

Interest Rate Forecasts

Shifting market drivers

Duration	USD Markets are increasingly revisiting the prospect of a higher-for-longer US rate environment, leading to a significant bear-flattening of the Treasury curve over the past month. Yields rose across the curve: the 2-year yield increased by 38bps to 4.8%, while the 10-year gained 17bps and the 30-year was broadly unchanged at 5.29%. The rise in Treasury yields has been driven by both higher real rates and higher inflation expectations. Looking ahead, the cumulative effects of Fed tightening and declining inflation should increasingly weigh on economic activity, supporting a downward repricing of intermediate and long-end Treasury yields. As the market gains confidence that inflation is converging towards target, term premia and real yields are likely to compress, particularly in the 5Y and 10Y sectors. Our forecast implies a gradual decline in Treasury yields over the next twelve months: 2-year yields are expected to fall from 4.7% currently to 4.3% by September 2027, while 10-year yields are projected to decline to 4.5%.	Neutral
	EUR The Bund curve experienced a similar bear-flattening move during September, although the magnitude was smaller than in the US. The 2-year Bund yield increased by 29bps to 3.25%, the 10-year rose by 13bps to 3.47%, while the 30-year yield declined slightly by 2bps to 3.80%. Unlike the US, the increase in Euro area yields was driven primarily by inflation expectations. Our medium-term view remains constructive on euro rates. Over the next twelve months, we expect yields to trend lower, supported not only by a gradual moderation in inflation but also by an ECB that is likely to remain on hold after completing its tightening cycle. As inflationary pressures progressively ease, markets should gain confidence that policy rates have reached their peak, creating room for a downward repricing of intermediate and long-dated yields. In the near term, inflation dynamics may continue to limit the pace of the rally, particularly if energy prices and fiscal factors keep headline inflation elevated. However, once inflation shows clearer signs of convergence towards target, the combination of stable policy rates, slowing growth and restrictive financial conditions should support a more pronounced decline in yields, especially in the belly and long end of the curve. Our targets are 3.0% for the 2-year yield and 3.10% for the 10-year yield by 3Q27.	Bearish
Curve	US The US Treasury curve has undergone a pronounced bear-flattening since the beginning of September with 2s10s narrowing to 19bp from 40bp, reflecting a significant repricing of Fed policy expectations and a market reassessment of how long interest rates may remain restrictive. Similarly, the 2s5s spread tightened to 7bp from 16bp, while the 10s30s was down to 31bp from 47bp. Looking ahead, 2s10s slope is expected to bull flatten further toward low double-digit levels during the first half of 2027 before recovering modestly. At the same time, the 10s30s segment is projected to steepen back gradually to 41bp from 32bp, consistent with a normalization of the long-end term premium and a relatively greater decline in intermediate maturities.	Flattening
	EUR The German Bund curve has also flattened sharply over recent weeks: the 2s10s slope compressed to 22bp from 38bp, with the flattening distributed all over the curve; 10s30s spread tightened to 33bp from 47bps. While the medium-term outlook remains consistent with lower euro area yields and a flatter curve, the adjustment is likely to be gradual. In the near term, persistent inflationary pressures are expected to limit the scope for curve flattening, as markets continue to price a higher path for inflation and maintain a degree of uncertainty around the ECB's policy reaction function.	Neutral

23 September 2026 – 15:20 CET

Date and time of production

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23 September 2026 – 15:30 CET

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ECBs spreads

EUR Recent sovereign spread widening reflects a shift in market focus from interest rates alone to a broader assessment of political and fiscal risks. While OAT-Bund and BTP-Bund spreads initially reacted only moderately to the rise in yields, investors are now pricing growing risks that fiscal consolidation becomes more difficult in an environment of political fragmentation and elevated funding costs. Our assessment is that the risks facing European sovereign spreads extend beyond the French presidential election and the domestic political outlook in Italy. The gradual strengthening of right-wing parties across Europe may lead to a more fragmented policy environment, potentially reducing political support for common fiscal initiatives. Recent developments in Germany, following the latest electoral results, have reinforced this view, as the government has taken a more cautious approach towards the next EU Multiannual Financial Framework.

We believe that a reduction in EU-level fiscal capacity would shift a larger share of future spending needs, including defence, energy transition and industrial investment, onto national budgets. For highly indebted countries such as France and Italy, that could create additional medium-term debt sustainability challenges, particularly as governments progressively refinance maturing debt at significantly higher interest rates. We therefore expect sovereign risk premia to increasingly reflect not only country-specific political risks but also the prospect of structurally higher debt burdens and reduced fiscal flexibility. In this environment, we believe spreads will remain sensitive to fiscal slippage, election outcomes and any signs of weakening European fiscal cohesion.

Neutral

Over the projection horizon, the expected widening in both OAT-Bund and BTP-Bund spreads into Q1 2027 suggests investors remain focused on fiscal sustainability. For France, the widening of the 10-year OAT-Bund spread from 105bp to a projected peak of 120bp appears consistent with the political risk premium associated with a fragmented parliamentary environment and uncertainty surrounding future fiscal consolidation measures. Italy remains fundamentally a debt sustainability trade.

ASW Spreads

US UST spreads are expected to become increasingly negative across the curve. The 10-year swap spread is projected to move from -38bp to -42bp by September 2027, while the 30-year spread remains deeply negative around -60bp to -70bp. This pattern is consistent with continued Treasury supply pressure, a positive term premium environment. The forward profile suggests that even as Treasury yields decline gradually over the forecast horizon, structural factors are likely to keep swap spreads compressed.

Tightening

EUR Bund swap spreads are expected to tighten gradually across the curve, with the 10Y spread moving close to zero and front-end spreads retracing from currently elevated levels. In addition to the progressive fading of Bund scarcity effects, the expected increase in German government bond issuance is likely to exert further tightening pressure on ASW levels by increasing the amount of collateral available to the market. From a trading perspective, the combination of higher sovereign supply, reduced ECB balance-sheet support and less pronounced scarcity premiums argues for limited widening potential in Bund ASW and for long-end spreads to remain structurally negative.

Tightening

Inflation	USD	The rise in USD rates has been driven by both higher real rates and higher inflation expectations. 10-year real yields rose by 74bp YTD to 2.1% and inflation swap by 5bp to 2.5%. The move suggests that the market is demanding a higher real return, reflecting resilient economic activity and a less accommodative monetary policy outlook. Looking ahead, the forecast curve implies a consistent decline in real rates, while the inflation swap is expected to remain stickier.	Receive real rates Neutral inflation
	EUR	Unlike the US, the increase in Euro area yields was driven primarily by inflation expectations: 10Y inflation swap increased by 34bp YTD, while real yields increased by 20bp to 1.2%. In the near term, inflation swaps are likely to remain under upward pressure as markets continue to reprice higher euro area inflation prints. While the ECB may retain a tightening bias and keep the option of further rate hikes on the table, current market dynamics suggest that inflation risks are on the upside, driven more by the outlook for energy prices, fiscal spending and supply-side constraints than by monetary policy expectations alone. As a result, the short-term balance of risks appears skewed towards higher inflation compensation, with breakevens and inflation swaps potentially outperforming nominal rates.	Neutral real yields Long inflation

Government Bond Yield Curves

US Treasury

	23/9/26	12/26	03/27	06/27	09/27
2Y Forecast	4.77	4.76	4.71	4.62	4.36
Forward		4.86	4.97	5.04	5.05
5Y Forecast	4.83	4.80	4.70	4.60	4.40
Forward		4.90	4.94	4.96	4.95
10Y Forecast	4.96	4.90	4.80	4.70	4.50
Forward		4.99	5.02	5.03	5.03
30Y Forecast	5.30	5.24	5.20	5.10	4.90
Forward		5.32	5.34	5.35	5.36
Slope (bp)					
2/10Y	19	14	9	8	14
Forward		14	5	0	-2
2/5Y	7	4	-1	-2	4
Forward		4	-3	-8	-10
5/10Y	12	10	10	10	10
Forward		10	8	8	8
10/30Y	34	34	37	40	43
Forward		33	32	32	32

BTP

	23/9/26	12/26	03/27	06/27	09/27
2Y Forecast	3.47	3.56	3.58	3.43	3.22
Forward		3.62	3.72	3.79	3.86
5Y Forecast	3.84	3.90	3.95	3.75	3.55
Forward		3.92	3.97	4.00	4.03
10Y Forecast	4.35	4.39	4.40	4.20	4.00
Forward		4.41	4.45	4.48	4.51
30Y Forecast	4.96	4.94	5.02	4.85	4.65
Forward		5.00	5.03	5.05	5.08
Slope (bp)					
2/10Y	88	83	82	77	78
Forward		79	73	69	65
2/5Y	37	34	37	32	33
Forward		30	25	21	17
10/30Y	61	55	62	65	65
Forward		59	58	57	57

Bund

	23/9/26	12/26	03/27	06/27	09/27
2Y Forecast	3.24	3.33	3.33	3.28	3.07
Forward		3.34	3.40	3.40	3.37
5Y Forecast	3.30	3.36	3.30	3.20	3.00
Forward		3.35	3.36	3.36	3.36
10Y Forecast	3.46	3.50	3.40	3.30	3.10
Forward		3.49	3.50	3.51	3.51
30Y Forecast	3.81	3.80	3.77	3.70	3.50
Forward		3.82	3.83	3.84	3.84
Slope (bp)					
2/10Y	22	17	7	2	3
Forward		15	10	11	13
2/5Y	6	3	-3	-8	-7
Forward		1	-3	-4	-2
5/10Y	16	14	10	10	10
Forward		14	14	14	15
10/30Y	34	34	37	40	43
Forward		33	33	33	34

Bonos

	23/9/26	12/26	03/27	06/27	09/27
2Y Forecast	3.28	3.43	3.43	3.33	3.12
Forward		3.38	3.46	3.47	3.43
5Y Forecast	3.49	3.66	3.60	3.40	3.15
Forward		3.54	3.58	3.59	3.59
10Y Forecast	3.92	4.00	3.90	3.70	3.50
Forward		3.96	3.98	4.00	4.02
30Y Forecast	4.44	4.50	4.42	4.25	4.05
Forward		4.46	4.48	4.50	4.51
Slope (bp)					
2/10Y	65	57	47	37	38
Forward		57	52	53	58
2/5Y	22	23	17	7	3
Forward		16	11	11	15
10/30Y	52	50	52	55	55
Forward		50	50	49	49

Note: Forward rates are computed using GC repo rates specified in the table below. Source: Bloomberg, Intesa Sanpaolo

Government Bond Yield Spreads (bp)

BTP-Bund Spread

	23/9/26	12/26	03/27	06/27	09/27
2Y Forecast	23	23	25	15	15
Forward		28	33	39	49
5Y Forecast	54	54	65	55	55
Forward		57	60	64	67
10Y Forecast	89	89	100	90	90
Forward		92	95	98	100
30Y Forecast	116	114	125	115	115
Forward		118	120	122	123
Box spread (bp)					
2/10Y	66	66	75	75	75
10/30Y	27	25	25	25	25

Bonos-Bund Spread

	23/9/26	12/26	03/27	06/27	09/27
2Y Forecast	3	10	10	5	5
Forward		4	7	7	6
5Y Forecast	19	30	30	20	15
Forward		20	21	22	23
10Y Forecast	46	50	50	40	40
Forward		47	48	50	51
30Y Forecast	63	70	65	55	55
Forward		64	65	66	67
Box spread (bp)					
2/10Y	43	40	40	35	35
10/30Y	17	20	15	15	15

US Treasury-Bund Spread

	23/9/26	12/26	03/27	06/27	09/27
2Y Forecast	152	143	138	134	129
Forward		152	157	164	168
5Y Forecast	153	144	140	140	140
Forward		155	157	159	159
10Y Forecast	150	140	140	140	140
Forward		151	152	153	153
30Y Forecast	149	144	143	140	140
Forward		150	151	151	151

OAT-Bund Spread

	23/9/26	12/26	03/27	06/27	09/27
2Y Forecast	26	30	40	20	20
Forward		38	40	44	52
5Y Forecast	65	69	66	43	42
Forward		68	71	75	79
10Y Forecast	104	110	120	100	100
Forward		107	110	113	116
30Y Forecast	132	143	153	133	133
Forward		134	136	138	141

Note: Forward rates are computed using GC repo rates specified in the table below. Source: Bloomberg, Intesa Sanpaolo

Swap rate forecasts

USD OIS swap rates (vs SOFR)

	23/9/26	12/26	03/27	06/27	09/27
2Y Forecast	4.62	4.60	4.54	4.44	4.17
Forward		4.69	4.71	4.70	4.68
5Y Forecast	4.57	4.52	4.43	4.32	4.07
Forward		4.59	4.60	4.59	4.57
10Y Forecast	4.58	4.51	4.40	4.29	4.08
Forward		4.60	4.61	4.61	4.61
30Y Forecast	4.63	4.58	4.51	4.45	4.29
Forward		4.64	4.64	4.63	4.62

Slope (bp)

2/10Y	-4	-9	-14	-15	-9
Forward		-9	-10	-9	-7
2/5Y	-5	-8	-11	-12	-10
Forward		-10	-12	-12	-11
5/10Y	1	-1	-3	-3	1
Forward		1	2	3	4
10/30Y	5	7	11	16	21
Forward		4	2	2	1

EUR swap rates (vs Euribor 6m)

	23/9/26	12/26	03/27	06/27	09/27
2Y Forecast	3.50	3.59	3.58	3.52	3.30
Forward		3.58	3.61	3.62	3.59
5Y Forecast	3.48	3.54	3.47	3.38	3.16
Forward		3.51	3.52	3.51	3.50
10Y Forecast	3.50	3.54	3.43	3.32	3.11
Forward		3.52	3.53	3.53	3.53
30Y Forecast	3.38	3.44	3.38	3.32	3.14
Forward		3.38	3.38	3.37	3.36

Slope (bp)

2/10Y	0	-5	-15	-20	-19
Forward		-6	-8	-9	-6
2/5Y	-2	-5	-10	-14	-13
Forward		-8	-10	-11	-9
5/10Y	2	0	-5	-7	-6
Forward		1	1	2	3
10/30Y	-11	-9	-4	1	4
Forward		-14	-15	-16	-17

Source: Bloomberg, Intesa Sanpaolo

Swap spread forecasts

UST Swap Spreads (vs SOFR, pb)

	23/9/26	12/26	03/27	06/27	09/27
2Y	-15	-16	-17	-18	-19
5Y	-27	-28	-27	-28	-33
10Y	-38	-39	-40	-41	-42
30Y	-67	-66	-69	-65	-61

Bund Swap Spreads (vs Euribor 6M, pb)

	23/9/26	12/26	03/27	06/27	09/27
2Y	26	26	25	24	23
5Y	18	18	17	18	16
10Y	4	4	3	2	1
30Y	-42	-36	-39	-38	-36

OAT Swap Spreads (vs Euribor 6M, pb)

	23/9/26	12/26	03/27	06/27	09/27
2Y	0	-4	-15	4	3
5Y	-47		-49	-25	-26
10Y	-100	-106	-117	-98	-99
30Y	-174	-179	-192	-171	-169

BTP Swap Spreads (vs Euribor 6M, pb)

	23/9/26	12/26	03/27	06/27	09/27
2Y	3	3	0	9	8
5Y	-36	-36	-48	-37	-39
10Y	-85	-85	-97	-88	-89
30Y	-158	-150	-164	-153	-151

Source: Bloomberg, Intesa Sanpaolo

Spot repo rates EGB GC – Mid market

Term	31/12/26	31/03/27	30/06/27	30/09/27
Germany	2.58%	2.75%	2.94%	3.07%
France	2.59%	2.76%	2.95%	3.08%
Italy	2.59%	2.80%	2.99%	3.11%
Spain	2.61%	2.78%	2.97%	3.09%
US	3.84%	3.98%	4.18%	4.38%

Source: Bloomberg, Intesa Sanpaolo

Appendix

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