

Transatlantic spread – from monetary signal to fiscal mirror

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In Summary

- **Is one of the world's most important pricing signals entering a new era?** Since 2015, the 10-year spread between US Treasury yields and Eurozone German Bunds has ranged between 100bps and 270bps. Since early 2025, pushed first by Germany's fiscal pivot and then by converging rate expectations (hawkish ECB vs Fed easing bias), the 10y US–Bund spread has narrowed by roughly 90bps. If this continues, the transatlantic spread could finally break through the lower trading range that has held for more than a decade.
- **The latest bond sell-off suggests that the convergence trade has run its course: We expect a gradual reversal rather than a new tighter-for-longer regime.** Over the last few weeks, the spread has stopped narrowing and widened to around 140bps. In the short run (next 6–12 months), the move should remain modest (+20bps) and still driven by rate expectations as markets reprice a less hawkish ECB against a Fed that stays on hold longer than consensus expects or even proceeds to hike.
- **In the medium term (3–5 years), the transatlantic drivers will shift decisively from rate expectations to risk premia.** We see the US neutral rate rising by 10–20bps on stronger AI-driven productivity gains while the Eurozone neutral rate drifts 10bps lower, consistent with a historical 20–50bps widening of the real-rate spread. On top of that, the US Treasury term premium looks underpriced relative to Bunds: the US convenience yield has flipped from -30bps to +20bps as Treasury supply erodes the safety premium, while the Bund retains a -40bps convenience yield anchored in collateral scarcity. The ECB's faster QT has already cheapened Bund duration by 35bps versus 10bps for Treasuries and we expect that gap to close. Adding a structural +10bps from the OIS/swap-spread channel, we see the spread widening by ~75bps to around 200bps.
- **Ultimately, the transatlantic spread is evolving from a pure monetary-cycle gauge to a barometer of fiscal credibility and sovereign liquidity.** For investors, this means the transatlantic spread should be monitored not only through the lens of rate differentials, but equally as a mirror of fiscal sustainability and sovereign market liquidity. For duration positioning, this means active positioning in Bunds versus US Treasuries not only in terms of rate expectations but also where the term premium repricing will be most pronounced (longer maturities). In addition, the marginal buyer of Treasuries will increasingly demand a higher term premium, supporting a steeper US curve and a structurally weaker dollar against the euro. For corporate issuers, the EUR–USD funding-cost differential is expected to widen, favoring euro issuance (reverse Yankee issuance) that may support EUR investment-grade bonds over their US counterparts.

The transatlantic spread reaches the lower bound of its long-term trading range

Is transatlantic spread entering a new lower-for-longer era? The transatlantic spread, which refers to the differential between US Treasury yields and Eurozone benchmark yields (German Bunds), is among the most important pricing signals in global financial markets. It influences two of the largest fixed-income markets and moves the EURUSD, the most important currency pair in global trade and financial transactions.

Any sustained shift in the transatlantic spread carries transmission effects across global capital flows, equity valuations, corporate funding and hedging costs. Since the 1980s, transatlantic spread has experienced three distinct phases. From 1980 to 1995, covering the Volcker Era and the post oil-shock disinflation, it was characterized by a high and volatile spread, fluctuating between +500bps and -150bps for the ten-year maturity. The period from 1995 to 2015 marked a phase of moderation and convergence, during which the spread appeared capped at an upper bound of 100bps and rarely fell below -100bps. With the onset of ECB quantitative easing in 2015, which pushed long-term yields in the Eurozone persistently lower, a third phase began, with the ten-year spread ranging between 100bps and 270bps (Figure 1). Since 2025, the transatlantic spread has narrowed by ~90bps, approaching the lower bound of the third phase trading range. This raises the question of whether we are at the start of a new lower-for-longer regime or should expect a near-term reversal of the narrowing trend (Figure 2).

Figure 1: Long-term 10y transatlantic spread
Spread in %



Sources: LSEG Workspace, Allianz Research

Figure 2: Transatlantic spread at lower bound
Yield and spread in %



US and Eurozone yields: from term-premium suppression to repricing rate expectations

At its core, the transatlantic spread signals divergence in the monetary policy stance as well as in the growth and inflation outlooks. But it also embodies risk premia for the uncertainty around future inflation and neutral rates in addition to premia for fiscal risk and market liquidity. Term-structure models help to refine this view by decomposing observed market yields and rates into three components:

- **Rate expectations** capture growth and inflation expectations as expressed by expected nominal short-term rates.
- **Term premium** reflects the uncertainty around the future path of short-term rates and inflation expectations. It also captures duration supply/demand pressure with fiscal policy (debt issuance) on the supply side and changes in central bank bond purchases and holdings – Quantitative Easing (QE) or Quantitative Tightening (QT) – as a major factor on the demand side.
- **OIS spread**, defined here as the difference between government bond yields and the swap rate, represents the premia for market liquidity. Its level and sign signal whether government bonds are scarce or abundant, and whether they are cheap or expensive to finance and hedge (market liquidity). The OIS spread is an indicator of imbalances in government bond supply and demand. The higher the OIS spread, the more constrained governments are in issuing additional debt without paying a liquidity premium to the market.

The weight of these components varies over time. If we look at the composition of US and German 10y yield over the last 10 years, we can clearly see these shifts. Pre-Covid, both yields were subject to prolonged suppression of term premia (negative), reflecting QE duration demand, while rate expectations reflected different monetary policy stances: tightening in the US versus stable in the Eurozone. Post-Covid, both yields surged, driven by rapidly rising rate expectations. During this time, the term premium shifted from a dampening to an amplifying factor once central banks reduced duration demand through QT while governments increased supply by fiscal expansion. Since 2025, US rates have held steady as a rising term premium was offset by falling rate expectations, reflecting the Fed's

easing bias amid a late-cycle slowdown. German Bund yields, however, rose steadily. First this was driven by a higher term premium following Germany's fiscal pivot (*Sondervermögen*). In a second phase, from mid-2025 onwards, the yield increase was driven by a shift in rate expectations as markets priced upside risk to euro short-term rates on the back of an emerging economic recovery. Over this period, market liquidity played a minor role for US Treasuries in absolute terms. Structurally, however, OIS spreads switched into positive territory in 2025, marking a shift from the US government being a receiver of a liquidity premium to being a payer. For German Bund yields on the other hand, OIS spreads were a major driver – at times even equal to the term premium. Until 2022, this reflected the relative scarcity of German government debt in the euro sovereign market. Investors paid a substantial premium to hold these ultra-safe assets, contributing to structurally low Bund yields. With the fiscal pivot, this privilege has at least diminished, reflecting the increased supply of German government bonds (Figure 3 and 4).

Figure 3: Decomposition of US 10y Treasury yield
Yield and components in %

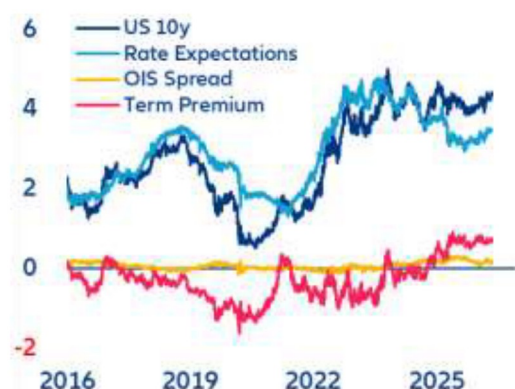


Figure 4: Decomposition of 10y German Bund yield
Yield and components in %

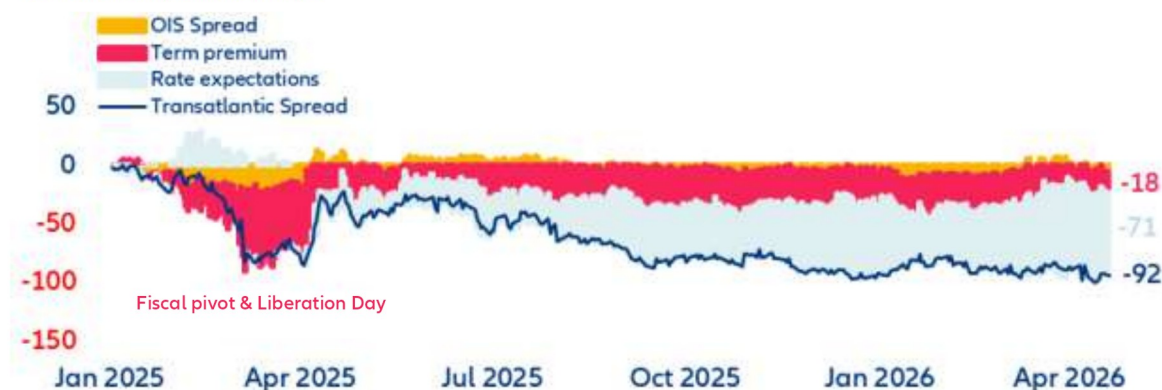


Notes: Term structure decomposition based on Abrahams et al. (2016)
Sources: LSEG Workspace, Allianz Research

Latest transatlantic spread narrowing driven by rate expectations not risk premia

The latest narrowing of the transatlantic spread (-92bps since 2025) was initially driven by a term-premium repricing after the German fiscal pivot, reinforced by the “Liberation Day” trade shock. After that, however, it increasingly became the product of converging rate expectations (reflecting the easing bias of the Fed versus an ECB on standby) and divergent growth dynamics (slowdown in US vs early recovery in Eurozone). The energy-price shock triggered by the Iran war reinforced this trend but inverted the signs of the rate expectations. Markets now expect the Fed to stay on pause while pricing at least two ECB rate hikes by end-2026 (Figure 5). If this trend continues, the transatlantic spread could finally break through the lower trading range of the last 10 years.

Figure 5: Contributions to the 10y transatlantic spread since 2025
Yield and components in bps



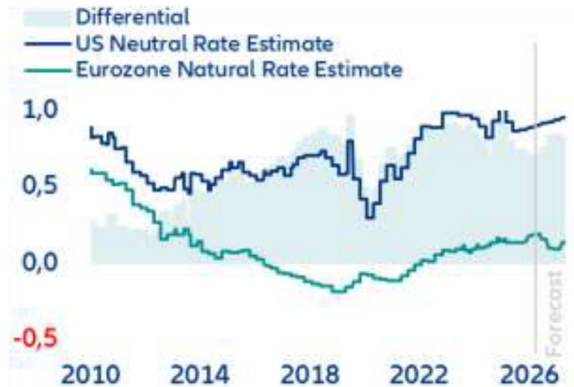
Notes: Term structure decomposition based on Abrahams et al. (2016)
Sources: LSEG Workspace, Allianz Research

However, we believe the current convergence trend is nearing its end and is about to reverse. In the near term, markets are pricing in 25bps of excess ECB rate hikes through year-end, in our view. This should push the transatlantic spread wider again in H2 2026 as long-term inflation expectations remain largely aligned, offering little offset. In the medium term, we see real rates as a major driver for a wider transatlantic spread. The expected real rate differential currently sits at its long-term average but we estimate the US neutral rate will rise by 10-20bps over the next five years, driven by stronger productivity growth. In contrast, we see the Eurozone neutral rate declining by 10bps. Historically, such divergence in neutral rates has been followed by a widening of the expected real rate spread between US and Eurozone of at least 20–50bps

Figure 6: Difference in neutral rates and expected rates
Real yield in %



Figure 7: US vs Eurozone neutral rates
Real yield in %



Notes: US neutral rates estimate as median value of Lubik & Matthes (2015), Del Negro et al. (2020), Davis, Fuenzalida, Huetsch, Mills, and Taylor (2024), Ferreira & Shousha (2023), Holston, Laubach and Williams (2017) and Ferreira, Lott and Richards (2025)
Eurozone neutral rate estimate as median of Lubik & Matthes (2015), Brand et al. (2024), Davis, Fuenzalida, Huetsch, Mills, and Taylor (2024), Ferreira & Shousha (2023), Holston, Laubach and Williams (2017) and Ferreira, Lott and Richards (2025)
Sources: LSEG Workspace, Allianz Research

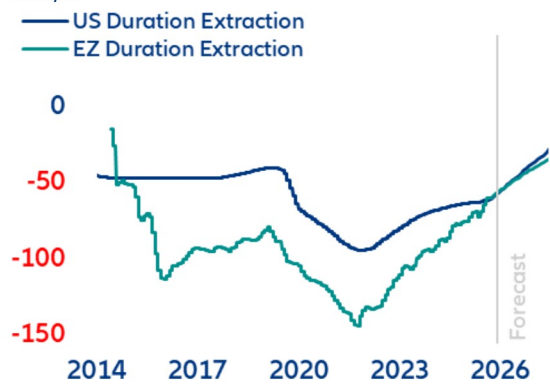
Diverging QT pace drives term premium

On the term premium side, we also see no further impulse for convergence in US and Eurozone sovereign yields. The term premiums for 10y Bund and 10y US Treasury tracked closely for an extended period. From mid-2024, however, the Bund term premium began rising significantly faster than its US counterpart. Today, the German term premium stands 60bps above the US level (Figure 8). We consider this gap excessive. Notably, half of the divergence is attributable to the ECB's faster pace of quantitative tightening (QT). We estimate that the run-off of ECB holdings has cheapened 10y Bund duration by 35bps, versus only 10bps in the US (Figure 9).

Figure 8: German term premium exceeds US by 60bps
in %



Figure 9: QE/QT effect on 10y term premium
in bps



Notes: Term structure decomposition based on Abrahams et al. (2016)
Sources: LSEG Workspace, Allianz Research

Notes: for US: Li & Wei (2013); Eurozone: Eser et al. (2019)

We expect this QT effect to equalize over the next years. In particular, recent Fed T-Bill purchases do not cause a renewed yield-dampening effect. Confined to very short-dated securities, these purchases do not drain duration from the market, therefore the upside pressure on US duration pricing from Fed portfolio run-off remains intact. The elevated German term premium relative to the US also appears stretched given the US's higher risk profile. Strong expansion of Treasury supply (fiscal deficit) has eroded the US convenience yield – the premium investors pay for an asset's combined safety and liquidity properties. US Treasuries still carry a significant liquidity privilege based on the USD-based collateral (repo) ecosystem. But the safety component has deteriorated to a point where the US convenience yield flipped from a dampening effect of -30bps at end-2024 to +20bps most recently. The Bund convenience yield has also declined with rising issuance (fiscal pivot) but remains at -40bps, which is 60bps below US Treasuries (Figure 10). The scale of the US Treasury risk premium is also visible when comparing the term premium of the US 10y Treasury bond with the one implied in the USD 10y swap rate. The two tracked almost identically until "Liberation Day", after which markets have priced an additional +50bps premium for the sovereign (Figure 11). In our view, this is not yet sufficiently priced relative to the Bund. On this basis, we see clear upward pressure on the US Treasury term premium relative to the Bund.

Figure 10: Convenience yield US vs Germany, 10Y maturity in %

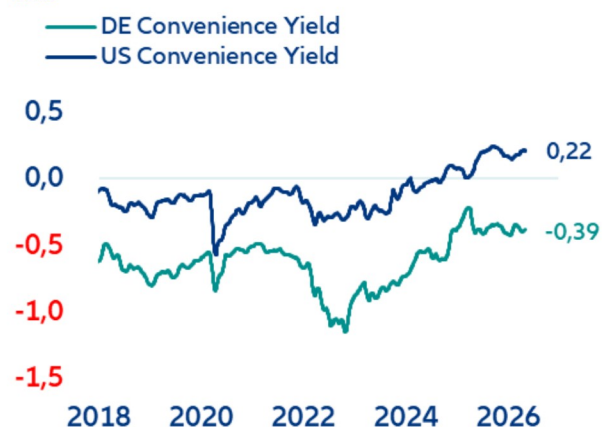


Figure 11: US 10Y Treasury risk premium vs swap in %

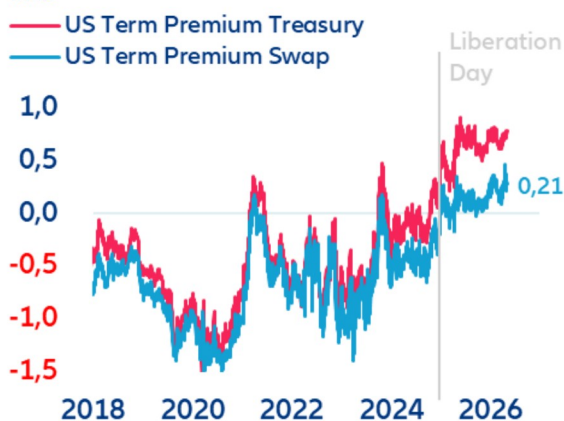


Fig.10 Notes: to illustrate the effect on the total yield, the sign of the convenience yield is inverted. A negative value represents a yield dampening effect, a positive value represents an upside pressure on the total yield. Convenience yield is calculated as the average of synthetic proxies mentioned in Lustig et al. (2024) and the intersovereign convenience yield in Du et al. (2018) Fig 11. Notes: Term structure decomposition based on Abrahams et al. (2016)

Sources: LSEG Workspace, Allianz Research

The transatlantic liquidity divide will drive OIS spreads

The transatlantic OIS spread differential remains structurally biased toward widening in Europe's favor, driven by fundamentally asymmetric liquidity and supply dynamics. In the US, persistently high net Treasury issuance (USD2-3trn/year), structurally constrains dealer balance sheets and weaker foreign demand keeps US swap spreads biased wider. Near-term regulatory relief (Supplementary Leverage Ratio adjustment) could provide a temporary tightening impulse, but the underlying trend remains intact. In the Eurozone, the picture is the mirror image. Despite the step-up in Bund supply (EUR170-180bn additional issuance), superior bank absorption capacity, ample excess reserves and persistent high-quality collateral scarcity in repo markets support a structural tightening bias on euro swap spreads. The specialness¹ of German Bunds is still driven by collateral scarcity rather than credit. This is the repo market signal for of the higher Bund convenience yield. It reinforces this dynamic, as does solid foreign demand on the back of euro strength and a more favorable hedging profile for non-US investors. The net result is a widening US–EU liquidity differential, with euro swap spreads tightening relative to their US counterparts over the medium term. We see potential of around +10bps effect on the transatlantic spread.

¹ Specialness being the premium of a strongly desired collateral which allows cheaper borrowing in repo transactions.

We expect the 10Y spread to widen by approximately +20bps in the short run. In the medium term (next 3 to 5 years) we see a widening of +75bps to around 200bps, reversing the bulk of its compression since 2025 (Table 1). However, we expect a clear shift in the drivers of that move. The transatlantic spread is transitioning from a predominantly rate-expectations-driven signal reflecting monetary policy divergence to one equally shaped by risk premia repricing.

Table 1: Transatlantic spread components

Component	Sub-component	Since 2025	Short-term Outlook	Mid-Term Outlook
Rates Expectations	Real Rates Expectations	-67bps	+15bps	+30bps
	Inflation Expectations	-5bps	+5bps	+10bps
Term Premium	QT Effect	-27bps		
	Risk premium	+12bps		+25bps
OIS Spread	OIS Spread	-5bps		+10bps
TOTAL		-92bps	+20bps	+75bps

Sources: LSEG Workspace, Allianz Research

We find the US Treasury term premium underpriced relative to the Bund, given the scale of US fiscal deficits, eroding convenience yield and tighter liquidity. By contrast, the Eurozone benefits from a supportive convenience yield and more favorable liquidity conditions. This expected change in the composition of the transatlantic spread shows how it is evolving from a pure monetary cycle signal into a barometer of sovereign fiscal credibility. Treasury supply dynamics will increasingly set the floor for US long-end yields as the US is forced to offer elevated real rates to retain foreign capital inflows. Europe, meanwhile, stands to benefit from a relative repricing: even as Bund supply rises, the Eurozone’s stronger structural liquidity position and lower fiscal risk premium provide a durable anchor. For investors, this means the transatlantic spread should be monitored not only through the lens of rate differentials, but equally as a gauge of fiscal sustainability and sovereign market liquidity. A cross-curve duration positioning between Bunds and US Treasuries should therefore not only reflect rates expectations but take into account which curve segment will see the most pronounced term premium repricing. A structurally higher term premium in the US should also add steepening pressure on the US curve and act as a weakening force on the USD versus EUR. On credit and issuance, we expect the EUR–USD funding cost differential to widen, favoring euro issuance for global borrowers (reverse Yankee supply). This could have a tightening effect on EUR investment-grade spreads relative to their USD counterparts. In short, the transatlantic spread is moving from a “*Fed versus ECB*” story to a “*Treasury versus Bund*” story, and portfolios built for the former need to be repositioned for the latter.

These assessments are, as always, subject to the disclaimer provided below.

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