Investment Managers

For professional clients only
April 2024
Monthly Perspectives
Fixed Income

Inflation

Inflation continues its path toward the 2% target

- Lower than expected inflation figures in the Europe and in the UK
- US inflation had not added to confidence of disinflation, but it has not really changed the medium term path
- Despite volatility in the prints, the trajectory of inflation would allow to cut rates at some point in 2024

What's happening?

	Inflation & Monetary Policy		Inflation Linked Bonds Market	
US	**US headline inflation ticked up to 3.2% in February, while Core inflation eased to 3,8%.** Energy prices added to the headline rate with both gasoline and household energy annual inflation accelerating. The latest inflation numbers come amid signs of persistent strength in the US economy. The Fed will **require further signs of softening** in core inflation before easing policy.	**Headline** 3.2% ▲ **Core** 3,8% ▼	**US TIPS performance was positive in March.** Inflation breakevens were up over the month on the back of the strong performance of energy commodities. 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*** 1.82% ▼ **10 yr Ry** 1.88% ▼ **10 yr Be**** 2.32% =
Euro Area	**Headline inflation falls to 2,4% in March whereas Core inflation is stable at 3,1%.** Services inflation remains strong (4% yoy), the same level for the fifth consecutive month. We believe risks remain tilted to the upside. In the near term, energy prices can fuel a rebound in inflation while services inflation is yet to engage in disinflation phase. **A first ECB rate cut in June is reinforced**, with decelerating headline and core inflation.	**Headline** 2.4% ▼ **Core** 3.1% =	**Euro Area inflation linked bonds performance was positive in March** due to a fall in real yields. Inflation breakevens performance was down due to a negative inflation indexation while Euro breakeven level is up.	**5 yr Ry** 0.30% ▼ **10 yr Ry** 0.38% ▼ **10 yr Be** 2.28% ▲
UK	**UK headline inflation has fallen more than expected to 3,4%,** the lowest since 2021. Figures showed falls in service price and food inflation. Summer interest rate cuts remain on track as price pressures in the UK are easing faster than expected.	**Headline** 3,4% ▼ **Core CPI** 4.5% ▼	**UK linkers performance was positive. UK inflation breakevens were up** despite negative surprises on inflation.	**5 yr Ry** -0.01% ▼ **10 yr Ry** 0.17% ▼ **10yr Be** 3.79% ▲

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

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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