

HP Engros Korte Danske Obligationer
Kronprinsessegade 18, 1.
1306 København K

HP Fondsmæglerselskab A/S
Kronprinsessegade 18, 1.
DK 1306 København K
+45 33 15 00 34
hp@hpfonds.dk
CVR 27 40 31 74

Return Report



HP Engros Korte Danske Obligationer Monthly reporting

Reporting period: 1. marts - 31. marts 2026

Marts 2026

- The war in Iran put severe pressure on global energy and financial markets: Brent crude surged to USD 119 per barrel, the ECB revised its 2026 inflation forecast up to 2.6%, and both the Fed and ECB kept policy rates unchanged – while Lagarde signaled that rate hikes remain a real possibility if the energy shock proves persistent.
- Rate volatility – not credit quality – was the primary driver in the Danish bond market: Implied EUR 5Y15Y swaption volatility rose from 62 to 74 bps, pushing 30-year callable bonds down by close to 1 percentage point, while OAS spreads remained remarkably stable and credit quality in Danish mortgage bonds was unaffected.
- The flex curve steepened, creating attractive opportunities in the intermediate segment: Rate increases of up to 65 basis points in the short end significantly improved the yield + roll profile for 2-5-year flex bonds – notably, 5-year maturities remained borrowers' preferred tenor despite higher rates, as reflected in quarter-end tap issuance of DKK 31bn.

If you have any questions, please do not hesitate to contact us at +45 33 15 00 34 or HP@hpfonds.dk.

The table below shows returns for HP Funds during the period. Click on the fund name for more information at hpfonds.dk or press "Click here" to view the individual summary pages.

LISTED FUNDS

Subfund	MTD	Excess return	YTD	Excess return
HP Invest Short Term Danish Mortgage Bonds	-1.29%	0.14%	-0.37%	0.19%
HP Invest Long Term Danish Bonds Accumulating	-2.56%	-0.38%	-0.81%	-0.19%
HP Invest Long Term Danish Bonds	-2.46%	-0.28%	-0.58%	0.03%
HP Invest Green Bonds	-2.20%	0.40%	-0.31%	0.33%

UNLISTED FUNDS

Subfund	MTD	Excess return	YTD	Excess return
HP Engros Short Term Danish Bonds	-0.95%	0.49%	-0.02%	0.55%
HP Invest Short Term Danish Bonds	-1.00%	0.44%	0.13%	0.70%
HP Invest Long Term Danish Mortgage Bonds	-2.76%	-0.59%	-0.94%	-0.33%
HP Hedge Danish Bonds	-2.61%	-	0.12%	-
HP Hedge Fixed Income	-2.78%	-	-0.43%	-

Returns are calculated after fees.

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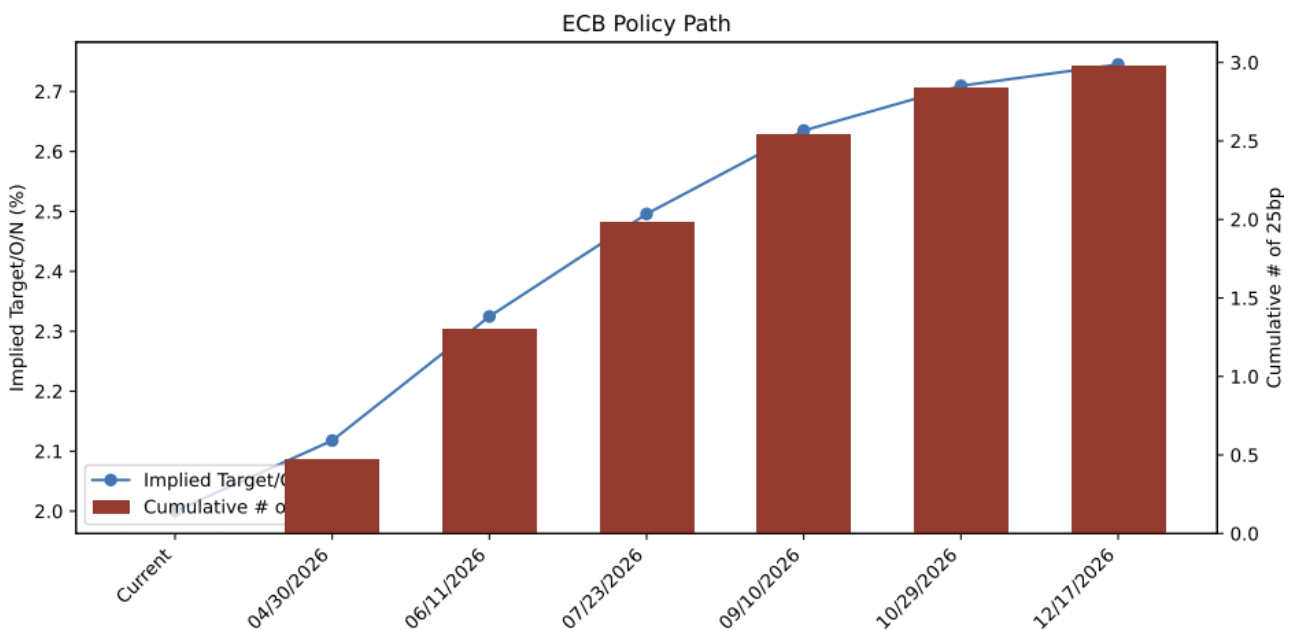
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Macro

March 2026 will likely be remembered as a month that fundamentally reshaped the global macroeconomic landscape. On 28 February, the United States and Israel launched coordinated airstrikes against Iranian military infrastructure and leadership – an operation referred to by the US as “Operation Epic Fury.” Iran retaliated with missile and drone attacks targeting US and Israeli assets, as well as Gulf states hosting US forces.

The immediate consequence was severe disruption in global energy markets. Iran effectively imposed a blockade of the Strait of Hormuz, through which approximately 20% of global oil exports pass. The conflict pushed Brent crude prices to USD 119 per barrel – the first time since Russia’s invasion of Ukraine that prices exceeded USD 100.

Diesel has been particularly impacted, as many refineries producing this fuel are in the Gulf region and it is predominantly used by the industrial sector. Looking ahead, Saudi Arabia estimates that oil prices could reach USD 180 per barrel if disruptions persist through April, while energy consultancy Wood Mackenzie does not rule out prices approaching USD 200 in 2026.



Source: Nordea Analytics

The energy shock has placed central banks in a difficult position. At its meeting on 19 March, the ECB decided to keep its three key policy rates unchanged. In its communication, the ECB emphasized that the war has significantly increased uncertainty, raising inflation risks while weakening growth prospects.

In the baseline scenario, headline inflation is now expected to average 2.6% in 2026, revised upward from December projections, primarily due to higher energy prices. The Fed reached a similar decision that same week, holding rates unchanged, but Chair Jerome Powell’s comments – that further disinflation in goods prices is a prerequisite for future rate cuts – were negatively received by equity markets.

The following day, ECB President Christine Lagarde signaled that the central bank stands ready to raise rates even if the inflation spike proves temporary. In its adverse scenario, the ECB warned that inflation could peak at around 4% this year, and in a severe scenario potentially exceed 6% in early 2027.

Markets reacted broadly negatively. The nervousness that had gradually built up since the start of the conflict materialized in equity markets, with the Danish C25 index falling 2.5% on Thursday 19 March – its lowest level in nearly six months. Energy and defense sectors were notable exceptions, while rate-sensitive and cyclical stocks were hit hardest.

For the Danish and broader European economy, the outlook has deteriorated materially. Denmark's Nationalbank presented a risk scenario in March where a temporary increase in oil prices to USD 160 per barrel would reduce Danish GDP growth by approximately 0.5 percentage points in 2026 – equivalent to around DKK 13bn – while pushing consumer inflation towards 4.5% in a downside scenario.

The conflict and its spillover effects thus completely dominated financial markets in March. The key uncertainty is whether the energy shock proves temporary or persistent – and whether central banks will be forced to tighten monetary policy at a time when growth is already under pressure. The risk of stagflation is firmly back on the agenda, alongside the risk of policy mistakes by central banks.

Date	DKK SWAP 2Y	DKK SWAP 5Y	DKK SWAP 10Y	DKK SWAP 30Y	DKK SWAP 10Y-2Y
30-06-2025	2.10	2.41	2.76	2.90	0.67
30-09-2025	2.25	2.52	2.81	3.00	0.56
31-12-2025	2.39	2.76	3.12	3.43	0.73
30-01-2026	2.33	2.68	3.04	3.33	0.71
27-02-2026	2.29	2.55	2.89	3.18	0.60
31-03-2026	2.95	3.07	3.26	3.30	0.31

Date	EUR SWAP 2Y	EUR SWAP 5Y	EUR SWAP 10Y	EUR SWAP 30Y	EUR SWAP 10Y-2Y
30-06-2025	1.91	2.27	2.60	2.75	0.69
30-09-2025	2.08	2.38	2.68	2.89	0.60
31-12-2025	2.17	2.57	2.93	3.25	0.76
30-01-2026	2.13	2.51	2.87	3.17	0.74
27-02-2026	2.07	2.36	2.69	2.99	0.62
31-03-2026	2.73	2.89	3.08	3.12	0.35

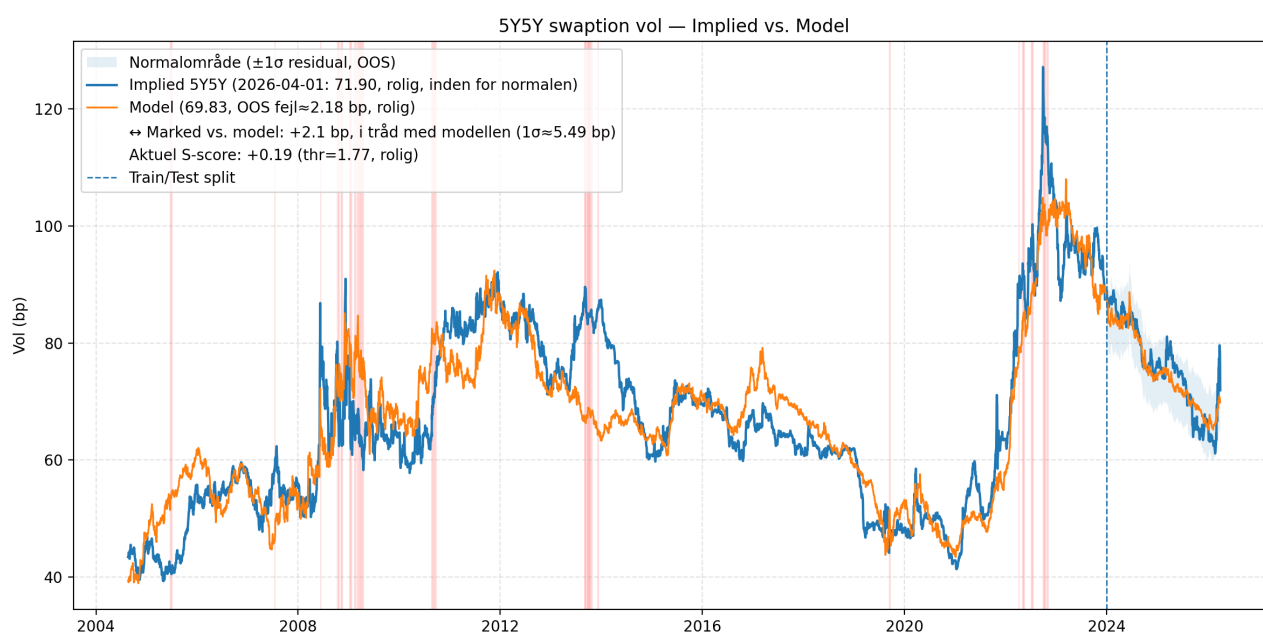
Source: Nordea Analytics

Bond market

March put the Danish bond market under pressure from multiple fronts simultaneously: rising energy prices, upward revisions to inflation expectations, a flattening swap curve, widening credit spreads, and sharply rising rate volatility. Nevertheless, the market proved relatively resilient – particularly when compared to developments in equity markets.

The dominant narrative in March was not credit quality, but rate volatility. As the conflict in Iran pushed oil prices higher and markets began pricing in ECB rate hikes, implied EUR 5Y5Y swaption volatility increased from 62 bps at the end of February to around 74 bps. This alone resulted in price declines of close to 1 percentage point for 30-year on-the-run callable bonds during March.

OAS spreads remained broadly stable, although spreads on flex bonds widened slightly – overall, the fundamental credit quality of the Danish mortgage market was not materially affected.



Source: Bloomberg

This highlights an important point: it was not credit stress, but the pricing of optionality that drove price movements. This pattern is familiar from 2022 and reflects the same mechanism that makes callable bonds more sensitive to rates during periods of inflation concerns and anticipated central bank reactions, rather than in traditional risk-off environments driven by credit fears.

A key theme in March was the pronounced flattening of the EUR 10Y/30Y swap curve. The inflation shock pushed short-term rates higher, while long-term rates – supported by declining demand for ultra-long duration from Dutch pension funds – did not rise to the same extent. Month-to-date, the EUR 10Y/30Y swap curve flattened by up to 28 basis points, with clear spillover effects on long Danish mortgage bonds, particularly IO30 series.

As expected, higher rates contributed to shorter duration in the 4% segment, as increased volatility dampened convexity effects.

Rising short-end rates – up to 65 basis points depending on maturity since the start of the war – created a strong incentive to move out along the flex curve. Flex bonds with 2-5 year maturities delivered attractive yield + roll returns, while 1-year flex bonds appear less compelling.

Quarter-end tap issuance amounted to approximately DKK 31bn, of which flex bonds accounted for DKK 21bn and floaters DKK 10bn. This was in line with December's issuance of DKK 31bn, although the composition then was roughly evenly split between flex bonds and floaters. Notably, 5-year maturities remain borrowers' preferred choice despite higher rates, although we expect issuance to gradually shift towards floating-rate structures.

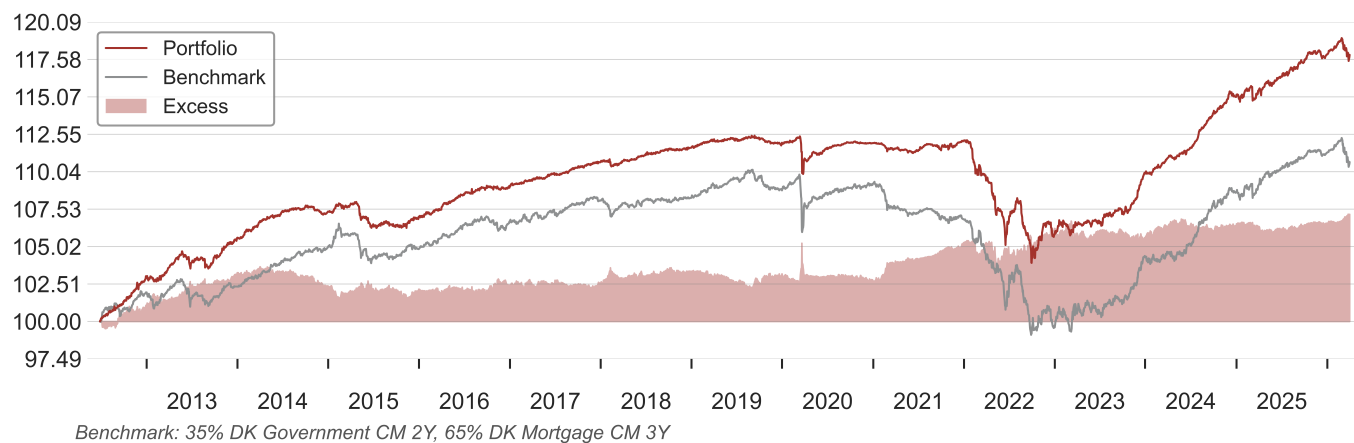
The key uncertainty remains whether the ECB will proceed with further rate hikes. If not, markets are expected to stabilise. However, historical experience suggests that implied volatility rarely declines quickly following significant shifts in rate expectations, and that the risk-reward profile for spread widening in callable bonds appears asymmetric: there is considerably more downside than upside from current low spread levels if the ECB tightens further.

This supports a cautious stance on duration and exposure to callable bonds, while the attractive absolute yield levels provide compelling entry points into Danish bonds. Expected holding period returns appear particularly attractive relative to alternative investments – short-duration strategies offer around 3.00-3.25% after costs assuming unchanged rates, while long-duration strategies are around 4.00%.

	1 year	2 year	3 year	5 year	7 year
DK Mortgage CM		-0.51	-0.69	-0.64	
DK Mortgage Callable CM			-0.89	-0.87	-0.70
DK Mortgage Non-Callable CM	0.10		-0.49		
DK Government CM		-0.35	-0.44	-0.45	-0.44

Source: Nordea Analytics

Summary



Time-weighted return	January	February	March
Portfolio	0.46%	0.47%	-0.95%
Benchmark	0.43%	0.45%	-1.44%
Excess return	0.03%	0.02%	0.49%

Return	Portfolio	Benchmark	Excess return
Year-to-date return	-0.02%	-0.57%	0.55%
Quarter-to-date return	-0.02%	-0.57%	0.55%
Accumulated return	17.89%	10.70%	7.19%
Annualised return	1.20%	0.74%	0.46%
Rolling 1-year annualised return	2.07%	1.39%	0.68%
Rolling 3-year annualised return	3.45%	3.25%	0.20%
Rolling 5-year annualised return	1.10%	0.57%	0.53%

Fund information

12-month holding period return	3.06%
NAV	1,178.86
ISIN	DK0061553245
Exchange Status	Unlisted
Distribution Policy	Accumulating
Inception date	26-06-2012