Inflation

Central Banks in a World of Mixed Signals: Inflation, Growth, and Geopolitics

• Monetary policy across the US, Euro Area, and UK reflected cautious central bank approaches amid mixed growth and inflation signals.
• Inflation remains above targets but shows signs of stabilizing or moderating modestly.
• 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.** At its latest meeting, the Fed restarted its 25 basis-point rate-cut cycle, justified by the deterioration in the labor market. Jerome Powell and the Fed's Board clearly indicated that further cuts would follow.	**Headline** 2.9% ▲ **Core** 3.1% =	**US TIPS performance was positive** in September. **US inflation breakevens posted negative performance** over the month.	**5yr Ry*** 1.27% ▲ **10yr Ry** 1.78% ▼ **10yr Be**** 2.37% ▼
Euro Area	**Eurozone inflation rose to 2.2% in September, the first time it has moved above the ECB's 2% target since April. This rise is mainly due to energy base effects, with core inflation remaining steady at 2.3%.** The consensus is that the central bank will keep rates unchanged at 2% for the third meeting in a row when the rate-setting authorities meet at the end of the month.	**Headline** 2.2% ▲ **Core** 2.3% =	**Euro Area inflation-linked bonds performance was positive** in September. **Euro inflation breakevens performance was almost flat** across countries.	**5yr Ry** 0.86% ▼ **10yr Ry** 1.43% ▼ **10yr Be** 1.97% ▼
UK	**UK inflation remained steady at 3.8% in August, driven by higher food, restaurant and hotel prices. Core inflation eased to 3.6%.** UK MPC members warned that the UK is becoming an outlier among developed economies due to persistent inflation and may be influenced by policy effects and shifts in household and business behavior. The MPC split held rates at 4.0% in September, cautioning about stickier inflation and noting that above-target inflation could alter consumer behavior, implying limited scope for near-term rate cuts.	**Headline** 3.8% = **Core CPI** 3.6% ▼	**UK linkers performance was positive** in September. **UK inflation breakevens performance was up** over the month.	**5yr Ry** 0.76% ▲ **10yr Ry** 1.66% = **10yr Be** 3.19% ▼

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

Portfolio positioning

Key Strategies

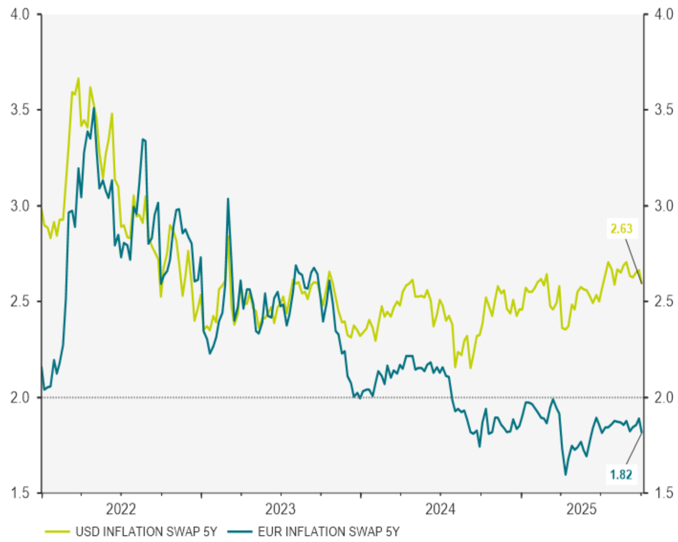
Real Yields	• Real interest rates have repriced higher post liberation day in the US and in Europe after the German fiscal package announcement. However, subdued growth in the next 2 years, makes long duration positions attractive particularly at the front end. • Central banks would need to resume rate 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: Spot Breakevens

2 year Inflation swaps

Source: LSEG Datastream 10/9/2025

5 year Inflation swaps



Source: LSEG Datastream 10/9/2025

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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