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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	<p>While the upcoming employment and inflation data are expected to provide insights into the US economy, analysts warn that delayed figures will be less definitive and unlikely to significantly clarify the Fed's monetary policy outlook, given ongoing economic shifts and incomplete data. The Fed cut rates by 25bp to 3.50%-3.75%, with two hawkish dissents and one dovish one. With rates near neutral, the Fed signals a pause in January but will resume reserve purchases in December to keep reserves ample. We still expect the next rate cut in March 2026, with two more in June and September.</p> <p>Headline 3.0% Core 3.0% (End of October data)</p>	<p>US TIPS performance was positive in November.</p> <p>5yr Ry* 1.28% ▲ 10yr Ry 1.76% = 10yr Be** 2.23% ▼</p> <p>US inflation breakevens posted negative performance over the month.</p>
Euro Area	<p>In the euro area, inflation increased from 2.1% to 2.2% in November, while core inflation remained stable at 2.4%. The rise is mainly due to a smaller negative contribution from energy prices. Food inflation stayed steady at 2.3%, while services inflation reached 3.5%.</p> <p>Despite moderate growth, slowing wage increases and import prices, companies expect prices to rise more rapidly in the coming months, especially in the services sector. However, deflationary pressures remain strong, so inflation is likely to stay near current levels and may even temporarily fall below the 2% target. In the medium term, enough positive factors exist to discourage the ECB from adopting an overly accommodative policy, making further rate cuts unlikely for now.</p> <p>Headline 2.2% ▲ Core 2.4% =</p>	<p>Euro Area inflation-linked bonds performance was flat in November.</p> <p>5yr Ry 0.77% ▲ 10yr Ry 1.33% ▼ 10yr Be 1.95% ▲</p> <p>Euro inflation breakevens performance was slightly negative across countries.</p>
UK	<p>Headline CPI inflation declined to 3.2% in November, down from 3.6% in October, and was 30 basis points below consensus. Core inflation slowed to 3.2%, from 3.4%, and was 20 bp below expectations. Services inflation came in 10 bp below expectations at 4.4%.</p> <p>The impact of Black Friday was more pronounced this year compared to last, suggesting some payback in the coming months. However, increased discounting also indicates that businesses are facing challenging conditions amid weakening demand. Overall, the inflation environment has become more benign since the summer. The latest labor market data, combined with CPI figures, strongly support a rate cut the BoE meeting, from 4.00% to 3.75%. We anticipate a split of 6-3 in favor of the cut.</p> <p>Headline CPI 3.2% ▼ Core CPI 3.2% ▼</p>	<p>UK linkers performance was negative in November.</p> <p>5yr Ry 0.68% ▼ 10yr Ry 1.53% ▼ 10yr Be 3.06% =</p> <p>UK inflation breakevens performance was down over the month.</p>

*Ry : Real Yield; **Be : Breakeven

Source: AXA IM as at end of November 2025



Portfolio positioning

Key Strategies

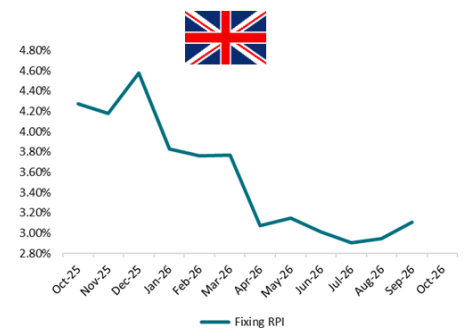
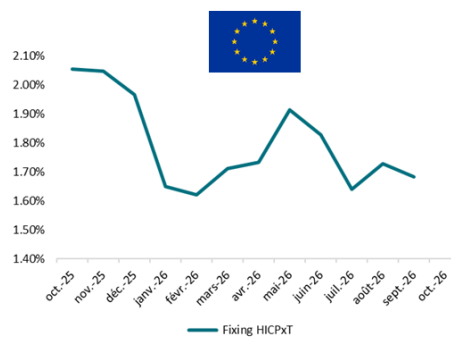
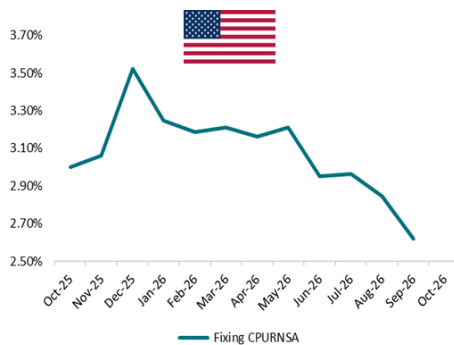
Real Yields

- 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

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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