

Fixed Income Research Methodology

We base our fixed income asset valuation, views and recommendations on an estimation of the financial risk profile of the specific financial asset. By combining the risk profile with financial asset-specific issues such as rating, supply and demand factors, macro factors, regulation, curve structure etc., we arrive at an overall valuation, view and recommendation for the specific financial asset.

We compare the financial asset to those of peers with similar risk profiles and against this background, we estimate whether the specific financial asset is attractively priced. We express these views through buy and sell recommendations with a defined profit target. This signals our views on the financial assets performance potential in the coming three to six months. We evaluate our recommendations on a running basis in various regular publications and updates.

We publish research and trading recommendations in the following areas. (The list is not exhaustive):

- Government bonds (main focus: euro area and Scandinavia)
- Local governments and similar (municipalities, regional, Ship Finance etc.)
- Covered bonds in local Scandinavian currencies
- Money market products including repo-related products
- Fixed Income Derivatives
- Inflation products (linkers and derivatives)
- SSAs

Our assessment of the financial risk profile and value of a financial asset includes, but is not confined to, a valuation of the following.

- We evaluate the **expected return**, including carry/roll on a specific fixed income asset and relate it to the risk-free rate of return.
- We evaluate the **consequences of a shift in the yield** curve in respect of our views and recommendations.
- We use simple **econometric models** to evaluate relative value and ‘mispricing’ in the fixed income market.
- We normally do a simple **volatility analysis** to evaluate the effect of a change in volatility on our views and recommendations.
- We take into account **current ratings** from relevant rating agencies and evaluate the consequences of a potential change in rating.

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- We take into account the **political risk** and evaluate the consequences of a change in the political risk related to a specific financial asset.
- We take into account **regulation** and potential forthcoming regulation and evaluate the consequences for our views and recommendations.
- When evaluating the **risk profile of a Danish mortgage issuer**, we focus on the issuers' cover pools, the capital structure and issuance profile. We publish a Danish covered bond handbook on a regular basis, which includes an in-depth analysis of the above-mentioned factors.
- We take into account **macroeconomic** developments including the expected monetary policy outlook for relevant central banks.
- We take into account the expected **supply** or issuance of a given bond when we look at valuation in the bond market.
- We take into account the development in **demand** based on public sources, when we look at valuation in the bond market.
- We keep a **track record** of trading recommendations that are published in various publications.
- We publish **interest rate forecasts** for DKK, SEK, NOK, GBP, USD and EUR on a regular basis.