Inflation

It's all about timing

- Annual inflation should print close to 2% in the summer and then, is expected to pick up in the later part of the year
- The ECB has already cut rates once and the Fed and the BoE should follow
- Despite volatility in the prints, the trajectory of inflation would allow to cut rates in 2024

What's happening?

	Inflation & Monetary Policy		Inflation Linked Bonds Market	
US	**Headline inflation felt to 3.3% in May, raising expectations of interest rate cuts in September.** Core CPI, which strips out changes for food and energy prices, hit 3.4 per cent, below expectations of 3.5 per cent. US Federal Reserve officials have signalled that they expect to cut interest rates just once this year, taking a hawkish stance on inflation as they held borrowing costs at a 23-year high.	**Headline** 3.3% ▼ **Core** 3,4% ▼	**US TIPS performance was positive in May** with rates decreasing. **Inflation breakevens were down** over the month on the back of lower oil prices. US TIPS real yields are still at elevated by historical standards but started to decrease in line with the end with the Fed's hiking cycle.	**5 yr Ry*** 2.17% ▼ **10 yr Ry** 2.15% ▼ **10 yr Be**** 2.36% ▼
Euro Area	**Eurozone inflation ticked up from an almost two-year low of 2.4 per cent in April to 2.6 per cent in May,** prompting the ECB to raise its own inflation forecasts for the next two years. The European Central Bank has cut interest rates for the first time in almost five years, but warned future reductions would depend on price pressures easing further. Christine Lagarde says ECB can keep rates on hold as long as needed.	**Headline** 2.6% ▲ **Core** 2.9% ▲	**Euro Area inflation linked bonds performance was negative in May.** Real rates performance was flat to negative as yields decoupled from the other markets amidst positive new on economic data. **Inflation breakevens performance was down** across countries.	**5 yr Ry** 0.84% ▲ **10 yr Ry** 0.87% ▲ **10 yr Be** 2.27% ▼
UK	**Annual inflation eased to 2.3 per cent in April, down from 3.2 per cent in the previous month and well below its 11.1 per cent peak in October 2022.** The BoE MPC met early in May and voted to leave Bank Rate unchanged at 5.25%. We expect the BoE to start cutting interest rates in August and do one more cut by the end of the year, in line with the Federal Reserve.	**Headline** 2,3% ▼ **Core CPI** 3.9% ▼	**UK linkers performance was positive** with rates decreasing and real rates outperforming their nominal counterparts. **UK inflation breakevens were almost stable over the month.**	**5 yr Ry** 0.35% ▼ **10 yr Ry** 0.62% ▼ **10yr Be** 3.77% =

***Ry** : *Real Yield*
*****Be** : Breakeven*
Source: AXA IM as at end of May 2024

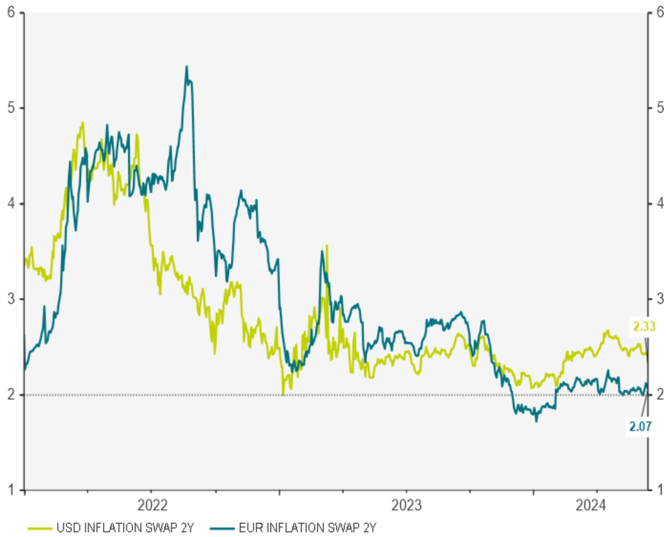
Portfolio positioning

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 currently 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

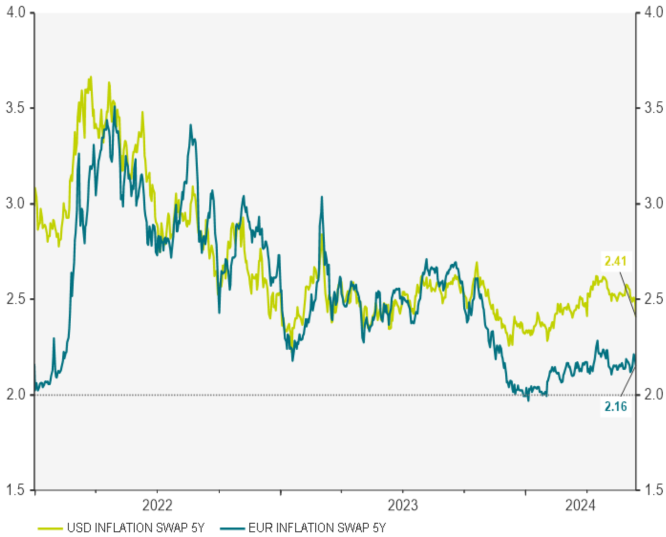
Chart of the month

2 year Inflation swaps



Source: LSEG Datastream 13/06/2024

5 year Inflation swaps



Source: LSEG Datastream 13/06/2024

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.