



EUROPEAN CENTRAL BANK
EUROSYSTEM

ECB Bond Market Contact Group

4 March 2026

Summary of the meeting

Note: This summary reflects the discussion at the time of the meeting (4 March 2026)

1a) Initial market reaction to the war in the Middle East

Overall, members viewed the reaction in bond markets as relatively moderate and orderly with market functioning not showing signs of disruption. Market liquidity was seen to be holding up and the moves in bond yields, risk assets and the dollar were viewed as typical of a reaction to an energy price shock combined with investor de-risking. In bond markets, investors' immediate reaction was to focus more on the upside risks to inflation than the downside risks to growth and the magnitude of future changes in yields was also expected to depend on how long the conflict persists.

Prior to the war, the build-up of carry trade positions in the euro area had been significant and predicated on expectations of an extended period of low short-term rate volatility. In particular, volatility-adjusted carry had increased substantially since summer 2025, providing incentives to put in place carry trades which also drove sovereign spread compression. **This configuration had rendered the market vulnerable to a risk of unwinding of such positions following a spike in short-term rate volatility, a scenario that ultimately materialised.** The view was that if the war persisted for longer and high volatility was sustained, markets could see further unwinding on a larger scale which could accelerate sovereign spread and to a lesser extent corporate spread widening. However, some members noted that more sustainable market factors also contributed to prior spread compression, notably the shift from central bank reserves to sovereign bonds in banks' High Quality Liquid Asset (HQLA) buffers.

Whether central banks would focus more on the upside risks to inflation or downside risks to growth was seen to dictate the direction of yields going forward. Members felt the memory of the 2022 inflation spike might tilt central bank communication towards a hawkish bias. It was seen that such market perception could add to upward pressure on short-term interest rate expectations, even if market-based inflation expectations were still well anchored.

1b) Market trends before the outbreak of war

Daniel Aksan (Morgan Stanley) reviewed the more structural bond market developments. Despite a record net bond supply, market absorption remained robust including at longer maturities. Bid-to-cover ratios in euro area government bond syndications were even slightly higher than last year's levels, as was the average duration of syndicated supply.

The Dutch pension fund transition had so far been well managed and was proceeding smoothly with a lower-than-expected impact on long term bond yields. Significant positions put in place by investors in anticipation of a bumpy adjustment were scaled back. The rise in equity prices also contributed to limit the scale of necessary portfolio adjustments before the end of the year. Dutch authorities were praised for their pragmatic actions which adapted to market feedback.

Prior to the war, overall markets appeared calm when viewed at an aggregate level, but dispersion was seen accumulating below the surface. The difference between the average return of the top and bottom 50 performers in the S&P 500 had reached, and even exceeded, levels last seen in 2009 – and so had the realised level of single name equity volatility relative to index level volatility.

Private credit and private equity were seen as areas where members were most concerned. Much of this related to the exposure of these investor groups to the software sector which was hit by recent market worries about the impact of AI on the sustainability of software business models. Members were more sanguine about other areas of the credit market, with the outlook for publicly traded investment grade credit seen as less worrisome.

2) Funding new sectors of the economy: implications for bond markets

Tatjana Greil Castro (Muzinich) provided an update on the funding for artificial intelligence (AI) and defence sectors. Most of the bond issuance by so-called AI hyperscalers has been denominated in US dollars, with euro denominated issuance representing a modest percentage (15%). Issuance was concentrated among four large names (Amazon, Meta, Oracle, Google) and focused on very long maturities (mostly above 15 years, including a century bond), reflecting the market's benign outlook for these companies and their strong level of cash generation. Going forward, annual issuance by hyperscalers was expected to triple over the next five years, from 100 to 300 billion US dollars.

Bond issuance by defence corporations was still very modest, with companies primarily seeking government funding rather than issuing debt. While they offered significant value, the investment into defence bonds was, according to some members, still affected by some stigma.

3) Tokenisation in Finance

Nicola Danese (Tradeweb), Silke Weiss (EIB), and ECB staff (Mirjam Plooi, Francisco Gaspar) presented the current state of play and outlook for a tokenised finance world. The presentations provided insights from multiple angles with Tradeweb providing an overview of the ecosystem, the EIB focusing on their tokenised bond issuance, and the ECB presenting the Pontes and Appia initiatives and recent announcement regarding the eligibility of DLT-based securities as monetary policy collateral.

Tokenisation was seen as a major technological shift with the potential to fundamentally reshape many dimensions of the financial market ecosystem. Highlighted benefits ranged from efficiency gains to integration of the entire asset life cycle on a single DLT platform, as well as faster settlement, lower transaction and custody fees, and programmability. Some dealer banks struck a somewhat sceptical tone on the adoption time in financial markets, adding that for the moment it was

still a very marginal part in issuance and investment portfolios. Asset managers were more supportive and highlighted that tokenisation would enable “fractionalisation”, whereby illiquid asset classes such as loans or real estate could become accessible to retail investors in increments as small as one euro, which is reminiscent of the innovation wave unleashed by Exchange Traded Funds (ETFs) in the 1990s.

New risks were also highlighted such as operational risks, the link between real time settlement and need for new intraday liquidity management solutions, transparency and AML/CFT risks.

The main immediate obstacles to scalability of digital asset issuance were seen in interoperability between and fragmentation across DLT platforms – areas in which the Pontes and Appia initiatives aim to play a catalyst role.