

Inflation is spiking

Is it really transitory ?

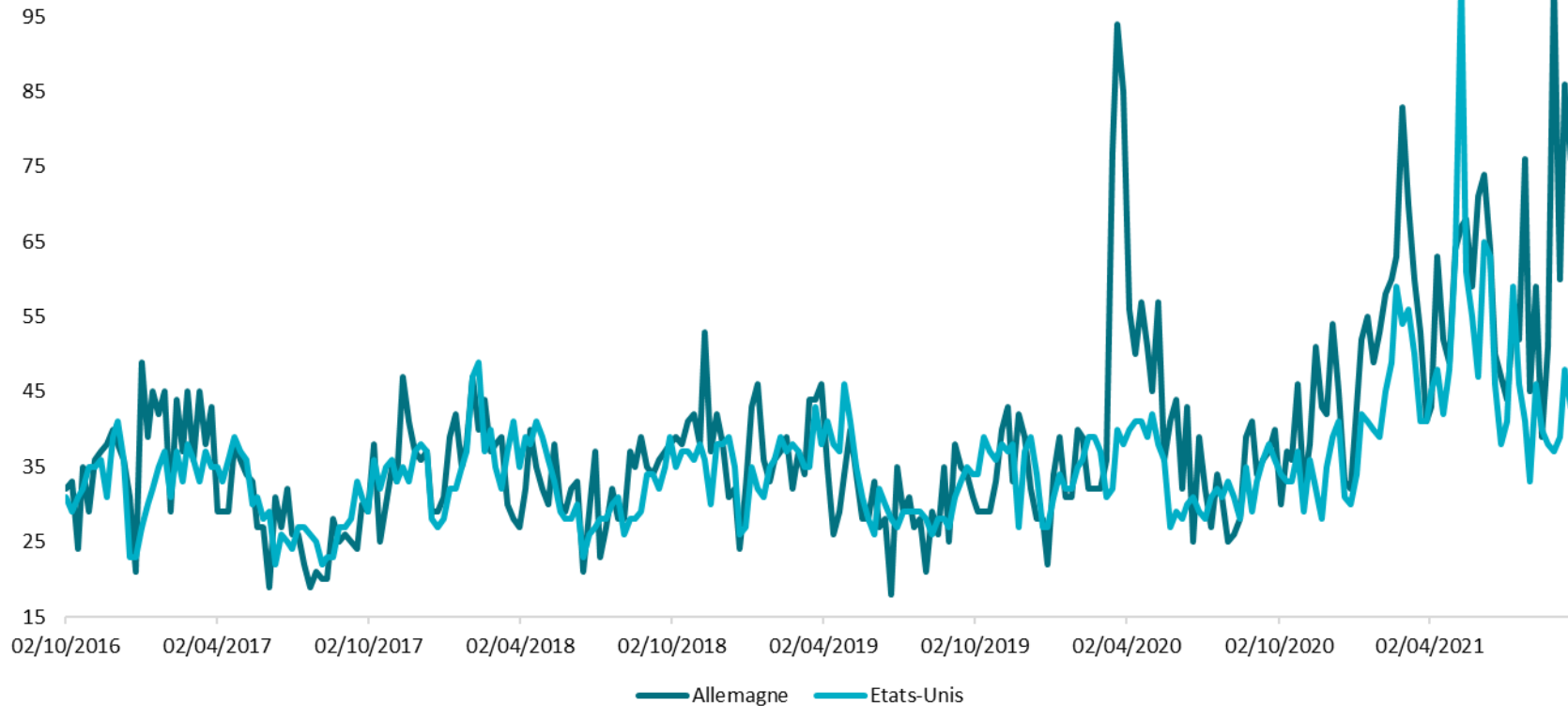
September 2021

Inflation is spiking

Inflation

Google searches don't lie, general public is worried

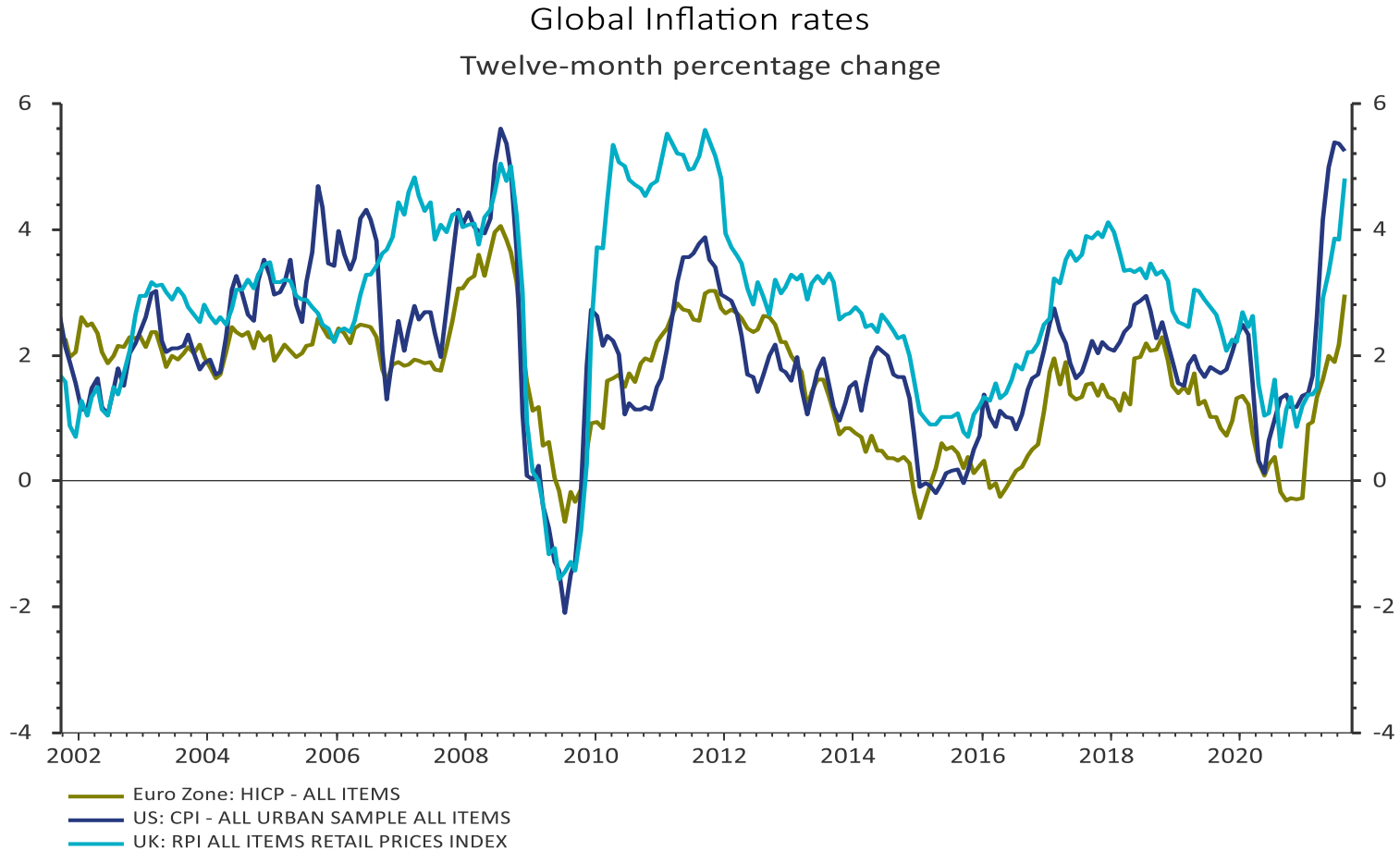
Google trends: Inflation



Source: AXA IM as at 27/09/2021. For illustrative purposes only. The above represents our current market views only and does not constitute investment advice.

Inflation

Inflation at a 10-year high

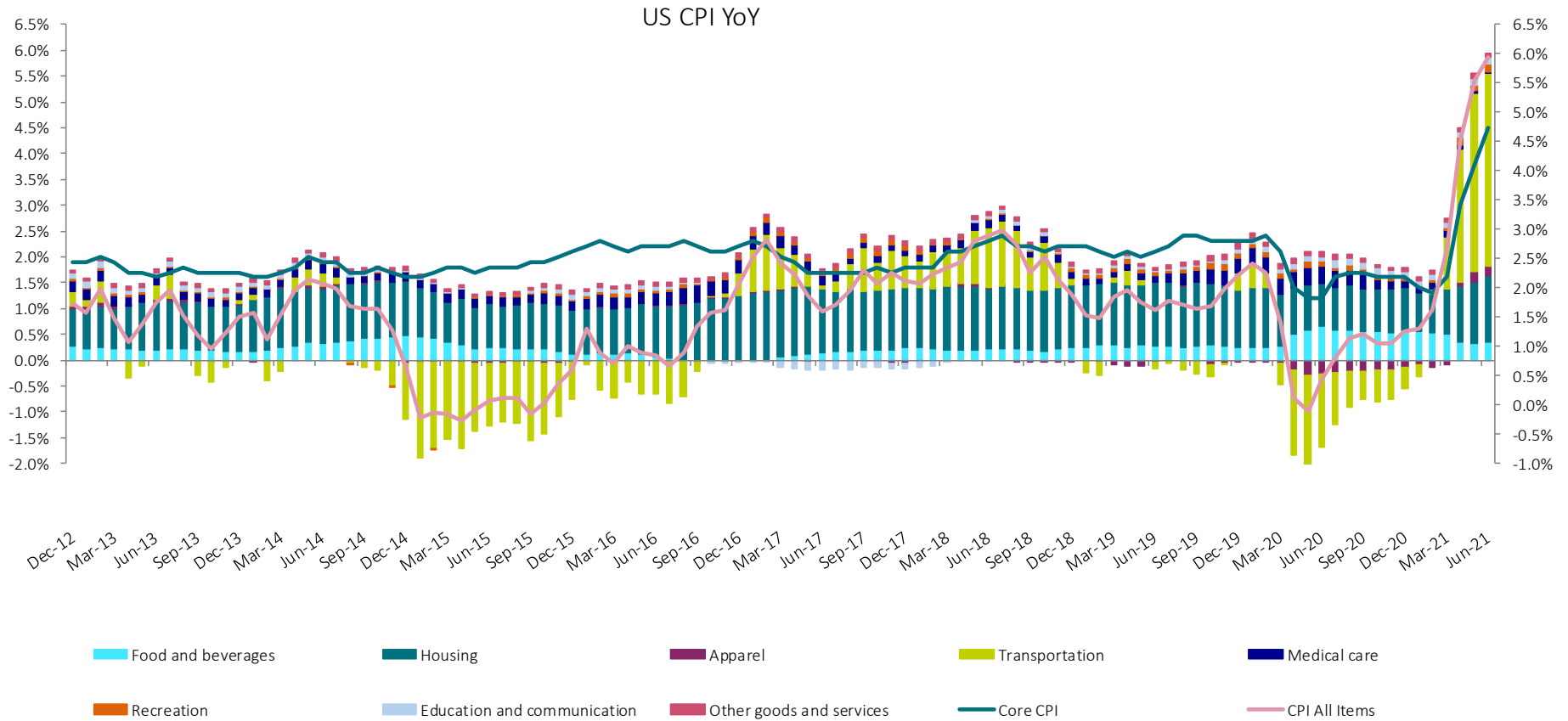


Source: Refinitiv Datastream 27/09/2021

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Inflation

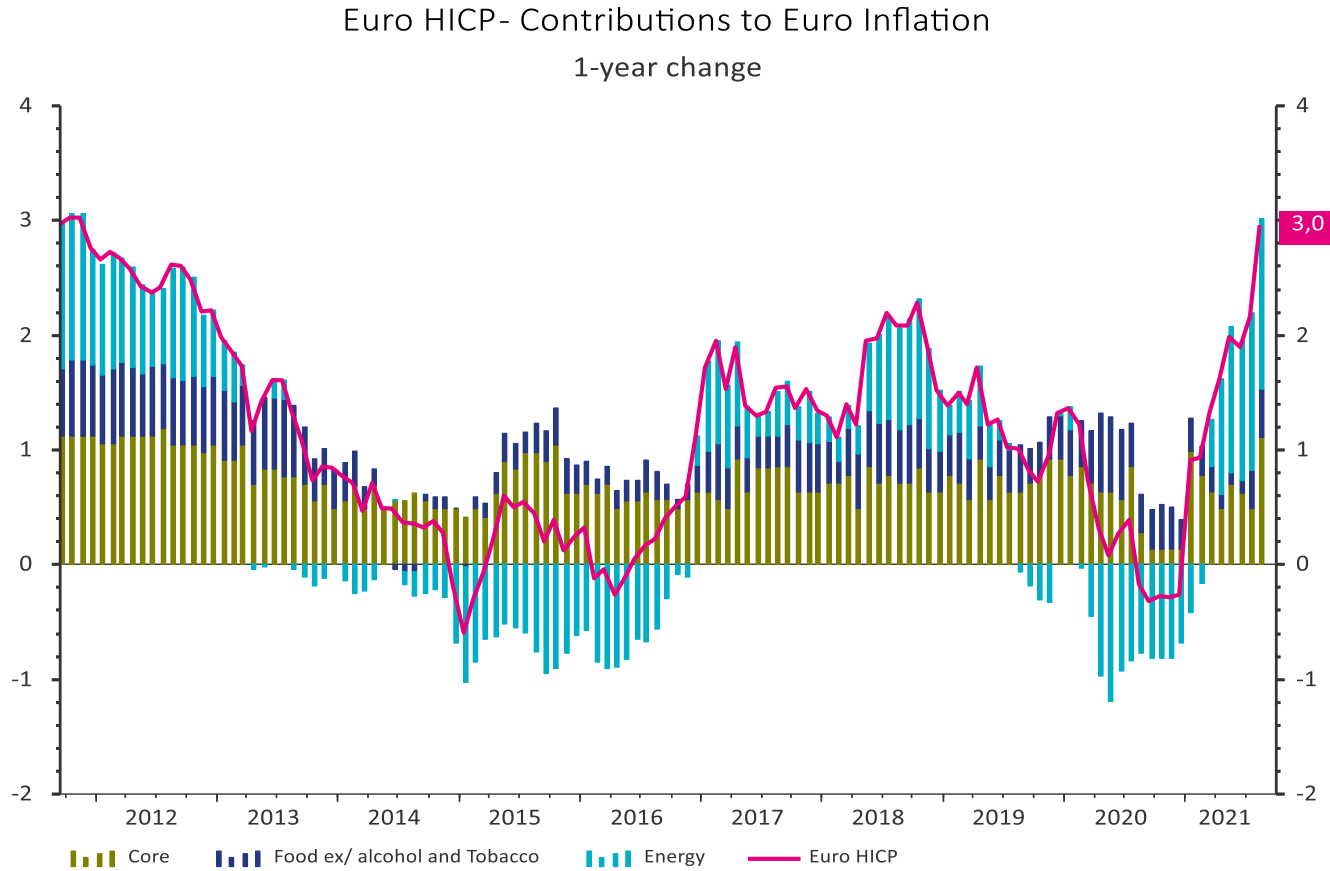
Most of the surge in US inflation has been driven by “Transportation”



Source: Bureau of Labor Statistics <http://www.bls.gov/news.release/cpi.t01.html> as at 30/07/2021

Inflation

Energy & statistical effects have driven €-Area inflation higher

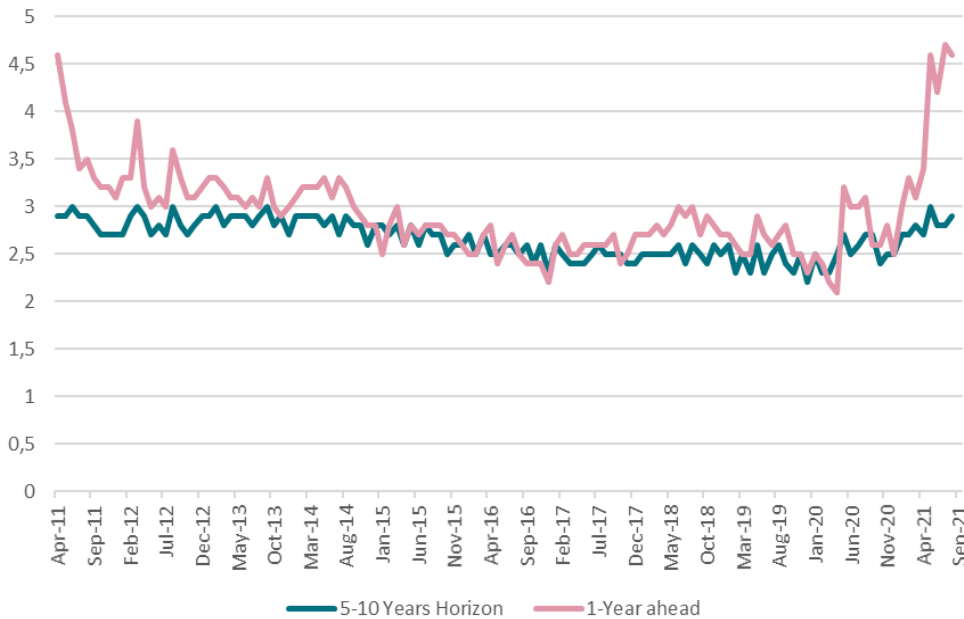


Source: AXA IM. For illustrative purposes only. The above represents our current market views only and does not constitute investment advice.

Inflation surveys signal higher expectations

Consumer surveys

University of Michigan Survey



NY Federal Reserve Consumer Survey

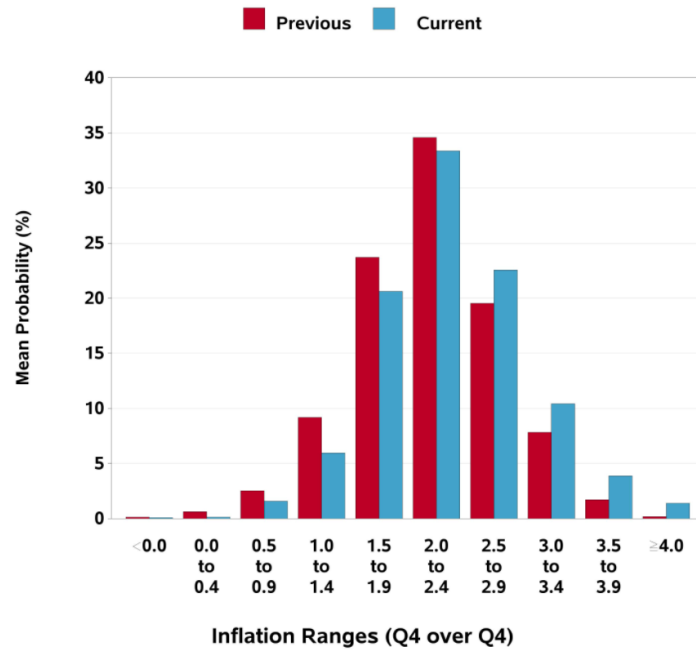


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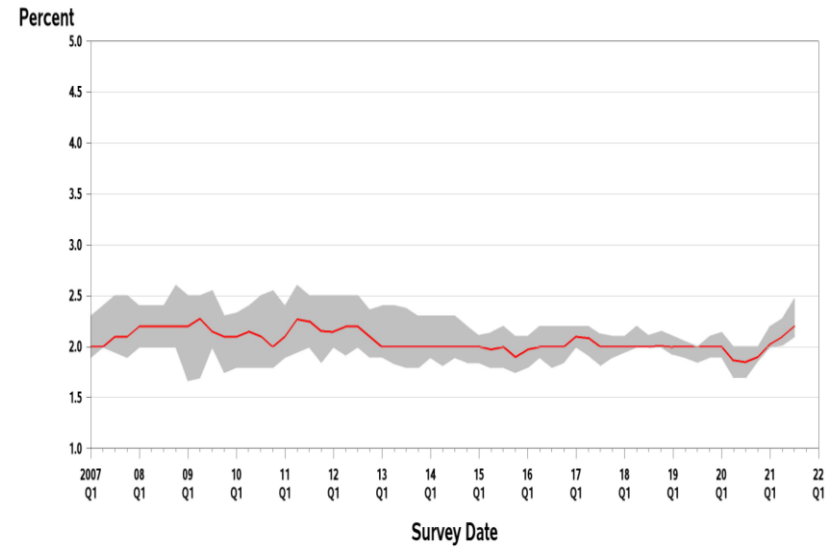
Inflation surveys signal higher expectations

Survey of professional forecasters

Mean Probabilities for Core PCE Inflation in 2022



Projections for the 10-Year Annual-Average Rate of PCE Inflation (Median and Interquartile Range)

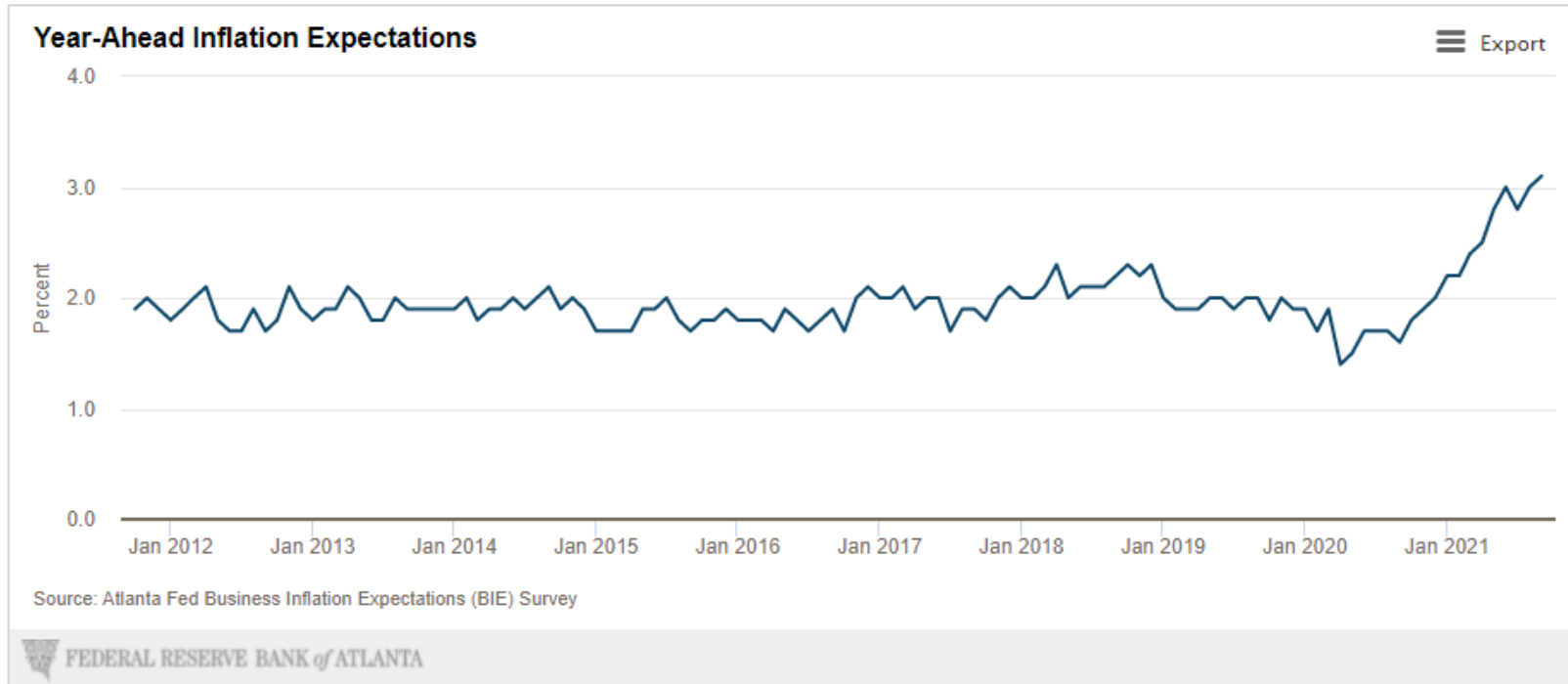


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Inflation surveys signal higher expectations

Business surveys

Atlanta Federal Reserve Business Inflation Expectations Survey

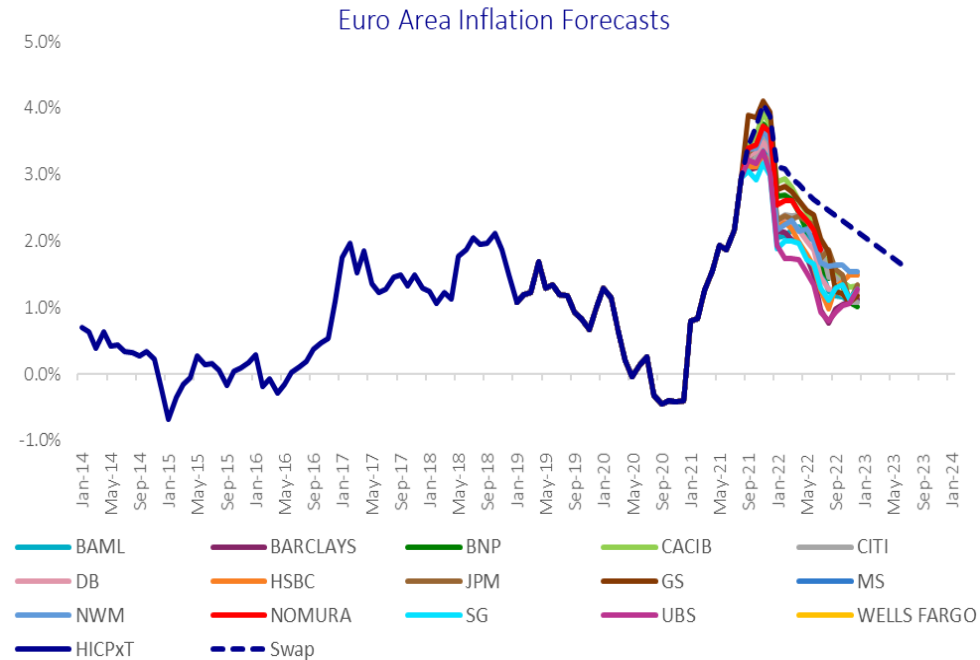
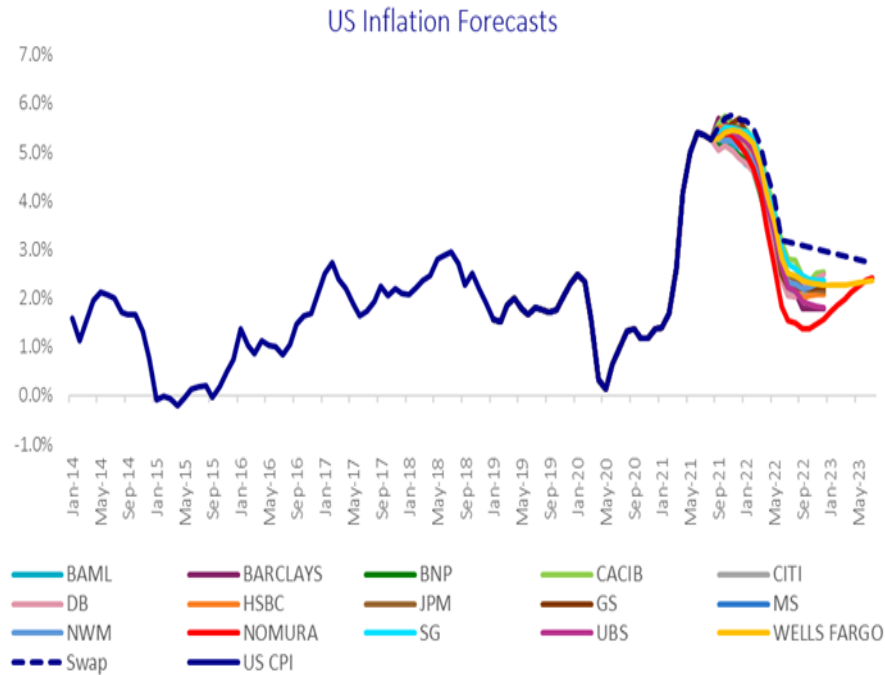


Source: AXA IM. For illustrative purposes only. The above represents our current market views only and does not constitute investment advice.

Is it transitory ?

Consensus of economists

High inflation for 6-9 months ahead before moderating

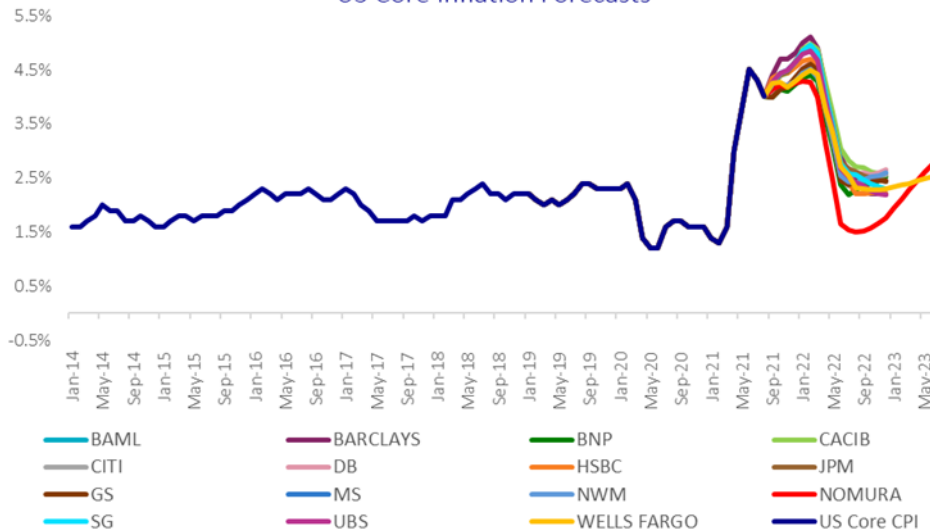


Source: AXA IM Forecasting September 2021. Market pricing as at 16/09/2021. For illustrative purposes only. The above represents our current market views only and does not constitute investment advice.

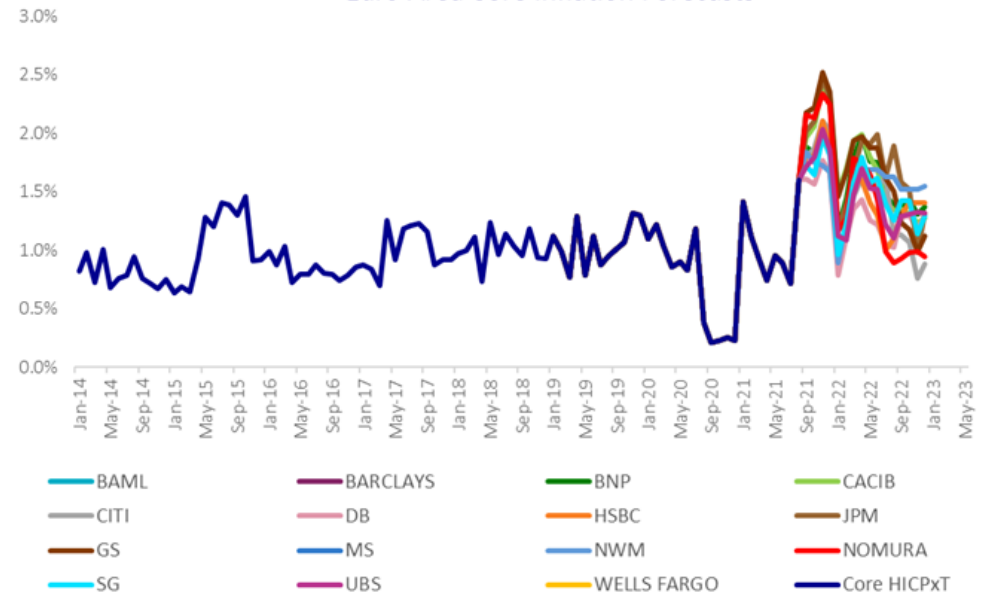
Consensus of economists

High inflation for 6-9 months ahead before moderating

US Core Inflation Forecasts



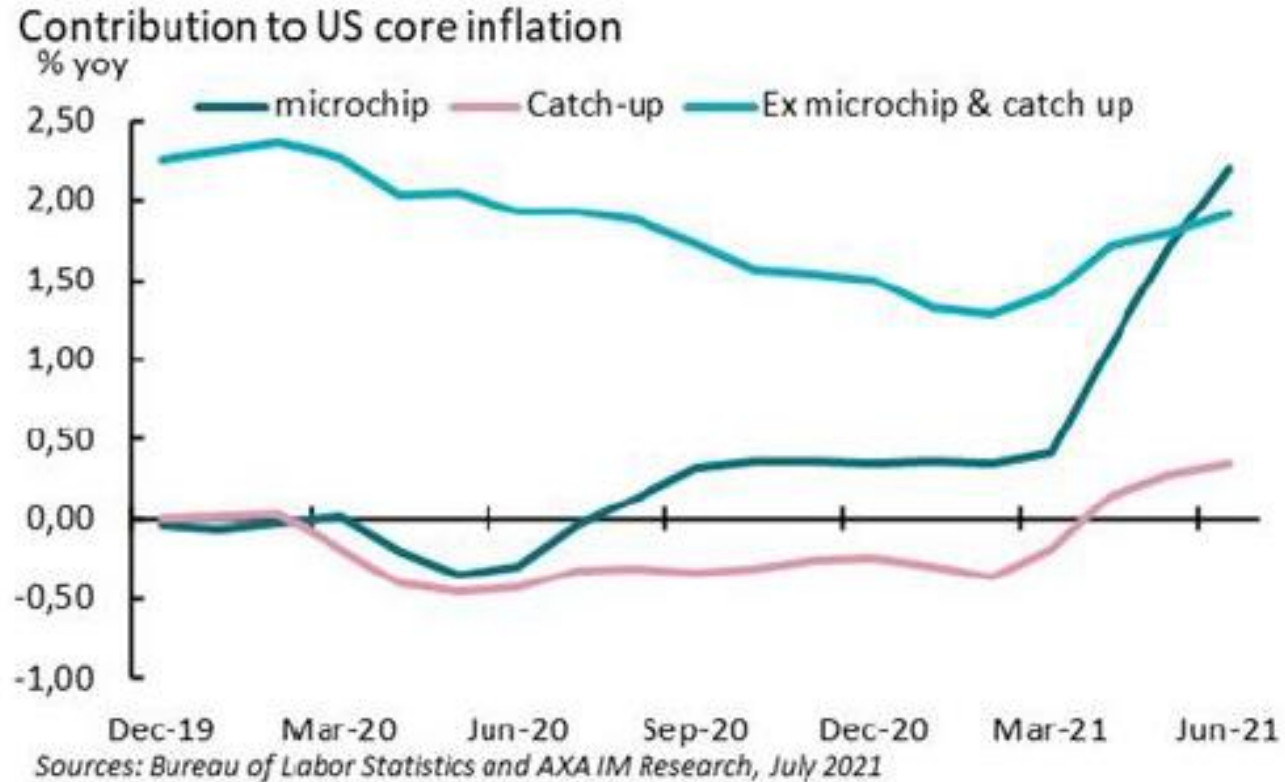
Euro Area Core Inflation Forecasts



Source: AXA IM Forecasting September 2021. For illustrative purposes only. The above represents our current market views only and does not constitute investment advice.

Evidence of transitory inflation

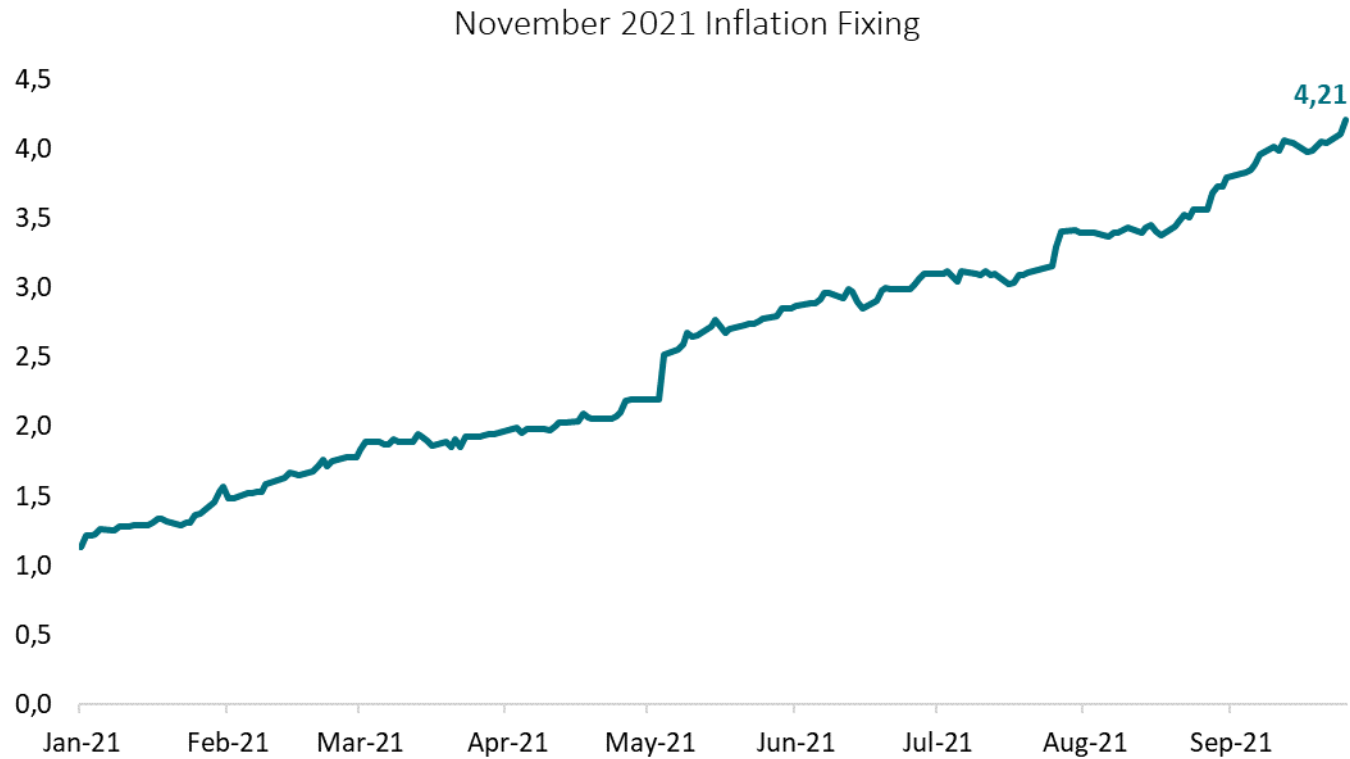
Most of the increase in inflation has been driven by Covid-related components



Source: AXA IM. For illustrative purposes only. The above represents our current market views only and does not constitute investment advice.

Are economists' forecasts reliable ?

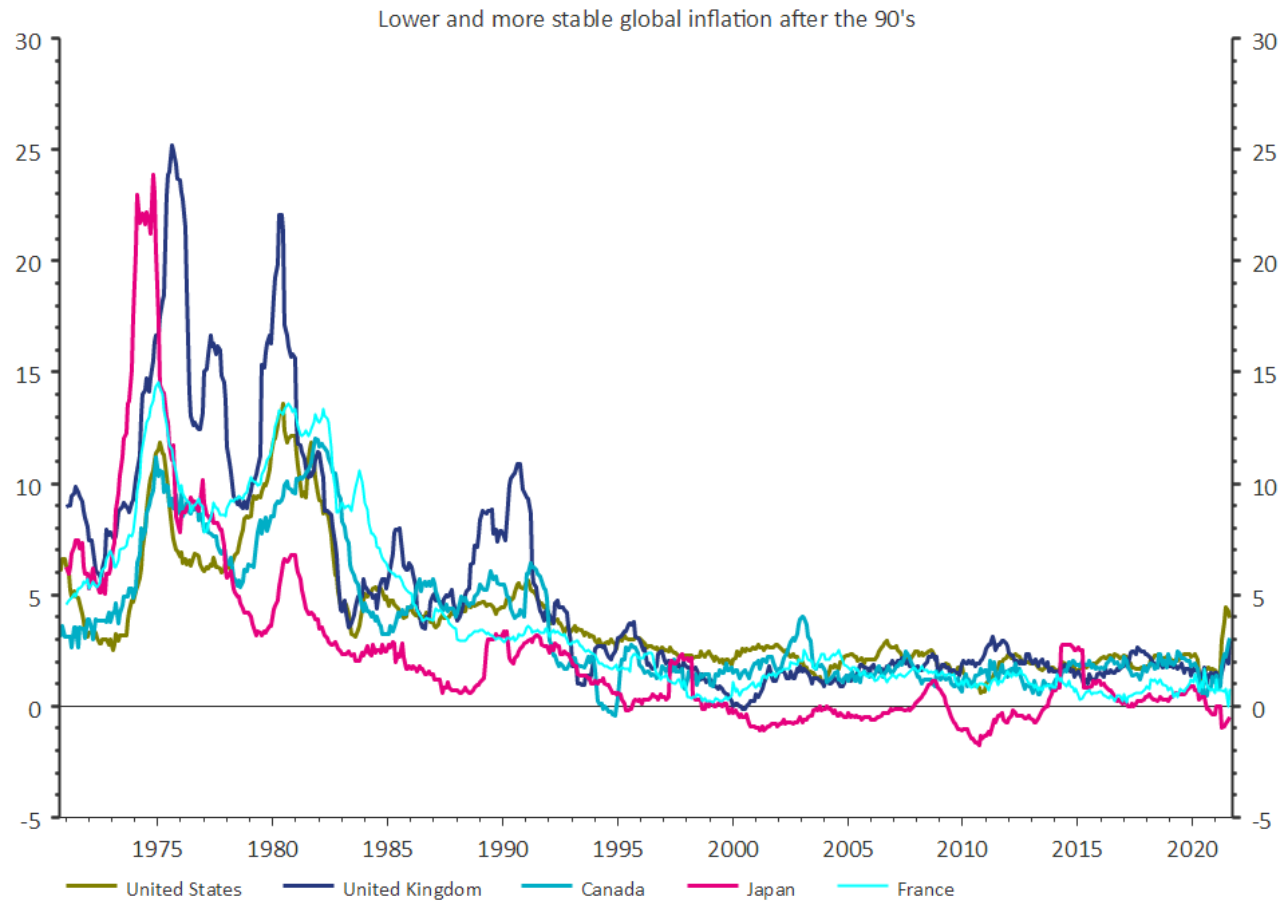
The market was expecting €-Area to peak at 1,2% in 2021 at the beginning of the year...



Source: AXA IM, Barclays. For illustrative purposes only. The above represents our current market views only and does not constitute investment advice.

What are the risks ?

Globalisation and free trade has been a massive source of disinflation, will it last ?

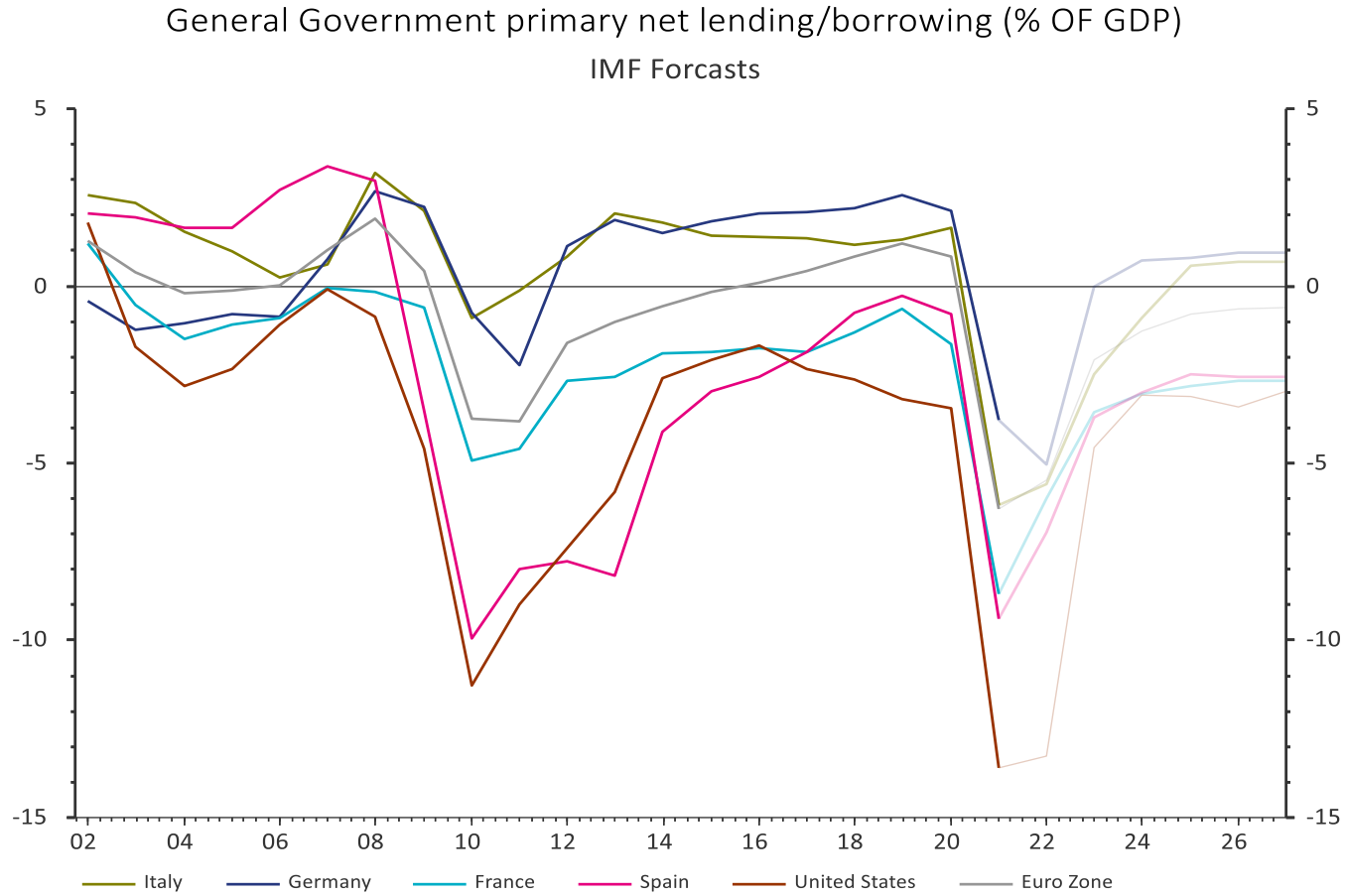


Source: Refinitiv Datastream 28/09/2021

Source: AXA IM. For illustrative purposes only. The above represents our current market views only and does not constitute investment advice.

What are the risks ?

A new era of fiscal expansion ?



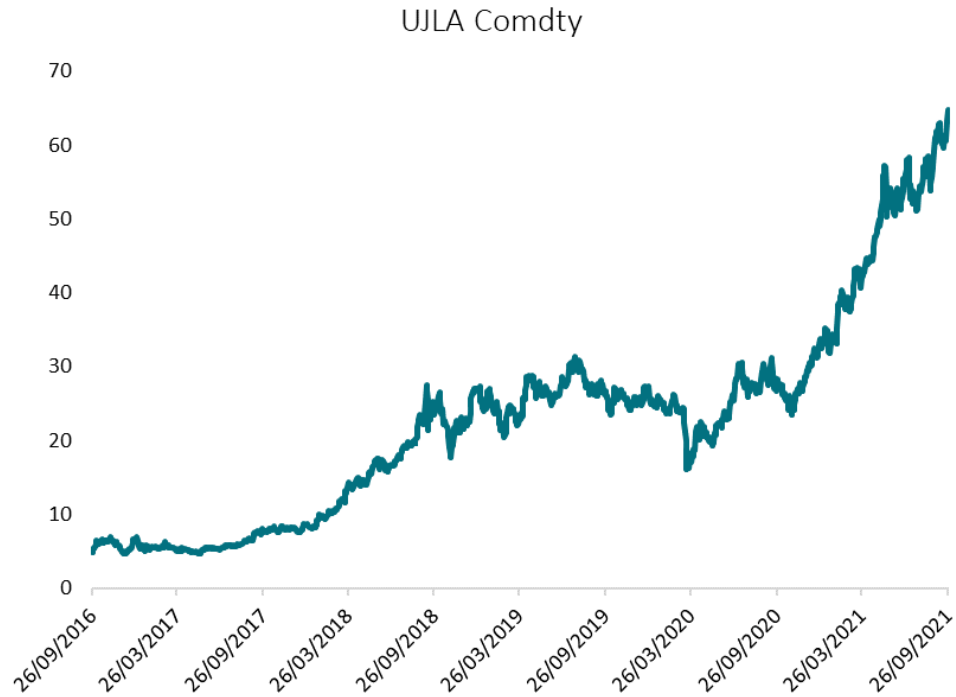
Source: Refinitiv Datastream 27/09/2021

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What are the risks ?

The green revolution

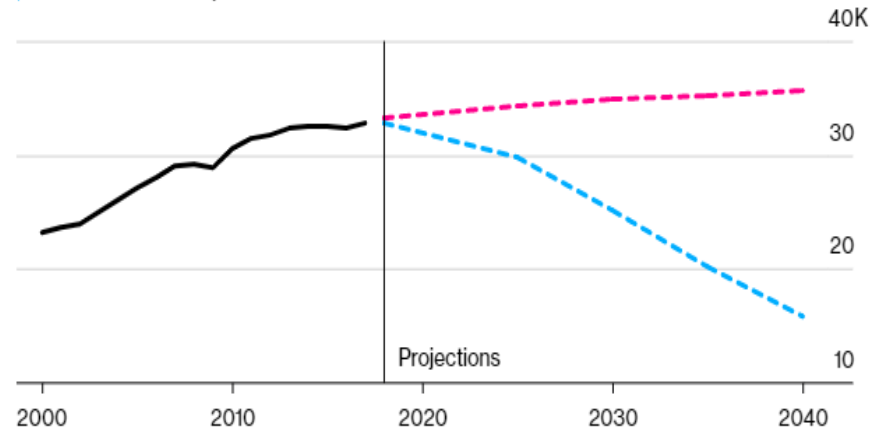
EU Carbon price



Off Track

IEA says emissions need to decline steeply to meet targets

- Global energy-related carbon emissions (Mt)
- Stated policies scenario
- Sustainable development scenario



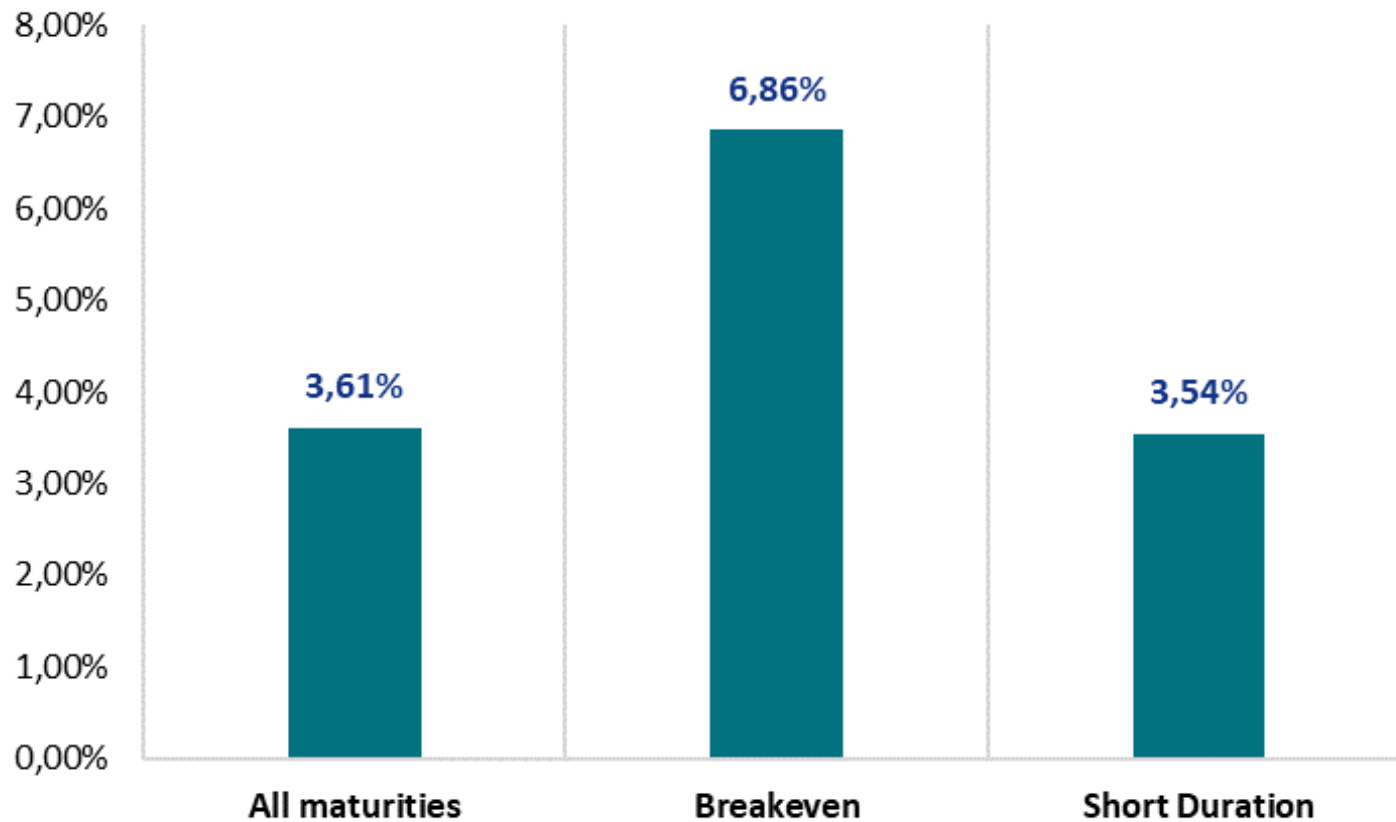
Source: International Energy Agency (2019)

Source: AXA IM, Bloomberg as at 27/09/2021. The above represents our current market views only and does not constitute investment advice

Inflation linked bonds in 2021

Solid performance

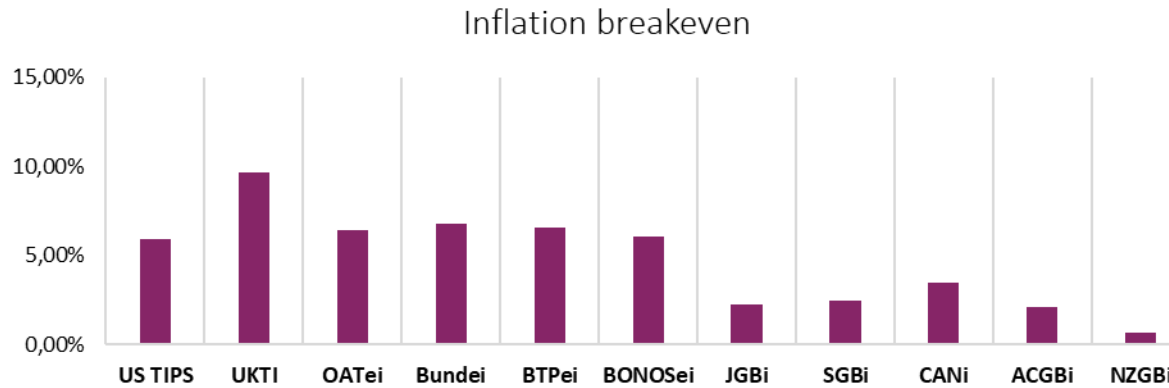
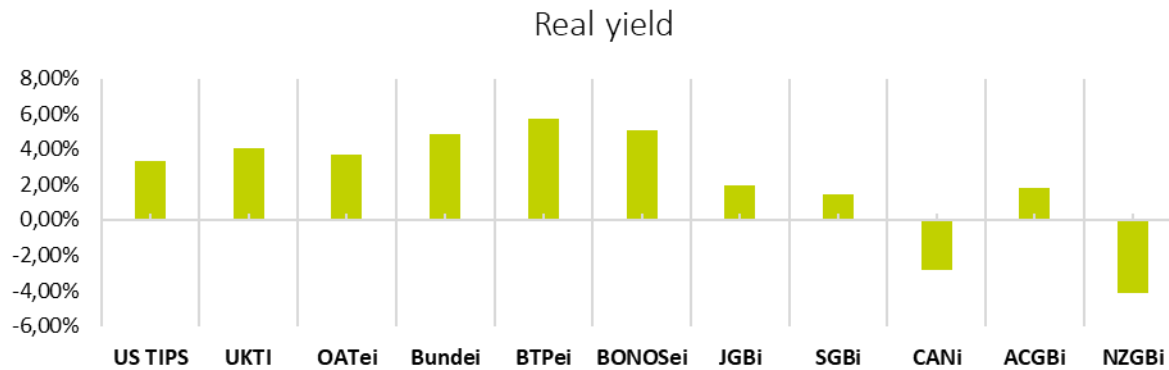
Stable real yields and significant inflation indexation



Source: AXA IM, Bloomberg au 27/09/2021.

Solid performance

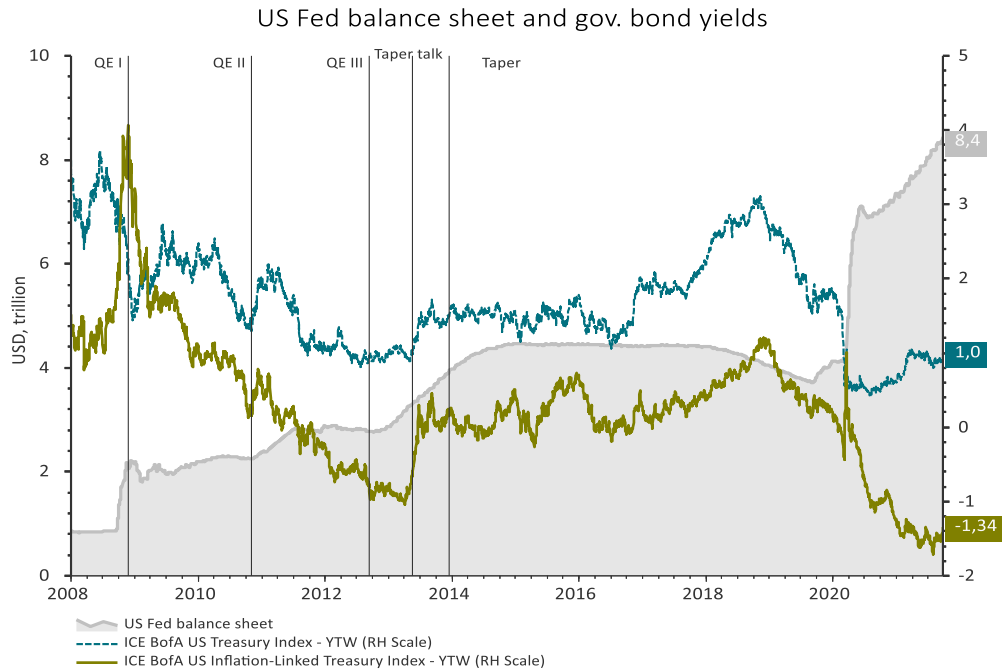
Limited impact of monetary policy normalisation so far



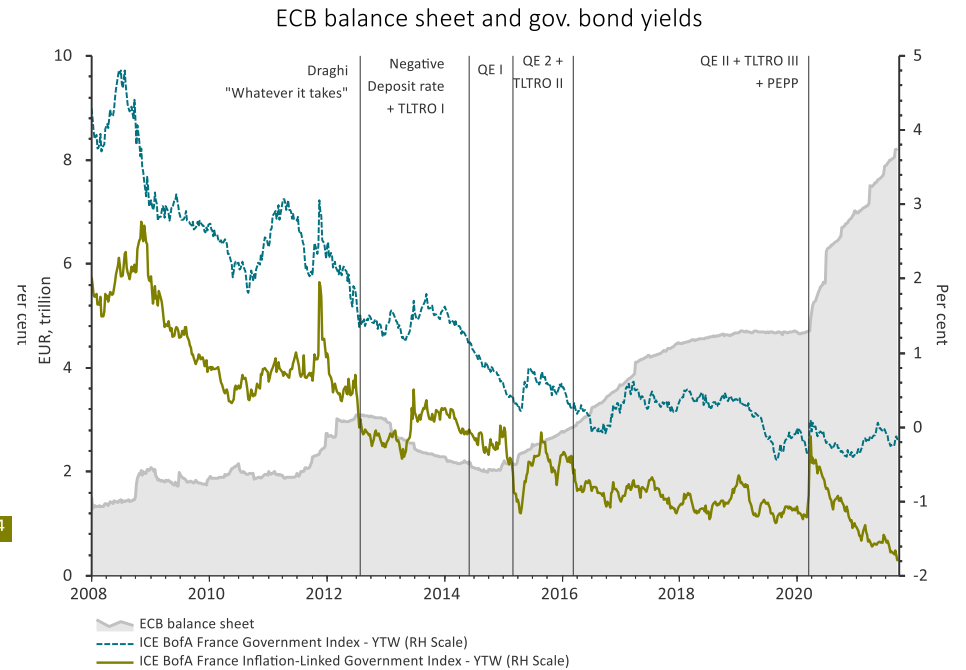
Source: AXA IM, Bloomberg au 27/09/2021.

Central Banks massive footprint

Balance sheet expansion has been a major source of support



Source: Refinitiv Datastream 27/09/2021



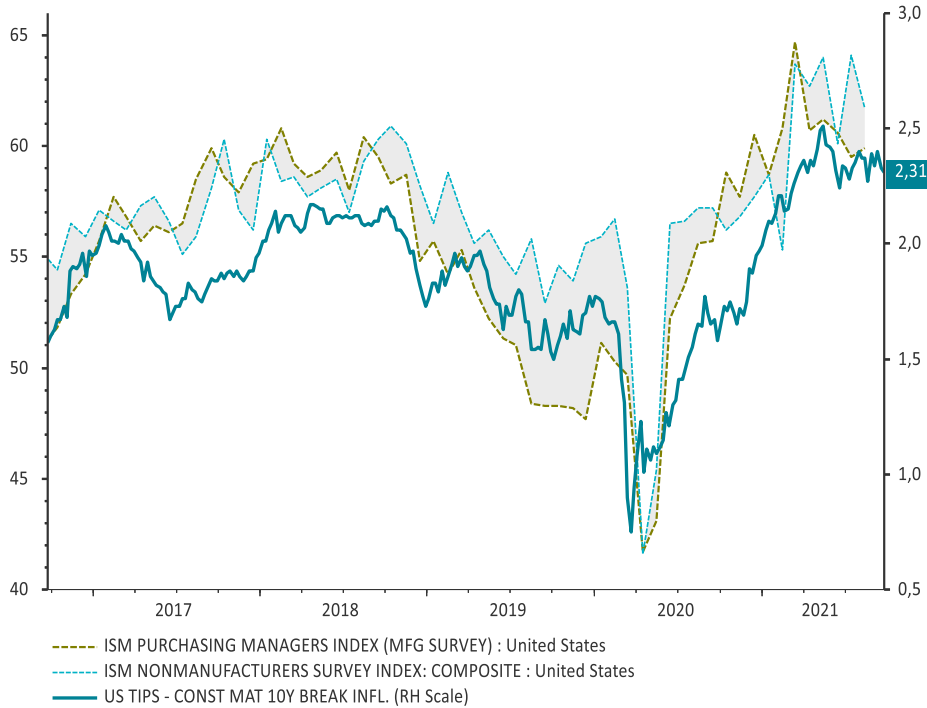
Source: Refinitiv Datastream 27/09/2021

Source: AXA IM. For illustrative purposes only. The above represents our current market views only and does not constitute investment advice.

Economic growth and inflation expectations remains firmly correlated

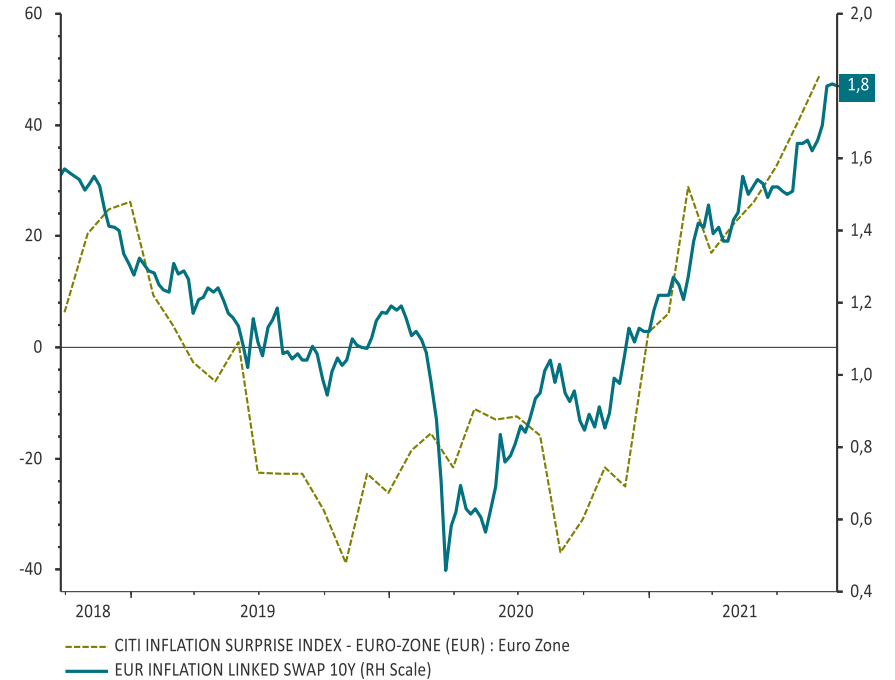
The “old playbook” remains

ISM index / US 10-year Breakeven



Source: Refinitiv Datastream 27/09/2021

Citi Inflation surprise Index / EUR 10-year Breakeven



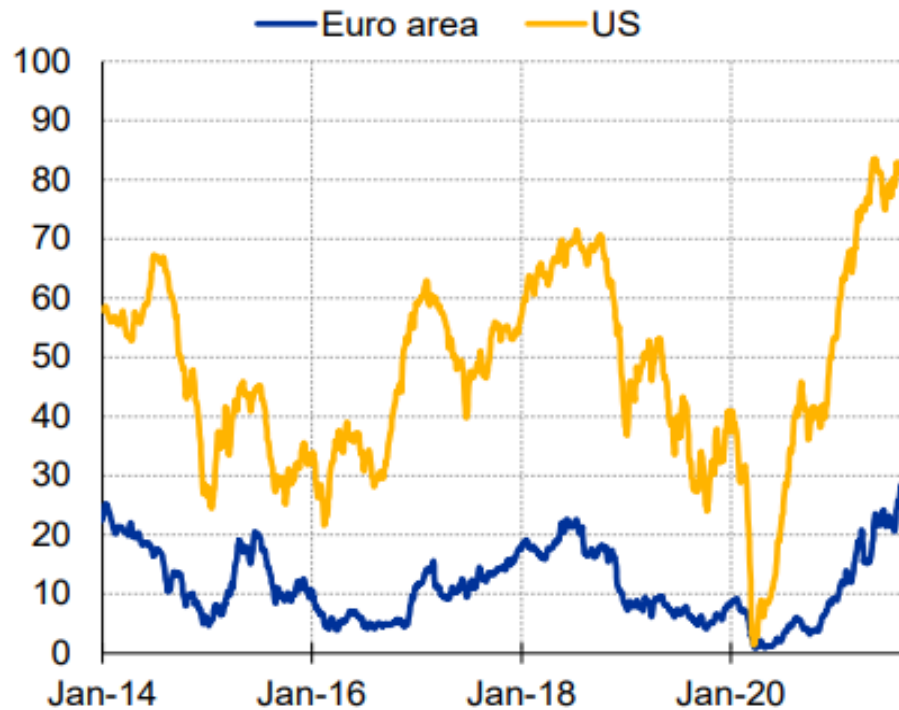
Source: Refinitiv Datastream 27/09/2021

Source: AXA IM. For illustrative purposes only. The above represents our current market views only and does not constitute investment advice.

Inflation risks are on the rise

Growing probabilities of seeing higher than target inflation

Probability of inflation exceeding 2% over the next five years (percentage)



Sources: Bloomberg and ECB calculations.

Notes: Probabilities implied by five-year zero-coupon inflation options, smoothed over five business days. Risk-neutral probabilities may differ significantly from physical, or true, probabilities.

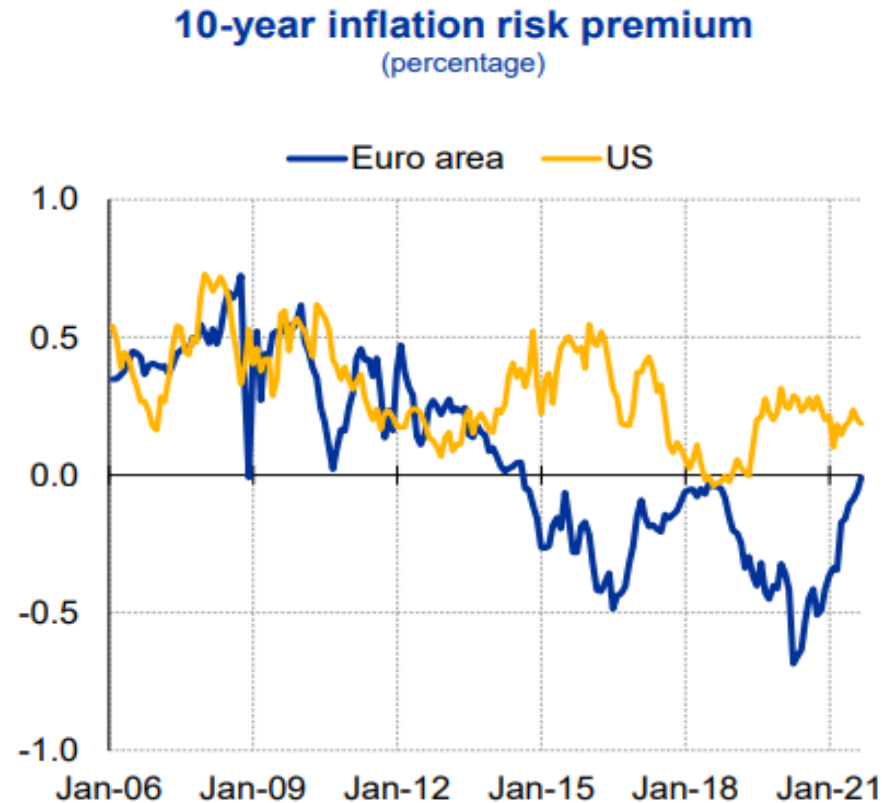
Latest observation: 10 September 2021.

11

Source: AXA IM, ECB. Forecasting as of September 2021. The above represents our current market views only and does not constitute investment advice. .

The market still prices the inflation risk as transitory

Long term risk premiums are close to their past 10-year average



Source: Refinitiv, Haver and ECB calculations.

Notes: The euro area inflation risk premium represents average estimates based on two affine term structure models applied to ILS rates adjusted for the indexation lag as in Camba-Mendez and Werner (2017). This estimation method follows Joslin, Singleton and Zhu (2011). The US inflation risk premium is estimated by the Federal Reserve Board DKW Model.
Latest observation: August 2021.

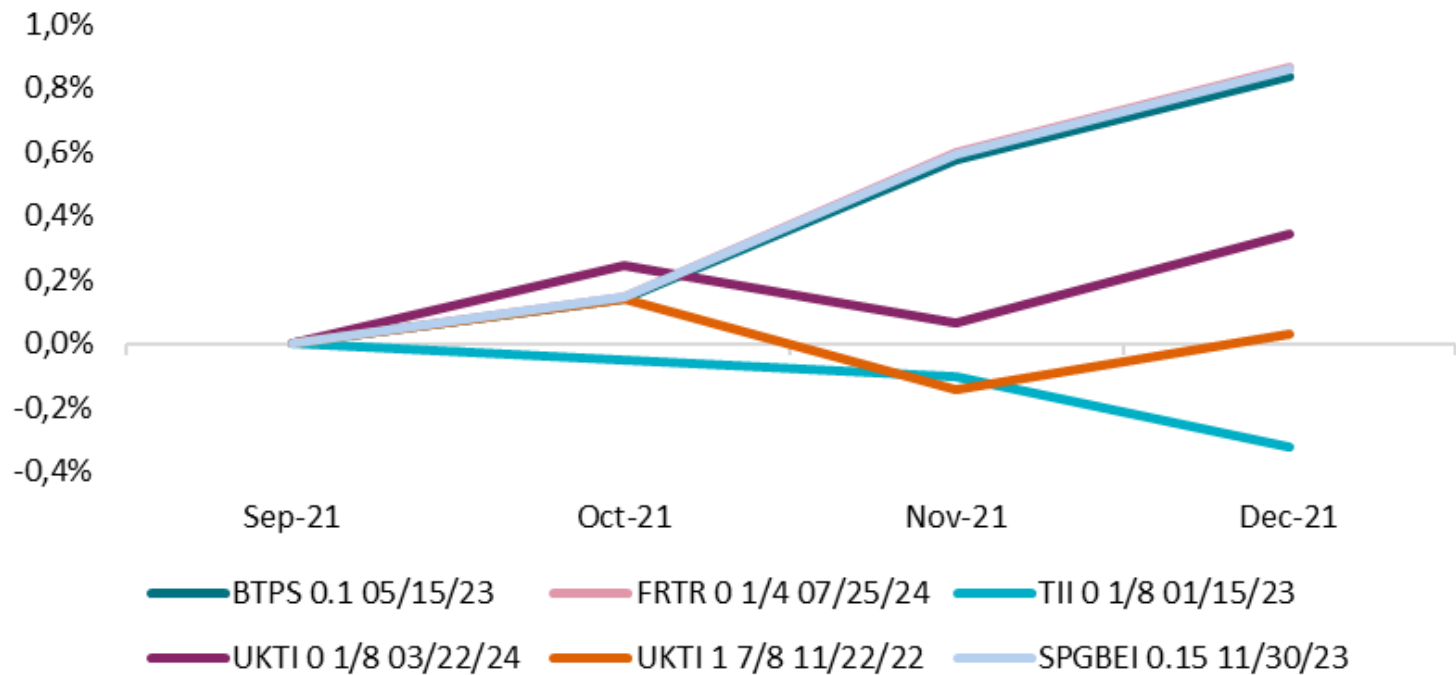
Source: AXA IM, ECB. Forecasting as of September 2021. The above represents our current market views only and does not constitute investment advice. .

How to position in inflation linked bonds ?

Inflation indexation to remain solid

Euro and

Cumulative carry until year-end EUR hedged



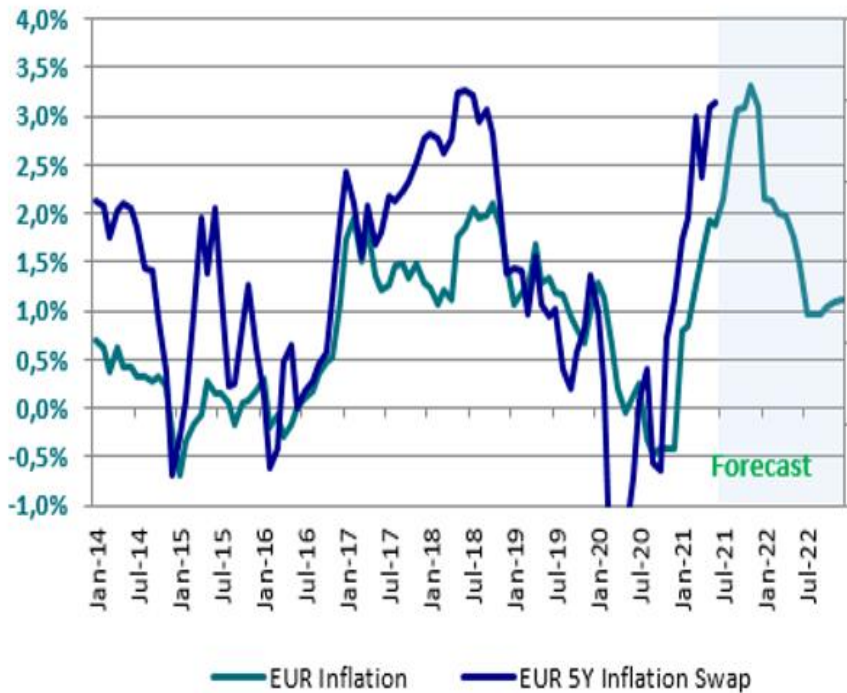
Source: AXA IM. Inflation forecasts from Barclays. For illustrative purposes only. The above represents our current market views only and does not constitute investment advice.

Is peak inflation is sight ?

We expect inflation breakevens to remain close to current levels

HICP 5-year Swap / Inflation forecast

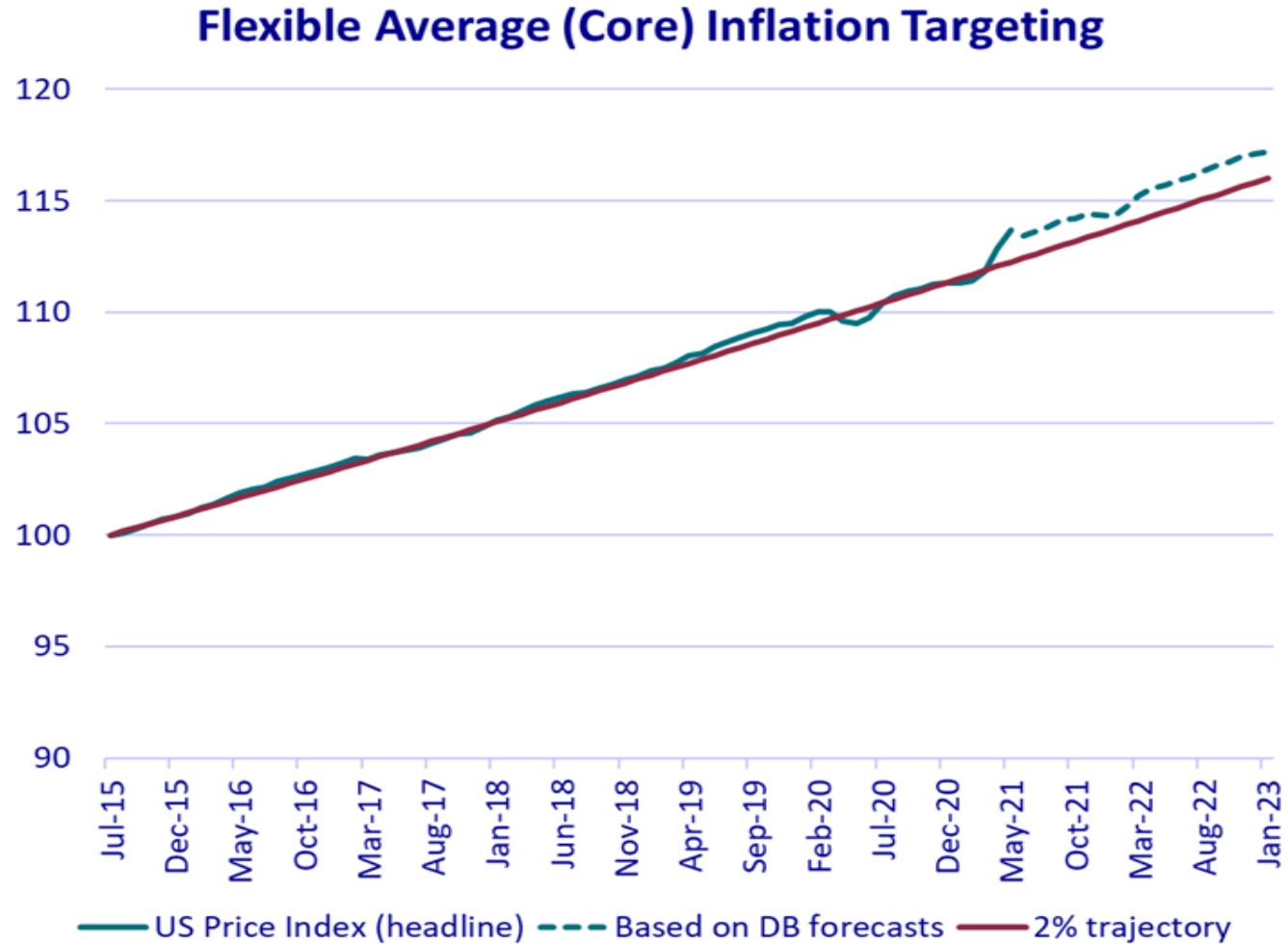
CPI 5-year Swap / Inflation forecast



Source: AXA IM Forecasting as of August 2021. The above represents our current market views only and does not constitute investment advice.

Monetary policy normalisation ahead

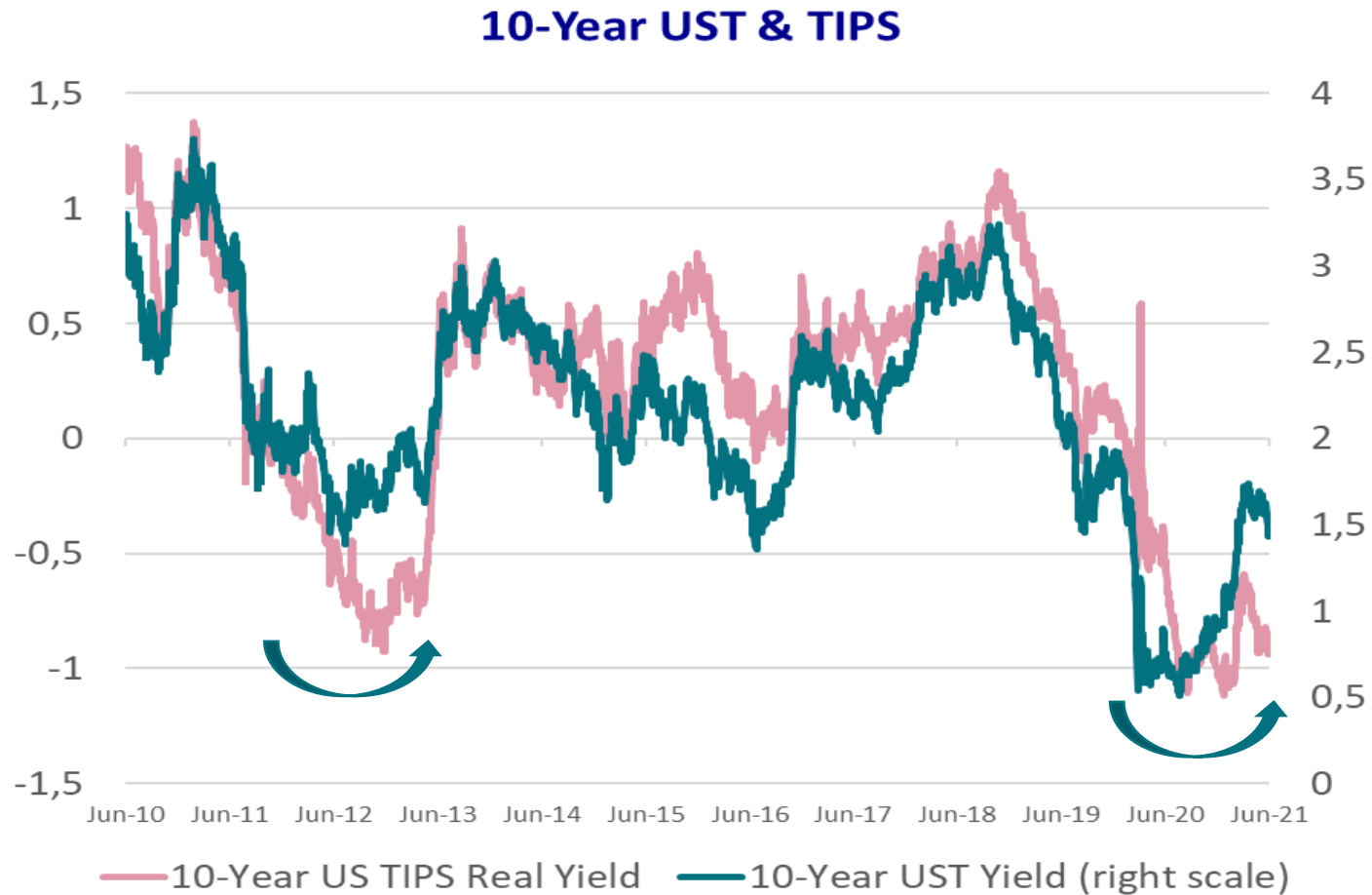
Conditions are met



Source: AXA IM Forecasting as of June 2021. The above represents our current market views only and does not constitute investment advice.

Risk of higher interest rates

Real yields have been resilient so far



Source: AXA IM as of September 2021. For illustrative purposes only .The above represents our current market views only and does not constitute investment advice

What performance to expect ?

Inflation to stay high but Central Banks will dial down supportive measures

EUR-Hedged annual performances - Global Inflation All Maturities

2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
3.0	8.3	5.40	-2.60	1.30	8.60	-0.90	9.50	-5.00	7.00	11.80	5.00

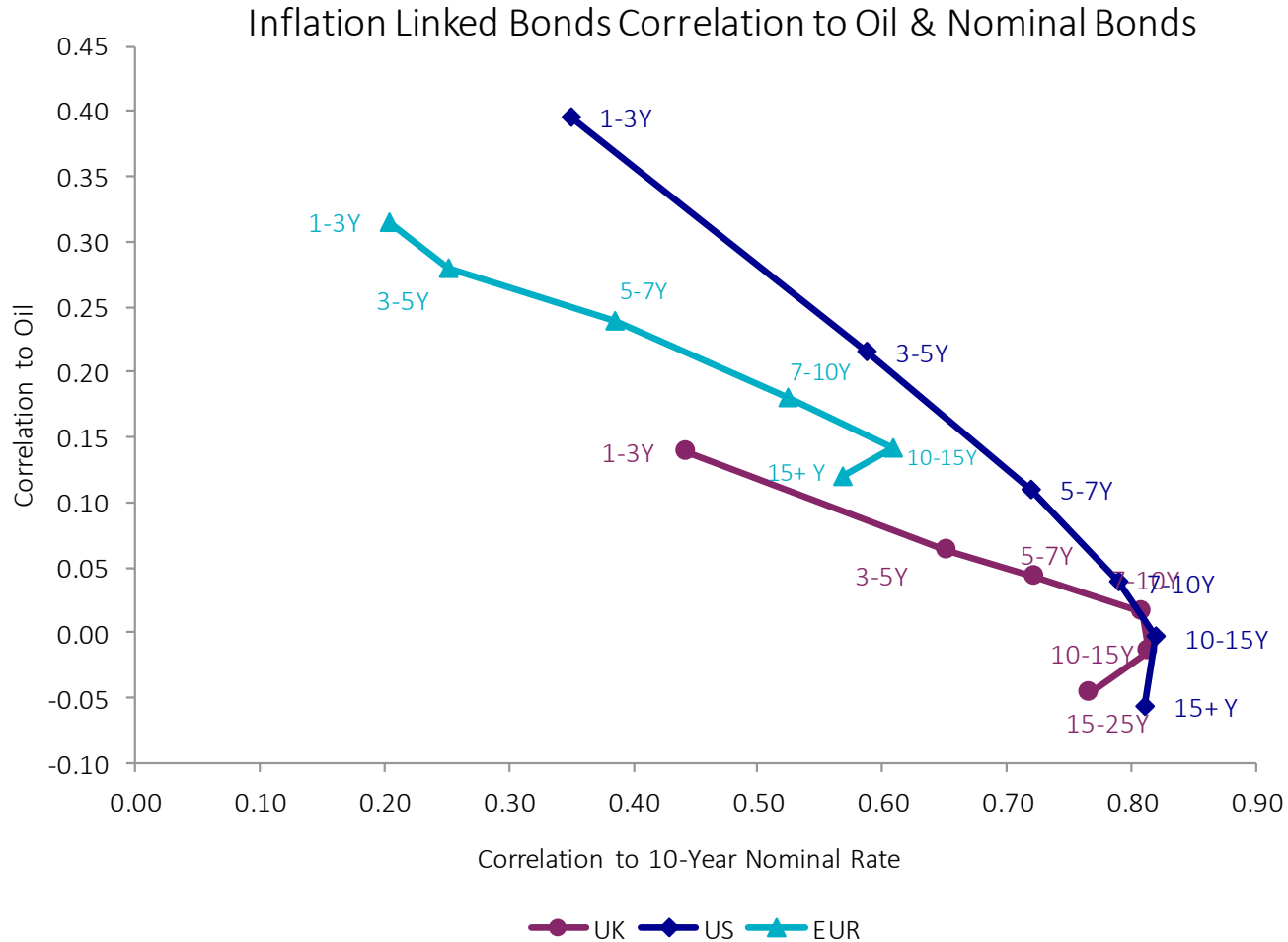
EUR-Hedged annual performances - Global Inflation 1-5 Year

2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
3.6	2.4	1.5	-1.6	-0.4	1.8	-0.3	-0.5	-0.9	3.6	4.4	3.7

Source: AXA IM. Performance Bloomberg World Govt Inflation-Linked All maturities Index and Bloomberg World Govt Inflation-Linked 1-5 Index . 2021 as at 27/09/2021. Developments of the past offer no guarantee and are no indicator for any future returns or trends.

What performance to expect ?

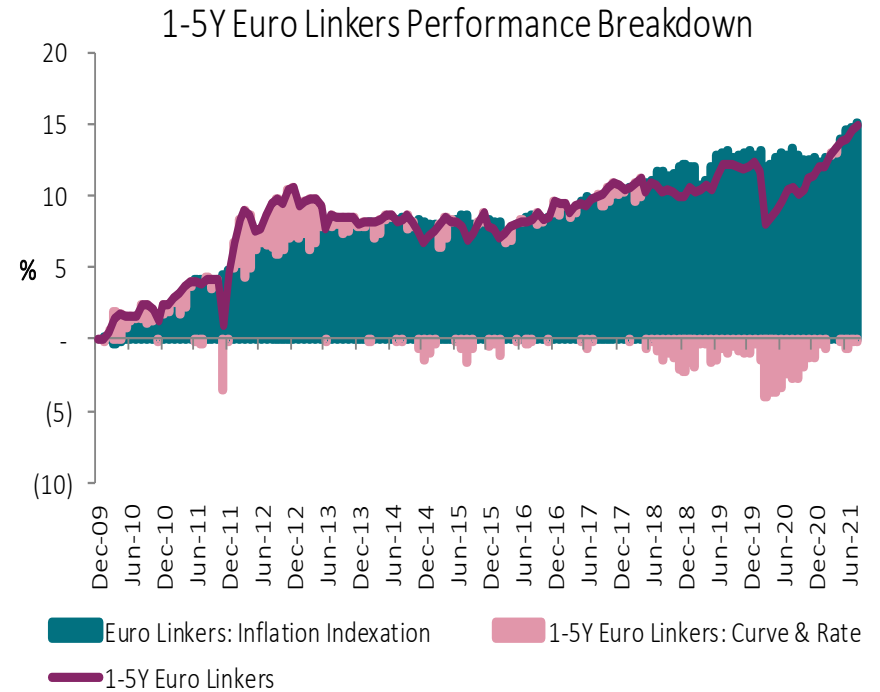
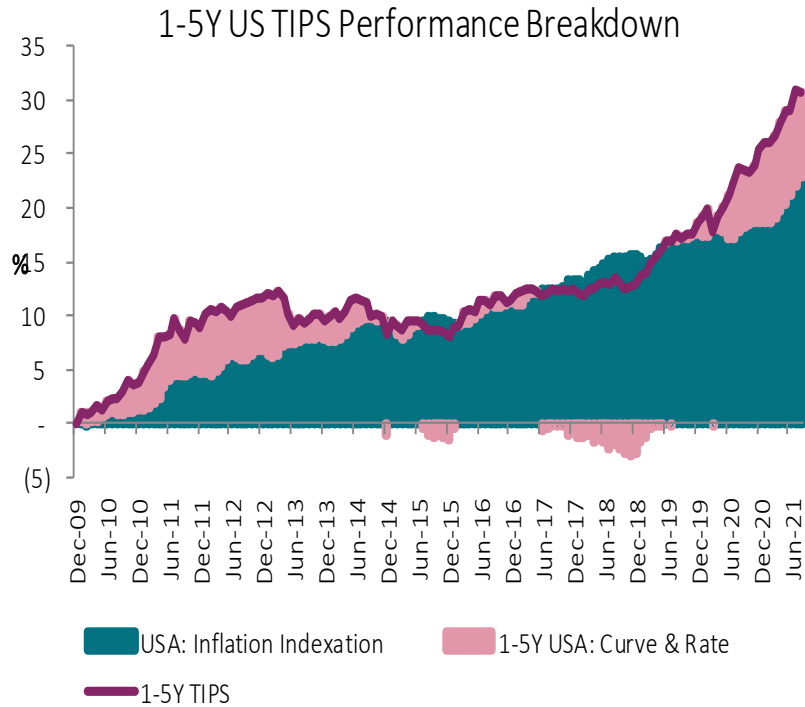
We hold a preference for short maturities inflation linked bonds



Source: AXA IM, Bloomberg at 31/08/2021 – for illustrative purposes only. Developments of the past offer no guarantee and are no indicator for any future returns or trends.

Short duration inflation linked bonds performance






Historically close to inflation



Source: AXA IM, Bloomberg as at 31/08/2021 – for illustrative purposes only. Past performance is not a reliable indicator of future results

What and When?

Understanding our Global inflation strategies

	Global Inflation Bonds	Global Inflation Bonds REDEX ¹	Global Inflation Short Duration Bonds
 MATURITY	All Maturities	All Maturities	Short Maturities
 DURATION EXPOSURE	HIGH (~ 13 years)	REDUCED by selling 10yr interest rate futures (~ 2 years)	LOW (~ 3 years)
 PERFORMANCE ENGINE	1. Rates & Duration 2. Inflation indexation (residual)	Inflation breakeven (expectations)	1. Realized Inflation 2. Duration
 WHEN?	<ul style="list-style-type: none"> • Real Interest rates ↓ or = • Positive Inflation 	<ul style="list-style-type: none"> • Interest rates ↑ • Rising inflation breakevens 	<ul style="list-style-type: none"> • Positive realized Inflation • Residual interest rate impact
 SPECIFIC RISKS	<ul style="list-style-type: none"> • Interest rates risk • Falling / Low inflation 	<ul style="list-style-type: none"> • Interest rates risk • Potentially negative carry • Falling / Low inflation 	<ul style="list-style-type: none"> • Interest rates risk • Falling / Low inflation

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