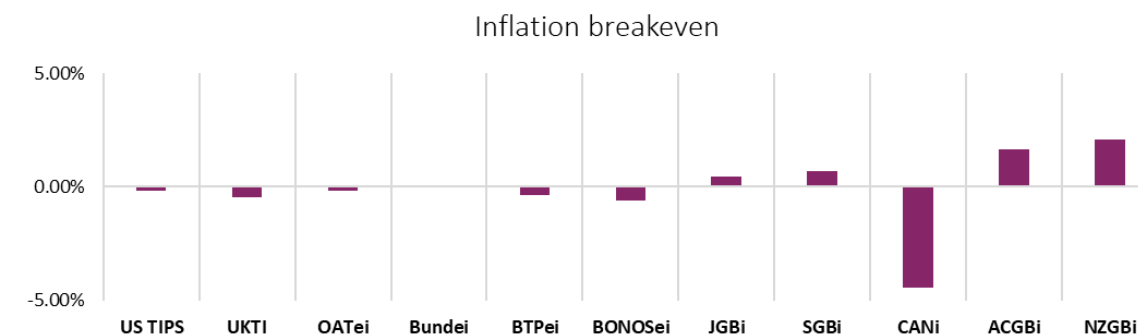
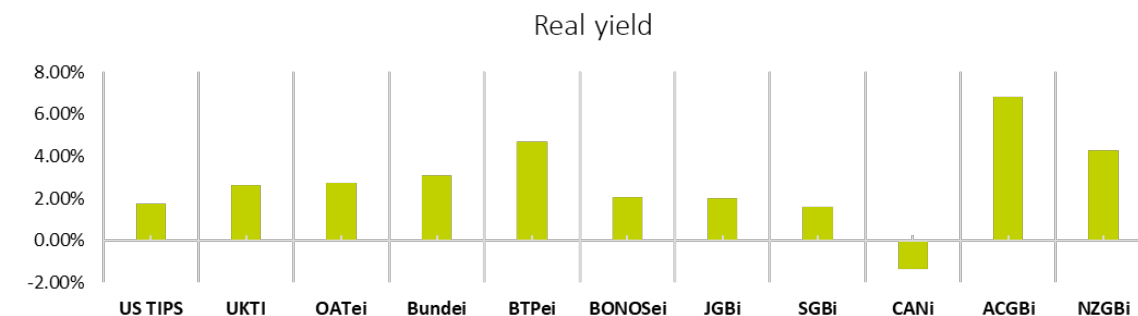
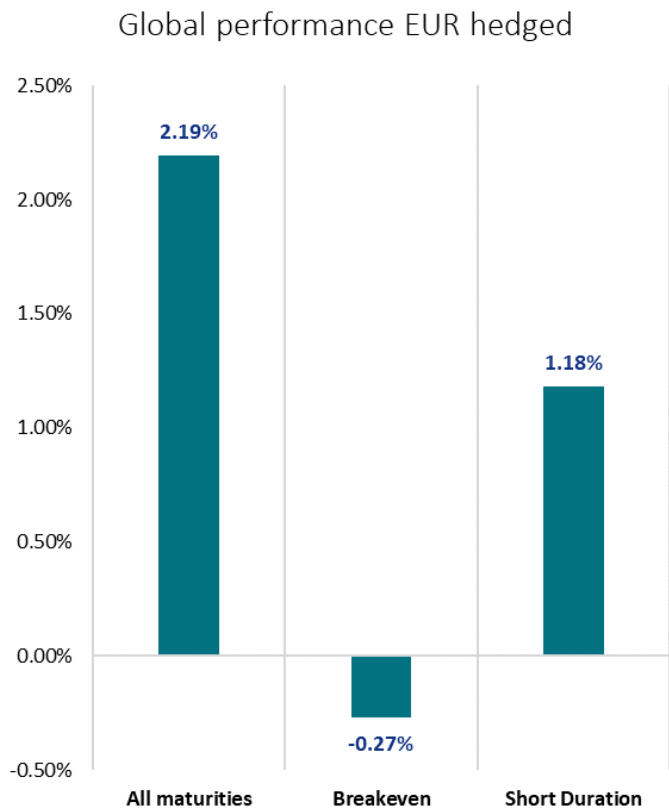


Q2 2023 Inflation Outlook

March 2023

Inflation-Linked bonds market performance in 2023

Positive performance for inflation linked bonds since the beginning of the year



Source: AXA IM, Bloomberg au 27/03/2023. Developments of the past offer no guarantee and are no indicator for any future returns or trends.

Inflation-Linked bonds market performance in 2022

Negative performance in 2022 as real yields suffered amidst the nominal rates sell off



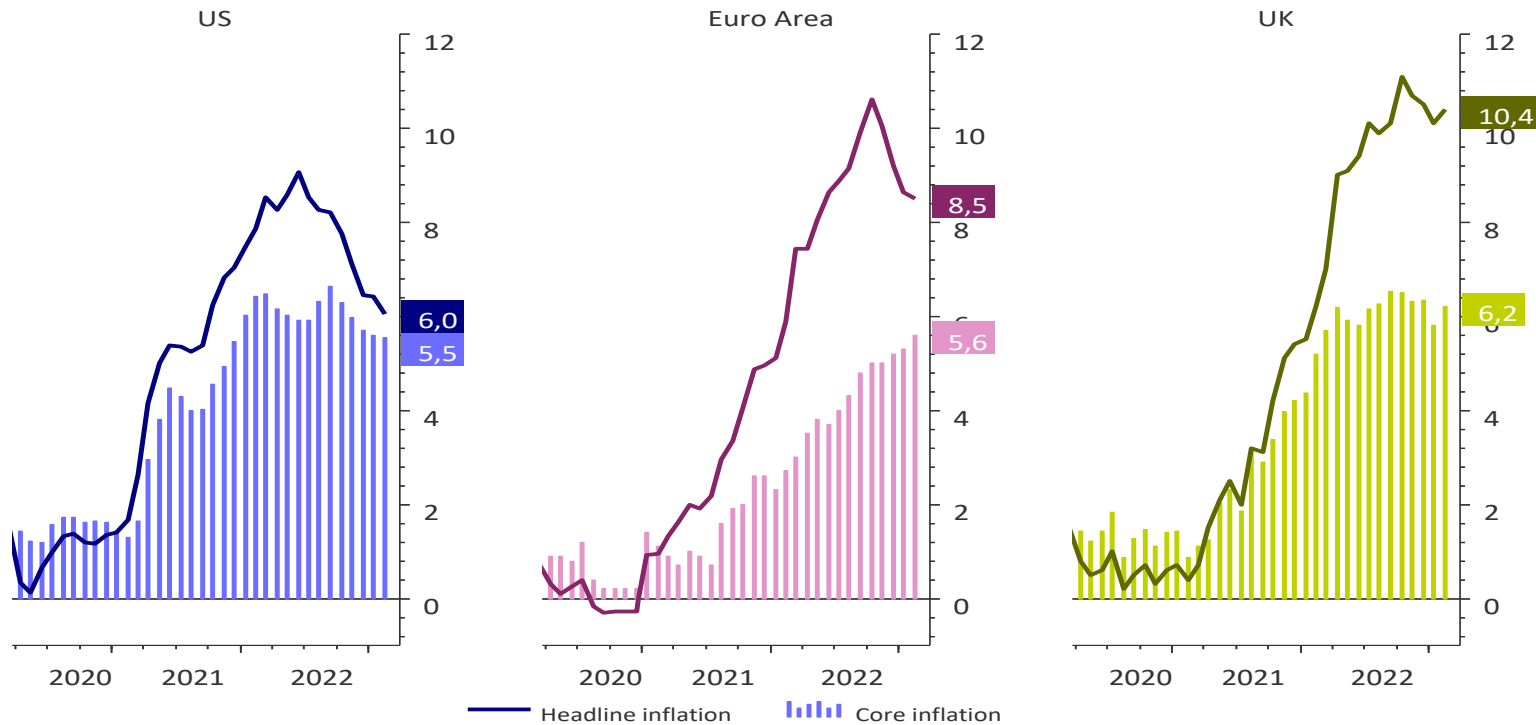
At the end of 2022 inflation started to roll over and Central Banks are expected to normalize their monetary tightening.

Source: AXA IM, Bloomberg au 30/12/2022. Developments of the past offer no guarantee and are no indicator for any future returns or trends.

Record high inflation

Inflation has started to roll-over due to energy base effects. Core inflation remains strong

Global inflation rates
Twelve-month percentage change



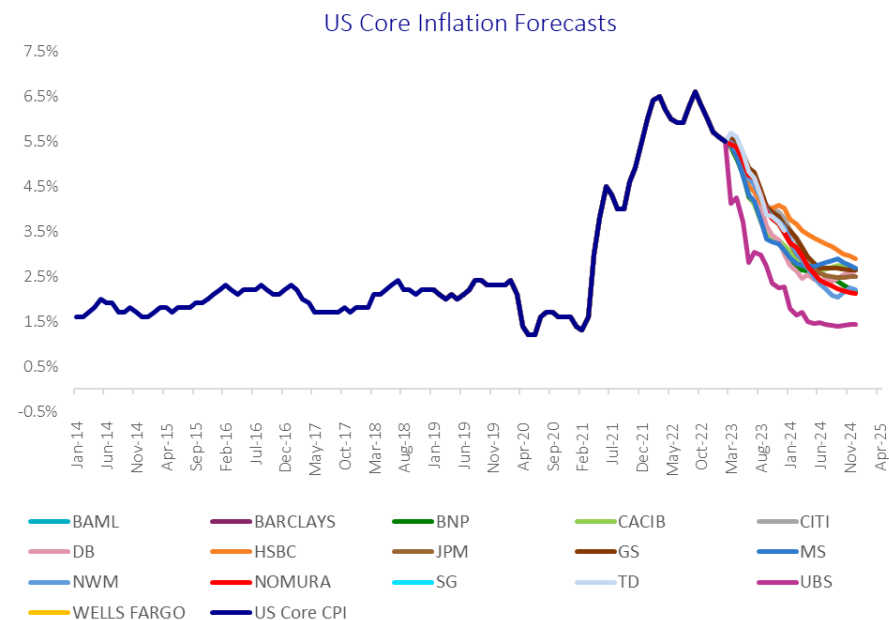
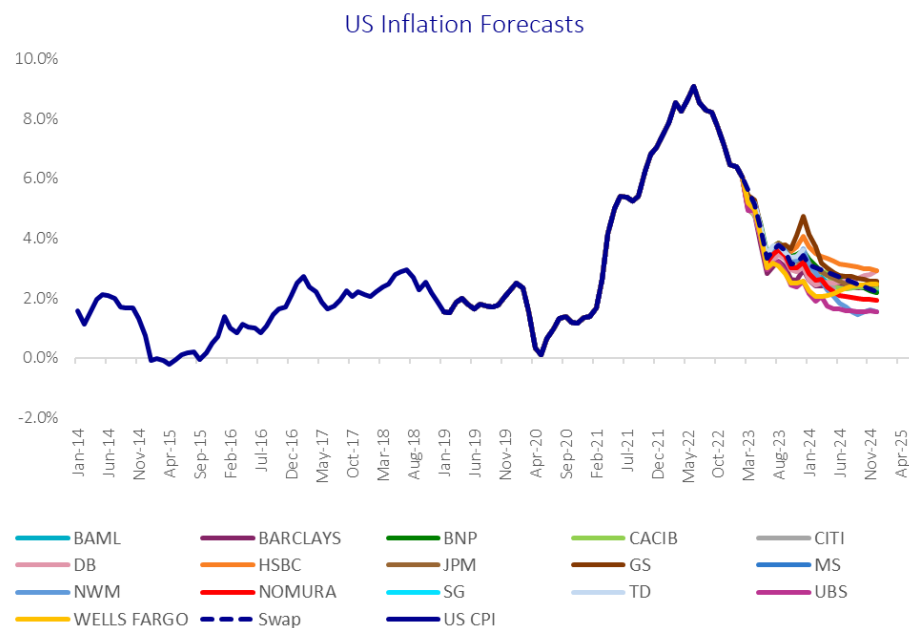
Source: Refinitiv Datastream 28/03/2023

Central Banks' focus has shifted from headline to stickier core inflation. Deceleration will likely follow a bumpy path

Source: AXA IM, Datastream. For illustrative purposes only

Quarterly Inflation Survey

United States

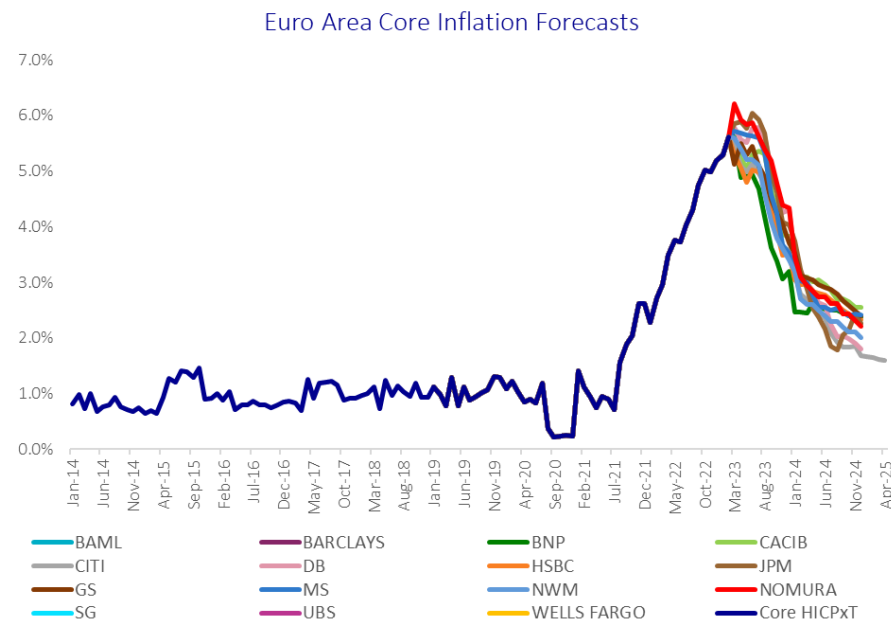
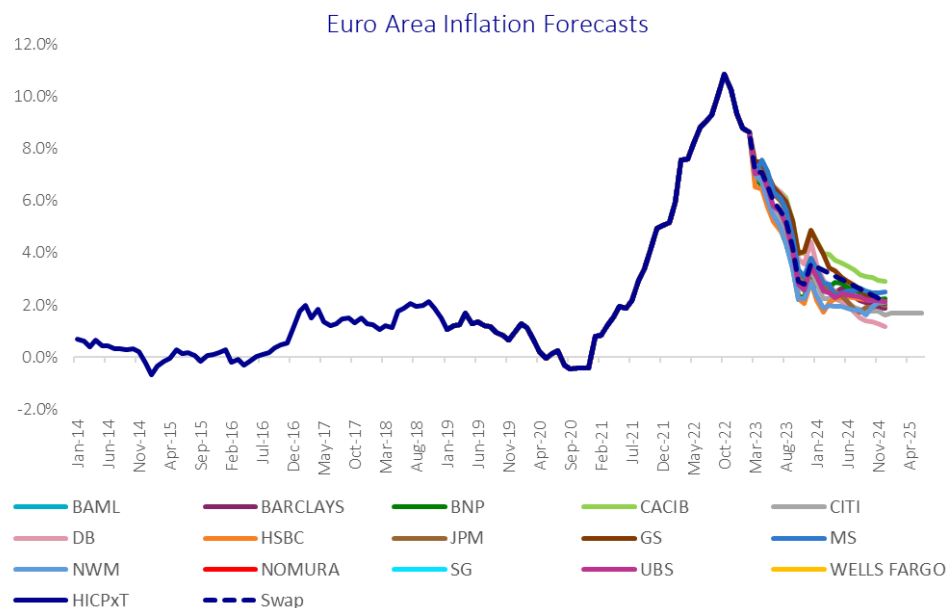


Economists continue to expect disinflation in the US although at a slower pace than in March 2023 as Core Inflation less shelter and more precisely core services less shelter.

Source: AXA IM Forecasting as of March 2023. The above represents our current market views only and does not constitute investment advice.

Quarterly Inflation Survey

Euro Area



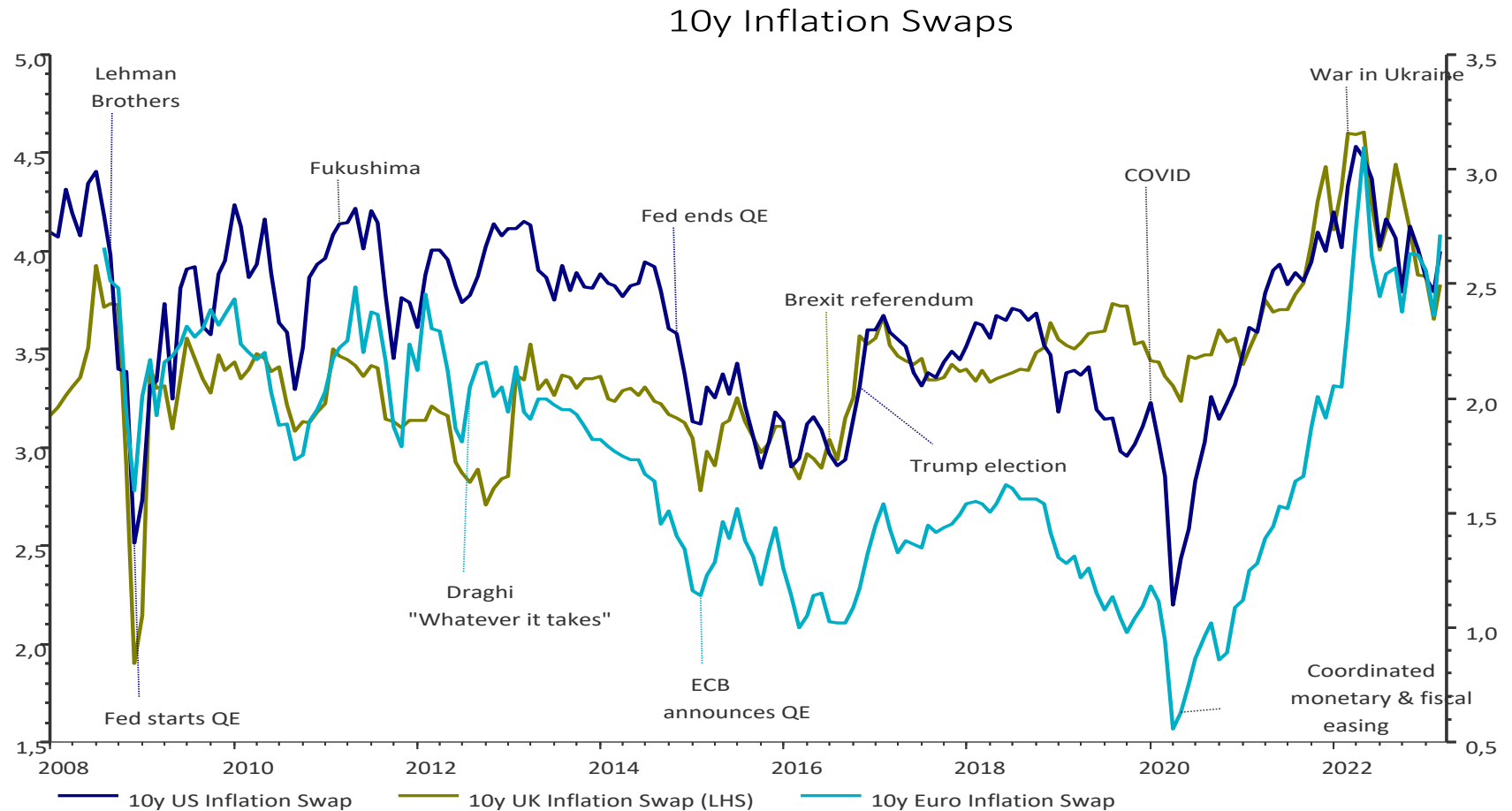
Headline inflation has peaked but core inflation has not yet.

Most of the disinflation that has been seen so far is the result of energy related base effects and it is still too early to see the impact of higher interest rates.

Source: AXA IM Forecasting as of March 2023. The above represents our current market views only and does not constitute investment advice.

Inflation breakevens

Is the market complacent toward future inflation risks ?



Source: Refinitiv Datastream 28/03/2023

Source: AXA IM, Datastream – For illustrative purposes only

Attractive real yields

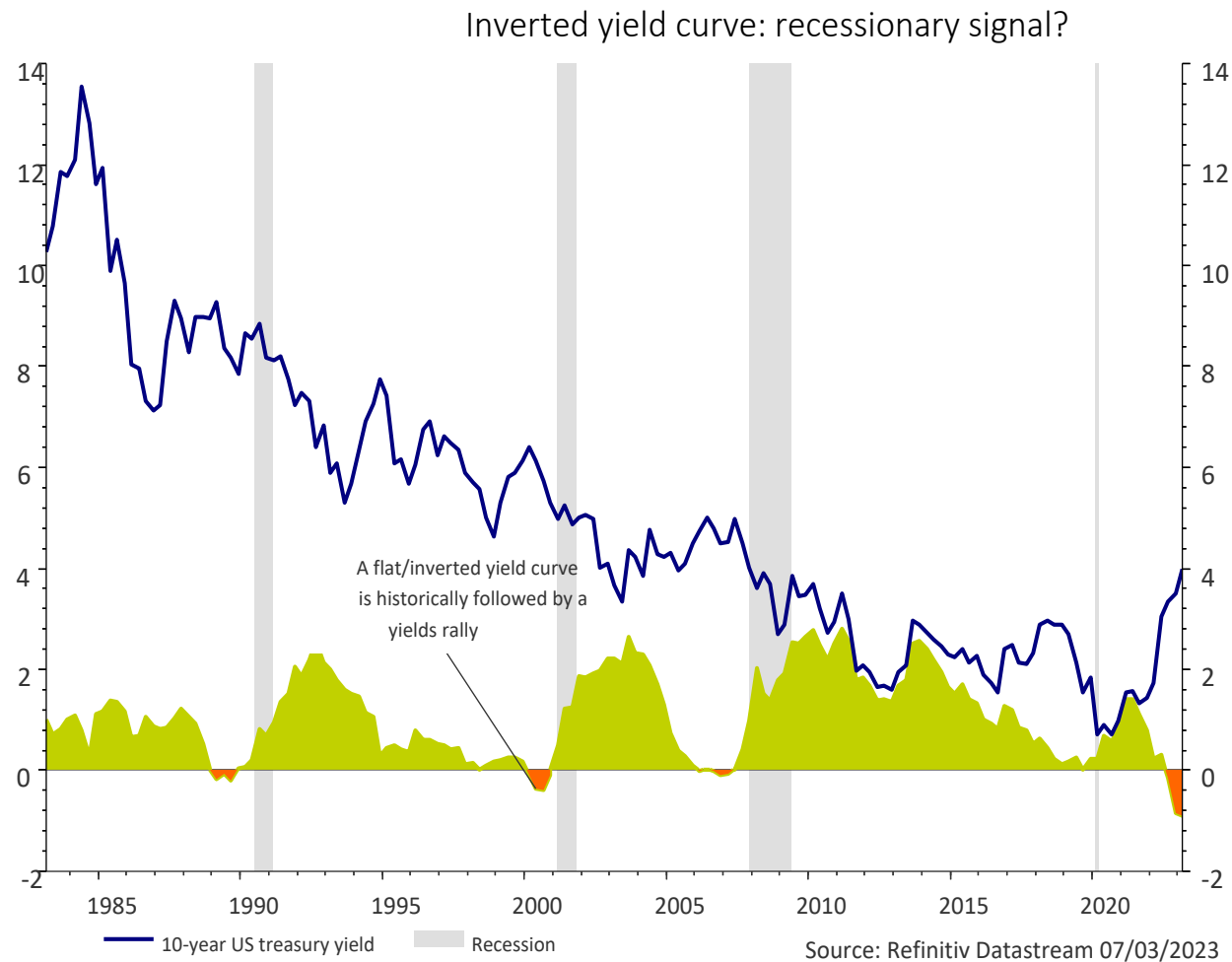
Real interest rates are elevated by historical standards



Source: AXA IM, Bloomberg for illustrative purposes only. Developments of the past offer no guarantee and are no indicator for any future returns or trends.

Duration is becoming more attractive

Several market signals are turning more bullish for duration

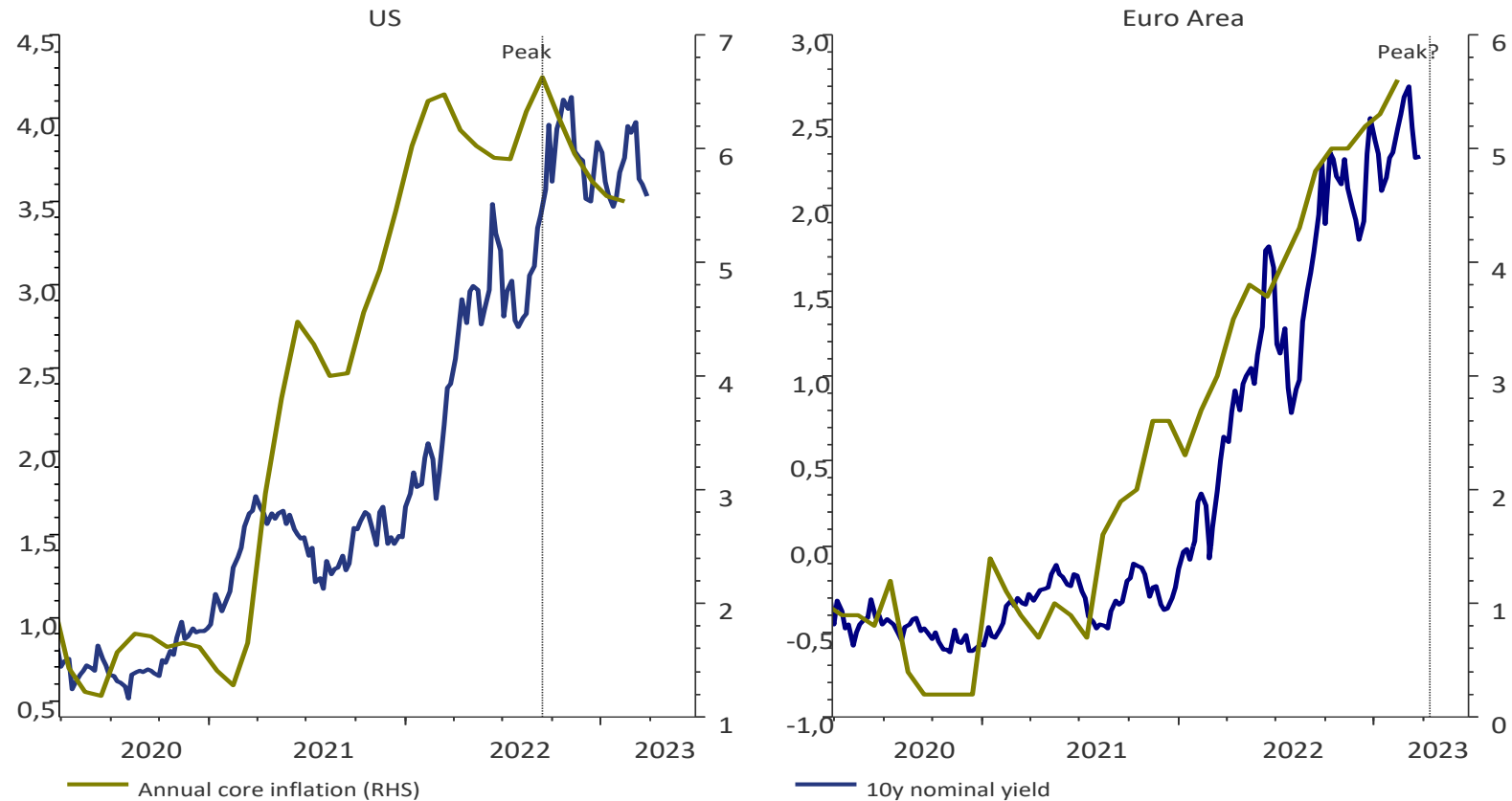


Source: AXA IM, Datastream and Bloomberg. For illustrative purposes only

Duration is becoming more attractive

Yields' peak aligned with core inflation peak

Yields vs Core inflation



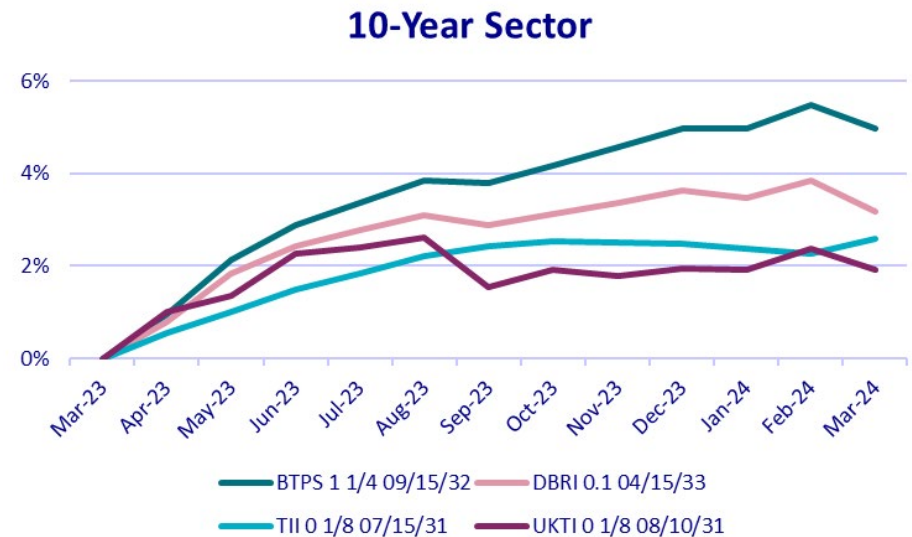
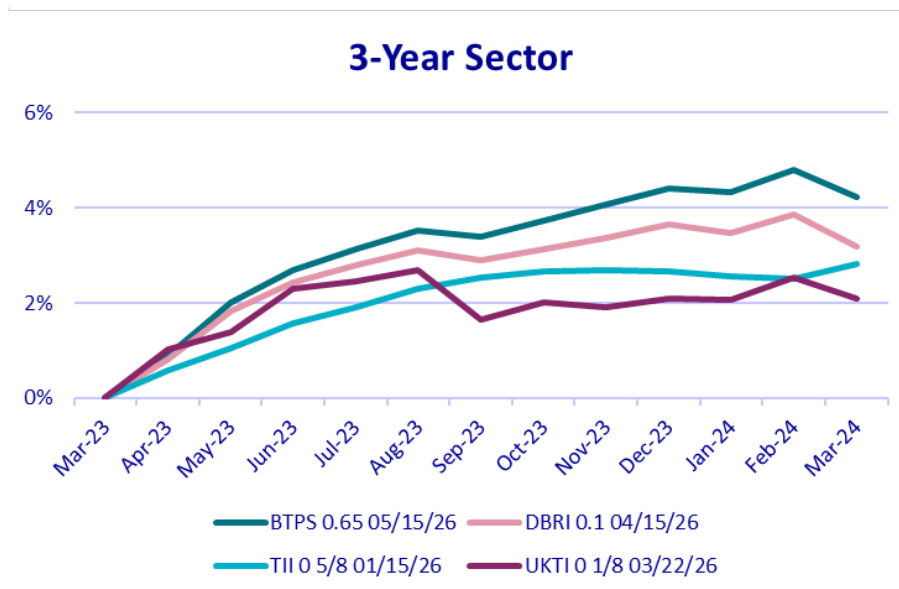
Source: Refinitiv Datastream 28/03/2023

Source: AXA IM, Datastream - for illustrative purposes only. Developments of the past offer no guarantee and are no indicator for any future returns or trends.

Inflation indexation will remain solid until summer

Income estimates signal high income for inflation linked bonds

EUR-Hedged Income estimates



We expect inflation linked bonds income to be significantly positive over the coming months.

Source: AXA IM as at 27/03/2023. For illustrative purposes only. Inflation forecasts are from most recent reliable sources. Inflation forecasts and income estimates are volatile and will fluctuate over time.

Key investment views and active positioning

Stickier than expected inflation and uncertain economic outlook amid banking stress

Economic environment

Investment strategy

Core inflation has peaked in the USA and the UK even though it has surprised to the upside over 2023. € Area core inflation has continued to move higher.

- Real interest rates have reached levels seen at the end of monetary tightening cycles, making dip-buying attractive across markets.
- We observe that bond yields have peaked where core inflation has already peaked, making long duration positions more attractive in the USA & UK markets.

Monthly inflation should remain elevated until the summer due to services and seasonal items

- High monthly inflation has historically been supportive for short-term inflation-linked bonds.
- Current market pricing is not incorporating significant risks to the upside for inflation prints in the near term.

Consensus is strong that the annualized rate of inflation should continue to decelerate on the back of base effects.

- Long term inflation breakevens tend to move lower in times of disinflation. The upcoming base effects should put downward pressure on longer-term inflation breakevens, offering tactical investment opportunities.
- Strategies offering a downside hedge such as inflation breakevens swap spread widening positions are attractive.

Source: AXA IM, For illustrative purposes only.

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