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# Inflation

## Central banks warned to stay on inflation alert

- Signs of tariffs pass-through to US consumer prices are emerging, which can raise the bar for the Fed to cut rates.
- 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                                                                                                                                                                                                     |
|------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>US</b>        | <p>US consumer price inflation <b>rose to 2.7% in June</b> from 2.4% in May, with household goods inflation jumping to 3.26% from 0.93% in March. <b>Uncertainty remains about the final tariffs on imports</b>, likely leading to further inflation increases, which supports <b>the Fed's wait-and-see stance and draws criticism from the White House</b>. Markets are caught in a tug of war between D. Trump's call for rate cuts and the FOMC data driven caution.</p> <p>Headline 2,7% ▲<br/>Core 2,9% ▲</p>                                                                                                                                                                                 | <p><b>US TIPS performance was positive</b> in June.</p> <p>5yr Ry* 1,48% ▼<br/>10yr Ry 1,93% ▼<br/>10yr Be** 2,28% ▼</p> <p><b>US inflation breakevens posted negative performance</b> over the month.</p>                        |
| <b>Euro Area</b> | <p><b>Eurozone inflation hit 2% in June, rising back up to the European Central Bank's medium-term target.</b> The ECB kept the deposit rate at 2% in July, in line with market expectations. With ongoing EU-US trade discussions and inflation at its 2% target, the ECB adopted a generally cautious tone. However, we were somewhat surprised by the slightly hawkish tone during the press conference, which we believe is not justified at this stage. We expect downside risks to growth to materialize further, opening the door for additional rate cuts. Consequently, we maintain our forecast of a 1.5% deposit rate by the end of the year.</p> <p>Headline 2,0% ▲<br/>Core 2,3% =</p> | <p><b>Euro Area inflation-linked bonds performance was positive</b> in June.</p> <p>5yr Ry 0,74% ▲<br/>10yr Ry 1,22% ▲<br/>10yr Be 2,00% ▲</p> <p><b>Euro inflation breakevens performance was positive</b> across countries.</p> |
| <b>UK</b>        | <p>In June, <b>headline CPI inflation rose to 3.6% from 3.4% in May</b>, slightly above expectations. <b>Core inflation increased to 3.7%</b>, driven by higher services prices (4.7%) and rising food and goods prices, indicating broader inflation pressures. The boost in transport costs, due to post-Easter airfare volatility and base effects on fuel, contributed to the increase. We see a higher chance of the BoE pausing over the summer, but still expect two 25bps cuts this year, pushing the Bank Rate to 3.75% by year-end. Risks remain tilted towards a quickening of the cycle in Q4.</p> <p>Headline 3,6% ▲<br/>Core CPI 3,7% ▲</p>                                           | <p><b>UK linkers performance was positive</b> in June.</p> <p>5yr Ry 0,65% ▲<br/>10yr Ry 1,31% ▼<br/>10yr Be 3,18% ▼</p> <p><b>UK inflation breakevens performance was up</b> over the month.</p>                                 |

\*Ry : Real Yield; \*\*Be : Breakeven

Source: AXA IM as at end of June 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 steeper 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



Source: LSEG Datastream 7/14/2025

5 year Inflation swaps



Source: LSEG Datastream 7/14/2025

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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