out what we view as the most likely outcome: an evolution towards normal rates. Here are some of the key points:

In the US, that means a curve stretching from around 3% on the front end, and a 100bp curve out to the 10yr lopped on top of that. So 10yr SOFR at around 4%. In addition, we add a 50bp Treasury credit spread to give us a 4.5% Treasury yield, with a tendency for it to drift back to the 4.25% area later in the year. Consumer price rise pressures get us higher in yield to begin with.

We also examine two scenarios, both premised on the notion that the Fed does not stop at 'around 3%', but rather gets the funds rate down to 'around 2%'. There are two ways to get there. The first way is with justification (positive for 10yr Treasuries - think 3%), while the second is without justification (negative for 10yr Treasuries - think 5%).

In the eurozone, remarkably, the curve is sitting at normal levels, practically at equilibrium. The question for 2026 is the extent to which it might get whipped around by events. While the front end of the swap curve remains relatively anchored as the ECB stays on hold, longer rates should still drift higher in 2026 on an improving growth outlook. German spending ambitions won't bring stellar growth but will reduce the risk of a return to secular stagnation, helping the 10Y swap rate to 3%.

In January 2026, the first major Dutch pension funds will move to a defined-contribution system, triggering unwinds of longer-dated swaps and bonds that will leave an impact on the curve. As demand wanes further, we think 30Y rates can climb higher. But before that, early 2026 could see significant volatility in both directions.

European government bonds will likely see more convergence amid Germany's fiscal expansion and consolidation efforts bearing fruit elsewhere. The macro backdrop remains benign for carry positions, but without the ECB easing more, the dynamics are likely to wane.

In the SSA space, spreads sit at tight spreads versus core sovereigns. Heavy Bund supply and still record-level funding needs of the SSA sector itself suggest headwinds. But broader context matters – the spread give-up for moving from riskier asset classes into SSAs is at record low levels.

We hope you find this tour of the rates space inspiring, and we wish you the very best of luck for 2026!

Lovin' normality, as the alternatives are troubling

The 10yr Treasury yield, now at 4.1%, is under upward pressure to head to the 4.25% to 4.5% area as a theme in 2026, steepening the curve and with the belly underperforming. The front end looks more stable in 1H, but is at risk of drifting higher later. That's unless the Fed decides to take a deep dive on rates



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We see the US 10yr yield heading to the 4.25% to 4.5% range

We never re-hit 5% in 2025, as the deficit was broadly ignored

When we did this exercise a year ago, we thought the 10yr yield would spend a chunk of 2025 peppering the 5% area. It reached 4.8% in mid-January and saw two more peaks at 4.6% during the first half of the year, but in the end, the 10yr yield is practically back down to levels that we saw a year ago.

In fact, over the past year, the 10yr yield has averaged 4.3%, while core inflation has averaged 3%. That's an average delivered 10yr real yield of 1.3%, which is low. The market real yield through 2025 is 1.95%. Had we *delivered* a 'normal' real yield of 2% in the 10yr, the *nominal* yield would have peppered 5% through 2025.

Even more unusual is that the low delivered real yield for 2025 incorporates (apparently) a suitable discount in Treasuries to account for the 6% fiscal deficit and troubling medium-term debt dynamics. It shows up in the 10yr tenor in the guise of a 40bp spread over SOFR. The average has been 50bp in the past year – a pure cost paid for deficit elevation.

So, many questions for 2026. As the Fed cuts some more, where does that leave the 10yr yield and the shape of the curve? And what about the aforementioned swap spreads and the likely deviation between SOFR market rates and Treasury yields?

To set the scene for 2026, we have to start with SOFR (AAA curve)

A starting point is SOFR, as this is the purest version of market rates; impliedly 'AAA-rated', as it's the risk-free curve. The difference between this and Treasuries is that SOFR does not care about issuance pressure (the credit element that affects Treasuries). But SOFR is impacted by "everything else" that determines market rates.

The big issue right now is the tameness of 10yr SOFR – it's at 3.7%. That's a 70bp real rate (versus contemporaneous core inflation of 3%), which is low. A simple theoretical ask is to have a minimum real rate of 1%, implying a 4% 10yr SOFR rate, based on the concept of neutrality backed out from historical averages.

Historical averages back to the 1990s tend to back out a 10yr rate with a 4% handle. A 10yr neutral rate at about this level also makes theoretical sense, as it gels with normal growth plus inflation circumstances. The 10yr SOFR rate can, of course, trade below 4%, but would need to be justified by super-tame inflation circumstances, which we don't have.

In fact, we see greater tariff impact on prices as a theme through the first half of 2026, with inflation trending higher in the 3% to 3.5% range. But as we move further into the year, inflation is tamed by weaker housing market dynamics, pulling it back below 3% through the second half of 2026 (sub-2.5% is possible).

“A key background driver is the rise in Japanese and eurozone market rates”

A key background driver is the rise in Japanese and eurozone market rates. As these shift higher, there is a relative value push on US market rates, particularly for longer tenors. The front end of the curve is heavily influenced by domestic factors and the funds rate. But longer tenors are far more responsive to international rate circumstances.

This leaves us with a dominant expectation for the 10yr SOFR rate to head in the direction of 4% through the first half of 2026. Even at 4% it's not particularly high. It could and should pop above 4% for a bit. Then, through the second half of 2026, the tendency for longer tenor rates is expected to ease back down again, but to remain above where they are today.

Here's how we see SOFR rates evolving through 2026 (%)

Arrows illustrate differences versus December 2025

	Dec-25	(vs now)	Mid-2026	(vs now)	End-2026
Fed	3.89	↓	3.10	↓	3.10
2yr	3.38	↓	3.25	↑	3.40
5yr	3.45	↑	3.70	↑	3.60
10yr	3.76	↑	4.00	↑	3.85
30yr	4.09	↑	4.25	↓	4.00

Source: Macrobond, ING estimates

Anticipate cheapening in the belly as the curve stretches steeper

So, let's map out the SOFR curve, viewing it as an extrapolation of the Fed funds rate into the future. The starting point is the floor for the funds rate in the current cycle. We identify this as 3% to 3.25% – effectively a move to a neutral funds rate. We expect to get there by the second quarter of 2026, and then the Fed holds.

Once we get there, and assuming the market believes that to be the bottom, there should be a natural tendency for steepening to take hold in money markets. The rationale here is a discount for a higher funds rate in the future, on a theory that if the funds rate has floored, logically the next move must be up. History corroborates this type of leaning as typical.

“Whether the Fed actually hikes rates is not the point”

Whether the Fed actually hikes rates is not the point; the market will tend to adopt an upward-sloping tendency on money markets regardless. This will be reflected right along the 2/5yr segment, with the 5yr cheapening up to the 2yr. Currently, the spread from 2yr SOFR to 5yr SOFR is a mere 5bp. That can easily get to 25+bp; mostly a higher 5yr rate.

If so, that pushes the 5yr rate up to where the 10yr SOFR rate currently is (3.7% area). As alluded to above, we think the 10yr SOFR rate is quite tame at 3.7%. We see natural upside to the 3.75% to 4% area. And even that is not particularly elevated. It's in fact in tune with what we'd call a neutral curve (75bp-100bp), referenced against a neutral funds rate.

The 30yr SOFR rate is currently at 4.1% and will have a tendency to head for 4.25%, implying flattening on the 10/30yr segment. Effectively, what's happening here is the belly of the curve is cheapening up versus the wings as the curve pivots steeper from the back end, with most of the steepening on the 2/5yr segment and least on the 10/30yr.

Here's how we see Treasury spreads to SOFR evolve through 2026 (bp)

Arrows illustrate differences versus December 2025

	Dec-25	(vs now)	Mid-2026	(vs now)	End-2026
2yr	20	↑	20	↑	20
5yr	30	↑	30	↑	30
10yr	41	↑	50	↓	40
30yr	71	↑	80	↑	75

Source: Macrobond, ING estimates

For Treasuries, that pitches the 10yr in the 4.25% to 4.5% area

The SOFR curve maps out the true market rates profile, and the Treasury curve is then pitched as a spread relative to this. This classic asset swap spread is currently a 'credit spread' to reflect the cost of poor debt dynamics. The translation of that into Treasury yields comes through supply pressure, theoretically cheapening Treasuries versus SOFR.

And here we need to acknowledge that Treasury Secretary Bessent is keen not to place supply pressure on the coupon curve. For 2026, we anticipate that coupon issuance sizes will remain unchanged relative to 2025, as the bills programme continues to cover any morph higher in issuance pressure. That helps minimise longer tenor spread pressure.

“Deficit pressure remains a growing problem”

At the same time, deficit pressure remains a growing problem that longer dates need to discount as a 'down the line' problem, one that's not going away. In sum, we anticipate that Treasury spreads over SOFR will come under re-widening pressure in 2026. Specifically, in the 10yr, the fiscal deficit penalty should be more; conservatively, we get back to 50bp.

We can see upside to the 10yr yield dominating through the first half of 2026, as we see more tariff impact on prices than we've seen so far. That's when the 4.5% number comes into focus. But as we progress through 2026, we'd see the 10yr yield then drifting back down to the 4.25% area, as inflation gets tamed by the weaker housing market dynamic.

We end up with a scenario where the 2yr yield, now at 3.55%, is likely to hold in the 3.5% area. But it will be under some pressure to trade in the 3.5% to 3.75% area as the money market steepening trend takes hold by the second half of 2026. The 30yr yield gets back up to 5%, and likely pops above as a theme for the first half of 2026.

Here's how we see Treasury yields evolving through 2026 (%)

Arrows illustrate differences versus December 2025

	Dec-25	(vs now)	Mid-2026	(vs now)	End-2026
Fed	3.89	↓	3.10	↓	3.10
2yr	3.58	↓	3.50	↑	3.60
5yr	3.75	↑	4.00	↑	3.90
10yr	4.16	↑	4.50	↑	4.25
30yr	4.8	↑	5.05	↓	4.75

Source: Macrobond, ING estimates

Here's how we see Treasury curve segments evolve through 2026 (bp)

Arrows illustrate differences versus December 2025

	Dec-25	(vs now)	Mid-2026	(vs now)	End-2026
Fed/2yr	-51	↑	15	↑	30
2/5yr	17	↑	50	↑	30
5/10yr	42	↑	50	↓	35
10/30yr	64	↓	55	↓	50
2/5/10yr	-25	↑	0	↑	-5

Source: Macrobond, ING estimates

Risk Bands: Impact of bigger Fed cuts than anticipated on the 10yr

Here we examine two scenarios, both premised on the notion that the Fed does not stop at 'around 3%', but rather gets the funds rate down to 'around 2%'. There are two ways to get there. The first way is with justification (positive for 10yr Treasuries), while the second is without justification (negative for 10yr Treasuries).

The Fed cuts 'with justification' scenario sees the US 10yr yield heading towards 3%

The 'with justification' scenario is one where the macro picture morphs to severe corrections in the tech and housing markets, squeezing confidence and spending and pressuring the economy into a recessionary tendency, necessitating Fed cuts to 2%. This would be at 1% to 1.5% below what we consider neutral (3% to 3.5%).

In this non-inflationary scenario, the US 10yr yield is quickly pulled structurally below 4%, and has the potential to get all the way down to 3%. We'd have a central tendency in the 3% to 3.5% area on the assumption that the Fed is actually done cutting at 2% and there is an ambition for the next move then to be a hike, even if eventually.

The Fed cuts 'without justification' scenario sees the US 10yr yield heading to 5%

The "without justification scenario" is where a Trump-administration-impacted Fed swings super dovish, and executes rate cuts far in excess of what's required in an attempt to juice the economy in good time for the mid-term elections. While a positive comes from higher tax receipts, the bigger negative is a rise in inflation risks. Add to that the notion that the Fed is doing things it really should not be doing, tarnishing credibility.

While Treasuries love rate cuts, they won't like them much given this cocktail. Here, there is a material risk that things finally begin to unravel for longer tenors, with the 10yr yield hitting 5%, and the 30yr risks hitting 6%. In fact, this is a cocktail that could necessitate yield curve control, taking policy onto a very troubling trajectory.

We prefer our base view, as it's the most likely. It's also, by definition, more likely than either of these alternative parallel universes, both of which are quite troubling.

EUR rates: Short end settles as rest of the curve drifts higher

Whilst the front end of the swap curve remains relatively anchored as the ECB stays on hold, longer rates should still drift higher in 2026 on an improving growth outlook. German spending ambitions won't bring stellar growth, but will reduce the risk of a return to secular stagnation, helping the 10Y swap rate to 3%



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Germany's spending plans may not spark strong growth, but will help keep 10Y swaps near 3%

The ECB has landed, but the back end of the curve has not

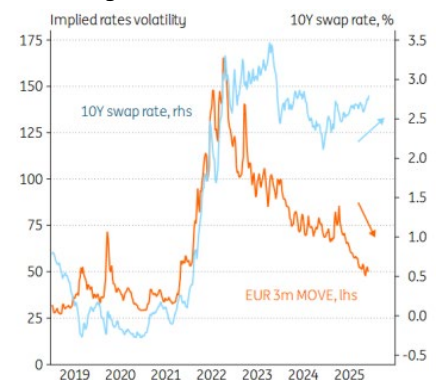
Markets are increasingly convinced that the ECB's policy rate will remain at 2%, and we too have that as our baseline. Inflation is settling nicely and the growth outlook continues to show a careful but gradual recovery. When asked about the balance of risks, however, we still see a higher probability of more easing than a rate hike. While soft data is clearly improving, hard data, such as GDP growth, is still far from painting a more robust growth picture.

This is the first time the ECB has pulled off a soft landing, bringing us into uncharted territory. When we look at the 3-month rolling volatility of 2Y swap rates, we are now at levels which were only lower during the zero lower bound period pre-Covid. Implied volatility measures are also coming down rapidly, even while 10Y swap rates are on the rise. This suggests to us that markets are growing more comfortable with higher back-end rates.

Soft landing has brought about the lowest rates volatility since the zero lower bound

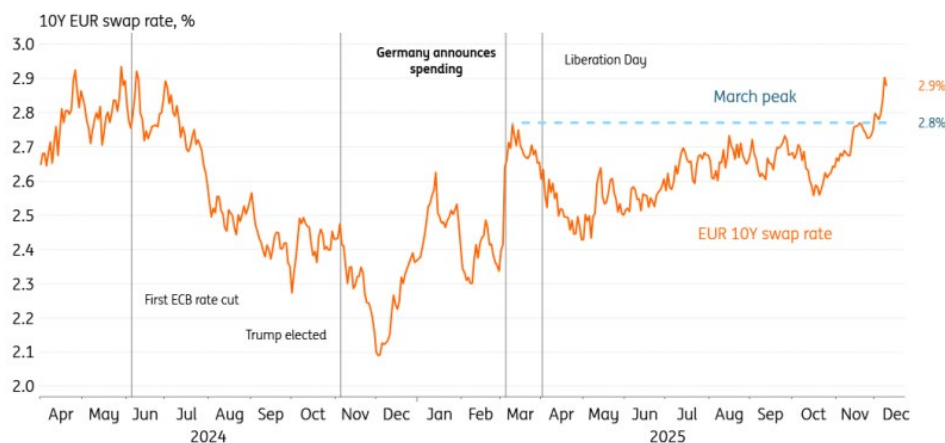


Source: ING, Macrobond



While the front end of the curve is well-anchored, we think longer-dated rates can still make a stretch higher from here. An important driver of this is Germany's spending ambitions, which target up to €1tr of additional spending over the next decade. Since the announcement in March, markets have already priced in significantly higher long-term growth expectations. The 10Y EUR swap rate has already passed 2.8% and we see 3% as the target for 2026.

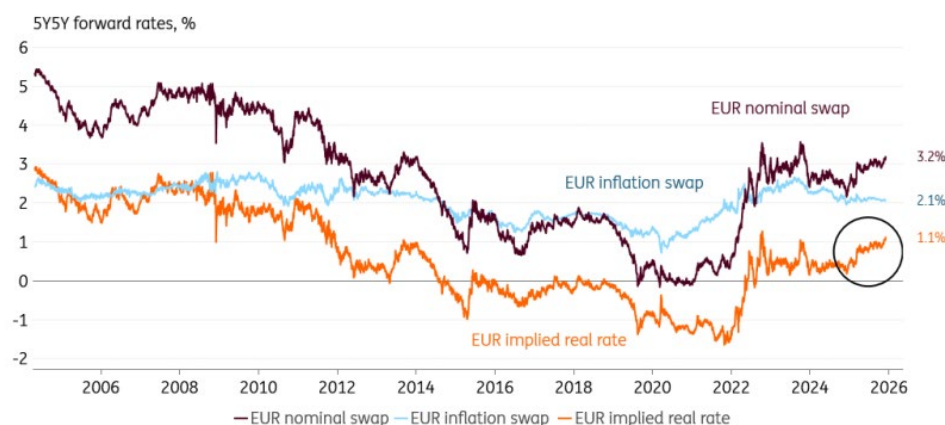
German spending is a key theme for 2026, pushing 10Y swap rates higher



Real rates show that markets remain convinced about the improved long-term eurozone outlook, despite Trump's tariffs posing a drag on trade prospects. The 5Y5Y real rate rose from around 0.4% to above 1% over the course of 2025, which is much closer to our estimate of the long-run growth potential of the eurozone.

When zooming out, the potential for rates to rise further is still significant in our view. Before the euro sovereign crisis, the 5Y5Y real rate was anchored around 2%.

Long-run expectations have jumped, but remain low by historical standards



We don't think German spending ambitions will bring stellar growth numbers, but we do think the risk of returning to secular stagnation has drastically reduced. The additional fiscal impulse increases demand in the eurozone economy and, given tight labour markets, should also add to price pressures.

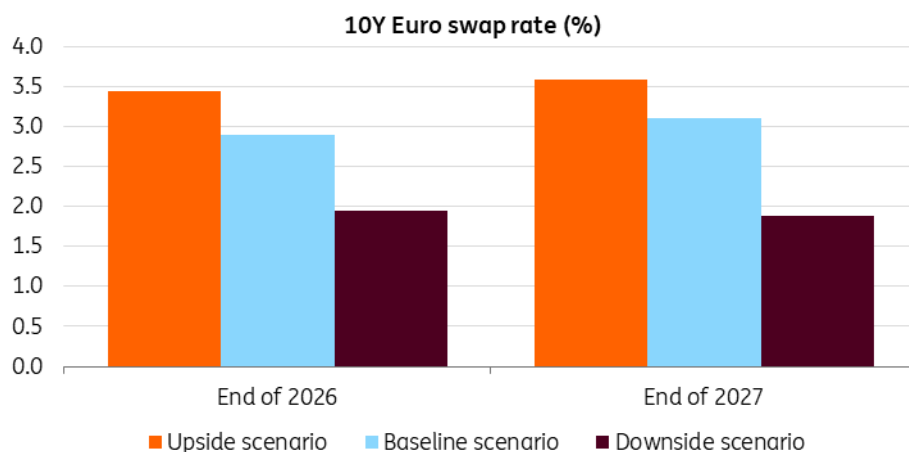
The chance of an ECB cutting below 1% has therefore come down significantly. With 10Y rates reflecting a probability-weighted average of all possible scenarios, the culling of this tail risk should help rates settle higher.

Risk is tilted to lower rates, but an upside scenario should not be discounted

If, however, growth was to stagnate and inflation fell below target, we would still eye an ECB cutting towards 1%. In this downward scenario, fiscal stimulus would fail to ignite growth and a recession would suddenly be back on the table for 2026. Besides cutting the policy rate, the ECB would call a halt to quantitative tightening, triggering a strong bullish reaction from the back end of the curve. The 10Y swap rate would fall back to 1.5-2%.

An upside scenario would see the ECB hike rates on the back of resilient growth and rising price pressures in the second half of 2026. By the end of 2027, the policy rate would be brought back up to 3%. Meanwhile, the back end of the curve would benefit from healthy risk sentiment, especially if the French political turmoil and Russia/Ukraine conflict find some relief. Together, these factors could push the 10Y swap rate as high as 3.6% in 2027.

The upside is limited, but a downside scenario can be drastic



Source: ING, Macrobond

Dutch pension reforms are bumping up rates from the long end

In January 2026, the first major Dutch pension funds will move to a defined-contribution system, triggering the unwinding of longer-dated swaps and bonds, which will leave an impact on the curve. As demand wanes further, we think 30Y rates can climb higher. But before that, early 2026 could see significant volatility in both directions



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Dutch pension reforms may prompt the unwinding of longer-dated swaps and bonds

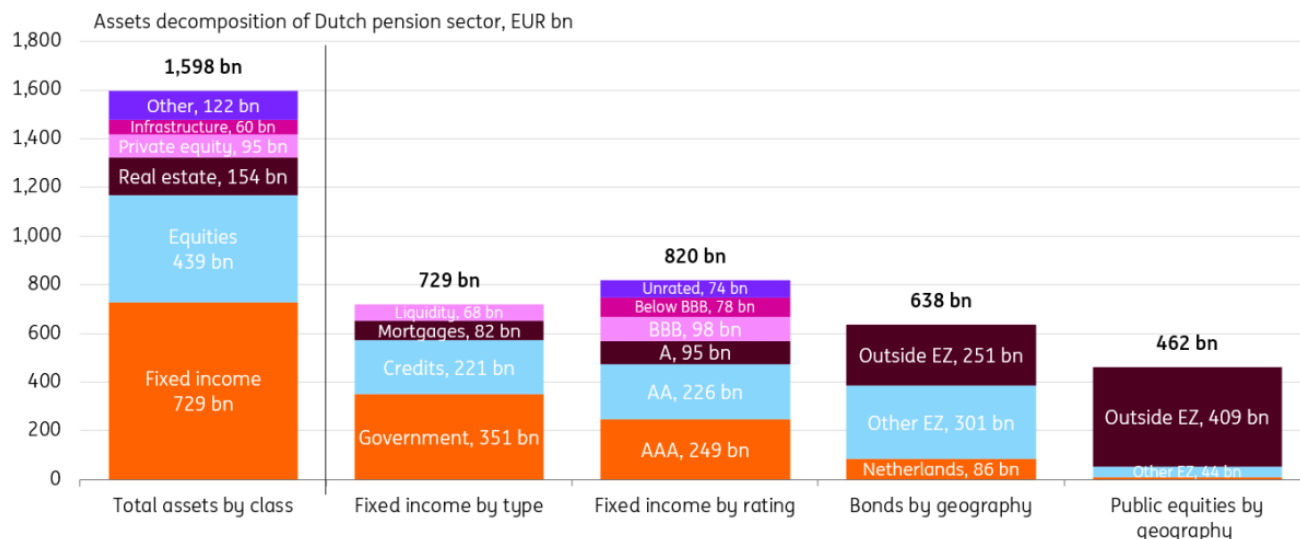
A structural loss in demand for long duration will permanently impact euro rates

On 1 January 2026, around €600bn in assets will transition to a new pension system, which will trigger a significant unwind of longer-dated bonds and swaps. And with another ~€900bn assets planned to transition in 2027, we foresee a broader structural fall in the demand for longer maturities in euro fixed income. This means that 30Y rates should continue to feel upward pressure for the time being.

Fixed income with maturities of 30Y and beyond will see the largest unwinds, but for tenors shorter than 20Y we may actually see an increase in demand from Dutch pension funds. The reason is that the new system gives flexibility to hedge by age cohort. In effect, funds will choose to reduce the hedges for their younger participants (those with long maturities on their liabilities), whilst for older participants, funds may actually increase the hedging ratios (these have relatively shorter liabilities).

Besides the unwinding of fixed receiver swaps, we also expect a reduction of around €100bn in European government bonds (EGB). Currently, EGBs provide an attractive duration and enjoy a zero percent risk weight for capitalisation purposes. The new regulatory framework no longer has such capital requirements, and the need for very long tenors will be reduced. As such, we think credits, including SSA, could see a net benefit from the reforms.

Government bonds make up a significant portion of Dutch pension funds' balance sheet

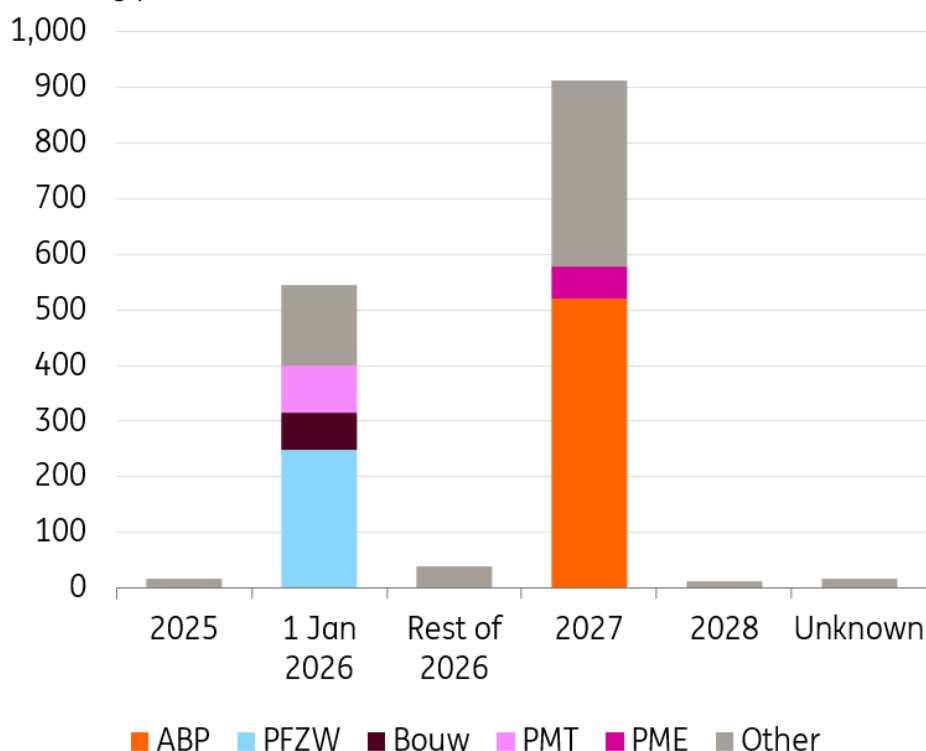


Source: ING, DNB

Currently around €900bn of assets should transition in 2027, but we see a non-negligible probability that a material amount of this will be delayed to 2028. Most eyes will be on ABP, the largest fund with over €500bn in investments, accounting for around a third of the sector's total size. In recent years, we have learned that delays are common, often caused by regulatory hurdles, IT issues, or administrative challenges. Some delays were announced as late as two weeks before the intended transition date. Markets are closely watching the progress of the major funds, with the 10s30s immediately jumping on headlines about PFZW's transition progress. As such, for 2026, we expect more long-end curve volatility around pension-related headlines, and we should pay particular attention to ABP mentions.

Around €550bn of assets are set to transition in January 2026

Assets by planned transition date (€ bn)

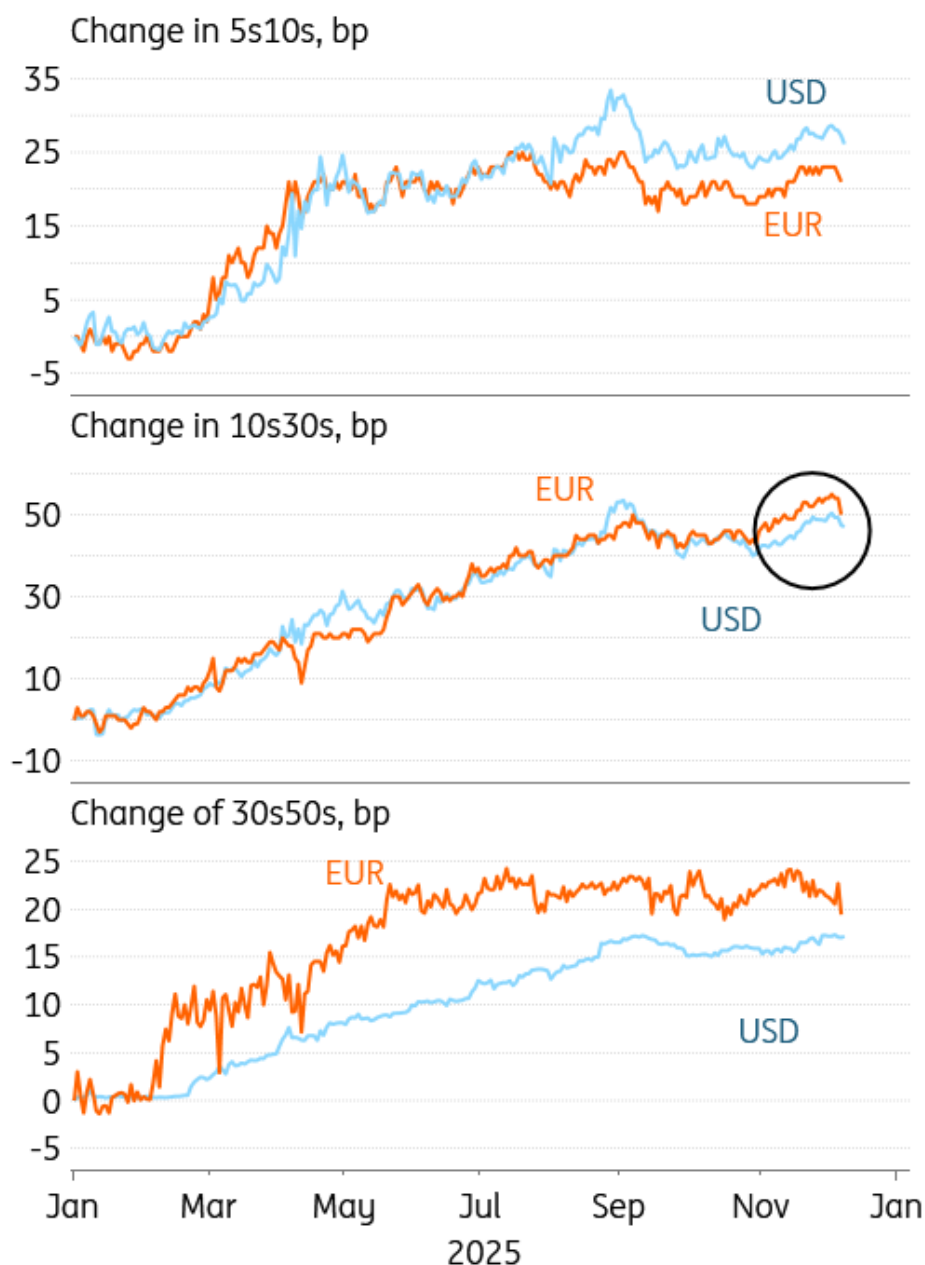


Source: ING, DNB, PensioenPro

The volatility around pension-related headlines gives us a sense of the material market impact of the transition. When PFZW published its article on 2 October 2025 about its confidence in transitioning in January 2026, the 10s30s curve immediately steepened by about 2bp. Or earlier (20 May 2025), an important approval related to the reforms was passed through parliament, steepening the 10s30s that day by around 5bp.

It is important to note that these intraday jumps are driven by speculative flows, and a significant portion of the actual unwinds by pension funds should still occur in the years to come. Since the beginning of 2025, the 10s30s has only steepened by 5bp more than the US curve, suggesting most of the market moves so far have been macro-driven.

The 10s30s steepening can mostly be attributed to global drivers
...but we identified some additional steepening at the end of 2025



Source: ING, Macrobond

Estimating the precise flows from funds is incredibly difficult, which means we expect increased volatility around transition dates. The flows will depend on market conditions, such as equity performance and each fund's transition strategies. This means we're particularly expecting increased volatility in January as market participants try to gauge

the flows being realised. From swaption pricing, we can already see that, especially for 30Y tenors, the implied volatilities are relatively elevated.

If January flows disappoint, we could see an initial flattening in the 10s30s. Having said that, we do believe that the overall direction is still for steeper curves, as the broader supply picture also argues in favour of a higher term premium. This is a global theme, with the US, Japan, and the UK also bringing spillovers to the euro curve in the form of a higher term risk premium. We therefore think 30Y bond yields are still not close to reaching their new highs.

EUR government bond spreads: More convergence, waning dynamic

European government bonds will likely see more convergence amid Germany's fiscal expansion and consolidation efforts bearing fruit elsewhere. The macro backdrop remains benign for carry positions, but without the ECB easing more, the dynamics are likely to wane while political uncertainties continue to linger



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German government bonds still hold a solid AAA rating – an increasingly scarce commodity nowadays.

European government bond spreads: More convergence, but waning dynamics

The conditions going into the end of 2025 have been very benign for carry positions. Rates markets were seeing very low volatility with the European Central Bank on hold since the June meeting and setting the bar for further moves very high.

The countering theme is that government bonds have been facing widening pressure on the back of elevated funding needs, while central bank balance sheets have been on the retreat. In very simplified terms, the private sector has been deleveraging on the back of governments over the past years, leading to convergence in spreads in general.

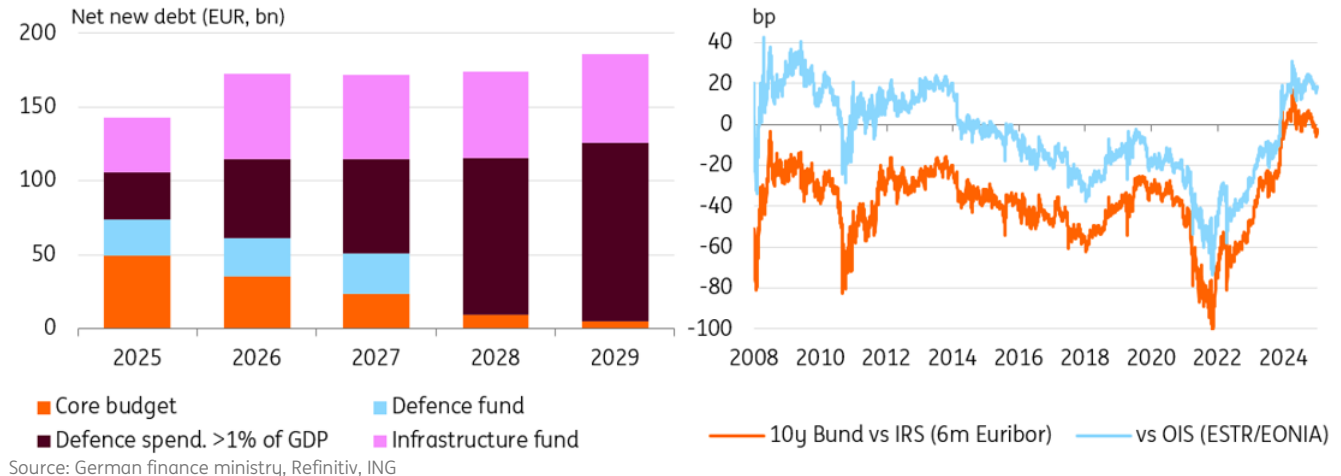
Within the eurozone, individual countries have come from very different starting points and are still at different stages of this process. The underlying dynamic is provided by the developments of the German Bund spread, (still) the safe-haven benchmark in our view, and the rest of the eurozone in relation to it.

German Bunds: Supply pressure versus safe haven status

Bunds are transitioning from a setting of scarcity to one of abundance. European governments are being faced with new geopolitical challenges, and Germany itself has had a fiscal change of heart, having to tackle a backlog of infrastructure investments on top of that.

From trading to as rich as 100bp below ESTR overnight indexed swaps (OIS) in 2022, 10y Bunds are now at around 18bp above OIS – and they peaked at 30bp above as the new fiscal plans were announced late March 2025. Historically, levels like that were last observed in the wake of the global financial crisis, when German debt levels rose above 80% of GDP temporarily.

Rising funding needs have already pushed Bunds to their cheapest levels since 2014



But we are likely heading back to these levels of debt as €850bn in added spending is rolled out through 2029. And the added issuance alongside the ECB balance sheet unwind will keep structural cheapening pressure on Bunds.

“Steepening of government credit curves is a global phenomenon”

The steepening of government credit curves is a global phenomenon. In the US and the UK, 10yr yields are 40bp to 50bp above their respective OIS rates. But we do not foresee German Bunds cheapening quite as dramatically and look more for a range below 30bp. Germany is coming from a very different starting point with a gross debt level of 62% of GDP in 2024, while the UK already stood at 100% and the US at 124% of GDP.

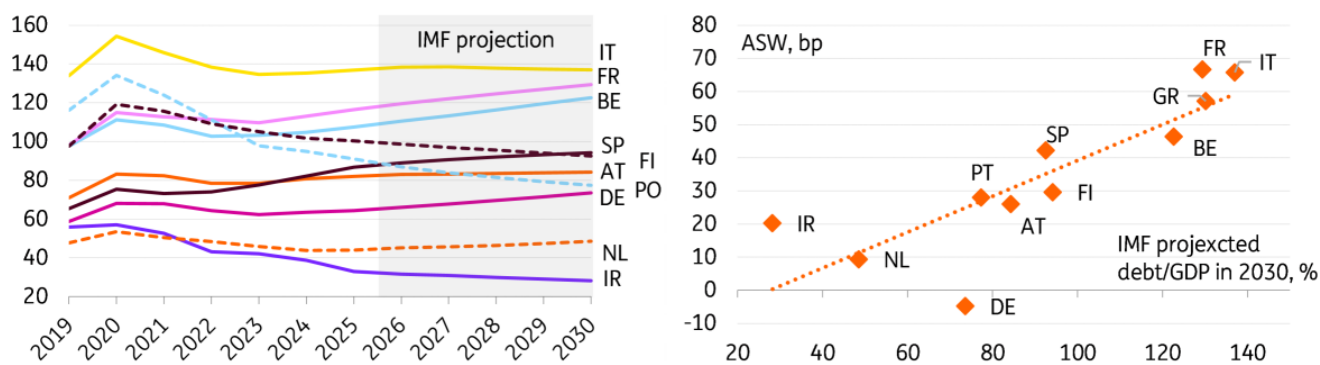
What's more is that German government bonds still hold a solid AAA rating – an increasingly scarce commodity nowadays. Of the remaining global AAA bond universe of just below US\$10tr (Barclays AAA index), more than 55% is denominated in EUR, while 20% alone are made up of German Bunds. They remain the most liquid AAA debt available. In a world of high (geo)political uncertainty, this should be reflected in the price.

European government bond spreads versus Germany: Still picky

The reordering in the European sovereign bonds space – where the periphery outperforms while the traditional core to semi-core markets cheapen – may find headwinds in 2026.

Italian and Spanish bonds have hit multi-decade lows in spreads over Bunds. This has materialised following an outperformance in economic growth and substantially improved fiscal trajectories, as well as relative political stability. All this was also reflected in multiple sovereign rating upgrades. To be fair, a lot of the periphery outperformance came about due to the fiscal transfers via the NGEU, one factor that will run out after 2026. And further rating upgrades could be more difficult to attain as Italy is still facing high overall debt levels.

Markets are preempting the sovereign debt trajectories as EGBs are reordered



Source: IMF, Refinitiv, ING

On the other end of the spectrum sit France and, to some extent, Belgium. Still, wide French spreads in turn appear more down to a (political) risk premium than just the shift in fundamentals, with anticipated rating downgrades largely having taken place and outlooks stabilising. While this can provide spreads with some temporary respite, that is not to say that politics can't still come back to haunt France going into the presidential elections of early 2027.

Overall, we still think that more spread convergence can emerge between the higher and lower rating categories, given the backdrop of stable ECB rates and gradual economic recovery. Without actual further ECB easing, the dynamic will likely be more gradual than we have seen over the past year. We suspect that, at least for Italian spreads, it could become more difficult to price materially richer than France when there is still a considerable rating gap and also a difference in (current) debt levels. We are therefore more selective by still favouring Spain or Portugal, and as more defensive positions, Dutch bonds as opposed to Bunds.

EUR SSAs spreads: Tight levels, but the context is important

Sovereign, supranational, and agency (SSA) spreads sit at tight spreads versus core sovereigns. Heavy Bund supply and still record-level funding needs of the SSA sector itself suggest headwinds ahead. But broader context matters – the spread give-up for moving from riskier asset classes into SSAs is at record-low levels



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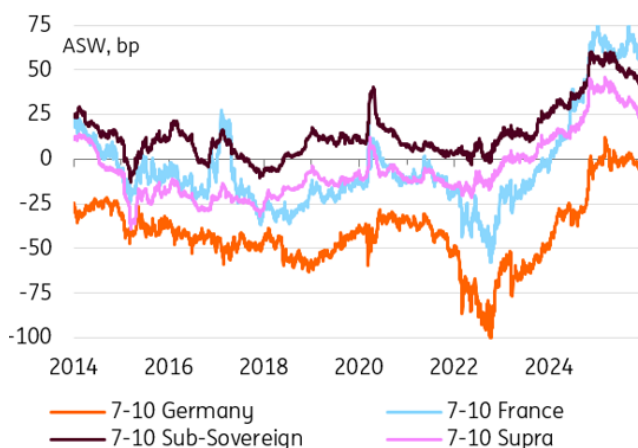
Heavy Bund supply and record-level funding suggest we could feel headwinds

EUR SSAs start out a tight versus core sovereigns, but there's a broader context

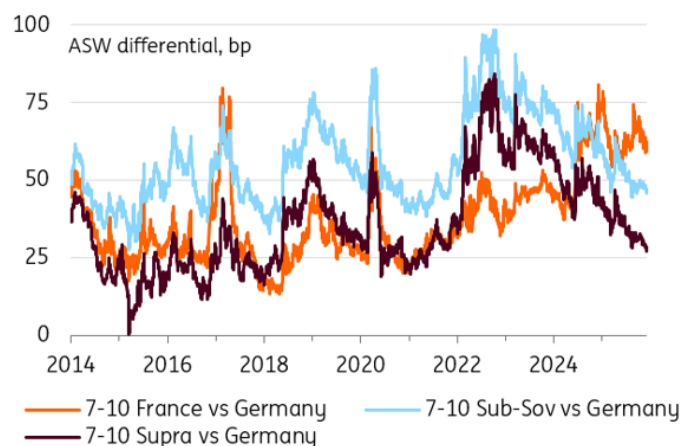
On the broader index levels, SSA spreads versus swaps actually look wide historically. Of course, this is still a mirror of the repricing of German Bunds in particular, pushing from the bottom against the credit spectrum. It reminds us that the German dynamic will remain relevant for spreads going forward.

At the same time, SSA spreads are on relatively tight spreads versus core sovereigns. Does that imply widening risk going forward? After all, the structural headwinds for the German spread are well flagged, and the funding needs of the SSA sector will remain near record highs.

Absolute levels kept wider by Bunds, but spreads versus Bunds are tight



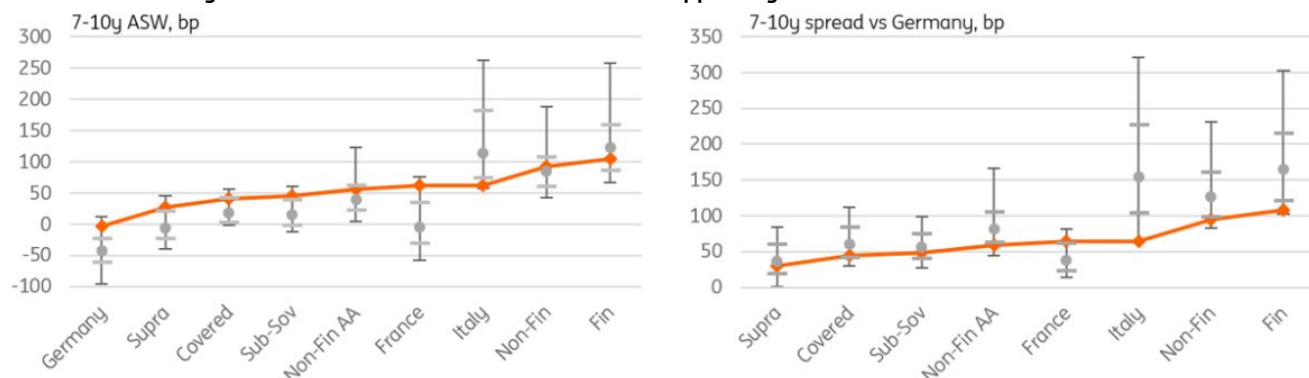
Source: IHS Markit, ING



Contextualising the tight SSA spreads with the entire credit curve suggests SSAs provide attractive risk-reward. For instance, the broader financials and non-financials indices show levels which look even more stretched. Whereas a supranational index might still fall into its general ranges versus Germany, financials and non-financials are at the historically tight end of their ranges since 2014.

As sovereigns are now coping with high debt and/or deficit levels, the smaller gap appears warranted. Some will even argue that larger, more globally operating corporates can structurally trade more expensive than sovereign peers, as we are currently already seeing in some instances.

In the context of tight overall credit markets SSAs look more appealing



Iboxx index spreads since 2014: Current (red), average, min/max and 10%/90% quantiles
Source: IHS Markit, ING

But the historical ranges highlight the different widening potential in adverse scenarios. Essentially, the foregone yield to move from riskier categories to lower-risk, sovereign(-like) exposure with substantially lower widening potential is historically small. And since rates are higher and curves steeper, current spreads themselves are a much smaller contribution to the expected return than the level of rates themselves.

“SSA spreads can remain supportive”

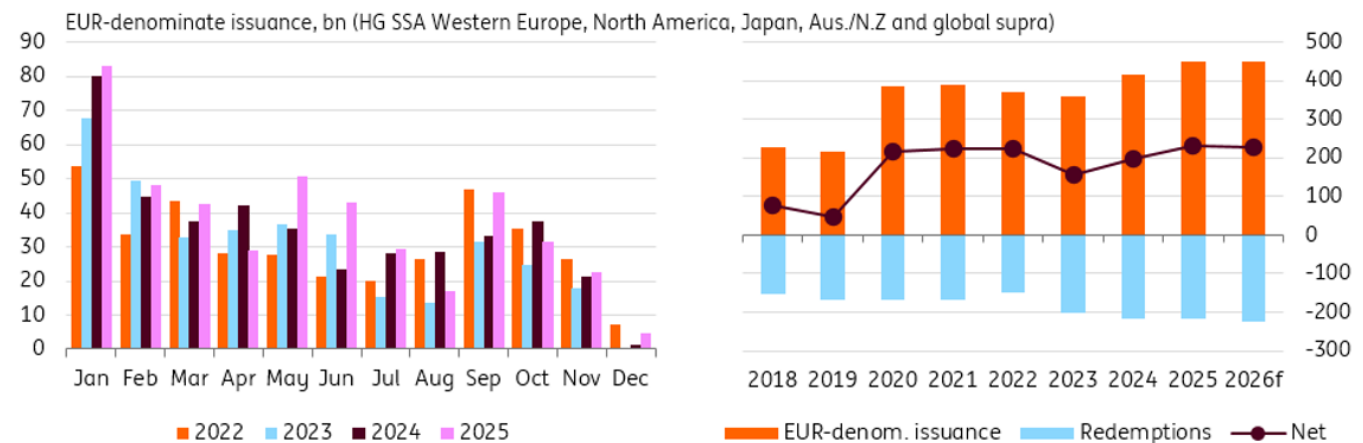
To be sure, such an adverse scenario is not our base case, but those contemplating taking some chips off the table might turn towards SSAs as well. Despite rich levels, the broader macro backdrop and credit spread context also suggest that SSA spreads can remain supported. While another round of record issuance early in the year may require some concession, we remain more upbeat about the longer-run spread outlook.

Of course, this is with one eye on the political risks in particular surrounding France, but over the past year, the spill-over to broader spreads has become less pronounced and more short-lived with each stress episode.

The SSA supply picture: Another record year, but more nuanced below the surface

Broadly reflecting what we are seeing in the central government sector, broader SSA supply will remain elevated in 2026 as well. 2025 saw €-denominated SSAs gross issuance rise from €414bn in 2024 to almost €450bn. We estimate that 2026 will see a very similar issuance volume. However, below the surface, the picture is becoming more nuanced. We pick out a few below:

Another busy start in 2026 with SSA issuance staying at record levels



European supranationals

The **EU** has already flagged for a while a gross issuance volume of €160bn for 2026, broadly in line with what we have seen this year. Supply stands at €153bn after the final auction in December. At the same time, redemptions will rise from €29bn to €47bn. However, eyeing the overall trajectory starting next year, gross levels should also start to drop off more noticeably with the payouts from the NGEU programme ending and – at least for now – other funding needs for programmes such as SAFE being substantially lower in comparison.

The other large European supra issuer, the **EIB**, is likely looking at smaller gross issuance volumes of around €50bn already next year on the back of noticeably lower redemptions, while the **ESM** and **EFSF** are looking at stable to lower gross issuance volumes, €7bn and €18bn (vs €21bn), respectively, amid broadly stable redemption levels.

The EU's longer-run declining net supply picture should leave its spreads well-supported and with more tightening potential. We do not think that the possibility of additional supply to finance, for instance, Ukraine aid, will fundamentally derail this picture. Instead, it could even be seen as providing the EU with arguments in support of its efforts to eventually accede into sovereign bond indices, showing that it will remain a large issuer on an ongoing basis. While market infrastructure is improving with a repo facility and a futures contract having been added, that final goal of index inclusion has been elusive so far.

German Lander and agencies

The German states, i.e. **Laender**, now have the possibility to run structural deficits of 0.35% of GDP under the reformed debt brake, as opposed to the old rules that required a balanced budget. In aggregate, that provides room for up to €16bn of additional debt next year. Some Laender have already announced that they will at least partially use their new fiscal leeway. On top of that, the largest German Land NRW is financing a municipal debt relief programme that requires additional funding of €4-5bn next year alone. As for the largest federal agency, **KFW**, it just raised its funding target to €75-80bn versus €71bn this year.

German agency levels versus Bunds into year-end look tight. And while tighter levels have been observed historically, these occurred when the ECB was actively buying bonds. We do think the macro backdrop provides a chance to establish new tighter ranges since the greater supply pressure is clearly on the sovereign, but we also think the spread should remain positive. While Bunds and the federal agencies are essentially

the same credit, the market depth and superior liquidity of Bunds should still command a spread premium.

Dutch agencies

Remaining with core SSAs, the Dutch issuers BNG and NEDWBK are seen running funding programmes of €15-17bn and €11-12bn, respectively, next year. While this is a slightly lower volume than 2025, they will be joined next year by TenneT Netherlands, a state-owned grid operator which will start issuing bonds furnished with an explicit government guarantee. This guarantee is indefinite, but can be terminated after 2030 by either party with a 12-year notice period. TenneT plans a capital expenditure of €90bn over the next 10 years, which could translate into an annual funding need of €4-5bn initially.

In terms of underlying dynamics for the agency spreads, we see the potential for the Dutch sovereign to tighten structurally versus Bunds on the grounds of divergent supply trajectories. While that should also exert a pull on Dutch agency spreads versus their German peers, the limiting factor here can be that bonds of BNG and NEDWBK have higher risk weights attached under banking regulations.

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