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Contents

Special: Blue Wave in Washington – New Power, Old Trade-offs 3
A Clear Mandate Reshapes the Balance of Power in Washington 3
Changing of the Guard on Capitol Hill 3
Greater Congressional Scrutiny, but Limited Room for Action 4
The Fiscal Lever and Questions That Cannot Wait 4
Conclusion 4

USA: A Healthy Shake-out in the AI Market 5
Economic resilience strengthens the case for another rate hike 5
The affordability crisis began in the housing market 5
AI correction as a healthy shake-out 6

Euroland: Resilient Growth, Persistent Inflation and a Changing of the Guard at the ECB 7
Economic Momentum Eases Slightly over the Summer 7
Inflation Rises to 4.0%: The Headline Rate Alone Makes the Case for a Hike 7
ECB: Lagarde's Departure Temporarily Overshadows the Rates and Spreads Debate, but Another Hike Is Coming 8

Germany: Economy Remains on a Growth Path 9
Growth Remains on Track Despite a Scorching Summer 9
Sentiment Indicators Point to Further Recovery as Industry Gains Momentum 9
Fuel Rebate Pushes October Inflation Below 3% Y/Y 10

Switzerland: Resilient Data and Upbeat Sentiment 11
No Sign of a Slowdown 11
Switzerland Remains the Inflation Outlier as the Franc Appreciates Again 11

Japan: The BoJ Weighs Its Next Move 12
The Bank of Japan Holds Fire for Now 12
Inflation Moves into Focus 12
Yen Weakness Has Implications for Monetary Policy 12

China: External Demand versus Domestic Consumption 13
The AI Boom Provides Support to the Economy 13
What Will Policymakers Do Next? 13
What the Latest Purchasing Managers' Indices Tell Us 13

Britain: Inflation Pressures Are Broadening 14
The Bank of England Sends a Clear Signal 14
The Iran Conflict Remains Central to the Policy Debate 14
The Labour Market Regains Ground 14

Portfolio strategies 15

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: Blue Wave in Washington – New Power, Old Trade-offs

Analyst: Daniel Weiß // Constantin Lüer

A Clear Mandate Reshapes the Balance of Power in Washington

The “blue wave” is reshaping Washington. Democratic majorities in both the House of Representatives and the Senate fundamentally alter the balance of power, marking a political turning point. The president remains in office, but his ability to advance new legislation through Congress will be severely constrained. With control of both chambers, the Democrats now represent a powerful counterweight to the administration, making legislative gridlock increasingly likely. One early indication that the administration has recognised this new political reality was its acknowledgement of the election result, accompanied by unexpectedly conciliatory remarks towards the Democrats. That was far from a foregone conclusion. Yet winning the election was arguably the easier part. The challenge now is to turn political power into tangible economic relief, a message voters delivered in unmistakable terms. Exit polls suggest that the strain on household finances was a key factor shaping voting decisions. The new congressional majority will therefore be judged above all on whether it can ease the “affordability crisis”. This goes to the heart of the economic-policy dilemma exposed by the midterm elections: an economy can continue to grow while many households still feel that their standard of living is deteriorating.

Chart: U.S. Treasury Yields and the WTI Oil Price



Sources: U.S. Department of the Treasury, Energy Information Administration (EIA), Macrobond, NORD/LB Research

Changing of the Guard on Capitol Hill

With majorities in both chambers of Congress, the Democrats can do more than simply block the president’s agenda. They can advance legislation of their own, launch congressional investigations and, through the Senate, wield considerable influence over key appointments. The president, however, retains the power to veto legislation, which can only be overridden by a two-thirds majority in both chambers. Beyond this shift in the balance of power, a key leadership position is also set to change hands, although the identity of its next holder has yet to be determined. When the new Congress convenes, the House of Representatives will elect a new Speaker, bringing Mike Johnson’s tenure to an end. With the Democrats holding the majority, their nominee will be strongly positioned to secure the speakership. Hakeem Jeffries is the clear frontrunner. As the Democrats’ current leader in the House, he has already announced his candidacy for Speaker. Johnson, meanwhile, has signalled that he will not seek to lead the Republicans in opposition, paving the way for a leadership transition on that side of the aisle as well. Changes are also in prospect in the Senate, although the leadership picture there appears more straightforward. Chuck Schumer, who has served in the Senate since 1999 and has previously held both the majority and minority leadership, is well placed to return as Senate Majority Leader.

Vice President JD Vance will remain President of the Senate, a constitutionally defined role unaffected by the change in congressional control.

Greater Congressional Scrutiny, but Limited Room for Action

Congress is a cornerstone of America's system of checks and balances. Congressional committees play a central role in scrutinising proposed legislation and overseeing government agencies, programmes and executive action. New majorities can therefore reshape political priorities and subject the administration's decisions to much closer scrutiny. The Senate's role in confirming presidential appointments is particularly important. A wide range of senior executive and judicial appointments require Senate approval and can shape U.S. policy well beyond a single administration. The Supreme Court is the clearest example, with justices generally serving for life. The House also has the power to initiate impeachment proceedings, with the Senate responsible for conducting the subsequent trial. Another attempt to remove Donald Trump through impeachment appears unlikely, however, not least because conviction and removal from office require a two-thirds majority in the Senate. Only three U.S. presidents have been impeached: Andrew Johnson, Bill Clinton and Donald Trump, the latter twice. In each case, the Senate ultimately acquitted the president. Impeachment has therefore never resulted in the removal of a U.S. president from office.

The Fiscal Lever and Questions That Cannot Wait

Control over the federal budget is one of Congress's most powerful tools for shaping policy. In recent years, repeated failures to agree on spending legislation have brought the United States to the brink of, or into, government shutdowns. The shutdown in the autumn of 2025 even disrupted the work of federal statistical agencies, leaving gaps in key economic data and only limited information in some areas. Social Security payments were also affected indirectly. Control of the budget is therefore far more than a procedural matter. It is a source of considerable political leverage. But control of the purse strings also comes with considerable responsibility. The strains on U.S. public finances are well known. They recently contributed to significant volatility in the bond market and, for a time, a sharp rise in U.S. Treasury yields. Several factors were at play, but the high level of public debt was undoubtedly an important one. Another major fiscal challenge is already looming: Social Security. According to the latest projections from the Social Security Administration, the programme's trust funds are on course to be depleted towards the end of 2032. Finding a sustainable solution is therefore becoming increasingly urgent. Social Security could thus provide an early test of whether a Republican president and a Democratic Congress can overcome their political differences and find common ground on one of the country's most pressing fiscal challenges.

Conclusion

A growing list of unresolved issues from the first two years of the administration is now being compounded by a host of new challenges. The second half of Donald Trump's second term is therefore unlikely to be plain sailing. The implications for the conflict with Iran, the affordability crisis and the federal budget remain difficult to gauge. Nor should the election result necessarily be seen as a vote of confidence in the Democrats, even if they are its main beneficiaries. Above all, it reflects a rejection of the Republicans. There is a broad consensus among political observers that the Democratic Party still needs to sharpen its political identity and define more clearly what it stands for. Yet the new balance of power also presents a rare opportunity for both parties: to demonstrate that divided government need not mean political paralysis and that compromise remains possible when the economic stakes are high.

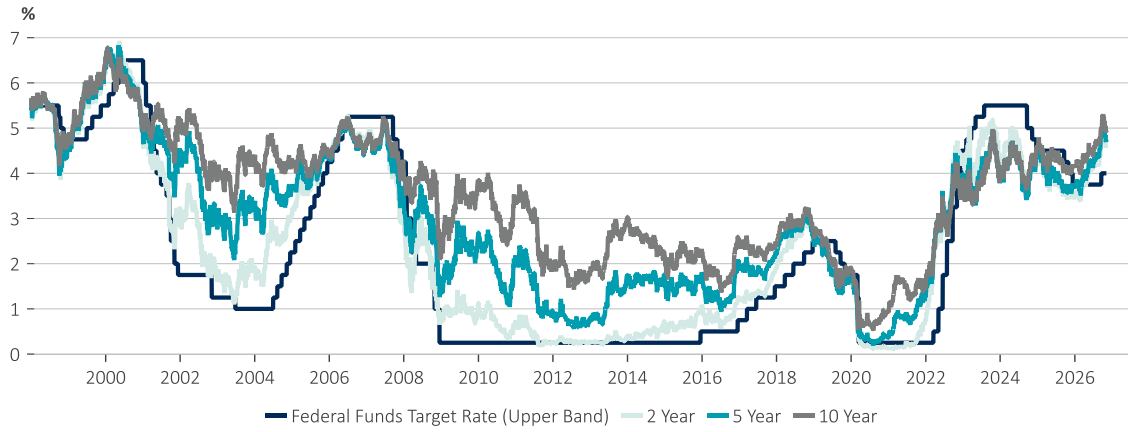
USA: A Healthy Shake-out in the AI Market

Analysts: Tobias Basse // Constantin Lüer

Economic resilience strengthens the case for another rate hike

The first estimate of Q3 economic activity paints a robust picture of the North American economy. At an annualised rate of 3.4%, growth even outpaced the previous two quarters, which had themselves proved more resilient than widely expected. The purchasing managers' indices had already pointed in this direction, despite continued uncertainty over tariff policy and the subsequent shock from Iran creating a challenging economic backdrop. The strength of the economy could give the FOMC sufficient room to raise rates once more before the end of the year. For now, concerns over inflation appear to outweigh signs of a cooling labour market. The decision between keeping rates on hold and delivering another 25bp hike remains finely balanced, with the odds close to 50:50. At present, however, the balance of risks tilts slightly towards further monetary tightening. Against this backdrop, developments in money and capital markets will need to be watched particularly closely.

Chart: Interest rates in the US



Sources: Macrobond, NORD/LB Macro Research

The affordability crisis began in the housing market

It is hardly surprising that the U.S. housing market has come under increasing pressure as interest rates have risen. The weakness is evident across a range of indicators. The NAHB Housing Market Index most recently stood at 29, still well above the sub-10 levels seen at the height of the subprime crisis from 2007 onwards. In theory, that leaves further room to the downside. For prospective homebuyers, however, the combination of high borrowing costs and elevated house prices is already putting affordability under considerable strain. It is therefore no coincidence that property developers were among the first to speak of an "affordability crisis", a term that has since gained much wider currency. The existing-home market paints a similarly subdued picture. At first glance, the 3.99 million homes changing hands in September may still sound like a sizeable number. Excluding the Covid pandemic, however, this was the lowest level since 2023 and, prior to that, since August 1995. Even during the subprime crisis, sales fell below this level only once. Labour shortages in the construction sector are another constraint, as the latest purchasing managers' surveys suggest. The AI boom may also have diverted labour and investment away from traditional construction to some extent, although there are signs that this dynamic may now be starting to shift.

AI correction as a healthy shake-out

Capital markets are currently reassessing the outlook for AI investment. The catalyst has been the U.S. midterm elections, in which the Democrats clearly outperformed the Republicans in races for the House, the Senate and governorships. This has raised concerns that a stronger Democratic position could pave the way for tighter regulation of AI-related activities. Joe Biden introduced an executive order focused primarily on AI safety, while Donald Trump campaigned on a deregulatory agenda and subsequently followed through on that pledge. That does not mean, of course, that AI operates in a regulatory Wild West in the United States. Restrictions are already in place in certain areas, including non-consensual deepfakes. The picture is further complicated by the different approaches being taken at state level, making broad generalisations difficult. Even so, the mere prospect of greater scrutiny of AI investment and infrastructure spending has been enough to trigger a sizeable market correction, highlighting just how sensitive the sector has become to shifts in sentiment. Yet few market participants can have expected the AI boom to continue without periods of consolidation. Corrections are a normal feature of any sustained market upswing. As with the internet revolution, AI is here to stay. The technology is already too deeply embedded in business processes and investment strategies to suggest otherwise. The recent volatility may therefore be better understood as a healthy shake-out rather than a fundamental reversal of the AI story. By challenging stretched valuations and forcing investors to distinguish more carefully between viable business models and pure expectations.

Fundamental forecasts, USA

	2025	2026	2027
GDP	2,3	2,4	2,2
Private consumption	2,6	2,4	2,2
Government consumption	1,6	0,6	1,0
Fixed investment	3,1	4,7	4,8
Exports	2,1	4,0	2,4
Imports	3,6	4,2	4,1
Inflation	2,7	3,2	2,0
Unemployment rate[1]	4,3	4,2	4,3
Budget balance[2]	-5,3	-6,2	-6,3
Current account balance[2]	-3,8	-3,2	-3,3

Change vs previous year as percentage; [1] as percentage of the labour force; [2] as percentage of GDP

Sources: Macrobond, NORD/LB Macro Research

Quarterly forecasts, USA

	I/26	II/26	III/26	IV/26	I/27
GDP qoq ann.	2,5	2,2	3,4	2,0	2,2
GDP yoy	2,6	2,0	2,1	2,5	2,4
Inflation yoy	2,7	3,9	3,5	3,7	3,3

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

Interest and exchange rates, USA

	06.11.	3M	6M	12M
Fed funds target rate	4,07	4,25	4,25	4,00
3M rate	4,07	4,30	4,20	3,80
10Y Treasuries	4,86	5,00	5,10	4,80
Spread 10Y Bund	161	170	180	130
EUR in USD	1,12	1,12	1,15	1,18

Sources: Bloomberg, NORD/LB Macro Research

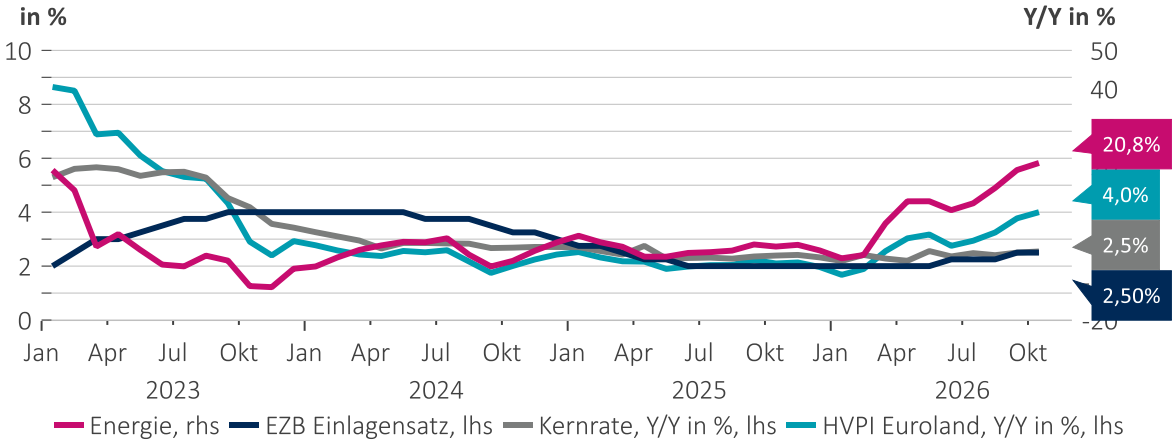
Euroland: Resilient Growth, Persistent Inflation and a Changing of the Guard at the ECB

Analysts: Christian Lips, Chief Economist // Christian Reuter

Economic Momentum Eases Slightly over the Summer

eurozone recovery remains on track. Real GDP expanded by a seasonally and calendar-adjusted 0.4% Q/Q in the third quarter, beating expectations, while annual growth picked up to 1.3% Y/Y. Once again, however, the headline number was boosted by the highly volatile Irish economy. Excluding Ireland, growth slowed to 0.2% Q/Q, from 0.3% in each of the previous two quarters. Performance also varied considerably across the major economies. Spain and the Netherlands remained the main engines of growth, with both economies expanding by 0.6% Q/Q. Italy stagnated, while the French economy contracted by 0.1% Q/Q, mainly reflecting weaker exports and investment. Despite an exceptionally hot summer and low river levels, Germany surprised on the upside, growing by 0.2% Q/Q, with private consumption providing the main support (see Germany section). Overall, economic activity continues to prove resilient despite geopolitical uncertainty and elevated energy prices. However, weakening leading indicators and the loss of momentum outside Ireland suggest that a renewed acceleration over the winter months is unlikely. We continue to expect GDP growth of slightly above 1% for the year as a whole. The near-term outlook therefore remains broadly positive, although downside risks to growth in 2027 have increased.

Chart: Energy Price Surge Pushes Inflation to 4.0% Y/Y



Sources: Eurostat, ECB, Macrobond, NORD/LB Macro Research

Inflation Rises to 4.0%: The Headline Rate Alone Makes the Case for a Hike

Inflation rose to 4.0% Y/Y in October, twice the ECB's medium-term inflation target. The increase was driven primarily by energy prices, which surged by 20.8% Y/Y, while the other components of the price index made only a modest contribution. Non-energy industrial goods inflation stood at 1.2% Y/Y. Services inflation edged up to 3.3% Y/Y, while core inflation remained unchanged at 2.5% Y/Y. National policy measures either cushioned or amplified the rise in energy prices. The upward impact was particularly pronounced in Italy, where an adjustment to regulated electricity tariffs at the beginning of the quarter triggered a sharp increase in prices. In Germany, by contrast, the reduction in energy duty on motor fuels introduced in October helped contain inflationary pressures. The Spanish government likewise cut taxes on petrol significantly. In France, transport services added to price pressures, while in Italy annual inflation in transport services accelerated from 1.6% to 3.1%. Overall, the country-level data continue to suggest that the latest surge in inflation has been driven predominantly by energy prices and government measures. So far, there is little evidence of significant second-round effects.

ECB: Lagarde's Departure Temporarily Overshadows the Rates and Spreads Debate, but Another Hike Is Coming

As expected, the ECB left its key policy rates unchanged in October. The decision was understandable given the significant tightening in financing conditions already under way. The policy statement explicitly acknowledged that recent market developments were likely to weigh on economic activity and, over the medium term, ease price pressures. At the same time, the ECB maintained its data-dependent approach and once again refrained from committing to a specific path for interest rates. The rate decision was overshadowed by ECB President Christine Lagarde's announcement that she will step down early on 7 February 2027. Together with Isabel Schnabel's departure and the expiry of Philip Lane's term, this means that three positions on the Executive Board will need to be filled in the first half of 2027. Klaas Knot and Pablo Hernández de Cos are among the names being discussed as possible successors to Lagarde.

Lagarde's announcement also temporarily pushed concerns over sovereign spreads into the background. In its monetary policy decision, the ECB confined itself to its customary reference to the Transmission Protection Instrument. From a fundamental perspective, activation of the TPI in support of France appears unlikely at present, as several of the necessary conditions are probably not met. By keeping its communication deliberately restrained, the ECB is avoiding a firmer commitment for now while retaining the option of intervening verbally if needed. For monetary policy, however, the sharp rise in inflation remains the key consideration. The increase is still largely driven by energy prices, but persistently high energy costs raise the risk of second-round effects and more persistent inflationary pressures. At the same time, economic activity remains resilient enough to withstand another rate hike. We therefore continue to expect a 25bp increase in December, a view reinforced by the latest growth and inflation data. Beyond December, however, we are more cautious than current market pricing would suggest. Tighter financing conditions, elevated political risks and weakening leading indicators all argue against an extended series of further rate hikes.

Fundamental forecasts, Euroland

	2025	2026	2027
GDP	1,3	1,1	1,3
Private consumption	1,4	1,0	1,0
Government consumption	1,5	1,9	1,5
Fixed investment	3,0	1,1	2,9
Net exports[1]	-0,6	0,1	0,0
Inflation	2,1	3,1	2,7
Unemployment rate[2]	6,3	6,4	6,4
Budget balance[3]	-3,0	-3,4	-3,4
Current account balance[3]	1,7	1,4	1,3

Change vs previous year as percentage, [1] as contribution to GDP growth; [2] as percentage of the labour force; [3] as percentage of GDP

Sources: Macrobond, NORD/LB Macro Research

Quarterly forecasts, Euroland

	I/26	II/26	III/26	IV/26	I/27
GDP sa qoq	0,0	0,6	0,4	0,2	0,3
GDP sa yoy	0,6	1,2	1,3	1,3	1,6
Inflation yoy	2,0	3,0	3,3	4,0	3,7

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

Interest rates, Euroland

	06.11.	3M	6M	12M
Deposit facility rate ECB	2,50	2,75	3,00	3,00
3M rate	2,79	2,90	3,10	3,10
10Y Bund	3,26	3,30	3,30	3,50

Sources: Bloomberg, NORD/LB Macro Research

Germany: Economy Remains on a Growth Path

Analysts: Christian Lips, Chief Economist // Christian Reuter

Growth Remains on Track Despite a Scorching Summer

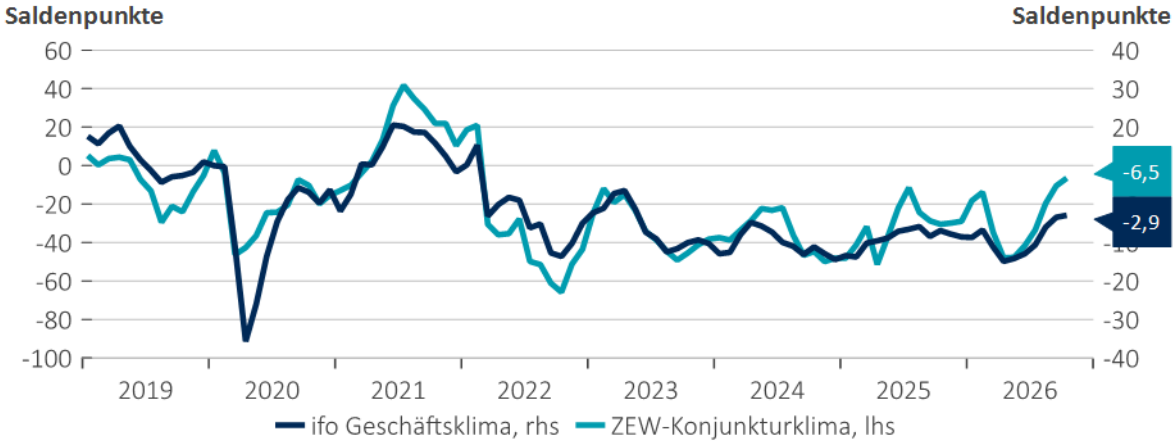
The German economy remains on course for recovery. Real GDP, adjusted for price, seasonal and calendar effects, expanded by 0.2% Q/Q in the third quarter, beating expectations. Calendar-adjusted growth picked up to 1.2% Y/Y, or 1.3% on an unadjusted basis. The economy has now expanded for four consecutive quarters.

A detailed breakdown is not yet available, but initial indications suggest that household consumption was the main driver of growth over the summer. This is somewhat surprising given weak retail sales and the pressure that higher energy prices have placed on real disposable incomes. Government consumption is also likely to have supported growth. By contrast, the strong contribution from foreign trade seen in the first half of the year faded. Investment declined again and weighed on activity, most likely reflecting weaker spending on machinery and equipment.

The economy has also proved remarkably resilient to the additional strains caused by the exceptionally hot summer and low river levels. Low water levels on the Rhine disrupted logistics and production and pushed up transport costs. Businesses nevertheless appear to be better prepared to cope with climate-related disruptions to inland shipping. Moreover, relatively low capacity utilisation helped contain the impact on the wider economy.

The recovery therefore remains on track despite a challenging environment. We expect growth to maintain a similar pace, or strengthen slightly, in the final quarter. Real GDP should expand by 1.3% in 2026 as a whole. The external environment remains challenging, but fiscal support is set to gather momentum. We therefore expect growth at a broadly similar rate in 2027.

Chart: ifo Business Climate Rises for Sixth Consecutive Month



Sources: ifo Institute, ZEW, Macrobond, NORD/LB Macro Research

Sentiment Indicators Point to Further Recovery as Industry Gains Momentum

Sentiment indicators continue to support a positive economic outlook. The ifo Business Climate Index unexpectedly rose from 89.9 to 90.2 in October, reaching its highest level since May 2023. Germany's most closely watched leading indicator has now improved for six consecutive months. While companies were somewhat more cautious in their assessment of current conditions, expectations improved further. The expectations component rose to 91.6, its highest level since Russia's invasion of Ukraine.

The improvement was particularly pronounced in manufacturing. Companies reported a more favourable assessment of both current conditions and the outlook, with stronger order books providing the main source of optimism. This is consistent with the latest purchasing managers' survey, which likewise pointed to a marked recovery in industrial ac-

tivity. Sentiment weakened slightly in services, while remaining broadly unchanged in retail and wholesale trade. Construction recorded a modest improvement despite higher interest rates. The sustained improvement in business sentiment is particularly notable given the challenging environment. High energy prices, geopolitical tensions, heightened financial-market volatility and the prospect of tighter monetary policy have so far done little to dampen corporate optimism. Alongside resilient order books, expectations of a more expansionary fiscal stance are also likely to be providing support. Overall, the leading indicators point to a continued recovery following only a modest loss of momentum over the summer.

Fuel Rebate Pushes October Inflation Below 3% Y/Y

Consumer price inflation fell more sharply than expected in October, dropping to 2.8% Y/Y. The fuel rebate introduced on 1 October was the main driver of the decline. Data from the regional statistical offices suggest that the relief was largely passed on to consumers. Depending on the federal state, fuel prices fell by between 4.4% and 7.3% M/M, although they remained around 30% higher than a year earlier. Heating oil, by contrast, rose by a further 3.0% to 7.9% M/M, depending on the federal state, leaving prices as much as 89.3% above year-earlier levels. Gas prices, meanwhile, showed little movement. The sharp increase in wholesale prices appears to be feeding through to many households only gradually, reflecting the prevalence of longer-term contracts.

The limited details available so far provide little evidence of a broader pass-through from the energy price shock. If anything, underlying inflationary pressures appear to have eased. Core inflation excluding food and energy fell from 2.5% to just 2.1% Y/Y. Food inflation stood at only 0.4% Y/Y, providing little evidence so far that higher energy and transport costs are feeding through to consumer prices more broadly. Services inflation also slowed for a fourth consecutive month, to 2.5% Y/Y. Despite the sharp rise in oil prices, the increase in inflation has so far remained relatively narrow. The fuel rebate is temporarily holding down headline inflation but does little to ease the underlying cost pressures. The key question is whether persistently high energy and transport costs will feed through more forcefully to the prices of other goods and services in the months ahead.

Fundamental forecasts, Germany

	2025	2026	2027
GDP	0,2	1,3	1,4
Private consumption	1,3	0,5	1,3
Government consumption	1,7	3,1	2,4
Fixed investment	-0,6	-0,2	3,1
Exports	-0,9	3,3	2,3
Imports	2,9	2,5	3,5
Net exports[1]	-1,5	0,4	-0,4
Inflation[2]	2,3	2,7	2,7
Unemployment rate[3]	6,3	6,4	6,4
Budget balance[4]	-2,6	-3,8	-3,8
Current account balance[4]	4,5	4,5	4,0

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

Sources: Macrobond, NORD/LB Macro Research

Quarterly forecasts, Germany

	I/26	II/26	III/26	IV/26	I/27
GDP sa qoq	0,4	0,3	0,2	0,3	0,3
GDP nsa yoy	0,8	1,0	1,3	2,3	0,3
Inflation yoy	2,3	2,6	3,0	3,0	3,0

Change as percentage

Sources: Macrobond, NORD/LB Macro Research

Switzerland: Resilient Data and Upbeat Sentiment

Analyst: Christian Reuter

No Sign of a Slowdown

The Swiss economy looks set to maintain its momentum in the third quarter, judging by the hard data and sentiment indicators available so far. Foreign trade provides an encouraging signal. In real and seasonally adjusted terms, exports rose by 3.3% Q/Q over the three summer months, while imports fell by 1.4% Q/Q, pushing the nominal trade surplus higher. Admittedly, these figures are based on customs data and therefore do not correspond exactly to the national accounts definitions relevant for GDP growth. Even so, net trade is likely to have made a positive contribution to growth. There are further grounds for optimism. The expected pullback in chemicals and pharmaceuticals following the previous quarter's strong performance was more than offset by gains across other export industries. Retailers also benefited from the solid economic backdrop. In the third quarter, calendar-adjusted retail sales rose by 2.2% Y/Y in real terms. Higher prices weighed on fuel sales, however, with real turnover down 2.1% Y/Y, which may partly explain the more subdued mood among consumers. Domestic demand is also benefiting from favourable financing conditions. According to the SNB's discussions with companies, construction firms continue to enjoy full order books. Business sentiment has improved further as well. Purchasing managers were even more upbeat in October than in the previous month, with the manufacturing PMI climbing to 56.7 and the services PMI rising to 59.9, both pointing to a further expansion in activity. SECO's composite indicator of economic sentiment reached its highest level since June 2022 in September. The KOF Economic Barometer slipped slightly from 109.1 to 107.6 in October but remains comfortably above its long-term average. Consumers are the notable exception. Consumer sentiment fell to a three-year low in October, driven primarily, though not exclusively, by households' assessment of their past and expected financial situation. Given low inflation and rising real wages, however, this remains a relatively minor blemish on an otherwise healthy economic picture.

Switzerland Remains the Inflation Outlier as the Franc Appreciates Again

Price pressures in Switzerland remain subdued. Consumer prices rose by 1.5% Y/Y in October, somewhat more than expected. The increase was driven by energy, however, while core inflation remained unchanged at 0.5% Y/Y. Headline inflation therefore remains comfortably within the SNB's price stability range. Risks nevertheless remain tilted to the upside, reflecting ongoing geopolitical tensions and persistently high fuel prices. Moreover, the strength of the economy has yet to translate into stronger wage growth. For now, however, there is little pressure on the SNB to act, allowing it to continue monitoring developments from the sidelines. Markets have also largely priced out their earlier expectations of higher policy rates. Meanwhile, the Swiss franc has once again lived up to its safe-haven credentials, strengthening particularly against the euro amid developments in France. This has interrupted the franc's previous weakening trend, despite a further widening of the interest-rate differential.

Fundamental forecasts*, Switzerland

	2025	2026	2027
GDP	1,4	2,1	1,5
Inflation (CPI)	0,2	0,7	0,9
Unemployment rate[1]	2,9	3,1	3,0
Budget balance[2]	0,7	0,2	0,3
Current account balance[2]	5,6	7,5	7,1

* Change vs previous year as percentage; [1] as percentage of the labour force, [2] as percentage of GDP

Interest and exchange rates, Switzerland

	06.11.	3M	6M	12M
SNB policy rate	0,00	0,00	0,00	0,10
3M rate	-0,04	0,00	0,00	0,20
10Y	0,40	0,50	0,50	0,60
Spread 10Y Bund	-285	-280	-280	-290
EUR in CHF	0,91	0,92	0,93	0,92

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

Japan: The BoJ Weighs Its Next Move

Analyst: Tobias Basse

The Bank of Japan Holds Fire for Now

As expected, the Bank of Japan left monetary policy unchanged at its latest meeting, keeping its key policy rate at 1.25%. Once again, the decision was not unanimous, although the dissent came as little surprise. This time, hawkish board member Hajime Takata voted in favour of another rate hike, citing persistent inflationary pressures. Further monetary tightening therefore remains very much on the table, with another increase in the policy rate likely to remain under consideration at the BoJ's upcoming meetings.

Inflation Moves into Focus

Annual consumer price inflation rose to 2.1% in September, finally moving above the psychologically important 2% mark, a level that also carries particular significance for the Bank of Japan. The increase hardly came as a surprise. Against the current inflation backdrop, the BoJ has recently adopted a distinctly more hawkish tone. That said, central bank rhetoric does not necessarily translate into immediate policy action. In our view, BoJ policymakers are likely to remain cautious overall. The government appears to have ambitious fiscal plans for 2027, and significantly higher interest rates could make those plans more difficult to implement. The two dissenting votes cast by Toichiro Asada and Ayano Sato against the previous rate hike already pointed to greater caution within the policy debate. Both are likely to have recognised that a further increase in the policy rate would ultimately be difficult to avoid. As close allies of the prime minister, however, their opposition appears to have been aimed primarily at encouraging the BoJ to take a more gradual approach to further tightening. For now, at least, that strategy appears to have worked.

Yen Weakness Has Implications for Monetary Policy

The yen is once again trading above JPY 157 to the U.S. dollar. Its persistent weakness is adding to inflationary pressures and therefore complicating the outlook for monetary policy. Higher interest rates could lend the currency some support, but the BoJ would probably need to exceed market expectations to trigger a swift and meaningful appreciation of the yen. A 25bp rate hike at the latest meeting would undoubtedly have provided some support. For now, however, policymakers appear reluctant to move more aggressively. With no action this time around, attention now shifts to the December meeting.

Fundamental forecasts*, Japan

	2025	2026	2027
GDP	1,1	0,7	0,9
Inflation	3,2	2,0	2,1
Unemployment rate[1]	2,5	2,5	2,5
Budget balance[2]	-2,0	-2,4	-2,7
Current account balance[2]	4,8	4,8	4,6

* Change vs previous year as percentage;

[1] as percentage of the labour force; [2] as percentage of GDP

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, Japan

	06.11.	3M	6M	12M
Key rate	1,25	1,50	1,75	2,00
3M rate	1,79	1,70	1,85	2,05
10Y	2,65	2,90	2,90	2,95
Spread 10Y Bund	-60	-40	-40	-55
EUR in JPY	177	176	179	178
USD in JPY	158	157	156	151

China: External Demand versus Domestic Consumption

Analyst: Tobias Basse

The AI Boom Provides Support to the Economy

China's latest growth figures continue to paint a clear picture. Economic activity is being supported primarily by the AI boom and strong overseas demand for Chinese goods, while household consumption remains a key weakness. Beijing's efforts to shift the economy more decisively towards domestic demand have therefore yet to produce the desired results. Industrial production recently posted a robust increase of 5.5% Y/Y. Household consumption, meanwhile, grew by just 1.1% Y/Y in September, with temporary factors providing some additional support. The underlying picture for domestic demand therefore remains subdued. Against this backdrop, preliminary data show that real GDP grew by a respectable 4.5% in the third quarter. While hardly spectacular, the figure at least avoided a downside surprise. Economic growth is therefore currently running at the lower end of the government's target range.

What Will Policymakers Do Next?

China's policymakers therefore remain firmly in focus. Further fiscal support will probably be needed to keep growth at its current pace. However, already high debt levels, particularly among local governments, constrain the scope for additional stimulus. Monetary policymakers, meanwhile, are likely to remain cautious, monitoring developments closely while holding back from further action unless economic conditions require it.

What the Latest Purchasing Managers' Indices Tell Us

The China Federation of Logistics and Purchasing's Manufacturing PMI had edged back above the key 50-point threshold in September. In October, however, it slipped to 49.3, a fairly marked setback, albeit still within the range seen in recent months. The RatingDog Manufacturing PMI showed a broadly similar pattern, having followed much the same trajectory over the past five months. At 52.0, however, the index remained comfortably in expansionary territory for the eleventh consecutive month. Unlike the CFLP PMI, it also came in above market expectations. The latest RatingDog survey provides little evidence of an imminent loss of momentum. New orders continue to rise, albeit at a somewhat slower pace. Companies are looking to recruit additional staff to cope with higher workloads and the resulting increase in output, but finding suitable candidates remains a challenge. As a result, employment growth was only marginal despite strong demand for labour. If anything, these constraints are a reflection of continued strength rather than a sign of underlying weakness.

Fundamental forecasts*, China

	2025	2026	2027
GDP	5,0	4,6	4,4
Inflation	0.1	1,1	1,1
Unemployment rate[1]	5,2	5,2	5,1
Budget balance[2]	-5,1	-5,4	-5,5
Current account balance[2]	3,8	3,5	3,3

* Change vs previous year as percentage

[1] as percentage of the labour force, [2] as percentage of GDP

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, China

	14.01.	3M	6M	12M
Deposit rate	1,50	1,50	1,50	1,50
3M SHIBOR	1,60	1,45	1,40	1,45
10Y	1,59	1,70	1,70	1,75
Spread 10Y Bund	-167	-160	-160	-175
EUR in CNY	7,45	7,50	7,73	7,97
USD in CNY	6,67	6,70	6,72	6,75

Britain: Inflation Pressures Are Broadening

Analyst: Constantin Lüer

The Bank of England Sends a Clear Signal

At its latest meeting, the Bank of England raised Bank Rate to 4.00%. Inflationary pressures have been building for some time, even as the UK economy has so far proved relatively resilient in the face of elevated inflation. Andrew Bailey's message was clear: price pressures remain strong enough to risk becoming more firmly embedded across the economy. As long as the conflict in Iran remains unresolved, a meaningful easing of inflationary pressures is unlikely.

The Iran Conflict Remains Central to the Policy Debate

According to the MPC Chair, there has so far been little evidence of significant second-round effects. The Bank of England nevertheless expects these effects to become more visible over time. Companies are unlikely to absorb higher energy costs indefinitely and will increasingly pass them along the supply chain and ultimately on to consumers. Inflation could rise to as much as 5% by mid-2027. This projection suggests that the MPC is not expecting a swift resolution to the crisis in the Strait of Hormuz. The outlook is, of course, highly uncertain. A meaningful de-escalation of the conflict could ease price pressures relatively quickly, however, suggesting that the current inflation forecast incorporates a distinctly adverse scenario. The aftermath of the U.S. midterm elections also highlighted considerable uncertainty in Washington over its approach towards Iran. Both Trump and JD Vance adopted a more conciliatory tone, acknowledging the economic and political fallout from the conflict and its contribution to the Republicans' poor electoral performance. Vance, for his part, had been sceptical of the conflict from the outset.

The Labour Market Regains Ground

ositive economic momentum and the recent improvement in the labour market are likely to have supported the Bank of England's decision to raise Bank Rate. With both the economy and the labour market proving resilient, policymakers have greater scope to tighten monetary policy in order to contain inflationary pressures. Economic growth is likely to have remained broadly flat in Q3, although a somewhat stronger expansion would certainly have been welcome. The decline in the unemployment rate from 4.9% to 4.7% is nevertheless an encouraging sign. Following a prolonged period of falling employment earlier in the year, the latest data point to a welcome recovery in the labour market.

Fundamental forecasts*, Britain

	2025	2026	2027
GDP	1,3	1,2	1,2
Inflation	3,4	3,2	2,7
Unemployment rate[1]	4,8	5,2	5,2
Budget balance[2]	-4,9	-3,8	-3,3
Current account balance[2]	-3,1	-2,9	-3,0

* Change vs previous year as percentage

Interest and exchange rates, Britain

	06.11.	3M	6M	12M
Bank rate	4,00	4,00	4,25	4,00
3M rate	4,09	4,25	4,50	4,20
10Y	5,16	5,20	5,40	5,10
Spread 10Y Bund	191	190	210	160
EUR in GBP	0,83	0,84	0,85	0,86
GBP in USD	1,34	1,33	1,35	1,37

[1] as percentage of the labour force as per ILO concept; [2] as percentage of GDP

Sources: Macrobond, Bloomberg, NORD/LB Macro Research

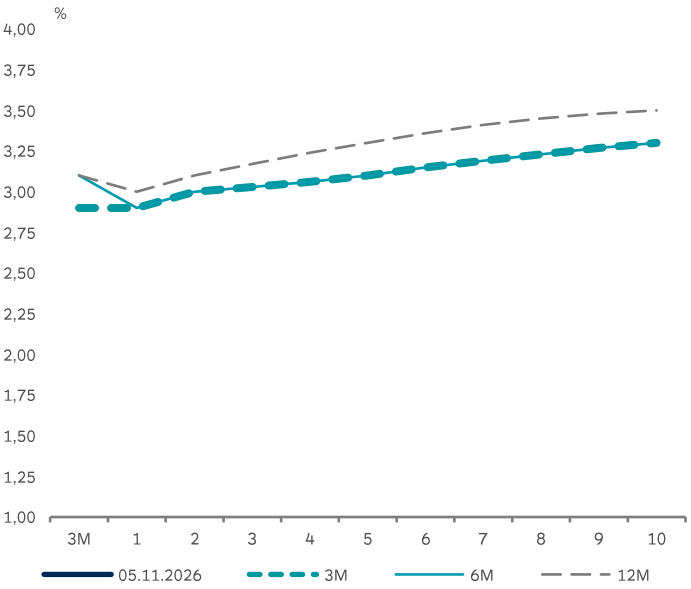
Portfolio strategies
Yield curve, Euroland

Yields and forecasts (Bunds/Swap)

Yields (in %)	NORD/LB forecasts for horizons…		
	05.11.2026	**3M**	**6M**	**12M**
3M	2,81	2,90	3,10	3,10
1Y	2,89	2,90	2,90	3,00
2Y	2,98	3,00	3,00	3,10
3Y	3,00	3,03	3,03	3,17
4Y	3,02	3,06	3,06	3,24
5Y	3,05	3,10	3,10	3,30
6Y	3,07	3,15	3,15	3,36
7Y	3,12	3,19	3,19	3,41
8Y	3,16	3,23	3,23	3,45
9Y	3,20	3,27	3,27	3,48
10Y	3,24	3,30	3,30	3,50
2Y (Swap)	3,29	3,30	3,30	3,30
5Y (Swap)	3,27	3,35	3,35	3,45
10Y (Swap)	3,33	3,40	3,40	3,55

Sources: Bloomberg, NORD/LB Macro Research

Yield curve forecasts (Bunds)



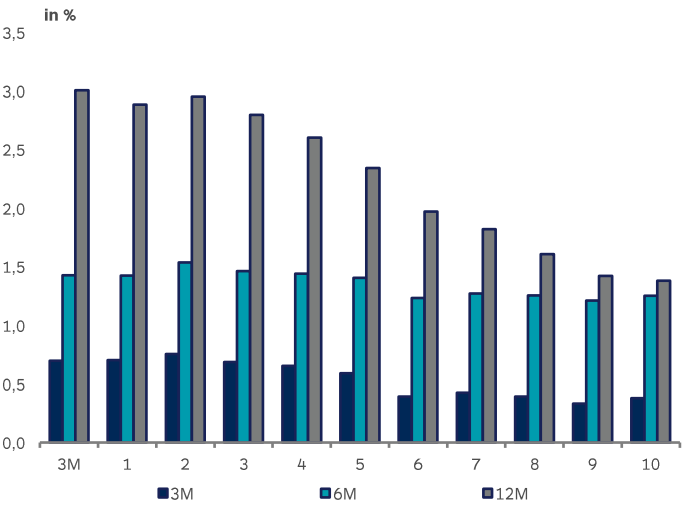
Sources: Bloomberg, NORD/LB Macro Research

Forecasts and total returns

	Total returns (in %) for horizons…		
	3M	**6M**	**12M**
3M	0,70	1,43	3,01
1Y	0,70	1,42	2,89
2Y	0,76	1,54	2,95
3Y	0,69	1,46	2,80
4Y	0,66	1,44	2,60
5Y	0,59	1,40	2,34
6Y	0,39	1,24	1,97
7Y	0,43	1,27	1,82
8Y	0,39	1,26	1,61
9Y	0,33	1,21	1,42
10Y	0,38	1,25	1,38

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	0,7	1,1	0,5	0,9	-0,5
2Y	0,8	1,0	0,7	0,8	-0,5
3Y	0,7	0,8	0,7	1,0	-0,5
4Y	0,7	0,7	0,5	1,3	-0,5
5Y	0,6	0,6	0,8	1,3	-0,6
6Y	0,4	0,4	1,1	0,7	-0,8
7Y	0,4	0,3	0,9	0,2	-0,8
8Y	0,4	0,3	0,9	-0,4	-1,1
9Y	0,3	0,2	0,7	-0,5	-1,1
10Y	0,4	0,1	0,6	-0,7	-1,1

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies

	USD	GBP	JPY	CHF
1Y	0,9	1,2	0,3	-0,1
2Y	0,8	1,4	0,4	-0,1
3Y	0,7	1,4	0,4	-0,1
4Y	0,5	1,2	0,8	-0,1
5Y	0,4	1,5	0,7	-0,2
6Y	0,2	1,8	0,2	-0,4
7Y	0,2	1,6	-0,3	-0,4
8Y	0,1	1,6	-1,0	-0,7
9Y	0,0	1,4	-1,0	-0,7
10Y	0,0	1,3	-1,3	-0,7

Sources: Bloomberg, NORD/LB Macro Research

12-month horizon

Expected total returns (as percentage) in euro

	EUR	USD	GBP	JPY	CHF
1Y	2,9	-0,9	1,4	1,0	-0,4
2Y	3,0	-0,5	2,0	0,9	-0,4
3Y	2,8	-0,6	2,1	0,9	-0,3
4Y	2,6	-0,5	2,0	1,4	-0,3
5Y	2,3	-0,4	2,3	1,4	-0,4
6Y	2,0	-0,3	2,9	2,5	-0,7
7Y	1,8	-0,1	3,1	1,4	-0,8
8Y	1,6	0,0	3,1	0,8	-0,9
9Y	1,4	0,1	3,1	0,0	-1,0
10Y	1,4	0,2	2,9	-0,1	-1,1

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies

	USD	GBP	JPY	CHF
1Y	4,3	4,5	1,6	0,0
2Y	4,7	5,1	1,5	0,0
3Y	4,6	5,3	1,5	0,1
4Y	4,7	5,1	2,0	0,1
5Y	4,8	5,5	2,0	0,0
6Y	4,9	6,1	3,1	-0,3
7Y	5,0	6,3	2,0	-0,3
8Y	5,2	6,3	1,4	-0,5
9Y	5,2	6,3	0,6	-0,5
10Y	5,3	6,1	0,5	-0,6

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	
	08.11.2026	Prev. month	Start of year	Prev. month	Start of year
DAX	25.820,36	25.818,21	24.490,41	0,01%	5,43%
MDAX	30.642,23	30.472,32	30.617,67	0,56%	0,08%
EuroSTOXX50	6.170,49	6.131,31	5.791,41	0,64%	6,55%
STOXX50	5.370,47	5.392,17	4.918,02	-0,40%	9,20%
STOXX600	648,33	646,75	592,19	0,24%	9,48%
Dow Jones	51.523,06	51.770,31	48.063,29	-0,48%	7,20%
S&P 500	7.353,73	7.580,07	6.845,50	-2,99%	7,42%
Nikkei	57.434,77	63.290,11	50.339,48	-9,25%	14,09%

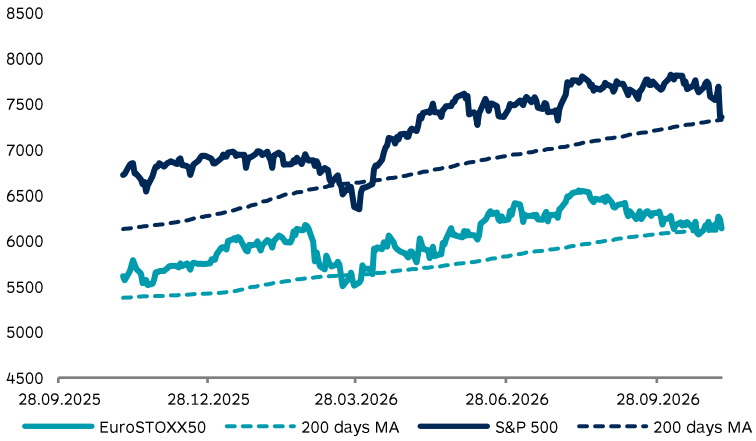
Sources: Bloomberg, NORD/LB Macro Research

Index forecasts

Index	NORD/LB forecast for the horizons ...		
	3M	6M	12M
DAX	26.800	27.200	27.800
MDAX	32.000	33.500	33.900
EuroSTOXX50	6.350	6.425	6.550
STOXX50	5.525	5.600	5.700
STOXX600	670	690	705
Dow Jones	52.500	53.500	54.500
S&P 500	7.550	7.700	7.800
Nikkei	62.000	65.000	67.500

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, 06th November 2026.**

The next English issue of Economic Adviser will be appearing on **18th December 2026**.

Overview of forecasts

Fundamental forecasts

in %	GDP growth			Rate of inflation			Unemployment rate[1]			Budgetary balance[2]		
	2025	2026	2027	2025	2026	2027	2025	2026	2027	2025	2026	2027
USA	2,3	2,4	2,2	2,7	3,2	2,0	4,3	4,2	4,3	-5,3	-6,2	-6,3
Euroland	1,3	1,1	1,3	2,1	3,1	2,7	6,3	6,4	6,4	-3,0	-3,4	-3,4
Germany	0,2	1,3	1,4	2,3	2,7	2,7	6,3	6,4	6,4	-2,6	-3,8	-3,8
Japan	1,1	0,7	0,9	3,2	2,0	2,1	2,5	2,5	2,5	-2,0	-2,4	-2,7
Great Britain	1,3	1,2	1,2	3,4	3,2	2,7	4,8	5,2	5,2	-4,9	-3,8	-3,3
Switzerland	1,4	2,1	1,5	0,2	0,7	0,9	2,9	3,1	3,0	0,7	0,2	0,3
China	5,0	4,6	4,4	0.1	1,1	1,1	5,2	5,2	5,1	-5,1	-5,4	-5,5

Change vs previous year as percentage; [1] as percentage of the labour force (Germany: as per Federal Employment Office definition); [2] as percentage of GDP

Sources: Macrobond, NORD/LB Macro Research

Key interest rates

In %	06.11.26	3M	6M	12M
USD	4,07	4,25	4,25	4,00
EUR	2,50	2,75	3,00	3,00
JPY	1,25	1,50	1,75	2,00
GBP	4,00	4,00	4,25	4,00
CHF	0,00	0,00	0,00	0,10
CNY	1,50	1,50	1,50	1,50

Sources: Bloomberg, NORD/LB Macro Research

Exchange rates

EUR in…	06.11.26	3M	6M	12M
USD	1,12	1,12	1,15	1,18
JPY	177	176	179	178
GBP	0,83	0,84	0,85	0,86
CHF	0,91	0,92	0,93	0,92
CNY	7,45	7,50	7,73	7,97

Interest rates (government bonds)

	3M rates				Yields 2Y				Yields 5Y				Yields 10Y			
	06.11.	3M	6M	12M	06.11.	3M	6M	12M	06.11.	3M	6M	12M	06.11.	3M	6M	12M
USD	4,07	4,30	4,20	3,80	4,49	4,70	4,80	4,50	4,63	4,80	4,90	4,60	4,86	5,00	5,10	4,80
EUR	2,79	2,90	3,10	3,10	2,97	3,00	3,00	3,10	3,05	3,10	3,10	3,30	3,26	3,30	3,30	3,50
JPY	1,79	1,70	1,85	2,05	1,74	1,85	1,90	2,00	2,06	2,00	2,05	2,10	2,65	2,90	2,90	2,95
GBP	4,09	4,25	4,50	4,20	4,77	4,70	4,80	4,55	4,80	4,75	4,90	4,65	5,16	5,20	5,40	5,10
CHF	-0,04	0,00	0,00	0,20	0,00	0,25	0,28	0,35	0,31	0,40	0,42	0,45	0,40	0,50	0,50	0,60

Sources: Bloomberg, NORD/LB Macro Research

Spreads (bp)

	3M EURIBOR				2Y Bund				5Y Bund				10Y Bund			
	06.11.	3M	6M	12M	06.11.	3M	6M	12M	06.11.	3M	6M	12M	06.11.	3M	6M	12M
USD	127	140	110	70	153	170	180	140	158	170	180	130	161	170	180	130
JPY	-101	-120	-125	-105	-122	-115	-110	-110	-99	-110	-105	-120	-60	-40	-40	-55
GBP	130	135	140	110	180	170	180	145	175	165	180	135	191	190	210	160
CHF	-283	-290	-310	-290	-297	-275	-272	-275	-275	-270	-268	-285	-285	-280	-280	-290

Sources: Bloomberg, NORD/LB Macro Research

Annex

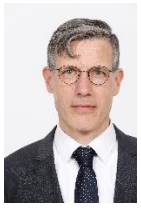
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