Helaba

Fokus on: Covered Bonds
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Covered Bond Outlook 2027



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A little understanding should precede a firm opinion. But how can we reasonably claim to have an opinion on the covered bond market in 2027 when suddenly all the underlying conditions seem fragile and even the most basic foundations are being shaken? French government debt trades roughly in the same territory as French bank senior bonds; Forming regional governments in Germany is, and will continue to be, challenging; the US administration is pursuing objectives that are difficult enough to understand with methods that are hardly appropriate; and the head of Germany's foreign intelligence service, the BND, paints a gloomy picture of the current state and future development of relations with Russia.

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The optimist in us would point out that the assessment of the underlying conditions a year ago was hardly rosy either, and that our conclusion at the time – that issuance would repeatedly switch on and off throughout the year – materialized only to a limited extent. Given the sheer number and severity of political and economic crises, covered bonds have displayed almost unbelievable resilience. The issuance window was genuinely closed only once: following the start of the US intervention in Iran in late February and early March. That pause lasted ten trading days. The customary summer lull was somewhat more pronounced, followed by a burst of issuance that continued roughly until the Covered Bond Congress in Seville in late September. We interpret the subsequent quiet period in the primary market mainly as the consequence of exceptionally strong issuance activity, possibly reinforced by the worsening yield situation for French government bonds and domestic political developments in Germany.

To establish the central theme of this year's outlook: supported by a strong banking environment and a solid structural and regulatory framework, covered bonds will remain part of the solution to the many crises in 2027, rather than part of the problem.

1 Issuance Volumes – EUR 195bn

1.1 Technical Details – we concentrate on EUR Benchmarks

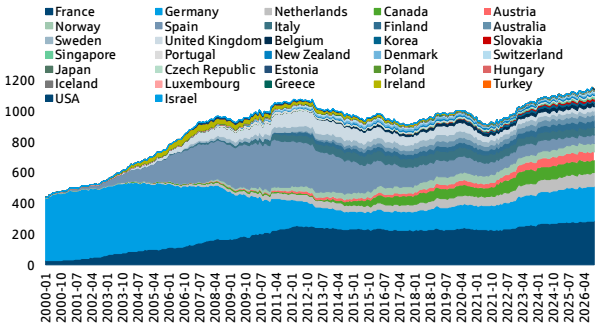
Our core analysis consistently focuses on EUR benchmark covered bonds: euro-denominated, fixed-coupon covered bonds with at least three external syndicate banks and a minimum issue size of EUR 50mn. Tap issues of existing benchmarks are included. Given the growing importance of sub-benchmark transactions, we also devote a separate discussion to this segment.

1.2 General Market Conditions

The covered bond market is growing. That sentence could probably have appeared almost unchanged at the beginning of every covered bond outlook since 1995. Yet a success story extending over more than 30 years is impressive in itself. In the most positive sense, the major covered bond jurisdictions are mature markets where net market growth roughly tracks inflation. The main growth impetus comes from younger covered bond markets – not necessarily any one market in particular, but the many smaller markets taken together. Eastern European countries deserve particular mention: with a combined EUR 10 billion of new issuance in 2026, they have a market presence comparable to the Netherlands, Spain or Norway, but considerably greater growth potential in the years ahead. Moreover, the covered bond concept remains a successful export. Israel provided the most prominent example this year, with three transactions. Including preliminary discussions at conferences and similar events, countries such as Ukraine, Moldova, Morocco, Malaysia and, repeatedly, Brazil are also coming into focus.

Covered bond market continues to grow

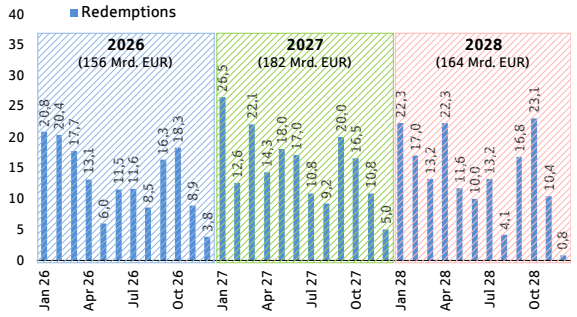
Outstanding EUR benchmark covered bonds (EUR billion)



Sources: Bloomberg, Helaba Research

Redemptions rise sharply

Monthly EUR benchmark covered bond maturities (EUR billion)



Sources: Bloomberg, Helaba Research

Covered bond maturities are rising sharply. EUR benchmark covered bond redemptions totaled around EUR 114 billion in 2024, EUR 140 billion in 2025 and EUR 156 billion in 2026. None of this compares with approximately EUR 183 billion due in 2027 (EUR 180 billion excluding Multi-Cédulas). This is a record that may stand for some time, since the large redemption volume reflects the extraordinary issuance activity of 2022 and 2023. In both years, substantial refinancing needs arose from expiring TLTRO funding. Redemptions are undoubtedly a cornerstone of any new-issuance forecast. Since the turn of the century, there have been precisely two periods in which redemptions exceeded gross issuance: 2013–2017 and 2020–2021.

- **2013–2017:** Net supply had already fallen by 85% to just EUR 10 billion in 2012. The causes were the euro sovereign debt crisis, combined with (a) bank deleveraging and (b) exceptionally accommodative monetary policy. Deleveraging reduced funding requirements, while the ECB's favorable terms made market funding largely redundant.

- **2020–2021:** By temporarily reducing the ECB borrowing rate to as low as -1.00%, banks could earn a risk-free arbitrage margin of 50bp against a deposit rate of -0.50%. Genuine covered bond issuance

consequently became less attractive. By June 2021, outstanding TLTRO III funding had expanded to a record of more than EUR 2.2 trillion.

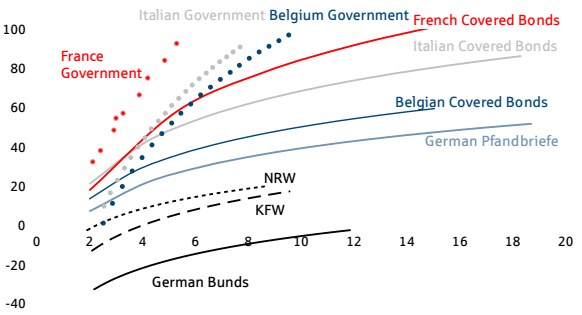
The discussion around the sign of the net issuance forecast should therefore be framed in the context of possible unconventional central bank measures, which have often served as an escape route in crisis situations in the past. However, we find it difficult to reconcile today's fundamentally restrictive monetary policy with the quantitative measures used previously. Given this, the EUR 180bn of maturities excluding multi-cédulas next year should be regarded as a lower bound for the issuance forecast.

The covered bond market is stable. Another evergreen observation. Yet the fundamental backdrop for bank debt in general is genuinely strong. Profitability is solid too strong, while capitalization and liquidity remain comfortable, supported both by stable deposit inflows and ECB policy. As a result, secured and unsecured bank debt has traded with remarkable stability even in the face of substantial volatility in government bonds. For covered bonds, inherent supply scarcity and rating stability reinforce the resilience provided by these fundamentals.

The covered bond market is a safe haven. With growing question marks over traditionally 'risk-free' investments, we are comfortable making that statement so explicitly. Despite Germany's domestic political difficulties, Bunds and related debt remain the benchmark among safe-haven assets. Nevertheless, the multifaceted stability of covered bonds has probably moved them up the ranking of supposedly risk-free investments towards year-end of the year, ahead of one or two government bond markets. Higher oversubscription ratios than in previous years offer measurable support for this view, probably reflecting greater interest from fast-money accounts in particular.

Covered Bonds as safe haven

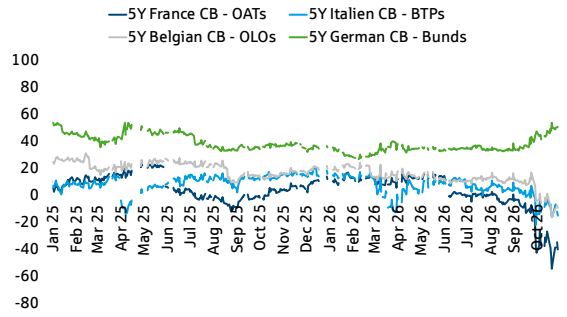
Cross-market trading levels, Z-spread versus modified duration



Sources: Bloomberg, Helaba Research

Covered bonds as an anchor of stability

Five-year covered bond spreads vs. the respective sovereign (bp)



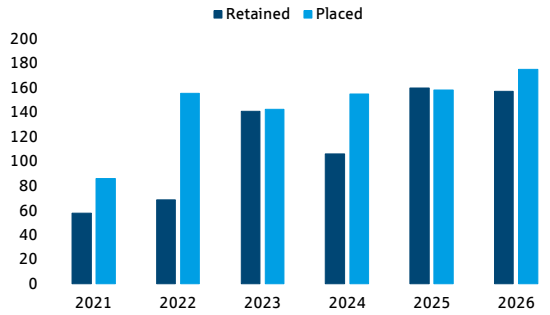
Sources: Bloomberg, Helaba Research

The EUR benchmark covered bond market is only the tip of the iceberg. One of the principal difficulties in forecasting supply is market segmentation. Our main focus is the EUR benchmark segment, defined by a minimum issue size of EUR 500 million, fixed coupons, bullet repayment and at least three syndicate banks independent of the issuer. As noted earlier, the sub-benchmark segment is steadily gaining importance and is therefore discussed separately. Very few issuers are active in both segments simultaneously. By contrast, private placements and non-Euro issuance can certainly be pursued in parallel, complicating the forecast. The growing number of issuers from non-euro countries – most of which have no natural euro funding requirement – is particularly difficult to assess in the context of the EUR benchmark market. Retained covered bonds have emerged as another source of uncertainty in recent years. In our background study 'Retained Covered Bonds – Swiss Army Knife or Boomerang?', we examine the range of ideas behind this special form of covered bond funding. Beyond their versatility, the sheer outstanding volume of retained covered bonds, currently around EUR 940 billion, makes this segment a genuine factor in forecasting.

Multi-tranche issuance reduces market congestion and execution risk. There is no doubt that 2026 was the year of multi-tranche transactions. By the end of October, 24 multi-tranche transactions had already been placed, surpassing the previous full-year record of 16 set in 2023. Dual-tranche deals raised almost EUR 2 billion on average. The high point so far was Crédit Agricole SFH's three-tranche transaction in August 2026. Multi-tranche deals with streamline issuance calendars, populate benchmark curves more granularly, take account of maturity preferences and secure substantial funding volumes at the same time.

Benchmark CBs are only the tip of the iceberg

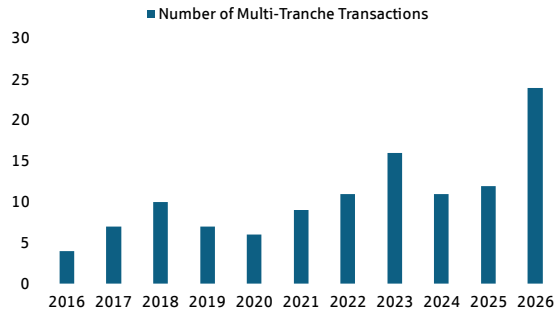
Retained covered bonds play an equally important role (EUR billion)



Sources: Bloomberg, Helaba Research

Multi-tranche deals: The Way Forward

Multi-tranche issuance reduces market congestion and execution risk



Sources: Bloomberg, Helaba Research

1.3 Overall Assessment – the short version of our issuance projection

As analysts, we are normally accused of being overly optimistic about the markets we cover. Apparently, that does not apply to last year's forecast. We clearly underestimated the robustness – and thus the attractiveness – of covered bonds. Anticipating fragile market conditions, we projected total issuance to be too low and deal flow to be too sluggish.

We have already identified the roughly EUR 180 billion of maturities, excluding Multi-Cédulas, as a key driver of gross issuance. Starting from this figure, already adjusted for redemptions of Spanish Multi-Cédulas, we see few arguments for forecasting gross issuance below EUR 180 billion. We expect neither a significant decline in relevant lending across the market nor an alternative funding source capable of refinancing that lending more cheaply than covered bonds. It was precisely such a cheaper source of funding that drove the only two periods of negative net issuance. Currency choice is one credible factor that could reduce EUR gross issuance. In the context of third-country equivalence, non-EU issuers might be tempted to become more active in their home markets. Recent changes to HQLA recognition and central-bank eligibility in those jurisdictions could reinforce this trend, causing euro-denominated issuance to lag local-currency issuance somewhat.
Most factors, however, favor an increase in gross issuance:

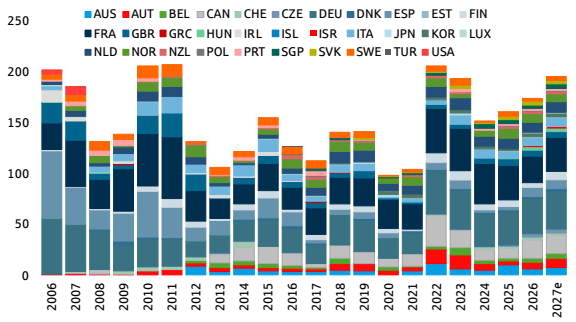
- Young and new markets: In Poland, Hungary and Israel, and to a somewhat lesser extent the Czech Republic and Luxembourg, gross issuance effectively equals net issuance. Together these countries contribute around EUR 10 billion to gross supply. Greece and Turkey might return, while Bulgaria and Romania could emerge as new markets.
- Covered bonds as beneficiaries of crises: Sovereign debt continues to rise. Efforts in France to develop new funding sources, including European Secured Notes, demonstrate that even state-related issuers are seeking secured funding solutions. This environment should tend to increase the use of covered bonds.
- Euro yield advantage: ECB and Fed policies mean that nominal all-in yields remain appreciably lower in the euro market. Even if ECB quantitative tightening no longer supports European covered bond spreads, the lower euro interest-rate curve remains an advantage relative to the United States.
- Structurally strong demand: The transition of Dutch pension funds is more relevant than ever. More than EUR 900 billion pension assets are expected to move into the new system in 2027 alone, considerably more than in previous years. Strong structural demand should therefore provide a sustained tailwind for the primary market.

As our bottom-up analysis will demonstrate, we expect EUR 195 billion new issuance overall.

This leaves the question of the largest identifiable individual risk to our volume estimate. With no solution in sight to France's fiscal problems, an ECB-based solution might emerge on a legal basis that cannot currently be assessed. As with earlier purchase programs, such an intervention could distort banks' funding options in ways that are currently impossible to predict, potentially leaving covered bonds no longer the preferred funding instrument.

EUR 195bn of new EUR benchmark covered bonds

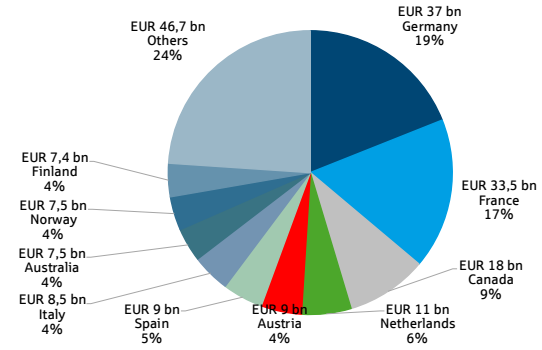
Historically high, but still 6% below the 2011 record



Sources: Bloomberg, Helaba Research

Germany and France dominate issuance

Three large 'Other' categories demonstrate the market's global reach (EUR bn)



Sources: Bloomberg, Helaba Research

1.4 Country-by-country analysis

Our analysis is ordered by issuance activity in 2026. We examine the ten largest countries in particular detail because, on average over recent years, they have accounted for slightly more than 75% of total issuance.

Germany – EUR 37 billion (2026 YTD: EUR 32 billion)

Our EUR 37 billion forecast for Germany looks substantial in absolute terms, but it is entirely driven by next year's maturities. Indeed, the estimate is relatively conservative: net issuance from Germany has consistently been positive in recent years, making a higher figure perfectly defensible. In particular, the vdp reports that German property lending increased by more than 5% year on year in the first half of 2026. However, significantly less than 50% of property lending is refinanced through Pfandbriefe.

Moreover, Deutsche Pfandbriefbank faces a relatively large EUR 3.45 billion redemptions, which we do not expect to be replaced one for one. The same applies to Münchener Hyp, which is unlikely to replace its EUR 2.5 billion of benchmark maturities in full even in 2026. Münchener Hyp has also mentioned plans to issue a senior non-preferred bond, potentially reducing its Pfandbrief funding requirement. DZ Hyp, by contrast, will have plenty to do: EUR 4.5 billion falls due, and its issuance and redemptions have matched quite closely in recent years. Commerzbank, already very active in recent years and consistently recording positive net issuance, also faces a full agenda with EUR 3.5 billion of maturities.

France – EUR 33.5 billion (2026 YTD: EUR 26 billion)

For us, France is the prime example of the covered bond market's stability. At a time of unprecedented fiscal stress and the resulting spread levels for public-sector issuers, French covered bonds have demonstrated their stability and reliability. With EUR 26 billion placed by mid-October and primary-market pricing as tight as OATs minus 20bp, issuers appeared remarkably unperturbed, considering the seriousness of the situation.

We expect this situation to persist in 2027 as well: hardly any investor seriously questions France's solvency, yet OAT spread volatility is so elevated that VaR calculations at some bank treasuries can get out of hand. If one wants to benefit from French yield levels without the associated volatility, French covered bonds are the solution.

Issuer considerations should also provide a tailwind. Given the high absolute level of yields in France, issuers have every reason to explore all available ways of keeping funding costs manageable: conventional French covered bonds, the joint CRH vehicle, retained covered bonds or the European Secured Notes discussed so extensively in Seville. The end will justify the means.

Our expectation of slightly negative net issuance in France nevertheless reflects our view of retained covered bonds. So far, only EUR 13 billion has been issued in 2026, compared with EUR 30 billion in 2025. In 2027, retained covered bonds should be a particularly useful tool for reducing blended funding costs when combined with publicly placed securities.

Canada – EUR 18 billion (2026 YTD: EUR 18 billion)

Last year we already emphasized the considerable uncertainty surrounding our forecast for Canadian EUR benchmark covered bonds, owing to issuers' opportunistic choice of issuance currency. Next year adds the consideration discussed above: following the EBA's gentle encouragement, third-country issuers may devote somewhat more attention to developing their domestic markets – the keyword being 'maturity of the home market'. Given the revised HQLA and RWA rules in Canada and planned changes in Australia, this development could well gain momentum of its own.

Canadian euro-denominated redemptions peaked this year and will fall by EUR 500 million to EUR 22.75 billion in 2027. The lesson from 2026 is that euro maturities were not fully replaced: by the end of October there was an issuance shortfall of more than EUR 5 billion. Extrapolating this shortfall to next year produces gross issuance of EUR 18 billion. We could debate at length why a billion more or less would be a better estimate. Instead, we stick with EUR 18 billion, while feeling that the 'supporting the home market' effect makes a downward deviation somewhat more likely.

Netherlands – EUR 11 billion (2026 YTD: EUR 10 billion)

Dutch covered bond issuers resemble Swiss clockwork. Since 2018, annual issuance has generally fluctuated between EUR 8 billion and EUR 11 billion. Given the size of the country and its mortgage market, that may appear relatively modest. It is worth remembering, however, that the Dutch RMBS market, with placed issuance of more than EUR 8 billion annually, is the largest in continental Europe. Dutch banks therefore have a more diversified funding mix for their mortgage lending.

The reliability of Dutch covered bond issuance is also reflected in the maturity profile. Annual redemptions over the coming years will range from EUR 7.5 billion to EUR 9.5 billion. We expect rising house prices to support a slight increase in new residential mortgage lending, suggesting that the positive net issuance recorded in 2026 can continue next year. We therefore forecast EUR 11 billion of gross issuance, at the upper end of the range seen in recent years.

Spain – EUR 9 billion (2026 YTD: EUR 9.5 billion)

One never quite knows what is discussed when banking supervisors meet their 'customers'. But we can well imagine that the ECB's or Banco de España's preferred sustainable ratio of publicly placed to retained covered bonds differs substantially from the situation at Spanish banks in 2025. At that time, around EUR 22 billion was retained, while just EUR 3 billion was placed with investors. We considered – and still consider – such extensive reliance on retained covered bonds problematic. In 2026, the ratio has normalized somewhat, with EUR 9.5 billion placed and EUR 12.5 billion retained. The correction, however, is somewhat uneven. BBVA and Banco Sabadell were largely responsible for restoring the balance, while Bankinter and CaixaBank continued to pursue a 100% retained covered bond strategy. With a loans-to-deposits ratio of 88%, we can broadly understand CaixaBank's reluctance to issue publicly placed covered bonds. Bankinter, however, most recently reported 98%, making the absence of public placements even more worthy of discussion. Both banks maintained at least some investor contact through

senior non-preferred issuance in 2026. Nevertheless, we believe that issuing large amounts of retained covered bonds – EUR 8.25 billion at CaixaBank and EUR 3.5 billion at Bankinter – without placing any covered bonds publicly is a strategy worth reconsidering. The strategic importance of covered bonds ought to be too great for either institution to leave investors waiting for a fifth consecutive year.

Spanish covered bond maturities will rise slightly to EUR 8.95 billion in 2027, after falling to EUR 7.5 billion in 2026 from EUR 19 billion the previous year. We expect maturities to be broadly replaced, with the exception of CaixaBank. As it has not replaced its redemptions since 2018, assuming that this pattern continues next year seems reasonable.

Norway – EUR 7.5 billion (2026 YTD: EUR 8.5 billion)

No discussion of mature covered bond jurisdictions would be complete without Norway. Norwegian issuers have played a central role in the European covered bond market for years. Although they have considerable freedom in choosing their issuance currency, the euro remains dominant. This year saw only one notable issue in another foreign currency: DNB's USD 750 million transaction. One reason for Norwegian issuers' euro focus may well be the strong support they receive from the German-speaking DACH region. Investors seeking to diversify beyond German-speaking markets often choose Norway as their first destination. On a long-term average, roughly one-third of each Norwegian covered bond issue is allocated to investors in German-speaking countries. The outstanding stock of euro-denominated Norwegian covered bonds has hovered around EUR 50 billion for some time, suggesting that maturities are broadly replaced. In fact, redemptions of just EUR 6.25 billion are due in 2027. We forecast a slight decline in gross issuance to EUR 7.5 billion, still implying positive net issuance of EUR 1.25 billion.

Italy – EUR 8.5 billion (2026 YTD: EUR 8 billion)

A mortgage market of almost EUR 450 billion could certainly support a covered bond market larger than EUR 50 billion, the approximate high-water mark in Italy for years. However, the five largest Italian banks report loans-to-deposits ratios below 90%, pointing to relatively limited capital-market funding needs. Maturities were broadly replaced in 2026. Our forecast assumes that this will not necessarily be the case in 2027.

One reason is Intesa's substantial EUR 2.25 billion of maturities. Intesa last placed a covered bond publicly in 2023; since then, it has structured four retained transactions. Fully replacing the two maturities in June and October would almost certainly require two tranches – an exercise Intesa last undertook ten years ago.

Italian banks are also quite active in structuring retained covered bonds. We have previously expressed our skepticism, particularly regarding smaller issuers. Low capital-market funding requirements, given comfortable loans-to-deposits ratios, combined with the short-term economic advantages of retained covered bonds, make the decision to issue publicly anything but straightforward for Italian banks. Consequently, changes in the considerations governing the choice between retained and publicly placed covered bonds represent the greatest source of uncertainty in our EUR 8.5 billion issuance forecast.

Austria – EUR 9 billion (2026 YTD: EUR 6.5 billion)

Our headline issuance forecast always focuses on the EUR benchmark covered bond sector – an approach that makes Austria appear less prominent than it actually is. Austria's EUR benchmark landscape is already highly fragmented, with many issuers at the lower end of the benchmark range (EUR 500 million). This market structure continues into the sub-benchmark segment: around one-third of publicly placed Austrian Pfandbriefe since 2020 were sub-benchmarks (35 out of 97). Nevertheless, the Austrian benchmark market has developed impressively. With just under EUR 60 billion of outstanding benchmark bonds, Austria ranks fifth worldwide; Belgium, broadly comparable in population, GDP and GDP per capita, ranks thirteenth with EUR 24 billion outstanding.

Austria fell somewhat short of our EUR 9 billion estimate in 2026, meaning that the year's EUR 9.5 billion of maturities were not fully replaced. Even so, we again forecast EUR 9 billion for the benchmark segment in 2027. First, we

do not expect Austrian benchmark issuers collectively to run another substantial net issuance deficit. Second, one or two issuers previously active only in the sub-benchmark segment might venture into the EUR 500 million market.

Australia – EUR 7.5 billion (2026 YTD: EUR 6.25 billion)

The basic considerations for Australian issuance closely resemble those for Canada. The depth of the euro market makes it attractive in both cases, but currency selection is fundamentally opportunistic. With one exception – a transaction that has since matured – larger issues in recent years have been denominated exclusively in EUR and USD, while transactions below the equivalent of EUR 500 million have also been issued in AUD and CHF. Another parallel is the underlying medium-term objective of meeting the requirements for reciprocal recognition relative to EU covered bonds. One requirement is a mature domestic market, or in EBA's terminology, a 'mature home market'. Different sets of criteria could be used to define maturity, but the current absence of any outstanding large-volume covered bonds in the domestic currency is unlikely to help. We nevertheless expect this shortcoming to be addressed gradually in 2027. Australian issuers are increasingly aware of the need to work towards a mature home market, while regulatory changes are also creating the foundations for building and supporting a domestic investor base. Nothing has been formally decided yet, but on 23 October 2026 the Australian government announced a consultation on raising the 8% issuance limit (cover pool assets relative to total assets). No specific target percentage was proposed, although 12% has been discussed for some time. In addition, an APRA circular dated 16 March 2026 announced a consultation on the HQLA eligibility of AUD-denominated covered bonds.

What is undoubtedly positive for the Australian covered bond market as a whole may not necessarily increase the supply of euro-denominated bonds. We consider EUR 7.5 billion a realistic issuance figure, although this assumes the return of ANZ, which placed no EUR benchmark in 2026. If the two initiatives described above materialize, Australian banks' issuance across currencies – particularly in their domestic currency – should be stronger than in recent years. Raising the issuance limit might also encourage smaller potential issuers to enter the market. We would expect new, smaller issuers to target the domestic AUD market first, however.

United Kingdom – EUR 6 billion (2026 YTD: EUR 6 billion)

To follow on from the Australian discussion, the question of whether the UK covered bond market is 'mature' can safely be regarded as settled. In addition to the EUR 6 billion issued year to date, UK issuers have placed GBP 6.75 billion. One long-standing feature is the difference in coupon structures. While GBP-denominated covered bonds are generally SONIA-linked floaters, euro-denominated issues typically carry conventional fixed coupons. The different coupon structures primarily reflect investor preferences and market conventions. Demand for GBP issues comes especially from UK banks buying these securities for their liquidity portfolios; bank investors account for around half of allocations. The investor base for EUR covered bonds is broader, including asset managers, banks and central banks, and insurance companies. Nationwide was a notable exception in January: in a dual-tranche deal it served the traditional short-dated GBP floater market while giving the shorter seven-year covered bond a fixed coupon.

Issuance volumes in GBP and EUR have been remarkably stable over the past three years, so simply extrapolating them is unlikely to be far off the mark. Cross-currency swaps and the associated forward curves play a decisive role in assessing possible shifts between GBP and EUR issuance. We currently see a modest funding advantage in GBP relative to EUR, which is expected to narrow somewhat over the coming years on the basis of current forwards. The difference is too small to justify forecasting a shift on this basis alone; other factors could easily more than offset the cross-currency move. We therefore maintain our gross issuance forecast of EUR 6 billion. With Lloyds having resumed covered bond issuance in 2026, it has no maturities next year. Lloyds is thus the driver of the forecast EUR 1.5 billion of net issuance.

Other markets

Among the large group of remaining covered bond jurisdictions, we focus on those where we expect more significant changes.

Czech Republic (EUR 3.5 billion; 2026 YTD: EUR 3.3 billion): The Czech covered bond market is growing for several reasons. The obvious one: covered bonds are an excellent source of funding. The less obvious one: all three active benchmark issuers are subsidiaries of major covered bond players – Česká spořitelna (100% Erste Bank), Komerční banka (60% Société Générale) and UniCredit Bank Czech Republic (100% UniCredit). What does this mean? Direct access to excellent covered bond expertise, for one thing, and debt capital markets business opportunities for the respective parent banks, for another. Taken together, this points to continued strong Czech issuance, which – with just EUR 500 million of maturities – translates almost entirely into net issuance. We forecast EUR 3.5 billion for 2027.

Hungary (EUR 3 billion; 2026 YTD: EUR 2.5 billion): Hungary is only partly comparable with the Czech Republic. Three issuers – Erste Jelzálogbank, UniCredit Jelzálogbank and K&H Jelzálogbank (KBC Bank Belgium) – are majority-owned by major foreign covered bond players. So far, however, all three have been active only in the retained market. Publicly placed covered bonds have come from OTP Jelzálogbank and MBH Mortgage Bank, both of which continue to operate independently. What does this imply for our volume forecast? First, the highly successful public transactions by the latter two banks provide ample reason to continue. Second, the three foreign-owned institutions could follow the Czech example and support their parent banks' DCM activities. Our EUR 3 billion estimate is therefore relatively conservative. If one or more of the first three institutions enter the public market, EUR 3 billion could very quickly become EUR 5 billion or EUR 6 billion.

Israel (EUR 2 billion; 2026 YTD: EUR 2 billion): It would be highly unusual if the surprise market of 2026 turned out to be a one-hit wonder. We expect a repeat of this year's activity, accompanied by the hope of political normalisation in the Middle East. The latter would probably open even more doors among European investors for Israeli covered bonds.

Denmark (EUR 2.5 billion; 2026 YTD: EUR 2 billion): Including Denmark, one of the world's oldest covered bond markets, in a discussion of newer jurisdictions may seem surprising. But our expectation of positive net issuance of EUR 1.5 billion is reason enough to devote a few words to it. As is well known, the domestic Danish covered bond market is extraordinarily large, with an equivalent value of around EUR 460 billion – exceeding Denmark's GDP. The euro-denominated volume we observe, around EUR 10 billion outstanding, is therefore only the tip of an enormous iceberg. Although just EUR 1 billion falls due in 2027, supply could be substantial. Jyske Bank is active almost every year; Danske raised EUR 1.5 billion this year despite having no maturities. EUR 500 million falls due next year, which likewise supports the case for euro issuance. Danmarks Skibskredit also enters the euro market every two years. All told, we arrive at EUR 2.5 billion.

Singapore (EUR 4.5 billion; 2026 YTD: EUR 3.5 billion): With five issuers active in euros, Singapore can now be regarded as an established covered bond market. Based on issuance patterns, we expect all five to be active in 2027, as they were in 2025, when they issued EUR 3.6 billion. DBS has since moved towards larger transactions, however, leading us to forecast gross issuance of EUR 4.5 billion. On a net basis, that would mean a further EUR 2 billion of market growth.

Sweden (EUR 4.5 billion; 2026 YTD: EUR 2.5 billion): Swedish issuers have been rather restrained in 2026 so far. Two issuers, SBAB and Svenska Handelsbanken, stayed out of the market altogether, as they had in 2024. We would be more than surprised if they did so for two consecutive years. Following the usual issuance pattern, 2027 should therefore look more like 2025, when all issuers made an appearance. Given SEB's substantial redemptions, however, even EUR 4.5 billion of gross issuance is likely to leave a small negative net balance.

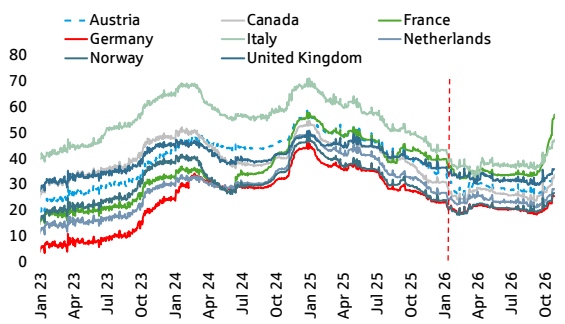
2 Spread Outlook

2.1 Current Market Conditions – Covered Bonds in the eye of the storm

The covered bond market is currently in a difficult position. Viewed in isolation, underperformance against swaps is widespread and affects every covered bond segment. Relative to neighboring asset classes – government bonds, SSAs and unsecured bank debt – the covered bond market has nevertheless remained stable. The reason is a combination of factors. First, banks' profitability, capitalization and liquidity positions can all be described as robust, as most recently confirmed by the ECB in May (the next Financial Stability Review is due on 18 November). Second, the steadily rising yield level of French government bonds is sending shock waves through the market, from which even the most resilient bond structures cannot entirely insulate themselves. French covered bonds, in particular, held up for a long time: the first two waves, in late June and early September, had only a muted effect on secondary-market spreads. The powerful third wave in early October, however, triggered a noticeable reaction in covered bonds as well. French covered bonds were most affected, followed by Italian bonds, which also suffered from cheapening sovereign debt. Belgian, Spanish and Portuguese covered bonds have underperformed swaps much less markedly than their French and Italian counterparts. Indeed, their spread reactions are much closer to those of the most stable markets, such as the Nordics and German Pfandbriefe.

Covered bond spreads widen against swaps ...

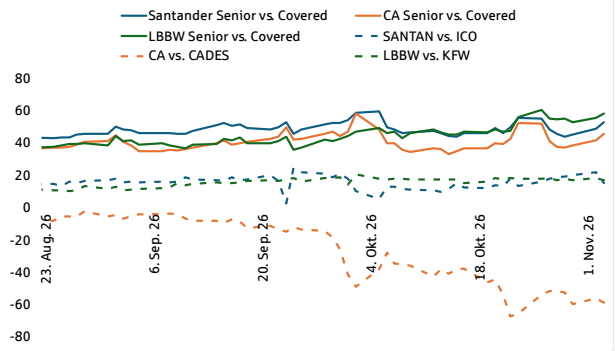
Five-year constant-duration spread indices for selected markets (bp)



Sources: Bloomberg, Helaba Research

... but remain stable vs. SSAs and senior bonds

Five-year bond-versus-bond comparisons (bp)



Sources: Bloomberg, Helaba Research

2.2 French government bond spreads as the key factor

Much of the answer to the question 'Where are covered bond spreads heading?' depends on whether French government bonds find a floor. Ten-year French OATs currently trade around 150–160bp above ten-year Bunds. Historically, the spread peaked at 190bp in 2011, during the euro crisis. Back then, the situation was resolved through a package of measures: Greece received financial assistance accompanied by a debt restructuring; banks were subjected to higher capital requirements; the EFSF was deployed with leverage; a fiscal compact introduced tighter budgetary rules; and the ECB launched three-year longer-term refinancing operations. Ultimately, however, it was Draghi's 'whatever it takes' that marked the turning point. On 29 October, Christine Lagarde said that France needed to put its own public finances in order, but that the ECB theoretically had several options if necessary. This was less forceful than Draghi's statement, but in our interpretation, it deliberately contrasts with her remark about Italy in 2020 that 'we are not here to close spreads'. While the second part of her recent statement therefore suggests at least some awareness of the problem at the ECB, the first part should not be forgotten amid any relief. A degree of skepticism about French fiscal discipline, at least in the short term, is entirely justified. The political deadlock ahead of the presidential election weighs too heavily.

How might this situation translate into covered bond spreads? Around the turn of 2011/2012, the French covered bond market was in a remarkable state. On the negative side, the primary-market spreads of the time are enough to make one wince: at the peak, issuers paid as much as +190bp. On the positive side, however, the market could still absorb maturities beyond ten years. Current French secondary-market indications of around +85bp for ten years and +60bp for five years are still in a different league. On the other hand, the most recent issues with maturities beyond five years are unlikely to have given prospective issuers much encouragement.

2.3 What might arrest the current decline?

If the proverbial knife is falling, what could stop it? What we currently observe in the secondary market are, at best, indicative spreads. Actual transactions where they occur at all, take place at considerably wider levels. This may remain the case until the January issuance wave establishes the first firm pricing reference points. The January supply wave also coincides with a seasonal revival in demand. Just as some investors sold their French holdings in something approaching panic during October to limit losses, renewed pressure to invest in January should create an appetite for yield – and an opportunity to turn what are likely to remain relatively wide spreads into portfolio performance. When considering this investment pressure, the Dutch pension fund transition should also be kept in mind. DNB expects around one-third of pension funds to have completed their transition by 1 January 2027 (EUR 566 billion). Around 55 funds with total assets of EUR 1,064 billion intend to switch only during 2027.

2.4 Political uncertainty as a constant backdrop makes covered bonds crisis winners

The fundamental sources of covered bond stability – in terms of both supply and credit quality – should also contribute to stabilizing spread levels. Nevertheless, political uncertainty will remain with us throughout 2027. Unlike a year ago, we now see little risk of a market that repeatedly opens and closes: covered bond market performance has simply been too stable this year. Even so, the various crises in the Middle East and Ukraine, as well as political challenges in France and Germany, will continue to generate volatility. The relative sluggishness with which covered bond secondary-market spreads react should provide another anchor of stability. In this environment, covered bonds – which have retained their value better than the respective sovereign bonds in France, Italy and Belgium – are ready and able to assume a safe-haven role.



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