Market Review & Outlook

April 2026

Adressed to Nordkinn's followers on Linkedin for informational purposes

For access to the full report, please email investorrelations@nordkinnam.com

Market overview

Global review

April 2026 was characterised by further ramp-up in geopolitical uncertainty, but with a more nuanced market response compared to the sharp repricing seen in March. The initial surge in energy prices lost momentum in the first half of the month, driven by hopes of de-escalation in the Middle East and a reopening of the Strait of Hormuz. However, energy prices rebounded in the second half as tensions escalated further, resulting in a near standstill in vessel traffic through the strait.

Incoming data pointed to some resilience in activity, particularly in the U.S., but leading indicators such as business surveys and consumer sentiment showed signs of softening across several regions. At the same time, the pass-through from higher energy prices to core inflation remained uncertain, with early evidence suggesting limited second-round effects, at least so far.

The correlation between interest rates and oil prices suddenly spiked since the Iran war, see chart. Short-term forward rates, such as the 1-year Euribor rate one year ahead, declined in the first half of the month as energy prices eased, but reversed course and moved higher in the second half alongside the renewed increase in oil prices.

Major central banks, including the Federal Reserve, the ECB and the Bank of England, kept policy rates unchanged at their late-April meetings, awaiting further clarity on the implications for inflation and growth. However, communication retained a hawkish tilt. Several Federal Reserve officials argued for removing the easing bias and shifting towards more symmetric, two-sided guidance. Meanwhile, Christine Lagarde indicated that an ECB rate hike had been actively debated and emphasised that the period ahead would be critical for reassessment, signalling that a move in June remains a distinct possibility. Similarly, BoE's Andrew Bailey noted that while the current policy stance is appropriate for now, persistently elevated energy prices could necessitate renewed tightening.

Our new global theme, *"Supply shock crippling growth,"* lost its initial gains and detracted from performance during the second half of April as markets increasingly priced a more prolonged energy crisis requiring tighter monetary policy to contain inflation, but with limited immediate downside risks to growth. In this environment and reinforced by central banks' decision to remain on hold in April, money market curves steepened rather than flattened, contrary to our expectations.

Nordic review

After the sharp repricing in March, short-term Swedish interest rates declined in April as markets increasingly differentiated across underlying fundamentals. Swedish core inflation, measured by CPIF excluding energy, eased to 1.1% in March, leaving the Riksbank in a markedly different position from central banks still facing elevated inflation ahead of the escalation in Iran.

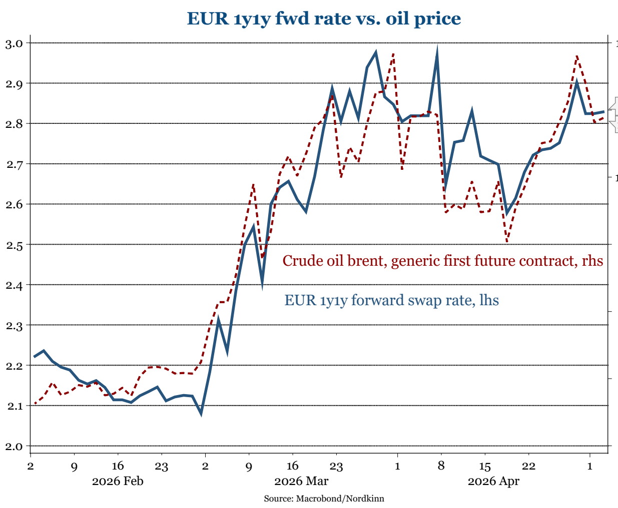
Incoming data also indicate that the Swedish recovery is losing some momentum. The Q1 flash GDP estimate showed a contraction of 0.2%, undershooting expectations. While business sentiment remained relatively resilient in April despite geopolitical tensions, consumer confidence deteriorated, with households becoming more concerned about their future financial situation. The unemployment rate remains elevated.

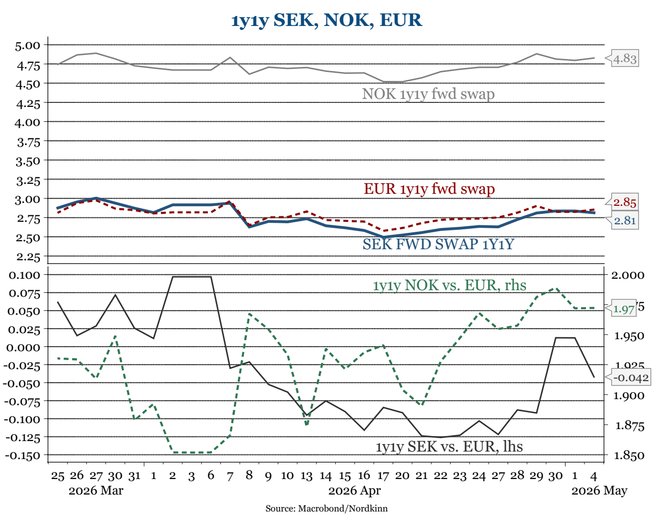
As a result, Swedish forward rates moderated relative to peers, including the euro area, see chart. This outperformance in Swedish fixed income contributed positively to our *"Tactical risk-reward trading"* theme. The theme also benefited from a sell-off in Swedish government bonds relative to swaps, as well as a weaker SEK versus NOK in FX markets. By contrast, the theme *"Sweden: Revival of the inflation hedge"* detracted from performance, primarily reflecting higher real rates and narrower break-even inflation spreads.

Turning to Norway, core CPI inflation remained unchanged at 3.0% in March, in line with projections from Norges Bank. Wage negotiations resulted in a norm of 4.4% for 2026 - also broadly in line with Norges Bank's forecasts, but still above levels consistent with a timely return to the inflation target. Labour market indicators remain mixed: registered unemployment is low and stable, while labour force survey data point to rising unemployment, particularly among younger cohorts.

Taken together, incoming data have reinforced Norges Bank's March guidance that "it will likely be appropriate to raise the policy rate at one of the forthcoming meetings." Norwegian rates increased slightly more than in the euro area during April, contributing modestly positively to our *"Norway: Navigating persistent inflation"* theme.

As longer dated government bonds broadly moved in tandem with swaps throughout the month, our *"Norway: Attractive sovereign risk"* theme had a limited impact on the fund's performance in April.





Outlook

Global outlook

The closure of the Strait of Hormuz and its impact on energy prices will remain the key drivers of global rates and central bank policy. Both the ECB and the Bank of England have framed their outlook around alternative scenarios, largely dependent on the trajectory of oil and gas prices. For the ECB, the prolonged duration of the conflict suggests that developments have already moved beyond the March baseline and closer to the adverse scenario, where tighter monetary policy is required. Communication following the April meeting pointed clearly towards a 25 basis point hike in June, with the subsequent path remaining contingent on developments in the Middle East. By contrast, the Bank of England is, for now, monitoring the situation, with tighter policy not a foregone conclusion should the strait open and energy markets beginning to normalise ahead of the summer.

Higher energy prices were clearly reflected in March inflation data, while the impact on core inflation has so far remained limited, as expected. However, surveys of both households and businesses point to rising inflation expectations and broad-based upside risks to prices, see chart. At the same time, economic sentiment has deteriorated markedly. European economies remain particularly sensitive, given the experience of sharply higher energy costs in 2022. The extent to which current price pressures feed into wages and trigger second-round effects will be critical for the policy response.

The Bank of England devoted significant attention to this risk in its latest communication. In the UK, increased labour market slack suggests weaker bargaining power for employees compared to previous episodes. However, a higher tolerance for price increases among both firms and consumers could facilitate further pass-through.

In the U.S., the direct impact of higher energy prices appears more contained. Moreover, domestic factors -including changes in leadership at the Federal Reserve and a more fluid political backdrop - are also shaping the policy outlook, implying that energy developments are not the sole driver of monetary policy.

So far, policymakers and markets have primarily focused on the inflationary effects of higher energy prices. While some support measures have been introduced, the overall fiscal response appears less expansionary than in 2022. As a result, higher energy costs are likely to weigh increasingly on real incomes and demand, pointing to a more visible drag on growth over time. We continue to position for this outcome through our global theme "*Supply shock crippling growth.*"

Nordic outlook

Markets have increasingly priced a less pronounced policy response from the Riksbank than from the ECB to higher energy prices, in line with our view. The starting point for Swedish inflation and underlying price momentum is significantly lower than in the euro area, and the current environment differs materially from that of 2022, see chart. Furthermore, recent labour market data indicate meaningful slack, reducing the likelihood of a wage-price spiral. Notably, labour unions have also signalled that they will not seek full compensation for higher energy costs. We therefore continue to see scope for further decoupling in relative pricing between short-end euro and Swedish rates. In this context, we would not be surprised if the Riksbank keeps rates unchanged this year, even if the ECB delivers were to hike twice.

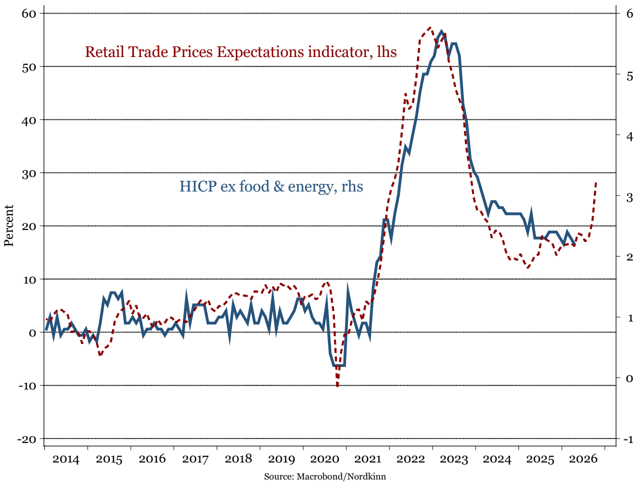
At the same time, developments in the Middle East and rising inflation expectations, as reflected in the NIER survey, will for certain make the Riksbank more attentive to upside risks. However, the current low level of inflation still provides substantial policy flexibility.

In Norway, at its March meeting, Norges Bank indicated that it expects to deliver one to two rate hikes this year, with the first likely in May or June. The Executive Board also discussed the option of hiking in March but ultimately chose to remain on hold in order to assess whether the earlier upside inflation surprises would persist. Elevated uncertainty around oil and gas prices further supported this cautious approach.

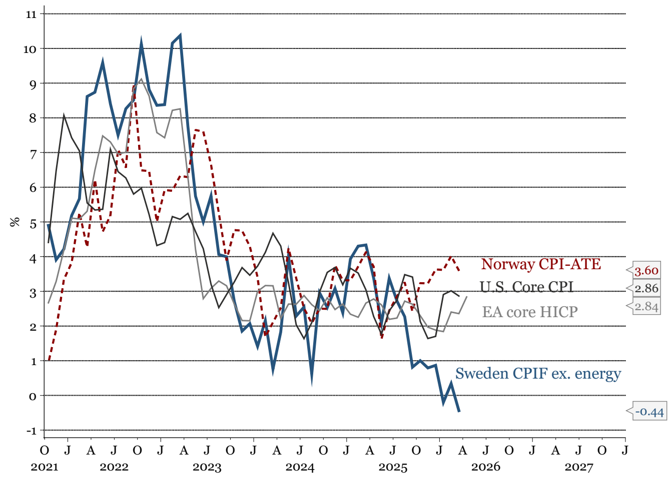
Since then, both the March inflation print and the annual wage settlement have broadly aligned with Norges Bank's projections. Oil prices have moved somewhat higher, while gas prices have declined. On balance, we expect Norges Bank to assess that the net impact of energy developments on inflation is slightly higher than in March. At the same time, the NOK has appreciated by around 2% relative to the Norges Bank's projection, which should dampen imported inflation in the period ahead.

Taken together, incoming information supports Norges Bank's base case of raising the policy rate at one of the next two meetings. However, not at both. The March rate path implied roughly a one-third probability of a May hike and a two-thirds probability for June. With data broadly in line with expectations, the timing remains uncertain. However, consistent with prior guidance, we view it as highly unlikely that Norges Bank will hike at both meetings before the summer. If a hike is delivered in May, forward guidance will likely point to a pause in June, and vice versa.

Euro core inflation vs. price survey



Core inflation 3m/3m s.a. annual rate



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.

Hamngatan 11, 3rd floor
111 47 Stockholm, Sweden
Phone: +46 8 473 40 50
E-mail: post@nordkinnam.se

Prinsens gate 22, 6th floor
0157 Oslo, Norway
Phone: +47 22 46 63 00
E-mail: post@nordkinnam.no