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Inflation

New vaccine brightens the horizon for the economy

- In the US, the task for 46th president of the United States will be complex in the context of **rising new Covid cases and uncertainties around the new recovery plan.**
- In the Euro Area, the ECB reassured of its **willingness to recalibrate the monetary policy**, with a possible increase in PEPP and more generous TLTRO.
- In the UK, Brexit is back on stage with its share of uncertainty that **will weigh on rates and inflation outlook.**

Inflation Team

What's happening?

	Inflation & Monetary Policy	Inflation Linked Bonds Market
US	<p>In the US, headline inflation printed at 1.2% and Core at 1.6%, remaining broadly stable. Joe Biden has been elected 46th president of the United States, but the transition of power is expectedly stormy. The recovery of the economic activity is slowed down due to increasing new Covid cases.</p> <p>Headline 1.2% (-0.2%) Core 1,6% (-0.1%)</p>	<p>US TIPS performance was positive during the month in the context of risk-on sentiment, fueled by the positive news around the vaccine.</p> <p>5 yr Ry* -1,35% ▲ 10 yr Ry -0,96% ▲ 10 yr Be** 1,79% ▲</p>
Euro Area	<p>In the Euro Area, inflation figures remained unchanged during the month. Different member countries announced restrictions, aiming to ensure economic activity while trying to keep the pandemic under control. The ECB reassured of its willingness to recalibrate the monetary policy, with a possible increase in PEPP and more generous TLTRO.</p> <p>Headline -0.3% (=%) Core 0.2% (=%)</p>	<p>In the Euro Area, linkers recorded positive performance, led by Italy. Indeed, the risk-on sentiment and ECB's dovish tone were beneficial for inflations-linked bonds.</p> <p>5 yr Ry -1,47% ▲ 10 yr Ry -1,34% ▲ 10 yr Be 0,96% ▲</p>
UK	<p>In the UK, Brexit takes centre stage, again. While higher uncertainty remains, the hopes of a possible deal rose as the two parts agreed in a "constructive" call in coming days to reach an agreement before 31 December.</p> <p>RPI 0.3% (-0.4%) Core CPI 1.1% (-0.4%)</p>	<p>UK linkers were the worst performers across all markets as the negotiations on a post-Brexit deal are still ongoing and high uncertainties remain.</p> <p>5 yr Ry -2,90% ▼ 10 yr Ry -2,94% ▼ 10yr Be 3.11% =</p>

*Ry : Real Yield

**Be : Breakeven

Portfolio positioning and performance

Key Strategies

Performance

Real Yields

We keep our long duration bias at the front end of the US curve as we expect the Federal Reserve to keep its accommodative stance in the context of political instability and lack of clear fiscal policy.

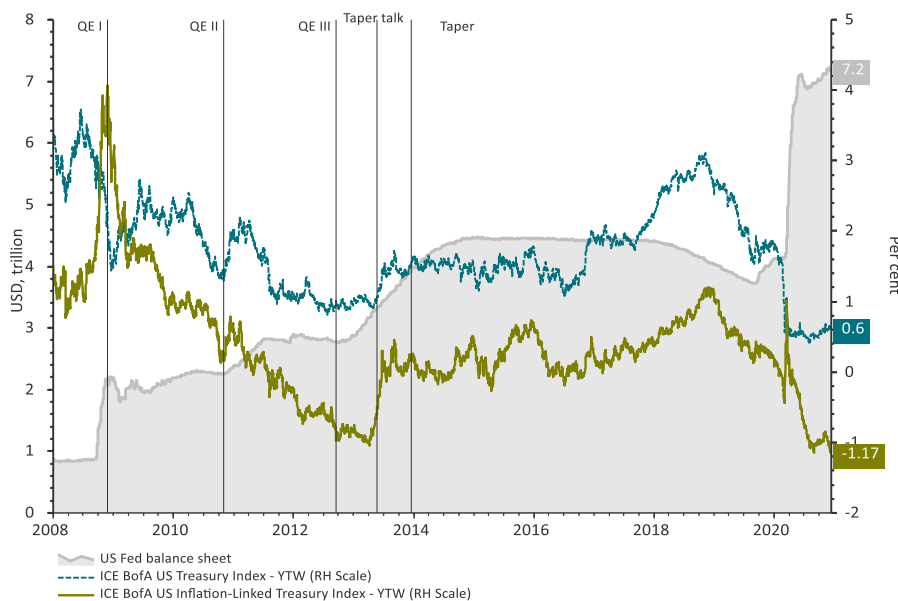
+ Long real duration position in the US.

Breakevens

During the month, we added breakeven exposure in the US and the Euro Area as a brand-new vaccine brightens the horizon for the economy and we believe that it will support breakevens in the medium term.

+ Long breakeven position in the US and the Euro Area

US Fed balance sheet and gov. bond yields



Demand for inflation-linked bonds remains solid as the Federal Reserve continues to purchase large amounts of assets.



The pace of asset purchases is much faster than during previous episodes of 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.

Brexit should continue dominate the headlines and add volatility to the rates and inflation outlook.

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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