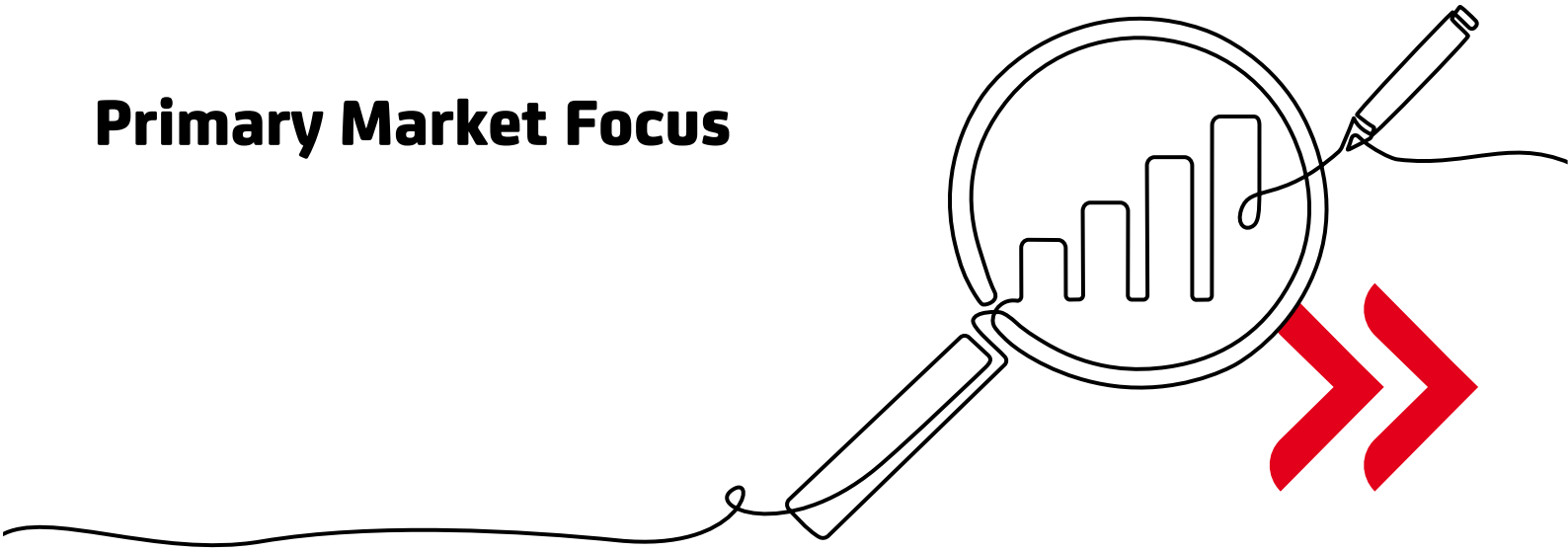
Primary Market Focus



Our *Primary Market Focus* is a deep dive into bond issuance activity, highlighting trading opportunities for new and existing bonds.

We like 7Y BTPs in 5/7/10Y fly

9 September 2026

Bonds at auction

BTP 3% Sep29 for EUR 2-2.5bn

BTP 3.35% Sep33 for EUR 2.5-3bn

BTP 3.95% Oct41 for EUR 1-1.5bn

General moves in the market

Following a substantial increase throughout most of September, core rates have edged lower in the past few weeks. BTPs have recently recovered ground after underperforming core paper but BTP spreads to Bunds are wider across tenors than they were a month ago.

Trade recommendations

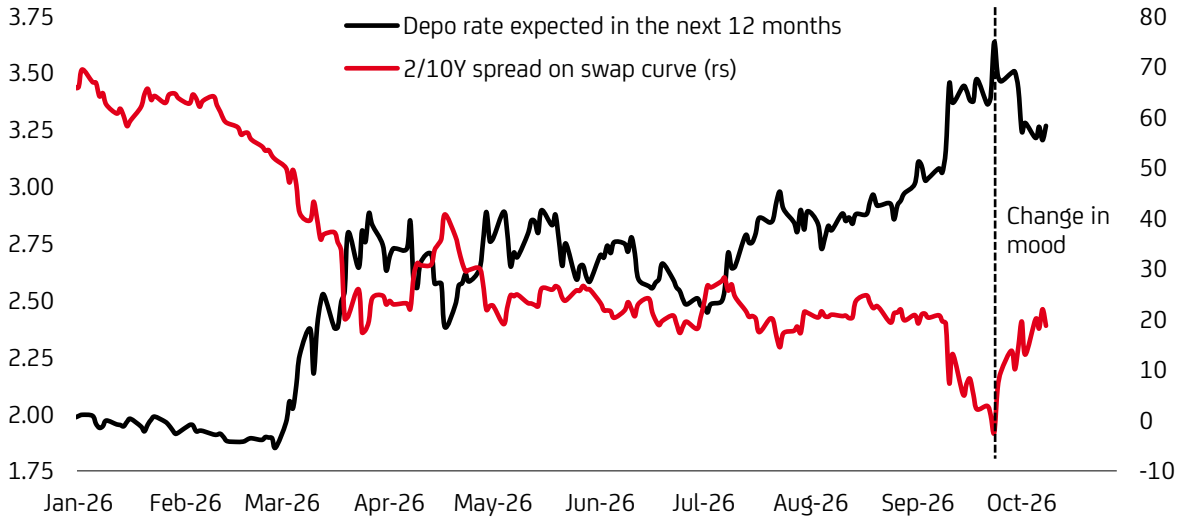
3Y BTPs have become appealing relative to shorter-dated bonds and OIS rates. The 7Y area looks attractive in fly vs. the 5Y and 10Y sectors. 15Y BTPs have held up well, despite relatively heavy supply in this area of the curve.

On Tuesday, Italy will reopen BTP 3% Sep29 for EUR 2-2.5bn, BTP 3.35% Sep33 for EUR 2.5-3bn and BTP 3.95% Oct41 for EUR 1-1.5bn. The total size of the auction (EUR 5.5-7bn) is smaller than usual, reflecting a cautious approach given ongoing market volatility and the debt agency's already advanced funding position. Moreover, next week, EGB issuance activity will be rather abundant, with eurozone debt agencies expected to sell almost EUR 40bn of bonds, and a lack of redemptions in the eurozone. Reopenings for specialists will amount to EUR 500mn for the 3Y benchmark, EUR 600mn for the 7Y BTP and EUR 300mn for the extra-long bond.

Fixed-income markets have been on a roller-coaster ride over the past few weeks. Core rates increased substantially for most of September, driven by still-solid economic data, rising energy prices and hawkish rhetoric from central bank officials. This trend came to a halt towards the end of September, with investor expectations for the depo rate trajectory becoming less hawkish and the swap curve bull-steepening (Chart 1). This change in mood has not been

due to an improving geopolitical picture, rather to a flight to quality as political uncertainty in France has pushed investors to reduce their exposure to peripherals and buy core paper. Technical factors, such as stop-loss trades following record-high Bund yields, could have exacerbated the move. Market expectations remain hawkish, more hawkish than ours, but they are off their peak.

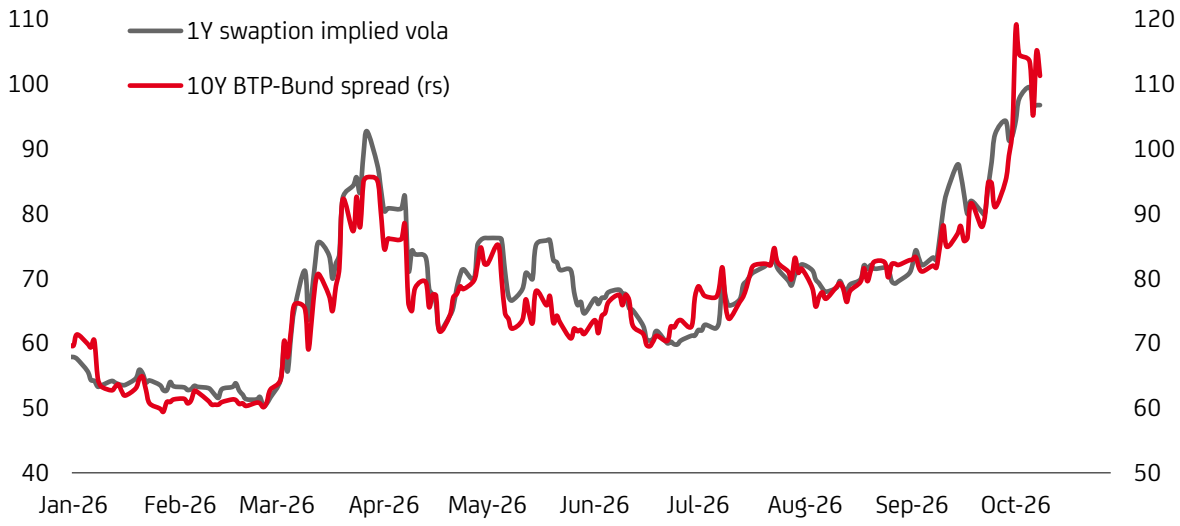
CHART 1: LESS HAWKISH DEPO RATE EXPECTATIONS HAVE LED TO A STEEPER SWAP CURVE



Source: Bloomberg, The Investment Institute by UniCredit

Selling pressure on French govies and an overall increase in volatility have weighed on BTPs, which have underperformed Bunds, with the 10Y yield differential exceeding 100bp for the first time since May 2025. The magnitude of the recent widening appears to be in line with the increase in 1Y swaption-implied volatility (Chart 2).

CHART 2: THE RECENT INCREASE IN IMPLIED VOLA AND THE WIDENING OF THE BTP-BUND SPREAD



Source: Bloomberg, The Investment Institute by UniCredit

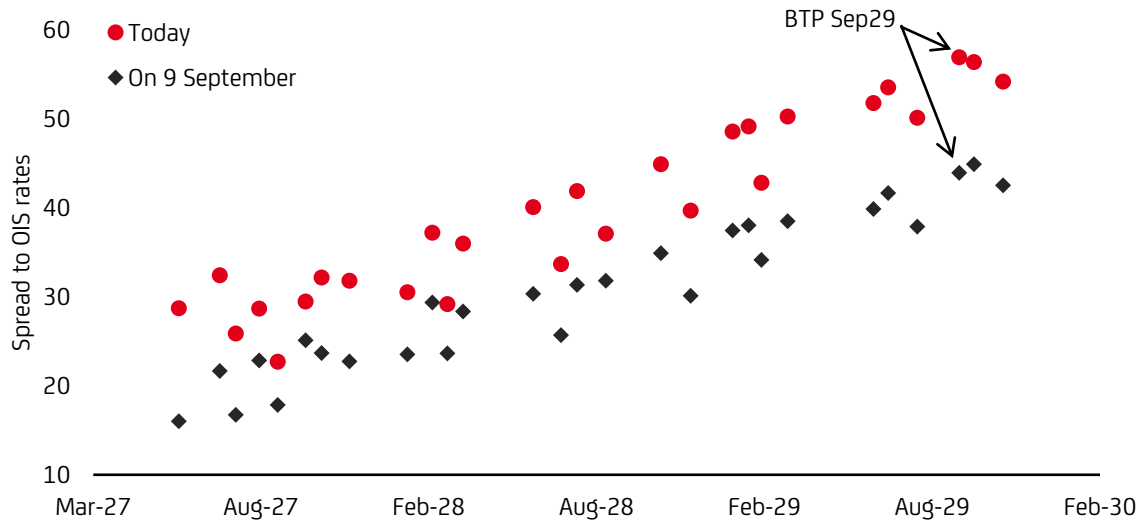
From March to mid-September, EGB spreads to Bunds were generally positively correlated with core rates as an increase (decrease) in rates led to wider (tighter) spreads. This relationship came to a halt last week, when core yields fell and spreads widened, consistent with the idea of flight-to-quality. Given the speed and the brevity of the move, it is difficult to disentangle the possible spillover from OATs from a more generalised concern regarding the eurozone economy, bearing in mind that technical factors (including diminishing liquidity as we approach year-end) might also have played a key role. In general, as we discussed in our Quarterly Updates – Overlapping shocks, in our view, a

significant decline in core yields is unlikely in the near term and we expect to remain around current levels by the end of 2026. By contrast, we do not expect a further widening of EGB spreads to Bunds, especially for Italian paper. With the respect to French govies, the political picture remains more fluid and could weigh on them, but we think that their levels better reflect the country's risks following the recent repricing.

BTP 3% Sep29 (EUR 2-2.5bn)

The 3Y area of the curve has benefitted from Monday's buyback, with the Italian Treasury repurchasing three BTPs maturing in 2029 for a total of EUR 5bn. BTP 3% Sep29 is currently trading at 3.65%, 20bp higher than when it was reopened a month ago. The BTP curve has steepened in the past month, with the 2/3Y BTP spread (BTP 3% Sep29 vs. BTP 4.75% Sep28) rising by 10bp to 25bp. Such move has not been BTP-specific, given the OIS rate has also steepened. Indeed, the BTP credit curve (measured as the BTP-OIS spread) has shifted upward while broadly maintaining its slope (Chart 3). After reaching a peak of 78bp at the start of October, BTP Sep29 is offering a 57bp spread to the corresponding OIS rate, roughly 10bp higher than a month ago, which is an appealing level, especially from a buy-and-hold perspective. The 3Y benchmark is fairly priced on the curve.

CHART 3: CREDIT CURVE HAS SHIFTED UPWARD

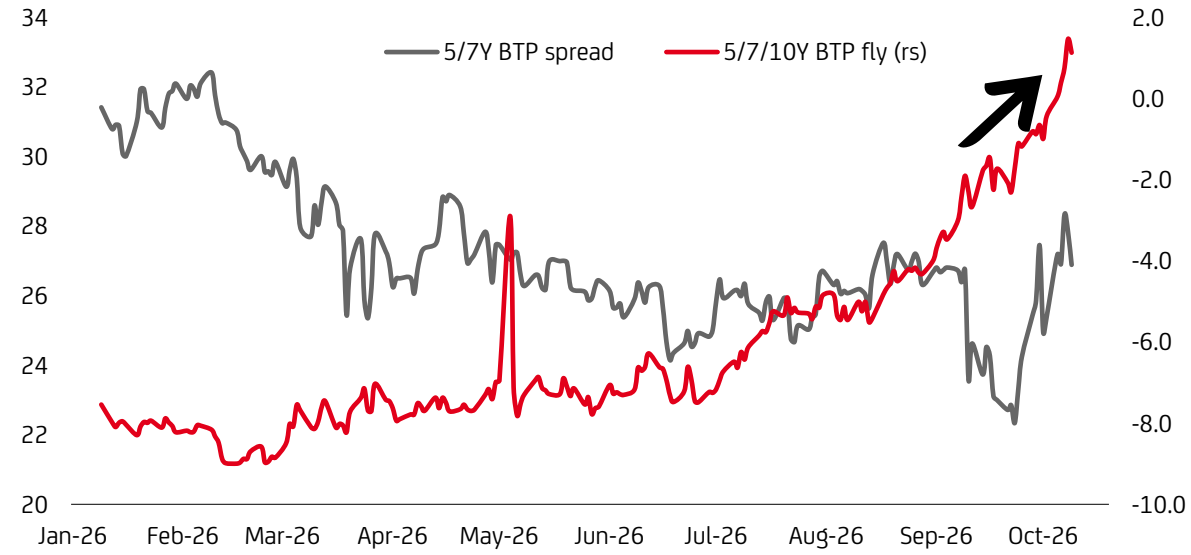


Source: Bloomberg, The Investment Institute by UniCredit

BTP 3.35% Sep33 (EUR 2.5-3bn)

BTP Sep33, which was offered at 3.98% at the previous auction, is currently trading at 4.25%. In line with other segments of the BTP curve, the 5/7Y spread has steepened recently, offsetting the previous move (Chart 4). The spread is now roughly 25bp, in line with its three-month average. While we would wait for a further steepening to go long 7Y BTPs vs. 5Y BTPs, we consider the 5/7/10Y fly as more attractive. Indeed, during the recent steepening, the 7Y sector has underperformed the 5Y and 10Y areas. The fly is currently trading around 0bp, while it averaged -8bp from January to June. The fly is positively correlated with rates. Hence, it would perform well if yields were to decline from current levels, which is our baseline.

CHART 4: THE 5/7Y SPREAD AND THE 5/7/10Y FLY ON THE BTP CURVE

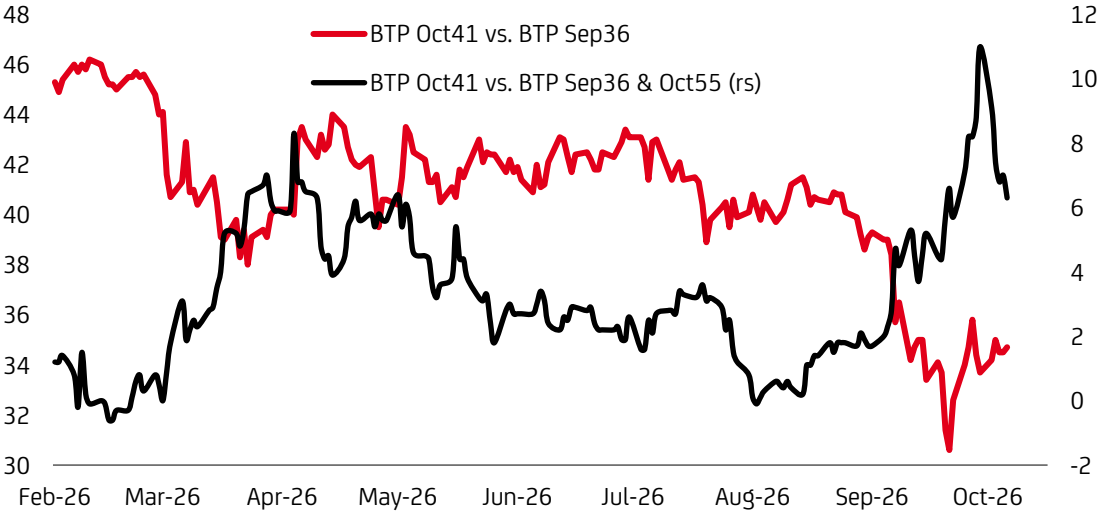


Source: Bloomberg, The Investment Institute by UniCredit

BTP 3.95% Oct41 (EUR 1-1.5bn)

This is set to be one of the last reopenings of this 15Y benchmark, which will have an outstanding of almost EUR 19bn following the upcoming auction. Issuance activity in this area of the curve this year is set to be more intense (EUR 23bn) than in the 20-50Y segment of the curve (EUR 16bn). For reference, in 2025, Italy sold EUR 19bn of bonds in the 15Y area and EUR 16bn in the 20Y and 30Y areas. Despite this more abundant issuance activity, the 15Y BTP area has held up well, with the 10/15Y spread slightly flatter than it was at the beginning of the year and the 10/15/30Y fly only 3bp higher than its YTD average. In absolute terms, we would regard BTP Oct41 as appealing if its yield exceeds the 5% threshold again.

CHART 5: 15Y BTPS HAVE HELD UP RELATIVELY WELL



Source: Bloomberg, The Investment Institute by UniCredit

Author
Francesco Maria Di Bella, FI Strategist (UniCredit, Milan), francescomaria.dibella@unicredit.eu

Editor
Dr. Luca Cazzulani, Head of Strategy (UniCredit, Milan), luca.cazzulani@unicredit.eu

UniCredit S.p.A
The Investment Institute by UniCredit, Piazza Gae Aulenti, 4, I-20154 Milan
www.the-investment-institute.unicredit.eu

Legal Notices

Glossary

Terms used in the report are available on our website: Our glossary.

Marketing Communication

This publication/video constitutes a marketing communication of UniCredit S.p.A., UniCredit Bank Austria AG, Schoellerbank AG and UniCredit Bank GmbH (hereinafter jointly referred to as the "UniCredit Group") is addressed to the general public and is provided free of charge for information only. It does not constitute investment recommendation or consultancy activity by the UniCredit Group or, even less, an offer to the public of any kind nor an invitation to buy or sell securities. The information contained herein does not constitute an investment research or financial analysis since, in addition to the lack of content, it has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and it is not subject to any prohibition on dealing ahead of the dissemination of investment research.

UniCredit Group, including all its group companies may have a specific interest in relation to the issuers, financial instruments or transactions detailed herein. Relevant disclosures of interests and positions held by UniCredit Group are available at: Conflicts of interest. Any estimates and/or assessments contained in this publication represent the independent opinion of the UniCredit Group and, like all the information contained therein, are given in good faith on the basis of the data available at the date of publication, taken from reliable sources, but having a purely indicative value and subject to change at any time after publication, on the completeness, correctness and truthfulness of which the UniCredit Group makes no guarantees and assumes no responsibility. Interested parties must therefore carry out their own investment assessments in a completely autonomous and independent manner, relying exclusively on their own considerations of the market conditions and the information available overall, also in line with their risk profile and economic situation. Investment involves risk. Before any transaction in financial instruments please refer to the relevant offering documents. It should also be noted that:

1. Information relating to the past performance of a financial instrument, index or investment service is not indicative of future results.
2. If the investment is denominated in a currency other than the investor's currency, the value of the investment can fluctuate strongly according to changes in exchange rates and have an undesirable effect on the profitability of the investment.
3. Investments that offer high returns can undergo significant price fluctuations following any downgrading of creditworthiness. In the event of bankruptcy of the issuer, the investor may lose the entire capital.
4. High volatility investments can be subject to sudden and significant decreases in value, being able to generate significant losses at the time of sale up to the entire capital invested.
5. In the presence of extraordinary events, it may be difficult for the investor to sell or liquidate certain investments or obtain reliable information on their value.
6. If the information refers to a specific tax treatment, it should be noted that the tax treatment depends on the individual situation of the customer and may be subject to change in the future.
7. If the information refers to future results, it should be noted that they do not constitute a reliable indicator of these results.
8. Diversification does not guarantee a profit or protect against a loss.

The UniCredit Group cannot in any way be held responsible for facts and/or damages that may arise to anyone from the use of this document, including, but not limited to, damages due to losses, lost earnings or unrealised savings. The contents of the publication – including data, news, information, images, graphics, drawings, brands, and domain names – are owned by the UniCredit Group unless otherwise indicated, covered by copyright and by the industrial property law. No license or right of use is granted and therefore it is not allowed to reproduce its contents, in whole or in part, on any medium, copy them, publish them and use them for commercial purposes without prior written authorisation from UniCredit Group unless if purposes of personal use only. E 25/1