



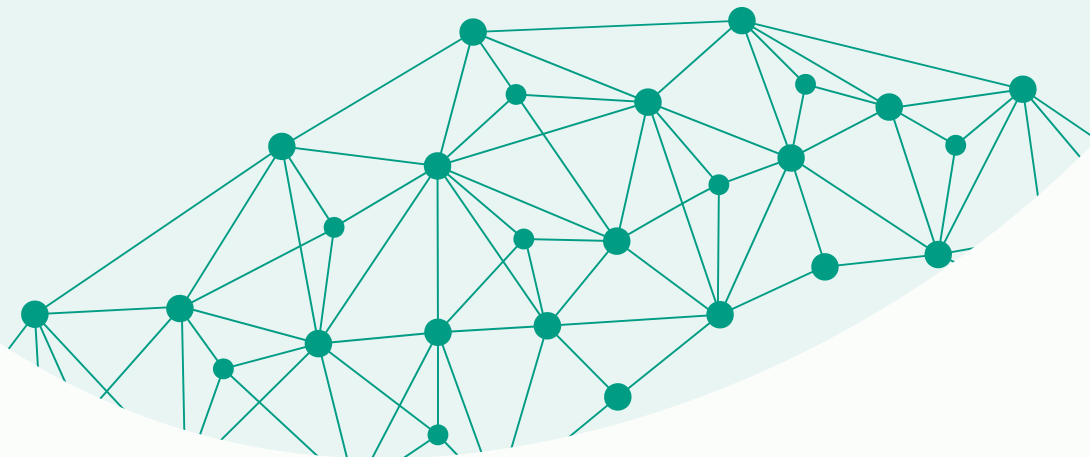
The Nordic Rates Reawakening

From Bond Scarcity to Relative Value

How changing ownership, supply and investor behaviour are creating new opportunities in Nordic fixed income.



Investment thinking from across Brummer's investment teams, exploring the markets, opportunities and return drivers that shape their pursuit of alpha.



The familiar view, and the real opportunity

Most investors associate Nordic fixed income with strong institutions, prudent fiscal management and low sovereign risk. That reputation is well deserved. Sweden and Norway continue to benefit from robust public finances and credible policy frameworks. These strengths are widely recognized by investors. If that were the whole story, there would be little left to discover.

But beneath these familiar fundamentals, the structure of the Nordic rates market is changing. Sweden, in particular, is emerging from a prolonged period of bond scarcity and substantial central-bank ownership. Government bond issuance is increasing, more bonds are moving into private hands, and the composition of market participants is evolving. Together, these shifts are changing the dynamics of supply, demand and price formation.

Strong public finances provide the backdrop, but they are not the investment thesis, nor is this a directional call on Nordic rates. The more interesting opportunity lies in how changing ownership, financing conditions and investor behaviour may create pricing differences between government bonds, swaps and covered bonds – and new opportunities to capture relative value across Nordic fixed income markets.

Diverging post-GFC paths

The years following the Global Financial Crisis left Sweden and Norway with similar reputations but increasingly different bond markets.

Norway continued to issue government bonds in meaningful size. Supported by the financial resources accumulated in the Government Pension Fund Global, economic stabilisation relied more heavily on fiscal policy than on large-scale central bank intervention. As a result, the bond market remained largely shaped by the decisions of investors.

Sweden moved in the opposite direction. Strong public finances and limited borrowing needs had already reduced the supply of government bonds. When the Riksbank later purchased a significant share of the market, the amount of paper available to private investors fell further. Government bonds became harder to source, foreign trading activity declined and the market became less useful as a reference point for pricing risk.

FOREIGN SHARE OF LT GOV DEBT



Source: Statistics Sweden, Swedish National Debt Office, Macrobond and Brummer (inc. adjustments and calculations).

The consequences extended beyond the government bond market itself. During this prolonged period of very low interest rates, covered bonds increasingly became the instrument through which Swedish investors managed duration and expressed views on the rates outlook. Benchmarks and portfolio construction evolved around that reality. As these conditions now begin to reverse, relationships between government bonds, swaps and covered bonds that were shaped by years of scarcity may need to be reassessed.

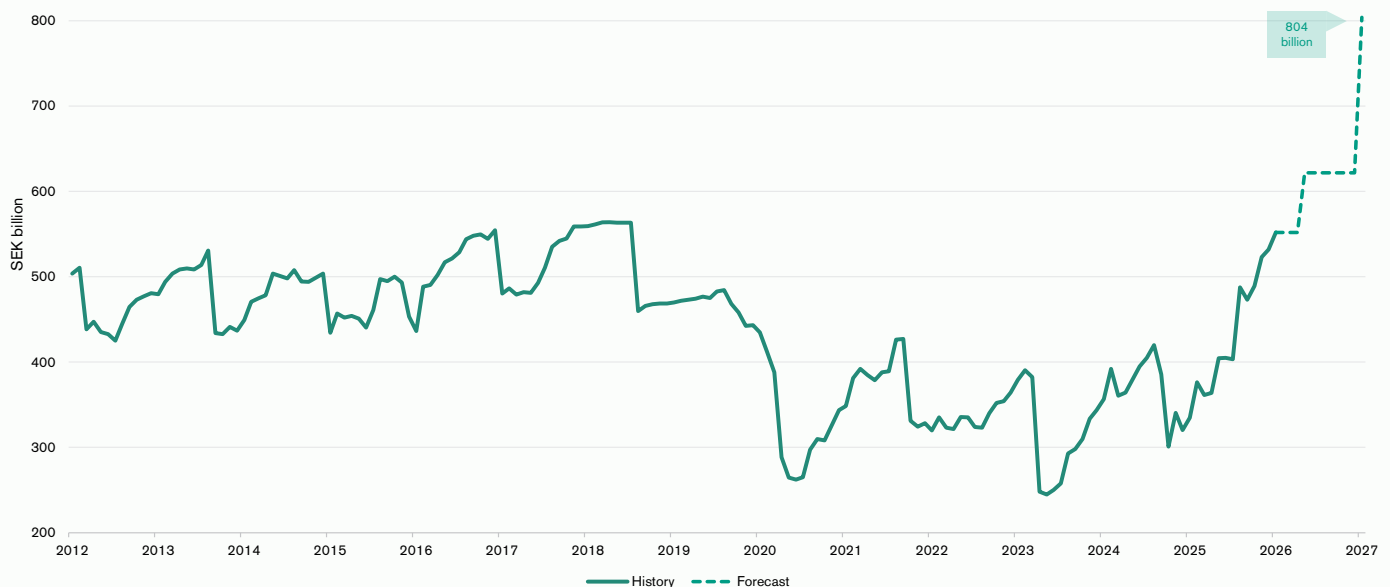
Why now: the marginal owner is price sensitive

The forces that shaped the Swedish bond market over much of the past decade are now beginning to reverse.

The Riksbank is reducing its balance sheet. Government borrowing needs are increasing. Consequently, more bonds are finding their way back into private hands who are considerably more price sensitive. Arguably, the government bond market is foundational for interest rate setting in any market. As free float and issuance increase, liquidity follows, which we suspect will drive both domestic and – eventually – foreign actors to re-establish their presence in Swedish government debt markets.

NOMINAL SGB FREE-FLOAT IS SET TO INCREASE STRUCTURALLY

Fcst based on SNDO borrowing fcsts (net of maturing bonds) & Riksbank's suggested sales & run-offs.



Source: Central Bank of Sweden, Swedish National Debt Office, Macrobond and Brummer (incl. adjustments and calculations).

This development matters because central banks and investors do not make decisions for the same reasons. A central bank can own bonds as part of a policy objective. Investors must decide whether they are being adequately compensated for the risks they take. They compare maturities, assess liquidity, consider hedging costs and constantly weigh one opportunity against another. As more bonds are absorbed by private investors, those decisions should become increasingly important in determining market prices. Markets tend to become more informative when a broader group of investors is making active decisions about value.

A similar dynamic can be observed in Norway. Fiscal spending continues to support a meaningful and predictable flow of government bond issuance, while substantial public-sector wealth means that financing needs are not viewed as a threat to economic stability. As a result, the market has continued to grow in size and liquidity. Together with attractive risk-adjusted yields, this has gradually increased the relevance of Norwegian government bonds for international investors.

None of this guarantees higher volatility or more investment opportunities. The additional supply may be absorbed smoothly and the transition could take longer than expected. But the direction of travel is clear. The Nordic bond market is growing, while Swedish government bonds are gradually returning to private ownership after a prolonged period of heavy central-bank involvement.

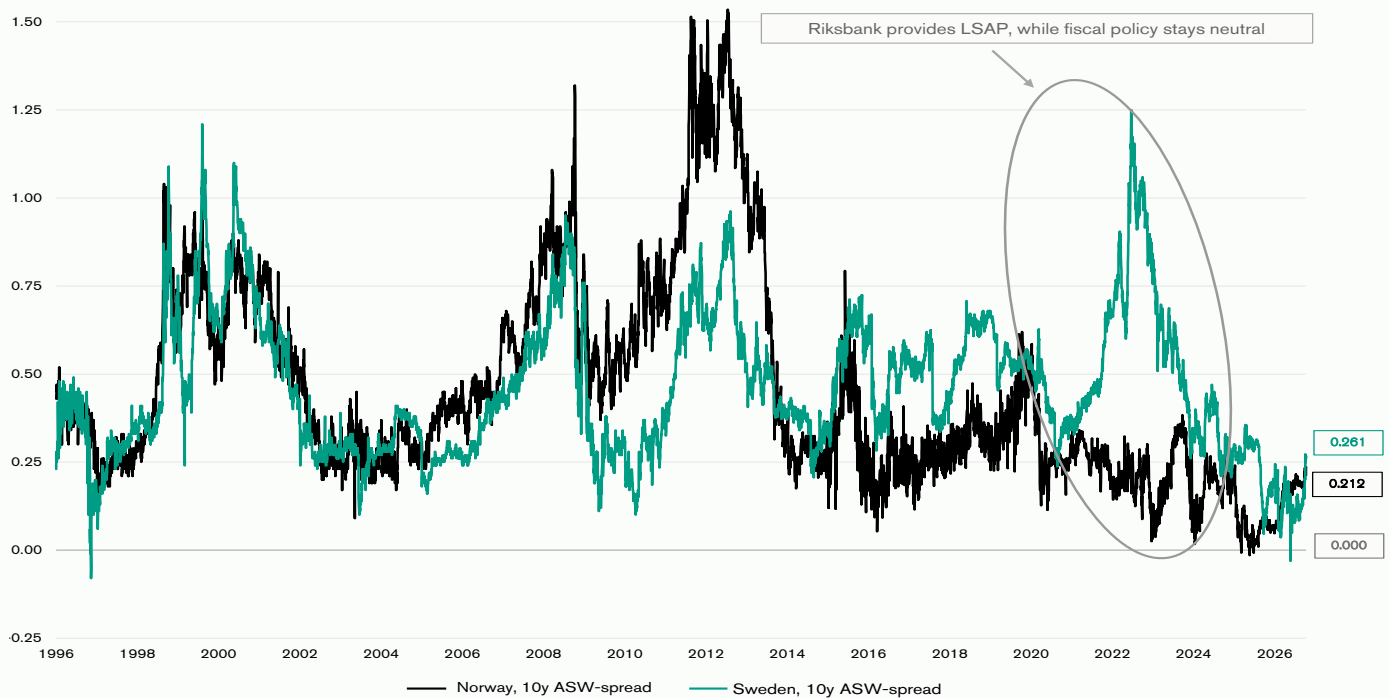
Where markets diverge

Nordic Government bonds and swaps markets provide a telling example. Both are influenced by interest rates, but they are not driven by the same forces. Government bonds remain closely linked to domestic real-money investors and issuance conditions. Nordic Swap markets, in contrast, are more closely connected to global funding markets, hedging activity, and systematic trading accounts.

A rise in government bond supply, for example, does not necessarily have the same effect on bonds and swaps. Nor does every change in growth, inflation or central-bank expectations. Those periods of divergence can often be more informative than the direction of rates themselves.

10-YEAR ASSET SWAP SPREADS

GVB (t10) - Swap (t10)



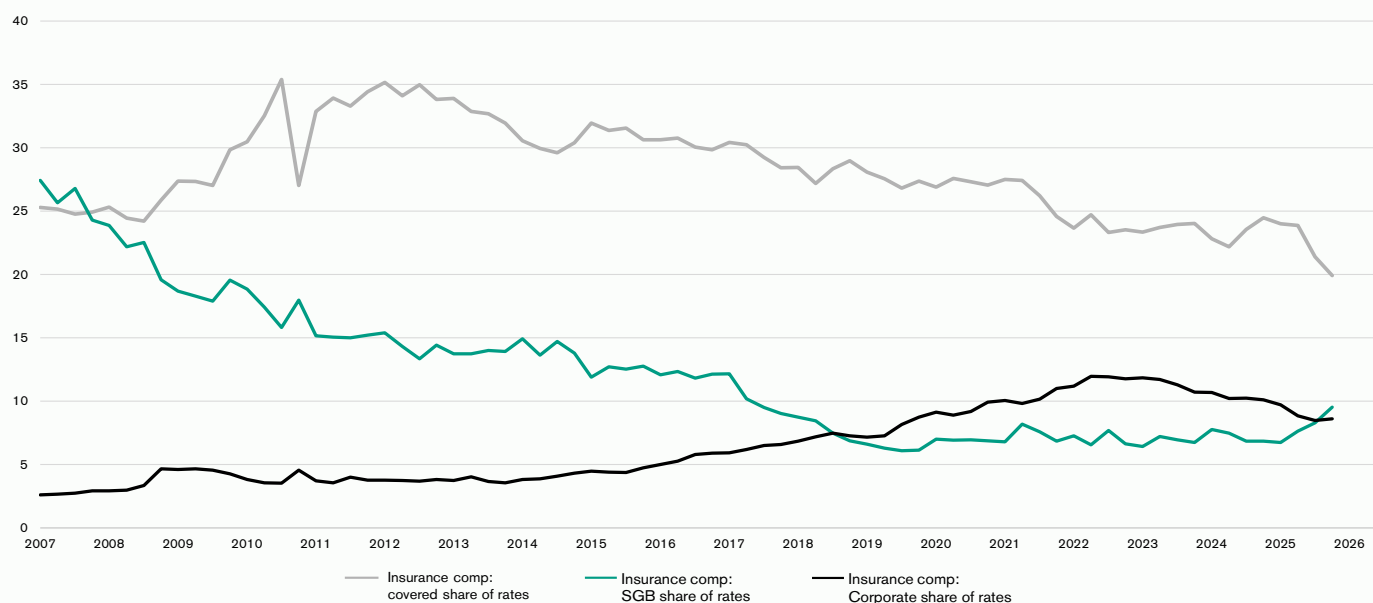
Source: Bank of Norway, Tradition Data, Macrobond and Brummer (incl. adjustments and calculations).

With the pandemic as the most glaring example, the graph above clearly shows how Swedish markets reacted to the announcement of additional and large scale asset purchases with wider asset-swap spreads while bond issuance remained negligible. It was only with the end of the pandemic QE-program and rising issuance (at least partly) in financial support to Ukraine that the ASW-spread normalised. Norway, meanwhile, never performed any QE-programs.

Covered bonds provide another example. As discussed earlier, they became the primary instrument through which Swedish investors managed duration during a period when government bonds were scarce, exemplified by (life) insurers holdings in the chart below. Despite higher interest rates and increased issuance, covered bonds remain closely linked to government bonds and credit risk premia remain subdued by historical standards.

Prior to the Global Financial Crisis, however, the distinction between duration risk and credit risk was significantly more pronounced. As domestic investors re-establish risk-free government bonds as their primary tool for adjusting portfolio risk, and as market participation broadens and price sensitivity increases, those differences may once again become more relevant.

INSURANCE COMPANIES HOLDINGS OF SWEDISH COVEREDS AND SGB:S AS SHARE OF TOTAL BOND HOLDING

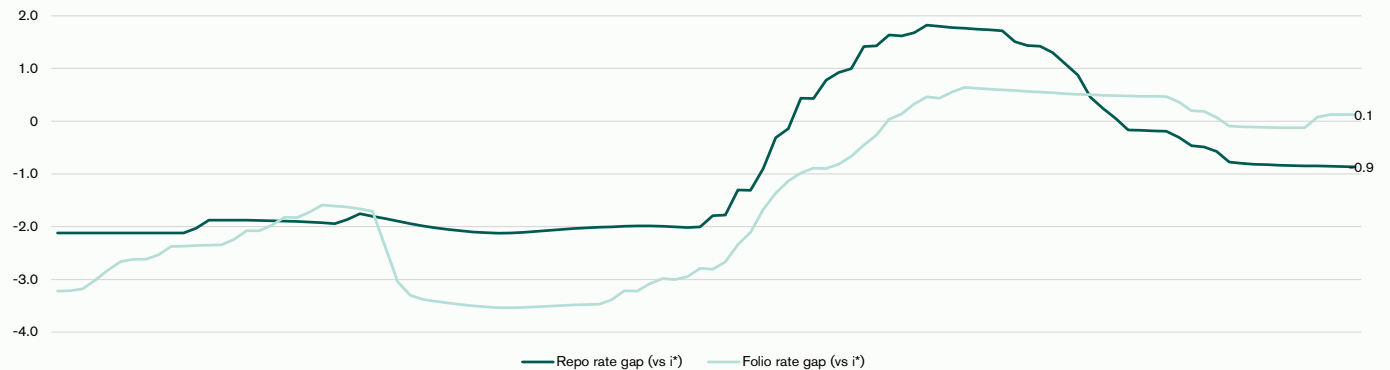
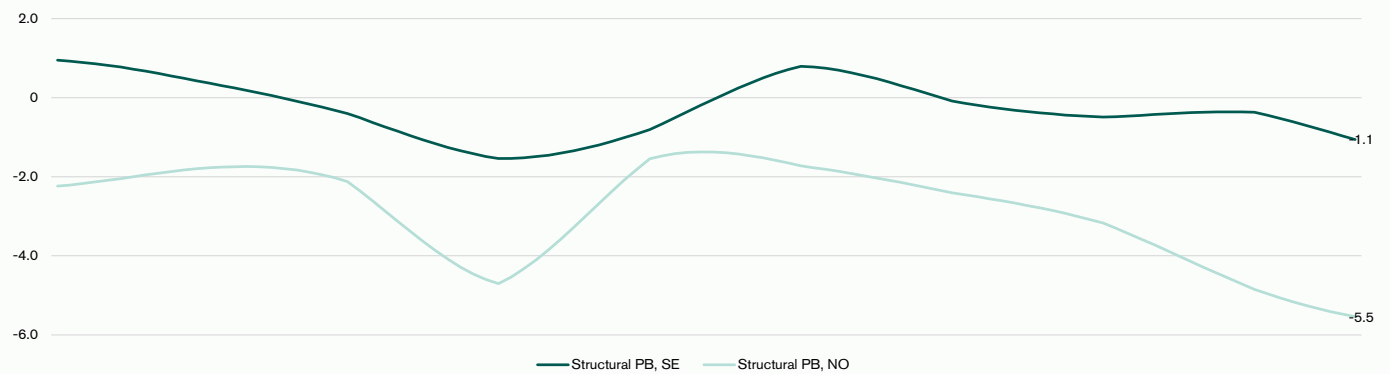
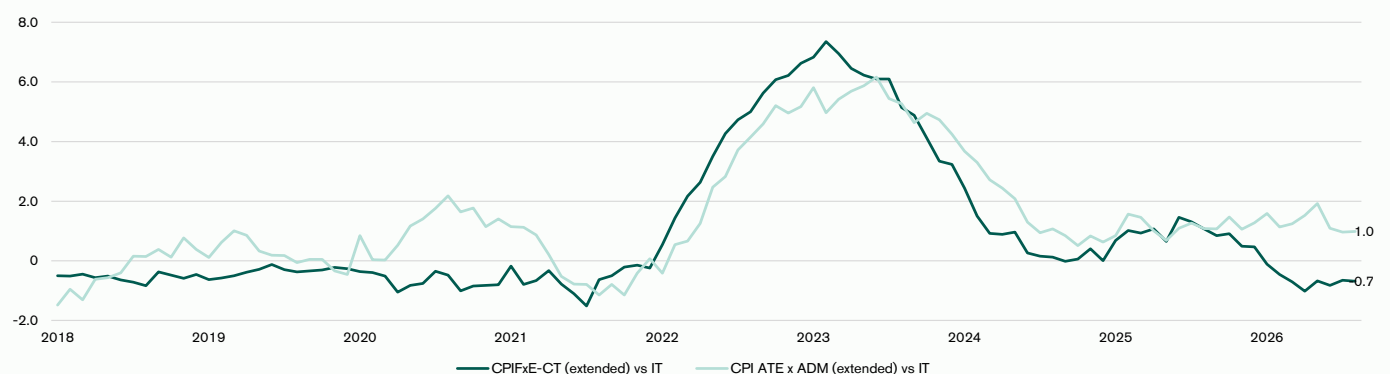


Source: Statistics Sweden, Statistics Norway, Central Bank of Sweden, Bank of Norway, Federal Reserve, OECD, Macrobond and Brummer and Partners (own transformations and calculations).

Norway offers a third perspective. On the surface, Sweden and Norway appear similar. Both benefit from credible policy frameworks and healthy public finances. Beneath the surface, however, the economies function differently.

Norway's energy exposure and fiscal flexibility, provided by the ample counter-cyclical returns of Government Pension Fund Global, create a different backdrop for growth, inflation and stabilisation policy. Sweden is more closely connected to household borrowing and the transmission of interest rates through a highly leveraged private sector. These developments have, arguably, affected structural variables such as neutral nominal rates, which has made something of a step-shift upwards according to recent estimates by Norges Bank. In Sweden, these developments appear considerably less pronounced or, perhaps, even non-existent.

The inflation shock that followed the pandemic provides a useful example. Both countries were exposed to the same global forces, yet differences in energy exposure and fiscal dynamics contributed to different inflation paths and policy responses. Markets that initially appear similar can therefore behave quite differently.

POLICY RATE GAP (ACTUAL POLICY RATE MINUS A NEUTRAL RATE ESTIMATE)**GOVERNMENT STRUCTURAL PRIMARY DEFICIT IN % OF GDP****INFLATION GAP (ACTUAL INFLATION MINUS INFLATION TARGET)**

Source: Statistics Sweden, Statistics Norway, Central Bank of Sweden, Bank of Norway, Federal Reserve, OECD, Macrobond and Brummer and Partners (own transformations and calculations).

None of these examples, in isolation, prove that a new regime has arrived. Taken together, however, they illustrate the type of market behaviour that becomes increasingly important when ownership broadens, issuance increases and investors once again play a larger role in determining prices. For a relative value focused investor, that is an essential development.

A shift, not a certainty

There is however a reasonable counterargument to the thesis. It is entirely possible that increased government bond issuance changes less than expected. Existing investors may simply absorb the additional supply. Trading activity may remain subdued and the bond market may very well disappoint in its ability to attract international capital. Relationships that appear interesting in theory may prove too small or too short-lived to matter in practice.

At the same time, there are signs that the market is already beginning to adjust.

Government bond issuance has increased. Market volatility has moved higher from the unusually suppressed levels seen during much of the post-QE period. Market participants are once again paying closer attention to supply, funding conditions and relative pricing. None of this proves that a new regime has arrived, but it is consistent with the direction of travel described in this paper. However, should the world – and Sweden and Norway with it – relapse into secular stagnation, with perpetually low growth, inflation and interest rates, would – of course – weaken the thesis.

But even if the transition is real, why is it not repriced immediately? Part of the answer is market fit. Swedish and Norwegian rates are meaningful but capacity-constrained relative to the largest global fixed-income markets. The available return pool may be attractive to specialist strategies like us, while remaining too small, operationally demanding or attention-intensive for some larger pools of capital.

The required skill set is also unusually combined. Local conventions, issuance patterns and investor behaviour must be interpreted through both a local micro and a global macro lens, then translated into instrument selection and sizing. For instance, with the QE era still fresh in memory, local investors tend to respond to global shocks with a duration-grab mindset, while globally, safe assets with shorter duration typically outperform. This does not imply that other investors are unsophisticated. Mandates, internal resources and scale can simply make the same opportunity more relevant to some investors than to others.

From dislocation to alpha

The changing structure of Nordic rates markets may produce dislocations, but a dislocation is not necessarily a mispricing. Converting it into a potential source of alpha requires, in our view, three capabilities: interpreting the divergence, expressing the intended return driver and sustaining the position while the thesis develops.

First, the divergence must be interpreted correctly. Government bonds, swaps, covered bonds and inflation-linked instruments respond to different combinations of issuance, investor demand, monetary policy, funding conditions and global macro developments. Understanding why their prices have diverged requires detailed knowledge of local market conventions and investor behaviour, viewed through a broader macro lens. The central question is whether the move reflects structural repricing, temporary positioning or liquidity pressure, or appropriate compensation for an underlying risk.

Second, the view must be expressed through the right instruments. The same economic judgement can be implemented through government bonds, swaps, covered bonds, inflation-linked instruments or combinations of them. The choice determines not only the potential return, but also the position's exposure to duration, curve, inflation, volatility,

liquidity and funding conditions. Product expertise and trade-structuring capability are therefore essential to isolate the intended return driver rather than allowing incidental exposures to determine the outcome.

Third, the position must remain investable for as long as the thesis remains valid. Structural repricing rarely follows a predictable timetable. Financing, counterparty access, execution and collateral determine how a position can be implemented, while a stable capital base provides the capacity to hold or adapt it through periods of adverse price movement. Data, simulation and ongoing P&L analysis support the continuous assessment of whether the identified return driver remains intact, whether the position should be adjusted, or whether the thesis has been invalidated.

The edge required to harvest these opportunities therefore lies in the combination: local market knowledge interpreted within a global macro framework; expertise across nominal and inflation products; flexibility in instrument selection and trade construction; and the risk, technology and financing capabilities needed to manage the position over time. None of these capabilities is sufficient in isolation. Together, they allow us to determine which dislocations are investable, which risks should be retained or removed, and which apparent opportunities should be left alone.

These opportunities are often too specialised to form the basis of a standalone strategy, but can represent a distinctive and attractive source of alpha within a broader multi-strategy portfolio.

Conclusion | Stability is the setting, not the opportunity

For much of the past decade, understanding the Nordic rates often meant understanding central banks. As government bonds return to private ownership, the decisions of investors, issuers and intermediaries should play a greater role in price formation.

That shift could affect government bonds, swaps, covered bonds and inflation-linked instruments in different ways. As established relationships adjust, divergences may emerge across instruments and markets, creating potential relative-value opportunities. Not every divergence will represent a mispricing, and not every mispricing will be investable.

The opportunity comes from identifying how changing ownership and market behaviour affect relative pricing, and determining which of those changes offer an investable return driver. Nordic stability provides the setting, but it is not the investment thesis.



This paper draws on the views and investment experience of the team managing a discretionary fixed income relative value and macro strategy focused on Scandinavia within Brummer.

How specialist judgement becomes investable

A comment from Brummer's central portfolio management team.



Specialist judgement is the starting point, and our role in central portfolio management is to work closely with the investment team to understand what it is seeking to capture, which risks belong to the thesis and how the position is expected to behave as markets change.

In fixed income relative value, the answers are rarely straightforward. A position designed around one relationship can also carry duration, curve, basis, inflation, volatility, liquidity, funding and counterparty exposures. Together with the investment team, we consider how those risks interact, what capital the position requires and how it sits alongside the rest of the portfolio.

"The aim is not to replace the investment team's judgement, but to create the conditions in which it can be expressed effectively and contribute to the portfolio as a whole."

The institutional setting is equally important. Structural repricing rarely follows a predictable timetable, and a valid thesis may move against the investor before it is

reflected in market prices. A stable capital base provides the capacity to hold or adapt the position, while counterparty relationships, financing, collateral arrangements and liquidity determine how it can be implemented and maintained.

Supporting fixed-income strategies at Brummer has required us to build and continually refine the capabilities around them. Much of that work happens away from the trading desk, where colleagues across risk, treasury, technology and portfolio construction work with the investment teams to turn ideas into investable positions.

In central portfolio management, we bring those perspectives together. We consider how positions interact, what risks and capital they consume, and what they contribute to the broader portfolio. The aim is not to replace the investment team's judgement, but to create the conditions in which it can be expressed effectively and contribute to the portfolio as a whole."

The Portfolio Management team →

Brummer Multi-Strategy

18_{bn}

In firm assets as of
31 August 2026 (USD)

300

Employees in Stockholm, London,
New York & Abu Dhabi

500

Markets with 4,500
active positions

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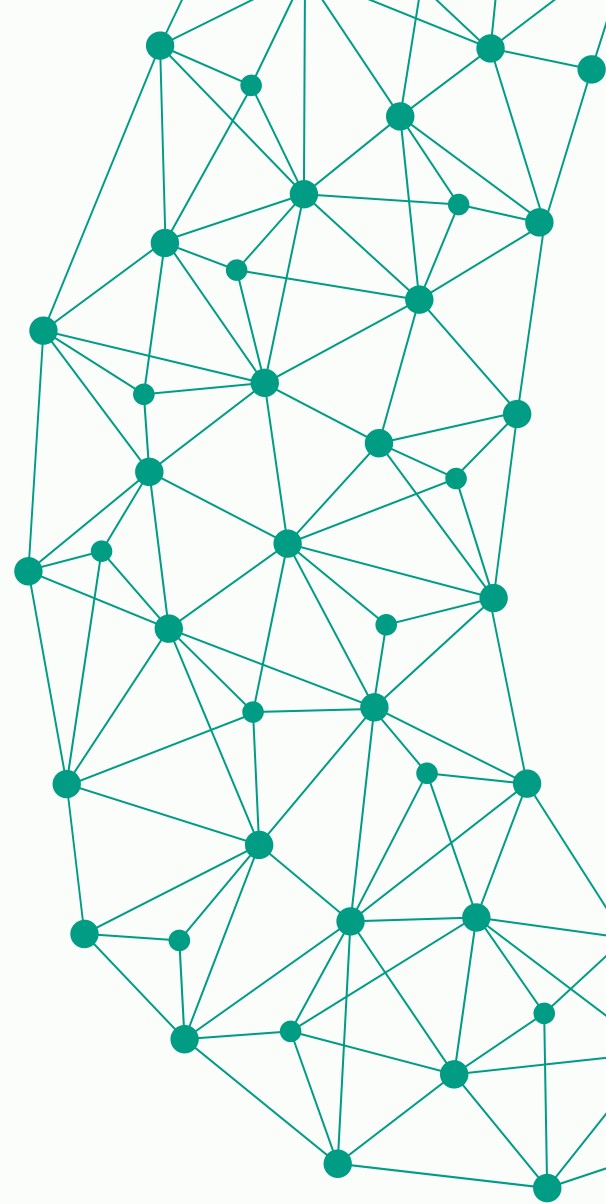
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