

NORDKINN

— ASSET MANAGEMENT —

Market Review & Outlook

November 2025

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Market overview

Global review

In November, financial markets continued to exhibit pronounced intra-month volatility and a lack of clear direction. U.S. Treasury yields ended the month slightly lower compared to the end of October, as investors gradually increased the probability of a rate cut at the upcoming FOMC meeting on December 10th.

Early in the month, markets oscillated between signs of resilient U.S. activity and indications of cooling labour-market momentum, alongside divided messaging from Fed policymakers on whether to prioritise inflation control or labour-market support. This backdrop resulted in choppy trading across both rates and risk assets, with yields initially drifting higher before reversing course later in the month.

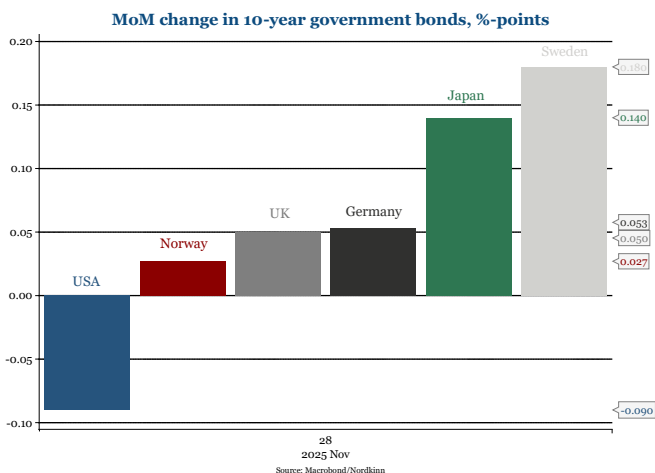
Following several hawkish-leaning speeches from regional Fed presidents, expectations for a December rate cut suddenly jumped sharply from around 30% to 70% after NY Fed President John Williams' remarks on November 21st. He signalled growing confidence that inflation continues to move towards target and indicated scope for further rate cuts in the "near term". His dovish tone triggered a broad-based rally in rates, with 10-year Treasury yields falling below 4% towards month-end.

In the Euro area, incoming data continued to point to modest growth and inflation pressures close to target, while ECB communication remained cautious and data dependent. Euro area yields range-traded over the month, with no material shift in expectations for ECB policy rates.

In the UK, Chancellor Rachel Reeves presented a budget that delivered a larger-than-expected rebuilding of fiscal headroom. Although much of the tightening is deferred to later in the forecast horizon, the budget helped reduce term premia. Longer-dated gilt yields declined from mid-month peaks but ended the month broadly unchanged. At the same time, continued disinflation and a weak labour-market report increased expectations of rate cuts from the Bank of England.

In Japan, the Bank of Japan reiterated that any policy normalisation would be gradual and contingent on sustained inflation dynamics. Nevertheless, Japanese government bond yields continued to edge higher from low levels, reflecting expectations of more durable growth and inflation ahead.

Overall, higher Japanese government bond yields and lower UK interest rates contributed positively to performance within our global theme, *"Sovereign risk premia and fiscal divergence,"* offsetting negative performance from tactical U.S. yield-curve and FX positioning within our *"Tactical risk reward trading"*.



Nordic review

Core inflation in Sweden surprised to the upside, printing 0.2%-points above the Riksbank's 2.6% forecast for October. While inflation remains elevated, the recent downward trend has reinforced the Riksbank's assessment that pricing pressures are transitory and that inflation will continue to ease in the coming months. Nonetheless, improved economic momentum has bolstered market sentiment, supporting higher interest rates and resulting in a steeper yield curve.

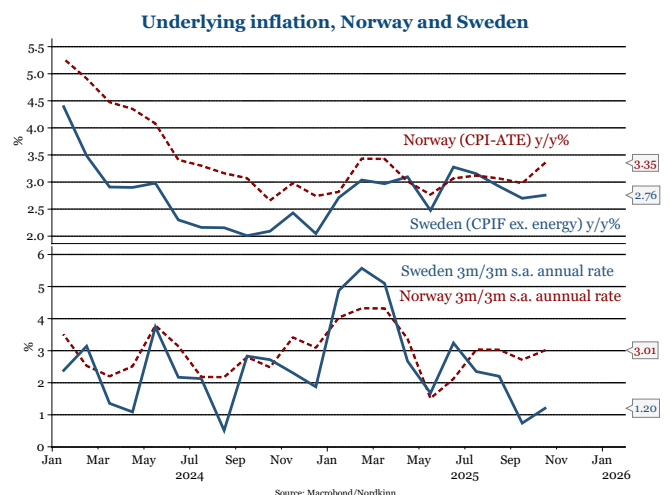
The upward momentum in yields was further reinforced by the Swedish National Debt Office's (SDNO) new borrowing forecast. In response to widening budget deficits driven by expansionary fiscal policy, the Debt Office plans to increase annual issuance of nominal government bonds to SEK 216 bln in 2026, up from SEK 118 bln this year. Issuance of inflation-linked bonds will remain unchanged at just SEK 6 bln.

Swedish government bonds sold off sharply following the announcement, while spreads between nominal and inflation-linked yields widened. Against this backdrop, our Swedish theme *"Revival of the inflation hedge"* contributed positively to performance. The theme *"Bond supply set to expand"* subtracted from performance, as gains from SGB underperformance versus swaps and covered bonds were offset by a rally in covered bonds relative to swaps.

Turning to Norway, core CPI inflation surprised significantly to the upside in October, rising from 3.0% to 3.4%. However, a deeper dive into the details revealed that prices for typical Black Friday goods — such as furniture, household equipment and electronics — increased sharply ahead of seasonal sales. The more technically induced spike in inflation is explained by Norwegian retailers adapting to the EU Omnibus Directive in force since May 2022: Whenever a retailer announces a price reduction, they must refer to the lowest price the product has been sold for in the previous 30 days. Subsequently, short-term interest rates rose markedly following the CPI release, and the yield curve flattened.

Later in the month, most of the increase in NOK rates was reversed as investors took advantage of higher NOK yields in a context of lower foreign rates and softer energy prices. Weaker-than-expected Q3 GDP growth, which came in at just 0.1% QoQ, also contributed to the retracement in NOK yields.

As we used the yield spike following the CPI print to add long duration risk, our Norwegian theme *"Path to looser policy"* contributed positively to performance. In addition, *"Lags in yield and curve dynamics"* also posted gains, supported by narrowing spreads between Swedish and Norwegian bond yields and steeper yield curves.



Outlook

Global outlook

The U.S. government shutdown has led to a broad suspension of data collection across key agencies, meaning that October CPI and Non-Farm Payrolls will not be published in their usual form. Several releases have been postponed until December or later, reducing the transparency of the macro backdrop and leaving policymakers with a thinner-than-normal data set ahead of the Fed's next policy decision.

From a macro perspective, the U.S. economy remains resilient, supported by massive AI-related capital investments and still-accommodative financial conditions. However, this strength has not prevented a cooling in the labour market. Recent indicators point to softer employment growth and a modest rise in layoff activity, with the associated slowdown in labour income posing risks to broader demand dynamics.

At the same time, the Fed continues to grapple with inflation, which remains close to 3%. Against this backdrop of persistent inflation pressures and softening labour markets, policymakers appear divided ahead of the December 10th FOMC meeting. Nevertheless, recent remarks by Williams — who signalled that he still sees room for a further interest-rate cut in the “near term” — suggest that the balance of risks may be tilting towards a December rate reduction.

Given the mixed outlook for the U.S. economy, a largely divided FOMC, and the potential for a 2026 growth upswing driven by lower taxes and reduced tariff uncertainty, we view market expectations for substantial further easing next year as somewhat aggressive. As the near-certainty of a more politically appointed FOMC chair from mid-May complicates the outlook, we anticipate a December cut being followed by a pause awaiting improved data visibility.

In the UK, by contrast, we believe the recent outperformance of SONIA rates and gilts may persist. Continued disinflation, weak labour-market data, and a more restrictive fiscal stance should provide the Bank of England with greater scope to cut rates than currently priced by the market.

In Japan, with inflation running well above the 2.0% target for a third consecutive year, we see scope for the Bank of Japan to continue gradually raising rates towards a terminal level close to 2.0% — well above current market expectations. Accordingly, we maintain our structural view of being short JGB exposure into 2026.

Nordic outlook

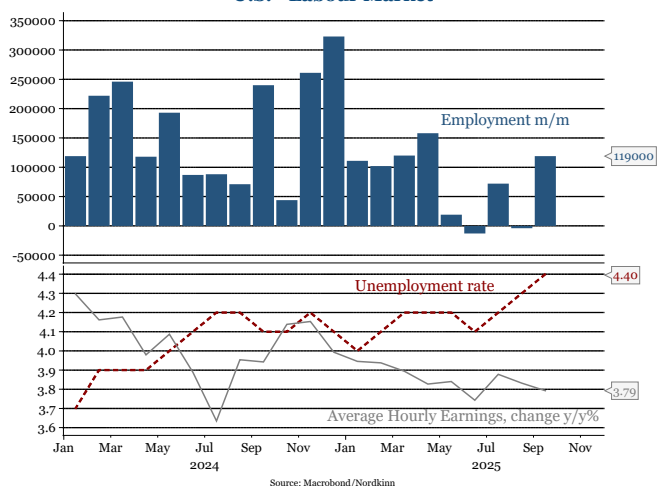
In Sweden, the SNDO's increase in planned nominal bond issuance for 2026 aligns well with our theme “*Bond supply set to expand.*” In addition, the actual magnitude of the increase was significantly larger than any pre-announced expectation. We expect elevated bond supply to exert persistent pressure on government bond valuations, creating scope for Swedish bonds to cheapen further, both relative to swaps (see chart) and on a cross-market basis, such as versus Germany and Norway. That said, we simultaneously expect the path to be choppy, as higher yields may also attract demand from value-oriented investors.

At the same time, signs of stronger economic growth in Sweden should also support higher bond yields. However, we expect labour market slack to persist for an extended period, implying limited underlying pressure on wage and price inflation. Consequently, we anticipate that the Riksbank will maintain its guidance for a stable policy rate at 1.75% for the foreseeable future, with risks around this baseline broadly balanced given the expected rapid decline in inflation next year. Current market pricing of rate hikes in 2026 therefore appears premature in our view. We seek to capitalise on these dynamics through our new Swedish theme, “*Road to recovery.*”

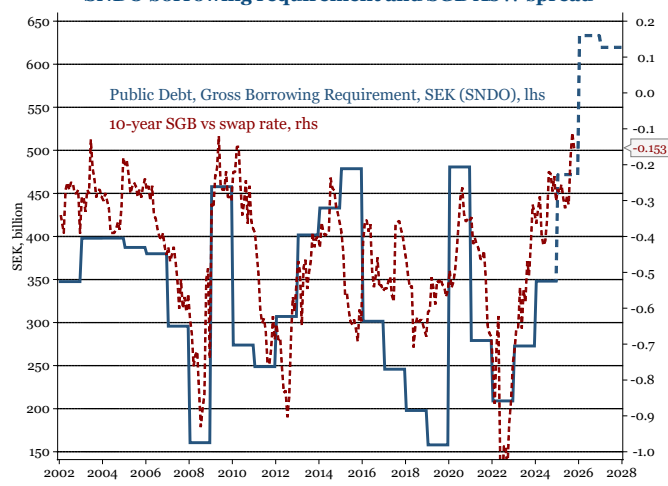
In Norway, the surprisingly high core CPI at 3.4% YoY in October clearly challenged our view that inflation is set to undershoot Norges Bank's projection over the coming year. However, the details revealed that most of the upside surprise stemmed from Black Friday-related timing effects. We therefore expect November sales activity to push prices markedly lower. Our furniture-price scraping model supports this pattern, with rising prices in October followed by declines in November. Moreover, our food price tracker points to a drop in food prices in November, reinforcing the downward momentum in inflation.

Looking ahead, we expect lower price growth on imports and production of food to transmit to lower price growth on food and catering services in coming months. High food price inflation in Norway is one of the most important factors why goods price inflation has been stickier in Norway relative to trading partners. In addition, import prices in general are falling according to foreign trade data, which will pass through to CPI with a few months lag. All told, we remain firm in our view what inflation will ease well below the 3% handle over the coming 6-8 months.

U.S. - Labour Market



SNDO borrowing requirement and SGB ASW spread



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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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