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Inflation

Trump's election revives the inflation debate

- Donald Trump's proposed agenda poses material risks to the upside for inflation in the US.
- Changes in geopolitics, labour markets and globalisation mean that inflation should likely stay volatile going forward around advanced economies, and not only in the US.
- Central banks should pursue the cutting cycle, but they will continue to calibrate their monetary policy response in real time.

What's happening?

	Inflation & Monetary Policy	Inflation Linked Bonds Market
US	<p>US Headline inflation rose to 2.6% in October as the Federal Reserve debated whether to cut interest rates at its last meeting before US president-elect Donald Trump takes office. Futures markets imply a high probability of a 25bp cut in December. Core CPI help steady at 3.3% on an annual basis.</p> <p>Headline 2,6% ▲ Core 3,3% =</p>	<p>US TIPS performance was negative in October.</p> <p>US inflation breakevens posted positive performance over the summer.</p> <p>5 yr Ry* 1.78% ▲ 10 yr Ry 1.96% ▲ 10 yr Be** 2.33% ▲</p>
Euro Area	<p>Eurozone inflation rose to 2% in October, meeting the European Central Bank's target and suggesting a 25bp rate cut in December. The ECB reduced borrowing costs by a 25bp for the second month in a row in October after inflation fell quicker than expected and concerns over weak economic dynamics had intensified. Core inflation is considered a better gauge of underlying price pressures, remained steady at 2.7%, still well above the ECB's medium-term target.</p> <p>Headline 2% ▲ Core 2.7% =</p>	<p>Euro Area inflation linked bonds performance was negative in October.</p> <p>Euro inflation breakevens performance was positive across countries.</p> <p>5 yr Ry 0.90% ▲ 10 yr Ry 1.07% ▲ 10 yr Be 1.98% ▲</p>
UK	<p>UK inflation accelerates sharply to 2.3% in October, reducing bets that Bank of England will cut rates next month. The increase is mainly driven by the rise in energy prices. The rate of services inflation, which is closely watched by the central bank as a gauge of underlying domestic price pressures, was 5% in October, exceeding economists' expectations of 4.9 % but in line with the BoE's own forecast.</p> <p>Headline 2,3% ▲ Core CPI 3.3% ▲</p>	<p>UK linkers performance was negative in October.</p> <p>UK inflation breakevens performance was up over the month.</p> <p>5 yr Ry 0.54% ▲ 10 yr Ry 0.86% ▲ 10yr Be 3.63% ▲</p>

*Ry : Real Yield

**Be : Breakeven

Source: AXA IM as at end of October 2024

Portfolio positioning

Key Strategies

Real Yields

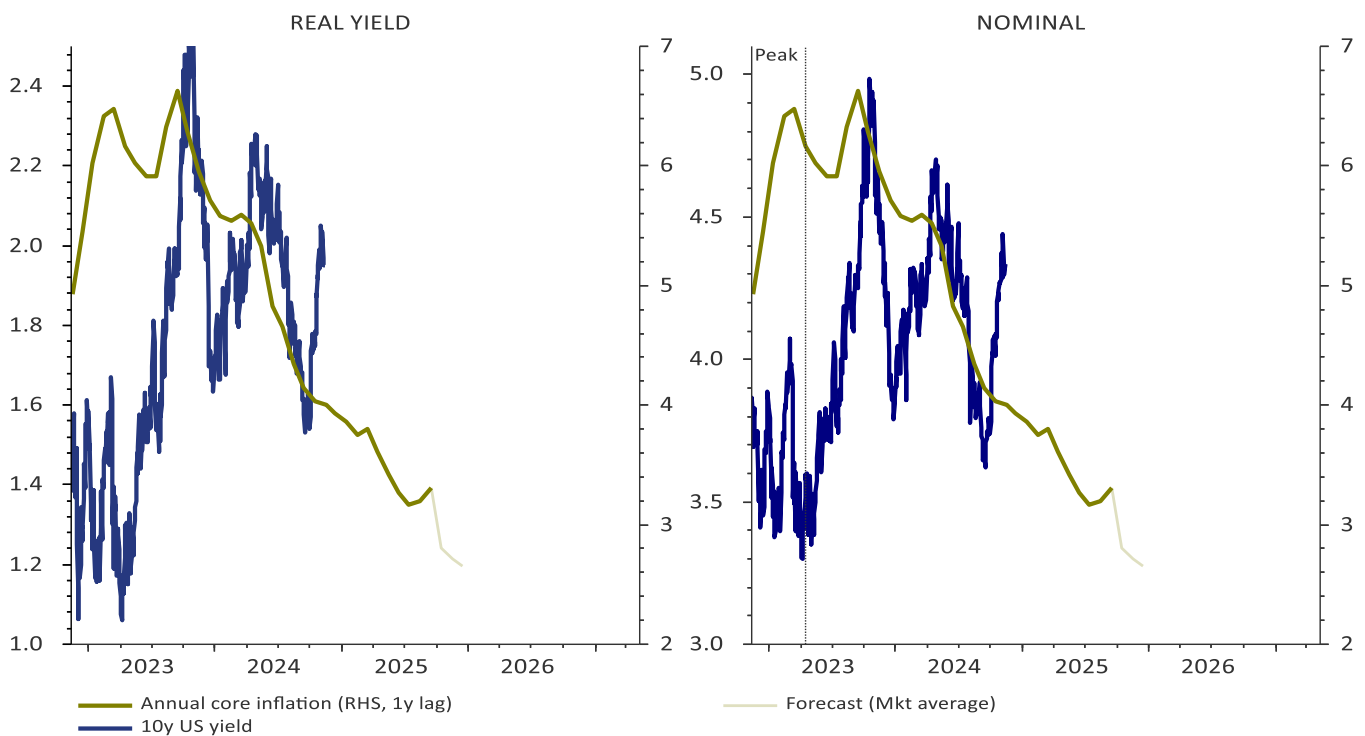
- Real interest rates are still in restrictive territory. Expected subdued growth, makes long duration positions attractive.
- As Central Banks start to cut interest rates, real rates should follow, making the front end and steepeners positions attractive.

Breakevens

- Inflation breakevens are still reflecting a negative term inflation premium
- The front end remained the most attractive point of the curve and long positions are attractive on a tactical basis

Chart of the month

Yields vs Core inflation



Source: LSEG Datastream 12/11/2024

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