

Not for Retail distribution: this document is intended exclusively for Professional, Institutional, Qualified or Wholesale Investors / Clients, as defined by applicable local laws and regulation. Circulation must be restricted accordingly.

# Inflation

## Inflation: Resurrection?

- Inflation has begun to pick up again in the US, the UK and the Eurozone.
- Changes in geopolitics, labour markets and globalisation mean that inflation should likely stay volatile going forward around advanced economies.
- 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
<b>US</b>	<p><b>US Headline inflation rose to 2.7% in November.</b> As expected, the Federal Reserve reduced interest rates by 25 bps. On a hawkish stance, they raised their 2025 inflation forecasts and cut back their projections for further rate cuts. It was the central bank's final meeting before Donald Trump takes office next month. <b>Core CPI held steady at 3.3% on an annual basis.</b></p> <p>Headline 2,7% ▲ Core 3,3% =</p>	<p><b>US TIPS performance was positive</b> in November.</p> <p><b>US inflation breakevens posted negative performance</b> over the month.</p> <p>5 yr Ry* 1.71% ▼ 10 yr Ry 1.91% ▼ 10 yr Be** 2.27% ▼</p>
<b>Euro Area</b>	<p><b>Eurozone inflation rose to 2.3% in November,</b> exceeding the European Central Bank's target. This did not dissuade the ECB from lowering interest rates. As anticipated, it reduced borrowing costs by an additional 25 basis points in December. <b>Core inflation is considered a better gauge of underlying price pressures, remained steady at 2.7%,</b> still well above the ECB's medium-term target but it is expected to converge towards 2% early 2025.</p> <p>Headline 2,3% ▲ Core 2.7% =</p>	<p><b>Euro Area inflation linked bonds performance was positive</b> in November.</p> <p><b>Euro inflation breakevens performance was slightly negative</b> across countries.</p> <p>5 yr Ry 0.61% ▼ 10 yr Ry 0.87% ▼ 10 yr Be 1.91% ▼</p>
<b>UK</b>	<p><b>UK RPI rose by 3.6% in November, up from 3.2%.</b> The Bank of England's challenge will be to face persistent price pressure and a stagnating economy. During the last meeting, the BoE decided to maintain its interest rate to 4,75% in line with market consensus.</p> <p>RPI 3,6% ▲ Core CPI 3.5% ▲</p>	<p><b>UK linkers performance was slightly negative</b> in November.</p> <p><b>UK inflation breakevens performance was down</b> over the month.</p> <p>5 yr Ry 0.32% ▼ 10 yr Ry 0.72% ▼ 10yr Be 3.57% =</p>

\*Ry : Real Yield

\*\*Be : Breakeven

Source: AXA IM as at end of November 2024

Portfolio positioning

**Key Strategies**

**Real Yields**

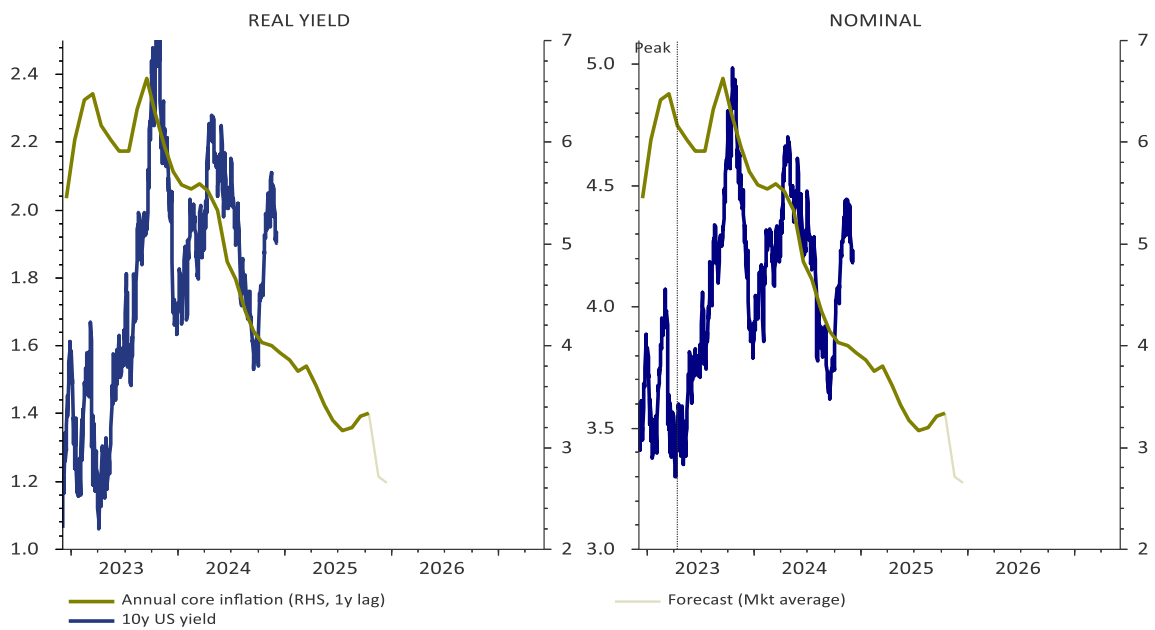
- Real interest rates are still in restrictive territory. Expected subdued growth, makes long duration positions attractive at the front end.
- As Central Banks start to cut interest rates, real rates should follow, making the front end and steepeners positions attractive.

**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**

Yields vs Core inflation



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.

Not for Retail distribution: This document is intended exclusively for Professional, Institutional, Qualified or Wholesale Clients / Investors only, as defined by applicable local laws and regulation. Circulation must be restricted accordingly.

This document is for informational purposes only and does not constitute investment research or financial analysis relating to transactions in financial instruments as per MIF Directive (2014/65/EU), nor does it constitute on the part of AXA Investment Managers or its affiliated companies an offer to buy or sell any investments, products or services, and should not be considered as solicitation or investment, legal or tax advice, a recommendation for an investment strategy or a personalized recommendation to buy or sell securities.

Due to its simplification, this document is partial and opinions, estimates and forecasts herein are subjective and subject to change without notice. There is no guarantee forecasts made will come to pass. Data, figures, declarations, analysis, predictions and other information in this document is provided based on our state of knowledge at the time of creation of this document. Whilst every care is taken, no representation or warranty (including liability towards third parties), express or implied, is made as to the accuracy, reliability or completeness of the information contained herein. Reliance upon information in this material is at the sole discretion of the recipient. This material does not contain sufficient information to support an investment decision.

Issued in the UK by AXA Investment Managers UK Limited, which is authorised and regulated by the Financial Conduct Authority in the UK. Registered in England and Wales No: 01431068. Registered Office: 7 Newgate Street, London EC1A 7NX. In other jurisdictions, this document is issued by AXA Investment Managers SA's affiliates in those countries.

Please note that the management company reserves the right, at any time, to no longer market the product(s) mentioned in this communication in an European Union country by notification to its authority of supervision in accordance with European passport rules.

In the event of dissatisfaction with the products or services, you have the right to make a complaint either with the marketer or directly with the management company (more information on our complaints policy available in English [here](#)). You also have the right to take legal or extra-judicial action at any time if you reside in one of the countries of the European Union. The European online dispute resolution platform allows you to enter a complaint form (by clicking [here](#)) and informs you, depending on your jurisdiction, about your means of redress (by clicking [here](#)).