

Inflation Expertise

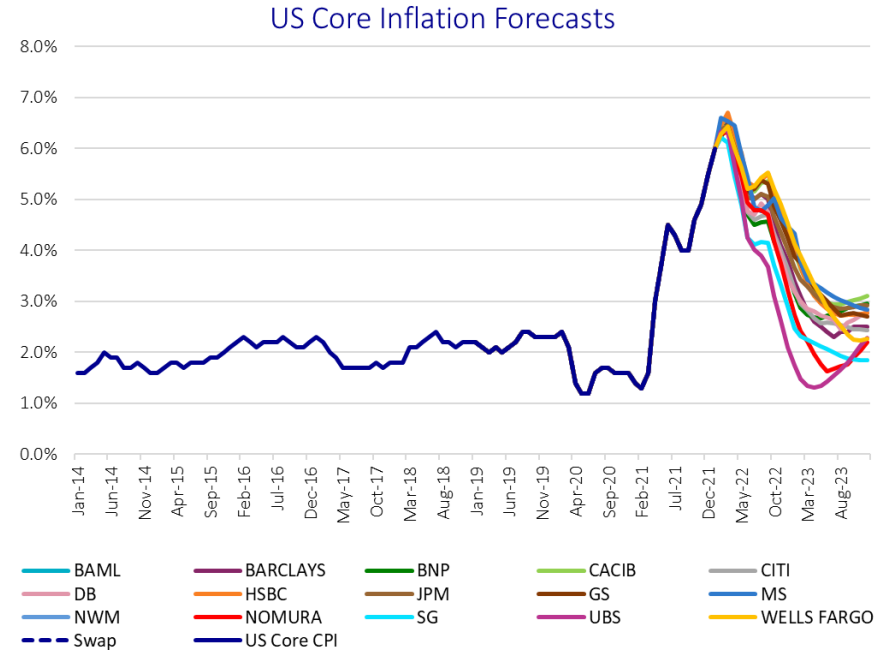
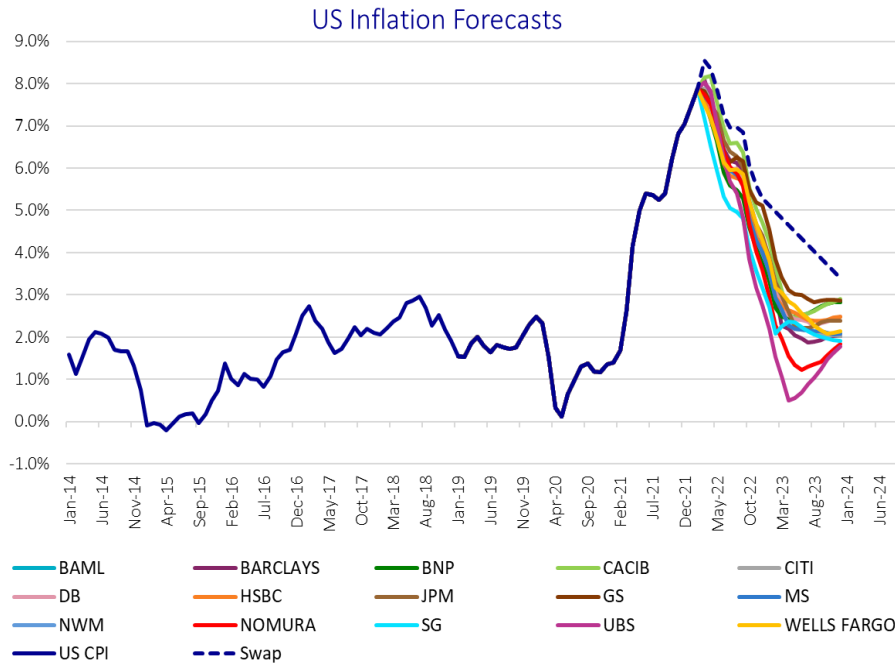
AXA Fixed Income

Monthly Review

March 2022

Is inflation transitory ?

What do economists say?

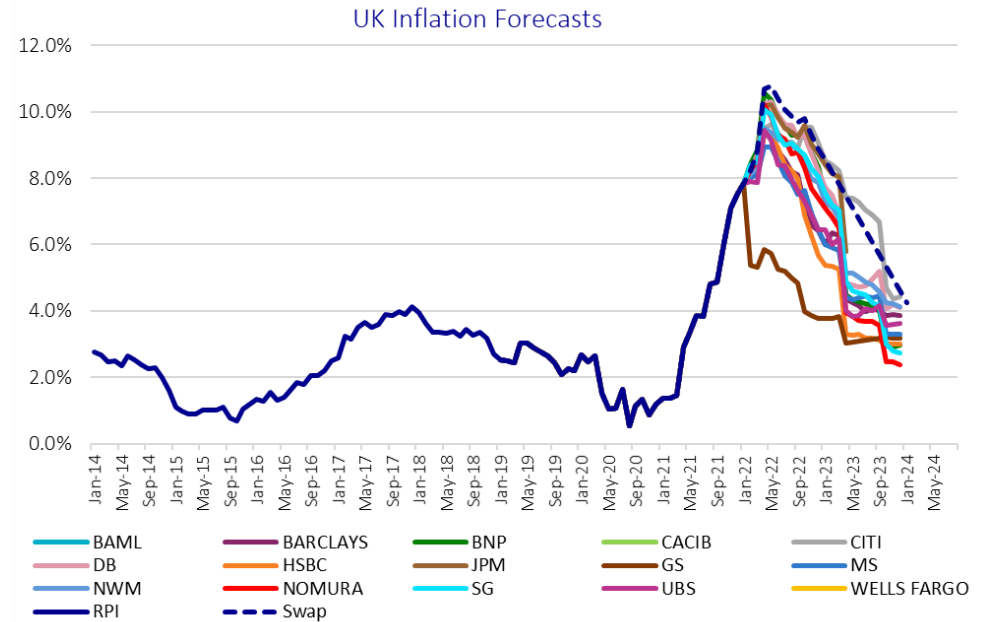
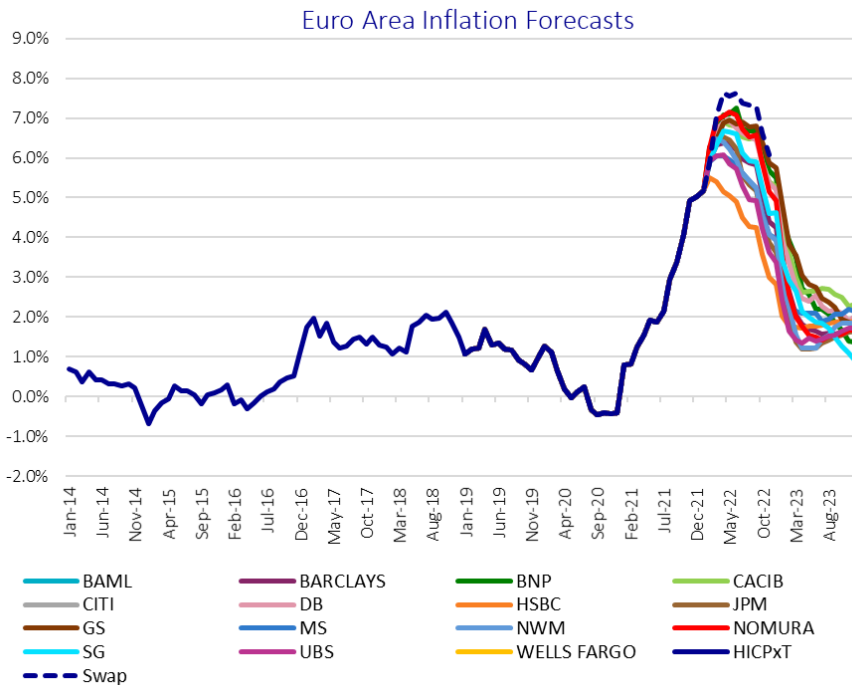


“Transitory inflation” to last longer than previously expected but to normalize in the second part of 2022 according to economists

Source: AXA IM Forecasting as of March 2022. The above represents our current market views only and does not constitute investment advice.

Is inflation transitory ?

What do economists say?

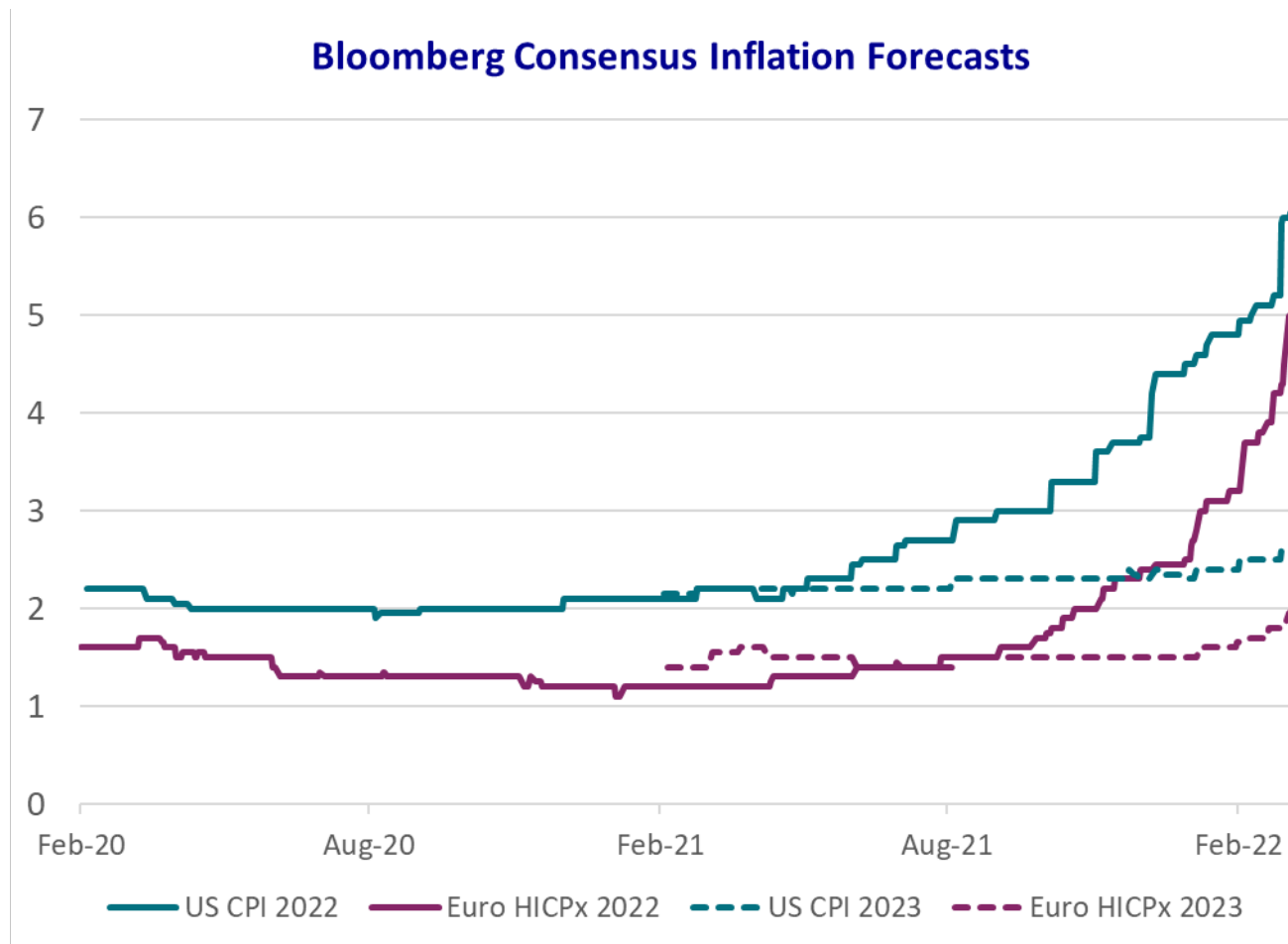


In the Euro Area inflation is also expected to normalize next year. Regarding the UK, inflation could prove to be stickier than in other developed countries

Source: AXA IM Forecasting as of March 2022. The above represents our current market views only and does not constitute investment advice.

The issue with inflation

It keeps being revised up




Inflation forecasts have consistently been revised higher, but economists continue to expect it to be transitory

Source: AXA IM, as of March 2022 – For illustrative purposes only

Near term pressures overshadow longer term risks

Long term risks are likely underestimated by the market

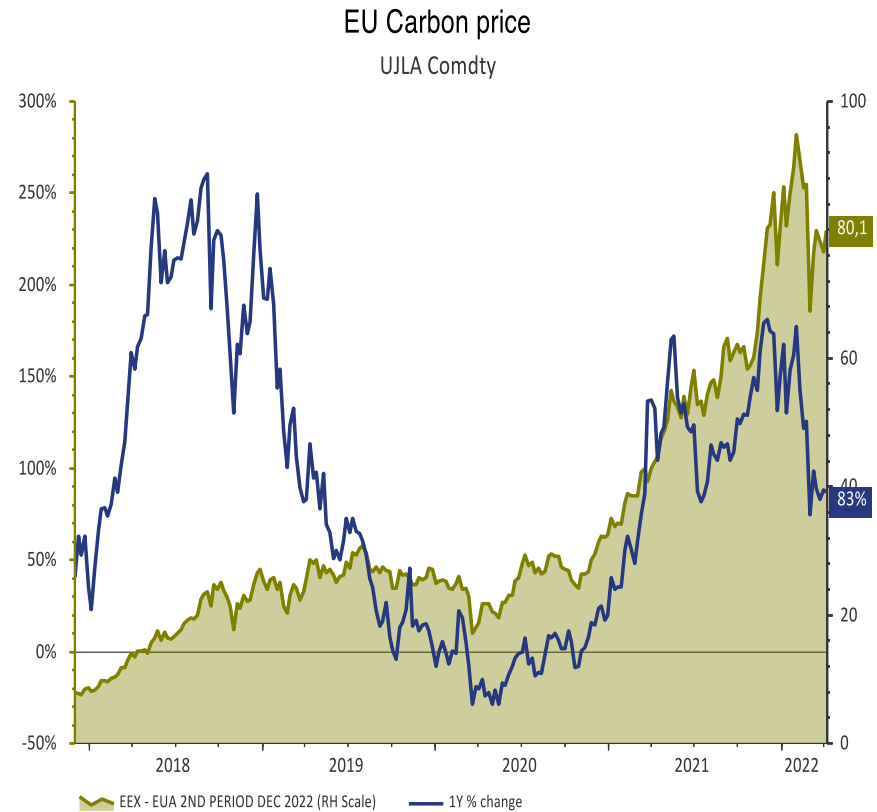


Near term pressures

- Reduced mobility and lower economic activity
- Oil prices
- Shortages and supply chain issues
- Higher wages

Medium to long term pressures

- Fiscal spending
- Deglobalization and trade wars
- **Green revolution**

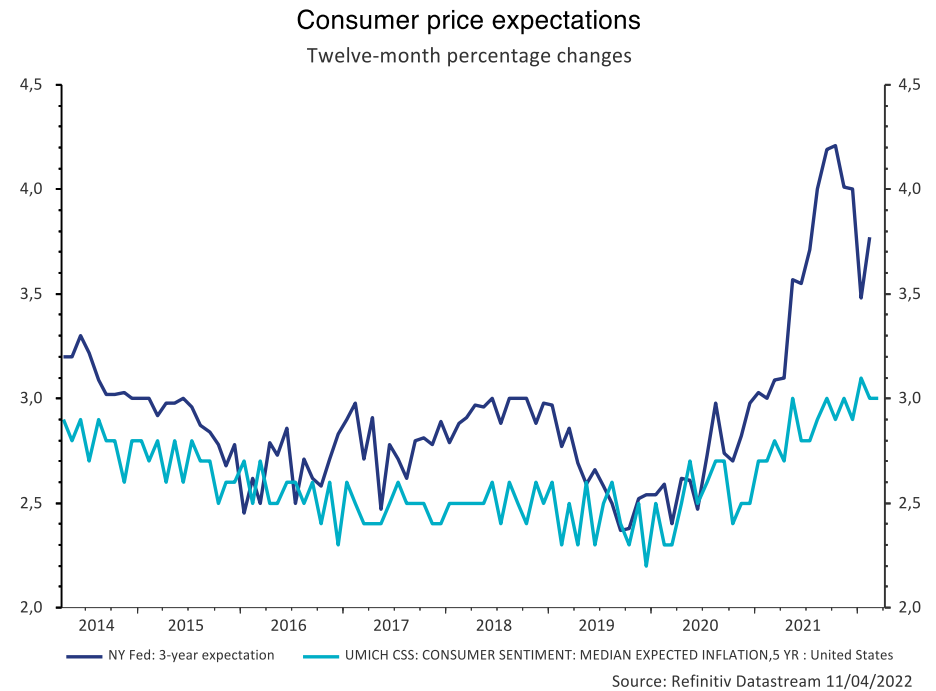
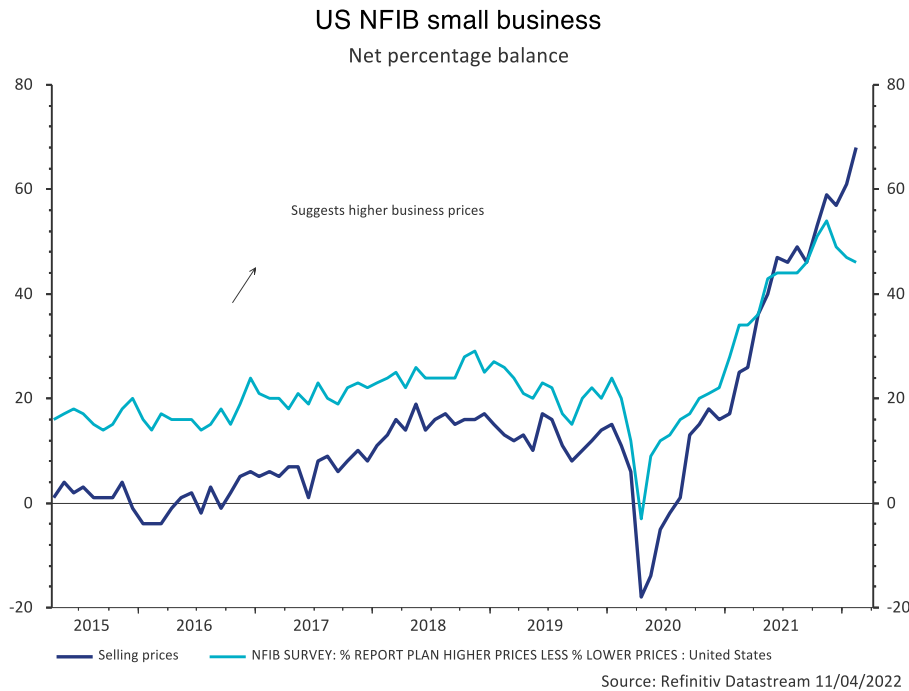


Source: Refinitiv Datastream 11/04/2022

Source: AXA IM, as of March 2022 – For illustrative purposes only

Is inflation transitory ?

What about consumers and businesses?

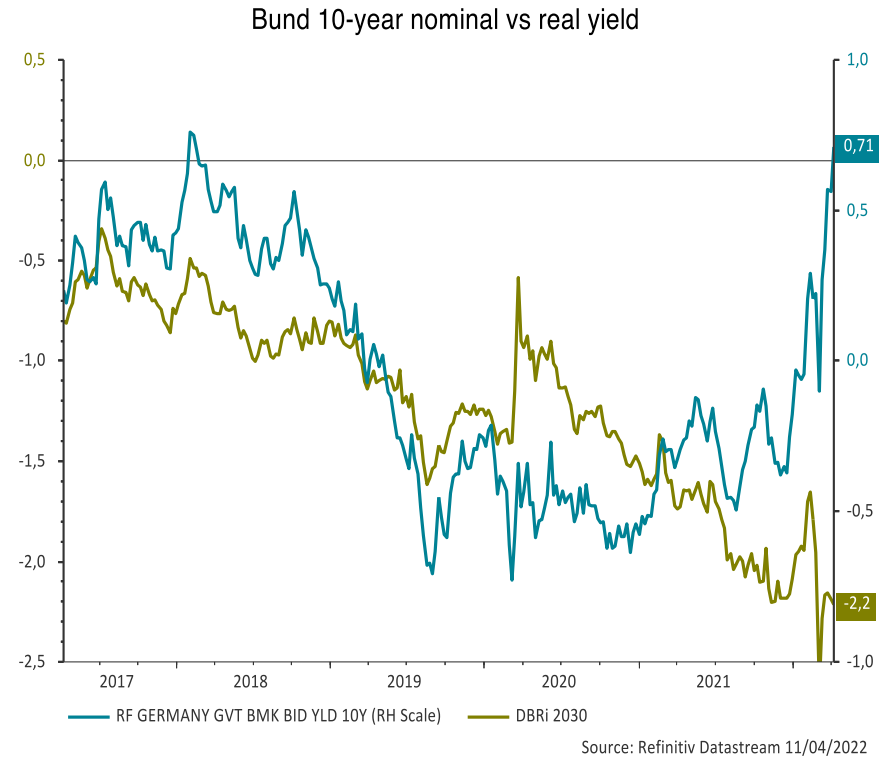
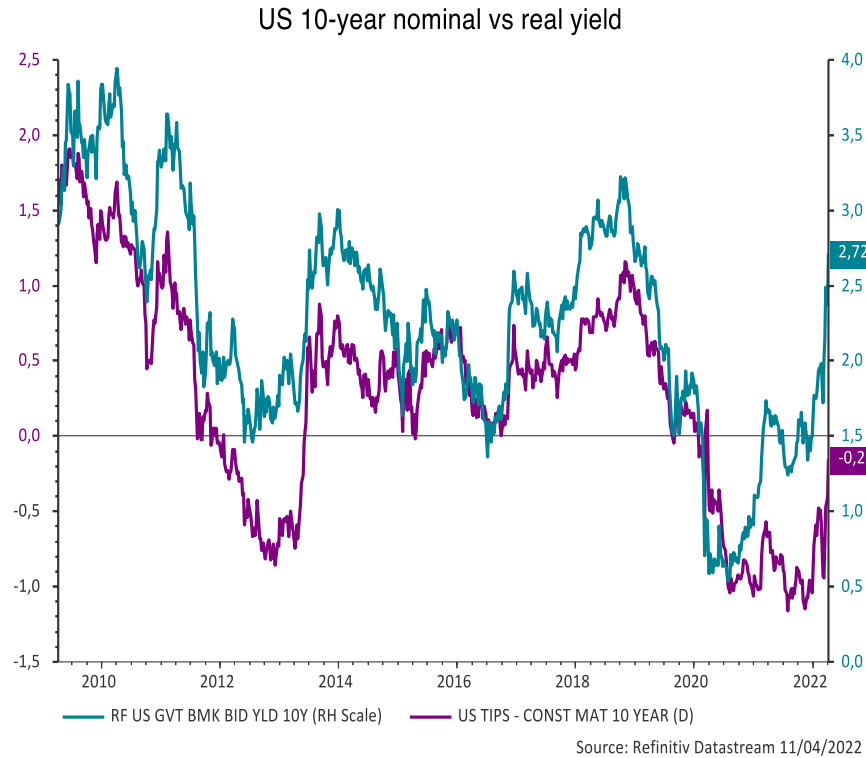


Inflation surveys point to a risk of unanchoring of inflation expectations

Source: AXA IM Forecasting as of March 2022. The above represents our current market views only and does not constitute investment advice.

Risk of higher interest rates

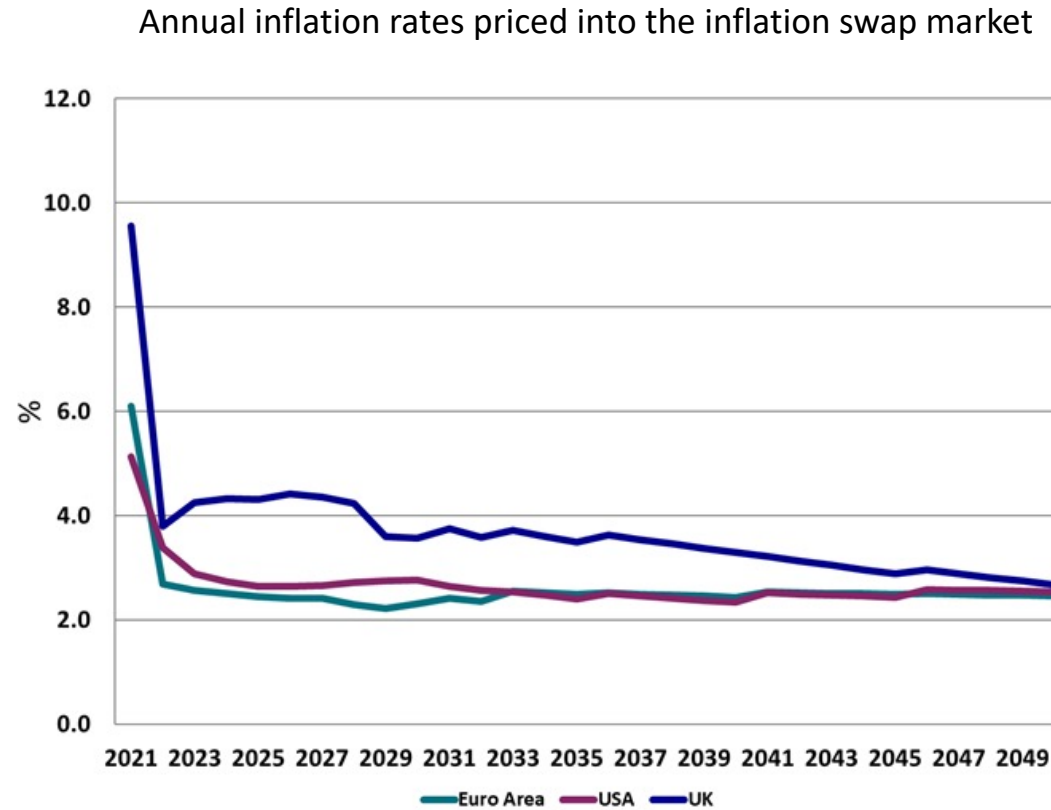
Real interest rates remain at rock-bottom levels



Source: AXA IM as of March 2022. For illustrative purposes only. The above represents our current market views only and does not constitute investment advice

What is priced into the market

A short term inflation spike, not an inflation spiral

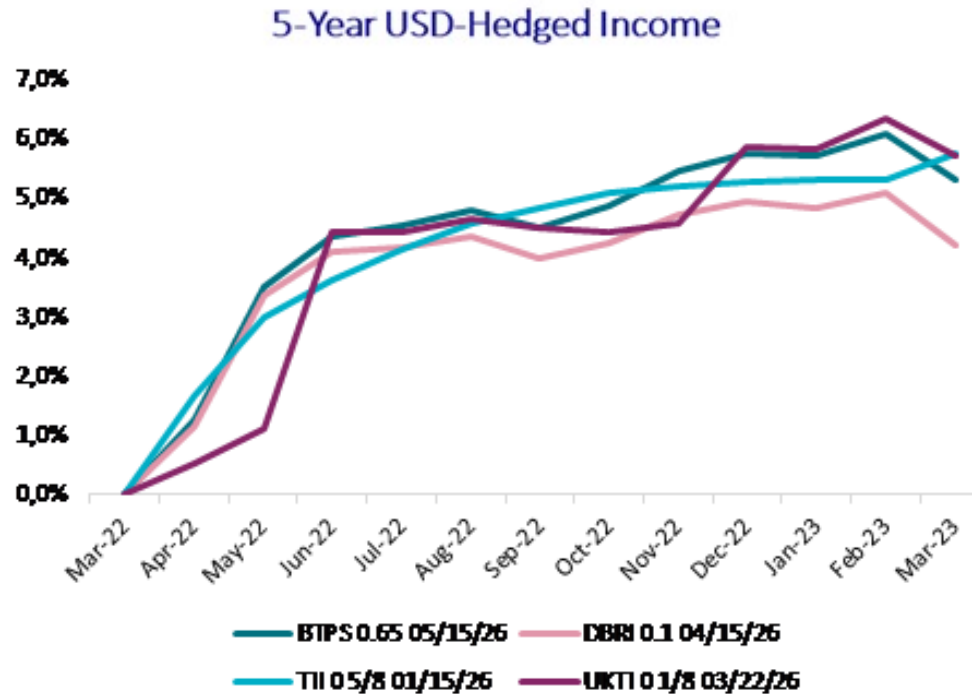


The war in Ukraine is exacerbating near term inflation risks. The market however expects the inflation shock to be transitory.

Source: AXA IM, as of March 2022 – For illustrative purposes only

Implications of high inflation for investors

High inflation means high income for inflation linked bonds



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

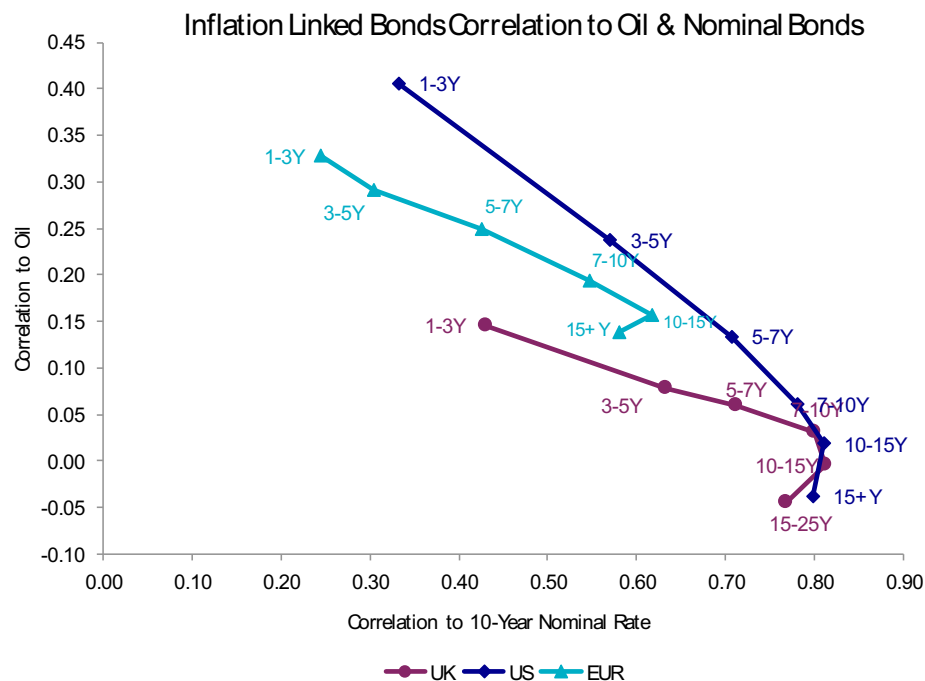
Source: AXA IM as of March 2022. Inflation indexation calculated with CACIB forecast for US and Euro and Natwest Markets for UK RPI The above represents our current market views only and does not constitute investment advice.

Inflation Linked Bonds

Short-end inflation linked bonds are the most sensitive to oil price developments

As you extend the maturity of your inflation linked bond holdings, the risk morphs from being very sensitive to oil and inflation into a more “bond-like” instrument.

- Short-end inflation linked bonds are the most sensitive to oil.
- Across markets, US TIPS are also the most sensitive to oil prices and by extension inflation.
- Ultra-long UK linkers are less correlated to rates than you may think.
- ✓ Local pension funds are very active in the 30-year and longer maturities.



Source: AXA IM, Bloomberg at 31/03/2022 – for illustrative purposes only. Developments of the past offer no guarantee and are no indicator for any future returns or trends.

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