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Inflation Inflation remains

- 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 3.0% in September, just below expectations. The monthly inflation rate of 0.3% stays elevated, but the impact of tariffs is likely to be gradual due to pre-stocking. At the same time, lower housing and energy prices are dampening inflation growth. The Fed has cut interest rates again; however, due to limited visibility on the US economic outlook amid the government shutdown, it has warned that a rate cut in December is not guaranteed. | Headline 3.0% ▲ Core 3.0% ▼ | US TIPS performance was positive in October. US inflation breakevens posted negative performance over the month. | 5yr Ry* 1.28% ▲ 10yr Ry 1.76% ▼ 10yr Be** 2.32% ▼ |
| Euro Area | Eurozone inflation falls to 2.1% in October, above the ECB's 2% target for the second month in a row. The ECB has kept its policy rates unchanged, with the deposit rate at 2% for a third consecutive meeting, in line with market expectations and reaffirming its data-dependent approach. We continue to believe that the easing cycle is not yet over, anticipating a final rate cut to 1.75% by next March. | Headline 2.1% ▼ Core 2.4% ▲ | Euro Area inflation-linked bonds performance was positive in October. Euro inflation breakevens performance was positive across countries. | 5yr Ry 0.76% ▼ 10yr Ry 1.34% ▼ 10yr Be 1.94% ▼ |
| UK | UK inflation remains above BoE target at 3.8% in September. Recent official data has led some economists to believe that the inflation threat is diminishing, with weakening growth now being the main concern. Services inflation in September was lower than the BoE's forecast, and private sector wage growth is slowing as unemployment rises to 4.8%. Core inflation eased to 3.5%. The Bank of England voted to hold rates at 4.00%, with a narrow split, and the decision hinges on the upcoming budget; if fiscal tightening of around 1% is implemented without immediate inflation impact, a rate cut in December remains likely. We then expect two further 25bp cuts in H1 26. | Headline 3.8% = Core CPI 3.5% ▼ | UK linkers performance was positive in October. UK inflation breakevens performance was up over the month. | 5yr Ry 0.72% ▼ 10yr Ry 1.55% ▼ 10yr Be 3.06% ▼ |

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

Portfolio positioning

Key Strategies

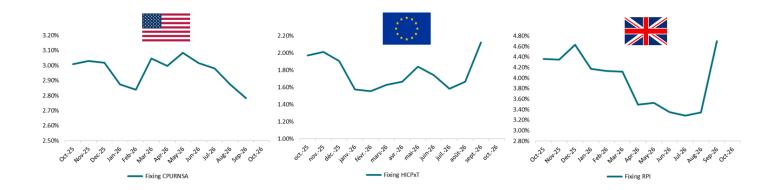
Real Yields

- 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

Market's inflation expectations





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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