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# INFLATION STRATEGY

## Inflation refuses to quietly fade away

- o Inflation dynamics remain divergent amongst economies.
- o Headline numbers improve but they remain well above pre-pandemic levels.
- o We believe that inflation expectations are discounting little inflation premium given the stickiness in services inflation.

### What's happening?

Inflation & Monetary Policy			Inflation-Linked Bonds Market	
US	<p><b>US inflation stayed at 2.7% in December. Core inflation was 2.6 %, just below expectations of 2.7%. Housing-related prices rose 3%, meanwhile, pushing up the headline figure.</b> We expect gradual cuts from the FOMC, resuming under a new Fed Chair, to take rates to 3% by mid-2027. We expect inflation will prove more persistent and the Fed will downplay that, choosing to focus squarely on the employment side of its mandate.</p>	<p>Headline 2.7% Core 2.6%</p>	<p><b>US TIPS performance was negative</b> in December.</p> <p><b>US inflation breakevens posted negative performance</b> over the month.</p>	<p>5yr Ry* 1.44% ▲ 10yr Ry 1.90% ▲ 10yr Be** 2.25% =</p>
Euro Area	<p><b>Eurozone headline HICP came out at 2% YoY for December, down from 2.1% in November. In the meantime, core HICP fell from 2.4% to 2.3%.</b> The decline was mainly driven by core goods, partly due to clothing sales and possibly the lower cost of Chinese imports. Services inflation also decreased, offsetting the rise in airfares. We expect the ECB to keep rates on hold next year.</p>	<p>Headline 2% ▼ Core 2.3% ▼</p>	<p><b>Euro Area inflation-linked bonds performance was negative</b> in December.</p> <p><b>Euro inflation breakevens performance was negative</b> across countries.</p>	<p>5yr Ry 0.93% ▲ 10yr Ry 1.50% ▲ 10yr Be 1.92% ▼</p>
UK	<p><b>Headline CPI inflation rose to 3.4% in December, from 3.2% in November. Core held steady at 3.2%.</b> Services inflation was in line with the consensus at 4.5% but 10 basis points below the BoE's expectations, mainly driven by a later hike in tobacco duty in 2025 compared to 2024 and rising airfares. This effect is expected to partially reverse in January. Some service price pressures, particularly in catering, remain persistent, but the worsening labor market is likely to have a more significant impact in the coming months. We expect inflation to fall back to the target during the summer, earlier than currently anticipated by the BoE, which could lead to rate cuts as soon as April.</p>	<p>Headline CPI 3.4% ▲ Core CPI 3.2% =</p>	<p><b>UK linkers performance was positive</b> in December.</p> <p><b>UK inflation breakevens performance was up</b> over the month.</p>	<p>5yr Ry 0.82% ▲ 10yr Ry 1.61% ▲ 10yr Be 2.98% ▼</p>

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

Source: AXA IM as at end of December 2025



## Portfolio positioning

### Key Strategies

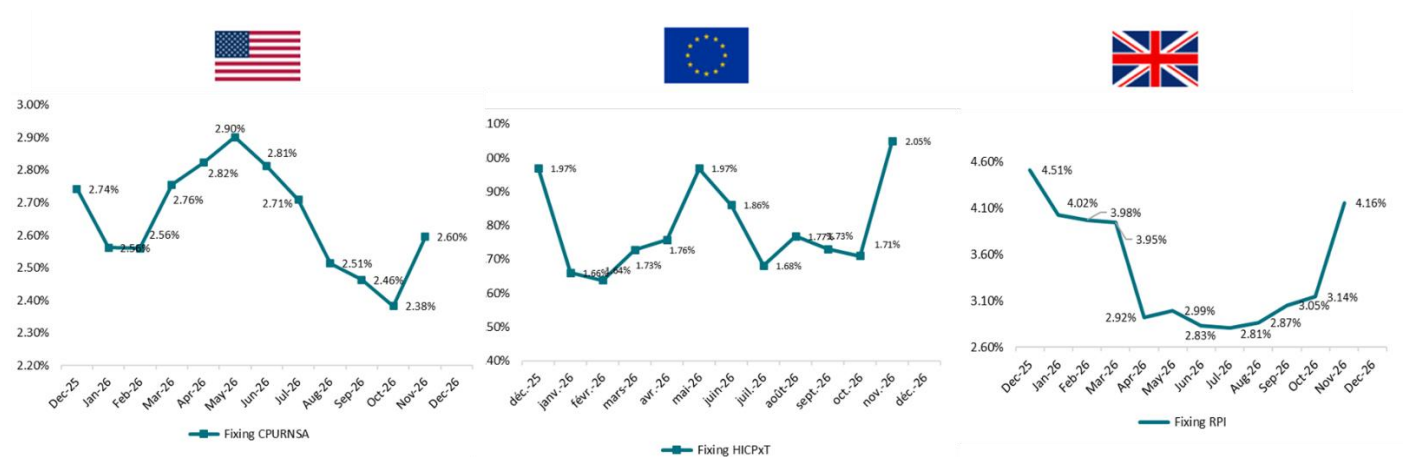
#### Real Yields

- We see rates at still mildly restrictive levels, and we seek to be positioned on the long side, particularly in the UK and the Euro Area, where we see the most attractive level of term premium vs fundamentals.

#### Breakevens

- Looking ahead, we believe that inflation expectations are discounting little inflation premium given the stickiness in services inflation. Having said this, 2026 should be more opportunistic as inflation dynamics remain divergent amongst economies, we continue to see the US with the highest potential for breakeven performance.

## Market's Inflation expectations



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