



Global Fixed Income Strategy

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A regime shift worth positioning for

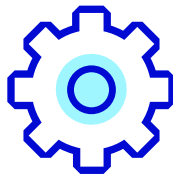
We believe the global macro backdrop presents opportunities for excess returns in fixed income. We favor positioning for a weaker US dollar, steeper global yield curves and selective credit exposure.



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Major rates and currencies 3-month outlook

We are neutral on US, European, Chinese and Australian rates. We are overweight UK rates and underweight Japanese rates. We are overweight the euro, Chinese renminbi, Japanese yen and Australian dollar. We are neutral on the British pound and underweight the US dollar.



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Financing the future: Credit markets and AI infrastructure

Hyperscalers are driving trillions of dollars in data center investment and increasingly turning to debt financing, which raises risks for investors. We highlight the opportunities and challenges of this trend, including the rise of public-private financing deals.



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Global macro strategy

A regime shift worth positioning for

We believe the global macro environment presents a robust opportunity set for generating excess returns in global fixed income. Major policy shifts are reshaping the world economic landscape, including changes in long-held trade policies, regulatory frameworks and geopolitical alliances. In our view, varied fiscal and monetary responses across countries will result in divergent economic outcomes. We believe this environment presents a compelling case for international diversification and active management. We favor positioning for:

- Further US dollar weakness
- Steeper global yield curves
- Selective credit exposure

US policy as a catalyst

The current US administration is actively reshaping the long-standing status quo across trade, security and economic alliances. Key initiatives include:

Trade rebalancing: Targeting the USD1.2 trillion US goods trade deficit through tariffs and reshoring efforts.

Industrial policy: Incentivizing domestic US production to enhance employment and national security.

Security realignment: Encouraging increased defense spending worldwide, especially in Europe.

Asynchronous global policies and economic cycles

Against this US policy backdrop, the global economic cycle has become increasingly fragmented, with US trading partners experiencing different growth trajectories amid differing policy responses. In the US, tariffs and immigration restrictions are contributing to inflationary pressures and labor supply constraints, while outside the US, tariffs are less inflationary, but act as a drag on growth due to reduced access to US demand. This creates room for more aggressive monetary easing abroad, potentially positioning non-US fixed income markets for relative outperformance. Below we highlight our outlooks for the major economies and the US dollar.

US

In the US, the current trade and immigration policy mix is offset by stable-to-looser fiscal policy (via the One Big Beautiful Bill), looser monetary policy, and strong AI-related capex spending, which should support growth. We expect the Federal Reserve (Fed) to cut rates another 25 basis points this year, moving toward an estimated neutral policy rate of 2.75%–3.50%. The Fed appears to be prioritizing downside growth risks over inflation concerns, and further easing may be possible in 2026, depending on leadership changes and board composition.

Europe

In Europe, economic resilience has exceeded expectations. Real wage growth, stable unemployment, and fiscal expansion, especially in Germany, combined with the European Central Bank's (ECB) 100 basis points of rate cuts in 2025, support a recovery. Inflation remains near target, with ECB forecasts at 2.1% for 2025 and 1.7% for 2026.

Japan

Japan faces a more complex policy environment. Inflation is being driven primarily by currency weakness, exacerbated by the Bank of Japan's (BoJ) reluctance to hike rates. With inflation significantly above target, we expect market forces to compel the BoJ toward interest rate normalization, despite the domestic economy's limited interest rate sensitivity.

Emerging markets

China's policy response has been muted, and we expect further deterioration in its growth and inflation outlooks. In relatively closed economies like India and Brazil, we expect domestic factors to dominate policy decisions going forward. Brazil and Mexico stand out as emerging markets with the most room to ease.

US dollar: structural weakness ahead

Strong US growth and equity market outperformance attracted a surge of global capital over the past decade, driving the US dollar sharply higher. Foreign investors accumulated a large stock of US assets, while US investors hold relatively few assets abroad. We believe this imbalance is beginning to reverse; foreign investors are scaling back demand for US assets, and by extension the US dollar. We believe this backdrop supports global fixed income and the case for investors to diversify portfolios internationally.

We have started to see this flow dynamic in countries with significant external asset positions, such as Taiwan. We expect global investment to be diversified away from the US at the margin over time, allowing foreign currencies to appreciate to their fair values. This dynamic has caused us to maintain a bearish view on the dollar over the last 12 months. Going forward, in addition to the large overhang of US assets, we believe additional drivers of dollar weakness will likely be:

- High starting valuations of the dollar on a real and nominal historical basis
- Tariffs and slower growth of global trade overall, with increased bilateral trade in non-US dollars
- Looser US fiscal and monetary policy
- A rising preference for local investment in an economically fragmenting and multipolar world

Given global institutions' extensive US holdings, we believe they are likely to hedge their US dollar exposure and reinvest marginal capital domestically, rather than liquidate US assets outright. We expect this theme to persist over the medium term, driving an additional 10–15% decline in the US dollar over the next several years.

Investment implications: opportunities for active alpha generation

Foreign exchange: Most compelling opportunity

We maintain a constructive outlook on several non-US currencies. Given that the implied volatility in foreign exchange markets is fair-to-cheap, in our view, we favor extracting risk premia from higher volatility currencies versus a select basket of low volatility/low yielding currencies. We believe Asia offers significant catch-up potential in currency appreciation. We favor exposure to the euro, Japanese yen, Brazilian real and Mexican peso.

Rates: yield curve trades over directional bets

We are neutral on rates in developed markets, where terminal rates are largely priced in, in our view. However, we believe potential curve steepening presents a once-in-a-cycle opportunity, as yield curves in most developed and emerging markets do not reflect current economic and market conditions. Given the uncertainty in inflation and growth outcomes and worsening fiscal dynamics globally (except in emerging markets) we expect yield curves to steepen significantly over time. We believe this steepness will result from lower short-end rates and higher long-term rates. We see directional opportunities in Brazil and Mexico (long side), the UK and India (long side) and Japan (short side).

Conclusion

US policy changes are transforming the landscape of global trade, security and economic interdependence, creating a world in which economic outcomes and policy responses are not synchronized in timing or magnitude. In our view, this new global regime presents a tremendous opportunity for investors to diversify internationally, and we see robust opportunities to generate alpha amid further dollar weakness, steeper global yield curves and select credit opportunities.

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Interest rate outlook

US: Neutral

We are neutral on the US yield curve and overall duration. While we still believe the Fed will cut rates in December, we think the market is overpriced for rate cuts in 2026. The Fed's more hawkish rhetoric recently makes it more likely that inflation expectations will be contained and the long end of the yield curve will trade firmly. Rates are likely to remain responsive to economic data and, if the economy performs more bearishly than expected, we believe there is significant room for interest rates to rally.

Europe: Neutral

The euro area economy is showing tentative signs of stabilization following a challenging period of weak global demand and elevated geopolitical tensions. Recent data, including the Purchasing Managers' Indices (PMIs), point to a modest improvement in activity, particularly within the services sector. This nascent recovery is being supported by: the European Central Bank's (ECB) earlier 200 basis points of rate cuts, rising real wages, and a temporary easing in trade-related uncertainty following a provisional EU-US tariff agreement. However, the broader economic backdrop is subdued. Growth across core economies continues to underperform, and while activity is expected to be marginally stronger over the coming quarters, it is likely to remain at or below potential.

The ECB has since paused its easing cycle to assess the transmission of its policy actions, with forward guidance emphasising data dependency and flexibility. While we expect the central bank to remain on hold in the near term, a further moderate rate cut in late 2025 or early 2026 is still possible, particularly if inflation continues to undershoot expectations and growth risks persist on the downside. The recent appreciation of the euro and potential redirection of Chinese exports from the US to Europe are contributing to disinflationary pressures, especially in core goods prices, reinforcing downside inflationary risks.

Although, fiscal stimulus should provide an offset into next year and beyond, manufacturing-oriented economies, notably Germany, are still facing subdued global demand and intensifying competition from Chinese imports. This is particularly acute in heavy industry sectors such as automotive manufacturing, where overcapacity and pricing pressure from Asia present existential challenges. In contrast, services-led economies such as Spain, Ireland, and Portugal are benefitting from resilient household consumption and are better positioned to capitalize on the accommodative interest rate environment.

At current pricing, and with the ECB on pause, we see more attractive opportunities in other markets, such as the UK. Accordingly, we maintain a neutral outright position on European rates but hold an underweight stance on a relative value basis.

China: Neutral

We maintain a neutral stance on onshore rates in the months ahead, though the ultralong end of the yield curve may steepen. Local expectations that inflation may return to more positive territory in the coming year and of a buoyant equity market may set a floor under onshore yields. On the other hand, the potential for further paring back in fiscal easing and proactive liquidity management by the central bank should help limit an upward movement in yields.

Japan: Underweight

The Bank of Japan (BoJ) left rates unchanged at its October meeting but recent data point to future rate hikes, including rising underlying inflation data, accelerating wages and growth that is relatively resilient to trade headwinds. Recent press reports suggest that the December BoJ meeting is live, though policymakers may wait until the January meeting when the BoJ updates its forecasts. The forecasts may be especially pertinent this year, as the new government under PM Sanae Takaichi will likely be presenting a new supplementary budget in the coming months. Away from the short end of the

curve, the combination of higher inflation and increasing fiscal stimulus should keep long-term yields elevated. Real yields remain very low in Japan compared to history and developed market peers.

UK: Overweight

Recent news has been positive for UK interest rates. Core inflation and wages have undershot the Bank of England's (BoE) forecasts, supporting expectations of future interest rate cuts. The BoE left interest rates unchanged at the November meeting but the decision to pause was finely balanced, with Governor Bailey casting the deciding vote. Bailey strongly signalled he would consider easing in December if inflation moderates further in line with BoE forecasts. The long end of the yield curve has also been supported by government signals that it will stand by its existing fiscal rules, implying a fiscal tightening will be announced at the November 26 Budget. Although there is still scope for disappointment, the government seems keen to meet expectations for the fiscal tightening needed to cover the recent budget underperformance and rebuild the fiscal buffer. Furthermore, the Debt Management Office will likely keep any additional gilt issuance to the shorter end of the yield curve, limiting its market impact

Australia: Neutral

The Reserve Bank of Australia (RBA) left rates unchanged in November after third quarter inflation surprised to the upside. Recent data have pointed to resilient domestic growth, accelerating house prices and signs of sticky none-tradeable inflation, which has raised the risk that the RBA's cutting cycle is now over. The market has reduced the probability of future easing, with just a cumulative 25 basis points of cuts now priced over the course of 2026.¹ In addition, the recent November forecasts were predicated on a further 25 basis points of easing and the labour market outlook still looks relatively soft, biasing rates to the downside. The RBA's pause has seen an underperformance of Australian rates versus developed market peers, such as US Treasuries. However, at current spreads, Australian government bonds look better value on a cross market basis, in our view, relative to peers.

1. Source: Bloomberg L.P. Data as of Nov. 6, 2025.

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Currency outlook

USD: Underweight

We continue to favor an underweight position in the US dollar from a medium-term perspective. This view is underpinned by a narrowing growth differential between the US and the rest of the world, the Fed delivering rate cuts and the desire of the US administration to engineer a weaker currency in support of its domestic manufacturing and reshoring agenda. While we maintain a long-term bearish outlook on the US dollar, we expect short-term volatility. And, although we anticipate a broad decline in the US dollar, performance across currencies may vary substantially. At present, we favor the euro, Japanese yen, and Australian dollar among developed markets, and certain higher yielding emerging market currencies, such as the Hungarian forint.

EUR: Overweight

We remain constructive on the euro, supported by our expectations of continued US dollar weakness and a near-term narrowing of interest rate differentials. The region stands to benefit from low interest rates and a supportive fiscal environment. We also anticipate a gradual reallocation by international investors away from US dollar-denominated assets. In this context, the euro—alongside the yen and Swiss franc—is well-positioned to benefit from these flows, in our view. As such, we maintain an overweight position in the euro.

RMB: Overweight

We remain overweight the renminbi, even if the US dollar shows some level of recovery in the fourth quarter, because we expect continued momentum in US dollar selling by exporters and further progress in the development of the renminbi's internationalization process. A strong fixing by the central bank, the substantial growth of China's trade surplus and exporters' sizable holdings of foreign currency are likely to support the renminbi's performance in the medium term. Positive momentum in China's equity and offshore renminbi bond markets is also a helpful factor in the currency's medium-term trajectory, in our view.

JPY: Overweight

The yen has weakened since the election of Sanae Takaichi as LDP leader in early October. The market views Takaichi as hostile to BoJ rate hikes, increasing the risk of fiscal dominance as the government increases fiscal stimulus, while being perceived as hostile to the normalisation of real rates. Although the BoJ's decision not to hike in October has fed perceptions of politicization, this is probably an overreading of the situation. The BoJ might just want to wait until the new administration is in place and its policies are clear before moving. Furthermore, Takaichi has been silent on her views on monetary policy recently. It is also worth noting that the yen looks cheap relative to nominal and real interest rate differentials, as it has weakened over the last six months despite the Fed's cuts. A bigger headwind for the yen will likely be the trajectory of global growth and risk sentiment. If data continue to point to resilience, the yen is unlikely to rally significantly. However, if the US labour market shows signs of accelerating deterioration, the yen may rally, especially if this causes Japanese investors to repatriate assets and/or hedge currency asset holdings.

GBP: Neutral

The British pound has weakened against the US dollar and the euro lately. Its weakening has mirrored the narrowing of short-term interest rate differentials, as the market has priced in a greater probability of BoE cuts. In addition, investors have sold the pound as a hedge against a negative reaction to the upcoming budget on November 26. Although narrowing interest rate differentials continue to be a likely headwind for the pound into 2026, the tail risk around the November budget has probably been reduced, as the government has gone to great lengths to reassure the market about its seriousness in addressing the fiscal shortfall. Positioning is now short the pound, raising the prospect of some short covering after the budget, especially if UK growth data continue to show nascent signs of improvement.

AUD: Overweight

The Australian dollar looks cheap relative to fundamental drivers, such as the interest rate differential, the terms of trade and measures of global risk sentiment. The RBA's more hawkish reaction function and better domestic growth outlook in Australia should support the currency going forward. Weak Chinese growth remains a headwind, but a shift to stimulus in China could yet be a tailwind for the Australian dollar if it leads to higher commodity prices. Australian superannuation schemes have very low currency hedge ratios on their foreign assets. The shift in the relative rates differential with the US will likely support an increase in hedging, especially if the US dollar becomes more positively correlated to risk asset returns.

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Global credit strategy

Financing the future: Credit markets and AI infrastructure

Amid the AI headlines dominating credit markets this year, plans for massive infrastructure buildouts by the large technology companies known as “hyperscalers” have stood out.² McKinsey estimates that USD7 trillion in data center investment will be required by 2030, based on current demand projections.³ Hyperscalers have recently turned from their own cash flows to debt to fund this growth, tapping both the private and public markets. As debt rises, so do the risks for investors.

This month’s discussion focuses on this investment opportunity, its associated risks and the emergence of public-private financing deals. We spoke with three Invesco Fixed Income portfolio managers from across the IFI platform.

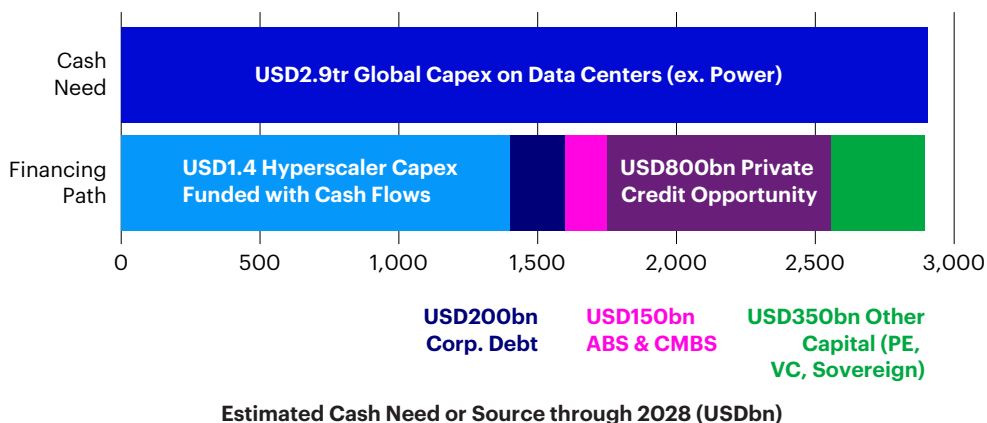
Q: Let’s start with the big picture, how are you viewing the development of this AI revolution from your seats?

Kevin: Hyperscalers are racing to secure the infrastructure required to support AI, ranging from advanced chips and graphics processing units (GPUs) to high-speed networking, energy capacity and data centers. When it comes to data centers, real estate investment trusts (REITs) and other property companies are meeting this demand by developing and managing facilities that enable the storage and processing of AI and cloud computing. Our team is uniquely positioned to finance these data center properties as borrowers increasingly tap the securitization market to fund their growth.

Todd: Obviously the investment grade market is highly exposed to the AI theme since the hyperscalers are situated in our market. The AI data centers are very capital intensive to put together and, while the risks are high upfront, once the asset is constructed, the credit profile looks very attractive, in our view. The stability and duration of the cash flow against a high-quality borrower makes it a very compelling investment for us. We are being selective while paying close attention to all the developments.

Rahim: I agree with Todd and Kevin – it’s not an opportunity to ignore. Our teams have the capability to analyze and make sound investments in this space as deals accelerate. We’re still in the early stages of this infrastructure build-out, with tremendous demand for both computing and power. I expect a continued robust mix of funding needs, extending beyond private deals into both corporate and securitized markets. As AI adoption accelerates, we will likely begin to see positive and negative effects on companies and their earnings, which will also reveal any broader economic impacts. Like any major transformation, this shift will inevitably create both winners and losers.

Figure 1: Estimated financing breakdown for total capex CY25-CY28, as of July 2025



2. AI hyperscalers include Amazon, Google, Meta, Microsoft and Oracle.
3. McKinsey Quarterly, “The cost of compute: A \$7 trillion race to scale data centers”, April 28, 2025.

Source: Morgan Stanley Research estimates; Global Fixed Income, Tech Diffusion, & GenAI: Bridging a \$1.5tr Data Center Financing Gap (16 Jul 2025).

Q: Can you expand on what type of AI-related investment opportunities are available in your markets today?

Rahim: In high yield, our exposure to issuers with a high sensitivity to AI remains relatively small. The index exposure to AI related opportunities can be broadly categorized into three segments. First, companies that supply products or services to AI data centers, such as networking providers or utilities; second “neo-cloud” companies, which provide AI computing access and have recently raised capital in our market to expand their facilities; and third, and more nascent, are bitcoin mining facilities seeking capital to convert their operations into AI data centers, with the investment thesis centered around access to power.

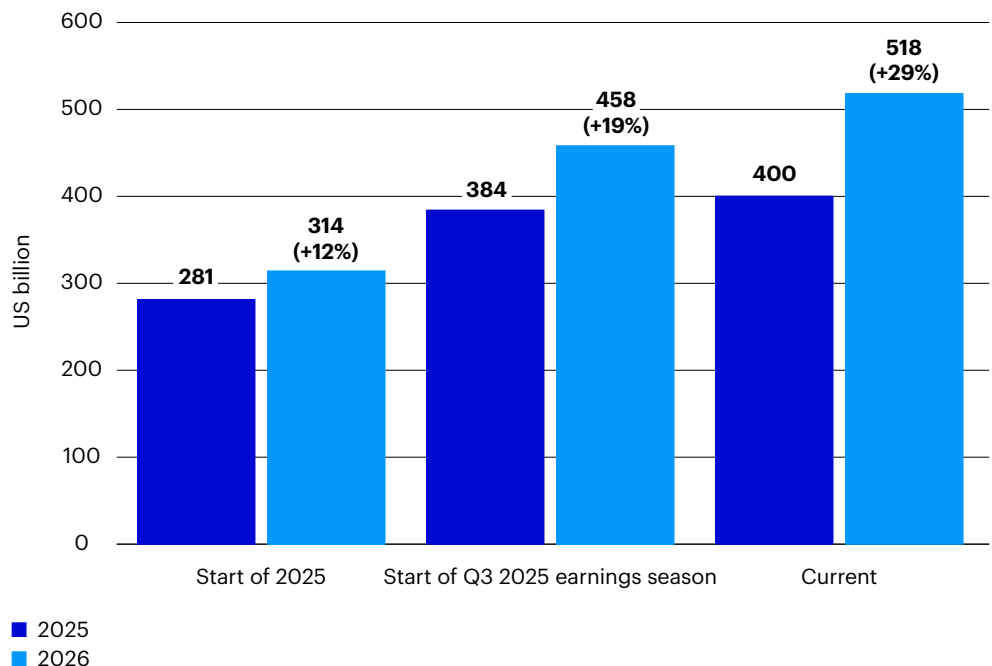
We have transitioned from decades of stagnant power demand to a projected compound annual growth rate of approximately 2% over the next decade.⁴ The surge in demand is creating a bottleneck for new data center projects, making secured access to power a significant competitive advantage. Consequently, participating in adjacent sectors like power generation – which is essential for getting these facilities operational – offers substantial benefits.

Kevin: Securities backed by data center property loans and their related cash flows have emerged as a growing segment within the commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS) markets. CMBS are typically collateralized by larger loans on hyperscale data centers, often featuring high-quality tenants and long-term leases. ABS offers greater variety, ranging from hyperscale properties with a few tenants to “colocation properties” with numerous tenants.

Todd: The entire value chain in investment grade now includes some large development projects. I view this juncture as an opportunity to access a high growth segment, which, with careful selection, allows us to potentially add significant performance to our portfolios. And as Rahim mentioned, we are working closely on opportunities within the high yield space as well.

Figure 2: Consensus capex spending estimates for AI hyperscalers (USD billion)

AI hyperscalers include AMZN, GOOGL, META, MSFT, ORCL



Source: FactSet, Goldman Sachs Global Investment Research. Data as of Nov. 2, 2025.

4. Source: U.S. Energy Information Administration. Data as of May 13, 2025.

Q: Many data center development deals are being funded in the private markets, and we are seeing them morph into a public-private partnership model. How do you view the merits of this relatively nascent model?

Todd: The flexibility on the private side allows private lenders to step in and fulfill an immediate need. Over the course of the cycle, we expect to work closely with these private lenders. We consider the investment grade rated risks to provide an attractive opportunity for us as long-term investors. Ultimately, we believe a lot of this risk will be repriced as assets get fully built, stabilized and are likely refinanced in the structured markets.

Kevin: Given the massive scale of global AI investment, both public and private markets are likely to experience elevated levels of related debt issuance. For development projects requiring capital to be drawn over time, private commercial real estate loans and other bespoke debt structures offer flexible financing options; however, we continue to expect borrowers of stabilized properties to favor securitizations, as they provide access to substantial amounts of long-term capital at competitive yields.

Rahim: The custom structures and speed to market are probably two main reasons why private financing deals have made a lot of sense. The partnerships allow investors to deliver this capital while diversifying the construction risk and building a broad investor base, which improves liquidity for all investors.

Q: What are the key considerations for your teams when assessing these data center development opportunities?

Kevin: We generally prefer facilities with modern infrastructure, access to ample power, strategic locations, strong sponsorship and tenant lease structures that position investors to benefit from not only growing demand for AI but also hybrid cloud and high-density computing.

Rahim: We dedicate significant time to thoroughly understanding both the merits of a project and the quality of the sponsor backing the leases. Even when a project appears sound on paper - with good sponsorship, favorable location, and solid power arrangements - construction inevitably encounters challenges. These can include cost overruns, labor or material shortages, or unforeseen events such as adverse weather. What's essential is ensuring that our interests as creditors are well protected. This involves carefully vetting creditor protections and confirming that our assessment of project risk falls within an acceptable tolerance range. In short, we are selective but willing to take on development risk, provided we are adequately compensated and have strong covenant protections in place to safeguard us if the project encounters setbacks.

Todd: We are focused on counterparty risk - the quality of the leases, for example, and who is backstopping them. Especially with construction deals, we like to see minimum value guarantees which can cover the debt obligations. In general, we feel more confident when the document support is strong and there is a hyperscaler on the other side of the table.

Q: Do you consider these investment opportunities attractive versus your markets?

Todd: We view the investment grade deals in this space as very attractive. With a high-quality sponsor essentially assuming the construction and lease risk, we are getting paid a premium over the related sponsor debt.

Rahim: We also find some of these investment grade deals attractive, especially when compared to BB-rated credits. High yield deals have been offered with discounts largely due to first-time issuers and the often complex construction risks involved. As more project deals enter the market and investors become more comfortable, we expect this premium to narrow, with issues offering stronger protections ultimately outperforming. Ultimately, these opportunities are highly idiosyncratic, and the value lies in our rigorous credit analysis and thorough understanding of the associated risks.

Kevin: Data center securitizations benefit from the surging demand for AI and other data-driven services, and we believe investors can capitalize on their relative value to other securitization sectors if they're armed with the necessary underwriting expertise and market knowledge.

Q: One of the concerns the market is grappling with today is a misallocation of capital when it comes to this infrastructure build-out, mainly via demand or obsolescence risk. How do you think about the risks?

Todd: It is important to note that technology and disruption go together. I cannot say with certainty what the AI server needs will look like in five years, but we believe getting into adaptable assets where configurations can change with client needs is important.

Kevin: Security selection and thoughtful limits on exposures are critical as this sector is susceptible to increasing supply and potentially disruptive advancements in technology. We believe location and the ability to scale computing power in line with evolving tenant needs are important drivers of data center performance and long-term value preservation. As a result, we typically seek to finance newly built properties with access to high-capacity fiber routes, affordable and reliable power, proximity to major metropolitan areas to reduce latency and availability of cost-effective land and labor. Finally, we apply internally generated loan-to-value and loan-to-kilowatt ratios to forecast potential defaults, loss severities and a property's ability to find funding upon maturity under a wide range of scenarios.

Rahim: The scale of this buildout, in terms of the notional dollar amount, is truly unprecedented. You mentioned the USD7 trillion estimate from McKinsey. With such a massive investment outlay, it is reasonable to question the potential return on investment. While the revenue side of AI is still in its early stages, the potential market opportunity and the associated disruption cannot be ignored. As managers, our focus will remain on two areas. First, we will closely monitor our aggregate exposure to this theme as it grows to effectively manage overall risk. Second, we will rely on rigorous underwriting to invest only in projects that meet specific standards – such as location advantages, secured power supply, and strategic importance to the sponsor. Given the increasing challenges in data center development – including “NIMBY” or “not in my back yard” opposition, power delays, protests against rising utility bills, and skilled labor shortages – we will view projects that meet higher standards as more attractive. While 2025 was a year when credit selection mattered in high yield, it will likely be even more important next year.

Panelist



Mark Paris

CIO Head of Municipals

The bottom line

Thoughts from the Municipal Bond Desk

We speak with Mark Paris, CIO of the Invesco Municipal Bond Team, about recent events impacting the muni market.

Q: The Fed continued to ease policy in October. How did the muni market react and what do you expect for the Fed going forward?

Mark: Yes, the Fed reduced its target rate for the second time this year. At the start of the year, I had anticipated at least two rate cuts in 2025. The year was a bit rocky, but I am pleased the monetary easing cycle has resumed. Interestingly, there was some dissent, with one member of the Federal Open Market Committee voting to keep rates unchanged and another voting for a larger rate cut. Fed Chair Jerome Powell described “strongly differing views” in this month’s meeting and hinted that monetary easing could pause through year-end. This prompted some jitters in the Treasury market, but munis were relatively unscathed. Despite Powell’s comments, the futures market has priced in another 25 basis point reduction by January of next year, with some market participants calling for a reduction in December. Although inflation has remained higher than the Fed’s 2% target, it has been stable overall. With inflation showing some restraint, I believe the Fed is in a good position to continue monetary easing.

Q: Zohran Mamdani won the New York City mayoral election as expected - what are the implications for local credits?

Mark: Yes, it seems that many of his campaign promises have unnerved investors, but there are a few things to keep in mind. First, New York City debt has solid credit ratings, which indicate a strong institutional framework and history of fiscal responsibility. Second, city mayors generally don’t have the authority to implement any program they want, and that is the case with New York. Most of Mr. Mamdani’s major proposals are constrained by New York State’s constitution and legislative body. Although the promises of a given mayoral candidate may resonate with voters, state laws and bond indenture agreements remain in force and must be honored. Finally, urban decline is the result of decades of mismanagement, not a shift in political leadership. New York City has a history of making its bond payments in every political cycle, even during the 1975 fiscal crisis. We have faith in the guardrails in place and don’t anticipate any risk of missed bond payments.

Q: October has historically been a tough month for muni valuations, but this year was different. What happened?

Mark: That’s right, municipal bonds posted strong performance in October. The gain was remarkable when you consider that municipals often weaken during October due to unfavorable market technicals. October is typically the last big supply month of a calendar year, which was the case again this year. At USD49.5 billion, tax-exempt supply was the second highest October issuance ever—behind last year’s USD57.6 billion—and the fifth highest issuance on record for any month.⁵ I believe this illustrates our view that higher supply is the new normal, but it is moderating to more digestible levels. So, what was different this month? Muni valuations were supported by falling Treasury yields and higher inflows. As we close out the year, I am cautiously optimistic that continued Fed easing and supportive market technicals will continue to provide tailwinds for the municipal bond market.

5. Source: JP Morgan. Data as of Nov. 3, 2025.

Q: Finally, a broader question on the structure of the muni market. In your view, how has it changed in recent years, and what does it mean for the muni market and investors going forward?

Mark: The biggest change in the municipal market in recent years has been the significant increase in supply, which we just discussed. But another aspect of the market that's changed has been the increased popularity of Separately Managed Accounts (SMAs) and municipal Exchange Traded Funds (ETFs), both passive and active. SMAs have benefited from increased yields and customization, while ETFs provide intra-day pricing and a low cost option. Both can be tax-efficient, as can open-end funds when they take advantage of tax-loss harvesting. While these newer muni vehicles have increased volatility and new options for issuers, in my opinion, it also creates an opportunity for managers to provide liquidity to the market, purchase bonds at attractive levels if there is forced selling, and continue to take advantage of an inefficient over-the-counter market.

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Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

Fixed-income investments are subject to credit risk of the issuer and the effects of changing interest rates. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa. An issuer may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating.

Non-investment grade bonds, also called high yield bonds or junk bonds, pay higher yields but also carry more risk and a lower credit rating than an investment grade bond.

The risks of investing in securities of foreign issuers, including emerging market issuers, can include fluctuations in foreign currencies, political and economic instability, and foreign taxation issues.

The performance of an investment concentrated in issuers of a certain region or country is expected to be closely tied to conditions within that region and to be more volatile than more geographically diversified investments.

Mortgage- and asset-backed securities, which are subject to call (prepayment) risk, reinvestment risk and extension risk. These securities are also susceptible to an unexpectedly high rate of defaults on the mortgages held by a mortgage pool, which may adversely affect their value. The risk of such defaults depends on the quality of the mortgages underlying such security, the credit quality of its issuer or guarantor, and the nature and structure of its credit support.

Important information

All information is sourced from Invesco, unless otherwise stated.

All data as of October 31, 2025, unless otherwise stated. All data is USD, unless otherwise stated.

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