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Fixed Income

Inflation Quartly Update

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Hello and welcome to our quarterly inflation update. As autumn sets in, it is hard not to compare this year to what happened last year and try to project future trends on that basis. Just like 12 months ago, a weakening US labour market triggered recession concerns increasing the odds of a sharper US rates cut cycle. However, after cutting rates by 100 basis points, inflationary pressures kept the Federal Reserve (Fed) on hold for most of 2025 while other central banks were able to continue normalising monetary policy.

So, is it fair to ask, are interest rates going to retrace back to higher levels? Is the market pricing gone too far? Or is this time different?
While the speed of the summer rally took many by surprise, if we zoom out, the current pricing is in line with previous cycles and we expect the Fed to pursue, as planned, removing restrictions and continuing policy normalisation towards neutral rates. But what has complicated the task for the Fed is, of course, inflation, which remains stubbornly high and is expected to pick up over the next 12 months as a result of this year's tariff increases.
But elsewhere, the market keeps pricing sharp disinflation, and we think that this provides an interesting diversification opportunity. Inflation is not only a concern in the US. It remains elevated in most advanced economies, particularly services inflation, which stands at 3% in the Euro Area and 4.7% in the UK[1], even keeping the European Central Bank and the Bank of England in "wait and see" mode after delivering some rate cuts this year.

Uncertainty remains the name of the game: market participants will continue to balance the consequences of future fiscal spending and current growth momentum. We believe, as we have argued since the beginning of the year, that this kind of environment is beneficial for inflation linked bonds.

Real rates are in positive territory across all markets, and we believe this level remains on the restrictive side. Combined with positive inflation accrual we expect that inflation linked bonds should deliver positive returns and outperform their nominal counterparts in the last quarter as has been the case since the beginning of the year.

Thank you for watching.

Source : AXA IM as of September 2025

Disclaimer

[1] Source: LSEG Datastream as of 24 September 2025

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