

NORDKINN

— ASSET MANAGEMENT —

Market Review & Outlook

October 2025

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Market overview

Global review

While October unfolded such that global yields ended the month largely unchanged compared to end of September, markets yet again experienced meaningful intra-month volatility throughout the month.

In early October, a lack of major U.S. data releases due to the continued US government shut-down, left investors focused on renewed tariff threats from President Trump and rising credit concerns, which fuelled expectations of further Fed rate cuts. This led to a rally in U.S. Treasuries and a softer dollar. As these concerns later eased, momentum in rates markets faded and the USD regained ground.

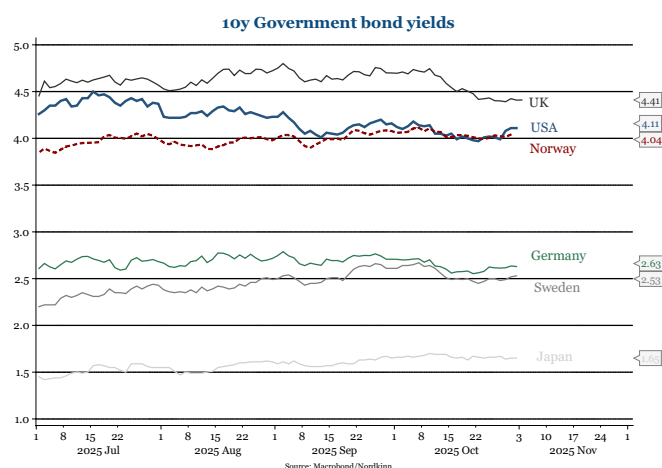
On October 29th, the Fed lowered its Fed Funds target range by 25 bps to 3.75–4.00% and announced that quantitative tightening will be suspended from December 1st, citing tighter money-market liquidity and reserve conditions. One member dissented against cutting rates. The major takeaway was however that Chair Powell – clearly in efforts to guide markets – emphasised that a December rate cut was “far from a foregone conclusion.” Consequently, short-end rates increased by 10-15 bps.

The ECB kept its deposit rate unchanged at 2.00% on October 30th, marking a third consecutive hold. President Lagarde struck a balanced tone, noting that inflation is “near target but not yet there,” and signalled that further cuts are unlikely in the near term. The market reaction was muted, with euro-area yields and the euro both little changed.

In the UK, there was no Bank of England meeting during October, but a softer-than-expected CPI print and expectations of fiscal tightening reignited debate about the timing of rate cuts. Headline inflation slowed to 2.3% y/y and core inflation eased further, prompting markets to price in a first policy rate reduction as early as Q1 2026. Although several MPC members highlighted persistent wage pressures, their hawkish remarks did little to prevent a more dovish market repricing, and Gilt yields declined over the month.

In Japan, the Bank of Japan left on October 30th its policy rate unchanged at 0.50%, but Governor Ueda indicated a readiness to tighten policy should inflation and wage developments evolve as projected. Japanese government bond yields traded within a narrow range as investors awaited clearer guidance on the BoJ’s next policy step.

Overall, gains from our long UK rates and short GBP exposure contributed positively to our “*Tactical risk reward*” theme. Also, our European rates exposure added to performance within “*Rebuilding Europe*.” Conversely, declining premia for sovereign risk translating into flatter yield curves, weighed on returns in “*Sovereign risk premia*.”



Nordic review

On the data front in Sweden, a strong flash estimate for Q3 GDP, confirmed the growing improvement seen in recent business surveys, which indicates that an economic recovery is gradually taking hold. Meanwhile, core inflation (CPIF excluding energy) eased further in September to 2.7%, broadly in line with the Riksbank’s forecast.

Despite the firmer growth backdrop, Riksbank officials maintained a cautious tone, noting that while inflation risks have diminished, the recovery remains fragile and monetary policy will continue to be guided by incoming data. Nevertheless, the combination of stronger growth and easing inflation supported a more balanced outlook for policy ahead.

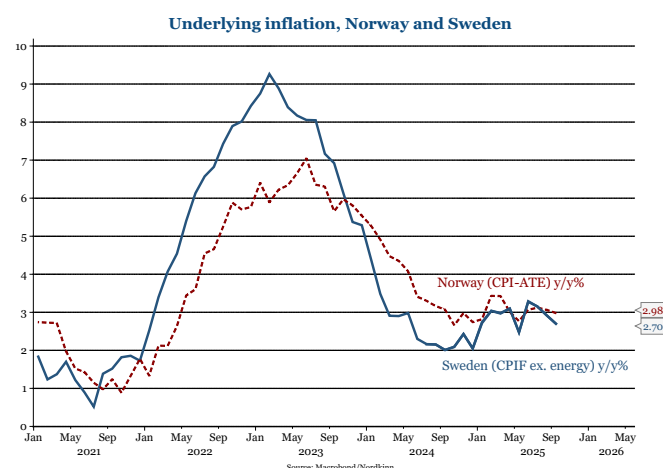
Due to an index extension of Swedish bond benchmark, which is the key reference in use for long-only bond investors, government bond auctions conducted by the Swedish National Debt Office (SND) attracted strong demand when shorter dated bonds were replaced by longer term bonds. This led to outperformance of Swedish government bonds. The technically induced demand indeed proved short-lived, as there was no continued price action after the index extension was completed. Consequently, our “*Bond supply set to expand*” theme detracted from performance.

Turning to Norway, data releases during October indicated that economic activity continues to hold up reasonably well, broadly in line with Norges Bank’s projections. That said, the tone of the data was slightly softer overall, with early signs of cooling in house prices and construction activity. The registered unemployment rate edged up to 2.2% in October, 0.1 percentage point above Norges Bank’s forecast, while core CPI inflation eased to 3.0% in September, 0.2 percentage point below projection.

Taken together, these deviations were too small to alter the monetary policy outlook for the coming months. Norges Bank is expected to keep the policy rate unchanged at 4.00% to facilitate a timely return of inflation to the 2.0% target. Market participants accordingly pushed expectations for the first rate cut further out in time, while longer-term yields remained supported, leading to a flatter yield curve over the month.

In addition, Norges Bank announced plans to issue central bank certificates in 2026 to absorb excess liquidity, which—together with higher premiums in the U.S. money market—contributed to higher short-term NOK rates and reinforced the flattening trend in money markets.

Overall, the net performance attribution from both of our Norwegian themes was muted following the domestic developments during October.



Outlook

Global outlook

Despite Chair Powell's hawkish message that a December rate cut is far from assured, markets as at time of writing continue to assign roughly a two-thirds probability to such an outcome and expect further easing through next year. In our view, these odds are too high.

The Federal Reserve will have very limited official data to assess before the December FOMC meeting due to the government shutdown, meaning that alternative indicators will attract greater market attention than usual. As Powell noted at the October 29th press conference, when the Fed is "driving in the fog", it makes sense to slow down. With the policy rate now approaching the FOMC's assessment of the long-run neutral level (see chart), this reinforces the case for caution. Absent a clear deterioration in the data, we believe the probability of a December cut is below 50%. The bar to deliver several rate cuts next year is also high judging from the resistance to cut rates already at the October meeting.

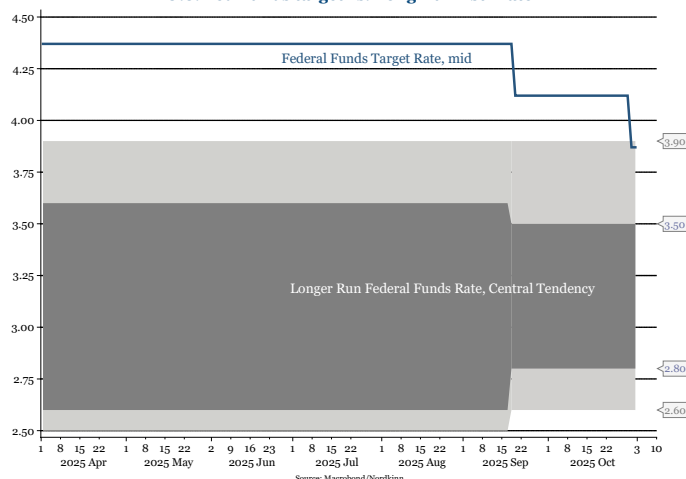
Turning to Europe, recent data appear to have reassured ECB officials that the economy remains resilient despite higher tariffs. With inflation already close to the 2.0% target, and the policy rate roughly in the middle of neutral range estimates, the ECB's current stance looks appropriate. We expect this to remain the case for the foreseeable future. If anything, the balance of risks is tilted slightly toward further easing should growth or inflation disappoint, rather than tightening in response to upside surprises. As such, current market pricing of roughly 12 basis points of cuts by June 2026 does not seem unreasonable.

In the UK, the recent outperformance of Sonia and Gilts could extend, reflecting expectations of continued disinflation and the drag from upcoming fiscal tightening. Together, these factors should give the BoE scope to cut rates below what is currently priced in by markets.

By contrast, in Japan we expect the Bank of Japan to raise rates more than currently implied by market pricing over the coming year. With inflation running above the 2.0% target for a third consecutive year, the policy rate at just 0.50%, and terminal rate expectations only slightly above 1.00% by 2027, market pricing appears too cautious. Even if inflation settles near 2.0% over the medium term, such pricing implies a deeply negative neutral real rate—an assumption that looks increasingly inconsistent with Japan's improving nominal dynamics.

In terms of investment implications, we continue to see value in yield-curve steepeners in both the UK and Eurozone, consistent with our dovish monetary policy bias near term. Conversely, in the U.S. and Japan we see greater risk of a hawkish repricing across the curve.

U.S. Fed Funds target vs. Long Run Estimate



Nordic outlook

In Sweden, with the policy rate currently within the neutral range—albeit at the lower end—there is no reason for the Riksbank to adjust its monetary stance in the near term. Signs of a stronger recovery, reflected in the flash estimate for Q3 GDP and improving business surveys, are encouraging after years of subdued growth and elevated unemployment. Still, these green shoots are unlikely to prompt a material revision to the Riksbank's economic outlook or policy path. For the time being, the recovery is likely viewed as fragile.

While core inflation remains above target, we expect inflation to ease rapidly and fall well below the 2.0% target next year, if not only due to temporary effects from VAT cuts on food as from April 1st 2026. Consequently, the Riksbank will maintain its guidance for a stable policy rate at 1.75% on November 5th and for the foreseeable future, viewing risks around this baseline as broadly balanced—consistent with prevailing market expectations.

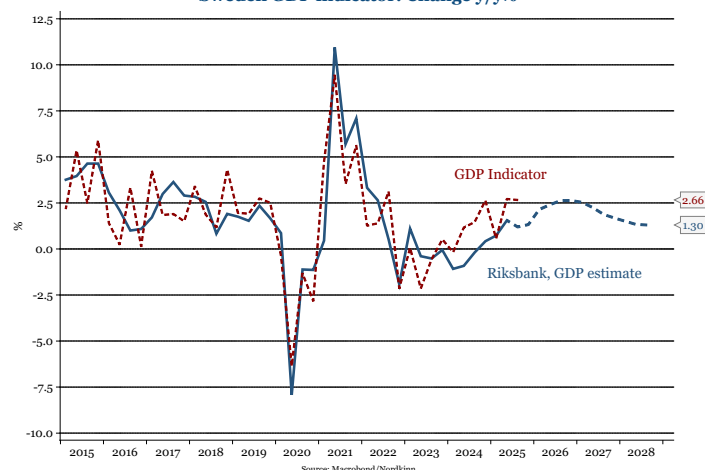
That said, with early signs of recovery emerging ahead of next year's planned fiscal stimulus, our bias is for a meaningfully steeper Swedish yield curve. Elevated bond supply will exert persistent pressure on government bond valuations, and we see scope for Swedish bonds to cheapen also on a cross-market basis, particularly relative to Germany and Norway.

In Norway, by contrast, the supply backdrop remains more favourable. We expect gross issuance of Norwegian government bonds to rise moderately next year to NOK 105–115 bln, up from NOK 95–105 bln in 2025—a smaller increase than in most other markets. The planned introduction of Norges Bank certificates in 2026, designed to absorb structural liquidity, provides attractive tactical opportunities for us, as this will weigh on demand for very short-dated paper, but should have little impact on longer maturities.

Turning to monetary policy, we expect Norges Bank to keep the policy rate unchanged at 4.00% at the upcoming meeting on November 6th and reaffirm its intention to maintain this level for a prolonged period. We continue to believe that their inflation forecast for next year is too high and that lower realised inflation will lead to somewhat earlier rate cuts than implied by the Bank's own projections. In addition, recent data point to slightly weaker developments in housing and construction activity and a modest softening in the labour market.

Taken together, these factors support our tactical bias to be received in NOK rates in the 2–3-year segment, while positioning for steeper yield curves.

Sweden GDP indicator. Change y/y%



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Our focus is to generate stable absolute returns that exhibit low correlation to other assets. Our Nordkinn Fixed Income Macro Fund was launched in 2013.

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