Marketing communication:
Investment involves risk, including loss of capital
Recorded 9th July 2024
Fixed Income

Inflation Market Quarterly Update

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Currently, who says inflation surprises says market volatility, and the second quarter of the year wasn't the exception. Result of the swings in inflation, central banks have kept a very cautious stance in terms of future monetary policy easing.

In fact, headline inflation is still above 2% on an annual basis, while services inflation, the one that is closely watched by central banks remains between 4 and 6% depending on the region we are talking about.

But despite this volatile environment inflation linked bonds delivered positive performance during the quarter, outperforming their nominal counterparts.

The good news is that inflation is expected to print very close to 2% between September and October, giving central banks enough confidence around the effectiveness of their monetary policy. Valuations in the inflation linked bond market are already taking into account this normalisation, and we still think that current inflation expectations discount little inflation premium.
As we have argued since the beginning of the year, the path towards 2% remains bumpy, and more so as geopolitical risks remain intact and there are close electoral and budget deadlines. We believe that inflation linked bonds, particularly short maturity ones remain an excellent instrument to hedge against upside risks on inflation, while benefiting from the so awaited rate cuts.

We remain convinced that inflation linked bonds should continue to deliver positive returns in this second half of 2024.

Source: AXA IM as of June 2024