

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 continues to surprise to the upside

- US and Euro inflation eased but continue to be stickier than expected
- All-in, Core inflation keeps surprising to the upside
- Despite volatility, the trajectory of inflation would allow to cut rates at some point in the future

What's happening?

	Inflation & Monetary Policy	Inflation Linked Bonds Market
US	<p>US headline inflation slowed to 3.1% in January. The market is still pricing a high level of inflation for the month of February and it will be closely looking at details to assess if supercore elements are rising. Any upside surprise would raise the possibility that Fed policymakers rein in their expectations of interest rate cuts this year to just two quarter point moves.</p> <p>Headline 3.1% ▼ Core 3.9% =</p>	<p>US TIPS performance was negative in February. Inflation breakevens were up over the month as they benefited from strong macro-economic data. 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.</p> <p>5 yr Ry* 1.85% ▲ 10 yr Ry 1.93% ▲ 10 yr Be** 2.32% ▲</p>
Euro Area	<p>Headline & Core inflation slowed in February but remains stickier than expected. Expectations of a loose monetary policy faded, despite the swift easing of consumer price rises and continued stagnation in the eurozone economy. The ECB maintained its benchmark deposit rate at 4% and signalled June to cut interest rates but still need "more evidence and more data". Services inflation remains sticky.</p> <p>Headline 2.6% ▼ Core 3.1% ▼</p>	<p>Euro Area inflation linked bonds performance was negative in February mainly due to negative inflation indexation. Inflation breakevens performance was up due to rising momentum in DM inflation. We continue to see value in € Area inflation linked bonds and remains our preferred market.</p> <p>5 yr Ry 0.51% ▲ 10 yr Ry 0.52% ▲ 10 yr Be 2.21% ▲</p>
UK	<p>UK headline and Core inflation stayed steady at 4% and 5.1% respectively in January. This increase bets that the BoE could start cutting rates from June 2024. The BoE published new forecasts this month showing price growth — which peaked at 11.1 per cent in October 2022 — would return to its 2 per cent target "temporarily" in the second quarter of 2024 but then increase during the rest of the year.</p> <p>Headline 4.0% = Core CPI 5.1% =</p>	<p>UK linkers performance was negative except for the long end driven by higher real yields. UK inflation breakevens were up despite negative surprises on inflation.</p> <p>5 yr Ry 0.38% ▲ 10 yr Ry 0.43% ▲ 10yr Be 3.66% ▲</p>

*Ry : Real Yield

**Be : Breakeven

Source: AXA IM as at end of February 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

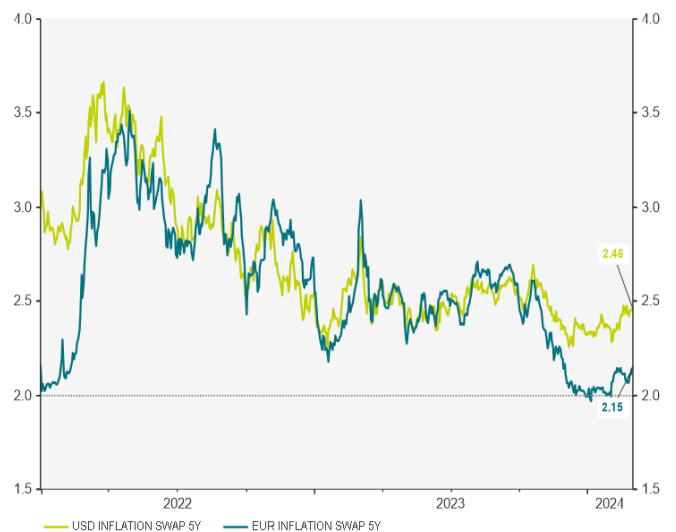
Chart of the month

2 year Inflation swaps



Source: LSEG Datastream 01/03/2024

5 year Inflation swaps



Source: LSEG Datastream 01/03/2024

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.

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](#)).