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# Contents

<b>Special: Sentiment in the U.S. housing market and the Fed .....</b>	<b>3</b>
A closer look at the NAHB Housing Market Index.....	3
Interest rates are a problem .....	3
Conclusion.....	4
<b>USA: The topic of inflation moves into focus .....</b>	<b>5</b>
The topic of inflation moves into focus.....	5
Housing market with a somewhat less pessimistic view of the current situation .....	5
What will Kevin Warsh do? .....	5
<b>Euroland: ECB lays groundwork for June interest rate shift.....</b>	<b>7</b>
First-quarter growth disappoints – but the full consequences of the Iran war still lie ahead.....	7
Inflation accelerates further – producer prices point to persistent price pressure .....	7
ECB warns of inflation risks and strikes a hawkish tone – June rate shift expected .....	8
<b>Germany: Iran war puts brakes on the recovery.....</b>	<b>9</b>
Solid growth in Q1 characterizes the economic picture before the Iran war .....	9
Special effects dampen upward inflation trend: Easter effect moderates April reading, fuel rebate in May and June ....	9
Industry signals strain from material shortages — May sentiment slump comes to a halt .....	10
<b>Switzerland: Capital market rates in upward trend .....</b>	<b>11</b>
First-quarter growth surprises on the upside – slowdown not (yet) in sight .....	11
SNB can afford to watch and wait – no discernible pressure to act.....	11
<b>Japan: Yen remains in fluctuation.....</b>	<b>12</b>
Encouraging GDP figures at the start of the year.....	12
Bank of Japan will have to act in due course .....	12
Yen remains in fluctuation .....	12
<b>China: Unexpectedly upbeat data from the industrial sector .....</b>	<b>13</b>
Unexpectedly upbeat data from the industrial sector .....	13
The meeting in Beijing.....	13
Beijing's economic policy remains in focus.....	13
<b>Britain: Gilts in focus of the markets .....</b>	<b>14</b>
Gilts with heightened sensitivity of late.....	14
The MPC's interest rate outlook .....	14
Journey to Jerusalem .....	14
<b>Portfolio strategies .....</b>	<b>15</b>

Yield curve, Euroland .....	15
Portfolio strategies .....	16
International yield curve: 3-month & 12-month horizons .....	16
Portfolio strategies .....	17
Stock market strategy; 3-month, 6-month & 12-month horizons.....	17
Overview of forecasts .....	18

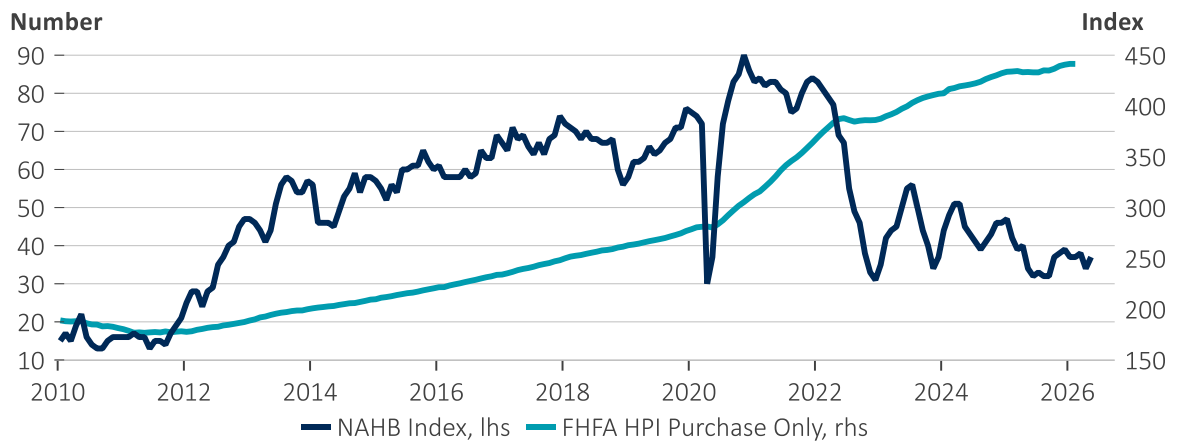
# Special: Sentiment in the U.S. housing market and the Fed

Analysts: Tobias Basse // Constantin Lürer

## A closer look at the NAHB Housing Market Index

The sentiment indicators published by the NAHB, the influential trade body representing America's home builders, command considerable attention on financial markets. There is, in fact, robust empirical evidence that these data series can help predict the future trajectory of house prices in the United States. In May as month under review, the NAHB Housing Market Index posted a somewhat firmer gain – yet to speak of a genuine recovery would be premature. At 37 points, the index continues to languish below the so-called "magical" threshold of 50 points – the level at which survey respondents would only then be registering net optimism. All three sub-components of the index edged higher, but any sense of a broader turning of the tide remains, for now, conspicuously absent. The "current sales conditions" sub-component rose to 40 points in May, while its forward-looking counterpart – measuring expectations six months out – climbed to 45 points, a reading that offers at least some grounds for cautious optimism. The U.S. construction sector, in other words, is coming close to viewing the future in a positive light. The "prospective buyer traffic" sub-component, however, remains a stubborn headache for estate agents, with that time series managing to "improve" from a deeply depressed 22 to a still deeply depressed 25 points. In short, there is quite clearly a problem on the demand side! A look across individual U.S. regions tells a similar story: tentative signs of improvement, but no real brightening of sentiment. The Midwest was a relative bright spot, with sentiment climbing from 39 to 45 points in May as month under review – bringing the "magical" 50-point threshold slowly back into view. Overall, however, the prevailing tone across America's construction sector remains one of palpable pessimism.

## Chart: A critical look at the U.S. housing market



Sources: Macrobond, NORD/LB Macro Research

## Interest rates are a problem

A closer look at the fixed-income segment is certainly warranted to help explain the weakness on the demand side of America's housing market. Stubbornly elevated house prices are colliding with a renewed rise in interest rates – a dynamic that sits at the very heart of the affordability crisis now weighing so heavily on the American economy. Long-term mortgage rates in the land of unlimited opportunity are moving in near-lockstep with the yields on 30-year U.S. Treasuries, tightening the squeeze on prospective buyers. Since the White House would appear to have little appetite for falling house prices, this dynamic almost certainly lies behind Donald Trump's insistent calls for substantial interest-rate cuts by the FOMC – a demand that, given the current inflation backdrop, has placed the Federal Reserve in Washington in a genuinely difficult position. Indeed, the expectation among market participants that interest rates will be cut further towards year-end may well be one reason why the NAHB Housing Market Index appears to have bottomed

out in April 2026 as month under review. The marked pessimism that has gripped America's construction sector now appears to be slowly easing – and the forward-looking component of the index offers some grounds for hoping that a more sustained recovery in the U.S. housing market may be in prospect, a market that, it bears remembering, occupies a uniquely important place in the broader American economy. Should interest rates fail to fall again, however, the fragile improvement in sentiment now in evidence could readily go into reverse. In that context, developments in the Persian Gulf at any rate warrant close attention as well.

#### **Conclusion**

Other indicators, too, are increasingly pointing towards a gradual recovery in the U.S. housing market. New-home sales surged unexpectedly sharply in March, reaching an annualized rate of 682,000 units. Sales incentives – discounts among them – appear to have played a meaningful role in supporting demand, a finding that itself can be seen as underscoring the acute price sensitivity of today's prospective buyers. Meanwhile, data from the National Association of Realtors on pending sales of existing homes – contracts already signed – show a third consecutive monthly increase in April. The most recent reading for that time series showed a month-on-month rise of 1.4 percent, following an upwardly revised change rate of 1.7 percent mom in March as month under review. Officials at the National Association of Realtors have already ventured the term "cautious optimism" in describing conditions in the U.S. housing market. While we would still like to avoid this term for the time being, there is now undoubtedly growing evidence that sentiment in the U.S. residential property market is bottoming out. The renewed rise in mortgage rates, however, could yet prove a near-term headwind. A close look at the U.S. construction sector thus carries direct implications for the FOMC's further monetary policy path. The incoming Fed chair, for instance, has been credited with an inclination to pursue active sales of mortgage-backed securities as part of his plans for scaling back the Fed's balance sheet. Whether such a course of action – even if accompanied by key-rate cuts to support the broader North American economy – could be executed without significant disruption in the current housing market environment remains to be seen. Kevin Warsh has, in any event, inherited no easy brief.

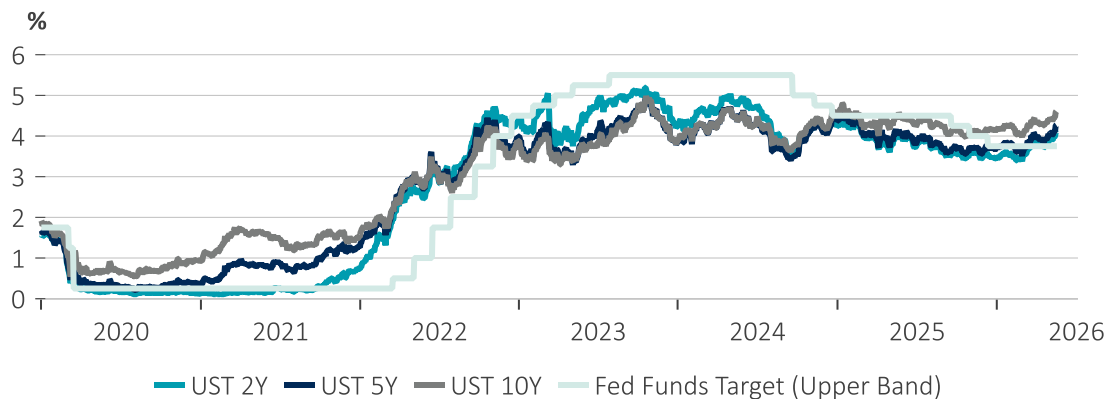
# USA: The topic of inflation moves into focus

Analysts: Tobias Basse // Constantin Lürer

## The topic of inflation moves into focus

Consumer prices rose quite sharply again in April, as expected, with the time series climbing 0.6 percent month-on-month and driving the annual rate up to 3.8 percent. The core CPI reading came in at 0.4 percent month-on-month. Energy prices remain squarely in focus. The ongoing acute tension in the Persian Gulf weighed noticeably on household purchasing power in April, with petrol prices rising by 5.4 percent mom. Stripping out energy costs, consumer prices rose in lockstep with the core rate, at 0.4 percent mom. Following data disruptions caused by the government shutdown, official U.S. statisticians have made adjustments to the housing component of the index – adjustments that, for April, can reasonably be read as introducing an "upward" distortion. That said, the broader inflationary picture in the United States is genuinely difficult at present. Producer prices, for example, rose sharply in April, driven primarily by energy prices and transportation costs. No near-term relief is in sight either, and it is not until the fourth quarter of 2026 that the U.S. inflation data should again show signs of easing.

## Chart: Interest rates in the USA



Sources: Macrobond, NORD/LB Macro Research

## Housing market with a somewhat less pessimistic view of the current situation

The NAHB Housing Market Index edged up to 37 points in May – as discussed in greater detail in our Special – yet the U.S. housing market clearly continues to fall short of its potential. The 50-point growth threshold remains, for now, no more than a distant prospect. With the last reading above that psychologically significant mark dating back to April 2024, the sector is now entering its second year of stagnation. The persistent weakness in the "prospective buyer traffic" component is a particular concern. Consequently, the demand side appears to be the core problem. The elevated mortgage rates undoubtedly represent a formidable barrier for prospective residential property buyers.

## What will Kevin Warsh do?

As expected, incoming Fed chair Kevin Warsh faces formidable challenges. The current inflation data simply do not permit the interest rate cuts that the White House would dearly like to see – cuts that would also offer some relief to the U.S. housing market. Warsh will therefore have to wait, not least because the broader inflation picture in the United States looks set to deteriorate further before it improves. It is not until the fourth quarter that the consumer price index should begin to open up leeway for further downward adjustments to the Fed funds target rate. When that materializes, Warsh will almost certainly be looking to move promptly – though he will first need to build a majority within the FOMC for his strategy. The new Fed chair evidently holds views on U.S. monetary policy that differ some-

what from those of his predecessor. For Warsh, the Federal Reserve's heavily bloated balance sheet is a central concern, and one he clearly intends to address actively. Yet given the U.S. government's substantial financing requirements and the continued weakness of sentiment in the American housing market, quantitative tightening could prove a serious complication. Warsh is, of course, well aware of this state of affairs. He likely has some form of understanding with Donald Trump – one that, at its most basic, might be characterized as rate cuts in exchange quantitative tightening. The White House appears to have in mind a floor of 3.00 percent for the upper bound of the Fed funds target rate as the minimum for any further monetary easing still to be delivered. Flanked by downward adjustments to the policy rate, cautious steps towards balance sheet reduction might then perhaps also be implemented. The task now confronting Kevin Warsh is, without question, far from straightforward. That said, he did choose the job entirely of his own volition – nobody compelled him to put his name forward for the position of Fed chair.

### Fundamental forecasts, USA

	2025	2026	2027
GDP	2.1	2.1	2.3
Private consumption	2.6	2.0	2.2
Govt. consumption	1.1	1.0	1.2
Fixed investment	2.0	2.8	3.8
Exports	1.6	2.2	2.0
Imports	2.7	0.1	2.2
Inflation	2.7	3.2	2.0
Unemployment rate <sup>1</sup>	4.3	4.4	4.3
Budget balance <sup>2</sup>	-5.4	-6.3	-6.2
Current acct. balance <sup>2</sup>	-3.8	-3.2	-3.2

Change vs previous year as percentage; <sup>1</sup> as percentage of the labour force; <sup>2</sup> as percentage of GDP

Sources: Macrobond, NORD/LB Macro Research

### Quarterly forecasts, USA

	III/25	IV/25	I/26	II/26	III/26
GDP qoq ann.	4.4	0.5	2.0	1.2	2.8
GDP yoy	2.3	2.0	2.6	2.0	1.6
Inflation yoy	2.9	2.7	2.7	4.0	3.5

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

### Interest and exchange rates, USA

	21.05.	3M	6M	12M
Fed funds target rate	3.75	3.75	3.50	3.00
3M rate	3.64	3.60	3.30	2.95
10Y Treasuries	4.57	4.15	4.00	3.80
Spread 10Y Bund	147	95	80	50
EUR in USD	1.16	1.18	1.19	1.19

Sources: Bloomberg, NORD/LB Macro Research

# Euroland: ECB lays groundwork for June interest rate shift

Analysts: Christian Lips, Chief Economist // Christian Reuter

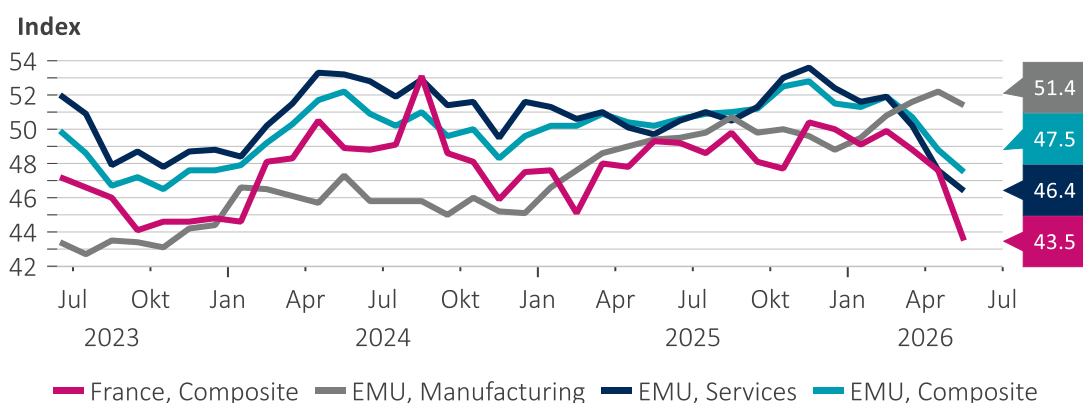
## First-quarter growth disappoints – but the full consequences of the Iran war still lie ahead

The eurozone's economic growth disappointed in the first quarter, coming in at just 0.1 percent quarter-on-quarter. The Iran war naturally only began to make itself felt towards the end of the quarter, though industrial output in several member states actually surprised on the upside with strong growth in March. Many companies appear to have responded by front-loading orders and building up inventories in anticipation of the disruptions and price pressures to come. These pull-forward effects, however, will weigh on growth in the quarters ahead.

Among the individual member states, Germany stood out as a positive surprise, Spain largely maintained its momentum, once again benefiting from the strength of its domestically oriented and services-driven economy. In Italy, growth received a boost from the special effects of the Winter Olympics. France, by contrast, stagnated, with every component of demand in negative territory save for government consumption. Stripping out the sharp contraction in Irish GDP – which fell 2.0 percent quarter-on-quarter – eurozone growth for the period comes to 0.25 percent qoq.

For the second quarter, a further slowdown in economic activity appears to be taking shape. Sentiment indicators have deteriorated broadly. May's purchasing managers' indices fell sharply in several cases. The composite PMI for the eurozone declined for the third consecutive month, slipping to 47.5 points – a reading that, by mechanistic interpretation, places it in contraction territory. The sentiment in the services sector has developed particularly negatively, having literally plummeted. Rising prices appear to be prompting households to cut back on services spending in particular. At the country level, France stands out as a cause for concern, with a services PMI level of 42.9 points pulling the composite reading down to 43.5 points.

## Chart: Purchasing managers' indices fall sharply



Sources: Macrobond, NORD/LB Macro Research

## Inflation accelerates further – producer prices point to persistent price pressure

Eurozone inflation rose for the second consecutive month in May, reaching 3.0 percent year-on-year and moving further away from the ECB's stability target. For now, the price surge remains largely confined to energy, where the annual rate more than doubled in April to 10.8 percent yoy. Services inflation did ease to 3.0 percent yoy, though this largely reflects the timing of the Easter holidays, which this year fell predominantly in March.

The rise in energy prices is merely the first wave. In the months ahead, inflationary pressure is set to broaden into food and industrial goods. A foretaste is already visible in producer prices, which rose 3.4 percent mom in March – their sharpest increase since August 2022.

**ECB warns of inflation risks and strikes a hawkish tone – June rate shift expected**

At its late-April meeting, the ECB decided, as expected, to leave its key interest rates unchanged for the time being. According to Christine Lagarde, the decision was unanimous, though taken against a backdrop of exceptionally elevated uncertainty. In light of that uncertainty, the ECB is unwilling to commit to a forward policy path. Yet the longer the Iran conflict persists, the greater the upside risks to inflation become. The ECB's statement underscored this point, also flagging early signs of a marked rise in short-term inflation expectations. This is unlikely to be mere hawkish rhetoric alone – it points, rather, to a growing inclination within the Governing Council towards a near-term moderate tightening of monetary policy. Second-round effects, however, have yet to materialize.

At the same time, a prolonged conflict would be expected to weigh more heavily on economic activity – a dynamic already foreshadowed in the May PMI data. Yet this presents only an apparent dilemma for the monetary policymakers. For one thing, Lagarde anticipates a growth slowdown rather than outright stagnation. Moreover, the ECB pursues just one objective, namely to safeguard price stability over the medium term. With that clear hierarchy of objectives in place, and on the basis of new projections, a reassessment of the central bank's monetary policy stance is likely in June. The updated projections will establish a more pessimistic baseline scenario as the new foundation for policy decisions.

We anticipate a first rate hike in June, followed by a further move in the second half of the year – but not the sequence of four to five rate steps that markets had at one point priced in. This is also how we interpret the ECB's explicit reminder in its latest decision that the starting point ahead of the Iran war differs fundamentally from the situation in 2022. Only clear evidence of second-round effects would compel the ECB to respond more forcefully and pursue a more extensive tightening of its monetary policy.

**Fundamental forecasts, Euroland**

	2025	2026	2027
GDP	1.5	0.6	1.1
Private consumption	1.6	0.5	1.1
Govt. consumption	1.6	2.2	1.4
Fixed investment	3.1	1.5	2.8
Net exports <sup>1</sup>	-0.6	-0.5	-0.4
Inflation	2.1	3.1	2.3
Unemployment rate <sup>2</sup>	6.3	6.2	6.2
Budget balance <sup>3</sup>	-2.9	-3.3	-3.4
Current account balance <sup>3</sup>	1.7	0.9	1.2

Change vs previous year as percentage, <sup>1</sup> as contribution to GDP growth; <sup>2</sup> as percentage of the labour force; <sup>3</sup> as percentage of GDP

Sources: Macrobond, NORD/LB Macro Research

**Quarterly forecasts, Euroland**

	III/25	IV/25	I/26	II/26	III/26
GDP sa qoq	0.3	0.2	0.1	0.0	0.1
GDP sa yoy	1.4	1.3	0.8	0.6	0.5
Inflation yoy	2.1	2.1	2.0	3.2	3.3

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

**Change as percentage**

	21.05.	3M	6M	12M
Repo rate ECB	2.00	2.25	2.50	2.50
3M rate	2.20	2.40	2.50	2.60
10Y Bund	3.10	3.20	3.20	3.30

Sources: Bloomberg, NORD/LB Macro Research

# Germany: Iran war puts brakes on the recovery

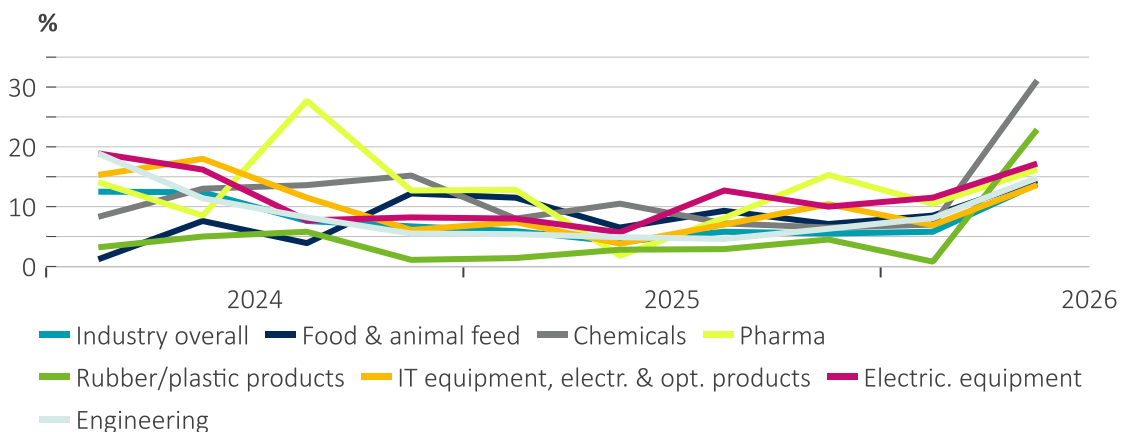
Analysts: Christian Lips, Chief Economist // Christian Reuter

## Solid growth in Q1 characterizes the economic picture before the Iran war

The German economy got off to an unexpectedly dynamic start to 2026. The first-quarter GDP figures, however, still largely capture economic conditions prior to the outbreak of the Iran war. According to the Federal Statistical Office, Germany's real GDP expanded by a seasonally and calendar-adjusted 0.3 percent quarter-on-quarter between January and March – marking a second consecutive quarter of growth. The principal drivers were government consumption expenditure, which rose 1.1 percent qoq, and exports, which surged 3.3 percent qoq. Private consumption, by contrast, appears to have lost momentum in March, ending the quarter flat. Even so, the drag from construction investment – which fell 2.5 percent qoq amid a relatively harsh and snow-heavy winter – was more than offset in aggregate. Monthly economic indicators confirm that the Iran war and the energy price shock it triggered were already weighing on growth in March. Real retail sales in Germany contracted by a revised 0.8 percent month-on-month, with the sharp rise in fuel prices in particular – and thus the resulting surge in headline inflation – bearing down directly on consumers' disposable incomes.

The picture in the manufacturing sector is somewhat more mixed. Construction output recovered in March after two weather-hit months, rising 1.9 percent mom, while industrial output fell back noticeably, declining 1.2 percent mom. At the same time, however, companies recorded a sharp upward trend in new orders, up 5.0 percent mom – a gain not attributable to large-scale one-off contracts. The order backlog expanded accordingly in March, with average order coverage now standing at 8.8 months. A significant portion of the March orders surge, however, likely reflects companies bringing forward purchases in anticipation of rising prices and supply chain disruptions. We expect economic momentum to slow down as early as the spring.

## Chart: Sharp rise in the proportion of industrial companies reporting materials shortages



Sources: ifo, Macrobond, NORD/LB Macro Research

## Special effects dampen upward inflation trend: Easter effect moderates April reading, fuel rebate in May and June

German inflation rose to 2.9 percent year-on-year in April, as expected, with the headline rate driven sharply higher by massive energy price increases as in the previous month. Energy was 10.1 percent more expensive in April than in the same month a year earlier – the fastest pace since early 2023. Particularly sharp price rises at the petrol pump and for light heating oil were the main drivers in this context. Food price inflation has remained relatively stable for several months, with prices up 1.2 percent yoy in April.

Services inflation, by contrast, slowed markedly, from 3.2 percent to just 2.8 percent year-on-year. Core inflation – excluding food and energy – fell in tandem, dropping to just 2.3 percent year-on-year. This, however, is largely an Easter

effect. Compared with last year, the Easter holidays fell considerably earlier, meaning that the seasonal price pressures typically associated with Easter have this year largely shifted into March. These effects customarily show up in fuel prices and package holidays; the latter were 3.5 percent cheaper in April than in the same month a year earlier. The precise contribution of the Easter effect to fuel price developments is difficult to isolate this year, given the overlapping influence of global energy price swings stemming from the Iran conflict, together with the state regulation of fuel price increases – limited to once daily at noon – in effect since 1 April. Nonetheless, the distortions introduced by the timing of Easter at any rate call for caution in interpreting why the rise in HICP inflation came in somewhat below expectations. For May and June, the fuel rebate must also be factored in, as it will suppress petrol prices and temporarily dampen the rise in the inflation rate.

#### Industry signals strain from material shortages — May sentiment slump comes to a halt

Rising energy and industrial commodity prices are also driving up input costs significantly for businesses. Surveys suggest that companies have not yet raised their expectations for future selling prices to the same degree – though here too, the trend is already pointing moderately upward. In addition, there are initial signs from industry of material shortages. Although the proportion of affected companies in the manufacturing sector is still moderate at just short of 14 percent, the impact is significantly higher in some sectors of the economy, such as the chemical industry (31 percent) or among manufacturers of rubber and plastic products (23 percent) (see chart on p. 9).

May did bring some degree of stabilization in sentiment, albeit at a low level. The ifo business climate index edged up to 84.9 points, and the ZEW expectations also improved somewhat. Germany's economy nonetheless faces a number of headwinds in the wake of the Iran war and the closure of the Strait of Hormuz. Within a European context, however, the German economy is – unlike in previous years – holding up relatively well, a performance in which fiscal stimulus is likely playing a significant part. Against this backdrop, we remain confident that, despite the geopolitical strains, this year will see the German economy return to moderate growth of 0.7 percent as against the previous year.

#### Fundamental forecasts, Germany

	2025	2026	2027
GDP	0.2	0.7	1.2
Private consumption	1.3	0.4	1.0
Govt. consumption	1.5	3.9	2.6
Fixed investment	-0.2	0.6	3.4
Exports	-0.9	1.3	1.8
Imports	3.1	2.0	3.6
Net exports <sup>1</sup>	-1.5	-0.2	-0.7
Inflation <sup>2</sup>	2.3	2.9	2.2
Unemployment rate <sup>3</sup>	6.3	6.4	6.4
Budget balance <sup>4</sup>	-2.7	-3.8	-3.9
Current account balance <sup>4</sup>	4.5	3.7	3.2

Change vs previous year as percentage, <sup>1</sup>as contribution to GDP growth; <sup>2</sup>HICP; <sup>3</sup>as percentage of the civil labour force (Federal Employment Office definition); <sup>4</sup> as percentage of GDP

#### Quarterly forecasts, Germany

	III/25	IV/25	I/26	II/26	III/26
GDP sa qoq	0.0	0.2	0.3	-0.2	0.1
GDP nsa qoq	0.3	0.5	0.5	0.3	0.6
Inflation yoy	2.1	2.3	2.3	3.0	3.2

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

# Switzerland: Capital market rates in upward trend

Analyst: Christian Reuter

## First-quarter growth surprises on the upside – slowdown not (yet) in sight

Switzerland's real GDP, adjusted for seasonal factors and sporting events, grew by 0.5 percent qoq in the first quarter of 2026, according to a preliminary estimate. On an annualized basis this may appear modest, but it should be read against the backdrop of an extremely strong prior-year quarter driven by front-loading effects ahead of U.S. tariff measures. The fallout from the Iran war, meanwhile, is likely to have played a merely limited role in Q1. Sentiment indicators have improved of late, however. Particularly noteworthy is the rise in the April PMI, which confirmed the index's jump above the 50-point mark recorded the previous month. This marks only the second month since December 2022 that the indicator has stood above the expansion threshold. Purchasing departments, moreover, are reporting their most optimistic outlook since October 2022. Growth was, in fact, quite broadly based, with gains recorded in both manufacturing and the services sector. Switzerland can thus be said to have made a robust start to the year. The economic strain stemming from the Iran war has so far manifested primarily in higher inflation. The annual rate rose to 0.6 percent in April, coming in slightly above economists' expectations. The acceleration was confined entirely to imported goods, which rose 1.5 percent month-on-month in price, while the core rate – excluding fresh and seasonal produce, energy and fuels – held steady, and prices for domestically produced goods fell further. As far as can be foreseen, the inflationary impulse will broaden across the Swiss economy in the near term. Annual rates above 1.0 percent should not come as a surprise in the months ahead, but ought to remain the exception rather than the rule. Inflationary pressure should ease noticeably in the second half of the year – provided, that is, that oil and energy prices retreat by then. Given that an escalation of the Iran war remains possible at any time, however, this forecast carries a rather high degree of uncertainty.

## SNB can afford to watch and wait – no discernible pressure to act

Although the Swiss National Bank had struck a relatively dovish tone compared with other major central banks, Swiss capital market yields have tracked the international trend and risen sharply of late. Ten-year Confederation bonds have been trading at 0.5 percent since the beginning of May, their highest level since June 2024. Two-year yields have also risen markedly, returning to positive territory. The franc, meanwhile, has weakened marginally in trade-weighted terms. The Swiss economy's strong expansion should not unduly unsettle the SNB in maintaining its watch-and-wait stance – especially since growth remains below potential, and the drag effects of the Iran war remain difficult to quantify at this stage. In this context the movement in inflation so far has done little more than reduce the probability of negative interest rates. To keep inflation expectations in check nonetheless, the SNB is likely to maintain its hawkish rhetoric and its focus on the exchange rate – but, unlike the ECB, to refrain from tightening for the time being. As long as inflation remains closer to zero than to the 2-percent upper bound of its stability target, and inflation expectations stay "anchored", there is no immediate pressure on the SNB to act.

### Fundamental forecasts\*, Switzerland

	2025	2026	2027
GDP	1.4	0.8	1.7
Inflation (CPI)	0.2	0.6	0.3
Unemployment rate <sup>1</sup>	2.9	3.0	2.9
Budget balance <sup>2</sup>	0.6	-0.2	-0.3
Current account balance <sup>2</sup>	7.1	4.3	3.8

\* Change vs previous year as percentage; <sup>1</sup> as percentage of the labour force, <sup>2</sup> as percentage of GDP

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

### Interest and exchange rates, Switzerland

	21.05.	3M	6M	12M
SNB policy rate	0.00	0.00	0.00	0.00
3M rate	-0.05	0.00	0.01	0.10
10Y	0.57	0.50	0.52	0.55
Spread 10Y Bund	-253	-270	-268	-275
EUR in CHF	0.91	0.92	0.92	0.93

# Japan: Yen remains in fluctuation

Analyst: Tobias Basse

## Encouraging GDP figures at the start of the year

Japan's economy got off to an encouraging start in 2026, with preliminary figures showing first-quarter GDP growth of a solid 0.5 percent qoq. Real economic output in the Land of the Rising Sun was supported, among other things, by export performance, while higher wages appear to have improved the financial position of households. The Iran conflict, however, is now casting a shadow over the Japanese economy. Elevated energy prices are quite unambiguously a problem for many businesses and consumers alike. The policymakers in Tokyo are already weighing fresh support measures and looking for viable ways to finance the additional costs that threaten to materialize. In this context, the rise in long-term interest rates is a particularly acute headache for the authorities in Tokyo.

## Bank of Japan will have to act in due course

The Bank of Japan held back from a further rate hike in April, a decision that in all likelihood reflected the additional uncertainty unleashed by the Iran conflict. Looking ahead, however, the central bankers in Tokyo will need to act. The current policy rate appears clearly too low. We expect a 25bp increase within the next three months, though whether this move can be delivered as early as June remains to be seen. The current GDP figures would support a rate move, but geopolitical factors will also weigh heavily in the deliberations. Generally speaking, the Bank of Japan's officials are well known for their cautious approach. In any event, Japanese long-term rates now appear to be pricing in rather more action from Tokyo's policymakers than is likely to materialize. The sharp rise in long-term bond yields is, however, undoubtedly also attributable to the new government's fiscal plans. International financial markets are at any rate watching prime minister Sanae Takaichi with a certain degree of concern.

## Yen remains in fluctuation

Interventions have given the yen meaningful support recently, though their effect is now at least partially fading. Indeed, Tokyo's interventions in the global FX market initially brought the 156.00 yen per U.S. dollar mark into view. Since then, however, the Japanese currency has weakened again. FX markets are now openly speculating about the possibility of coordinated interventions with the United States. Japan's Ministry of Finance will in all likelihood continue looking to keep the dollar-yen exchange rate below the level widely regarded as critical – 160.00 yen per USD. Higher policy rates could certainly help on this front. That said, it would probably take unexpectedly bold action from the Bank of Japan to generate any truly meaningful movements in the currency markets. Given the current level of long-term interest rates, however, the Bank of Japan is unlikely to summon the resolve for steps of that magnitude.

### Fundamental forecasts\*, Japan

	2025	2026	2027
GDP	1.2	0.8	1.0
Inflation	3.2	2.2	2.0
Unemployment rate <sup>1</sup>	2.5	2.6	2.5
Budget balance <sup>2</sup>	-1.4	-3.0	-3.0
Current account balance <sup>2</sup>	4.8	4.5	4.3

\* Change vs previous year as percentage;

<sup>1</sup> as percentage of the labour force; <sup>2</sup> as percentage of GDP

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

### Interest and exchange rates, Japan

	21.05.	3M	6M	12M
Key rate	0.75	1.00	1.25	1.25
3M rate	1.24	1.20	1.30	1.30
10Y	2.77	2.60	2.30	2.20
Spread 10Y Bund	-32	-60	-90	-110
EUR in JPY	185	185	183	177
USD in JPY	159	157	154	149

# China: Unexpectedly upbeat data from the industrial sector

Analyst: Tobias Basse

## Unexpectedly upbeat data from the industrial sector

As is well known, Q1/2026 saw China's economy grow by a commendable 5.0 percent year-on-year in real terms, and it was the industrial sector that stood out quite clearly in terms of performance. External demand, in particular, appears to have lent meaningful support on this front. The latest purchasing managers' index data reinforce that picture. The RatingDog China Manufacturing PMI climbed to 52.2 in April as month under review, signalling a marked acceleration in industrial activity. April's CFLP Manufacturing PMI tells a somewhat less encouraging story of the situation, however, with this time series having edged down marginally to 50.3 points. On the positive side, though, the index thus held its ground above the almost totemic 50-point mark – the threshold between expansion and contraction that likely also carries considerable psychological weight. The Iran conflict nonetheless remains a threat to the Chinese economy. Energy supplies from the Persian Gulf are of particular importance to Asia, and any sustained rise in oil prices would to a certain extent also weigh on China's economic output.

## The meeting in Beijing

The leaders of the United States and China met last week in Beijing, with "pleasant" images appearing in the press and on TV and both sides visibly at pains to signal their readiness for constructive dialogue in no uncertain terms. The atmosphere was, it must be said, far from negative. Yet for all the goodwill on display, the summit appeared to yield little in the way of really "big deals" – whether on economics or geostrategy. In South Asia in particular, some political observers had hoped the two powers might find common cause on resolving the Iran conflict; on that front, at least, expectations went unmet. On the other hand, the governments in precisely that region are also uneasy about the new "constructive strategic stability" approach in the relationship between Beijing and Washington as proclaimed by Xi. Too much harmony between the two great powers is equally unwelcome in many Asian countries. For the governments of Indonesia, the Philippines, Vietnam – and even Japan – the emerging dynamic amounts to something close to a geopolitical gamble with uncommonly high stakes.

## Beijing's economic policy remains in focus

The economic policymakers in Beijing appear to remain under a certain degree of pressure to act. The encouraging GDP data for the first quarter will, however, have further dampened the urgency for swift action on the part of the officials. While the central bank also warrants attention in this context, it is above all fiscal policy in the Middle Kingdom that could, looking ahead, be deployed to counteract – at least to a certain extent – the adverse economic consequences of the Iran conflict.

### Fundamental forecasts\*, China

	2025	2026	2027
GDP	5.0	4.7	4.4
Inflation	0.0	1.2	1.1
Unemployment rate <sup>1</sup>	5.2	5.1	5.0
Budget balance <sup>2</sup>	-5.1	-5.5	-5.7
Current account balance <sup>2</sup>	3.8	2.9	2.7

\* Change vs previous year as percentage

<sup>1</sup> as percentage of the labour force, <sup>2</sup> as percentage of GDP

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

### Interest and exchange rates, China

	21.05.	3M	6M	12M
Deposit rate	1.50	1.50	1.50	1.50
3M SHIBOR	1.41	1.45	1.40	1.40
10Y	1.75	1.75	1.70	1.70
Spread 10Y Bund	-135	-145	-150	-160
EUR in CNY	7.91	8.04	8.09	8.03
USD in CNY	6.80	6.81	6.80	6.75

# Britain: Gilts in focus of the markets

Analyst: Constantin Lürer

## Gilts with heightened sensitivity of late

Britain's economy has a fresh concern to add to its list, namely interest rates. British government bonds, known as gilts, have come under close market scrutiny in recent days and weeks, with yields in several maturity segments reaching local highs. Compared with end-February, the yield on ten-year gilts, for example, has risen by just over 100bp, most recently standing at around 5.1 percent. Notably, the bond market appears to have lost its reputation as an unconditional safe haven; in Britain in particular, this is partly linked to the high public debt ratio, which currently stands at close to 100 percent of GDP, compared with just around 28 percent at the turn of the millennium. Persistent inflation concerns are adding further upward pressure on yields. While Britain's ability to service its debt is not, for now, seriously in question – demographic trends notwithstanding – the debt burden is increasingly taking on the character of a sword of Damocles hanging over the public finances.

## The MPC's interest rate outlook

Part of the problem described above lies in the outlook for the Bank Rate, as the benchmark interest rate is known. Persistent inflation concerns led the Monetary Policy Committee to hold back at its most recent meeting, a decision taken by a substantial majority of its members. Near-term rate cuts appear to be off the table for now. Indeed, market participants are increasingly entertaining the possibility that the Bank of England could actually raise rates. This cannot be ruled out, of course. Every further day the Strait of Hormuz remains blocked – or sees only a fraction of its pre-war shipping traffic – the problem becomes more entrenched. Despite a certain degree of caution, the central bankers will nonetheless be looking to avoid overly aggressive rate adjustments. Inflation is currently running at a relatively volatile pace, though the monthly readings could yet push the annual rate higher still. A projected annual rate of 3.2 percent almost seems conservative against the current news flow. A resolution to the shipping lane disruption would, however, be decidedly welcome and helpful.

## Journey to Jerusalem

The million-dollar question is how much longer Keir Starmer will remain Prime Minister – or whether he may be forced to hand over the baton in the (very) near term. A Liz Truss moment has arguably not yet been reached, but the intra-party succession struggle is already well underway. His party has good reasons to avoid a general election, however, and one is not in fact necessary to bring about a change at the top. In the United Kingdom, whoever leads the governing party is, as a rule, also Prime Minister. It is precisely this logic that underpins the ambitions of Wes Streeting, who has set his sights on succeeding Starmer. According to recent polling, however, his prospects look decidedly mixed. The drama unfolding in Westminster, though, shows no signs of losing suspense

### Fundamental forecasts\*, Britain

	2025	2026	2027
GDP	1.4	0.8	1.2
Inflation	3.4	3.2	2.4
Unemployment rate <sup>1</sup>	4.8	5.3	5.3
Budget balance <sup>2</sup>	-5.0	-3.9	-3.3
Current account balance <sup>2</sup>	-2.4	-2.9	-2.6

\* Change vs previous year as percentage

<sup>1</sup> as percentage of the labour force as per ILO concept

<sup>2</sup> as percentage of GDP

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

### Interest and exchange rates, Britain

	21.05.	3M	6M	12M
Repo rate	3.75	3.75	3.75	3.25
3M rate	3.79	3.75	3.70	3.20
10Y	4.97	4.80	4.65	4.50
Spread 10Y Bund	187	160	145	120
EUR in GBP	0.86	0.88	0.88	0.88
GBP in USD	1.34	1.34	1.35	1.35

# Portfolio strategies

## Yield curve, Euroland

### Yields and forecasts (Bunds/Swap)

	Yields (in %)	NORD/LB forecasts for horizons...		
	21.05.2026	3M	6M	12M
3M	2.20	2.40	2.50	2.60
1Y	2.50	2.50	2.50	2.60
2Y	2.69	2.60	2.60	2.70
3Y	2.70	2.71	2.71	2.81
4Y	2.76	2.81	2.81	2.90
5Y	2.81	2.90	2.90	3.00
6Y	2.84	2.98	2.98	3.08
7Y	2.92	3.05	3.05	3.15
8Y	2.99	3.11	3.11	3.21
9Y	3.04	3.16	3.16	3.26
10Y	3.10	3.20	3.20	3.30
2Y (Swap)	2.89	2.75	2.75	2.88
5Y (Swap)	2.94	3.00	3.00	3.15
10Y (Swap)	3.13	3.20	3.20	3.35

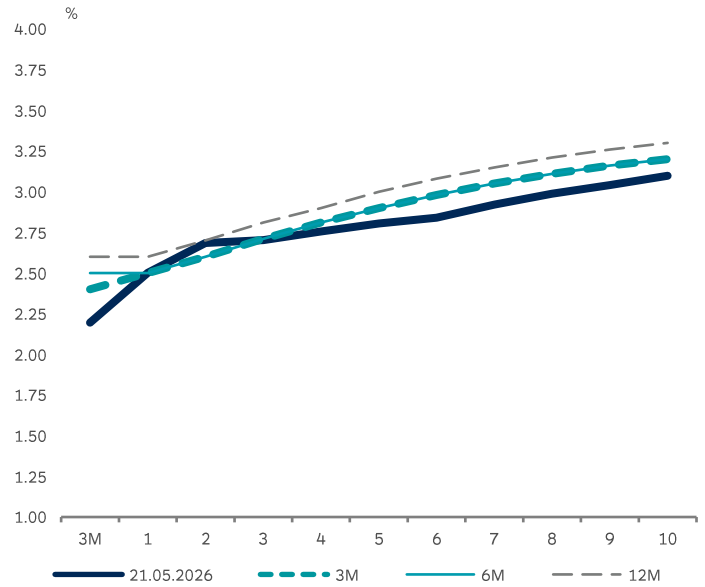
Sources: Bloomberg, NORD/LB Macro Research

### Forecasts and total returns

	Total returns (in %) for horizons...		
	3M	6M	12M
3M	0.55	1.15	2.44
1Y	0.62	1.24	2.50
2Y	0.86	1.54	2.76
3Y	0.73	-0.12	2.71
4Y	0.59	1.37	2.59
5Y	0.40	1.21	2.45
6Y	0.04	0.88	2.05
7Y	0.07	0.91	2.04
8Y	0.02	0.88	1.95
9Y	-0.04	0.82	1.82
10Y	0.01	0.87	1.80

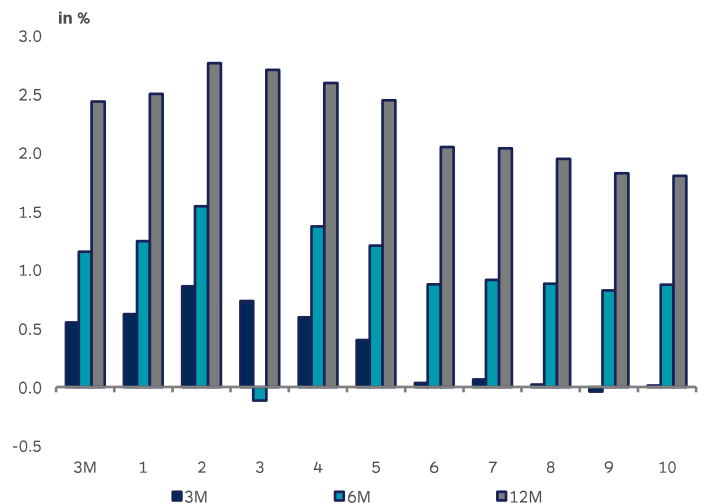
Sources: Bloomberg, NORD/LB Macro Research

### Yield curve forecasts (Bunds)



Sources: Bloomberg, NORD/LB Macro Research

### Expected total returns



Sources: Bloomberg, NORD/LB Macro Research

A total return is the absolute profit from an investment in the time period under consideration, with account being taken of the pro-rata yields plus the price gains or losses to be anticipated on the basis of the forecast yield curve change.

# Portfolio strategies

## International yield curve: 3-month & 12-month horizons

### 3-month horizon

Expected total returns (as percentage) in euro					
	EUR	USD	GBP	JPY	CHF
1Y	0.6	-0.5	-0.6	0.1	-0.7
2Y	0.9	0.1	-0.5	0.4	-0.6
3Y	0.7	0.5	-0.6	0.9	-0.7
4Y	0.6	1.0	-0.8	1.4	-0.8
5Y	0.4	1.4	-1.0	1.2	-0.7
6Y	0.0	0.9	-1.2	2.8	-0.6
7Y	0.1	2.4	-0.8	3.6	-0.6
8Y	0.0	2.6	-0.2	3.3	-0.4
9Y	0.0	2.8	0.0	3.7	-0.3
10Y	0.0	3.0	0.2	2.4	-0.2

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	GBP	JPY	CHF
1Y	1.1	1.1	0.3	0.0
2Y	1.7	1.2	1.0	0.0
3Y	2.1	1.1	1.0	0.0
4Y	2.6	0.9	1.5	-0.1
5Y	3.0	0.7	1.3	-0.1
6Y	2.5	0.5	3.0	0.0
7Y	4.0	0.9	3.8	0.1
8Y	4.2	1.6	3.5	0.2
9Y	4.4	1.8	3.8	0.4
10Y	4.6	1.9	2.6	0.4

Sources: Bloomberg, NORD/LB Macro Research

### 12-month horizon

Expected total returns (as percentage) in euro					
	EUR	USD	GBP	JPY	CHF
1Y	2.5	1.4	2.4	5.5	-1.7
2Y	2.8	2.7	3.3	6.0	-1.6
3Y	2.7	4.0	3.7	6.9	-1.6
4Y	2.6	5.1	3.9	8.0	-1.7
5Y	2.4	6.2	4.2	8.4	-1.6
6Y	2.0	6.2	4.1	10.5	-1.6
7Y	2.0	8.5	4.8	11.9	-1.6
8Y	1.9	8.9	5.6	12.0	-1.3
9Y	1.8	8.8	6.0	12.2	-1.2
10Y	1.8	9.1	6.2	12.3	-1.3

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	GBP	JPY	CHF
1Y	3.8	4.2	1.1	0.1
2Y	5.2	5.1	1.6	0.1
3Y	6.5	5.5	2.4	0.1
4Y	7.6	5.7	3.5	0.0
5Y	8.8	6.0	3.8	0.1
6Y	8.7	5.9	5.9	0.2
7Y	11.1	6.6	7.2	0.2
8Y	11.5	7.4	7.3	0.4
9Y	11.4	7.8	7.5	0.6
10Y	11.7	8.1	7.6	0.5

Sources: Bloomberg, NORD/LB Macro Research

A total return is the absolute profit from an investment in the time period under consideration, with account being taken of the pro-rata yields plus the price gains or losses to be anticipated on the basis of the forecast yield curve and exchange rate change.

# Portfolio strategies

## Stock market strategy; 3-month, 6-month & 12-month horizons

### Levels and performance

Index	Level as at	Status		Performance since	
	21.05.2026	Prev. month	Start of year	Prev. month	Start of year
DAX	24,606.77	24,292.38	24,490.41	1.29%	0.48%
MDAX	31,807.10	30,589.95	30,617.67	3.98%	3.88%
EuroSTOXX50	5,960.32	5,881.51	5,791.41	1.34%	2.92%
STOXX50	5,158.91	5,072.37	4,918.02	1.71%	4.90%
STOXX600	620.56	611.28	592.19	1.52%	4.79%
Dow Jones	50,009.35	49,652.14	48,063.29	0.72%	4.05%
S&P 500	7,432.97	7,209.01	6,845.50	3.11%	8.58%
Nikkei	61,684.14	59,284.92	50,339.48	4.05%	22.54%

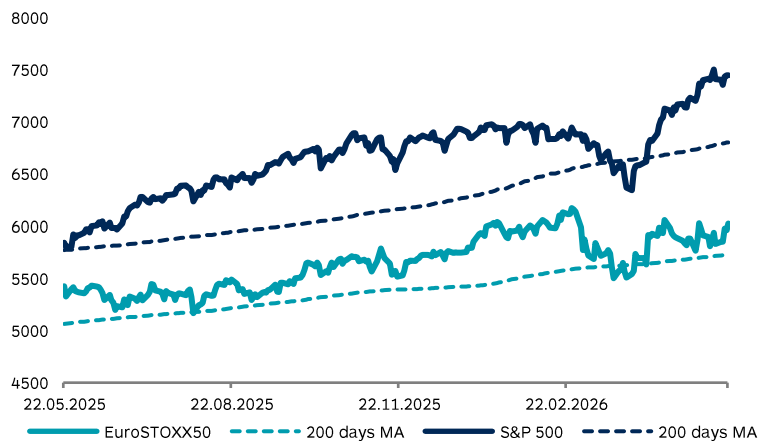
Sources: Bloomberg, NORD/LB Macro Research

### Index forecasts

Index	NORD/LB forecast for the horizons ...		
	3M	6M	12M
DAX	24,800	25,500	26,800
MDAX	32,100	32,500	34,200
EuroSTOXX50	6,050	6,200	6,400
STOXX50	5,200	5,325	5,500
STOXX600	630	645	670
Dow Jones	49,900	50,900	53,000
S&P 500	7,500	7,800	8,100
Nikkei	61,000	63,000	64,500

Sources: Bloomberg, NORD/LB Macro Research

### EuroSTOXX50 and S&P500



Sources: Bloomberg, NORD/LB Macro Research

**Date of going to press** for data, forecasts and texts was **Friday, 22 May 2026**.

The next English issue of Economic Adviser will be appearing on **29 June 2026**

# Overview of forecasts

## Fundamental forecasts

in %	GDP growth			Rate of inflation			Unemployment rate <sup>1</sup>			Budgetary balance <sup>2</sup>		
	2025	2026	2027	2025	2026	2027	2025	2026	2027	2025	2026	2027
USA	2.1	2.1	2.3	2.7	3.2	2.0	4.3	4.4	4.3	-5.4	-6.3	-6.2
Euroland	1.5	0.6	1.1	2.1	3.1	2.3	6.3	6.2	6.2	-2.9	-3.3	-3.4
Germany	0.2	0.7	1.2	2.3	2.9	2.2	6.3	6.4	6.4	-2.7	-3.8	-3.9
Japan	1.2	0.8	1.0	3.2	2.2	2.0	2.5	2.6	2.5	-1.4	-3.0	-3.0
Britain	1.4	0.8	1.2	3.4	3.2	2.4	4.8	5.3	5.3	-5.0	-3.9	-3.3
Switzerland	1.4	0.8	1.7	0.2	0.6	0.3	2.9	3.0	2.9	0.6	-0.2	-0.3
China	5.0	4.7	4.4	0.0	1.2	1.1	5.2	5.1	5.0	-5.1	-5.5	-5.7

Change vs previous year as percentage; <sup>1</sup> as percentage of the labour force (Germany: as per Federal Employment Office definition); <sup>2</sup> as percentage of GDP

Sources: Macrobond, NORD/LB Macro Research

## Key interest rates

In %	21.05.26	3M	6M	12M
USD	3.75	3.75	3.50	3.00
EUR	2.00	2.25	2.50	2.50
JPY	0.75	1.00	1.25	1.25
GBP	3.75	3.75	3.75	3.25
CHF	0.00	0.00	0.00	0.00
CNY	1.50	1.50	1.50	1.50

Sources: Bloomberg, NORD/LB Macro Research

## Exchange rates

EUR in...	21.05.26	3M	6M	12M
USD	1.16	1.18	1.19	1.19
JPY	185	185	183	177
GBP	0.86	0.88	0.88	0.88
CHF	0.91	0.92	0.92	0.93
CNY	7.91	8.04	8.09	8.03

## Interest rates (government bonds)

	3M rates				Yields 2Y				Yields 5Y				Yields 10Y			
	21.05.	3M	6M	12M	21.05.	3M	6M	12M	21.05.	3M	6M	12M	21.05.	3M	6M	12M
USD	3.64	3.60	3.30	2.95	4.08	3.70	3.25	2.90	4.24	3.80	3.45	3.10	4.57	4.15	4.00	3.80
EUR	2.20	2.40	2.50	2.60	2.69	2.60	2.60	2.70	2.81	2.90	2.90	3.00	3.10	3.20	3.20	3.30
JPY	1.24	1.20	1.30	1.30	1.45	1.35	1.30	1.30	2.02	1.85	1.60	1.60	2.77	2.60	2.30	2.20
GBP	3.79	3.75	3.70	3.20	4.38	4.30	4.10	3.78	4.52	4.60	4.35	4.20	4.97	4.80	4.65	4.50
CHF	-0.05	0.00	0.01	0.10	0.20	0.20	0.25	0.30	0.39	0.40	0.42	0.45	0.57	0.50	0.52	0.55

Quelle: Bloomberg, NORD/LB Macro Research

## Spreads (bp)

	3M EURIBOR				2Y Bund				5Y Bund				10Y Bund			
	21.05.	3M	6M	12M	21.05.	3M	6M	12M	21.05.	3M	6M	12M	21.05.	3M	6M	12M
USD	144	120	80	35	140	110	65	20	144	90	55	10	147	95	80	50
JPY	-95	-120	-120	-130	-124	-125	-130	-140	-79	-105	-130	-140	-32	-60	-90	-110
GBP	160	135	120	60	169	170	150	108	172	170	145	120	187	160	145	120
CHF	-225	-240	-249	-250	-249	-240	-235	-240	-242	-250	-248	-255	-253	-270	-268	-275

Sources: Bloomberg, NORD/LB Macro Research

## Annex



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