Global Fixed Income Strategy

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Turgut Kisinbay
Chief US Economist

Mark McDonnell
Macro Analyst

Yi Hu
Head of Asia Credit Research

Wim Vandenhoeck
Co-Head of Emerging Market Debt

Jason Trujillo
Head of Emerging Market Credit and Strategy

Stanislav Gelfer
Senior Strategist

Manuel Terre
Sovereign Analyst and Strategist

Global macro strategy

Macro conclusions from the IFI Summit

Twice a year, investors from across the Invesco Fixed Income platform gather at the IFI Global Investors' Summit to discuss and debate their views on global macroeconomic trends. Macro themes play an important role in IFI's investment process and our framework of "macro factors" focused on growth, inflation and policy, helps us project macro trends and interpret market movements. At our June 9-10 Summit, a panel of investors provided their views on global macro developments. Below we share their main conclusions.

US: Consumer spending props up data but sentiment signals caution

Current US consumer confidence indicators are at levels typically associated with recessions. But actual consumption expenditures are healthy and overall growth is positive. What could be causing this disconnect? We looked to the corporate and consumer sectors for possible answers.

Corporate behavior

At the core of our growth outlook is the recognition that businesses and consumers alike are operating under heightened uncertainty. The shifting regulatory landscape -particularly trade policy and tariff implementation - has weighed heavily on corporate sentiment. As a result, companies are likely to remain cautious, delaying new investment and hiring decisions.

Corporate profitability has been solid in the past year, and many firms termed out their debt during the low interest rate environment of the pandemic years. So, solid credit fundamentals suggest that firms should be able to manage any potential economic slowdown. However, we have seen signs of cautious corporate behavior in recent months, likely due to uncertainties related to tariffs and other policy changes. Capital goods orders and investment plans among small businesses have declined, and CEO confidence is subdued, indicating a general reluctance to invest. This caution is also translating into hiring decisions. Recalling the difficulty finding workers during and immediately after the pandemic, we do not expect companies to lay off workers easily. But neither do we expect much additional hiring in the current uncertain environment. So, while we do not expect initial unemployment claims to rise sharply, we would not be surprised to see rising numbers of continued claims and permanent job losers.

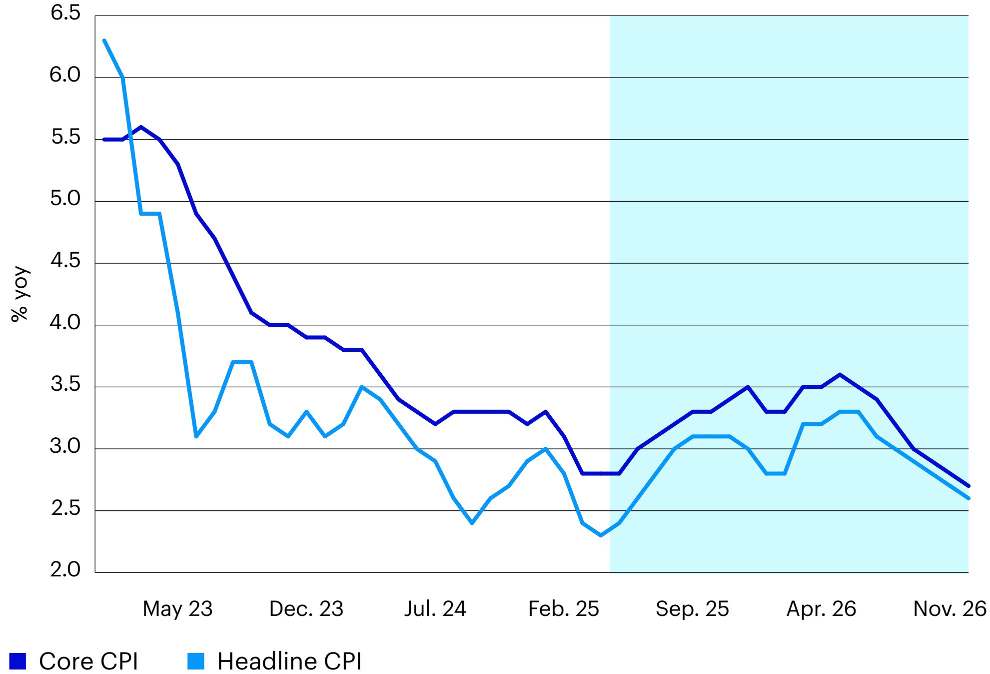
Consumer behavior

Consumer confidence remains weak, yet spending has held up. This apparent contradiction is best explained by anticipatory behavior: just as companies are rushing to finalize capital spending, households are front-loading purchases in tariff-exposed categories. However, the recent strength in consumer spending likely reflects timing rather than sustained momentum. As households bring forward purchases to avoid future price hikes, this behavior may lead to softer demand in the months ahead. Moreover, the conditions that supported spending during the pandemic – labor security and ample financial buffers – no longer exist, especially for lower-income households.

Inflation, growth and the Fed

What does this consumption pattern and potential tariffs mean for inflation? As tariffs seep into goods pricing, we would expect core consumer price inflation (CPI) to rise by the end of the year to around 3.5% and core personal consumption expenditure inflation (PCE) to around 3.6%. We expect services prices to continue to dis-inflate and expect overall inflation to peak and then cool in 2026.

Figure 1: US CPI inflation projections



Source: BLS, Invesco projections, Data as of June 24, 2025.

US growth outlook

Our outlook for growth is fluid due to current policy unpredictability and is divided into two scenarios:

1) US pulls back from maximalist policy stance (65% probability): In this scenario, economic growth weakens and falls below potential, as tariffs and policy uncertainty weigh on business confidence and investment. The US Federal Reserve (Fed) remains in a wait-and-see mode. If growth slows, as we would expect, the Fed delivers three insurance cuts, beginning in October. If the economy remains resilient, the Fed would likely delay cuts until 2026.

2) Trade war; confidence shock; tighter financial conditions (35% probability): This scenario assumes that the economy slows significantly, resulting in a recession, though a recession could be mild. In response, we would expect the Fed to cut interest rates by at least 200 basis points.

Figure 2: Annual US growth projections

	Annual growth (quarterly growth, seasonally adjusted annualized rate)							
	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2	2026 Q3	2026 Q4
Invesco	-0.2	3.0	0.5	0.5	1.4	1.8	2.1	2.1
Consensus	-0.3	1.4	0.8	1.3	1.5	1.8	1.9	2.0

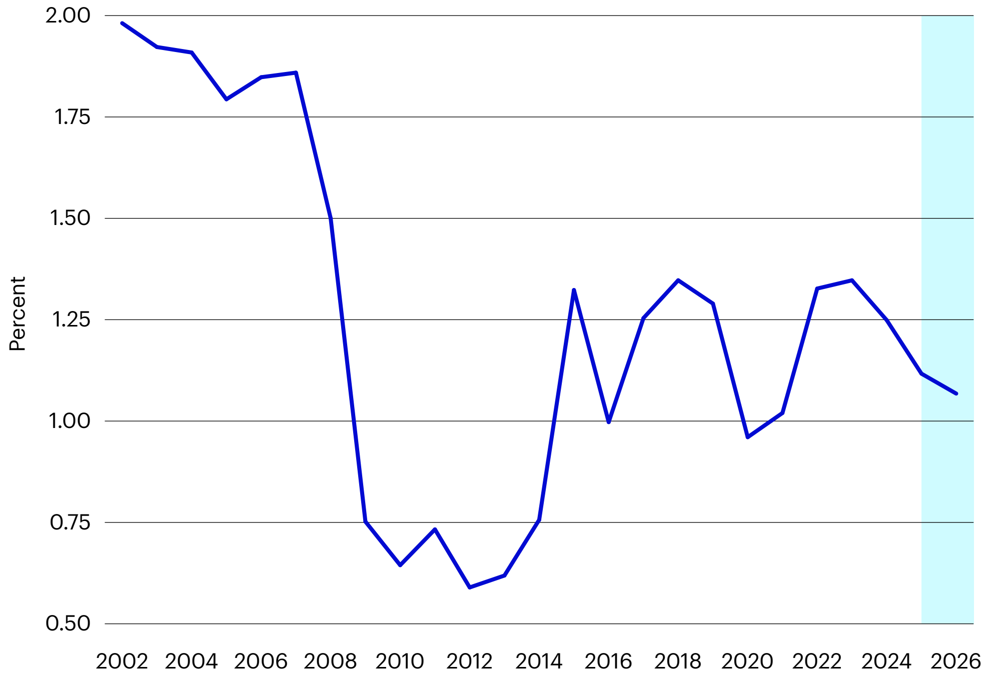
Source: BEA, Bloomberg L.P., Invesco projections. Data as of June 24, 2025.

Europe: ECB nears the end of its cutting cycle

We believe the European economy has reached what could be deemed equilibrium - economic growth is near potential and inflation is in line with the European Central Bank's (ECB) medium-term inflation target. Consequently, we believe the ECB is reaching the end of its cutting cycle. We believe Europe will not return to the zero and negative interest rate environment of the 2010s when there was a need to pump the economy with stimulus and quantitative easing was prevalent.

Current levels of growth of around 1% and inflation anchored at around 2% suggest that the current ECB policy rate of 2% is appropriate and does not need to remain restrictive or be much more accommodative. Although odds are not far from a coin toss, our baseline expects the ECB to make one more 25 basis point rate cut to 1.75% in September and leave policy steady thereafter.

Figure 3: Euro area potential growth (annual % change)



Source: European Commission. Data as of May 18, 2025.

One factor supporting the current steady state is labor market strength, along with solid credit growth and expected fiscal expansion. Europe's bank-centric economy has enabled loose monetary policy to transmit the credit impulse through the economy, driving increased loans to the private sector, for example. Fiscal policy will also likely be marginally stimulative next year, and no longer a headwind to growth, based on official announcements earlier this year. This is important because the labor market has so far remained resilient and should remain so since the ECB will likely be comfortable leaving policy where it is. On the inflation front, wage growth has moderated from the 5% to 6% region a year ago to 3% to 3.5% percent today, allowing inflation and inflation expectations to stabilize.

Risk case: Tariff shocks could pressure growth and inflation

Because the eurozone is an export surplus economy, it is no surprise that tariffs would likely hit growth. In a more adverse tariff shock scenario, we would expect GDP growth to fall below potential and cause negative revisions to inflation. We would expect the ECB to cut interest rates to 1.5% in that scenario, although rates could go lower in a more extreme scenario. But, in an adverse tariff scenario, inflation might not be as problematic as expected. An ECB study looked at the implications of the 2018 US-China trade war and found that a statistically significant increase in Chinese exports was routed into the eurozone when tariffs were implemented. This result suggests that tariffs, especially between the US and China, could be disinflationary in Europe. The latest set of ECB projections also modeled an adverse tariff scenario in which the European Union imposed retaliatory tariffs against the US, and still noted large negative revisions to inflation. So, we would expect the ECB to adopt an accommodative stance to try to push both growth and inflation back up. However, we believe a severe adverse shock is less likely than we anticipated earlier this year, and therefore do not see as much room for further ECB rate cuts as we did previously.

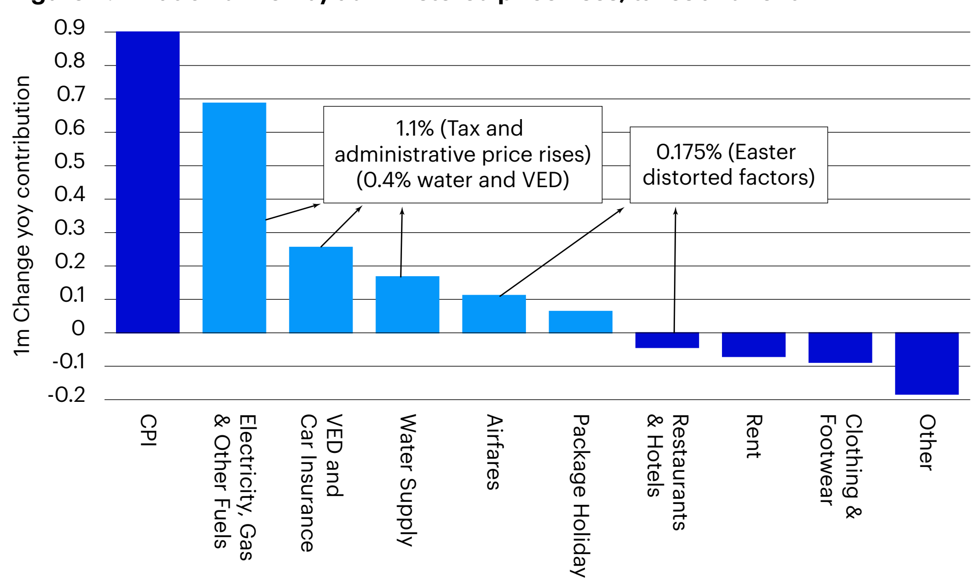
UK: Bank of England will likely cut more than current market pricing

The UK is currently experiencing an inflation shock. However, we believe it is benign and not driven by underlying demand but rather recent tax changes. That being said, there are still hawkish risks to Bank of England (BoE) policy: a drawdown in the household savings rate, which remains high, and the risk that this inflation shock, despite being benign, could feed into wage settlements. The bond market is currently pricing a high probability of inflation persistence and an upward growth scenario, pointing to elevated interest rates. But we believe the BoE can cut rates by more than what's priced in.

April inflation spike was temporary

The sharp month-over-month rise in April consumer inflation was driven by several one-off factors: higher travel prices related to the Easter holiday, increased water supply costs and higher vehicle and energy taxes - not surging domestic demand. As these factors fall out of the calculation by April of next year, assuming no further shocks, we would expect inflation to decline rapidly to below 2.5% year-over-year in spring 2026 from 3.4% year-over-year currently.[1]

Figure 4: Inflation driven by administered price rises, taxes and rent



Source: ONS, CPI Contributions, one month change. Data as of June 2025.

1. Source: ONS, Consumer Price Index. Data as of May 2025.

Notwithstanding the recent inflation spike, UK households are actually in relatively good shape. Disposable income growth has outpaced consumption growth for the last few years as consumption has been weak. As a result, the household savings rate has risen sharply – it has essentially doubled over the last couple of years from 5% to over 10%.[2] This number is historically high for UK households that tend to spend much of their income.

Some market observers have suggested that UK households are ready to spend down their dry powder, but we are less optimistic. Two factors working against higher spending are labor market weakness and a more restrictive fiscal policy backdrop emerging in the UK. Job openings are down 25% from pre-COVID levels and payrolled employment numbers have contracted for several months.[3] This environment should keep household savings high. We also foresee a more restrictive fiscal policy backdrop for the UK; over the next four years, the UK Office for Budget Responsibility (OBR) expects fiscal policy to tighten by about half of one percentage point on average.

The importance of wage settlements

We also believe the wage outlook will be critical to the BoE; i.e., will the current inflation shock feed into wage settlements? If the situation plays out as in 2022, when the inflation fallout of the Russia-Ukraine war fed into steep wage gains, BoE rate cuts are likely off the table.

However, today's macro conditions are very different than they were in 2022. In 2022, the labor market was tight, with unemployment below 4%, and declining, and real GDP growth was in the double digits. Today unemployment is above 4%, and rising, and real GDP is growing at potential or a little below.[4] We expect wage settlements to be in the 3% range in about a year's time, which is moderate and in line with BoE expectations. This outcome would likely be in line with the BoE's expected neutral policy rate, which market participants consider to be around 3%-3.5%, based on a BoE survey.[5] The BoE's own estimate of the neutral rate is 2.25%-3.75%.[6]

Regarding the Bank's terminal rate, we break our rate expectations into two scenarios. In the first scenario, the second round effects of current price pressures would impact wage settlements. In this scenario, because of high headline inflation, the BoE would delay cuts toward the end of this year and would likely not cut below 3.75%, the top end of its neutral range.

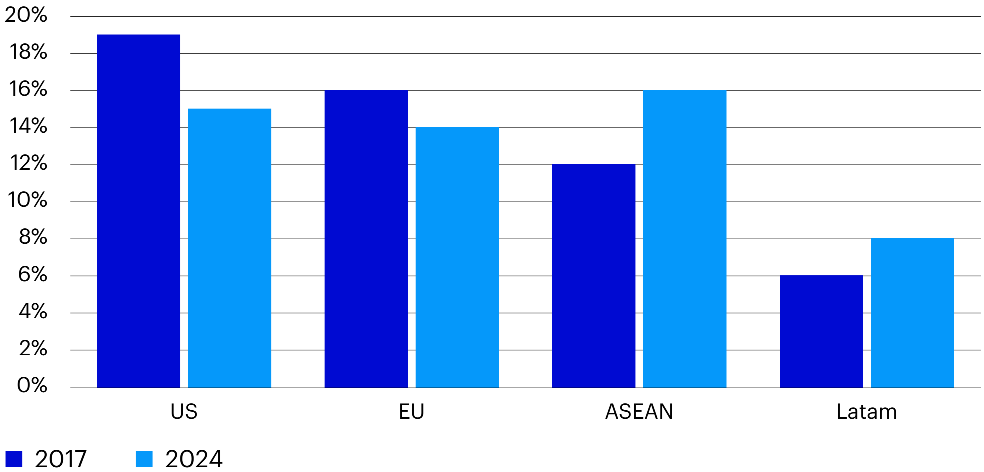
Alternatively, our base case scenario assumes that the BoE can continue to cut on a quarterly basis, given the soft labor market and receding inflation pressures, to around 3% by the end of 2026. Consequently, our base case argues that the BoE will likely cut by more than the market is currently pricing.

2. Source: ONS, household national accounts. Data as of May 2025.
3. Source: HMRC PAYE employment. Data as of May 2025.
4. Source: ONS, Unemployment rate. Data as of May 2025.
5. Source: BoE, Market Participants Survey. Data as of May 2025.
6. Source: BoE, Monetary Policy Report. Data as of February 2025.

China: Monetary and fiscal policies support macroeconomic stability

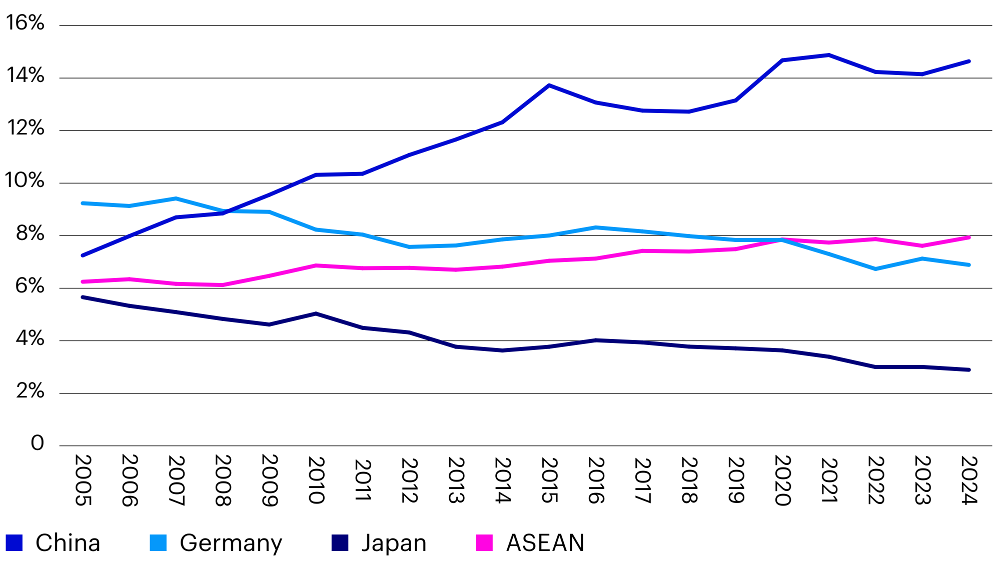
While the main macro issue currently facing China is the impact of US tariffs, China's economy has been resilient so far, and we believe China has the policy tools to keep its economy resilient going forward. China has already trimmed its dependency on US trade in recent years. Since the first trade war under President Trump, China's direct exports to the US have fallen to around 15% of total exports, versus 19% in 2017 (Figure 5). In the years since the 2018 trade war, China has offset this drop in trade with the US by expanding exports elsewhere, especially in Asia and Latin America. And despite a decline in US-bound exports, China has increased its overall share of global exports from 13% in 2017 to 15% 2024 (Figure 6).

Figure 5: Exports by destination (as % of total)



Source: China customs. Invesco, as of end 2024

Figure 6: Total global export share (%)



Source: UNCTAD. Invesco, as of end 2024

China's broader macro performance has also surprised to the upside. Drilling down into its economic performance after April's "Liberation Day" tariffs, despite facing 145% tariffs from the US, China's retail sales, industrial production and fixed asset investment all posted healthy year-over-year gains in April. While not surprisingly, exports to the US fell by more than 20%, sharp export growth in Europe, Asia and Africa caused overall Chinese exports to rise by 8% in April.[7] May trade data showed a similar picture - US exports were down 34% but were compensated by 15% export growth to the ASEAN countries and 33% export growth to Africa, leading to total export growth of 5%.[8]

On the domestic front, fiscal and monetary policies have helped keep the economy stable this year. Monetary policy has been particularly accommodative, underpinned by China's ongoing disinflationary environment. Consumer price inflation has hovered around 0% for the past several months and government bond yields have recently traded around 1.5%.[9] We expect inflation to remain subdued for the rest of the year, around the 0% level, giving the Chinese Central Bank continued flexibility to maintain a supportive stance going forward.

On the fiscal front, the economy's recent resilience under US tariffs and the potential for US trade tensions to be dialed down may allow fiscal expansion plans to be scaled back. We expect fiscal spending to amount to 7%-8% of GDP this year, which is up from 2024's 6.6% level, but down from our earlier estimate of 10.5% of GDP. We expect fiscal measures to support workers in the export sector - especially those more exposed to the US market - household consumption, raising the birthrate, medical care and the elderly. If more dire trade outcomes materialize, we would expect the government to respond with additional fiscal stimulus.

On the external front, though the renminbi has appreciated against the US dollar this year, Chinese goods have become more competitive, considering both prices and the currency.[10] In our view, this means the authorities may have little need or appetite to use the renminbi to boost exports. The official policy goal of promoting the renminbi as a global currency would also argue against depreciation for trade gains, especially as confidence and stability in the currency is also viewed as important for attracting reallocated global assets. As part of the global reaction to recent US tariffs, we would expect both the Chinese official and private sectors to diversify to non-US markets as destinations for the investment of trade-related surpluses going forward.

Emerging markets: Solid fundamentals support positive EM outlook

EM growth - decelerating but differential with developed markets is favorable

EM growth (ex-China) has generally slowed compared to pre-Covid levels, though we still expect it to outpace US growth this year. EM growth (ex-China) averaged around 4% in the few years after the pandemic but has recently downshifted to around 3.5%. Growth in many EM countries is now in line with their potential growth rates, with only a few dipping below potential; South Africa and Korea are notable for very low levels of growth, and Mexico and Hungary face the risk of recession, in our view.

EM inflation - benign

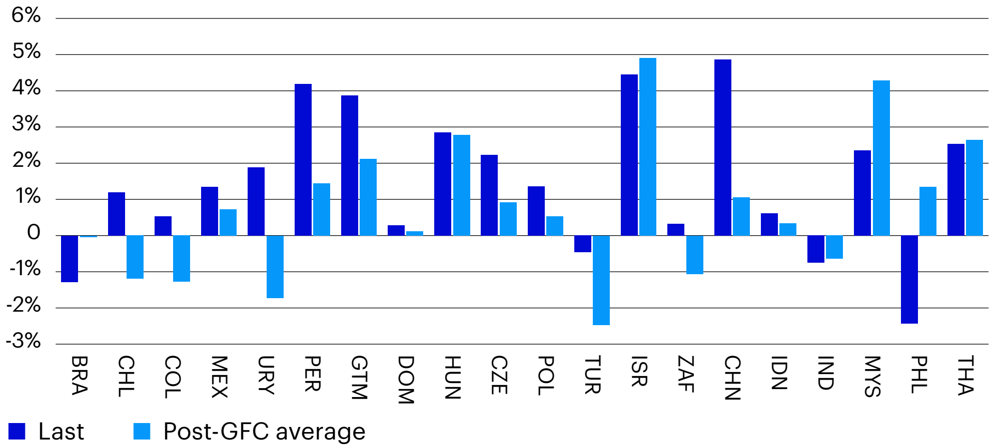
Many EM countries have made progress reducing core levels of inflation toward official targets, helped by softening core goods prices. Lower wage growth compared to the immediate post-Covid period has also helped calm service inflation. On the non-core side, the inflation picture has improved due to a mix of lower energy prices and stronger currencies, which we believe could continue.

7. Source: China customs, Invesco. April 30, 2025.
8. Source: China customs, Invesco. Data as of May 31, 2025.
9. Source: Bloomberg L.P., Invesco. Data as of May 22, 2025.
10. Source: BIS, Invesco. Data as of April 30, 2025.

EM external position - solid

Most EMs face current US tariff threats starting from a solid external position. Basic external balances as a percent of GDP, which include current account balances and foreign direct investment, are higher in many EMs compared to their post-global financial crisis averages (Figure 7). Some countries, especially in Asia, benefited from investment flows when post-Covid investment was redirected from China to build manufacturing bases elsewhere, and these inflows have been part of the post-Covid economic healing process. We believe these generally stronger external positions provide EMs with a buffer against potential changes in US trade policy that could impact their external accounts. Additionally, we believe EMs stand to benefit from the marginal global portfolio diversification away from the US that could materialize if there is a shift in sentiment away from the concept of US exceptionalism and if concerns play out about the strength of the US dollar.

Figure 7: Basic balances – Last vs. post-GFC historical average (% GDP)



Source: Macrobond. Data as of March 31, 2025.

EM policy - limited fiscal space leaves monetary policy as anchor

When it comes to policy levers to offset potential trade shocks and their knock-on growth effects, many EMs are constrained on the fiscal side. Many EMs are running deficits above thresholds consistent with debt sustainability, leaving monetary policy as the most viable countercyclical anchor. Because EM currencies have generally performed well and domestic inflation expectations have fallen, we believe EM central banks have flexibility to focus on domestic conditions and have room to ease if needed to offset trade-related challenges to growth.

Rob Waldner
Head of IFI Strategy and Macro Research

James Ong
Senior Portfolio Manager

Gareth Isaac
Head of Multi-Sector Portfolio Management

Tom Sartain
Senior Portfolio Manager

Michael Siviter
Senior Portfolio Manager

Yi Hu
Head of Asia Credit Research

Interest rate outlook

US: Neutral

Growth has slowed in the US and inflation data have surprised to the downside. However, we expect tariff-driven price increases to keep inflation firm going into year-end. We believe the Fed will cut rates by the end of the year. We expect yields to remain range bound, as conflicting signals from growth and inflation balance each other out. Over the long term, concerns about the US budget deficit will likely keep yield curves steep.

Europe: Neutral

The ECB cut its deposit rate to 2% in June, as widely expected. After 200 basis points of cumulative rate cuts since last June, the ECB has now normalised interest rates to a level in line with policymakers' estimates for the eurozone's neutral interest rate. Consequently, the bar for further easing is likely higher now, particularly in the context of relatively resilient growth and labour market conditions so far in 2025. The ECB also remains optimistic that supportive fiscal policy and labour market conditions should limit the damage to the eurozone economy from trade and geopolitical uncertainty. However, this uncertainty points to further interest rate cuts, in our view, especially since wage growth and core inflation are close to levels consistent with the inflation target. Current short-end pricing for a terminal rate of 1.65% looks relatively reasonable in this context, in our view.[11] A full pricing out of rate cuts would likely present an opportunity to add duration exposure, while a shift to sub-1.5% rates looks unlikely, given today's radically different fiscal context compared to the pre-Covid era. The likelihood of lower short-term rates, combined with greater bond supply and global term premium pressures should support the continued steepening of the yield curve.

China: Neutral

China's May economic data have continued to show resilience, following a robust April, with both months posting good performance after the 145% tariff imposed by the US. Onshore yields remain well anchored by the central bank's dovish stance, which is demonstrated by recent rate cuts. China's resilient economic performance has led us to pare back our fiscal easing forecast. Potentially less fiscal expansion than we previously expected could support long-end bond performance.

Japan: Neutral

The Bank of Japan kept its interest rate policy unchanged in June, as widely expected. Governor Ueda gave a cautious assessment of the outlook, suggesting a high bar to any interest rate policy changes in the near term. However, the market has already absorbed this message, with just 14 basis points of hikes priced for the remainder of 2025 and only a cumulative 32 basis points of hikes to the end of 2026, limiting the scope for yields to decline at the short end of the yield curve.[12] After jumping substantially in April and May, long-end Japanese government bond yields (JGB) stabilised in June, helped by the announcement that the Ministry of Finance will reduce issuance of 20-year, 30-year and 40-year bonds and that the BoJ will slow the pace of its tapering of JGB purchases. The combination of limited room to price out further BoJ hikes at the short end and a better supply and demand balance at the long end of the yield curve should lead to some yield curve flattening ahead.

11. Source: Bloomberg L.P. Data as of June 24, 2025.
12. Source: Bloomberg L.P. Data as of June 24, 2025.

UK: Overweight

The Bank of England (BoE) is becoming gradually more confident in the disinflation trend in the UK, as the labour market shows more signs of loosening and wage measures moderate. Significantly, the spike in April core inflation may have reversed and other long-term measures of inflation expectations have continued to moderate. The appreciation of the British pound against the US dollar should also act as a disinflationary force going forward. The June BoE meeting highlighted the shifting macro context - three members voted for a cut, which suggests that the debate about a faster and deeper cutting cycle beyond the quarterly cadence of cuts to date, is now growing. The market continues to price a terminal rate of around 3.5%, which is at the high end of what the BoE considers neutral.[13] Further out the curve, long-end forward rates offer good value on an absolute and relative basis versus US and European equivalents, in our view.

Australia: Neutral

The Reserve Bank of Australia's (RBA) dovish pivot in May led the market to price a relatively front-loaded cutting cycle in Australia, with a cumulative 78 basis points of cuts priced in for 2025 over five remaining RBA meetings.[14] Thereafter, the market has priced only a further 20 basis points of cuts to a terminal rate of 2.87%.[15] Domestic data have been relatively mixed. The labour market remains resilient, growth is lacklustre and inflation has moderated. Current market pricing looks fair to slightly rich in this context, in our view, with the market pricing a relatively rapid reversion to neutral rates. Although inflation has moderated, we believe policymakers will remain reluctant to cut through 3% without signs of meaningful labour market weakness, limiting the scope for decreases in short-term rates. Long-end forwards remain relatively cheap, in our view, with the Australian yield curve steeper than many developed market peers, despite better fiscal fundamentals. However, with 10-year yields now trading below US levels, the scope for further long-end outperformance might be limited. Nevertheless, Australia's strong fiscal position and institutional stability should keep it trading at a premium to US Treasury equivalents at long maturities.

13. Source: Bloomberg L.P. Data as of June 24, 2025.
14. Source: Bloomberg L.P. Data as of June 24, 2025.
15. Source: Bloomberg L.P. Data as of June 24, 2025.

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Currency outlook

USD: Underweight

US depreciation has continued in June, though at a slower pace and with different currencies outperforming relative to April and May. The best performing major currency in June has been the euro, which has extended its gains, as sentiment around eurozone growth has improved, helping capital inflows, and the ECB has signalled that its interest rate cutting cycle might be near an end. EM currencies were also among the best performers versus the US dollar in June. The EM outperformers can be split into two groups: high yielding currencies, such as the Brazilian real, Mexican peso and South African rand, which have benefitted from rebounding risk sentiment, and Asian currencies, such as the Taiwan dollar and Korean won, that have benefitted from capital inflows related to the currency hedging of external assets. The increasingly multi-dimensional nature of the US dollar's depreciation speaks to the narrowing scope for the dollar to outperform in the context of reduced confidence in US relative growth outperformance and institutional stability. Long-term capital may seek reduced exposure to the US dollar, either via increased hedge ratios, perhaps in the case of Taiwanese asset holders, or alternative investment destinations, such as Europe or EM. We believe the large overweight of foreign and US investors in US assets means this trend could extend over the long term, even if short-term fluctuations related to geopolitical shocks might cause some volatility.

EUR: Overweight

The euro extended its gains relative to the US dollar in June. The euro has been helped by ECB signals of slowing interest rate cuts ahead and relatively resilient local data, with purchasing manager indices rebounding after the moderation in tariff threats. Eurozone fixed income and equity assets continue to garner inflows, and holders of US dollars are increasingly hedging exposures. Nevertheless, we question whether the euro can outperform other major currencies. In June, the euro rallied against the yen and the Chinese yuan and the trade-weighted euro is currently sitting at multi-year highs. A further major appreciation will likely have macro-economic consequences for inflation and growth that could lead to a narrowing of interest rate differentials between the euro and the low yielding currencies in Asia.

RMB: Overweight

We have noticed a stronger fixing of the renminbi by the Chinese central bank and the renminbi's resilience, especially in a risk-off environment. Therefore, we continue to expect the renminbi to continue to perform well in the near term, even in a turbulent market environment.

JPY: Overweight

The yen depreciated against both the US dollar and euro in June. The strong performance of risk assets combined with the relative dovishness of the BoJ compared to the Fed and ECB has weighed on the yen. However, going forward, we believe these headwinds should wane or even reverse. Risk assets have now largely retraced the "Liberation Day" selloff, limiting the scope for further upside, in our view, especially since positioning has now been rebuilt. Interest rate differentials are unlikely to move much further against the yen - the market is already pricing little risk premium for further BoJ hikes and expectations for rate cuts in the US and Europe have moderated, despite downside growth risks. The yen has not benefitted to date from hedging or repatriation flows, particularly when compared to the euro. However, Japanese investors continue to have substantial unhedged exposure to foreign assets, particularly in the US, which could be closed, especially if the Fed starts to cut rates rapidly, reducing the cost of hedging.

GBP: Neutral

The British pound is likely to lag the euro and yen, as the BoE accelerates its pace of interest rate normalisation, narrowing the interest rate differentials. However, against the US dollar, the pound may remain supported, as capital potentially looks for an alternative to US asset exposures. Pound positioning is likely already relatively long among faster moving investors, but longer-term investors may still be relatively underexposed to UK assets.

AUD: Overweight

The Australian dollar looks relatively undervalued on a trade-weighted basis, in our view, after recent depreciation against the euro and New Zealand dollar. However, Australia's fundamentals are relatively supportive - the RBA recently turned dovish but this has already been fully priced in, limiting the scope for interest rate differentials to move further against the Australian dollar. Fiscal easing should also limit the need for rate cuts. The terms of trade remain relatively well supported and could benefit from higher commodity prices. Finally, Australia's large stock of foreign assets held by superannuation funds could be repatriated or currency hedged, potentially reducing the Australian dollar's sensitivity to risk events.

Panelists

David Todd
Head of Global Credit Research

Todd Schomberg
Head of Investment Grade Portfolio Management

Asad Bhatti
Fund Manager

Matt Cottingham
Head of European High Yield Credit Research

Sam Morton
Head of European Investment Grade Research

Global credit strategy

Credit trade ideas from the June IFI Summit

At the June Summit, investors from across the Invesco Fixed Income platform discussed their views on credit markets and where they see opportunities in US investment grade, European investment grade, European high yield and emerging markets (EM). We started our discussion debating the future of US exceptionalism and the potential for increased investor focus on non-US credit going forward. We share highlights of their conversation, which was moderated by IFI's Head of Global Credit Research, David Todd.

David: Todd, what is your definition of US exceptionalism, and how important do you think it is for the longevity of the US investment grade asset class?

Todd: Naturally this has been a popular topic in the US. Elevated uncertainty around US fiscal and trade policies and weakness in the dollar have raised questions about the future of US markets, business and economic performance. The definition of US exceptionalism can be debated, and different people view it differently. But one way I look at it is through the lens of corporate strength. If you rank the largest 30 companies in the world by market capitalization, 27 of the 30 are US companies. That status took decades to achieve, and it doesn't look likely to unwind any time soon. In terms of what it means for investment grade, while some regions globally may be on hold, as they wait for more clarity on tariffs and the fiscal package, overall we continue to see robust demand for US investment grade from global clients. Ironically, a weaker dollar may drive even greater interest and inflows since US assets would be cheaper. US institutional and retail demand has also remained strong, and we've seen robust inflows into the asset class this year.

David: Turning to emerging markets, Asad, how are you thinking about the theme of a possible rotation toward non-US credit?

Asad: To level set, looking across European and EM credit, spreads are generally tight, in our view. In EM in particular, in the past, we could take advantage of a variety of distressed sovereign situations, but those have become few and far between. Even they are now trading tight. Given these tight valuations, we don't foresee much spread tightening in the EM hard currency space in the near term. Consequently, we favor scaling back on hard currency debt and rebalancing toward greater local currency debt exposure. Local government debt yields are currently attractive, in our view, relative to developed market yields. They also tend to be less correlated to major global central bank moves, so local currency debt offers some degree of potential diversification.

That being said, on the hard currency side, we do see selective opportunities in the Chinese property space. That market has obviously been battered, but we have been patiently waiting for signs of bottoming in the sector. We now see signs that house sales and prices are picking up, especially in China's first and second tier cities. Recent tariff concerns have also prompted the government to apply more stimulus to boost domestic demand, which could boost property purchases. Another advantage of this trade idea is its potential diversification benefits – Chinese property is an idiosyncratic story, not correlated to what's going on with the Fed or the ECB or market beta in general.

David: Matt, continuing the focus on non-US credit, where do you see opportunities in European high yield?

Matt: After being in a net negative supply environment for the last couple of years, European high yield has seen a busy new issue calendar so far in 2025. Against a strong technical backdrop supported by fund flows and a still net rising star environment, deals have gradually become more aggressive, and this has created pockets of value, whether it be a premium for a new issuer to the market or a releveraging deal in a credit we are comfortable owning.

In terms of sectors, the more defensive areas of the market have performed strongly year-to-date and are now trading at fairly compressed levels. As a result, it is difficult to completely ignore some of the more cyclical sectors that have lagged in terms of performance, such as chemicals and autos. Each is going through a challenging period from a fundamental perspective. However, we think certain auto names are beginning to look attractive based on valuations when compared to their credit quality. The chemical sector, on the other hand, needs more time to work through its current excess capacity - or we will need to see a significant upswing in demand - and so we remain more focused on the less volatile parts of that market.

David: Sam, where do you see opportunities in European investment grade?

Sam: With geopolitical risks rising, we have seen more focus on European defense and infrastructure investments. In our view, that translates into potential opportunities in the telecom and utilities sectors because we think those sectors are becoming increasingly important in the way governments think about their national infrastructure.

David: Circling back to US credit, Todd, what, in your view, are the prospects for US investment grade going forward? Could spreads go tighter from here?

Todd: Although investment grade spreads are arguably tight, both US and non-US investors appear to be buying the yield – in other words, they continue to focus on attractive yields versus spreads. If the US economy avoids a recession and continues to grow around 1-2%, which is our base case, that is a good backdrop for investment grade fundamentals, in our view. US companies just posted strong earnings in the first quarter, which we think bodes well for a potential continued trend toward tightening.

Invesco Fixed Income Team contributors

Senior Editor — Ann Ginsburg

Atlanta

Rob Waldner
Head of IFI Strategy and Macro Research
+1 404 439 4844
robert.waldner@invesco.com

James Ong
Senior Portfolio Manager
+1 404 439 4762
james.ong@invesco.com

Jason Trujillo
Head of Emerging Market Credit and Strategy
+1 404 439 4891
jason.trujillo@invesco.com

Todd Schomberg
Head of Investment Grade Portfolio Management
+1 404 439 3455
todd.schomberg@invesco.com

Ann Ginsburg
Head of Thought Leadership Fixed Income
+1 404 439 4860
ann.ginsburg@invesco.com

New York

Turgut Kisinbay
Chief US Economist
+1 212 323 0460
turgut.kisinbay@invesco.com

Wim Vandenhoeck
Co-Head of Emerging Market Debt
+1 212 323 4636
wim.vandenhoeck@invesco.com

London

Gareth Isaac
Head of Multi-Sector Portfolio Management
+44 20 7959 1699
gareth.isaac@invesco.com

Tom Sartain
Senior Portfolio Manager
+44 20 7034 3827
thomas.sartain@invesco.com

Michael Siviter
Senior Portfolio Manager
+44 20 7959 1698
michael.siviter@invesco.com

Stanislav Gelfer
Senior Strategist
+44 20 7543 3524
stanislav.gelfer@invesco.com

David Todd
Head of IFI Global Credit Research
+44 20 3219 2727
david.todd@invesco.com

Sam Morton
Head of European Investment Grade Research
+44 20 3219 2738
sam.morton@invesco.com

Henley-on-Thames, UK

Mark McDonnell
Macro Analyst
+44 14 9141 6498
mark.mcdonnell1@invesco.com

Manuel Terre
Sovereign Analyst and Strategist
+44 14 9141 6591
manuel.terre@invesco.com

Asad Bhatti
Fund Manager
+44 14 9141 7151
asad.bhatti@invesco.com

Matt Cottingham
Head of European High Yield Credit Research
+44 14 9141 7233
matt.cottingham@invesco.com

Hong Kong

Yi Hu
Head of Asia Credit Research
+852 3128 6815
yi.hu@invesco.com

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All information is sourced from Invesco, unless otherwise stated.

All data as of June 26, 2025, unless otherwise stated. All data is USD, unless otherwise stated.

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