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Inflation

Inflation and volatility remain

- Despite government pressure on the Fed, Central Banks have shown signs of putting their own mandates as priority.
- Services inflation has struggled to normalize in advanced economies as economic activity has been resilient.
- Geopolitical tensions, the slowdown in global trade, and currency volatility are raising increasing concerns among investors and policymakers.

What's happening?

	Inflation & Monetary Policy		Inflation-Linked Bonds Market	
US	**US headline inflation came out at 2.9% in August and Core came out at 3.1%. The CPI report confirmed another month of a limited and very lagged effect of tariffs on core goods inflation.** The Fed as expected cut interest rates by 25bp to 4.25% as widely expected. The statement took stock of declining job growth and an uptick in unemployment as well as of accelerating inflation. The Fed is on its way to ease to neutral, in a cautious way, to provide insurance for the expansion.	**Headline** 2.9% ▲ **Core** 3.1% =	**US TIPS performance was positive** in August. **US inflation breakevens posted positive performance** over the month.	**5yr Ry*** 1.15% ▼ **10yr Ry** 1.82% ▼ **10yr Be**** 2.41% ▲
Euro Area	**Eurozone inflation rises to 2.1% in August.** The ECB Governing Council decided to keep the depo rate at 2%, as widely expected. Communication was unchanged: data-dependence, meeting-by-meeting approach remain prominent. Overall tone was more balanced than in previous press conferences. Though, we think the point on "more balanced growth risks" was overplayed. At AXA IM, we remain unconvinced by macro fundamentals which justify a dovish tilt, in our view. We think the easing cycle is not completely over, foreseeing a last rate cut to 1.75%. We now postpone this last move to March from December, a delay that we had previously envisaged.	**Headline** 2.1% ▲ **Core** 2.3% =	**Euro Area inflation-linked bonds performance was negative** in August. **Euro inflation breakevens performance was negative** across countries.	**5yr Ry** 0.79% ▲ **10yr Ry** 1.46% ▲ **10yr Be** 1.99% ▼
UK	**UK inflation remained steady at 3.8% in August, driven by higher food, restaurant and hotel prices. Core inflation eased to 3.6%.** Despite a solid employment increase in July, labor market data remain unreliable, and wage growth is expected to decline significantly in H2. Inflation is projected to reach double the 2% target in September. As a result, we anticipate the Bank of England will keep rates unchanged until late 2025. We continue to see two further cuts, leaving bank rate at 3.5% by the end of 2026.	**Headline** 3.8% = **Core CPI** 3.6% ▼	**UK linkers performance was negative** in August. **UK inflation breakevens performance was down** over the month.	**5yr Ry** 0.73% ▲ **10yr Ry** 1.48% ▲ **10yr Be** 3.23% ▼

Ry* : Real Yield; ****Be : Breakeven*
Source: AXA IM as at end of August 2025

Portfolio positioning

Key Strategies

Real Yields

- Real interest rates have repriced higher post liberation day in the US and in Europe after the German fiscal package announcement. However, subdued growth in the next 2 years, makes long duration positions attractive particularly at the front end.
- Central banks would need to resume rate cuts, and real rates should follow, making front-end and steepener positions attractive.

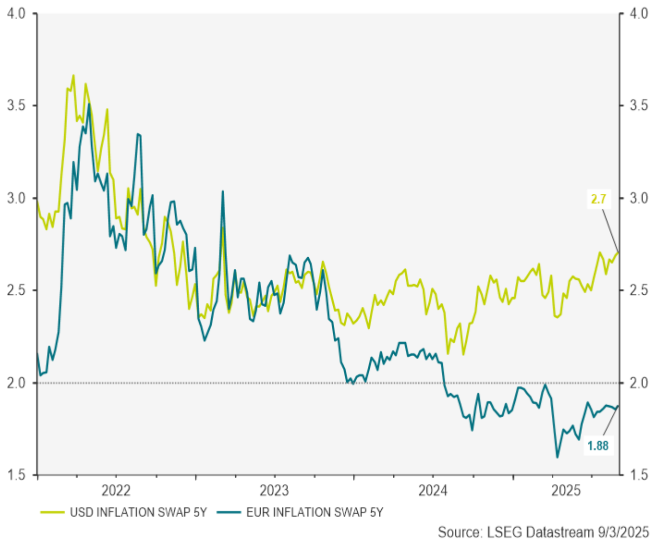
Breakevens

- Inflation breakevens are still reflecting a negative term inflation premium across advanced economies
- After the recent oil price decrease, the belly of the curve stands out as the most attractive point of the curve and long positions are attractive on a tactical basis

Chart of the month

2 year Inflation swaps

5 year Inflation swaps



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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