For professional clients only
June 2025
Monthly Perspectives
Fixed Income

Inflation
Oil Tensions and Inflation Plays

- Conflict between Israel and Iran has heightened geopolitical tensions, injecting risk into the oil market and influencing inflation expectations.
- Geopolitical tensions, the slowdown in global trade, and currency volatility are raising increasing concerns.
- Central banks worldwide face a similar challenge: balancing inflation control with support for economic growth.

What's happening?

	Inflation & Monetary Policy		Inflation-Linked Bonds Market	
US	**US inflation rose less than expected to 2,4% in May** and **Core remained at 2,8%**. While we are still awaiting definitive answers on fiscal policy, the general stance of monetary policy is relatively clear. The reduction in uncertainty regarding tariffs—acknowledged several times by Jay Powell, who likely means that the most extreme scenarios are now off the table — does not make the FOMC more inclined to resume rate cuts quickly. The FOMC has revised its GDP growth forecasts downward for 2025 and 2026, anticipating slower growth due to tariff-induced price shocks, while also raising core PCE inflation expectations and indicating a hawkish stance with fewer rate cuts than previously projected.	**Headline** 2,4% ▲ **Core** 2,8% =	**US TIPS performance was negative** in May. **US inflation breakevens posted positive performance** over the month.	**5yr Ry*** 1.58% ▲ **10yr Ry** 2,07% ▲ **10yr Be**** 2,33% ▲
Euro Area	**Eurozone inflation falls below target to 1,9%, and Core inflation fell to 2,3% under the influence of the normalization of services inflation.** The ECB has signalled it is nearing the end of its rate-cutting cycle as it lowered borrowing costs by 25 bps to 2%.	**Headline** 1,9% ▼ **Core** 2,3% ▼	**Euro Area inflation-linked bonds performance was positive** in May. **Euro inflation breakevens performance was slightly positive** across countries.	**5yr Ry** 0,66% ▲ **10yr Ry** 1,14% ▲ **10yr Be** 1,88% =
UK	**UK inflation remained well above the BOE's official target at 3,4% in May,** The MPC voted to keep Bank Rate unchanged at 4,25% as widely expected. The messaging was on the dovish side, with the Bank more confident that labour market slack was feeding through to weaker pay growth. The MPC also noted that while it remained sensitive to higher oil prices amid the growing conflict in the ME, geopolitical factors had not played a significant role in its decision-making process in June. **Core CPI inflation fell to 3,5%** and services to 4,7%.	**Headline** 3,4% ▼ **Core CPI** 3,5% ▼	**UK linkers performance was negative** in May. **UK inflation breakevens performance was down** over the month.	**5yr Ry** 0,53% ▲ **10yr Ry** 1,32% ▲ **10yr Be** 3,26% =

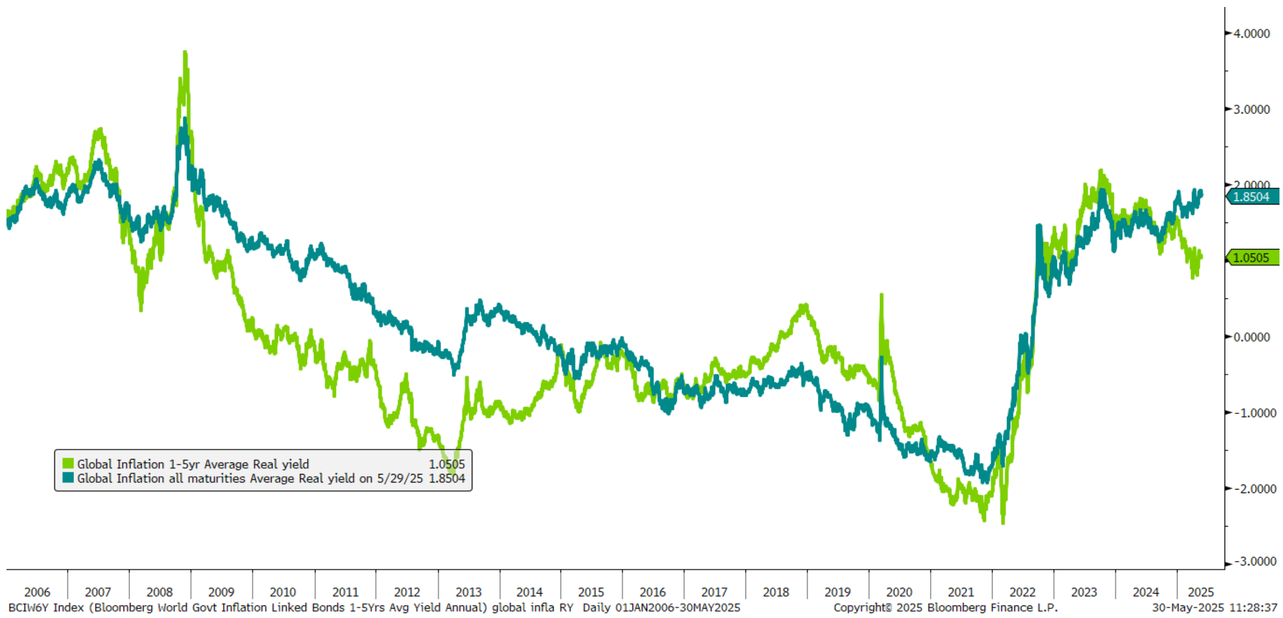
**Ry* : Real Yield; ****Be* : Breakeven
Source: AXA IM as at end of May 2025

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



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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