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Coffee Break

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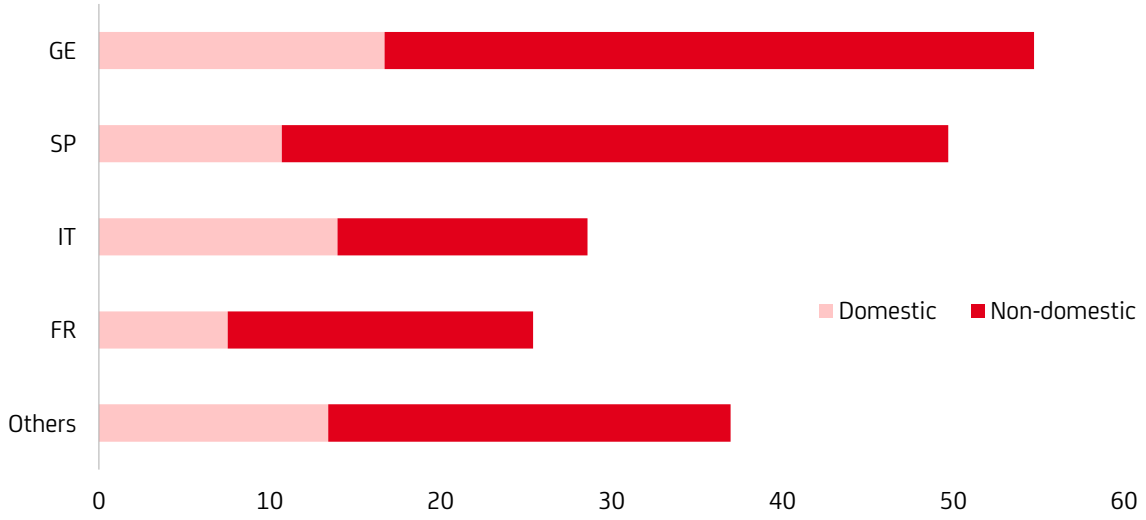
Eurozone banks: portfolio diversification continues

29 September 2026

In the first eight months of the year, eurozone banks have helped absorb abundant government bond supply while further diversifying their portfolios.

BANKS CONTINUE TO DIVERSIFY THEIR GOVERNMENT BOND PORTFOLIOS

EGB PURCHASES BY EUROZONE BANKS FROM JANUARY TO AUGUST 2026 (EUR BN)



Source: ECB, The Investment Institute by UniCredit

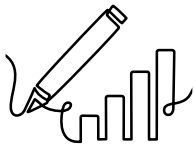
THE CONTEXT

EGBs started the week under pressure as the latest geopolitical developments have pushed energy prices higher. Prospects for a peace deal between the US and Iran remain slim, especially after US President Donald Trump rejected Iranian conditions for reopening the Strait of Hormuz. With geopolitical uncertainty remaining high and central bankers pledging to keep inflation under control, tailwinds for fixed-income markets are weak at the moment. This is not reassuring for investors, given the heavy supply expected to come from public and private issuers going forward.



THE DATA

In net terms, eurozone debt agencies are expected to issue around EUR 525bn of short-term and medium/long-term securities this year, almost EUR 50bn more than in 2025. Eurozone banks are contributing to absorbing this issuance activity, albeit less markedly than in 2025. M3 data released by the ECB last week indicate that eurozone banks bought almost EUR 200bn of domestic and non-domestic EGBs from January to August, EUR 70bn less than they bought in the same period last year. In more detail, eurozone banks have purchased EUR 60bn of domestic government bonds and EUR 130bn of non-domestic EGBs, with Spanish and German banks particularly active in diversifying their portfolios.



OUR VIEW

Appetite for foreign bonds is not a theme of the last few months, rather a well-consolidated trend of the past few years (see Coffee Break – Eurozone banks' portfolio diversification signals more financial integration, 5 March 2025). This helps reduce exposure to domestic risks but also suggests that banks have become more willing to exploit investment opportunities abroad. Following years of portfolio diversification, the sovereign bias has diminished; in some jurisdictions, including Germany, banks hold more non-domestic than domestic EGBs.

Solid demand for both domestic and non-domestic EGBs is confirmed by statistics on this year's syndicated transactions, which show an average allocation of 25% for banks, with peaks of 40% for deals at the belly of the curve. September M3 data will be worth monitoring to understand how eurozone banks reacted to the most recent EGB sell-off. Current market fragility might have discouraged some investors, but it may also have increased the appeal of fixed-income markets for more price-sensitive investors. Data show that eurozone banks were strong buyers of government bonds in previous episodes of market turmoil.

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