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Inflation

Sticky price pressure

- Inflation rose in the US, the Eurozone and the UK
- 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
US	<p>US Headline inflation rose unexpectedly to 3,0% in January, strengthening the argument for the Federal Reserve to proceed cautiously with interest rate cuts. Core edged higher to 3,3%. The increase in core reflected faster services inflation, echoing similar increases last year and raising suspicions of residual seasonality. The Fed will be wary of reacting to 'seasonal' trends, but equally should be wary of genuine signs of stickiness. Fed Chair Powell repeated that the Fed was in "no hurry" to ease policy further.</p> <p>Headline 3,0% ▲ Core 3,3% ▲</p>	<p>US TIPS performance was positive in January.</p> <p>5yr Ry* 1,79% ▼ 10yr Ry 2,11% ▼ 10yr Be** 2,43% ▲</p> <p>US inflation breakevens posted positive performance over the month.</p>
Euro Area	<p>Eurozone inflation unexpectedly ticked up to 2,5% in January. The rise was not expected to alter policymakers' plan to continue lowering interest rates. The ECB Governing Council (GC) decided unanimously to cut its depo rate by 25bps to 2.75% as widely expected. No change was made to communication. Cautious, data dependent approach to remain. Core inflation remained steady at 2.7%.</p> <p>Headline 2,5% ▲ Core 2,7% =</p>	<p>Euro Area inflation-linked bonds performance was positive in January.</p> <p>5yr Ry 0,67% ▼ 10yr Ry 1,06% ▼ 10yr Be 2.11% ▲</p> <p>Euro inflation breakevens performance was positive across countries.</p>
UK	<p>UK RPI rose to 3,6% in January, emphasizing the challenge faced by the Bank of England as it deals with persistent price pressures and a weakened economy. The MPC voted to cut Bank Rate by 25bp to 4.50%. The Bank sees inflation returning to the 2% target at the back end of the forecast horizon conditioned on just 40bp of cuts this year and a further 13bp over the following two years. Forecast revisions were hawkish.</p> <p>RPI 3,6% ▲ Core CPI 3,7% ▲</p>	<p>UK linkers performance was positive in January.</p> <p>5yr Ry 0,27% ▼ 10yr Ry 0,92% ▼ 10yr Be 3,59% ▲</p> <p>UK inflation breakevens performance was up over the month.</p>

*Ry : Real Yield

**Be : Breakeven

Source: AXA IM as at end of January 2025

Portfolio positioning

Key Strategies

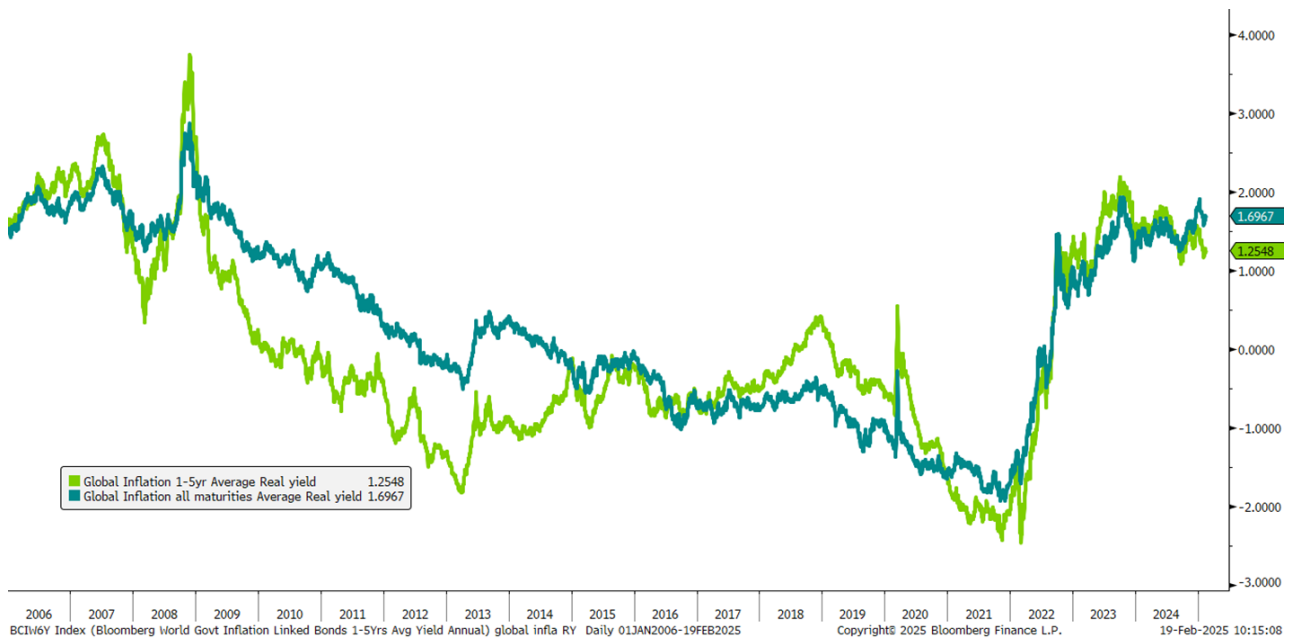
Real Yields

- 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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