

# NORDKINN

— ASSET MANAGEMENT —

## Market Review & Outlook

February 2026

Addressed to Nordkinn's followers on LinkedIn for informational purposes

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# Market overview

## Global review

February 2026 was characterised by a partial stabilisation in global macro data, though underlying macro tensions and geopolitics remained unresolved. While U.S. labour market data pointed towards stabilisation it stopped short of fully confirming it. January payroll growth exceeded expectations, and the unemployment rate - abstracting from government shutdown distortions - has been broadly stable in a still "low-hire, low-fire" environment.

Despite tentative improvement in labour market data, U.S. Treasury Yields declined over the month. This partly reflected the AI-driven productivity narrative. Kevin Warsh, nominated to succeed Powell as Federal Reserve Chair, views the AI boom as a structural disinflationary force capable of reducing unit labour costs and lifting efficiency. He has therefore argued that the Fed should be more proactive in easing policy, treating AI as a productivity-enhancing wave.

However, with core PCE still hovering around 1 percentage point above target, it will be challenging for Warsh to persuade a majority within the FOMC to deliver near-term cuts. The Money Market curve (i.e. the curves stretching from overnight to 12-month interbank rates) consequently flattened, as pricing for additional easing was pushed further out, primarily into 2027.

In the UK, incoming data strengthened the case for monetary easing. Employment indicators softened and forward-looking surveys pointed to rising slack. Clearer evidence of moderating wage growth and easing core CPI cemented expectations of a March rate cut by the Bank of England. Front-end Gilt Yields declined, and UK rates outperformed both the Euro Area and the U.S. on a cross-market basis.

On February 28<sup>th</sup>, the U.S. and Israel launched a coordinated military offensive against Iran, targeting strategic military and political sites. Iran responded rapidly with missile and drone strikes across the region. This marked a decisive escalation of Middle East tensions, affecting markets in early March. However, the probability of military action had already risen during February, supporting energy prices and capping risk sentiment.

Our theme "*Global: Sovereign risk premia and fiscal divergence*" contributed positively to fund performance in February, largely reflecting gains from our exposure towards flatter Money Market curves in the U.S. and the UK.

## Nordic review

In Sweden, core CPI slowed to 1.7% in, around 0.3 percentage points below the Riksbank's projection. At the same time, the economic recovery continued, reflected in stronger Q4 GDP and tentative improvements in labour market indicators.

The weaker inflation print pushed front-end rates lower as markets gradually priced in a higher probability of rate cuts in 2026 - a notable reversal from the hike expectations that prevailed late last year. Money Market curves steepened as easing expectations were brought forward.

Lower short-term rates and steeper Money Market curves significantly benefited our "*Sweden: Road to recovery*" theme. The "*Bond supply set to expand*" theme also performed well, driven by gains in short-term government securities alongside relative underperformance in longer-dated bonds. In addition, "*Return of the inflation hedge*" contributed positively following the low inflation print.

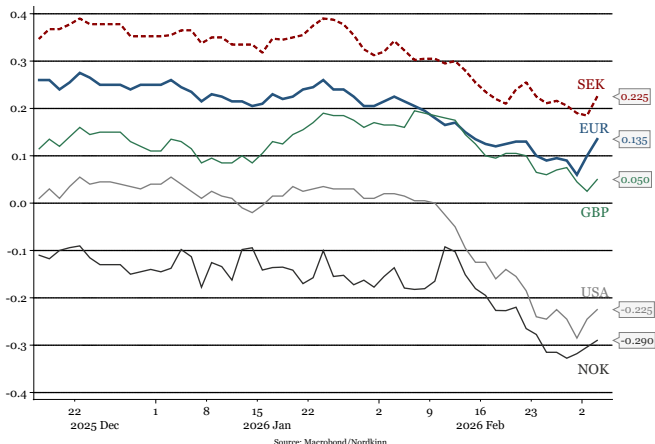
In Norway, by stark contrast, core inflation rose to 3.4% in January, significantly above Norges Bank's forecast of 2.9% and the consensus expectation of 3.0%. Importantly, the upside surprise was broad-based, with rents and other services standing out due to January resets and changes in weight compositions, underlining continued price stickiness. Given the magnitude of the surprise, market rates rose by more than 30 basis points on the day - one of the strongest single-day reaction since 2008. The NOK appreciated sharply as pricing for rate cuts was fully reversed and replaced with some probability of renewed tightening.

Against this backdrop, the theme "*Norway: Path to policy easing*" detracted significantly from fund performance. "*Norway: Lags in yield and curve dynamics*" also underperformed. Given proof of the persistent divergence between Norwegian inflation and that of most other European economies, these themes simultaneously lost their relevance.

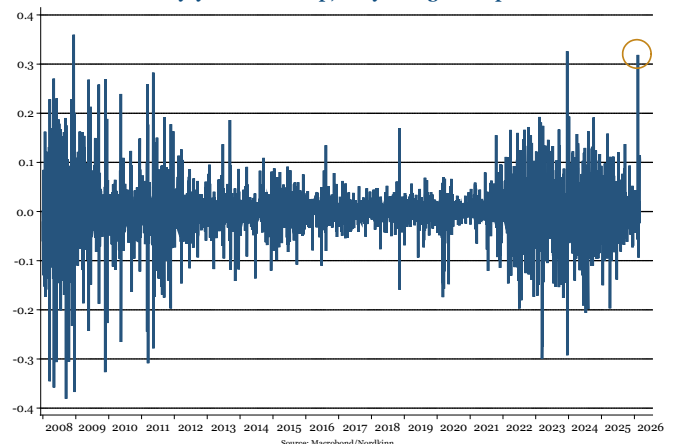
Consequently, in regrouping our lines of reasoning we decided to launch two new Norwegian themes: 1) "*Navigating persistent inflation*," designed to benefit from our view that persistent inflation in Norway delays rate cuts until 2027, and that the risk of renewed tightening has increased; 2) "*Attractive sovereign risk*," which seeks to capture the compelling yield and carry/roll characteristics of NGBs for both domestic and international investors. Both new themes contributed positively during the second half of February.

Meanwhile, the NOK has continued to appreciate strongly, supporting long krone exposure held within our "*Tactical risk reward trading*" theme, which contributed meaningfully to performance in February.

Sep26 vs. Sep27 Money Market curves



NOK 1y1y fwd rate swap, daily change in %-points



# Outlook

## Global outlook

The U.S. has moved substantial military capacity to the Middle East in recent weeks, yet the initial attack on Iran on February 28<sup>th</sup> came sooner than most market participants expected. So far, markets have mainly reacted through higher energy prices. The flight-to-safety bid in bonds seen in late February has so far faded after the attack, while oil prices are up more than 10%. Short-end rates have sharply across economies, as higher energy prices are complicating monetary policy.

The outlook remains highly uncertain. The U.S. and Israel are seeking full capitulation of the Iranian regime, but despite eliminating several Iranian leaders, this will not be easy. The U.S. has indicated operations could last 4–5 weeks to significantly weaken Iran’s military. Meanwhile, leadership losses raise the risk of rash decisions, such as attacks on Saudi oil infrastructure or tankers in the Strait of Hormuz, potentially drawing more regional actors into the conflict. In this environment, energy risk premia are likely to remain elevated.

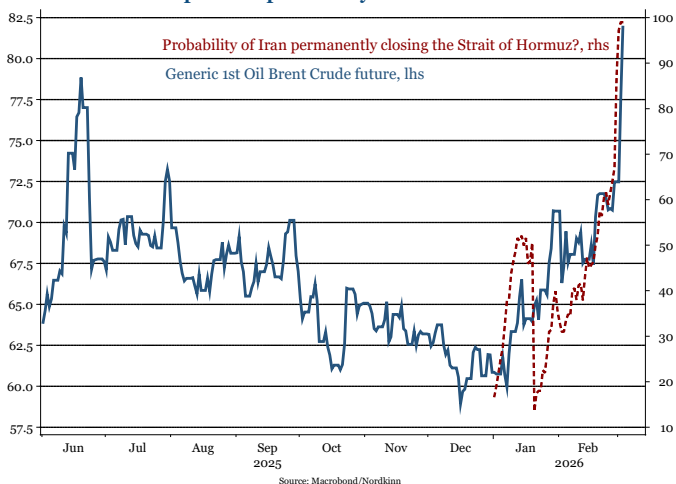
In absence of a prolonged disruption to production or transport, oil prices are unlikely to reach levels that severely damage the global economy. However, further escalation – including terrorist attacks against Western countries – would more meaningfully hurt risk appetite.

War developments will dominate headlines in the coming weeks, reducing the influence of macro data. Still, U.S. employment figures remain important. The narrative that AI is weakening the labour market is not strongly supported by data. Hiring in AI-intensive sectors like IT is picking up, and near-term AI investment is more likely to boost capital spending before delivering major productivity gains. With inflation closer to 3% than 2%, stronger hiring or energy-driven price pressures would make it harder for the Fed to cut rates. Our baseline is therefore that the Fed policy stays restrictive for longer than currently priced, with risks skewed toward fewer cuts in 2026 than markets expect.

In the U.K., recent data point to continued labour market stagnation, with slack building more rapidly than assumed in the BoE’s latest projections. Together with clearer signs of moderation in wage growth and core CPI, this points in isolation to a March rate cut to 3.5%. Conditional on a calming of the situation in the Middle East, we expect that the BoE eventually will need to assess whether the economy requires genuinely accommodative policy, implying rates below 3%.

In Japan, by contrast, persistent core inflation, firm wage momentum and upside risks from exchange rate pass-through continue to justify ongoing normalisation. We expect the BoJ to raise rates by 25 bps to 1.00% in April, with additional hikes likely in the second half of the year.

**Oil price vs. probability of Hormuz close**



## Nordic outlook

Swedish GDP and labour market data indicate that the recovery is gaining traction, supported by firmer household consumption and expansionary fiscal policy. We expect this positive momentum to persist through the year. However, the improving growth backdrop is unlikely to generate meaningful inflationary pressure in the near term.

Even abstracting from the well-telegraphed halving of VAT on food from April 1<sup>st</sup>, we expect underlying inflation to remain subdued throughout 2026. A stronger SEK, contained wage growth and very soft recent inflation momentum all reinforce our assessment. As underlying inflation appears set to undershoot the Riksbank’s projections on a sustained basis, the central bank may need to reassess the appropriate policy stance.

In Norway, by contrast, inflation is likely to remain sticky above the central bank’s 2.0% target for an extended period. In our assessment, most of the upside surprise in January’s CPI was driven by persistent service components, including rents, insurance, transport services, and hotels and restaurants. In addition, updated consumption weights imply a larger share for housing rents going forward, reinforcing inflation persistence.

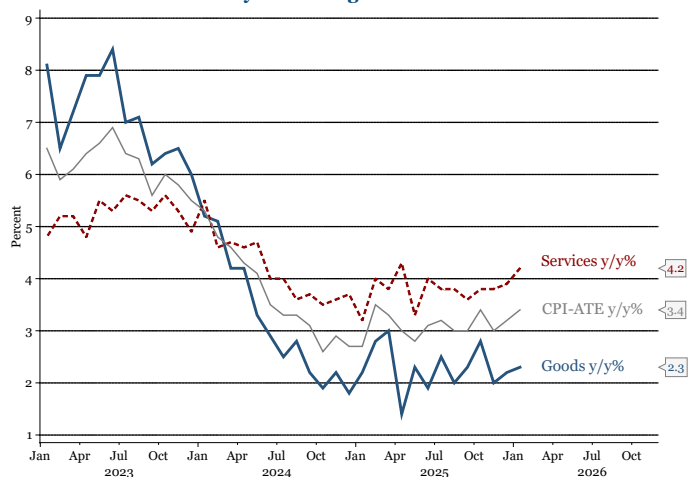
Yet, imported inflation should gradually moderate. Lagged effects from lower commodity prices on food, softer international export prices for consumer goods, and the recent appreciation of the NOK should all contribute to goods disinflation. However, exchange rate pass-through to import prices is incomplete and occurs with several months’ lag.

Overall, while we expect underlying CPI inflation to ease later this year, the current elevated level – and the limited progress toward the 2.0% target over the past year – remain a clear concern for Norges Bank. Although the Bank has historically operated a flexible inflation targeting regime, placing weight on real economy considerations and allowing disinflation to take time, there are limits to its patience – particularly with activity and the labour market still holding up well.

Given these circumstances, we have revised our policy outlook and now expect the policy rate to remain unchanged at 4.0% at least through Q4. In the near term, we view the risk of a hike as broadly more likely than that of a cut.

Finally, a more hawkish outlook from Norges Bank, combined with the spike in energy prices following developments in the Middle East, is likely to continue supporting the NOK exchange rate on relative basis.

**Norway Core CPI goods vs. services**



# About Nordkinn

Nordkinn Asset Management is a fixed income specialist based in Stockholm and Oslo. We invest in the global fixed income and currency markets – with a particular focus on our home markets Norway and Sweden.

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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