Inflation

Inflation: still hanging around

- Caution remains key amid uncertainty over Trump's policies.
- Geopolitical tensions, the slowdown in global trade, and currency volatility are raising increasing concerns among investors and policymakers.
- Recent price rises and geopolitical tensions risk de-anchoring expectations from Central Bank's inflation targets.

What's happening?

	Inflation & Monetary Policy		Inflation-Linked Bonds Market	
US	**Inflation remained stable at 2.7% in July, while core inflation rose to 3.1%, exceeding expectations.** Federal Reserve Chair Jerome Powell maintained a cautious stance, citing uncertainty around the impact of tariffs on inflation and pointing to increasing downside risks in the labor market. Market participants now assign a 50% probability to a rate cut as early as September, a sharp shift from 0% just a month ago.	**Headline** 2.7% = **Core** 3.1% ▲	**US TIPS performance was negative** in July. **US inflation breakevens posted positive performance** over the month.	**5yr Ry*** 1.47% ▼ **10yr Ry** 1.98% ▲ **10yr Be**** 2.39% ▲
Euro Area	**Eurozone inflation stayed at 2% in July,** meeting the ECB's target, despite forecasts of a slight decline. Lower energy costs and a stronger euro helped keep prices in check, though the rate slightly exceeded the expected 1.9%. The ECB has held rates steady at 2%, waiting to assess the impact of the US negotiations. The trade agreement signed on July 27th imposed a 15% tariff on many exports while metals remain at 50%. The deal ends a period of uncertainty but is likely to dampen European growth through lower exports.	**Headline** 2.0% = **Core** 2.3% =	**Euro Area inflation-linked bonds performance was negative** in July. **Euro inflation breakevens performance was almost flat** across countries.	**5yr Ry** 0.71% ▼ **10yr Ry** 1.25% ▲ **10yr Be** 2.00% =
UK	In July, **headline CPI rose to 3,8%, with core inflation at 3.8%, driven by higher services and food prices.** The increase was partly due to rising airfares and fuel prices, raising concerns among some MPC members. We see a higher likelihood of a pause in November, but underlying inflation is expected to decline in H2 as the labor market slackens, with rate cuts delayed to 2024 and the Bank Rate ending 2026 around 3.5%.	**Headline** 3.8% ▲ **Core CPI** 3.8% ▲	**UK linkers performance was negative** in July. **UK inflation breakevens performance was up** over the month.	**5yr Ry** 0.60% ▼ **10yr Ry** 1.31% = **10yr Be** 3.18% ▲

Ry* : Real Yield; ****Be : Breakeven*
Source: AXA IM as at end of July 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.

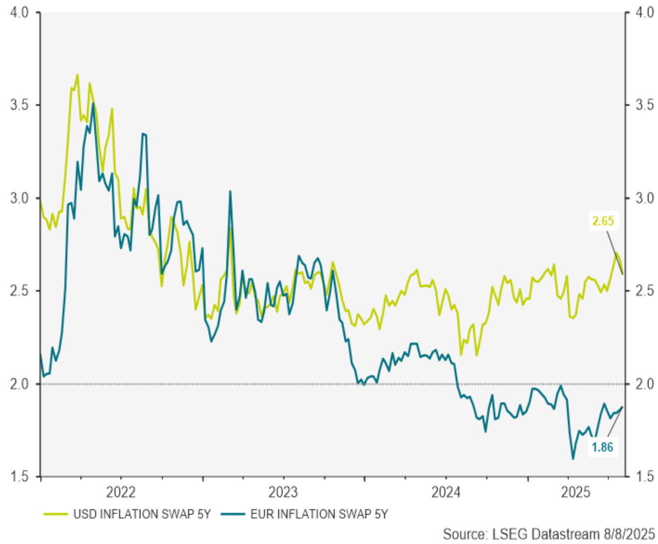
Breakevens

- 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



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