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Inflation

Surprising rebound in inflation in July

- Headline inflation **surprised to the upside across the main markets**
- The **ECB kept its monetary policy unchanged in July**, judging the euro area to be in a "good shape".
- The Bank of England voted unanimously for a QE target of GBP 745bn

Rates and Inflation Team

What's happening?

	Inflation & Monetary Policy	Inflation Linked Bonds Market
US	<p>In the US, headline inflation surprised to the upside at 0,6%. While the pandemic continues to weigh on the economic rebound, the Fed keeps its accommodative policy with the stable QE rhythm.</p> <p>Headline 0,6% (+0,5%) Core 1,2% (=%)</p>	<p>US TIPS performance was positive during the month. Real yields declined, with the long-end out-performing. Breakevens continued their upward trend supported by leading economic indicators.</p> <p>5 yr Ry* -1,23% ▼ 10 yr Ry -1,03% ▼ 10 yr Be** 1,55% ▲</p>
Euro Area	<p>In the Euro Area, the inflation figures were also positive. After the strong measures in June, the ECB kept its monetary policy unchanged in July, judging the euro area to be in a "good shape".</p> <p>Headline 0.4% (+0,1%) Core 1.2% (+0,4%)</p>	<p>In the Euro Area, linkers had a positive performance as well, Italian linkers, once again, were the best performers. Breakeven performance was also positive across all markets.</p> <p>5 yr Ry -1,18% ▼ 10 yr Ry -1,10% ▼ 10 yr Be 0,86% ▲</p>
UK	<p>In the UK, inflation rebounded slightly with the Core CPI coming at 1.4%. The Bank of England voted unanimously for a QE target of GBP 745bn and maintained the monetary policy stable.</p> <p>RPI 1,1% (+0,1%) Core CPI 1,4% (+0.2%)</p>	<p>UK linkers posted a positive performance, but it remained week with front end underperforming.</p> <p>5 yr Ry -2,77% ▼ 10 yr Ry -2,99% ▼ 10yr Be 2.99% ▲</p>

*Ry : Real Yield

**Be : Breakeven

Portfolio positioning and performance

Key Strategies

Performance

Real Yields

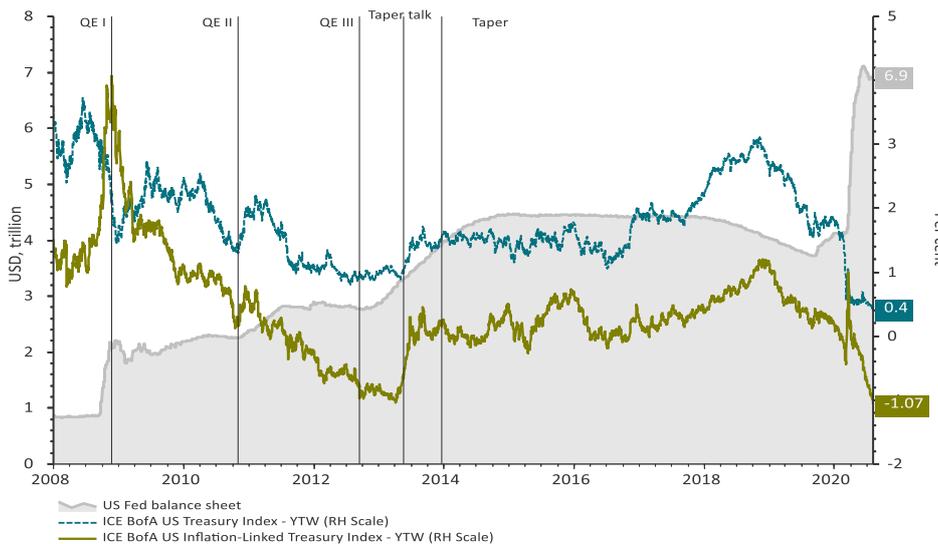
During the month, we fully took profits from our long duration positions in the US and the Euro Area and added exposure to the front end of the Euro linkers curve, particularly France and Germany. We believe that short term bonds offered attractive valuations given inflation forecasts for the years to come. We also added a long duration position to Australian linkers.

Breakevens

At the end of July, we entered a tactical short breakeven position in the Euro Area and the US.

- + Overweight of short-term linkers in the Euro Area
- + Long real duration position in Australia.

US Fed balance sheet and gov. bond yields



Source: Refinitiv Datastream 06/08/2020



Uncertainty around Covid-19 remains and the increasing new cases compromise the economic rebound.



Central Banks continue to support the real yields through their accommodative monetary policies and unprecedented QE

Outlook

United States

The Federal Reserve & the US Treasury continue their aggressive series of non-conventional measures to support the economy.

We believe that US real yields should continue to move lower over the coming months and favour long duration positions.

Euro Area

With the easing of lockdown measures the economy activity has started to show some signs of recovery.

We see an opportunity in adding long positions in Core € Area real yields in portfolios.

United Kingdom

The UK linker market continues to trade rich versus other markets despite the Covid-19 shock. However, the return of "Brexit" headlines and ongoing support from Bank of England might bring support to the market even at these rich levels and we remain cautious in this regard

No assurance can be given that the Inflation strategy will be successful. Investors can lose some or all of their capital invested. The Inflation strategy subject to risks including credit risk, liquidity risk, derivatives and leverage risk, contingent convertible bonds risk.

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