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# Inflation

## Real interest rates should continue to decrease over the course of 2021

- In the US, **marked by turbulent power transition**, pandemic remains concerning and the macro situation will not change much before mid-2021, despite the good news around the vaccine.
- In the Euro Area, **with the second wave now being a reality**, different governments announced new restrictions and lockdowns.
- In the UK, while the pandemic worsened mirroring the Euro Area situation, **uncertainty around Brexit continues and discussions are at a standstill**.

### Inflation Team

### What's happening?

	Inflation & Monetary Policy	Inflation Linked Bonds Market
<b>US</b>	<p>In the US, headline inflation <b>printed at 1.2% and Core at 1.6%, remaining broadly stable</b>. US elections dominated the headlines. While the Joe Biden's victory is the most probable outcome, the swift transition of power remains compromised. In this context, the monetary policy remained on-hold.</p> <p><b>Headline 1.2%</b> (-0.2%) <b>Core 1,6%</b> (-0.1%)</p>	<p><b>US TIPS performance was negative driven by volatility around US elections and the future of fiscal stimulus package.</b> On the contrary, inflation indexation and breakeven performance were positive during the month.</p> <p><b>5 yr Ry*</b> -1,21% ▲ <b>10 yr Ry</b> -0,83% ▲ <b>10 yr Be**</b> 1,71% ▲</p>
<b>Euro Area</b>	<p>In the Euro Area, inflation figures remained unchanged during the month. With the second wave now being a reality, different governments announced new restrictions and lockdowns. No major changes had been made in the monetary policy, but the <b>ECB committed to a recalibration, depending on the pandemic situation and new inflation forecasts</b>.</p> <p><b>Headline -0.3% (=%)</b> <b>Core 0.2% (=%)</b></p>	<p>In the Euro Area, <b>linkers recorded positive performance</b>, lead by Italy, whose rating outlook has been upgraded from negative to stable.</p> <p><b>5 yr Ry</b> -1,27% ▼ <b>10 yr Ry</b> -1,19% ▼ <b>10 yr Be</b> 0,78% ▲</p>
<b>UK</b>	<p>The same sanitary situation was observed in the UK, <b>where the inflation figures increased. The recent indicators of economic activity declined, in addition to the Brexit uncertainty</b>. The mid-October discussions were fruitless and don't seem to progress.</p> <p><b>RPI 1.1%</b> (+0.6%) <b>Core CPI 1.3%</b> (+0.4%)</p>	<p><b>UK linkers had a slightly positive performance driven by longer maturities.</b> UK breakevens delivered positive performance supported by the uncertainty around Brexit.</p> <p><b>5 yr Ry</b> -2,92% ▼ <b>10 yr Ry</b> -2,99% ▼ <b>10yr Be</b> 3.11% ▲</p>

\*Ry : Real Yield

\*\*Be : Breakeven

## Portfolio positioning and performance

### Key Strategies

### Performance

#### Real Yields

During the month, we kept a low risk profile in the context of volatility around US Elections. We closed our short real duration position in the Euro Area and continuing to favor Australian linkers and front end US TIPS.

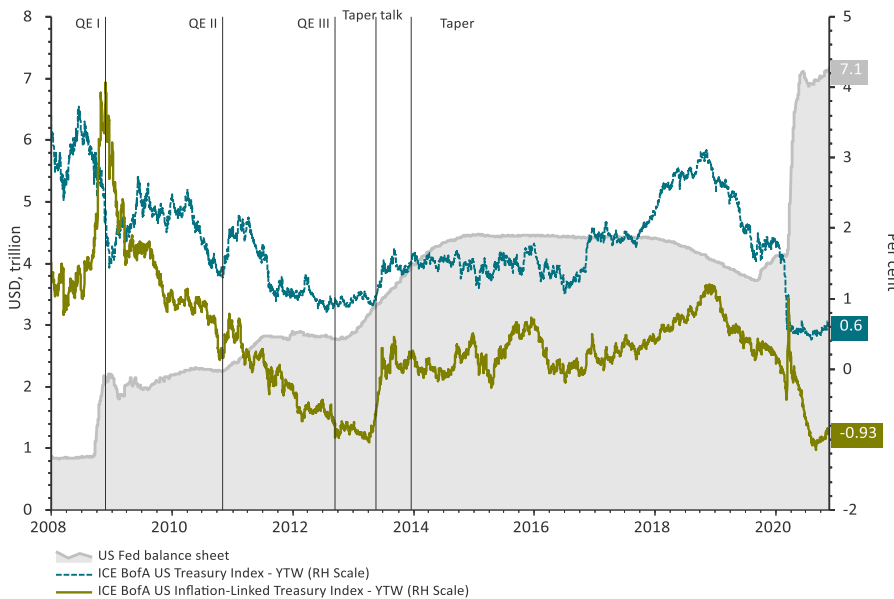
- + Long real duration position in Australia.
- Long duration in front end US TIPS

#### Breakevens

During the month, we increased our short breakeven exposure in the Euro Area, of which we took profits into month end. We are looking into opportunities to go long breakevens that should perform well into the first half of 2021.

- + Short breakeven position in the Euro Area

US Fed balance sheet and gov. bond yields



Source: Refinitiv Datastream 11/20/2020



Volatility result of the US elections, Brexit and the second lockdowns, may create entry points to go long inflation breakevens that should perform well into the first half of 2021



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

The new increasing Covid-19 cases and more restrictive measures throughout Europe compromises the economic rebound.

European inflation has gone in negative territory and is expected to remain quite low in the coming months.

### United Kingdom

In the UK, leading indicators declined adding to the Brexit uncertainty.

Nevertheless, we expect the Brexit developments to be back on the radar and to weigh on Real Yields and Breakevens.

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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