

NORDKINN

— ASSET MANAGEMENT —

Market Review & Outlook

August 2025

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Market overview

Global review

Global bond yield curves steepened in August. Lingering fiscal concerns and political interference in U.S. monetary policy weighed on sentiment at the long end of the curve, pushing the U.S. 30-year Treasury yield higher. In a marked escalation, President Trump fired Fed Governor Lisa Cook over alleged misconduct, following months of attacks on Chair Powell.

At the same time, short-term U.S. Treasury yields declined after Chair Powell acknowledged in his Jackson Hole speech that a “shifting balance of risks may warrant adjusting our policy stance.” He highlighted a significantly larger slowdown in employment growth than assessed at the July FOMC meeting, with earlier figures for May and June revised notably lower. While weaker labour growth partly reflects tighter immigration policy, the Fed judged that downside risks to the economy have increased—consistent with a likely rate cut in September. As a result, the 5y/30y U.S. Treasury curve steepened sharply to more than 120 basis points, its widest since 2021.

Turning to Europe, the Bank of England cut its Bank rate by 25 bps to 4.00% on August 7th, after a narrow and much closer-than-expected 5-4 vote. With inflation albeit running too high, further cuts are not a given.

In France, political uncertainty resurfaced after French Prime Minister François Bayrou unexpectedly called a confidence vote for September 8th. With most opposition parties pledging to vote against the government, a collapse appears likely. French government bond yields widened sharply after the announcement, and the euro depreciated on the news.

Elsewhere in Europe, short-term bond yields remained broadly stable in August as markets continued to assign a low probability to further ECB rate cuts. Long-end yields nevertheless moved higher across EU member states, broadly in line with U.S. developments and amplified by structural shifts in demand. Notably, the market seems to have begun adjusting to the Dutch pension reform: A shift from defined-benefit to defined-contribution schemes, reducing the need for liability-duration hedging and thereby further lowering an already lacklustre demand for long-dated bonds.

These dynamics supported our European theme “*Rebuilding Europe*”, which benefitted from steeper yield curves. In addition, our global theme “*Geopolitical tensions impacting growth*” contributed positively in August, driven mainly by the decline in short-term U.S. Treasury yields relative to the long end, which helped offset losses from long-duration exposure in UK short-term rates.

Nordic review

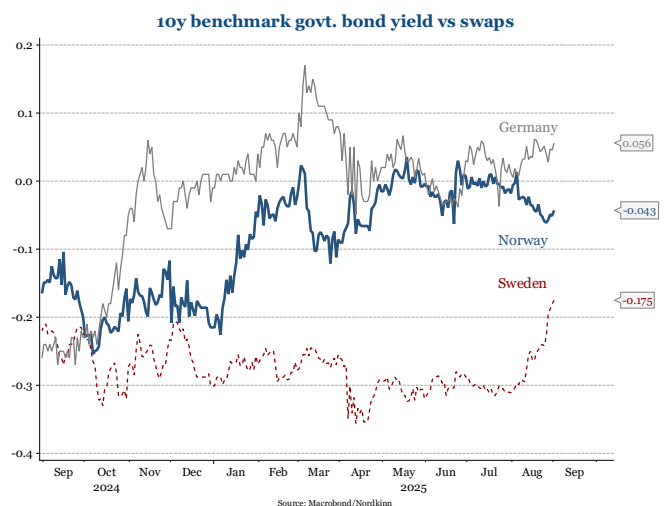
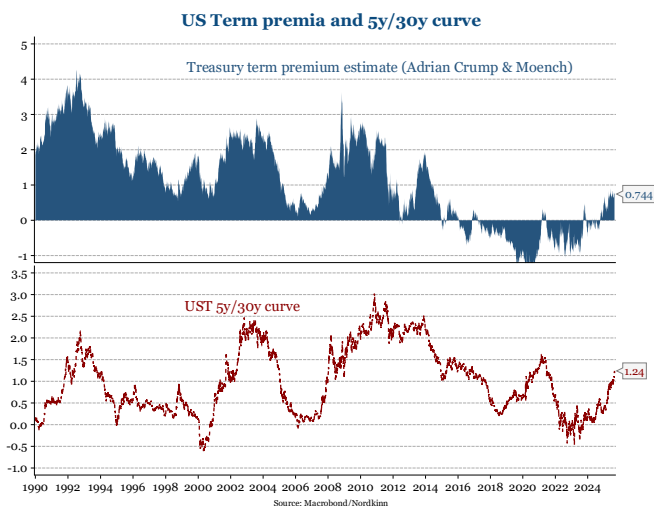
In Sweden, the Riksbank left its policy rate unchanged at 2.00% on August 19th, while reiterating that there remains a 50/50 probability of another cut later this year. Minutes from the meeting suggest broad agreement among Board members that the economic recovery has been weaker than expected and that the recent rise in CPI inflation excluding energy—to 3.3% in June before easing slightly to 3.2% in July—will likely prove transitory. At the same time, risks of more persistent inflation were indeed acknowledged, warranting vigilance. Consequently, most members appear inclined to await clearer evidence of lower inflation before supporting additional easing.

Market pricing of rate cuts eroded steadily through July, but in August short-dated bonds rallied as expectations for a further cut increased. Longer-term bonds, by contrast, sold off sharply on heavier issuance and expectations of larger net supply ahead, in line with our long-held view. This widening of SGB yields versus swaps and covered bonds supported our Swedish theme “*Bond supply set to expand*”, which also benefitted from a tactical long net-duration position. Meanwhile, the summer rise in spot inflation boosted Break-Even Inflation spreads, lifting returns in our “*Revival of the inflation hedge*” theme.

In Norway, core inflation registered 3.1% in August, in line with Norges Bank’s projection. Unlike the Riksbank, Norges Bank appears less convinced that inflation will return to the 2.0% target within a reasonable timeframe—particularly if rates were to be cut prematurely. Accordingly, on August 13th the central bank left its key policy rate unchanged at 4.25%, a clearly restrictive level, while signalling that cuts remain likely later this year should incoming data evolve broadly as expected.

While Norwegian inflation has tracked forecasts, GDP growth surprised to the upside in the first half of the year. In addition, Q2 earnings data point to upside risks for wage growth in 2025, which could delay inflation’s return to target. As a result, market pricing of rate cuts was pared back somewhat in August. The impact on our “*Norway: Path to looser policy*” theme was limited, however, due to our modest directional exposure and active management.

Given the strong global spillovers to the long-end of the Norwegian yield curve, our theme “*Lags in yield and curve dynamics*” benefitted from the broad steepening of global yield curves. At the same time, local factors also played a key role: Stronger demand for Norwegian government bonds, supported by prospect of easing domestic bond supply, added further to the theme’s performance.



Outlook

Global outlook

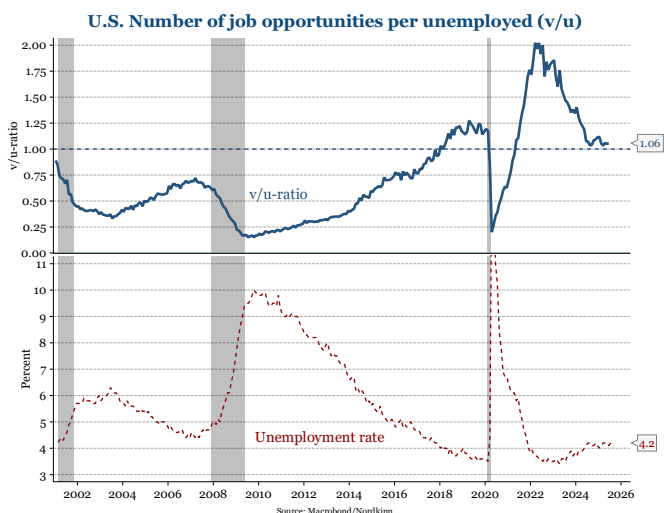
The slowdown in U.S. job growth is subject to conflicting interpretations within the FOMC. Hawks argue that the unemployment rate's stability at 4.2% signals a labour market in balance, claiming that slower job creation merely reflects a lower "break-even" rate of employment growth. Indeed, labour supply has declined sharply this year, largely due to reduced immigration. The doves, however, view the weakening demand for labour as troubling regardless of supply, pointing to business contacts who report hiring freezes amid uncertainty over tariff policies and the adoption of artificial intelligence. In this discussion, Chair Powell's Jackson Hole speech places him more in the dovish camp.

One reason unemployment has remained steady despite weaker labour demand is that firms have cut back on the exceptionally high number of job vacancies (see chart). But with conditions already near what can be considered "maximum employment," even modest further softening would be concerning. With increased downside risk in the labour market and rates still above what most members considers "neutral" we expect consensus to form around a 25bps rate cut in September. And unless the data picks up notably, another 25bp cut is probably on the cards in December.

Beyond the labour market, the politicisation of the Fed poses risks to longer-term policy credibility and market stability. By attacking Governor Lisa Cook, President Trump is sending a signal to all FOMC members: dissent from his views at your peril. Such pressure could influence voting behaviour, and if markets come to believe that policy decisions are politically directed, the Fed's independence and credibility could be undermined—damaging inflation expectations and weighing on the USD.

If Trump succeeds in removing Cook, he will be able to place two loyalists on the Fed Board of Governors, including the replacement for Kugler. Combined with dovish members Bowman and Waller, who voted for cuts in July, this could tilt the balance of the Board and set the stage for deeper rate cuts than currently priced in—even absent a marked deterioration in economic data.

Taken together, while we maintain a cautious stance on the U.S. rate outlook, risks are skewed to the downside. A deterioration in hard data could accelerate rate cuts and push yields lower. With the ECB now at or near the end of its easing cycle, we see scope for narrowing in short-dated U.S.-EUR yield spreads, a development that would also weigh on the USD. In the UK, the sharp repricing of rates following the Bank of England's narrow rate cut in August, combined with signs of labour market weakness, supports a constructive view on UK short-term bonds.



Nordic outlook

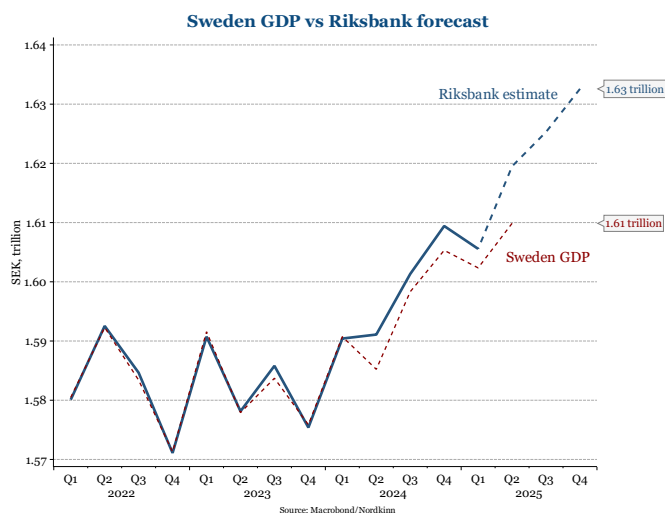
In Sweden, economic activity continues to recover, but at a slower pace than anticipated by the Riksbank (see chart). On its own, the sluggish recovery would argue for further policy easing. However, inflation has surprised on the upside and remains well above the 2.0% target, warranting caution. While we share the Riksbank Board's view that inflation is likely to return to target over time, uncertainty around the outlook suggests that the central bank will want to see clear evidence of inflation declining before voting for another cut. A softer outcome for underlying inflation in August would meaningfully lower the bar for a September rate cut, in our view, pushing yields lower.

At the long end of the curve, Swedish bond supply is set to remain elevated through the autumn and at historically high levels in the coming years, weighing further on bond prices. The risk is tilted further to the upside following the government's announcement of SEK 80 bln in unfunded spending for 2026—well above expectations—which will prompt the debt office to revise its borrowing forecast higher.

In Norway, by sharp contrast, the debt office has already issued NOK 83 bln of their NOK 95–105 bln target for 2025, leaving limited supply for the remainder of the year. For 2026, issuance is expected to remain broadly stable or even decline slightly as refinancing needs ease. Crucially, any increase in government spending is typically financed through higher petroleum revenue spending rather than additional bond issuance. With government bonds still trading cheap versus swaps and peers, we view the supply backdrop as constructive for NGB prices.

On shorter-dated NOK rates, strong Q2 GDP and earnings data reduce the likelihood of a prolonged cutting cycle. Barring a significant upside surprise in CPI or the regional network survey, we expect Norges Bank to cut its policy rate by 25 bps to 4.00% at its upcoming meeting on September 18th - consistent with its own projection. That could prove to be the final cut this year if macro data remains resilient.

That said, the balance of risks still tilts to the downside, driven primarily by weaker global growth prospects and the potential for aggressive easing in the U.S., which will impact fixed income markets overseas. We currently prefer to express this view through curve steepeners and tighter cross-market spreads, while remaining ready to tactically add directional exposure when opportunities arise.



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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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