

Emerging Market Macro Insights

Monthly report



Wim Vandenhoeck
Co-Head of Emerging Markets Debt



Norbert Ling
Head of Asia Fixed Income Portfolio Management

Overview

- EM central banks ended Q3 in monetary easing mode, driven by domestic growth concerns, subdued inflation and a favorable global macro environment.
- The Fed lowered the federal funds rate by 25 basis points in September and signaled its intention to support growth with more cuts through year-end.
- The US dollar has weakened significantly this year and is down 10%, despite a modest recovery in the third quarter.¹
- We are cautiously optimistic on Asian credit markets as we enter the fourth quarter, based on resilient regional fundamentals and positive technical factors.

Invesco Fixed Income

October 2025

Macro update and Asia EM credit outlook

Central bank moves

Emerging market (EM) central banks maintained their monetary easing stance in the third quarter, driven by domestic growth concerns, subdued inflation and a supportive global backdrop. In September, Peru implemented a widely expected 25 basis point rate cut, lowering its policy rate to 4.25%—a level now considered close to neutral. Though inflation remains muted, we believe the central bank will stay on hold for the foreseeable future. Poland also delivered a 25 basis point cut to 4.75%, in line with expectations. However, unlike Peru, Poland may pursue further easing or front load its rate-cutting cycle, despite lingering inflationary pressures.

Turkish and Indonesian central bank moves were unexpected. Turkey's central bank surprised markets with a 250 basis point cut to 40.5%, while removing references to its real currency appreciation policy. Although the policy may be used occasionally, the central bank appears confident that a slowing economy will help guide inflation toward its year-end target. Indonesia's central bank also surprised markets, delivering a 25 basis point rate reduction, signaling a shift toward a more pro-growth stance and citing support from a broadly weaker US dollar. This move was unexpected, especially for a central bank focused on currency stability.

In the US, the Federal Reserve (Fed) resumed monetary easing in September in response to slowing job growth and persistent inflation. The Fed lowered the federal funds rate by 25 basis points to a range of 4.00–4.25% and signaled its intention to support growth with additional cuts through year-end. While tariffs have contributed to elevated inflation readings, the Fed views these effects as temporary. However, risks to the labor market have increased, prompting the Federal Open Market Committee (FOMC) to take a more cautious and growth-oriented approach.

US dollar trajectory

Despite a modest gain in the third quarter, the US dollar has weakened significantly year-to-date, falling by about 10%.¹ Rising US fiscal deficits, policy uncertainty and a shift in global capital flows away from US assets have challenged the concept of "US exceptionalism". The softer dollar has provided a significant tailwind for EM by easing external financing conditions, supporting local currencies and allowing EM central banks to cut rates without triggering capital flight or inflationary pressures. Investment flows into EM have also grown, as investors have sought alternatives to US exposure. The rebound in flows has coincided with the dollar's trajectory and what we view as attractive EM valuations.

1. Source: Bloomberg L.P. Data as of Sept. 30, 2025.

Growth

We believe EM's overall growth outlook is favorable and will continue to be well into 2026, particularly relative to the US, and with Asia a key driver. As US growth moderates—shifting from above-potential to below-potential levels in 2025 and likely stabilizing around potential in 2026—other developed markets (DM), notably Europe, are turning to fiscal stimulus to support their economies. Although the growth differential between EMs and DMs will likely remain narrow in the coming months, we believe non-US assets will still remain attractive, particularly EMs, because of the projected slowdown in US economic growth and the high carry offered by EM assets.

Asian credit outlook

Asian corporate credit

We are cautiously optimistic about Asian corporate credit markets as we enter the fourth quarter, based on resilient regional fundamentals and constructive technical factors. However, investment grade valuations have become less compelling, in our view, following strong rallies earlier this year. External risks, particularly those related to US monetary policy, trade tensions and regional geopolitical developments continue to weigh on investor sentiment. In the Asian high yield space, we expect default rates (excluding real estate) to remain low. Many high yield issuers outside the real estate sector are proactively managing their liquidity by refinancing upcoming maturities early or securing bank facilities.

US dollar-denominated new issuance has been well digested by the market, but we've observed a trend of more issuance in non-US dollar currencies like the euro and different Asian local currencies. Although political risks have increased across Asian countries, regional issuers' credit fundamentals remain broadly stable. Despite strong technicals and solid fundamentals, we believe tight valuations warrant close monitoring.

Asian EM hard currency sovereign and quasi-sovereign bonds

Asian EM hard currency sovereign and quasi-sovereign bonds ground tighter in September. Asia is currently the only region with spreads below 100 basis points within the JPM EMBI Global Diversified Index.² Barring any significant negative developments related to tariffs, we expect Asian credit spreads to continue to narrow, driven by strong technicals and easing trade tensions. In this environment, in which spreads remain tight, other regions will likely outperform Asia. Conversely, during risk-off periods, we would expect Asia to outperform due to strong domestic support for hard currency bonds and robust economic fundamentals. Asia sovereign high yield fundamentals appear stable, but we believe active security selection and thoughtful sector allocation are critical. While income opportunities are abundant, we believe a disciplined approach that aligns fundamentals with valuations is essential.

Asian EM local currency bonds

Asian EM local currency bond performance was subdued in September, as currencies and rates remained largely flat. Given weaker economic outlooks in the region, we see the potential for interest rate cuts across Asian economies, which could present opportunities for capital appreciation. Local currency also offers attractive carry in local currency terms, in our view. However, we remain cautious on Asian currencies due to their strong performance so far this year and signs of slowing external trade.

2. Source: J.P. Morgan. Data as of Oct. 14, 2025.

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.

Important information

This document is intended only for professional investors in Hong Kong, for Institutional Investors and/or Accredited Investors in Singapore, for certain specific sovereign wealth funds and/or Qualified Domestic Institutional Investors approved by local regulators only in the People's Republic of China, for certain specific Qualified Institutions and/or Sophisticated Investors only in Taiwan, for Qualified Professional Investors in Korea, for certain specific institutional investors in Brunei, for Qualified Institutional Investors and/or certain specific institutional investors in Thailand, for certain specific institutional investors in Malaysia upon request, for certain specific institutional investors in Indonesia and for qualified buyers in Philippines for informational purposes only. This document is not an offering of a financial product and should not be distributed to retail clients who are resident in jurisdiction where its distribution is not authorized or is unlawful. Circulation, disclosure, or dissemination of all or any part of this document to any unauthorized person is prohibited.

This document may contain statements that are not purely historical in nature but are "forward-looking statements," which are based on certain assumptions of future events. Forward-looking statements are based on information available on the date hereof, and Invesco does not assume any duty to update any forward-looking statement. Actual events may differ from those assumed. There can be no assurance that forward-looking statements, including any projected returns, will materialize or that actual market conditions and/or performance results will not be materially different or worse than those presented.

All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. Investment involves risk. Please review all financial material carefully before investing. The opinions expressed are based on current market conditions and are subject to change without notice. These opinions may differ from those of other Invesco investment professionals.

The distribution and offering of this document in certain jurisdictions may be restricted by law. Persons into whose possession this marketing material may come are required to inform themselves about and to comply with any relevant restrictions. This does not constitute an offer or solicitation by anyone in any jurisdiction in which such an offer is not authorised or to any person to whom it is unlawful to make such an offer or solicitation.

All data as of October 24, 2025, unless otherwise stated. All data in USD, unless otherwise stated.

This document is issued in the following countries:

- in Hong Kong by Invesco Hong Kong Limited 景順投資管理有限公司, 45/F, Jardine House, 1 Connaught Place, Central, Hong Kong.
- in Singapore by Invesco Asset Management Singapore Ltd, 9 Raffles Place, #18-01 Republic Plaza, Singapore 048619.
- in Taiwan by Invesco Taiwan Limited, 22F, No.1, Songzhi Road, Taipei 11047, Taiwan (0800-045-066).
Invesco Taiwan Limited is operated and managed independently.