Helaba

Focus on: Covered Bonds
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Are Covered Bonds still on track?



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Two out of three superpowers are currently involved in military conflicts, both with unpredictable trajectories. One conflict is on the EU's doorstep, the other in a geopolitical tinderbox. Global trade is stalling, commodity prices are on a rollercoaster ride... and the covered bond market? It appears impervious, save for isolated pockets. In the aggregate, covered bonds are absorbing the shock of global crises in an astonishing manner. Spreads are stable and supply volumes are at record levels - already in April, but particularly in June.

Our central narrative for the 2026 covered bond year is fundamentally shaped by an intrinsically strong market that, however, operates in a permanent 'on-off' mode due to external shocks. Yet, the market has only been 'off' a single time so far, namely following the outbreak of war in Iran at the end of February. Since then, all rhetorical, military, or trade-policy escalations have been completely absorbed. This has occurred in a way that inevitably raises the fundamental question of what developments could turn the switch to 'off' again, and what this deviation from our guiding theme means for spreads and issuance volumes in the second half of the year.

Supply Outlook for 2H 2026: "A little bit more perhaps?"

On a long-term average, around 67% of the total annual volume is placed in the first half of the year. Given the EUR 122.65bn issued year-to-date, a simple extrapolation would lead to a FY 2026 volume of around EUR 183bn. What, then, prevents us from doing just that?

Our full-year forecast of EUR 163bn is based on an aggregated bottom-up analysis. Starting with the maturity profile and new lending forecasts of each individual issuer, we build our issuance expectations for the full year. Therefore, it would require changes to these parameters to justify an adjustment to the overall forecast. Naturally, there are uncertainty factors involved, such as a shift in the funding mix away from unsecured to secured funding, or away from other currencies toward the Euro. However, due to the currently equally robust unsecured bank bond markets, there are few arguments supporting a significant shift in funding plans toward covered bonds.

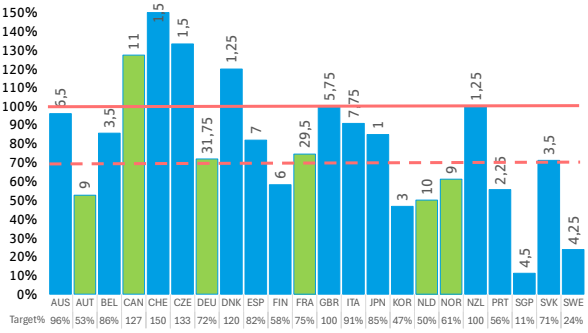
Another relevant factor would be pre-funding for the year 2027 that goes beyond the expected normal level. The question of whether or not to pre-fund for 2027 may become an issue, potentially with an eye on the presidential elections in France in April. However, we do not believe this is a reason to assume a significant increase in pre-funding compared to 2025.

So, is it all just front-loading effects from Q3 2026? In fact, there is much to suggest this, and it would also fit into our guiding vision: a fundamental 'on-off' expectation regarding the primary market ultimately implies a 'take what you can, while you can' approach in anticipation of a potentially turbulent autumn. Given the US administration's past behavior in the face of complex challenges, a humble and self-reflective acceptance of a defeat in the midterms on November 3 would come as a surprise. On a lower level, the state elections in Saxony-Anhalt and Mecklenburg-Western Pomerania are also relevant, **as their aftermath is highly likely to result in a political stalemate** – with potential shockwaves heading toward Berlin. However, to avoid falling into a 'talking-our-book'

position, we take a look at the current issuance mix to identify markets whose deviation from the target is large enough to justify a change in our overall forecast."

Chart 1: Canada exceeds expectations

Pro-rata achievement of gross issuance targets

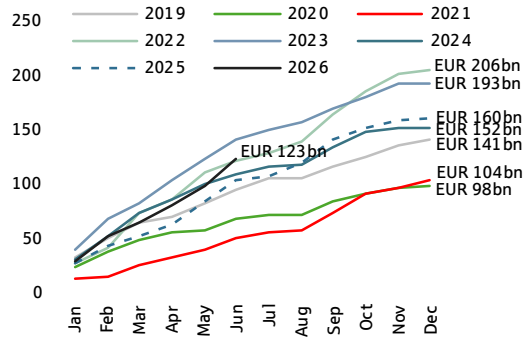


In green: 'major' covered bond countries with an expected volume of ≥ EUR 9bn

Sources: Bloomberg, Helaba Research

Chart 2: On track for EUR 206bn?

Issuance paths of previous years



Sources: Bloomberg, Helaba Research

In Chart 1, we contrast the gross issuance expectations (figures above the bars) with the current percentage of annual target achievement. The red horizontal line marks the 100% threshold, while the dashed line represents the pro-rata full-year target of approximately 67% of annual issuance.

Among the 'major' covered bond contributors – where we have drawn the line at an annual forecast of EUR 9bn – only Canada is significantly ahead of the 6M target and has already exceeded its annual forecast of EUR 11bn by EUR 3bn. Canada in particular posed a forecasting challenge for us as early as last November. This was due, on the one hand, to high maturities in H1 2026 and, on the other hand, to the question of how much of this would be replaced in EUR. For Canadian banks, it makes little difference which currency they issue in, as their organic funding needs are solely in CAD and, to a lesser extent, in GBP. However, the fact that EUR-denominated maturities to date (EUR 14.9bn) were replaced practically 1:1 suggests that further issuance activity is on the cards for the remainder of the year (maturities of EUR 8.25bn).

The other 'major countries' are more or less on track: deviations from the current pro-rata target of around 67% of the annual goal are more than one benchmark issuance away only in Austria and the Netherlands. In Austria, the decline in issuance is likely to turn out even more pronounced than we predicted. In the Netherlands, EUR 6.25bn in maturities to date have been refinanced by only EUR 5bn in new issuances. Furthermore, ACHMEA, INTNED, and ABNANV were already disproportionately active in H2 2025. As such, the lag remains well within catching-up distance.

Among the 'smaller countries', the UK is particularly noteworthy: the deviation from our pro-rata expectation currently exceeds one benchmark issuance and is practically identical to Lloyds' EUR 2bn dual-tranche transaction. We factored the latter into our issuance forecast with exactly zero euros, given that over the past seven years, only a single maturity from the Lloyds universe (including legacy HBOS covered bonds) was replaced on a currency-matching basis.

Singapore and Sweden still have some catching up to do. In the second half of the year, just under EUR 2bn will mature in Singapore. Of the EUR 4bn in maturities from Sweden, only EUR 1bn in new issuances has been countered to date. However, it seems that both targets of EUR 4.5bn and EUR 4.25bn, respectively, were set rather generously.

For the other countries, the deviation from the pro-rata annual target often appears substantial, but this is usually due to the timing of a few benchmark issuances or because the issuance size turned out to be EUR 250 million higher than we anticipated due to favorable market conditions.

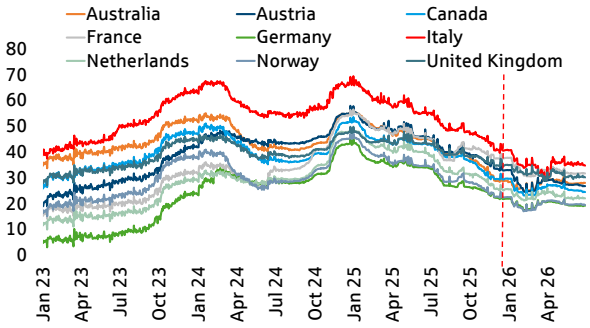
All things considered, we remain broadly comfortable with our forecast. On a macro level, we clearly underestimated the resilience of the covered bond market against geopolitical tensions, while on a micro level, we set our projections for EUR issuances by Canadian and British banks too low. This is counterbalanced by potential front-loading effects from H2 2026 and slightly too high volumes from Sweden, Singapore, and Austria. **On a net basis, a minor upward adjustment to EUR 169bn may nevertheless appear reasonable.**

Spreads in H2 2026: 'The Eye of the Hurricane, the Calm Before the Storm, or a Reflection of Quality?

As shown in Charts 3 and 4, the trajectory of spreads in 2026 can be summarized briefly: from the beginning of the year until around the mid-to-late part of February, covered bonds continued to outperform swaps. Italian covered bonds were even able to sustain their convergence trend into March. However, by early-to-mid April at the latest, the market entered a period of directionless range-bound trading. The underperformance of Italian covered bonds in Q2 2026 should be understood as a correction of the tightening seen in March.

Chart 3: Spreads recently range-bound

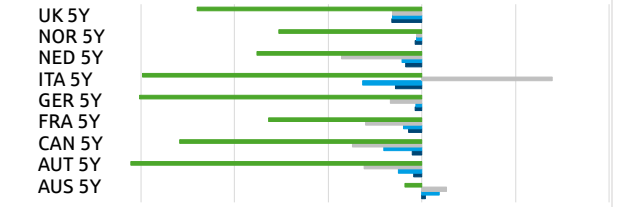
5Y Constant Duration Covered Bond Spread Indices



Sources: Bloomberg, Helaba Research

Chart 4: Subdued spread volatility

5Y Const. Dur. Spread Performances across multiple time horizons



	AUS 5Y	AUT 5Y	CAN 5Y	FRA 5Y	GER 5Y	ITA 5Y	NED 5Y	NOR 5Y	UK 5Y
YTD	-0,37	-6,22	-5,17	-3,28	-6,03	-5,97	-3,52	-3,06	-4,8
3m	0,53	-1,23	-1,49	-1,2	-0,68	2,79	-1,72	-0,11	-0,63
1m	0,37	-0,5	-0,81	-0,39	-0,13	-1,27	-0,43	-0,11	-0,62
1w	0,07	-0,18	-0,2	-0,28	-0,15	-0,57	-0,35	-0,15	-0,64

Sources: Bloomberg, Helaba Research

Given the severity of the political and economic disruptions, particularly in the second quarter, as well as the massive supply in May and especially in June, the fact that covered bonds avoided underperforming swaps should be seen as positive. In this respect, the question regarding expected spread performance raises a similar issue to that of volumes: 'What else could possibly go wrong?'. In fact, there is little fundamental backing for a softer market in the second half of the year: the conflicts in Ukraine and Iran currently appear to hold more potential for stabilization than escalation. On a micro level, EUR 67bn is still due for repayment. This means that even if our gross issuance forecast should turn out to be significantly too conservative, a pronounced oversupply is unlikely to materialize. We leave the question of what kind of news catalyst would trigger an adverse spread movement unanswered. **However, it would likely require veritable government crises in core European countries or an unprecedented escalation of the existing conflicts.**

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