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# Inflation

## Diverging inflation battle

- Inflation continues to rise in the US and the Eurozone while UK inflation unexpectedly slowed in December.
- Changes in geopolitics, labour markets and globalisation mean that inflation should likely stay volatile going forward around advanced economies.
- Central banks face different risks in the cutting cycle.

### What's happening?

	Inflation & Monetary Policy	Inflation-Linked Bonds Market
<b>US</b>	<p><b>US Headline inflation rose to 2,9% in December</b>, in line with expectations. <b>Core edged lower to 3,2%</b>, beating expectations. Services inflation eased to 4,4% and its softest pace in three years. Donald Trump's election victory changes the Fed's calculus. Significant elements of his agenda, including tariffs on US trade partners, slashing taxes and cutting immigration, will bring inflationary pressures. At AXA IM, we continue to see one more cut in March, followed by an extended pause until H2 2026.</p> <p>Headline 2,9% ▲ Core 3,2% ▼</p>	<p><b>US TIPS performance was negative</b> in December.</p> <p>5yr Ry* 1,99% ▲ 10yr Ry 2,23% ▲ 10yr Be** 2,34% ▲</p> <p><b>US inflation breakevens posted slightly negative performance</b> over the month.</p>
<b>Euro Area</b>	<p><b>Eurozone inflation rose to 2,4% in December</b>, third consecutive rise in the area. The ECB is still expected to lower the benchmark deposit rate by 25 bps at the next meeting, end of January. The eurozone faces the challenge of a broadly weak economy, which could worsen further if Trump were to act on his tariff-increasing rhetoric. <b>Core inflation remained steady at 2.7%.</b></p> <p>Headline 2,4% ▲ Core 2,7% =</p>	<p><b>Euro Area inflation-linked bonds performance was negative</b> in December.</p> <p>5yr Ry 0,85% ▲ 10yr Ry 1,20% ▲ 10yr Be 1.93% ▲</p> <p><b>Euro inflation breakevens performance was negative</b> across countries.</p>
<b>UK</b>	<p><b>UK RPI slowed to 3,5% in December</b>, clearing the path for the BoE to press ahead with cutting interest rates next month. The UK's near-term inflation trajectory is complicated by domestic factors. Weakness in business activity could offset some price pressures. We think that the BoE will have to look through any near-term price pressures to prevent an undershoot of the 2% inflation target in the medium term. Four cuts this year remains our base case, leaving Bank Rate at 3,75% by the end of the year.</p> <p>RPI 3,5% ▼ Core CPI 3,2% ▼</p>	<p><b>UK linkers performance was negative</b> in December.</p> <p>5yr Ry 0,58% ▲ 10yr Ry 1,04% ▲ 10yr Be 3,52% ▼</p> <p><b>UK inflation breakevens performance was down</b> over the month.</p>

\*Ry : Real Yield

\*\*Be : Breakeven

Source: AXA IM as at end of December 2024

Portfolio positioning

**Key Strategies**

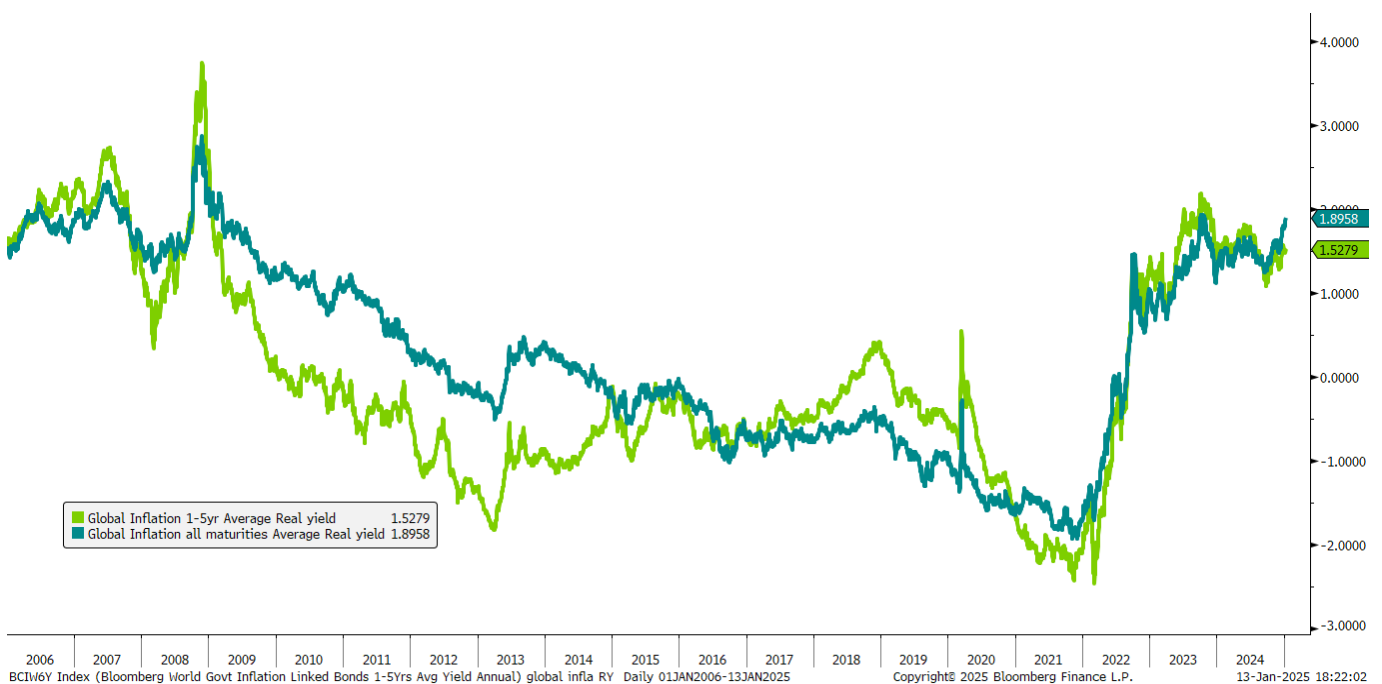
**Real Yields**

- Real interest rates are still in restrictive territory. Expected subdued growth, makes long duration positions attractive at the front end.
- 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**



No assurance can be given that the Inflation strategy will be successful. Investors can lose some or all of their capital invested. The Inflation strategy subject to risks including credit risk, liquidity risk, derivatives and leverage risk, contingent convertible bonds risk.

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